

Rebalancing the Chilean economy to build a better future

Chile Day – London 2023

September 2023



Mario Marcel | Minister of Finance

Agenda

1. Stabilizing the economy, rebuilding buffers

2. Fostering economic growth and Fiscal Sustainability

3. Emerging opportunities to increase potential growth

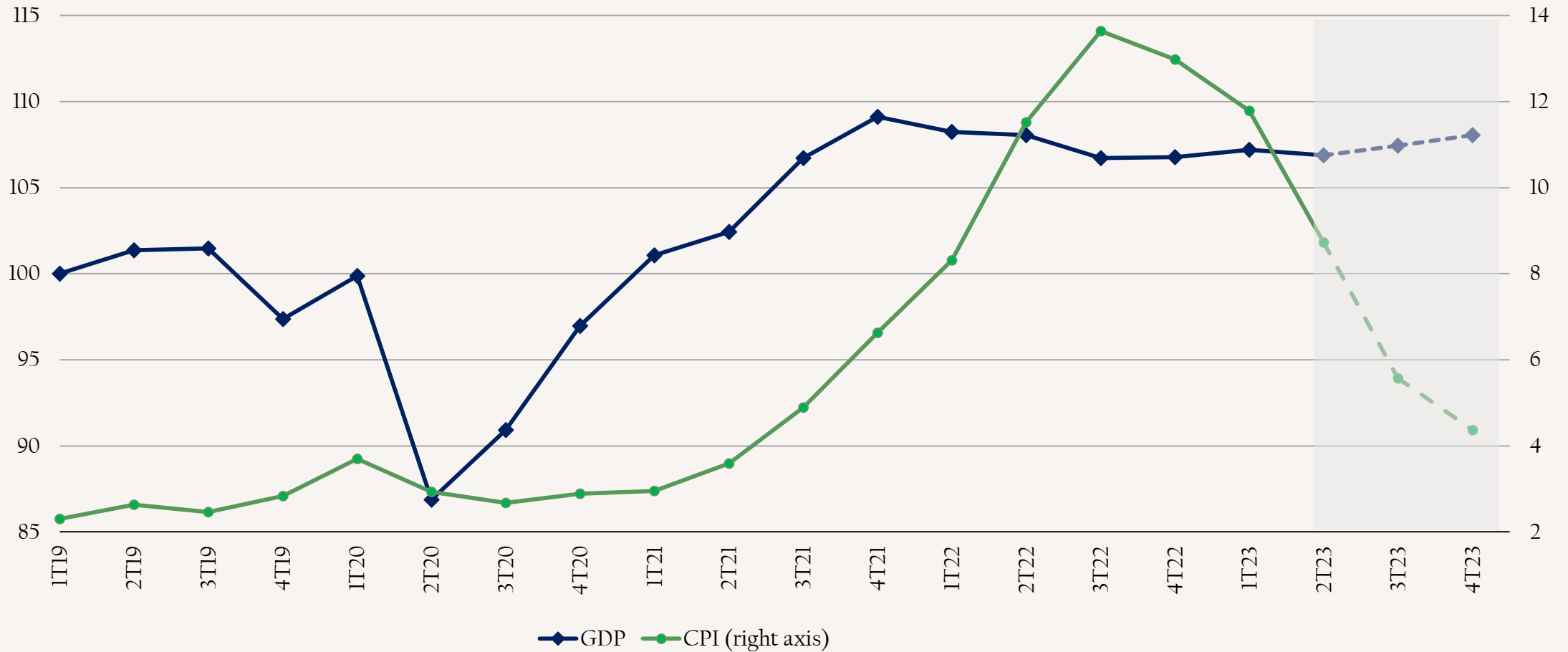
Stabilizing the economy,
rebuilding buffers



- Although Chile experienced a rapid recovery from the Covid-19 crisis, displaying the highest global growth, it also faced significant macro imbalances and high political uncertainty.
- By the beginning of 2022, Chile was confronted with escalating inflation, triggered by a procyclical fiscal policy and pension fund withdrawals that injected liquidity worth 35% of GDP into households. The combination of an overheating economy, political uncertainty, and a rapid increase in interest rates created challenging financial conditions.
- Strong monetary and fiscal policies combined in 2022 to stabilize the economy. Adjustment was highly efficient, reducing private consumption without prompting a major recession. By August 2023, annual inflation has declined to nearly a third in a year.
- The economy has undergone a necessary adjustment. By year-end, the economy will surpass its level from a year ago, annual inflation will decline to around 4% and the current account deficit will recover its historical average around 3% of GDP, down from nearly 10% of GDP in 2022Q3. A number of financial indicators are normalizing as well.
- Remaining challenges include fostering employment and private investment. Normalization of monetary policy will support the latter, as gains in controlling inflation and fiscal consolidation have enabled Chile to start reducing interest rates earlier than in other countries.

Economic rebalancing has done its job. Despite the evident overheating of end-2021, inflation declined strongly from mid-2022 without a major recession

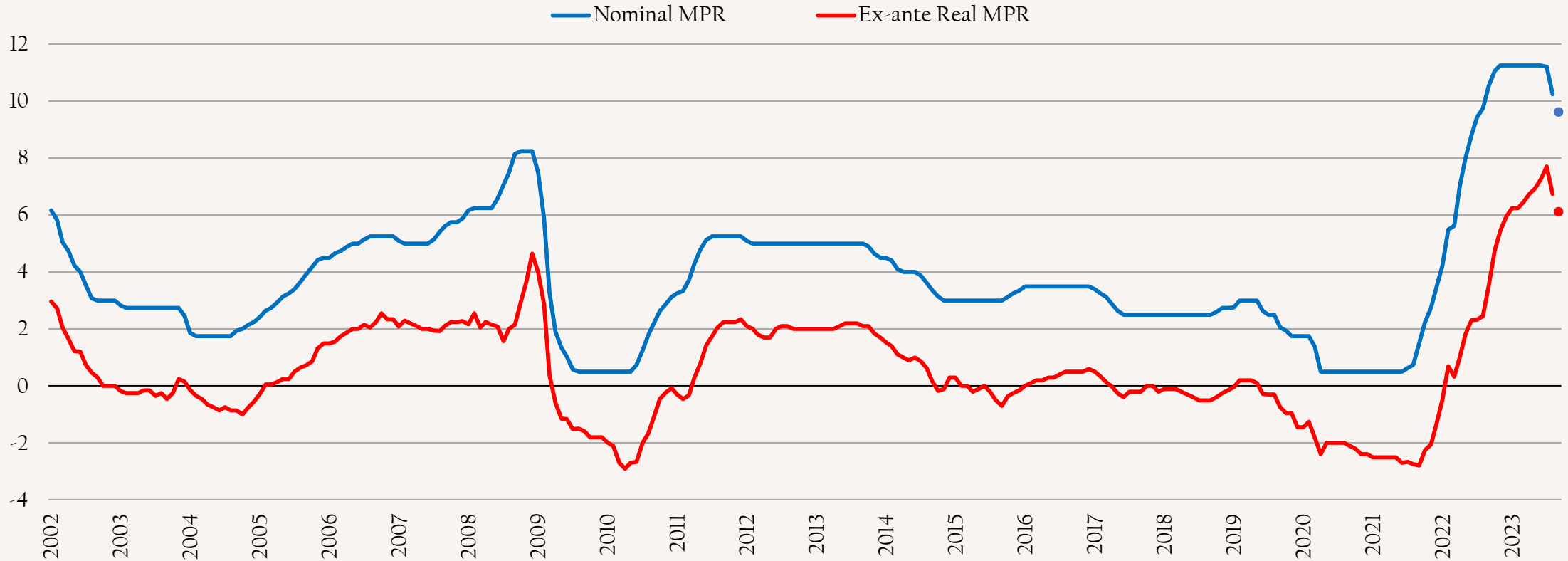
Real GDP and inflation forecast (1)
(index 19QI=100 seasonally adjusted; % annual change)



Note: (1) Inflation swaps as of September 11th 2023.
Source: National Statistics Institute and Bloomberg.

