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Capital Flows to Latin America: Recent Developments

UNITED NATIONS

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SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

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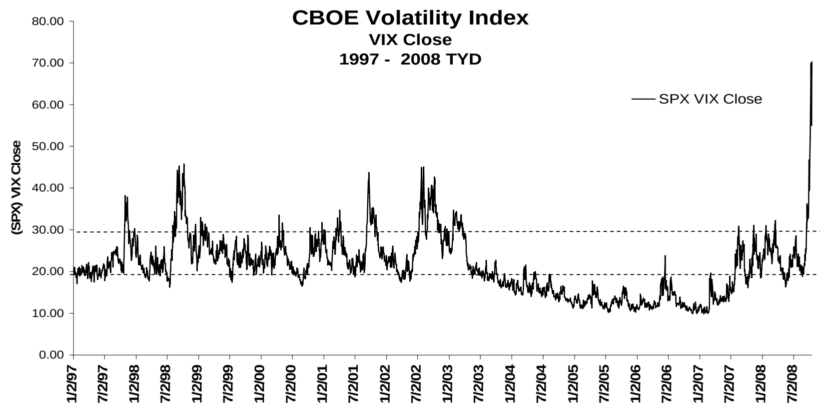
Introduction

Recent Developments[*]

The external environment has deteriorated sharply as a result of the spiraling financial turmoil, and has led to a weakening in commodity prices and fears of a worldwide recession. Latin America and the Caribbean’s fastest expansion in 40 years may be threatened as the global credit crunch makes financing scarce and squeezes demand for the region’s commodities. This time around the region is better positioned to weather the crisis than in the past, given improvements in macroeconomic and financial policies as well as a reduced net dependency on external capital inflows. However, Latin American markets are feeling the effects of the crisis through a slowdown in capital inflows, large declines in stock price indexes, significant currency adjustments and an increase in debt spreads. Volatility has soared, with the closely watched Chicago Board Options Exchange Volatility Index moving to an all-time high of 70.33 on October 17, indicating that fear (rather than greed) has been ruling the markets (see chart 1).

Chart 1:
CBOE Volatility Index
VIX Close
1997 - 2008 TYD



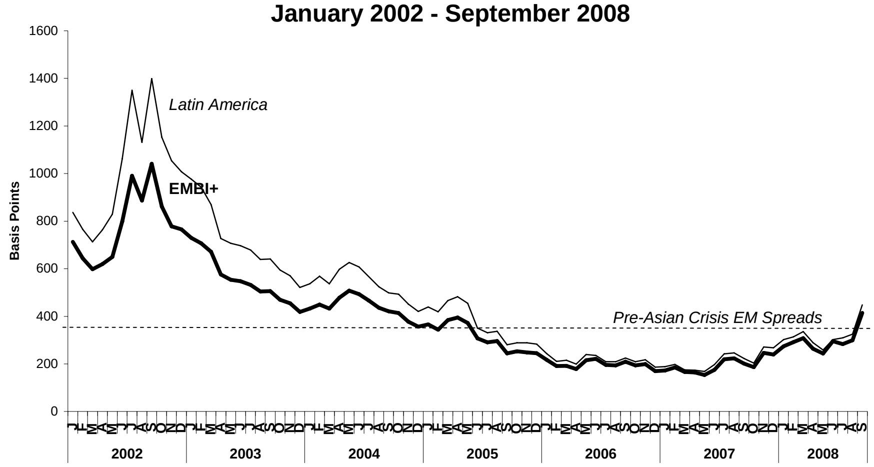
Source:Chicago Board Options Exchange, www.cboe.com/micro/vix/historical.aspx
Note: VIX values greater than 30 are generally associated with a large amount of volatility, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

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

Latin American Bonds, Equities, Currencies and Loans feel the impact of the financial turmoil

After reaching record lows in May 2007, emerging markets bond spreads are now above pre-Asian crisis levels (see chart 2). The JPMorgan EMBI+ Latin American composite widened by 146 basis points in the third quarter, with spreads reaching 448 basis points at the end of September. Spreads have widened sharply in recent weeks as foreign investors cut back regional exposure for the safety of U.S. Treasuries. The ongoing lack of liquidity and subsequent liquidation of assets is leading to a collapse in asset prices and a sharp widening in spreads. Daily spreads in October have risen to levels not seen since December 2002, making it much more difficult for governments that need financing to get it.

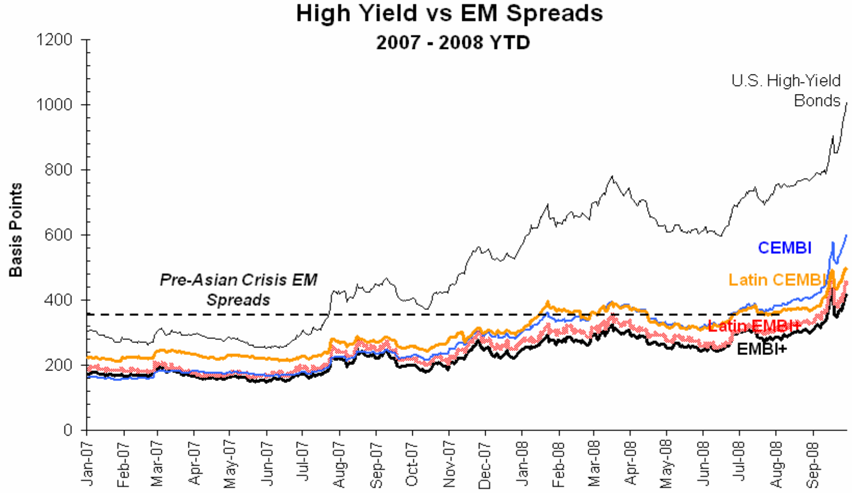
Chart 2:
EMBI+ Spreads and Latin American Component
January 2002 - September 2008



Source: JPMorgan, "Emerging Markets Bond Index."

Risk premiums for Latin corporates and sovereigns have risen substantially, but have remained well below U.S. junk (high-yield) bonds. Latin corporates are facing a steep rise in foreign exchange borrowing costs (although less than firms in other emerging markets), which raises concerns that refinancing risks will climb (see chart 3; CEMBI stands for Corporate EMBI).

Chart 3:
High Yield vs EM Spreads
2007 - 2008 YTD



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

So far, emerging markets' vulnerabilities have been more focused on corporates, as sovereigns have improved public debt dynamics and countries' financing needs are under control. Market performance has been driven by the rapid deterioration of emerging markets bank and corporate market, as well as ongoing losses in emerging markets equities. From January to September 2008, the Morgan Stanley Capital International (MSCI) Latin American Index lost almost 28%, while the Emerging Markets Index lost 37% and the G-7 Index lost 24% (see chart 4). While in 2007 the Latin America component gained 47%, almost nine times as much as the MSCI-G7 index for developed markets, since mid-September 2008 stocks in Latin America have been doing worse than stocks in developed countries, as concerns about access to credit and the adverse impact of sharp falls in commodity prices and in local currencies contribute to increased risk aversion and to outflows of capital.

Many governments in the region have used revenue from the commodity boom to pay down debt and build reserves. Now, facing a global financial crisis and the threat of recession in developed countries, the biggest question for Latin America is how long and deep this cyclical downturn will be, and how much it is going to reduce commodity prices. Prices for commodities such as soy, gold, copper and oil, which helped fund the region's boom, have fallen 28% since their July 2 high, according to the RJ/CRB Commodity Price Index. According to Morgan Stanley (in a September 29 report), should prices return to their 10-year average, Latin America's balanced budgets would quickly revert to a deficit of 4.1% of GDP.

Chart 4:
MSCI Equity Price Index (USD)
2008 YTD

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

As risk aversion increases, investors are rapidly pulling out massive amounts of money, creating problems for local markets and banks. There is an ongoing shortage of dollars (as investors liquidate assets in Latin American markets), and as currencies depreciate, inflation concerns increase despite the global slowdown. In Brazil and Mexico, central banks deployed billions of dollars of reserves to stem steep currency declines, as companies in these countries, believing their local currencies would continue to strengthen against the U.S. dollar, took debts in dollars. Some companies also made bets using currency derivatives that have led to losses in the billions of dollars. Dramatic currency swings have caused heavy losses for many companies, from Mexico's cement giant Cemex SAB to the Brazilian conglomerate Grupo Votorantim. Mexico's third-largest retailer, Controladora Comercial Mexicana, declared bankruptcy recently after reporting huge losses related to exchange rate bets. As concerns about corporate exposure to dollar-denominated derivatives increases, yields on bonds issued by many of

Brazil's and Mexico's leading companies have started to rise, sharply raising the cost of issuing new debt. Latin American external debt issuance came to a halt in the third quarter of 2008, totaling only US$ 690 million.

The cost of obtaining loans for capital expenditures, M&A and debt refinancing is also rising substantially for Latin American corporates amid contagion from the U.S. financial crisis. According to bankers, a protracted trend of shortening tenors and widening spreads has intensified in the past few weeks, indicating that bank lending is quickly following the way of bonds and equity.

