MOODY'S
INVESTORS SERVICE

SPECIAL COMMENT

Latin America and Caribbean Sovereign Outlook

Table of Contents:

SUMMARY 1
REGIONAL CREDIT TRENDS 2
Latin America maintains positive credit momentum 2
Economies will continue to post important gains in 2011 3
Macroeconomic policies will be less expansionary 3
Currency appreciation pressures create challenges for Latin America 4
Debt metrics have stabilized after historical improvements 5
External downside risks remain 6
COUNTRY BY COUNTRY 7
Mexico and Central America 7
The Caribbean 8
South America 9
MOODY'S RELATED RESEARCH 16

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Summary

» **Continued upward rating movement.** Latin American sovereign ratings experienced significant gains over the course of 2010, with continuing near-term upward momentum in 2011. A total of 10 countries were upgraded last year, and another three countries have a positive outlook, suggesting potential rating improvements this year. Further upgrades will be selective as many of the credit improvements of recent years have been incorporated into the ratings.

» **Economic growth to remain resilient.** Latin America is expected to continue growing at a healthy pace in 2011 after recording a very strong performance in 2010, underpinned by strong domestic consumption and investment, supportive global growth conditions, rising commodity prices and ongoing abundant capital flows. South American countries and Mexico will experience slower growth rates compared to last year, while Central American and Caribbean countries will post higher growth rates shrinking the gap with their southern neighbors.

» **Policies are beginning to be less expansionary.** Countries throughout the region have begun to tighten macroeconomic policies in the second half of 2010 after pursuing expansionary fiscal and monetary policies throughout 2009 and the first half of 2010. Policy moderation is expected to continue during 2011 in a bid to prevent overheating and rein in inflationary pressures.

» **Government debt metrics to remain stable.** The regional debt burden is likely to stabilize after posting significant improvements in the last several years. A declining share of foreign currency denominated debt, ongoing accumulation of foreign exchange reserves and efforts to lengthen debt maturities will leave Latin America better equipped to withstand market shocks.

» **External downside risks remain.** The main risks to Latin America's sovereign credit outlook come from outside of the region in the shape of potential lower growth from China, a less robust recovery in the US and heightened market risk aversion as a result of the ongoing credit stress in the Eurozone.

Regional Credit Trends

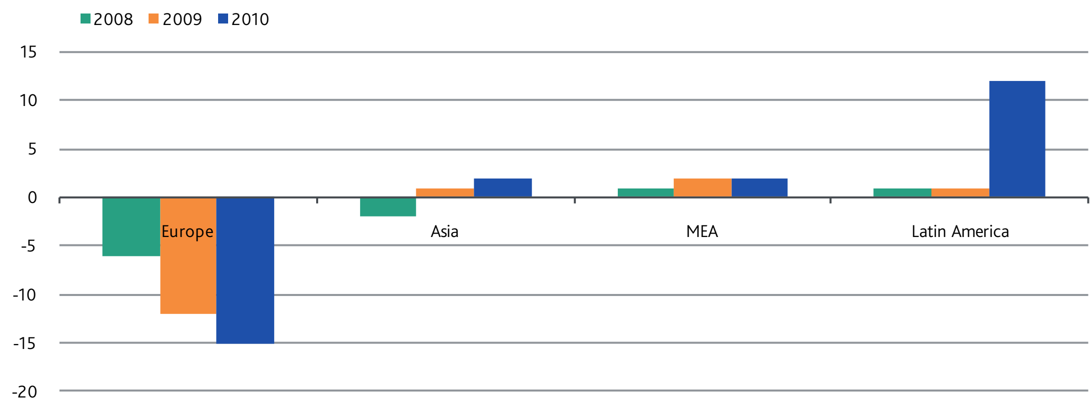
Latin America maintains positive credit momentum

Latin America continues to enjoy a positive credit momentum after experiencing tremendous gains over the course of 2010.

Credit conditions are likely to remain stable or improve further this year thanks to the region's resilient economic growth, the pursuit of tighter fiscal and monetary policies and a stable regional debt burden. Current sovereign rating outlooks give a prospective indication of our credit views at this early stage of the year. Of 28 rated sovereigns in the region, three have a positive outlook (Bolivia, Brazil and Colombia) and one a negative outlook (El Salvador). However, further upgrades are likely to be more selective as many of the credit improvements of recent years have been already incorporated into current ratings and, consequently, additional progress in debt indicators will not necessarily lead to further upgrades.

A total of ten countries were upgraded last year, in some cases by more than one notch (Paraguay and Uruguay). A look at the number of net notch changes[1] shows that Latin America outperformed all other regions by a wide margin last year. Latin America had no downgrades and a net notch change of +12, the largest ever increase in a single year, compared to +2 in Middle East and Africa, +2 in Asia and -15 in Europe[2]. A closer look at the rating changes disaggregated by sub-region shows that most of the upgrades were shared between South America (upgrades to Bolivia, Chile, Paraguay and Uruguay) and Central America (upgrades to Costa Rica, Guatemala, Nicaragua and Panama), while the Caribbean lagged behind (upgrades to the Dominican Republic and Jamaica[3]).

