FINANCIAL MARKET UPDATE June 2005

International Capital Markets Department
Global Markets Analysis Division

Data as of June 15, 2005, or as noted

Financial markets have produced some unexpected developments so far in 2005. First, despite a growing U.S. current account deficit, the dollar has appreciated this year as market participants have turned their focus toward relative growth and interest rate differentials in favor of the United States. Second, despite a yearlong tightening of short-term rates by the U.S. Federal Reserve and an earlier round of rate tightening by the Bank of England, yields at the long end of the curve in mature markets have actually fallen in the last several months. While this reflects in part expectations of more moderate growth and contained inflation, it is also part of a shift in the long-term preferences of institutional investors toward fixed-income instruments. These developments have been accompanied by an ongoing search for yield that has driven spreads on corporate and emerging market bonds to very low levels. These low spreads and the low and flat mature market yield curves have provided incentives to financial market participants to move out the credit spectrum toward riskier and more complex investments, involving "relative value" trades using credit derivatives.

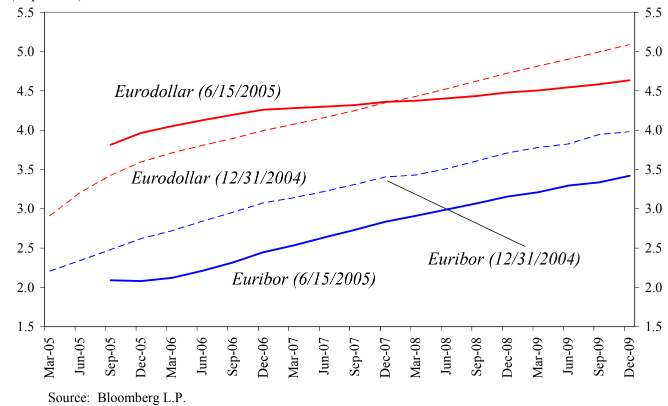
What are the main risks ahead? First, given the ongoing shift in institutional demand for longer duration bonds, a flat yield curve and low long-term rates may persist. This will continue to provide incentives for "relative value" trades and prove a more difficult environment for financial intermediary earnings. Second, leveraged bets—especially in complex derivatives markets—could be unwound in a disorderly fashion. While this could conceivably lead to credit market volatility, strong balance sheets and risk management practices of banks would likely confine dislocations to individual investors, including hedge funds. In fact, occasional market "corrections," so long as they remain confined, should reduce investors' complacency and contribute to the stability of the global financial system. Improved fundamentals in many emerging market countries and continued strategic allocations by institutional investors may help to cushion these markets against the risk of mature credit market volatility. Emerging market countries therefore continue to enjoy favorable financing prospects for the time being. Third, while the U.S. current account deficit represents a growing long-term vulnerability, so far there have been ample capital flows to accommodate the U.S. current account deficit.

The Financial Market Update is an online bulletin that covers developments in both mature and emerging markets. It complements the IMF's Global Financial Stability Report, a print publication that is published twice a year. This update covers developments through June 15, 2005.

Financial Markets Are Expecting a Moderation of Growth and Earnings

Markets seem to expect more subdued global growth in the period ahead, with inflationary expectations well anchored. Bond yields at the long end of the curve have declined to low levels across mature markets, though this may also reflect ongoing demand for long-term bonds by pension funds and life insurers. This decline in yields has occurred despite policy tightening in the United States and the United Kingdom, among others. At the same time, futures markets have started to price in a lower level of future short-term rates, compared with earlier expectations (see Figure 1). Inflation expectations also remain well anchored, as indicated by the difference between yields on nominal and inflation-indexed bonds. Despite strong earnings growth in the first quarter of 2005, major equity markets appear to expect slower earnings growth in the future.

Figure 1. Forward Short-Term Interest Rates
(In percent)



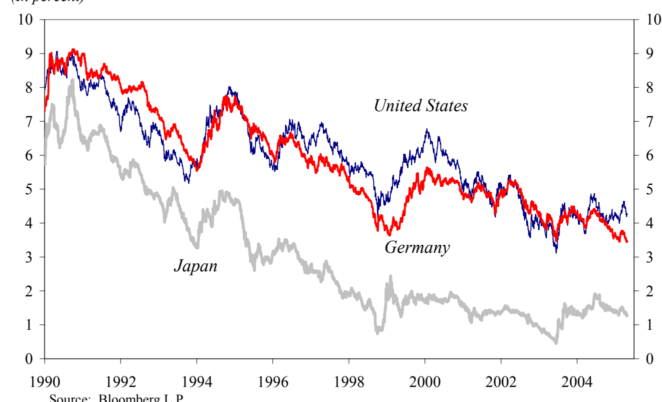
Source: Bloomberg L.P.

Recent financial trends have done little to counter growing imbalances. In fact, despite a growing U.S. current account deficit, the dollar has appreciated so far in 2005 against other major currencies. This has been accompanied by continued ample capital inflows from foreign private and official investors.

Global Long-Term Bond Yields Remain Unusually Low

Long-term interest rates, already unusually low for this stage in the cycle, have fallen since March and remain low in comparison with the pace of global aggregate demand. This is particularly true in the United States, where nominal GDP growth has substantially exceeded long-term yields since mid-2004, in contrast to historical experience. In a number of economies, including the United States and the United Kingdom, this has occurred despite tightening of policy rates. Since mid-2004, the Federal Reserve has raised its target Federal funds rate in eight steps by 200 basis points, while at the same time, the 10-year nominal yield has fallen by about 70 basis points, to around 4 percent, leading to a marked flattening of the yield curve. In the United Kingdom, policy rates were raised by 125 basis points in five increments from late-2003 through mid-2004, while 10-year gilt yields have fallen by some 70 basis points, to 4.4 percent. Yields in other major markets have fallen similarly (see Figure 2).

