

Chile

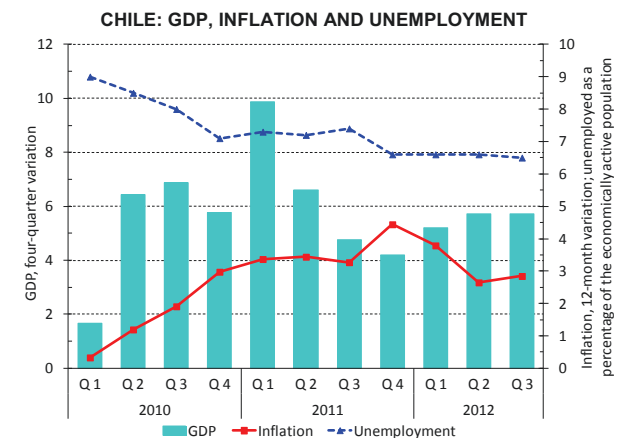
Chile's GDP expanded by 5.5% in 2012, half a percentage point down on the previous year. As in 2011, the main growth impetus came from domestic demand, which rose by almost 8%. The annual rate of inflation fluctuated between 2.5% and 2.7% at year-end. The unemployment rate fell steadily on the strength of buoyant economic activity. Exports were down as growth faltered in the economies of Chile's major trading partners. Driven by domestic demand, imports continued to rise, albeit at a slower pace than in 2011. Accordingly, the current account posted a deficit of 2.6% of GDP, almost twice as large as in 2011. Lastly, net financial inflows were down amid international financial market turbulence, although an upturn in foreign direct investment (FDI) made Chile the region's second largest FDI destination. Smaller financial flows, together with the conclusion of the central bank's programme of foreign-exchange purchases, resulted in a decrease of around US\$ 2.7 billion in international reserves.

The Chilean economy is projected to grow by 5% in 2013, with inflation remaining within the target range of 3%, +/- 1 percentage point.

Fiscal policy continued to be directed towards achieving a structural balance of 0% of GDP at the end of 2014. In the first three quarters, the total revenues of the central government dropped by 0.3% year-on-year in real terms, as the extra income generated by surging domestic demand was not enough to offset the downturn in revenues from copper mining. Central government expenditure rose 6.2% in real terms in the same period. The actual deficit is expected to come in at 0.2% of GDP at the end of the year (corresponding to a structural deficit of 1.0% of GDP), since at the time of writing 27% of current spending and 43.8% of capital spending—which is usually expedited towards the end of the year—remained to be executed. The budget law for 2013, which is based on a trend GDP growth rate of 5%, projects a spending rise of 4.8% in real terms; combined with the projected revenues, this would yield a structural deficit of 1.0% of GDP.

In April, the government submitted a draft law to parliament amending various taxes, aimed at raising between US\$ 700 million and US\$ 1 billion per year to fund improvements to the education system.

Monetary policy continued to be guided by an annual inflation target of 3% (-/+ 1%). The central bank has held the nominal monetary policy rate at 5% since mid-January. The floating exchange-rate regime was unchanged and the exchange rate showed little variation on average from 2011, although some nominal appreciation was observed towards the end of the year.



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

Although the central bank has taken no measures to contain domestic demand, its authorities have expressed concern that external vulnerabilities could increase in view of the expected deterioration in external conditions and in the current account in 2013.

The central bank discontinued its purchases of foreign exchange in January 2012, as programmed, and has given no indication of resuming them in 2013.

The average stock of bank loans grew in nominal terms by 13.3% in 2012, similarly to the previous year, and all its components (the business, consumer, mortgage and foreign trade segments) displayed a similar pattern.

Domestic demand swelled apace, led by investment in machinery and equipment and construction, and by consumption, particularly of durable goods. This trend has been sustained by rising employment and real wages, and a moderate increase in credit (see statistical annex). Government consumption slowed heavily in 2012, with respect to 2011, and grew at below overall GDP. Exports of goods and services, which have long driven economic growth in Chile, displayed negative variation across almost all components.

Consistently with demand composition, the fastest-growing sectors were commerce and construction, followed by services (transport, financial services and personal services) and, later in the year, agricultural production and copper mining, as technical supply-side difficulties were overcome.

The unemployment rate averaged 6.6% in January-September 2012, versus 7.3% for the same period of 2011, with the increase in formal employment responsible for most of the drop. A dynamic labour market helped to push up nominal wages by an average of 7.2% (3% in real terms) year-on-year between January and September and this, together with the higher employment rate, expanded the wage bill, which helped to explain the expansion of consumption.

Inflation as measured by the consumer price index (CPI) showed annual variation of just over 4% in the first quarter, but then eased back and should sit just under the middle of the central bank's target range (3%) at year-end. Core inflation behaved similarly, easing down since the beginning of the year. The tradable goods component of the CPI has also trended downwards, as domestic fuel prices fell thanks, on the one hand, to a slight drop in the nominal exchange rate after the central bank ceased intervention in the foreign-exchange market in early 2012 and, on the other, to the price buffer system introduced in 2011.

CHILE: MAIN ECONOMIC INDICATORS

	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	6.1	6.0	5.5
Per capita gross domestic product	5.1	5.0	4.6
Consumer prices	3.0	4.4	2.9 ^b
Real average wage ^c	2.3	2.5	3.2
Money (M1)	28.7	11.3	10.6 ^d
Real effective exchange rate ^e	-5.5	-1.0	-1.1 ^d
Terms of trade	22.4	0.6	-11.2
Annual average percentages			
Open urban unemployment rate	8.2	7.1	6.4
Central government			
overall balance / GDP	-0.4	1.3	-0.2
Monetary policy rate	1.5	4.8	5.0 ^f
Nominal lending rate ^g	11.8	12.4	13.5 ^f
Millions of dollars			
Exports of goods and services	81 728	93 818	92 862
Imports of goods and services	68 209	85 442	88 083
Current account balance	3 269	-3 220	-6 064
Capital and financial balance ^h	-245	17 410	3 387
Overall balance	3 023	14 190	-2 677

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

^a Estimates.

^b Twelve-month variation to October 2012.

^c General index of hourly remuneration.

^d Year-on-year average variation, January to September.

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

^f January-October average.

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

^h Includes errors and omissions.

The current account deteriorated gradually over the year as the global economy lost momentum and domestic spending rose. Specifically, export volumes rose slightly, while their unit value fell as a result of the economic contraction in the euro zone countries, the slowdown of the Chinese economy, and weaker growth in intraregional trade. This last factor is explained mainly by lacklustre economic performance in Brazil and Argentina, and, in the latter country, measures to restrict imports. Combined with higher spending and its impact on imports, this led to a current account deficit twice as large as in 2011. If these trends continue, the current account could post a deficit of close to 4% of GDP in 2013.

Although the central government is net creditor to the rest of the world, the external debt of the non-bank private sector (other than intercompany debt) grew at an annual average rate of close to 11% in 2012, reaching almost 60% of total gross external debt. Intercompany external debt, usually associated with foreign investment, expanded by 29% to reach 14% of the total. On average, total gross external debt total was 38.4% of GDP in 2012.

Net portfolio investment inflows declined significantly, while outflows of other investment liabilities rose. This was in due in part to the increase in global risk perception, which affected Chile very slightly, and to the ongoing reposition of sovereign

funds abroad, which had been drawn down to finance countercyclical policy measures during the nadir of the global financial crisis of 2008-2009.

In view of these trends, and the absence of intervention by the central bank, international reserves decreased slightly, to stand at US\$ 39.5 billion.