CHILE

1. General trends

In 2013, Chile’s GDP expanded by 4.1% and, as in the two years prior, the main driver was domestic demand, which contributed 3.4 percentage points to that total. Nevertheless, the impetus it provided was substantially lower than in 2012, as domestic expenditure lost momentum and activity levels began to fall around mid-year. Average 12-month inflation was 1.8% (compared with 3.0% in 2012) and the average unemployment rate for the year dropped to 5.9% (compared with 6.4% in 2012). During the year overall, Chile's trading partners continued to lose steam, but the United States began to recover during the second half of the year and further economic deterioration was averted in the economies of the eurozone. The slowdown in goods and services export volumes that had been observed in 2012 bottomed out, and this, combined with faltering growth in goods and services imports owing to weaker domestic demand, enabled the external sector to make a positive contribution to growth in 2013. The current account deficit stopped widening, holding steady at 3.4% of GDP. Despite turmoil in the international financial markets, the financial account recorded net inflows, which offset the current account deficit and allowed the country to accumulate US$ 311 million in reserves.

Signs of a slowdown were still apparent during the first quarter of 2014. The monthly index of economic activity (IMACEC) expanded by 2.3% during the first four months of the year compared with the year-earlier period, and a rate of 3.0% is forecast for the year as a whole. This cooling is the result of lacklustre growth in Chile’s trading partners, with only a small uptick in eurozone output and sluggish growth in China. Over the course of the year, as the global economy begins to reflect stronger growth in the United States, the external sector is expected to make a larger contribution to growth, particularly through higher exports. Domestic demand will expand moderately. Private consumption is projected to continue to slow, owing to a less dynamic labour market and to the consequences of the lower credit growth seen since mid-2012. Investment will also slow, because of the cyclical factors mentioned, and because the cycle of mining investments associated with soaring prices for mineral exports has come to an end. Both factors will take a toll on exports, which may narrow the external deficit.

2. Economic policy

Generally speaking, the new government's macroeconomic policy, in place since March 2014, is very similar to that implemented by previous governments. The main differences concern proposals for structural reform in the areas of tax, education and the constitution.

(a) Fiscal policy

Fiscal policy continued to be geared towards achieving structural balance in the medium term, but public finances clearly reflected changes in growth trends and certain structural factors during 2013. Total government revenues shrank by 1.4% in real terms. This was due to a real fall in net tax receipts of 1.1%, on the back of slower growth and a real drop of 10.9% in gross copper revenues owing to lower export prices and higher production costs, which substantially reduced the profits of the State-owned copper mining company, CODELCO. In contrast to the previous two years, central government spending expanded faster than GDP, climbing by 6.1% in real terms. In particular, its main component, subsidies and grants, grew by 13.1% in real terms. Accordingly, the current account posted a deficit of 0.6% of GDP in 2013, in contrast with the surplus of 0.6% recorded in 2012.

For 2014, the budget act estimates that revenues will expand by 4.2% and expenditure by 3.9%, and forecasts a deficit of 0.9% of GDP. These projections were based on GDP growth of 4.9%; thus, given the slower growth observed to date, these figures are highly likely to change.

The new government submitted to Congress a bill for tax reform aimed at providing funding for education reform and certain health-care and social security changes and at reducing the structural deficit, which will require amount equivalent to 3% of GDP to be raised. The main change proposed is to replace the withdrawal-based income tax system with one that is accrual based. New taxes will be imposed on certain capital gains, circumvention mechanisms will be removed, green taxes will be created, and certain corrective taxes (on alcohol and tobacco) will be raised. Should the bill be adopted, the changes will take effect in 2017.

(b) Monetary policy

Monetary policy continued to target an annual inflation rate of 3%. Having held the nominal monetary policy rate at 5% since January 2012, the central bank began to lower it in October and November 2013, in response to signs of a slowdown. In May 2014, it stood at 4%. Monetary policy has continued to be determined by two objectives: avoiding a more severe slowdown, and curbing inflation, given that records for the first quarter of 2014 show inflation rising.

