

Country Insight Snapshot

Chile

March 2019





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.

A

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

The central bank has continued its monetary-tightening cycle despite below-target inflation, given strengthening underlying growth.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

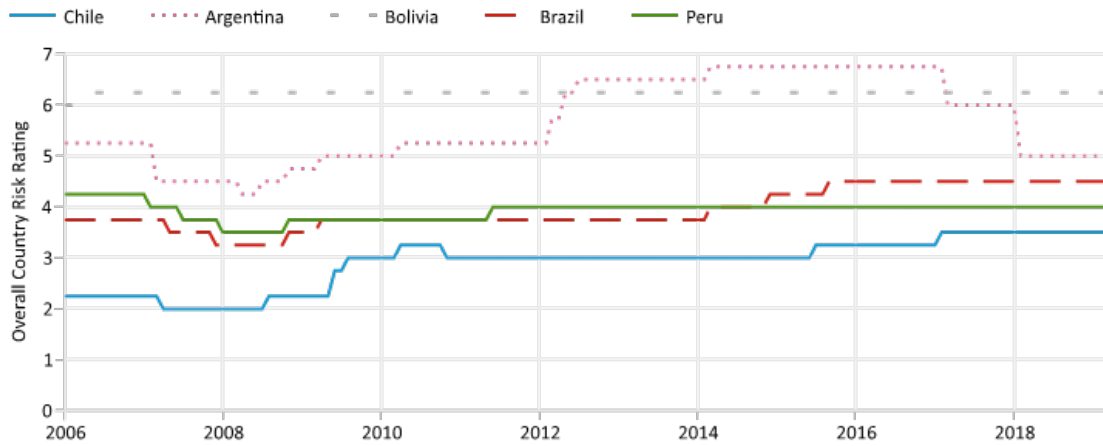
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

