Chile

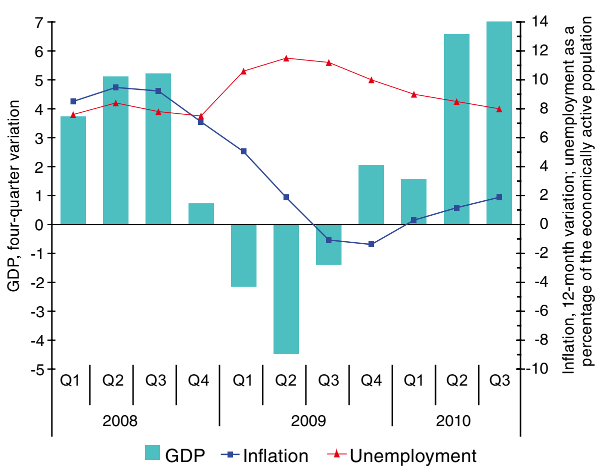
Having been well on the road to recovery since 2009 after suffering the consequences of the global financial crisis, the Chilean economy was confronted with the after-effects of a devastating earthquake in February 2010. Compounded by a degree of uncertainty over the repercussions of the sovereign debt crisis in certain European countries, this initially caused GDP growth estimates to be revised downwards to somewhere in the region of 4.5%, and annualized output growth was 1.6% in the first quarter. However, thanks to a cyclical rebound in consumption, especially of durable goods, and in machinery and equipment investment following the contraction that had occurred amid the uncertainty of 2009, annualized GDP grew by 6.6% in the second quarter and 7% in the third.

Accordingly, with aggregate demand and production activity still buoyant in the fourth quarter, GDP growth for the year overall will be around 5.5%. Meanwhile, a substantial upturn in investment during 2010 is estimated to boosted potential GDP for the coming year by 5%. This, in combination with the continuing strength of domestic and external demand and the stepping up of reconstruction efforts, especially in housing, supports GDP growth projections of between 6% and 6.5% for 2011.

The new government entering office in March 2010 adopted a fiscal policy guided by a medium-term structural balance target. Accordingly, in view of the actual and structural public-sector deficits posted in 2009 —of 4.4% and 3.1% of GDP, respectively— as a result of the countercyclical action taken to confront the crisis, government spending in 2010 rose much more modestly. An actual deficit of 1% of GDP is estimated for the year, equating to a structural deficit of 2.3%. This move towards lower deficits will be maintained in 2011, given the slower spending growth stipulated in the budget bill presented by the new government. Consolidated central government spending will expand by 5.5% in real terms in 2011 which, in conjunction with the projected recovery in tax revenues and continuing high copper prices, should give a structural deficit of 1.8%.

Monetary policy continued to be guided by an annual inflation target of 3% with a range of 1% on either side. Amid subdued inflation, the monetary policy rate fell to a record low of 0.5% per year in July 2009, then began to climb slowly as market conditions returned to normalcy following the global financial crisis. This tendency carried on throughout 2010 as rapidly rising demand brought idle production capacity back into use, and by October the monetary policy rate stood at an annualized rate of 2.75%. Although the outlook for inflation is not expected to change substantially, it is thought that the central bank will continue to raise the reference rate as part of the gradual withdrawal of monetary stimulus.

CHILE: GDP, INFLATION AND UNEMPLOYMENT



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

Exchange-rate policy has continued to be based on a floating regime. As the dollar weakened against other currencies, terms of trade improved and some foreign-currency holdings were sold to cover the fiscal deficit, the peso posted an average nominal appreciation of 8% over the first 11 months of the year relative to its average level in 2009. This is equivalent to an appreciation of some 6% in the real exchange rate over that period.

The monthly indicator of economic activity (IMACEC) gradually picked up from mid-2009. In April 2010, on a seasonally adjusted basis, the economy regained its output level of June 2008, the peak prior to the global financial crisis. In other words, economic recovery took 22 months.