The main monetary aggregates have recorded moderate growth since early 2013. Thus, M1 expanded by 12% as a 12-month average during the year, and this was replicated by broader aggregates. This trend has continued into 2014. Credit growth has slackened since early 2012, posting an average increase of 10.8% in 2013. During the first third of 2014 annual growth rates for most components of credit (consumption, housing and commerce) stabilized at 10%, compared with the rate of 15% that was observed until 2012.

(c) Exchange-rate policy

The central bank maintains a free-float exchange-rate policy, with some intervention. The Chilean peso appreciated during the early months of 2013, but remained below the 2012 average. From May 2013, in light of announcements by the United States of changes to its monetary policy and rising yields from external assets, demand for foreign assets surged, prompting outflows of short-term financial assets and triggering depreciation. The peso accumulated a depreciation of 11% in nominal terms to December 2013, and a further 4.8% during the first four months of 2014.

(d) Other policies

In March a new government entered office, seeking to make significant changes in the areas of tax, education and the political regime.

In May the administration presented its new energy agenda, which aims to boost the share of non-conventional renewable energy, give the State more responsibility for managing the sector, cut prices through greater market competition, and encourage more efficient energy use.

3. The main variables

(a) The external sector

The current account posted a deficit for the third year running. It had widened significantly during 2011 and 2012 to 3.4% of GDP, and this figure remained constant during 2013. The value of exports fell once again, despite higher volumes. Imports continued to expand in volume terms, but less vigorously owing to slackening domestic demand. The result was the first trade deficit since 1998.

The financial balance was positive despite international financial market turmoil, largely owing to shifting expectations, which suggested that higher yields could be obtained from external financial assets. Net foreign direct investment (FDI) was thus higher than in 2012, since declining FDI inflows were more than offset by the drop in outward FDI. Foreign direct investment and portfolio investment outflows had been substantial in 2012, as Chilean companies in the non-financial sector sought to diversify regionally. However, these flows slowed in 2013. Lower FDI inflows, meanwhile, are linked to maturity of the mining investment cycle on the back of a sharp rise in export prices. Shifting expectations with regard to international interest rates fuelled outflows of short-term and more volatile financial assets. The financial account balance amply offset the current account deficit, allowing a US$ 311-million build-up in international reserves. However, changes in the exchange rates between the main reserve currencies meant that the total value of international reserves fell by US$ 556 million to US$ 41.094 billion in 2013, equivalent to 14.8% of GDP and 106% of residual short-term external debt.

(b) Economic activity

GDP grew by 4.1% in 2013, down from 5.4% the previous year. Domestic demand slowed considerably, with investment growth plunging from 12.2% in 2012 to 0.4% in 2013. However, gross fixed capital formation amounted to 25.8% of GDP, measured in terms of its volume at the previous year's prices, a figure that is below the 1990s peak in real investment but close to the average for 2003-2010. Multiple factors underlie this fall in investment, including the conclusion of post-earthquake reconstruction efforts during 2013, which reduced government capital spending to below-GDP rates, and the slow progress of infrastructure concessions. In addition, a significant proportion of investment in 2012 was related to renewal of the rolling stock for Santiago's public transport system (Transantiago), which should not recur in 2013. The central bank said in its monetary policy report (September and December 2013)[1] that slower investment growth in 2013 was attributable to the end of a global mining investment cycle, associated with an expected slowdown in global demand. However, this factor became relevant only towards the end of the year, as evidenced by imports of machinery and equipment imports for mining and construction, which began to fall sharply from December 2013 and have remained low during 2014. On the basis of these factors, it may be concluded that 2012 investment levels were due to factors that will not necessarily recur (high reconstruction and renovation expenditure on transport) and that the effect on investment of lower growth expectations in the mining industry will be felt more strongly in 2014.

