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CAPITAL FLOWS TO LATIN AMERICA

Second Quarter 2002

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2nd Quarter of 2002

In the second quarter of 2002, conditions in global financial markets worsened as investor confidence deteriorated and risk aversion heightened. The revelation of corporate accounting irregularities in mature markets negatively affected investors' sentiment, causing a rebalance of portfolios in favor of higher quality assets and away from equities and low-grade bonds. Countries seen as higher risk were adversely affected by this rebalancing of portfolios. A number of Latin American countries were the focus of investors' concerns, in particular Brazil, where developments during the second quarter reflected investors' uncertainties about continuity of market friendly policies after the presidential elections, as well as worries about the possibly unsustainable dynamics of the Brazilian public sector debt.

Access to international capital markets declined significantly to low-grade issuers in Latin America. Given that sovereign borrowers had covered most of their financing needs for this year, Latin American corporate borrowers, in particular, were vulnerable to the closure of international capital markets. Credit enhancements, such as secured bond issues and insurance from a third party, were required from corporate issuers in high-risk countries. By the end of the quarter, with international capital markets closed for unsecured issues, top tier corporates in Latin America started to turn to domestic markets as a source of financing.

Although during most of the second quarter investors discriminated among emerging markets based on their policy stance and track record, toward the end of the quarter signs of contagion from Brazil emerged, as the correlation of emerging market bond movements with developments in Brazil increased (Table 1). In addition, contagion from Argentina was felt by neighboring countries through banking and real sector channels. A banking crisis in Uruguay was precipitated by capital outflows as liquidity constrained Argentine investors withdrew savings from their neighbor country's banks. The increased volatility in Brazil and contagion from Argentina led to a great number of credit downgrades during the second quarter. After Standard & Poor's upgraded Chile's A- foreign currency debt

BOX 1: CREDIT RATING MOVEMENTS IN THE SECOND QUARTER OF 2002

In the beginning of **April**, Moody's placed Uruguay Baa3 sovereign rating on review for downgrade, citing likely further contagion from Argentina. In **May**, Uruguay was downgraded by all credit rating agencies throughout the month, first by Moody's to Ba2 from Baa3, loosing its investment grade, followed by a cut to BB- by Standard & Poor's (two notches down), and to B+ (from BB+) by Fitch, citing heightened risks in the banking system, a steady decline in foreign currency deposits, and loss of depositor confidence. In the beginning of **June**, as Brazil's volatility increased, Moody's downgraded Brazil's foreign currency debt's outlook to stable from positive, and later in the month to negative.

The number of downgrades that followed in July and August reflected signs of contagion from Brazil. Fitch downgraded Venezuela's foreign and local currency debt ratings at the end of June; Standard & Poor's downgraded Peru's foreign currency debt's outlook from positive to stable in July, cut Brazil's sovereign rating to B+ (from BB-), aligning it with those of Moody's and Fitch, and also cut Uruguay's rating at the end of the month to B (from BB-). Moody's also downgraded Uruguay's rating in July by two notches, to B1. Over half of the issuers on negative credit watch by Standard and Poor's at the end of July were Latin names, and industrials were the most prominent sector. In August, Fitch revised the outlooks for El Salvador, Peru and Colombia's sovereign ratings to negative from stable, and Moody's downgraded Brazil's foreign currency debt to B2 (from B1).

outlook to positive from stable in April, only downgrades followed (Box 1).

Table 1: Correlations between the J.P. Morgan EMBI+ Spreads and its Components

2001

	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*	*Non-Latin*
EMBI+	1.00									
Argentina	0.38	1.00								
Brazil	0.89	0.40	1.00							
Colombia	-0.28	-0.64	-0.37	1.00						
Ecuador	0.73	-0.06	0.74	0.12	1.00					
Mexico	0.32	-0.34	0.24	0.60	0.44	1.00				
Peru	-0.23	-0.67	-0.18	0.50	0.37	0.14	1.00			
Venezuela	0.53	0.89	0.55	-0.35	0.17	-0.05	-0.65	1.00		
Latin America	0.98	0.55	0.89	-0.44	0.62	0.15	-0.35	0.64	1.00	
Non-Latin	-0.07	-0.78	-0.15	0.85	0.36	0.78	0.56	-0.51	-0.28	1.00

January to July 2002

	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*	*Non-Latin*
EMBI+	1.00									
Argentina	0.66	1.00								
Brazil	0.95	0.83	1.00							
Colombia	0.83	0.57	0.88	1.00						
Ecuador	0.96	0.64	0.93	0.89	1.00					
Mexico	0.99	0.58	0.90	0.79	0.94	1.00				
Peru	0.96	0.77	0.99	0.89	0.96	0.91	1.00			
Venezuela	0.74	0.13	0.52	0.48	0.64	0.81	0.53	1.00		
Latin America	0.98	0.79	0.99	0.86	0.95	0.94	0.98	0.61	1.00	
Non-Latin	0.68	-0.05	0.43	0.41	0.62	0.76	0.49	0.87	0.52	1.00

April - July 2002

	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*	*Non-Latin*
EMBI+	1.00									
Argentina	0.86	1.00								
Brazil	1.00	0.86	1.00							
Colombia	0.94	0.65	0.94	1.00						
Ecuador	0.97	0.79	0.97	0.96	1.00					
Mexico	1.00	0.86	1.00	0.93	0.96	1.00				
Peru	0.99	0.82	0.99	0.96	0.97	0.99	1.00			
Venezuela	0.98	0.93	0.98	0.86	0.93	0.99	0.95	1.00		
Latin America	1.00	0.88	1.00	0.93	0.96	1.00	0.99	0.99	1.00	
Non-Latin	0.96	0.73	0.96	0.95	0.94	0.97	0.95	0.93	0.95	1.00

June - July 202

	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*	*Non-Latin*
EMBI+	1.00									
Argentina	0.80	1.00								
Brazil	1.00	0.78	1.00							
Colombia	0.94	0.55	0.95	1.00						
Ecuador	0.95	0.56	0.95	1.00	1.00					
Mexico	1.00	0.81	1.00	0.93	0.94	1.00				
Peru	0.99	0.72	1.00	0.98	0.98	0.99	1.00			
Venezuela	0.98	0.90	0.98	0.86	0.86	0.99	0.95	1.00		
Latin America	1.00	0.80	1.00	0.94	0.94	1.00	0.99	0.98	1.00	
Non-Latin	1.00	0.78	1.00	0.95	0.95	1.00	1.00	0.97	1.00	1.00

