

XP Investments Webinar:

Chilean economy: Recent evolution and medium-term perspectives

Alberto Naudon D.

Member of the board, Central Bank of Chile

July 10, 2024 | via Zoom

Agenda

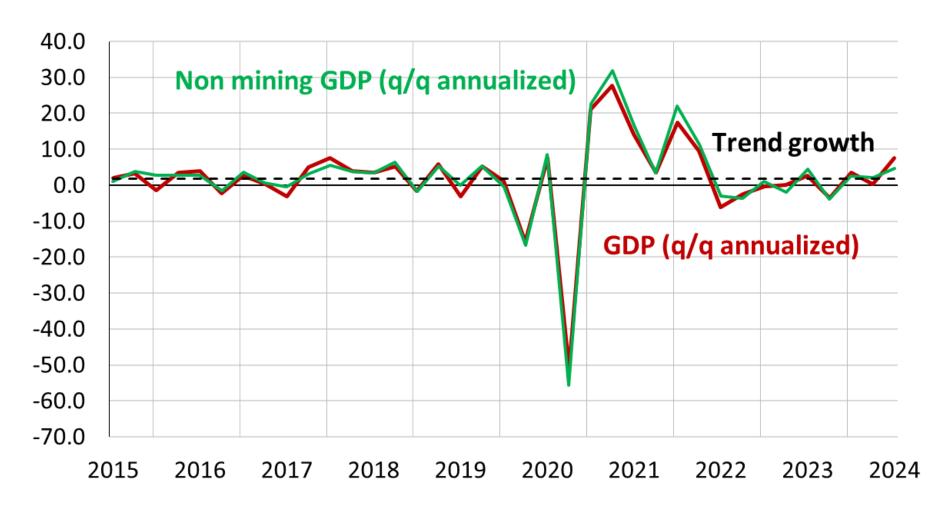


- 1. Four topics from the latest Inflation Report:
 - a. The adjustment of the economy has been adequate.
 - b. A more positive vision for investment.
 - c. Effect of the increase in electricity rates.
 - d. Importance of the Fed's decisions for monetary policy in Chile.
- 2. Data since the publication of the IPoM have been broadly in line with its central scenario.

3. Implications for monetary policy

Following the acceleration in Q1, GDP growth is expected to stabilize around its long term trend





Notes: Growth is measured as annualized quarter-on-quarter variation. The last observation is the first quarter of 2024. For an analysis of trend growth see IPoM December 2023. Source: Central Bank of Chile.

More dynamic domestic demand driven by better investment projections.



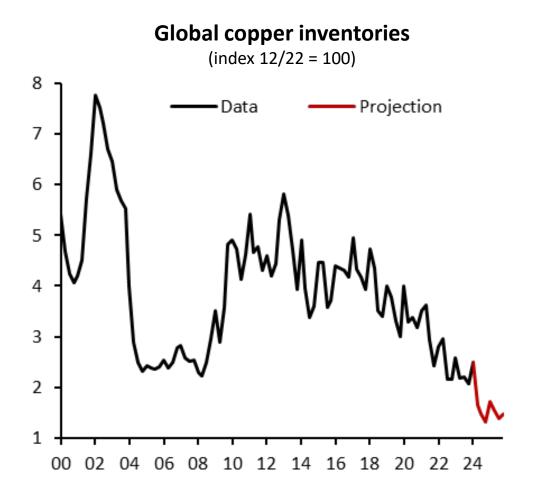
| | | | 2024 (f) | | 2025 (f) | | 2026 (f) | |
|--|------|-------|-----------|------------|-----------|-----------|----------|----------|
| | 2022 | 2023 | Mar.24 | Jun.24 | Mar.24 | Jun.24 | Mar.24 | Jun.24 |
| | | | IPoM | IPoM | IPoM | IPoM | IPoM | IPoM |
| GDP | 2.1 | 0.2 | 2.0 - 3.0 | 2.25 - 3.0 | 1.5 - 2.5 | 1.5 - 2.5 | 1.5- 2.5 | 1.5- 2.5 |
| Domestic demand | 2.3 | -4.2 | 1.6 | 1.8 | 2.2 | 2.6 | 2.5 | 2.6 |
| Domestic demand (w/o inventory | 2.9 | -3.2 | 1.0 | 2.0 | 2.1 | 2.6 | 2.1 | 2.4 |
| Gross fixed capital form | 3.9 | -1.1 | -2.0 | -0.3 | 3.0 | 5.4 | 1.9 | 2.8 |
| Total consumption | 2.6 | -3.9 | 2.0 | 2.8 | 1.9 | 1.7 | 2.2 | 2.3 |
| Private consumption | 1.6 | -5.2 | 2.0 | 2.5 | 1.9 | 1.9 | 2.3 | 2.5 |
| Goods and services exports | 0.8 | -0.3 | 4.5 | 5.9 | 2.7 | 3.1 | 1.8 | 1.9 |
| Goods and services imports | 1.5 | -12.0 | 1.3 | 3.2 | 3.5 | 4.7 | 3.0 | 3.9 |
| Current account (% of GDP) | -8.7 | -3.6 | -3.4 | -2.1 | -3.4 | -2.5 | -3.4 | -2.7 |
| Gross national saving (% of GDP) | 16.9 | 19.4 | 20.0 | 19.2 | 20.6 | 19.5 | 20.3 | 19.5 |
| Gross fixed capital formation (% of nominal GDP) | 25.3 | 23.8 | 23.1 | 23.1 | 23.5 | 23.7 | 23.7 | 23.8 |

