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# *Highlights of Chile* 2014-2015



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## 2014-2015

### ***Synopsis***

- The economy had a positive growth of 1.9%.
- At the end of 2014, the copper price reached an average of US\$311.25 cents per pound, lower than the 2013 average of US\$332.12 cents per pound.
- The total materialized foreign direct investment (FDI) channeled through DL 600 reached US\$ 11,910 million in 2014. Chile consolidates as the best credit risk rated country of Latin America.
- The estimated annual average unemployment rate reached 6.4% and the annual average inflation during 2014 was 4.6%.

## ***Political environment***

This is the second year of the government of President Michelle Bachelet, who won 2013's election with 62.16% of the votes. The President will be in charge from March 2014 until March 2018. The actual approval of the "Nueva Mayoría", the ruling coalition, is of 24%.

According to the opinion poll of a local think tank (the Centro de Estudios Públicos or CEP) the actual approval of the "Alianza por Chile", the opposition party, is of 16%.

Since March 2014, representatives and senators elected in the October 2013 election will be in charge.

The Lower Chamber will have 64 representatives of the governing centre left coalition (Nueva Mayoría), 44 of the centre right coalition (Alianza por Chile), 1 of the Liberal Party (Partido Liberal de Chile) and 11 independent. Of these representatives of Nueva Mayoría, 21 belong to Partido Demócrata Cristiano, 6 to Partido Comunista, 15 to Partido por la Democracia, 6 to Partido Radical Social Demócrata,

and 16 to Partido Socialista. Of the representatives of the Alianza por Chile, 15 belong to Renovación Nacional, and 29 to Unión Demócrata Independiente.

The Senate is made up of 18 senators of the centre left coalition, 14 of the centre right coalition, 5 independent and 1 of MAS. Of the senators of Nueva Mayoría, 6 belong to Partido Socialista, 6 to Partido por la Democracia and 6 to Partido Demócrata Cristiano. Of the representatives of the Alianza, 6 belong to Renovación Nacional, and 8 to Unión Demócrata Independiente.

Thus, the Government does have a slight majority in both Chambers.



## ***Economic performance, tax and labor legislation***

*The Virgin Beach - III Region, Atacama - Chile.*

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## **1. Gross Domestic Product (GDP)**

During 2014, the Chilean economy had a decrease in its growth to 1.9%, even though, this number is higher than expected, mainly due to depreciation of the Chilean Peso related to the US dollar strengthen and also due to a weak consumption and investment.

The internal demand decreased up to -0.6% in 2014, showing a contraction of 4.3 points in comparison with the year before, mainly due to the lower investment.

Chile's per capita income is approximately US\$ US\$ 14.488, according to the Central Bank information in March 2015.

## **2. Trade balance and balance of payments**

The trade balance for 2014 showed a surplus of US\$ 7,767 million, with exports of US\$ 75,675 million (1.05% lower than 2013) and imports of US\$ 67,908 million (9.05% lower than 2013). The previous year this surplus reached approximately US\$ 1,820 million, with exports of

US\$ 76,477 million and US\$ 74,657 million of imports. This is the seventeen consecutive year of surplus.

In 2014, the copper price quoted at the London Metal Exchange reached an average of 311.25 US Dollar cents per pound, figure that is lower than the 2013 average (332.1 US Dollar cents per pound).

According to information published by World Metal Statistics, global supply of mine copper reached in September 2014 13.7 million TM, growing 1.8% regarding the year before. Chile is the main contributor to this increase in the supply (4.255 kTM Copper).

The projection for 2014, performed by COCHILCO showed that the annual average price of copper will be US\$ 2.85 per pound.

Foreign exchange reserves were US\$ 40,447 million, compared to the US\$ 41,094 million at the end of 2013, US\$ 41,650 million in 2012, US\$ 41,979 in 2011, US\$ 27,864 million in 2010 and US\$ 25,371 million in 2009.

### **3. Double taxation agreements**

Chile has 25 agreements for the avoidance of double taxation and the prevention of fiscal evasion in force. Treaty countries are: Australia, Belgium, Brazil, Canada, Colombia, Croatia, Denmark, Ecuador, Spain, France, Ireland, Malaysia, Mexico, Norway, New Zealand, Paraguay, Peru, Poland, Portugal, Russia, South Korea, Sweden, Switzerland, Thailand and the United Kingdom.