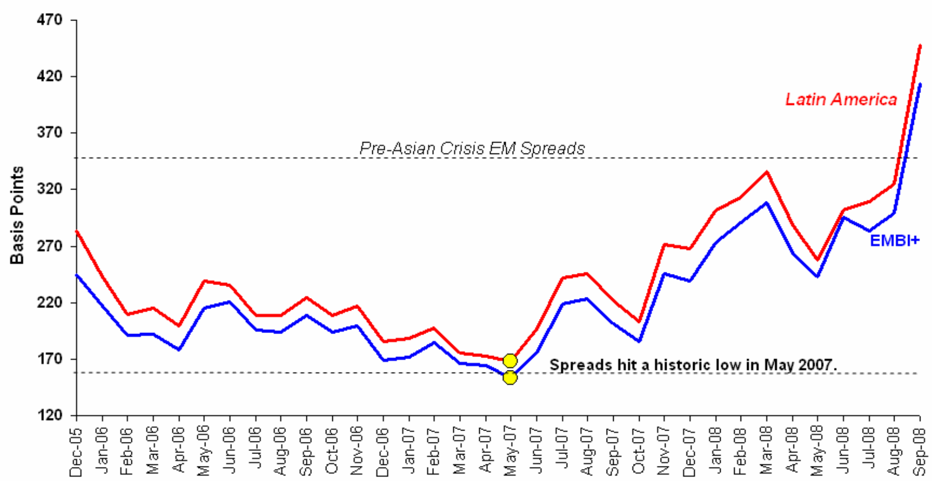
Finally, money transfers from Latin American migrants are expected to decline for the first time this decade, as a result of economic downturns in the U.S. and Spain, inflation and a weaker dollar. The Mexican Central Bank announced that money transfers from Mexicans living in the U.S. dropped a record 12.2% in August. In 2008, migrants from the region will send some 1.7% less in remittances year-on-year when adjusted for inflation, according to the IADB, compounding the adverse effects of the deepening financial turmoil.

I. Bond markets and debt management

Global risk appetite has declined significantly since August of last year and has led to a rise in credit spreads in emerging markets. Following a widening in spreads in the first quarter of 2008, the EMBI+ tightened by 13 basis points in the second quarter, while the Latin American component tightened by 34 basis points. Spreads increased again in the third quarter, however, with the EMBI+ widening by 119 basis points, while the Latin component widened by 146 basis points.

Emerging markets and Latin American spreads declined until May of 2007, with the EMBI+ reaching a record low of 153 basis points and its Latin component a record low of 168 basis points at the end of the month. The abundance of global liquidity and appetite for emerging market risk, as well as the continued broadening of the "investor base," contributed to the lower level of spreads. However, the deepening of the U.S. crisis in the subprime mortgage sector and the contagion to global credit markets has led to higher borrowing costs and an increase in spreads since then. Spreads are now above pre-Asian crisis levels and continue to be on an upward trend (see chart 5).

Chart 5:
JPMorgan EMBI+ and Latin American Composites: Monthly Spreads
December 2005 to September 2008



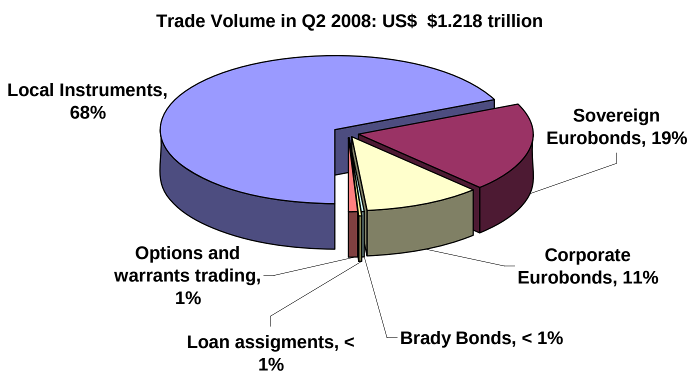
Source: JPMorgan, "Emerging Markets Bond Index Monitor".

Trading in emerging markets debt instruments was well below 2007 levels in the second quarter of 2008 (the latest data available), standing at US$ 1.218 trillion, compared to US$ 1.754 trillion in the second quarter of 2007, a 31% decrease. However, on a quarterly basis, trading stabilized after falling for the three previous quarters, and went up compared to the revised US$ 1.186 trillion reported in the first quarter by participants in EMTA Debt Trading Volume Survey. The increase in trading followed the Fed's decision to extend liquidity options to investment banks at the end of March, which helped to spark a rally for risky assets.

Countries with improved economic fundamentals that have built up significant financial cushions against external shocks continued to decrease their reliance on foreign-currency bond issues in the second quarter. According to the EMTA Survey, local instrument trading accounted for US$ 827 billion in Survey activity, down 26% from a year earlier, but up 2% from the previous quarter. Local instruments accounted for 68% of the total reported trading in the second quarter 2008, compared with a share of 64% in the second quarter of 2007.

In contrast to the increase in local market instruments, Eurobond volumes, at US$ 376 billion, declined 37% on a year-on-year basis, while it was up 4% when compared to first quarter volume. Eurobond sovereign volumes accounted for 31% of Survey volume. Sovereigns accounted for US$ 234 billion in the second quarter (19% of overall volume), while corporates accounted for US$ 132 billion (11% of total volume). Option trades accounted for 1% of volume, followed by less than 1% of volume in loan assignments and Brady bond transactions (see chart 6).

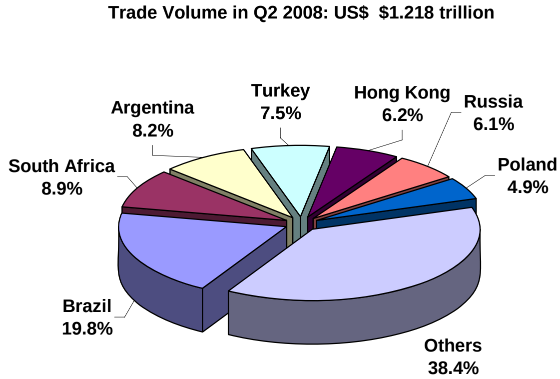
Chart 6:
Q2 2008 Emerging Markets Debt Trading Volume:
by Type of Instrument



Source: ECLAC with data from EMTA.

Brazilian instruments were the most frequently traded in the second quarter, with US$ 241 billion in turnover, down 20% when compared to the second quarter of 2007, but up 1% from the first quarter. Brazilian volume accounted for 20% of total trading. Argentina's debt instruments were the Survey's third most frequently instruments at US$ 100 billion, compared with US$ 146 billion in the second quarter of 2007 (a 31% decrease) and US$ 82 billion in the first quarter of 2008 (up by 22%). Argentina's activity accounted for 8% of total Survey volume (see chart 7).

Chart 7:
Q2 2008 Emerging Markets Debt Trading Volume:
Country Shares



Source: ECLAC with data from EMTA.

Positive credit ratings have supported Latin American debt issuance (see box 1), but record high commodity prices and rising cash reserves (up until July) reduced sovereigns' need to tap international debt markets. Corporate issuance has fallen significantly since June with the worsening of the financial turmoil, as financing becomes scarcer and demand for commodities declines. New debt issuance in the region came to a halt in August and September. Finally, as average Latin American country ratings remained broadly unchanged during this period of financial turbulence, spread dispersion increased further, consistent with greater differentiation by investors across issuers.

BOX 1: CREDIT RATING ACTIONS IN LATIN AMERICA – 2008 YTD

There have been eighteen positive actions in Latin America and the Caribbean since the beginning of 2008, including the long-awaited upgrades of Peru and Brazil to investment-grade. There have been three negative actions year-to-date, with two taking place in September.

Positive Actions: 18 (Bold)

January
- Panama: on January 29, **Fitch revised the country's sovereign outlook upwards from stable to positive**, citing "a virtuous circle of growth momentum and fiscal consolidation."

February
- Colombia: on February 25, S&P affirmed Colombia's sovereign credit rating, with a stable outlook (no change).
- Panama: on February 26, **S&P raised the country's sovereign credit rating from BB to BB+,** one notch below investment grade, citing strong growth and a reduction in government debt.
- El Salvador: on February 27 Fitch affirmed the country's sovereign rating, with a stable outlook (no change).

March
- Ecuador: on March 20, **Moody's upgraded Ecuador's foreign currency rating by two notches to B3 from Caa2**, citing strong oil revenues.

April
- Peru: on April 2, **Fitch raised Peru's rating to investment grade, moving it up one notch from BB+ to BBB-**, citing an improving debt profile because of rising commodity exports.
- Paraguay: on April 9, **Moody's upgraded Paraguay's foreign and local currency to B3 from Caa1**, citing a reduction in debt vulnerabilities thanks to higher export prices and fiscal surpluses recorded in the past 4 years.
- Brazil: on April 30, **S&P upgraded Brazil's foreign debt a notch to investment grade (BBB-)** in a widely anticipated endorsement of the country's recent economic and political changes. Although an upgrade had been anticipated, most investors were surprised by the timing of the decision.

(Continued)

Box 1 – (cont.)

