

United Nations  
Economic  
Commission for  
Latin America and  
the Caribbean

ECLAC WASHINGTON  
Office

LC/WAS/L.72

# **C**apital Flows to Latin America Second Quarter 2004



UNITED NATIONS



Washington, D.C. November 2004

## CAPITAL FLOWS TO LATIN AMERICA Second Quarter of 2004\*

During the second quarter, the prospect of an unexpected U.S. interest rate increase weakened investors' appetite for risk, and capital flows to Latin America faded in response. Latin American spreads increased by 71 basis points during the quarter, up to 607 bps at the end of June, from 536 bps at the end of March. Quarterly issuance in Latin America also suffered, dropping to US\$4.7 billion, a level not seen since the last quarter of 2002. As a result, Latin America moved behind Eastern Europe, which issued US\$6.3 billion or 39% of total emerging market issuance, compared to 29% for Latin America. Moreover, most of the major Latin American stock prices indices fell. The MSCI Latin American Index, for example, fell by 9.2% during the quarter.

Nevertheless, the increase of U.S. interest rates does not seem to have had a negative effect on economic conditions in many Latin American countries so far. The trade surplus in Brazil is higher than anticipated, the economies in Mexico and Peru are expected to grow by 4.5% this year, 0.5% higher than anticipated and the Venezuelan economy continues to be boosted by high oil prices.

Some Latin American countries, however, are concerned about how they will meet their financial needs. Argentina's debt proposal fell short in its efforts to satisfy investors and the country has not yet succeeded to meet its commitments on fiscal reforms, sector regulations and public bank reviews. The Colombian government has not improved the fiscal situation of the country and Ecuador continues to show negative fiscal figures.<sup>1</sup>

In spite of these concerns, the global situation in Latin America looks brighter than anticipated. After the initial shock in April and May, investors became more confident about the Fed's commitment to limit volatility in the market by increasing

### BOX 1: *Credit Ratings*

During the second quarter of 2004, there was an improvement in sovereign credit ratings, as upgrades continued to exceed downgrades. Expectations for upgrades also exceeded expectations for downgrades.

In the case of Latin America, credit ratings improved slightly in the second quarter, although the outlook remained negative for some countries. Peru's credit rating was upgraded from BB- to BB and Trinidad & Tobago was also upgraded from BBB to BBB+ with a positive outlook for further upgrade. On the other hand, the situation did not improve for Paraguay, with Standard & Poor's affirming its credit rating as SD, a *Default Grade*, with a negative outlook. Although Costa Rica kept its credit rating at BB, the outlook was deemed negative by S&P's.

Mexico's credit rating was affirmed by S&P's, but it is still being considered for an upgrade by Moody's in the near future. In contrast, there is a persisting risk that the Dominican Republic will suffer a downgrade (see Appendix A).

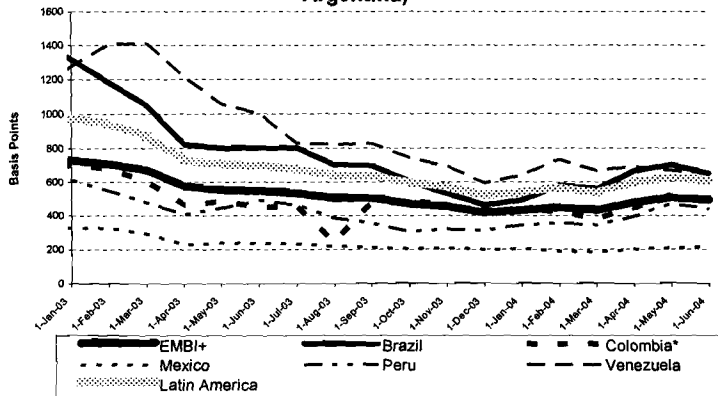
\* This document has been prepared on the basis of market views and developments. All data and information are from market sources, unless otherwise noted.

<sup>1</sup> J.P. Morgan, *Emerging Markets Outlook and Strategy*, July 1, 2004.

slowly and gradually its short-term interest rate. Spreads started to decrease in June in most of the major Latin American economies and Latin American stocks also began to recover.

## I. Bond Markets and Debt Management

**Chart 1**  
Spreads on JP Morgan EMBI+ and Latin American Composites January 2003 to June 2004 (without Argentina)



\* The Colombia 7 5/8% due 07 and the Colombia 8 5/8% due 08 were added at the end of May 99.

Source: ECLAC, on the basis of data from "Emerging Markets Bond Index Monitor", JP Morgan.

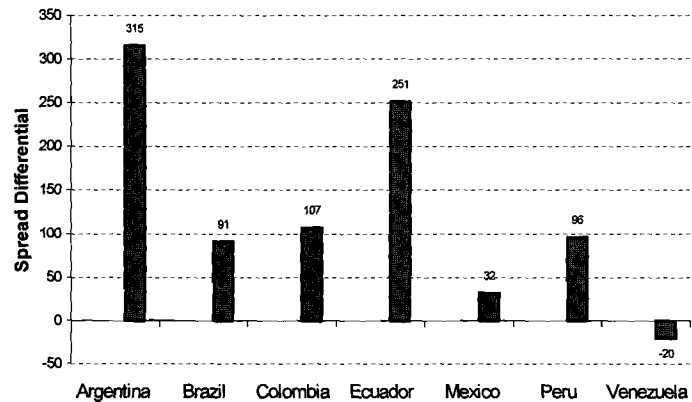
Spreads increased for all major Latin American markets during the second quarter, except for Venezuela, whose spreads tightened by 20 bps. Argentina and Ecuador showed the biggest spread differentials; their spreads increased by 315 bps and 251 bps respectively (see Chart 2).

