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<b>Argentina:</b>	Chinese investment bubble
<b>Brazil:</b>	Congress back to life again after the elections
<b>Chile:</b>	Central Bank hikes benchmark rate
<b>Colombia:</b>	First peso-denominated global issue
<b>Ecuador:</b>	New loans promised from World Bank and IDB
<b>Mexico:</b>	Interest rates are up again
<b>Peru:</b>	Prime minister is to justify his policy before congress
<b>Venezuela:</b>	Government permits price increases, inflation due to rise

## Argentina

Consumer confidence (UTDT) grew much stronger than expected in November (9.5%, mom). The index thus again reached its level of March this year. Overcoming the weak patch of Q2-04 was probably helped by the officially decreed increases of wages and pensions.

Outlook: According to press reports, the road shows for the restructuring offer of defaulted bonds will start simultaneously with the submission period to accept the exchange on November 29, 2004. Previous plans had called for an earlier start of the road shows. The final exchange offer thus might be presented in writing not before November 29. ---- Industrial production for October (Wednesday) and the monthly GDP-indicator for September (Thursday) are likely to affirm the perception of still high economic growth. Industrial production is likely to have grown 9.5% (yoY) and the EMAE-indicator by around 7.5% (yoY). ---- Fueled in part by official comments, speculation last week was high on significant Chinese investments into Argentina's infrastructure. According to local press reports, the investments would reach a total of US\$20bn. Chinese officials called these figures exaggerated. Furthermore the investments are likely to be effected in the very long term. Clarification on the investment program can be expected from the visit of the Chinese President Hu Jintao, who is scheduled to visit Argentina this week as part of his Latin-American trip.

## Brazil

The activity in the industrial sector slowed down in September. According to IBGE, the production was unchanged in mom-terms, s.a. (7.4% yoY) and the industrial sales even fell by 1.3% mom, s.a. (+15.62% yoY). The capacity utilization was at 83%, slightly lower than a month ago. However, employment in the industrial sector increased by 0.78% (s.a.) (2.41% ytd). All in all, we expect a slowing down of the industrial production from 8.2% this year to 5% next year. The President of China, Hu, paid a visit to Brazil amid a two-week tour through Latin America and Cuba. China covers a large part of its soya and steel consumption through imports from

Brazil. Against this background, China is interested in performing investments into the infrastructure of Brazil.

Outlook: The consumer price index IPCA increased 0.44% mom in October. This is consistent with our expectation that the central bank will hike the overnight interest rate once again, by 25 basis points (Consensus: 50 basis points), as inflation expectations stabilized recently. ---- The retail sales of September should show stronger growth than a month ago (7.5% yoY), which we consider to be a soft patch. ---- President Lula has announced that the automotive sector will enjoy temporary tax cuts. ---- Update with respect to the agenda of the congress for the next few months: a) The Senate might decide on the public private partnership this week, aiming at alleviating investment in infrastructure. b) The budget law 2005 should be decided until year-end. ---- c) Amendments to the reform of the justice system, which were requested in a first round in the Senate, must be presented in this institution for vote. d) The bankruptcy law awaits a last vote in the house of deputies. e) For the next year we expect a new attempt to bring through a comprehensive tax reform, which should include above all a simplification of the system. - ---- Today national holiday.

## Chile

During its monthly monetary policy meeting last Thursday the Central Bank hiked the overnight benchmark rate by 25bps to 2.25%. Given the previous month's high growth rates (September: 7.7% yoY), this step has been expected. Inflation increased slightly in October (0.3% mom) mainly due to increased prices for fuel and shipping services. Consumer prices rose 1.9% in the 12 months through October, but the rate is still below CB's inflation target of between 2-4%. ---- CB's August budget is likely to show a strong surplus again.

## Colombia

By mid-week, the government has for the first time issued a global bond (running until 2010) denominated in the country's own currency. Uruguay has taken a

similar step last year (with a bond maturing in 2006). With US\$375mn the effective amount issued is about 50% above the intended issue. This means that, together with an earlier bond issue of US\$500mn, the government has already covered more than half of the international issues scheduled for 2005. ----- Latest data on fiscal accounts in the first eight months of this year leave a positive picture again. With 21% yoy, the government's income grew stronger than did expenditures (13% yoy), leaving the hitherto budget deficit year on year significantly lower. Meanwhile, we expect the government to comply with the fiscal targets agreed with the IMF (2.5% of GDP).

