Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
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A company of the **Allianz Group**

Argentina:	Press reports details of debt restructuring
Brazil:	Higher than expected key interest rate hike
Chile:	Regional elections bolster President Lagos
Colombia:	Delay of reforms in favor of Uribe's reelection
Ecuador:	Impeachment process against President Gutiérrez likely
Mexico:	Central Bank expects the economy to weaken
Peru:	Central bank without leader
Uruguay:	Change of government according to preliminary results
Venezuela:	Clear opposition defeat in regional elections

Argentina

The official bond exchange offer is still not known in detail, but expected to be published soon. In advance the local press published details, according to which the haircut (capital reduction) on Discount Bonds will be 66%, and on Quasi-Par Bonds 31%. As was already known, there will also be Par Bonds (no haircut). The average net present value loss of the restructured bonds remains at around 75%. ---- Helped by public works the construction sector grew 5% (mom, s.a.) and 14.8% (yoy), respectively. The yoy rates continue to decline due to the fading base effect. ---- Exports (+25%, yoy) grew stronger than expected in September. Import growth (53%, yoy) was less than expected. The trade surplus reached US$ 956 mn. ---- The Supreme Court declared the "Pesification" of US$-deposits of early 2002 constitutional. One and a half year ago it ruled differently, thus contributing to the fact that banks accumulated US$ 3 bn of damage due to compensation payments forced by court rulings.

Outlook: Like in previous months October's tax revenues (today) are likely to show significant yoy growth (Sept.: +30.4%). ---- CPI inflation (today) is likely to reach 0.5% (mom) in October (5.7%, yoy).

Brazil

The PSDB (opposition at federal level) was the winner of the second round in the municipal elections. Its candidate José Serra did not only win in São Paulo, as expected, but the PSDB gained also the majority in four further states. The PT was only successful in three capital cities (see also the attached result overview). ----- The minutes of last week's central bank meeting, when interest rates were raised to 16.75%, point out that the drop of inflation in the past few weeks (e.g. the IPCA-15 fell to 0.32% in October from 0.49% in September) is probably only a temporary phenomenon, all the more so as the increase in oil prices could result in hikes of some administered prices. ----- A survey of the industry association CNI confirms our expectation that investment demand will increase further: 94% of the big companies are planning to increase their investments in 2005 (compared with 84% in the 2003 survey). This fits to the fact that capacity utilization, at 86.1% in October, reached its highest level since 1977 according to the Getulio Vargas Foundation.

Outlook: The trade balance surplus (today) is expected at US$ 2.9 bn in October, falling short of the US$ 3 to 3.5 bn reached in the last five months. This is not surprising, though, as imports use to pick up in the last quarter of the year, and is fully consistent with our year-end forecast of a surplus of US$ 32 bn. ----- Car production (Friday) will probably have shown another solid increase in October (September: +25.3% yoy).

Chile

According to preliminary counting, the governing ‚Concertación" coalition managed to gather the highest number of votes in yesterday's regional elections and distracted a number of communities from the opposition Alianza coalition. The already popular President Lagos should be further strengthened by these results. In Chile's capital, Santiago, however, Alianza candidate Raúl Alcaíno gained the contest. ----- The economy continues to gather strength: industrial production expanded by an astonishing 12% in September, following an already strong average of +8% in the three months before. Industrial sales strongly expanded as well (+9% yoy), as did mining (+12%). This should take the IMACEC economic indicator's growth, to be published on Friday, to more than 6% yoy. We expect good economic news to continue in the coming months, and GDP to expand by 5.3% in overall 2004. ---- Labor market trends continued in September, with rising unemployment despite solid growth in employment, as the n umber of persons seeking jobs is increasing even stronger, especially in dependent jobs. The unemployment rate increased to 9.7% from 9.4% in September 2003, but decreased somewhat compared to August 2004 (9.9%).

economics@dbla.com

Outlook: Today is a public holiday in Chile. ----- Inflation is expected to have accelerated somewhat in October, taking the yoy rate to 1.9% (Thursday).

Colombia

The increase in both industrial production (8.9% yoy) and retail sales (4.1% yoy) in August as well as the ongoing reduction of unemployment in September (14.9% after 15% in August) support our positive economic view.

