BBVA | RESEARCH

Chile Economic Outlook

Second Quarter 2014
Economic Analysis

- **The global economic cycle has strengthened but emerging economies have displayed greater cyclical weakness, with China being a particular concern.**
- **We forecast 3.4% GDP growth for Chile, consistent with MPR (Monetary Policy Rate) cuts down to 3.25%.** This scenario assumes a 2% to 3% contraction in private investment, with a mild public investment growth in line with the Budget Law forecasts.
- **Considerable inflationary surprises were seen over the first months of the year, largely related to transitory factors and the swift depreciation of the peso.** We forecast 2014 CPI inflation to finish at around 3.1%, below the figures reflected in asset surveys and prices.

Index

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1. Summary

As of the beginning of 2014, the global economic cycle remains robust. According to our estimates, global GDP growth accelerated very mildly over the first quarter of 2014, to quarterly levels of close to 0.8%, a pace that we expect will remain steady over the first half of the year.

Behind this path of sustained global recovery lies the cyclical improvement experienced by the developed economies, which have made up for the slowdown in some emerging economies in Asia and Latin America. For China in particular, doubts over cyclical strength have materialised with a slowdown in activity over the first quarter of 2014, albeit less than that anticipated by analyst consensus. The most recent domestic and foreign demand indicator data reveal a loss of cyclical momentum, which is greater in investment than in consumption.

Meanwhile, US GDP stayed on a path of sustained growth at the beginning of 2014, despite the impact of unusually adverse weather conditions, and the labour market has been improving. In the case of Europe, our short-term models point to an increase in growth in the first quarter of 2014 of around 0.5% quarterly. However, over the coming months, the drive of the foreign sector could be tamed by the following: i) appreciation of the euro; ii) lower Chinese demand; and iii) geopolitical risks, if the crisis in Ukraine persists. All in all, we maintain our Eurozone growth forecasts of 1.1% in 2014 and 1.9% in 2015.

On a local level, we forecast 3.4% GDP growth, 0.6% less than that projected in our previous Outlook. The later correction is due to the materialisation of idiosyncratic risks associated with business and consumer confidence, together with less labour market tightness, which we believe will be somewhat more persistent given the less favourable times for investment. Indeed, the main correction to our baseline scenario lies in the total investment component, which we expect to contract by 1.5% in 2014, and which compares with the 3.8% annual growth projected last January. However, the positive factors for growth remain linked to improvements in the global outlook, major fiscal and public investment stimuli, normalisation of the inventory cycle and the additional transmission of MPR cuts. We consider that activity faces balanced risks, consistent with growth of somewhat over 4% for the last quarter.

The current account deficit has ceased to be a problem for the materialisation of MPR cuts, even more so given the accelerated real and nominal depreciation of the peso, and the already evident slowdown in private consumption. Our baseline scenario assumes that lower employment growth, falling real wages and additional impacts on consumer confidence will keep a certain pressure over the expansion of private consumption, which would grow by around 3.5%.

In the wake of startling surges associated with the depreciation of the peso and with supply factors both of which we believe to be transitory, inflation now presents balanced risks. For this reason, we have revised our annual CPI inflation forecastslightly upward, from 2.6% to 3.1%, which also includes rises in the prices affected by the tax adjustments provided for in the Tax Reform, which we expect will be passed by the third quarter.

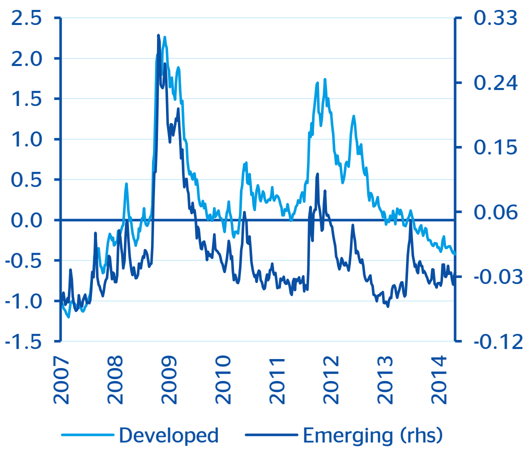
Within the latter context, we expect three additional MPR cuts, which we consider are consistent with the baseline scenario submitted in this Report. The timing of the cuts would depend on the mitigation of inflationary surprises and the persistence of weak activity figures. Despite this conditionality, we expect the MPR to stand at 3.25% toward the third quarter of the year.

2. The deceleration in China and the Fed's tighter monetary policy are defining the global scenario

The global recovery continues, but the improvement is being hampered by the deceleration in the EMs

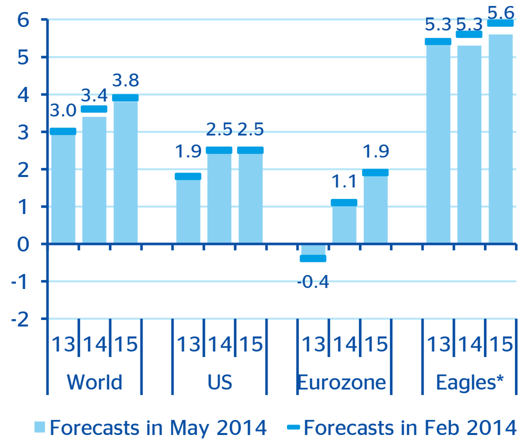
The global economic cycle remains robust at the start of 2014. According to our estimates, in the first quarter of 2014 global GDP has accelerated very slightly to around 0.8% QoQ and we expect this pace to be maintained for the first part of the year. In the wake of this sustained global recovery is the cyclical improvement in the DMs, which has offset the deceleration in some EMs in Asia and Latin America. Meanwhile, in the last few months the financial markets have performed very differently in the two regions and with more differentiation between the EMs. Capital flows, asset prices, interest rates and financial tension indicators have fundamentally performed in line with the outlook for rate hikes in the US, but have also been affected by both geopolitical risk events in Eastern Europe and the outlook for deceleration in China. Altogether, in the last few months, and particularly in March and April, there has been a recovery in asset prices in emerging economies and a reduction in financial tensions which had gone up slightly at the beginning of 2014 (Figure 2.1).

Figure 2.1
BBVA Research Financial Tensions Index in developed and emerging markets



Source: BBVA Research

Figure 2.2
GDP growth forecasts (%)



(*) EAGLEs is the group of emerging economies which will contribute most to world GDP in the next 10 years. The group contains China, India, Indonesia, Brazil, Russia, Turkey and Mexico.
Source: IMF and BBVA Research

All in all, our assessment of the global scenario has a downward bias compared with our valuation three months ago, which is reflected in the adjustments to our forecasts. After growing at 3.0% in 2013, global GDP will start to accelerate again in 2014 and 2015 at around 3.4% and 3.8% respectively (Figure 2.2), figures that demonstrate both the variations in growth expectations in diverse regions and the increased, although slight, contribution to global growth by the developed economies. Although there have been no significant changes in either the US or the eurozone, the downward pressures in our forecasts are above all visible in the EMs in 2014 and 2015, in both Asia and Latin America, resulting from concerns due to the slowdown in the Chinese economy. In this context, there are still short and medium-term downside risks to our forecast. Some factors with a global impact could make themselves felt more intensely than expected in the base scenario on a short-term time horizon, such as a tighter monetary policy on the part of the Fed, reduced growth of the global demand stemming from economic slowdown in China or geopolitical risks derived from Eastern Europe.

In the developed economies, the US overcomes the impact of an unusually cold winter and the perspectives for an improvement in the eurozone have increased

US GDP has maintained steady growth at the beginning of 2014 in spite of the impact of unusually adverse weather conditions. In the labour market, employment has increased by an average of 178,000 jobs in 1Q14, in line with the print in 4Q13, and the unemployment rate has fallen to 6.7% of the labour force, a smaller than expected fall because the increase of the population available to work. As a result, the Fed has pressed ahead with the announced moderation in its balance-sheet expansion. In this context, we are expecting the Fed to complete its exit from the asset-purchase programme towards the end of the year, and the market to focus on a possible change in inflation trends as it anticipates the start of interest-rate hikes in a scenario of a gradual acceleration in GDP growth. Growth in 1Q14 reached 0.1% annualised. The leading indicators point to a more robust start to the second quarter than to the first. Altogether, we are maintaining our forecast for US growth at 2.5% in 2014, and the same in 2015 (Figure 2.2). The forecast has upside risks if the improvement in confidence provides additional incentive to corporate investment and job-creation.

In Europe, growth in the eurozone in the latter part of 2013 was driven by the recovery in exports, which has also favoured the improvement in investment. Looking at the first quarter of 2014, our short-term models point to an acceleration of around 0.5% QoQ, although the boost from the external sector could moderate in the coming months due to: i) euro appreciation; ii) the reduced demand from China; and iii) geopolitical risks if the crisis in Ukraine continues. We maintain our forecasts for the eurozone in 2014 at 1.1%, and 1.9% in 2015 (Figure 2.2), in a scenario of contained financial tensions and fiscal and monetary policies that do not put a brake on growth.

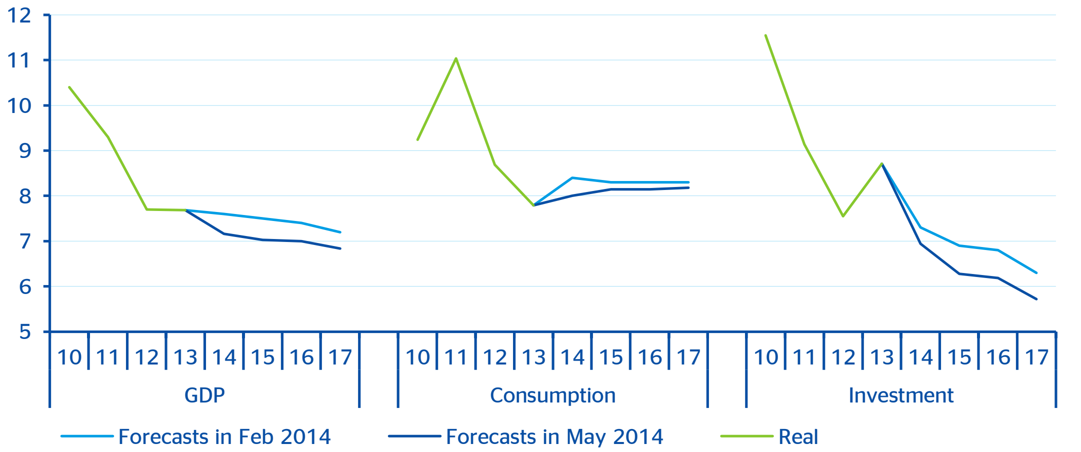
Finally, among developed economies, there is slightly more uncertainty about the growth outlook for Japan, which has had a QE programme underway since January 2013, together with fiscal stimuli to return to having inflation and favouring consumption and investment. We have revised downwards our outlook for growth in 2014 by four basis points to 1.1%, and we are maintaining our estimate for 2015 at 1.3%.

