CHILE

1. General trends

In 2012, Chile's GDP expanded by 5.6%. As in 2011, the main driver was domestic demand, which increased by 7.1%. The annual rate of inflation was 3%. The unemployment rate declined at a steady pace to an average of 6.4% for the year. Export growth slowed considerably (to only 1%) as growth cooled in Chile's major trading partners, particularly in Europe. Fuelled by domestic demand, imports of goods and services climbed 4.9%. Accordingly, the current account posted a deficit of 3.5% of GDP in 2012, more than twice as large as the previous year. Despite net financial inflows being down during the first part of the year amid international financial market turmoil, the financial balance was positive, albeit still 50% lower than the figure for the previous year. This was due to the fact that although foreign direct investment inflows were up, portfolio investment outflows were substantial as Chilean companies in the non-financial sector sought to diversify regionally, targeting natural resource-related and service sectors, particularly financial services. Smaller net financial flows, together with the conclusion of the central bank's foreign-exchange purchase programme and the current account deficit, pushed international reserves down by US$ 367 million.

There have been signs of a slowdown during the first quarter of 2013, with growth of 4.1% compared with the same period the previous year and a forecast of 4.7%-4.8% for the year as a whole. This cooling is the result of continued slow growth of Chile's trading partners, declining eurozone output and sluggish growth in China. Accordingly, the external sector will continue to be a drag on growth. Domestic demand will continue to outpace GDP expansion by 1.5%, underpinned by a dynamic labour market with low unemployment rates and rising real wages and investment. However, demand is expected to soften over the year because public expenditure, particularly capital expenditure, is growing at slower pace than GDP and there has been a steady decline in domestic consumer and mortgage lending. This is because default risk has been increasing since mid-2012, leading banks to be more cautious. The central bank expects the pace of investment to pick up again in 2013, to 27.4% of GDP at constant prices (24.1% in 2012); given the increase in consumption, national savings are not expected to grow. As a result, the current account deficit is expected to widen once again, to 4.4% of GDP.

2. Economic policy

(a) Fiscal policy

Central government expenditure grew more slowly than GDP for the second year running. The rise in spending eased during the last quarter of 2012 as a result of government efforts to smooth the trend and help maintain macroeconomic equilibria in the face of soaring domestic demand, a tight labour market and risks of inflationary spikes that could overheat the economy in an external context that widened the current account deficit. However, the surge in spending on goods and services and on subsidies and donations (by 6.5% and 10.1% in real terms, respectively) made it necessary to cut back public expenditure in other areas. This was particularly the case during the fourth quarter, when central government capital expenditure contracted at an annual rate of 9.2% to grow by only 1% for the year as a whole. Accordingly, total expenditure increased by 4.7% in real terms.

Public revenue generated by private and State-owned mining companies declined by 14.2% and 31.1% in real terms, respectively (11.6% and 29% in nominal terms) as output and exports slumped and copper prices fell in 2012. This was partially offset by other tax revenues, which rose by 7.1% in real terms (3.3% in nominal terms) on the strength of robust domestic demand, so total revenue was up by 1.3% in real terms. Accordingly, the primary surplus stood at 1.2% of GDP and the total effective surplus was 0.6% of GDP.

These general trends have held or sharpened thus far in 2013. Under the budget law, total expenditure will continue to expand at a slower pace than GDP. Capital expenditure will rise more slowly than current expenditure or even contract, according to figures for the first quarter. While revenue generated by private mining has recovered to a certain extent, National Copper Corporation of Chile (CODELCO) contributions dropped more sharply due to falling copper prices and higher costs. In this context, 2013 is expected to be a deficit year after two consecutive years of effective surplus.

(b) Monetary policy

In 2012 and 2013, monetary policy has been subject to opposing factors. On the one hand, the external environment of high liquidity and interest rates that are lower than in Chile contributed to real and nominal exchange-rate appreciation, affecting the competitiveness of certain tradable goods-producing sectors (including export and import-substitution sectors). This has sparked pressure to lower the monetary policy rate. Strong domestic demand, tight labour market conditions and the widening current account deficit indicated that the economy could be on an unsustainable expansionary path. While inflation has been trending downwards, this scenario has increased the probability of inflationary spikes. These factors offset the proposed monetary policy rate cuts. And so, the monetary policy rate rate has remained unchanged at 5% since January 2012.

Average interest rates in the financial system rose slightly in 2012. The annual nominal rates for consumer and commercial loans rose by half a percentage point to 27.8% and 9.5%, respectively, while the real annual rate for housing loans denominated in inflation-linked units (UF) remained virtually unchanged at 4.3%.