Consumption expanded by 5.4%, sustained by employment that remained high, albeit rising more slowly than before. This slower employment growth, together with a gradual cooling in consumer lending from annualized growth of 17.4% in January 2012 to 10.5% in April 2014, will slacken consumption growth in 2014.

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[1] See [online, Spanish only] http://www.bcentral.cl/publicaciones/politicas/polit02.htm.

Weakening domestic demand was reflected in less vigorous growth in the production sectors it drives (manufacturing, construction, commerce and services). Mining avoided this loss of momentum, having overcome various technical obstacles encountered in 2012. The electricity sector just sustained its growth through the use of lower-cost generation inputs. The fishing sector contracted, owing to declining capture yields.

During the first four months of 2014, the pace of growth remained low, and the monthly indicator of economic activity (IMACEC) reported average annual rates of just 2.3%.

(c) Prices, wages and employment

Annual average inflation in 2013 was 1.8%, under the target range set by the central bank, although with wide fluctuations during the year. To May 2013, annual inflation continued to retreat, as had been occurring since January 2012, thanks in part to nominal appreciation of the peso. From then on, together with the rise in the nominal exchange rate in the wake of a turnaround in expectations regarding United States monetary policy, and still buoyant domestic demand, inflation rates climbed to an annual 3.0%, as measured by the consumer price index, and to 2.4% in core inflation terms. During the first half of 2014, 12-month inflation continued to rise, reaching 4.8% in June according to the official consumer price index, spliced with the new index that took effect in January 2014.[2] For more than two years, goods and non-tradable services have exhibited consistently higher inflation than tradables, indicating that domestic demand pressure, compounded by recent currency depreciation, has been one of the drivers of inflation.

Unemployment rates remained low in 2013, falling to 5.9% on average. The number of employed edged up by 2% in 12 months, slightly above labour force growth. During the fourth quarter of 2013 and the first quarter of 2014 the participation rate increased year-on-year, to just upwards of 60% of the population aged 15 years and over. Amid slowing job creation, this pushed up unemployment rates slightly.

In the context of a tight job market, wages grew by 5.7% as a nominal annual average (3.9% in real terms), a similar figure to that observed during the previous two years when the labour market was particularly buoyant. During the first quarter of 2014, wages have continued to grow at a similar average annual rate (6% in nominal terms), but the rise in real terms over 12 months was 2.5%, lower than in previous periods, owing to the climbing inflation rate.

