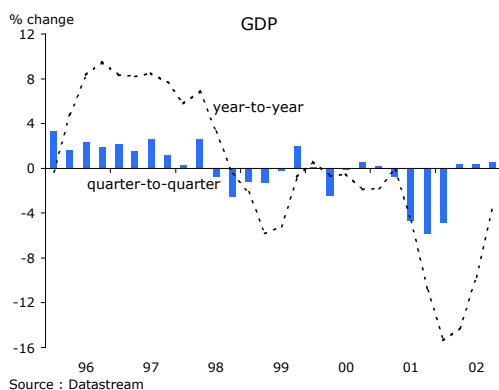


# Country Update: Argentina

## Gradual economic recovery



## Peso strengthens after sharp decline following the break in the peg



- The economy appears to be bottoming, after having declined by nearly 11% in 2002 and recording negative growth in the preceding three years. The government has forecast real GDP growth of around 4.2% for 2003. Our projections are more subdued, with growth closer to 3¼% reflecting the risks ahead that could threaten the recovery. These include uncertainty over future macroeconomic policies under new political leadership (presidential elections are due on 27 April), ability to meet conditions set by the IMF to ensure continued assistance, and concerns over the fragile banking sector.
- Factional disputes have seriously undermined the Peronist party and have resulted in three presidential candidates being fielded along with several other candidates for opposition parties. With no clear frontrunner, a second-round vote is expected on 18 May. The new president is to take office on 25 May.
- In January, the IMF approved a US\$6.8 bn credit arrangement for Argentina through to August 2003. This move was based on the premise that a multi-year IMF arrangement will be negotiated with the new government.
- The Supreme Court's ruling in March on the lawsuit from San Luis province against state-run Banco de la Nacion, effectively overturning the decree that ordered dollar deposits to be converted into pesos, has heightened uncertainty over the impact on the already-weak banking sector.
- The peso's decline last year has significantly lifted export competitiveness. A sustained strengthening would, however, erode some of these benefits. Currency controls have gradually been relaxed and this has helped to limit the pace of appreciation.

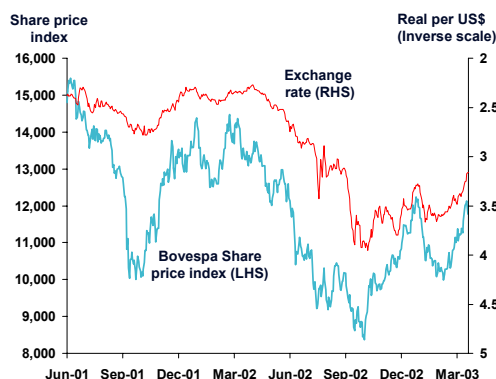
## Economic data and debt statistics

Argentina	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	8.1	3.8	-3.4	-0.8	-4.4	-10.8	3.3	4.2
Inflation (yr av, %)	0.5	0.9	-1.2	-0.9	-1.1	25.9	20.5	8.7
Budget Balance (% of GDP)	-1.5	-1.4	-1.7	-2.4	-3.2	-1.3	-0.9	
Current Account (% of GDP)	-4.2	-4.9	-4.2	-3.1	-1.7	7.3	8.4	
External Debt (US\$ bn)	128.4	141.5	145.3	146.2	145.0	134.5	102.9	
Ext Debt/GDP Ratio (%)	43.8	47.3	51.2	51.4	53.9	124.3	87.6	
Ext Debt/Exports Ratio (%)	352.2	379.4	426.6	378.0	396.0	431.1	307.7	
Short term debt/Reserves (%)	143.3	125.1	112.0	112.6	163.9	158.8		
Debt Service Ratio (Paid) (%)	50.0	57.6	75.4	70.7	76.2	76.4		
Debt Service Ratio (Due) (%)	50.0	57.6	75.4	70.7	76.2	153.5	55.7	
Foreign Exchange Reserves (US\$ bn)	22.3	24.8	26.3	25.1	14.6	10.5		
Import Cover (months)	7.2	7.7	9.6	9.2	6.3	9.3		

