dun & bradstreet

Country Insight Snapshot

Chile

July 2021

Written 02 July 2021

OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating

CORE OUTLOOK

+ The government will seek to maintain 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.

- Public disaffection with income inequality and the ruling class has brought about mass protests, likely to lead to a period of change in Chile's institutional framework.

- Chile's exposure to low mineral prices is felt through the exchange rate, export earnings and government revenue.

KEY DEVELOPMENT

The composition of the Constitutional Convention points to a shake-up of business regulations, with a more interventionist state a probable outcome.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

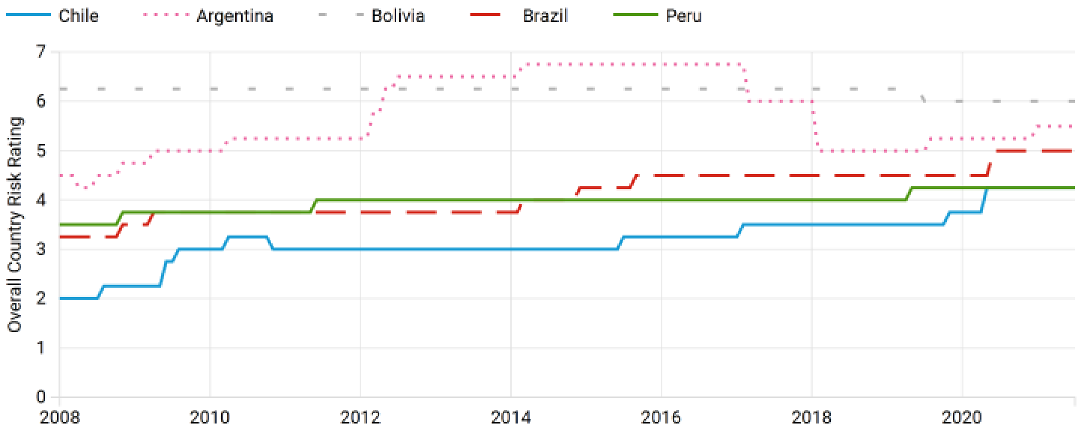
A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

