

A light blue, semi-transparent world map is centered in the background of the slide, showing the continents of North America, South America, Europe, Africa, Asia, and Australia.

**The End of a Beautiful Financial World?
Global Financial Challenges and Emerging
Opportunities
Hofstra University Conference**

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Emerging Markets Strategy, Americas**

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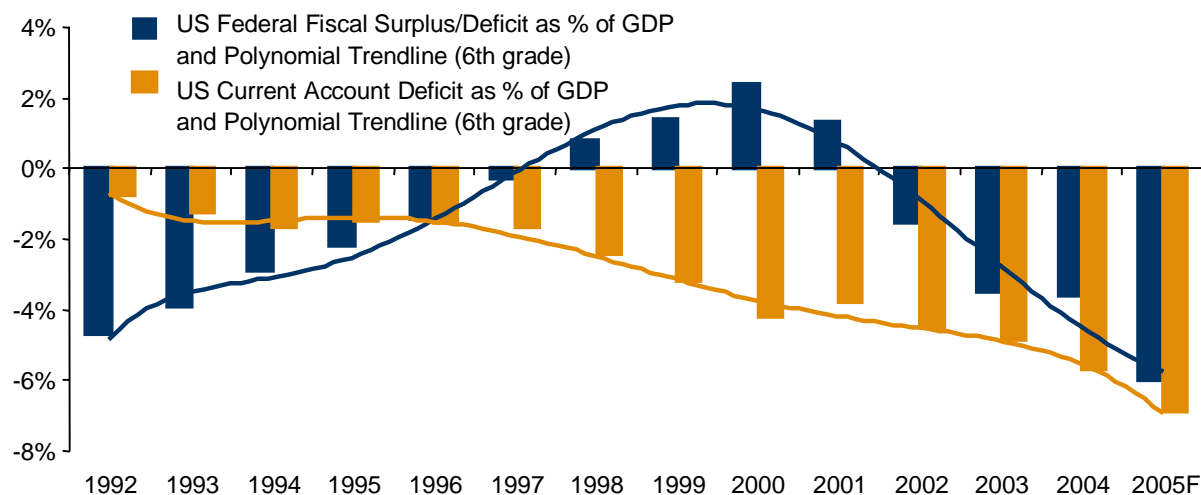


The US and Global Conditions in 2005

The US in 2005

- } The US current account deficit is nearly twice its 1990s level as it surpasses 6% of GDP
- } The US external imbalance reflects a sharp fiscal deterioration in record time as well as low private savings
- } Today: the swift deterioration in the US fiscal stance may start limiting the recovery of the US economy; the 1990s were a US fiscal consolidation story

US Federal Fiscal Surplus/Deficit and Current Account Deficit as % of GDP

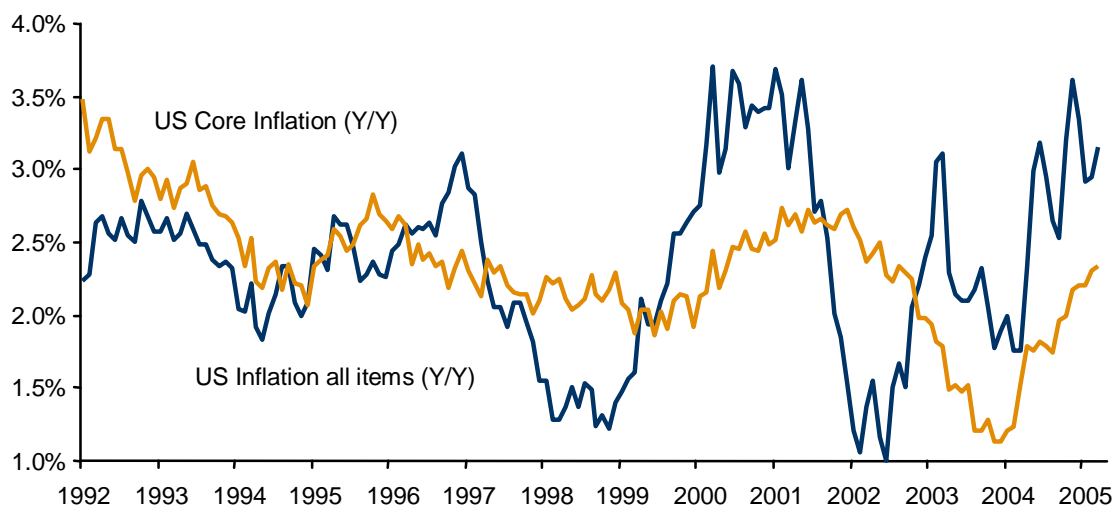


Source: US Department of the Treasury.

The 2005 Question

- } Will the US Federal Reserve be successful in gradually raising US interest rates while at the same time keeping US growth robust and inflation well contained? (The 3% Fed Funds Rate)
- } Or will strong inflationary pressures lead to marked pressures on US interest rates and the USD that precipitate a serious global slowdown? (The 4% Fed Funds Rate)