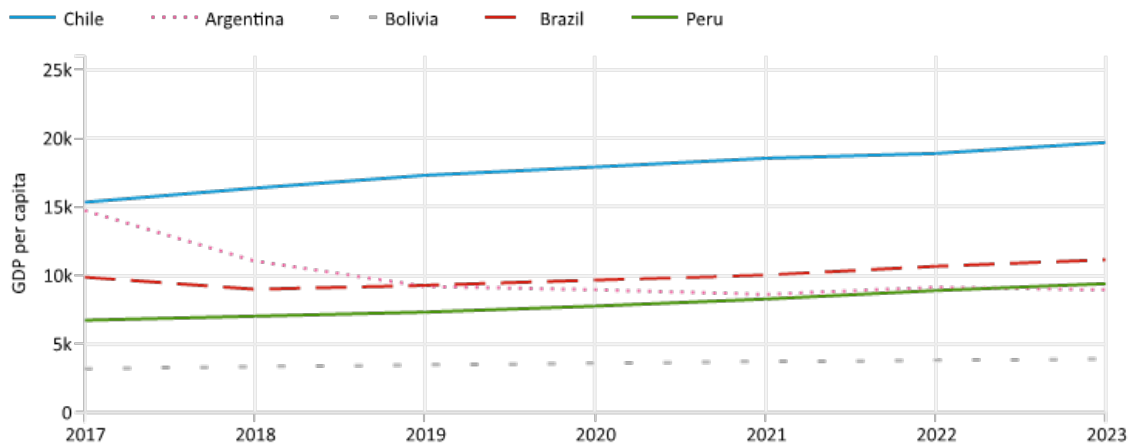
Rating History and Comparison



Source : Dun & Bradstreet

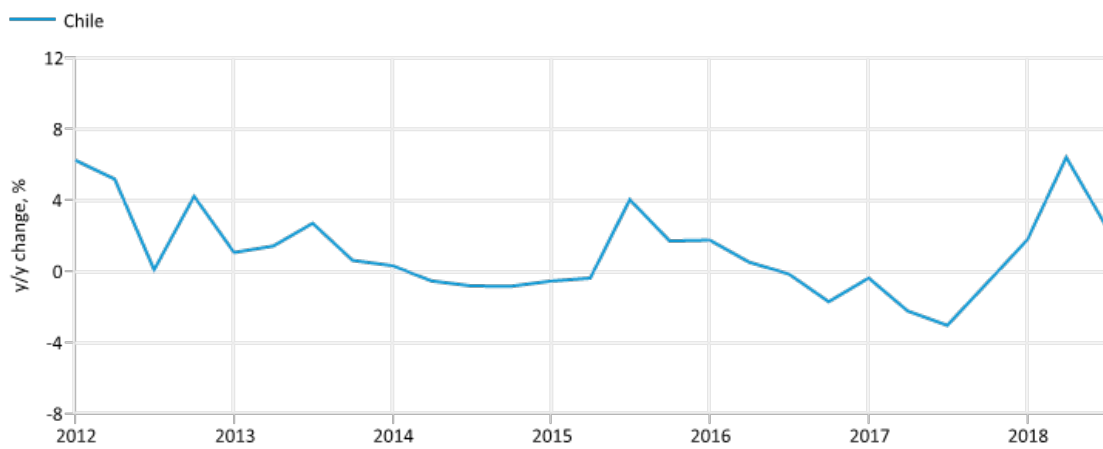
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-1.4	-1.5	-2.1	-2.0	-1.9	-1.9	-1.9	-1.8
Govt balance, % GDP	-2.7	-2.6	-2.0	-1.4	-1.2	-1.0	-0.8	-0.6
Inflation, annual avge %	3.8	2.2	2.9	2.8	2.6	2.6	2.5	2.5
Real GDP Growth, %	1.3	1.5	4.0	3.5	3.4	3.3	3.2	3.2
Unemployment, %	6.1	6.4	6.7	6.5	6.3	6.2	6.1	6.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The central bank held USD38.4bn in international reserves in late February, USD500m above the year-earlier level, sufficient to provide cover for around 6.0 months of goods and services imports. At end-December Chile also held USD23.8bn offshore in two sovereign wealth funds, providing further currency protection. The free-floating peso was trading at CLP650:USD in late February, having strengthened by 6.5% since end-2018 amid tighter monetary policy and firm growth. This is still below the CLP590:USD level recorded at end-February 2018. Given solid growth, the central bank has moved gradually from a loose monetary policy since October - when it started a tightening cycle. The monetary authority raised its reference interest rate by 25bp in October, and by a further 25bp in January, bringing it to 3.0%. A further increase is expected by July. This should enable the monetary authority to keep inflation within its 2.0-4.0% target range (although inflation stood at only 1.8% in January, underlying inflation indicators suggest some renewed price pressure). 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

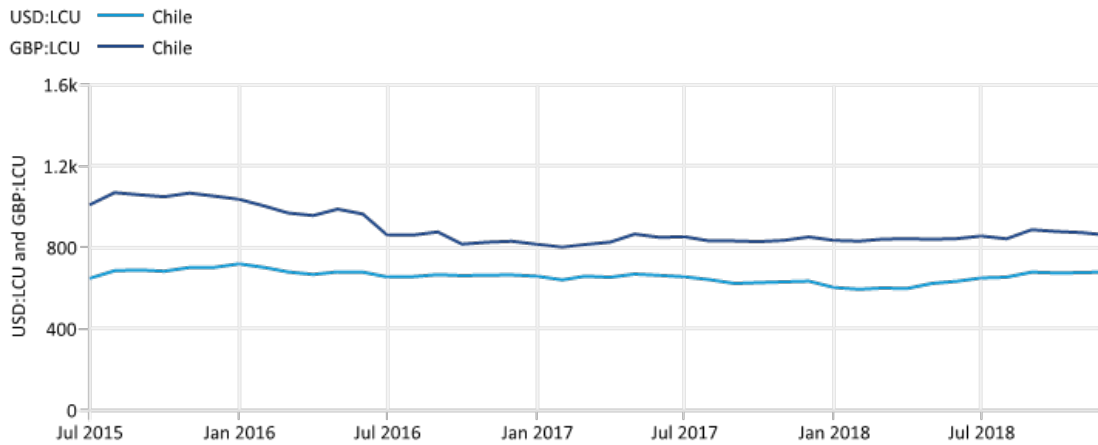
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



