

Productivity, innovation & growth

INTERVIEW WITH RODRIGO VALDÉS PULIDO

MINISTER OF FINANCE, REPUBLIC OF CHILE



RODRIGO VALDÉS has a degree in Business Administration with a major in Economics, from the Universidad de Chile, and a PhD in Economics from the Massachusetts Institute of Technology (MIT). Since March 2014 and until his current appointment, he was Chairman of the Directive Board and of the Executive Committee of BancoEstado. He was Chief Economist for Latin America at Barclays Capital (2008-09), Manager of the Division of Research and Chief Economist of the Central Bank of Chile (2002-07) and Senior Advisor to the Minister of Finance of Chile (2000-01).

What are the key aims, objectives and principles of Chile's economic policy, given the growing importance of Latin America to the global economy?

Chile is a small economy that is open and integrated with the world. Nowadays, to continue advancing towards development, the key is to expand the capacity for economic growth, which can be accomplished by increasing investment and giving a fresh impulse to productivity. To achieve this objective we also need higher levels of partnership, integration, and participation, all of which occur through greater equality. As with other emerging countries, we have felt the effects of the global economic downturn. However, Chile has solid foundations capable of withstanding a more unfavourable economic climate: a flexible exchange system, high monetary credibility, a reliable financial system, a well-capitalised banking system, balanced external accounts and low public debt.

How is the impact of world commodity prices affecting Chile, in particular the copper industry?

The fall in the price of copper has had a strong impact on investment in the mining sector and other associated economic sectors, with the consequent reduction in aggregate investment and the economic downturn. On a positive note, unlike other raw materials, the decrease in the price of copper has occurred gradually, allowing for a gradual adjustment. However, tax revenues from copper have decreased significantly, as a result of lower metal prices. Despite this, we have reaffirmed our commitment to being a reliable and responsible country with our public finances, through concrete actions, such as restraint in fiscal spending.

What progress is being made in diversifying the Chilean economy?

The currency adjustment between 2012 and 2016 has been a powerful incentive to increase the profitability of new sectors. The government is adopting a series of measures to transform the productive sectors of the country, encouraging the diversification of our products and services and increasing the competitiveness of our businesses. In May 2014 we launched the *Agenda of Productivity, Innovation and Growth* and on 30th March this year we announced a new set of measures seeking to boost productivity which are key for expanding the capacity for economic

growth in the medium and long term. These initiatives are the product of close collaboration between the government and the private sector.

What impact are world energy prices having on the economy and government policy?

The global decline in the price of oil, as well as the higher rainfall from last year which provided water for electricity generation, has resulted in a significant drop in local energy prices. This has allowed companies to reduce their production costs and people to enjoy real income gains.

Beyond these short-term benefits, Chile is becoming a leader in Latin America in the transition to renewable energy initiatives, distributed generation and energy efficiency. The numbers confirm it: at the beginning of this government's tenure there were only 28 power plants under construction, with nearly 2,000 MW of power, however there are now 54 projects under construction, equivalent to 4,051 MW.

What is the impact on the Chilean economy arising from the Pacific Alliance and Mercosur?

Chile is an Associate member of Mercosur. It is an important bloc for the Chilean economy, with partners of great importance such as Brazil and Argentina.

In the case of the Pacific Alliance, we have taken concrete steps to ensure that our markets are more connected, generate more competition, have greater investment and provide better opportunities for all. To this end, the Ministries of Finance from the four countries are focusing on four areas – Financial Integration, Catastrophic Risk Management, Investment in Infrastructure and Management and Fiscal Transparency.

How would you characterise Chile's current monetary policy?

As a government we are very respectful of the autonomy of the Central Bank, which in our institutional system, is the entity responsible for ensuring the stability of the currency and maintaining a low and stable inflation rate over time. Having said that, there is permanent coordination with the Central Bank. I should also mention the contribution that the fiscal authorities have made in an effort to avoid inflationary pressures through a more moderate public spending. **E**