

CHILE

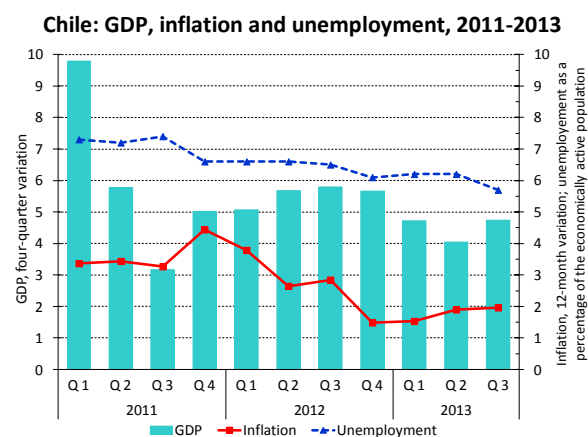
Chile's GDP grew by an estimated 4.2% in 2013, almost one and a half percentage points below the 2012 rate (5.6%). Domestic demand, which was up by about 3.9% in annual terms, was again the main driver but less vigorously so than in the previous year. Annual inflation of about 2.6% is projected at year-end, while unemployment fell to record lows thanks to buoyant economic activity. Net exports posted higher annual growth thanks to increased export volumes, while imports remained at around 2012 levels. A current account deficit persisted for the third consecutive year, albeit narrowing slightly from 3.5% of GDP in 2012 to 3.2% in 2013. Foreign direct investment inflows continued to figure heavily in the financial account. It is estimated that GDP will expand by 4.0% in 2014 as a result of slackening domestic demand (consumption and investment). Weakening job creation and real wage growth, plus a loosening of the labour market and lower lending in 2014 —trends visible in the second half of 2013— will have a dampening effect on consumption. Investment is expected to wane in 2014 as the current cycle of mining investment projects winds down amid cooling global demand and lower credit growth.

Fiscal policy continued to be directed towards achieving a structural balance. Between January and October, central government expenditure rose 5.8% in real terms, faster than GDP, after two years in which GDP growth had outpaced spending. Central government revenue edged down by 0.9% in real terms, mainly reflecting lower revenues from copper mining. As a result, the cumulative surplus to October stood at 0.6% of GDP, in line with the structural balance rule, although the government estimates that it will end the year with a deficit of 1%.

Monetary policy continued to be guided by an annual inflation target of 3%. Having held the nominal monetary policy rate at 5% since January 2012, the central bank lowered it to 4.75% in October and 4.5% in November 2013, in response to signs of slowing activity. Further reductions have not been ruled out.

The floating exchange rate remained strong over the first few months of 2013, with the peso valued higher than the 2012 average. In May, the currency began to depreciate following the announcements of changes in United States monetary policy, and posted figures comparable with the 2010 average towards year-end. Like the nominal exchange rate, the real exchange rate against the dollar began to fall from June, reaching a level similar to the average over the last 15 to 20 years, which is considered to be in line with long-term fundamentals.

The current account was running a cumulative deficit of 3.4% of GDP in the third quarter of the year, a slim improvement on the 2012 figure and the third consecutive year of deficit. The 2013 result reflected the wider deficit on the trade and services balance, offset by lower overseas profit remittances, especially from the mining sector. International reserves shrank slightly from US\$ 41.650 billion in December 2012 to US\$ 41.149 billion in November 2013.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In September 2013, the gross external debt of the general government posted a 12-month expansion of 26%, albeit from very low levels, while the external debt of the non-bank private sector swelled by about 6.2% to stand at around 54% of total gross external debt. Meanwhile, the external debt of foreign investment enterprises expanded by 53% in annual terms over the same period, and accounted for 20.5% of the total. On average, total gross external debt was equivalent to 44.2% of GDP in September.

Considering the robust domestic demand of previous years and the decline in national savings, a note of caution must be sounded regarding a possible external scenario of less benign international financial conditions and lower copper prices. In this respect, the consolidation of a trend towards domestic spending restraint, combined with a fall in the real exchange rate, would help reduce the external deficit. In addition, the deficit has been financed mainly by foreign direct investment, rather than external borrowing, which partly mitigates the associated risks.

Central bank projections indicate that domestic demand will rise by 3.9% in 2013, below 2012 figures as a result of the economic slowdown. These trends reflected both business expectations of lower future demand, and still-vigorous private consumption on the strength of labour market conditions and public spending that rose faster than GDP. Investment remained buoyant, although it began to show signs of weakening. Net exports saw improved annual growth, largely thanks to increased volumes.

During 2013, the total stock of bank loans expanded at a slower pace and recorded nominal annual growth of 10.5% in October, compared with 12.4% in October 2012. The business, consumer, foreign trade and mortgage components all performed in keeping with this trend.

In the third quarter of 2013, gross fixed capital formation posted cumulative growth of 3.2% in year-on-year terms, heavily down on the 2012 figure of 13.4%, and variation of 3.9% is expected for the year overall. This slowdown is specifically associated with the maturity of the mining investment cycle, in an external context of lower copper prices and less optimistic growth expectations for the global economy, especially China. However, private consumption gained momentum, especially in the component of non-durable goods, while the consumption of durable goods remained at high levels. Labour market conditions have not tightened further, but remain the key driver of durable goods consumption.

On the supply side, growth was spurred by commerce and construction, while there were slowdowns in other sectors linked to investment. Installed capacity utilization diminished. Lower annual growth in the natural resources sector reflected a severe downturn in fisheries, while mining was the most buoyant sector and the biggest contributor to GDP growth. Sectors other than natural resources performed below trend.

Chile: main economic indicators, 2011-2013

	2011	2012	2013 ^a
	Annual growth rate		
Gross domestic product	5.9	5.6	4.2
Per capita gross domestic product	4.9	4.6	3.3
Consumer prices	4.4	1.5	1.5 ^b
Real average wage ^c	2.5	3.2	4.0
Money (M1)	10.9	9.1	10.6 ^b
Real effective exchange rate ^d	-1.2	-1.9	0.0 ^b
Terms of trade	0.6	-5.7	-3.1
	Annual average percentage		
Open urban unemployment rate	7.1	6.4	5.9
Central government			
Overall balance / GDP	1.3	0.6	-1.0
Monetary policy rate	4.8	5.0	5.0 ^b
Nominal lending rate ^e	12.4	13.5	13.4 ^b
	Millions of dollars		
Exports of goods and services	94 589	90 903	91 918
Imports of goods and services	86 622	89 916	90 378
Current account balance	-3 283	-9 497	-7 725
Capital and financial balance ^f	17 473	9 130	7 234
Overall balance	14 190	-367	-491

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimates.

^b Figures as of October.

^c General index of hourly remuneration.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Lending rates for 90-360 days, non-adjustable.

^f Includes errors and omissions.

Annual inflation evolved as expected, reflecting lower price rises for energy and some foodstuffs, and is estimated at 2.6% for 2013 (as against 3% in 2012), within the tolerance range (of 3% +/- 1 percentage point). Expectations over a two-year period are for inflation of about 3%.

The unemployment rate remained at historic lows, and is estimated at 5.9% on average for the year. Annual growth in nominal wages edged back to 6% (from 6.3% in 2012), while lower average inflation during 2013 allowed real wages to climb 4.1% year-on-year between January and October (compared with 3.2% in 2012). In addition, pressures on the labour market have eased, as can be seen from the slower pace of job creation and labour force growth.