[2] This calculation of 12-month inflation is in keeping with the rules on values adjustment established by the National Institute of Statistics (INE) in technical note No. 187, Santiago, June 2014.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	5.6	4.6	4.6	3.7	-1.0	5.8	5.8	5.4	4.1
Per capita gross domestic product	4.5	3.5	3.6	2.7	-2.0	4.8	4.9	4.5	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	7.0	4.0	0.9	4.0	-5.6	0.3	11.8	-1.1	2.3
Mining and quarrying	-3.9	0.7	3.3	-5.6	-1.0	1.5	-5.0	3.8	6.2
Manufacturing	6.0	3.9	3.0	1.4	-4.2	2.6	7.6	3.4	0.2
Electricity, gas and water	3.0	7.6	-28.8	-1.8	13.8	8.7	11.7	7.6	7.3
Construction	10.1	4.0	4.6	10.1	-5.3	1.8	6.8	7.0	3.2
Wholesale and retail commerce, restaurants and hotels	8.5	6.9	6.2	4.9	-5.8	15.0	12.2	7.9	6.6
Transport, storage and communications	6.9	6.9	8.7	6.4	-5.2	8.8	7.0	6.7	3.8
Financial institutions, insurance, real estate and business services	7.0	4.2	8.0	3.2	2.0	5.4	7.5	6.8	4.0
Community, social and personal services	3.5	3.6	4.4	3.8	4.0	4.4	5.1	4.0	3.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.1	7.0	7.0	3.9	-0.9	7.7	7.0	5.6	2.2
Government consumption	5.9	6.4	7.1	0.5	-1.0	5.8	5.8	5.4	0.0
Private consumption	7.4	7.1	7.0	4.5	-0.8	10.8	8.9	6.0	5.6
Gross capital formation	21.7	6.2	9.2	19.3	-23.5	29.4	12.9	7.8	0.4
Exports (goods and services)	4.3	5.1	7.6	3.2	-4.5	2.3	5.5	1.1	4.3
Imports (goods and services)	17.2	10.6	14.5	12.6	-16.2	25.9	15.6	5.0	2.2
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	22.8	20.6	21.1	26.0	20.3	22.4	23.7	25.1	23.9
National saving	24.4	25.2	25.2	22.7	22.3	24.0	22.5	21.7	20.5
External saving	-1.5	-4.6	-4.1	3.2	-2.0	-1.6	1.2	3.4	3.4
Balance of payments	**Millions of dollars**								
Current account balance	1,891	7,116	7,079	-5,800	3,518	3,581	-3,068	-9,081	-9,485
Goods balance	11,309	22,947	24,132	6,074	15,360	15,736	11,040	2,508	2,117
Exports, f.o.b.	41,974	59,380	68,561	64,510	55,463	71,109	81,438	77,965	76,684
Imports, f.o.b.	30,665	36,433	44,430	58,436	40,103	55,372	70,398	75,458	74,568
Services trade balance	-835	-875	-1,323	-1,208	-2,010	-1,880	-3,053	-2,276	-2,908
Income balance	-10,366	-18,363	-18,860	-13,596	-11,395	-14,686	-13,920	-11,503	-11,102
Net current transfers	1,783	3,406	3,129	2,930	1,563	4,410	2,865	2,191	2,408
Capital and financial balance d/	-175	-5,118	-10,293	12,244	-1,870	-558	17,258	8,714	9,796
Net foreign direct investment	4,962	5,214	7,720	6,367	5,654	6,264	3,192	6,212	9,335
Other capital movements	-5,137	-10,333	-18,013	5,877	-7,525	-6,823	14,066	2,503	461
Overall balance	1,716	1,997	-3,214	6,444	1,648	3,023	14,190	-367	311
Variation in reserve assets e/	-1,716	-1,997	3,214	-6,444	-1,648	-3,023	-14,190	367	-311
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	95.5	97.3	97.4	101.7	96.5	95.5	94.0	94.9
Terms of trade for goods (index: 2005=100)	100.0	131.1	135.6	117.9	119.3	146.0	146.9	138.5	134.5
Net resource transfer (millions of dollars)	-10,541	-23,481	-29,153	-1,352	-13,265	-15,244	3,339	-2,789	-1,306
Total gross external debt (millions of dollars)	46,211	49,497	55,733	64,318	74,041	86,738	98,895	117,569	130,724
Employment	**Average annual rates**								
Labour force participation rate g/	55.6	54.8	54.9	56.0	55.9	58.5	59.8	59.5	59.6
Open unemployment rate g/	9.2	7.7	7.1	7.8	9.7	8.2	7.1	6.4	5.9
Visible underemployment rate h/	8.5	8.5	8.0	9.0	10.8	11.5	11.6	11.2	11.3