The monetary policy rate reached its peak in October 2022 and remained at that level until July 2023 when the Central Bank initiated a gradual easing process that is expected to close the year at 8% or less

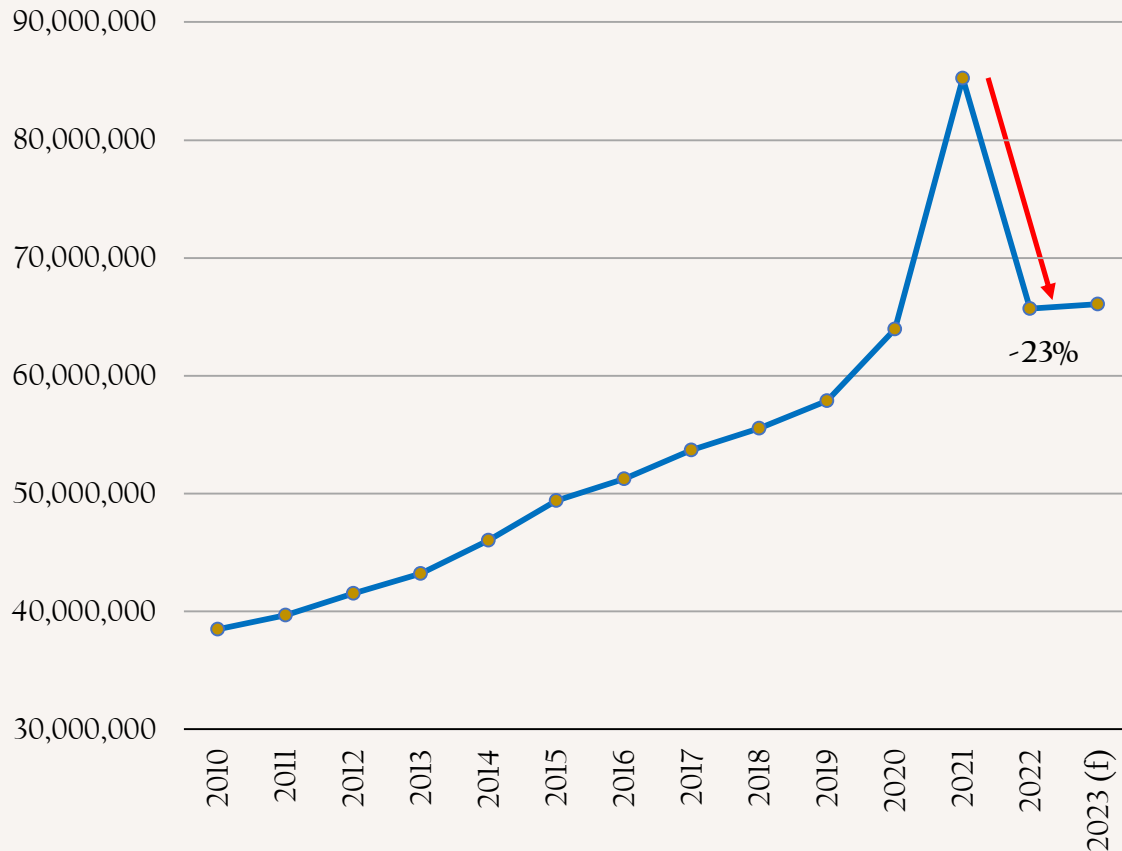
Nominal and real monetary policy rate
(percentage)



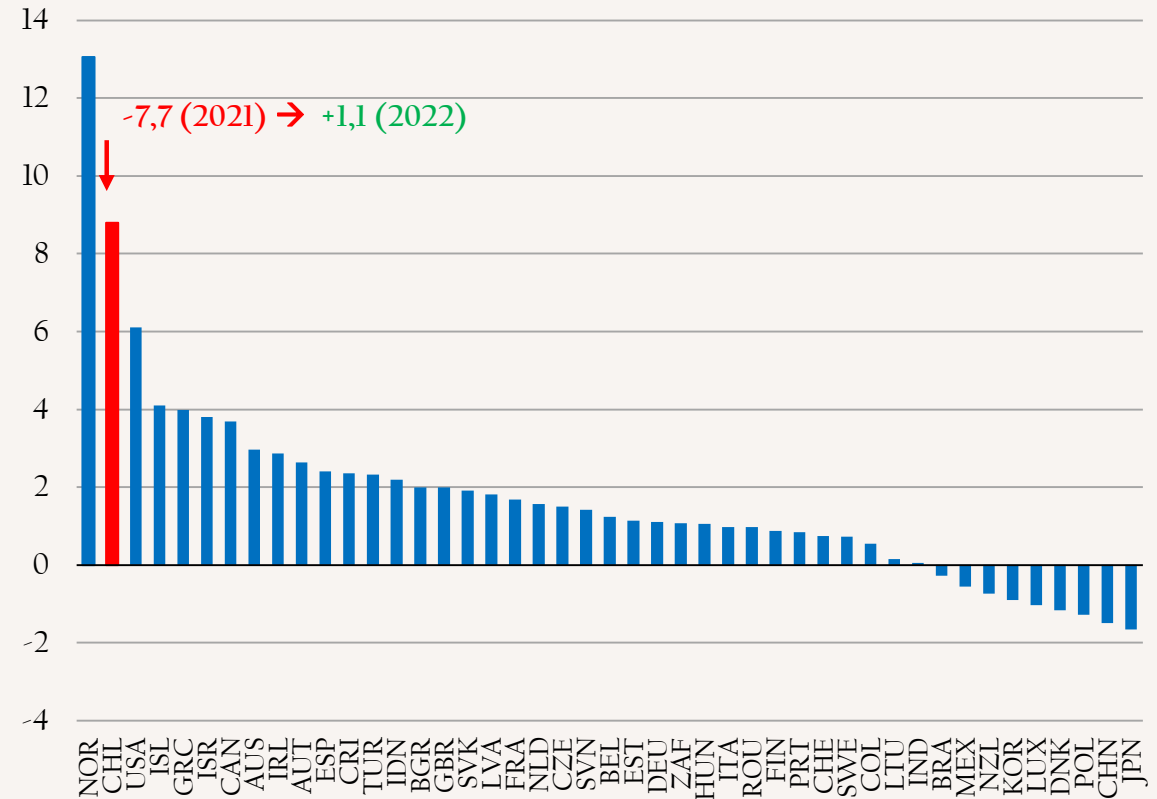
Note: The Nominal MPR is calculated as the monthly average, while the Real MPR considers expectations up to eleven months from the Economic Expectations Survey conducted by the Central Bank of Chile.
Source: Central Bank of Chile.

Starting March 2022, the new government implemented a comprehensive fiscal consolidation. Contrary to 2021, fiscal policy played a crucial role in curbing inflation and stabilizing public debt

Central Government real expenditure (1)
(CLP million, constant 2022 pesos)



Fiscal consolidation 2021-2022 (2)
(% of GDP)

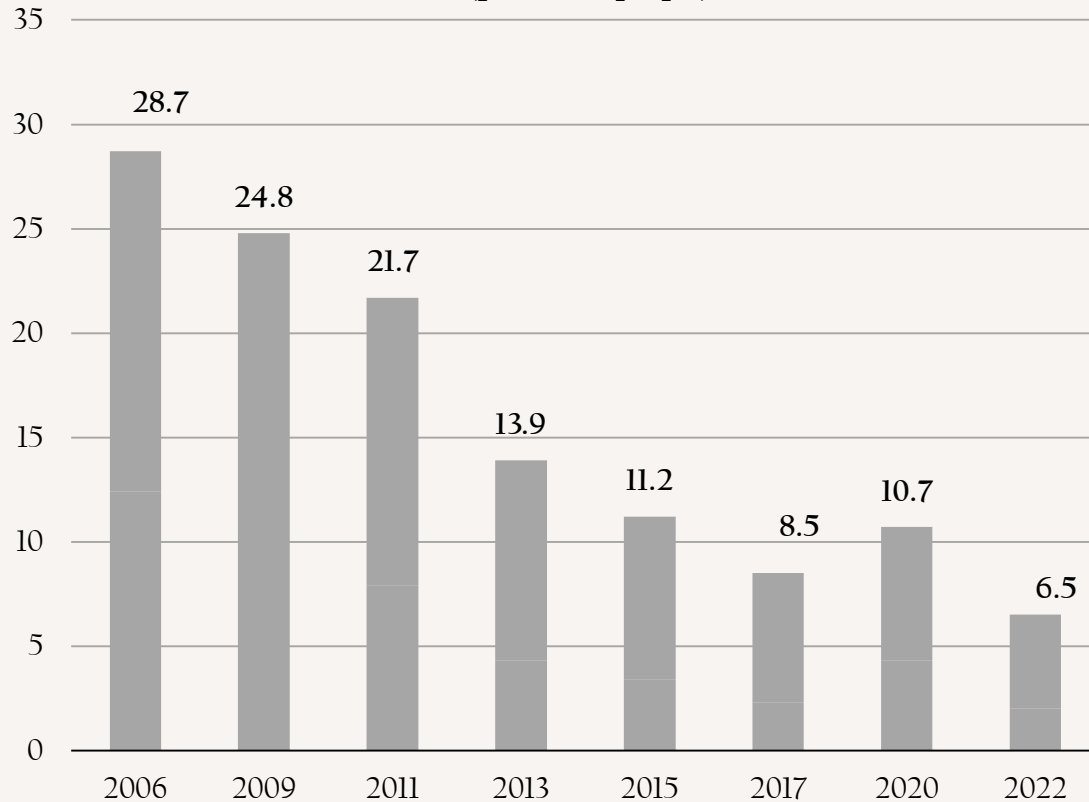


Note: (1) (f): forecast 2Q23 Public Finance Report. (2) Calculations are made with the general government net lending data, according to the IMF World Economic Outlook (April 2023). For Chile, the calculation is based on the Budget Office's Public Finance Report.