FIGURE 1
Regional Net Rating Changes



Source: Moody's Investors Service

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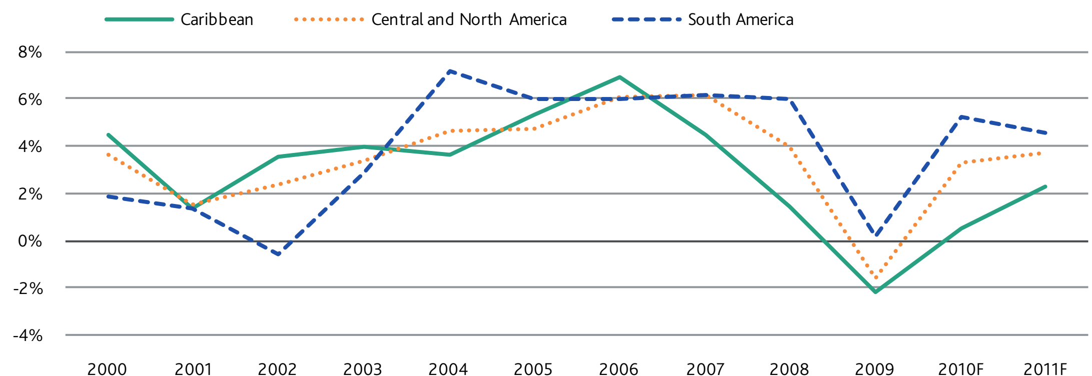
1 Net notch changes = difference in notches between upgrades and downgrades.
2 Europe's net notch changes largely reflect multi-notch downgrades of Greece and Ireland. See *Key Drivers of Greece's Downgrade to Ba1* (June 2010) and *Key Drivers of Moody's Decision to Downgrade Ireland to Baa1 from Aa2* (December 2010) for more details.
3 Jamaica's upgrade followed the completion of the domestic debt exchange.

Economies will continue to post important gains in 2011

Latin America is expected to continue growing at a healthy pace in 2011 after recording a very strong performance in 2010 on the back of a swift recovery from the global financial crisis, lending continued support to the region's credit fundamentals. Growth rates will be primarily driven by strong domestic demand and investment, supportive global growth conditions and rising commodity prices. Also providing support will be ongoing abundant capital flows, thanks to the growth differential between advanced countries and emerging markets and the maintenance of lax monetary policies in high income advanced nations.

FIGURE 2
Economic Growth Rates Across the Region (% change)



Source: Moody's Investors Service

Within the region, growth patterns will vary. South America's growth is expected to slow down slightly from a median average of 5.2% in 2010 to 4.5% in 2011[4] due to declining spare capacity, narrowing output gaps, and tighter macroeconomic policies. Virtually all South American economies are expected to report annual growth above 4% next year, with the exception of Ecuador (due to budget and financing constraints) and Venezuela (due to massive price distortions and supply-side bottlenecks). Countries in Central America and the Caribbean are expected to grow faster this year after their slow recovery in 2010 shrinking the gap with their South American neighbors.

Macroeconomic policies will be less expansionary

Countries throughout the region have for the most part begun to tighten their fiscal and monetary stance in the second half of 2010 after pursuing expansionary policies in 2009 and the first half of 2010, and are expected to remain cautious in 2011 in a bid to prevent overheating and rein in inflationary pressures.

Central bank authorities have already begun to tighten monetary policies, hiking rates in some cases (Brazil, Chile and Peru), while pursuing a neutral monetary stance in countries where the recovery has lagged or output gaps remain wide (Colombia and Mexico). Going forward, further tightening is likely to be accompanied by continued interventions in the foreign exchange markets (resulting in additional accumulation of reserves) and, in some cases, unconventional measures aimed at curbing capital inflows in order to prevent excessive currency appreciation.

[4] We use median GDP growth instead of GDP-weighed growth in our regional reports.

Currency appreciation pressures create challenges for Latin America

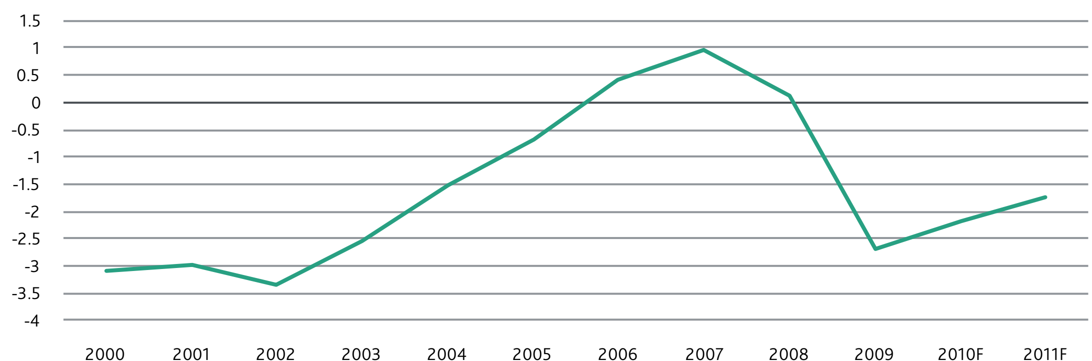
On October 2010 we published a report on the challenges that EM sovereign credits are facing as high growth and attractive valuations coupled with loose monetary conditions in core developed markets are producing massive capital inflows to emerging markets and causing their currencies to appreciate[5].

Governments and central bank authorities in Latin America have responded very differently depending on their policy priorities and their ability to intervene aggressively and effectively in the market. The Colombian authorities, while concerned about the pace of appreciation of the peso and its impact on labor intensive non-traditional exports, have shied away from intervening aggressively in the market because of the central bank's relatively small stock of government peso bonds and it limited margin to sterilize dollar purchases. At the other end of the spectrum, the authorities in Brazil have relied heavily on spot market intervention and levied taxes on portfolio investments to prevent a rising real from hurting the competitiveness of Brazil's manufacturing industry.

While we don't see any immediate ratings impact from these actions or the developments behind them, sustained surges in capital inflows and persistent currency pressures could have a number of medium and long-term effects on several creditworthiness variables. On the one hand, countries that choose to tighten fiscal policy to soften currency pressures and take full advantage of this new wave of liquidity to reprofile their debt and lengthen maturities could benefit. On the other hand, rapid "hot money" flows could overshoot, lead to asset price bubbles and reverse if global or local fundamentals change, while countries facing growing current account deficits that are being financed by portfolio investment flows could become complacent about addressing these external vulnerabilities.

Fiscal policy is also likely be slightly less accommodating this year as several countries (led by Chile and Peru, and to a lesser extent Brazil) engage in tighter spending and strengthen their fiscal positions. However, progress throughout the region is likely to be uneven as strong growth and revenues create room for additional spending and policy complacency, and we expect that the median government financial balance in the region will remain in deficit.

