



Ministerio de
Hacienda

Gobierno de Chile

Chile's Economic Outlook: Challenges and Opportunities

World Bank Group/International Monetary Fund
Annual Meetings
October 2024

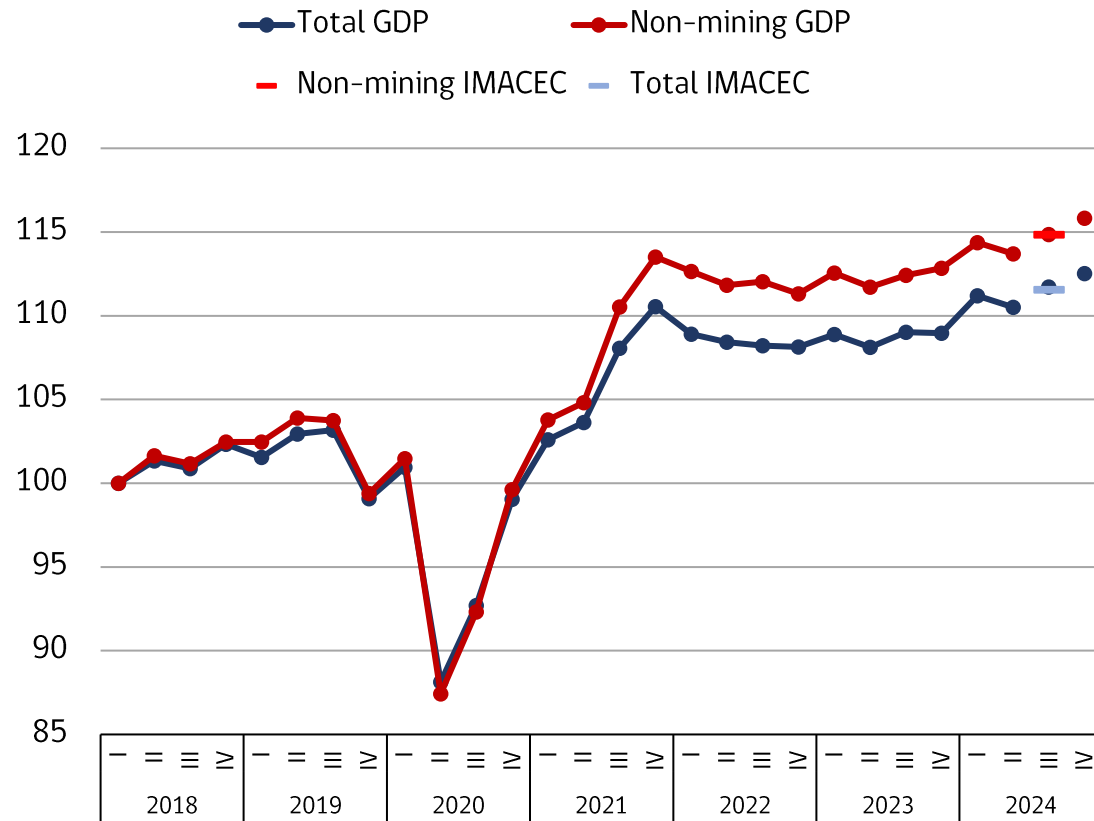
Macro in the shorter run

Statement 2023	Reasons for skepticism at the time
By the second half of the year, activity levels will exceed those of a year ago, with a growth close to zero for the year as a whole. GDP growth of 2.5% in 2024	Economic activity had declined in 2023Q2, most local analyst projected a contraction in 2023 and growth around 1.5% in 2024
After reaching nearly -10% of GDP the CA will approach -3% of GDP by end-2023	Domestic savings were still depressed because of pension fund withdrawals
Job creation would begin again	Unemployment rate had grown for more than a year since late 2022 due to COVID-19 crisis
Inflation will fall to around 4% by the end of 2023	The market expected inflation to end 2023 between 4.5-5.0% due to the impossibility of reducing the overheating triggered by a procyclical fiscal policy and pension fund withdrawals from end-2021
The execution of fiscal policy in 2023 and the forthcoming 2024 Budget will be fully compliant with the trajectory set in May 2022, keeping debt/GDP well below the 45% ceiling	Progress in Budget execution revealed a large deficit, with lithium earnings and income tax collection well below 2022 levels. The forthcoming constitutional referendum would generate political pressures to spend
Public investment will reach 4.1% of GDP, driven by investment in housing and resources derived from the mining royalty	As of September 2023, 51.5% of the investment budget was executed
Economic uncertainty would decline further since the Constitutional process would be resolved, one way or another by the end of the year	There was no guarantee that the appetite to replace the Constitution would end with the rejection of a second proposal. Besides, other sources of uncertainty remained

The first quarter was broadly favorable in terms of growth, with a moderate correction in the second quarter. The available figures for July and August indicate that the economy is well positioned to grow 2.6% this year

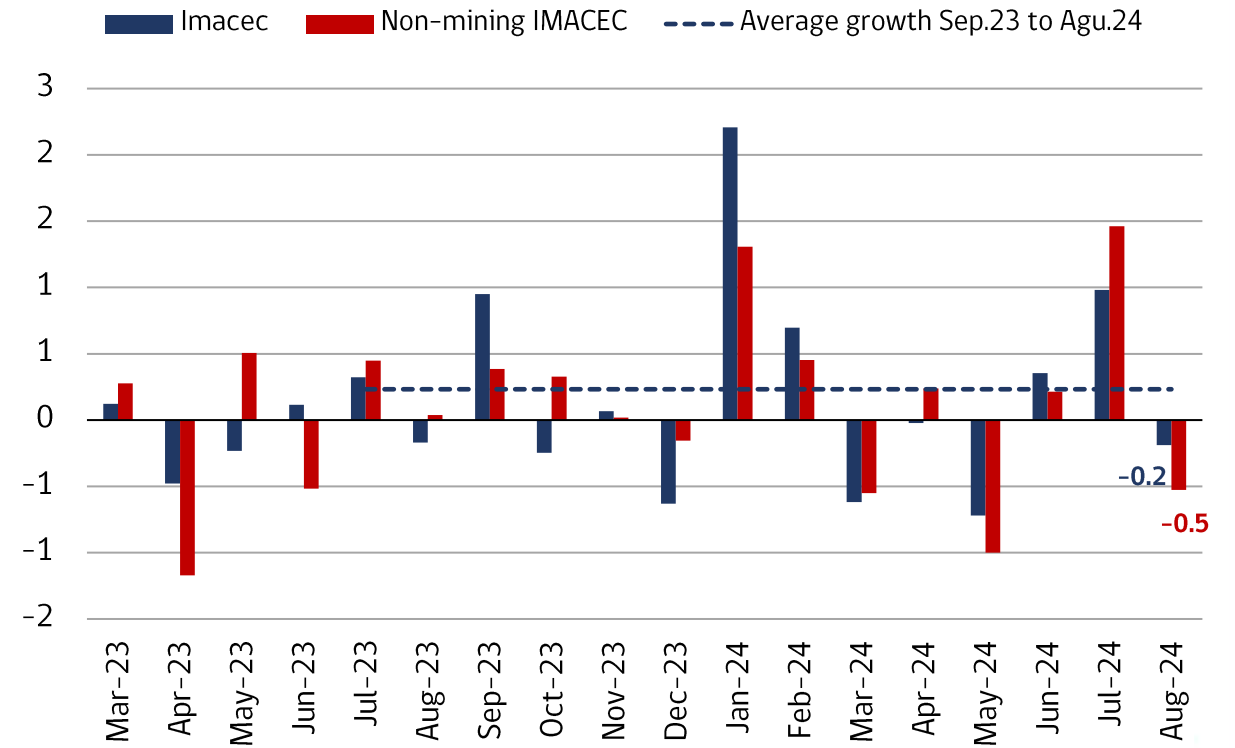
Gross domestic product (1)

