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Capital Flows to Latin America: Recent Developments



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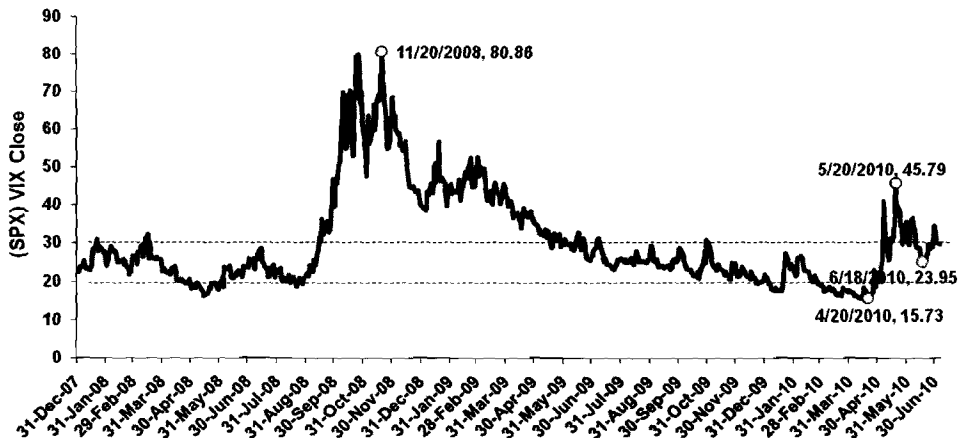


Introduction

Overview*

Over the month of May there was a dramatic shift in the macroeconomic environment, with volatility and uncertainty increasing considerably. Financial markets moved to reflect substantial downside economic risks from the fiscal turmoil in the euro area. Concerns about contagion were reawakened and although most forecasters think the global economy has enough momentum to motor ahead, they now see more downside than upside risks to their year-ahead forecast. Financial asset price volatility has increased as a result, and investor risk appetite has declined.

**Chart 1:
CBOE Volatility Index
VIX Close
2008 - 2010 YTD**



Source: Chicago Board Options Exchange, www.cboe.com/micro/vix/historical.aspx

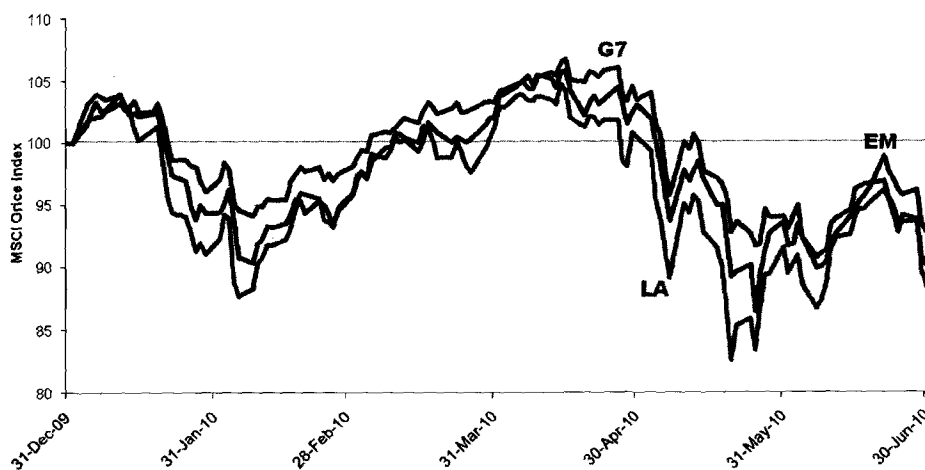
Note: VIX values greater than 30 are generally associated with a large amount of volatility, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

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

Volatility almost tripled from April 20 to May 20, with the closely watched Chicago Board Options Exchange (CBOE) Volatility Index (VIX), a key measure of market expectations of near-term volatility and a barometer of investor sentiment, rising from 16% to above 45% – nearly a half of the level seen in late-2008 – while the rise in longer dated equity volatility was even more extreme (see chart 1). Since volatility reached its peak on May 20, however, attitudes toward risk seem to have improved slightly, giving way to a calmer time for most of June. However, volatility returned late in June, as growth expectations for developed countries were shaken by a series of worse-than-expected data. The economic data has been mixed, but does not yet support a bad scenario. Markets remain in the midst of a transition from the support of the public sector through the stimulus measures to sustainable private sector demand. Risk, as a result, is being weighed down by uncertainty and will remain prone to a high degree of volatility as markets react to each new data release. For a more enduring volatility decline, the macro landscape needs to become less uncertain.

As risk appetite dried up on fresh fears of European sovereign debt contagion, risky assets set new lows on the year. Riskier assets such as emerging market equity prices reversed much of the gains posted earlier in the year. Latin American equity prices were adversely affected by the increase in uncertainty and risk aversion, with the Morgan Stanley Capital International (MSCI) Latin American Index losing 12% in the first half of 2010. In comparison, the MSCI for emerging markets lost 7% in the same period, while the G7 lost 10% (see chart 2). As growth uncertainty increases, investors are not willing to add positions on equities, feeling more comfortable with exposure to bonds.

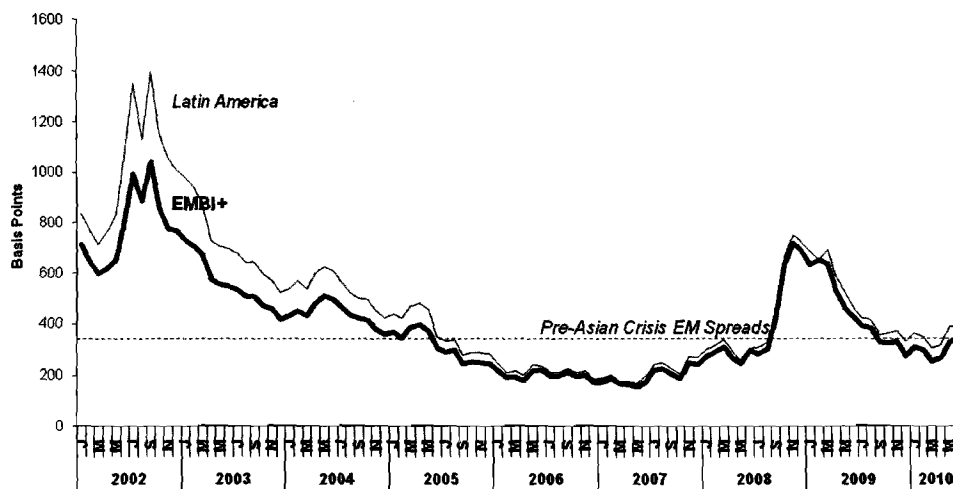
Chart 2:
MSCI Equity Price Index (USD)
H1 2010



Source: MSCI Equity Indices. <http://www.msci.com/equity/Index2.html>
Note: Prices at the end of the month.

Emerging market debt spreads widened to 337 basis points at the end of June from around 265 basis points at the end of April according to the JPMorgan EMBI+. The Latin component of the JPMorgan EMBI+ increased to 385 basis points at the end of June from 313 basis points at the end of April. Broader risk sentiment has deteriorated since May, converging to the elevated sovereign credit risk premium (see chart 3). However, despite the increase, debt spreads in the region remain low by historical standards.

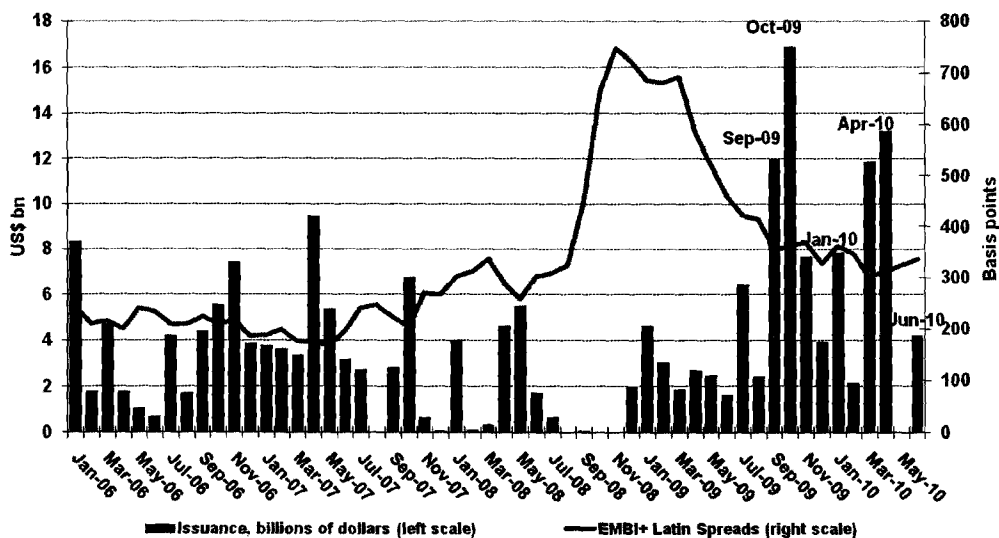
**Chart 3:
EMBI+ Spreads and Latin American Component
January 2002 - June 2010**



Source: JPMorgan. "Emerging Markets Bond Index."

Following a dry spell in the second half of 2008, Latin American bond issuers were active in 2009, particularly in September and October. The pace of new bond issuance in Latin America continued at a brisk pace in the first four months of 2010, but came to a halt in May (see chart 4). Total international Latin American and Caribbean issuance in the first half of 2010 was US\$ 39 billion. March and April issuance were especially strong, but with risk aversion increasing as the crisis in Europe deepened, there was no new debt issuance in May. In June, new Latin American debt issuance reached US\$4.2 billion, and was dominated by Mexican corporates.

**Chart 4:
Latin America and the Caribbean
Sovereign and Corporate Bond Issuance**



Source: ECLAC on the basis of data from JPMorgan, LatinFinance and Bank of America/Merrill Lynch.

