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CAPITAL FLOWS TO LATIN AMERICA  
Fourth Quarter 2002



## CAPITAL FLOWS TO LATIN AMERICA 4<sup>th</sup> Quarter of 2002

The fourth quarter of 2002 saw an increase in investor optimism, especially in October and November. The combination of declining risk aversion and a technically well-positioned market caused a rally in emerging debt markets. In Latin America, markets traded strongly following the elections in Brazil and Ecuador. Brazil enjoyed a dramatic improvement in investor sentiment after the elections, supported by the new government's commitments to continue fiscal and economic reforms, as well as the global easing of credit conditions<sup>1</sup>. Although sovereign spreads remained wide, Brazilian borrowers were quick to return to international markets to refinance maturing debt. Venezuela, on the other hand, faced increasing investor pessimism as a lingering nationwide strike against the government, coupled with the prospect of war in Iraq, further damaged the expectations about the strength of the economy recovery.

With the exception of Argentina, Ecuador and Venezuela's spreads, which widened in December, all Latin American spreads tightened in the fourth quarter. Latin America's access to international capital markets also improved significantly in the last quarter of the year. After falling to an all time low in August, new debt issuance reemerged in the final months of the year. The wave of new emerging markets debt issuance at the end of 2002 (US\$11 billion in November and December alone, according to Merrill Lynch, much of it pre-financing for 2003), coupled with the high issuance levels in the beginning of 2003, left most sovereign frequent issuers in quite good shape from a funding perspective.

The increased supply of international emerging markets debt in the last quarter of 2002 reflected favorable borrowing terms in an environment of spread tightening and increased demand. Reflecting the improved borrowing conditions, the high number of credit rating downgrades that took place in Latin America in the second and third quarters came to a halt, and there were no credit rating changes in the fourth quarter (see Box 1). With Venezuela being an exception, 2002 ended with a sense that many of the uncertainties that prevailed throughout the year, such as the electoral cycle and its associated political risks, were left behind. However, uncertainties remain with respect to the outlook for the global capital markets later in 2003, given the war in Iraq and the repercussions it may have over oil prices, the global economy and investor risk aversion.

### **BOX 1: CREDIT RATING MOVEMENTS IN THE FOURTH QUARTER OF 2002**

Latin American sovereigns did not see many changes in their credit ratings in the fourth quarter of 2002. Moody's affirmed Peru's rating in October, and S&P downgraded Guatemala and Jamaica's outlooks to negative in November and December, respectively (see Appendix, Table 12), but credit ratings for the rest of the Latin American countries remained unchanged in the final months of 2002.

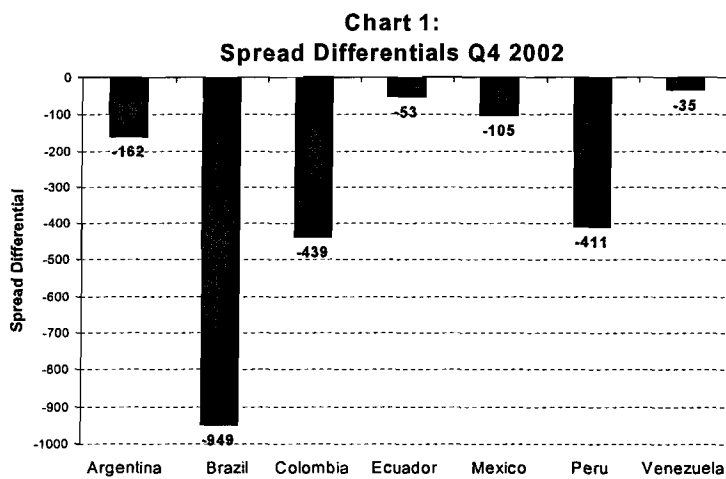
However, rating changes start to take place in a faster pace in the first months of 2003, as Moody's downgraded Venezuela in January, and S&P downgraded Bolivia and Uruguay in February.

<sup>1</sup> The U.S. Federal Reserve, ECB and Bank of England cut their rates by turns in November and December of 2002, as well as in January of 2003.



Given current conditions, developments in Brazil, considered to be critical for the Latin American region's near future, as well as for the performance of most emerging markets portfolios in 2003, seem to be more a function of the level of investor's risk aversion than of domestic developments. Notwithstanding, according to some analysts, "Brazil is now no longer viewed as leading the market to the brink of disaster, nor is it determining the rest of the market's fate"<sup>2</sup>. Brazil may be on the verge of reentering a virtuous cycle, although the conflict with Iraq poses an important near-term impediment to further improvements in risk appetites.

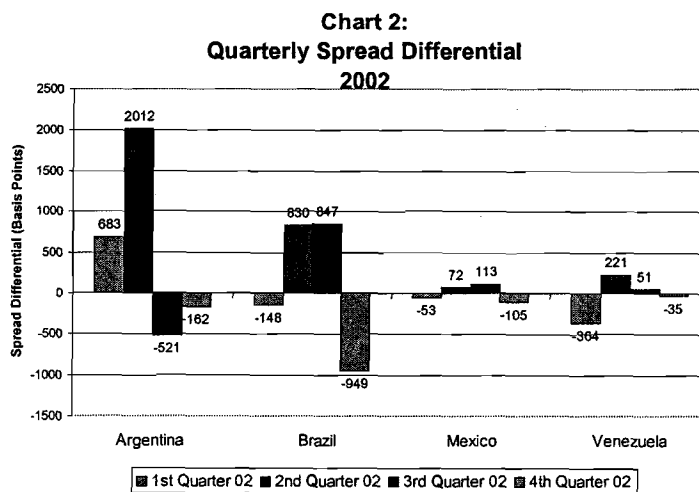
## I. Bond Markets and Debt Management



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

Emerging market spreads, as measured by the J.P. Morgan's benchmark EMBI+ index, closed the fourth quarter 276 basis points tighter, while the Latin component finished the quarter 392 basis points lower (appendix, table 1). Sovereign spreads tightened for most Latin American countries in the composite, as risk aversion in global markets and Brazilian volatility decreased (Chart 1).

Brazilian spreads, reflecting lower volatility and improved market sentiment following the end of the electoral period, tightened by 949 basis points in the fourth quarter, after widening 830 basis points in the second quarter and 847 basis points in the third. Following the same pattern, spreads for all Latin American countries in our sample tightened in the fourth quarter, after widening in the second and third quarters (with the exception of Argentine spreads, which tightened in the third quarter; see Chart 2).



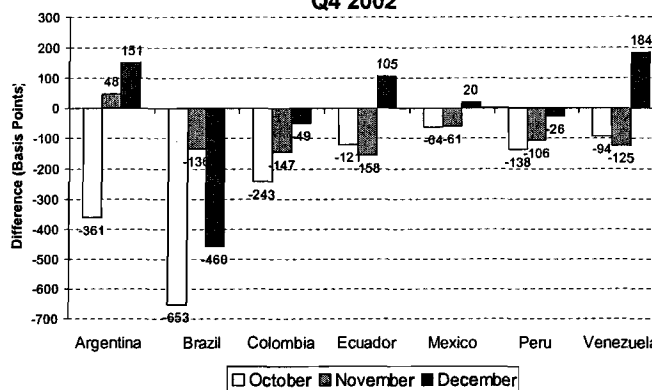
Source: ECLAC, on the basis of data from JP Morgan.

<sup>2</sup> *High Betas are not so High Anymore* by Jane Brauer and Alex Yulman, Emerging Markets Daily, 20 March 2003, Merrill Lynch.



On a monthly basis, Latin American spreads tightened in October and November, but widened for Argentina, Ecuador, and Venezuela in December (Chart 3). The widening of Venezuelan spreads was a result of the depth and intensity of Venezuela's political crisis in the last weeks of 2002, which had damaged economic activity for much of 2002 and nearly paralyzed the country at the end of the year.

