Chile

1. General trends

In 2008, the Chilean economy expanded at an annual rate of 3.2%, compared with 4.7% in 2007, as unemployment rose and annual inflation surged, driven by large increases in international prices, particularly for food and fuels, in the first three quarters of the year. Later, the outbreak of the global crisis that originated in the United States in September that year wrought great changes in external conditions that drastically curbed domestic and external demand in the last quarter of 2008 and the first quarter of 2009.

Economic growth has continued to slow and unemployment to rise in the first half of 2009. Both domestic and external demand therefore contracted sharply in the first quarter. Inflation levels also dropped significantly. GDP growth estimates have thus been revised considerably downwards, with a negative variation of 1% now forecast.

Notwithstanding the negative effects of the turmoil on the external front, 2008 marked the fifth year in an unbroken series of fiscal surpluses during which the country built up US$ 25.5 billion in international reserves, which have enabled it to implement countercyclical policies without having to borrow at home or abroad. The central bank's reserves, meanwhile, stand at US$ 24.2 billion, further boosting Chile's countercyclical capacity.

2. Economic policy

(a) Fiscal policy

For several years, fiscal policy has been directed towards attaining a structural surplus, in other words, it has been guided according to the trend values, rather than the short-term projections, of its main determinants. The structural surplus target was set at 0.5% of GDP for 2008 and at 0% of GDP for 2009. The aim of this policy is to generate savings during boom periods when copper prices are high and GDP expands at above-trend rates so as to be able to cope with the deficits that can develop when copper prices are low or the domestic economy performs below trend. The savings generated during boom times are channelled into funds that should enable the country to handle contingencies (guarantees for minimum pension payments), shore up public spending and take countercyclical action whenever growth dips below-trend levels or a crisis occurs.

In 2008, consolidated central government spending increased 7.8% in real terms and, despite the drop in receipts from mining and income tax, actual income exceeded budget projections. The country thus achieved a surplus equivalent to 5.3% of GDP in 2008, bringing the total accumulated over five successive years of surpluses to 21.7% of GDP. By the end of 2008, financial assets of US$ 25.5 billion were held in contingency funds.

From the start of the global financial crisis in September 2008, the authorities used the countercyclical capacity that had been built up to take fiscal measures aimed at propping up employment levels, stimulating domestic demand and preventing poverty from rising. As a first step, the housing subsidies programme was expanded by temporarily doubling the subsidy available for homes worth up to 1,000 *unidades de fomento* (UF), a unit of account employed in Chile's capital markets, and a new temporary subsidy was created for housing units valued between 1,000 and 2,000 UF. Second, capital and other resources were injected into the Production Development Corporation (CORFO) and the Small Enterprise Guarantee Fund (FOGAPE) to boost their capacity to back commercial bank loans. Capital was also pumped into BancoEstado to increase its credit capacity and into the Technical Cooperation Service (SERCOTEC) to boost lending to micro-enterprises. Third, measures were introduced to streamline tax procedures with a view to expediting companies' tax returns. Fourth, low-income families were paid an extraordinary bonus of 40,000 Chilean pesos (US$ 70) for each family member eligible for family subsidy and for each member eligible for family or maternity benefits. The beneficiaries of the *Chile Solidario* programme received a bonus of 40,000 pesos per family. By the end of the first quarter of 2009, over 1,470,000 people had received this bonus. A second bonus of similar characteristics will be distributed in the second half of the year.

In addition, budget implementation has been brought forward with a view to generating more domestic activity during the first semester of 2009. The budget approved for 2009 includes resources to step up public investment and expand direct and indirect job creation programmes.[1]

The central government's consolidated budget deficit is projected to be 4.1% of GDP, which represents a drop of over nine percentage points from the surplus recorded in 2008. Much of this drop (3.7 percentage points) is attributable to lower tax receipts (from income tax and VAT), on account of diminishing activity levels and the decline in copper revenue caused by falling international prices and rising production costs. The 14.5% rise in consolidated government spending, stemming in part from the aforementioned countercyclical policy action, will also contribute to the deficit. Despite the prospect of a deficit, the availability of resources has enabled Chile to continue to service its public debt and make amortization payments without issuing fresh external debt. Government bonds have continued to be issued in order to develop the domestic market, albeit at a slower pace than in 2008. In gross terms, public debt fell in GDP terms in the first half of the year to 5.2% of the output estimated for 2009.

