Chile's macroeconomic policy framework and medium-term perspectives

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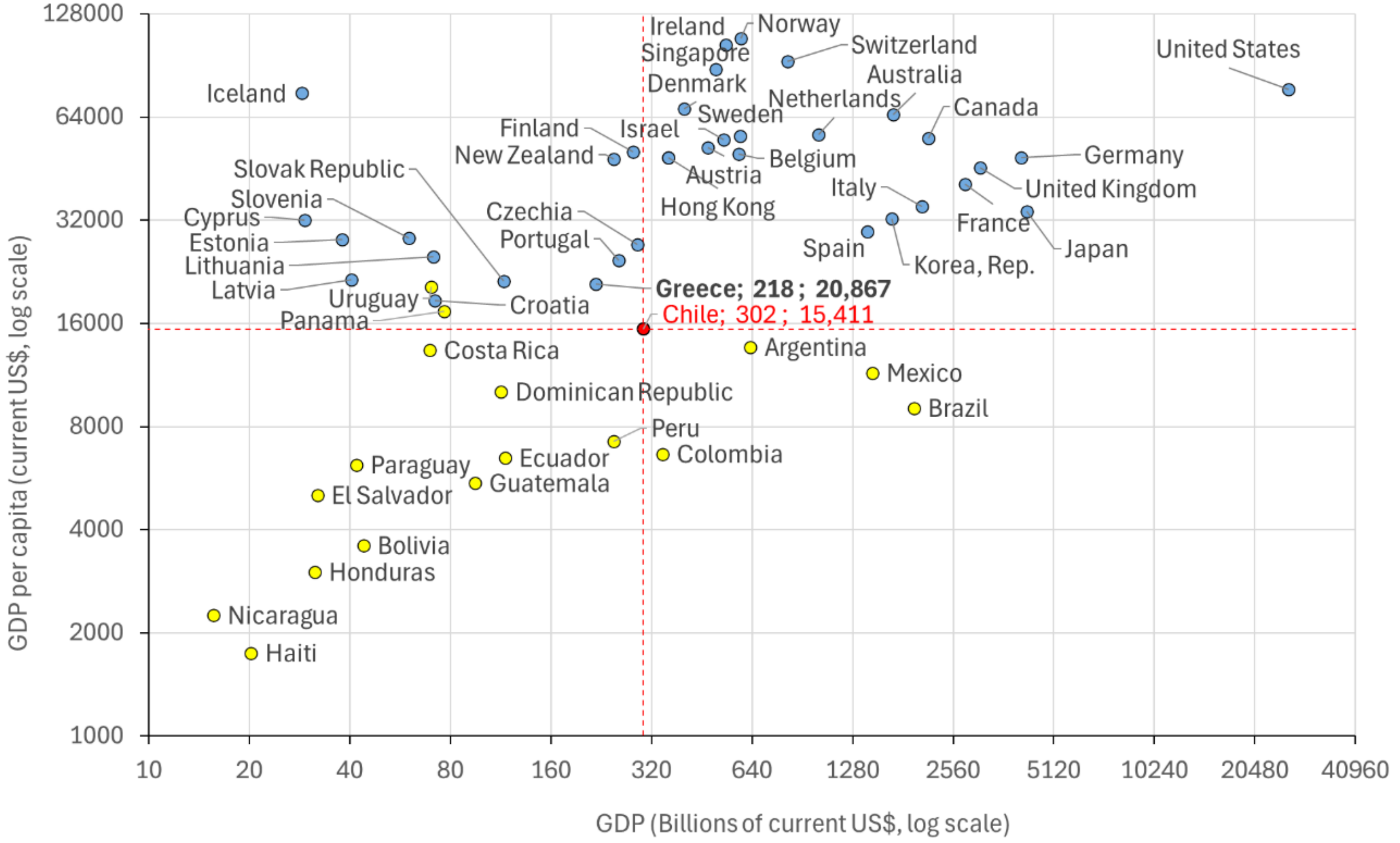
Chile is a small, commodity oriented, open economy