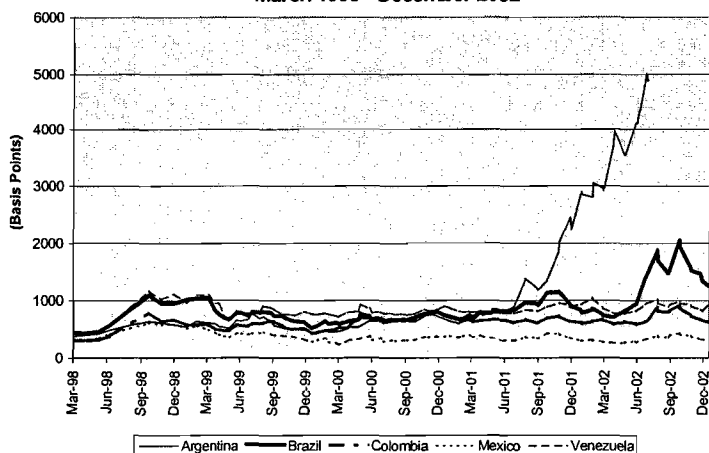
**Chart 3:  
Monthly Spread Differentials  
Q4 2002**



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

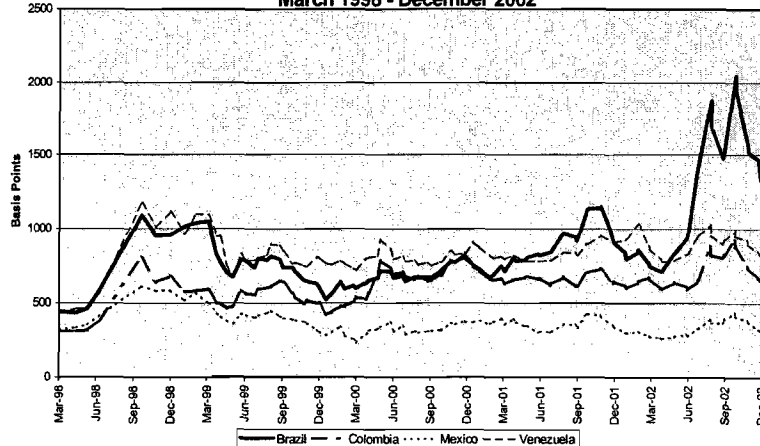
Charts 4 and 5 show that Argentinean and Brazilian spreads left their Russian crisis peaks behind in the second half of 2002. While Argentinean spreads had been spiraling upwards since July 2001, when the crisis in Argentina deepened, Brazilian spreads deteriorated sharply only towards the end of the second quarter of 2002, when uncertainties over policy continuity after the presidential elections drove market sentiment. Brazilian spreads continued to widen in the third quarter, but tightened in the fourth quarter as market sentiment improved towards Brazil, following the result of the elections and the commitment of the newly elected administration with policy continuity. Spreads for the other Latin American countries in the sample also tightened in the fourth quarter, reflecting the improvement in investor's confidence and the global environment (appendix, table 2).

**Chart 4:  
Spreads on 30-year Benchmark Sovereign Latin Eurobonds  
March 1998 - December 2002**



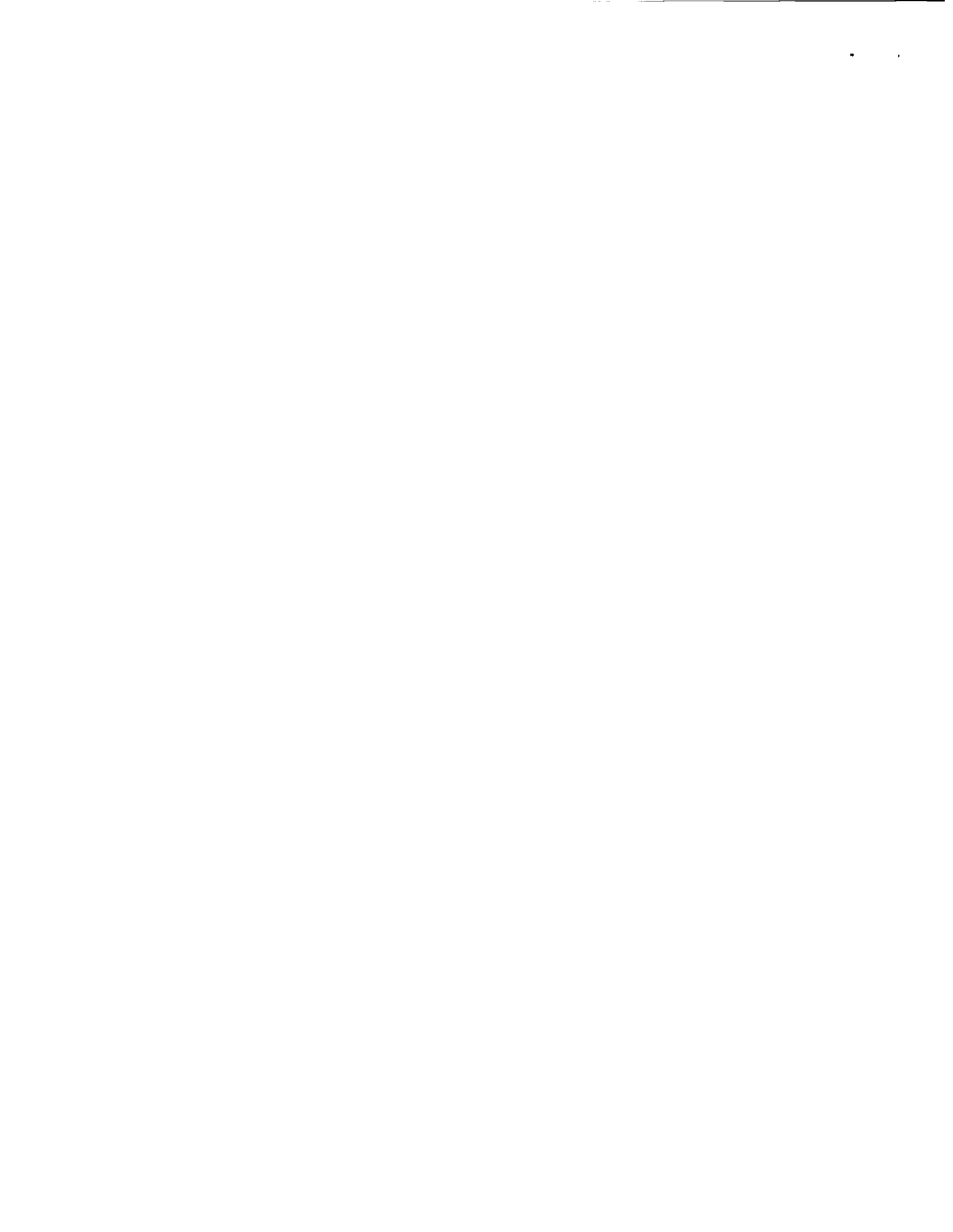
Source: ECLAC, on the basis of data from "Emerging Markets Debt Daily", Merrill Lynch.

**Chart 5:  
Spreads on 30-year Benchmark Sovereign Latin Eurobonds  
(Argentina excluded)  
March 1998 - December 2002**



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

Latin American bond issuers placed US\$4.83 billion in international capital markets in the fourth quarter of 2002, which represented a 144% increase with respect to the US\$1.98 billion issued in the third quarter, and a 22% decrease with respect to the US\$6.16 billion issued in the fourth quarter of 2001. Most of the new debt issuance during the quarter took place in December.



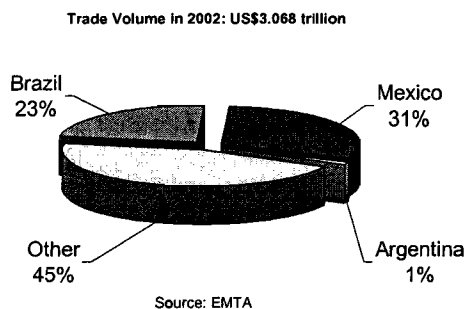


The improvement in market sentiment in the fourth quarter translated in higher trading volume. The Emerging Markets Traders Association (EMTA) reported a turnover in emerging markets debt of US\$768 billion in the fourth quarter, a 15% increase compared to the third quarter volume of US\$670 billion (but down from the US\$822 billion recorded in the fourth quarter of 2001).

