Argentina:	Unofficial time schedule for the restructuring process
Brazil:	Powell signals support for permanent seat in the UN security council
Chile:	Dynamic growth
Colombia:	Resistance to pension reform
Ecuador:	Surprising upgrade
Mexico:	Further increase of the inflation rate
Peru:	First euro-denominated bond launched
Venezuela:	High oil revenues

Argentina

The government apparently reached an agreement with private pensions funds according to which the latter will accept the restructuring proposal (the funds hold almost 20% of total non-performing debt). In return the government will allow for accounting rules advantageous to the funds being applied to the restructured bonds. ----- The inflation amounted to 0.6% mom in September, higher than expected and above the 0.3% of August. The annual inflation rate will probably be 7% at year-end. We expect that the central bank will continue with US$ purchases, thereby contributing to further acceleration of inflation.

Outlook: According to unofficial information, the following time schedule is intended for the restructuring: SEC filing in the week from October 11 to 17; US road show from November 1 to 12; reception of bids period from November 15 to December 17; delivery from December 20 to January 7. ----- Consumer confidence (Thursday) should have increased by 1.5% mom.

Brazil

The IPCA inflation of September turned out lower than expected (0.33% mom; 6.7% yoy). Nevertheless, at least one further interest rate hike will occur this year, in our view. ----- Taking advantage of the currently positive environment the government launched a US$ 1 bn, 15 year international bond. The proceeds are intended to pre-fund 2005 financing needs. ----- The automobile production increased by 25.3% yoy in September. In the first nine months of the year production increased by 22% yoy. ----- US secretary of state Colin Powell is supporting Brazil's desire for a permanent seat in the UN Security Council ("Brazil is a serious and important applicant"). ----- The tax burden (including social security contributions) increased by 1.2% in the first half of 2004, compared with the same period in 2003, and reached 38.1% of GDP (the highest in Latin America). Although this seems to be positive from a fiscal point of view, the high taxes present a burden for the economy.

Outlook: The industrial production (today) in August should have increased slightly (0.2% mom, sa; 9.9% yoy) from a high July level. For the whole year we expect industrial production to rise by approx. 7%. ----- The central government's revenues (Thursday), which showed an increase of 22% yoy in real terms in August, should have continued their solid pace in September. ----- Tuesday: Bank holiday.

Chile

The IMACEC economic indicator expanded by a strong 7.4% yoy in August. Even though the growth rate is inflated by a calendar effect, a robust 0.5% mom rate (s.a.) points to the healthy state of the economy. We lifted our 2004 GDP growth forecast to 5.3%, up from 4.8% before, and expect GDP to accumulate a 4.8% growth rate in 2005 (government forecast: 5.2%). ----- Consumer prices rose by a lower-than-expected 0.1% mom (1.5% yoy) in September, mainly due to lower fuel prices. Due to continuing high oil prices and healthy growth we nevertheless expect the CB to lift the monetary policy interest rate by 25 bps to2.25 % on Tuesday. ----- Dynamic external sector performance: exports increased by more than 50% yoy in September, and imports posted a very strong 44% expansion. Healthy imports are another sign of a solid economic growth trend. The trade surplus for the first nine months of the year now amounts to US$ 6.8 bn, almost triple the amount of the respective year-ago period. ----- Exports should continue to perform very well: copper prices reached a nine-year high on Friday (US$ 1.47 / lb).

Colombia

The current account deficit increased to US$ 1.1 bn in the first half of this year from US$ 0.9 bn the first half of 2003, to amount to an equivalent to 2.4% of GDP. The deficit is covered by an increase in FDI, which rose from US$ 0.6 bn to US$ 1.4 bn in the same time. The main destinations for the FDI have been the mining and oil sectors. ----- The pension reform bill, one of the key elements of the fiscal and social security measures of the Uribe administration, failed to gather a sufficient

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quorum to be discussed in Congress. The project implies a correction in social security benefits, in order to reduce the structural deficit in the social security system. The Constitutional Committee is now going to review the proposal and re-submit it to Congress next week. Although this is not a failure of the proposed reform, it shows that the proposal may be watered down.

