

RECENT DEVELOPMENTS AND PERSPECTIVES FOR THE CHILEAN ECONOMY

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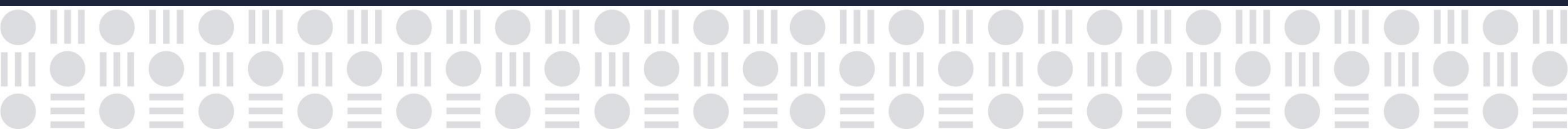




Uncertainty about the outlook
for the global economy has
increased considerably*



(*): The views expressed here are my own and not necessarily those of other members of the Board of the Central Bank of Chile.

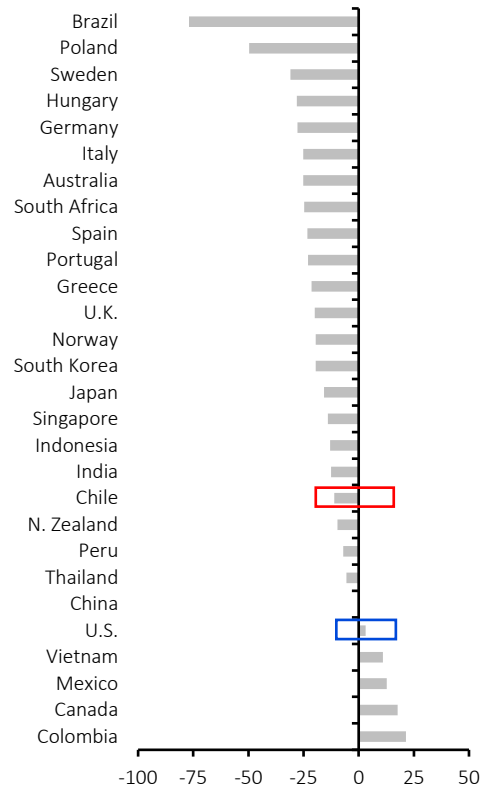


The tariff shock and the increase in policy uncertainty

- Uncertainty about the outlook for the global economy increased considerably since the U.S. tariff announcements in early April and later developments.
- This has led to a negative perception about the future performance of the American economy, along with prospects for higher inflation.
- For the rest of the world, these events and geopolitical conflicts are also perceived to have negative effects on growth. Price pressures could be lower for those countries that will not modify their trade policies.

Following the tariff announcements at the beginning of April, the reaction of financial markets was negative. Since then, there has been significant differences in the evolution of financial conditions for EMEs compared to previous episodes.

10-year interest rates (1)
(basis points)



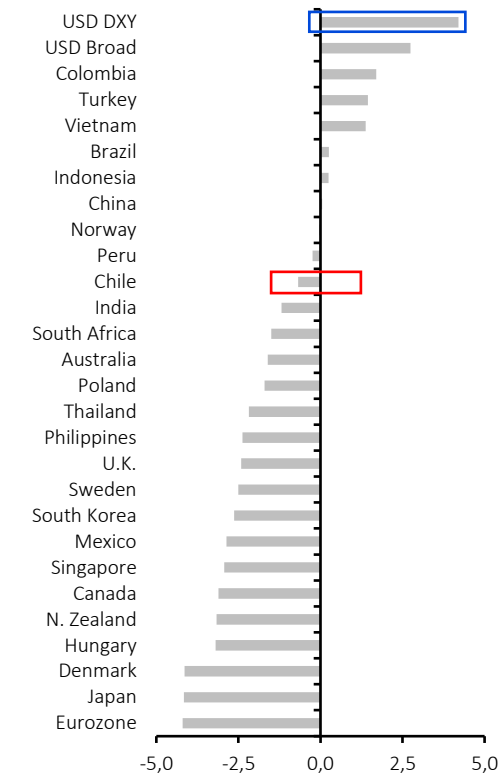
2-year interest rates (1)(2)
(basis points)



Stock markets (1)(3)
(percent)



Currencies (1)(4)
(basis points)

