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LAPA eWeekly

ARGENTINA

Scotiabank Cuts Lending In Brazil

Bank of Nova Scotia, which was the first bank to abandon business in Argentina after the country defaulted on its US\$95bn in debt and devalued its currency in early-2002, announced it will reduce lending in Brazil. **Scotiabank**, the Argentine unit of Bank of Nova Scotia, announced it would renew about 30% of its Brazilian trade finance contracts as they come due and keep maturities to no more than six months.

Scotiabank has already written off Cn\$707mm (US\$452mm) in Argentina, and investors fear the bank will soon have additional losses attributable to Brazil, where the country's currency and bonds have been declining for the past four months on concerns the next government will default on its obligations.

Scotiabank had US\$3.6bn in loans and other assets in Latin America (LATAM) as of Apr.30.2002. In Brazil, where Scotiabank had US\$323mm in bond holdings, US\$415mm in trade financing and US\$34mm in loans, the bank has joined with rivals in reducing bank lending ahead of the Oct.2002 presidential elections. **Bank of America Corp.**, the third-largest US bank in Brazil, reduced the amount it has at risk to US\$1.99bn during the 1H:02.

Scotiabank also reached an agreement to transfer its 91 branches to two Argentina banks, **Banco Comafi SA** and **Banco Macro SA**. The branch network, which employs about 1,770 workers, has been suspended since Apr.2002. Scotiabank has promised to pay double severance to fired workers in Argentina, which could cost upwards

to US\$13mm if the entire 1,770 employees were to lose their jobs.

International banks with operations in Argentina have lost more than US\$11bn. **Citigroup Inc.**, which has lost some US\$2.2bn in Argentina, plans to remain in the country.

Senate Votes To Extend Ban On Foreclosing On Mortgages

Argentina's Senate voted to extend a ban on foreclosing on mortgages until Nov.2002 and also extended by 60 days a ban on indexing loans and rent payments to inflation. Both bills are already approved in the lower house. Argentina set the prohibitions in Jan.2002 after devaluating the currency.

The Senate also approved a bill that would force international banks that open subsidiaries in Argentina to back deposits with assets from the head office. The bill would not affect banks that already operate in the country. The bill will next go to the lower house for approval.

Argentina Appoints New Superintendent Of Banks

The Argentine Central Bank appointed Rafael Iniesta as the bank superintendent after Felipe Murolo resigned for personal reasons. The superintendent of banks overseas the country's financial system which has been largely left insolvent after the debt default and currency devaluation.

Argentina Appeals Italian Court Ruling

Argentina appealed an Italian court ruling last week the ordered a freeze on Argentine assets to help pay claims by holders of the country's defaulted

bonds. Court officials ordered the Italian government to seize Eur\$2.5mm euros (US\$2.4mm) of bilateral aid earmarked for health care and small businesses in Argentina. The economic minister claimed the freeze was incorrect from a legal stand point.

The freeze, in response to a request by 10 Italian bondholders, is the first by a foreign tribunal. A Rome tribunal ruled in Jul.2002 that the group of bondholders could seize Argentine government assets. Since the ruling on Jul.19.2002, more than 1,000 holders of Argentine bonds in Italy have contacted the group to join legal action. The decision may prompt similar rulings by courts in other countries.

BRAZIL

IMF And US Treasury Decide To Let Large Banks Make Lending Decisions

After pledging US\$30bn to Brazil last week, the International Monetary Fund (IMF) and the US Treasury decided to let banks such as **Citigroup Inc.** and **FleetBoston Financial Corp.** make lending decisions in Brazil. The move concerns investors as they fear the funds pledged by the IMF will not be sufficient to instill confidence in Brazil's ability to make interest payments on its debt and stop a four-month decline in the currency.

The IMF has guaranteed Brazil US\$6bn this year and allowed the central bank to tap US\$10bn more of its reserves to buy its own currency. If Brazil meets the IMF's proposed economic targets for 2003 it will have access to the remaining US\$24bn.

Brazil To Make US\$2bn In Emergency Loans To Exporters

The Brazilian government will make as much as US\$2bn in emergency loans to exporters after banks cut off credit. The loans will be used to help exporters forced to use cash to cover operating costs and forced to scale back

production because they cannot get credit from banks. The loans are also aimed at propping up the currency after a dearth of credit restricted the amount of dollars exporters could sell, fueling a 21% drop in the reais against the US dollar dating back to May.2002. The central bank said lenders transferred US\$1.25bn out of the country for non-residents and multinational companies in Jul.2002, double the amounts they had transferred only a month earlier.

Brazil plans to use US\$1-\$2.5bn in loans recently secured from the Inter-American Development Bank (IDB) to help exporters. Another US\$1bn will come from a renewed credit line set by the state-controlled development bank, Bndes. The move comes as the government attempts to give Brazilian companies the credit needed to continue producing and exporting their products. According to the Brazilian Foreign Trade Association Exporters, Brazilian exporters need US\$3bn in trade-finance loans before YE:02 to ship goods abroad. The financial shortage has delayed exports of commodities such as the country's record soy harvest.