Outlook: It becomes increasingly likely that Congress could give its blessing to the constitutional amendments necessary for president Uribe's reelection within the next two weeks. Yet reforms of the pension and tax systems are likely to be delayed further. Both reforms would have to go through various votes in Congress until the end of this year in order to become law in the first half of 2005. Congress is expected to give its first vote on the current pension reform bill this Tuesday. ----- Imports as well as exports are likely to have increased by roughly 20% yoy in August (mid-week), leaving external trade balanced.

Ecuador

According to the final results, President Gutiérrez' PSP party reached more than 5% of the votes, the number stipulated to maintain its party status in October's regional elections. This does not stop, however, some opposition parties to strive for an impeachment of the President. It seems a done deal that the impeachment process will start on November 4, as the opposition gathered 51 members of congress needed for its initiation. The opposition nevertheless does not have, up to now, the 67 congressmen on its side to back the final impeachment decision. We continue to expect that the biggest opposition Party PSC has no real interest in unseating Gutiérrez, and will backtrack from its impeachment proposal in exchange for political favors from the government. ----- Consumer price inflation accelerated slightly in October to 0.28% mom, taking the yoy rate to 1.6%.

Mexico

The president of the treasury commission in Congress made it clear that there will be no negotiation about a fiscal reform within the discussion of the 2005 budget proposal. ----- In September, the trade deficit fell less than expected, to US$ 574 mn. In line with our forecast, exports growth fell substantially, to 9.1% yoy, which was largely due to weak auto exports to the US. ----- In August, the IGAE economic indicator rose by 5.1%, more than we had estimated (our forecast: 3.5%). This latest figure creates some upside risk for our 3.6% yoy third-quarter GDP forecast. ----- The Governor of the central bank, Guillermo Ortíz, expects economic growth to slow down next year (DBLA forecast: reduction from 3.5% in 2004 to 3% in 2005). In addition, he expects the inflation rate to stabilize during the fourth quarter of 2004 and to start falling substantially from the second quarter 2005 onwards. Again, this is in line with our view. Inflation rate September: 5.1% yoy; DBLA forecasts: end-2004, 4.8% yoy; end-2005, 3.6% yoy).

Outlook: On Wednesday, Inegi will publish the consumer confidence index for October. We expect a slight fall in the index from 96.3 to 95.8 due to the recent increase in the inflation rate. ----- On Thursday the Finance Ministry will publish the public finance data for the third quarter 2004. We expect all about the same: high oil prices are a guarantee for solid public finances while at the same time providing some leeway for increasing public investments. ----- In August, the Inegi leading indicator probably fell again, supporting our forecast that the slight economic slowdown will extend into the second half of 2005.

Peru

By the end of last week, central bank president Silva Ruete left his post, as he is going to become an IMF Director in Washington DC. Even though this has been known for long, so far no successor was appointed. The position of the institution's vice president, who normally takes over in case of absence of the president, is also vacant. This could damage the reputation of the central bank, but we do not believe that the institution's capacity to act is endangered as the executive committee is in qualified hands. ----- Analysts of the rating agency Moody's were recently in Lima. Given Peru's increased foreign exchange liquidity it cannot be ruled out that Moody's follows the example of S&P, which improved the rating of Peru's sovereign bonds in August from BB- to BB. ----- Consumer prices (today) are likely to not have risen markedly during October, leaving the yoy rate at 4%.

Uruguay

With official results still to be released, all exit polls give Tabaré Vázquez, the candidate of the left of centre opposition EP-FA (Encuentro Progresista – Frente Amplio) around 51% to 52% of the votes, sufficient for a first-round victory. The EP-FA also seems to have secured the absolute majority in both houses of Congress.

Outlook: We expect Tabaré Vázquez, the former mayor of Montevideo, to continue the stability-orientated economic policy. The naming of the market-friendly Danilo Astori as future finance minister was a reassuring signal. Having said that, the new government is also likely to leave new marks – for example not renewing contracts with private water supply companies – yet without cancelling existing contracts. This would be based on a consultation on the re-nationalization of water supplies, which was held jointly with elections on Sunday, in which 60% of votes favored a re-nationalization.

