

# Country Insight Snapshot

## Chile

March 2017



Written 03 March 2017

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## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB3c

**Slight risk** : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.



#### Rating Outlook:

Stable



## CORE OUTLOOK

- + Expect a broadly entrepreneur-friendly environment, institutional stability and a well-run economy.
- + A growing middle-class has boosted local demand for items such as new cars and higher-end consumer goods.
- Chile's exposure to low mineral prices is felt through the exchange rate, export earnings and government revenue.
- Public disaffection with the political class is on the rise, increasing the risk of populism.

## KEY DEVELOPMENT

An ongoing strike at Chile's largest copper mine leads to a downward revision of our growth forecast for 2017.

### CREDIT ENVIRONMENT OUTLOOK



#### Trend:

Stable



Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK



#### Trend:

Stable



Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK



#### Trend:

Stable



Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK



#### Trend:

Deteriorating

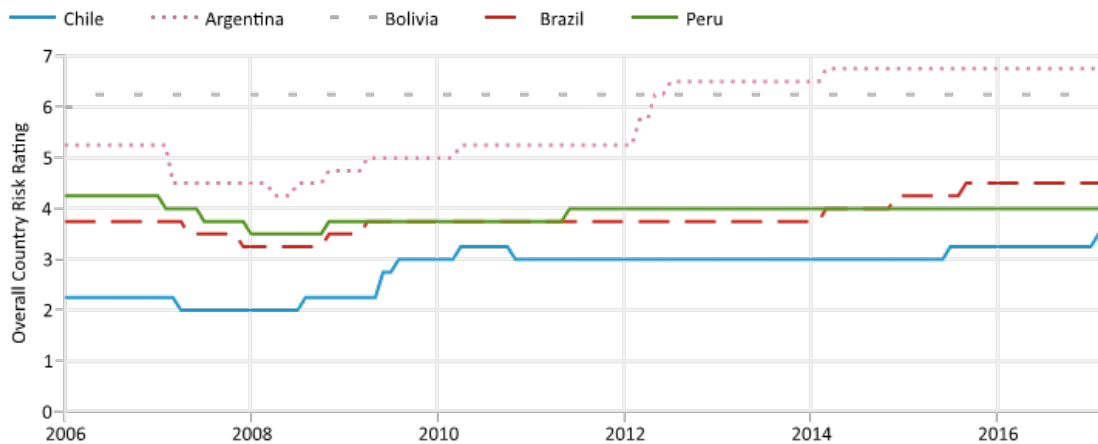


Key Development has had a negative impact on the outlook.