(index 1Q2018=100, seasonally adjusted)



Monthly index of economic activity and non-mining activity growth

(% var. m/m, seasonally adjusted)



Note: (1) The total and non-mining GDP projections are from the PFR 3Q24.

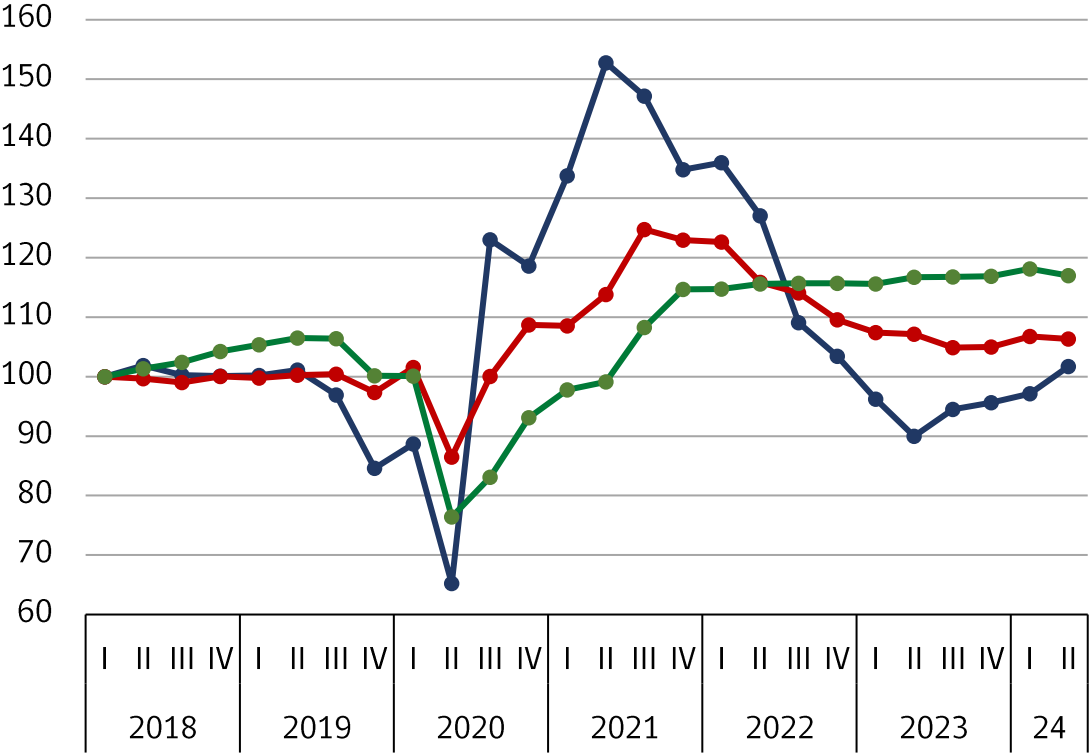
Source: Central Bank of Chile and Ministry of Finance.

On the expenditure side, the necessary adjustment in private consumption was observed, while investment registered a decline, particularly in machinery and equipment, resulting in a 1.1% contraction in gross fixed capital formation for the year overall

Components of Private Consumption

(index 1Q2018=100, seasonally adjusted)