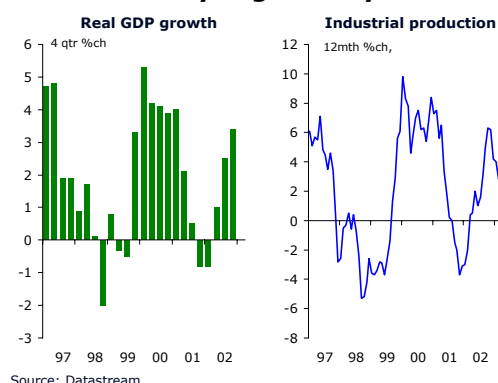
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Brazil

## Share prices and the real have recovered some of their losses



## The economy is gradually recovering



Source: Datastream

- After selling off before the presidential election last October, markets have subsequently reacted very favourably as the new government has shown itself to be much more moderate than expected. The currency and the Bovespa index have recovered 24% and 38% respectively since their lows last year.
- The budget recorded a primary surplus (ie excluding interest payments) of 4.1% of GDP in 2002. In February the government (to the consternation of its own radical faction) raised the 2003 target to 4.25%, higher than the 3.75% agreed with the IMF. In March, the IMF gave Brazil a favourable report in its second review of the current US\$30 bn credit line.
- Last year's currency depreciation is passing through to prices, and with 2002 year-end inflation at 12.5%, the inflation target was missed for the second consecutive year. Interest rates have been raised sharply. The latest increase in the benchmark Selic rate was in February, to 26.5%. Recognising that the inflation target of 4% is not achievable this year, an "inflation guideline" of 8.5% has been announced.
- Thanks to earlier currency depreciation, exports were very strong late in 2002, producing a significant fall in the current account deficit to 1.4% of GDP.
- The economy has shown some resilience, growing by 1.5% last year, led by the export sector. Further recovery will be hampered by the sustained high interest rates. ANZ expects 2.5% growth this year.

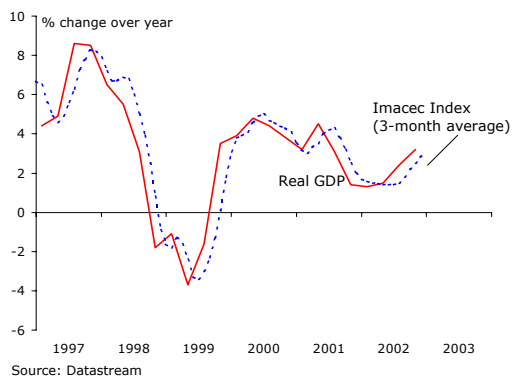
## Economic data and debt statistics

Brazil	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	3.3	0.2	0.8	4.5	1.4	1.5	2.5	2.7
Inflation (yr av, %)	6.9	3.2	4.9	7.0	6.8	8.4	16.5	8.4
Budget Balance (% of GDP)	-6.1	-7.9	-10.0	-3.3	-2.3	-6.3	-6.0	
Current Account (% of GDP)	-3.8	-4.3	-4.7	-4.1	-4.6	-1.4	-2.1	
External Debt (US\$ bn)	198	241	244	238	226	200	196	
Ext Debt/GDP Ratio (%)	24.5	30.6	45.4	39.5	44.5	37.1	45.7	
Ext Debt/Exports Ratio (%)	301	373	404	344	315	270	248	
Short term debt/Reserves (%)	68.6	70.2	84.0	95.3	78.5	51.7		
Debt Service Ratio (Paid) (%)	62.7	74.8	112.8	90.8	78.5	80.3		
Debt Service Ratio (Due) (%)	62.7	76.2	113.1	90.8	78.5	80.3	66.6	
Foreign Exchange Reserves (US\$ bn)	50.8	42.6	34.8	32.5	35.7	37.7		
Import Cover (months)	8.1	6.9	6.6	5.4	5.9	7.3		