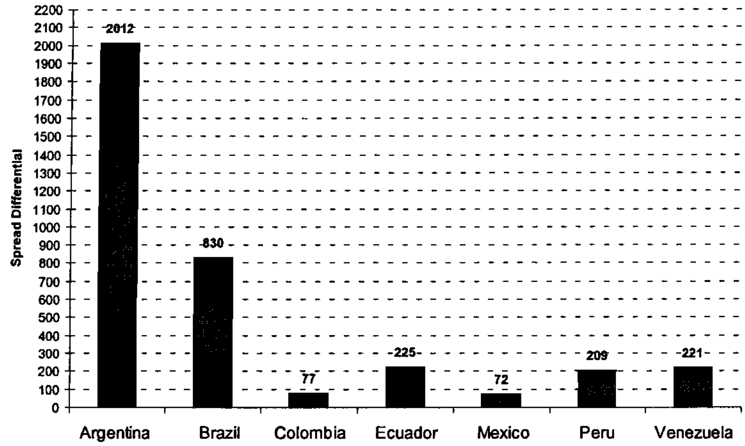
Source: ECLAC, on the basis of data from "Emerging Markets Bond Index Monitors"; JP Morgan

I. Bond Markets and Debt Management

Emerging market spreads, as measured by the J.P. Morgan's benchmark EMBI+ index, closed the second quarter 201 basis points wider, while the Latin component finished the quarter 350 basis points higher. Sovereign spreads widened for all Latin American countries in the composite as risk aversion in global markets and Brazilian volatility increased (Chart 1).

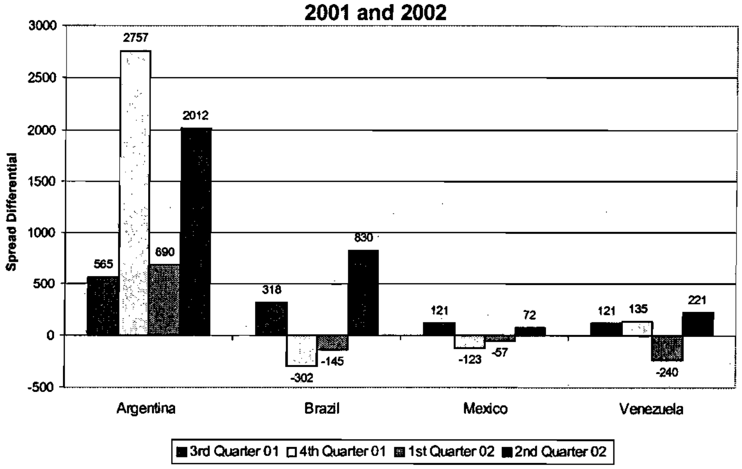
In the second quarter of 2002, as investor sentiment changed to negative in response to a less supportive global environment, Argentine spreads widened by 2012 basis points, following a much smaller increase in the first quarter, when the environment for emerging market financing was much more favorable. Brazilian spreads, reflecting higher volatility, widened by 830 basis points in the second quarter, after tightening in the fourth quarter of 2001 and in the first quarter of the year. Spreads in Mexico and Venezuela followed the same pattern as in Brazil, widening in the second quarter of 2002, after tightening in the fourth quarter of 2001 and in the first quarter of the year (Chart 2).

Chart 1:
Spread Differentials Q2 2002



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

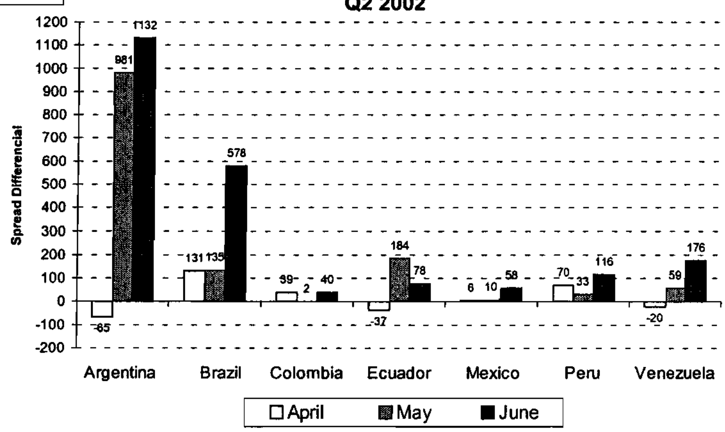
Chart 2:
Quarterly Spread Differential
2001 and 2002



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

Brazilian spreads deteriorated sharply in June, when investors' concerns over Brazil heightened. As a result of rising investors' uncertainty regarding the economic outcome after the presidential elections, the Brazilian currency weakened and maturities of domestic debt shortened, feeding concerns about the dynamics of the Brazilian public sector debt.[1] Spreads also widened for the other Latin American countries in the sample, reflecting signs of contagion from Brazil (Chart 3). The correlation of the spreads of the Brazilian EMBI+ component with the spreads of individual Latin American

Chart 3:
Monthly Spread Differentials
Q2 2002



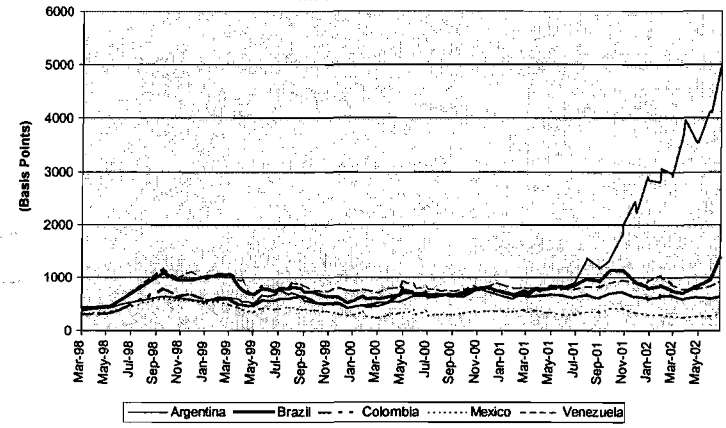
Source: ECLAC, on the basis of data from JP Morgan.

[1] According to the latest IMF's *Global Financial Stability Report*, "with almost one-third of the domestic debt linked to the exchange rate, Brazil's debt-to-GDP ratio risks rising significantly, unless the *real* retraces", p.35, September 2002.

countries and the non-Latin component increased significantly in June and July with respect to 2001 and the beginning of the year (see Table 1). However, as they did in 2001, credit differentiation and investors' low level of leverage continues to keep contagion at a lower level than in previous contagion episodes, such as the Russian default, Brazilian devaluation, and the period after September 11.

