

# Macroeconomic Trends and Projections of the Chilean Economy

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Vice President

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- **Medium term**

- Resource blessing
  - Chile has and can produce many of commodities crucial for green transition
  - Copper, lithium and green hydrogen potential
- Macroeconomic stability
  - Major economic imbalances of previous years have been closed: activity gap is close to equilibrium and the current account deficit has decreased significantly.
  - Inflation is approaching 3% and two-year expectations are anchored to the target.

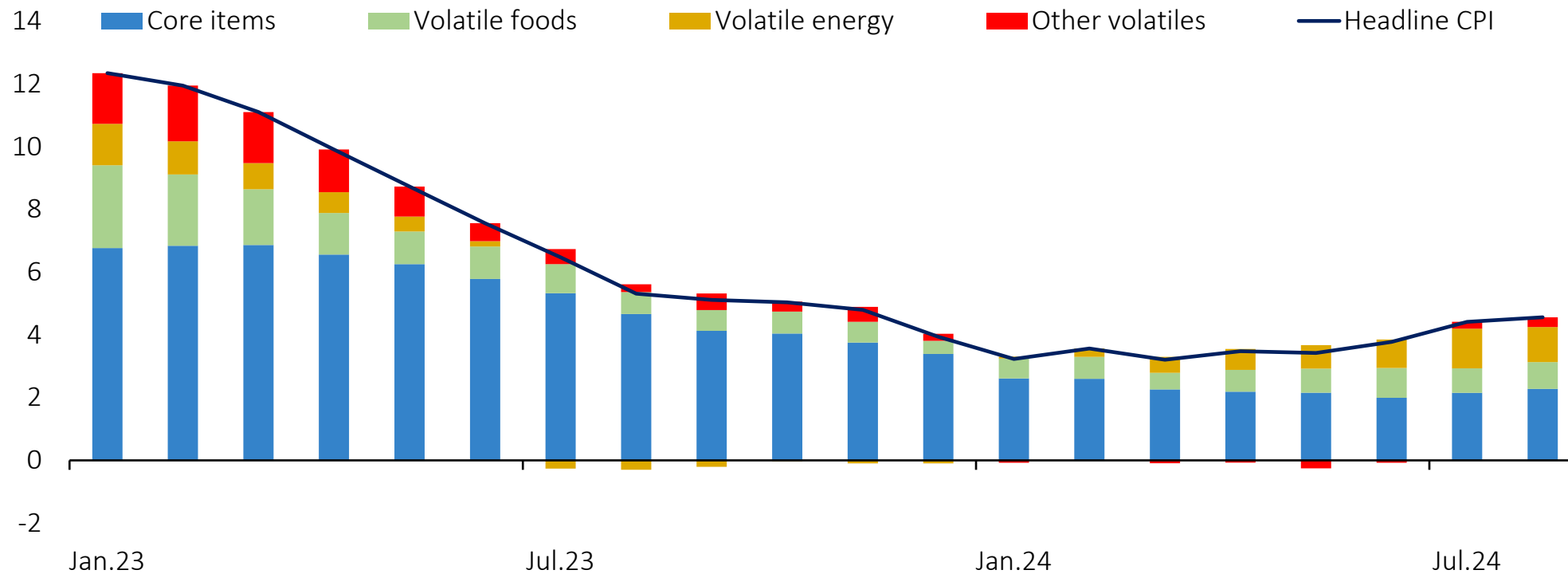
- **Shorter term**

- Chile favored on trade side by likely greater dynamism China
- Chile favored on the macro side by Fed beginning to lower interest rate

Inflation has fallen significantly from a peak of 14.1% (Aug-22). The volatile component has increased in the latest data.



Contributions to annual CPI inflation (\*)  
(percentage points)

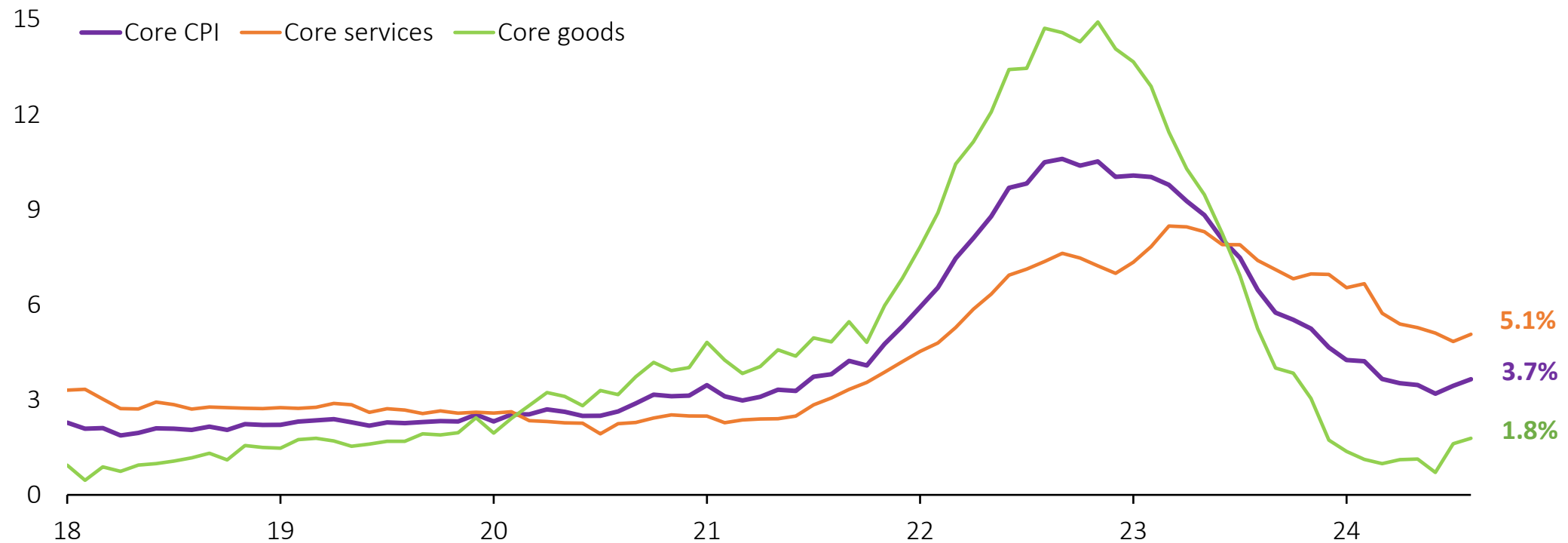


(\*) As from January 2024, contributions are calculated by using indexes with annual base 2023=100, so they are not strictly comparable with previous figures. Sources: Central Bank of Chile and National Statistics Institute.

Core inflation (i.e., without volatile items) stands at 3.7% annually.



Core inflation (\*)  
(annual change, percent)

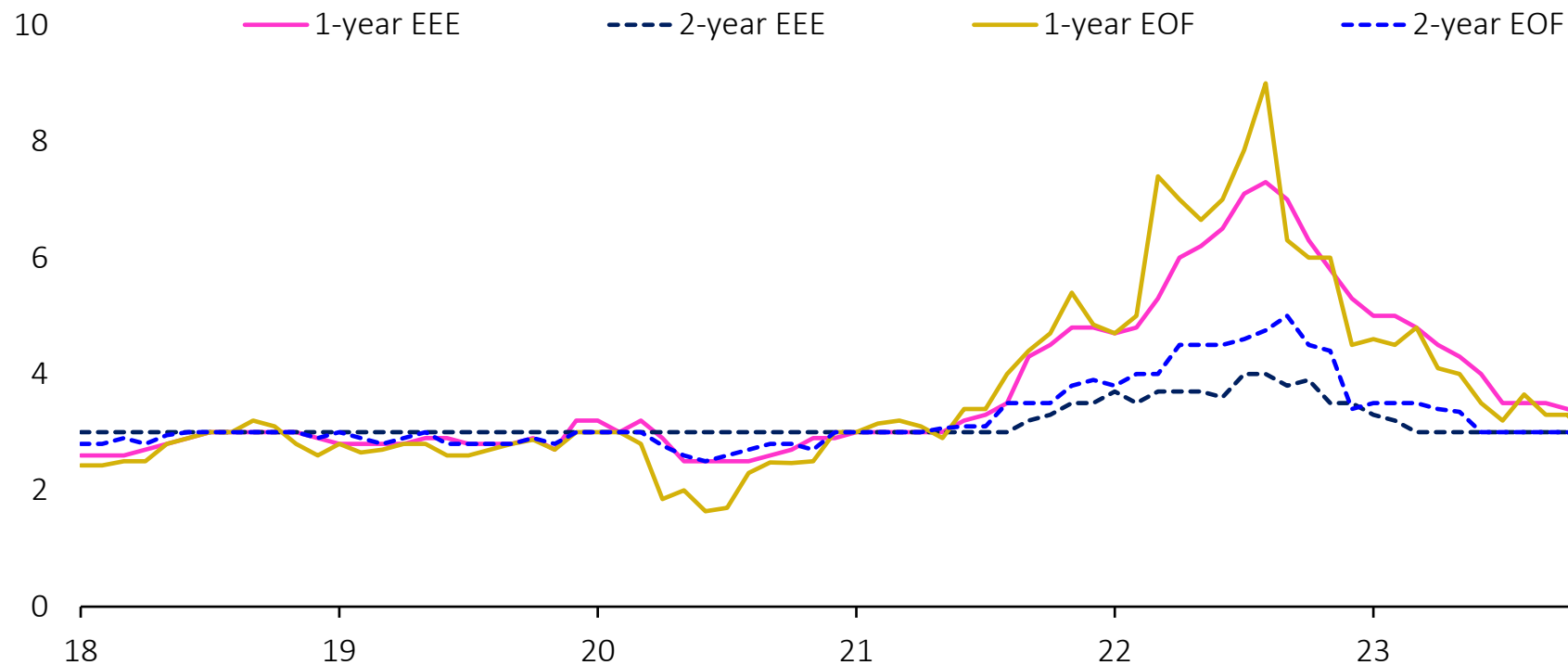


(\*) The series consider the 2023 CPI benchmark basket and the splicing made by the Central Bank of Chile.  
Sources: Central Bank of Chile and National Statistics Institute.

Short-term inflation expectations have risen, while at two years they remain anchored to the 3% target.



