

Fitch: Latin American Sovereigns Resilient in Tough Market Conditions

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Fitch Ratings-New York-21 August 2007: Fitch Ratings comments that most Latin American sovereigns are in a relatively good position to weather the current adverse external market conditions. In recent weeks, investors have been selling emerging market assets to gain liquidity, resulting in depreciation of some Latin American currencies and a fall in regional stock and fixed income markets. While Fitch expects the current external environment to be less benign in the near-term than previously envisioned, most sovereigns in the region are fully-funded for the remainder of the year, which should limit the fallout from the near-closure of international capital markets. As such, Fitch currently does not expect any significant deterioration in the credit profile of Latin American sovereigns. 'Higher international reserves, lower external financing needs, and the widespread prevalence of flexible exchange rates in the region should provide flexibility to most Latin American sovereigns in dealing with current external conditions,' said Shelly Shetty, Senior Director in Fitch's Sovereign Group. Owing to the region's current account surplus and lower external amortizations, Fitch estimates Latin America's total external financing needs (% reserves) at 22% for 2007, which are significantly below the recent peak of '105%' in 2000. Relatively high commodity prices continue to provide an important cushion to the region's trade flows, which thus far has mitigated the effects of the negative shock that has emerged from unfavourable external financial conditions on regional economies. Finally, many sovereigns have further developed their local capital markets, which should provide greater flexibility in sourcing their financing. However, Fitch cautions that higher foreign participation in local fixed income markets implies that global financial shocks can be more easily transmitted to the local markets, leading to higher domestic financing costs and greater pressure on currencies. Furthermore, fixed income markets in countries with weaker macroeconomic policy frameworks, such as Argentina and Venezuela, are likely to experience increased pressures as investors focus more on monetary and exchange rate policies. Fitch estimates that the total federal government external market financing needs for the larger Latin American sovereigns to be nearly US\$8 billion, and these have been fully met. Many sovereigns pre-funded part of 2007 external financing needs in 2006, and the favourable external financial conditions in the first half of 2007 allowed many to complete the remaining needs earlier in the year. 'The biggest fallout from the current external conditions will be felt on the 2008 pre-financing strategies of Latin American sovereigns, while the space for conducting further external liability management exercises will also be more limited,' added Shetty. The external environment could also make it more difficult for Latin American sovereigns to issue local currency denominated securities in the international capital markets, a trend recently seen in sovereigns such as Brazil, Colombia, Uruguay and most recently Peru. Investment grade sovereigns such as Chile ('A') and Mexico ('BBB') are in a better position to weather the current external shock, due to their robust policy regimes, deeper local markets and healthy international liquidity. Among the sovereigns in the 'BB' category, Brazil ('BB+') has the largest public financing needs, although it has fully-funded its 2007 external financial requirements. The remaining financing needs are expected to be covered in the local markets. While Brazil boasts relatively deep domestic capital markets, these have also been pressured by the recent turmoil. However, Fitch believes that the Brazilian government has some flexibility to stay out of domestic markets for a few months due to its cash deposits at the central bank. Moreover, Brazil's public sector external creditor status also increases its resilience to the adverse external environment, as the authorities can allow the currency to act as a shock absorber, without undermining public debt dynamics significantly. On the other hand, the governments of Peru (rated 'BB+' by Fitch) and Panama ('BB+') have minimal external financing needs, eliminating the necessity to tap international capital markets for the remainder of the year. Colombia's external financing needs are fully met for 2007 and the

country's deeper capital markets also give it flexibility. Venezuela ('BB-') does not need to access international capital markets to complete its financing needs, and the government's significant financial assets also provide additional cushion. Uruguay ('BB-') has also completed its external financing needs for 2007. Among the 'B' category sovereigns rated by Fitch, Jamaica ('B+') could potentially stay out of the international capital markets until early 2008. Argentina's ('RD') moderate financing needs should be covered with multilateral disbursements, treasury deposits and domestic issuance. The Dominican Republic's ('B') better than anticipated fiscal performance has reduced its financing needs this year, which should easily be covered by multilateral disbursements and treasury deposits. Similarly, Ecuador's (CCC) financing needs should be covered with multilateral disbursements, domestic issuance and financial assets in the government's oil funds. In light of global uncertainty and the potential impact on U.S. growth, Fitch has yet to revise the region's macro economic forecasts for 2007-2009 period. Fitch believes that going forward most countries could face a higher interest burden on external debt issuance, although with a significantly lower regional external debt stock, there is unlikely to be a sharp deterioration in aggregate external debt service flows. Contact: Shelly Shetty +1-212-908-0324 or Theresa Paiz Fredel +1-212-908-0324, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.