

OUTLOOK FOR THE CHILEAN ECONOMY

Chile Day London 2022

Rosanna Costa, Governor



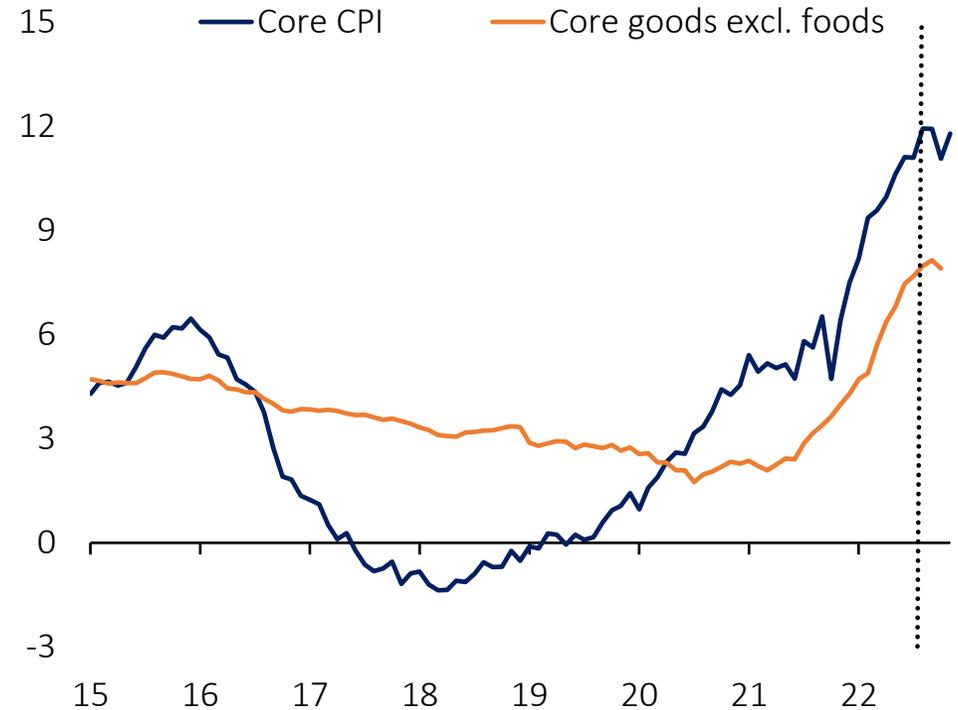
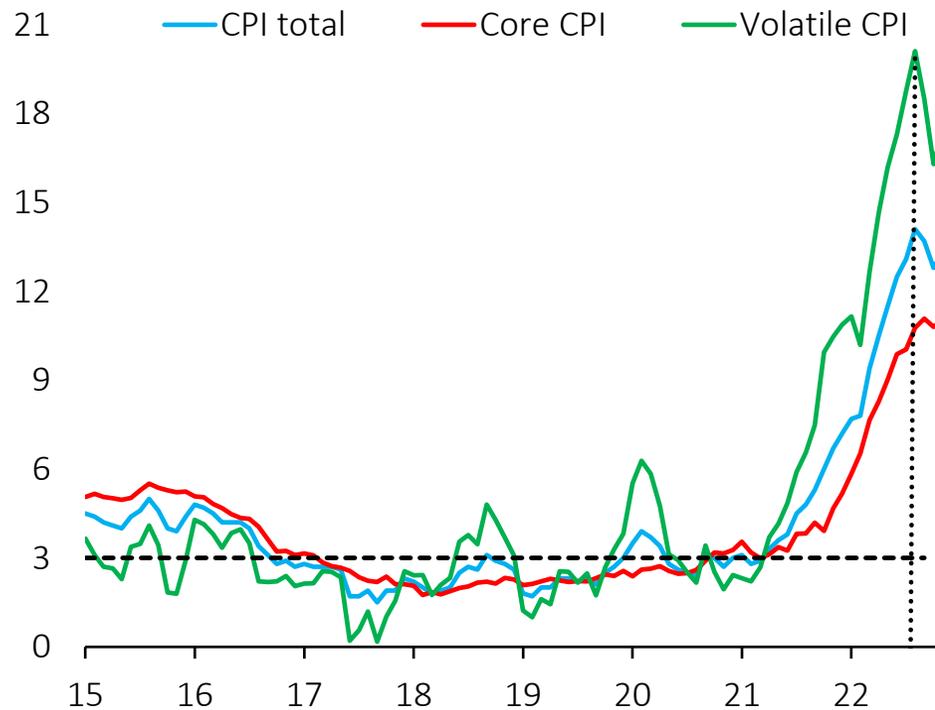
SALAR DE TARA

Región de Antofagasta



Inflation indicators (1) (2)

(annual change, percent)



