Latin American Weekly Spotlight
October 18, 2004
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A company of the **Allianz Group**

Argentina:	Waiting for details of the exchange offer
Brazil:	Further tightening of monetary policy expected
Chile:	CB leaves monetary policy interest rate unchanged
Colombia:	IMF agreement to be extended
Ecuador:	More clouds over structural reforms
Mexico:	Industrial production growth below expectations
Peru:	2005 budget and pension reform on the agenda
Venezuela:	Government increases royalties payable by foreign oil companies

Argentina

Consumer confidence (UTDT) rose stronger than expected in October (+4.5%, mom). One reason may be the slight economic recovery following weak growth in Q2-04. We expect a renewed slowdown of GDP growth in Q4-04 and thus stagnating consumer confidence.

Outlook: The filing of the final details of the exchange offer with the US-American regulatory body SEC, originally expected to take place last week, is likely to be made this week. There are numerous speculations on how the proposal might be improved. However, all of them point to rather insignificant improvements. Following the filing of the final details the SEC is expected to take another week before approving the mechanisms of the exchange. ---- Growth of industrial production in September (today) is likely to be in line with market expectations of 10% (yoy). This would mean that the mom growth rate (s.a.) would reach 0.2%, thus continuing its declining trend. ---- Reflecting the slightly better figures of industrial production in August, the monthly GDP proxy EMAE (Wednesday) is likely to come in somewhat better than in the previous month (July: +6% yoy; +0.5% mom).

Brazil

The real got under pressure at the end of last week (depreciating from 2.81 to 2.87 reais/US$ in one day), perhaps due to a planned US law which foresees substantial taxation cuts for repatriated profits. This could provide an incentive for US firms in Brazil to increase transfers to the United States. ----- While the central bank gave hints that the economic upturn might be in the process of slowing down, August figures do not confirm this message, as the industrial production accelerated to 1.1% (July: 0.5%) mom, or 13.1% yoy. ----- According to the consulting firm A.T. Kearney Brazil slipped from place 9 (2003) to 17 in 2004 in the ranking of the most attractive FDI recipients. We expect this trend to reverse in the coming year.

Outlook: : The central bank will probably hike the Selic rate by 25 basis points to 16.5% on Wednesday although the inflation figures show a slowdown of inflation rates. Only with some tightening the still high inflation expectations for next year can be brought down in a sustainable manner, making it possible for the inflation target of 5.1% (2005) to be met. ----- Central government revenues (probably today), which showed an increase of 22% yoy in real terms in August, should have continued their solid pace in September. ----- Retail sales (IBGE, Tuesday) will probably have continued their double-digit increase (July: 12% yoy) in August. ----- We expect that the unemployment rate (IBGE, Friday), whose increase in August came as surprise, will resume its downward trend (in place since April 2004), reaching a level below 11%. ----- The September balance of payment (Thursday) might show a current account surplus of US$ 1.6 bn, FDI of US$ 0.7 bn and (for the first time in six months) probably positive net portfolio investments.

Chile

On its monthly meeting the CB's council left the monetary policy interest rate unchanged at 2%. We had been expecting a 25 bps hike on the back of very strong economic growth and considerable average inflation in recent months. The CB explained its restraint with possibly growth-dampening effects of higher oil prices and stable inflation expectations. We expect a tightening of monetary policy in the remaining two meetings this year, as economic growth should surprise on the upside and inflation expectations might slightly increase.

Colombia

Congress approved on Thursday the first debate of the pension reform. As expected, the original proposal has been watered down. The reform aimed at eliminating the special privileges of some government entities beginning in 2007, while the new version maintains the benefits until 2011. According to Finance Minister Carrasquilla, leaving the privileges until 2011 would cost the nation COP 16 bn, around 6.5% of GDP. ---- The government provided hints about a prospective agreement with the IMF, to succeed the current Stand-by

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program that will expire in Jan-05. The then approved amount of US$ 2.0 bn is likely to expire without having been used. The next IMF arrangement will probably have a volume of between US$ 0.7 bn – US$ 1.1 bn.

Ecuador

According to preliminary figures, the government party PSP apparently managed to gain more than 5% of votes in yesterday's regional elections and will therefore maintain its party status. Overall, however, the elections underlined the government's difficult political situation, as the traditionally powerful PSC and ID managed to further consolidate their position. We therefore expect the reform-adverse environment in Congress to persist. ----- In its attempt to attract private investment in oil fields currently operated by state-owned Petroecuador the government has extended the initial deadline to register for service contracts on next Monday by four weeks. Reason for this should have been international companies' reluctance to engage in service contracts given Ecuador's fragile judicial framework. ----- Legal insecurity is likely to increase in coming months: according to government sources an IMF mission planned for this month has been postponed until the end of the year due to the absence of preconditions for the conclusion of a Staff Monitored Program (SMP) aspired for by the government. Therefore, such an SMP may come into effect by February 2005, at the earliest.

