BBVA | RESEARCH

Economic Outlook

Chile

Fourth Quarter 2013
Economic Analysis

- **A slow global recovery with downward risks.** The economic cycle is improving in advanced economies, although it is still far from being a strong recovery.
- **In Chile growth has shown clear signs of slowdown.** We estimate GDP growth at 4.2% for 2013 and 4.0% for 2014.
- **Inflation has been affected by the sudden drop in oil prices.** We correct downwards our inflation forecast for 2013 to 2.2%. In 2014 inflation will end below 3%.
- **The Central Bank will gradually cut** the reference rate to 4.0% by the second half of 2014.
- **Government expenditure will not rise more than 3.2% in real terms in 2014** in a scenario of a structural deficit of 1% of GDP and compliance with the official forecasts in 2013.
- **The main risk is associated with a slowdown of the Chinese economy,** with the resulting impact over copper prices.

Index

Closing date: October 30, 2013

1. Summary

We have revised down our growth forecast for the global economy to 2.9% in 2013 and 3.6% in 2014. The higher rate of global growth in 2014 compared with 2013 is supported by an acceleration of the economy in all geographical areas, with the exception of Asia where growth is expected to remain at similar levels.

The risks to the moderate recovery scenario, with a growing contribution from advanced economies and a sustained contribution from emerging markets, have been reduced. Nevertheless, the balance of risks is still downward biased.

Growth in Chile has shown clear signs of slowing, with GDP rising at 4.2% y/y in 2013. In 2014, we estimate an expansion of 4.0% y/y.

In general terms, the local financial markets have internalized the Fed's tapering. Risk premiums have increased, the stock markets fallen and the peso depreciated. However, unlike other countries in the region, the effect of more expansive monetary policy expectations than forecast at the start of the year has dominated long-term interest rates and contained the prospects for lower external liquidity. In this context, our estimates suggest a continued depreciation of the exchange rate in 2014, though it will be contained at values of around CLP 530 per USD.

In this scenario, the risk of a higher current-account deficit has eased, given the expected slowdown in domestic demand and the real depreciation expected for the CLP currency. Overall, we estimate a current-account deficit of 4.6% of GDP in 2013, and 4.9% at the end of 2014.

Inflation has been affected by the drop in international gasoline prices. This effect has been partially offset by the impact of the freezing weather on agriculture, which has led us to correct our inflation forecast for 2013 marginally down from 2.5% to 2.2%. In 2014 inflation will close below 3%.

In this context, after starting the process of monetary easing in October, the Central Bank will probably cut the reference rate to 4.0% toward the second half of 2014. Considerations of financial stability and the high indebtness in some segments of the population will mean that cuts in the monetary policy rate (MPR) will be gradual.

On the fiscal front, in a scenario of compliance with the structural deficit of 1% of GDP, the expansion of public expenditure will not be more than 3.2% in 2014, so the government effective deficit will be 1.4% of GDP. This scenario is in line with the monetary stimulus expected for the coming quarters. Nonetheless, if the next government gives itself greater fiscal slack, setting a less demanding structural deficit for the coming year, the increase in public spending will be greater than that forecasted here. There will also be a greater fiscal boost in 2014 if public spending is less than that currently projected by the government at the end of this year.

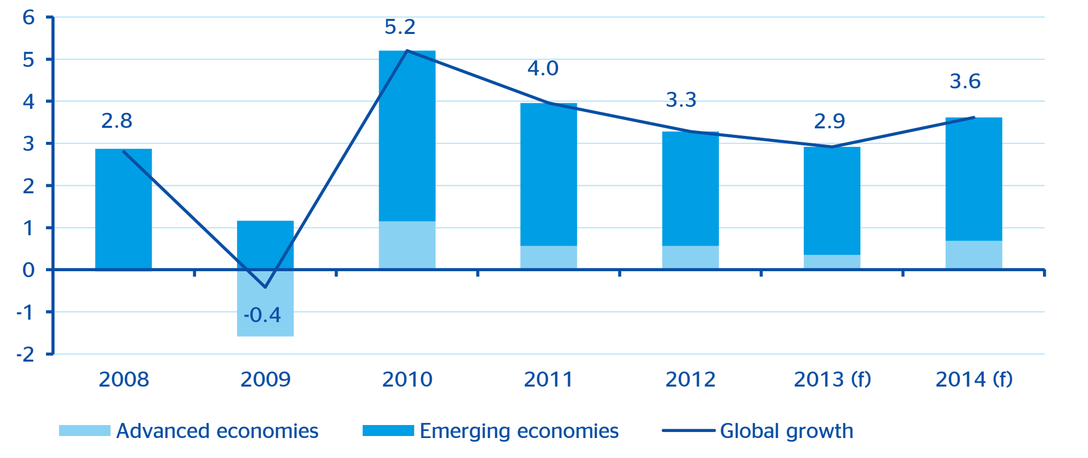
Finally, we continue to consider that the main risk is associated with a slowdown of the Chinese economy, with the resulting impact over copper prices. Its effect on the external and fiscal balances would be significant, particularly if the price of the metal converges abruptly at lower levels.

2. International scenario: recovery with downside risks if there is no support from economic policies

Two general features have characterized the last quarter from the macroeconomic standpoint. First, the confidence indicators of economic agents and the volatility of the financial markets have continued to reflect a lower probability of tail risk events that could be disruptive for the global economy. However, there have also been events over the quarter that have contributed to a scenario of weak global recovery limited within a one or two-year horizon. They are events with a current impact (the partial closure of the U.S. government) but also a future one (the more or less early exit from the exceptional liquidity support measures).

Overall, we have revised down by 0.2 pp the expected growth for the global economy in 2013 to 2.9% and in 2014 to 3.6%. The revision of 2013 growth is due to the worse figures in the U.S., as well as the slowdown in some of the countries in developing Asia, which are also affected by financial turbulence in the wake of the Fed's announcement of an imminent cut in the rate of asset purchases in its quantitative easing program (the "tapering" of QE). Growth in 2014 has also been revised down to 3.6%. The emerging markets are behind this downward revision, (except for China, where we stick to our forecasts), although they will continue to be the main contributors to global growth (Chart 1). The higher rate of global growth in 2014 is backed by an acceleration of the economy in all geographical areas, except for Asia, where growth is expected to remain at the same levels.

Chart 1
Global growth (y/y % change)



Source: BBVA Research and IMF

With the delay in the withdrawal of the unconventional monetary stimulus, the Fed has strengthened the "data dependent" nature of the program. The data have not been as expected since in May 2013 the Fed began to outline its exit plans. In addition, there is inherent uncertainty with respect to the prolonged negotiations on the budget and the public debt ceiling, which have to be repeated within a few weeks. The lack of long-term solutions and the repetition of the debilitating process of negotiation increase the probability of a slowdown in decisions on expenditure and investment, as well as the direct impact of the partial closure of government activity.

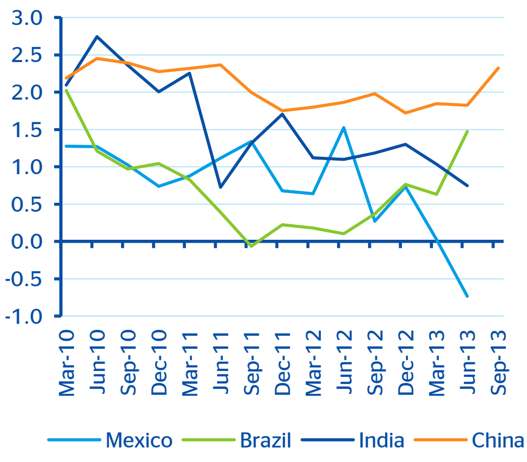
The clarifications on the tapering process, which the Fed's members are preparing in the light of the unexpected reaction of the market to their first announcement and its delay until (possibly) the start of 2014, have reduced the risks of a derailment in the recovery. This is because a significant proportion of the rise in interest rates recorded since May has been reversed (Chart 2), and markets now do not anticipate interest rate hikes until 2015. In addition, volatility and financial tensions have eased at global level, especially with regard to the emerging regions of Asia and Latin America, which have also been affected by major capital outflows.

The severity of capital flight and depreciation of currencies immediately following the announcement of tapering raised fears of a "sudden stop" in emerging markets. However, the process has gradually been losing intensity and we are far from the level of severe capital outflows observed after the collapse of Lehman Brothers. At the same time, emerging markets are showing some indications of a recovery in confidence, after the check in the middle of the year. The impact of tapering, once it is effectively underway, will probably be a greater discrimination in flows toward emerging markets according to the fundamentals of each of them.

In China, the doubts at the start of the year on the possibility of a sharp adjustment in its economy have also dissipated, at least in the short term. Over the year, the economy has maintained a high rate of growth, and the most recent data suggest that the GDP is picking up (Charts 2 and 3). The better than expected figures in 2013 mean that the annual growth outlook has been revised upward slightly from 7.6% to 7.7%.

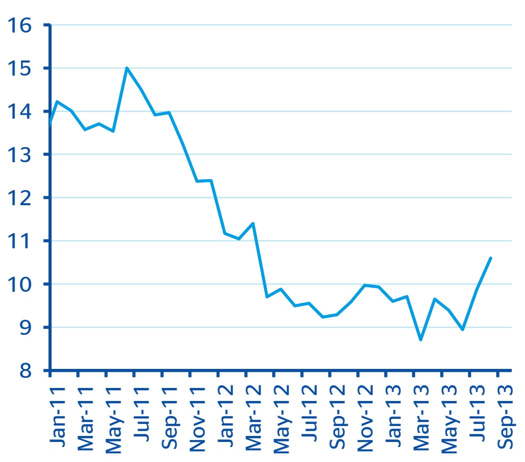
Even so, doubts remain on the sustainability of growth in the medium and long term, as the recent upturn has been the result of improved foreign demand, but also one-off tax policy and public spending measures with a renewed use of finance. This means that some vulnerabilities are still not being addressed. Among them are: the vulnerability of some sectors of activity that make intensive use of credit; the liberalization of the banking sector, regional finance and the opening up of the services sector. The appropriate management of these aspects should ensure a steady transition and re-balancing of growth toward domestic demand and household consumption.

