

## Chile

### 1. General trends

The pattern of economic activity in 2010 was shaped by recovery from the crisis of 2008-2009 and the February earthquake, which struck a large area of the country and caused extensive damage to infrastructure. Until the earthquake, the economy had been well on the road to recovery from the impact of the global financial crisis, which heavily weakened domestic demand amid deteriorating growth expectations in 2009 and a drop in exports, albeit softened by China's robust demand for raw materials. Production slumped in the first quarter of 2010 following the earthquake, but began to rebound in the second semester as domestic-demand-driven sectors of production were buoyed by rising consumption and investment, and export sectors by external demand. Employment rates rose, which also contributed to this pattern. Thanks to this combination of factors—together with the low basis for comparison owing to the contraction of economic activity in 2009—GDP expanded at an annual rate of 5.2% in 2010, unemployment eased down throughout the year to average 8.2% (as against 11% in 2009)<sup>1</sup> and year-on-year inflation stood at 3% over 2009 in December.

The cyclical recovery continued to drive economic activity in 2011, which gained further momentum from an upturn in the construction sector thanks to both reconstruction efforts and brightening growth expectations as the difficult conditions created by the global financial crisis and the earthquake dissipated. Accordingly, growth is projected at somewhere between 6.2% and 6.5% for 2011 overall.

Although import values climbed strongly on the back of buoyant consumption, investment in machinery and equipment and high fuel prices, the balance-of-

payments current account posted a small surplus in 2010 owing to rising prices for Chile's main export products, and remained in positive territory in the first semester of 2011.

Lastly, a new government took office in March 2010. The proposals of the new government, which is from the opposite side of the political spectrum from the previous one, are aimed at achieving annual growth rates of around 6% while maintaining the previous government's commitment to strengthening social protection.

<sup>1</sup> The employment figures for 2010 are not directly comparable to those for 2009 owing to a methodological change, since a new employment survey was rolled out in 2010.

## 2. Economic policy

### (a) Fiscal policy

Fiscal policy continued to target a medium-term structural balance (0% of GDP in 2014). In 2010 the current fiscal deficit was 0.4% of GDP—equating to a structural deficit of 2.1% of GDP.

Total revenues of the consolidated central government were up by 28.4% on 2009 revenues in real terms and represented 22.7% of GDP. This was largely a reflection of tax income from private mining concerns, which surged by 130.0% in real terms over the 2009 figure, and to the revenues of the National Cooper Corporation (CODLECO), which jumped by 87.7% in real terms, owing to high copper prices. Receipts from VAT, external trade and income tax also rose substantially thanks to rising domestic demand.

The total expenditure of the consolidated central government climbed by 7% in real terms to reach 23.1% of GDP in 2010, reflecting the continuation of the countercyclical measures adopted in response to the global financial crisis, which had already pushed public spending up strongly in 2009. The higher spending continued into 2010, although now it was directed towards mitigating the impacts of the earthquake and towards reconstruction efforts, particularly in the second half of the year.

The government continued to contribute to its sovereign funds held abroad during the year. The Pension Reserve Fund stood at US\$ 3.837 billion at the close of 2010, US\$ 415.9 million up on 2009. The Economic and Social Stabilization Fund (FEES) reached US\$ 12.72 billion, which was US\$ 1.435 billion more than in 2009, thanks to deposits of US\$ 1 billion from bond issues in the international market and the transfer of the balance of US\$ 362 million left in the Fuel Price Stabilization Fund upon its maturity.

In 2011, the economic upturn allowed the fiscal stimulus to be withdrawn and public spending returned to trend values. The government projected a real increase of 5.5% in public spending, below its GDP growth projection of 6.1%. The thinking is to break the trend that began in 2006 whereby public spending has been growing at rates well above GDP and to shift back on track towards a structural balance in 2014.

In April, amid significant currency appreciation (the Chilean State sells its dollar revenues to fund its spending), which has eroded the profits of the tradable goods producing sectors, and mounting expectations of

higher inflation owing to rising food and fuel prices, the slant of short-term fiscal policy turned less expansionary. Various public spending cuts have been made, to the tune of US\$ 750 million, equating to 1.3% of the total (0.38% of GDP). As a result of these cuts and of still-rising public revenues—thanks to the economic upturn and high copper prices—the fiscal balance is projected to post a surplus of 1% of GDP in 2011.