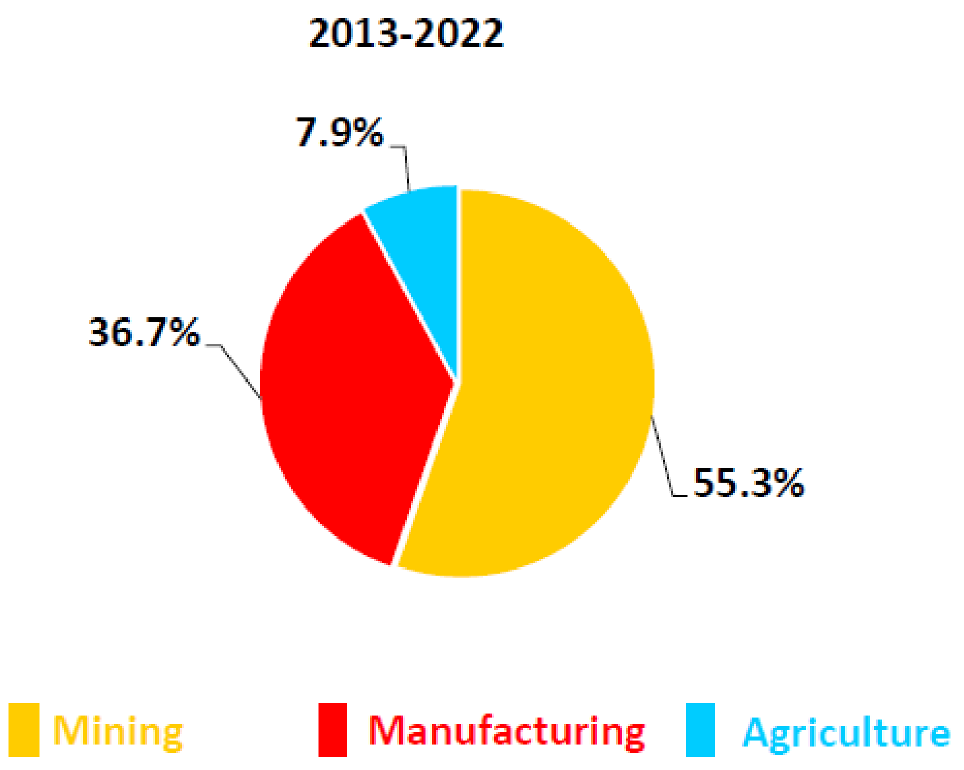
Chilean economy compares to Latam and Developed Countries



Source: World Bank.

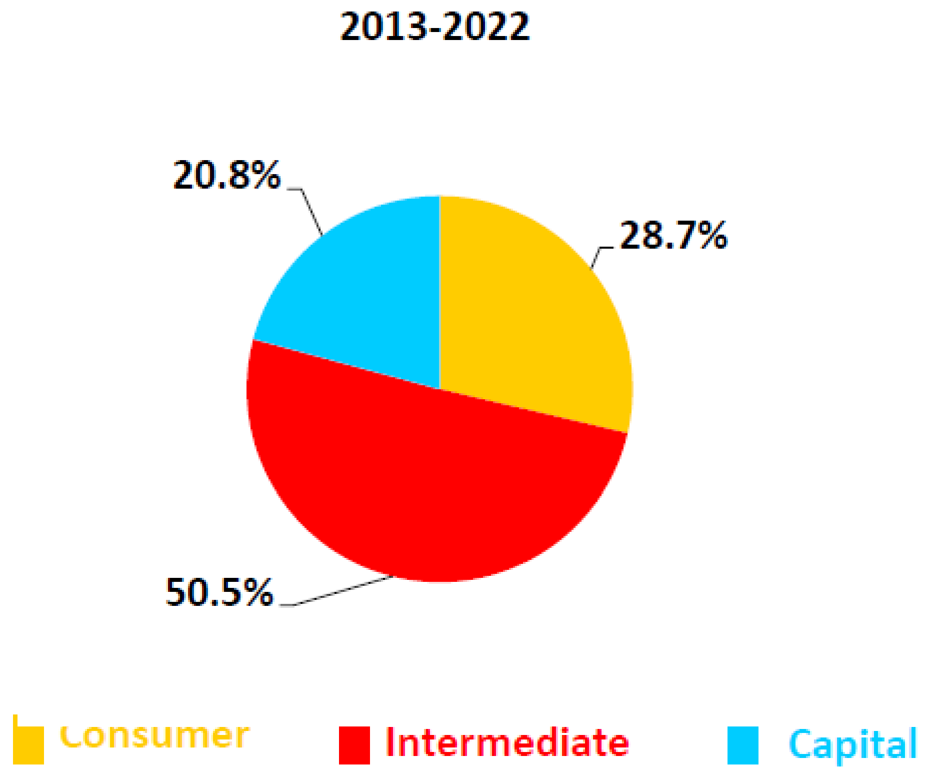
Chile is a small, commodity oriented, open economy