Chart 2
GDP growth in emerging markets (q/q % change, seasonally adjusted)



Source: BBVA Research and Haver

Chart 3
China: index of industrial output (y/y % change)

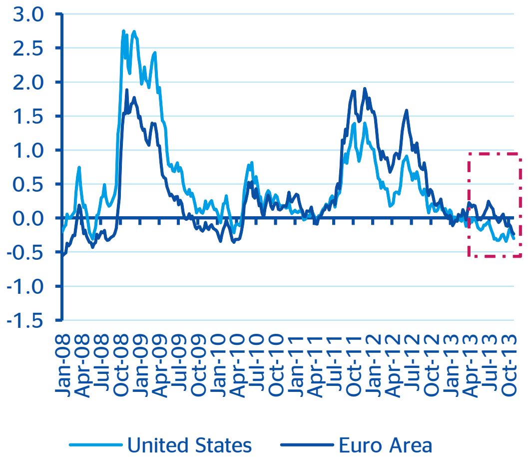


Source: BBVA Research and Haver

In Europe the forecasts have been confirmed and the economic situation has continued to improve, to the point that the Eurozone emerged from the recession with growth of 0.3% in the second quarter of 2013, after 6 quarters of recession. The most recent economic data suggest that the trend was maintained in the third quarter. The recovery in activity has been assisted by a reduction in financial tensions in the area and by a de facto easing of the more short-term fiscal consolidation targets, which has been implicitly tolerated by the European authorities (Charts 4 and 5).

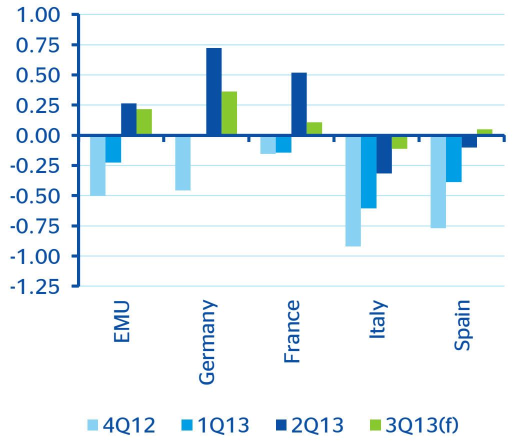
In 2013 Europe's GDP will fall by 0.4% and grow by 1.1% in 2014. The weak recovery is consistent with the deleveraging process underway in the private sector in some economies in the area and the financial fragmentation that is still in place, which affects the capacity of bank credit supply. Monetary policy will continue to be lax, offsetting in part the continued negative effect on growth of fiscal policy. At the same time, the next few months will be decisive in progress toward banking union, with the entry into operation of the European Central Bank (ECB) as a single supervisor and the definition of the mechanisms for bank resolution. The model for implementing these is still under discussion.

Chart 4
Financial tensions (Index)



Source: BBVA Research

Chart 5
Europe: GDP growth (q/q %)



Source: BBVA Research and Haver

Risks to the moderate recovery scenario, with a growing contribution from advanced economies and a sustained contribution from emerging markets, have been reduced. Nevertheless, the balance of risks continues to be to the downside, given that a variety of factors are still in place that could move them in this direction. First, due to its nature it is worth pointing to the possibility of a "disorderly exist" from the Fed's QE, which could generate an excessive increase in interest rates (in the U.S. and in other countries), not as a result of improved growth prospects or higher inflation, but due to uncertainty regarding the pace of the exit planned by the Fed. It is also important to note the risk of a resolution of fiscal questions with respect to the budget and debt ceiling in the U.S., now postponed until the first quarter of 2014.

A second risk factor is the possible adjustment in growth in China and in other emerging markets. In this case, as has been seen recently, there is a significant difference between economies, and an interruption in the recovery underway is not to be expected unless there are financial scenarios that are as adverse as those registered between the end of 2008 and 2009.

Lastly, the resurgence of the euro crisis remains a globally relevant risk. The authorities have to support the positive perception of the markets with decisive progress to strengthen monetary union, in particular banking union. In all, there are a number of elements that could lead to a change in the improved perception.

3. Chile: the slowdown will lower GDP growth in 2014, which we correct from 4.4% to 4.0%

We kept our GDP growth forecast at 4.2% for 2013. For 2014, we expect a slowdown in domestic demand, in particular private consumption, combined with a weaker expansion of public consumption. Overall, the GDP growth has been corrected from 4.4% to 4.0%

In recent months economic activity has continued to slow after growing only 4.1% y/y in the second quarter of 2013. Given the upward correction of economic growth in 1Q13 to 4.5% y/y, we maintain our growth forecast at around 4.2% for 2013.

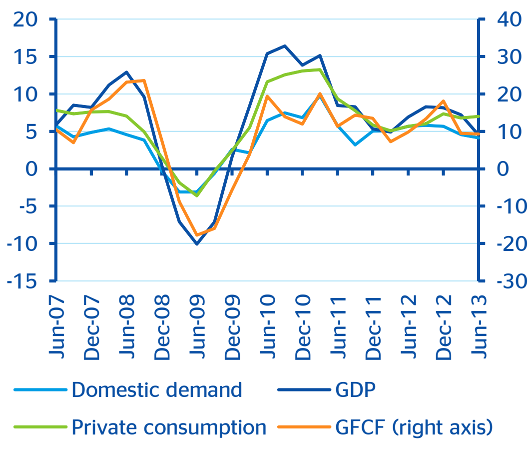
Broken down by sector, retail sales and supermarkets continue strong, but the more demanding comparison bases for the rest of 2013 and a slacker labor market could mark a turning point in the surprising growth of this sector over recent years. Manufacturing industry still shows weakness in a context of depressed foreign demand, while mining production has grown more than aggregate output thanks to the maturity of investments made in previous years. Despite the fact that by sector the slowdown appears benign, other sectors have reduced their contribution to GDP and show clear signs of exhaustion in growth.

In terms of expenditure, domestic demand showed a significant slowdown in 2Q13 after rising only 4.5% y/y. This moderation is mainly due to a fall in inventories. Although it is not possible to determine precisely the elements that lie behind this fall in inventories, our interpretation is that it is due partly to business expectations anticipating a lower future demand, and partly to private consumption remaining strong.

Private consumption and gross fixed capital formation have slowed, but they remain strong, with increases of 7.0% y/y and 9.3% y/y respectively in 2Q13 (Chart 6). Fixed capital formation is also supported by the figures for imports, which are still growing at a more moderate pace, both in consumer durables and capital goods (Chart 7).

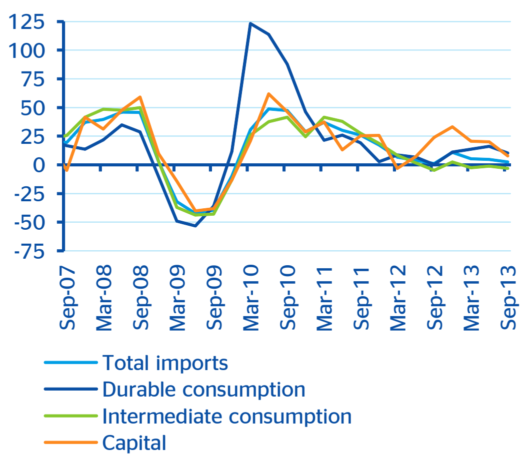
With respect to the foreign sector, we maintain our view of an increase of 2.7% y/y in exports and 5.7% y/y for imports in 2013. This composition will continue to contribute negatively to GDP and will put moderate pressure on the current-account balance.

Chart 6
Domestic demand, consumption, investment and GDP (y/y % change)



Source: BCCh and BBVA Research

Chart 7
Goods imports (y/y % change)

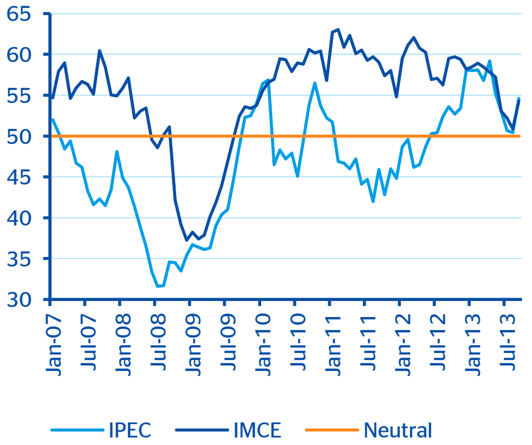


Source: BCCh and BBVA Research

The correction to the levels of confidence in the initial months of the year appears to have stabilized around neutral values (Chart 8). Nevertheless, we consider that this stabilization could be short-lasting, as inflation will continue to increase until 2014, even if slowly, and the labor market will show signs of more slack, with rises in the rate of unemployment (Chart 9).

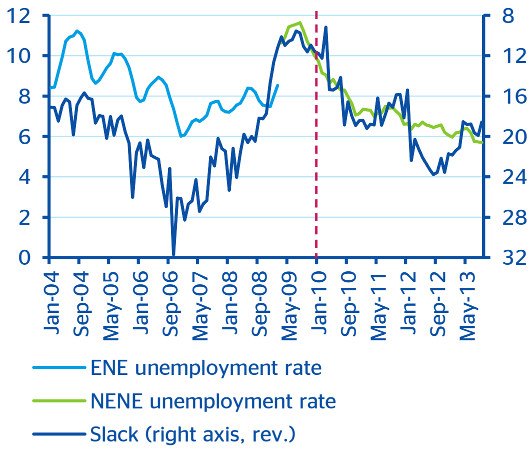
It is worth noting in this respect that although the unemployment rate has remained at historically low levels, the tightness of the labor market has been reduced over the year. Job creation has slowed and is already showing changes in its composition, with larger proportion of self-employed.