### (b) Monetary policy

Monetary policy in 2010 continued to be guided by an annual inflation target of 3% with a range of 1% on either side. After the countercyclical monetary measures taken in 2009, which had brought the monetary policy annual rate to an all-time low of 0.5% in July that year, in 2010 the rate was raised in small increments to 3.25% by December. This uptrend continued more strongly in the first semester of 2011, with monthly increments of 50 basis points in the reference rate, which stood at 5% in May. This brought the rate into positive territory in real terms, given that expectations for inflation were in the range of 4% to 4.5% towards mid-year. In view of the higher expectations for inflation amid rising international food and fuel prices, on the one hand, and the likelihood that growth in the production sectors will shortly deplete idle capacity, on the other, the monetary authorities are expected to continue raising the monetary policy rate in order to soften the possible inflationary impact of fast-growing domestic demand. Such interest rate hikes would be aimed at slowing domestic demand and thus bringing inflation—both projected and actual—back within the target range.

### (c) Exchange-rate policy

For the past 10 years, exchange-rate policy has generally been based on a floating regime, with little intervention by the central bank. In 2010, as the United States dollar depreciated globally, the Chilean peso experienced average nominal appreciation of 8.8% over the 2009 value. This was equivalent to a real appreciation of 6.8%, as an annual average, with respect to a basket of the currencies of Chile's five main trading partners. In order to soften the impacts of the peso's appreciation on the returns of export and import substitute sectors, the central bank embarked upon a programme of dollar

purchases worth US\$ 12 billion in 2011. At first the nominal exchange rate rose in response to this policy but this was quickly reversed by still-high export prices, buoyant fiscal spending, the steady improvement in Chile's credit rating and the absence of controls on external financial flows, and so the peso showed a further appreciation in the first semester. Nevertheless, the monetary and fiscal authorities have ruled out any new regulations on financial flows, on the basis that the devaluation of the United States dollar is being driven by global phenomena which are unlikely to change in the near future and the appreciation of the

Chilean peso is largely a function of higher export earnings owing to the rise in the price of copper.

#### (d) Other policies

The Petroleum Price Stabilization Fund matured in 2010 and was replaced by a new variable tax and subsidy scheme which will fulfil a similar purpose.

A landmark event in the second half of 2010 was the successful rescue of 33 miners who had been trapped by rockfall in a mine in the north of Chile.

### 3. The main variables

#### (a) Economic activity

In the first few months of 2011 the monthly indicator of economic activity (IMACEC) posted interannual growth rates of upward of 7% over 2010, largely owing to the effects of cyclical upturn from the slack activity levels seen that year as a result of the earthquake in February and the start-up of reconstruction efforts. According to monthly variations in IMACEC, the uptrend in activity levels has stopped rising and is holding steady at around 6% per annum. Domestic demand, consumption and investment are the main factors underpinning this performance. Accordingly, the fastest-growing sectors are those associated with domestic demand (commerce, transport and communications, and services).

#### (b) Prices, wages and employment

The inflation rate continued to climb slowly but steadily from the negative rates posted in late 2009 and early 2010. As a result, although the yearly rate for 2010 was 3%, by the first half of 2011 annual inflation was running at close to 4% and core inflation was rising continuously. A number of exogenous factors had a hand in driving up inflation, principally higher international prices for fuels. This was partially offset by reductions in the nominal exchange rate. However, burgeoning domestic demand together with dwindling unused production capacity has driven a steady rise in inflation, as seen in the climb in non-tradable components of the consumer price index, such as transport, housing, education and other services. This has been a source of concern for the central bank which, once inflation expectations rose above 3%, raised the monetary policy rate on several occasions in order to avoid the contagion of external price shocks and anchor expectations back within the target range.

The unemployment rate has taken a downward trend, thanks to the economic upswing of 2010. Comparisons with previous years are of limited value because a new national employment survey was introduced 2010. Nevertheless, the evidence seems to indicate that particularly strong job creation up to the third quarter of 2010. As of November, employment growth slowed, both in a year-on-year comparison and compared to the previous month. As a result, in 2011 the unemployment rate should remain around 7% (as against 8.2% in 2010). It is unlikely to fall much lower, because the labour force participation rate has recently risen—a classic procyclical response to the economic upturn and improved outlook.

The sectors generating the most jobs between the first quarter of 2010 and the first quarter of 2011 were manufacturing, commerce and construction, owing in the two latter cases to domestic demand. Job creation was strong in the manufacturing sector up to November 2010, but has stood still since then. This seems to be due to the difficulties the sector has experienced in competing with imports in the context of a lower exchange rate, on the one hand, and the depletion of excess production capacity after the cyclical upturn in domestic demand, on the other. Given that growth in manufacturing production has been slack for a number of years, the sector is unlikely to continue to act as a key generator of jobs in the rest of 2011.

