Rodrigo Vergara: Chile's September 2014 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, 3 September 2014.

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The Monetary Policy Report of September 2014 can be found at http://www.bcentral.cl.

Introduction

Mr. Vice-president of the Senate, Senator Eugenio Tuma, honorable senators, ladies, gentlemen,

Thank you for your invitation to the Board of the Central Bank of Chile to present our Monetary Policy Report. As is the norm each September, this Report coincides with the annual report from the Central Bank Board to the Senate, where we share our vision on the recent macroeconomic and financial developments in Chile and abroad, as well as their prospects and implications for monetary policy conduct.

Chile's economic outlook has seen important changes over the past few months. In particular, the slowdown in output has been more pronounced than anticipated and is expected to be also more persistent. A year ago, when we came to the Senate to present our vision of what would be the economy in 2014, we projected that it would expand in the 4 to 5 percent range. Today, as I will detail in a moment, we estimate that growth will be between 1.75 and 2.25 percent this year and between 3 and 4 percent in 2015, that is, less than our estimate for medium-term growth in our economy.

This sharp deceleration is certainly worrying news, that should move us all, from political and economic venues, to combine our best efforts to restore the dynamism of the Chilean economy, especially considering that, as is our conviction, Chile has all the necessary tools at hand to ensure higher growth and thus improve the welfare of its inhabitants.

In this context, the Central Bank has used monetary policy decisively and consistently with its mandate, always directing its efforts to achieving the price stability objective. We are also aware that monetary policy tools, however powerful, can smooth, but never flatten out, the economy's cyclical fluctuations.

What are the elements behind this weak economic growth? Our research identifies some factors that to some degree were expected – we have mentioned them in earlier Reports – and some unexpected ones, with effects that are yet to be assessed with accuracy.

The expected factors include external developments. Chile is a small, open economy and, as such, is affected by the vagaries of the world economy. In this sense, and beyond the severe negative effects of the global financial crisis of 2008–2009, we must recognize that during the past decade the Chilean economy was blessed with a benign international scenario, with extraordinarily advantageous commodity prices and financial conditions.

Notwithstanding, lately the high commodity price cycle has come to an end, hitting commodity-exporting countries including Chile. Meanwhile, although international financial conditions are still good, the process of monetary policy normalization in some large developed economies is expected to begin soon.

We must not forget that copper, our main export, traded at nearly 4 dollars per pound for an extended period, and now it is closer to 3 dollars and may fall further in the long term. Moreover, during the last decade, coincidentally with higher prices and supply shortages, investments in mining have increased significantly around the world.

Chile was no exception. During the 1990s and early 2000s, mining investment averaged 2 to 3 points of the country's GDP. Between 2006 and 2013, this figure rose to 5 points of GDP, peaking in 2012 at 6.5 percent of GDP. This phenomenon not only allowed the country to enlarge its mining capacity, but also created major productive linkages toward other sectors, including construction, trade, and manufacturing industries.

The north of our country, especially cities such as Iquique, Antofagasta, and La Serena, has seen strong development and growth thanks to the positive impact of this phenomenon. However, this investment cycle, as has been noted on numerous occasions, has entered a matured stage, resulting in a decline in the number of projects under way. This is also true of other metal-exporting economies like Australia and Peru, although differing in intensity and timing, and is symptomatic of this phenomenon.

However, the aforementioned maturation of the global cycle of copper investment is not the only reason behind the slowdown in mining investment. Delays, postponements and cancellations have also been attributed by industry participants to domestic problems related to water shortages and high energy costs, to excessive delay in the definition of projects and legal issues with some of them, as well as to problems with communities and increased costs.

Among the factors behind the deceleration, there is also the fact that reconstruction works after the earthquake and tsunami of February 2010, including the associated fiscal boost, have tended to recede as the process is completed, explaining also part of the economic slowdown. Last, but not least, in the past few years, these and other factors have pushed economic growth above its potential. This made it necessary and appropriate to pursue a slower pace of growth, more sustainable over time.

Overall, output and expenditure have weakened beyond expectations, taking us and all economic agents by surprise for the intensity and persistence of the slowdown. Already in last June's Report we said that part of the drop in investment could not be attributed to the variables that traditionally determine this component of domestic demand.

The negative surprise in output has to do with some of the developments that we envisioned a few months ago contributing less to growth than we thought then. For example, the economic recovery of our main trading partners has been somewhat slower than expected, especially in Latin America. Downward corrections to mining and energy investment projects planned for 2014 have been sharper than estimated, as reflected in the latest survey of the Capital Goods Corporation. In addition, the depreciation of our peso, although an important incentive for the export sector, in the short term has negatively affected the imported components of domestic expenditure.

Along with this, it is worth noting the decline in economic expectations in recent months, which, on one hand, are a reflection of this scenario of slower growth, but on the other, may end up negatively affecting domestic demand. Expectations for investment and consumption have been falling for quite some time already, and more sharply in the most recent past. The Economic Perceptions Index (IPEC) and the Monthly Business Confidence Indicator (IMCE) have posted continuous declines this year. As of July, the two are below their neutral levels (figure 1).

Besides, they show significant deterioration in some specific items, most notably those related with the convenience of buying durable goods, the perception about employment and the appropriate level of inventories. Meanwhile, the Business Perceptions Report published by the Bank in August revealed that firms perceive an increase in uncertainty, which has influenced both their own and their customers' investment and spending decisions. Increased uncertainty naturally results in investment projects being pushed back (the "wait-and-see" option in specialized jargon), which could partly explain the reduction in investment.

As I said, monetary policy has responded strongly and decisively to the worsening of our domestic scenario, generating significant monetary impulse. By mid-2013 we expressed the need to adopt a more expansionary monetary stance that would ensure that inflation would converge to the target. Accordingly, since October last year we have lowered the monetary policy rate (MPR) by 150 basis points, keeping an expansionary bias for monetary policy.

This, together with the performance of the internal and external macroeconomic scenarios, has heavily affected the structure of market interest rates. In particular, long-term rates are in or close to their all-time lows (figure 2). I must stress this because long-term interest rates are the ones that most influence investment. What is remarkable is that today they are even below the rates prevailing in 2008–2009, that is, even lower than they were at the height of the global financial crisis, when the MPR was down to 0.5 percent and unconventional monetary stimulus had to be added to the economy. Mortgage lending interest rates are also below where they were at the time and very close to their historic lows.