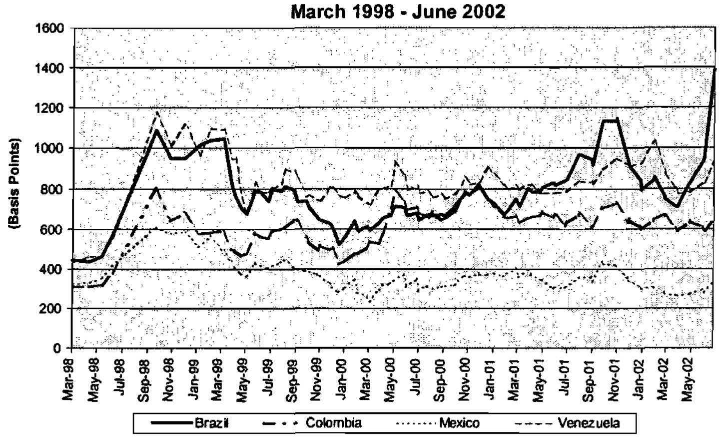
Charts 4 and 5 show that Argentinean and Brazilian spreads already left their Russian crisis peaks behind. While Argentinean spreads have been spiraling upwards since July 2001, when the crisis in Argentina deepened, Brazilian spreads deteriorated sharply only towards the end of the second quarter of 2002, when uncertainties over policy continuity after the presidential elections drove market sentiment. Spreads for the other Latin American countries in the sample also widened in the second quarter, reflecting the deterioration in investor's confidence and the global environment, yet they have not reached their Russian crisis peaks.

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



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

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



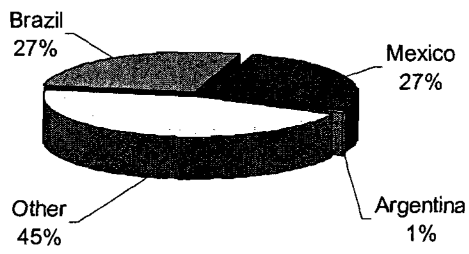
Source: ECLAC, on the basis of data from "Emerging Markets Debt Monthly", Merrill Lynch.

Latin American bond issuers placed US$3.8 billion in international capital markets in the second quarter of 2002, which represented a 57% decrease with respect to the US$ 8.88 billion issued in the first quarter, and the US$8.78 billion issued in the second quarter of 2001. Most of the new debt issuance during the quarter took place in April, and access to international capital markets was especially difficult for non-investment-grade issuers in the region.

The rise in risk-aversion during the second quarter translated into higher volatility and an emphasis on better credits and safe-heavens. The Emerging Markets Traders Association (EMTA)'s reported a turnover in emerging markets debt of US$841 billion for the second quarter of 2002, and the data suggest that many investors traded up positions in Brazil for new ones in Mexico, the market's largest safe heaven. At US$228 billion in turnover, Mexican debt instruments were the most frequently traded debt instruments for the seventh consecutive quarter.

Chart 6:
Emerging Markets Debt Trading Volume:
Country Shares

Trade Volume in the Second Quarter of 2002: US$841 bn



Source: EMTA

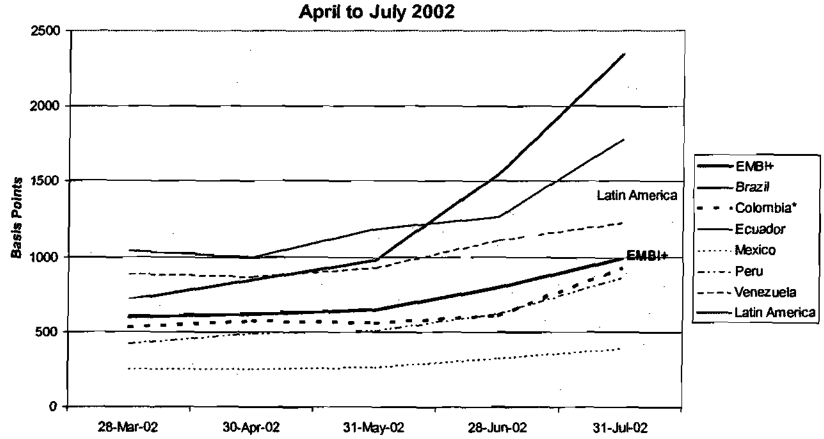
Brazilian volumes rose significantly as well and were just slightly below Mexican levels, versus US$199 billion in the previous quarter (a 15% increase). The increase in Brazilian volumes largely occurred in Brazilian C-bonds, the industry benchmark. Brazilian C-bonds reached their highest trading levels in four years as investors searched for more liquid instruments in face of increased debt volatility in Brazil.

In the case of Argentina, trading volumes remained at historic lows following the country's default in December of 2001 and the removal of large amounts of securitized debt from the market through debt-swap offers (Chart 6).

A. Spreads

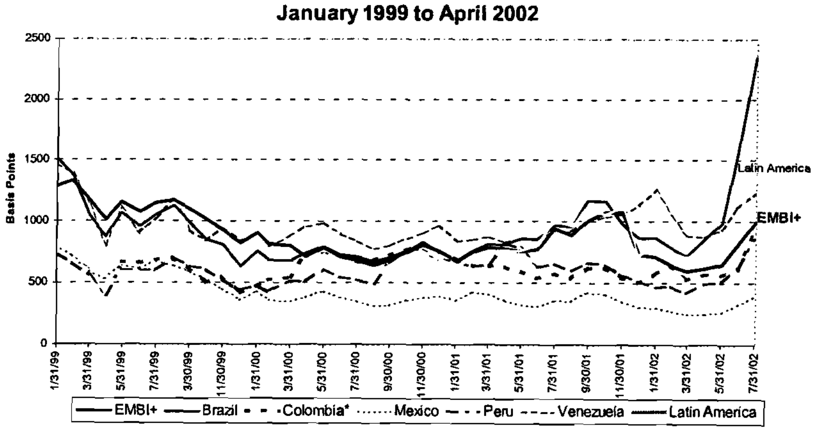
The J.P. Morgan composite EMBI+ spread closed the second quarter of 2002 with an increase of 201 basis points, after facing deteriorating global conditions and increased volatility in Brazil towards the end of the quarter. The spread for the EMBI+ Latin component widened further, with an increase of 350 basis points. Spreads widened for all Latin American countries in the sample in the second quarter (Chart 7), and Brazilian spreads increased above their peak of January 1999 (Chart 8).

