Chile

The Chilean economy grew by 1.5% in 2017, just one percentage point less than in 2016, as weak domestic demand was not entirely offset brightening external conditions. The international economy in general saw stronger global growth, less financial volatility, a greater risk appetite for developing-economy assets and rising raw material prices on international markets.

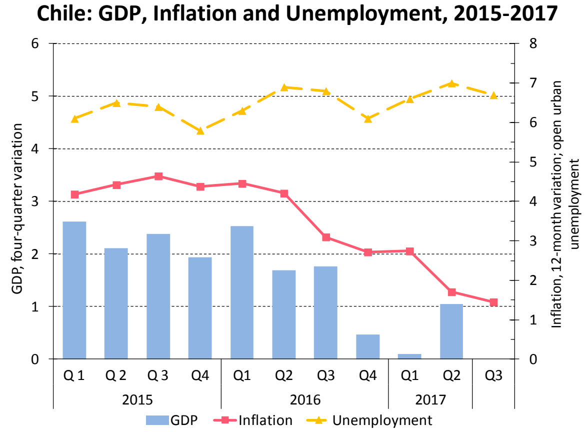
The Chilean economy's slow growth had a limited impact on central government tax revenues (up by 4.8% in 2017 compared to 3.1% in the previous year), which, together with a 5.4% increase in public spending (compared to 5.2% in 2016), produced a central government deficit of roughly 2.7% of GDP.[1] The trend in government spending is explained by current expenditure (which grew by 7.2%), since capital outlays shrank by 4.2% in 2017. Current spending expanded mainly in the areas of health and education (by 10% and 9.4%, respectively year on year); and the central government debt stock is set to rise to 24.3% of GDP (from 21.3% in 2016).

Amid slack domestic demand and low inflationary pressures, the central bank adopted an expansionary stance and twice lowered the monetary policy rate, first in March and then again in June. Although the rate was cut overall by 100 basis points to 2.5%, below its equilibrium level, this was not fully reflected in borrowing costs.

Between 2016 and 2017, average interest rates on consumer loans fell from 23.2% to 22.3% and the rates on mortgage loans dropped from 3.8% to 3.4%. By contrast, average rates on commercial loans edged up by 2 percentage points to 7.5%. Credit growth slackened overall to 5.1% (compared to 8.9% in 2016),[2] reflecting the lacklustre pace of economic activity. The reduction in interest rates did not affect the exchange rate, and the peso responded to international conditions with a slight appreciation (by 4.2% between January and November, in nominal terms, and by 1.6% between January and October, in real terms).

The balance-of-payments current account deficit was larger than in 2016 (-1.7% of GDP in 2017 compared to -1.4% a year earlier). This is explained by a larger shortfall on the income account —US$ 10.900 billion compared to US$ 7.117 billion in 2016— due to increased profit repatriation, particularly from the mining sector. By contrast, the trade surplus improved (US$ 3.524 billion compared to US$ 2.119 billion in 2016), but not by enough to bridge the gap on the income account. The behaviour of the trade balance reflects the positive effect of higher copper prices (up from US$ 2.50 per lb in January to US$ 3.04 per lb in November) on the value of exports of goods and services, which grew to US$ 70.098 billion (compared to US$ 77.669

Chile: GDP, Inflation and Unemployment, 2015-2017



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

[1] The percentage variations in income and expenses are expressed in real terms.
[2] The percentage variations in interest rates and lending refer to January-September 2016 and 2017.

billion in 2016), despite lower volumes in certain items. Imports of goods and services (US$ 74.145 billion in 2017, compared to US$ 67.979 billion a year earlier) mainly reflected foreign purchases of durable consumer goods and to a lesser extent capital goods.