Emerging markets debt trading volume stood at US\$3.068 trillion in 2002, a 12% decrease from the US\$3.484 trillion traded in 2001, and an increase of 8% from the US\$2.846 trillion traded in 2000. Despite the continuing default in Argentina and considerable uncertainty during much of 2002 regarding political transition in Brazil, overall emerging markets debt returned over 14% in 2002 according to the main industry benchmark index, the EMBI+, outperforming all other US dollar asset classes.

Mexico accounted for 31% of all emerging markets debt trading in 2002. Mexican debt remained the most frequently traded instrument for the third consecutive year, totaling US\$949 billion in 2002, a 15% decrease from the US\$1.111 trillion reported in 2001. In February 2002, Mexico received an investment-grade rating from Standard and Poor's, as well as an additional upgrade one level above investment grade by Moody's.

**Chart 6:**  
Emerging Markets Debt Trading Volume:  
Country Shares

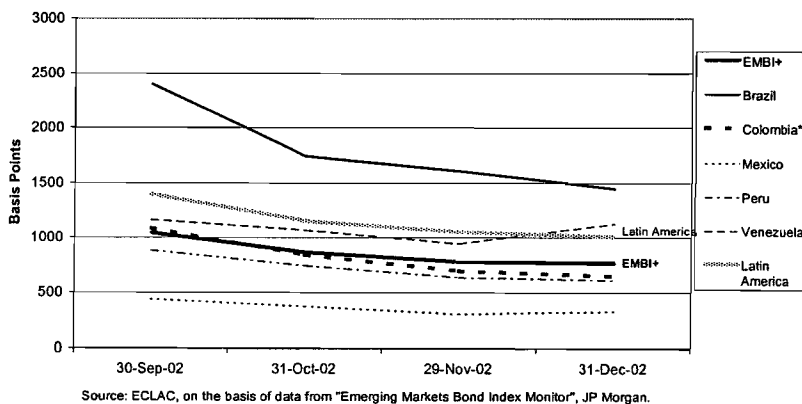


Brazilian volumes accounted for 23% of overall volume (US\$707 billion in 2002), and remained the second highest share overall, despite the fact that Brazilian turnover was at its lowest level since 1994. An even more dramatic decline occurred in Argentine volume, following its debt default in December 2001. Trading in Argentine assets dropped 90% to US\$39 billion compared to US\$384 billion in 2001. Argentine assets dropped from third most frequently traded assets in 2001 to 14<sup>th</sup> in 2002. The Argentine share of 2002 stood at 1%, compared to 11% in 2001 (Chart 6).

## A. Spreads

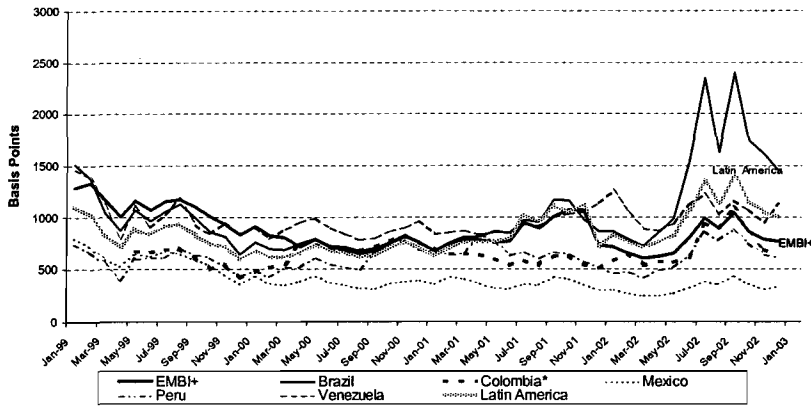
The J.P. Morgan EMBI+ spread closed the fourth quarter of 2002 with a decrease of 276 basis points, as market sentiment and global conditions improved and volatility in Brazil receded. The spread for the EMBI+ Latin component tightened further, with a decrease of 392 basis points. Spreads tightened for all Latin American countries in the sample in the fourth quarter (Chart 7).

**Chart 7:**  
Spreads on JP Morgan EMBI+ and Latin American  
Composites Q4 2002





**Chart 8:**  
**Spreads on JP Morgan EMBI+ and Latin American Composites**  
**January 1999 to December 2002**



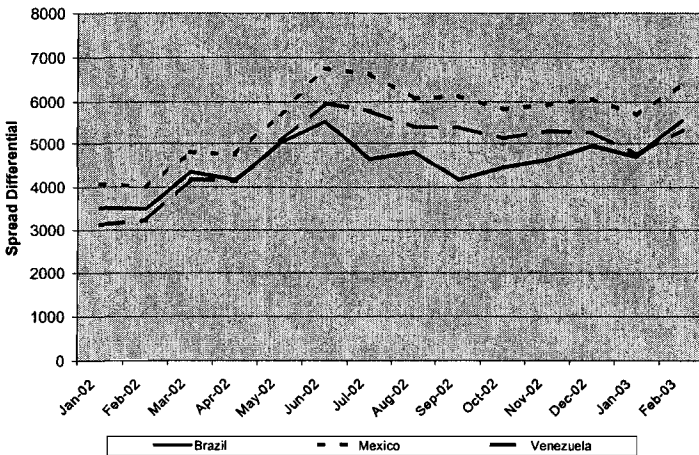
\* The Colombia 7 5/8% due 07 and the Colombia 8 5/8% due 08 were added at the end of May 99.  
 Source: ECLAC, on the basis of data from "Emerging Markets Bond Index Monitor", JP Morgan.

Brazilian spreads continued to exceed their peak of January 1999, but initiated a downward trend in the fourth quarter (Chart 8).

Although spreads on Argentine bonds tightened in the fourth quarter, they continued to soar with respect to those on Brazilian, Mexican and Venezuelan bonds (Charts 9-12). The economy has shown signs of stability and an incipient recovery since July of 2002, and the agreement reached in January 2003 with the IMF

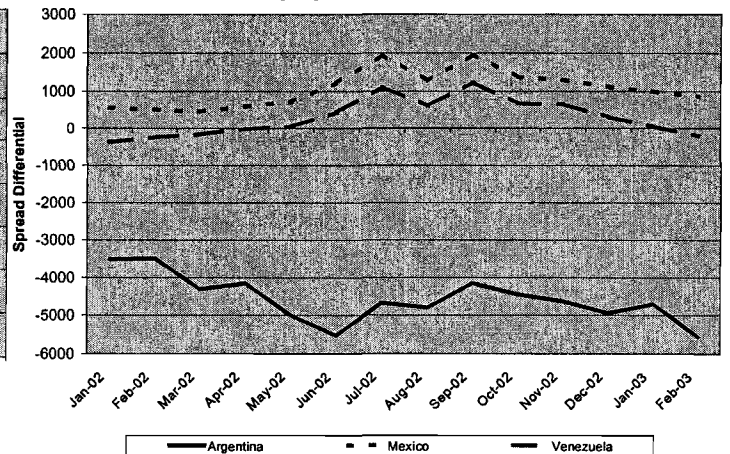
brought an end to the default with the multilateral financial institutions. However, political uncertainty continues in anticipation of the future presidential election (to be held April 27), as well as in anticipation of important decisions to be made in order to put the economy back in track. (The Supreme Court, for example, has managed to drive attention away from the presidential elections, as it ruled deposit "pesification" unconstitutional on March 5 of 2003. Re-dollarization is a major shock to future potential solvency.) The next presidential election will be key to determine the policy direction and choices to be made at the junctures ahead, and Argentine asset prices will be driven by the policy decisions and political events to take place in the near future.

**Chart 9:**  
**Inter-Country Spread Differentials - ARGENTINA**



Source: ECLAC, on the basis of data from JP Morgan.  
 Note: EMBI+ country composite spreads at the end of the month.

