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CAPITAL FLOWS TO LATIN AMERICA
Second Quarter 2003

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2nd Quarter of 2003*

In the first half of 2003, emerging debt markets rallied, as disillusionment with equities, geopolitical concerns, and doubts about growth prospects led investors to shift from equities in favor of fixed incomes securities. As equity prices in the United States struggled early in the year, and the price of U.S. Treasuries rose to a 40-year high, attention was drawn to emerging market assets.

Emerging debt markets were driven by liquidity, rising risk tolerance, a search for yield and a wider investor acceptance of the asset class. As a consequence, credit spreads on emerging market bonds narrowed significantly from the distressed levels of the fall of 2002. In the second quarter, broad investor interest, lower risk aversion and market liquidity fueled a strong rally in emerging and Latin American bond markets, with bond spreads tightening 124 and 172 basis points, respectively.

Issuers in emerging markets and Latin America benefited from the decline in spreads, as well as from the greater interest in their bonds by crossover investors. The first half of 2003 showed the strongest supply of new emerging markets debt since 1998: a total of US$43.4 billion, or 80% of the total issuance in 2002, according to Merrill Lynch. With a total issuance of US$22.4 billion (52% share of the total), Latin America surpassed last year's amount of US$20.2 billion.

After an Iraq war induced slowdown in March, emerging market debt issuance rose in April, in May and in June, consecutively. June 2003 issuance was nearly three times as high as it was in June of 2001 and 2002. In addition, the size and structure of emerging markets external debt continued its transformation from an asset class of restructured loans, to one consisting primarily of global bond issues, as country liability management operations increased. In June, Mexico called all its remaining Brady debt, marking a milestone.

The Central American and Caribbean region continued to be hit by a wave of downgrades and negative rating actions in the second quarter, with a total of five countries remaining on negative outlook: Costa Rica, Dominican Republic, El Salvador, Guatemala and Jamaica (see Box 1). Central America is suffering the effects of election tensions, given that elections will take place in the Dominican Republic, El Salvador and Panama next year. The Dominican Republic has also been struggling to piece its economy together after the collapse of *Banco Interncontinental (Baninter)* earlier this year. The smaller credits of the Caribbean Basin are also struggling to manage their way through domestic political tensions and a re-rating of creditworthiness prompted by Moody's decision to review the ratings of countries with highly dollarized banking systems.

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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.*

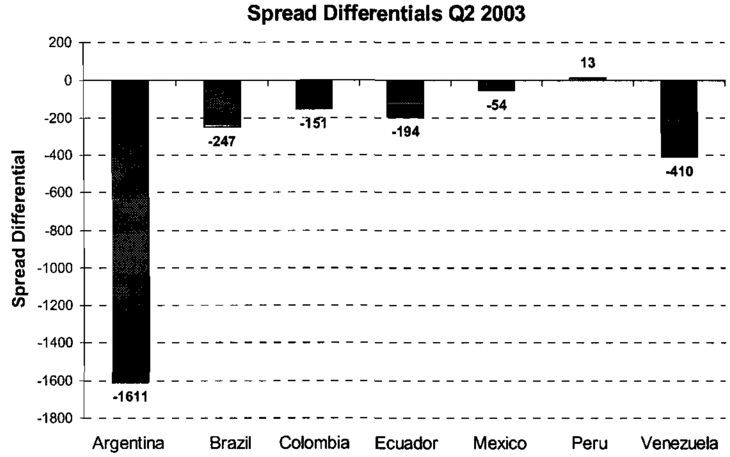
BOX 1:
CREDIT RATING MOVEMENTS IN THE SECOND QUARTER OF 2003

In the second quarter of 2003, the Latin American region saw credit ratings deteriorate in many countries, although there were a few positive changes as well. Standard & Poor's changed the outlook for Costa Rica to negative in April, while Guatemala and Dominican Republic were downgraded in May and June, respectively. The downgrade risk persists for Dominican Republic, and it is rising for Panama. There is also a downgrade risk for Costa Rica. On the other hand, Standard & Poor's upgraded Trinidad & Tobago and changed the outlook for Brazil and Venezuela (from negative to positive) in April. The agency also affirmed the ratings for El Salvador in May, and Ecuador and Uruguay in June.

Bolivia, which had been downgraded by S&P's in February, was downgraded by Moody's in April. Moody's also downgraded Paraguay in April and Jamaica in May. The outlook for Costa Rica, El Salvador and Dominican Republic were changed to negative in April, May and June, respectively. Uruguay's ratings were affirmed in May, however, and the outlook for Venezuela was changed to stable, following the January downgrade (appendix, table 1).

I. Bond Markets and Debt Management

Chart 1:
Spread Differentials Q2 2003

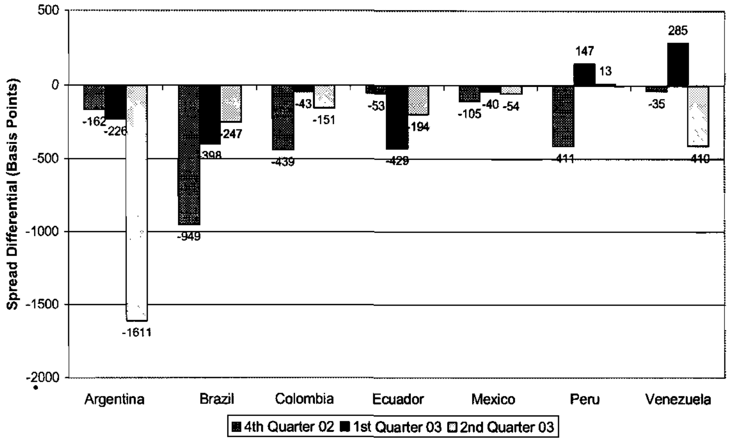


Source: ECLAC, on the basis of data from JP Morgan.

