ANNUAL REPORT OF THE CENTRAL BANK OF CHILE

PRESENTATION BEFORE THE HONORABLE SENATE OF THE REPUBLIC*

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*The September 2023 Monetary Policy Report can be found at http://www.bcentral.cl

Introduction

Mr. president of the Senate, senator Juan Antonio Coloma, honorable senators, ladies, gentlemen:

On behalf of the Board of the Central Bank of Chile, I thank you for your invitation to present the report that, pursuant to the Constitutional Organic Law of the Central Bank, corresponds to our yearly account to the Senate.

In complying with this obligation, I will now share with you our view of recent macroeconomic and financial developments in the Chilean and international economy, as well as the outlook and implications for the conduct of monetary policy, based on the contents of our September 2023 Monetary Policy Report (the Report).

This Report confirms the good news we have been observing for some time. Inflation is declining and we project that it will converge to 3% in 2024. In July we began lowering the monetary policy rate, a process that we continued in yesterday's meeting by cutting 75 basis point (bp) cut. In addition, we communicated that, if the central scenario of this Report is materialized, the MPR will be reduced further. In the short term, we estimate that the MPR will continue on the trajectory outlined in our July Meeting: by the end of this year, it will stand between 7.75% and 8%.

Before going into the details of the Report, I would like to give you a brief summary of an important task that the Bank has carried out in the last year. Since 2004, in each new governor's term, the Bank designs a navigation chart for the following five-year period. In this context, in September of last year we began an exhaustive process of consultation with Bank staff and different reference groups, including representative sectors of the country's regions in which the Bank has been present for years. From the outset, a participatory design was proposed for the Plan, which began this year and covers the period from 2023 to 2027, and includes the progress achieved in the immediately preceding Plan, providing continuity and focusing on the challenges of our rapidly changing world.

Based on this work, we addressed the main challenges associated with sustainability, technological innovations and digitization, new business models in the financial world and new ways of working that emerged with the pandemic. All of them have an impact on the markets, and therefore require our thorough knowledge and adaptation of our internal operations.

The new Strategic Plan came into operation early this year. Under the slogan "Our Mandate, Our Commitment," it focuses on the Bank's most important challenge: to ensure the stability of our currency, an objective aimed at maintaining low and stable inflation.

This will be the hallmark of our work during this five-year period: to bring inflation back to the 3% target after a three-decade peak. Obviously, this objective does not end with the achievement of this goal; it requires our permanent work.

The Plan seeks to address this mission through four main focuses. The first one includes numerous initiatives aimed at continuously strengthening our monetary and financial policies; enhancing analysis using microdata and the efficiency of our payment systems, considering the technological changes we are witnessing, and always with an eye on the users of these means. In short, we want to remain a state-of-the-art central Bank.

Another focus seeks to enhance the nature of an organization that works with its people at its heart, is collaborative, and is able to attract and inspire talented persons, placing our values at the core and sharing our work with the community even more broadly. In other words, a collaborative, but also diverse and respectful institution that takes on the challenge of sustainability and innovation in all areas of our work, including strengthening our internal processes. And last but not least, a bank that is connected with the community.

Of course, this navigation chart includes the commemoration of an important milestone in the economic history of our country, that is, the centenary of the Central Bank of Chile. This is an opportunity to renew the Central Bank's commitment to Chile and its inhabitants and to honor the trust that citizens have placed in its management.

THE MONETARY POLICY REPORT

Let me now turn to the analysis and projections contained in our September Monetary Policy Report.

In general terms, the macroeconomic scenario has evolved in line with our forecasts in the June Report. Inflation has continued to fall, although we must admit that it is still high. This in a context where activity and demand have continued to advance in the expected direction and pace, cost pressures have eased and two-year inflation expectations are at 3%. As I mentioned at the beginning, this has allowed us to start lowering the monetary policy rate (MPR). Thus, in addition to the 100 basis point reduction we made in July, we added another 75 basis points at yesterday's meeting. With this, the MPR has been reduced from 11.25% to 9.5% (figure 1).

By July data, the headline and core CPI annual change stands at 6.5% and 8.5%, respectively, both below their 2022 peaks, therefore they somehow are indications of both progress and the task ahead (figure 2).

In the past few months, inflation has declined somewhat faster than expected, due to the behavior of the core part of goods inflation, whose annual variation rate is at 8.3%. Services inflation has been slower to fall, while among the volatile items the downward influence of energy prices stands out (figure 3).

Behind this evolution are the drop in goods consumption and the reduction in cost pressures observed in recent quarters. In the case of the exchange rate, despite its recent increase, it is well below its levels of mid last year, which has also been reflected in goods inflation. Other cost factors have also contributed. Transportation fares have fallen, global value chains have been reinstated, and external prices have fallen after the hikes they experienced with the outbreak of the war in Ukraine (figure 4).

A key factor behind the decline in inflation has been progress in the resolution of macroeconomic imbalances. This process has continued as anticipated in previous reports.

Seasonally adjusted, non-mining GDP declined 0.5% in the second quarter compared to the first. At the sector level, performance was mixed. The dynamism of several service sectors contrasted with the poorer performance of commerce and construction, among others. On the demand side, the demand cycle has been more pronounced, particularly in the consumption of goods (figure 5).

The July Imacec reflected a more positive performance of activity, although mainly associated with temporary factors that affected some sectors such as personal services and electric power generation, among others.

As for domestic demand, the fall in private consumption has been moderating throughout the year. After a sharp contraction at the start of 2023, in the second quarter it was stable, in line with projections in the June Report. Partial indicators for the third quarter—such as retail sales and imports—confirm this trend. In the goods component, durables continue to accumulate the largest drop after their 2021 peak, although their level had a slight rebound in the second quarter. Services, in turn, have been more resilient (figure 6).

The behavior of consumption coincides with a gradual stabilization of labor income. Job creation remains constrained, with weak expectations about its future performance. Unemployment has fluctuated between 8.5% and 8.8% for several months, amid the recovery of the labor force. Real wage growth has been rising, influenced by the increase in the minimum wage and the reduction in inflation (figure 7).

At the margin, gross fixed capital formation (GFCF) showed an improvement in its tradable component, although its performance remains modest. In its deseasonalized series, investment in machinery and equipment grew 3.6% quarter-on-quarter, a result that came from several sectors, although with a greater incidence of mining and energy. At the same time, the construction and works component has been contracting since the end of 2022, in line with expectations (figure 8).

Regarding bank credit conditions, the reduction in the MPR has begun to be transmitted to market interest rates. As shown in one of the boxes of this Report, commercial lending rates have declined, although their level differs depending on size and/or risk rating (figure 9). Thus, the available data suggest that monetary policy pass-through channels are operating normally.

The external scenario continues to be marked by high uncertainty. Global inflation has continued to ease. However, the outlook varies from one country to another, influencing the actions of the monetary authorities. Thus, while the Federal Reserve has not ruled out the possibility of further rate hikes —as in Europe and England—, in several emerging countries the central banks have already begun a process of rate cuts, including Chile (figure 10).

This outlook for monetary policy keeps latent the risks associated with the persistence of high interest rates in the main economies. Add to this those linked to the delicate situation of regional banks and the implications of the credit rating downgrade in the U.S., among others.

Meanwhile, doubts about China's performance have become more pronounced in recent months. Activity data for the second quarter showed a somewhat sharper-than-expected slowdown, after the temporary boost provided by the lifting of the Covid-related sanitary restrictions.

Several short-term fundamentals appear weak. Among them, its complex real-estate situation, the deterioration of household and business confidence, and the restructuring of world consumption towards services at the expense of goods. These elements interact with more structural vulnerabilities that have increased in recent years, such as the high level of indebtedness of local governments and businesses. All this occurs in a scenario where the room for expansionary macroeconomic policies is narrower than in the past (figure 11).

The rise in short-term rates in developed countries contrasts with the falls in several emerging ones, in line with the divergence in the expected paths of their monetary policies. This differential has contributed to the strengthening of the dollar globally for several weeks now.

This trend in the dollar has been reinforced by a reduction in risk appetite over the last month, which may also have put upward pressure on the U.S. long-term rate. Several factors already mentioned have contributed to the reduction in risk appetite, including the downgrade of the credit rating of U.S. sovereign debt and of some U.S. regional banks, the increased uncertainty about activity and the housing situation in China.