FIGURE 3
Government Fiscal Balance (% GDP)



Source: Moody's Investors Service

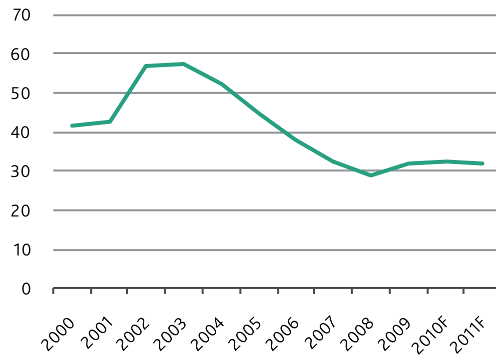
5 See *Currency Appreciation Pressures Create Challenges for EM Sovereign Credits* (October 2010)

Debt metrics have stabilized after historical improvements

Government debt metrics have improved considerably since 2002, lending important support to the region's positive credit momentum. We expect debt indicators to remain fairly stable this year.

FIGURE 4

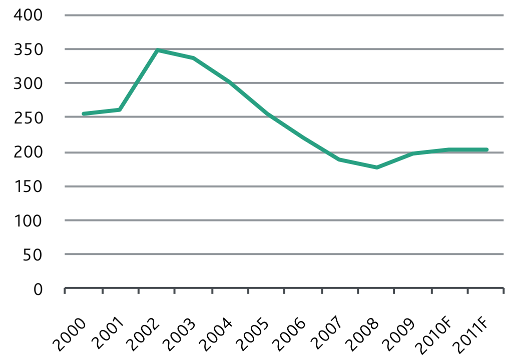
Gov. Debt to GDP (%)



Source: Moody's Investors Service

FIGURE 5

Gov. Debt to Revenue (%)

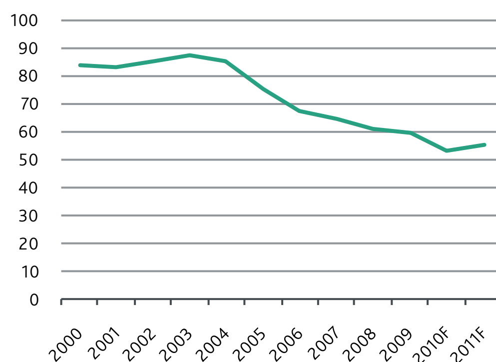


Source: Moody's Investors Service

Whether measured by the debt-to-GDP ratio or our preferred debt-to-revenue indicator, the regional debt burden has begun to stabilize after significant improvements over the last decade. Following a modest crisis-related increase in 2009, we expect government debt to remain relatively stable at slightly over 30% of GDP and 200% of government revenues, thanks to still resilient growth and slightly tighter fiscal policies. Low fiscal deficits and moderate refinancing needs will result in modest debt issuance compared to last year.

FIGURE 6

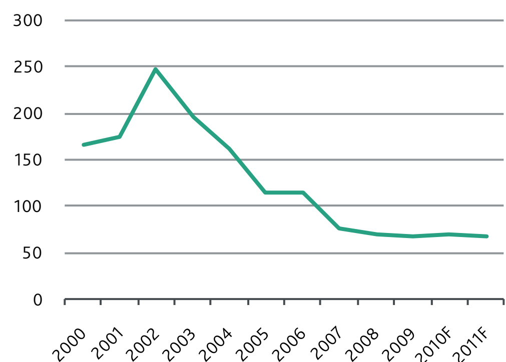
FC Gov. Debt (% of Total)



Source: Moody's Investors Service

FIGURE 7

External Vulnerability Indicator



Source: Moody's Investors Service

Latin America is much better equipped than it has been in the recent past to withstand temporary losses in investor confidence. While still high, the share of foreign currency-denominated government debt is likely to drop to close to 55% in 2011 as governments continue to issue in domestic currency and protect themselves against any major exchange-rate adjustments.

The region's reduced vulnerabilities are also captured by the external vulnerability indicator (EVI),[6] which has dropped significantly with the regional median coming below 70% after peaking at 250% in 2002. More importantly, the region's EVI is likely to continue trending downwards as countries go on building sizable foreign exchange reserve positions and lengthen the maturity profile of their external debt.

External downside risks remain

The risks to Latin America's current positive credit momentum largely come from outside the region, as domestic risks have been mitigated by increasing political stability, stronger policy frameworks and growing policy predictability throughout the region, with only a limited number of exceptions (such as Argentina, Ecuador and Venezuela). However, many of these potential outside risks pose a concern only over the medium term.

The outlook for China's growth given policy tightening and impact on growth is an important source of potential concern for Latin America. While we are of the opinion that the Chinese authorities will be able to prevent overheating without jeopardizing growth rates that will range somewhere between 8.5% and 9.5% this year, stronger tightening and slower than expected growth could affect Latin America's terms of trade and exports at a time when export volumes have slowed down and the current account has widened significantly on the back of the economic recovery. Latin American exports to China have grown by more than 20% year-over-year over the last decade, while China's strong growth and subsequent strong demand have contributed to historically high commodity prices.

The speed and strength of the US economic recovery is another source of potential risks. While we believe that the US will enjoy a moderate recovery with GDP growth in excess of 3% this year, a still weak housing market and the ongoing deleveraging process could create a bigger than expected drag on consumption and dampen global and Latin American growth prospects, particularly in those countries in the region that are very closely linked to the US cycle (Mexico, Central America and the Caribbean).

Last, but not least, continued financial volatility in the Eurozone and associated market jitters will continue to pose an important risk. While we acknowledge concerns over refinancing risks for governments and banks in the Eurozone periphery and uncertainty surrounding support mechanisms over the longer term, we are of the belief that policymakers will do whatever is necessary to prevent a sovereign default and restore solvency. However, enduring market concerns could lead to heightened risk aversion that could in turn disrupt capital flows to Latin America.