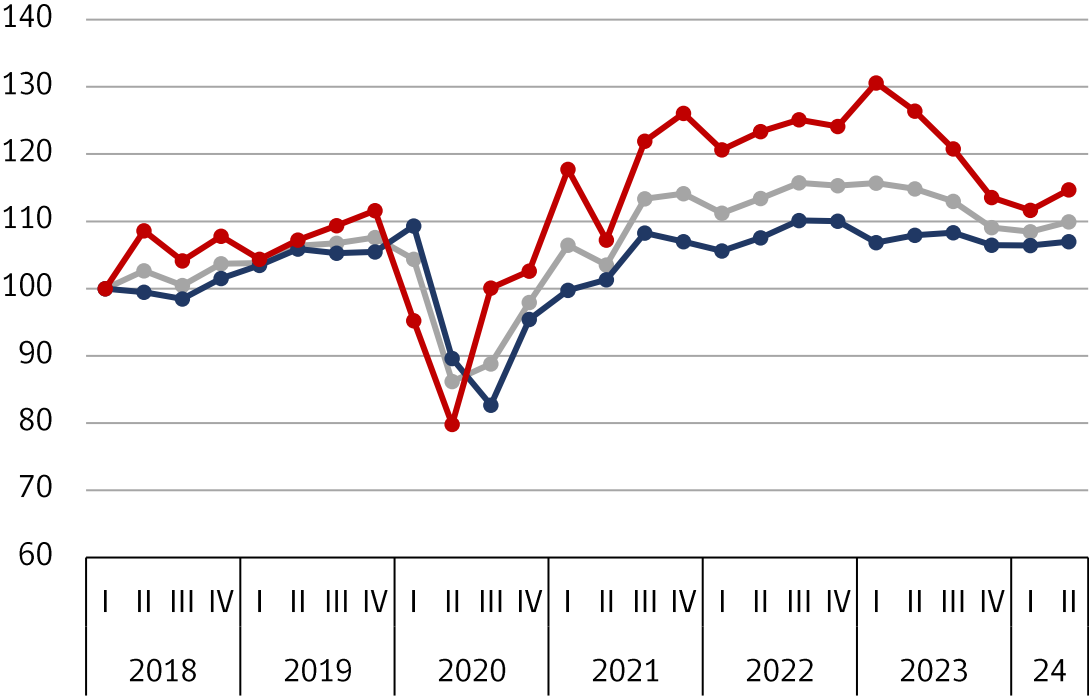
— Durables — Non durables — Services



Gross fixed capital formation components

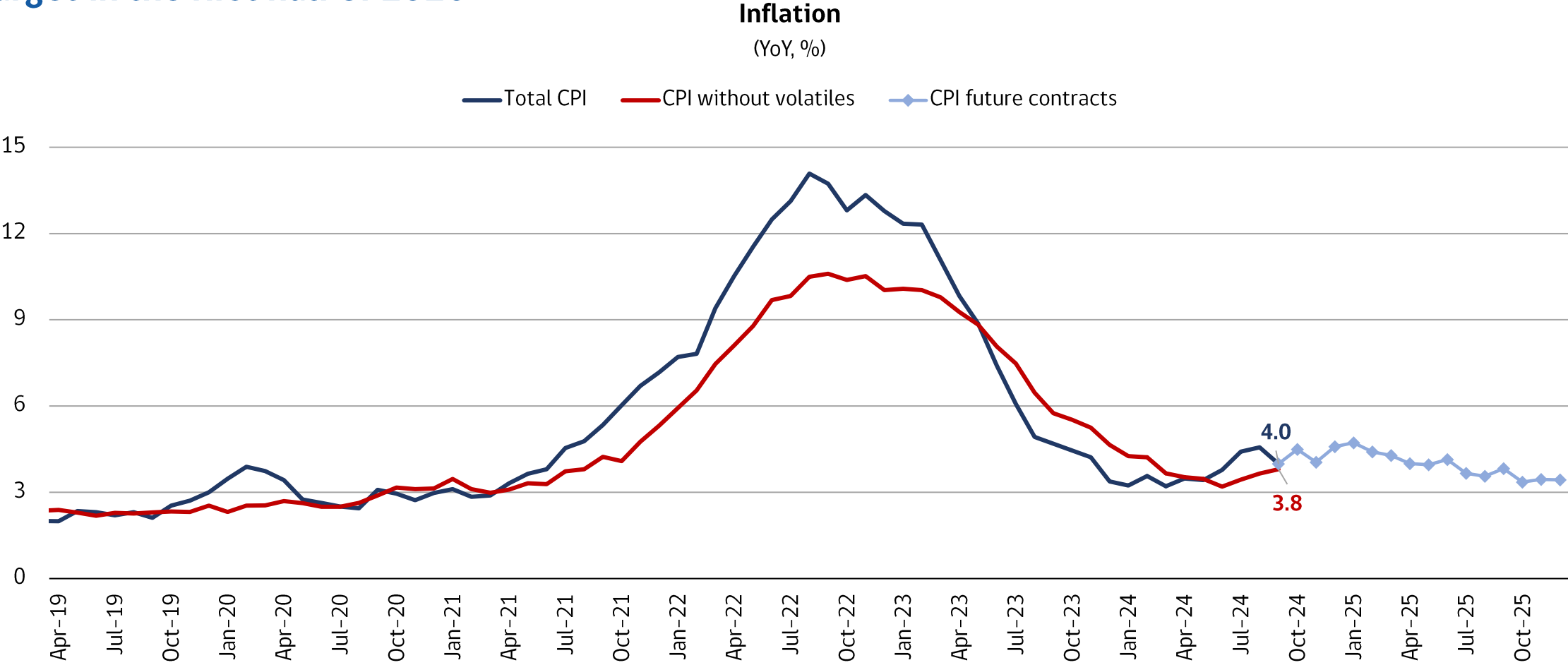
(index 1Q2018=100, seasonally adjusted)

— Gross fixed capital formation — Construction & other works — Machinery & equipment



Source: Central Bank of Chile.

Monetary and fiscal policies have contributed to stabilizing the economy. This is evident in the rapid decline of total and core inflation from the highs of 2022. However, inflation saw a temporary rise due to increased electricity prices, which are expected to decrease by mid-2025, allowing inflation to return to its target in the first half of 2026



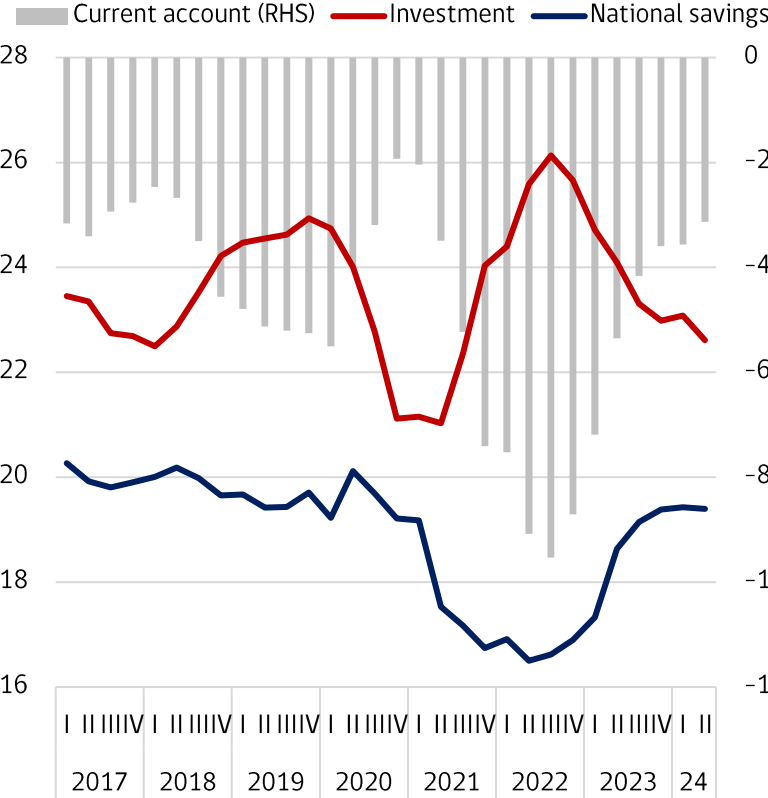
Note: The annual variation of CPI for 2024 is constructed from the 2023 reference series and spliced for 2022 with effective monthly variations (2018 Index).

Source: National Statistics Institute, Bloomberg and Central Bank of Chile.

National savings are returning to 2017-2019 levels, led by all sectors, while foreign investment peaked up to its highest level in almost a decade last year, current account deficit close to historical average