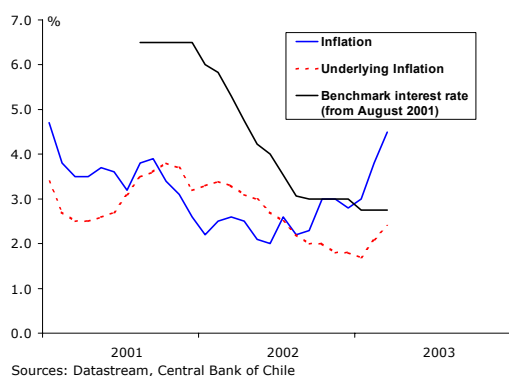
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Chile

## Gradual economic recovery expected in 2003



## Official interest rates are at record lows



- Economic management is stronger than in other Latin American countries, but the record of economic growth since 1997 has been unimpressive averaging only 2.3% per annum during 1999-2002 while unemployment has stuck around 9% since mid-2001. A series of corruption scandals over recent months has damaged the government and taken some of the gloss of Chile's good reputation for economic and financial management.
- Chile is much more heavily dependent on imported oil and coal to meet its energy requirements than other Latin American economies and is thus vulnerable to high oil prices. There are signs of economic recovery, with real GDP growth around 3.0-3.5% expected in 2003 provided a protracted period of high oil prices is avoided.
- The Central Bank cut its benchmark interest rate by 25bps to a historic low of 2.75% in January 2003, following 7 reductions in 2002 which lowered the rate from 6.5% to 3.0%. Some economists are calling for a higher interest rates in response to the recent rise in inflation but most of this rise reflects the impact of higher oil prices which is likely to be transitory. The official inflation target is 2-4%. Higher oil prices are also blamed for the latest downward pressure on the peso.
- A bilateral trade agreement with the US was secured in December 2002. It awaits ratification, which is now in some doubt as a result of Chile's unwillingness to support Washington in its bid to secure Security Council backing for a "second" UN resolution against Iraq. If ratification is forthcoming then trade prospects will improve and Chile will become more attractive to foreign investment. Trade accords have also been agreed with the EU and S Korea.

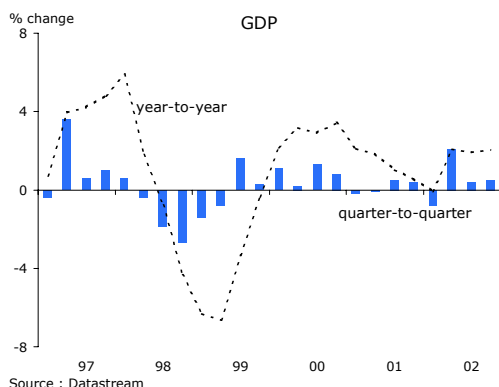
## Economic data and debt statistics

Chile	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	6.6	3.2	-1.0	4.4	2.8	2.1	3.3	4.2
Inflation (yr av, %)	6.1	5.1	3.3	3.8	3.6	2.5	2.7	2.8
Budget Balance (% of GDP)	1.8	0.4	-1.4	0.1	-0.3	-0.8	-1.0	
Current Account (% of GDP)	-4.4	-4.9	0.1	-1.0	-1.8	-0.9	0.9	
External Debt (USD bn)	22.8	30.2	34.3	37.0	37.7	40.0	42.1	
External Debt/GDP Ratio (%)	27.5	38.0	46.9	49.0	56.7	63.1	63.3	
External Debt/Exports Ratio (%)	99.5	140.1	156.3	150.6	159.7	169.2	160.5	
Short-term Debt/Reserves (%)	7.3	10.1	8.0	16.8	15.3	13.9		
Debt Service Ratio (Paid) (%)	17.4	17.5	22.5	25.1	29.8	22.1		
Debt Service Ratio (Due) (%)	17.4	17.5	22.5	25.1	29.8	22.1	20.3	
International Reserves (USD bn)	17.6	15.9	14.6	15.0	14.4	15.3		
Import Cover (g & s) (months)	9.0	8.4	9.1	8.3	8.1	8.9		

