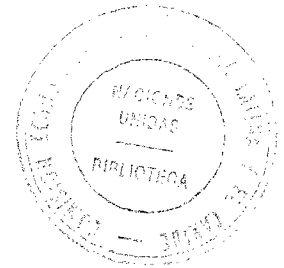


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LC/WAS/L.92 /c.1



## Capital Flows to Latin America: Quarterly Developments



UNITED NATIONS



Washington, D.C., 25 October 2007

106700

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United Nations Publication

LC/WAS/L.92

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Printed in Santiago, Chile – United Nations

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## Introduction

### Quarterly Developments\*

Concerns about the ongoing U.S. crisis in the housing sector and the asset exposures to subprime mortgages dominated financial markets in the second and third quarters of 2007. Volatility spiked in July and August, with losses in the subprime mortgage sector spreading to other risky assets. The volatility radiating from the United States is changing the global backdrop for emerging markets. This change comes after several years when the combination of improvement in country macroeconomic policies and strong risk appetites led to strong flows of new money to the emerging markets asset classes.

Emerging markets and Latin American spreads widened in the second and third quarters of 2007. In the second quarter, the JPMorgan EMBI+ Latin American composite widened by 22 basis points. The widening was a result of higher spreads for Argentina, Ecuador and Venezuela, with spreads narrowing for all the other countries in the composite. In the third quarter, emerging markets and Latin American spreads widened as global risk appetite declined in face of increased volatility and spillover effects from the deepening of the U.S. housing sector's problems. The EMBI+ Latin American composite widened by 25 basis points, increasing for most countries in the composite. Argentina and Venezuela's bond spreads showed the biggest increases in the quarter.<sup>1</sup>

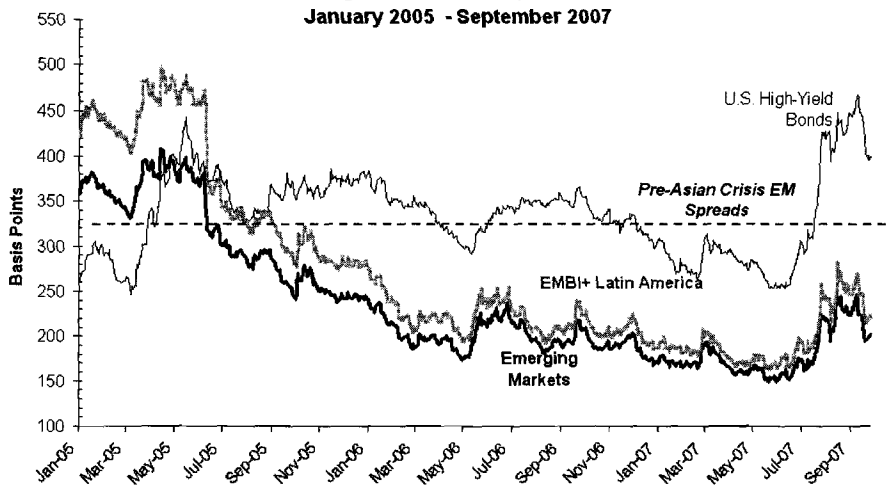
Spreads remain at low historic levels, however, and the recent increase in global volatility has put much less stress on emerging markets than it would have four or five years ago. Moreover, emerging market spreads are roughly half of the spreads on U.S. junk (high-yield) bonds, and have been under less pressure during the current turbulence in financial markets (Chart 1).

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\* 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> The bonds of countries where investors have concerns about the direction of government economic policy have taken larger hits in the past two quarters, particularly in July and August. This underscores a degree of market discrimination in recent months, and is a result of the repricing of risk that is underway. These countries' spreads have widened more than spreads in other countries of the region

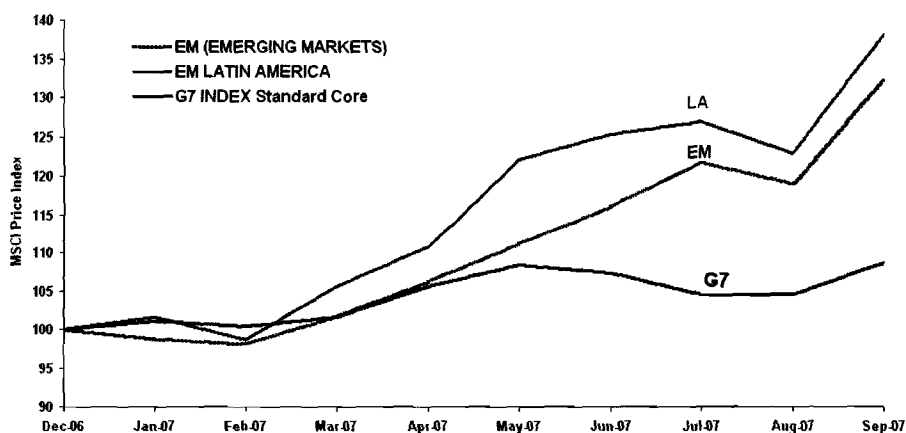
**Chart 1:  
High Yield vs EM Spreads  
January 2005 - September 2007**



Source: ECLAC, on the basis of data from Merrill Lynch U.S. High-Yield Master II Index (H0A0), and JPMorgan EMBI+.

The summer credit liquidity squeeze was felt in emerging and Latin American stock markets as well. The Morgan Stanley Capital International (MSCI) Emerging Markets Index fell by 6% in August, while the Latin America component fell by 7%. A flight to quality, severe volatility and generalized deleveraging caused Latin American stocks to lose almost 15% from August 8 to August 16, erasing more than half of the gains for the region in the first half of 2007. Emerging market and Latin American stocks have shown an incredible recovery since mid-August, however. The MSCI EM Price Index gained 32% in the first nine months of the year, and the MSCI Latin American Index 38%, almost four times as much as broad indexes in developed markets (Chart 2).

**Chart 2:  
MSCI Equity Price Index (USD)  
2007 TYD**



Source: MSCI Equity Indices, <http://www.msci.com/equity/index2.html>  
Note: prices at the end of the month.

Compared to prior bouts of market instability, emerging market assets have weathered the recent market turbulence quite well. Their impressive performance is unusual, since these are assets that usually retreat in periods of turbulence, and it has raised concerns that a new bubble, this time in emerging equity markets, may be forming. An equity rally followed the Federal Reserve interest rate cut on September 18,

and it has been fueled by emerging markets. It is believed that one of the unintended consequences of monetary easing during the credit market crisis of the late 1980s and the late 1990s were bubbles in the Japanese equity market and the technology stocks sector.

Latin American equity funds have received large inflows of capital in recent weeks. According to Lipper, a data firm, Latin American equity funds gained 6.86% in the week ended September 27, the best performance of all equity sub-classes tracked by the company. Latin American funds even outdid China Region funds, which returned an equally impressive 6.47% in the same period. But Latin American bonds have been remarkably resilient as well. Bond spreads have declined and investment has increased following the Fed's September interest rate cut. The key reasons emerging and Latin American markets have remained attractive are stronger fundamentals and robust economic growth.

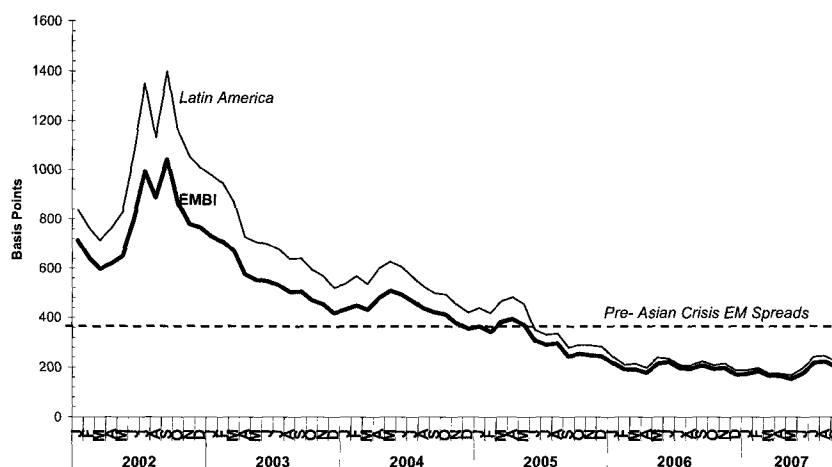
This time around, Latin American economies are more solvent than in past credit episodes. They are fiscally stronger, having reduced their debt burdens and accumulated a large amount of foreign reserves, and their banking sectors are healthier, displaying fewer liabilities from non-performing loans than in previous episodes. Latin American banks have minimal or nonexistent exposure to U.S. subprime securities according to Fitch, and will likely weather this downturn with relative ease. According to Fitch, portfolios in the region continue to be concentrated in instruments issued by the local governments.

Latin American debt will most likely continue to depend on how risk assessments in the broader financial markets will evolve, but should be under less pressure than other risky assets. However, given the backdrop of high uncertainty in financial markets, slower economic and corporate earnings growth are expected, making it unlikely that Latin American spreads will revert back to a sustained narrowing trend. Economic prospects for Latin America are expected to remain positive, though, but a risk scenario exists. The real underlying risk and the relative impact of the current turmoil on the region hinge to a great extent on how events will play out in the United States.

## I. Bond markets and debt management

The ongoing financial turmoil has affected emerging debt markets through a couple of immediate channels. Global risk appetite has declined significantly and has led to a rise in credit spreads in emerging markets. For the first nine months of the year, EMBI+ spreads widened by 32 basis points, while the Latin American component increased by 36 basis points (Chart 3).

**Chart 3:**  
**EMBI+ Spreads and Latin American Component**  
**January 2002 - September 2007**



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

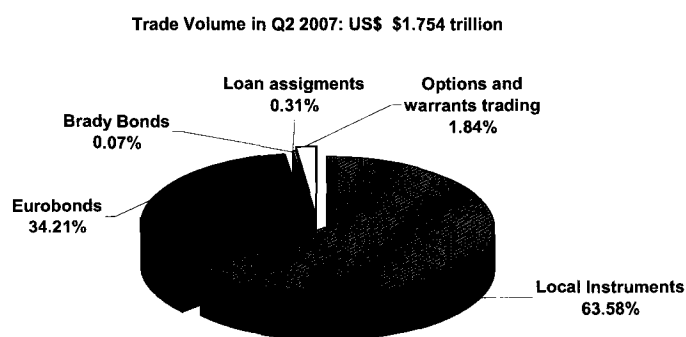
Emerging market and Latin American spreads declined until May, however, with the EMBI+ reaching a record low of 153 basis points and its Latin component a record low of 168 basis points at the end of the month. The abundance of global liquidity and appetite for emerging market risk, as well as the continued broadening of the "investor base," contributed to the lower level of spreads. However, the deepening of the U.S. crisis in the subprime mortgage sector and the contagion to global credit markets during the summer led to higher borrowing costs and an increase in spreads. The EMBI+ and its Latin component widened by 70 and 78 basis points respectively, from the end of May to the end of August. In

September, as the global financial conditions seemed to stabilize, they narrowed by 22 and 24 basis points respectively. Since the FOMC meeting on September 18, renewed risk-taking has contributed to a recovery in spreads. Emerging market and Latin American spreads remain at low historic levels, and the summer increase in global volatility placed much less stress on emerging markets than it would have four or five years ago.