Chilean exports by economic sector (*)



Chilean imports by goods classification (**)

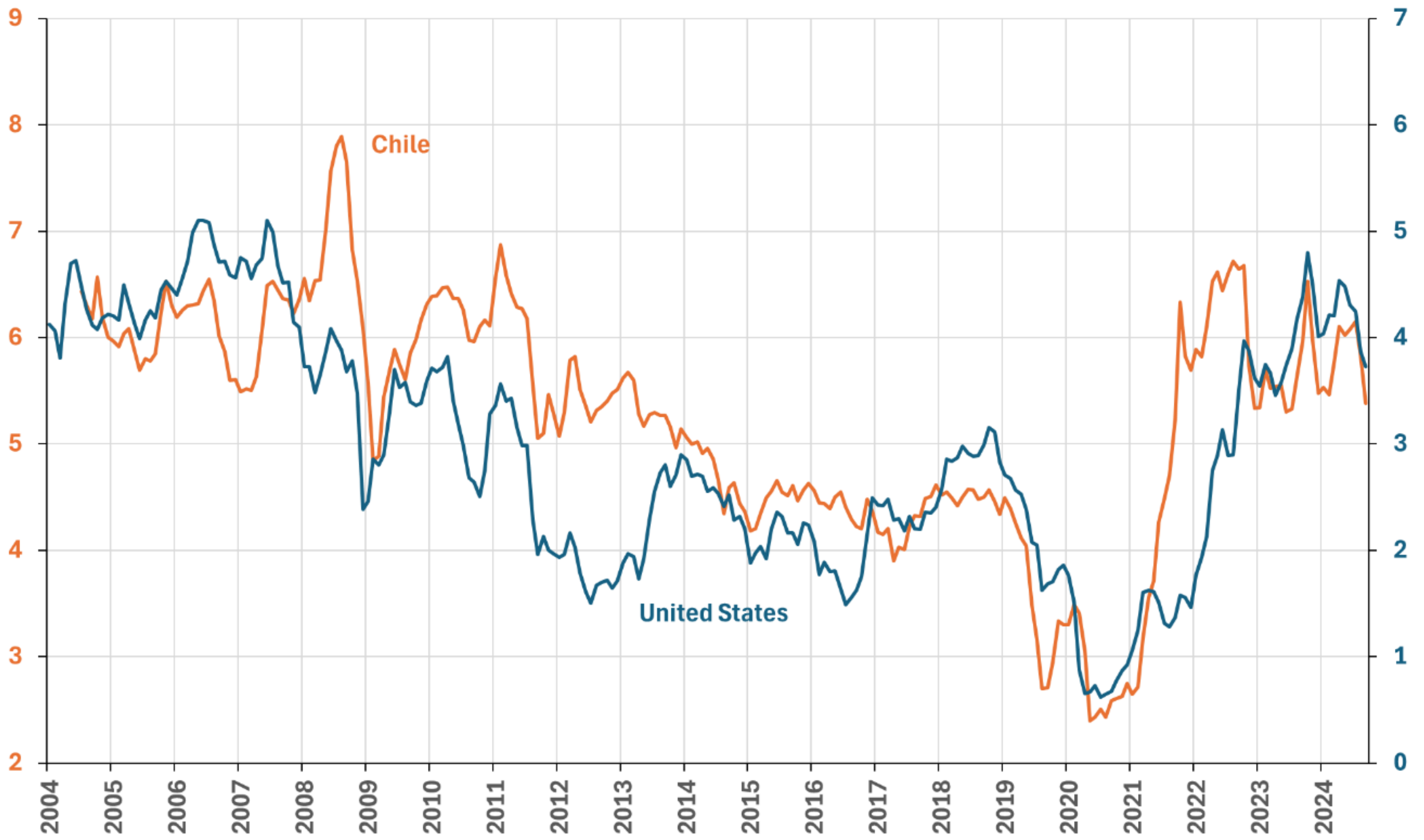
(share of total imports)