In this context, the Chilean peso has depreciated significantly from June to date. In addition to the aforementioned global movements, there have been changes in the interest rate differential, given the decisions and outlook for domestic monetary policy. Other local financial variables have performed more favorably, such as the stock market or risk premiums, in the context of lower domestic uncertainty (figure 12).

Projections

The central scenario projections are mostly unchanged from our last Report. Headline inflation will continue to decline and is expected to close the year at 4.3% annually (4.2% in June), converging to 3% in the second half of 2024.

This projection is based on numbers slightly lower than were expected in recent months - particularly in June-, lower global headline inflation, the impact of the recent peso depreciation, and higher international fuel prices. These last two elements help explain somewhat higher average inflation during 2024. The central scenario assumes that the real exchange rate (RER) will remain around its current levels over the projection horizon.

Core inflation will end 2023 at 6.3% annually (6.5% in June) and will hit the 3% target at the turn of 2025. The decline in the services component will be slow, due to the impact of wages and utility rates' indexation processes. In the case of goods, beyond the effects of the peso depreciation, their decline will continue to be determined by lower demand pressures and the easing of external and internal cost factors (figure 13).

For activity, revisions are minor and focus on the mining industry. Growth for this year is foreseen between -0.5 and 0.0% (-0.5/0.25% in June). This projection takes into account the impact of the operating problems that have affected mining production in recent months, whose programmed increases throughout 2023 will become effective as of the fourth quarter of the year.

Non-mining activity, meanwhile, will resume its positive quarterly changes by the end of this year, to then gradually approach a growth rate consistent with its potential. Thus, for 2024 and 2025 total GDP growth is expected to range between 1.25-2.25% and 2.0-3.0%, respectively (figure 14).

Both our inflation and activity forecasts take into account the short-term impact of the floods that affected several regions of the country during August. The effects are considerable in those regions and we sympathize with all those affected. The storms have mainly damaged activities such as agriculture and, consequently, the availability of some foodstuffs. At the macroeconomic level, the negative effects on activity are counterbalanced by the higher added value obtained from hydroelectric generation, as we already observed in July. As for inflation, our projection considers specific increases in some foods prices, with limited effects on total CPI.

Our projection considers that the output gap will continue to close during the remainder of the year, consistent with the conditions necessary for inflationary convergence. The evolution of the local economy has led to a narrowing of the activity gap, after several quarters of positive values. Towards 2024 and 2025, the gap is still projected to become negative, which will allow completing the inflationary convergence process within the policy horizon (figure 15). It is important to mention that this negative gap projection does not require the quarterly growth rate of the economy to be negative.

In the coming months, private consumption will remain fairly constant. For 2023 private consumption is expected to relapse by 4.9%, mostly determined by the steep drop of the first quarter. For 2024 and 2025, respective increases of 1.7% and 1.9% are foreseen, maintaining previous projections.

Over the medium term, the expected evolution of private consumption is consistent with a gradual recovery in real income and financial conditions that will become more favorable as the MPR reduction process progresses. The labor market will behave in line with the business cycle. In turn, the transmission of monetary easing to interest rates is expected to alleviate the financial burden on households.

Gross Fixed Capital Formation will remain weak over the short term, closing the year with a drop of 1.2%. This weakness will be seen particularly in the construction and works component, as has been the case for the last few quarters. Still, the drop expected for 2023 is revised down from June, mainly because of a better performance of machinery and equipment during the second quarter.

Towards 2024 and 2025, total GFCF is expected to resume positive expansion rates quarter to quarter. This will occur amid easing domestic financial conditions, which will underpin the positive impact of the declining local uncertainty that has been observed since the end of last year. Meanwhile, the Capital Goods Corporation's survey reported an increase in the amounts of investment forecast for 2024 and 2025, especially in mining, although these are still lower than in the previous two years. Thus, the drop in GFCF is revised down to -0.6% in 2024 (-1% in June). A growth pace of 2.4% is anticipated for 2025 (2.2% in June).

The cumulative current-account deficit will continue to diminish this year, in line with the steady recovery of private savings. In twelve months, this deficit fell to 4.5% of GDP in the second quarter (6.6% in the first). The continued restoration of the savings-investment balance will cause the current account deficit to reach 3.4% of GDP this year and 4% in 2024 and 2025 (table 1).

The external scenario will continue to provide a limited boost to the Chilean economy. Between 2023 and 2025, growth prospects for our trading partners remain weak and show a rebalancing among some countries. On the one hand, this takes into account the weaker recent performance of China, due to the already mentioned worse second-quarter result and its more structural difficulties. On the other hand, although the U.S. economy has been more resilient, a recession is still in the horizon, albeit more moderate and later than we expected in June. This is due to the impact on consumption of high interest rates and the continued fall in the levels of savings accumulated during the pandemic. Investment is also expected to underperform due to the tightening of bank lending conditions (figure 16).

As for the terms of trade, in the coming quarters they will be somewhat lower than expected in June. This is mainly explained by the projected increase in the oil price, which was recently boosted by Saudi Arabia's announcements of production cuts, amid recovering demand and a tight market. In the case of copper, average prices are projected to be similar to those of June. Food prices, despite the recent ups and downs, fell in line with expectations and are expected to drop further (figure 17).

Monetary policy

The Board of the BCCh began to reduce the MPR in July, a process that will be continued in the coming quarters. As mentioned in our statement yesterday, this assumes that, if the projections of the Report's central scenario materialize, in the short term the MPR will follow the trajectory outlined in the July Meeting, meaning that, by the end of the year, the MPR will be between 7.75% and 8%. In any case, the magnitude and timing of the MPR reduction process will remain subject to the evolution of macroeconomic conditions and their implications for the inflationary trajectory and the achievement of the 3% target within the policy horizon.

The group of projections that I have just described is what we call the central scenario. This is based on a set of assumptions regarding the economic environment, the behavior of agents and the direction of policies. On these assumptions, sensitivity exercises can be performed which, while keeping GDP growth around the expected ranges, require a somewhat different monetary policy action. These scenarios are what makes up the MPR corridor.

Regarding sensitivity scenarios, the upper bound of the corridor reflects scenarios in which the inflationary convergence process is less favorable than expected. For example, this could be the case if the global economy shows greater resilience, particularly in the United States, and further increases in commodity prices are observed. This would generate greater inflationary pressures at the global level, which would be transmitted to local inflation. Its medium-term inflationary effects could be more persistent if a correction in inflation expectations were to occur.

The lower bound of the corridor reflects scenarios in which inflationary convergence is faster than anticipated. This could occur if the economy faces lower than expected demand pressures. Such a situation would occur if activity is subject to shocks that reduce the external impulse, if there is a deterioration in business and household confidence that undermines investment and consumption performance, or if the impact of lending standards is greater than initially thought (figure 18).

Risks continue to be mostly associated with the global macro-financial situation. As in June, the possibility that a further deterioration of the macro-financial situation could trigger episodes of high volatility, reduced liquidity and incentives for capital outflows from the emerging world continues to stand out. In addition to the sources of risk previously identified, there are also doubts about China, especially regarding the evolution of its economy and financial market. The implications of these scenarios for monetary policy will depend on how the combination and magnitude of these elements affect the medium-term outlook for the convergence of inflation.

Concluding remarks

Dear senators, as I have just described, we have made progress in controlling inflation. A year ago, when we presented before this Senate, inflation was above 13% annually and would keep on rising to exceed 14%. At that time, we were emphatic in pointing out that there were no easy solutions to solve the inflationary problem.

It was —and still is— evident that inflation hits people and households hard, eroding their purchasing power as prices rise and their income does not grow in line with it. We have worked to bring inflation down and will continue to do so. The good news is that we are already seeing the early results. However, the task is not finished, and we remain watchful, because the road to the goal is not free of risks.

The progress we have made has not been easy. Although there are several factors behind the decline in inflation, monetary policy has played a decisive role. To fulfill this role, we had to raise the monetary policy rate by 1075 basis points and maintained it at 11.25% annually for several months. Not an easy task to implement, but an indispensable one.