(b) Monetary policy

Monetary policy continued to pursue the annual inflation target of between 2% and 4% on a two-year horizon. But from mid-2007 onwards, inflation soared above target, reaching an annualized rate of almost 10% in mid-2008. This was the result of domestic food supply shocks, rising fuel costs (which were triggered by the suspension of the natural gas supply from Argentina that forced the country to purchase more expensive fuel elsewhere) and the sharp rise in international food and fuel prices in the first part of 2008. This led to successive increases in the monetary policy rate, from 5% in June 2007 to a high of 8.25% in 2008. Despite the outbreak of the global financial crisis in September and the prospects of a world recession, the rate was maintained until December as the core 12-month inflation index suggested that price rises would continue to steepen. It was not until December, after two months of negative monthly variation in the consumer price index, that the 12-month core inflation index confirmed the break in this trend, which enabled the central bank to start lowering the monetary policy rate. Over the first six months of 2009, the rate was slashed by 750 basis points to a historic low of 0.75% to respond to rapidly declining inflation and the growing need for liquidity created by the crisis.

In order to address the serious liquidity problems in the interbank market arising from the uncertainty generated by the crisis, the monetary authorities adopted a broad array of measures to increase liquidity in both pesos and dollars. The swap programme was extended from one to six months, thus offering the market up to US$ 5 billion. As a complement to this measure, repurchase agreements with similar terms were set up to inject local currency liquidity into the system. The central bank also announced that it would accept bank deposits as collateral for renewable 7-day repos, which effectively broadened the range of guarantees permissible for transactions in the financial system.

The market responded cautiously at first and for a while credit remained tight as uncertainty and risk perceptions heightened in keeping with the pessimistic forecasts for growth and employment. Towards the end of the first semester, however, financial market losses in the more developed countries ceased to mount and the risk of collapse among systemically influential financial institutions began to recede. Risk ratings were revised and credit began to gradually recover in Chile on the back of low interest rates and the strengthened liquidity supply mechanisms.

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1 The main measures adopted by the countries of the region to deal with the present conditions are compiled in the report published by the Economic Commission for Latin America and the Caribbean (ECLAC), *The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009* (LC/L.3025/Rev.1), Santiago, Chile, 31 May 2009.

(c) Exchange-rate policy

In the context of the country's deep integration with international markets and its low-risk status, the central bank has, for several years, maintained a free-floating exchange rate and generally refrained from intervening in the exchange market. However, in the face of a steady gain of the peso against the dollar and in order to stave off the effects of the external crisis, in April 2008 the central bank embarked upon an eight-month foreign exchange purchasing plan aimed at augmenting international reserves by US$ 8 billion, or some 50%. In October, the bank suspended this plan, since reserves had reached US$ 24.2 billion the month before —US$ 6 billion more than at the outset— and the exchange rate had depreciated by 38.5% in nominal terms. Subsequently, as the crisis unfolded, the dollar gained a further 5% against the peso, and by the end of the year, reached real levels comparable to those prior to the international financial crisis. In December 2009, the real effective exchange rate was higher than the average observed during the Argentine exchange-rate crisis of 2001-2002, and since the beginning of the current crisis has remained above the average level recorded during the Asian crisis.

(d) Other policies

Given the hard times forecast in economic terms for 2009, the authorities have made strenuous policy efforts to prevent the employment situation from worsening. In the first half of the year legislation was implemented to subsidize the income and hiring of workers between the ages of 18 and 24 whose families belong to the poorest 40% of the population. The law includes support for independent and seasonal workers as well. The subsidy is equivalent to 30% of pay for the lowest-income young workers, progressively diminishing to zero for those earning 360,000 pesos (US$ 630) or more a month.

