

REPUBLIC OF CHILE
AUGUST 2009

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	<u>Debt Recovery</u>
2A	→	→	The use of a collection agent is better suited to the legal route in this market.

Credit Guarantee Experience

We are open for cover in this market without any restrictions. Although this market is generally favourable, exporters must ensure that they have taken the necessary precautions in managing the payment risk when dealing on open account.

Political Highlights

- ❑ President Michelle Bachelet Jeria has been chief of state and head of Government since March 2006. The president is elected for a single four-year term with the next election due in December 2009.
- ❑ Chile will hold its second presidential election under new campaign finance laws, but it remains to be seen what effects Government's efforts to control election spending will have. Chile's campaign finance laws were introduced in 2003 following a scandal at the Ministry of Public Works and Transportation (MOP). MOP had set up a few fake companies to collect campaign contributions from its contractors. The new laws provide a small amount of public financing but allow politicians to borrow from private companies to fund their campaigns and after the elections, the state reimburses candidates for each vote won.

Recent Economic Highlights

- ❑ Chile has a population of 17m with an expected growth rate of 0.9% in 2009. The downturn in Chile's labour market is now affecting professionals and technicians in addition to people with lower education levels. Unemployment among academics reached 8.5% in the March-May 2009 period, the highest rate since July 2006. Unemployment during August-October 2008 was 7.5%. First time job seekers now take eight months to find a job from the pre-crisis period of six months. Professionals most affected were from the construction, retail, marketing and the salmon industry and those most likely to find jobs first were those having studied nursing, speech and language pathology, geology or chemistry and pharmacy.
- ❑ Government will draw \$4bn from saved copper profits to finance the country's 2009 spending and it will issue \$1.7bn worth of bonds to further fund a projected 14.5% increase in spending this fiscal semester (June-August). The Ministry adjusted the budgeted expectation of 4% growth to a mid-fiscal year prediction of growth between -0.75% and 0.25%, thus avoiding formal recognition that the economy is in an economic recession for the first time in ten years.
- ❑ Chile's Chemical and Mineral Society (SQM) discovered a significant gold deposit in Atacama Region III. SQM currently holds over 1m hectares in testing concessions, both metallic and non-metallic. It has fixed its investment budget at \$350m for the 2009-2011 period to bolster production. SQM's top priority is to increase potassium nitrate production that will satisfy over 50% of global consumption by 2011. The company will also focus on boosting potassium chloride and caliche (a hardened deposit of calcium carbonate) production.
- ❑ According to the World Economic Forum's 2009 Global Enabling Trade Report, Chile is one of the top 20 best countries for doing business in. It beat Spain Italy, Japan and China to come in 19th from 27th in 2008 despite greater caution in the business community and a world-wide tendency to strengthen trade barriers due to the economic slump. The report claimed that Chile was the region's leader. It noted that Chile had demonstrated a commitment to opening its trade borders, reducing complicated tariffs and successfully negotiating access to foreign markets for exports.
- ❑ French company Lafarge plans to sell its stock worth \$500m in ex-Melon, Chile's biggest cement plant in a bid to cope better with the world economic crisis. Lafarge Chile currently leads the cement producing market in Chile, producing 1.6m tones of cement a year.

Trade Developments

- ❑ Chile's overall exports fell 40.4% in the first half of 2009 due to depressed international demand. During January – June 2009, factory exports fell 18%, agricultural and fishing exports fell 8.8% and copper exports fell by 50.5% despite China's high demand.
- ❑ Chile's main trade destinations include China, US, Japan, Netherlands, South Korea, Italy, Brazil and Argentina.
- ❑ Its main export commodities include copper, fruit, fish products, paper and pulp, chemicals and wine.
- ❑ Chilean International Economic Relations Directorate signaled that the worst may be over for the economy. He said that Chile will sign a FTA with Turkey, marking Chile's 21st FTA and Turkey's first FTA with a country in the Americas. In 2008, Chile exported \$270m in goods to Turkey and imported \$170m. Chilean industries that will benefit most from the FTA include agriculture, forestry and fishing.
- ❑ China overtook the US as the principal consumer of Chilean goods in the first half of 2009. China's appetite for Chilean copper, among other commodities, helped cushion Chile's overall decline in exports. China imported 21.6% (\$4.8bn) of Chilean exports

compared to US's 14.1% (\$3.16bn) imports. China purchased 41.6% of Chile's copper exports and the US sought 10.6% for the first half of 2009.

- ❑ The Chilean sheep farming industry is embarking on a plan to boost the national sheep population and double lamb exports by 2010 as Chile noticed that the demand for lamb in the US, Asia and Europe continues to rise, while production in lamb's traditional suppliers like Australia and New Zealand is falling. The industry aims to breed sufficient sheep to meet international demand and to increase exports from \$30m to \$60m annually. Chile produces 9.000 tonnes of lamb meat annually and exports 5.000 tonnes, with production amounting to 4m heads a year, while Australia and New Zealand produce 30m heads a year. A significant benefit to Chile is that the US abolished tariffs for Chilean lamb exports.
- ❑ For the first time in a decade, fresh blueberry producers have seen a decline in the 2008/09 season. Prices fell 42% from the previous season. The blueberry production is set to more than double in four years from the current 41.000 tonnes to more than 100.000 tonnes, but some local analysts believe the 2008/09 season may be a warning of things to come. As the world's largest exporter of fresh blueberries, its situation is likened to the boom and bust experience growers had with kiwifruit exports over a decade ago and says that it is possible that Chile may lose its title as the world's top fresh blueberry exporter. The US is the biggest market, importing 84% of Chile's blueberry exports, followed by the UK's 8%, Holland's 5% and other markets' 3%.
- ❑ Salmon is Chile's second largest export after copper, earning annual revenues of over \$1bn and providing jobs for more than 100.000 people. A group of Canadian researchers suspect that Infectious Salmon Anemia (ISA), a highly contagious fish virus that has pummeled Chile's farmed salmon industry over the past two years, was first introduced into the country in the 1990s. The research confirms that ISA was transported from Norway to Chile in 1996 and has concluded that the current outbreak, which first gained attention in mid 2007, likely began two years earlier. The disease does not affect humans but has caused havoc in the country's booming farmed salmon industry. It has resulted in the closure of numerous salmon farms and several processing facilities. Salmon producers harvested their fish prematurely in 2008 to avoid the disease, resulting in higher industry earnings at a record \$2.4bn. Production is expected to fall this year with export numbers already down. Industry leader Marine Harvest, a Norwegian-owned company, suffered a huge decline in April 2009 with shipments falling 64%. Chilean-owned Cultivos Marinos also suffered after exporting \$7m worth of salmon and trout in April – down 42% from the same month of last year.
- ❑ SA's exports to Chile totaled R546m in 2008 and R417m in 2007. Year-to-April 2009 exports totaled R123m.
- ❑ Imports from Chile totaled R1.2bn in 2008 from R750m in 2007 and R374m year-to-April 2009.

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