Applying this contractionary monetary policy has been necessary in order to undo the effects of the shocks to the economy, thus reducing inflation and creating the conditions for growth to return to levels consistent with its potential. In addition, the effort made by fiscal policy, with a major spending adjustment in 2022has been added.

It is important to recall that these shocks were of unusual simultaneity and magnitude. In addition to the effects of the pandemic on the economy and on supply chains and transport prices, there was the shock of the Russian invasion of Ukraine and its impact on costs. All this occurred in a context where the measures adopted to supplement income resulted in a boost to domestic spending that the economy could not absorb without generating considerable inflationary pressures. All this, moreover, while domestic uncertainty remained persistently high.

Data for recent quarters show that the effects of these shocks have been diminishing. Private consumption has fallen back from its high levels of 2021 and have stabilized lately. The current-account deficit has also narrowed significantly.

The labor market has also suffered the consequences of this complex cycle. Employment and labor participation fell significantly at the beginning of the pandemic, and it has been difficult to recover. In turn, workers' incomes were significantly affected by the rise in inflation. In recent months, albeit slowly, the economy has continued to create jobs. Labor participation has been improving. This has been especially relevant for women, who were the most affected at the beginning of the sanitary emergency, due to their dual role as workers and caregivers at home. At the same time, real wages are seeing the positive effects of lower inflation.

As I mentioned before, it cannot be overlooked that external shocks have also tended to normalize. The adverse effects of the pandemic on supply chains and transportation costs have been dissipating. The same has been true of the impact of the war on commodity prices.

Consequently, the Bank has begun to ease the level of monetary policy tightening. Thus, in our last two meetings we have reduced the MPR by 175 basis points. The most extreme risk scenarios are receding. On the one hand, scenarios where high inflation would be more persistent, although less likely, keep us on the alert. Inflation began to ease, beyond differences among its components, and inflation expectations have returned to 3% two years out and are gradually being passed on to consumer and business decisions. On the other hand, the signs of a gradual adjustment of the economy continue, with consumption stabilizing after its sharp drop at the beginning of the year, which is reinforced by indicators constructed with micro data referring to the labor market and the net creation of new firms.

Still, as I mentioned, significant challenges lie ahead. The calibration of monetary policy will require a delicate balance that does not give rise to risks of greater persistence, but at the same time does not lead to a weakness in demand that would cause inflation to fall more than necessary. Therefore, it is important to ensure that inflationary convergence follows the expected course, while monetary policy keeps pace with the evolution of the macroeconomic environment.

Activity has entered a phase in which inflation control will no longer require further contraction. However, in order to complete the convergence process, it will have to grow below its potential for a few quarters. This will allow us to take the Chilean economy towards a scenario where growth capacities can be deployed appropriately, without the burden of high inflation and the measures that are necessary to reduce it.

Accordingly, for 2025 we are projecting growth rates between 2% and 3%. This figure reflects the current trend growth capacity of our economy, which has been declining in a context in which all the variables that determine medium-term growth have been depleting over the last years. Productivity has fallen and the capital stock has dwindled. Several indicators, as well as the opinions of those involved, point to the greater difficulty of developing productive investment projects. These trends are observed in our trend growth projections, which pointed to a decline over time to settle below 2% by the end of this decade.

Thus, while monetary policy will lead us toward trend growth, and thus to bring inflation under control, the question then arises as to whether such growth is satisfactory and how we can improve it.

From the Central Bank of Chile, our contribution is precisely to offer stability, with the right financial conditions, which are favorable for the development of business, investment and growth. With this, let me say it again, we clear the way for the economy to deploy its capabilities. This is by far our greatest contribution to our country.

Nonetheless, the development of these capabilities is beyond the scope of monetary and financial policy. On several occasions we have mentioned the importance of implementing policies to improve the productivity of our economy. For example, education has been and continues to be a crucial factor, particularly to make up for what has been lost in recent years. Improving the skills of our workers through effective training is also vital. The country can and must also take advantage of the natural conditions that place it in a very favorable position for the energy transformation that the planet requires.

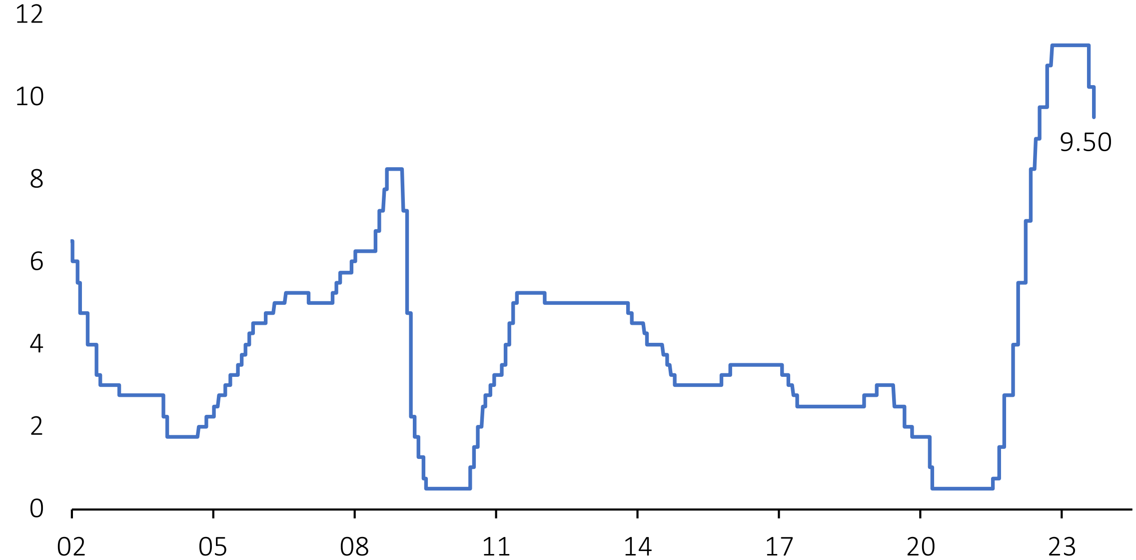
Dear senators, the Central Bank is doing its job so that inflation returns to the 3% target and the economy has the right conditions to thrive. This means that our economy will return to growth levels in line with its potential, but we should ask ourselves whether or not this will suffice and what we can do to improve these trends, which would contribute to face our country's challenges.

Thank you.

Figure 1

Monetary policy rate (MPR)

(percent)

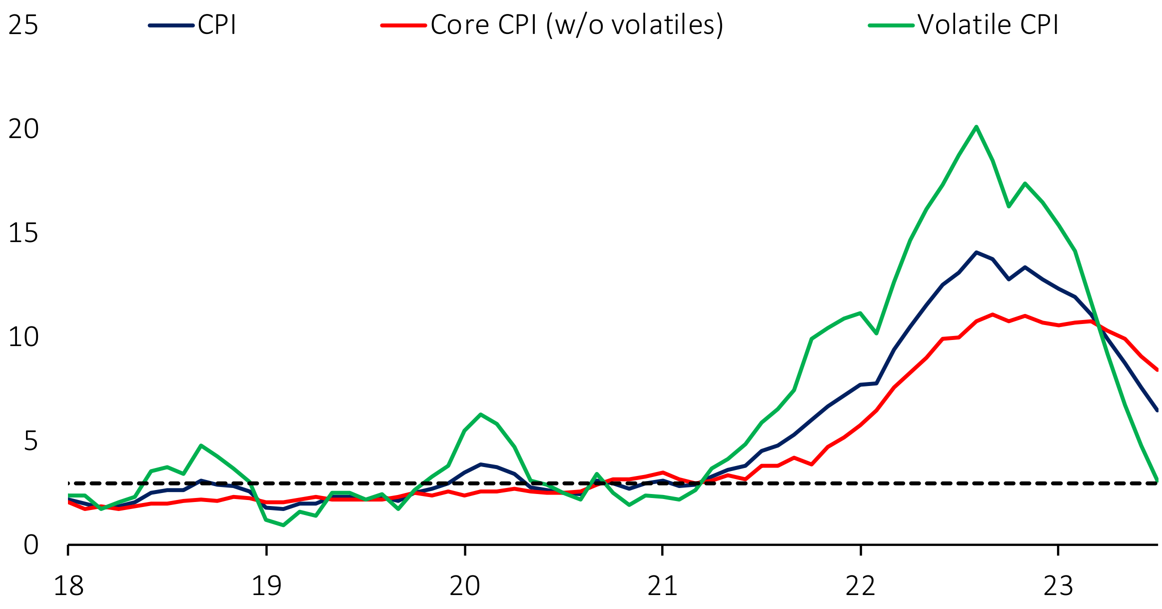


Source: Central Bank of Chile.

