Latin American Weekly Spotlight

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

Argentina:	Debt restructuring to begin in mid-January
Brazil:	Strong export-driven GDP growth expected for the third quarter
Chile:	Investment boom in the third quarter
Colombia:	Government agrees to a compromise about tax reform
Ecuador:	Dispute over 2005 budget
Mexico:	Current account in line with expectations
Peru:	Ministers remain in office
Venezuela:	New dispute between the central bank and the government

Argentina

Following last week's technical difficulties of the debt restructuring, the Argentine government decided to delay the start of the offer from November 29 to January 17, 2005. Bondholder groups saw this as a "sign of weakness" and indicated they will continue to press for an improvement on the offer. However, thus far we believe this is not likely to happen. ---- The IADB approved US$ 5bn of credits to Argentina until 2008. Net flows to Argentina will be small as amortization will reach US$ 4.8bn. ---- The central government recorded a primary surplus of ARS 1.5bn in October, above market expectations of ARS 1.2bn. Due to the strong increase in tax revenue the primary surplus reaches ARS 18.3bn during the first ten months of this year (Jan.-Oct. 2003: ARS 8.1bn) vs. a year-end IMF-target of ARS 10bn. ---- On the back of full coffers the government decided to raise spending on social programs and pensions. Including previously decided benefits (tax payments delayed, bonus payments brought forward) the measures which aim at sustaining consumer spending now reach 0.7% of GDP in 2004. The permanent effect on public finances lies in the range of 0.4% of GDP. ---- Data on construction and supermarket sales confirmed the impression of high and only slowly receding economic growth. Although October this year had fewer working days than last year, the construction sector grew 8.2% (yoy) and supermarket sales were up by 6.1% (yoy).

Outlook: External trade data for October (Tuesday) are likely to continue showing the strong expansion seen over the last months, although growth rates should decline somewhat. We expect export growth of 20% (yoy) and import growth of 45% (yoy). ---- The increase of tax revenues in November (Wednesday) is likely to reach a similar level than in October (32%, yoy). ---- If the trend witnessed in recent months continues, the inflation rate (Friday) should reach around 0.5% (mom) in November, thus persisting the slow upward pace of the yoy-rate to 5.8%.

Brazil

The current account surplus amounted to US$ 1 bn in October, higher than expected. The FDI rose to a surprisingly high value of US$ 1.3bn (if Brazilian investments abroad are deduced: US$ 1.2bn). The net portfolio investments fell in negative territory again, though (US$ -300mn). ----- Despite the positive balance of payment figures, the Real depreciated slightly at the end of last week. This was caused by the announcement of the treasury to buy up to US$ 3bn in the foreign exchange market until June 2005. Since June 2004 the treasury had not been active at the foreign exchange market. In the face of the strong appreciation of the Real over the last couple of weeks, President Lula said he would prefer a weaker Real; otherwise he would fear that the strong real could jeopardize the competitiveness of the export sector. Our year-end forecast is 2.85 Real/US$. ----- The unemployment rate continued to fall and stands now at 10.5% (September 04: 10.9%; October 03: 12.9%). ----- The primary surplus of the public sector amounted to some BRL 78bn in the first 10 months of the year, significantly more than was agreed with the IMF for the whole year. ----- The most important coalition partner of the PT, the PMDB, is sticking to its plan to hold a meeting on December 12 where the purpose of leaving the coalition is brought to vote. A meeting with President Lula did nothing to change these plans. However, we see these threats as part of negotiations and we expect that the PMDB will get more ministerial positions when the cabinet reshuffle takes place (which was announced only recently).

Outlook: The GDP should have grown by 5.5% yoy and 0.9% qoq (s.a.) during the third quarter. We expect exports (+20 %) and investments (+10%) to be the main incentives. Private consumption should have risen by 5.2% (Tuesday). ----- The trade balance surplus will probably amount to "just" US$ 2.2bn in November (Wednesday), significantly less than in the past six months when surpluses amounted to over US$ 3bn. This is rather normal given the seasonal character of imports which increase at the end of the year due to Christmas. ----- In the minutes of the central bank meeting it is reckoned that a further acceleration of inflation

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will not be tolerated. Therefore we expect at least two further rate hikes in a row (next central bank meeting on December 15)

Chile

Economic activity expanded by 6.8% yoy in Q3-04, and continues to exhibit considerable dynamism (2 % qoq, s.a.). The very high growth of investments (14% yoy) is very good news in terms of growth sustainability. We therefore adjust our 2004 growth forecast to 5.7%, and growth in 2005 should exceed former expectations as well. ---- Growth continued in October as shown by a 6.8% expansion of retail sales.

Outlook: Industrial production and mining are expected to post strong growth in October, and we are looking forward to benign news from the labor market as well (Tuesday). ----- We expect consumer prices to rise 0.3% mom in November, taking yoy-growth to 1.9% (Friday).