## KEY INDICATORS

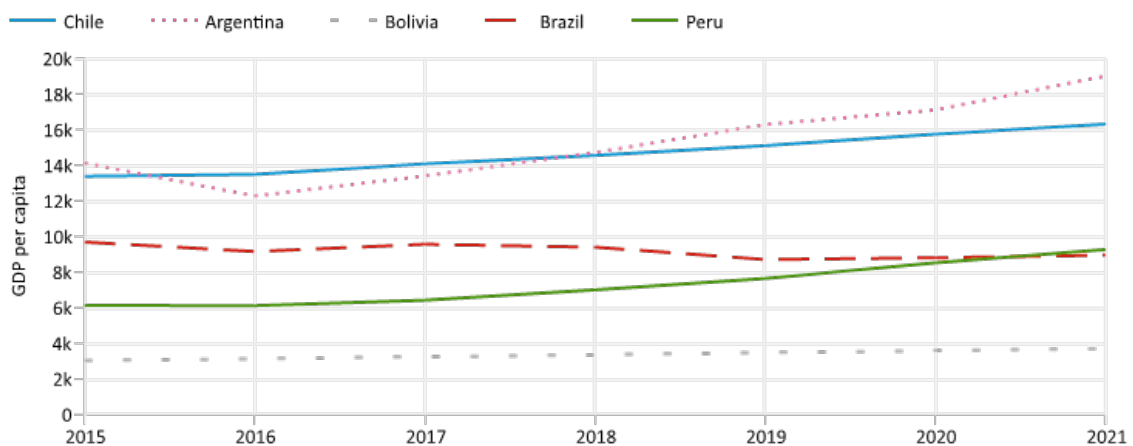
### Rating History and Comparison



Source : Dun & Bradstreet

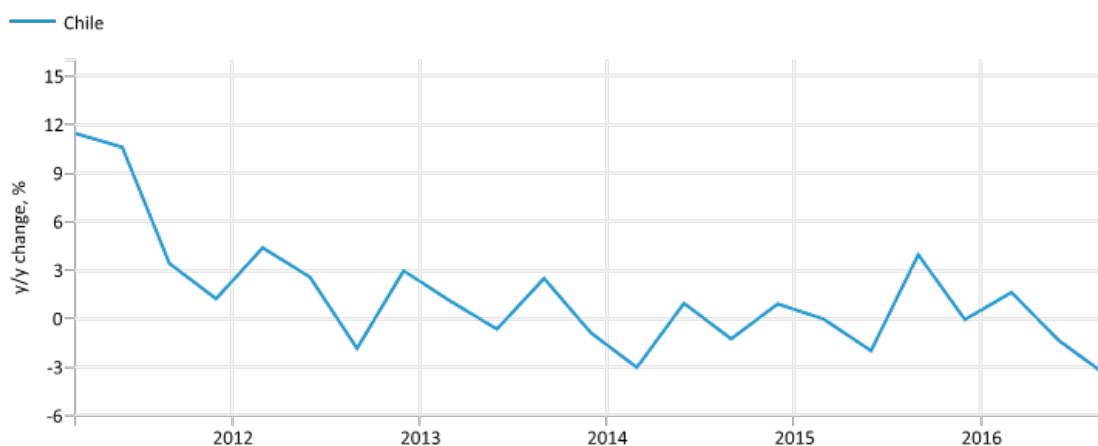
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.3	-2.0	-2.3	-2.2	-2.1	-2.1	-2.0	-2.0
Govt balance, % GDP	-1.5	-2.1	-2.0	-1.8	-1.4	-1.0	-0.8	-0.5
Inflation, annual avge %	4.4	4.3	3.8	3.3	3.0	3.0	3.0	3.0
Real GDP Growth, %	1.9	2.3	1.6	1.8	2.2	2.5	3.0	3.0
Unemployment, %	6.0	6.0	6.2	6.0	5.8	5.8	5.8	5.8

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Chile's Central Bank held USD39.6bn in international reserves in late February, USD800m below the end-2016 level, and sufficient to provide cover for 5.7 months of goods and services imports. At end-2016 Chile also had USD22.6bn held offshore in two sovereign wealth funds, providing substantial further currency protection. The peso traded at CLP645:USD in late February, having strengthened by 6.6% y/y and by 0.4% m/m. This has helped bring inflation back to the centre of the Central Bank's 2.0-4.0% target range; inflation stood at 2.8% in January. The monetary authority reduced its reference interest rate by 25bp in January to 3.25%, and kept the rate on hold in February. A further 25bp cut in H1 is likely, which would help support growth. Transfer risks will remain low.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: OA

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: SD

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-60 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

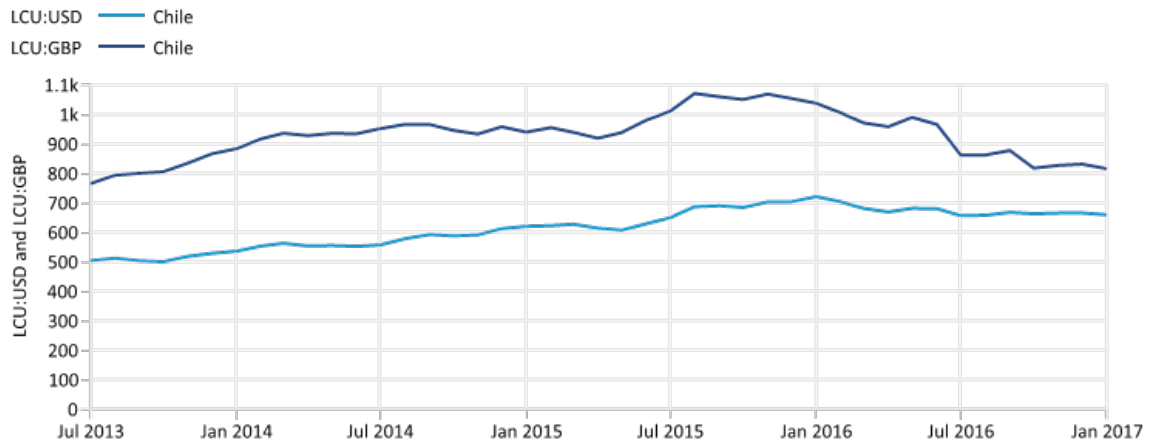
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



