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|-------------------|---|
| Argentina: | Again strong GDP growth in Q3-04 |
| Brazil: | Increase in minimum wage by 15% represents a fiscal burden |
| Chile: | High budget surplus in October |
| Colombia: | Government implements capital inflow controls |
| Ecuador: | Finance Minister confirms plans for liability management operations |
| Mexico: | Industrial production disappoints |
| Peru: | Mixed economic data |
| Venezuela: | Government considering further cut in the VAT rate |

Argentina

GDP growth of 8.3% yoy in Q3-04 came in higher than expected (DBLA forecast: 7.5%), with consumption (+8.8%, yoy) and investment (+33.1%) again growing strongly. The qoq growth rate (seasonally adjusted) picked up again to 2.9% following 0.8% in Q2-04. Latest figures on industrial production (November: +8.2%, yoy, following 7.9% in October) point towards continuously strong economic growth. Furthermore, bonus payments brought forward to December and the announcement of additional wage hikes are likely to have a positive effect on consumer sentiment. Against this positive backdrop, we raised our GDP growth forecast for 2004 from 7.5% to 8.2% and for 2005 from 4% to 4.5%. ---- After President Kirchner last week signed decrees which officially start the process of restructuring defaulted bonds, the Ministry of Economy published the remaining details of the exchange offer, which not had been known in advance. This does not change the valuation of the exchange offer.

Outlook: The monthly GDP indicator (EMAE) is likely to have grown 7% yoy in October following 8.2% in September (Wednesday). ---- The current account surplus (Tuesday) should have reached nearly US\$ 1 bn in Q3-04 (Q3-03: US\$ 1.7 bn).

Brazil

Retail sales showed a stronger than expected rise of 8.5% yoy in October. ----- The budget plan for 2005 foresees an increase of the minimum wage in mid-2005 by BRL 40 to BRL 300 (15%, compared with an inflation rate of about 6 %). This hike, which should give some stimulus to the retail sector, however will represent a burden for the finances of both private firms and the state. ----- According to a poll conducted by CNT/Sensus, the approval rate of the government remains high. The approval rate of the president increased from 58.8% in September to 65.4% in December. ----- The bankruptcy law was finally approved in the lower house; this means a significant modernization of the respective legislation. ----- The IMF concluded the ninth review of Brazil's performance under the current

Stand-By Agreement reckoning that all targets were met. The IMF points out, that further structural reforms are needed and mentions in this respect the necessity to push through a comprehensive tax reform as well as measures to reduce financial intermediation and administration costs.

Outlook: The Central Bank increased the overnight rates by 50 basis points to 17.75%. The minutes of the corresponding meeting (Thursday) might give some indications if and how many interest rate hikes are to be expected in the coming months. We anticipate at least one further step in January. ----- The current account surplus (today) should amount to only US\$ 300 mn in November as imports showed a strong increase which is typical for the end of the year. We expect FDI to total up to US\$ 1 bn, a quite positive figure if compared with the weak FDI performance of the first three quarters. ---- - The primary surplus figure (Wednesday) will not be a surprise either. We expect only a small surplus in November (due to seasonal reasons). The 2004 surplus target of 4.5% of GDP is not in danger, though. On the contrary, we expect this target to be exceeded. The relative net public debt should not have changed in comparison to the previous month (53.7% of GDP) due to the appreciation of the real. ----- The recovery of the labor market is set to have continued in November due to the Christmas business, above all in the services sector, while industrial employment decreased, according to IBGE. We expect a slightly lower unemployment rate in November (Wednesday) in the six major cities of Brazil (October: 10.5%).

Chile

Central government finances posted a very high surplus of 0.7% of GDP in October. This takes the surplus to 2.5% of GDP ytd. Revenues expanded by 25% ytd in real terms, while expenditure increased only slightly (+4.2%).

Colombia

In a surprise move the government announced the implementation of measures that will force foreign investors to keep their money for at least one year inside the country. Even though we believe that this measure will not stop the upward trend of the peso against the US\$, we do not see this as a sign of the government turning away from its so far liberal economic policy. The further drop of the peso/US\$ exchange rate since the introduction of the measure on Wednesday supports our view that the high liquidity in the US\$ market, rising transfer payments of Colombians living abroad as well as continuing good prospects for the Colombian economy stand behind the peso appreciation. We have lowered our year-end forecast for the exchange rate to 2,450 pesos/US\$ (from 2,550 pesos/US\$ before). ---- Contrary to our expectations the central bank has lowered key interest rates by 25 bps. Again, the main reason for this presumably was the strength of the peso against the US\$. Even though we do not believe this measure will prevent the peso from appreciating further (see above), price stability is not at risk. ---- The trade balance surplus was slightly higher than expected in September (US\$ 124 mn) due to a strong export increase (45% yoy), while imports increased in line with expectations.