**Outlook:** It remains unclear when congress will discuss the pending issues on its agenda (tax and pension reform as well as the reelection bill). It seems probable that the tax reform will pass Parliament not until late December (possibly following an additional session). We still expect congress to agree to the reelection of a president (next elections are scheduled for 2006) until late November. ----- We expect the central bank to keep repo rates stable on this Friday's meeting. ----- US-president Bush announced to visit Colombia on November 22nd after the Asia-Pacific-summit in Chile. We expect the good relationship between the United States and Colombia to be reinforced on his planned meeting with president Uribe in Cartagena. The USA are Colombia's most important ally in the fight against drug smuggling and are strongly supporting the government's armed conflict with illegal organizations. Recently, president Uribe authorized the extradition of a major leader of the Cali –drug cartel.

## Ecuador

According to Economy Minister Mauricio Yépez, the World Bank has promised to lend Ecuador US\$ 200 mn next year – even in the absence of a formal agreement with the IMF. An official approval is expected in January. The general assumption was that Ecuador would need to have a new agreement with the IMF already in place before funds from other official lenders could flow. Instead, it seems as if Ecuador got strong support from the US. In addition Mr. Yépez is awaiting a US\$200 mn loan from the IDB within the next few days. The liquid funds amounting to US\$400 mn will cover a great deal of next year's central government's deficit of around US\$ 480 mn. According to Mr. Yépez, the government has to follow through with its oil, electricity and pension reform projects to meet the conditions for the multilateral support. ----- Meanwhile, Ecuador's domestic policy situation improved. The four opposition parties failed in gathering the 51 out of 100 congressmen needed to launch an impeachment process against President Gutiérrez. This event undoubtedly presents a major tactical victory for Gutiérrez, whose position in

congress seems to have stabilized. Due to continued conflict of interests among the government coalition parties, we doubt that President Gutiérrez could use his backing to push needed reforms. ----- Tax collection rose 9.4% in October. VAT revenues were up 4.9% yoy.

## Mexico

Apparently, economic activity was stronger in the third quarter than we had anticipated. In August, gross fixed investment rose by 9.3% y-o-y (DBLA forecast: 8.5% y-o-y) and industrial production was up 5.5% y-o-y (DBLA forecast: 4% y-o-y). Accordingly, we raise our 2004 GDP forecast from 3.5% to 3.8%. Nevertheless, we are still expecting an economic slowdown for next year (GDP growth: 3.0%) due to weaker growth in the US and higher domestic interest rates. ----- Inflationary pressure continued in October. Consumer prices were up .69% or 5.4% y-o-y. This means that the central bank has to take a tougher stance on monetary policy than originally anticipated by us. On Friday, Banxico left its monetary policy unchanged. The work was basically done by the US-Fed, who last week raised policy rates by 25 basis points, which led to a further increase in cetes rates. For the central bank's next policy meeting on November 26th, we expect an increase of the „corto“. Despite a slight fall in y-o-y inflation until the end of the year, cetes rates (28 days) will remain at their current high level of around 8.3% until year-end.----- Due to higher interest rates and stronger GDP-growth, we withdraw our call for a peso depreciation and revise our year-end forecast from 11.90 MXN/US\$ to 11.50 MXN/US\$.

**Outlook:** On Tuesday, Inegi will publish GDP figures for the third quarter. The consensus forecast stands at a 4% y-o-y growth. We raised our forecast from 3.6 % y-o-y to 4 % y-o-y as well (s.a.) ----- On Thursday, Inegi will publish the data for the development of the labor market in October. We expect a slight fall in the unemployment rate from 4.0% to 3.9%. ----- On Friday, Inegi will publish its monthly IGAE-economic activity indicator for September (DBLA forecast: +3.8% y-o-y). Nevertheless, after the release of third-quarter GDP-figures these data will give little additional insight.

## Peru

An initiative of the most important opposition party APRA to compel the prime minister to justify his policy before congress was successful: This Wednesday, both Prime Minister Carlos Ferrero and the Minister for transportation are supposed to give a statement before congress and answer questions regarding the current direction of their policies. After the inquiry, both ministers can be forced to resign with a simple majority of the plenum. But to request the inquiry, only 40 votes out of 120 were needed. We do not expect APRA to ac-



quire sufficient support for an impeachment of either minister. ---- At the beginning of this week, both the real growth of the monthly economic indicator in September (DBLA forecast 5% yoy) and unemployment figures for October (likely around 9%) should confirm our positive economic view. ---- Given the still positive development of external trade figures, third quarter's current account deficit (Friday at the earliest) should remain below last year's level. Nevertheless, high dividend payments on foreign direct investments should again prevent the current account from activating. ---- Congress is to debate a pension reform bill after it cleared the way for the reform by agreeing upon a constitutional amendment last week. The government expects savings to be as high as US\$5bn in the next two decades. ---- A judgment by the constitutional court could significantly burden next year's budget. The court declared a tax payment which has to be made since some years and which equals a levy related to net worth to be unconstitutional. The exact consequences of the judgment can only be estimated after the text of the decision has been published (this week) and the government commented on the verdict.

