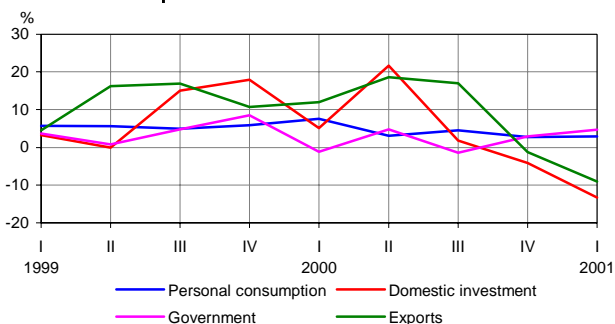


3 – International economy

3.1 – United States

Demand - components^{1/}

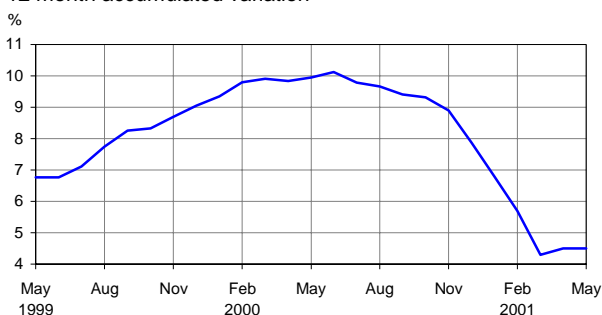


Source: Bureau of Economic Analysis

^{1/} Quarterly percent rates, seasonally adjusted at annual rates.

Retail sales

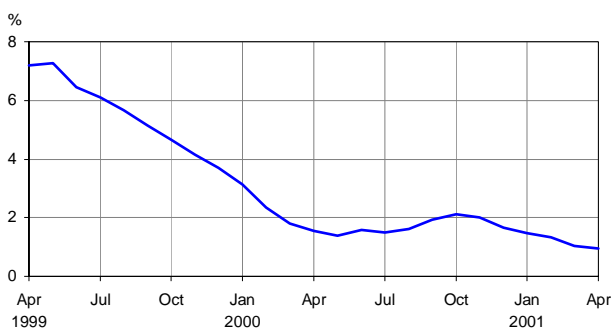
12 month accumulated variation



Source: Bureau of the Census

Housing starts

12 month accumulated variation



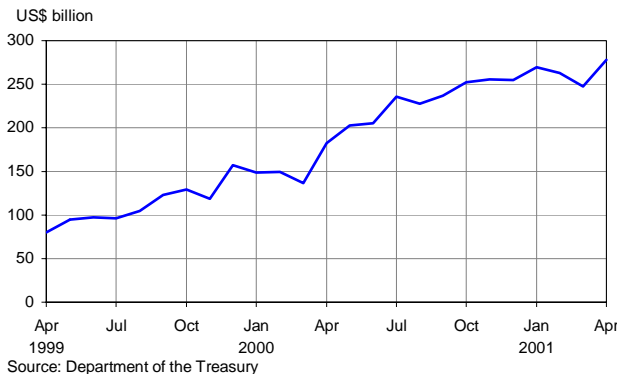
Source: Bureau of the Census

The pace of United States economic growth continued decelerating in the first quarter of 2001. To many observers, this suggests that, following the longest period of robust growth in the country’s history, the economy may finally be settling into a more normal rate of activity. In this scenario and considering the drop in confidence levels and the profit squeeze being experienced by American companies, the United States central bank resolved that it would carry its January decision to adopt a more flexible monetary policy even further in order to avoid the possibility of the current deceleration plunging into a recession.

More recent demand indicators have confirmed that the downturn initiated in the second half of 2000 has definitely deepened. Orders placed with factories dropped by 3% in April following March growth of 0.7% in the statistical series purged of seasonal impacts. When one considers accumulated 12 month growth up to April, orders were 2.6% higher than in the same period of the previous year, in contrast to 3.6% up to March and 7.1% up to December 2000. Growth in retail sales accumulated over 12 months stabilized at 4.5% in April and May, after registering 4.3% in March and 7% in February. At the same time, fixed investments continued on a downward curve. Annual growth in the credit stock stabilized

at 10% since the beginning of the year, interrupting the upward trajectory initiated in September 1999.

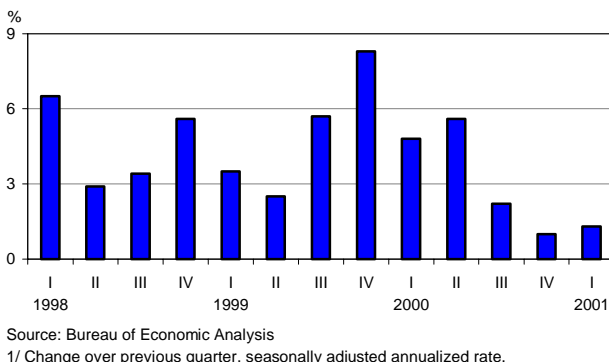
Fiscal budget



The fiscal result accumulated over 12 months remained on a positive curve and has made a marginal contribution to sustaining demand. The surplus accumulated in the 2001 fiscal year up to April closed at US\$ 165 billion or considerably more than the corresponding totals for the 2000 and 1999 fiscal years (US\$ 124 billion and US\$ 65 billion, respectively).

As the trajectory of declining internal demand spread to some of the country's major trading partners, imports expanded at a lesser pace than exports in the first quarter of the year and sharply below the rate of growth registered in the same period of 2000. Evidently, this was an important factor in reducing the pace of growth in the nation's trade deficit. In this sense, imports in the first quarter of 2001 increased by 4.5% when compared to those of the first three months of the preceding year, when growth came to 23.5%, while exports expanded by 4.9% and 12.9% using the same bases of comparison. This performance resulted in trade deficit growth of 3.7% and 49.6%, respectively, in 2001 and 2000, clearly demonstrating the loss of vibrancy in the pace of economic activity.

