

(Updates with analyst's comment in fourth paragraph.)

By Randall Woods

Feb. 5 (Bloomberg) -- Chile's economic expansion accelerated in the fourth quarter as shoppers stepped up spending, increasing the odds the central bank board will tighten monetary policy if growth doesn't cool this year.

The economy on a seasonally-adjusted basis expanded 1.2 percent in December from the previous month, the fastest gain in 2012 behind November's 1.3 percent increase, the bank said in a report posted on its website today. Chile's economy rose 4.7 percent in December from 2011, compared with the median estimate of 3.7 percent from analysts surveyed by Bloomberg.

December's growth brings expansion for the whole of last year in the world's top copper miner to 5.6 percent, according to calculations made by Bloomberg based on central bank data. Policy makers would be forced to act if growth continues at its current rate and causes inflation to accelerate quickly, economist Sebastian Senzacqua said by phone from Santiago.

"Obviously the central bank could start to harden its message and perhaps we could see interest rates move toward the end of the year," Senzacqua, investment analyst at Bice Inversiones, said today. "Still, in the short term there is no space to move the rate."

Policy makers have kept the key rate at 5 percent for 12 straight monthly meetings, giving Chile the highest borrowing costs among major rate-setting Latin American nations behind Brazil. The bank board will raise borrowing costs a quarter-point by February next year, according to the median estimate of traders and investors polled by the bank on Jan. 22.

Quickening Inflation

Inflation rates will double within 12 months from 1.5 percent in December 2012, which was the lowest level reported in

2 1/2 years, according to the survey of traders and investors.

Policy makers target 3 percent inflation, plus or minus 1 percentage point over two years.

Monthly economic growth, as measured by the Imacec index that is a proxy for gross domestic product, grew an average 0.6 percent in the fourth quarter compared to 0.5 percent in the third, according to calculations made by Bloomberg based on central bank data.

Retail sales grew 9.5 percent in the fourth quarter from the year before and 8.6 percent in the third quarter, according to the National Statistics Institute. Investment and private consumption drove the 5.7 percent increase in third quarter GDP from the year before, climbing 13 percent and 6.4 percent respectively, according to the central bank.

Current Account

The current account deficit widened to 7.4 percent of GDP in the third quarter from 4.9 percent in the year-ago period.

Imports grew 2.5 percent in the third quarter while exports contracted as Chileans stepped up purchases of foreign-made durable and consumer goods, the bank said.

Economists surveyed in January 2012 by the central bank had expected the Chilean economy to expand just 4 percent for the whole year after GDP climbed 6 percent in 2011. The bank is scheduled to publish fourth-quarter GDP and current account data on March 18.

The peso, which has appreciated 1.8 percent against the U.S. dollar in the past three months, rose 0.2 percent to 472.09 per dollar as of 9:22 a.m. local time today.

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