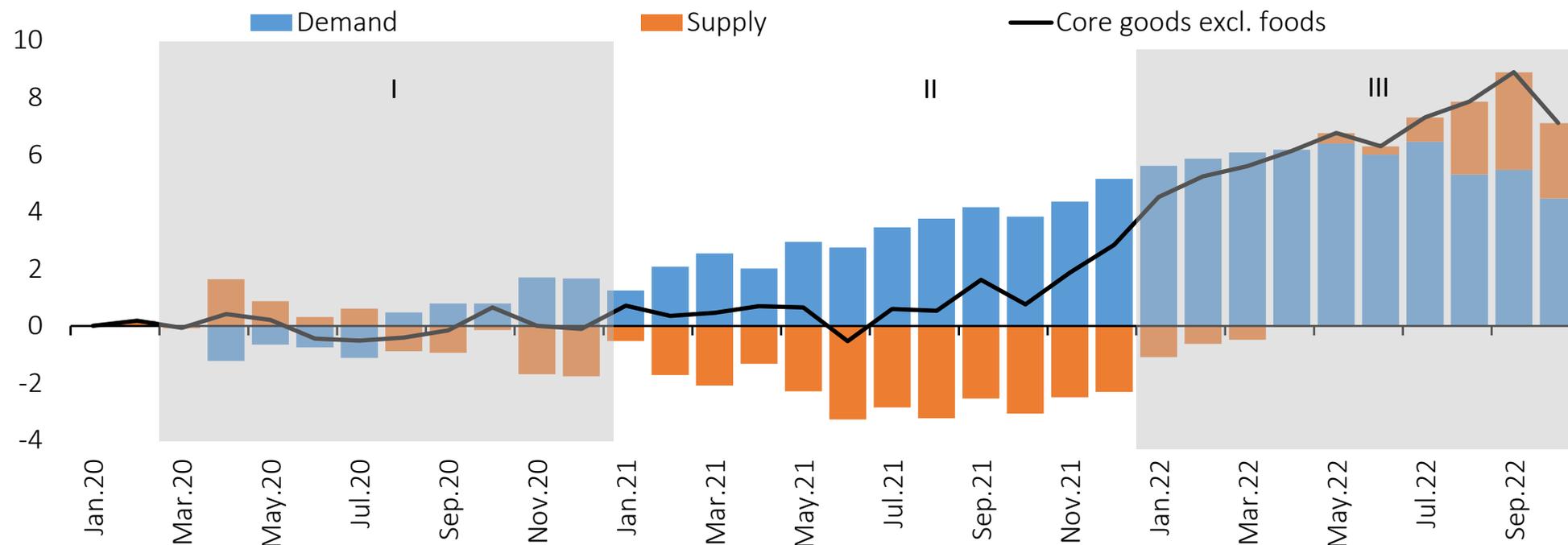
(1) Dotted vertical line marks statistical cutoff of September 2022 MP Report. (2) For details on the different groupings and their share in total CPI basket, see box IV.1 in December 2019 MP Report, Carlomagno & Sansone (2019), and Economic Glossary available in our website www.bcentral.cl

Sources: Central Bank of Chile and National Statistics Institute (INE).



Structural decomposition of goods CPI w/o volátiles and excluding foods (*)

(cumulative change since January 2020, percentage points)



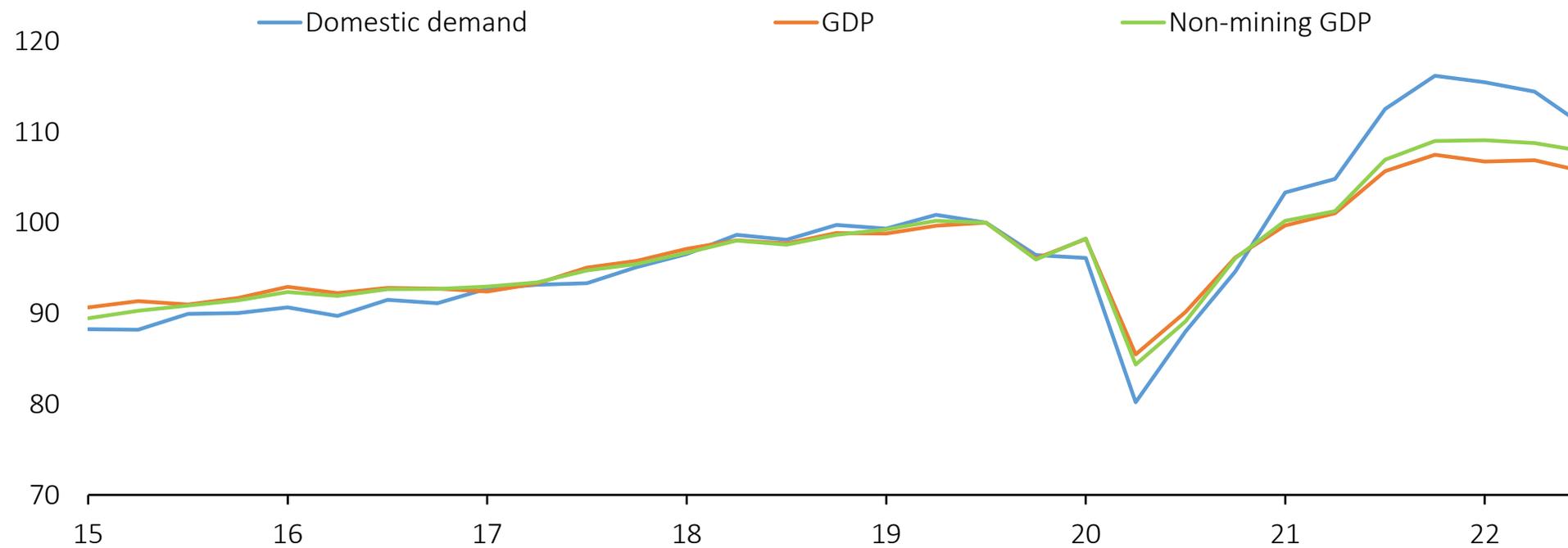
(*) For methodological details, see Box I.1, MP Report December 2022. The black line shows the cumulative evolution from March 2020 to October 2022. Shaded areas denote the following periods: (I) March-December 2020, (II) January-December 2021, and (III) January-October 2022.

Source: Carlomagno et al. (2022) based on INE, SII, and Central Bank of Chile data.



Activity indicators

(index, 2019Q3 = 100, seasonally-adjusted)