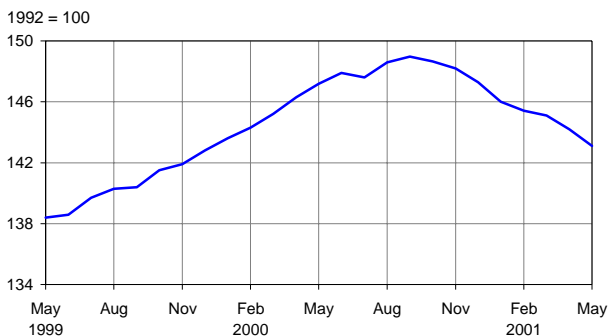
Gross Domestic Product^{1/}



The loss of the dynamics of aggregate demand has generated strong deceleration of supply. Consequently, based on annualized figures purged of seasonal factors, real GDP expanded by 1.3% in the first quarter of the year, when compared to the previous period, and 2.5% in relation to the same quarter of 2000. Industrial output declined for the eighth consecutive month in May, registering a downturn of 0.8%. With this, accumulated 12 month growth came to 2.9% when compared to 3.7% up to April and 5.6% up to December 2000.

The behavior of employment is evidence of the deceleration of the economy and is expected to have a negative impact on consumption

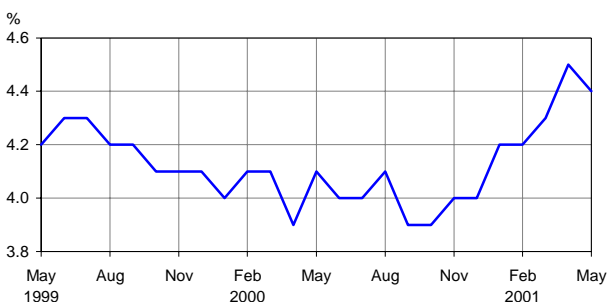
Industrial production index



Source: Federal Reserve System

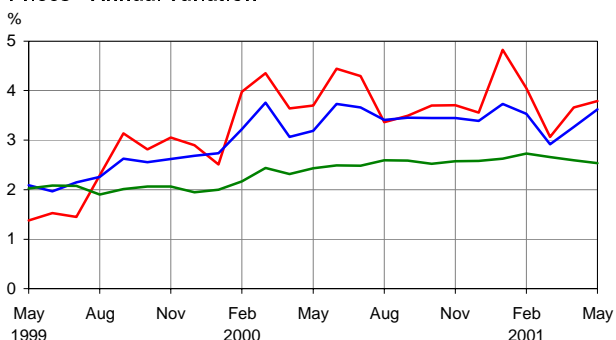
Employment

Seasonally adjusted unemployment rate



Source: Bureau of Labour Statistics

Prices - Annual variation



Source: Bureau of Labour Statistics

— PPI — CPI — CPI-core

over the short-term. In the nonfarm sector, the average number of jobs created each month dropped to just 27 thousand in the first five months of 2001, compared to 153 thousand in 2000 as a whole. The unemployment rate has climbed steadily during the year, moving from 4% in December 2000 to 4.5% in April. One should note that the reduction in the rate of unemployment in May closed at 4.4%, mostly reflecting a drop in the number of people seeking employment, though the number of those working also declined in the period.

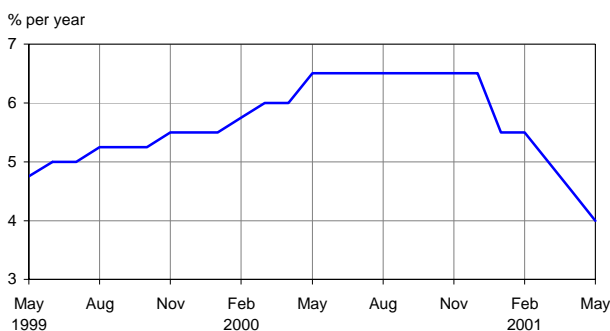
Nonfarm sector productivity among United States workers dropped by 1.2% in the first quarter of this year, when viewed on the basis of annualized data from which seasonal influences have been eliminated. Obviously, this result was strongly impacted by declining output. Productivity in the manufacturing sector fell by 2.1%, the largest falloff in 11 years. In the cases of consumer durables and nondurables, the reduction closed at 2.4% and 2%, in that order.

In the first quarter of the year, annual growth in the consumer price index (CPI) was generated by the volatility of energy prices and closed May at 3.6%, when compared to 3.3% in April and 2.9% in March. Annual growth in the core CPI, which excludes growth in food and energy prices, came to 2.5% in May and has remained stable in this range since the second half of the preceding year. The Producer Price Index (PPI) closed the month of May with annual expansion of 3.8%, as against 3.6% in 2000. One

should note that the item prices of imports, which shows the influence of the cost of raw materials for the productive sectors of the economy, including crude oil, increased by 0.3% in May, and has followed a downward annual growth trajectory since September 2000, with a final rate of 6.1%.

According to the National Association of Purchasing Managers (NAPM), the Purchasing Managers Index (PMI), one of the major indicators of expectations in the United States continued in a negative position in relation to manufacturing activity in the United States in the month of May. For the tenth consecutive month, this index closed below 50%, registering a final result of 42.1%.

Federal funds target



Source: Federal Reserve System

The Federal Open Market Committee (Fomc), an entity of the United States central bank, reduced the basic interest rate target, federal funds, by 0.5 p.p. to 4% per year at its May 15 meeting. The less restrictive monetary policy adopted by the Fomc, which has accumulated a reduction of 250 base points in the interest rate target in the first five months of the year, was justified by the scenario of declining investments in capital goods, reductions in expected current profit margins and continued deterioration of expectations, coupled with the potential impact of the reduction in security assets on consumption and falling external demand. It should be noted that FOMC's perception that current conditions could result in economic weakening in the foreseeable future has generated expectations of a new round of cutbacks in the basic interest rate target.

3.2 – Japan

Mirroring the impact of weak external demand and a sense of wariness among Japanese consumers, the Japanese economy has obviously fallen into stagnation. In light of the high level of public indebtedness in the range of 130% of GDP, the government intends to reduce outlays on public projects, thus aggravating the already clearly recessive environment. In this framework, industrial output has continued on a downward trajectory, while stock levels have risen. One should stress that the new government has moved in the direction of structural reforms targeted at enhancing the nation's competitiveness.

