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# LAPA eWeekly

## ARGENTINA

### Non-Governmental Monthly Wages Set To Increase

The Argentine government agreed to raise average wages by about 12% to Ps\$100 pesos (US\$28) a month to adjust for inflation. The raise only relates to salaries that were negotiated collectively and does not affect government employees. The increases takes effect in Jul.(2002) and affects about 750,000 workers. The agreement on wages follows a decision by President Eduardo Duhalde to hold early elections to help ease the social turmoil after two people were killed last week in demonstrations. The government will not increase the salaries of state workers to avoid increasing public spending.

Non-governmental small and medium-sized businesses – which account for 60% of Argentina's 3.1 million employed workers - rejected the plan, saying they could not afford the added expense under the current economic circumstances.

Higher wages may boost prices and lead to increased company closings, resulting in higher unemployment. Average monthly wages in Argentina, excluding government salaries, are currently Ps\$808 pesos. Economists estimate that every 2.5% increase in inflation pushes 1-2% of Argentina's 36 million population below the government's poverty line of Ps\$730 pesos a month for

a family of four. Currently about 50% of all Argentines live in poverty, up from 40% in Dec.(2001).

## BRAZIL

### WorldCom Brazil Doubled Manager's Pay

WorldCom Inc.'s Brazilian unit, **Embratel Participacoes SA**, paid directors and executives about Rs\$7.2mm reais (US\$3.1mm) in 2001 compared to about Rs\$3.5mm that was paid in 2000. Embratel paid its senior executives more in 2001 as the company ran up net losses and in 2000 when the company reported a net profit even as the currency weakened and as the company was guarding cash to pay bad debts. Embratel increased salaries in 2000-1 to make up for an executive pay freeze in 1999. In the US, the amount Embratel's parent, WorldCom paid its executives is under scrutiny after the company admitted to misrepresenting US\$3.9bn in expenses.

## CHILE

### Chilean Police Find Fake Bomb At FleetBoston Office

Chilean police found a fake bomb at a **FleetBoston Financial Corp.** branch in downtown Santiago, Chile. In a cautionary move, Chilean police tightened security around the US embassy and US companies such as **BankBoston** and **McDonald's Corp.** during

the July 4<sup>th</sup> Independence Day holiday.

## COLOMBIA

### Government To Freeze Spending To Meet Budget Target

The Colombian government froze Ps\$2.3bn pesos (US\$940mm) of its government spending for the rest of 2002 to reinforce IMF-backed efforts to cut the budget deficit as growth slows. The measure was announced as the government lowered its growth forecast for 2002 to 1.5% from a previous low of 2.5%. Colombia's economy only grew 0.5% during 1Q:02, compared with 1.8% during 1Q:01. The measures, announced one month before the current government is set to step down, are aimed at ensuring that Colombia achieves its target of reducing its budget deficit to 2.6% of gross domestic product (GDP) during 2002. It should also ensure that inflation ends the year below the central bank's 6% target.

Ever since peace talks between the government and guerrillas broke down in Feb.(2002), leftist guerrillas in the country's four-decade civil war have made death threats against the country's 1,098 mayors and increased attacks on bridges and power pylons, reducing economic growth and causing some companies to delay spending. Spanish energy companies Union **Fenosa** and **Endesa** have already announced plans to delay spending US\$3.5bn in Colombia over the next 5 years due to the slowing economy. Argentina's default and concerns that Brazil may not pay its debts are raising

borrowing costs for Colombia and most countries in Latin America.

## CUBA

### Cuban Police Guard Coastline Amid Fears Of Another Exodus

Cuban police stepped up patrols along the island's northern coast amid reports that Cuban exiles in Florida were encouraging an exodus similar to the boatlifts of 1980 and 1994. In 1980, about 125,000 Cubans made the trip, including many Cuba President Fidel Castro released from jails and psychiatric hospitals. The 1994 boatlift brought about 37,000 Cubans to Florida as Castro lifted travel restrictions following ferry hijackings and riots along Havana's seafont. Both the Cuban and US government warned residents not to attempt the illegal, 90-mile trip through the Florida Straits. Castro vowed to bring migrant-trafficking charges against anyone who sails toward the communist nation to retrieve would-be immigrants.