Chart 8
Consumer and business confidence (Index)



Source: BCCh y BBVA Research

Chart 9
Unemployment rate and measurement of labor market tightness (%, index) * †



*: The dotted line indicates the starting date for application of the New National Employment Survey (NENE).
†: Measure of tightness constructed on the index of vacancies and the unemployed, both seasonally adjusted. Falls indicate greater slack or less tightness.
Source: Chilean National Institute of Statistics (INE) and BBVA Research

For 2014 we have corrected down the GDP growth from 4.4% to 4.0%. This is explained by somewhat tighter global financial conditions and a greater expectation of a slowdown in domestic demand; in particular, due to weaker fundamentals for private consumption, which will grow at around 4.5%, while investment will increase by 4.6% (previously 5.0% and 4.8%, respectively). In addition to the above there is less contribution from public consumption, which will not raise much above 3.0% y/y next year. This figure will be consistent with the parameters for the 2014 budget, in particular compliance with the structural deficit target of 1% of GDP, adjusted for the macroeconomic scenario presented in this report (see Box 3). The stronger growth in total consumption will be key for imports to grow at around 4.0% in 2014, compared with the previously forecast figure of 4.4%. However, we maintain our expectation for exports recovering to growth of 4.5% y/y, benefited by a real exchange rate that has depreciated more and global growth picking up with respect to 2013. Finally, the lower than expected growth for next year reflects the negative effects of climate phenomena (freezing temperatures) which will reduce agricultural activity, particularly during the first half of 2014.

4. Local financial markets: a less favorable external scenario and a more expansive monetary policy

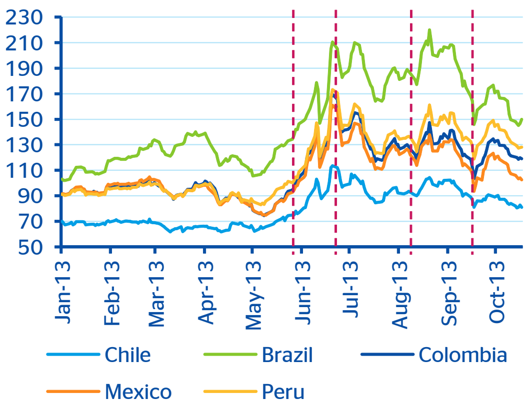
In general terms, the local financial markets have internalized the Fed's tapering, with increases in risk premiums, drops in equity markets and a depreciation of the CLP. However, unlike other countries in the region, the effect of a more expansive monetary policy stance than forecasted at the start of the year and adjustments in the kick-off of tapering have dominated movements in long-term interest rates

The news with respect to the withdrawal of unconventional monetary stimulus in the U.S. has had a significant impact on the international financial markets and Chile has not been immune to these trends. However, this has not been the only factor that has had an effect on the financial markets. There has also been the recent perception that emerging markets are in a weaker cyclical position.

The impact of this news can be resumed in higher external borrowing costs and lower equity values. However, the contractive effects of these shocks are being partially offset by the depreciation of the CLP, which acts as an automatic stabilizer, and by a monetary policy that is beginning to inject stimuli.

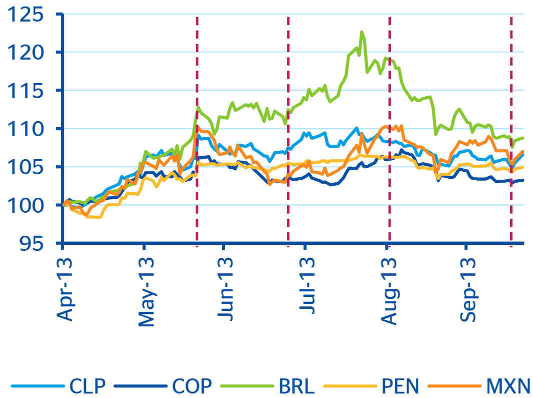
In fact, between the end of April and the third week of June, the country risk premiums measured by 5-year credit default swaps (CDS) rose from 65 basis points to 114, which amount to an increase of 75%. However, this rise is proportionally lower than that of other countries in the region, where the sovereign risk premiums practically doubled in the same period (Chart 10).

Chart 10
C5-year credit default swaps (basis points)*



*: The dotted line marks the verbal statement by Ben Bernanke on tapering.
Source: Bloomberg and BBVA Research

Chart 11
Parity against the dollar (April 30 2013=100)*

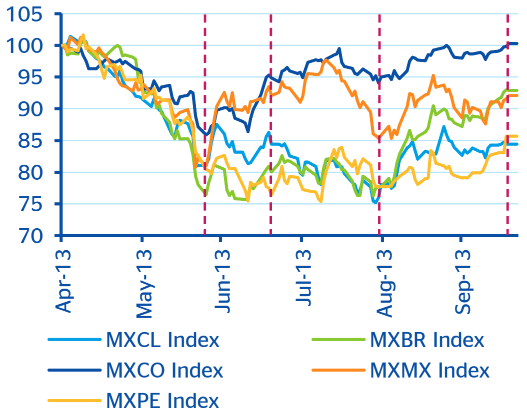


*: The dotted line marks the verbal statement by Ben Bernanke on tapering
Source: BCCh and BBVA Research

Between July and October, the sovereign risk premiums fell back, given the expectations of a delay in the withdrawal of monetary stimulus in the U.S. However, they did not recover the levels prior to the announcement of tapering. In the case of Chile, at the closing date of this report, 5-year CDS were at 81 bp, 25% above the value at the end of April. This difference amounts to 50% in the case of other countries in the region.

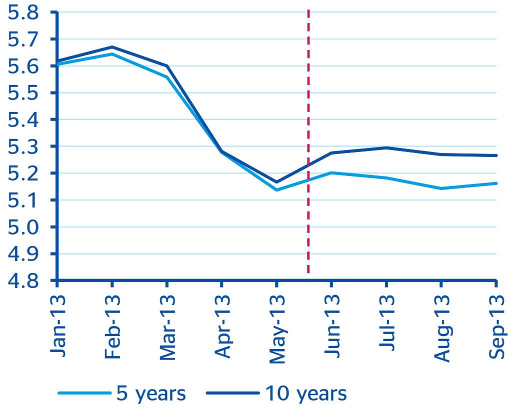
In terms of exchange-rate parity, the CLP lost 9% between the end of April and the third week of June, reaching a figure of CLP 514 per USD on June 20th. This depreciation was within the 6% to 12% range of weakening of other currencies in the region against the dollar (Chart 11). Subsequently, the currencies in the region have appreciated again, but with some volatility. At the closing date of this report they are 3% to 9% above the values of the end of April. The CLP/USD exchange is 7% above the April figure.

Chart 12
Stock markets
(MSCI indices in dollars, April 30 2013=100)*



*: The dotted line marks the verbal statement by Ben Bernanke on tapering.
Source: Bloomberg and BBVA Research

Chart 13
5-year and 10-year BCP-BTP interest rates (%)



*: The dotted line marks the verbal statement by Ben Bernanke on tapering.
Source: ABIF, Bloomberg and BBVA Research

In addition, between May and June this year, the stock markets in the region measured by the MSCI index in dollars fell back between 15% and 25% (Chart 12), with a drop of 19% in the case of the local stock market. Of the countries considered, only the Colombian stock market has recovered its level of the end of April, while the Chilean stock market is still 16% below the level at this date. It is the most affected market of those in the sample of countries, which as well as Chile includes Colombia, Peru, Mexico and Brazil.

Despite the above, the local long-term interest rates were corrected down contrary to the upward trend in rates in most of the countries in the region. This is a result of the expectations of a more expansive monetary policy than foreseen at the start of the year and also because of corrections in the starting date for the withdrawal of unconventional measures in the U.S. (Chart 13).

In this context, our estimates point to a continued depreciation in the exchange rate during 2014. However, this expected depreciation will move gradually to values of around CLP 530 per USD.

5. Moderation in risks of a rising current-account deficit

We continue to expect a current-account deficit of around 4.6% of GDP in 2013. However, the more pronounced slowdown in domestic demand in 2014 has led us to slightly correct downwards the deficit expected for next year. The effects of this slowdown will be felt more keenly during the 2015-2016 period, when there will be a faster convergence of the deficit to sustainable levels

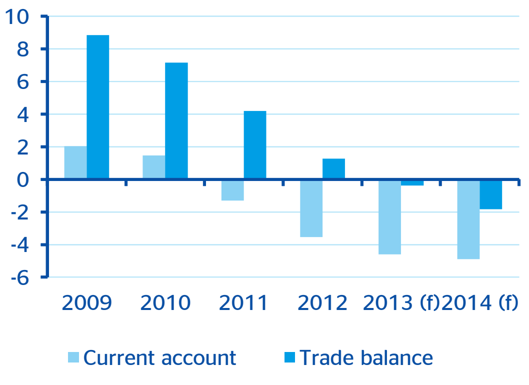
The external accounts continue under pressure, though moderated by lower expectations of strength from domestic demand. Thus the annualized current-account deficit stood at 4.0% of GDP in 2Q13 (equivalent to USD 11.3 billion) and we still expect an increase to around 4.6% of GDP for the close of 2013. However, the slightly more pronounced slowdown of domestic demand expected for next year and the real depreciation of the CLP lead us to correct the deficit forecast for 2014 slightly down from 5.1% to 4.9% of GDP (Chart 14).

These projections include as a working assumption an average copper price that is corrected marginally upward compared with our previous forecast. Thus we expect an average value of USD 3.30/lb for 2013 and USD 3.00/lb for 2014. Recently, positive growth figures, imports and industrial output in China will support a higher average price forecasted for 2013.

In fundamental terms, in recent months we have seen a smaller fall in market inventories compared to a quarter ago forecast. However, in historical terms they remain high. In this context, a slower than expected convergence can be seen toward long-term values (USD 2.9/lb), which includes as an assumption a soft-landing scenario for China (Chart 15).

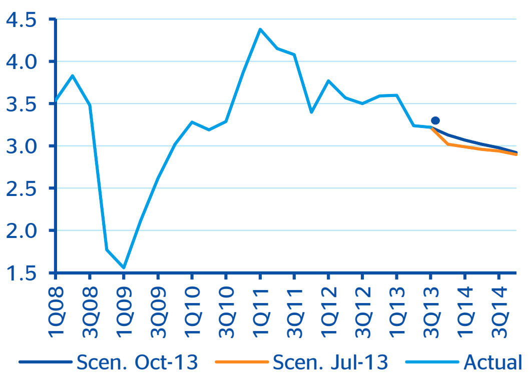
Beyond this estimate of the current-account deficit, we consider that both the return to normal of private consumption and investment, as well as the real depreciation in the peso, will mean that the deficit will converge toward sustainable levels quicker than anticipated in previous reports. This will limit the medium-term risks of the deficit increases forecasted in the 2013-2014 period, particularly given that a significant part of the expected current-account deficit is still financed by foreign direct investment (FDI).