Agreements with Austria, South Africa and the United States of America have been already signed and are currently pending ratification by Congress.

Chile is conducting negotiation with various other countries.

### **4. Trade agreements**

At present, there are 24 Free Trade Treaties and Agreements in force with Australia, Canada, China, Colombia, South Korea, E.F.T.A. (Iceland, Liechtenstein, Norway and Switzerland), the United States of America, Hong Kong, Malaysia, Mexico,

Panama, Peru, Turkey, Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and Vietnam. The latest agreement, with Hong Kong, is in force since November 2014.

Agreements of Economic Association with Japan, members of the EU and of the P4 (formed by New Zealand, Singapore, Brunei Darussalam, and Chile) and limited FTAs with India are also in force. On the other hand, Economic Complementation Agreements exist with Bolivia, Cuba, Ecuador, Peru, Mercosur and Venezuela.

At present, FTA with Thailand has been signed, and a deepening of India's FTA has been concluded but not yet signed; an Additional Protocol to the Pacific Alliance (Alianza del Pacífico) has been signed between Chile, Peru, Colombia and Mexico, and Negotiations of the Transpacific Partnership and with Indonesia are being held.



*La Portada - II Región, Antofagasta - Chile.*

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## 5. Foreign debt

According to the information issued by the Chilean Central Bank, to December 2014, foreign debt increased in 8.8% reaching US\$145,616 million. The private sector debt increased in US\$8,983 million, while the public sector debt increased in US\$2,896 million. Particularly, the direct foreign investment companies led the debt increase with US\$6,817 million. Other companies increased their external debt in US \$622 million and banks decreased their external debt in US \$680 million. On the other hand, government increased its debt balance in US\$1,091 million.

## 6. Foreign investment

During 2014, total materialized foreign direct investment (FDI) channeled through DL 600 reached US\$ 11,910 million, which is a higher amount for this kind of investment than 2013, which reached US\$ 7,336 million. The main sectors receiving DL 600 FDI were chemical industries (US\$ 3,566 million), electricity, gas and water (US\$ 3,403 million),

commerce (US\$ 2,146 million) and mining (US\$ 1,823 million). Foreign investors came mainly from the United States of America (43.7%), Spain (31.33%), Canada (8.55%) and Switzerland (5.18%).

## 7. Outbound investment

Outbound investment during 2014 was US\$ 2,862 million, which represents a 15.4% of the investment on the same period during 2013.

Of these outbound investments, the largest share went mainly to Latin American Countries. The countries that received the largest shares in 2014 were Peru (48.4%), Brazil (24%), Colombia (15.3%) and Egypt (7.5%).

Throughout the last twenty-four years, the preferred sectors for Chilean outbound investments have been services (45.6 %); industry (26.3%) and energy (18.6%). Mining represents only a small portion (6.7%) and so do agriculture and livestock (2.6%).



## **8. GDP analysis by sector performance**

Mining performance increased 1.3% in 2014, with a moderate growth throughout the year, scoring the highest rates of variation in the last quarter of the year. This number is lower than 2013, mainly because a lower performance of the copper production and an increase in the iron production.

Regarding the sector of electricity, gas and water, 2014 closed with a growth of 4.9%, as there were increases in all trimesters. The dynamism of this sector is explained due to coal generation and an increase on the hydroelectricity.

Commerce growth reached barely 0.5% in 2014, mainly due to retail increase and wholesale and automotive sales decrease.

Personal and business services sector increased in 3.9% and 1.9% respectively, while telecommunication increased in 6.6%, due to the cell phone market, and also television and internet.

The agriculture and forestry activity was driven mainly by vegetables, livestock and pulpwood, with a growth of 0.4%. Construction growth reached 1.5%, activity which was leaded during 2014 by engineering works.

Industrial production decreased in 0.3%, mainly due to a contraction in beverages and tobacco, and also in metallic products and equipment.

Fishing increased during 2014 in 18.6%, being the sector that contributes the most, by a successful performance of low fish catch and salmon production.



