

Macroeconomic Research
Macro Scenario – Chile
December 2024

Chile: CLP pressure poses disinflation and rate risks.

1. A gradual narrowing of the negative output gap.

- Private consumption levels have stabilized amid softer employment dynamics, while investment is starting to show signs of a gradual recovery.

2. The Chilean peso will remain under pressure.

- The CLP is likely experiencing some overshooting, but there are also no significant drivers to justify a meaningful recovery.

3. Fiscal consolidation is likely to be slower than targeted by authorities.

- Persistent deviations from deficit targets erode the credibility of the fiscal institutional framework.

4. The final disinflation challenge.

- Upside pressures stem from the significant CLP depreciation, indexation pressures and renewed supply factors (electricity price adjustments).

5. The central bank will continue to signal a path to neutral.

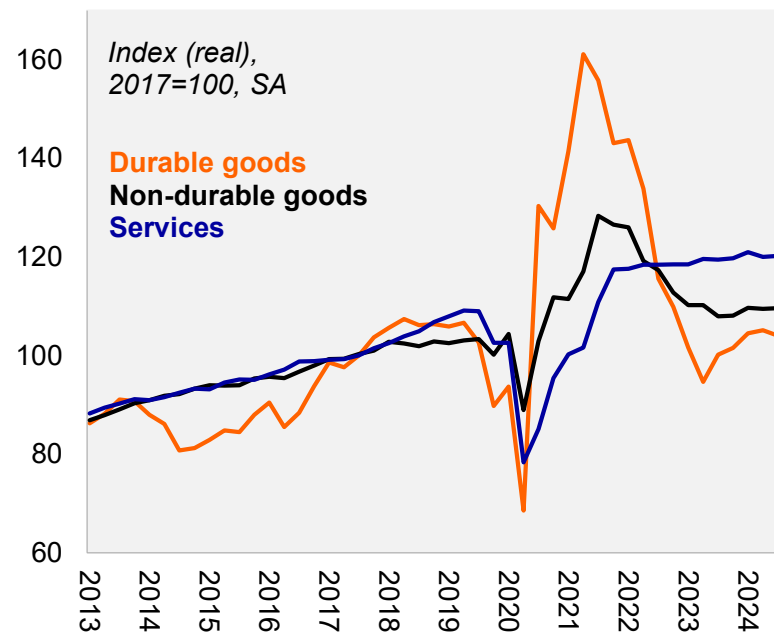
- Another 25 bp cut in December to 5%. Cautious path to reach neutral during 1H25 amid tighter global financial conditions.

1. A gradual narrowing of the negative output gap.

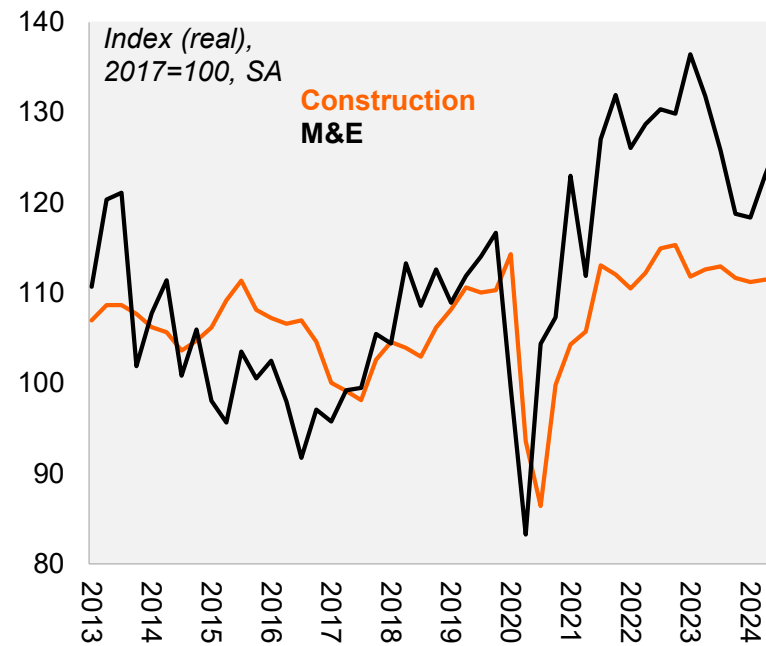
Private consumption levels have stabilized amid softer employment dynamics, while investment is starting to show signs of a gradual recovery, led by mining.

- A weakened external tailwind, in the context of high domestic inflation and interest rates would prevent an above potential growth path.

