

Macroeconomic Research  
**Macro Scenario – Chile**  
**August 2024**

# CHILE: BCCh pauses, hinting at more cuts down the road

## 1. Inflation and Monetary Policy

- Upcoming supply-side shocks lift short-term inflation expectations and favor a cautious monetary policy strategy.

## 2. Borrowing rates have declined, in line with smooth monetary policy transmission

- Consumer NPLs continue to decline, as we anticipated.

## 3. Green shoots? Maybe not

- After a strong 1Q, activity dynamics have softened.

## 4. Fiscal revenue weakness drives deficit higher

- An ambitious spending restraint is required to meet the official 1.9% nominal deficit forecast.

## 5. Local elections, a bellweather for next year's presidential vote

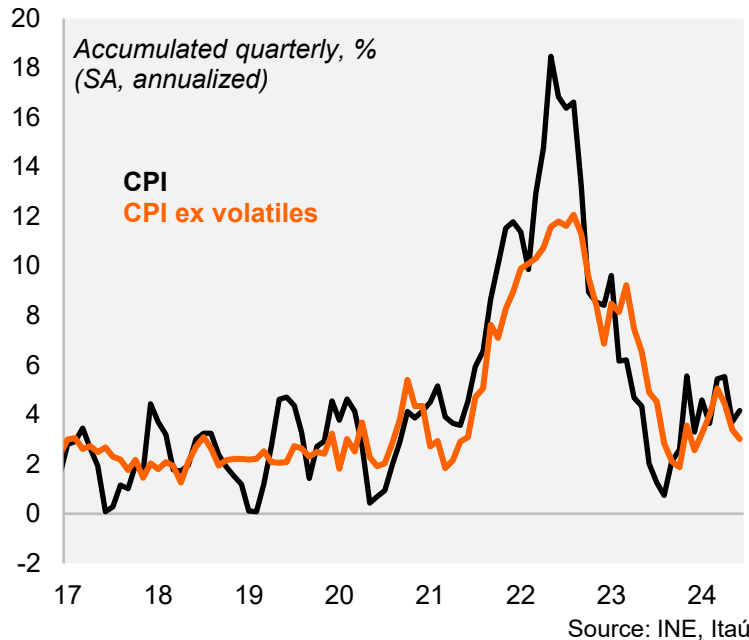
- Reform discussions in Congress may become even more challenging.

# 1. Inflation and Monetary Policy

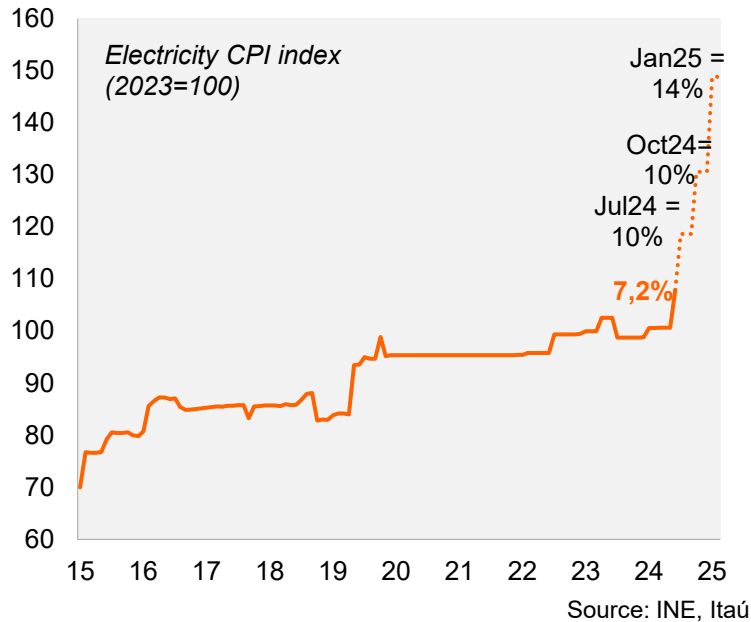
While core inflation has been well-behaved, upcoming supply-side pressures will lift headline CPI.

- Electricity price adjustments and passthrough from prior CLP depreciation should lead to a yearend inflation rate of 4.5% (3.8% in June; 3% target).

