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Armen Kouyoumdjian
akouyoumdjian@hallgartenco.com

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ARGENTINA

After fits and starts, a debt restructuring operation looks as if it might at last get going in coming weeks. However generous the conditions for the debtor (and the constant changes and menu choices offered make it difficult to quantify it with precision), the fact is that Argentina will start paying monies it was not paying before. The primary surplus for January-November 2004 was US\$ 6.76 bn. Only a quarter of this amount has been hitherto paid to non-defaulted debt creditors. It will be a different situation once everything is signed on the dotted line. The negotiation difficulties led to rumours that Economy Minister Lavagna might resign. This does not look imminent but it is a fact that the chemistry with President Kirchner is not easy, and the man may still aim to replace Enrique Iglesias at the BID in Washington when the latter retires in mid-05. However, as an Argentina (Machinea) already heads another major regional institution (CEPAL), some people may rightly ask how come Latin America's two prime multilaterals are both headed by former economy ministers of the region's country with arguably the worst record of economic management..

Another rumor started some weeks ago and referred to the US\$ 19 bn of reserves being used to prepay the IMF and "get them off their back" in the run-up to the 2005 legislative elections. Argentina owes the IMF over US\$ 15bn, but this rumor only reflects the still prevalent mistaken perception that national reserves are part of the fiscal kitty, rather than a backing for monetary issue, and can thus be disposed of freely.

The economy is still buoyant. GDP rose by 8.3 % in the third quarter of 2004, accumulating 8.8 % in 9 months. November industrial production rose by 8.3 % (10.8 % cumulative in 11 months) and supermarket sales by 5.7 % (accumulating 9.6 %). November tax revenue rose by 38 %, motor vehicle sales doubled in 2004 and in the 12 months to September 2004, 622,000 jobs were created (unemployment in September stood at 13.2 %). Though the business sector was worried about its possible inflationary effects, a US\$ 34 monthly pay increase was granted to all private and public sector workers. Gas tariffs for business customers are being increased by 25 %.

In the midst of all this, former president Menem returned from his legal exile in Chile, saying he was

going to "save Argentina" in the 2007 presidential election. He will be 77 by then. Though highly unlikely, stranger things have happened in Latin America, and Kirchner good luck and circumstances may deteriorate at some stage.

BRAZIL

Is Brazil doing OK or not? That is the question which even President Lula himself seems to be ambiguous about. In early December, his predecessor FHC called his government "incompetent" (but then he would, wouldn't he?). Lula himself said that "we are in a sea of roses", though one wonders if this mix of metaphors does not also refer to the possible thorns hidden underneath. Lula went on to say, in his 2-year balance, that "he did the impossible", adding that a 4-year term is "insufficient", which can only be interpreted as a partial admission of failure. Support for the administration has been rising since September and his own popularity is still at nearly 66 %. Partial defections from the PMDB and PPS coalition partners have been brushed away, though this may be a rash analysis.

GDP growth for 2004 is estimated at a 10-year high of 5 % or more. The first 9 months came in at 5.3 %, and the negative result for 2003 has been "corrected" to a positive one of 0.5. Though Xmas sales were up 16.1 % on the previous year, November consumer confidence was down, and unemployment rose again. Bounced checks in October were the year's second highest.

The last quarter may not have been that great. The Central Bank predicts growth of 4 % this year with inflation falling from 6.2% in 2004 to 5.3%. Its president proudly declared that the country "does not need the IMF any more". The minimum wage is to increase by 15.4% from May, to the equivalent of US\$107 per month.

What about public finances? Whether it was published or not, I could find no trace of the November fiscal results. Nevertheless, we know that the SELIC rate (at which over half public debt is financed) went up again by 0.5 points on December 15 to 17.75%, with more increases announced for this year. This makes the budget hypothesis of SELIC at 15.5% and an unchanged 2005 interest bill of US\$ 48 bn appear somewhat optimistic. The first instance of "official cosmetics" in the form of a US\$1bn infrastructure investment, which will not be included in the budgetary balance, has been given the IMF blessing. Proposals have been presented for Central Bank autonomy, which include clauses such as the resignation of directors if inflation targets are not met. Just imagine the scope for job-saving cosmetics.