The weak performance of demand reflects only slight expansion in the available income of workers, which remained stable in the first quarter

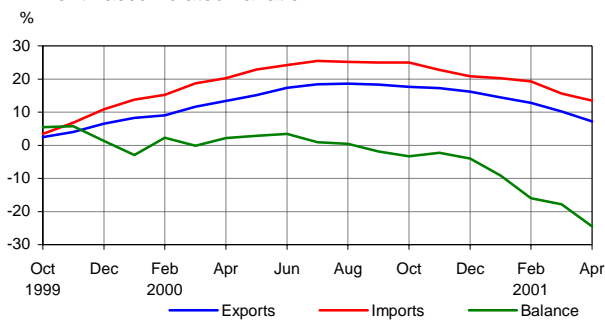
of the year when compared to the previous quarter. Using the same basis of comparison, household spending has remained practically unaltered. In the month of April, the real income of workers and spending dropped by 0.5% and 4.4%, respectively, when compared to the same period of the previous year.

Orders placed with factories expanded by 12.3% in fiscal year 2000, which closed in March 2001. This performance was, to a certain extent, generated by increased exports. However, in the first quarter, orders fell by 19.4% when compared to the previous quarter, and 6.1% when viewed against the same quarter of 2000. Part of the reason underlying this performance was the falloff in net external demand.

The construction industry has not responded positively to the incentive measures adopted in 2000 and which involved allocation of US\$ 10 billion to this sector of activity. Consequently, new construction starts declined by 1.4% in March, compared to the same period of 2000. In the first quarter, the decline in the indicator came to 6.1% in comparison to the same period of the previous year.

Trade balance

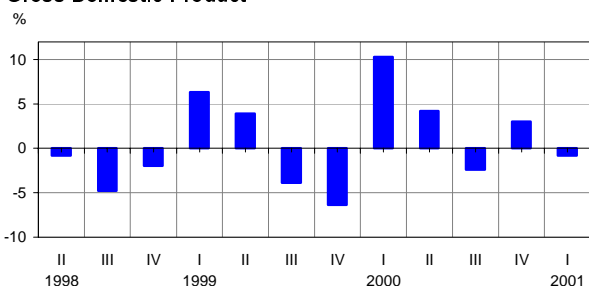
12 month accumulated variation



Source: Bank of Japan and Bloomberg

Exports totaled US\$ 143.9 billion in the first four months of the year, registering negative growth of 9.6% in relation to the figure for the same period of the previous year. Parallel to this, imports increased by 3% to a level of US\$ 121.3 billion. In this scenario, accumulated twelve month expansion in the trade balance, which has been on a downward curve since September 2000, closed at 45.6% up to April.

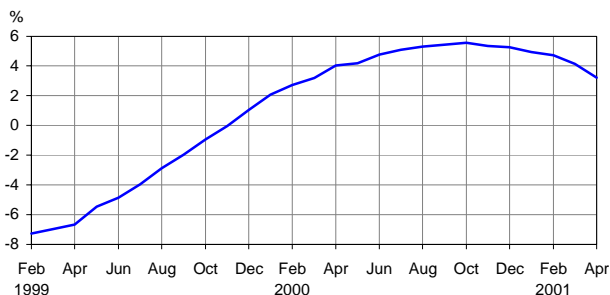
Gross Domestic Product^{1/}



Source: Economic Planning Agency and Bloomberg
 1/ Growth over previous quarter seasonally adjusted, annualized rate.

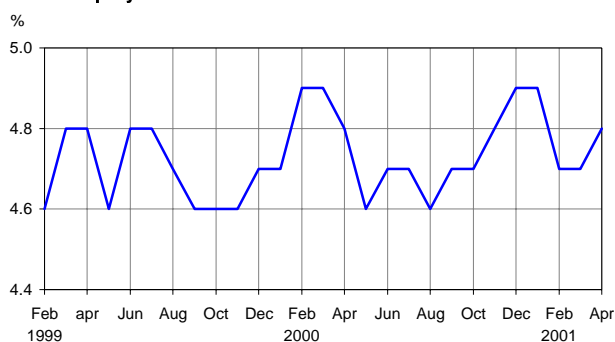
In the preliminary GDP estimate, the annualized growth rate in the fourth quarter of 2000 in relation to the previous quarter came to 3%. In comparison to the same quarter of 1999, growth closed at 2.2%, as a consequence of annual expansion of 1.5% in 2000. In the first quarter of 2001, the preliminary government estimate pointed to a reduction of 0.8% of GDP, in annualized terms. Industrial output has reflected the impact of stagnated internal demand and

Industrial production 12 month accumulated variation



Source: Ministry of Economy, Trade and Industry (Meti)

Unemployment rate



Source: Statistics Bureau and Statistics Center

a cutback in foreign orders, particularly from the United States and Taiwan, the latter being a major market for Japanese goods in Asia.

The rate of unemployment rose slightly in fiscal year 2000 and closed December at 4.9%. This is a situation that will tend to worsen as a consequence of the structural reforms now being introduced and which have the dual objective of enhancing competitiveness and reducing investments in public projects.

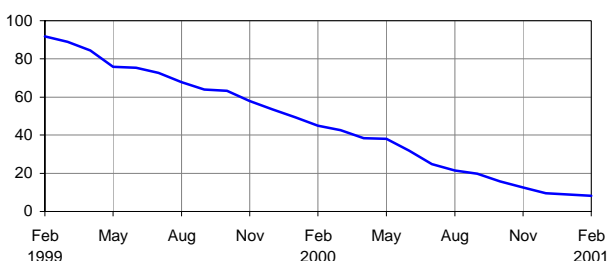
During the course of 2000 and the first three months of 2001, the economic environment has been one of deflation. In the month of April, the Consumer Price Index (CPI) increased by 0.2% in relation to March, mirroring the effects of near zero interest, and closed with negative growth of 0.4% when compared to April of the previous year. The Wholesale Price Index (WPI) registered annual expansion of 1.1% in April. The results of this index have been positive since August 2000, as a response to steady devaluation of the yen. In this sense, the average rate of exchange came to 123.38 yens/US\$ and has followed a consistently downward curve since September 2000 when exchange hovered in the range of 106.8 yens/US\$.

In the month of March, central bank liquidity controls became the major monetary policy instrument in detriment to setting the interest rate target in money market operations. According to the new system, the central bank will set a target in terms of the quantity of the funds to be provided and then allow market forces to define interest rates. In this way, the quantity of currency in circulation increased from 4 trillion yens to 5 trillion yens as of April, reflecting an interest rate in the range of zero. At its June meeting, the central bank maintained the current parameters. This policy is to be reversed to the extent that the CPI turns positive and the WPI is able to sustain the upward movement.

