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Velasco Confirms 2010 Chile Outlook, Shrugs Off Dubai (Update1)

By Sebastian Boyd and James Attwood - Nov 28, 2009

Nov. 28 (Bloomberg) -- Chile's economy is "on course" to expand at the fastest pace since 2005 next year, Finance Minister Andres Velasco said, and is safe from side-effects of Dubai's debt troubles rippling through emerging markets.

Chile's economy will be shielded from any fallout amid concern over Dubai's possible default because the South American country has cut its foreign borrowing and built a rainy day fund, Velasco said.

"We are looking at the situation with some degree of serenity," Velasco said. "These are issues are for countries where financing, particularly financing of the public sector, is a big issue. For Chile it's not."

Emerging-market stocks around the world have slumped for two days on concern a debt restructuring by Dubai World, with $59 billion of liabilities, will add to the $1.72 trillion of losses and writedowns from the global credit freeze.

Chile's economy is showing signs of recovery after shrinking in each of the first three quarters of 2009 from a year earlier. The global economic slump last year cut prices for exports, led by copper, and spending shrank as banks reduced consumer loans and companies postponed investment.

"If you're projecting out to December 2010, we think the economy is on course to hit growth of about 5 percent," Velasco, 49, said yesterday in an interview in his Santiago office. "There have been months that were better than the market was forecasting and there was one month that was worse."

Economy Contracts

South America's fifth-biggest economy contracted 0.2 percent in September from August after four straight monthly increases. That suggests the economic recovery may be slower than expected, according to a member of the central bank's policy board whose comments were published in minutes of a Nov. 12 meeting yesterday.

"We do not have any evidence that would lead us to change the forecasts we made for next year," Velasco said. "It is quite striking how private forecasts have converged to our forecasts in the last two or three months."

He first called for 5 percent growth for next year in September. Analysts surveyed by the central bank raised their 2010 economic growth forecast to 4.4 percent in November from 3 percent in August.

Third Quarter

Chile's economy shrank 1.6 percent in the third quarter from a year earlier. Even so, gross domestic product expanded quarter-on-quarter for the first time since June 2008.

The economy grew on an annual basis for the first time in 12 months in October, according to the median estimate of five analysts surveyed by Bloomberg. The central bank is due to publish the data on Dec. 7.

Velasco, a former economics professor at Harvard University's John F. Kennedy School of Government in Cambridge, Massachusetts, is due to end his four-year term in office in March. He moved to the U.S. after Augusto Pinochet's military dictatorship expelled his father from Chile in 1976 for criticizing the regime, and later graduated from Yale University and Columbia University.

As finance minister, Velasco used a three-year copper boom to cut borrowing to the point where the country is a net creditor for the first time since independence from Spain 200 years ago. By the end of 2008, Chile had stashed away $20 billion in its stabilization fund, allowing it to draw $8 billion this year to plug a budget gap and pay for extra spending.

Copper Boom

“Fiscal policy was beautifully managed; other countries should pay more attention to what they’re doing,” Arminio Fraga, former president of the Brazilian central bank, said yesterday in a telephone interview. “You can’t be pedal-to-the- metal on fiscal policy the whole time -- that’s the lesson. In order to do that when you need to, you have to accumulate some credit, which Chile has.”

Fraga now helps manage $7 billion as chairman and chief investment officer of Gavea Investimentos Ltda. in Rio de Janeiro.

Chile’s main stock index, the Ipsa, rose 1.2 percent yesterday, the biggest gain in more than three weeks. The Chilean peso rose 0.3 percent against the U.S. dollar, and has rallied 7.7 percent in the past month, the best performer among all currencies tracked by Bloomberg.

Stock Market

Since President Michelle Bachelet’s government took office in March 2006, the country’s main stock index has gained 63 percent in U.S. dollar terms, beating the MSCI Emerging Markets Index’s 23 percent rise and the Standard & Poor’s 500 Index’s 15 percent slide.

Chilean sovereign bonds in dollars returned 34 percent in that time, compared with 21 percent for the region as a whole, according to indexes compiled by Merrill Lynch & Co. The cost of insuring Chilean government bonds against default using credit- default swaps is comparable to Austria, Japan or Greece and cheaper than Spain.

“Chile has been doing a good job,” Jim Rogers, the chairman of Singapore-based Rogers Holdings, said in a Nov. 25 telephone interview. “They’re not going out and spending the windfall and driving the country into the ground. The economy is basically copper and agricultural and I’m very bullish on both.”

The price of copper slid 2.3 percent to $3.0935 per pound yesterday from a one-year high of $3.165 reached on Nov. 25, before trading closed for the U.S. Thanksgiving holiday, according to data compiled by Bloomberg.

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