BBVA Research

Chile

Economic Outlook

First Quarter 2011

Economic Analysis

- There is continued divergence in the world economy, with the emerging world driving growth while developed economies continue to give ground, more in Europe than the United States. This divergence will involve different macroeconomic policies in the two regions.
- In Chile, strong growth in demand, favorable terms of trade and a statistical effect in the first quarter of the year will ensure the economy will grow by 6% in 2011, above its potential growth rate.
- A narrowing capacity gap, higher international commodity prices and limited room for appreciation in the exchange rate will determine an inflation rate of 3.9% at the close of 2011.
- In this scenario of greater inflationary pressures the Central Bank will have to normalize monetary policy, despite the risk of pushing the peso up further. However, the expectation of an increase in the policy rate has already been transferred to lending rates, and a recovery in credit to pre-crisis levels is expected.
- One global risk scenario would arise from the deterioration in the European situation that spreads to China and affects copper prices and demand. However, this has been given a low probability of occurrence, with a more limited effect than in the last recession.
- At the local level, the main risk is the Central Bank's difficulty in preventing the appreciation of the peso without letting inflation get out of control.

Index

Closing date: 9 February 2011

1. Summary: decouplings at play

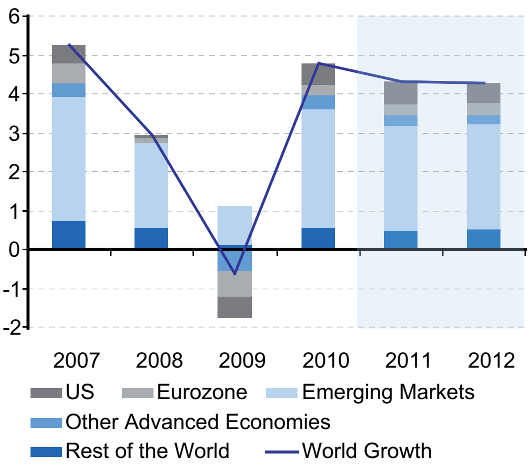
The world will continue on divergent paths, increasing growth and policy decouplings
Growth continues to be strong. After closing 2010 with a growth rate of 4,8%, the global economy is expected to decelerate slightly to 4,4% both in 2011 and 2012, a better performance than what could have been anticipated 12 months ago. This is explained by a better outlook for advanced economies, due to (i) the better growth expectation for the US after the fiscal stimulus, and (ii) a strong performance in core European countries, which have decoupled from those of the periphery, dragged by financial market tensions. In fact, even though financial market tensions in Europe worsened during the last quarter of 2010, economic activity the region as a whole has been able to accelerate, thus showing –at least temporarily– a degree of decoupling also between the financial and the real side. Overall, the pattern of global economic growth remains broadly unchanged as the real engine of dynamism continues to be the emerging world, led by Asia (China and India in particular, see Chart 1), and developed economies continue losing ground, more in Europe than in the US.

All these decouplings have three important implications for the outlook. First, the divergence between growth in advanced and emerging economies will continue to induce markedly different macroeconomic policies going forward. Monetary policies will remain highly accommodative in the US and Europe, fuelling a search for yield elsewhere (in emerging markets and increasingly in commodities as well). At the same time, signs of overheating are starting to emerge in some countries in Asia and Latin America, pushing authorities to consider tightening policy faster than previously envisioned given incipient inflationary pressures, especially in Asia (Chart 2). The resulting incentives for capital inflows into emerging economies will intensify policy dilemmas already present in both regions, between tightening policy to ensure a soft landing and preventing sudden and sharp exchange rate appreciations.

Second, the growth divergence between the US and EMU will –together with financial risk– put downward pressure on the euro and, perhaps more significantly, will keep drawing market attention to the relative difficulty of the EMU to grow out of their high public debt levels. This is one of the elements –together with the different size of central banks' bond-purchase programs and the turmoil around economic governance in Europe– that explains why markets have not reacted significantly to a further postponement of fiscal consolidation in the US. The difference with market punishment to some countries in Europe could not be starker.