*Green Lagoon - III Region, Atacama - Chile.*

## **9. Country risk**

Chile's credit risk rating in long term foreign currency is "AA-", according to Standard & Poor's. The credit risk rating in local currency and its transfer and convertibility evaluation maintains in "AA+". This consolidates Chile's leading position in Latin America as the country with the best credit risk rating, which has also been reflected in Chile's position in the J.P. Morgan Emerging Markets Bond Index (EMBI Global). The JP Morgan EMBI Global Chile Stripped Spread at December 2014 was 172 base points, with an annual average of 143 in 2014.

## **10. Labor**

In 2014, the estimated annual average unemployment rate reached 6.4%, according to the data of the National Institute of Statistics (INE).

## **11. Inflation**

Annual average inflation during 2014 was 4.4%, annual variation at December 2014 was 4.6%.

Inflation annual average was 1.8 in 2013, 3.0% in 2012, 3.3% in 2011, 2.7% in 2010, -1.4% in 2009, and 7.1% in 2008.

## **12. Exchange rates**

The “observed” exchange rate, which is the average of buying and selling rates for transactions in the Formal Market, closed the year 2014 at CLP \$ 607.38 per US dollar, compared with CLP \$ 524.61 per US dollar at the beginning of the calendar year.

The exchange rate reached its highest value for the year 2014 in December at CLP \$ 621.41 and its lowest value in January at CLP \$ 466.5.

## **13. Interest rates**

During 2014, the Central Bank lowered the benchmark lending interest rate to 3.8%. During January 2015, Central Bank lowered this rate again to 3.0%.

## **14. Foreign exchange regulations**

Since 2002, foreign Exchange operations fall into 3 categories: (i) operations that must be performed through the formal exchange market (i.e. a commercial bank) and reported to the Central Bank; (ii) operations that must only be performed through the formal exchange market; or (iii) operations that need only be reported to the Central Bank. Thus, there are no transactions that require prior approval by the Central Bank.



*San Francisco Lagoon - III Region, Atacama - Chile.*



*Tatio's Geyser - II Region, Antofagasta - Chile.*



*Copiapo Valley - III Region, Atacama - Chile.*

## 15. Tax legislation

**Law No. 20,711** was published in the Official Gazette on January 2, 2014, which implements the Apostille Convention, removing the legal requirement of legalization of foreign documents to be valid in Chile.

**Law No. 20,712** was published in the Official Gazette on January 7, 2014. This Law creates a sole piece of legislation applicable to the industry of third party funds management, which seeks to simplify and improve the applicable legislation, as well as attract foreign investment to the Chilean capital market. The laws containing special standards in this matter are repealed; and the tax treatment of investment funds established in Chile and foreign funds are standardized and aligned.

Even though the new law preserves the quality of non-taxpayers of the funds (to the extent they are not considered as legal entities, consequently not being subject to tax), it incorporates significant news in tax matters, such as obligations for funds administrators, taxation applicable to the fund and to the investors, whether local or foreign.

**Law No. 20,720** was published in the Official Gazette on January 9, 2014, and modifies the old Bankruptcy Law. It replaces the term “bankruptcy” for “insolvency, reorganization and liquidation”, and establishes procedures that allow the difference between saving the businesses that can still operate, and liquidate the businesses that can’t be saved.

This Law also differences the consequences of being in insolvency between persons and business, creating a procedure to renegotiate debts or liquidate the debtor assets for the formers, and to reorganize or liquidate the debts and the equity of a company debtor for the latter.

**Exempt Resolution N° 5 of IRS** was published on January 22, 2015. This Resolution establishes directions for all the taxpayers that use electronic payment devices in the replacement of the sells and services receipts affected to VAT, by the issuance of the voucher issued by POS terminals of electronic payment register, when using credit or debit cards, fulfilling some requirements. These directions are optional since February 1st, 2015 and mandatory for everyone since February 1st 2018. Notwithstanding, the POS voucher is

forbidden to be used as a receipt for those taxpayers that the IRS authorized to issue different vouchers instead of sells and services invoices affected to VAT.

**Law No. 20,727** was published in the Official Gazette on January 31, 2014, and modifies VAT Law, establishing that invoices must be electronically issued for medium and large taxpayers since October 2014, and that sells and services receipt may be issued in paper or in electronic format. Also, that the vouchers issued by electronic payments (credit and debit cards) will be valid as a receipt. Finally, the IRS can allow that the accounting, additional or/and auxiliary paper books may be replaced by technological systems, as long as they are trustworthy. This law also allows the use in Chile of a higher tax credit for foreign taxes paid by foreign companies remitting dividends to Chile, if certain requirements met.