Countries with improved economic fundamentals that have built up significant financial cushions against external shocks have issued more local-currency debt in recent months while decreasing their reliance on foreign-currency bond issues. According to participants in EMTA Debt Trading Volume Survey, local instrument trading accounted for US\$ 1.115 trillion in Survey activity, or 64% of reported trading in the second quarter of 2007, the latest data available. This compares with US\$ 1.025 trillion in the first quarter (a 9% increase), when local markets accounted for 60% of total volume, and with US\$ 941 billion in the second quarter of 2006 (an 18% increase), when local markets accounted for 57% of total volume. The most frequently traded local instruments were those from Mexico (US\$ 316 billion), Brazil (US\$ 167 billion), followed by South Africa, Turkey and Argentina (US\$ 77 billion).

In contrast to the increase in local market instruments, Eurobond volumes, at US\$ 600 billion, declined 6% when compared to the previous quarter, and 12% when compared to the second quarter of 2006. Eurobond volumes accounted for 34% of Survey volume in the second quarter of 2007, down from 38% in the first quarter. Although the biggest share of Eurobond trading is still composed by sovereign issues, corporate bond turnover reached its highest level since 1997, US\$ 213 billion, up 41% compared to the first quarter. Corporate volume's market share rose to 12%, its highest level ever. Brady bonds drop even further in the second quarter of 2007, to just over US\$ 1 billion or 0.07% of the total volume, following additional early redemptions (Chart 4).

**Chart 4:**  
**Q2 2007 Emerging Markets Debt Trading Volume:**  
**by Type of Instrument**



Source: ECLAC with data from EMTA.

Analysts agree that some of the move into local-currency debt is a response to the abundant global liquidity in external markets. In addition, a broader class of investors, including pension funds, central banks and other long-term institutional investors, who are willing to commit to longer-term goals, has been looking to invest in local-currency debt not as a second option but as part of their initial investment.

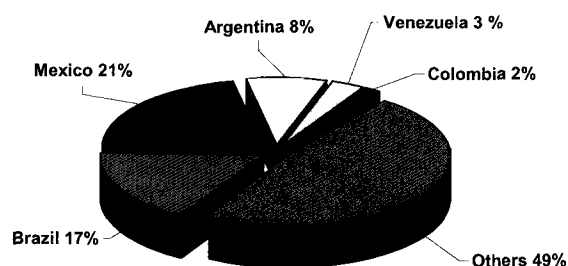
In the case of Mexico, local markets volume, at US\$ 316 billion, accounted for 85% of total Mexican volume in the second quarter of 2007 (US\$ 373 billion). Domestic demand has been driving much of the Mexican local markets volume. Mexican instruments remained the most frequently traded instruments overall, with a 21% share of total Survey volume.

Brazilian instruments were the second most frequently traded in the second quarter (US\$ 302 billion), but trading volumes declined by 22% compared to the same quarter a year ago, although up 9% on a quarter-on-quarter basis. Local markets volume accounted for 55% of total Brazilian volume, and Brazilian activity accounted for 17% of total debt turnover.

Argentina's debt instruments were the Survey's third most frequently instruments, at US\$ 146 billion, a 40% increase on second quarter 2006 volume, and up 12% from the first quarter total. Argentina's volumes accounted for 8% of Survey activity (Chart 5).

**Chart 5:  
Q2 2007 Emerging Markets Debt Trading Volume:  
Country Shares**

Trade Volume in Q2 2007: US\$ \$1.754 trillion



Source: ECLAC with data from EMTA.

As a result of the activity increase in local markets, another channel through which the ongoing turbulence in credit markets is affecting emerging markets is through the unwinding of carry trades. In recent quarters, vast inflows attracted by higher local interest rates have driven many emerging market currencies up. When investing in local currency instruments, investors have enjoyed the combination of higher interest rates and foreign exchange appreciation, thus the carry trades have been highly advantageous. The massive and persistent increases in foreign exchange reserves in emerging markets over recent months indicate that carry-trade inflows in emerging markets have been substantial.

For example, Brazil's foreign exchange reserves rose by US\$ 70 billion in the first seven months of 2007, and according to U.S. Treasury figures, Brazilian holdings of U.S. Treasuries increased by US\$ 41.5 billion to US\$ 93.6 billion in the first half of 2007, with Brazil breaking into the top five main international holders of U.S. Treasury bonds and bills as a result. At the end of July, the *real* reached 1.84 to the dollar, although the dollar bounced back in August amid market turbulence.

Some of these carry trades could be reversed if problems in financial markets intensify. Emerging market currency risk and local market interest rates, for example, began to move higher when the recent credit market woes intensified. Some key concerns right now are thus how many of these carry trades could unwind if the turmoil grows deeper, and how local financial markets would handle this process.

Positive credit rating changes continued to support asset prices in Latin American markets in the second and third quarters. Since May, there have been nineteen positive actions, among upgrades and outlook revisions. Sixteen countries have had their ratings raised or their outlook positively revised so far this year, with only Ecuador and Venezuela suffering negative actions at the beginning of the year. Six positive actions took place in July, following four positive actions in June, despite increasing instability in global financial markets during the summer months. In August there was still one positive action, followed by three positive actions in September (Box 1). Most positive changes cited lower financing needs on the part of the countries of the region, as well as good economic policies.



### BOX 1: CREDIT RATING ACTIONS IN LATIN AMERICA – 2007 YEAR-TO-DATE

Since the beginning of the year, there have been 14 positive credit rating actions by S&P, 7 by Moody's and 6 by Fitch in Latin America and the Caribbean. Most changes cited lower financing needs on the part of the countries, as well as good economic policies. There have been only three negative credit rating actions, all taken in the beginning of the year (January). The negative actions were taken on Ecuador, and followed the new administration's announcement of its intentions to restructure its debt, and on Venezuela, following its announcement of the nationalization of the telecommunications and energy sectors.

#### *Positive Actions: 27 (Bold)*

##### *January*

- Argentina: on January 16, **Moody's raised the sovereign's credit outlook to positive** from stable, citing improvement in the fiscal accounts, robust economic growth and the substantial accumulation of international reserves.

##### *February*

- Belize: on February 13, **Moody's upgraded the sovereign's ratings following the restructuring of external debt**. The country's foreign currency bond ratings were raised two notches from Caa3 to Caa1, with a stable outlook.
- Belize: on February 20, **S&P upgraded Belize's foreign currency rating to "B" from "SD-selective default" following the restructuring of external debt**. The restructuring helped to lengthen debt maturity and decrease interest payments, although it did not reduce the government's debt stock.

##### *March*

- Colombia: on March 05, **S&P upgraded Colombia's sovereign external debt rating to BB+ from BB with a stable outlook**, noting the "significantly improved growth prospects", lower debt and reduced external vulnerabilities. The action brought the sovereign to only one notch below investment grade.
- Jamaica: on March 07, S&P affirmed Jamaica's sovereign external debt rating, with a stable outlook (no change).
- Peru: on March 08, the sovereign rating was placed under review for a possible upgrade by Moody's. The announcement was not a surprise to market participants as Moody's rates the sovereign at Ba3, two notches below both S&P (BB+) and Fitch (BB+). The action was prompted by Peru's improved external balances.

##### *May*

- Dominican Republic: on May 02, **Moody's upgraded the Dominican Republic to B2 from B3**, citing the recovery in the economy over the last two years and the reduction of debt ratios to pre-crisis levels.
- Panama: on May 03, **S&P revised the outlook for Panama's sovereign debt to positive from stable**. The agency said it will upgrade the rating if improvements in the fiscal position endure, the economy continues to diversify, and the expansion of the Panama Canal does not overburden government finances.
- Uruguay: on May 03, **S&P also revised the outlook on Uruguay's B+ rating to positive**, citing recent liability management operations and improved fiscal and external ratios.
- Brazil: on May 09, **Fitch Ratings upgraded Brazil to BB+ from BB**, one notch lower than investment grade, and one notch higher than the other two major rating agencies' ratings for foreign currency long-term debt. The upgrade reflected the improvement in Brazil's external position and rise in domestic savings.
- Chile: on May 15, **Fitch upgraded its outlook on Chile's A sovereign rating to positive from stable**, saying that continued positive trends in public finance and external balance sheets raises the likelihood of an upgrade in the next two years.
- Brazil: on May 16, **S&P upgraded the sovereign to BB+**, and the long-term local currency rating two notches to an investment grade rating of BBB, from BB+. The upgrades reflected continued declines in fiscal and external vulnerabilities and proactive debt management. S&P kept a positive outlook on the rating. The action brought Brazil just to one notch below investment grade.
- Brazil: on May 24, Moody's placed Brazil's long-term foreign currency rating on review for a possible upgrade.

(Continued)

**Box 1 – (cont.)***June*

- Paraguay: on June 04, citing fiscal surpluses, **S&P raised Paraguay’s sovereign credit rating one notch to B**, five steps below investment grade.
- Panama: on June 05, **Moody’s upgraded Panama’s ceiling one notch to A3**, its fourth lowest investment grade rating. Moody’s rating action does not affect Panama’s sovereign credit rating, which remains unchanged at Ba1, one notch below investment grade. In support of the action the agency cited a decline in the risk of disruption to the nation’s dollar payments system, and the country’s recent relative macroeconomic and political stability.
- S&P released new sovereign recovery ratings on June 12, providing positive news for Colombia, Costa Rica and Uruguay. It created a new category, the *Sovereign Recovery Rating (SRR)*, which assigns countries numerical values representing recovery values, whereas the traditional *Issuer Credit Rating (ICR)* essentially captures only the probability of a default taking place. According to the new “recovery ratings”, the foreign currency unsecured ratings of bonds in three Latin American countries were upgraded (the countries’ issuer credit ratings remain unchanged):
  - Colombia: on June 12, **S&P upgraded the foreign currency unsecured debt to BBB- (investment grade)**. However, for investors who are only allowed to invest in investment grade countries, Colombian bonds will still not qualify, since Colombia’s ICR remains BB+, one notch below investment grade.
  - Costa Rica: on June 12, **S&P upgraded Costa Rica’s foreign currency unsecured debt to BB+ from BB**.
  - Uruguay: on June 12, **S&P upgraded the foreign currency unsecured debt to BB-**.
- Colombia: on June 21, **Fitch upgraded Colombia to BB+**, just one notch below investment grade, citing the country’s improved debt dynamics, strong growth and sound fiscal management.
- Colombia: on June 25, **Moody’s raised the outlook on the sovereign’s Ba2 credit rating to positive from stable**, as a result of diminished security concerns, which has given a major boost to foreign direct investment.

