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Capital Flows to Latin America

Fourth Quarter 2004

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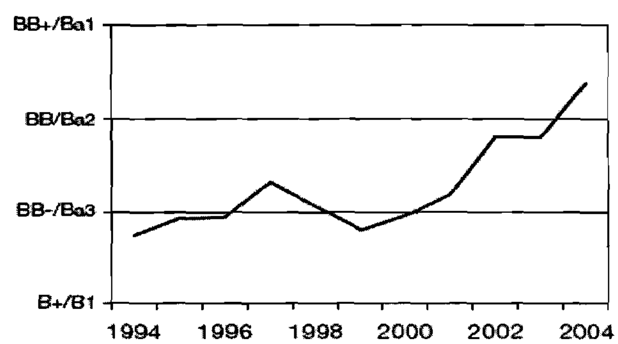
CAPITAL FLOWS TO LATIN AMERICA
Fourth Quarter of 2004*

Two major factors drove emerging and Latin American markets in 2004: i) global liquidity and risk appetites, and ii) fundamental credit improvements in the domestic economies. The positive interaction of external factors (in the form of abundant global liquidity combined with an environment of low interest rates, higher commodity prices and search for yield) and domestic factors (in the form of improvements not only in emerging market economies, but also in the health and structure of the emerging market asset class [see Box1]), created a favorable environment for capital inflows in emerging markets and in the Latin American region. According to the Institute of International Finance (IIF), capital flows to 29 emerging market nations reached US$279 billion in 2004. This is more than double the 2002 level, and close to the US$287 billion posted in 1997, the year that Thailand's currency collapsed, sparking a flight of capital from Asia.[1] Capital flows to Latin America reached US$26.1 billion in 2004, a 51% increase over 2002 and a 4% increase with respect to 2003.[2]

The majority of emerging market credits closed 2004 considerably stronger and better insulated from external shocks. Emerging market economies posted healthy growth rates, reduced fiscal imbalances, accumulated cushions of foreign reserves and surpluses in their trade accounts, and kept their currencies floating. Latin America posted the best rate of growth in seven years, and is expected to keep growing in 2005, although at a more modest pace. This growth is based on the recovery of domestic demand, the impetus given by the external sector, especially due to higher commodity prices fueled by global economic recovery and strong demand from China, and a favorable international context.[3] As a reflex of this performance, credit rating agencies increased their sovereign debt ratings for several Latin American countries in 2004.

The IIF report noted that there has been a significant improvement in the average credit rating of emerging market countries since 2001 (see Chart 1). The trend toward higher credit ratings of emerging market issuers has been supportive of the significant compression in spreads that has taken place since the latter part of 2002. According to the benchmark EMBI+, spreads in emerging markets fell from 1041 basis points at the

Chart 1: EMBI+ Credit Ratings



Source: *Capital Flows to Emerging Market Economies*, The Institute of International Finance, Inc., January 19, 2005.

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

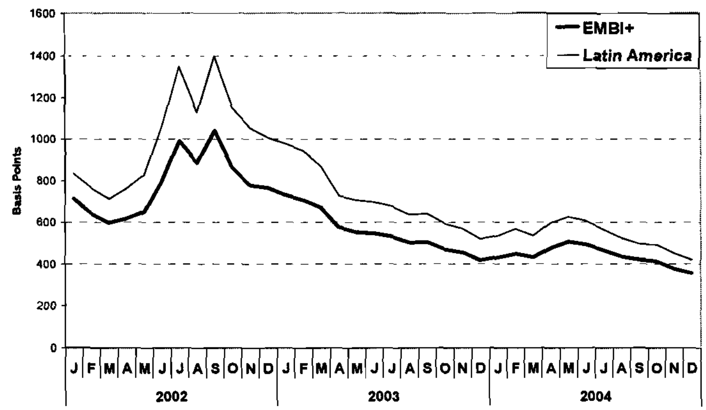
[1] The record was in 1996, when US$322 billion flowed into emerging markets.
[2] Institute of International Finance, Inc. (IIF), *Capital Flows to Emerging Market Economies*, January 19, 2005.
[3] Latin American countries also enjoyed the competitive benefits that a weaker dollar provided for their exports. The rise in commodity prices was partly driven by dollar weakness, but even when adjusting for the currency valuation effect, commodity prices were up, due to stronger global demand for commodities, particularly from China. The emergence of China as a vast consumer of natural resources makes emerging markets less dependent on the U.S. as their primary source of demand.

end of September in 2002, to 356 basis points at the end of December 2004. For Latin America, bond spreads declined from 1399 to 420 basis points over the same period (see Chart 2).

According to Goldman Sachs calculations, about 40% of the tightening of spreads is explained by domestic fundamentals, while the other 60% is explained by external factors: 17% by stronger export prices and global growth, 20% by greater availability of global liquidity, and the remaining 23% by lower risk aversion[4]. Although further spread compression is limited, there is still room for more tightening as long as risk appetites remain healthy. However, most analysts believe that the likely tightening of global monetary conditions and associated economic growth slowdown could widen emerging market spreads in the second half of 2005. They see local and equity markets offering 2005's best emerging markets opportunities.

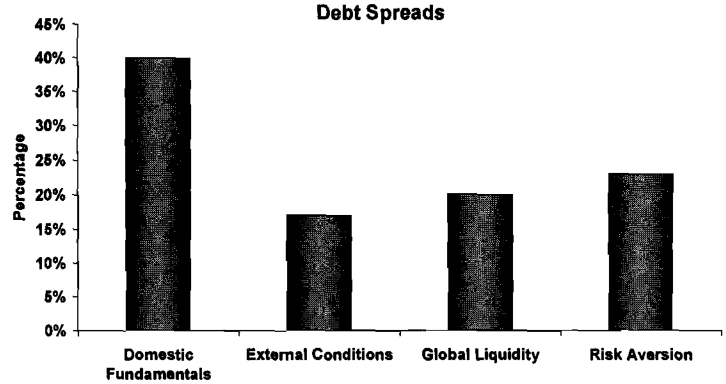
The large number of upgrades in 2004, combined with record tight spread levels, supported a record volume of debt issuance. According to Merrill Lynch, emerging markets debt issuance reached US$96.1 billion in 2004, up from US$74.6 billion in 2003, with US$36 billion originating in Latin America. Emerging Europe contributed to the largest share of deals (US$38 billion), because of the considerable volume of Eurobonds from Russia and Turkey, but Latin America came in a close second.

Chart 2:
EMBI+ Spreads and Latin American Component
2002-2004



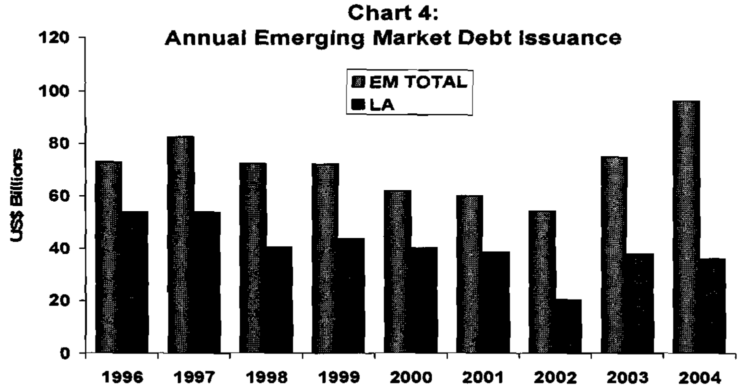
Source: J.P. Morgan.

Chart 3:
Factor Contribution to Compression of Emerging Markets Debt Spreads



Source: Goldman Sachs Calculations.

Chart 4:
Annual Emerging Market Debt Issuance



Source: Merrill Lynch.

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[4] Global Markets Viewpoint, *"Unpleasant EDM Arithmetic"*, Goldman Sachs, 1 March 2005.

BOX 1: Emerging Markets External Debt as an Asset Class[1]

Since the crises of the 1990's, emerging markets debt as an asset class has improved. As a result, unlike previous shocks, Argentina's 2001 default produced virtually no contagion to the broader emerging markets debt asset class. The lack of contagion demonstrated fundamental improvements, both with respect to assets and investors.

- *The asset class is broader today.* The J.P. Morgan EMBI Global index, for example, contained just 15 countries when the Tequila crisis hit Mexico in December 1994, but now contains 31 countries, which means that in case one or more country faces problems, there are more places for investors to turn to.

- *The quality of the macroeconomics data today has also improved since the Tequila crisis in 1994.* The IMF established two new sets of data standards: the Special Data Dissemination Standard (SDDS), introduced in 1996, which focuses on improving the dissemination of data, and the General Data Dissemination Standard (GDDS) introduced in 1997, which focuses on improving the quality of data. Countries typically start with the SDDS and then graduate to the stricter GDDS. There has been increased compliance to both data standards since they were introduced.