Emerging market spreads, as measured by the J.P. Morgan's benchmark EMBI+ index, were 124 basis points tighter at the end of the second quarter, and the Latin component was 172 basis points lower (appendix, table 2). Sovereign spreads tightened for all Latin American countries in the composite (with the exception of Peru), as broad investor interest, as well as high risk tolerance and market liquidity fueled a strong rally in emerging and Latin American bond markets (Chart 1).

The clear improvement in investor sentiment with respect to Brazil, and the stabilization of macroeconomic fundamentals across many emerging markets countries gave support to the broader rally in emerging bond markets. Credit spreads on Brazilian bonds narrowed sharply in the first half of 2003, by 398 basis points in the first quarter and by 247 basis points in the second quarter, following an also sharp tightening in the fourth quarter of 2002 (949 basis points). Spreads in Argentina, Colombia, and Mexico also followed the same pattern, narrowing further in the second quarter, after tightening in the last quarter of 2002 and in the first quarter of 2003 (see Chart 2).

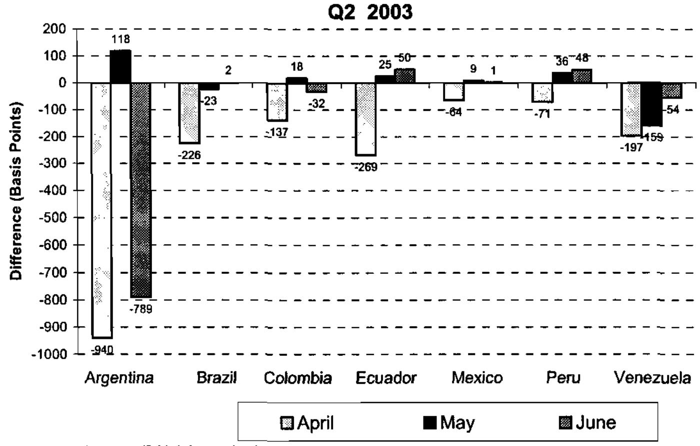
Chart 2:
Quarterly Spread Differential
2002 and 2003



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

Venezuelan spreads, which had widened during the first quarter, tightened in the second quarter, when investors were assured of Venezuela's willingness to pay amortization and interest payments due at the end of the quarter, with the US$650 million raised through private placements and the nearly US$500 million obtained from the bank deposit guarantee fund (Fogade). The June payment had been the focus of market concerns previously. Peruvian spreads were the exception in the second quarter, widening 36 basis points in May and 48 basis points in June, as President Toledo declared a state of emergency for 30 days at the end of May, to curb mounting labor protests (see Chart 3).

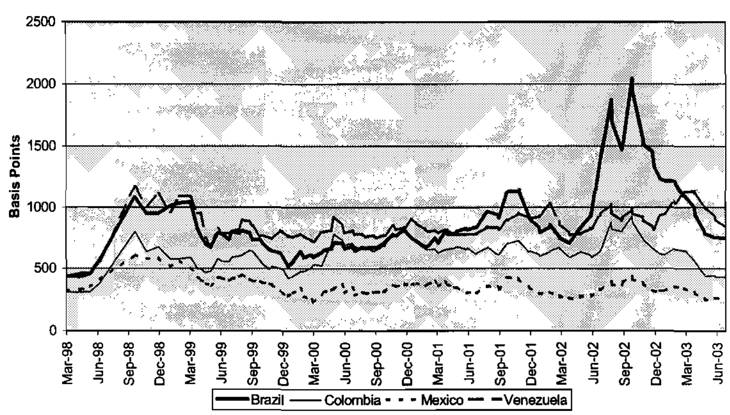
Chart 3:
Monthly Spread Differentials
Q2 2003



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

Latin American spreads started to decline after their peaks of October of 2002 and continued their descending course in the first half of 2003, reflecting the improvement in the global environment, the increase in investors' confidence, and their search for yield (appendix, table 3). As investors seemed willing to take on more credit risk in search of higher returns, Latin American bond spreads fell to levels last seen in late 1990s, when global growth was stronger. Spreads are back to the levels seen in July 1998, before the Russia crisis (Chart 4).

Chart 4:
Spreads on 30-year Benchmark Sovereign Latin Eurobonds
March 1998 - June 2003

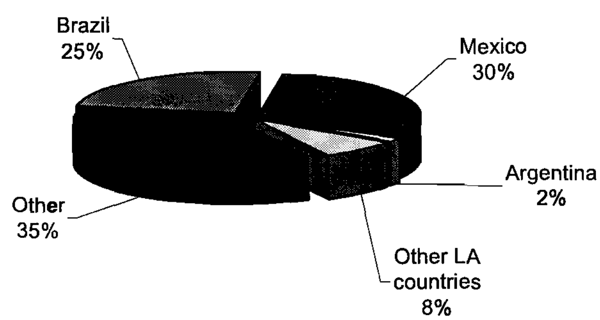


Source: ECLAC, on the basis of data from "Emerging Markets Debt Daily", Merrill

As sovereign spreads narrowed further, emerging market borrowers tapped the international debt markets for an increased volume of funds. Latin American bond issuers placed US$10.8 billion in international capital markets in the second quarter of 2003, a 184% increase over the second quarter issuance in 2002.

Trading volumes for the second quarter of 2003 rose 29% to US$1.086 trillion from US$839 billion in the first quarter. According to the Emerging Markets Traders Association (EMTA), this is the highest level since the second quarter of 1998, prior the August 1998 Russian crisis, which prompted a sharp plunge in emerging markets debt trading. Mexico and Brazil were again the top two in terms of volume, at US$331 billion and US$269 billion, respectively. They accounted for 30% and 25% of all Emerging Markets debt trading in the second quarter, or 55% of all emerging markets volume together. Eurobond trading volumes surged 60% to US$443 billion from US$276 billion in the first quarter, and exceeded local instrument trading for the first time in three years. 65% of trading volumes in the second quarter consisted of Latin American debt instruments (Chart 5).