Colombia

The first of altogether three necessary debates over the tax reform resulted in substantial deviations from the original government blueprint. The current version arranges for a stronger simplification of the VAT regulation (reduction from so far 6 to then 3 tax codes). The modified version still causes substantial amounts of additional receipts (according to government estimates, 0.45% of GDP). Even though the government originally planned to earn 0.2 percentage points more by reforming the VAT regulation, we believe the government will be able to keep the budget deficit below the upper range of the IMF targets (2.5% of GDP) next year. Overall, we believe this to be a positive development. ----- As expected, the continuation of the close cooperation in the fight against drug cultivation and terrorism took a center stage at the short visit of US-President Bush in Colombia. We believe that Colombia will continue to considerably profit from US-support over the next years.

Outlook: The publication of new data on industrial production and retail sales (both September) and unemployment (October) is overdue. We expect the upcoming data to be consistently positive. ----- Against the backdrop of receding oil prices and the continuing appreciation of the Peso against the US$, we expect consumer prices to have almost stayed flat in November (0.2% mom, end of this week). If true, the yoy inflation rate (DBLA forecast: 5.8%) would have fallen markedly below the upper limit of the central bank target range (4% +/- 1 percentage point) for year-end. ----- We believe Colombia to have exported goods worth a good US$1.4bn in September. This would equal a yoy increase of more than 30%. The trade balance should have been balanced. ----- It remains unclear, when congress is to conduct the final debate over the reelection bill. It is rumored that some congress members have made their approval contingent on the fulfillment of additional claims.

Ecuador

President Gutiérrez' proposal to alter the allocation of monies of the oil stabilization fund FEIREP towards higher current spending – currently, 70% of total funds are earmarked for public debt buybacks – will apparently not be realized. Finance minister Yépez publicly criticized the idea that more than half the share should be destined for debt buybacks, and there are no signs that Gutiérrez will insist on his proposal. The bare fact that there was such a proposal, however, highlights the political pressure on the government, and puts in doubt all medium-term financing plans of the country. ---- In the congressional discussion on the 2005 budget, the budget commission of the congress proposed the elevation of the oil price assumption from the current US$ 22/barrel to US$ 25 /barrel. Revenues resulting from oil prices above the assumption are channeled into the FEP stabilization fund, of which 45% are used for infrastructure projects. Part of the remainder is saved in the FEIREP oil stabilization fund. A higher oil price assumption would therefore reduce the FEIREP savings and the amount available for debt buybacks. In the light of the government's very tight liquidity situation – a budget deficit of around 2% lifts total financing needs to more than 7% of GDP –, the unclear prospects of IMF relations, and no access to international capital markets, a higher oil price assumption does not appear reasonable. Congress must pass the budget by tomorrow.

Mexico

The current account deficit dropped again by US$ 2.2bn (yoy) to US$ 2.1bn in the third quarter against the backdrop of higher oil prices and increased transfers from Mexicans living abroad. This was the lowest current account deficit since 1995. ----- The briskness in the export sector has ebbed during October (+12% yoy); in particular exports of industrial goods disappointed (+5.6% yoy), a sign for a slowdown of demand from the US. ----- Sales both in the whole sale and the retail sector have risen surprisingly strong in September (8.2% yoy and 11.1%, respectively). Domestic demand was encouraged by an increasing real wage bill (0.74% mom s.a.) in the manufacturing industry, despite a slight decline of employment in the sector (-0.1% mom, s.a.). Consumer prices have risen markedly stronger in the first half of November compared to the previous month. The yoy-rate stayed with 5.35% higher than the 4% benchmark, which the central bank has defined as the upper limit of the price increase for the year as a whole. The central bank has reacted accordingly and has lifted the "Corto" again from a daily amount of 57mn to 63mn pesos.

Outlook: This Tuesday the ministry of finance will publish the budget figures for October. Due to seasonal factors, the budget usually displays higher deficits in the final months of the year. We expect the target to keep the public deficit below 0.3% of GDP will be met easily. ----- Consumer confidence has presumably increased slightly in November, which among others is due to a positive job market development. We expect the "Inegi-Index" to have increased from 95.4 to 96.3 (Thursday). ----- The Inegi-early indicator should have dropped for the first time in two months in September (-0.1% mom), which would correspond with our assessment of a slight economic slowdown in the first half of 2005.

Peru

As expected, the opposition could not bring enough votes behind their attempt to censure Prime Minister Ferrero and minister of transportation Ortiz. Just 40 out of 120 parliamentarians demanded the resignation of the ministers. Even though this outcome makes a cabinet reshuffle in the remainder of this year more unlikely, we assess this more as a sign of weakness of the opposition than a sign of strength of the government. ----- The constitutional court (CC) declared prepayments for the income tax as being unconstitutional, which according to the government leads to a revenue shortfall of 0.4% of GDP. Congress has already backed Minister of finance Kuczynski's demand for measures compensating for the loss of revenue. The parliament affirmed the introduction of an extra duty of 0.6%on corporate assets next year. ----- With PEN 62mn, the central government deficit in October was markedly lower than in the same period last year (PEN 450mn). We believe that the government will be able to stay below the upper limit of the target range agreed with the IMF (1% of GDP) both for this and next year. The 2005 budget has passed congress at the end of last week.