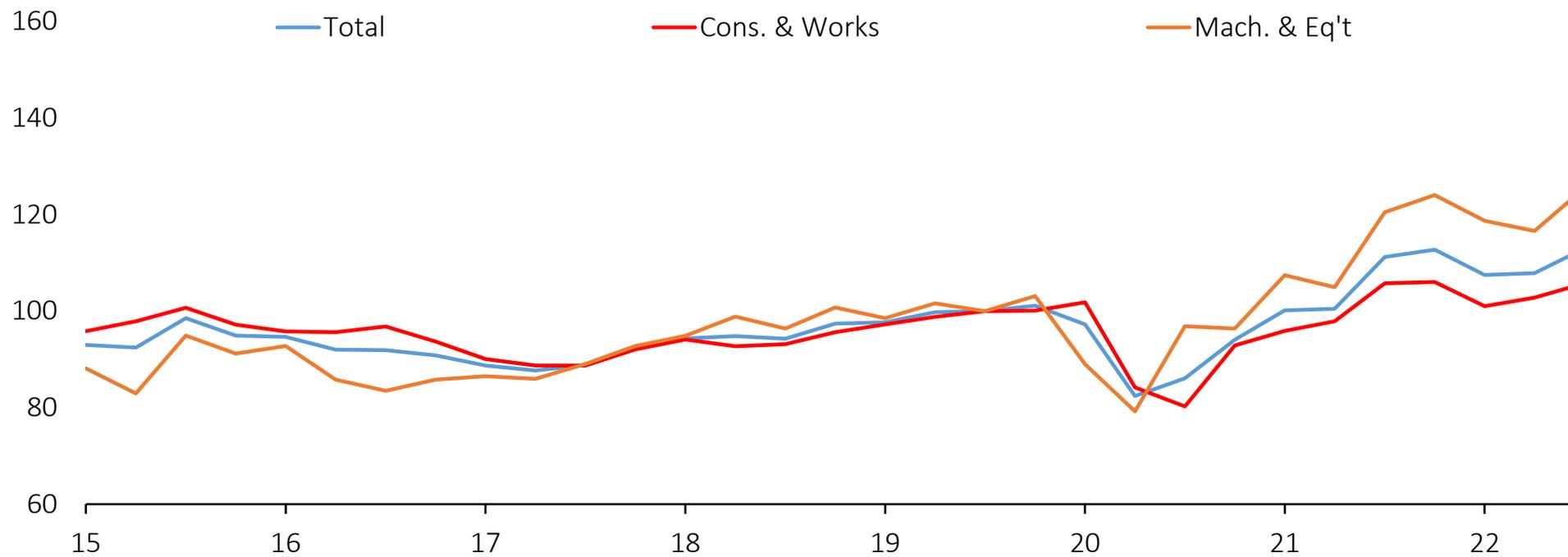


Source: Central Bank of Chile.



Investment

(index, 2019Q3 = 100, seasonally-adjusted)

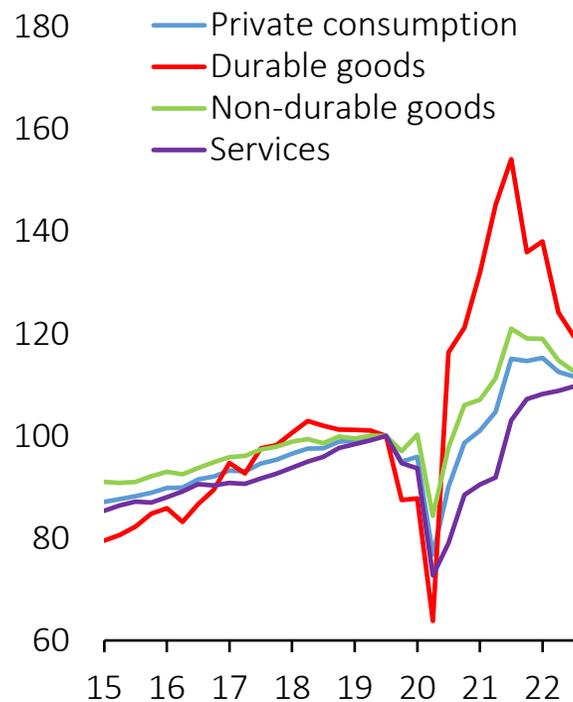


Source: Central Bank of Chile.



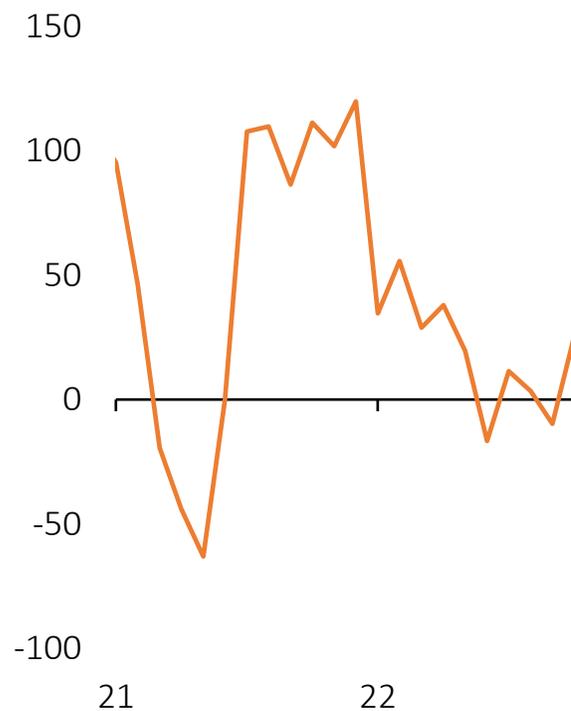
Consumption

(index, 2019Q3 = 100, seasonally-adjusted)



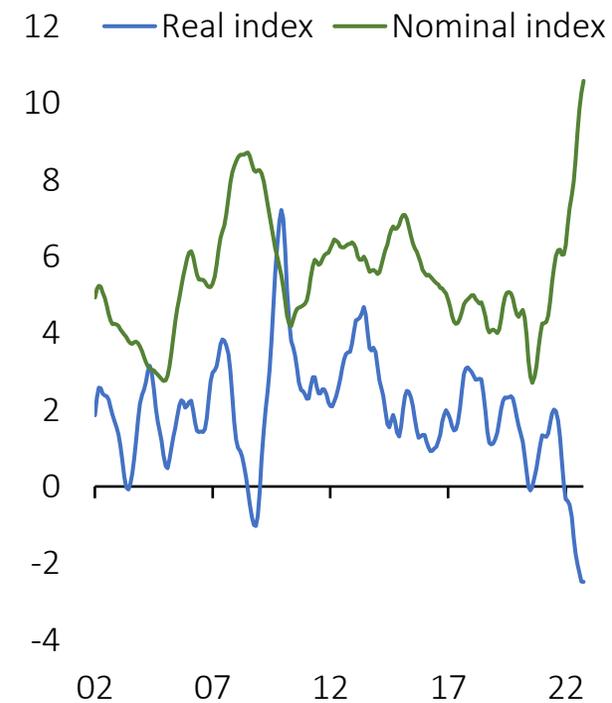
Employment

(moving quarter/moving quarter change, thousands)