Annual inflation expectations by surveys (1)(2)  
(percent)



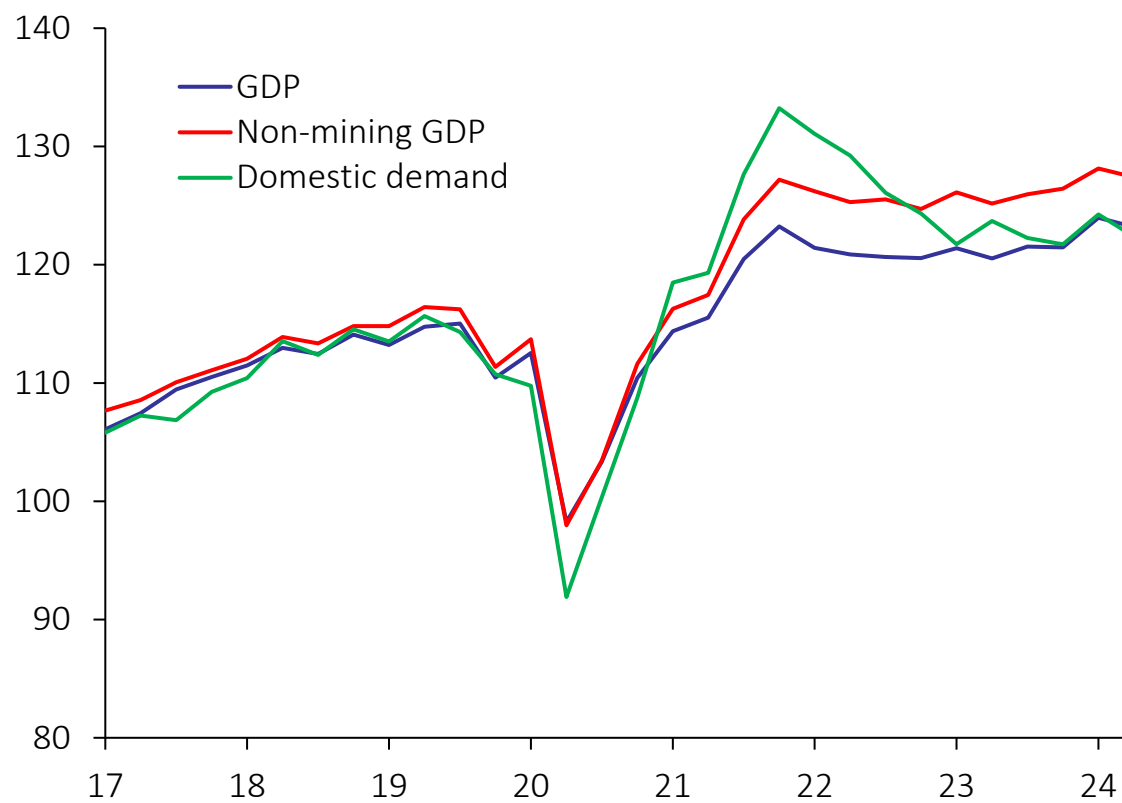
(1) Median responses. (2) The Financial Traders Survey (EOF) uses survey of first half of January 2018. From February 2018 onwards, it uses the latest survey published in the month. Source: Central Bank of Chile.

Annual growth for the first two quarters of the year was 2.5% and 1.6%, respectively.



## Activity and demand

(index, 2013.Q1 = 100, real seasonally-adjusted series)



Source: Central Bank of Chile.

	2024.Q1		2024.Q2	
	Annual variation	Quarterly variation (SA)	Annual variation	Quarterly variation (SA)
GDP	2.5	2.1	1.6	-0.6
Non-mining GDP	1.8	1.4	1.0	-0.6

# Monthly economic activity (Imacec) in August increased 2.3% annually.



## Monthly economic activity (Imacec) (\*)

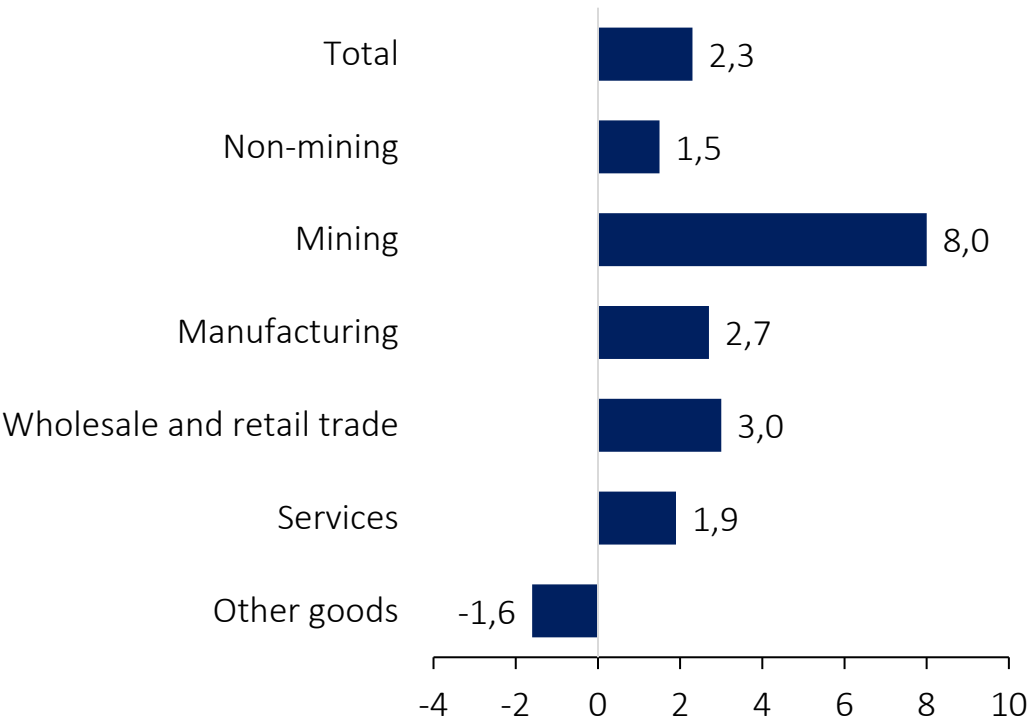
(index, 2018=100, seasonally adjusted series)



(\*) The other goods series includes agriculture & livestock, fishery, electricity, gas and water (EGW) and waste management, and construction.  
Source: Central Bank of Chile.

## Imacec August 2024 (\*)

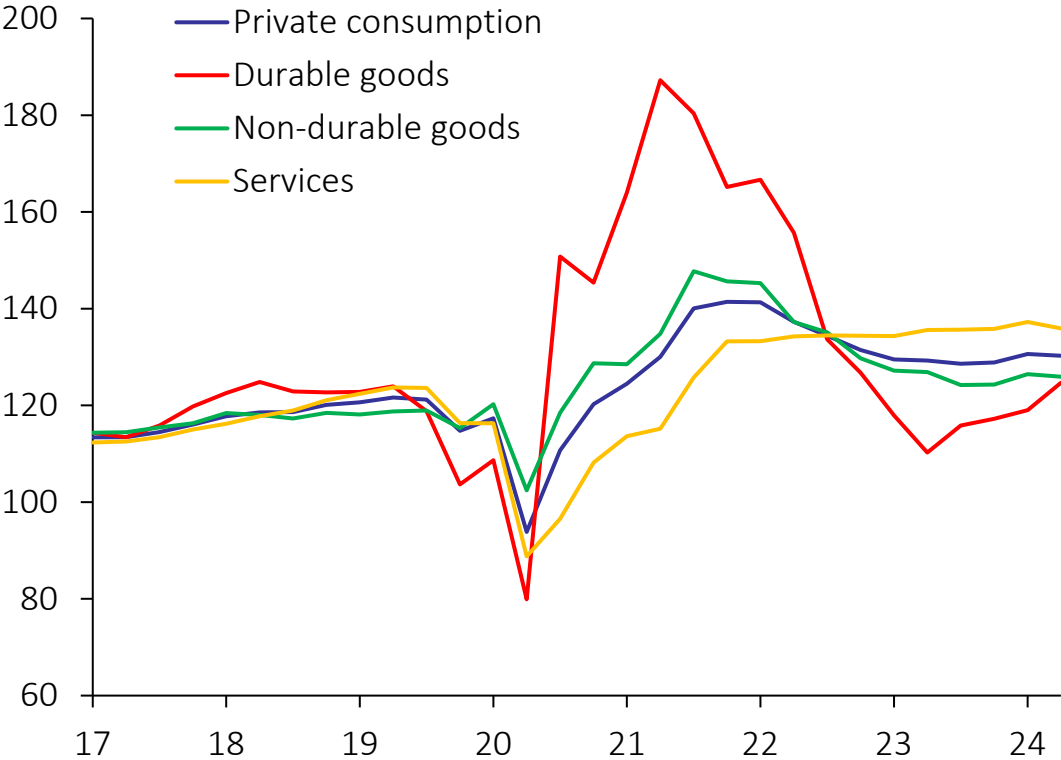
(annual variation, percent)



# Private consumption slowed more than expected, particularly in the services and non-durable goods components.



Private consumption by components  
(index, 2013.Q1 = 100, real seasonally-adjusted series)



Source: Central Bank of Chile.

	Annual variation (2024.Q2)	Quarterly variation (SA, 2024.Q2)
Private consumption	0.5	-0.3
Durable goods	9.2	4.7
Non-durable goods	-0.6	-0.4
Services	0.2	-1.0

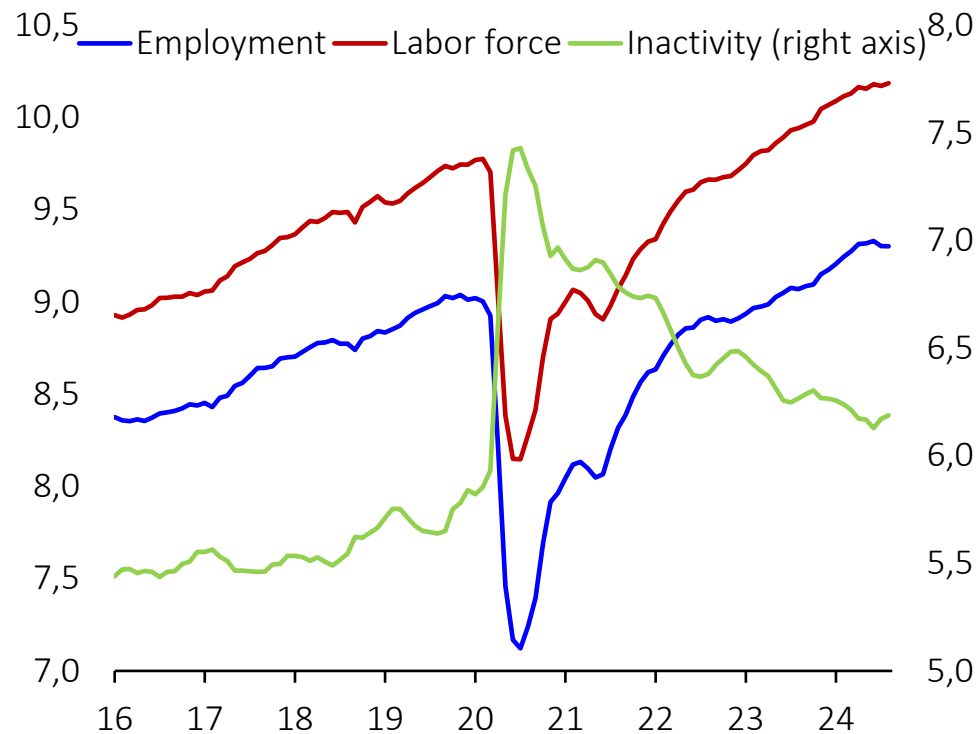


Several consumption fundamentals have evolved in line with expectations. The employment slowdown at the margin needs to be carefully monitored.