May

- Jamaica: on May 19, S&P affirmed Jamaica's B rating, with a stable outlook (no change).
- Chile: on May 14, Fitch affirmed Chile's sovereign foreign-currency rating (A) with a positive outlook, noting that economic challenges have arisen since their last review. However, debt levels remain low, and macro policy sound.
- Brazil: on May 29, **Fitch raised Brazil's rating to investment grade, moving it up one notch from BB+ to BBB-**, citing improvement in external and fiscal accounts, which reduced vulnerability to external shocks.

June

- Colombia: on June 19, **Moody's upgraded Colombia's long-term foreign currency debt rating from Ba2 to Ba1, one notch below investment grade.** The upgrade reflects important structural changes to the country's economy, reinforcing an investment-driven recovery and a significant improvement in debt ratios. Moody's emphasized the improvement in the security situation that has led to a recovery in demand, which has improved the sovereign's ability to service its debt.
- Guatemala: on June 26 Fitch affirmed Guatemala's BB+ rating, with a stable outlook (no change).

July

- Costa Rica: on July 14, **S&P revised its outlook on Costa Rica to positive from stable**, while affirming its BB foreign currency rating. The revision reflected a steadily declining government debt burden delivered by buoyant tax revenues and GDP growth.
- Guatemala: on July 14, S&P affirmed Guatemala's BB rating with a positive outlook (no change).
- Peru: on July 14, **S&P upgraded Peru's long-term foreign currency debt rating to investment grade** (to BBB- from BB+) with a stable outlook, citing Peru's reduced external debt and surging internal demand.
- Dominican Republic: on July 18 **S&P removed the CreditWatch negative placed on February 08** (see negative actions)**,** and affirmed the negative outlook on the B+ sovereign credit rating (no change).
- Uruguay: on July 22, **S&P upgraded Uruguay's foreign-currency denominated debt one notch to BB-**, citing 4 years of high economic growth, moderate inflation, balanced fiscal accounts and small current account deficits that allowed the sovereign to significantly reduce its fiscal and external debt levels.

August

- Argentina: on August 11, **S&P downgraded Argentina's foreign and local currency long-term credit ratings one notch,** to B from B+. The agency cited concerns that slowing economic growth would constrain government finances.
- Costa Rica: on August 11, **Moody's revised Costa Rica's outlook on its Ba1 rating to positive from stable**, surprising the markets. The agency said that the positive fiscal performance has led fiscal and debt indicators to already begin converging toward investment-grade level.
- Argentina: on August 14, **Moody's revised the outlook for Argentina's foreign and local currency credit ratings lower, from stable to positive**.
- Uruguay: on August 14, **Moody's placed Uruguay's B1 ratings on review for possible upgrade**, noting the strong growth, reduced debt ratios and improved fiscal indicators.
- Trinidad & Tobago: on August 15, **S&P raised the foreign currency credit rating to A from A-**, placing it two notches above Moody's. The agency cited the continued strengthening of the fiscal and external accounts, along with an improved debt profile.
- Peru: on August 19, **Peru was upgraded one notch by Moody's to Ba1** (one notch below investment grade), the third upgrade it has received this year. Moody's cited the significant and sustained reductions in foreign-currency related credit vulnerabilities.

Negative Actions: 3

February

- Dominican Republic: on February 08, Standard &Poor's placed its B+ sovereign credit rating on CreditWatch, with negative implications. The agency said the move reflected uncertainty surrounding promissory notes due between March and July 2008. These notes are part of a series totaling US$130mn issued over the course of 2006 to SunLand Corporation and sold to other investors.

(Continued)

Box 1 – (conclusion)

April

- Argentina: on April 25, **S&P downgraded the country's outlook to negative from stable**, on concerns over inflation and fiscal policy.

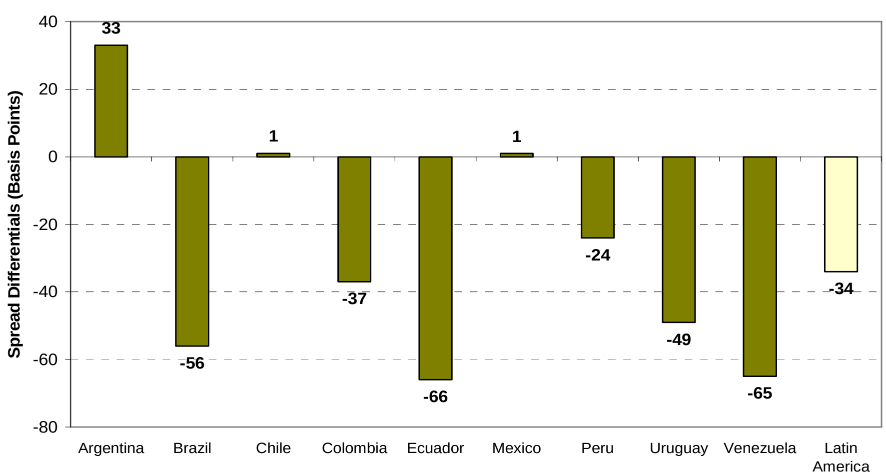
September

- El Salvador: on September 17, **S&P revised the outlook on its BB+ rating to negative from stable**, highlighting the economy's underperformance and fiscal rigidities, as well as uncertainty ahead of the March 2009 elections.
- Dominican Republic: on September 25, **Fitch downgraded the outlook on the foreign and local currency ratings to stable from positive**, reflecting increased concerns on the weak liquidity position and vulnerability to external shocks.

A. Spreads[1]

Following a widening in spreads in the first quarter, spreads tightened in the second quarter of 2008. However, with the confluence of three simultaneous shocks, the freeze in global credit markets, weaker external demand, and lower commodity prices, spreads widened again in the third quarter, very significantly. The JPMorgan EMBI Global tightened by 18 basis points in the second quarter and widened by 134 basis points in the third quarter, while its Latin American component tightened by 34 basis points in the second quarter, and widened by 157 basis points in the third. The region's tightening in spreads in the second quarter was a result of lower spreads for all the countries in the composite except Argentina, Chile and Mexico, and the widening in the third quarter was a result of higher spreads for all the countries in the composite (see charts 8 and 9, box 2).

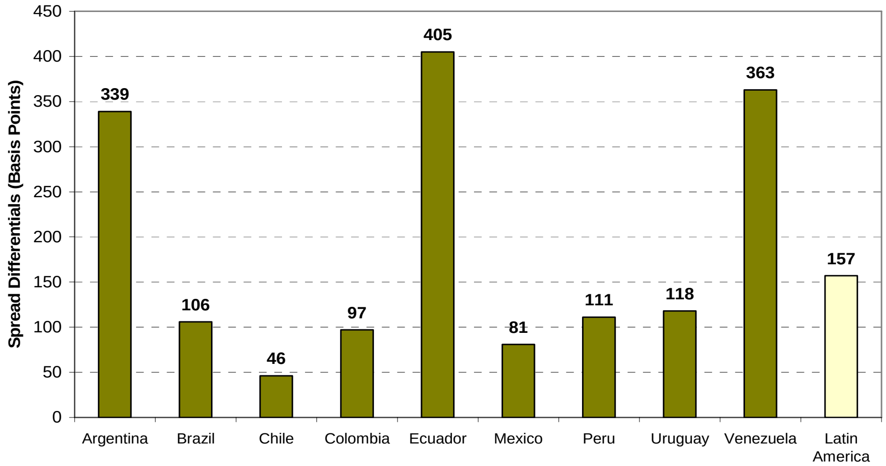
Chart 8:
EMBI Global Q2 2008 Spread Differentials



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

[1] 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.

Chart 9:
EMBI Global Q3 2008 Spread Differentials



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

BOX 2: EMBI GLOBAL LATIN COMPOSITE: COUNTRY SPREADS
Q2 AND Q3 2008

The deteriorating global market conditions have been felt in the region since the beginning of the year, with spreads for all countries in the composite widening sharply in the third quarter of 2008, following some tightening in the second. There has been some differentiation among the countries, however, which have been explained by their specific domestic conditions.

Argentina's bond spreads widened 33 basis points in the second quarter of 2008 and 339 basis points in the third, with spreads increasing from 581 basis points at the end of March 2008 to 953 basis points at the end of September. Argentine bond spreads soared to more than 1900 basis points after the government recently announced its intention to take over the management of US$ 28.7 billion in private pension funds. The announcement was not well received by the markets, and it was seen as a bid to seize assets and cover financing needs, raising concerns about the economy and about whether the second default of this decade may be looming. Following the announcement, the Toronto credit rating agency DBRS downgraded Argentina's long-term local currency securities ratings. Moody's also expressed concerns, but it did not take any immediate rating action. According to Moody's, "*although the proposal, if approved, would provide the government with greater financial flexibility in the short term, it undermines the government's already weak policy credibility and adds to negative perceptions about Argentina's institutional integrity – particularly governance and respect of contracts.*" Argentina's borrowing needs have grown as the global financial crisis pushed down commodity prices. According to Bloomberg, financing needs should increase to as much as US$ 14 billion next year from US$ 7 billion in 2007.