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



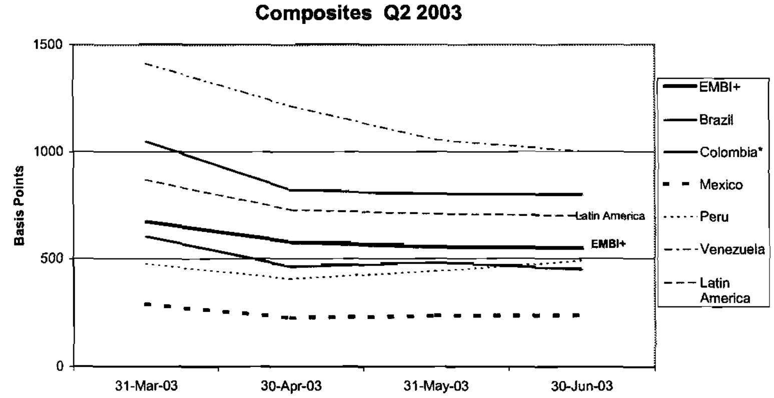
Total Latin American debt instruments: 65%
Source: EMTA

A. Spreads

The J.P. Morgan EMBI+ spread tightened 124 basis points in the second quarter of 2003. As in the first quarter, the global pursuit for yield, in a context of accommodative monetary policies in the major financial centers, created a positive external environment for emerging market bonds. Emerging market bond prices were buoyed by the combination of a favorable external environment with a significant change in investors' attitudes toward the new Brazilian administration. Higher-yielding emerging market credits (Brazil in particular) performed strongly.

The spread for the EMBI+ Latin component tightened further, with a decrease of 172 basis points. Spreads tightened for all Latin American countries in the sample, with the exception of Peru, where a state of emergency declared at the end of May to curb mounting labor protests adversely affected bond spreads (Chart 6).

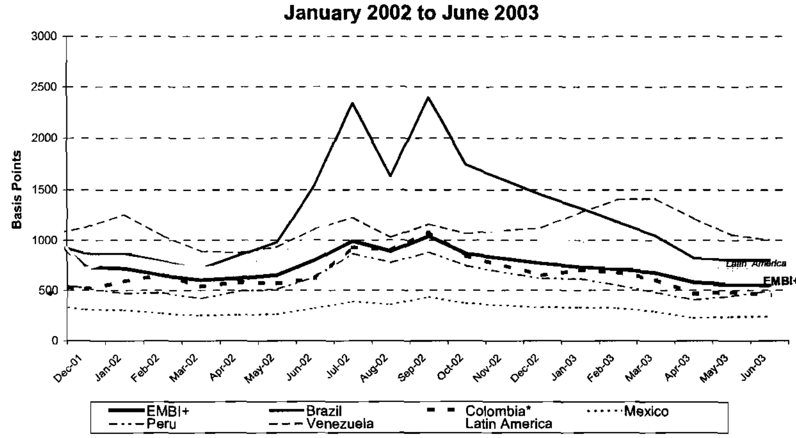
Chart 6: Spreads on JP Morgan EMBI+ and Latin American Composites Q2 2003



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

Spreads in Brazil more than halved since the height of the difficulties last year, narrowing from 2,395 basis points at the end of September 2002 to 801 basis points at the end of June 2003. The dramatic reduction in Brazilian spreads reflected investors' positive reaction to the efforts by the Brazilian administration to improve its fiscal balance and address structural weaknesses. Spreads in all other Latin American countries in our sample were also radically reduced from September of 2002 to the end of the second quarter, as decisive steps were taken to foster investor confidence (Chart 7).

Chart 7:
Spreads on JP Morgan EMBI+ and Latin American Composites
January 2002 to June 2003



* 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.

With the search for yield inspiring the rally in emerging debt markets, high-yielding credits were the greatest beneficiaries in the first and second quarters of 2003. Ecuador was a top performer in the EMBI+ in the first half of the year, posting a return of +53.31%, followed by Brazil, +40.17% and Argentina, +36.7%. The EMBI+ posted a return of 19.47% in the first half of 2003. In the second quarter of 2003, Argentina was the top performer (+30.41%), while Peru was the worst (+2.02%). The EMBI+ posted a return of 11.05% in the second quarter.

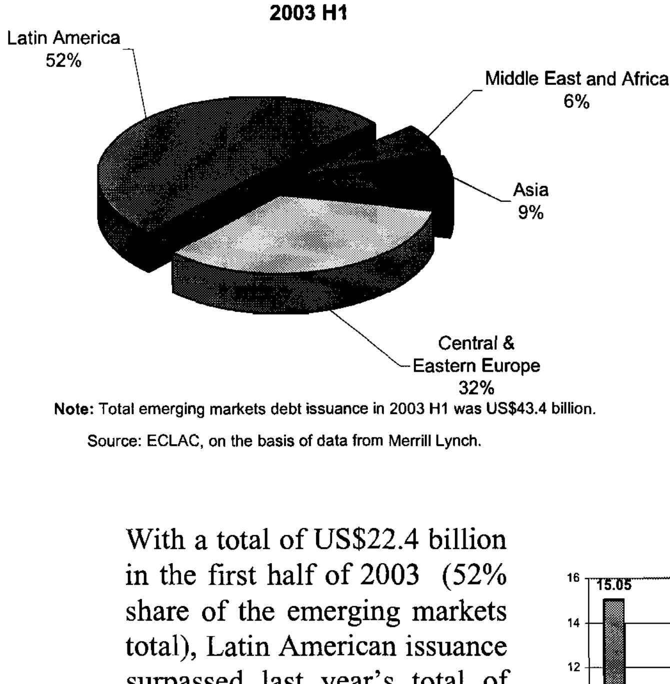
The tightening of bond spreads since mid-October of 2002 was an unexpected consequence of the fall in interest rates. Usually conservative investors were attracted by higher yielding corporate and emerging market bonds as a way of obtaining higher returns, given the absence of attractive alternatives in mature markets. As a consequence, emerging market debt and corporate high-yield saw record inflows of funds in the first half of 2003. These inflows were also driven by emerging market bonds' track record of strong risk-adjusted returns. Secondary bond markets, especially in Argentina, Brazil, and Ecuador, rallied as crossover investors saw opportunities for higher returns in these markets, given that equities continued to fail to show a compelling performance.

