

Chile: Country Profile

Country Report | 14 Jun 2019

Chile's economy will see stronger growth in 2018. Supportive financing conditions, high copper prices, the planned tax and labour reforms and positive business sentiment will underpin investment. Low real interest rates and strong wage growth will support private consumption. Stronger growth will start to translate into higher employment growth. Investment should rise over the next several years after four years of contraction. Real GDP will grow by around 3.2% per year in 2020-2026.

KEY POINTS

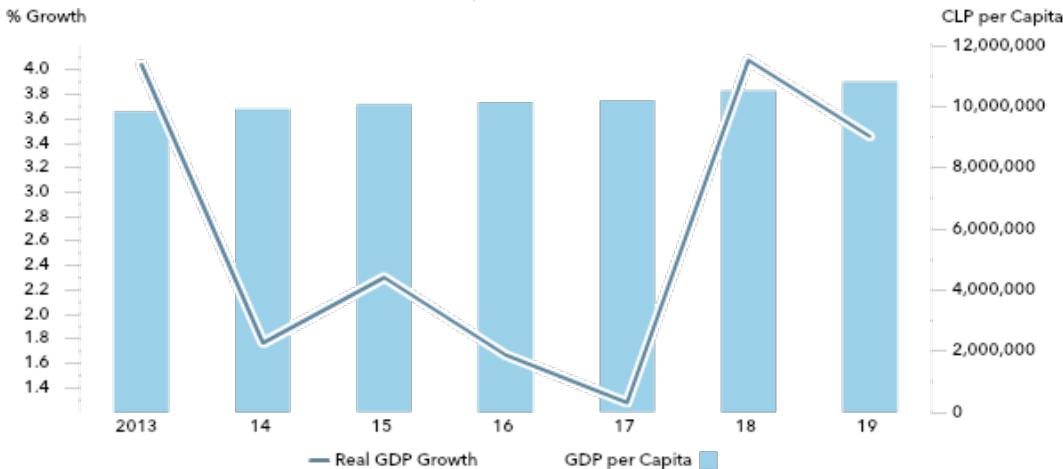
n Chile's economy is starting to moderate, in line with expectations. Real GDP will increase by 3.3% in 2019 after gains of 3.9% in 2018.

n Private final consumption (in real terms) rose by 3.8% in 2018. Growth of 3.4% is expected in 2019.

n Unemployment was 7.0% in 2018 and it will fall to 6.9% in 2019. However, while administrative data points to healthy formal employment growth, the unemployment rate has not eased much. Excess capacity in the labour market due to a large flow of migrants has contained wage growth.

n Growth is expected to slow slightly. However, copper prices should rise and exporters should benefit from improvements in competitiveness. Investment should rise over the next several years after four years of contraction. Real GDP will grow by around 3.2% per year in 2020-2026.

Chart 1 Real GDP Growth and Per Capita GDP: 2013-2019



Source: Euromonitor International from national statistics/Eurostat/OECD/UN/IMF

Note: Data for 2019 is forecast. GDP per capita are in constant 2018 prices

FACTS

Area

743,500 square kilometres

Currency

Chilean peso CLP

Location

Although never more than about 200km wide, Chile occupies the greater part of South

America's Pacific coastline, with Argentina to its east over the Andes mountains, and Peru and Bolivia to the north. In the south its Tierra del Fuego regions are sub-Antarctic in character. The extraordinary range of climatic conditions that result is one of the most striking features of the country.

Capital

Santiago

GOVERNMENT

Head of State

Sebastián Piñera (2018)

Head of Government

Sebastián Piñera (2018)

Ruling Party

The Chile Vamos coalition leads the government.

Political Structure

An executive president serves a four-year term. The National Congress has two chambers - a Senate and a Chamber of Deputies. The Senate has 43 members elected for eight-year terms in two-seat constituencies. The Chamber of Deputies has 155 members who serve a four-year term in two-seat constituencies. In 2005, the constitution was modified allowing the president to dismiss the armed forces' commanders. The reform also eliminated the Senate seats of all appointed members. Finally, the term of the president was reduced from six to four years.