*July*

- Mexico: on July 02, **S&P raised the outlook on Mexico’s BBB long-term foreign currency sovereign credit rating, from stable to positive**, highlighting growing prospects for fiscal reform, steadily improving external liquidity and a lighter external debt burden.
- Guatemala: on July 06, **S&P affirmed Guatemala’s BB rating and raised its outlook to positive**, reflecting growing prospects for policy continuity after this fall’s national elections.
- Peru: on July 16, **Moody’s upgraded Peru’s sovereign foreign-currency bond rating to Ba2 from Ba3**, with a stable outlook, highlighting the improvement in external debt indicators supported by a sustained strong export performance. The rating had been placed under review on March 8. Despite the upgrade, Moody’s rating still trails behind the other two main rating agencies.
- Guatemala: on July 19, Fitch affirmed Guatemala’s BB+ rating with a stable outlook (no change).
- Peru: on July 23, **S&P revised its outlook for the sovereign’s debt rating to positive from stable**, highlighting strong economic growth prospects, and able debt management.
- El Salvador: on July 25, S&P affirmed El Salvador’s BB+ rating, with a stable outlook (no change).
- Bolivia: on July 27, **Fitch upgraded Bolivia’s outlook to stable, and affirmed its B- rating**.
- Uruguay: on July 27, **Fitch upgraded Uruguay’s foreign currency rating to BB-**, two notches below investment grade, citing lower financing needs to higher economic growth and conservative fiscal policies.

*August*

- Barbados: on August 17, S&P affirmed Barbados BBB+ rating, with a stable outlook (no change), saying that the country’s political and exchange-rate regimes’ high stability continues to support its investment grade.
- Brazil: on August 23, **Moody’s upgraded Brazil’s foreign and local currency debt ratings to Ba1**, or one notch below investment grade, citing significant improvement in the government’s debt profile. The move followed similar actions by the other two rating agencies (taken in May), and stressed the country’s underlying strong fundamentals.

*September*

- Dominican Republic: on September 04, **S&P upgraded the country’s debt rating to B+** citing fiscal improvement.

**(Continued)**

**Box 1 – (conclusion)**

- Mexico: on September 19, **Fitch granted a one-notch sovereign upgrade to Mexico to BBB+ with a stable outlook.** The action followed the passage of a landmark fiscal reform in the week before. The action brings Fitch in line with Moody's Baa1 rating, and one notch higher than S&P's BBB.
- Argentina: on September 25, S&P affirmed its **B+ long-term and B short-term sovereign ratings with a stable outlook.**
- Trinidad & Tobago: on September 27, **S&P affirmed its A- long-term foreign currency sovereign credit rating and revised its outlook to positive from stable,** highlighting the strengthening of macroeconomic stability and external flexibility through continuing fiscal and current account surpluses.

**Negative Actions: 3***January*

- Venezuela: on January 11, **S&P lowered Venezuela's credit rating outlook to stable from positive,** citing the announcement of policies to increase state control over the economy, as well as plans to strip the central bank of its autonomy, as a concern.
- Ecuador: on January 22, **S&P cut the sovereign's credit rating to CCC and lowered the outlook to negative from stable,** citing the government's intention to restructure its foreign-currency-denominated debt, the subordination of timely debt service to other political priorities, and the historically weak payment culture.
- Ecuador: on January 30, **Moody's downgraded the country's foreign-currency bond rating one notch to Caa2, and lowered the outlook on the rating to negative from stable,** highlighting the repeated debt restructuring threats from the new administration, and noting that with debt service already low, "a meaningful alleviation of cash flow could only be obtained by restructuring with sizeable losses to creditors."

Positive credit ratings have continued to support Latin American debt issuance, which has remained strong so far this year. Corporate issuance year-to-date is three times the total amount issued by sovereigns in the region. Before year-end this gap can increase even further, as sovereign issuance is expected to reach its lowest level since 2002 this year, and corporate issuance is expected to surprise to the upside. Record high commodity prices and rising cash reserves have reduced sovereigns' need to tap international debt markets, thus corporate issuance should continue to outstrip sovereign borrowing.

Issuance during the summer months has been historically slow, but this year this trend was compounded by an increase in market volatility, leading to virtually no new issuance in August. Issuance of Latin American debt reopened only after the U.S. Federal reserve cut interest rates on September 18.

**A. Spreads<sup>2</sup>**

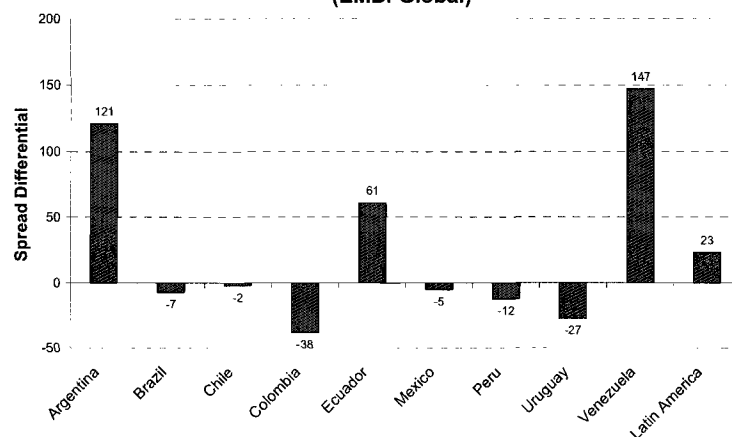
The JPMorgan EMBI Global widened by 43 basis points in the first nine months of the year, increasing 11 basis points in the second quarter, and 33 basis points in the third. Its Latin American component widened by 47 basis points in the first nine months of the year, 23 basis points in the second quarter, and 31 basis points in the third. The widening in the second quarter was a result of higher spreads for

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2 The spread levels discussed in this section refer to the EMBI Global Index, which also includes Chile and Uruguay in addition to the countries included in the EMBI+. The EMBI Global expands upon the composition of the EMBI+ by using a different country selection process and instrument selection process. The EMBI Global defines emerging markets countries with a combination of World-Bank-defined per capita income brackets and each country's debt-restructuring history. These two criteria allow the EMBI Global to include a number of higher-rated countries that international investors have nevertheless considered part of the emerging markets universe.

Argentina, Ecuador and Venezuela, with spreads narrowing for all the other countries in the composite (Chart 6).

**Chart 6:  
Spread Differentials Q2 2007  
(EMBI Global)**

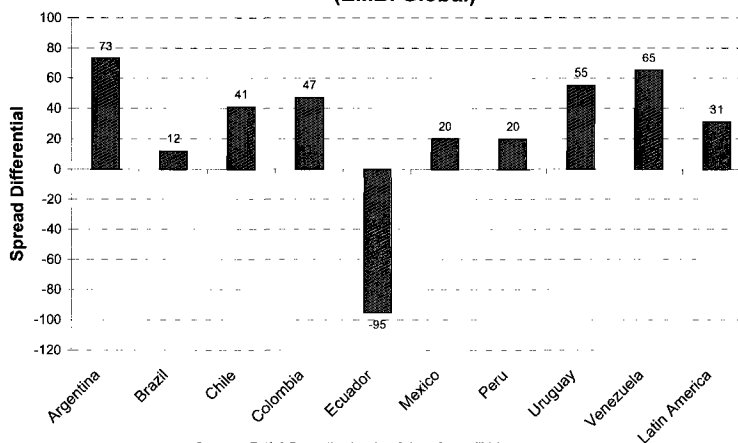


Source: ECLAC, on the basis of data from JPMorgan.

In the third quarter, emerging markets and Latin American spreads widened as global risk appetite declined in face of increased volatility and spillover effects from the deepening of the U.S. housing sector's problems. Latin American spreads widened by 31 basis points, increasing for all countries in the composite except for Ecuador, with Argentina and Venezuela's bond spreads widening more than spreads for the other countries of the region suggests that the repricing of risk that is underway has led to a degree of market discrimination in recent months. Investors have had concerns about the direction of government economic policy in these countries, which have domestic difficulties compounding their international troubles.

Spreads remain at low historic levels, however, and the recent increase in global volatility has put much less stress on emerging markets than it would have four or five years ago.

**Chart 7:  
Spread Differentials Q3 2007  
(EMBI Global)**



Source: ECLAC, on the basis of data from JPMorgan.

**BOX 2: EMBI GLOBAL LATIN COMPOSITE: COUNTRY SPREADS  
Q2 AND Q3 2007**

Argentina's bond spreads widened 194 basis points in the second and third quarters of 2007 with spreads increasing from 204 basis points at the end of March to 398 bps at the end of September. In June and July spreads widened the most, by 48 and 124 basis points, respectively. Heightened risk aversion and concerns with technicals contributed to the large increase in spreads. In addition, poor policy signaling due to the problems with the reorganization of the National Statistical Bureau (INDEC) also played a role.

Brazilian spreads widened 5 basis points in the second and third quarters, with spreads increasing from 167 basis points at the end of March to 172 basis points at the end of September. Brazilian spreads tightened 7 basis points in the second quarter, from 167 basis points at the end of March to 160 basis points at the end of June. Spreads increased in the third quarter, however. The widening of Brazilian spreads took place in June and July (by 18 and 47 basis points). Because of July's increase, spreads widened by 12 basis points for the third quarter, from 160 basis points at the end of June to 172 basis points at the end of September. Increase in volatility and the deepening of the U.S. housing sector's woes led to wider spreads in developed and emerging markets alike in the summer months. However, strong balance of payments, a strong currency and receding inflation is expected to continue to support Brazilian spreads throughout the rest of the year. Moreover, external debt buyback operations and the increasing securitization of private credit and real state should also continue to support Brazilian debt. The upgrades of Brazil's sovereign credit in May and August left the sovereign only one notch below investment grade.

Chilean spreads widened by 39 basis points in the second and third quarters, with spreads increasing from 85 basis points at the end of March to 124 basis points at the end of September. In the second quarter, Chilean spreads tightened by 2 basis points, from 85 basis points at the end of March to 83 basis points at the end of June. Spreads increased in the third quarter by 41 basis points, from 83 basis points at the end of June to 124 basis points at the end of September. Following the same global pattern, Chilean spreads increased the most in July (by 27 basis points) as a result of increased global volatility. On the domestic side, lingering energy concerns and urban transport problems affected local sentiment adversely. However, Chile's counter-cyclical policies are expected to cushion the economy and the currency amid domestic and global uncertainties. Chile has the lowest spread in the Latin American composite of the EMBI Global, reflecting the country's solid macroeconomic stability and low financial needs.

Colombian spreads widened by 9 basis points in the second and third quarters, with spreads increasing from 157 basis points at the end of March to 166 basis points at the end of September. In the second quarter, Colombian spreads fell from 157 basis points at the end of March, to 119 basis points at the end of June, tightening 38 basis points, as inflationary pressures eased, and improved fiscal prospects and healthy technicals provided support to Colombian debt. Spreads increased in the third quarter, however, from 119 basis points at the end of June to 166 basis points at the end of September. Spreads increased the most in July (55 basis points) and in August (23 basis points), as the turmoil in global financial markets intensified and global liquidity conditions deteriorated.

