

United Nations Economic Commission for Latin America and the Caribbean

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# **Access to international capital markets: recent developments in Central America and the Caribbean**

Inés Bustillo

Helvia Velloso



UNITED NATIONS



Washington, D.C., 23 April 2014

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## List of abbreviations

CAC	Central America and the Caribbean
CRAs	Credit rating agencies
EMBIG	J.P.Morgan Emerging Market Bond Index Global
EMTA	Emerging Markets Trade Association
LAC	Latin America and the Caribbean
MSCI	Morgan Stanley Capital International Index



## **Abstract**

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The objective of this report is to analyze the impact of recent global financial trends on the access to private external financing by Central American and Caribbean (CAC) economies, as well as their performance in international capital markets in recent years. The CAC economies, like many other countries in the world, were not immune to the negative consequences of the global economic and financial crisis of 2008. In fact, their openness, export driven growth and linkages to advanced economies, particularly to the U.S., as well as size, made them more vulnerable than other Latin American countries to the negative effects of the crisis. In addition, their recovery was hindered by their weak linkages to the larger emerging market countries that drove global growth in the post-crisis recovery. As China and other emerging market economies begin to slowdown, however, and the U.S. and other advanced economies show signs of a strengthening recovery, the linkages to advanced economies may once again become a source of strength.





## Overview

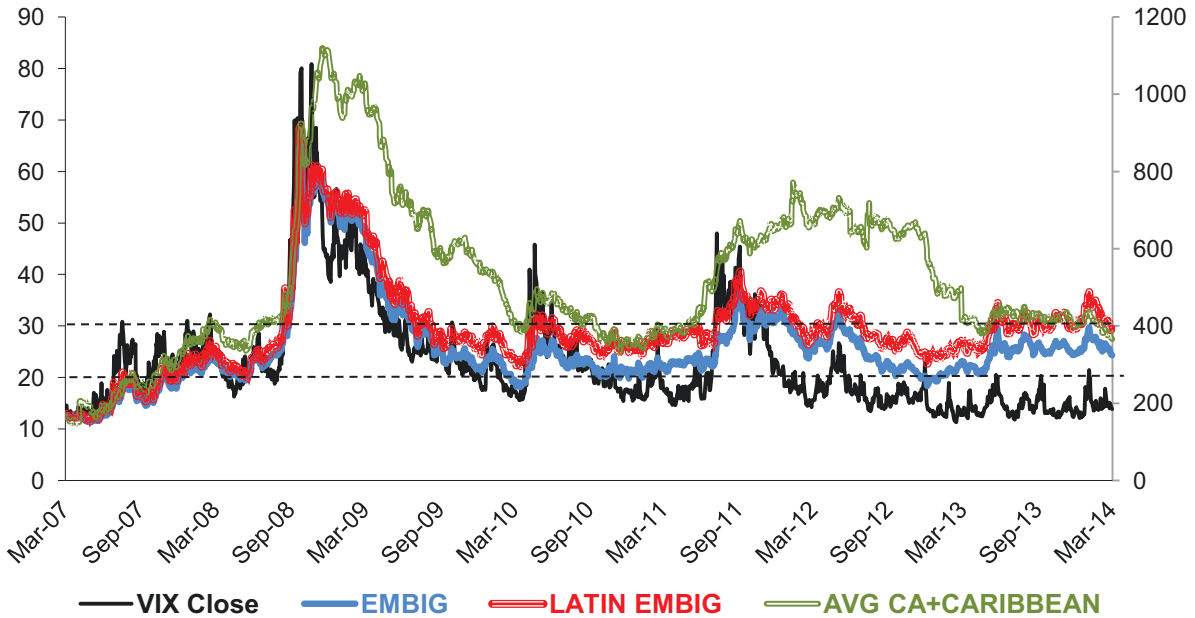
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Cross-border private capital flows to Latin America and the Caribbean (LAC) have increased sharply in the past decade. However, Central America and the Caribbean (CAC) face particular challenges in attracting global capital. Vulnerability to economic shocks, as well as small size, implying a narrow range of economic activities, limited economies of scale and constrained competitiveness affect access to international capital. Their access to global capital markets thus tends to be more limited and costly than that of other countries of Latin America. Vulnerability tends to increase during periods of external shocks and financial turbulence. During the 2008 global financial crisis and in its aftermath, some CAC countries seem to have felt a bigger impact than the rest of the LAC region, with larger increases in their sovereign debt spreads and sharper downgrades in their credit risk ratings.

Over the past three years, a number of Caribbean countries have restructured bond payments, making this period one with the highest number of defaults on loan agreements in the Caribbean region. Country risk, as measured by debt spreads, increased as a result. From late 2010 to late 2012 the spread gap between the Caribbean countries and the EMBIG Latin component widened by almost 700 basis points. In 2013, however, while LAC sovereign spreads widened by 67 basis points according to the J.P.Morgan EMBIG Latin component, spreads for the Caribbean region tightened by 589 basis points, reversing most of the spread gap (see figure 1).

The main reason for the tightening of the CAC spreads average in 2013 was the large decline in spreads for Belize, following the exchange offer made on 15 February 2013 for its US\$ 547 million 2029 “super bond” that reached a participation rate of 86.17%.

**FIGURE 1**  
**CBOE VOLATILITY INDEX AND EMBIG: 2007-2014 YTD**  
*(VIX Close (left axis), Basis Points (right axis))*

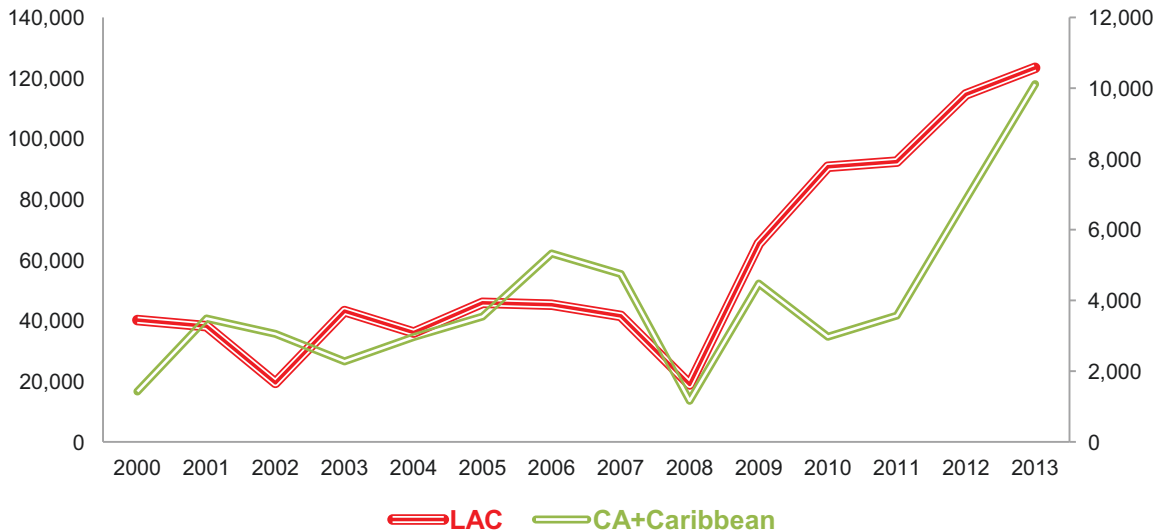


Source: J.P. Morgan, "EMBI Monitor" and Chicago Board Options Exchange, [www.cboe.com/micro/vix/historical.aspx](http://www.cboe.com/micro/vix/historical.aspx)

Note: VIX values greater than 30 are generally associated with a large amount of volatility, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

In terms of debt issuance, the post-crisis recovery in CAC was also lackluster relative to the recovery of the LAC region as a whole. During the crisis, debt issuance fell more in Central America and the Caribbean than in the rest of the region, and while CAC debt issuance began to really recover only in 2011, Latin American debt issuance began its recovery in 2009 (see figure 2).