Chart 14
Trade and current-account balance (% GDP)



Source: BCCh and BBVA Research

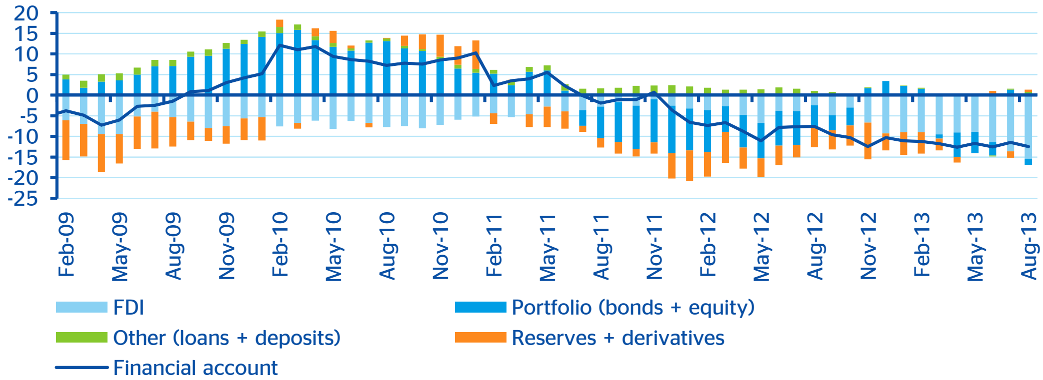
Chart 15
Copper price forecast (USD/lb, average)



Source: Chilean Copper Commission and BBVA Research

We also highlight that the financial account balance as of August 2013 still shows signs of a high level of dependence on capital flows related to the direct investment component, which shows a net entry of USD 15.4 billion as a cumulative figure for the last 12 months. In contrast, there is also a notable impact on the composition of external funding related to the recent global episodes of reversion of flows due to expectation of tapering in the U.S., particularly over portfolio investment. Although many of the portfolio entry flows observed last year have reversed, they continue to show a positive contribution to current account funding, reaching USD 1.5 billion (Chart 16).

Chart 16
Financial account (moving annual average, USD billion)



Source: BCCh and BBVA Research

Finally, despite the fact that the diagnosis is similar to previous reports, we consider that we are very close to experiencing significant changes in the allocation of resources in the Chilean economy. To the extent that the investment cycle in mining shows symptoms of exhaustion, it is highly likely that investment flows will be redirected toward export sectors that are lagging behind in the cycle. Just as investment will be redirected, employment will also show a reallocation from non-tradable to tradable non-copper sectors. The size and speed of these adjustments will depend on the size and speed with which the CLP depreciates in real terms, while the success of this process in terms of its impact on the labor market (in particular unemployment) will depend on the capacity of these lagged sectors to absorb the jobs that will be liberated. Only when this readjustment is successfully materialized (which could be prolonged for some years) the current-account deficit and the composition of external funding will no longer be a medium-term concern for the local authorities. As we explained, our baseline scenario includes a contained depreciation of the CLP over the next few years. This suggests that this reassignment of resources will be slow and with temporary costs in terms of employment.

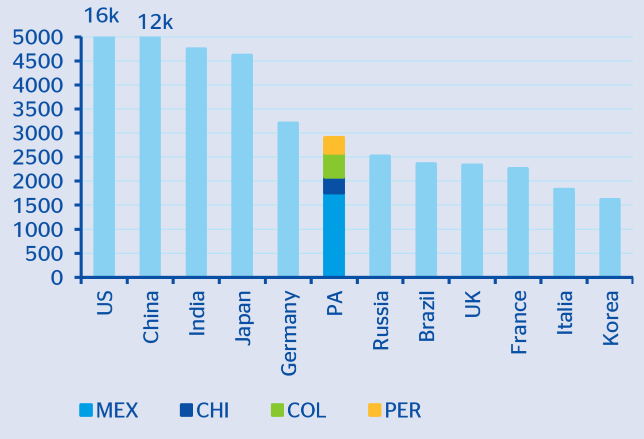
Box 1. The Pacific Alliance: the Latin American giant committed to trade and financial integration

The Pacific Alliance (PA) is an ambitious process for economic and trade integration. One of its pillars is the building of an area of close integration through participation and agreement, progressing gradually towards the free movement of goods, services, capital and persons. At present it is made up of Chile, Colombia, Mexico and Peru (Costa Rica and Panama are in the process of joining). It not only aims to extend integration between its members but also with the rest of the world, with particular emphasis on the Asia-Pacific region.

The commitment to integration between these four economies means that it makes increasing sense to see this bloc as a whole, and not as isolated countries. From this perspective, the four countries making up the Alliance represent the sixth biggest world economy, behind Germany but ahead of Russia and Brazil (Chart 17). More important still, it will be the fourth biggest economy in terms of contribution to world growth in the next ten years, behind China, India and the United States (Chart 18). It appears clear that the Pacific Alliance (PA) is becoming Latin America's real giant.

Chart 17

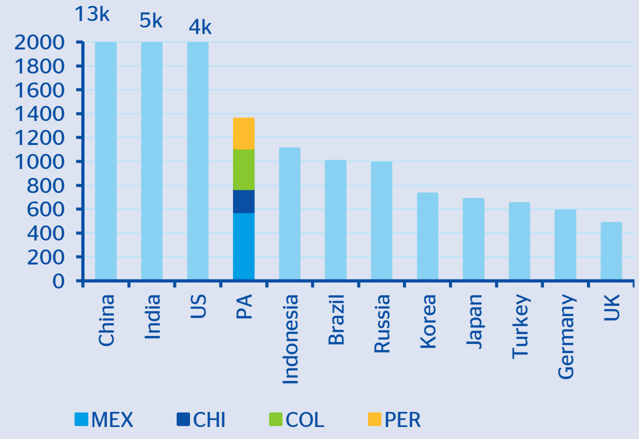
The biggest economies in 2012 (USD million adjusted for PPP)



Source: BBVA Research and IMF

Chart 18

Biggest contributions to global growth in the next 10 years (USD million adjusted by PPP)



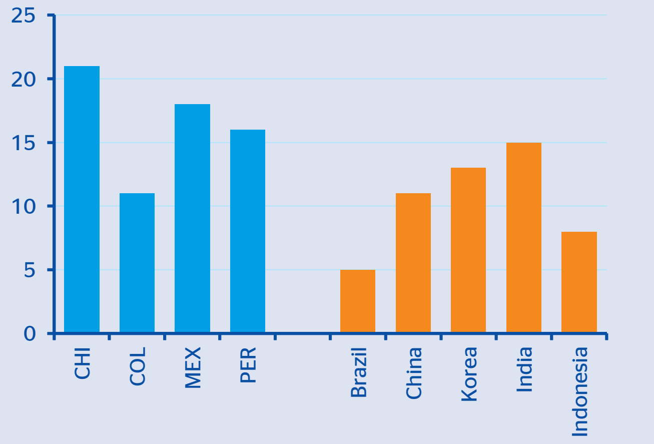
Source: BBVA Research and IMF

But size is not everything. Also important is the type of policies that can be expected from the countries making up the Alliance. Here the PA is also notable for its commitment to integration, not only between its members but also with the global economy. The countries in the Alliance are the emerging markets with the greatest number of free trade agreements signed (Chart 19); in the case of Peru and Chile this includes agreements with the four main economic areas: the US, the European Union, Japan and China. This contrasts with Brazil, for example, which does not have free trade agreements with any of them.

The commitment to trade integration also involves boosting trade flows between the members of the PA. There has been significant progress in this respect, with 92% of the customs tariffs being eliminated completely, and an additional 6.5% due to be eliminated within a very short period. Overall, given the current structure of exports (mainly manufacturing in Mexico, compared with the significant level of commodities in the Andean countries), there is some asymmetry in the potential for increasing the trade of goods within the Alliance. In principle, this should favor Mexico more than the three Andean countries (Chart 20). Even so, there is a great deal of potential for cooperation, transmission of know-how and investment in the infrastructure and capital markets[1].

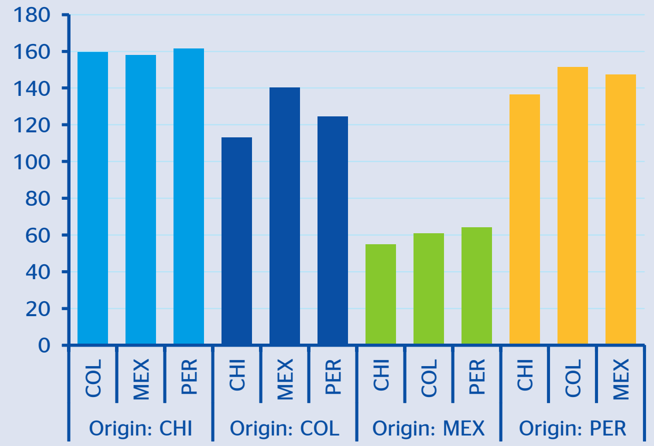
1: For a more detailed analysis of trading links in the Pacific Alliance, see our Economic Watch, August 2012: "New Pacific Alliance Bloc: Mexico and Andeans look towards Asia", available at http://www.bbvaresearch.com/KETD/fbin/mult/120822_EW_EAGLEs_New_Pacific_Alliance_Bloc_tcm348-355823.pdf?ts=25102013

Chart 19
Number of trade agreements signed



Source: BBVA Research and WTO

Chart 20
Export potential index (0 = very high; 200 = very low)