Brazilian spreads tightened 56 basis points in the second quarter, but widened 106 basis points in the third. Spreads increased from 283 basis points at the end of March 2008 to 333 basis points at the end of September. The threat of global recession is putting downward pressure on commodity prices, and Brazilian assets are also under huge pressure. Stocks were the first of the local assets to feel the crisis because of the stock market's high share of commodity-linked companies, but more recently the domestic currency is under more pressure, as companies reported big losses related to currency bets. However, the public sector is now more insulated from the effects of financial stress, suggesting that this time around the policy flexibility is much higher than in the past. Authorities have already shown they are ready to implement measures to help restore liquidity conditions. The central bank has announced a US$ 50 billion program of currency swaps designed to provide liquidity to local corporates and financial institutions, while the U.S. Federal Reserve has agreed to provide a swap line to Brazil to boost dollar liquidity. The government has also abolished a tax on foreign investment in an attempt to stop the dollar outflow. However, despite the government actions taken to shield local credit markets from the external turmoil, the credit outlook has deteriorated markedly.

(Continued)

Box 2 – (conclusion)

The government has also abolished a tax on foreign investment in an attempt to stop the dollar outflow. However, despite the government actions taken to shield local credit markets from the external turmoil, the credit outlook has deteriorated markedly.

Chilean spreads widened by 1 basis point in second quarter, and 46 basis points in the third, with spreads increasing from 176 basis points at the end of March 2008 to 223 basis points at the end of September. Chile has the lowest spread in the Latin American composite of the EMBI Global, reflecting the country's solid macroeconomic stability and low financial needs. However, following the global pattern, Chilean spreads increased in the third quarter of the year as a result of increased global volatility. Declining copper prices will not require a domestic demand adjustment comparable to the adjustment in 1997, as Chile's economy has a stronger balance sheet this time around. In addition, Chile's corporate sector is not exposed to the corporate leveraged foreign exchange bets that have driven the Brazilian *real* and the Mexican *peso* down. The government has provided markets with assistance through U.S. dollars liquidity injections and it has ample resources to deal with the pressures imposed by the deteriorating external environment. Lingering concerns remain with respect to inflation.

Colombian spreads tightened by 37 basis points in the second quarter and widened by 97 basis points in the third quarter, with spreads increasing from 258 basis points at the end of March 2008 to 318 basis points at the end of September. According to JPMorgan, *"allowing for lower commodity prices, recession in developed countries, and tighter conditions in global credit markets, we are downgrading GDP growth in Colombia and also increasing the current account deficit forecast."* Inflation remains at uncomfortable levels, but interest rates are expected to remain on hold amid global turmoil. The government lifted capital controls and began selling U.S. dollars to avoid further currency depreciation.

Ecuadorian spreads tightened by 66 basis points in the second quarter and widened by 405 basis points in the third quarter, from 662 basis points at the end of March 2008 to 1001 basis points at the end of September. Spreads widened as a result of deteriorating global credit conditions and political uncertainty. The approval of the constitution should bring more political stability, but there are still many uncertainties about the new rules for both international and domestic private investors. The debt audit commission submitted its final report to President Correa and called the 2012s and 2030 bonds illegitimate. However, at this point markets believe the report will not lead to a debt moratorium. Oil prices are declining and should increase fiscal and current accounts pressures.

Mexican spreads widened by 1 basis point in the second quarter and by 81 basis points in the third, from 193 basis points at the end of March 2008 to 275 basis points at the end of September. The global financial crisis and economic slowdown should hit the sovereign hard, given Mexico's open economy and close links to the U.S. manufacturing sector. Like Brazil, the Mexican peso has been under pressure, and the central bank has spent more than 10% of its foreign reserves amid the financial crisis, as many Mexican corporates made huge bets using currency derivatives that have led to losses in the billions of dollars.

Peruvian spreads tightened by 24 basis points in the second quarter and widened by 111 basis points in the third, from to 223 basis points at the end of March 2008 to 310 basis points at the end of September. Supportive liability management boosted Peruvian assets and contributed to the sovereign's move into investment grade territory announced by Fitch on April 2, and S&P on July 14. The central bank is selling U.S. dollars aggressively, but the Peruvian peso continues to weaken. Inflation pressures are still growing and the central bank is expected to maintain a tightening bias. However, the global crisis could prompt an early pause.

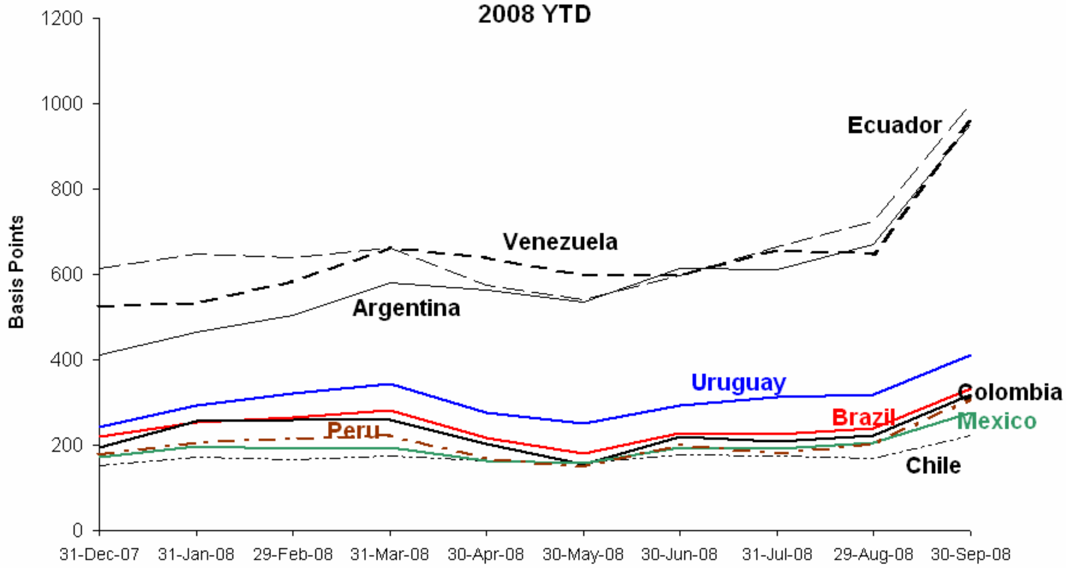
Uruguayan spreads tightened by 49 basis points in the second quarter and widened by 118 basis points in the third, from 343 basis points at the end of March 2008, to 412 basis points at the end of September. Following the pattern of the other countries in the region, Uruguay's spreads widened in face of increasing volatility and turmoil in global financial markets. Although the banking system has improved its performance, it nonetheless remains exposed to possible repercussions of international financial turmoil and to a bloated public sector. An 11 % depreciation of the peso since September 1 prompted the central bank to aggressively intervene in the foreign exchange market and to increase the monetary policy rate by 50 basis points to 7.75%.

Finally, Venezuelan spreads tightened by 65 basis points in the second quarter and widened by 363 basis points in the third, from 661 basis points at the end of March 2008 to 959 basis points at the end of September. Oil has been declining and is currently at a level that will force hard policy decisions. Political noise has increased in advance of the November 23 regional elections.

The recent evolution of the EMBI Global spreads has suggested a clustering of Latin American countries into three groups: investment grade countries, which show the lowest and least volatile spreads in the region; low EMBIG countries, perceived as low risk by investors and where spreads are converging towards the level and volatility of investment grade Latin countries; 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.[2]

Chile and Mexico have the lowest spreads in the EMBIG composite. Peru, Brazil, Colombia and Uruguay have displayed low EMBIG spreads, with Peru and Brazil having already received an investment-grade, and Colombia on the path of achieving an investment grade in the near future. Argentina, Ecuador and Venezuela are among the countries with the highest and most volatile spreads in the composite (see chart 10).