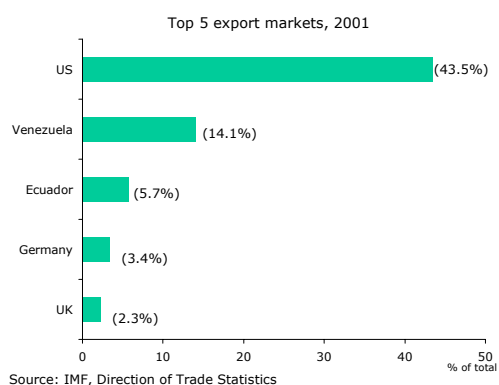
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Colombia

## Economy grows at a sluggish pace



## The US and Venezuela absorb more than half of Colombia's exports



- Economic activity has been sluggish with real GDP expanding by 1.5% in 2002. The outlook for 2003 is for growth to stay relatively unchanged reflecting uncertainties over external demand, with the US and Venezuela being its top two export markets. High unemployment (the jobless rate was 16.5% in February 2003) and weak investment are likely to limit growth in domestic demand.
- The government received Congressional approval in December to implement tax, pension and labour reforms, aimed at reducing the fiscal deficit. It wants to hold a referendum this year to push through further spending cuts and political reforms to help control public finances over the medium term, banking on the President's high personal approval rating to carry it through. However, delays in obtaining authorisation from the Constitutional Court and the impact of newly-implemented measures on the electorate could threaten the outcome.
- The IMF approved a two-year SDR1.5 bn (US\$2.1 bn) stand-by arrangement for Colombia in January 2003. This has paved the way for further financial assistance from multilateral creditors such as the World Bank and IADB.
- Long-standing security problems and violent internal conflicts have undermined Colombia's economic growth and investment potential. The current government, under the leadership of President Alvaro Uribe, has taken a tough stand in the fight against terrorism, stepping up military cooperation with the US and imposing a one-off wealth tax to help strengthen the armed forces and police. While viewed positively, the hard-line approach is likely to incite further violence over coming months.

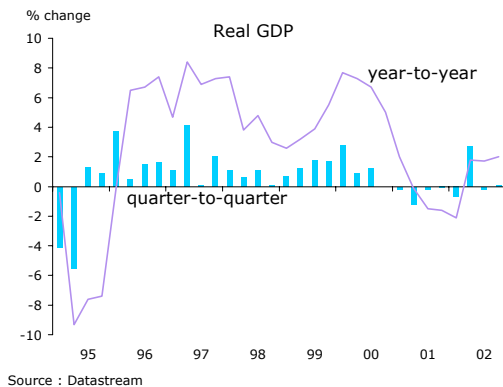
## Economic data and debt statistics

Colombia	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	3.4	0.6	-4.2	2.7	1.4	1.5	1.8	3.3
Inflation (yr av, %)	18.5	18.7	10.9	9.2	8.0	6.3	7.3	6.0
Budget Balance (% of GDP)	-3.7	-4.9	-5.9	-6.0	-5.9	-5.5	-4.5	
Current Account (% of GDP)	-5.5	-5.3	0.4	0.4	-2.2	-2.5	-2.5	
External Debt (US\$ bn)	31.8	33.3	34.7	34.1	36.5	36.0	37.8	
Ext Debt/GDP Ratio (%)	29.8	33.8	40.2	41.0	44.2	44.0	48.8	
Ext Debt/Exports Ratio (%)	201.8	225.3	216.9	189.0	209.5	219.5	215.4	
Short term debt/Reserves (%)	58.7	72.0	49.5	32.2	31.3	29.8		
Debt Service Ratio (Paid) (%)	28.7	30.8	41.4	28.7	32.7	42.0		
Debt Service Ratio (Due) (%)	28.7	30.8	41.4	28.7	32.7	42.0	35.3	
Foreign Exchange Reserves (US\$ bn)	9.8	8.7	8.0	8.9	10.2	10.8		
Import Cover (months)	6.4	6.0	7.2	7.4	7.7	8.1		