3.3 – Euro Zone

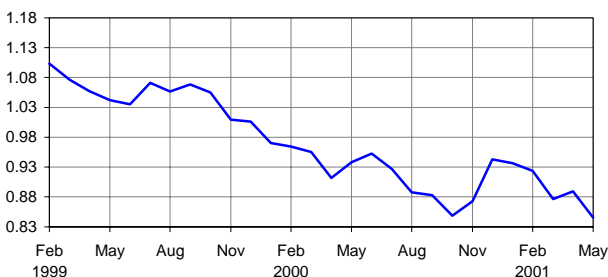
The economies of the Euro Zone countries have been impacted by world economic deceleration and further reductions in growth expectations should be forthcoming in the current year. Over the medium-term, this less vibrant level of growth should make it possible to bring inflation more or less into line with the 2% annual reference defined by the European Central Bank (ECB). Consequently, the ECB reduced its basic interest rates in May following seven months of stability.

Trade balance
Accumulated in 12 months
US\$ billion



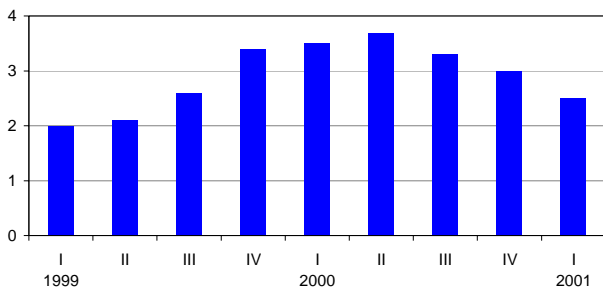
Source: ECB

Dollar/euro exchange rate^{1/}
US\$/euro



Source: Bloomberg
1/ End of the month.

Gross Domestic Product^{1/}
% growth



Source: Eurostat
1/ Variation over the same quarter of previous year.

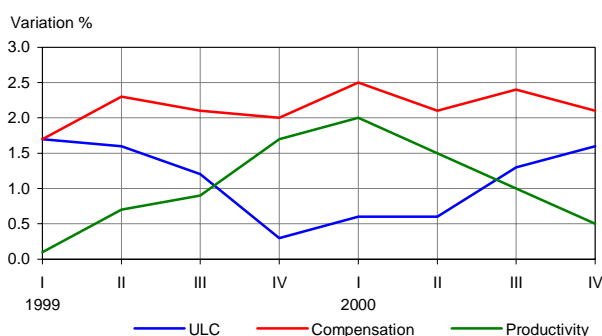
Among demand indicators, retail sales registered monthly growth of 0.4% and 0.1% in January and February of this year, respectively, with declines of 2.6% and 1.6% in comparison to the same periods of 2000. In the month of March, these sales fell by 0.4%, for expansion of 1.6% in twelve month accumulated terms.

The balance of trade has followed a downward trajectory when expressed as twelve month accumulated results. For the most part, this has been caused by a loss of dynamism in the export sector. In this sense, the surplus dropped to US\$ 8.2 billion, accumulated up to February, compared to US\$ 44.9 billion in the same period of the previous year. In the early months of 2001, the dollar/euro exchange rate sustained the process of devaluation begun in October of the previous year, as the average rate closed the month of May at 0.8749 dollars/euro.

The growth rates under GDP and industrial output were also lower in the Euro Zone countries. Compared to the same quarter of the previous year, growth in the second quarter came to 3.7%, dropping to 3.3% and 2.9% in the subsequent quarters. In the first quarter of 2001, GDP expanded by 2% in comparison to the previous quarter, based on annualized data purged of seasonal factors, and 2.5% in relation to the same period of the previous year.

Once seasonal influences have been eliminated, industrial output dropped by 1.9% in January and 0.2% in March, while registering positive growth of 0.5% in the month of February. Annual growth in industrial production in relation to the same month of the previous year closed with a negative result in March for the fourth consecutive month, closing with 3% compared to 5.5% in January and 4.2% in February.

Labor cost and productivity

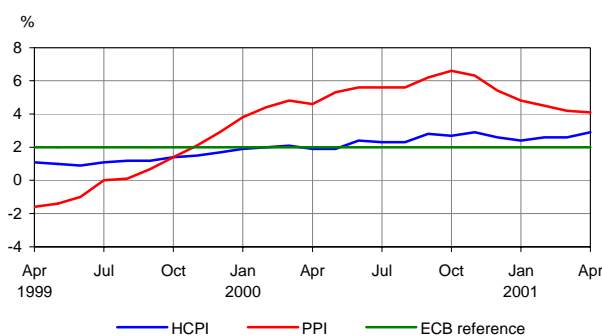


Source: ECB

The slowdown in economic activity interrupted the decline in the unemployment level that began in 1999. In this sense, the rate of unemployment, which had steadied at the level of 8.5% since October, dropped to 8.4% in February and 8.3% in April. Productivity gains dropped by 0.5% in the fourth quarter of 2000, in comparison to growth of 2%, 1.5% and 1%, respectively, in the first three quarters of that year, thus raising the unit labor cost which had expanded in the third and fourth quarters of 2000 by rates of 1.3% and 1.6%.

The monetary aggregate (M3) turned in annual growth of 4.8% in the first two months of 2001, after reaching a record growth level of 6.5%. It should be stressed that the ECB analyzed the Mt figure and came to the conclusion that it had been overestimated in a manner that could not be ignored due to inclusion of security demand by nonresident investors. When this situation is corrected, M3 growth will close below the ECB reference which is 4.5% expansion for the annualized movable quarterly average. These figures reflect a significant reduction in the perception of medium-term inflationary risks.

HCPI and PPI - annual variation

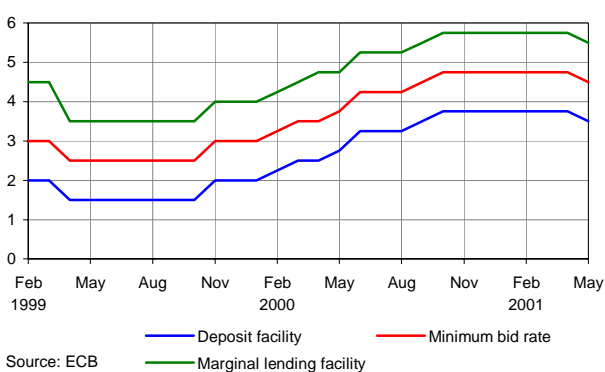


Source: Eurostat

In light of expectations of a review of the expansionary M3 trajectory and a settling back of the pace of economic activity, medium-term ECB expectations for the Harmonized Consumer Price Index (HCPI) became consistent with the annual reference of 2%, despite the April index under this heading. The annual HCPI remained at 2.6% in February and March and closed April at 2.9%. The Producer Price Index (PPI) has followed a downward curve, with annual results of 4.8% in January and 4.1% in February.