Amid tighter labour market conditions, average wages rose by a nominal 3.6% (2.2% in real terms) in 2010 and the average cost of labour rose a nominal 4.4% (3.0% in real terms). Nominal wage indicators show a steady rise over the year-earlier period, which may be attributed not only to an upturn in labour demand, but also to indexing mechanisms, since inflation has also continued to climb gradually, as noted earlier.

Table 1  
CHILE: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	2.2	3.9	6.0	5.6	4.6	4.6	3.7	-1.7	5.2
<b>Per capita gross domestic product</b>	1.0	2.8	4.9	4.5	3.5	3.5	2.6	-2.6	4.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	6.8	2.6	11.0	7.0	4.0	0.9	4.0	-2.7	-2.5
Mining and quarrying	-4.2	5.5	6.1	-3.9	0.7	3.3	-5.6	-1.3	1.2
Manufacturing	1.9	3.3	7.0	6.0	3.9	3.0	1.4	-6.4	-1.0
Electricity, gas and water	3.3	4.3	2.8	3.0	7.6	-28.8	-1.8	14.5	13.7
Construction	2.5	4.3	3.2	10.1	4.0	4.6	10.1	-7.9	3.6
Wholesale and retail commerce, restaurants and hotels	0.9	4.9	7.3	8.5	6.9	6.2	4.9	-3.1	13.3
Transport, storage and communications	5.3	5.8	5.5	6.9	6.9	8.7	6.4	1.3	9.1
Financial institutions, insurance, real estate and business services	2.8	2.8	6.4	7.0	4.2	8.0	3.2	-0.4	5.7
Community, social and personal services	2.5	2.6	3.1	3.5	3.6	4.4	3.8	3.3	2.5
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	2.5	4.0	7.0	7.1	7.0	7.0	3.9	1.9	9.3
Government consumption	3.1	2.4	6.1	5.9	6.4	7.1	0.5	7.5	3.3
Private consumption	2.4	4.2	7.2	7.4	7.1	7.0	4.5	0.9	10.4
Gross capital formation	2.2	7.8	9.0	21.7	6.2	9.2	19.3	-26.4	42.5
Exports (goods and services)	1.6	6.5	13.3	4.3	5.1	7.6	3.2	-6.4	1.9
Imports (goods and services)	2.3	9.7	18.4	17.2	10.6	14.5	12.6	-14.6	29.5
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross capital formation	20.8	21.1	20.0	22.2	20.1	20.5	25.2	18.9	22.4
National saving	20.0	20.1	22.2	23.4	24.9	25.0	23.3	20.5	24.3
External saving	0.9	1.1	-2.2	-1.2	-4.9	-4.5	1.9	-1.6	-1.9
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-580	-779	2 074	1 449	7 154	7 458	-3 307	2 570	3 802
Goods balance	2 386	3 723	9 585	10 775	22 780	23 941	8 529	14 117	15 855
Exports, f.o.b.	18 180	21 664	32 520	41 267	58 680	67 972	66 259	54 004	71 028
Imports, f.o.b.	15 794	17 941	22 935	30 492	35 900	44 031	57 730	39 888	55 174
Services trade balance	-701	-618	-746	-621	-631	-987	-964	-1 444	-1 019
Income balance	-2 847	-4 489	-7 837	-10 487	-18 401	-18 625	-13 802	-11 666	-15 424
Net current transfers	583	605	1 072	1 783	3 406	3 129	2 930	1 563	4 390
Capital and financial balance <sup>d</sup>	779	413	-2 265	267	-5 157	-10 672	9 751	-922	-779
Net foreign direct investment	2 207	2 701	5 610	4 801	4 556	9 961	7 109	4 813	6 351
Other capital movements	-1 428	-2 288	-7 875	-4 534	-9 713	-20 633	2 643	-5 735	-7 130
Overall balance	199	-366	-191	1 716	1 997	-3 214	6 444	1 648	3 023
Variation in reserve assets <sup>e</sup>	-199	366	191	-1 716	-1 997	3 214	-6 444	-1 648	-3 023
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	109.4	114.5	108.5	103.1	100.9	102.7	102.3	104.9	98.7
Terms of trade for goods (index: 2005=100)	69.5	73.5	89.3	100.0	131.1	135.6	117.9	119.3	146.0
Net resource transfer (millions of dollars)	-2 068	-4 076	-10 102	-10 220	-23 558	-29 297	-4 050	-12 588	-16 203
Total gross external debt (millions of dollars)	40 504	43 067	43 515	46 211	49 497	55 733	64 318	74 041	86 738
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>g</sup>	53.7	54.4	55.0	55.6	54.8	54.9	56.0	55.9	58.5
Open unemployment rate <sup>h</sup>	9.8	9.5	10.0	9.2	7.7	7.1	7.8	9.7	8.2
Visible underemployment rate <sup>i</sup>	6.2	6.5	8.4	8.5	8.5	8.0	9.0	10.8	11.2
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4	3.0
Variation in wholesale prices (December-December)	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	-14.9	3.5
Variation in nominal exchange rate (annual average)	8.5	0.2	-11.8	-8.1	-5.2	-1.6	0.2	6.8	-8.8
Variation in average real wage	2.0	0.9	1.8	1.9	1.9	2.8	-0.2	4.8	2.3
Nominal deposit rate <sup>j</sup>	4.1	3.2	2.4	4.5	5.5	5.9	7.8	2.3	2.7
Nominal lending rate <sup>j</sup>	14.4	13.0	11.0	13.5	14.4	13.6	15.2	12.9	11.8