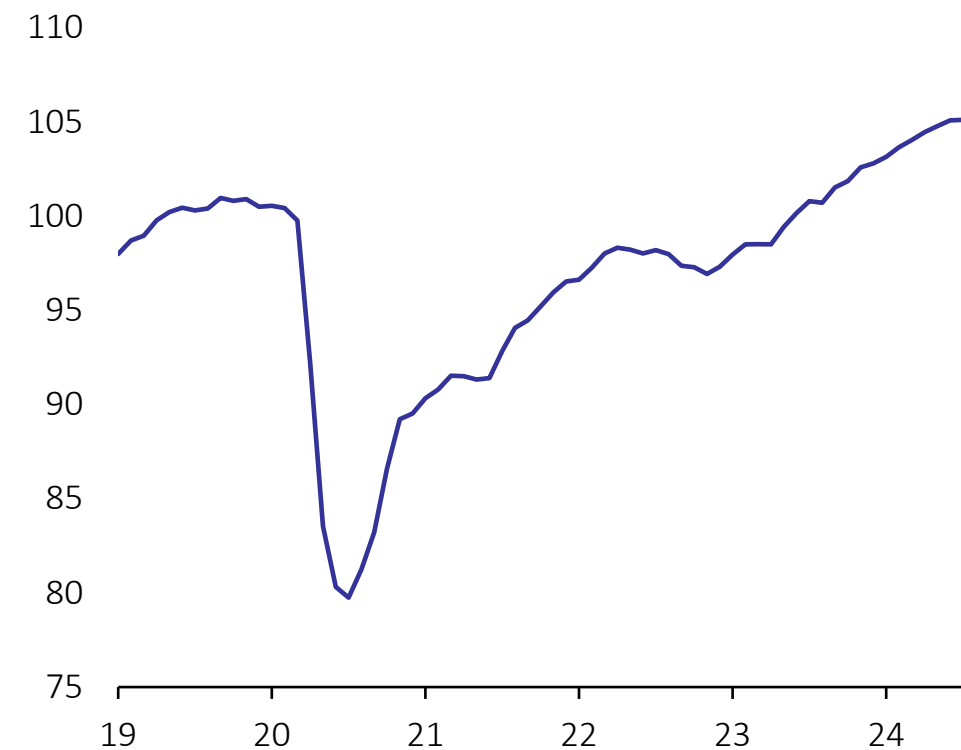
### Labor market

(millions of persons, seasonally adjusted series)



### Real wage bill (\*)

(index, 2019=100, deseasonalized)



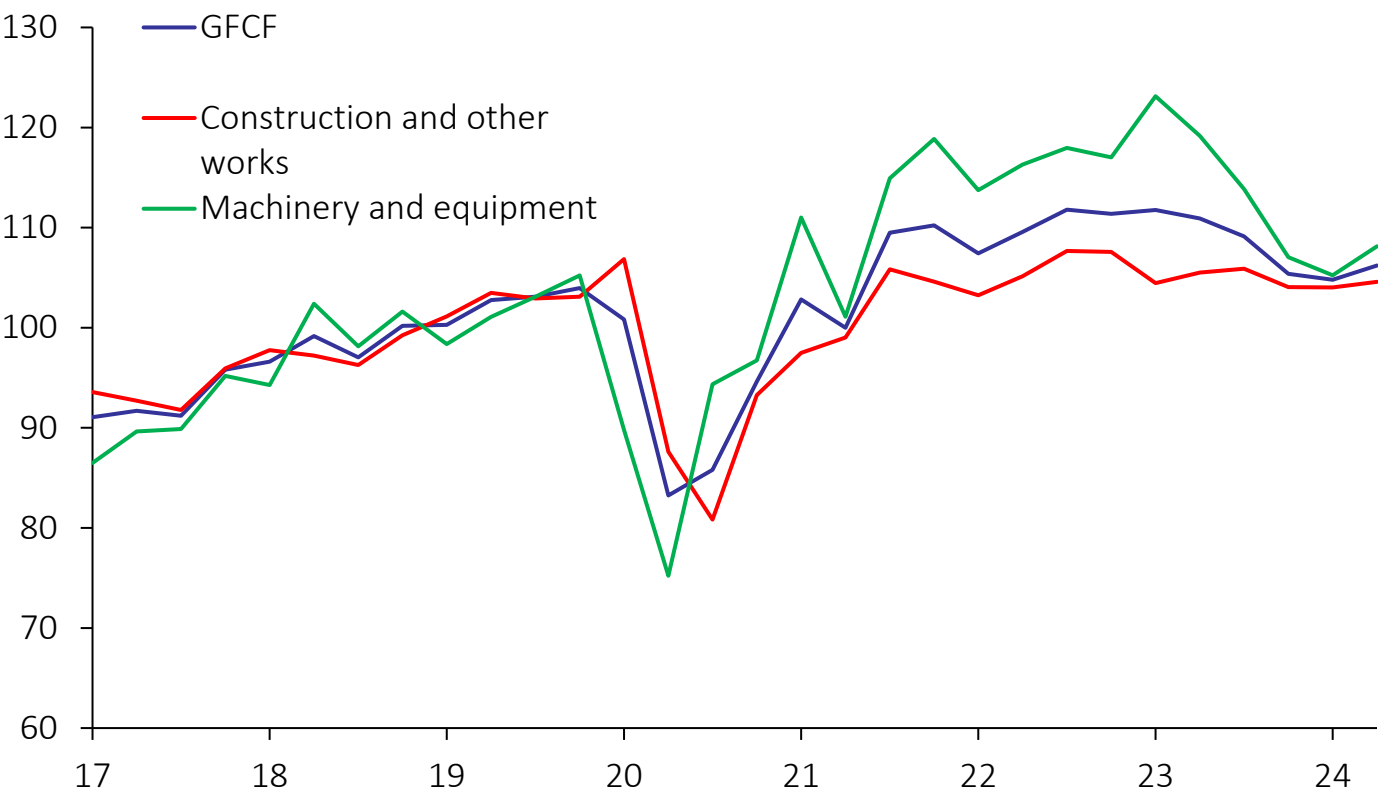
(\*) Calculated using seasonally adjusted series of real labor cost ICL, hours worked and occupation.  
Sources: National Statistics Institute and Central Bank of Chile.

Gross fixed capital formation (GFCF) stabilized after falling sharply in the second half of last year. The GFCF exhibited a better-than-expected performance in the second quarter of this year explained by both the construction and other works component and machinery and equipment.



Gross fixed capital formation by components

(index, 2013.Q1 = 100, real seasonally-adjusted series)



	Annual variation (2024.Q2)	Quarterly variation (SA, 2024.Q2)
GFCF	-4.1	1.4
C&W	-0.7	0.5
M&E	-9.1	2.8

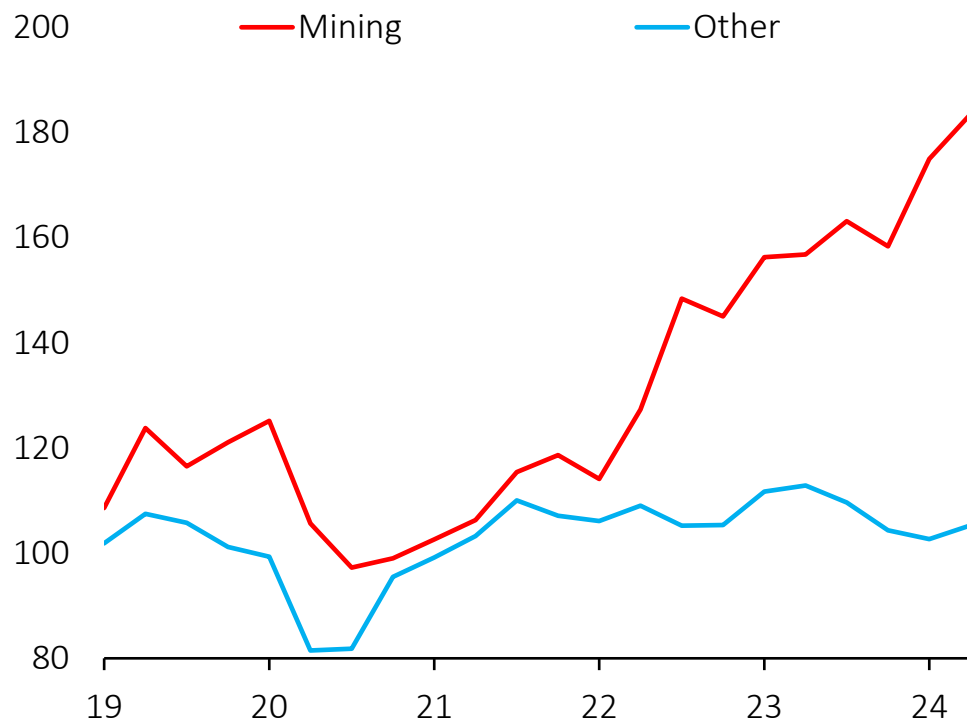
Source: Central Bank of Chile.

Since 2021, mining investment, both in copper and in other mining areas, including lithium, has performed favorably. Economic activity in other mining sectors (including lithium extraction) has been dynamic in recent years. As a percentage of exports, lithium carbonate peaked at 8.2% in 2022.