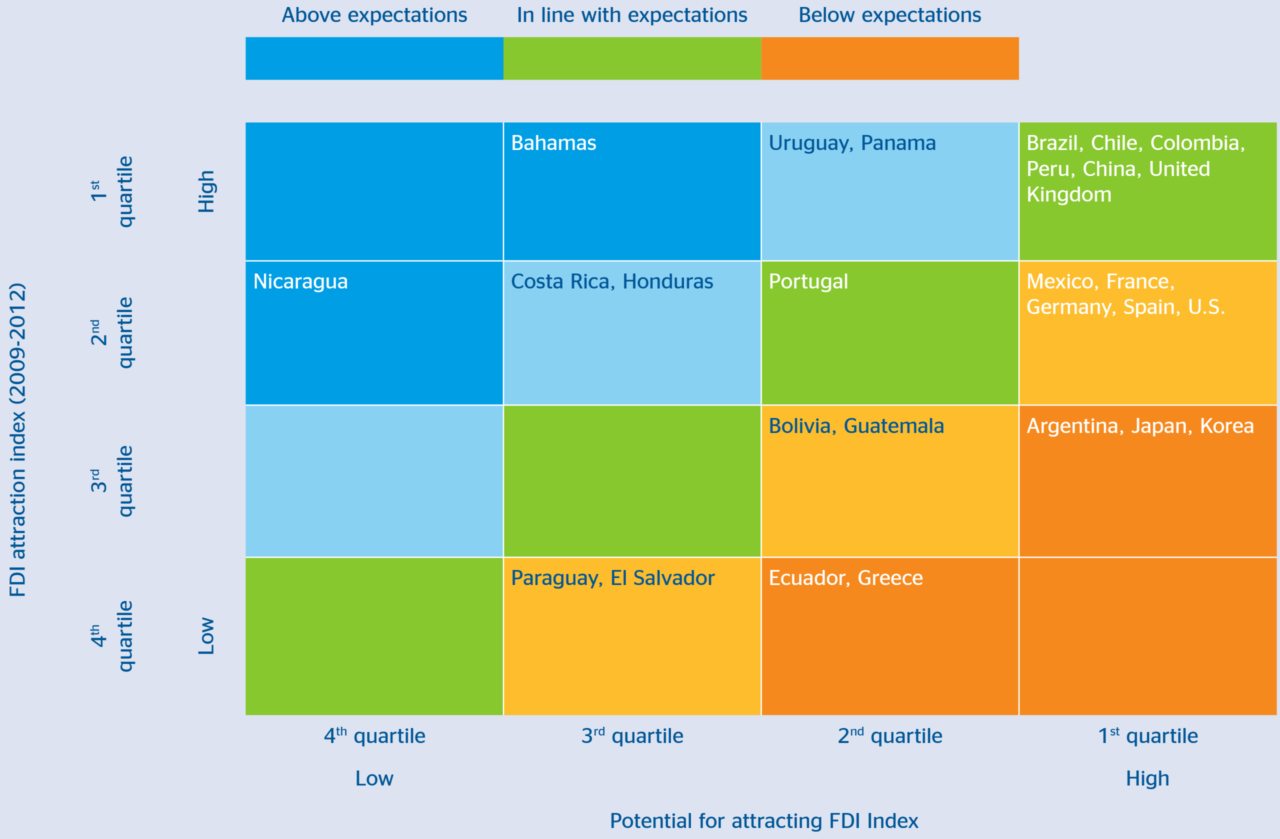
Source: BBVA Research and COMTRADE

The PA is also firmly committed to financial openness and integration, both with the rest of the world and between the countries in the alliance. The countries of the PA have been major recipients of direct investment (in absolute terms and in relation to the size of their economies), above all from the U.S. and Europe, but increasingly from Asia as well. Even more importantly, according to UNCTAD, the countries in the PA are in the top 25% of the global ranking of countries with potential to attract FDI. Chart 21 shows that in a comparison of the two dimensions (observed FDI flows and potential for attracting FDI), the Pacific Alliance countries not only have a high potential for attracting FDI flows, but they actually achieve the rates to be expected by this high potential[2], unlike many other countries in the region[3].

As in the case with trade flows, if we observe the FDI flows within the PA, the first thing to note is its limited percentage in terms of the total FDI received by the four countries (3% of the total in 2009-2012). Further, they are also strongly concentrated in FDI flows from Chile to Peru and Colombia (Chart 22), probably due to the smaller size of the Chilean economy leading some of its companies to diversify and expand their operations within the region. There is no doubt that the maturity of the pension system in Chile has also enabled capital to be injected into companies with regional expansion policies, particularly in the retail sales and financial sectors. The concentration of FDI flows to Peru and Colombia is conditioned by their geographical and cultural proximity, which is associated with the lower costs of monitoring and controlling these investments. The foregoing is also reflected in the aggregate figures from 2009 to 2012, when Peru absorbed 42% of intra-PA foreign investment, followed by Colombia with 27% (Chart 23).

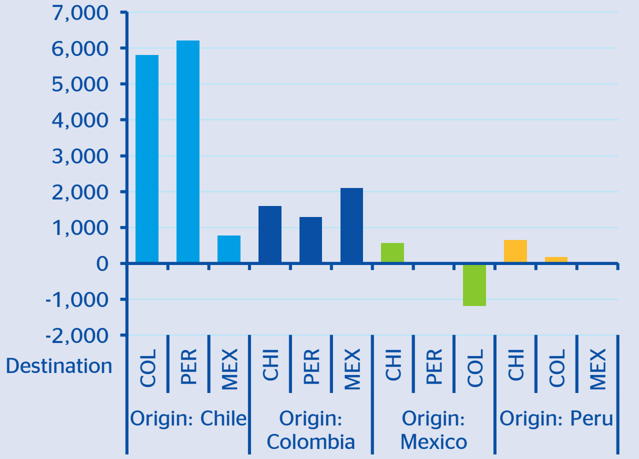
2: Mexico only appears in the second quartile of the world ranking for attracting FDI, although it has to be taken into account that in this case non-equity modes of production (NEMs) such as manufacturing by contract or service outsourcing are very important, but are not counted as FDI, even though they include many of its advantages, such as transfer of know-how and technologies.
3: A more detailed analysis of the potential to attract FDI and FDI flows within the PA can be found in our Economic Watch, November 2013 "Integración financiera en la Alianza del Pacífico: alta potencialidad y grandes desafíos para una integración exitosa", available at http://www.bbvaresearch.com/KETD/fbin/mult/131028_Observatorio_Alianza_Pacifico_tcm346-407163.pdf?ts=4112013 .

Chart 21
Ranking of FDI inflows (2009-2012) and potential to attract FDI (2012)



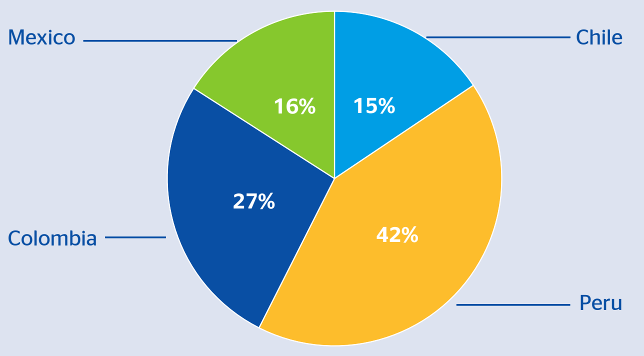
Note: The ranking and distribution by quartiles are based on a total of 177 countries. The table only shows the Latin American countries and some selected countries outside the region.
Source: BBVA Research and UNCTAD

Chart 22
Cumulative intra-PA FDI flows, 2009-2012. By origin and destination (USD million)



Source: BBVA Research and Central Bank of Chile

Chart 23
Destination of intra-PA FDI. Cumulative 2009-2012 (% of total)



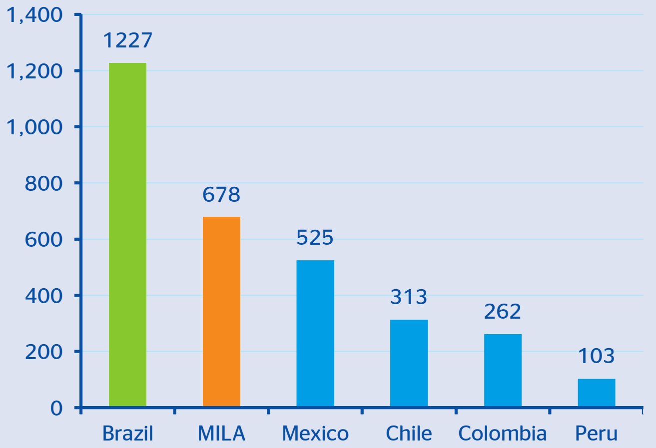
Source: BBVA Research and Central Bank of Chile

It is true that the integration of portfolio flows is still at its early stages, but initiatives such as the integrated Latin American market (MILA), with the full incorporation of Mexico at the start of 2014, have the potential to create a stock market with a capitalization similar to that of Brazil (Chart 24), although with less depth and market liquidity. In this context, we expect the cross flows to begin to increase, using and generating synergies toward deeper and more integrated markets, particularly if the process of harmonization, clarification and coordination of the tax treatment by the authorities of each country continues.

What is the economic outlook for the PA in the short-term? This is a region with a high growth potential, around 6% in Peru and 5% in Colombia and Chile. In the case of Mexico, the current reform agenda could increase potential growth to around 4%. This means an average potential growth for the PA of close to 4.5% per year, higher than in Brazil and nearly three times the figure expected in developed economies (Chart 25).

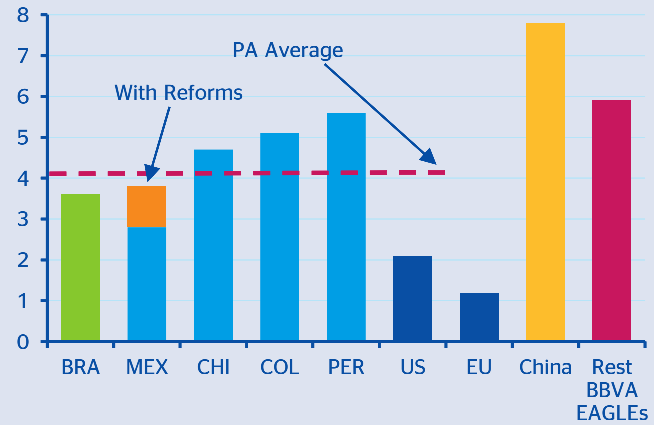
Although the region still has major challenges ahead (high informality, inadequate infrastructures, low quality of education and health), progress has been made in recent years in the right direction. A firm commitment to reform in these areas could increase their high potential growth still further.