Figure 2

Inflation indicators (*)

(annual change, percent)



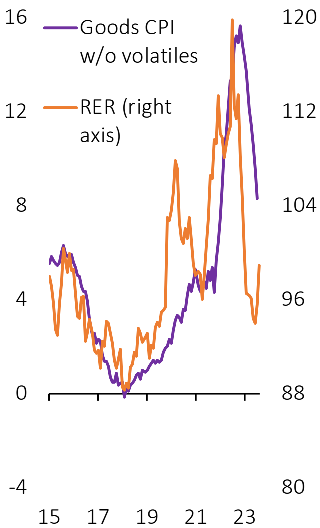
(*) For details on the different groupings and their shares in total CPI, see box IV.1 in December 2019 MP Report; Carlomagno and Sansone (2019); Economic Glossary.

Sources: Central Bank of Chile and National Statistics Institute.

Figure 3

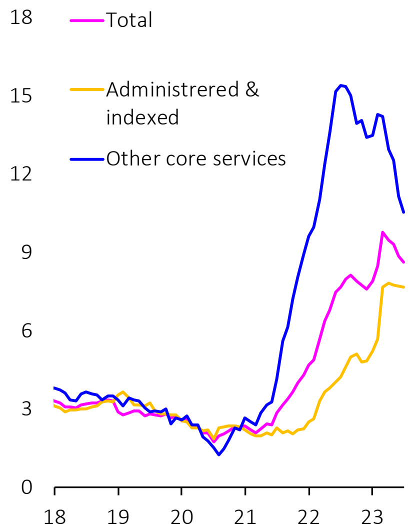
Goods inflation without volatiles and real exchange rate (RER) (1)

(annual change, percent; index, 1986=100)



Core services inflation (2)

(annual change, percent)



CPI category	Weight (of 100% total)
Goods w/o volatiles	26.7%
Administered & indexed	26.7%
Other core services	11.7%
Total core services	38.4%

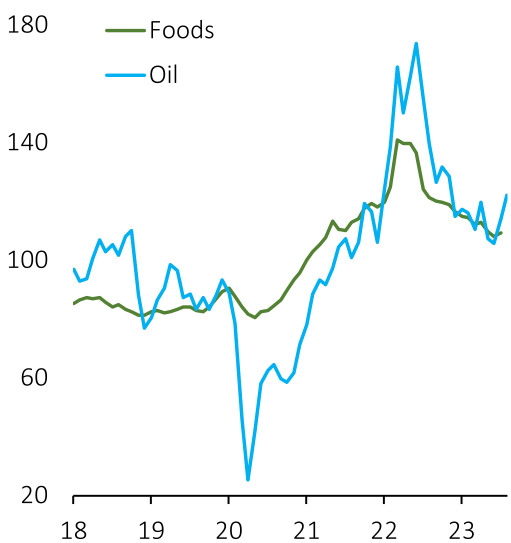
(1) Preliminary estimate of August 2023 RER. (2) Total denotes the sum of A&I services and Other core services.

Sources: Central Bank of Chile and National Statistics Institute

Figure 4

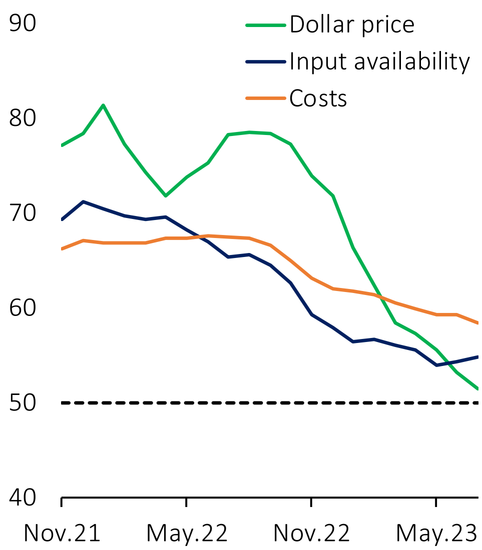
Commodity prices (1)

(index, 2018-2023=100)



Influence of the firms' cost factors on sales prices in the last three months (2)

(diffusion index, moving quarterly data)



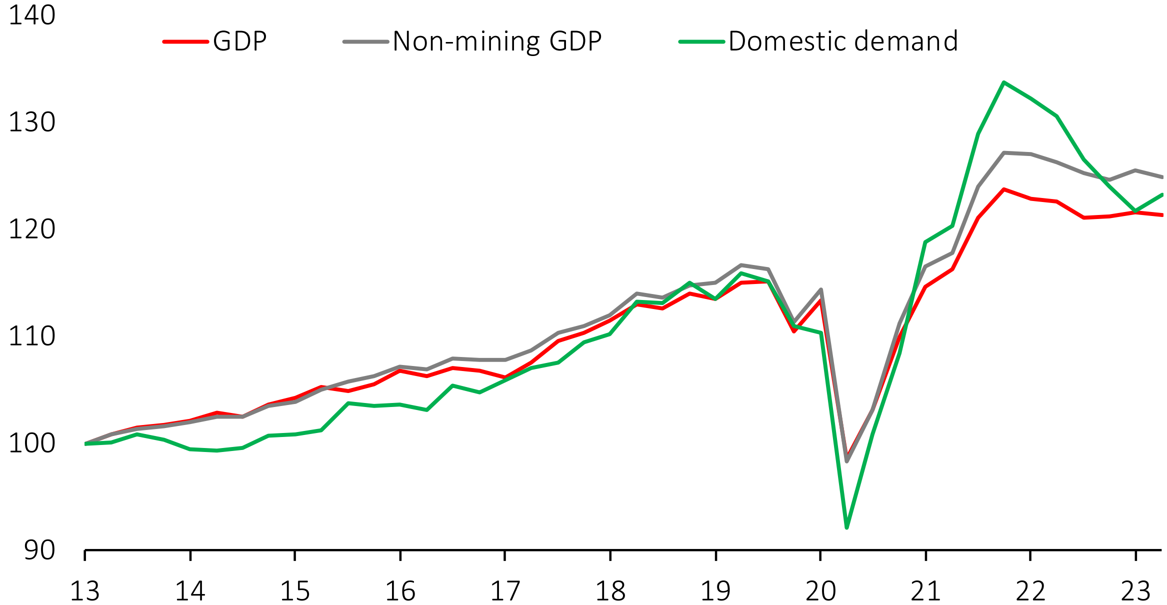
(1) Food prices are taken from FAO index; oil price is Brent and WTI average barrel. (2) A diffusion index is the difference between the percent of responses that a variable will increase or will decrease. Values range from 0 to 100, with 50 being the neutral value. Values above (below) 50 indicate a higher proportion of "will increase" ("will decrease") responses.

Sources: Bloomberg and Central Bank of Chile.

Figure 5

Domestic activity and demand

(index, first quarter 2013=100, real deseasonalized series)

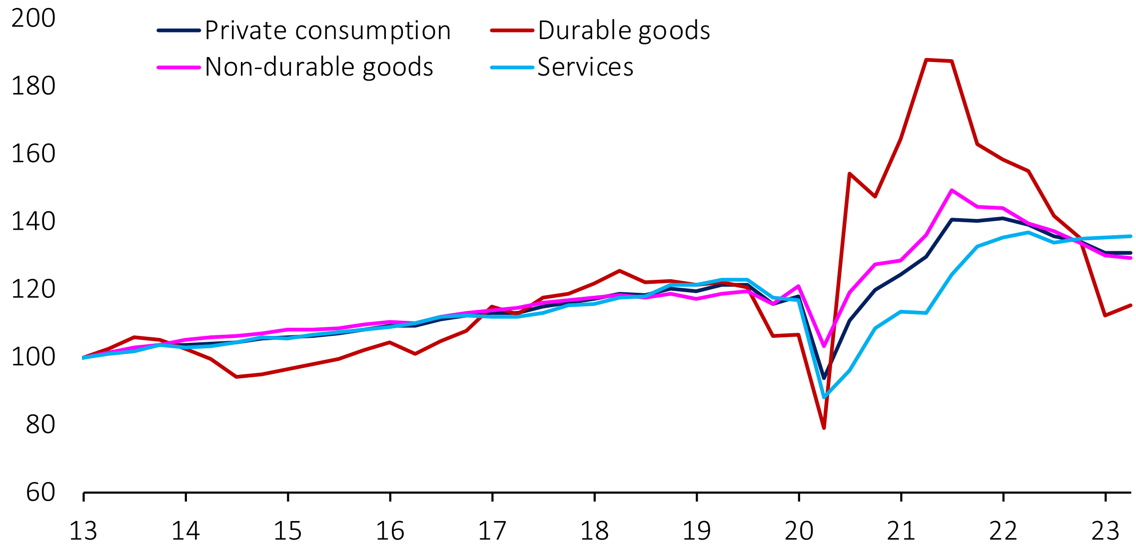


Source: Central Bank of Chile.