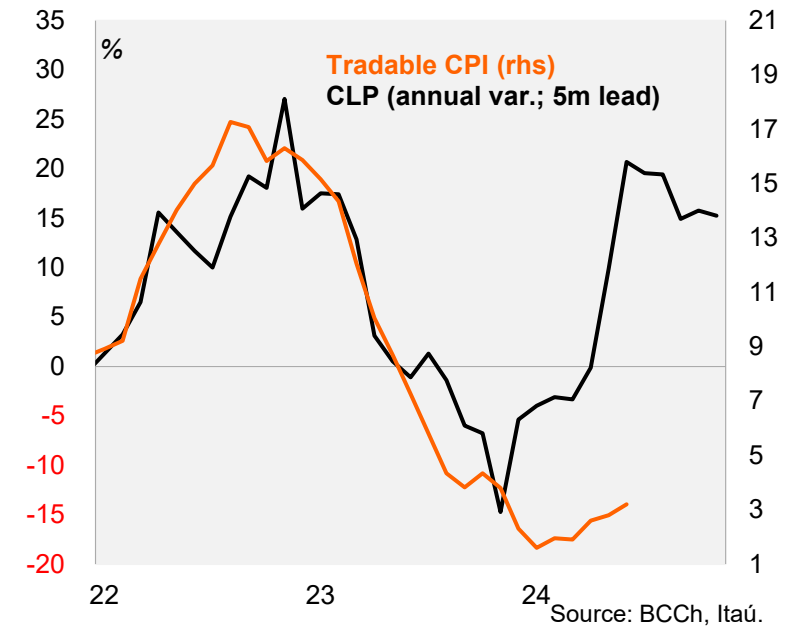
### Diverging sequential pressures



### Electricity price evolution



### Pending CLP passthrough pressures

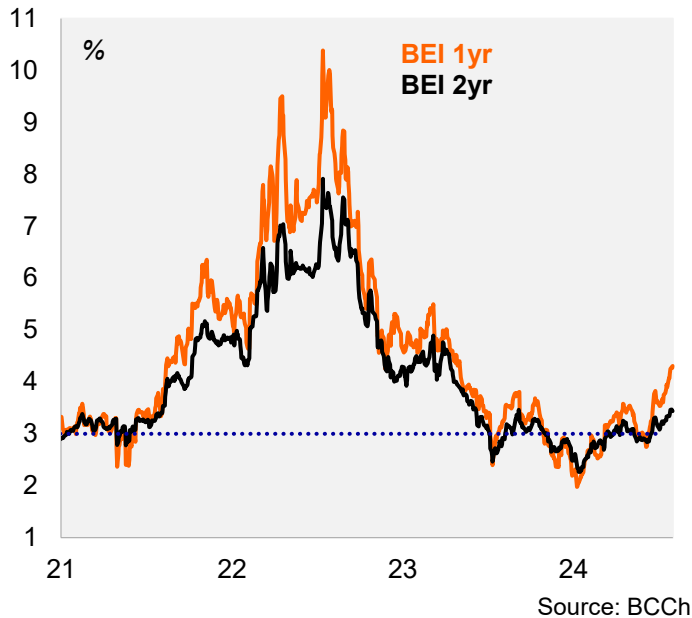


# 1. Inflation and Monetary Policy

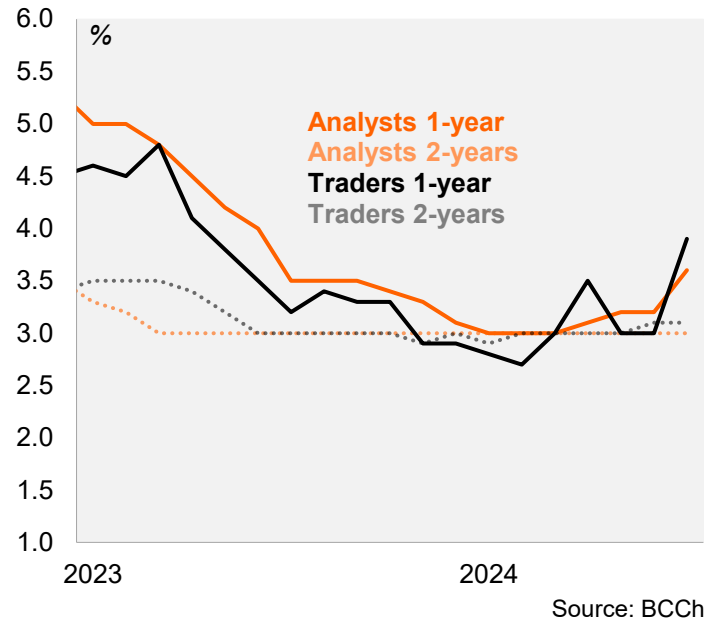
Higher short-term inflation expectations warrant a more cautious central bank approach.

- After 550bps of rate cuts to 5.75% over the last year, the BCCh paused in July, yet kept the door open for another cut this year.
- Higher inflation expectations imply that the real interest rate is now much closer to the estimated neutral rate, as the center of the BCCh's neutral rate range is likely to be revised higher in September.