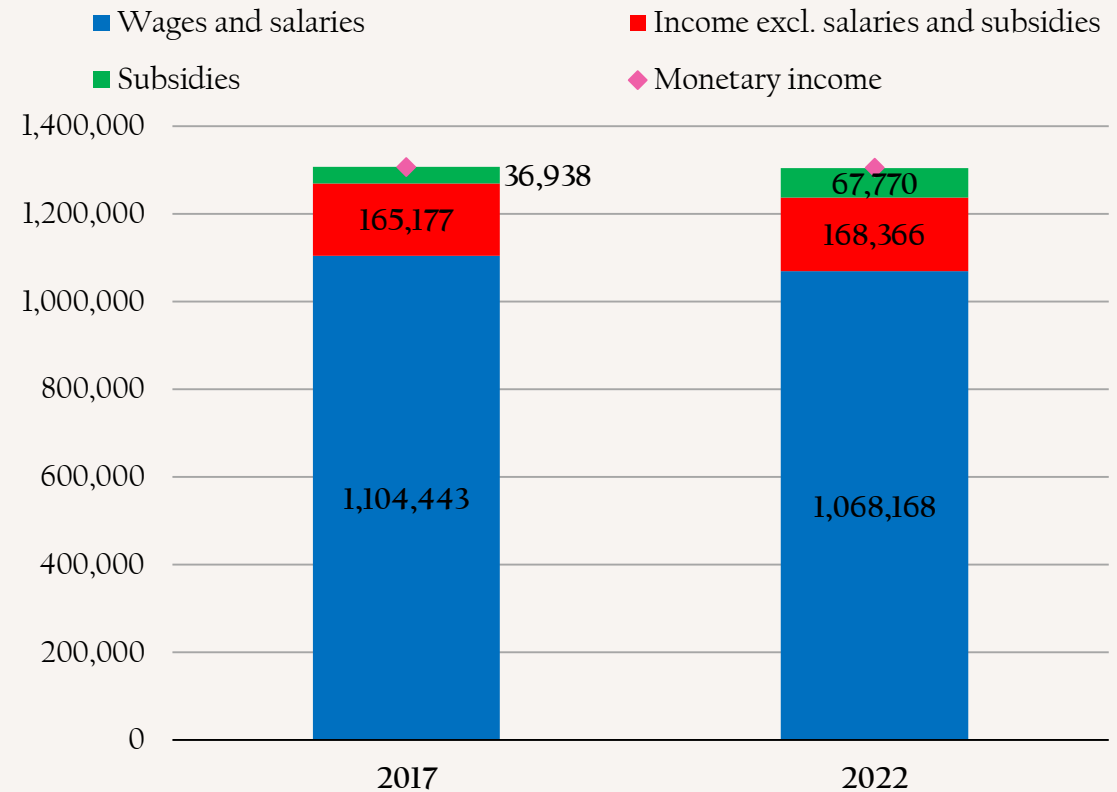
Source: Budget Office (Dipres), Ministry of Finance and IMF

Fiscal consolidation did not harm low-income families. Government support remained and intensified for this segment in the face of growing cost of living. The last CASEN has shown that this measures contributed positively to reduce poverty

Incidence of poverty and extreme poverty in the population (percent of people)



Average monthly income of households by type of income (constant November 2022 pesos)

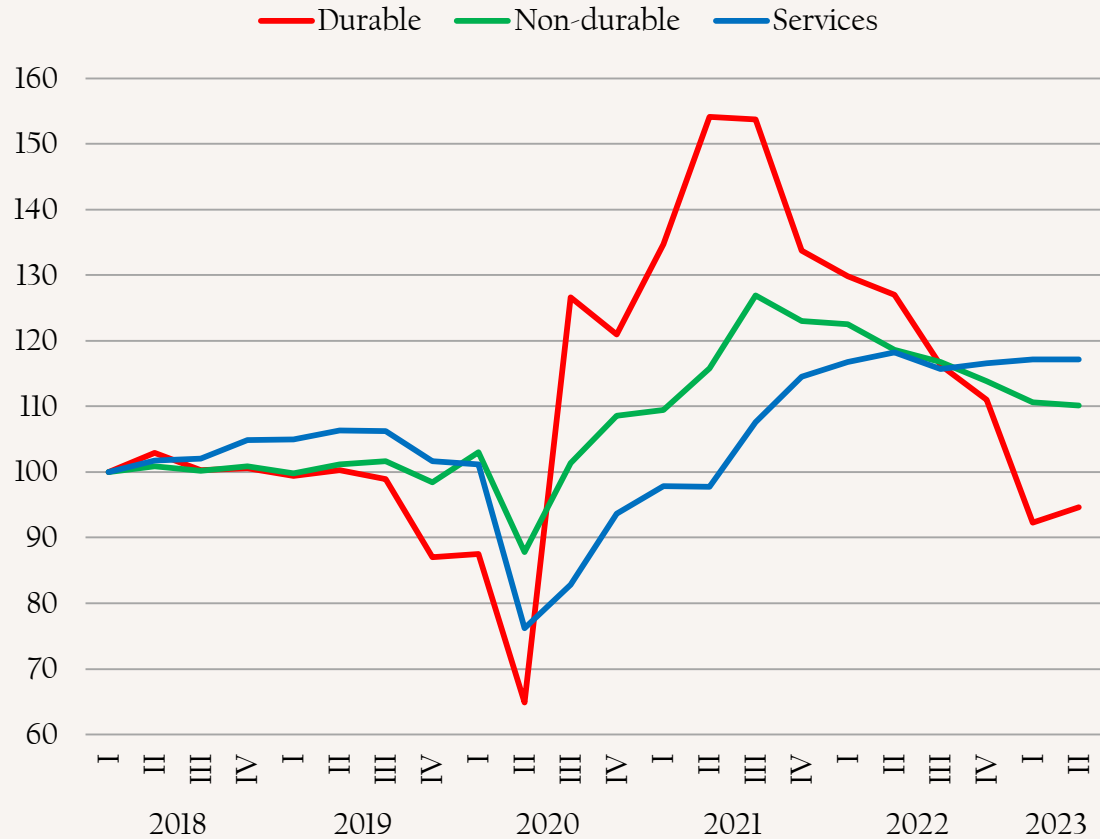


Note: At a 95% confidence level the differences with respect to 2022 are statistically significant for both categories, except to extreme poverty in 2017-2022. (1) Income excluding salaries and subsidies considers earnings from self-employment, self-provision of goods, bonuses, gratuities, income, interest, as well as retirements, pensions, and transfers between private individuals.

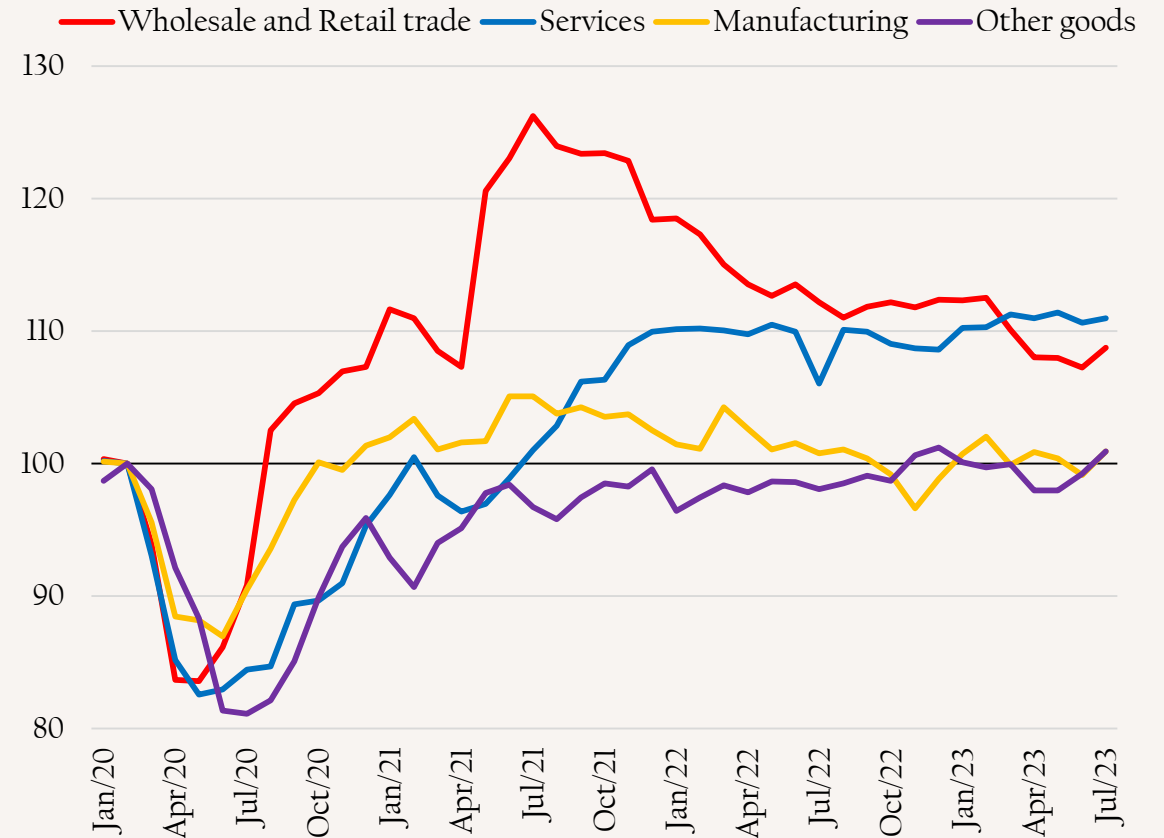
Source: Ministry of Social Development and Family, CASEN (National Socioeconomic Characterization) Survey 2006-2022.