Figure 6

Private consumption

(index, first quarter 2013=100, real deseasonalized series)

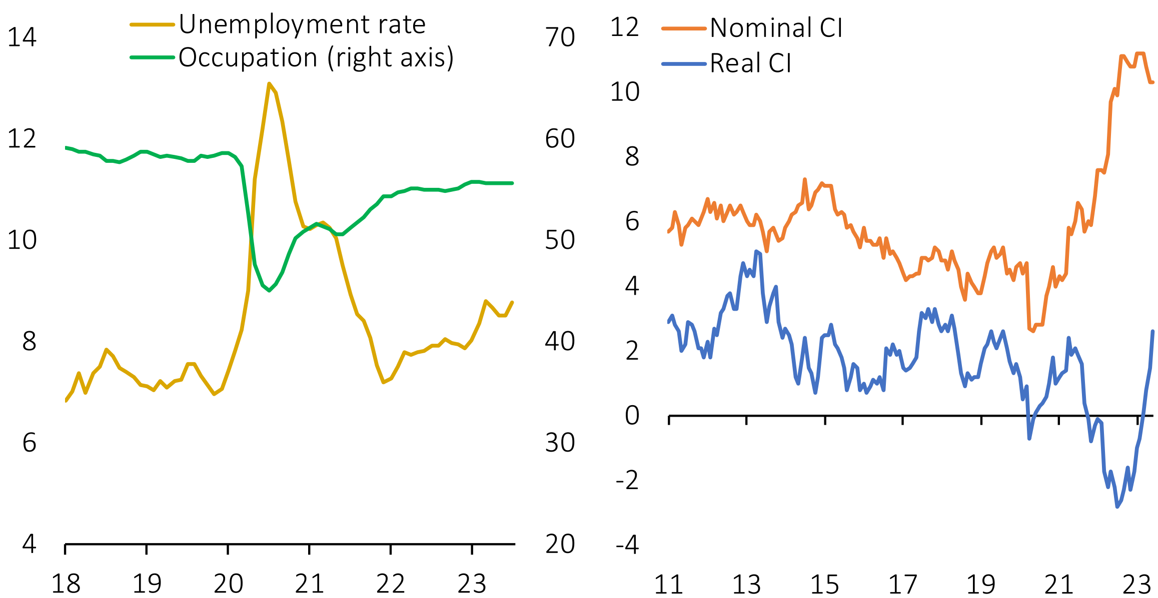


Source: Central Bank of Chile.

Figure 7

Unemployment rate and occupation
(percent)

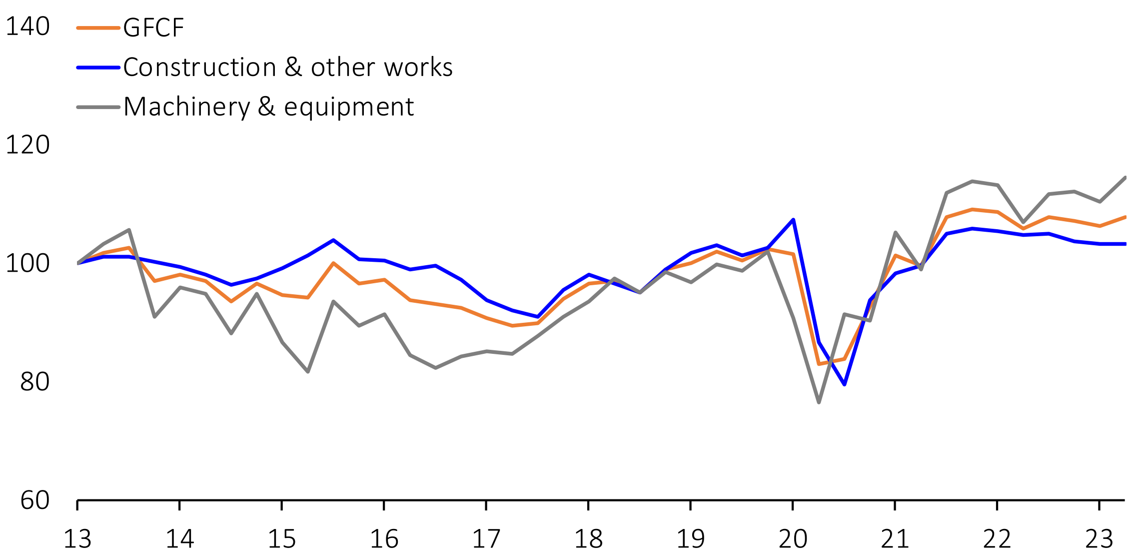
Compensations index (CI)
(annual change, percent)



Source: National Statistics Institute.

Figure 8

Gross fixed capital formation (GFCF)
(Index first quarter 2013-100, real deseasonalized series)

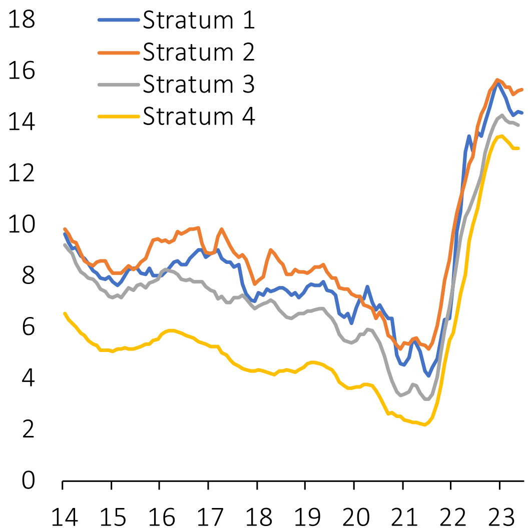


Source: Central Bank of Chile.

Figure 9

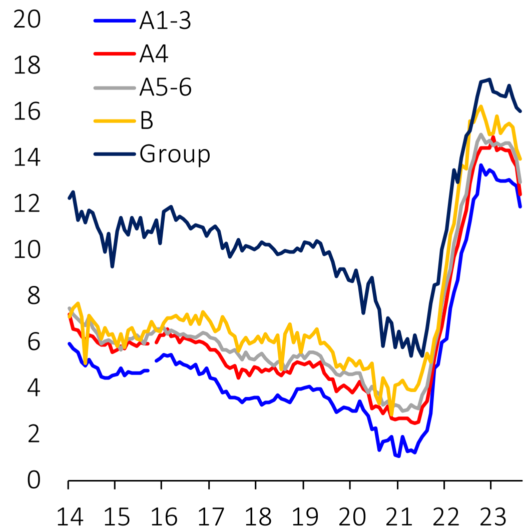
Interest rates on commercial loans by sales stratum (1)(2)

(percent)



Interest rates on commercial loans by risk rating (1)(3)

(percent)



(1) For terms under 12 months. (2) The figure describes the average interest rate perceived by firms for the new loans they take within each sales bracket, which are defined according to the criteria established by National Accounts. The rates are weighted by the share of firms belonging to a stratum in total credit. Transactions with unusually low rates have been eliminated. The results for August only consider the first days of the month. (3) Average interest rate perceived by firms for new loans they take within each risk rating, weighted by the share of firms belonging to a risk category in total credit. Excludes loans maturing in less than 0.1 months. Transactions with unusually low rates were eliminated. Results for August only consider up to the 15th of the month.