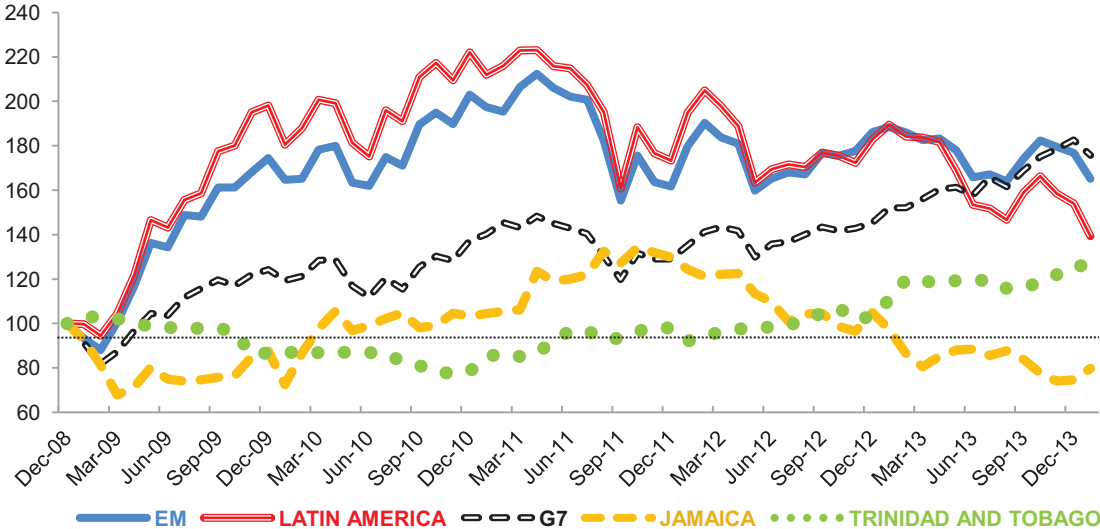
**FIGURE 2**  
**DEBT ISSUANCE IN LAC AND CAC**  
*(US\$ Millions; LAC bond issuance (left axis), CAC bond issuance (right axis))*



Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

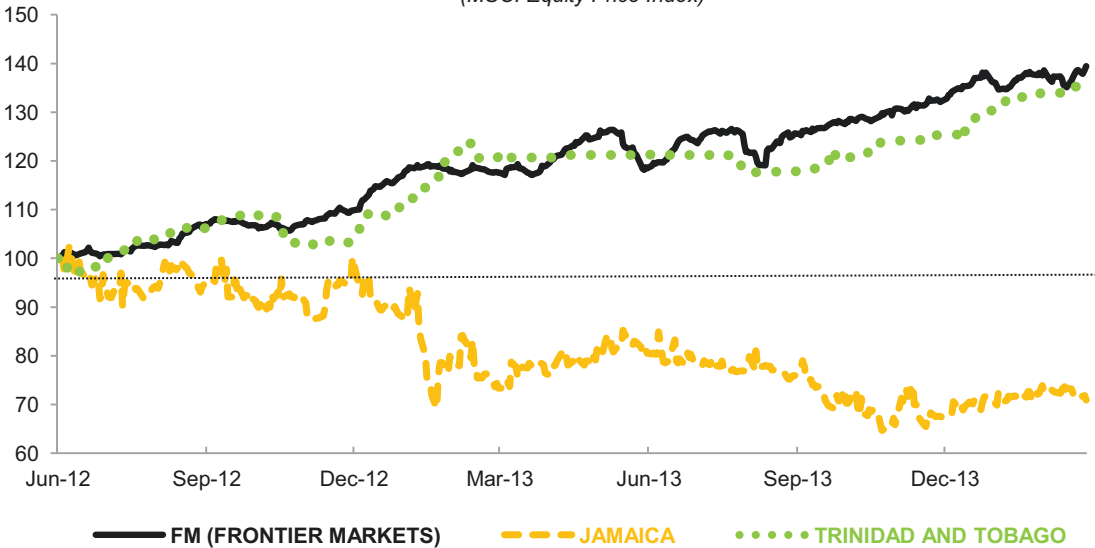
In equity markets, stock prices for Jamaica and Trinidad & Tobago, as measured by the Morgan Stanley Capital International (MSCI) index, lagged sharply compared to the MSCI index for Latin America (see figure 3). The MSCI index for Trinidad & Tobago has been on an upward trend since mid-2012, however (see figure 4). Trinidad & Tobago and Jamaica are part of the MSCI Frontier Markets, and the only two CAC countries included. Frontier markets are a disparate group of countries ranging from Trinidad & Tobago in the Caribbean and Nigeria in Africa to Bangladesh in Asia. As growth in emerging markets began to slow last year, investors scrambled to put their cash to work in these small and often illiquid markets.

**FIGURE 3**  
**MSCI EQUITY PRICE INDEX (USD): 2008-2013**  
*(MSCI Equity Price Index)*



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

**FIGURE 4**  
**MSCI EQUITY PRICE INDEX (USD): FRONTIER MARKETS**  
*(MSCI Equity Price Index)*



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

Note: Prices at the end of the month

Small countries are heavily dependent on external capital and this dependency makes them particularly exposed to fluctuations in external capital, such as those caused by the 2008 global financial crisis. In what follows, we will analyze access to international capital markets by CAC economies in the recent period. The report is structured as follows: in the first section, the bond markets and debt management by the economies of CAC is analyzed, including the behavior before, during and after the global financial crisis of sovereign debt spreads and new debt issuance. In parallel with the increase in debt spreads, some CAC countries experienced downgrades in their credit risk classification during the crisis. However, unlike most countries of the rest of Latin America, very few of these countries were able to regain their previous ratings, thus in the second section of the paper the credit ratings evolution is examined. We conclude with some final reflections on what happened and what lies ahead, keeping in mind that financial stability and integration is integral to economic growth and development.<sup>1</sup>

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<sup>1</sup> The data used in this report to evaluate CAC countries' access to international capital markets – including debt spreads, new debt issuance, credit ratings and equity prices – are from private market sources. Data is not available for all countries. For country risk, we use the J.P.Morgan Emerging Bond Markets Index Global (EMBIG), which includes only seven CAC countries: Belize, Costa Rica, Dominican Republic, Guatemala, Panama, El Salvador and Trinidad & Tobago.

For debt issuance, all CAC issuers – based on information provided by LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch – are included.

For equity prices and trends in equity flows we use the Morgan Stanley Capital International (MSCI) Latin American Index, which does not include any CAC country and is used for comparison, and the MSCI Frontier Markets Latin American and Caribbean Index. The latter includes only two CAC countries: Jamaica and Trinidad & Tobago.

Finally, for credit ratings, information from the three main credit rating agencies – Standard and Poor's, Moody's and Fitch – is used. The three agencies provide ratings for about fifteen CAC countries.

## **I. Bond markets and debt management**

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Increasing access to the international bond markets has been an essential element of LAC's external financing since the 1990s. The importance of bond financing as a source of external funding to Latin America rose substantially since then, with the number and value of bonds issued surging considerably over the course of the past two decades. Bond financing is a growing source of external development financing for the region, being second only to foreign direct investment.

Bonds have become a more significant source of external capital to some of the countries of CAC over this period, but not to all. The following sections focus on the trajectory of bond spreads and issuance, as well as credit quality, during the 2008 global financial crisis, the post-crisis period and beyond. The behavior of bond spreads and new debt issuance in the period supports the notion that access to international bond markets for small, vulnerable economies tends to be more sporadic and more costly than for larger economies. Countries in CAC were hit harder during the crisis, and have not yet regained their pre-crisis standings.

The trend towards financial openness gained renewed impetus in the 1990s. It was widespread, although it was less intense in the Caribbean. Using the Chinn-Ito index of financial openness, ECLAC (2012) shows that for the region as a whole, the index had surpassed the levels seen in the 1970s by the mid-1990s, but financial openness in the Caribbean did not return to the 1970s levels until the 2000s. By the late 2000s the economies of Latin America and the Caribbean had achieved the highest degree of financial-account openness of all developing economies.

