CONSTRUCTION IN CHILE: SITUATION AND PROSPECTS

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GENERAL BACKGROUND

The development strategy adopted by our country in the past few years is based on two fundamental pillars: the opening to foreign trade and the increase in the investment rate.

Once the debt crisis which so severely hit Chile's economy at the beginning of the 1980s was overcome, within a period of only 5 years, since 1987 to date, exports have increased by more than 80%. Investment rose by 66% during the same period. This has permitted the country to grow at an annual average rate of 6,6%, the Gross Domestic Product reaching 37,4% and the per capita product more than 27%.

The construction sector has thus become a key element in the country's development as it accounts for more than 50% of fixed capital investment. It produces for the private sector the physical infrastructure works necessary to materialize the rest of the investment, providing the public infrastructure which makes it possible to generate and activate production, and meeting the growing demand for housing which this economic development has increasingly made possible for broader sectors of the population.

Thus, over the past five years, construction works equivalent to an investment of more than US$ 13.600 million have been carried out, with a real annual average growth rate of 7,5%. This has made it possible to create more than 130.000 new jobs in the sector during the period and to raise real salaries by 23,5%.

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THE CONSTRUCTION SECTOR'S PRODUCTION STRUCTURE

According to the last information available, the Construction Sector's Gross Production Value is made up almost in equal parts by the Added Value and the Intermediate Consumption, in other words, the Value of the inputs required to produce the works. Approximately 25% of these inputs correspond to imported material, mainly industrial.

From a destination point of view, around 80% of the Gross Production Value corresponds to Fixed Capital Investment and the remaining 20% to demolitions and minor repairs of houses and buildings.

This general information makes it possible to estimate the Chilean construction sector's production structure for 1992:

GROSS PRODUCTION VALUE	3.909
Intermediate Consumption	1.976
Of National Origin	1.482
Of Imported Origin	494
Sector's Added Value	1.933
Investment	3.127
Housing	1.552
- Public	321
- Private	1.230
Infrastructure	1.576
- Public	546
- Private	1.030
- Others Non-investment	782

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HOUSING SECTOR

As to housing, the role of the State is essentially different from the one it has in public infrastructure works. In this case it is dealing with private assets, therefore, the State has a subsidiary role based on social considerations.

In this context, the housing policies try to create the necessary conditions to ensure Chilean families equal opportunities to solve their housing problems, whichever their social or economic status. Equal opportunities does not mean access to the same kind of houses, but the possibility of buying the house that better meets their needs and which their own savings effort permits them. The Government directs its financial support to those families whose economic capacity is insufficient to meet their housing needs by themselves, within minimum safety, health and privacy conditions.

PUBLIC HOUSING PROGRAMS

The different housing policies and programs developed and improved over the past decade, have shown their efficiency, optimizing the use of the public resources allocated, and encouraging private savings for housing, in a clearly progressive scheme which gives priority to the lower-income sectors.

Within this scheme, the State's function, which is carried out through the Ministry of Housing and Urban Development, can be classified according to the form it takes, into direct and subsidiary work.

Direct Work

Idiosyncratic and socio-cultural reasons recommend maintaining a direct line of work

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to solve the housing problems of the lower-income groups. Within this line of action, the Ministry calls to public bids for the construction of houses for lower-income groups, which are later assigned to families which are registered in a National Application List. The selection of these families is carried out based on social criteria (CAS record) and to the family'savings.

The following housing programs correspond to this direct line of work:

	Area m^2	Value US$	Subsidy US$	Nº of Houses
PROGRESSIVE HOUSES				14.000
1st. Stage	12 + land	3.085	2.440	
2nd Stage	19	1.318	854	
BASIC HOUSES	37	5.057	3.792	26.000
SPECIAL PROGRAMS FOR WORKERS	44	7.290	1.952	16.000

Housing Subsidies

The housing subsidy policy, developed and improved over the past decade, has been particularly effective to deal with the Chilean housing problem. This system is regulated by objective, universal and impersonal norms and it has allowed the State to encourage the families' saving effort.

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	Area m²	Value US$	Subsidy US$	Nº of Houses
RURAL SUBSIDY	37	6.344	3.660	7.000
GENERAL UNIFIED SUBSIDY (top value)				
Segment 1	47	9.760	3.660	18.540
Segment 2	60	21.960	3.172	5.400
Segment 3	80	48.800	2.684	2.030

In order to apply to the Subsidy a special housing savings account is required.

There are currently around 700.000 Savings Accounts of this kind which make up a total of US$ 284 million in savings for housing.

