

Backgrounder

CHILE

Political Situation

Mr. Eduardo Frei, candidate of the governing centre-left coalition Concertación Nacional, achieved a solid victory during the December 1993 elections, garnering 58 per cent of the vote. His nearest opponent, representing an alliance of right-wing parties, Senator Allesandri, gained 24 per cent of the vote. The Concertación held its majority in the lower Chamber, but failed to secure a majority in the Senate, where eight unelected conservative senators, appointed by former President Pinochet, maintain their seats.

Former president Aylwin led the Concertación to victory in 1990 in the first elections following General Pinochet's resignation. Aylwin made the transition from military to civilian government an outstanding success. He launched important social reforms, which are being pursued by President Frei. The latter has indicated that his main priorities will be the further eradication of poverty (down from 40 per cent in 1989 to 30 per cent at the end of 1993), the achievement of a higher standard of living as well as education and health systems reform. The President is placing a strong emphasis on improved productivity, skills upgrading and diversification to higher value-added exports as the means to achieve this goal.

Economic Situation

With one of the most open and vibrant economies in Latin America, Chile has a robust economic record of an annual average real gross national product (GNP) growth rate of 6 per cent for 10 straight years. Economic growth reached a record 10.3 per cent in 1992. In 1994, gross domestic product (GDP) grew by 4.3 per cent compared to 6 per cent in 1993. Inflation fell from 12.7 per cent in 1993 to 8.9 per cent last year - its lowest level since 1960. Unemployment increased slightly to 5.4 per cent in 1994 from 4.3 per cent in 1993, which was the lowest level in two decades, when a record number of jobs were created.

Tight, responsible fiscal policies have created an attractive investment climate in Chile for both nationals and foreigners. Capital investment reached an unprecedented high in 1993 (27 per cent of GDP) with foreign investment at record-breaking levels for two consecutive years. Investment has grown from 14 per cent of GNP in the middle of the 1980s to an average of 20 per cent in the last three years.

The Central Bank of Chile's reserve requirement of 20 per cent for one year for all foreign currency inflows continues to be a