Rodrigo Vergara: Chile's latest Monetary Policy Report

Presentation by Mr Rodrigo Vergara, Governor of the Central Bank of Chile, of the Monetary Policy Report before the Honorable Senate of the Republic, Santiago de Chile, 5 September 2012.

The Monetary Policy Report of September 2012 can be found at http://www.bcentral.cl.

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Introduction

Mr. President of the Senate, Senator Camilo Escalona, honorable senators.

I am grateful for your invitation to the Board of the Central Bank of Chile to present our latest Monetary Policy Report. As usual every year in September, this presentation coincides with the annual report of the Central Bank Board to the Senate, which contains our view on recent macroeconomic and financial developments in Chile and in the world, as well as their outlook and implications for the conduct of monetary policy.

In the last few months, the differences between the performance of the global economy and the Chilean economy have deepened. The situation abroad is still very complex. Forecasts for world growth have weakened, mainly because of sharper than expected deceleration in emerging market economies (EMEs). Tensions in international markets have eased in recent weeks, but fundamental problems are still present. The Chilean economy, however, in contrast with most of the rest of the world, is performing strongly. In the second quarter, domestic output and demand grew above projections, showing that, so far, the effects of the frail external scenario on the local economy have been mild.

The growth forecast for 2012 we are presenting in this Report, details of which I will be sharing with you in a few moments, runs higher than what we presented before the Finance Commission of this Senate last June. A number of factors have contributed to this growth, including increased personal income resulting from labor market strength, an expansion of credit to firms and households, as well as the impulse from investment in mining and complementary projects associated to the high copper price. Consumer and business confidence has risen or remained in optimistic levels. Another contributor was the drop in inflation in recent months, reflecting the prices of perishable foodstuffs and fuels. The latter, however, has tended to revert in the past few weeks.

However, the macroeconomic scenario entails significant risks and, to some extent, opposing ones, that drive monetary policy to face a difficult dilemma. On one hand, the effects of the frail international conditions on world growth and external financial conditions should help to reduce the strength of the Chilean economy. In addition, there is the possibility of a further deterioration of the external scenario, with more acute consequences on our economy. On the other hand, the recent intensification in installed capacity utilization, as well as the widening of the current account deficit, reflect the persistence of a degree of dynamism of domestic demand that also entails medium term risks for inflation and the vulnerability of the country's external accounts.

For good reasons, the Chilean economy is open commercially and financially to the world, and, because of the nature of its exports, is strongly affected by shocks coming from abroad. In the past we have benefited from the external situation. We have also felt the consequences when the external situation has deteriorated. We cannot isolate ourselves from these external impulses, and it would not be a good idea to do so. The important thing, however, is that we have developed a policy framework that allows us to absorb and mitigate these shocks in the best way possible. Chile needs to keep a robust macroeconomic and financial policy scheme that helps it overcome effectively these external disturbances at the lowest possible cost for the country.

Part of this scheme is the autonomous central bank with clear-cut objectives: low, stable inflation, and the normal operation of internal and external payments. Our monetary policy is oriented at attaining an explicit inflation target over a medium-term horizon, by applying an independent monetary policy that contributes to stabilize the business cycle. Its complement is a floating exchange rate regime. Another important element is responsible and predictable fiscal policy making, as reflected in its governing rule. Add a sound financial system, with proper regulation and supervision. Plus ever growing commercial and financial integration. The fact that the deterioration of the developed economies has not hit our exports so hard is the result of this diversification of external markets, among other factors.

Let me delve into some aspects of these pillars. In terms of regulation and supervision of the financial system, the causes and effects of the crisis of 2008-2009 have taught great lessons to policy makers around the world. Suffice is to mention the changes that are being effected in the United States and the Eurozone, such as the Dodd-Frank Act and the instauration of a European banking authority. In Chile, our financial system was not involved in the practices that originated the crisis in the developed world, because our legislation does not allow it. Even so, we are permanently reviewing our legislation in light of the experiences and best practices in place today in the world.

Another significant aspect has to do with our foreign exchange policy. In recent weeks the peso has appreciated against the dollar, prompting some sectors to demand intervention by the Central Bank. I think that some clarification is in order. In the first place, I reaffirm the validity of a flexible exchange rate for the Chilean economy. Our economic history is full of examples in this area. So far, the scheme that has yielded the best results for economies similar to the Chilean is a floating exchange rate regime. When policy makers sought to artificially control the value of our currency, imbalances were generated that ended up being very costly for the country. The adoption of exchange rate flexibility in 1999 has allowed us to wade subsequent complex moments. The worst was the world recession of 2009, when the floating exchange rate policy allowed accommodating the sharp changes in the external scenario, both via the depreciation of the peso and an active monetary policy to stabilize demand. In turn, the creation of instruments designed to shield the economy from short-run fluctuations in this variable, permits to bound its effects on hedged agents. Certainly more can be achieved in this sense, but there have been important advances.