The business confidence indicators of the major Euro Zone countries indicate a lesser degree of economic dynamism. Consequently, in the case of France, the French Industrial Trends Survey, which is calculated by the Insee, came to 104 in May, following levels of 107 in April and 115 in January. In Germany, the General Business Climate Index, calculated by the IFO Institute, dropped from 97.4 in January to 92.5 in April. In the case of Italy, the Italian Business Confidence Indicator, which is calculated by the Institute of Studies and Economic Analysis (Isae), registered a slight rise between February and April, moving from 94 to 96, though it remained below the January level of 100.

Basic interest rates



Viewed in the context of the international economic scenario and its impacts on the dynamics of the Euro Zone countries, the ECB opted for a more relaxed monetary policy. To achieve this, it lowered the basic rate of interest by 0.25 p.p., following seven months of rate stability. The minimum refinancing rate was set at 4% per year on May 11, and was maintained at that level at the June 7 meeting.

3.4 – Emerging economies

3.4.1 – Asian economies

China

Though still quite robust, the pace of growth in the Chinese economy has been adversely impacted by declining external demand. However, public policy decisions have stimulated internal demand and managed to sustain the activity level. In the month of March, the government granted a 30% wage increase to the civil service and, in this way, has provided an added incentive to consumer spending. Retail sales have moved upward when one considers changes in relation to the same period of the previous year, with growth of 8.6% in February, 9.5% in March and 9.7% in April. Expectations are that, should any signs of a cooling of internal demand come to the fore, fiscal incentives will be adopted to reverse such a trend.

Insofar as the external sector is concerned, the trade balance registered a reduction between March and April from US\$ 2.4 billion to US\$ 700 million, the lowest surplus in four months. This result is a consequence of lesser dynamism in the export sector caused by declining overall demand, and of rising competition from regional competitors that have devalued their currencies. Annual export growth declined from 14.8% in March to 9.8% in April, a month in which the country exported a total of US\$ 22.5 billion. Internal demand managed to sustain the 18.6% growth in imports in the month of April, compared to 16.6% in March, in comparison to the same months of 2000.

Foreign direct investments (FDI) have also expanded considerably, principally in the first quarter of the year. when flows increased by more than 40% over 12 months. In the first four months of 2001, inflows came to a total of US\$ 11 billion.

In the first quarter of 2001, the Chinese GDP expanded by 8.1%, in comparison to the same period of 2000. This performance is comparable to the previous year (8%) and higher than the government's target for 2001 (7%). Industrial output was negatively impacted by the trajectory of the export sector. However, investments by state companies were sufficient to sustain industrial activity, particularly heavy industry. Growth of 11.5% in industrial output in the month of April, compared to the same month of 2000, reflected deceleration in relation to previous months, with 12.1% in March and 19% in February.

Consumer prices grew by -0.6% in March and 0.2% in April, accumulating 12 expansion of 1.6%. However, this increase was generated by growth in government managed service rates and are not expected to be disseminated into the other components of the index.

South Korea

The South Korean economy continued on a downward trajectory in the first quarter of the year, since internal demand was insufficient to offset the effects of the falloff in world economic activity. The absence of recovery in the country's growth levels is expected to lead the government to adopt expansionary policies.

Exports and imports have been impacted by the fragile performance of external and internal demand. Despite this, the trade surplus expanded to a level of US\$ 3.2 billion in the first four months of this year, compared to US\$ 600 million in the same period of 2000. For the most part, this result was generated by a drop in import operations. Exports fell by 1.8% and 9.3% in the months of March and April, when compared to the same periods of 2000. Here, the highpoint was 33% growth in sales of semiconductors in the month of April. Utilizing the same reference base, imports registered a decline of 9% in March and 16% in April. This decline is a negative leading indicator for internal output, since the country's exports have a high level of imported components.

Confirming the downward movement that occurred toward the end of 2000, GDP expanded by 3.7% in the first quarter of 2001, compared to the result for the same quarter of the previous year. When viewed against the fourth and third quarters of 2000, growth came to 4.6% and 9.2%, respectively. The major positive contributions to the result were net exports of goods and services which increased by 7.7%.

Annual growth in industrial product has followed a declining curve, as evident in 8.6% growth in February, 6.2% in March and 5.7% in April. In the latter month, once seasonal impacts have been eliminated, the final result was a negative 1.3%, following four consecutive months of expansion. Despite growth in the industrial sector, one should note that the jobless rate continued on a downward curve and, in seasonally adjusted figures, closed April at 3.8%.

In relation to inflation, consumer and producer prices have moved upward in recent months. Annual growth in the consumer price index came to 4.4% in March and 5.3% in April, following 4.2% in January and February. However, according to the Monetary Policy Committee of the Bank of Korea, this trajectory is no threat to the inflation target, since it is not a result of demand pressures but rather of cost increases, such as the depreciation of the won and increases in food product prices. In the twelve month period ended in April, producer prices came to 3.3%, compared to 2.8% in March.

On May 8, the Monetary Policy Committee maintained the basic interest rate at 5% per year, following a cutback of 25 base points in February.

Consumer expectations improved in recent months, suggesting that the pace of activity could intensify in the second half of the year. The current index and that which measures expectations for the next six months increased from 74.1 and 94.1 in March to 80.9 and 96.3 in April, respectively. Both of these indices are calculated by the National Statistics Office.

3.4.2 – Turkey

The Turkish economy registered considerable recovery over the course of 2000, following announcement of a program against inflation that aided in reducing uncertainties regarding exchange. The economic program included fiscal adjustment measures and improvements in the conditions of international financing contracted by the Turkish government, making it possible for the country to reduce interest rates. The result was an increase in credit operations and consumer spending and, consequently, imports. Thus, The Turkish GDP expanded by 7.2% in 2000, with a particularly strong performance under internal demand (9.2%). Last November, however, a new economic-financial crisis exploded and continued into the month of February of this year when the government decided to adopt a flexible system of exchange. In this context, the economy registered a downturn in the first quarter of 2001, reflecting the impact of monetary restrictions adopted toward the end of last year.