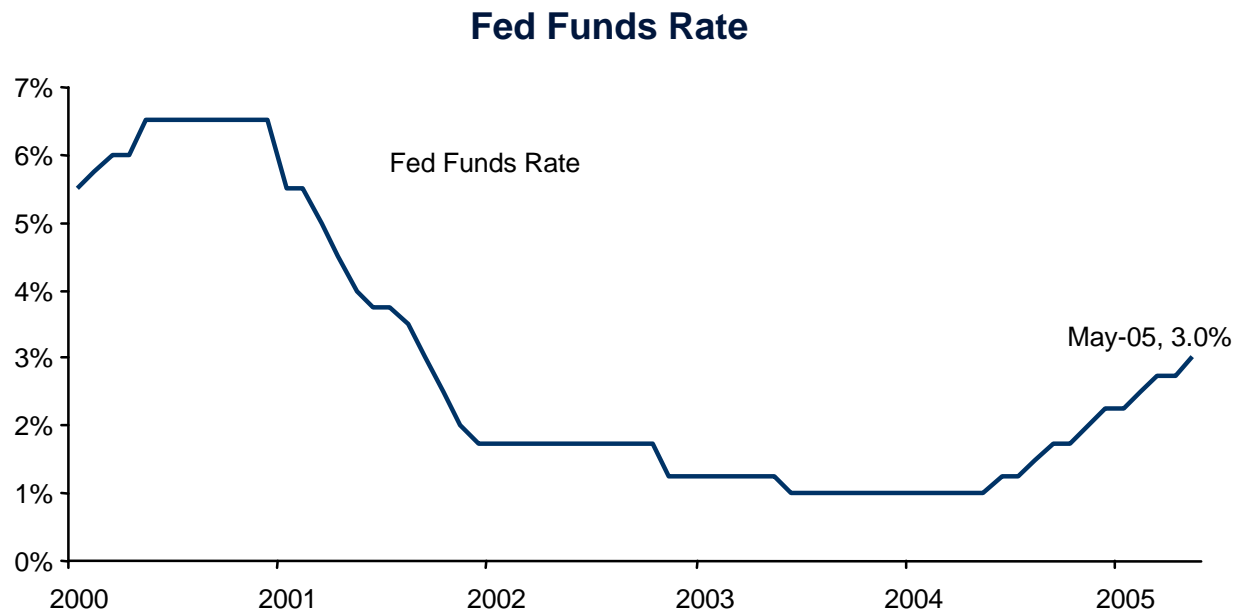
US Inflation all items and Core Inflation (Y/Y)



Source: US Department of the Treasury.

Fed Funds Rate To Rise Gradually

- } The US Fed measured pace of interest rate hikes could continue, as long as inflation remains well contained (Key: US consumer spending and investment)



Source: Federal Reserve Board.

G3 FX: The clash between the Fiscal Stance &

Growth

- } The growing US fiscal and current account imbalances require of a much weaker US dollar
- } The Fed's preferred approach to the correction of global imbalances: Measured interest rate hikes and further reliance on a weaker US dollar
- } The dollar "conundrum" is that European and Japanese growth hinge entirely on US growth, thus limiting the dollar correction and eventually emphasizing US

growth



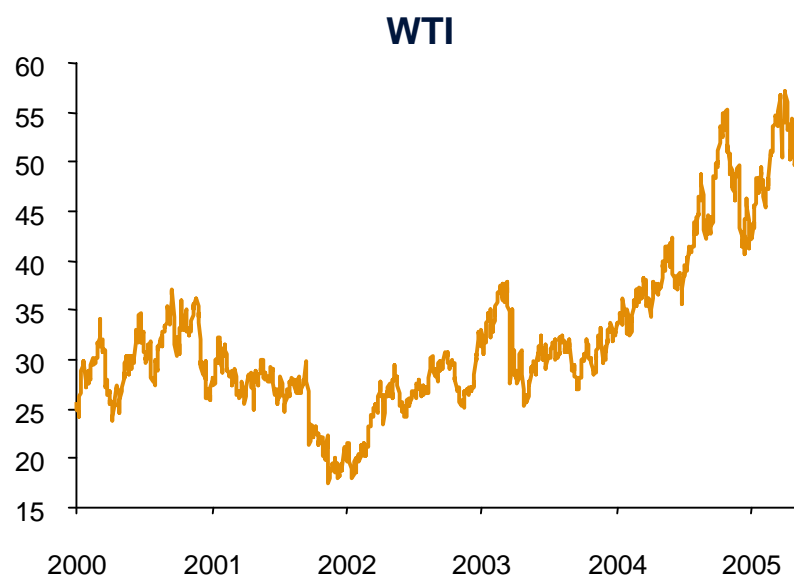
Source: Haver Analytics.



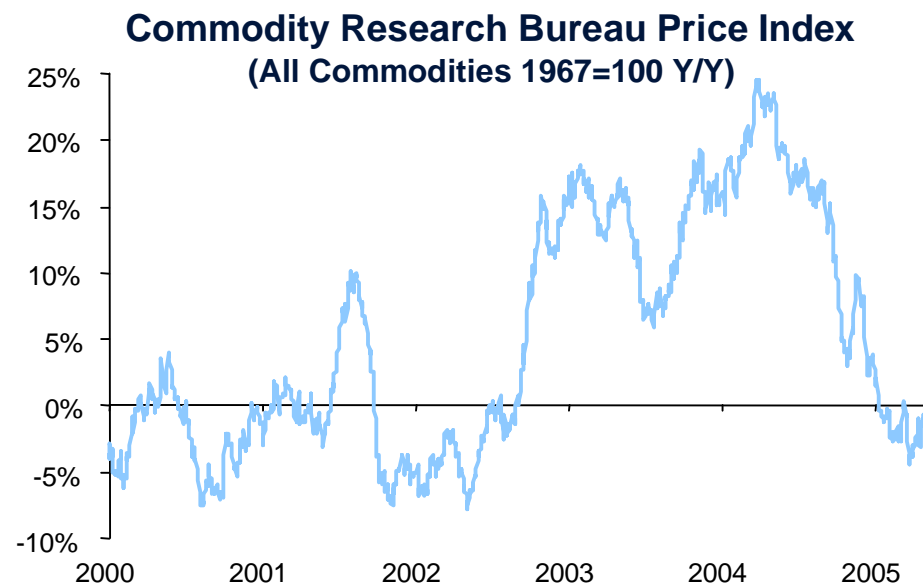
Source: Haver Analytics.

Oil and Commodity Prices: Key to the Story

- } Oil prices remain near historical highs, keeping strong cash flows in leading countries (Russia and Venezuela)
- } Commodity prices have declined sharply from its highs, but levels are still high
- } High commodity prices have contributed to the marked strengthening in most emerging economies balance of payments performance



Source: Haver Analytics.



Source: Haver Analytics.



