

A New Challenge

by Ben Miller

With most economies safely out of the woods amid continued external pressure, LatAm governments faced new challenges in 2010, including natural disasters and currency wars. Finance ministers responded in different ways to a deluge of capital heading their way, with some measures drawing more praise than others in the second annual *LatinFinance* Finance Ministry Scorecard.

The ranking takes the views of economists, analysts and investors on ministries' performance across several areas. These include response to currency appreciation, inflation management, fiscal performance, independence from political pressure, transparency and clarity of communication with markets, as well as use of capital markets and financing innovation.

Last year's top ranked finance ministry, Chile, was shaken by a new challenge on February 27 2010: an 8.8 magnitude earthquake. Minister Felipe Larraín and the rest of the new administration taking office in March would have their work cut out for them. With total reconstruction needs estimated at \$30 billion from both the public and private sectors, the government's response drew widespread praise. Chile's finance ministry forecast in January 6.0% growth for 2011, versus 5.3% in 2010 and a 1.5% contraction in 2009.

"The issues which Chile faced coming after the earthquake set it apart," says Nick Chamie, global head of EM research at RBC. "It managed very well through a challenging year."

Chile's government has carefully laid out plans to raise some \$8.43 billion over the next four years. The money will come from the country's sovereign wealth fund, copper reserves, sales of non-core assets,

Praised for a speedy earthquake response, Chile again leads the LatAm finance ministry pack. Capital controls hurt Brazil, while Argentina finally draws some praise.



Grace under pressure: Chile's Larraín

temporary increases in corporate tax, and changes to a copper royalty large-scale miners pay. The president also announced a permanent increase in tobacco tax, and a temporary hike in taxes on the highest-valued residential properties. Overall, the government's moves were seen as clearly stated, transparent, and assuring that it will return to conservative policy.

Chile as of late February was seeking approval to raise \$1.6 billion from the sale of stakes in four water utilities. It sold in late January state-owned Codelco's 40.5% stake in electric distributor E-CL. The miner raised \$1.05 billion to put towards its investment plans, freeing up government cash for use elsewhere.

The fundraising push was highlighted

by the sovereign's return to the international bond market with a \$1.52 billion equivalent dual-tranche issue in July. This was the first international bond sale from Latin America's highest rated issuer since 2004. The government's A1/A+/A+ deal set benchmarks in the 10-year dollar and global peso spaces. It allowed several of the nation's corporate issuers, such as CMPC, Cencosud, E-CL and some banks, to follow.

Chile's challenges for 2011 include the same currency appreciation concerns menacing much of the region. Staying out of the "currency wars" in 2010, even as the peso tightened, the government finally caved in January. It announced an intervention plan to buy up to \$12 billion in dollars throughout 2011. It had accumulated \$1 billion through February 1.

Clear Technocrat





Colombia has also found itself in need of funding for natural disaster recovery. Heavy floods in January 2011 caused more than \$6 billion in rebuilding needs.

The government is preparing to float an additional 9.9% stake in Ecopetrol, and is discussing an offer beyond that amount to help with flood relief costs. Such a move would bring the float to 20% and could raise about \$7 billion.

Colombia does not expect bigger debt issuance – which should be \$2 billion this year, or more than 0.4% of GDP – to increase the fiscal deficit, forecasted at 3.7% of GDP. Instead it will rely on tax collection,

Finance Ministry Scorecard: The Top Four

Dealing with the unexpected

	Rank	Country	Minister(s)	Pros	Cons
	1	Chile	Felipe Larraín	Clear disaster recovery plan, innovative funding strategy	May get caught in currency fight
	2	Colombia	Juan Carlos Echeverry	Clear disaster recovery plan; avoided currency intervention	Still might struggle with deficit
	3	Peru	Mercedes Aráoz / Ismael Benavides	Strong performance despite elections and change of minister	Institution building is lacking
	4	Mexico	Ernesto Cordero	Done well within constraints, issued 100-year bond	Inflation threat, resistance to reforms

Source: LatinFinance

budget spending and the share sale.

Colombia's change in finance ministers to Juan Carlos Echeverry from Oscar Zuluaga was well-received by markets, particularly for the new administration's transparency and clarity. It has so far resisted the temptation to impose currency controls.

"With Echeverry you have a clear technocrat at the finance ministry who has the full support from the presidency and the legislative branch to advance his agenda," says Siobhan Morden, head of LatAm strategy at RBS.

"The probability for success is high," Morden says, of the chance for reform.

Colombia paved the way for LatAm issuers of local currency denominated debt in the cross-border markets in April with an \$800 million equivalent 2021 global TES issue. It braved the market to issue the first global domestic currency deal from LatAm since 2007. The government claimed it got pricing below the Libor rate in dollars.

The transaction was so successful that three months later Colombia retapped for a further \$500 million equivalent in July. Being the first to reopen the global local currency market was a risk, so the sovereign needed to be sure investors had a positive view on the currency and were ready to buy.

Revolving Door

Peru was the third of the trio receiving the highest marks from market watchers in the region for transparency and solid performance – despite a change in minister. Mercedes Aráoz stepped down in September to become the Apra party's presidential candidate in the April elections, before quitting the race in January. She was replaced by Ismael Benavides at *Hacienda*.

"The ministry delivered fiscal consolidation and a better than expected fiscal result," says Alberto Ramos, LatAm economist at Goldman Sachs. "They resisted the temptation to spend ahead of an election year, particularly when the Apra candidate was not faring well. That level of restraint is quite notable."

In Mexico, Ernesto Cordero is seen by those surveyed as having retained the policies of Augustín Carstens since he took over in January 2010. Gerardo Rodríguez, a well known and respected public credit director, has been promoted to deputy finance minister, which should continue its strong reputation among international investors.

Perhaps a victim of its own success – Mexico tends to get judged by a higher standard than other countries – critics say the ministry has done little wrong, but

nor has it impressed. After a rotten 2009 and amid rising drug-related violence that hurts key industries like tourism, Mexico faces continued challenges to match the growth of the rest of the region.

Mexico also scored a first with the region's first 100-year bond, which was criticized by the market for being a pricey way to make a statement. Mexico locked down a 6.1% yield for the next century, raising \$1 billion into the bargain. Many questioned the necessity of such a transaction, though the sovereign did succeed in breaking the stereotypes of 100-year bonds as small-sized and drawing low investor participation.

Brazilian Black Eye

Brazil has taken a noticeable slip in this year's rankings, with the IOF tax hikes in particular earning Guido Mantega few admirers among investors, analysts or economists. Brazil hiked the IOF withholding tax to 6% from 2% in 2010, though this seems to have done little to stem currency appreciation or huge inflows of capital as players around the globe buy into the Brazil growth story.

Many outside of Brazil find the "currency war" rhetoric that accompanied the IOF raise to be