Since 2011, lending has been expanding briskly in real terms year-on-year. Bank lending has slackened somewhat in real terms since September 2012 as banks imposed stricter lending terms amid signs of a certain degree of portfolio quality deterioration because of an increase in loan default risk.

These factors have continued to influence central bank decisions in 2013, even though signs of a slowdown during the first four months, along with low or even negative inflation, have eased upward pressure on the monetary policy rate.

(c) Exchange-rate policy

The central bank maintains a free-float exchange-rate policy, with some intervention. In 2011, it launched a foreign-currency purchase programme to moderate exchange-rate appreciation triggered by high global liquidity, surging long-term inflows related to real investment alternatives and short-term inflows spurred by higher risk-adjusted interest rates in Chile than in other developed financial centres. The programme ended in December 2011 and was not renewed. This continuing pattern in global financial markets and in Chile held the nominal exchange rate below the pre-global financial crisis level for the second year running. The real exchange rate again posted real appreciation. According to the central bank, while it is at a level consistent with the long-term fundamentals of the Chilean economy, it is at the lowest point of the equilibrium range.

During the first four months, the nominal exchange rate was relatively stable and 3% lower than the average for 2012. Starting in May, the currency markets showed some volatility and the peso depreciated somewhat in view of fluctuating copper prices (with the general trend being downwards) and expectations that the economic recovery in the United States would take hold earlier than forecast (which could lead to monetary stimulus withdrawal there). The question is how long these trends will last. And so, uncertainty in the exchange market is expected to continue.

(d) Other policies

Tax changes introduced in 2012 consisted of a slight increase in the tax on retained earnings and other changes aimed at bringing in between US$ 700 million and US$ 1 billion to fund commitments made to improve the education system. Subsidies were approved to help cover fuel needs during the winter as well as extra family expenses in March, when most school fees are paid. These initiatives are still in place in 2013, and it was recently proposed that mothers receive a one-off allowance equal to approximately US$ 200 upon the birth of their third child.

3. The main variables

(a) The external sector

The balance-of-payments current account posted a deficit for the second year running. The total value of goods and services exports dropped by almost 4%, as volume flattened and unit values declined. The greatest drop was in mining exports because of declining ore grade in working deposits, in addition to labour conflicts. As a result, output fell for the fourth year running: in 2012, copper production was 6.2% lower than the previous year. Sluggish external demand contributed to this overall export trend. By regions, the steepest drop was in exports to Europe (down by 17%) and Latin America and the Caribbean (6.7% decline). Exports to Asia fell by 1.6% while those to the United States increased by 5.4%. Meanwhile, the import value of goods and services rose by 3.8%, owing almost exclusively to higher volume because unit values remained, on average, unchanged. Here, capital goods imports showed the strongest growth, although consumer goods were up sharply as well thanks, in both cases, to higher spending in a context of low real exchange rates. With no substantial changes in the rest of the current account, it posted a deficit of US$ 9.407 billion, equivalent to 3.5% of GDP.

Inward foreign direct investment continued to surge, attracted by the long-term outlook for global demand for raw materials exports. It also targeted sectors related to domestic demand (communications and commerce). On a regional basis, in 2012 Chile posted inward foreign direct investment that was second only to Brazil's. However, Chilean companies are diversifying regionally, as seen in foreign direct investment and portfolio outflows. Both of these push factors partially offset foreign direct investment and other inflows. Accordingly, while the financial account was positive, net inflows were 50% lower than the previous year. These current and financial account patterns were behind the drop in international reserves during the year.

These trends are expected to continue in 2013, both in the external sector and in domestic demand and output. With less than one year to go until the presidential and parliamentary elections, measures to further curtail domestic spending are unlikely. Besides, the global economy has not shown signs of a robust recovery. The most likely scenario, then, is that the current account deficit will widen. It could, once again, be offset by foreign direct investment flows and Chile's high external liquidity.

(b) Economic growth

GDP grew by 5.6% in 2012, slightly below the 5.9% recorded the previous year. In 2012, the production structure was shaped even more by an external environment of low growth, real currency appreciation and strong domestic demand. So, virtually all of the tradable goods-producing sectors saw slow growth while domestic demand-oriented sectors (construction, commerce, financial and business services and electricity, gas and water) posted brisk, above-average growth.

On the domestic demand side, consumption expanded by 7.3% on the back of rising real wages and employment rates. Gross fixed capital formation, particularly in machinery and equipment (which normally expands during periods of real appreciation), jumped 12.3% and was boosted by the steady growth of real estate investment underpinned by expanding credit.

