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Highlights of Chile 2013-2014



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Synopsis

- The economy had a positive growth of 4,1%.
- At the end of 2013, the copper price reached an average of US\$332.1 cents per pound, lower than the 2012 average of US\$361 cents per pound.
- The total materialized foreign direct investment (FDI) channeled through DL 600 reached US\$ 7,336 million in 2013. Chile consolidates as the best credit risk rated country of Latin America.
- The estimated annual average unemployment rate reached 6% and the annual average inflation during 2013 was 1.7%.

Political environment

This is the first year of the government of President Michelle Bachelet, who won 2013 election with 62.16% of the votes. The president will be in charge from March 2014 until March 2018.

According to the opinion poll of a local think tank (the Centro de Estudios Públicos or CEP) President Sebastian Piñera Echeñique, who was in charge until March 2014, has an approval rating of 34%.

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

The Lower Chamber will have 63 representatives of the governing centre left coalition (Nueva Mayoría), 45 of the centre right coalition (Alianza) 1 of the Liberal Party (Partido Liberal de Chile) and 11 independent.

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

The Senate is made up of 17 senators of the centre left coalition, 14 of the centre right coalition, 5 independent and one of Más. Of the senators of Nueva Mayoría, 6 belong to Partido Socialista, 6 to Partido por la Democracia and 5 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 either Chamber.

Economic Performance, Tax and Labor Legislation



Atacama Desert - North of Chile

1. GDP

During 2013, the Chilean economy had a positive growth of 4.1%, mainly due to the expansion of mining industry, commerce, and business services.

The internal demand grew 3.4% in 2013, largely due to consumption and less to investment.

Chile's per capita income is approximately US\$ 15,971, according to the Central Bank information at April 2014.

2. Trade Balance and Balance of Payments

The trade balance for 2013 showed a surplus of US\$ 2,116 million, with exports of US\$ 76,684 million (1.6% lower than 2012) and imports of US\$ 74,568 million (1.1% lower than 2012). The previous year this surplus reached approximately US\$ 2,507 million, with

exports of US\$ 77,965 million and US\$ 75,458 million of imports. This is the sixteenth consecutive year of surplus.

In 2013, the copper price quoted at the London Metal Exchange reached an average of 332.1 US Dollar cents per pound, figure that is lower than the 2012 average (360,5 US Dollar cents per pound).

According to information published by World Metal Statistics, global supply of mine copper reached in October 2013 15 million TM, growing 7.2% regarding 2012. Chile is the main contributor to this increase in the supply (301 kTM Copper).

The projection for 2014, performed by COCHILCO showed that the annual average price of copper will be US\$ 315 cents per pound.

Foreign exchange reserves were US\$ 41,094 million, compared to the US\$ 41,650 million at the end of the 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 negotiating with various other countries.

4. Trade Agreements

At present, there are Free Trade Treaties and Agreements in force with China, Canada, Colombia, Mexico, South Korea, E.F.T.A. (Iceland, Liechtenstein, Norway and

Switzerland), Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), Australia, Panama, Peru, the United States of America, Turkey, Malaysia and Vietnam. The latest agreement, with Vietnam, is in force since February 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 Argentina, Bolivia, Cuba, Ecuador, Mercosur and Venezuela.

At present, FTA with China and Thailand has been signed, and an Additional Protocol to the Pacific Alliance (Alianza del Pacífico) has been signed between Chile, Peru, Colombia and Mexico. Negotiations of the Transpacific Partnership are being held.



Motu Nui islet - Easter Island

5. Foreign Debt

According to the information issued by the Chilean Central Bank, to December 2013, foreign debt increased in 11.2%, reaching US\$130.724 million. The private sector debt increased in US\$12.982 million, while the public sector debt increased in US\$172 million. Particularly, the direct foreign investment companies lead the debt increase with US\$7.231 million. Other companies and banks also increased their external debt. On the other hand, government decrease its debt balance in US\$352 million.

