

Chile

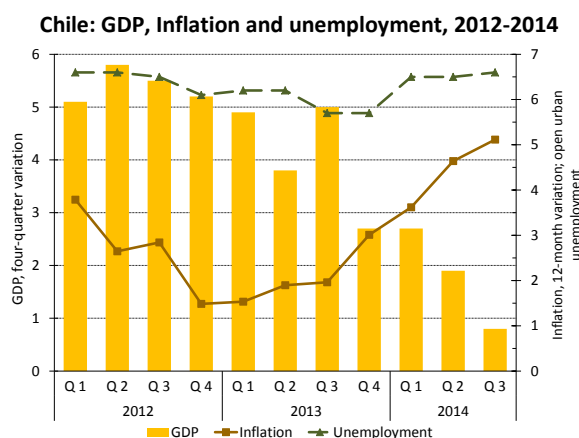
The Chilean economy grew by 1.8% during 2014, down from 4.1% the year before. This slowdown was contributed to by slackening domestic demand, especially consumption (the main driver of growth in previous years), and a sharp fall-off in construction and machinery investment. Both factors are connected to the downgrading of expectations that began in the first quarter of 2013 as a result of rising uncertainty about future growth in the world economy and, in particular, the demand for Chilean exports, given the moderating growth outlook in destination markets, China and Europe foremost among them. The weak performance of the eurozone economy and the declining rate of economic expansion in China over the past two years have confirmed the forecasts, which foreshadowed the imminent end of the stage of steadily rising copper prices and growth in investments in new mining projects. Faced with this situation, firms have been behaving more cautiously since early 2013, substantially reducing investment in machinery, equipment and construction activity. In addition, inventories were run down sharply during 2014. The drop in demand resulted in reduced dynamism in sectors oriented towards the domestic market, leading to lower job creation in 2014. This weakened the basis for consumption, which had underpinned growth until then.

Annualized inflation averaged 4.3% in the first 10 months of 2014 (as compared to 1.9% in 2013). The unemployment rate was 6.4% (as against 6.0% in 2013), while the balance-of-payments current account deficit fell from 3.4% of GDP in 2013 to 1.3% in the first three quarters of 2014.

The economic policy implemented by the new government in March 2014 has similar features to those applied by previous executives. The main new developments in the current approach have been the passing of a tax reform, whose core provision is increased taxation of income from capital, and proposals for structural reform in education.

Fiscal policy has continued to be guided by the goal of structural balance in the medium term. As of October 2014, total central government revenue was down by 0.2% in real terms on the same period the year before, something that can be put down to the sharp drop in mining receipts from both the State and private sectors. The tax take from private-sector mining fell by 10.3% in real terms, while revenues from the National Copper Corporation of Chile (Codelco) were down by 15.7% in real terms. Current expenditure grew by 6.4% in real terms in this period, while investment grew slowly (by 1.2%) and capital transfers shrank by 1.7%. The forecast is for a deficit of 1.8% of GDP in 2014, as against 0.6% in 2013. In view of the economic slowdown, a budget containing countercyclical measures to boost activity, and particularly investment, has been passed for 2015. Thus, public spending is projected to increase by 9.8%, including public investment growth of some 28%, while a deficit of 1.9% of GDP is forecast.

Monetary policy has continued to target an annual inflation rate of 3% over a two-year horizon. Having held the nominal



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

monetary policy rate at 5% since January 2012, the central bank began to lower it gradually in October 2013 in the face of signs of a slackening of activity, bringing it down to 3% by October 2014. Since year-end inflation was higher than anticipated, the stage of rate reductions has probably come to an end.

The central bank maintains a free-float exchange-rate policy, with some intervention. From May 2013, demand for foreign financial assets increased in response to rising yields for these and to announcements of changes in United States monetary policy. The peso then began to depreciate, with a cumulative 12-month decline of 17.8% as of October 2014.

As a result of the sharp contraction in domestic demand, the current account deficit narrowed considerably over the first three quarters of 2014. On the one hand, the value of goods and services exports dropped by 0.7% during the period in consequence of low external demand, which resulted in price reductions that higher export volumes were not enough to offset. However, the value of imports decreased even more (by 7.6%) owing to the contraction in domestic demand, which led to substantial declines in imports of consumption and capital goods.

With regard to external financing, net foreign direct investment during 2014 remained at positive levels similar to those of the previous year. The other components of financial flows evolved less favourably, owing to the higher returns on external assets and uncertainty about the direction of United States Federal Reserve policy, which resulted in lower net portfolio investment inflows and an outflow of capital from more volatile investments, including short-term financial investment instruments and bank credits. Thus, international reserves were up only US\$ 317 million by November 2014 to a total of US\$ 41.411 billion, the equivalent of six months' imports of goods and services, taking the average for the past two years.

As noted at the start, GDP growth was 1.8% during 2014. Broken down by production sector, the slowdown relative to 2013 is mainly accounted for by the lesser contribution of non-tradable sectors, which continued on the downward trend of the previous two years, compounded by the low contribution of manufacturing in general. The determining factor in both cases was the behaviour of domestic demand (consumption and investment) described earlier. Natural resource sectors (agriculture, forestry, fisheries and mining) continued to make a positive contribution, albeit one that weakened over the year owing to the sluggishness of external demand.

Inflation, whether measured by the consumer price index or core indicators, increased gradually from September 2013, so that by the end of 2014 the annual rate was close to 5%. Owing to the moderation of domestic demand, non-tradable goods prices rose steadily at a rate of between 4% and 5%, while tradable goods inflation accelerated strongly from the start of the year

Chile: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	5.4	4.1	1.8
Per capita gross domestic product	4.5	3.2	0.9
Consumer prices	1.5	3.0	6.1 ^b
Real average wage ^c	3.2	3.9	1.6 ^d
Money (M1)	9.1	10.1	12.5 ^b
Real effective exchange rate ^e	-1.6	1.0	10.6 ^b
Terms of trade	-5.7	-2.9	0.0
	Annual average percentage		
Open urban unemployment rate	6.4	5.9	6.4 ^b
Central government			
Overall balance / GDP	0.6	-0.6	-1.8
Nominal deposit rate	5.9	5.2	3.9 ^f
Nominal lending rate ^g	13.5	13.2	11.0 ^f
	Millions of dollars		
Exports of goods and services	90,421	89,471	88,812
Imports of goods and services	90,190	90,262	82,782
Current account balance	-9,081	-9,485	-2,739
Capital and financial balance ^h	8,714	9,796	1,626
Overall balance	-367	311	-1,113

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.

f/ Figures as of November.

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

h/ Includes errors and omissions.

owing to the depreciation of the currency, which also took place progressively over the year. As a result, by October 2014 the tradable goods price index was up by 6.2% at an annual rate.

Annual growth in nominal pay averaged 6.4% from January to September 2014 relative to the same period the year before, in the context of a labour market with low unemployment and modest new job creation. With the pickup in inflation, real pay grew at an annual rate of 1.9%. In July 2014, the minimum wage increased by 7.1% to 225,000 Chilean pesos (equivalent to US\$ 403 at the July 2014 exchange rate). A public-sector pay rise of 6% was planned for 2015.

The labour market suffered from the consequences of the growth slowdown. While the labour force expanded at an average annual rate of 2.1% to September 2014 (as against 1.6% in 2013), the number of people in work grew at an annual rate of 1.5% during the first nine months of 2014 (as against 2.1% in 2013). The unemployment rate rose slightly as a result, from 5.9% in 2013 to an average of 6.4% in 2014.