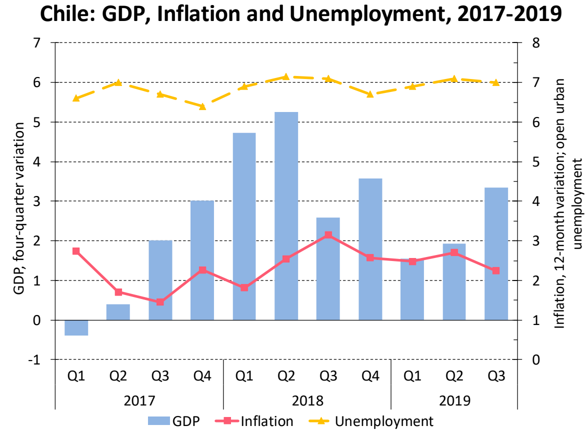
Chile

In 2019, Chile's economic growth rate fell back to 0.8% from the previous year's 4.0%, owing to weaker demand, both domestic and external. Although an upturn in activity had been expected in the second half of the year, the social unrest that erupted in October aggravated the slowdown in both consumption and investment. The reduction in the volume of international trade, combined with a lower copper price stemming from trade tensions between China and the United States, have also caused exports to retreat from their 2018 level. In the monetary policy domain, the central bank adopted a more expansionary stance in the second half of the year and lowered the policy interest rate on three occasions. The central government deficit is expected to widen in 2019 as a result of declining revenues and an increase in public spending to finance the "social agenda". Inflation in 2019 is forecast to be around 2.8%.

The activity slowdown, in conjunction with the October social crisis, have created a new fiscal scenario, involving lower-than-expected income, mainly in the case of tax revenues, and higher expenditure. As a result, the fiscal deficit is expected to widen to 2.2% of GDP in 2019 (and then to 4.4% in 2020). The structural deficit is forecast to be 1.2% in the current year and 3.0% in 2020.[1] The agreement on tax reform reached between the government and the opposition is expected to increase annual revenues by US$ 2 billion, while the additional public spending will be partly financed by debt, the level of which is set to rise from 26% of GDP in 2018 to almost 30% by 2019.

The 2019 economic scenario led the government to announce an economic stimulus package in June, with measures to bring forward public investment and provide incentives for investment in housing. In October, the government introduced a "social agenda", which includes better pensions, insurance against catastrophic illnesses and an increase in the minimum income guaranteed by the State, among other measures. The initial cost of this programme is US$ 1.2 billion, plus US$ 350 million to restore public infrastructure damaged during the protests. In early December, the government launched an employment protection and economic recovery plan, which focuses on job creation and employment protection, support for small and medium-sized enterprises, reconstruction and additional public investment. This package of measures will cost an estimated US$ 5.5 billion and will be financed by reallocating budgetary expenditures, supported by sovereign funds, the Economic and Social Stabilization Fund and public debt issuance.

Chile: GDP, Inflation and Unemployment, 2017-2019



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

Monetary policy began 2019 with a 25-basis-point hike to 3.0% in the policy interest rate. However, subdued economic activity kept inflation below the central target of 3.0%, so the central bank opted to lower the policy rate by 50 basis points in June and September and by a further 25 points in October, bringing it down to 1.75%. While these movements have brought interest rates down to

[1] The structural balance is obtained by estimating a fiscal outturn assuming that the price of copper is at its medium-term level and GDP on trend.

historically low levels, this situation is being used to renegotiate debt rather than increase consumption or investment, except for the increase in mortgage loans mainly for investment purposes.

The Chilean peso depreciated by about 20% over the year, owing to uncertainty in the international arena and the fall in the copper price. In October, anxiety generated by the social crisis was a compounding factor which fuelled a capital outflow, pushing the exchange rate above 800 pesos per United States dollar. In response, the central bank sold dollars on the foreign-exchange market, issued exchange-rate hedging instruments and bought back some of its own bonds.

Chile's country risk remains one of the lowest in the region. In late November, more than a month after the outbreak of the social unrest, its emerging market bond index (EMBI) stood at 150 points, compared to 166 points at end-2018.