Towards the end of the first quarter of 2003 (mid-March), however, investors started to demonstrate a renewed interest in equities. Nonetheless, record inflows into emerging debt markets continued in the second quarter, even as the end of the war in Iraq, an increase in U.S. corporate earnings, and improved sentiment about growth prospects fueled a strong rally in mature equity markets. At this point, analysts began to point out that the course of the emerging debt markets performance could reverse, or at least slow down, if investors perceived that the equity rally was a sustainable one, which could ultimately lead investors to begin shifting their focus away from bonds in favor of stocks.

. Analysts also indicated that rising U.S. Treasury rates and outflows from emerging markets mutual funds were also potential risks to the emerging debt markets performance. Since inflows into emerging markets became more volatile in the second quarter of 2003, U.S. Treasury rates started to rise towards the end of the quarter, and mature equity markets performed strongly throughout the quarter, analysts believe that the market is unlikely to continue to move in the same fashion as it did from October of 2002 to May 2003. They do not expect a major inflection point for emerging markets debt, however. Inflows into the asset class should remain strong, but on a lesser scale than during the first half of the year.

B. Issuance

Chart 8:
Emerging Markets Debt Issuance:
Regional Breakdown
2003 H1



Note: Total emerging markets debt issuance in 2003 H1 was US$43.4 billion.

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

The first half of 2003 showed the strongest supply of new emerging markets debt since July 1998, a total of US$43.4 billion or 80% of the total issuance in 2002, according to Merrill Lynch. As sovereign spreads narrowed further in the second quarter, emerging markets saw a remarkably high level of issuance on a quarterly basis as well, placing US$22 billion in the international capital markets in the second quarter of 2003. June was the third consecutive month of increased issuance motivated by the continued spread tightening, and issuance was three times as high as it was in June 2001 and 2002, reaching US$8.6 billion.

With a total of US$22.4 billion in the first half of 2003 (52% share of the emerging markets total), Latin American issuance surpassed last year's total of US$20.2 billion (Chart 8). On a quarterly basis, Latin American issuance in the second quarter of 2003 was slightly lower than in the first quarter, but it was 185% higher than in the second quarter of 2002 (Chart 9).

Chart 9:
Latin American Issuance by Quarter

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

Liability management operations increased in the first half of the year. By the end of June only 12% of emerging markets outstanding debt was Brady debt. Mexico, in particular, announced the retirement of its entire stock of outstanding Brady bonds, partly through the issuance of US$3.4 billion in three separate bond deals (see appendix, tables 4 and 10). Mexico was the first country to issue Brady debt, starting with the US$40 billion pre-Brady Aztec bond in 1988 and two full Brady bonds in 1990. Less than 15 years later, Mexico marked a milestone by officially retiring all of its Brady bonds.

Of the US$175.5 billion in Brady debt issued between 1990 and 1998, only 26.2% (US$46.0 billion) remains according to Merrill Lynch. While Latin America as a region issued 84.2% of the Brady bonds since 1990, it now represents 78.6% of the outstanding Brady market, given the rapid retirement of such debt in the region. By the end of June, Latin America had retired over three-quarters of its Brady debt, and only 16.9% of its outstanding debt remained Brady debt. Mexico, Brazil, Peru, and Venezuela, all retired 40-65% of all issued Brady debt via buybacks, maturities, amortizations, calls and open market purchases. Argentina, Ecuador and Uruguay retired most of their outstanding Brady debt through the restructuring process that took place after their default. Brazil and Venezuela together constitute 53.6% of the current Brady market (39.3% and 17.0% respectively), and are the two biggest Brady bond issuers remaining. Liability management operations are thus transforming Latin America's external debt into an asset class consisting primarily of global bond issues.

Total private sector external issuance during the first half of 2003 surpassed the amount issued during all of 2002 (US$16 billion in the first half of 2003 against US$10 billion in all of 2002). New Latin American external bond issuance was largely driven by banks in the second quarter of 2003, Brazilian banks in particular (appendix, tables 4 to 12). Banks, seeking to manage and take advantage of interest rate differentials, accounted for more than 20% of the total Latin American issuance in the second quarter, and almost 70% of total Latin American corporate issuance. Toward the end of the quarter, however, external bond issuance by non-financial corporates increased, with offerings by steel, utilities, and telecommunications companies.

Taking advantage of improved market sentiment, Mexico issued US$9.5 billion in bonds in the first half of 2003, and was the largest issuer. Brazil placed US$ 8.2 billion in the first half and was the second largest emerging market issuer. After a one-year absence, Brazil's sovereign returned to the market with a US$1 billion issue in May and a US$1.25 billion issue in June. Brazilian nationals borrowed heavily in the second quarter, taking advantage of the reduced risk aversion amongst global investors and increased investor confidence in the new administration. Brazilian banks, in particular, tended to raise short-term financing attempting to take advantage of high onshore interest rates for dollar-denominated financing. Only three Latin American sovereigns tapped international capital markets in the second quarter: Mexico, Brazil and Colombia.

Over half of the outstanding emerging markets external debt is currently comprised by only four countries, each with more than US$40 billion of debt. Three of them are Latin American countries: Argentina (US$58.7 billion), Brazil (US$58.7 billion) and Mexico (US$41.4 billion). Russia (US$40.4 billion) is the fourth debtor country.