Last Elections

A general election was held in November 2017. Piñera defeated Alejandro Guillier with 54.5% of the vote. Congressional elections were held at the same time. In the Chamber of Deputies, the Chile Vamos coalition took 72 seats, the Force of the Majority Coalition received 43 seats and the Broad Front won 20 seats. The remainder of the seats were dispersed among smaller parties. In the Senate, Chile Vamos coalition now holds 19 seats with 15 seats going to the Force of the Majority Coalition and the Christian Democratic Party taking six seats. The remainder went to several smaller parties and coalitions.

Political Stability and Risks

The percentage of those living below the poverty line has fallen sharply but income distribution is the most unequal of all OECD countries. Income inequality has emerged as a serious political issue, putting great pressure on the government to respond.

International Issues

Chile has an ongoing disagreement with Bolivia about its demand for the restoration of access to the Pacific Ocean. The two countries have not had diplomatic relations since 1978. In 2014, the UN's highest court redrew the maritime boundary between Peru and Chile after an acrimonious dispute between the two countries. Chile was awarded the richest fishing grounds while the UN gave Peru around 20,000 square kilometres and control over a further 28,000 square kilometres of ocean currently in international waters.

Chile is a member of the Asia-Pacific Cooperation Forum and is negotiating free-trade agreements with China and other Asian countries. In 2011, Chile, Colombia and Peru merged their three security exchanges into one. Known as MILA for its Spanish acronym, the new exchange is the second largest bourse after Brazil's.

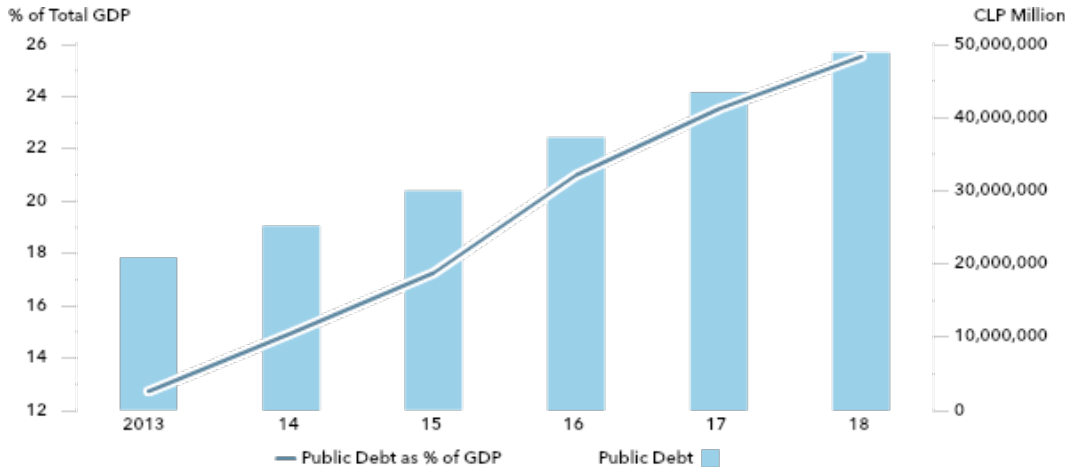
Government Finance

Chile's fiscal credibility remains strong. The country's sovereign wealth fund holds US\$28 billion while another US\$70 billion in assets is held by Chilean pension funds outside Chile. The budget deficit for 2017 was 2.6% of GDP. In 2018, a deficit of 1.5% was reported and the target for 2019 is 1.8% of GDP.

Public debt was CLP48,870 billion in 2018, equivalent to 25.5% of GDP.

In 2018, spending on social security and welfare absorbed 23.5% of government expenditure, followed by spending on education (20.4%).