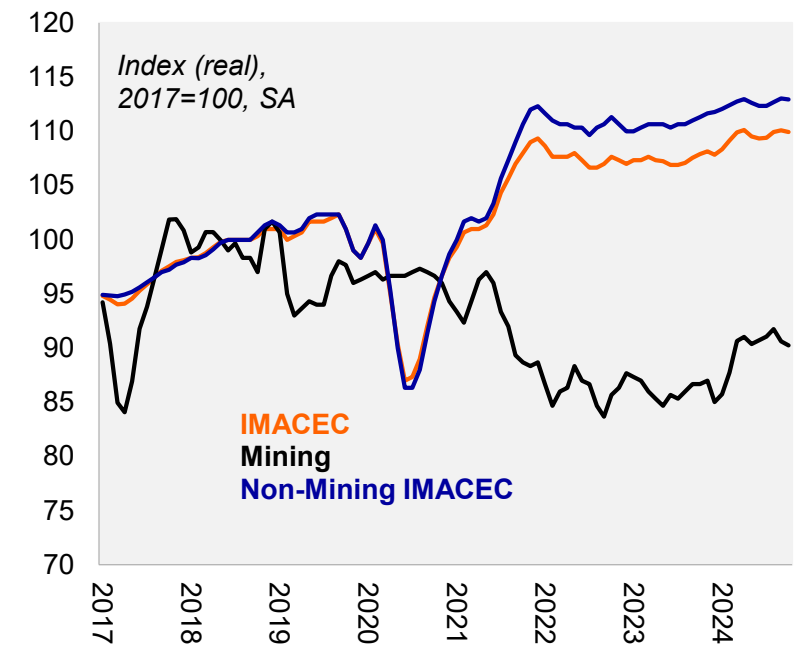
Private Consumption Components



Gross Fixed Investment



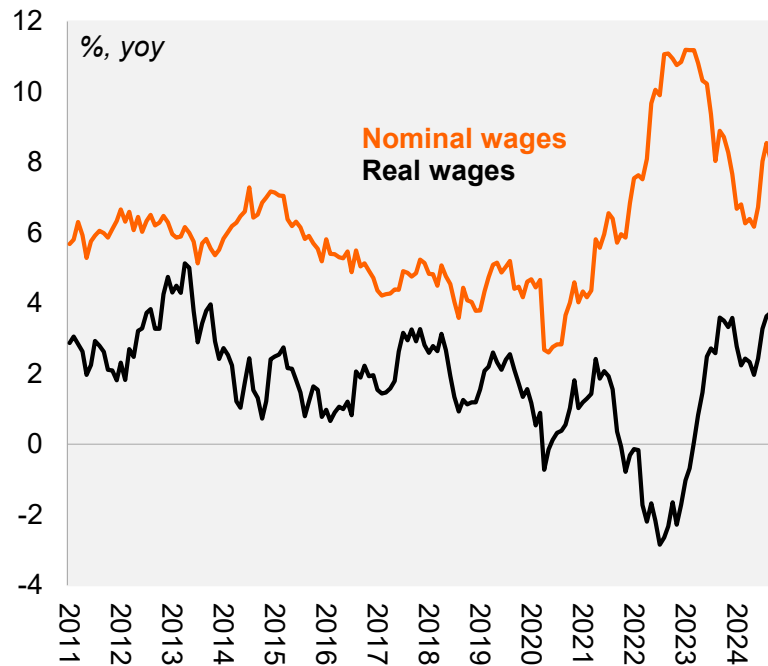
GDP



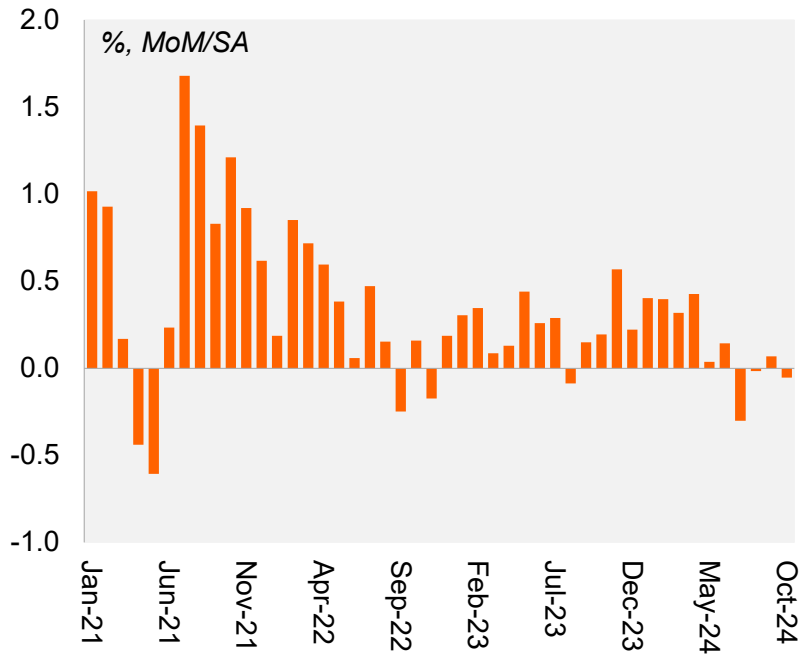
1. Job demand has weakened, leading to an elevated unemployment rate.

Real wage growth remains elevated, but weakening job demand will support a normalization.