Still, the Central Bank has always reserved the right to intervene the forex market. We have done it four times since 1999. However, this type of measures, which are used only exceptionally, must be based on solid grounds. In the past, these interventions have been justified by the Central Bank’s international liquidity position and by obvious and persistent deviations of the real exchange rate from its medium- to long-term fundamentals.

In the present circumstances, it is not evident that these criteria apply. In the first place, it is important to note that the current level of the real exchange rate, while low compared to some months ago and also with respect to the average of the last fifteen to twenty years, is within the range believed to reflect its underlying fundamentals. It is certainly in the lower part of the range, but still consistent with its long-term fundamentals (figure i).

As I said, the elements behind the peso appreciation are manifold. On one hand there is the favorable level of our terms of trade. Despite the downturn of the developed world and the deceleration in China, commodity prices have remained high, especially for copper. This has driven today’s terms of trade, despite a drop this year, to be fairly high by historic standards. In fact, other commodity exporting economies, such as Australia, New Zealand or Canada, have seen appreciations in their currencies that are comparable with that of the Chilean peso (figure ii).

On the other hand, there is our strong economy, partly related to the effects of the higher copper price on the public sector’s structural income and expenditure, as well as with the greater impulse coming from mining projects and related investments. While the developed world is weak and the main emerging economies are decelerating beyond projections, Chile is growing more than expected. The differentials between developed countries' and Chilean interest rates reflect this dissimilar stage in the cycle.

It must be noted that the appreciation of the local currency with respect to the dollar is not an exclusive feature of the Chilean economy. This phenomenon is shared by all the exporters that are our competitors in the world markets. This, because it originates primarily in the weak dollar, which in turn originates in the strong monetary expansion carried out by the United States. However, as I said before, this is the result not only of the expansionary monetary policy, but also of weak domestic demand and external imbalances in the U.S. The case of Europe is comparable, and that is why the euro has also depreciated against other currencies, not only the peso. In order for growth of developed countries to improve and the overall world economy to pick up, the domestic demand of countries in a strong cyclical position needs to be redirected to imports, while at the same time those countries with weak domestic demand increase their exports.

The second factor advocated to intervene the forex market is the need to hoard international reserves. This, for protection against a further worsening of the external scenario. Over the past several years, the Central Bank has increased its level of reserves significantly. The interventions of 2008 and 2011 increased the reserves by nearly 18 billion dollars, to twice the level of December 2007. Thus, at July this year, our reserves amounted to close to 15% of GDP.

Certainly, there are benefits associated with hoarding international reserves. An economy with a higher level of international reserves reduces the probability of sudden changes in its external credit conditions, moderates its effects and provides room for policy makers to take offsetting measures. By the same token, it is important that the level and management of international reserves are such that they can be readily available whenever it is deemed necessary. Still, the gains obtained in the margin are lower the greater the amount accumulated. The reserves accumulation carried out by the Bank in the past few years, as well as management thereof – details are provided in an Appendix – should suffice to confront extreme episodes. Chile also has sovereign wealth funds that could help alleviate the financing needs in case of increased external tensions as well. The foreign funds of institutional investors can also act as stabilizing agents in this sense.

On the other hand, we must always bear in mind that any intervention has associated costs. First, it can blur the objective of the Central Bank: inflation or exchange rate target. In our case, we have dealt with this problem by carrying out transparent, sterilized interventions, with a publicly known timetable that does not conflict with the formulation of monetary policy. In addition, our communication has been straightforward in stating that the objective of our monetary policy is price stability.

Second, an intervention entails a significant financial cost for the Central Bank and the country. International reserves are invested in highly liquid assets abroad, whose yield is lower than the interest paid on the debt securities in pesos that are used to sterilize the purchase. In the current scenario, in which external-domestic interest rate differentials are significant and expected to remain so for some time, the financial cost of holding reserves is substantial and negatively affects the Bank's balance sheet continually. In an Appendix to this Report, we forecast that the negative net worth of the Bank will go from 2% to 3.8% of GDP between 2011 and 2013. Such deterioration is explained by the composition of our assets and liabilities. In the current circumstances, expanding our reserves would further worsen our financial position. Although the Bank's negative net worth has not been an impediment for monetary policy conduct, taking actions that increase such negative value is a cost to be paid by all Chilean citizens.

Having said all this about the convenience or not of a forex intervention, undoubtedly the best way for our exporting sector to boost competitiveness in the world markets is through constant improvement of processes, both by investing in technology and developing their human capital. Likewise, it is important to be constantly on the lookout for new markets of destination and product innovation, to ensure better conditions for their businesses. In any case, there are also internal issues that must be resolved to back our producers' competitiveness, including any measures that disentangle administrative processes when creating and maintaining a firm and especially, establishing a policy that aims at developing a balanced energy matrix that can reduce energy costs. As we have said before, the cost of electric power in Chile, which is an important input of productive activity, is higher than the OECD member countries' average.

Let me now describe the macroeconomic scenario contained in our Monetary Policy Report.