In China, the deceleration that began at the Chinese New Year is here to stay, in an environment of lower-than-expected inflation

In line with our forecasts in the last quarterly report, uncertainties about the cyclical strength of the Chinese economy have materialised, with a deceleration in activity during the first quarter of 2014, although less than anticipated by the consensus of analysts. The latest data from indicators on both domestic and foreign demand show the loss of momentum in the cycle, more so in investment than in consumption (Figure 2.3), in an environment of lower-than-expected inflation. At the same time, the authorities are starting to introduce measures to deal with the weaknesses arising from economic policy decisions taken in the last few years to support growth in the short term. This has involved postponing the deleveraging of local governments and companies, and continuing to approve infrastructure projects and excess installed capacity which are unlikely to be profitable while families, who are financing the process, are receiving negative real interest rates on their savings. This is an inefficient allocation of resources, which also encourages the development of financial systems in parallel with the more regulated one and which may be a source of problems in the future. To this end, regulations on the non-banking financial sector, shadow banking and environmental protection are all being toughened.

All in all, we have revised Chinese growth downwards to 7.2% and 7.0%, in 2014 and 2015 respectively, nearly half a point less than forecast three months ago (Figure 2.3). The increasing importance of China as a source of world demand in the last few years is undeniable. But the differentiation between areas is unchanged, with higher exposures in Southeast Asia, some South American and African countries and, among developed economies, Germany. According to our estimates, the impact on world growth of each point of Chinese growth lost is around 4pp, principally as a result of lower demand from China itself. Note also that the expected adjustment in the local scenario is limited, and clearly not enough to unleash episodes of global financial uncertainty.

Figure 2.3
China: Growth forecasts (%)



Source: BBVA Research

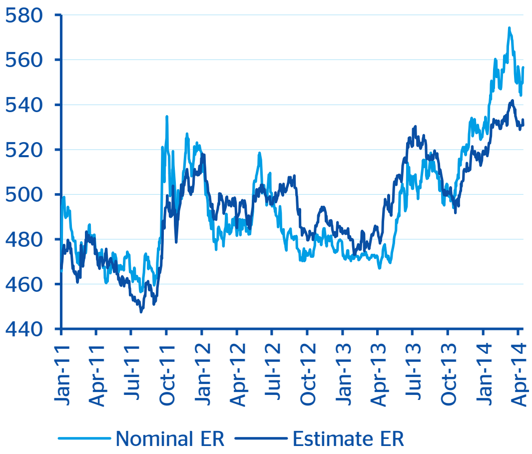
In summary, there are two factors with a global impact on the forecast horizon: possible surprises in the tightening of the Fed's monetary policy, and lower growth of Chinese demand, with macroeconomic repercussions that are clearly differentiated between economies. As we saw last May, the sudden perception by the market that tightening by the Federal Reserve was imminent with the withdrawal of quantitative easing, raised financial volatility in emerging economies. There was a clear differentiation between different areas, however, with greater volatility in those exchange rates whose exposure to short-term foreign funding is greater. On the other hand, also among emerging economies, it is the Asian economies which are most exposed to a reduction in Chinese demand, with the further addition to the list of a few raw materials exporters, such as Chile. All these factors can be shown in a map of vulnerabilities where differentiation is a vital factor.

3. Local financial markets with general improvements, in line with regional performance

The region's financial markets have internalised the tapering of monetary stimulus in the US with lower risk premiums, currency appreciations and rising stock markets

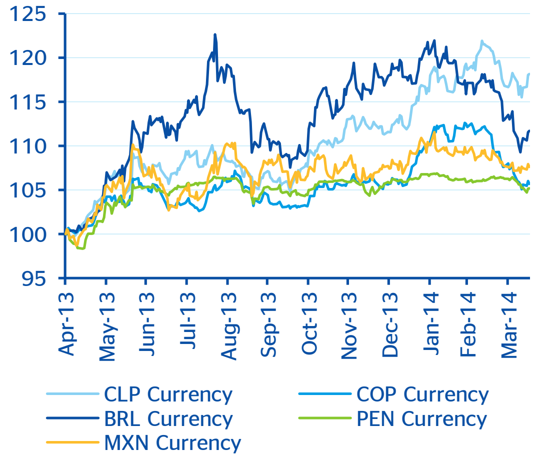
After crossing the CLP570 per dollar mark at the beginning of March, an exchange rate level we feel was not aligned with the fundamentals, the rate partially rectified the misalignment by retreating (Figure 3.1). This behaviour coincides with the strengthening of other currencies in the region, but is less than that observed, for example, in the case of the Brazilian real and Colombian peso (Figure 3.2).

Figure 3.1
Effective and estimated exchange Rate (USD/CLP)



Note: Short-term determination model of the USD/CLP exchange rate along the lines of Cowan et al. (2007).
Source: Central Bank of Chile and BBVA Research

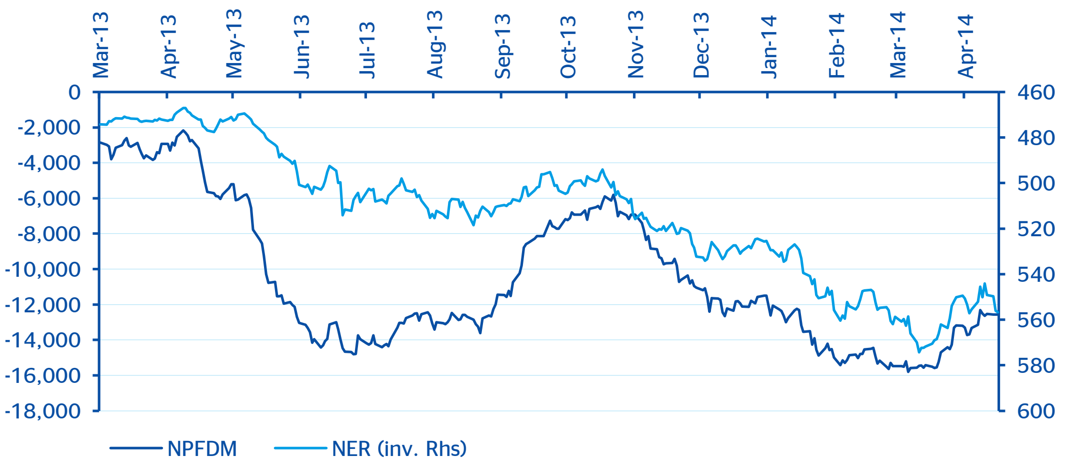
Figure 3.2
Exchange rates against USD (Indexes 30-Apr 2013=100)



Source: Bloomberg and BBVA Research

The strengthening of the peso also coincided with a scenario of a mild recovery in copper prices and the resumption of derivative-based interest rate arbitrage trading (carry trade) on the part of non-residents (Figure 3.3). We forecast that the exchange rate will return to CLP570 levels at the year's close, to the degree that our forecast of a 3.25% benchmark rate materialises, that we observe a further deterioration of the terms of trade, and that the Federal Reserve maintains the pace of its monetary stimulus tapering. For its part, the announcement of dollar sales from the FEES (Economic and Social Stabilisation Fund) to capitalise the state owned mining corporation (Codelco) is a factor that will contain further potential depreciatory pressures. However, we maintain an upward bias for the USD/CLP exchange rate, linked to a greater deceleration of activity than the one contemplated in this baseline scenario.

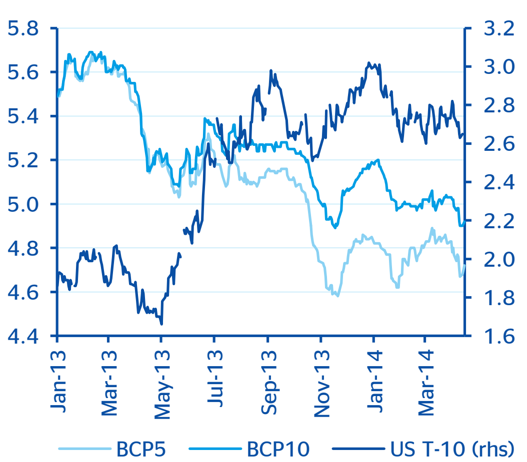
Figure 3.3
Net position in foreign derivatives market and nominal exchange rate (USD mn, USD/CLP)



Source: Central Bank of Chile and BBVA Research

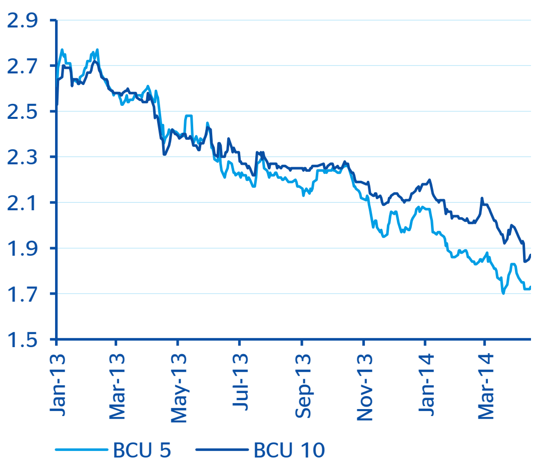
After the near 20 basis-point decline in long-term nominal interest rates recorded in January (associated with a drop in international rates and with the greater cuts expected in Chile's MPR), the BCP-10 (Chilean central bank 10-year bond in pesos) experienced a period of relative stability at around 5% until early April, falling back later to levels of 4.9%. The yield on the BCP-5 also dropped by around 10bp in April, coming in at around 4.7% halfway through that month. All of the latter occurred while the rate on the 10-year US Treasury note recorded a 20bp drop in April, as a result of information suggesting a continuation of monetary stimulus in the US, negative news from China and a rise in risk aversion in connection with the Ukraine crisis (Chart 3.4). For their part, although with ups and downs, interest rates on 5- and 10-year inflation-indexed instruments (BCU) remained on a downward path, as a result of the inflationary surprises of the first months of the year, with cumulative respective falls of 35 and 31bp (Figure 3.5). Thus, at the closing of this report, the average implicit inflation yield of these instruments comes in at 3.0% at five years and 3.1% at 10 years.