**Chart 10:**  
**Inter-Country Spread Differentials - BRAZIL**



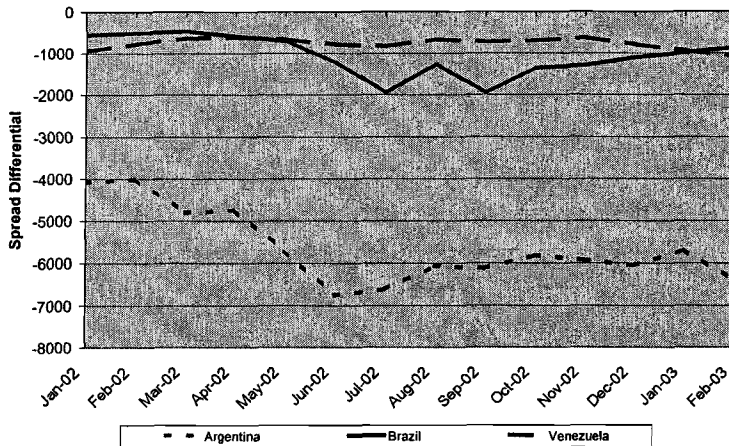
Source: ECLAC, on the basis of data from JP Morgan.  
 Note: EMBI+ country composite spreads at the end of the month.

Brazil's EMBI+ component narrowed from 2395 basis points at the end of September to 1446 basis points at the end of December, as the electoral saga came to a closure and investors were willing to give the newly elected president, who was perceived as having untested market credentials and lack of direct government experience, a vote of



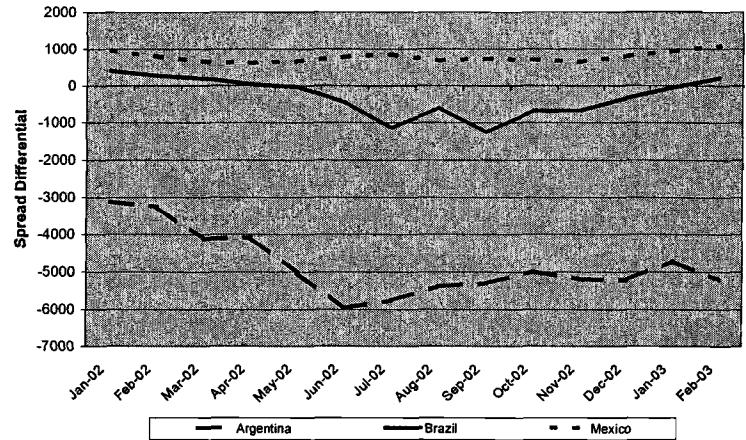
confidence. The new administration has conveyed that structural reform is an important goal and delivered strong fiscal results in January of 2003. The main credit question facing Brazil in 2003 should remain the country's ability to stabilize its public debt.

**Chart 11:**  
Inter-Country Spread Differentials - MEXICO



Source: ECLAC, on the basis of data from JP Morgan.  
Note: EMBI+ country composite spreads at the end of the month.

**Chart 12:**  
Inter-Country Spread Differentials - VENEZUELA



Source: ECLAC, on the basis of data from JP Morgan.  
Note: EMBI+ country composite spreads at the end of the month.

In the case of Ecuador, in a similar fashion, the elected candidate received a vote of confidence from market participants. The fact that investors gave the elected presidents the benefit of the doubt corroborated the markets' move from risk aversion to a risk-seeking mode in the fourth quarter of 2002. Ecuador's EMBI+ component tightened from 1975 basis points at the end of September to 1801 basis points at the end of December. Spreads tightened in October (1854 basis points at the end of the month), and in November (1696 basis points at the end of the month), but widened in December. An agreement between Ecuador and the IMF will be key to avoid liquidity problems in 2003, and it is close to its approval, as the IMF Board is scheduled to discuss Ecuador's standby agreement program on March 19. The IMF will likely make the first US\$40 million disbursement soon after the agreement's approval.

Mexico's EMBI+ component tightened from 436 basis points at the end of September to 331 basis points at the end of December. The gradual recovery of the U.S. economy has had a bigger weigh than the medium-term investors' concerns over pending structural reforms. Mexico's medium-term prospects remain solid, although there is uncertainty over the implications of war in Iraq for the U.S. and Mexico's domestic economic.

Colombian debt spreads tightened from 1084 basis points at the end of September to 645 basis points at the end of December, as financial stress was stabilized and progress towards fiscal adjustment was made in 2002. It is not clear, however, if these achievements have set the needed conditions for economic recovery to finally start.

Peru's EMBI+ component also tightened in the fourth quarter, 880 basis points at the end of September to 610 basis points at the end of December. Peru's fundamentals are still among the strongest in Latin America, as the pace of growth exceeded expectations in the



final months of the year, inflation remained low, the currency showed resilience and the external position continued strong. The better-than expected performance of the economy has improved local sentiment, which, in turn, seems to have eased political tensions.

Venezuelan spreads tightened from 1162 basis points at the end of September to 1127 basis points at the end of December. Spreads tightened in October (1068 basis points at the end of the month), and in November (943 basis points at the end of the month), but widened in December, as the political crisis deepened, hurting the economy. The uncertainty around the outcome of the political crisis and subsequent developments will likely keep market participants away from Venezuelan debt.

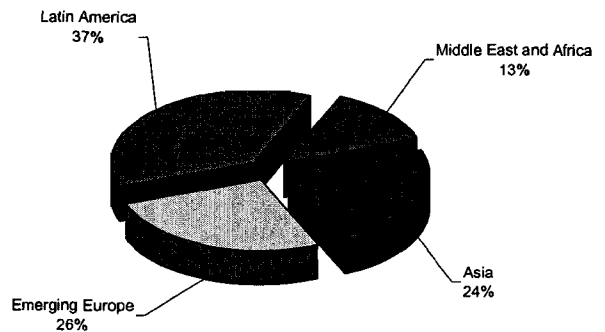
## B. Issuance

Emerging markets placed US\$52.8 billion in the international capital markets in 2002. According to Merrill Lynch, this was the lowest annual level of the last five years, and represented a 13% decline compared to 2001. However, issuance in the fourth quarter of 2002 was strong (US\$12.9 billion), mostly a pre-financing surge. Issuance was especially strong in December when US\$6.3 billion was issued, a 4.1% year-on-year increase.

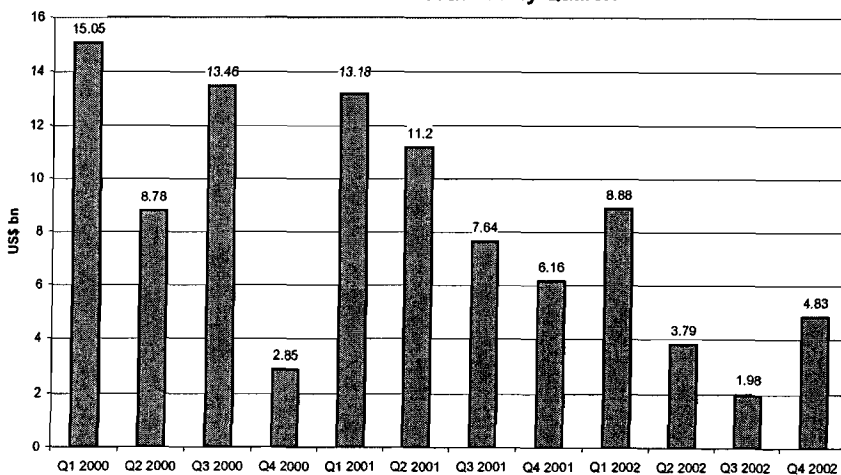
Total issuance in Latin America reached US\$19.5 billion in 2002, accounting for 37% of the emerging markets total (Chart 13). Compared to the previous year, however, Latin American issuance in 2002 fell by almost 50%. Latin America's bond issuance in 2002 was the lowest since before the Mexican peso crisis in 1995.

Latin American issuers placed almost US\$5 billion in the fourth quarter, 64% of the emerging markets total (Chart 14). Most of the Latin American issuance in the quarter took place in

**Chart 13:  
Emerging Markets Debt Issuance:  
Regional Breakdown  
2002**



**Chart 14:  
Latin American Issuance by Quarter**



Source: ECLAC, on the basis of data from Merrill Lynch.