The high level of real interest rates – more than 40% per year, depreciation of the Turkish lira and declining employment rates had a negative impact on consumer confidence. This, in turn, reduced consumer spending and principally outlays on consumer durables. Industrial production registered a downturn of more than 10% in the month of April, with a particularly strong 12% plunge in the manufacturing sector. In this scenario, the government announced a new economic stabilization program, that aided in stabilizing the financial market, reducing social tensions and obtaining additional international financial assistance.

In the early months of 2001, inflation turned downward in response to the reduced supply of credit that followed in the wake of the November crisis. Once the lira was allowed to float as of February, production costs increased and public sector prices became a source of pressure

on the price trajectory. Thus, in the month of March, consumer and wholesale prices moved upward by rates of 6.1% and 10.1%, respectively. In April, the realignment of public prices and devaluation of the nation's currency contributed to monthly growth of 10.3% in consumer prices and 14.4% in the wholesale price index. In light of the continued cost pressures expected in the coming months, it is estimated that prices will remain on an upward curve. It should be noted, however, that transmission of the exchange devaluation to consumers is not expected to be significant due to the degree of decline in internal demand. The Turkish central bank projects inflation at 52% in 2001, when measured according to the consumer price index, and 56.7%, according to the wholesale price index.

Insofar as additional international financial assistance is concerned, inflows from the IMF and World Bank are expected to total US\$ 15.7 billion. Evidently, these funds will aid the country in meeting its external liabilities and raising the level of its international reserves. With this assistance, it is hoped that financial and exchange market confidence can be restored, thus reducing perceptions of risk and, consequently, real rates of interest. One should also note that, much as occurred in other emerging European economies, devaluation of the lira could generate strong growth in exports.

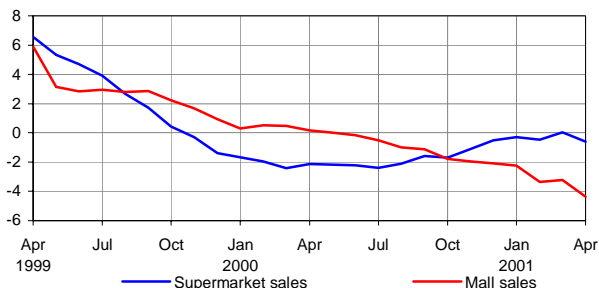
3.4.3 – Latin America

Argentina

The absence of signs of a turnaround in the current recession, which has already lasted a full 36 months, coupled with the government's difficulties in implementing the adjustments required to achieve satisfactory fiscal results have created an economic-financial situation of acute instability in recent months as is evident in the upward spiral in internal interest rates and sovereign risk. In this framework of highly volatile financial indicators and uncertainties regarding the country's capacity to honor its commitments, the designation of Domingo Cavallo as Minister of the Economy, renegotiation of the country's agreement with the International Monetary Fund (IMF), the recent exchange operation involving the nation's debt securities and the measures announced on June 15 should

be seen as an effort to reverse deteriorating expectations with respect to the underpinnings of the Argentina economy.

Consumer indicators
Accumulated in 12 months
%



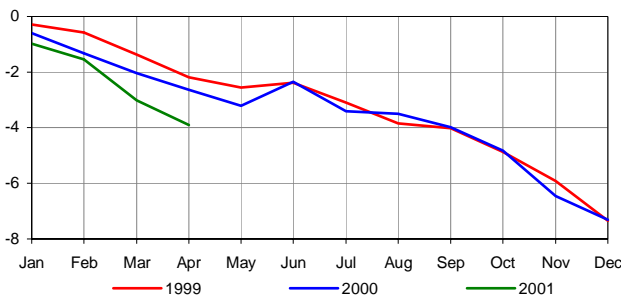
Source: Indec

Aggregate demand registered negative growth of 1.7% in the fourth quarter of 2000, in relation to the same period of the preceding year. This result was based on a drop of 10.8% in gross fixed capital formation, 1.7% in private consumption and 1.2% in public consumption. Exports increased by 1.1%, using the same basis of comparison. Consumption indicators show some rather frail signs of recovery, as sales in supermarkets and shopping centers expanded in March, though they turned downward

once again in April, when compared to the same months of the previous year. In April, the Construction Activity Indicator (Isac) turned in its first positive result since January 2000, increasing by 2.5% in relation to April of the previous year.

Fiscal budget

Accumulated in year
\$ billion



Source: Ministerio de Economía/Secretaría de Hacienda

The public sector registered an accumulated overall deficit of US\$ 4 billion in the first four months of 2001. This result was 59% greater than in the same period of the previous year. Basically, the deterioration in the fiscal result reflects a 4.8% reduction in current revenues, generated mostly by a lesser inflow of tax revenues. One should note that renegotiation of the agreement with the IMF in May ratified fiscal targets for the first half of the year, which can be summarized as deficits of US\$ 4.9 billion for

the first semester and US\$ 6.5 billion for the current year, despite noncompliance with the target for the first quarter of the year.

The balance of trade registered a surplus of US\$ 231 million in the first quarter of 2001. Foreign sales expanded by 4% in relation to the same period of 2000 and added up to US\$ 5.9 billion, while imports dropped by 3% to a level of US\$ 5.7 billion, using the same basis of reference. Differently from the previous year when the result benefited from higher petroleum prices, the performance of the export sector was based on sales of farm commodities and industrial manufactured goods. Imports have followed a downward curve since 2000, reflecting the falloff in

acquisitions of capital goods as a result of the worsening of the recessive scenario.

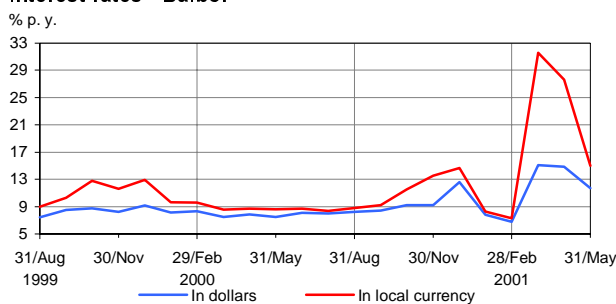
In 2000, GDP dropped by 0.5% in relation to the 1999 result. This figure was based on expansion of 0.5% and 0.8% in the first and second quarters, respectively, and negative variations of 0.5% and 2% in the third and fourth quarters, in that order. For 2001, product growth is estimated at between 2% and 2.5%, according to the terms of the nation's agreement with the IMF.