Chart 7:
Spreads on JP Morgan EMBI+ and Latin American Composites
(excluding Argentina)
April to July 2002



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

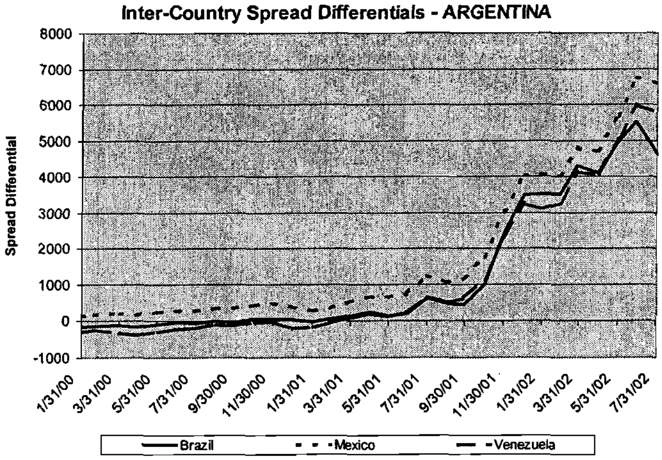
Chart 8:
Spreads on JP Morgan EMBI+ and Latin American Composites
(excluding Argentina)
January 1999 to April 2002



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

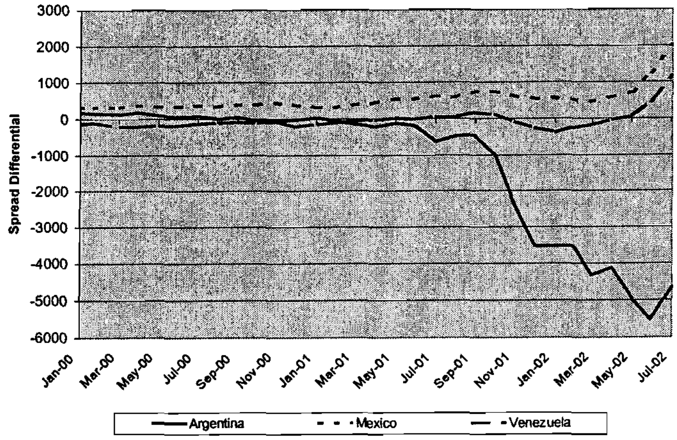
Spreads on Argentine bonds widened at an accelerated pace in the second quarter, after slowing down their pace in the first quarter. They continued to soar with respect to those on Brazilian, Mexican and Venezuelan bonds (Charts 9-12), as an IMF agreement remained remote, and investors did not

Chart 9:
Inter-Country Spread Differentials - ARGENTINA



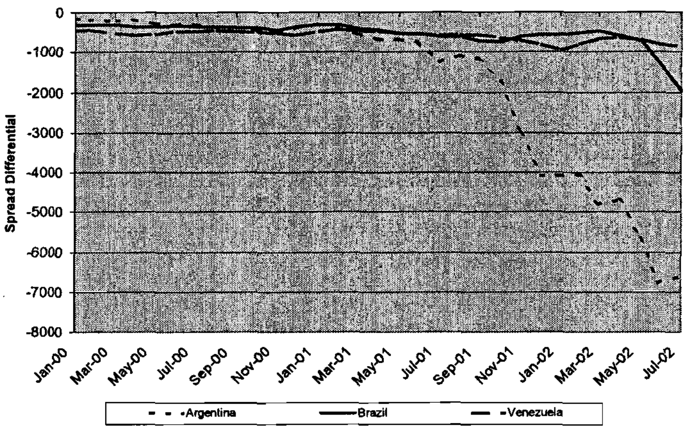
Source: ECLAC, on the basis of data from JP Morgan.
Note: EMBI+ country composite spreads at the end of the month.

Chart 10:
Inter-Country Spread Differentials - BRAZIL



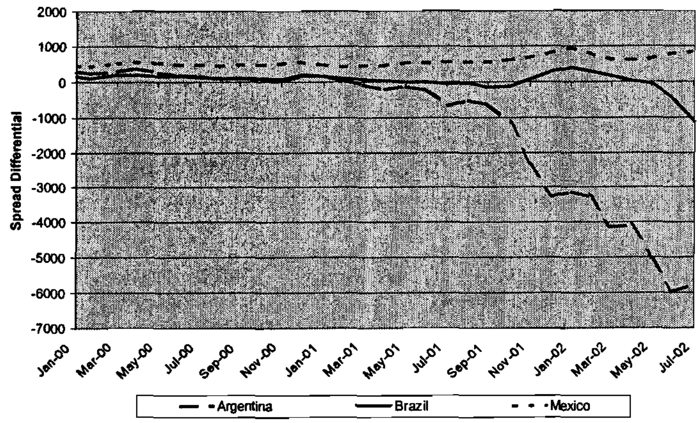
Source: ECLAC, on the basis of data from JP Morgan.
Note: EMBI+ country composite spreads at the end of the month.

Chart 11:
Inter-Country Spread Differentials - MEXICO



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

Chart 12:
Inter-Country Spread Differentials - VENEZUELA



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

expect progress on debt restructuring.

Brazil's EMBI+ component widened from 718 basis points at the end of March to 1548 basis points at the end of June, widening further in July, reaching 2341 basis points at the end the month. Market pressures eased somewhat in early August, after the announcement of an IMF loan package. However, market pressures resumed shortly after that, due to investors' skepticism over the ability of any of the presidential candidates to meet the fiscal terms agreed with the IMF.

Mexico's EMBI+ component widened from 251 basis points at the end of March to 323 basis points at the end of June. Although Mexico is seen by investors as a safe heaven, and continued to benefit from its high-grade status during most of the second quarter, Mexico's spreads were adversely affected by an increased correlation with Brazilian spreads in June, and its debt underperformed other investment-grade credits.

Colombian debt spreads widened to 613 basis points at the end of June, from 536 basis points at the end of March. Colombia has already secured external financing for its borrowing requirements in 2002, and has already fulfilled its US$2.3 billion target for debt issuance this year.

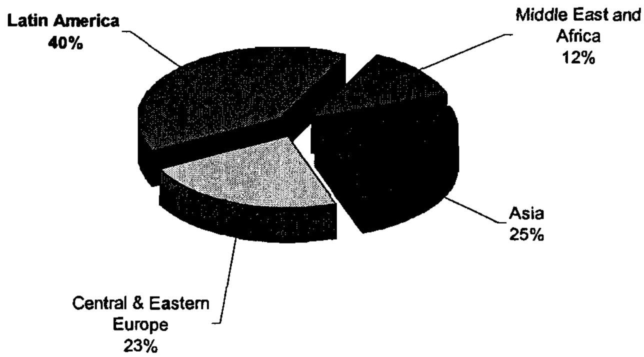
Ecuador's EMBI+ component widened from 1037 basis points at the end of March to 1262 basis points at the end of June. Spreads widened further in July (1780 basis points at the end of the month), on concerns that Ecuador would not be able to meet conditions for a new IMF program.