Ecuadorian spreads tightened by 34 basis points in the second and third quarters, from 650 basis points at the end of March to 616 basis points at the end of September. In the second quarter, Ecuadorian spreads widened by 61 basis points, increasing from 650 basis points at the end of March, to 711 basis points at the end of June. Spreads increased the most in June (91 basis points), as domestic problems were compounded by an increase in external jitters. After being censured by Congress for his handling of Ecuador's external debt Ricardo Patiño was replaced as Finance Minister by his deputy, Fausto Ortiz, a move that was welcomed by markets. Spreads declined by 95 basis points in the third quarter as a result, more than compensating for the second-quarter increase. Spreads fell from 711 basis points at the end of June to 616 basis points at the end of September. The Constituent Assembly was elected on September 30, and marked a resounding victory for the government. There was little impact on bonds, however, as the results were already expected.

Mexican spreads widened by 15 basis points in the second and third quarters, from 116 basis points at the end of March to 131 basis points at the end of September. Mexican spreads tightened by 5 basis points in the second quarter, and widened by 20 basis points in the third. However, after being hit by U.S. credit problems, the Mexican peso and local markets should gain support from progress on reforms (fiscal and electoral) and strong fundamentals. Risks are on the downside, however, if the U.S. turmoil spreads to other sectors of the economy, specially manufacturing.

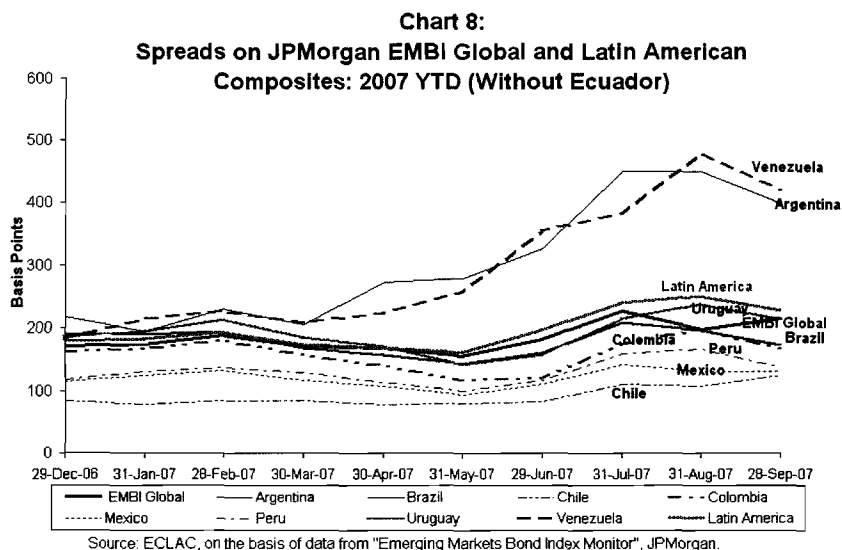
**(Continued)**

### Box 2 – (conclusion)

Peruvian spreads widened by 8 basis points in the second and third quarters, from 129 basis points at the end of March, to 137 basis points at the end of September. Peruvian spreads tightened by 12 basis points in the second quarter, but widened by 20 basis points in the third. Spreads were supported by a US\$ 1.5 billion larger-than-expected issuance of a 30-year bond in the domestic market on July 19, as a big first step to raise funds to buy back US\$ 2.6 billion of Paris Club debt maturing in 2007-2015. However, the increase in global volatility led to higher spreads in July and August. Domestic activity has remained resilient, despite being hit by a severe earthquake in August.

Uruguayan spreads widened by 28 basis points in the second and third quarters, from 184 basis points at the end of March, to 212 basis points at the end of September. Spreads tightened by 27 basis points in the second quarter, as economic outlook remained upbeat and economic policy prudent. Following the pattern of the other countries in the region, Uruguay's spreads widened by 55 basis points in the third quarter in face of increasing volatility and turmoil in global financial markets.

Finally, Venezuelan spreads widened by 212 basis points in the second and third quarters, from 207 basis points at the end of March to 419 basis points at the end of September. Spreads widened by 147 basis points in the second quarter, and by 65 basis points in the third quarter, as loose fiscal and monetary policy, compounded with increased global volatility, drove Venezuela's debt spreads higher. GDP continued to advance, but at the expense of inflation and the trade surplus. If the government's proposed changes to Venezuela's constitution are approved in early December as expected, it will gain formal control over the central bank and international reserves, and some market analysts are concerned about the consequences for inflation. However, fiscal spending has been cooling and the government has also announced the intention to resume buying back debt by the end of this year.

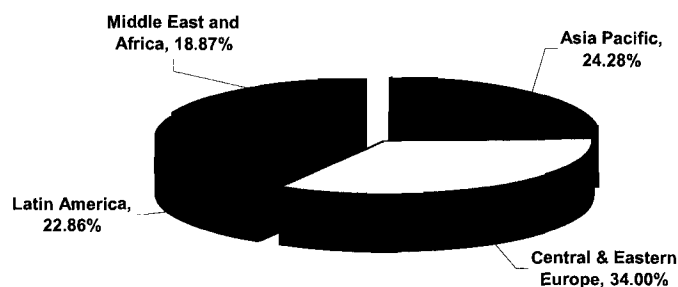


## B. Issuance

According to ECLAC estimates based on JPMorgan data, emerging markets issuance in the first nine months of the year reached US\$ 151.5 billion, compared to US\$ 104.6 billion during the same period in 2006. Emerging markets issuance was strong during this period, as high levels of liquidity, low risk aversion and strong inflows supported emerging markets in both local and external debt. The big increase over the amount issued last year during the same period also reflects a continued surge of corporate issuance. New issuance responded to the favorable borrowing conditions and historically low yields, as well as to the improving quality of emerging markets credit.

Latin American bond issuers placed US\$ 33.6 billion in international capital markets from January to September, compared to US\$ 28.5 in the same period in 2006. Latin American issuance was the third largest share of total emerging markets issuance in the period of January to September, following Emerging Europe and Asia (Chart 9).

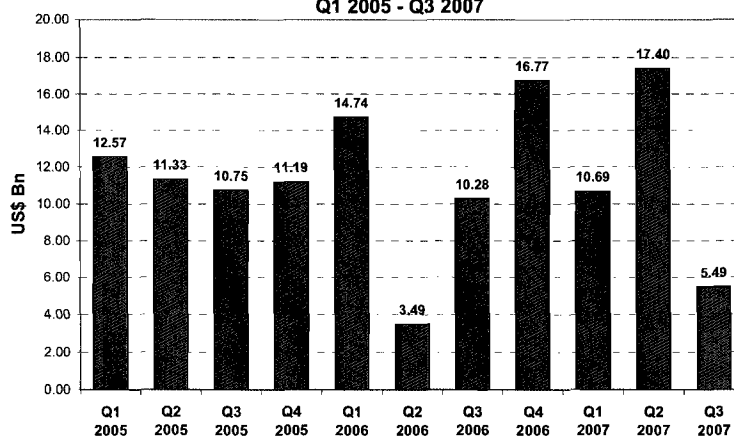
**Chart 9:  
Emerging Markets Debt Issuance: Regional Breakdown  
January - September 2007**



Note: Total emerging markets debt issuance for Jan-Sep 2007 is US \$151.5 billion.  
Source: ECLAC, on the basis of data from JPMorgan.

Latin American bond issuers placed a total of US\$ 17.4 billion in international capital markets in the second quarter, more than the US\$ 10.7 billion placed in the first quarter and the US\$ 3.5 billion placed in the second quarter of 2006. In the third quarter, Latin American issuers placed only US\$ 5.5 billion in international markets, compared to US\$ 10.3 billion in the third quarter of 2006 (Chart 10). The big drop reflected problems in credit markets, but since the Federal Reserve's interest rate cut on September 18 there has been a flurry of issuance, including sovereign issues.

**Chart 10:  
Latin American Issuance by Quarter  
Q1 2005 - Q3 2007**



Source: ECLAC, on the basis of data from JPMorgan.

Latin American issuance has been dominated by corporates so far this year. From January to September, corporate issuance amounted to US\$ 25.1 billion or 75% of total Latin American issuance. Corporate issuance in the region has been well distributed across industries, with energy- and commodities-related deals representing the biggest share of the corporate deals, followed by the bank, and

the technology and telecom sectors. Venezuelan corporates accounted for the largest share of total corporate issuance within the region (30% of all Latin American corporate issuance), followed by Mexico (24%) and Brazil (21%). Venezuelan corporates assumed the first place with three big issues by PDVSA in April (Appendix C, table 7). The Venezuelan state-run oil giant sold US\$ 7.5 billion of bonds in early April, as part of a plan to reduce liquidity in the foreign exchange market. The offering was only sold to locals, who could then sell them to international investors after 40 days.

Sovereigns to tap the international capital markets in the first nine months of the year were Brazil, Colombia, Jamaica, Mexico, Panama, Peru and Uruguay, with the provinces of Buenos Aires and Neuquen also tapping capital markets in April. Local-currency issuance accounted for 61% of the total amount issued by these sovereigns (Appendix C). Sovereign issuance amounted to US\$ 8.5 billion or 25% of Latin American issuance in the period (Table 1). 72% of the Latin American bonds issued (sovereign and corporate combined) were denominated in dollars, 5% in euros, and 22% in local currencies, which included Brazilian reais, Mexican, Uruguayan, Argentine and Colombian pesos, and Peruvian Soles (Table 2). With sovereign debt stock shrinking, new inflows have been moving to corporate and local currency debt.

Table 1

Issuer Type Breakdown (% of Latin America's Total)	
Issuer Type	2007 YTD
Sovereign	25.35%
Corporate*	74.65%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

Table 2

Currency Breakdown (% of Latin America's Total)	
Currency	2007 YTD
Dollar	71.59%
Euro	5.30%
JPY	0.72%
Other*	22.39%

\* Issuance in Brazilian Reals, Mexican, Uruguayan, Argentine and Colombian Pesos, and Peruvian Soles.

Source: ECLAC, with data from JPMorgan.

Brazil was the biggest sovereign issuer in the first nine months of 2007, with a share of 34% of the region's total sovereign issuance, followed by Peru with 18% and Colombia with 15%. Brazil was also among the top five issuers in emerging markets (sovereign and corporate issuance combined) in the period, ranking fifth, with total issuance amounting to US\$ 8 billion (Table 3). Brazil issued 24% of the total Latin American issuance in the first nine months of the year. Venezuela was the second biggest issuer in the region (sovereign and corporate combined), with total issuance of US\$ 7.5 billion or 22% of the Latin American total. Mexico was the third, with total issuance of US\$ 7.1 billion or 21% of the Latin American total.