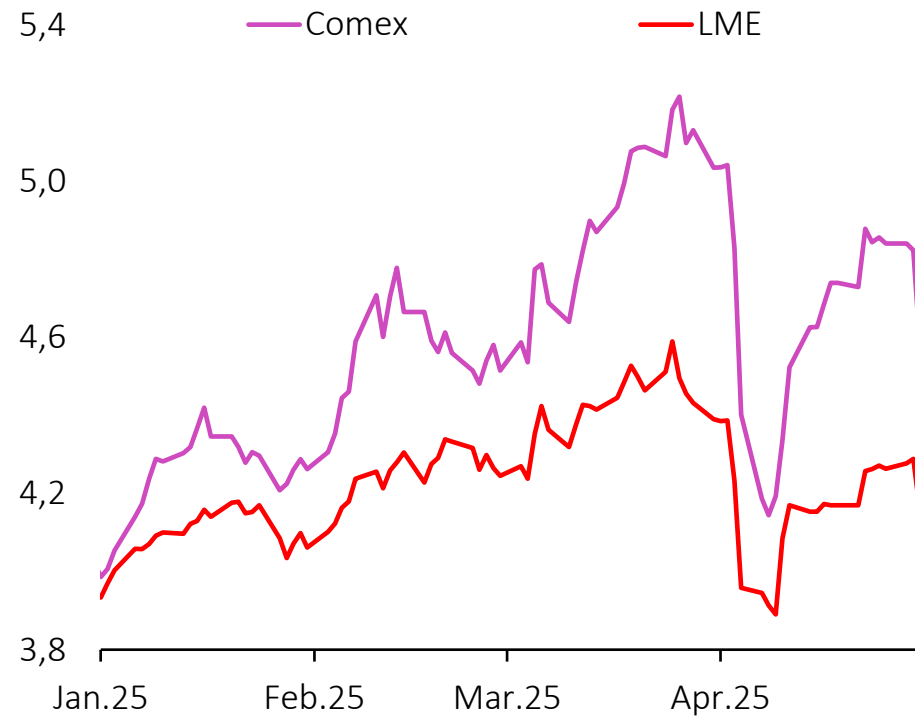


(1) Changes after April 2, 2025. (2) For Hungary, it corresponds to the 3-year rate. (3) For the U.S., S&P 500 futures were used. (4) Increase indicates depreciation. U.S. exchange rate corresponds to multilateral exchange rate. Sources: Central Bank of Chile and Bloomberg.

Commodity prices have declined. However, the price of copper has been more resilient than that of other products.

Copper Price (1)

(dollars per pound)



Oil price (2)

(dollars per barrel)



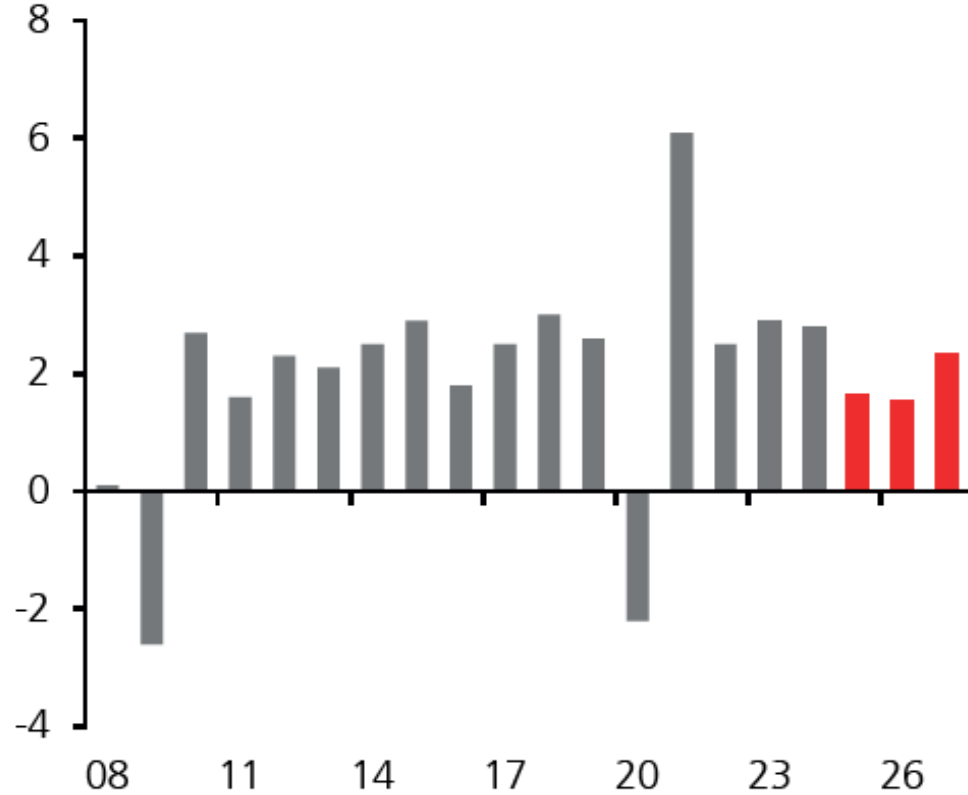
(1) One-month futures. (2) Average WTI-Brent price.

Sources: Central Bank of Chile and Bloomberg.

Slower growth for trading partners in the period 2025-27 was already considered in central scenario of previous monetary policy report, mainly concentrated in the U.S.



FIGURE II.1 TRADING PARTNERS GROWTH PROJECTIONS
(annual change, percent)
UNITED STATES



Dealing with external shocks: key elements for the macro response.



- Initial macroeconomic conditions (domestic imbalances, current account deficit, initial inflation dynamics).
- The role of previous institutional development (openness, financial development).
- Macroeconomic policy framework.