Figure 3.4
Rates on 5- and 10-year BCP and 10-year UST (percentage)



Source: ABIF (Chilean Association of Banks and Financial Institutions), Federal Reserve Bank of St. Louis and BBVA Research

Figure 3.5
Rates on 5- and 10-year BCU (percentage)



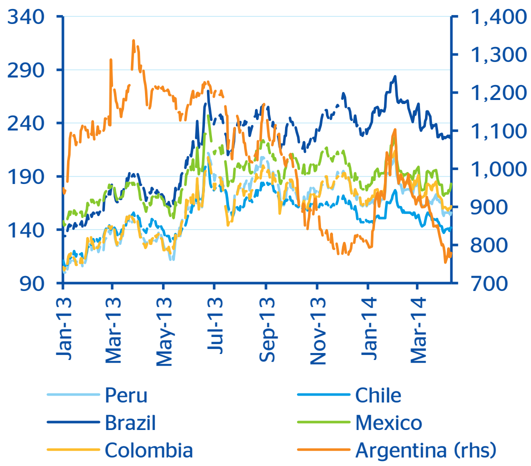
Source: ABIF and BBVA Research

One factor that could contain the decline in indexed rates is the announcement of the Treasury's auction dates, which could include a greater share of indexed bonds versus that announced in January of this year. In addition, there is the scenario, which we deem likely, in which the Ministry of the Treasury would have to request authorisation to issue more debt than that authorised by the Budget Law (USD6bn), to finance the greater effective fiscal deficit expected for this year.

For its part, the EMBI sovereign risk premium dropped, coming in 12bp below the close of 2013 and 35bp below the high reached in early February, as at the close of this Outlook. This trend is similar to those displayed by other countries in the region (Figure 3.6).

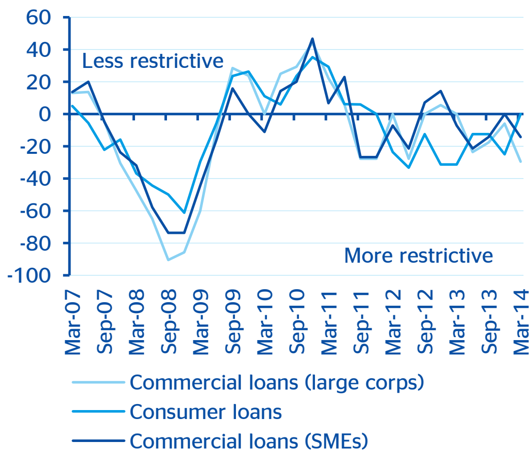
With respect to domestic financing conditions, although the figures reveal that bank lending has kept the course of economic activity at arm's length and shown relative stability, the most recent central bank banking credit survey for the first quarter showed a more restrictive credit supply stance for companies, especially large ones, as well as a weakening of demand. In the case of consumer credit, while the terms for the extension of loans remain at the margin, weaker demand is perceived (Figure 3.7).

Figure 3.6
EMBI Chile and LatAm (basis points)



Source: Central Bank of Chile and BBVA Research

Figure 3.7
Change in credit supply*
(% of total responses)



*Refers to the difference between the number of surveyed banks that believed credit approval standards were less restrictive, and the number of those that considered said standards to be more restrictive, as a percentage of total responses.
Source: Central Bank of Chile and Banking Credit Survey

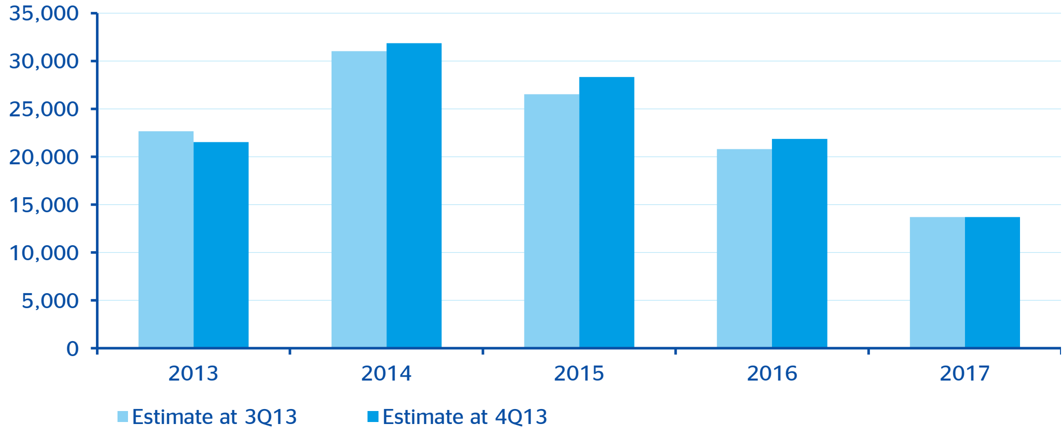
4. Chile: Activity to slow down more than expected, with 2014 GDP growth of 3.4%

A greater-than-expected slowdown in investment explains our downward revision to growth for 2014-15. However, we continue to anticipate that GDP growth will be supported by a greater relative contribution from the foreign sector, considerable fiscal stimulus and the effects of Monetary Policy Rate (MPR) cuts. For its part, the greater persistence and magnitude of the slowdown leads us to a downward revision of 2015 growth to 4.3%

The latest national accounts figures reveal that the economy grew 2.7% YoY in 4Q13, in line with expectations. However, with the upward revision to growth in previous quarters, GDP ended 2013 with a growth of 4.1%, slightly higher than the 4.0% we anticipated some months ago.

The above details aside, we now highlight the surprises in the behaviour of GDP expenditure components. In particular, investment displayed a steeper-than-expected slowdown, falling 12.3% YoY in 4Q13 to consolidate poor growth of only 0.4% in 2013. This was mainly driven by lower accumulation of machinery and equipment, but was also observed in construction work, which remained unchanged in the fourth quarter of 2013 and closed the year with moderate growth of only 3.3%. Within this context, we have revised our view on investment for 2014, which recognises a mild fall of 1.5% in GFCF, led by drops in machinery and equipment, although more moderate than those observed in 4Q13. Nevertheless, we see investment recovering in the second half of 2014, after the uncertainty over the details of the Tax Reform and the most demanding bases of comparison, particularly on machinery and equipment, are dispelled. These investment dynamics will also be characterised by a greater contribution of public investment, which will partially make up for the fall in private investment over 2014. We thus see GFCF recovering in 2015 with 5.4% growth, led by both accumulation of machinery and equipment and construction work. A part of this view is supported by the latest figures revealed by the Investment Registry (Figure 4.1).

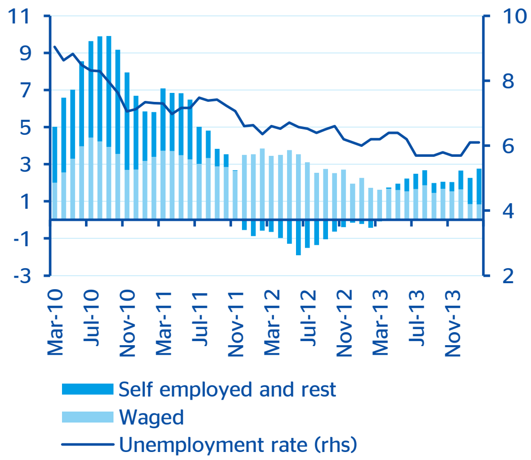
Figure 4.1
Estimate of investment to materialise (USD mn)



Source: Corporation of Technological Development on Capital Goods and BBVA Research

Private consumption remains relatively dynamic, growing 5.6% in 2013, in spite of its 4.9% growth in 4Q13 revealing signs of exhaustion. These data are in line with the moderation in real payrolls, which we expect will continue to deepen over the course of 2014, led by a slowdown in job creation. The latter is characterised by a greater share of the self-employed to the detriment of salaried workers (Figure 4.2), in addition to a slowdown in wages driven by both the lower growth in aggregate activity and the transitory pickup in inflation that has eroded real wages and confidence, even though the latter still remains at optimistic levels (Figure 4.3).

Figure 4.2
Job growth by category and unemployment rate (% var. YoY)



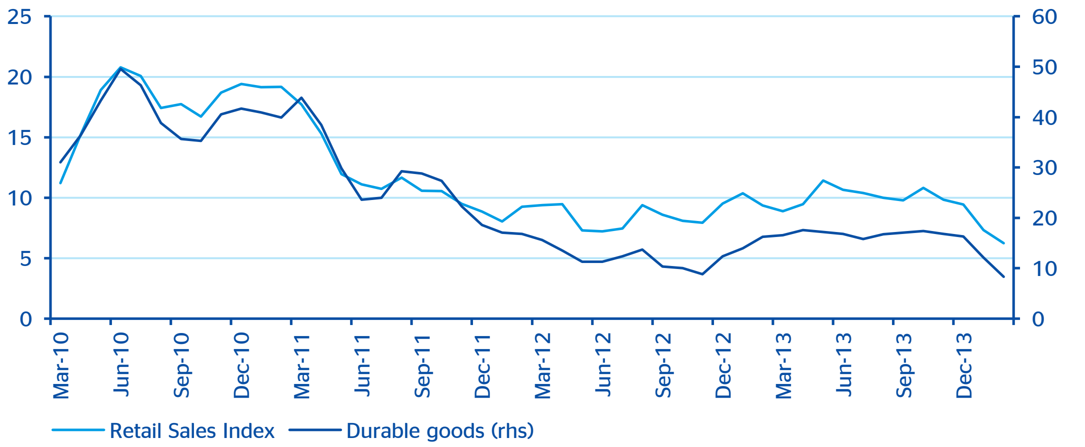
Source: INE (National Statistics Institute) and BBVA Research

Figure 4.3
Growth in real wages and consumer confidence (% var. YoY, Index)

Source: INE, Central Bank of Chile and BBVA Research

Consequently, we anticipate a growth in private consumption of 3.5% in 2014 and a subsequent recovery in 2015 to 4.5%, supported by cuts in the MPR and the recovery of aggregate activity toward its potential. This forecast is based on retail sales figures, mainly due to the durable component (Figure 4.4).

Figure 4.4
Retail sales and durable goods index (% var. YoY of quarterly moving average)



Source: INE and BBVA Research

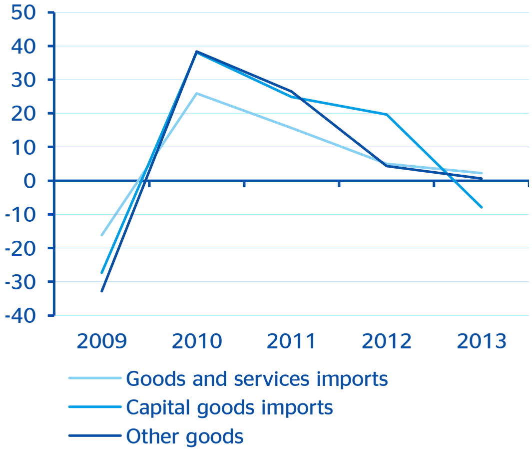
All in all, we expect domestic demand to provide a lower expansionary contribution of around 3.2% in 2014 (versus the 4.4% expected in our previous Report), and subsequently to recover with growth towards 4.7% over 2015. Nevertheless, fiscal expenditure will to some degree make up for the expected slowdown in domestic demand. In particular, based on the provisions of Chile's Fiscal Rule and the immediate effects on revenues expected as a result of the Tax Reform, we anticipate a growth in fiscal spending of around 8% on average over 2014-15 (for further detail see Section 8).