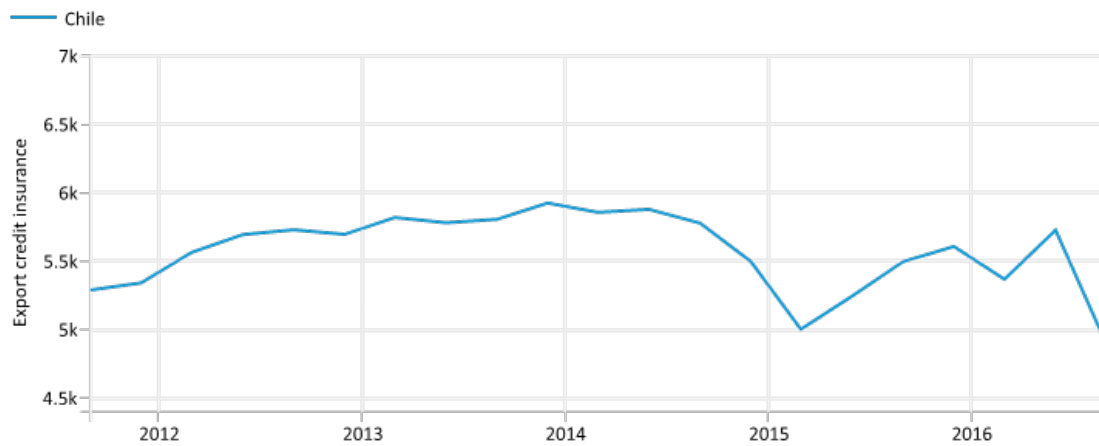
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Chilean peso*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Outlook hit by strike***

We have made a downward revision to our forecast for GDP growth this year from 2.1% to 1.8%, and for 2018 from 2.5% to 2.2%. We had warned of downside risks in the slowly recovering economy, and an ongoing strike at the world's largest copper mine will have an economic effect. On 9 February, workers at La Escondida copper mine went on strike, and the strike was ongoing at the end of the month. The mine is the most important producer in Chile's key industry, accounting for 5% of global copper supply; in 2016 it produced 1m fine tonnes of copper in 2016, out of Chile's total output of 5.55m tonnes; copper mining typically accounts for around 10.0% of GDP. In mid-February the government stepped in to mediate between the owner, BHP Billiton, and Sindicato Escondida 1 (SE1, the union which represents 2,500 of the workers at the mine), but has yet to bring the two sides close to agreement. SE1 is demanding a 7% pay increase for its workers, a bonus equivalent to USD38,000 per worker, and a benefits scheme that is equal for both new and long-term workers.

The previous pay agreement, reached through collective salary negotiations in 2013, when the price of copper was 40% higher than in early 2017, workers received a bonus of USD49,000 each. Citing the lower cost of copper and harsher trading conditions, BHP Billiton has offered a pay freeze, cuts to some benefits and a bonus of USD12,300 per worker. The two sides are so far apart that a quick end to the strike seems unlikely. Tensions have been further raised by mutually-traded accusations of criminal activity (against some workers and SE1), and of flouting environmental regulations (against the company). There appears to be some hope of rapprochement given that BHP Billiton did not (as is its legal right) bring in temporary workers two weeks into the strike, but has said that it will wait for 30 days in the hope of reaching a settlement.

### Political/Insecurity Risk

#### ***Presidential pre-candidates jockey for position***

Potential presidential candidates continue to jockey for position ahead of voluntary coalition primaries later this year. Currently tying in voting preferences for the presidency are a former president (2010-14), Sebastián Piñera of the centre-right opposition and a centre-left independent senator, Alejandro Guillier, who has been selected by the ruling Nueva Mayoría coalition's Partido Radical to stand in Nueva Mayoría's July primary. Other likely pre-candidates are former president (2000-06) Ricardo Lagos, as well as Carolina Goic, both of Nueva Mayoría parties. Goic's candidacy appears designed to improve her Democracia Cristiana party's negotiating position in future cabinet roles.