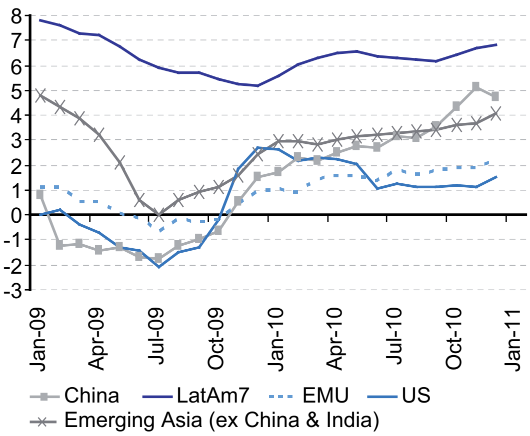
Finally, the increasing decoupling within the EMU will start straining the conduct of a common monetary policy for the region, already torn between an incipient risk of inflation, especially in core countries, and the need to continue supporting financial stability, especially –but not exclusively– in peripheral economies.

Chart 1
Global GDP growth and contributions



Source: BBVA Research

Chart 2
Inflation (yoy%)



Source: BBVA Research and Datastream

Growth in the major advanced economies has picked up, but fragilities remain. Chances of a double dip scenario in the US, which we thought were very low, have faded. But interest rate risks in the long-run now become more relevant

As we expected, the US did not fall into a double dip, and the chances of that happening in the future have faded since the summer. Four main factors have contributed to the change in sentiment regarding the outlook for growth in the US. First, better macro outturns at the end of 2010 signaled that household consumption was more resilient than was feared. Second, decisive action by the Federal Reserve, implementing and additional round of asset purchases (QE2) provided support for bond prices in particular, and asset prices in general. Third, reduced uncertainty and increased business confidence is expected to benefit investment. Finally, and perhaps more important, a new fiscal stimulus package, approved at the end of 2010, will provide a significant boost to economic growth. We have thus adjusted our growth forecast for 2011 by 0,7 percentage points, to 3%.

However, weaknesses have not disappeared. Real estate markets remain feeble and still prone to negative surprises. Household income is still sluggish given that the speed of the recovery will not be sufficient to significantly reduce unemployment rates. On top of it, credit growth and securitization processes remain subdued. While none of this should derail the recovery, it continues to configure a scenario in which an additional negative shock would harm the economy. For now, this outlook of gradual economic recovery with low inflationary pressures on the demand side, will permit monetary policy to remain accommodative for an extended period.

Moreover, the lessons from the sovereign crisis in Europe should not be forgotten. Granted, the new fiscal package at the end of 2010 had the benefit of boosting growth in the short-run, at the time when doubts about a double dip were still in the air. But one should not overestimate the strength and persistence of the factors that have prevented a negative reaction from bond markets to a further delay of fiscal consolidation in the US. Central bank bond purchases and the turmoil in Europe (and thus flight to quality to US bonds) are by nature short-run factors that will disappear in the medium run, and before that happens the US will need to show a clear commitment to fiscal consolidation or risk a sudden spike in long-term interest rates. Rating agencies have already started to signal this risk. There is time, but discussions and plans should start as soon as possible to reduce long term fiscal concerns.

Institutional and economic reforms in Europe will be crucial for solving the financial crisis

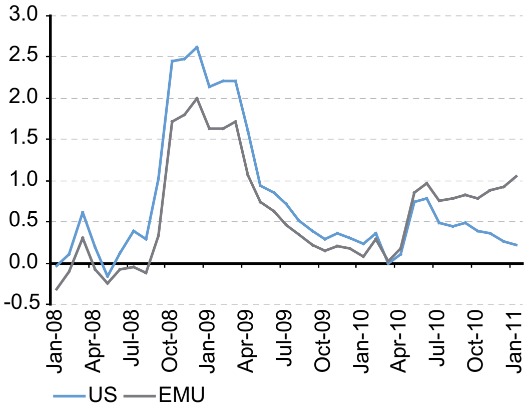
Since October 2010, financial tensions in Europe have surged again (Chart 3), especially in peripheral countries. Concerns about fiscal sustainability and financial sector losses resurfaced again, leading to widening sovereign spreads and funding pressures. However, contrary to the episode in May, financial spillovers to other countries in Europe and outside the EU were more limited.