Note: Total emerging markets debt issuance year-to-date is US \$52.8 billion.  
Source: ECLAC, on the basis of data from Merrill Lynch.

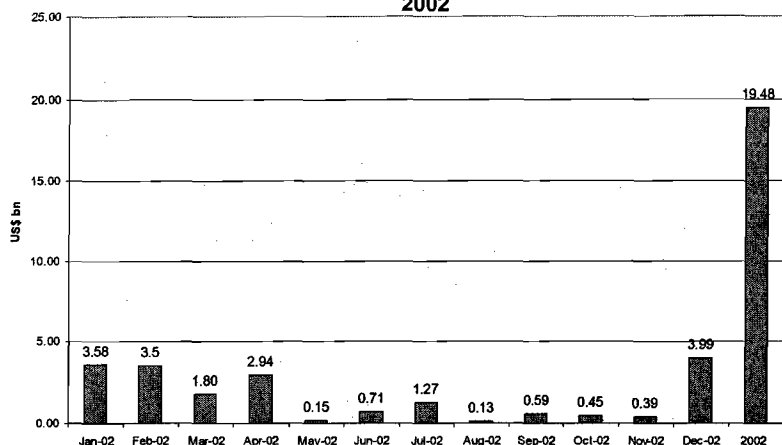
December, the highest monthly amount issued in 2002 (Chart 15). El Salvador, Chile, Colombia, Mexico, Panama and Peru tapped international capital markets in the fourth quarter of 2002 and issued over US\$3 billion of sovereign and corporate





bonds (see appendix, tables 3, 6 and 9).

**Chart 15:**  
**New Latin American Debt Issuance**  
**2002**



Source: ECLAC, on the basis of data from Merrill Lynch.

For the sixth consecutive month, Latin American markets issued only dollar-denominated debt. For 2002, dollar-denominated debt represented 88% of the Latin American total. Sovereign bonds accounted for 81% (appendix, tables 3 to 11).

Latin America's bond average maturity in 2002 was 9.8 years. Average maturity was 11 years in the fourth quarter, reflecting improved market sentiment and decreased risk aversion (Chart 16).

Two Latin American countries – Brazil and Mexico – headed the borrowers list in 2002, with US\$6.7 billion and US\$6.2 billion, respectively (Table 1). Most of the debt issued by these countries was sovereign debt or debt with guarantees from the sovereign. Corporates issued some US\$1.2 billion in Brazil and US\$0.5 billion in Mexico. Chile was also among the top-ten issuers in 2002, in 9<sup>th</sup> place, with US\$1.7 billion.

**Table 1:**

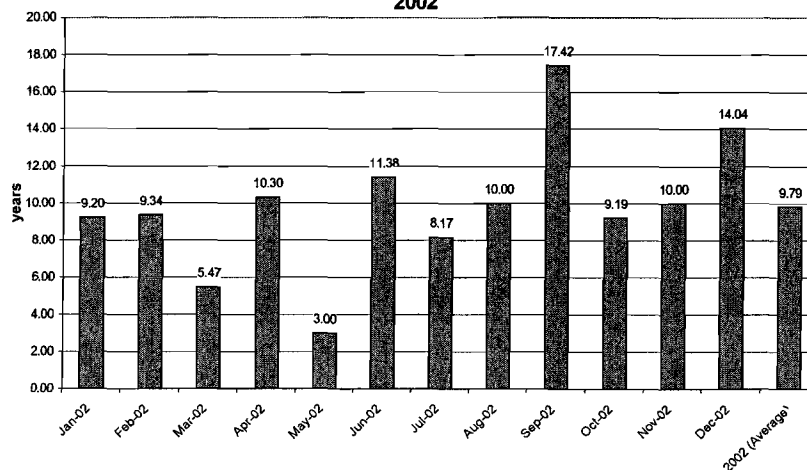
**Top 5 Issuers**  
**in Emerging Markets\***  
**2002**

Country	Amount (US\$mn)
Brazil	\$6,704
Mexico	\$6,205
Malaysia	\$5,575
Philippines	\$5,025
Turkey	\$3,578

Source: Merrill Lynch.

\* Sovereign and Corporate Combined

**Chart 16:**  
**New Latin American Debt Issuance: Average Maturity**  
**2002**



Source: ECLAC, on the basis of data from Merrill Lynch.



## II. Portfolio Equity Flows into Latin America

Equities in Latin America were hard hit during 2002, decreasing close to 26% in dollar terms, as the crisis in Argentina and volatility in Brazil and Venezuela adversely affected investor confidence. In 2002, equities have clearly underperformed the dollar-denominated debt index. Looking in retrospect, equities tended to outperform when the global backdrop seemed optimistic, such as in 1999 and early-2002, while in tougher times fixed income prevailed.

Latin America's portfolio equity flows are expected to rise, however, from net outflows of about US\$2 billion in 2002 to net inflows of around US\$400 million in 2003, as last year's withdrawals from Argentina, Brazil, Colombia, and Venezuela are expected to slow, while net inflows to Chile and Mexico are expected to pickup<sup>3</sup>. Portfolio inflows in 2003 will likely remain modest for the region as whole, however, as investors await clear signals that stabilization is under way.

Nevertheless, there has been a move away from equities towards fixed income assets since last year. According to Merrill Lynch, trends are currently very positive for emerging markets mutual funds flow. Four-week moving average inflows of emerging market debt funds have been gaining weekly on a percentage basis, registering weekly inflows of about 1.75% of total fund assets on average, and the trend appears to be for even higher inflows. The equities funds, on the other hand, have been registering outflows of about 0.16% weekly.<sup>4</sup>

## III. Bank Lending

According to the latest available information on actual bank lending<sup>5</sup>, all major Latin American countries experienced a reduction in credit in the third quarter. Claims on emerging markets contracted slightly from the second quarter, falling to US\$882 billion, largely the result of credit reductions to the major Latin American countries.

The net flow of funds to Latin America remained negative for the second consecutive quarter, at US\$2.9 billion<sup>6</sup>. Claims contracted by 4%, to US\$269 billion, the lowest level since the third quarter of 1996. While the concerns of global investors had shifted from Argentina to Brazil by the third quarter, the outflow from Argentina was the largest in the

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<sup>3</sup> See the *Institute of International Finance's* forecast, in *Capital Flows to Emerging Market Economies*, January 16, 2003.

<sup>4</sup> See *EM Mutual Funds Flows*, Merrill Lynch, March 17, 2003. The data on EM fund flows are provided by AMG Data Services, and are derived from U.S. based mutual funds. According to Merrill Lynch, viewing four week moving averages of AMG fund flows data on a percentage basis shows the trends and how much these flows can move the market, since percentage of assets, rather than just absolute dollar flows, is the primary driver that affects pricing.

<sup>5</sup> *BIS Quarterly Review*, March 2003.

<sup>6</sup> There was an outflow of US\$11.2 due to a decrease in claims, as well as an inflow of US\$8.3 billion due to a decrease in liabilities (see Table 2).



region. The country recorded the largest outflow of funds (US\$4.7 billion) since the beginning of the financial crisis in the third quarter of 2001. In Brazil, funds flowed out of both the bank and non-bank sectors, contributing to a net outflow of US\$2.4 billion, also the largest since the

third quarter of 2001. Like Argentina and Brazil, Mexico also experienced a net outflow of funds, as total claims contracted by US\$1.9 billion from the previous quarter (Table 2).

The overall volume of announced syndicated lending increased from US\$2.7 billion in the third quarter of 2002, to US\$4.1 billion in the final quarter of 2002 (Chart 17). However, this was still a fraction of previous years' volumes. Mexican corporations closed facilities totaling US\$2.4 billion. An Argentine oil company, Pecom Energía, tapped the syndicated loan market to refinance bilateral loans totaling US\$600 million, prior to Petrobrás of Brazil acquiring a controlling stake in the company.