Peru's EMBI+ component also widened in the second quarter, from 419 basis points at the end of March, to 628 basis points at the end of June, due to concerns over the feasibility of the privatization program. After the postponement of the privatization of two electricity generators and four transmission companies in June, investors saw Peru's financing strategy as adversely affected. In July spreads widened further, to 865 basis points at the end of the month, as investors feared that the resignation of finance minister Kuczynski would put the continuity of market friendly economic policies at risk.

Finally, Venezuelan spreads widened from 890 basis points at the end of March to 1111 basis points at the end of June, when Fitch downgraded Venezuela's long-term foreign currency debt citing the government's reduced ability to follow sound policies, difficulties in rolling over debt, and political uncertainty.

B. Issuance

Chart 13:
Emerging Markets Debt Issuance: Regional Breakdown
H1 2002



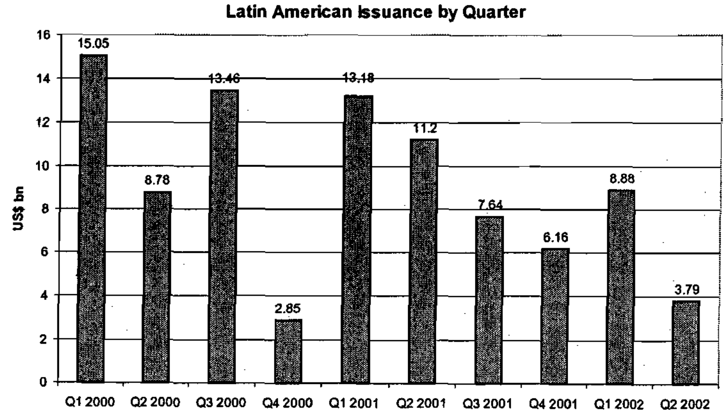
Note: Total emerging markets debt issuance year-to-date is US$31.6 billion.

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

Emerging markets placed US$ 31.6 billion in the international capital markets in the first half of 2002 according to Merrill Lynch, well below US$35.8 billion in the same period last year. Total issuance in Latin America in the first half of this year reached US$12.6 billion, accounting for 40% of the emerging markets total year-to-date. Latin America issuance was followed by Asia Pacific with a share of 25%, Emerging Europe with 23% and Middle East and Africa with 12% (Chart 13).

Latin American issuers placed US$ 3.8 billion in the second quarter, the lowest amount since the last quarter of 2000 (Chart 14). Most of the amount issued during the quarter was issued in

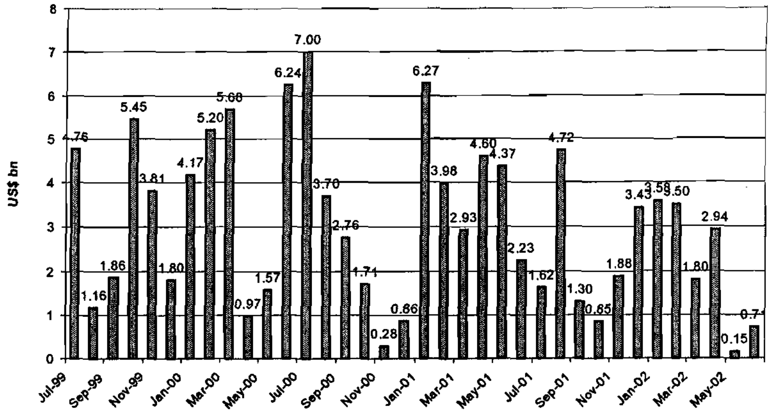
Chart 14:
Latin American Issuance by Quarter



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

April. Latin American issuance dropped in May and June, as risk aversion increased in response to corporate accounting irregularities in mature markets and higher volatility in Brazil. Latin American issuers placed the lowest monthly amount since mid-1999, as capital markets closed to lower-grade issuers (Chart 15).

Chart 15:
Latin American Bond Issuance: July 1999 to June 2002



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

Sovereign Latin American issuance in the second quarter of 2002 was led by Brazil's US$1,0 billion eight-year and seven-year EUR$0.5 billion in April, followed by Chile, with a 5-year US$0.6 billion and a US$0.3 3-year bond issue, and El Salvador, with a 30-year US$0.5 billion issue also in April. In June sovereign issuance came from Asia, Emerging Europe, and from small diversifying credits (which tend to have little impact on market technicals), with Jamaica among them, with a 15-year US$0.3 billion issue.

Table 2:
Top 5 Issuers
in Emerging Markets*
H1 2002

Country	Amount (US$mn)
Brazil	$5,902
Mexico	$4,005
Malaysia	$3,875
Philippines	$2,950
Turkey	$2,428

Source: Merrill Lynch.
* Sovereign and Corporate Combined

Two of the top five issuers in the first half of 2002 were Latin American countries. Brazil and Mexico were at the top two spots. According to Merrill Lynch, in the first half of 2002 Brazil placed a total of US$ 5.8 billion in sovereign and corporate debt, followed by Mexico at US$ 4.0 billion (Table 2). Chile was among the top 10 issuers, in 9^{th} place, with a total amount of US$0.9 billion in new debt issuance.

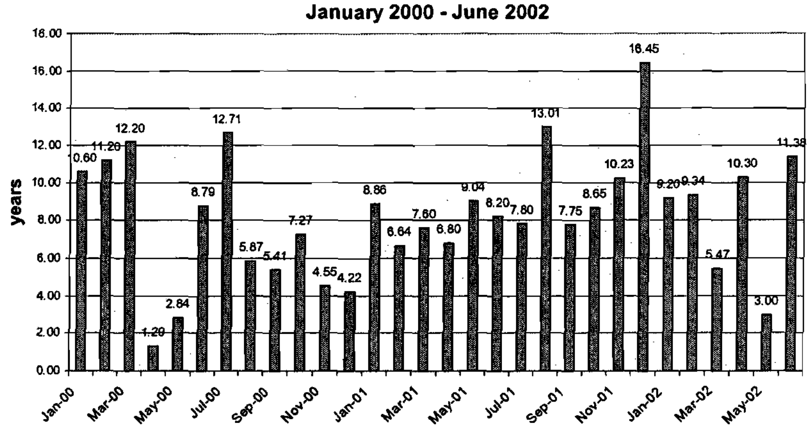
The dollar-denominated debt continued to dominate Latin American issuance in the second quarter of 2002, comprising 88% of the total. The composition of issuer types does not exhibit significant differences to previous months, with sovereign bonds accounting for 87% of total Latin American issuance, while corporate issuance represented 13% of the quarter's total.

