



Economic Outlook and Recent Developments in Latin America and Chile

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Governor



Introduction

Latin America has made great advances in the 2000s.

The commodity price boom provided room for significant progress in the economy, in social areas and in strengthening the institutions.

However, the countries in the region benefited from the good years in varying degrees. Important imbalances remain in some cases.

Chile has succeeded in building strong foundations that allow it to confront the challenges coming from abroad better than in the past.

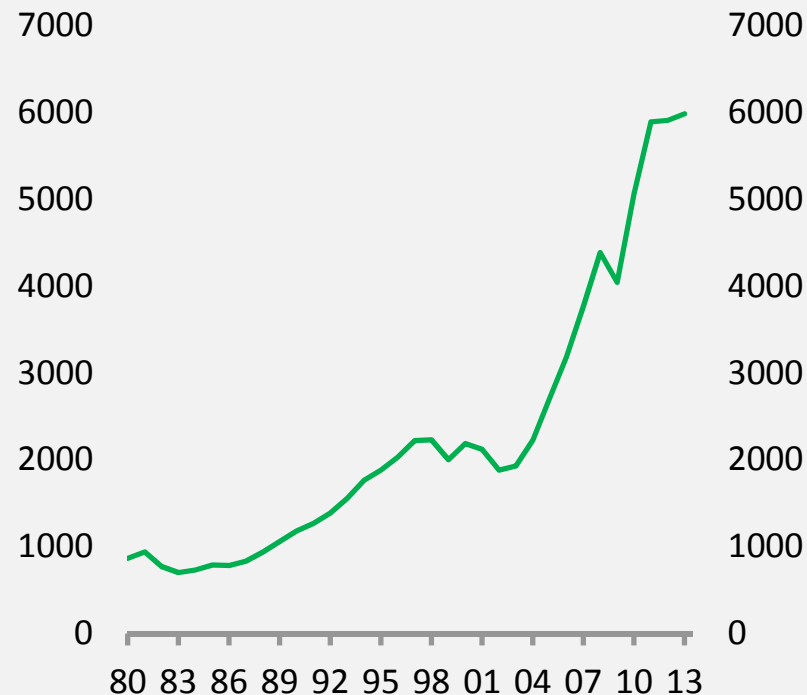
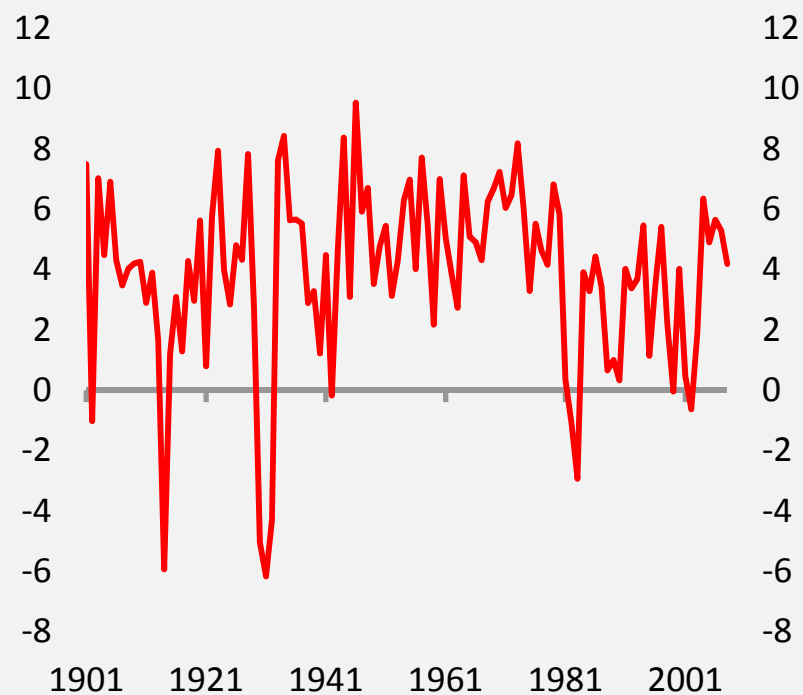


Throughout history, Latin America has been characterized by volatile growth rates. At the turn of the century, the region began growing strongly.

Latin America: GDP

(annual change, percent)

(US\$ billion)

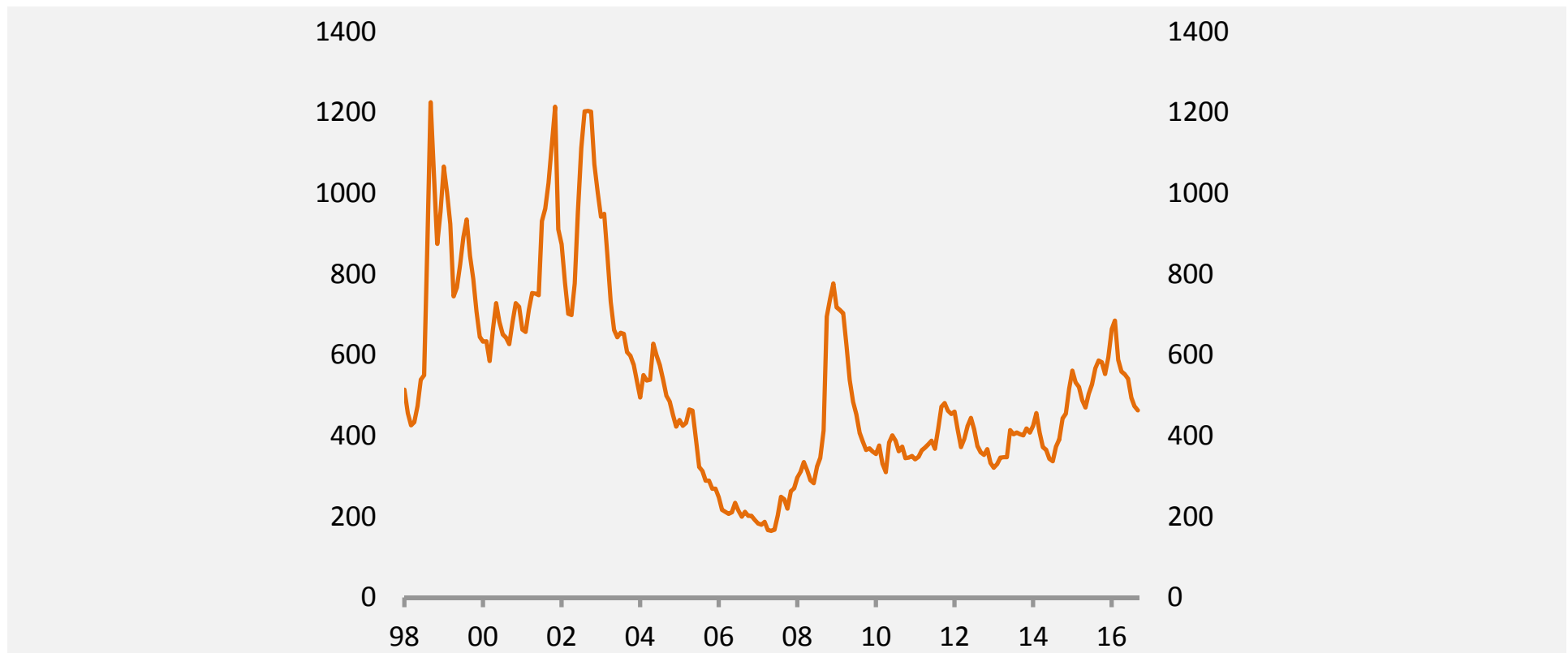


Sources: The Maddison-Project and World Economic Outlook, IMF.



Excluding some particular episodes, the region's risk premiums dropped and then stabilized.

Latin America: Sovereign spreads (EMBI)
(basis points)

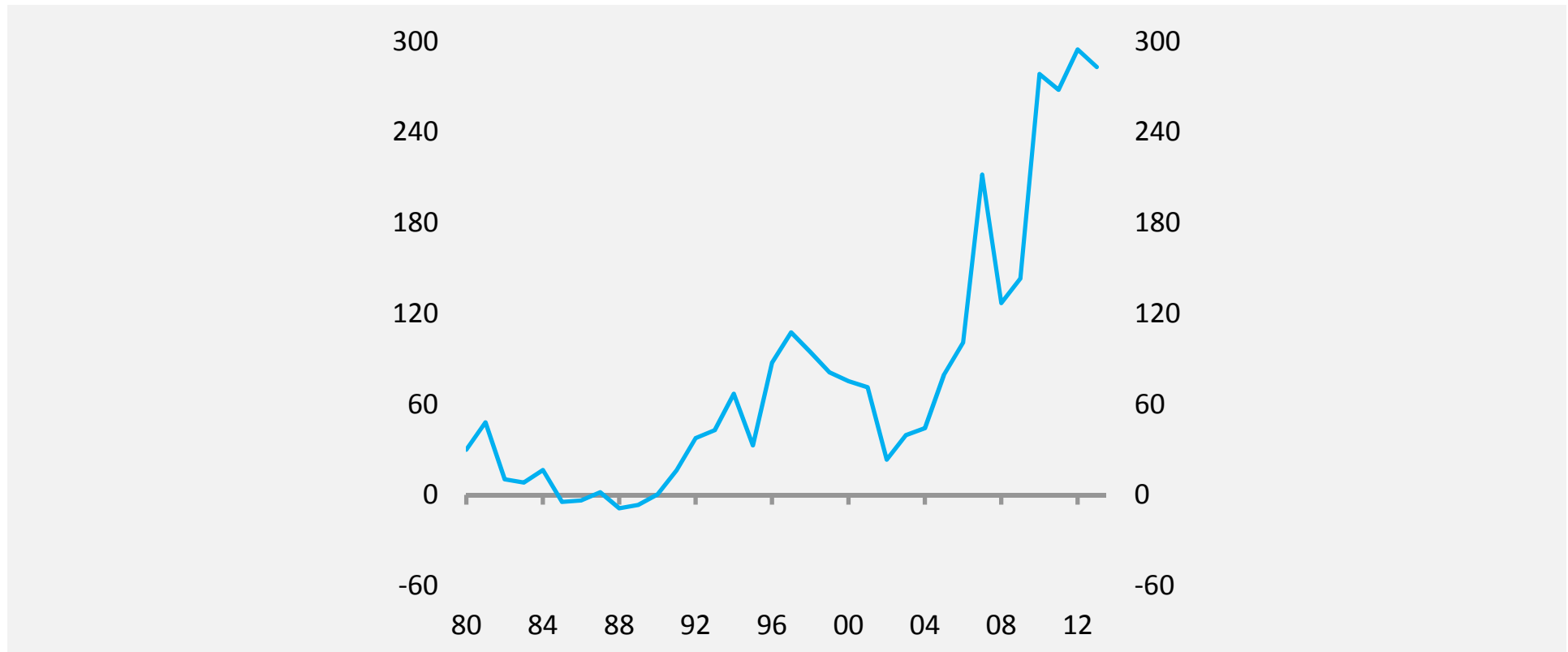


Source: Bloomberg.



This motivated significant capital inflows to the region and boosted investment.