Table 3

Top 5 Issuers in Emerging Markets* 2007 YTD	
Country	Amount (US\$mn)
Russia	24,799
UAE	11,408
Korea	10,227
Kazakhstan	8,077
Brazil	8,024

\* Sovereign and Corporate Combined

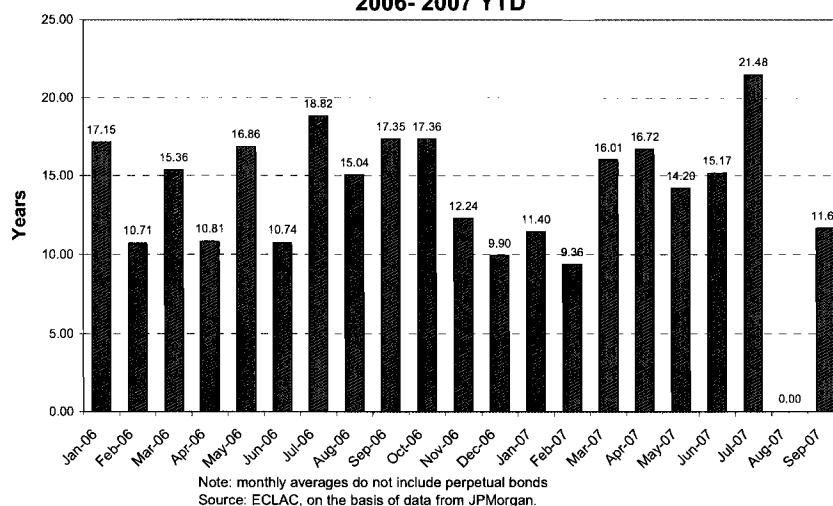
Source: ECLAC, with data from JP Morgan.

Favorable borrowing conditions and improved debt structures have been reflected on the higher average maturity of the new debt issued in the region (Chart 11). Brazilian and Mexican corporates issued



five and three perpetual bonds each in the first nine months of 2007. Perpetual bonds have no maturity date, thus are not redeemable, but pay a steady stream of interest forever. A perpetual bond offers a longer duration for investors seeking long-term investments.

**Chart 11:**  
**New Latin American Debt Issuance: Average Maturity**  
**2006- 2007 YTD**



The Latin American debt market has continued its maturation process in the first nine months of 2007, characterized by proactive liability management, an extension in the maturity profile of debt, increase in the share of domestic financing and development of domestic capital markets, as well as legislative improvements and structural reforms.

In April, after retreating from the market in face of a global sell-off in February, the Province of Buenos Aires came back, selling US\$ 400 million in 2028 bonds. Brazil tapped its 2017 dollar issue, raising US\$ 525 million. The dollar tap followed the successful reopening of the sovereign's 2028 *real*-denominated globals at the end of March. The rest of the total amount issued in April came from the corporate sector, totaling US\$ 8.5 billion. Venezuelan state-run oil company PDVSA sold a total of US\$ 7.5 billion of bonds, as part of the government's plan to reduce liquidity in the foreign exchange market. The company sold three new bonds to local investors: US\$ 3 billion of 2017s, US\$ 3 billion of 2027s, and US\$ 1.5 billion of 2037ss (Appendix C, table 7).

In May, Brazil added liquidity to its long end *real* benchmark, continuing to make headway towards investment grade. It reopened the 2028 for BRL 750 (US\$ 387 million). At the same of the reopening, Fitch upgraded the sovereign rating to BB+, just one notch below investment grade, with S&P quickly following suit. Argentina's Province of Neuquen issued a 7-year bond totaling US\$ 125 million. The rest of the total amount issued in May came from the corporate sector, totaling US\$ 4.9 billion. Argentina's corporates were active in May. *Transportadora de Gas del Sur* placed one of the largest Argentine corporate bonds in recent memory, a US\$ 500 million 2017 bond. The deal was a liability management exercise. Corporates from Brazil, Colombia and Mexico also tapped international markets in May. Among them, Mexico's *Grupo Televisa* issued a 30-year bond in Mexican pesos, amounting to US\$ 419 million (Appendix C, table 8).

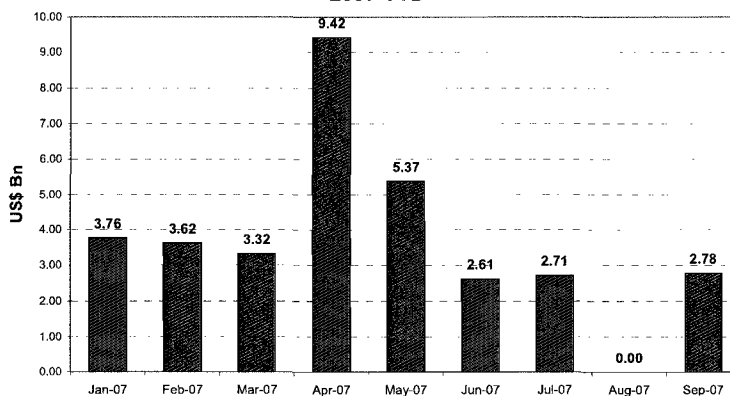
In June, Colombia sold a new US\$ 1 billion global *peso*-denominated 2027 TES bond, its longest *peso*-denominated international bond. The proceeds are to be used to buy back bonds maturing between 2008 and 2016. Brazil once again successfully reopened the 2028 for BRL 750 million (US\$ 389 million), at a yield of 8.64%, 31 basis points lower than achieved when the bond was last tapped in May,

and a new record low for a global bond denominated in *reais*. The *Corporación Andina de Fomento (CAF)* placed two issues in yens, and the rest of the issuance in June came from the corporate sector (Appendix C, table 9). Argentina's government placed ARS 1.5 (close to US\$ 500 million) in a fixed-rate Bonar bond<sup>3</sup>, maturing in 2012. This is the first ARS-denominated bond in two years, and the first ARS fixed-rate bond issued since the Argentine crisis. The sale aims to help finance future debt and ease the Central Bank's burden of buying dollars to curb the appreciation of the ARS.

In July, Peru placed PEN 4.75 billion (US\$ 1.5 billion) in a local currency 30-year bond, one of the largest local currency government bonds ever issued in Latin America. The proceeds will be used towards the prepayment of US\$ 1.75 billion in Paris Club debt. According to Merrill Lynch, the remaining US\$ 250 million is expected to come from a tap on the Peru 2037s. Also in July the city of Bogotá placed US\$ 300 million in a local currency 21-year bond. The remaining issuance came from the corporate sector (Appendix C, table 10).

Issuance was light in July, but it came to a halt in August. JPMorgan attributes this as much to issuance being traditionally light in the summer, as to the negative credit environment. Moreover, there were no emerging market bond issuers tapping international markets in the first 20 days of September. Sovereigns and corporates came back to international capitals starting on September 21. Brazil's *Rede Empresas de Energia Eléctrica* reopened its perpetual bond for US\$ 175 million at a yield of 11.125%, and Brazil's *GP Investments* issued a perpetual bond totaling US\$190 million. Corporates from Mexico and Colombia also tapped the capital markets in September. Mexico's *Grupo Senda* and *Corporación Durango* issued a US\$ 150 million 2015 bond and US\$ 520 million 2017 bond, while Colombia's gas company *TGI* issued a US\$ 750 million 2017 bond. This issue represents the largest deal ever from a corporate Colombian issuer. Total corporate issuance reached a total of US\$ 1.6 billion in the last 10 days of September. On the sovereign side, Mexico reopened its 5.625% maturing in 2017 for US\$ 500 million and issued US\$ 500 million of a 6.725% bond maturing in 2034, reaching US\$ 1 billion in total new issuance. Market sources argue that both issues are intended to take advantage of market improvements since the Fed cut interest rate on September 18 (Appendix C, table 11).

**Chart 12:**  
**New Latin American Debt Issuance**  
**2007 YTD**



Source: ECLAC, on the basis of data from JPMorgan.

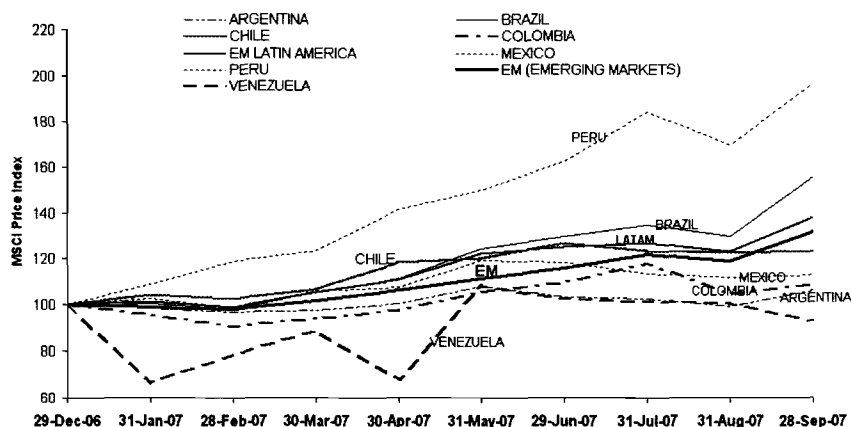
<sup>3</sup> Bonar bonds are to be sold under Argentina law.

## II. Portfolio equity flows into Latin America

Latin American equity markets registered remarkable gains since the end-2006, despite losses in August due to the credit turmoil. This summer’s credit squeeze was actually only a small blip in a five-year bull run. The Morgan Stanley Capital International (MSCI) Latin American Price Index gained 38.2% for the first nine months of the year (Chart 13). Brazil, Chile, Mexico and Peru registered impressive gains, surging 56%, 23%, 13% and 97%, respectively. Argentina and Colombia gained 6% and 9%, respectively.

Latin American equities lost 7% from the end of July to August 16, but started to recover after that. The market resumed an upwards movement supported by strong commodity prices, economic growth of 5% for the region and contained cost of capital. For the whole month of August Latin American equities registered a loss of 3%, but for September they registered a gain of 9%, more than compensating for August losses. The quick recovery of Latin American asset prices in September following the August sell-off indicated that the market confidence on the region has not been easily displaced, even by sharp fluctuations in asset prices.

**Chart 13:**  
**MSCI Equity Price Index (USD)**  
**2007 Year-to-Date**



Source: MSCI Equity Indices, <http://www.msci.com/equity/index2.html>  
Note: prices at the end of the month.

In the third quarter, Latin America's MSCI gained 10% in dollar terms despite the August turbulence, and followed a gain of 19% in the second quarter. Peru showed the biggest gain in both the second and third quarters (32% and 21%), followed by Brazil (23% and 20%). All countries registered double-digit gains in the second quarter, except for Argentina, which gained 6%. In the third quarter, however, Chile, Colombia, Mexico and Venezuela registered losses, while Peru and Brazil registered double-digit gains. The total gains of Brazil's stock exchange Bovespa were brought to about 15% in the two weeks following the September 18 Fed's interest rate cut. Gains were driven by mining company CVRD, which rose 6.5% on higher demand for metals. At the year ending in September, Latin American equity markets gained 67% (Table 4).

