

Growth will remain below its potential

General Information



GDP	USD240.80bn (World ranking 42, World Bank 2015)
Population	17.95mn (World ranking 61, World Bank 2015)
Form of state	Presidential Republic
Head of government	Michelle Bachelet
Next elections	November 2017, presidential and legislative



Strengths

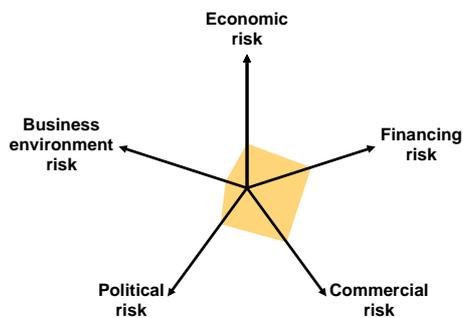
- Natural resource base: Chile is the largest copper producer in the world, but also benefits from other minerals, forestry and agriculture
- Strong medium-term growth
- Business-friendly environment
- Sound macroeconomic policy framework
- Good external balance
- Widely accepted, democratic political system with successive peaceful transfers of power
- Classified as an OECD high income economy

Weaknesses

- Sensitive to commodity prices, particularly copper
- High level of income inequality
- Numerous strikes and political street protests could trigger instability

Country Rating

A2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	27% 1	24% China
United States	12% 2	22% United States
Japan	8% 3	8% Brazil
South Korea	6% 4	5% Miscellaneous
Brazil	5% 5	4% Argentina

By product (% of total)

Exports	Rank	Imports
Non Ferrous Metals	26% 1	7% Refined Petroleum Products
Non Ferrous Ores	25% 2	5% Cars And Cycles
Other Edible Agricultural Prod	9% 3	4% Crude Oil
Meat	7% 4	4% Telecommunications Equipment
Paper	4% 5	4% Commercial Vehicles

Sources: Chelem (2015)

Economic Overview

Copper strike keeps growth modest

Real GDP decelerated to +1.6% in 2016, after +2.3% in 2015. The expectation of seeing a substantial growth recovery in Q1 after important headwinds throughout 2016 did not materialize. In Q1, real GDP grew by only +0.1% y/y (+0.2% q/q), the slowest pace since 2009 and far below our expectations. The negative outcome is almost exclusively explained by the six-week strike at Escondida, the largest copper mine worldwide that produces about 5% of total global copper output. The strike ended in March, without resolution. The Central Bank estimates that the strike dragged down GDP growth by -1pp q/q. This caused a sharp contraction of exports since non-ferrous metals (mostly copper) represent 26% of Chilean exports.

In the coming months, exports should benefit from higher copper prices and a better outlook for global trade. Consumption is showing first signals of revival. However, this will be offset by a continued contraction in the construction sector, higher tax burden for companies (the Retained Taxable Earnings (FUT) have been extended and the corporate tax increased) and increased political uncertainty ahead of the presidential and parliamentary elections due in November. All in all, we expect the economy to expand in 2017 at the same rate as in 2016 (+1.6%), and to accelerate slightly to +2.2% in 2018, still well below the 2010-2015 average of +4.3%.

Accommodative macroeconomic policies

The fiscal deficit will widen in 2017 due to weaker revenues from both mining and non-mining sectors, and higher public spending on education and health. However, fiscal figures are sound as public debt remains low (24.8% of GDP in 2017). The monetary policy is also expected to remain supportive as inflation has moderated to +2.7% y/y in May, from a peak at +4% in November. The Central Bank has cut the key rate by 100 bps since last December to 2.50%, a 6-year low.

Stable pro-business environment

Chile's specialization in natural resources triggered its high integration in global value chains, but also exposed it to commodity price volatility. Yet the current account deficit is under control (-0.9% in 2017) and is almost entirely covered by net FDI flows while foreign exchange reserves provide a comfortable coverage of over 7 months of imports.

Overall, the business climate remains favorable: the country ranks 57 out of 190 countries in the World Bank Doing Business Survey. Chile's stable institutions and business-friendly regulations secure the attractiveness of the country to foreign investors.

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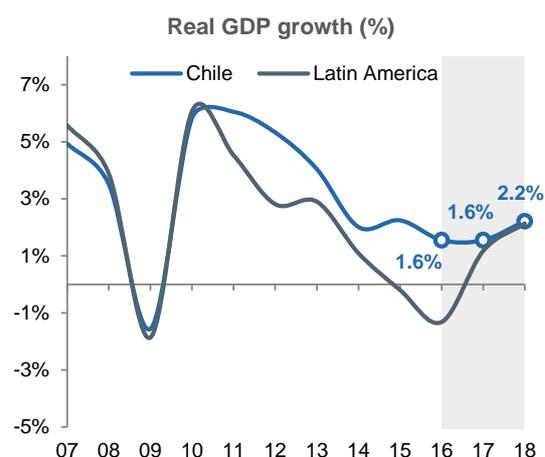
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Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	2.3	1.6	1.6	2.2
Inflation (% , yearly average)	4.3	3.8	2.6	2.8
Fiscal balance* (% of GDP)	-2.1	-2.9	-3.2	-2.6
Public debt* (% of GDP)	17.4	21.2	24.8	27.4
Current account (% of GDP)	-1.9	-1.4	-1.2	-1.6
External debt (% of GDP)	60.0	57.0	58.3	54.8

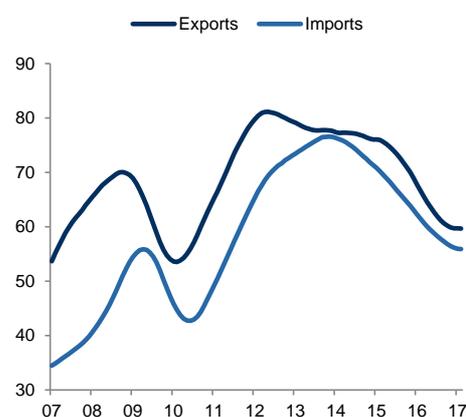
*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF, IHS, Euler Hermes



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Exports and imports of goods (USD bn, 12m ma)



Sources: IHS, Euler Hermes