[6] EVI = (Maturing Long-term External Debt + Short-Term External Debt) / International Reserves

Country By Country[7]

Mexico and Central America

Even though **Mexico** (Baa1/Stable) experienced an economic contraction of historic proportions in 2009, the worst recession in decades had only a limited impact on credit metrics. With government finances and debt indicators reporting a modest deterioration, the episode provided evidence of the country' sovereign credit resilience supporting Moody's decision to maintain the Baa1 ratings unchanged and to preserve a stable outlook.

During 2010, economic conditions took a turn for the better with macroeconomic indicators reporting, in general, improving trends. Driven largely by increased manufacturing exports, economic activity accelerated. Preliminary estimates indicate that GDP should increase at an annual rate of nearly 5%, far in excess of Mexico's trend growth estimated at some 3%. Despite last year's vigorous economic bounce, structural factors will continue to constrain medium-term growth prospects.

No surprises – positive or negative – are anticipated for 2011. Fiscal and monetary management will remain responsible with only minor adjustments observed with respect to last year. External factors related to the evolution of the US economy will determine the pace of the economic recovery as only modest support is expected to come from domestic demand. Convergence towards trend growth is anticipated with GDP projected to increase between 3.5% and 4% during 2011. Low inflation coupled with moderate fiscal and balance of payments deficits complete a macroeconomic picture that will be supportive of current ratings. Regarding Mexico's security problems, Moody's position remains that the potential rating impact is largely associated to medium-term considerations involving growth, investment and fiscal prospects. Accordingly, no rating actions should be anticipated in the near term.

In **Central America,** ratings were on an upward trend last year, with two countries (Costa Rica and Panama) moving into the investment grade category. The rest of the countries are still challenged by low growth rates, a low tax revenue base and growing security challenges. In terms of the outlook, higher-growth, more diversified countries such as Costa Rica and Panama are best positioned to consolidate and further improve fiscal and debt metrics going forward.

Costa Rica (Baa3/Stable) and **Panama** (Baa3/Stable) were upgraded to investment grade last year. Costa Rica's rating is supported by a demonstrated ability to deal with shocks. The rating is also supported by general improvements to the country's debt metrics, despite recent setbacks. The new government is seeking to pass new tax reforms to generate 2.5% of GDP worth of additional revenues, although approval will be difficult. Panama's upgrade from Ba1 in June reflects the country's strong medium-term growth prospects as well as steady fiscal and debt metric improvements. Panama is likely to grow by close to 7% this year, up from just over 6% in 2010, thanks to the government's ambitious $13.5 billion multi-annual infrastructure plan, the ongoing expansion of the Panama Canal, and booming tourism receipts. Panama's fiscal standing has continued to improve thanks to strong growth and recent tax reforms, although the damage caused by heavy rains at the end of 2010 will generate some fiscal slippage beyond the targets set out by the Fiscal Responsibility Law this year. Still, Panama's government debt burden is likely to continue to ease gradually, lending ongoing support to the credit.

[7] All ratings in this section refer to the foreign currency government bond ratings.

In the Ba category, **El Salvador** (Ba1/Negative) is struggling to recover after being hard hit by the global financial crisis and the US economic slowdown. With government debt metrics at high levels for its rating category, El Salvador's negative outlook reflects Moody's view that the government will be challenged to reverse the deterioration of its financial strength in the near to medium term, notwithstanding a strong track record of delivering on its policy commitments. **Guatemala's** (Ba1/Stable) foreign currency rating was upgraded earlier this year to eliminate the local-versus-foreign-currency rating gap. Guatemala's ratings balance a steadfast commitment to macroeconomic stability and prudent fiscal and monetary policies against a low tax revenue base, substantial social and infrastructure needs and rising insecurity. Both of the leading candidates to succeed President Alvaro Colom in September are unlikely to challenge the current economic policy mix.

At the bottom of the rating scale, **Belize** (B3/Stable), **Honduras** (B2/Stable) and **Nicaragua** (B3/Stable) share low income levels, narrow economic bases and weak institutions. Given already low ratings, absent an imminent or actual default, downgrades appear unlikely. In Belize, a feeble economic recovery and a large public debt burden will continue to put a strain on public finances and the credit despite the government' efforts to rein in its fiscal deficit in line with the IMF's recommendations. In Honduras, the Porfirio Lobo administration is still dealing with the aftermath of the 2009 political crisis that led to the ouster of the President, but can count on legislative support and is gradually building international recognition and access to additional multilateral loans. In Nicaragua, President Daniel Ortega's maneuvers to ensure re-election in November amid charges of electoral manipulation have contributed to rising political tensions and reinforced doubts about Nicaragua's institutional strength.

The Caribbean

Caribbean ratings span the scale for the region, from the Cayman Islands' Aa3 to Jamaica's B3. Most countries depend on tourism for foreign earnings, and for the majority of destinations tourist arrivals are only recovering slowly from the crisis-related slowdown.

Within the investment grade category, the **Cayman Islands** (Aa3/Stable) were hit hard by the crisis and we expect modest growth this year. Even though the fiscal position deteriorated in recent years, offsetting such concerns are very low debt levels and a comprehensive plan to restore fiscal discipline, with recent data indicating a return to lower deficits. Failure by **The Bahamas** (A3/Stable) to establish a credible course for fiscal consolidation and, ultimately, debt reduction could put negative pressure on the country's A3 rating. But the current stable outlook reflects our view that the government will continue in its current path of stabilizing debt metrics and reducing the fiscal deficit. Similarly, **Barbados** (Baa3/Stable) faces challenges due to higher debt levels. Both countries are heavily dependent on tourism and have modest growth prospects. In **Trinidad** (Baa1/Stable), a new government should benefit from higher than-budgeted oil prices, which will allow for an increased accumulation of assets in the Stabilization Fund. The government has also announced a series of policy measures seeking to bolster the economy, including new infrastructure and energy projects.