Overall, our view on local demand is also reflected by a strong slowdown in imports, which we expect will grow this year by a meagre 2.7%, due to lower capital goods imports (Figure 4.5). This would be consistent with both the expected lower activity in domestic demand and the real depreciation of the exchange rate. Led by a recovery of investment in machinery and equipment and consumption, we expect imports to record growth of around 5.4% for 2015.

With respect to exports, we stand by our expected growth figures of 4.5% and 4.6% for 2014 and 2015 respectively. These forecasts are mainly based on the boost that both greater global growth (led by a rebalancing toward developed economies) and the expected depreciation of the real exchange rate will provide to the export sector. Additionally, the strong investment in mining over recent years will provide support for foreign sector growth over the next decade. In summary, all of these factors will make up for the lower relative growth of emerging economies, such as China's, with respect to the developed economies.

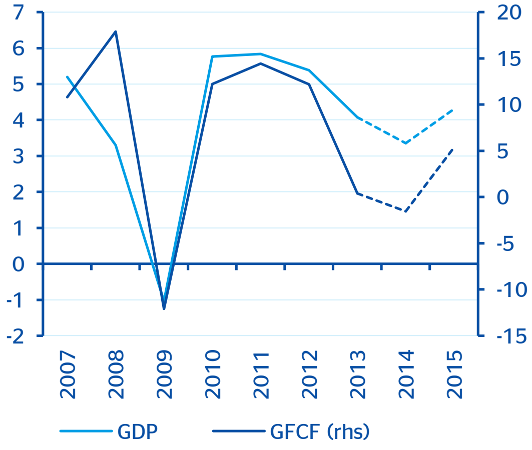
Nevertheless, the greater-than-expected slowdown in investment explains, for the most part, our downward revision to expected growth for 2014, from 4.0% to 3.4%, while our projection for 2015 points to GDP growth of 4.3% (Figure 4.6).

Figure 4.5
Growth in imports (% var. YoY)



Source: Central Bank of Chile and BBVA Research

Figure 4.6
GDP growth (% var. YoY)



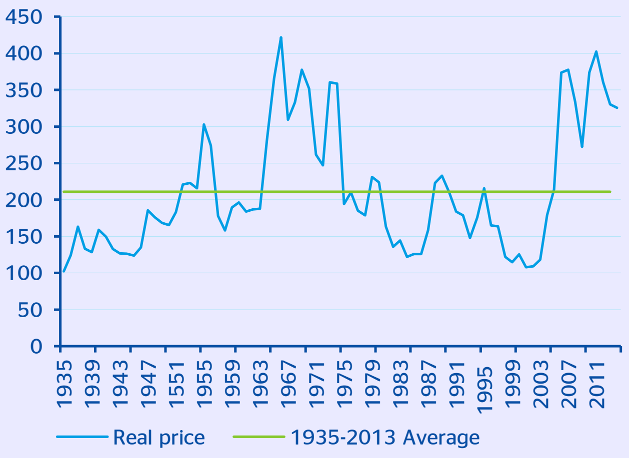
Source: Central Bank of Chile and BBVA Research

Box 1. The new copper scenario and its implications for the Chilean economy

Over the first months of this year, copper prices slumped close to what are considered its long-term price levels. The years of high copper prices are behind us and, in the most probable scenario, the price of the metal will fluctuate around its long-term levels over the coming years. This box explains the reasons for the recent adjustment, the medium-term perspectives for the copper market and the implications of this new scenario for the Chilean economy.

The so-called supercycle of the copper price began in 2004 and carried the value of the metal markedly above its historical average (Figure B.1.1). While the price has dropped over the previous two years, its real price remains high from an historical perspective.

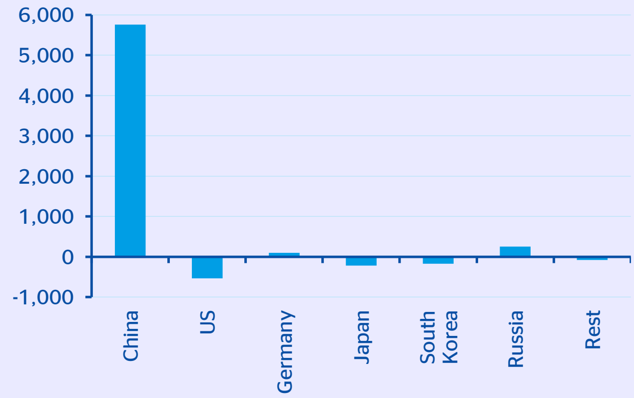
Figure B.1.1
Real price of copper 1935-2013 (USDc/lb.)



Source: Cochilco and BBVA Research

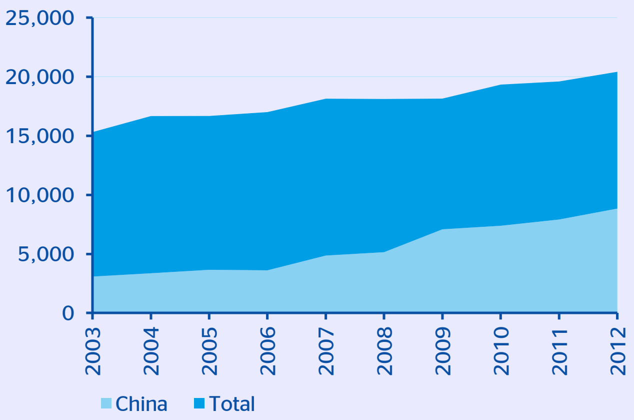
The cause of this supercycle has been widely debated, with China mentioned as the main determinant. From 2003 to 2012, the Asian giant more than doubled its share of world copper consumption, climbing from 20 to 43% of total consumption, which accounts for over 100% of the rise in global consumption in that period (Figures B.1.2 and B.1.3). This greater copper demand went hand in hand with the growth in investment. Growth has been losing steam since 2012 however, and its composition has also started to shift toward private consumption and lower investment contribution, a trend which should continue.

Figure B.1.2
Growth in copper consumption. Main consumers 2004-12 (‘000 tonnes of fine copper)



Source: BBVA Research with Cochilco data

Figure B.1.3
Copper consumption. China and Rest of World 2004-12 (‘000 tonnes of fine copper)

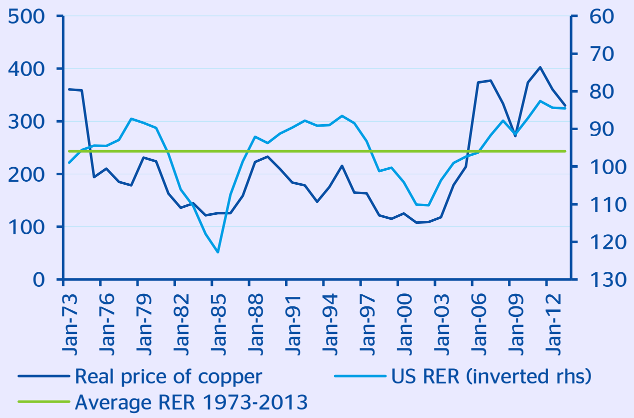


Source: BBVA Research with Cochilco data

This change in composition, while positive from the growth sustainability perspective, is not precisely positive from the point of view of copper demand. For its part, China's growing role in this market makes it highly determinative of the behaviour in the price of the metal. We expect China to grow around 7.2% in 2014, a figure that falls considerably short of those recorded in the highest growth period of the first half of the 2000s.

In addition to this lower growth in China, there is the start of the withdrawal of unconventional monetary stimulus in the US, which has caused a global strengthening of the dollar. We expect this trend to continue over the coming quarters, to the degree that monetary conditions in this economy proceed with the normalisation process. A higher dollar is generally associated with a lower relative demand for copper and a lower price, as proposed by De Gregorio et al. (2005)[1]. The authors estimate that, over the long-term, a 10% real depreciation of the US dollar would cause the real price of copper to rise by 18%. For example, were the real exchange rate of the US dollar to converge on its historical average (12% above its current level), this elasticity would entail a 22% decline in the real price of copper, which in current figures would equate to a slide from USD3.00 to USD2.35 per pound (Figure B.1.4).

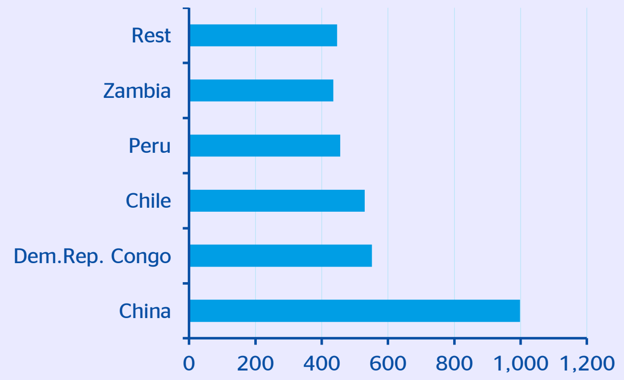
Figure B.1.4
Real price of copper and US RER (USD cents/lb., index)



Source: Cochilco, US Fed and BBVA Research

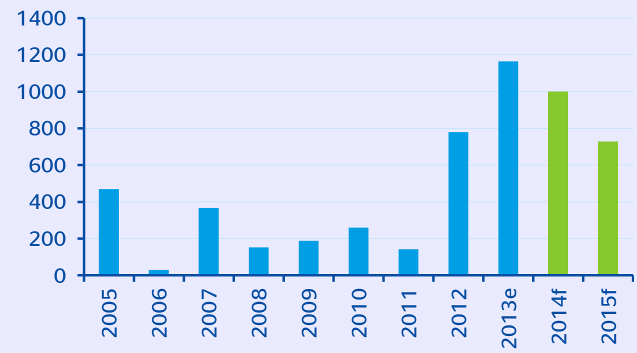
After several years of high copper prices, supply of the metal has reacted, contributing to a surplus in the market. Over 2004-12, the average growth in global consumption of refined copper was 3.3%, while that of world copper mine production was 2.5%. This trend, however, has changed over recent years. In 2012, the global copper mine supply grew 4.8% and available estimates point to a 6.8% YoY growth for 2013. Consequently, the refined copper market recorded a 319,000 tonne surplus in 2013, a state that will continue in 2014 with a figure in the order of 360,000 tonnes, and also in 2015, reaching a maximum surplus of 416,000 tonnes[2]. From 2018 to 2020, the market will once again return to a state of deficit, due to the natural attrition that some mining operations will experience.