Wage index

(percent, annualized quarterly velocity, moving annual average)

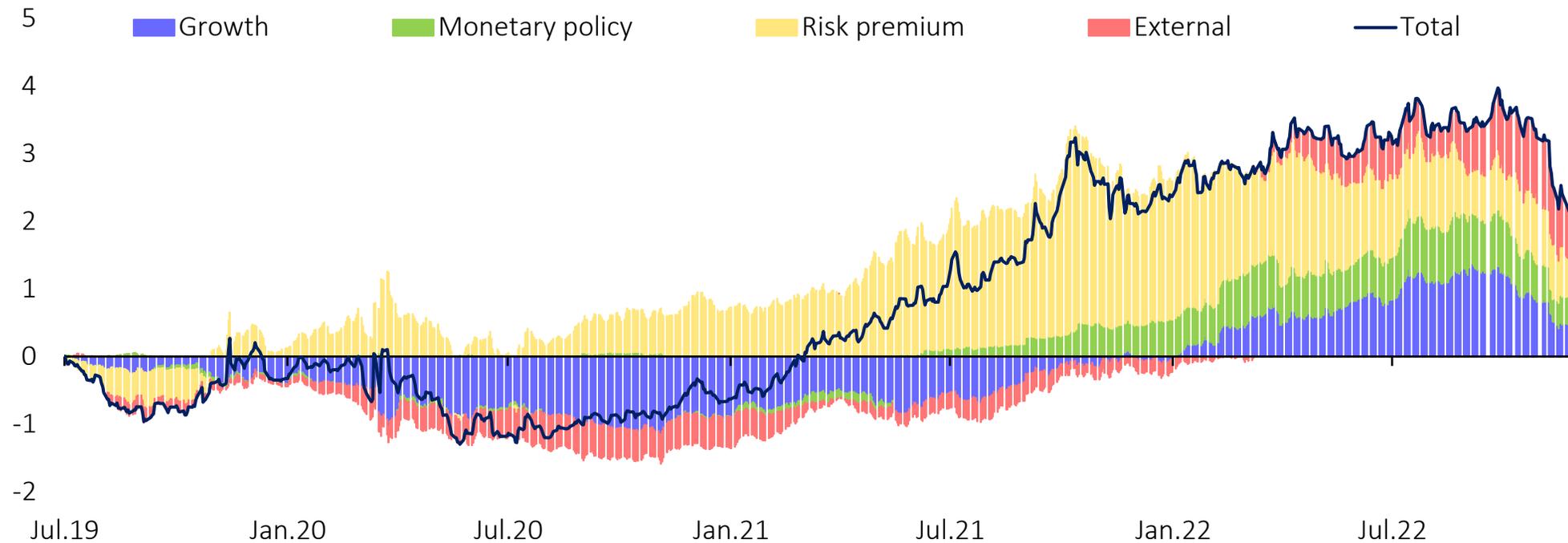


Sources: National Statistics Institute and Central Bank of Chile.



Structural decomposition of 10-year zero rate (*)

(percentage points, accumulated since 1 July 2019)



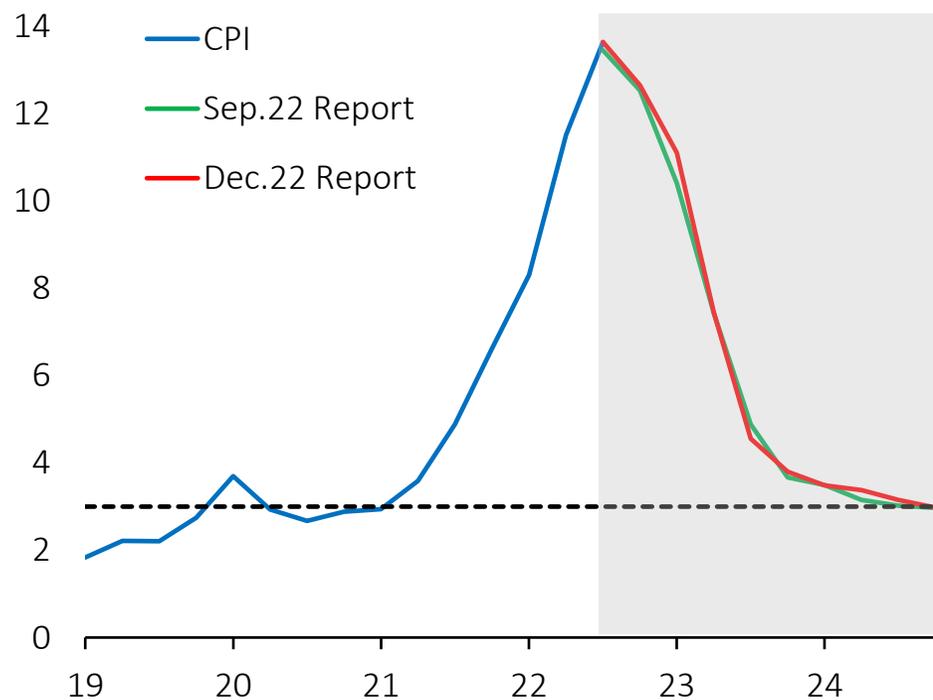
(*) Historical decomposition of the long rate from a BVAR based on the identification strategy proposed by Eterovic and Eterovic (2022), incorporating an external block. The exogenous block encompasses all US shocks (monetary policy, growth, risk aversion and pure risk), which have been added for simplicity.

Source: Central Bank of Chile based on RiskAmerica.