BOX 2:
THE INCLUSION OF COLLECTIVE ACTION CAUSES IN BOND ISSUANCE

The first half of 2003 saw a shift in the use of collective action clauses (CACs) in international sovereign bonds. Most new bond issues governed by New York law, which traditionally used majority enforcement provisions, but not majority restructuring provisions, have now included both types of CACs.

Emerging Markets Sovereign Bond Issuance by Jurisdiction

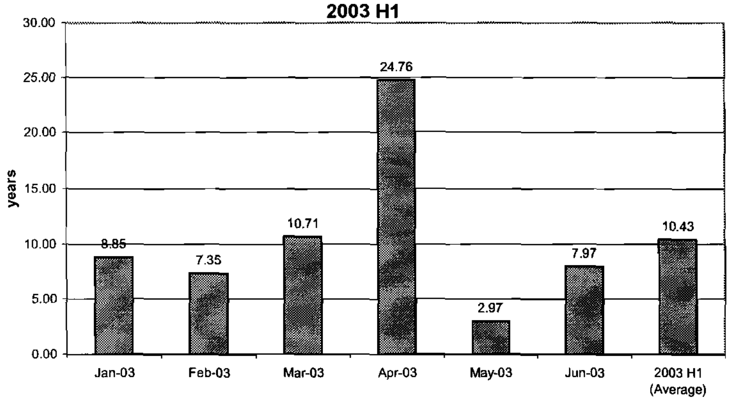
	2003	
	Q1	Q2
With CACs		
Number of Issues	9	15
Volume of issues (in US$bn)	5.6	11.6
of which: New York law	1.0	5.9
Without CACs		
Number of Issues	14	5
Volume of issues (in US$bn)	8.1	3.4

Source: IMF, Global Financial Stability Report, September 2003. On the basis of data from ***Capital Data***.
Note: With CACs are English and Japanese law bonds, and NY law bonds where relevant. Without CACs are German and NY law bonds.

The global bonds issued by Mexico and Brazil, and the bonds issued under *Uruguay's debt swap included* CACs. There are differences between the bonds issued by Mexico, Brazil, and Uruguay. Mexico and Uruguay, for example, set the percentage of bondholders who have to consent at 75%. The Brazilian bond, however, adopted a higher percentage (of 85%).

A significant development concerning emerging market borrowing in the first half of 2003 was the inclusion of collective action clauses (CACs) in sovereign bond issues under New York Law (see Box 2). One Mexican bond in the first quarter of 2003 and two Mexican bonds and one Brazilian bond at the beginning of the second quarter were issued with CACs. The Mexican bonds were the first emerging market bonds with CACs from a major borrower to be issued, while the Brazilian bond was the first non-investment grade bond with CACs[1]. CACs were also included in the new bonds governed by New York law resulting from Uruguay's debt exchange. In the three cases the bonds spreads were lower than in similar bonds that do not include these clauses, underscoring the market's positive reaction to the collective action clauses.

Chart 10:
New Latin American Debt Issuance: Average Maturity
2003 H1



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

In the second quarter of 2003, dollar-denominated debt represented 91% of the Latin American total. Sovereign bonds accounted for 58% (appendix, tables 4 to 12). Latin America's bond average maturity was 14.6 years in the second quarter, reflecting improved market sentiment and decreased risk aversion (Chart 10).

[1] The proceeds of the Mexican bonds issued in the beginning of the second quarter (US$2.5 billion on April 8), were used to buy back Mexico's remaining dollar-denominated Brady bonds, making it the first country in Latin America to do so.

II. Portfolio Equity Flows into Latin America

According to the Institute of International Finance (IIF), share prices in Latin America rose about 30% from January through August. Latin corporates, however, were absent from primary markets in the first half of 2003, except for the sale of a 10% stake in Brazilian steelmaker Cia. Siderurgica Nacional for the equivalent of US$134 million.

Net portfolio equity investment in Latin America, according to the IIF, is expected to show a small outflow of US$0.6 billion in 2003, following an outflow of more than US$2 billion last year. This will be the sixth consecutive year that the region has experienced net outflows. Chile and Venezuela, in particular, are expected to experience significant outflows. In the case of Venezuela, the outflows will be a result of political uncertainty and erratic policies. In the case of Chile, a consequence of negative investor sentiment triggered by corruption scandals, as well as of portfolio diversification by domestic pension funds.

III. Bank Lending

According to the latest available information on actual bank lending[2], the net outflow of funds from Latin America continued in the first quarter of 2003, reflecting deposit movements and contractions in claims on non-banks in Mexico, Brazil and Argentina. Claims on the region sank below 30% of total claims on emerging markets for the first time since 1999, falling to US$ 272 billion, leaving the year-over-year rate of contraction in claims at 9.5%, unchanged from the preceding quarter.

The net flow of funds to Latin America remained negative for the fourth consecutive quarter, at US$4.6 billion[3]. Claims on the Latin American banking sector, however, following two quarters of decline, rose by US$1.9 billion, the largest increase in this sector since the first quarter of 2001.[4] This increase was offset by a contraction of US$3.9 billion in claims on corporations and other non-bank entities.

The net outflow from Mexico was the largest in the region, at nearly US$4 billion, and was driven by an increase in deposits in reporting area banks. The US$2,2 billion net outflow from Brazil was also due to an increase in deposits abroad. Claims on Brazil rose by US$1.4 billion however, following three consecutive quarters of contractions. In the case of Argentina, the fifth consecutive quarter of net outflows was a result of reduced lending to both bank and non-bank borrowers, rather than an increase in deposits. Finally, Venezuela experienced its largest net inflow since the third quarter of 2001, as Venezuelan banks repatriated deposits, driving a US$2 billion net inflow. Increased

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[2] *BIS Quarterly Review*, September 2003.

[3] There was an outflow of US$1.99 billion due to a decrease in claims, and an outflow of US$2.66 billion due to an increase in liabilities (see Table 1).

