Standing out

By Mariana Santibáñez and Taimur Ahmad

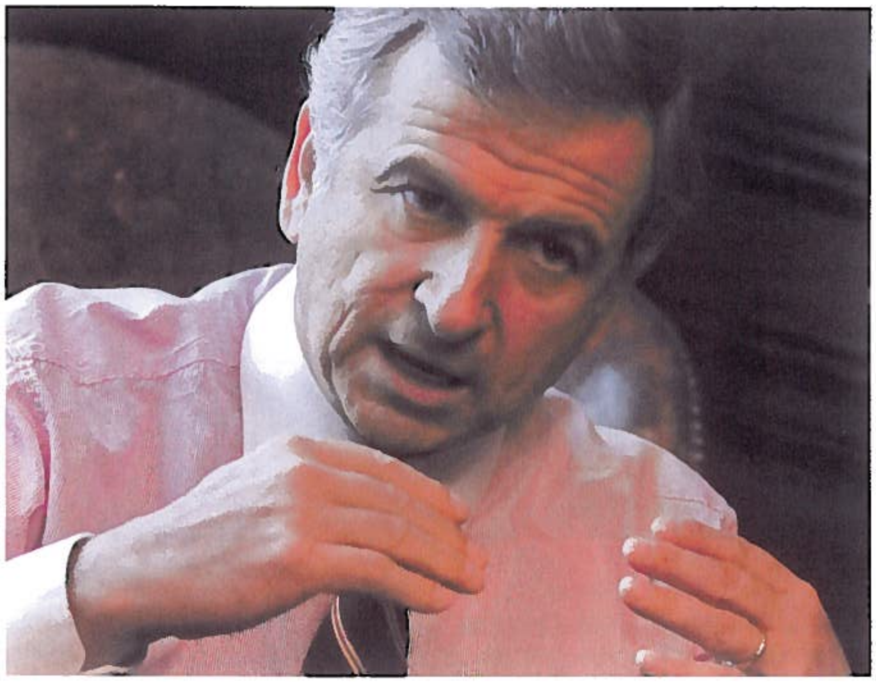
The past year has cemented the status of a fresh crop of small, nimble economies as the region's most dynamic – and resilient. When it comes to economic management, Chile leads the way

Latin America's economic temperament in 2012 could hardly have struck more of a contrast with the developed world, crippled under the weight of debt burdens and facing lackluster growth. The newfound vigor of the former, in the face of severe economic headwinds, has proved an immense boon for a region that, not so long ago, was a byword for financial turmoil.

This strength is reflected in *LatinFinance*'s annual finance ministry scorecard. Our ranking incorporates the views of economists, analysts, investors and independent experts on the adeptness of economic management in the region. It considers the institutional strength of finance ministries, the soundness of public finance management as well as success in advancing policies that encourage economic development. We also evaluate institutions in light of countries' overall macroeconomic performance in the preceding calendar year.

Growth in the region's largest economy, Brazil, trailed off sharply last year, amid fears that a more widespread slowdown in the world's large emerging economies, led by China, could cast a shadow over Latin America. Yet if anything, the past year has cemented the status of a fresh crop of small, nimble economies as the region's most dynamic – and resilient.

Top of this year's ranking is no stranger to praise for its economic management. Chile shows a commitment to fiscal rectitude that has long served as a model for emerging economies. The past year, under the stewardship of Felipe Larraín, its finance minister, has been no exception.



Larraín: "we did what is responsible"

"Chile's economy is doing well, and that is attributed to very sound policymaking and a large part belongs to the finance ministry," says Nick Chamie, global head of emerging markets research at RBC Capital.

The government has made significant progress in addressing growing social demands from the country's emerging middle class. In September, lawmakers passed a tax reform to finance an overhaul of the Chilean education system – a central plea of protests that had rocked the country since 2011.

Under the new rules, Chile's businesses face a tax rate of 20%, up from 18.5%, and fewer loopholes to avoid them. The tax overhaul will boost revenues by roughly $1 billion per year.

"We did what is responsible in terms of fiscal policy," Larraín tells *LatinFinance* in an interview. "We wanted to step up the spending in education but we did it in a way that we did not compromise our commitment to achieve a structural deficit of 1% of GDP."

The tax reform, as Larraín puts it, was "moderate" – raising 0.35% of GDP in net terms – and was part of a "more complex