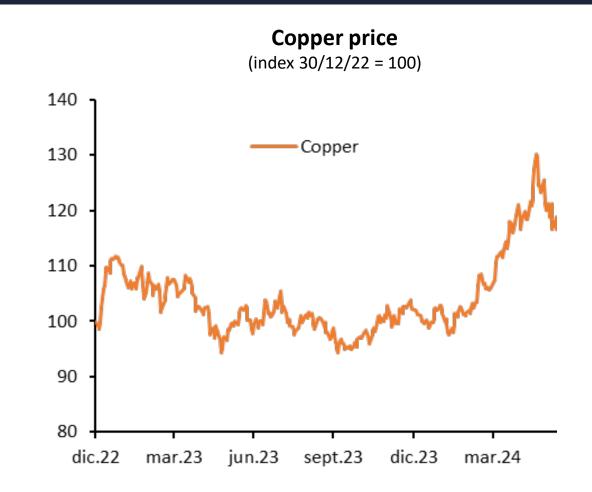
⁽f) Forecast.

Source: IPoM June 2024, Central Bank of Chile and INE.

Better copper price will underpin mining investment





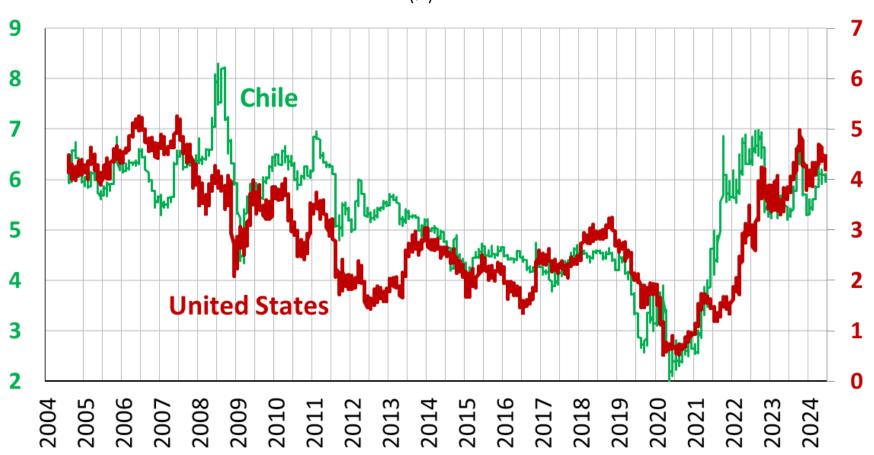


Notes: Inventories corresponds to the total estimated level of visible inventories, reported by the CRU and measured as weeks of consumption. Sources: CRU and Bloomberg.