KEY INDICATORS

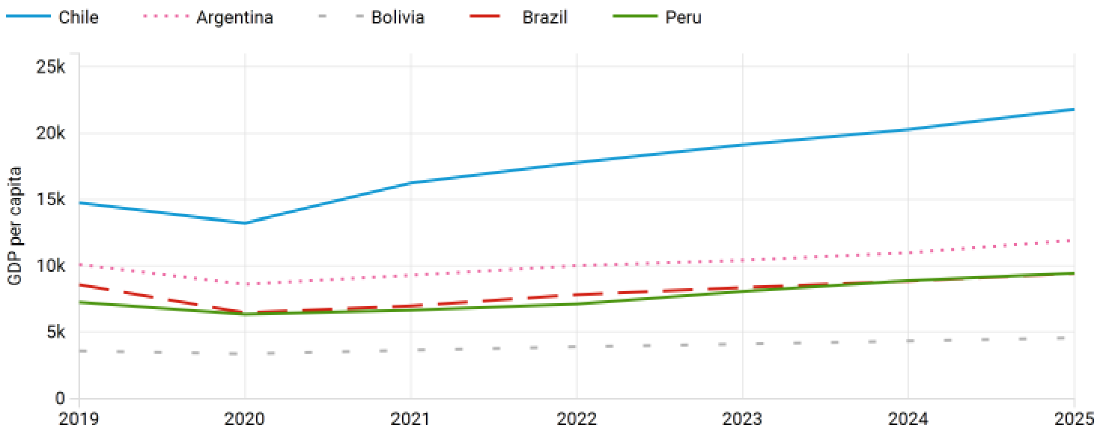
Rating History and Comparison



Source: Dun & Bradstreet

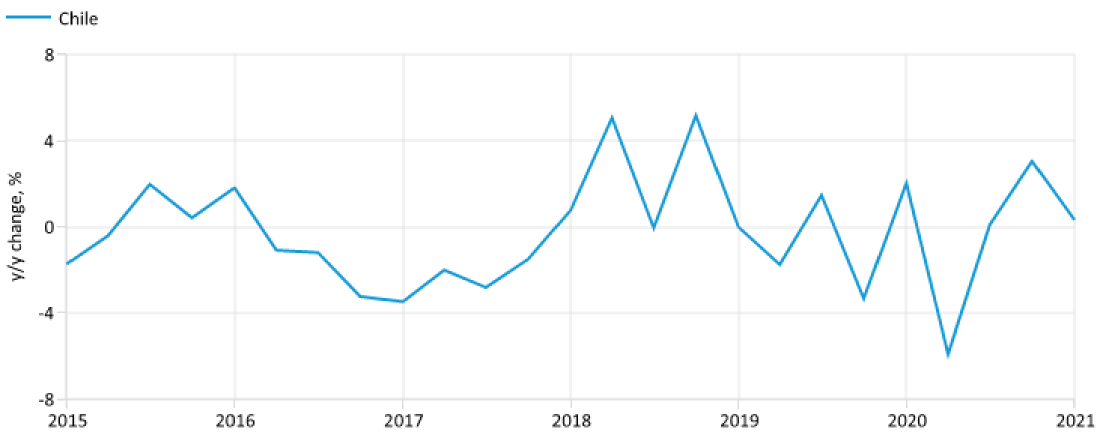
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-3.9	-3.7	1.3	-1.2	-1.6	-1.5	-1.3	-1.2
Govt balance, % GDP	-1.6	-2.8	-8.5	-5.1	-3.5	-2.8	-2.0	-2.0
Inflation, annual avge %	2.3	2.3	3.0	4.0	3.0	3.0	3.0	3.0
Real GDP Growth, %	3.7	0.9	-5.8	6.8	3.3	3.0	3.0	3.0
Unemployment (annual avge, %)	6.7	6.8	10.5	8.0	6.5	6.4	6.2	6.4

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The central bank held USD46.7bn in international reserves in late June, USD7.5bn above the end-2020 level, and sufficient to provide cover for around eight months of goods and services imports. Chile also held USD15.7bn offshore in two sovereign wealth funds in April, providing further currency protection. Levels of foreign exchange may fluctuate as bonds are issued and drawn upon and once a third round of pension-fund withdrawals is fully undertaken. The pension-fund withdrawals may have a knock-on effect on financial markets and the currency.

The free-floating peso was volatile between the start of nationwide protests in October 2019 and H1 2020, fluctuating between CLP710:USD and CLP863:USD, but has steadied since, standing at CLP738:USD in early July, supported by firm copper prices. Further volatility is possible, given international and domestic uncertainties. With demand pressures rising we expect the monetary authority to start to increase its reference interest rate from H2 2021 (from a record low 0.5%) to keep inflation within its 2.0-4.0% target range. 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.