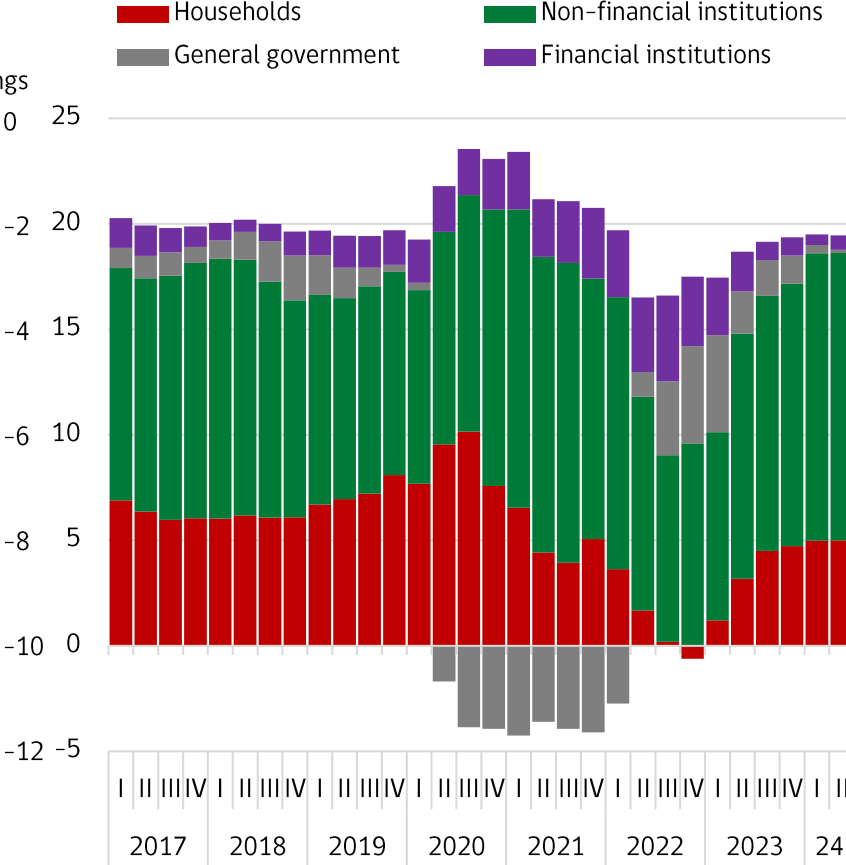
Current account, Investment and National Savings

(percent of GDP, annual moving average)



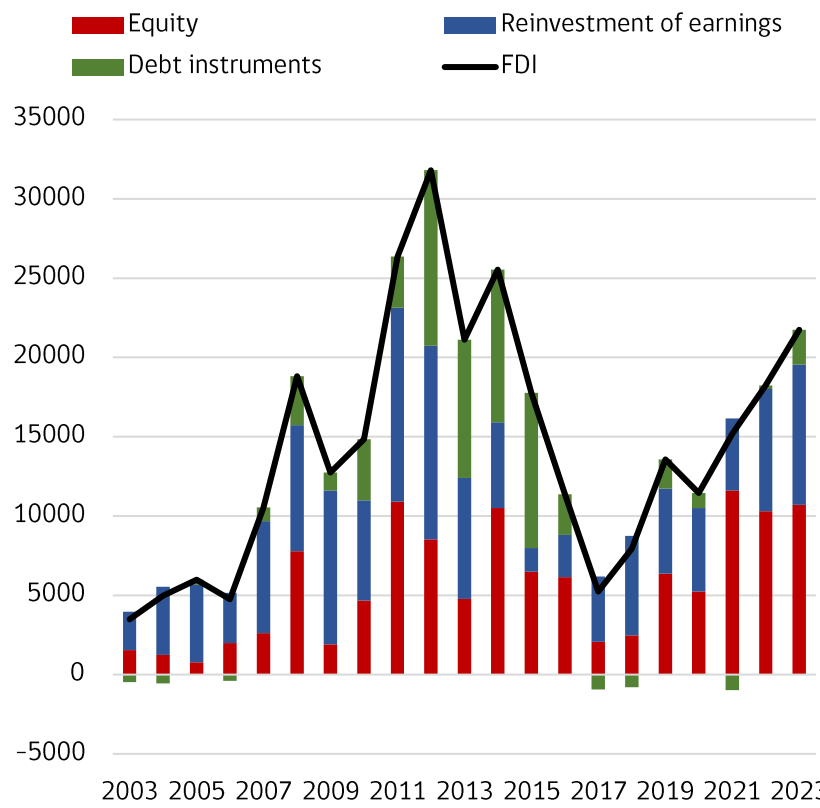
Gross saving by institutional sector

(% of GDP, annual moving average)



Foreign Direct Investment

(USD millions)



Source: Central Bank of Chile.

Growth forecast in 2025 will be possible for several reasons, including

➤ The positive impact on private consumption due to the expansion of total payroll



➤ Continued dynamism in exports, driven by Chile's greater price competitiveness



➤ The increase in copper prices, a crucial factor given Chile's reliance on copper exports



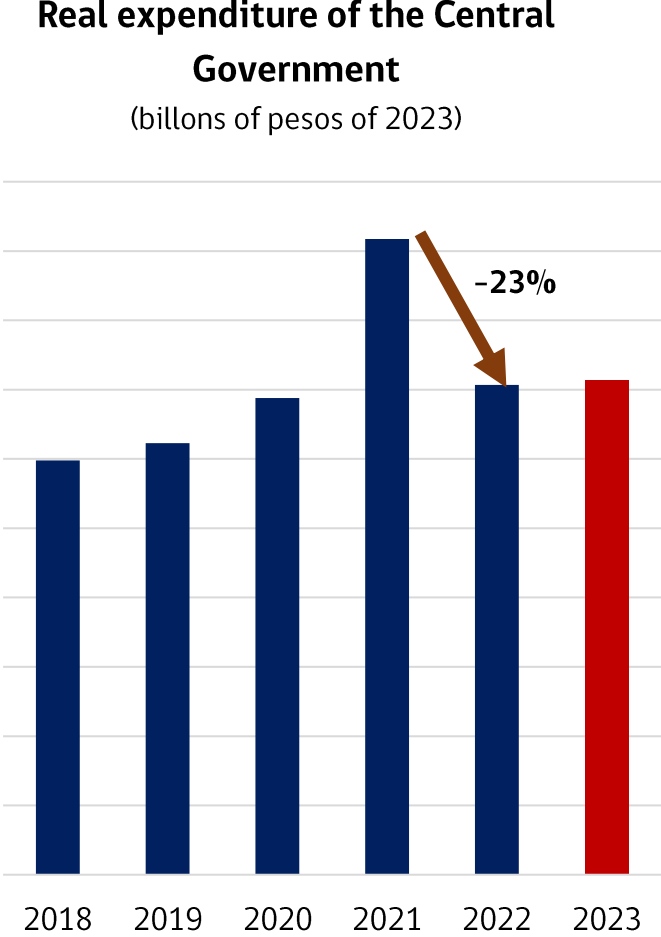
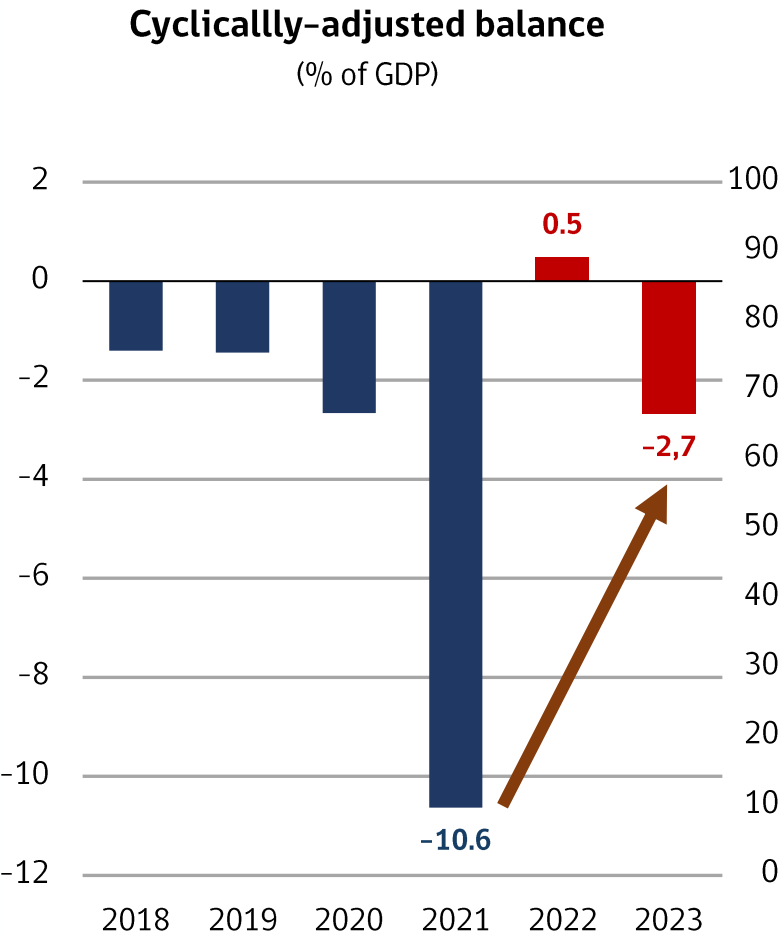
➤ Better investment prospects anticipated in the second half of the year