Macroeconomic developments during most of the spring pointed to a modest but steady recovery in most advanced economies, and strong growth in many emerging economies. However, in late April and early May, the global economic recovery and improvements toward financial stabilization suffered a setback as risks in the euro area increased. Despite the stronger than expected first half global economic recovery, increased uncertainty surrounding sovereign and financial risks in parts of the euro area could broaden and spread, threatening both the financial stability and the economic outlook. Latin American capital markets were affected through the reduction in broad risk appetite, which led to a decline in asset price valuations, a partial reversal in portfolio flows, a stall in sovereign and corporate issuance and tighter financing conditions.

The countries in the region now face increased risk and uncertainty. It is not yet clear whether the turmoil in the euro area will cause investors to broadly pull back from risky assets, or whether capital flows to the region will resume as investors look for alternatives to advanced country markets, which look increasingly more volatile. While lower risk appetite could reduce capital inflows at first, the relatively robust economic growth and low public debt of most countries in the region could eventually lead to higher inflows. According to the IMF, emerging market countries are faced with “the likelihood of greater volatility around an upward trend in their capital inflows,” and should “augment their macroeconomic and prudential policies to reduce their vulnerability to a sudden stop or an excessive buildup of credit or asset prices.”¹

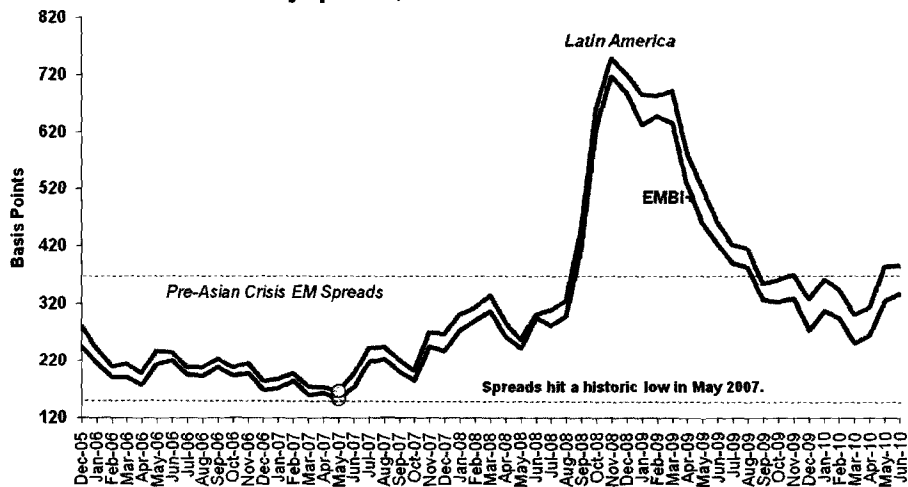
While the continued improvement of external demand should continue to support growth in the region this year, there are downside risks to the regional growth in 2011. The main sources of these risks are external – the ongoing fiscal crisis in the euro area and the anxiety surrounding the U.S. economic outlook, given the recent release of worse-than-expected data and the uncertainty resulting from major health care and financial oversight reform. Beyond the direct impact that they could have on global growth, and on commodity prices and external demand as result, a tightening of global credit conditions could also have an important adverse impact on domestic consumption in the region.

¹ “Global Financial Stability Report, Market Update,” International Monetary Fund, July 2010.

I. Bond markets and debt management

Uncertainty, risk aversion and asset price volatility have increased since late April as a result of a deepening in the euro area crisis, which has led to increased fiscal concerns and a higher risk of weaker global economic growth. Since the beginning of the year the EMBI+ has widened by 65 basis points, with the Latin component widening by 57 basis points (see chart 5). While in the first quarter the EMBI+ tightened 23 basis points, and the Latin component 26 basis points, in the second quarter their spreads increased by 86 and 83 basis points, respectively.

Chart 5:
JPMorgan EMBI+ and Latin American Composites:
Monthly Spreads, December 2005 to June 2010

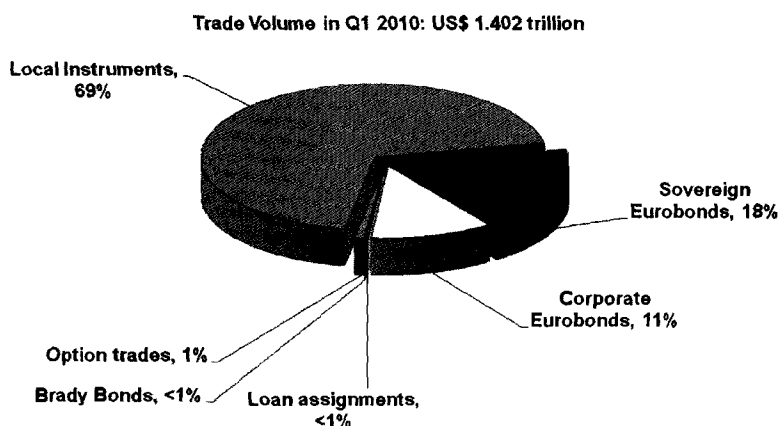


Source: JPMorgan, "Emerging Markets Bond Index Monitor".

In the first quarter of 2010 (the latest data available), EM debt trading stood at US\$ 1.402 trillion, an increase of 53% compared to first-quarter 2009 volumes of US\$ 915 billion (the trough of the global recession) and a slight decline from the US\$ 1.422 traded in the fourth quarter of 2009 – as risk appetites were high in both the fourth quarter of 2009 and first quarter of 2010. Local markets turnover accounted

for 69% of the total reported trading (see chart 6). Brazilian instruments were the most frequently traded local markets debt, at US\$ 196 billion, followed by local instruments from Mexico at US\$ 153 billion.

Chart 6:
Q1 2010 Emerging Markets Debt Trading Volume:
by Type of Instrument

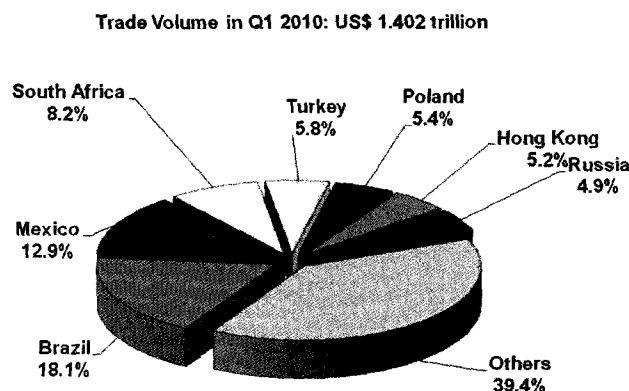


Source: ECLAC with data from EMTA.

Eurobond trading stood at US\$ 426 billion in the first quarter of 2010, up 69% from the first quarter of 2009 and a little less than the amount reported in the fourth quarter of 2009 (a less than 1% decrease). About 60% of Eurobond activity involved sovereign debt issues (US\$ 255 billion), accounting for 18% of overall Survey volumes. Corporate bond trading stood at US\$ 159 billion, up 109% from the first quarter of 2009. Turnover in corporate debt accounted for 11% of overall Survey volume.

Brazilian instruments were the most frequently traded instruments overall according to the EMTA Survey, with US\$ 254 billion in turnover (a 45% increase from the first quarter of 2009). Brazilian volumes accounted for 18% of total Survey activity. Mexican instruments were the second most frequently traded instruments in the EMTA report, at US\$ 181 billion. This represents a 308% increase from the US\$ 45 billion reported in the first quarter of 2009. Mexican volumes accounted for 13% of total reported volume. Other frequently traded instruments were securities from South Africa (US\$ 115 billion), Turkey (US\$ 82 billion), Poland, (US\$ 76 billion), Hong Kong (US\$ 73 billion), and Russia (US\$ 69 billion).

Chart 7:
Q1 2010 Emerging Markets Debt Trading Volume:
Country Shares



Source: ECLAC with data from EMTA.

The positive momentum in credit markets in the last quarter of 2009 and in the beginning of the year was reflected in the credit ratings actions taken in the first half of the year. In the first half of 2010 there were more positive credit rating actions than negative (see box 1 and appendix A, table 1). On the negative side, Jamaica was downgraded to selective default in the beginning of the year because of its domestic debt restructuring. However, these negatives actions were quickly followed by upgrades, as the debt exchange proved to be successful, and a Stand-By Arrangement signed with the IMF in February lessened near-term liquidity concerns.

On the positive side, all the credit rating actions reflected the sovereigns' good fundamentals, improved fiscal conditions and increased economic and financial resilience to external shocks. Panama received an investment-grade from the three main credit rating agencies – Fitch, S&P and Moody's – as the country continued to show economic resilience and stable public finances. Another country on the path of receiving an investment grade is Colombia, which had the outlook on its BB+ foreign currency rating changed to positive from stable by S&P in the beginning of July. According to the agency, "an upgrade is likely if the next administration, led by president-elect Juan Manuel Santos, pursues policies that strengthen the growing resilience of the economy, including reducing its vulnerability to external shocks." Moody's and Fitch also have Colombia at a notch below investment grade, with a Ba1 and BB+ rating, respectively.

Bolivia received an upgrade from S&P with a positive outlook, an action that, according the agency, reflects the continued sharp improvements in Bolivia's external indicators. Chile was upgraded by Moody's, for showing economic and financial resilience even in the face of a major adverse shock, such as February's historic earthquake. Dominican Republic, Peru, and Brazil had their outlook revised to positive, as all three countries display improved policies and good economic performance.

BOX 1: CREDIT RATING ACTIONS IN LATIN AMERICA – H1 2010

There have been 16 positive and 2 negative actions in Latin America and the Caribbean in the first half of 2010.

Positive Actions: 16 (Bold)

January

- Venezuela: on January 11, **S&P raised Venezuela's outlook to stable from negative**, citing expected improvements to the fiscal and external accounts as a result of the devaluation of the Bolivar Fuerte.
- El Salvador: on January 27, S&P affirms its sovereign debt ratings for El Salvador at **BB**. The outlook remains stable (*no change*).