Outlook: On Friday DANE is to publish new data on industrial production and retail sales (both October) as well as unemployment figures (November). We count on continuing positive economic data. ---- The senate passed the pension reform earlier than expected. As parts of the reform imply amendments to the constitution, congress has to discuss the reform again in the next legislative period. We expect this process to last until June 2005.

Ecuador

Finance Minister Yepez confirmed that President Gutiérrez will present details regarding upcoming liability management operations - among which figures a swap of the 2012 Global bonds - on his visit to New York in mid-January. Yepez added that the government plans a private placement of around US\$ 200-300 mn in early 2005. Whether or not the government will succeed with its plans chiefly depends on global oil prices and domestic policy dynamics.

Mexico

In October, the industrial production rose by 1.8%, the weakest growth rate in nine months. This was much lower than we (4.0 yoy) and the market (4.2% yoy) had expected. It also provides some confirmation for our forecast of a further weakening of the economy in the months ahead. --- Aggregate demand expanded

strongly by 6.2% yoy, with the single components (exports, consumption, investments) growing roughly at the same speed.

Outlook: In November, the unemployment rate most likely fell from 3.6% to 3.5%, which can partly be explained by a fall in the participation rate (Monday). ---- Consistent with the growth in private consumption in the third quarter (+5.7 yoy), retail sales probably grew by 4.5% yoy in October. ---- In the first two weeks of December consumer prices most likely rose by 0.2% (Thursday). This would be a much lower increase than in the previous periods, which would partly be the result of seasonal factors, but also a first signal of easing inflation pressure. In the remainder of the year no further central bank policy meetings are scheduled. In addition, an "unscheduled" tightening of monetary policy is highly unlikely. After the latest surprise hike of the "corto" on December, 12th, money market rates (Cetes, 28 days) reached a new cyclical high of 8.6% last week. ---- In November, the trade deficit probably rose to US\$ 780 mn (previous month: US\$ 564 mn), which partly reflects weaker export growth.

Peru

The official economic indicator grew a disappointing 2% yoy in October (DBLA forecast: 4% yoy). Above all farming and fishing posted negative growth rates, and production of the mining sector was just 0.5% above last year's level. On the other hand unemployment declined again in November, to 8.3% (from 9.2% in October). This positive trend makes us confident with regard to the short term economic outlook. We leave our GDP growth forecast for this year at 4.5%. ---- President Toledo's popularity ratings remain low: just 9% of the respondents stated they were satisfied with the president's work. ---- As expected the central bank left key interest rates unchanged. The central bank only tries to reduce the exchange rate volatility by direct intervention in the foreign exchange market. ----- The rating agency Fitch has improved its long term risk assessment for international bonds issued by the Republic of Peru to BB (from BB-). The reasons given were the robust economic situation, a progressive reduction of the budget deficit as well as progress with regard to the pension reform and public debt.

Outlook: Even though the government has already covered most of the financial needs for the upcoming year, further debt issuances are in the pipeline. At the beginning of January the minister of finance Kuczynski counts on an approval of early debt repayments by the Paris Club. The government obviously intends to finance early amortizations through the issuance of long term international bonds.



Venezuela

The government faction used its majority in parliament to replace five judges of the Supreme Court and to add twelve judges to the institution. 32 replacement judges were appointed as well, since the Supreme Court now consists of 32 members (previously 20). Thus the dominance of pro-government judges has grown further.

----- Planning minister Jorge Giordani estimates that economic growth will reach between 15 and 16% (DBLA: 17%) in 2004. ----- The strong expansion of the loan volume (January through November: 84% yoy),

which increased once more in November (8.8% mom), probably contributed to the economic upturn in 2004. --

--- Given the rise in tax revenues, the government is considering to once more reduce the VAT rate next year from its current level of 15%. In September, it had already been reduced by 1 percentage point.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
ytd = year-to-date
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 | 20.12.2004 | 2.97 | 2.97 | 2.96 | 2.96 | 2.96 | -0.5 | 3.0 |
| Brazil | 20.12.2004 | 2.70 | 2.76 | 2.76 | 2.92 | 2.92 | 8.1 | 2.8 |
| Mexico | 20.12.2004 | 11.16 | 11.26 | 11.37 | 11.30 | 11.30 | 1.2 | 11.5 |
| Chile | 20.12.2004 | 566 | 584 | 595 | 596 | 596 | 5.4 | 605 |
| Colombia | 20.12.2004 | 2342 | 2399 | 2516 | 2808 | 2808 | 19.9 | 2550 |
| Peru | 20.12.2004 | 3.27 | 3.28 | 3.31 | 3.46 | 3.46 | 5.9 | 3.3 |
| Venezuela | 20.12.2004 | 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 | 20.12.2004 | 4700 | 5253 | 5100 | 5570 | 5739 | -1039 | |
| Brazil | 20.12.2004 | 391 | 412 | 430 | 480 | 463 | -72 | |
| Mexico | 20.12.2004 | 164 | 174 | 167 | 206 | 199 | -35 | |
| Ecuador | 20.12.2004 | 705 | 738 | 734 | 815 | 799 | -94 | |
| Colombia | 20.12.2004 | 341 | 362 | 348 | 429 | 431 | -90 | |
| Peru | 20.12.2004 | 225 | 238 | 275 | 323 | 312 | -87 | |
| Venezuela | 20.12.2004 | 415 | 440 | 433 | 597 | 593 | -178 | |