In Central America and the Dominican Republic the indices were close to those of developed economies. Growing financial openness was accompanied by an increase in foreign-currency assets in the region, which by late 2000s grew to represent 18% of GDP in South America, 15% in Central America and Mexico and 17% in the Caribbean.<sup>2</sup>

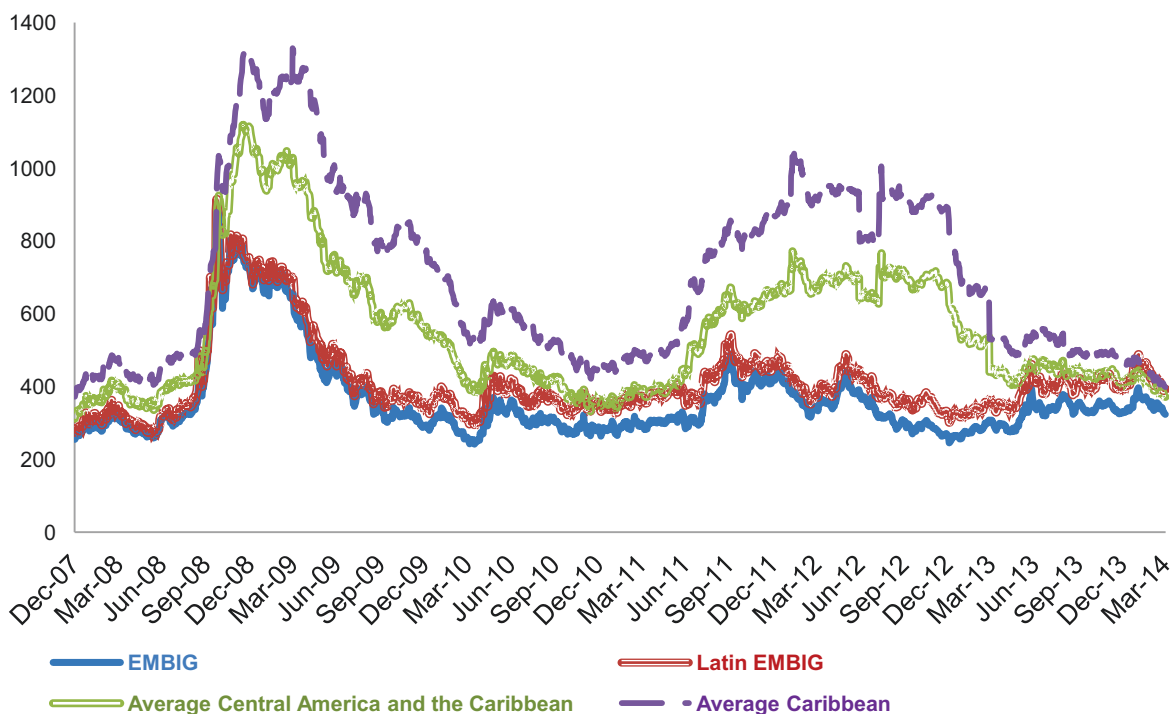
Bonds were among those foreign-currency assets. In terms of size, total bond issuances in the 2003–2012 period represented 5.5% of GDP in the Caribbean, on average, 4% in Central America and 2% in South America and Mexico. As a share of total international reserves during the same period, bond issuances represented more than 50% of international reserves in the Caribbean, on average, 36% in Central America and 13% in South America and Mexico.

## A. Sovereign spreads

Following the collapse of financial markets in September 2008, the Latin American spreads, measured by the J.P.Morgan Emerging Market Bond Index Global (EMBIG), widened by 238 basis points between September and October 2008, but the economies of Central America and the Caribbean experienced a much stronger impact. On average EMBIG spreads for the CAC countries (excluding Panama) widened by 433 basis points, almost two times the Latin average.

Spreads widened sharply following the onset of the crisis in September 2008, reaching a peak by the end of 2008 and beginning of 2009 (see figure 5). The Latin component widened 423 basis points from end-August to end-November 2008, with spreads widening more in CAC (571 basis points for CAC and 628 basis points for the Caribbean alone).

**FIGURE 5**  
**EMBIG SPREADS: CA AND CARIBBEAN VS LATIN AMERICA**  
(Basis points)



Source: ECLAC on the basis of data from JPMorgan.

<sup>2</sup> See ECLAC (2012, Chapter III, p.106).

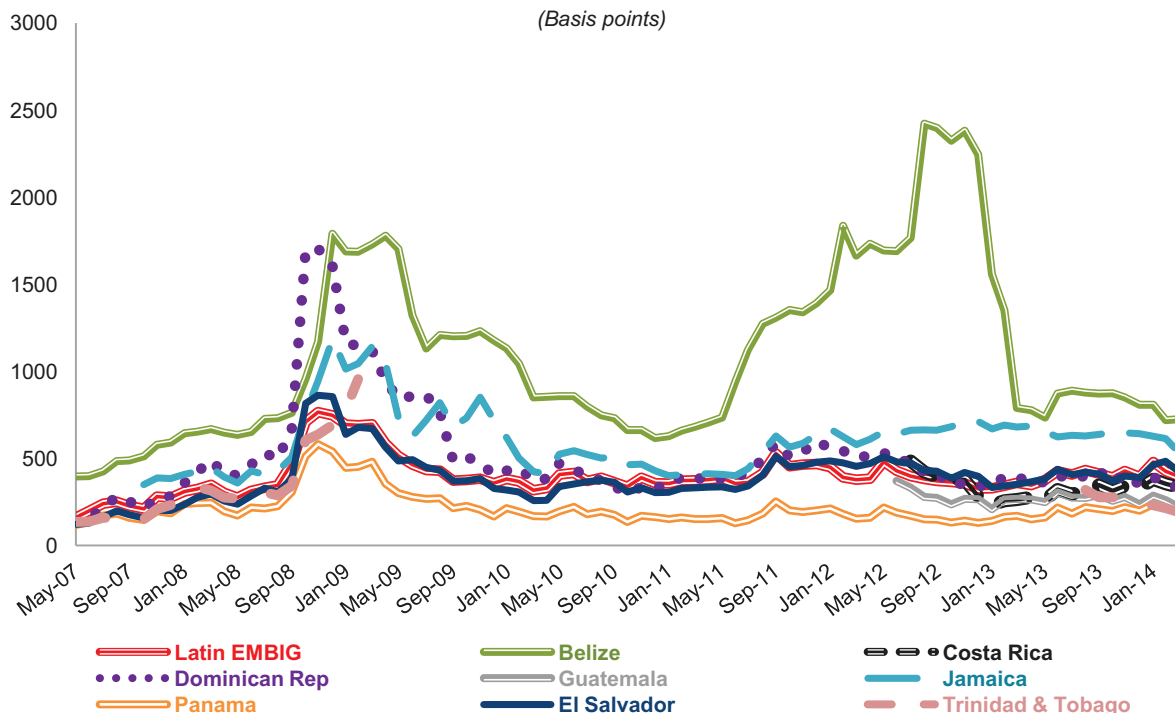
In the second half of 2009, and over the course of 2010, CAC spreads began to tighten towards pre-crisis levels and to close some of the gap with the rest of LAC.

In 2011, however, CAC spreads widened more than the regional average and the gap opened again and continued to widen in 2012. From late 2010 to late 2012 the spread gap between the Caribbean countries and the EMBIG Latin component widened by almost 700 basis points, as a number of Caribbean countries restructured bond payments that made this period one with the highest number of defaults on loan agreements in the Caribbean.