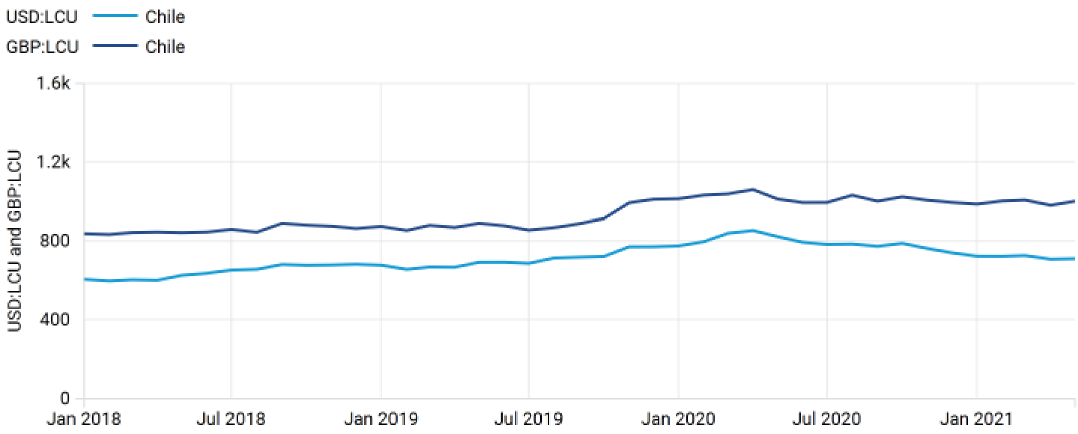
Local Delays: 0-1 month

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

FX/Bank Delays: No delays reported

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.

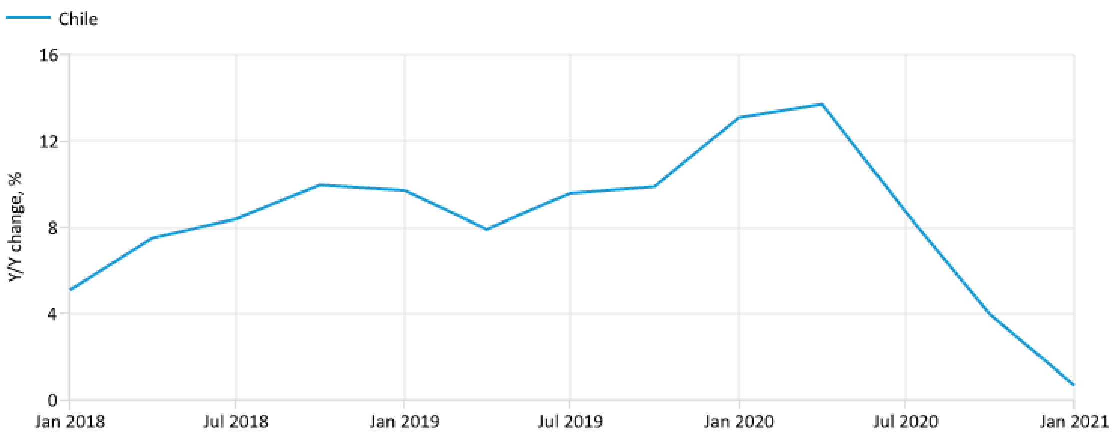
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Chilean peso

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Business Regulatory Environment

Regulatory shake-up probable under new constitution

In mid-May, Chileans elected the 155 members of a constitutional convention, which is tasked with a complete rewrite of the constitution. This is part of a process that has been ongoing since October 2019, when country-wide protests at the stark social and economic inequalities in Chile took hold. The current constitution is one of the few remaining legacies of the Pinochet dictatorship, its main criticism being that it enshrines a neo-liberal economic model, which is blamed by many on the inequalities that have widened in Chile.

The composition of the Constitutional Convention is one that is likely to mean that the new constitution is more focused on redistributive measures, with a greater role for the state, than a largely pro-business model that it will supersede. The anti-establishment mood that has been made public since 2019 was reflected in the fact that the ruling centre-right Vamos por Chile coalition won only 37 seats (26% of the total), below the one-third needed to veto proposed reforms, and the previously dominant centre-left coalition, renamed Lista de Apruebo, won only 25 (16%). A grouping of more radical left-wing parties secured 18% of the seats, and independents (including indigenous candidates) won 42%.

The fragmented nature of the Convention means that compromises will be needed to reach consensus, but with a majority favouring interventionist solutions, the business regulatory environment will change.

The independence of the central bank will be in the balance. While this may well be retained - it is a broadly uncontroversial statute - larger public deficits are likely in a more interventionist role for the state, which is likely to be characterised by an increased tax burden for corporations, potentially the renationalisation of water and sanitation services, and greater state involvement in education and health services. The Convention has 18 months to agree and write a new constitution before it is voted on in another referendum.

