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**Argentina:** Again high growth of external trade and tax revenues

**Brazil:** GDP growth of 6 % in the third quarter

**Chile:** Industrial production rises for the 15<sup>th</sup> month in a row

**Colombia:** Congress approves re-election bill

**Ecuador:** Government confirms plans to return to international financial markets

**Mexico:** Renewed increase in inflation expectations

**Peru:** Congress backs up further budget-deficit reduction

**Venezuela:** Merentes to become new Finance Minister

## Argentina

Export growth (16.5%, yoy) and import growth (36%) again reached a high level in October, although our forecasts were not matched (20% and 45% respectively). Especially positive is the renewed growth of export volumes. ---- Tax revenues again grew strongly in November (26.8%, yoy, DBLA-forecast: 32%). ---- CPI was flat in November, below the consensus forecast of an increase of 0.4% mom (DBLA: 0.5%). The yoy-rate (5.4% in November) will most likely come in below 6% by year-end (DBLA: 5.6%).

Outlook: UTDT consumer confidence for December (Friday) is likely to have grown again moderately (November: 9.5%, mom), as economic growth remains high and income is rising, partly due to state intervention. ---- Wednesday: holiday

## Brazil

GDP expanded in the third quarter for the fifth time in a row. The growth rate amounted to 6.1% yoy and 1.0% qoq (sa). Exports continued their rise from a high level. Consumer demand increased as well, as unemployment is going down and real wages are increasing. The strong increase of investments (6.7% qoq; 20% yoy) is decisive to prevent the economy from overheating. For the coming year we expect GDP to grow by 3.9% (2004: 4.9%). ---- The trade balance surplus amounted to "only" US\$ 2.1bn in November. Once again more than US\$ 8bn in goods were exported; meaning that in the whole year the export volume will stand at US\$ 95bn, 30% more than last year. ---- Taking advantage of the favorable market conditions, the government has tapped the international markets for the seventh time this year. A further USD 500mn was added to the US\$ 750mn bond sold in July. The spread was 398 bps over US Treasuries. The funds will be used to supplement international reserves, raising them to some US\$ 51bn.

Outlook: IPCA inflation for November (Tuesday) might give a hint with respect to the interest-rate decision that will be taken by the central bank on December 12. If the

inflation were below 0.4% (mom), the monetary committee would probably feel comfortable with an increase of only 25 bps. ---- Industrial production for October (Thursday) should have expanded against the month before. However, in yoy-terms the rise will be only approx. 4% (significantly less than the double-digit rates witnessed in many of the months of March to September). Another indicator for industrial activity will be given by the production figures of the automotive sector for November (probably on Tuesday). We expect further expansion in mom terms. ---- On Sunday, the biggest coalition partner of the PT, the PMDB, will decide at a party convention whether it stays in the government coalition. We don't expect an exit of the PMDB. ---- On Tuesday, a new IBOPE poll will publish the latest approval rates of the government. We expect the rates to stay at the high level or even increase.

## Chile

Industrial production increased by 5.2% yoy in October, following a very strong growth of 12% in September. By this, production has risen for the 15<sup>th</sup> month in a row. Mining production expanded strongly (12.7% yoy), and employment figures provided for positive news as well. On the back of this data the IMACEC economic indicator posted a 5.3% growth in October. ---- Consumer prices rose by 0.3% mom (2.5% yoy) in November due to higher food prices. We expect the central bank to raise interest rates by 25 bps to 2.5% on Thursday, as recent price increases (core CPI: +0.2% mom) and economic activity data highlight a dynamic economy, rendering further monetary stimulus unnecessary.

## Colombia

As expected, congress finally approved the reelection bill, allowing former state presidents to campaign again for presidency. The constitutional amendment has to be acknowledged and some further formalities to be fulfilled in order to allow the current president to actually run for reelection in 2006. We remain skeptical but chances are a great deal higher after congress' confirmation. ---- Consumer prices rose 0.28% mom in No-

vember, just as expected. With 5.8% yoy inflation was located again well within the central bank's corridor aimed at for year-end (5% +/- one percentage point). ---- GDP growth slowed surprisingly strong and the statistical institute disclosed for the first time since the beginning of 2002 a decline of economic output (-0.14% qoq, sa). A reduction of output in mining and agricultural production was responsible for the weak economic dynamism. In contrast, construction, commerce as well as the financial industry grew above average. On a yoy basis growth was in addition curbed by a high level of comparison in the same quarter 2003. We have lowered this year's growth forecast from 4.0% to 3.6%, but remain confident with regard to next year's growth despite the expected weakness of the world economy (DBLA forecast: 3.8% yoy). ---- A high yoy increase of retail sales (September: 6.5% yoy) as well as low unemployment in October (14.1%) point in our view to an ongoing strong consumption growth. ---- The yoy growth of industrial production (2.43%) fell short of our expectations. Given the still high yoy growth on average of the third quarter (5% yoy), we consider the September figure a negative outlier. ---- We rate the surprising nomination of José Uribe as a new central bank board member (favorite for the post was former minister of finance Roberto Junguito) as neutral. Uribe (who is no relative to the current president) stands for a continuation of the current central bank policy.