Table 4

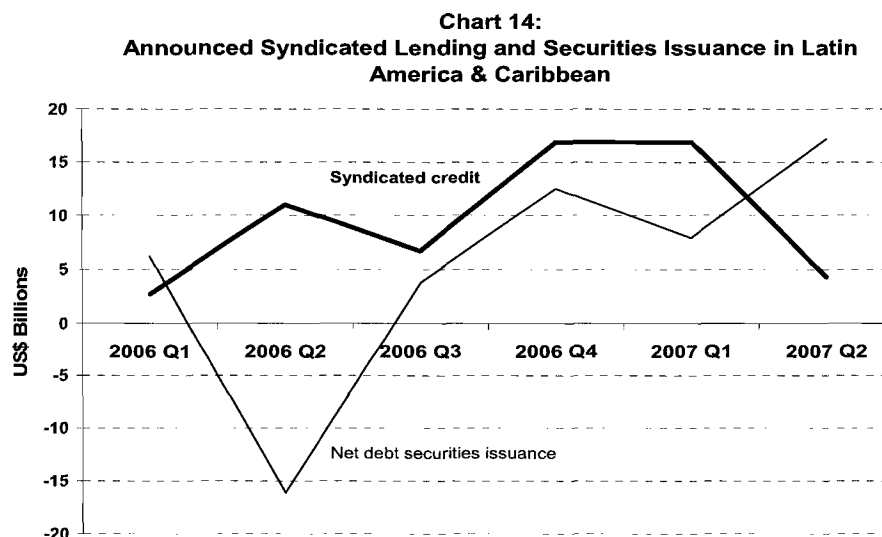
Stock Price Indexes Q1, Q2, Q3 2007								
	Price Index in US Dollars				Variation			
	29-Dec-06	30-Mar-07	29-Jun-07	28-Sep-07	Q1/07	Q2 /07	Q3/07	Sep06-Sep07
<i>Emerging markets</i>	912.655	929.030	1,059.690	1204.9	1.79%	14.06%	13.70%	54.84%
<i>Latin America</i>	2,995.67	3163.2	3754.18	4139.64	5.59%	18.68%	10.27%	67.39%
<i>Argentina</i>	3,084.08	3014.58	3188.65	3284.08	-2.25%	5.77%	2.99%	42.31%
<i>Brazil</i>	2,205.43	2325.91	2857.33	3430.59	5.46%	22.85%	20.06%	91.57%
<i>Chile</i>	1,492.42	1592.6	1891.23	1840.48	6.71%	18.75%	-2.68%	45.74%
<i>Colombia</i>	549.79	516.85	604.192	598.07	-5.99%	16.90%	-1.01%	27.05%
<i>Mexico</i>	5,483.30	5802.94	6497.01	6192.37	5.83%	11.96%	-4.69%	33.31%
<i>Peru</i>	671.351	828.2	1089.43	1320.03	23.36%	31.54%	21.17%	120.48%
<i>Venezuela</i>	174.127	154.32	178.63	161.59	-11.38%	15.75%	-9.54%	3.47%

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

Buoyant global demand and high commodity prices have supported Latin American economies, which have reduced their vulnerability to external shocks and expanded rapidly. Strong corporate earnings and reduced country risk have contributed to lower bond yields and higher stock markets. However, while Latin American equities have fully recovered since the summer, spreads are still above their pre-summer lows. Flows into Latin American equity markets have been strong, suggesting that investors see them as relatively safe heavens. There are reasons for the equity rally, one of them being the Federal Reserve's interest rate cut of September 18. Rate cuts tend to be good, at least initially, for stocks. But since the Fed's action was motivated by the intention to avert a crisis, investors and market analysts fear that these actions may lead to the creation of a bubble, this time around in emerging equity markets. Of US\$ 19 billion total net inflows in emerging markets in the year up to mid-September according to Emerging Portfolio Fund Research, US\$ 14 billion took place in the final five weeks.

### III. Bank Lending

In the second quarter of 2007, activity in the international market for syndicated loans was not as strong as in previous quarters, while international bond and note issuance expanded significantly (Chart 14).<sup>4</sup>



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

\* Net Issuance: Gross Issues - Repayments

However, recent data suggests that during the turmoil that hit credit markets during the summer, syndicated lending may have resurged, picking up some of the slack left by bond markets. According to *LatinFinance* magazine, Chile's *Codelco* (*Corporación Nacional del Cobre*) looked to syndicate a US\$ 400 million seven-year term through BBVA in August. In high yield, *Ontario Teacher's Fund*, whose private equity arm *Teacher's Private Capital* manages US\$ 15 billion in assets, has lent *Lamosa*, a Mexican retailer of home improvement products, US\$ 225 million via second lien loan. The facility has a

<sup>4</sup> The latest data available on syndicated lending from the Bank of International Settlements is for the second quarter of 2007.

seven-year maturity, though the borrower must renew it at least two years ahead of the final date. *Lamosa* was also obtaining a US\$ 670 million two-tranche 4.7-year average life loan via *Scotiabank*. Proceeds of both deals are to acquire *Porcenalite*, a tilemaker.

Although syndicated credits data are not necessarily a reliable proxy for future bank lending, the recent data suggests that bank lending may have increased in the third quarter. However, the Institute of International Finance (IIF) projects that net flows from banks are likely to fall sharply in 2008. The projected decline is likely to be spread across regions, but concentrated in a number of countries, with net flows to Brazil expected to drop substantially. The projected reduction in net bank lending, according to the IIF, reflects a combination of three factors: a decline in the demand for borrowing from banks; an increase in caution on the banks' part, especially since the onset of the recent turmoil; and the presence of balance sheet constraints as a result of commitments to fund both leveraged buyouts (LBOs) and asset-backed conduits and structured investment vehicles (SIVs), which will reduce credit availability to all borrowing, emerging markets and Latin American borrowers included.

## IV. Prospects

Latin American markets had a strong performance in the second quarter of 2007, as bond and stock markets surged following the sudden shift in market sentiment of late-February and early-March. Latin American spreads tightened to new lows until May, equity prices climbed further, debt management operations continued, issuance in local currency and by the corporate sector increased. However, the crisis in the U.S.'s mortgage markets grew deeper in the summer, with problems spreading to credit markets. The result was an increase in Latin American spreads in the third quarter, a decline in stock markets in August, and a halt to new debt issuance in August and in the first 20 days of September. Spreads remain low by historical standards, however, and since the Federal Reserve's interest rate cut on September 18 there has been a bout of issuance, including sovereign issues.

While in the past the region was susceptible to worsening conditions in financial markets, this time around credit markets in Latin America have so far been relatively unaffected by the turbulence in global financial markets. In past crisis, the governments of the region were often constrained in their policy response by fixed exchange rate regimes and by a high debt burden. Today, most countries in the region have flexible exchange rates and their debt burdens have declined, giving policymakers more flexibility in fiscal policy.

However, there is a risk that the financial market turmoil may continue and grow deeper. A recession in the United States would affect Latin America directly, through lower exports to the U.S., as well as indirectly, if it leads the global economy to slowdown significantly as well. If lower global growth reduces demand – and hence – prices for commodities, Latin American countries that are major commodity exporters could lose. Moreover, while economic fundamentals in the region are stronger than in the past, there are also variations between countries, which have already been noticed by the markets. The key risks to Latin American markets' outlook thus include a worsening of the turmoil in credit markets, a sharper slowdown in U.S. growth and a disorderly adjustment of the large global imbalances. Geopolitical tensions with possible implications for energy prices also continue to pose a risk, as well as acceleration in inflation.





# Appendix



## A. Credit Ratings

Table 1:  
Credit Ratings in Latin America, 2007 Year-to-Date

	Moody's		S&P		Fitch		Recent Moody's Action		Recent S&P Action		Recent Fitch Action	
	Rating	View	Rating	View	Rating	View	Action	Date	Action	Date	Action	Date
	Argentina	B3	(+)	B+		RD		O/L changed to (+)	16-Jan-07	Affirmed, O/L stable	25-Sep-07	Downgrade, outlook withdrawn
Barbados	Baa2		BBB+		rr		Affirmed, stable	9-Jul-02	Affirmed, O/L stable	17-Aug-07		
Belize	Caa1		B		rr		Upgrade, O/L stable	13-Feb-07	Upgrade, O/L stable	20-Feb-07		
Bolivia	B3		B-	(-)	B-		Affirmed, stable	16-Apr-03	Affirmed, O/L (-)	22-Dec-06	O/L changed to stable, Affirmed	27-Jul-07
Brazil	Ba1		BB+	(+)	BB+		Upgraded, O/L stable	23-Aug-07	Upgrade, O/L (+)	16-May-07	Upgrade, O/L stable	9-May-07
Chile	A2		A	(+)	A	(+)	Upgrade, stable	7-Jul-06	O/L changed to (+), Affirmed	14-Dec-06	O/L changed to (+), Affirmed	15-May-07
Colombia*	Ba2	(+)	BB+		BB+		O/L changed to (+)	25-Jul-07	Upgrade, O/L stable	5-Mar-07	O/L changed to (+), Affirmed	21-Jun-07
Costa Rica*	Ba1		BB		BB		Affirmed O/L changed to stable	27-Jun-06	Affirmed, O/L stable	4-Jun-07	O/L changed to (+), Affirmed	4-Oct-06
Cuba	Caa1		rr		rr		Assigned	5-Apr-99				
Dominican Republic	B2		B+		B	(+)	Upgrade, stable	2-May-07	Upgrade, O/L stable	4-Sep-07	Affirmed, O/L (+)	30-Aug-07
Ecuador	Caa2	(-)	CCC	(-)	CCC	(-)	Downgrade, O/L changed to (-)	30-Jan-07	Downgrade, O/L changed to (-)	19-Jan-07	Downgrade, Credit Watch (-)	23-Jan-07
El Salvador	Baa3		BB+		BB+		O/L changed to stable	18-Dec-03	Affirmed, stable	25-Jul-07	O/L changed to stable, Affirmed	31-Jan-06
Guatemala	Ba2	(+)	BB	(+)	BB+		O/L changed to (+)	24-Jul-06	O/L changed to (+), Affirmed	6-Jul-07	Affirmed, O/L stable	19-Jul-07
Honduras	B2		rr		rr		Affirmed, stable	29-Sep-98				
Jamaica	B1		B		B+		Downgrade, stable	27-May-03	Affirmed, stable	7-Mar-07	Assigned, O/L stable	29-Aug-06
Mexico	Baa1		BBB	(+)	BBB	(+)	Upgrade, stable	6-Jan-05	O/L changed to (+), Affirmed	2-Jul-07	Upgrade, O/L stable	19-Sep-07
Nicaragua	Caa1		rr		rr		Downgrade, stable	30-Jun-03				
Panama	Ba1		BB	(+)	BB+		Affirmed, stable	7-May-03	O/L changed to positive, Affirmed	3-May-07	O/L changed to stable, Affirmed	3-Dec-03
Paraguay	Caa1		B		rr		Downgrade, stable	28-Apr-03	Upgrade, O/L stable	4-Jun-07		
Peru	Ba2		BB+	(+)	BB+	(+)	Upgrade, O/L changed to stable	16-Jul-07	O/L changed to (+), Affirmed	23-Jul-07	O/L changed to (+), Affirmed	6-Mar-07
Trinidad & Tobago	Baa1		A-	(+)	rr		Upgrade, stable	13-Jul-06	O/L changed to (+), Affirmed	27-Sep-07		
Uruguay*	B1		B+	(+)	BB-		Upgrade, O/L stable	21-Dec-06	O/L changed to (+), Affirmed	3-May-07	Upgrade, O/L stable	27-Jul-07
Venezuela	B2		BB-		BB-		Upgrade, stable	7-Sep-04	O/L changed to stable, Affirmed	11-Jan-07	Upgrade, O/L stable	14-Nov-05

Changes for 2007 year-to-date are in bold.