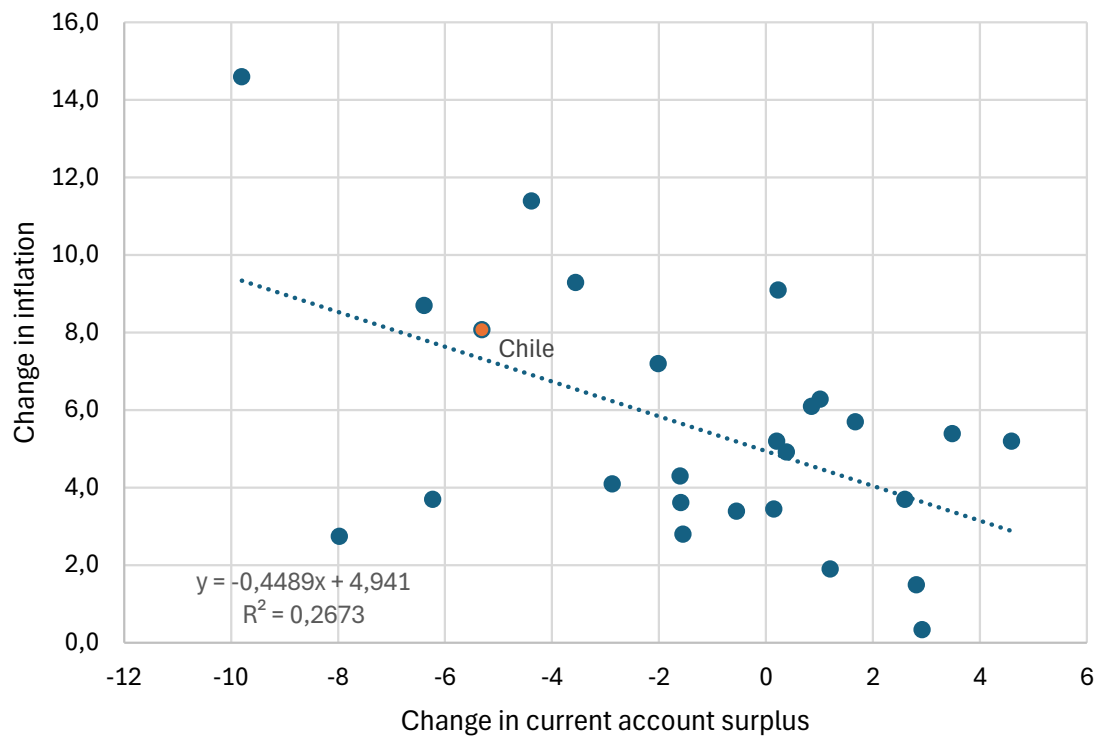
Dealing with external shocks: elements of a sound macro policy framework.



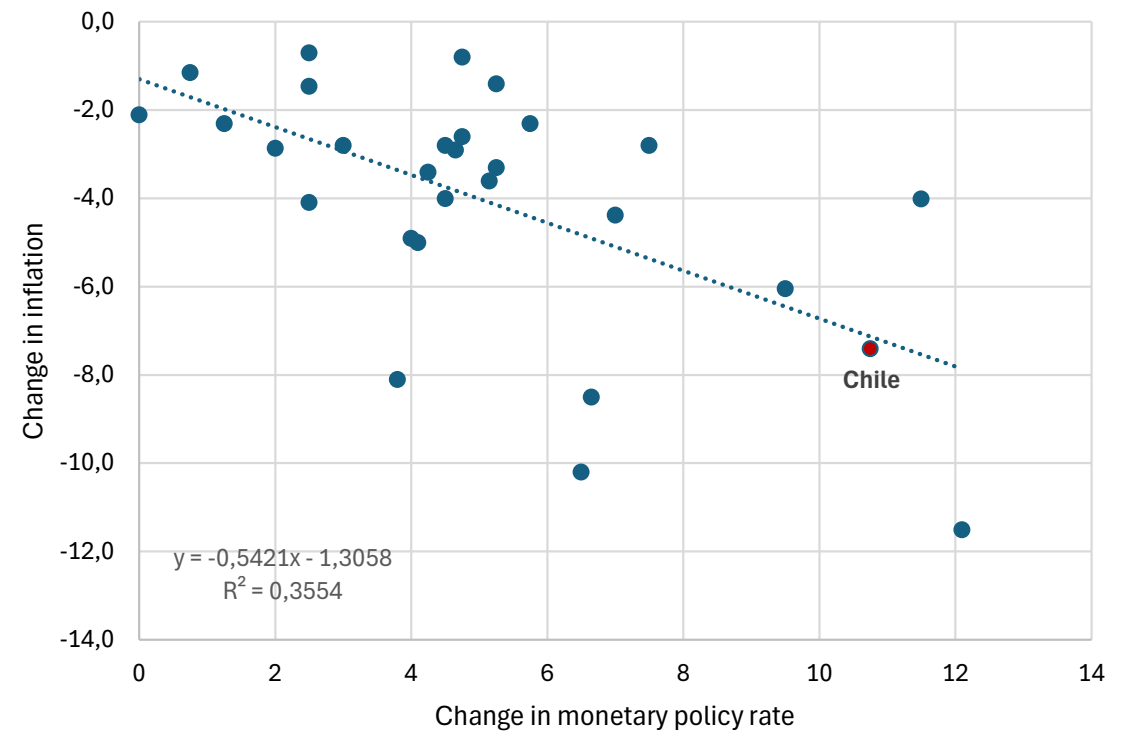
- A credible medium-term inflation-targeting regime that anchors inflation expectations appropriately, but at the same time allows the central bank to respond flexibly to short-run movements in the inflation rate.
- A floating exchange rate that helps to stabilize swings in the economy arising from the external sector.
- Liquid and well-developed financial markets that allow financial institutions and firms to hedge risks arising from movements in financial prices, in particular the exchange rate, and that allow the country to be less vulnerable to shocks.

