

Country Insight Snapshot

Chile

November 2018





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

Congress has passed a reform to the Banking Law, creating a new regulatory body and updating the legislation to take account of new global best practice.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive 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 positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

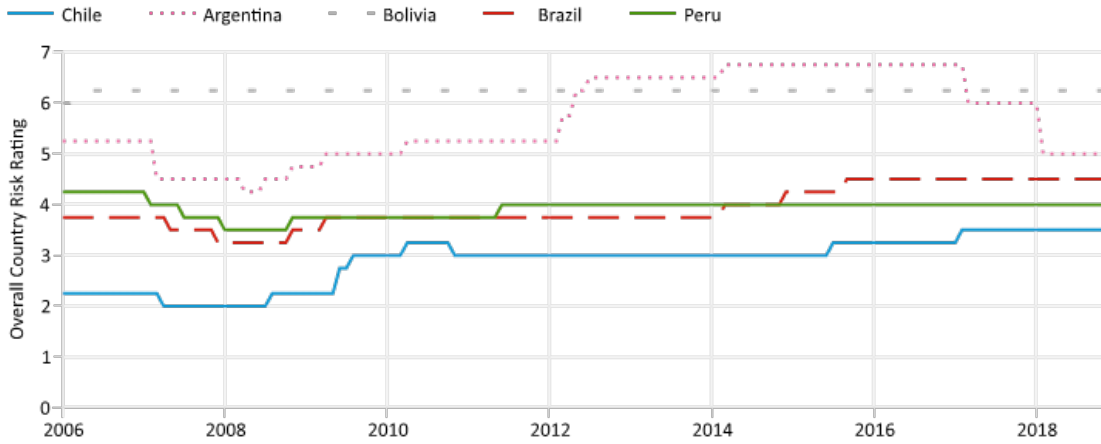
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

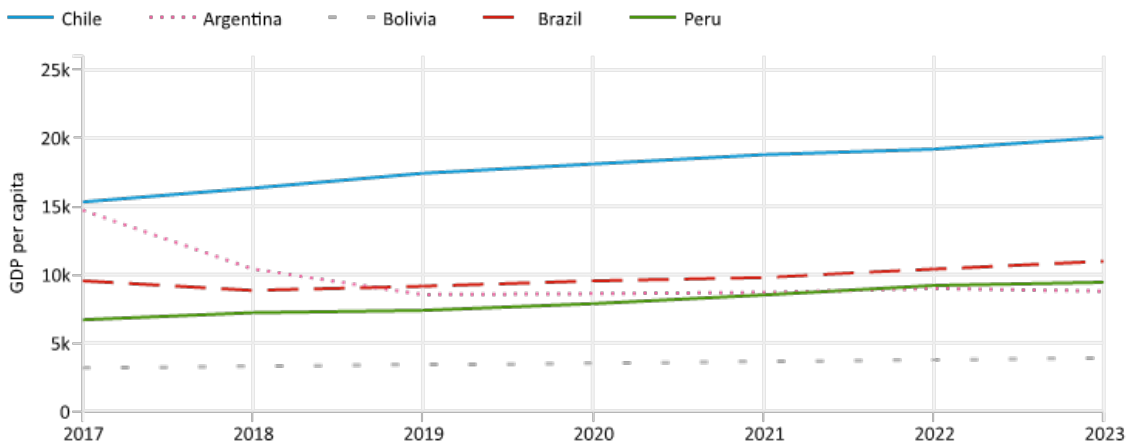
Rating History and Comparison



Source : Dun & Bradstreet

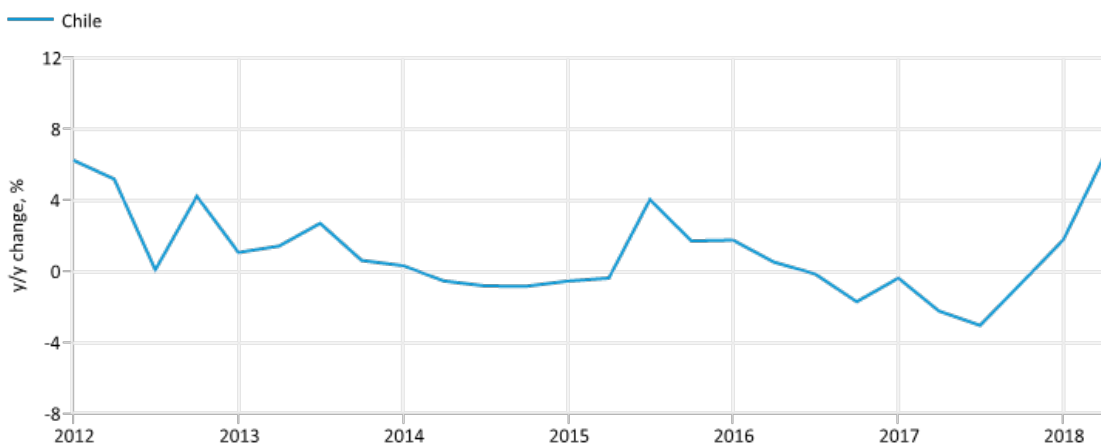
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-1.4	-1.5	-1.3	-1.2	-1.1	-1.0	-0.9	-0.8
Govt balance, % GDP	-2.7	-2.0	-1.4	-1.2	-1.0	-0.8	-0.6	-0.5
Inflation, annual avge %	3.8	2.2	2.8	2.8	2.6	2.6	2.5	2.5
Real GDP Growth, %	1.3	1.5	4.0	3.8	3.7	3.5	3.5	3.5
Unemployment, %	6.1	6.4	6.5	6.4	6.2	6.0	6.0	5.8