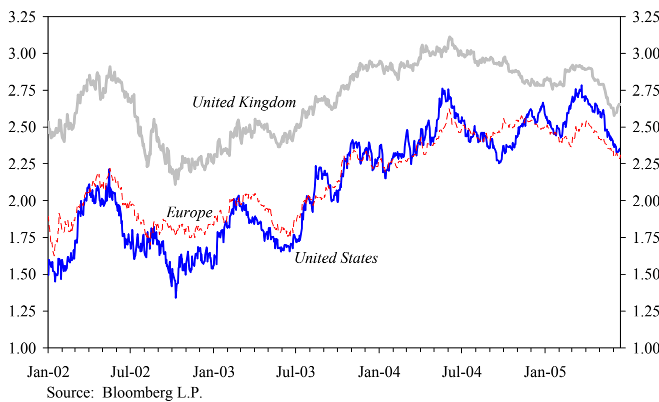
Figure 2. Nominal 10-Year Government Bond Yields
(In percent)



Source: Bloomberg L.P.

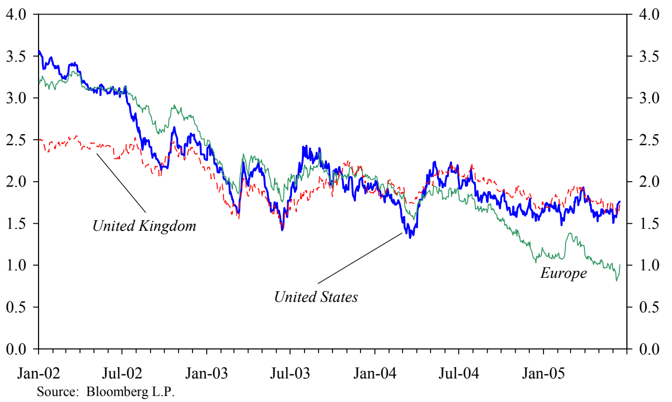
Low yields partly reflect that inflation expectations, measured by the difference between nominal and indexed bond yields, have been stable or trending downward in the past year (see Figure 3), as have real yields (see Figure 4). Markets expect bond yields to remain low into the future, as shown by the downward trend in the 10-year U.S. treasury rate expected in 10 years' time (see Figure 5).

Figure 3. Break-Even Inflation Rates
(In percent; nominal yields less inflation-indexed yields on 10-year benchmarks)



Source: Bloomberg L.P.

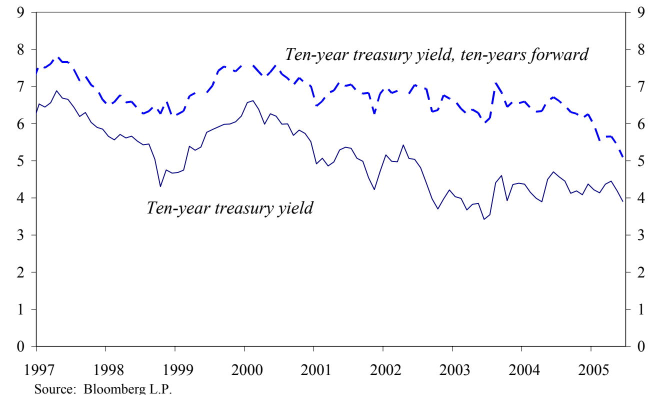
Figure 4. Inflation-Indexed Bond Yields
(In percent)



Source: Bloomberg L.P.

A number of structural factors also help explain low long-term bond yields in addition to the cyclical explanation that markets are pricing in more moderate growth than had been expected. International private sector investors have been purchasing large volumes of U.S. treasury, agency, and mortgage-backed securities. Foreign central banks have channeled their substantial reserves largely into U.S. treasuries and agencies. More generally, pension funds and life insurance companies, partly because of regulatory reforms and new accounting standards, have been seeking to more closely match the duration of assets with liabilities, in turn, increasing demand for longer-dated fixed-income assets.[1] Moreover, aging populations in many OECD countries will increase the total assets of pension funds and life insurance companies, already at $25 trillion. Given that these funds still face significant duration gaps, the ongoing shift in favor of fixed-income securities should be large and could have a major impact on long-dated yields for some time to come. Several European governments have responded by increasing the supply of longer-term securities, including ultra-long bonds of more than 30-year maturities sold by the U.K., French, and Netherlands governments.

Figure 5. Actual and Expected Long-term Yields
(In percent)



Source: Bloomberg L.P.

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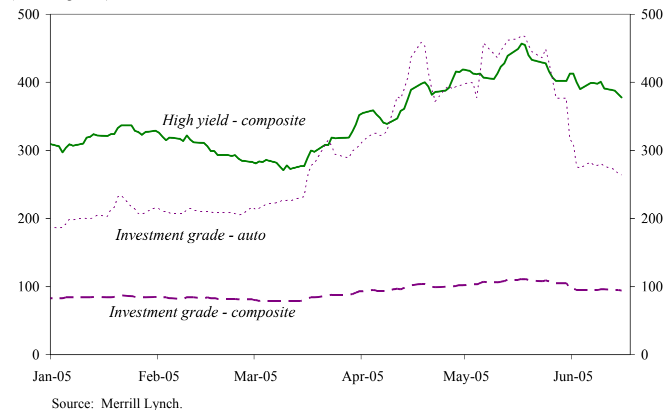
[1]For instance, U.K. pension funds have reduced their equity allocation from 71 percent of assets in 2000 to 56 percent in 2003, while U.K. life insurers have reduced their equity allocation from over 50 percent of assets in the 1990s to 36 percent in June 2004.