In 2013 the gap began to close again: while LAC sovereign spreads widened by 67 basis points according to the J.P.Morgan EMBIG Latin component, spreads for CAC tightened by 225 basis points, with spreads for the Caribbean region alone tightening by 589 basis points, reversing most of the spread gap.<sup>3</sup>

2013 was a year of investor pessimism toward emerging markets, characterized by investor outflows from the asset class prompted by the U.S. Federal Reserve’s warning in May that it was contemplating “tapering” (or reducing) their quantitative easing (QE) efforts, as well as by rising U.S. Treasury yields and concerns over emerging markets growth. For the most part, this pessimism hit Latin American countries harder than countries in the Central America and the Caribbean.

**FIGURE 6**  
**EMBIG AND LATIN COMPOSITE: CA AND CARIBBEAN COUNTRIES’ SPREADS**  
*(Basis points)*



Source: ECLAC on the basis of data from JPMorgan.

The main reason for the tightening of the CAC spreads average in 2013 was the large decline in spreads for *Belize* (see figure 6). Belize’s spreads tightened 1,438 basis points in 2013, more than compensating for the 854 basis points spread widening that took place in 2012.

<sup>3</sup> The spread average for CAC based on J.P.Morgan EMBIG spreads include: Belize, Costa Rica, Dominican Republic, Guatemala, Jamaica, Panama, El Salvador and Trinidad & Tobago. Spreads for Costa Rica were added to the EMBIG in July 2012 and for Guatemala in June 2012. Spreads for T&T were available from May 2007 to March 2009 and from August to December 2013. The Caribbean average includes Belize, Dominican Republic, Jamaica and T&T.



The reason for Belize's spread decline was the exchange offer made in February 2013 for its US\$ 547 million 2029 "super bond" and the government's announcement in March that holders of 86.17% of the country's U.S. dollar bonds due 2029 had decided to participate in the restructuring and exchange their bonds for new U.S. dollar bonds due 2038.

While volatility in the beginning of 2014 led to a widening in emerging market spreads, in the case of Belize there was no widening, with spreads still at 807 basis points at the end of January 2014. Belize's spreads tightened 83 basis points in the first quarter of 2014.

In January 2014, the EMBIG Latin widened by 86 basis points, but spreads for the Caribbean region widened only 4 basis points. While the Caribbean countries for the most part felt a bigger impact than the rest of the region during periods of higher volatility since the global financial crisis, in this latest bout of volatility in January 2014, the opposite took place. The Caribbean region was mostly unscathed, while the rest of the region was hit hard. The bout of volatility in January was triggered by economic turmoil in emerging market countries, compounded by fears of a slowdown in China, which led to concerns amid investors. Given the Caribbean's weak linkages to the Chinese economy and major emerging markets, the impact on these countries was not as strong as on the rest of the LAC region.

With an IMF agreement in place, the *Dominican Republic* has displayed stronger public finances, received unprecedented FDI flows, and is selling foreign currency bonds at lower yields than in the recent past, while deepening local markets. Although during the global financial crisis Dominican Republic's spreads were above the Latin American regional average, in 2013 they widened only by 6 basis points, compared to a widening of 67 basis points for the EMBIG Latin component. In the first quarter of 2014, Dominican Republic's spreads tightened 19 basis points, and at 330 basis points at the end of March, are lower than the regional average.

*Jamaica's* spreads also tightened in 2013 by 70 basis points. In January 2014 spreads tightened further, by 15 basis points. The tightening in 2013 and in January 2014 was enough to compensate for the 74 basis points spread widening that took place in 2012. In the first quarter of 2014, Jamaican spreads tightened by 110 basis points. The government has renegotiated an agreement with the International Monetary Fund – a 48-month, US\$ 932 million Extended Arrangement – which was approved by the Fund's Executive Board on 1 May 2013, which is a positive for debt spreads, hence the tightening since then.

However, the uncertainty surrounding Jamaica's economy – marked by high deficits, a large public debt burden and challenging foreign exchange reserves, while facing a tough global economy – has translated into higher than average spreads, which at 531 basis points at the end of March 2014, remained above the regional average. For many years Jamaica's economy was driven by exports and tourism, but both were hit by the global recession and the economy is still struggling to shake off the effects, while concerns about the social effects of the crisis are rising.

Spreads for *Trinidad & Tobago* were added to the J.P.Morgan EMBIG index again on 30 August 2013 (T&T spreads were previously included in the EMBIG for the period of May 2007 to March 2009). During the bout of volatility in January 2014, Trinidad & Tobago's spreads tightened 14 basis points. At the end of March 2014 spreads were at 199 basis points, around half of the regional average. They tightened 54 basis points in the first quarter of 2014.

The impact of the recent bout of volatility on Central America was also milder than in the rest of the region. Spreads for *Costa Rica*, for example, which was only added to the J.P.Morgan EMBIG index on 31 July 2012, widened 50 basis points in January 2014, less than the widening in the Latin EMBIG. In 2013, Costa Rica's spreads widened 48 basis points, also less than the 67 basis points widening for the Latin EMBIG.

*Guatemala's* spreads were added to the J.P.Morgan EMBIG index on 29 June 2012. They tightened 28 basis points in 2013 and eighteen basis points in the first quarter of 2014. At the end of March 2014, Guatemala's spreads were at 218 basis points, well below the regional average.

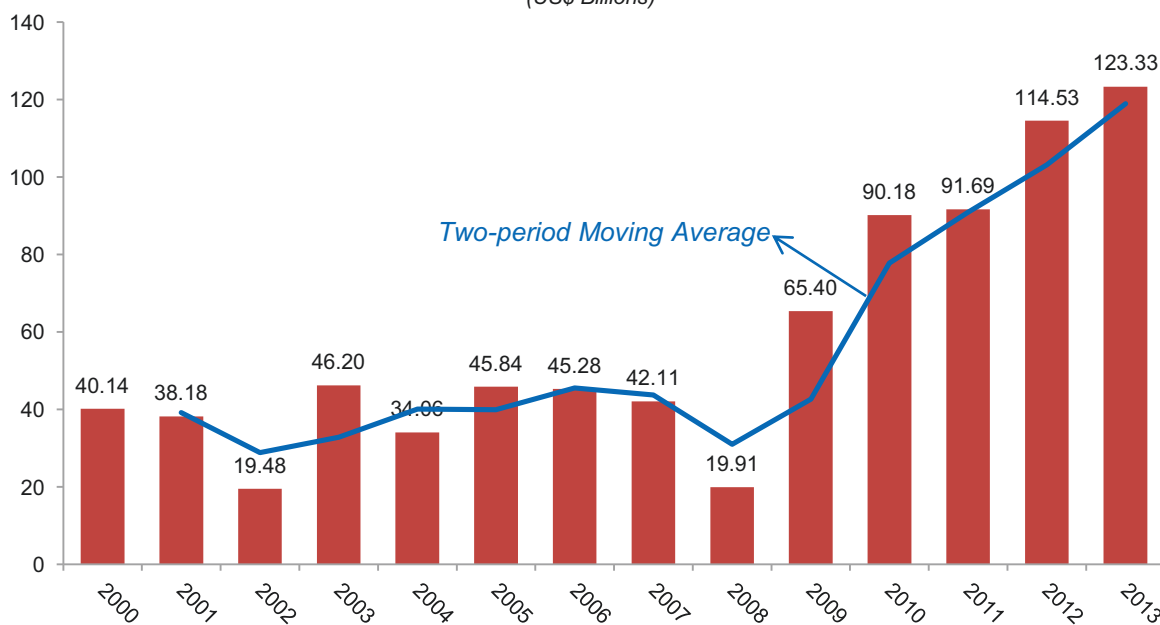
*El Salvador's* spreads had been broadly following the regional average, but in 2011 the sovereign was downgraded by S&P and Moody's, with the agencies citing the high debt-to-GDP ratio, high level of bank non-performing loans, and growing political uncertainty, as reasons for the downgrades. The sovereign was downgraded again by Moody's in November 2012 and by Fitch in July 2013. Nonetheless, El Salvador's spreads were at 389 basis points at the end of 2013, compared to 393 basis points for the Latin EMBIG. El Salvador's spreads widened 31 basis points in the first quarter of 2014, a bigger widening than that of the Latin EMBIG.