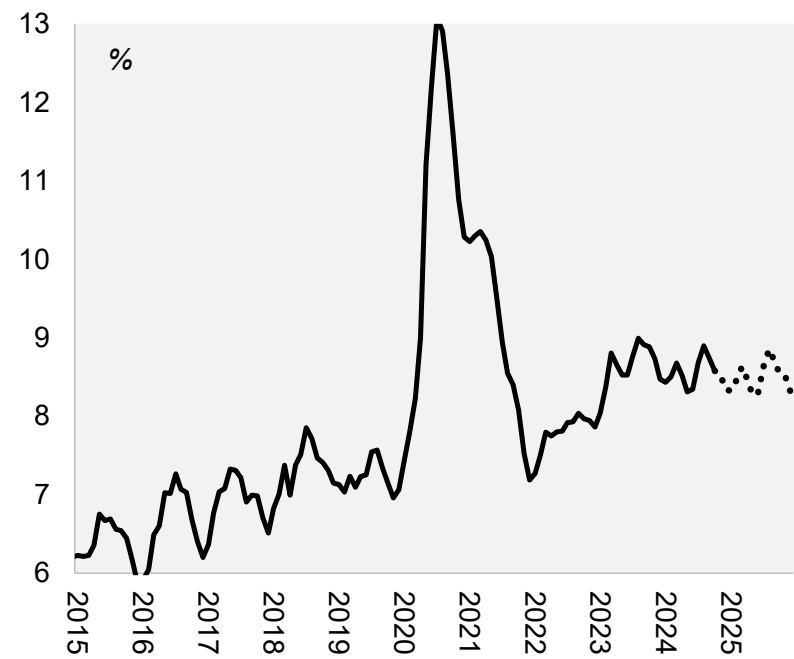
Wage Growth



Employment



Unemployment Rate

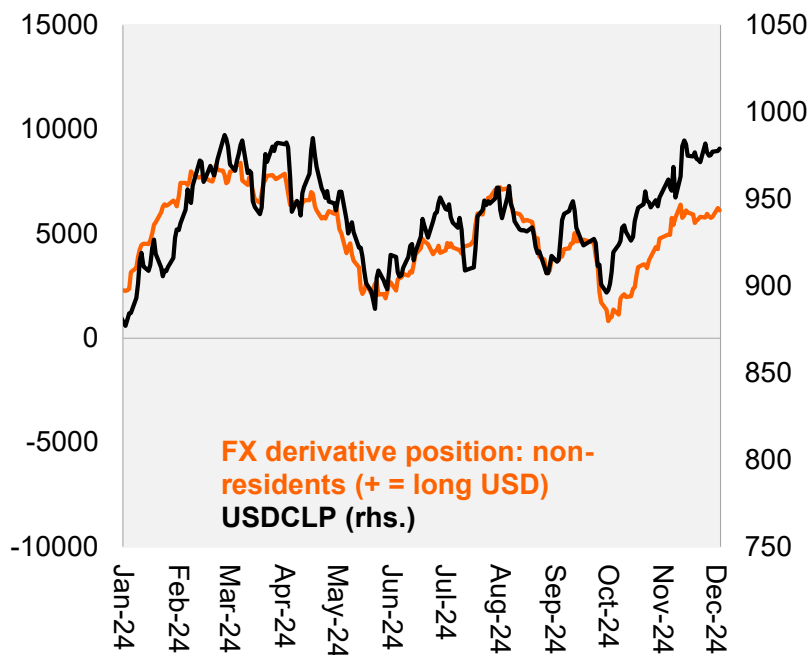


2. The Chilean peso will remain under pressure.

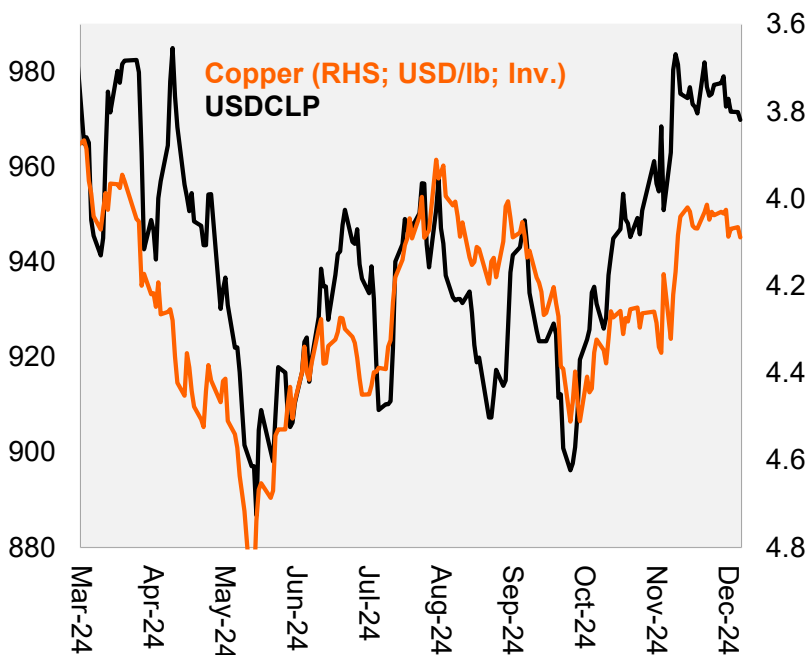
The CLP is likely experiencing some overshooting, but there are also no significant drivers to justify a meaningful recovery ahead.

- With interest rate levels near the Fed, domestic growth rates similar to the US, and copper prices around medium-term estimates, the Chilean peso is not expected to draw significant EM portfolio flows.

