Latin American Weekly Spotlight
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Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG
A company of the Allianz Group

Argentina:	Debt restructuring delayed
Brazil:	Further reduction of public debt vulnerability to exchange rate movements
Chile:	Successful APEC summit
Colombia:	Is congress to pass the tax-reform?
Ecuador:	Debt buyback seems even more remote
Mexico:	Economy slowed down slightly in the third quarter
Peru:	Praise by Fitch and the IMF
Venezuela:	GDP set to grow 17% in 2004

Argentina

Economy Minister Lavagna on Friday admitted that the global debt restructuring transaction will not be launched as originally planned on Nov 29. The local debt swap however is still expected to start on that date. One reason for the delay in global restructuring is the statement of the bank, acting as exchange agent in the U.S., that they will not be able to perform that role in the intended time frame. Furthermore, the Italian supervisory agency CONSOB is not likely to approve the swap before the second half of December. In addition SEC approval, expected for some time now, is still pending. So far there is no time frame for approval in Frankfurt, Luxembourg and Tokyo. ---- The class action clause by a German investment fund (and backed by the GCAB) at a court in New York to stop debt restructuring, was decided in favor of the Argentine government.
----- The monthly GDP-proxy EMAE rose stronger than expected in October (8.1%, yoy; DBLA forecast: 7.5%). But as time progresses, the expected weakening of the still high economic growth is visible: In October, industrial production slowed down to 7.9%, yoy (September: 10.4%), less than the 9.5% we had expected. The lower number of working days in October this year and the weakening basic effects possibly had a stronger impact on the figures than projected.

Outlook: In a session scheduled for Wednesday, the House of Deputies is likely to extend special powers of the government into 2005. These special powers, which allow the government to take wide-ranging steps without congressional approval, were originally granted during the crisis in 2002.

Brazil

The central bank lifted the key interest rate by 50 basis points to 17.25%. Although we note a certain slowdown in growth, the economy is strong enough and not in danger to be stalled by the latest interest rate hikes. The minutes of the meeting might provide further information about how long the tightening cycle may go on. ----- Retail sales increased 8.95% yoy in September, stronger than expected by the market (August: 7.5%). ----- The role of dollar-indexed papers in the internal public debt continues to weaken, reaching now approx. 11% (after peaking at 40% in September 2002), which makes the public sector less vulnerable to external shocks. However, the portion of interest rate-linked bonds showed another increase and now stands at approx. 55%. This means that the latest interest rate increases will be immediately reflected in a higher burden for the public sector. ----- The president of the Brazilian development bank BNDES, Lessa (somewhat left-interventionist), was suspended by President Lula last week. His successor will be Mantega, currently Planning Minister. There is speculation that PT-senator Mercadante, who is considered to represent a somewhat unorthodox stance, might substitute Mantega. ----- After having intervened in the Santos bank last week, the central bank eased up reserve requirements especially for smaller banks. The liquidity problems at Santos bank have raised some concern in the local market, although we believe this to be an isolated case.

Outlook: We expect solid balance of payment data for October (Wednesday): The current account will probably show a surplus of US$ 550mn, much less than in the five months before because of above-average interest rate payments and a lower trade balance surplus. However, the balance will be much higher than in October 2003. The FDI which performed very badly, also considering the investments made by Brazilians abroad, should have recovered in October, amounting to US$ 900mn. ----- We expect the labor market to have continued improving in October with an unemployment rate of 10.6% (IBGE, Friday). ----- With another month of strong tax revenue growth in October (7% yoy, real), the primary surplus of the public sector (Friday) should have amounted to 5.5% of GDP in the period from January to October. For the whole year, we expect a budget deficit of less than 3%, a sharp contrast to the 5.4% posted a year ago.

economics@dbla.com

Chile

Over the weekend the Asian-Pacific Economic Cooperation (APEC) summit took place in Santiago. In their final declaration, the heads of state affirmed their intention to further liberalize external trade within APEC and to strengthen economic relations. Chile became a full member of APEC in 1994, and last year APEC accounted for more than 56% of total Chilean exports. During the summit, President Lagos met US-president Bush. Bush stressed the good relations between the US and Chile, even though Chile opposed the American request for UN backing for the Iraq war. ----- Due to robust economic growth and high copper revenues, the central government's budget surplus amounted to CLP 851bn in the period between January and September 2004 (1.5% of GDP). With this, the government is well on track to meeting our overall 2004 forecast of 1.9% of GDP. ----- Copper export revenues expanded between January and October 2004 by almost 90% to US$ 11.7bn. High growth is expected to continue, as copper prices have surged in recent days and currently stand at US$ 1.4/lb, close to a more than 15-year high.