Ecuador

Rating agency Fitch yesterday upgraded Ecuador's long-term foreign currency rating from "CCC+" to "B-minus." According to the agency, the upgrade reflects the country's improved access to financing, restraint in spending and export growth. As a result, Fitch now rates Ecuador one notch above both S&P and Moody's. We are somewhat surprised by the timing of the Fitch move, as public liquidity remains very tight – obvious by the government's recourse to the FEIREP stabilization fund (originally intended to accumulate funds to buy back external debt) in order to finance current spending – and the political situation remains fragile. ---- The country's fragile situation cannot be concealed even by the high growth rate in Q2-04 (+10% yoy): growth is based exclusively on the oil sector (+41%), while the labor-intensive non-oil sector shrank by 9%. ----- With respect to free-trade negotiations with the US, pressure on the government has increased: US congressmen argued for a cessation of negotiations unless Ecuador makes strong efforts to clear up commercial conflicts with US companies. The government had caused substantial irritation among national and international economic actors by refusing to reintegrate tax payments to a US oil company even despite a favorable ruling for the company by an international court, and further complicated the picture by announcements to revise completed contracts.

Outlook: Regional elections next Sunday may bring the end of the formal party status to President Gutiérrez' PSP party unless PSP manages to gather 5% of the votes. Even though a disappearance of PSP would weaken Gutiérrez' position, we would not expect substantial changes, as the government already had to rely on hand-outs and favors in order to secure congressional support.

Mexico

In the previous week the development of the inflation rate and monetary policy continued to be in the focus of financial markets. It began on Monday, when the central bank released a further increase of inflation expectations in September. At 4.05% for the end of 2005, they exceeded the upper tolerance level of 4% for the first time. On Thursday, the central bank delivered further disappointing news regarding inflation: in September, consumer prices rose by 0.83%, bringing the annual inflation rate up to 5.1% compared with 4.8% a month ago. Despite the negative developments, the central bank kept the monetary policy unchanged on its regular Friday policy meeting. Two things might explain this: First, a tightening of monetary policy takes some time until it unfolds the desired consequences on the business cycle and inflation. The central bank has already increased the „corto“ six times this year. The latest harsh move came just two weeks ago. At the same time, inflationary pressures will ease in October for seasonal reasons, which means there is some time to await tightening results. Second, there are increasing signs that the „soft patch“ of the US economy will extend into 2005. This has already led to a softening of interest rate hike expectations in the US, which is also taking some tightening pressure from the Mexican. ----Economic activity indicators last week came in on the higher end of expectations: Inegi consumer confidence rose slightly in September from 95.6 to 96.8. In July, the Inegi leading indicator rose – for the first time in three months – by 0.44% mom. Finally, in July gross fixed investment was 7% higher than in the same month last year.

Outlook: The development of the industrial production in August will be the focus of this week's data. We expect an increase of 5.1% yoy (consensus forecast: 5.7%).---- Following the bad inflation data of last week, money market rates should rise again slightly to 7.75%.

Peru

According to Prime Minister Ferrero, the authorities are planning to eliminate the IES, or "solidarity tax", a highly criticized tax on wages, by December 1st. ----- On Wednesday the government issued its first euro-denominated bond. The 10-year EUR 650 mn bond yielding 7.55% will be used to cover financial needs for next year. We expect the government to tap international markets for about US$ 1.0 bn to back its funding requirements. The bond would cover around 80% of the required amount. According to reports the issue is not related to the planned prepayment of Paris Club loans. ----- On the back of solid economic growth and an inflation rate ahead of the CB's target range, the CB hiked the key interest rate by 25 bps to 3.75% on Friday. ----- The trade balance showed a continuing trend of growing exports in August. For a second consecutive month external sales reached US$ 1.0 bn, with imports growing to US$ 900 mn at the same time.

