Chile

High Growth Markets country profile

Chile's market-oriented economy is characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policy, which has given it the strongest sovereign bond rating in South America. Over the last two decades, Chile has made great strides in reducing its poverty rate, which is now lower than most Latin American countries. After slowing to an estimated 4 percent in 2013, gross domestic product (GDP) growth is forecast to average 4.6 percent per year between 2014–2018. Private consumption and investment growth should remain firm, albeit below the exceptionally strong levels of recent years.

Country overview

Geography and climate

- **Location:** covers a long stretch of southern South America and is the longest north-south trending country in the world, providing a strategic location relative to sea lanes between the Atlantic and Pacific Oceans
- **Climate:** temperate; desert in the north; Mediterranean in the central region; cool and damp in the south
- **Regions:** 15 regions
- **Major cities:** Santiago (6.0 million), Valparaiso (0.9 million)
- **Tier two cities:** Valparaiso

Political system

- **Type of government:** republic
- **Capital:** Santiago

Population, language and religion

- **Population:** 18 million
- **Urban population:** 89%
- **Immigration:** has historically been a country of emigration but has slowly become more attractive to immigrants, since transitioning to democracy in 1990 and improving its economic stability
- **Demographics:** 0–14 years: 21%; 15–64 years: 69%; 65 years and over: 10%
- **Median annual household income:** 18,623 US dollars (US$) (2012)
- **Official language:** Spanish
- **Prominant religions:** Roman Catholic, Evangelical/Protestant

Currency and central banking

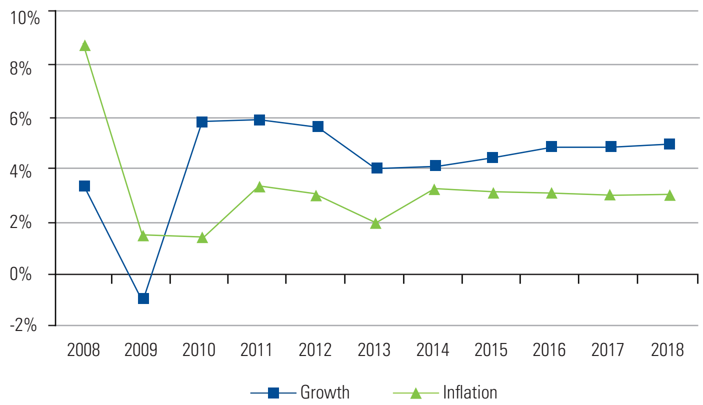
- **Local currency:** Chilean pesos (CLP)
- **Exchange rate:** 1 CLP = US$0.0018 (1 April 2014)
- **Interest rate (average annual rate):** 4.0% (as of March 2014); 4.5% (2013); 5.0% (2012); 5.25% (2011); 3.12% (2010); 0.5% (2009)
- **Foreign exchange reserves:** US$39.9 billion
- **Total debt (2013):** external: US$119 billion; internal public debt: 13.9% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$334.6 billion and is expected to grow by 4.6 percent** annually from 2014–2018. The median household income is predicted to increase to US$23,452 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$15.5 (2008); US$21.4 (2013); US$26.0 (2018 forecast); outbound: US$9.2 (2008); US$9.9 (2013); US$11.2 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$78.3 (2012); US$77.4 (2013); US$120.3 (2018 forecast)
- **Imports FOB (billions):** US$74.9 (2012); US$75.0 (2013); US$107.5 (2018 forecast)
- **Sector breakdown:** service sector: 61%; industrial sector: 36%; agriculture sector: 4%
- **Trade balance (billions):** surplus of US$3.4 (2012); US$2.4 (2013); US$12.8 (2018 forecast)
- **Stock exchanges:** SSE

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Chile plans to maintain its strong, pro-market policies of the last three decades. However, social pressures may lead to an increase in public sector participation in certain sectors such as education. The government aims to achieve professional and credible governance, offering investors minimal risks of unexpected policy reversals. The public finances are expected to post a modest deficit in 2014–2018, as the government increases social spending and lower copper prices reduce tax income. However, likely increases in the corporate tax rate should ease the deficit over the same period. Barring major supply-side shocks, the monetary policies of the Banco Central de Chile are expected to limit price pressures and keep annual inflation within the official target range of 2–4 percent.
- **Competition policy:** Chile's competition rules (Law 13,305 of 1959) prohibit any act or agreement that prevents free competition within the country. The Anti-monopoly Law (Decree Law 211 of December 1973) set the norms for free competition. Practices deemed illegal include: price fixing; assigning quotas or zones for production, transport and distribution; establishing exclusive agencies for marketing specific products; and obstructing free competition in the labor market. Foreign trade is subject to scrutiny only when it has a direct impact on the internal market. Appeals can be made to Chile's Supreme Court. During 2016–2018, more transparency is expected in public procurement, while regulatory proceedings should strengthen competition policy.
- **FDI policy:** Chile's major attractions as a foreign investment target are its well-functioning market economy, open policies for foreign investment, strong fiscal position, sophisticated capital markets and an extensive network of free-trade agreements (FTAs). During 2014–2015, its investment regime is expected to be one of the most liberal in the world, enhanced by additional bilateral investment protection and double-taxation treaties that encourage foreign companies to establish a base in Chile.
- **Foreign trade and exchange controls:** Chile is set to expand its large network of FTAs through new accords with Malaysia, Vietnam and India. The most recent FTA was signed in October 2013 with Thailand. Chile is also a member of the proposed 12-country Trans-Pacific Partnership, which includes the US. During 2014–2015, there should be narrow import tariff dispersion (0–6 percent) and free capital flows, as a result of FTAs. Export development remains a policy priority during 2016–2018. Negotiations on new FTAs will continue, with a focus on Asia.
- **Financing policy:** In the period 2014–2015, government backed loan guarantees will become available. Domestic long-term rates should remain high, while bank lending practices are expected to remain conservative. Although accessible, global credit should become more costly as interest rates normalize in developed countries. Between 2016–2018, expect further measures to facilitate financing to small businesses, particularly new ventures.
- **Taxes**: Corporate income is assessed in two stages. Income accrued is liable to a first-category tax of 20 percent, up from 17 percent in 2010. A tax rate of 35 percent applies to profits distributed to shareholders or partners, or repatriated to a parent company abroad. The effective corporate tax rate varies depending on the proportion of earnings each company reinvests, with a ceiling of 35 percent when all earnings are distributed. 2014–2015 will see a phasing out of temporary taxes on large firms, introduced in 2010. Higher corporate-tax rates are anticipated, to increase funds for education, and technology start-ups should receive favorable provisions. In the years 2016–2018, strong fiscal management should continue to protect against ad hoc tax measures.

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Everest Group, 2014; Santiago Stock Exchange, 2014

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