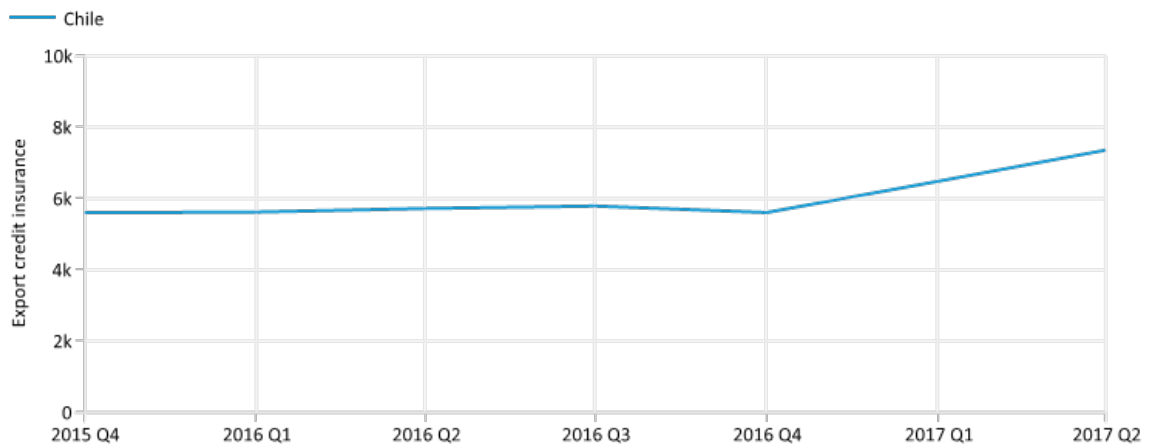
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Chilean peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Monetary tightening continues

Despite inflation coming in below the 2.0-4.0% target in January, the central bank tightened policy once more, mindful of strong growth prospects and medium-term inflationary risks. Between mid-2017 and October 2018 the reference interest rate had been kept at 2.50%, given sluggish growth and few price pressures. But, given region-wide currency weakness in Q3 2018 and signs of renewed firm economic growth, the central bank started a gradual tightening of policy, raising the rate to 2.75% and then in January to 3.00%. A further quarter-point increase is expected by July. The central bank felt confident in ignoring January's 1.8% overall rate of inflation for a number of reasons.

Renewed consumer confidence is forecast to contribute to a rise in demand-side price pressure; economic growth is surprising on the upside; and lower oil prices have helped to keep overall inflation down over the past year, but underlying inflation (stripping out energy and food prices) has been trending upwards since mid-2018. Having averaged an annual 1.7% in 2014-17, GDP growth is estimated to have reached 4.0% in 2018, and early signs this year suggest continued firm growth. We currently forecast growth of 3.5%, with risks weighted on the upside. Mining output reached a record 5.83m tonnes in 2018, a rise of 6.0% y/y, and well ahead of the previous record of 5.77m tonnes in 2013. And with expansions planned this year at Escondida (the world's largest copper mine), Codelco and Spence, the prospect is that the record will be surpassed again. Antofagasta is also considering a USD3bn long-term expansion plan at its 725,000 tonnes/year mine.

Downside risks continue to be associated with international concerns over US-China trade relations, and the potential for falling Chinese demand, which would have a strong impact on the copper industry.