Macroeconomic scenario

As I said earlier, in the past several months the differences between the performance of the global and the domestic economy have deepened. The external scenario remains complex, and the growth outlook has weakened somewhat with respect to June's forecasts. In contrast, Chile grew more than foreseen in the second quarter, intensifying the utilization of installed capacity. Headline inflation has been lower than expected and is currently at the lower part of the tolerance range, as are core measures. Within core inflation, the difference between the behavior of goods inflation and services inflation stands out. The latter, more closely related to the state of the output gaps, is still near 5% annually, reflecting that medium-term inflation risks are still present. In this context, the Board has held the monetary policy interest rate (MPR) constant at 5%.

Internationally, the biggest news has concentrated in the performance of the emerging world, shaping a scenario where deceleration exceeds forecasts. The reduced strength of Brazil, China and India stands out. Several elements are behind this slowdown, including the effects on their exports of the global deceleration, especially from Europe, and the stringent policies applied in the past. This has driven the notorious drop in these countries' manufacturing growth rates.

In Latin America the outlook is still quite heterogeneous. As I just said, the sharp deceleration of Brazil is worth noting. Given its size, it explains a large part of the downward revision of growth figures for the region this year and next. However, going forward a recovery is foreseen, considering that the expansionary measures adopted by its policy makers have begun to bear fruit. Colombia and Argentina have also shown signs of deceleration, But Colombia growing more than Argentina. Peru, meanwhile, is still growing strongly. In Mexico, growth during the first half of the year exceeded expectations, but in the near future the effects of the frail external sector will be seen more clearly.

The developed economies continue to show weak growth. The developed economies continue to post weak growth. In the United States, the overall evaluation is still of a slow recovery. The United Kingdom is in recession, affected by anemic external and internal demand, the latter influenced by tight credit conditions and policies aimed at fiscal consolidation. In the Eurozone, the GDP shrank in the second quarter, after being flat in the early part of the year. The performance of the zone continued to be marked by big differences between peripheral economies (with sharp falls) and central European economies (with modest increases), reflecting financial and fiscal vulnerabilities. However, the weakness of some incoming indicators from Germany is cause for concern, particularly domestic consumption compounded by the weak performance of its exports and manufactures.

Some calm has come to the external financial markets, originating, among other causes, in the announcements that steps will be taken towards a banking union and the statements by the governor of the European Central Bank regarding the possibility of shortly implementing a sovereign bond purchase plan, upon previous political agreement on a fiscal austerity program. Besides, no significant sovereign debt payments from peripheral economies have fallen due in the past several weeks. However, the region faces a tough path, because of considerable difficulties to carry out these actions. For example, how a banking union for the

Eurozone could be materialized is unclear and, for the time being, there is no unanimous support from member countries. In addition, there is the negative outlook placed for Germany's and other central Eurozone economies' ratings. Plus, in the coming months, several events will occur that may revive market tensions. For September there is, among other developments, the evaluation of the tripartite group on the degree of compliance with agreed adjustments in Greece and the possibility of a new program, aside from the voting at the German constitutional tribunal on the legality of the ESM. For October, there is a strict calendar of debt maturities in Spain, which entails refinancing obligations in international markets.

The impulse from abroad on the Chilean economy will be somewhat milder than was foreseen a few months back. On one hand, in the baseline scenario our trading partners will grow 3.5% in 2012 and 3.8% in 2013, one tenth of a point less than forecast in June. This, as aforesaid, because of the downward revisions to emerging economies' growth. On the other hand, the terms of trade will be less favorable than projected then. The price of oil and fuels will be higher than assumed in June, because of supply-side problems and increasing geopolitical risks in the Middle East. On top of this is – also because of supply-side problems – the increase in food prices in the world markets, especially for grains. The copper price projection does not change from June. Finally, despite the observed calm, the baseline scenario considers new episodes of stress in global financial markets, similar of those of the past year. This, because of the events foreseen for the coming months and the difficulties of advancing towards a more long-lasting solution to the problems in the Eurozone (table 1).

In Chile, the greatest news is stronger-than-expected growth in output and demand in the second quarter of the year. Output owes its dynamism to sectors linked to domestic demand, such as construction, trade and services. The better result of the manufacturing industry is also worth noting, which, although growing less than aggregate GDP, still exceeded expectations, also driven by the lines associated with demand, especially investment and specific export-oriented activities. On the expenditures side, inventory accumulation intensified with respect to previous months. (figure iii). This seems to respond to an attempt to rebuild inventory levels after the reduction of late 2011 and that, at the time, was linked to the expected negative effects of the external scenario on final sales. Also worth noting was the renewed strength of consumption and gross fixed capital formation. Consumption continues to rely on the evolution of the labor market and fairly stable financial conditions. Regarding investment, the contribution of construction and infrastructure works stands out, relating mainly to mining and energy projects, but also to a strengthened real-estate sector, which reflects on the performance of commercial loans.