Chart 24
Stock-market capitalization, December 2012 (USD million)



Source: BBVA Research and Bloombreg

Chart 25
Potential growth (%)



Source: BBVA Research and COMTRADE

6. Inflation will remain under control in 2014, at below 3%

The surprising drop in fuel prices has led us to revise downwards our estimate of CPI inflation for the end of this year to an annual 2.2%. For 2014 we kept the inflation forecast at 2.6%, boosted by a recovery in tradable inflation, upward impacts of electricity tariffs and stable margins of relevant products of the CPI basket

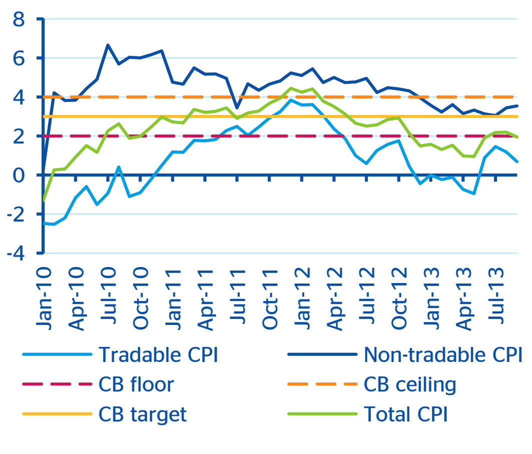
After high volatility in prices during the first half of 2013, monthly figures of inflation began to show a recovery in their core measures. Annual CPI inflation will be around 1.4% in October, but should rise to 3% by the first quarter of 2014.

In this context, inflation of tradable goods remains under control, at around 0.7% y/y in September, while inflation of non-tradable goods has recovered to a rate of 3.5% y/y (Chart 26). The increase in core inflation figures that exclude fresh food, regulated and indexed prices (IPCX and IPCX1) are still around 2.0% y/y.

In recent weeks there has been a significant drop in the price of fuels, associated with the effect of lower international prices and a depreciation of the exchange rate. The negative unforeseen effect of the exchange rate in the last few months of 2013 has led us to correct downwards our inflation forecast for this period, which will close at 2.2% y/y instead of 2.5% as expected in our previous report.

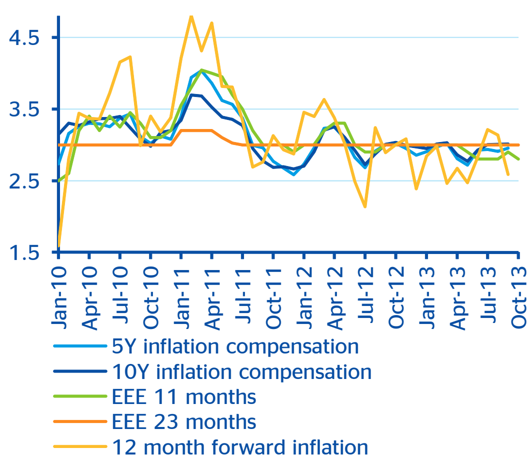
Looking ahead, we maintain our estimate of a steady convergence of inflation to the Central Bank target. At the same time, we still expect a change in composition of inflation, which will be characterized by a greater importance of the tradable component of the CPI, to include the effect of the depreciation of the exchange rate. A more sluggish domestic demand will contain the acceleration of the core component of CPI, and prevent inflation from exceeding 3% by December 2014. Overall, we maintain our forecast of annual inflation closing at 2.6% in 2014. This expectation is below the ones that are implicit in both financial assets prices and surveys of analysts (Chart 27).

Chart 26
Inflation measures (y/y % change)



Source: BCCh and National Institute of Statistics

Chart 27
Inflationary expectations, inflation compensation and inflation forwards (%)



Source: BCCh and BBVA Research

Box 2. New CPI basket of products for 2014: weights and implications

We are only a few months away from knowing the new CPI basket for 2014. This process will for the first time begin to be carried out every 5 years rather than the 10 it has been done so far, to adapt to the international standards demanded by the OECD. The new basket will include the results of the VII Family Budget Survey (EPF), released toward the end of September, which also have implications for the definition of the poverty line, together with the CASEN survey. As a result, they have a significant impact on the determination of asset prices and social policies.

This box analyzes the relevant aspects for the CPI basket of the VII EPF survey, together with the expected trends in the composition of the basket, with the aim of projecting the adjustments in the weightings and the counterfactual impact of these adjustments on 2013 inflation.

Table 1 compares the weightings of the CPI categories in 2009 with those of the VII EPF. At first sight a high level of correspondence can be seen between the relative weights of these categories in both measurements. The differences must be analyzed with particular care, as the products included are not the same. For example, although there is an increase in the weighting of the food category, on comparing the same products of the 2009 CPI basket for the food category it can be seen that the weighting of more than 65% of them fell.

Table 1
Family expenditure in the VII EPF and 2009 CPI weightings by category

Category	CPI 2009	VII EPF (total homes)
Food and non-alcoholic beverages	18.9	19.2
Alcoholic beverages, tobacco and drugs	2.0	1.7
Clothing and footwear	5.2	4.2
Lodging, water, electricity, gas and other fuels	13.3	13.7
Furniture, household appliances and ordinary household maintenance	7.5	6.8
Healthcare	5.4	6.3
Transport	19.3	15.9
Communication	4.7	4.7
Leisure and culture	7.5	6.6
Education	6.0	8.2
Restaurants and hotels	4.4	4.4
Various goods and services	5.8	8.4

Source: INE, BBVA Research

After reviewing each of the products in the 2009 CPI basket in the light of the results of the VII EPF, our estimate of the weightings of the new 2014 CPI basket at the category level is presented in Table 2. It is worth highlighting that for the sake of simplicity, this exercise supposes that the 2014 CPI basket maintains the same products as the 2009 basket.

Table 2
2009 CPI weightings and BBVA Research forecast of the 2014 CPI basket

Category	CPI 2009	CPI 2014e
Food and non-alcoholic beverages	18.9	17.2
Alcoholic beverages, tobacco and drugs	2.0	1.8
Clothing and footwear	5.2	4.3
Lodging, water, electricity, gas and other fuels	13.3	13.9
Furniture, household appliances and ordinary household maintenance	7.5	7.0
Healthcare	5.4	6.1
Transport	19.3	17.0
Communication	4.7	5.0
Leisure and culture	7.5	6.5
Education	6.0	8.4
Restaurants and hotels	4.4	4.8
Various goods and services	5.8	8.0

Source: INE, BBVA Research

Within the categories, it can be seen clearly that the food category tends to reduce its importance in higher-income percentiles (Table 3). In addition, within the lodging, water, electricity and other fuels category the weighting of the electricity item that has recently caused significant deflation has been reduced. The fall in electricity tariffs and increase in disposable income also lead us to expect a weighting of around 2-2.3%, down from the current 2.7%. This becomes important if we consider a scenario of higher electricity tariffs in the 2014-2016 period.

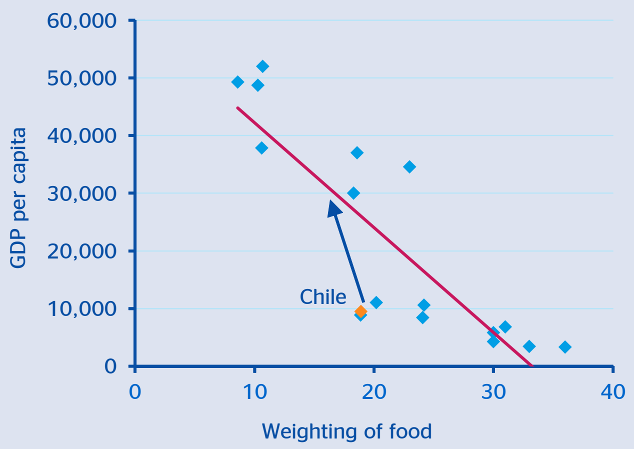
Table 3
Family expenditure in the VII EPF and 2009 CPI weightings by selected category

	CPI 2009	VII EPF total	Income quintiles Q1	Q5
Food and restaurants*	23.2	22.8	36.5	16.3
Clothing and footwear	5.2	4.2	2.9	4.2
Lodging, water, electricity, gas and other fuels	13.3	13.7	19.5	11.8
Furniture, household appliances and ordinary household maintenance	7.5	6.8	5.2	8.5

* Food and restaurants corresponds to the sum of the weightings of the food and non-alcoholic beverage category and restaurants, coffee houses and similar establishments.
Source: INE, BBVA Research

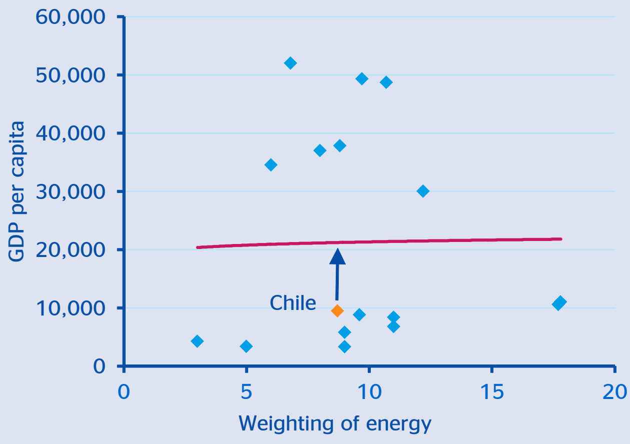
In general, the reduction in the weighting of food reflects the scenario of greater GDP growth in recent years. As countries grow and have higher per capita incomes, the share of this category within the baskets falls. In the items associated with energy there is no very clear relationship between higher per capita income and its share within the CPI basket (Charts 28 and 29). In line with this, we see no relevant changes in the weighting of this item in the VII EPF.