*Panama*, having received an investment grade in 2010, has actually performed better than the Latin American average, with spreads at 188 basis points at the end of March 2014. In the first quarter of 2014, Panama's spreads tightened 11 basis points.

## B. Bond issuance

The volume of international bond issuance (corporate and sovereign combined) in Latin America and the Caribbean rose considerably since 2000, from US\$ 40 billion to a record US\$ 123 billion in 2013 (see figure 7).

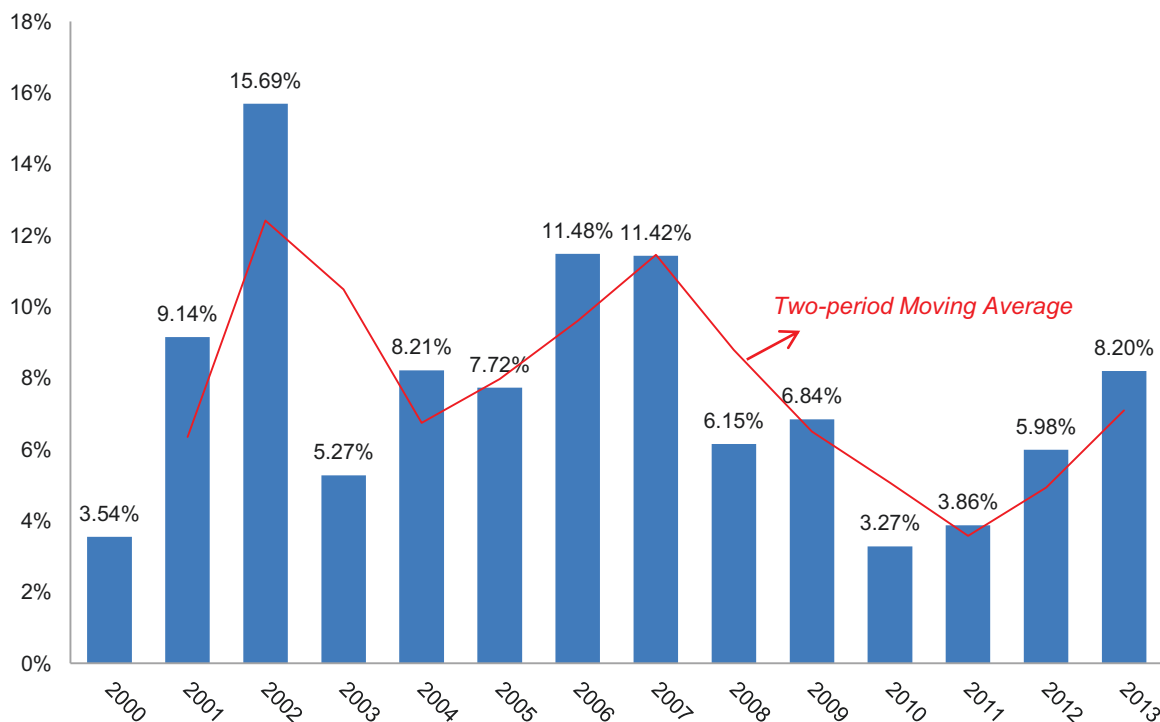
**FIGURE 7**  
**ANNUAL LATIN AMERICA AND CARIBBEAN DEBT ISSUANCE: 2000-2013**  
(US\$ Billions)



Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

Despite the record amount of issuance in the LAC region since 2009, debt issuance by the CAC as a share of the total LAC issuance has not yet recovered since the global financial crisis. After reaching its lowest level since 2000 in 2010, further evidence that the small economies of the region have struggled to return to pre-crisis levels, the CAC's share of total LAC issuance has been gradually increasing, and reached 8.2% in 2013 (see figure 8).

**FIGURE 8**  
**CENTRAL AMERICA & CARIBBEAN'S SHARE OF TOTAL LAC ISSUANCE: 2000-2013**  
 (Percentage)

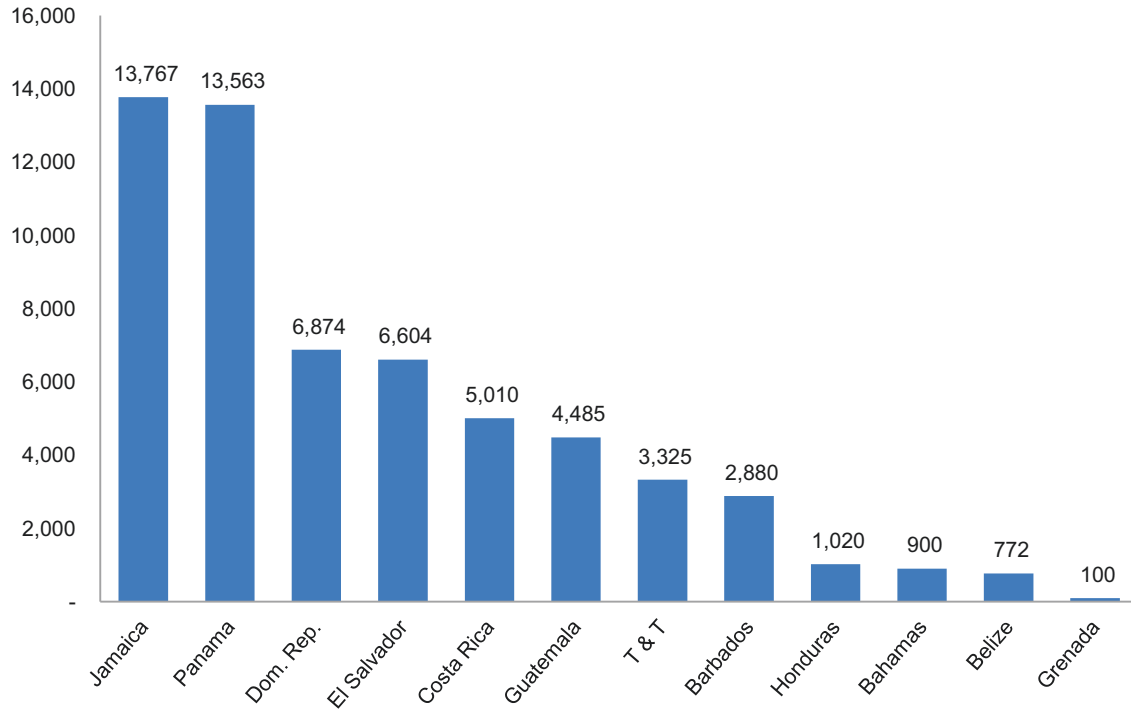


Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

Corporate and sovereign issuance by CAC represented about 6% of total LAC issuance on average in the 2000-2013 period, totaling US\$ 59 billion for the period as a whole. With a total of US\$ 13.8 billion in debt issuance and accounting for 23.2% of the total CAC issuance, Jamaica was the biggest issuer in the region (see figures 9 and 10). Jamaica was followed by Panama with US\$ 13.6 billion and 22.9% of the total, Dominican Republic with US\$ 6.9 billion and 11.6%, El Salvador with US\$ 6.6 billion and 11.1% of the total, Costa Rica, with US\$ 5.0 billion and 8.5% of the total and Guatemala, with US\$ 4.5 billion and 7.6% of the total. Together, those six countries accounted for 85% of total debt issuance – sovereign and corporate combined – in CA and the Caribbean.