Net private capital inflows
(US\$ billion)

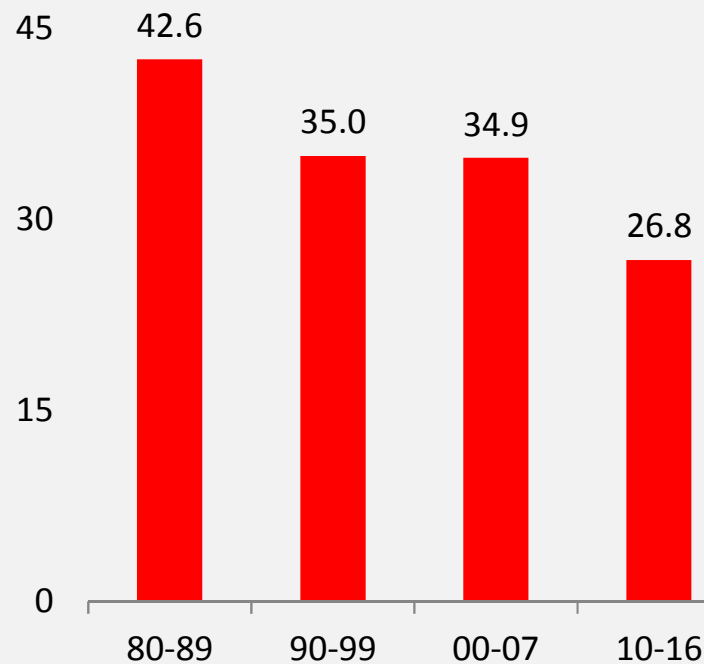


Sources: IIF and IMF.

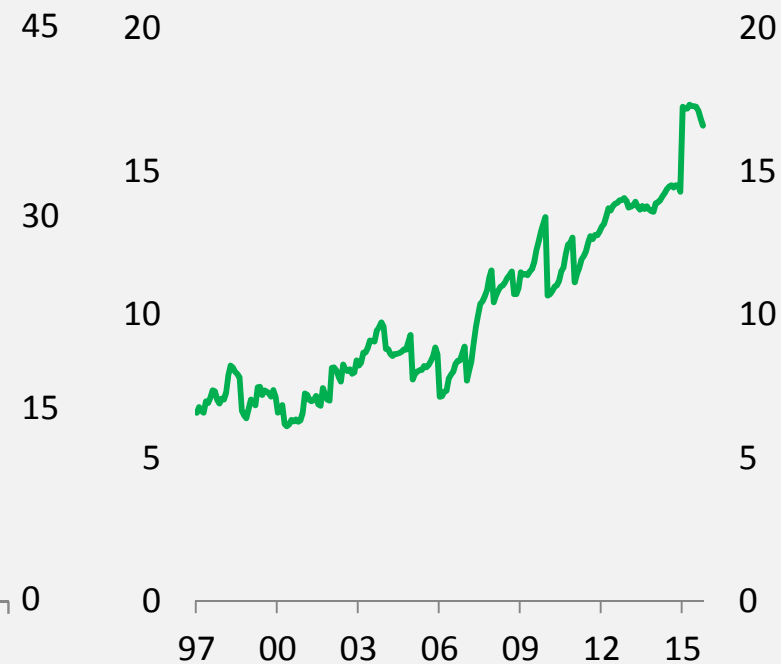


The region brought down its levels of external debt and hoarded international reserves.

External debt
(percent of GDP)



International reserves (*)
(percent of GDP)

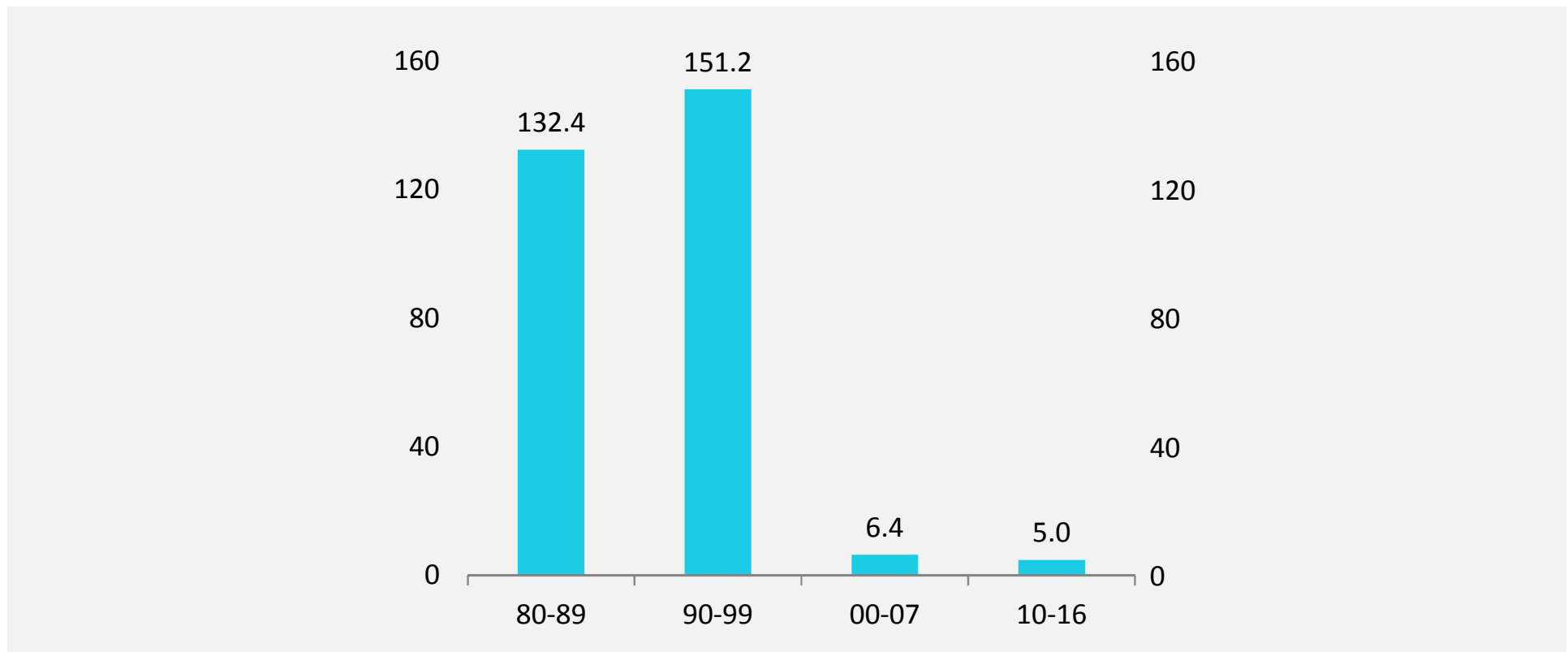


(*) Considers the aggregate of Argentina, Brazil, Chile, Peru and Colombia.
Source: World Economic Outlook, IMF.



**Important achievements were obtained in terms of inflation control,
which enhanced the credibility of central banks.**

Inflation
(average annual change, percent)

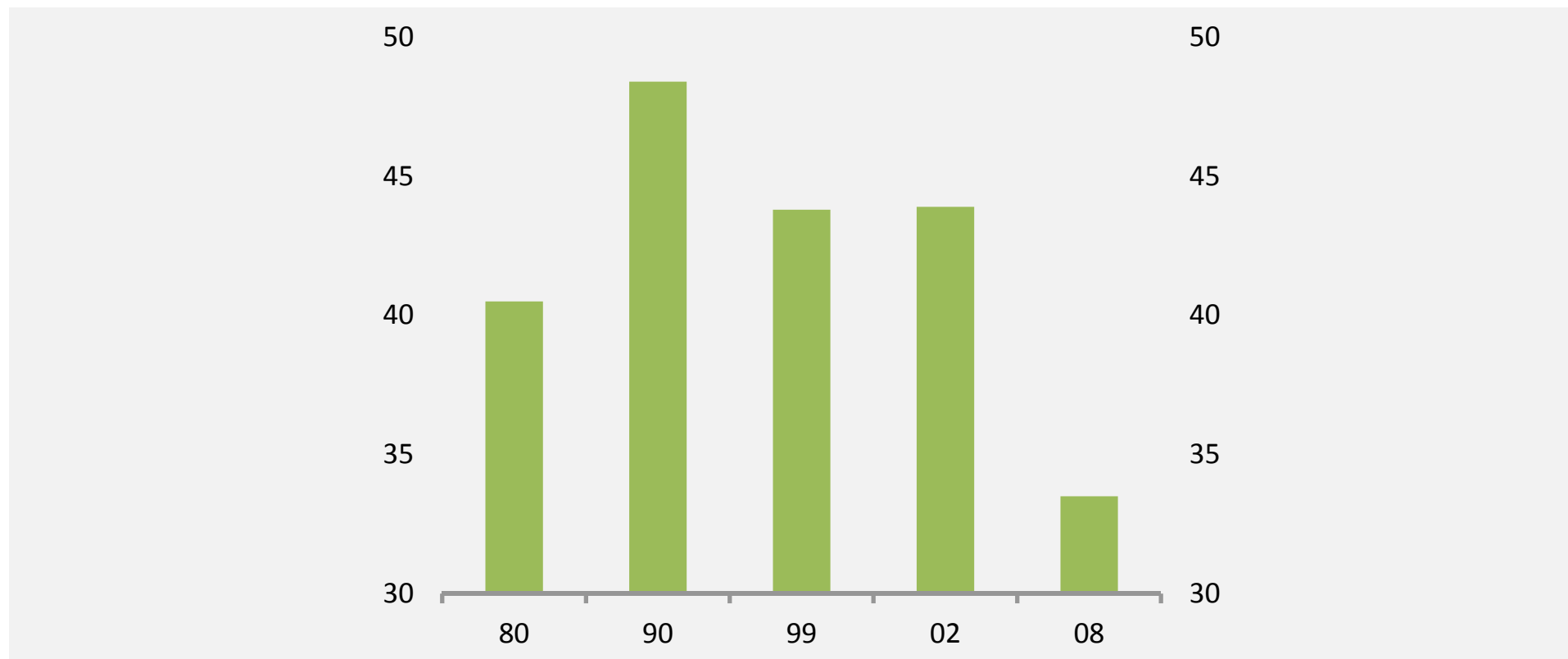


Source: World Economic Outlook, IMF.



The boom allowed to reduce poverty levels significantly.