Mexico remained overweight in investors' portfolios, since the economy continued to surprise, with an expected growth of 4.5%. Colombia and Peru remained neutral, while Ecuador moved from underweight to neutral. Venezuela finally was downgraded from overweight to neutral because of the impossibility to predict the result of the referendum vote.<sup>2</sup>

According to the Emerging Markets Traders Association (EMTA)<sup>3</sup>, the emerging market trade volume declined to US\$997 billion in the second quarter of 2004, a 5% drop

During the second quarter, emerging market spreads, as measured by the J.P. Morgan EMBI+ index, rose slightly from 432 bps at the end of March to 493 bps at the end of June, after having reached a peak of 508 bps at the end of May. The Latin American component followed the movements of the EMBI+ index, starting at 536 bps at the end of March to end at 607 bps by the end of June (see Chart 1).

**Chart 2**  
Spread Differentials Q2 2004



Source: ECLAC, on the basis of data from JP Morgan.

<sup>2</sup> J.P Morgan, *Emerging Markets Outlook and Strategy*, July 1, 2004.

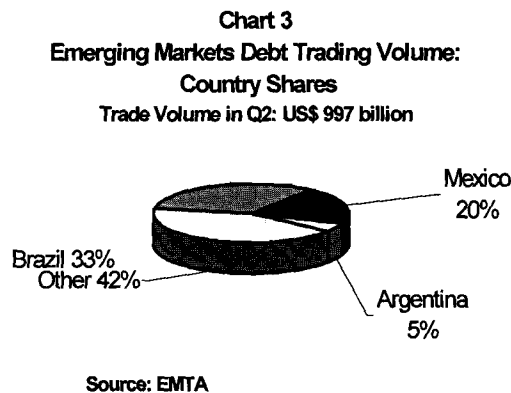
<sup>3</sup> Emerging Markets Traders Association, *EMTA Survey*, August 18, 2004

from the \$1.046 trillion total of the first quarter. This also represents an 8% decrease compared to the \$1.086 trillion reported during the second quarter of 2003.

Brazilian debt instruments were the most frequently traded for the second consecutive quarter. With a reported total of US\$325 billion, Brazilian instruments represented 33% of total emerging markets trading. This is a 9% increase from the first quarter and a 21% increase from the second quarter of 2003. Brazilian local instruments led the increase in Brazil's debt trading, rising from US\$43 billion during the first quarter to US\$126 billion during the second (a 197% increase).

Mexican debt instruments represented 21% of total emerging market trading. While still the second most frequently traded behind Brazil, Mexico's debt trading declined by 17% in the second quarter, from US\$246 billion in the first quarter to US\$204 billion. Mexican local instruments fell 24% from US\$177 billion to US\$134 billion.

Argentina's were the fifth most traded debt instruments, amounting to US\$46 billion in trading, up from US\$35 billion during the first quarter. Finally, with US\$27 billion traded, Venezuela represented 3% of total EM volumes, despite a 21% fall from the first quarter (see Chart 3).



At US\$463 billion, Eurobond trading volume showed a 5% reduction compared with the US\$486 billion of the first quarter, representing 46% of total volume. The Brazilian 2040 bond was the most frequently traded Eurobond, with US\$54 billion, while the Venezuelan 2027 bond attained the fourth spot with US\$8 billion traded. Sovereign issuances represented 85% of Eurobond trading.

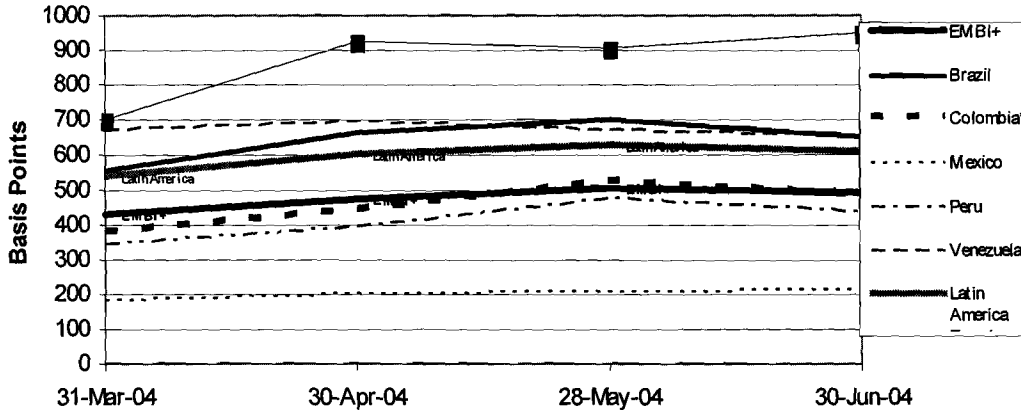
Finally, Brady Bonds accounted for 8% of overall emerging market trading, slightly declining to US\$80 billion in the second quarter (from US\$86 billion during the first quarter).

## A. Spreads

Emerging market spreads widened slightly during the second quarter, with the EMBI+ increasing by 61 bps. The downward trend started in October 2002 ended abruptly in April 2004, as appetite for risk faded and investors turned toward mature market bonds. Increases in spreads were especially severe during April and May (see Chart 4), because of the price readjustment of credit risk and uncertainty about the growth prospects of emerging markets, combined with the fact that the political risk in some important emerging markets was increasing. By the end of May 2004, the emerging market spreads

were 125 bps higher than their lowest point during January, although the situation improved in June as investors became more comfortable with the idea that the Fed would limit market volatility by increasing its rates gradually.