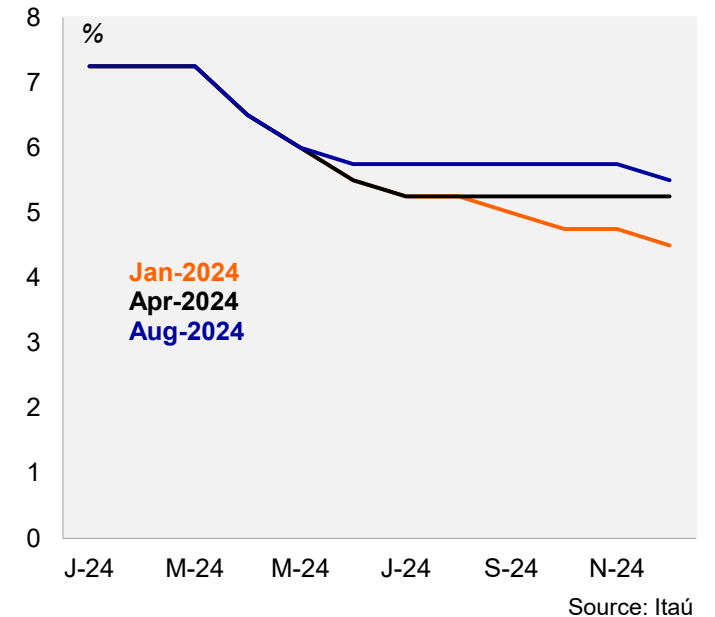
Breakeven inflation rises



Surveys show higher inflation expectations



Higher nominal rate path expected

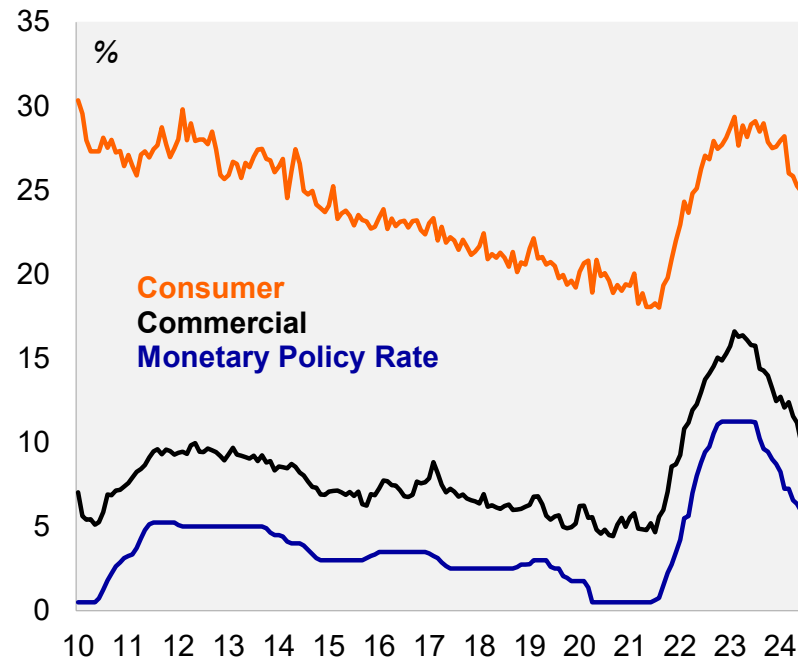


## 2. Borrowing rates have declined, in line with smooth monetary policy transmission

However, commercial and consumer loans continue to contract.

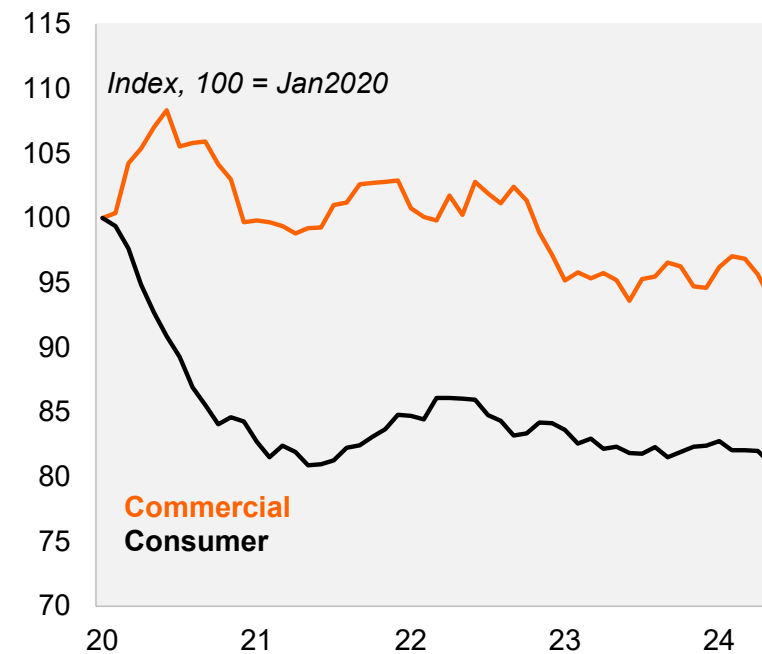
- Demand for commercial loans remains weak, in line with investment dynamics that are yet to turn the corner.