For 2002 as a whole, signings by Latin American borrowers fell by 50% from 2001, to US\$11 billion. Borrowing by Argentine residents had already dropped off sharply in 2001 and all but ceased in 2002. Brazilian and Mexican borrowers raised about half of the amounts arranged in 2001. The state oil company Pemex was the most active Mexican borrower in the market, and construction materials and energy firms the most active Brazilian borrowers (Table 3).<sup>7</sup>

**Table 2**

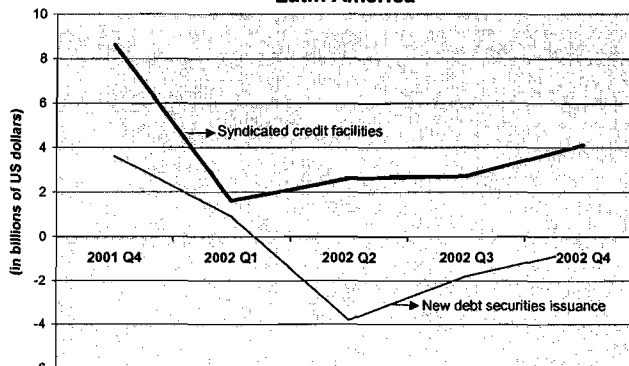
Cross-border bank flows to Latin American economies							
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars							
	Banks' Position*	2000	2001	2002			Stocks at end-Sep 2002
		Year	Year	Q1	Q2	Q3	
Latin America	Claims	14.0	-3.5	-2.5	-4.6	-11.2	269.4
	Liabilities	9.4	-1.9	-16.2	-1.6	-8.3	224.2
Argentina	Claims	1.2	-5.8	-4.3	-0.8	-4.4	31.7
	Liabilities	3.1	-16.7	-1.0	0.5	0.3	23.6
Brazil	Claims	9.5	0.9	1.0	-2.4	-3.6	91.8
	Liabilities	-4.6	0.4	1.4	-3.8	-1.2	44.4
Chile	Claims	0.3	0.2	-0.3	-0.5	0.1	18.3
	Liabilities	-1.5	-1.0	0.2	-0.8	-0.9	13.3
Mexico	Claims	-1.0	2.0	3.2	1.8	-1.9	63.6
	Liabilities	6.9	8.8	-14.1	1.3	-0.2	50.1

Source: BIS Quarterly Review, March 2003.

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

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

**Chart 17:**  
Announced Syndicated Lending and Securities Issuance in Latin America



\* Net Issuance: Gross Issues - Repayments

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

<sup>7</sup> Syndicated credits data are not necessarily a reliable proxy for future bank lending. The syndicated credits are gross announcements of loan facilities (i.e. loan commitments, which do not need to be drawn fully or immediately), while changes in amounts outstanding in the BIS data are driven mainly by net new lending (actual disbursements). See Blaise Gadanez and Karsten von Kleist (2002): "Do syndicated credits anticipate BIS consolidated banking data?", *BIS Quarterly Review*, March 2002, pp 65-74.



**Table 3: Announced syndicated lending (in billions of US dollars)**

	<b>Syndicated credit facilities</b>					2002Q1	2002Q2	2002Q3	2002Q4	<b>2002</b>
	2001Q1	2001Q2	2001Q3	2001Q4	2001					
<b>Latin America</b>	<b>4.8</b>	<b>4.4</b>	<b>6.4</b>	<b>8.7</b>	<b>24.3</b>	<b>1.6</b>	<b>2.6</b>	<b>2.7</b>	<b>4.1</b>	<b>11.0</b>
Argentina	1.0	0.4	0.5	0.5	2.4	-	-	-	0.6	0.6
Brazil	0.4	1.1	3.0	2.4	6.9	0.8	1.6	0.3	0.5	3.2
Chile	0.7	0.5	0.2	0.7	2.1	0.2	-	0.5	0.5	1.2
Colombia	-	-	0.2	0.1	0.3	0.5	-	0.5	0.2	1.2
Mexico	2.3	2.1	0.8	4.0	9.2	0.1	0.9	1.3	2.4	4.7
Venezuela	0.2	0.3	0.7	0.7	1.9	-	-	-	-	0.0

Source: BIS Quarterly Review, March 2003

#### IV. Prospects

The emerging market debt class has entered 2003 in sound shape and with a solid technical position, supported by limited market financing needs. In a year of continued equity weakness and lingering volatility in the US high-yield market, emerging market debt ended the year as one of the top performing asset classes, returning over 14% according to the main industry benchmark index, the EMBI+, outperforming all other U.S. dollar asset classes. However, performance in 2002 was very differentiated, with Brazil, Ecuador, and Venezuela trading at around 1,000 bps or higher, while Mexico traded at around 300 bps or below. The high level of dispersion showed that investors became more selective. Differentiation should remain key in 2003, as the divergence in regional and country growth patterns will persist. The heterogeneous behavior of the emerging market debt class not only underscored the point that country selection could be rewarded, but also reduced fears about contagion.

With spreads in much of the emerging debt universe at fair value, investors' focus has shifted back to Latin America, where wide spreads can still be found. The credit deterioration experienced by Latin America over the past 18 months seems to be bottoming out, and political risk in the region should come down considerably in the course of 2003. Latin credits saw a successful return to the international capital markets in the fourth quarter of 2002 and early months of 2003, in a potential indication of the end of last year's credit crunch.

With respect to Brazil, developments will continue to be a function of investors' risk appetites for the most part, while endogenous fundamental developments take a secondary role. It seems that investors, however, no longer see Brazil as determining the fate of the market. Brazil seems headed to reenter a virtuous cycle, but the looming Iraq-related risk poses an important near-term obstacle to further improvements in the investors' level of risk aversion. The conflict with Iraq, and its repercussion over oil prices, the global economy, and investor risk aversion, is the most immediate source of uncertainty for emerging and Latin American debt markets.





## **APPENDIX**

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



## A. Latin American Spreads

Table 1:

Sovereign Spreads on JP Morgan EMBI+ and Latin American Composites									
	EMBI+	Argentina	Brazil	Colombia*	Ecuador	Mexico	Peru	Venezuela	Latin America
31-Jul-98	633	454	608	n.a.	1371	461	515	829	554
31-Aug-98	1524	1278	1421	n.a.	2077	941	941	2575	1328
30-Sep-98	1330	904	1326	n.a.	1903	911	911	1558	1111
31-Oct-98	1190	779	1192	n.a.	1484	819	755	1372	980
30-Nov-98	1070	664	975	n.a.	1221	737	610	1612	858
31-Dec-98	1151	707	1231	n.a.	1631	741	612	1283	941
31-Jan-99	1288	858	1507	n.a.	2055	801	743	1463	1106
28-Feb-99	1330	794	1376	n.a.	2405	722	663	1393	1028
31-Mar-99	1171	683	1041	n.a.	1973	600	562	1121	839
30-Apr-99	1010	596	873	n.a.	1553	532	396	789	709
28-May-99	1157	786	1066	671	1862	647	603	1108	880
30-Jun-99	1070	758	957	667	2113	623	609	896	832
30-Jul-99	1147	853	1053	691	2473	677	610	1024	919
31-Aug-99	1166	776	1124	700	3402	644	700	1174	931
30-Sep-99	1098	663	984	613	4764	596	635	925	823
29-Oct-99	1010	635	851	505	3705	535	613	836	743
30-Nov-99	927	650	806	549	3093	449	526	940	715
31-Dec-99	824	533	636	423	3353	363	443	844	597
31-Jan-00	904	594	758	482	4033	438	482	894	682
20-Feb-00	816	551	688	524	3227	364	432	792	616
31-Mar-00	798	568	679	547	3111	354	518	879	623
28-Apr-00	708	572	742	740	3350	385	512	952	654
31-May-00	784	702	792	739	4499	438	611	985	737
30-Jun-00	712	676	722	722	3926	381	546	895	679
31-Jul-00	680	650	712	662	2846	353	522	837	654
31-Aug-00	643	681	672	686	1340	321	496	780	618
29-Sep-00	677	675	705	722	1261	318	664	798	634
31-Oct-00	745	815	758	768	1331	365	759	860	707
30-Nov-00	805	879	829	818	1441	385	772	902	759
29-Dec-00	756	773	749	755	1415	392	687	958	706
31-Jan-01	674	663	677	697	1230	363	674	838	631
28-Feb-01	748	803	753	646	1268	428	637	850	710
30-Mar-01	784	960	811	645	1366	414	650	874	763
30-Apr-01	773	1039	812	634	1482	366	824	833	766
31-May-01	751	993	858	600	1366	326	774	852	761
29-Jun-01	766	1050	847	541	1303	310	632	847	803
31-Jul-01	940	1599	972	585	1454	360	661	925	1016
31-Aug-01	885	1430	954	540	1411	354	601	916	959
28-Sep-01	1005	1615	1165	626	1516	431	669	995	1103
31-Oct-01	1073	2162	1163	628	1558	412	651	1034	1055
30-Nov-01	1069	3372	976	545	1393	357	572	1055	1119
31-Dec-01	731	4372	863	514	1233	308	521	1130	711
31-Jan-02	713	4379	866	586	1144	304	468	1254	837
28-Feb-02	644	4276	785	651	1147	272	474	1046	765
28-Mar-02	598	5062	718	536	1037	251	419	890	713
30-Apr-02	619	5004	849	578	1000	255	492	873	763
31-May-02	650	5979	981	567	1184	265	512	933	829
28-Jun-02	799	7074	1548	613	1262	323	628	1111	1063
31-Jul-02	991	7008	2341	930	1780	390	865	1226	1350
30-Aug-02	886	6430	1630	898	1704	360	774	1028	1131
30-Sep-02	1041	6553	2395	1084	1975	436	880	1162	1399
31-Oct-02	862	6192	1742	841	1854	372	742	1068	1153
29-Nov-02	778	6240	1606	694	1696	311	636	943	1054
31-Dec-02	765	6391	1446	645	1801	331	610	1127	1007

