



Latin American Weekly Spotlight

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A company of the **Allianz Group**

Argentina:	Official bond exchange offer
Brazil:	Key interest rates likely to be raised again
Chile:	Slight inflation increase in October
Colombia:	Central bank is to keep key interest rates steady
Ecuador:	Impeachment process against President Gutiérrez
Mexico:	Congress debates the budget
Peru:	Strong increase in government expenditures
Venezuela:	Car sales still on the upswing

Argentina

The Argentine government filed the last still missing supplements with the US regulatory body (SEC). The exchange offer will be made public in writing once the SEC has given its approval, which is expected to take place shortly. During a press conference, the economy ministry published details of the exchange offer which are in line with information previously released by the local press. (see Weekly of 01.11.04 and Daily of 02.11.04). Representatives of the GCAB (Global Committee of Argentine Bondholders) reiterated their rejection of the offer. ---- Consumer prices rose 0.4% mom in October (5.7%, yoy), slightly less than expected. With monthly rates of around 0.5% for the remaining two months, we expect the year to end with an inflation rate of 6.3%. ---- As expected, tax revenues registered another high growth rate in October (+28%, yoy).

Outlook: According to local press reports, this week President Kirchner will announce plans of significant long-term Chinese investments in Argentina. ---- The UTDT consumer confidence index (Thursday) is likely to have grown again slightly during the last four weeks. The previous census carried out at the beginning of October showed an increase of 4.5% (mom).

Brazil

Irrespective of the interest rate hike, inflation expectations continue to increase. Hence, there is a growing probability that the central bank will raise interest rates again this month. ---- The trade balance surplus stood at exactly US\$ 3 bn in October. The exports amounted to US\$ 8.8 bn, thus exceeding our expectations. Assuming that the export revenues will amount to US\$ 8 bn in each of the next two months (some US\$ 900 mn less than the average exports of the last five months), this year's exports will total US\$ 95 bn, 30% more than last year. ---- Car production again showed a healthy increase (6% mom, not seasonally adjusted) during October. Year on year, the production increase amounted to 14%. ---- Increase of consumer confidence: According to a survey of the Foundation Getulio Vargas (FGV), 45.8% of the persons interviewed believe that the econ-

omy will continue to grow. In June, 44.6% shared this view. ---- Net public debt decreased to 53.7% of GDP in September. In December 2003, this figure was still at 58.2% of GDP. ---- Parties are positioning for the 2006 campaign: The parties PDT and PPS - both are a member of the ruling coalition and an important force on the municipal level, as they won 5 state capitals (among others, Porto Alegre) - apparently aim at merging and appointing a joint candidate for the presidential elections in 2006. ---- Defense minister Viegas resigned, as a press statement of the army was seen as an attempt to justify the political prosecution during the military government. Vice-president Alencar will be his successor.

Outlook: The industrial production (Wednesday) should have continued its rise in September (1% mom). In yoy terms, this means a slowdown to 6.5% (August: 13% yoy) though, due to the high basis of comparison. The IPCA-inflation (Thursday) should have amounted to 0.45% in October, which corresponds with a yoy-inflation of 6.9%. ---- This month, the state presidents of China, South Korea and Russia (among others) will pay a visit to Brazil. Chinas president will be accompanied by a delegation of 150 entrepreneurs. 6% of Brazilian exports went to China this year.

Chile

The strong growth of the Chilean economy continued in September (IMACEC Indicator: +7.7% yoy, +1.1% mom, s.a.) amounting to 6.5% yoy in 2004. For the whole year we keep expecting an increase in GDP of 5.3%, although the rate is likely to be surpassed. As we expected, inflation increased slightly in October (0.3% mom). Compared with last year, consumer prices are 1.9% higher, mainly due to increased prices for fuel and shipping services in October. Given the previous month's high growth rates, we still expect the central bank to hike the interest rate at 25 bps to 2.25% on its Thursday meeting.

Colombia

External trade evolved surprisingly positive in August. While imports increased 17% yoy somewhat less than expected, exports surged 40% yoy, twice as much we had expected. The trade balance showed a surplus of more than US\$ 120 mn. ----- The plenary of the lower house agreed only partly to the government's pension reform proposal. The resulting amendments are poised to reduce the long-term positive impact on the public budget. Two more votes of the senate on this issue are due by the end of this year. ----- The tax revenues of the central government showed a 17% yoy increase in the period from January to September.