It is very important not to be too impressionistic when looking at Brazil, whatever the consensus feeling may be at any given time, and concentrate on facts and figures.

CHILE

With the expected short-term dropping out of former President Eduardo Frei from the pre-candidate list, and despite the continuing populist posturing of Christian Democrat Chairman Adolfo Zaldívar, it is more likely that the choice of official candidate for the December 11 presidential polls will narrow down to a contest between the CD's Soledad Alvear (formerly foreign minister) and the Socialist ex-Defence incumbent Michele Bachelet. The latter now appears in the polls as capable of defeating Lavín by nearly a 2 to 1 margin, and it will require a major hatchet job on her, or a genius of a campaign tone, to reverse the tide. The Concertación is so confident that they are not hesitating to send their reserve "panzer" division replacement candidate (in the shape of Interior Minister José Miguel Insulza) to bid for the top post at the Organisation of American States.

Though unable to keep to his wish of maintaining a stable cabinet to the end of his term, outgoing President Ricardo Lagos himself is basking at a historically high approval rating of over 6 %, with an economy having grown at nearly 6 % last year. An air of self-contained triumphalism, which in Chile always turns to cockiness, is very much in the air. Having been so proud of hosting the APEC meeting, the authorities ought to meditate on how several of these "tigers" suddenly went under water (literally) in a few hours. They should know that cats do not like water (but Chilean politicians are often interested in another kind of pussy, as the Spiniak case should have demonstrated if evidence had not been hidden away, and accusers silenced by threats and law suits..). They do not seem to care that their currency is at a 4-year high against the US\$, at a time when not only freight charges but also the new Panama Canal tolls (of which the country is one of the main users) will further reduce the competitiveness of their exports (particularly if commodity prices go into reverse).

The high growth rate has not even made a dent in unemployment, which as of November, at 8.6 %, was 0.5 points higher than the year-ago level. The excuse for that was that more women had gone into the labor force. And why do you think they did so? After reading feminist magazines? No, it was because they needed the money. Their husbands do not earn enough. Statistics for 2003 show that whilst the 10 % lowest paid earn just US\$ 1 per hour, the 10 % highest paid earn nearly 12 times as much. As deputy Guido Girardi of the government coalition put it in an early December interview "under the carpet of success, Chile hides human misery, indolence and injustice". Nothing more said.

COLOMBIA

It has been blowing hot and cold in both economics and politics over the past month. Whereas 1400 out of the estimated 20,000 paramilitary fighters disarmed in a showy ceremony, the leftist guerrillas turned down yet another hostage exchange proposal. Another group of tourists were held. The congress finally approved the reelection law, which will allow President Uribe to stand (and probably win) again in 2006. On the other hand, an IMF-agreed tax increase of US\$700 million was not approved.

Despite a disappointing third-quarter 2004 growth of 2.4%, the finance minister continues to insist on a full-year result of over 4%, based on fourth quarter expectations of 5.3%. It is not clear what forces would have caused the rate of growth to more than double in the last quarter. Textiles, one of the strong exporting sectors in manufacturing, will suffer the end of the international quotas from this year.

MEXICO

Mexico's public finances have always been a mystery, even more so since they introduced sophisticated creative accounting some years ago, the criteria for which has since been a moveable feast. I say that because the figures just do not seem realistic. The latest report indicates that the overall balance in January-November 2004 was a surplus 31% higher at some US\$ 6 bn. However, rather than lead to a reduced public debt over the period, this actually rose by a net US\$ 2 bn. The interest bill fell by 4.3 % to some US\$ 15 bn . The improvement in any case is only due to a 14.2 % rise in oil revenue, (which represented 36 % of consolidated receipts), whereas non-oil income was curiously stagnant, despite GDP growing at over 4 %. The Bank of Mexico expects growth to slow down to a range of 3.5 to 4 % in 2005. Manufacturing employment was down 1.7 % in the year to October 2004, contrasting with the 3.8 % advance in Industrial Production. External reserves are over US\$ 60 bn so one crisis we do not have is a forex one. Inflation still remains on the high side, and lower tariffs and utility prices are being set to nudge it downwards.