Latin America Ratings in 2005 and The Presidential Elections in 2006

Latin America Ratings Action in 2005

} Credit Ratings will drive performance in some key Latin credits

	Moody's	S&P	Fitch
<i>Brazil</i>	<i>B1 (+)</i>	<i>BB- (s)</i>	BB- (s)
<i>Chile</i>	<i>Baa1 (s)</i>	A (s)	<i>A (s)</i>
Colombia	Ba2 (-)	BB (s)	BB (s)
Ecuador	<i>Caa1 (s)</i>	B- *-	B- (s)
Mexico	Baa1 (s)	BBB (s)	BBB- (s)
<i>Panama</i>	Ba1 (s)	<i>BB (s)</i>	BB+ (s)
<i>Peru</i>	<i>Ba3</i>	BB (s)	BB (s)
Uruguay	B3 (s)	B (s)	B+ (s)
Venezuela	B2 (s)	B (s)	B+ (s)

Note: Italics denote possible rating upgrades.

Source: Bloomberg, Barclays Capital.

The 2006 Presidential Elections

Almost Everywhere ...

§ The heavy election cycle is feared to raise political volatility

Country	Current President	Presidential Elections	Term	Potential Re-election	Parliamentary Elections
Brazil	Luiz Inácio Lula da Silva	6-Oct-06	4-year	Yes	6-Oct-06
Chile	Ricardo Lagos	5-Dec-05	6-year	No	6-Dec-06
Colombia	Álvaro Uribe Vélez	6-May-06	4-year	Yes	6-Mar-06
Ecuador	Alfredo Palacio (*)	6-Oct-06	4-year	No	6-Oct-06
Mexico	Vicente Fox	2-Jul-06	6-year	No	2-Jul-06
Peru	Alejandro Toledo	6-Apr-06	5-year	No	6-Apr-06
Venezuela	Hugo Rafael Chávez Frías	6-Dec-06	6-year	Yes	5-Dec-05

Source: Election Guide.org, Barclays

Capital.

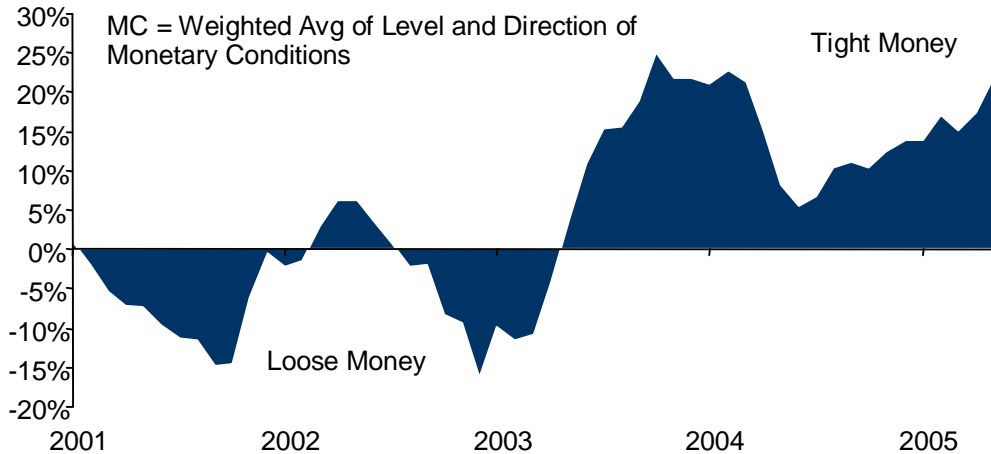
* Former President Lucio Gutierrez was in charge until April 20, 2005, when he was unconstitutionally removed from office by Congress



Tight Money into US Monetary Tightening

Brazil's Sharp Monetary Stance and the Strong BRL

The Stance of Monetary Conditions (MC)



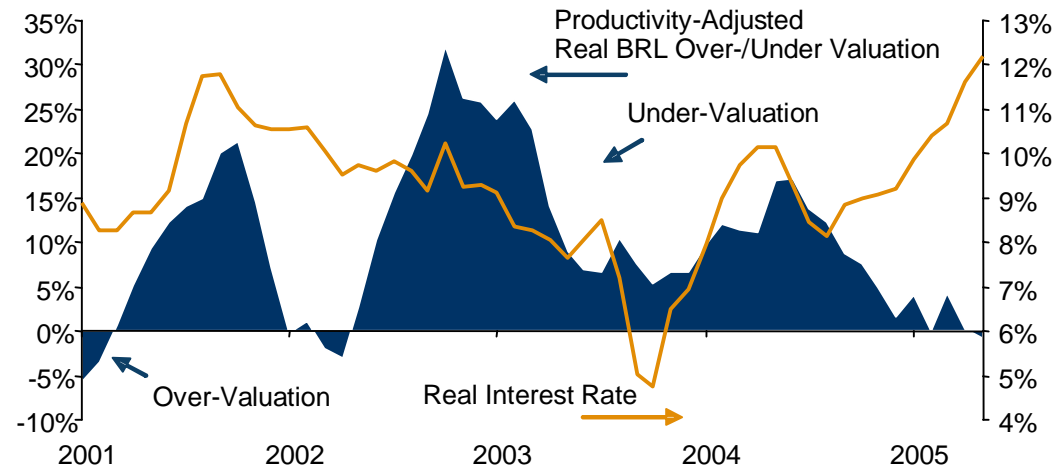
Source: Banco Central do Brasil, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

} The model suggests that the period of highest undervaluation was the second half of 2002

} Monetary conditions are very tight and tightening further

} An appreciating BRL and declining inflation will likely be the main consequence of such a tight monetary stance