Poverty (*)
(percent)

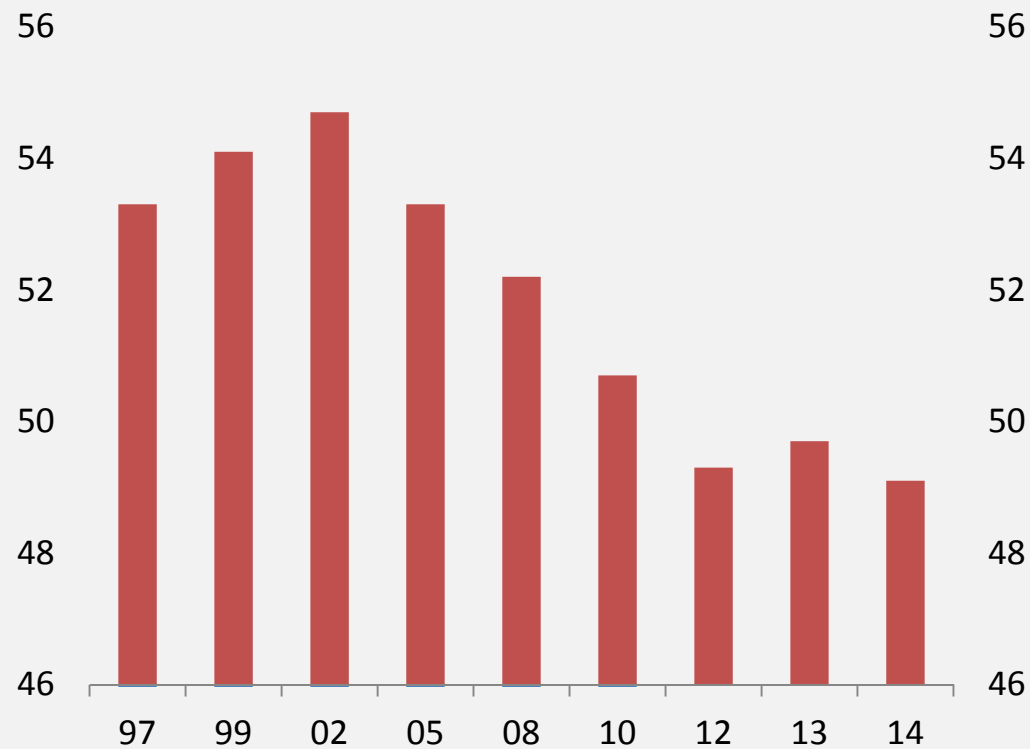


(*) Includes extreme poverty.
Source: ECLAC.



In addition, inequality decreased, lowering the gap with higher income countries.

**Gini: Income distribution
(index)**

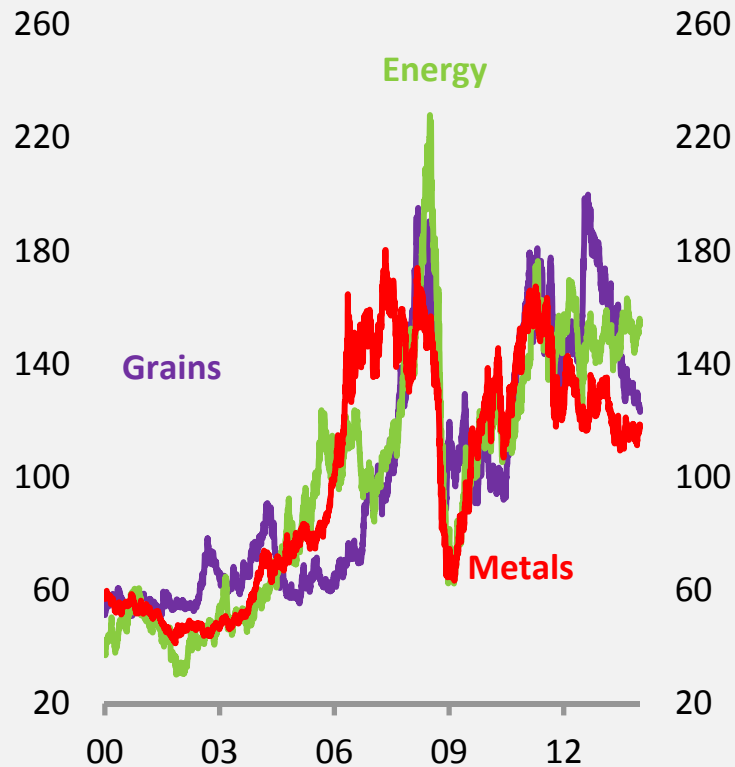


Source: ECLAC.

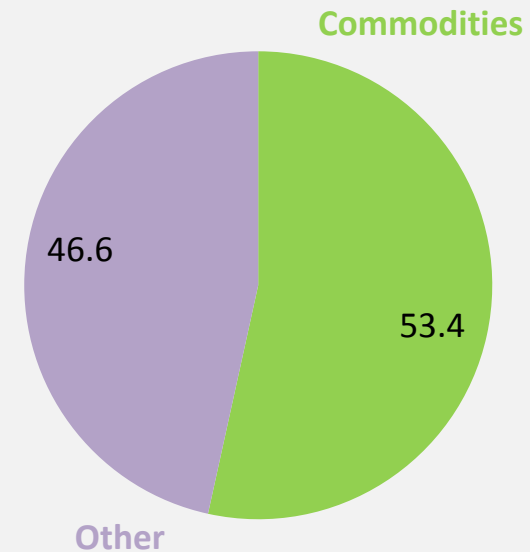


A large part of these advances was related to the boom in the prices of commodities, the bulk of the region's exports.

Commodity prices (*)
(index, 2000-2013=100)



Latin America: Exports structure
(percent of total)



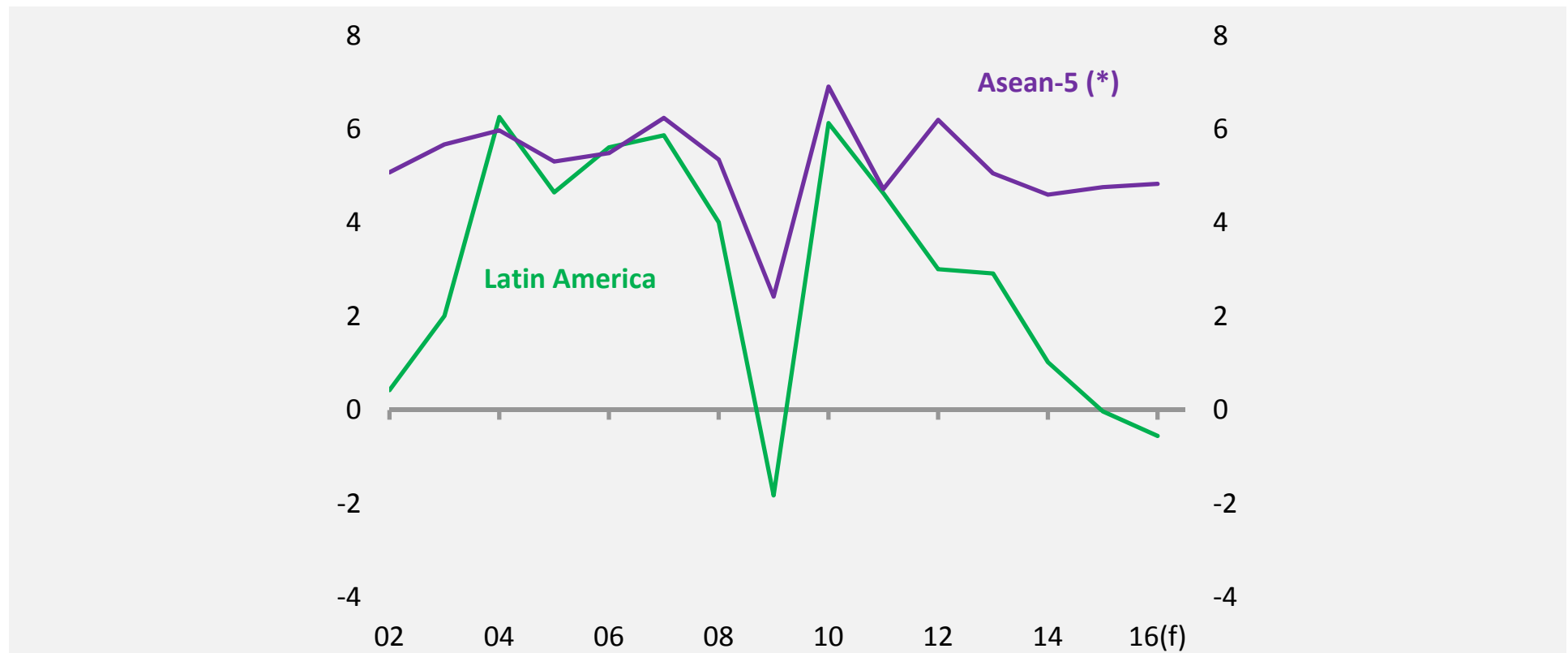
(*) Goldman Sachs aggregate index.

Sources: Bloomberg and United Nations Conference on Trade and Development.



Actually, the rapid recovery of ToT after the crisis of 2009, allowed the region to soon resume strong growth. In recent years, however, growth has disappointed, drifting away from the performance of some Asian countries, which have maintained stronger growth rates.

Growth in Latin America and Asia
(annual change, percent)

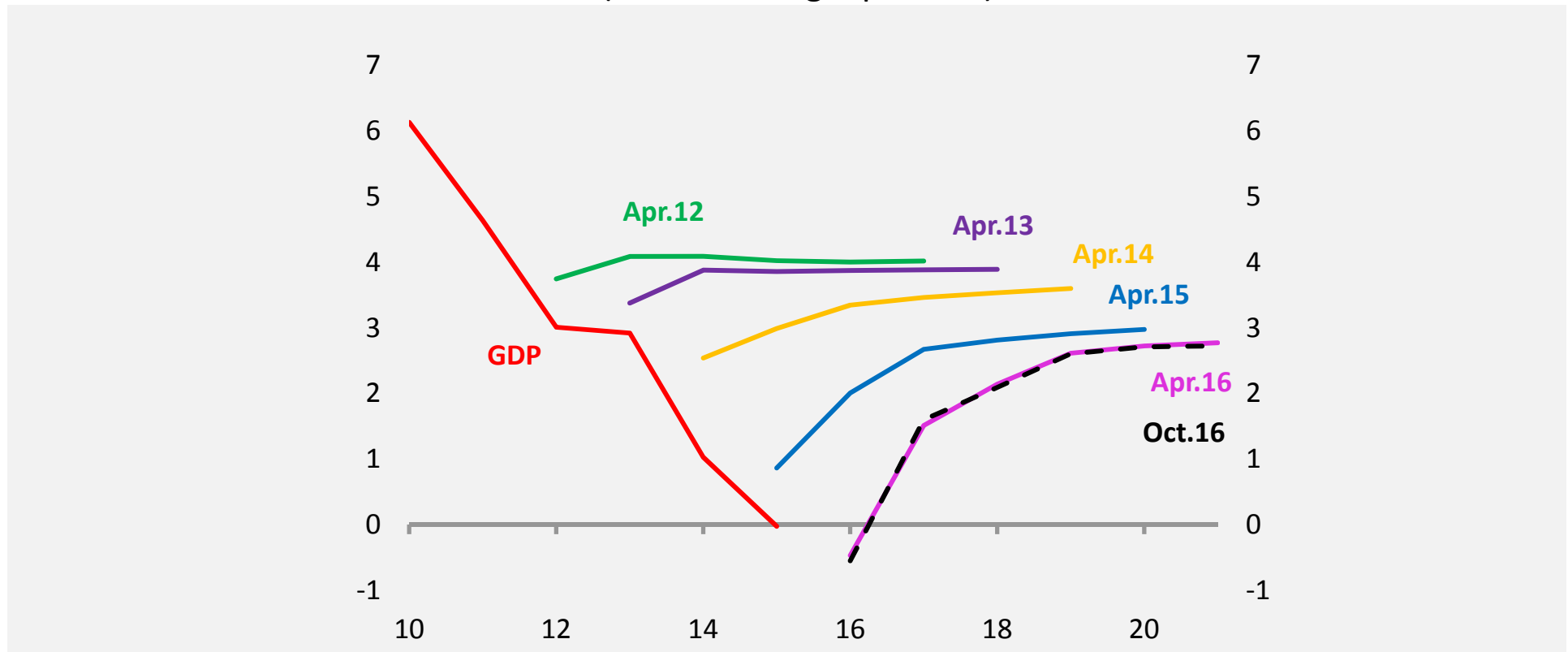


(*) Asean-5: Indonesia, Malaysia, Philippines, Thailand and Vietnam. (f) Projections included in World Economic Outlook. Source: IMF.



