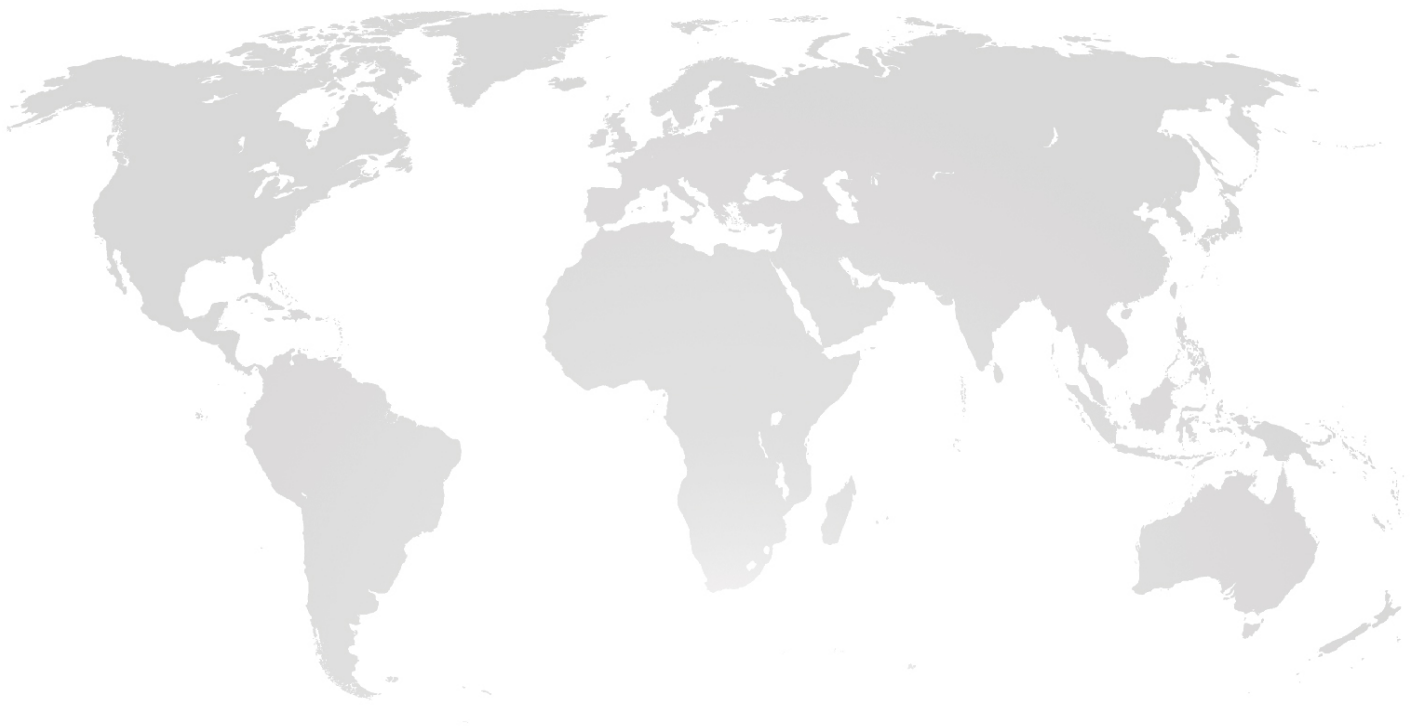


# Country Insight Snapshot

## Chile

July 2016






## OVERVIEW

OVERALL COUNTRY RISK RATING: DB3b

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

A

**Rating Outlook:** Deteriorating 

## CORE OUTLOOK

- + Expect an 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 minerals prices is felt through the exchange rate, export earnings and government revenue.
- Strike action is becoming more frequent as growth remains low and companies shed workers.

## KEY DEVELOPMENT

Following a mining-led fall in output, we cut our growth forecast for the year, the slow nature of the recovery will also delay further monetary tightening.