Chart 2 Public Debt: 2013-2018



Source: Euromonitor International

ECONOMY

Economic Structure and Major Industries

Chile's economy depends heavily on its mineral sector which accounts for 40% of export revenues. Codelco, Chile's largest company, produces 10% of the world's copper and the country's annual output is a third of the world's mined copper. Copper prices fell at the end of 2018, but have since recovered and that trend is expected to continue in 2019. Chile is also the world's second-largest producer of lithium, a key material in the production of batteries.

Manufacturing accounts for 10.4% of GDP and employs 10.7% of the workforce. Agro-food processing, chemicals and wood are prominent industries. The effects of currently high debt levels of many firms could prove to be a serious problem if downside risks were to materialise.

Chile's agricultural sector depends on livestock rearing in the plateau and extensive crop farming in the central region. The Vale of Chile is the main agricultural area. Policy makers are trying to channel more capital into non-traditional areas such as seafood, kosher foods and wine. The country's sheep farmers are also expanding in a bid to capture a larger share of foreign markets. A goal of policy makers is to develop a self-sufficient food supply, but the sector currently meets less than half of domestic needs. Agriculture employs 9.3% of the workforce.

The real value of inbound tourism and business travel receipts rose by 1.8% in 2018 and gains of 2.6% are anticipated in 2019. The service sector accounts for 62.6% of GDP. Banks are well capitalised, liquid, and profitable and non-performing loans are low, though a stricter form of financial oversight (based on Basel III requirements) has recently been adopted. In the retail sector, several successful firms have outgrown the domestic market and reached multinational status. Chile saw a marked increase in retail sales in the last 4 months of 2018.

Overview of the Economy

Chile has been one of Latin America's fastest growing economies over the past two decades. During this period, per capita income more than doubled in real terms. According to the World Bank, the poverty rate was also reduced from 26% to 7.9% in 2000-2015. However, Chile's

income inequality is the highest in the region.

Plagued by weaknesses in external demand and lower copper prices, growth of GDP has averaged little more than 2% per annum in recent years- well below historical trends. A slowdown in consumption and waning investment were drags. The slow adjustment of the mining sector to the end of the commodity boom held back investment. Gradually, exports have begun to bounce back as the price of copper and other commodities have improved. The non-mineral sector has seen modest gains and public consumption has accelerated. Growth of real GDP edged up to a healthy 4.1% in 2018.

Foreign Trade

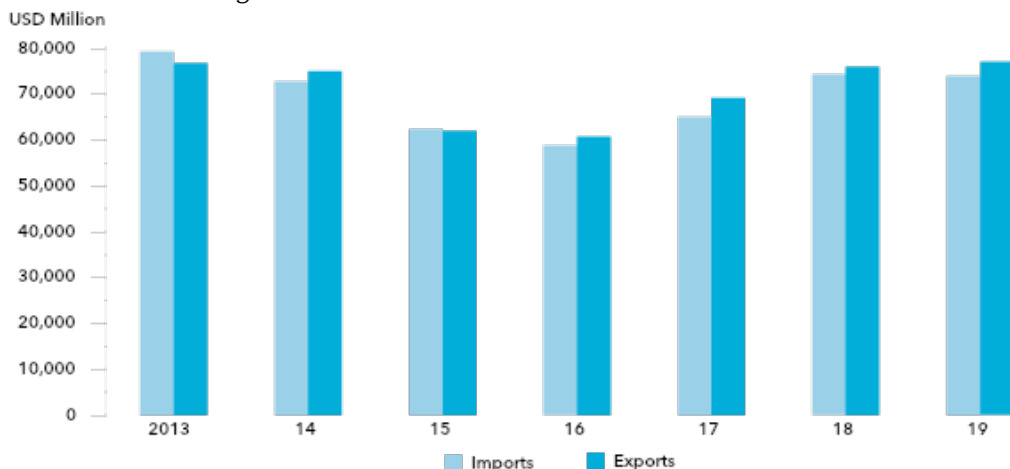
In 2018, exports comprised 25.4% of GDP. Exports (in dollars) rose by 9.8% in 2017 however, a fall of 1.4% is forecast for 2019. Stronger copper prices support exports. China's slowing economy continues to be a problem for Chilean exporters.