➤ Expected easing of financial conditions, influenced by changes in monetary policy both in Chile and globally



The unprecedented fiscal adjustment of nearly 10% of GDP in 2022 was largely achieved with discipline and rigor in spending management. In 2023 there was an execution of 100.0% of the budgeted expenditure, an effective deficit of 2.4% of GDP and a structural balance of -2.7% of GDP



Main fiscal variables at the end of 2023

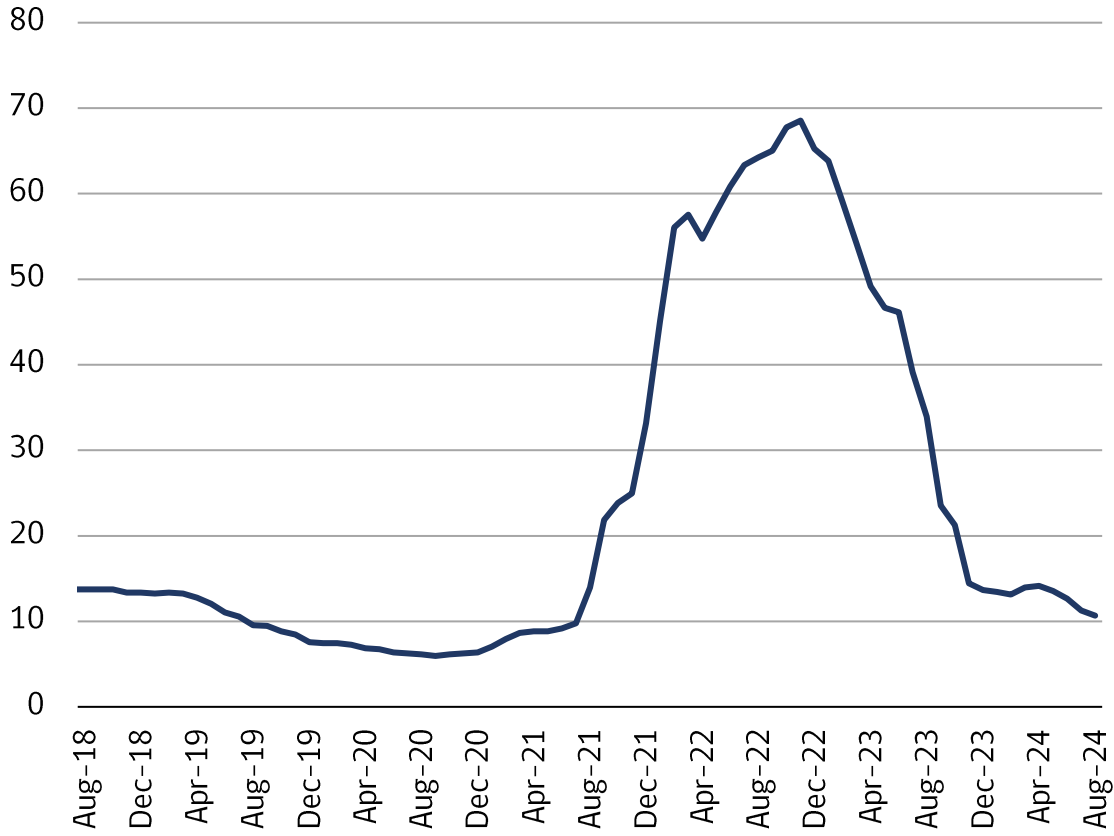
2023	Initial projection (PFR 3Q22)	Updated projection (PFR 3Q23)	End of 2023
Structural Revenue (YoY % var.)	-8.0	-9.3	-11.4
Effective Balance (% of GDP)	-2.7	-2.3	-2.4
Structural Balance (% of GDP)	-2.6 ⁽¹⁾	-2.6	-2.7
Gross Debt (% of GDP)	38.7	38.2	39.4

100%
execution of public budget expenditure

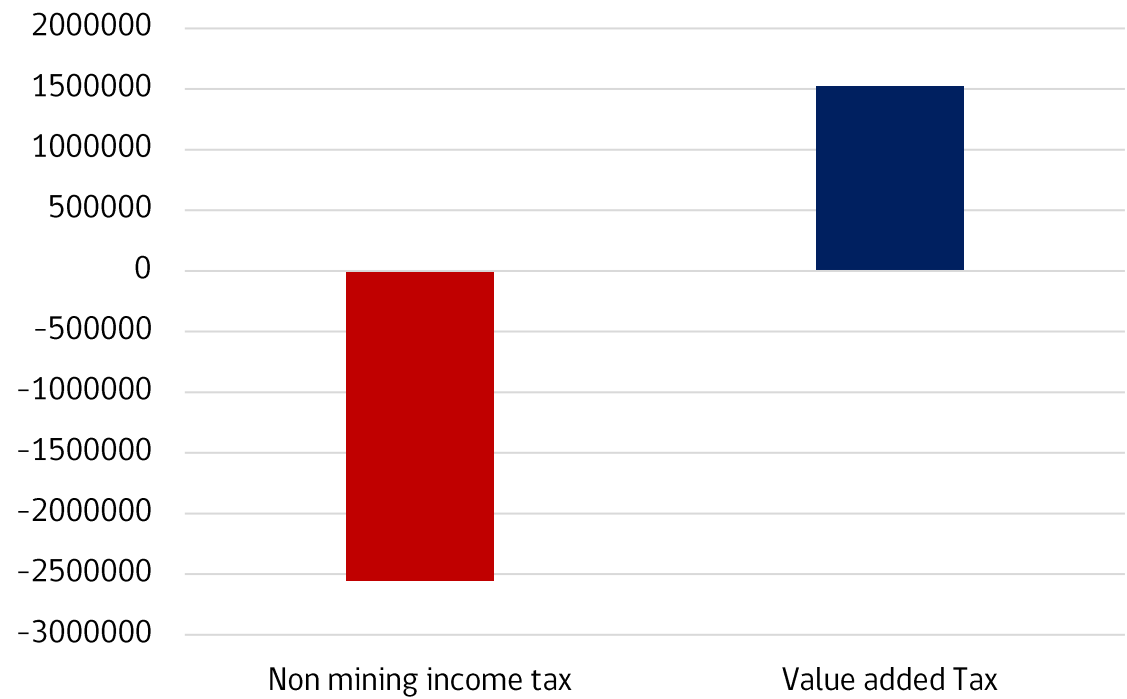
Note: (1) Corresponds to the Target Projection contained in the 1Q22 PFR that supported the Fiscal Policy Decree of June 2022, which established the trajectory of the Structural Balance goals for 2023–2026.
Source: Budget Office.