### CREDIT ENVIRONMENT OUTLOOK

G

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

G

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

G

Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

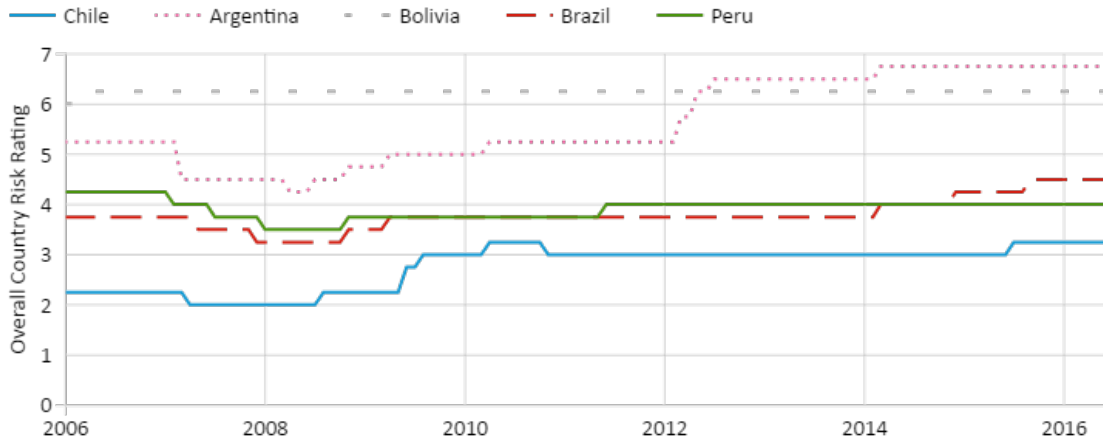
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Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

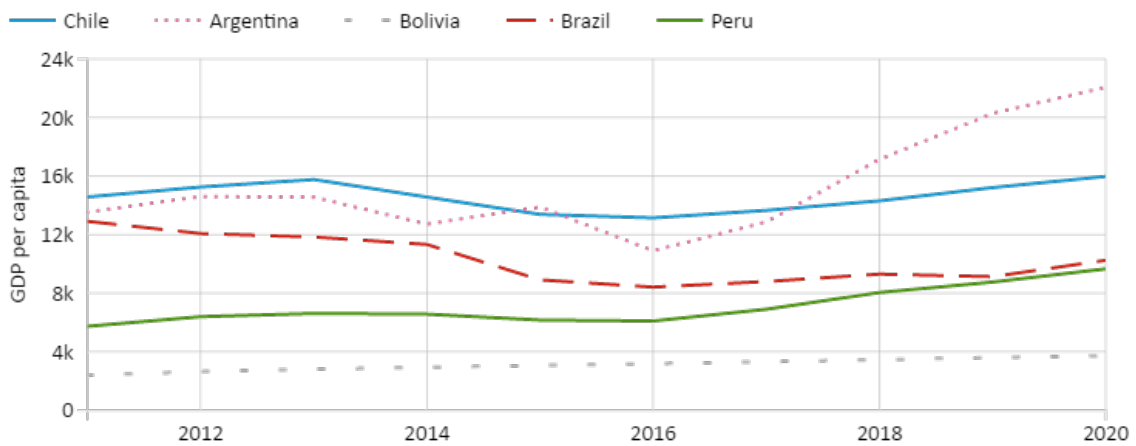
### Rating History and Comparison



Source : Dun & Bradstreet

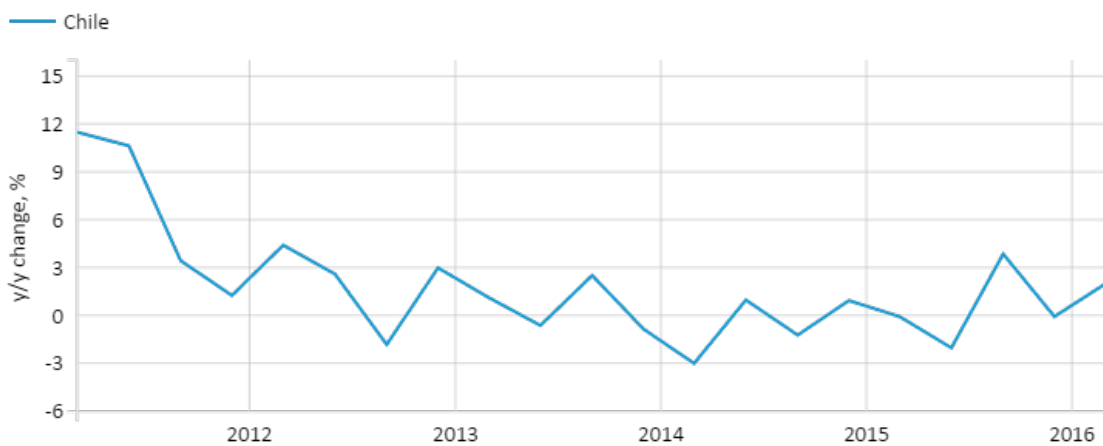
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-3.7	-1.3	-2.0	-2.4	-2.3	-2.2	-2.1	-2.0
Govt balance, % GDP	-0.5	-1.6	-1.8	-1.4	-1.0	-0.7	-0.5	-0.5
Inflation, annual avge %	1.9	4.4	4.3	3.6	3.3	3.0	3.0	3.0
Real GDP Growth, %	4.0	1.9	2.1	1.8	2.4	2.8	2.8	3.0
Unemployment, %	5.7	6.0	6.0	6.2	6.0	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 at the end of June, a broadly similar level to end-2015, and sufficient to provide cover for 5.6 months of goods and services imports. The country also has USD23.2bn held offshore in two sovereign wealth funds, providing substantial further currency protection. The peso traded at CLP674:USD at end-June, having strengthened by 5.1% since end-2015, but still 6.2% weaker in y/y terms. Inflation stood at 4.2% in May, the same level as April and above the 2.0-4.0% target, but the rate has trended downward over the year. Following two quarter-point monetary rate increases in Q4 2015 (which took the rate to 3.5%) the central bank has held rates. A further increase is likely before year-end. 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