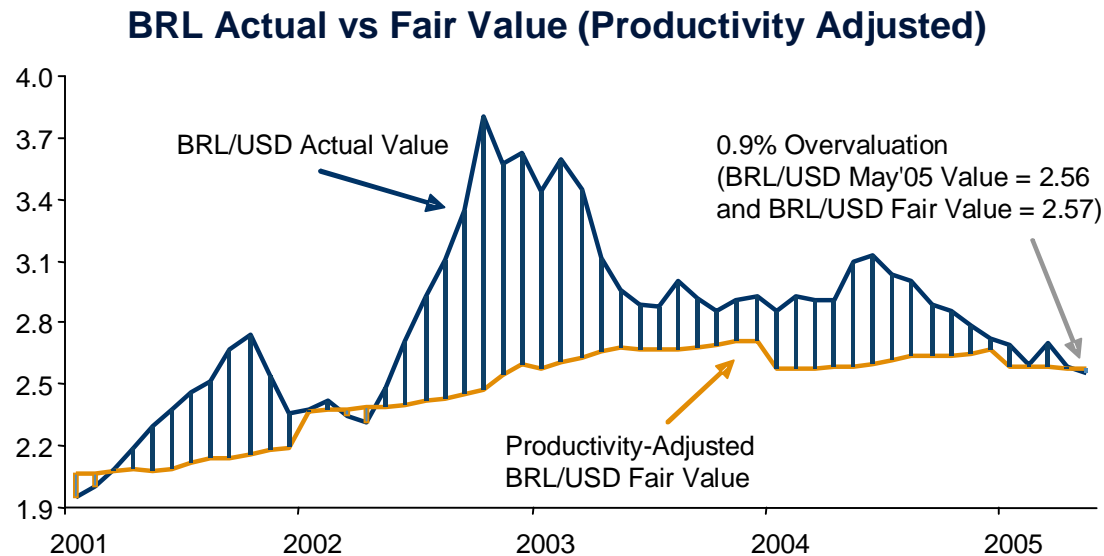
Real Interest Rate vs Productivity-Adjusted Real BRL Over/Undervaluation



Source: Banco Central do Brasil, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

Brazil's Fairly Valued Real

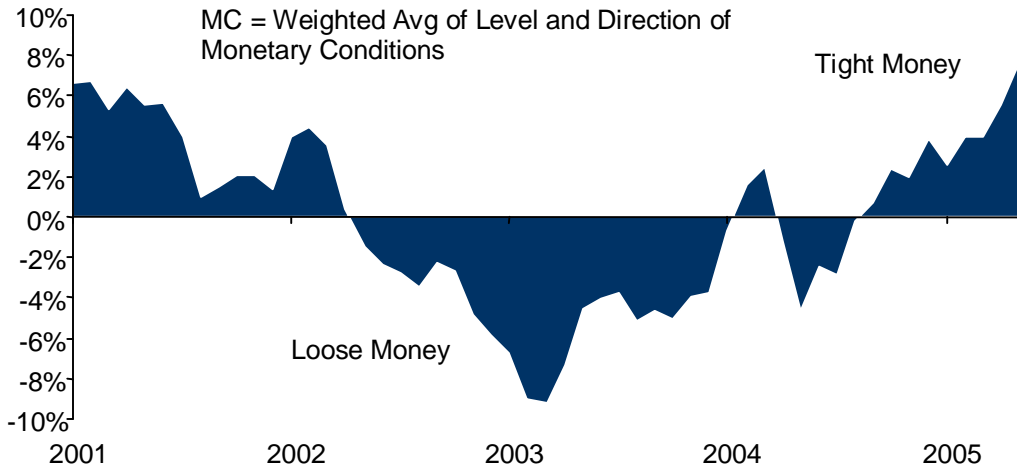
- Although it's been markedly undervalued, our monetary conditions model suggests that the BRL is near its fair value of BRL 2.57



Source: Banco Central do Brasil, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

Mexico's Tightening Cycle and Inflation

A Tight Stance of Monetary Conditions (MC)



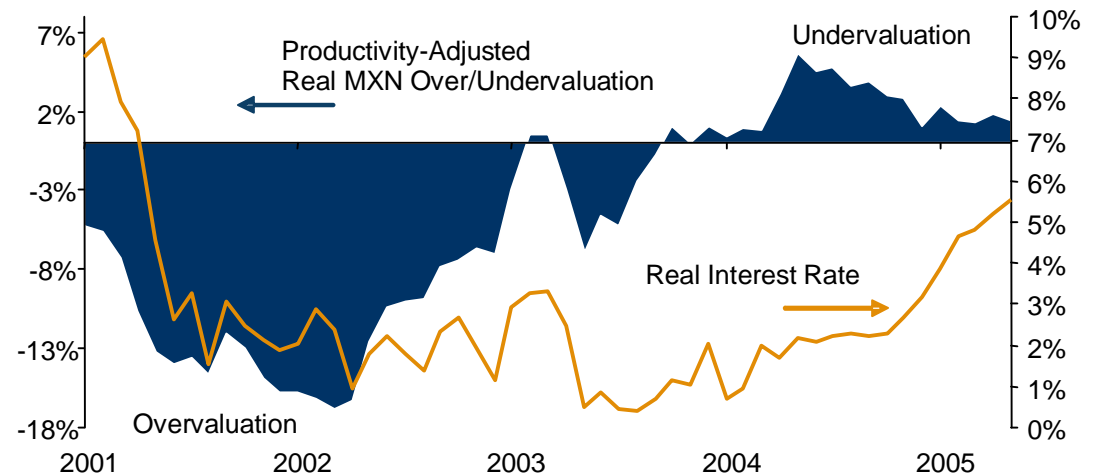
Source: Banco de Mexico, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

} Monetary conditions began tightening in the second half of last year, especially in the fourth quarter of 2004

} Mexico's monetary stance is fairly tight at this time and, with inflation peaking, makes longer-dated yields especially attractive

} That monetary conditions were initially too loose can be inferred from the actual levels of MXN over/undervaluation, and especially the low, almost 0% real interest rates

