

Chile

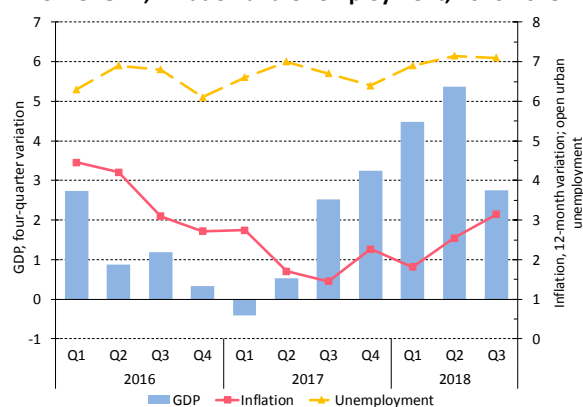
The economy's growth rate for 2018 was more than double its 2017 rate (3.9% versus 1.5%). Economic growth was driven by an upturn in domestic demand and, more specifically, investment, with particularly strong growth in machinery and equipment. On the other hand, export slackened during the last two quarters of the year, and their contribution to economic growth weakened accordingly as international copper prices moved lower and the terms of trade took a turn for the worse. Consumption also slowed from the second quarter of the year onward owing, in part, to higher unemployment and a decline in the growth rate of real wages. The external environment for economic activity also deteriorated as a result of mounting financial volatility, the United States Federal Reserve's decision to hike interest rates and an upswing in the risk ratings of emerging economies, which triggered an outflow of financial capital to developed nations.

Thanks to a more robust economic performance, growth in tax receipts rose from 4.6% in 2017 to 9.6% in 2018, which—together with a reduction in public spending (by 4.7% in 2017 and 3.3% in 2018)—had the effect of narrowing the fiscal deficit from 2.8% of GDP in 2017 to 1.9% in 2018. The increase in tax receipts was largely accounted for by the rise in net tax revenue (by 3.8% in 2017 and 9.0% in 2018), which represents the bulk (82%) of such receipts. Cuts in public spending were concentrated in current expenditures (by 6.3% in 2017 and 3.0% in 2018), as capital spending rebounded from a -3.1% contraction in 2017 to 4.8% positive growth in 2018. The direction taken by fiscal policy allowed the central government to slow the expansion of its gross debt, which thus amounted to 24.8% of GDP in 2018 (23.6% of GDP in 2017).

The more rapid pace of economic activity and the depreciation of the Chilean peso triggered by international financial conditions (the exchange rate against the United States dollar went from 605 pesos to 679 pesos between January and October 2018) added to inflationary pressures, with the rate of inflation climbing from 2.3% in December 2017 to 3.1% in December 2018. This forced the central bank to raise the monetary policy rate in October by 25 basis points, from 2.5% to 2.75%. This rate is still negative in real terms, however, thereby maintaining the expansionary bias of monetary policy. In combination with the strengthening of economic activity, monetary policy paved the way for an increase in loan placements (up 4.3% in September 2017 and 9.1% in September 2018), with credit expanding particularly sharply in the commercial sector, by 9.2% as of September 2018 as compared to a rate of 3.5% in September 2017.

The deficit on the current account of the balance of payments widened from 1.5% of GDP in 2017 to 2.2% in 2018 owing to the expansion of the deficit on the income account resulting from larger payments of dividends to foreign companies and banks (from US\$ 10.8 billion in 2017 to US\$ 12.3 billion in 2018), which more than offset the trade surplus (US\$ 4.8 billion in 2017 and US\$ 2.8 billion in 2018). The repatriation of profits from foreign direct investment (FDI) to other countries was much the same as it had been the year before.

Chile: GDP, Inflation and Unemployment, 2016-2018



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

Since the expansion of imports (from 9.5% in 2017 to 13.6% in 2018) more than offset the growth of exports of goods and services (at rates of 13.0% in 2017 and 10.0% in 2018), the country's trade surplus shrank. Import growth was driven by the upturn in economic activity and the dynamism of investment, particularly in machinery and equipment. The highest growth rates for exports, meanwhile, were recorded for intermediate goods (metal products, chemicals and fuels), followed by capital goods (vehicles and transport equipment, electronics and communications devices).

The country's export performance was hurt by the slump in the international price of copper (down from US\$ 3.4 per pound to US\$ 2.8 dollars per pound between January and November 2018), which made its effects felt from the second quarter of the year on. The export categories that turned in the strongest showing were the industrial processing sector (food) and agriculture (fruit).