Countries Cooperating To Improve Security Along Border With Colombia

Brazil, Ecuador and Peru all agreed to cooperate to improve security along the border areas each shares with Colombia. Brazil's army moved troops into the area to guard against any spillover from an escalating four-decade long civil war in Colombia. Colombia and Brazil share a border that is more than 1,500 kilometers long.

Last week Brazilian security forces confiscated 790 kilos of explosives intended for Revolutionary Armed Forces of Colombia (FARC) guerrillas who maintain coca plantations and training camps along the border with Brazil. Last week Colombia's President Alvaro Uribe was forced to declare a state of emergency to crack down on mounting rebel violence after taking office on Aug.7.2002.

BOLIVIA

Companies Vying To Export Gas From Bolivia To California

Pacific LNG, a venture including **Repsol YPF SA**, **BP Amoco Plc** and **BG Bolivia Corp.**, will compete with rivals to send natural gas from Bolivia to California. **Sempre Energy**, which plans to begin distributing the gas in 2006, has initiated talks with **Royal Dutch Petroleum Co.**, **ChevronTexaco Corp.** and **Marathon Oil Corp.**

The project – which includes extracting gas from fields in Bolivia, liquefying it, later shipping it to Mexico, re-gasifying it and then piping it to California – is expected to cost between US\$5-\$8bn. The Bolivian government was to choose the site for the port, in Chile or Peru, where Pacific LNG will build a liquefaction plant, by Aug.8.2002. However, the recent change of government in Bolivia prompted the country to request an extension from Sempra.

CHILE

Bus Companies Go On Strike

A Chilean bus strike against government plans to reduce the number of transport companies in Santiago caused traffic jams and stranded millions in the capital city. Police arrested 700 drivers and towed buses that blocked intersections and choked traffic on some highways leading out of Santiago. Governmental officials claim many of the buses are empty for the better part of the day and cover overlapping routes and mainly clog city streets.

Bus owners are protesting government plans to turn over control of routes to a small number of companies in hopes of increasing travel time and reducing smog in Santiago, where 33% of Chile's 15 million people reside. Bus companies were also protesting the

government's plans to increase fares from the C\$300 pesos (US\$0.43) buses now charge for local routes. The government, which wants many of the 3,800 independent bus companies to merge, said it plans to take legal action against the strikers. Over 6,000 buses participated in the strike.

MEXICO

Finance Minister Increases Growth Forecast For 2003

Mexico's Finance Minister increased his forecast for growth in 2003 to 4.5% from 3.5% on optimism the US economic recovery would gain momentum. In its five-year financial plan released during 1H:02, the Mexican government stated that it expected the Mexican economy to grow 4.9% in 2003 if the opposition-controlled congress backed President Vicente Fox's proposals to streamline labor laws and open the energy sector to more private investment. Otherwise, without congress' backing the finance minister stated he expected the economy to grow only at a rate of 3.5%.

Mexico, which emerged from an 18-month recession during 2Q:02, is counting on continued expansion in the US to help reach growth expectations. Mexico sends about 85% of its exports to the US, accounting for about 25% of the country's economy.

Mexican President Fox Refuses US President Bush's Invitation To Visit His Ranch In Texas

President Fox refused an invitation by US President George W. Bush to visit his ranch in Texas and to visit four other Texas cities, scheduled for Aug. 26-28.2002. Fox turned down the invitation to protest Texas' execution of convicted police killer Javier Suarez Medina. Fox argued Medina was a Mexican national while Texas officials stated they were uncertain of which side of the border Suarez was born. Fox and Mexican lawmakers issuing last-minute appeals

for clemency while the prisoner's relatives and friends praying for his life in the Mexican border town of Piedras Negras.

Officials from Bush's administration did not believe the decision would harm relations between the two countries as there was no specific policy agenda for the meeting. The rejection of Bush's invitation is an embarrassment to his administration as an offer to visit the Texas ranch is seen as a highly coveted diplomatic gesture. Russian President Vladimir Putin is among the world leaders Bush has hosted there.

Bush has made relations with Fox and Mexico the centerpiece of his foreign policy, a move that has the potential to help him win critical Hispanic votes. However, Bush is a strong supporter of the death penalty and the case has strained relations between Mexico and the US.

PARAGUAY

Paraguay Gets Loans From The IMF

Paraguay will get US\$200mm in loans from the IMF, in the fund's latest effort to contain a financial crisis that has engulfed the Southern Cone economies of Argentina, Brazil and Uruguay. The loan, which is expected to be approved in coming weeks, comes seven days after the IMF pledged US\$30bn to Brazil and joined with the World Bank in offering Uruguay US\$1.1bn. If approved, the loan would be the first Paraguay has had with the IMF since the 1960s.