Low bond yields and flatter yield curves carry with them a number of risks. First, financial intermediaries, who are in the business of earning the spread between long- and short-term rates in the process of maturity transformation, generally find flat yield curves to be a more difficult earnings environment. That said, financial intermediaries used the previous period of steep yield curves and strong noninflationary growth to build up very strong balance sheets. Second, flat yield curves at relatively low bond yields provide incentives for carry trades into riskier asset classes.

High-Grade Corporate Bonds Resilient to Auto Sector Turbulence but Credit Cycle Peaking

Credit rating agencies downgraded North American auto companies to below investment grade in response to their poor profitability and market share losses. The large amounts of auto company bonds outstanding then posed difficulties for those investors constrained to hold only higher grade bonds. As those investors began to sell auto sector bonds in anticipation of the downgrades, the smaller pool of investors active in subinvestment grade bond markets amplified the decline in auto sector bond prices, driving spreads to levels far in excess of the default probabilities implied by the rating agency actions (see Figure 6). The impact of the anticipated shift on the broader corporate bond market was felt particularly in high-yield spreads, given the large amount of auto sector bonds entering the high-yield market. However, non–auto investment grade spreads did not react much to the auto sector turbulence. The resilience of the broader corporate bond market may stem in part from the recognition that underlying corporate balance sheets remain sound. Recently, even the bond spreads of high-yield companies and the downgraded auto companies have come down.

Figure 6. U.S. Corporate Spreads
(In basis points)



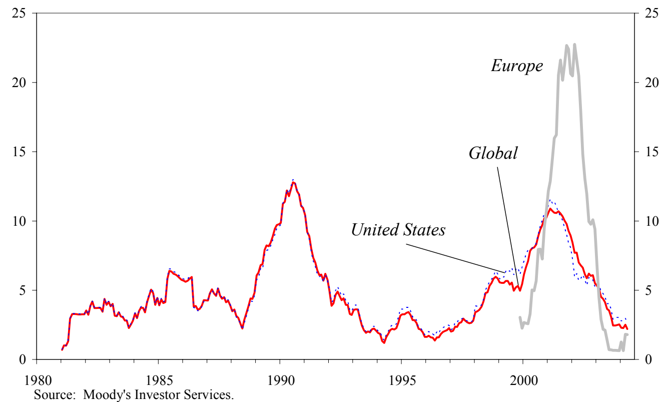
Source: Merrill Lynch.

The downgrades of the U.S. auto companies subsequently led to disruptions in the credit derivatives market. Highly leveraged equity tranches of collateralized debt obligations (CDOs) suffered particularly deep losses.[2] In these markets, which facilitate the redistribution of the risk of company default among investors, the assumptions underlying pricing models were violated by the sudden widening in corporate bond spreads in a limited number of companies. Traditional correlations among the prices of the bonds or credit default swaps (CDSs) in the CDOs were disrupted as it turned out that the risk of default did not rise across a range of obligors as generally

[2]CDOs are obligations, backed by a portfolio of bonds or credit default swaps, that allow for the redistribution of risk in that portfolio according to investor appetite. Thus, for instance, investors buying so-called “equity tranches” bear the entire initial losses on the portfolio stemming from default (typically up to 3 percent), but receive very high yields accordingly. Mezzanine tranches are exposed to losses after the first 3 percent is exhausted, typically up to 7 percent of losses, while senior tranches, which are accordingly highly rated, are the last to be exposed to loss.

modeled, but was largely confined to the auto sector. As a result, some hedge fund investors in leveraged derivative instruments may have suffered significant losses as the initial adverse spread movements were amplified by a scramble to hedge or to exit positions.

Figure 7. Moody's Speculative Default Rates
(In percent)



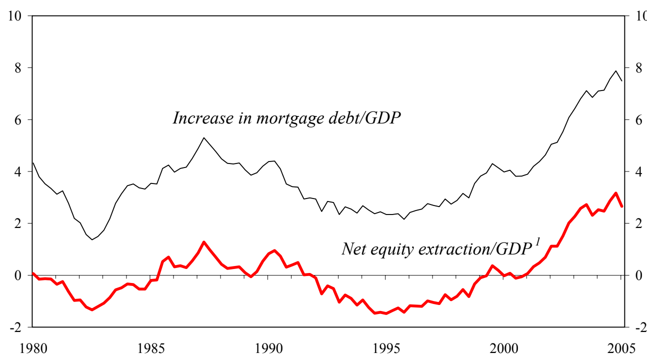
Source: Moody's Investor Services.

Even though default rates are at cyclical lows in the United States and Europe, the credit cycle may be peaking as economic growth moderates (see Figure 7). Rating agencies expect modest pickups in default rates in 2006. Moody's forecasts the default rate to pick up to 2.8 percent by year end from 2.2 percent in March 2005, while S&P forecasts a similar increase.

U.S. Mortgage Markets Continue to Finance Household Spending with Growing Credit Risk

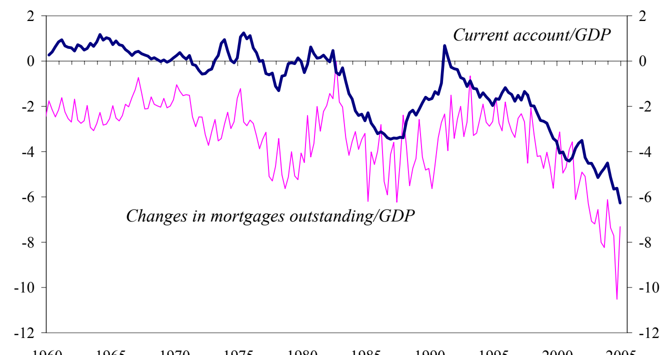
The boom in U.S. home mortgage borrowing, including net equity extraction, has continued, helping U.S. consumers to sustain spending (see Figure 8). Home mortgage borrowing has risen from 2–4 percent of GDP through around 2000 to almost 8 percent of GDP in early 2005 (see Figure 9).