The behavior of output, especially of sectors other than natural resources, and domestic demand intensified the utilization of installed capacity. Although y-o-y growth in employment and nominal wages has dropped, the labor market remains tight (figure iv). However, the increased domestic demand pressure, especially from investment, together with lower copper prices compared with 2011, have led to a widening of the current account deficit. In the moving year ending the second quarter of 2012 this deficit rose to 2.7% of GDP, from 1.3% at the close of 2011.

In the past few months, y-o-y inflation has continued on a downward path, influenced by fuel prices. Core inflation, which excludes foodstuffs and energy (CPIEFE) has stabilized near 2.5%. The difference between core inflation for goods and core inflation for services has prevailed. The latter, more closely related to the state of output gaps, has hovered around 5%, a reflection of existing medium-term risks on inflation. On the other hand, the downsloping path of headline inflation is largely explained by the goods component (figure v).

The baseline scenario assumes that this year the Chilean economy will grow between 4.75% and 5.25%. The correction is explained mainly by actual data for the first half of the year and because the effects of the external situation on the Chilean economy will be milder than was forecast in June. However, the baseline scenario assumes that, during the second half of

2012 the GDP will post lower growth rates than in the first half, gradually leading to a normal usage of installed capacity. The Board continues to estimate trend GDP growth at around 5%. For 2013, the Board foresees GDP growing between 4% and 5%. In the baseline scenario, the current account deficit for this year is estimated at 3.2% of GDP. In 2013 it should widen to 4.4% as a reflection of strong domestic demand and, to a lesser extent, of a lower copper price. The fact that the widening of the current account deficit responds mainly to stronger expected domestic demand is confirmed in expectations that the current account measured at trend prices will also post a larger deficit in 2013 than in 2012, going from 4.6% of GDP to 5.2%. I will return to this subject in a while (table 2).

As for inflation, the baseline scenario foresees that CPI inflation will end the year below June's projections, reaching 2.5%. It will then return gradually to 3% by the second half of 2013, to stay in the neighborhood until the end of the projection horizon, this time the third quarter of 2014. The CPIEFE will converge to 3% later than foreseen in June (figure vi). This trajectory assumes that wages will be adjusted according to productivity and the inflation target. A methodological assumption is that the RER will remain around its recent figures during the forecast horizon. Finally, the baseline scenario uses as a working assumption that the MPR will remain stable over the short term.

The baseline scenario reflects the developments that the Board believes to be the most likely to occur with the information at hand at the statistical closing of the Report. However, there are risk scenarios that, if materialized, might change – significantly, in some cases – the macroeconomic outlook and, therefore, the course of monetary policy. On this occasion, after evaluating the alternative scenarios, the Board estimates that the risk balance for output and inflation is unbiased.

Abroad, the risks described during the past several quarters have not changed significantly. The situation of the Eurozone is complex. The materialization of the announcements will not be easy and the passing of time will bring more problems to the economies of peripheral Europe, so a severe aggravation of the financial crisis in the Eurozone or even more extreme scenarios with systemic implications cannot be ruled out. Add to this the discussion in the United States to prevent fiscal adjustments from being triggered in 2013. If attempts to reach agreements are unsuccessful, this economy's GDP growth could fall significantly and tensions could increase in financial markets.

In the emerging world, the biggest risk is a deepening of signs of economic slowdown. On aggregate, the world growth forecast does not divert from the average of the past 15 to 20 years, but this has been sustained by the expansion of the larger emerging economies. Particularly preoccupying is the performance of China, due to its weight in the world economy and its relevance in the evolution of the prices of copper. Should it post a sharper deceleration, global growth would weaken further, with intensified effects on commodity exporting economies like Chile, which are still growing at high rates. Another possibility is for supply-side factors to intensify recent increases in the prices of some commodities, especially fuels and grains.

Locally, medium-term inflationary risks are still present. The recent trajectory of the world prices of fuels and some foodstuffs could rapidly pass through to inflation, all the more so considering the current state of output gaps. In addition, if domestic output and demand remain as dynamic even or more so, they can further intensify the usage of installed capacity pressuring inflation away from the target. At the same time, this could also could result in a widening of the current account deficit that could create vulnerability factors in the economy in a complex global environment. Actually, if this phenomenon occurs within a context of sudden drops in the copper price or costlier external financing, difficult adjustments could be necessary.

The current macroeconomic scenario poses significant risks, demanding policy responses in different directions. On one hand, although so far its effects have been mild, the external situation is severe. Chile is a small economy, commercially and financially open, so it will not be immune to global developments. The probability of extreme events has not diminished, and their materialization could have very severe consequences on output around the world, including Chile. On the other hand, the strength of domestic demand and output, together with recent increases in some commodity prices, means that medium-term inflationary risks remain present. The MPR is within a range of values that are considered neutral, providing flexibility to wait for the concrete effects of such scenarios on the Chilean economy to become visible. The Board monitors closely the evolution of the external and internal macroeconomic scenario and its implications on inflation, and reiterates its commitment to conduct monetary policy so that projected inflation stands at 3% over the policy horizon.