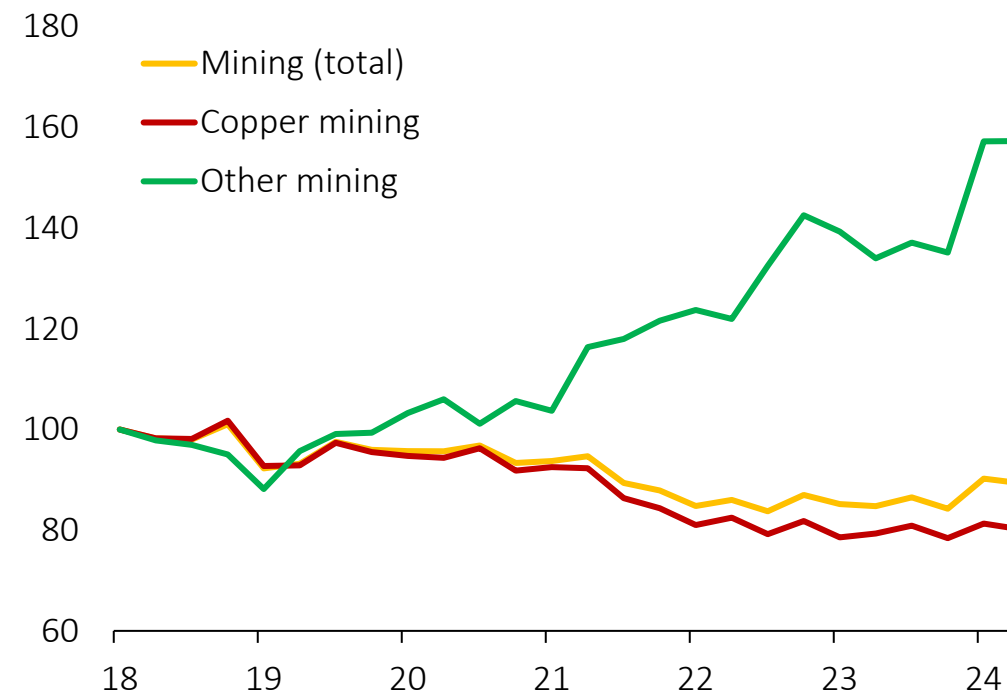
### Real investment microdata-based figures (1)(2)(3)

(index, 2018=100, seasonally adjusted quarterly series)



### Copper mining and other mining activities in GDP

(Index 2018 = 100, seasonally adjusted series)



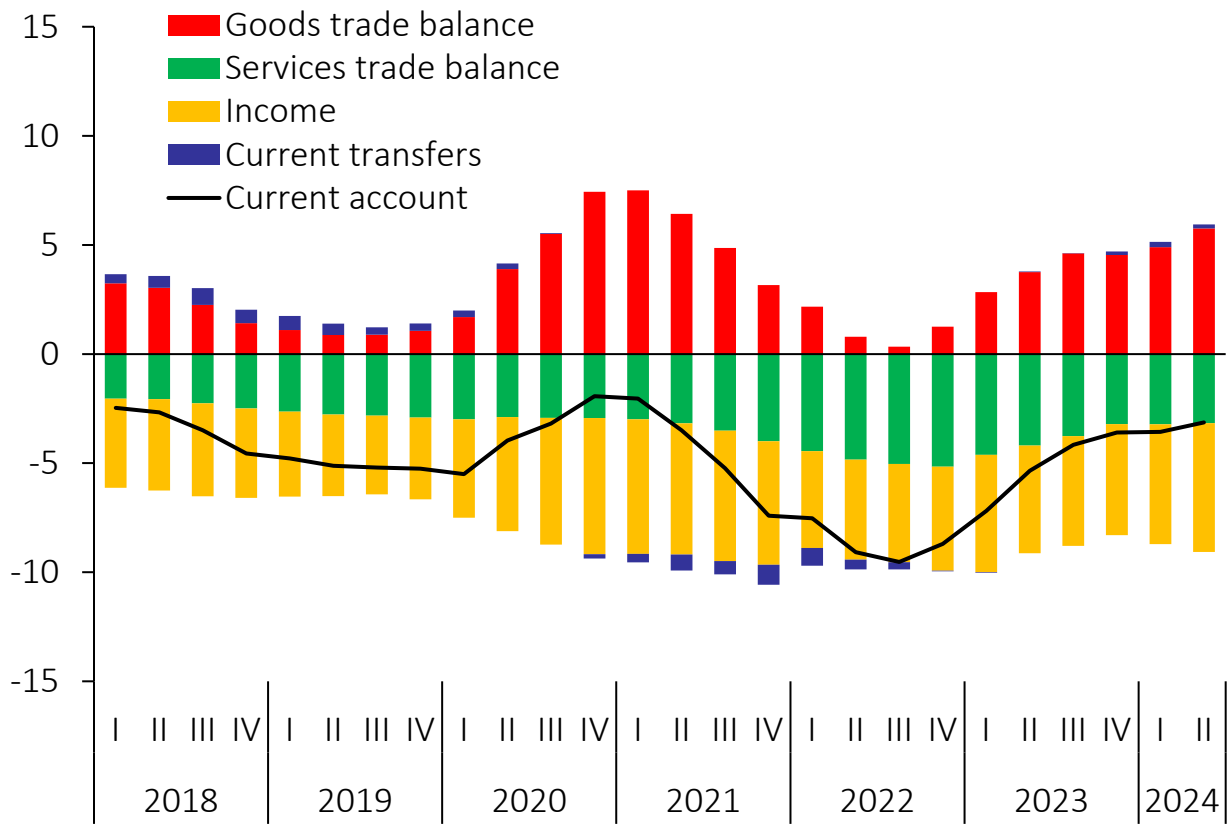
(1) These figures are an approximation of investment data based on high-frequency data subject to revisions and do not necessarily represent official National Accounts figures. (2) "Other" does not consider energy sector investment. (3) For further details, see September 2024 IPoM minutes. Sources: Central Bank of Chile, National Customs Office and Internal Revenue Service (SII).

In the second quarter, the one-year cumulative current account deficit reached 3.1% of GDP. National savings have shown a sustained recovery, projected at 20% of GDP for this year.



Current account, contributions by components

(percent of GDP, moving annual sum)



(f) Forecast.

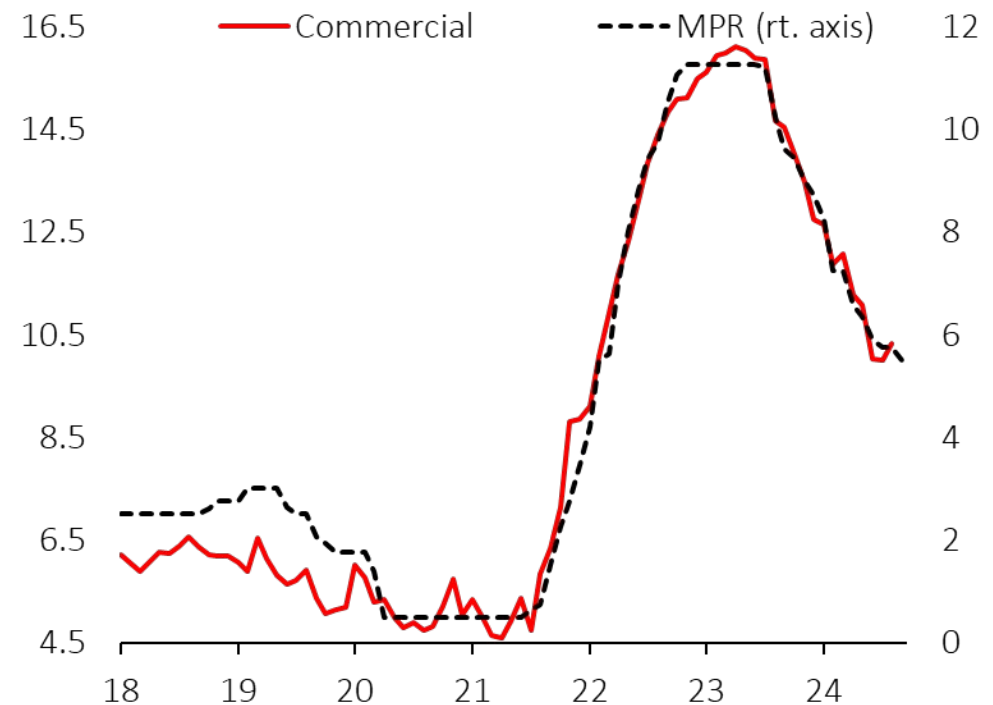
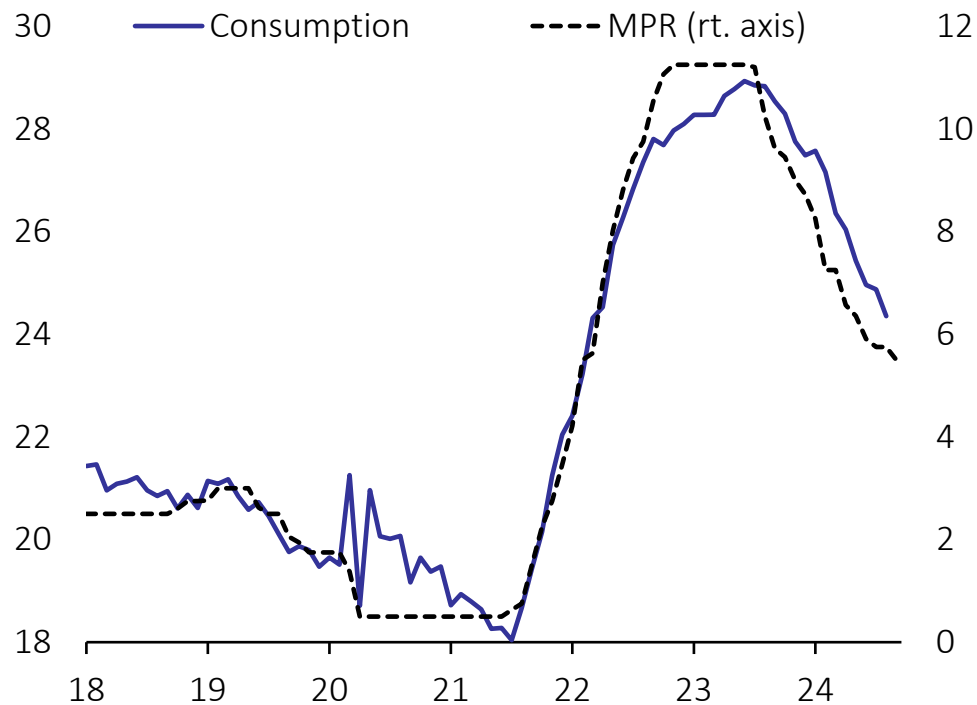
Source: Central Bank of Chile.

	2022	2023	2024 (f)
Current account (% GDP)	-8.7	-3.6	-2.1
Gross national saving (% GDP)	16.9	19.4	20.0

The MPR cuts have continued to be transmitted to the interest rates of shorter-term bank loans. Interest rates on commercial and consumer loans have declined significantly.



Lending interest rates and MPR (1) (2) (3)  
(percent)



(1) Consumer and commercial rates represent the weighted average rates of all transactions in Chilean pesos performed each month in the Metropolitan Region. (2) Lending rates correspond to seasonally adjusted series using Census X-12 and national calendar. (3) Monthly average of the MPR.