In 2024, the result of the Income Operation was significantly lower than budgeted, and the price of lithium experienced further declines. These effects have been partially offset by a more dynamic VAT collection, although it has not been sufficient, forcing significant adjustments in expenditures

Lithium price
(dollars/kg)



Difference between current projection of net tax revenues for the year 2024 versus budgeted
(millions pesos of 2024)

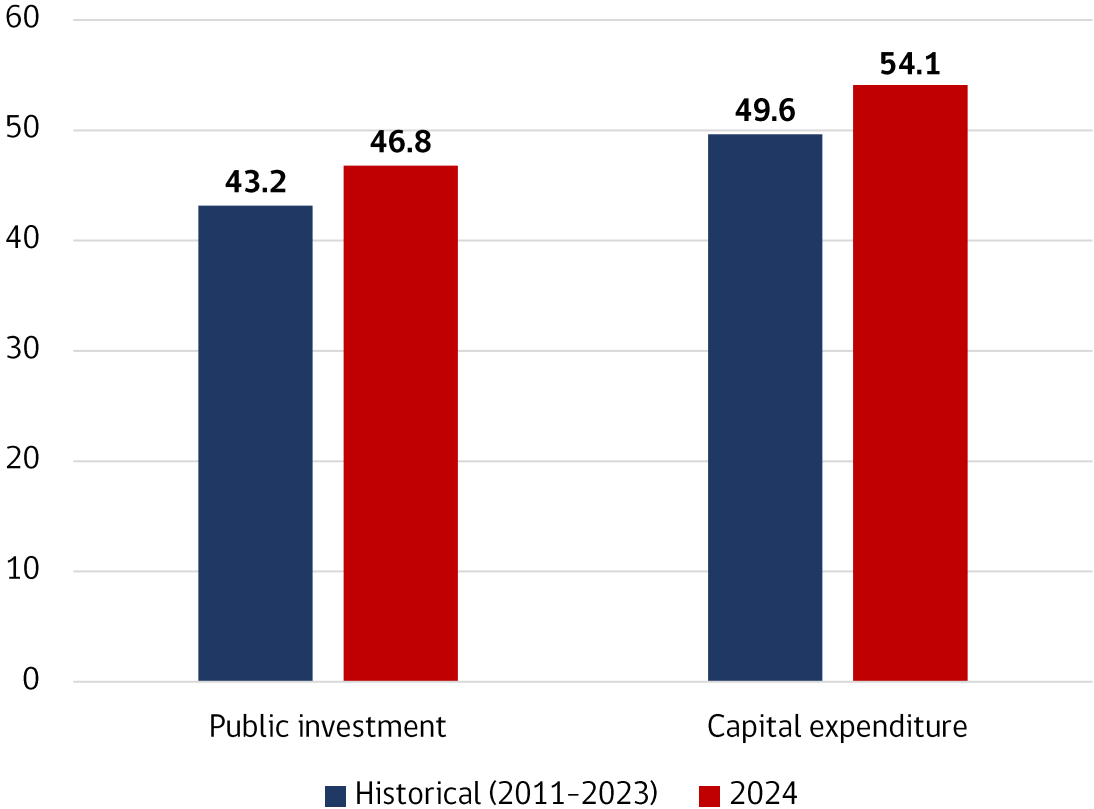


Source: Central Bank of Chile, Ministry of Finance.

These adjustments have sought to preserve public investment, with capital expenditure during the first 8 months showing a much stronger performance than in previous years, executing 54.1% of the budgeted amount, compared to previous figures of around 49.6% by the same date

Cumulative budget execution as of August

(% progress of the Approved Law (1))



To date, public investment has increased

25.9%
YoY

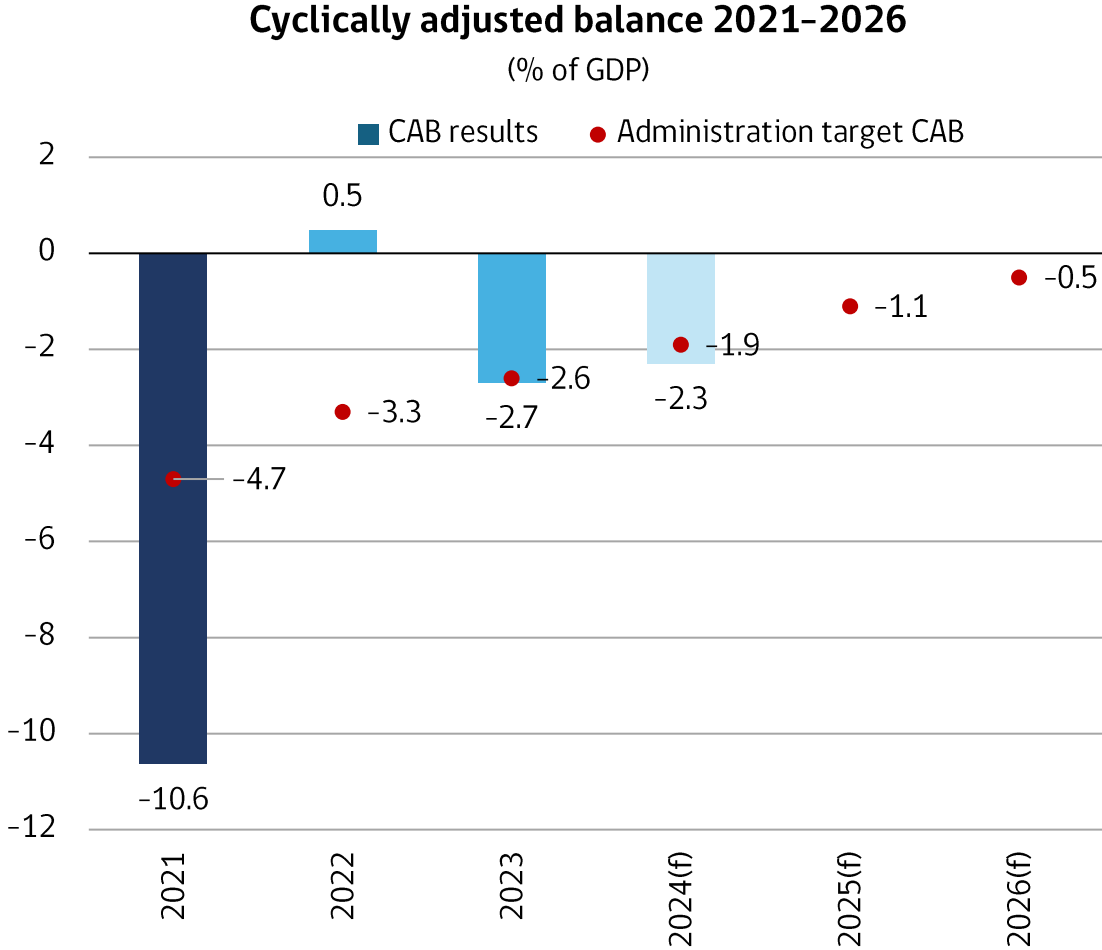
To date, capital expenditure has increased