Allow me some final remarks.

Final remarks

Our latest presentations to the Senate have been marked by periods of high volatility or relative calm in international financial markets. But at yearend 2011 and last June we brought our Monetary Policy Report to you in the midst of heavy external turbulence, with market expectations that did not rule out the occurrence of worst-case scenarios in the near future. Today, as in last March, we are presenting our Report in a calmer environment, but where the risks are still there.

Our baseline scenario assumes that stress episodes will be repeated in the world markets. Why is that? Simply because the situation in developed economies with their complex macroeconomic, financial and fiscal problems is far from being resolved. There is a long road ahead. The classical economic policy conundrum is time consistency, as the costs are paid upfront for promised benefits for the future. Plus, in the case of the Eurozone, a difficult collective action problem, due to difficulties in spreading the cost among those involved. Thus, policy decisions are pushed back while the problems needing resolution only aggravate over time.

We may add that the bigger emerging economies, including China, Brazil and India, are showing signs of a sharper than expected deceleration. Their weight in world trade, and particularly with Chile, makes us worry about their evolution. Although the copper price has been fairly stable, a further deceleration of the Chinese economy could have significant effects on the rest of the world and drive us to a complex situation, especially if it triggers a reduction in our terms of trade.

Let us stop for a moment to examine the current account of the balance of payments. In our Report's baseline scenario we forecast that in 2012 and 2013 the current account will post a deficit of around 3 to 4% of GDP. These balances contrast with what has been the behavior of the current account in recent years. It is striking because it happens at a time that, despite the complex external scenario, the terms of trade facing our country are favorable.

The persistence and expansion of high current account deficits may generate factors of vulnerability for the Chilean economy when facing an external shock. Although an economy's current account deficit is not a sufficient condition to anticipate a crisis of some sort, it does help increase its probability of occurrence. For example, due to the importance that this variable may have in sovereign risk, external credit conditions and, ultimately, on access to the sources that sustain such deficit.

In the past, a significant part of the crises that the country endured have had to do with persistently, high current account deficits. Accordingly, the Board cannot overestimate the importance of closely monitoring the factors underlying our current deficit, in order to prevent the incubation of imbalances affecting the future performance of our economy.

However, a big difference with the past is that today our economy has made progress in devising mechanisms to deal with external shocks and imbalances. Thus, as I said before, we need to maintain and permanently improve the macroeconomic pillars that have made our economy stable and resilient. On our part, with constant observation of the factors that may jeopardize our financial stability and the normal functioning of our payment system, in order to adapt our regulations for better regulation and supervision. Also, with our commitment to maintain our flexible exchange rate policy, which we believe is the best way to deal opportunely with any sudden changes in external conditions and rely on monetary policy to alleviate its effects on the Chilean economy.

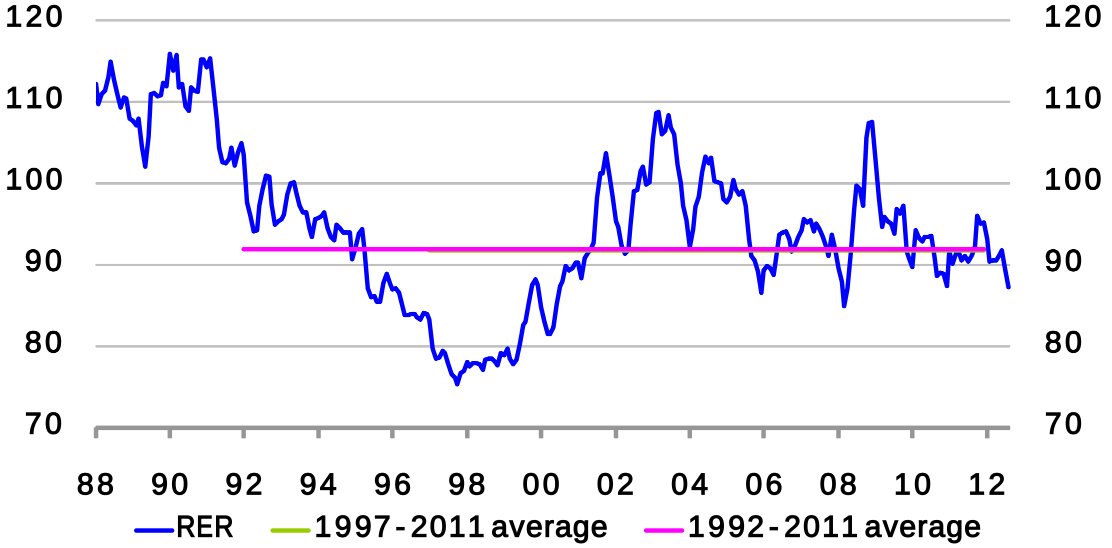
Finally, through a credible monetary policy aimed at controlling inflation. Inflation is a source of social stress, that hits with special force the most needy: those unable to negotiate wage adjustments to sharp changes in the price level.