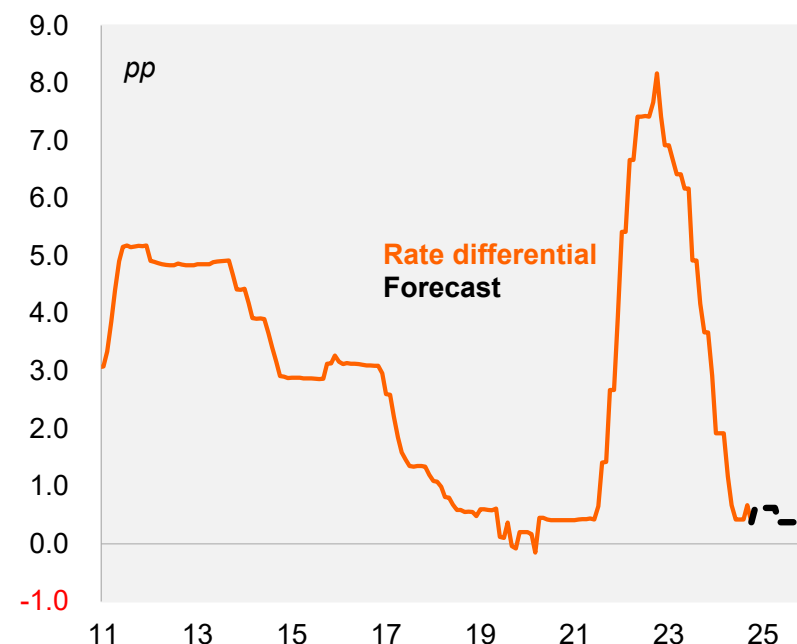
Non-Resident Derivative Positions



USDCLP & Copper



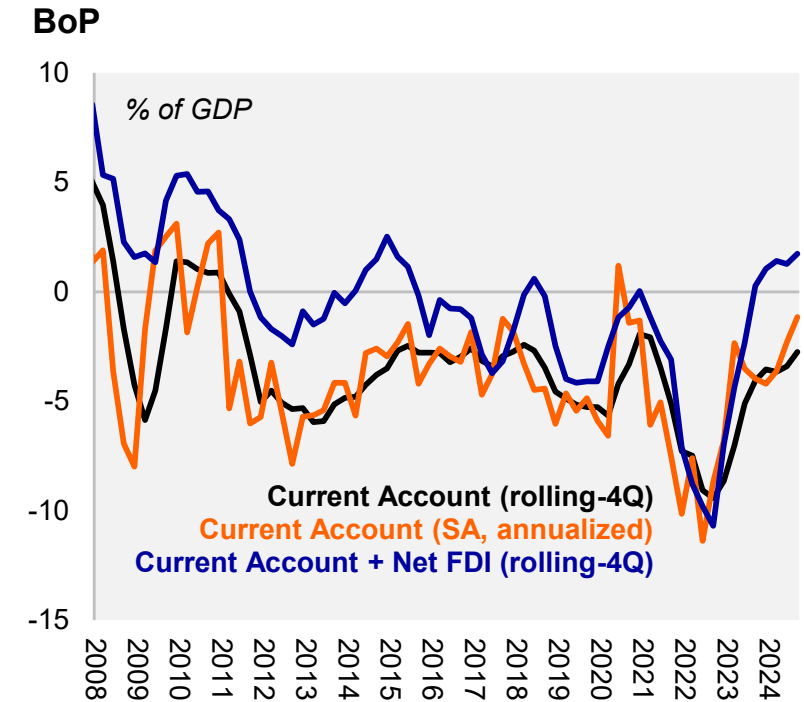
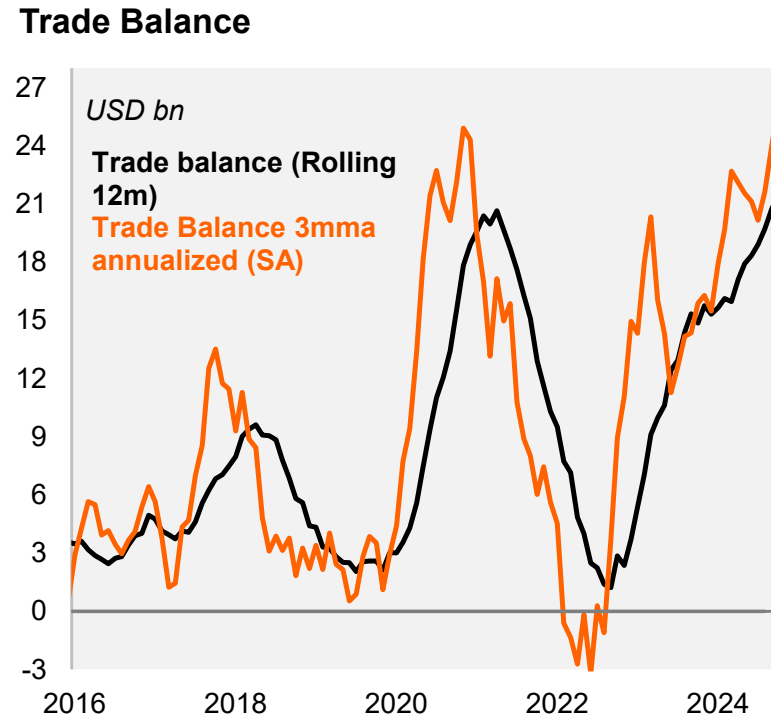
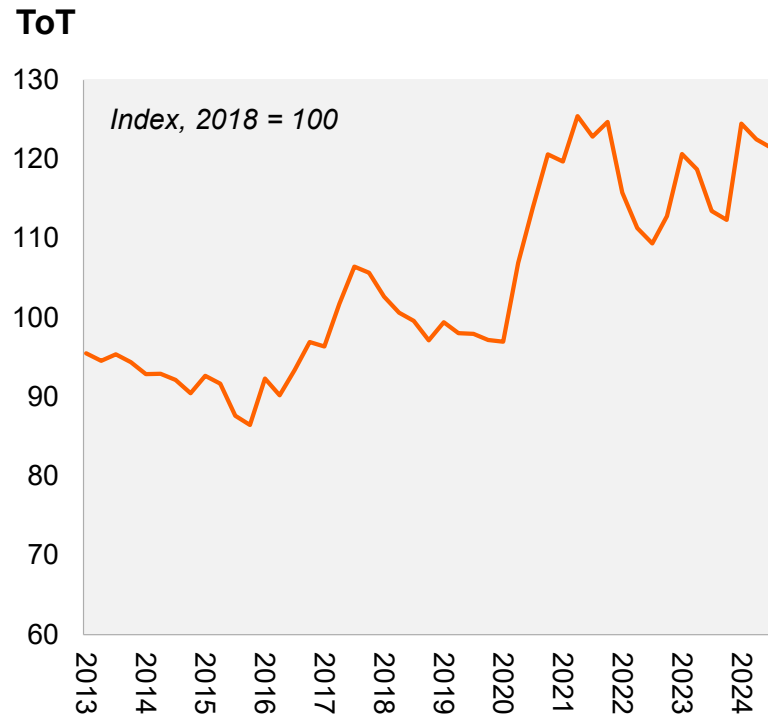
Chile-USA Interest rate differential



2. The Chilean peso will remain under pressure.

Soft domestic demand and favorable terms of trade have supported a swift narrowing of the CAD.