Venezuela

The government registered a clear victory in Sunday's regional polls, which comprised the election of 22 state governors and 335 mayors, including the mayor of Caracas. The opposition, which had not been able to boycott the elections nor to take part in them, only managed to defend two out of its past eight governor posts, according to the preliminary election result announced by the CNE election authority. Even outstanding opposition politicians such as Enrique Mendoza and Henrique Salas Feo, governors of Miranda and Carabobo, respectively, are said to have lost by a narrow margin, which they are (still) denying. In the future, the mayor of Caracas (up to now Alfredo Peñas) will probably also come from the government camp. While according to preliminary news the participation in the polls, at 40%, was substantially lower than in the referendum, the success will likely encourage the government to continue the so-called "Bolivarian Revolution". President Chávez had already announced before the elections that he will resume the "combat against large-scale landowners". They are expected to give land to landless farmers if they do not use it for production. The president refers to a law of 2001 which up to now has not been applied in earnest. ----- The CNE election authority is considering the possibility of holding the approved referendums against members of parliament on December 5. As mostly opposition politicians are concerned, the government's majority in parliament could widen further. ----- Non-oil tax revenue is continuing to rise. In January, it was 122% higher year-on-year. This is due to the economic upturn as well as probably to the fact that Cadivi will only provide foreign exchange if the applicant gives evidence that he has duly paid all taxes. ----- Inflation (today) is likely to have been relatively low in October as well (Sept.: 0.5% mom).

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
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

Municipal elections: Result overview

REGIONAL CAPITAL	CANDIDATES	RESULTS OF THE FIRST ROUND	RESULTS OF THE SECOND ROUND (31.10.04)	POPULATION	PREVIOUS RULING PARTY	NEWLY ELECTED RULING PARTY
São Paulo (São Paulo)	José Serra (PSDB)	43.58	54.87	10,677,019	PT	PSDB
	Marta Suplicy (PT)	35.78	45.13			
Rio de Janeiro (Rio de Janeiro)	César Maia (PFL)	50.11	no second ballot	5,974,081	PFL	PFL
	Crivella (PL)	21				
Salvador (Bahia)	João Henrique (PDT)	43.71	74.69	2,556,429	PT	PDT
	Cesar Borges (PFL)	2193	25.31			
Belo Horizonte (Minas Gerais)	Pimentel (PT)	68.49	no second ballot	2,305,812	PT	PT
	João Leite (PSB)	22.78				
Fortaleza (Ceará)	Maroni (PFL)	26.59	43.79	2,256,233	PMDB	PT
	Luizianne (PT)	22.3	56.21			
Curitiba (Paraná)	Beto Richa (PSDB)	35.06	54.78	1,671,194	PFL	PSDB
	Vanhoni (PT)	31.18	45.22			
Manaus (Amazonas)	Amazonino Mendes (PFL)	43.48	5168	1,527,314	PFL	PFL
	Serafim Corrêa (PSB)	28.78	48.32			
Recife (Pernambuco)	João Paulo (PT)	56.11	no second ballot	1,461,320	PT	PT
	Cadoca (PMDB)	27.62				
Porto Alegre (Rio Grande do Sul)	Raul Pont (PT)	37.62	46.68	1,394,085	PT	PPS
	José Fogaça (PPS)	28.34	53.32			
Belém (Pará)	Duciomar Costa (PTB)	48.91	58.28	1,342,202	PT	PTB
	Ana Júlia (PT)	32.76	4172			
Goiânia (Goiás)	Iris Rezende (PMDB)	47.47	56.71	1,146,106	PT	PMDB
	Pedro Wilson (PT)	23.03	43.29			
Maceió (Alagoas)	Cícero Almeida (PDT)	42.55	56.54	849,734	PSB	PDT
	Sexta-Feira (PSD)	26.64	43.46			
Teresina (Piauí)	Silvio Mendes (PSDB)	48.89	58.48	751,464	PSDB	PSDB
	Adalgisa (PMDB)	25.7	4152			
Natal (Rio Grande do Norte)	Carlos Eduardo (PSB)	37.3	5192	744,794	PSB	PSB
	Luiz Almir (PSDB)	30.46	48.08			
Cuiabá (Mato Grosso)	Wilson Santos (PSDB)	36.19	52.85	508,156	PSDB	PSDB
	Sérgio Ricardo (PPS)	33.55	47.15			
Aracaju (Sergipe)	Déda (PT)	7138	no second ballot	479,767	PT	PT
	Susana (PPS)	18.05				
Florianópolis (Santa Catarina)	Dário Berger (PSDB)	35.59	58.47	369,102	PPB	PSDB
	Francisco Assis (PP)	27.03	4153			
Porto Velho (Rodônia)	Roberto Sobrinho (PT)	32.02	54.31	353,961	PDT	PT
	Mauro Nazif (PSB)	30.83	45.69			
Macapá (Amapá)	João Henrique Pimentel (PT)	415	no second ballot	318,761	PSB	PT
	Janete Capiberibe (PSB)	29.01				
Vitória (Espírito Santo)	João Coser (PT)	37.16	57.9	302,633	PSDB	PT
	Cesar Colnago (PSDB)	34.93	---			
Rio Branco (Acre)	Raimundo Angelim (PT)	49.51	no second ballot	274,555	PMDB	PT
	Márcio Bittar (PPS)	4173				
Boa Vista (Roraima)	Teresa Jucá (PPS)	56.71	no second ballot	221,027	PPS	PPS
	Neudo Campos (PP)	2171				
Palmas (Tocatins)	Raul Filho (PT)	64.46	no second ballot	172,176	PFL	PT
	Nilmar (PL)	32.67				