Chile has a number of free trade agreements (FTAs) with countries such as Canada, Mexico, South Korea, the USA and the EU. In 2013, Chile, Colombia, Mexico and Peru signed an agreement (known as the Pacific Alliance) which removes tariffs on 90% of their merchandise trade. Chile is a member of the new 11-member Comprehensive and Progressive agreement for Trans-Pacific Partnership (CPTPP) which was formally created in March 2018. The new CPTPP excludes the US.

Export markets are relatively diverse with China, the US and the EU being the most important. In 2017, these markets accounted for 58.4% of total exports. Copper and related products - included in the commodity categories as either crude materials or basic manufactures - account for the bulk of exports.

In 2018, the current account deficit was 3.1% of GDP and a deficit equal to 2.8% of GDP is expected in 2019, mainly due to weaker terms-of-trade and strong investment-related import demand. A gradual rise in copper prices should limit the imbalance.

Chart 3 Total Foreign Trade: 2013-2019



Source: Euromonitor International from national statistics/OECD/IMF

Note: Data for 2019 is forecast.

Economic Prospects

Chile's economy is starting to moderate, in line with expectations. Real GDP will increase by 3.3% in 2019 after gains of 3.9% in 2018. Supportive financing conditions, high copper prices, the planned tax and labour reforms and positive business sentiment will underpin investment. Low real interest rates and strong wage growth will support private consumption. Stronger growth will start to translate into higher employment growth. However, inequality is still high, driven by persistent low intergenerational mobility. Real GDP grew by 1.3% in the fourth quarter of 2018, in seasonally-adjusted terms.

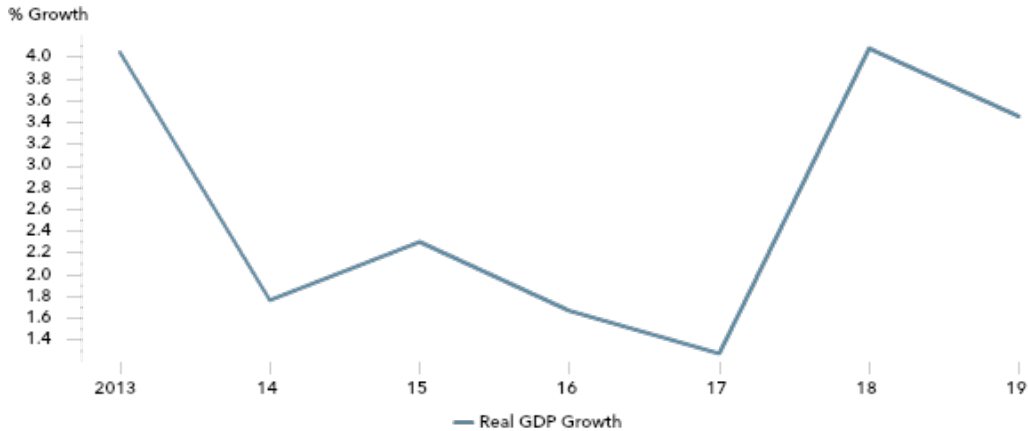
Inflation was 2.4% in 2018 and prices will rise by 2.6% in 2019. Inflation is affected by strong

energy prices and Peso depreciation. The bank's target for inflation is 2.0% to 4.0%.

Private final consumption (in real terms) rose by 3.8% in 2018. Growth of 3.4% is expected in 2019.

Unemployment was 7.0% in 2018 and it will fall to 6.9% in 2019. However, while administrative data points to healthy formal employment growth, the unemployment rate has not eased much. Excess capacity in the labour market due to a large flow of migrants has contained wage growth.