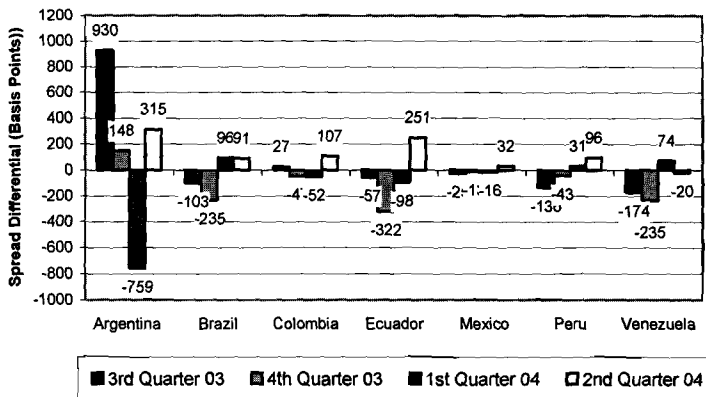
**Chart 4**  
**Spreads on JP Morgan EMBI+ and Latin American Composites Q2 2004**  
 (without Argentina)



Source: ECLAC, on the basis of data from "Emerging Markets Bond Index Monitor", JP Morgan.

The Latin American component of the EMBI+ increased by 90 bps in the second quarter, from 536 bps at the end of March to 626 bps at the end of June. It followed the same path of the EMBI+, and after a steady increase in April and May, it slowed down in June. Spreads widened for all Latin American countries in our sample, except Venezuela (see Chart 5).

**Chart 5**  
**Quarterly Spread Differential**  
 3rd Quarter 2003 - 2nd Quarter 2004

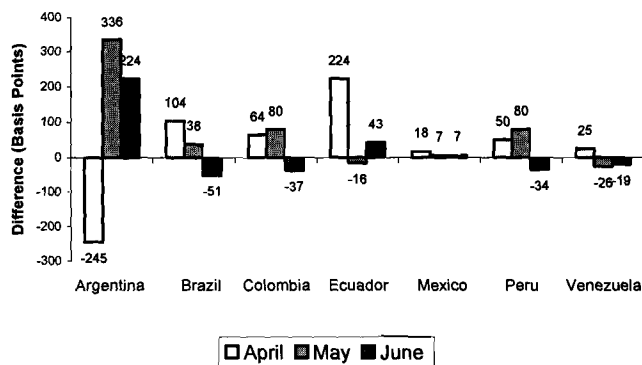


Source: ECLAC, on the basis of data from JP

Spreads in Argentina experienced the biggest reversal. After narrowing by 759 bps during the first quarter, they widened by 315 bps in the second. The increase in spreads in May was driven by anxiety over a possible rise in U.S. interest rates and uncertainty about the outcome of the government's restructuring offer to be delivered to holders of defaulted debt in June. Spreads continued to widen through June, as the

government's updated terms for debt restructuring did not meet investors' requirements and remained below market prices of defaulted debt.

**Chart 6**  
**Monthly Spread Differentials**  
**Q2 2004**



Source: ECLAC, on the basis of data from JP Morgan.

pension. Furthermore, the exceptional financing expected from multilateral agencies did not materialize.

Brazil was also hit by the April-May diversion of capital flows to mature markets, partly because of its large fiscal deficit and increased doubts about its public sector solvency. Spreads in Brazil peaked at 800 bps on May 10, almost twice as high as its January low, although it fell back to 700 bps by the end of May.

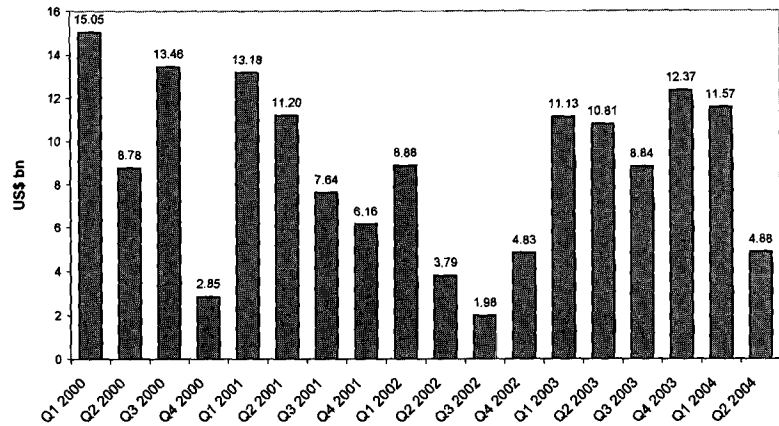
Spreads in Colombia and Peru improved in June after rising substantially in April and May. Fundamentals have been relatively good in both countries, although there has been some concern about Colombia's 2005 financial needs and Peru's political situation. Mexican spreads remained relatively stable increasing by only 32 bps during the second quarter, as growth forecasts showed a better picture than expected. Finally, Venezuela experienced the only spread reduction in the second quarter among the main Latin American markets, moving from 667 bps at the end of March to 647 at the end of June. The Electoral Council finally announced that the referendum to recall President Chavez would be held on August 15, what temporarily reassured investors.

## **B. Issuance**

According to Merrill Lynch, emerging market issuance in the second quarter of 2004 fell to US\$17.6 billion from US\$24.6 billion in the first quarter. This reduction was expected because the first quarter issuances were boosted by expectations of an interest rate rise during the second quarter.

In the case of Ecuador, spreads widened by 251 bps in the second quarter. They increased by 224 bps in April, the largest monthly increase in the quarter, as the government continued to look for financing sources to cover its US\$535 million deficit. The situation improved marginally in May, but spreads increased again in June as the country's financial situation worsened, underscored by a Congressional vote on a non-budgeted hike in the minimum

**Chart 7**  
**Latin American Issuance by Quarter**



Latin American issuance, following the same pattern, also decreased in the second quarter, with bond issuers placing a total of US\$5 billion in international capital markets, a sharp decrease from the almost US\$12 billion issued in the first quarter (see chart 7).