[4] Claims on banks had fallen by US$9 billion in the last quarter of 2002, the largest reduction for this sector since 1998.

lending to the country's banking sector largely offset a US$0.9 billion contraction in claims on the non-bank sector. Total claims on Venezuelan borrowers stood at US$15 billion, or 6% of total claims on the region (Table 1).

Table 1

Cross-border bank flows to Latin America

Exchange rate adjusted changes in amounts outstanding, in billions of US$ dollars

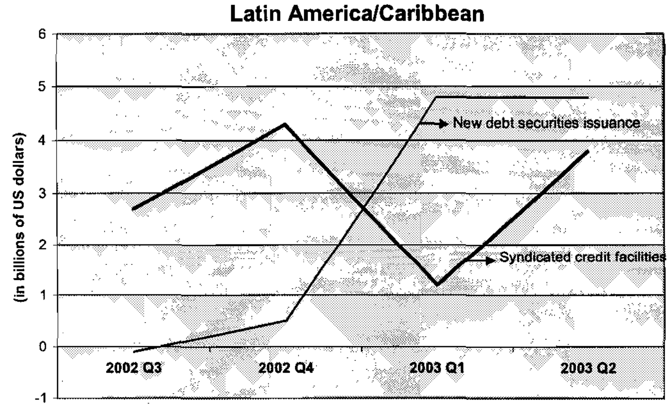
	Banks	2001	2002	2002				2003	Stocks at
	Position*	Year	Year	Q1	Q2	Q3	Q4	Q1	end-March 2003
Latin America/	Claims	-3.5	-26.9	-2.4	-4.7	-11.4	-8.5	-2.0	271.6
Caribbean	Liabilities	-1.9	-27.4	-16.7	-1.5	-8.5	-0.6	2.7	243.1
Argentina	Claims	-5.8	-11.8	-4.3	-0.8	-4.5	-2.3	-1.9	29.6
	Liabilities	-16.7	-0.1	-1.0	0.5	0.3	0.2	0.5	25.9
Brazil	Claims	0.9	-11.3	1.0	-2.4	-3.5	-6.4	1.4	89.4
	Liabilities	0.4	-8.0	1.4	-3.8	-1.4	-4.2	3.6	44.6
Chile	Claims	0.2	0.5	-0.3	-0.5	-0.1	1.3	-0.1	19.9
	Liabilities	-1.0	-1.1	0.2	-0.8	-0.8	0.3	-1.2	15.2
Mexico	Claims	2.0	3.1	3.3	1.7	-1.9	-0.1	-0.6	64.2
	Liabilities	8.8	-11.4	-14.1	1.3	-0.3	1.7	3.4	58.1
Venezuela	Claims	-0.4	0.8	0.5	0.01	-0.03	0.3	-0.2	15.0
	Liabilities	-0.5	0.1	0.6	-0.4	-0.6	0.5	-2.3	29.1

Source: BIS Quarterly Review, September 2003

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

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

Chart 11:
Announced Syndicated Lending and Securities Issuance in Latin America/Caribbean



* Net Issuance: Gross Issues - Repayments

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

Syndicated loan commitments in Latin America shrank to a historical low of US$2.5 billion in the first quarter of 2003, or 15% of total signings by emerging markets (down from an average of 33% since 1999). Signings for Latin American borrowers rebounded in the second quarter of 2003, however, supported by a US$2 billion sovereign facility granted to the Mexican government to finance the Brady bond buyback program. The Latin American/ Caribbean overall volume of announced syndicated lending bounced back from a low of US$1.2 billion in the first quarter of 2003 to US$3.8 billion in the second quarter (see Chart 11 and Table 2). [5]

[5] Syndicated credits data are not necessarily a reliable proxy for future bank lending. The syndicated credits are gross announcements of loan facilities (i.e. loan commitments, which do not need to be drawn fully or immediately), while changes in amounts outstanding in the BIS data are driven mainly by net new lending (actual disbursements). See Blaise Gadanecz and Karsten von Kleist (202): "Do syndicated credits anticipate BIS consolidated banking data?" *BIS Quarterly Review*, March 2002, pp 65-74.

Table 2: Announced syndicated lending and securities issuance (in billions of US dollars)

	Syindicated Credit Facilities								
	2001Q2	2001Q3	2001Q4	2002Q1	2002Q2	2002Q3	2002Q4	**2003Q1**	**2003 Q2**
Latin America/Caribbean	**4.5**	**6.2**	**8.9**	**1.6**	**2.8**	**2.7**	**4.3**	**1.2**	**3.8**
Argentina	0.4	0.3	0.3	-	0.1	-	-	-	-
Brazil	1.1	3.2	2.6	0.8	1.6	0.3	1.2	-	0.8
Chile	0.6	-	0.9	0.2	0.2	0.5	0.5	0.2	0.1
Colombia	-	0.2	0.1	0.5	-	0.5	0.2	-	-
Mexico	2.1	0.8	4.0	0.1	0.9	1.3	2.2	1.0	2.8
Venezuela	0.3	0.7	0.7	-	-	-	-	-	-

Source: BIS Quarterly Review, September 2003

IV. Prospects

In the first half of 2003, the global search for higher returns in a context of accommodative monetary policies in the major financial centers created a positive external environment for emerging market bonds. Low interest rates and low government bond yields in the United States, Europe and Japan reduced financing costs and encouraged a reduction in investors' cash positions, leading to abundant liquidity in international capital markets, which in turn contributed to the compression of bond spreads in both mature and emerging debt markets. Issuers in emerging markets benefited from the decline in bond spreads, and many countries regained access to external bond markets.

In the case of Latin America, spreads reduced drastically from their September 2002 peak to the end of June. The Latin component of the J.P. Morgan's EMBI+ narrowed from 1,399 basis points at the end-September 2002 to 697 basis points at end-June 2003. Latin American issuers benefited from these low spreads, issuing more debt in the first six months of 2003 than in the whole year in 2002. Sovereigns took advantage of the abundant liquidity in capital markets to cover their current needs for financing and to also pre-finance next year's needs. Private sector issuance showed a strong performance as well. Banks, particularly Brazilian banks, accounted for more than 20% of the total Latin American issuance in the second quarter.