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Total central government</b>									
Total revenue	21.0	20.7	22.0	23.8	25.8	26.9	25.5	20.4	22.9
Tax revenue	18.0	17.3	17.0	18.3	18.3	20.2	19.9	16.3	18.4
Total expenditure	22.3	21.1	19.9	19.3	18.1	18.7	21.2	24.8	23.4
Current expenditure	18.8	17.9	16.8	16.1	15.1	15.5	17.4	20.1	19.2
Interest	1.2	1.1	1.0	0.8	0.7	0.6	0.5	0.5	0.5
Capital expenditure	3.4	3.3	3.1	3.1	3.0	3.2	3.8	4.7	4.2
Primary balance	-0.1	0.7	3.1	5.4	8.4	8.8	4.8	-4.0	0.1
Overall balance	-1.2	-0.5	2.1	4.6	7.7	8.2	4.3	-4.5	-0.4
<b>Central government public debt<sup>k</sup></b>	15.7	13.0	10.7	7.3	5.3	4.1	5.2	5.0	...
Domestic	9.9	7.5	5.9	4.0	2.4	2.0	3.1	3.1	...
External	5.7	5.5	4.8	3.3	2.9	2.1	2.1	1.4	1.6
<b>Money and credit<sup>l</sup></b>									
Domestic credit	61.9	61.5	60.1	59.8	55.1	60.7	64.9	67.8	59.3
To the public sector	7.9	5.2	2.7	-1.6	-3.5	-3.5	-3.6	5.0	-1.6
To the private sector	65.9	62.7	62.3	64.3	63.7	69.7	79.4	70.2	65.8
Others	-11.8	-6.3	-4.8	-2.9	-5.0	-5.5	-10.9	-7.4	-4.9
Liquidity (M3)	54.6	48.8	50.3	53.3	53.2	58.1	69.1	62.1	60.1
Currency outside banks and local-currency deposits (M2)	48.6	43.4	45.5	48.6	48.6	53.2	60.1	56.2	53.4
Foreign-currency deposits	5.9	5.4	4.9	4.7	4.7	4.8	9.0	6.0	6.7

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in local currency at constant 2003 prices. Up to 2003, based on figures in local currency at constant 1996 prices.

<sup>c</sup> Based on figures in local currency expressed in dollars at current prices.

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

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

<sup>f</sup> Annual average, weighted by the value of goods exports and imports.

<sup>g</sup> Economically active population as a percentage of the working-age population; nationwide total.

<sup>h</sup> Percentage of the economically active population; nationwide total.

<sup>i</sup> Percentage of the working population; nationwide total.

<sup>j</sup> Non-adjustable 90-360 day operations.

<sup>k</sup> Does not include publicly guaranteed debt.

<sup>l</sup> The monetary figures are December averages.

### (c) The external sector

The balance-of-payments current account returned a surplus of US\$ 3.802 billion in 2010, a jump of 48% with respect to the surplus of 2009. Exports of goods were up by US\$ 71 billion in value terms, which represented a 32% increase over the previous year. Most of the rise in value was associated with the higher price of copper, but export values for fruit, forestry and basic metal manufactures also rose strongly and contributed to the overall result. Total export volumes edged up a mere 1.4%, while unit value surged by 30%. Goods imports amounted to US\$ 51.1 billion. This represented a rise of 38% which, contrasting with exports, broke down into an increase of 31% in volume and 5.8% in unit price. The rise in volume reflected a large jump in investment in machinery and equipment, and in consumer durables.