Figure 8. U.S. Mortgage Debt and Equity Extraction
(In percent)



Source: Board of Governors of the Federal Reserve System, *Flow of Funds*.
1/ Equity extraction is the increase in mortgage debt less net new construction.

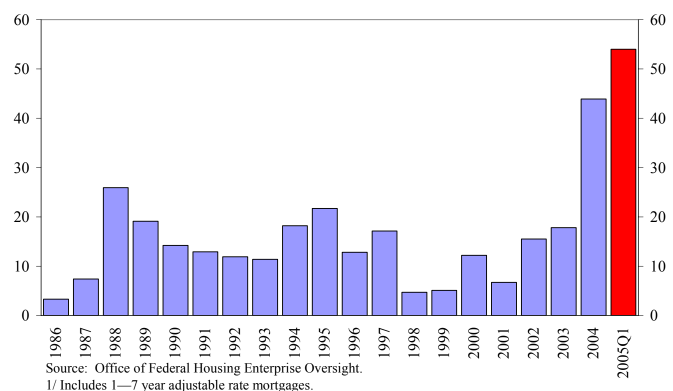
Figure 9. U.S. Mortgage Market
(In percent)



Sources: Bloomberg L.P.; and Board of Governors of the Federal Reserve System, *Flow of Funds*.

Moreover, new and marginal home buyers in the United States are borrowing using several varieties of riskier mortgage instruments. These include mortgages that dispense with principal payments, that feature negative amortization (where payments are lower than accruing interest), or that are serviced at floating rates (see Figure 10). While some of the floating rate mortgages are hybrids with an initial period of fixed rates, typically of three to seven years, analysts caution that many of these mortgages

Figure 10. Proportion of U.S. Mortgage Originations at Adjustable Rates[1]
(In percent)



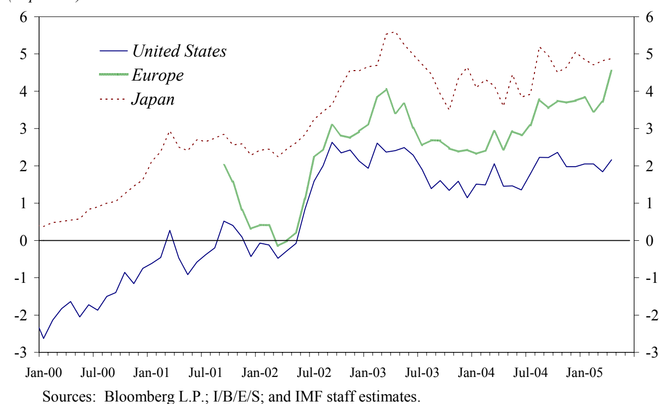
Source: Office of Federal Housing Enterprise Oversight.
1/ Includes 1—7 year adjustable rate mortgages.

originated in recent years will soon start to adjust, with as much as $1 trillion, or 12 percent of total U.S. mortgage debt, due to adjust in 2007. Both floating rate and interest only mortgages initially reduce monthly payments for marginal buyers in rapidly rising markets. However, these marginal buyers are exposed to interest rate risks and market risks, as are the holders of their mortgage debt. Additionally, there appears to be a relaxation of credit standards by some banks. U.S. regulators have already cautioned lending banks to tighten their standards.

Equity Earnings Yields Remain High

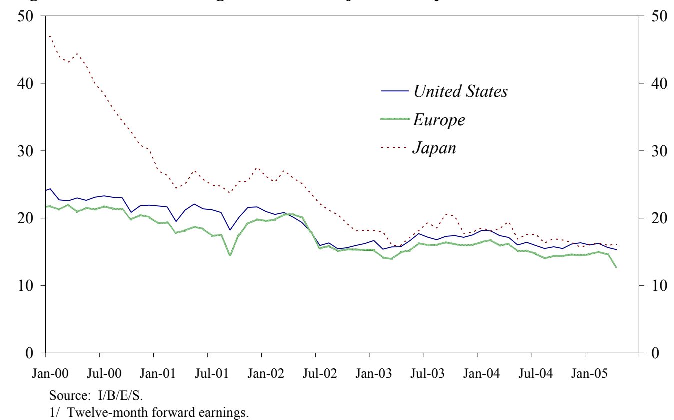
Earnings yields remain high compared with long-term government bond yields (see Figure 11), despite robust earnings in recent years. This appears to be the counterpart of the shift in preferences toward fixed-income instruments by institutional investors. At the same time, major market price/earnings ratios have converged and stabilized at lower levels in the last few years (see Figure 12). Uncertainty in equity markets, measured as the implied volatility of options, has continued to fall since early 2003 despite occasional brief spikes.

Figure 11. Earnings Yields Minus Bond Yields
(In percent)



Sources: Bloomberg L.P.; I/B/E/S; and IMF staff estimates.

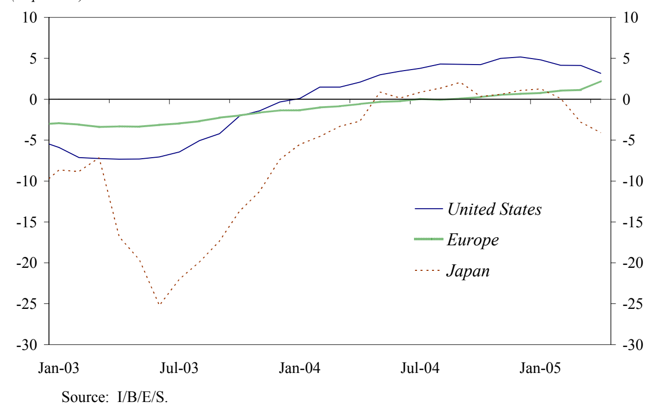
Figure 12. Price/Earnings Ratios in Major Developed Markets [1]



Source: I/B/E/S.
1/ Twelve-month forward earnings.