Note: Moody's ratings are qualified by outlooks and reviews while S&P and Fitch 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: JPMorgan, Emerging Markets Outlook and Strategy, January to September, 2007.

\* S&P upgrades reflect issue rating, while country issuer rating is one notch lower.

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

## B. Latin American Spreads

Table 2:

	Sovereign Spreads on JPMorgan EMBI+ and Latin American Composites								
	EMBI+	Argentina	Brazil	Colombia	Ecuador	Mexico	Peru	Venezuela	Latin America
31-Jan-05	366	5129	418	365	644	162	239	461	439
28-Feb-05	343	4980	393	344	632	153	211	437	419
31-Mar-05	384	5393	458	396	660	180	239	459	466
29-Apr-05	395	6298	457	407	810	188	234	492	482
31-May-05	372	6498	420	354	875	164	206	498	455
30-Jun-05	307	462	414	332	808	168	206	466	350
29-Jul-05	290	413	402	317	735	152	173	434	331
31-Aug-05	296	439	413	309	727	152	169	425	337
30-Sep-05	244	349	345	236	634	136	138	309	280
31-Oct-05	253	371	357	258	660	132	176	302	288
30-Nov-05	248	495	340	239	642	117	158	323	288
30-Dec-05	245	504	311	238	669	126	206	318	283
31-Jan-06	217	440	266	195	579	115	160	251	243
28-Feb-06	191	354	221	158	574	103	143	228	210
31-Mar-06	192	344	235	174	524	127	187	190	215
28-Apr-06	178	314	218	157	483	122	181	167	199
31-May-06	215	369	273	207	504	146	178	212	239
30-Jun-06	221	385	254	239	519	138	169	228	235
31-Jul-06	196	346	223	208	488	120	152	200	209
31-Aug-06	194	320	223	204	532	111	135	208	209
29-Sep-06	208	342	233	200	608	121	171	233	224
31-Oct-06	194	294	223	185	513	113	150	225	209
30-Nov-06	199	298	223	192	612	121	158	235	217
29-Dec-06	169	216	192	161	920	98	118	182	186
31-Jan-07	172	193	182	165	822	106	131	211	188
28-Feb-07	185	228	195	180	717	114	136	224	198
30-Mar-07	166	204	167	157	650	97	129	206	175
30-Apr-07	164	272	156	140	600	88	114	222	173
31-May-07	153	277	142	117	620	75	100	259	168
29-Jun-07	175	325	160	119	711	95	117	341	197
31-Jul-07	219	449	208	174	711	124	158	362	242
31-Aug-07	223	450	195	197	676	110	166	450	246
28-Sep-07	201	398	173	166	616	112	137	398	222

Source: "Emerging Markets Bond Index Monitors"; JPMorgan.

EMBI+ composition by market sector (end-Sept 2007): Brady 15.59%; Benchmark Eurobonds 84.41%.

by country: Brazil and Mexico account for 34.49% of the total weighting.

by region: Latin: 56.18%; Non-Latin: 43.82%.

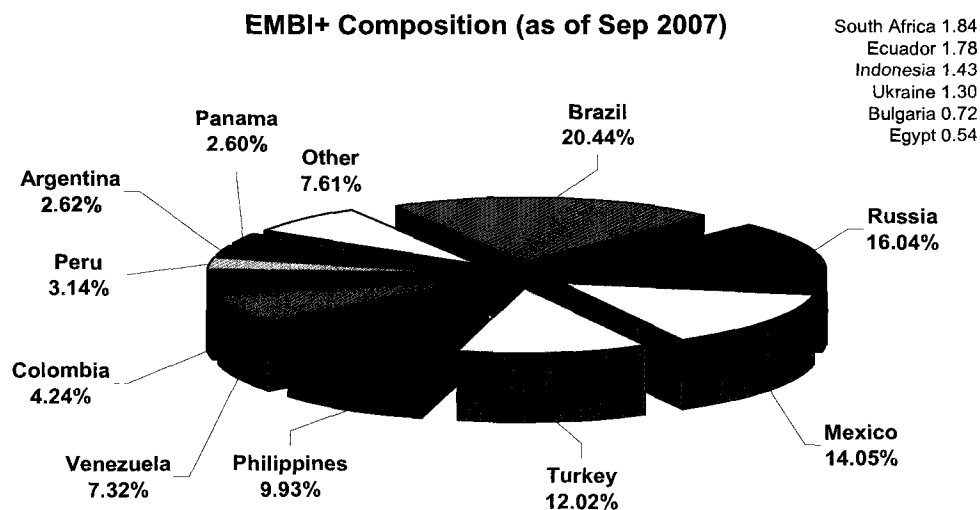


Table 3:

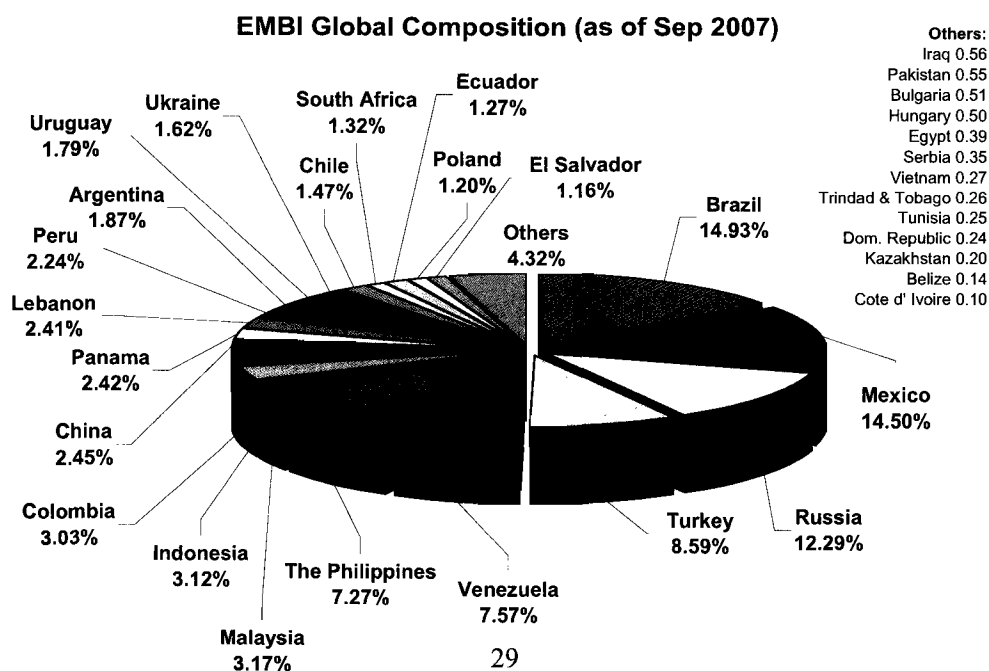
	Sovereign Spreads on JPMorgan EMBI Global and Latin American Composites										
	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
31-Jan-05	356	5022	412	60	364	644	172	267	402	452	434
28-Feb-05	333	4827	388	59	343	632	161	247	344	427	413
31-Mar-05	373	5105	455	71	393	660	188	277	427	455	459
29-Apr-05	384	5757	452	72	406	810	198	279	470	491	473
31-May-05	364	5956	415	68	353	875	176	251	446	494	448
30-Jun-05	297	462	409	60	331	808	181	252	406	460	337
29-Jul-05	276	413	397	56	316	735	165	218	366	430	316
31-Aug-05	281	439	409	55	307	727	165	223	376	419	320
30-Sep-05	235	349	341	55	240	634	82	183	310	303	267
31-Oct-05	242	371	353	74	261	660	146	213	327	298	274
30-Nov-05	237	495	337	74	243	642	133	199	320	318	274
30-Dec-05	237	504	308	80	244	661	143	257	298	313	272
31-Jan-06	210	440	264	73	200	565	132	203	247	248	233
28-Feb-06	187	354	218	68	156	551	122	185	231	223	204
31-Mar-06	191	344	232	73	263	503	140	226	223	190	208
28-Apr-06	179	314	215	78	157	461	135	205	224	167	194
31-May-06	210	369	270	85	207	487	157	209	271	212	230
30-Jun-06	218	385	252	83	239	506	154	202	307	226	231
31-Jul-06	197	346	222	88	208	470	135	184	265	199	206
31-Aug-06	197	320	222	85	204	515	130	170	252	207	205
29-Sep-06	208	342	232	85	202	608	141	169	254	233	218
31-Oct-06	194	294	222	81	197	513	132	150	229	225	204
30-Nov-06	200	298	221	90	208	612	140	158	231	234	211
29-Dec-06	171	216	190	84	161	920	115	118	185	183	180
31-Jan-07	174	193	189	78	165	822	124	131	193	213	183
28-Feb-07	187	228	194	84	180	717	132	136	211	225	193
30-Mar-07	170	204	167	85	157	650	116	129	184	207	173
30-Apr-07	167	272	156	79	140	600	107	114	170	222	169
31-May-07	155	277	142	80	117	620	93	100	141	257	161
29-Jun-07	181	325	160	83	119	711	111	117	157	354	196
31-Jul-07	225	449	207	110	174	711	141	158	213	382	240
31-Aug-07	197	450	195	107	197	676	131	166	237	479	250
28-Sep-07	214	398	172	124	166	616	131	137	212	419	227

Source: "Emerging Markets Bond Index Monitors"; JPMorgan.

EMBI Global composition by market sector (end-Sep 2007): Brady, 12.15%; Benchmark Eurobonds 87.85%; Loans, 0.0%.

by country: Brazil and Mexico account for 29.43% of the total weighting.

by region: Latin: 52.90%; Non-Latin: 47.10%.



## C. New Latin American Debt Issuance

### C1. January 2007

Table 4:

New Latin American Debt Issuance					
First Quarter of 2007					
Jan-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Argentina	Banco Macro	USD150	150	8.50%	1-Feb-17
Brazil	CESP	BRL750	352	9.75%	15-Jan-15
Brazil	GP Investments	USD150	150	10.00%	Perpetual
Brazil	Cosan	USD400	400	7.00%	1-Feb-17
Brazil	Minerva	USD150	150	9.50%	1-Feb-17
Brazil	Isa Capital	USD200	200	7.88%	30-Jan-12
Brazil	Isa Capital	USD354	354	8.80%	30-Jan-17
Brazil	Federal Republic of Brazil	USD500	500	7.13%	20-Jan-37
Brazil	Independencia	USD225	225	9.88%	31-Jan-17
Mexico	Maxcom Telecomunicaciones	USD25	25	11.00%	15-Dec-14
Mexico	Vitro	USD700	700	9.13%	1-Feb-17
Mexico	Vitro	USD300	300	8.63%	1-Feb-12
Supranational	CAF	USD250	250	5.75%	12-Jan-17
Total			3,756		

Source: ECLAC, on the basis of data from JPMorgan.

