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LAPA eWeekly

ARGENTINA

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Argentina To Eliminate Ban On Lending By Banks

Argentina will eliminate a ban on lending by banks that received discount loans from the central bank. The central bank's board voted to terminate the ban and will publicize the pronouncement this week. The change was provoked by a request from state-owned **Banco de la Ciudad de Buenos Aires**, which sought to lend Ps\$25mm Argentine pesos (US\$6.9mm) to small/medium-sized businesses while maintaining its debt with the central bank. The change will apply to all banks that have received discount loans, including **BBA Banco Frances SA**, which owes the central bank Ps\$1.4bn, **Banco de Galicia de Buenos Aires SA**, which owes Ps\$4.6bn and **HSBC Bank Argentina SA**, which owes Ps\$295mm.

Argentina To Stop Accepting Government Bonds As Tax Payments

Argentina will stop accepting government bonds as tax payments after the Treasury ran out of pesos to transfer funds to the country's provinces. The amount of bonds received for taxes nearly tripled in Aug.2002 to Ps\$663mm (US\$182mm) compared to Jun.2002. As a result of the increase, the federal government's monthly tax transfer to provinces fell Ps\$250mm short of a budgeted Ps\$1.2bn. The government will continue to accept provincial scrip, such as the Buenos Aires patacon, as taxes. Companies have been able to pay taxes this year with about Ps\$5bn worth of Treasury bills and another Ps\$3bn of other local bonds.

Service Companies Flocking To Argentina

International service companies, from Internet providers to software developers and film producers, are moving to Argentina to take advantage of lower costs. The expansion contrasts with much of the economy, which is expected to contract as much as 20% in 2002.

Still, Argentina's cost advantages may be eroded by rising prices. Consumer prices rose 5% in the first seven months of 2002. Telephone, electricity and other utilities, whose rates have been frozen by the government, are pressing for increases, since many of their costs are in dollars.

Foreign employers can also take advantage of one of the world's most modern communications infrastructures. After Argentina began selling state assets in the 1990s, companies including **France Telecom**, **AT&T Corp.** and **BellSouth Corp.**, spent US\$25bn building networks.

BRAZIL

Brazil Received Formal Approval For Its US\$30bn Loan From The IMF

Brazil received formal approval for its US\$30bn loan from the **International Monetary Fund (IMF)**, ratifying international support that has helped stave off the collapse of the economy. Some US\$3bn of the loan package, the largest in the IMF's 56-year history, will be made available instantly. IMF's support may allow Brazil to keep its economy afloat amid fears by investors that two of the three candidates in this year's presidential election plan to boost spending, rising the risk of default. The IMF aid provides credit to Brazil at less

than market rates at a time when the country is having difficulty tapping private sources. The credit also gives Brazil's central bank more resources to increase the value of the Brazilian reais through purchases.

CHILE

Chile To Sell Bonds In 2003

Chile will sell bonds at home or abroad in 2003 to help close a budget deficit. The government may sell at least US\$500mm of debt abroad, said Pablo Lorenzini, head of the finance commission of Chile's Lower House. Chile needs to sell the bonds as tax revenues lag spending, primarily as a result of low copper prices, the country's top export, and a slower economy. Chile sold US\$867mm of bonds abroad in Apr.2002. Growth in Chile's US\$69bn economy may slow in 2002 to 2.5% compared to 2.8% in 2001. Chile's foreign debt has an "A-" rating from Standard & Poor's, the highest rating of any country in Latin America.

COLOMBIA

The World Bank May Loan Colombia Up To \$4bn Over The Next Four Years

The **World Bank (WB)** may loan Colombia up to US\$4bn over the next four years to support President Alvaro Uribe's economic proposals. The bank expressed approval of Uribe's plans to cut government spending and reform the country's labor and pension laws. Uribe has said he will seek loans to help fund his programs. The WB and Colombia will agree to the terms of the release of money by the end of Sep.2002. Of which the amounts could be between US\$800mm-US\$1bn per year.

Banking Regulator Upholds The Right Of The Son Of A Jailed Drug Trafficker To Have A Pension

Colombia's banking regulator upheld the right of Humberto Rodriguez -- the son of jailed Cali drug trafficker and cartel chief Gilberto Rodriguez -- to have a pension and confirmed a fine against Porvenir SA for refusing his contributions. The regulator said trying to keep drug money out of the financial system did not justify violating someone's constitutional right to a pension. The confirmation of a Ps\$50mm Colombian peso (US\$18,500) fine it levied against the largest pension fund has prompted concern and confusion among financial institutions. Provenir justified its action by arguing that businesses that conduct transactions with the 500 companies on the so-called "Clinton List" of businesses linked to drug funding may have their accounts frozen in the US.

