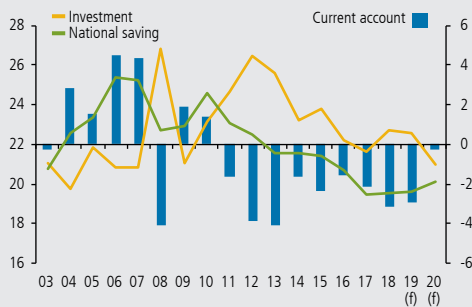


## BOX V.2 RECENT EVOLUTION OF THE CURRENT ACCOUNT

In recent quarters, the current account has recorded a trend of increasing deficits. Taking the accumulated balance in the last rolling year, the deficit, which was around 2% of GDP between the second half of 2015 and the third quarter of 2018, increased to 3.5% of GDP in the third quarter of 2019. This trend could increase sensitivity, given that this variable is a key indicator of external vulnerability. This box examines the composition of the current account and finds that the deficit level should not be a source of concern, since the need for external financing is largely tied to mining investment by nonresident firms. In addition, the strong adjustment in domestic spending since the start of the social crisis, as well as the real exchange rate depreciation, will bring the current account to levels around zero in 2020.

After several years of a current account surplus, the balance of payments began to record deficits in 2011. This reflected both an increase in mining investment in the country and the maintenance of saving (figure V.13)<sup>1/</sup>.

**FIGURE V.13**  
Current account, national saving, and investment  
(percent of nominal GDP)

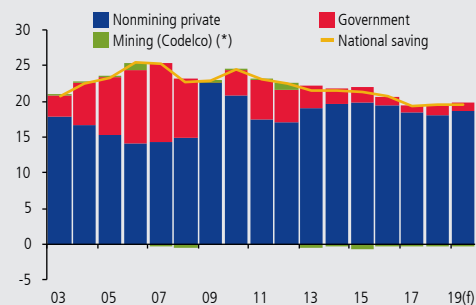


(f) Forecast.  
Source: Central Bank of Chile.

<sup>1/</sup> The evolution of the current account of the balance of payments reflects the difference between investment carried out in the country and saving on the part of residents. In this sense, a current account deficit shows how much external saving is required to finance domestic investment.

With regard to saving, the level in the nonmining private sector increased steadily in the 2012–2015 period, reaching nearly 20% of GDP (figure V.14). Subsequently, with the slowdown of the economy, private spending grew faster than income. This reduced the saving rate, which is expected to be around 18% of GDP this year. Despite this decline, the nonmining private saving level remains slightly above the average of the last 15 years. Mining (Codelco) reduced its saving sharply between 2012 and 2015—due to the drop in the copper price—and then recovered steadily starting in 2016<sup>2/</sup>. With regard to the government, after the international financial crisis of 2008–09, the saving rate recovered to around 5% of GDP in 2011 and then began to decline in 2012. It has recently stabilized at around 1.2% of GDP.

**FIGURE V.14**  
National saving by economic agent  
(percent of nominal GDP)



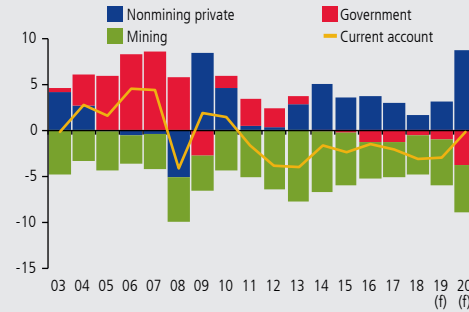
(f) Forecast.  
(\*) For Codelco, retained earnings are calculated as the annual difference in accumulated gains/losses based on the company's financial statements.  
Sources: Central Bank of Chile and Codelco.

<sup>2/</sup> Calculating the national saving of the mining sector would require using the retained earnings of resident mining companies. Given the difficulty of that calculation, only Codelco is used. The undistributed earnings of nonresident private mining companies are not considered national savings.

The investment rate decreased steadily between 2011 and 2017 (figure V.15). This decline is mainly explained by the strong contraction in the mining share, associated with the end of the upward phase of the copper price cycle and, to a lesser extent, by a drop in the investment rate in the nonmining private sector. In the most recent period, the slight uptick in investment is being driven by a new expansion of the mining component.

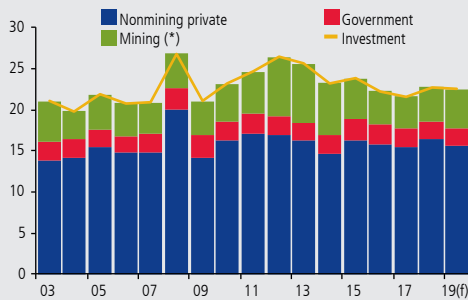
The above discussion shows that a significant share of the current account deficit is associated with mining investment, such that the deficit level does not necessarily represent a vulnerability. It is mainly being financed by foreign investment—capital increases, loans between related companies, and the reinvestment of profits. The baseline scenario in this Report projects weak domestic demand in 2020 and a reduction of the current account deficit. This reflects a sharp drop in nonmining private investment and an increase in nonmining private saving. The adjustment in the nonmining private sector will be partially offset by net government saving, which will become more negative, based on the set of fiscal spending measures announced over the past few weeks. Mining investment, in turn, is expected to remain around the levels recorded over the past few years (figure V.16).

**FIGURE V.16**  
National saving less investment  
(percent of nominal GDP)



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

**FIGURE V.15**  
Investment by economic agent  
(percent of nominal GDP)



(f) Forecast.  
(\* ) Mining investment is based on mining GFCF. In annual terms, data published in the investment matrix by economic activity are used through 2017. The 2018 and 2019 estimates are based on financial statements (plant and equipment).  
Source: Central Bank of Chile.