The government also presented a bill establishing tax incentives and subsidies to encourage employers to retain and train workers. The bill substantially increases business's tax credit for spending on worker training provided that employers retain the payroll they had in April. Alternatively, workers and employers may agree upon a special leave of absence for up to five months during which the worker does not provide services in the company, but instead attends training courses and receives the equivalent of 50% of the pay received during the previous six months, up to maximum of 190,000 pesos (US$ 330). This amount is covered by the company and by a subsidy funded through unemployment insurance.

3. The main variables

(a) Economic activity

Up to the third quarter of 2008, domestic demand was expanding faster than in 2007, at an average annual rate of 10%, driven mainly by investment and durable goods consumption. The situation changed drastically in the last quarter of the year when, on the domestic front, uncertainty surrounding the depth and duration of the global crisis forced a revision of consumption and investment plans. Consumption of durable goods plummeted 10.4% in the fourth quarter, so that total consumption rose only by 1.1%. Investment growth fell to less than half the level recorded in the three previous quarters. Overall, domestic demand in 2008 grew by 7.4%, slightly less than in 2007. Sluggish growth in export volumes and the rapid swelling of imports up to the third quarter meant that net external demand acted as a brake on economic growth. GDP therefore grew by 3.2% in 2008, a rate admittedly below the 4.7% posted in 2007, but one achieved amid major external shocks.

Economic indicators for the first quarter of 2009 reveal the size and scope of the decline in activity resulting from the crisis. GDP fell by 2.1% compared with the year-earlier period, but by only 0.6% in seasonally adjusted terms. One of the most striking signs is that virtually every demand aggregate, except for government consumption and public investment, has posted a decline. Investment in, and imports of, machinery and equipment and inventory accumulation were sharply down. In these circumstances, national savings rose despite the almost 6% drop in real gross disposable national income. In short, aggregate demand reacted swiftly and strongly to the mounting uncertainty of the economic situation.

The sectors that witnessed the strongest contractions in output were manufacturing, commerce, mining, transportation and construction. In all these cases, except mining, the downturn was linked mainly to the shrinking of domestic demand. Technical problems and steadily declining ore grade continued to bedevil the productivity