February

- Jamaica: on February 3, Fitch downgrades Jamaica's Long-Term Foreign Currency Issuer Default Rating to **RD**, then **subsequently upgrades to CCC**, after taking into account the successful outcome of the domestic debt exchange.
- Venezuela: on February 08, Fitch affirms Venezuela's credit rating at **B+**, with a stable outlook (*no change*).
- Belize: on February 16, S&P affirms Belize's **B** rating and keeps the outlook stable (*no change*).
- Jamaica: on February 16, **Fitch upgrades Jamaica's long-term foreign and local currency ratings to B-**, with a **stable outlook**. The upgrade takes into account the approval of a US\$ 1.27 billion IMF Stand-By Arrangement, which mitigates near-term external liquidity concerns. The successful outcome of the domestic debt exchange also supports the upgrade.
- Jamaica: on February 24, **S&P raises Jamaica's debt rating to B-** from selective default. S&P says the new rating follows a successful debt restructuring program.

March

- Jamaica: on March 02, **Moody's upgrades Jamaica's foreign currency government bond ratings to B3** from **Caa1**, to reflect diminished credit risks following the domestic debt exchange.
- Panama: on March 23, **Fitch upgrades Panama's long-term foreign currency rating to BBB-** from **BB+**, with a positive outlook. The upgrade to **investment grade** reflects a sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession.

(Continued)

Box 1– (conclusion)*May*

- Dominican Republic: on May 05, **S&P revises the outlook for the Dominican Republic B rating to positive from stable** to reflect solid growth prospects, improvement in debt management, and stronger managerial leadership within the electricity sector.
- Bolivia: on May 06, **S&P upgrades Bolivia to B from B-**, with a **positive outlook**. The agency says the move reflects continued sharp improvement in Bolivia's external indicators because of current account surpluses, rising international reserves, declining external debt, and improved fiscal performance over the last four years.
- Chile: on May 18, Fitch affirms Chile's credit rating at A, with a stable outlook (*no change*).
- Panama: on May 25, **S&P raises Panama's ratings to investment grade (BBB-)**, with a stable outlook, to reflect the expectation that continued economic growth – combined with moderate fiscal deficits – should reduce the government's debt burden and maintain its financial profile comfortably in line with that of other sovereigns in the BBB rating category.
- Nicaragua: on May 26, **Moody's raises Nicaragua's foreign currency government bond rating to B3 from Caa1**, with a stable outlook, unifying it with the local currency rating level. The action reflects the view that the sovereign is equally likely to default on its domestic and foreign currency obligations.

June

- Guatemala: on June 01, **Moody's raises Guatemala's foreign currency bond rating to Ba1 from Ba2**, with a stable outlook, unifying it with the local currency rating level. The action reflects the view that the sovereign is equally likely to default on its domestic and foreign currency obligations.
- Peru: on June 02, **Fitch upgrades Peru's long-term foreign currency rating outlook to positive**, citing a favorable growth trajectory and improving fiscal responsibility.
- Panama: on June 09, **Moody's upgrades Panama's sovereign ratings to Baa3, the first notch in the investment-grade category**, from Ba1, in light of a significant improvement in the country's fiscal and debt positions and favorable prospects for further consolidation in the government accounts over the medium term. The outlook is stable.
- Chile: on June 16, **Moody's upgrades Chile to Aa3 from A1**, to reflect the country's demonstrated economic and financial resilience even in the face of major adverse shocks, including February's historic earthquake. The outlook is stable.
- Brazil: on June 28, **Fitch revises rating outlook to positive from stable**, reflecting better-than-expected resilience and economic performance in the face of global recession, as well as prudent economic policies.

July

- Colombia: on July 7, **S&P changes the outlook on Colombia's BB+ foreign currency rating to positive from stable**, saying that "an upgrade is likely if the next administration pursues policies that strengthen the growing resilience of the economy, including reducing its vulnerability to external shocks."

Negative Actions: 2*January*

- Jamaica: on January 14, **S&P downgrades the country's credit rating to Selective Default (SD) from CCC** because of the domestic debt exchange program. **Moody's also announces that it considers Jamaica's debt exchange proposal for domestic creditors as an event of default**, reflected in the rating of Caa1, with a negative outlook.

February

- Jamaica: on February 3, Fitch **downgrades Jamaica's Long-Term Foreign Currency Issuer Default Rating to RD**, then subsequently upgrades to CCC, after taking into account the successful outcome of the domestic debt exchange.

April

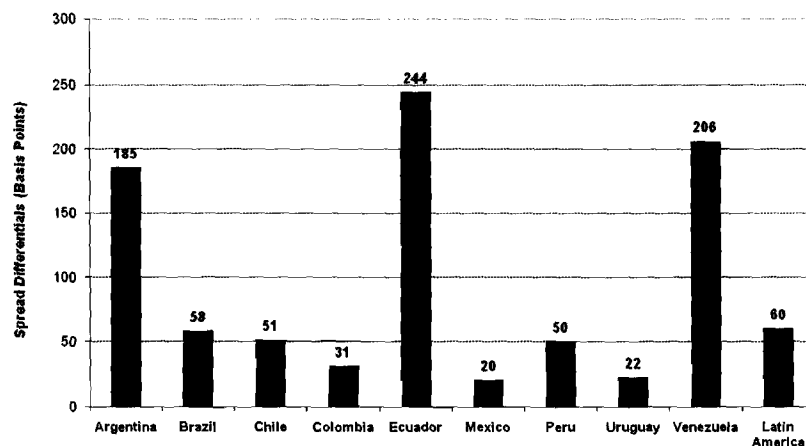
- Barbados: on April 28, S&P affirms Barbados' BBB foreign-currency sovereign credit rating, keeping a negative outlook because, it says, the country's economic recovery will take longer than previously thought (*no change*).

Source: ECLAC, on the basis of information from various market sources.

A. Sovereign Spreads²

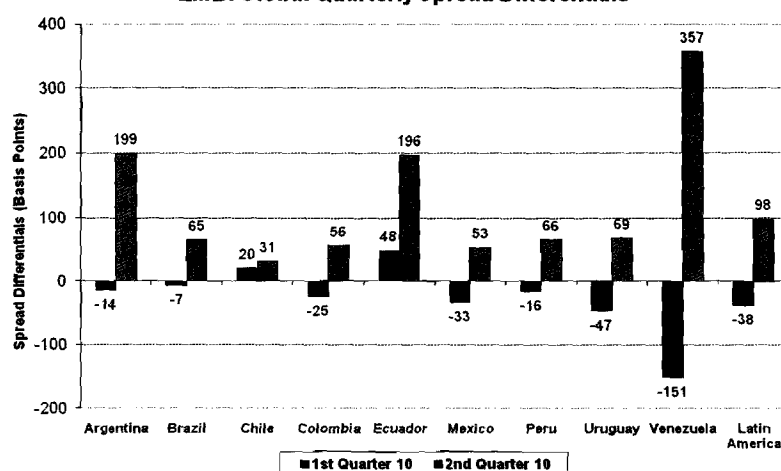
The increase in global uncertainty following the outbreak of the Greek crisis in February triggered a decline in global risk appetite, and debt spreads widened as a result. The JPMorgan EMBI Global widened by 64 basis points in the first half of 2010. Its Latin American component widened 60 basis points in the same period. Spreads widened for all the countries in the Latin American composite (see chart 8). Most of the spread widening took place in the second quarter (chart 9).

Chart 8:
EMBI Global H1 2010 Spread Differentials



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

Chart 9:
EMBI Global Quarterly Spread Differentials

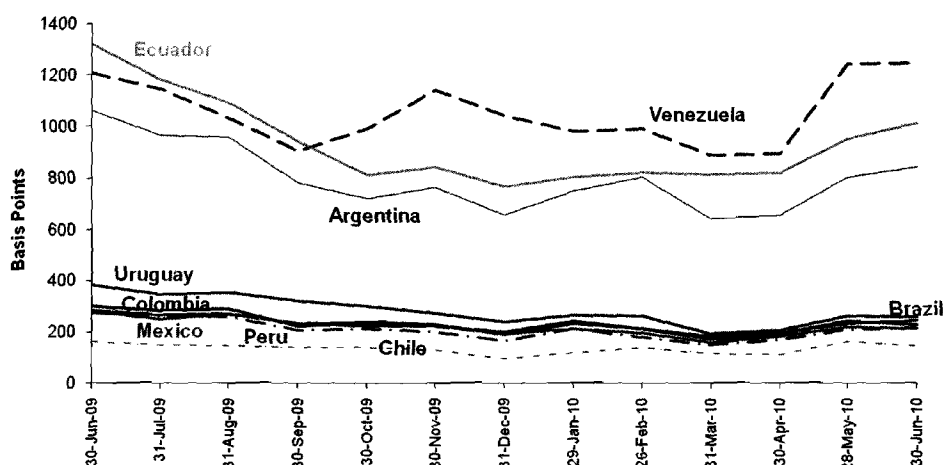


Source: ECLAC, on the basis of JPMorgan data.

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 EMBIG 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.

The recent evolution of the EMBI Global spreads has suggested a clustering of Latin American countries into roughly two groups: creditworthy countries, perceived as low risk by investors, with most countries in this group having already received an investment grade or on the path to receive it; and high EMBIG countries, which are perceived as high risk and whose spreads have been closer in level and volatility to the U.S. high-yield bond spreads (see chart 10).³ Investors hold a very positive view of the region, but also see growth marked by a high degree of heterogeneity among countries.

Chart 10:
Spreads on JPMorgan EMBI Global and Latin American Composites
June 2009 - June 2010



Source: JPMorgan, "Emerging Markets Bond Index Monitor."