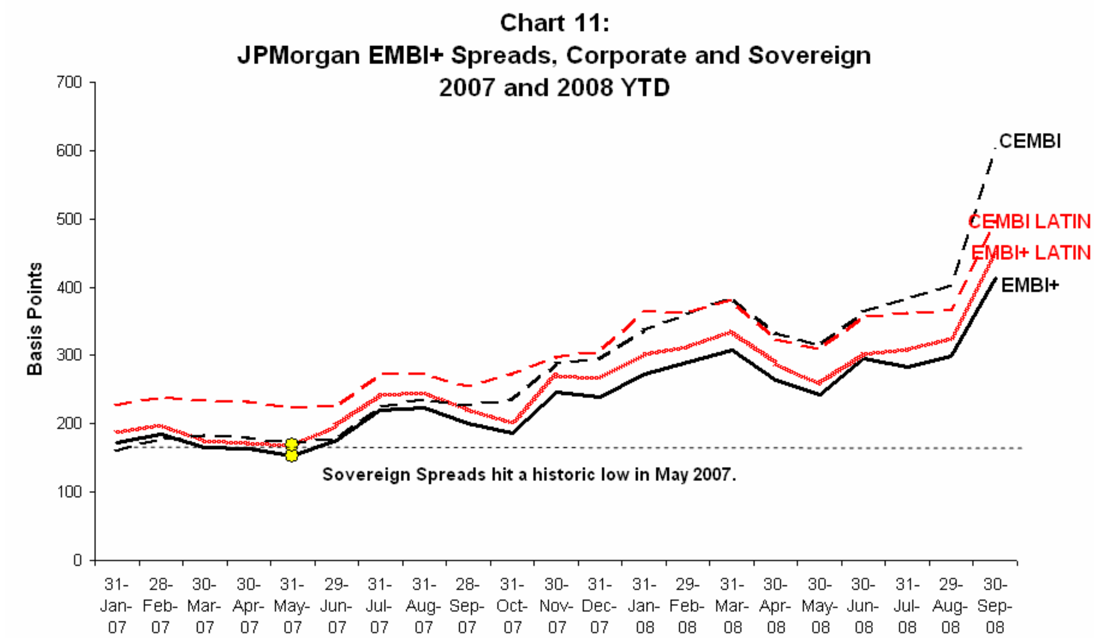
Chart 10:
Spreads on JPMorgan EMBI Global and Latin American Composites: 2008 YTD



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

Finally, Latin American corporates have not been immune to the financial crisis, and have widened 114 basis points according to the Latin Corporate EMBI from end-March to end-September. In Brazil and Mexico, for example, recent news of losses in foreign exchange derivatives prompted concerns among investors. However, on a relative basis, Latin American corporates have continued to outperform the CEMBI. The CEMBI widened 217 basis points in the same period (see chart 11).

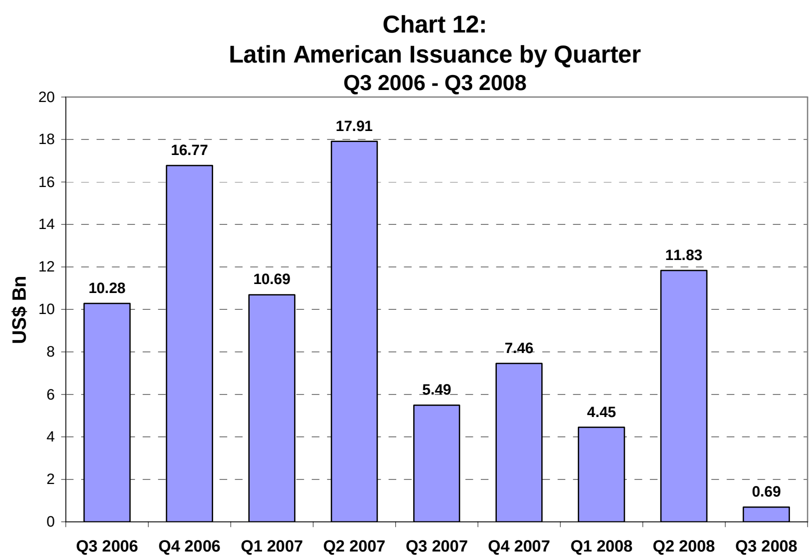
2 *"Latin America's New Immune System: How is it coping with the Changing Environment?"*, World Bank, Office of Regional Chief Economist's Press Conference, IMF-World Bank Spring Meetings, April 2008. The first group includes Chile and Mexico; the second includes Brazil, Colombia, El Salvador, Panama, Peru, Trinidad & Tobago, Uruguay; the third includes Argentina, Belize, Ecuador, Dominican Republic, and Venezuela.



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

B. Issuance

Latin American bond issuers placed a total of US$ 11.8 billion in international capital markets in the second quarter of 2008 according to data from JPMorgan, but new bond issuance came to a halt in the third quarter, amounting to only US$ 0.7 billion (see chart 12). The decline reflects a dramatic tightening of financing conditions in Latin American markets resulting from the freeze in global credit markets, fears of a worldwide recession and declining commodity prices. Corporate external bond issuance has fallen sharply as market conditions have deteriorated.



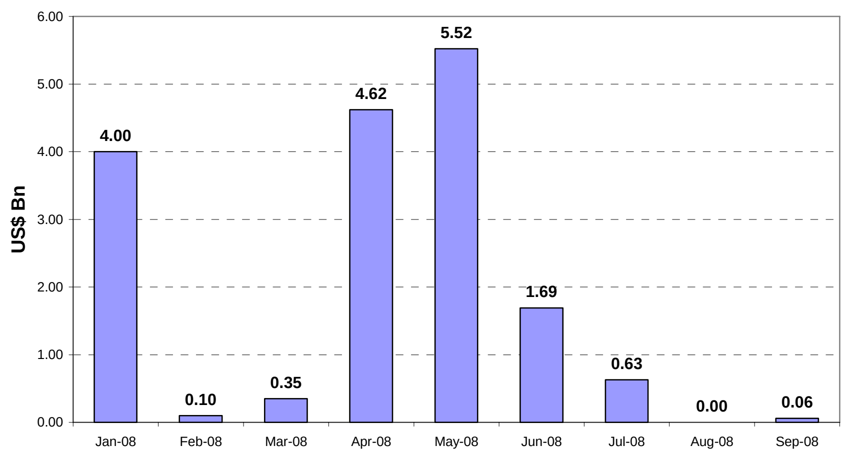
Source: ECLAC, on the basis of data from JPMorgan, Deutsche Bank, and Latin Finance.

Latin American debt issuance was very strong in the second quarter, especially in April and May, with strong corporate and sovereign activity. Corporates from Brazil taking advantage of the investment grade endorsement for the sovereign (*Odebrecht*, *Gerdau*, *Independencia*, medical services *Diagnósticos*, petrochemical *Braskem*, and several banks, including the *BNDES*), Guatemala (*Banco Industrial*), Argentina (*Industrias Metalúrgicas Pescarm*), and Mexico (*Televisa* and *PEMEX*) placed new issues during the quarter. Sovereigns tapping international capital markets were Venezuela, Brazil, Jamaica and Panama (see appendix C, tables 7 to 9).

In April, Venezuela issued US$ 4 billion of dollar-denominated debt. The government indicated that the proceeds from the bond issuance would be used to buy back external debt, though markets viewed it as a response to built-up demand for dollars and a need to absorb excess liquidity. In May, Brazil brought a much-anticipated US$ 525 million re-tap of its 6% coupon bond maturing in 2017, following other countries in the region in developing the longer-term end (10- and 20-year points) of their yield curves. In June, Jamaica priced US$ 350 million in new 2019 bonds with an 8.000% coupon; Panama re-tapped the 7.25% 2015 bond for US$ 235 million, and also exchanged the 2029 bond for 2011 and 2012 notes, completing the sovereign's external financing requirements for the year. Panama got US$ 451 million in reopened 2029 bonds in exchange for 2011 and 2012 notes.

Following the strong issuance in the region in the second quarter, new debt issuance in the third quarter came to halt. Issuance was only US$ 632 million in July, and it was dominated by corporates (*Banco Daycoval* from Brazil, *Oceanografia* from Mexico and the *Andean Development Corporation* (CAF)). There was no external debt issuance in August, and in September, according to JPMorgan data, only the Government of Aruba placed a US$ 57 million bond issue maturing in 2013 (see appendix C, tables 10 and 11).

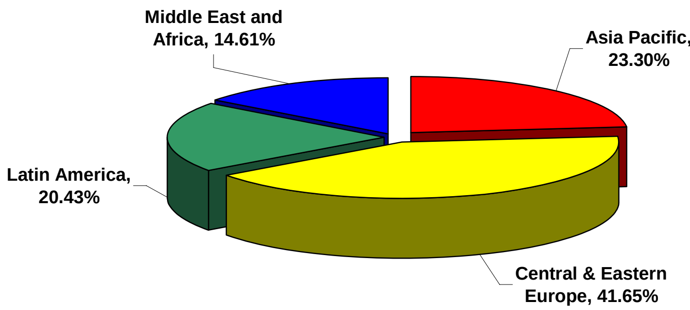
Chart 13:
New Latin American Debt Issuance
2008 YTD



Source: ECLAC, on the basis of data from JPMorgan, Deutsche Bank and Latin Finance.

Latin American bond issuers placed only US$ 17 billion in international capital markets in the first nine months of the year, compared to US$ 33.6 billion for the same period in 2007. Latin American issuance accounts for the third largest share of total EM issuance, following emerging Europe and Asia (see chart 14).

Chart 14:
Emerging Markets Debt Issuance: Regional Breakdown
2008 YTD



Note: Total Emerging Market debt issuance YTD was 83.1 billion.
Source: ECLAC, on the basis of data from JPMorgan.

Corporate and bank issuance in Latin America accounted for 52% of total issuance year-to-date, while sovereigns account for 48% (see table 1). In 2007, the corporate sector dominated total new debt issuance in the region for the second year in a row, accounting for 78% of the total. In 2008, so far, this dominance has diminished.

Table 1
Issuer Type Breakdown
(% of Latin America's Total)

Issuer Type	2008 YTD
Sovereign	48.43%
Corporate*	51.57%

*Also includes bank issuance.
Source: ECLAC, with data from JP Morgan.