At the same time, the lower cost of bank funding has been transmitted to the lending rates faced by firms and households. These rates have fallen by as much as 140 basis points since October last year. However, adjusted for inflation, lending has decelerated, particularly in commercial and consumer loans, influenced by the more cautious behavior of both suppliers and demanders of credit, as is apparent in our June Bank Lending Survey (BLS) and our August's Business Perceptions Report (IPN).

The cuts we have already made to the MPR have helped to smooth the business cycle, and, as we have mentioned before and now again in the Report I am presenting, a still stronger monetary impulse will likely be necessary in order to ensure compliance with the inflation target. In particular, given the present conditions, and barring a big change in the economic scenario, we believe that the monetary policy adjustments the market expects, which are implicit in the various expectations indicators at the closing of this Report – end of August – , will suffice to achieve the inflation target and help revive our economy.

Monetary policy is an important and significant tool to tone down the cyclical fluctuations of the economy. Its countercyclical use is a privilege that we have earned after years of policy conduct that has strengthened the credibility of the Central Bank. But it is also important to note that powerful does not mean almighty. It allows to mitigate, but not fully offset, the natural fluctuations of a small, open economy like Chile. More importantly, if we wish the Chilean economy to attain higher growth rates in the medium term, it will be necessary to implement measures to encourage investment in both physical and human capital and promote productivity growth, all elements which, incidentally, are beyond the scope of monetary policy.

This Monetary Policy Report contains a revision by the Board to its medium-term growth assumption for Chile over the coming years. This assumption is important from the point of view of monetary policy because, combined with other elements, it allows to estimate the size of capacity gaps and the resulting inflationary pressures. After assessing all the data at hand, we estimate that Chile's medium-term growth is in the 4 to 4.5 percent range, less than we previously thought. The slower growth foreseen in investment and total factor productivity explain a large part of this revision.

Medium-term growth declines are a natural process as the economy attains higher per capita income levels. Still, we believe that Chile has available some measures that could moderate this phenomenon. As I said, part of the revision has to do with the expected slowdown in investment. One argument that is usually put forward to explain the lower investment is rising energy costs and difficulties to materialize investments, despite having all permits required by the relevant institutions.

From the Central Bank we have stressed time and again how important it is for the country's development to have well-defined policies that will allow over time to cut down the cost of such an important input. The Government recently launched an energy agenda with certainly ambitious goals, and hopefully we will see advances in that direction, which should translate into further development of our country. Another way to raise our potential output is by investing in infrastructure works.

In the past few years, our economy has shown a decline in total factor productivity. The two policies I just mentioned – energy and infrastructure – , aside from their incidence in investment, could also result in higher productivity.

Regarding employment, a recurrent topic in our country's policy debates is female participation in the workforce. Despite some increases in recent years, it is still below the average of OECD economies (figure 3). As our population ages and grows at a slower pace, the larger female labor force participation can be a significant ingredient to boost our medium-term growth. Another ingredient could be extending the working life span of individuals, a trend that is gaining importance in many countries as the fraction of population over 65 is growing rapidly and is still able to contribute their bit to the economy. Finally, the challenges relating to increasing labor productivity that everybody recognizes are mainly to improve our educational and training systems.

Now, let me describe the macroeconomic scenario that we see as the most likely for the coming quarters, and its associated risks.

Macroeconomic scenario

Annual headline inflation has remained above 4 percent, but with moderate variations in the past few months. This was more visible in the evolution of the CPIEFE – the CPI excluding food goods and energy prices – reflecting, on one hand, that the pass-through of the peso depreciation to inflation has been a significant development, but declining in intensity as time passes and, on the other, that the weak performance of the economy is already easing the pressure on prices. Accordingly, we continue to estimate that the current high level of inflation will be temporary, a vision that is shared by market agents, as inflation expectations one and two years ahead have remained around 3 percent (figure 4).

As I said at the beginning, the biggest news in several months comes from domestic demand and output, which posted a quite weaker performance than our forecasts. In the second quarter GDP grew 1.9 percent while domestic demand dropped 0.9 percent annually (figure 5). Expenditure's poor performance permeated its every component, where worth noting was the fast deterioration of the most persistent ones, such as non-durable consumption and investment in construction and engineering works. By sectors, trade, especially wholesale, fell in annual terms, while a large number of manufacturing branches posted meager results. Only those most linked to the export sector show marginally more favorable figures.

The evolution of expenditure has also driven a reduction in imports, causing a sharper adjustment to the current account (figure 6). In fact, while a year ago the annual deficit of the current account amounted to 4 percent of GDP and was expected to increase further, at the end of the second quarter it was at 2.4 percent of GDP and is now expected to end the year at 1.8 percent of GDP. This level, plus the peso depreciation and its effects on exports, mean that we can look at this variable's future behavior with ease.

Early third-quarter partial indicators show a still weak economy, but we must not overreact to monthly data, which tends to be very volatile (figure 7). Thus, we must not be surprised if our growth figures remain low because, as I said, we are experiencing a process of sharper, more persistent economic slowdown. In this sense, our growth forecast revision for this year takes this into account and assumes that, towards the end of this year, we will see some recovery, though small and gradual.

Turning to the labor market, the unemployment rate is slightly higher than early in the year, but still low by historic standards. Total employment continues to rise in annual terms, but at a slower pace, and the salaried component has been stagnant for some months. Other indicators, such as available job vacancies, have dropped and unemployment insurance claims have increased (figure 8). Thus, it is natural to expect a rise in the unemployment rate in the coming months. Still, nominal wages continue to grow, which could delay the convergence of inflation and hinder the adjustment of the labor market to the current cyclical conditions of our economy.

As I mentioned, the worsening of our domestic economy has occurred within a context where the monetary impulse has increased substantially. We have cut 150 basis points off the MPR in the past year and the market interest rate structure has diminished accordingly.