The increase in financial market tensions was triggered by two events. First, markets were uncertain about the ability of European institutions to deal with sovereign debt crises. Private investors were spooked by the proposal that they would bear losses on possible restructurings after 2013, and the likelihood that haircuts on existing debt would be needed to restore fiscal sustainability. The second trigger was increasing doubts about the credibility of stress tests, given the need to support Irish banks shortly after they were deemed adequately capitalized. These two triggers developed amid the background of concerns about the capacity of some peripheral countries like Portugal and Ireland to fulfill their fiscal deficit targets and doubts about the ability of some European economies to generate enough growth momentum to make their debt burden sustainable.

The fragility of the recovery in financial markets right after the summer highlights that markets are increasingly focusing on sovereign solvency problems in some countries, rather than just liquidity concerns. This stresses the need for a comprehensive solution, both for solving this crisis, as well as establishing a sound crisis prevention and resolution mechanism for the future. For future crisis prevention, fiscal coordination needs to be reinforced, providing for shock absorbers for idiosyncratic shocks in individual countries, but also reinforcing surveillance both in the fiscal front and in the macroeconomic dimension (including preventing the build-up of private sector imbalances). For crisis resolution, a clear and transparent mechanism that defines those who will bear losses needs to be put in place, to avoid excessive market volatility due to uncertainty, but probably at this stage is extremely important to guarantee an adequate transition mechanism.

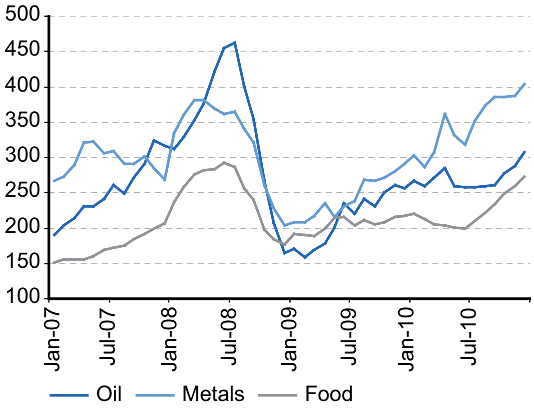
As pointed out above, financial spillovers from this recent episode have been rather limited, including to core countries in Europe. Thus, growth in the EMU as a whole was stronger than anticipated, especially due to very positive outturns in Germany and other core European countries. However, this decoupling between financial tensions in peripheral countries and real economic activity in Europe will not last if a comprehensive governance reform is not agreed soon and countries do not continue pushing economic reforms to reduce fiscal vulnerabilities, restructure the financial system and increase potential growth. What is agreed at the next European Council in March will be key in this respect.

Chart 3
BBVA Financial Stress Index



Source: BBVA Research

Chart 4
Commodity prices (2000=100)



Source: BBVA Research

Commodity prices will level off, but nonetheless inflation risks are becoming more relevant in emerging economies, which will continue to grow strongly

Commodity prices have surged across the board in recent months, reaching all-time highs in the case of some metal prices (Chart 4). This is consistent with what seems to be the beginning of a long-term upward trend in commodity prices driven by surging demand from emerging economies, but there are other short-run factors that have contributed to the recent surge, at least in some commodity classes. For instance, the very fast increase in food prices in the past two months is to a great extent the effect of one-time supply-side factors (weather disturbances), which should wind down during the rest of 2011. Moreover, given ample global liquidity conditions, investors have piled into commodities as an asset class, increasing financial premia across the board.

Going forward, we expect commodity prices in general to level off around current readings. In the case of food prices this will be the result of normalizing crops in 2011. For metals, elevated inventories will start to weigh on prices. Only in the case of oil we expect a tight market to continue pushing prices slightly higher in 2011 but gradually easing afterwards. This easing will be helped by a likely reduction in financial tensions in Europe, which should shift investment flows away from commodities into other assets with more contained risk premia. Nevertheless, risks are tilted to the upside, as strong demand in Asia will continue to support an upward trend in prices in the medium run.

The increase in commodity prices has been responsible, in part, for the increase in inflation observed in emerging economies at the end of 2010 (Chart 2). In particular, the increase in food prices has had a direct and important first-round effect on higher inflation in a number of countries –especially in Asia– with the risk of feeding into overall inflation. However, going forward, the expected leveling of food prices will mean that this factor should become less important in determining headline inflation. Although the risk has also increased in developed countries, it is smaller than in emerging economies, given that food prices have a smaller weight on CPI and ample unused capacity and anchored inflation expectations will help keep inflation pressures in check.