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The central bank held USD37.4bn in international reserves in late October, USD1.5bn below the end-2017 level, and sufficient to provide cover for around 6.0 months of goods and services imports. At end-September Chile also held USD24.1bn offshore in two sovereign wealth funds, providing further currency protection. The peso was trading at CLP693:USD in early November, having weakened (from CLP640:USD at end-July) in line with many other southern cone economies, led by the Argentinian peso. Chile's economic fundamentals are solid, and its currency free-floating, and the slight correction is not a long-term concern. Until now the central bank has had the flexibility to maintain an expansionary monetary stance, but given the currency dip and renewed economic growth, the monetary authority increased its reference interest rate from 2.50% to 2.75% in October. This should enable the monetary authority to keep inflation within its 2.0-4.0% target range (inflation stood at 3.1% in September). 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

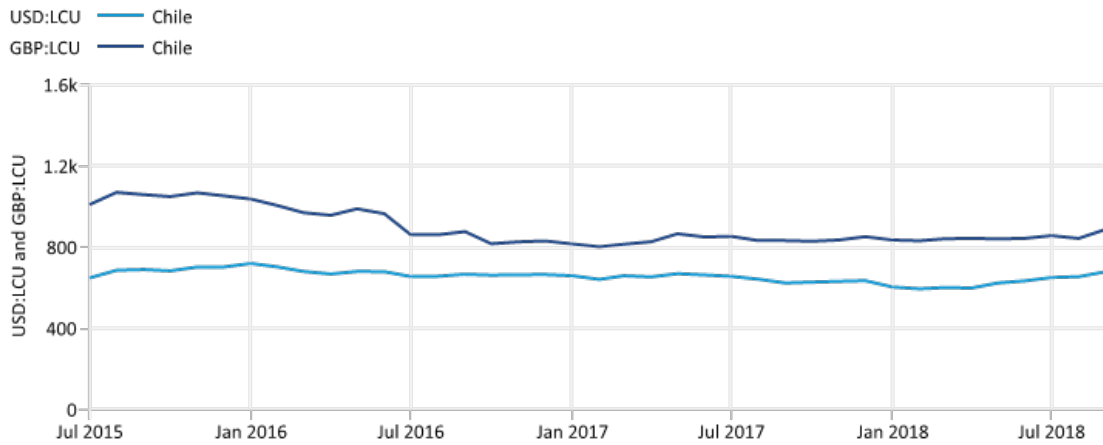
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



