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Latin America:	Highest growth rate since 1997
Argentina:	Early repayment of IMF unlikely
Brazil:	The PMDB will leave the ruling coalition
Chile:	Central bank leaves interest rate unchanged
Colombia:	Defeat at the tax reform
Ecuador:	Government hopes for a positive IMF assessment
Mexico:	Surprising tightening move of the central bank
Peru:	Growth should stay high
Venezuela:	Government brings Supreme Court under its control

Latin America

Latin America will experience its highest GDP growth rate since 1997 this year (5.2 %). Next year we expect a slowdown to 3.6 %. For further details, please read our Latin American Spotlight, which will be published this week.

Argentina

Cabinet chief Fernández confirmed that the government is presently analyzing plans for an early repayment of all liabilities towards the IMF (around US\$ 15bn). In view of the strained relations with the IMF, and given the outlook for further difficult negotiations next year concerning the suspended Stand-by agreement, this wish is understandable, however, not realistic in the light of current foreign-exchange reserves of US\$ 19.2bn. Mr. Tangelson, Secretary of economic policy, clarified that the Ministry of Economy does not view such plans as viable. Frictions between President Kirchner and Economy Minister Lavagna apparently intensified again recently. Still, we believe that, due to the debt rescheduling in process, Lavagna's position at present should be secure, although decisions of President Kirchner sometimes are hard to predict. ---- Following the government's intervention to increase the minimum wage by ARS 100 to ARS 450 in September, it has now decreed an increase of ARS 100, effective as of January 1, for all private and public employees earning less than ARS 1,250 per month. The calculation of corporations is becoming less secure by such state interventions. Furthermore, the growth effect of such wage hikes is probably short-lived, as it is not likely to be accompanied by a similar expansion of production/capacities and might thus only lead to an increase in inflation. ---- Contrary to our expectation, but not entirely coming as a surprise, consumer confidence declined in December (-3.9%, mom). On the back of continuing positive economic data, we had expected another increase. However, due to the very strong increase last month (+9.5%) the correction is not unusual. Given the decreed wage hikes, the next census of consumer confidence should again show an increase.

Outlook: Contrary to rumors last week, the government has not yet re-confirmed Bank of New York as exchange agent for the rescheduling in the US. We expect this to take place in a few days, as the naming of a different exchange agent, not acquainted with the matter, could result in further delays. The officially targeted starting date for the exchange of bonds remains January 17. ---- The monthly figures on economic activity (EMAE) point to GDP-growth of 7.5% (yoy) in Q3-04 (Thursday). The yoy-rate thus would have declined from its previous figure of 8.1% in Q2-04. More important however, we expect the seasonally adjusted qoq-rate to increase again after it had fallen to 0.5% in Q2-04. ---- Following the surprisingly weak industrial production in October (-0.1%, mom, s.a.), we expect it to show an increase of close to 8.5% (yoy) in November again.

Brazil

The PMDB, the most important coalition partner of the PT, decided yesterday during a party convention to leave the ruling coalition with a majority of 60%. The ministers will stay in office, though, for the time being. The decision, which was rejected by the government-sided fraction of the PMDB, does not only precipitate a crisis within the PMDB, but also means a setback for President Lula in his endeavor to maintain the reliable aim of passing various reform projects next year. ----- The central bank intervened on the foreign exchange market for the first time since the first quarter of this year, thereby aiming at a weakening of the real. Although the relevant amount was small (at most US\$ 50mn), this could be the start of renewed dollar purchases with the consequence that the further appreciation of the real is stopped and foreign-exchange reserves are build up. ----- According to a CNI-Ibope poll, the approval rate of the government increased in November. 41% of those interviewed (Oct 04: 38%) approve the government's work, while 63% (Oct 04: 58%) are content with the president's performance. ---- Industrial production decreased in October (-0.4% mom), leading to a weak yoy-increase of 2.7%. The slow-down in growth did not take us by surprise given the high rate

of capacity utilization, albeit the decrease was stronger than expected. We remain confident that the industrial sector will continue to grow at a solid pace next year. This view is supported by the Getulio Vargas Foundation's latest poll, according to which 83% of the firms of the industrial sector expect an increase of their profits next year (one year ago, this figure was at 80%, related to 2004).