Brazil is the biggest corporate issuer year-to-date, with a share of 67% of the region's total corporate issuance, followed by Mexico, with a share of 27%. Venezuela is the top sovereign issuer year-to-date, with a share of 49% of the region's total sovereign issuance, followed by Mexico (18%) and Colombia (12%). Brazil continues to be among the top five issuers in emerging markets (sovereign and corporate issuance combined), ranking fourth, with total issuance amounting to US$ 6.4 billion year-to-date. Venezuela ranks 7th, with US$ 4 billion, and Mexico ranks 8th, with US$ 3.8 billion (see table 2). 98.8% of the Latin American bonds issued year-to-date (sovereign and corporate combined) were denominated in dollars, with only 1.2% in other currencies (see table 3).

Table 2
Top 5 Issuers
in Emerging Markets*
2008 YTD

Amount (US$mn)	country
18,303	Russia
8,089	UAE
6,400	Brazil
5,928	Korea
4,200	Indonesia

* Sovereign and Corporate Combined
Source: ECLAC, with data from JP Morgan.

Table 3
Currency Breakdown
(% of Latin America's Total)

Currency	2008 YTD
Dollar	98.84%
Euro	0.00%
JPY	0.00%
Other*	1.16%

Source: ECLAC, with data from JP Morgan.
* Issuance in Swiss Franc (CHF).

Most corporates and sovereigns in the region appear well placed to weather the current crisis, holding enough cash positions and manageable maturity schedules. However, if markets stay closed for a long time, they may start to feel the strain. In September, the only corporate that attempted to place a new bond issue was *Telemar*, a high grade borrower, who failed to generate enough interest among investors. This does not bode well for other corporates that might have wanted to follow suit.

In local bond markets, tenors have been shrinking in reaction to global uncertainty. The Mexican government, in an effort to prop local markets, announced that it would reduce issuance of long-term local bonds, while boosting shorter-dated auctions and borrowing more from multilaterals. Mexico will cut sales of 10, 20 and 30-year peso denominated bonds in the fourth quarter to mitigate liquidity problems in the local financial markets, while increasing sales of 1, 3, 6, and 12-month bills. It also plans to borrow as much as US$ 5 billion from multilateral banks through 2009.

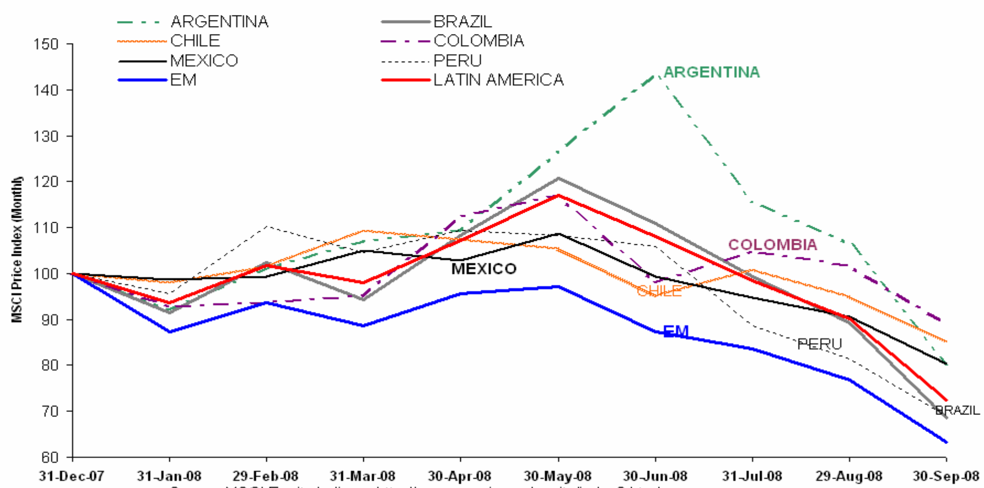
Looking to boost the finances of Latin American countries affected by the global financial crisis, multilateral institutions have offered the region more loans. The Inter-American Development Bank (IADB), the Andean Development Corporation (CAF), the World Bank's International Finance Corporation (IFC) and the Latin American Reserve Fund (FLAR) have announced almost US$ 10 billion in fresh credit lines, with the goal to safeguarding growth and employment through crisis. Colombia, for instance, has secured 2009 foreign financing with loans from multilaterals. The government will get US$ 1 billion from the World Bank, US$ 1 billion from the IADB and US$ 400 million from CAF, following deals struck during the annual meetings of the International Monetary Fund (IMF) and the World Bank in September. The IMF has also announced a new short-term facility, which has been established to support countries with strong policies that face temporary liquidity problems. The new facility will be quick disbursing, short-term financing using IMF resources.

II. Portfolio equity flows into Latin America

Supported by the commodity boom, relatively strong domestic growth and cheap valuations, Latin stocks had been among the best performers on a global basis up until recently. Just on April 30, S&P upgraded Brazil's foreign-currency debt to investment grade, pushing the country's stock benchmark index to a record. However, recent concerns about access to credit and the adverse impact of sharp falls in commodity prices and in local currencies have contributed to increased risk aversion and to outflows of capital. The deepening of the financial crisis, the prospect of a deep global slowdown, and the steeper decline in commodity prices, have had a negative impact on Latin American equity markets, especially in those countries with a heavy concentration of commodity-related companies in their "bolsas."

Year-to-date (January to September), Latin America's MSCI has lost 27.6% in dollar terms, while EM's MSCI has lost 36.8%. Brazil has showed the biggest loss (31.4%), given the heavy concentration of commodity-related companies in BOVESPA, followed by Peru (31.1%), Mexico (19.8%), Argentina (19.8%), Chile (14.9%) and Colombia (10.9%). In the third quarter, stocks sold off amid concerns over tighter credit conditions and plunging commodity prices (see chart 15 and table 4).

Chart 15:
MSCI Equity Price Index (USD)
2008 YTD



Source:MSCI Equity Indices, http://www.msci.com/equity/index2.html
Note: Prices at the end of the month. No data available for Venezuela as of Nov 2007.

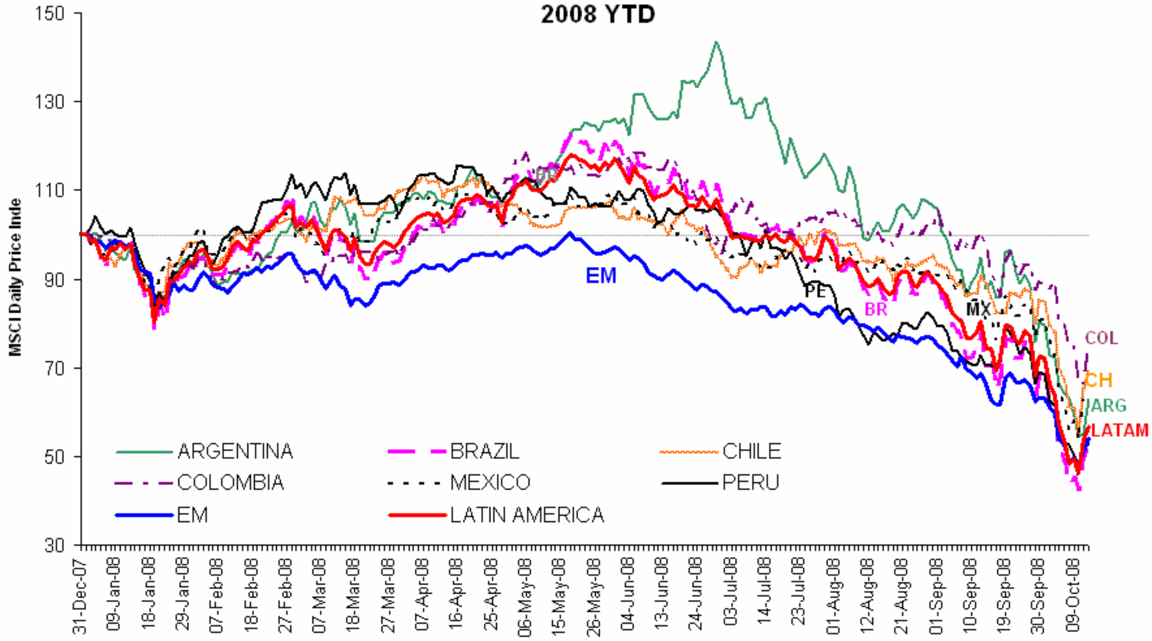
Table 4: Stock Prices Indices
2008 YTD

	Price Index in USD				Variation			
	31-Dec-07	*31-Mar-08*	*30-Jun-08*	*30-Sep-08*	*Q1/08*	*Q2/08*	*Q3/08*	*YTD*
Emerging markets	1,245.594	1,104.582	1,087.119	786.924	-11.32%	-1.58%	-27.61%	-36.82%
Latin America	4,400.409	4,316.14	4,751.473	3,186.403	-1.92%	10.09%	-32.94%	-27.59%
Argentina	2,918.834	3,120.692	4,187.658	2,341.907	6.92%	34.19%	-44.08%	-19.77%
Brazil	3,867.159	3,648.336	4,292.501	2,652.081	-5.66%	17.66%	-38.22%	-31.42%
Chile	1,802.836	1,972.186	1,714.688	1,534.255	9.39%	-13.06%	-10.52%	-14.90%
Colombia	619.260	589.998	607.104	551.618	-4.73%	2.90%	-9.14%	-10.92%
Mexico	5,992.137	6,288.188	5,947.250	4,806.239	4.94%	-5.42%	-19.19%	-19.79%
Peru	1,248.697	1,306.655	1,320.887	860.078	4.64%	1.09%	-34.89%	-31.12%
Venezuela	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

However, major stock markets in the region have rebounded somewhat more recently (in line with U.S. equity markets), as markets start to react to the series of measures already taken by developed economies and many emerging market countries to confront the financial crisis (see chart 16). Following the announcements of the Fund's Short-Term Liquidity Facility and the Fed's US$ 30 billion swap lines with Mexico and Brazil at the end of October, and after the Fed rate cut on October 30, the MSCI Latin America stock index rose 4.2%, amid optimism that the lending initiatives by the Fed and the Fund, as well as the interest rate cut, could help stave off a credit crunch in emerging markets. However, the MSCI Latin America still remains down 29% in October.

