

The material and data in this newsletter have been compiled from a number of sources by LAPA for the sole use of newsletter subscribers.

LAPA eWeekly newsletter believes the data to be accurate and its sources reliable, but does not warrant the accuracy and the information herein. Reproduction of this newsletter in whole, or in part, without prior consent of LAPA is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to US\$100,000 for violations.

Send subscription requests to:

requests@doble-click.com

LAPA eWeekly is published weekly by LAPA and distributed via Doble-Click Internacional (DCI). Address editorial inquires/comments to:

LAPA
P.O. Box 721391
Houston, Texas 77272.

Copyright © 2002 LAPA™.
All rights reserved.

LAPA eWeekly

ARGENTINA

Banks Must Return Loans Before Deposits

Argentine banks must pay back discount loans from the central bank before returning frozen bank deposits to their clients. The banks began offering savers bonds or tradable certificates of deposits in exchange for their funds in a bid to phase out the withdrawal restrictions imposed to stem a run on banks.

Operations Of Banco Olavarria Suspended

Argentina's central bank suspended operations at **Banco de la Edificadora Olavarria SA**, the sixth time the bank has taken the action since the government stopped paying its debt in Dec.(2001). Olavarria, which had Ps\$91mm pesos (US\$26mm) in assets and Ps\$84mm pesos in deposits in Dec.(2001), will shut down in 30 days. The bank ranks 67th among Argentina's 86 largest by assets and has 234 employees.

Central Bank Order Exporters To Sell More Dollars

Argentina's central bank lowered the amount of foreign currency exporters must sell directly to the bank from transactions to US\$0.5mm from US\$1mm to increase the supply of dollars and ease pressure on the peso. Increasing the amount of dollars available to the bank helps it buy

pesos, strengthens the currency and slows inflation caused by the increase in prices for imported goods. Last month the bank ordered exporters to sell dollar payments above US\$1mm directly to the government, cutting out commercial banks to prevent them from speculating in the currency.

Government Raises Inflation Target To 80% From 15%

The Argentine government told the International Monetary Fund (IMF) that it raised its inflation target for 2002 to 80% from the 15% forecast in its budget. Government officials hope the IMF will resume a loan program to help it revive the economy, which is set to contract as much as 15% this year.

BRAZIL

Banks Scaling Back Lending

Lenders in Brazil tightened credit after Argentina stopped paying its debt in Dec.(2001), costing banks and investors billions in losses. The Worker's Party candidate, Luiz Inacio Lula da Silva's, lead in polls ahead of Brazil's Oct.(2002) presidential elections has also alarmed investors, who fear he will increase spending and oppose the privatization to state assets.

Banks are scaling back lending to Brazilian companies by as much as 50% this year and charging more for loans. Many investors

refuse to buy new corporate debt or are demanding early payment on bonds sold several years ago, exacerbating a cash crunch that threatens to deepen a recession that began during 1Q:02.

Oil Round Suffers From Weak Demand

Brazil National Petroleum Agency (ANP) reported the country only raised Rs\$91.5mm reais (US\$33mm) in its 2-day auction of oil leases compared to the Rs\$595mm raised last year. This year, the number of companies registered to bid fell to 29 from 42 a year earlier, and the government only received bids on 21 of the 54 leases auctioned compared to the 34 leases sold last year. Brazil's ANP estimates that state-controlled **Petroleo Brasileiro SA (PETROBRAS)** and foreign companies need to invest as much as US\$50bn in the oil industry through 2006 to boost output capacity to make the country self-sufficient in hydrocarbon production.

COLOMBIA

Coffee Industry Needs US\$100mm/year Investment

Colombia's cash-strapped coffee industry needs US\$500mm in aid over the next five years to remain economically viable. Officials from the National Federation of Colombian Coffee Growers estimated the government needs to invest US\$100mm/year over the next five years to improve the quality of coffee and increase the income of Colombia's coffee-growing families. The Federation earlier pushed to stabilize coffee prices for growers, fund research

and cut spending on infrastructure. Exports of coffee, Colombia's third biggest earner of foreign exchange, declined to US\$764mm in 2001 from US\$1.1bn in 2000 as world coffee prices fell to their lowest levels in decades.