15.7%
YoY

Note (1) For the years 2021 and 2022, the Approved Law + FET is considered.
Source Budget Office.

The 2025 Budget Bill will fully meet the fiscal policy targets, reducing the effective and cyclically adjusted deficits to 1.0% of GDP and 1.1% of GDP, respectively

2025	PFR 3Q24
Overall balance (% of GDP)	-1.0
Structural balance (% of GDP)	-1.1
Expenditures (compared to 2024 Budgets Law) (% annual real var.)	2.7
Expenditures (compared to executed expenditure in 2024) (% annual real var.)	3,8

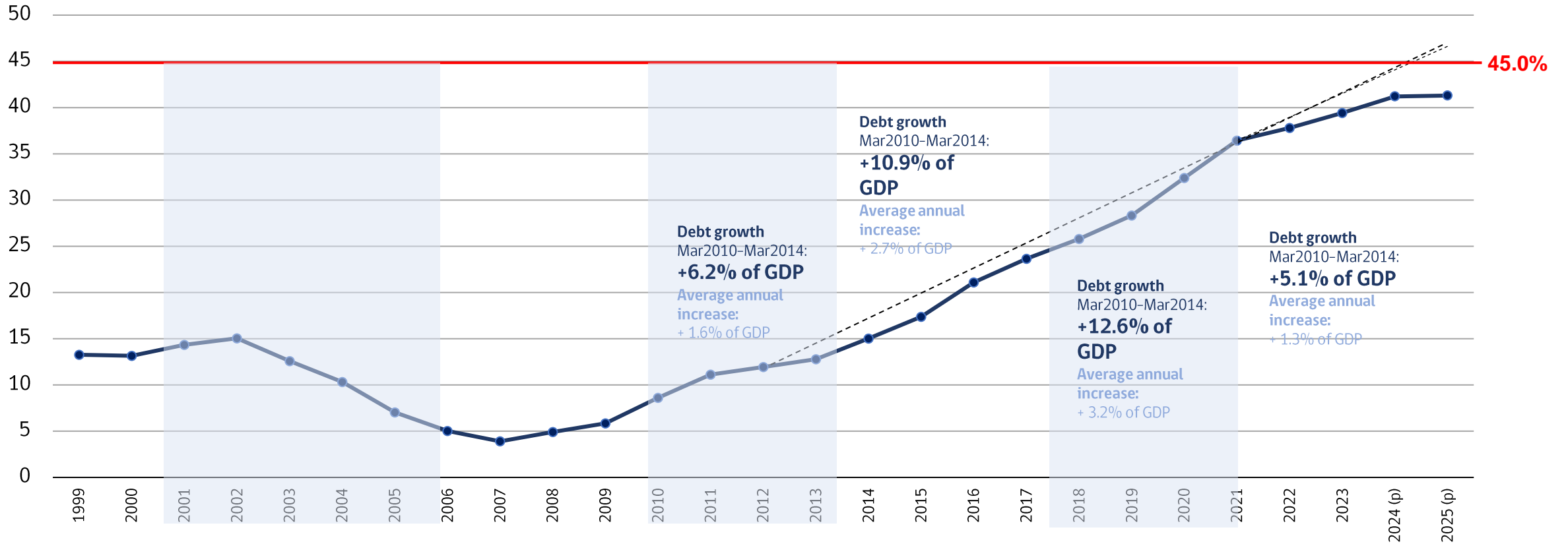


Source: Budget Office.

Note: *2024 corresponds to CAB estimate of the PFR 3Q24. Current year.
Source: Budget Office.

Evolution of Gross Debt

(% of GDP, December 31st of each year)



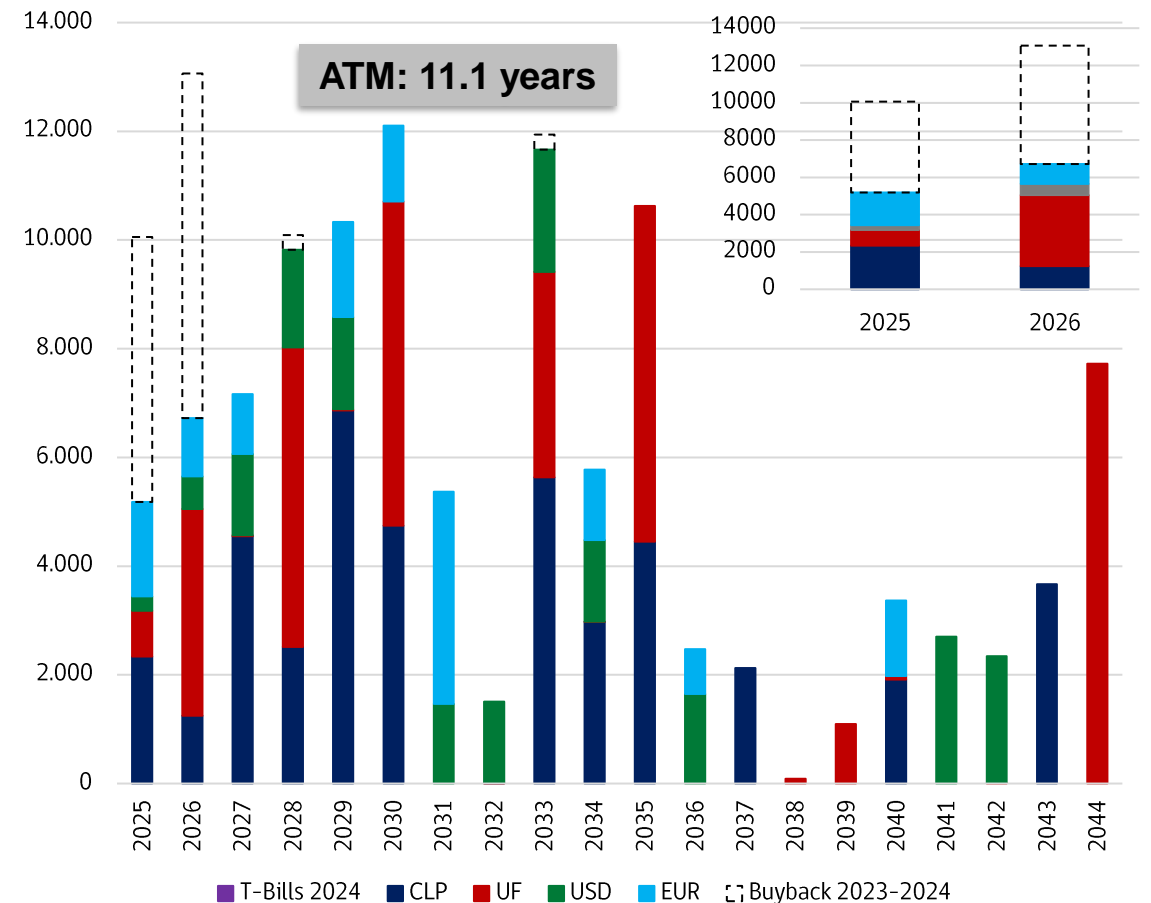
Note: (1) (p): projection.
Source: Budget Office.