The change in the macroeconomic scenario has also reflected in exchange rate movements, in both nominal and real terms. The CLP posted a 5.8 percent depreciation between the close of this Report and last, mostly during the past few weeks. Although part of this depreciation responded to the global strengthening of the dollar, the rise in the CLP/USD parity exceeded that of other emerging market currencies. This obeyed to less favorable cyclical conditions and a more expansionary monetary policy in the country. It must be noted that Chile's macroeconomic policy framework includes, among other features, a monetary policy based on inflation targeting and exchange rate flexibility. Thus, during slowdown periods, when the pressure on prices diminishes, policy becomes more expansionary in order to achieve the inflation target, that is, for the inflation rate not to fall below the target range.

This boost to monetary policy results in a higher exchange rate, which permits the economy to have a faster, optimal adjustment via the expansion of tradable sectors. In other words, the exchange rate increases are a natural, desired response to the business cycle, lending a helping hand in the economic adjustment. We have been faithful to this predicament, as reflected in the significant depreciation of our currency in recent times. We do not view this as a problem, because despite some unwanted effects in the short term – including higher inflation – it is part of the solution to have the economy reactivate more rapidly and efficiently.

We have stressed, also, how Chile's interest rates have adjusted significantly downward in this scenario. This contrasts sharply with what would occur in other times or today in other emerging economies, where exchange rate pressures would rapidly translate into higher interest rates.

External credit conditions, aside from temporary ups and downs, have remained favorable from a historic perspective, although the risk of a reversal is still present. Lately, Chile's sovereign and corporate risk premiums have increased somewhat, but are still below their year-ago levels. The situation is similar in other emerging economies. Long-term interest rates have receded in the developed world since June, with unprecedented performance in the case of the U.S. given its stronger economy and expectations that the benchmark rate will begin to rise by the middle of next year.

The terms of trade have also been favorable since June, and they even increased marginally with respect to June's forecasts, mainly owing to a higher copper price because of tighter supply. The baseline scenario works with a copper price forecast of 315 dollar cents per pound in 2014 and 305 in 2015.

The growth outlook of our trading partners lost some strength since June, and we continue to expect higher growth in 2015 than in 2014. In the developed economies, growth has been slightly revised downward for this year. The worsened figures in Japan combined with a slower recovery in the Eurozone, Germany included, where consumer and business confidence has declined, partly because of the geopolitical conflicts in the region. The United States regained strength in the second quarter, thanks to the good performance of private consumption and investment, and better expectations. In Latin America, the growth forecast has been lowered for this year and next in most countries, although with some heterogeneity. In China, government policies have managed to stabilize growth. Our baseline scenario assumes that our trading partners will grow an average 3.6 percent in 2014 and 2015, two tenths of a point less than foreseen in June (table 1).

The baseline scenario assumes that the slowdown in the domestic economy will be more persistent than previously expected. Thus, as anticipated, the GDP growth forecast for this year is adjusted to between 1.75 and 2.25 percent, below the June estimate. In 2015, consistently with the low basis of comparison and limited economic dynamism, we expect GDP to grow between 3.0 and 4.0 percent annually. The recovery, though moderate, is based on a greater monetary stimulus and lower market interest rates; stronger fiscal stimulus; increased trading partners' growth; a real depreciation of the peso; and improved private expectations. As already noted, for this projection, the Board assumes that the medium-term growth of the Chilean economy is between 4 and 4.5 percent.

The domestic demand growth forecast for 2014 has also been corrected downward, particularly for investment. This change responds to actual second-quarter indicators that fell short of the forecast, and to the Capital Goods Corporation's investment projects that were revised downward in the last survey. In contrast, a stronger impulse from public expenditure is expected, particularly from investment. On the private consumption side, we expect it to keep growing for the rest of the year at a slower pace than was forecast in June (table 2).

Annual CPI inflation, still affected by high monthly variations early in the year and the direct effects of the recent depreciation of the peso will remain above 4 percent throughout the remainder of 2014. By 2015, in line with the lower inflationary pressures that are inferred from the cyclic evolution of the economy and the high basis of comparison, annual inflation of both the CPI and the CPIEFE will have a quick descent to 3 percent. Then it will hover around 3 percent until the end of the forecast horizon, this time the third quarter of 2016 (figure 9).

This inflation trajectory is based on the assumption that the indirect effects of the nominal and real depreciation of our currency will be more than offset by the state of the capacity gaps over the projection horizon. The Board's assessment yields that the current level of the real exchange rate (RER) is consistent with the cyclical state of the economy and the internal and external financial conditions, although it is slightly above the range of its estimated long-term values. As a methodological assumption, it considers that the exchange rate will have a slight appreciation in real terms over the long run, as the cyclical conditions of our economy normalize.

About the MPR, the changes in the domestic macroeconomic scenario have lowered its expected level compared with June. As a working assumption, we estimate that the MPR will follow a path comparable with what can be inferred with different expectations measures available at the closing of this Report. These measures suggest that the MPR will see additional cuts going forward, that will take it to the vicinity of 3 percent before the end of the year (figure 10).

The baseline scenario reflects those events that are estimated to be the most likely to occur with the information at hand at the closing of this Report. There are risk scenarios, however, which if materialized, may reshape the macroeconomic environment and, therefore, may modify the course of monetary policy. On this opportunity, having evaluated the alternative scenarios, the Board estimates that the risk balance for inflation is unbiased, and for output it is unbiased in 2014 and downward biased in 2015.

Abroad, the risks foreseen in earlier Reports remain. Although the growth outlook in China has stabilized lately, its future performance continues to pose a risk, particularly relating to the Chinese financial system and real estate sector. Moreover, we cannot rule out that vulnerabilities in other emerging economies may originate new episodes of volatility. In the Eurozone, the macrofinancial situation continues to create uncertainty, which compounded with geopolitical tensions in the continent aggravates the risk of a slower recovery in the region.

In the United States, the tapering of unconventional monetary stimulus has proceeded as expected, but the financial markets could suffer significant stress episodes if events occur that might anticipate the timing of the announced increases in the Fed funds rate. In particular, in the present context of low long-term interest rates and limited sovereign premiums, there could be a drastic reversal causing important tension. This could have effects on external funding costs and currency parities, with a heavy impact on emerging economies. Overall, the most likely scenario continues to assume that the US economy will bring a new boost from abroad and a more favorable scenario in the medium term.