Sources: Financial Markets Commission (CMF), Internal Revenue Service (SII) and Central Bank of Chile.

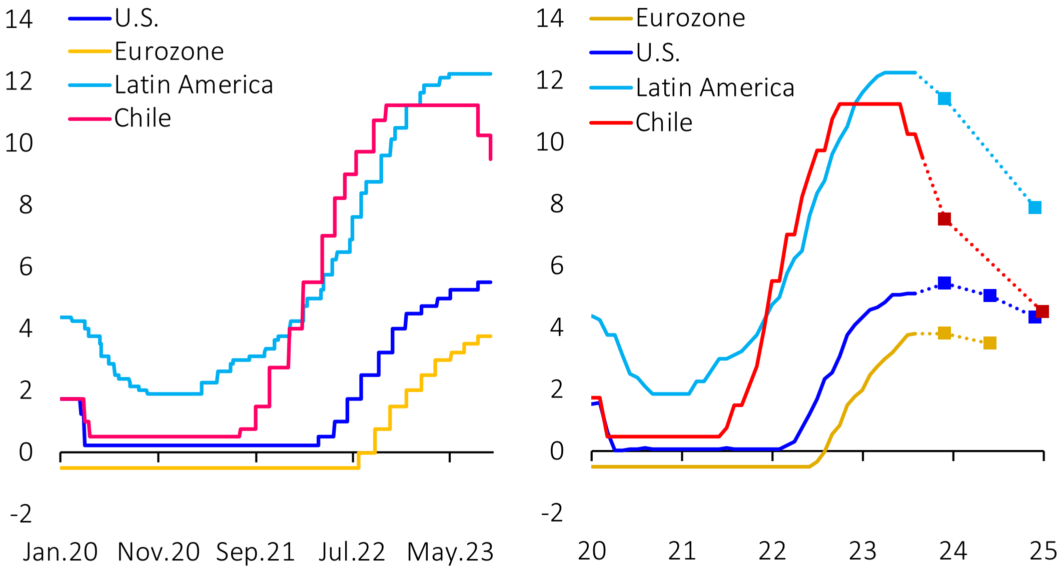
Figure 10

Monetary policy rate (MPR) (1)(2)

(percent)

MPR and expectations (1)(3)(4)(5)

(percentage points)



(1) Left-hand panel contains daily data and in right-hand panel the actual values at the end of each month. (2) Latin America considers the median of Brazil, Colombia, Mexico and Peru. (3) Expectations for the U.S. and the Eurozone are those implicit in asset prices. For the U.S. they correspond to Dec.23, Jun.24 and Dec.24. For the Eurozone, to Dec.23 and Jun.24. (4) For Latin America, the median of Brazil, Colombia, Mexico and Peru is used for expectations at Dec.23 and Dec.24, obtained from surveys of expectations of the respective central banks, with the exception of Peru, obtained from Bloomberg. (5) For Chile, expectations in the EES at Dec.24 and Jan.25 are used.

Sources: Central Bank of Chile, Bloomberg and central banks' expectations surveys.

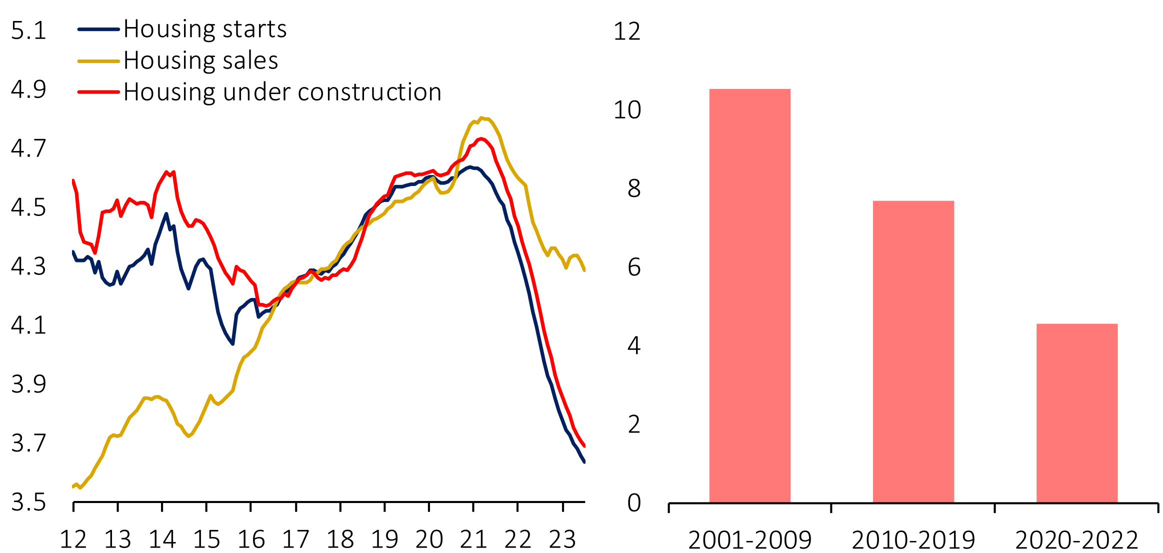
Figure 11

Chinese real-estate market (*)

(index, December 2019=ln(100), moving 6-mo. Average)

Average GDP growth in China

(real annual change, percent)



(*) Deseasonalized series.

Sources: Central Bank of Chile and Bloomberg.

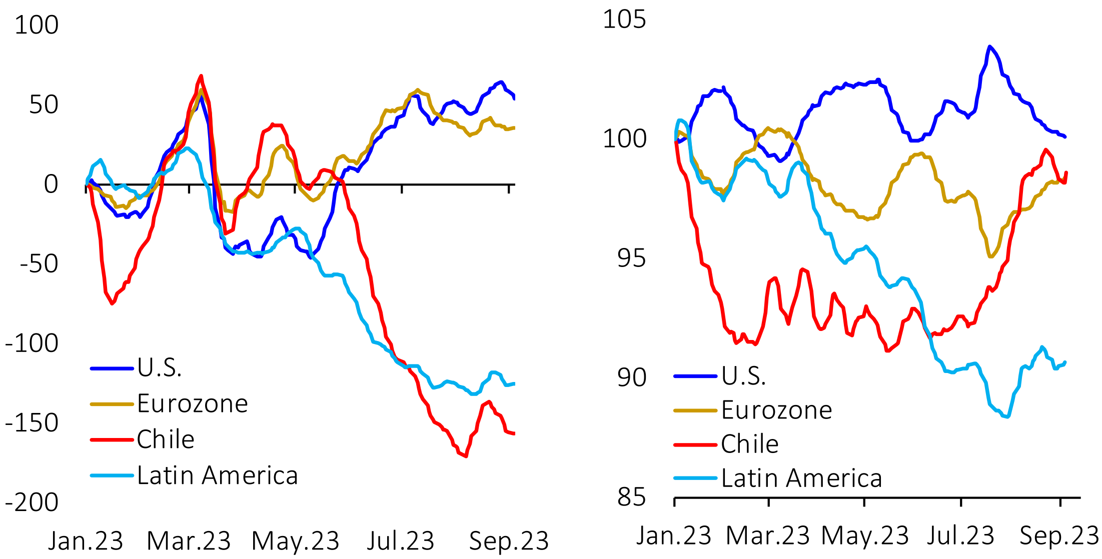
Figure 12

Two-year nominal interest rates (1)(2)

(difference with respect to 02.Jan.23, basis points)

Currencies (1)(2)(3)

(index, 02.Jan.2023=100)

