

Capital flows to Latin America and the Caribbean

2021 year-in-review and
first four months of 2022



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Highlights

- Total Latin American and Caribbean (LAC) bond issuance in international markets reached US\$ 149 billion in 2021, breaking a historical record. It was up 3% from 2020 and 2% from the previous annual record reached in 2017. In anticipation of tighter external borrowing conditions in 2022, many issuers came to international bond markets to lock-in low global interest rates amid strong demand from investors.
- In the first four months of 2022, LAC international bond issuance slowed relative to the pace of the previous year. At US\$ 38 billion, it was down 42% from the same period in 2021, as the United States Federal Reserve's tightening monetary policy stance and the war in Ukraine contributed to push funding costs higher.
- The top three issuers in 2021 and in the first four months of 2022, corporate and sovereign combined, were Mexico, Chile, and Brazil, in that order, which together accounted for 63.8% of the total regional issuance in 2021, and 66.0% in the first four months of 2022.
- Green, Social, Sustainability and Sustainability-linked bond issuance (GSSS) reached US\$ 46.2 billion in 2021, a 31.0% share of the total annual amount issued. This share was more than three times the 2020 share of 9.3%, and almost eight times the 4.2% average of the 2015-2020 period. In the first four months of 2022, this share increased further to 35.4%.
- Sustainability-Linked Bonds (SLB) – a forward-looking performance-based instrument – were the most used Environmental, Social and Governance (ESG) debt instruments by LAC issuers in 2021. They accounted for 37% of the region's total GSSS issuance, followed by social (34%), sustainability (15%) and green (14%) bonds. The Government of Chile accounted for 88% of the region's share of social bonds issued during the year.
- In the first four months of 2022, sustainability bonds became the most used ESG debt instruments in the LAC region. They accounted for 56% of the region's total GSSS issuance in the period, with the Government of Chile issuing more than half of the total, leading to a bump in this category. SLBs were the second most used ESG debt instrument, as SLB issuance fell modestly, to a 36% of the total. In March, the Government of Chile issued the first sovereign SLB in the world, becoming the first country to use sovereign debt to fund its long-term climate initiatives and accelerate its energy transition.

- LAC spreads widened 13 basis points in 2021. They tightened 6 basis points in the first half of the year but widened 19 basis points in the second, as risk-off sentiment increased. While spreads tightened in the first quarter of 2022 (-2 basis points), they widened 41 basis points in April, amid rising financing costs and weaker risk sentiment. For the first four months of 2022, LAC spreads widened 39 basis points.
- Latin American equity prices lost ground in 2021. According to the MSCI Latin American Index, Latin American stock prices were down 13% in 2021. However, the MSCI Latin American Index gained 26% in the first quarter of 2022, outperforming the MSCI emerging markets and G7 indices, thanks to a combination of cheap valuations and rising commodity prices. The gains were aided by rising Latin American currencies.
- Credit quality deteriorated in 2021, although at a slower pace than in 2020. There were fourteen more negative credit rating actions than positive in the region in 2021, including fifteen downgrades and one upgrade. Credit quality has shown signs of improvement in 2022, however. As of 4 May 2022, there were two more positive credit rating actions than negative since the beginning of the year.

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