

# CareEdge Global assigns Long Term Foreign Currency Rating of A- (Unsolicited) to Republic of Chile

## Credit Profile

Chile's credit profile is bolstered by strong institutions and prudent macroeconomic and fiscal policymaking. Chile is an export-driven economy valued at over USD 300 billion, with mining products accounting for 50% of its total exports. Compared to other Latin American countries, Chile is relatively wealthy, with a per capita GDP of USD 24431 in 2023 (constant prices, purchasing power parity basis), and it ranks highest in the Latin American region on the global competitiveness index. Although Chile's fiscal situation has recently weakened, its debt levels are still manageable, with fiscal reserves like the Economic and Social Stabilization Fund offering extra security. Monitoring the progress of the proposed structural reforms, which seek to increase government revenue and enhance productivity, is crucial. Additionally, resolving the political deadlock over constitutional reforms would be a positive step forward.

## Strengths

- Prudent fiscal management with relatively low debt levels
- Stable political climate with robust monetary, fiscal, and macroeconomic policies

## Weaknesses

- Persistent current account deficit
- Heavy dependence on commodity exports exposing it to price volatility

## Key Monitorables

- The current constitutional reform efforts and the rising polarization
- The implementation and progress of proposed structural reforms in taxation and pensions

## Key Rating Drivers

### Economic Structure & Resilience

Chile's economic assessment is underpinned by its large commodity-export driven economy, with its economic health closely tied to its trade relationships with China and the United States. GDP growth declined to 0.22% in 2023 from 2.1% in 2022 on the back of lower copper production, copper price volatility, high inflation and restrictive monetary policy. GDP grew by 1.6% in Q2 2024. The service sector is growing, with a focus on financial services and tourism. Copper exports are a major source of revenue for the economy as it accounts for 50% of total exports. However, this also exposes the economy to copper price volatility. Unexploited lithium deposits, comprising 50% of the world's total, offer new opportunities as global demand for green technologies rises.

### Fiscal Strength

In 2022, the country achieved a fiscal surplus of 1.4% of GDP, largely attributed to strong revenue collection. However, the fiscal balance slipped into a deficit of 2.2% of GDP in 2023, due to increased

government spending to meet social demands. Recent budgets have reallocated spending towards mitigating the impact of high energy and food prices, employment subsidies in lagging sectors and targeted transfers to households.

Chile's government debt levels are relatively low but have shown an upward trend, reaching 39.4% of GDP in 2023 from 26% in 2018. In order to strengthen its fiscal position over the medium term, Chile has adopted a debt ceiling of 45% of GDP and will introduce annual fiscal targets starting in 2024. The establishment of the Economic and Social Stabilization Fund has helped reduce reliance on public debt for financing fiscal needs. Despite the potential for higher government revenue as a result of upcoming reforms, increased social spending will pose challenges.

### External Position & Linkages

Chile has had a persistent current account deficit. The current account deficit has moderated to 3.5% of GDP in 2023 from a high of 8.6% in 2022. Chile is projected to maintain its CAD at an average of 3.7% over the medium term from 2024-2026. High exposure to commodity price volatility will continue to pose a challenge for the current account balance. The economy has healthy foreign direct investment (6.5% of GDP in 2023) to fund the deficit. Chile's external debt has been rising since 2011 and stood at 71.7% of GDP in 2023. A large part of the external debt stems from intercompany lending (24.3% of total external debt) somewhat mitigating external risk. Chile's access to USD 18.5 billion new flexible credit line arrangement, approved by the IMF, provides external liquidity support.

### Monetary & Financial Stability

Chile's monetary assessment is supported by a free-floating exchange rate and an autonomous Central Bank. As against the Central Bank's inflation target range of 3% (+/-1%), the CPI inflation fell to 7.6% by end 2023 from a high of 11.7% in the previous year. CPI inflation reached 4.6% in July 2024. The central bank has reacted by cutting rates to 5.75% in June 2024 from a high of 11.25% in 2022. Inflation continues to moderate in 2024 and is expected to fall below 4% this year. The financial sector remains resilient, backed by strong capital buffers and healthy regulation. The recent implementation of the Countercyclical Capital Buffer and steady Basel III adoption bolster the sector's resilience. Chile's banking system is well-capitalized and maintains a high level of liquidity. The Central Bank of Chile closely monitors the sector for systemic risks and is proactive in its regulatory role.

### Institutions & Quality of Governance

Chile has healthy, autonomous institutions, including its judiciary, regulatory bodies, and central bank, which operate with significant independence and transparency. Chile is in the midst of a political transformation driven by continuous efforts towards constitutional reform. Attempts to pass proposed draft constitutions have faltered twice since 2022, leaving the future direction uncertain. The prevailing climate of uncertainty and political polarization, presents new challenges to the nation's democratic processes. The progress of the reform process and its long-term impact on fiscal and economic policy is an important monitorable.

Chile – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	295	278	254	316	302	336	334	375
GDP Per Capita (Constant-PPP)	USD	24180	23880	22009	24229	24541	24431	24760	25236
Real GDP Growth	%	4.0	0.6	-6.1	11.3	2.1	0.2	2.0	2.5
GFCF/GDP	%	23.0	24.5	22.5	23.1	25.3	23.8	-	-
Gross Domestic Savings/GDP	%	23.1	23.1	25.5	23.2	21.6	24.3	-	-
Exports (G&S)/GDP	%	28.5	27.9	31.3	32.0	35.5	31.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.0	69.0	69.0	68.9	68.7	68.4	68.1	67.8
Old-Age (65+) Population (% Share in Total)	%	11.9	12.1	12.4	12.7	13.0	13.5	13.9	14.4
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-1.5	-2.7	-7.1	-7.5	1.4	-2.2	-1.9	-1.2
Revenue/GDP	%	24.1	23.8	22.0	26.1	28.0	24.7	25.8	26.0
Expenditure/GDP	%	25.6	26.5	29.1	33.6	26.6	26.9	27.7	27.1
GG Gross Debt/GDP	%	25.8	28.3	32.4	36.4	37.8	39.4	40.5	40.8
GG External Debt (by Creditor)/GG Gross Debt	%	33.3	38.3	38.2	45.3	35.7	37.1	-	-
Interest/Revenue	%	3.5	3.9	4.4	3.3	3.6	4.2	-	-
<b>External Indicators</b>									
Current Account Balance/GDP	%	-4.5	-5.2	-1.9	-7.3	-8.7	-3.5	-3.9	-3.7
FDI, Net Inflows/GDP	%	2.7	4.9	4.5	4.8	6.0	6.5	-	-
Outstanding FII Liabilities/GDP	%	32.46	37.9	44.9	42.5	41.5	39.8	-	-
NIIP/GDP	%	-20.3	-15.7	-12.3	-7.8	-20.0	-19.0	-	-
Foreign Exchange Reserves	USD Billion	39.9	40.7	39.2	51.3	39.1	46.4	-	-
Import Cover	Months	5.5	5.9	6.9	5.9	3.9	5.6	-	-
External Debt/GDP	%	62.4	71.4	82.1	74.6	76.1	71.8	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	2.3	2.2	3.0	4.5	11.6	7.6	3.2	3.0
Exchange Rate (Average)	LC per USD	640.3	702.6	792.2	759.3	872.3	839.1	=	-
Non-Performing Loans/Total Gross Loans	%	1.9	2.1	1.6	1.2	1.6	2.1	-	-
Private debt, loans and debt securities/GDP	%	143.4	154.0	157.7	147.1	145.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	A-	October 3, 2024

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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