Mexico

In August, industrial production rose by 5.2% yoy, which was in line with our expectation but somewhat lower than the market consensus. The meager increase in seasonal adjusted terms of 0.1% mom confirms our forecast of a weakening business cycle in the second half of 2004, which will result in an average GDP growth in 2004 of „only" 3.5% compared to a market consensus of 4%. ---- Last week, the peso came under pressure and lost around 2% against the US-Dollar. We see further downward potential from the current level of 11.45 MXN/USD and expect the peso to reach a level of 11.90 MXN/USD at year-end. Our forecast is based on the expectation that speculative peso positions will be eliminated due to increasing signs of economic weakening. ---- This year the deficit in the current account should fall again to 1.4% of GDP, which is mainly due to the strong increase in private transfers from Mexicans working abroad. In August those transfers rose strongly to US$ 1.6 bn (Jan.-Aug.: US$ 11bn; +25.6% yoy)

Outlook: This week's focus will be on the release of inflation data for the first two weeks in October (Friday). We expect that the inflationary pressure eased slightly and forecast an increase of consumer prices of 0.2%. In this case the Mexican central bank most likely will leave its monetary policy unchanged. In case that the price increase is substantially higher (0.3% and higher), Banxico will increase the „corto" probably from pesos 51 mn to pesos 57 mn (Friday). ---- Also on Friday Inegi will publish August retail sales figures. We expect that retail sales continued its moderate increase (+4.5% yoy in real terms), partly due to improving conditions in the labor market. In September the unemployment rate most likely fell to 4.0% compared to 4.35% in August.

Peru

The agenda of the current legislative period, which started in July, has begun to take shape. The main focus lies on the approval of next year's budget and on the constitutional amendment to pass a public pension system reform. Although important issues are on the agenda, we expect that more attention will be focused on populist measures, as legislators may only be aiming at gaining votes to maintain their seats.

Venezuela

Mr. Alfredo Peña, the mayor of Caracas, who belongs to the opposition to President Chávez, does not intend to run for reelection on October 31 as he supposes there will be election fraud. Despite of having been officially invited, the Carter Center and the OAS will send no observers to the gubernatorial and mayoral elections. ---- The central bank strictly rejected the accusation, publicly made by President Chávez that it would transfer less profits to the state than ordered by law. Chávez had threatened to apply for clarification to the Supreme Court's Constitutional Chamber, where his supporters are in the majority. ----- CITGO, PDVSA's U.S. subsidiary, intends to buy back US$ 550 mn of its foreign exchange bonds due in 2011. ----- The foreign exchange control authority, Cadivi, seems to have further increased the supply of foreign currency. At the beginning of this month, almost US$ 50 mn were reportedly provided to the private sector per day. The increased supply is the reason for the weakening of the US$, which fell below 2,500 Bolívares on the parallel market. ----- According to the central bank, the central government's expenditure was 50% higher (in real terms) in the first eight months of the year than in the year-ago period, while income only rose by 40%. The fiscal deficit (without the central bank's profit transfers) was 1.7% of annual GDP. ----- The government partially increased the royalty charged to foreign oil companies. For companies exploring oil in the Orinoco belt (approx. 0.5 million bpd), the rate rises from 1% to 16.66% of the produced quantity's market value. No countermeasures are to be expected by the companies affected, as the increase is consistent with the terms of the contracts. A

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rate of 30% applies to the state-owned oil company PDVSA.

Outlook: On Tuesday, the government intends to present to parliament its budget draft for 2005. It already announced that state expenditure is to be increased by roughly one third. Yet it expects that it will be possible for income to increase more strongly (e.g. with the help of the above-mentioned increase in oil royalties amid maintenance of the transactions tax levied in the financial sector), resulting in a smaller deficit than this year. The budget draft is based upon an average oil price of US$/b 23 (very conservative projection), average oil exports of 2.87 million bpd (very ambitious), GDP growth of 5% (attainable), inflation of only 15% (may be attainable) and a Bolívar devaluation of 10-12% against the US$ (possible due to high foreign exchange reserves).

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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

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German.
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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	15.10.2004	2.97	2.97	2.99	2.85	2.85	-3.9	3.0
Brazil	18.10.2004	2.86	2.82	2.87	2.87	2.87	0.4	3.1
Mexico	18.10.2004	11.50	11.23	11.46	11.12	11.12	-3.3	11.9
Chile	15.10.2004	609	595	612	645	645	6.0	620
Colombia	15.10.2004	2563	2560	2541	2868	2868	11.9	2640
Peru	15.10.2004	3.32	3.31	3.35	3.48	3.48	4.9	3.4
Venezuela	15.10.2004	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	18.10.2004	5408	5250	5540	5396	5739	-331
Brazil	18.10.2004	463	446	467	608	463	0
Mexico	18.10.2004	187	182	177	209	199	-12
Ecuador	18.10.2004	708	701	792	1005	799	-91
Colombia	18.10.2004	397	389	388	426	431	-34
Peru	18.10.2004	329	322	304	294	312	17
Venezuela	18.10.2004	455	443	482	761	593	-138

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	15.10.2004	2.50	2.50	2.56	1.56	1.50	1.0	3.0
Brazil Selic	15.10.2004	16.24	16.24	16.23	19.84	16.33	-0.1	16.5
Mexico Cetes 28 days	15.10.2004	7.76	7.66	7.26	5.38	6.01	1.8	7.5
Chile 90 days, PDBC	14.10.2004	2.34	2.36	2.52	2.73	2.29	0.0	2.8
Colombia Overnight	12.10.2004	6.97	7.03	6.88	7.39	7.49	-0.5	8.5
Peru Overnight	15.10.2004	2.83	2.83	2.65	2.80	2.50	0.3	2.6
Venezuela deposits 30 days	11.10.2004	12.25	11.23	11.49	13.55	13.20	-0.9	14.0

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	13.10.2004	18.3	18.3	18.4	13.4	14.1	4.2	19.0
Brazil	14.10.2004	48.7	49.1	49.3	52.9	49.3	-0.5	50.1
Mexico	08.10.2004	69.0	69.4	70.3	61.2	65.8	3.2	65.0
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	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.)	14.10.2004	21.7	21.9	21.3	19.6	21.3	0.4	

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	6.8	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	3.7	140	153	19.8	19.8	19.1	15.5
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	371	39	32.3	79	1.9	2.7	11.1	0.0	6.0
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