More worrying for emerging economies is the realization that rapid growth and strong capital inflows in Asia and Latin America are starting to generate overheating pressures, through inflation but also evident through rapid credit growth and increasing asset prices. Indeed, we expect Asian economies to continue growing strongly, although in our opinion authorities will be able to steer them to a soft landing and avoid overheating, although that is surely a more pronounced risk than three months ago. Driven by domestic demand and high commodity prices, Latin America is also poised to grow strongly in 2011, converging to potential growth of around 4% in the region. As mentioned before, the biggest challenge for both regions will be to manage the policy dilemmas generated by strong capital inflows. We expect policy to continue tightening in most countries, while at the same time imposing ever more stringent administrative controls to limit those inflows and prudential measures to limit credit growth, especially in Asia.

2. Chile exceeds potential growth

Boosted by strong growth in demand, favorable terms of trade and a statistical effect in the first quarter of the year, the Chilean economy will grow by 6% in 2011, above its potential growth rate

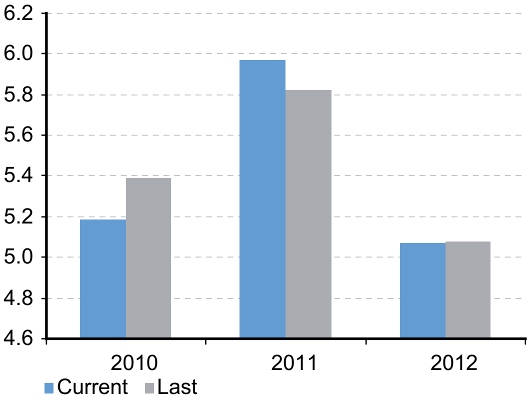
Although the earthquake on February 27, 2010 delayed economic recovery, the pause was brief. By the second quarter growth was buoyant again, and remained so for the rest of the year, despite some moderation in the last quarter. As a result, the average growth of 5.2% in 2010 is slightly above our 5% estimate of trend growth, with a clear pickup in pace in the last three quarters of the year.

The main ingredient of this positive performance was buoyant domestic demand, which tripled the GDP growth rate, supported by low inflation figures, strong recovery in employment and a sustained improvement in the terms of trade and the indicators of business and consumer confidence.

A number of these factors will continue in 2011 and in some cases improve on the 2010 situation. In particular, our baseline scenario assumes an average price of copper that is approximately 9% higher than the 2010 figure. The positive trend in the terms of trade will support the execution of various investment projects in the mining sector. Together with the initiatives in the electricity generation sector and construction these will explain the significant contribution of investment to aggregate demand in 2011. The boost given by the government to home construction will be particularly important in the construction sector. In addition, after a number of consecutive quarters of accumulation of inventories, leading to inventory levels being close to optimum, their contribution to growth of gross investment will be reduced.

Chart 5

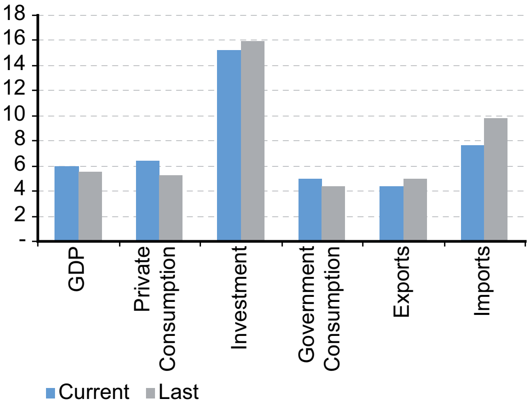
GDP growth (% y/y)



Source: BBVA Research

Chart 6

Changes in forecast for 2011: demand and GDP (% y/y)



Source: BBVA Research

The determinants of consumption will also continue to be favorable, in particular the labor market. It has now recovered significantly, unlike in the period following the Asian crisis. In contrast, higher price increases than in the last two years and their effect on the levels of consumer confidence will help moderate the rate of expansion in consumption. The components of demand expected to react with the biggest slowdown are durable goods and cars. A large part of growth last year cannot be repeated. For example, light vehicle sales will be up by only 13% in 2011 instead of the 68% in 2010.