Primary market access became more difficult in late April, but improved towards the end of June, when Brazil launched a well received US\$750 million five-year floating rate note (FRN). According to IMF's *Global Financial Stability Report*, "the FRN capitalized on the growing appetite of investors for protection against rising interest rates. Sovereign and corporate issuers in Chile, Mexico and Venezuela also issued FRNs."<sup>4</sup>

Mexico took a proactive stance with respect to its liability management process in the second quarter. At the end of April, the country completed the first debt exchange by an emerging market of global bonds for other global bonds.<sup>5</sup> The Mexican government exchanged portions of three older bonds (maturing in 2019, 2022 and 2026) with a market value of US\$3.05 billion and a face value of US\$2.34 billion (see Appendix C1), for US\$2.87 billion of two newer bonds (maturing in 2014 and 2033), which actually were already-existing issues that were reopened. Through the exchange Mexico was able to generate savings of US\$50 million in net present value terms and to extend the average maturity of the exchanged debt by almost 4 years. The exchange was well received by investors and analysts, and by offering investors an opportunity to trade out of these older bonds, it actually contributed to lower issuance costs in the future. For countries with similar favorable conditions, a bond exchange similar to Mexico's could lead to savings in the present value of outstanding debt and lower the cost of subsequent debt issues.

Latin American issuance was partly low because of repayment of outstanding international debts by borrowers. Mexican and Brazilian corporations reimbursed US\$2 billion and US\$1.1 billion of their outstanding international debt respectively, while Brazil refinanced only US\$750 million of a US\$2 billion matured bond, repaying the remainder with its foreign exchange reserves.

With 39.9% of total emerging market issuance year to date (ytd), Latin America continued to have the largest share of total net issuance in 2004, just ahead of Central and

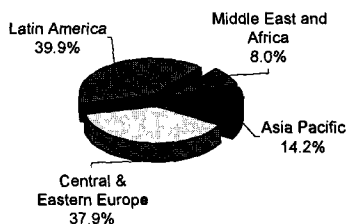
<sup>4</sup> IMF, *Global Financial Stability Report*, September 2004.

<sup>5</sup> Global bonds are contrasted with Brady Bonds, which are restructured debt. Mexico was also the first emerging market country to exchange global for Brady bonds, and to include collective action clause (CACs) for global bonds issued under U.S. law.

Eastern Europe (CEE), which issued US\$7 billion in the second quarter and has a share of 37.9% of total EM issuance ytd (Chart 8).

Brazil, Mexico and Venezuela were the biggest issuers during the quarter, with as much as 86.4% of Latin American issuance. Issuance was nearly divided in half between corporates and sovereign. Corporate issuance was US\$2.29 billion dollars, which represented 44% of Latin American issuance, while sovereign issuance amounted to US\$2.91 billion or 56% of Latin American issuance. Among the principal sovereign issuers were the governments of Brazil, Mexico and Venezuela, amounting to US\$750 million, US\$535 million and US\$1 billion respectively, while Mexico's Pemex issued US\$1.5 billion (see appendix C).

**Chart 8**  
**Emerging Markets Debt Issuance:**  
**Regional Breakdown**  
**2004 Year-to-date**



Note: Total emerging markets debt issuance year-to-date is \$42.35 Bn.

Source: Merrill Lynch, Emerging Debt Markets Monthly.

## II. Portfolio Equity Flows into Latin America

During the second quarter of 2004, Latin American stocks lost 9.2% of its value according to the Morgan Stanley's MSCI (Morgan Stanley Capital International) Index.<sup>6</sup> The decrease in the MSCI EM Latin American Index was mostly driven by the decline of the Stock Price Index in Peru, Brazil and Argentina, which fell by 15.4%, 12.8% and 18.1% respectively. Among the seven biggest Latin American economies, only Venezuela saw an increase of its Stock Price Index, which moved up by 7%, thanks to the historic high oil prices.

It is worth to point out that the Latin American equity markets were especially hit during April and May, with the Latin American Index falling by 12%. The Index reached its lowest peak so far this year (942.2) on May 10, compared to 1169.6 at the end of the first quarter, a 19.4% fall. This decline coincided with a broad sell off in global financial markets, in part due to the prospect that U.S. interest rates would increase sooner than later.<sup>7</sup>

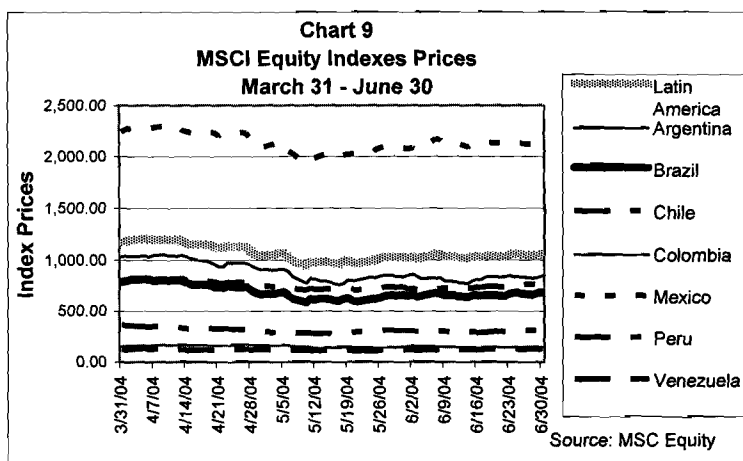
Table 1 Variation of the Stock Price Indexes March 31 <sup>st</sup> to June, 30 <sup>th</sup>	
Latin America	-9.2%
Argentina	-18.1%
Brazil	-12.8%
Chile	-2.2%
Colombia	-4.6%
Mexico	-5.7%
Peru	-15.4%
Venezuela	7%

Favorable earning prospects and strengthened credit quality boosted asset prices in mature and emerging markets from 2003 to the first quarter of 2004, but price increase

<sup>6</sup> The MSCI EM (Emerging Markets) Latin America Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in Latin America. As of June 2004 the MSCI EM Latin America Index consisted of the following 7 emerging market country indices: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

<sup>7</sup> BIS Quarterly Review, June 2004





quarter<sup>9</sup>.