Figure B.1.5
Growth in global production of mined copper. Main producing countries 2004-12 (‘000 tonnes of fine copper)



Source: BBVA Research with Cochilco data

Figure B.1.6
Rise in Global Copper Mine Supply (‘000 tonnes of fine copper)



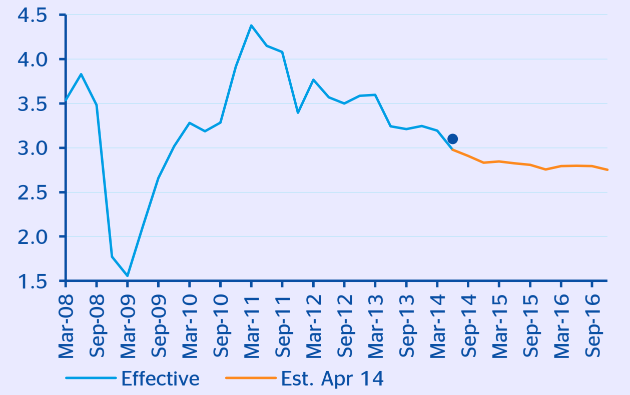
Source: BBVA Research with Cochilco data

The surplus scenario brings the copper price down to long-term values, but the drop is contained by the growing costs of production, the countercyclical policies of the Chinese government and the emergence of new consumers. This new copper market scenario is generating a surplus that will continue over the next four years. Within this context, the perspectives for the price of copper for 2014-15 are bearish (from USD3.14 and USD2.98 per pound to USD3.00 and USD2.90 per pound for said years, respectively (Figure B.1.7), but the rise in the costs of production reduces the risks of real price scenarios as low as those observed before the start of the supercycle (Figure B.1.8). Significant price declines would lead projects with very high operating costs to exit the market, automatically containing downward pressures (Table B.1.1).

1: J. De Gregorio, F. Jaque and H. González (2005). Fluctuations in the Dollar, Price of Copper and Terms of Trade. Central Bank of Chile.Working Paper No. 310.
2: Cochilco. Report on Copper Market Trends. January 2014.

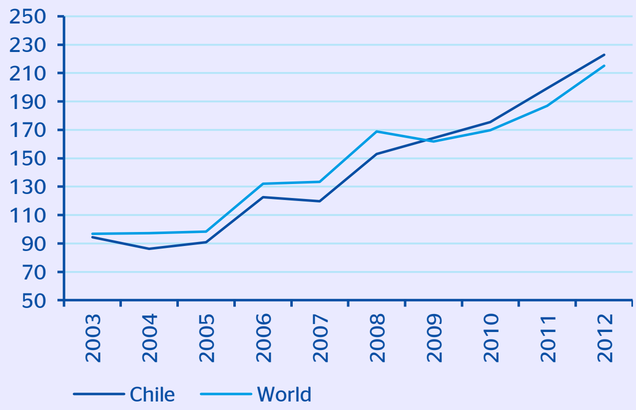
Another containment factor correspond to the Chinese government's ability to implement countercyclical policies, such as the recently announced increases in public expenditures to develop infrastructure beginning in 2Q14. Lastly, taking a more long-term view, the copper market may witness the emergence of new consumers who will be capable of offsetting the lower growth in Chinese demand. This is the case, for example, of India, which is estimated will double its share of global copper consumption over the next 15 years (from 2.2% to 4.4%), to become the third biggest consumer in 2030, after China and the US.

Figure B.1.7
Copper price projection (USD/lb., average)



Source: Chilean Copper Commission and BBVA Research

Figure B.1.8
Copper cathode production costs (C3) (2011 USDc/lb.)



Source: BBVA Research with Cochilco data

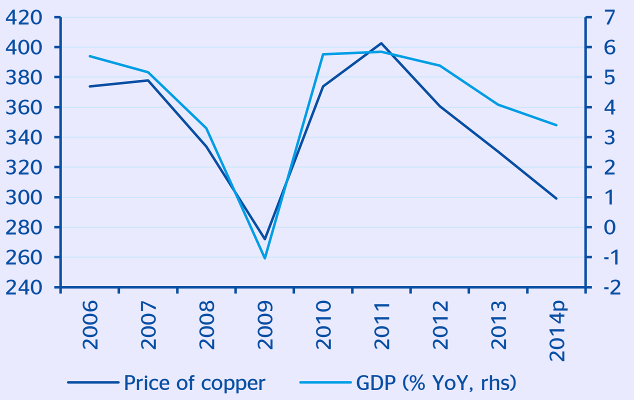
Table B.1.1
Local mining costs (US cents/lb.)

Mine	C1 Cost	Company
Michilla**	322	Antofagasta Minerals
Salvador**	300	Codelco
MantosBlancos*	274	Anglo American
Esperanza**	252	Antofagasta Minerals
El Soldado*	243	Anglo American
Lomas Bayas*	235	Glencore
Collahuasi*	208	Anglo/Glencore
Gabriela Mistral**	207	Codelco
Mantoverde*	191	Anglo American
Chuquicamata**	177	Codelco
Los Pelambres**	152	Antofagasta Minerals
Los Bronces*	145	Anglo American
El Teniente**	140	Codelco
Andina**	137	Codelco
El Tesoro**	136	Antofagasta Minerals
RadomiroTomic**	127	Codelco

*Record at December 2012/**Record at September 2013.
C1 Direct Cost: Mining, plant, overhead, smelting, refining and freight costs.
Source: El Pulso newspaper based on company information

Notwithstanding copper's importance to the Chilean economy, the framework of economic policies will enable dealing with a lower price scenario in a positive manner. Copper is a key variable for our economy. To provide some illustrative figures, in 2013 copper mining accounted for 11% of GDP, 52% of exports and 10% of tax revenues. Furthermore, there has been a remarkably high correlation over the previous eight years between the price of copper and GDP growth (Figure B.1.9).

Figure B.1.9
Real price of copper and GDP growth (USD cents/lb., % var. YoY)



Source: BBVA Research with Cochilco and Central Bank of Chile data

While these figures reveal that the Chilean economy might be vulnerable to a sudden price slump, both fiscal and monetary policies and a floating exchange rate system would act as stabilising mechanisms were an adverse scenario for copper to materialise. The economy did not grow at 8-9% rates as it did in previous bullish copper price cycles, but neither will it suffer from recessions of the magnitude of those in the past when foreign conditions revert, which is not to say that we are immune to a terms of trade shock[3].

On the fiscal policy side, since 2001 the public expenditure level has no longer depended on the annual price of copper, but rather on its expected average for the next 10 years. This enables isolating the expenditure from the cyclical fluctuations of copper prices, save the non-recurring income when the price is above its long-term value, and use the savings during periods in which the price falls below its benchmark value.

For its part, within this less favourable scenario for copper prices, the exchange rate has started to react, recording a marked real depreciation over the last months, acting as an automatic stabilisation mechanism and improving the competitiveness of other export sectors. Lastly, monetary policy has room to react in response to an adverse copper price scenario that may impact activity and inflationary outlooks.

3: For an analysis of this case see De Gregorio (2006). Copper Bonanza: Macroeconomic Impact and Policy Challenges. Public Studies, 103.

5. The current account has reached sustainable levels, as we anticipated

Limited foreign vulnerabilities in the face of an emerging market sell-off scenario

In an international scenario with questions over the vulnerability of some emerging economies, our assessment places Chile on a sound footing. When observing the composition of the external debt, residual short-term external debt (RSTED) increased, but accounted for a lower share of total external debt. In fact, in 2007, RSTED accounted for 40% of total debt, dropping to 33% in 2013. This indicates that a large share of external debt growth took place in maturities of more than one year.

Furthermore, when looking at liquidity indicators, the ratio of financial RSTED to dollar resources has recovered post-Lehman, but only reaches levels similar to those of 2007 (Table 5.1). Moreover, a deterioration of solvency indicators is observed from 2008 forward but, once again, coming in at levels that are even lower than those of 2007. Within this context, the assessment is that the foreign financing structure is healthy. Plus, from an international perspective, Chile's RSTED level as a percentage of international reserves remains at an intermediate value between emerging economies with floating exchange rates and other smaller developed economies. What is more, foreign direct investment was the main driver of the strong growth in foreign liabilities, together with the rise in the current account deficit witnessed post-Lehman, which has tended to moderate significantly over the past quarters (see details in next section).

Table 5.1
External solvency and liquidity indicators

	2007	2008	2009	2010	2011	2012	2013
				(USD bn)			
Total External Debt	76	64	72	84	99	118	121
RSTED	30	28	26	30	40	40	40
(Percentage of GDP)							
External Assets Stock	81	83	107	106	104	109	112
External Liabilities Stock	94	98	120	120	117	126	129
				(Percentage of total)			
Composition of External Liabilities							
Foreign Direct Investment	55	58	60	61	60	61	61
Variable Income Portfolio	7	5	7	8	7	8	9
Fixed Income Portfolio	4	6	6	8	10	10	11
Other	34	30	28	23	23	21	19
				(Percentage)			
Solvency							
Total External Debt / GDP	49	32	37	37	38	42	43
Total External Debt / Exports	133	85	112	103	104	116	128
Liquidity							
Financial RSTED / (NIR + FEES) (*)	55	45	51	55	53	56	57

(*) Financial RSTED: excludes trade credits and loans between companies due to direct foreign investment.
Source: Central Bank of Chile and BBVA Research

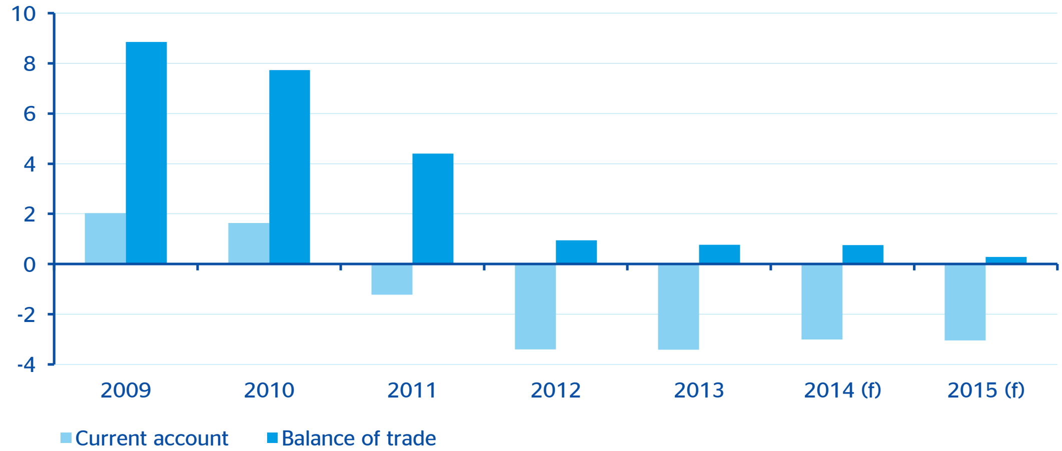
In our base-case scenario, we expect the current account deficit to continue converging toward sustainable levels

We stand by our downward revision to the current account deficit. The reason behind our new assessment lies in an adjustment of growth composition, with a lower contribution from investment and a larger one from the foreign sector. Consequently, the convergence toward sustainable levels (which we estimate at around 2-3% of GDP) will move at a faster pace within the forecasting horizon. The risks of CLP depreciation have materialised intensively, and the slowdown in domestic demand is more evident. Overall, these factors contribute to the mitigation of the sustainability risks of the current account.

