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Background

Three decades of modernisation and sustained economic growth have transformed the Chilean economy into one of the most dynamic in the Latin American region.

Opening up to foreign trade, eliminating price controls and granting autonomy to the Central Bank in the 1970s and 1980s, along with other reforms, had a major impact on the growth of Chile's GDP. During the 1990s, Chile showed an average annual growth rate of 6.37%, benefiting from a democratic change; it earned worldwide recognition for its stable economic policies and regulation, completed substantial improvements to the existing infrastructure, and had private investors participating in all relevant areas of the economy. In the 2000s, the country's economy has suffered from a loss of momentum, with an average annual growth rate of only 4.34%.

Thanks to the conservative fiscal policy of the government and the strength of the local financial market, Chile has been able to keep itself relatively isolated from the global financial crisis. Nevertheless, the turbulence in the international financial markets and the recession anticipated for most of the developed economies will undoubtedly have an impact in Chile. The Chilean Central Bank is projecting a reduction of the annual growth rate down to 2% for 2009, as well as higher financing costs in the international market, and a decreased demand for commodities and other products exported by Chile.

Prospects

What should we expect for the Chilean market for 2009 and the years ahead?

- During the last decade, the government has followed a path of increasing intervention in different areas of the economy. This is a result of its efforts to correct an unequal income distribution through subsidies and benefits, leading to a situation in which almost 40% of the total income of the poorest 40% income group is currently provided by the government safety net. These redistributive efforts have also brought about major reform to the pension and healthcare system, an increase in the expenditure on public health and education, tax exemptions for the construction of basic housing, higher environmental standards and more restrictive labour laws.
- Likewise, the government has made significant efforts to boost market competition through the modernisation of antitrust regulation. An independent, professional and sophisticated antitrust court (TDLC) has achieved a well-deserved reputation for in-depth scrutiny and analysis. In 2008, the TDLC rejected the merger between D&S and Falabella, two major retailers in Chile, because the parties failed to prove the benefits this operation would bring consumers. The antitrust authority is also focused on strengthening cartel restrictions. A bill before congress proposes to increase penalties for breaches to the antitrust law where the level of fines will be calculated according to the benefits obtained by the breaching parties and also to the costs caused by the anti-competitive behaviour in the relevant market.
- The local financial market has proved particularly resilient during the recent global financial crisis. None of the major financial institutions has insolvency problems and the current level of liquidity has allowed the market to operate normally. A reason behind this positive reaction has been the permanent funding that the Chilean pensions funds provide to the banking industry and large corporations. These fund assets now total USD80 billion and, under investment guidelines set by the regulator, 35% of such assets currently fund local banks' deposits and bank's bonds, while an additional 10% of such assets is invested in bonds issued by Chilean investment grade corporations.

Nevertheless, there are still important challenges and opportunities facing the financial market. More competition would generate cheaper credit alternatives, ie according to official figures from the banking industry, 83% of all commercial loans go to a mere 1.6% of debtors.

- The securities authority is committed to prosecuting insider trading and to promoting reforms to improve the capital market.
- Infrastructure assets in Chile have proved to be a safe investment in difficult times. Long-term revenues from tariffs, indexed to inflation, in a country with stable and transparent regulation, have proved attractive to foreign investors who have acquired a stake in toll roads, water utilities, energy and gas projects, ports and airports.
- Energy is a big concern in Chile. Domestic energy production – essentially hydroelectricity – represents only 20% of total domestic energy consumption, which depends on foreign suppliers of coal, natural gas and oil. The country has been working within a new energy framework where natural gas from Argentina will be considered on a marginal basis, along with enhanced LNG terminals, new mega hydropower plants in the Aysén Region, ERNC (non-conventional renewable sources of energy) and, potentially, nuclear power plants. Pursuant to a new law, 5% of the energy produced by each local generation company will have to come from ERNC by 2010, rising to 10% by 2035.

The upcoming presidential election at the end of 2009 will concentrate the attention of the country, with an important probability that after two decades a new governmental coalition might come into office.