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<b>Argentina:</b>	Will the debt exchange offer be improved?
<b>Brazil:</b>	Municipal elections on Sunday
<b>Chile:</b>	Only small rate of increase in retail sales
<b>Colombia:</b>	Opposition against tax reform
<b>Ecuador:</b>	The government has set its sights on yet another oil company
<b>Mexico:</b>	Another hike of the "corto"
<b>Peru:</b>	Second debate on pension reform has begun
<b>Venezuela:</b>	New bond issue planned

## Argentina

Mainly due to the strong increase in imports, the current account surplus declined to US\$ 1.7 bn in Q2-04 (DBLA forecast: US\$ 1.5 bn), down from US\$ 3 bn in Q2-03. ---- The increase of the monthly GDP proxy EMAE in July (6%, yoy) came in slightly lower than our forecast (6.5%, yoy). Seasonally adjusted GDP growth declined from 0.9% mom in June to 0.5% in July. We see our rather conservative GDP growth forecast for 2004 (6.5%) confirmed by July's EMAE data.

**Outlook:** In a speech during his visit to New York, President Kirchner again ruled out improvements of the debt rescheduling offer. However, the local and international press continues to speculate over possible improvements, which the Argentine government might be tempted to make in order to enhance participation in the bond exchange. Some observers believe the improvement could be made as a last-minute move. Expectations are also high regarding the IMF and World Bank meeting this week. ---- To present the exchange offer to its bond creditors, Argentina requires the approval of the exchange supervisory authorities of the countries where the bonds have been issued. With respect to the U.S., the Argentine government expects to receive the approval in October. However, as the technical details of the exchange (Prospectus Supplement) still have to be handed to the SEC, the final approval will probably not be made until November. The application for approval in Europe will only be made once the SEC has given its approval. According to Economy Minister Lavagna, should there be considerable delays in Europe, the offer would be conducted only in the U.S. to start with. ---- According to press reports, the primary surplus for the central government, which is to be disclosed soon, will have reached ARS 1.9 bn, thus beating market expectations of ARS 1.4 bn. The target for the entire year (3.3% of GDP) will be exceeded by far. Should the official data match the press reports, we will again lift our 2004 forecast of presently 4% of GDP. ---- Citing computer problems, the government lifted the budget target for the consolidated primary surplus (central government and provinces) from 3.6% of GDP to 3.9%. As the target for the central government (3.2%)

remained unchanged, the implicit target for the provinces is now 0.7% versus 0.4% previously. The present official target for the provinces matches our conservative forecast. ---- Helped by base effects, export growth is likely to accelerate to 10% (oy) in August. Import growth will again be strong (around 60%, yoy). The trade surplus should be close to US\$ 700 mn (Aug-03: US\$ 1.1 bn).

## Brazil

In August, the current account surplus was at approx. US\$ 1.8 bn as expected, leading to a surplus of US\$ 8 bn so far this year. Net foreign direct investments were in negative territory (-US\$ 830 mn), while gross FDI (without deducting the investments of Brazilian enterprises abroad) were at US\$ 6 bn reflecting a special transaction in the brewery sector. Net portfolio investments were negative again (-US\$ 300 mn). ---- The Republic tapped the international capital market again (US\$ 250 mn, maturity: 2012). With that, Brazil has issued US\$ 4.2 bn this year so far. For the coming year an amount of US\$ 6 bn is planned. ---- Central bank minutes: the central bank modified the inflation target for 2005 from 4.5% to 5.1%, leaving the range of 2% to 7% unchanged. Apart from that, the central bank gave a strong hint that after having increased the overnight interest rate from 16 % to 16.25 % in the last meeting, further rate hikes will follow ("it is necessary to start to adjust the monetary course"). ---- The IMF approved the 8<sup>th</sup> revision of the current agreement and freed another credit tranche, which will not be drawn by Brazil (no IMF tranche was drawn this year). ---- The unemployment rate unexpectedly increased slightly by 0.2 percentage points to 11.4%. ---- The primary surplus of the public sector budget was higher than expected amounting to BRL 10 bn in August. Accordingly, net public debt decreased significantly from 55% to 54.1% of GDP. Against the backdrop of good budget figures, the government increased the primary surplus goal for 2004 from 4.25% to 4.5% of GDP.

