



# Latin American Weekly Spotlight

October 25, 2004



Dresdner Bank Lateinamerika AG  
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

<b>Argentina:</b>	Strong GDP increase
<b>Brazil:</b>	Higher than expected interest rate hike
<b>Chile:</b>	Economic upturn continues
<b>Colombia:</b>	Retreat from import bank privatization project
<b>Ecuador:</b>	Renewed political insecurity
<b>Mexico:</b>	Another tightening move by the central bank
<b>Peru:</b>	President Toledo remains unpopular
<b>Venezuela:</b>	Regional and mayoral elections on Sunday

## Argentina

The monthly GDP proxy EMAE increased 8.8% yoy (0.9%, mom, s.a.) in August – considerably higher than the 6% plus we had been expecting. Industrial production in September (10.4% yoy; 0.7% mom, s.a.) also came in slightly better than expected. As also exports recently surprised positively and our previous GDP forecast already had an upside, we raise our growth forecast for 2004 from 6.5% to 7.5% and for 2005 from 3.5% to 4%. We continue to expect a weakening of GDP growth in H2-04 and a continuation of this weakening trend in 2005. ---- Standard & Poor's raised its rating of ARS and USD denominated Boden (performing sovereign bonds issued domestically) from CCC to CCC+. On the back of good fiscal figures likely to continue for some time we share this positive view.

Outlook: The filing of the final terms and conditions of the restructuring proposal with the US supervisory body SEC continues to be delayed. Local press reports indicate the government now aims to get the approval of the US and European agencies simultaneously. It seems that the official plan continues to be that the reception of bids will start by mid or end of November and that the transaction will be concluded by the end of this year. However, further delays cannot be ruled out. -- -- Regarding possible improvements of the proposal, the local newspaper Clarin reports the government intends to bring the issue date of the new bonds forward to January 2004 (from June 2004) if the participation ratio exceeds 70%. In this case, the higher amount of interest to be paid on the new bonds would be equivalent to a cash upfront payment of US\$ 600 mn. ---- Exports are likely to have grown 15% (yoy) in September (Thursday). Due to the high base of comparison, import growth will likely slow down to 60% in September.

## Brazil

August retail sales, at an increase of only approx. 7% yoy, disappointed following increases of 10% or more over the last couple of months. However we do not consider this figure to represent a reversal of the trend. The unemployment rate decreased significantly in Sep-

tember, falling 0.5 percentage points to 10.9% (Sep 03: 14.8%), and employment increased by 3.6% yoy. ---- The central government's tax revenues continue to show high growth (September: +19% yoy, in real terms). ---- The current account surplus amounted to US\$ 1.7 bn in September, bringing the ytd surplus to 2.3% of GDP. Once again, foreign direct investment reached only a modest level of approx US\$ 0.7 bn. The central bank expects FDI to amount to US\$ 1.6 bn in the current month, though. Net portfolio investment, which had been negative during the preceding six months, amounted to US\$ 80 mn. ---- Rodrigo Azevedo is the new director for monetary policy at the central bank. He replaces Luiz Candiota who had to resign in July due to allegations of tax evasion. We expect Azevedo to back the orthodox stance of the central bank or even to reinforce it.

Outlook: On Sunday the second ballot of the municipal elections will take place in 44 municipalities and cities, of which 15 are state capitals. The PT will run in 9 capitals and could win 4 or 5 of them. Sao Paulo mayor Marta Suplicy (PT) will compete with Jose Serra (PSDB), who seems to be in the lead (latest poll: 37 % vs. 51 %). ---- The public sector's primary surplus for the first nine months of the year is estimated at reais 70 bn. This should ensure that the target for the whole year (4.5% of GDP) will be reached. ---- The central bank last week raised the overnight interest rate (selic) by 50 basis points to 16.75%. We expect inflation expectations to come down, all the more so as the market had expected a hike of only 25 basis points. We expect another interest rate hike this year. Perhaps the minutes of the last CB meeting will bring some clarifications in this respect.

## Chile

Retail sales increased by 3.9% yoy in September, taking overall growth in the first nine months to 3.9% as well. This is just another indication of the current robust economic upturn.

Outlook: Industrial and mining production figures should reflect the solid economic upturn (Wednesday). Labor market figures, in turn, may exhibit a continuation of the trend seen in recent months, with decreasing numbers of self-employed and rising dependent employment. On balance we expect an overall increase in employment.

