Santiago

Chile





9.8 School years (2012)

6.5 Unemployment (%, July 2014)

3.7 Homicides (per 100,000 inhabitants, 2008-2011)

Population
18
million

41th
Human Development Index
UNDP

34th
Doing Business
World Bank

34th
Global Competitiveness
World Economic Forum

2008	3.7
200	-1.0
2010	5.8
2011	5.9
2012	5.6
2013	4.2
2014(e)	3.3
2015(e)	4.5

GDP
growth(%)

24.1 Fixed investment (% of GDP)

4.5 Inflation (Consumer price index, August 2004, % annualized)

43.9 External debt (% GDP)



"The density of ties between Brazil and Chile might be most visible in trade and investment. The country is our third largest trading partner in Latin America, with bilateral trade of US$8.8 billion in 2013.

"In January this year, the Mercosur-Chile agreement reached 100% tariff reduction. Today, Brazil and Chile are strengthening relations between Mercosur and the Pacific Alliance, and the trade is already a reality. In 2012, trade between Mercosur and the Pacific Alliance reached US$52 billion, more than double the trade between Pacific Alliance countries. And, separately, Brazil imports more Chilean products than all other members of the Pacific Alliance.

"Brazil is also the top destination in the world for Chilean company investments, with over US$25 billion invested in a variety of areas, from pulp and paper to retail. The agenda for cooperation between Brazil and Chile is very broad and there is close cooperation on Antarctic issues, defense, science and technology, human rights, and infrastructure, among others. There are also areas of great potential, such as cooperation in infrastructure."

Georges Lamazière
Brazilian Ambassador to Chile



"I am optimistic about Chile's economic growth in coming years. The country is well-positioned to deal with the challenges of the present while looking to the future. Since the 1990s Chile had not changed its economy. Now it is in full restructuring, with an agenda of tax, labor, health, and education reforms.

"In this scenario, BTG Pactual sees several opportunities for strategic investments in areas such as energy, insurance, and credit. There are still business opportunities in mergers and acquisitions in the region. The solidity of the Chilean economy over the past 20 years provides the security needed for large investments. It is a unique experience to follow closely the growth of a country undergoing a total transformation."

André Porto
Chief Operating Officer of BTG Pactual, Chile

(e) World bank estimates. Sources: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), United Nations Development Programme (UNDP), Central Bank of Chile, United Nations Conference on Trade and Development (UNCTAD), World bank, World Economic Forum.



Chile: Unexpected step back

Solange Monteiro

THIS YEAR, CHILE was badly surprised by an unexpected drop in economic activity. Felipe Tâmega, chief economist for Itaú Asset Management, pointed out that the end of an investment cycle in the production of copper, the main export, coincided with both slowing Chinese demand for copper and reduced Chilean domestic consumption, which for years had been rising above its potential. "Domestic demand took longer to show signs of a slowdown mainly because it was supported by a buoyant labor market and an ample supply of credit," Tâmega said. The result? Lower GDP growth.

Meanwhile, the fall in copper prices and the consequent depreciation of the peso generated both a contraction in the economy and inflationary pressure. The maturation of the investment cycle, which at first appeared to be simply an adjustment of demand, proved to be the beginning of a broader slowdown. According to the Central Bank of Chile, fixed gross investment growth fell from 9% in the first half of 2013 to –8.1% in the second quarter of 2014.

Another factor working against the economy is the aging of copper mines, which raises production costs. "One way to look at it is to realize that the large investments in recent years did not increase production in the same proportion," said Guillermo Larraín, vice president of BancoEstado in Santiago. "Meanwhile," Tâmega added, "Peru is now exploring new copper mines to intensify competition."

The business environment and investment intentions in general were also impaired more than expected in 2014 by expectations related to discussions about tax reform, which extended over much of the year; Chilean President Michelle Bachelet promulgated the final version in late September. The new tax law increases the corporation tax rate from 20% to 25–27%. The government expects to raise US$8.3 billion more in tax revenue and intends to use the additional revenues to finance changes in education, health, and social security. Another reform that is shaking market expectations relates to education, with results that can only be seen over the long term. "The reforms we see today in Colombia, Mexico, and Peru are important to a stage of development that we have already reached," Larraín said. "The education reform is part of a new generation of more complex reforms. It is the only way to solve the problems of income inequality and low productivity."



Photo: André Telles.

Felipe Tâmega

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Tâmega believes Chile's main challenge is to prepare for a more intense phase in the adjustment of Chinese demand. "China's slowdown and the structural change to less construction-led growth implies that Asia's growth will have less impact on Chile's growth," he said, indicating that this will require an adjustment to Chile's potential growth. The growth decline, Larraín explained, is difficult to estimate in the short term. "In a situation like this, some sectors contract, but other sectors can expand," he said, indicating that, with currency depreciation and inflation under control, the outlook improves for other export sectors, such as agribusiness, forestry, salmon, and wine. The government is seeking to encourage productive groups, such as those providing services to the mining industry, that may eventually export services to neighboring Peru and Colombia, but "these initiatives require time to mature," Larraín said. Meanwhile, the expectation is that in the short term the reforms will have a positive fiscal impact and the slowdown in the economy will not persist.