was also partially due to speculations that short-time U.S. interest rates would stay at a low level. Consequently, market movements since March 2004 reflected a partial unwinding of these speculative positions.<sup>8</sup> In addition, the increase in risk aversion ignited by the March attacks in Madrid appeared to also have weighed on stock markets during the second

### III. Bank Lending

Latin America experienced a net outflow of US\$9.1 billion for the first quarter of 2004, according to the latest available information on actual bank lending.<sup>10</sup> This eighth consecutive net outflow resulted from the US\$13.4 billion increase in deposits placed abroad by Latin American borrowers, which was higher than the US\$4.3 billion in new credits. The increase of claims in the region in the first quarter ended a period of 10 consecutive quarterly declines, raising the stock of claims to US\$272.3 billion compared to US\$266.7 at the end of December 2003. At the same time, liabilities increased to US\$285.8 from US\$ 273.1 billion, an increase of US\$12.7 billion.

**Table 2**  
**Cross-border bank flows to Latin America**

Exchange rate adjusted changes in amounts outstanding, in billions of US\$ dollars												
	Banks	2001	2002	2003	2002		2003				2004	Stocks at
	Position*	Year	Year	Year	Q3	Q4	Q1	Q2	Q3	Q4	Q1	end-march 2004
Latin America	Claims	-3.5	-26.3	-15.8	-11.4	-7.9	-0.9	-0.1	-4.4	-10.3	4.3	272.3
	Liabilities	-1.9	-26.9	25.0	-8.5	-8.2	3.2	12.9	7.5	1.4	13.4	285.8
Argentina	Claims	-5.8	-11.8	-8.5	-4.5	-2.3	-1.9	0.9	-5.4	-2.1	-2.5	21.2
	Liabilities	-16.7	-0.1	-0.9	0.3	0.2	0.6	0.1	-2.2	0.7	0.2	25.0
Brazil	Claims	0.9	-11.2	-7.2	-3.5	-6.3	2.2	-1.7	1.4	-9.1	1.8	85.5
	Liabilities	0.4	-8.0	14.4	-1.4	-4.3	3.3	6.6	7.9	-3.4	4.9	61.7
Chile	Claims	0.2	0.5	22.4	-0.1	1.3	0.2	-0.1	0.3	0.9	-0.4	22.1
	Liabilities	-1.0	-1.1	-2.6	-0.8	0.3	-1.0	-0.9	-0.4	-0.3	1.4	15.6
Mexico	Claims	2.0	3.1	-0.8	-1.9	0.0	-0.5	-0.1	0.8	-0.9	6.4	71.6
	Liabilities	8.8	-11.4	6.2	-0.3	1.7	4.5	2.2	-0.3	-0.1	3.1	65.1
Venezuela	Claims	-0.4	1.1	-1.7	0.0	0.6	-0.5	-0.5	-0.5	-0.3	-0.2	13.9
	Liabilities	-0.1	0.5	-3.6	-0.6	0.9	-2.5	-1.3	-0.4	0.6	0.6	29.1

Source: BIS Quarterly Review, September 2004

\* External on-balance sheet positions of banks in the BIS reporting area. Liabilities mainly comprise deposits.

An increase in claims represents an inflow into Latin American economies; an increase in liabilities an outflow.

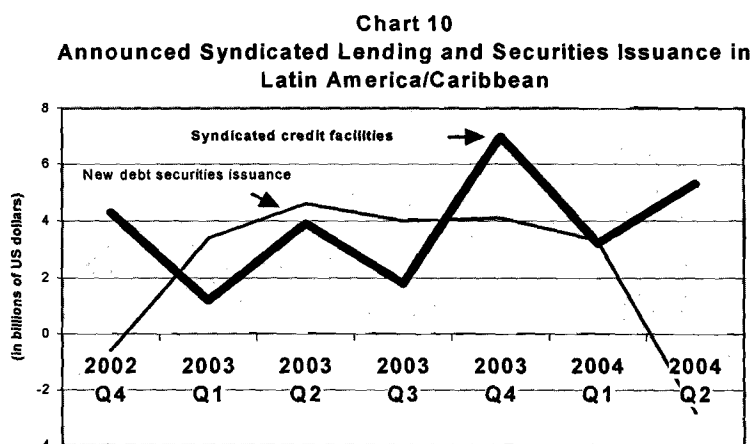
<sup>8</sup> IMF Financial Market Update, June 2004.

<sup>9</sup> BIS Quarterly Review, June 2004.

<sup>10</sup> BIS Quarterly review, September 2004.

The net outflows from Latin America have been mostly driven by movement vis-à-vis Brazil and Argentina. Banks in Brazil have deposited US\$4.9 billion abroad, accompanying a rise in foreign exchange reserves. Although these movements have been partially offset by purchases of international debt securities issued by the banking sector, the growth in deposits led to an outflow of US\$3.1 billion. In Argentina, the decrease in credit to the banking sector probably reflected the continued write-down of loan positions following the country's default (Table 2).

During the second quarter of 2004, the overall volume of announced syndicated lending for Latin American and the Caribbean reached US\$5.3 billion, about one-fifth of the total borrowed by emerging market entities (US\$27.8 billion), and an increase of US\$2.1 billion from the US\$3.2 billion borrowed during the first quarter.



Borrowing was mostly driven by the Mexican corporate sector. The Mexican national oil company Pemex rolled over \$1.25 billion, and another \$2.3 billion was secured by private corporations (see Chart 10 and Table 3).<sup>11</sup>

\* Net Issuance: Gross Issues - Repayments

Source: ECLAC, on the basis of data from the Bank for International Settlements (BIS).