Outlook: We no longer expect the central bank to increase key interest rates this year, as consumer prices surprisingly leveled off in October – we expected a price increase of 0.2% mom – and the inflation rate (5.9% yoy) was again within the central bank's year-end target range (4-6% yoy). The central bank's next board meeting is scheduled for November 19. ----- There are no news regarding the constitutional amendment needed for Uribe's reelection in 2006. As so far no official date was given for the final vote of the lower house, we don't expect Congress to give its final decision on the issue next week. ----- Congress postponed its vote on a supplementary budget (projected additional spending of just 1.4% of GDP) for 2004 until next Tuesday. We expect this government body to agree on higher expenditures, as the consolidated public budget was balanced in the first half of this year (versus a deficit of 1.6% of GDP in the first half of 2003).

Ecuador

Delegates of the opposition parties proposed in Congress an impeachment process against President Gutiérrez, for allegedly having misused public funds in supporting political campaigning during the recent local elections. A revision of the accusation will take place next week, with the establishment of a congressional commission. Should the commission indicate the legitimacy of an impeachment, 51 votes will be necessary to continue the formal process. President Gutiérrez could only be forced to resign, if two thirds of the delegates vote in favor of an impeachment. The process is likely to last for at least one month. We doubt that the opposition is going to succeed: At present the pro-Gutiérrez votes total 40 out of 100 congress members. It also becomes more and more apparent, that personal interests of the opposition leader León Febres Cordero (PSC) are standing behind the impeachment process. According to local newspapers, companies of Mr. Cordero and his family have arrears against the state amounting to double-digit millions, which the administration is presently trying to collect. If these accusations substantiate, the other members of the opposition who

support the impeachment right now, could withdraw from the PSC. If President Gutiérrez will be ousted anyway, his successor would be the politically inexperienced Vice-president Palacio. Due to the impeachment process, urgent economic reforms could be delayed in Congress and a new agreement with the IMF would seem even more unlikely. Besides, President Gutiérrez could feel constrained to make expensive concessions to the opposition. As a first step, a reshuffle of the cabinet is proposed which we do not expect before December.

Mexico

In a surprise move the lower house of the congress increased the deficit ceiling to 0.3% of GDP for the 2005 budget against a proposal by the government of 0.1% of GDP. Public expenditure should increase more than previously proposed, which will be financed by higher oil revenues (oil price: US\$ 27 compared to US\$ 23 proposed by the government.) ----- The public sector posted a surplus of 8 bn pesos in September, raising the total surplus for the first three quarters of 2004 to 79.9 bn pesos. ----- The Inegi consumer confidence index fell slightly, though more than expected, from 96.8 in September to 95.4 in October. ----- Inegi's leading indicator rose in August by 0.3% compared to July, reflecting higher oil prices, an increase in stock prices and a real depreciation of the Peso, among others.

Outlook: In August, gross fixed investment probably rose by 8.5% yoy (today). ----- In September, industrial production probably rose 4% compared with the same month of the previous year, which would confirm our GDP-forecast for the third quarter of 3.8% yoy. ----- In October, the pressure on prices should have eased slightly. Consumer prices probably increased 0.6% compared to 0.8% in September. That is why the central bank will not tighten monetary policy on its Friday meeting.

Peru

As expected, government's expenditure rose markedly stronger than revenues in the third quarter of 2004. Even though the disproportionately large rise of expenditure is likely to curtail the substantial fiscal achievements of the current government, the envisaged upper limit of the budget deficit (1.5% of GDP after 1.9% in 2003) is not to be exceeded this year. ----- The trade balance posted a surplus of more than US\$ 260 mn in September, three times as much as in the same period last year. Exports increased 40% yoy that month, twice as much as imports. ----- As expected, consumer prices stayed flat in October, leaving the yoy-inflation at 3.95%. It remains uncertain if the inflation is to drop within the target range of the central bank (1.5-3.5%)

until the end of the year. ----- Given the ongoing trend of an appreciation of the sol against the US\$, the central bank left key interest rates unchanged at 2.25% at its meeting last Friday. We expect the central bank to continue with its expansionary monetary stance in the remainder of this year.

Outlook: Regarding the appointment to the highest central bank positions, we think that the pertinent decisions will not be taken in the next few weeks. While a temporary vacant post at the board of directors was filled with Eduardo Iriate, who is said to be an ally of the current government, the posts of both the president and the vice-president remain unoccupied. Only uncertain rumors about plans to appoint a new vice-president circulated so far.