- The more balanced economy may result in less CLP volatility than in the recent past.

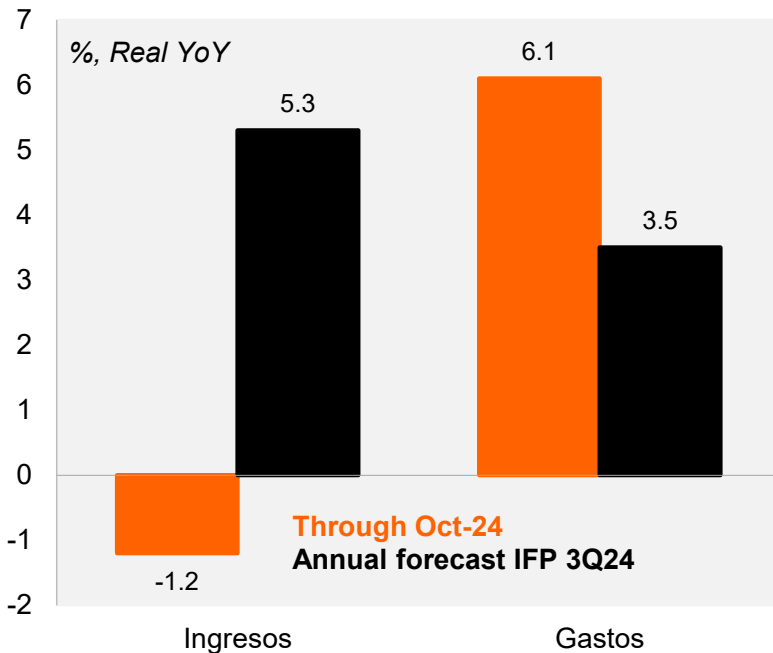


3. Fiscal consolidation is likely to be slower than targeted by authorities.

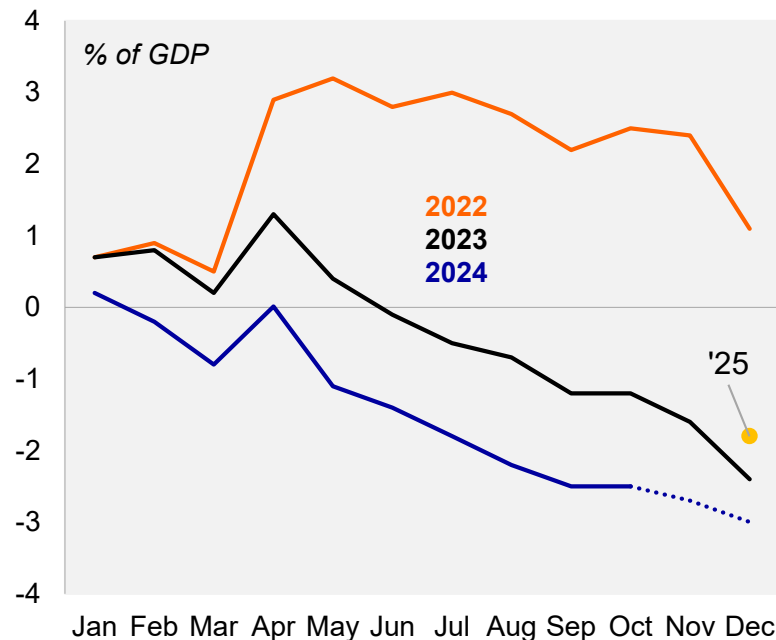
Lower revenues and robust spending will result in an above target nominal fiscal deficit year, as headwinds to next year's revenues persist.

- Persistent deviations from structural deficit targets erode the credibility of the fiscal institutional framework.

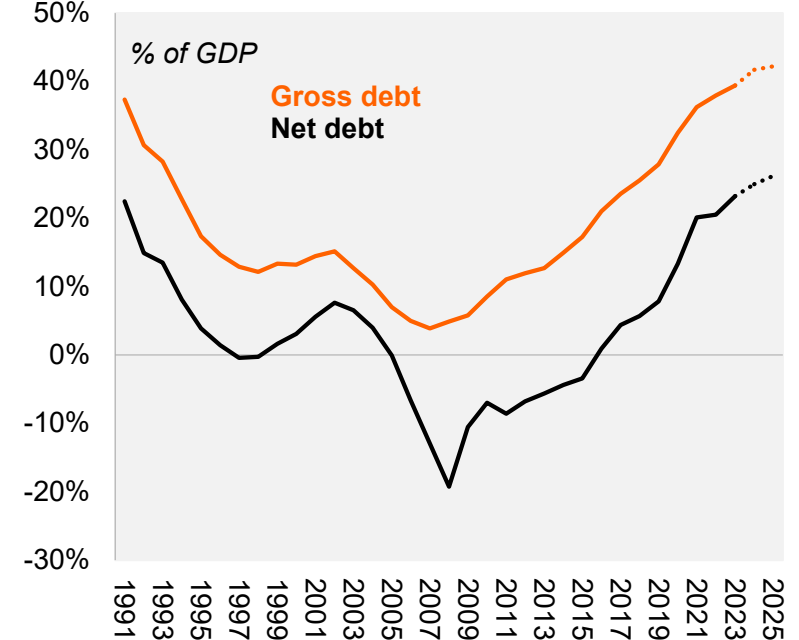
Central government revenue and expenditure