Outlook: The last IPCA-Inflation reading for November (0.69% mom, 7.24% yoy) was higher than expected and should provide assurance that the central bank will raise the overnight interest rate by at least 50 bps to 17.75%. ---- Retail sales (Wednesday) should have increased 4% yoy in October. Though the interest rate hikes may have done some harm, we expect this sector to stay on track, as employment and real wages have increased over the last few months. ---- We expect tax revenues to have increased 5% in real terms (probably Tuesday), which should be viewed as a normalization after the double-digit rises during the first 10 months of the year.

Chile

The IMACEC economic indicator posted a growth of 5.3% yoy in October. Economic activity exhibited considerable dynamism, highlighted by a seasonally adjusted expansion of 0.8% mom. ---- The central bank surprisingly left the key interest rate unchanged at 2.25%. Consensus had called for a 25 bps-increase. In its declaration, the central bank assessed current inflationary pressure as subdued, but confirmed its intention to continue reducing the monetary stimulus at a measured pace. ---- Driven by both strong exports (+53% yoy) and imports (39% yoy), the trade surplus amounted to US\$ 484mn in November.

Colombia

The government pulled back its tax reform bill. Apparently, it saw no chance to find the necessary backing for the bill in congress. Even though the deflection of parts of the coalition (above all, a large part of the conservative party) was evident for some weeks, we continued to be confident that the government will be able to finally get the necessary backing for the important reform package. Now that the tax reform failed, the government has to cope with deficiency in receipts of about 0.7% of GDP in 2005. We do not think that the government will be able to keep the budget deficit below the envisaged limit next year (2.4% of GDP) and have raised our deficit forecast to 2.8% of GDP. As the IMF agreed to a number of exceptions for 2004 that allow the government to account for a higher deficit (we do not expect the government to capitalize on these ex-

ceptions), we do not expect the relationship with the fund to be burdened by a breach.

Outlook: The central bank board is expected to keep key interest rates steady on its next meeting (this Friday). An ongoing appreciation trend of the Peso against the US\$ has helped to lower the inflation rate until recently which caused real interest rates to rise even without tightening of monetary strings.

Ecuador

Following the currently disintegrated opposition – disintegration that was caused by the failed impeachment process against his person –, President Gutiérrez seizes the opportunity to broaden his power base. Gutiérrez managed to convince congressmen to remove the members of the Supreme Court which are deemed by the government to be too responsive to the needs and interests of the opposition PSC party. While controversial in terms of constitutional adequacy, this move will enable Gutiérrez to reign more effectively in the short term. ---- An IMF mission traveled to Quito in order to review the government's economic program. This forms part of a modified "Article 4" procedure, during which the usual annual report will be supplemented by quarterly reviews. There are no disbursements from the IMF. The government nevertheless hopes for a positive assessment, as this would unlock around US\$ 400mn in disbursements from the World Bank and the IADB in 2005. Given the industrial countries' interest in a stabilization of the Andean region, we think that these disbursements will be granted in 2005.

Mexico

In a surprise move, the central bank increased the Corto at its Friday meeting from 63 million to 69 million Pesos. This was already the ninth tightening move this year. We were forecasting such a move only for the beginning of next year. The reason for the rush was the higher than expected increase in consumer prices of 0.85% in November. But scratching below the surface, the development at the inflation front was not that negative. Core inflation came in at only 0.3%, which is a confirmation for our view that inflation will be much more subdued during next year (DBLA's end-2005 forecast: 3.7%). If the Fed raises the Fed Funds rates in its policy meeting next week (which is basically a done deal), then money market rates (Cetes, 28-days) will most likely rise to 8.6% - a new peak for this year.----In September, gross fixed investment showed a strong increase (+9.1% yoy), although from a very low base of comparison. Despite this positive development, we still see a couple of risks for next year's economic performance and still forecast some slowdown (DBLA's 2005 GDP-forecast: 3%) based on higher domestic interest

rates, slowing global growth, lower oil prices and possible uncertainties due to the upcoming presidential elections.

Outlook: This week will bring few important data releases. Today, Inegi will publish the industrial production figures for October (DBLA-forecast: 4.0% yoy). This would be an early indication that economic activity is stabilizing on the lower level that was reached in the third quarter.----- On Wednesday, the breakdown of global demand figures for the third quarter will show a pretty balanced growth picture, while it will still reveal the risks of a possible slowdown in exports' growth.

Peru

The central bank has kept interest rates steady as expected. ----- The monthly economic indicator published by the statistical institute (corresponds closely with the GDP), should have grown again with more than 4% yoy in October (Wednesday). The unemployment should have stayed low in November (also Wednesday) at around 9%.