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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	01.11.2004	2.97	2.97	2.98	2.86	2.86	-3.8	3.0
Brazil	01.11.2004	2.86	2.88	2.84	2.85	2.85	-0.1	2.9
Mexico	01.11.2004	11.53	11.54	11.34	10.99	10.99	-4.7	11.9
Chile	01.11.2004	612	611	604	626	626	2.2	620
Colombia	29.10.2004	2569	2564	2630	2877	2877	12.0	2640
Peru	29.10.2004	3.32	3.32	3.33	3.47	3.47	4.5	3.4
Venezuela	29.10.2004	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	01.11.2004	5380	5467	5174	5752	5739	-359
Brazil	01.11.2004	468	505	461	607	463	5
Mexico	01.11.2004	180	192	184	203	199	-19
Ecuador	01.11.2004	745	758	772	978	799	-54
Colombia	01.11.2004	398	414	407	486	431	-33
Peru	01.11.2004	316	354	321	303	312	4
Venezuela	01.11.2004	458	476	482	740	593	-135

Benchmark interest rates %	date	last	one week	one month	one year	end 2003	ytd-change %-points	end 2004f
Argentina, Overnight	28.10.2004	2.50	2.50	2.56	1.63	1.50	1.0	3.0
Brazil Selic	29.10.2004	16.74	16.74	16.24	18.85	16.33	0.4	16.8
Mexico Cetes 28 days	29.10.2004	7.86	7.86	7.61	4.70	6.01	1.9	7.5
Chile 90 days, PDBC	28.10.2004	2.32	2.43	2.46	2.72	2.29	0.0	2.8
Colombia Overnight	27.10.2004	6.94	6.91	6.89	7.30	7.49	-0.6	8.5
Peru Overnight	29.10.2004	2.95	2.83	2.70	2.73	2.50	0.5	2.6
Venezuela deposits 30 days	26.10.2004	12.60	12.76	12.42	10.84	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	27.10.2004	18.5	18.4	18.2	12.8	14.1	4.4	19.0
Brazil	28.10.2004	49.3	49.0	49.7	54.3	49.3	0.1	50.1
Mexico	22.10.2004	70.4	69.9	69.0	62.2	65.8	4.6	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	30.09.2004	11.2	na	11.0	9.8	10.2	1.0	11.4
Venezuela (FEM&Gold incl.)	28.10.2004	22.4	22.3	21.8	20.0	21.3	1.1	

Economic activity GDP (yoy, %)	2003	2004f	2005f	Inflation %, year end 2003	2004	2005	GDP 2003, US$ bn
Argentina	8.8	7.5	4.0	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 2003	2004f	Public debt, % of GDP 2003	2004f	Amortization, US$ bn 2003	2004f	Gr. financing needs, US$ bn 2003	2004f
Argentina	1.3	3.7	140	152	19.8	19.8	19.1	15.5
Brazil*	-5.2	-2.7	58	53	94.2	83.7	72.1	67.8
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 % of exports	s.t., % of total	Debt service US$ bn	% of exports	Current account % of GDP	US$ bn	Trade Balance US$ bn	FDI (net) US$ bn	Import cover months
Argentina	366	39	32.3	78	2.2	3.3	11.7	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	-9.0	-6.3	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	-2.1	-2.0	0.2	2.0	6.2
Ecuador	17	9	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