These trends are expected to moderate in 2013, as indicators for the first four months are starting to show. Consumption and investment have cooled. In the first case, this is due to the smaller rise in employment rates, which is coupled with the slower pace of production and credit growth. As for investment, these factors come on top of a real decline in public capital expenditure, a sluggish external environment and the outlook for slow growth in 2013.

(c) Prices, wages and employment

Inflation trended downwards in 2012, particularly in tradable goods and, especially, fuels. This was partly due to external price trends for petroleum and petroleum products, internal mechanisms to buffer their impact, and the behaviour of the nominal exchange rate (which has, since mid-year 2012, tended to appreciate). On the other hand, food prices (particularly for fruit and vegetables) spiked early in the period because of domestic supply factors and temporary surges in external prices. This trend, which pushed the price of some of these products up by more than 20% year-on-year, levelled off significantly as supply returned to normal. The price of non-tradables, in line with buoyant domestic demand, rose at an annual rate of some 4.5% that did not ease off until December. And so, annual inflation stood at 3%.

During the first four months of 2013, inflation as measured by the consumer price index (CPI) and core indicators continued to moderate. The CPI was 1.4% on average. Fruit and vegetable prices (for seasonal reasons) and fuel prices (owing to the domestic and external factors explained above) have continued to ease off. Accordingly, the trends seen during the second half of the previous year continued to hold. Surveys show that inflation expectations for the year remain at 3%. However, domestic spending is still expanding, albeit more slowly, and relative tightness in some markets could drive inflation up unexpectedly.

In 2012, nominal wages grew at an annual rate of between 6% and 7%, buoyed by 5.6% GDP expansion and low unemployment. The largest increases were in the mining and construction sectors. As a result, real wages rose again (by 3.2%). According to central bank reports, this is not regarded as a potential source of cost pressures in the short term because rising labour productivity thanks to increasing production activity has more than offset the rise in real wages. As a result, real unit labour costs declined in 2012. However, given the procyclical nature of labour productivity, a slowdown like the one forecast could reverse the decline in real unit labour costs.

In 2012, the number of employed persons continued to grow faster than the labour force, driving the unemployment rate down. The gap between the two variables narrowed during the year; as a result, the unemployment rate stabilized at around 6.5% in the second half of 2012. The mining, fishery, financial intermediation, hotel and restaurant, education and construction sectors added jobs at the fastest pace. Among job categories, wage employment again expanded more than own-account, domestic services and unpaid family employment, which showed negative growth during the year as the labour market tightened. In keeping with forecast domestic and external demand trends and their impact on the rate of expansion of economic activity, labour market tightness is expected to ease somewhat in 2013; as the economy starts to cool, the pace at which the employment rate is rising will slow.