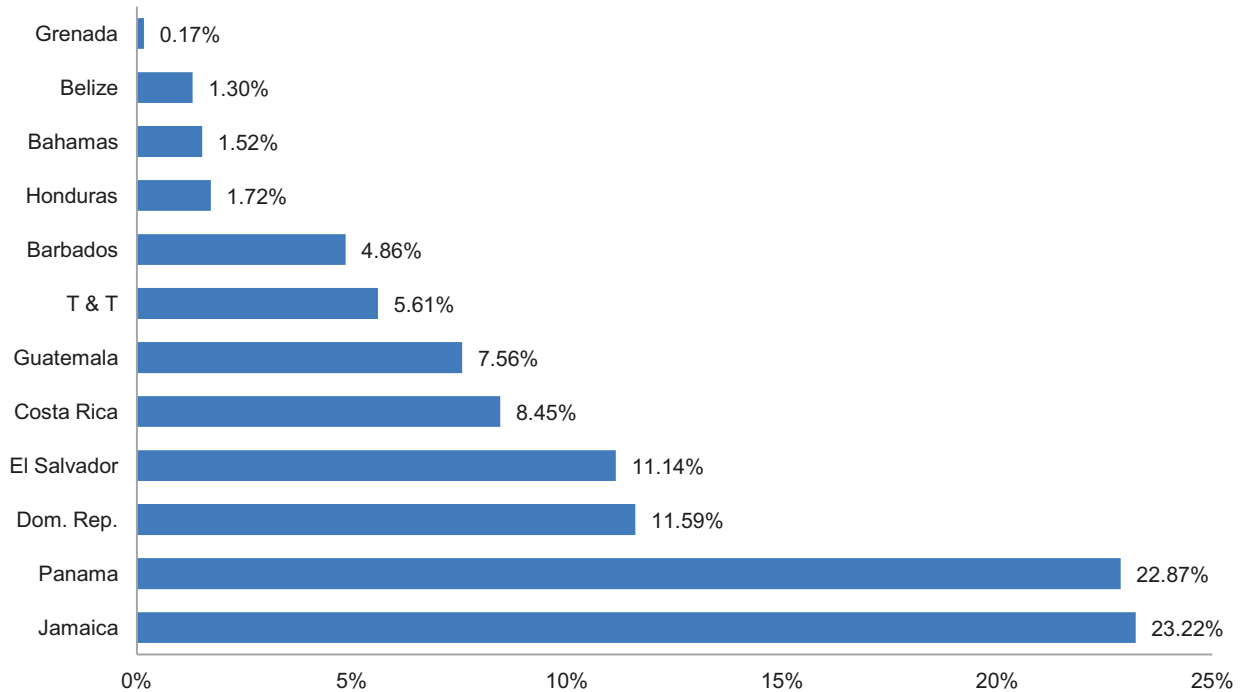
In 2013, Bahamas, Costa Rica, Dominican Republic, Guatemala, Honduras, Panama, and Trinidad & Tobago tapped international capital markets. In the corporate sector, including quasi-sovereigns, the following companies issued bonds in 2013: *Costa Rica's* Instituto Costarricense de Electricidad (ICE), Banco Nacional de Costa Rica (BNCR) and Banco de Costa Rica; *Guatemala's* Banco de los Trabajadores (Bantrab), Cementos Progreso and Central American Bottling Corporation (Cabcorp); *Dominican Republic's* Banco de Reservas de la Republica Dominicana (Banreservas); *El Salvador's* electricity distribution company AES El Salvador; and *Jamaica-based* mobile phone network provider Digicel.

**FIGURE 9**  
**CENTRAL AMERICA & CARIBBEAN ISSUANCE BY COUNTRY: 2000-2013**  
*(US\$ Millions)*



Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

**FIGURE 10**  
**CENTRAL AMERICA & CARIBBEAN ISSUANCE 2000-2013: COUNTRY SHARES**  
*(Percentage)*



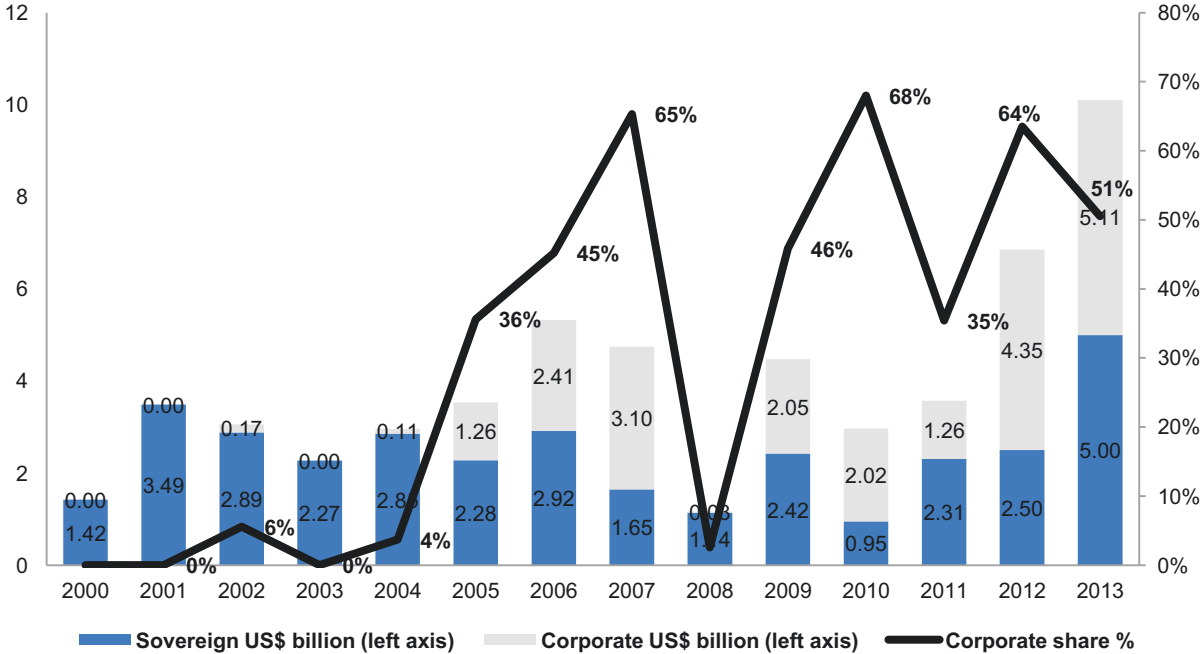
Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

In the first quarter of 2014, only Bahamas tapped international bond markets in the sovereign sector, issuing a US\$ 300 million 5.750% 2024 bond. In the corporate sector, Barbados-based telecom provider Columbus International issued a US\$ 1.25 billion 7.375% 2021 bond, Guatemala’s Comunicaciones Celulares (Comcel) issued a US\$ 800 million 6.875% 2024 bond and Jamaica’s Digicel issued a US\$ 1 billion 7.125% 2022 bond in international capital markets.

One of the recent trends in LAC’s debt market in the past decade was a shift in external funding from sovereigns to corporates/banks. Corporate bonds increased from 7% of the total amount of tradable bonds in 2004 according to EMTA’s figures to 14% in 2013, while sovereign bonds decreased from 38.6% in 2004 to 19% in 2013. CAC have mirrored this trend, with corporate bond issuance as a share of total issuance increasing after 2004, with the exception of 2008, the year of the onset of the global financial crisis (see figure 11).

In 2007, corporate issuance in CAC amounted to 65% of total issuance, surpassing sovereign issuance for the first time. This trend was interrupted by the global financial crisis in 2008-2009. In 2010 corporate issuance surpassed sovereign issuance once again, accounting for 68% of the total, but in 2011, with the intensification of the euro area fiscal woes, corporate issuers retreated and sovereign issuance accounted for the biggest share again. In 2012 and 2013, CAC corporate debt issuance bounced back, representing 64% and 51% of the total, respectively. In 2012, the amount of corporate issuance in CAC broke a record, reaching US\$ 4.3 billion and finally surpassing the total amount issued in 2007 (US\$ 3.1 billion). In 2013, total corporate issuance in CAC was the highest ever, reaching US\$ 5.1 billion.

**FIGURE 11**  
**SOVEREIGN AND CORPORATE CENTRAL AMERICA & CARIBBEAN ISSUANCE: 2000-2013**  
*(Left axis: amount issued in US\$ billions; right axis: corporate issuance as a share of the total)*



Source: ECLAC, on the basis of data from LatinFinance, J.P.Morgan and Bank of America/Merrill Lynch.