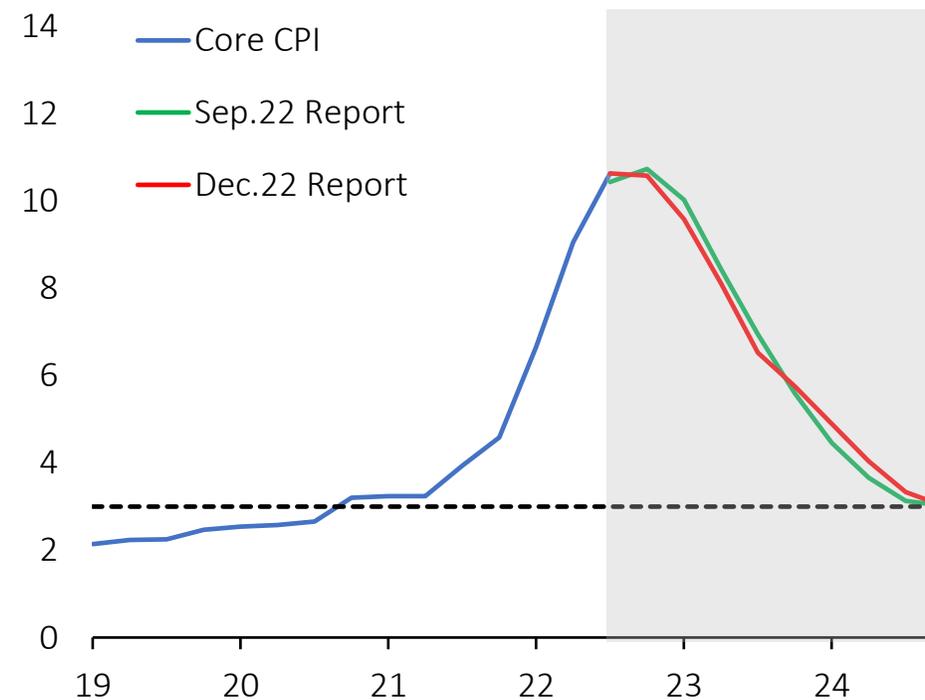


Inflation forecast (1)

Headline CPI (annual change, percent)



Core CPI inflation forecast (excl. volatiles) (2) (annual change, percent)

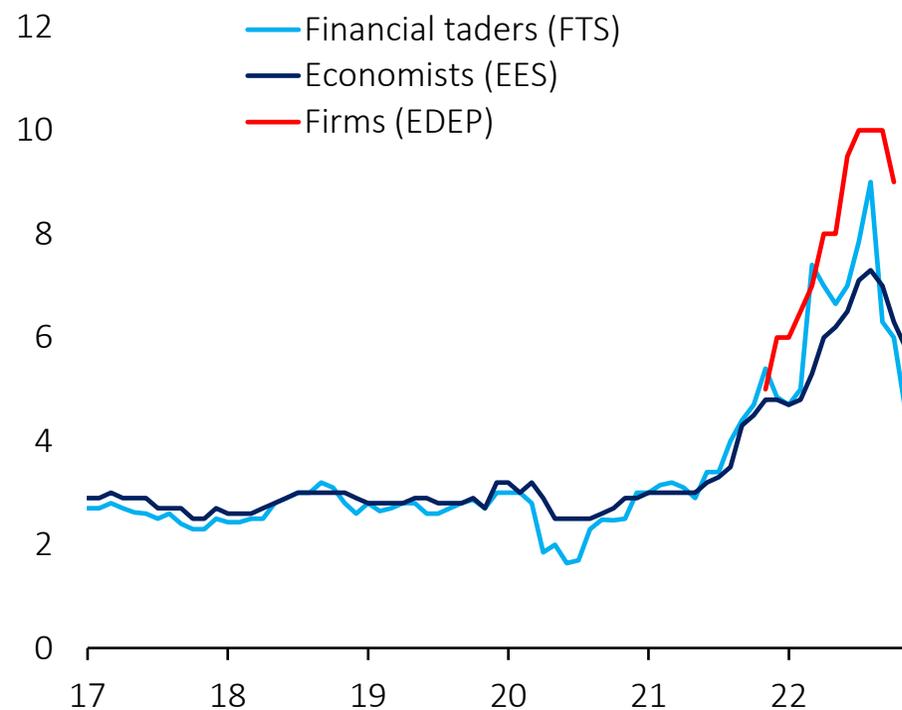


(*) As from the fourth quarter of 2022, indicators correspond to forecasts (dashed lines).
Sources: Central Bank of Chile and National Statistics Institute (INE).

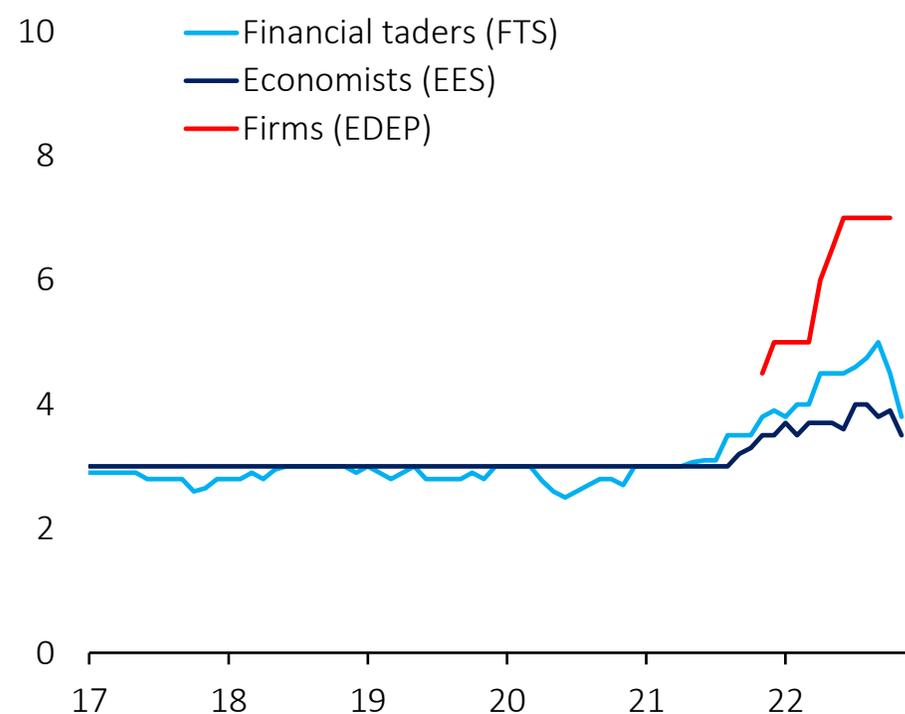


Surveyed inflation expectations (1) (2) (annual change, percent)

One year ahead



Two years ahead



(1) Median responses are shown. (2) The FTS uses the survey from the first two weeks of each month through January 2018. From February 2018 onwards, it considers the last survey published in the month, including the one prior to the September 2022 MP meeting. In months with no survey published, the latest available one is considered. Source: Central Bank of Chile.