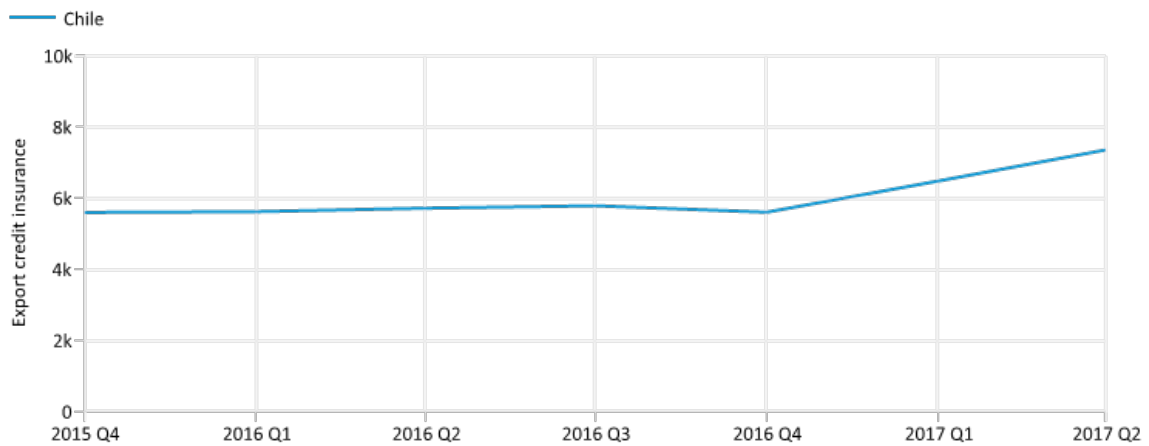
Exchange Rate



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

Business Regulatory Environment

Banking law reform is passed

In October Congress passed legislation to overhaul Chile's banking regulation, creating a new regulatory body and updating the legislation to take account of new global best practice. Chile has historically had a well-regulated financial system, something that helped to shelter the economy from the worst of the global financial crisis, and the increased internationalisation of the local industry led the previous government to initiate a review of the General Banking Act, which had last been heavily updated in 1986. The new legislation consolidates all financial regulation within a new body, the *Comisión para el Mercado Financiero* (CMF, Financial Market Commission); strengthens capital requirements to Basel III standards (10.5% of risk-weighted assets); and improves the mechanisms to guard against insolvency. The CMF carries greater corporate governance than previously, and will take over the responsibilities of the *Superintendencia de Bancos e Instituciones Financieras* (SBIF, Superintendency of Banking and Financial Institutions). Once the legislation takes effect, likely by the end of 2018, banks will have six years to transition to the new regulations.

Market Potential

Trade deal with Brazil agreed

Chile and Brazil have concluded talks towards a bilateral free-trade agreement (FTA), which is likely to be signed before the end of 2018. The new agreement will complement the FTA already in place between Chile and Mercosur, the southern cone trade bloc, of which Chile is an associate member. The prior agreement allowed for the elimination of import tariffs for merchandise trade, and the new FTA includes 17 new sections, including trade in services and electronics, intellectual property, telecommunications, sanitary and phytosanitary standards, diminution of non-tariff barriers, and a new chapter focused on small and medium-sized enterprises. The FTA will help to boost trade and investment flows between the countries.

Short-Term Economic Outlook

Central bank raises reference rate

In October the central bank raised its reference interest rate to 2.75%, from 2.50% (where it had held since mid-2017). With annual inflation at 3.1% in September (within the 2.0-4.0% target range) monetary policy is still accommodative, but the increase surprised some analysts given a sluggish labour market and signs that real wage growth was slowing. At 7.3% in August, the unemployment rate is the highest in seven years, and average real wage growth stood at 2.4%. The Bank explained its decision by indicating that it was also now considering alternative labour market data, including payments to pension systems and unemployment insurance, which paint a picture of a stronger labour market. The increase will help to guard against higher inflation emanating from the recent currency slippage, and is unlikely to stall overall economic growth, which remains firm at around 4.0%.



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 has now regained the presidency, starting another four-year term in March 2018, but needs to reach a consensus as he will lack 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)	18.1
GDP (USD billions)	277.1
GDP per capita (USD)	15,346
Life expectancy (years)	79.2
Literacy (% of adult pop.)	96.6
Surface area (sq km)	756,630

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018f
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	192,001
GDP per Capita in USD	14,794	13,737	13,961	15,346	16,358
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	645.0
Current Account in USDbn	-4.3	-5.5	-3.5	-4.1	-4.0
Current Account (% of GDP)	-1.6	-2.3	-1.4	-1.5	-1.3
FX reserves (year-end, USDbn)	40.4	38.6	40.5	39.0	38.5
Import Cover (months)	5.8	6.5	7.1	6.3	5.6
Inflation (annual avge, %)	4.4	4.3	3.8	2.2	2.8
Govt Balance (% GDP)	-1.5	-2.1	-2.7	-2.0	-1.4

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	3.8	3.7	3.5	3.5	3.5
Nominal GDP in USDbn	320	335	350	360	379
Nominal GDP in local currency (bn)	204,673	217,567	230,839	244,689	259,371
GDP per Capita in USD	17,441	18,120	18,799	19,208	20,078
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	-3.8	-3.6	-3.4	-3.2	-2.9
Current Account (% of GDP)	-1.2	-1.1	-1.0	-0.9	-0.8
FX reserves (year-end, USDbn)	41.0	43.0	44.0	45.0	45.0
Import Cover (months)	5.3	4.9	4.5	4.1	3.6
Inflation (annual avge, %)	2.8	2.6	2.6	2.5	2.5
Govt Balance (% GDP)	-1.2	-1.0	-0.8	-0.6	-0.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Chile	Argentina	Bolivia	Brazil	Peru
Income per Capita (USD)	16,358	10,451	3,327	8,882	7,250
Country Population (m)	18.2	44.7	11.2	209.2	32.3
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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