Among the creditworthy countries, the improvement in GDP growth has been impressive. Chile, an upper-investment grade country, has the lowest spreads in the EMBIG composite (146 basis points at the end of June 2010), and in June was upgraded by Moody's to a higher investment grade because of its resilience in face of the historic February earthquake. Mexico, another investment-grade country, has the second lowest spreads in the EMBIG composite (212 basis points at the end of June). Mexico's recovery has been sustained by the strength of the external demand, and thus far the effects of the euro area sovereign crisis on its economy have been limited. Mexican corporate issuance was strong in June and on July 8 the sovereign issued its first euro-denominated bond since 2005, with the goal to start tapping European investors more often. Peru has the third lowest spreads in the EMBIG composite (215 basis points at the end of June) and in 2009 received an investment grade by all three major credit rating agencies. The outlook on its foreign currency rating was upgraded by Fitch in June, in response to Peru's strong growth trajectory and fiscal responsibility.

Brazil, Colombia and Uruguay have displayed low EMBIG spreads (247, 229 and 260 basis points at the end of June, respectively), with Brazil having already received an investment grade by all three major credit rating agencies. Colombia, with broad macro stability, a strong debt service record, and increased resilience to the global economic downturn, remains on track for achieving an investment grade in the near future. Following Colombia's election results, S&P raised Colombia's rating outlook on July 07, saying in a statement that the agency believes "it is likely that the Republic of Colombia's incoming administration will pursue policies that will strengthen the country's economic resilience"

³ The first group includes Chile, followed by Peru, Mexico, Panama, Colombia, Brazil, Uruguay, and El Salvador; the second includes Belize, Venezuela, Ecuador, Argentina and Dominican Republic. Chile shows the lowest spreads in the first group, while Dominican Republic displays the lowest spreads in the second group.

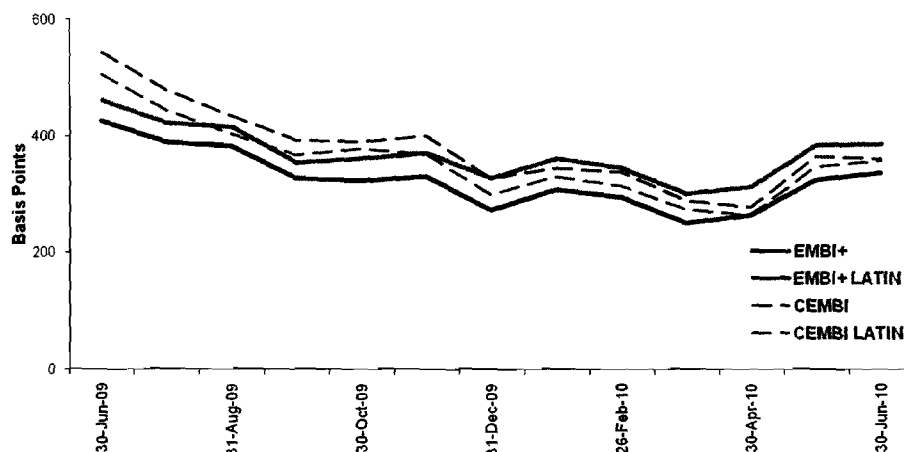
Finally, Argentina, Ecuador and Venezuela are among the countries with the highest and most volatile spreads in the composite (845, 1013 and 1247 basis points at the end of June). Argentine spreads have been burdened by the sovereign's lack of access to international markets to roll over its debt. However, the sovereign announced in June that 66% of the holdout creditors from the 2005 debt exchange had participated in a bond swap program, with US\$ 12.2 billion of the US\$ 18.3 billion of eligible debt being tendered. According to Fitch, the 66% participation rate may be sufficient to warrant an upward revision of the sovereign's rating from the current "Selective Default." When combined with the 2005 restructuring, 92% of the defaulted bonds have been swapped for new securities. However, there still remains US\$ 6 billion that has not been swapped and some analysts suggest that this might continue to be a source of legal risk and complications for accessing international capital markets.

In the case of Ecuador, spreads are burdened by the sovereign's lack of access to international capital markets and limited access to multilateral financing. The Venezuelan economy has taken a double hit from a deep recession and high inflation, and the contraction seems to be gathering pace. Venezuela's creditworthiness is a source of concern for investors and market analysts, especially given its policy framework.

B. Corporate Spreads

The Latin American corporate sector has not been immune to the recent increase in volatility. Corporate spreads widened sharply in May as the sovereign debt crisis in the euro zone deepened (by 87 basis points, from 278 basis points at the end of April to 365 basis points at the end of May). The Latin CEMBI widened by 81 basis points in May (from 265 basis points at the end of April to 346 basis points at the end of May). Since reaching a low in April, the Latin Corporate EMBI (CEMBI Latin) has widened, reaching 357 basis points at the end of June (widening 57 basis points in the first half of 2010). Emerging markets corporate spreads, according to the JPMorgan CEMBI, are now roughly leveled with their sovereign counterparts (see chart 11).

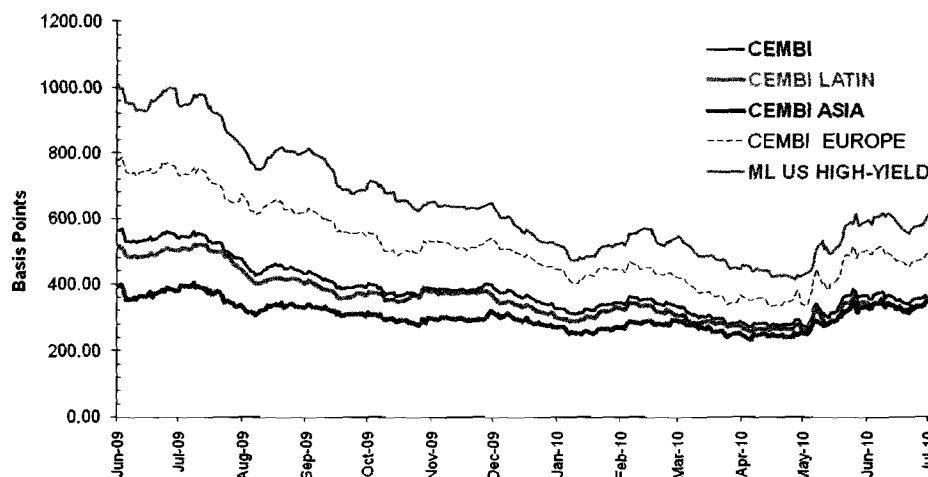
Chart 11:
JPMorgan EMBI+ Spreads, Corporate and Sovereign
June 20097 - June 2010



Source: JPMorgan, "Emerging Markets Bond Index Monitor."
Note: EMBI+ and EMBI+ Latin: sovereign spreads. CEMBI and CEMBI Latin: blended spreads.

Emerging Markets corporate spreads remain lower than for the U.S. High-Yield corporate sector. Latin American corporates have fared well in comparison to corporates in other emerging regions (see chart 12). There was more debt issuance from the Latin American corporate sector in the first half of 2010 than from the sovereign sector. Newfound investor comfort has trickled down the ratings scale, with corporate high-yield issuance also taking place in the first half of 2010.

Chart 12:
Corporate EMBI Spreads
June 2009 - June 2010



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

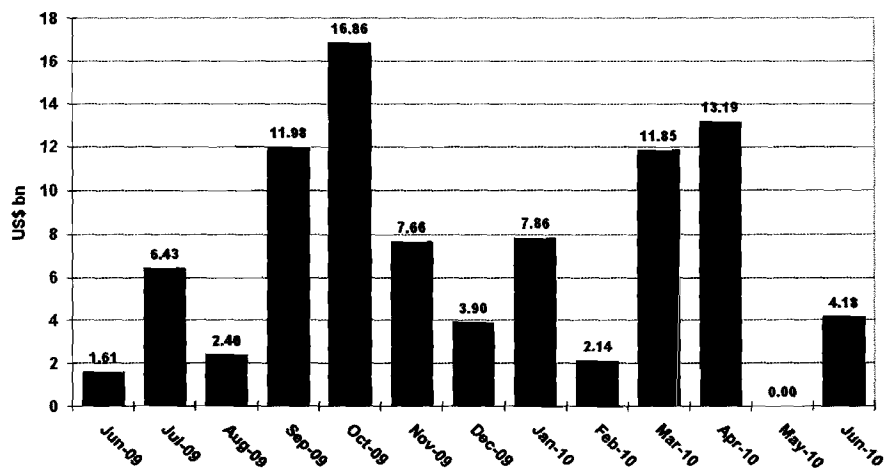
C. Issuance

Following a dry spell in the second half of 2008, Latin American bond issuers were active in 2009, particularly in September and October. The pace of new bond issuance in Latin America continued at a brisk pace in the first four months of 2010, in a sign of growing investor interest in opportunities outside the developed world following the financial crisis. Although in mid-February the flow of Latin American corporate and sovereign debt slowed down to a trickle as European sovereign debt worries began nudging risk aversion up, the pace picked up again in March and April. At the end of April and during the month of May, however, the sovereign euro zone debt crisis deepens, once again increasing risk aversion and volatility in financial markets. New Latin American debt issuance came to a halt in May. In June, new Latin American debt issuance reached US\$4.2 billion, and was dominated by Mexican corporates. Total international Latin American debt issuance in the first half of 2010 was US\$ 39.2 billion (see chart 13).

The corporate sector has dominated Latin American debt issuance year-to-date. Total corporate issuance in the first half of 2010 amounted to 85.3% of the total, while sovereign issuance represented only 14.7% of the total. The sovereign issuers were Mexico, Brazil, Colombia, and Dominican Republic.

Brazil brought its first debt offering of the year in April, achieving one of its lowest-ever coupons according to Latin Finance – 4.875% – but at a US\$ 750 million size that the market considered too small to be a benchmark. In April, Mexico also raised US\$ 1 billion in its third debt sale of 2010, taking care of financing needs for the year. Colombia issued the region's first local currency-denominated bond on the global market since 2007, raising close to US\$ 800 million, and also wrapping up 2010 financing needs. The Dominican Republic issued a US\$ 750 million 10-year bond at the end of April, its first overseas bond sale since 2008.