At home, one risk is domestic output and demand growing less than expected. As noted, the two have weakened beyond projections, coinciding with a widespread worsening of expectations. The baseline scenario estimates that this worsening will reverse gradually, which partly explains the growth forecast for consumption and investment in 2015. However, if such reversal does not occur, there may be a sharper and stronger adjustment in the labor market, which would negatively affect consumption and output. Furthermore, a worsening of business expectations could intensify the investment adjustment.

Such a setting could also trigger a more intense rebalancing towards the tradable sector, thus moderating the domestic slowdown. Meanwhile, although a weaker domestic economy could amplify capacity gaps and ease inflationary pressures, we cannot rule out that its effects on the exchange rate may offset the price effects, at least temporarily, thus delaying the convergence of inflation.

Let me now share with you some concluding thoughts.

Final thoughts

Domestic output and demand have been weaker, and more persistently so, than we expected a few months back. The sharper fall in investment coupled with a more marked deceleration of private consumption, so we lowered our growth forecast for this year below the range we projected in June. Annual inflation, on the contrary, has been in line with expectations and we continue to see its present high level as temporary. As from June, the Bank has cut the monetary policy rate by 50 basis points, taking it to 3.5 percent, and has reiterated that it will consider the possibility of making further reductions to the MPR in line with the evolution of domestic and external macroeconomic conditions and its implications on the inflationary outlook.

No doubt the results and projections presented today show a weak performance of the Chilean economy. We have made significant corrections to our output forecast that respond to the combination of external and internal factors, some of them foreseen, some unexpected. Within the latter, it is obvious that the widespread deterioration of private sector expectations has played a major role. The true magnitude of such role is difficult to determine, but it is certainly big, particularly when it comes to projections.

Monetary policy has played its part and it will continue to do so, by adding momentum, but it cannot be expected to solve every problem of our economy by itself. As I said, the medium-term growth we see today as the most likely is less than what we thought a while ago. Factors like the reduction in investment projects, the decline in productivity, some demographic issues and the convergence to higher per capita income are behind this change. And there are structural factors that we could potentiate in order to sustain higher medium-term growth in the country.

Chile's advances in the last thirty years are huge. Poverty indexes have dropped dramatically and we have improved our living conditions remarkably. The key to our success has been the solid base that we have built with the combined efforts of each and every Chilean citizen.

But there is still a lot to be done. Alongside our development over these three decades stand die-hard inequalities that we have failed to resolve as a society. In a way, this is one of the problems that come with our very success. The society – notably our growing middle class – demands ever more and better services, along with more opportunities. As a rule, these are legitimate demands, which must be met with policies that prevent losing what we have gained and entangling us in a dead end situation. This is called the "middle-income trap" in the literature.

I am an optimist, and I am convinced that our country has the right institutions to help us out of these challenging times. Over the years we have combined our efforts to make reforms, that are deep and long-lasting. Actually, our country is recognized around the world, precisely for its strong institutions. The capacity of our leaders to reach agreements is proof of such strength and, therefore, we have appreciated the agreement led by the Finance minister, Congress representatives and political leaders around the tax reform.

The question we must ask ourselves, putting aside our individual positions, is how we can all move forward to create a better country. Naturally, discrepancies will arise about the reasons for the slowdown. We believe, however, that a fruitful use for our time is to think about ways to reactivate our economy and, more importantly, how to boost growth into the medium to long term.

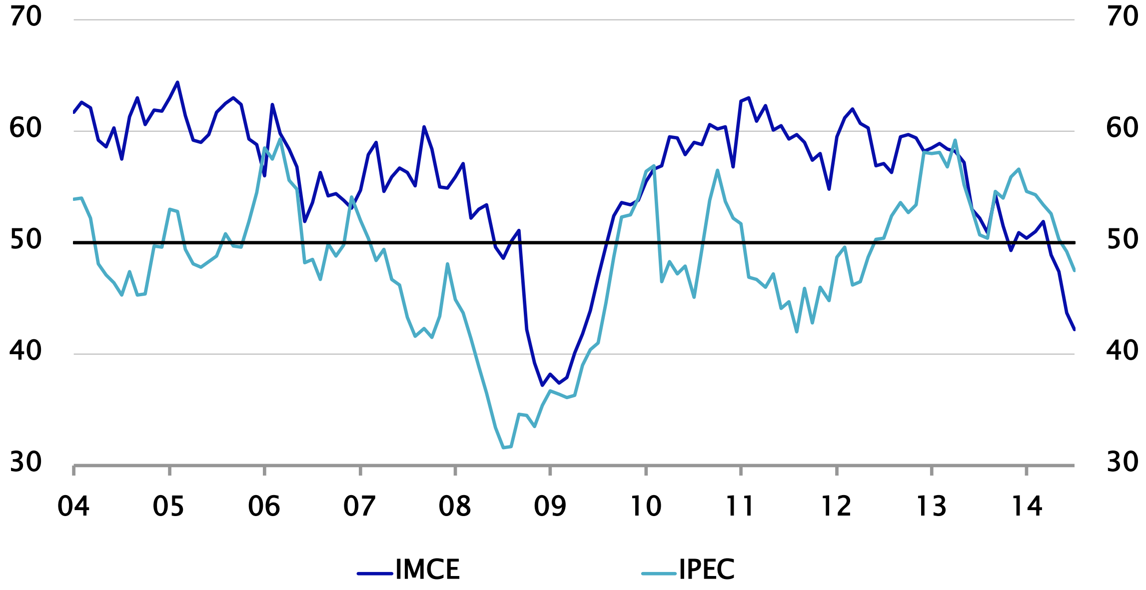
Beware also with being over-optimistic or over-pessimistic. When things go well we see no limit and indulge in the we-are-so-good fantasy. But when the table turns we become pessimistic and see no possible solution. It's neither this nor that. The country we have built, though not perfect, is an example among emerging economies. There is a long way ahead, but let us not underestimate what we have achieved.

