

COUNTRY PROFILE:**REPUBLIC OF CHILE****DATED:****OCTOBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2A	No restrictions

Recent Political Highlights

- ❑ Michele Bachelet won the presidential elections in January 2006. Her government remains committed to Chile's successful free-market institutions. Months of street protests, fueled by anger over deteriorating schools and a botched subway project in the capital Santiago, have driven the popularity of Chile's first female president down from 65% when she took office to 39%.
- ❑ Chile extradited former president Alberto Fujimori back to Peru to stand trial of death squad killings and corruption. The Chilean government has reiterated its own claims to parts of the Antarctic territory and waters. Chile's comments came after the U.K government announced plans to claim sovereignty over a large area of the seabed around British Antarctica. The UK move could spark disputes with Chile and Argentina, which both regard large areas of the region as theirs. Countries have until May 2009 to ask the UN to consider their right to the seabed.

Recent Economic Highlights

- ❑ Chile has a relatively young population with the 5-29 age group accounting for 42% of the total population of 16.3 million. Unequal distribution of wealth is still a great concern and the Bachelet administration is pursuing a coherent development program built around the theme of equality of opportunity. The program aims to accelerate growth, expand global commercial linkages, improve education, safeguard natural resources and strengthen competitiveness while addressing acute and longstanding social problems.
- ❑ Chile is richly endowed with natural resources and is now the world's leading producer of copper; copper accounts for more than half its export revenue and makes up a third of global supply. The mining minister estimates that \$17bn will be spent in the next 5-7years on new projects, mostly in copper and gold. Chile's copper output is forecast will rise to 6.4 million metric tons in 2011 from the current 5.6 million tons. Labour disputes and technical problems slowed production in 2006, but completion of several labour contracts and investment projects should propel output which is forecast to grow at about 3% per year over the medium term.
- ❑ The IMF expects Chilean economic growth to slow to 5.3% next year from 5.8% in 2007, but said the economy was well placed to weather external shocks. The economy grew 6.1% in the second quarter, its fastest in two years, well above 2006 growth of 4% due to increasing Asian demand for copper. Chile is experiencing its sharpest inflationary surge in years, with price increase in recent months coming in well above expectations. Inflation for the year is also expected to exceed the government's 3% ceiling. Consumer prices increased by 1.1% September from a month earlier and the y/y rate reached 5.8%, the highest annual rate in eight years. This was due to the large hike in food-related inflation, which was due in part to international price rises for grains and also Chile's very harsh winter, which damaged crops. Year-end inflation is forecast at 5%. The IMF predicts year-end inflation of around 5.5% in 2007, easing to around 3% in 2008.
- ❑ Chile's budget surplus will expand to a record 8.1% of GDP this year, buoyed by copper exports. The surplus cash is expected to reach \$20bn or about 13% of Chile's GDP by year-end. Plans by Bachelet's fiscally conservative government to keep accumulating money and shoring up pension funds are stoking civil unrest and testing the mettle of Chileans and their politicians. The windfall profits have only increased the political demands for more social spending even from Bachelet's allies. The government's self-imposed obligation to maintain a 1% budget surplus is being reduced to 0.5%, freeing hundreds of millions of dollars for crowd-pleasing projects. Negotiations are currently underway for different projects as Congress is expected to approve Bachelet's budget by November 30. The government continues to pay down its foreign debt, with public debt estimated at 3.9% of GDP at the end of 2006.
- ❑ The country has been facing gas cuts to electricity generators and factories after its sole natural gas supplier, Argentina, suffered an energy crisis of its own. Importing gas from Bolivia, which is rich in the resource, is hampered by diplomatic links which were severed 30 years ago, over a dispute on a chunk of Chilean coastline Bolivia lost in the 19th century. Ms Bachelet however says she would be very happy if Bolivia decided to restore diplomatic relations because Chile has always shown full willingness for discussions.
- ❑ Total Foreign Direct Investment (FDI) was only \$3.4bn in 2006, up 52% from a poor performance in 2005. However 80% of FDI continues to go only four sectors; electricity, gas, water and mining. Much of the FDI was also the result of acquisitions and has done little to create employment in Chile.

Latest Trade Developments

- ❑ Major exports: copper, fruit, fish products, paper and pulp, chemicals and wine.
- ❑ Major imports: petroleum and petroleum products, chemicals, electrical and telecommunications equipment, industrial machinery, vehicles and natural gas.
- ❑ Major trading partners: US, Argentina, China, South Korea, Netherlands, Brazil, Italy and Mexico.
- ❑ Chile has free trade agreements with more than 40 countries and recently signed another one with Japan in September. Chile is likely to become Japan's largest trading partner in South America as a result of the agreement. Under the pact, Chile will abolish tariffs on automobiles, machinery and electronics from Japan. In return Tokyo will gradually abolish taxes on salmon, trout and wine from Chile. Tariffs on more than 90% of bilateral trade will be phased out within 10 years. In 2006, Japan exported \$1.5bn worth of products to Chile, and imported \$6.59bn in the same year.
- ❑ SA's exports to Chile totaled R403.8m in 2006 and R258m in the year to July 2007. South Africa was Chile's largest African trading partner in 2005. South African products with high potential in the Chilean market are: mineral or chemical fertilisers; sulphate; angles, shapes and sections of iron; flat-rolled products of stainless steel; insecticides; fruit; nuts; and other edible parts of plants; acrylic alcohols; flat-rolled products of iron or non-alloy; and parts suitable for use solely or principally with other engines and motors.