### Borrowing rates fall further



Source: Financial Market Commission

### Commercial credit stock moves sideways

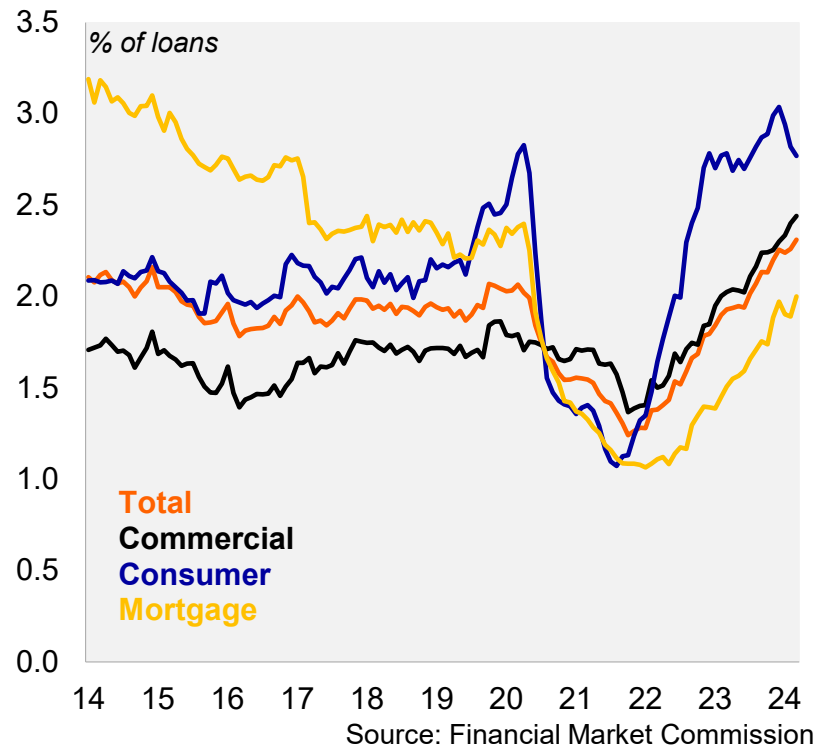


Source: CMF

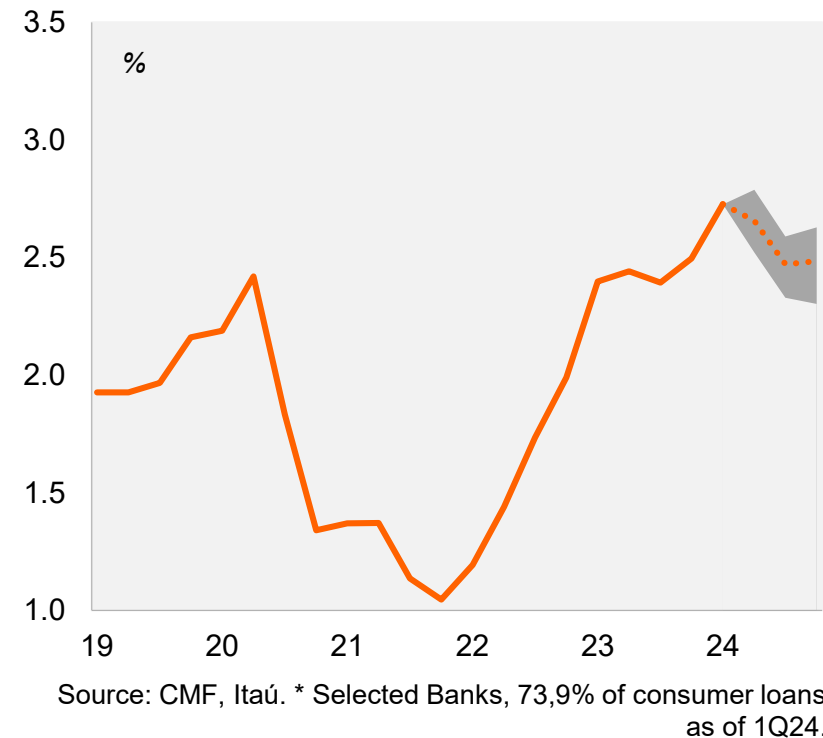
## 2. Borrowing rates have declined, in line with smooth monetary policy transmission

Defaults in the consumer portfolio have fallen, although the upward trend in mortgage and commercial loans will need to be monitored.