Outlook: Economic activity grew by 6.5% yoy in Q3-04. We expect growth to be fueled by a solid expansion of both consumption and investment, and exports to exhibit growth in excess of 10 % in real terms in Q3-04 (tomorrow).

Colombia

The debate in congress over the tax reform was delayed again (this time until this Tuesday). Congress can pass the bill within 3 meetings, since the government has enclosed an urgency bill. As the government has just recently agreed on a substantial watering down of the reform (VAT will not be lifted from 16 % to 17 % - contrary to what was planned), we expect the legislation to be completed until the end of this year. ----- At the end of this week, the increases of industrial production and retail sales (both September) as well as the unemployment data for October should confirm our positive view with regard to the economic situation. ----- As expected, the central bank's board kept key interest rates stable.

Ecuador

Striving for support in politically difficult times, the government apparently plans to throw more of the windfall profits, obtained thanks to high oil prices, into current spending. According to current rules, windfall profits, which are expected to amount to around US$ 600mn this year, are to be saved in the FEIREP stabilization fund. Of this, 70% are to be used for public debt buybacks. This share could be reduced to 30% and 50% of FEIREP funds should then be used for current spending (the remainder continues to flow into a "rainy day" fund). In the light of tight public liquidity and no access to international capital markets, the use of FEIREP funds for current spending would mean a depletion of the last financial buffer of the government. This would increase the government's vulnerability to external shocks, making an agreement with the IMF even more remote. In the course of this week we expect signals from finance minister Yépez concerning the presidential initiative. Should Yépez agree, aversion to Ecuadorian bonds could increase considerably.

Mexico

This year for the first time, the growing tensions in congress between the government and the opposition had some negative repercussions for budget negotiations. After tough sessions, both houses of the congress agreed to a public deficit limit of 0.22% of GDP (government proposal: 0.1% of GDP). At the same time, congress raised the oil price assumption, the revenue law is based upon, from 23 US$/b to 27 US$/b. Finally, the majority of opposition legislators voted for a considerable shift in public spending compared with the original proposal. ----- As widely expected, the economy experienced a slight slowdown in the third quarter. Nevertheless, the economy expanded slightly faster than we had forecasted (4.4% yoy compared with 4.0% yoy; 0.6% qoq, sa.). For the forth quarter we expect economic growth to stabilize at current levels, while the first half of next year could bring another slowdown due to the impact of higher domestic interest rates and sluggish demand from the US. ----- In October, the unemployment rate fell from 3.9% to 3.6%, partly due to a lower participation rate, but also due to an improvement in general labor market conditions. The latter will support private consumption in the forth quarter.

Outlook: On Tuesday, the central bank will publish the balance of payments data for the third quarter. We expect the current account deficit to drop again - to the lowest level in a third quarter since 1995 - from US$ 2.2bn to US$ 2bn compared with the same quarter a year ago. This is due to higher oil prices and strongly growing remittances from Mexicans working abroad. ----- In line with last week's GDP-data, retail sales most likely increased by 4.5% yoy in real terms (Wednesday). ----- Following a probable increase of consumer prices of 0.6% in the first two weeks of November (Wednesday), Banxico will tighten monetary policy for the eighth time this year and will increase the "corto" from 57mn pesos to 63mn pesos (Friday).

Peru

The rating agency Fitch as well as the IMF have praised the reform efforts of president Toledo's government: On the occasion of the first revision of the current stand-by agreement (running until August of 2006), the Monetary Fund praised achievements regarding the pension reform as well as important infrastructural projects. In an official statement the Fund stated that it was additionally confident that the country's macroeconomic vulnerability, owing to the still high dollarization and high indebtedness, is poised to subside over the coming years. At the same time, Fitch raised its rating of Peruvian international government bonds from BB- to BB, in line with the Standard and Poor's rating. The agency also emphasized the recent achievements with regard to the pension reform. Even though the boom in Peru's mining sector is likely to continue and liquidity in US$ is more than sufficient, we remain skeptical with regard to the country's political prospects. ----- Despite continuing high international profit transfers, the current account displayed a surplus of US$ 173mn in the third quarter, against the backdrop of a record surplus in the trade balance. Given a continuing upward trend in gold prices and recovering copper prices, this year's current account balance figure should be far below last year's value (-1.8% of GDP). ----- Despite September's disappointing growth of 4.52% (DBLA forecast: 5%) and contrary to our expectations of rising unemployment in October (from 9.1 to 9.2%), we continue to believe that GDP will grow by 4.2% this year given the booming export sector.