- *Credit quality in emerging markets has improved, what is reflected in improved credit ratings. There has also been an improvement in instrument quality.* During the 1990s many of the instruments in the J.P. Morgan EMBI indices were loans or collateralized Brady bonds. Since the completion of Brady restructurings in the 1990's, borrowers have been buying back collateralized bonds and paying down restructured bonds. Many of the buybacks have taken the form of a debt exchange, where the issuer saves money by buying cheap collateralized debt and issuing more expensive global bonds. The substitution of Brady bonds by global bonds has improved the quality of the instruments that make up the asset class.

- *Most emerging market economies today have switched from fixed to floating exchange rates and have build up foreign exchange reserves.*[2] The increase in foreign exchange reserves have been facilitated by lower exchange rates and strong commodity exports. According to J.P. Morgan estimates, 19 major emerging market countries have moved toward a more flexible exchange rate regime since 1996, but only four have gone the other way (Bulgaria, Ecuador, Malaysia and Venezuela).

- *The emerging markets investor base has also improved since the crises of the 1990's.* Prior to Russia's 1998 default, emerging markets debt was dominated by highly leveraged investors, such as banks and hedge funds, which were short-term traders. Today the investor base has more investors willing to buy and hold the assets for the long-term. The fundamental trend since 2002 has been for emerging markets debt to flow out of the hands of short-term investors and into the hands of long-term investors. Moreover, the investor base is broader, including investment grade managers, as some emerging markets countries have been upgraded to investment grade, as well as local pension funds.

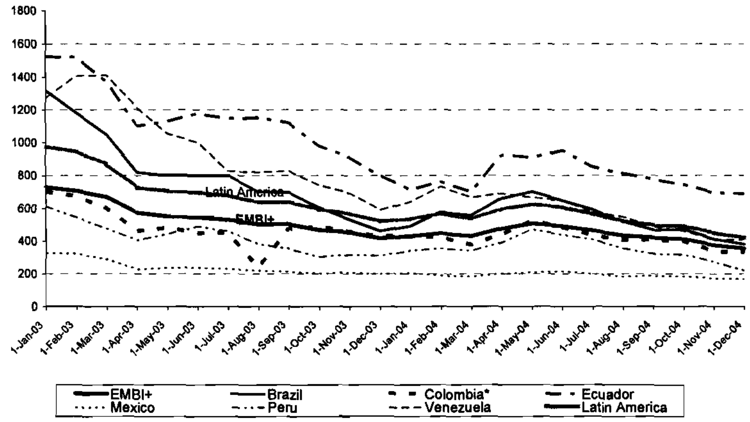
[1] This box is a summary of the issues presented in *Emerging Markets External Debt as an Asset Class*, J.P. Morgan, October 21, 2004.

[2] Since 1994 there were eight crises involving the collapse of fixed exchange rates: Mexico in 1994, Asia in 1997, Russia in 1998, Brazil in 1999, Turkey in 2000, Argentina in December 2001, Uruguay and Venezuela in 2002.

I. Bond Markets and Debt Management

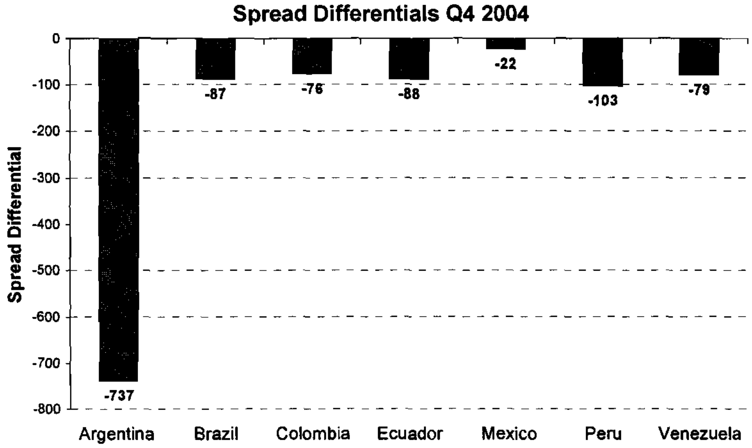
Emerging market spreads, as measured by the J.P. Morgan EMBI+ index, tightened 65 basis points in the fourth quarter of 2004, declining from 421 basis points at the end of September, to 356 basis points at the end of December. The Latin American component followed the movements of the EMBI+ index and tightened 78 basis points in the fourth quarter, from 498 basis points at the end of September, to 420 basis points by the end of December (see Chart 5)[5].

Chart 5:
Spreads on JP Morgan EMBI+ and Latin American Composites
January 2003 to December 2004 (without Argentina)



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

Chart 6:
Spread Differentials Q4 2004



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

Spreads tightened for all major Latin American markets during the fourth quarter of 2004, including Argentina, whose spreads had widened by 252 bps in the previous quarter due to problems encountered after the announcement of the initial debt restructuring terms in June (see Chart 6). Argentina showed the biggest spread tightening in the quarter, after presenting the details of its debt exchange plan to the Security and Exchange Commission in the beginning of November. The offering contained some technical adjustments from the plan announced on June 1st, including the addition of a small portion of past-due interest accrued before the default. The modest new changes combined with lower global interest rates to make the offer more attractive (see Boxes 2 and 3).

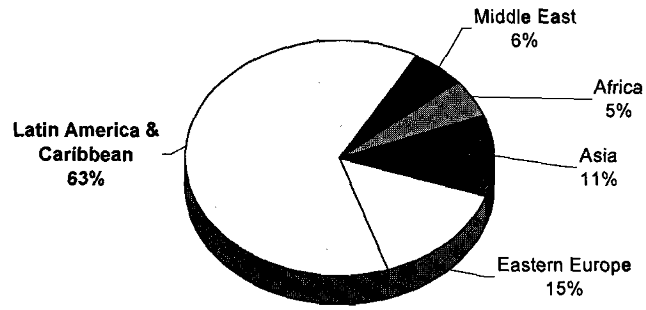
According to the Emerging Markets Traders Association (EMTA)[6], the emerging market trade volume stood at US$1.260 trillion in the fourth quarter of 2004, a 6% decrease from the US$1.342 trillion reported in the third quarter, but a 24% increase

[5] See appendix for the evolution of the spreads of the EMBI Global Index, which also includes Chile and Uruguay in addition to the countries included in the EMBI+.
[6] Emerging Markets Traders Association, *EMTA Survey*, February 28, 2005.

compared with the US$1.015 trillion reported during the fourth quarter of 2003. For the year, emerging markets debt trading total stood at US$4.645 trillion, representing a 17% increase over 2003, and the highest annual trading volume since 1997. Improving fundamentals in emerging countries, a number of credit upgrades and higher commodity prices, contributed to strong trading volumes in 2004. In addition, double-digit returns on emerging markets debt over the past three years, and its superior performance compared to other fixed income asset categories, prompted new capital inflows in the asset class. Latin America and the Caribbean accounted for 63% of the total emerging market trade volume in 2004, followed by Eastern Europe and Asia, with 15% and 11% of the total, respectively (Chart 7).

Chart 7:
2004 Annual Debt Trading Volume by Region

Trade Volume in 2004 US$4.645 trillion

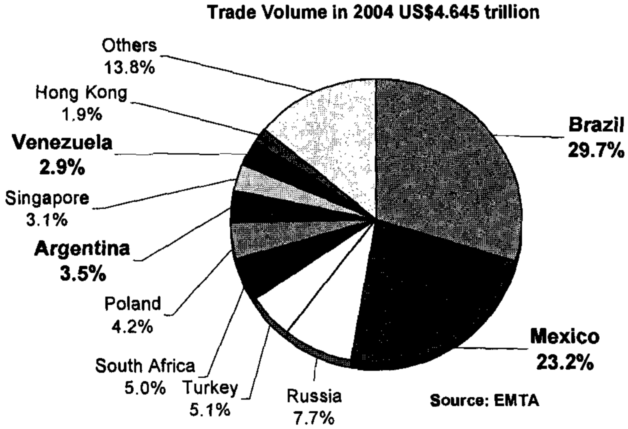


Source: EMTA.

Trading in Brazilian debt instruments increased by 52%, from US$909 billion in 2003 to US$1.382 trillion in 2004, accounting for 30% of total reported trading. Mexican volumes, in contrast, fell 17% due to a reduction in Mexican local instrument trading, from US$1.304 trillion in 2003 to US$1.077 trillion in 2004. Mexican instruments accounted for 23% of the emerging market debt trading total. Turnover in Argentine bonds increased 203% from US$54 billion in 2003 to US$164 billion in 2004. Argentina's debt became the seventh most frequently traded instrument in 2004, with a 4% share of total volume. Trading in 2004 was pushed to its highest levels since the country defaulted in 2001, due to market speculation about a possible restructuring announcement on Argentina's defaulted debt, and the potentially increased weighing of Argentina in industry indices following a restructuring deal. Venezuela's debt was the ninth most frequently traded instrument in 2004, with a total of US$133 billion (Chart 8).

