Economic Shocks, Recessions and Depressions: the Chilean Experience

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Main Internal and External Economic Shocks

(a) Nationalization policies, redistribution and external political destabilization (1971-73, Allende Period) .

(b) Shock treatment to reduce inflation in the mid 1970s (Pinochet period).

© Rapid financial liberalization with fixed exchange rate in the late 1970s and early 1980s (neoliberal policies).

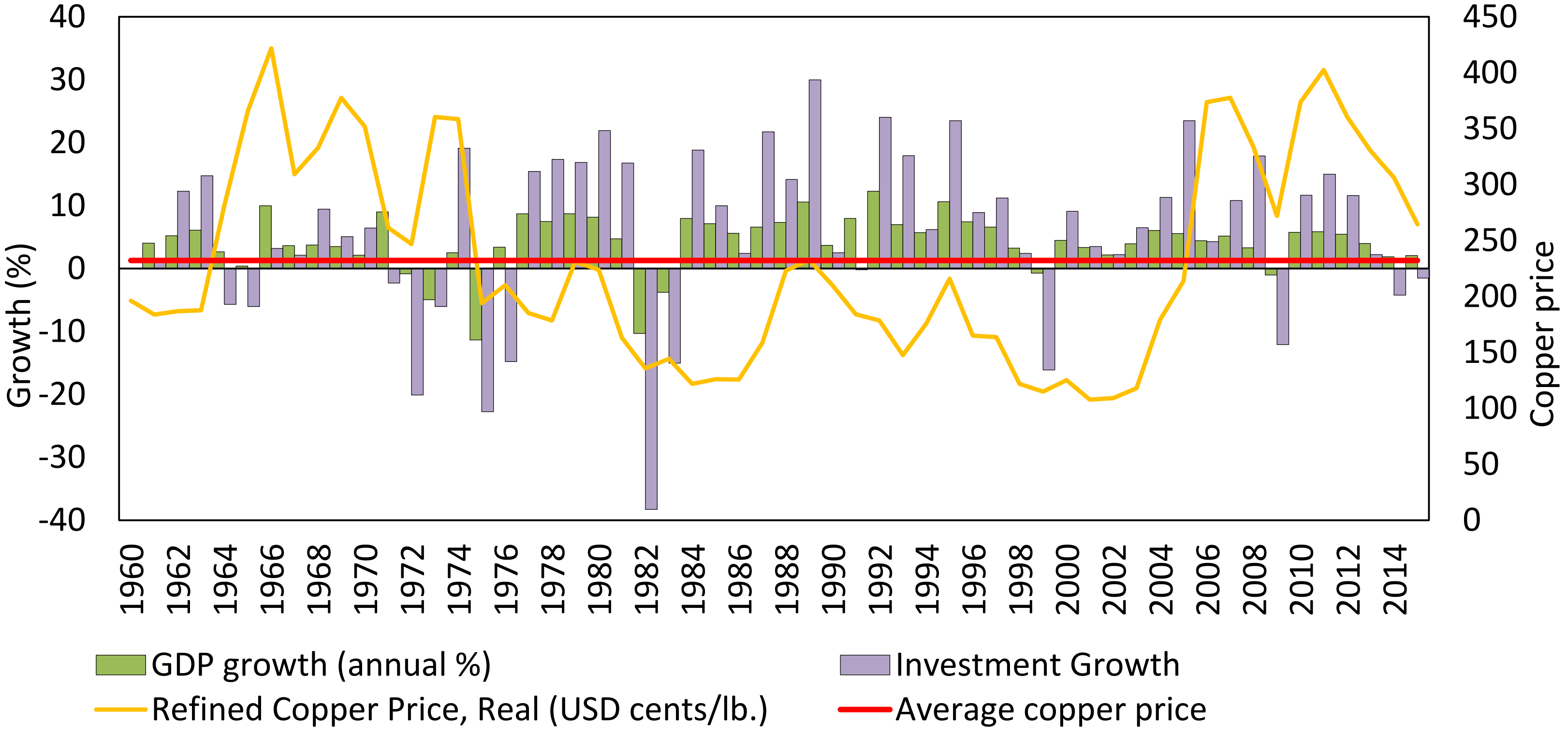
(d) Effects of Asian and Russian Crises in 1997-98.

(e) Impact of the great financial crises in 2008-09.

(f) Fall in copper prices and slowdown in emerging economies since 2013-14.

Growth and Investment Cycles in Chile

GDP growth, investment and real copper price, 1960-2015



Deflator: U.S. Producer Price Index (PPI, all Commodities)
Source: Own elaboration based on WDI, Central Bank of Chile, and Cochilco.

Main recessions/depressions.

Recession of 1972-73 GDP and investment fall.

Depression of 1975 GDP drops by -12 percent, investment declines by 25 percent and unemployment rises to near 20 percent.

Financial crises and the depression of 1982-83:GDP falls by -16 percent, investment collapses by 35 percent and unemployment rises to over 25 percent.

Recession of 1999: GDP declines by -1.2 percent and investment falls by 15 percent.

Recession of 2009: GDP declines by -1.5 percent, investment is cut by -10 percent and unemployment increases to about 10 percent.

Policy framework, financial crises and the severity of cycles

- The 1975 and 1982-83 crises (with a financial component) were more severe than the recessions of 1999 and 2009.
- All the recessions and depressions also came with a decline in the international price of copper.
- The setting up of a copper stabilization fund (1987), a fiscal rule (2001) and an economic and social stabilization fund (2006) helped to reduce the severity of economic cycles after large shocks took place.
- Having flexible exchange rates since the late 1990 also helped to reduce impact on economic activity although shield is not total.
- Since 2014 we are leaving in a growth slowdown (lower copper prices and internal reforms).