The balance on the financial account (US\$ 5.84 billion in 2018) was the net result of an upswing in FDI flows and a moderating trend in portfolio flows. The lion's share of FDI was directed towards the mining, industrial and forestry sectors. The trend in portfolio inflows reflected the liquidation of assets by mining and energy companies and their bond floats on international markets. The economy's overall international investment position reflected an increase in its foreign debt, which came to the equivalent of 24% of GDP in the second quarter of 2018.

At the sectoral level, with a growth rate of 18.9% in the first quarter of 2017 relative to the first quarter of 2017, the mining sector led the expansion of economic activity in terms of both its pace and its impact on the expansion of GDP. Starting in the second quarter, however, the drop in the international price of copper triggered such a sharp reversal in this sector that, by the third quarter, it was registering a contraction (-2.7% compared to the second quarter of 2017).

Among the other sectors of the economy, agriculture, construction, personal and business services, and commerce all performed well. High growth rates in the agricultural sector were the result of both an expansion of the amount of area under cultivation and increases in the yields of some crops (6.7%). Growth in construction (4%) was fuelled by residential building. The performance of personal and business services (4.1%) was buoyed by greater demand for health services and professional services. The robust showing turned in by commerce (5.8%) was chiefly a result of the strength of wholesale purchases of machinery and equipment, vehicles and construction materials. Other sectors, such as manufacturing, experienced a sharp slowdown towards the end of the year (3.9%).¹

Chile: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	1.3	1.5	3.9
Per capita gross domestic product	0.4	0.7	3.1
Consumer prices	2.7	2.3	2.9 ^b
Real average wage ^c	1.4	2.4	1.9
Money (M1)	6.4	8.7	12.3 ^d
Real effective exchange rate ^e	-0.9	-2.9	-3.4 ^d
Terms of trade	4.3	10.9	-0.4
	Annual average percentage		
Open urban unemployment rate	6.8	6.9	7.2
Central government			
Overall balance / GDP	-2.7	-2.8	-1.9
Nominal deposit rate ^f	4.0	3.0	2.9 ^b
Nominal lending rate ^g	10.4	11.5	10.5 ^b
	Millions of dollars		
Exports of goods and services	70 186	79 328	87 403
Imports of goods and services	68 026	74 464	84 557
Current account balance	-3 499	-4 146	-7 148
Capital and financial balance ^h	5 305	1 397	5 835
Overall balance	1 805	-2 750	-1 313

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/ Average nominal deposit rates for 90-360 days, non-adjustable.

g/ Lending nominal rates for 90-360 days, non-adjustable.

h/ Includes errors and omissions.

¹ Sectoral growth figures correspond to the first three quarters of the year.

In 2018, at 2.9%, the rate of inflation was higher than it had been in 2017 (2.3%). The uptick was driven by greater demand on the back of stronger economic activity and by the depreciation of the Chilean peso, which raised the cost of intermediate inputs and imported final goods.

The faster pace of economic activity was not reflected in the labour market, as the average employment rate for the first three quarters of 2018 was the same as it had been in the corresponding period in 2017 (55.5%). The unemployment rate rose from 6.8% to 7.0%, as the growth of the workforce outdistanced the growth of the employed population.

Projections for 2019 point to a decline in the growth rate of the economy from the 2018 figure of 3.9% to 3.3%. On the expenditure side, consumption and exports will both maintain a moderate growth rate, but consumption will be dampened by rising unemployment. Exports will be influenced by the expected decrease in raw material prices and slow growth in external demand. Gross fixed capital formation could slacken somewhat, as its strong performance in 2018 was largely an effect of the low basis of comparison for this variable and the replenishment of capital stock rather than the creation of new production capacity.

Fiscal and monetary policy will foster moderate economic growth. Fiscal policy will focus on the consolidation of public accounts, which should lead to a reduction in the fiscal deficit from 1.9% in 2018 to 1.7% in 2019 in effective terms and from 1.8% to 1.6% in terms of the structural balance. Monetary policymakers are expected to adopt a less expansionary stance with the goal of achieving a neutral monetary policy rate (4% to 4.5%) by 2020.

The main challenge for the economy in 2019 and beyond will be to boost the pace of investment growth while paring down the level of private debt, whose growth could eventually prove to be a source of financial fragility.