Central Bank Cuts Interest Rates Again

Colombia's central bank cut its overnight lending rate for a fifth time this year to boost lending and spur growth after the economy slowed during 1Q:02, and also lowered its repurchase rate by half a percentage point to 5.25%. The rate cut was announced a week after government figures showed gross domestic product (GDP) grew 0.5% during 1Q:02 compared to 1.8% a year-ago, raising concern the economy might slip into a recession. The bank still believes inflation is on track to reach the bank's 6% target for the year. The cut is the 27th consecutive rate cut by the bank since Nov.(1998), when it began trimming rates to pull the economy out of recession.

President Elect May Adopt Special War Powers

Colombia's President-elect Alvaro Uribe may declare an emergency "state of siege" to combat illegal armed groups. Uribe plans to re-introduce the special powers granted authorities, to fight terrorism and crime, that were abolished by a new constitution in 1991. The special powers were needed to protect mayors in southern Colombia from Marxists guerrilla

death threats. Colombian governments often used the special powers for decades to arrest suspected guerrillas without charges and declare curfews. Critics believe the use of special powers could lead to human rights abuses and increased guerrilla recruits.

Committee Favors Increase In Retirement Age

A Colombian Senate committee supported raising the retirement age and increasing contributions to the public pension system, leaving a bill for the lower house panel and full Congress to decide on in the next session. The committee agreed to increase the retirement age by three years to 63 for men and 58 for women beginning in 2014. The legislation would increase the 13.5% joint employee-worker contribution to the pension system by 1% of the monthly wage beginning in 2003, gradually increasing to 15.5%. The pension system's debts are more than double the country's GDP of US\$89bn.

The congressional action leaves it up to the incoming administration of President-elect Uribe, who takes office Aug.7(2002) to push the bill forward in the next Congress that begins Jul.20(2002). The pension bill is the last major piece of legislation favored by the IMF yet to be passed.

CUBA

Cutting Sugar Production Due To Declining Prices

Cuba, the world's ninth-largest sugar producer, will cut agricultural land used for planted sugar by 60% and production capacity by 50%. Some of the land planted with sugar will be converted for cattle breeding, forestry and other agricultural use.

The country is cutting production as sugar prices continue to fall. The sugar industry is Cuba's largest employer, hiring more than 0.5 million workers with some 20% of the 11 million Cuban population dependent on it. Sugar prices on the Coffee, Sugar & Cocoa Exchange fell by 33% this year on expectations of a record crop in Brazil, which was the second-largest grower in 2001 after India.

Cuban Voters Enshrine Cuba's Socialist System

More than 90% of the Cuban voters signed a government-backed petition to enshrine Cuba's socialist system in the constitution. At least 7.4 million Cubans signed the petition organized by President Fidel Castro. The government campaign began after 11,000 people signed an opposition petition calling for a vote on the rights of free speech and association. The country's 1976 constitution affirms Cuba as a socialist state and names the Cuban communist party as the leading force of that society and state.

MEXICO

Finance Minister Says Mexico Could Face Same Problem That Brought Down Argentina

Mexico's Finance Minister said the nation could face the same type of cash shortages as Argentina if it does not reduce spending and boost government income by raising taxes. Mexico continues to rely heavily on the sale of state assets to meet spending needs, much like Argentina in the 1990s before defaulting on US\$95bn in bonds in Jan.(2002). Recently, the government raised Ps\$8.9bn pesos (US\$916.3mm) by selling its 12% state in **Grupo Financiero BBVA Bancomer SA**, the country's biggest bank and the second state asset sale in a month's time.