### Consumer NPLs fell again at the margin



### Estimated Consumer NPL trajectory

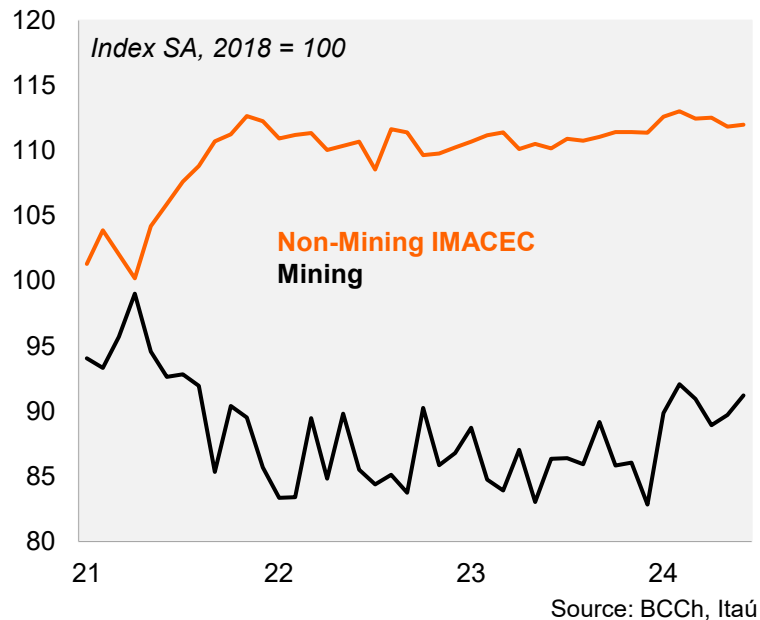


### 3. Green shoots? Maybe not

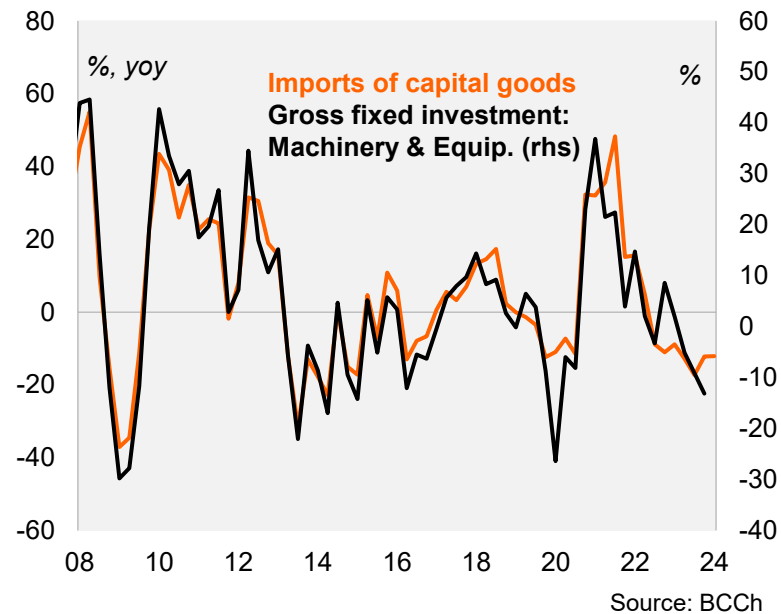
Domestic activity dynamics at the margin have surprised to the downside, and leading indicators point to soft momentum.

- Activity grew 1.6% YoY in 2Q24, below the 2.6% implicit in the BCCh's June IPoM, partly driven by transitory factors.
- Capital goods imports fell by 12.1% YoY in 2Q24, while business confidence as measured by the IMCE fell to 45.29 in July, below the peak of 46.31 in March, remaining sub-neutral (50) since February 2022. Employment growth has moderated at the margin, while the share of informal salaried posts in job creation has increased.