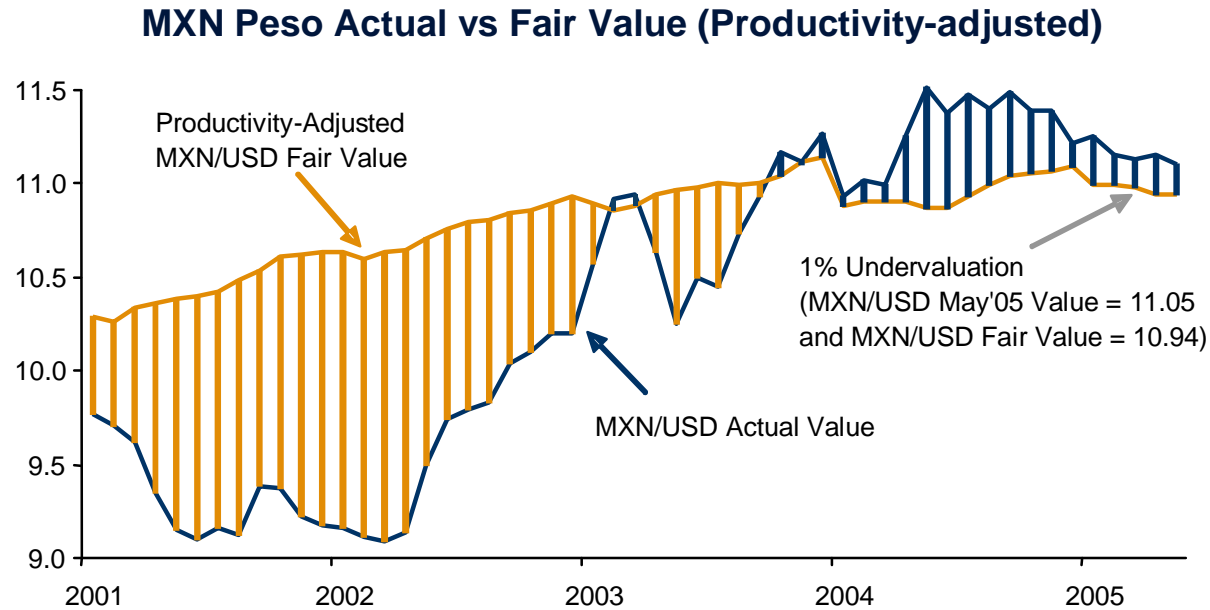
Real Interest Rate vs Productivity- Adjusted Real MXN Over/Undervaluation



Source: Banco de Mexico, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

Mexico's Fairly Valued Peso

} Our monetary conditions model suggests that the MXN is slightly undervalued

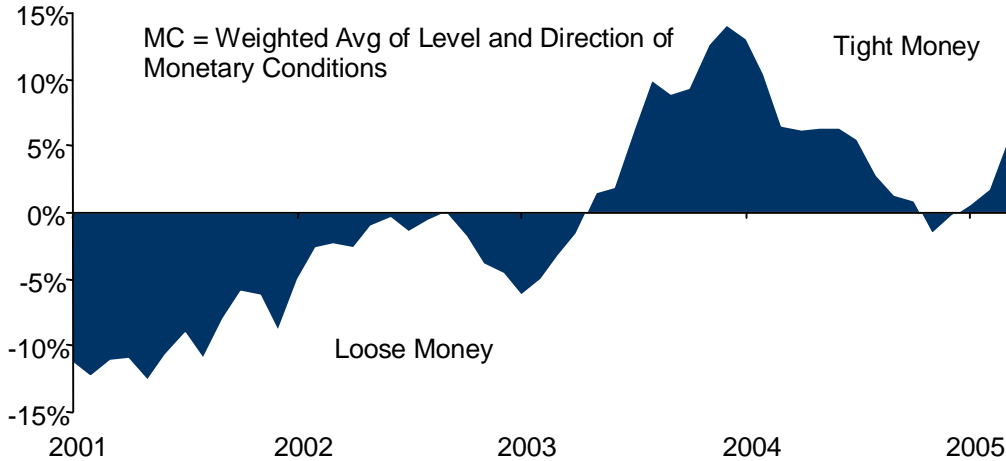


Source: Banco de Mexico, U.S. Department of Labor- Bureau of Labor Statistics, Barclays Capital.

Chile's Monetary Tightening in line with the US

Fed

The Stance of Monetary Conditions (MC)



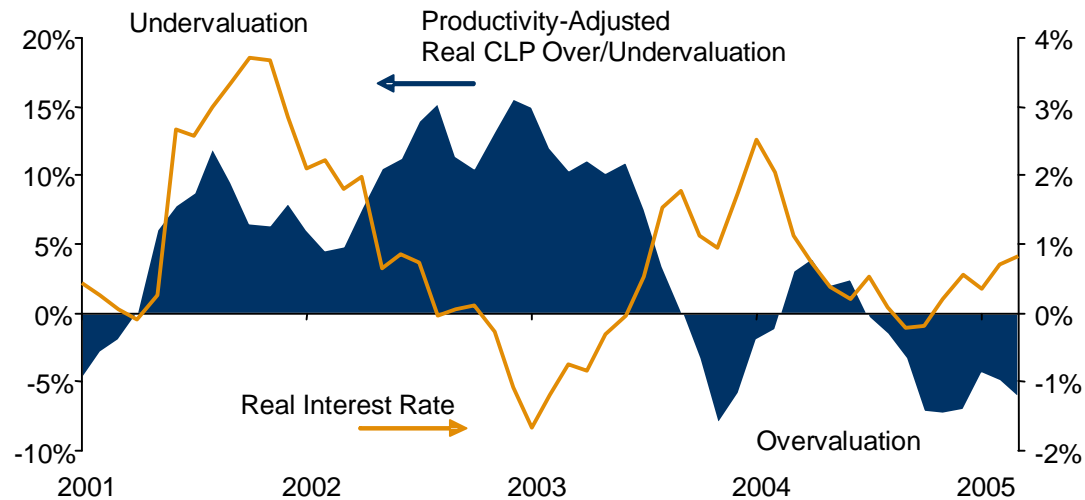
} Our MC model suggest that monetary tightening will continue in line with US Fed tightening.