MEXICO

President Fox May Gain The Votes Needed in Congress To Pass His Bills

Mexican President Vicente Fox may gain the votes needed in Congress to pass bills by forming an alliance with a portion of the largest opposition party. An agreement with right-leaning members of the **Institutional Revolutionary Party (PRI)**, would allow Fox's **National Action Party (PAN)** to approve bills on energy, labor and taxes that Fox says the country needs to expand the economy. The Foreign Relations Minister Jorge Castaneda met with Esther Gordilla, the No. 2 person at the PRI, to discuss ways for Fox to work better with the Congress. Congress has blocked Fox's tax proposals, kept him from making a trip to the US and Canada and is threatening to vote down constitutional amendments to open the electricity sector to more competition.

Santander Central Hispano SA Plans To Merge Its Two Mexican Banks

Santander Central Hispano SA plans to merge its two Mexican banks, following a similar move in Chile, as

LATAM's largest lender cuts costs in a region where plunging currencies are undermining profit growth. **Grupo Financiero Serfin SA**, Mexico's third-biggest bank, and **Banco Santander Mexicano SA**, which together have US\$25bn in assets, will be combined by YE:02 and led by Santander Mexicano Managing Director Marcos Martinez. Spain-based Santander plans to cut 8,000 jobs among its banks in 11 LATAM countries in 2002. Santander's profit is being crimped by slowing economic growth and declining currencies in Argentina and Brazil.

The planned merger follows Santander's recent decision to combine its two Chilean banks to create that country's largest bank, **Banco Santander Chile**, with a 27% market share. That merger will save 15% annually of what it cost to acquire the banks over the next couple of years. **Santander Serfin** will be adopted as a brand name for the enlarged bank. Serfin and Santander Mexicano together have 12% of the Mexican loan market and 16% of deposits. The banks will fuse their businesses and computer systems by Dec.31.2002 and boost branches to more than 1,000 during an unspecified time period.

Starbucks Expanding Into Latin America

Starbucks Corp. plans to open at least 100 coffee shops in Mexico over the next five years as the largest US specialty coffee retailer begins its expansion into LATAM. Starbucks, a joint venture with Mexico's **Alsea SA**, opened its first shops in Mexico City last week and plans as many as 15 more throughout Mexico over the next 12-18 months. Starbucks also opened its first store in Puerto Rico this week, while studying the possibility of expanding into Argentina, Brazil, Chile, Colombia, Peru and Venezuela.

PERU

Government Orders Striking Iron Workers To Return To Work

Peru ordered 780 striking workers at the country's only iron miner, China-owned Shougang Hierro Peru SAA, to return to work as their stoppage has cut production. A resolution signed by President Alejandro Toledo said mining work must resume immediately. Workers and management were given three days to settle a wage dispute before becoming subject to binding arbitration. The company has failed to produce about 209,000 long tons of iron concentrates since the strike started on Aug.20.2002 as operations were halted.

Shougang Hierro, which is owned by China's Shougang Corp., operates the Marcona mine, 240 miles southeast of the capital, Lima. The striking iron workers joined a demonstration by striking Telefonica del Peru SA workers across from the government palace seeking support to their labor demands. Shougang Hierro employs 1,350 workers in Peru.

THE AMERICAS

Bush Trying To Win United Nations Support To Overthrow Saddam Hussein

Senate Majority Leader Tom Daschle said President George W. Bush should win United Nations (UN) support for overthrowing Iraqi President Saddam Hussein before Congress is asked to approve US military action to do so. Daschle put himself among a large group of senators from both parties who would not vote to support military action without new intelligence information that justifies a pre-emptive US attack. Bush has called for the removal of Hussein and the disarmament of Iraq. Bush will speak to the UN General Assembly on Sep.12.2002, the day after the anniversary of the terrorist attacks in

New York, Washington and Pennsylvania.

Congressional leaders of both parties invoked the approach of Bush's father, former President George H.W. Bush, in building an international coalition for the 1991 war that ejected Iraqi forces from Kuwait. Republican senators have begun drafting a resolution to authorize military action, using the 1991 Persian Gulf War legislation as a model. Bush administration officials say Iraq acquired chemical and biological weapons in the four years since UN weapons inspectors left and has been attempting to develop a nuclear bomb. The US does not know whether Iraq has succeeded in acquiring a nuclear bomb or not.

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