Outlook: Colombia should have exported goods worth US\$ 1.4bn in September. This would amount to an increase of 30% yoy. External accounts are expected to have been balanced. ---- The recent surprisingly negative attitude towards both the tax and pension reform should phase out in the remainder of the year, and we expect both reforms to get the necessary backing in congress. We also expect the pension reform to survive the second legislative round (March until June 2005).

## Ecuador

Congress approved the 2005 budget, penciling in a budget deficit of US\$ 380mn (1.2% of GDP). As expected, the oil price assumption was increased from US\$ 22/barrel to 25 US\$/barrel, which lowers financing needs by around US\$ 100 mn, but also reduces the amount available for debt buy-backs in the FEIREP stabilization fund. It has to be noted that Ecuadorian Oriente crude oil currently trades with a discount of 17 US\$ to WTI. ---- The government showed itself confident to return to international financial markets in January in order to swap the current 2012 global bond into a new paper. The 2012 pays a comparably high coupon and carries a buy-back obligation to an equivalent of 10% of face value, starting in 2006. The government is understandably keen to reprofile to smooth this repayment hump, but we are not sure if the government

can manage to convince market participants of stable political and economic perspectives in Ecuador, even though the pressure on the government eased somewhat in recent weeks. ---- Inflation accelerated somewhat in November to 0.4% mom, taking yoy-inflation to 2%. We expect the recent disinflation process to resume in the coming months, mainly due to the weak non-oil economy.

## Mexico

A Reforma poll showed López Obrador (PRD) at 34% of voting intentions with a commanding lead in the 2006 presidential race, despite his involvement in recent corruption scandals. ---- The public sector posted a deficit in October of 9.7bn MXN. Taking into account this year's accumulated surplus of 70.2bn MXN, the government will have no problem to reach its target to limit the public deficit to 0.3% of GDP. Meanwhile the confrontation over the 2005 public budget between the government and the congress is continuing. ---- Consumer confidence unexpectedly fell in November from 95.4 to 95.3, despite the positive development at the labor market. Consumer sentiment seems to be harder hit by the increase in inflation and interest rates than estimated so far. ---- Inflation expectation for end-2005 again went up from 4.19% to 4.29% (compared to an inflation target of 3%). This means that the central bank's tightening job is far from over.

Outlook: Tomorrow Inegi will publish data for the development of gross fixed investments in September. We forecast a strong increase of 9% yoy, albeit from a low base of comparison. Consumer prices probably rose by 0.8% mom in November (Thursday), which will leave the yoy-inflation unchanged at 5.4%. Given the renewed increase in inflation expectations the central bank remains under pressure. Nevertheless, we think that monetary policy will be left unchanged on the Friday meeting, especially as the US-Federal Reserve might increase the Fed Funds rate by 25 basis points on December, 14th. By that the Fed is doing part of the job for Banxico, as money market rates in Mexico should also increase following the Fed's move.

## Peru

Congress approved next year's budget and, in addition, paved the way for an additional revenue source. The constitutional court had just recently torn a hole in the central governments budget by declaring a tax regime introduced at the beginning of this year unconstitutional. The now agreed arrangement at least partially fills this hole. We expect government to reduce the government deficit to just 1% of GDP in 2005 (DBLA forecast 2004: 1.4% of GDP). ---- The budget figures for October confirm our positive view on the current budgetary position.

----- The surplus in the trade balance in October surpassed our expectations. The value of the goods exported was 44% above the amount in October 2003, while imports only increased by 17% yoy.

Outlook: We expect the central bank to keep key interest rates stable on this week's meeting (Wednesday).