} Inflation may remain stable and real interest rates near 1%

Source: Banco Central de Chile, Barclays Capital.

} Chile's monetary policy is the only one in Latin America that truly resembles the Fed's stance and for which monetary pressures have been building more closely in line with those in the US

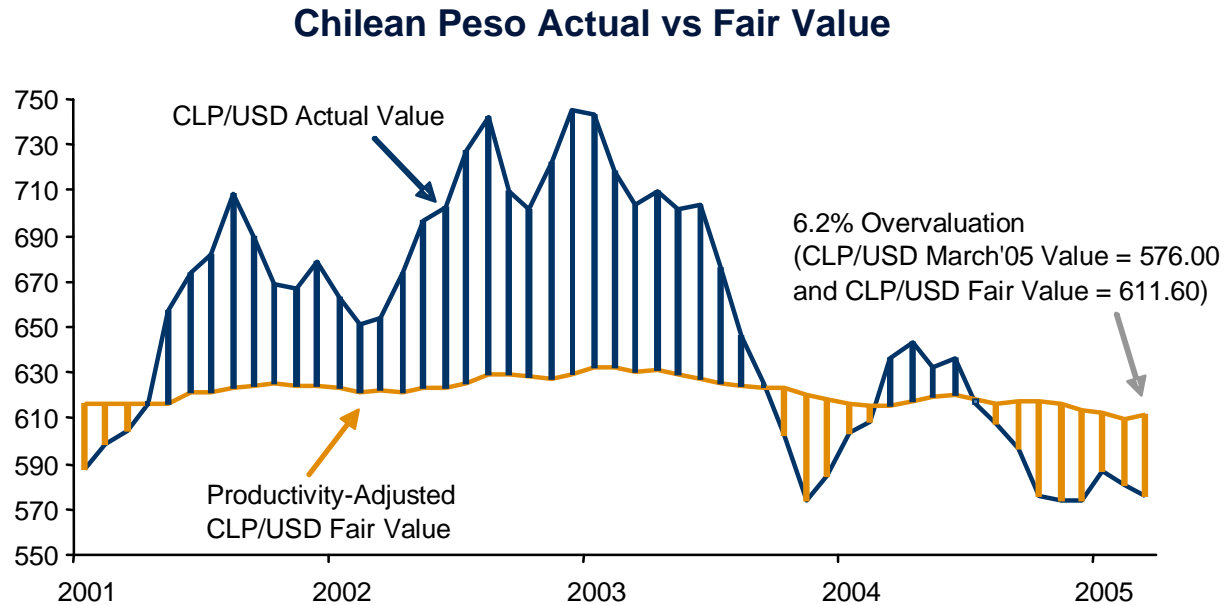
Real Interest Rate vs Real CLP Over/Undervaluation



Source: Banco Central de Chile, Barclays Capital.

Chile's Fair Peso Value

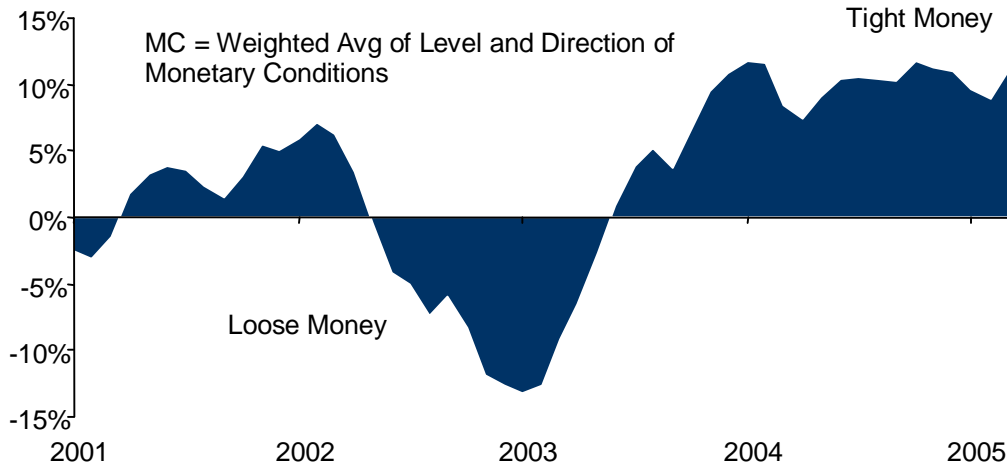
- } Copper prices and Euro/USD appreciation have contributed to the CLP strong performance
- } Our model suggests that the CLP is overvalued at this time by about 6.2%



Source: Banco Central de Chile, Barclays Capital.

Colombia's Tight Monetary Stance

A Tight Stance of Monetary Conditions (MC)



} The COP may still be under some near-term upward pressures, but it may start declining in early 2005

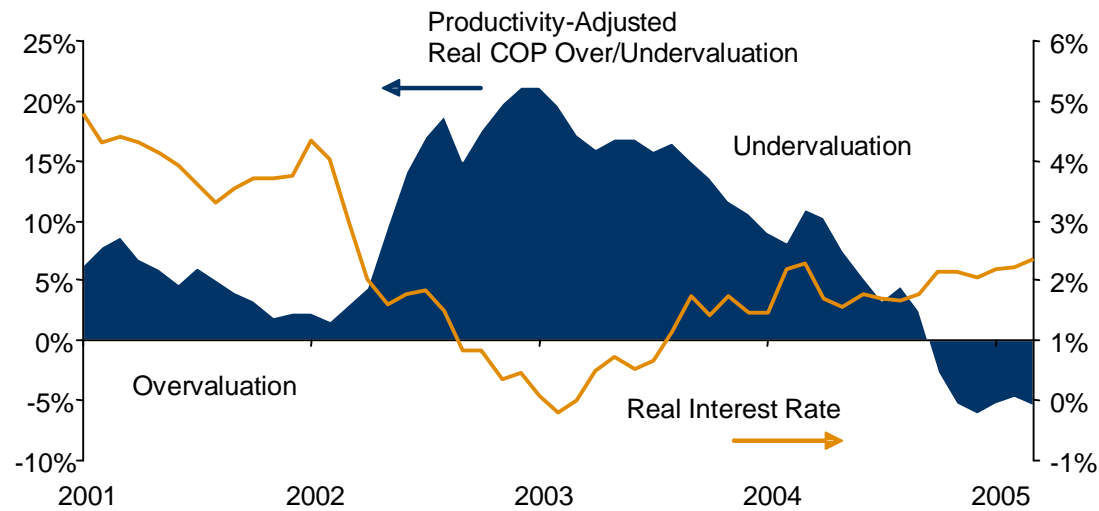
} Colombia's monetary conditions may start easing somewhat

Source: Banco de la Republica, Barclays Capital.