The government has successfully implemented a buyback operation, significantly reducing debt maturities in the coming years

- The Debt Office has implemented a buyback and exchange plan during the last quarter of 2023 and throughout 2024, aimed at reducing bond maturities in the coming years.
- Bondholders with upcoming maturities are offered the option to exchange these bonds for cash or for other bonds with maturities in later years.
- As of the end of September 2024, a total of US\$4.9 billion and US\$6.3 billion worth of bonds maturing in 2025 and 2026, respectively, had been repurchased.
- Maturities for 2025 now total approximately US\$4.9 billion, significantly reducing financing needs for the upcoming year.

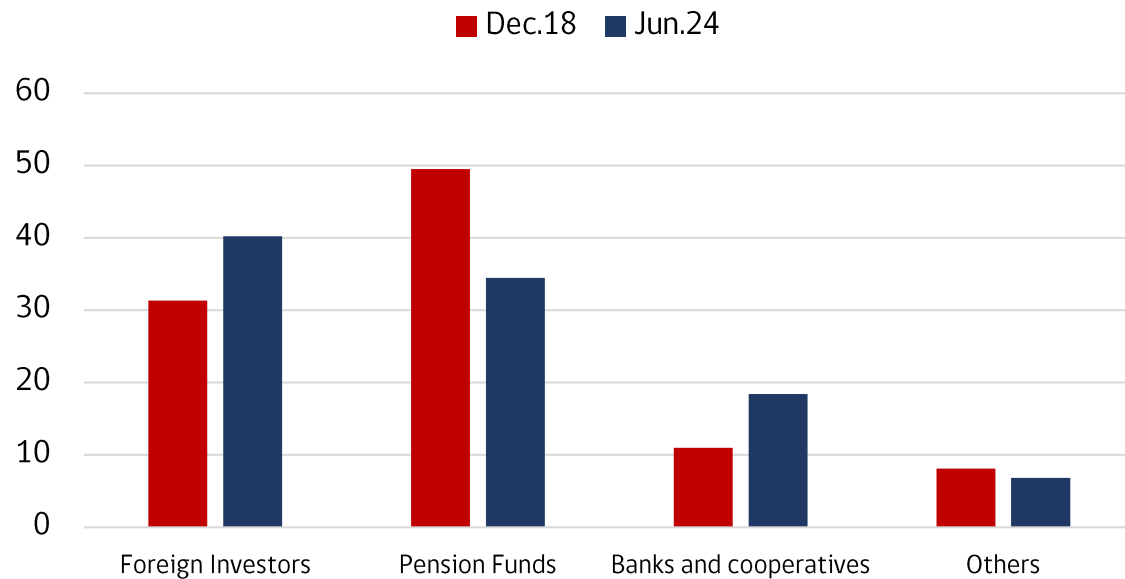
Maturity Profile of Republic of Chile's Sovereign Bonds

(millions of dollars)

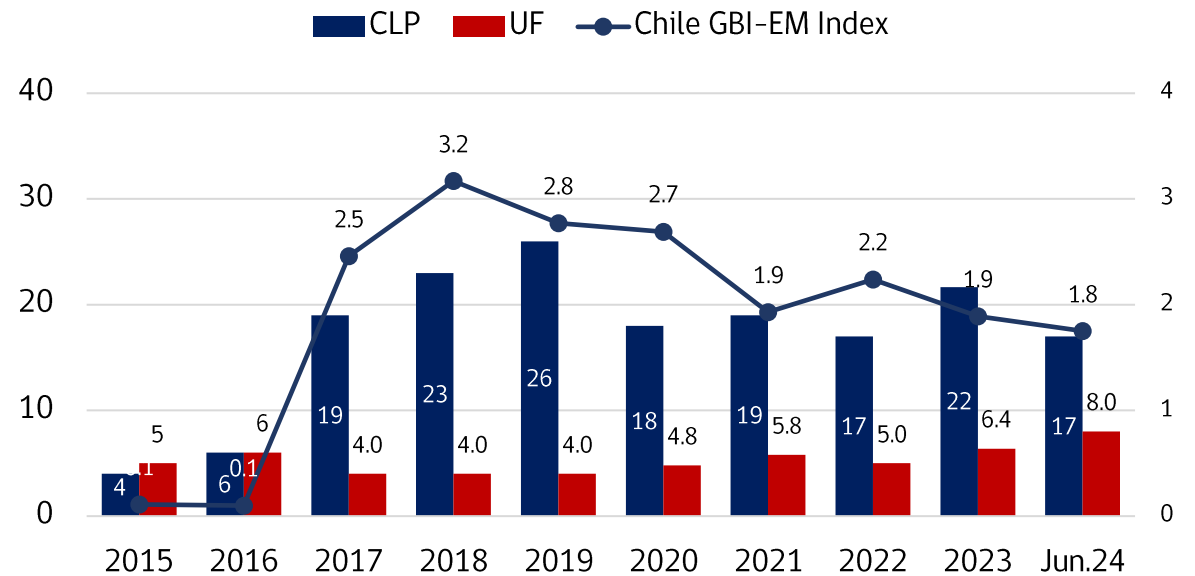


Benefits of the Chilean Debt Management strategy: larger and more diversified investor base, benchmark points in all currencies and greenium

Holdings of Sovereign Local and External Bonds by Type of Investor (%)



Holdings of Non-Residents in Local Bonds by currency (CLP/UF) and Chile's participation in the GBI-EM Index (1) (%)



- The government's financing strategy has included the participation of foreigners through Book-Building issuances, with very active involvement in the transactions.
- Their allocations in the most recent transactions have averaged 40%.
- In October 2023, for the first time, a bond was issued in UF under this modality, allowing foreigners to enter this curve.

Note: (1) UF (Unidad de Fomento) corresponds to an inflation index-linked unit of account.

Source: Ministry of Finance.



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