The growth projection for the region has been revised repeatedly.

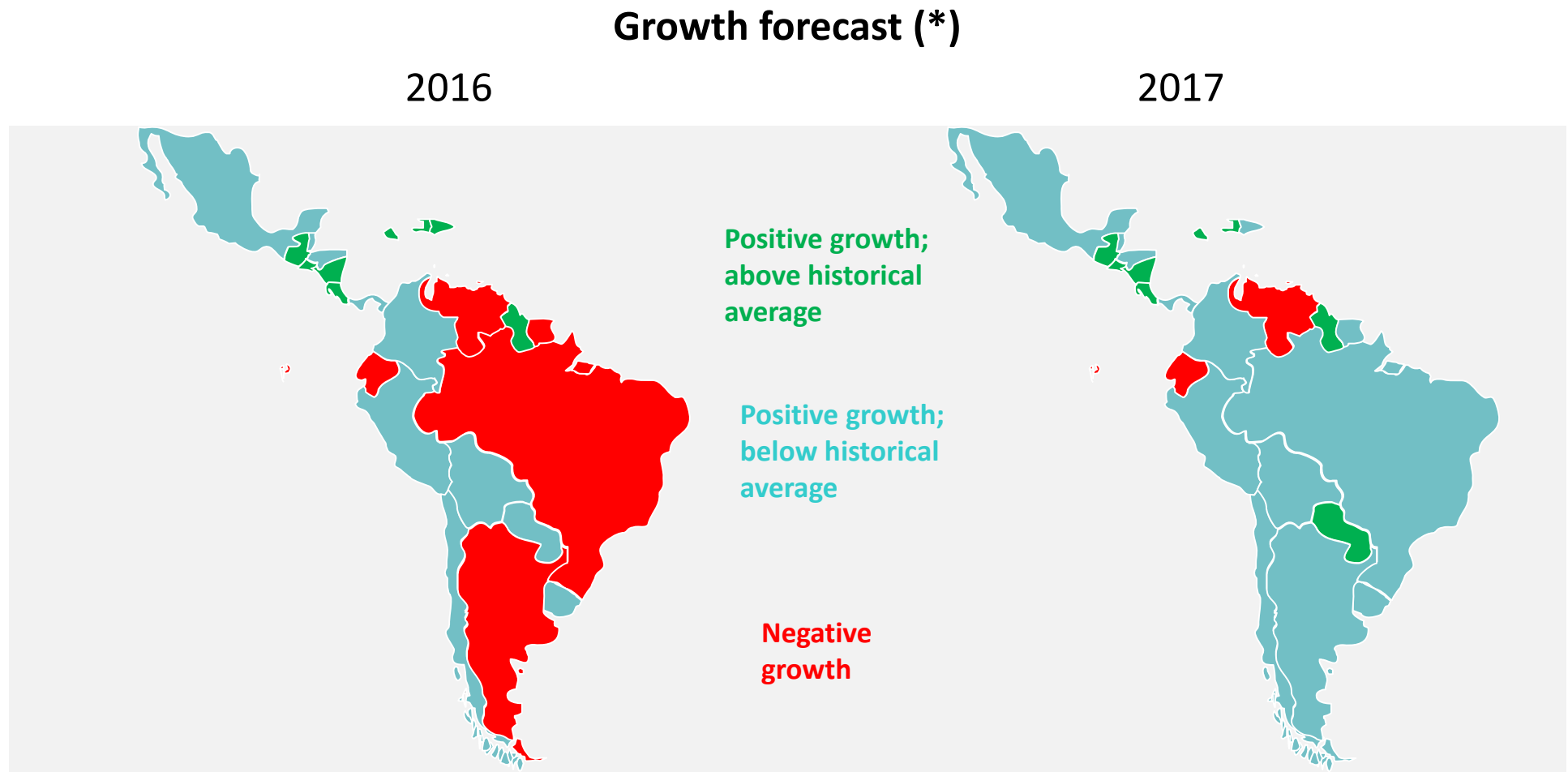
Growth in Latin America and the Caribbean, and evolution of projections (*)
(annual change, percent)



(*) Projections included in World Economic Outlook, IMF.
Source: World Economic Outlook, IMF.



However, after a poor year 2016, expectations for 2017 suggest that most of the countries in the region would see an increase in their GDPs.

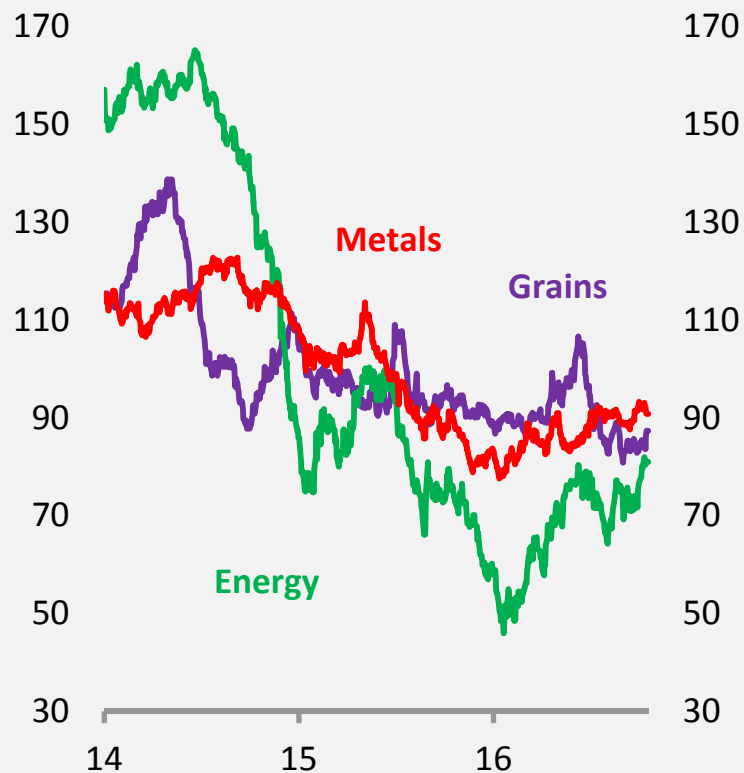


(*) Historical average is defined as 2000-2013 growth.
Source: Regional Economic Outlook, IMF.

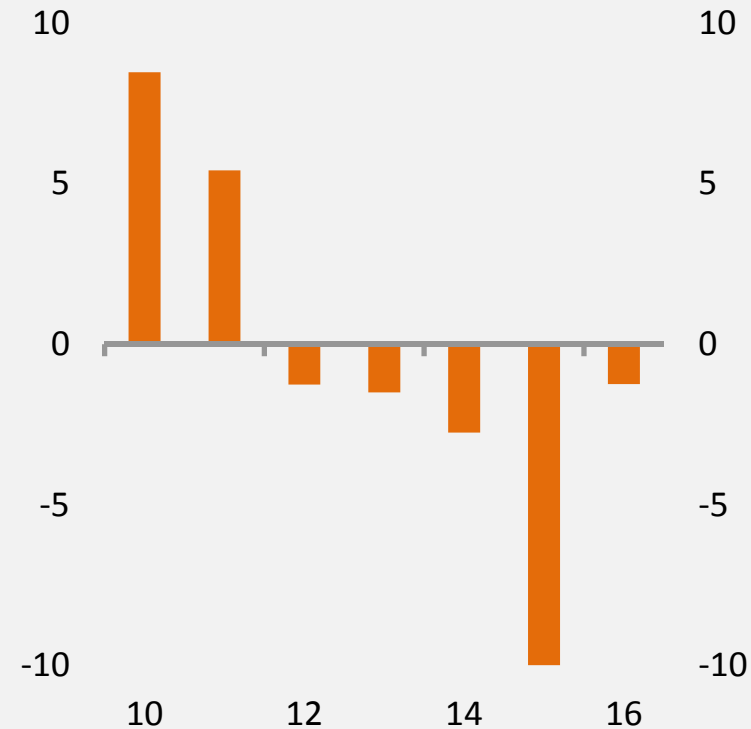


The economic slowdown of the past years is consistent with the fall in commodity prices and the resulting reduction in the region's terms of trade.

Commodity prices (*)
(index, 2014-2016=100)



Terms of trade in Latin America
(annual change, percent)



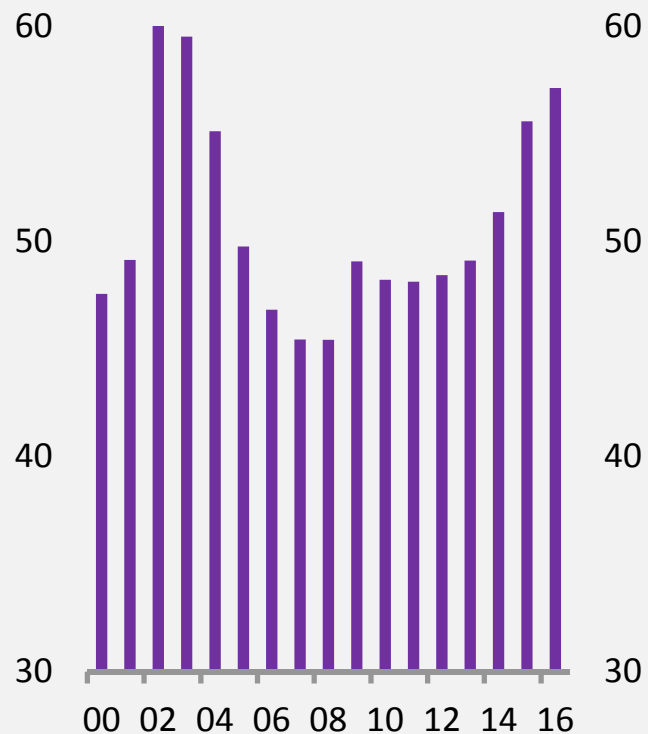
(*) Goldman Sachs aggregate index.

Sources: Bloomberg and World Economic Outlook, IMF.