} As the COP strengthen, inflation will start falling somewhat more rapidly

} After being markedly undervalued at nearly 25% in 2003, the COP is now modestly overvalued

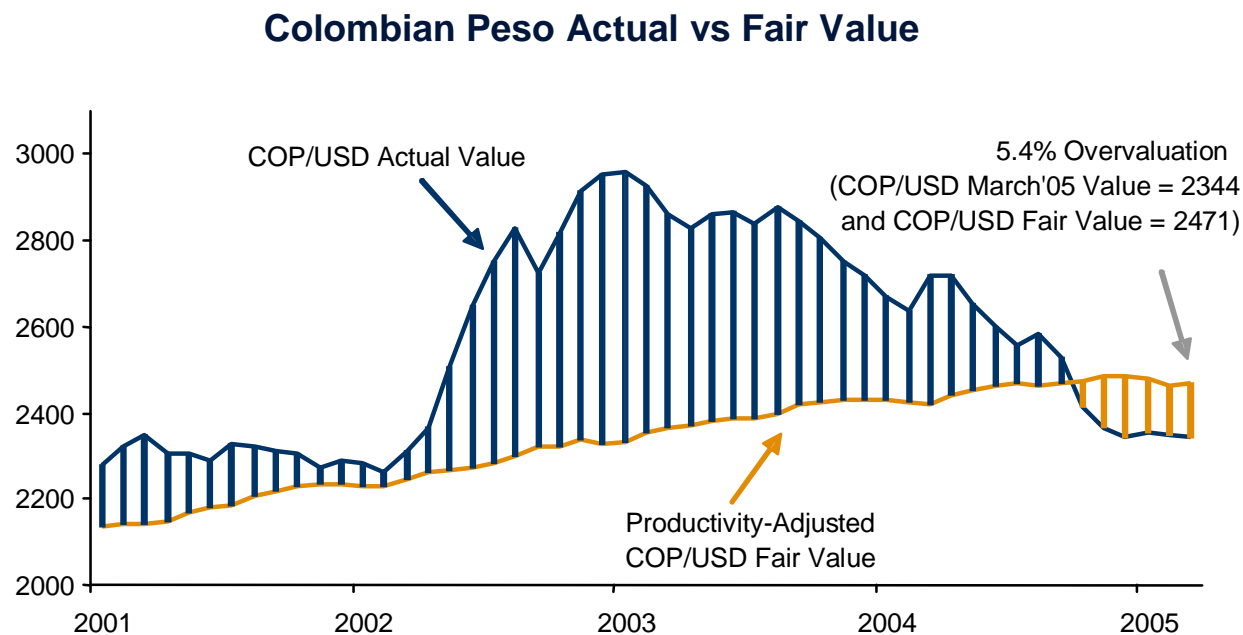
Real Interest Rate vs Real COP Over/Undervaluation



Source: Banco de la Republica, Barclays Capital.

Colombia's Undervalued Peso and its Story

} Our monetary conditions model suggests that the COP is about 5.4% overvalued



Source: Banco de la Republica, Barclays Capital.



The 2006 Challenge: Breaking the External Constraint and the Quality of Fiscal Policies

Brazil: Breaking the External Constraint

- } Strong growth is coexisting with improvement in the balance of payments and is not dependent on capital inflows, as investment drives growth
- } The current account surplus may narrow slightly in 2005 but will remain in surplus and will continue facilitating external debt reduction
- } Politics will come into focus this year ahead of 2006 presidential election, but macro policy will stay on its current course

Brazil Forecasts

	2001	2002	2003	2004F	2005F
GDP (% real change)	1.3%	1.9%	0.5%	5.3%	3.9%
Inflation (% end-period)	7.7%	12.5%	9.3%	7.3%	5.4%
BRL (average)	2.35	2.92	3.08	2.93	2.57
Nominal Fiscal Balance (% of GDP)	-5.2%	-10.3%	-5.2%	-3.0%	-3.1%
Public Debt (% of GDP)	52.6%	55.5%	58.7%	53.4%	51.9%
International Reserves (USD Bn)	25.9	37.8	49.3	48.1	54.0
Current Account Balance (% of GDP)	-4.6%	-1.7%	0.8%	1.8%	1.5%
Trade Balance (% of GDP)	0.5%	2.8%	4.9%	5.5%	4.9%

Source: Banco Central do Brasil, Barclays Capital.

