

## Growth to recover from the fall in copper prices

### General Information



<b>GDP</b>	USD240.22bn (World ranking 40, World Bank 2015)
<b>Population</b>	17.95mn (World ranking 61, World Bank 2015)
<b>Form of state</b>	Presidential Republic
<b>Head of government</b>	Michelle Bachelet
<b>Next elections</b>	2017, presidential and legislative



### Strengths

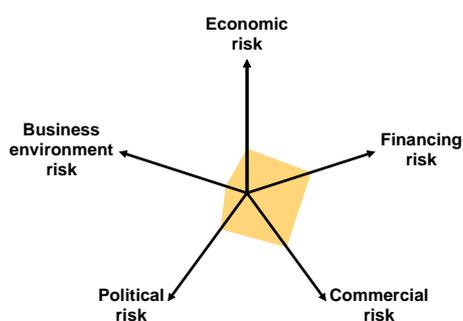
- Natural resource base. Chile is the largest copper producer in the world, but also benefits from other minerals, forestry and agriculture
- Strong medium-term growth
- Pro-business environment
- Sound macroeconomic policy framework
- Good external balance
- Widely accepted, democratic political system with successive peaceful transfers of power

### Weaknesses

- Sensitive to commodity prices, particularly copper
- Skewed income distribution

### Country Rating

A2



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
China	27%	1	24%	China	
United States	12%	2	22%	United States	
Japan	8%	3	8%	Brazil	
South Korea	6%	4	4%	Argentina	
Brazil	5%	5	4%	Germany	

By product (% of total)

Exports		Rank		Imports	
Non-ferrous metals	26%	1	7%	Refined petroleum prod.	
Non-ferrous ores	25%	2	5%	Cars and cycles	
Other agricultural prod.	9%	3	4%	Crude oil	
Meat and fish	7%	4	4%	Telecom. equipment	
Paper	4%	5	4%	Commercial vehicles	

Sources: Chelem, Euler Hermes

## Economic Overview

### Low copper price and lack of confidence will keep growth modest

Euler Hermes expects the economy to decelerate to +1.7% in 2016, after +2.3% in 2015. This is an expansion rate far below the 2010-2013 +5.3% average. Exports will continue to suffer as the international price of copper and national production levels remain in negative territory.

The economic slowdown, a controversial reform agenda, the increase of the corporate tax rate from 20% in 2014 to 25% by 2018 and the end of corporate tax breaks have an aggregate impact on business and consumer confidence.

Companies' local and external financing conditions have deteriorated. On the back of increasing inflation, the Central Bank tightened its monetary policy from February 2015 to February 2016. Meanwhile, the CLP has fallen by -17% against the USD since June 2014. The result was financial distress in some import-oriented sectors.

### Sound macroeconomic policies

Chile's macroeconomic framework enables the country to deal with the weakness in activity. Monetary policy is a bulwark against inflation and the fiscal balance depends on a structural surplus rule.

Public spending is adjusted to trend revenues. Surpluses are often diverted to a fund that covers minimum pension liabilities and to the Fund for Economic and Social Stabilisation (FEES).

Inflation is anchored to the most part. Add to that a positive fiscal position and low public debt (Chile's public sector is a net creditor). The current account deficit is under control and is almost entirely covered by net FDI flows while foreign exchange reserves provide a comfortable coverage of around 7 months of imports. External liquidity ratios are adequate, external debt is moderate and payments manageable.

### Pro-business environment

Overall, Chile enjoys both political stability and a strong business environment, with a well-developed institutional framework. The rule of law and control of corruption are exemplary compared to the regional standards.

According to the World Bank's Ease of Doing Business 2016 survey, Chile ranks 57 out of 190 countries. It is the fourth best ranked economy in Latin America. The country performs particularly well in dealing with construction permits and protecting minority investors. Shortcomings remain with regard to paying taxes.

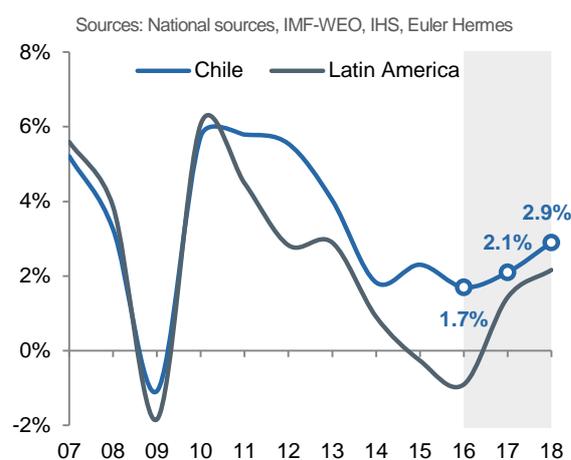
### Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	2.3	1.7	2.1	2.9
Inflation (% , yearly average)	4.3	3.9	2.9	3.1
Fiscal balance* (% of GDP)	-2.1	-3.1	-2.9	-2.3
Public debt* (% of GDP)	17.5	20.9	23.9	25.5
Current account (% of GDP)	-2.0	-1.7	-1.9	-2.2
External debt (% of GDP)	60.5	60.0	58.0	54.7

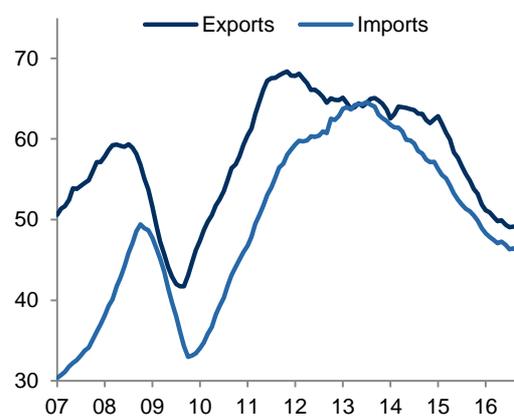
\*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF, IHS, Euler Hermes

### Real GDP growth (%)



### Exports and imports of goods (USD bn, 12m ma)



Sources: IHS, Euler Hermes

### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.