There were signs present in the second quarter, however, which pointed to a possible slow down in the pace of the inflow of funds into emerging markets and Latin America. Investors started to demonstrate a renewed interest in equities, and mature equity markets performed strongly in the second quarter (triggering some outflows from bond funds). U.S. Treasury rates also started to rise towards the end of the quarter and as inflows into emerging markets became more volatile (albeit still strong), market analysts began to believe that emerging and Latin American markets were not likely to move in the same fashion as they did from October 2002 to May 2003. Analysts now expect that inflows into the asset class, although they should remain robust, will reduce its pace.

APPENDIX

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

A. Credit Ratings

Table 1:

Credit Ratings in Latin America

	Moody's		S&P		Recent Moody's Action		Recent S&P Action	
	Rating	View	Rating	View	Action	Date	Action	Date
Argentina	Ca	oo	SD	-	Downgrade, OL (-)	20-Dec-01	Downgrade	6-Nov-01
Barbados	Baa2	-	A-	-	Upgrade, stable	8-Feb-00	Affirmed, stable	2-May-02
Bolivia	Caa1	-	B	oo	**Downgrade, stable**	**16-Apr-03**	Downgrade, O/L (-)	26-Feb-03
Brazil	B2	-	B+	-	Downgrade, stable	12-Aug-02	**O/L changed to stable**	**29-Apr-03**
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	oo	BB	oo	**O/L changed to (-)**	**16-Apr-03**	**O/L changed to (-)**	**4-Apr-03**
Cuba	Caa1	-	nr	-				
Dominican Republic	Ba2	oo	B+	oo	**O/L changed to (-)**	**30-Jun-03**	**Downgrade, OL (-)**	**9-Jun-03**
Ecuador.	Caa2	-	CCC+	o	Affirmed, stable	10-Aug-00	**Affirmed, O/L (+)**	**17-Jun-03**
El Salvador	Baa3	oo	BB+	-	**O/L changed to (-)**	**7-May-03**	**Affirmed, stable**	**12-May-03**
Guatemala	Ba2	-	BB-	oo	Affirmed, stable	1-Mar-00	**Downgrade, O/L (-)**	**9-May-03**
Honduras	B2	-	nr	-	Affirmed, stable	3-Feb-00		
Jamaica	B1	-	B+	oo	**Downgrade, stable**	**27-May-03**	O/L changed to (-)	19-Dec-02
Mexico	Baa2	o	BBB-	-	O/L changed to (+)	12-Mar-03	Affirmed, stable	27-Feb-03
Nicaragua	B2	-	nr	-	Affirmed, stable	30-Mar-00		
Panama	Ba1	-	BB	oo			O/L changed to (-)	10-Mar-03
Paraguay	Caa1	-	SD	oo	**Downgrade, stable**	**28-Apr-03**		
Peru	Ba3	-	BB-	-	Affirmed, stable	28-Oct-02	Affirmed, stable	28-Mar-03
Trinidad & Tobago	Baa3	-	BBB	-	Affirmed, stable	30-Aug-00	**Upgrade, stable**	**2-Apr-03**
Uruguay	B3	oo	B-	-	**Affirmed, O/L (-)**	**9-May-03**	**Affirmed, stable**	**11-Jun-03**
Venezuela	Caa1	-	CCC+	-	**O/L changed to stable**	**27-May-03**	**O/L changed to stable**	**16-Apr-03**

- stable outlook; o *positive outlook*; oo *negative outlook*

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

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

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

Source: JP Morgan, Emerging Markets Outlook, July 2, 2003.

B. Latin American Spreads

Table 2:

Sovereign Spreads on JP Morgan EMBI+ and Latin American Composites

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

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

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

EMBI+ composition by market sector (end-June 2003): Brady, 29.69%; Benchmark Eurobonds, 69.62%; Loans, 0.69%.
by country: Brazil and Mexico account for 41.50% of the total weighting.
by region: Latin: 57.49%; Non-Latin: 42.51%.

EMBI+ Composition (as of June 2003)

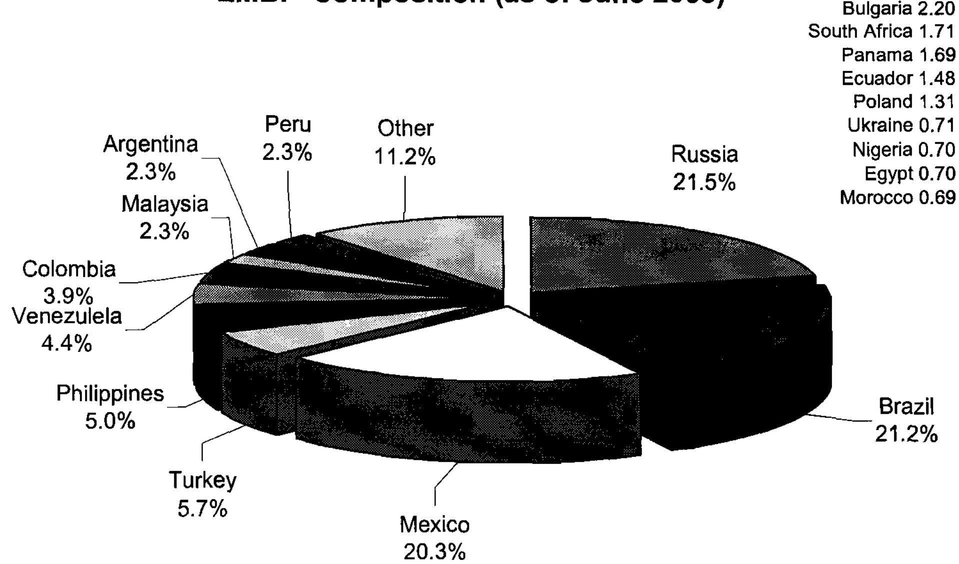


Table 3:

Spreads on 30-year Benchmark Latin Eurobonds
June 1998 - June 2003

Country	Argentina	Brazil	Colombia	Mexico	Venezuela
Coupon	9.750	10.125	8.375	11.500	9.250
Maturity	9/19/2027	5/15/2027	2/15/2027	5/15/2026	9/15/2027
			(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
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

Spreads on 30-year Benchmark Latin Eurobonds
June 1998 - June 2003

Country	Argentina	Brazil	Colombia	Mexico	Venezuela
Coupon	9.750	10.125	8.375	11.500	9.250
Maturity	9/19/2027	5/15/2027	2/15/2027	5/15/2026	9/15/2027
			(Basis points)		
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
2-Jan-03	-	1219	611	320	947
31-Jan-03	-	1215	662	357	1051
3-Feb-03	-	1192	657	355	1036
28-Feb-03	-	1096	644	343	1125
3-Mar-03	-	1099	648	339	1129
31-Mar-03	-	1005	566	313	1135
1-Apr-03	-	947	557	302	1119
30-Apr-03	-	800	447	263	1008
1-May-03	-	787	439	248	1007
30-May-03	-	753	444	265	927
2-Jun-03	-	755	431	264	903
30-Jun-03	-	746	433	268	840

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

C. New Latin American Debt Issuance:

Table 4:

New Latin American Debt Issuance Second Quarter of 2003 Apr-03			
Country	**Issuer**	**Amount US$ (million)**	**Maturity**
Mexico	Pemex	805	4-Apr-10
Brazil	Banespa (Banco do Estado Sao Paulo)	125	31-Dec-03
Brazil	Banco Votorantim	200	2-Apr-04
Brazil	Banco ABN Amro Real SA	100	31-Dec-03
Mexico	United Mexican States	1,500	8-Oct-08
Mexico	United Mexican States	1,000	8-Apr-33
Brazil	Banco Bradesco SA	250	2-Jul-04
Colombia	Republic of Colombia	250	15-Jan-13
Brazil	Banco Bradesco SA	109	16-Dec-03
Brazil	Unibanco - Uniao de Bancos Brasileiros	100	16-Apr-04
Brazil	Banco BNP Paribas Brazil	50	23-Dec-03
Brazil	Banespa (Banco do Estado Sao Paulo)	50	25-Oct-04
Brazil	Banco do Brasil	75	25-Apr-05
Chile	Empresa Electrica Guacolda	150	30-Apr-13
Total		**4,764**	

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

Table 5:

Currency Breakdown
(% of Latin America's Total)

Currency	Apr-03
Dollar	98%
Euro	2%
Yen	0%
GBP	0%

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

Table 6:

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

Issuer Type	Apr-03
Sovereign*	63.0%
Corporate**	33.9%

Source: ECLAC, on the basis of data from Merrill Lynch.
*Also includes state owned enterprises, city and regional governments (sovereign-supported and sub-sovereigr
**Also includes bank issuance.

Table 7:

New Latin American Debt Issuance Second Quarter of 2003 May-03			
Country	**Issuer**	**Amount US$ (million)**	**Maturity**
Brazil	Unibanco - Uniao de Bancos Brasileiros	75	5-Nov-04
Brazil	Federal Republic of Brazil	1,000	16-Jan-07
Brazil	Banco Votorantim	80	9-Nov-05
Brazil	Banco Bradesco SA	75	16-Nov-04
Brazil	Banco Banif Primus SA	23	10-May-04
Brazil	Unibanco - Uniao de Bancos Brasileiros	87	19-May-04
Brazil	Banco Safra	85	29-May-06
Brazil	Banco Itau SA	150	29-Nov-04
Brazil	Banco ABN Amro Real SA	75	28-Jul-04
Total		**1,651**	

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

Table 8:

Currency Breakdown
(% of Latin America's Total)

Currency	May-03
Dollar	98%
Euro	7%
Yen	0%
GBP	0%

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

Table 9:

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

Issuer Type	May-03
Sovereign*	60.6%
Corporate**	39.4%

Source: ECLAC, on the basis of data from Merrill Lynch.
*Also includes state owned enterprises, city and regional governments (sovereign-supported and sub-sovereigr
**Also includes bank issuance.

Table 10:

	New Latin American Debt Issuance Second Quarter of 2003 Jun-03		
Country	**Issuer**	**Amount US$ (million)**	**Maturity**
Mexico	Pemex	750	15-Dec-14
Brazil	CSN Islands IV Corporation	100	4-Jun-04
Mexico	United Mexican States	876	10-Jun-13
Chile	Inversiones CMPC SA	300	18-Jun-13
Brazil	Banespa (Banco do Estado Sao Paulo)	125	25-Oct-04
Brazil	Federal Republic of Brazil	1,250	17-Jun-13
Brazil	Banco Bradesco SA	150	20-Dec-04
Brazil	Banco Votorantim	180	17-Jun-05
Brazil	BankBoston BCO Multiplo	75	17-Jun-05
Brazil	Banco Safra	75	20-Jun-05
Brazil	CIA Saneamento Basico do Sao Paulo	225	20-Jun-08
Brazil	Telesp Celular Partcipacoes	150	22-Dec-04
Brazil	CSN Islands V Corporation	150	7-Jul-05
Total		**4,406**	

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

Table 11:

Currency Breakdown
(% of Latin America's Total)

Currency	**Jun-03**
Dollar	80.13%
Euro	19.87%
Yen	0.00%
GBP	0.00%

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

Table 12:

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

Issuer Type	**Jun-03**
Sovereign*	51.1%
Corporate**	48.9%

Source: ECLAC, on the basis
of data from Merrill Lynch.
*Also includes state owned enterprises,
city and regional governments
(sovereign-supported and sub-sovereigr
**Also includes bank issuance.