

## Chile

In 2009 Chile had to deal with the fallout from the international financial crisis that began in the United States. Thanks to the capacities built up in previous years, the government was able to deploy countercyclical policies which helped to counter external turmoil and gradually bring about conditions conducive to a resumption of growth in 2010.

As a result of the turbulence in the global economy between the fourth quarter of 2008 and the early months of 2009, exports dropped precipitously, in both price and volume terms. Expectations for growth, employment and income deteriorated and private spending in both investment and durable consumer goods fell sharply. Thus, beginning in the second half of 2008, GDP growth fell off steeply, which resulted in a drop in production and inventories and increased unemployment in 2009.

In these conditions the government adopted countercyclical policies which, from mid-2009 onwards, helped to curb losses and, subsequently, fuel a gradual upturn in production, exports and employment.

GDP will have declined by about 1.8% in 2009. Estimates for 2010 put growth at 4.5%, owing to continued demand for exports and an upturn in domestic demand as a result of improved expectations for Chile and the rest of the world.

Fiscal policy was directed towards achieving a structural balance. However, in 2009, owing to the countercyclical measures instituted, together with reduced tax revenues in the wake of the economic slowdown and falling copper prices, government spending increased considerably, as did the effective deficit.

Part of the countercyclical fiscal policy was a fiscal spending plan amounting to some US\$ 4 billion, or roughly 2.8% of GDP, that included various subsidies, employment programmes and public investment schemes, as well as credit for small and medium enterprises (SMEs), for all of which the government drew on resources accumulated during previous years. For 2010, public expenditure (total for the consolidated central government) is projected to rise by 4.3%, which represents an easing of expenditure growth. Estimates place the effective deficit for 2009 at 3.6% of GDP, with a figure of 1.1% of GDP for 2010.

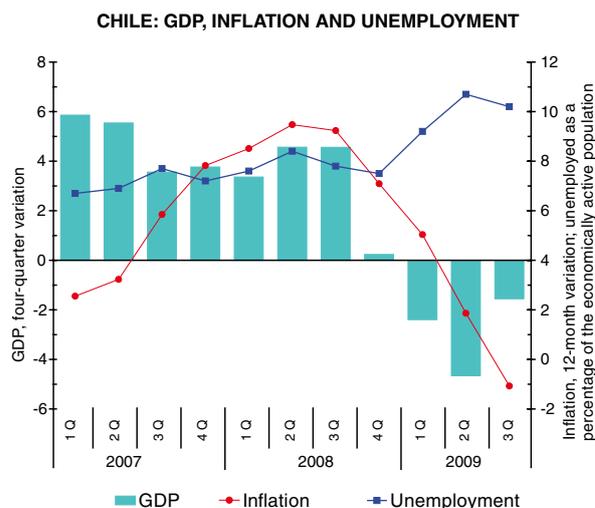
Monetary policy continued to be geared towards a target inflation rate of 3% per year on average for the medium term. As of January 2009, given the break in

the inflation pattern of the previous year, as well as the liquidity needs triggered by the crisis, the central bank began to steeply lower monetary policy rates. Thus, as of July 2009, the annual rate was 0.5% —a reduction of 775 basis points from the high of 8.25% of September 2008. These cuts in the reference rate were accompanied by a series of measures designed to boost liquidity.

Although the central bank indicated that a low monetary policy rate would be maintained for some time, it began to withdraw quantitative monetary measures towards the end of the year, in response to signs of incipient recovery and with a view to the inflation target.

As a result of these measures, lending rates began to come down in mid-2009 and credit conditions improved. During the second half of the year the pace of lending picked up, although total placements remain below 2008 levels.

As of early 2009, with the gradual return to normalcy in accessing international financial markets, along



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

with reduced risk perceptions, the previous trend of currency appreciation resumed—a pattern that had been interrupted, in late 2008, by the sharp exchange rate rises that accompanied the onset of the crisis. In response, the monetary authority has limited itself thus far to issuing statements, but has not ruled out the possibility of taking measures at some point.