Accumulated Nominal Fiscal Balance



Central Government Debt

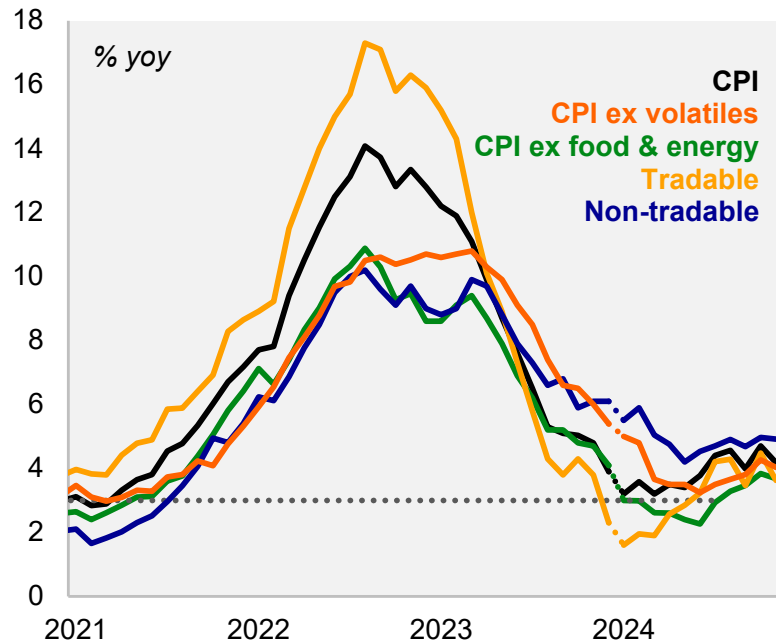


4. The final disinflation challenge.

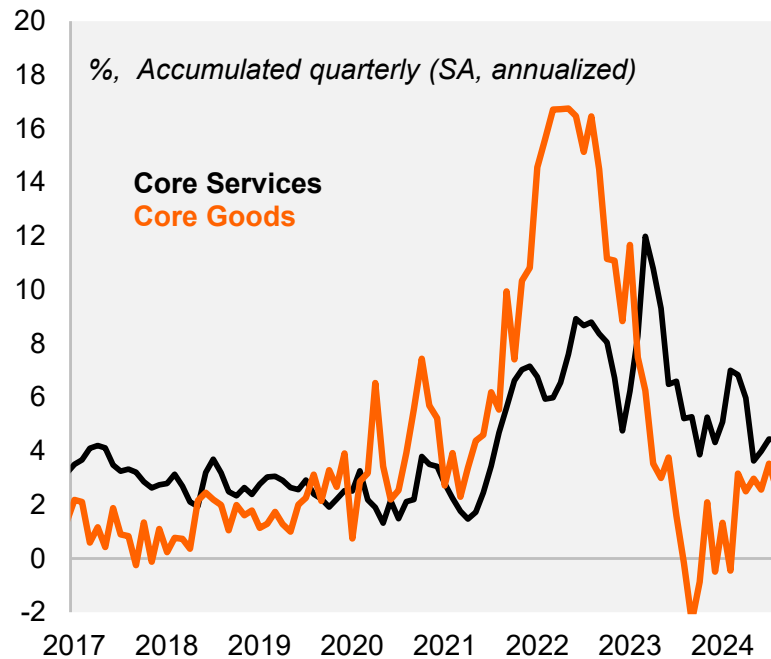
Inflation to end the year at 4.7%; slow convergence to the 3% target during 2025.

- Risks to the inflation path are balanced. Softening of domestic demand may limit space to transmit higher cost pressures to final prices, resulting in a swifter disinflation path ahead. On the other hand, upside pressures stem from the significant CLP depreciation, indexation pressures and renewed supply factors (electricity price adjustments).