**Outlook:** The municipal elections will take place next Sunday. 121 million people are entitled to vote in 5561

local authorities. The ruling party PT is running in 79 of the 90 biggest cities and is trying to build a solid basis for the presidential elections in 2006. The main focus will be on São Paulo where José Serra (PSDB) is challenging Marta Suplicy (PT). The trade balance will conclude September with a surplus of over US\$ 3 bn again.

### Chile

Retail sales rose just 0.3% yoy in August 04 following an increase of 6.9% yoy in July. This lowest number in 14 months was due to basic effects, for retail sales rose by 6.8% yoy in August 03. However, the GDP proxy Imacec for July 04 also signaled a deceleration. Speculation that the CB may not hike rates again in October 04 is likely to increase.

### Colombia

While president Uribe has tried to gain support for the reform package which the government submitted to congress a little more than a week ago, the liberal Senator Renan Barco said he is sceptical with regard to prospects of success for the tax reform. We expect that some amendments to the reform package, mitigating negative effects to the poor, will be forced through by congress. This is likely to allow for a majority in congress by year-end. We expect additional receipts of the tax reform to be reduced to little less than 0.5% of GDP (the government still counts on additional receipts worth 0.62% of GDP). ---- The central bank announced that it will, in addition to selling US\$ put options, start to intervene directly on the foreign exchange market with 3.2 trillion pesos (around US\$ 1.3 bn) by the end of the year. Since this announcement, the peso depreciated considerably against the US\$ and stood close to 2600 pesos/US\$ (two weeks ago, it was close to 2500 pesos/US\$). We expect the peso to trade sideways in the coming months and to end the year at 2640 pesos/US\$. ---- Latest data on the economic conditions in July were mixed. While retail sales grew more than 6% yoy, the increase of industrial production, at 3.7% yoy, disappointed (after 12 % in July). We continue to believe that the economic upswing is in good order and that the Colombian GDP will grow 4.2% this year. ---- Contrary to expectations, the strong export increase continued in July (+19.4% yoy). Imports also rose strongly (+20 % yoy), helped by a continuing strong domestic economy and a higher real effective exchange rate compared to last year; the trade balance was even. So far this year, trade figures showed a surplus of USD 0.3 bn, as opposed to a USD 0.4 bn deficit recorded over the same period last year.

Outlook: Controversial debates over the tax reform and the detailed definition of the budget for 2005 should

characterize the political landscape in the coming weeks. ---- Information on the job market in August should confirm our positive view of current economic conditions.

### Ecuador

After Occidental Petroleum, another foreign oil company faces a contract cancellation. According to Attorney General José María Borja, the Canadian oil company Encana has violated its production contract, with the result that it may now be cancelled. Borja also added that the government is considering the annulment of its investment treaty with the US, because it is allegedly harming Ecuador's interests. These signals are seriously undermining investor confidence. Five business chambers have published a strongly worded message decrying what they term a "process of persecution against free enterprise". ---- On Tuesday, Congress has rejected the government's proposed electricity reform. The reform was designed to push investment in electricity generation through the creation of a trust fund. The defeat raises an additional question mark over the government's hopes of securing IMF backing. An agreement with the IMF will be the key to get access to funding from IFIs. Despite the defeat, President Gutiérrez announced that the government would be submitting a new bill after discussion with Congress members.

### Mexico

Already for the sixth time this year, the Mexican central bank tightened its monetary policy on Friday by raising the „corto“ by another 6 mn pesos to 51 mn pesos. Banxico's reasoning was an increase in inflation expectations following a price increase that was substantially higher than expected in August as well as in the first two weeks of September (0.55%) due to higher food and energy prices. We think that Banxico's move was a necessary and a right one. On the one hand, higher interest rates will dampen domestic demand, but on the other, the current expansion seems to be powerful enough to avoid a situation anyway near recession. This was definitely reinforced this week by the dynamic development of foreign trade in August (exports: +27.3% yoy; imports: 27.0% yoy) and a stronger growth in retail sales in July (+4.8% yoy, in real terms). Overall, we see our forecast of a slight slowdown of the economy in the second half of 2004 and our below-consensus growth forecast of 3.5% for 2004 confirmed.