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	4.5	3.4	2.2	3.9	6.0	5.6	4.6	4.7	3.2
Per capita gross domestic product	3.2	2.2	1.0	2.8	4.9	4.5	3.5	3.6	2.1
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	6.6	7.5	6.8	2.6	11.0	7.0	4.0	1.7	2.1
Mining and quarrying	3.2	5.7	-4.2	5.5	6.1	-3.9	0.7	3.1	-5.0
Manufacturing	4.9	0.6	1.9	3.3	7.0	6.0	3.9	3.1	0.0
Electricity, gas and water	9.5	1.5	3.3	4.3	2.8	3.0	7.6	-28.8	-4.0
Construction	-0.7	4.1	2.5	4.3	3.2	10.1	4.0	5.4	9.7
Wholesale and retail commerce, restaurants and hotels	4.4	2.6	0.9	4.9	7.3	8.5	6.9	6.1	3.8
Transport, storage and communications	8.6	7.4	5.3	5.8	5.5	6.9	6.9	8.1	6.5
Financial institutions, insurance, real estate and business services	4.0	3.0	2.8	2.8	6.4	7.0	4.2	7.9	5.5
Community, social and personal services	3.0	2.8	2.5	2.6	3.1	3.5	3.6	4.5	2.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	2.9	2.5	4.0	7.0	7.1	7.0	7.1	4.2
Government consumption	3.0	2.9	3.1	2.4	6.1	5.9	6.4	8.0	4.0
Private consumption	3.7	2.9	2.4	4.2	7.2	7.4	7.1	6.9	4.3
Gross domestic investment	14.0	0.8	2.2	7.8	9.0	21.7	6.2	9.9	17.0
Exports (goods and services)	5.1	7.2	1.6	6.5	13.3	4.3	5.1	7.6	3.1
Imports (goods and services)	10.1	4.1	2.3	9.7	18.4	17.2	10.6	14.9	12.9
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	21.1	21.1	20.7	21.1	20.0	22.2	20.1	20.6	24.7
National saving	19.9	19.5	19.9	20.1	22.2	23.4	24.9	25.0	22.6
External saving	1.2	1.6	0.9	1.1	-2.2	-1.2	-4.9	-4.4	2.0
					Millions of dollars				
Balance of payments									
Current account balance	-898	-1 100	-580	-779	2 074	1 449	7 154	7 189	-3 440
Goods balance	2 119	1 844	2 386	3 723	9 585	10 775	22 780	23 635	8 846
Exports, f.o.b.	19 210	18 272	18 180	21 664	32 520	41 267	58 680	67 666	66 455
Imports, f.o.b.	17 091	16 428	15 794	17 941	22 935	30 492	35 900	44 031	57 610
Services trade balance	-719	-844	-701	-618	-746	-622	-631	-975	-646
Income balance	-2 856	-2 526	-2 847	-4 489	-7 837	-10 487	-18 401	-18 595	-14 563
Net current transfers	558	427	583	605	1 072	1 783	3 406	3 123	2 924
Capital and financial balance [d]	1 234	504	779	413	-2 265	267	-5 144	-10 387	9 887
Net foreign direct investment	873	2 590	2 207	2 701	5 610	4 801	4 556	9 568	9 896
Other capital movements	361	-2 086	-1 428	-2 288	-7 875	-4 534	-9 699	-19 955	-9
Overall balance	337	-596	199	-366	-191	1 716	2 011	-3 198	6 447
Variation in reserve assets [e]	-337	596	-199	366	191	-1 716	-2 011	3 198	-6 447
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	111.7	109.4	114.7	108.5	103.2	100.9	102.5	101.7
Terms of trade for goods (index: 2000=100)	100.0	93.3	97.2	102.8	124.9	139.8	183.2	189.5	164.9
Net resource transfer (millions of dollars)	-1 621	-2 022	-2 068	-4 076	-10 102	-10 220	-23 545	-28 982	-4 676
Total gross external debt (millions of dollars)	37 177	38 527	40 504	43 067	43 517	44 934	47 590	55 822	64 768
					Average annual rates				
Employment									
Labour force participation rate [g]	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.9	56.0
Open unemployment rate [h]	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.1	7.8
Visible underemployment rate [h]	6.1	7.1	6.2	6.5	8.4	8.5	8.5	8.0	9.0
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.8	7.1
Variation in wholesale prices (December-December)	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	22.7
Variation in nominal exchange rate (annual average)	6.1	17.7	8.5	0.4	-11.9	-8.2	-5.2	-1.5	0.2
Variation in average real wage	1.4	1.7	2.0	0.9	1.8	1.9	1.9	2.8	-0.3
Nominal deposit rate [i]	8.7	6.5	4.1	3.2	2.4	4.5	5.5	5.9	7.8
Nominal lending rate [i]	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.6	15.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Total central government [j]									
Income	21.6	21.7	21.0	20.7	22.0	23.8	25.8	27.5	26.4
Tax income	17.9	18.0	18.1	17.3	17.0	18.3	18.3	20.2	20.1
Expenditure	22.2	22.2	22.3	21.2	19.9	19.3	18.1	18.7	21.1
Current expenditure	19.0	18.9	18.8	17.9	16.8	16.1	15.1	15.4	17.3
Interests	1.2	1.2	1.2	1.1	1.0	0.8	0.7	0.6	0.5
Capital expenditure	3.2	3.4	3.4	3.3	3.1	3.1	3.0	3.2	3.8
Primary balance	0.6	0.7	-0.1	0.7	3.1	5.4	8.4	9.4	5.8
Overall balance	-0.7	-0.5	-1.2	-0.5	2.1	4.6	7.7	8.8	5.3
Central government public debt [k]	13.6	14.9	15.7	13.0	10.7	7.3	5.3	4.1	5.2
Domestic	10.0	10.4	9.9	7.5	5.9	4.0	2.4	2.0	3.1
External	3.6	4.5	5.7	5.5	4.8	3.3	2.9	2.1	2.1
Money and credit [l]									
Domestic credit	64.4	65.8	61.9	61.5	60.1	59.8	55.1	60.8	65.4
To the public sector	-1.5	0.2	-3.9	-1.1	-2.2	-4.5	-8.5	-9.0	-14.6
To the private sector	66.0	65.6	65.9	62.7	62.3	64.3	63.7	69.8	80.0
Liquidity (M3)	53.1	54.2	54.6	48.8	50.3	53.3	53.2	58.2	69.6
Currency outside banks and local-currency deposits (M2)	47.9	47.8	48.6	43.4	45.5	48.6	48.6	53.4	60.5
Foreign-currency deposits	5.1	6.3	5.9	5.4	4.9	4.7	4.7	4.8	9.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC). on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2002, based on figures in local currency at constant 1996 prices. From 2003 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of merchandise exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Non-adjustable 90-360 day operations.
[j] Reflects the new accounting methodology set out in the 2001 IMF manual.
[k] Does not include publicly guaranteed debt.
[l] The monetary figures are annual averages.