Also, behind low growth of recent years underlie some issues that failed to be fully resolved during the boom, constraining room for stimulus policies.

Public debt (*)
(percent of GDP)



Fiscal balance
(percent of GDP)

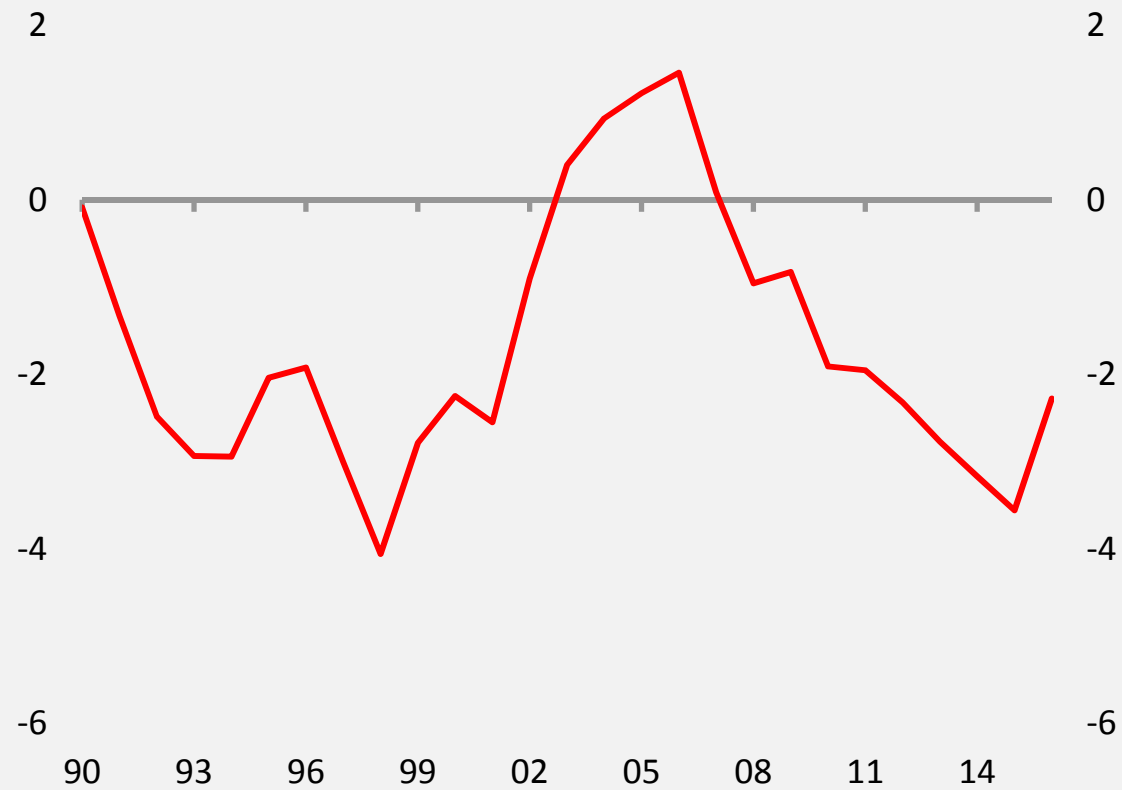


(*) General Government gross debt.
Source: World Economic Outlook, IMF.



External accounts were not fully cleared in some countries.

Regional current account
(percent of GDP)

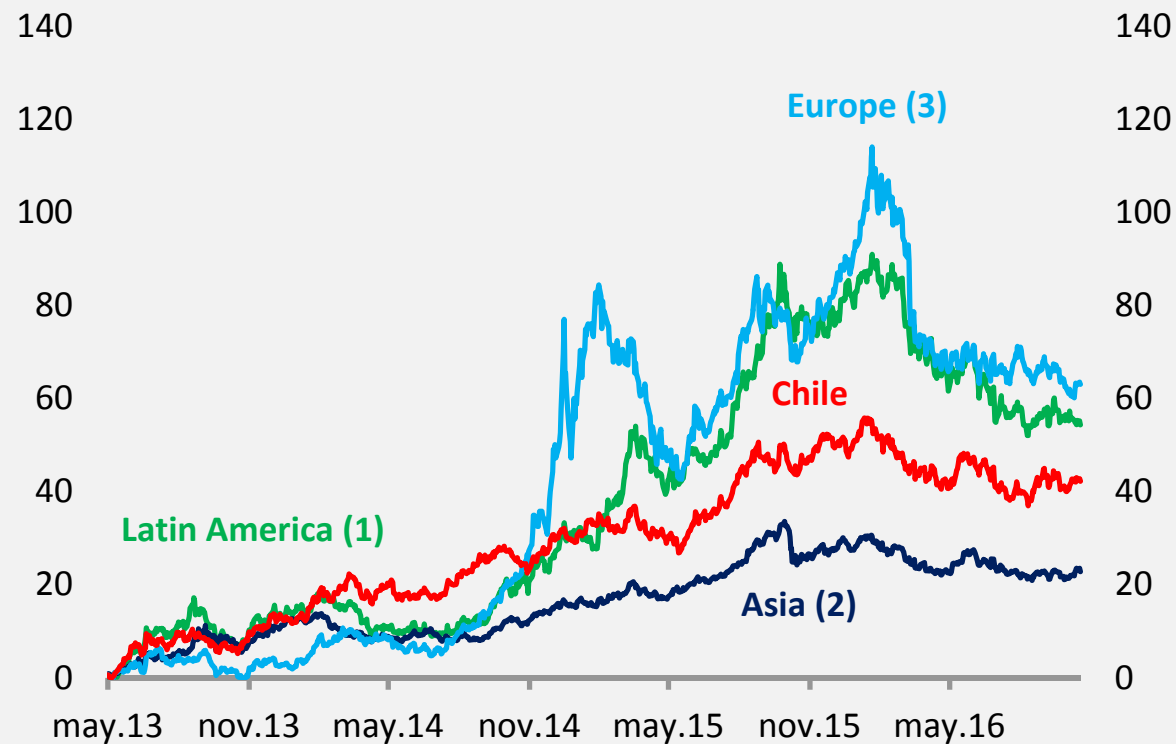


Source: World Economic Outlook, IMF.



This was compounded by a currency depreciation that affected the emerging world in general and Latin America in particular.

Nominal exchange rate
(accumulated change since trough of May 2013)

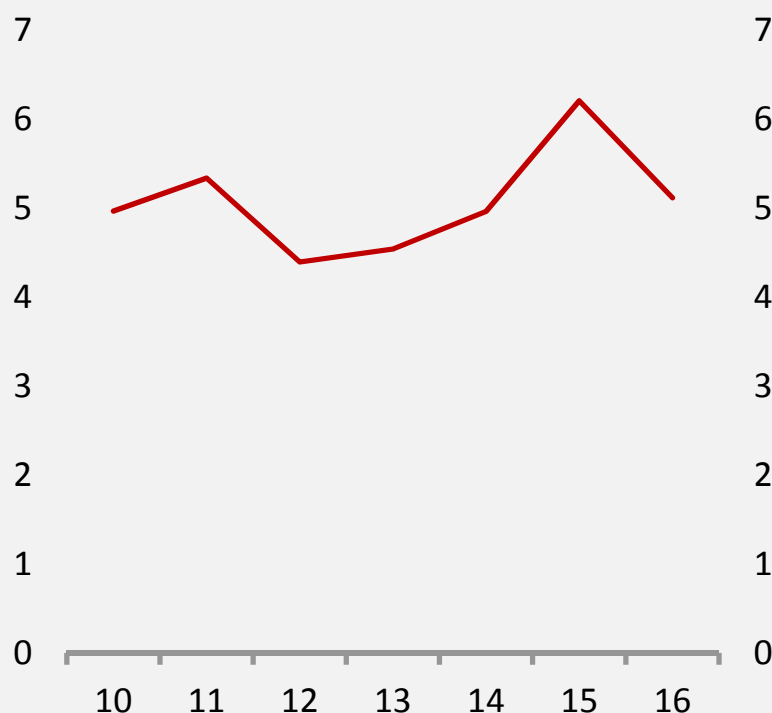


(1) Includes: Brazil, Chile, Colombia and Peru. (2) Indonesia, South Korea, Malaysia and Thailand. (3) Czech Rep., Hungary, Poland and Russia. Sources: Bloomberg and World Economic Outlook, IMF.

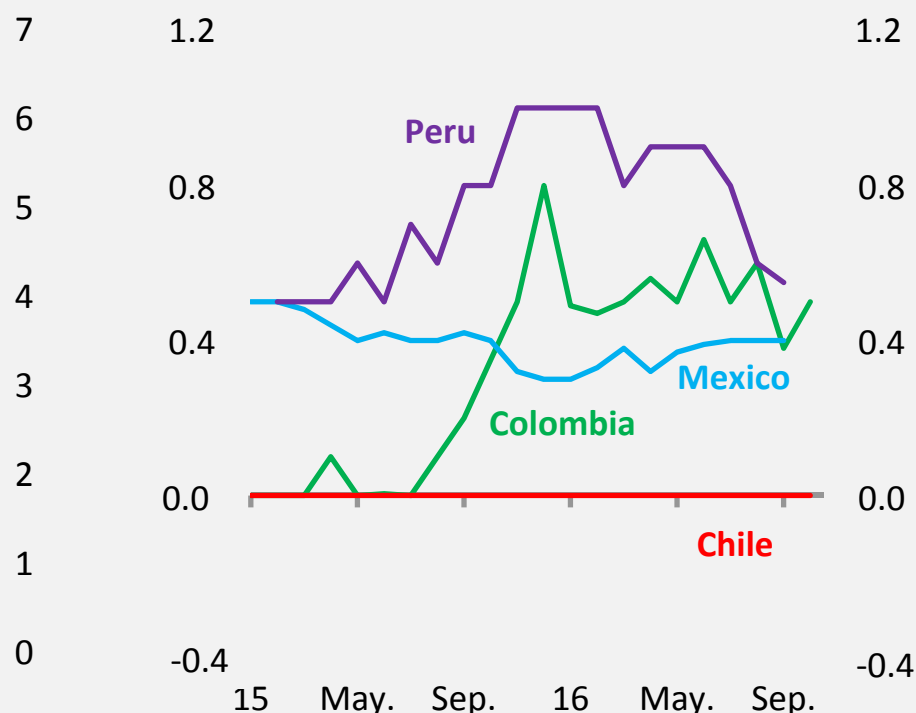


In the region as a whole, inflation has shown a mild increase. In some countries the currency depreciation has had important effects on headline and expected inflation, also limiting the space for looser monetary policies.