Responding to macro policy, consumption has undergone a substantial adjustment, with durable goods below pre-pandemic levels. The downturn of activity in commerce didn't drag down other sectors.

Private Consumption
(Index 2018Q1=100, seasonally adjusted)

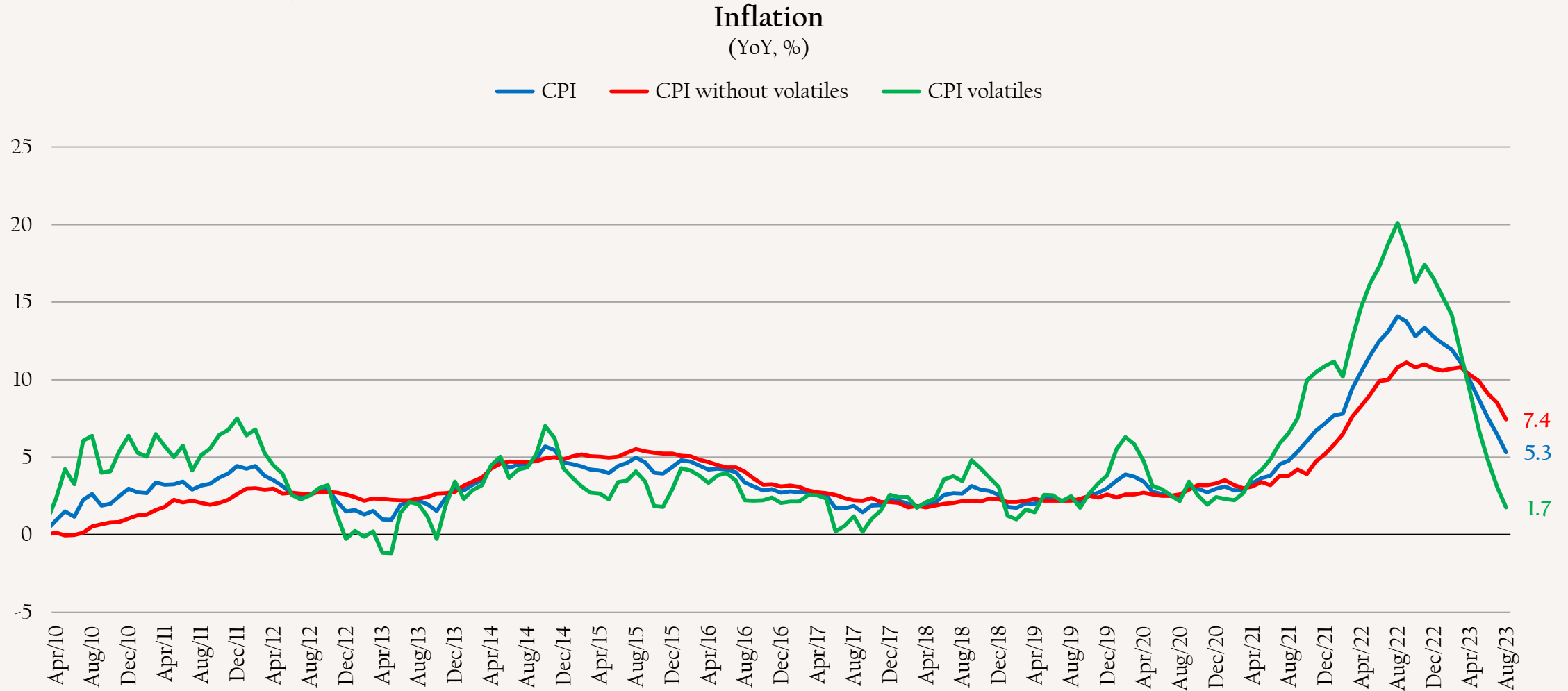


Monthly index of economic activity by sector
(index feb.2020=100, seasonally adjusted)



Source: Central Bank of Chile, National Statistics Institute.

As a result of cooling down, inflation reached a turning point in August 2022, dropping 8,8 pp. since then. Opposite movements in supply-side factors are evident in volatiles, while core-CPI responded with a lag to headline inflation through indexation

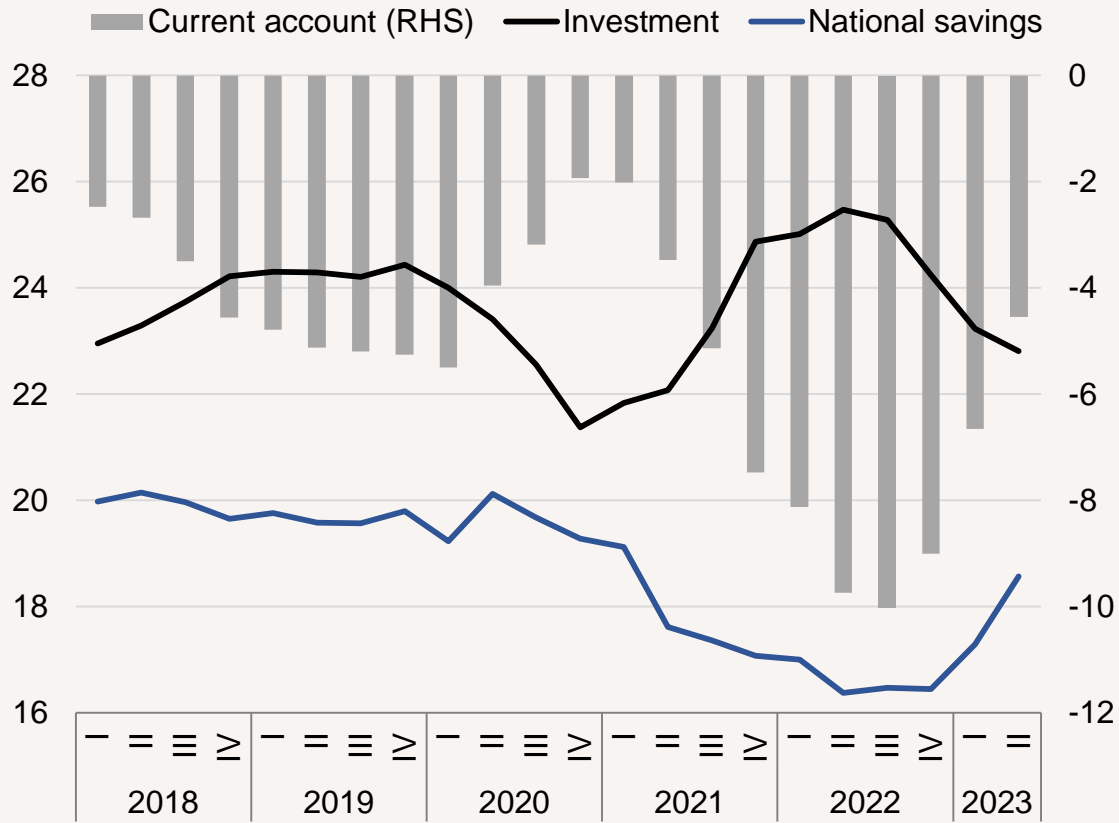


Source: Central Bank of Chile and National Statistics Institute.