Monetary policy response to shocks: 2021-2024

Change in Current Account Surplus and Change in Inflation 2022-2023: Demand Shock (1)



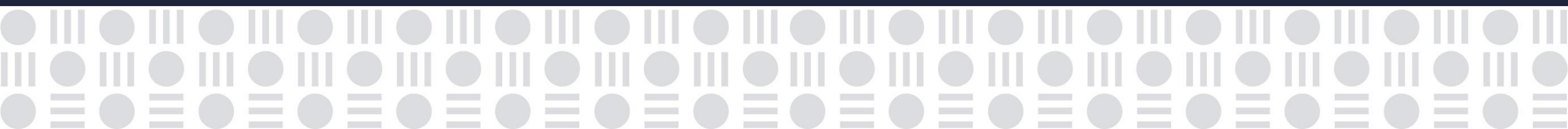
Change in Monetary Policy Rate and Change in Inflation 2024: Policy Response (2)



(1) The change in current account (CA) surplus corresponds to the CA surplus as a percentage of GDP for each country in 2022 minus the average current account surplus in the period 2011-2019. The change in inflation corresponds to the maximum rate of core inflation for the period 2022-2023. (2) The change in inflation corresponds to the level of core inflation in mid 2024 minus the maximum level of core inflation in 2022-2023. The change of monetary policy rate (MPR) corresponds to the maximum level reached by the MPR in the period 2022-2023 minus the MPR in mid 2021.

Sources: Central Bank of Chile and IMF.

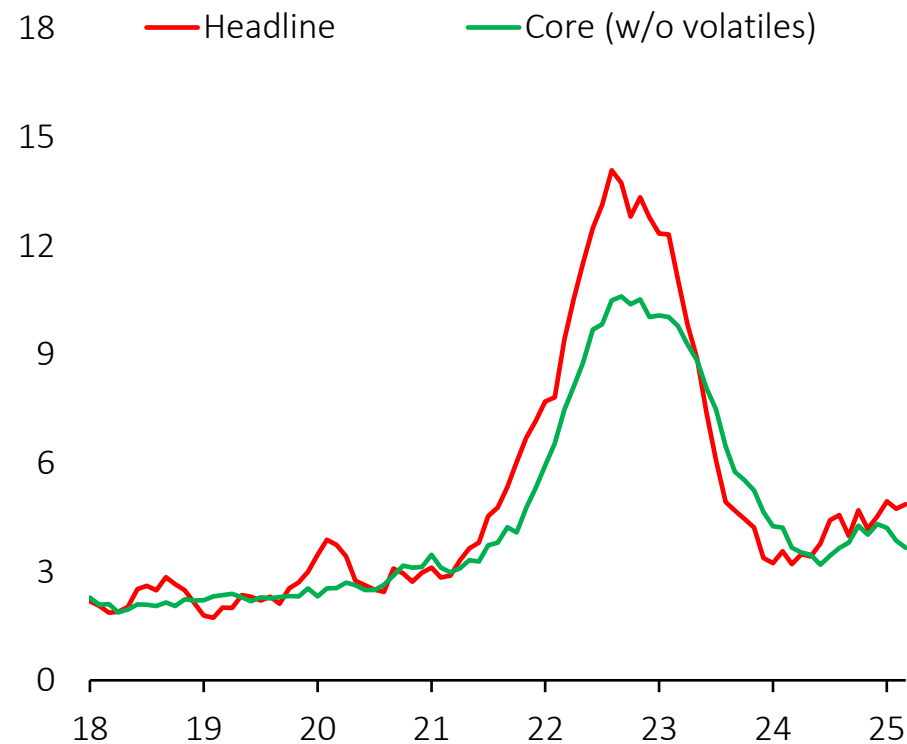
Recent Evolution of the Chilean Economy



Headline inflation has evolved in line with previous forecasts while core inflation has been somewhat lower than projected.

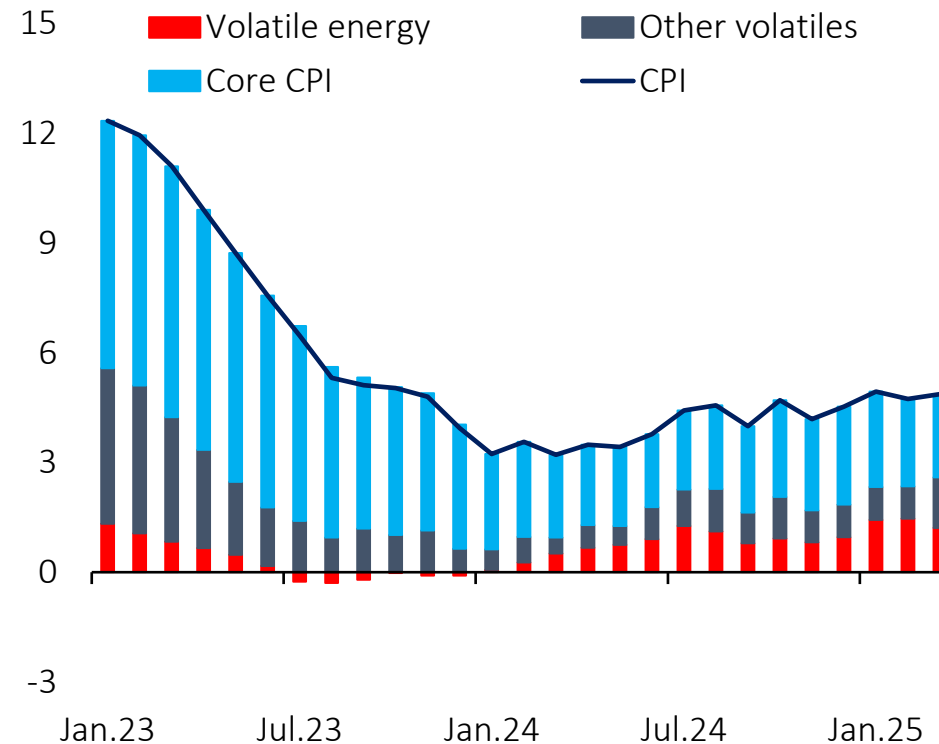
Consumer price index (CPI) (*)

(annual change, percent)



Contributions to total annual CPI (*)

(contributions, percentage points)