Inflation in Latin America
(annual change, percent)



Deviation of inflation expectations from the target (*)
(percentage points)



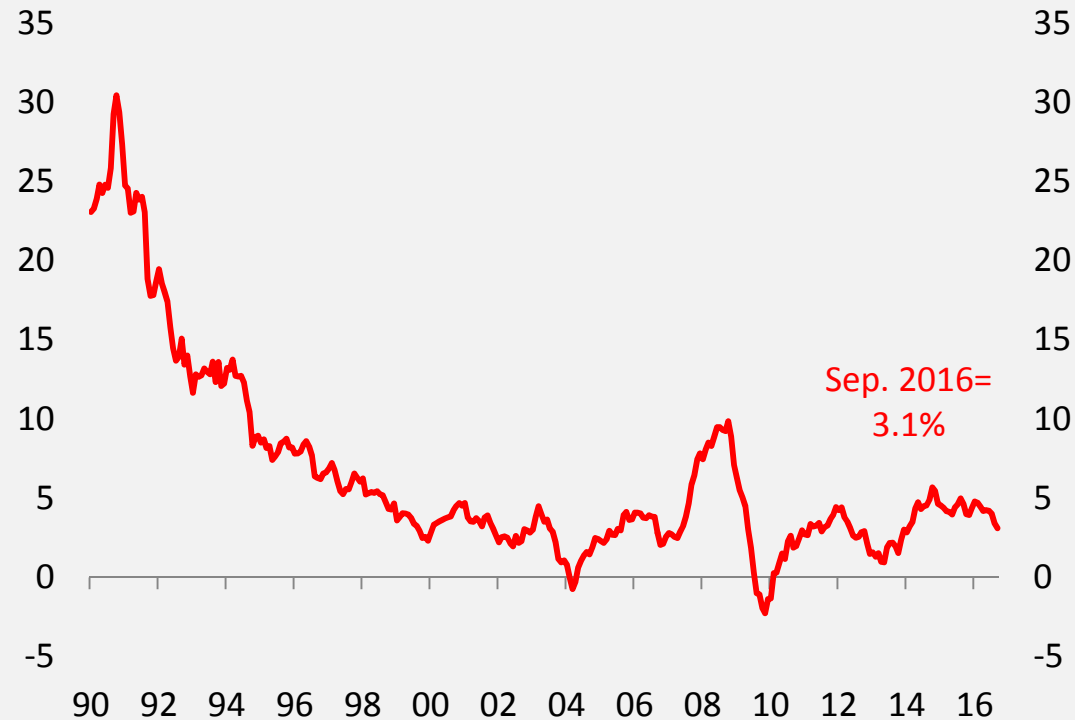
(*) Difference between target inflation and inflation expected for 2017 for Peru, December 2017 for Mexico, and two years out for Chile and Colombia.

Sources: World Economic Outlook (IMF), Central Bank of Chile and the central banks of the respective countries.



During the last decades, Chile managed to reduce inflation significantly, keeping it close to our 3% target in the 2000s.

Inflation in Chile
(annual change, percent)

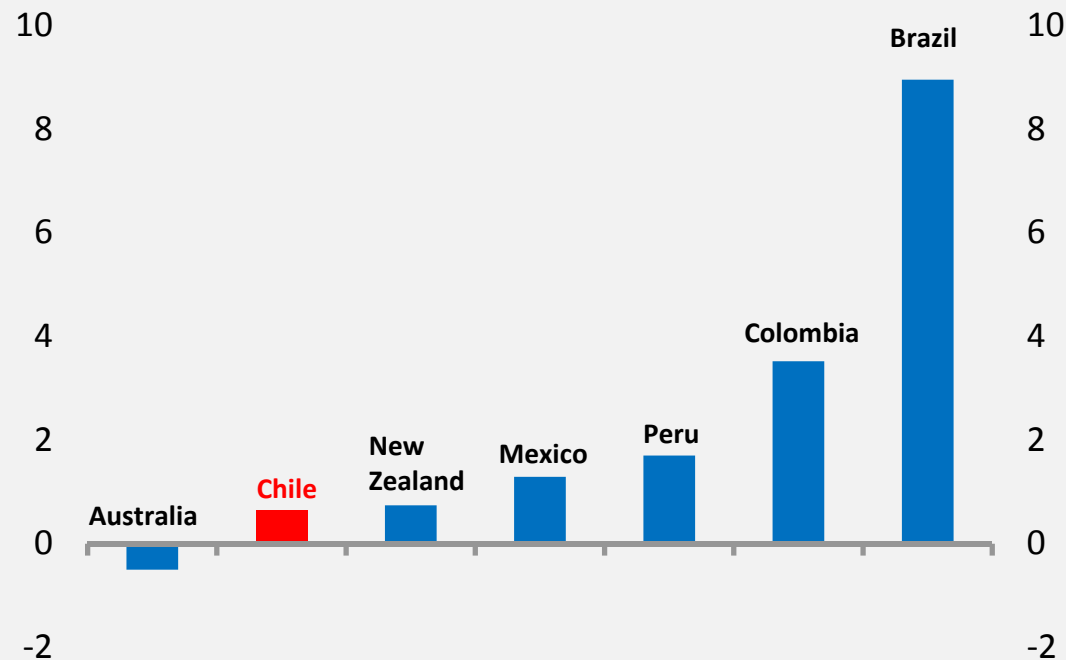


Source: National Statistics Bureau.



Overall, Chile has managed to keep the monetary policy rate at the most expansionary levels in the region.

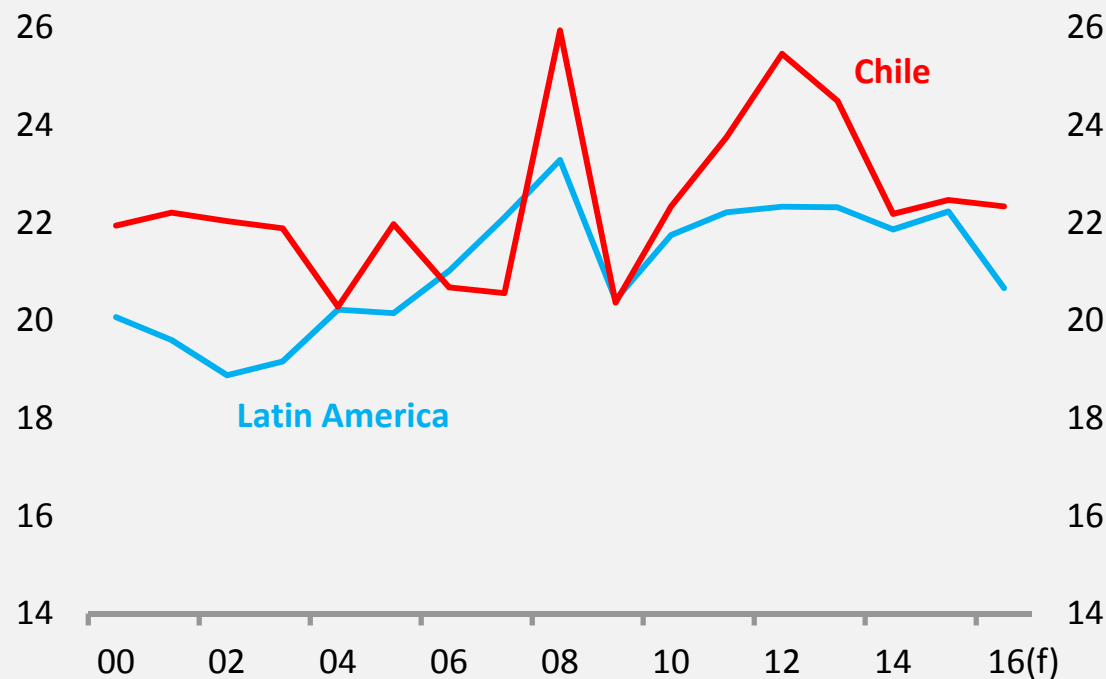
Real MPR (*)
(percent)



(*) Calculated as the current MPR minus expected inflation one year out.
Sources: Central Bank of Chile and the central banks of the respective countries.

The drop in commodity prices and the reduced external demand, combined with local factors, have driven down the region's investment rates. Chile has not been spared. The end of the mining investment cycle has had a major impact.

Investment in Latin America
(percent of GDP)



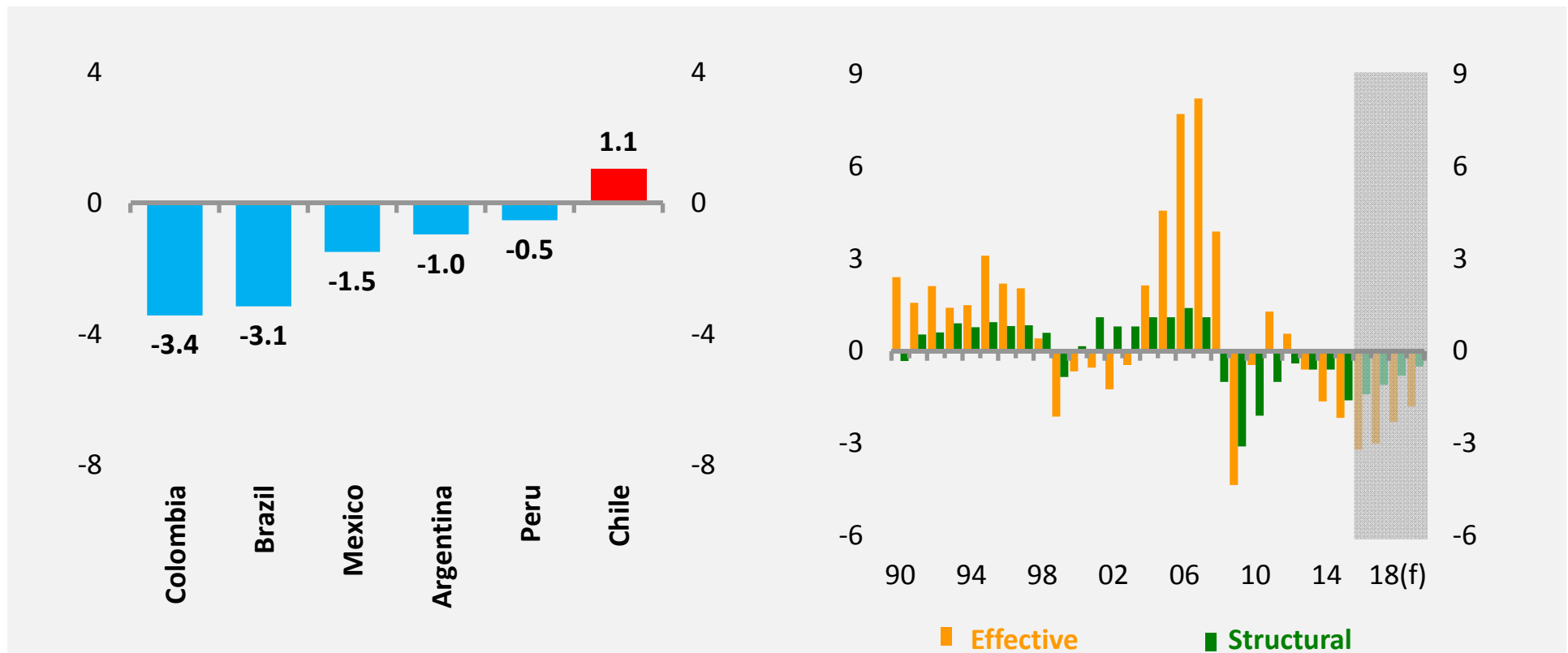
(f) Forecast.
Source: World Economic Outlook, IMF.