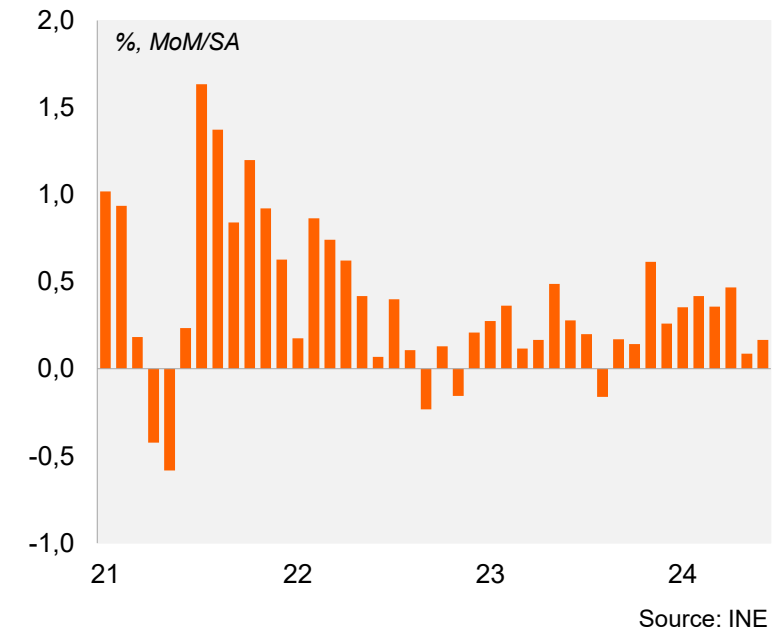
#### Weaker Activity



#### Soft imports signal weak investment



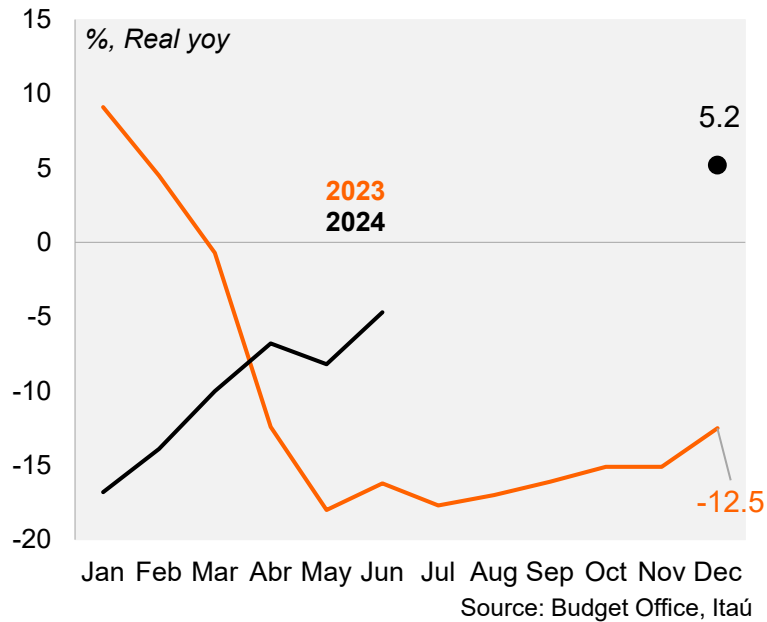
#### Moderate employment growth at the margin



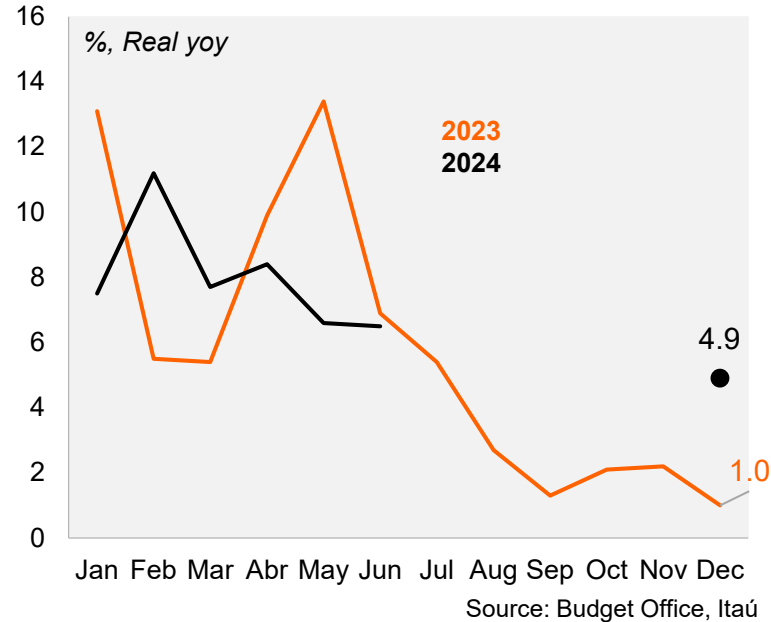
## 4. Fiscal revenue weakness drives deficit higher.

An ambitious spending restraint is required to meet the official 1.9% nominal deficit forecast