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

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

EMBI+ composition by market sector (end-December 2002): Brady, 33.08%; Benchmark Eurobonds, 66.10%; Loans, 0.83%.  
by country: Brazil and Mexico account for 42.34% of the total weighting.  
by region: Latin: 57.25%; Non-Latin: 42.75%.



### EMBI+ Composition (December 2002)

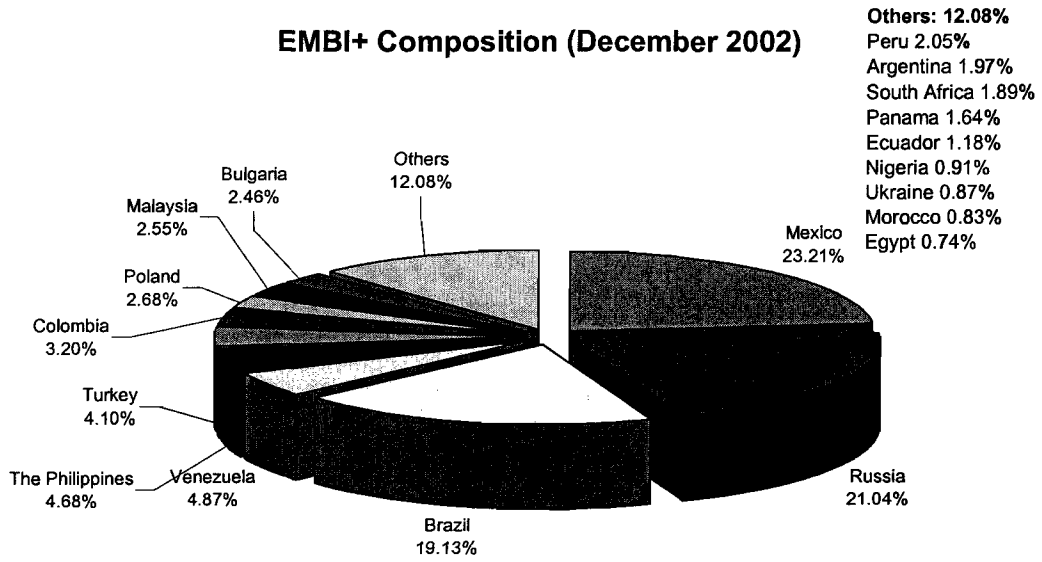




Table 2:

Spreads on 30-year Benchmark Latin Eurobonds June 1998 - December 2002					
Country	Argentina	Brazil	Colombia	Mexico	Venezuela
Coupon	9.750	10.125	8.375	11.500	9.250
Maturity	9/19/27	5/15/27	2/15/27	5/15/26	9/15/27
	(Basis points)				
12-Jun-98	487	573	383	412	555
25-Sep-98	649	1089	803	611	1172
30-Oct-98	608	953	638	579	1011
4-Dec-98	584	954	676	583	1114
8-Jan-99	546	1015	575	514	963
5-Feb-99	637	1036	579	563	1096
4-Mar-99	608	1047	589	495	1092
31-Mar-99	597	826	497	434	949
8-Apr-99	551	768	496	410	951
23-Apr-99	541	701	466	380	752
7-May-99	512	674	478	362	670
28-May-99	660	790	580	429	828
9-Jun-99	648	783	560	422	786
30-Jun-99	675	737	553	403	786
9-Jul-99	771	799	591	417	802
30-Jul-99	685	789	600	434	821
9-Aug-99	719	810	608	450	896
30-Aug-99	638	792	648	413	884
8-Sep-99	566	734	638	400	848
30-Sep-99	531	737	564	394	763
8-Oct-99	511	705	534	384	770
29-Oct-99	524	651	494	377	749
5-Nov-99	519	644	514	367	741
30-Nov-99	529	625	495	321	811
6-Dec-99	510	601	501	308	803
22-Dec-99	431	521	423	282	766
6-Jan-00	444	560	440	304	756
28-Jan-00	483	640	477	344	782
7-Feb-00	450	591	477	279	763
29-Feb-00	458	613	509	254	729
6-Mar-00	456	595	533	233	721
30-Mar-00	510	631	525	292	796
6-Apr-00	538	651	568	316	804
28-Apr-00	540	665	700	327	812
5-May-00	558	713	783	340	929
30-May-00	650	706	733	373	860
6-Jun-00	639	665	692	306	792
30-Jun-00	641	680	706	350	813
6-Jul-00	611	645	681	286	778
28-Jul-00	634	673	655	311	784
7-Aug-00	658	666	679	300	756
30-Aug-00	668	673	642	310	772
8-Sep-00	641	668	651	313	749
29-Sep-00	629	707	688	318	774
2-Oct-00	634	716	685	317	771
27-Oct-00	726	775	789	368	850
6-Nov-00	783	770	770	357	820
30-Nov-00	735	821	805	378	836
1-Dec-00	728	812	800	371	833
21-Dec-00	681	748	742	371	904

Spreads on 30-year Benchmark Latin Eurobonds June 1998 - December 2002 (Cont.)					
Country	Argentina	Brazil	Colombia	Mexico	Venezuela
Coupon	9.750	10.125	8.375	11.500	9.250
Maturity	9/19/27	5/15/27	2/15/27	5/15/26	9/15/27
	(Basis points)				
5-Jan-01	639	724	710	382	870
31-Jan-01	597	673	661	362	818
9-Feb-01	624	688	653	375	800
28-Feb-01	695	750	660	397	813
9-Mar-01	642	711	628	359	794
30-Mar-01	765	802	654	393	819
6-Apr-01	739	782	656	372	815
27-Apr-01	793	785	666	347	775
4-May-01	858	805	678	350	778
31-May-01	833	828	657	300	780
1-Jun-01	851	853	674	311	789
29-Jun-01	890	838	617	304	783
2-Jul-01	908	843	628	307	784
31-Jul-01	1345	968	666	353	838
1-Aug-01	1372	968	675	357	838
31-Aug-01	1207	942	611	356	835
4-Sep-01	1178	915	614	335	819
28-Sep-01	1328	1125	704	431	895
1-Oct-01	1378	1134	703	428	895
31-Oct-01	1836	1133	727	420	948
1-Nov-01	2006	1145	726	411	951
30-Nov-01	2448	938	634	354	918
3-Dec-01	2232	906	642	346	909
31-Dec-01	2900	837	614	302	923
2-Jan-02	2840	794	599	298	930
31-Jan-02	2801	837	634	308	1029
1-Feb-02	3051	858	644	306	1033
28-Feb-02	2955	762	671	281	883
1-Mar-02	2914	747	662	274	866
28-Mar-02	3682	712	597	268	796
1-Apr-02	3962	711	590	261	775
30-Apr-02	3533	827	631	269	783
1-May-02	3537	829	636	277	781
31-May-02	4105	930	606	288	826
3-Jun-02	4101	949	589	277	827
28-Jun-02	5011	1392	639	329	937
1-Jul-02	4866	1439	653	329	950
31-Jul-02	-	1873	882	394	1024
1-Aug-02	-	1694	822	369	955
30-Aug-02	-	1471	801	366	894
3-Sep-02	-	1525	822	391	918
30-Sep-02	-	2048	926	436	985
1-Oct-02	-	1936	876	411	950
31-Oct-02	-	1555	745	387	919
1-Nov-02	-	1515	736	376	896
27-Nov-02	-	1460	668	327	844
2-Dec-02	-	1333	658	316	818
20-Dec-02	-	1234	619	321	932