As of the third quarter of 2019, the balance-of-payments current account was displaying a deficit of 3.1%, similar to that of 2018. The balance of trade in goods and services recorded a cumulative deficit of US$ 668 million to September, owing to a US$ 3.583 billion deficit on the services account, while merchandise trade remains in surplus at US$ 2.915 billion. Nonetheless, the latter narrowed, as exports decreased by more than imports (-6.7% and -4.5% year-on-year, respectively). On the income account, lower rates of profit repatriation help to reduce the deficit; while current transfers remain in surplus, despite having shrunk by 48.0% in 2019. The financial account posted a third-quarter deficit of US$ 7 billion, up by 23.5% relative to the year-earlier period. This result comprises a US$ 3.155 billion deficit in portfolio investment, US$ 3.797 billion in foreign direct investment inflows, and a US$ 1.758 billion drop in reserve assets. The external debt in September 2019 was US$ 10.843 billion higher than a year earlier, at US$ 195,283 billion or 71.8% of GDP, owing to increased corporate and government borrowing.

Chile: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	1.3	4.0	0.8
Per capita gross domestic product	0.5	3.2	0.0
Consumer prices	2.3	2.6	2.7 [b]
Real average wage [c]	2.4	1.9	2.1 [d]
Money (M1)	8.7	11.8	11.1
Real effective exchange rate [e]	-3.4	-1.8	4.1 [d]
Terms of trade [f]	10.2	-2.0	-2.9
	Annual average percentage		
Open urban unemployment rate	6.7	7.0	7.5
Central government			
Overall balance / GDP	-2.7	-1.6	-2.2
Nominal deposit rate [g]	3.0	3.0	2.8 [b]
Nominal lending rate [h]	11.5	10.6	8.9 [b]
	Millions of dollars		
Exports of goods and services	79 054	85 725	80 032
Imports of goods and services	75 090	85 052	81 799
Current account balance	-5 965	-9 157	-10 155
Capital and financial balance [i]	3 215	10 554	8 306
Overall balance	-2 750	1 397	-1 849

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

a/ Estimates.
b/ Figures as of October.
c/ General index of hourly remuneration.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Average nominal deposit rates for 90-360 days, non-adjustable.
h/ Lending nominal rates for 90-360 days, non-adjustable.
i/ Includes errors and omissions.

Export value has been down in all major sectors. Weaker growth in the economies of Chile's trading partners and lower prices have hit its foreign sales, with mining and manufacturing exports experiencing both volume and price reductions. In particular, the average copper price slipped from US$ 2.96 per pound in 2018 to US$ 2.72 between January and November 2019. On the other hand, agricultural, forestry and fishery exports increased in volume, but not sufficiently to offset the fall in prices. On the import side, lower values reflected reduced purchases of consumer goods, lower prices for intermediate goods such as oil and coal, and both lower prices and smaller volumes in the case of capital goods.

Domestic demand remained weak in the first half of 2019. Although the market had factored in a better performance in the second part of the year —which did occur in the third quarter— the consequences of the social crisis are likely to have undermined activity in the last three months of the year. In 2019, the growth of private consumption is expected to be lower than in 2018, led by consumption of services and non-durable goods. Purchases of the latter are down year-on-year, particularly in the case of automobiles. In terms of investment, the level of inventories has detracted from GDP throughout 2019. By contrast, gross fixed capital formation has increased in construction and other works for mining and construction, and to a lesser extent in machinery and equipment, which had been the leading investment component in 2018. Lower expectations among economic agents, compounded by unease concerning the political and economic situation and the depreciation of the peso, mean that private investment growth is likely to be less robust in 2020, although this could be partly offset by increased public investment.

On the supply side, lower output levels in the mining sector reflected climatic factors and strikes, while production in the crop farming and livestock sectors declined, with the country facing a water crisis that has intensified this year. Following an improvement in the third quarter, results in the tourism, transport and commerce sectors are expected to be weaker in the fourth quarter of 2019 and early 2020. Grounds for this forecast include the cancellation of the international meetings of Asia-Pacific Economic Cooperation (APEC) and the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 25), which were to be held in Chile in November and December, respectively. These cancellations hurt the investments, consumption and tourism associated with the organization of the events.

Inflation was below the midpoint of the central bank’s target range in 2019. Slacker pressure from domestic demand, greater competition between suppliers and an increasing supply of immigrant workers have elicited greater cost control and wage restraint. However, prices can be expected to rise as a result of the depreciation of the peso and a reduction in retail supply. Unemployment will show similar effects: having remained around 7% during 2019, it is expected to rise in the last few months of the year and into early 2020, owing to the fall in production and in retail sales amid the social demonstrations.