There was strong liability management activity in Latin American markets in the second quarter of 2002. In April, Brazil's central bank announced the buy-back of 36,4 million euros worth of eurobonds maturing in the 2004-06 period. Proceeds from the country's 500 million euro-denominated issue were used to finance the buy-back. Colombia exchanged US$ 588 million of euro and dollar-denominated bonds maturing up to 2005 for local-peso denominated bonds in May, and in June announced an offer to exchange external debt maturing between 2002 and 2005 for a new 2010 issue, in order to extend maturities and improve its debt profile.

The trend in the retirement of Brady debt continued in the second quarter of 2002. Mexico announced in April the retirement of US$ 153 million (the entire remaining stock) of series B Brady Discount Bonds, and in May, the retirement of its remaining Brady discount bonds, exercising an option to redeem US$ 589 million of its series D bond due 2019. As Brady bonds disappear, Eurobonds are replacing them as the most liquid bonds in the emerging debt market. Brady bonds already represent less than 25% of sovereign external tradable debt according to Merrill Lynch. Also according to Merrill Lynch, Argentina and Ecuador have retired the most significant proportions of its Brady debt in Latin America, and are now left with 18% and 5%, respectively, of Brady debt as a percentage of relatively liquid external traded sovereign debt.

Long-term issuance recovered in April, with a monthly bond average maturity of 10.3 years. In May maturity dropped to the lowest monthly level since April and May of 2000, but there was only one new issue in May. Maturity recovered in June, with an average of 11.4 years (Chart 16).

Chart 16:
New Latin American Debt Issuance: Average Maturity
January 2000 - June 2002



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

II. Portfolio Equity Flows into Latin America

Since the beginning of the second quarter, news of corporate accounting scandals in mature markets adversely affected the behavior of stocks. According to the latest *Capital Flows to Emerging Market Economies* of the Institute of International Finance, the U.S. S&P 500 index and emerging market stocks have fallen by more than 17%. Latin American equities have dropped over 21% in dollar terms since April, as local markets have been driven by volatility in Brazil, the continuity of the crisis in Argentina, and political unrest in Venezuela.

According to the IMF's latest *Global Financial Stability Report*, most of the decline was concentrated at the end of the quarter, with Latin American equities falling in synchronization with bonds. The three-month moving correlation between returns on the EMBI+ and the Latin American shares in the second quarter spiked to a three-year high, but it was still below the peaks seen in previous crisis. Chile's equities declined by 6.1, closely following U.S. equity markets, Mexico's shares fell 19.6%, reflecting declining U.S. markets and weakness in global telecommunications shares, and Brazilian equities fell 25.9%.

Table 3

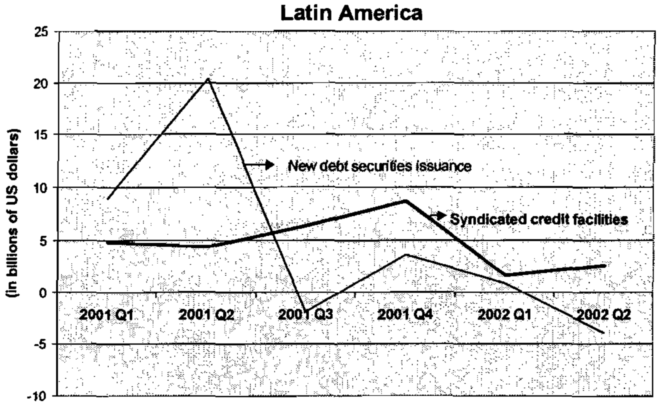
Portfolio equity flows into Latin America (millions of US dollars)				
	Total	Brazil	Chile	Mexico
Q1 2002	**2,160**	**2,445**	**-627**	**343**
January	420	219	-190	392
February	38	194	-81	-75
March	1702	2032	-356	26
Q2 2002	**438**	**887**	**-450**	**0**
April	947	1001	-55	
May	-67	202	-269	
June	-442	-316	-126	

Source: Goldman Sachs, "Global Emerging Markets Strategist" Portfolio Strategy, based on data from Local Stock Exchanges and Central Banks. August 14, 2002

Portfolio equity flows into Latin America were negative in May and June, as volatility spiked in Brazil (see Table3). In primary markets, there were only two equity issues originating from Latin America in the second quarter of 2002: Bancomer, a Mexican bank (US$782 million) and a public service company in Brazil (US$ 61 million).

III. Bank Lending

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



* Net Issuance: Gross Issues - Repayments

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

According to data from the Bank for International Settlements, the overall volume of announced syndicated lending increased from US$1.6 billion in the first quarter (the lowest level since 1996) to US$2.6 billion in the second quarter of 2002 (Chart 17). Brazilian electrical utilities and steel firms raised US$1.5 billion, and Mexican debtors US$900 million, although most of this lending represented refinancing of maturing loans. Few borrowers from other Latin American countries were able to access the syndicated loan market, as losses on banks' exposure to Argentina and rising concerns about Brazil later in the quarter weighed on market sentiment (Table 4). Latin American firms face a heavy repayment schedule in the second half of 2002, with more than US$10 billion in syndicated facilities maturing. Mexican borrowers face the largest repayments, at US$4.7 billion, followed by Argentinean borrowers at US$2.9 billion.

Table 4: Announced syndicated lending and securities issuance (in billions of US dollars)

	Syndicated credit facilities						Net securities issues					
	2001Q1	2001Q2	2001Q3	2001Q4	2002Q1	2002Q2	2001Q1	2001 Q2	2001Q3	2001Q4	2002Q1	2002Q2
Latin America	**4.8**	**4.4**	**6.4**	**8.7**	**1.6**	**2.6**	**9.0**	**20.4**	**-1.9**	**3.6**	**0.8**	**-3.9**
Argentina	1.0	0.4	0.5	0.5	-	-	1.2	15.3	-0.4	-0.1	-2.0	-0.7
Brazil	0.4	1.1	3.0	2.4	0.8	1.5	1.8	2.8	1.2	-0.2	1.3	-
Chile	0.7	0.5	0.2	0.7	0.2	-	-	0.3	0.4	0.7	-	0.9
Colombia	-	-	0.2	0.1	0.5	-	1.3	1.6	0.1	0.9	-0.2	-0.7
Mexico	2.3	2.1	0.8	4.0	0.1	0.9	4.0	-0.2	-4.2	0.4	-0.2	-3.9
Venezuela	0.2	0.3	0.7	0.7	-	-	0.4	0.2	0.2	0.2	-0.2	-

Source: *BIS Quarterly Review*, September 2002

IV. Prospects

Investors' concerns over corporate governance after a series of corporate accounting irregularities in mature markets were disclosed, and volatility in many local emerging markets (particularly in Latin America), caused the risk appetite of international investors to plummet toward the end of the second quarter. Less risk tolerance translated into additional weakness in emerging markets, further than that based solely on fundamentals.