of the mining sector. Conversely, the output of the agriculture and forestry and the electricity, gas and water sectors expanded. In the case of agriculture and forestry, the increase was driven by rising exports and the slower decline in external demand in comparison with that for other primary goods and manufactures. In the case of electricity, gas and water, lower fuel prices made it possible to generate more value added in the sector.

The swiftness and extent of the downturn in aggregate demand in the last quarter of 2008 and the first quarter of 2009 suggest that the adjustment has largely taken place already. The decline in activity levels is therefore expected to taper off, and there could be a modest recovery during the second half of the year based on the sharp reduction in inventories and as reduced uncertainty and renewed credit flows help to turn demand around. Sales in the housing market, which had a large unsold stock, for example, showed some signs of an upturn in the first semester of 2009. The sales figures for consumer durables continued to languish below 2008 levels, however.

Nevertheless, the magnitude of the crisis precludes any radical change in the lower growth trend for 2009: the central bank's growth projections are between -0.75% and 0.2%. ECLAC, for its part, has forecast 0.3% growth in 2009.

(b) Prices, wages and employment

Average annual inflation hovered around 10% on several occasions during the second half of 2008 owing to high international prices for food and fuels and domestic pass-through mechanisms. The average annual inflation rate was 8.7%, almost twice as high as in 2007 (4.4%).

During the first semester of 2009, inflation remained at the low levels that began in November 2008, with four months of negative variations of the consumer price index. Inflation is reacting to the fallback in domestic demand and lower international prices and is therefore expected to drop far lower, well within the monetary policy target range.

Nominal wages continue to be indexed and have thus risen slightly but steadily. With prices falling, real wages have risen by more than nominal wages, but modestly nevertheless. The unit labour cost index, which takes productivity variations into account, may rise in 2009 as a reaction to the drops in this variable typical of the initial stages of a slower growth cycle. The minimum wage will undergo a nominal 3.7% adjustment to reach 165,000 pesos (approximately US$ 300) per month.

Unemployment oscillated between 7.5% and 8.5% in 2008 in the framework of a steadily increasing labour

