

Fall in copper prices weighs on growth

General Information



GDP	USD277.2bn (World ranking 38, World Bank 2013)
Population	1.0mn (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

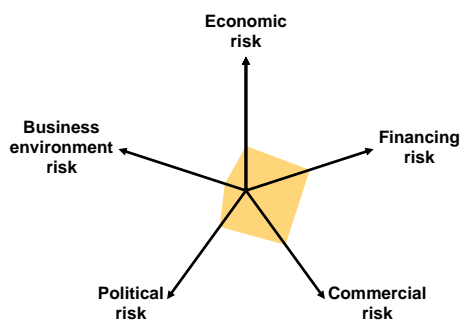
- Natural resource base (largest copper producer in the world, but also other minerals, forestry and agriculture)
- Strong medium-term growth
- Pro-business, sound macro-policy framework
- Sound external balance
- Very strong business environment
- Widely accepted, democratic political system with successive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

Weaknesses

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

Country Rating

A2



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

Economic Overview

Growth to remain low amid adverse external conditions

The economy decelerated to +1.8% in 2014, after +4.2% in 2013. Private consumption slowed, while investment contracted sharply. The latter will continue to be driven down by a deteriorated 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 of corporate tax breaks are also weighing on business confidence. All in all, we expect economic growth to remain below +2.5% until 2017, far below the +5.3% average of 2010-2013.

Both, local and external financing conditions have deteriorated for companies. On the back of increasing inflation, the Central Bank has begun a tightening cycle in the monetary policy. Alongside, the CLP has depreciated by -30% against the USD from its last peak of October 2014, generating financial distress in some import-oriented sectors.

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 closely 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 goes 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 (around 5 months of imports). External liquidity ratios are adequate, external debt is moderate and payments manageable.

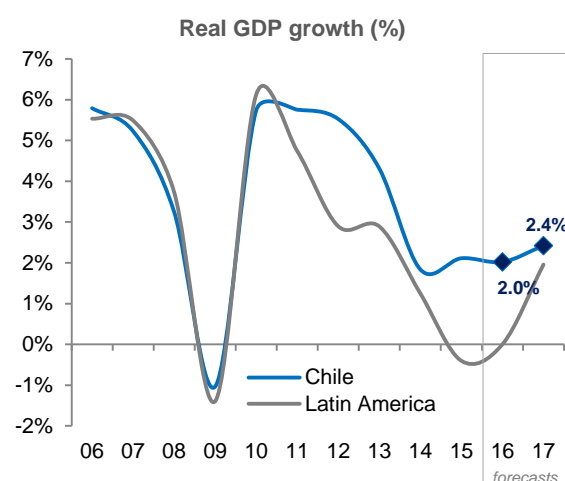
Overall, Chile enjoys both political stability and a strong business environment, with a well-developed institutional framework. Rule of law and control of corruption are particularly good compared to the regional standards. However, some shortcomings remain when dealing with construction permits, getting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

Key economic forecasts

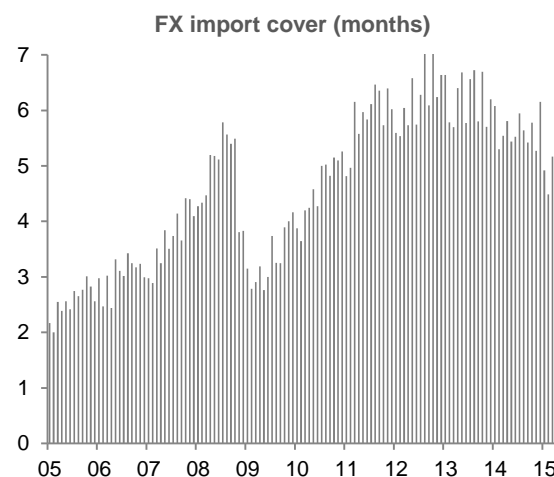
	2014	2015f	2016f	2017f
GDP growth (% change)	1.8	2.1	2.0	2.4
Inflation (% , yearly average)	4.4	4.4	3.8	3.2
Fiscal balance* (% of GDP)	-1.5	-3.5	-3.0	-2.5
Public debt* (% of GDP)	15.1	18.4	20.3	21.8
Current account (% of GDP)	-1.2	-1.5	-1.2	0.0
External debt (% of GDP)	56.7	60.1	60.8	61.5

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

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



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