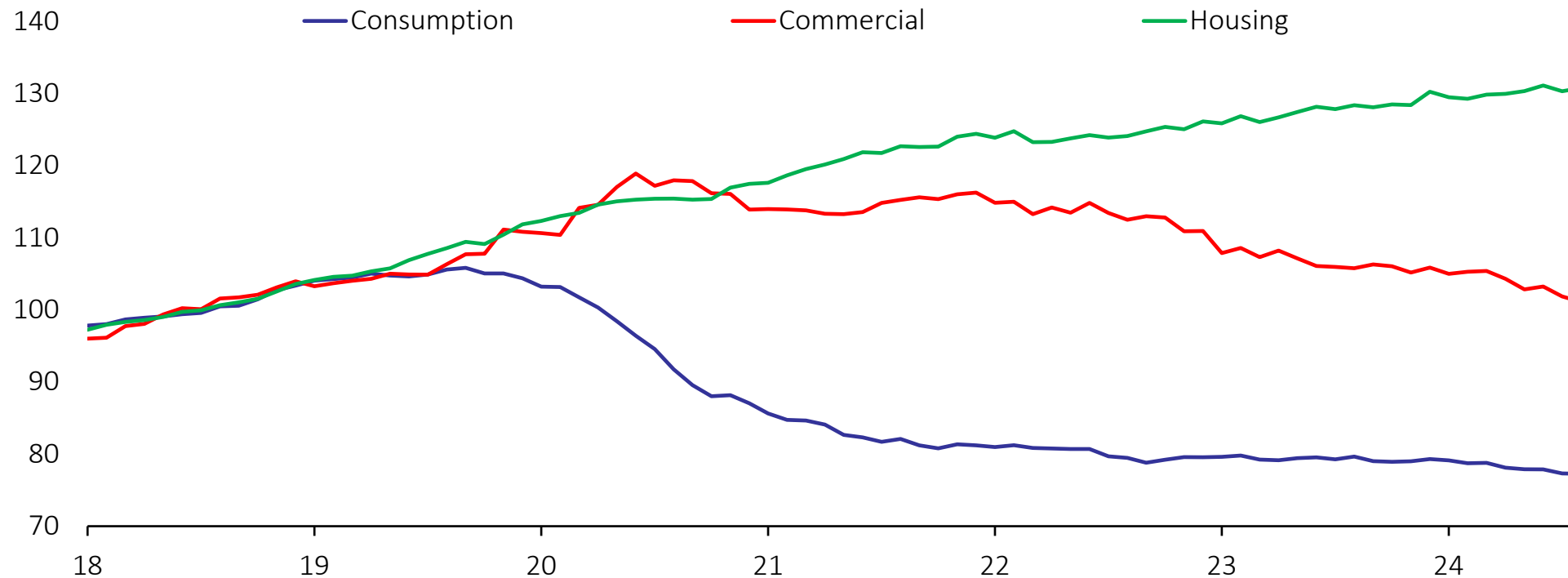
Source: Central Bank of Chile.

# Bank lending remains weak, especially in its commercial component.



## Real loan stock (\*)

(index, 2018 = 100)



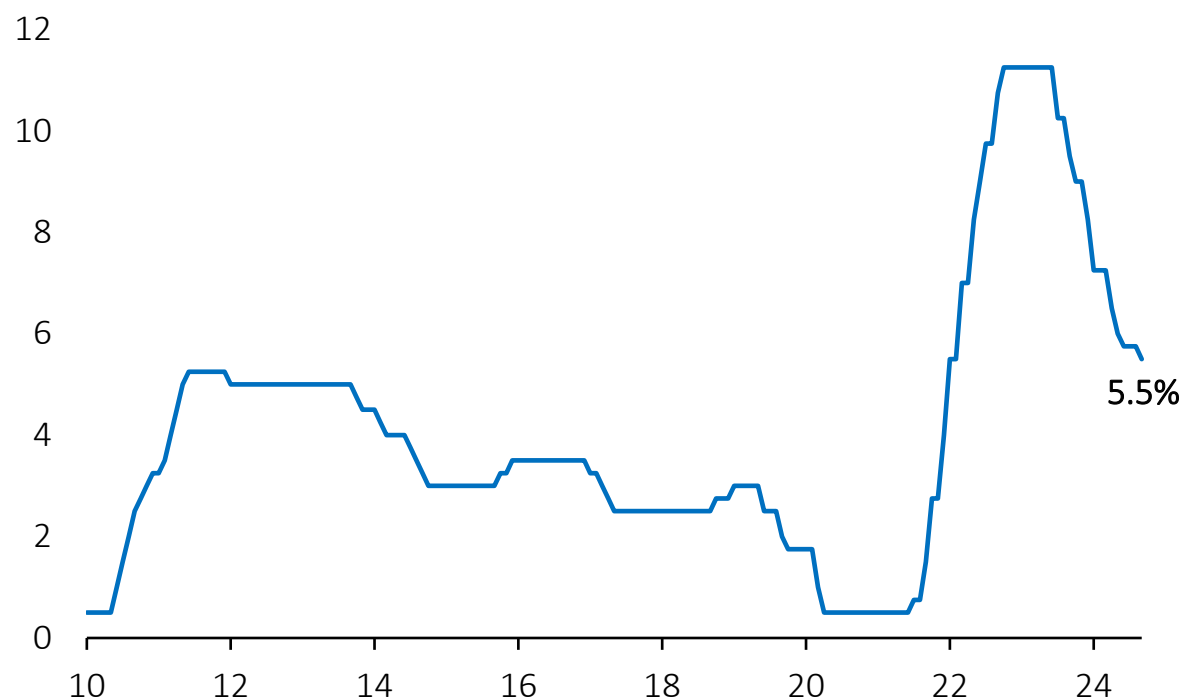
(\*) Real data built using the 2023 annual base CPI, considering its most recent revision.

Source: Central Bank of Chile.

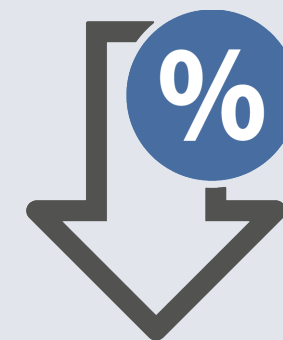
The Board lowered the monetary policy rate (MPR) at its September meeting by 25 basis points, in a context in which the combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness.



Monetary policy rate (MPR)  
(percent)



Source: Central Bank of Chile.



From July 2023 to date the MPR went from **11.25% to 5.5%**, a cumulative drop of 575 basis points.



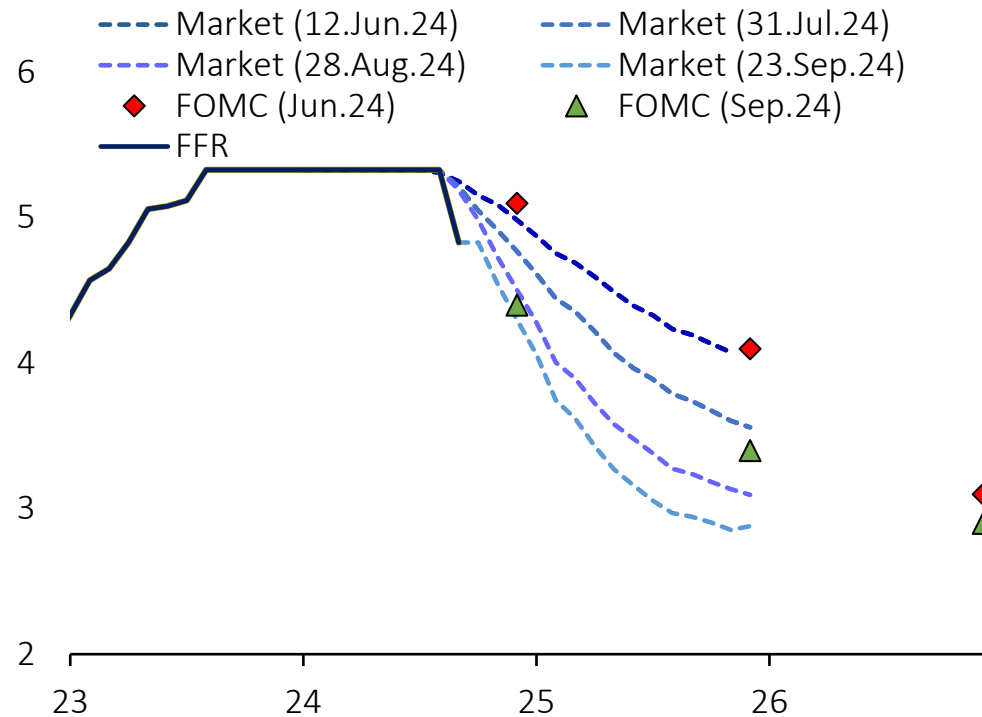
# Projections



# The U.S. Federal Reserve started its rate-cutting cycle in the last meeting. Moreover, FOMC projections for inflation were revised downward and upward for unemployment.



Fed funds rate (\*)  
(percent)



“(...) Today, the Federal Open Market Committee decided to reduce the degree of policy restraint by lowering our policy interest rate by ½ percentage point. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained in a context of moderate growth and inflation moving sustainably down to 2 percent.”

Jerome Powell, 18 de septiembre

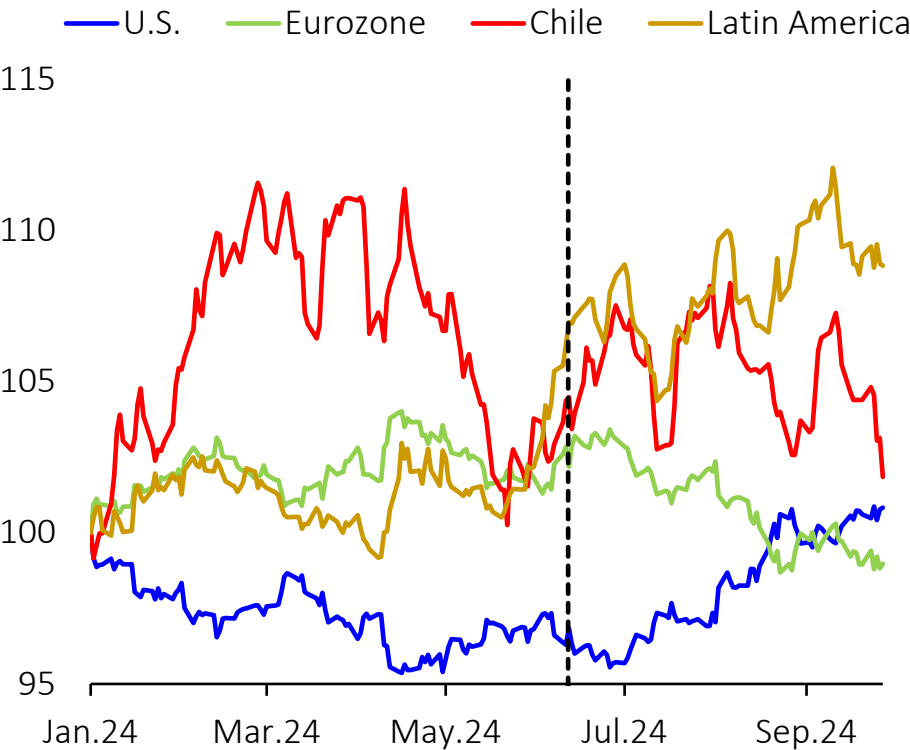
(\*) FOMC forecasts correspond to the mid-range of the Fed funds rate presented in June 2024. Market projections are for the mid-range Fed funds rate futures as of the June 2024 IPoM statistical close (12 June, 2024), the July policy meeting (31 July, 2024), the September IPoM statistical close (28 August, 2024) and 23 September, 2024. Market projection curve on 23 September considers the effective FFR during September. Sources: US Federal Reserve and Bloomberg.