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2007 [a]				2008				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.9	5.5	3.6	3.8	3.4	4.6	4.6	0.2	-2.1	...
Goods exports, f.o.b. (millions of dollars)	16 571	18 291	16 237	16 567	19 277	18 423	16 419	12 336	11 274	...
Goods imports, c.i.f. (millions of dollars)	10 084	11 228	12 306	13 545	14 004	16 233	17 786	13 880	9 631	...
Gross international reserves (millions of dollars)	15 390	17 897	16 320	16 910	17 898	20 251	24 204	23 162	23 382	23 448
Real effective exchange rate (index: 2000=100) [c]	105	104	101	100	94	97	102	114	109	105 [d]
Unemployment rate	6.7	6.9	7.7	7.2	7.6	8.4	7.8	7.5	9.2	...
Consumer prices (12-month percentage variation)	2.6	3.2	5.8	7.8	8.5	9.5	9.2	7.1	5.0	1.9
Average nominal exchange rate (pesos per dollar)	541	527	520	502	463	472	517	642	607	566
Average real wage (variation from same quarter of preceding year)	3.4	3.7	3.2	1.1	0.6	-0.2	-1.1	-0.2	1.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.4	5.5	6.1	6.6	6.7	7.1	8.4	9.2	4.9	2.0
Lending rate [e]	14.0	13.1	13.3	13.9	14.0	14.2	15.7	16.9	16.5	13.1
Interbank rate [f]	5.1	5.1	5.5	5.8	6.2	6.4	7.6	8.2	5.5	1.4
Stock price index (national index to end of period, 31 December 2000=100)	270	320	300	281	268	277	254	219	229	285
Domestic credit (variation from same quarter of preceding year)	-99.9	-99.9	-99.9	-99.9	21.4	21.1	16.5	11.2	12.0	9.4 [g]
Non-performing loans as a percentage of total credit	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.1	1.2 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Non-readjustable 90-360 day operations.
[f] Overnight.
[g] Data to April.

force and expanding employment, especially wage jobs. In the last quarter of the year, the unemployment rate edged up to 8% in November and December, higher than the 7.2% recorded the previous year.

Despite the favourable shift towards wage employment in the composition of the labour market, job creation diminished from the last quarter of 2008 and into the first part of 2009, and the growth in the labour force in the first quarter of the year was accompanied by a steep rise in unemployment. Given the magnitude of the crisis and the fact that winter is a season of lower employment in Chile, the unemployment rate is expected to continue to rise to above 2008 levels despite the support programmes the government has put in place. To avoid this, employment would have to hold steady during the winter months —rather an improbable scenario in the current crisis— and the labour force would have to stop growing or even shrink.

(c) The external sector

In 2008 the current account posted a deficit for the first time in over four years, of 2% of GDP. This reflected the pattern of spending in the first three quarters of the year, which drove a rise in import volumes across almost all categories, while food and fuel price hikes pushed up the volume of imports as well. Meanwhile, mining exports were sluggish despite high prices and volumes actually shrank owing to technical difficulties. A similar situation arose in the industrial exports sector.

The great uncertainty surrounding the course of the global economy, generated by the financial crisis afflicting several developed countries, resulted in a steep drop in external demand for commodities, including copper and molybdenum, and a sudden cessation of financing for trade. Import and export prices fell precipitously and export volumes contracted sharply during this period.

The balance-of-payments current account in 2009 also reflects the depth of the adjustment. After posting a deficit at the end of 2008, in the first quarter of 2009 it turned in a surplus equivalent to 1.8% of GDP, largely as a result of the plunge in both import volumes (especially machinery and equipment and intermediate goods imports) and import values. Export prices and volumes suffered a less dramatic decline and in some segments, such as fruit produce, volumes expanded thanks to new access conditions in the United States market. The other components of the current account also posted surpluses or reduced deficits either in response to the effects of the external crisis (lower export prices also translate into lower profit remissions by foreign investors) or of the resulting domestic reaction (reduced demand for travel abroad).

The GDP of Chile's main trading partners is expected to shrink by 1.5% in 2009. Furthermore, the terms of trade are expected to worsen by 22%, outstripping the 9% decline witnessed in 2008. This will reduce national income and, consequently, dampen spending. The current account could reach equilibrium or post a slight deficit as a result of the contraction of imports.

The capital and financial account continued to run a surplus owing to the positive impact of foreign direct investment, which was this time partially counteracted by the resource outflows associated with more limited use of external credit lines for imports as those activities weakened. Now that the moments of greatest uncertainty in the external financial markets have passed, Chile has continued to enjoy ready access to those markets, which has helped to put trade financing and external borrowing for private-sector activity back on a normal footing, and bond issues have resumed. In 2009, one agency raised Chile's sovereign risk rating from A2 to A1, the best rating in the region.

International reserves, which had peaked at US$ 24.2 billion in September 2008, dipped slightly in the last quarter of that year before reaching a new high in mid-2009. Thanks to these reserves and the financial resources built up by the State, Chile's external solvency position is extremely solid.