



BY ERIC MARTIN
Bloomberg News.

MEXICO CITY - Mexico is on the verge of overtaking Chile as the safest destination for bond investors in Latin America.

It cost 0.03 percentage points more this week to protect Mexico's bonds against default than debt from Chile, which is rated four levels higher at AA- by Standard & Poor's. The premium is now the smallest in CMA data going back a decade and down from a record 2.94 percentage points in 2008.

Mexico's sweeping constitutional reforms that jettisoned its 75-year state oil monopoly and boosted tax revenue are helping to close the gap with Chile, the region's most creditworthy nation. While traders are wagering foreign investment from companies such as Exxon Mobil and Chevron will propel growth in Mexico, Latin America's second-biggest economy, they're increasingly concerned Chile will struggle to sustain its expansion as Chinese demand for raw materials wanes.

"Investors are feeling more confident that Mexico is moving in the right direction," Alfredo Coutiño, director for Latin America at Moody's Analytics, a unit of New York-based Moody's, said by telephone. "Mexico has a great possibility to implement new reforms, which in the end are going to increase the future production capacity of the economy."

Speculation is increasing that Mexico's Congress will approve rules this month to implement the new energy laws championed by President Enrique Peña Nieto. The government says the changes will help reverse a nine-year slump in oil output and



Speculation is increasing that Mexico's Congress will approve rules this month to implement new energy laws.

Mexico is first in bond safety

attract as much as \$30 billion a year in foreign direct investment, boosting the long-term potential annual growth rate by 1 percentage point. Tax increases will cut Mexico's dependence on oil revenue to as little as 27 percent of the budget by 2018 from 34 percent last

year.

Mexico will grow as much as 3.3 percent this year, bolstered by U.S. export demand and record low interest rates, after expanding 1.1 percent in 2013, the central bank said on May 21. Policymakers will keep the key rate at

3.5 percent at their next meeting June 6, according to all 20 economists surveyed by Bloomberg.

"These reforms should result in more resilient public finances in Mexico," Alonso Cervera, the chief Latin America economist at Credit Suisse

Group, said by telephone from Mexico City.

It costs 0.76 percentage point to protect Mexico's dollar-denominated debt against non-payment for five years using credit-default swaps, according to CMA. S&P ranks Mexico BBB+, the third-lowest investment grade, while Moody's Investors Service rates the country one level higher at A3.

Chile's rating at S&P is in line with China, Japan and Saudi Arabia.

Siobhan Morden, the head of Latin America fixed-income strategy at Jefferies Group in New York, said the gap between Mexico and Chile is too narrow and doesn't reflect the fundamental differences between the nations.

Even with this year's slowdown, Chile's economy will expand 3.4 percent, faster than Mexico's 3 percent, according to the median forecast of analysts in a Bloomberg survey. The Andean nation has averaged annual growth of 4.9 percent in the past 20 years, almost double that of Mexico.

While Chile, the world's biggest copper producer, has enjoyed 30 years of almost uninterrupted growth that has improved living conditions for the nation of 17 million, Mexico, with a population of 120 million, suffered through recessions in 1995 and 2009, as well as the Tequila Crisis in 1994, when demand for the country's short-term debt dried up and sparked a peso devaluation.

Mexico's debt as a percentage of GDP will be 55 percent this year, compared with 29 percent for Chile, according to IMF estimates.

"That ratings gap reflects a huge disparity on fundamentals," Morden said.