But higher (global) long-term interest rates are an obstacle to a stronger recovery of residential construction







The significant increases in the electricity rate will raise headline inflation, but will not affect underlying inflation



Estimation of adjustments in electricity rate prices for regulated customers (+) (accumulated percentage change)

| Type of client | 2024.S1 – 2025.S1 | 2025.S2 – 2026.S1 | | |
|----------------|-------------------|-------------------|--|--|
| Households | 57 | -9 | | |
| Firms | 39 | -8 | | |

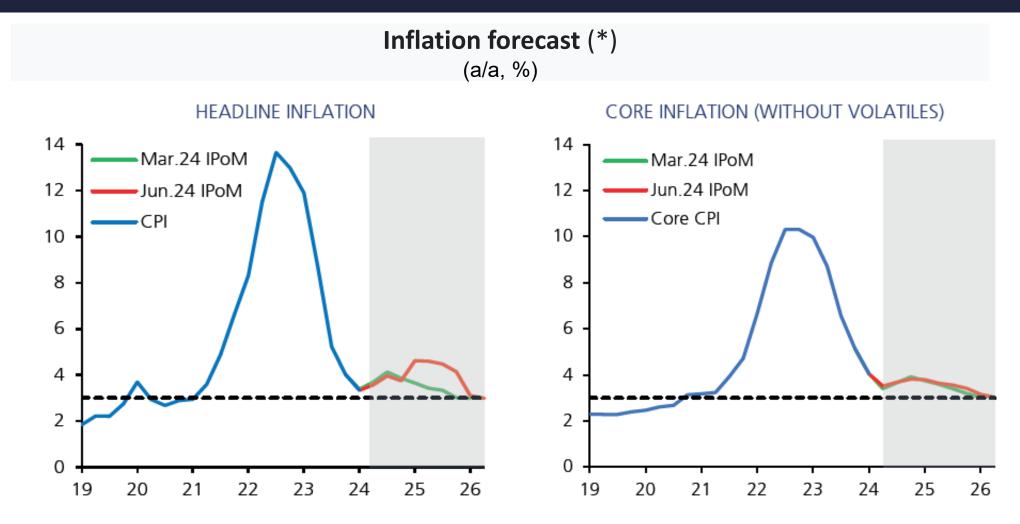
Incidence of the increase in electricity rates on inflation (basisi points)

| Expected impact on inflation | In 1 year | In 2 years |
|------------------------------|-----------|------------|
| Direct | 122 | -28 |
| Others (*) | 23 | 6 |
| Total | 145 | -22 |

⁽⁺⁾ Estimate includes transitional subsidy until 2026 contained in Law 21,677 and adjustments in transmission and distribution charges in accordance with the information available at the statistical closing of the Report, as well as the macroeconomic assumptions of the central scenario. (*) Others include indirect effect (pass-through of higher company costs), price indexation to past inflation, changes in household purchasing power, substitution effect, among others. Source: Central Bank of Chile based on official records provided by the National Energy Commission related to Law 21,667.

Inflation will return to 3% during 2026, after an increase mainly associated with electricity rates

