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# Brazil, Peru best set to gain elusive Chile status

Reuters, Tuesday May 12 2009

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- \* Chile is gold standard for emerging markets to emulate
- \* Brazil, Peru seen as most likely to reach Chile's status
- \* Mexico has better ranking but hard fiscal decisions loom

By Herbert Lash

NEW YORK, May 12 (Reuters) - Few countries in Latin America can match Chile's adroit handling of its economic affairs yet Brazil and Peru -- one an awakening giant seeking a bigger role on the world stage and the other intent on showing hard work can lift up the poor -- have emerged as likely peers.

Chile has long been seen as the country to emulate from Wall Street's perspective, not only in Latin America but worldwide. Its economic stewardship has made it the gold standard for credit-worthiness in emerging markets.

Only oil-rich Qatar and Slovenia, the powerhouse of former Yugoslavia that is now part of the euro zone, rank higher than Chile.

Brazil and Peru were the clear choice among analysts and strategists who took part last week in the Reuters Latin America Investment Summit of those regional countries that might obtain Chile's highly vaunted sovereign credit status.

But Brazil has an edge over Peru because of its size, diverse economy and world class companies. Mexico, while ranked at least two steps above both Brazil and Peru in credit ratings, faces serious fiscal constraints. It failed to garner the accolades showered on the two South Americans countries.

"The comparison that is usually made is between Peru and Chile," said Jane Eddy, in charge of Latin American corporate and government ratings at Standard & Poor's.

"However, I think that we can say that if we're looking at the next Chile in terms of who has the most legs to keep moving upward it's probably Brazil. Peru is investment grade, it's looking good this year but its institutions aren't as strong." Peru will likely avert recession in 2009, growing at the fastest rate in the region, the analysts said. Like Chile, it earned high marks for saving the windfall from record commodity prices in recent years to spend in lean times.

#### UPWARD LEG IN CREDIT RATINGS LEAGUE

For Shelly Shetty, senior director for sovereign credits at Fitch Ratings, the question hinges on which policies that Brazil, Peru and Mexico chose to bridge the gap with Chile.

"I would say among the three, the race is on," she said.

The question of who can match Chile is more than an idle intellectual pursuit or fodder for national zeal. Chile's high credit rating -- five rungs above the lowest investment grade -- cuts corporate and government borrowing costs and provides an added incentive for foreign direct investment, a big driver of a country's future economic growth.

The country rankings by ratings agencies are a mass media phenomenon in Latin America. Changes in ratings are widely reported as countries seek to obtain investment grade, a status only Chile and Mexico are graced with in the region by all three of the major ratings agencies.

Brazil's gross domestic product dwarfs that of Chile and Peru, but Chilean per capita income is one-third higher than in Brazil, according to World Bank data for 2007 that used international purchasing power parity. Chile's per capita income is about 71 percent higher than Peru's, the data show.

Analysts question Mexico's ability to deal with falling oil revenue and a small tax base that will require tough political decisions.

Brazil also faces fiscal constraints as government spending continues to rise, they say.

#### REDUCING PUBLIC DEBT BURDEN

That gives the nod for some to Peru, which cut the ratio of public debt to GDP to 29.6 percent in 2007 from 46.5 percent in 2002, according to the Inter-American Development Bank.

Public debt to GDP rose in Brazil to 72.9 percent in 2007 from 63.5 percent five years earlier, IADB data show.

Chile has cut its public debt profile by more than half over the previous decade to 14.6 percent, while Mexico's public debt-to-GDP ratio fell to 23 percent in 2007, IADB data show.

Standard & Poor's signaled on Monday a possible downgrade later this year of Mexico's sovereign ratings, and Moody's said it could also act soon if the government was unable to contain "leaks" in the country's economy. However, Mexico is not at risk of losing its investment grade status, Moody's said.

Although John Williamson, a senior fellow at the Peterson Institute for International Economics in Washington, said no country is yet close to Chile, Peru is best qualified.

Peru has "presided over high rates of growth, it looks as if it's becoming in-built and it's possible that in due course we will decide that Peru is going to be, maybe not as good as Chile, but comparable," he said.

The comments by Williamson, who coined the term "Washington Consensus" 20 years ago to describe a pro-markets reform agenda for Latin America, were echoed by others, suggesting the climb to Chile's level will be difficult if not impossible.

"Chile has been a class unto itself, and I think Chile remains a class until itself," said Eddy.

"I find it hard to believe that someone could get to that," said Mauro Leos, senior credit officer for Latin America at Moody's Investors Service. (Additional reporting by Juan Lagorio, Editing by Walker Simon)

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