Business Continuity

Renewable generation investment continues apace

Cerro Dominador, a USD1.4bn thermal solar plant – Latin America's first – has opened. The plant has a capacity of 210 MW of clean energy, using technology that allows storage of the sun's heat to generate electricity for hours, including at night. This will help to supply Chile's grid with power at times when the wind and sun cannot, as the country phases out its hydrocarbon-fuelled generation plants.

Meanwhile in late June, Engie Chile was awarded concessions to develop wind-solar-battery hybrid plants in Antofagasta with a total capacity of 1.5GW. The project, over two sites, will include wind and solar farms, as well as battery energy storage systems.

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.

Since a wave of protests in late October 2019, Chile's political and policy environments have been in a state of uncertainty. The protests against income inequality appear likely to lead to a shift in the social and policy landscape. Hitherto, Chile's business environment had been underpinned by prudent economic management and by very liberal trade and investment policies. The popular call for a different developmental model is likely to bring long-term changes. A referendum on whether and how to draft a new constitution was overwhelmingly passed in October 2020; the new constitution will go to a confirmatory referendum in 2022 once it has been drafted by a new constitutional convention, a process which starts in July 2021.

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.

Key Facts

Key Fact	Detail
Head of state	President Sebastian Pinera
Capital	Santiago
Timezone	GMT -04-00
Official language	Spanish
Population (millions)	19.1
GDP (USD billions)	252.9
GDP per capita (USD)	13,232
Life expectancy (years)	80.0
Literacy (% of adult pop.)	96.4
Surface area (sq km)	756,630

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.7	1.2	3.7	0.9	-5.8
Nominal GDP in USDbn	250	277	298	279	253
Nominal GDP in local currency (bn)	169,537	179,749	190,826	196,379	200,512
GDP per Capita in USD	13,754	14,999	15,888	14,742	13,232
Population (year-end, m)	18.2	18.5	18.7	19.0	19.1
Exchange rate (yr avge, USD-LCU)	677.0	648.8	641.3	702.9	792.7
Current Account in USDbn	-5.0	-6.4	-11.6	-10.5	3.4
Current Account (% of GDP)	-2.0	-2.3	-3.9	-3.7	1.3
FX reserves (year-end, USDbn)	40.5	39.0	39.8	40.6	39.2
Import Cover (months)	7.1	6.2	5.6	6.1	7.1
Inflation (annual avge, %)	3.8	2.2	2.3	2.3	3.0
Govt Balance (% GDP)	-2.7	-2.8	-1.6	-2.8	-8.5

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	6.8	3.3	3.0	3.0	3.0
Nominal GDP in USDbn	312	342	368	390	420
Nominal GDP in local currency (bn)	222,168	236,164	250,334	265,354	281,276
GDP per Capita in USD	16,241	17,780	19,125	20,283	21,819
Population (year-end, m)	19.2	19.3	19.2	19.2	19.2
Exchange rate (yr avge, USD-LCU)	712.0	690.0	680.0	680.0	670.0
Current Account in USDbn	-3.7	-5.6	-5.4	-5.3	-5.1
Current Account (% of GDP)	-1.2	-1.6	-1.5	-1.3	-1.2
FX reserves (year-end, USDbn)	43.1	47.4	49.7	52.2	54.8
Import Cover (months)	6.8	7.0	6.9	6.8	6.7
Inflation (annual avge, %)	4.0	3.0	3.0	3.0	3.0
Govt Balance (% GDP)	-5.1	-3.5	-2.8	-2.0	-2.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Chile	Argentina	Bolivia	Brazil	Peru
Income per Capita (USD)	16,241	9,300	3,634	6,981	6,662
Country Population (m)	19.2	45.6	11.8	214.0	32.5
Internet users (% of population)	82.3	74.3	43.8	67.5	52.5
Real GDP Growth (% p.a., 2021 - 2030)	1.8 - 3.0	1.0 - 2.3	2.0 - 4.8	1.5 - 2.5	3.2 - 6.5

Source: Various sources/Dun & Bradstreet

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Please click here to visit our online user guide.

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