Venezuela

The Supreme Court has now paved the way for parliament to be in the position to substitute 5 judges and appoint another 12 to this institution. Thus, the government will further bolster its influence in the Supreme Court. ----- President Chávez has enforced the new

media act which is labeled as a „muzzle act“ by the opposition. ----- The still pending referenda against nine MPs of the opposition are now set to be held in the second half of March 2005. It comes as a surprise that these referenda are to be held at all, since a new parliament will already be elected in July. ----- The central bank which decides on exchange rate adjustments of the Bolívar in cooperation with the Finance Ministry, has received no application so far by the government to depreciate the national currency. This means that the announcement of a depreciation as at January 1, made by former Finance Minister Nóbrega, were without foundation. But in view of the parliamentary elections scheduled for July, we still count on an exchange-rate adjustment to take place over the first few weeks of next year. ----- Cadivi, Venezuela's foreign exchange control authority, said it has made available US\$ 67mn on a daily average by the end of November compared with only US\$ 26mn the year before. According to Edgar Hernández, Cadivi's CEO, in view of the economic growth it is planned for next year to make available approx. 10% more of foreign exchange for imports than in 2004. ----- In November, car sales were almost up 130% yoy, thus exceeding the level of October nearly 25%.

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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	13.12.2004	2.98	2.98	2.95	2.96	2.96	-0.5	3.0
Brazil	13.12.2004	2.77	2.72	2.79	2.92	2.92	5.3	2.8
Mexico	13.12.2004	11.30	11.15	11.38	11.29	11.29	-0.1	11.5
Chile	13.12.2004	590	582	592	600	600	1.5	605
Colombia	13.12.2004	2422	2455	2537	2798	2798	15.5	2550
Peru	13.12.2004	3.29	3.30	3.30	3.47	3.47	5.5	3.3
Venezuela	13.12.2004	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	13.12.2004	5306	5243	5171	5734	5739	-433
Brazil	13.12.2004	411	412	442	505	463	-52
Mexico	13.12.2004	173	170	171	210	199	-26
Ecuador	13.12.2004	736	699	712	850	799	-63
Colombia	13.12.2004	370	356	369	453	431	-61
Peru	13.12.2004	249	262	285	323	312	-63
Venezuela	13.12.2004	440	428	429	614	593	-153

Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change, %-points	end 2004f
Argentina, Overnight	10.12.2004	2.38	2.38	2.44	1.63	1.50	0.9	3.0
Brazil Selic	13.12.2004	17.24	17.23	16.74	17.29	16.33	0.9	17.8
Mexico Cetes 28 days	13.12.2004	8.48	8.36	8.18	5.96	6.01	2.5	8.5
Chile 90 days, PDCC	09.12.2004	2.36	2.41	2.32	2.71	2.29	0.1	2.5
Colombia Overnight	09.12.2004	6.87	6.87	7.10	7.64	7.49	-0.6	7.5
Peru Overnight	10.12.2004	3.03	3.03	3.05	2.50	2.50	0.5	2.6
Venezuela deposits 30 days	08.12.2004	12.02	13.09	10.32	12.90	13.20	-1.2	12.0

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	07.12.2004	19.2	18.9	18.6	13.8	14.1	5.1	19.5
Brazil	09.12.2004	50.6	50.1	49.2	54.8	49.3	1.4	50.1
Mexico	03.12.2004	70.7	71.5	70.4	65.3	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	12.5
Peru	30.09.2004	11.2	na	11.0	9.8	10.2	1.0	12.5
Venezuela (FEM&Gold incl.)	08.12.2004	23.6	23.8	22.9	20.5	21.3	2.3	

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	5.6	7.5	127
Brazil	0.5	4.9	3.9		9.3	6.9	5.8	495
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
Argentina	1.3	4.1	140	128
Brazil*	-5.2	-2.9	58	53
Mexico**	-0.6	-0.3	28	28
Chile***	-0.4	2.4	13	12
Colombia	-2.8	-2.5	62	58
Peru	-1.9	-1.3	48	46
Venezuela	0.2	0.5	45	34

* 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	364	39	32.3	4.7	13.3	0.0
Brazil	205	12	65.6	10.3	32.4	14.5
Mexico	79	28	33.3	-8.5	-6.1	15.0
Chile	117	19	7.2	2.2	8.6	3.4
Colombia	242	12	6.9	-1.3	0.9	2.0
Ecuador	17	9	1.4	0.0	6.8	-0.1
Peru	218	16	3.6	-1.2	-0.8	2.6
Venezuela	83	10	8.3	14.6	15.2	22.6