### Colombia

In a surprise move president Uribe announced to put the sale of the largest public bank Bancafé (third largest bank in Colombia) on hold. In February, an attempt to privatize the bank had failed due to a lack of potential buyers. The IMF labeled the government's retreat from the banking system a main structural issue in its latest staff report. ----- Congress has approved the government's budget proposal for 2005 (budget deficit: 2.4% of GDP) without major changes. The budget is based upon an approval of the tax reform by Congress this year. We believe, however, that such an easy proceeding is unlikely and expect that the 2005 budget deficit will be as high as this year's (2.8% of GDP). ----- As expected the central bank kept key interest rates stable at this month's monetary meeting. Whether the central bank will lift repo rates on its meeting in the second half of November primarily depends on the development of consumer prices in October (DBLA forecast: +0.2% mom) as well as on the exchange rate.

Outlook: The growth rates of retail sales and industrial production in August (mid-week) as well as the latest developments on the job market (end of the week) should support our view of a healthy economic upswing. ----- Both imports and exports should have recorded a 20% yoy increase in August, with external trade having been balanced. ----- In the seventh out of eight debates the majority of a congress committee voted for a possible reelection of president Uribe. There are several signs that the reelection debate will be over before the end of the year, and thus earlier than originally expected; the final debate could take place already in November.

### Ecuador

It is still unclear if President Gutiérrez' PSP party managed to gather the 5% of votes in regional elections two weeks ago which are necessary for the preservation of its party status. However, PSP's weak overall performance apparently constitutes an incentive for opposition parties to try another impeachment against the President. We nevertheless expect Gutiérrez to once again manage to survive by handing out political favors, as it does not seem to be in the main opposition party's (PSC) interest to sack Gutiérrez right now. The fiscal

dimension of these political favors might considerably weaken public finances going ahead.

### Mexico

Last Friday the central bank tightened monetary policy already for the seventh time this year. It increased the „corto“ from MXN 51 mn to MXN 57 mn. Banxico explained its move by the rise in inflation expectations. Higher than expected inflation in the first half of October (+0.51% mom) should also have affected Banxico's decision. In addition, the monetary authority intends to avoid that the temporary – as they think – increase in inflation spills over into higher nominal wage increases. -- --- In September, the unemployment rate fell from 4.4% to 4.0% compared to a month ago, which for Mexican standards is still a relatively elevated level. This indicates that during the current economic upturn job creation has somewhat disappointed.

Outlook: Today Inegi will publish the preliminary trade data for September. We expect a modest trade deficit of US\$ 400 mn on the back of higher oil prices. Exports as well as imports should post a growth rate in the low double digits. ----- On Tuesday we expect further confirmation for our below-consensus GDP forecast (+3.5% yoy) for 2004, when the August data for the IGAE economic activity indicator will be published ----- On Wednesday, the central bank will publish the quarterly inflation report, which should bring some insight with regard to the future course of monetary policy.

### Peru

According to the latest poll conducted by the consulting firm APOYO, president Toledo's already low popularity decreased again during the past four weeks (from 14% to 12%). We do not reckon that the government is to gain capacity to act in the remaining 1 ½ years in office. ----- APOYO's Consumer Confidence Index deteriorated slightly in October and reached only 38 of 100 possible points. As this index has only been published shortly we have not used it as an early indicator for consumption growth. Our GDP forecast for 2004 (4.2%) accounts for an acceleration of consumption growth in the remainder of this year. ----- Vice Minister of Finance Luis Carranza announced further steps of active debt management aiming at a reduction of the currently high share of public debt with variable interest rates.

Outlook: The congress' committee for economic issues decided to work out its own comprehensive tax reform. In addition to administrative changes in the tax agency (SUNAT), the government e.g. lifted the VAT rate and introduced a financial transaction tax. As populists have a great influence in Congress and the government's capacity to act is limited, the congressional proposal

could have a destabilizing effect on public finances in the medium term. ----- No marked increase is expected for October consumer prices (November 1st), leaving the yoy rate unchanged at around 4%.