Aggregate domestic demand will continue to grow faster than GDP in 2011. This will continue to close the capacity gaps that opened up after the last recession. Our calculations suggest that although GDP growth will remain above its potential growth rate, early this year the level of GDP growth will exceed its potential level, leading to greater inflationary pressures.

One of the areas in which the degrees of freedom will be reduced is the labor market, as after creating over 400,000 jobs (up 6.5%) and increasing the labor force by around 300,000 (up 4%), the unemployment rate fell from an average of 9.6% in 2009 to 8.1% in 2010. What is more, the unemployment level in the last rolling quarter of 2010 (7.1%) is very close to a level of full employment. In the same way, although we will continue to see increases in employment, these will be increasingly small and limited by the expansion of the labor force. If there are no future reforms to the labor market, the labor force will tend to grow at the rate of the economically active population. As a result, to the extent that our forecast economic growth demands more jobs, we will see greater pressure on labor costs. In addition, a phenomenon that has been observed in recent months and that will continue in the future is the shift from self-employment to salaried work. In all, we estimate that the unemployment rate will fall to 7.5% in 2011.

The narrowing of the output gaps, increased international commodity prices and the limited room for appreciation in the exchange rate will result in an inflation rate that is close to the ceiling of the Central Bank's tolerance band at the close of 2011

Towards the middle of 2010, various developments suggested the pace of inflation would increase: the strong recovery in economic demand, in particular the growth of domestic demand tripling that of output; the swift fall in the unemployment rate; and the increase in commodity prices internationally, which was causing inflationary surprises in various emerging economies. Despite this, 2010 closed with inflation at 3%. This is at the center of the Central Bank's target and below the forecast in our previous report (3.3% Chile Outlook, Fourth Quarter 2010), the Central Bank's Monetary Policy Report for September, which forecast an inflation of 3.9%, and the various surveys of expectations that forecast a result for the year above the Central Bank's target.

An accurate approach to inflation in 2011 requires an explanation of why inflation deviated from forecasts last year. First, the factor that contributed most to keep inflationary pressures in check in the second half of 2010 was the appreciation of the peso against the dollar, at a nominal 10% between June and December. This phenomenon explained the falls in prices in various tradable products, in particular clothing, footwear and some household appliances. In fact, as a result of the prices of these goods, the IPCX1, which is the inflation index that excludes unprocessed foods, fuels and regulated prices, was practically stable over the year.

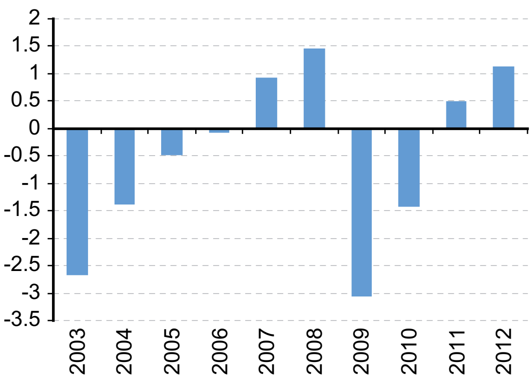
With respect to this factor, although there is a relevant risk of upward exchange-rate pressures returning, we consider it very unlikely that a similar rise in the peso will take place in 2011.

Second, capacity gaps have been narrowing, and according to our estimates this year actual GDP will exceed the level of potential GDP. In the case of the external gap, the movement in the terms of trade has maintained some room for maneuver, as despite the greater strength of domestic demand in terms of GDP, the current account closed 2010 with a surplus of around USD 15 billion (7% of GDP).

Third, the increase in commodity prices has only been pass-through in part. The transfer has been quickest in fuels, as is usually the case in Chile, and this has been reflected in the transport component of the consumer price index (CPI) basket. In addition, although food prices increased by a couple of points more than the overall CPI in 2010, part of this increase is reckoned to have been absorbed by narrowing margins, which would have increased in the previous upward cycle in 2008, and apparently were not reduced in the last recession.