Looking forward, major equity markets will likely have less support from positive earnings surprises than in 2004 (see Figure 13). The difference between ex-ante forecasted and ex-post estimated earnings in the past 12 months indicated stronger-than-expected earnings in 2004 in all the mature markets. However, the size of these surprises in the United States and Japan has been ebbing so far in 2005. Moreover, earnings growth seems to have peaked in mature markets. Earnings growth for the second quarter of 2005 is estimated at 6.8 percent for the U.S. S&P 500 companies, compared with double-digit earnings growth in the previous seven quarters.

Figure 13. Earnings per Share, Estimated Actual Minus Forecast
(In percent)

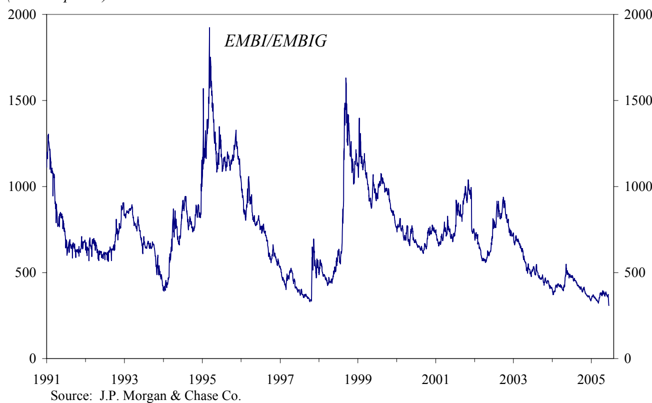


Source: I/B/E/S.

Emerging Market Debt Proves Resilient with Spreads Remaining Near Historic Lows

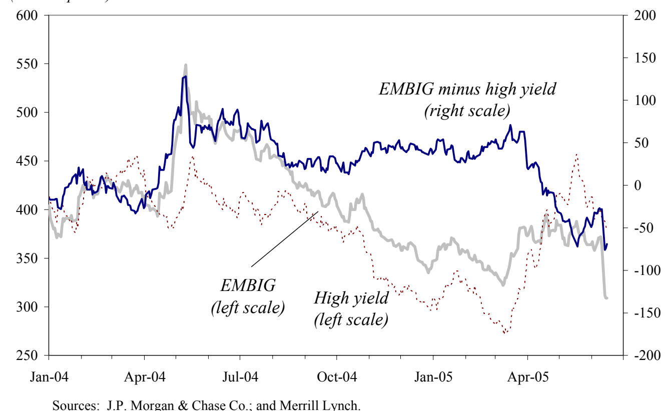
Emerging market debt spreads have proven resilient to financial market volatility, including in U.S. corporate credit markets, remaining tight relative to historical levels (see Figure 14). A modest sell-off in March resulted in the reduction of a large proportion of leveraged positions in the market, reducing the risk of a more disorderly correction in the future. Emerging market debt spreads had decoupled from their traditional relationship to U.S. corporate high-yield spreads during the auto-sector-related sell-off, remaining relatively steady as U.S. high-yield spreads widened, and leading to a reduced differential between the two (see Figure 15).

Figure 14. Emerging Market Spreads
(In basis points)



Source: J.P. Morgan & Chase Co.

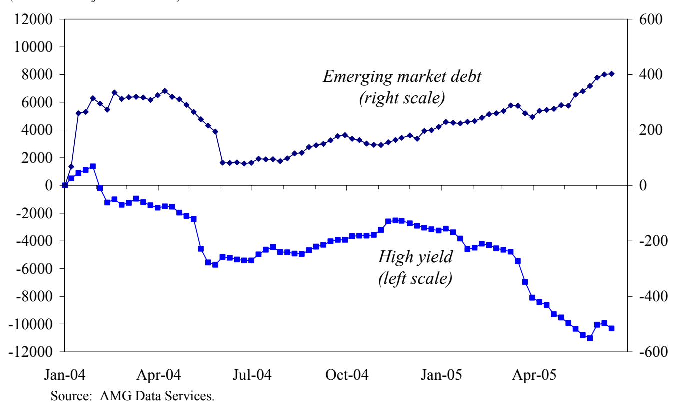
Figure 15. U.S. Corporate and Emerging Market Spreads
(In basis points)



Sources: J.P. Morgan & Chase Co.; and Merrill Lynch.

Besides the liquidity-driven search for yield, stronger fundamentals and a growing long-term investor base have contributed to stable demand for emerging market assets. Economic fundamentals remain relatively strong, especially with substantial reserves accumulation in key countries. Changes in the investor base have also contributed to stability, with increasing demand for emerging market external bonds coming from "buy and hold" institutional investors, including both dedicated emerging market mutual funds, which continue to receive net inflows, and "crossover" investors that traditionally allocate only a small proportion of their portfolios to emerging market assets.[3] Some allocations have rotated out of U.S. high-yield bond funds, which suffered large outflows stemming from the problems in the auto sector (see Figure 16). In 2005, strategic allocations from institutional investors are estimated to

Figure 16. Cumulative Net Flows to U.S.-Based Mutual Funds
(In millions of U.S. dollars)



Source: AMG Data Services.

[3] According to a recent Russell-Mellon survey, U.S. crossover funds held 0.77 percent of assets under management in emerging market bonds at the end of April, up from 0.69 percent at end-February and the highest level since these funds began to report their exposure in 2001.

have reached about $5.5 billion by end-May, compared with an estimated $3.4 billion through the same period in 2004, itself a strong year for strategic inflows.

Investor positioning has reduced the risk of an emerging market sell-off. Since the modest sell-off in March, investors have consistently maintained underweight positions in emerging market bonds. A measure of the mutual fund "beta" shows that investors have reduced risk exposures since the beginning of the year.[4] This is corroborated by investor surveys that show trading accounts reduced their exposure significantly since March.