The deficit on the income account widened to 32%, mostly owing to remittances of profits generated by foreign direct investment (of which about 50% was reinvested) in the context of high international prices for mining exports. Lastly, the transfers account reflected insurance payouts following the earthquake.

The financial account showed a 32% rise in net foreign direct investment, chiefly reflecting larger non-resident equity holdings and smaller net outflows of portfolio investment, again owing to a strong rise in non-resident holdings, all of which is associated with Chile's improved risk ratings combined with high liquidity and low interest rates in the international markets. Lastly, the other investment account showed large outflows of resources, partly owing to deposits in sovereign funds abroad of proceeds from high copper prices and a sovereign bond issue.

Table 2  
CHILE: MAIN QUARTERLY INDICATORS

	2009				2010 <sup>a</sup>				2011 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II <sup>b</sup>
Gross domestic product (variation from same quarter of preceding year) <sup>c</sup>	-2.5	-4.8	-1.4	2.1	1.7	6.4	6.9	5.8	9.8	...
Goods exports, f.o.b. (millions of dollars)	11 509	12 862	14 129	15 505	16 420	16 352	18 479	19 777	20 034	14 887
Goods imports, c.i.f. (millions of dollars)	9 568	9 664	10 911	12 428	12 410	14 223	15 890	16 433	16 687	12 189
Gross international reserves (millions of dollars)	23 382	23 448	26 040	25 371	25 631	25 175	26 446	27 864	31 481	32 770
Real effective exchange rate (index: 2000=100) <sup>d</sup>	112.3	108.2	107.3	104.9	103.0	103.7	100.6	97.8	99.1	98.8
Unemployment rate	...	...	...	...	9.0	8.5	8.0	7.1	7.3	...
Consumer prices (12-month percentage variation)	5.0	1.9	-1.1	-1.4	0.3	1.2	1.9	3.0	3.4	3.3
Wholesale prices (12-month percentage variation)	15.5	2.5	-6.4	-14.9	-6.3	-0.3	-0.3	3.5	5.5	3.6
Average nominal exchange rate (pesos per dollar)	607	566	546	518	519	531	511	480	482	469
Average real wage (variation from same quarter of preceding year)	1.8	3.6	6.4	7.3	3.1	2.5	1.8	1.5	2.9	...
Nominal interest rates (annualized percentages)										
Deposit rate <sup>e</sup>	4.9	2.0	1.1	1.4	1.4	1.7	3.5	4.4	4.8	5.7
Lending rate <sup>e</sup>	16.5	13.1	11.1	10.9	12.4	11.4	12.2	11.1	12.2	12.9
Interbank rate <sup>f</sup>	5.5	1.4	0.5	0.4	0.4	0.5	1.8	2.9	3.4	4.4
Stock price index (national index to end of period, 31 December 2000=100)	229	285	311	330	347	375	442	454	426	447
Domestic credit (variation from same quarter of preceding year)	8.4	6.0	3.6	5.5	-0.9	1.5	0.0	0.7	7.6	8.7 <sup>g</sup>
Non-performing loans as a percentage of total credit	1.1	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.2	1.2

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Data to May.

<sup>c</sup> Based on figures in local currency at constant 2003 prices.

<sup>d</sup> Quarterly average, weighted by the value of goods exports and imports.

<sup>e</sup> Non-readjustable 90-360 day operations.

<sup>f</sup> Overnight.

<sup>g</sup> Data to April.

As a result, the balance of payments showed a overall surplus of US\$ 3.024 billion. International reserves rose by the same amount and stood at US\$ 27.86 billion in December.

The external accounts have continued to run a surplus thus far in 2011, continuing upward pressure on the peso and prompting the central bank to allow international reserves to build up by 15% in the first four months of the year, which has taken them to US\$ 31.5 billion.

Chile's gross external debt reached US\$ 86.738 billion, of which US\$ 4.132 billion was liabilities of the central government and US\$ 1.439 billion of the central bank. Lastly, in 2010 Standard and Poor's upgraded Chile's sovereign risk rating to A+ and Moody's Investors Service raised its grade from A1 to Aa3, on a par with higher-per-capita-GDP countries such as Taiwan province of China and Saudi Arabia.