Chart 13:
Latin America and the Caribbean
Monthly Sovereign and Corporate Bond Issuance



Source: ECLAC on the basis of data from JPMorgan, LatinFinance and Bank of America/Merrill Lynch.

In the corporate sector the region's total debt issuance was boosted by jumbo offerings from Mexico's América Movil and Southern Copper. América Movil issued US\$ 4.0 billion in five, 10 and 30-year bonds in March, and Southern Copper issued US\$ 1.5 billion in 2020 and 2040 bonds. There has also been robust demand for bonds from the region's financial institutions. Mexico's BBVA raised US\$ 1 billion in April, its first dollar sale in nearly three years, and Brazil's Banco Itaú also sold US\$ 1 billion in Tier 2 bonds – its first public overseas sale since the 2008 merger with rival Unibanco. Smaller banks also have been active. In April, Brazil's Banco Pan Americano and peer BicBanco issued US\$ 500 and US\$ 300 million, respectively. Newfound investor comfort has thus trickled down the ratings scale (given the lack of sufficient debt supply), with sub-investment grade issuance also showing signs of strength.

In May, new debt issuance came to a halt, but in June, América Movil reopened cross-border markets for the region, with a simultaneous EUR 1.75 billion and GBP 650 million issues, its first deals in those currencies and the first corporate issue since late April. A week later, Mexican-based baker BIMBO raised US\$ 800 million from a 10-year bond, the first dollar-denominated Latin American new issue in more than seven weeks. A few days later, Mexico's GEO sold the first Latin American high-yield cross-border bond in eight weeks, US\$ 200 million of a 10-year senior unsecured, non-callable for 5-year bond (2020 NC) to refinance a shorter-term obligation.

These successful bond offers brought Latin American corporates back to international markets after the May-hiatus. However, volatility – while less than in May – is still present and could be a factor in determining how many more deals materialize. So far the evidence suggests that primary market access for emerging market corporate is indeed improving. On July 12, Brazil's BM&F Bovespa and Banco Mercantil issued a US\$ 612 million 10-year bond and a US\$ 200 million 10-year bond, respectively. On July 13, Pemex, the Mexican oil company, issued a US\$ 2 billion 2021 bond, its second dollar offering of the year (the first took place in January). Gol, a Brazilian airline, also issued a US\$ 300 million 2020 bond – its first new bond issue in three years and the first Brazilian high-yield corporate since Braskem on April 30. Brazilian steelmaker CSN issued a US\$ 1 billion 2020 bond on July 14.

On the sovereign side, on July 08, Mexico issued its first euro-denominated sovereign bond since 2005, a EUR 850 million 7-year note. The sovereign has revealed that it intends to tap European investors more frequently from now on. On July 12, Colombia issued a US\$ 500 million equivalent peso-denominated 11-year global bond, a week after S&P raised its outlook for the sovereign rating to positive. On July 13, Bermuda issued a US\$ 500 million 10-year bond, its debut in public bond markets.

There was a surge of capital inflows to Latin American markets in the first four months of 2010, attracted by prospects for strong growth, currencies and asset performance. In addition, the easy monetary stance in developed markets also contributed to “push” portfolio flows into the region. Risk aversion has picked up, however, as concerns regarding Europe’s sovereign debt have increased, and uncertainty is high in financial markets, which could be a factor determining the pace of new debt issuance in the region in the following quarters. So far, despite this uncertainty, the pace seems to be picking up again.

Table 1:

New Latin American Debt Issuance First Quarter of 2010					
Jan-10					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Brazil	BNDES	USD 1,000	1,000	5.500%	12-Jul-20
Mexico	Kansas City Southern Mexican	USD 300	300	8.000%	1-Feb-18
Brazil	Grupo Posadas	USD 200	200	9.250%	15-Jan-15
Mexico	United Mexican States	USD 1,000	1,000	5.125%	2020
Brazil	Banco Votorantim	USD 750	750	7.375%	21-Jan-20
Brazil	BicBanco	USD 275	275	6.250%	20-Jan-13
Mexico	Cemex	USD 500	500	9.500%	14-Dec-16
Mexico	URBI - Desarrollos Urbanos	USD 300	300	9.500%	21-Jan-20
Chile	Colbun	USD 500	500	6.000%	21-Jan-20
Brazil	Banco do Brasil	USD 500	500	4.500%	22-Jan-15
Brazil	Banco do Brasil	USD 500	500	6.000%	22-Jan-20
Mexico	Javer	USD 30	30	13.000%	4-Aug-14
Brazil	Brasil Foods	USD 750	750	7.250%	28-Jan-20
Brazil	Minerva	USD 250	250	10.875%	2020
Mexico	Pemex	USD 1,000	1,000	6.000%	2020
Total			7,855		
Feb-10					
Brazil	Banco Pine	USD 125	125	8.750%	6-Jan-17
Mexico	Coca-Cola Femsa	USD 500	500	4.625%	15-Feb-20
Peru	Corporación Pesquera Inca (Copeinca)	USD 175	175	9.000%	10-Feb-17
Brazil	Banco Votorantim	USD 500	500	4.250%	8-Feb-13
Mexico	Pemex	CHF 150	140	3.500%	13-Oct-14
Brazil	Banco Cruzeiro do Sul	USD 250	250	8.500%	20-Feb-15
Peru	Scotiabank Peru	USD 50	50	5.250%	15-Mar-17
Peru	Scotiabank Peru	USD 125	125	L+275bps	15-Mar-17
Mexico	RDS Ultra-Deepwater Ltda	USD 270	270	11.875%	15-Mar-17
Total			2,135		
Mar-10					
Mexico	United Mexican States	USD 1,000	1,000	5.125%	15-Jan-20
Supranational	Corporación Andina de Fomento (CAF)	USD 50	50	0.000%	12-Mar-17
Brazil	Banco Daycoval	USD 300	300	6.500%	16-Mar-15
Mexico	America Movil	CHF 230	186	2.250%	7-Jul-05
Mexico	Axtel Sab De Cv	USD 190	190	9.000%	22-Sep-19
Jamaica	Digicel Group Ltd	USD 775	775	10.500%	15-Apr-18
Brazil	Banco Bradesco	USD 750	750	4.100%	23-Mar-15
Brazil	Vale	EUR 750	1,026	4.375%	24-Mar-18
Brazil	Bes Investimento Brasil	USD 500	500	5.625%	25-Mar-15
Brazil	Independencia Internacional	USD 150	150	15.000%	31-Mar-15
Mexico	Financiera Independencia	USD 200	200	10.000%	30-Mar-15
Mexico	America Movil	USD 1,250	1,250	6.125%	30-Mar-40
Mexico	America Movil	USD 2,000	2,000	5.000%	30-Mar-20
Mexico	America Movil	USD 750	750	3.625%	30-Mar-15
Brazil	Magnesita Refratarios	USD 400	400	7.875%	30-Mar-20
Brazil	Votorantim Participações	USD 750	750	6.750%	5-Apr-21
Argentina	City of Buenos Aires	USD 475	475	12.500%	6-Apr-15
Mexico	Grupo Papelero Scribe	USD 300	300	8.875%	7-Apr-20
Brazil	Banco ABC Brasil	USD 300	300	7.875%	8-Apr-20
Brazil	Banco Santander Brasil	USD 500	500	4.500%	6-Apr-15
Total			11,852		

Source: LatinFinance (Bonds Database), JPMorgan and Merrill Lynch.

Table 2:

New Latin American Debt Issuance					
Second Quarter of 2010					
Apr-10					
Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon(%)	Maturity
Mexico	United Mexican States	USD 1,000	1,000	6.050%	11-Jan-40
Colombia	Republic of Colombia	COP 1,528,000	792	7.750%	2021
Brazil	Banco Itaú	USD 1,000	1,000	6.200%	2020
Mexico	Credito Real	USD 150	150	10.250%	2015
Mexico	Southern Copper	USD 400	400	5.375%	2020
Mexico	Southern Copper	USD 1,100	1,100	6.750%	2040
Chile	Sociedad Quimica y Minera de Chile	USD 250	250	5.500%	2020
Brazil	Globo	USD 325	325	6.250%	Perpetual
Brazil	Banco Bradesco	USD 250	250	3.125%	2013
Brazil	Republic of Brazil	USD 750	750	4.875%	Jan-21
Mexico	BBVA Bancomer	USD 1,000	1,000	7.250%	2020
Chile	Santander Chile	USD 500	500	L+125 bps	2012
Brazil	Banco Panamericano	USD 500	500	8.500%	2020
Brazil	Bicbanco	USD 300	300	8.625%	2020
Brazil	Votorantim	EUR 750	937	5.250%	2017
Brazil	Banco Fibra	USD 200	200	5.125%	2013
Brazil	Banco do Brasil	USD 450	450	4.500%	2015
Brazil	Banco Safra	USD 200	200	3.500%	2013
Barbados	Columbus International	USD 190	190	11.500%	2014
Brazil	Fibra	USD 750	750	7.500%	2020
Dominican Republic	Dominican Republic	USD 750	750	7.500%	2020
Brazil	Marfrig	USD 500	500	9.500%	2020
Brazil	Braskem	USD 400	400	7.000%	2020
Argentina	Pan American Energy	USD 500	500	7.875%	2021
Total			13,194		
May-10					
<i>No Issuance</i>					
Jun-10					
Mexico	America Movil	EUR 1,000	1,236	3.750%	2017
Mexico	America Movil	EUR 750	927	4.750%	2022
Mexico	America Movil	GBP 650	963	5.750%	2030
Mexico	Bimbo	USD 800	800	4.850%	2020
Mexico	Geo	USD 250	250	9.250%	2020
Total			4,176		

