Chile

CRT-2

August 22, 2019

Region: Latin America

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Chile, a CRT-2 country, has low levels of economic, political, and financial system risk.

• The economy improved in 2018, registering 4.0% growth. However, GDP is expected to decline in 2019 due to global trade tensions and volatility in the commodity markets. The government is attempting to update the tax system and strengthen the pension system in 2019.

• The map depicts the countries AM Best evaluates in Latin America and the Caribbean. The majority of Latin American countries are CRT-4 or CRT-5, with the exceptions of Chile, Mexico, and Peru.

Regional Summary: Latin America

• Economic growth has slowed in Argentina, Mexico and Brazil—some of the region's major economies—due to escalating trade tensions and volatile currency and commodity markets. The impact of these factors will be amplified by country-specific vulnerabilities. Additionally, the potential for stricter trade protectionist policies brings uncertainty to the growth outlook.

• Modest growth and tame inflation levels have allowed several of the region's central banks to hold interest rates at relatively low levels—the notable exception being Mexico's central bank, which has kept interest rates elevated on concerns over inflation and currency weakness.

• Structural reforms are needed to diminish reliance on unsustainable social programs and the resulting higher levels of public debt. Debt reform is also needed, to address growing corruption and its effects on economic potential.

• The ongoing humanitarian crisis in Venezuela has seen a significant outflow of refugees seeking asylum in neighboring countries, which has the potential to strain resources in neighboring host countries.
Economic Risk: Low

- Chile is one of the fastest-expanding economies in Latin America, its GDP driven by higher copper prices and increases in domestic demand. Chilean citizens received a minimum wage increase on January 1, 2018, bolstering consumer spending and sentiment.

- Growth in 2019 is expected to slow due to slower global growth, trade uncertainty, and a cooling in copper prices. Prices are sensitive to weakening export demand from deceleration in crucial economies.

- Chile is endowed with abundant natural resources, making mining the leading sector. Other significant sectors include forestry and fishing.

- The country benefits from highly developed infrastructure, transparent and consolidated institutions, and a well-educated population. The workforce is relatively stable, and the government has a business friendly agenda.

- Some of the country’s weaknesses include its vulnerability to natural disasters and the cyclical nature of the mining sector. Labor union and environmentalists activities can cause some degree of disruption to business operations.

Political Risk: Low

- Sebastián Piñera, of the Chile Vamos party was inaugurated as president in March 2018 after his election in December 2017. He has planned to reform the labor, pension, and tax systems. He will also focus on promoting foreign direct investment by implementing pro-business policies. However, his political party does not hold a majority in Congress, posing obstacles for passing legislation.

- Social unrest poses a moderate risk to political stability. Demonstrations are mostly peaceful, but have the potential to escalate.

- The judiciary is independent and transparent. However, legal process can be inefficient and costly at times. The legal framework is friendly to businesses and upholds intellectual property rights.

Financial System Risk: Low

- The Financial Markets Commission is the insurance supervisory authority.

- The Central Bank of Chile lowered interest rates by 50 basis points in June 2019 to 2.5%. Inflation has been somewhat lower than the Central Bank of Chile’s inflation target of 3.0%, plus or minus 1.0%.

- The IMF notes that the financial sector is healthy, with the banking system well capitalized. Non-performing loans remain low, at approximately 2.0%.

- Banks will need to increase capital to meet Basel III solvency requirements, as required by the new banking law. The law also improves the governance of regulatory and supervisory agencies.