Chart 8:
2004 Emerging Markets Debt Trading Volume: Country Shares

Trade Volume in 2004 US$4.645 trillion

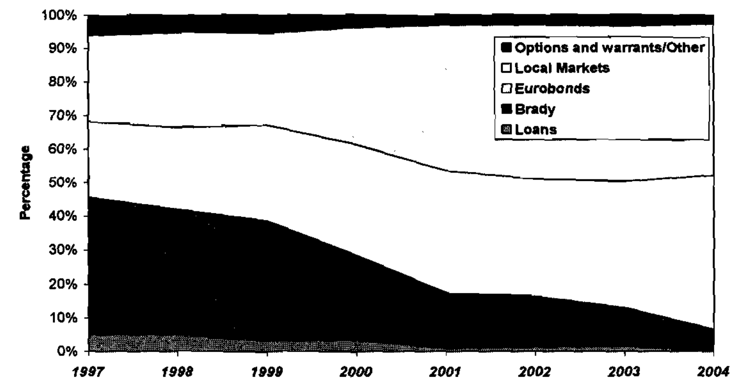


Source: EMTA

Local instruments and Eurobonds traded nearly even at 45% of total reported volumes in 2004. Local instrument volumes stood at US$2.094 trillion, versus US$1.837 trillion in 2003, a 14% increase. This represented 45% of the total, compared to 46% in the previous two years. On a quarterly basis, the share of local markets rose steadily during the first three quarters from 41% to 49%, before dropping to 46% in the fourth quarter. Participants reported large volumes for Mexican and Brazilian local instruments.

At US$2.114 trillion, Eurobond trading volume accounted for 45% of the total volume in 2004. This compares to US$1.486 trillion in 2003, and a share of 37%. Survey participants reported trading US$293 billion in the Brazilian 2040 bond, US$41 billion in Venezuela's 2027 and US$21 billion in the Brazilian 2027 issue.

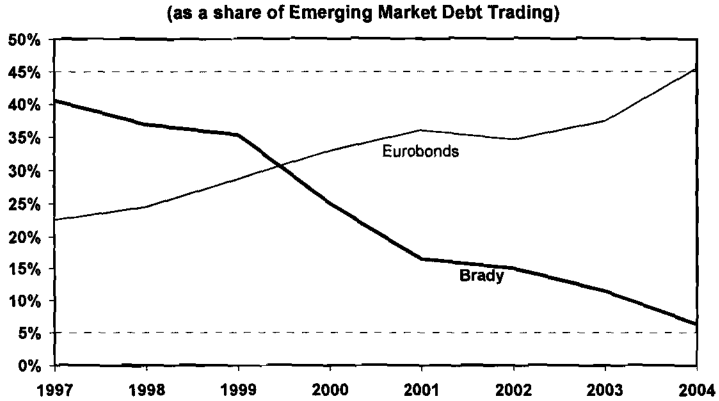
Chart 9:
Emerging Market Debt Trading Share by Instrument (%)



Source: EMTA

Brady bond volumes stood at US$292 billion and accounted for 6% of the total in 2004, continuing a long downward trend. This compares with US$455 billion in 2003, when Brady volumes accounted for 12% of overall emerging market debt trading. Brazilian C-bond trading accounted for US$222 billion in Brady trading, or 76% of transactions. Eurobond trading volume has been replacing Brady bond and loan trading, which have been drifting gradually lower in the last 7 years (see Charts 9 and 10)[7].

Chart 10:
The Decline of Brady Debt
(as a share of Emerging Market Debt Trading)



Source: EMTA

In the fourth quarter, Eurobond trading accounted for 47% of emerging debt market volume and local instruments for 46%. Brady bonds reached a new low, falling to 4% of overall trading, compared to 8% in the first half of 2004.

[7] As Brady bonds disappear, Eurobonds are overtaking them as the most liquid bonds in the emerging debt market. The trend away from Brady debt to Eurobonds varies by country. In 2003, Mexico called the last of its outstanding Brady bonds, leaving it exclusively with Eurobonds and Global bonds as tradable external debt. In the case of Argentina, the Brady debt should disappear when Argentina restructures its defaulted debt. The Brazilian government confirmed it is studying the possibility of a buyback of C-bonds, one of the biggest benchmark bonds of the emerging market debt asset class, with nearly US$6 billion outstanding. Venezuela is also studying an exchange of its Par bonds, aiming to substantially reduce the government's 2005 amortization burden.

BOX 2: Argentina's Debt Exchange Offer

In the beginning of November, Argentina presented to the Security and Exchange Commission the details of a planned exchange offering to restructure US$103 billion in foreign debt. The exchange offering proposed to swap 152 different bonds issued in six currencies and eight different jurisdictions (and held by more than 500,000 bond holders around the world) into nine new bonds issued under four legal systems and currencies. According to the Wall Street Journal[1], the proposal was the government's attempt to entice a higher level of acceptance than the 50%-60% range that many market analysts had predicted. In addition to bringing forward interest payments and offering small bondholders preferred access to sought-after par bonds, the new proposal set up an incentive plan based on the overall level of acceptance.

However, soon after its announcement, the Argentina's offer was described as unacceptable by some creditor groups. In response, finance minister Roberto Lavagna warned investors holding the country's defaulted debt that those who rejected the forthcoming debt-restructuring offer "could find themselves in a default situation perhaps indefinitely". The minister said the transaction would be launched November 29th in those jurisdictions that had approved the exchange, which excluded Italy and Japan, two key financial centers in which a large number of retail investors held defaulted debt. The Bank of New York, however, announced it would not be operationally ready to support the exchange by November 29th, and the government had to seek another bank.

On November 21 the G-20 group of the world's leading developed and emerging market economies met in Berlin and adopted a voluntary code of conduct on debt restructuring in emerging markets. The code of conduct attributes a significant role to credit committees and criticizes unilateral announcements of restructuring terms. Argentina decided not to participate in the meeting, whose outcome was a negative blow to Argentina's debt exchange plans.

The operational difficulties faced by Argentina's government led it to delay the launching of the debt exchange process until January 2005. The reasons were the difficulties in finding a bank to take care of the operational matters involving the exchange, as well as the risk that the lack of approval in some jurisdictions could hold back the entire process (since whether the 70% participation threshold could be achieved or not was a major risk factor). On December 9, however, stocks in Argentina rallied as local market optimism regarding the debt swap increased. The Merval rose 1.2% as President Kirchner signed two decrees that set out terms for the US$103 billion debt exchange (without specifying a launching date, or naming a clearing agent). Spreads also reduced significantly, with the EMBI+ Argentine composite tightening 491 basis points in December, from 5194 basis points at the end of November, to 4703 basis points at the end of December.

[1] *"Argentina Details Plan to Swap Debt"* by Michael Casey, Dow Jones Newswires, November 2, 2004.

BOX 3: Participation in Argentina's Debt Exchange exceeds 75%

Three years after announcing the biggest default in modern history, Argentina launched on January 14, 2005, a six-week debt exchange offer (which ended February 25) to swap its defaulted debt for new bonds at US$41.8 billion, the biggest discount ever proposed by a defaulted country to its creditors. Bondholders reacted strongly against the offer, predicting its failure and pressuring for a better proposal. However, a boom in commodity prices, low interest rates and creditors fatigue helped the Argentine government to conclude the largest and most complex debt restructuring ever handled.

The Argentine government announced on March 3, 2005 that 76% of its creditors (97% within Argentina and 65% abroad) had accepted its debt exchange offer, which will pay them 30-34 cents on each dollar in net present value terms. Since unveiling its debt exchange proposal last year, Argentina has enjoyed a stroke of luck, because a broad rally in emerging market debt has increased the value of its offer to about 30 cents on the dollar from about 20 cents, without the government offering any substantial improvement since then.

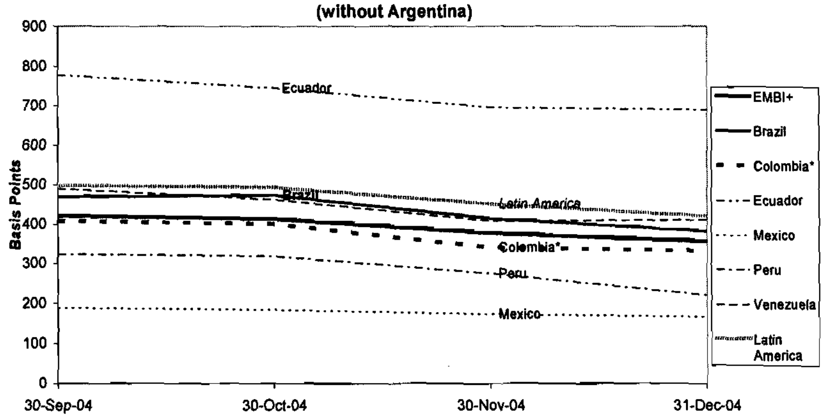
The country will issue new bonds at US$35.2 billion to replace US$102.5 billion of defaulted debt (US$81.8 billion of bonds and more than US$20 billion in past due interest), what implies a price cut of 65% on the owed value, effectively saving the country US$67 billion. A 76% acceptance rate is a clear success for Argentine President Nestor Kirchner. Although other sovereign restructurings have had rates of at least 85%, Argentina's debt restructuring is considered more complex because it involved 500,000 bondholders and 152 different defaulted bond issues. The country will now need US$3 billion to service the debt this year, in contrast with about US$10 billion in 2001. Interest payments now stand at 15% of the country's foreign reserves, compared to 70% three years ago.