Chile has succeeded in keeping a rule-based fiscal policy.

Public sector balance: 1995-2015 average (*)
(percent of GDP)

Public sector balance: Chile
(percent of GDP)



(*) General Government Financial Balance.

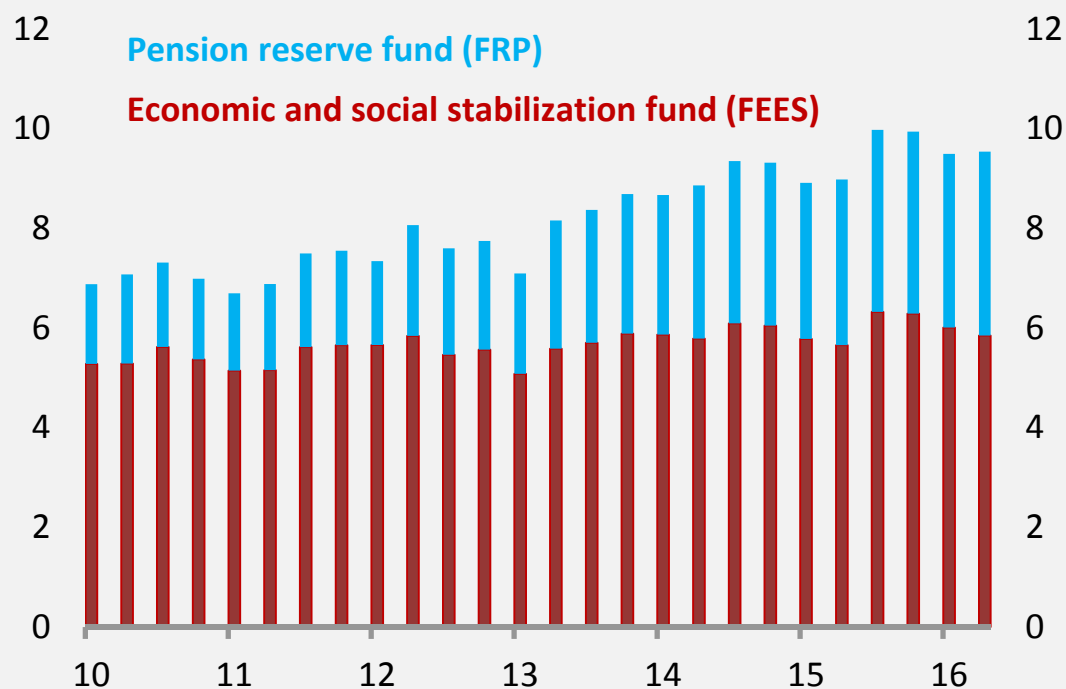
(f) For 2015 to 2018, forecasts obtained from the 2016 Public Finances Report.

Sources: Moody's and National Budget Department, Ministry of Finance of Chile.



Moreover, the fiscal sector has accumulated funds abroad, helping to reduce the net public debt. These funds are intended to be used in more adverse scenarios.

Sovereign wealth funds
(percent of GDP)

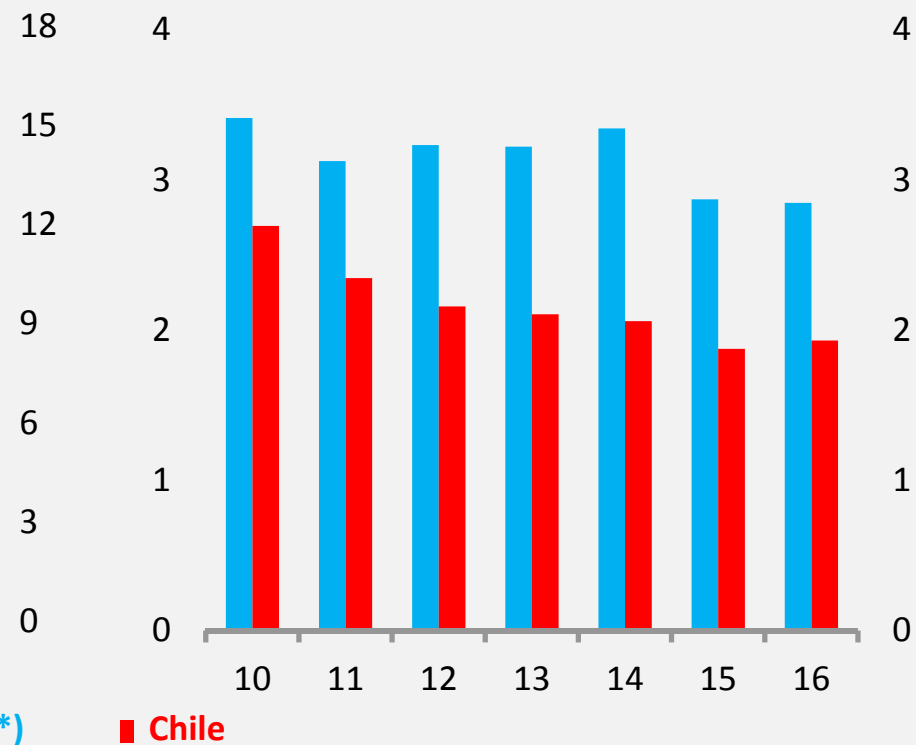
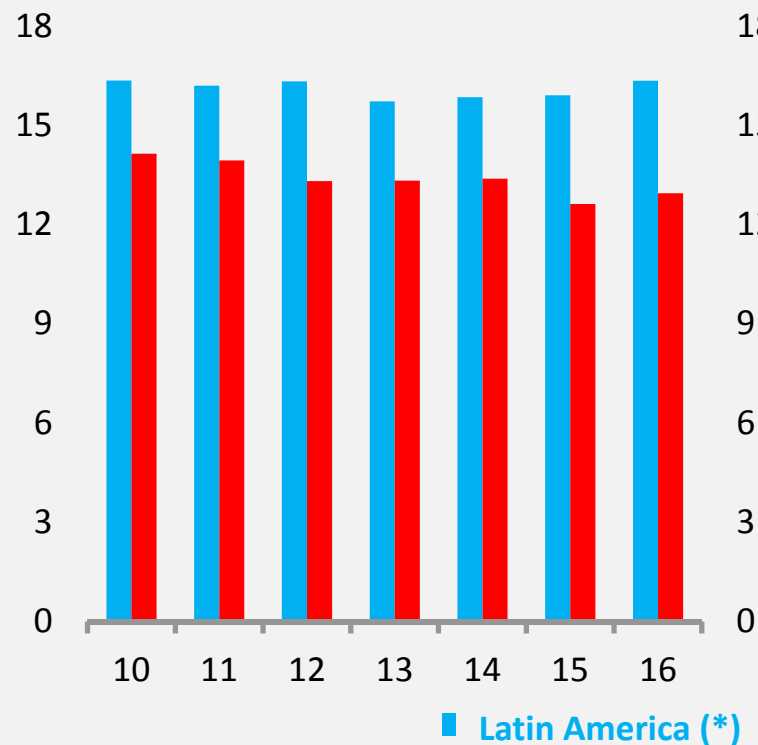


Sources: Ministry of Finance of Chile and Central Bank of Chile.

Regarding regional financial systems, capital adequacy ratios are good, while non-performing loans have diminished. Chile stands out.

Regulatory Capital
(percent of risk-weighted assets)

NPL
(percent of total loans)

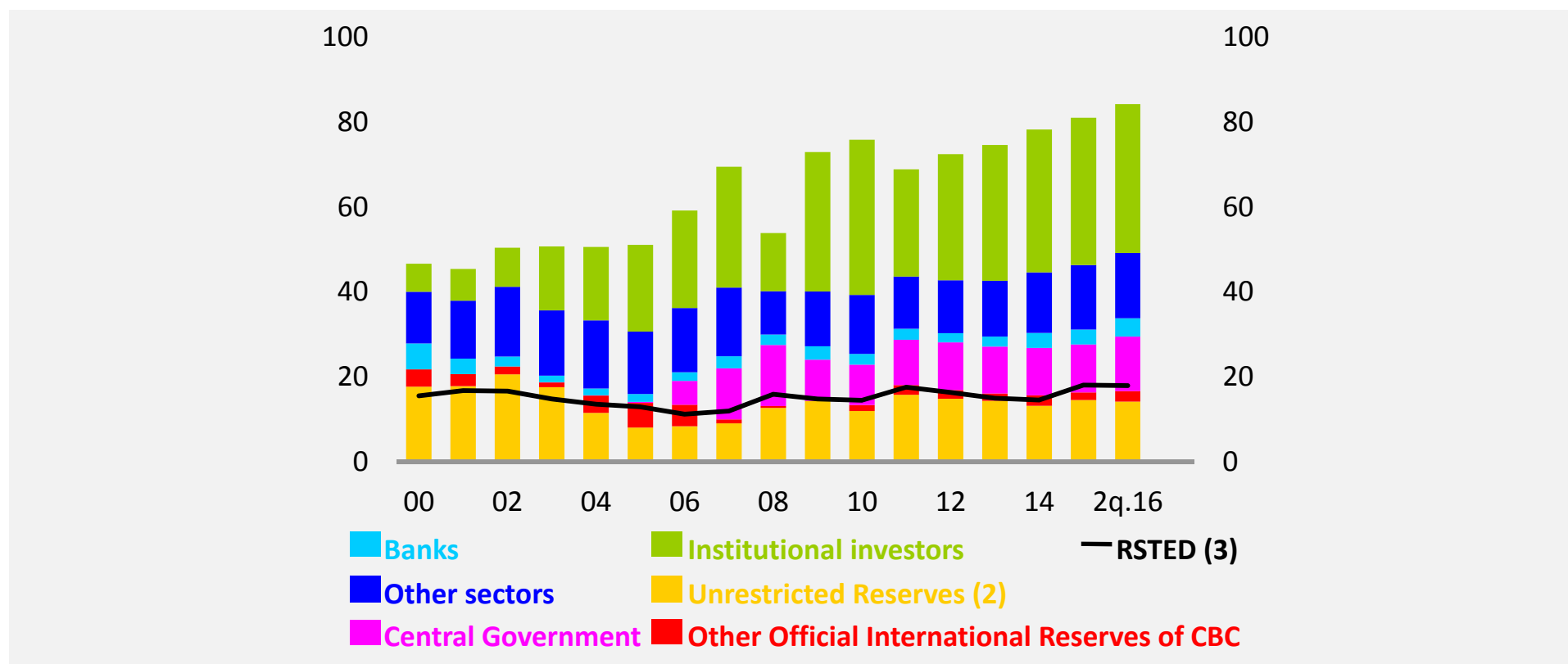


(*) Shows the region's simple average.
Source: Global Financial Stability Report, IMF.



In general, Chile has more liquid external funds available than it had in earlier low-growth periods.