Chart 16:
MSCI Equity Price Index (USD)
2008 YTD

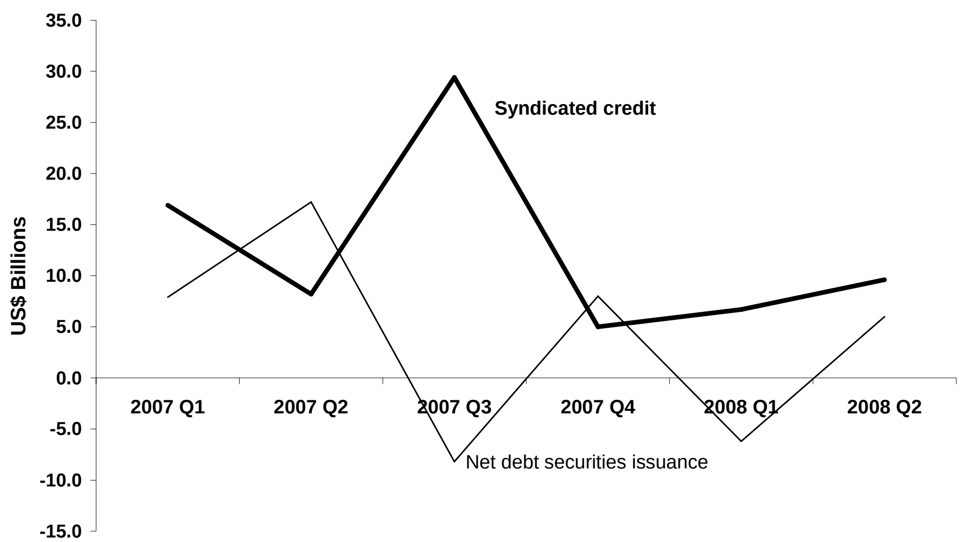


Source:MSCI Equity Indices, http://www.msci.com/equity/index2.html
Note: Prices at the end of the month.

III. Bank Lending

The pace of loan syndications for corporate and financial institutions in Latin America recovered sharply in the second quarter of 2008, the latest data available, despite the continued turmoil in financial markets. International bond and note issuance also expanded, rebounding from the previous quarter's decline. This coincided with a significant tightening of Latin American spreads (see chart 17).

Chart 17
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

Although syndicated credits data are not necessarily a reliable proxy for future bank lending, the recent data suggests that bank lending probably improved in the first and second quarters of 2008. However, most major commercial banks are currently operating under significant balance sheet constraints, and it is possible that these will cause international bank lending to the region to decline in the second half of 2008. The IIF projects that net flows from banks are likely to fall in 2008. For Latin America, the projected decline is from US$ 21.2 billion in 2007 to US$ 18.7 billion in 2008. The projected reduction in net bank lending, reflects a combination of three factors: a decline in the demand for borrowing from banks; an increase in caution on the banks' part, especially since the onset of the recent turmoil; and the presence of balance sheet constraints as a result of commitments to fund both leveraged buyouts (LBOs) and asset-backed conduits and structured investment vehicles (SIVs), which have reduced credit availability to all borrowing, emerging markets and Latin American borrowers included.

IV. Prospects

As the external environment continues to deteriorate, the region will need to adjust to changing global conditions. More expensive and scarce credit, coupled with a sharp deceleration in global economic activity, should weigh on exports, domestic consumption, and investment decisions. As financing becomes sparser, investment will be more difficult to attract.

The region as a whole is running a modest current account surplus, a figure that is more favorable than at the start of the 2002 credit crunch. Relatively small current account deficits as a share of GDP suggest that there is less need for a sharp exchange rate and/or growth adjustment to tight external credit. Vulnerability to shocks varies substantially across countries in the region, however. But even well-managed economies have significant vulnerabilities, including the risk of sudden outflows of foreign capital if the global credit squeeze worsens, as well as their large dependence on exports.

Policy authorities in the region have flexibility to provide support via fiscal and monetary policies, given the buffer built during the past five years of growth. Authorities in several countries have responded to the ongoing crisis of confidence in the financial sector by injecting liquidity into the system (via lower reserve requirements, lower rates, foreign exchange swaps, longer tenors in deposit auctions, augmented repurchase agreement (repo) facilities[3], or reduced taxes).

However, policymakers face a few challenges in the short-run. On the monetary front, inflation has been a problem, but should ease with the slowdown in the global economy; however, if it is not truly tamed, authorities will have to be careful regarding whether and when they should cut interest rates to stimulate growth. On the fiscal front, a contraction in revenues associated with falling commodity prices and/or lower economic activity may constrain the countries' ability to maintain key social and investment spending. The challenge is to avoid a further erosion of the region's gains on poverty, which have already taken a hit with the increase in food prices in the first half of the year. Finally, regarding the region's access to financing, authorities may need to use wisely their access to multilateral lending to offset at least in part the potential of an internationally-driven credit crunch.

[3] *Repos*, short for *repurchase agreements*, are contracts for the sale and future repurchase of a financial asset, most often Treasury securities; in effect a repo is a short-term interest-bearing loan against collateral.

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	Downgrade, outlook withdrawn	3-Dec-01
Barbados	Baa2		BBB+		nr		Affirmed, stable	9-Jul-02	Affirmed, O/L stable	17-Aug-07		
Belize	Caa1		B		nr		Upgrade, O/L stable	13-Feb-07	Affirmed, O/L stable	10-Dec-07		
Bolivia	B3		B-		B-		Affirmed, stable	16-Apr-03	O/L changed to stable, Affirmed	2-Nov-07	O/L changed to stable, Affirmed	27-Jul-07
Brazil	Ba1		BBB-		BBB-		Upgraded, O/L stable	23-Aug-07	Upgrade, O/L stable	30-Apr-08	Upgrade, O/L stable	29-May-08
Chile	A2		A+		A	(+)	Upgrade, stable	7-Jul-06	Upgrade, O/L stable	18-Dec-07	Affirmed, O/L (+)	14-May-08
Colombia	Ba1		BB+		BB+		Upgrade, stable	19-Jun-08	Affirmed, O/L stable	25-Feb-08	Upgrade, O/L stable	21-Jun-07
Costa Rica	Ba1	(+)	BB	(+)	BB		O/L changed to (+), Affirmed	11-Aug-08	O/L changed to (+), Affirmed	14-Jul-08	Affirmed, O/L stable	1-Nov-07
Cuba	Caa1		nr		nr		Assigned	5-Apr-99				
Dominican Republic	B2		B+	(-)	B		Upgrade, stable	2-May-07	O/L chnaged (-), Affirmed	18-Jul-08	O/L chnged to stable, Affirmed	25-Sep-08
Ecuador	B3		B-		CCC		Upgrade, stable	20-Mar-08	Upgrade, O/L stable	20-Nov-07	O/L changed to stable, Affirmed	30-Oct-07
El Salvador	Baa3		BB+	(-)	BB+		O/L changed to stable	18-Dec-03	O/L changed (-), Affirmed	17-Sep-08	Affirmed, O/L stable	27-Feb-08
Guatemala	Ba2	(+)	BB	(+)	BB+		O/L changed to (+)	24-Jul-06	Affirmed, O/L (+)	14-Jul-08	Affirmed, O/L stable	26-Jun-08
Honduras	B2		nr		nr		Affirmed, stable	29-Sep-98				
Jamaica	B1		B		B+		Downgrade, stable	27-May-03	Affirmed, O/L stable	19-May-08	Affirmed, O/L stable	12-Oct-07
Mexico	Baa1		BBB+		BBB+		Upgrade, stable	6-Jan-05	Upgrade, O/L stable	8-Oct-07	Upgrade, O/L stable	19-Sep-07
Nicaragua	Caa1		nr		nr		Downgrade, stable	30-Jun-03				
Panama	Ba1		BB+		BB+	(+)	Affirmed, stable	7-May-03	Upgrade, O/L stable	26-Feb-08	O/L changed (+), Affirmed	29-Jan-08
Paraguay	B3		B		nr		Upgrade, O/L stable	9-Apr-08	Upgrade, O/L stable	4-Jun-07		
Peru	Ba1		BBB-		BBB-		Upgrade, O/L changed to stable	19-Aug-08	Upgrade, O/L stable	14-Jul-08	Upgrade, O/L stable	2-Apr-08
Trinidad & Tobago	Baa1		A		nr		Upgrade, stable	13-Jul-06	Upgrade, O/L stable	15-Aug-08		
Uruguay	B1		BB-		BB-		Review (+)	14-Aug-08	Upgrade, O/L stable	22-Jul-08	Upgrade, O/L stable	27-Jul-07
Venezuela	B2		BB-		BB-	(-)	Upgrade, stable	7-Sep-04	O/L changed to stable, Affirmed	11-Jan-07	O/L changed to (-), Affirmed	18-Oct-07

Changes for 2008 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.