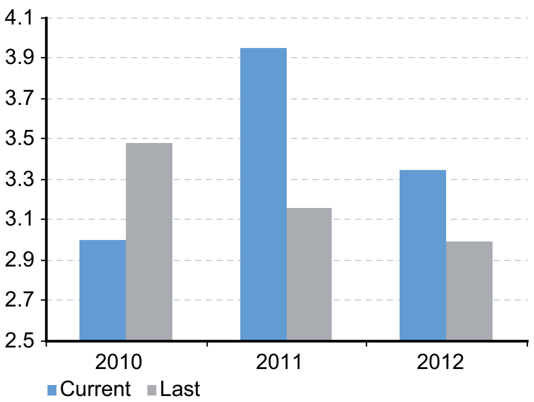
In all the areas highlighted above, perhaps with the exception of the external sector, given the copper price scenario, everything appears to indicate that the degrees of freedom has have been reduced substantially. Thus we forecast that inflation will reach 3.9% in 2011, with some significant risk that prices will exceed the ceiling of the Central Bank's tolerance band.

Chart 7
GDP gap (%)



Source: BBVA Research

Chart 8
Inflation (EoP, %)



Source: INE and BBVA Research

The scenario of greater inflation and growth will impose gradual normalization of the monetary policy rate despite upward pressures on the peso. For the same reason, additional measures are very likely to be required to strengthen the dollar in the local market

At the start of the year, the exchange rate fell to its lowest level since 2008, so the Central Bank decided to intervene on the foreign-exchange market by buying reserves for USD 12 billion. This intervention was carried out through daily auctions of USD 50 million until the international reserves reached a level that is equivalent to 17% of GDP. As could be expected from our expectations and those of the markets, the exchange rate fell by about 7% immediately following the announcement. This in turn led to an increase in inflationary expectations.

The Central Bank has the tools to achieve the contrasting objectives of controlling inflation (with the monetary policy rate) and countering the appreciation of the exchange rate (by accumulating reserves). It had managed to keep the exchange rate in check but inflation expectations have been decoupled from the target. As a result, in our opinion, the Central Bank's board should have increased its policy rate at its January meeting. However, instead it ruled out inflationary risk and opted to continue its strategy of strengthening the dollar by maintaining its policy rate at 3.25%.

Following this decision the decoupling of inflationary expectations has increased, and even in the two-year horizon has reached close to the ceiling of the Central Bank's band.

A lesson from 2008 is that inflation can break through the target range, and taking this into account we consider that the Central Bank will react with the energy required to anchor expectations again. We forecast that it will continue with gradual adjustments to the policy rate until it is around 5% in August. With current inflationary expectations this will eliminate the expansionary nature of the policy and it will remain at this rate until the expansive bias of monetary policy in the main markets worldwide changes.

However, the different fundamentals of the exchange rate, among them monetary policy, will lead to renewed upward pressure on the peso. We consider intervention on the foreign-exchange market is very likely to intensify

If this scenario materializes, the Central Bank would have the alternative of increasing the size of its reserve purchase program, or if it maintains its size, to increase the amount of the daily auctions and reduce the term of execution of the program. Any of these options will be (correctly) interpreted as a move away from the strategy of an inflation target and exchange-rate flotation, as the changes to the program announced in practice will "soil" flotation. In addition, an extension of the purchase program will imply increasing the cost of intervention, which as estimated is at around USD 250m.

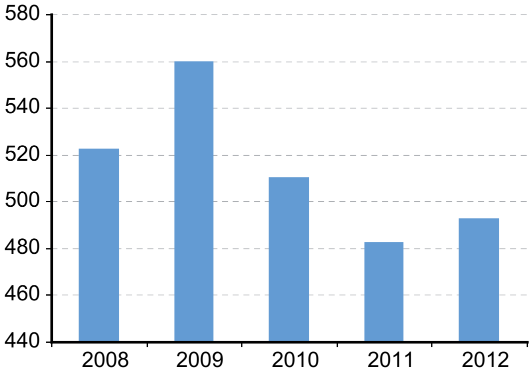
Another option is to introduce controls on capital flows. However, a number of studies show that the policy of reserve requirements for short-term capital flows was not very successful in the 1990s[1] . Nevertheless, a return to the application of reserve requirements or taxes on capital flows cannot be ruled out if the peso once more reaches the levels prior to the announcement of the reserve accumulation program.