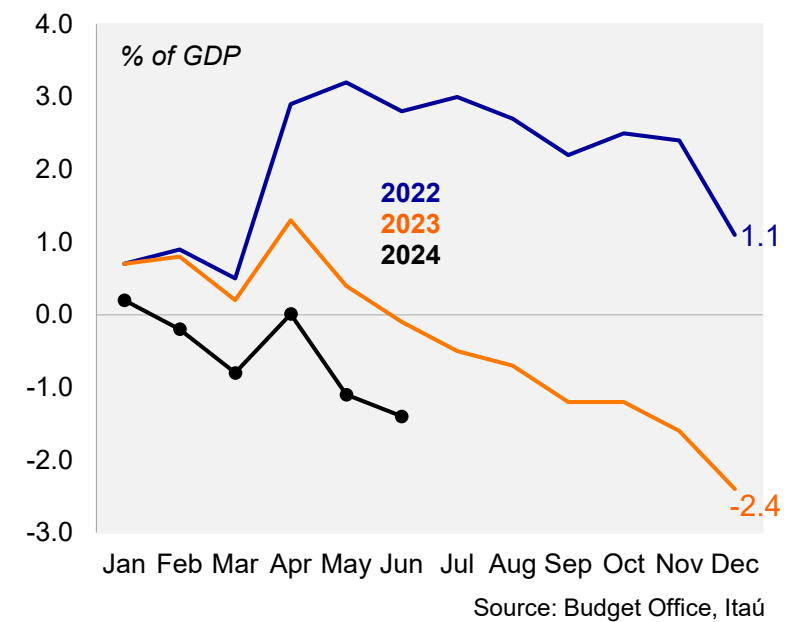
### Cumulative revenue growth



### Cumulative expenditure growth



### Cumulative fiscal deficit falls further

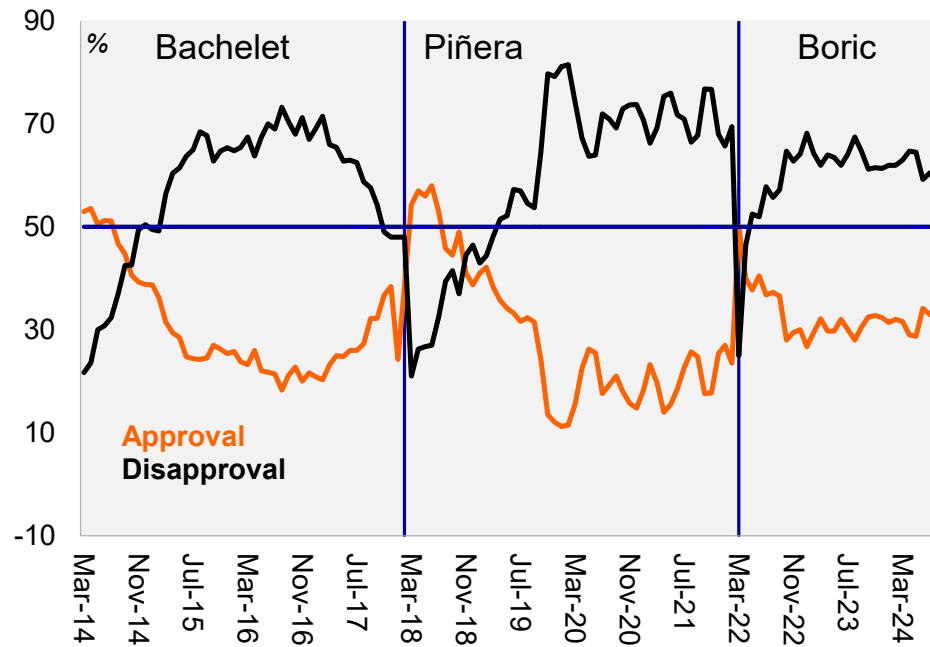




## 5. Approaching local elections, a bellweather for next year's presidential vote.

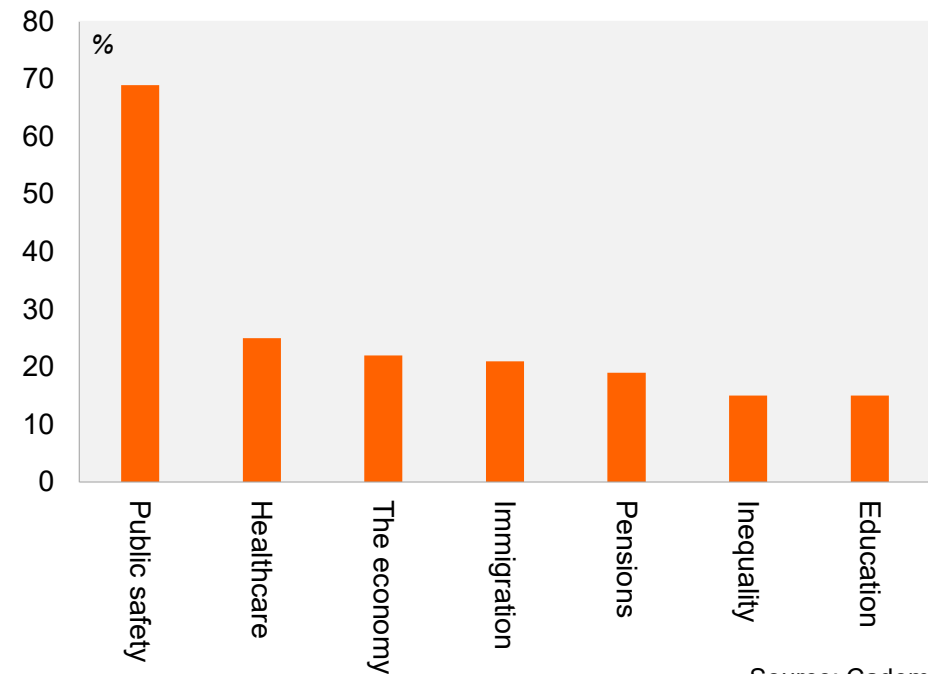
Political focus is primarily on public safety.

### Presidential Approval



Source: Cadem

### Public priorities – July 2024



Source: Cadem

# 5. Approaching local elections, a bellweather for next year's presidential vote.

## Legislative agenda continues to move slowly.

### Legislative:

### Tax Reforms:

- Anti-tax evasion & elusion bill (1.5% of GDP).
- Expected presentation of changes to personal and corporate taxes (0.6% of GDP).

### Fiscal:

- Budget 2025, by the end of September 2024.