Argentina is now running budget surpluses, due in part to soaring prices for soybeans, wheat and other commodities, which have increased the country's export receipts and tax revenue, and also to the government's fiscal and monetary discipline. After contracting by about 11% in 2002, the Argentine economy grew over 8% in both 2003 and 2004. The government is now expected to start planning its post-default agenda, beginning by resuming talks with the International Monetary Fund over a program that the government considers vital for meeting its financial needs in 2005.

A. Spreads

Emerging market countries pay more to raise capital than developed countries. However, these costs have been falling as credit quality has been improving. In 1998 about 10% of the bonds in the J.P. Morgan EMBI+ were rated as investment-grade. Today that number has increased to 50%. Two of the biggest debt issuers, Mexico and Russia, which sparked emerging market crisis in 1994 and 1998, respectively, have graduated to investment-grade status. Brazil, another big debt issuer, has been taking advantage of China's demand for iron ore and other natural resources to reduce its dollar-denominated debt. It was upgraded by Moody's (to B1) and by S&P's (to BB-) in the third quarter of 2004, and is expected to be upgraded again in 2005. As a consequence, the risk premium that emerging market countries have to pay has narrowed to its tightest levels ever, 3.43% above U.S. Treasuries at the end of February 2005. That is 4% less than the risk premium at the end of 2001.

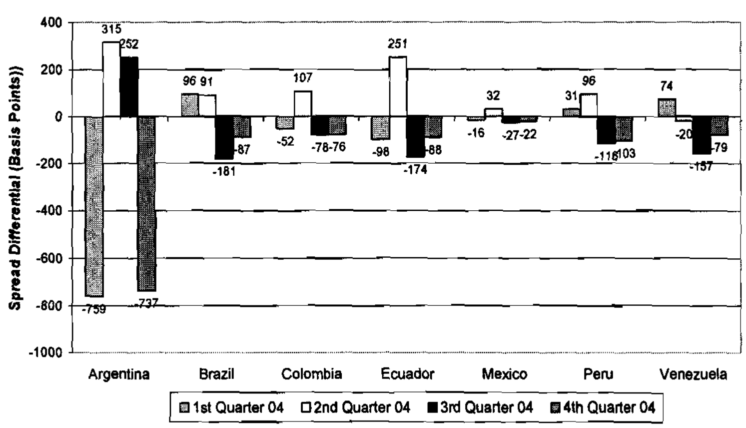
Chart 11:
Spreads on JP Morgan EMBI+ and Latin American Composites
Q4 2004
(without Argentina)



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

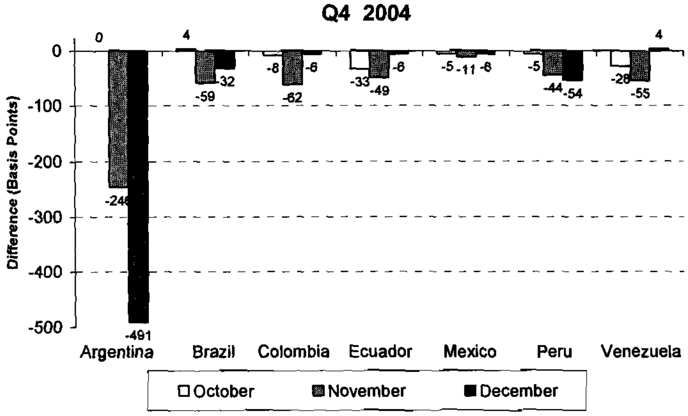
The EMBI+ tightened by 65 basis points in the fourth quarter of 2004, falling from 421 bps at the end of September to 356 bps at the end of December, the lowest level since September of 1997. The Latin American component of the EMBI+ tightened by 78 bps in the fourth quarter, from 498 bps at the end of September to 420 bps at the end of December (Chart 11). It followed the same path of the EMBI+ in 2004, and after a steady increase in April and May, it gradually slowed down until December. Spreads tightened for all Latin American countries in our sample (see Chart 12).

Chart 12:
Quarterly Spread Differential
Q1, Q2, Q3 and Q4 2004



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

Chart 13:
Monthly Spread Differentials
Q4 2004



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

After widening in the second and third quarters, Argentina's spreads tightened by 737 basis points in the fourth quarter of 2004. Spreads narrowed to 4703 bps at the end of December, from 5440 at the end of September. Spreads tightened after the government presented the details of its debt exchange plan to the Security and Exchange Commission in the beginning of November. Spreads narrowed further in December, as local market optimism regarding the debt swap increased (Chart 13).

In the case of Brazil, good macroeconomic performance warranted tighter spreads at the end of the fourth quarter and at the end of the year. Brazil grew by 5.2% in 2004, the fastest rate since 1994. The country also posted a record annual trade surplus of US$33.7 billion in 2004, compared with US$23.8 billion in 2003. Exports grew by 32% as demand from Argentina recovered and consumption in the U.S., China and the Netherlands, key export markets, expanded significantly. Imports also expanded substantially, by 30%, indicating that buoyant domestic demand made an important contribution to the strong rebound seen throughout the year. Spreads declined from 469 bps at the end of September to 382 bps at the end of December.

In the case of Colombia, spreads were positively influenced by the acceleration of growth, higher oil revenues, and the strength of the peso[8]. Spreads tightened by 76 bps, from 408 bps at the end of September to 332 at the end of December. At the beginning of December, however, the government decided to withdraw the tax reform from Congress ahead of its likely rejection, what suggests that 2005 may be a more difficult year than 2004 due to the lack of fiscal reforms and the pre-election jitters. On a positive note, the pension reform bill was approved by the Senate's plenary.

Spreads in Ecuador tightened by 78 bps in the fourth quarter, from 778 bps at the end of September to 690 bps at the end of December. Oil prices have been supportive, although financing conditions are tight, and political developments are currently less predictable. However, after covering most of its financing needs domestically in 2004 due to the lack of an IMF agreement, the government is now looking to diversify its financing sources. The government managed to obtain the endorsement of its economic program by the IMF for 2005, which paves the way for US$400 million of multilateral exceptional financing. The government also plans to engage in liability management

[8] From February 2003 to December 2004 the peso appreciated about 25% in nominal terms vis-à-vis the dollar. In an effort to dampen the appreciation of the peso, the government decreed controls on short-term capital inflows on December 14.

operations in 2005, which include a private bond placement of US$200-300 million and a swap of the Global 2012's.

Mexican spreads remained relatively stable, tightening by 22 bps during the fourth quarter of 2004. High oil prices were supportive and Mexico was seen as a likely candidate in the investment grade sector for an upgrade by Moody's. Mexico's long-term foreign currency sovereign credit rating was indeed upgraded by Moody's on January 6, 2005 and on January 3, 2005 by Standard & Poor's. The upgrades reflected gradually increasing macroeconomic stability, attributable to a steady improvement in external liquidity and deepening domestic financial markets, which has resulted in greater resilience to potential negative shocks. Mexico local markets have become very attractive to foreign-based investors, as it brings a wide array of instruments and low execution costs. With the front end of the external United Mexican States (UMS) bond curve trading at historically tight levels, the local market universe is now a very appealing option. In addition, the 2005 issuance needs are already covered, and Mexico started to pre-finance its 2006 needs in January. The administration announced that it plans to have its 2006 financial needs covered by the end of June.

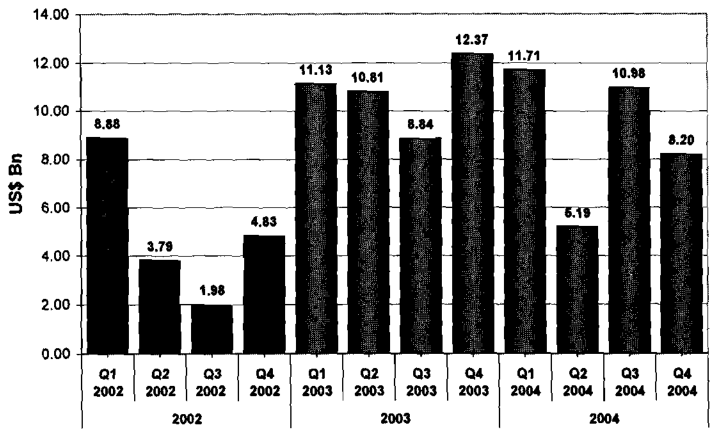
Spreads in Peru tightened by 103 bps in the fourth quarter, from 323 bps at the end of September to 220 bps at the end of December. According to Peru's Central Bank, its 2012 sovereign bond reached at the end of November a spread of 251 basis points, achieving its historic low of 2.51% over U.S. Treasuries. The Central Bank also highlighted the upgrade of Peru's foreign currency debt by Fitch from BB- to BB in November 2004 as a contributing factor, which was based on the country's favorable fiscal accounts, the solid macroeconomic performance, the growth of exports and the progress of the pension fund reform. The macroeconomic backdrop is good and there is an ongoing improvement in the country's growth outlook, despite the context of popular frustration with party politics and the president's performance.