Concerns have increased that a large numbers of Cubans would be inspired to flee to the US by President George W. Bush's recent denunciation of the Castro regime and the distribution of short-wave radios by the US interests section in Havana to enable Cubans to listen to the US government-sponsored anti-Castro "Radio Marti". Brothers to the Rescue, a Florida-based exile group that conducts air patrols over the straights in search of migrants, believes Castro may attempt to flood the US with spies, saboteurs and agitators to

thwart the US' efforts to fight international terrorism.

## ECUADOR

### Naval Barge Spills Fuel Off Galapagos Islands

An Ecuadorian naval barge spilled 2,000 gallons of diesel fuel into waters, off Isabella Island, close to the Galapagos Islands. Although officials from the island put barriers in place to contain the spill, environmental groups plan to monitor the impact of the spill since damage to the archipelago's wildlife would not be immediately apparent. The accident is the second spill off the island since Jan.(2001) when a tanker spilled 160,000 gallons of diesel fuel and 80,000 gallons of bunker fuel into the water off San Cristobal Island. Officials believe the spill killed more than 50% of the 15,000 marine iguanas.

The Pacific Ocean islands, located about 620 miles (1,000 kilometers) off the Ecuadorian coast, have rare flora and fauna and are famous for inspiring Charles Darwin's theory of evolution.

## MEXICO

### Former PEMEX Head Seeks Extradition

Rogelio Montemayor, the former head of state-owned oil company Petroleos Mexicanos (PEMEX), is fighting extradition from the US where he turned himself in to authorities in an effort to avoid extradition. A Mexican federal judge found Montemayor guilty of giving at least Ps\$100mm pesos to the electoral campaign of the Institutional Revolutionary

Party (PRI) in 2000. Montemayor's lawyers are basing their defense on the fact that an extradition requires probable cause that he is guilty. Lawyers said Montemayor is also being pursued for political motives, which prevent him from being extradited. The government claimed that an Jan.(2002) audit of PEMEX's finances revealed former executives had transferred Ps\$1.1bn pesos to the company's union without the approval of the board of directors, of which Energy Minister Ernesto Martens is chairman.

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### **Opposition Links Fox To Fundraiser Group**

Mexico's largest opposition party claims to have proof President Vicente Fox received campaign donations from a fundraising group accused of illegally accepting money from foreign donors. The opposition party plans to present copies of checks written to Fox's party, the National Action Party (PAN), totaling Ps\$20,000 pesos (US\$2,019) from the Friends of Fox organization, the fundraising group that accepted foreign donations, which is prohibited under Mexican law.

Fox and the PAN claim they are not responsible for the actions of private citizens. The Federal Electoral Institute could fine the PAN if the allegations are found to be true. A guilty verdict may hurt Fox and the PAN in Congressional elections slated for Jul.(2002) as Fox is aiming to win a majority in the lower house to help push through his plans to open the energy and

telecommunications industries to competition.

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### **Five PAN Members Killed in Nayarit State**

Five members of Mexico's political party, the PAN, were shot dead in the western coastal state of Nayarit as they were returning from a party gathering. The victims belonged to the same party as President Fox and were killed when unidentified assailants opened fire with automatic rifles on their pickup truck. Police as of yet have no motive for the killings.

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### **Fox To Sign Trade Accord With Brazil**

President Fox and Brazil's President Fernando Henrique Cardoso plan to sign an agreement to lower tariffs on cars and boost trade between the two countries. Fox plans to sign the accord and a preliminary agreement to reduce tariffs for about 800 other products after speaking at a meeting of Brazilian and Mexican business leaders in the Brazilian capital, Brasilia. The agreement is expected to boost trade at a time when investors are avoiding emerging markets and developing countries are raising trade barriers to free trade. Brazilian officials expect trade with Mexico may rise to US\$35bn a year from US\$2.5bn a year due to the new accords.

Under the accord, Mexico and Brazil will each be able to import as many as 200,000 cars with low import tariffs. Brazil exported US\$4.1bn worth of vehicles during 2001 and shipped

US\$630.6mm worth of goods to Mexico during the first four months of 2002 and imported about US\$187.4mm. A broader trade agreement was also signed between the presidents of Argentina, Brazil, Paraguay and Uruguay.

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### **Television Maker Cuts 1,300 Jobs In Juarez, Mexico**

**Scientific-Atlanta Inc.** eliminated 1,300 jobs (16% of its staff) in Mexico due to declining demand for the company's television boxes. The company cut production at its plant in Juarez, Mexico, to lower the workforce to 6,700 workers and may cut more jobs. Officials did not provide details as to the number or location of the potential firings.