(*) Includes gold, exports from Free Trade Zone and goods acquired in port by means of transport. (**) Includes Free Trade Zone imports (CIF) and goods acquired in port by means of transport.) Source: Central Bank of Chile..

The global financial cycle is an important determinant of local financial conditions.

Nominal rate of ten-year government bonds (%)



Source: Central Bank of Chile.

We have a policy framework designed to deal with external shocks.

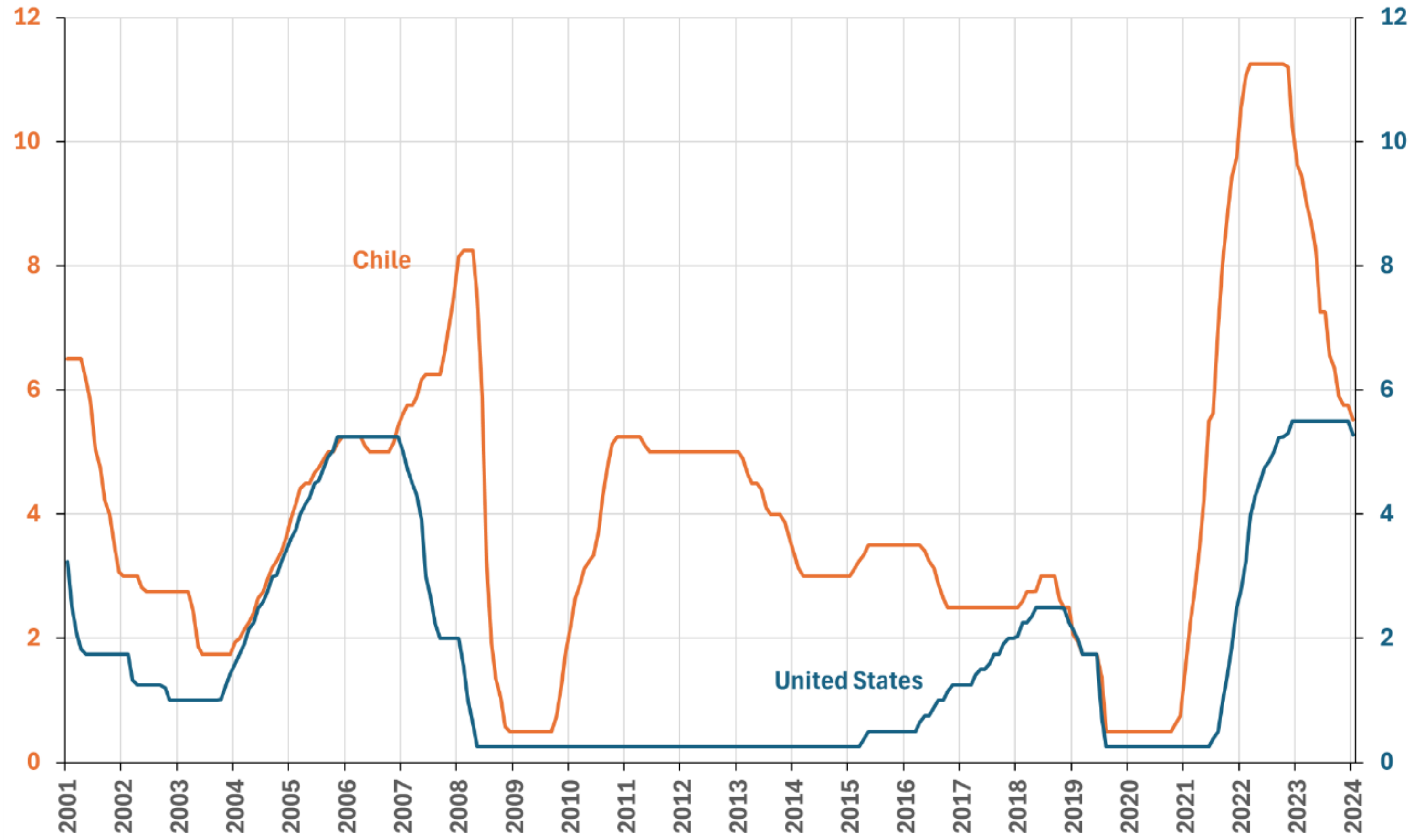
- Three key elements of our policy framework:
    1. Autonomous Central Bank that directs monetary policy.
    2. Responsible and predictable fiscal policy.
    3. Adequate regulation and supervision of the financial system.