Mexico is seeking to raise Ps\$35.8bn pesos this year through asset sales to maintain its budget deficit target. Earlier this month, the government sold **Aseguradora Hidalgo SA**, Mexico's biggest life insurance company, to **Metlife Inc.** for US\$962mm and has hired Merrill Lynch & Co. to assist in the sale of its two state airlines.

PANAMA

COPA To Receive Loan From The US Export-Import Bank

Panama's national airline, **COPA**, received loan guarantees from the US Export-Import Bank (Ex-Im Bank) to support the purchase of Boeing 737-700 aircraft, eight winglet ship sets and a spare engine. The financing is structured as an asset-based finance lease. COPA's strategic alliance with **Continental Airlines** provides an interconnected route system on flights between the US and Latin America. Both airlines participate

in OnePass and share benefits of Presidents Clubs around the world.

PERU

Government Announces Spending Cuts And Plans To Increase Revenues

Peruvian President Alejandro Toledo ordered government officials to limit their spending and announced plans to boost tax revenues in order to limit a projected budget deficit. Lower-ranking officials were ordered to reduce their mobile telephone use, travel expenses, fuel use and spending on publications. Government expenses must be adjusted after 1Q:02 revenue fell short of expectations by \$800mm soles (US\$230mm). The spending cuts are mandatory for lower-ranking government officials but do not affect the president, congressmen, ministers and vice ministers. Police, internal security and national defense officials are the only personnel allowed to use cellular phones.

The Economy and Finance Ministry released plans to boost tax revenues, including a proposed law to collect an advance tax of 1% of net assets every year from taxpayers with more than \$0.5mm soles in assets. The tax, which targets those who dodge taxes by reporting losses, could be refunded later or used as a tax credit. Payroll and beer tax cuts and delayed asset sales have put pressure on Peru's plans to limit its budget deficit to 1.9% of the US\$54bn economy.

The government's tax plans include administrative changes, decrees and proposals to

Congress. Besides boosting collection efficiency, the government also plans to impose a 10% tax on cable news television and a 4.1% tax on dividend payments. It also intends to tax earnings in capital markets.

Peru Head Of State Quits Over Delays Selling Assets

The executive director of Peru's state asset sales resigned to protest the government's decision to delay the sale of two power companies to **Tractebel SA**. The director resigned in disagreement over the decision and because he was not consulted before it was taken. The sale of the two generators, **Egasa SA** and **Egesur SA**, sparked five days of riots in Arequipa, Peru's second largest city. The protests ended after the government agreed to postpone the sale until a court rules on its legality.

SPAIN

General Strike Disrupts Business

Spanish workers went on strike, leading airlines to cancel flights and companies such as **Repsol SA** to cut production in Spain's first general strike in eight years. Spain's Institute of Economic Studies estimated the strike will cost the Spanish economy \$250mm euros (US\$239mm) in lost production.

Spain's two largest labor unions called for a one-day strike to protest changes to unemployment benefits. The changes cut payments to people out of work who turn down a job they can perform, even if it pays less than

they desire, in an effort to expand employment opportunities. At 11.5%, Spain has the highest jobless rate in the European Union (EU).

European governments are trying to reduce unemployment by making it easier for companies to hire and fire workers; however, they face resistance from unions in Spain, Italy and Germany, countries which have led strikes to fight for better benefits, wages and job security. The general strike comes a day before the EU leaders meet in Seville.

Mapfre To Increase Stake In Mexico's Tepeyac

Corporacion Mapfre SA boosted its stake in **Seguros Tepeyac SA**, Mexico's fifth-biggest insurer, to 99.9% from 55.2%. Mapfre plans to expand into Mexico and the few other Latin American countries with the best growth potential, after losses in Colombia and other markets undercut profit from the region in recent years. Increasing its ownership of a profitable Mexican insurer comes after Mapfre last month lost in a bidding contest to buy state-owned **Aseguradora Hidalgo SA**, Mexico's largest insurer. Rival **Metlife Inc.** bought Hidalgo for Ps\$9.2bn (US\$956mm).