Chile: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	2.3	1.6	1.5
Per capita gross domestic product	1.2	0.5	0.5
Consumer prices	4.4	2.7	1.9 [b]
Real average wage [c]	1.8	1.3	2.1
Money (M1)	14.3	6.4	7.9 [d]
Real effective exchange rate [e]	3.8	-0.9	-3.7 [d]
Terms of trade	-4.3	2.4	7.1
	Annual average percentage		
Open urban unemployment rate [e]	6.4	6.8	6.9 [d]
Central government			
Overall balance / GDP	-2.1	-2.7	-2.7
Nominal deposit rate [f]	3.8	4.0	3.0 [b]
Nominal lending rate [g]	9.3	10.4	11.6 [b]
	Millions of dollars		
Exports of goods and services	71 820	70 098	77 669
Imports of goods and services	71 772	67 979	74 145
Current account balance	-4 670	-3 574	-4 425
Capital and financial balance [h]	4 881	5 379	1 802
Overall balance	211	1 805	-2 623

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.

The surplus on the financial account (US$ 5.709 billion in 2016 and US$ 4.600 billion in 2017) is explained by larger portfolio flows related to bond issuance on international markets by the service, financial and trade sectors, together with foreign direct investment (FDI) in the mining sector.[3] In terms of its international investment position, Chile was a net debtor to the extent of 20.4% of GDP in the third quarter of the year.

Economic activity was driven by the non-mining sectors in the first six months of 2017, and by the mining sector in the second half of the year. Outside mining, the sectors that grew fastest (albeit more slowly than in 2016 in all cases) were commerce, communications and personal services. Commerce (growth of 3.5% compared to 4.6% in 2016) was sustained by stronger consumption of durable and non-durable goods. Communications (3.5%, down slightly from the 3.6% recorded in 2016) were driven by mobile telephony; while the performance of personal services (growth of 3.2% versus 5.9% in 2016) were sustained in part by higher spending on health care and education.

Construction growth slowed (2.3%, down from 3.7% in 2016) and agriculture contracted once again, albeit less sharply than in 2016 (-1.0%, versus -3.7% in 2016), while manufacturing showed a small recovery that was nonetheless enough to take it back into positive territory (0.9%, after -0.5% in 2016).[4] The poor performance in agriculture reflected a reduction in bovine livestock production and crop output, which was compounded by the forest fires that struck parts of Chile early in the year, causing losses estimated at US$ 890 million (14% of GDP) and severely damaging the performance of three of the country's 15 regions. The slower construction growth reflected a downturn in residential building, and the manufacturing performance was attributable to weak aggregate demand and investment.

Mining regained momentum as from the third quarter, when it posted growth of 7.5% (following an 8.6% contraction in the first half of the year), thereby overcoming the negative effects of the strike in the Escondida copper mine (9 February to 23 March), which accounts for roughly 20% of Chile's total copper production. Growth in the mining sector was driven by stronger external demand, the rise in international copper prices and a more positive investment outlook.

The sectoral composition of growth was reflected, on the expenditure side, by the buoyancy of consumption (2.9%) fuelled by household debt. Gross fixed capital formation, however, declined for the fourth straight year (-2.5%) owing to contractions in construction and mining in the first half of the year.

[3] The figures refer to the first three quarters of 2016 and 2017.
[4] The figures refer to the first three quarters of 2016 and 2017.

By contrast, exports of goods and services stalled in volume terms (0.1%), while imports of goods and services accompanied consumption growth to record a significant expansion following the previous year's decline (growth of 5.8% in 2017 compared to the previous year's 1.6% fall).

Amid weak domestic demand, the annual inflation rate undershot the 3% average target set by the authorities and came in at 2.1% (down from 2.7% in 2016). This weakness contributed, among other things, to smaller increases in nominal unit labour costs, which grew at their slowest rate since 2013. The appreciation of the Chilean peso and the moderation in the growth of unit prices abroad also helped dampen inflation. By sector, the lowest inflation rates were recorded in goods, food and energy products.

Despite the low-growth domestic context, the unemployment rate increased by only 0.2% between January and September 2017, relative to the year-earlier period, with employment rising by 1.9% and the labour force growing by 2.0%.

In 2018 the economy will continue to benefit from benign external conditions. Forecasts point to stronger economic growth, global liquidity, low international interest rates (despite the tapering of quantitative easing by the United States Federal Reserve) and a further rise in the copper price. In this situation, the economy could achieve a growth rate of nearly 2.8% if domestic investment regains momentum, since mining is expected to consolidate its current rate of recovery and the monetary policy stance is set to remain countercyclical.