- Which, together with the integration process, have been the 4 pillars behind the macroeconomic management strategy.

The monetary policy framework consists of an inflation targeting scheme combined with a flexible exchange rate

Flexible exchange rate allows for independent monetary policy.

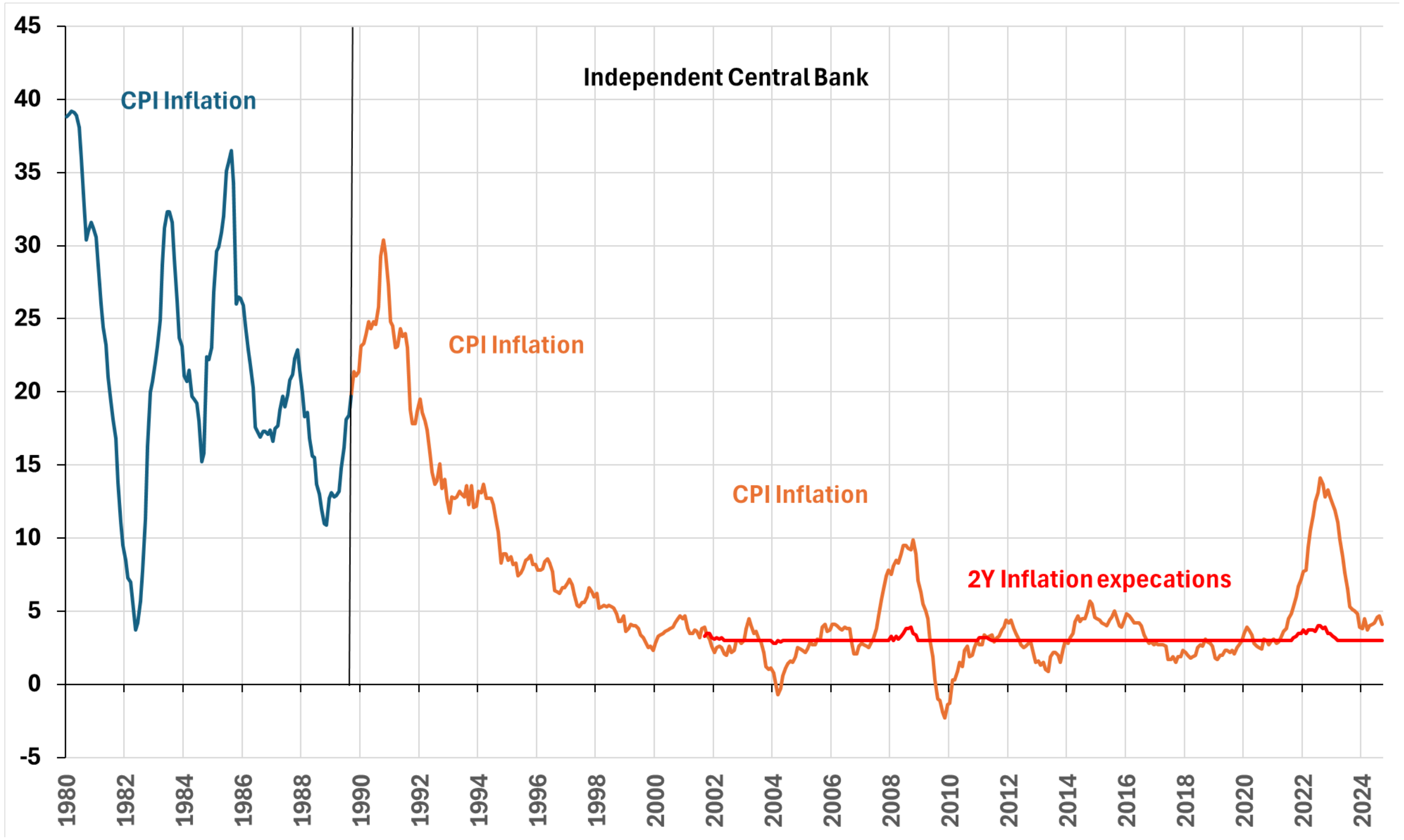
Monetary policy rate (%)