As we have insisted time and again in recent months, monetary policy has to juggle with two opposing forces. Pulling in one direction, there is a weak external scenario that will not add momentum to our economy. In the other, there is strong domestic output and demand, with tight output gaps and labor market. It is the task of the Central Bank to conduct monetary policy avoiding the incubation of pressures pushing inflation away from the target.

Facing this environment of high risks and volatility, the Board has kept a prudent attitude. Acting hastily would only reduce its capacity for action. As unreasonable as supposing that we will be spared the problems of the world, is thinking that we are being severely affected by them. Time will shed more light on the true effects of developments abroad on Chile's external position and the evolution of domestic balances. For now, it is important that we take the opportunities we have to preserve and enhance the soundness of our economy, but bearing in mind that there are risks and that they are significant.

Thank you.

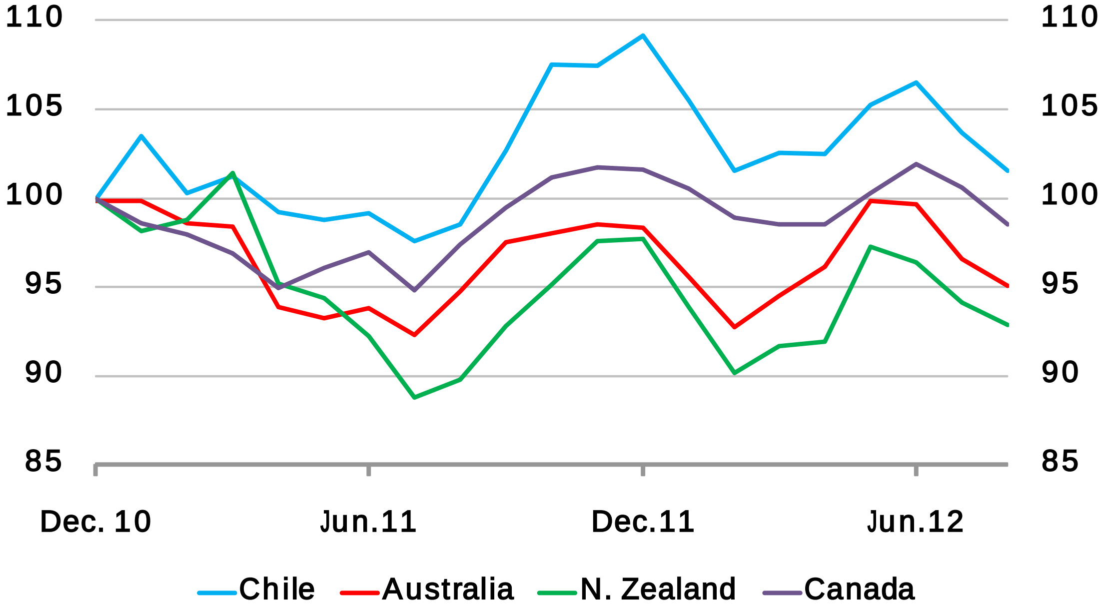
Figure 1
Real exchange rate (*)
(index, 1986=100)



(*) August figure includes information up to 30 August 2012.

Source: Central Bank of Chile.

Figure 2
Nominal exchange rate
(index, December 2010=100)

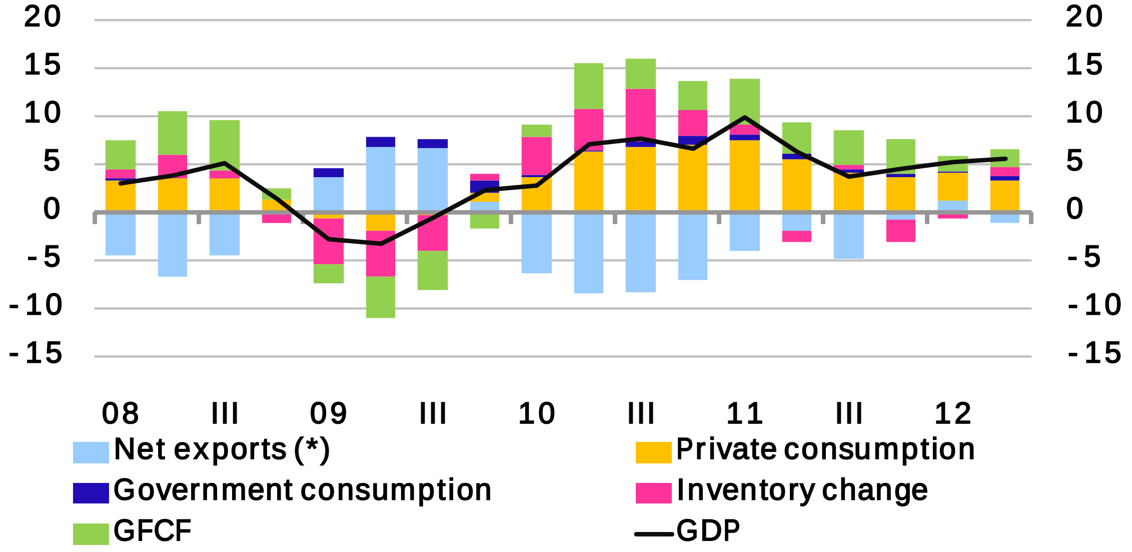


Source: Bloomberg.