Notwithstanding the downward revision to the average copper price projected for 2014-15, the sustainability of the current account would not be jeopardised. Moreover, we have revised our long-term price convergence estimate to the downside, to around USD2.80 per pound (Figure B.1.7, Box 1). Overall, our estimates are consistent with the view of a more balanced growth for China, with less growth in investment and more in private consumption, a situation which we assess will have marginally negative impacts on the price of the metal.

Within this context, we project a current account deficit of 3.0% of GDP for 2014 (equivalent to USD7.9bn), quite similar to that expected in our Report for the first quarter. For 2015, we project the deficit to remain at similar levels. In spite of the lower trade surplus, the lower income and transfers associated with the lower price of copper explain the drop in the current account deficit (Figure 5.1).

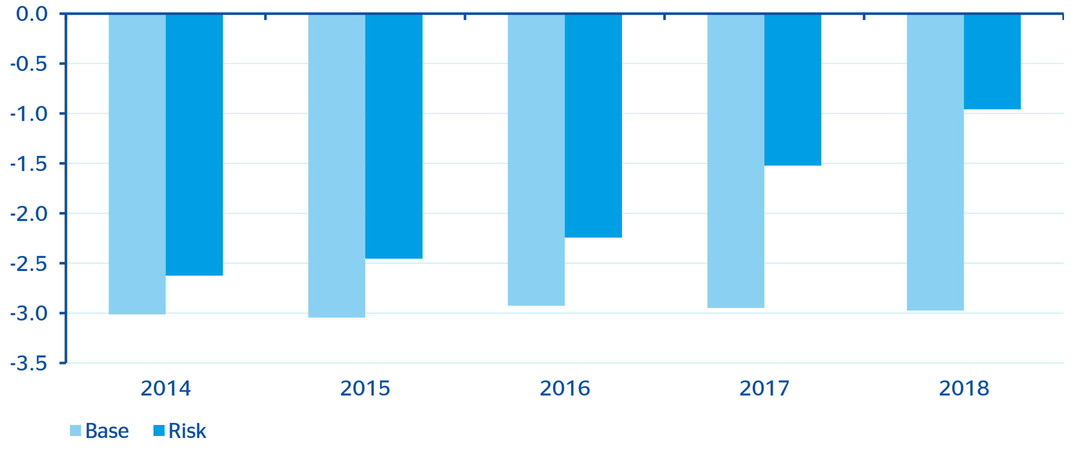
Figure 5.1
Trade and current account balances (% of GDP)



Source: Central Bank of Chile and BBVA Research

To assess the sustainability of the current account, we conducted a stress test for the scenario of China's growth, under the premise that investment is the expenditure component that most impacts the price of copper. Under this stress scenario, we assume that investment in China will grow an average of 6% over the coming years (for further details, see box on this subject in the Latam Outlook). Under this alternative scenario, we project a current account deficit that is still at sustainable levels. The real depreciation of the currency and the foreign stimulus it would generate, mitigated by the lower income from foreign investment, would allow a highly limited deterioration of the deficit (Figure 5.2).

Figure 5.2
Current account baseline and risk scenarios (% of GDP)



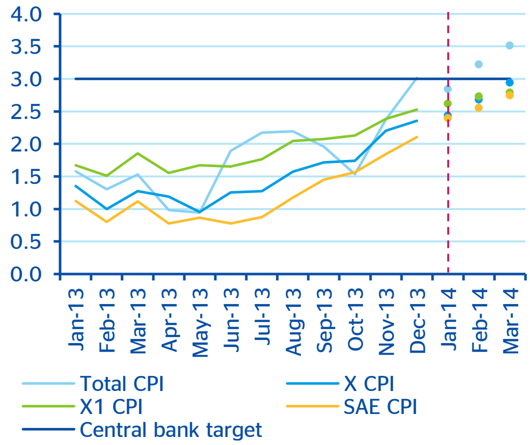
Source: Central Bank of Chile and BBVA Research

6. Inflation: first quarter surprises are explained mainly by cyclical factors

Notwithstanding the 3.5% annual inflation rate recorded in March with a high degree of dispersion, we expect it to close 2014 at 3.1%

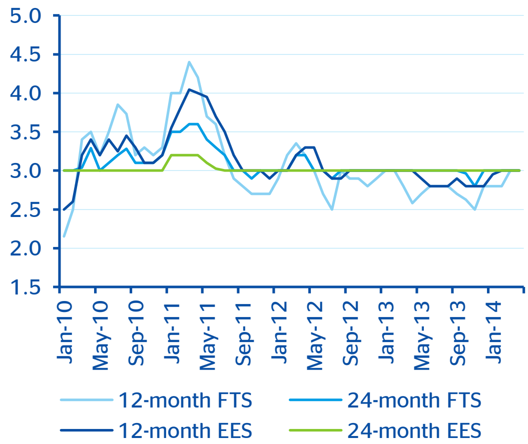
The first quarter's inflation figures, particularly those for February and March, came in above our and the markets' expectations. Cumulative inflation from January to March 2014 was 1.5%, explained mainly by the variations in specific products associated with the period's seasonality, such as education and transport, with impacts from the exchange rate rise and second-round effects, although the latter are increasingly limited. The rise in core inflation measures underway since the middle of 2013 continues, approaching 3% YoY (Figure 6.1). However, according to the Economic Expectation and Financial Traders Surveys, market agents continue placing their projections on the central bank's two-year target (Figure 6.2).

Figure 6.1
Inflation measures* (var. YoY, percentage)



*Dotted line indicates start of new baseline basket of goods 2013=100.
Source: Central Bank of Chile, INE and BBVA Research

Figure 6.2
FTS and EES inflation expectations median (var. YoY, percentage)



Source: Central Bank of Chile and BBVA Research

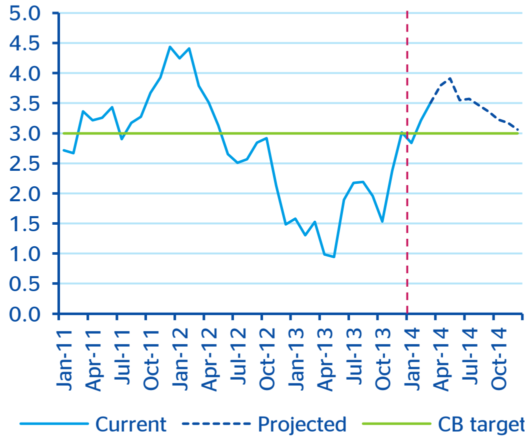
Given that the rises recorded in the first quarter of the year are due to one-off and seasonal factors, there should be no pass-through to the inflation figures over the coming months. The generation of slack capacities in the economy will moderate monthly CPI changes over the rest of the year, with annual inflation coming in at 3.1% toward the end of 2014, which implies an upward revision with respect to the 2.6% projected in our previous Outlook (Figure 6.3).

Worth noting is that, while there are certain areas where inflationary risks might be observed, the latter are limited, aligned with their fundamentals, and would not require a monetary policy response other than that submitted in our base-case scenario. One risk area might have been the exchange rate depreciation. In fact, some exchange rate pass-through to inflation was detected at the beginning of the year, with price rises in gasoline, meat and new motor vehicles. However, both our own and the central bank's estimates place the exchange rate pass-through ratio at limited levels[4], and the effect of the exchange rate depreciation on inflation seen since May 2013 has started to materialise significantly. Moreover, we estimate that the exchange rate will move from current levels

4: See Economic Watch "*Low Exchange Rate Pass-Through to Inflation in Chile*" of 26 February and Box V.1 of the March IPoM (Monetary Policy Report).

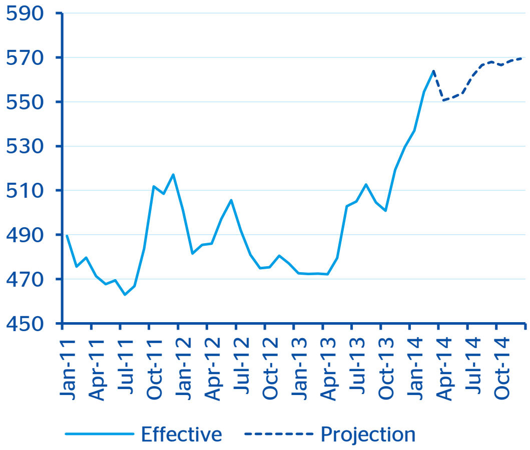
to a 2014 year-end level close to CLP570, and consequently expect limited further impacts on inflation from this source (Figure 6.4).

Figure 6.3
Effective YoY inflation and BBVA 2014 projections (percentage)*



*Dotted line indicates start of new baseline basket of goods 2013=100.
Source: INE, Central Bank of Chile and BBVA Research

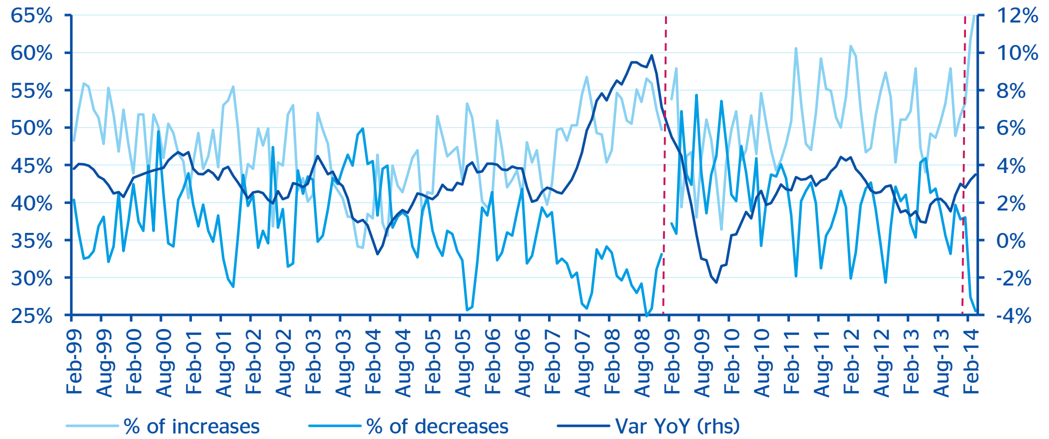
Figure 6.4
Effective exchange rate and BBVA 2014 projections (USD/CLP)



Source: Central Bank of Chile and BBVA Research

A second risk area could be the level of inflation dispersion reached over the last months. Indeed, over 60% of the CPI's goods experienced increases in March, a historically high figure for the latest years (Figure 6.5). The risk lies in the fact that, were a widespread inflationary shock to occur, the explanation for the rise in inflation would go beyond a few specific products that are experiencing one-off rises, which could lead to the provision of a monetary policy response conditioned to this case.