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Annual growth rates b/								
Gross domestic product	6,0	5,6	4,6	4,6	3,7	-1,0	5,8	5,9	5,6
Per capita gross domestic product	4,9	4,5	3,5	3,6	2,7	-2,0	4,8	4,9	4,6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11,0	7,0	4,0	0,9	4,0	-5,6	0,3	11,9	-0,3
Mining and quarrying	6,1	-3,9	0,7	3,3	-5,6	-1,0	1,5	-4,4	4,3
Manufacturing	7,0	6,0	3,9	3,0	1,4	-4,2	2,6	7,6	2,6
Electricity, gas and water	2,8	3,0	7,6	-28,8	-1,8	13,8	8,7	11,4	6,6
Construction	3,2	10,1	4,0	4,6	10,1	-5,3	1,8	7,6	8,1
Wholesale and retail commerce, restaurants and hotels	7,3	8,5	6,9	6,2	4,9	-5,8	15,0	11,5	7,8
Transport, storage and communications	5,5	6,9	6,9	8,7	6,4	-5,2	8,8	7,0	5,1
Financial institutions, insurance, real estate and business services	6,4	7,0	4,2	8,0	3,2	2,0	5,4	7,5	6,7
Community, social and personal services	3,1	3,5	3,6	4,4	3,8	4,0	4,4	4,3	5,7
Gross domestic product, by type of expenditure									
Final consumption expenditure	7,0	7,1	7,0	7,0	3,9	0,8	9,7	7,9	5,8
Government consumption	6,1	5,9	6,4	7,1	0,5	9,2	4,6	3,0	4,2
Private consumption	7,2	7,4	7,1	7,0	4,5	-0,8	10,8	8,9	6,1
Gross capital formation	9,0	21,7	6,2	9,2	19,3	-12,1	12,2	14,9	12,5
Exports (goods and services)	13,3	4,3	5,1	7,6	3,2	-4,5	2,3	5,2	1,0
Imports (goods and services)	18,4	17,2	10,6	14,5	12,6	-16,2	25,9	14,5	4,9
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	20,6	22,8	20,6	21,1	26,0	20,3	22,4	23,5	25,0
National saving	23,2	24,4	25,2	25,2	22,7	22,3	23,9	22,2	21,4
External saving	-2,6	-1,5	-4,6	-4,1	3,2	-2,0	-1,5	1,3	3,5
Balance of payments	**Millions of dollars**								
Current account balance	2 597	1 891	7 116	7 079	-5 800	3 518	3 224	-3 283	-9 497
Goods balance	10 156	11 309	22 947	24 132	6 074	15 360	15 634	10 544	3 422
Exports, f.o.b.	33 025	41 974	59 380	68 561	64 510	55 463	71 109	81 455	78 277
Imports, f.o.b.	22 869	30 665	36 433	44 430	58 436	40 103	55 474	70 911	74 855
Services trade balance	-804	-835	-875	-1 323	-1 208	-2 010	-2 135	-2 578	-2 435
Income balance	-7 826	-10 366	-18 363	-18 860	-13 596	-11 395	-14 686	-14 141	-12 676
Net current transfers	1 072	1 783	3 406	3 129	2 930	1 563	4 410	2 892	2 192
Capital and financial balance d/	-2 788	-175	-5 118	-10 293	12 244	-1 870	-200	17 473	9 130
Net foreign direct investment	5 096	4 962	5 214	7 720	6 367	5 654	5 912	2 557	9 233
Other capital movements	-7 885	-5 137	-10 333	-18 013	5 877	-7 525	-6 113	14 916	-103
Overall balance	-191	1 716	1 997	-3 214	6 444	1 648	3 023	14 190	-367
Variation in reserve assets e/	191	-1 716	-1 997	3 214	-6 444	-1 648	-3 023	-14 190	367
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	105,6	100,0	95,5	97,2	96,9	100,9	95,4	94,3	92,3
Terms of trade for goods (index: 2005=100)	89,3	100,0	131,1	135,6	117,9	119,3	146,0	146,9	138,5
Net resource transfer (millions of dollars)	-10 615	-10 541	-23 481	-29 153	-1 352	-13 265	-14 886	3 332	-3 546
Total gross external debt (millions of dollars)	43 515	46 211	49 497	55 733	64 318	74 041	86 738	98 895	117 776
Employment	**Average annual rates**								
Labour force participation rate g/	55,0	55,6	54,8	54,9	56,0	55,9	58,5	59,8	59,5
Open unemployment rate g/	10,0	9,2	7,7	7,1	7,8	9,7	8,2	7,1	6,4
Visible underemployment rate h/	8,4	8,5	8,5	8,0	9,0	10,8	11,5	11,6	11,2

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	2,4	3,7	2,6	7,8	7,1	-1,4	3,0	4,4	1,5
Variation in industrial producer prices (December-December)	7,8	3,2	7,9	14,0	22,7	-14,9	3,5	10,0	0,7
Variation in nominal exchange rate (annual average)	-11,8	-8,2	-5,3	-1,5	0,0	7,1	-8,8	-5,2	0,5
Variation in average real wage	1,8	1,9	1,9	2,8	-0,2	4,8	2,3	2,5	3,2
Nominal deposit rate i/	2,4	4,5	5,5	5,9	7,8	2,3	2,7	5,6	5,9
Nominal lending rate i/	11,0	13,5	14,4	13,6	15,2	12,9	11,8	12,4	13,5
Central government	**Percentajes of GDP**								
Total revenue	20,9	22,7	24,5	25,6	24,2	19,0	21,5	22,7	21,9
Tax revenue	16,2	17,4	17,4	19,2	18,9	15,3	17,2	18,7	18,8
Total expenditure	18,9	18,3	17,2	17,8	20,1	23,2	21,9	21,4	21,4
Current expenditure	16,0	15,3	14,3	14,7	16,5	18,8	18,0	17,3	17,4
Interest	0,9	0,8	0,7	0,6	0,5	0,5	0,5	0,6	0,6
Capital expenditure	3,0	3,0	2,9	3,1	3,6	4,4	3,9	4,1	4,0
Primary balance	2,9	5,1	8,0	8,4	4,6	-3,7	0,1	1,8	1,1
Overall balance	2,0	4,3	7,3	7,8	4,1	-4,2	-0,4	1,3	0,6
Central government public debt j/	10,2	6,9	5,0	3,9	4,9	5,8	8,6	11,1	10,2
Domestic	5,6	3,8	2,3	1,9	2,9	4,5	7,1	9,2	9,7
External	4,5	3,1	2,7	2,0	2,0	1,3	1,5	1,9	1,3
Money and credit k/	**Percentages of GDP, end-of-year stocks**								
Domestic credit	57,1	56,8	52,4	57,7	61,7	63,6	55,5	60,0	61,1
To the public sector	2,5	-1,5	-3,4	-3,3	-3,4	-1,8	-1,5	-1,3	-0,3
To the private sector	59,2	61,2	60,5	66,2	75,5	72,4	67,2	71,7	74,6
Others	-4,6	-2,8	-4,8	-5,2	-10,3	-7,0	-10,3	-10,4	-13,2
Monetary base	3,8	4,2	4,2	4,1	4,5	4,8	5,0	5,6	6,0
Money (M1)	47,8	50,8	50,7	56,0	63,0	58,9	56,5	61,7	62,4
M2	43,3	46,2	46,4	51,4	56,1	53,4	50,2	55,9	56,1
Foreign-currency deposits	4,5	4,5	4,4	4,6	6,9	5,5	6,3	5,8	6,3