Finally, Venezuelan spreads tightened by 78 bps, from 490 bps at the end of September to 411 bps at the end of December. Oil prices remain highly supportive of Venezuelan debt, thus many analysts see little downside risks in Venezuela, despite its expansionary fiscal stance. Merrill Lynch, however, believes it is becoming more difficult for bonds to decouple from politics. At the end of February 2005, the Venezuelan component of Merrill Lynch's IGOV was the worst performer year-to-date.

B. Issuance

According to Merrill Lynch, emerging markets issuance reached US$96.1 billion in 2004, the highest ever for the asset class, up from US$74.6 billion in 2003. New issuance responded to favorable borrowing conditions and falling yields, which reached record lows. Spread tightening and the improving credit quality of emerging market borrowers, reflected in the large number of credit upgrades, encouraged issuance and gave issuers the opportunity to borrow at better rates.

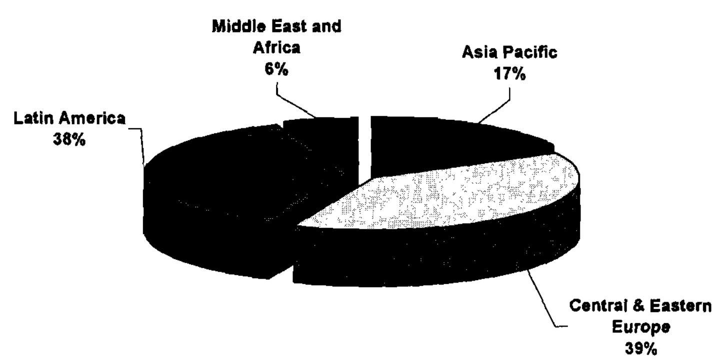
Chart 14:
Latin American Issuance by Quarter



Source: Merrill Lynch, Emerging Markets Debt Monthly, several issues.

In the fourth quarter, emerging markets issuance reached US$18.9 billion, a decline from the record US$33.3 billion issued in the third quarter. Latin American bond issuers placed a total of US$8.2 billion in international capital markets in the fourth quarter, down from US$11 billion in the third quarter, but up from the US$5.2 billion issued in the second quarter (see chart 14). Total Latin American issuance in 2004 reached US$36.4 billion, the second largest share of total emerging markets issuance, following Emerging Europe (see Chart 15).

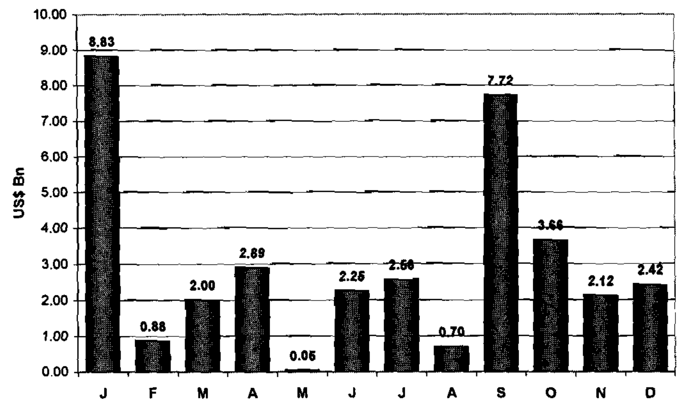
Chart 15:
Emerging Markets Debt Issuance: Regional Breakdown 2004



Note: Total emerging markets debt issuance for 2004 is US$96.2 billion.
Source: Merrill Lynch, Emerging Markets Debt Monthly, 2004

Latin American issuance picked up sharply in September, standing at almost US$7 billion (see chart 16). This makes September the second highest monthly issuance in Latin America in more than four years, behind January only. Latin American sovereign issuers met the financing requirements for 2004 in the third quarter, and looked at pre-finance for 2005 in the fourth. 16% of 2005's funding requirements for emerging markets were pre-financed in the fourth quarter, double the amount pre-financed in 2003. According to J.P. Morgan, the largest components of pre-funding were Mexico (US$2.5 billion), which has fully pre-funded 2005's financial requirements, Brazil (US$1.7 billion), Venezuela (US$1.3 billion), and Colombia (US$875 million). Panama also pre-funded US$600 million of its financial requirements for 2005, covering roughly half of the total needs for the year. Enhanced by pre-financing activity, emerging markets sovereign issuance reached its highest ever volume of US$55.9 billion, up from US$36.8 billion in 2003, according to Merrill Lynch.

Chart 16:
New Latin American Monthly Debt Issuance
2004



Source: Merrill Lynch, Emerging Markets Debt Monthly, several issues.

In the first week of October, capitalizing on low interest rates, Brazil and Peru offered a US$1 billion 15-year bond and a €650 million 10-year bond respectively. Both countries increased the size of their offerings in order to get a big head-start on 2005 financing needs. In November, Colombia issued a peso-bond targeted at foreign investors, amounting to US$375 million. Mexico issued a €750 million 15-year bond, the equivalent of US$978 million, and Panama issued a US$600 million 10-year bond, pre-financing a big portion of its financing needs in 2005 (roughly 50% according to analysts). In December, Brazilian banks followed Colombia's example and placed issues denominated in *reais*. Banco Santander-Santiago, Chile's largest bank, sold a 5-year US$400 million bond and a 10-year US$300 million bond. Brazil re-opened its 2014 dollar-denominated bond, selling a further US$500 million (see appendix C). Ecuador announced in December plans to raise between US$ 200 million and US$300 million on international markets in 2005, which would mark the country's reentry to international capital markets following its 1999 default. In 2004 Ecuador used oil stabilization fund proceeds to buy back US$155 million of domestic debt. In the case of Venezuela, although its National Assembly had approved in November up to US$500 million of additional issuance before the end of the year, the issuance did not materialize.

Corporate issuance in Latin America was US$3.25 billion dollars in the fourth quarter, which represented 40% of Latin American issuance, while sovereign issuance amounted to US$4.95 billion or 60% of Latin American issuance. Compared to the third quarter, corporate issuance was 5% lower, while sovereign issuance was 5% higher. Brazil was the biggest sovereign issuer during the quarter, with 18% of total Latin American issuance in the fourth quarter, followed by Mexico, Peru, Panama and Colombia. Dollar-denominated debt represented almost 60% of the whole amount issued in Latin American in the fourth quarter, with euro-denominated debt following in second with a 24% share, and issuance denominated in local currencies (Colombian pesos and Brazilian reais) in third, with a share of 19% (see appendix C).

The currency denomination of issuance seems likely to be more diversified looking forward, what should reduce pressure on the dollar-denominated bond market. Two trends witnessed in 2004 will likely continue in 2005. The share of euro-denominated bond issuance is likely to increase further, in part reflecting higher demand for emerging market bonds from European institutional investors (see Box 4). Second, more bond issues denominated in local currencies may take place in international capital markets. Both Colombia and Uruguay and Brazilian corporates issued bonds in local currency in 2004 (see Box 5). These issues, although limited in number and small in size, mark efforts toward overcoming what has been termed the "original sin" of emerging markets: the inability to issue international bonds in their own currencies.[9]

BOX 4: Longest maturity euro-denominated debt deal ever by a Latin American nation

Low spreads set a favorable backdrop for what underwriters said was the longest maturity euro-denominated debt deal ever by a Latin American country. The offering by investment-grade-rated Mexico made on November 16, amounted to €750 million (US$978 million) due in February 2020 (a 15-year bond). According to the finance ministry, US$500 million of the proceeds raised represented pre-financing for 2006, with the 2005 external debt financing requirement already having been completed with a US$1.5 billion issue in September. The government aimed to take advantage of the favorable financing conditions, as well as to avoid the need to issue in the period leading to the 2006 Mexican presidential elections.

Latin American countries are tapping the euro-denominated market in order to diversify currency holdings amid the weakening of the dollar. Europeans invested significantly in Latin American debt in the 1990s, before leaving Latin American markets after Argentina's default in 2001. But since October, in a sign of recovering demand, Peru sold its first sovereign debt offering in euros, €650 million in 10-year bonds. Jamaica also sold €150 million in 10-year bonds in October. Brazil has issued €1 billion in 8-year bonds since September and a unit of Mexico's state-owned oil company *Petroleos Mexicanos* (PEMEX) sold €850 million of 12-year bonds in July.