Source: Central Bank of Chile.

An independent Central Bank has been critical for controlling inflation and gain credibility.

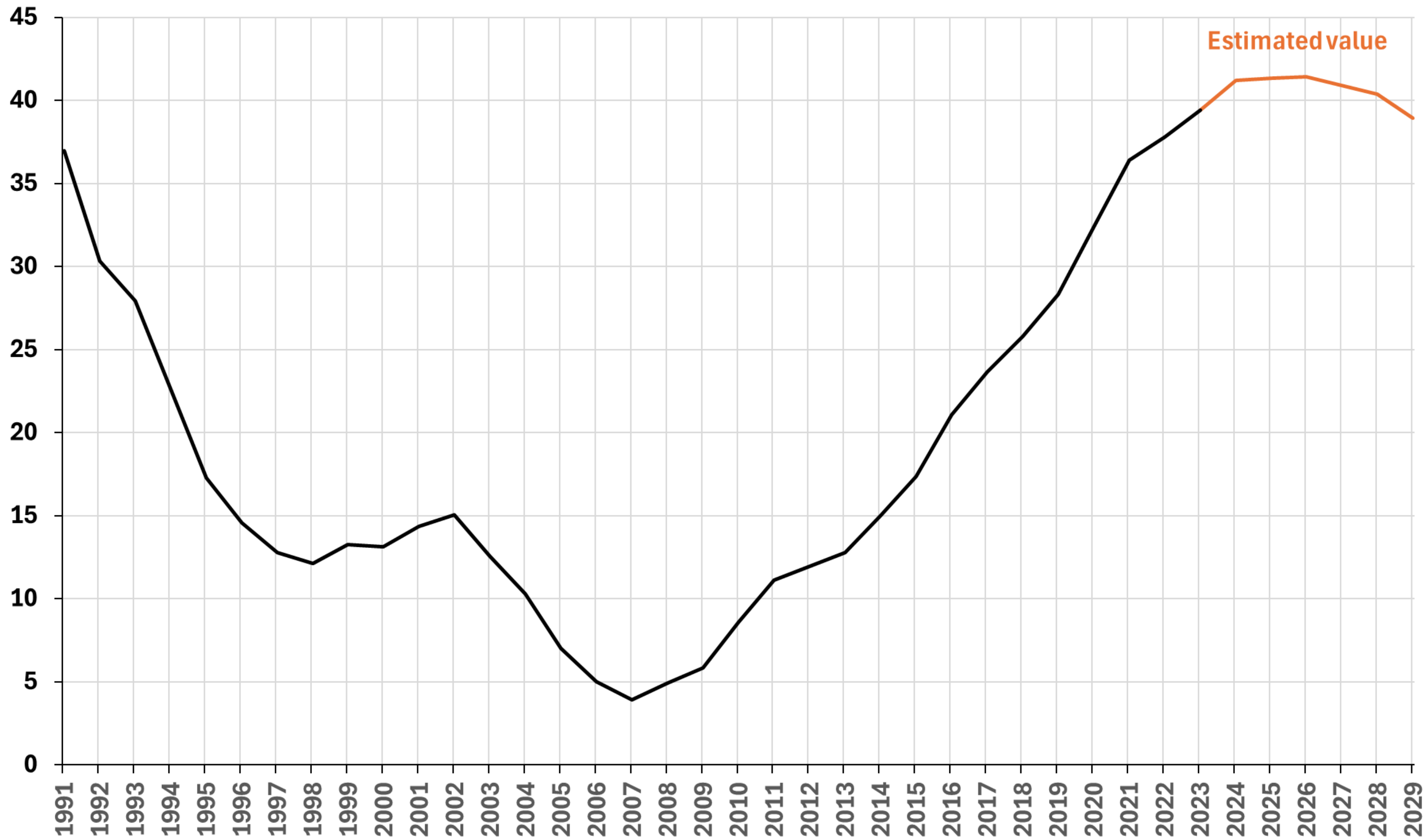
Inflation and inflation expectations



Source: Central Bank of Chile

Public debt is expected to stabilize at around 40%, as expenditures evolves according to the fiscal rule.

Public debt (% of GDP)



Source: Ministry of Finance.

Forecast from September Monetary Policy Report

TABLE 1: INFLATION (1)(2)
(annual change, percent)

	2022	2023	2024 (f)		2025 (f)		2026 (f)	
			Jun.24 IPoM	Sep.24 IPoM	Jun.24 IPoM	Sep.24 IPoM	Jun.24 IPoM	Sep.24 IPoM
Average CPI	11.6	7.3	3.7	3.9	4.5	4.3	3.0	3.0
December CPI	12.8	3.4	4.2	4.5	3.6	3.6	3.0	3.0
CPI in around 2 years (3)							3.0	3.0
Average core CPI	9.0	7.5	3.8	3.7	3.6	3.4	3.0	3.1
December core CPI	10.0	4.7	3.8	3.9	3.3	3.2	3.0	3.1
Core CPI around 2 years (3)							3.0	3.1

(1) Core inflation is measured using the CPI without volatiles. (2) Figures consider the 2023 CPI reference basket and the splice made by the Central Bank of Chile. (3) For June 2024 IPoM corresponds to inflation forecast for the second quarter of 2026, for September 2024 IPoM to inflation forecast for the third quarter of 2026. (f) Forecast. Sources: Central Bank of Chile and National Statistics Institute (INE).

Forecast from September Monetary Policy Report

TABLE 3: INTERNAL SCENARIO
(annual change, percent)