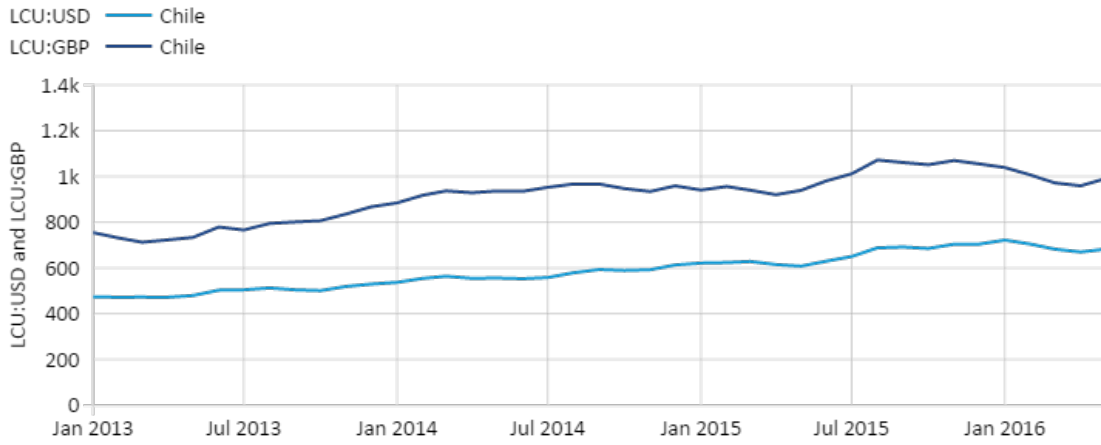
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



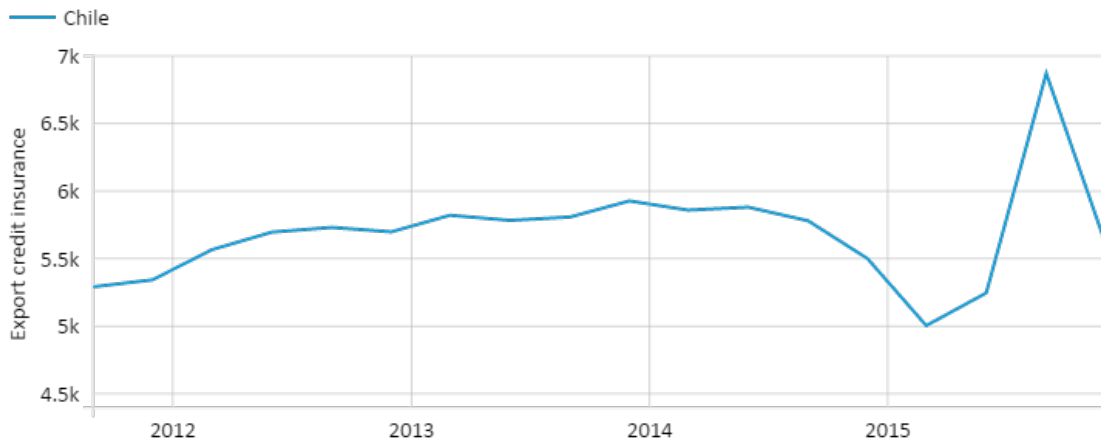
## Exchange Rate



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

#### *Falling growth prompts forecast cut*

The economy continues to struggle with a mix of low investment, above-target inflation and sluggish domestic demand. Subdued Chinese demand continues to crimp the important copper industry. The monthly index of economic activity, a good proxy for GDP growth fell by a seasonally-adjusted 1.3% m/m in April, the sharpest such fall since August 2015. This equated to growth of 0.7% in y/y terms. Mining has been hardest hit, with output down by a seasonally-adjusted 5.6% in April (-5.8% y/y). The delay in recovery for growth, allied with the prospect of inflation returning to its tolerance range of 2-4% in Q3 (it stood at 4.2% in both April and May) has led the Central Bank to announce that any tightening in monetary policy would start later and take place at a slower pace than previously anticipated. We now anticipate one quarter-point increase in the target monetary policy rate to 3.75% (still negative in real terms) towards the end of 2016. The Central Bank has also reduced its GDP growth forecast for this year to 1.25%-2.0% (from 1.25%-2.25% previously). We have cut our forecast for growth this year to 1.6% from 1.8% previously.

