

## Basic facts (2022)

Population: 20 million

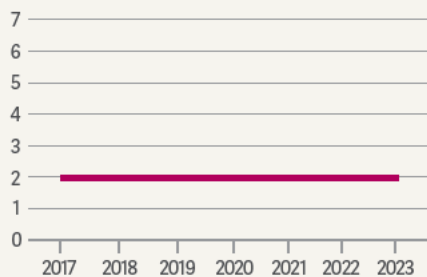
GDP, nominal: USD 301 billion

GDP/capita: USD 15 095



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

## Country classification history



Source: EKN

## Strengths

- + Political stability and established democratic institutions
- + Stable banking system and established financial markets
- + Strong government finances

## Weaknesses

- High dependence on raw materials
- Increasing external imbalances
- Growing political tensions

## Outlook remains balanced

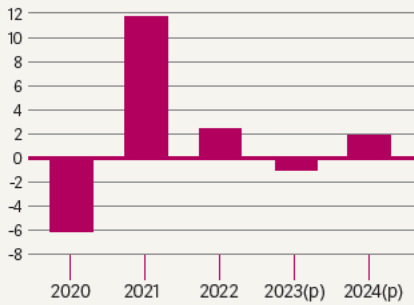
Chile is Latin America's fifth-largest economy in terms of GDP despite a population of only about 20 million. Indeed, since the restoration of democracy in the early 1990s, the country has enjoyed steady growth, averaging 3.6% per year in the 2000s. This growth has led to a reduction in the number of people living below the poverty line from 36% to 11% (over the same period). GDP per capita (in purchasing power-adjusted terms) in 2022 was just under USD 29,000, the highest in the region and the result of i.a. predictable and investment-friendly economic policy. The economy is dominated by a growing services sector that employs approximately 70 per cent of the workforce. Meanwhile, Chile's exports account for about 30 per cent of GDP and more than half are copper products, followed by food. Chile has more than one-third of the world's known copper reserves, as well as large deposits of lithium and other minerals. Therefore, the global transition to a fossil-free energy supply can be expected to benefit Chile in the future. In line with the trend in other Latin American countries, China has become an increasingly significant trading partner of Chile. In 2022, 38% of exports went to China, compared to 25% ten years earlier. While the long-term prospects for the country's commodity exports are considered to be good, the concentrated export base also means that the country is exposed to fluctuating global prices for raw materials and fluctuating demand from China. The country's external balances have gradually weakened, as exemplified by Chile's external debt, which in 2022 was equivalent to 79% of GDP, while in 2011 it was only 40%. In the years to come, current account deficits are expected to reach almost four per cent of GDP, while only about one-quarter is expected to be covered by foreign direct investment. However, the continued large foreign assets of the pension system and a stand-by credit facility from the IMF, equivalent to 50 per cent of the country's foreign exchange reserves, reduce external risks.

For a long time, Chile's country risk classification has also been based on the country's strong and independent institutions, stable macroeconomic frameworks centred around an inflation target, and a floating exchange rate. This is also supported by the Worldwide Governance Indicators, where Chile ranks in the top fifth in the areas of rule of law and corruption. A further strength has been the political consensus that has characterised public finances policy, resulting in limited fiscal deficits and a manageable government debt. However over the past decade, the situation with the state finances has gradually deteriorated, albeit from a strong starting point. This includes an increase in gross public debt, which grew from 12% to 38% of GDP between 2012 and 2022.

## Robust institutions stabilise financial growth

At the end of July, the Chilean central bank cut its key interest rate by 1 percentage point to 10.25%. This marked the start of an increasingly expansionary monetary policy after inflation expectations fell sharply in the preceding months. The continued normalisation of interest rates will support consumption and investment, which, together with more positive external demand, are expected to lead to a recovery in GDP growth of close to 2% per year in the coming years. The Chilean peso (CLP) is expected to weaken over the remainder of 2023 and 2024, in line with the interest rate differential with the

### Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

### Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

### Swedish export to Chile

	MSEK
2022	4 329
2021	3 502
2020	3 044
2019	3 779
2018	3 550

Source: SCB

### EKN:s exposure

	MSEK
Guarantees	1 061
Offers	751

United States, while the weakening also contributes to further reductions in the current account deficits, which are expected to amount to a manageable 3.5 per cent per year over the next two years.

