

CHILE

Economic activity is projected to contract in 2009. The world economic crisis has hit Chile mainly through a deterioration in its terms of trade, as copper prices have fallen sharply, and through tighter financial conditions. The investment boom, led by mining and energy, has suddenly come to a halt and plummeting consumer and business confidence have led to sharp adjustments in private consumption and inventories. Inflation is declining rapidly and will undershoot the central bank's target band at the end of the year. After several years of surpluses, the current account has turned negative.

The central bank has cut the policy rate by 700 basis points between January and mid-May 2009. It should not hesitate to use its remaining room for manoeuvre if incoming data suggest that the economy is heading towards a deeper contraction. Fiscal policy has been appropriately supportive, using public assets accumulated when commodity prices were high. There remains room for further discretionary action, if necessary. Fiscal consolidation will be needed, however, once the recovery is underway.

Chile: Macroeconomic indicators

	2006	2007	2008	2009	2010
Real GDP growth	4.8	4.7	2.9	-1.6	3.0
Inflation ¹	3.4	4.4	8.7	2.0	1.9
Central government fiscal balance ²	7.7	8.8	5.3	-4.0	-2.7
Central government structural fiscal balance ^{2,3}	1.0	1.0	0.5	0.0	0.5
Current account balance ²	4.9	4.4	-2.0	-1.8	-2.1

1. Inflation refers to average consumer price index.

2. In percent of GDP.

3. Ministry of Finance figures.

Source: National sources and OECD projections.