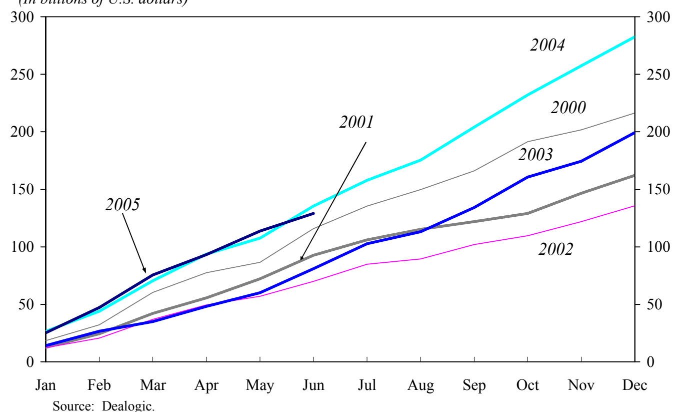
Local emerging markets have stabilized. After a significant run-up from the beginning of the year based on large foreign investor inflows, emerging market equities and currencies experienced a brief sell-off in March, though local-currency emerging market bonds escaped the turmoil.

Emerging market countries have used active debt management to improve their credit profiles. Debt managers have sought to broaden the investor base where possible by issuing in different currencies and increasing the proportion of financing from domestic sources. Debt restructuring operations have improved the debt profile of a number of issuers, including in Argentina and the Dominican Republic. Finally, Russia and Peru have reached agreements with the Paris Club to prepay part of their bilateral official debt.

New Emerging Market Bond Issues Continue to Find a Receptive Market

Investors' continuing search for yield has allowed emerging market issuance to advance at a steady pace in 2005, with the exception of April when issuers stayed out of the market following a brief period of volatility. Cumulative gross issuance so far this year is comparable to the strong pace posted last year, though equity issuance has been short of last year's record pace (See Table 1 and Figure 17).

Figure 17. Cumulative Gross Annual Issuance of Bonds, Loans, and Equity
(In billions of U.S. dollars)



Source: Dealogic.

As a result, **sovereign external financing needs are about four-fifths completed so far in 2005**, and some countries have started prefinancing 2006 needs (see Table 2). Gross sovereign emerging market external financing requirements for 2006 are expected to be somewhat lower (at less than $50 billion) than in 2005 (at about $57 billion), but sovereigns may choose to prefinance in

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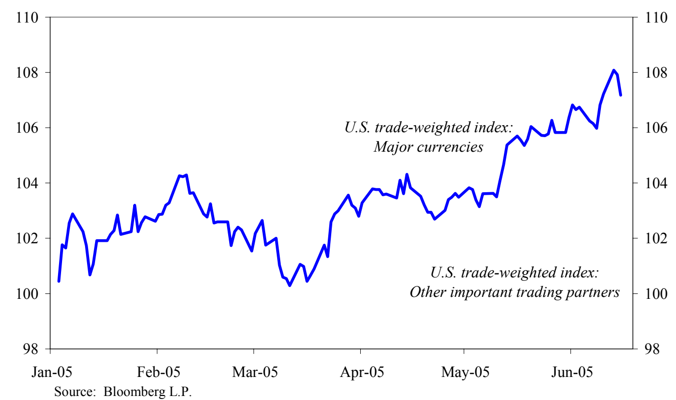
[4]The mutual fund beta aims to capture the degree of risk taken by 52 emerging market debt mutual funds. It is measured as the average slope coefficient in regressions of individual portfolio returns on EMBIG returns, controlling for different investment styles by expressing individual fund betas in standard deviations from each fund's long-term average.

advance of next year's heavy elections calendar, particularly in Latin America. Following a flurry of euro-denominated issuance in late 2004, dollar-denominated bond issuance has rebounded, along with a notable surge in issuance in other, less traditional currencies.

Dollar Has Rebounded Despite a Growing U.S. Current Account Deficit

The U.S. dollar has sustained a rebound throughout the first half of 2005, broadly reversing the weakness witnessed during the fourth quarter of last year (see Figure 18). The rally has been centered on major international currencies, particularly against the euro, which weakened by 11 percent. However, the dollar is little changed against a trade-weighted basket of key emerging market currencies.

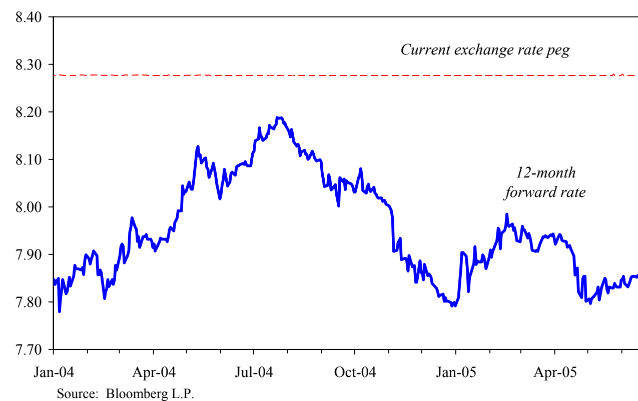
Figure 18. U.S. Dollar Performance
(December 31, 2004 = 100)



Source: Bloomberg L.P.

Asian currencies continue to find support from market speculation of a possible revaluation of the Chinese renminbi. The renminbi nondeliverable forward (NDF) market is currently pricing in just over a 5 percent appreciation against the dollar over a 12-month horizon (see Figure 19). Investors have also been making bets on renminbi appreciation indirectly via other regional floating currencies, particularly the Korean *won* (+2.5 percent year-to-date) and Taiwanese dollar (+1.3 percent).