## Venezuela

The government has given way to the pressure exerted by the private sector and permitted price increases of an average 20 % for some products (including rice, maize meal, beef, sugar and coffee) which are subject to price regulation. Also part of the fares in public transport are likely to be increased to the same extent. Against this backdrop, we expect inflation to be higher this month than the previous two months. ---- For 2005, Venezuela and the BID are negotiating on loans for several projects totaling US\$ 1 bn. ---- By spending US\$ 3.5 bn, PDVSA plans to invest next year a slightly higher amount in the exploration and production of oil than in 2004 (US\$ 3.2 bn). Thus, the company hopes to increase production by 183,000 bpd. In addition, PDVSA wants a foreign company to clarify publicly how strong Venezuelan oil production actually is. Whereas the government still calculates production at roughly 3.1 mn bpd, most foreign analysts put the estimate at approximately 2.6 mn bpd.

Outlook: This week, we expect retail and wholesale trade figures for August to be published as well as data on the production of the private manufacturing sector. These figures should reflect Venezuela's trend towards economic recovery.

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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	15.11.2004	2.97	2.97	2.97	2.87	2.87	-3.4	3.0
Brazil	15.11.2004	2.79	2.84	2.86	2.94	2.94	5.4	2.9
Mexico	15.11.2004	11.38	11.43	11.45	11.16	11.16	-1.9	11.9
Chile	12.11.2004	595	605	609	625	625	5.1	620
Colombia	12.11.2004	2538	2548	2563	2839	2839	11.9	2640
Peru	12.11.2004	3.30	3.31	3.32	3.48	3.48	5.2	3.4
Venezuela	12.11.2004	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	15.11.2004	5170	5055	5397	6252	5739	-569
Brazil	15.11.2004	441	456	464	582	463	-22
Mexico	15.11.2004	171	169	186	203	199	-28
Ecuador	15.11.2004	711	738	708	946	799	-88
Colombia	15.11.2004	368	373	397	471	431	-63
Peru	15.11.2004	284	288	330	316	312	-28
Venezuela	15.11.2004	429	424	453	731	593	-164

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change, %-points	end 2004f
Argentina, Overnight	12.11.2004	2.44	2.44	2.50	1.63	1.50	0.9	3.0
Brazil Selic	12.11.2004	16.74	16.73	16.24	18.84	16.33	0.4	16.8
Mexico Cetes 28 days	12.11.2004	8.18	8.06	7.76	5.20	6.01	2.2	7.5
Chile 90 days, PDCC	11.11.2004	2.41	2.29	2.36	2.95	2.29	0.1	2.8
Colombia Overnight	10.11.2004	7.01	7.17	6.97	7.33	7.49	-0.5	8.5
Peru Overnight	11.11.2004	2.70	3.03	2.83	2.58	2.50	0.2	2.6
Venezuela deposits 30 days	10.11.2004	12.58	12.06	11.77	11.65	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	10.11.2004	18.6	18.6	18.3	13.3	14.1	4.5	19.0
Brazil	10.11.2004	49.2	49.5	49.4	53.7	49.3	-0.1	50.1
Mexico	05.11.2004	69.8	70.4	69.4	62.2	65.8	4.0	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.)	10.11.2004	23.0	22.6	21.8	20.9	21.3	1.7	

## Economic activity

GDP (yo, %)	2003	2004f	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	7.5	4.0		3.7	6.3	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
Argentina	1.3	3.8	140	149
Brazil*	-5.2	-2.7	58	53
Mexico**	-0.6	-0.3	28	28
Chile***	-0.4	2.4	13	13
Colombia	-2.8	-2.8	56	52
Peru	-1.9	-1.5	48	46
Venezuela	0.2	0.5	45	35

\* 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	Debt service s.t., % of total	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
	US\$ bn	% of exports	US\$ bn	US\$ bn	US\$ bn	
Argentina	366	39	32.3	4.9	13.5	0.0
Brazil	208	12	65.6	8.9	32.0	14.5
Mexico	79	28	33.3	-9.0	-6.3	15.0
Chile	123	19	7.7	1.8	7.9	5.6
Colombia	242	12	6.9	-2.0	0.2	2.0
Ecuador	17	9	1.4	0.2	6.8	0.7
Peru	225	16	3.6	-1.0	2.4	1.1
Venezuela	83	10	8.3	13.2	20.6	1.5