Figure 3

Contribution to annual GDP growth

(real annual change, percentage points)



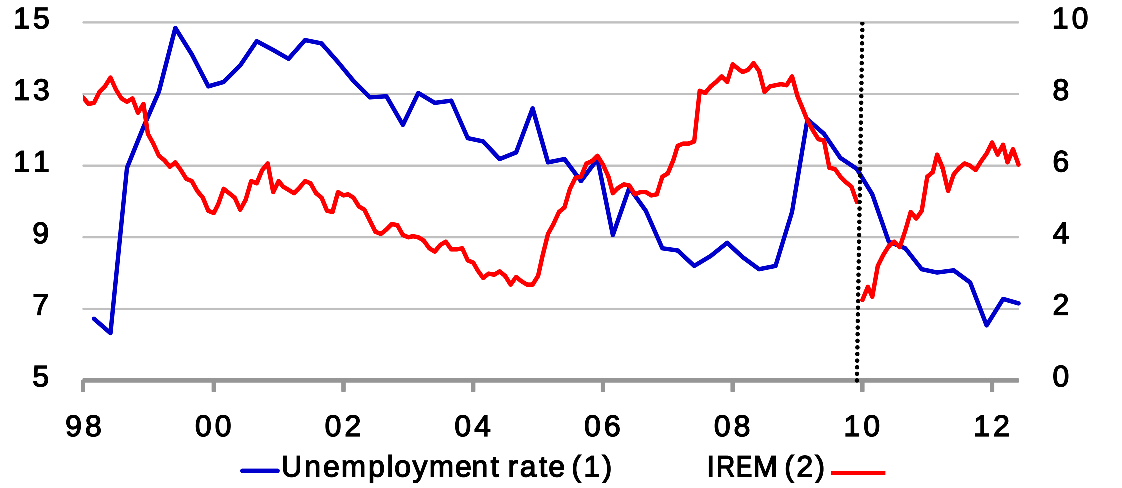
(*) Exports minus imports of goods and services.

Source: Central Bank of Chile.

Figure 4

Labor market

(annual change, percent)



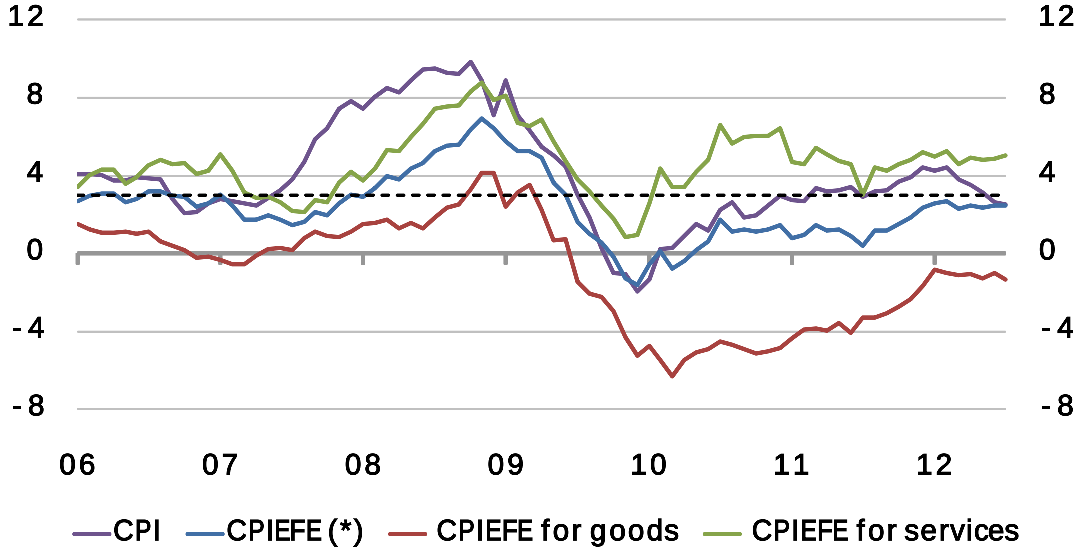
(1) Based on the survey of Universidad de Chile. Seasonally-adjusted series.
(2) As from January (dotted vertical line) new indexes are used with annual base 2009=100, so figures are not strictly comparable to previous figures.

Sources: Central Bank of Chile, National Statistics Institute (INE), and Universidad de Chile.