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	3.7	2.6	7.8	7.1	-1.4	3.0	4.4	1.5	3.0
Variation in industrial producer prices									
(December-December)	3.2	7.9	14.0	22.7	-14.9	3.5	10.0	0.7	-2.8
Variation in nominal exchange rate									
(annual average)	-8.2	-5.3	-1.5	0.0	7.1	-8.8	-5.2	0.5	1.9
Variation in average real wage	1.9	1.9	2.8	-0.2	4.8	2.3	2.5	3.2	3.9
Nominal deposit rate i/	4.5	5.5	5.9	7.8	2.3	2.7	5.6	5.9	5.2
Nominal lending rate i/	13.5	14.4	13.6	15.2	12.9	11.8	12.4	13.5	13.2
Central government	**Percentajes of GDP**								
Total revenue	22.7	24.5	25.6	24.2	19.0	21.5	22.7	22.1	20.9
Tax revenue	17.4	17.4	19.2	18.9	15.3	17.2	18.7	19.0	18.2
Total expenditure	18.3	17.2	17.8	20.1	23.2	21.9	21.4	21.5	21.5
Current expenditure	15.3	14.3	14.7	16.5	18.8	18.0	17.3	17.6	17.9
Interest	0.8	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.6
Capital expenditure	3.0	2.9	3.1	3.6	4.4	3.9	4.1	4.0	3.7
Primary balance	5.1	8.0	8.4	4.6	-3.7	0.1	1.8	1.2	0.0
Overall balance	4.3	7.3	7.8	4.1	-4.2	-0.4	1.3	0.6	-0.6
Central government public debt j/	6.9	4.9	3.9	5.1	5.8	8.7	11.0	11.2	12.8
Domestic	3.8	2.3	1.9	3.0	4.5	7.2	9.1	9.9	10.8
External	3.1	2.7	2.0	2.0	1.3	1.5	1.9	1.4	2.0
Money and credit k/	**Percentages of GDP, end-of-year stocks**								
Domestic credit	56.8	52.4	57.7	61.7	63.6	55.5	60.0	61.6	64.0
To the public sector	-1.5	-3.4	-3.3	-3.4	-1.8	-1.5	-1.3	-0.3	0.4
To the private sector	61.2	60.5	66.2	75.5	72.4	67.2	71.7	75.2	77.7
Others	-2.8	-4.8	-5.2	-10.3	-7.0	-10.3	-10.4	-13.3	-14.1
Monetary base	4.2	4.2	4.1	4.5	4.8	5.0	5.6	6.1	6.4
Money (M1)	11.4	11.3	12.0	11.8	14.7	15.2	15.5	15.9	16.6
M2	46.2	46.4	51.4	56.1	53.4	50.2	55.9	56.5	59.5
Foreign-currency deposits	4.5	4.4	4.6	6.9	5.5	6.3	5.8	6.4	7.0

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

	2012				2013				2014	
	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/	5.1	5.8	5.5	5.2	4.9	3.8	5.0	2.7	2.6	...
Gross international reserves (millions of dollars)	39,362	39,139	38,991	40,101	39,705	40,793	41,022	40,605	40,316	40,778 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	6.6	6.6	6.5	6.1	6.2	6.2	5.7	5.7	6.5	...
Employment rate	55.9	55.5	55.5	55.9	55.9	55.9	55.7	56.5	56.2	...
Consumer prices (12-month percentage variation)	3.4	2.5	2.0	1.5	0.8	0.6	1.5	1.8	3.2	5.0 c/
Wholesale prices (12-month percentage variation)	12.1	6.0	2.8	0.2	-3.3	-5.8	-3.4	-3.3	-3.1	0.4 c/
Average nominal exchange rate (pesos per dollar)	489	496	482	478	472	485	507	517	552	555
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/	5.7	6.1	5.7	6.1	5.4	5.1	5.3	5.0	4.4	4.0
Lending rate e/	12.4	14.0	14.1	13.6	13.7	13.4	12.8	13.0	12.1	11.7 c/
Interbank rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	4.3	4.0
Monetary policy rates	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	4.3	4.0
Sovereign bond spread, Embi Global (basis points to end of period) f/	148	167	143	116	153	180	171	148	143	123
Risk premiia on five-year credit default swap (basis points to end of period)	92	116	83	72	66	99	89	80	78	64
International bond issues (millions of dollars)	1,350	500	3,350	4,243	3,109	2,822	1,999	3,610	1,274	...
Stock price index (national index to end of period, 31 December 2005 = 100)	238	224	215	219	226	205	195	188	192	197
Domestic credit (variation from same quarter of preceding year)	19.4	19.1	12.4	10.4	10.2	8.0	11.8	10.3	9.1	... g/
Non-performing loans as a percentage of total credit	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	...

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.
g/ Figures as of April.

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