## COUNTRY PROFILE AND STATISTICS

### Overview

Chile stretches for 2,650 miles along the Andes and the Pacific Ocean, with an average width of only 110 miles. Its climate varies from arid northern deserts and temperate central valleys to rain-swept forests and glaciers in the south.

Chile's favourable business environment is underpinned by prudent economic management and by liberal trade and investment policies. The country has a well-developed financial sector and diversified economy, though primary sectors, particularly mining, remain important. Government revenues and the broader economy are closely linked to copper earnings: the main global player, Codelco, is a state-owned company. There is a thriving agricultural sector, with fruits, vegetables and wines its major export products.

Since its return to democracy in 1990, Chile has been governed by the main centre-left coalition, Nueva Mayoría (formerly dubbed Concertación), with the exception of 2010-14 when the centre-right Alianza (since renamed Chile Vamos) held the presidency. Although the current government is more left-wing than its predecessors, broadly business-friendly policies have continued. Policy priority though, has altered from business to society, with the government focus now on inequality and poverty reduction, along with investment in education. A general election due in November 2017 is currently difficult to call.

### Key Facts

Key Fact	Detail
Head of state	President Michelle BACHELET
Capital	Santiago
Timezone	GMT -04-00
Official language	Spanish
Population (millions)	18.1
GDP (USD billions)	245.3
GDP per capita (USD)	13,526
Life expectancy (years)	81
Literacy (% of adult pop.)	96.6
Surface area (sq km)	756,630

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	5.5	4.0	1.9	2.3	1.6
Nominal GDP in USDbn	265	277	259	241	245
Nominal GDP in local currency (bn)	128,997	137,235	147,562	157,508	165,997
GDP per Capita in USD	15,250	15,765	14,566	13,416	13,526
Population (year-end, m)	17.4	17.6	17.8	17.9	18.1
Exchange rate (yr avge, USD-LCU)	486.47	495.27	570.35	654.12	676.83
Current Account in USDbn	-9.4	-10.3	-3.3	-4.8	-5.6
Current Account (% of GDP)	-3.5	-3.7	-1.3	-2.0	-2.3
FX reserves (year-end, USDbn)	41.6	41.1	40.4	38.6	40.5
Import Cover (months)	5.5	5.4	5.8	6.4	5.8
Inflation (annual avge, %)	3.0	1.9	4.4	4.3	3.8
Govt Balance (% GDP)	0.7	-0.5	-1.5	-2.1	-2.0

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.8	2.2	2.5	3.0	3.0
Nominal GDP in USDbn	258	270	283	297	311
Nominal GDP in local currency (bn)	174,463	183,535	193,629	205,247	217,562
GDP per Capita in USD	14,113	14,595	15,141	15,787	16,347
Population (year-end, m)	18.3	18.5	18.7	18.8	19.0
Exchange rate (yr avge, USD-LCU)	675.0	680.0	685.0	690.0	700.0
Current Account in USDbn	-5.7	-5.8	-5.9	-6.0	-6.1
Current Account (% of GDP)	-2.2	-2.1	-2.1	-2.0	-2.0
FX reserves (year-end, USDbn)	40.5	41.0	42.0	44.0	45.0
Import Cover (months)	5.2	4.7	4.3	4.0	3.6
Inflation (annual avge, %)	3.3	3.0	3.0	3.0	3.0
Govt Balance (% GDP)	-1.8	-1.4	-1.0	-0.8	-0.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Chile	Argentina	Bolivia	Brazil	Peru
Income per Capita (USD)	13,416	14,167	3,063	9,717	6,152
Country Population (m)	17.9	43.4	10.7	208.8	31.2
Internet users (% of population)	64.3	69.4	45.1	59.1	40.9
Real GDP Growth (% p.a., 2017 - 2026)	2.2 - 3.2	1.5 - 2.8	2 - 5.8	1 - 2	3.9 - 8.5

Source : Various sources/Dun & Bradstreet





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