It also appears a good idea for the government to send out new signals in order to reduce expectations of appreciation resulting from increases in copper prices. One such signal could be a commitment to swifter convergence towards a structural fiscal balance, which appears achievable, given our forecast of a global surplus for 2011.

Considering the probability of some kind of policy reaction if the exchange rate falls under 470 pesos/USD again, we estimate that for the rest of the year the exchange rate will move within a range of between 480-490 pesos/USD.

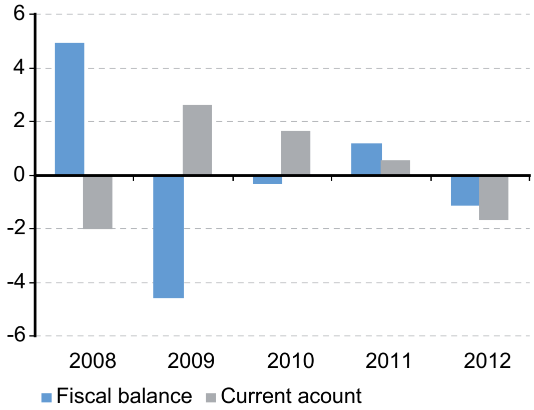
1: For an interesting example, see De Gregorio, José, "Enfrentando el desafío de los flujos de capitales", BCCh, Documentos de Política Económica, No. 35, May 2010.

Chart 9
Exchange rate (average, pesos/USD)



Source: BCCh and BBVA Research

Chart 10
Fiscal and external balance (% of GDP)



Source: BCCh and BBVA Research

Following intervention on the foreign-exchange market, the Central Bank announced a sterilization program with the issue of nominal and real securities throughout the yield curve, with a relative focus on the 10-year maturities. The immediate effect of this announcement was a sharp rise in yields, particularly for the 10-year securities, with a major adverse impact on the balance sheets of a variety of financial institutions, given their high level of exposure to instruments at these maturities. Subsequently, the increase in inflationary expectations led to a reduction in the yields of real securities, particularly at the shortest maturities, which in fact returned to pre-announcement levels. Thus there has been a sharp increase in inflationary compensation in the different maturities, particularly the shortest.

In general it is estimated that the yields of Central Bank instruments will have limited adjustments to their current levels in the coming months, as in the case of nominal yields they would have included the expectations of an increase in the monetary policy rate in the short term, and the effect of sterilization for the longer maturities. In the case of real yields, there will be no substantial changes in inflationary expectations in the short term, and in the longer maturities the yields will be close to their equilibrium levels, so the current slope in the curve of real yields will be maintained.

Although the increase in the yield structure, particularly of nominal yields in the short term, will be transferred to a certain extent to lending rates, we expect credit to return to pre-crisis levels. A major recovery in credit could already be observed in 2010, with total lending expanding at an average of 5.5%. However, it will be in 2011 that we will once more see rates of growth that are close to those registered up to 2008. In particular, it is estimated that the average of total lending will increase by 13.4%, with consumer finance increasing over 20%.

3. Sustainable growth on the horizon

In the medium term, and specifically towards 2013, we expect economic growth to converge with trend growth, which we estimate at 5%. Private consumption will slow as monetary policy becomes more restrictive. It will end up growing slightly under GDP growth, while investment will reduce its growth rate to 8%. This can be explained by the return to normal of investment in construction (after the post-reconstruction boom) and mining (as copper prices begin to fall).

Inflationary pressures will moderate in the two-year policy horizon, so that average inflation will be at the center of the target range (3%). This return to the center of the target will occur following the normalization of monetary policy and with the monetary policy rate reaching an equilibrium level of around 5.75%.

In this horizon, the fiscal accounts will suffer a slight deterioration, with a deficit of 1.7% of GDP in 2013. This can largely be explained by the expected movement of copper prices and the reduction in the rate of corporation tax following the temporary increase to fund reconstruction in the wake of the earthquake. In any event, the government's capacity for indebtedness, given the low level of public debt, and the accumulation of sovereign funds amounting to around 10% of GDP, guarantee the financing capacity for the biggest needs.

In terms of external accounts, the fall in copper prices will result in a deterioration of the value of exports against imports. Thus we expect the trade surplus to fall from the 5.8% forecast for 2011 to 1.4% in 2013. The current account will move into deficit, although not at significant levels (-2.6% of GDP), in line with forecasts for capital flows.