While emerging capital flows weakened and emerging market spreads widened in the second quarter of 2002, investors retreat was not specific to emerging markets as an asset class, but was also a move away from other higher-risk asset classes, both within and outside emerging markets. The correlation between EMBI+ spreads and Merrill Lynch U.S. High-Yield Master Index spreads, for example, increased significantly in the second quarter when compared to the same period in 2000 and 2001 and to previous quarters (Table 5).

Table 5: Correlations between Merrill Lynch U.S. High-Yield Master Index and the EMBI+

April-July 2002

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**1.00**	1.00	
EMBI+ Latin	**0.98**	0.98	1.00

April-July 2001

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**0.52**	1.00	
EMBI+ Latin	**0.45**	0.25	1.00

April-July 2000

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**-0.76**	1.00	
EMBI+ Latin	**-0.24**	0.77	1.00

Q4 2001

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**1.00**	1.00	
EMBI+ Latin	**0.66**	0.69	1.00

Q1 2002

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**0.91**	1.00	
EMBI+ Latin	**0.88**	1.00	1.00

2002 ytd

	Spread on U.S. High-Yield	*EMBI+ Non Latin*	*EMBI+ Latin*
Spread on U.S. High-Yield	1.00		
EMBI+ Non Latin	**0.96**	1.00	
EMBI+ Latin	**0.80**	0.71	1.00

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

Emerging market spreads, particularly in Latin America, widened significantly in June and July as banks reduced emerging markets exposure, particularly in Brazil, due to increased risk aversion and concerns regarding heightened volatility in countries where the continuity of market friends policies seemed at risk. Investor exposure to emerging markets debt has been reduced, while cash is at high levels, yet the outlook for emerging markets may remain overshadowed by a deterioration in investor sentiment until global risk aversion subside and uncertainties over policy continuity in key emerging markets subside. Developments in Brazil will be critical in the near future. Until the political situation in Brazil becomes clearer, investor risk appetite will remain subdued in Latin American markets.

APPENDIX

A. Latin American Spreads
B. New Latin American Debt Issuance
C. Merrill Lynch U.S. High-Yield Master Index vs. EMBI+

A. Latin American Spreads

Table 1:

Sovereign Spreads on JP Morgan EMBI+ and Latin American Composites

	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*
31-Jul-98	633	454	608	n.a.	1371	461	515	829	554
31-Aug-98	1524	1278	1421	n.a.	2077	941	941	2575	1328
30-Sep-98	1330	904	1326	n.a.	1903	911	911	1558	1111
31-Oct-98	1190	779	1192	n.a.	1484	819	755	1372	980
30-Nov-98	1070	664	975	n.a.	1221	737	610	1612	858
31-Dec-98	1151	707	1231	n.a.	1631	741	612	1283	941
31-Jan-99	1288	858	1507	n.a.	2055	801	743	1463	1106
28-Feb-99	1330	794	1376	n.a.	2405	722	663	1393	1028
31-Mar-99	1171	683	1041	n.a.	1973	600	562	1121	839
30-Apr-99	1010	596	873	n.a.	1553	532	396	789	709
28-May-99	1157	786	1066	671	1862	647	603	1108	880
30-Jun-99	1070	758	957	667	2113	623	609	896	832
30-Jul-99	1147	853	1053	691	2473	677	610	1024	919
31-Aug-99	1166	776	1124	700	3402	644	700	1174	931
30-Sep-99	1098	663	984	613	4764	596	635	925	823
29-Oct-99	1010	635	851	505	3705	535	613	836	743
30-Nov-99	927	650	806	549	3093	449	526	940	715
31-Dec-99	824	533	636	423	3353	363	443	844	597
31-Jan-00	904	594	758	482	4033	438	482	894	682
20-Feb-00	816	551	688	524	3227	364	432	792	616
31-Mar-00	798	568	679	547	3111	354	518	879	623
28-Apr-00	708	572	742	740	3350	385	512	952	654
31-May-00	784	702	792	739	4499	438	611	985	737
30-Jun-00	712	676	722	722	3926	381	546	895	679
31-Jul-00	680	650	712	662	2846	353	522	837	654
31-Aug-00	643	681	672	686	1340	321	496	780	618
29-Sep-00	677	675	705	722	1261	318	664	798	634
31-Oct-00	745	815	758	768	1331	365	759	860	707
30-Nov-00	805	879	829	818	1441	385	772	902	759
29-Dec-00	756	773	749	755	1415	392	687	958	706
31-Jan-01	674	663	677	697	1230	363	674	838	631
28-Feb-01	748	803	753	646	1268	428	637	850	710
30-Mar-01	784	960	811	645	1366	414	650	874	763
30-Apr-01	773	1039	812	634	1482	366	824	833	766
31-May-01	751	993	858	600	1366	326	774	852	761
29-Jun-01	766	1050	847	541	1303	310	632	847	803
31-Jul-01	940	1599	972	585	1454	360	661	925	1016
31-Aug-01	885	1430	954	540	1411	354	601	916	959
28-Sep-01	1005	1615	1165	626	1516	431	669	995	1103
31-Oct-01	1073	2162	1163	628	1558	412	651	1034	1212
30-Nov-01	1069	3372	976	545	1393	357	572	1055	1283
31-Dec-01	731	4372	863	514	1233	308	521	1130	833
31-Jan-02	713	4379	866	586	1144	304	468	1254	837
28-Feb-02	644	4276	785	651	1147	272	474	1046	765
28-Mar-02	598	5062	718	536	1037	251	419	890	713
30-Apr-02	619	5004	849	578	1000	255	492	873	763
31-May-02	650	5979	981	567	1184	265	512	933	829
28-Jun-02	799	7074	1548	613	1262	323	628	1111	1063
31-Jul-02	991	7008	2341	930	1780	390	865	1226	1350
	EMBI+	*Argentina*	*Brazil*	*Colombia**	*Ecuador*	*Mexico*	*Peru*	*Venezuela*	*Latin America*

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

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

EMBI+ Composition (as of June 2002)