**Table 3**  
**Announced syndicated lending and securities issuance (in billions of US dollars)**

	Syndicated Credit Facilities										
	2001Q4	2002Q1	2002Q2	2002Q3	2002Q4	2003Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
Latin America	8.8	1.6	2.8	2.7	4.3	1.2	3.9	1.3	7.0	3.2	5.3
Argentina	0.2	-	-	-	-	-	-	-	0.3	0.3	-
Brazil	2.6	0.8	1.6	0.3	1.2	-	0.8	0.2	0.2	1.1	1.1
Chile	0.9	0.2	0.2	0.5	0.5	0.2	0.1	0.5	0.7	0.6	0.4
Colombia	0.1	0.5	-	0.5	0.2	-	-	-	0.1	-	0.3
Mexico	4.0	0.1	0.9	1.3	2.2	1.0	2.8	0.6	5.3	0.9	3.6
Venezuela	-	-	-	-	-	-	-	0.2	-	0.2	-

Source: BIS Quarterly Review, September 2004

<sup>11</sup> Syndicated credits data are not necessarily a reliable proxy for future bank lending. The syndicated credits are gross announcements of loan facilities (i.e. loan commitments, which do not need to be drawn fully or immediately), while changes in amounts outstanding in the BIS data are driven mainly by net new lending (actual disbursements). See Blaise Gadanez and Karsten von Kleist (202): "Do syndicated credits anticipate BIS consolidated banking data?" BIS Quarterly Review, April 2004, pp 65-74.

#### **IV. Prospects**

In the second quarter, the driving force behind movements in capital markets was the prospect that U.S. interest rates would start to rise sooner than expected. International investors reacted strongly to the release of some macroeconomic indicators, such as the positive data concerning the American labor market. Anxiety that higher-than-expected new job creation in the United States would lead to an accelerated tightening in policy interest rates escalated. Moreover, risk aversion increased sharply in April and May, with investors dramatically reducing their market exposures. This led to a broad sell-off in global financing markets in April and early May, leading to major price drops in government bonds, emerging market debts and equity markets. Emerging markets bond spreads increased as a result. Uncertainty about growth prospects for some emerging countries also affected financial flows.

However, in spite of these concerns, towards the end of the quarter investors became more confident about the Fed's commitment to increase its short-term interest rate slowly and gradually in order to limit volatility. Spreads started to decrease in June in most of the major Latin American economies and Latin American stocks also began to recover.

## **APPENDIX**

- A. Credit Ratings in Latin America**
- B. Latin American Spreads**
- C. New Latin American Debt Issuance**

## A. Credit Ratings

Table 1:

Credit Ratings in Latin America								
	Moody's		S&P		Recent Moody's Action		Recent S&P Action	
	Rating	View	Rating	View	Action	Date	Action	Date
Argentina	Caa1	-	SD	-	Upgrade, stable	20-Aug-03	Downgrade	6-Nov-01
Barbados	Baa2	-	A-	-	Upgrade, stable	8-Feb-00	Affirmed, stable	2-May-02
Bolivia	Caa1	-	B-	oo	Downgrade, stable	16-Apr-03	Downgrade, O/L (-)	20-Oct-03
Brazil	B2	-	B+	o	Downgrade, stable	12-Aug-02	Affirmed, O/L (+)	13-Jan-04
Chile	Baa1	-	A	-	Affirmed, stable	1-Mar-00	Upgrade, stable	14-Jan-04
Colombia	Ba2	oo	BB	-	O/L changed to (-)	27-Mar-02	Affirmed, stable	24-Dec-03
Costa Rica	Ba1	oo	BB	oo	O/L changed to (-)	16-Apr-03	Affirmed, O/L (-)	24-Jun-04
Cuba	Caa1	-	nr	-				
Dominican Republic	B3	oo	CC	oo	Downgrade O/L (-)	30-Jan-04	Affirmed, O/L (-)	5-Feb-04
Ecuador	Caa1	-	CCC+	-	Upgrade, stable	24-Feb-04	Affirmed, stable	23-Dec-03
El Salvador	Baa3	-	BB+	-	O/L changed to (-)	18-Dec-03	Affirmed, stable	7-Jun-04
Guatemala	Ba2	-	BB-	-	Affirmed, stable	1-Mar-00	Affirmed, stable	30-Jul-03
Honduras	B2	-	nr	-	Affirmed, stable	3-Feb-00		
Jamaica	B1	-	B	oo	Downgrade, stable	27-May-03	Downgrade, O/L (-)	28-Jul-03
Mexico	Baa2	o	BBB-	-	O/L changed to (+)	12-Mar-03	Affirmed, stable	11-May-04
Nicaragua	B2	-	nr	-	Affirmed, stable	30-Mar-00		
Panama	Ba1	-	BB	oo	Affirmed, stable	5/7/2003	O/L changed to (-)	10-Mar-03
Paraguay	Caa1	-	SD	oo	Downgrade, stable	28-Apr-03	Affirmed, O/L (-)	27-Apr-04
Peru	Ba3	-	BB	-	Affirmed, stable	28-Oct-02	Upgrade, stable	8-Jun-04
Trinidad & Tobago	Baa3	-	BBB+	o	Affirmed, stable	30-Aug-00	Upgrade, O/L (-)	16-Jun-04
Uruguay	B3	oo	B-	-	Affirmed, O/L (-)	9-May-03	Affirmed, stable	11-Jun-03
Venezuela	Caa1	-	B-	-	O/L changed to stable	27-May-03	Upgrade, stable	30-Jul-03

- stable outlook; o positive outlook; oo negative outlook

Note: Moody's ratings are qualified by outlooks and reviews while S&P ratings are qualified by outlooks and watches.  
A review/watch is indicative of a likely short-term development.  
An outlook suggests that a review/watch or long/intermediate-term movement is likely.

Source: JP Morgan, Emerging Markets Outlook, July 1, 2004.