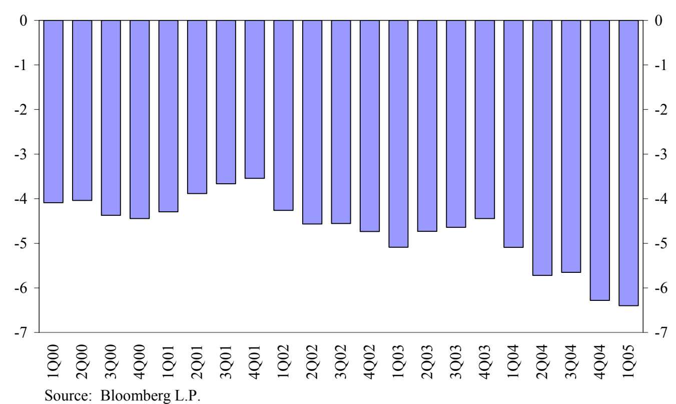
Figure 19. Chinese Renminbi
(In renminbi per dollars)



Source: Bloomberg L.P.

The strengthening of the dollar has occurred despite the burgeoning U.S. current account deficit as widening interest rate and growth differentials have favored the dollar, particularly on increased speculation that persistent economic weakness may induce the ECB to ease monetary policy later this year (see Figure 20). Market concerns over weak growth, flagging reforms and weak fiscal discipline for some countries in the euro zone have also pressured the euro, compounded by the defeat of the EU constitution in French and Dutch referenda.

Figure 20. U.S. Current Account Balance
(in percentage of GDP)



Source: Bloomberg L.P.

The global appetite for U.S. assets remains strong. Estimates of private sector foreign investment in U.S. securities, mostly

bonds, have roughly matched current account deficits of around $60 billion a month. Central bank purchases of U.S. fixed-income securities have been subdued in the last few months.

Provisions of the American Jobs Creation Act may also support the dollar in 2005. The measure, passed in 2004 (but only fully clarified in January 2005), allows U.S. companies to repatriate profits previously held abroad at a 5.25 percent tax rate rather than the 35 percent that would otherwise prevail. To meet the provisions of the act, companies must outline how the funds will be used in a plan that requires executive approvals. The tax advantages of repatriation may lead to substantial flows, to be reported as negative direct investment abroad, and may have become significant starting in the second quarter of 2005.

Table 1. Emerging Market Financing

	2000	2001	2002	2003	2004	2004 1st qtr.	2004 2nd qtr.	2004 3rd qtr.	2004 4th qtr.	2005 1st qtr.	2005 Apr.	2005 May	2005 Jun.[1]	2005 Year-to-date[1]
						(In billions of U.S. dollars)								
GROSS ISSUANCE BY ASSET	**216.4**	**162.1**	**135.6**	**198.7**	**282.7**	**70.6**	**64.9**	**68.8**	**78.5**	**75.5**	**17.7**	**20.5**	**15.3**	**129.0**
Bonds	80.5	89.0	61.6	98.8	132.8	40.0	30.4	33.0	29.3	42.8	8.1	8.8	8.2	67.9
Equities	41.8	11.2	16.4	27.7	44.0	13.8	10.5	5.6	14.2	10.6	1.7	3.8	4.8	20.9
Loans	94.2	61.9	57.6	72.2	105.8	16.8	24.0	30.1	34.9	22.1	8.0	7.9	2.3	40.3
GROSS ISSUANCE BY REGION	**216.4**	**162.1**	**135.6**	**198.7**	**282.7**	**70.6**	**64.9**	**68.8**	**78.5**	**75.5**	**17.7**	**20.5**	**15.3**	**129.0**
Asia	85.9	67.5	53.9	87.5	123.0	33.8	29.8	25.5	33.9	25.4	6.1	6.1	8.8	46.4
Latin America	69.1	53.9	33.4	42.8	53.8	14.4	9.7	16.2	13.4	17.2	3.1	4.4	1.6	26.4
Europe, Middle East, Africa	61.4	40.8	48.3	68.5	105.9	22.4	25.3	27.0	31.2	32.9	8.6	9.9	4.9	56.3
AMORTIZATION BY ASSET	**114.3**	**148.0**	**129.3**	**124.2**	**135.5**	**38.4**	**33.2**	**31.9**	**31.0**	**22.3**	**9.2**	**8.6**	**8.6**	**40.0**
Bonds	52.2	60.0	59.8	61.8	76.0	25.0	17.9	17.1	16.0	13.9	6.0	4.8	4.8	24.7
Equities	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	62.1	88.0	69.5	62.4	58.5	13.5	15.3	14.7	15.0	8.3	3.2	3.8	3.8	15.3
AMORTIZATION BY REGION	**114.3**	**148.0**	**129.3**	**124.2**	**134.5**	**38.4**	**33.2**	**31.9**	**31.0**	**22.3**	**9.2**	**8.6**	**8.6**	**40.0**
Asia	57.1	66.5	56.2	49.4	53.2	16.1	13.2	11.9	11.9	8.9	2.3	1.4	1.4	12.5
Latin America	32.3	45.9	41.2	40.8	47.7	12.7	13.4	10.6	11.0	7.7	4.5	2.9	2.9	15.2
Europe, Middle East, Africa	24.9	35.5	31.9	33.9	33.6	9.6	6.6	9.4	8.0	5.6	2.4	4.3	4.3	12.3
NET ISSUANCE BY ASSET	**102.2**	**14.2**	**6.4**	**74.5**	**147.2**	**32.1**	**31.7**	**36.9**	**47.5**	**53.2**	**8.5**	**11.9**	**6.7**	**89.0**
Bonds	28.3	29.1	1.8	37.0	56.8	15.1	12.5	15.9	13.3	28.9	2.1	4.0	3.4	43.2
Equities	41.8	11.2	16.4	27.7	43.0	13.8	10.5	5.6	14.2	10.6	1.7	3.8	4.8	20.9
Loans	32.1	-26.1	-11.8	9.8	47.4	3.3	8.7	15.4	19.9	13.8	4.8	4.1	-1.5	25.0
NET ISSUANCE BY REGION	**102.2**	**14.2**	**6.4**	**74.5**	**148.2**	**32.1**	**31.7**	**36.9**	**47.5**	**53.2**	**8.5**	**11.9**	**6.7**	**89.0**
Asia	28.8	0.9	-2.3	38.0	69.9	17.7	16.6	13.6	22.0	16.5	3.8	4.8	7.4	33.8
Latin America	36.9	7.9	-7.8	1.9	6.0	1.7	-3.6	5.6	2.4	9.5	-1.4	1.5	-1.3	11.2
Europe, Middle East, Africa	36.5	5.3	16.4	34.6	72.3	12.7	18.7	17.6	23.2	27.3	6.1	5.6	0.6	44.0
SECONDARY MARKETS														
Bonds:														
EMBI Global (spread in bps)	735	728	725	403	347	414	482	409	347	356	384	364	309	309
Merrill Lynch High Yield (spread in bps)	890	795	871	418	310	438	404	384	310	338	419	413	378	378
Merrill Lynch High Grade (spread in bps)	200	162	184	93	83	94	97	91	83	93	102	97	94	94
US 10 yr. Treasury Yield (yield in %)	5.12	5.05	3.82	4.25	4.22	3.84	4.58	4.12	4.22	4.48	4.20	3.98	4.07	4.07
Equity:						*(In percent)*								
DOW	-6.2	-7.1	-16.8	25.0	3.1	-0.9	0.8	-3.4	-1.9	-2.6	-3.0	2.7	0.9	-2.0
NASDAQ	-39.3	-21.1	-31.5	50.5	8.6	-0.5	2.7	-7.4	1.9	-8.1	-3.9	7.6	0.3	-4.6
MSCI Emerging Market Free	-31.8	-4.9	-8.0	51.2	22.4	8.9	-10.3	7.4	-0.2	1.2	-3.0	3.0	2.6	3.8
Asia	-42.5	4.2	-6.2	46.1	12.2	7.6	-12.2	4.2	-0.5	2.1	-3.0	3.5	3.0	5.5
Latin America	-18.4	-4.3	-24.8	66.7	34.8	6.2	-9.2	16.6	-1.1	1.8	-3.8	6.4	2.7	7.0
Europe/Middle East/Africa	-22.3	-20.9	4.7	51.9	35.8	13.2	-7.4	7.8	1.0	-1.0	-2.6	-0.4	1.8	-2.1

