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# LAPA eWeekly

## ARGENTINA

### Argentina Says It Does Not Have Sufficient Funds To Comply With Recent Court Orders

The Argentine government declared that it does not have sufficient funds to comply with orders by two separate judges regarding cuts made more than a year ago in public employees' wages and pensions. The government plans to appeal the rulings and issue a decree returning wages and pensions to their previous levels beginning Jan.1.2002. Retroactive pay will be made in the form of government bonds and not in cash as the two judges had ordered. Complying with the orders may force the government to print money, further weakening the currency.

Former Argentine President Fernando de la Rúa decreed the salary reduction in Jul.2001 to reduce the country's budget deficit as the government tried to continue servicing payments on its debt obligations.

Another ruling by a federal social security court ordered the reimbursement of 540,000 pensioners and gave the government 90 days to make the retroactive payments in cash. In another ruling issued by a labor court judge, the government was ordered to reinstate wages to employees of the federal government immediately, as the judge stated that holding wages necessary for survival was unjustified. The ruling affects 16 unions that incorporate about 90% of Argentina's 250,000 state workers.

### Regulators And Police Raid Offices Suspected Of Illegal Money Transactions

Argentina's central bank said regulators and police will raid the offices suspected of illegal money transactions in an effort to boost the local currency and to maintain foreign reserves at their current level.

The bank took out ads in Argentina's main newspapers announcing plans for the raids and highlighting the maximum penalties for currency violations - eight years in prison and a fine equal to ten times the transaction. Money will be seized from everyone found in an area where illegal transactions take place.

The announcement came as bankers and brokers criticized new restrictions on the purchase of foreign currency saying the regulations will cause an increase in black market activity and may further isolate Argentina from international credit markets, reducing the country's ability to revive its weakened economy.

### Carlos Menem Cleared Of Charges He Organized Illegal Arms Sales In The 1990s

A federal judge in Argentina cleared former President Carlos Menem of charges he organized illegal arms sales to Ecuador in the 1990s. This marks the second time in less than a year that a complaint against Menem has been thrown out. Menem, who was president of Argentina from 1989-99, spent five months under house arrest in 2001 before the Supreme Court set aside similar charges. Menem has repeatedly denied any wrongdoing.

Accusations of corruption have hurt Menem as he runs for a third presidential term in Mar.2003. Menem has been credited with selling state companies and opening the economy to trade while critics say he fostered corruption and failed to control government spending, which led to

Argentina's Dec.2001 default on debt obligations of US\$95bn.

## CHILE

### Central Bank Reduces Its 2002 Economic Growth Forecast

The Chilean central bank reduced its 2002 economic growth forecast due to lower demand for exports. The bank cut its growth forecast to 2-2.5% compared to a prior forecast of 3%. The bank's growth forecast for 2003 has been reduced to 3.5-4.5% compared to a prior growth forecast of 5.8%. Chile's economy grew 2.8% in 2001.

Chile's growth will outpace the Latin American (LATAM) and Caribbean regions, which are expected to expand on average 1% in 2002, excluding Argentina's shrinking economy. The bank now estimates inflation will accelerate to an annual 3.1% in Dec.2002, compared to its prior forecast of 2.7%, as fuel prices rise and the currency continues to weaken.

Chile reduced its growth forecast after demand for commodities – primarily copper -- failed to rebound and as a 9.4% jobless rate has led many consumers to reduce spending. The slowdown has reduced business for manufacturers, which account for almost 16% of the country's gross domestic product (GDP) of US\$69bn.

## COLOMBIA

### Finance Committee Approves Government's Proposed 2003 Budget

Colombia's congressional finance committee approved the government's proposed 2003 budget, leaving it to further congressional action to determine how the Ps\$67.2tn Colombian pesos (US\$24.5bn) will be spent. The spending plan marks a 6.8% increase over the 2002 budget. As much as Ps\$5.4tn of the plan would be difficult to finance and would require a mix of increased lending from abroad, spending cuts in other areas and revenue

generated from a new tax bill. The budget proposal originally was made by former President Andres Pastrana days before he left office and has been modified by the current administration.

President Alvaro Uribe is seeking to contain deficit spending while boosting spending on the poor and expanding the armed forces. Uribe plans to seek more foreign military assistance and lending as Colombia's external borrowing costs rise on concerns Brazil may default and as investors are wary of emerging markets due to a worldwide slowdown.

The proposal calls for raising Ps\$61.6tn through tax revenue, loans and other sources, while state agencies such as the oil company will provide Ps\$4.1tn. The remaining Ps\$1.5tn in proposed spending would have to come from other unspecified sources, although the government is seeking to raise the amount in part through new taxes now being negotiated with political leaders.

Debt servicing will cost Ps\$25.7tn (Ps\$11.7tn and Ps\$14tn for foreign and domestic debt, respectively) while the armed forces budget would total Ps\$9.5tn.