Assistance from the IMF will likely open the door for additional World Bank funding as the lender plans to provide US\$50mm to Paraguay during the 2H:02 to improve bank regulation. In return for the IMF funding, Paraguay has agreed to eliminate its budget deficit by YE:03, offer an emergency financial law to strengthen the government's ability to deal with problem banks, and limit lending by a state-owned development bank. Scheduled elections in 2003 will make it hard for Paraguay

to control spending. However, IMF officials said the loan was justified because of the strong measures adopted by the Paraguayan government.

The loan for Paraguay, whose economy is 1.1% the size of Brazil's, underscores the difficulties facing LATAM. Argentina defaulted in Dec.2001, and the IMF expects its economy to shrink 20% by YE:02. Brazil's benchmark bond has already erased the gains that followed last week's US\$30bn loan pledge as investors remain concerned the country will default. Uruguay got a second augmentation of its loan program, and Ecuador and Colombia have been trying to secure new IMF funding.

PERU

Former President Fujimori Wants To Run For The Presidency In 2006

Peru's former President Alberto Fujimori wants to enter as a candidate in Peru's 2006 presidential elections. Fujimori, who resides in exile in Japan and faces indictment in Peru for his role in a military operation that left 25 people dead, announced he would return to politics once Peruvians acknowledged his innocence.

Fujimori, who ruled as president from 1996-2000, moved to Japan after resigning amid a bribery scandal. Peruvians are still trying to get Japanese officials to return him to Peru to face accusations of corruption and human rights crimes. Fujimori announced he was a Japanese citizen during an official visit to Tokyo, shortly after quitting the presidency.

VENEZUELA

Value Added Tax Rate Increased To 16% From 14.5%

Venezuela's National Assembly approved an increase in the Value Added Tax (VAT) rate to 16% from 14.5%. The higher rate, which goes into effect on Sep.1.2002 is expected to

generate an additional Bs\$236bn bolivars in governmental revenues this year. Total tax collections for 2002 are estimated at Bs\$9.6tn.

Critics say Venezuela's problem isn't insufficient taxes but an inability to collect them. The government last year launched a nationwide effort to increase collections. However, VAT collections have been for the most part challenging, given that more than 50% of Venezuela's workers operate in the informal economy, which includes a large number of street-side vendors who do not show up on government ledgers.

Announcement Of Companies Selected To Develop Deltana Expected This Week

This week Venezuela will likely announce which foreign firms will develop five offshore natural gas blocks located in the northeastern Deltana Platform located on the maritime border with gas-rich Trinidad and Tobago. At least 10 companies have expressed interest in the blocks, including **British Gas, BP, TotalFinaElf, ExxonMobil, ChevronTexaco, El Paso Corp., Statoil, ENI and Anglo-Dutch Royal Dutch/Shell Group.**

President Hugo Chavez stated that Chinese firms had also expressed interest in Deltana. The selected firms will develop the blocks with state oil firm **Petroleos de Venezuela (PDVSA)**, with larger tracts going to multiple firms. Venezuela launched the offshore natural gas program with hopes that it would lead to exports of liquefied natural gas (LNG) by 2007 and diversify its oil-dependent economy. Crude and product sales currently account for about 80% of the country's export revenues. Most of the Deltana gas will be sent to a planned 4.7 million tonne per year LNG export terminal in the northeast. Foreign firms say investment in Deltana will be determined by the amount of natural gas discovered.

Former President Carlos Perez Predicts Another Coup And More Bloodshed

Former Venezuelan President Carlos Perez was quoted as saying "[he did not] support violent action, but [was] convinced that Chavez [would] only leave through violence. Perez further stated that "unfortunately, there is going to be a coup, and there will be bloodshed," as he talked to reporters in the Dominican Republic, where he lives part of the time. Perez said he had no hope of a negotiated solution in Venezuela, saying the situation there had reached such an extreme that there was no way out except for "the presence of the military in power." Perez, who ruled Venezuela from 1974-79 and 1989-1993, said it was sad that he should say this when he had fought to distance the army from the presidency.

Populist leader Chavez, who tried to topple Perez in an unsuccessful military coup in 1992, faces criticism from opponents that his reforms have widened the divide between classes and edged the nation into recession. Further, nine people were shot and wounded last week in Caracas after the Supreme Court rejected a preliminary proposal to put on trial four military officers accused in connection with the Apr.2002 coup in which more than 60 people died.

LATAM WEEK AHEAD CALENDAR

-Monday, August 19, 2002

Argentina: Financial and money markets, schools and state offices will be closed in observance of the death of General San Martin.

Chile earnings expected: **Distribucion y Servicio D&S SA.**

Colombia: Financial and money markets, schools and state offices will be closed in observance of Virgin Mary's day.

-Tuesday, August 20, 2002

Colombia: DANE, the official statistics agency will release import and trade balance data for Jun.2002.

-Wednesday, August 21, 2002

Brazil: Brazil's Monetary Policy Committee or Copom, will meet to release Selic target interest rates.

-Thursday, August 22, 2002

Argentina: Government releases data on industrial production for Jul.2002.

-Friday, August 23, 2002

Peru: Central Bank issues its weekly report on international reserves as of Aug.20.2002.

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