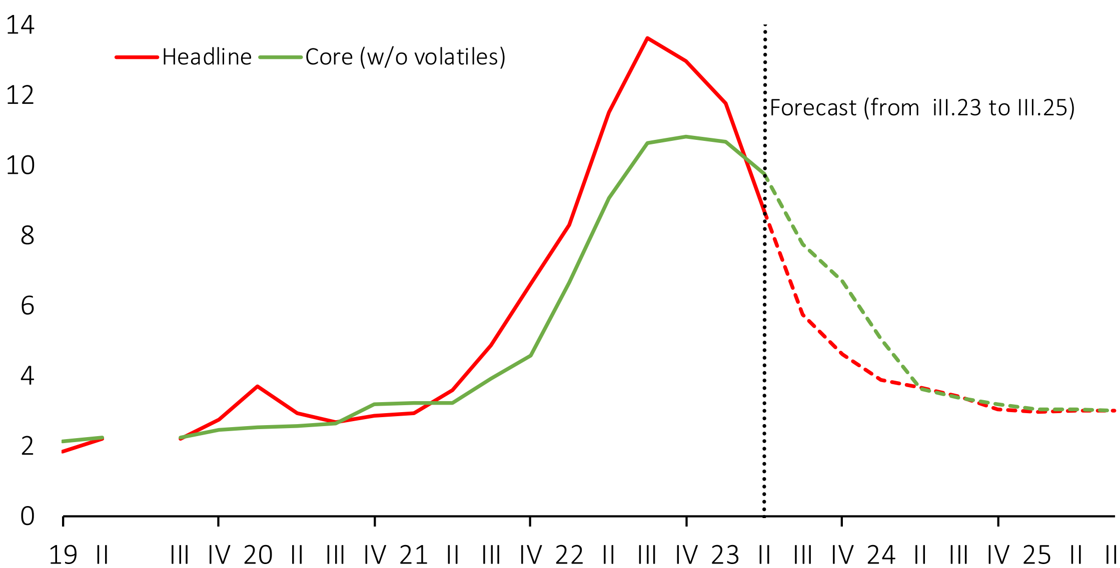


(1) Series averaged over seven moving days. (2) Latin America uses average of Brazil, Colombia, Mexico and Peru. (3) An increase (decrease) indicates depreciation (appreciation).
Sources: Central Bank of Chile and Bloomberg.

Figure 13

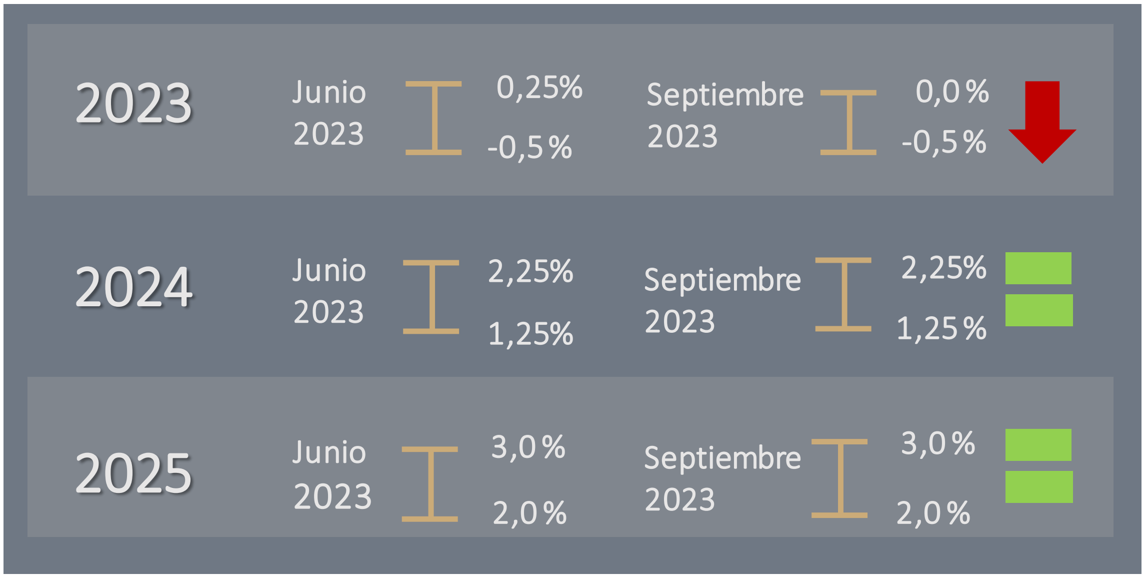
Inflation forecasts

(annual change, percent)



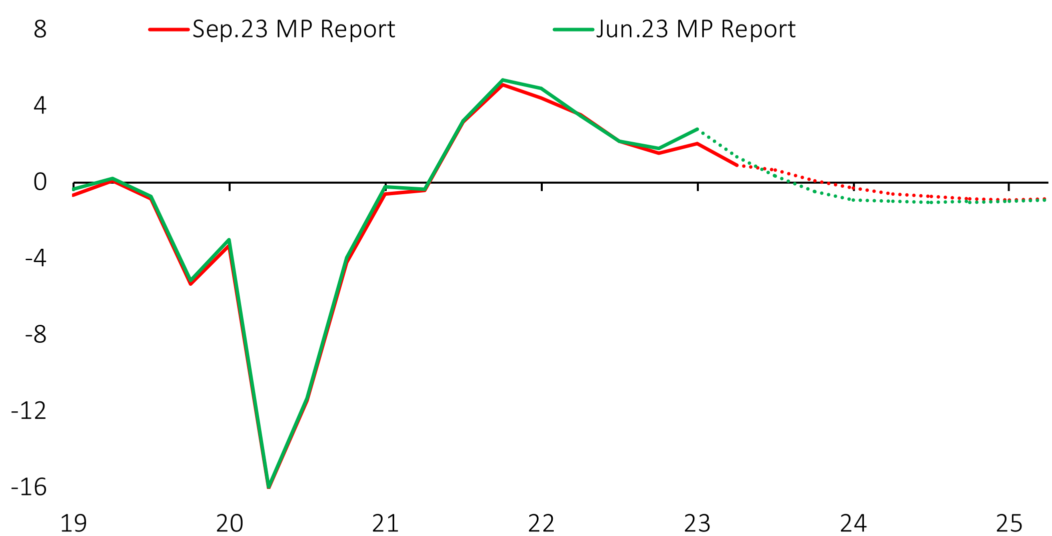
Sources: Central Bank of Chile e National Statistics Institute.

Gráfico 14
Proyecciones de crecimiento del PIB (*)
(variación anual, porcentaje)



(*) Proyecciones contenidas en cada IPoM. Símbolos indican cambio respecto de proyección de junio de 2023.
Fuente: Banco Central de Chile.

Figure 15
Activity gap (1)(2)
(level, percentage points)



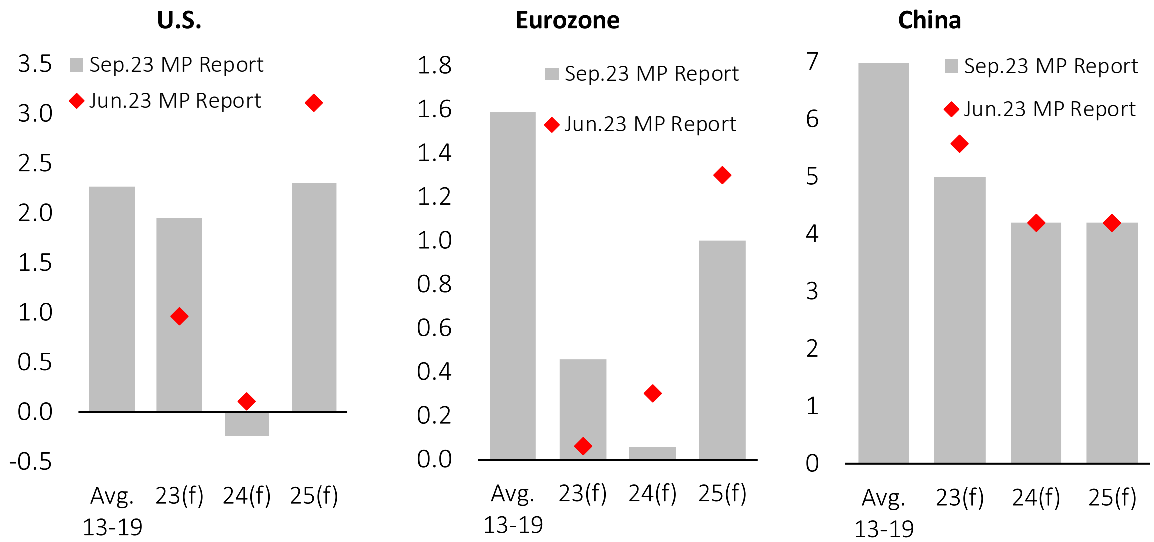
(1) Dotted lines show forecasts. (2) The forecast uses structural parameters updated in the December 2022 Report (trend) with a methodological revision of potential GDP.
Source: Central Bank of Chile.