**Exempt Decree N° 24 of Ministry of Finance** was published in the Official Gazette on February 20, 2014, which actualizes the tax applicable to copper.

**Law No. 20,780** was published in the Official Gazette on September 29 2014. This law introduced several modifications to the tax legislation in Chile that are entering in force gradually since its publication and up to January 1st, 2017. The most important modification is the establishment of two corporate income tax (CIT) systems, attributed income system and partially integrated system, and the increase of the corporate income tax rate up to 25% for the attributed income system and up to 27% for the partially integrated system. Also establishes general anti-avoidance (GAAR) rules and derogates the Decree Law No. 600 regarding foreign investment.

Other important modifications are the following: the maximum rate for personal taxes and surplus tax is reduced down to 35%; the CIT base of interests and other financial expenses to finance the acquisition of movable capital is allowed to be deducted; the amortization of goodwill and the deduction of payments to foreign related parties is limited; CFC and thin capitalization rules are modified; assets and/or income that has not paid taxes can be regularized by



declaring its existence and paying a sole tax of 8% if certain requirements are met; every CIT taxpayer must inform all their investments; new rules are established for the alienation of Chilean entities regarding capital gains; capital gains derived from real estate alienation may arise taxable income if certain requirements are fulfilled; FUT is eliminated; the Stamp tax increases its limit; the selling of property is now affected to VAT; the limit to the special credit granted to construction companies is lowered; green taxes (i.e. against pollution) and corrective taxes (i.e. against alcohol) are established; and public and private funds are subject to new taxation rules.



*Maricunga Salar - III Region, Atacama - Chile.*

## 16. Labor legislation

**Law No. 20,760** was published in the Official Gazette on July 9, 2014. This law introduces a presumption, considering two or more companies as one employee when they have a common labor address and develop the same or complementary products and/or services. The consequences are that the workers may form unions and negotiate as a whole with those companies considered as one, and that a labor judge may apply a fine if bad will is proved.

**Law No. 20,763** was published in the Official Gazette on July 18, 2014, set a progressive increase of the Minimum Monthly Wage at CLP 225,000 (approximately 361 USD) since July 1st 2014, at CLP 241,000 (approximately 387 USD) since July 1st 2015, and at CLP 250,000 (approximately 401 USD) since January 1st 2016.

**Law No. 20,764** was published in the Official Gazette on July 18, 2014, and establishes a 5 day paid permission for every worker that marriages, after or before, including that day, additional to the legal holidays, regardless his/her time service.

**Law No. 20,761** was published in the Official Gazette on July 22, 2014. This Law refers to the right to feed their son/ daughter, allowing the father to exercise this right when both are working parent.

**Law No. 20,786** was published in the Official Gazette on October 27, 2014, and regulates the house keeping workers situation, establishing a mandatory contract, labor hour limits, a weekly rest, and the prohibition to obligate those workers to use a uniform in public places.

## 17. Prospects for 2015

The Central Bank of Chile estimates that the GDP projections will be in a range from 2.5% and 3.5% during 2015. The expectation of the average annual inflation for calendar year 2015 is 4.0%, and estimation for 2016 is around of 3.6%.



## 18. PwC in Chile

PwC ([www.pwc.cl](http://www.pwc.cl)) has been present in Chile since 1914. During these 100 years we have served the most prestigious local and foreign entities operating in Chile. We are the leading firm in the auditing business, with a staff of approximately 1,500 distributed in the cities of Antofagasta, Santiago, Viña del Mar, Concepción, and Puerto Montt.

Our services include auditing, management consulting, executive recruitment, fixed asset valuation, due diligences, technology and software selection, performance improvement, enterprise risk management, tax and legal services, foreign investment registration and structuring, bookkeeping, confidential payroll and corporate finance services. In general, we provide information and advice on how to operate in Chile.

Our main objective is to add value and help our clients be successful and we welcome any questions you may have related to either our services in general or to the information above.



*Lauca Natinal Park - XV Region, Arica y Parinacota - Chile.*

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*Santa Rosa Lagoon - III Region, Atacama - Chile.*

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