In the month of April, industrial output confirmed the downward trend registered since January. The Monthly Industrial Estimator (EMI) accumulated a 12 month drop of 1.4% up to April, compared to 1.5% up to March and stability in the month of December. These figures were released by *Instituto Nacional de Estadística y Censos* (Indec). Aside from this, the qualitative industrial survey carried out by Indec in the month of May as regards business expectations pointed to a situation of pessimism regarding the internal scenario. In the month of May, 64.7% of the businesspersons expected no change in internal demand, while 20% expected an increase in the current level and 15.3% expressed belief in a reduction in demand.

The price trajectory has remained stable. The Consumer Price Index turned in 0.67% growth in April, accumulating negative growth of 0.23% over 12 months, according to Indec. The Wholesale Price Index (Ipim) registered stability in April, accumulating growth of 0.46% in the last 12 months.

The instability of the Argentine economy worsened even further as of March. The persistence of the recession, coupled with uncertainties regarding the real possibilities of compliance with external commitments, generated highly negative perspectives and resulted in two changes of the government economic team. At the end of March, the government named former minister Domingo Cavallo to the position of Minister of the Economy. The first measures adopted included institution of a tax on financial transactions as a component of the Law of Competitiveness and a cutback in public spending. On March 28, the Congress granted extraordinary powers to the executive branch for a period of one year, in the expectation that the government would adopt measures aimed at reducing the fiscal deficit.

One should note that the naming of Cavallo had highly positive initial impact on financial markets. However, the lack of clear signs of an economic upturn and repeatedly negative fiscal results aggravated already rampant uncertainties in relation to the sustainability of the fundamentals of the Argentine economy. In the month of May, the country signed a renegotiated agreement with the IMF that included a waiver referring to noncompliance with the previous targets and anticipation of scheduled IMF disbursements. In the same month, the government instituted a new series of measures aimed at reducing the fiscal deficit. These included an increase in the recently created tax on financial transactions from 0.25% to 0.4%; institution of a value added tax on activities previously exempt; and additional cutbacks in public spending.

Interest rates - Baibor^{1/}

Source: Ministerio de Economía/BCRA
1/ 30-day interbank market offered rates.

In this scenario of uncertainty, financial markets became deeply volatile and the situation was further aggravated by a lack of a decisive political posture and the worsening of the recession. The Baibor interest rate for 30 day operations in pesos moved to 36% per year on March 26 and the differential in relation to 30 day operations in dollars moved to 16.8%. Auctions of Treasury Bills (Letes) registered growing rates. On March 27, the sale US\$ 353 million in 91 day Treasury Bills (Letes) came to a rate of 10.96% per year, compared to 6.86% per year on February 20. On May 8, a new offer of US\$ 350 million of these papers registered a financial cost of 12.44% per year. The volatility of financial indicators and uncertainties regarding the future of the economy generated repercussions on the financial system. Consequently, from January to May, financial system deposits fell by 7.2% and sovereign risk closed at 1,300 base points in April.

In early June, the Argentine government proposed an exchange of debt securities in order to reduce pressures generated by the need to finance the economy over the short term. The total volume of the operation came to US\$ 29.5 billion in terms of the securities redeemed and lengthened the maturity terms of the Argentine debt while diminishing public sector funding requirements by US\$ 16 billion up to 2005. Despite doubts raised as to the effectiveness of the exchange in light of the high rates implicit in the operation, at least over the short run the operation

will tend to reduce the cost of other funding operations and contribute to improved financial market expectations.

On June 15, the government announced a series of measures designed to stimulate the economy. The highlight of these measures is a transitory foreign trade system that will utilize a convergence factor designed to impact the exchange rates utilized in commercial operations. This factor will be calculated daily by the Central Bank of the Argentine Republic, on the basis of the difference between the dollar and euro rates on the London interbank market for utilization in payments of imports and in export bonds. At the same time, among the measures announced, one should also cite reductions in the extra-Mercosul Common External Tariff for consumer goods from 35% to 27% and in refunds of the Value Added Tax on exports. These measures also include steps to increase the available income of the working population, stimulate construction and restructure the tax system.

Chile

Chile's GDP increased by 5.4% in 2000, in contrast to a reduction of 1.1% in the preceding year. Basically, this performance was based on a vibrant performance by the export sector. In the first quarter of 2001, GDP expanded by 3.3% in relation to the same quarter of the previous year, compared to expansion of 5.6% and 4.5% in the third and fourth quarters of 2000. This growth was a consequence of the trajectory of world growth and financial turbulence in Latin American countries. In this context, Chile's monetary policy took on an expansionary character as of the early months of 2001 and clearly benefited from the sharp drop in the annual inflation rate.

The monthly economic activity indicator (Imacec), which had grown by 4.5% in 2000, accumulated growth of 4.1% in the twelve month period up to March according to the Chilean central bank. The industrial output index which is calculated by the National Institute of Statistics (INE) expanded by 1.6% in accumulated 12 month terms up to April, following a period of decline between the final months of 2000 and the early months of the current year. The jobless rate measured by INE, which had oscillated between 9% and 10% since January 2000, increased from 9.3% in December 2000 to 9.7% in the month of April.

Insofar as the external sector of the economy is concerned, the 12 month accumulated trade surplus up to April came to US\$ 1.5 billion as a consequence of exports of US\$ 18.5 billion and imports of US\$ 17 billion. When one considers the balance accumulated in the year, exports, which totaled US\$ 6.5 billion, were 5.5% higher than in the same period of the previous year, while imports, US\$ 5.6 billion, expanded by 4.2%, reflecting a 1% rise in the trade surplus.

The Consumer Price Index (IPC) expanded by 3.5% in the 12 month period up to April, as compared to 4.5% in 2000. Using the same basis of reference, the core consumer price index, which excludes fuels and foodstuffs, increased by 2.5% and 3.4%, respectively. The Wholesale Price Index (IPM) which had declined in 2000, registered accelerated growth in the four month period, with 10.7% in accumulated 12 month terms up to April.

Chilean monetary policy had an expansionary profile in the early months of 2001. However, with the decline in internal demand and the rise in the jobless rate and private debt levels, the Council of the Banco Central decided to trim interest rates by 125 base points between January and April 2001, setting the rate at 3.75% per year above the change in the value of the Development Unit (UF). Expectations of the Central Bank were that the unemployment rate would decline and consumer spending would move upward in the first half of the year, contributing strongly to the forecast GDP growth levels of between 4.3% and 5% in 2001.