Outlook: The most important figure out of the few data releases next week is the result of public finances in August (Thursday). Anything else but a positive development in the public households, given the higher oil prices at present, would be a surprise.----The Cetes auction on Tuesday will bring another increase in rates

from 7.3% to 7.5%. During the remainder of the year, Cetes rates should first rise to levels of around 7.8% before they start falling to 7.5% at the end of 2004, following increasing signs of an economic slowdown.

## Peru

Since the beginning of last week, congress debates over the abolition of the special public pension scheme "cédula viva", which offers quite advantageous conditions for public workers and is at large financed by taxes. While congress already approved the abolition of the pension scheme in the first half of this year, it now appears more difficult to gain the needed 2/3 majority, as the government's position has weakened further. ----- The central bank published new figures on the state of the central government budget (August), which confirm our positive view (our forecast for 2004: -1.5% of GDP; 2005: -1.2% of GDP).

**Outlook:** Consumer prices will probably have risen only slightly in September (0.2% mom), bringing yoy inflation down to 4.2% (after 4.6% in August). By year-end, we count on a further decline of inflation to about 4.0% (half a percentage point above the corridor envisaged by the central bank).

## Venezuela

The opposition movement has begun to disintegrate: five groups which, due to the alleged fraud committed during the referendum, have voted in principle against their participating in the regional elections to be celebrated on Oct 31, left the opposition movement. The remaining major part of the movement is planning to nominate one common candidate for every office. -----

Following the upgrades by S&P and Moody's, the rating agency Fitch, too, has improved the rating of Venezuela's foreign currency government bonds (from B- to B+). ----- Facing a spending increase of 20% in nominal terms, the government's plans provide for a central government deficit of 3% of GDP in 2005; it is still unclear whether a depreciation will be included in the calculation. The price for Venezuelan oil is estimated to reach 25 to 27 US\$/b (2004: 20 US\$/b). Oil production is scheduled to reach the same value as in 2004 (according to official statements, 3.1 mn bpd). The draft budget has to be presented to parliament by mid-October. ----- Succumbing to the government's pressure, the banking supervisory authority Sudeban has audited the central bank's GAAP. As profits for the first six months were supposedly higher than posted, in addition to the VEB 1.5 trillion already transferred, the central bank is set to transfer a further VEB 2.5 trillion. According to the Finance Ministry, these additional amounts shall be used to reduce foreign debt. ----- Private-sector manufacturing industry managed to raise production by 28% yoy in July (June: + 35% yoy after revision).

**Outlook:** September inflation figures will be published at the end of the week; we are expecting similar figures as in August (1.3%, mom). ----- Venezuela announced the issue of a global 10-year bond with a total volume of US\$ 1.5 bn, including a swap transaction. Creditors of Brady bonds maturing in 2007 and 2008 will be offered a swap against the new global bond (with a volume of US\$ 700 mn, swap term until Sep 28). Thus, the country is using the noticeably reduced risk premium (Venezuela's current EMBI+: below 490 bps) for a reduction of its debt burden.

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## Abbreviations:

mom = month-on-month  
 qoq = quarter-on-quarter  
 yoy = year-on-year  
 s.a. = seasonally adjusted  
 n.s.a. = not seasonally adjusted

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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	24.09.2004	3.00	2.99	3.01	2.91	2.91	-3.0	3.1
Brazil	27.09.2004	2.87	2.87	2.95	2.93	2.93	1.9	3.1
Mexico	27.09.2004	11.46	11.46	11.39	10.98	10.98	-4.2	11.9
Chile	24.09.2004	613	612	627	660	660	7.6	620
Colombia	24.09.2004	2594	2541	2576	2884	2884	11.2	2640
Peru	24.09.2004	3.35	3.35	3.36	3.48	3.48	4.1	3.4
Venezuela	24.09.2004	1918	1918	1918	1598	1598	-16.7	1918

## EMBI+ Spread

bps	date	last	one week	one month	one year	end 2003	ytd-change, bps
Argentina	27.09.2004	5457	5549	5188	5404	5739	-282
Brazil	27.09.2004	476	458	524	700	463	13
Mexico	27.09.2004	190	175	185	201	199	-9
Colombia	27.09.2004	787	764	825	1097	799	-12
Ecuador	27.09.2004	407	385	403	452	431	-24
Peru	27.09.2004	306	295	350	337	312	-6
Venezuela	27.09.2004	489	475	537	810	593	-104