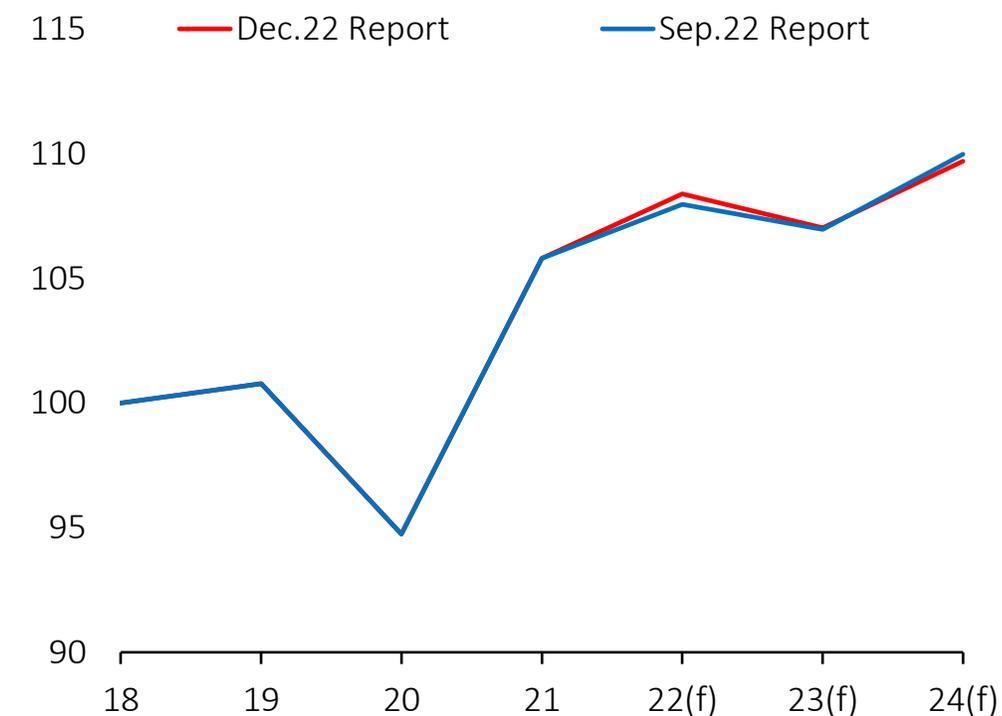
GDP growth forecasts (1)

(annual change, percent)



GDP forecasts (2)

(index, 2018=100)

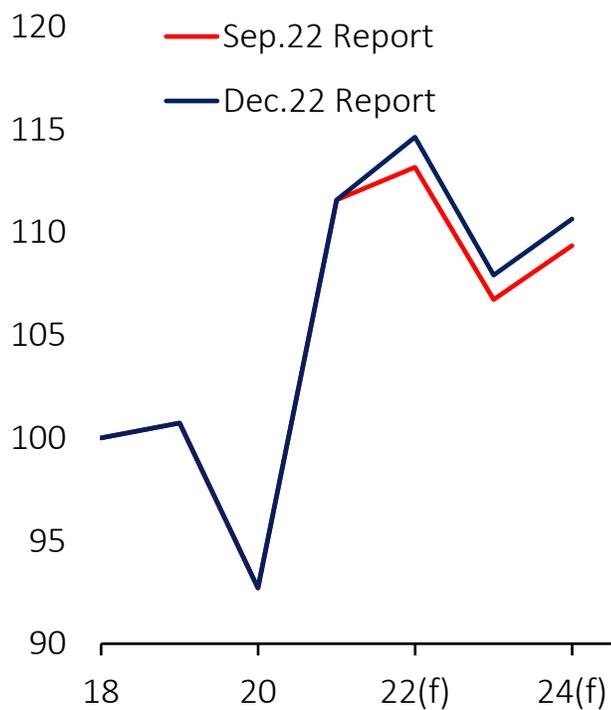


(1) Projections contained in each MP Report. Arrows indicate change from September 2022 MP Report forecast. (2) Forecasts are based on the midpoint of the growth ranges published in this MP Report. (f) Forecast.

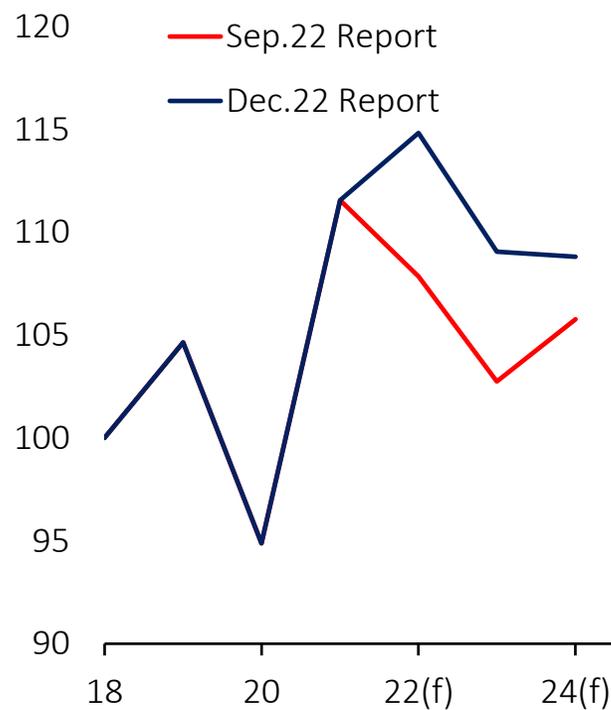
Source: Central Bank of Chile.