## Venezuela

The election authority CNE declined to postpone the regional and mayoral elections scheduled to be held next Sunday. A corresponding requirement had been made by the opposition after there had been indications of faults in the electoral register. It is unclear how serious these faults are in fact. Apart from Caracas mayor Alfredo Peña, further opposition politicians refused to take part in the elections. They doubt there will be a due and proper election process. ----- Due to the economic upturn and low interest rates, lending has substantially

increased; in September, it was 60% above the level of the beginning of the year and twice as high as in September 2003. ----- The government introduced the budget draft 2005 into parliament. The draft is roughly in line with figures published in advance. Expenditure amounts to VEB 69.3 trillion (+20% in nominal terms). Tax revenues are set to increase to 36% of total revenues, from 29% this year. 38% of total revenues are expected to come from the oil sector (draft 2003: 29%). The budget deficit is to be limited to 1.8% of GDP, an ambitious target. Finance minister Nobrega announced, however, that no new bond issues are planned to cover ordinary state expenditure, and that additional oil export proceeds resulting from oil prices higher than the extremely conservative budget assumption of 23 US\$/b would be set aside.

Dresdner Bank Lateinamerika AG  
Neuer Jungfernstieg 16  
20354 Hamburg  
Germany

Economics Dept.  
Chief economist: Dr. Heinz Mewes  
Tel.: (+49 40) 3595 3494  
Fax: (+49 40) 3595 3497  
E-Mail: [economics@dbla.com](mailto:economics@dbla.com)  
<http://www.dbla.com>

### 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. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice, please contact your Dresdner Bank Lateinamerika branch.



Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	22.10.2004	2.96	2.96	3.00	2.84	2.84	-4.1	3.0
Brazil	25.10.2004	2.87	2.86	2.87	2.87	2.87	-0.1	2.9
Mexico	25.10.2004	11.54	11.46	11.43	11.10	11.10	-3.8	11.9
Chile	22.10.2004	609	610	607	636	636	4.5	620
Colombia	22.10.2004	2558	2563	2598	2881	2881	12.6	2640
Peru	22.10.2004	3.31	3.31	3.35	3.48	3.48	5.0	3.4
Venezuela	22.10.2004	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	25.10.2004	5523	5364	5460	5607	5739	-216	
Brazil	25.10.2004	495	466	479	650	463	32	
Mexico	25.10.2004	194	189	191	209	199	-5	
Ecuador	25.10.2004	745	706	787	1046	799	-54	
Colombia	25.10.2004	410	397	408	450	431	-21	
Peru	25.10.2004	359	334	307	323	312	47	
Venezuela	25.10.2004	477	453	490	765	593	-116	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	22.10.2004	2.50	2.50	2.56	1.63	1.50	1.0	3.0
Brazil Selic	22.10.2004	16.74	16.24	16.24	18.85	16.33	0.4	16.8
Mexico Cetes 28 days	22.10.2004	7.70	7.73	7.61	5.18	6.01	1.7	7.5
Chile 90 days, PDBC	21.10.2004	2.43	2.34	2.29	2.66	2.29	0.1	2.8
Colombia Overnight	21.10.2004	6.97	6.93	6.87	7.34	7.49	-0.5	8.5
Peru Overnight	22.10.2004	2.83	2.83	2.70	2.80	2.50	0.3	2.6
Venezuela deposits 30 days	18.10.2004	12.59	12.25	12.91	11.73	13.20	-0.6	12.0

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	20.10.2004	18.4	18.3	18.1	13.2	14.1	4.2	19.0
Brazil	21.10.2004	49.0	48.7	49.2	52.7	49.3	-0.2	50.1
Mexico	15.10.2004	69.9	69.0	70.2	61.3	65.8	4.1	65.0
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	16.0
Colombia	30.09.2004	12.1	na	12.1	10.9	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.)	21.10.2004	22.3	21.7	21.5	19.7	21.3	1.0	

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	4.8	3.6	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	2.5	5.8	2.8		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	19.0	16.4	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	-2.7	58	53	94.2	83.3	72.1	67.4
Mexico**	-0.6	-0.3	28	28	23	29	26	31
Chile***	-0.4	2.4	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	9.0	10.7	8.5

\* 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	208	12	65.6	61	1.6	8.9	32.0	14.5	5.9
Mexico	79	28	33.3	16	-1.4	-8.8	-6.1	15.0	3.4
Chile	123	19	7.7	22	2.0	1.8	7.9	2.7	5.6
Colombia	242	12	6.9	41	-1.7	-1.6	0.5	2.0	6.3
Ecuador	17	10	1.4	3	0.2	0.7	6.8	0.7	1.1
Peru	225	16	3.6	26	-1.5	-1.0	2.4	1.1	8.6
Venezuela	83	10	8.3	21	13.2	13.3	20.6	1.5	8.8