Chart 4 Real GDP Growth: 2013-2019



Source: Euromonitor International from national statistics/Eurostat/OECD/UN/IMF

Note: Data for 2019 is forecast

Evaluation of Market Potential

Growth is expected to slow slightly. However, copper prices should rise and exporters should benefit from improvements in competitiveness. Investment should rise over the next several years after four years of contraction. Real GDP will grow by around 3.2% per year in 2020-2026. Such a performance will be healthy, but not match trends in the commodity boom years. In order to reach sustainable rates of growth, Chile will need to diversify its economy beyond activities related to natural resources.

Key downside risks stem from the uncertain external environment, mainly related to rising protectionism, a sharp tightening of global financial conditions, and a weaker-than-expected growth in Chile's main trading partners. There is a danger that disruptions in the supply of energy could push up production costs and slow the pace of growth. Officials have launched a string of energy projects, which will be vital to the mining sector but still face environmental and judicial obstacles.

BUSINESS ENVIRONMENT

Santiago has privatised most government holdings. The last two major companies to remain under state control are the oil company, Empresa Nacional de Petróleo, and the copper company, Codelco, Chile's largest company.

Chile has some of the highest energy costs in the region. However, bottlenecks in the electricity sector are being reduced. A new infrastructure fund has been established to draw in private investors.

To generate more revenue to finance social reforms, the government increased corporate tax rates to 25% in 2018. It is also eliminating various tax breaks that allow companies to reinvest profits tax-free. New support programmes for firms and an improved competition framework are intended to raise investment. Chile's president has pledged to slash red tape and revive investment, especially in the mining sector. These moves are aimed at recovering investor confidence after several years of falling investment.

Chile's pension system is healthy but does not provide adequate benefits. The government hopes to introduce changes in the pension system - a move that will include more

government involvement and higher contributions. The size of the informal sector has fallen and is now well below the regional average.

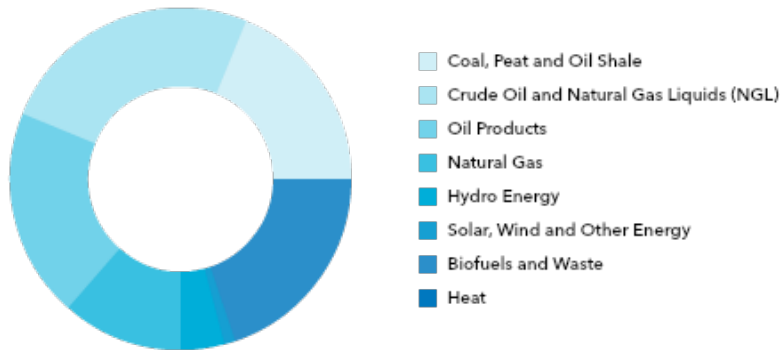
ENERGY

Chile has limited amounts of oil and natural gas and produces very little of either. Instead, it relies on imports for its hydrocarbon needs. In 2018, the country produced just 0.3 million tonnes of oil equivalent. Chile's natural gas production totalled 1.0 million tonnes of oil equivalent in 2018.

Faced with a persistent energy dependence on its unreliable neighbours and enduring some of the highest energy prices in the world, Santiago was forced to reconsider its energy policy. The result has been an unprecedented boom in investment in renewable energy - and especially solar energy. By 2017, Chile was producing some of the cheapest energy in the world and led the clean energy transformation in Latin America. According to some experts, Chile could meet all its energy needs by renewable energy by 2040.

Energy efficiency (defined as GDP per tonne of energy supplied) was about 30% above the regional average in 2018. The indicator rose at an average rate of 2.0% per year in 2013-2018.