Private consumption (real annual change, percent)



Gross fixed capital formation (GFCF) (real annual change, percent)



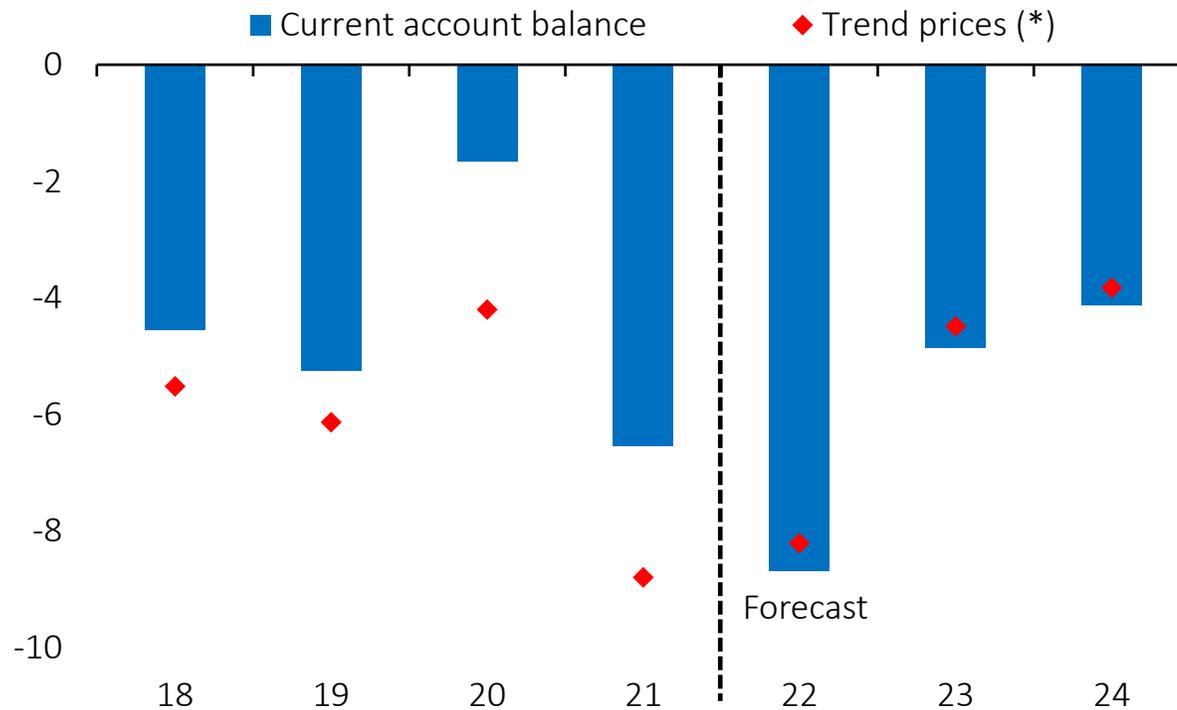
This projection considers

- ➔ Tighter financial conditions for all credit categories.
- ➔ Pessimistic expectations of households and firms.
- ➔ A high exchange rate.



Current account of the balance of payments

(percent of GDP, last twelve months)



The current-account deficit will narrow in the coming quarters:

- ➔ As the economy gradually restores balance between savings and investment.
- ➔ Lower transportation costs will also play a part.

(*) For details, [see Economic Glossary](#).

Source: Central Bank of Chile.



International baseline scenario assumptions

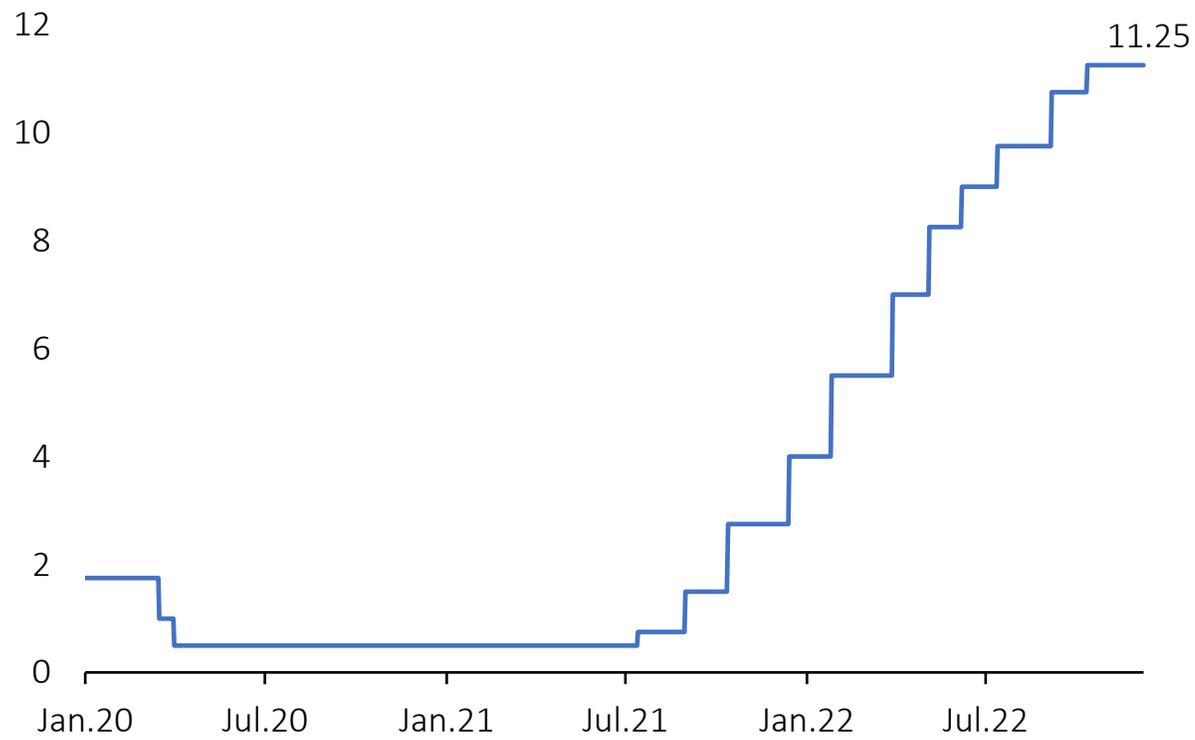
| | Aveg. 10-19 | 2020 | 2021 | 2022 (f) | 2023 (f) | 2024 (f) |
|------------------------------------|----------------|--------------------------|------|-------------|-------------|-------------|
| | | (annual change, percent) | | | | |
| Terms of trade | 1.0 | 10.1 | 11.8 | -6.5 | -1.1 | 0.4 |
| External prices (in US\$) | 0.6 | -1.1 | 9.3 | 5.0 | 2.7 | 3.5 |
| Trading partners GDP growth | 3.9 | -2.0 | 6.4 | 3.0 | 2.1 | 2.7 |
| | | (levels) | | | | |
| LME copper price (US\$/cent/pound) | 306 | 280 | 423 | 400 | 355 | 345 |
| WTI oil price (US\$/barrel) | 72 | 39 | 68 | 95 | 78 | 73 |
| Brent oil price (US\$/barrel) | 80 | 42 | 70 | 100 | 84 | 79 |
| Gasoline parity price (US\$/m3) | 610 | 333 | 579 | 850 | 625 | 586 |
| Federal Funds Rate (%) | 0.7 | 0.5 | 0.3 | 1.9 | 5.2 | 4.6 |