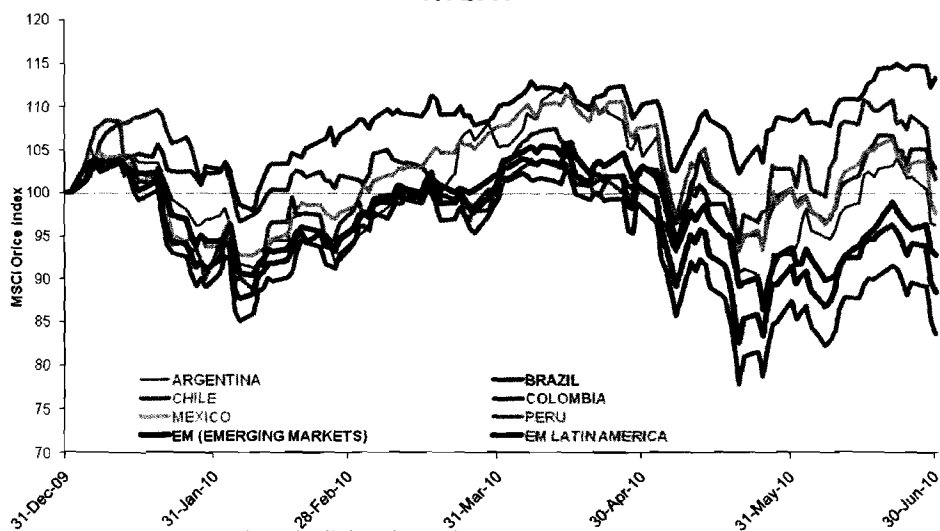
Source: LatinFinance (Bonds Database), JPMorgan and Merrill Lynch.

II. Portfolio equity flows into Latin America

As risk appetite dried up on fresh fears of European sovereign debt contagion, equity prices reversed much of the gains posted earlier in the year. Latin American secondary equity prices were adversely affected by the increase in uncertainty and risk aversion, with the Morgan Stanley Capital International (MSCI) Latin American Index losing 11.6% in the first half of 2010.

The fall was led by Brazil (-16.5%), followed by Argentina (-3.8%), and Mexico (-2.5%). Colombia, Peru and Chile showed gains (13.3%, 2.9% and 1.5%, respectively) (table 3, chart 14). According to EPFR Global, which tracks both traditional and alternative funds domiciled globally, Latin American equity funds had a rough first half of the year as investors pulled more than US\$ 2.4 billion from the fund group, responding to Brazil's shift to a tightening bias and the region's crowded electoral calendar.

Chart 14:
MSCI Equity Price Index (USD)
H1 2010



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

Table 3: Stock Price Indices
2010

	Price Index in USD			Variation		
	31/12/09	31/03/10	30/06/10	Q1/10	Q2/10	H1/10
<i>Emerging markets</i>	989.469	1,010.33	917.985	2.11%	-9.14%	-7.22%
<i>Latin America</i>	4,116.741	4,170.726	3,639.554	1.31%	-12.74%	-11.59%
<i>Argentina</i>	2,101.036	2,212.683	2,020.510	5.31%	-8.69%	-3.83%
<i>Brazil</i>	3,624.512	3,606.030	3,028.033	-0.51%	-16.03%	-16.46%
<i>Chile</i>	2,051.555	2,052.778	2,082.846	0.06%	1.46%	1.53%
<i>Colombia</i>	790.484	870.080	895.474	10.07%	2.92%	13.28%
<i>Mexico</i>	5,138.143	5,534.48	5,009.595	7.71%	-9.48%	-2.50%
<i>Peru</i>	1,217.735	1,218.87	1,252.696	0.09%	2.78%	2.87%

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

III. Bank Lending

According to the latest BIS Quarterly Review, BIS reporting banks significantly expanded their cross-border claims on several countries in Latin America. Latin America received net lending (inflows) of US\$ 13.1 billion in the fourth quarter of 2009 (the latest data available), following net inflows of US\$ 9.4 billion in the third, US\$ 1.7 billion in the second and net repayments (outflows) to commercial banks of US\$ 7.9 billion in the first quarter. Cross-border claims on the region increased by US\$ 13.4 billion in the fourth quarter of 2009, while liabilities increased by US\$ 235 million (see table 4).

Chile experienced a larger increase in cross-border claims (US\$ 6.3 billion or 16%) than any other emerging market economy outside the Asia-Pacific region in the fourth quarter of 2009, boosted by rising commodity prices and steadily falling unemployment. Claims on Brazil continued to rise in the fourth quarter, despite the 2% financial transactions tax on foreign investments in Brazilian stocks and fixed income securities that was implemented in October 2009. Claims on Mexico increased (by US\$ 3.1 billion or 3%) for the first time in five quarters, mostly due to the better outlook for the country's export sector.

Table 4

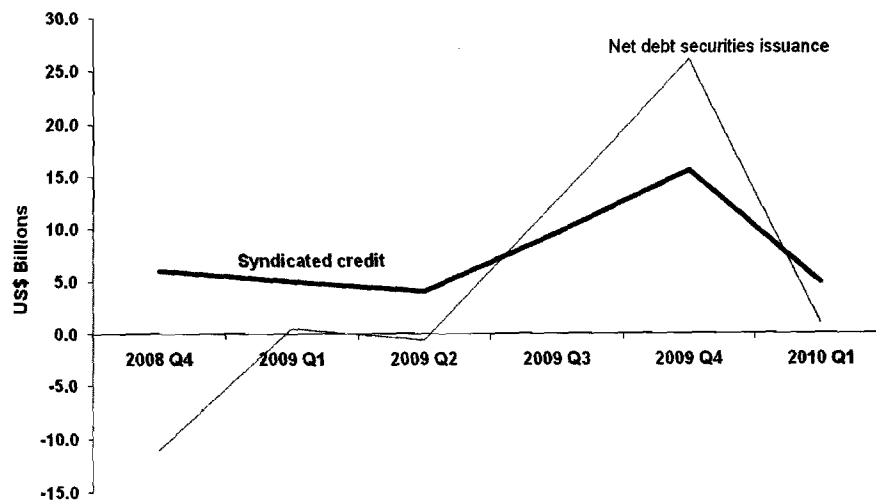
Cross-border bank flows to Latin America								
Exchange rate adjusted changes in amounts outstanding, in billions of US\$ dollars								
Banks	Position*	2009				Stocks at	Stocks at	Growth
		Q1	Q2	Q3	Q4	end-Sep 2009	end-Dec 2009	
Latin America	Claims	-21.82	0.82	8.69	13.37	399.23	410.97	2.9%
	Liabilities	-14.08	0.86	-0.71	0.24	382.63	382.01	-0.2%
Argentina	Claims	-0.56	-0.61	-1.33	-0.60	15.40	14.74	-4.3%
	Liabilities	0.72	0.03	-0.46	-0.87	28.98	28.06	-3.2%
Brazil	Claims	-13.80	8.24	10.94	3.09	163.03	165.34	1.4%
	Liabilities	-1.60	-5.85	3.43	4.07	60.25	64.14	6.5%
Chile	Claims	1.19	-0.49	0.49	6.33	39.94	46.15	15.5%
	Liabilities	0.97	-3.17	-1.61	4.56	20.11	24.58	22.2%
Colombia	Claims	-1.08	-0.53	-0.47	-0.15	10.58	10.42	-1.5%
	Liabilities	0.63	0.91	-0.09	0.04	15.18	15.20	0.1%
Mexico	Claims	-3.32	-5.21	-1.94	3.14	92.80	95.53	2.9%
	Liabilities	-12.33	7.16	0.63	-5.84	87.37	81.45	-6.8%
Venezuela	Claims	-0.67	0.45	0.46	-0.98	8.50	7.49	-11.9%
	Liabilities	-2.84	1.33	-2.73	-1.75	55.87	54.01	-3.3%

Source: BIS Quarterly Review (Table 6A), June 2010.

* 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.

Activity in the international market for syndicated loans was slower in the first quarter of 2010, following a very strong fourth quarter (chart 15). Given the increase in risk and volatility during the course of the second quarter of 2010, a further slowdown in syndicated loans may be expected.

Chart 15:
Announced Syndicated Lending and Securities Issuance in Latin America & Caribbean



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

* Net Issuance: Gross Issues - Repayments

IV. Prospects

In the first half of 2010, Latin American bond spreads widened 60 basis points according to JPMorgan's EMBI Global. While during the first quarter spreads declined as a result of the global economic rebound that started in the second half of 2009 and continued in the first quarter of 2010, they widened in the second quarter, offsetting the spread tightening of the first three months. With the deepening of Europe's sovereign debt woes at the end of the first quarter and during the course of the second, volatility and risk aversion increased, leading to higher bond spreads. Latin American bond spreads are unlikely to recover while uncertainty and headline risk persist in financial global markets.

New debt issuance increased briskly in the first four months of 2010 but stalled in May. Refinancing risks remain low, with Latin American corporates having raised US\$ 33.4 billion year-to-date. The record bond volumes issued by Latin American governments and companies in the first four months of the year was a reassuring sign for investors. However, a few investors are starting to feel unease with record amounts being raised by emerging market issuers.

So far, emerging market bond investors have not followed emerging market equities into a sell-off. Like emerging market equities, emerging market bonds soared last year in response to the sizable global injection of liquidity and emerging-market-led recovery. The JPMorgan EMBI+ total returns index of emerging market bonds climbed to almost 26% in 2009, after falling almost 10% in 2008. In 2010, with recovery slowing and continuing market uncertainty, emerging market equities are down nearly 10% from their mid-April peak. However, emerging market bonds are still up, with JPMorgan's EMBI+ index almost 7% higher.

The divergence between equity and bond investors is understandable, since equities tend to be much more volatile than bonds, particularly in markets where local liquidity can be limited. However, skeptics argue that the market surge of 2009-10 was driven by the injections of government-backed liquidity which are now being reversed. As liquidity deteriorates, companies will struggle to find funding.