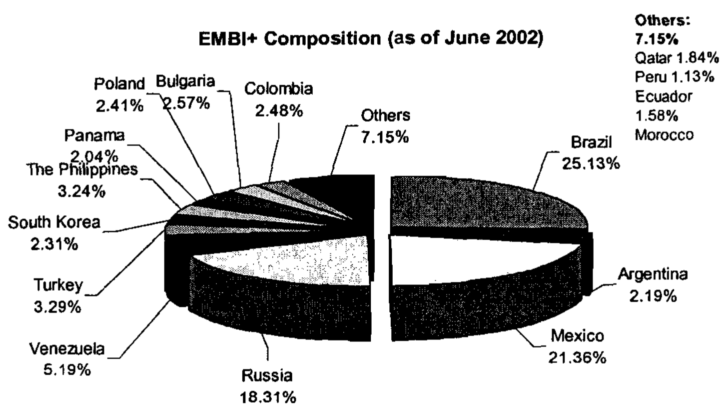


Table 2:

Spreads on 30-year Benchmark Latin Eurobonds March 1998 - June 2002					
Country	Argentina	Brazil	Colombia	Mexico	Venezuela
Coupon	9.750	10.125	8.375	11.500	9.250
Maturity	9/19/27	5/15/27	2/15/27	5/15/26	9/15/27
			(Basis points)		
6-Mar-98	379	442	310	326	437
17-Apr-98	409	434	310	333	462
15-May-98	422	462	317	354	466
12-Jun-98	487	573	383	412	555
25-Sep-98	649	1089	803	611	1172
30-Oct-98	608	953	638	579	1011
4-Dec-98	584	954	676	583	1114
8-Jan-99	546	1015	575	514	963
5-Feb-99	637	1036	579	563	1096
4-Mar-99	608	1047	589	495	1092
31-Mar-99	597	826	497	434	949
8-Apr-99	551	768	496	410	951
23-Apr-99	541	701	466	380	752
7-May-99	512	674	478	362	670
28-May-99	660	790	580	429	828
9-Jun-99	648	783	560	422	786
30-Jun-99	675	737	553	403	786
9-Jul-99	771	799	591	417	802
30-Jul-99	685	789	600	434	821
9-Aug-99	719	810	608	450	896
30-Aug-99	638	792	648	413	884
8-Sep-99	566	734	638	400	848
30-Sep-99	531	737	564	394	763
8-Oct-99	511	705	534	384	770
29-Oct-99	524	651	494	377	749
5-Nov-99	519	644	514	367	741
30-Nov-99	529	625	495	321	811
6-Dec-99	510	601	501	308	803
22-Dec-99	431	521	423	282	766
6-Jan-00	444	560	440	304	756
28-Jan-00	483	640	477	344	782
7-Feb-00	450	591	477	279	763
29-Feb-00	458	613	509	254	729
6-Mar-00	456	595	533	233	721
30-Mar-00	510	631	525	292	796
6-Apr-00	538	651	568	316	804
28-Apr-00	540	665	700	327	812
5-May-00	558	713	783	340	929
30-May-00	650	706	733	373	860
6-Jun-00	639	665	692	306	792
30-Jun-00	641	680	706	350	813
6-Jul-00	611	645	681	286	778
28-Jul-00	634	673	655	311	784
7-Aug-00	658	666	679	300	756
30-Aug-00	668	673	642	310	772
8-Sep-00	641	668	651	313	749
29-Sep-00	629	707	688	318	774
2-Oct-00	634	716	685	317	771
27-Oct-00	726	775	789	368	850
6-Nov-00	783	770	770	357	820
30-Nov-00	735	821	805	378	836
1-Dec-00	728	812	800	371	833
21-Dec-00	681	748	742	371	904

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

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

B. New Latin American Debt Issuance:

Table 3:

New Latin American Debt Issuance
Second Quarter of 2002
Apr-02

Country	Issuer	Amount (million)	Maturity
Brazil	Republic of Brazil	US$1000	4/15/10
Brazil	Republic of Brazil	EUR$500	4/2/09
Brazil	Banco Itau	US$100	4/5/05
Chile	Republic of Chile	US$600	7/23/07
Chile	Republic of Chile	US$300	7/25/05
El Salvador	Republic of El Salvador	US$500	4/10/32
Total		**US$2.937 bill**	

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

Table 4:

Currency Breakdown
(% of Latin America's Total)

Currency	Apr-02
Dollar	85
Euro	15
Yen	

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

Table 5:

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

Issuer Type	Apr-02
Sovereign*	97
Corporate**	3

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

Table 6:

New Latin American Debt Issuance
First Quarter of 2002
May-02

Country	Issuer	Amount (million)	Maturity
Brazil	CSEP-Comp Ener Sao Paulo	US$150	5/9/05
Total		**US$150 mill**	

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

Table 7:

Currency Breakdown
(% of Latin America's Total)

Currency	May-02
Dollar	100
Euro	0
Yen	

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

Table 8:

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

Issuer Type	May-02
Sovereign*	100
Corporate**	0

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

Table 9:

New Latin American Debt Issuance
Second Quarter of 2002
Jun-02

Country	Issuer	Amount (million)	Maturity
Mexico	TFM SA DE CV	US$180	6/15/12
Mexico	Corp. Durango SA DE CV	US$175	7/15/09
Jamaica	Government of Jamaica	US$300	6/20/17
Brazil	Banco BBA Creditanstalt	US$50	6/28/12
Total		**US$705 mill**	

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

Table 10:

Currency Breakdown
(% of Latin America's Total)

Currency	Jun-02
Dollar	100
Euro	
Yen	

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

Table 11:

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

Issuer Type	Jun-02
Sovereign*	43
Corporate**	57

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

C. Merrill Lynch U.S. High-Yield Master Index vs. EMBI+

Table 12: Merrill Lynch Master High-Yield Index and EMBI+ Spreads (Basis Points)

DATE	Spread on U.S. High-Yield	EMBI+ Non Latin	EMBI+ Latin
Jan-00	467.09	1475	682
Feb-00	489.14	1311	616
Mar-00	546.53	1218	623
Apr-00	594.45	835	654
May-00	600.25	897	737
Jun-00	623.93	786	679
Jul-00	619.25	738	654
Aug-00	646.94	699	618
Sep-00	652.43	775	634
Oct-00	730.46	831	707
Nov-00	801.38	910	759
Dec-00	889.53	864	706
Jan-01	818.3	765	631
Feb-01	739.3	829	710
Mar-01	765.54	828	763
Apr-01	808.38	787	766
May-01	741.62	729	761
Jun-01	780.72	675	803
Jul-01	802.43	767	1016
Aug-01	781.83	716	959
Sep-01	876.88	787	1103
Oct-01	910.51	778	1212
Nov-01	816.04	646	1283
Dec-01	765.53	567	833
Jan-02	749.53	522	837
Feb-02	739.83	473	765
Mar-02	673.29	429	713
Apr-02	652.99	417	763
May-02	633.10	407	829
Jun-02	725.61	468	1063
Jul-02	856.76	555	1350

Source: Merrill Lynch and J.P. Morgan Chase.