(f) Forecast.

Source: Central Bank of Chile.



Monetary policy rate (MPR) (percent)



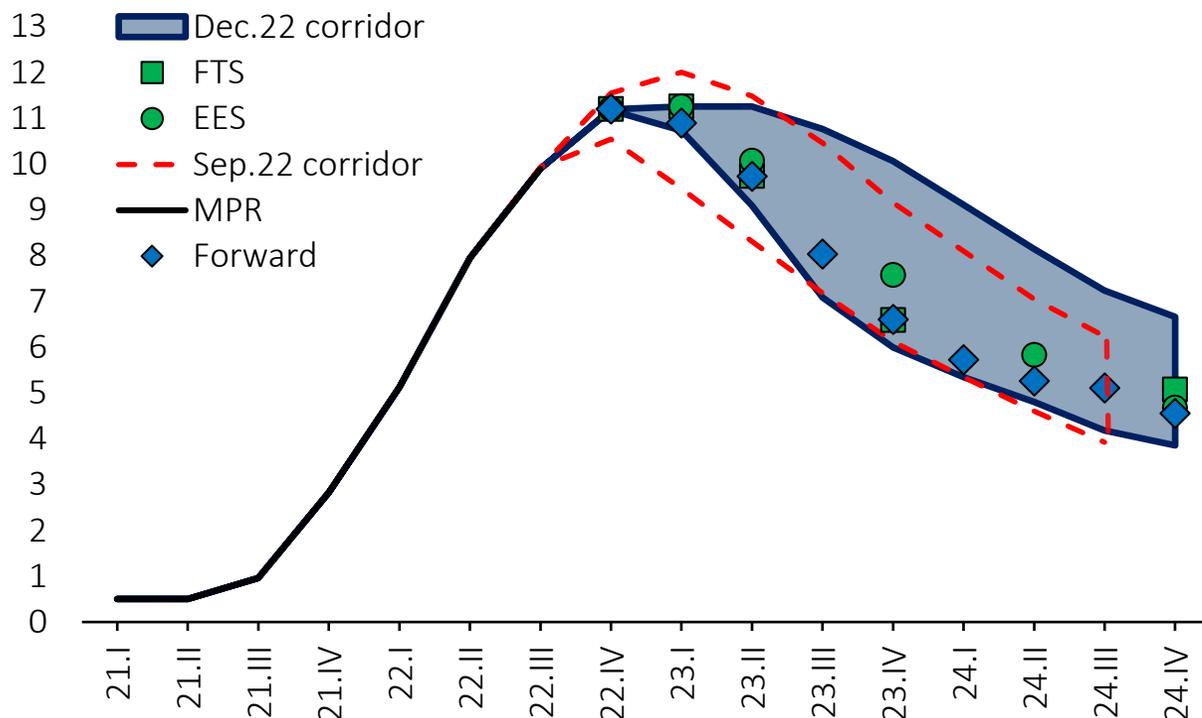
- At its December Monetary Policy Meeting the Board kept the Monetary Policy Rate (MPR) at 11.25%.
- Monetary policy has made a significant adjustment and is contributing to the resolution of the imbalances present in the economy.
- However, inflation remains very high and convergence to the 3% target is still subject to risks.

Source: Central Bank of Chile.



MPR corridor (*)

(quarterly average, percent)



(*) The corridor is constructed by following the methodology of [Box V.1 of the March 2020 MP Report](#) and [Box V.3 of the March 2022 MP Report](#). For further details, see methodological note ([figure II.1, chapter II, MP Report December 2022](#)).

Source: Central Bank of Chile.

Inflationary persistence: Due to size and direction of possible new differences between actual inflation and figures projected in this MP Report. Also by how inflation expectations are adjusted.

➔ Scenarios where these variables point to lower (higher) inflation persistence could lead to a faster- (slower)-than-expected process of MPR reduction.

Speed of economic adjustment:

➔ International conditions have steadily worsened and household and business expectations remain in pessimistic territory. A faster adjustment of the Chilean economy could not be ruled out, leading to an earlier reduction of the MPR.

➔ Nor can the opposite be ruled out. Most recently, demand, particularly investment, has been more dynamic than expected.

The Board estimates that the lower and upper bounds of the MPR corridor, respectively, capture the alternative trajectories for the MPR that are associated with these events.



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