Further down the rating scale, the **Dominican Republic** (B1/Stable) continues to experience rapid economic growth accompanied by a widening current account deficit. The external imbalance nearly trebled in the first three quarters of 2010 to 8% of GDP, a level that Moody's believes is not sustainable. In addition, the government will be challenged to achieve its targets for fiscal consolidation in 2011 due to the impact of high oil prices on the budget given sizeable electricity subsidies. **St. Vincent and the Grenadines** (B1/Stable) weathered the recession relatively well. Despite a small increase in the fiscal deficit, government debt ratios have remained stable. **Jamaica**'s (B3/Stable) ratings were upgraded shortly after the domestic debt restructuring was completed.

Although the situation is still delicate, and the economy is hardly growing, the country is receiving unprecedented levels of multilateral support and has met all of the quantitative and qualitative targets that are required under the IMF Stand-By Agreement.

South America

South America's commodity exporters have greatly benefited from strong domestic demand, high commodity prices and abundant capital inflows. Going forward, strong growth and a gradual fiscal and monetary tightening should help maintain the positive credit momentum, although additional upgrades are likely to be more selective as improvements have already been incorporated in the current ratings.

Within the investment grade category, **Brazil** (Baa3/Positive) has continued to display solid economic dynamism underpinned by strong domestic demand and surging capital inflows. With GDP growth of 7% to 8% during 2010, last year's pace was well above Brazil's potential growth estimated at 4.5%. Even as GDP growth moderates next year, we anticipate that a strong momentum will extend into 2011 leading to 5%-plus growth.

Strong above-trend growth has led to a substantial widening of the current account deficit, which is projected at some $50 billion in 2010, twice the amount reported the previous year. While Brazil's external imbalance is significant in absolute terms, we maintain that its impact on the outlook for the sovereign rating will be limited given a solid international reserves position and low exposure to exchange rate shocks as foreign currency-denominated government debt accounts for about 10% of the total.

During the 2011-2012 period, domestic demand will be supported by double-digit growth in bank lending to the private sector, and by increased economic mobility, i.e. migration of households towards higher income groups, a development that denotes the emergence of a broad-based middle class.

A key policy challenge facing the incoming Rouseff administration will be managing an orderly transition towards lower, more sustained, economic growth. While current ratings contemplate that policy continuity will be preserved, it remains to be seen if the new government will be able – and willing – to adopt a counter-cyclical stance that moves the economy toward a path more consistent with sustained growth in the coming years. Dealing effectively with this situation will be an important consideration for future rating actions as the focus of our analysis shifts toward more fundamental (medium-term) factors, now that lower credit vulnerabilities are already captured by current Baa3 rating. A re-examination of the positive outlook attached to Brazil's sovereign rating will be undertaken during the second quarter of next year, when Moody's will determine if economic, fiscal and financial prospects warrant an upward reconsideration of the ratings, or, alternatively, a switch back to a stable outlook.

Chile (Aa3/Stable) was upgraded in June, a result of the country's strong fiscal position and very strong institutions. The ability to weather shocks was tested when the country had to deal with the economic and financial aftermath of February's earthquake. The government's financial options, including substantial fiscal savings and an ability to raise ample debt if needed, are key support factors for the rating.

Peru's (Baa3/Stable) credit outlook continues to be strong, thanks to robust economic growth and a solid countercyclical policy mix. The economy rebounded strongly in 2010 and is expected to continue growing above trend this year thanks to firm domestic demand and a robust investment base. The economy is expected to have grown by over 8.5% last year, before slowing to an estimated 6% of GDP this year. The Peruvian authorities have been quicker than many of their peers to curb expansionary policies, tightening monetary policy and moderating spending growth in the second half of 2010 to bring the fiscal deficit in line with the 1% limit mandated by the Fiscal Responsibility and Transparency Law, despite having obtained a waiver from congress for 2009-2010. The political commitment to the current model will once again be tested in April's presidential and congressional elections, where anti-system candidates have historically been competitive as a result of Peru's persistent income inequalities and weak party system. However, while the presidential race remains wide open and voting patterns are historically volatile, all candidates (including erstwhile radical candidate Ollanta Humala) have broadly and unequivocally defended the need to maintain prudent macroeconomic policies that are popular with public opinion.

Further down the rating scale, countries in the Ba category have enjoyed upward credit momentum. **Colombia's** (Ba1/Positive) foreign currency rating was placed on positive outlook on September 2010, signaling a possible move to investment grade and a convergence with the Baa3 local currency government bond rating. The economy is expected to continue growing at a moderate rate of 4% of GDP this year, balancing favorable terms of trade, significant increase in energy (oil and coal) output and accommodative monetary and fiscal policies against the damage caused by widespread flooding and landslides resulting from heavy rains at the end of last year. On the fiscal side, the government has proposed to establish a fiscal rule and overhaul the distribution of royalties in order to achieve medium-term fiscal consolidation and limit the impact of the oil bonanza. While these reforms have a high chance of being approved, an upgrade will not necessarily depend on their approval.

Uruguay's (Ba1/Stable) ratings were upgraded to Ba1 from Ba3 in December to reflect steady improvement in debt and fiscal indicators, clear signs of policy continuity, and favorable macroeconomic prospects. Uruguay's fiscal and government debt indicators have improved steadily with government debt ratios standing at par with - or below - group medians, while projections contemplate additional - albeit moderate - reductions in debt ratios during the coming years. Strong consensus on the need to preserve conservative economic policies continues, with virtually no deviations from policies that have advocated fiscal responsibility in previous years. While economic growth is expected to slow down from 8% of GDP in 2010 to 5% this year, strong, sustained growth will lend additional support to the credit. Preserving current (positive) trends will be necessary - but not sufficient - to warrant additional upgrades, as future upward rating changes would entail a move into investment grade territory.

