

Chile

The Chilean economy continued to grow briskly in 2011 as seen in GDP growth of 6.3%, which was above the trend. The result has been steadily declining unemployment rates and inflation in line with central bank expectations. International copper prices trended down during the second half of the year as the global economy slowed, but they remained higher than in previous decades. These factors, plus burgeoning domestic demand, contributed to an incipient current account deficit.

The short-term impact that the February 2010 earthquake and tsunami had on output subsided during the year, with a growth spurt driven by domestic demand on both the consumer and the investment side. So, as in 2010, the two primary components of expenditure driving economic activity were consumption of consumer durables and investment in construction and works as spending rose post-earthquake and both components rebounded cyclically after a sluggish 2009 in the wake of the global financial crisis. This trend held throughout 2011 on the strength of expanding employment, rising real wages and credit-access conditions returning to normal. By contrast, government consumption (which has at other times driven demand) grew only slowly. A significant proportion of demand went overseas, contributing to the steady increase in imports.

Growth in economic activity eased off during the year; the pace for 2012 is expected to be slightly below the estimated 5% potential GDP expansion. The fading statistical effect of the low basis of comparison due to the earthquake, and ever-bleaker prospects for global growth this year and next, are expected to curb growth in 2011 and 2012. This could have a negative impact on export performance and terms of trade and lead to the postponement of investment decisions and durable goods purchases.

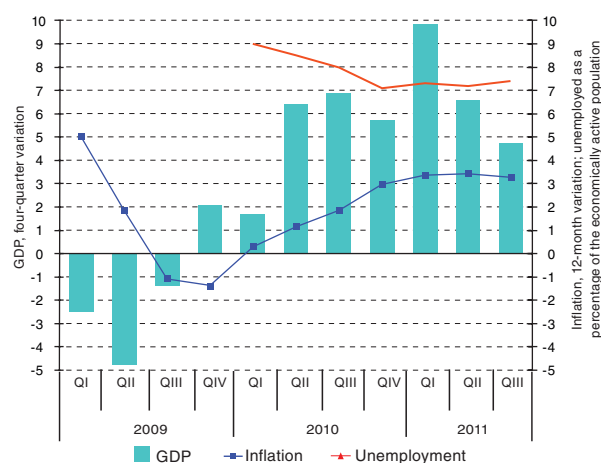
There were no significant macroeconomic policy changes in 2011. Fiscal policy continued to be guided by a medium-term structural balance target (0% of GDP in 2014). Economic growth and copper prices triggered a jump in tax revenues in 2011. This, along with the slow—and slowing—pace of spending during the first half of the year, contributed to an effective surplus that stood at 2.8% of GDP in the third quarter of 2011 and is projected to be in the area of 1.5% of GDP for the

year overall. Because the economy is growing faster than the trend and average copper prices held above medium-term projections, correcting revenue for these cyclical factors would still yield a structural deficit on the order of 1.6% of GDP.

The evolution of public revenue and expenditure allowed for a partial rebuilding of sovereign wealth fund savings and would support a new round of countercyclical government action, if necessary. Even so, these funds have not yet regained their pre-global financial crisis highs.

Monetary policy, guided by an inflation target range in the area of 3%, continued the gradual withdrawal of monetary stimulus. Rising inflation expectations led the

CHILE: GDP, INFLATION AND UNEMPLOYMENT



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

central bank to raise the monetary policy rate several times from mid-2010 on, to an annual 5.25% in June. Since then, the deteriorating outlook in Europe and the slumping price of some commodities (including fuels) augured lower external inflationary pressures and prompted a more gradual withdrawal of monetary stimulus. As a result, the monetary policy rate was held steady; further reductions to resume the stimulus have not been ruled out should an external market crisis lead to worsening expectations for future growth.

On the exchange-rate front, the central bank continued its foreign currency purchase programme, which is scheduled to end in December. Although it was launched in times of substantial appreciation pressure, this programme was presented as an initiative to build up international reserves as a measure of protection against potential external turbulence. Given the outlook for 2012, with higher global risk and the potential for turbulence, there should be no need for a nominal exchange-rate support programme and there are, therefore, no expectations that these measures will be extended.

The monthly indicator of economic activity (IMACEC) reflected the lively economic climate during the first half of the year and subsequent convergence towards a more moderate pace. The fastest-growing sectors were those associated with domestic demand (commerce, construction and services). On the other hand, some export sectors (such as mining) declined as a result of labour conflicts and a downturn in field yields for geological reasons. The salmon industry recovered gradually after output was hard hit by a virus, but other catches (especially in the northern part of the country) continued to suffer from a scarcity of pelagic resources.

The consumer price index rose just over 3% on a 12-month basis, in line with the central bank's annual target of 3% (+/- 1%). Core inflation continued to rise slowly within the expected range as international food and fuel price inflation was passed through to domestic prices. Expectations and measures subsequently converged towards the target once more as these external uptrends eased amidst uncertainty surrounding growth in the developed economies.

With this growth pattern, the gradually narrowing labour market pushed wages up and led to some labour shortages. Indeed, at times in 2011 the general hourly wage index increase was twice the rate of inflation. Real wages are therefore expected to rise by nearly 2.6% for the year. Employment expanded steadily, bringing unemployment rates down to levels usually regarded as

CHILE: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-1.7	5.2	6.3
Per capita gross domestic product	-2.6	4.2	5.3
Consumer prices	-1.4	3.0	3.9 ^b
Real average wage ^c	4.8	2.3	2.5 ^d
Money (M1)	22.7	21.3	8.6 ^b
Real effective exchange rate ^e	2.5	-5.9	-2.7 ^f
Terms of trade	1.2	22.4	4.5
Annual average percentages			
Unemployment rate	9.7	8.2	7.2 ^d
Central government overall balance / GDP	-4.5	-0.4	1.2
Nominal deposit rate ^g	2.3	2.7	5.5 ^h
Nominal lending rate ^g	12.9	11.8	12.6 ^h
Millions of dollars			
Exports of goods and services	62 638	81 826	93 915
Imports of goods and services	49 966	66 990	82 975
Current account balance	2 570	3 802	-2 494
Capital and financial balance ⁱ	-922	-779	13 303
Overall balance	1 648	3 023	10 809

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c General hourly wage index.

^d Estimate based on data from January to October.

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

^f January to October average, year-on-year variation.

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

^h January-November average.

ⁱ Includes errors and omissions.

low for the Chilean economy. Seasonal factors towards the year-end and early in 2012 will lead to a further temporary dip in unemployment, which will remain low despite a slight uptick as activity moderates.

The balance-of-payments current account posted a small deficit of around 1% of GDP, reflecting, among other factors, growing domestic demand for such items as durable goods, machinery and equipment, slow or flat growth in the volume of certain key exports (copper) and declining export prices during the second half of the year. Total gross external debt continued to grow and neared 46% of GDP. General government debt accounts for only a small portion equivalent to 2.5% of GDP. Because the general government is a net creditor to the rest of the world, its sovereign wealth fund savings are triple its external debt. As intended, central bank reserves rose sharply, by almost 40% for the year, to nearly 20% of GDP. All of these factors point to continued fiscal and external soundness for Chile and, as explained above, give the authorities ample space for taking countercyclical action if necessary.