Venezuela

According to the central bank, during the third quarter of 2004 GDP expanded 15.8% yoy (oil sector: 2.7%, non-oil sector: 18.6%). During the second quarter, the increase posted was 15.1% compared with 32.8% for the first quarter. The surprisingly strong rise in the non-oil sector is mainly due to the sharply increased public expenditure which also had a positive impact on consumer spending. As the economic upturn continues, for the year as a whole we are now expecting GDP to grow by roughly 17% (previously: 12.8%). But even so, the real GDP decrease recorded in 2002 and 2003 is not yet completely recouped. ----- The strong economy is reflected in the credit volume, which rose in October 107% yoy (+ 87% in real terms). ----- During the third quarter, the current account surplus amounted to US$ 4.1bn, whereby the total surplus for the first three quarters rose to US$ 11.3bn (compared with a surplus of US$ 8.4bn for the same period in 2003). The reason behind this development is a strong increase in the export of crude oil to US$ 23.7bn, which boosted the trade balance surplus from US$ 12.1bn to US$ 17.1bn. We now expect the current account surplus to even exceed the amount of US$ 13.3bn projected by us for the year as a whole, even if imports should register another strong increase during the fourth quarter. ----- The government has been granted approval by parliament for the issue of a new bond for US$ 500mn – domestic or abroad. The funds are scheduled to be used for debt service and not precisely defined public-sector projects. ------ Ali Rodríguez, president of PDVSA, the state-owned oil company, has been appointed foreign minister. Rafael Ramírez, the energy minister, will also be assuming the management of PDVSA. ----- District Attorney Danilo Anderson, who was given the task of investigating the circumstances surrounding the failed coup of April 2002 against president Chávez, who was killed by a car bomb. He was meant to question some 300 persons over the weeks ahead, who allegedly were embroiled in the coup.

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

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	22.11.2004	2.94	2.95	2.96	2.90	2.90	-1.6	3.0
Brazil	22.11.2004	2.78	2.79	2.87	2.92	2.92	4.8	2.9
Mexico	22.11.2004	11.40	11.38	11.51	11.29	11.29	-0.9	11.9
Chile	19.11.2004	591	592	609	622	622	5.1	620
Colombia	19.11.2004	2523	2537	2558	2838	2838	12.5	2640
Peru	19.11.2004	3.31	3.30	3.31	3.48	3.48	5.1	3.4
Venezuela	19.11.2004	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	22.11.2004	5106	5108	5508	6500	5739	-633
Brazil	22.11.2004	431	435	492	551	463	-32
Mexico	22.11.2004	185	169	191	209	199	-14
Ecuador	22.11.2004	733	706	742	886	799	-66
Colombia	22.11.2004	378	361	406	473	431	-53
Peru	22.11.2004	276	273	356	323	312	-36
Venezuela	22.11.2004	420	425	473	719	593	-173

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	19.11.2004	2.44	2.44	2.50	1.63	1.50	0.9	3.0
Brazil Selic	19.11.2004	17.24	16.74	16.74	17.34	16.33	0.9	16.8
Mexico Cetes 28 days	19.11.2004	8.18	8.18	7.70	5.81	6.01	2.2	7.5
Chile 90 days, PDBC	18.11.2004	2.42	2.41	2.34	2.72	2.29	0.1	2.8
Colombia Overnight	17.11.2004	7.01	7.01	7.00	7.59	7.49	-0.5	8.5
Peru Overnight	19.11.2004	3.03	3.05	2.83	2.50	2.50	0.5	2.6
Venezuela deposits 30 days	16.11.2004	10.81	12.50	12.02	9.24	13.20	-2.4	12.0

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	17.11.2004	18.7	18.6	18.3	13.4	14.1	4.6	19.0
Brazil	18.11.2004	49.6	49.2	48.9	54.5	49.3	0.3	50.1
Mexico	12.11.2004	70.7	69.8	69.0	61.3	65.8	4.9	65.0
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	16.0
Colombia	31.10.2004	12.3	na	12.1	10.6	10.9	1.4	12.0
Peru	30.09.2004	11.2	na	11.0	9.8	10.2	1.0	11.4
Venezuela (FEM&Gold incl.)	18.11.2004	23.2	23.1	21.9	21.1	21.3	1.9	

Economic activity				Inflation				
GDP (yoy, %)	2003	2004f	2005f	%, 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	2003	2004f	2003	2004f
Argentina	1.3	3.8	140	149	19.8	19.8	19.1	15.4
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	361	39	32.3	77	3.3	4.9	13.5	0.0	6.1
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