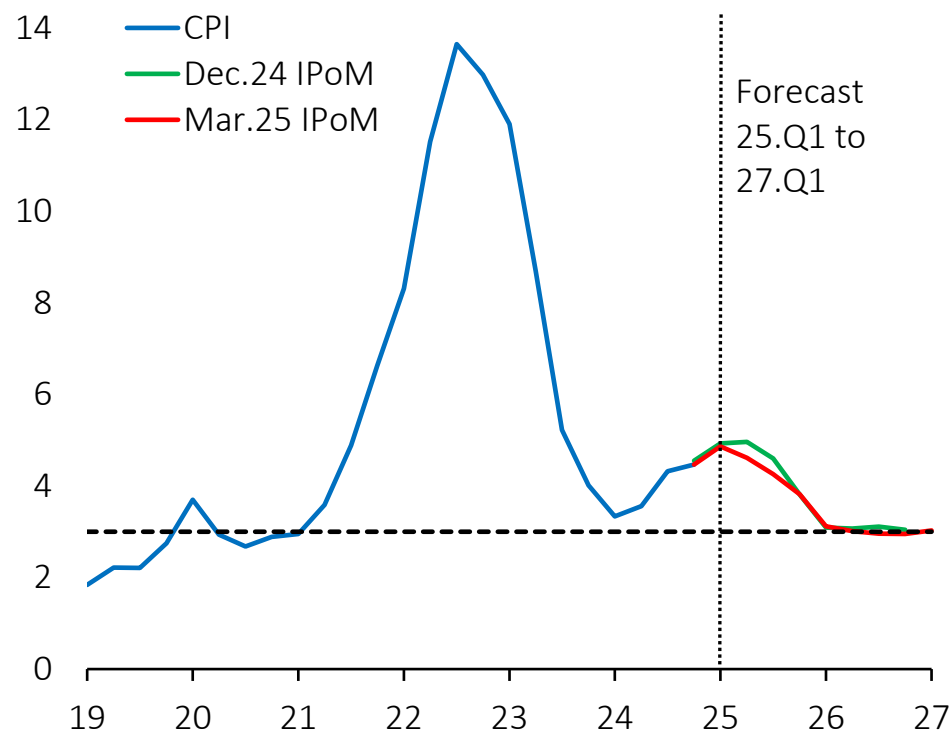
(*) The series consider the CPI's 2023 benchmark basket and the splicing made by the Central Bank of Chile.

Sources: Central Bank of Chile and National Statistics Institute.

The convergence of inflation to the 3% target is still foreseen at the beginning of next year.

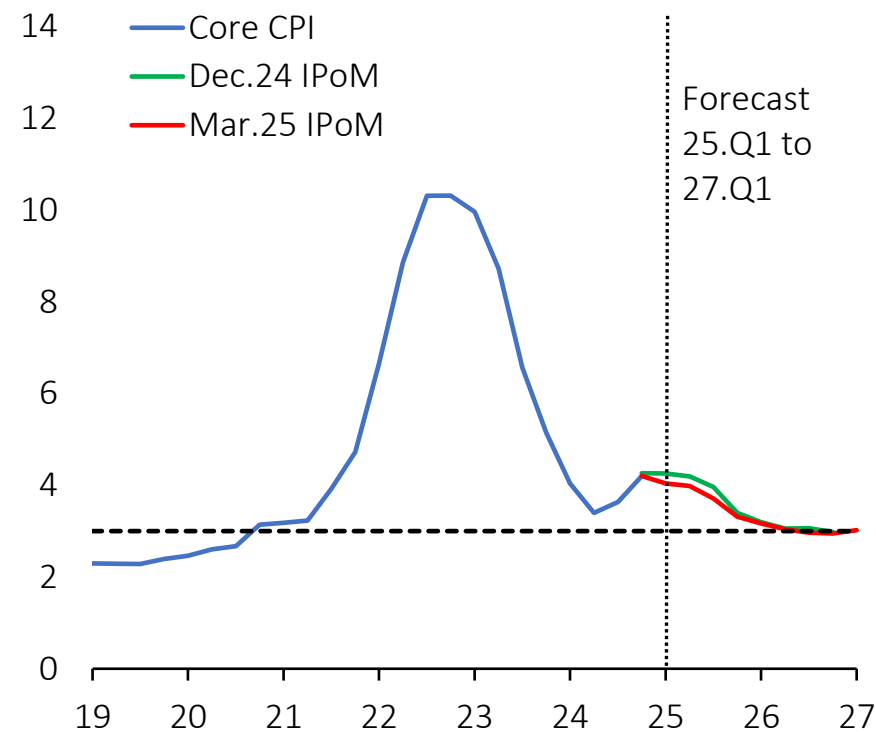
Headline inflation forecast (*)

(annual change, percent)



Core inflation forecast (*)

(annual change, percent)