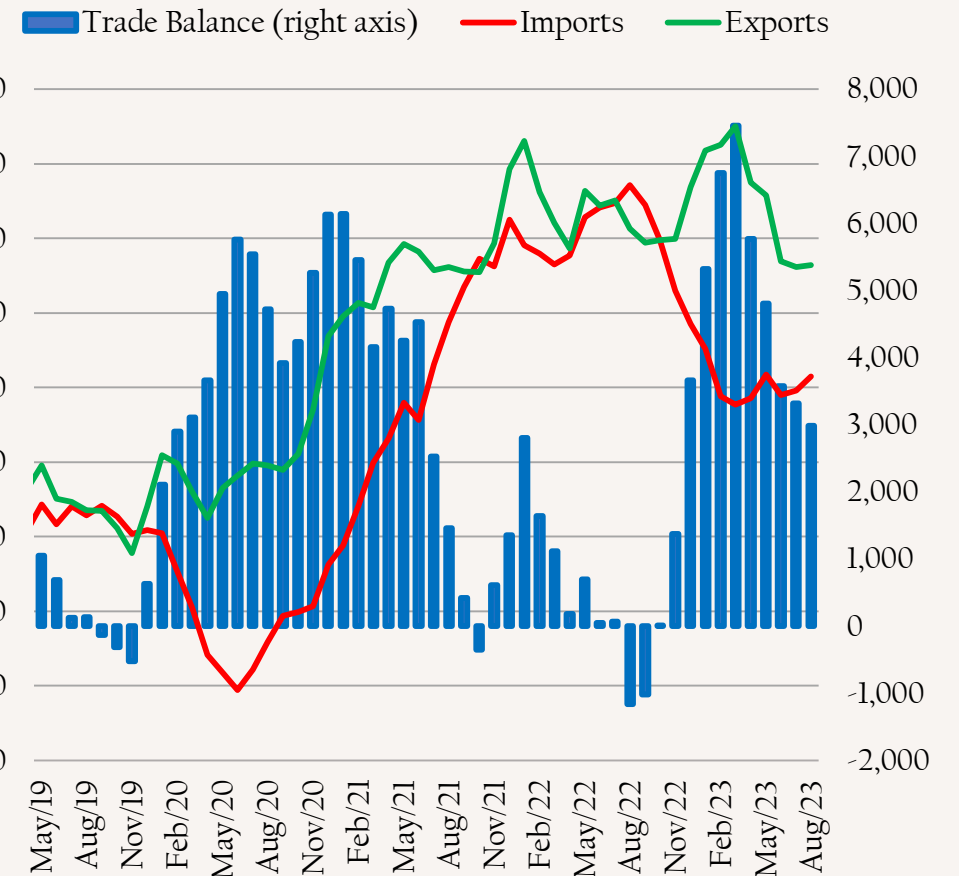
The current account of the Balance of Payments is fast improving, following the recovery of national savings. After reaching nearly -10% of GDP the CA will approach -3% of GDP by end-2023

Current account, Investment and National Savings

(percent of GDP, annual moving average)



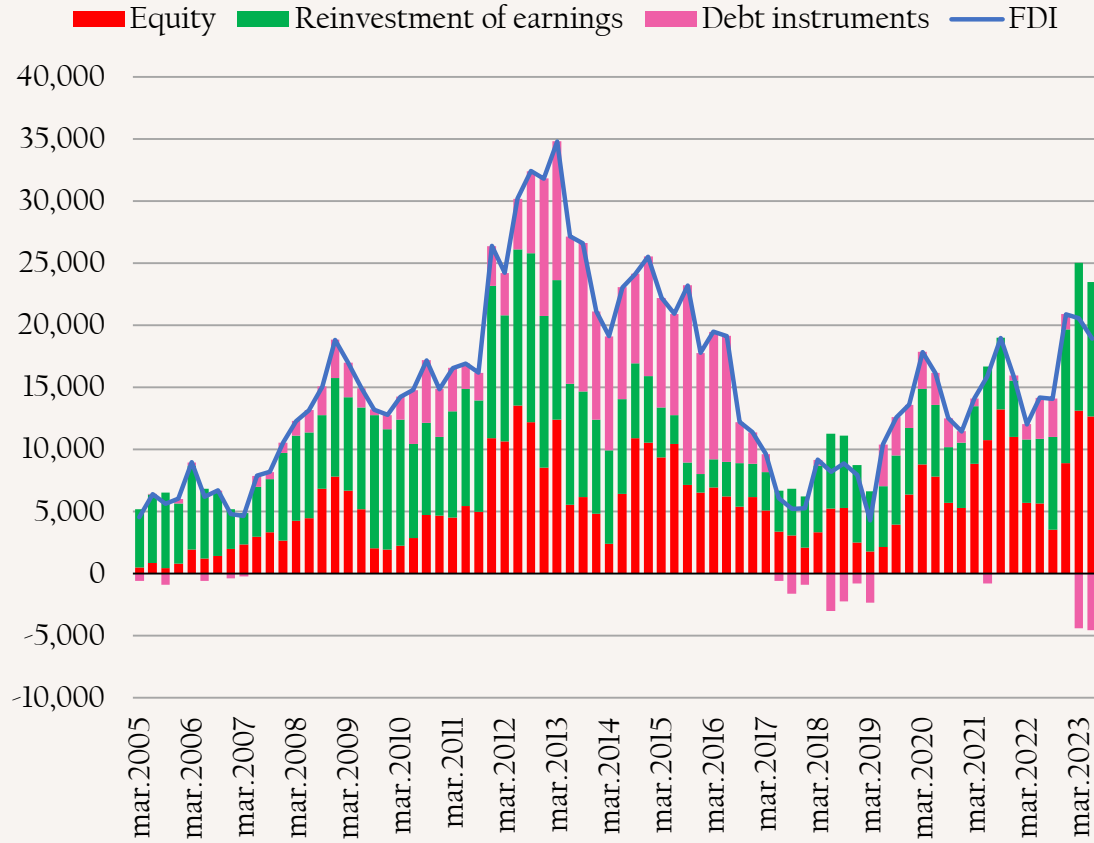
Trade Balance (quarterly moving sum, millions of US\$)



Note: For Imports, CIF data is used.
Source: Central Bank of Chile.

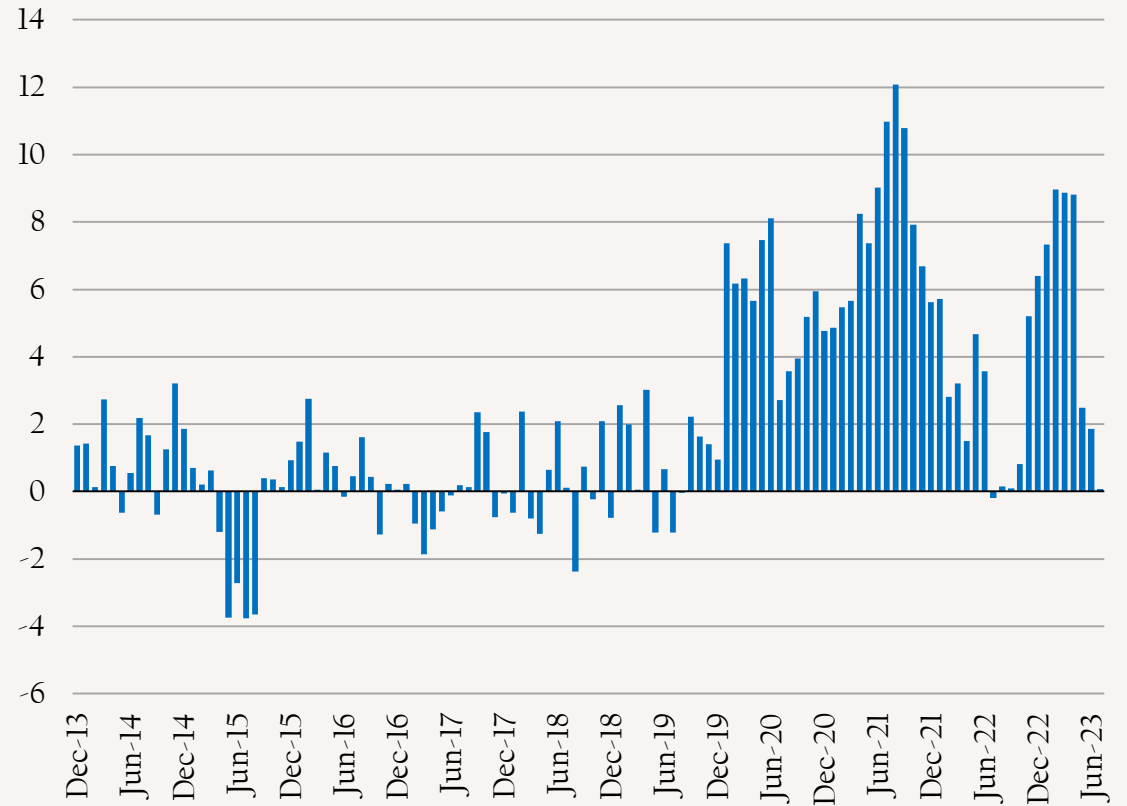
Recent data shows that foreign direct investment has experienced a strong recovery. Capital outflows have moderated substantially

Foreign Direct Investment (USD millions)