Figure 6.5
Products with positive and negative variations in the CPI basket and annual inflation (percentage)

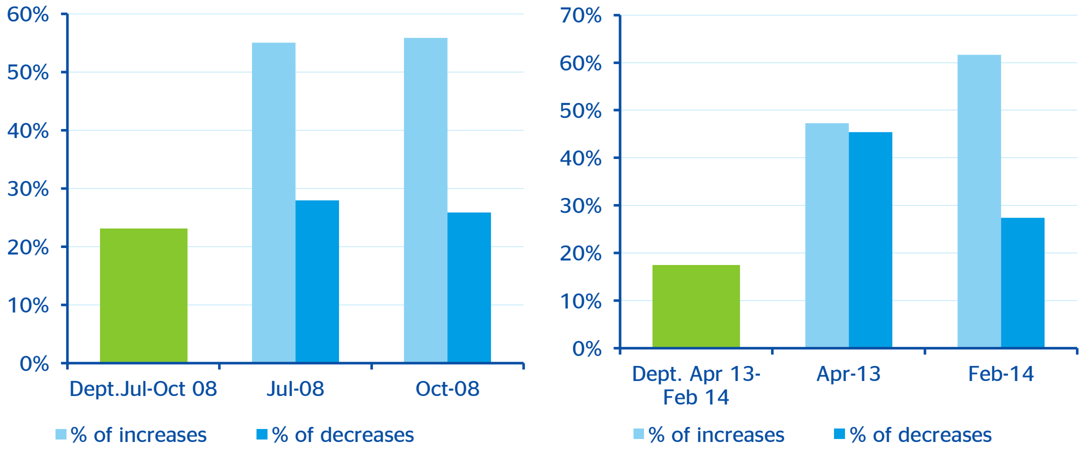


Note: Baseline basket for 1998 is used for 1999-2008. Baseline basket for 2009 is used for 2009-13. Baseline basket for 2013 is used for 1Q14.
Source: INE, Central Bank of Chile and BBVA Research

However, we do not see this greater dispersion triggering an inflationary rally. The reasons, we submit, include the effect the change in the CPI basket might have on inflation dispersion, which is revealed when observing Figure 6.5 from a historical perspective. Indeed, for each basket change at a similar annual inflation level, the period's inflation dispersion seems to rise.

Moreover, the rise in dispersion tends to be associated with episodes of strong exchange rate depreciation. When comparing the two significant depreciation periods recorded over the last decade, in both cases there was a rise in inflation dispersion, although with different levels of magnitude (Figure 6.6). Consequently, we believe other variables that explain the prevailing macroeconomic conditions must be included in the analysis. To do this, we conducted a simple econometric analysis, taking a measure of inflation dispersion/diffusion which is the difference between the monthly rise and fall percentages as the dependent variable, which we explain in-sample by variables that we believe are important[5]. Figure 6.7 shows that estimate's residuals for 2009-March 2014, where it can be observed that the high and peculiar dispersion of February and March is explained mainly by their determinants.

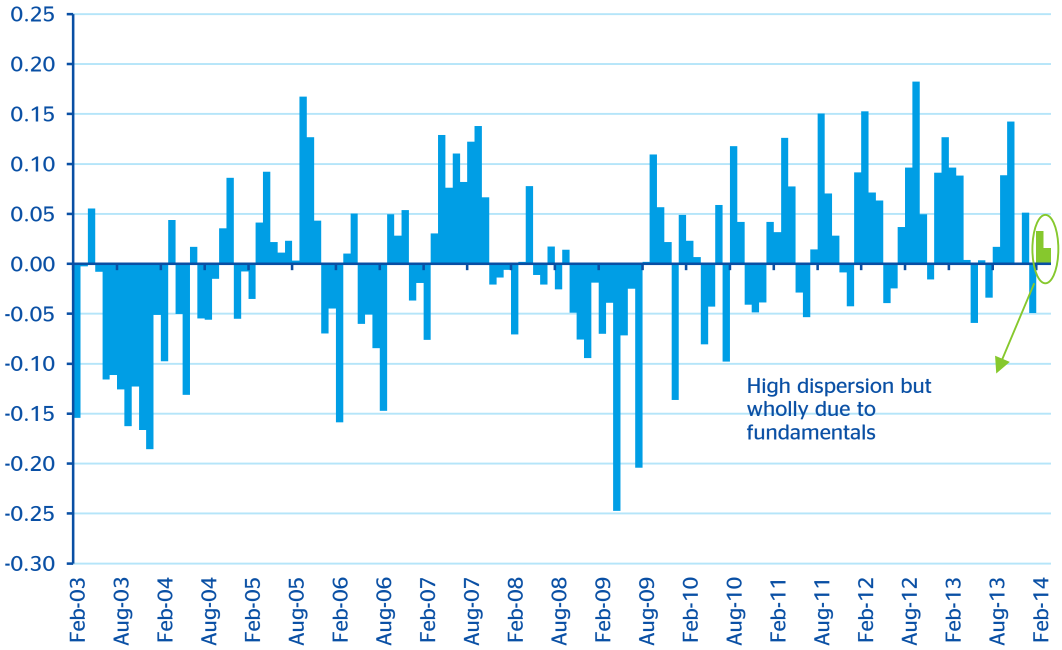
Figure 6.6
Comparison of inflation dispersion within similar episodes of CLP depreciation (percentage)



Source: INE, Central Bank of Chile and BBVA Research

5: The included variables were the six-month moving depreciation, the lagged product gap (measured as the difference between the IMACEC (Monthly Economic Activity Indicator) filtered by Hodrick-Prescott and its effective level), inflation over 12 months and a dummy for the change in the baseline basket in 2013.

Figure 6.7
Residual between inflation dispersion estimated by fundamentals and effective dispersion



Source: INE, Central Bank of Chile and BBVA Research

In summary, we believe that the main areas of inflationary risks are under control. As we do not observe an outbreak of inflation, we believe it is highly likely that our base-case scenario for monetary policy will materialise, and that limited inflation figures will be recorded over the coming months, and we even refrain from ruling out some deflationary results over the rest of the year, given the significant impact of recent transitory factors.

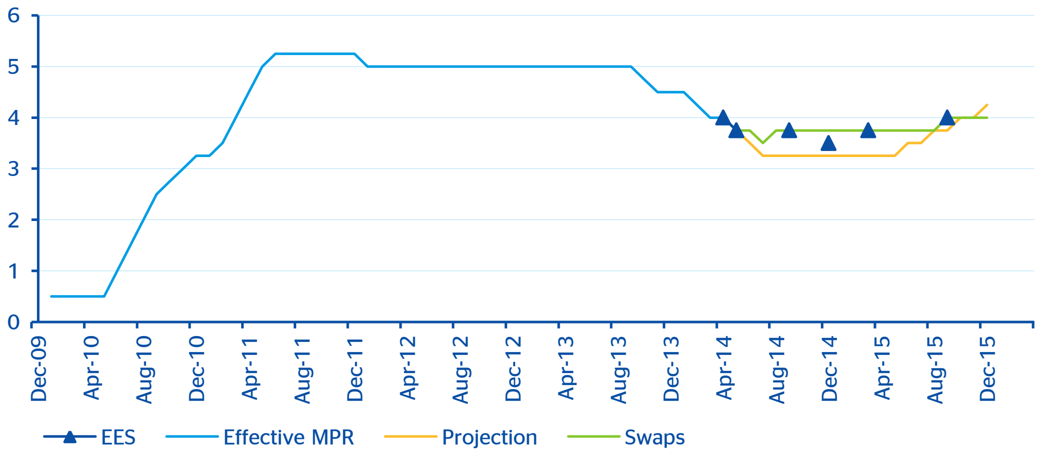
7. The materialisation of the activity risk scenario and contained inflation are compatible with greater monetary stimulus than that expected by the market

Changes in the activity scenario necessitate a larger monetary stimulus than that expected three months ago. We forecast the MPR to reach 3.25% this year

In its March Monetary Policy Report, the central bank applied a strong downward revision to its growth projections for this year, greater than that expected by the market consensus. It also pointed out that one or two further MPR cuts would be necessary, that is, that the benchmark rate could reach 3.5% this year.

As of the closing date of this Outlook, the markets have included in their expectations that the rate will reach 3.5%. On the one hand, the Economic Expectation Survey (EES) for April reflects the belief that MPR will reach that level at the end of 2014 and, on the other, asset prices are consistent with cuts down to 3.5% in 3Q13, although for a maximum period of two months. The respondents believe that the benchmark rate will subsequently rise to 3.75% and remain at that level for the following 13 months (Figure 7.1).

Figure 7.1
Effective MPR and EES implicit trajectories and swaps (percentage)



Source: Central Bank of Chile, Tradition and BBVA Research

Given the first quarter's activity figures and the perspectives for the rest of the year, we foresee that the central bank's risk scenario will materialise in terms of activity.The economy will grow less than 3.5% this year. The economy would thus have completed two years of growth below potential, consequently generating slack capacities. With respect to prices, the news at the start of the year spurred inflation to the high end of the central bank's target benchmark range, which has somewhat contained more expansionary views of monetary policy. Although low growth perspectives extend as far as 2015 (EES projects 4%), inflation expectations remain anchored at the 3% target.

Given the lags inherent in monetary policy transmission, we believe the central bank needs to inject a larger monetary stimulus than that expected by the market consensus. Indeed, a considerable part of the inflation of recent months is associated with one-off rises in specific prices and, in many cases, responds to the effects of the peso's depreciation on the prices of imported products, a phenomenon that should not recur with the same intensity over the coming months. In other words, we are not facing a widespread inflationary phenomenon and, furthermore, the slack capacities that are being generated will allow containing the second-round effects of recent inflation.

We project that the MPR will reach 3.25% this year, a level that the market will not internalise until it is convinced of the transitory nature of the recent inflationary shock. For its part, the monetary normalisation process, which will entail bringing the MPR to neutral levels, will begin in 3Q15, in accordance with a scenario in which the process of US interest rate raises begins, and coinciding with a growth in domestic activity that is more in line with trend growth. The level the rate will reach during this normalisation process remains an open question. Estimates conducted by the central bank immediately before the crisis of late 2008 suggested that the neutral interest rate lay around 5.75-6.25%. However, it is known that economic conditions have since changed significantly[6]. On the one hand, international interest rates will not return to pre-crisis levels in the short-term to the degree that developed countries maintain a moderate pace of growth and low inflation. On the other, there is increasing concern over the adjustments to the potential growth of the Chilean economy, which is also consistent with lower real interest rates. At loggerheads with the latter is the fact that fiscal policy will be highly expansionary over 2015-18, which will pressure local interest rates to the upside. Thus, we believe that the most reasonable neutral interest rate for the Chilean economy lies in the range of 5.00-5.25%, which in our baseline scenario we estimate will be reached toward 2016.

6: R. Fuentes and F. Gredig (2008). The Neutral Interest Rate: Estimates for Chile. Central Bank of Chile. Journal of Chilean Economics, Volume 11, No. 2, August.