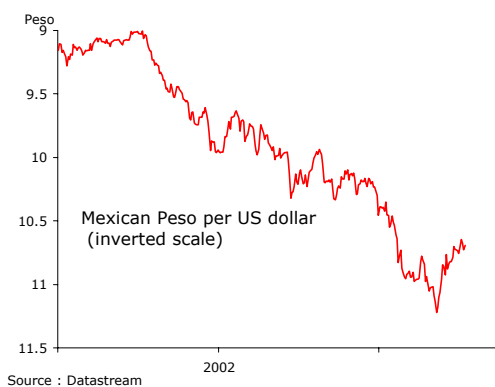
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Mexico

## Modest recovery in 2002



## Peso weakness fuels inflation pressures



- Real GDP grew by a weaker-than-expected 1.9% over the year to Q4 02, taking full-year growth to 0.9%. The outlook for 2003 will largely depend on the effects of the Iraq war on the US economy. Our forecast is for real GDP to expand by around 2½%.
- Mexico is heavily reliant on the US market, which accounts for over 80% of its exports and is dependent on oil – oil proceeds account for about 30% of budget revenue.
- The peso reached record lows in early March, breaching the Ps11/USD level, but has since regained some ground. The central bank responded through tighter monetary policy, raising the "corto" or the money it holds back from the market, in a bid to rein in inflation. Annual inflation, at 5.5% in February, is above the central bank's year-end target of 3%.
- Mid-term Congressional elections are due on 6 July in which the 500 seats in the lower house will be contested. The ruling National Action Party (PAN) is seeking to achieve a majority (it currently has 207 seats). The Institutional Revolutionary Party (PRI) currently has the largest representation (210 seats).
- Lack of a majority in Congress has impeded the Fox (PAN) administration's efforts to implement reforms. PRI opposition to government proposals for structural reform including reform of the energy sector and labour market remains strong. Failure to adopt reform is likely to undermine competitiveness and investment prospects over the medium term.

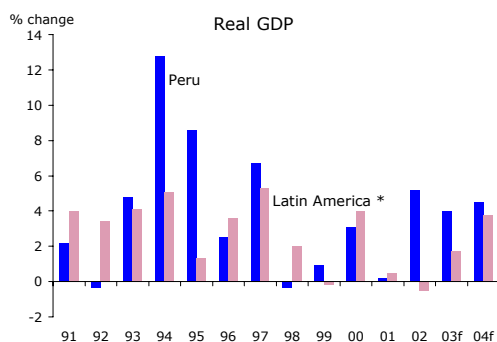
## Economic data and debt statistics

Mexico	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	6.8	4.9	3.7	6.6	-0.3	0.9	2.5	4.4
Inflation (yr av, %)	20.6	15.9	16.6	9.5	6.4	5.0	4.0	3.5
Budget Balance (% of GDP)	-0.6	-1.2	-1.1	-1.1	-0.7	-0.7	-0.6	
Current Account (% of GDP)	-1.9	-3.8	-2.9	-3.1	-2.9	-2.9	-2.7	
External Debt (US\$ bn)	148.7	161.4	167.6	150.3	153.8	157.3	160.1	
Ext Debt/GDP Ratio (%)	37.0	38.3	34.8	25.9	24.9	24.9	26.0	
Ext Debt/Exports Ratio (%)	113.6	115.6	105.7	77.9	83.2	85.9		
Short term debt/Reserves (%)	96.7	82.8	75.7	53.3	42.8	37.6		
Debt Service Ratio (Paid) (%)	33.2	20.0	25.1	30.2	24.7	21.3		
Debt Service Ratio (Due) (%)	33.2	20.0	25.1	30.2	24.7	21.3	19.5	
Foreign Exchange Reserves (US\$ bn)	28.8	31.8	31.8	35.5	44.7	50.6		
Import Cover (months)	2.8	2.8	2.4	2.2	2.9	3.2		

Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Peru

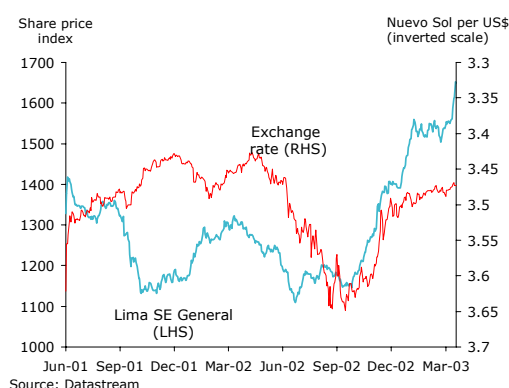
## Peru's economic growth expected to be among the highest in the region



Latin America: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Venezuela  
 \*: PPP-adjusted real GDP growth

Sources: Datastream, EIU, ANZ

## Financial markets rebound in Q4 2002



Source: Datastream

- After four years of subdued growth, real GDP expanded by a robust 5.2% in 2002, supported by a pick-up in consumption growth and strong export performance. The outlook, however, is for growth to ease somewhat to around 4%, reflecting political challenges faced by the central government as well as fiscal constraints as Peru takes steps to reduce its fiscal deficit in line with the IMF-agreed target of 1.9% of GDP for 2003 (Peru is in its final year of a two-year SDR255 mn stand-by arrangement with the IMF). *El Nino* weather patterns will also put a damper on economic performance. Still, Peru's economic growth will be among the highest in the Latin American region.
- President Toledo's Peru Possible party suffered a heavy setback in first-ever regional elections in November 2002, securing only one of the 25 regional administrations compared to 12 for the main opposition party, Alianza Popular Revolucionaria Americana led by former president Alan Garcia. This has brought uncertainty over the impact on areas such as privatisation and public finances, as the central government addresses demands from new regional governments. Popular opposition to economic reform will also slow the reform process as the government tries to strengthen support.
- Although improving, Peru's external debt burden remains heavy, with debt to exports of around 295% and debt service ratio of more than 30%. International reserves are relatively high, sufficient for close to 12 months of imports.
- Financial markets have been relatively resilient amidst regional instability and volatile global markets.

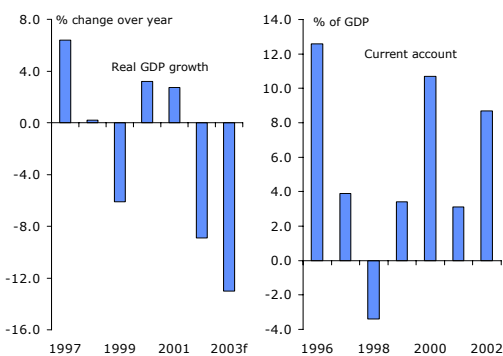
## Economic data and debt statistics

Peru	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	6.7	-0.4	0.9	3.1	0.2	5.2	4.0	4.5
Inflation (yr av, %)	8.5	7.3	3.5	3.8	2.0	0.2	2.4	3.0
Budget Balance (% of GDP)	0.2	-0.8	-3.2	-3.2	-2.5	-2.3	-1.9	
Current Account (% of GDP)	-5.8	-5.9	-2.9	-2.9	-2.0	-1.9	-1.9	
External Debt (US\$ bn)	29.3	29.8	28.9	28.6	28.0	29.2	31.2	
Ext Debt/GDP Ratio (%)	49.6	52.3	56.0	53.4	51.8	51.0	51.6	
Ext Debt/Exports Ratio (%)	300.3	332.3	319.8	283.6	289.3	294.9	271.2	
Short term debt/Reserves (%)	59.7	65.6	52.7	47.3	43.1	41.3		
Debt Service Ratio (Paid) (%)	37.6	26.8	46.3	42.8	39.9	49.5		
Debt Service Ratio (Due) (%)	37.6	26.9	46.3	42.8	39.9	37.3	35.1	
Foreign Exchange Reserves (US\$ bn)	11.0	9.6	8.7	8.4	8.7	9.3		
Import Cover (months)	12.1	10.8	11.6	10.3	11.0	11.5		