Venezuela

Finance Minister Tobias Nobrega announced in a press interview that the national currency is to be devalued by about 10% next year (official rate), resulting in an ex-

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change rate of approx. 2,100 VEB/US$ at year-end. Should the devaluation take place in February (as was the case this year), the 2005 annual average exchange rate would be approx. 2,085 VEB/US$. As we expect the expansive fiscal policy to continue, and thus the need for additional income from oil exports to rise and inflationary pressure to increase, we expect a more significant devaluation and an average exchange rate of 2,240 VEB/US$ (translating into substantial additional income as measured in national currency). ----- At the moment, the government is highly liquid: Due to high oil prices, the state-owned oil company PDVSA transferred the amount of royalties budgeted for the year as a whole in the first nine months already. Moreover, the budgeted income tax amount was reached as early as in May. And dividend payments announced are clearly higher than expected. Total transfers to the government could reach US$ 14 bn this year, US$ 6.5 bn more than the amount budgeted. In spite of high oil earnings, currency reserves have not increased in more than a month. This may in part be explained by the fact that the foreign exchange control authority CADIVI increased its foreign currency supply: In September, US$ 1.7 bn, the highest monthly amount since foreign exchange controls were introduced, was provided to companies. ----- Sales of new cars in September were 50% higher than in September 2003.

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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

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	08.10.2004	2.96	2.97	3.00	2.83	2.83	-4.4	3.1
Brazil	11.10.2004	2.83	2.83	2.91	2.84	2.84	0.2	3.1
Mexico	11.10.2004	11.25	11.31	11.56	11.22	11.22	-0.2	11.9
Chile	08.10.2004	596	601	615	643	643	7.9	620
Colombia	08.10.2004	2591	2618	2521	2865	2865	10.6	2640
Peru	08.10.2004	3.33	3.34	3.36	3.48	3.48	4.6	3.4
Venezuela	08.10.2004	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	08.10.2004	5247	5174	5268	5399	5739	-492
Brazil	11.10.2004	445	440	500	604	463	-18
Mexico	08.10.2004	181	184	186	204	199	-18
Ecuador	08.10.2004	701	772	823	1048	799	-98
Colombia	08.10.2004	388	407	393	418	431	-43
Peru	08.10.2004	321	321	340	329	312	9
Venezuela	08.10.2004	442	482	526	769	593	-151

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	08.10.2004	2.50	2.56	2.50	1.56	1.50	1.0	3.0
Brazil Selic	08.10.2004	16.23	16.23	15.94	19.84	16.33	-0.1	16.5
Mexico Cetes 28 days	08.10.2004	7.66	7.64	7.26	5.13	6.01	1.7	7.5
Chile 90 days, PDBC	07.10.2004	2.36	2.44	2.04	2.80	2.29	0.1	2.8
Colombia Overnight	07.10.2004	6.98	6.90	6.88	7.41	7.49	-0.5	8.5
Peru Overnight	08.10.2004	2.83	2.70	2.70	2.80	2.50	0.3	2.6
Venezuela deposits 30 days	04.10.2004	11.22	10.74	11.97	13.04	13.20	-2.0	14.0

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	06.10.2004	18.3	18.2	18.1	13.4	14.1	4.2	19.0
Brazil	07.10.2004	49.1	49.5	49.2	52.9	49.3	-0.2	50.1
Mexico	01.10.2004	69.4	69.3	69.1	59.5	65.8	3.6	65.0
Chile	31.08.2004	15.8	na	15.9	15.3	15.9	-0.1	16.0
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.)	07.10.2004	21.9	21.8	21.7	19.4	21.3	0.6	

Economic activity				Inflation				
GDP (yoy, %)	2003	2004f	2005f	%, 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	5.3	4.8		1.1	2.7	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		Public debt, % of GDP		Amortization, US$ bn		Gr. financing needs, US$ bn	
	2003	2004f	2003	2004f	2003	2004f	2003	2004f
Argentina	1.3	3.2	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	-0.8
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		Debt service		Current account		Trade Balance	FDI (net)	Import cover
	% of exports	s.t., % of total	US$ bn	% of exports	% of GDP	US$ bn	US$ bn	US$ bn	months
Argentina	377	39	32.3	80	1.2	1.7	10.0	0.0	5.9
Brazil	210	12	67.4	64	1.3	7.5	32.1	9.5	5.9
Mexico	80	28	33.3	17	-1.4	-8.7	-6.0	15.0	3.5
Chile	127	18	7.7	22	1.8	1.6	7.7	2.7	5.6
Colombia	242	12	6.9	41	-1.8	-1.7	0.4	2.0	6.3
Ecuador	17	14	1.4	3	-0.3	0.3	6.8	-1.1	1.1
Peru	225	16	3.6	26	-1.5	-1.0	2.4	1.1	8.6
Venezuela	87	8	8.1	22	12.3	12.4	19.7	1.5	9.2