

Chile

Economic growth slowed to 1.6% in 2016 from 2.3% in 2015 as a result of weaker domestic demand (down to 1.0% in 2016 from 2.0% the year before), owing particularly to lower investment and public spending. Despite this tighter fiscal stance, the economic slowdown meant lower tax revenues and thence an increase in the central government deficit and public debt. These domestic conditions had a negative effect on the labour market, pushing up the unemployment rate.

A more favourable external financial environment made financial markets less volatile, reduced the risk premium for emerging economies and drove nominal exchange-rate appreciation, helping to curb inflation and allowing the monetary policy rate to be kept unchanged. Imports fell because of the general economic context, and the balance-of-payments current account deficit narrowed as a result.

Despite efforts to curb public spending, the central government deficit widened from 2.2% of GDP in 2015 to 3.0% in 2016 as a result of shrinking tax revenue (down 0.5% in real terms).

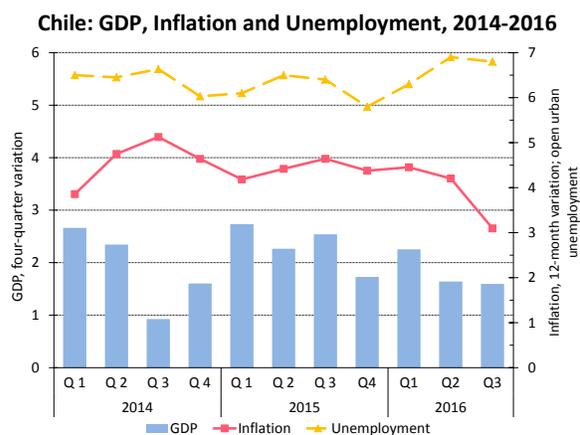
The fall in tax revenue was due in large part to the slowdown in the Chilean economy, which affected receipts from the main taxes. In the case of income tax and value added tax, revenue growth fell from 20.8% to -10.9% and from 4.8% to 1.5%, respectively, between 2015 and 2016. The impact of a lower copper price (down from US\$ 2.50 a pound during 2010-2015 to US\$ 2.15 a pound in 2016) on mining revenues also played a part.

Public spending growth slowed from 7.4% in 2015 to 4.2% in 2016 as current spending rose less quickly (by 5.2% in 2016 as compared to 7.3% in 2015) and capital outflows contracted by 0.5%, in contrast with the large increase in that item (14%) in 2015.¹ Public spending was focused on health, education, crime prevention and reduction, productivity and economic diversification.

This fiscal performance led to an increase in government debt. The central government's gross debt stock is estimated at around US\$ 53.192 billion, equivalent to 21.7% of GDP (17.5% in 2015). The gross debt of the non-financial public sector as a whole is estimated at 42% of GDP.

During 2016, the central bank kept the monetary policy rate at 3.5% in nominal terms, or close to 0% in real terms, as inflation gradually declined towards its 3% target owing to the deteriorating labour market, the economic slowdown, falling fuel prices and an appreciating currency.

In line with the general state of the economy, lending growth trended downward from 6% year-on-year in October 2015 to 3% year-on-year in October 2016. This reflects a tendency towards lower household and corporate borrowing and spending, a deterioration in future economic expectations (confidence indices for all economic sectors are negative) and the rising cost of commercial credit. Interest rates on commercial loans increased by 64



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

¹ Percentage changes in income and expenditure are expressed in real terms.

basis points between November 2015 and November 2016.

The improvement in external conditions strengthened the Chilean currency, with the nominal exchange rate moving from 704 pesos to 666 pesos to the dollar between November 2015 and November 2016, an appreciation of some 6% in both nominal and real terms.

The external sector reduced its current account deficit from 2.0% of GDP in 2015 to 1.8% in 2016, essentially because of an improvement in the balance of trade. That improvement is explained by lower economic growth and the drop in the oil price (from US\$ 49 per barrel in 2015 to US\$ 43 in 2016), which helped to dampen imports (down from US\$ 59 billion in 2015 to US\$ 55 billion in 2016), while exports benefited from the stronger performance of non-mining products. Another factor was that the income account deficit was restrained by a drop in profit repatriation flows, owing in part to declining mining activity, and by higher income flows from Chilean investments abroad.

The current account deficit was mainly financed by financial flows generated by the repatriation of pension fund investments and foreign direct investment in mining and the non-tradable goods sector.

Economic growth was undermined by lower investment (-1.5%) and stagnant consumption (down from 2.5% in 2015 to 2.4% in 2016), since exports of goods and services recovered from a 1.9% drop in 2015 to grow by 1.2% in 2016. The performance of investment reflects destocking and lower growth in the construction sector, since investment in machinery and equipment grew faster than the previous year.

At the sectoral level, GDP growth was driven by service sectors such as personal services, trade and transport. The least dynamic sectors included manufacturing, mining, construction, and electricity, gas and water services.

The annual inflation rate dropped from 4.4% in December 2015 to 3.5% in December 2016, in line with the target set by the monetary authorities of 3% over a two-year time horizon. The drop in inflation was due partly to the weakness of aggregate demand but mainly to an easing of cost pressures as the exchange rate appreciated and fuel prices fell. In terms of composition, the biggest inflation decline was in the energy component, followed by goods and, to a lesser extent, services. Conversely, food inflation went up.

The fall in inflation had a positive effect on real pay. In line with the overall performance of the economy, however, unemployment rose to 6.8% in the quarter from July to September, a 0.4 percentage point increase on the same quarter in 2015 and its highest level since 2011. The greatest year-on-year falls in the employment level in the quarter from July to September were in finance and insurance (-13.3%), mining (-12.6%) and public administration (-6.5%).

Chile: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	1.9	2.3	1.8
Per capita gross domestic product	0.8	1.2	0.6
Consumer prices	4.6	4.4	3.1 ^b
Real average wage ^c	1.8	1.8	1.3
Money (M1)	12.1	14.3	7.9 ^b
Real effective exchange rate ^d	10.6	3.3	1.3 ^b
Terms of trade	-2.0	-4.3	-1.6
	Annual average percentage		
Open urban unemployment rate ^e	6.4	6.2	6.5 ^b
Central government			
Overall balance / GDP	-1.6	-2.2	-3.0
Nominal deposit rate ^g	3.9	3.8	4.1 ^f
Nominal lending rate ^h	10.8	9.3	10.3 ^f
	Millions of dollars		
Exports of goods and services	85,935	72,009	68,580
Imports of goods and services	82,140	72,327	68,059
Current account balance	-3,316	-4,761	-4,328
Capital and financial balance ⁱ	4,373	4,973	5,438
Overall balance	1,057	211	1,109

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

a/ Estimates.

b/ Figures as of September.

c/ General index of hourly remuneration.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ New measurements have been used since 2012; the data are not comparable with the previous series.

f/ Figures as of October.

g/ Average nominal deposit rates for 90-360 days, non-adjustable.

h/ Lending nominal rates for 90-360 days, non-adjustable.

i/ Includes errors and omissions.

Sluggish global growth will continue to be the backdrop to the Chilean economy in 2017, compounded by the rise in the United States Federal Reserve interest rate expected in December. However, the economy is expected to grow by between 1.8% and 2.0%, with inflation close to target. The economy's performance will be helped if copper prices continue on their current trend, boosting mining and related sectors. The current fiscal policy stance of streamlining public expenditure and reducing the fiscal deficit is expected to be maintained.