

**FOR  
AGENDA**

SM/07/219  
Supplement 1

July 13, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Chile—Staff Report for the 2007 Article IV Consultation**

The attached supplement to the staff report for the 2007 Article IV consultation with Chile (SM/07/219, 6/25/07), which contains information that has become available since the issuance of the staff report as well as the background section of the draft Public Information Notice, is tentatively scheduled for discussion on **Monday, July 16, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Chile indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Mühleisen (ext. 38686), Mr. Soderling (ext. 39707), Mr. Walsh (ext. 35929), and Mr. Monfort (ext. 39006) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the European Commission, the European Investment Bank, and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

CHILE

**Staff Report for the 2007 Article IV Consultation  
Supplementary Information**

Prepared by the Western Hemisphere Department

Approved by Markus Rodlauer and Adnan Mazarei

July 13, 2007

1. ***This supplement reports on economic and policy developments since the staff report was issued on June 25.*** The thrust of the staff appraisal remains unchanged.
2. ***Economic developments remain consistent with output growth of around 5¾ percent in 2007.*** On an annualized basis, the monthly GDP indicator has been growing at above 6 percent so far this year, and strong retail sales and employment data confirm the broad-based nature of the recovery. WEO projections for copper prices have been raised since the staff report was issued, raising the projected current account and fiscal surpluses (see table).
3. ***Inflation has surprised on the upside in May and June, with both headline and core inflation now slightly above the 3 percent target.*** Amid upward pressure from food and energy prices, staff projects inflation to remain around this level for the rest of the year. Medium-term inflation expectations continue to be firmly anchored at the 3 percent level.
4. ***The Banco Central de Chile (BCC) lifted its policy rate by 25 basis points to 5¼ percent on July 12.*** Citing global supply shocks and reduced slack in the economy, the BCC also anticipated that it would likely be necessary to further reduce monetary stimulus in the coming months.
5. ***The 2007 central government surplus is now projected at over 7 percent of GDP, compared with 6 percent of GDP in the staff report.*** The update reflects higher copper prices and a projected rebound in VAT receipts based on improved collections in recent months. Invested government assets now exceed 10 percent of GDP, more than twice central government debt.
6. ***In line with its commitment to recapitalize the central bank gradually, the government transferred \$736 million (½ percent of GDP) to the BCC in late June.*** The first such annual payment was made in December 2006.

## Main Economic Indicators

	2003	2004	2005	2006	2007	2008
	(percent)					
Real GDP growth	4.0	6.0	5.7	4.0	5.8	5.3
CPI inflation (eop)	1.1	2.4	3.7	2.6	3.2	3.0
	(percent of GDP)					
Current account balance	-1.1	2.2	1.1	3.6	4.0	2.3
Central government balance 1/	-0.2	2.1	4.6	7.7	7.3	4.5

1/ Based on authorities' projections for 2007, adjusted for higher WEO copper price assumptions.



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*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 07/  
FOR IMMEDIATE RELEASE  
July \_\_, 2007

International Monetary Fund  
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Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2007 Article IV Consultation with Chile**

On July 16, 2007 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Chile.<sup>1</sup>

### **Background**

The Chilean economy is enjoying a broad-based upswing, fueled by a strong global environment and buoyant domestic demand. Underpinned by supportive fiscal and monetary policies, GDP growth is expected to reach 5¾ percent in 2007, above the estimated potential growth rate of around 5 percent. Buoyant credit growth and strengthening labor market conditions continue to boost consumer spending, solid corporate profits and favorable financial conditions have contributed to higher investment, and exports are rising with strong external demand. Despite a sizeable nominal appreciation against the U.S. dollar, the real effective exchange rate has only moderately appreciated since the onset of the copper boom in 2004.

Inflation has recently increased but remains close to the 3 percent inflation target. The increase is attributable to higher global food and energy prices and reduced slack in the economy, while labor cost increases have been contained. Citing these factors, the central bank raised its policy rate by 25 basis points on July 12, noting also that it would likely be necessary to further reduce monetary stimulus in the coming months.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Fiscal developments have continued to benefit from revenues associated with strong copper prices, with expenditure increases in line with permanent revenues under the structural fiscal surplus rule. The nominal fiscal surplus is expected to be at over 7 percent of GDP in 2007, based on strong corporate tax revenues and a projected rebound in VAT receipts. Invested government financial assets now exceed 10 percent of GDP, and the central government has become a net creditor. Reflecting the improvement in its financial position, the government announced a reduction of the structural fiscal surplus target from 1 percent to ½ percent of GDP beginning in 2008.

The authorities have advanced a broad structural reform agenda. A major pension reform, designed to achieve broader coverage, liberalize investment rules for pension funds, and increase competition in the financial sector has been submitted to Congress. A second round of capital market reforms was passed into law in May, aimed at further developing domestic markets and integrating the financial sector more closely into global capital markets. The government has also launched initiatives to boost education, strengthen job-specific human capital, and promote innovation.