After this decision, it continues to be expected more favorable financial conditions than foreseen in June IPoM, due to the change in the expected path for the Fed funds.



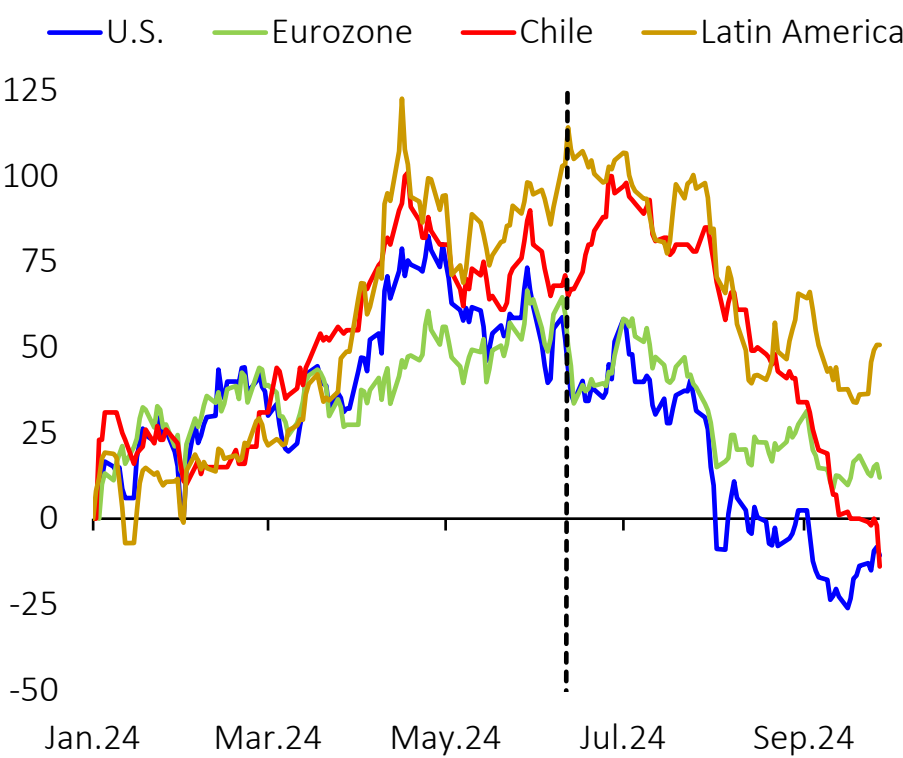
Currencies (1)(2)(3)

(index, 01.Jan.24=100)



Nominal 10-year rates (1)(2)

(difference with respect to 1.Jan.24, basis points)

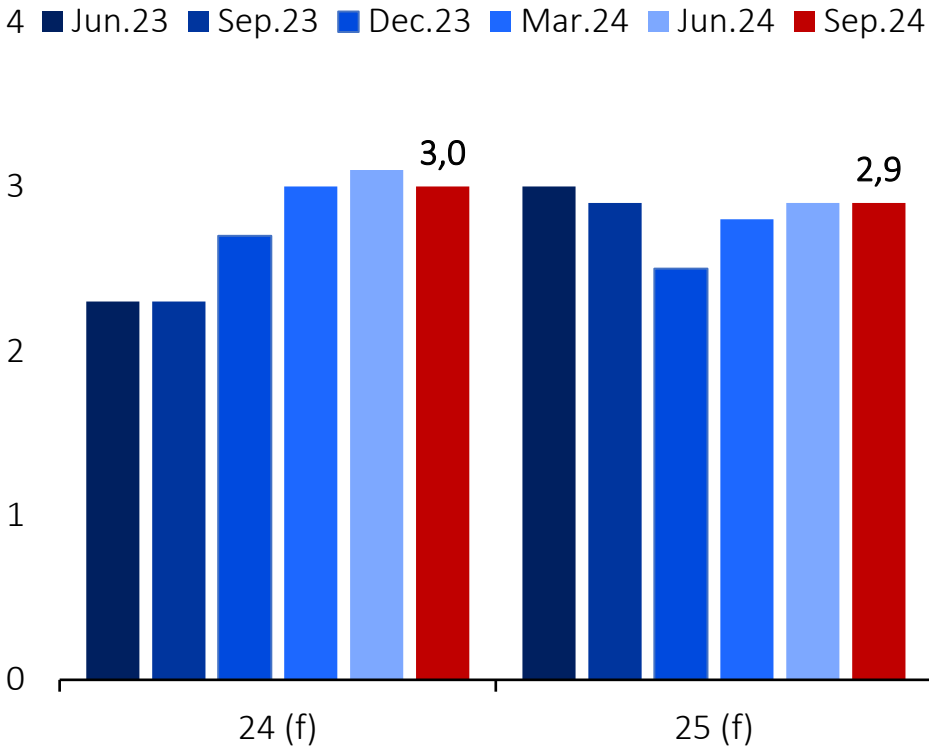


(1) For Latin America, the simple average of the indexes of Brazil, Colombia, Mexico and Peru is used. (2) Dashed vertical line marks the statistical close of the June 2024 IPoM. (3) An increase in the index represents a currency depreciation and vice versa. For the U.S., the multilateral exchange rate is used. Sources: Central Bank of Chile and Bloomberg.

Chile's trading partners are expected to expand marginally less in 2024, due to downward corrections for China. Despite this revision, medium-term copper price forecasts remain unchanged as its fundamentals remain sound.

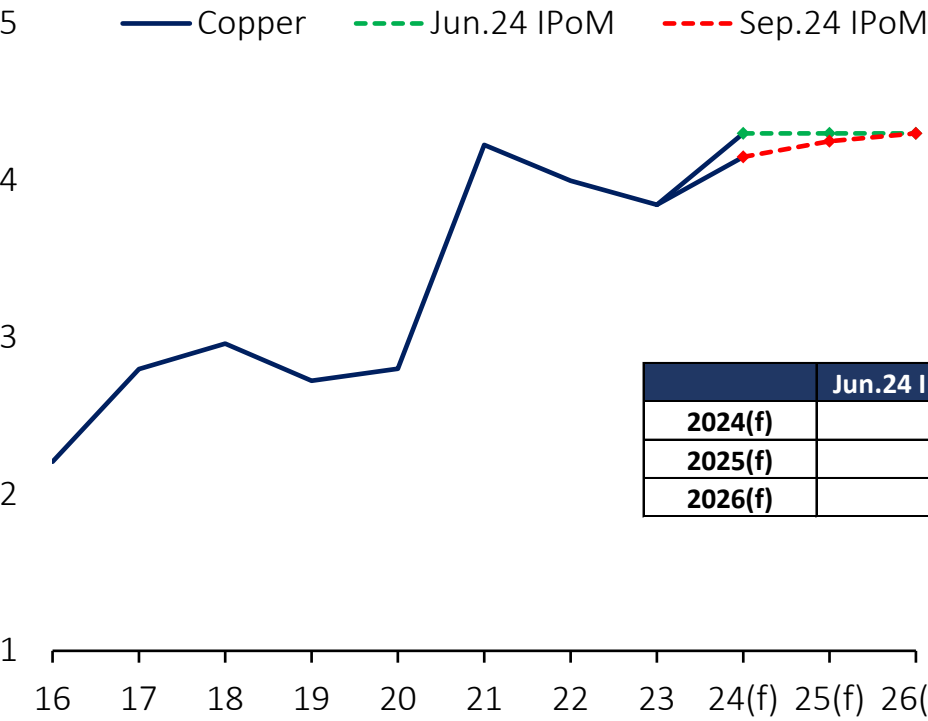


Trading partners' growth: IPoM forecasts  
(annual change, percent)



(f) Forecast.  
Sources: Central Bank of Chile and Bloomberg.

Copper price  
(dollars per pound)





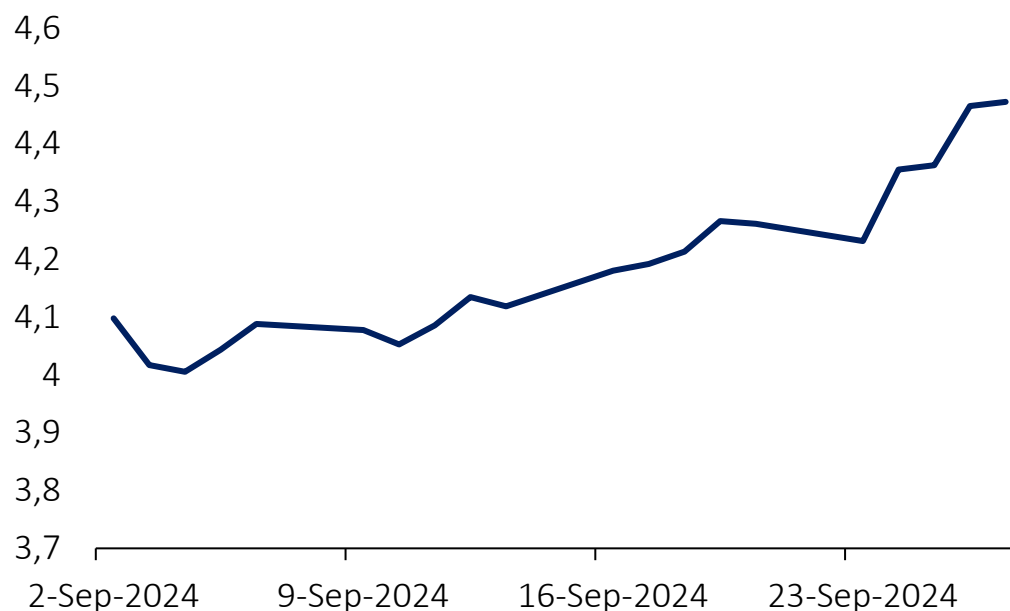
- Over the past decade
  - Stock shortages have become more pronounced
  - Global consumption has outpaced production
- Last week the price has risen by 5% (LME) due to growth package from China

Spot price (dollars per pound)	27-Sep-2024	5-day variation (%)
LME	4.472	4.90%

Source: Cochilco.