Sources: Bloomberg L.P.; Capital Data; J.P. Morgan Chase & Co.; Morgan Stanley Capital International; and IMF staff estimates.
1/ Gross issuance data (net of US trust facility issuance) and secondary market data are as of June 15, 2005 close-of-business London.
Amortization data as of May 30, 2005 close-of-business London. Secondary market data are as of June 15, 2005 close-of-business New York.

Table 2. Sovereign External New Issuance Estimates in 2005
(In millions of U.S. dollars)

	Planned	Actual	Remaining	Completed (percent)
Argentina	-	-	-	-
Bahrain	-	-	-	-
Belize	-	-	-	-
Brazil	6,000	5,598	402	93.3
Bulgaria	-	-	-	-
Chile	600	-	600	0.0
China	-	-	-	-
Colombia	1,500	1,660	(160)	110.6
Costa Rica	-	-	-	-
Croatia	850	-	850	0.0
Czech Republic	1,500	1,331	169	88.7
Dominican Republic	-	-	-	-
Ecuador	-	-	-	-
Egypt	1,000	-	1,000	0.0
El Salvador	250	375	(125)	150.0
Estonia	-	-	-	-
Guatemala	-	-	-	-
Hungary	4,800	3,856	944	80.3
Iran	750	-	750	0.0
Indonesia	1,250	1,000	250	80.0
Israel	1,500	-	1,500	0.0
Jamaica	-	300	(300)	n.a.
Jordan	-	-	-	-
Latvia	-	-	-	-
Lebanon	3,000	500	2,500	16.7
Lithuania	-	780	(780)	n.a.
Malaysia	500	-	500	0.0
Mexico	2,000	4,896 / 1	(2,896)	244.8
Morocco	500	-	500	0.0
Pakistan	500	600	(100)	120.0
Panama	600	600	-	100.0
Peru	1,200	1,193	7	99.4
Philippines	4,500	2,500	2,000	55.6
Poland	9,200	9,020	181	98.0
Qatar	-	-	-	-
Romania	600	-	600	0.0
Russia	-	-	-	-
Slovak Republic	650	-	650	0.0
Slovenia	-	-	-	-
South Africa	-	-	-	-
South Korea	1,000	-	1,000	0.0
Sri Lanka	-	-	-	-
Thailand	500	449	51	89.8
Trinidad and Tobago	-	-	-	-
Turkey	6,000	4,788	1,212	79.8
Tunisia	650	490	160	75.4
Ukraine	1,000	-	1,000	0.0
Uruguay	500	500	-	100.0
Venezuela	3,000	4,215 / 2	(1,215)	140.5
Vietnam	250	-	250	0.0
Asia	**8,500**	**4,549**	**3,951**	**53.5**
Emerging Europe	**23,600**	**20,264**	**3,336**	**85.9**
Latin America	**15,650**	**19,337**	**(3,687)**	**123.6**
Middle East & Africa	**8,400**	**500**	**7,900**	**6.0**
Total	**56,150**	**44,650**	**11,500**	**79.5**

Sources: J.P. Morgan & Chase Co.; and IMF staff estimates.

[1] Includes $1,975 million of 2006 prefinancing.

[2] Includes $1,215 million of 2006 prefinancing.