Mexico

Mexican economic indicators point to a moderate pace of activity in line with the proximity between that country's economy and that of the United States. Mexican GDP increased by 1.9% in the first quarter, in comparison to the same period of the previous year, and 5.1% in the previous quarter. These data were released by the National Institute of Statistics, Geography and Information (Inegi). One should stress that performance in the first quarter reflected growth of 3.9% in the service sector and reductions of 1.3% and 5.5% in the industrial and agricultural segments.

The balance of trade turned in a deficit of US\$ 3 billion in the first four months of the year, more than doubling the result of the same period of the preceding year. This result reflects a 7.8% rise in imports, which came to US\$ 55.9 billion, and growth of 4.9% in exports, with a total of US\$ 52.9 billion. One should emphasize that nonpetroleum sales increased by 6.5%, while those of petroleum dropped by 9.1%, using the same reference base.

In the month of April, industrial production decreased by 3.1% in relation to the same month of 2000, and 1.4% when compared to the previous month. Thus, industrial output dropped by 1.8% in the first four months of the year, in comparison to the result for the preceding year, despite the growth registered by the many purely assembly companies involved in exports. The open unemployment rate closed at 2.26%, with an average rate of 2.43% in the first four months of the year, compared to 2.33% in the same period of the previous year.

Inflation continued on a consistently downward trajectory. The national consumer price index registered annual growth of 6.95% in May, compared to 9.48% and 8.96% in May and December of the previous year, respectively. The national producer price index turned in annual growth of 3.84% in May, compared to growth of 11.31% and 6.37% on the same basis of comparison.

3.5 – Petroleum

A lower than expected volume of industrial orders in the first quarter, consequent upon the impact of consistently high energy prices at a time of only moderate world economic growth resulted in a downward revision of overall demand for petroleum derived products in 2001 to 76.54 million barrels per day, thus reflecting a cutback of 160 thousand barrels/day in relation to the estimates issued at the start of the current year.

Preliminary estimates indicate that average world production came to 77.1 million barrels/day in April, for a decline of 930 thousand barrels/day in relation to March. The supply of the Organization of Petroleum Exporter Countries (Opec), including Iraq, dropped by 560 thousand

barrels per day, while output of the countries that do not belong to the Organization declined by 370 thousand barrels per day. With this, Iraqi output came to 2.95 million barrels/day in April, while Opec production – excluding Iraq – came to 24.9 million barrels/day, resulting in a production level that was 700 thousand barrels/day higher than the target set to go into effect as of April.

At its June 5 meeting, Opec decided to maintain the production quota of its member countries, after concluding that the petroleum market situation in terms of flows and stocks was satisfactory, despite the interruption in Iraqi output. The organization considered that the prices of the reference base, which have remained relatively stable in the range of US\$ 24.8 per barrel since the start of the year, were in compliance with the interval of US\$ 22 per barrel and US\$ 28 per barrel, which is considered acceptable by both producers and consumers. The group is scheduled to meet again on July 3.

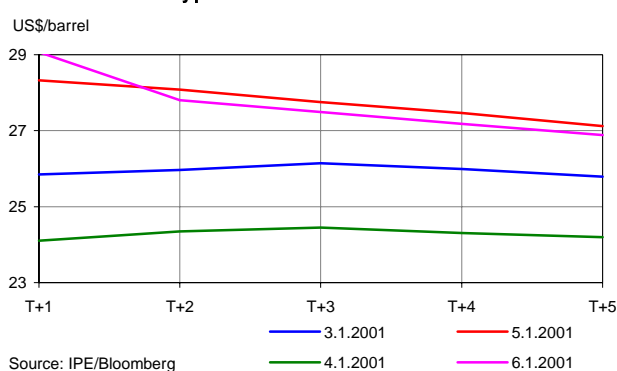
Spot Brent - type crude oil



The price of Brent-type petroleum on June 18 closed at US\$ 28.4 per barrel, compared to US\$ 27.3 per barrel at the end of April and US\$ 23.6 per barrel in March, clearly indicating that the price of the product has followed an upward curve since the end of the first quarter of the year. One should highlight the fact that prices in early June were similar to those registered in the same period of 2000, US\$ 29 per barrel.

In the case of the futures market, the price of contracts for the month of June followed an upward trajectory in January, closing at US\$ 28 per barrel, compared to US\$ 23.7 per barrel in the early days of the year.

Forward Brent - type crude oil



Between the start of February and mid-March, the price of this contract declined to US\$ 24.2 per barrel with highly intense oscillation. At the end of March, petroleum prices moved upward on the spot and futures markets, in view of strong increases in gasoline prices in the United States, and some countries of Europe, as well as South Korea. Futures contracts for June and September increased from US\$ 24.2 per barrel and US\$ 24.6 per barrel,

respectively, on April 2, to US\$ 28.4 per barrel and US\$ 27.4 per barrel, on May 16. In the first week of June, prices on September contracts varied between US\$ 27 per barrel and US\$ 28 per barrel.

3.6 – Conclusion

Recent economic indicators confirm the deceleration in economic activity in the United States, Europe, Japan and the emerging economies. In the case of the United States, the deceleration process has been gradual and should continue at this pace up to the third quarter of the year. The European economy has also shifted into low gear, mostly as a result of declining external demand and deteriorating expectations among internal economic agents. In relation to the Japanese economy, the generalized cooling of economic activity on a world scale has tended to generate even more adverse impacts on the nation's economic activity. This is explained by the fact that exports have been the only real source of support to the low level of economic activity, since internal demand remains very sluggish.

The economies of Latin America also turned sharply downward. In Mexico and Chile, there are expectations that more flexible monetary policies will contribute to an upturn in activity. In Argentina, the recent debt security exchange has had a positive impact on investor perceptions, though basic uncertainties remain regarding the nation's capacity to regain a growth trajectory, particularly when one considers the contractive nature of Argentine fiscal policy.

Other emerging economies, such as Turkey, have experienced difficulties in defining consistent recovery programs. However, they have received international financial support as required to generate the conditions needed to improve their economic indicators.

With respect to petroleum, expectations regarding supply and demand do not provide any real indications of a possible downturn in the price trajectory.