6. Foreign investment

During 2013, total materialized foreign direct investment (FDI) channeled through DL 600 reached US\$ 7,336 million, which is a lower amount for this kind of investment than 2012, which reached US\$ 18,887 million. The main sectors receiving DL 600 FDI were mining (US\$ 3.900 million), insurance (US\$ 1.261 million), financial

services (US\$ 627 million), and electricity, gas and water (US\$ 283 million). Foreign investors came mainly from Japan (34.4%), the United States of America (26.1%), Canada (13.4%) and Colombia (8.6%).

7. Outbound investment

Outbound investment during first half of 2013 was US\$ 10,379 million, which represents an increase of more than a 300% over the same period of 2012.

Of these outbound investments, the largest share by far went to Latin American Countries. The countries that received the largest shares in 2013 were Brazil (25.4%), Argentina (19.5%), Colombia (19.2%) and Peru (15.8%).

Throughout the last twenty-three years, the preferred sectors for Chilean outbound investments have been services (47 %); industry (26%) and energy (19%). Mining represents only a small portion (5%) and so do agriculture and livestock (4%).

8. GDP analysis by sector performance

Mining performance increased 6.1% in 2013, with a dissimilar growth throughout the year, scoring the highest rates of variation in the first and third quarters of the year. The dynamism of the mining sector was reflected in the performance of the copper production, growth that was mainly associated to technical improvements.

Regarding the sector of electricity, gas and water, 2013 closed with a growth of 7.3%, as there were increased in all semesters. The expansion of the sector is in line with these rates. The dynamism of this sector is explained due to a higher coal generation.

Commerce growth reached 7.2% in 2013, with an increase in all sub activities. However, this growth is mainly related to retail, wholesale and automotive sales.

Personal and business services sector increased in 3.5% and 3.6% respectively, while telecommunication increased in 4,9%, due to a lower dynamism in the cell phone market.

The agriculture and forestry activity was driven mainly by fruit growing and forestry, with a growth of 4.7%. Construction growth reached 3.2%, activity which was leaded during 2013 by engineering works.

Industrial production remained stable, with a marginal increase (0.2%).

Fishing contracted during 2013 (12.7%) due to low fish catch and salmon production.

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 2013 was 159 base points, with an annual average of 154 in 2013.

10. Labor

In 2013, the estimated annual average unemployment rate reached 6%, according to the data of the National Institute of Statistics (INE).

11. Inflation

Annual average inflation during 2013 was 1.8%, annual variation at December 2013 was 2.6%.

Inflation annual average was 3.0% in 2012, 3.3% in 2011, 2.7% in 2010, -1.4% in 2009, 7.1% in 2008, and 7.8% in 2007.

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 2013 at CLP\$ 530,88 per US dollar, compared with CLP\$ 479,96 per US dollar at the beginning of the calendar year.

The exchange rate reached its highest value for the year 2012 in December at CLP\$ 533,95 and its lowest value in April at CLP\$ 466,5.



Chiloé Pile Dwellings - South of Chile

13. Country risk

During 2013, the Central Bank lowered the benchmark lending interest rate to 4.5%. During February and March 2014, Central Bank progressively low this rate first to 4.25% and finally to 4%.

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 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.

15. Tax legislation

Law No. 20,669 was published in the official Gazette on february 8, 2013, which simplifies the incorporation process of certain companies, through the usage of electronic media (website).

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 N° 20,727 was published in the Official Gazette on January 31, 2014, modifies the existent regimen of electronic invoicing. 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 are met.

16. Labor legislation

Law No. 20,689 published in the Official Gazette on August 24, 2013, set the Minimum Monthly Wage at CLP 210,000 (approximately US\$ 420).

Law No. 20,691 was published in the Official Gazette on October 14, 2013, with the purpose of creating the “Agency of Safety and Health at work”.

17. Prospects for 2014

The Central Bank of Chile estimates that the GDP projections will be in a range from 3% and 4% during 2014.

The expectation of the average annual inflation for calendar year 2014 is 3.4%, and estimation for December 2014 of 3%, and a 3% for 2015.

18. PwC in Chile

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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 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.



Villarica Volcano - South of Chile



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