B. Latin American Spreads

Table 2:

Sovereign Spreads on JPMorgan EMBI+ and Latin American Composites

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

Source: "Emerging Markets Bond Index Monitors"; JPMorgan.
EMBI+ composition by market sector (end-September 2008): Brady 14.55%; Benchmark Eurobonds 85.45%.
by country: Brazil, Mexico and Venezuela account for 39.85% of the total weighting.
by region: Latin: 54.21%; Non-Latin: 45.79%.

EMBI+ Composition (as of September 2008)

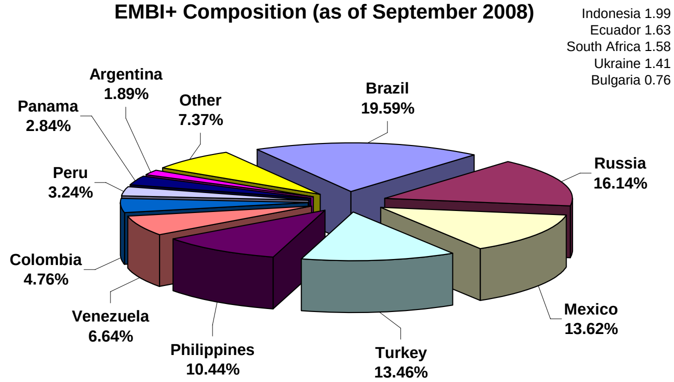


Table 3:

Sovereign Spreads on JPMorgan EMBI Global and Latin American Composites

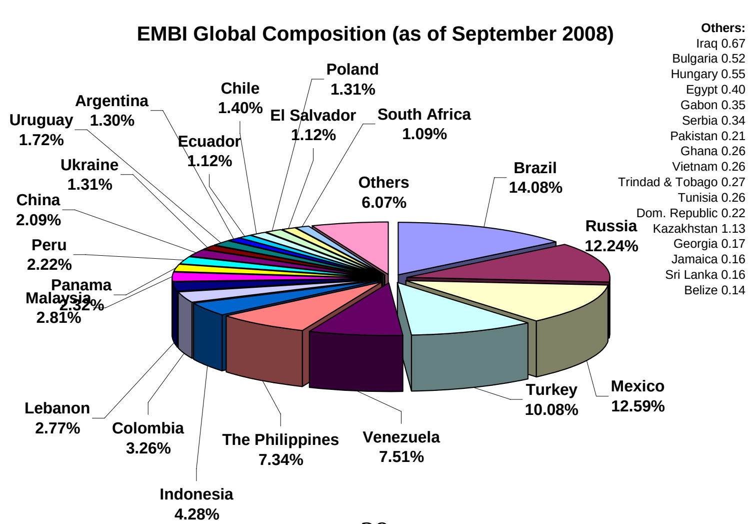
	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
31-Jan-05	356	5022	412	60	364	644	172	267	402	452	434
28-Feb-05	333	4827	388	59	343	632	161	247	344	427	413
31-Mar-05	373	5105	455	71	393	660	188	277	427	455	459
29-Apr-05	384	5757	452	72	406	810	198	279	470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

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

EMBI Global composition by market sector (end-Sep 2008): Brady, 10.98%; Benchmark Eurobonds 89.02%.

by country: Brazil, Mexico and Venezuela account for 34.18% of the total weighting.

by region: Latin: 49.42%; Non-Latin: 50.58%.



C. New Latin American Debt Issuance

C1. January 2008

Table 4:

New Latin American Debt Issuance First Quarter of 2008 Jan-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Usiminas	USD400	400	7.25%	18-Jan-18
Brazil	Banco Itau	USD100	100	4.10%	24-Jan-09
Brazil	Petrobras	USD750	750	5.88%	1-Mar-18
Colombia	Colombia, Republic of Colombia	USD350	350	7.38%	18-Sep-37
Colombia	Colombia, Republic of Colombia	USD650	650	7.38%	27-Jan-17
Mexico	Mexico, UMS, United Mexican States	USD1500	1,500	6.05%	11-Jan-40
Supranational	CAF	USD250	250	5.75%	12-Jan-17
Total			**4,000**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C2. February 2008

Table 5:

New Latin American Debt Issuance First Quarter of 2008 Feb-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Banco Cruzi	USD100	100	7.25%	20-Aug-09
Total			**100**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C3. March 2008

Table 6:

New Latin American Debt Issuance First Quarter of 2008 Mar-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Banco BMG	USD250	250	6.88%	11-Mar-10
Bahamas	Commonwealth of Bahamas	USD100	100	7.13%	02-Apr-38
Total			**350**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C4. April 2008

Table 7:

New Latin American Debt Issuance Second Quarter of 2008 Apr-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Odebrecht	USD200	200	7.50%	18-Oct-17
Brazil	Banco Fibra	USD150	150	6.75%	22-Apr-10
Brazil	Banco Industrial s Comercial SA	USD130	130	7.00%	23-Apr-10
Brazil	Banco Cruzeiro	USD110	110	7.38%	30-Apr-10
Guatemala	Banco Industrial	USD30	30	9.00%	30-Apr-68
Venezuela	Venezuela, Bolivarian Republic of Venezuela	USD2000	2,000	9.25%	7-May-28
Venezuela	Venezuela, Bolivarian Republic of Venezuela	USD2000	2,000	9.00%	7-May-23
Total			**4,620**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C5. May 2008

Table 8:

New Latin American Debt Issuance Second Quarter of 2008 May-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Argentina	Industrias Metalurgicas Pescarm	USD65	65	9.50%	4-Jun-09
Brazil	Brazil, Federal Republic of Brazil	USD525	525	6.00%	17-Jan-17
Brazil	Independencia	USD300	300	9.88%	15-May-15
Brazil	Gerdau	USD500	500	7.25%	20-Oct-17
Brazil	Banco Industrial Comercial SA	USD130	130	7.00%	23-Apr-10
Brazil	Diagnosticos	USD250	250	8.75%	29-May-18
Brazil	Banco Panamericano	USD130	130	7.25%	29-May-10
Brazil	BNDES	USD1000	1,000	6.37%	16-Jun-18
Brazil	Braskem	USD500	500	7.25%	5-Jun-18
Brazil	Banco Daycoval	USD125	125	6.88%	9-Jun-10
Mexico	GrupoTelevisa	USD500	500	6.00%	15-May-18
Mexico	PEMEX	USD1000	1,000	5.75%	1-Mar-18
Mexico	PEMEX	USD500	500	6.63%	15-Jun-38
Total			**5,525**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C6. June 2008

Table 9:

New Latin American Debt Issuance Second Quarter of 2008 Jun-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Banco Fibra	US$150	150	7.00%	6-Jun-11
Brazil	Banco Pine	US$150	150	7.38%	17-Jun-10
Brazil	Arantes International	US$150	150	10.25%	19-Jun-13
Brazil	Lupatech	US$75	75	9.88%	Perpetual
Brazil	Banco Sofisa	US$125	125	7.25%	7-Jul-11
Jamaica	Government of Jamaica	US$350	350	8.00%	24-Jun-19
Panama	Panama, Republic of Panama	US$235	235	7.25%	15-Mar-15
Panama	Panama, Republic of Panama	US$451	451	9.38%	1-Apr-29
Total			**1,686**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C7. July 2008

Table 10:

New Latin American Debt Issuance Third Quarter of 2008 Jul-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Brazil	Banco Daycoval	US$100	100	7.25%	21-Jul-11
Mexico	Oceanografia	US$335	335	11.25%	15-Jul-15
Supranational	CAF	CHF200	197	5.00%	13-Aug-13
Total			**632**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.

C8. August 2008

No issuance

C9. September 2008

Table 11:

New Latin American Debt Issuance First Quarter of 2008 Sep-08					
Country	**Issuer**	**Amount (million)**	**Amount US$ (mm)**	**Coupon(%)**	**Maturity**
Aruba	Government of Aruba	USD57.3	57	6.05%	12-Sep-13
Total			**57**		

Source: "Emerging Markets Outlook and Strategy," JPMorgan.