### Pensions:

- New pension fund withdrawals (to be voted in the Lower House by the end of August).
- Pension reform in the Senate's Labor Commission.

### Financial:

- Implementation of the Law that strengthens the resilience of the financial system, consolidated debt registry.
- 2025: Bank resolution and deposit insurance, financial conglomerates.

### Others:

- Bills that streamline investment approvals and modernize environmental institutions.

### Elections:

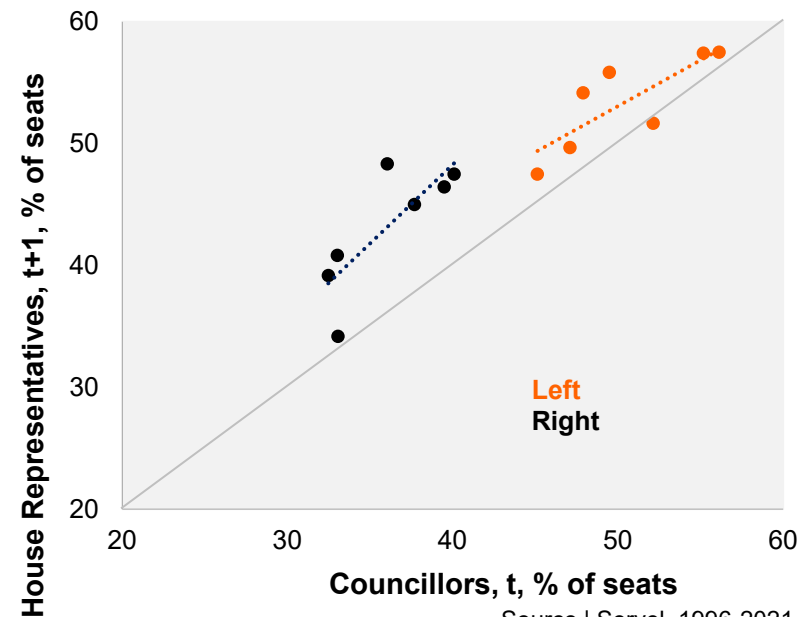
**October 26 & 27:** Election of regional Governors, Regional Councilors, Mayors, and Councilors.

**Chile Vamos (center right coalition) performed below historical standards in the previous election (2021)**

Mayors fell from 146 to 87;  
Councilors also fell from 875 to 770;  
Only 1 of 16 Governors.

History suggests that local election results are a leading indicator of the following legislative and presidential elections (November 2025).

**Stong correlation between elections**



# Scenario: Lower growth this year.

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	0.6	-6.1	11.3	2.1	0.2	<b>2.5</b>	2.8	<b>2.1</b>	2.0
Nominal GDP - USD bn	273	254	311	303	332	<b>314</b>	317	<b>356</b>	359
Population (millions)	19.1	19.5	19.7	19.8	20.0	<b>20.1</b>	20.1	<b>20.2</b>	20.2
Per Capita GDP - USD	14,312	13,068	15,810	15,294	16,617	<b>15,657</b>	15,786	<b>17,639</b>	17,773
Unemployment Rate - year avg	7.2	10.8	8.9	7.9	8.7	<b>8.6</b>	8.6	<b>8.4</b>	8.4
<b>Inflation</b>									
CPI - %	3.0	3.0	7.2	12.8	3.9	<b>4.5</b>	4.5	<b>3.3</b>	3.3
<b>Interest Rate</b>									
Monetary Policy Rate - eop - %	1.75	0.50	4.00	11.25	8.25	<b>5.50</b>	5.50	<b>4.50</b>	4.50
<b>Balance of Payments</b>									
CLP / USD - eop	753	711	851	851	879	<b>930</b>	920	<b>850</b>	850
Trade Balance - USD bn	3.0	18.9	10.3	3.7	15.3	<b>20.0</b>	20.0	<b>14.0</b>	15.0
Current Account - % GDP	-5.3	-1.9	-7.4	-8.6	-3.6	<b>-2.7</b>	-2.7	<b>-3.0</b>	-2.9
Foreign Direct Investment - % GDP	5.0	4.5	4.9	6.0	6.6	<b>6.7</b>	6.6	<b>6.5</b>	6.4
International Reserves - USD bn	40.7	39.2	51.3	39.2	46.3	<b>46.0</b>	46.0	<b>50.0</b>	50.0
<b>Public Finances</b>									
Primary Balance - % GDP	-1.9	-6.3	-6.9	-1.6	-1.2	<b>-1.6</b>	-1.6	<b>-1.2</b>	-1.2
Nominal Balance - % GDP	-2.9	-7.3	-7.7	1.1	-2.4	<b>-2.3</b>	-2.3	<b>-2.0</b>	-2.0
Net Public Debt - % GDP	7.9	13.4	20.2	20.4	23.1	<b>24.4</b>	24.4	<b>26.0</b>	26.0

Source: IMF, Bloomberg, BCCh, INE, Haver and Itaú

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