

**COUNTRY PROFILE:****REPUBLIC OF CHILE****DATED:****OCTOBER 2008****CREDIT GUARANTEE:**

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

*Recent Political Highlights*

- Michele Bachelet took over the reins in March 2006 after winning run-off elections. The EIU expects President Michelle Bachelet's centre-left ruling coalition, Concertación Democrática, to continue to struggling with division and her reform agenda to suffer as a result of that. Ms Bachelet also lost her majorities in both houses of the legislature. The political focus is shifting towards elections with municipal polls currently underway, and presidential and congressional elections due in late 2009.
- Preliminary results from the municipal elections show that the ruling centre-left coalition will face powerful challenges from the rightist opposition next year, as incumbent President Michelle Bachelet's government is struggling with a surge in inflation and the crime rate, a failed new transportation system in Santiago and a series of corruption scandals.

*Recent Economic Highlights*

- Chile is one South America's most stable and prosperous nations. It has an open economy which thrives on foreign trade and bilateral agreements cover over 80% of Chile's imports/exports.
- Chile's GDP grew 4.3% in Q2'08 from 3.3% in Q1'08. The faster than expected growth was driven by an 11% increase in demand. Private consumption grew 5.9% in Q2'08 as Chileans spent 15% more on durable goods. The Finance Ministry forecasts growth to exceed 4% in 2008 from 5.1% last year, as investment rises to a record of more than 28% of GDP. The EIU forecasts growth at 3.6% in 2008 and 3.8% in 2009 due to slowing global trade growth.
- Inflation reached a 13-year high of 9.5% in July, more than triple the central bank's 12-24 month target of 3%. The EIU expects average inflation to gradually slow down from an expected high of 7.5% in 2008 to reach 3% in 2012.
- Chilean companies plan to invest more than \$57bn, about a third of the country's GDP, by the end of 2012, to help improve productivity and foster economic expansion.
- President Michele Bachelet authorised the government to use 2% of the national budget to fund Santiago's public transport system. The president acted after Chile's Constitutional Tribunal blocked a loan to the capital city's transit system. Chile's constitution allows the president to spend the equivalent 2% of the budget on unpostponable necessities such as natural disasters and basic services.
- Chile's trade surplus narrowed to \$780 million in August from \$1.7bn in July. Exports rose 22% from a year earlier to \$6.3bn, the fastest annual pace since last October, while imports rose 33% from a year ago to \$5.5bn.
- BHP Billiton Ltd, the world's largest mining company may build a \$3.5bn plant to desalinise seawater in northern Chile for its Escondida site. Demand for water by mines in Chile's northern desert is rising after copper prices more than doubled in four years. Construction of the plant is expected to begin in the second half of 2009 with operations commencing in late 2012.

*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.
- SA's exports to Chile totaled R403.8m in 2006, R426.4m in 2007 and R110.3m in the year to March 2008. 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.

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