Figure 5

Inflation indicators

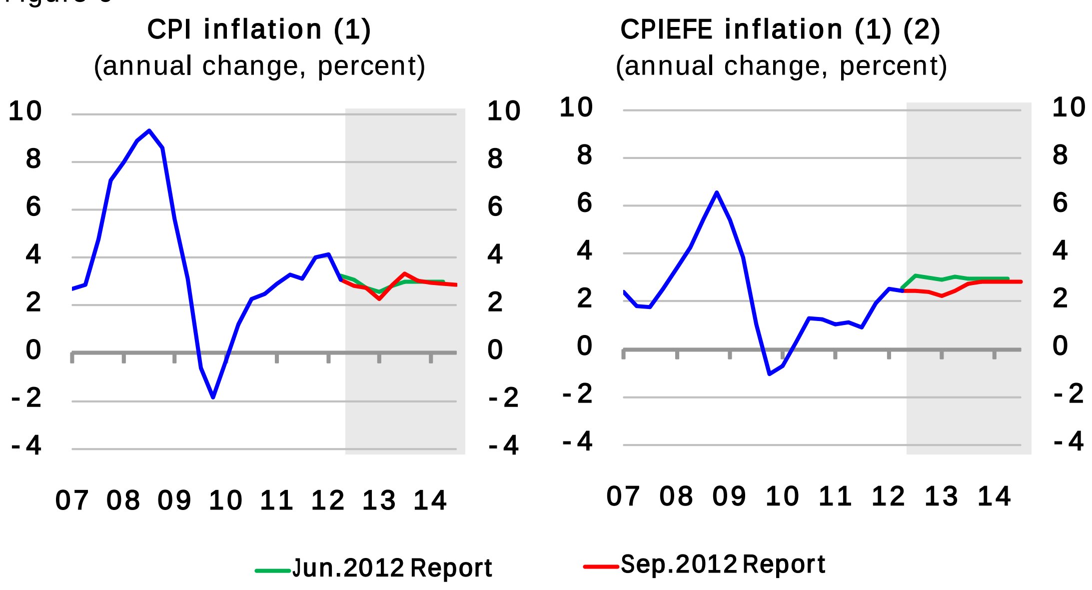
(annual change, percent)



(*) Consumer price index excluding foodstuffs and energy.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 6



(1) Gray area, as from third quarter of 2012, shows forecast.
(2) Consumer Price Index excluding foodstuffs and energy.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Table 1

International baseline scenario assumptions

	2011 (e)	2012 (f) Report Mar. 12	Report Jun. 12	Report Sep. 12	2013 (f) Report Mar. 12	Report Jun. 12	Report Sep. 12	2014 (f) Report Sep. 12
Growth		(annual change, percent)						
Trading partners	4.1	3.8	3.6	3.5	4.2	3.9	3.8	4.3
World at PPP	3.8	3.3	3.2	3.1	3.9	3.6	3.6	4.1
United States	1.8	2.1	2.0	2.2	2.3	2.0	2.0	2.4
Eurozone	1.5	-0.3	-0.6	-0.4	1.0	0.3	0.3	1.7
Japan	-0.8	2.0	2.7	2.7	1.6	1.3	1.3	1.4
China	9.2	8.1	7.9	7.8	8.5	8.2	8.1	8.3
India	6.5	7.3	6.5	5.8	7.9	7.2	7.1	7.3
Rest of Asia (excl. Japan, China & India)	4.2	4.3	3.9	3.5	4.8	4.6	4.5	4.8
Latin America (excl. Chile)	4.4	3.6	3.3	3.0	4.0	3.7	3.4	3.9
		(levels)						
LME copper price (US$cent/lb)	400	370	355	355	360	340	340	350
Brent oil price (US$/barrel)	111	121	107	113	115	97	109	103
		(annual change, percent)						
Terms of trade	0.5	-5.3	-6.9	-7.4	-0.1	-1.5	-2.6	1.3

(e) Estimate. (f) Forecast.

Sources: Central Bank of Chile based on a sample of investment banks, Consensus Forecasts, International Monetary Fund and statistics bureau of respective country.

Table 2

Economic growth and current account (*)

(annual change, percent)

	2011	2012 (f) Report Dic. 11	Report Mar. 12	Report Jun. 12	Report Sep. 12	2013 (f) Report Sep. 12
GDP	6.0	3.75-4.75	4.0-5.0	4.0-5.0	4.75-5.25	4.0-5.0
Domestic demand	9.4	3.7	5.3	5.2	5.6	5.5
Domestic demand (w/o inventory change)	10.2	4.8	5.8	5.5	5.5	5.8
Gross fixed capital formation	17.6	5.8	8.9	7.4	7.0	7.1
Total consumption	7.9	4.5	4.8	4.8	5.1	5.4
Goods and services exports	4.6	3.7	3.8	3.9	3.5	3.6
Goods and services imports	14.4	3.0	5.9	4.9	4.0	5.8
Current account (% of GDP)	-1.3	-3.3	-3.4	-3.1	-3.2	-4.4

(f) Forecast.

(*) December forecast done using national accounts with base year 2003. Forecasts from March onwards use national accounts with base year 2008, considering chained indexes,

Source: Central Bank of Chile.