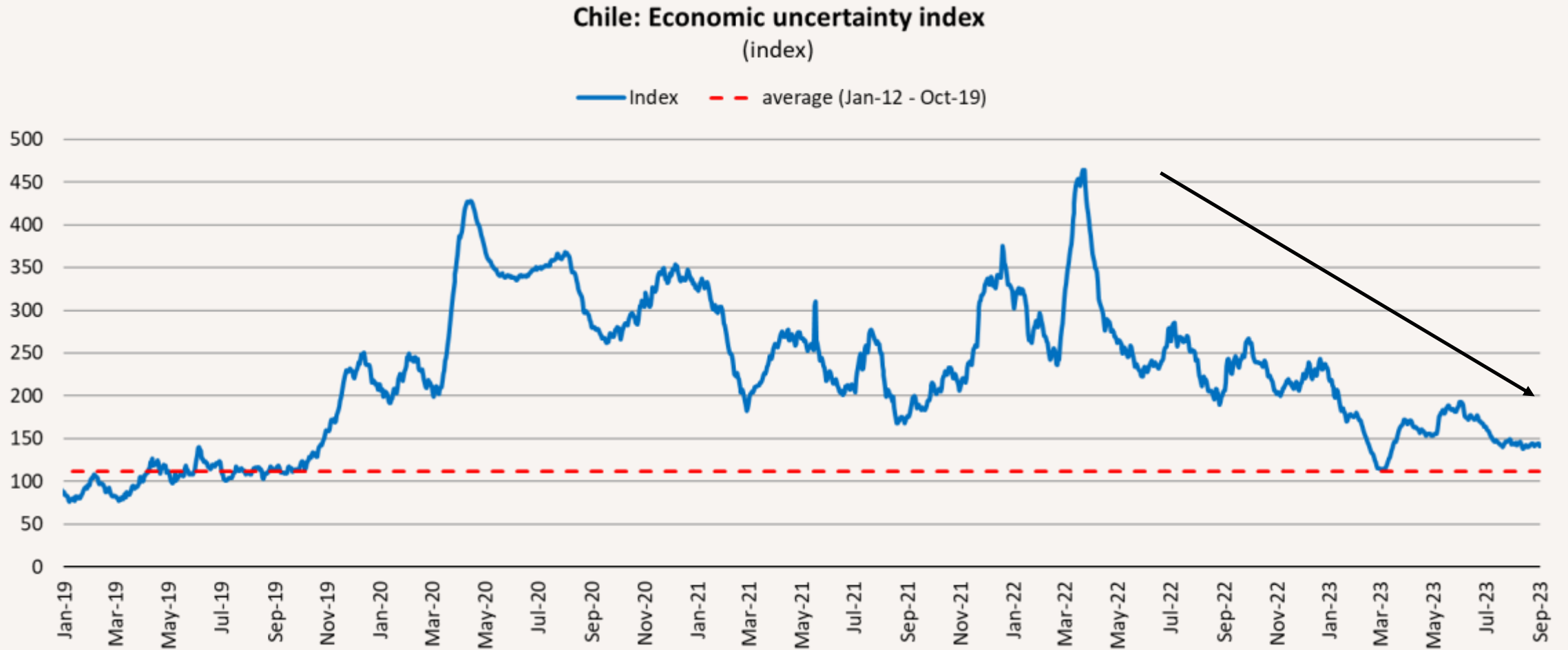


External liquid assets in the financial account: Firms and households (1)

(billions of dollars, moving 3-month sum)



The government's commitment to fiscal responsibility, the defeat of three new attempts at pension fund withdrawals, and the evolving political situation has played a key role in reducing economic uncertainty



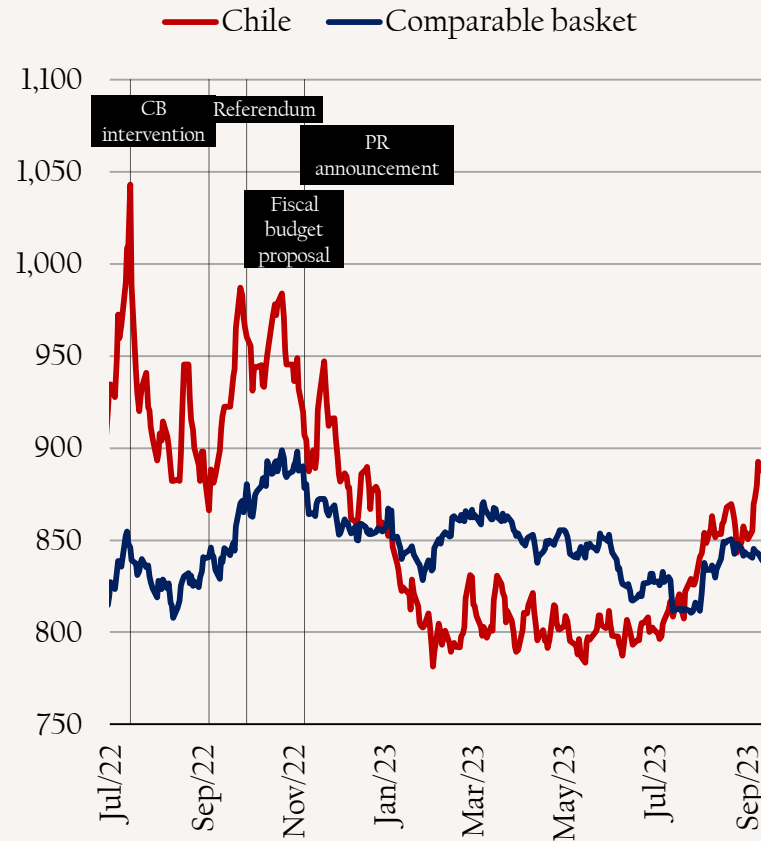
Source: Central Bank of Chile based on Becerra and Sagner (2020).

Financial markets experienced a positive correction, surpassing a comparable basket of countries. Sovereign risk indicators are at their lowest levels since 2022. In recent weeks the exchange rate has reacted to diverging monetary policies

Yield on 10-year bonds (basis points)



Exchange rate (pesos per dollar)