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 2008 prices. Up to 2008, local currency at constant 2003 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total. New measurements have been used since 2010; the data are not comparable with the previous series.
h/ Nationwide total. The 2004-2005, 2006-2009 and 2010-2012 series are not comparable. In the first series a different sample was used and in the later series different measurements were used.
i/ Non-adjustable 90-360 day operations.
j/ Does not include publicly guaranteed debt.
k/ The monetary figures are December averages.

Table 2

CHILE: MAIN QUARTERLY INDICATORS

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	9,8	5,8	3,2	5,0	5,1	5,7	5,8	5,7	4,1	...
Goods exports, f.o.b. (millions of dollars)	20 214	21 368	19 288	20 585	19 874	19 767	17 336	21 300	19 060	14 142 c/
Goods imports, c.i.f. (millions of dollars)	17 127	18 494	20 143	19 466	18 282	19 233	20 392	21 560	19 400	13 859 c/
Gross international reserves (millions of dollars)	31 481	34 884	37 840	41 979	39 551	40 344	40 107	41 640	39 832	40 148 c/
Real effective exchange rate (index: 2005=100) d/	93,1	92,7	93,1	98,2	93,5	94,0	91,0	90,6	89,3	89,2 c/
Open unemployment rate	7,3	7,2	7,4	6,6	6,6	6,6	6,5	6,1	6,2	...
Employment rate	55,3	55,6	55,5	55,8	55,9	55,5	55,5	55,9	55,9	...
Consumer prices (12-month percentage variation)	3,4	3,4	3,3	4,4	3,8	2,6	2,8	1,5	1,5	0,9 c/
Wholesale prices (12-month percentage variation)	5,5	4,1	6,1	10,0	11,5	2,4	4,4	0,7	-5,8	-6,3 c/
Average nominal exchange rate (pesos per dollar)	482	469	472	512	489	496	482	478	472	485
Average real wage (variation from same quarter of preceding year)	2,9	2,3	2,7	2,0	2,3	3,0	3,7	4,1	4,4	...
Nominal interest rates (annualized percentages)										
Deposit rate e/	4,8	5,8	5,9	5,9	5,7	6,1	5,7	6,1	5,4	5,1
Lending rate e/	12,2	12,6	12,8	12,2	12,4	14,0	14,1	13,6	13,7	13,4
Interbank rate	3,4	4,7	5,2	5,2	5,0	5,0	5,0	5,0	5,0	5,0
Monetary policy rates	3,6	4,9	5,3	5,3	5,0	5,0	5,0	5,0	5,0	5,0
Sovereign bond spread, Embi Global (basis points to end of period) f/	117	131	181	172	148	167	143	116	153	180
Risk premiia on five-year credit default swap (basis points to end of period)	61	76	154	132	92	116	83	72	66	98
International bond issues (millions of dollars)	2 214	300	1 750	1 785	1 350	500	3 350	4 243	3 109	2 689 c/
Stock price index (national index to end of period, 31 December 2005 = 100)	235	244	198	213	238	224	215	219	226	205
Domestic credit (variation from same quarter of preceding year)	7,1	8,4	15,5	17,3	19,4	19,1	12,4	10,4	10,2	...
Non-performing loans as a percentage of total credit	1,2	1,1	1,1	1,1	1,1	1,1	1,0	1,0	1,0	1,0 g/

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 2008 prices.
c/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Non-adjustable 90-360 day operations.
f/ Measured by J.P.Morgan.