Within the B category, **Argentina's** (B3/Stable) rating continues to be constrained by policy concerns. Argentina is likely to grow at an aggressive pace this year thanks to higher agricultural prices and production coupled with high spending and increased domestic demand. While the economy is doing well and its debt burden is manageable, doubts over the accuracy of official economic data have only spread over time as the government continues to heavily underreport inflation. But the government has given signs that it will deal with some, if not all, of the areas of concern. A debt swap completed last year means that now over 91% of all its debt in default since 2001 has been exchanged for new debt. Additionally, the government recently asked the IMF for assistance in revamping its inflation index. This year will be dominated by October's presidential elections. President Cristina Kirchner is currently the front-runner thanks to the strong economic growth and an outpour of sympathy following the death of her husband and former president Nestor Kirchner last November, but the

elections are almost a year away. Inflation is growing as an economic and social problem, with private estimates indicating that it may breach 30% in 2011. As a result, the next administration will face the challenge of dealing with the consequences of a high-inflation environment.

Venezuela's (B2/Stable) rating is equally constrained by a highly contentious policy environment and a heterodox policy mix that threatens the country's long-term economic sustainability. While Venezuela has a much larger economy and a lower public debt stock than many of its rating peers, its long-term economic and credit strength is massively constrained by strict price and foreign exchange controls and regular intimidation of private producers. This is likely to produce mediocre growth rates of under 2% of GDP this year, highly entrenched double digit inflation, and rising indebtedness to keep up with a highly repressed dollar demand. Political volatility and policy unpredictability are also likely to rise as the government insists in tightening its institutional grip despite appearing to be losing popular support in the run-up to the 2012 presidential elections.

Bolivia (B1/Positive) and **Paraguay** (B1/Stable) were both upgraded in December thanks to stronger economic growth and much improved fiscal and debt metrics. In Bolivia, President Evo Morales' consolidation in power following the December 2009 presidential elections has helped significantly reduce political turmoil, cementing strong support for low inflation and sustainable fiscal policies that have reduced Bolivia's debt burden and placed it favorably among its rating peers. Paraguay's two-notch upgrade to B1 reflected the benefits from the global commodity cycle and close linkages to Brazil. While growth will slow down from an estimated 9% of GDP this year, rising commodity prices and infrastructure investments should help trend growth to remain close to 5% going forward. Prudent fiscal policies and tax reforms have improved Paraguay's fiscal standing, taking government and external debt ratios well below its rating peers.

At the bottom of the rating scale, **Ecuador's** (Caa3/Stable) post-restructuring ratings remain relatively constrained. While Ecuador should benefit from rising oil prices and a very low public debt stock with minimal rollover risk, it continues to be challenged by poor medium-term growth prospects, its history as a serial defaulter, an aggressively expansive fiscal policy and growing liquidity problems. As a result, the government will have to continue relying very heavily on a combination of domestic debt issuance to public institutions, multilateral lending, Chinese loans and a depletion of the government's stock of assets to meet its financing needs.

Ratings Snapshot as of January 18, 2011[1]

Country	FC/LC	Outlook	Economic Strength	Institutional Strength	Government Finance	Event Risk
Bermuda	Aa2/Aa2	Stable	medium	very high	very high	low
Cayman Islands	Aa3/	Stable	high	high	very high	low
Chile	Aa3/Aa3	Stable	medium	very high	high	low
Bahamas	A3/A3	Stable	medium	high	medium	low
Mexico	Baa1/Baa1	Stable	medium	high	medium	low
Trinidad & Tobago	Baa1/Baa1	Stable	medium	high	high	low
Brazil	Baa3/Baa3	Positive	medium	medium	low	low
Barbados	Baa3/Baa2	Stable	medium	high	medium	medium
Panama	Baa3/	Stable	medium	medium	medium	medium
Peru	Baa3/Baa3	Stable	medium	medium	high	medium
Costa Rica	Baa3/Baa3	Stable	medium	medium	medium	medium
Colombia	Ba1/Baa3	Positive	medium	medium	medium	medium
Guatemala	Ba1/Ba1	Stable	low	medium	medium	low
Uruguay	Ba1/Ba1	Stable	low	high	medium	medium
El Salvador	Ba1/	Negative	low	medium	medium	low
St. Vincent and the Grenadines	B1/B1	Stable	low	high	low	very high
Suriname	B1/Ba3	Stable	low	low	medium	high
Dominican Republic	B1/B1	Stable	low	low	low	high
Paraguay	B1/B1	Stable	low	low	low	high
Bolivia	B1/B1	Positive	low	low	low	high
Honduras	B2/B2	Stable	very low	low	low	medium
Venezuela	B2/B1	Stable	medium	very low	medium	high
Argentina	B3/B3	Stable	medium	very low	low	high
Belize	B3/B3	Stable	low	low	very low	very high
Jamaica	B3/B3	Stable	low	medium	very low	high
Nicaragua	B3/B3	Stable	very low	low	low	high
Cuba	Caa1/	Stable	very low	very low	low	low
Ecuador	Caa3/	Stable	low	very low	medium	high

Moody's sovereign methodology is based on ranking all countries on four factors: the economic, institutional, and government financial strength, as well as the vulnerability to sudden multi-notch rating downgrades. The five-point scale for the first three factors goes from best (very high) to worst (very low). The scale for the fourth, susceptibility to event risk, is also five points from best (very low) to worst (very high).

[1] The investment grade/speculative grade divide is based on a country's foreign currency rating