[9] "Original Sin" is the term used by Eichengreen, Haussman and Panizza (2002), "Original Sin: the Pain, the Misery, and the Road to Redemption", paper presented at the IDB Conference: on Currency and Maturity Matchmaking: Redeeming Debt from Original Sin (November).

BOX 5: Issuance in Latin American currencies in 2004

Emerging market local currencies were major beneficiaries of the downward trend in spreads. In November, Colombia issued a peso bond targeted at foreign investors. The sale of US$375 million of a global bond maturing in 2010 denominated in pesos was Colombia's first issuance in local currency in global markets. Colombia is the fourth emerging markets issuer and the second sovereign to issue such a bond, following a similar offering by Uruguay in 2003 and in August of 2004.[1] Colombia and Uruguay's issues capitalized on growing investor wariness about the U.S. currency, which has weakened world-wide amid increasing trade and fiscal deficits. Colombia's peso has been one of the currencies to benefit from the weakening in the dollar.

In terms of valuation the new Colombian bond can be compared with the domestically issued TES bonds. However, to make the bond attractive to foreign investors, the government made the interest and principal calculated in local currency but payable in U.S. dollars at a reference rate[2]. Although the bond is equivalent to investing in a local debt instrument, investors do not have to undertake a spot currency transaction every time they need to turn the local currency proceeds into dollars. In addition, the new bond is not subject to Colombian taxes. For investors buying this bond the primary concern is the future path of the Colombian peso.

Colombia's issuance in pesos was followed by *Banco Votorantim*, a Brazilian bank, which sold US$75 million of bonds indexed to the Brazilian real at a yield of 18.5%. Although the size of the issue was small, it was significant for being the first time a Brazilian company had sold domestic-currency linked bonds internationally. Other issuances in local currency followed: at the end of November, Brazil's largest private bank, *Banco Bradesco*, sold the equivalent of US$100 million of Brazilian real-denominated bonds overseas. In the first week of December, Brazil's fifth-largest bank, *União de Bancos Brasileiros*, sold US$75 million of real-denominated 18-month bonds in external markets, the third such issuance by a Brazilian bank in 2004. On December 6, the Inter-American Development Bank announced that it had raised funds in Latin American currencies for the first time in its 45-year history, issuing bonds in Mexican and Colombian pesos, as well as Brazilian reais. *Banco do Brasil* also announced plans to issue BRL200 million (US$72.9 million) of 3-year zero-coupon notes in external markets in December, and Brazil's Treasury Secretary Levy said that the government plans to sell real-linked bonds in external markets in 2005, tapping into increased demand from foreign investors for such securities.

Analysts indicate that generalized dollar weakness may lead to an increase in demand for local currency-denominated instruments in 2005. In addition, Latin American governments appear to be ready to replace significant stocks of dollar and euro-denominated debts that have left them vulnerable to balance-of-payments crises in the past when their own currencies weakened suddenly.

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[1] In November 2002 Bancomext, a Mexican bank specializing in foreign trade finance, issued a Mexican-peso-denominated Eurobond for 1 billion pesos or US$100 million. Uruguay issued the equivalent of US$200 million in local currency in October 2003 and another US$250 million in August of 2004.

[2] The reference rate is the average spot rate over a period of 20 business days ending 3 business days prior to the payment date.

II. Portfolio Equity Flows into Latin America

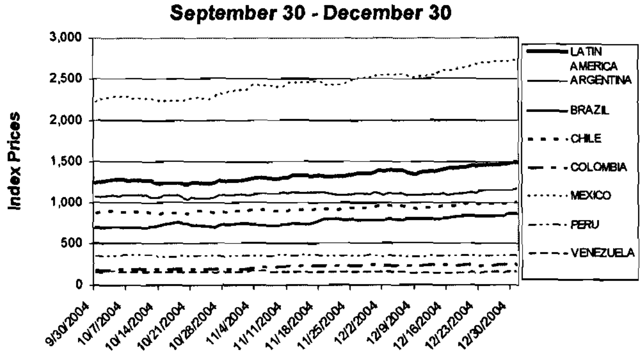
During the fourth quarter of 2004, Latin American stocks gained 16.81% of its value according to the Morgan Stanley's MSCI (Morgan Stanley Capital International) Index.[10] The increase in the MSCI EM Latin American Index was driven by increases in the Stock Price Index of Colombia (32.69%), Brazil (25.72%) and Mexico (22.19%). Among the seven biggest Latin American economies, all saw an increase of their Stock Price Index (see Table 1 and Chart 17).

Table 1
Variation of Stock Price Indexes
Q4 2004

	30-Sep-04	*31-Dec-04*	*Variation*
Emerging markets	464.15	542.174	16.81%
Latin America	1238.274	1483.584	19.81%
Argentina	1073.742	1162.98	8.31%
Brazil	686.372	862.926	25.72%
Chile	870.484	997.324	14.57%
Colombia	184.644	245.007	32.69%
Mexico	2222.418	2715.559	22.19%
Peru	340.487	343.392	0.85%
Venezuela	149.409	151.033	1.09%

Source:MSCI Equity Indices, http://www.msci.com/equity/index2.html

Chart 17:
MSCI Equity Indexes Prices
September 30 - December 30



Source:MSCI Equity Indices, http://www.msci.com/equity/index2.html

Buoyed by strong commodity prices and recovering U.S. economy, Latin American stocks enjoyed double-digit gains for a second consecutive year in 2004, with indexes in Colombia and Mexico posting some of the world's strongest returns. Favorable earning prospects, given strong global growth, Latin American companies' own acquisitions and restructurings, rising commodity prices, improving domestic growth and strengthened credit quality boosted stock prices in Latin American markets. Morgan Stanley MSCI Latin America Index increased by 39.8% in 2004 in dollar terms. Record oil prices boosted the economies of oil-exporting nations. Mexico, which benefited from higher oil prices, became an investor favorite. The avid demand of the Chinese industry pushed up prices for metals and other commodities, helping drive South American economies such as Argentina, Brazil and Chile. Colombia was boosted by the acceleration of economic growth as well as by the peso-appreciation.[11]

On the other hand, new equity issuance by Latin American firms remained low, although higher than in 2003. Latin America had US$3.4 billion of issuance in 2004 according to the IIF. Brazil had ten offerings for US$1.9 billion compared with only three offerings in 2003 that totaled US$0.4 billion.

[10] 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.

[11] From 1998 to 2004, emerging markets were up 109% based on MSCI indices, compared to a return of 13% in developed markets. Structural changes in emerging markets in the last five years made them less vulnerable to crisis: the average emerging market debt rating improved from BB- to BB+, current accounts moved to surpluses, reserves improved and currencies floated, making them decouple from developed markets. Emerging markets also grew 3% a year faster than developed markets over the past five years.

III. Bank Lending

Latin America experienced a net outflow of US$8.1 billion for the third quarter of 2004, according to the latest available information on actual bank lending.[12] This tenth consecutive outflow from the region resulted from the US$13.6 reduction in claims on the region, despite an inflow of US$6.5 billion due to a reduction in deposits placed abroad by Latin American borrowers. Although the outstanding stock of claims on several of the region's largest borrowing countries continued to fall, the net outflow of funds from Latin America was mainly the result of reduced claims on Mexico. According to the BIS Quarterly Review, much of this decline was due to a one-off transaction: the acquisition of the equity shares of minority shareholders by a subsidiary of a large international bank. This transaction explains about half of the US$8.1 billion drop in claims on the country. Excluding this transaction, the fall in claims on the region as a whole reflected reduced credit to all sectors in Brazil, and the continuing writedown of loans vis-à-vis borrowers in Argentina (see Table 2).

Table 2
Cross-border bank flows to Latin America
Exchange rate adjusted changes in amounts outstanding, in billions of US$ dollars

	Banks Position*	2002 Year	2003 Year	2003 Q4	2004 Q1	2004 Q2	2004 Q3	Stocks at end-Sept 2004
Latin America	Claims	-26.3	-15.8	-10.3	5.2	-6.3	-13.6	254.2
	Liabilities	-26.9	25.0	1.4	15.3	-1.1	-6.5	280.0
Argentina	Claims	-11.8	-8.5	-2.1	-2.6	-1.1	-1.3	18.7
	Liabilities	0.0	-0.8	0.7	0.3	0.1	-0.1	25.2
Brazil	Claims	-11.2	-7.2	-9.1	1.8	-4.0	-2.9	78.4
	Liabilities	-8.0	14.4	-3.4	5.0	-3.6	-7.0	51.1
Chile	Claims	0.5	1.4	0.9	-0.6	-0.4	-0.8	20.6
	Liabilities	-1.1	-2.6	-0.3	1.6	-0.4	0.6	16.0
Mexico	Claims	3.1	-0.8	-0.9	7.5	-0.6	-8.1	63.8
	Liabilities	-11.4	6.2	-0.1	4.0	-0.7	-5.5	59.9
Venezuela	Claims	1.1	-1.7	-0.3	-0.2	-0.4	0.0	13.5
	Liabilities	0.5	-3.6	0.6	0.9	2.3	0.8	32.4

Source: BIS Quarterly Review, September 2004

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

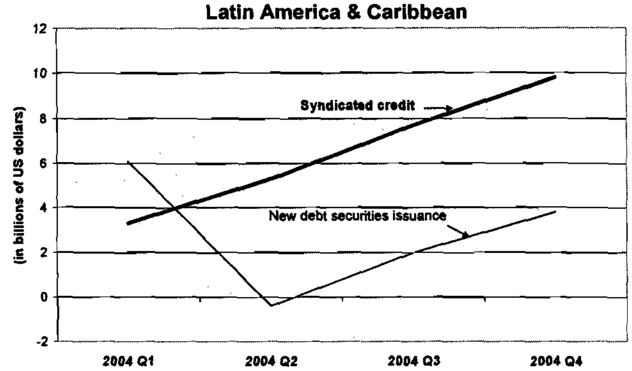
An increase in claims represents an inflow into Latin American economies; an increase in liabilities an outflow.