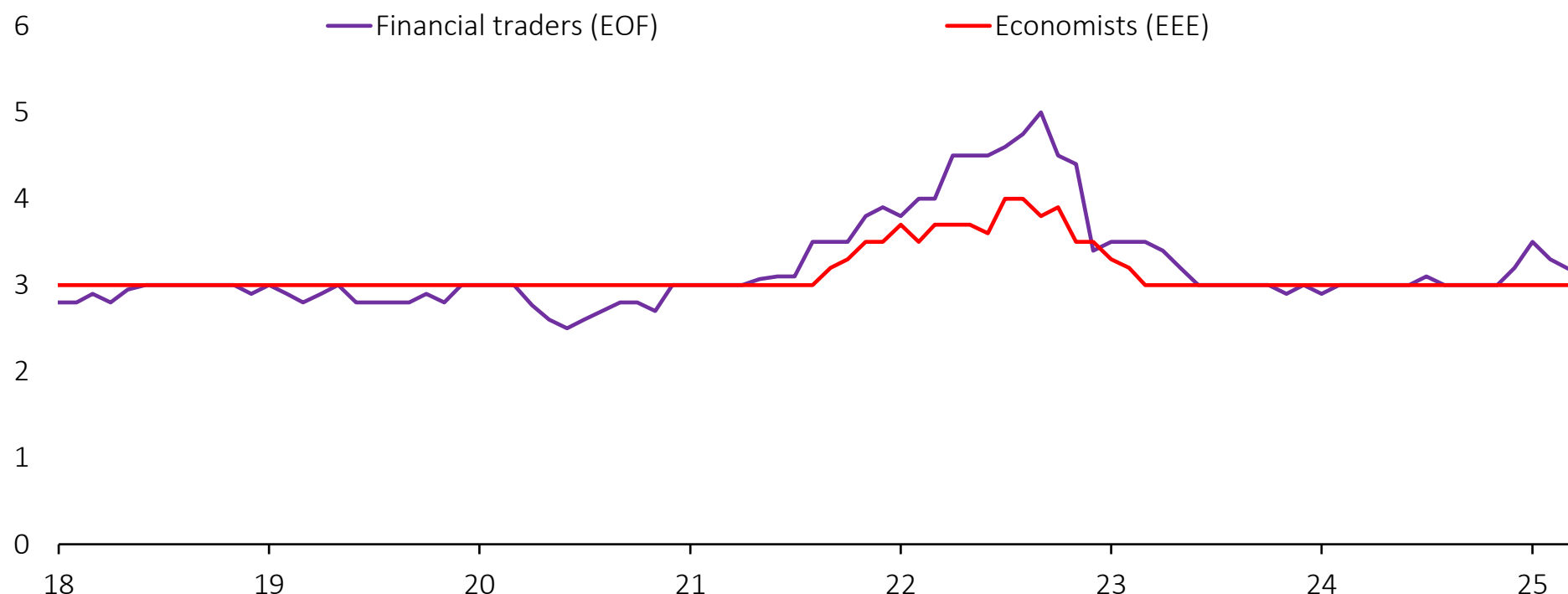


(*) Considers 2023 reference basket and splicing made by the Central Bank of Chile.
Sources: Central Bank of Chile and National Statistics Institute.

Two-year inflation expectations have been adjusted to 3%, although some indicators are still slightly above this target.

Two-year inflation expectations (1)(2)

(annual change, percent)

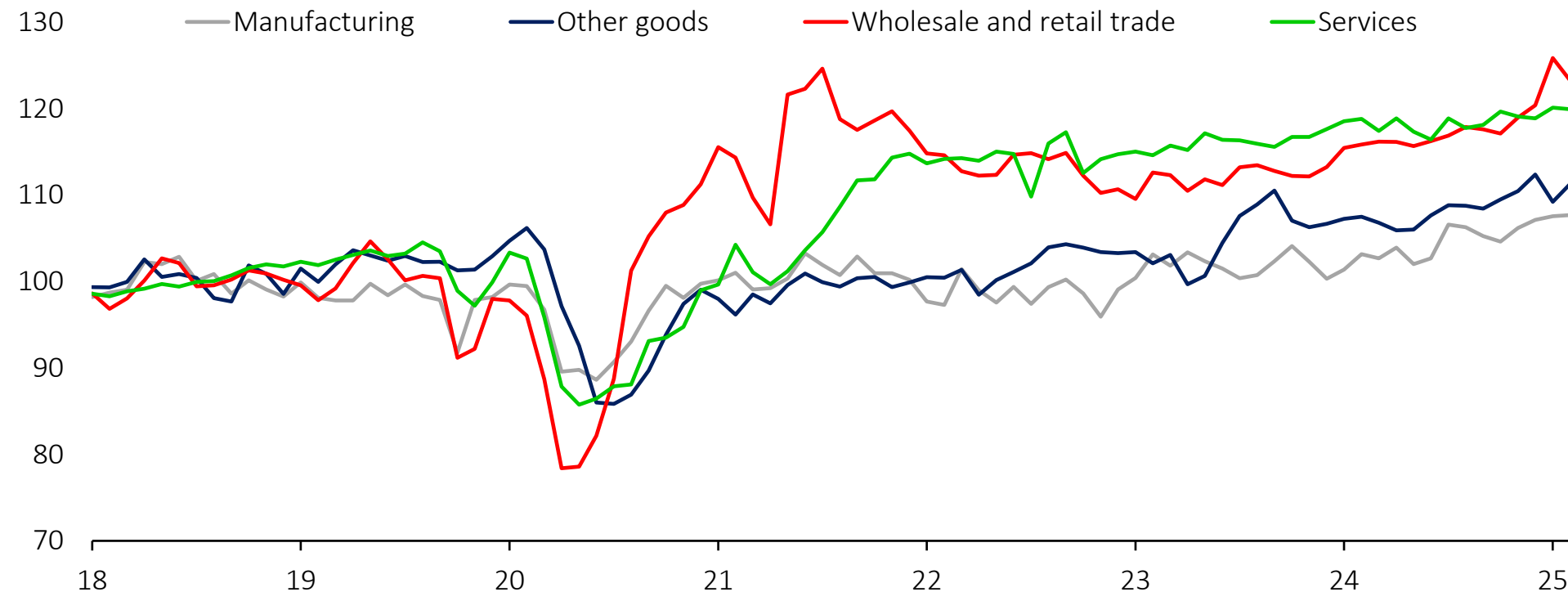


(1) For surveys, median of responses are shown. (2) EOF considers the survey of the first half of each month until January 2018. From February 2018 onwards, it considers the last survey published in the month, including the one prior to the March 2025 Meeting. In months with no survey published, the latest available one is considered. Source: Central Bank of Chile.