Rating Scale					
	MOODY's		S&P		
Upper Investment Grade	Aaa	AAA	Lower Non-investment Grade	B1	B+
	Aa1	AA+		B2	B
	Aa2	AA		B3	B-
	Aa3	AA-		Caa1	CCC+
	A1	A+		Caa2	CCC
	A2	A		Caa3	CCC-
	A3	A-		Co	CC
Lower Investment Grade	Baa1	BBB+	C	C	
	Baa2	BBB+	Default	SD	
	Baa3	BBB-		D	
Non-investment Grade	Ba1	BB+			
	Ba2	BB			
	Ba3	BB-			

## B. Latin American Spreads

Table 2:

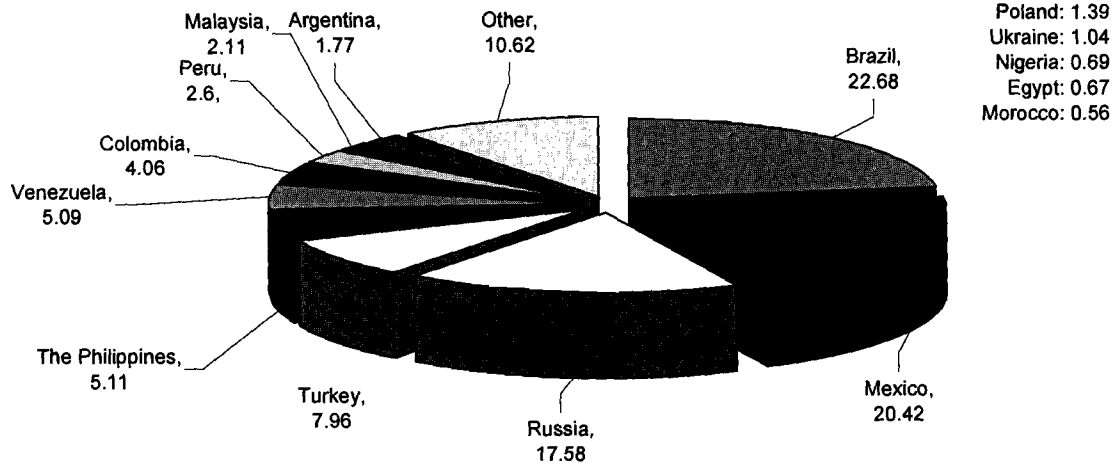
Sovereign Spreads on JP Morgan EMBI+ and Latin American Composites									
	EMBI+	Argentina	Brazil	Colombia*	Ecuador	Mexico	Peru	Venezuela	Latin America
31-Jul-98	633	454	608	n.a.	1371	461	515	829	554
31-Aug-98	1524	1278	1421	n.a.	2077	941	941	2575	1328
30-Sep-98	1330	904	1326	n.a.	1903	911	911	1558	1111
31-Oct-98	1190	779	1192	n.a.	1484	819	755	1372	980
30-Nov-98	1070	664	975	n.a.	1221	737	610	1612	858
31-Dec-98	1151	707	1231	n.a.	1631	741	612	1283	941
31-Jan-99	1288	858	1507	n.a.	2055	801	743	1463	1106
28-Feb-99	1330	794	1376	n.a.	2405	722	663	1393	1028
31-Mar-99	1171	683	1041	n.a.	1973	600	562	1121	839
30-Apr-99	1010	596	873	n.a.	1553	532	396	789	709
28-May-99	1157	786	1066	671	1862	647	603	1108	880
30-Jun-99	1070	758	957	667	2113	623	609	896	832
30-Jul-99	1147	853	1053	691	2473	677	610	1024	919
31-Aug-99	1166	776	1124	700	3402	644	700	1174	931
30-Sep-99	1098	663	984	613	4764	596	635	925	823
29-Oct-99	1010	635	851	505	3705	535	613	836	743
30-Nov-99	927	650	806	549	3093	449	526	940	715
31-Dec-99	824	533	636	423	3353	363	443	844	597
31-Jan-00	904	594	758	482	4033	438	482	894	682
20-Feb-00	816	551	688	524	3227	364	432	792	616
31-Mar-00	798	568	679	547	3111	354	518	879	623
28-Apr-00	708	572	742	740	3350	385	512	952	654
31-May-00	784	702	792	739	4499	438	611	985	737
30-Jun-00	712	676	722	722	3926	381	546	895	679
31-Jul-00	680	650	712	662	2846	353	522	837	654
31-Aug-00	643	681	672	686	1340	321	496	780	618
29-Sep-00	677	675	705	722	1261	318	664	798	634
31-Oct-00	745	815	758	768	1331	365	759	860	707
30-Nov-00	805	879	829	818	1441	385	772	902	759
29-Dec-00	756	773	749	755	1415	392	687	958	706
31-Jan-01	674	663	677	697	1230	363	674	838	631
28-Feb-01	748	803	753	646	1268	428	637	850	710
30-Mar-01	784	960	811	645	1366	414	650	874	763
30-Apr-01	773	1039	812	634	1482	366	824	833	766
31-May-01	751	993	858	600	1366	326	774	852	761
29-Jun-01	766	1050	847	541	1303	310	632	847	803
31-Jul-01	940	1599	972	585	1454	360	661	925	1016
31-Aug-01	885	1430	954	540	1411	354	601	916	959
28-Sep-01	1005	1615	1165	626	1516	431	669	995	1103
31-Oct-01	1073	2162	1163	628	1558	412	651	1034	1055
30-Nov-01	1069	3372	976	545	1393	357	572	1055	1119
31-Dec-01	731	4372	863	514	1233	308	521	1130	711
31-Jan-02	713	4379	866	586	1144	304	468	1254	837
28-Feb-02	644	4276	785	651	1147	272	474	1046	765
28-Mar-02	598	5062	718	536	1037	251	419	890	713
30-Apr-02	619	5004	849	578	1000	255	492	873	763
31-May-02	650	5979	981	567	1184	265	512	933	829
28-Jun-02	799	7074	1548	613	1262	323	628	1111	1063
31-Jul-02	991	7008	2341	930	1780	390	865	1226	1350
30-Aug-02	886	6430	1630	898	1704	360	774	1028	1131
30-Sep-02	1041	6553	2395	1084	1975	436	880	1162	1399
31-Oct-02	862	6192	1742	841	1854	372	742	1068	1153
29-Nov-02	778	6240	1606	694	1696	311	636	943	1054
31-Dec-02	765	6391	1446	645	1801	331	610	1127	1007
31-Jan-03	730	6022	1319	703	1524	329	613	1275	977
28-Feb-03	707	6736	1182	676	1522	324	547	1406	943
31-Mar-03	671	6165	1048	602	1372	291	478	1412	869
30-Apr-03	576	5225	822	465	1103	227	407	1215	727
31-May-03	553	5343	799	483	1128	236	443	1056	707
30-Jun-03	547	4554	801	451	1178	237	491	1002	697
31-Jul-03	532	5046	801	452	1147	230	462	828	678
31-Aug-03	504	4882	703	421	1153	220	383	820	639
30-Sep-03	506	5484	698	478	1121	212	355	828	641
31-Oct-03	470	5752	605	490	978	202	304	742	595
28-Nov-03	455	6260	533	460	910	208	319	693	570
31-Dec-03	418	5632	463	431	799	199	312	593	521
30-Jan-04	432	5764	493	430	714	204	343	641	536
27-Feb-04	449	5815	579	426	762	189	356	733	568
31-Mar-04	432	4873	559	379	701	183	343	667	536
30-Apr-04	478	4628	663	443	925	201	393	692	598
28-May-04	508	4964	701	523	909	208	473	666	626
30-Jun-04	493	5188	650	486	852	215	439	647	607
	EMBI+	Argentina	Brazil	Colombia*	Ecuador	Mexico	Peru	Venezuela	Latin America