Total claims on Brazil fell by US$2.9 billion, to US$78.4 billion at the end of the quarter, from US$81.2 billion in the previous quarter and US$91 billion a year earlier. Despite the declines in claims, Brazil experienced a relatively large net inflow of funds, as banks located there repatriated US$7 billion in deposits placed abroad. In the case of Argentina, the continued writedown of loans pushed down the stock of BIS reporting claims to US$18.7 billion at the end of the quarter, from US$20 billion in the previous quarter and US$25.3 billion a year earlier. The net debt of Argentina's banking sector to BIS reporting banks fell from US$8.9 billion in the second quarter to US$1.3 billion in the third.

[12] BIS *Quarterly Review*, March 2005.

The overall volume of announced syndicated lending to emerging markets in the fourth quarter of 2004 reached a peak not seen since the end of 1997. Latin American borrowers were also buoyant. In contrast to Asia, where new funding was dispersed among a large number of countries, new funding in Latin America was more concentrated, with Mexican borrowers being the most active (see Table 3).[13] Mexican banks were also active in 2004, dramatically increasing lending to the domestic market (see Box 6).

Chart 18:
Announced Syndicated Lending and Securities Issuance in Latin America & Caribbean



* 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								
	2002Q4	2003Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Latin America & Caribbean	**4.3**	**1.2**	**3.9**	**1.3**	**7.0**	**3.3**	**5.3**	**7.7**	**9.8**
Argentina	-	-	-	-	0.3	0.3	-	-	0.5
Brazil	1.2	-	0.8	0.4	0.2	1.1	1.1	1.9	0.3
Chile	0.5	0.2	0.1	0.5	0.7	0.6	0.4	1.4	1.3
Mexico	2.2	1.0	2.8	0.6	5.3	1.0	3.6	4	7.5

Source: BIS Quarterly Review, March 2005

BOX 6: Mexican Banks increased lending in 2004

In their annual convention in the beginning of March 2005, Mexico's bankers announced a dramatic increase in lending over the past year. During 2004, total credit extended to the private sector by banks increased by 25% in real terms. That lending covered all mainstream sectors. According to figures from the Bank of Mexico, consumer lending rose by 45% in the year to the end of January. Over the same period, mortgages increased by 21.8%, while corporate lending rose by 15.7%.

After suffering the effects of a damaging bank nationalization in 1982 and a subsequent collapse in 1995, shortly after the banks had been re-privatized, Mexico was left with a weak banking system. Most of the banks now are in foreign hands, following a wave of acquisitions from 1999 to 2002. The participants include Spain's BBVA and SCH, Citigroup of the US, HSBC of the UK, and Canada's Scotia-bank. Banorte is the only big national player left.

According to the president of the Mexican Bankers Association, Manuel Medina Mora, it was only in 2004 that all three conditions for expanding credit –financial stability, economic growth, and a sound regulatory framework– had been met. He says that in recent months the banking sector in Mexico has enjoyed real competition, leading to several new products and to aggressively priced interest rates offers.

[13] 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 Gadanecz and Karsten von Kleist (2002): "Do syndicated credits anticipate BIS consolidated banking data?" BIS Quarterly Review, April 2004, pp 65-74.

IV. Prospects

Taking advantage of favorable global liquidity conditions and record low spreads on their sovereign issues, Latin American countries improved the maturity of their debt profile in 2004 with aggressive liability management and pre-financed almost 20% of its financial requirements for 2005. The Federal Reserve provided liquidity and monetary accommodation that fueled financial assets globally, emerging markets debt included. In addition, reserve accumulation transformed Asian central banks into significant providers of global liquidity as well.

Investors showed increased interest in Latin American issues, which were supported by dollar weakness and low yield in mature markets together with improved external positions and debt dynamics in most Latin American countries. Latin American country risk premiums lowered sharply in 2004. The Latin American component of the EMBI+ tightened by 101 basis points in 2004, from 521 basis points at the end of December 2003 to 420 basis points at the end of December 2004.

Global monetary conditions will probably remain loose until both the low U.S. interest rates and undervalued Asian currencies are realigned. Once liquidity tightens up and global growth moderates, analysts expect volatility to rise, spreads to widen and commodity prices to fall. However, the impact on Latin American countries should be less severe than in the past, given that they closed 2004 considerably better insulated from external shocks than they have been up to this point. Economies have been growing, fiscal imbalances have been reduced, reserves have been accumulated, current accounts have been running surpluses, currencies have been floating and policies have been improving.

Most analysts see local markets in Latin America offering the best opportunities in 2005, both because of country-specific reasons, and because of expectations of continued dollar weakness. Due to the consolidation of credible fiscal and monetary policies in the region, local rates have been increasingly decoupling from external debt spreads, to the extent that domestic markets have become investment alternatives.

In order to reduce vulnerability to external shocks and balance assets and liabilities, a number of Latin American sovereigns are considering global issuance denominated in local currency, following Colombia's successful placement of a peso-denominated global for US$375 million in November 2004. Brazil and Chile, for example, are considering similar issues in the near future.

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	-	BBB+	-	Upgrade, stable	8-Feb-00	Downgrade, stable	5-Aug-04
Bolivia	Caa1	-	B-	-	Downgrade, stable	16-Apr-03	O/L changed to stable	4-Aug-04
Brazil	**B1**	**-**	**BB-**	**-**	**O/L changed to (+)**	**12-Jan-04**	Upgrade, Stable	17-Sep-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	17-Sep-04
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 (-)	11-Aug-04
Ecuador	**Caa1**	-	**B-**	**-**	Upgrade, stable	24-Feb-04	**Upgrade, stable**	**24-Jan-05**
El Salvador	Baa3		BB+	-	O/L changed to (-)	18-Dec-03	Affirmed, stable	10-Sep-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	-	Downgrade, stable	27-May-03	**Affirmed, stable**	**10-Dec-04**
Mexico	**Baa1**	**-**	**BBB-**	-	**Upgrade, stable**	**6-Jan-05**	**Upgrade, stable**	**31-Jan-05**
Nicaragua	B2	-	nr	-	Affirmed, stable	30-Mar-00		
Panama	Ba1	-	BB	oo	Affirmed, stable	7-May-03	O/L changed to (-)	10-Mar-03
Paraguay	Caa1	-	B-	oo	Downgrade, stable	28-Apr-03	Upgrade,O/L to stable	26-Jul-04
Peru	Ba3	-	**BB**	**-**	Affirmed, stable	28-Oct-02	**Affirmed, stable**	**6-Oct-04**
Trinidad & Tobago	Baa3	-	BBB+	o	Affirmed, stable	30-Aug-00	Upgrade, O/L (+)	16-Jun-04
Uruguay	**B3**	**oo**	B	-	**O/L changed to stable**	**10-Nov-03**	Upgrade, stable	21-Jul-04
Venezuela	B2	-	**SD**	**-**	Upgrade, stable	7-Sep-04	**Downgrade, stable**	**18-Jan-05**

- stable outlook; *o positive outlook*; *oo negative outlook.* ***Changes for the fourth quarter of 2004 and for January 2005 are highlighted.***

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, February 04, 2005. .

Rating Scale

	MOODY's	S&P		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*
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	952	215	439	647	607
30-Jul-04	466	5036	593	437	852	200	411	581	566
31-Aug-04	436	5258	521	408	813	183	357	550	524
30-Sep-04	421	5440	469	408	778	188	323	490	498
30-Oct-04	413	5440	473	400	745	183	318	462	493
30-Nov-04	377	5194	414	338	696	172	274	407	451
31-Dec-04	356	4703	382	332	690	166	220	411	420

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

EMBI+ composition by market sector (end-December 2004): Brady, 23.52%; Benchmark Eurobonds, 76.04%; Loans, 0.44%
by country: Brazil and Mexico account for 43.71% of the total weighting.
by region: Latin: 61.09%; Non-Latin: 38.91%.