Recent economic activity figures continue to suggest more dynamism than expected, largely due to the performance of export-related supply sectors, accompanied by a gradual recovery of domestic demand.

Monthly activity (Imacec) (*)

(index, 2018 average=100, real seasonally adjusted series)



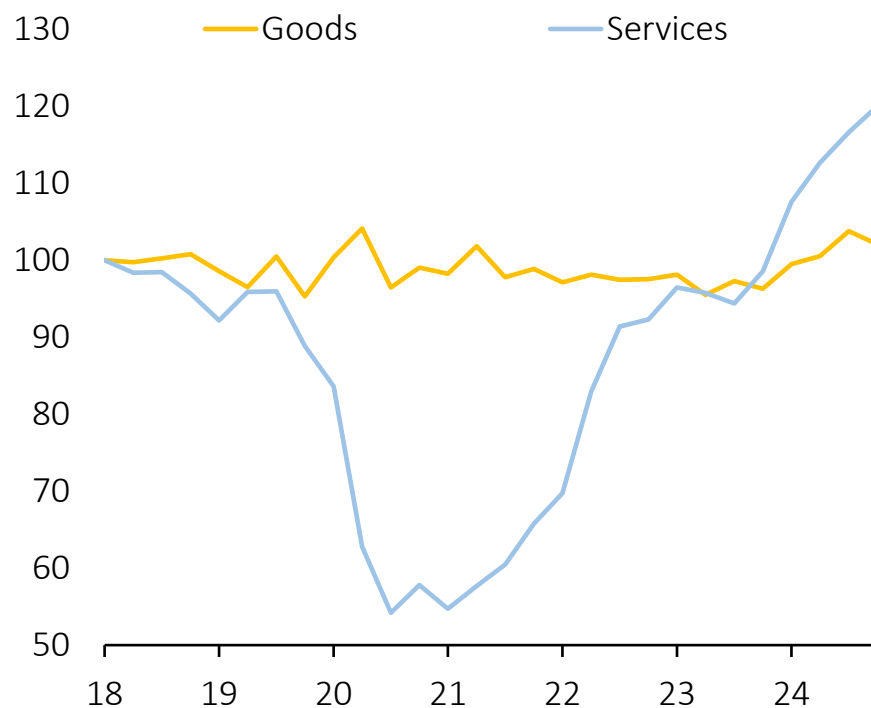
(*) "Other goods" includes agriculture and forestry, fishery, EGW & waste management, and construction.

Source: Central Bank of Chile.

Exports have improved in both goods and services, thus reducing the current account deficit.

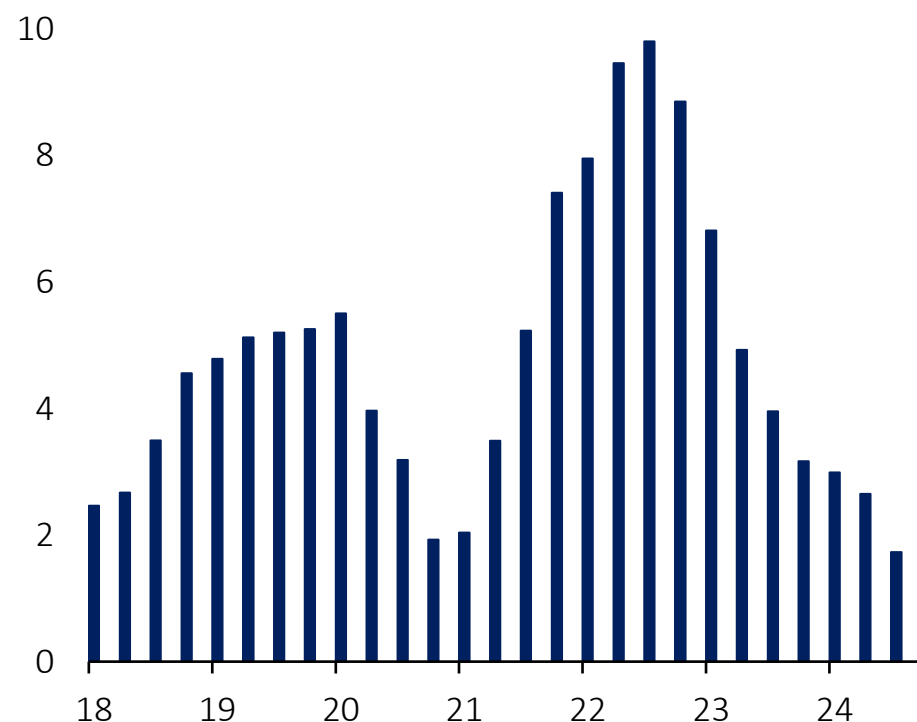
Exports of goods and services

(index 2018.Q1=100, real seasonally adjusted series)



Current account deficit (*)

(percent of GDP, cumulative annual sum)