### Business Regulatory Environment

#### *Labour reform definitively shelved*

As expected, the government has shelved its controversial labour reform law owing to a renewed focus on a smaller range of reform packages, and a tacit acknowledgement that it was proving too difficult to pass. In April the Constitutional Tribunal had rejected the part of the bill that mandated that companies could only negotiate with unions in collective wage talks. The news will cheer businesses, which had complained that the bill would have given too much power to unions.

### Political/Insecurity Risk

#### *Criminal investigations continue*

President Bachelet's term has been beset by political scandals, and these will continue to be at the forefront of public discourse in the run-up to general elections in November 2017, with the judicial processing of various cases. This will keep political and insecurity risk at more elevated levels than in the recent past. In the past month, the process has stepped up a gear. A former senator and presidential candidate, Pablo Longueira of the centre-right opposition UDI, has been placed under night-time house arrest while he is investigated for tax fraud and receiving bribes of close to USD1m from a mining company; Jaime Orpis (formerly of the UDI then an independent senator) has been convicted and jailed for falsifying donation receipts; and Jorge Insunza, of the centre-left PPD, part of Bachelet's Nueva Mayoría coalition, and briefly secretary general to the presidency in 2015, is being investigated for bribery and tax offences.



## 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, 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 remain important. Government revenues and the broader economy are closely linked to copper revenues: 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 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 inequality and poverty reduction, along with investment in education, now the main governmental focus.

### Key Facts

Key Fact	Detail
Head of state	President Michelle BACHELET
Capital	Santiago
Timezone	GMT -04-00
Official language	Spanish
Population (millions)	17.9
GDP (USD billions)	240.2
GDP per capita (USD)	13,384
Life expectancy (years)	81
Literacy (% of adult pop.)	96.7
Surface area (sq km)	756,630

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	5.8	5.5	4.0	1.9	2.1
Nominal GDP in USDbn	251	265	277	259	240
Nominal GDP in local currency (bn)	121,232	128,997	137,235	147,562	157,130
GDP per Capita in USD	14,572	15,250	15,765	14,565	13,384
Population (year-end, m)	17.2	17.4	17.6	17.8	17.9
Exchange rate (yr avge, USD-LCU)	483.67	486.47	495.27	570.35	654.12
Current Account in USDbn	-3.2	-9.4	-10.3	-3.3	-4.8
Current Account (% of GDP)	-1.3	-3.5	-3.7	-1.3	-2.0
FX reserves (year-end, USDbn)	41.9	41.6	41.1	40.4	38.6
Import Cover (months)	5.8	5.5	5.4	5.8	6.4
Inflation (annual avge, %)	3.3	3.0	1.9	4.4	4.3
Govt Balance (% GDP)	1.4	0.7	-0.5	-1.6	-1.8

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.8	2.4	2.8	2.8	3.0
Nominal GDP in USDbn	238	250	265	284	301
Nominal GDP in local currency (bn)	165,615	175,055	185,209	195,951	207,708
GDP per Capita in USD	13,142	13,656	14,307	15,212	15,976
Population (year-end, m)	18.1	18.3	18.5	18.7	18.8
Exchange rate (yr avge, USD-LCU)	695.0	700.0	700.0	690.0	690.0
Current Account in USDbn	-5.6	-5.7	-5.8	-5.9	-6.0
Current Account (% of GDP)	-2.4	-2.3	-2.2	-2.1	-2.0
FX reserves (year-end, USDbn)	38.9	39.0	40.0	42.0	44.0
Import Cover (months)	5.6	5.0	4.6	4.3	4.0
Inflation (annual avge, %)	3.6	3.3	3.0	3.0	3.0
Govt Balance (% GDP)	-1.4	-1.0	-0.7	-0.5	-0.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Chile	Argentina	Bolivia	Brazil	Peru
Income per Capita (USD)	13,384	13,890	3,061	8,907	6,160
Country Population (m)	17.9	43.4	10.7	208.8	31.2
Internet users (% of population)	72.3	64.7	39	57.6	40.2
Real GDP Growth (% p.a., 2016 - 2025)	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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