Mistrust will not bring the solution. The only way is to work hand in hand, which is what has brought us so many good results as a society. Aside from cyclical factors, where there are elements beyond our control, attaining higher stages of development in a broad sense, depends upon us. Among the many challenges noted by numerous studies are to reduce energy costs, improve infrastructure and provide quality education. Our objective is not only to boost growth; it must also guarantee that the benefits are felt by every individual.

We, as the Central Bank, have reiterated our commitment with price stability, stating that we will take every step necessary for the inflation forecast over the policy horizon to be aligned with the 3 percent target. As we have said time and again, that is the main contribution that monetary policy can make to the country's development and welfare. Without a good macroeconomic framework, development in other areas becomes elusive. Of course, in macroeconomic stability, the Central Bank plays an essential role.

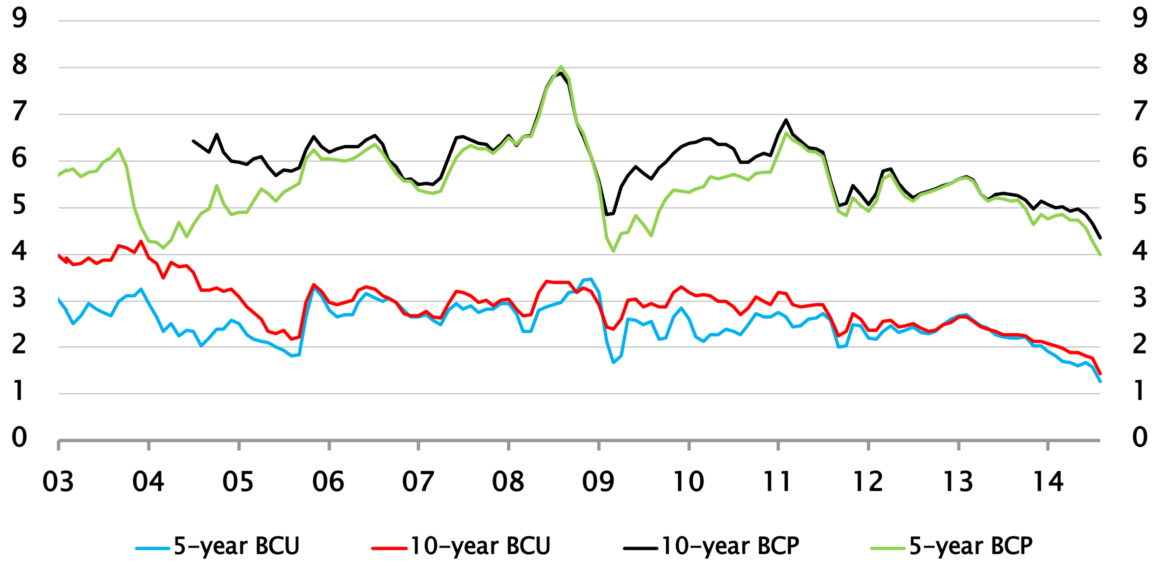
Thank you very much.

Figure 1
Business and consumer perception (*)
(index, pivot=50)



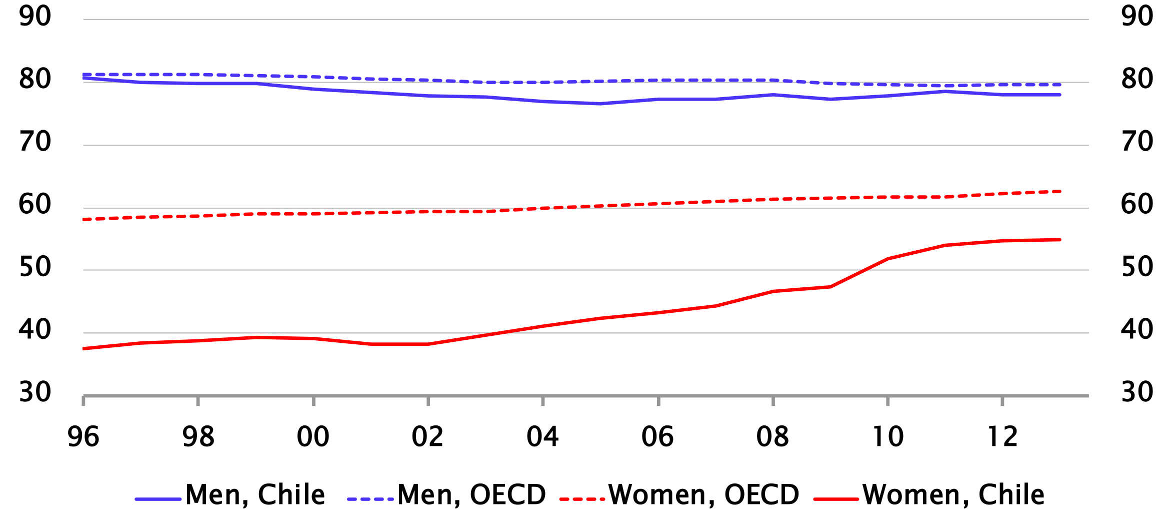
(*) Value above (below) 50 points indicates optimism (pessimism).
Sources: Adimark and Icare/Universidad Adolfo Ibáñez.

Figure 2
Long-term interest rate
(Central Bank instruments, percent)