Chart 5 Primary Energy Supply (% of total): 2018



Source: Euromonitor International from International Energy Association (IEA)

SOCIETY

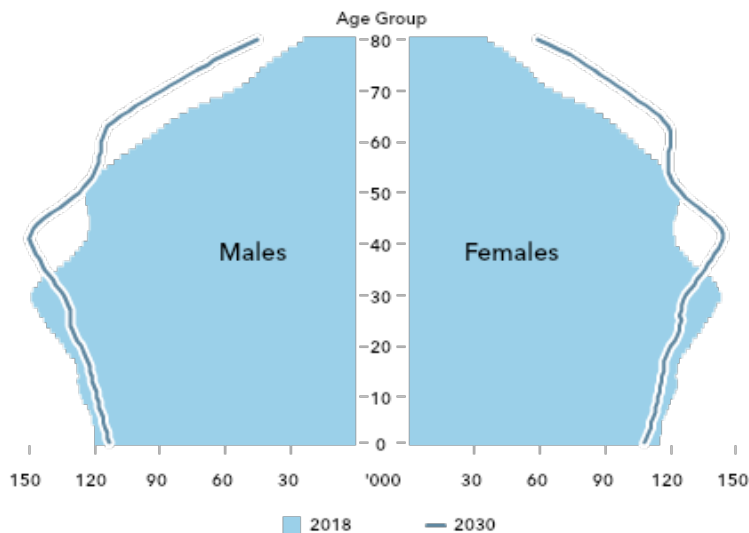
Population

The rate of population growth in Chile is slowing. In 2018, population reached 18.2 million, up from 15.3 million in 2000. Meanwhile, population is ageing. The median age had risen to 34.4 years in 2018, 5.5 years more than the figure for 2000.

Birth rates in Chile are lower than the regional average. They have been falling since 1985 and the downward trend will continue for the foreseeable future. The fertility rate in 2018 had fallen to 1.8 births per female - well below the regional average. However, the rate of decline will decelerate in the future.

Chilean society is experiencing a rapid ageing process. In 2030, 16.5% of the population will be over 65 years, up from 11.4% in 2018. Such a demographic change could soon reduce the country's rate of potential growth.

Chart 6 Age Pyramid in 2018 and 2030



Source: Euromonitor International from national statistics/UN

Note: Data for 2030 is forecast

Income and Expenditure

Chile's income inequality is the most severe among all OECD member states. The country's savings ratio was 7.2% of disposable income in 2018 and it will rise to 7.3% in 2019. This is slightly below the regional average.

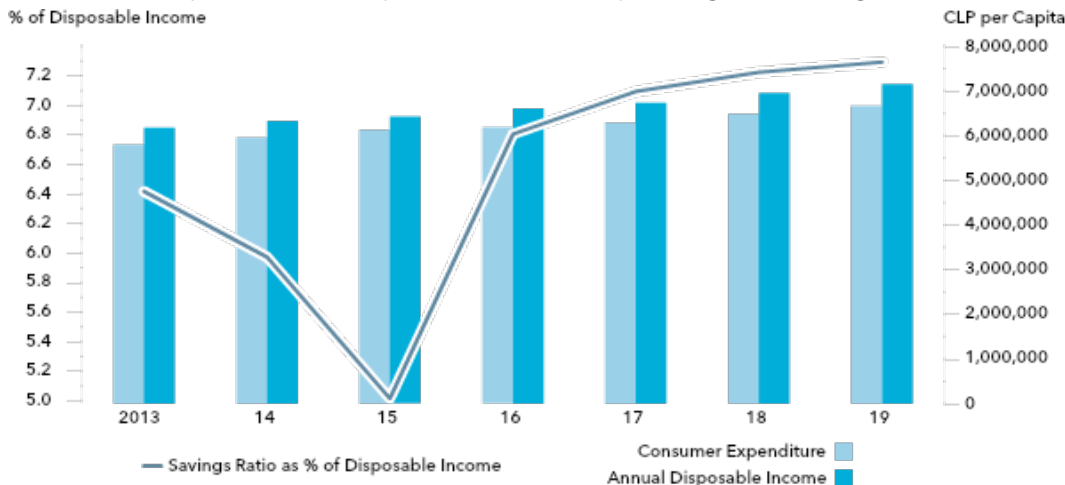
Consumer expenditure per capita totalled CLP6,486 thousand (US\$10,114) in 2018. The indicator will increase by 2.8% in real terms in 2019. Hotels and catering will be one of the best performing categories in 2018-2030. The second fastest-growing category is spending on food and non-alcoholic beverages.

