

Fitch Releases Latin American Sovereign Review

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Fitch Ratings-New York-18 April 2006: Fitch Ratings has published its 'Latin American Sovereign Review' and will hold a teleconference on April 20 at 10:00 a.m. EDT with Fitch sovereign analysts who will discuss the agency's findings in detail. Contact Christopher Kimble at +1-212-908-0226 for call-in details. In its semiannual review, Fitch discusses the economic and credit outlook for the region this year and next. In addition, there is a special section on the rating implications of recent Latin American debt buybacks. The Latin American Sovereign Review is available on the Fitch Ratings web site at 'www.fitchratings.com', under 'Sovereigns' and 'Special Reports'. The review outlines Fitch's latest views on sovereign credit trends in the region and has country commentary and updated economic projections through 2007. External conditions remain relatively favorable for Latin American sovereigns in early 2006, with commodity prices high, global growth robust, and spreads on emerging markets bonds historically low. These factors should help underpin healthy GDP and export growth for the region in 2006. However, a busy election schedule could distract policy makers from making headway on key structural reforms that would ensure robust medium-term growth prospects. Key points from the review include: --Fitch estimates that the Latin American region grew at an average rate of 4.1% in 2005, after showing 5.7% growth in 2004. Consistent with Fitch's global assumptions that envision a soft landing for the global economy and a softening of oil and non-fuel commodities in 2007, Fitch forecasts that Latin American regional growth would decelerate to 3.4% in 2007 from 3.9% in 2006, still above the region's five-year average growth rate of 2.6%. --The region is expected to run a current account surplus in 2006. This coupled with strong capital inflows should lead to a steady increase in international reserves in the region, which reached US\$250 billion last year. Government balances and indebtedness are expected to remain broadly stable in the next two years, while astute liability management operations in some countries should reduce the foreign currency exposure of public debt. --In 2005, Fitch upgraded five sovereigns in the region, similar to the number of upgrades made in 2004. However, the pace of upgrades has slowed this year: in the first quarter of 2006 (1Q06) there were no sovereign upgrades in the region compared with two in 1Q05. With global growth slowing, some softening in commodity prices and a rise in uncertainty owing to a busy election schedule, the credit upswing seen in the last two years is less likely to be repeated in 2006 and 2007. This is also borne out by the fact that, of the 17 Fitch-rated sovereigns in Latin America, 11 currently have a Stable Outlook, while only two have a Positive Outlook, suggesting that the momentum for further upgrades in the region may be winding down. On the other hand, there are four sovereigns with a Negative Outlook. --In 2006, the main focus will continue to be elections and their impact on the economic reform process. With few exceptions, macroeconomic stability has been broadly achieved in Latin America; however, second-generation structural reforms are needed to address competitive challenges, improve the business climate, and boost the region's foreign direct investment (FDI) and growth potential. --The main risks to the relatively favorable outlook for Latin America include sharp increases in U.S. interest rates and widening credit spreads; a global slowdown; a hard landing in China, which could have knock-on effects on commodity prices; and a political shock if the new Latin leaders that emerge from the 2006 elections prove unwilling to adhere to orthodox policies. However, given the substantial improvements in external financial ratios and macro policy frameworks across the region, most countries are in a better position to cope with such shocks than in the past. In addition, the report discusses recent debt buyback operations by a number of Latin American countries, arguing that these initiatives, while positive from a credit standpoint, have not constituted a sufficient condition to drive ratings upgrades. A fuller discussion of this topic is available in a separate special report titled 'Rating Implications of External Debt Buybacks in Latin America'. This report is also available on Fitch's web site. Contact: Shelly Shetty +1-212-908-0324 or Roger M. Scher +1-212-908-0240, 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.