



CHILE

Latin American Trends

Chile

September 2017

Economic Outlook

- **In the second quarter, GDP grew by 0.9% per annum, compared to 0.1% in the previous quarter.** In the seasonally adjusted series, the increase was of 1.3%. The strongest growth in consumer-related sectors, such as trade and services, continues to be highlighted, while investment has already accumulated four quarters of negative rates. The final domestic demand (excluding stock changes) was also lower than the forecast, as well as the different behavior of consumption and investment, both public and private. As for the foreign sector, the price of copper has at some point exceeded 3 \$ per pound, which didn't occur since 2014. However, due to the weakness of the dollar and the growth of imports, the balance of the c / c has deteriorated to add up to a deficit equivalent to 2.1% of GDP.
- **Inflation in July stood at 1.7%, accumulating a higher drop than expected,** with the underlying one at 2%. The appreciation of the peso against the dollar in recent months helps to explain this trajectory. The behavior is dual, with negative rates in the goods sector and more than 3% in the services sector. In this context, and given the persistent weakness of economic activity, the Central Bank of Chile has kept the benchmark interest rate at 2.5%, despite the market anticipating a quarter-point decline.

Forecast Scenario

- **A higher rate of growth is expected in the short and medium term,** which will be noticed in the second half of this year. The reasons for this optimism is due to a favorable external scenario, the end of the adjustment in the mining investment and the maintenance of the expansive monetary policy. The economy is expected to grow at around 1.5% this year and 3% in 2018. In terms of inflation, the year is expected to be somewhat below 2.5% and to reach 3% next year, in the middle of the target range.
- **The expectations for the monetary policy are to maintain the reference interest rate** around its current values, with rising prospects as the output gap is closed, which is not expected to happen immediately and, in any case, will depend on the evolution of inflation. And this in a favorable external context, with growing global growth rates, especially in more developed countries, and positive global financial conditions.

Also in the news ...

- After the decriminalization of abortion law was approved in three cases, President Bachelet has presented a bill to legalize gay marriage.
- According to the latest polls, the right candidate Sebastián Piñera is presented as the great favorite for the November presidential elections.
- The UN has appointed President Bachelet as a member of the High Level Advisory Board on Mediation.
- BBVA is in negotiations with the Canadian bank Scotiabank for the sale of its subsidiary in Chile.
- The Government has agreed with the Rapa Nui people to create a protected maritime area of 722,000 km² on Easter Island, which is twice the size of Germany.

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Main Economic Indicators

REAL ECONOMY	Latest Data	Previous	Annual Trend ⁽¹⁾	
GDP	T.II.2017	1.3	0.2	Stable
IPFIM (i)	Jul.17	2.6	1.8	Positive
IMACEC (ii)	Jul.17	2.8	1.4	Stable
Consumer Prices	Jul.17	1.7	1.7	Positive
Copper Price (US\$ / Sterling)	Aug.17	2.9	2.7	Positive
Current Acc. Balance (% GDP)	T.II.2017	-2.2	-2.0	Stable
Gross External Debt (% GDP)	Jun.17	65.4	64.1	Stable
Reserves (M.M. \$)	Aug.17	38	38	Stable
Unemployment Rate (%)	Jul 17	6.9	7.0	Stable

Year-on-year rates of change for GDP, IPFIM, IMACEC and Consumer prices. (i) Physical Production Index of the Manufacturing Industry. (ii) Monthly Indicator of Economic Activity. (1) According to variation observed in the last 12 months.

Financial Data	Latest Data	Growth in...		
		3 months	1 year	
Stock Exchange Rate (IGPA)	19/09/2017	18,366	6.9%	28.4%
Exchange Rate (Peso/US\$)	19/09/2017	625	-5.7%	-6.6%
Interest Rate, monetary policy	20/09/2017	2.5%	2.5%	3.5%
EMBI	14/09/2017	125	131	181

⁽¹⁾ For Interest Rate and EMBI the "3 months" and "1 year" information refers to the values of 3 months and 1 year ago respectively.

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	1.6	1.4	2.8
Inflation (% Dec/Dec)	2.7	2.3	2.9
Trade Balance (Thou.Mill. \$)	4.6	5.3	5.2
Current Account Balance (% of GDP)	-1.4	-1.9	-1.0
Public Sector Balance (% of GDP)	-2.7	-3.0	-2.6
Exchange Rate Peso/\$ (year-end)	667	643	628

Chile: general information

Official Name: Republic of Chile

Area: 756,946 Km²

Population: 18.0 million (2015)

Government: Presidential Democracy

President: Michelle Bachelet (Socialist Party)

Finance Minister: Rodrigo Valdés

Central Bank President: Mario Marcel

Next Elections: Nov. 2017 (Presidential)

Currency: Peso

Exchange Rate: Floating

Nominal GDP: 247, 3 Thou. Mil. (2016 US\$)

GDP/h: 23,969 (2016 US\$ ppp)

Life Expectancy: 82 (2015)

Years of Schooling: 9.9 (2015)

Risk Evaluation: **MEDIUM-LOW**

Exchange Rate Instability: **MEDIUM-LOW**

Although the risk of peso volatility remains due to the changing global environment and the price of copper, the outlook for the rest of the year is either exchange rate stability or slight appreciation.

Sovereign Risk: **LOW**

Although Standard & Poor's has downgraded its rating for long-term foreign currency debt, the country continues to enjoy the best credit ratings in the region, based on its economic and political stability, low foreign debt and strength of its two sovereign wealth funds.

Public Sector Finance: **LOW**

Although the fiscal deficit will grow in 2017 to 3%, short-medium-term risks in public sector financing are not expected.

Socio – political Situation: **MEDIUM-LOW**

Although the polls predict a return of the center-right after the November presidential election, political risks are not expected to hurt the country's credibility in the financial markets.

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