Chart 28
Weighting of the food category in the baskets of different countries



Source: OECD, statistical institutes in different countries, INE, BBVA Research

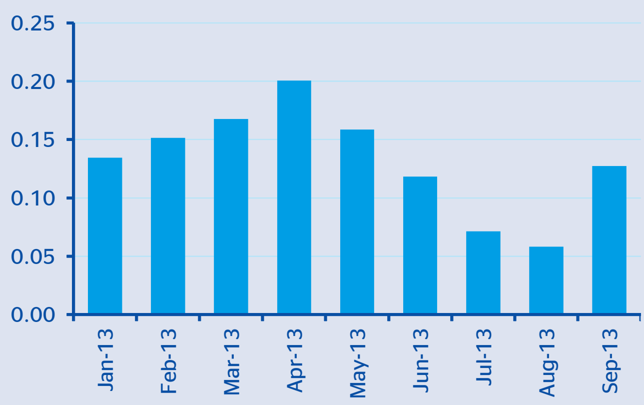
Chart 29
Weighting of the energy category in the baskets of different countries



Source: OECD, statistical institutes in different countries, INE, BBVA Research

Finally, if we recalculate annual inflation with the new weightings we have estimated, we see that the current basket would be underestimating inflation in 2013 by 0.13% (Chart 30). This is a clear reflection of the greater importance of the categories of non-tradable goods and services where prices have increased, such as health and education (prices indices up between an annual 4% and 5% in 2013), and the lower impact of those tradable categories that have experienced price reductions, such as leisure and culture, and clothing and footwear, the latter with price falls in annual terms of around an average 12% in 2013.

Chart 30
Difference of 12-month inflation of the 2014e CPI basket compared with the 2009 CPI basket (percentage)



Source: INE, BBVA Research

7. Monetary policy with moderate cuts in the MPR to 4%

At its October meeting, the Central Bank started a phase of cuts in the MPR that will be extended through 2014. We expect 2013 to close at 4.75% and 2014 at 4.00%, while the gradual cycle of monetary normalization will be delayed until the start of 2015

According to our analysis, the cuts in the MPR will continue in 2014 to 4.0% in the second part of the year. We maintain our view of cuts of 75 additional basis points in the forecast horizon.

Among the elements justifying our position on the prospects for monetary policy is the low core inflationary pressure, the economic slowdown and a slight opening up of idle capacity. Another argument, although less orthodox, is still the Central Bank's intention to close the distance with respect to the reference rates of developed economies. The reduction in the gap of monetary policy interest rates will help the expected depreciation of the currency and with it compliance with the Central Bank's inflation target. We would highlight that there is still ample room for implementing accommodative monetary policies (Chart 31).

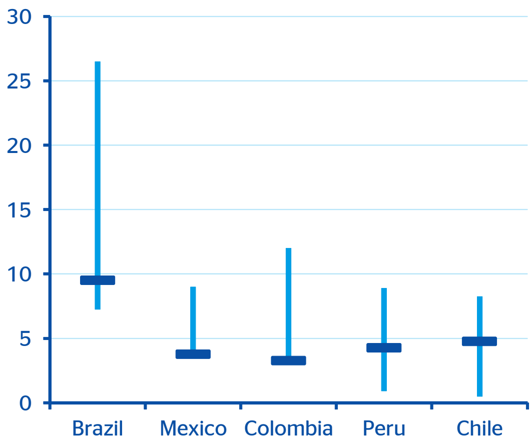
In fact, our baseline scenario is ready for cuts, so we expect the MPR to close 2013 at 4.75% and 2014 at 4.00%, while the gradual cycle of monetary normalization will be delayed until the start of 2015.

In recent months statements by members of the board of the Central Bank have led us to infer a macroeconomic vision that is not fully agreed, focused particularly on movements in private consumption. The above contrasts with the dovish bias in the monetary policy statements of recent months. This bias was eliminated in the last meeting at which the MPR was cut. These elements generated volatility both in expectations of consensus and in asset prices (Chart 32).

A risk scenario we consider moderately probable is that private consumption will continue strong for longer. This would also lead the Central Bank to wait for clearer signs of a marked slowdown in this expenditure component before continuing with its cycle of cuts. We consider that the option of waiting to see specific signs of a slowdown in consumption before continuing with the process of interest-rate cuts could require a faster pace of cuts in the MPR than those included in this report.

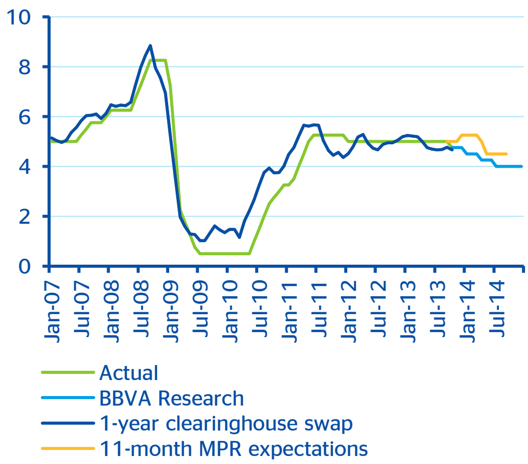
It is worth mentioning that the MPR trend presented in this report assumes our macroeconomic scenario of an economy that is somewhat weaker than projected by the Central Bank. Thus inflationary pressures in our view will be lower than estimated by the Bank in its last Monetary Policy Report. However, it is likely that in future monetary policy decisions the Board of the Central Bank will take into consideration factors of financial stability, such as the high level of debt of some segments of the population, which could slow the pace of MPR cuts.

Chart 31
Current Monetary Policy Rate in the region vs. historical range since 2001 (%)



Source: Bloomberg and BBVA Research

Chart 32
Monetary policy rate (%)



Source: BCCh and BBVA Research

8. Fiscal policy will provide room for cuts in the MPR in the coming quarters

In our macroeconomic assumptions, expansion of fiscal spending will not exceed 3.2% in real terms in 2014, while public expenditure will grow by over 3%. The slower pace of growth in fiscal spending provides room for monetary policy to inject a monetary stimulus in the coming quarters, providing an automatic adjustment by redirecting productive investment to non-mining sectors

So far there is a mixed consensus regarding whether local and international factors will be more or less favorable in 2014. Thus, for example, expectations for global growth have been adjusted down recently.

In addition, there has been intense discussion about the expansion of fiscal spending in 2014. Leaving aside the discussion with respect to the extent of freely available funds for the next government and comparisons between executed expenditure and the 2013 budget, we have estimated the expansion of expenditure under the macroeconomic assumptions of this report, which are different in a number of ways from those of the Ministry of Finance.

First, we estimate that fiscal spending will increase closer to 3.2% y/y, below 3.9% y/y, where the main difference comes from the slower growth of domestic demand (Box 3). In fact, we project a weaker labor market in 2014, with a change in its composition to more self-employment and fewer salaried workers and a slowdown wage rises, which will limit the expansion of private consumption next year.

As a result, the tax revenue from VAT will begin to reflect lethargy already shown by revenues from other taxes. This is part of a scenario where demand will grow only marginally over 4% in 2014.

A less benevolent scenario for the expansion of domestic demand, with GDP growth in 2014 at around 4%, has implications with respect to the growth of expenditure. Although we do not agree with the government in the assumptions with respect to CPI inflation, GDP, the copper price and exchange rate, their implications for the real expansion of fiscal spending are of a secondary order, or corrected by the methodology of cyclical adjustment.

Under the premise that the government is committed to a fiscal structural deficit of 1% of GDP, the impact of lower cyclically adjusted revenue on the expansion of fiscal spending will be 0.2% of GDP (0.8% of total fiscal spending in 2014). The effective balance will therefore be 0.5% more negative than projected by the Treasury, once more assuming that the structural deficit of 1% of GDP is complied with.

There are at least two alternatives if the event of the less benevolent economic scenario. First, that the next government will have to deal with expenditure growing less than in preceding years and choose to maintain the structural deficit target constant at 1% of GDP and reduce it gradually in the coming years. Second, that it succumbs to the temptation to modify the structural deficit target to a figure above 1% of GDP in 2014, to something around 1.5% of GDP, and a rapid subsequent convergence is proposed to the structural balance, supported by a tax reform and/or simply on the assumption of an economic upturn. Both are very valid alternatives that should not be overlooked by the market agents, given that they have implications for slack, growth in expenditure and the reputation of Chilean institutions internationally. In March 2014 the next government will have to choose.

With implications for monetary policy, there are new reasons for injecting monetary stimulus over the coming months. Public consumption, linked closely to wages and goods and services, will grow at under 3% y/y, and will be a drag on demand rather than a significant boost to it. This fiscal scenario is a new factor that gives room for the Central Bank to inject cuts in the reference rate such as those in our baseline scenario.

In various aspects, the combination of lower fiscal expansion and monetary stimulus is extremely necessary for supporting the automatic adjustment of the economy. Competitiveness has to recover in some agricultural and forestry and manufacturing sub-sectors. The depreciation of the peso is part of the set of elements that have to support this recovery, and finally a scenario appears to be forming that is propitious to generating the redirection of investment from mature sectors, particularly from mining to traditional non-copper sectors.

Box 3. Macroeconomic scenario for public finances

On September 30 the government submitted the bill for the 2014 budget to Congress. It includes real growth in total central government expenditure of 3.9%. Considering the macroeconomic scenario presented in this report, we estimate that the expansion of expenditure will not be as fast as that included in the budget, at most 3.2% y/y in real terms. This lower fiscal boost is in line with the scenario of cuts in the monetary policy rate which will take place next year and that we estimate will take the reference rate down to a minimum of 4%.

The estimate of lower expenditure is based on our forecast of the macroeconomic scenario relevant for public finances; the projection of government expenditure for 2013 presented by the Budget Office (Dipres) and the assumption of compliance with the structural deficit target of 1% of GDP in 2014. The more limited room for expenditure is mainly explained by the weaker domestic demand forecast by BBVA Research compared with the figure projected by the Ministry of Finance. This will result in lower revenues from VAT and excise duties, and these effects are not corrected cyclically by the methodology of calculation of the structural balance. With this result, we also estimate that public consumption in the National Accounts will grow by 2.9% next year.