Enormous uncertainty persists about the global economy. The prospects for Latin America and the Caribbean financial markets will depend on which scenario will prevail: a crisis that is contained to peripheral Europe or a deeper crisis that spreads to the core European countries, increasing contagion to other markets as well. In particular, there is concern about contagion to the U.S. economy. The recent release of weaker-than-expected economic data has increased investors' anxiety to whether the U.S. economy is suffering a temporary cool off or a change in direction. There is a lot more confidence that

emerging and Latin American markets will remain resilient if the contained crisis scenario prevails. However, in a scenario in which the euro zone debt crisis spreads, this confidence starts to falter.

Appendix



A. Credit Ratings

Table 1:
Credit Ratings in Latin America

	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 stable	14-Aug-08	Downgrade, O/L stable	11-Aug-08	Affirmed	18-Dec-08
Barbados	Baa3		BBB	(-)	NR		Downward, O/L chngd to stable	13-Oct-09	Affirmed, O/L (-)	28-Apr-10		
Belize	B3		B		NR		Upgrade, O/L stable	10-Feb-09	Affirmed, O/L stable	16-Feb-10		
Bolivia	B2		B	(+)	B-		Upgrade, O/L stable	28-Nov-09	Upgrade, O/L chngd to (+)	6-May-10	Upgrade, O/L stable	8-Sep-09
Brazil	Baa3		BBB-		BBB-	(+)	Upgraded, O/L (+)	22-Sep-09	Upgrade, O/L stable	30-Apr-08	Affirmed, O/L chngd to (+)	28-Jun-10
Chile	Aa3		A+		A		Upgrade, O/L stable	16-Jun-10	Upgrade, O/L stable	29-Dec-09	Affirmed, O/L stable	18-May-10
Colombia	Ba1		BB+	(+)	BB+		Upgrade, stable	19-Jun-08	O/L changed to (+) from stable	7-Jul-10	Upgrade, O/L stable	21-Jun-07
Costa Rica	Ba1	(+)	BB		BB		O/L changed to (+), Affirmed	11-Aug-08	Affirmed O/L stable	9-Feb-10	Affirmed, O/L stable	1-Feb-10
Cuba	Caa1		NR		NR		Assigned	5-Apr-99				
Dominican Republic	B2		B	(+)	B		Upgrade, stable	2-May-07	O/L chngd to (+), Affirmed	5-May-10	O/L chngd to stable, Affirmed	25-Sep-08
Ecuador	Caa3		CCC+		CCC		Upgrade, O/L chngd to stable	24-Sep-09	Upgrade, O/L chngd to stable	15-Jun-09	Upgrade	4-Sep-09
El Salvador	Ba1	(-)	BB		BB	(-)	Downgrade O/L chngd to (-)	15-Nov-09	O/L stable, Affirmed	27-Jan-10	Downgrade, O/L (-)	18-Jun-09
Guatemala	Ba1		BB		BB+		Upgrade, O/L stable	1-Jun-10	O/L changed to stable, Affirmed	18-Nov-08	Affirmed, O/L stable	26-Jun-08
Honduras	B2		B		NR		Affirmed, stable	29-Sep-98				
Jamaica	B3		B-		B-		Upgrade, O/L stable	2-Mar-10	Upgrade, O/L stable	24-Feb-10	Upgrade, O/L stable	16-Feb-10
Mexico	Baa1		BBB		BBB		Upgrade, stable	6-Jan-05	Downgrade, O/L chngd to stable	14-Dec-09	Downgrade, O/L changed stable	23-Nov-09
Nicaragua	B3		NR		NR		Upgrade, O/L stable	26-May-10				
Panama	Baa3		BBB-		BBB-	(+)	Upgrade, O/L stable	9-Jun-10	Upgrade, O/L stable	25-May-10	Upgrade, O/L changed (+)	23-Mar-10
Paraguay	B3		B		NR		Upgrade, O/L stable	9-Apr-08	Affirmed, O/L stable	21-Oct-08		
Peru	Baa3		BBB-		BBB-	(+)	Upgrade, O/L changed to stable	16-Dec-09	Upgrade, O/L stable	14-Jul-08	O/L changed to (+), Affirmed	2-Jun-10
Trinidad & Tobago	Baa1		A		NR		Upgrade, O/L stable	13-Jul-06	O/L chngd to stable, Affirmed	14-Sep-09		
Uruguay	Ba3		BB-		BB-	(+)	Upgrade, O/L stable	12-Jan-09	Upgrade, O/L stable	22-Jul-08	O/L chngd to (+), Affirmed	13-Jul-09
Venezuela	B2		BB-		B+		Upgrade, O/L, stable	15-Jan-09	O/L changed to stable, Affirmed	11-Jan-10	Affirmed, O/L stable	8-Feb-10

Changes for 2010 YTD are in red.

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.

BOX 1: CREDIT RATING ACTIONS IN LATIN AMERICA – 2009

There were sixteen positive and nineteen negative actions in Latin America and the Caribbean in 2009.

Positive Actions: 16 (Bold)

January

- Uruguay: on January 12, **Moody's upgraded the country's credit rating to Ba3 from B1** with a stable outlook, to reflect a steady improvement in the government's overall debt profile.
- Venezuela: on January 15, Moody's affirmed the country's B2 rating and its stable outlook (no change).

February

- Belize: on February 10, **Moody's upgraded Belize's credit rating to B3 from Caa3**, to reflect the improvement in debt metrics over the past couple of years and the expectation that bilateral and multilateral financing will continue providing sufficient support to help mitigate the negative impact of the global crisis. The outlook is stable.

March

- Chile: on March 23, **Moody's upgraded Chile's credit rating to A1 from A2 and changed the country's outlook to positive** to reflect a strong resilience to adverse external shocks related to both the government's robust foreign asset position and a solid balance sheet that reflects the Chilean government's status as a net creditor.

May

- Chile: on May 28, Fitch affirmed Chile's credit rating with a stable outlook (no change).

June

- Ecuador: on June 15, **S&P upgraded the country's credit rating to CCC+ from SD** with a stable outlook after the sovereign announced that its reverse Dutch auction had a preliminary 91% overall acceptance rate.

July

- Brazil: on July 06, **Brazil's sovereign credit rating was placed under review by Moody's for a possible upgrade.**
- Uruguay: on July 13, **Fitch revised Uruguay's outlook to positive from stable**, reflecting Uruguay's strengthening macro policy framework, as well as greater resilience to the financial crisis, and a steady improvement in its fiscal and external solvency ratios.

August

- Mexico: on August 5, **Moody's reaffirmed its Baa1 rating and kept Mexico's outlook stable**, delivering a general favorable review of Mexico's sovereign credit, saying the government's commitment to fiscal discipline offset growth concerns. S&P and Fitch maintained their negative outlooks on Mexico's sovereign rating.
- Peru: on August 11, S&P reaffirmed Peru's BBB- ratings and kept the outlook on the sovereign stable (no change), saying that the ratings are supported by the government's commitment to economic stability and a positive investment climate.

September

- Ecuador: on September 4, **Fitch upgraded the country's credit rating to CCC from RD** following a successful buyback of its defaulted bonds, but warned against the "real possibility" of another debt default.
- Bolivia: on September 8, **Fitch upgraded the country's credit rating to B from B- with a stable outlook.** The upgrade reflected favorable public and external debt ratios and the maintenance of macroeconomic stability in the context of political and social turbulence and an unfavorable external environment.
- Trinidad & Tobago: on September 14, **S&P reaffirmed Trinidad & Tobago A rating and took it off credit watch negative** saying it believed the sovereign would be able to absorb the impact of bailing out CL Financial, which could cost up to 6% of 2009 GDP.
- Brazil: on September 22, **Moody's upgraded Brazil's external sovereign rating to investment grade, to Baa3 from Ba1 with a positive outlook.** The upgrade came more than a year after Fitch and S&P upgraded Brazil's bonds to investment grade status.

(Continued)

Box 1– (cont.)*September (cont.)*

- Ecuador: on September 24, **Moody's upgraded the country's credit rating to Caa3 with stable outlook from Ca**, saying that "the continuation of payment on the 2015 bonds suggests that another default may not occur at this point in time".
- Bolivia: on September 28, **Moody's upgraded the country's credit rating to B2 (stable) from B3** amid general improvements in the main debt metrics and reduction in the still-high levels of domestic political confrontation.
- Peru: on September 29, **Moody's placed Peru's Ba1 credit rating on review for a possible upgrade** to reflect the sovereign's track record of stable economic policymaking and reduced risks.

November

- Panama: on November 10, **S&P revised Panama's outlook to positive from stable** following fiscal reform and resilience to the global crisis.

December

- Peru: on December 16, **Moody's upgraded Peru's foreign-currency government bond rating to BAA3 from BA1** to reflect increased resilience to shocks and reduced credit risks associated with financial dollarization and the currency composition of government debt. With this action, Peru is rated investment grade by all three agencies.

*Negative Actions: 19**February*

- Trinidad & Tobago: on February 3, **S&P placed the ratings on Trinidad and Tobago on Credit Watch with negative implications.**

March

- Jamaica: on March 4, **Moody's downgraded the country's credit rating to B2 from B1** and changed the outlook from negative to stable. The agency anticipated that Jamaica's key macroeconomic indicators would deteriorate in 2009 as a result of the global crisis. Jamaica is particularly vulnerable as a small, very open economy.
- Jamaica: on March 18, **S&P lowered its long-term sovereign credit ratings on Jamaica to B- from B**, reflecting the deteriorating economic situation and its increasing spillover into Jamaica's fiscal and external accounts. The outlook is negative.

April:

- Barbados: on April 08, **S&P revised the outlook on Barbados to negative from stable**, saying that the downward revision reflected the growing imbalances that the inconsistent fiscal and monetary policy mix had caused.