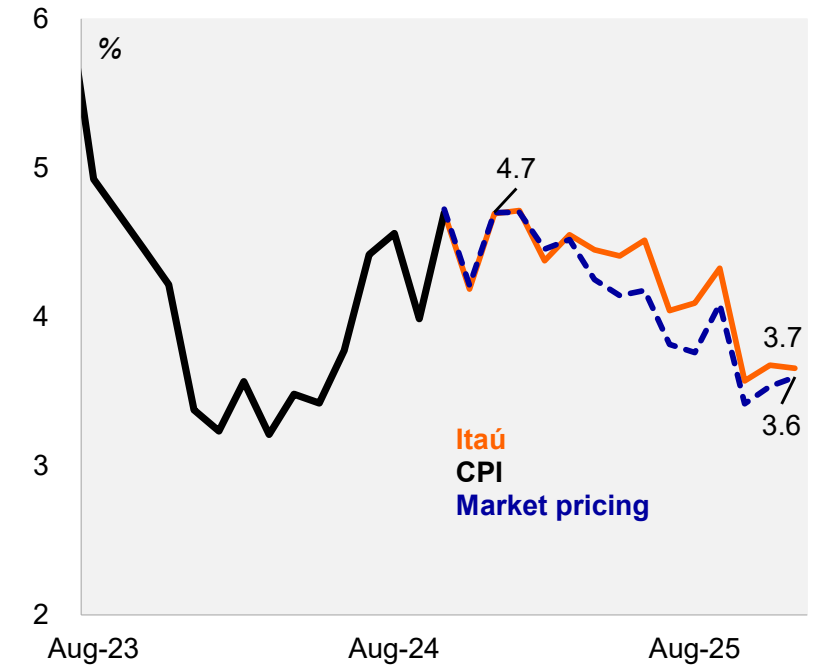
Inflation



Core Inflation Sequential Pressures



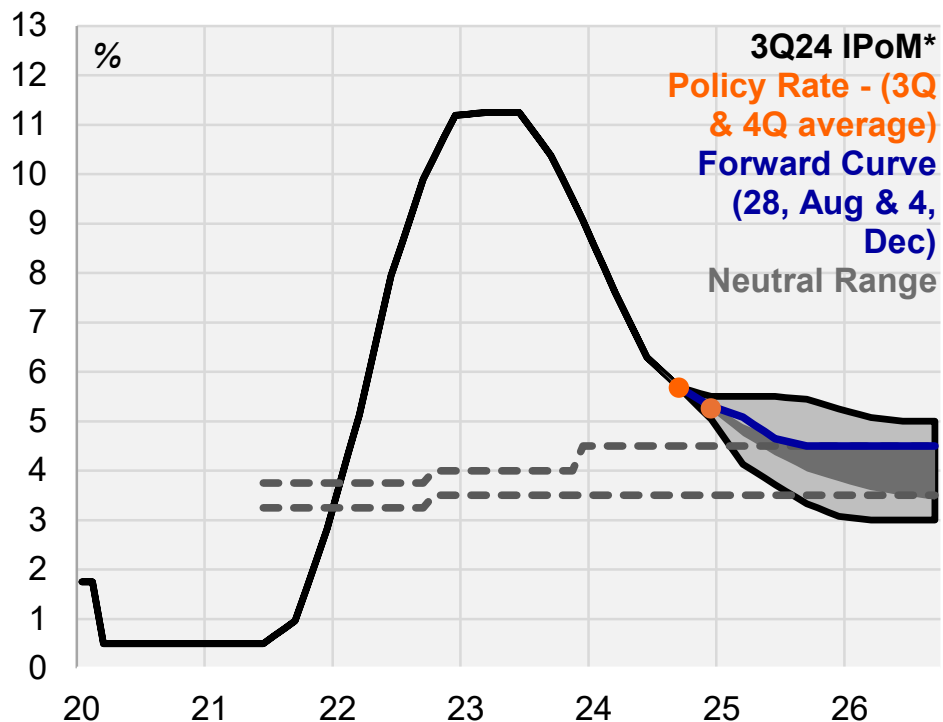
Inflation trajectory



5. The central bank will continue to signal a path to neutral.

BCCh's scenario update will likely bring higher short-term inflation pressures, but a weaker activity recovery path.

Rate Corridor



*Darker area = 33% Confidence Interval

Source: BCCh

IPC avg.	IPoM	Real / Est.
3Q	4.4	4.3
4Q	4.3	4.5f

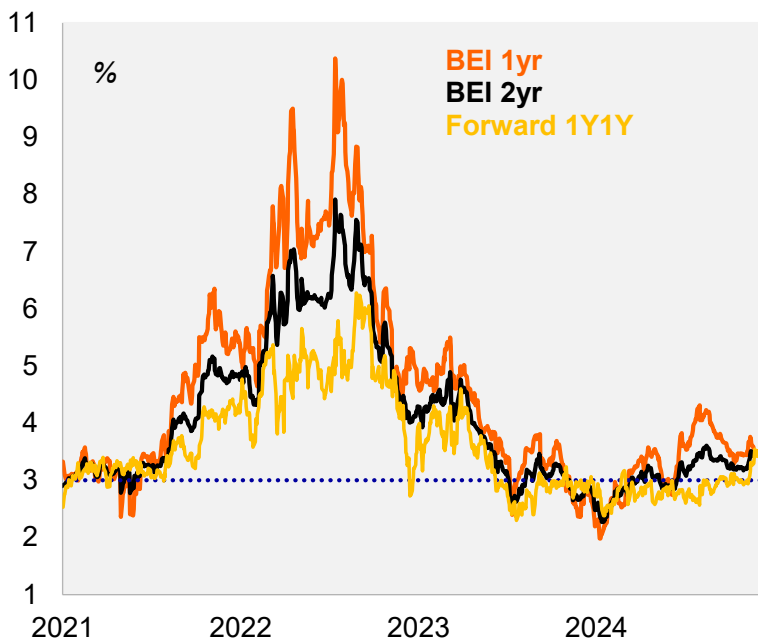
GDP	IPoM	Real / Est.
3Q	2.1	2.3
4Q	3.2	2.6f