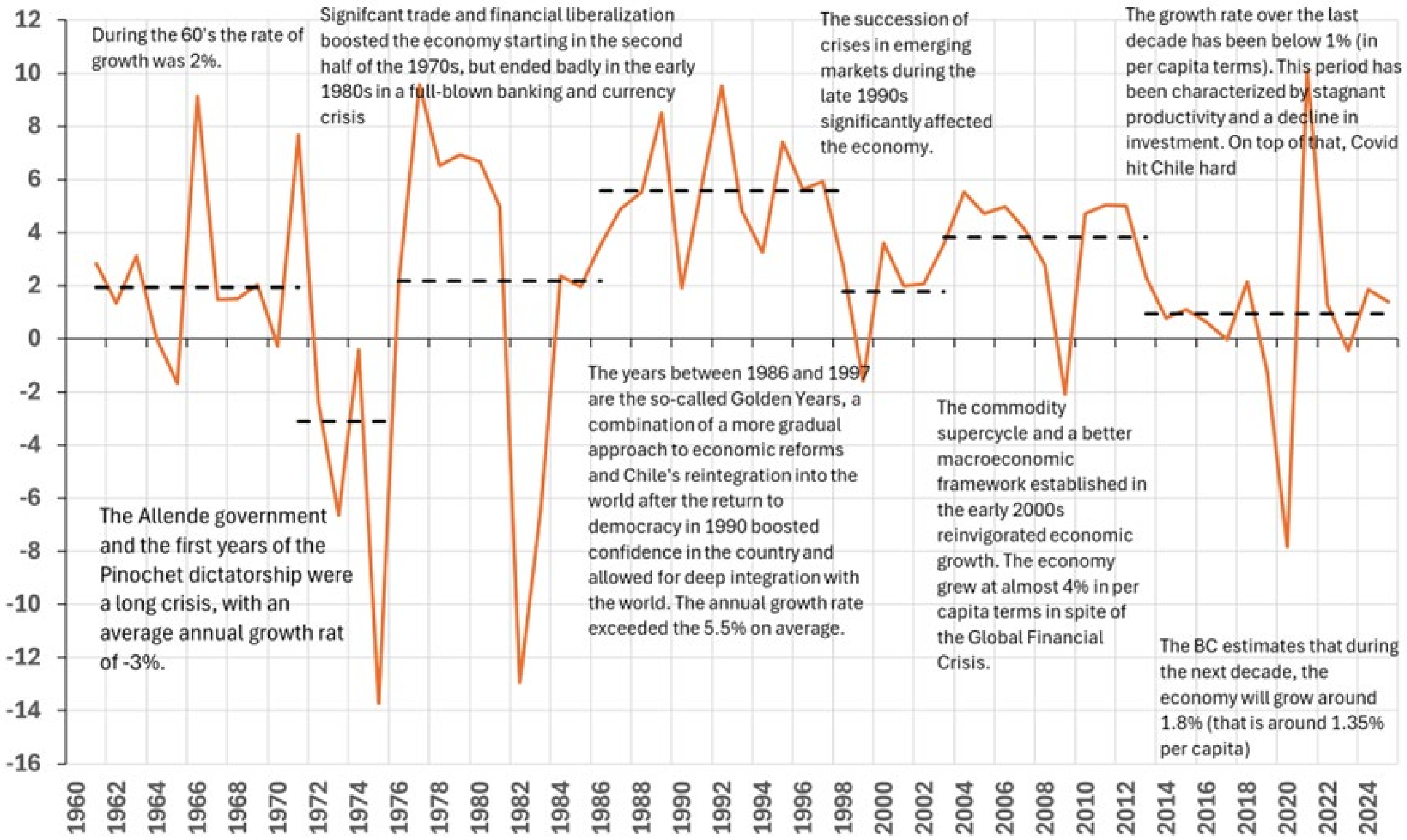
	2022	2023	2024 (f)		2025 (f)		2026 (f)	
			Jun.24 IPoM	Sep.24 IPoM	Jun.24 IPoM	Sep.24 IPoM	Jun.24 IPoM	Sep.24 IPoM
GDP	2.1	0.2	2.25 - 3.0	2.25 - 2.75	1.5 - 2.5	1.5 - 2.5	1.5- 2.5	1.5 - 2.5
Domestic demand	2.3	-4.2	1.8	1.3	2.6	2.5	2.6	2.4
Domestic demand (w/o inventory)	2.9	-3.2	2.0	1.3	2.6	2.5	2.4	2.2
Gross fixed capital form	3.9	-1.1	-0.3	-0.8	5.4	5.1	2.8	2.5
Total consumption	2.6	-3.9	2.8	2.0	1.7	1.7	2.3	2.1
Private consumption	1.6	-5.2	2.5	1.7	1.9	1.9	2.5	2.2
Goods and services exports	0.8	-0.3	5.9	6.1	3.1	3.2	1.9	2.2
Goods and services imports	1.5	-12.0	3.2	2.9	4.7	4.5	3.9	3.3
Current account (% of GDP)	-8.7	-3.6	-2.1	-2.1	-2.5	-2.4	-2.7	-2.5
Gross national saving (% of GDP)	16.9	19.4	19.2	20.0	19.5	19.7	19.5	19.7
Gross fixed capital formation (% of nominal GDP)	25.3	23.8	23.1	23.1	23.7	23.1	23.8	23.0

(f) Forecast.
Source: Central Bank of Chile.

The last decade has been characterized by its low growth rate. Productivity stagnation is the main problem.

A brief history of Chile's GDP per capita

GDP per capita growth (%)



Source: Central Bank of Chile.

Final remarks

- After several years marked by profound discussions about the constitution, and by Covid and its consequences, the Chilean economy has returned to a situation consistent with its medium-term balance.
    1. The output gap is close to cero
    2. Inflation should converge to 3% when the transitory effects of the electricity rate increase disappear.

- An adequate policy framework has been essential to recover a more balanced economy, and will be even more important in the future, as geopolitical and other external risks have increased, and some of the security buffers have deteriorated.
    1. More public debt.
    2. Less deep financial market.

- The main concerns are associated with how to increase the growth of the economy in the medium term. The green transition is an interesting opportunity for the country.

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