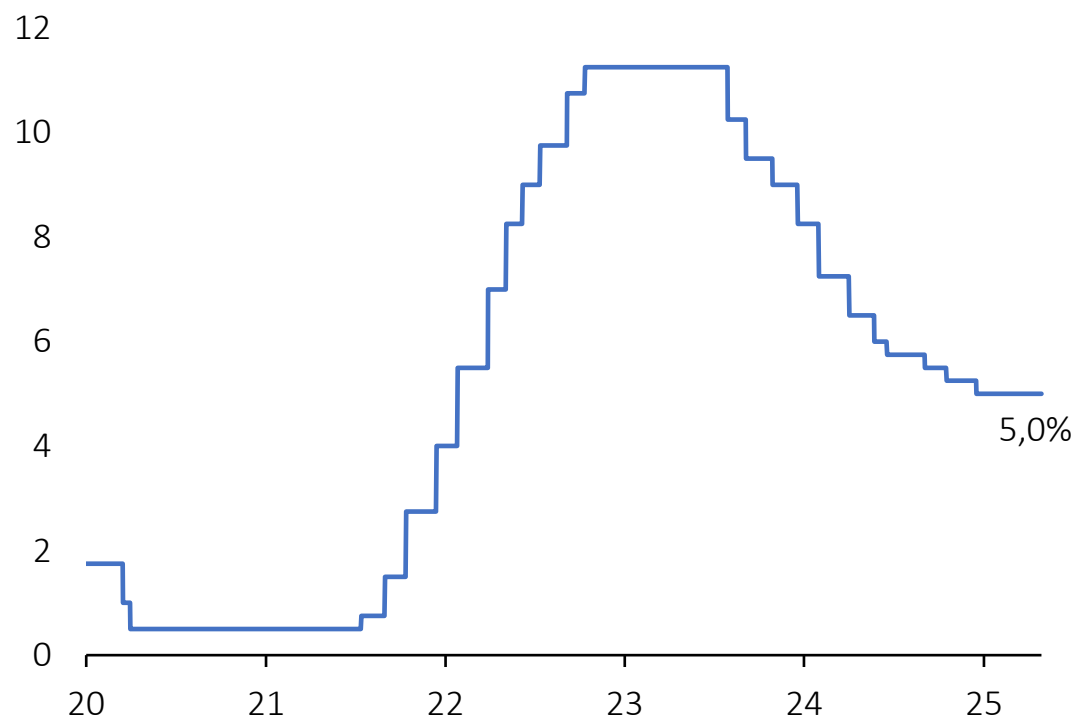
(*) The red diamond corresponds to the forecast for 2024 contained in the December IPoM of that year. Source: Central Bank of Chile.

At its April monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5%.



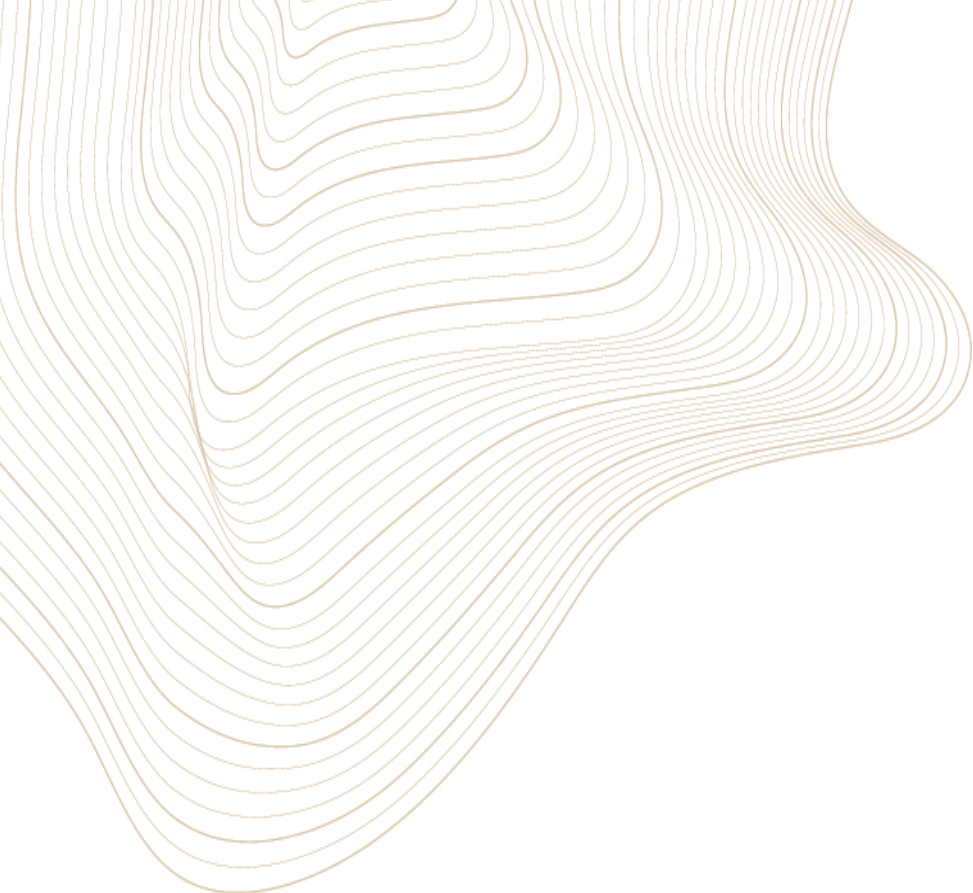
Monetary policy rate (MPR)

(percent)



Source: Central Bank of Chile.

- Changes in global trade policy have deteriorated the prospects for global growth, while increasing uncertainty about its future evolution.
- The magnitude and timing of these effects on the local economy are still uncertain.
- Regarding inflation, although it will remain at high levels in the immediate future, its recent evolution and that of its main determinants reaffirm the convergence prospects contained in the March Monetary Policy Report.



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