## **II. Credit ratings evolution**

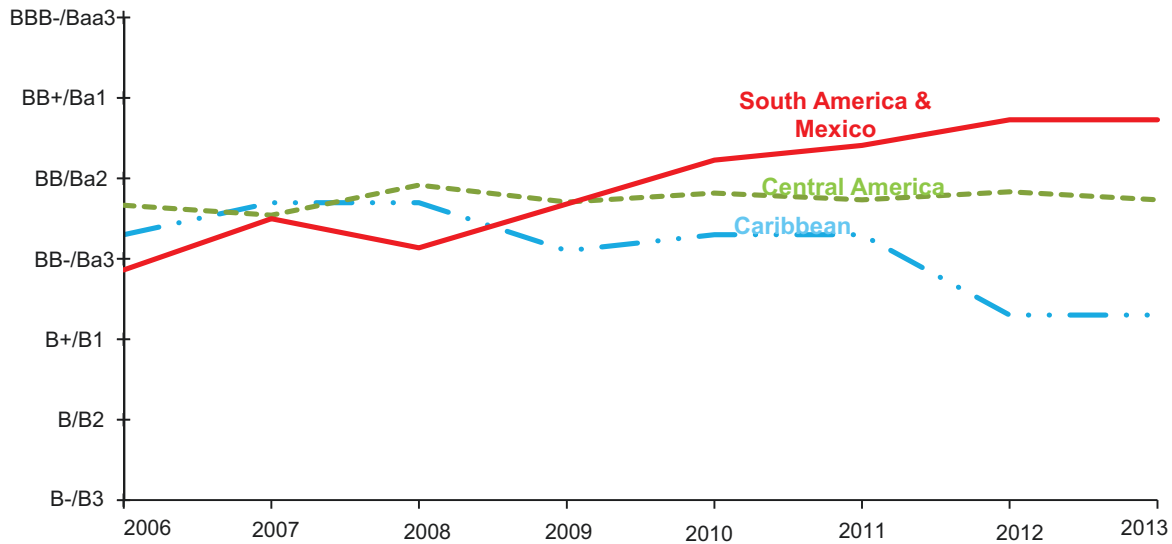
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In parallel with the increase in EMBIG spreads, Central America and Caribbean countries experienced downgrades in their credit risk classification during the crisis and very few of them have regained their previous rating, as they continue to struggle with large government debts after the global financial crisis hurt their economies, hitting the export and tourism sector particularly hard.

In the case of Central America and the Caribbean, because of small size and underdeveloped capital markets in many of the economies of the region, the credit ratings can play an important role on investors' decisions towards the region. Together, the three main credit rating agencies – Standard & Poor's, Moody's and Fitch – provide ratings for about fifteen countries in the region, but the analysis that follows will focus on the twelve countries rated by at least two of the agencies.

Overall, credit ratings for the Caribbean and Central American countries have not followed the same trajectory as the rest of the Latin American region. While credit ratings for South America and Mexico suffered a negative impact during the global financial crisis, they were on an upward trend soon after that and have not only recovered, but are at a higher level than before the crisis. On the other hand, Central America – with the exception of Panama – falls entirely in Latin America's lower ratings bracket, while in the Caribbean, ratings are for the most part even lower, with the exception of the Bahamas and Trinidad & Tobago. The number of downgrades increased in 2011 and 2012, after a number of Caribbean countries restructured bond payments (see figure 12).

**FIGURE 12**  
**AVERAGE CREDIT RATINGS (S&P AND MOODY'S): 2006-2013**



Source: ECLAC, on the basis of data Source: ECLAC, on the basis of data from Standard & Poor's and Moody's.

South America: Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela.  
Central America: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.  
Caribbean: Barbados, Belize, Dominican Republic, Jamaica and Trinidad & Tobago.

A majority of the countries in the Caribbean suffered downgrades following the onset of the 2008 financial crisis, and had not recovered their previous standing by the end of 2013. This is the case of the Bahamas, Barbados, Belize, and Jamaica (see table 1). In the four cases, the downgrades reflected credit weakness and fiscal deterioration, as financial instability brought about by the global financial crisis weighed heavily on the countries' fiscal accounts.

**TABLE 1**  
**CAC CREDIT RATINGS BEFORE AND AFTER GLOBAL FINANCIAL CRISIS (2007 AND 2013)**

CA	S & P		Moody's		Fitch	
	2007	2013	2007	2013	2007	2013
Costa Rica	BB	BB	Ba1	Baa3	BB	BB+
El Salvador	BB+	BB-	Baa3	Ba3	BB+	BB-
Guatemala	BB	BB	Ba2	Ba1	BB+	BB+
Honduras	B+	B	B2	B2	n/a	n/a
Nicaragua	n/a	n/a	Caa1	B3	n/a	n/a
Panama	BB	BBB	Ba1	Baa2	BB+	BBB
<b>Caribbean</b>						
Bahamas	A-	BBB	A3	A3	n/a	n/a
Barbados	BBB+	BB-	Baa2	Ba3	n/a	n/a
Belize	B	B-	B3	Caa2	n/a	n/a
Dominican Republic	B+	B+	B2	B1	B	B
Jamaica	B	B-	B1	Caa3	B+	CCC
Suriname	B+	BB-	B1	Ba3	B	BB-
Trinidad & Tobago	A-	A	Baa1	Baa1	n/a	n/a

Source: ECLAC, on the basis of data from Standard & Poor's, Moody's and Fitch.

In **red** credit rating in 2013 is lower than in 2007.

In **green** credit rating in 2013 is higher than in 2007.



In the case of the Dominican Republic, ratings were downgraded by S&P's in the immediate aftermath of the crisis but have now recovered, while Trinidad & Tobago's and Suriname's ratings have actually improved.

The Bahamas held an investment grade of A-/A3 by S&P's and Moody's prior to the crisis. In November 2008 S&P's revised its rating outlook to negative, saying that the U.S. economic downturn had severely impacted the Bahamian economy, which depends heavily on the U.S. for investment, trade and tourism. The rating was then downgraded in December 2009 to BBB+ and in October 2011 to BBB, a lower investment grade, and has yet to recover. According to S&P's, "the Bahamian economy is vulnerable to the country's dependence on one sector, tourism, and one geographic market, the U.S." In August 2011 Moody's revised the Bahamas' outlook to negative, saying that the central government debt had increased by almost 150% over the past decade to nearly 50% of GDP at end-2010, with over 40% of the increase occurring in the prior two years alone. In September 2012 S&P revised the outlook on the Bahamas' BBB rating to negative from stable, citing a deteriorating fiscal profile.

Barbados held an investment grade of BBB+/Baa2 by S&P's and Moody's prior to the crisis. The sovereign was downgraded one notch by Moody's in October 2009 and by S&P's in October 2010, although it still retained an investment grade. The main reason behind the downgrades was the deterioration and weakening of the country's fiscal profile and key debt indicators. In July 2012, Barbados lost its S&P's investment grade, being downgraded to BB+ from BBB- with a stable outlook, with the agency citing "weakening of economic fundamentals, stemming from rising competitive challenges and other structural factors that the government can address only in the long-term." In December 2012, Barbados lost Moody's investment grade, being downgraded to Ba1 with a negative outlook, with the agency citing the country's lackluster economic performance and deterioration in the government's debt metrics.

Barbados was downgraded again by the two agencies in 2013: in November, to BB- from BB+ with a negative outlook by S&P, a two-notch downgrade, and in December, to Ba3 from Ba1 with a negative outlook by Moody's, another two-notch downgrade. The agencies cited weak growth, large fiscal deficits, mounting external pressures associated with a persistent current account deficit and external financing challenges, and rising external vulnerability due to a sharp decrease in foreign exchange reserves, as reasons for the downgrade.