May

- Mexico: on May 11, **S&P changed Mexico's outlook to negative** and affirmed its credit rating, saying it may downgrade Mexico's rating if the government fails to address pressing fiscal issues later this year (which would be the first downgrade since the aftermath of the 1994 peso devaluation). However, Mexico has many downgrades to go before falling out of the investment grade universe.
- El Salvador: on May 12, **S&P downgraded El Salvador's credit rating to BB from BB+**, with a stable outlook. The downgrade reflected the rising spillover of the global economic crisis on the future trend of El Salvador's economic and, consequently, fiscal performance. The country is vulnerable because it has a very open economy and relies heavily on remittances from abroad.
- Barbados: on May 14, **Moody's placed Barbados' credit rating on review for a possible downgrade** amid mounting government debt, predicting the Caribbean island's ability to cover its debt will worsen in coming years.

June

- Barbados: on June 10, **S&P downgraded the country's credit rating to BBB (stable) from BBB+** amid concern about debt ratios.
- El Salvador: on June 18, **Fitch cut El Salvador to BB (negative) from BB+** to reflect a structural shift in the country's fiscal and growth trajectory.

(Continued)

Box 1– (conclusion)*August*

- Jamaica: on August 5, **S&P downgraded the country's credit rating further to CCC+ from B-** as the sovereign continued to face mounting debt and difficult financing conditions.

September

- El Salvador: on September 14, **Moody's placed El Salvador's Baa3 credit rating on review for possible downgrade** to reflect the impact of external shocks on the country's medium-term credit outlook given a limited policy response capability and restricted access to international financial markets. The sovereign, already rated junk by other main agencies, risks losing its last investment grade.

October

- Barbados: on October 13, **Moody's downgrades Barbados' credit rating to Baa3 from Baa2 with stable outlook.** The negative action was prompted by steady deterioration in the country's key debt indicators over the past decade.

November

- Jamaica: on November 2, **S&P downgrades Jamaica's rating by another notch to CCC with a negative outlook** after the central bank governor resigned.
- El Salvador: on November 15 **Moody's downgrades El Salvador's sovereign rating to Ba1 with a negative outlook from Baa3.** With this downgrade, El Salvador lost its last investment grade rating.
- Barbados: on November 15 **S&P revises the sovereign's outlook to negative from stable and affirmed its BBB rating** as it believes that timeliness and magnitude of the country's fiscal consolidation is uncertain because of a worse-than-anticipated recession.
- Jamaica: on November 18 **Moody's downgrades Jamaica's long-term foreign currency debt rating to Caa1 from B2, with a negative outlook.**
- Mexico: on November 23 **Fitch downgraded the nation's long-term foreign currency debt rating one notch to BBB from BBB+, and now maintains a stable outlook** on its rating going forward. It cited a drop in oil output as one of the reasons for the downgrade. The Fitch downgrade had been fully expected.
- Jamaica: on November 24 **Fitch downgraded the foreign currency long-term debt rating of Jamaica, three notches to CCC from B and it still has a negative outlook on the new rating.**

December

- Mexico: on December 14, **S&P downgraded Mexico's foreign-currency sovereign credit rating by one notch to BBB from BBB+, with a stable outlook,** to reflect S&P's assessment that Mexico's recent steps to raise non-oil revenues and improve inefficiencies in the economy will likely be insufficient to compensate for the weakening of its fiscal profile.

Source: ECLAC, on the basis of information from various market sources.

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-Aug-07	223	450	195	197	676	110	166	450	246
28-Sep-07	201	398	173	166	616	112	137	398	222
31-Oct-07	186	312	167	148	575	99	137	359	203
30-Nov-07	246	401	220	200	616	148	188	531	271
31-Dec-07	239	410	221	195	614	149	178	506	268
31-Jan-08	273	466	255	256	649	179	205	514	302
29-Feb-08	291	503	265	258	640	172	215	562	313
31-Mar-08	308	581	284	258	662	168	223	638	336
30-Apr-08	264	563	218	202	574	140	168	623	289
30-May-08	243	535	181	156	541	136	150	586	258
30-Jun-08	295	614	228	221	596	172	199	591	302
31-Jul-08	283	612	226	209	664	169	180	638	309
29-Aug-08	299	671	240	223	724	185	204	626	325
30-Sep-08	414	953	331	318	1001	252	310	930	448
31-Oct-08	629	1787	449	531	3150	349	513	1465	663
28-Nov-08	718	1722	489	575	3576	443	530	1507	748
31-Dec-08	690	1704	428	498	4731	376	509	1862	722
30-Jan-09	633	1495	409	472	3842	371	416	1737	686
27-Feb-09	649	1727	421	459	3433	371	383	1617	683
31-Mar-09	636	1894	425	487	3568	379	425	1567	692
30-Apr-09	529	1766	355	350	3385	308	306	1294	586
29-May-09	460	1291	294	312	3003	233	278	1302	523
30-Jun-09	424	1062	284	301	1322	247	272	1186	461
31-Jul-09	389	962	265	284	1180	223	262	1117	422
31-Aug-09	382	957	271	288	1091	239	260	1006	415
30-Sep-09	327	784	234	223	940	201	205	884	354
30-Oct-09	323	721	240	237	814	193	213	965	362
30-Nov-09	330	766	231	223	842	189	199	1108	370
31-Dec-09	274	660	192	196	769	164	165	1017	328
29-Jan-10	308	753	234	239	806	186	214	980	362
26-Feb-10	295	806	215	210	822	165	179	983	346
31-Mar-10	251	646	185	172	189	130	149	881	302
30-Apr-10	265	659	196	190	823	155	168	898	313
28-May-10	325	807	235	240		186	208	1254	384
30-Jun-10	337	821	248	230		179	215	1230	385

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

EMBI+ composition by market sector (end-June 2010): Brady 11.27%; Benchmark Eurobonds 88.73%.

by country: Brazil, Mexico and Venezuela account for 36.09% of the total weighting.

by region: Latin: 51.47%; Non-Latin: 48.53%.

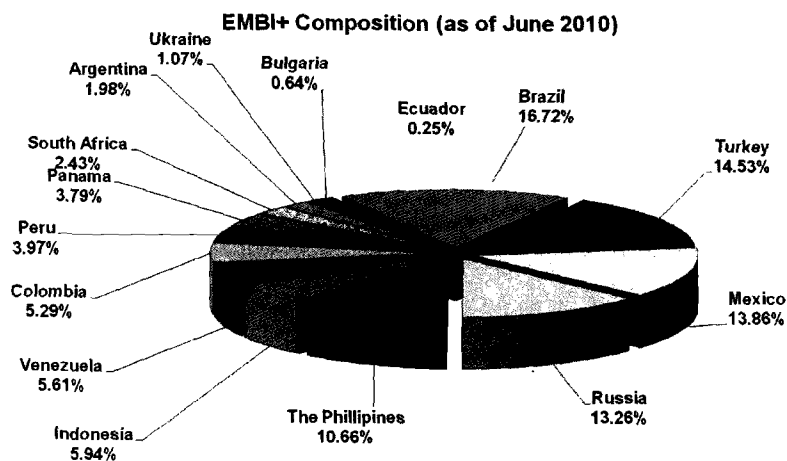


Table 3:

Sovereign Spreads on JPMorgan EMBI Global and Latin American Composites											
	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
31-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
31-Oct-07	201	312	166	112	148	575	121	137	191	383	210
30-Nov-07	261	401	219	143	200	616	170	188	244	556	279
31-Dec-07	255	410	220	151	195	614	172	178	243	523	275
31-Jan-08	287	466	254	171	256	649	198	205	293	532	309
29-Feb-08	306	503	265	166	258	640	191	215	321	583	323
31-Mar-08	324	581	283	176	258	662	193	223	343	661	347
30-Apr-08	283	563	217	163	202	574	164	168	275	639	301
30-May-08	261	535	180	159	156	541	158	150	252	598	275
30-Jun-08	308	614	227	177	221	596	194	199	294	596	313
31-Jul-08	309	612	225	176	209	664	192	180	314	657	332
29-Aug-08	323	671	240	169	223	724	207	204	319	648	344
30-Sep-08	442	953	333	223	318	1001	275	310	412	959	470
31-Oct-08	684	1787	451	366	531	3150	390	513	834	1486	709
28-Nov-08	748	1722	490	337	575	3576	482	530	775	1544	765
31-Dec-08	724	1704	429	343	498	4731	434	509	685	1864	746
30-Jan-09	656	1495	409	392	472	3842	411	416	613	1730	693
27-Feb-09	672	1727	420	348	460	3433	429	383	587	1644	689
31-Mar-09	657	1894	424	286	486	3568	441	425	636	1570	695
30-Apr-09	542	1766	353	298	353	3385	350	304	525	1314	584
29-May-09	464	1291	291	193	311	3003	270	278	372	1328	514
30-Jun-09	433	1062	282	161	301	1322	280	272	383	1208	464
31-Jul-09	398	962	266	147	284	1180	250	262	348	1146	433
31-Aug-09	389	957	270	146	288	1091	271	258	352	1030	428
30-Sep-09	337	784	234	139	223	940	234	205	321	904	372
30-Oct-09	333	721	238	139	237	814	224	213	301	989	376
30-Nov-09	342	766	228	129	223	842	221	199	273	1141	383
31-Dec-09	294	660	189	95	198	769	192	165	238	1041	355
29-Jan-10	323	753	232	119	241	806	214	214	266	979	381
26-Feb-10	311	806	212	137	211	822	196	179	263	989	366
31-Mar-10	261	646	182	115	173	817	159	149	191	890	317
30-Apr-10	274	659	196	112	192	823	181	168	205	898	329
28-May-10	343	807	234	162	241	952	219	208	261	1244	407
30-Jun-10	358	845	247	146	229	1013	212	215	260	1247	415

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

EMBI Global composition by market sector (end-June 2010): Brady, 7.85%; Benchmark Eurobonds 92.15%.

by country: Brazil, Mexico and Venezuela account for 29.58% of the total weighting.

by region: Latin: 44.15%; Non-Latin: 55.85%.

EMBI Global Composition (as of June 2010)