Source: "Emerging Markets Bond Index Monitors"; JP Morgan

\* The Colombia 7 5/8% due 07 and the Colombia 8 5/8% due 08 were added at the end of May 99.

EMBI+ composition by market sector (end-June 2004): Brady, 25.27%; Benchmark Eurobonds, 74.16%; Loans, 0.56%.  
by country: Brazil and Mexico account for 43.10% of the total weighting.  
by region: Latin: 59.54%; Non-Latin: 40.46%.

### EMBI+ Composition (as of June 2004)



Source: "Emerging Markets Bond Index Monitor", J.P. Morgan

## C. Latin American Debt Issuance

### C1. April 2004

New Latin American Debt Issuance Second Quarter of 2004 Apr-04			
Country	Issuer	Amount US\$ (mm)	Maturity
Brazil	Banco Bradesco SA	270	15-Apr-14
Brazil	Banco Alfa de Investimento SA	35	29-Dec-06
Venezuela	Bolivarian Republic of Venezuela	1,000	20-Apr-11
Argentina	Petrobras Energia SA	100	30-Oct-13
Mexico	United Mexican States	815	15-Jan-14
Mexico	United Mexican States	2,055	8-Apr-33
Mexico	United Mexican States	-2,335	
Mexico	America Movil SA de CV	300	27-Apr-07
Jamaica	Republic of Jamaica	125	20-Jun-17
<b>Total</b>		<b>2,365</b>	

Source: ECLAC, on the basis of data from Merrill Lynch, "Emerging Markets Daily".

*April average maturity: 17.19 years.*

Currency Breakdown (% of Latin America's Total)	
Currency	Apr-04
Dollar	88.60%
Euro	11.40%
Yen	0.00%
GBP	0.00%

Issuer Type Breakdown (% of Latin America's Total)	
Issuer Type	Apr-04
Sovereign*	70.20%
Corporate**	29.80%

\*Also includes state owned enterprises,  
city and regional governments  
(sovereign-supported and sub-sovereign)

\*\*Also includes bank issuance.



## C2. May 2004

**New Latin American Debt Issuance**  
**Second Quarter of 2004**  
**May-04**

Country	Issuer	Amount US\$ (mm)	Maturity
Peru	Republic of Peru	500	3-May-16
Brazil	CP Cimento Participaco	30	10-May-06
<b>Total</b>		<b>530</b>	

Source: ECLAC, on the basis of data from Merrill Lynch, "Emerging Markets Daily".

*May average maturity: 11.43 years.*

**Currency Breakdown**  
(% of Latin America's Total)

Currency	May-04
Dollar	100.00%
Euro	0.00%
Yen	0.00%
GBP	0.00%

**Issuer Type Breakdown**  
(% of Latin America's Total)

Issuer Type	May-04
Sovereign*	94.34%
Corporate**	5.66%

\*Also includes state owned enterprises, city and regional governments (sovereign-supported and sub-sovereign issues).  
\*\*Also includes bank issuance.

## C3. June 2004

**New Latin American Debt Issuance**  
**Second Quarter of 2004**  
**Jun-04**

Country	Issuer	Amount US\$ (mm)	Maturity
Brazil	Republic of Brazil	750	29-Jun-09
Brazil	Banco ABN Amro Real SA	50	1-Jun-05
Mexico	Pemex	1,500	15-Jun-10
<b>Total</b>		<b>2,300</b>	

Source: ECLAC, on the basis of data from Merrill Lynch, "Emerging Markets Daily".

*June average maturity: 5.57 years.*

**Currency Breakdown**  
(% of Latin America's Total)

Currency	Jun-04
Dollar	100.00%
Euro	0.00%
Yen	0.00%
GBP	0.00%

**Issuer Type Breakdown**  
(% of Latin America's Total)

Issuer Type	Jun-04
Sovereign*	32.61%
Corporate**	67.39%

\*Also includes state owned enterprises, city and regional governments (sovereign-supported and sub-sovereign issues).  
\*\*Also includes bank issuance.