Total consumer expenditure is forecast to grow at an average annual rate of 3.2% in 2018-2030 in real terms. It will increase by a cumulative value of 45.6% during this period. Total consumer expenditure will represent 61.1% of GDP in 2019.

In 2018, disposable income per capita amounted to CLP6,957 thousand (US\$10,848). In 2019, the indicator will grow by 2.8% in real terms.

During the period 2019-2030, total disposable income will increase by a cumulative value of 45.6% in real terms - growing at an average annual rate of 3.2% in real terms.

Chart 7 Per Capita Annual Disposable Income, Spending and Savings Ratio: 2013-2019



Source: Euromonitor International from national statistics/trade sources/OECD

Note: Data for 2019 is forecast. Per capita income and spending are in constant 2018 prices

Statistical Summary

	2012	2013	2014	2015	2016	2017	2018
Inflation (%)	3.0	1.8	4.7	4.3	3.8	2.2	2.4

change)							
Exchange rate (per US\$)	486.30	495.21	570.29	654.13	676.77	648.81	641.28
Lending rate	10.1	9.3	8.1	5.5	5.6	4.6	4.2
GDP (% real growth)	5.3	4.0	1.8	2.3	1.7	1.3	4.0
GDP (national currency millions)	129,947,342.3	137,876,215.8	148,599,453.9	159,553,348.3	169,469,507.0	180,211,289.7	191,248,710.9
GDP (US\$ millions)	267,215.4	278,419.3	260,569.5	243,918.4	250,409.1	277,758.3	298,231.1
Birth rate (per '000)	14.0	13.8	13.6	13.4	13.3	13.1	13.0
Death rate (per '000)	5.9	6.0	6.0	6.1	6.1	6.2	6.2
No. of households ('000)	5,728.6	5,873.0	6,013.7	6,148.6	6,279.7	6,406.3	6,528.0
Total exports (US\$ millions)	78,063.0	76,769.9	75,064.7	62,035.1	60,718.3	68,859.0	75,451.8
Total imports (US\$ millions)	80,092.4	79,352.9	72,852.2	62,387.8	59,375.7	65,258.0	75,003.5
Urban population ('000)	15,402.4	15,571.7	15,738.1	15,902.1	16,063.7	16,222.7	16,378.7
Urban population (%)	89.0	89.2	89.4	89.5	89.7	89.9	90.0
Population aged 0-14 (%)	21.8	21.4	21.1	20.8	20.6	20.3	20.1
Population aged 15-64 (%)	68.6	68.7	68.7	68.7	68.7	68.6	68.5
Population aged 65 (%)	9.7	9.9	10.1	10.4	10.7	11.1	11.4
Male population (%)	49.5	49.5	49.5	49.5	49.5	49.5	49.5
Female population (%)	50.5	50.5	50.5	50.5	50.5	50.5	50.5
Life expectancy male (years)	76.2	76.4	76.7	76.9	77.1	77.3	77.6
Life expectancy female (years)	82.0	82.1	82.2	82.3	82.3	82.3	82.4
Infant mortality (deaths per '000 live births)	7.5	7.0	7.6	7.4	7.2	6.9	6.7

Adult literacy (%)	96.3	96.3	96.4	96.6	96.5	96.4	96.3
--------------------	------	------	------	------	------	------	------

Imports and Exports

Major export destinations	2018 Share (%)	Major import sources	2018 Share (%)
Exports (fob) to Asia Pacific	52.3	Imports (cif) from Asia Pacific	35.2
Exports (fob) to North America	15.9	Imports (cif) from Latin America	25.0
Exports (fob) to Latin America	15.3	Imports (cif) from North America	19.8
Exports (fob) to Europe	14.5	Imports (cif) from Europe	16.3
Exports (fob) to Africa and the Middle East	1.3	Imports (cif) from Other Countries	2.2
Exports (fob) to Other Countries	0.5	Imports (cif) from Africa and the Middle East	0.9



© Euromonitor International 2019