5. The central bank will continue to signal a path to neutral.

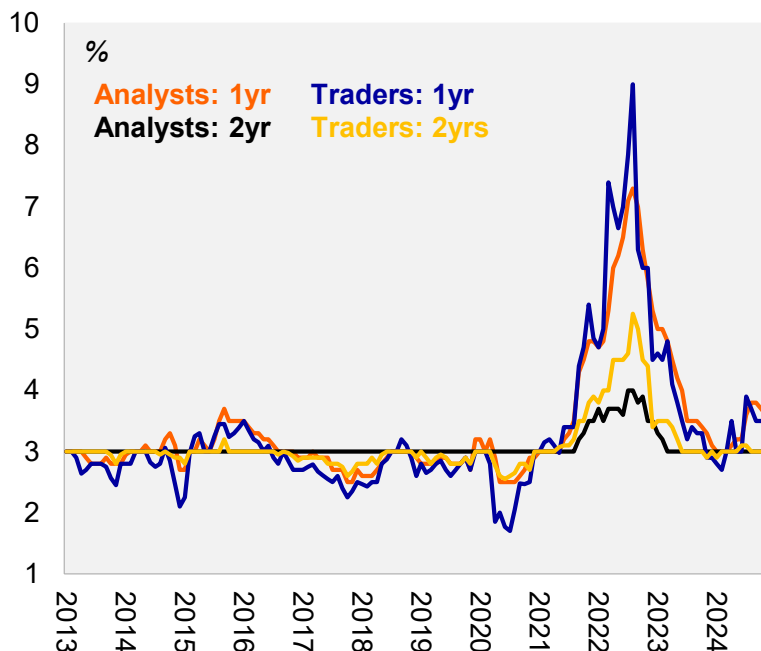
Another 25 bp cut in December to 5%. Cautious path to reach neutral during 1H25 amid tighter global financial conditions.

- Cautious path to reach upper neutral bound (4.5%) during 1H25 amid tighter global financial conditions. We expect a pause in January. The BCCh will likely continue to signal a 4% endpoint.

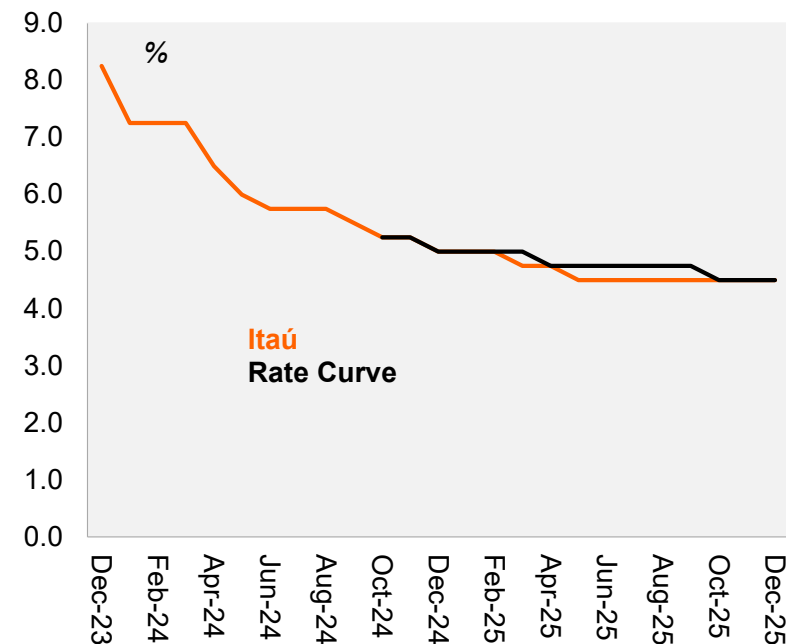
Inflation breakevens



Inflation expectations



Policy rate path



Chile | Forecast

Our call of the policy rate reaching the upper bound of the neutral range (4.5%) is more conservative than signaled by the BCCh in September (4%). Fewer Fed cuts in our December scenario support a weaker CLP in 2025 and slower disinflation path.

	2019	2020	2021	2022	2023	2024F		2025F		2026F
						Current	Previous	Current	Previous	Current
Economic Activity										
Real GDP growth - %	0.6	-6.1	11.3	2.1	0.2	2.2	2.2	1.9	1.9	2.0
Nominal GDP - USD bn	273	254	311	303	332	316	317	324	336	352
Population (millions)	19.1	19.5	19.7	19.8	20.0	20.1	20.1	20.2	20.2	20.3
Per Capita GDP - USD	14,312	13,068	15,810	15,294	16,617	15,735	15,777	16,038	16,619	17,331
Unemployment Rate - year avg	7.2	10.8	8.9	7.9	8.7	8.5	8.5	8.5	8.5	8.2
Inflation										
CPI - %	3.0	3.0	7.2	12.8	3.9	4.7	4.7	3.7	3.5	3.0
Interest Rate										
Monetary Policy Rate - eop - %	1.75	0.50	4.00	11.25	8.25	5.00	5.00	4.50	4.50	4.50
Balance of Payments										
CLP / USD - eop	753	711	851	851	879	965	940	955	940	930
Trade Balance - USD bn	3.0	18.9	10.3	3.7	15.3	22.0	22.0	21.0	21.0	18.0
Current Account - % GDP	-5.3	-1.9	-7.4	-8.6	-3.6	-2.5	-2.4	-2.6	-2.3	-2.9
Foreign Direct Investment - % GDP	5.0	4.5	4.9	6.0	6.6	5.2	6.6	4.8	6.8	4.8
International Reserves - USD bn	40.7	39.2	51.3	39.2	46.3	46.0	46.0	50.0	50.0	58.0
Public Finances										
Primary Balance - % GDP	-1.9	-6.3	-6.9	-1.6	-0.7	-1.9	-1.9	-0.7	-0.7	0.2
Nominal Balance - % GDP	-2.9	-7.3	-7.7	1.1	-2.4	-3.0	-3.0	-1.8	-1.8	-1.0
Net Public Debt - % GDP	7.9	13.4	20.2	20.4	23.1	26.4	25.0	27.5	26.2	27.5

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

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