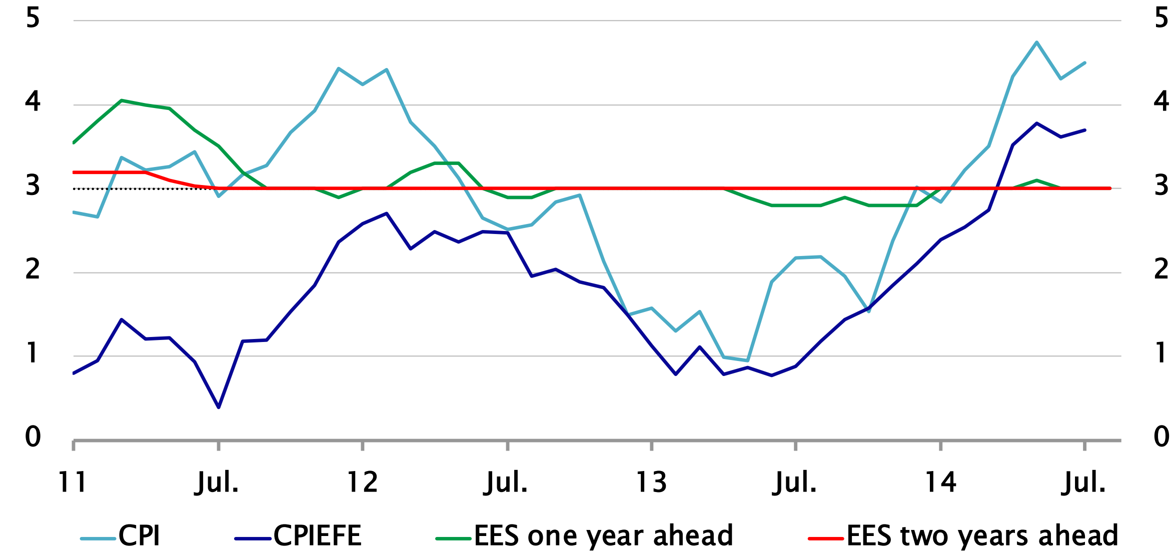
Source: Central Bank of Chile.

Figure 3
Labor force participation by gender
(percent)



Source: OECD.

Figure 4
Inflation indicators (*)
(annual change, percent)

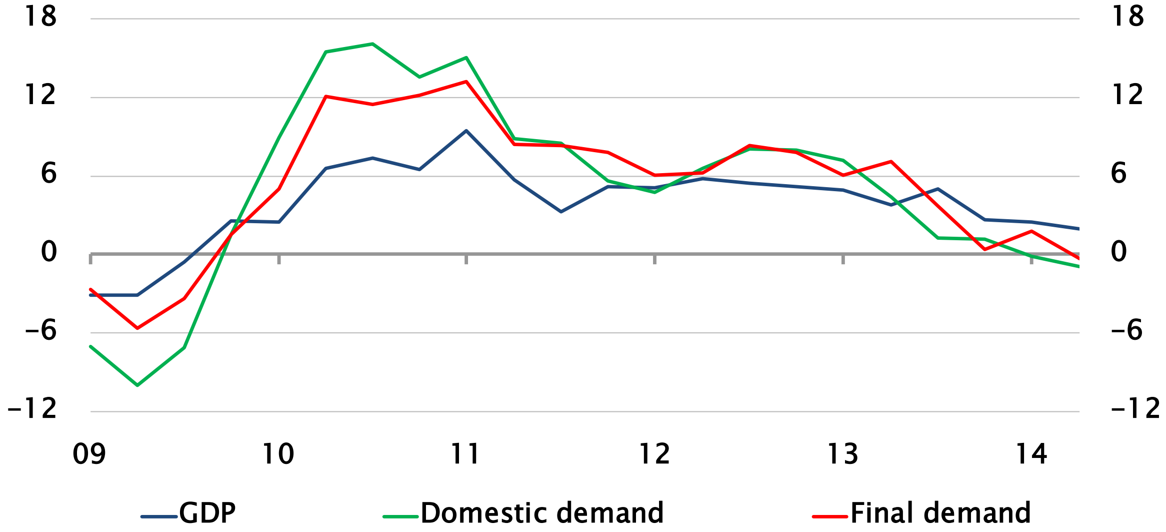


(*) As from January 2014, new indexes are used with annual base 2013=100, so they are not strictly comparable with earlier figures.

(*) Starting in January 2014, the new annual indices with base 2013=100 are used, so they are not strictly comparable to previous data.

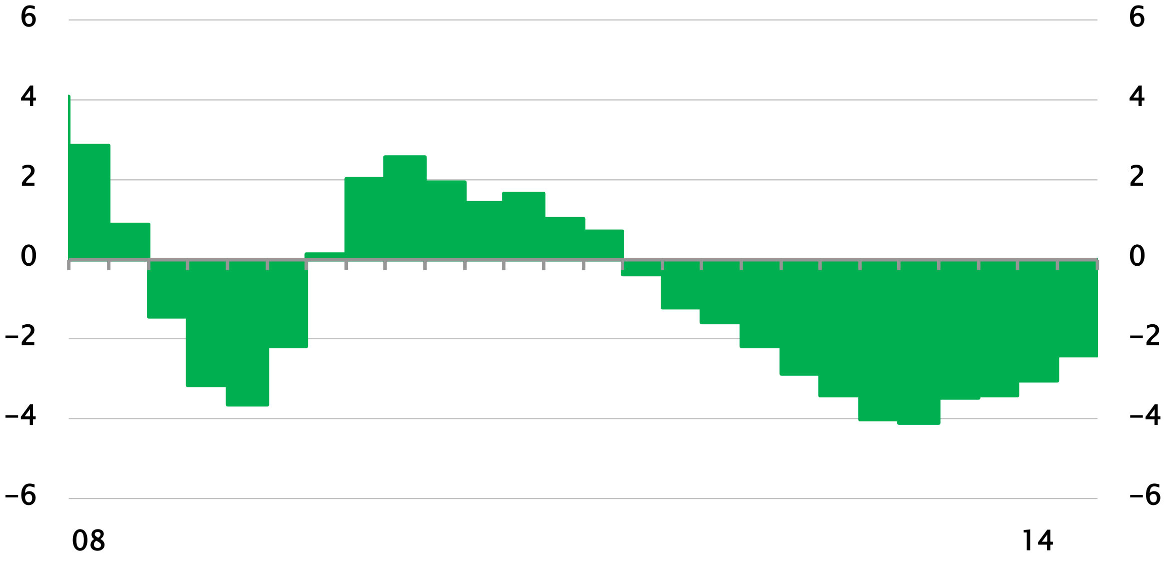
Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 5
GDP and domestic demand
(annual change, percent)