### Bavaria Receives US\$218mm Loan From The International Finance Corporation

Colombia's **Grupo Empresarial Bavaria**, owner of LATAM's fourth-largest brewer, will receive a loan of US\$218mm from the **International Finance Corp. (IFC)** and a number of private banks, to help the company modernize and expand abroad.

The loan is the second part of a US\$318mm credit first announced in Jun.2002 when the IFC, a division of the **World Bank**, said it was helping the company with its US\$1bn expansion plan. **J.P. Morgan Chase & Company** and **Citigroup Inc.** and **ABN Amro Bank NV** will oversee the bulk of the loan.

Bavaria, which controls more than 90% of Colombia's US\$1.1bn annual beer market, is seeking to expand abroad and introduce products after a 30% decline in domestic beer sales since 1996. Bavaria recently completed the sale of Ps\$370bn (US\$137mm) in bonds. Proceeds from the offering will be used to fund the company's expansion abroad, which of recent has included acquisitions in Peru, Ecuador and Panama.

## ECUADOR

### The Andean Development Corp. Approves US\$100mm Loan To Ecuador

The Andean Development Corp., a regional development bank, approved an US\$100mm loan to Ecuador that will help the country cover its 2002 spending. Funds will be used to finance public transportation, health and education programs.

### Election Races Heats Up

Alvaro Noboa will likely be one of the two presidential hopefuls to advance to a runoff next month, as the latest poll by Informe Confidential showed no candidate had enough support to win the election outright. Noboa, who narrowly lost the presidential election four years ago, has a 10-point lead in the race for the Oct.20.2002 balloting, followed by former President Rodrigo Borja.

Ecuador will elect a new president to replace Gustavo Noboa, who took over after a coup ousted former President Jamil Mahuad in Jan.2000. Mahuad was ousted in a bloodless coup by the armed forces and Indian groups after weeks of strikes and protests provoked in part by surging inflation and high employment. His vice president, Gustavo Noboa (unrelated to Alvaro Noboa), became Ecuador's sixth president in four years. Ecuador eventually emerged from its worse recession in seven decades after abandoning its former currency, the sucre.

The poll found 23% of potential voters backed Alvaro Noboa compared to 25% at the end of Aug.2002. Borja was in second place with 13%, followed by Lucia Gutierrez, a former army colonel and a leader of the 2000 coup, with 11% and then by Leo Roldos, a socialist with strong links to the business community in the port city of Guayaquil, with 9%. Xavier Nierra of the center-right Social Christian Party, Ecuador's strongest party over the last 15 years, was in a distant fifth place with 8%.

If no candidate wins more than 51% of the vote or at least 40% with a 10% lead over the nearest rival, a runoff will be held on Nov.24.2002 between the top presidential contenders. The inauguration is slated for Jan.15.2003. The electoral tribunal limited campaigning to six weeks prior to the first round and set a spending limit of US\$1mm. Campaigning officially ends on Oct.17.2002.

## MEXICO

### Mexican Steelmakers Benefit From Increased Sales And Higher Prices

Mexican steelmakers have benefited from increased sales and higher prices since the US imposed tariffs five months ago to protect domestic producers from foreign competitors. Revenues of Mexican steelmakers have also been boosted by rising local demand and higher US prices, which they use as a benchmark. US President George W. Bush announced the tariffs in Mar.2002 to shield US steelmakers after 23 companies went bankrupt over the course of the past four years.

Because Mexico is a partner in the 1994 **North American Free Trade Agreement (NAFTA)**, sales to the US by steelmakers such as **Hylsamex SA** and **Grupo IMSA SA** are not affected by import tariffs of as much as 30%. Companies that last year were struggling to pay debt now face less competition in the US and Mexico, their two main markets.

Mexico followed the US by introducing tariffs of 25-35% on most steel imports from countries with which it does not have free-trade agreements, including Brazil and other LATAM countries. The tariffs helped put an end to imports of cheap steel that flooded Mexico last year, causing prices to drop and local steelmakers to cut production 15% to 13.3 million tons in 2001 compared to 15.6 million tons in 2000.

### Fox Urges US To Refocus On Foreign Policy Issues

Mexico's President Vicente Fox said the US should begin dealing with foreign policy issues set aside after the Sep.11.2001 terrorist attacks, including its relations with Mexico. Fox urged President Bush to remember his promise to work with Mexico on issues including immigration, adding that the issues include the status of over 3 million undocumented Mexicans in the US. Fox has embraced the fact that about 300,000 Mexicans enter the US illegally for work each year and has praised Mexican migrants for contributing to the economic strength of both countries.

### Finance Minister Tells Congress They Must Approve Ways To Boost Tax Collections

Mexican Finance Minister Francisco Gil Diaz told members of Congress they must approve ways to boost tax collections to ensure growth and avoid increasing the country's US\$150bn debt. Gil Diaz also asked parties to consider measures that will allow more private investment, such as deregulation of the energy and telecommunications industries. He added that unless Congress approves the changes, the government would no be able to increase spending on social programs.