### Venezuela

Without giving details, President Chávez announced that Finance Minister Tobías Nobrega will be replaced by Nelson Merentes. The latter, who had already been Finance Minister from July 2001 to February 2002, is at present the head of the Ministry for Development Finance. Mr. Nobrega will possibly succeed to Central Bank President Diego Luis Castellanos, who will leave his post in February. ----- The reopening volume of the global bond maturing in 2034 will be doubled due to high demand from foreigners (to whom the bond is offered at the official exchange rate). The bond, which was issued in January this year, will thus reach a total

volume of US\$ 1.5bn. ----- Finance Minister Nobrega denied reports concerning a devaluation of the fixed bolívar from VEB/US\$ 1,920 to VEB/US\$ 2,150 at the beginning of next year. ----- In line with expectations, inflation accelerated in November to 1.7% mom (19.5% yoy). The increase is mainly due to price hikes for items not subject to control. ----- Parliament approved the central government budget for 2005. Planned expenditure increased by 20% in nominal terms, compared with the 2004 draft. About 40% of the funds are to be used for social welfare purposes. The budget deficit is to be limited to 1.8% of GDP. Yet given the government's propensity to spend, we are expecting almost twice as much (3.4%). ----- Due to the economic upturn and successful government efforts to reduce tax evasion, non-oil tax revenues exceeded the budgeted whole-year target (bolivares 15.6 trillion) by bolivares 5.1 trillion already at the end of November.

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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	03.12.2004	2.98	2.95	2.97	2.97	2.97	-0.3	3.0
Brazil	06.12.2004	2.71	2.75	2.84	2.94	2.94	8.6	2.8
Mexico	06.12.2004	11.10	11.26	11.43	11.23	11.23	1.2	11.9
Chile	03.12.2004	580	589	605	606	606	4.6	605
Colombia	06.12.2004	2493	2481	2548	2812	2812	12.8	2550
Peru	03.12.2004	3.30	3.30	3.31	3.47	3.47	5.4	3.3
Venezuela	03.12.2004	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	06.12.2004	5232	5199	5144	6073	5739	-507
Brazil	06.12.2004	412	415	452	496	463	-51
Mexico	06.12.2004	175	172	172	203	199	-24
Ecuador	06.12.2004	699	712	707	884	799	-100
Colombia	06.12.2004	352	340	374	450	431	-79
Peru	06.12.2004	269	271	292	314	312	-43
Venezuela	06.12.2004	424	419	420	635	593	-169

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina, Overnight	02.12.2004	2.38	2.38	2.50	1.63	1.50	0.9	3.0
Brazil Selic	03.12.2004	17.23	17.23	16.73	17.33	16.33	0.9	17.8
Mexico Cetes 28 days	03.12.2004	8.36	8.36	8.06	5.81	6.01	2.4	8.2
Chile 90 days, PDBC	02.12.2004	2.41	2.30	2.31	2.66	2.29	0.1	2.5
Colombia Overnight	01.12.2004	6.88	6.86	7.36	7.46	7.49	-0.6	7.5
Peru Overnight	03.12.2004	3.03	3.03	3.03	2.50	2.50	0.5	2.6
Venezuela deposits 30 days	26.11.2004	13.50	11.85	12.60	8.45	13.20	0.3	12.0

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	01.12.2004	19.0	18.8	18.6	13.5	14.1	4.9	19.0
Brazil	02.12.2004	50.1	50.1	49.3	54.6	49.3	0.8	50.1
Mexico	26.11.2004	71.5	70.2	70.4	63.7	65.8	5.7	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	12.5
Peru	30.09.2004	11.2	na	11.0	9.8	10.2	1.0	12.5
Venezuela (FEM&Gold incl.)	02.12.2004	23.8	23.7	22.6	21.5	21.3	2.5	

## 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	5.9	7.5		127
Brazil	0.5	4.9	3.9	9.3	6.9	5.8		492
Mexico	1.3	3.9	3.0	4.0	5.1	3.6		626
Chile	3.3	5.7	5.3	1.1	2.8	3.1		72
Colombia	3.7	3.6	3.8	6.5	5.8	5.4		79
Ecuador	2.5	5.8	2.8	6.1	2.0	0.9		27
Peru	4.0	4.5	4.0	1.8	3.8	3.9		61
Venezuela	-7.6	17.0	4.5	27.1	18.7	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	4.1	140	127	19.8	19.8	19.1	15.5
Brazil*	-5.2	-2.9	58	53	94.2	84.3	72.1	68.4
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	-2.5	56	52	10.6	10.0	8.4	7.5
Peru	-1.9	-1.3	48	46	1.1	1.3	2.3	2.2
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 % of exports	Debt service s.t., % of total	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
Argentina	364	39	32.3	77	3.3	4.7
Brazil	205	12	65.6	60	1.8	10.3
Mexico	79	28	33.3	16	-1.3	-8.5
Chile	117	19	7.2	19	2.4	2.2
Colombia	242	12	6.9	41	-1.3	-1.3
Ecuador	17	9	1.4	3	0.0	0.5
Peru	218	16	3.6	25	-1.2	-0.8
Venezuela	83	10	8.3	21	14.6	15.2