



CHILE

# Latin American Trends

Chile

December 2017

## Economic Outlook

- Annual GDP growth during the third quarter was of 2.2%, the highest rate since the first quarter of 2016. From the supply side, the rise in mining activity stands out after two years of contraction. Meanwhile, other sectors continue to show weaknesses: industry has grown a meager 1%, while agriculture has fallen by 1.3%. From the demand side, consumption shows great dynamism, with an interannual growth of 2.7%, while investment continues in recession, with an annual decline of the GFCF of 2.3%, chaining five quarters in negative. Regarding the foreign sector, exports of goods and services have grown this quarter by 3%, after three consecutive quarters of negative rates.
- For the first time since the second quarter of 2015, the contribution of the mining sector to GDP growth was positive in the third quarter of the year. The production of the sector has grown by 7.5% in this period, reaching a 10.5% in October. The increase in the price of copper, which has reached \$ 3.1, is the highest in three years and around 25% higher than a year ago, as is the recovery in activity after the strike at the beginning of the year at the Escondida mine, the largest in the world. Also, the support of demand from the main importing economies, especially China.

## Forecast Scenario

- In this scenario of better growth expectations for 2018, the Central Bank has announced the maintenance of the base rate at its present value of 2.5% set in May as long as the favorable global financial conditions continue, and a gradual reduction in its expansive character once the economic activity reaches the same desired dynamism. Meanwhile, inflation is expected to accelerate until reaching the 3% target in the second part of 2018, as the output gap closes.
- The good data of the advanced IMACEC indicator in October (+ 2.9%), suggests a possible consolidation of the growth shown in the third quarter. This idea is reinforced by the 10.5% increase in mining activity in the same month, the best value for the past eighteen months. The closing forecast for 2017 of the Central Bank is a 1.4% rise in GDP, in line with private analysts. As for 2018, the monetary authority maintains a range of 2.5% -3.5%, while private forecasts place it around 3%.

## Also in the news...

- Piñera's moderate speech on the same electoral night after his clear triumph and the absence of a sufficient majority in Congress, anticipate that the changes announced by the new president will be far from radical.
- BBVA announced the sale of its Chilean subsidiary to Scotiabank for 1,850 million euros, after ten years of presence in the country. The operation will imply capital gains of 640 million.
- Chile was once again chosen as the "Best Destination for Adventure Tourism in the World" at the World Travel Awards, considered the "Oscar Awards" of tourism.
- The Ministers of Energy of Chile and Argentina have signed an agreement for the shipment of natural gas from the Vaca Muerta deposit to the central-southern zone of Chile through the Gasoducto del Pacífico pipeline.

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# Main Economic Indicators

REAL ECONOMY	Latest Data	Previous	Annual Trend <sup>(1)</sup>	
GDP	T.III.2017	2.2	1.4	Positive
IPFIM (i)	Oct.17	0.6	-1.5	Stable
IMACEC (ii)	Oct.17	2.9	1.6	Positive
Consumer Prices	Oct.17	1.9	1.5	Positive
Copper Price (US\$ / Sterling)	Nov.17	3.1	3.1	Positive
Current Acc. Balance (% GDP)	T.III.2017	-1.7	-2.0	Stable
Gross External Debt (% GDP)	Sep.17	63.5	65.7	Stable
Reserves (M.M. \$)	Sep.17	38	39	Stable
Unemployment Rate (%)	Oct. 17	6.7	6.7	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)	18/12/2017	20,744	6.3%	35.3%
Exchange Rate (Peso/US\$)	18/12/2017	621	-0.1%	-6.9%
Interest Rate, monetary policy	18/12/2017	2.5%	2.5%	3.5%
EMBI	13/12/2017	120	125	161

<sup>(1)</sup> For interest rate and EMBI, the information for "3 months" and "1 year" refers to de value 3 months and 1 year ago respectively.

## Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	1.6	1.5	3.0
Inflation (% Dec/Dec)	2.7	2.1	2.6
Trade Balance (Thou.Mill. \$)	4.6	7.3	6.8
Current Account Balance (% of GDP)	-1.4	-1.3	-0.3
Public Sector Balance (% of GDP)	-2.7	-2.7	-2.3
Exchange Rate Peso/\$ (year-end)	667	644	640

## Chile: general information

**Official Name:** Republic of Chile

**Area:** 756,946 Km<sup>2</sup>

**Population:** 18.2 million (2016)

**Government:** Presidential Democracy

**President:** Sebastián Piñera (Electo, Chile Vamos)

**Finance Minister:** Rodrigo Valdés

**Central Bank President:** Mario Marcel

**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**

The volatility risk for the peso persists in response to the changing global environment, including possible changes in the price of copper. However, the medium-term scenario is only a slight nominal depreciation of the peso.

### Sovereign Risk: **MEDIUM-LOW**

Although last summer both S & P and Fitch downgraded the rating for debt in foreign currency in the long term and that Moody's modified the outlook from stable to negative, the country continues to present the best credit ratings in the region.

### Public Sector Finance: **LOW**

Although successive fiscal deficits have increased public debt from 11% of GDP in 2012 to 24% today, the high levels of reserves as well as the wealth of the country's sovereign wealth funds do not anticipate public sector financing problems.

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

Apart from the electoral results of last Sunday, no risks are foreseen for the stability of the country that could damage the credibility of the country in financial markets.

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