

MACROECONOMIC ANALYSIS

Chile Flash: 2014-15 baseline scenario

Chile Unit

- We are correcting downwards our GDP growth forecasts to 2.3% and 3.5% for 2014 and 2015 respectively.
- Inflation will close 2014 at 4.2% but migrate towards the floor of the tolerance threshold next year.
- Convergence of activity and prices at their long-term expansion levels postponed until 2016.

We have corrected our GDP growth estimate downwards for 2014-15, given the weak activity figures announced in the last few months. For 2014, the forecast we published in our most recent Chile Outlook has migrated from 2.9% with a bias to the downside, to 2.3%, while for 2015 we forecast 3.5% growth, down from our previous 3.8%.

The deceleration has been more intense than expected, particularly in the domestic demand components relating to investment and durable private consumption. However, just recently they have been joined by non-durable consumption. **The slowdown has been generalised over sectors**, but more intense in those linked to wholesale and retail consumption, and services. **Also, it is worth mention that the expectations channel is playing a fundamental role in this greater-than-expected cyclical weakness.** In this context, we expect monthly activity figures to continue to be driven mainly by primary production sectors in the next few quarters.

In terms of inflation, there has been a more intense exchange rate pass-through this year, although a contained one when compared with episodes in the past. Added to this there have been additional pressures on prices associated with the tax reform, in particular on cigarettes and soft drinks. For these reasons, **we are raising our inflation forecast for the end of 2014 to 4.2%, while for the end of 2015 we have reduced it from 2.5% to 2.3%.**

In our baseline scenario, inflation's convergence towards the 3% target is conditioned by the extent and efficacy of the countercyclical policies. Thus, **our baseline scenario assumes additional cuts to the MPR of 75bp this year, with a closing policy rate of 2.75%.**

Table 1
BBVA baseline scenario

	Previous scenario		Current scenario	
	2014	2015	2014	2015
GDP (% YoY)	2.9	3.8	2.3	3.5
Domestic demand (% YoY)	1.5	4.8	0.7	4.9
Exports (% YoY)	4.9	4.7	3.3	4.7
Imports (% YoY)	0.2	5.0	-4.5	6.5
Inflation (% YoY, eop)	3.6	2.5	4.2	2.3
Exchange rate (vs. USD, eop)	566	585	585	578
MPR (% eop)	3.25	3.75	2.75	3.50
Fiscal balance (% GDP)	-1.8	-1.9	-2.0	-2.2
Current account (% GDP)	-2.3	-2.6	-0.4	-0.9

Source: BBVA Research

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