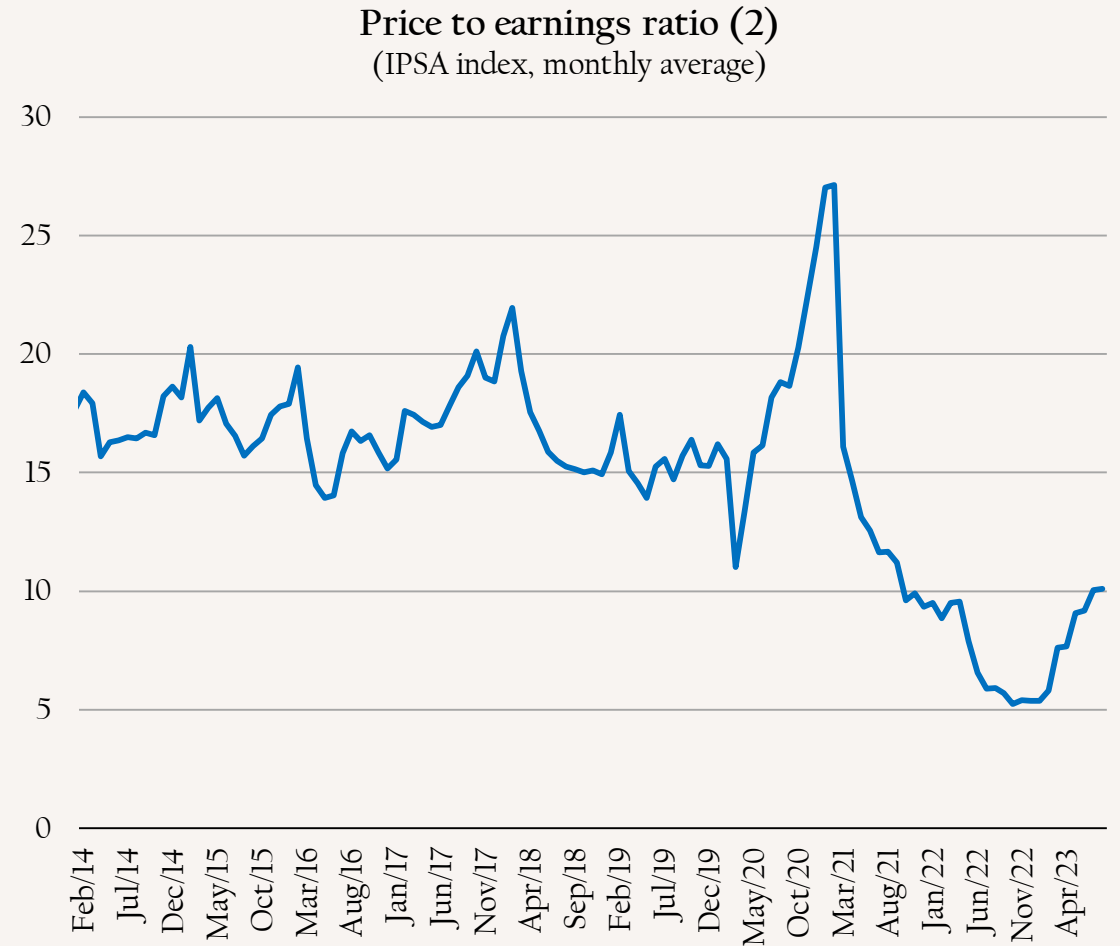
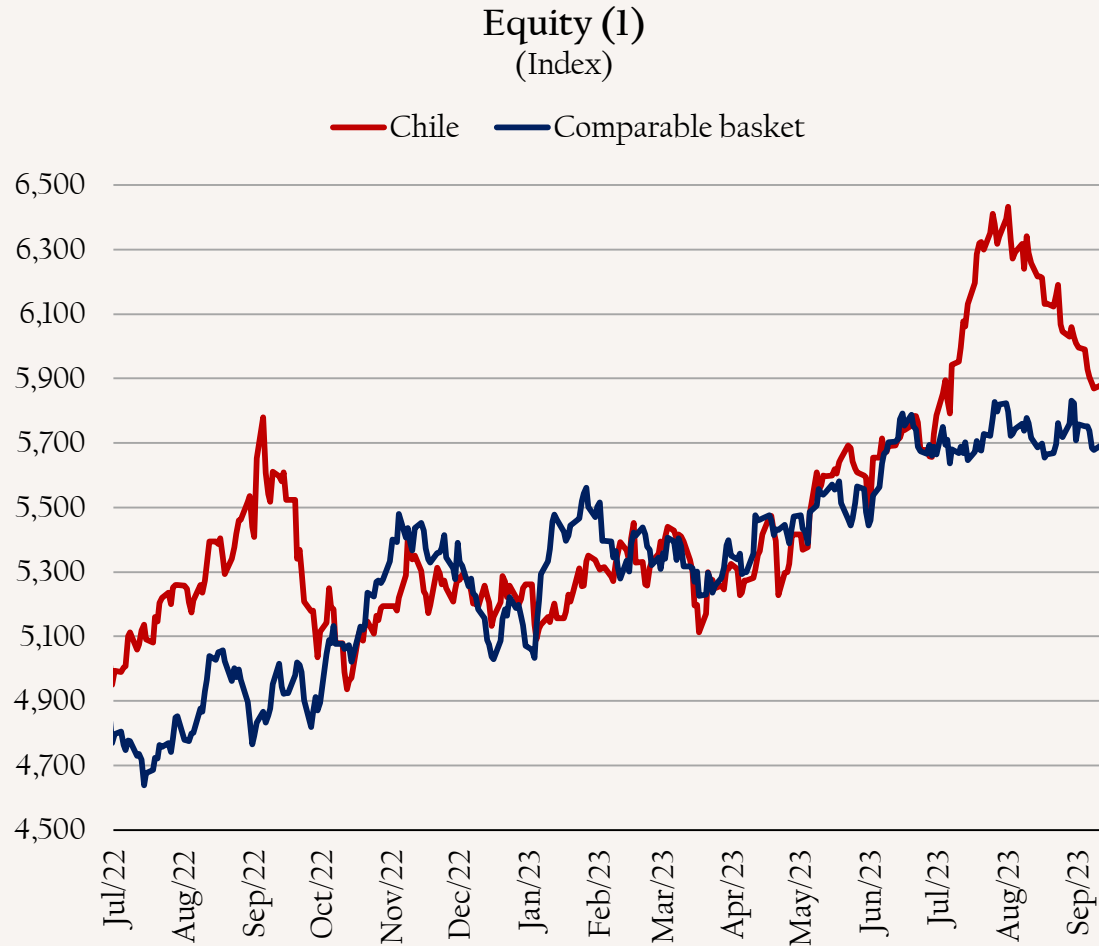
5 year Credit Default Swap (basis points)



Note: PR: Pension Reform. The basket of comparable economies considers Latin American and commodity exporters countries (Brazil, Colombia, Mexico, New Zealand, and Peru). Weights are the coefficients of a cointegrating relationship with Chile's variables. Data up to September 11th

Source: Central Bank of Chile, Ministry of Finance and Bloomberg.

Stock market indicators show less risk aversion compared to last year. Recovering price-earnings ratios still have ample headroom

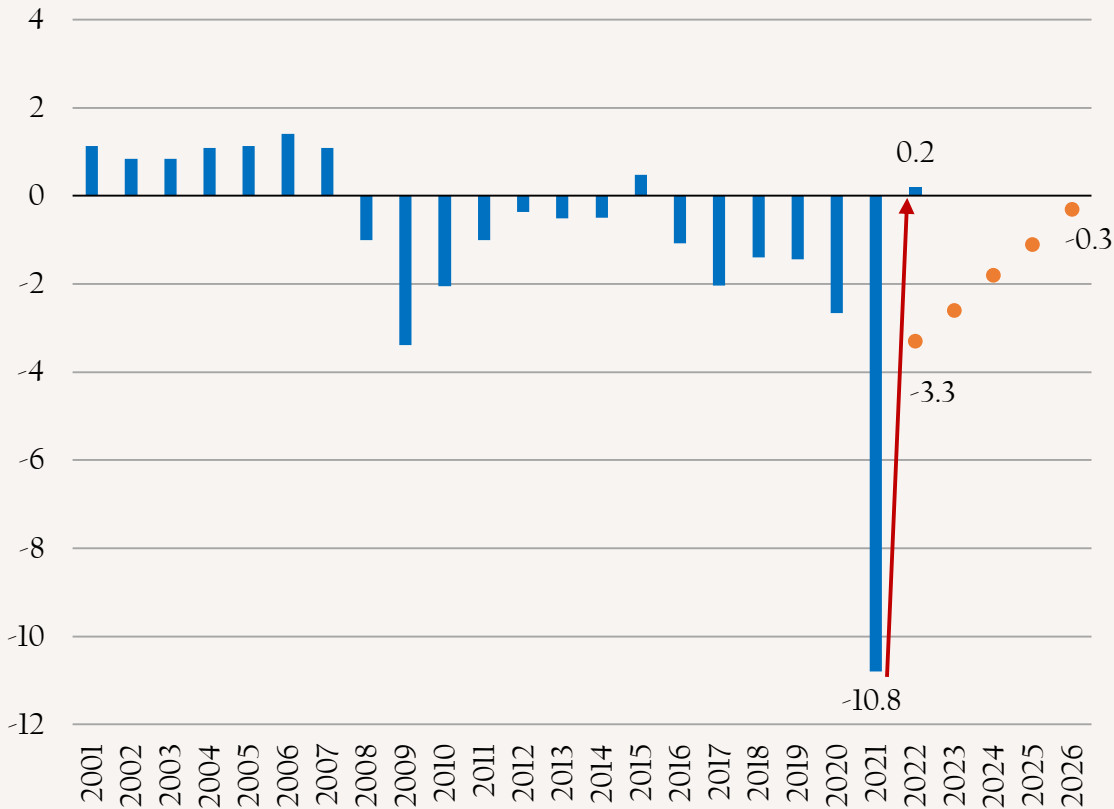


Note: (1) The basket of comparable economies considers Latin American and commodity exporters countries (Brazil, Colombia, Mexico, New Zealand, and Peru). Weights are the coefficients of a cointegrating relationship with Chile's variables. Data up to September 11th. (2) Data available up to August.

Source: Bloomberg.