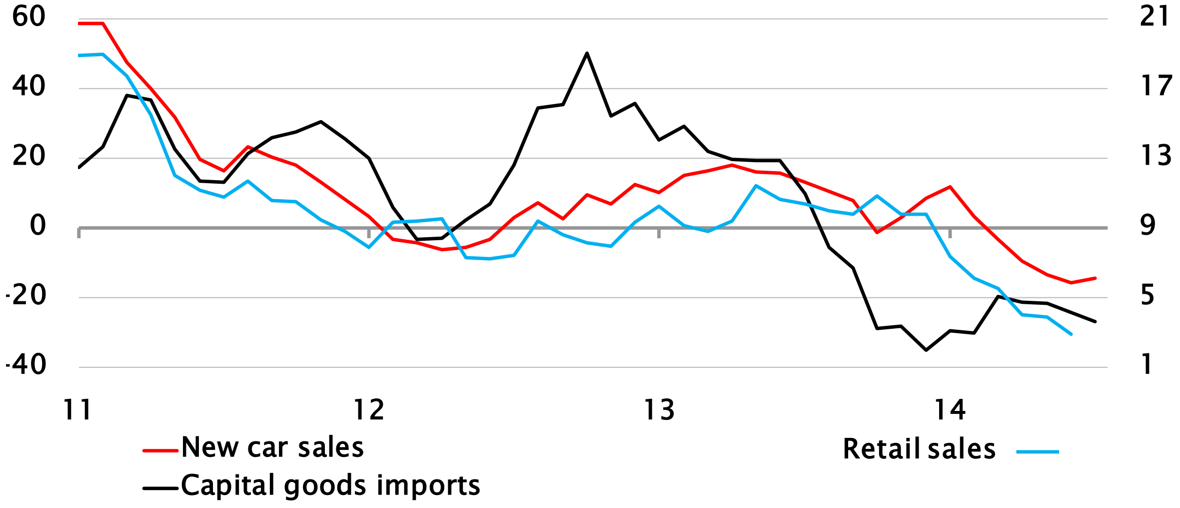
Source: Central Bank of Chile.

Figure 6
Current account (*)
(percent of GDP)



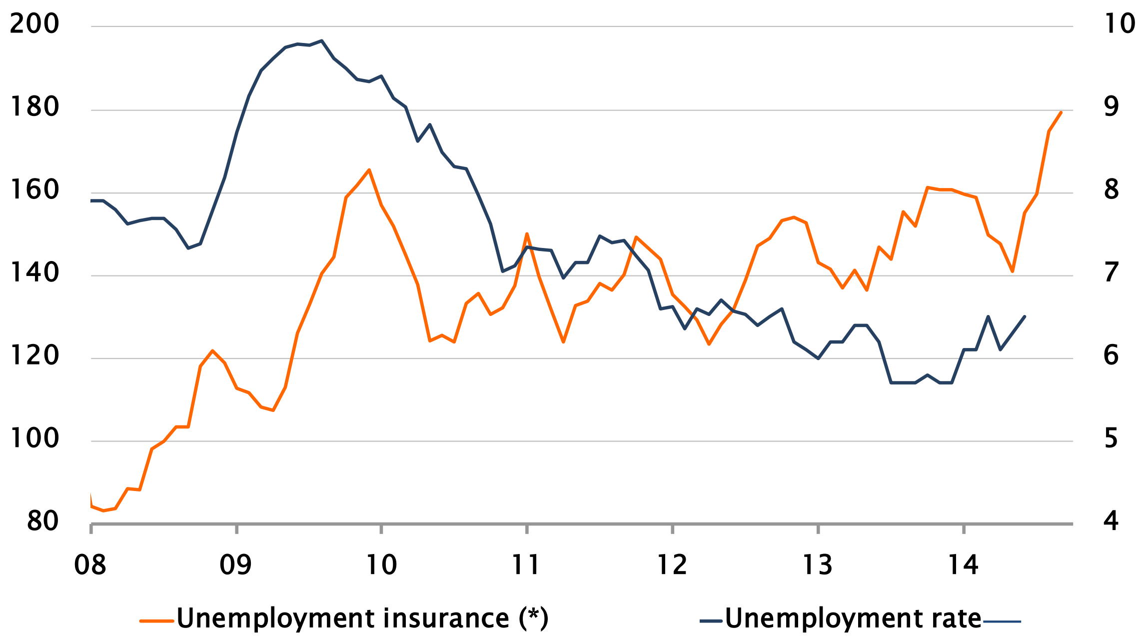
(*) Accumulated in moving year.
Source: Central Bank of Chile.

Figure 7
Demand indicators
(annual change, percent)



(*) Quarterly moving average.
Sources: National Car Association of Chile (ANAC), Central Bank of Chile and National Statistics Institute (INE).

Figure 8
Labor market indicators
(thousand persons, percent)

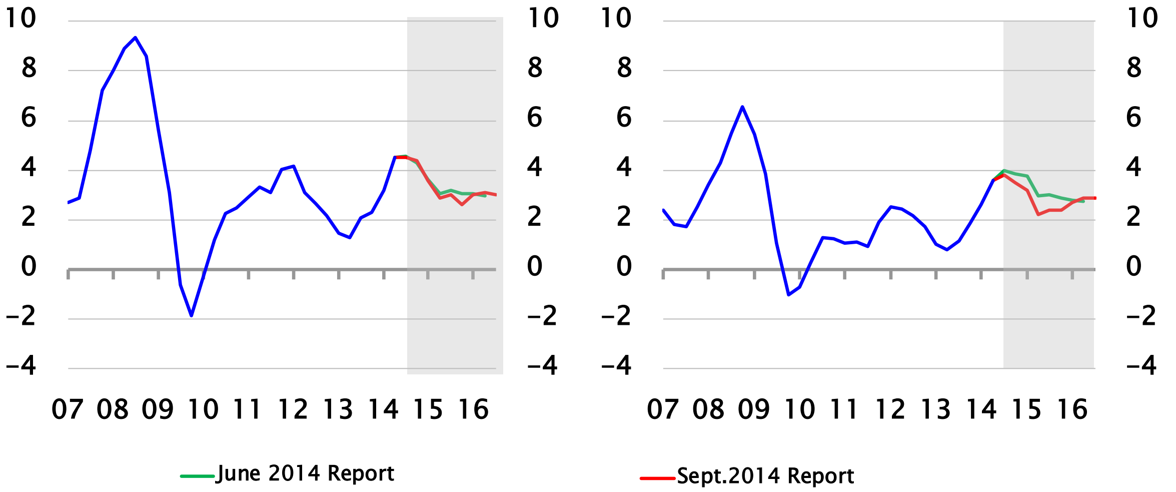


(*) Quarterly moving average of individuals who claimed and received unemployment insurance payment. This series is anticipated by 4 months.
Sources: National Statistics Institute (INE), Superintendence of Pensions and Central Bank of Chile.