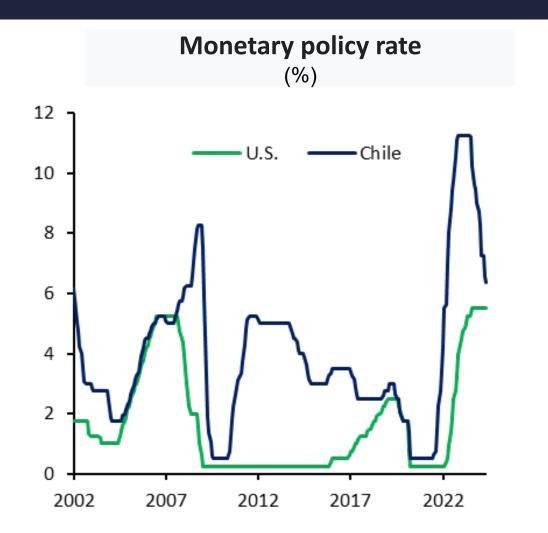


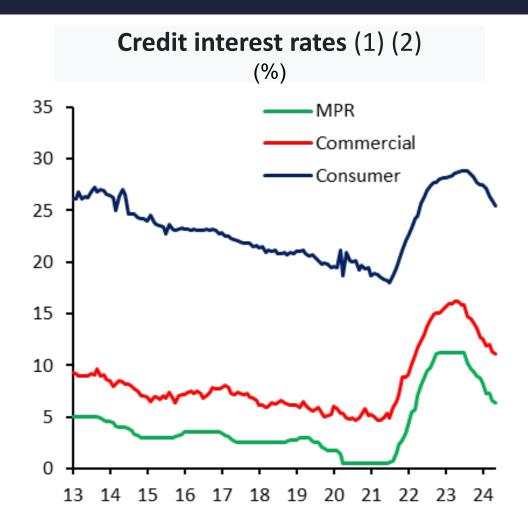


Notes: (*) Inflation figures consider 2023 CPI basket using BCCh splicing. Monthly and annual variations of this index do not coincide with official INE variations –useful for indexation purposes– as these use the previous basket series for base year changes. Gray area, as from second guarter 2024, shows forecast. Sources: Central Bank of Chile and National Statistics Institute.

Independent monetary policy helps control local financial conditions



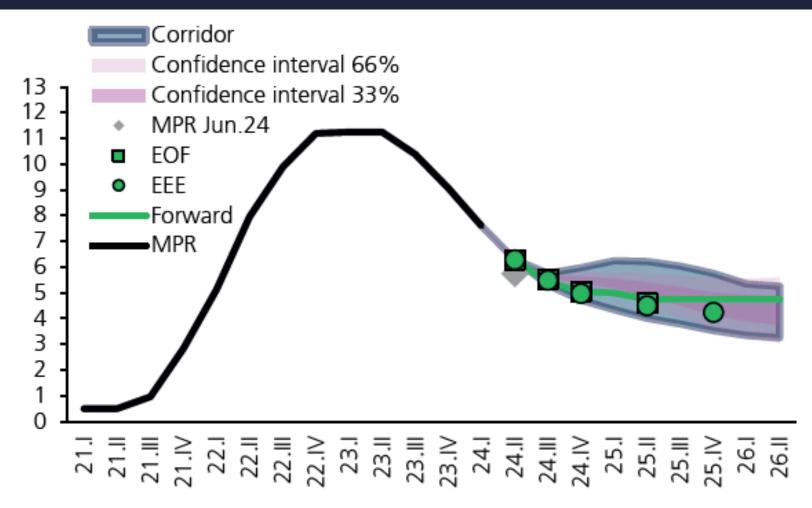




Notes: (1) Weighted average rates of the total operations carried out each month in the Metropolitan Region. (2) Seasonally adjusted series using the X-12 Census. Source: Banco Central de Chile

Monetary policy corridor





Notes: The corridor is built by following the methodology described in boxes V.1 of March 2020 Report and V.3 of March 2022 Report. It includes the June Economic expectations survey (EEE) and June pre-MP meeting Financial traders survey (EOF) and the quarterly average smoothed forward curve as of June 12. This is calculated by extracting the implicit MPR considering the forward curve over the overnight index swap (OIS) curve for up to 2 years, discounting the fixed rates of each maturity at the simple accrual of the OIS index. For the current quarter, the surveys and the forward curve consider the average of daily actual data and are completed with respective sources. Quarterly average considers working days in each quarter. Gray diamond corresponds to the MP decision of June 2024. Source: Central Bank of Chile.

Concluding remarks



- Adding all the new information, since the last Inflation Report there are no major changes in either the activity outlook or the underlying inflation projections.
- The latest data has been in line with IPoM central scenario, but both core inflation and the IMACEC were somewhat weaker.
- Headline inflation will increase significantly over the coming months driven by electricity prices. This is a "one time" phenomenon and should not affect the economy's ability to achieve the 3% target for inflation in the next two years.
- The expected trajectory for the **real** MPR has not changed and the Bank will adapt the increase in inflation expectations in a manner consistent with maintaining that trajectory.
- Of course, coming from a relatively long period of high inflation, a new deviation from the target is not without risks. Therefore, we must carefully guard the evolution of second-order effects associated with the increases in headline inflation.

11