Latin America and Caribbean Sovereign Outlook

Country	FC Rating	Nominal GDP (US$ BIL.)			Real GDP (%change)			GDP per capita (PPP basis, US$)		Government Effectiveness [1]	
		2009	2010F	2011F	2009	2010F	2011F	2008	2009	2008	2009
Bermuda	Aa2	6.1	6.2	6.5	-2.5	-0.4	1.7			1.03	1.02
Cayman Islands	Aa3	3.0	3.0	3.1	-6.6	-3.1	2.2			1.29	1.26
Chile	Aa3	163.3	194.1	208.4	-1.5	5.0	5.8	14,524	14,331	1.26	1.21
Bahamas	A3	7.3	7.4	7.5	-4.3	-0.5	1.0			1.21	1.06
Mexico	Baa1	868.2	1,020.6	1,120.6	-6.5	4.8	3.7	15,314	14,337	0.16	0.17
Trinidad & Tobago	Baa1	21.1	23.0	24.7	-3.2	1.3	2.5	26,547	25,705	0.30	0.39
Barbados	Baa3	3.9	4.3	4.5	-4.8	-0.5	2.3			1.51	1.48
Brazil	Baa3	1,574.0	2,105.9	2,299.2	-0.2	7.5	5.2	10,367	10,427	0.06	0.08
Costa Rica	Baa3	29.3	34.3	38.8	-1.1	4.0	3.9	11,250	11,122	0.39	0.43
Panama	Baa3	24.5	27.1	29.8	3.2	6.1	6.8	12,775	13,091	0.27	0.25
Peru	Baa3	126.7	151.7	160.4	0.9	8.6	6.0	8,522	8,647	-0.24	-0.36
Colombia	Ba1	232.9	279.5	321.0	0.4	4.2	4.0	8,803	8,870	0.08	0.04
El Salvador	Ba1	21.1	21.7	22.8	-3.5	1.2	2.2	6,810	6,721	-0.20	-0.04
Guatemala	Ba1	37.7	41.2	42.8	0.5	2.2	2.8	4,768	4,749	-0.59	-0.69
Uruguay	Ba1	31.5	40.4	44.5	2.9	7.2	5.5	12,668	13,208	0.58	0.69
Bolivia	B1	17.3	18.7	20.3	3.4	4.2	4.5	4,284	4,426	-0.84	-0.72
Dominican Republic	B1	46.6	52.9	58.8	3.5	7.5	5.0	8,138	8,445	-0.41	-0.44
Paraguay	B1	14.2	17.0	19.0	-3.8	9.0	5.0	4,714	4,529	-0.88	-0.93
St. Vincent and the Grenadines	B1	0.6	0.6	0.6	-1.1	-2.5	1.5	9,278	9,167	0.87	0.90
Suriname	B1	3.0	3.3	3.6	2.5	4.0	4.7	7,413	7,946	0.02	-0.01
Honduras	B2	14.3	15.4	16.6	-1.9	2.4	3.5	3,940	3,849	-0.60	-0.71
Venezuela	B2	325.7	208.6	275.1	-3.3	-2.0	1.4	12,749	12,341	-1.11	-0.95
Argentina	B3	308.7	375.0	464.5	0.9	7.5	5.0	14,336	14,559	-0.23	-0.42
Belize	B3	1.4	1.5	1.6	-0.8	2.0	3.0	6,754		-0.41	-0.39
Jamaica	B3	12.3	13.1	13.7	-2.9	-0.3	1.5	7,729	7,620	0.18	0.13
Nicaragua	B3	6.2	6.4	6.7	-1.5	2.5	3.0	2,682	2,665	-0.95	-1.04
Cuba	Caa1	62.3	66.0	70.9	1.4	2.0	2.5			-0.57	-0.48
Ecuador	Caa3	52.0	55.6	59.7	0.4	2.9	3.3	8,199	8,280	-1.05	-0.84
MEDIAN		**22.8**	**25.0**	**27.2**	**-1.1**	**2.7**	**3.4**	**8,522**	**8,758**	**0.04**	**0.02**
MEAN		**143.4**	**171.2**	**190.9**	**-1.1**	**3.1**	**3.6**	**9,677**	**9,774**	**0.04**	**0.04**

[1] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

Latin America and Caribbean Sovereign Outlook

Country	FC Rating	Gen. Gov. Financial Balance/GDP			Gen.Gov. Debt/GDP			Gen.Gov.Debt/Gen. Gov. Revenue			Gen.Gov. Interest Payment/Gen. Gov. Revenue		
		2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Bermuda	Aa2	-3.2	-2.8	-2.1	13.7	15.6	16.1	88.9	101.4	101.0	0.0	4.0	4.0
Cayman Islands	Aa3	-3.6	-6.3	-3.7	19.9	24.8	25.4	98.9	119.5	124.0	5.1	6.4	6.1
Chile	Aa3	-3.9	-1.1	-0.5	6.1	6.2	5.9	28.7	25.6	23.7	3.0	2.4	2.0
Bahamas	A3	-5.7	-4.2	-3.4	45.6	48.3	49.7	261.3	257.2	256.8	10.6	9.8	9.3
Mexico	Baa1	-2.0	-2.5	-2.1	28.5	27.6	27.8	151.7	143.4	142.8	10.5	8.9	8.9
Trinidad & Tobago	Baa1	-5.3	-5.4	-4.5	31.9	34.0	36.0	117.3	131.5	120.7	9.2	12.0	9.9
Barbados	Baa3	-8.9	-6.7	-5.2	71.1	68.0	73.3	176.5	193.5	201.9	17.2	21.3	18.8
Brazil	Baa3	-3.4	-3.5	-2.5	62.8	61.2	60.5	166.5	155.4	150.8	16.5	14.4	13.7
Costa Rica	Baa3	-4.3	-5.0	-4.5	22.7	24.5	25.4	95.2	105.2	108.4	9.2	9.3	9.5
Panama	Baa3	-1.0	-0.7	-1.0	44.7	43.7	42.7	179.2	173.1	164.5	11.7	11.0	9.6
Peru	Baa3	-2.1	-0.9	-0.1	25.0	22.9	22.4	128.0	113.5	104.6	6.9	6.6	6.1
Colombia	Ba1	-2.6	-3.4	-3.4	39.5	36.0	36.5	154.0	151.8	153.2	12.3	13.3	13.5
El Salvador	Ba1	-5.6	-4.2	-3.3	50.7	53.6	54.3	298.6	292.7	287.6	14.8	14.1	13.3
Guatemala	Ba1	-3.4	-3.6	-3.2	20.6	23.2	23.5	163.1	180.0	176.8	12.9	14.1	12.7
Uruguay	Ba1	-1.5	-0.9	-0.7	49.8	39.9	36.9	212.5	189.0	170.4	13.4	12.0	11.5
Bolivia	B1	-1.2	-0.6	0.4	37.4	36.7	35.7	119.4	116.9	111.6	3.4	3.4	3.3
Dominican Republic	B1	-3.4	-2.3	-1.7	28.4	27.1	26.0	210.9	190.2	171.7	13.5	11.5	10.6
Paraguay	B1	0.1	0.0	-0.2	17.4	16.1	15.0	88.5	81.3	74.6	3.1	3.6	3.2
St. Vincent and the Grenadines	B1	-3.2	-4.3	-3.7	57.0	57.6	56.4	170.8	174.1	169.0	9.3	9.0	8.6
Suriname	B1	-1.8	-3.5	-3.0	19.2	21.1	22.3	61.5	75.9	85.6	4.2	3.6	3.5
Honduras	B2	-6.2	-4.4	-4.1	26.2	28.8	30.8	139.8	144.6	158.8	4.3	5.8	7.2
Venezuela	B2	-5.1	-2.0	-2.7	18.4	34.5	32.4	85.0	138.1	135.3	6.2	6.0	6.3
Argentina	B3	-0.6	0.5	0.4	47.7	42.7	37.7	213.7	183.5	157.2	9.4	7.7	6.7
Belize	B3	-2.8	-2.1	-2.1	78.4	76.7	74.3	319.2	289.7	277.8	14.8	14.6	14.1
Jamaica	B3	-10.9	-6.5	-4.3	111.0	110.0	106.0	410.3	421.5	399.8	62.9	51.4	45.3
Nicaragua	B3	-1.6	-1.1	-0.4	44.1	44.2	43.2	153.4	148.2	144.4	4.8	3.7	3.4
Cuba	Caa1	-4.8	-4.2	-3.5	19.3	20.3	20.7	27.6	31.5	31.8	3.0	3.6	3.3
Ecuador	Caa3	-5.1	-3.1	-4.5	17.9	22.9	24.6	80.5	90.1	99.3	4.1	4.5	5.0
MEDIAN		**-3.4**	**-3.2**	**-2.9**	**30.2**	**34.3**	**34.0**	**152.5**	**146.4**	**147.6**	**9.2**	**8.9**	**8.7**
MEAN		**-3.7**	**-3.0**	**-2.5**	**37.7**	**38.1**	**37.9**	**157.2**	**157.8**	**153.7**	**10.6**	**10.3**	**9.6**