The political scene has been colorful, over and above the tug of war between President Fox and congress over the 2005 budget, which is now going to the Supreme Court. A brother of former President Salinas was found dead on December 6, and it is still unclear if it was a political, extortion or a crime of passion. The PRI ended a good year where it maintained a 38 % share of the vote and won 7 out of 10 contested governorships. Mexico City's PRD mayor AMLO has nominated former presidential hopeful and loose cannon Manuel Camacho as his campaign coordinator. Mexico is putting forward the name of its foreign minister, Luis Derbez, for the OAS post. Some eyebrows might be raised if they knew that the candidate is so much of a straight-laced religious conservative that his presence at the inauguration of a Mexican photographer's exhibition in Santiago last year had to be cancelled because the show included several nude poses. If you are easily shocked, it may not be a good idea to run for international office.

PERU

A decade or so ago, the world (at least the part of it interested in Latin America, admittedly a dwindling constituency) woke up on New Year's day to the news of the Zapatista actions in Chiapas. Well, without wishing to draw too many parallels, it was this week-end that an ethnic leader of an ultra-nationalist group of former military personnel, whom some of the local media dubbed as "folkloric" chose to attack (with 150 followers, mind you) a police station 400 kms from Lima and occupy it. His demands were the resignation of President Toledo, and the end of Chilean investment in the country. With the incumbent head of state's ratings already dismal, the military unhappy with the chaotic annual promotions and retirements, two new corruption scandals a week, and cabinet members such as the Defense Minister arraigned by the courts, the Peruvians had to content themselves with rejoicing as their representative was crowned Miss World. Worryingly, the rebels are threatening to extend their movements to other zones.

The previously buoyant economy also showed signs of flagging in October, where weaker agriculture and fishing contributed to growth reaching just 2.1 %, though the 10-month total at 4.2 % was still 0.1 above the 2003 figure. Peruvians are keener on their currency, with the dollarisation of bank accounts down from 62 to 57 % last year (the weakness of the US currency and the low interest rates must be the explanation). The October trade surplus was 5 times the previous year's, totaling US\$ 2.38 bn in 10 months. Could the Peruvian economy continue healthy with a further deterioration in security and governability? A hard one to answer.

VENEZUELA

Real and exaggerated deals have characterized the scene over the past month. Whereas the oil agreement with China appears real enough, the news of a mega-purchase of weaponry from Russia appears to have been somewhat over-the-top. Some lighter equipment is being bought, but this is not yet to be the big Russian toehold into the South American defense market.

The country may well have led the 2004 growth league, with the estimated 14 % + result putting it on top of everyone else and not just in the region. Still, with the oil price faltering a bit, President Chávez was unhappy with the US\$ 1 bn of "exchange gains" that he is being offered by the Central Bank and is pushing for more, backing the pressure by calls for the bank's governor to resign. He did actually fire the finance minister, after the latter announced a devaluation of nearly 11 % a month in advance, making it worse by also having a conflict with his colleague from Planning. The outgoing minister was replaced by a mathematician (Nelson Merentes) who had already filled the job 2 1/2 years earlier. The

devaluation was meanwhile cancelled, and the power in economic policy appears to have shifted to the Planning portfolio.

According to sources close to him, Chávez is planning to concentrate this year on further consolidating his power (he recently managed to pack the Supreme Court with his supporters), and embark on further social programs. He is taking a leaf from the old Mexican tendency to create specialist state banks (such as for the armed forces and cooperatives), as well as a Treasury Bank, which will hold state funds in lieu of the "uncooperative" Central Bank. As was said before, the man is already running a deficit even with the high oil price, so the continuing risk is what happens if and when that commodity price collapses.

SMALLER COUNTRIES

The December 6 municipal elections in Bolivia marked progress by marginal indigenous and local community groups, at the expense of the established parties. Ecuador's president has consolidated his recovery from the brink by getting congress to approve a new Supreme Court favorable to him. In Paraguay, despite continuing rural unrest, the IMF has extended a US\$ 75 million program to September. Uruguay's president-elect has nominated a largely "reassuring" cabinet whilst making some concessions to the Left in the shape of the Montevideo mayorship.

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