Mexico and its Fair Peso

- } Financial markets' concerns over adverse political shocks are the major source of uncertainty over Mexico's sovereign credit prospects
- } Because of the productivity gains during the second half of 2004, the MXN peso likely will appreciate in the second quarter of 2005 as concerns over an aggressive US Fed tightening ease somewhat
- } In our view, the nominal fiscal deficit likely will end 2005 at 0.2% of GDP, in line with the official figure, and slightly below this year's deficit of 0.3%

Mexico Forecasts

	2001	2002	2003	2004F	2005F
GDP (% real change)	-0.1%	0.7%	1.3%	4.1%	3.7%
Inflation (% end-period)	4.4%	5.7%	4.0%	5.4%	4.5%
MXN Peso (period average)	9.4	9.85	10.98	11.1	11.0
Nominal Fiscal Balance (% of GDP)	-1.1%	-0.7%	-0.3%	-0.3%	-0.2%
International Reserves (USD Bn)	40.9	48	57.4	60.7	63.8
Current Account Balance (% of GDP)	-2.9%	-2.2%	-1.4%	-1.2%	-1.9%
Trade Balance (% of GDP)	-1.6%	-1.2%	-0.9%	-0.9%	-1.7%

Mexico's Falling Debt and Improved Credit Stance

- } Mexico Pension System's growth potential remains extraordinary, implying that Mexico's composition of debt likely will switch from external to domestic debt over time

Mexico's Falling Debt and Improved Credit Stance

	1998	1999	2000	2001	2002	2003	2004F	2005F	2006F	2007F	2008F	2009F	2010F
GDP Growth	4.9%	3.7%	6.6%	-0.1%	0.7%	1.3%	4.1%	3.7%	3.0%	4.0%	3.7%	3.9%	4.0%
GDP (USD bn)	412	474	573	617	636	615	669	741	741	777	798	838	885
GDP per capita (USD)	4299	4867	5792	6143	6234	6033	6562	7264	7267	7110	7208	7475	7796
C/A Balance/GDP	-3.9%	-3.0%	-3.2%	-2.9%	-2.2%	-1.4%	-1.2%	-2.0%	-0.7%	-1.2%	-1.5%	-1.7%	-1.9%
Gross FDI/GDP	3.0%	2.8%	2.9%	4.5%	2.4%	1.8%	2.5%	2.0%	1.5%	2.1%	2.5%	2.4%	2.5%
FX Reserves (USD bn)	30	31	34	40.9	48	57.4	60.7	63.8	55	61	69	79	90
Import cover ratio	2.9	2.6	2.3	2.9	3.4	4	3.7	3.5	3.1	3.5	3.7	4	4.5
Fiscal Balance/GDP	-1.2%	-1.1%	-1.1%	-1.1%	-0.7%	-0.3%	-0.3%	-0.2%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%
Public Debt/GDP	28.9%	27.5%	24.4%	24.3%	25.1%	26.2%	25.1%	24.0%	23.3%	21.5%	20.7%	19.5%	18.4%
Public External Debt/GDP	20.0%	17.6%	13.4%	12.4%	11.9%	12.5%	12.0%	11.7%	11.5%	10.3%	10.0%	9.5%	9.0%

Source: Banco de Mexico, Barclays Capital.

Venezuela's Revolution Moves On

- } Venezuela's turnaround story in 2004 will give way to a consolidating story of the Chavez revolution in 2005
- } The key question is whether, in 2005, the Venezuelan economy will resemble its current position or be more in line with the large financing requirements of 2003
- } Venezuela's continued oil success in 2005 will hinge on its ability to raise oil production to offset the adverse impact of declining oil prices somewhat

Venezuela Forecasts

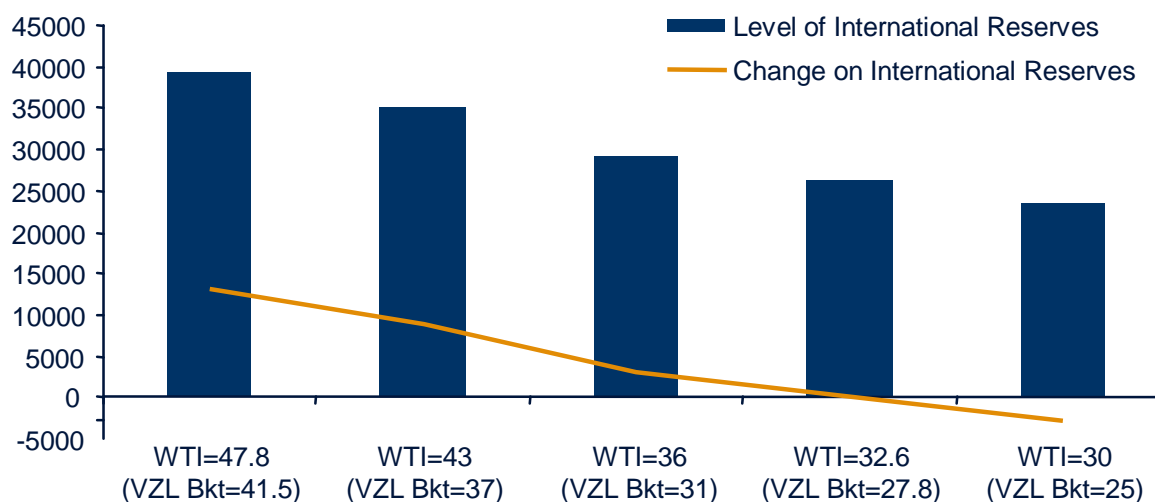
	2001	2002	2003	2004F	2005F
GDP (% real change)	2.7%	-8.9%	-9.4%	15.6%	7.0%
Inflation (% end-period)	12.3%	31.2%	27.1%	21.1%	17.0%
Bolivar (average)	763	1161	1608.6	1887	2150
Nominal Fiscal Balance (% of GDP)	-4.3%	-3.3%	-4.3%	-3.7%	-3.9%
International Reserves (USD bn) *	12.3	14.9	21.4	26.3	29.3
Current Account Balance (% of GDP)	1.7%	7.8%	11.0%	11.1%	8.7%
Trade Balance (% of GDP)	6.0%	13.8%	17.2%	18.3%	15.3%

Source: Banco Central de Venezuela, Ministry of Finance, IESA, Barclays Capital.

Venezuela: The Oil Price Trigger

- } WTI prices below USD 36 would result in a neutral position in Venezuelan bonds
- } Below that level, Venezuela would stop accumulating reserves

Venezuela's Oil Basket Prices and International Reserves in 2005



Source: Barclays Capital.

Note: Assumes that public spending, Bolivar devaluation, and other key macro drivers remain unchanged from our 2005 baseline projection. International reserves also include dollar reserves at the Central Bank, the FIEM, and BANDES.

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