Venezuela

Even after the count of all votes of the regional polls held on October 31, the defeat of the opposition remains an undeniable fact. Candidates close to the government will fill 20 of the 22 new governor posts, the office of the mayor of Caracas and roughly 280 of the 335 mayors elected. Only 46 % of the Venezuelans entitled to vote had participated in the polls. ---- The banking supervisory authority Sudeban and the Central Bank have come to different results when evaluating the central bank's earnings. Should the Central Bank refuse to show itself conciliatory, Sudeban will apply to the Supreme Court to enforce higher profit transfers to the government by this institution. ---- With +0.6 % mom, the October inflation rate was relatively low again, albeit slightly higher than in September (+0.5 % mom).

Thus, for the first time the twelve-month rate has remained below 20 % again. As we no longer expect a devaluation of the Bolívar during the rest of the year, price controls will remain in force and September's VAT rate reduction is still exerting a positive effect, the inflation rate is likely to further fall to approx. 19 % by the end of the year. ----- Although in September the unemployment rate rose 0.3 percentage points to 14.5 %, it remained well below the level of September 2003 (18.0 %). ----- In October, motor vehicle sales reached the highest level in 29 months. Compared with the same month of the previous year, the increase amounted to 121 %. ----- For the year as a whole, the government expects foreign direct investments (excluding the oil sector) to reach US\$ 500 mn, after registering US\$ 321 mn up to now (2003: US\$ 300 mn, or 0.4 % of GDP). In comparison with other countries, this is an amount hardly worth mentioning. ----- Regarding the investments planned for this year, PDVSA is still lacking behind: allegedly, only 75 % of the planned US\$ 5 bn have been invested so far. According to the experts, PDVSA must invest just under US\$ 3 bn annually, only to maintain oil production at the current level.

Outlook: We expect August figures concerning sales in the retail and wholesale trade to be published this week as well as the data on the production of the private manufacturing sector. These figures should reflect the trend towards recovery of the Venezuelan economy.

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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	05.11.2004	2.96	2.97	2.96	2.85	2.85	-3.9	3.0
Brazil	05.11.2004	2.82	2.85	2.83	2.89	2.89	2.4	2.9
Mexico	08.11.2004	11.40	11.54	11.25	10.95	10.95	-4.0	11.9
Chile	05.11.2004	600	611	596	618	618	3.0	620
Colombia	05.11.2004	2540	2567	2591	2837	2837	11.7	2640
Peru	05.11.2004	3.31	3.33	3.33	3.48	3.48	5.1	3.4
Venezuela	05.11.2004	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	08.11.2004	5138	5227	5247	6030	5739	-601	
Brazil	08.11.2004	451	462	447	572	463	-12	
Mexico	08.11.2004	171	180	181	191	199	-28	
Ecuador	08.11.2004	706	733	701	956	799	-93	
Colombia	08.11.2004	372	395	388	455	431	-59	
Peru	08.11.2004	290	295	321	284	312	-22	
Venezuela	08.11.2004	419	450	442	709	593	-174	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	05.11.2004	2.44	2.50	2.56	1.63	1.50	0.9	3.0
Brazil Selic	05.11.2004	16.73	16.74	16.23	18.85	16.33	0.4	16.8
Mexico Cetes 28 days	05.11.2004	8.06	7.81	7.66	4.49	6.01	2.1	7.5
Chile 90 days, PDBC	04.11.2004	2.29	2.32	2.44	2.72	2.29	0.0	2.8
Colombia Overnight	03.11.2004	7.17	6.94	6.93	7.36	7.49	-0.3	8.5
Peru Overnight	05.11.2004	3.03	2.95	2.83	2.80	2.50	0.5	2.6
Venezuela deposits 30 days	02.11.2004	11.58	12.60	11.11	11.45	13.20	-1.6	12.0

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	03.11.2004	18.6	18.5	18.3	12.9	14.1	4.5	19.0
Brazil	04.11.2004	49.2	49.3	49.3	54.0	49.3	-0.1	50.1
Mexico	29.10.2004	70.4	70.4	69.3	62.3	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.)	03.11.2004	22.6	22.4	21.9	20.5	21.3	1.3	

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004f	2005f	%, year end	2003	2004	2005	
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		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	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		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	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