Daily copper Price (LME)

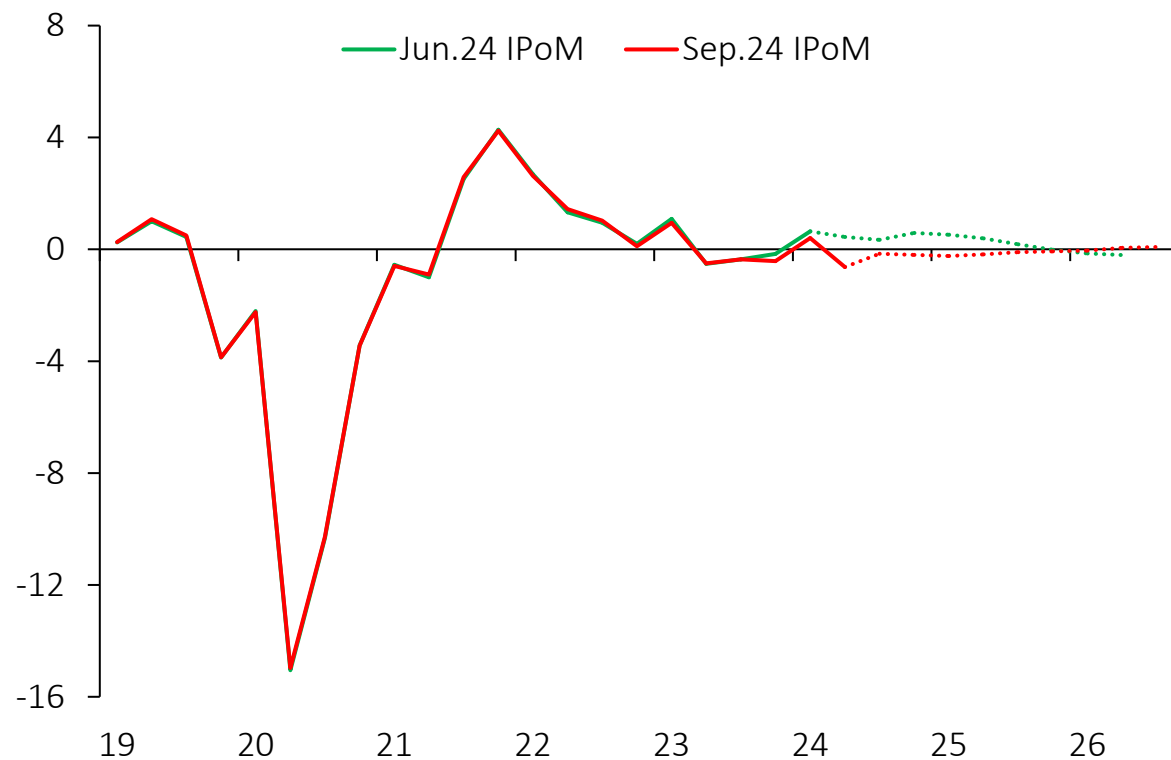
(dollars per pound)



For 2024, the outlook for activity and demand is revised downwards. The small revision to this year's growth is largely due to the weaker-than-expected performance in the second quarter. Over the next two years, the economy will grow around trend.



Activity gap (1)(2)  
(level, percentage points)



GDP growth projections  
(annual change, percentage)

2024	Jun.2024	3.0%	Sep.2024	2.75%
		2.25%		2.25%
2025	Jun.2024	2.5%	Sep.2024	2.5%
		1.5%		1.5%
2026	Jun.2024	2.5%	Sep.2024	2.5%
		1.5%		1.5%

(1) Dotted lines show forecast.  
(2) Forecast assumes structural parameters updated in December 2023 Monetary Policy Report (IPoM) (trend and potential GDP).  
Source: Central Bank of Chile.

The growth projection for 2024 remains higher than the average for countries in the region.



### GDP growth projections

(annual change, percentage)

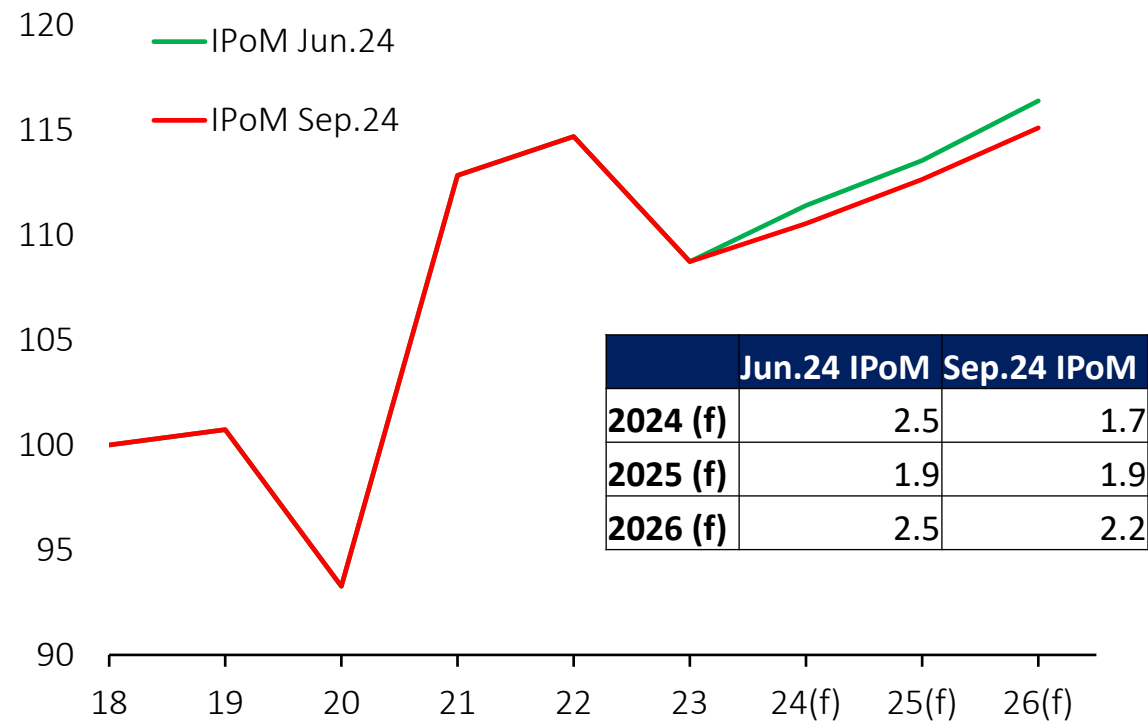
	2024
Latin America	1.7
South America	1.5
Chile	2.25 – 2.75
Brazil	2.3
Colombia	1.3

Source: Central Bank of Chile and ECLAC, Economic Study of LAC 2024.

Our projection for private consumption is lowered to 1.7% in 2024 (2.5% in the June IPoM). In 2025 and 2026 it will grow close to the economy's potential: 2%.



### Private consumption (index 2018=100)



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

### Main determinants

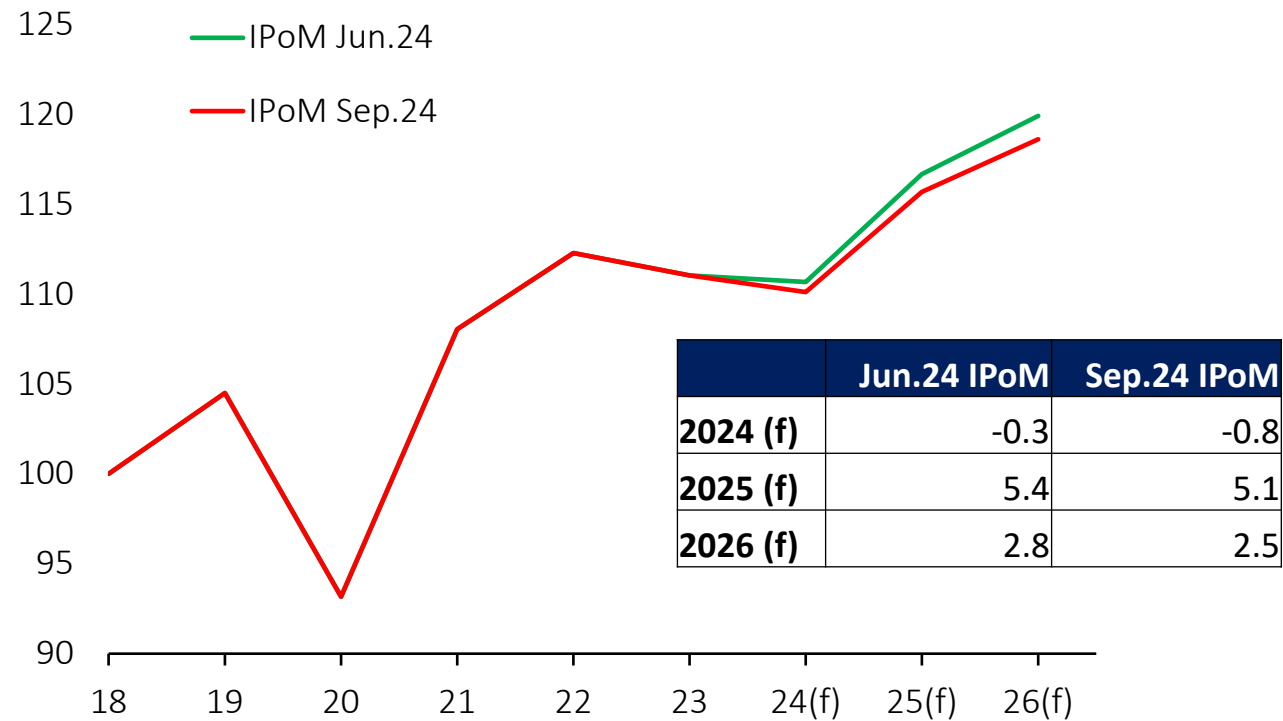
- ✓ Evolution of the labor market that continues to support the wage bill
- ⚡ In any case, recent labor market data must be carefully assessed.
- ✓ Improved financial conditions

The GFCF growth outlook for 2024-2026 again considers a recovery in the future, especially in 2025.