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change, %-points	end 2004f
Argentina, Overnight	24.09.2004	2.56	2.50	2.50	1.56	1.50	1.1	3.0
Brazil Selic	24.09.2004	16.24	16.23	15.86	19.85	16.33	-0.1	16.5
Mexico Cetes 28 days	24.09.2004	7.46	7.26	7.44	4.33	6.01	1.5	7.5
Chile 90 days, PDCC	23.09.2004	2.18	2.35	1.63	2.78	2.29	-0.1	2.3
Colombia Overnight	22.09.2004	6.89	6.88	6.92	7.33	7.49	-0.6	8.5
Peru Overnight	24.09.2004	2.70	2.65	2.73	2.75	2.50	0.2	2.6
Venezuela deposits 30 days	20.09.2004	11.44	11.49	10.77	11.93	13.20	-1.8	14.0

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	22.09.2004	18.1	18.3	18.0	10.8	14.1	4.0	18.5
Brazil	23.09.2004	49.1	49.2	49.4	52.6	49.3	-0.2	50.1
Mexico	17.09.2004	69.0	70.2	68.7	60.0	65.8	3.2	65.0
Chile	31.08.2004	15.8	na	15.9	15.3	15.9	-0.1	16.4
Colombia	31.08.2004	12.1	na	11.8	10.5	10.9	1.2	12.0
Peru	31.07.2004	11.1	na	10.9	10.0	10.2	0.9	11.4
Venezuela (FEM&Gold incl.)	23.09.2004	21.6	21.3	21.3	18.9	21.3	0.3	

## Economic activity

GDP (yo, %)	2003	2004f	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	6.5	3.5		3.7	7.0	8.0	127
Brazil	-0.2	4.5	3.9		9.3	6.9	5.8	492
Mexico	1.3	3.5	3.0		4.0	4.2	3.5	626
Chile	3.3	4.8	4.5		1.1	2.9	3.1	72
Colombia	3.7	4.0	3.7		6.5	6.0	6.0	79
Ecuador	2.7	4.8	2.9		6.1	2.3	0.9	27
Peru	4.0	4.2	4.0		1.8	4.0	3.9	61
Venezuela	-7.6	12.8	4.5		27.1	21.0	24.0	86

Public sector	Budget balance, % of GDP	2003	2004f	Public debt, % of GDP	2003	2004f	Amortization, US\$ bn	Gr. financing needs, US\$ bn	2003	2004f
Argentina		1.3	3.1	140	154	19.8	19.8	19.1	16.3	
Brazil*		-5.2	-3.1	58	57	94.2	82.1	72.1	66.2	
Mexico**		-0.6	-0.3	28	28	23	29	26	31	
Chile***		-0.4	2.5	13	13	0.8	0.8	1.4	-0.7	
Colombia		-2.8	-2.8	56	52	6.2	5.3	8.4	7.9	
Peru		-1.9	-1.5	48	46	1.1	1.3	2.3	2.3	
Venezuela		0.2	0.5	45	35	10.8	4.6	10.7	4.1	

\*Amortisations only federal debt, including short term debt

\*\* Amortisations without Cetes

\*\*\* debt, amortization and financing needs: central government only

## External Sector 2004f

	External debt % of exports	Debt service s.t., % of total	US\$ bn	% of exports	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
Argentina	378	39	32.3	80	1.2	1.7	10.0	0.0
Brazil	210	12	67.4	64	1.3	7.5	32.1	9.5
Mexico	80	28	33.3	17	-1.4	-8.7	-6.0	15.0
Chile	127	18	7.7	22	1.9	1.7	7.8	5.8
Colombia	242	12	6.9	41	-1.8	-1.7	0.4	2.0
Ecuador	17	14	1.4	3	-0.3	0.3	6.8	-1.1
Peru	225	16	3.6	26	-1.5	-1.0	2.4	1.1
Venezuela	87	8	8.1	22	12.3	12.4	19.7	1.5