### **Executive Board Assessment**

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**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Table 1. Chile: Selected Economic Indicators

	2002	2003	2004	2005	2006
	(Annual percentage change)				
<b>Production and prices</b>					
Real GDP	2.2	3.9	6.0	5.7	4.0
Total domestic demand	2.4	4.9	7.5	11.0	6.0
Consumption	2.5	4.0	6.8	7.5	6.6
Private		4.2	7.0	7.9	7.1
Public		2.4	6.1	5.3	3.6
Investment	2.2	7.8	9.8	23.0	4.4
Private		6.5	10.5	23.2	3.3
Public		-0.4	5.7	11.2	10.9
Inventories 1/	0.2	0.5	0.1	0.5	0.1
Net exports 1/	-0.2	-0.9	-1.2	-5.0	-2.2
Consumer prices					
End of period	2.9	1.1	2.4	3.7	2.6
Average	2.5	2.8	1.1	3.1	3.4
GDP deflator		5.8	7.7	7.9	11.7
Real wages	2.0	0.9	1.8	1.9	2.0
Unemployment rate (annual average)	9.8	9.5	10.0	9.3	7.9
Output gap (percent)	-2.5	-2.4	-0.9	-0.1	-1.1
<b>Money, credit, and interest rates</b>					
Broad money	3.8	3.6	10.6	12.0	11.4
Credit to the private sector	9.6	11.4	14.8	15.4	17.7
Three-month interest rate 2/	3.9	2.8	1.8	3.5	4.8
	(Billions U.S. dollars, unless otherwise indicated)				
<b>Balance of Payments</b>					
Current account	-0.6	-0.8	2.1	1.3	5.3
<i>In percent of GDP</i>	-0.9	-1.1	2.2	1.1	3.6
Trade Balance	2.4	3.7	9.6	10.8	22.2
Exports of Goods	18.2	21.7	32.5	41.3	58.1
Copper Exports	6.3	7.8	14.7	18.9	32.3
<i>In percent of total exports</i>	34.8	36.1	45.3	45.7	55.6
Imports of Goods	15.8	17.9	22.9	30.5	35.9
Oil Imports	1.5	2.0	2.7	3.6	4.6
<i>In percent of total imports</i>	9.7	11.3	11.8	11.8	12.9
	(Annual percentage change)				
Exports	-0.5	19.2	50.1	27.0	40.7
Imports	-3.9	13.6	27.8	33.0	17.7
Terms of trade	3.8	9.7	22.1	10.8	31.0
Real effective exchange rate	-6.9	13.4	-3.7	11.9	-5.2
Net FDI (in percent of GDP)	3.3	3.7	5.9	4.0	3.6
	(In percent of GDP)				
<b>Saving and investment</b>					
Gross domestic investment	21.7	21.1	20.1	22.4	20.4
Public	2.6	2.3	2.1	2.1	2.1
Private	18.7	17.8	17.0	18.6	17.2
Change in inventories	0.3	1.0	1.0	1.7	1.1
National savings	20.8	20.1	22.2	23.5	24.0
Public 3/	1.6	2.5	4.8	7.5	10.8
Private	19.1	17.5	17.3	16.0	13.2
External savings	0.9	1.1	-2.2	-1.1	-3.6
<b>Public sector finance</b>					
Net debt	11.4	13.3	11.0	7.7	-1.7
Excluding public enterprises	5.5	7.2	5.5	2.5	-7.3
Gross debt 4/	42.8	44.4	39.0	30.4	26.0
Central government	15.7	13.0	10.7	7.2	5.9
Central government balance	-1.2	-0.2	2.1	4.6	7.7
<b>External Debt</b>					
Gross external debt	60.2	58.2	45.4	37.8	32.6
Public	10.7	12.5	10.3	8.0	7.4
Private	49.5	45.7	35.1	29.7	25.2
<b>Memorandum items</b>					
Nominal GDP (in billions of US\$)	67.3	74.0	95.8	119.0	145.8
Copper prices (in US\$ per pound)	0.7	0.81	1.30	1.67	3.05
Nominal Exchange Rate (average)	688.9	691.4	609.5	559.8	530.3

Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and Fund staff estimates.

1/ Contribution to growth.

2/ Nominal rates, in percent per annum, period average, on 90-day central bank promissory notes. 2007 refers to June 8, 2007

3/ Gross saving of the general government sector, including the deficit of the central bank.

4/ Gross consolidated debt of the public sector (central bank, non-financial public enterprises, and general government). For comparability purposes, does not include securitized liabilities from pre-1981 pension system totaling 9.5 percent of GDP at end-2006.