Availability of net foreign financial liquidity (1) (percent of GDP)



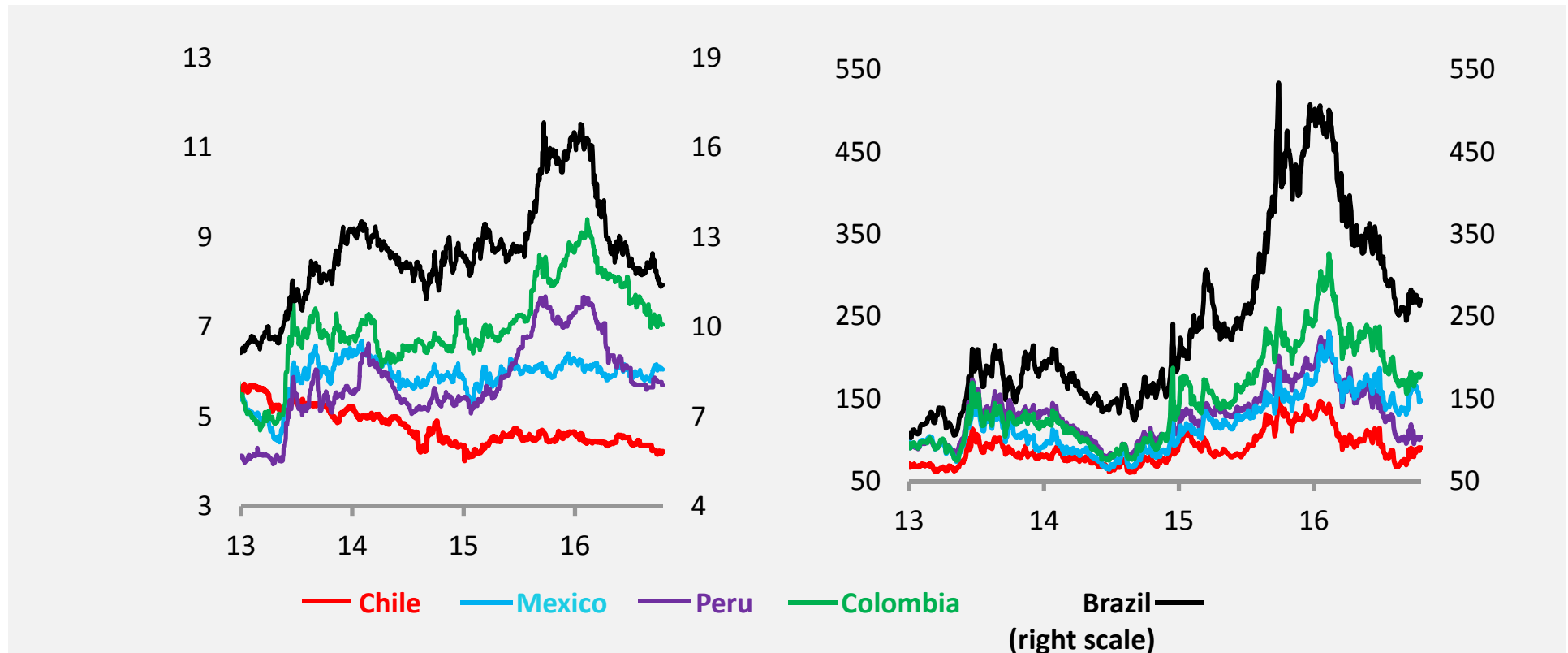
(1) GDP at constant real exchange rate (index June 2015 = 100). External liquidity includes short-term loans, currency and time deposits, and portfolio investment. Excludes derivative positions. (2) Official reserves minus short-term commitments in foreign currency (BCX maturities, BCD, swaps). (3) Residual short-term external debt.
Source: Central Bank of Chile.



Both domestic long rates and risk premiums have remained low, with few fluctuations.

Nominal 10-year government bond rates (1)
(percent)

Sovereign spreads (2)
(basis points)

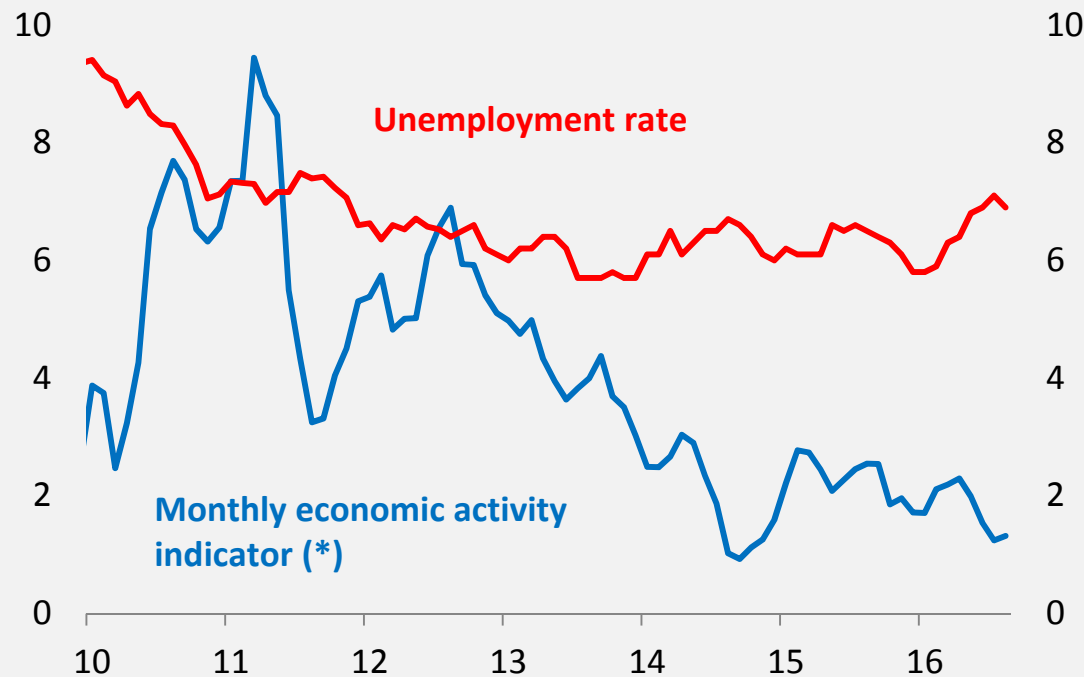


(1) Includes Central Bank and Treasury bonds. (2) Measured by five-year CDS spreads.
Sources: Central Bank of Chile and Bloomberg.



However, despite favorable conditions and the smooth adjustment of the Chilean economy, it has recovered slowly, with growth around 2% annually in the past three years. There are challenges ahead in terms of productivity, among others...

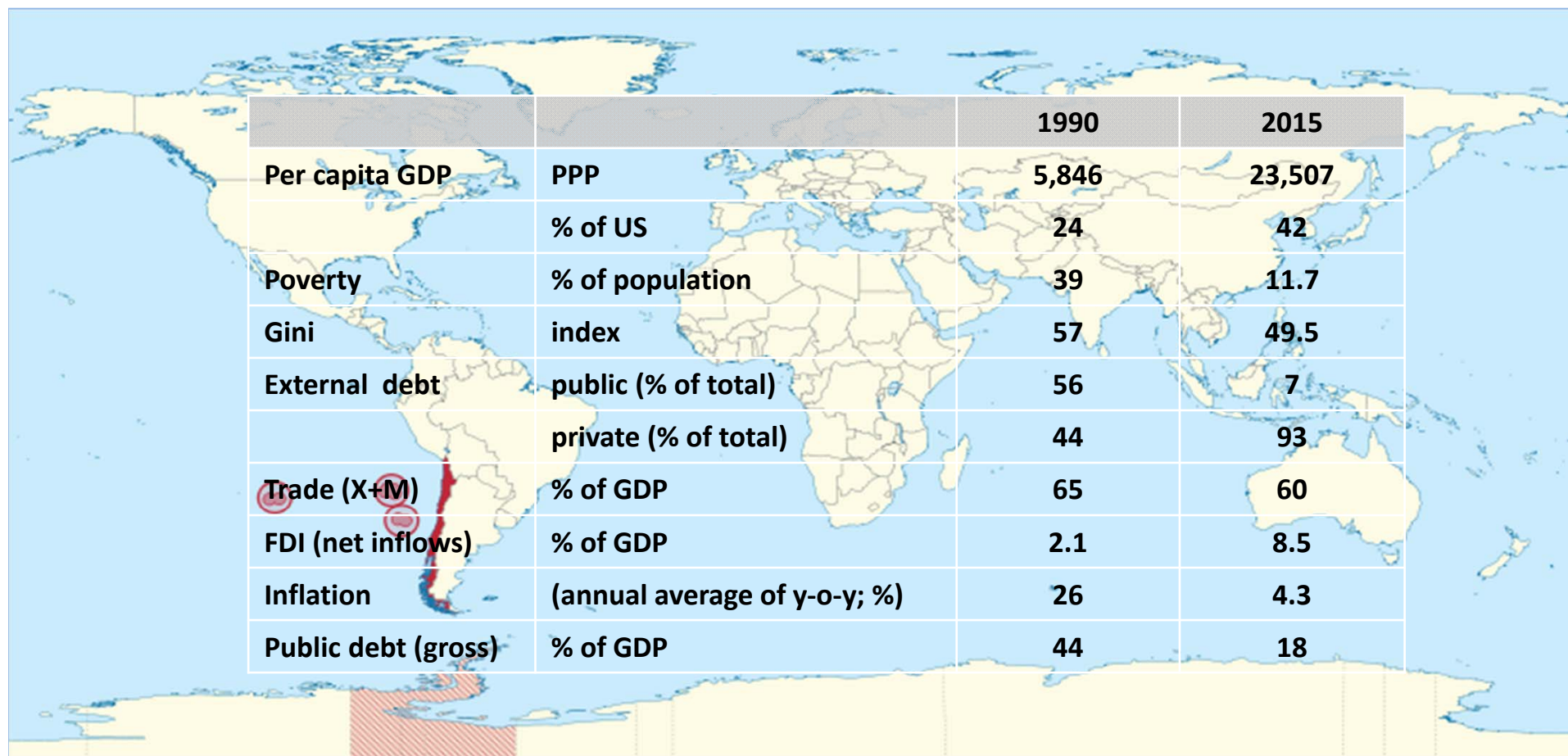
Activity and labor market (annual change, percent; percent)



(*) Considers 3-month moving average.

Sources: Central Bank of Chile and National Statistics Institute.

The Chilean economy: past and present



Sources: World Bank, Central Bank of Chile, IMF, Social Development Ministry of Chile.

Taking steps to strengthen institutions is essential

Financial openness has brought benefits to our region, but it also leaves us more exposed to the volatility of the international scenario. This requires making advances in strengthening the regulation and supervision of our financial systems.

Considering the importance of commodities for our economies, reducing the dependence of our fiscal revenues on them is key.

Safeguarding the credibility of our central banks has helped us ensure that, despite the sharp depreciation of our currencies, inflation is contained.

In recent years, we have made important advances in various fields, especially regarding macroeconomic and financial stability. The current scenario stresses the importance of making further advances in strengthening our economic policies.

Increasing productivity is a key challenge.





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