Belize held a non-investment grade of B by S&P's and B3 (one notch lower than S&P's) by Moody's prior to the crisis. The sovereign was downgraded one notch lower to B- by S&P's in August 2011, bringing the ratings of both agencies to the same level. The lowered rating reflected Belize's higher fiscal deficit and rising contingent liabilities, which, in S&P's view, reduced its fiscal flexibility. In the course of 2012, Belize was downgraded five times – three times by S&P's, from B- to a rating of SD (selective default) by August, and two times by Moody's, from B3 to a Ca rating by June. In August, Moody's lowered the outlook on Belize to negative. In 2013, following the successful completion of the debt exchange of the country's US\$ 547 million 2029 "super bond" in February, Belize was upgraded by S&P's to B- from SD in March, and to Caa2 from Ca by Moody's.

Prior to the crisis Jamaica held a non-investment grade of B1 and B+ by Moody's and Fitch and of B (one notch lower than the other agencies) by S&P's. The sovereign's rating was immediately impacted by the global crisis, with the three agencies taking negative actions already in 2008 – changing the outlook to negative and proceeding to further downgrade the sovereign – saying that shocks from global financial turbulence and the expected U.S. recession had heightened downside credit risks given Jamaica's reliance on external funding for its comparatively high fiscal and external deficits. The sovereign was downgraded further in 2009. In 2010, however, after the successful outcome of a domestic debt exchange and the approval of a US\$ 1.27 billion IMF Stand-



By Arrangement, which mitigated near-term external liquidity concerns, Jamaica was upgraded by all three agencies.

In February 2013, however, following the government's announcement of another debt exchange program, Jamaica was downgraded to SD from B- by S&P's and to RD (restricted default) from C by Fitch. In March, it was downgraded by Moody's to Caa3 from B3, but it was upgraded to CCC from RD by Fitch and to CCC+ from SD by S&P's, following the completion of the National Debt Exchange (NDX) program. It was upgraded again by S&P's in September, to B- from CCC+, with the agency citing recent progress in stabilizing the economy, staunching the loss of foreign-exchange reserves, and gaining access to new external funding from official creditors. In February 2014, Fitch upgraded Jamaica to B- from CCC with a stable outlook, citing reduced financing risks due to fiscal consolidation and the lengthening of domestic debt repayments achieved through the debt exchange in February 2013. Despite the recent improvements, Jamaica has not yet recovered its previous ratings.

The Dominican Republic held a non-investment grade of B+ by S&P's and B2 and B by Moody's and Fitch (one notch lower than S&P's). The sovereign was downgraded to B by S&P's in December 2008, bringing the rating to par with the other two agencies. Moody's upgraded the rating to B1 in 2010 to reflect a reassessment of the country's overall credit resilience after the global financial crisis, and S&P's brought it back to B+ in June 2011, reflecting the country's progress in gradually improving its debt structure and debt management, advancing structural reforms, and improving policymaking transparency. Dominican Republic has already recovered its previous ratings, which were stable in 2012 and 2013, and in the case of Moody's, the current rating is one-notch higher than before the crisis.

Suriname was actually upgraded from B+ prior to the crisis to BB- in August 2011 by S&P's and from B to B+ in July 2011 by Fitch. The changes reflected improving macroeconomic fundamentals, good medium-term growth prospects and a low debt position, with net general government debt at less than 20% of GDP at the end of 2011. In 2012, Suriname was upgraded twice: to BB- from B by Fitch in July, and to Ba3 from B1 with a positive outlook from Moody's in August. The upgrades reflected prudent fiscal management, as well as robust growth, driven by gold mining, petroleum and construction sectors. They were also supported by the country's ability to attract significant foreign investment in the extractive industries and offshore exploration. Finally, in April 2013, S&P raised the outlook on Suriname's BB- rating to positive, on the expectation of improved growth. Suriname's ratings from all three agencies are higher today than they were before the global financial crisis.

In Central America, Honduras and El Salvador suffered downgrades and have not yet recovered their standing, while Costa Rica, Guatemala and Panama saw their ratings improve since the 2008 global financial crisis.

Honduras was downgraded to B from B+ in September 2009, but in June 2011, its outlook was changed to positive by S&P's. In June 2012, the sovereign was upgraded to B+ by S&P's, its pre-crisis rating, with the agency citing political stability and fiscal reform. However, in February 2013, with the economic situation worsening, Moody's and S&P's lowered their outlooks on Honduras to negative, citing fiscal concerns, external finance issues, and risk of a continued deterioration in macroeconomic stability. In August 2013, Honduras was downgraded to B from B+ by S&P's, with the agency saying that diminished fiscal flexibility and a rising debt burden made Honduras more vulnerable to external shocks or negative political developments. In February 2014, Moody's downgraded Honduras to B3 from B2, citing a widening fiscal deficit – which reached 7.7% in 2013 – and gross financing needs at more than 10% of GDP.

El Salvador was downgraded by Fitch on June 2009 to BB from BB+, to reflect what the agency considered a structural shift in the country's fiscal and growth trajectory. Moody's downgraded the sovereign from an investment-grade prior to the crisis (Baa3) to a non-investment-

grade of Ba1 in November 2009. In March 2011, Moody's downgraded the sovereign rating once again. Among the factors cited for the downgrade were El Salvador's high debt-to-GDP ratio, high level of bank non-performing loans and weak economic growth, the same issues that have weighed down many of the CAC countries. In November 2012, Moody's downgraded the sovereign rating again, to Ba3 from Ba2, citing weakening growth trends and debt reduction hurdles. In July 2013, Fitch downgraded El Salvador to BB- from BB and maintained a negative outlook, citing sustained macroeconomic underperformance relative to peers and protracted high fiscal deficits that have resulted in a debt-to-GDP ratio of 56.7% in 2012, well above the 39% median in the BB class.

Panama was upgraded by the three agencies to investment grade in 2010 and followed the trend of the rest of the Latin America. Costa Rica also received an investment grade in 2010 by Moody's, but S&P's and Fitch have kept the sovereign as a non-investment grade. Moody's also upgraded Guatemala in 2010, to Ba1 from Ba2 and Guatemala has maintained its rating since then, although Fitch in July 2013 revised Guatemala's outlook to negative from stable, citing slow progress in addressing long standing structural weaknesses that continue to hinder growth potential and limit per capita income convergence to similarly rated peers.



## Concluding remarks

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The countries of CAC face unique constraints in attracting global capital because of their vulnerability to economic shocks, as well as small size. As a result, their access to international capital markets tends to be more limited and costly than that of other countries of Latin America. During the 2008 global financial crisis and in its aftermath, the spreads on their sovereign debt suffered a bigger increase and their credit risk classification a stronger negative impact, their debt issuance as a share of the total LAC issuance has not yet recovered since the global financial crisis, and their secondary equity prices showed a lackluster recovery.

These results suggest that the advantage conferred by the CAC economies' openness, export driven growth and linkages to developed countries, can soon become a disadvantage in the onset of a global shock that originates in these same advanced economies. A potential explanation to why so many CAC countries were so hardly hit by the 2008 global financial crisis is their sensitivity to the economic cycle of advanced countries, particularly the U.S. In addition, during the recovery phase, the weak linkages with the emerging countries that were driving the global recovery, such as China and India, prevented some of the CAC economies from enjoying a stronger performance.

However, with the recent economic slowdown in China and other large emerging economies, and the economic improvement in the U.S. and other advanced economies, the CAC region stands to benefit. In addition, although many countries are still constrained by high levels of debt as a share of GDP and have limited fiscal space, the successful completion of debt exchanges in a number of countries of the region in the past year is a positive for the region.

The analysis of the impact of the global financial crisis on the CAC region underscores the importance of keeping financing from multilateral sources available. Multilateral development banks and bilateral aid agencies must remain fully cognizant of the CAC vulnerability to shocks. The system of international cooperation should search for a comprehensive and broad-based response to the development challenge, one that considers the diverse needs of CAC countries.

Finally, financial stability and integration is integral to economic growth and development. The development agenda for the CAC should take into account these countries vulnerabilities, small size and sensitivity to global economic downturns. The ideal strategy to follow will take into consideration the unique constraints and strengths of each of the CAC countries to best fit their particular needs.

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