**January average maturity: 11.40 years.**

#### Currency Breakdown

(% of Latin America's Total)

Currency	Jan-07
Dollar	90.63%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other*	9.37%

\* Issuance in Brazilian Reais.

Source: ECLAC, with data from JPMorgan.

#### Issuer Type Breakdown

(% of Latin America's Total)

Issuer Type	Jan-07
Sovereign	13.31%
Corporate*	86.69%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

## C2. February 2007

Table 5:

New Latin American Debt Issuance					
First Quarter of 2007					
Feb-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Argentina	Impsat	USD225	225	9.875%	15-Feb-17
Brazil	Minerva	USD50	50	9.500%	1-Feb-17
Brazil	Federal Republic of Brazil	BRL1500	720	10.250%	10-Jan-28
Brazil	Vigor	BRL100	100	STEP	22-Feb-17
Chile	Pampa Calichera	USD250	250	7.375%	14-Feb-22
Jamaica	Digicel	USD1000	1000	8.875%	15-Jan-15
Jamaica	Digicel	USD400	400	9.125%	15-Jan-15
Mexico	CEMEX	USD750	750	6.640%	Perpetual
Mexico	IxeBanco	USD120	120	9.750%	Perpetual
Total			3,615		

Source: ECLAC, on the basis of data from JPMorgan.

*February average maturity: 9.36 years.*

Currency Breakdown	
(% of Latin America's Total)	
Currency	Feb-07
Dollar	77.32%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other*	22.68%

\* Issuance in Brazilian Reals.

Source: ECLAC, with data from JPMorgan.

Issuer Type Breakdown	
(% of Latin America's Total)	
Issuer Type	Feb-07
Sovereign	19.92%
Corporate*	80.08%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

**C3. March 2007**

Table 6:

New Latin American Debt Issuance					
First Quarter of 2007					
Mar-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Brazil	Banco Bradesco	USD200	200	5.500%	1-Apr-8
Brazil	GOL	USD225	225	7.500%	3-Apr-17
Brazil	Brazil, Federal Republic of Brazil	BRL750	364	10.250%	10-Jan-28
Brazil	Banco Cruzeiro	USD35	35	6.700%	30-Mar-9
Brazil	Rede Empresas de Energia Electrica	USD400	400	11.125%	Perpetual
Brazil	Banco Votorantim	BRL200	97	10.625%	10-Apr-14
Dominican Republic	Cerveceria Nacional Dominica	USD255	255	8.000%	27-Mar-14
Dominican Republic	Cerveceria Nacional Dominica	USD175	175	16.000%	27-Mar-12
Jamaica	Government of Jamaica	USD350	350	8.000%	15-Mar-39
Mexico	CCM	MXN3000	272	8.700%	30-Mar-27
Panama	Panama, Republic of Panama	USD450	450	6.700%	26-Jan-36
Uruguay	Uruguay, Oriental Republic of Uruguay	UYU12000	498	4.250%	5-Apr-27
<b>Total</b>			3,321		

Source: ECLAC, on the basis of data from JPMorgan.

**March average maturity: 16.01 years.**

Currency Breakdown	
(% of Latin America's Total)	
Currency	Mar-07
Dollar	62.93%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other*	37.07%

\* Issuance in Brazilian Reais, Mexican and Uruguayan Pesos.

Source: ECLAC, with data from JPMorgan.

Issuer Type Breakdown	
(% of Latin America's Total)	
Issuer Type	Mar-07
Sovereign	50.05%
Corporate*	49.95%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.



**C4. April 2007**

Table 7:

New Latin American Debt Issuance					
Second Quarter of 2007					
Apr-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Argentina	Province of Buenos Aires	USD400	400	9.625%	18 Apr 28
Argentina	Banco Santander Rio	ARS450	146	11.375%	3 May 10
Brazil	Banco Panamericano	USD75	75	7.375%	16 Apr 10
Brazil	Brazil, Federal Republic of Brazil	USD525	525	6.000%	17 Jan 17
Brazil	Globopar	USD200	200	7.250%	26 Apr 22
Brazil	TAM	USD300	300	7.375%	25 Apr 17
Brazil	Banco Mercantil do Brasil	USD100	100	7.750%	8 May 12
Dominican Republic	EGE Haina	USD175	175	9.500%	26 Apr 17
Venezuela	PDVSA	USD1500	1500	5.500%	12 Apr 37
Venezuela	PDVSA	USD3000	3000	5.375%	12 Apr 27
Venezuela	PDVSA	USD3000	3000	5.250%	12 Apr 17
<b>Total</b>			9,421		

Source: ECLAC, on the basis of data from JPMorgan.

*April average maturity: 16.72 years.***Currency Breakdown**

(% of Latin America's Total)

Currency	Apr-07
Dollar	98.45%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other*	1.55%

\* Issuance in Argentine Pesos.

Source: ECLAC, with data from JPMorgan.

**Issuer Type Breakdown**

(% of Latin America's Total)

Issuer Type	Apr-07
Sovereign	9.82%
Corporate*	90.18%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

**C5. May 2007**

Table 8:

<b>New Latin American Debt Issuance</b>					
<b>Second Quarter of 2007</b>					
<b>May-07</b>					
<b>Country</b>	<b>Issuer</b>	<b>Amount (million)</b>	<b>Amount US\$ (mm)</b>	<b>Coupon(%)</b>	<b>Maturity</b>
Argentina	Petrobras Energia SA	USD300	300	5.875%	15-May-17
Argentina	Alto Palermo	USD50	50	Variable	11-Jun-12
Argentina	Transportadora de Gas del Sur	USD500	500	7.875%	14-May-17
Argentina	Autopistas del Sol SA	USD155	155	11.500%	23-May-17
Argentina	Province del Neuquen	USD125	125	8.656%	18-Oct-14
Argentina	Banco Macro	USD100	100	10.750%	12-Jun-11
Brazil	Brazil, Federal Republic of Brazil	BRL750	387	10.250%	10-Jan-28
Brazil	Sadia Overseas	USD250	250	6.875%	24-May-17
Brazil	Banco Itau	BRL387	204	9.210%	30-May-12
Colombia	Bancolombia	USD400	400	6.875%	25-May-17
Mexico	Grupo Televisa	MXN4500	419	8.490%	11-May-37
Mexico	Desarrollos Metropolitan	USD200	200	10.875%	9-May-17
Mexico	Cemex	EUR730	978	Variable	9-May-49
Mexico	BBVA Bancomer	USD500	500	Variable	17-May-22
Mexico	BBVA Bancomer	EUR600	804	Variable	17-May-17
<b>Total</b>			<b>5,372</b>		

Source: ECLAC, on the basis of data from JPMorgan.

**May average maturity: 18.20 years.**

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

<b>Currency</b>	<b>May-07</b>
Dollar	48.03%
Euro	33.18%
GBP	0.00%
JPY	0.00%
Other*	18.79%

\* Issuance in Brazilian Reals, Pesos.

Source: ECLAC, with data from JPMorgan.

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

<b>Issuer Type</b>	<b>May-07</b>
Sovereign	9.53%
Corporate*	90.47%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

**C6. June 2007**

Table 9:

New Latin American Debt Issuance					
Second Quarter of 2007					
Jun-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Argentina	Banco Hipotecario	USD150	150	11.250%	21-Jun-10
Argentina	Banco Comafi	USD75	75	Variable	27-Jun-12
Argentina	Alto Parana	USD270	270	6.470%	9-Jun-17
Argentina	Tarjetas Cuyanas	USD65	65	12.000%	14-Jun-12
Brazil	RBS Zero Hora	BRL300	158	11.250%	15-Jun-17
Brazil	Brazil, Federal Republic of Brazil	BRL750	389	10.250%	10-Jan-28
Colombia	Colombia, Republic of Colombia	COP1920000	1005	9.850%	28-Jun-27
Mexico	Aeroinvest	MXN325	30	11.066%	6-Jul-13
Mexico	Aeroinvest	MXN2125	197	7.750%	25-Apr-14
Mexico	Aeroinvest	MXN335	31	MXIBT+325	25-Jul-08
Supranational	CAF	JPY10000	81	2.320%	20-Jun-14
Supranational	CAF	JPY20000	162	1.670%	21-Jun-10
<b>Total</b>			2,614		

Source: ECLAC, on the basis of data from JPMorgan.

**June average maturity: 14.23 years.**

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

Currency	Jun-07
Dollar	22.84%
Euro	0.00%
GBP	3.30%
JPY	0.00%
Other*	73.85%

\* Issuance in Brazilian Reals, Pesos.

Source: ECLAC, with data from JPMorgan.

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

Issuer Type	Jun-07
Sovereign	56.86%
Corporate*	49.75%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

**C7. July 2007**

Table 10:

New Latin American Debt Issuance					
Third Quarter of 2007					
Jul-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Argentina	Hidroelec Piedra Aguila	USD100	100	9.000%	11 Jul 17
Brazil	Banco Brasil	BRL350	187	9.750%	18 Jul 17
Brazil	Ambev	BRL300	162	9.500%	24 Jul 17
Brazil	Lupatech	USD200	200	9.875%	Perpetual
Colombia	Bogota	COP579000	300	9.750%	26 Jul 28
Mexico	BancaMifel	USD100	100	11.00%	Perpetual
Peru	Peru, Republic of Peru	PEN4750	1503	6.900%	12 Aug 37
Peru	Lima Airport	USD164	164	Step	15 Jun 22
<b>Total</b>			2,716		

Source: ECLAC, on the basis of data from JPMorgan.

**July average maturity: 21.48 years.**

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

Currency	Jul-07
Dollar	20.77%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other*	79.23%

\* Issuance in Brazilian Reais, Pesos, Peruvian Soles.

Source: ECLAC, with data from JPMorgan.

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

Issuer Type	Jul-07
Sovereign	66.38%
Corporate*	33.62%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

**C8. August 2007**

No issuance.

**C9. September 2007**

Table 11:

New Latin American Debt Issuance					
Third Quarter of 2007					
Sep-07					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Brazil	Rede Empresas de Energia Electrica	USD175	175	11.125%	Perpetual
Brazil	GP Investments	USD190	190	10.000%	Perpetual
Colombia	TGI	USD750	750	9.500%	3 Oct 17
Mexico	Mexico, UMS, United Mexican States	USD500	500	6.750%	27 Sep 34
Mexico	Mexico, UMS, United Mexican States	USD500	500	5.625%	15 Jan 17
Mexico	Grupo Senda	USD150	150	10.500%	3 Oct 15
Mexico	Corporacion Durango	USD520	520	10.500%	5 Oct 17
<b>Total</b>			2,785		

Source: ECLAC, on the basis of data from JPMorgan.

*September average maturity: 11.63 years.*

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

Currency	Sep-07
Dollar	100.00%
Euro	0.00%
GBP	0.00%
JPY	0.00%
Other	0.00%

Source: ECLAC, with data from JPMorgan.

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

Issuer Type	Sep-07
Sovereign	35.91%
Corporate*	64.09%

\*Also includes bank issuance.

Source: ECLAC, with data from JPMorgan.