Sources: IMF, Economist Intelligence Unit, ANZ Bank

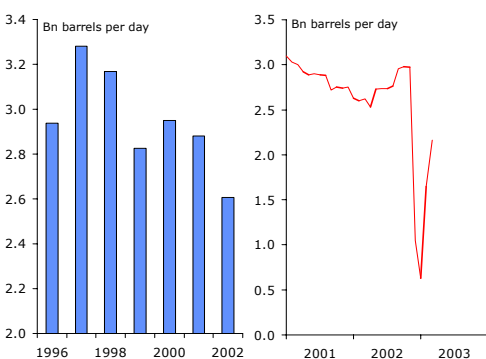
# Country Update: Venezuela

## Another massive contraction in GDP is expected in 2003



Sources: Datastream, Economist Intelligence Unit

## Oil production is recovering after sharp dip in December/January



Sources: US Energy Information Administration, Reuters

- The general strike, which lasted two months and ended in early February 2003, had a major detrimental impact on an already weak economy. Real GDP, which contracted by 8.9% in 2002, is forecast to fall by a further 10-20% in 2003 with an even bigger decline possible if further unrest erupts. Oil production, however, is recovering more quickly than many analysts had anticipated, although doubts persist about whether recovery can be sustained and output still seems unlikely to return to pre-strike levels this year.
- Falling international reserves and capital flight had forced the government to float the bolivar in February 2002, but when the bolivar came under renewed heavy selling pressure in early-2003 the government responded by re-fixing it to the US dollar in February 2003 and imposing new exchange and price controls. The controls are likely to create distortions that will further damage the dismal economic outlook. Adoption of a dual exchange rate is being considered.
- Venezuela has substantial oil, gas, and mining resources, which have generated large current account surpluses in recent years and will provide the basis for medium-term economic development once current political uncertainties are overcome.
- Heavy reliance on oil (about 80% of exports and almost 50% of fiscal revenues) is reflected in sharp swings in the fiscal position and balance of payments.
- With a sizeable current account surplus since 1998, the external debt burden is manageable in normal circumstances. However, the scale of economic problems in 2002 and 2003 has raised fears about a possible default on external debt. A voluntary external debt swap is expected to be unveiled soon.

## Economic data and debt statistics

Venezuela	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	6.4	0.2	-6.1	3.2	2.7	-8.9	-13.0	7.0
Inflation (yr av, %)	53.6	36.0	23.8	16.3	12.5	22.2	40.6	29.3
Budget Balance (% of GDP)	2.2	-3.7	-1.6	-1.7	-4.5	-2.9	-3.6	
Current Account (% of GDP)	3.9	-3.4	3.4	10.7	3.1	8.7	7.1	
External Debt (USD bn)	35.8	38.2	38.2	38.2	37.8	35.9	35.0	
External Debt/GDP Ratio (%)	40.4	39.9	37.0	31.5	30.3	40.0	52.3	
External Debt/Exports Ratio (%)	131.0	179.3	157.2	102.3	124.1	124.6	158.2	
Short-term Debt/Reserves (%)	29.5	18.6	16.8	13.5	31.7	36.1		
Debt Service Ratio (Paid) (%)	32.3	28.2	23.7	15.7	23.0	21.5		
Debt Service Ratio (Due) (%)	32.3	28.2	23.7	15.7	23.0	21.5	25.5	
International Reserves (USD bn)	14.4	11.9	12.3	13.1	9.2	8.6		
Import Cover (g & s) (months)	9.0	7.1	8.7	7.9	5.0	6.5		

Sources: IMF, Economist Intelligence Unit, ANZ Bank

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