Source: "Emerging Markets Debt Daily", Merrill Lynch.





**B. New Latin American Debt Issuance:**

**Table 3:**

<b>New Latin American Debt Issuance</b>			
<b>Fourth Quarter of 2002</b>			
<b>Oct-02</b>			
<b>Country</b>	<b>Issuer</b>	<b>Amount (million)</b>	<b>Maturity</b>
El Salvador	Republic of El Salvador	US \$451.5	24-Jan-23
<b>Total</b>		<b>US \$451.5</b>	

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

**Table 4:**

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

<b>Currency</b>	<b>Oct-02</b>
Dollar	100
Euro	
Yen	

Source: ECLAC, on the basis of data from Merrill Lynch.

**Table 5:**

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

<b>Issuer Type</b>	<b>Oct-02</b>
Sovereign*	100
Corporate**	0

Source: ECLAC, on the basis of data from Merrill Lynch.

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

\*\*Also includes bank issuance.



**Table 6:**

<b>New Latin American Debt Issuance</b>			
<b>Fourth Quarter of 2002</b>			
<b>Nov-02</b>			
<b>Country</b>	<b>Issuer</b>	<b>Amount (million)</b>	<b>Maturity</b>
Chile	Republic of Chile	US \$100	11-Jan-12
Chile	ENAP (Emp. Nacional del Petroleum)	US \$290	15-Nov-12
<b>Total</b>		<b>US \$390</b>	

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

**Table 7:**

<b>Currency Breakdown</b>	
<b>(% of Latin America's Total)</b>	
<b>Currency</b>	<b>Nov-02</b>
Dollar	100
Euro	
Yen	

Source: ECLAC, on the basis  
of data from Merrill Lynch.

**Table 8:**

<b>Issuer Type Breakdown</b>	
<b>(% of Latin America's Total)</b>	
<b>Issuer Type</b>	<b>Nov-02</b>
Sovereign*	100
Corporate**	0

Source: ECLAC, on the basis  
of data from Merrill Lynch.

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

\*\*Also includes bank issuance.



**Table 9:**

<b>New Latin American Debt Issuance</b>			
<b>Fourth Quarter of 2002</b>			
<b>Dec-02</b>			
<b>Country</b>	<b>Issuer</b>	<b>Amount (million)</b>	<b>Maturity</b>
Chile	Codelco	US \$435	30-Nov-12
Panama	Republic of Panama	US \$430	16-Jan-23
Peru	Republic of Peru	US \$500	15-Jan-08
Brazil	ING Bank Sao Paulo	US \$50	5-Dec-03
Colombia	Republic of Colombia	US \$500	15-Jan-13
Mexico	Pemex	US \$1000	15-Dec-14
Brazil	Banco Bradesco SA	US \$175	17-Jun-03
Brazil	Banco Votorantim	US \$150	12-Jun-03
Mexico	United Mexican States	US \$750	15-Aug-31
<b>Total</b>		<b>3990.00</b>	

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

**Table 10:**

<b>Currency Breakdown</b>	
<b>(% of Latin America's Total)</b>	
<b>Currency</b>	<b>Dec-02</b>
Dollar	100%
Euro	0%
Yen	0%

Source: ECLAC, on the basis of data from Merrill Lynch.

**Table 11:**

<b>Issuer Type Breakdown</b>	
<b>(% of Latin America's Total)</b>	
<b>Issuer Type</b>	<b>Dec-02</b>
Sovereign*	90.6%
Corporate**	9.4%

Source: ECLAC, on the basis of data from Merrill Lynch.

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

\*\*Also includes bank issuance.



## C. Credit Ratings

Table 12:

### Credit Ratings in Latin America

	Moody's		S&P		Recent Moody's Actions		Recent S&P Actions	
	Rating	View	Rating	View	Action	Date	Action	Date
Argentina	Ca	oo	SD	-	Dowgrade, O/L (-)	20-Dec-01	Dowgrade	6-Nov-01
Barbados	Baa2	-	A-	-	Upgrade, stable	8-Feb-00	Affirmed, stable	2-May-02
Bolivia	B1	-	B	oo	Affirmed, stable	28-Jun-02	Dowgrade, O/L (-)	26-Feb-03
Brazil	B2	-	B+	oo	Dowgrade, stable	12-Aug-02	Affirmed, O/L (-)	8-Aug-02
Chile	Baa1	-	A-	o	Affirmed, stable	1-Mar-00	Affirmed, O/L (+)	8-Jan-03
Colombia	Ba2	oo	BB	oo	O/L changed to (-)	27-Mar-02	Affirmed, O/L (-)	22-Jan-03
Costa Rica	Ba1	o	BB	-	O/L changed to (+)	22-Mar-00	O/L changed to stable	2-Jan-02
Cuba	Caa1	-	nr	-				
Dominican Republic	Ba2	-	BB-	-	Upgrade, stable	29-Aug-01	Affirmed, stable	15-Jan-03
Ecuador	Caa2	-	CCC+	o	Affirmed, stable	10-Aug-00	O/L changed to (+)	5-Feb-03
El Salvador	Baa3	-	BB+	-	Affirmed, stable	1-Mar-00	Affirmed, stable	25-Feb-03
Guatemala	Ba2	-	BB	oo	Affirmed, stable	1-Mar-00	O/L changed to (-)	5-Nov-02
Honduras	B2	-	nr	-	Affirmed, stable	2-Mar-00		
Jamaica	Ba3	-	B+	oo	Affirmed, stable	18-May-00	O/L changed to (-)	19-Dec-02
Mexico	Baa2	-	BBB-	-	Upgrade, stable	6-Feb-02	Affirmed, stable	27-Feb-03
Nicaragua	B2	-	nr	-	Affirmed, stable	30-Mar-00		
Panama	Ba1	-	BB	-			Dowgrade, stable	20-Nov-01
Paraguay	B2	-	SD	oo	Affirmed, stable	27-Aug-01		
Peru	Ba3	-	BB-	-	Affirmed, stable	28-Oct-02	Affirmed, stable	30-Jan-03
Trinidad & Tobago	Baa3	-	BBB-	o	Affirmed, stable	30-Aug-00	O/L changed to (+)	26-Feb-02
Uruguay	B3	oo	CCC	oo	Dowgrade, O/L (-)	31-Jul-02	Dowgrade, O/L (-)	11-Feb-03
Venezuela	Caa1	-	CCC+	oo	Dowgrade	21-Jan-03	Affirmed, negative	9-Jan-03

- stable outlook; o positive outlook; oo negative outlook

Note: Moody's ratings are qualified by outlooks and reviews, while S&P ratings are qualified by outlooks and watches.

A review/watch is indicative of a likely short-term movement.

An outlook suggests that a review/watch or a long/intermediate-term movement is likely.

Source: JP Morgan, Emerging Markets Outlook, March 6, 2003

