

Chile: enough tools to cope with the current challenges



General Information

GDP	USD277.20 bn (World ranking 38, World Bank 2013)
Population	18 mn (World ranking 60, World Bank 2013)
Form of state	Republic
Head of government	Michelle Bachelet (Nueva Mayoria Party)
Next elections	2017, presidential and legislative



Strengths

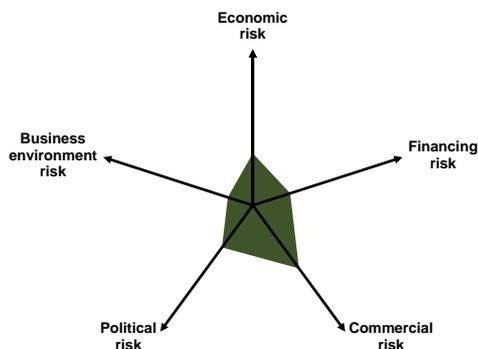
- Natural resource base (largest copper producer in the world, but also other minerals, forestry and agriculture)
- Strong medium-term growth
- Pro-business, sound macro-policy framework
- Sound external balance
- Very strong Business Environment
- Widely accepted, democratic political system with successive peaceful transfers of power

Weaknesses

- Sensitive to commodity prices, particularly copper (more than 50% of exports)
- Skewed income distribution

Country Rating

A1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
China	25%	1	21%	China	
United States	12%	2	20%	United States	
Japan	10%	3	8%	Brazil	
South Korea	6%	4	4%	Argentina	
Brazil	5%	5	4%	Germany	

By product (% of total)

Exports		Rank		Imports	
Non Ferrous Metals	29%	1	9%	Refined Petroleum	
Non Ferrous Ores	26%	2	7%	Crude Oil	
Other Agricultural Prod	8%	3	5%	Cars And Cycles	
Meat	6%	4	4%	Commercial Vehicles	
Paper	4%	5	3%	Telecom. Equipment	

Source: ITC, Chelem



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Economic Overview

Growth will recover gradually after a sharp slowdown in 2014

The economy decelerated in 2014 to +1.9%, after +4.2% in 2014. Private consumption slowed, while investment contracted sharply. The latter was notably driven down by a deteriorating outlook in the mining sector with China slowing down (20% of exports) coupled with low copper prices (over 50% of total exports, and 20% of GDP). The increase of the corporate tax rate from 20% in 2014 to 25% by 2018 and the end corporate tax breaks are also weighing on business confidence.

Even if these challenges will remain 2015, the economy is expected to recover somewhat this year. As a net oil importer, Chile will benefit greatly from the fall in oil prices (Chile has the highest electricity costs in the region), while monetary and fiscal policies should remain broadly supportive. The fiscal budget for 2015 provides indeed for an increase in public investment by more than +25%, while spending on education and infrastructures should increase by over +10% each.

May brought the country's most profound cabinet reshuffle since the return to democracy 25 years ago: President Bachelet demanded the resignation of every minister in an attempt to curb record low approval ratings. Social tensions are to be monitored.

Sound macroeconomic policies and strong business environment

Thanks to sound macroeconomic policies, Chile has the tools to cope with the weakness in activity. Monetary policy is framed against inflation targeting, currently 3% (+/-1%), and the fiscal management is built around a structural surplus rule. Public spending is adjusted to trend revenues and any surplus go mainly into two funds, one to cover minimum pension liabilities and the other, the Fund for Economic and Social Stabilisation (FEES).

Inflation is generally anchored, the fiscal position is generally good and public debt is low (the public sector is even a net creditor). The current account deficit is at manageable levels and is almost entirely covered by net FDI flows while FX reserves are comfortable (above 5 months of imports). External liquidity ratios are strong, external debt is moderate and payments manageable.

Overall, Chile enjoys both political stability and a strong business environment, with a well-developed institutional framework. Rule of law and control of corruption are particularly good compared to the regional standards. However, some shortcomings remain when dealing with construction permits, getting credit and resolving insolvencies.

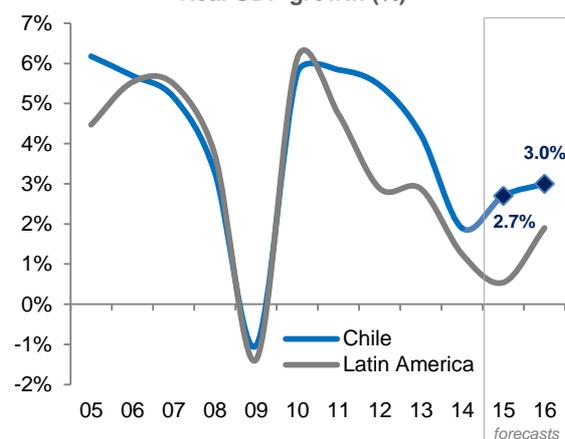
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	4.2	1.9	2.7	3.0
Inflation (% , yearly average)	1.9	4.4	3.9	2.8
Fiscal balance* (% of GDP)	-0.5	-1.4	-2.3	-1.3
Public debt* (% of GDP)	12.8	13.9	16.6	18.2
Current account (% of GDP)	-3.4	-1.6	-1.5	-1.4
External debt (% of GDP)	47.2	56.7	57.0	59.0

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

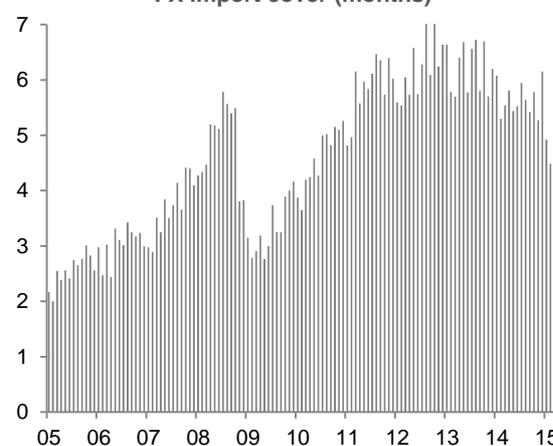
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Sources: National sources, IMF-WEO, IHS, Euler Hermes

FX import cover (months)



Sources: National sources, IMF-WEO, IHS, Euler Hermes

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