Table 1
Domestic scenario
(annual change, percent)

	2023 (f)		2024 (f)		2025 (f)	
	MP Report Jun. 23	MP Report Sep. 23	MP Report Jun. 23	MP Report Sep. 23	MP Report Jun. 23	MP Report Sep. 23
GDP	-0.5/0.25	-0.5/0.0	1.25/2.25	1.25/2.25	2.0/3.0	2.0/3.0
Domestic demand	-4.2	-4.3	1.0	1.5	2.0	2.2
Domestic demand (w/o inventory change)	-3.3	-3.1	0.8	1.1	1.9	2.0
Gross fixed capital formation	-3.0	-1.2	-1.0	-0.6	2.2	2.4
Total consumption	-3.4	-3.7	1.4	1.6	1.8	1.9
Private consumption	-4.9	-4.9	1.5	1.7	1.8	1.9
Goods and services exports	2.4	0.9	4.4	4.0	2.5	2.4
Goods and services imports	-8.3	-9.8	2.2	3.1	0.6	1.2
Current account (% of GDP)	-3.7	-3.4	-4.0	-4.0	-3.9	-4.0
Gross national savings (% of GDP)	19.1	19.3	18.7	19.0	19.2	19.1
Nominal GFCF (% of GDP)	23.0	23.3	23.0	23.1	23.2	23.1

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

Figure 16
World growth forecasts
(real annual GDP change, percent)

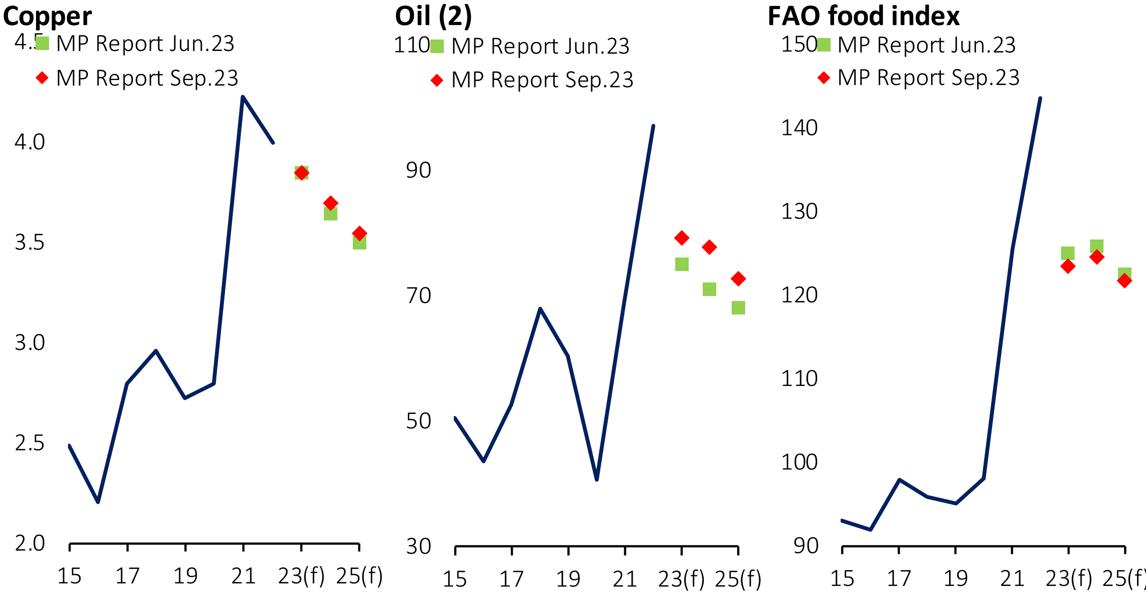


(f) Forecasts.
Sources: Central Bank of Chile and Bloomberg.

Figure 17

Commodity prices (1)

(dollars per pound; dollars per barrel; index)



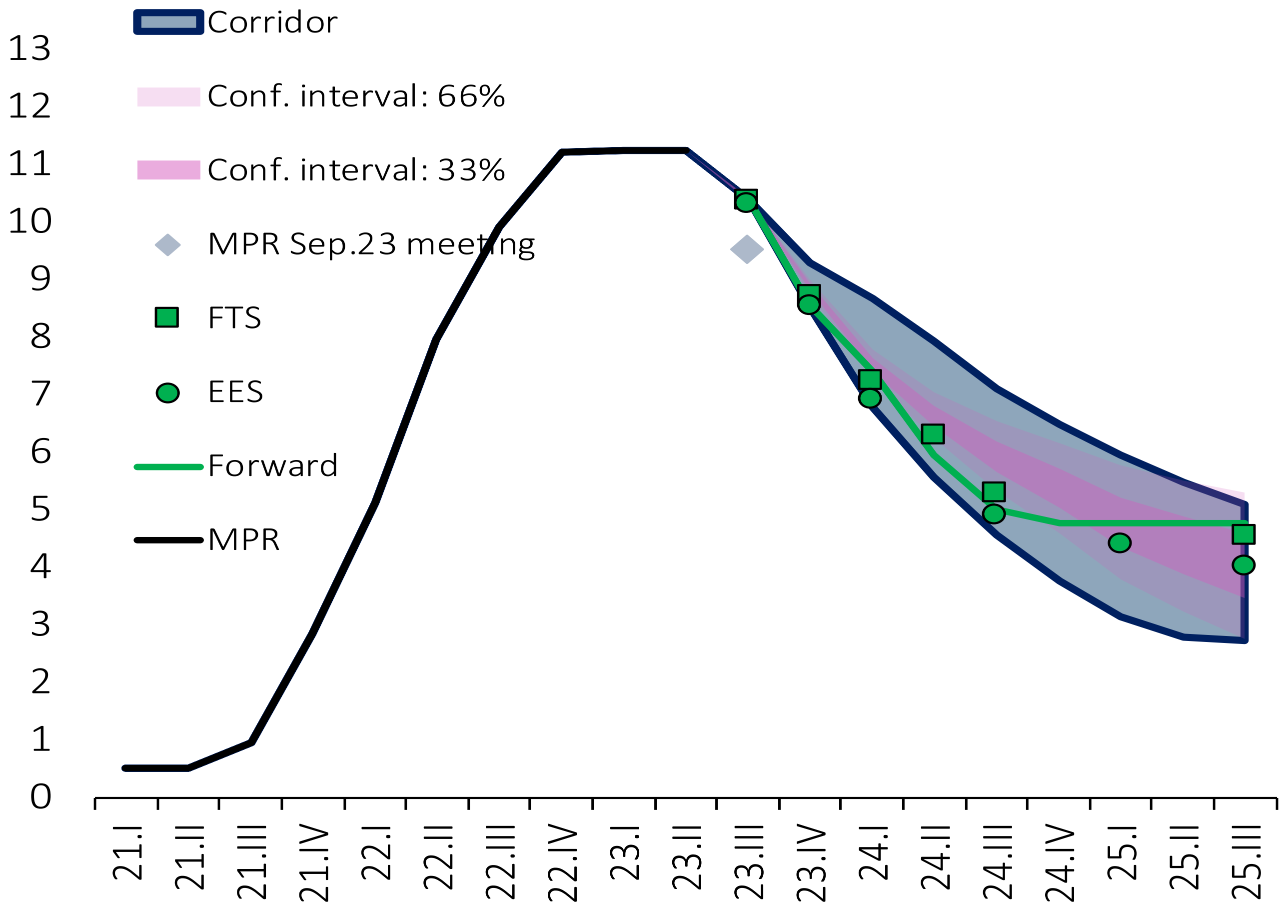
(1) Effective price/index is the average for each year. (2) For oil it is the WTI-Brent average price. (f) Forecast.

Sources: Central Bank of Chile, Bloomberg and FAO.

Figure 18

MPR corridor (*)

(quarterly average, percent)



(*) See footnote to figure II.9, chapter II in September 2023 Monetary Policy Report.
EES: Economic Expectations Survey. FTS: Financial Traders Survey.
Source: Central Bank of Chile.