4. External risks and domestic economic policy risks limited

The risk scenario being considered is one triggered by a worsening in the fiscal situation of peripheral European countries, which involves adverse effects on the financial markets in developed and emerging countries. A slowdown in the Chinese economy is of particular importance for Chile, as it will lower copper consumption, thus leading to a fall in its price and a negative effect on confidence, although any possible shock of this kind (which is considered unlikely) would have a smaller effect than in 2009.

If the global risk scenario materializes, the biggest deviation of GDP against the baseline scenario would be in 2011. In 2012, the deviation would still be significant, and the gap would then be narrowed through 2015, as the negative effects of the external shock on the Chilean economy wear off.

In the case of the risk scenario described above, with low copper prices, risk aversion could be expected to increase, which would lead to a depreciation of the peso. This depreciation would be partially offset by a moderate slowdown in domestic demand. As a result, inflation would remain close to the center of the target range and below that forecast in the baseline scenario.

With respect to monetary policy, increased international uncertainty would oblige the monetary authorities to postpone the process of normalizing the intervention rate, possibly introducing a pause in the middle of the year at 4.5%. It would remain at this level for a longer time, waiting for the recession in the major economies comes to an end. In this case the neutral rate of 5.75% would be reached in mid-2013 instead of January 2013.

In the area of fiscal policy, lower copper prices would directly reduce current revenues, so the fiscal result would be less favorable. Even so, no deterioration in the structural balance is expected, as this has been calculated assuming a long-term price of copper that is far below the value forecast in the risk scenario.

Finally, the deterioration in copper prices would have a negative effect on the external accounts, with a resulting deterioration in the balance of payments, even though the effect would be limited due to the depreciation of the exchange rate.

On the domestic front, the main risk comes from the policy dilemma involved in pursuing contrasting objectives: on the one hand, moving inflation towards the center of the Central Bank target range; and on the other, preventing the appreciation of the peso. Monetary policy that is excessively focused on preventing appreciation in an environment of growing inflationary pressures could lead to inflation running out of hand in a similar way to 2008, when the Central Bank reacted late. This situation could be particularly complex if the expected moderation in domestic demand does not occur, food and fuel prices continue to rise and the copper prices remain at their current levels. These situations would lead to a greater inflationary risk and a higher peso.

5. Tables

Table 1

Macroeconomic Forecasts: Annual

	2009	2010	2011	2012
GDP (% y/y)	-1.5	5.2	6.0	5.1
Inflation (% y/y, eop)	-1.4	3.0	3.9	3.3
Inflation (% y/y, average)	1.5	1.4	3.1	3.4
Exchange Rate (vs. USD, average)	559.6	509.7	482.5	492.9
Interest Rate (%, average)	0.5	1.54	4.42	5.56
Private Consumption (% y/y)	0.9	10.1	6.4	5.1
Government Consumption (% y/y)	6.8	2.7	5.0	4.2
Investment (% y/y)	-15.3	17.7	15.2	10.2
Exports (% y/y)	-5.6	2.4	4.4	4.3
Imports (% y/y)	-14.3	29.2	7.7	4.9
Fiscal Balance (% GDP)	-4.6	-0.3	1.4	-1.0
Current Account (% GDP)	2.5	1.6	0.6	-1.7

Source: BBVA Research

Table 2

Chile: Quarterly macroeconomic forecasts

	1T10	2T10	3T10	4T10	1T11	2T11	3T11	4T11	1T12	2T12	3T12	4T12
GDP (% y/y)	1.6	6.6	7.0	5.6	9.1	5.3	4.5	5.2	4.9	5.3	5.2	4.9
Inflation (% y/y, eop)	0.3	1.2	1.9	3.0	2.9	3.0	3.2	3.9	3.7	3.4	3.2	3.3
Exchange rate (vs. USD, average)	518.8	530.2	511.7	480.4	480.9	480.4	482.8	484.9	487.4	491.0	494.6	498.4
Interest rate (%, eop)	0.50	1.00	2.50	3.25	3.75	4.50	5.00	5.00	5.25	5.75	5.75	5.75

Source: BBVA Research

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