The fastest-growing sectors were those that are linked to domestic demand and have been driven by the strength of spending, including in the sectors of commerce, transport, communications and other services. The highest growth rates were registered by the electricity, gas and water sector, whose value added was boosted when regasification plants came on stream. Tradable sectors have grown slowly, meanwhile, and some have even declined. A number of factors account for this. In the fisheries sector, the effects of the salmon virus and the scarcity of deep-sea resources have resulted in a negative performance that has long-term causes. The agriculture and forestry sector has suffered the consequences of earthquake damage to export infrastructure, combined with slacker demand for forestry products in destination countries whose residential sector has been hit hard by the crisis. While mining has sustained a slow upturn since mid-2009, manufacturing began to recover gradually in the second quarter following two years of continuous declines. According to the National Statistical Institute (INE), industrial production peaked in March 2008, bottomed out in February 2009 and followed an irregular pattern thereafter, not achieving sustained positive 12-month variations —although still below-peak— until May 2010. This performance reflects the impacts of the financial crisis and the shift in domestic demand towards a larger imported component owing to currency appreciation. The construction sector, which is highly sensitive to the business cycle and to lending conditions, did not begin to show signs of recovery until the second quarter of 2010. Within construction, housing is the most depressed segment, but is expected to show greater vigour in 2011 as reconstruction programmes come on stream.

Inflation has risen steadily from the negative values observed during the crisis, but has remained low and within its target range. As of October, the 12-month variation was 2% and cumulative inflation over the year was 2.8%. A pick-up in inflation during 2011 cannot be ruled out, however, given the rate at which idle capacity has been brought back into production in response to domestic demand well in excess of output growth.

CHILE: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	3.7	-1.5	5.3
Per capita gross domestic product	2.6	-2.5	4.3
Consumer prices	7.1	-1.4	2.5 [b]
Average real wage [c]	-0.2	4.8	2.1 [d]
Money (M1)	6.8	22.7	22.2 [e]
Real effective exchange rate [f]	-0.4	3.7	-6.1 [g]
Terms of trade	-13.0	1.2	20.8
	Annual average percentages		
Urban unemployment rate	7.8	9.7	8.3 [d]
Central government overall balance / GDP	4.8	-4.4	-1.0
Nominal deposit rate [h]	7.8	2.3	2.6 [i]
Nominal lending rate [h]	15.2	12.9	11.9 [i]
	Millions of dollars		
Exports of goods and services	77 249	62 242	78 593
Imports of goods and services	69 273	49 335	65 702
Current account	-2 513	4 217	791
Capital and financial account [j]	8 957	-2 569	284
Overall balance	6 444	1 648	1 075

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 2010.
[c] General hourly wage index.
[d] Estimate based on data from January to September.
[e] Twelve-month variation to October 2010.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year variation, January to October average.
[h] Non-adjustable operations rate for 90-360-day periods, annualized.
[i] Average from January to November.
[j] Includes errors and omissions.

Nominal wages have reflected the effects of past inflation; with current inflation so low, they rose by an average of 2.4% in real terms over the first three quarters, relative to the average for the previous year.

Broadly speaking, unemployment rates have declined throughout 2010 and were down to 8% in July-September. However, the introduction of a new national employment survey in 2010 has made it harder to compare data on employment and its composition.

In the external sector, exports have been sluggish, with little growth in most of the main categories. Mining exports are at a level similar to that of 2009, while exports of agricultural, forestry and fisheries products have edged up thanks to the buoyancy of fruit exports. Quantum indices for industrial exports, meanwhile, remain below their pre-crisis peaks and are tending downwards. By contrast, consumer and capital goods imports are strongly up in volume terms, thanks to the upturn in consumption, restocking and the replacement of machinery destroyed during the earthquake. Copper prices began to climb in the second quarter in a context of fairly low global copper inventories combined with dollar weakness, and by October were just short of the high posted shortly before the global crisis. Conversely, with the exception of oil, most imported products did not rise significantly in price relative to 2009.

Against this background, the current account surplus of 2.6% of GDP recorded in 2009 is expected to be followed by a small deficit in 2010 as the positive balances seen in the first part of the year give way to incipient deficits in the second half, driven by the strong import growth resulting from vigorous domestic demand. This situation is expected to carry over into 2011, with a projected deficit of 2.5%.

The balance-of-payments financial account is notable for the rapid growth of foreign direct investment flows into Chile. This has been accompanied by frequent capital outflows in the form of portfolio investment abroad and, on occasions, by outflows of other investments. International reserves have shown only a small variation on last year and stood at US$ 26.45 billion in September.

Lastly, Chile issued a sovereign bond for US$ 1 billion and another, denominated in pesos, for the equivalent of US$ 500 million.