In the first three quarters of 2009, domestic demand contracted by between 8% and 9% on an annualized basis. Private consumption declined, as a result of worsening expectations. Gross fixed investment dropped by 19%; accordingly, inventory accumulation has slowed since the start of the crisis, and this has persisted during the year. The strongest impetus came from government spending, which grew by 6% to 8%. Exports, which were badly hit at first, rallied towards the end of the year but still registered a downturn of between 4% and 6% in annualized terms. Amid falling domestic demand, imports of goods and services contracted by 20%. In the first 9 months of the year, GDP fell by an annualized rate of 1.6% compared to 2008. Seasonally adjusted figures, however, show the contraction of the four previous consecutive quarters being interrupted in the third quarter, with an annualized growth rate of 1.1%.

In terms of the sectoral effects, it is estimated that, for the year as a whole, the fishing industry experienced the most severe contraction, owing to the crisis in the salmon industry caused by the outbreak of infectious anaemia in fish stocks. The manufacturing and construction industries also contracted sharply as a result of slacker domestic demand. By contrast, the electricity, gas and water sectors showed the greatest expansion, after overcoming energy supply constraints that had affected their performance.

There was a steady increase in the unemployment rate, reaching a maximum of 10.8% between June and August of 2009. Subsequently, owing to a slight increase in job creation and a tapering off of growth in the labour supply, the unemployment rate fell back to 9.7% between August and October.

Amid low demand and falling international prices for some products, the cumulative 12-month inflation rate to October was -1.9% and is estimated to come in at between 0% and -1% for December. Core inflation was also low or nil in 2009. In 2010, inflation is expected to turn moderately positive again, in line with central bank policy.

Nominal wages reflected the effects of indexation mechanisms and the impact of the crisis on the labour market. Thus, the general hourly wage index fell from

#### CHILE: MAIN ECONOMIC INDICATORS

	2007	2008	2009 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	4.7	3.2	-1.8
Per capita gross domestic product	3.6	2.1	-2.8
Consumer prices	7.8	7.1	-1.9 <sup>b</sup>
Average real wage <sup>c</sup>	2.8	-0.2	4.8 <sup>d</sup>
Money (M1)	18.1	6.8	20.1 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	1.6	-0.8	7.0 <sup>g</sup>
Terms of trade	3.4	-13.0	-2.4
<b>Annual average percentages</b>			
Urban unemployment rate	7.1	7.8	9.8 <sup>d</sup>
Central government overall balance/GDP	8.8	5.3	-3.6
Nominal deposit rate	5.9	7.8	2.7 <sup>h</sup>
Nominal lending rate	13.6	15.2	13.4 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	76 618	77 210	60 829
Imports of goods and services	53 957	69 010	48 719
Current account balance	7 189	-3 440	2 908
Capital and financial account balance <sup>j</sup>	-10 403	9 884	1 047
Overall balance	-3 214	6 444	3 955

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2009.

<sup>c</sup> General hourly wage index.

<sup>d</sup> Estimate based on data from January to October.

<sup>e</sup> Twelve-month variation to November 2009.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October.

<sup>h</sup> Average from January to September, annualized.

<sup>i</sup> Average from January to October, annualized.

<sup>j</sup> Includes errors and omissions.

an annualized 9% in 2008 to 6% in 2009. Given the drop in inflation, real wages, which had contracted slightly in 2008, rose 4% on average in 2009.

In 2009 the balance-of-payments current account, which ran a deficit in 2008, showed a surplus equivalent to 1.9% of GDP. This reflected a drop in the overall value of imports, with volumes contracting in response to slackening domestic demand for durable and capital goods and fuel prices down on 2008. The value of exports also declined, owing to falling prices, but export volumes were less affected. In overall terms, the balance-of-payments current account showed a surplus equivalent to 2% of GDP. International reserves increased for the second consecutive year, partly owing to holdings of Special Drawing Rights recently allocated to Chile. The capital and financial account reflected the continuity in FDI flows, the resumption of corporate bond issues abroad, renewed foreign lending to Chilean banks and their continued access, thanks to Chile's low country risk rating, to resources in the international financial market.