8. Fiscal policy: spending will come in at 8.6% in 2014, with an average of 7-8% over the next four years

Growth to be driven by a low basis of comparison, the exchange rate, political will and the need to finance reconstructions. Over the medium term, the tax reform would result in a high average growth in government expenditure

Given the 4% YoY growth for 2013, the sole action the fiscal authorities must take to place growth at 5.5% YoY in 2014 is merely to execute the expenditure level earmarked in the Budget Law. However, Chilean fiscal policy is guided by a structural deficit target. Consequently, to quantify the expenditure level the government expects to reach, it is necessary to observe the variations in structural revenues and the possibility of reaching the target within the year.

With respect to structural revenues, an initial factor to consider is that the current macroeconomic scenario differs from the one used to draft the Budget Law in September 2013. The slowdown in activity and lower price of copper diminish this year's effective fiscal revenues. However, effective GDP or copper prices do not influence structural revenues, which are estimated based on benchmark parameters. But higher inflation and a higher exchange rate do increase revenues.

A second factor to clarify is what will happen with the Codelco capitalisation. While the authorities have spoken in favour of this operation, what is not yet known is the amount (which we estimate will range from USD1.2bn to USD1.5bn) or, and more important still, the method of financing. If it is financed with sovereign funds, that is, via the FEES (the Pension Reserve Fund, PRF, is still off limits, and the Education Fund is limited solely to education), neither the effective nor the structural revenues would be affected. Based on statements made recently, we work on the assumption that the Codelco capitalisation will be conducted with FEES resources.

The third factor is that, from this year forward, there would be further revenues as a result of the Tax Reform, but less than half of those projected by the Treasury/DIPRES [Budget Office]. Although the draft bill estimates that the implementation of this law would entail a receipt of additional revenues over 2014 equivalent to 0.29% of GDP, we foresee a more lengthy process than that expected in the parliament, in addition to lower revenue collection due to less evasion, which would thus result in increased 2014 revenues coming in at only 0.1% of GDP. Consequently, we would have higher structural revenues from changes in the macroeconomic scenario and from the Tax Reform, which would not be affected by lower pass-throughs from the state copper-producing corporation.

Given the above, and faced with the presence of higher structural revenues, the expenditure level that is compatible with a 1% GDP deficit target in 2014 rises. Although we do not yet know the structural balance target path that the current government will propose for its term of office, we project that it will favour meeting a target of -1% of GDP, instead of settling for reaching the expenditure level approved in the Budget Law, which would reduce the structural deficit to 0.3% of GDP. Therefore, the 2014 growth in expenditure would be around 8.6% YoY. The reasons to support the latter are the recent administration's political will to execute the entire budget, which means that there should be no problems of under-execution as were observed in previous years, together with the public resource requirements generated by the recent disasters in Iquique and Valparaíso.

Table 8.1 shows the projection of the effective and structural balances, with the main explanations for the differences between the Budget and BBVA Research's projection for each item.

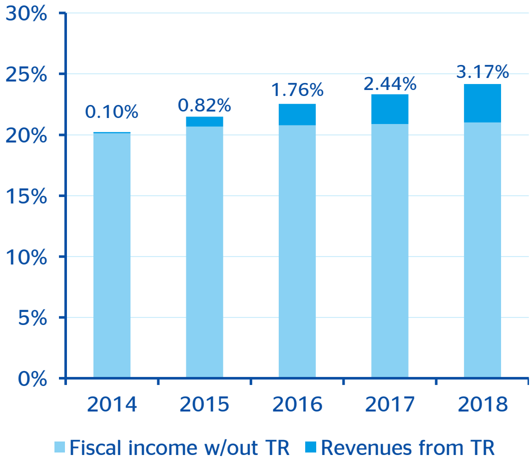
Table 8.1
Breakdown of effective and structural balances

CLP mn	2014 MinTreas (a)	2014 BBVA Research (b)	(a) - (b) [USD mn]	Main reason for difference:
Effective revenues	**30,840,787**	**30,349,696**	**-878**	
Tax revenues	24,931,494	24,339,601	-1,058	
Income tax, large mining companies	1,151,627	987,256	-294	Lower copper price
Income tax, all other taxpayers	8,502,901	8,329,486	-310	Lower activity level
VAT	12,326,848	11,950,649	-673	Lower domestic demand
Specific Products	2,108,953	2,119,460	19	Similar level
All others	841,165	806,049	-63	Similar level
Tax Reform	0	146,701	262	TR implementation in last quarter of year
Codelco	1,643,935	1,409,297	-419	Lower copper price
All others	4,265,358	4,600,798	600	Greater execution observed
Structural revenues	**30,829,660**	**31,736,909**	**1,622**	Higher exchange rate and TR
Total expenditure	**32,240,551**	**33,203,920**	**1,722**	Assumption of 100% execution and rise from higher structural revenues
Effective balance	**-1,399,764**	**-2,854,224**	**-2,600**	
% of GDP	-0.9%	-1.9%	-1.0%	
Structural balance	**-1,410,891**	**-1,467,011**	**-100**	
% of GDP	-1.0%	-1.0%	0.0%	

Note: Both 2014 columns were converted to dollars at the exchange rate estimated by BBVA Research.
Source: Ministry of Treasury, Budget Office and BBVA Research

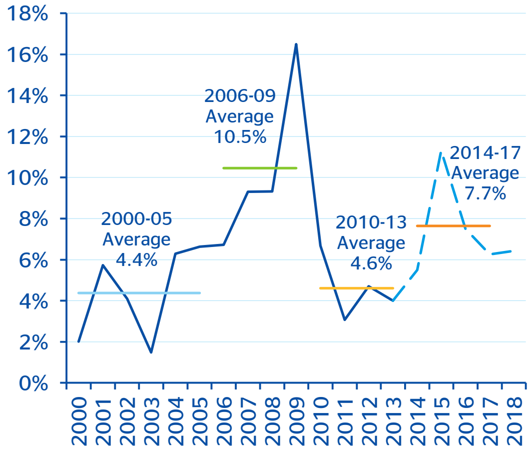
Lastly, we expect public expenditure to grow from 7 to 8% on average in the medium term. Although we expect the benchmark parameters of the Structural Balance calculation to fall (trend GDP growth toward 4.5% and a lower benchmark copper price tending toward USD2.85 per pound), the higher revenues from the Tax Reform will increase both effective and structural balances, more than making up for the other falls. Worth noting is that this will be a transitory phenomenon, which will only last until the Tax Reform and its revenues are fully operational under the law. Subsequently, expenditure growth will once again be mainly determined by the growth in trend GDP and the behaviour of the long-term copper price, ranging again from a real 4-5% annually.

Figure 8.1
Effective fiscal revenues as percentage of GDP 2014-18



Source: Budget Office and BBVA Research

Figure 8.2
Growth in public expenditure and averages for 2000-18



Source: Budget Office and BBVA Research

9. The main risk continues to be a greater slowdown in China

The main risk for Chile is a slowdown in China with negative copper price implications greater than those expected in the baseline scenario. The main idiosyncratic risk would be steeper falls in confidence and business expectations associated with the Tax Reform, which was submitted to the Congress for assessment and debate

An economic slowdown far greater than expected remains the main foreign risk for investment in China, due to its implications for export sector growth, domestic agents' confidence, capital flows and fiscal accounts. Locally, we maintain the implementation risk of the Tax Reform, which could affect the investment intentions we raised in the prior Report.

On the foreign side, an initial and more important risk would be associated with the behaviour of the Chinese economy. This risk was mentioned in the latest issues of this Report and, quite recently, part of this risk has materialised, although with less intensity. In particular, concern over a more marked slowdown in China has intensified, in light of doubts about the fragility of its financial system and the widespread rise in risk perception toward the emerging world. A deterioration of the Chinese economy would have significant impacts on the emerging economies, which would be transmitted through both financial and real channels. The implications for the copper price, as well as the growth of other important trade partners for Chile, are particularly serious factors.

A second-order risk is an earlier-than-scheduled normalisation of US monetary stimulus, which could make financial conditions for Chile and the overall emerging economies less favourable. Once again with a somewhat lower probability for and impact on Chile, there persists the risk associated with the complex fiscal and financial situation of the eurozone, in addition to the most recent and non-excludable factor of an intensification of the geopolitical tensions in the Ukraine, with effects on commodity prices and confidence in Europe.

On the local side, investment bore the brunt of the economic slowdown with significant contractions in the second half of 2013. Just as investment was the main factor in the growth of the Chilean economy from 2010 to 2012, accounting for 50% of GDP growth (Economic Watch "A Historical Investment Boom in Chile", available in Spanish), so is it now the expenditure component that has shown major year-on-year contractions. This Report's baseline scenario assumes a gradual but steady recovery, particularly over the second half of the year. However, there are idiosyncratic risks for this expenditure component. In particular, the Tax Reform could have a negative impact on marginal investment and generate additional delays in the materialisation of private investment in the mining and energy sectors. This aspect is coupled with the risk of a deterioration in the foreign scenario that would impact the price of copper and affect the execution schedule of new projects.

10. Tables

Table 10.1
Annual macroeconomic forecasts

	2011	2012	2013	2014	2015
GDP (% YoY)	5.8	5.4	4.1	3.4	4.3
Inflation (% YoY, eop)	4.4	1.5	3.0	3.1	3.0
Exchange Rate (vs. USD, eop)	521	479	524	570	578
Interest Rate (%, eop)	5.25	5.00	4.50	3.25	4.25
Private Consumption (% YoY)	8.9	6.0	5.6	3.5	4.5
Government Consumption (% YoY)	2.5	3.7	4.2	4.8	4.6
Investment (% YoY)	14.4	12.2	0.4	-1.5	5.4
Fiscal Balance (% GDP)	1.4	0.6	-0.6	-1.9	-2.0
Current Account (% GDP)	-1.2	-3.4	-3.4	-3.0	-3.0

Source: BBVA Research

Table 10.2
Quarterly macroeconomic forecasts

	GDP (YoY)	Inflation (% YoY, eop)	Exchange rate (vs. USD, eop)	Interest rate (%, eop)
Q1 12	5.1	3.8	485.4	5.00
Q2 12	5.8	2.7	505.6	5.00
Q3 12	5.5	2.8	475.0	5.00
Q4 12	5.2	1.5	477.1	5.00
Q1 13	4.9	1.5	472.5	5.00
Q2 13	3.8	1.9	502.9	5.00
Q3 13	5.0	2.0	504.6	5.00
Q4 13	2.7	3.0	529.5	4.50
Q1 14	2.4	3.5	563.8	4.00
Q2 14	3.2	3.6	554.0	3.50
Q3 14	3.3	3.4	568.0	3.25
Q4 14	4.4	3.1	569.5	3.25
Q1 15	4.6	2.5	572.6	3.25
Q2 15	4.2	2.6	574.2	3.50
Q3 15	4.2	2.8	576.3	3.75
Q4 15	4.3	3.0	578.1	4.25

Source: BBVA Research

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