## Gross fixed capital formation (GFCF)

(index 2018=100)



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

## Main determinants

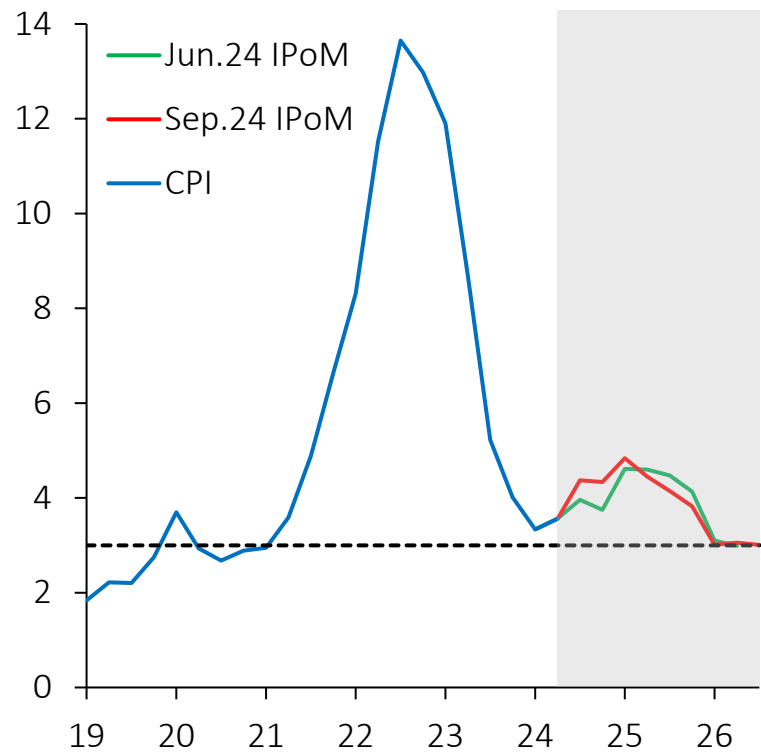
- Increased boost to mining investment, contrasting with weakness in other sectors
- Appreciation of the RER over the projection horizon
- Better financial conditions



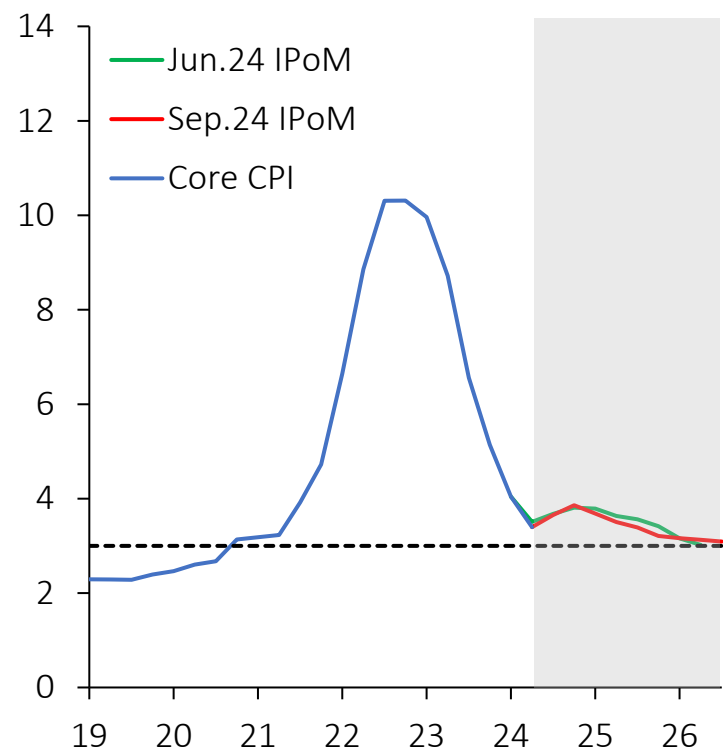
Higher short-term inflation is concentrated in volatile items. In the medium term, the effect of lower demand pressures dominates.



Headline inflation forecast (\*)  
(annual change, percent)



Core inflation forecast (\*)  
(annual change, percent)



(\*) Considers 2023 reference basket and splicing made by the Central Bank of Chile. (f) Forecast.  
Sources: Central Bank of Chile and National Statistics Institute.

	2022	2023	2024 (f)	2025 (f)
Average core inflation (%)	9.0	7.5	Jun.24 IPoM: 3.8 Sep.24 IPoM: 3.7	Jun.24 IPoM: 3.6 Sep.24 IPoM: 3.4

## Main determinants

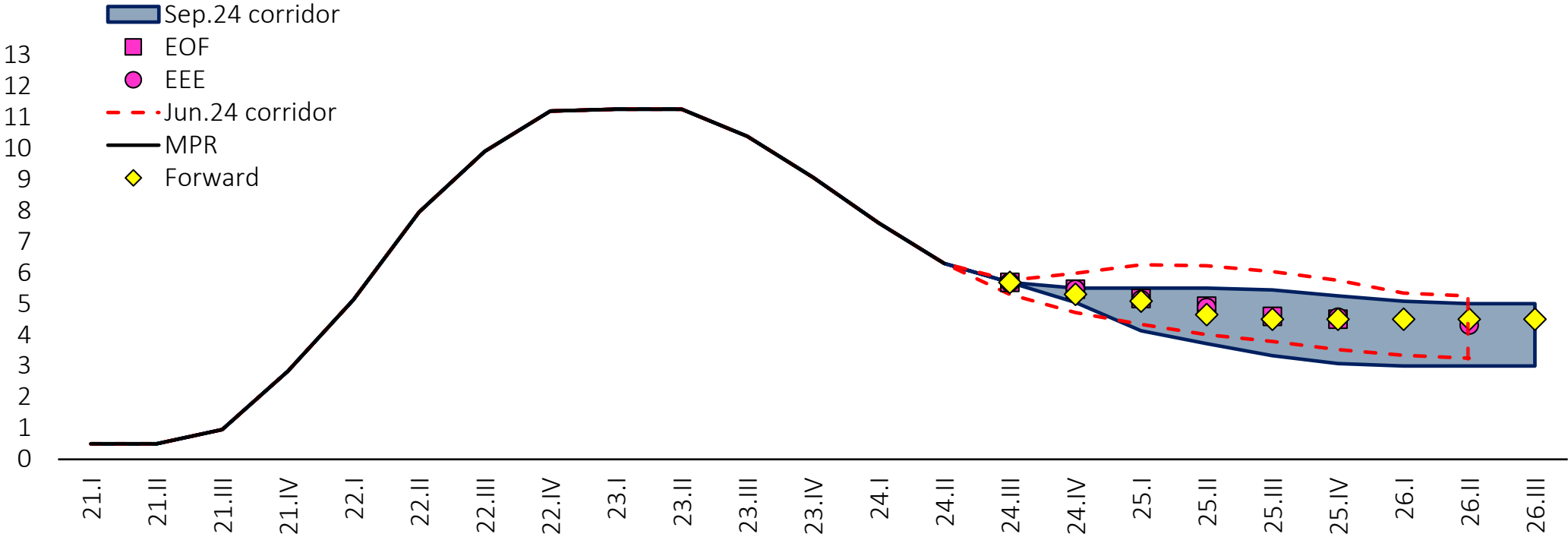
Higher short-term inflation due to cost factors: i) greater electricity price increases in June and July, ii) depreciation of the peso in June-August, and iii) higher global transportation costs.

Faster decline in inflation over the medium term due to eased pressures from domestic demand.

The Board estimates that, if the assumptions of the central scenario materialize, the reduction of the MPR towards its neutral level will be somewhat faster than that forecast in June, and at a pace that will take into account the evolution of the macroeconomic scenario and its implications for the trajectory of inflation.



MPR corridor (\*)  
(quarterly average, percent)



(\*) The 2025 and 2026 calendar considers two monetary policy meetings per quarter. The corridor is built following the methodology of Box V.1 in the March 2020 IPoM and Box V.3 in the March 2022 IPoM. It includes the August EEE and September pre-MP meeting EOF. For details, see methodological note (Figure II.10, Chapter II, IPoM of September 2024). Source: Central Bank of Chile.



# Green hydrogen in Chile: demand and investment prospects

Green hydrogen (GH2) as a key element in the fight against climate change.

Chile has **comparative advantages** and low estimated production costs.

Currently, 5 projects have been submitted to the environmental assessment system (*SEIA*) (but there are more in earlier stages).

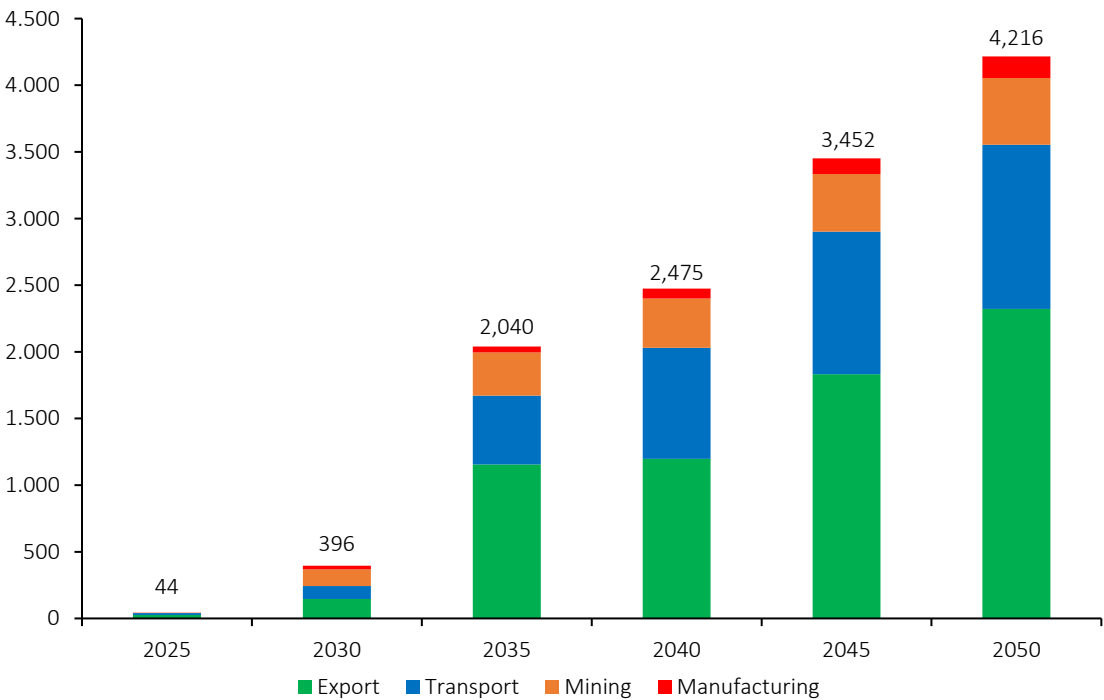
**Big demand-side incentives:** targets for achieving carbon neutrality by 2025.

Projects	Investment (MM USD)	Production (kTon GH2)
SEIA	15,000	310

Source: Environmental Impact Assessment System (*SEIA*), list of GH2 projects submitted until 08/29/2024.

Estimated GH2 demand (kTon GH2), by destination, in a scenario consistent with carbon neutrality by 2050

(kTon GH2)



Source: Ministry of Energy, National GH2 production and demand projections.



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