Mexico may be forced to cut spending in 2003 as rising tensions in the legislature prevent the passage of laws Fox says are considered necessary to achieve sustained growth. Fox's failure

to raise taxes and open the energy industry to more private investment has forced him to depend on state-asset sales and oil revenue to construct homes, schools and hospitals and to expand social programs. Most of Fox's proposals in 2001 to increase taxes were rejected by the opposition-controlled congress.

Tax and royalty contributions from state oil monopoly **Petroleos Mexicanos (PEMEX)** accounted for almost 33% of the government's revenue in the first seven months of the year, while the sale of assets such as insurer **Aseguradora Hidalgo SA** are expected to add Ps\$38.5bn Mexican pesos (US\$3.9bn) this year.

Fox may send Congress a 2003 budget that is Ps\$40bn smaller than this year's Ps\$1.46tn spending plan as the government runs out of state assets to sell. The government will present the 2003 budget - which must be approved by Dec.31.2002 - to Congress by Oct.15.2002. Mexico needs to boost its tax collections to make the economy less vulnerable to oil-price swings and needs to further deregulate the electricity and telecommunications industries to attract more foreign investment.

## PERU

### World Bank To Lend Money To Peru For Water Management Projects And To Fight Poverty

Peru received a US\$50mm loan from the World Bank for water management projects and may get an additional US\$100mm to fight poverty. The 14-year loan carries an 8-year grace period and will be disbursed over the next six years. The interest rate on the loan is variable and is 0.3% above the London Interbank Offered Rate (LIBOR). Peruvian President Alejandro Toledo, who this week traveled to the US, signed a separate US\$150mm loan accord with the Inter-American Development Bank (IADB) just last week.

### **Telefonica del Peru Ordered To Rehire 480 Workers Fired In Jun.2002**

**Telefonica del Peru SA**, a unit of Spain's **Telefonica SA**, was ordered by a Peruvian court to rehire 480 workers the company fired in Jun.2002 to cut payroll and stay competitive. Peru's Constitutional Tribunal ruled on a complaint by the worker's union that Telefonica del Peru must give the released workers their jobs back and refrain from unjustified dismissals in the future, saying the firings were unconstitutional. A spokesperson for Telefonica del Peru's workers union said its members plan to meet to decide whether to end a strike -- that began on Jul.17.2002 -- by 650 workers who were demanding their colleagues be rehired or wait for them to be reinstated. Telefonica del Peru said in a statement it regretted the court's decision.

The seven-member tribunal, Peru's highest court for constitutional issues, said the complaint was presented in 2001 when workers were concerned about threats of future firings. Telefonica del Peru said that all employees laid off in Jun.2002 received compensation that exceeded legal requirements. Peru's Labor Minister said the firings breached a company agreement with workers and imposed a fine of about US\$17,000, although he said he could not order the workers rehired.

## **VENEZUELA**

### **Police Investigating A Firebomb Attack On Promar Television Station**

Venezuelan police are investigating a firebomb attack on a television station in Barquisimeto, the third attack against the media company in as many months. Four gasoline bombs hit the **Promar Television** station, causing minor damage and no injuries. The attack coincides with a mission by representatives from the United Nations,

the Organization of American States, and the Carter Center, who are in Venezuela to mediate the political dispute that led to the 2-day ouster of President Hugo Chavez in Apr.2002.

Venezuela's opposition has repeatedly charged Chavez and his followers with trying to intimidate the press, charges they deny. Chavez and his supporters contend the Venezuelan news media are biased against him.

The last attack on a television station occurred Jul.9.2002 when a grenade was tossed against the **Globovision** headquarters. That attack coincided with the visit of former US President Jimmy Carter.

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### **Ali Rodriguez Says No Need To Increase Oil Production**

Ali Rodriguez, the president of **Petroleos de Venezuela (PDVSA)** said the **Organization of Petroleum Exporting Countries (OPEC)** does not need to increase oil production, claiming there was sufficient supply in the world markets. Rodriguez's comments mirror those of other top Venezuelan oil officials. OPEC will decide at the Sep.19.2002 meeting in Osaka, Japan whether a 46% rise in its benchmark oil index since the beginning of 2002 warrants an increase in production. OPEC cut production four times in 2001 to the lowest levels in 11 years as it tried to keep prices within its US\$22-US\$28 a barrel target range.

## **LATAM WEEK AHEAD CALENDAR**

Monday, September 16, 2002

Brazil: Central Bank's monetary policy director and the president of the Industry Confederation will give a press conference at the Brazilian Association of Textiles about the economic scenario.

Mexico: Holiday - Independence Day

Tuesday, September 17, 2002

Argentina: Government to release preliminary industrial production figures for Aug.2002.

Wednesday, September 18, 2002

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

Thursday, September 19, 2002

Chile: Holiday - Armed Forces Day

Friday, September 20, 2002

Peru: Central bank issues weekly report on international reserves.

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