Figure 9

CPI inflation (*)
(annual change, percent)

CPIEFE inflation (*)
(annual change, percent)

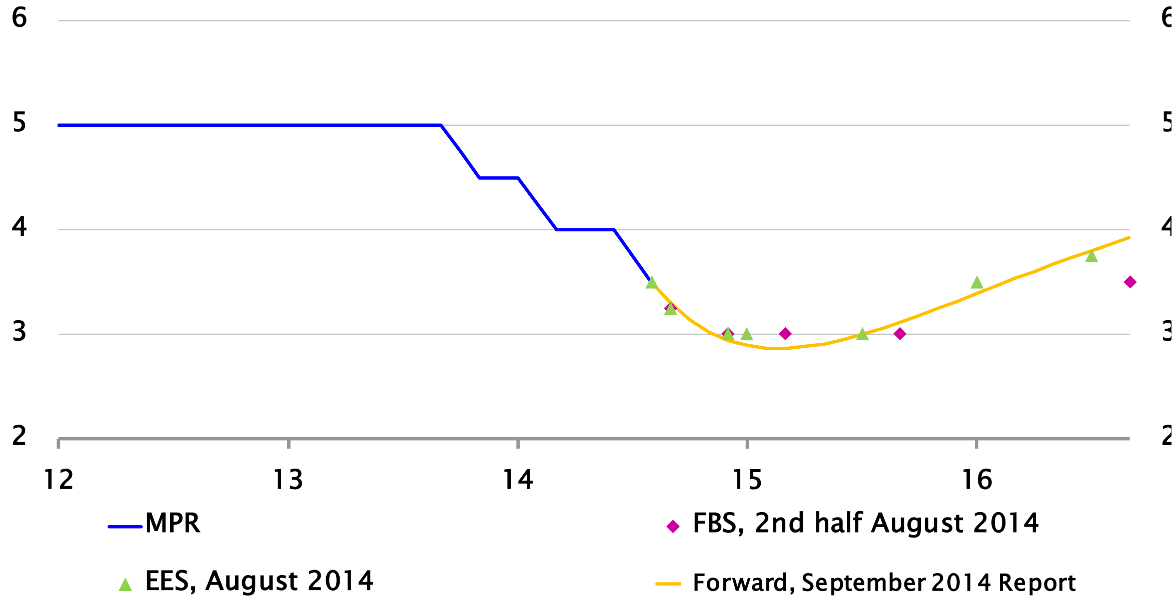


(*) Gray area, as from the third quarter of 2014, shows forecast.

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

Figure 10

MPR and expectations
(percent)



Source: Central Bank of Chile.

Table 1
International baseline scenario assumptions

	2013	2014 (f) Report, Mar. 14	Report, Jun. 14	Report, Sept. 14	2015 (f) Report, Mar. 14	Report, Jun. 14	Report, Sept. 14	2016 (f) Report, Sept. 14
GDP growth				(annual change, percent)				
Trading partners' GDP	3.5	3.7	3.6	3.4	3.9	3.9	3.8	3.9
World GDP at PPP	3.1	3.5	3.3	3.2	3.8	3.7	3.7	4.4
United States	2.2	2.7	2.4	2.1	2.9	3.1	3.0	3.2
Eurozone	-0.4	1.2	1.0	0.8	1.5	1.7	1.7	1.8
Japan	1.5	1.5	1.6	1.0	1.1	1.0	1.5	1.2
China	7.7	7.3	7.3	7.3	7.2	7.2	7.2	7.0
India	4.4	5.4	5.4	5.4	6.3	6.2	6.2	6.5
Rest of Asia (excl. Japan, China and India)	3.9	4.1	4.1	4.0	4.5	4.4	4.5	4.8
Latin America (excl. Chile)	2.6	2.3	2.0	1.7	3.4	3.0	2.6	3.3
				(levels)				
LME copper price (US$cent/lb)	332	300	310	315	285	290	305	300
Brent oil price (US$/barrel)	109	106	108	106	101	103	104	101
				(annual change, percent)				
Terms of trade	-3.2	-0.9	-0.5	-0.2	-1.1	-1.5	-0.8	-0.5

(f) Forecast.

Sources: Central Bank of Chile based on a sample of investment banks, Bloomberg, Consensus Forecasts, the IMF and statistics bureaus of respective countries.

Table 2
Domestic scenario
(annual change, percent)

	2012	2013 (e) Report, Jun.14	Report, Sep.14	Report, Mar.14	2014 (f) Report, Jun.14	Report, Sep.14	2015 (f) Report, Sep.14
GDP	5.4	4.1	4.1	3.0–4.0	2.5–3.5	1.75–2.25	3.0–4.0
Domestic demand	6.9	3.4	3.4	3.3	1.7	0.1	3.4
Domestic demand (w/o inventory change)	7.1	4.2	4.2	3.3	2.4	1.0	3.2
Gross fixed capital formation	12.2	0.4	0.4	0.8	-0.7	-4.1	1.8
Total consumption	5.6	5.4	5.4	4.1	3.4	2.6	3.6
Goods and services exports	1.1	4.3	4.3	3.2	3.2	2.4	3.8
Goods and services imports	5.0	2.2	2.2	2.4	-1.1	-3.9	4.0
Current account (% of GDP)	-3.4	-3.4	-3.4	-3.6	-2.5	-1.8	-2.2
Gross national saving (% of GDP)	21.7	20.5	20.5	19.5	19.9	19.8	19.7
December CPI	1.5	3.0	3.0	3.0	4.0	4.1	2.8
December CPIEFE	1.5	2.1	2.1	2.8	3.7	3.4	2.5

(e) Estimate.
(f) Forecast.

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