## **PERU**

### **Supreme Court Suspends DNA Test For Toledo**

Peru's Supreme Court suspended an order directing President Alejandro Toledo to take a DNA test to settle a paternity lawsuit by a 14-year old girl claiming to be his daughter. The court accepted an appeal presented by Toledo's lawyers and suspended earlier decisions requiring the president to take a DNA test on Aug.7(2002). The paternity suit dates back more than a decade and became an issue during the 2001 elections. Toledo, who claims he is not the girl's father, won court rulings at least twice without taking a DNA test. Toledo agreed to take a DNA test after the elections if a court ordered it.

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## **Standard and Poor's Cuts Peru's Rating Outlook**

The credit agency **Standard and Poor's (S&P)** affirmed its sovereign credit ratings for Peru and reduced the outlook on its long-term ratings to "Stable" from "Positive". The outlook downgrade reflects the agencies lowered expectations for improvements in Peru's political environment. The agency added that continued resistance to reform and divergence among the population's expectations and economic reality could hinder the implementation of economic reforms and dissipate the positive investor sentiment the government enjoyed at the start of 2002. The recent suspension of the privatization of two electricity generation companies is seen by the agency as a major setback as the Toledo administration continues to struggle with the implementation of its reform agenda.

The Congress approved Decentralization Law, which requires all borrowing by regional governments to be approved by the Ministry of Finance, and a continued slowdown in the reform process or weakening of social consensus on Peru's economic model, could weigh negatively on the government's creditworthiness. However, renewed effectiveness in the privatization program and significant progress toward the adoption of tax reforms could restore the prospects for improved sovereign creditworthiness.

The rating agency **Fitch** has maintained its BB- rating on

Peru's foreign currency, while **Moody's** has maintained its Ba3 rating. Both are also three levels below investment grade.

## **VENEZUELA**

### **Government Could Raise Gasoline Prices To Narrow The Budget Deficit**

Venezuela is considering raising retail gasoline prices to help narrow the budget deficit and will phase out cheaper leaded gasoline during the next couple of months. An increase in gas prices in 1989 led to higher transportation prices and triggered rioting that led to hundreds of deaths. The government has fixed the average price for a gallon of gasoline at about Bs\$253 bolivars per gallon (US\$0.19/gallon). When leaded gasoline is phased out, gasoline will average about US\$0.21/gallon. State oil company **Petroleos de Venezuela (PDVSA)** spends about Bs\$954mm bolivars a day (US\$719,457) to subsidize retail gasoline and keep prices low.

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### **Jimmy Carter Begins Talks With Political Leaders In Venezuela**

Former US President Jimmy Carter began talks with political leaders in Venezuela in an effort to ease tensions between President Hugo Chavez and his opponents. Conflicts between supporters and opponents of Chavez have intensified after the failed coup in Apr.(2002), raising concerns that Venezuela may slide into civil war.

## LATAM WEEK AHEAD CALENDAR

### -Monday, July 8, 2002

Argentina: All markets, government offices, banks and most businesses are closed in observance of Independence Day.

Venezuela: Former US President Jimmy Carter is in Venezuela to assist in political talks between opponents/supporters of Venezuelan President Hugo Chavez.

### -Tuesday, July 9, 2002

Argentina: Companies with fiscal years ended Apr.30(2002) have until Jul.7(2002) to report earnings to the Buenos Aires Exchange.

Argentina company meetings:  
**Central Costanera SA;**  
**Empresa Distribuidora Sur SA.**

Venezuela: Former US President Jimmy Carter is in Venezuela to assist in political talks between opponents/supporters of President Chavez.

### -Wednesday, July 10, 2002

Chile company meetings:  
**Madeco SA.**

Venezuela: Former US President Jimmy Carter to leave Venezuela prior to a planned protest march against President Chavez.

### -Thursday, July 11, 2002

Argentina: Companies with quarters ended May.31(2002) have until Jul.12(2002) to report

earnings to the Buenos Aires Exchange.

Venezuela: Protest march of as many as 1.5 million protesters planned on the presidential palace to demand President Chavez's ouster.

### -Friday, July 12, 2002

Peru: Central Bank issues weekly report on international reserves.