[1] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

Latin America and Caribbean Sovereign Outlook

Country	FC Rating	Current Account Balance/GDP			External Vulnerability Indicator			Debt Service Ratio		
		2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Bermuda	Aa2	9.6	9.2	9.9				1.5	2.1	2.2
Cayman Islands	Aa3	-18.7	-19.0	-17.4	16.9	16.6	16.6	5.1	6.0	5.6
Chile	Aa3	2.6	-0.6	-1.7	115.2	100.0	106.9	18.9	14.4	14.8
Bahamas	A3	-11.9	-14.2	-15.3	69.0	20.3	19.9	18.1	6.5	6.3
Mexico	Baa1	-0.7	-0.8	-1.1	40.0	34.2	23.4	8.4	7.5	7.3
Trinidad & Tobago	Baa1	8.3	14.9	16.0	3.9	1.5	1.5	7.3	4.6	4.1
Barbados	Baa3	-6.9	-5.8	-6.0	84.9	108.5	103.9	6.4	12.2	8.0
Brazil	Baa3	-1.5	-2.7	-3.4	27.9	21.7	17.1	22.4	21.3	14.0
Costa Rica	Baa3	-1.8	-3.8	-4.0	81.4	69.6	73.1	9.6	8.4	7.9
Panama	Baa3	2.0	-5.9	-8.2	27.8	28.5	42.7	6.3	6.8	7.4
Peru	Baa3	0.2	-1.4	-2.3	27.0	19.9	21.0	12.6	13.4	7.7
Colombia	Ba1	-2.1	-2.1	-2.0	43.0	42.7	41.0	20.3	19.4	18.8
El Salvador	Ba1	-1.8	-2.7	-2.8	67.3	75.8	73.6	16.6	16.6	17.1
Guatemala	Ba1	-0.6	-3.1	-5.2	54.2	40.0	37.0	13.0	9.1	8.5
Uruguay	Ba1	1.5	-0.4	-0.3	64.7	64.9	65.3	20.0	15.9	11.2
Bolivia	B1	4.7	6.4	6.9	9.8	8.6	7.4	6.1	5.3	5.0
Dominican Republic	B1	-4.6	-7.2	-6.3	63.1	87.0	85.7	12.7	12.4	14.4
Paraguay	B1	0.3	-1.2	-1.6	55.2	55.3	52.6	4.0	3.4	3.1
St. Vincent and the Grenadines	B1	-34.2	-37.2	-39.6	112.6	108.1	105.1	9.7	9.0	8.5
Suriname	B1	-2.0	-5.5	-4.4	7.5	9.5	3.0	7.3	1.4	1.5
Honduras	B2	-3.1	-6.3	-6.8	14.9	22.6	20.6	2.7	2.6	2.4
Venezuela	B2	2.6	7.7	5.0	106.6	221.0	191.8	8.1	9.5	6.6
Argentina	B3	3.7	0.4	-1.1	100.2	88.1	83.9	25.3	22.7	20.6
Belize	B3	-6.7	-8.9	-9.8	52.6	54.3	41.4	9.4	10.5	8.6
Jamaica	B3	-7.4	-10.9	-9.8	72.9	67.2	61.9	19.1	15.2	14.0
Nicaragua	B3	-13.7	-16.3	-15.9	33.6	37.4	37.5	2.2	2.0	1.7
Cuba	Caa1	-1.8	-1.5	-1.7				13.0	10.4	10.1
Ecuador	Caa3	-0.2	-3.9	-3.6	343.4	302.7	317.3	48.9	34.7	31.5
MEDIAN		**-1.7**	**-2.9**	**-3.5**	**54.7**	**48.5**	**42.0**	**9.6**	**9.3**	**8.0**
MEAN		**-3.0**	**-4.4**	**-4.7**	**65.2**	**65.6**	**63.5**	**12.7**	**10.8**	**9.6**

[1] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

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