MARKET HOUSES

All the houses are built by private companies. In the case of the Ministry of Housing's direct programs, the construction of the houses is granted by public bids. Thus, the scheme is based on a kind of State purchasing power, which subsequently assigns the houses to the applicants in the different programs, who are selected in the form described above, based on social indices and to the family's savings.

In the case of the Subsidy Systems, the beneficiaries freely choose among the houses offered in the market, the one that best meets its purchasing capacity, which is supplemented by the State subsidy provided for this purpose.

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Additionally, there is an interesting activity in the real estate market for the higher-income segments of the population which purchase their houses without State support. Approximately 13.500 houses are built for this segment annually with an estimated average area of 120 m^2 and an average price of approximately US$ 73.000.

THE INFRASTRUCTURE SECTOR

PUBLIC INFRASTRUCTURE

Aware of the deterioration suffered by the country's public works due to insufficient investment carried out in this area over the past two decades, the Government has implemented a National Infrastructure Program for the 1991-1994 period, of US$ 2.350 million, broken down as follows:

	US$ Billions
Architecture	25
Irrigation	155
Road Works	1.321
Airports	64
Ports	137
Subway	90
Sewerage and water services	400
Railways	83
Others	75
Total	**$ 2.350**

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Although the Ministry of Public Works is the principal responsible for the execution of the Program, other public services also participated, mainly Public Enterprises.

This program has resulted in a clear recovery of the investment leveles in this sector. For 1993, the Ministry of Public Works has planned a total investment of US$ 400 million with the sector's funds and US$ 370 million in the different Executing Offices.

	US$ Billions
Architecture	6
Irrigation	33
Road Works	310
Airports	6
Ports	38

On average, this budget represents a real increase of 11,7% compared to the works planned for 1992.

This investment, for accounting purposes in the defined Program, is complemented with investment made by other Ministries, Services and State-owned companies. For example, the Ministry of Housing and Urban Development, in addition to the budget for housing programs, has a budget of US$ 83 million for investment in Urban Roads and Pavement Works.

In order to channel additional investment funds to the execution of public infrastructure works, a new law was approved this year which makes it possible to give the concession to private investors for the execution and operation of public works. It is expected that this

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mechanism will make it possible to complement the resources that the State destines to the sector.

In a first stage, the project portfolio which is planned to be executed through this method includes projects for the construction of roads, ports and water and sewerage works, which together reach an investment of about US$ 170 million, which are planned to be carried out during the next four years.

In addition, private investors may propose projects which they have evaluated at a prefeasibility level, to be carried out through this concession method, provided that they are not included in the Government's programs. If the project is approved by the Ministry of Public Works, the necessary studies are completed and a public bid is called for the execution and administration by the investors who are awarded the projects. The creator of the idea obtains a prize which may range between 10 and 20% of the value of the work, applicable to his proposal for the execution of the project.

Although this is a recent law, several proposals have been submitted for consideration, especially in the area of urban road works.

PRIVATE INFRASTRUCTURE

Chile is a country which is open to foreign investment. The political and economic stability attained together with significant potential in natural resources and comparative advantages, have become the essential factors of the development of productive investment. In only 6 years, foreign investment approved to be carried out in the country grew eight fold, from US$ 450 million in 1985 to US$ 3.400 million in 1991. This has made possible the execution of many megaprojects, as well as smaller and medium-sized investments. This

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investment has been directed principally to the mining, paper pulp, forestry, manufacturing industry and agroindustry sectors, among others.

The Registry of Private Investment Projects to be executed between 1992 and 1995 with foreign, domestic and mixed capitals reaches more than US$ 8.500 million, US$ 3.200 million of which correspond to construction works, mainly buildings for commerce, tourism, energy, industry and mining.

CONSTRUCTION SECTOR PROSPECTS

There is consensus in the country on the need to increase the current investment rate of 20% of GDP (gross domestic product), as an essential requirement to maintain a high, stable and sustained growth rate.

Facing this challenge will mean that the Construction Sector will continue growing at higher rates than the GDP growth rate, which is estimated at an average of 6 to 7% annually for the medium-term.

The foundations for this growth have already been established. The capital market has shown a significant development, inflation has been controlled and is showing a clear downward trend, thus one-digit price variation rates are expected for the next few years, in a country which had undergone long inflationary processes in the past.

Housing policies with the subsidy regime are expected to continue stable and in a regime stage, which result in a projected construction rate of more than 100.000 houses per year.

The Government and the people have become aware of the need to strengthen public

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infrastructure, and there are macroeconomic conditions to maintain a growing investment rate in private infrastructure.

Because of all these reasons we are optimistic regarding the future evolution of the construction sector in our country.

The country's constructors, gathered in the Chilean Construction Association, which I have the honor of chairing, are aware of this and are willing to face the challenge that the country's development has imposed on us.

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