| Benchmark interest rates | | | | | | | ytd-change | |
|----------------------------|------------|-------|----------|-----------|----------|----------|------------|-----------|
| % | date | last | one week | one month | one year | end 2003 | %-points | end 2004f |
| Argentina, Overnight | 17.12.2004 | 2.38 | 2.38 | 2.44 | 1.56 | 1.50 | 0.9 | 3.0 |
| Brazil Selic | 20.12.2004 | 17.74 | 17.24 | 17.24 | 16.34 | 16.33 | 1.4 | 17.8 |
| Mexico Cetes 28 days | 20.12.2004 | 8.56 | 8.51 | 8.36 | 6.29 | 6.01 | 2.5 | 8.5 |
| Chile 90 days, PDBC | 16.12.2004 | 2.54 | 2.36 | 2.42 | 2.42 | 2.29 | 0.3 | 2.5 |
| Colombia Overnight | 16.12.2004 | 6.97 | 6.87 | 7.03 | 7.41 | 7.49 | -0.5 | 7.5 |
| Peru Overnight | 17.12.2004 | 3.00 | 3.03 | 2.95 | 2.50 | 2.50 | 0.5 | 2.6 |
| Venezuela deposits 30 days | 15.12.2004 | 11.73 | 12.04 | 12.25 | 12.39 | 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 | 15.12.2004 | 19.3 | 19.2 | 18.7 | 13.4 | 14.1 | 5.2 | 19.5 |
| Brazil | 16.12.2004 | 50.3 | 50.6 | 49.7 | 54.9 | 49.3 | 1.0 | 50.1 |
| Mexico | 10.12.2004 | 72.5 | 70.7 | 69.8 | 63.9 | 65.8 | 6.7 | 65.0 |
| Chile | 30.09.2004 | 15.8 | na | 15.8 | 15.7 | 15.9 | 0.0 | 16.0 |
| Colombia | 30.11.2004 | 13.0 | na | 12.3 | 10.7 | 10.9 | 2.1 | 12.5 |
| Peru | 30.09.2004 | 11.2 | na | 11.0 | 9.8 | 10.2 | 1.0 | 12.5 |
| Venezuela (FEM&Gold incl.) | 16.12.2004 | 24.1 | 23.7 | 23.0 | 20.7 | 21.3 | 2.8 | |

| Economic activity | | | | Inflation | | | GDP 2003, US\$ bn |
|-------------------|------|-------|-------|------------|------|------|-------------------|
| GDP (yoy, %) | 2003 | 2004f | 2005f | % year end | 2003 | 2004 | |
| Argentina | 8.8 | 7.5 | 4.0 | | 3.7 | 5.6 | 127 |
| Brazil | 0.5 | 4.9 | 3.9 | | 9.3 | 6.9 | 495 |
| Mexico | 1.3 | 3.9 | 3.0 | | 4.0 | 5.1 | 626 |
| Chile | 3.3 | 5.7 | 5.3 | | 1.1 | 2.8 | 72 |
| Colombia | 3.7 | 3.6 | 3.8 | | 6.5 | 5.8 | 79 |
| Ecuador | 2.5 | 5.8 | 2.8 | | 6.1 | 2.0 | 27 |
| Peru | 4.0 | 4.5 | 4.0 | | 1.8 | 3.8 | 61 |
| Venezuela | -7.6 | 17.0 | 4.5 | | 27.1 | 18.7 | 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 | 128 | 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 | 30 | 26 | 32 |
| Chile*** | -0.4 | 2.4 | 13 | 12 | 0.8 | 0.8 | 1.4 | -0.8 |
| Colombia | -2.8 | -2.5 | 62 | 58 | 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 | | 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 | 364 | 39 | 32.3 | 77 | 3.3 | 4.7 | 13.3 | 0.0 | 6.3 |
| Brazil | 205 | 12 | 65.6 | 60 | 1.8 | 10.3 | 32.4 | 14.5 | 5.9 |
| Mexico | 79 | 28 | 33.3 | 16 | -1.3 | -8.5 | -6.1 | 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 | -1.3 | -1.3 | 0.9 | 2.0 | 6.5 |
| 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 | 2.0 | 9.3 |
| Venezuela | 83 | 10 | 8.3 | 21 | 14.6 | 15.2 | 22.6 | 1.3 | 8.9 |