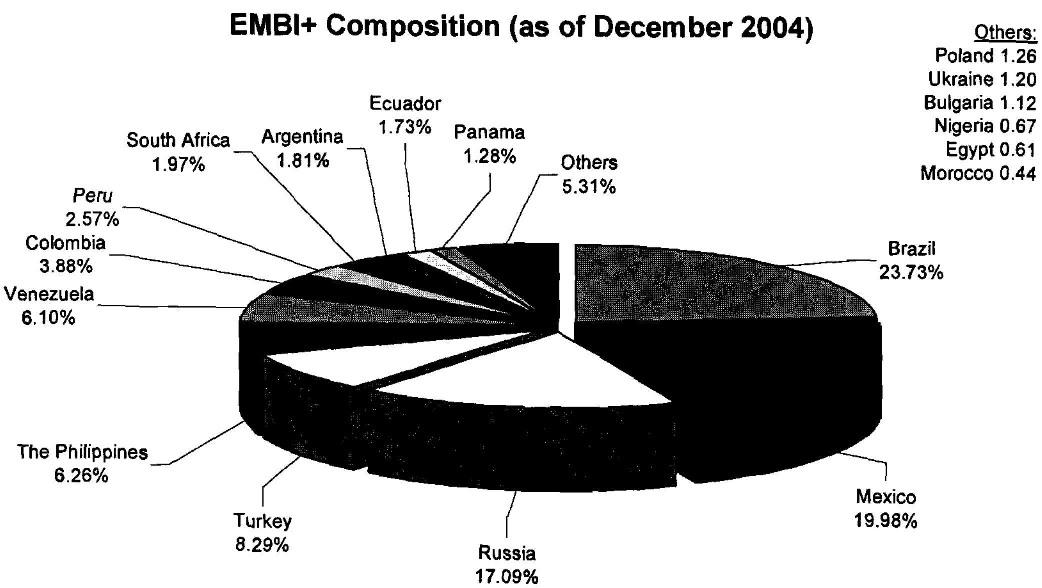


Table 3:

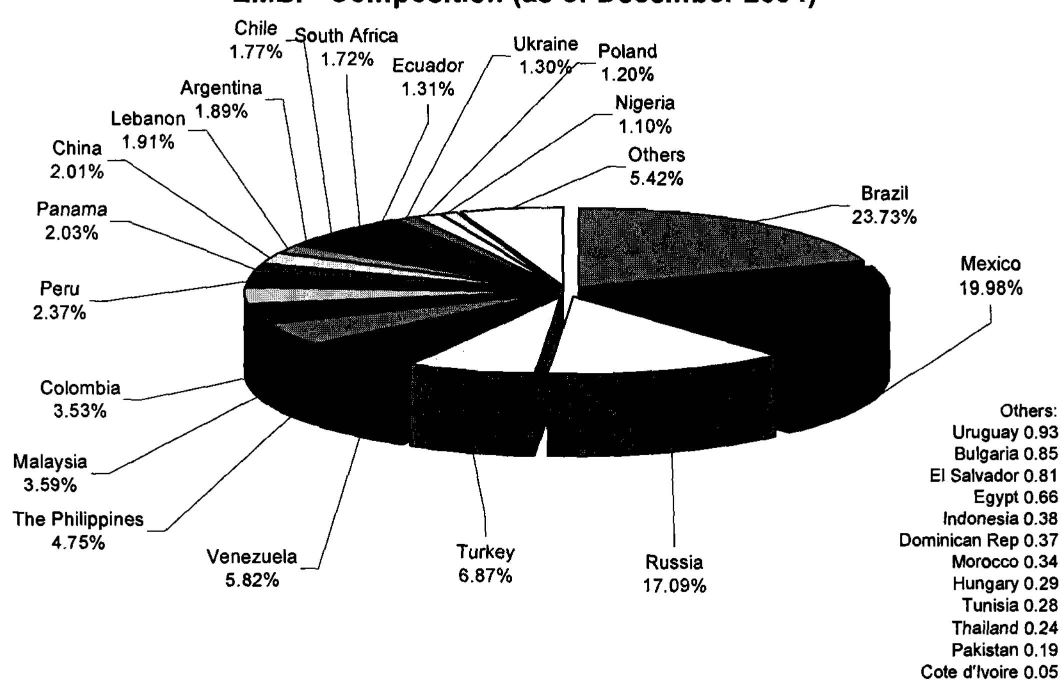
Sovereign Spreads on JP Morgan EMBI Global and Latin American Composites

	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
30-Jan-04	414	5619	489	94	425	714	205	357	585	633	531
27-Feb-04	431	5622	575	88	424	762	191	371	638	720	563
31-Mar-04	414	4840	554	91	379	701	184	355	576	647	531
30-Apr-04	468	4534	660	92	443	925	204	406	658	684	588
28-May-04	494	4838	696	92	521	909	210	483	682	659	614
30-Jun-04	482	5087	646	83	483	952	218	450	710	643	600
30-Jul-04	453	4994	590	80	435	852	201	424	601	584	556
31-Aug-04	425	5237	518	70	406	813	184	372	598	550	518
30-Sep-04	409	5389	466	78	407	778	189	340	497	490	492
30-Oct-04	399	5269	470	81	401	745	185	337	507	459	481
30-Nov-04	363	4987	410	73	340	696	181	293	414	400	433
31-Dec-04	347	4527	376	64	332	690	174	239	388	403	415

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

EMBI Global composition by market sector (end-December 2004): Brady, 18.31%; Benchmark Eurobonds, 80.76%; Loans, 0.93%.
by country: Brazil and Mexico account for 38.44% of the total weighting.
by region: Latin: 59.27%; Non-Latin: 40.73%.

EMBI+ Composition (as of December 2004)



C. New Latin American Debt Issuance

C1. October 2004

Table 4:

New Latin American Debt Issuance Fourth Quarter of 2004 Oct-04				
Country	**Issuer**	**Amount US$ (mm)**		**Maturity**
Brazil	Federative Republic of Brazil	1000		14-Oct-19
Peru	Republic of Peru	**805**	**EUR 650**	14-Oct-14
Jamaica	Republic of Jamaica	**191**	**EUR 150**	27-Oct-14
Brazil	Banco Safra	100		21-Oct-07
Brazil	Cosan SA	200		1-Nov-09
Argentina	Pan American Enegy LLC	100		27-Oct-09
Chile	Codelco Inc.	500		15-Oct-14
Venezuela	Electricidad de Caracas	260		15-Oct-14
Mexico	America Movil SA de CV	500		15-Jan-15
Total		**3,656**	**US$996**	

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

October average maturity: **9.67** years.

Currency Breakdown
(% of Latin America's Total)

Currency	**Oct-04**
Dollar	72.76%
Euro	27.24%
Other	0.00%

Source: Merrill Lynch

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

Issuer Type	**Oct-04**
Sovereign	68.27%
Corporate*	31.73%

*Also includes bank issuance.

Source: Merrill Lynch

C2. November 2004

Table 5:

New Latin American Debt Issuance Fourth Quarter of 2004 Nov-04				
Country	**Issuer**	**Amount US$ (mm)**		**Maturity**
Colombia	Republic of Colombia	**375**	**COP 954,000**	1-Mar-10
Mexico	United Mexican States	**978**	**EUR 750**	17-Feb-20
Panama	Republic of Panama	600		15-Mar-15
Colombia	AES Chivor	170		30-Dec-14
Total		**2,123**	**US$1,353**	

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

***August average maturity*: 12.47 years.**

Currency Breakdown
(% of Latin America's Total)

Currency	Nov-04
Dollar	36.27%
Euro	46.07%
Colombian Peso	17.66%

Source: Merrill Lynch

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

Issuer Type	Nov-04
Sovereign	91.99%
Corporate*	8.01%

*Also includes bank issuance.

Source: Merrill Lynch

C3. December 2004

Table 6:

New Latin American Debt Issuance Fourth Quarter of 2004 Dec-04				
Country	**Issuer**	**Amount US$ (mm)**		**Maturity**
Brazil	Banco ABN Amro Real SA	**410**	**BRL 150**	13-Dec-07
Chile	Banco Santander Chile	400		9-Dec-09
Chile	Banco Santander Chile	300		9-Dec-14
Brazil	Banco Bradesco SA	**734**	**BRL 271**	10-Dec-07
Brazil	Federative Republic of Brazil	500		14-Jul-14
Brazil	Unibanco - Uniao de Bancos Brasileiros	75		14-Jun-06
Total		**2,419**	**US$1,144**	

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

***December average maturity*: 5.48 years.**

Currency Breakdown
(% of Latin America's Total)

Currency	Dec-04
Dollar	52.71%
Euro	0.00%
Brazilian Real	47.29%

Source: Merrill Lynch

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

Issuer Type	Dec-04
Sovereign	20.67%
Corporate*	79.33%

*Also includes bank issuance.

Source: Merrill Lynch