Business Continuity

Extreme weather conditions bring states of emergency

The president, Sebastián Piñera, declared a 'zone of emergency' in northern Chile in February after strong rains in the Andes brought flooding in the Atacama desert, causing six deaths and destroying 100 homes in the El Loa province. And a 'state of catastrophe' was declared in Bio-Bío and Araucanía, in the south of the country, where over 600 forest fires covering 9,500 ha of land started amid unseasonably high temperatures and drought conditions. These declarations enable the government to strengthen the logistical support needed to combat the disasters, also allowing the armed forces to support the prevention and recovery operations. The capital, Santiago, in the centre of the country, recorded a temperature of 38.3 degrees Celsius, the third time in three years that its temperature record has been broken. Chile's isolated climate makes it vulnerable to extreme weather conditions, such as droughts and floods.



COUNTRY PROFILE AND STATISTICS

Overview

Chile stretches for 2,650 miles along the Andes mountains and the Pacific Ocean, and has 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 mostly been governed by the main centre-left coalition, *Nueva Mayoría* (formerly dubbed *Concertación*), with the exception of 2010-14 when Sebastián Piñera of the centre-right *Alianza* (since reformed as *Chile Vamos*) held the presidency.

Piñera regained the presidency in March 2018, but needs to reach cross-party consensus as he lacks a legislative majority. He promises a more business-friendly administration than the previous government of Michelle Bachelet.

Key Facts

Key Fact	Detail
Head of state	President Sebastian Pinera
Capital	Santiago
Timezone	GMT -04-00
Official language	Spanish
Population (millions)	18.2
GDP (USD billions)	298.1
GDP per capita (USD)	16,379
Life expectancy (years)	79.4
Literacy (% of adult pop.)	96.9
Surface area (sq km)	756,630

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	1.8	2.3	1.3	1.5	4.0
Nominal GDP in USDbn	261	244	250	277	298
Nominal GDP in local currency (bn)	148,624	159,606	169,264	179,776	191,135
GDP per Capita in USD	14,794	13,737	13,961	15,346	16,379
Population (year-end, m)	17.6	17.8	17.9	18.1	18.2
Exchange rate (yr avge, USD-LCU)	570.3	654.1	677.0	648.8	641.3
Current Account in USDbn	-4.3	-5.5	-3.5	-4.1	-7.5
Current Account (% of GDP)	-1.6	-2.3	-1.4	-1.5	-2.5
FX reserves (year-end, USDbn)	40.4	38.6	40.5	39.0	39.9
Import Cover (months)	5.8	6.5	7.1	6.3	5.7
Inflation (annual avge, %)	4.7	4.3	3.8	2.2	2.3
Govt Balance (% GDP)	-1.5	-2.1	-2.7	-2.6	-2.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	3.5	3.3	3.3	3.2	3.2
Nominal GDP in USDbn	317	331	345	354	372
Nominal GDP in local currency (bn)	203,177	215,164	227,859	240,847	254,575
GDP per Capita in USD	17,313	17,920	18,556	18,906	19,707
Population (year-end, m)	18.3	18.5	18.6	18.7	18.9
Exchange rate (yr avge, USD-LCU)	640.0	650.0	660.0	680.0	685.0
Current Account in USDbn	-6.5	-7.2	-7.9	-8.8	-8.9
Current Account (% of GDP)	-2.1	-2.2	-2.3	-2.5	-2.4
FX reserves (year-end, USDbn)	41.0	43.0	44.0	45.0	45.0
Import Cover (months)	5.4	5.3	5.1	4.8	4.6
Inflation (annual avge, %)	2.8	2.6	2.6	2.5	2.5
Govt Balance (% GDP)	-1.4	-1.2	-1.0	-0.8	-0.6

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Chile	Argentina	Bolivia	Brazil	Peru
Income per Capita (USD)	17,313	9,213	3,486	9,285	7,337
Country Population (m)	18.3	45.1	11.4	210.7	32.6
Internet users (% of population)	66.0	70.2	39.7	59.7	45.5
Real GDP Growth (% p.a., 2019 - 2028)	2.2 - 3.2	1.5 - 2.8	2.0 - 5.8	1.0 - 2.0	3.9 - 8.5

Source : Various sources/Dun & Bradstreet



LINKS

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Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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