URUGUAY

Country To Abandon Its Two-Decade Trading Band

Uruguay's decision to scrap its two-decade support of the peso drew praise from the IMF and US Treasury. As a result of the free

float, the IMF board is scheduled to provide Uruguay with US\$1.5bn in aid. The IMF has been pushing countries, from Argentina to Turkey that have been forced to turn to it for emergency aid, away from any sales of dollar reserves to prop up their currencies. The change comes in the wake of efforts in the late 1990s to lend billions of dollars in aid to Brazil and Russia in what were unsuccessful attempts to maintain their currency pegs.

Uruguay's peso fell 24%, after the country -- affected by devaluations in neighboring Argentina and Brazil -- decided to let its currency trade freely for the first time in 20 years. The move comes months after Uruguay's economy has suffered the rippling effects of Argentina's default. Uruguay is the latest in a string of LATAM countries to retreat from fixed exchanged rates. Brazil abandoned a fixed rate for the reals in Jan.(1999) and Chile and Colombia soon followed suit later in Sep.(1999). In Jan.(2002), Argentina abandoned its 10-year currency board system that fixed the peso at par with the US dollar, while Venezuela freed the bolivar in Feb.(2002).

VENEZUELA

Opposition Can Call A Referendum In 2003 To Remove Chavez

Venezuela's President Hugo Chavez stated he could be removed from office through popular vote beginning in Aug.(2003). Venezuela's constitution allows for a nationwide referendum to remove a president halfway through the

six-year presidential term. Opposition parties have started to collect signatures from the required 15% of registered voters needed to hold a referendum.

Violent Bolivarian Circles Vow To Defend Chavez

The government organized Bolivarian Circle claim to have 2 million members and have vowed to defend President Chavez from his opponents. Chavez, opposition leaders, and the president's Cabinet admit a second coup attempt is likely; however, the government has said a second coup would end in a bloodbath.

Critics of President Chavez say he has turned for help from the Bolivarian Circles to teach the works of South American independence hero Simon Bolivar. The government admits some Bolivarian Circle members have guns and that 60% of all Venezuelan households have at least one gun. The circles are modeled after Cuba's Defense of the Revolution neighborhood groups, which critics say serve as a network of spies for President Fidel Castro. According to a former military officer, the growing presence of an armed group outside the military might be enough itself to provoke some officers to attempt another coup.

LATAM WEEK AHEAD CALENDAR

-Monday, June 24

Mexico: Finance Ministry releases preliminary trade balance for May.(2002).

Venezuela: Markets, banks, government offices and businesses are closed to commemorate the 1821 Battle of Carabobo that freed Caracas from Spanish rule.

-Tuesday, June 25

Argentina: Government to release the report of shopping center sales in May.(2002).

Mexico: Central Bank releases results for the auction of the government's treasury bills or cetes.

World Cup Soccer, Semifinals: Germany (1) : South Korea (0).

-Wednesday, June 26

Brazil: Central Bank releases banks lending figures for May.(2002).

Colombia: Government is expected to hold its weekly auction of Treasury notes.

World Cup Soccer, Semifinals: Brazil vs. Turkey.

-Thursday, June 27

Brazil: Central Bank releases consolidated fiscal results for May.(2002).

Chile: Chilean National Institute of Statistics releases figures for employment; industrial production/sales; supermarket sales for May.(2002).

-Friday, June 28

Argentina: Government releases the report of trade balance for May.(2002).

Brazil: Central Bank releases 1Q:02 inflation report.

-Saturday, June 29

World Cup Soccer, Third Place Game, Korea (2) : Turkey (3)

-Sunday, June 30

World Cup Soccer, Finals, Brazil (2) : Germany (0).