Outlook: The consumer price index (Wednesday) should have remained flat in November bringing the yoy inflation rate to 3.8%. ----- We believe that Peru has exported in October for the fourth month in a row goods worth more than US$ 1bn. The trade balance (Tuesday) should show a surplus of around US$ 250mn.

Venezuela

The government and the central bank are clashing again: president Chávez requests that the US$ 2bn development fund which is fed with export revenues of the state-owned oil company PDVSA may be replenished again and again. The „monetary watchdogs" are contradicting this view, since in this way it is possible to disable the rule that all foreign exchange revenues have to be delivered to the central bank. But the government which in this manner will be raising another US$ 2bn before the end of this year, has a good chance to soon shift the balances of power within the central bank in its favor, as two out of five directors and the president of the central bank must be newly designated by the end of January. ----- The increase of electricity consumption of 7.5% yoy between January and October as well as the reduction of the jobless rate from 14.5% in September to 13.7% in October support our view that in the meanwhile the economy is strongly expanding. Last week, after the release of the third-quarter GDP figures, we had raised our growth forecast for the year as a whole from 12.8% to 17%. ----- The Finance Ministry will use parliament's approval for the issue of bonds in the amount of up to US$ 500mn to reopen the global 30-year bond from January 2004. It is planned that residents be allowed to subscribe bonds of up to US$ 250mn with bolivares at the official dollar exchange rate.

Outlook: At the beginning of the week we expect the November inflation figures to be published. As a consequence of the price adjustments admitted by the government in a series of basic food and the fares, the low rates of the last two months will probably be exceeded by far.

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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	29.11.2004	2.94	2.96	2.97	2.98	2.98	1.3	3.0
Brazil	29.11.2004	2.74	2.76	2.86	2.92	2.92	6.8	2.9
Mexico	29.11.2004	11.25	11.37	11.54	11.37	11.37	1.1	11.9
Chile	29.11.2004	587	595	614	618	618	5.3	605
Colombia	29.11.2004	2480	2516	2569	2826	2826	13.9	2640
Peru	29.11.2004	3.31	3.31	3.32	3.48	3.48	5.2	3.4
Venezuela	29.11.2004	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	29.11.2004	5186	5236	5409	6258	5739	-553
Brazil	29.11.2004	415	428	471	528	463	-48
Mexico	29.11.2004	168	169	182	203	199	-31
Ecuador	29.11.2004	708	724	748	912	799	-91
Colombia	29.11.2004	331	344	400	455	431	-100
Peru	29.11.2004	269	274	317	310	312	-43
Venezuela	29.11.2004	418	435	461	687	593	-175

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	26.11.2004	2.38	2.44	2.50	1.63	1.50	0.9	3.0
Brazil Selic	29.11.2004	17.23	17.24	16.74	17.32	16.33	0.9	16.8
Mexico Cetes 28 days	29.11.2004	8.38	8.36	7.86	6.48	6.01	2.4	7.5
Chile 90 days, PDBC	25.11.2004	2.30	2.42	2.43	2.72	2.29	0.0	2.5
Colombia Overnight	22.11.2004	6.93	6.98	6.97	7.39	7.49	-0.6	8.5
Peru Overnight	26.11.2004	3.03	2.95	2.95	2.50	2.50	0.5	2.6
Venezuela deposits 30 days	24.11.2004	11.68	12.58	12.17	12.02	13.20	-1.5	12.0

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	24.11.2004	18.8	18.7	18.5	13.4	14.1	4.7	19.0
Brazil	25.11.2004	50.1	49.6	49.4	54.2	49.3	0.8	50.1
Mexico	19.11.2004	70.2	70.7	69.9	63.8	65.8	4.4	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.)	24.11.2004	23.6	23.1	22.4	21.0	21.3	2.3	

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	5.7	5.3		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	2.0	0.9	27
Peru	4.0	4.2	4.0		1.8	4.0	3.9	61
Venezuela	-7.6	17.2	4.5		27.1	18.5	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	12	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	34	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	117	19	7.2	19	2.4	2.2	8.6	3.4	5.3
Colombia	242	12	6.9	41	-2.1	-2.0	0.2	2.0	6.2
Ecuador	17	9	1.4	3	0.0	0.5	6.8	-0.1	1.1
Peru	218	16	3.6	25	-1.2	-0.8	2.6	1.1	8.5
Venezuela	83	10	8.3	21	15.1	15.7	23.2	1.3	8.9