The remainder of 2023 will be characterised by preparations for the upcoming referendum on a proposed new Chilean Constitution in December 2023. In September 2022, a first draft proposal for a new Constitution was rejected, which would have led to a permanently higher level of spending. The Constitutional Council, which is drafting the upcoming proposal, is composed of more than 60% centre/right representatives, establishing the preconditions for the new Constitution to largely maintain Chile's pro-business environment. Meanwhile, support for President Boric's Government, a coalition of left-wing parties, has fallen sharply. The Government has been under pressure from corruption allegations within parts of the ruling coalition. The Government's ability to i.a. implement reforms of the pension and tax systems has therefore been reduced and will only be possible after compromises with the centre-right parts of the Parliament.

The likelihood of fundamental changes to Chile's institutional framework has been reduced by the rejection of the proposed Constitution in September 2022 and continued support for the country's principal economic orientation. At the same time, the possibility of new social demands, which could erode the overall situation with the state finances, is expected to remain a latent risk in the country context for the foreseeable future.

### Business environment

Chile is an open economy with deeply rooted democratic institutions, making it one of the most attractive countries in Latin America for trade and investment. Other advantages include the relatively low crime rate (compared with other countries in the region), a high degree of rule of law, along with a historically sound growth rate. The availability of financial information about private buyers is high, and imports on open account are common, and letters of credit are not commonly used. In a relatively mature market such as Chile, demand for risk mitigating products from EKN is limited. In the World Bank's latest Ease of Doing Business Index, Chile ranks 59th (out of 189 countries) making it the top country in the region. The ranking would be higher if not for a general Latin American problem, namely the sluggish judicial system (even if it is less pronounced in Chile). In relation to other aspects of the business environment, such as legal certainty and the rule of law, corruption and transparency, the country is in line with other OECD member countries. Institutionally, Chile is a highly developed country, where leading institutions such as the Ministry of Finance, the Central Bank and the financial regulator, The Financial Market Commission, have a very good reputation. The openness of the economy is also reflected in open market policies with few barriers to trade and investment. Chile has established trade agreements with some 70 countries, which collectively account for 88% per cent of global GDP.

The balance sheets of banks and other financial institutions are considered to be sound. The sector is generally characterised by strong risk management capacity, diversified asset portfolios and conservative lending practices. The six largest banks control approximately 87% of total assets in the sector. The average non-performing loan ratio in 2023 was 1.9%, up from 1.4% a year earlier.

The regulatory authority for the sector has announced that it will gradually implement the Basel III framework progressing up to full implementation in 2025.

## EKN:s policy

EKN has ranked Chile in country risk category 2 (out of 0 to 7) since the year 2000. Regular credit risk assessments apply to transactions with the sovereign, other public sector buyers, banks and companies. This means that there are no predetermined limitations in the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions.

## EKN:s commitment and experience

EKN's payment experience in Chile overall is good. It is clear that the government is keen to maintain good relations with its creditors. EKN's guarantees for transactions in Chile amount to SEK 1.1 billion and consist mainly of guarantees for the export of buses to the public transport system followed by the pulp and paper industry. In 2022, guarantees were issued in 23 different transactions with a combined total value of SEK 1.5 billion.

So far this year (January - August 2023), 21 transactions have been guaranteed at a total value of SEK 700 million. This is an increase in the number of transactions but a decrease in terms of the amount compared to the same period in 2022 (when there were 14 transactions with a total value of SEK 1.1 billion). Over the past five years, EKN has guaranteed an average of 20 transactions per year with an annual value of SEK 1.0 billion. Arrears amounting to SEK 6 million are spread out over a handful of transactions, where the maximum guarantee exposure consists of limited amounts. Outstanding claims amount to SEK 53 million and are attributable to commercial indemnifications in twelve transactions entered into between 2009 and 2020.