The macroeconomic scenario that served to prepare the budget was optimistic in view of available information and our expectations for the key variables for determining fiscal revenue.

Table 4
Differences in the 2014 macroeconomic scenario

	Finance Ministry	BBVA	Difference
GDP (y/y % change)	4.9	4	-0.9
Domestic demand (y/y % change)	5.4	4.1	-1.3
Average inflation (%.)	3	2.5	-0.5
Average exchange rate (pesos/ dollar)	522	520	-2
Average copper price (USD cents/lb)	325	300	-25

Note: the exercise presented in this table assumes an average exchange rate of CLP 520/USD in 2014.
Source: Ministry of Finance and BBVA Research

From the point of view of effective revenue, the differences in the macroeconomic scenario with respect to that projected by the government in September would involve the order of USD 1.9 billion less revenue (0.7% of GDP), with the projection of the copper price explaining most of the difference (Table 5).

Table 5
Impact of differences in the macroeconomic scenario on revenue in 2014 (USD million)

	Actual revenue	Structural revenue
GDP growth	-200	0
Growth in domestic demand	-350	-350
CPI inflation and exchange rate	-100	-100
Copper price	-1,275	0
Total effect	-1,925	-450
% GDP	-0.7	-0.16

Source: BBVA Research

In fact, each cent less in the copper price means in the order of USD 50 million of lower revenue, and in this case the difference is USD 25 cents (Table 6).

Table 6
Impact on 2014 fiscal revenues of a cent change in the price of copper

USD million	
GMP10 revenue + Dipres estimate of Codelco (copper price USD 3.25)	5,376
Implied margin (USD/lb)	1.02
GMP10 revenue + Codelco with copper price of USD 3.24	5,323
Reduction in revenue (USD million)	-53

Note: The exercise assumes an average mining cost of USD 2.23/lb and exchange rate of CLP 520/USD
Source: BBVA Research and Budget Office

Given the methodology of the structural balance, it is trend GDP and the reference copper price and not their effective values that determine cyclically adjusted (or structural) revenue. Thus the differences in the forecast of the GDP and copper price do not have an effect on the estimate of structural revenue or the determination of areas of expenditure[4].

4: Except for differences that may exist in the elasticity to GDP used in estimating effective income and those used in the cyclical adjustment.

However, some taxes such as VAT and excise duties are more closely related to domestic demand and in this case a lower rate of growth of domestic demand will mean lower effective and structural receipts of a similar amount. We estimate that the impact on receipts of lower growth in domestic demand will be of the order of USD 300-350 million. This estimate is a result of considering the elasticity of domestic demand implicit in VAT projections presented by Dipres in its annual report to Congress and the lower growth of domestic demand forecast by BBVA Research for next year. With these assumptions, the receipts associated with this tax will grow by 4.9% instead of 6.5% estimated by Dipres (Table 7).

Table 7

Lower VAT receipts due to lower growth in domestic demand

USD million	2014	y/y % change
VAT (Dipres projections)	23,705	6.5
BBVA VAT projection with domestic demand	23,359	4.9
Reduction in revenue	-346	

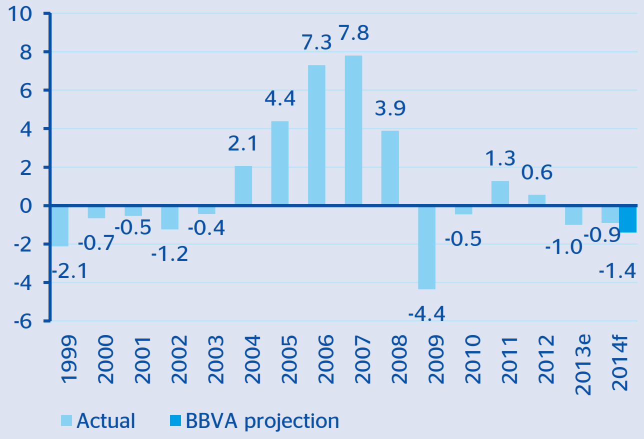
Note: the elasticity of VAT-domestic demand implicit in the Dipres projections is 1.2..
Source: Budget Office and BBVA Research

In addition to the above there is the effect of lower inflation and exchange rate, which will deduct in the order of an additional USD 100 million. The combined total of these effects would therefore deduct in the order of 0.2% of GDP of room for expenditure next year, if the structural deficit of 1% of GDP is maintained. This amounts to 0.7% of expenditure, so the increase of this variable will be 3.2%, only by the effect of considering our macroeconomic scenario rather than that presented by the Ministry of Finance, i.e. maintaining the remaining variables affecting the budget constant. It is worth highlighting that the fluctuations in the exchange rate have a significant impact on actual and structural fiscal revenues. In accordance with our estimates, an exchange rate 1% lower implies in the order of USD 150 million lower revenues for the Treasury.

In terms of the actual fiscal balance, lower revenue (0.7% of GDP) will be offset by lower expenditure (0.2% of GDP) to comply with the structural deficit target of 1% of GDP in 2014, so the fiscal deficit will be 0.5% of GDP higher than that assumed by the government in the 2014 budget, rising solely due to this effect from 0.9% of GDP to 1.4% of GDP, equivalent to USD 3.9 billion (Chart 33).

Chart 33

Actual fiscal balance (% GDP)



Source: Budget Office and BBVA Research

The exercise presented here to estimate the growth of public expenditure in 2014 is based on two assumptions. First, it assumes that the next government will meet the structural deficit target of 1% of GDP in 2014; and second, that in 2013 the level of execution of the budget will be that estimated by the Treasury in its annual report to Congress. If for example the structural deficit rises to 1.5% of GDP, the expansion of expenditure in 2014 will increase from 3.2% to 5.5%. In addition, taking our baseline macroeconomic scenario for 2014, if the execution of expenditure in 2013 was 0.9% lower than that projected currently by the government (and maintaining the structural deficit target of 1% of GDP in 2014), the growth of expenditure would be 3.9% instead of 3.2%.

9. The balance of international and domestic risks continues linked to the price of copper in the short term

The main risk is associated with a slowdown of the Chinese economy and its impact on the price of copper. The impact on the external and fiscal accounts would be significant, particularly if the convergence at lower levels in the price of the metal is abrupt

Despite the fact that Europe continues to be a source of external risk, the probability attached to extreme scenarios has continued to decrease. In the case of Chile, the most significant transmission channel for a crisis of this type continues to be its potential effect on the terms of trade and exported volumes.

The conviction with respect to the start of the withdrawal of the unconventional monetary stimulus by the Fed in the very short term has reduced. The fiscal situation that has led to a reduction of non-essential expenditure and the discussion regarding the increase in the debt ceiling has increased volatility and its impact on growth cannot be ruled out. For now the Fed is maintaining its monetary stimuli.

Despite external volatility, the price of copper has been resilient, supported by figures that have continued to consolidate a benign vision of the slowdown in the Chinese economy so far, with medium-term risks associated with the credit level of companies and the credit risk of banks.

To explain the relevance of China it is important to bear in mind the sensitivity of the fiscal and external accounts to the price of copper. We estimate that each cent by which the price of copper falls reduces the value of exports by around USD 120 million. The decrease in net incomes sent overseas would mitigate the adverse impact on the current account and we estimate this figure at USD 60 million for each cent of reduction in the price of copper.

As for the effect on the fiscal balance, a fall of one cent in the price of copper would involve around USD 50 million in lost revenue. Thus a cut of around 32 dollar cents in around a year would lead to lower revenue of the order of USD 1.6 billion, which is equivalent to over 0.5 percentage points of GDP. In an adverse scenario, it is important to highlight the significant fiscal and monetary capacity to implement countercyclical policies, as well as the sound fundamentals of the financial and corporate sector. Together they will ensure the impact on the economy is limited.

Finally, although the conditions for an orderly adjustment of the current-account deficit have begun to take hold through the real depreciation of the peso and slowdown in domestic demand, both have been moderate. As a result, for now the Chilean economy remains very sensitive to abrupt and significant falls in the copper price which could bring it down quickly to its long-term price or below it.

10. Tables

Table 8
Annual macroeconomic forecasts

	2010	2011	2012	2013	2014
GDP (% y/y)	5.8	5.9	5.6	4.2	4.0
Inflation (% y/y, eop)	3.0	4.4	1.5	2.2	2.6
Exchange Rate (vs. USD, eop)	475	517	477	515	530
Interest Rate (%, eop)	3.25	5.25	5.00	4.75	4.00
Private Consumption (% y/y)	10.8	8.9	6.1	5.6	4.5
Government Consumption (% y/y)	4.6	3.0	4.2	4.1	2.9
Investment (% y/y)	12.2	14.7	12.3	6.1	4.6
Fiscal Balance (% GDP)	-0.4	1.4	0.6	-1.0	-1.4
Current Account (% GDP)	1.5	-1.3	-3.5	-4.6	-4.9

Source: BBVA Research

Table 9
Quarterly macroeconomic forecasts

	GDP (% y/y)	Inflation (% y/y, eop)	Exchange Rate (vs. USD, eop)	Interest Rate (%, eop)
Q1 11	9.8	3.4	479.7	4.00
Q2 11	5.8	3.4	469.4	5.25
Q3 11	3.2	3.3	483.7	5.25
Q4 11	5.0	4.4	517.2	5.25
Q1 12	5.1	3.8	485.4	5.00
Q2 12	5.7	2.7	505.6	5.00
Q3 12	5.8	2.8	475.0	5.00
Q4 12	5.7	1.5	477.1	5.00
Q1 13	4.5	1.5	472.5	5.00
Q2 13	4.1	1.9	502.9	5.00
Q3 13	4.4	2.0	504.6	5.00
Q4 13	3.8	2.2	515.0	4.75
Q1 14	4.0	2.3	521.0	4.50
Q2 14	3.9	2.5	524.0	4.25
Q3 14	4.0	2.2	526.0	4.00
Q4 14	4.0	2.6	530.0	4.00

Source: BBVA Research

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