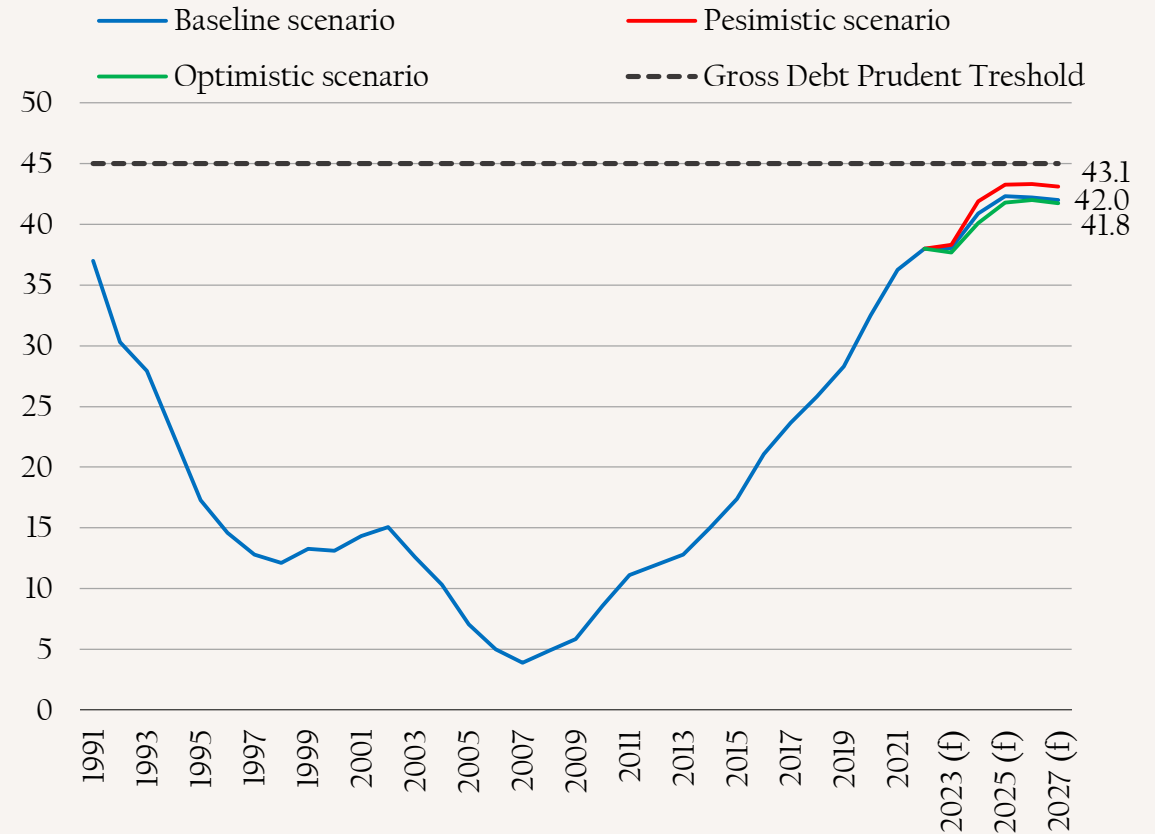
The execution of fiscal policy in 2023 and the forthcoming 2024 Budget will be fully compliant with the trajectory set in May, 2022, keeping debt/GDP well below the 45% ceiling

Structural Fiscal Balance (% of GDP)



Note: Orange dots show the senda de metas anuales consistentes con el Decreto de Política Fiscal in accordance with the Fiscal Policy Decree (June 2022)
Source: Budget Office (Dipres).

Total Debt of the Central Government (% of GDP)

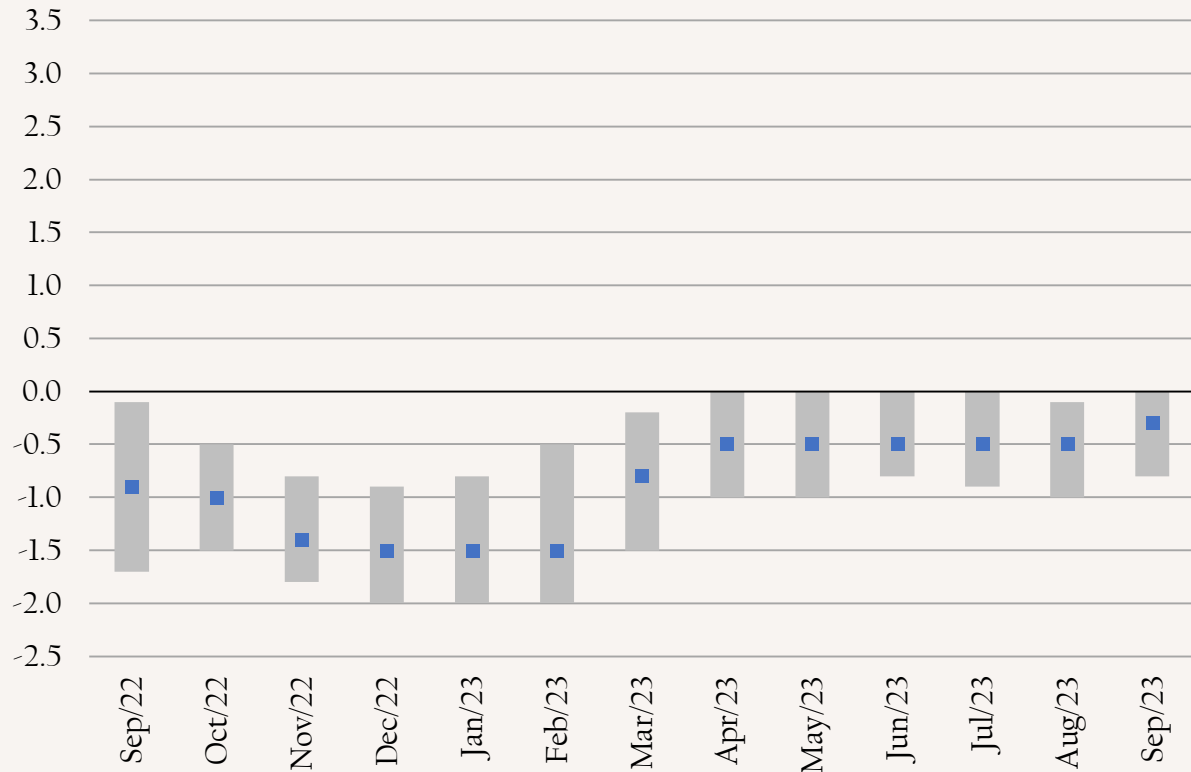


Note (f): forecast.
Source: Budget Office (Dipres).

Activity grew in the first half of 2023 compared to 2H2022. 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. Positive annual growth will emerge in 2024

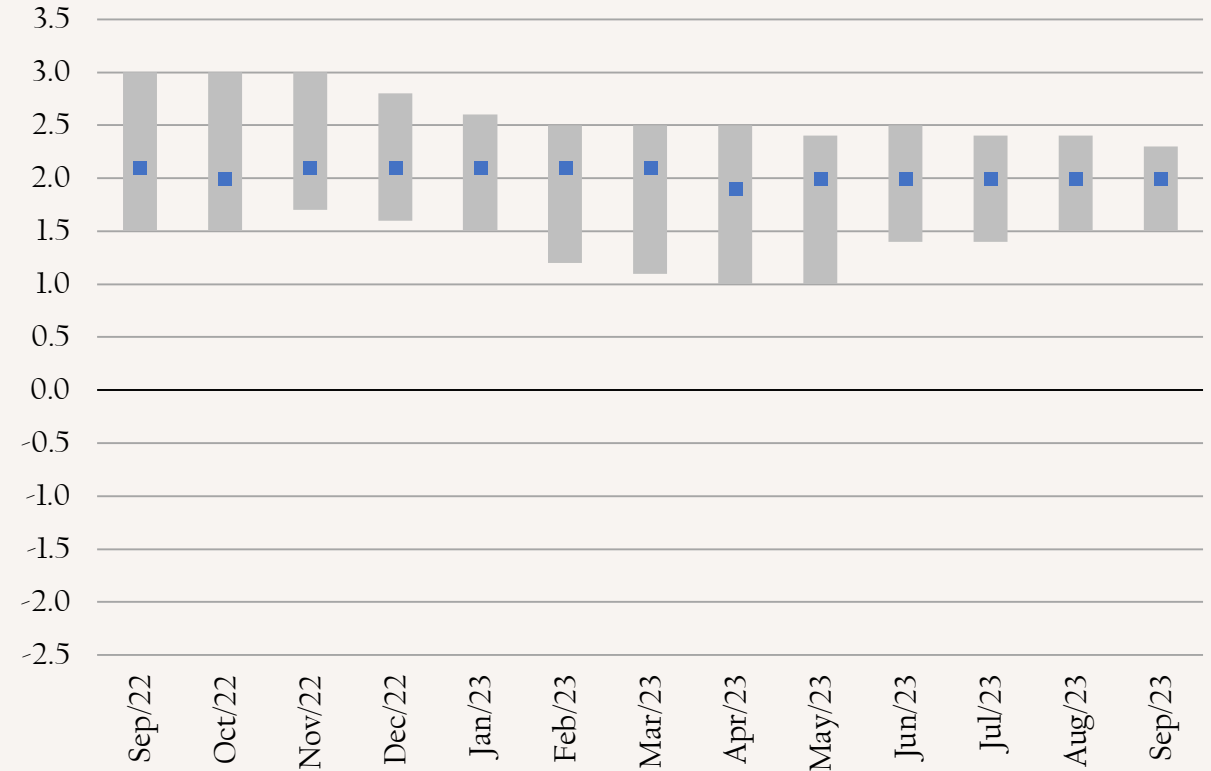
2023 GDP Growth Forecast (percentage)

■ EEE - P90-P10 ■ EEE - Median



2024 GDP Growth Forecast (1) (percentage)

■ EEE - P90-P10 ■ EEE - Median

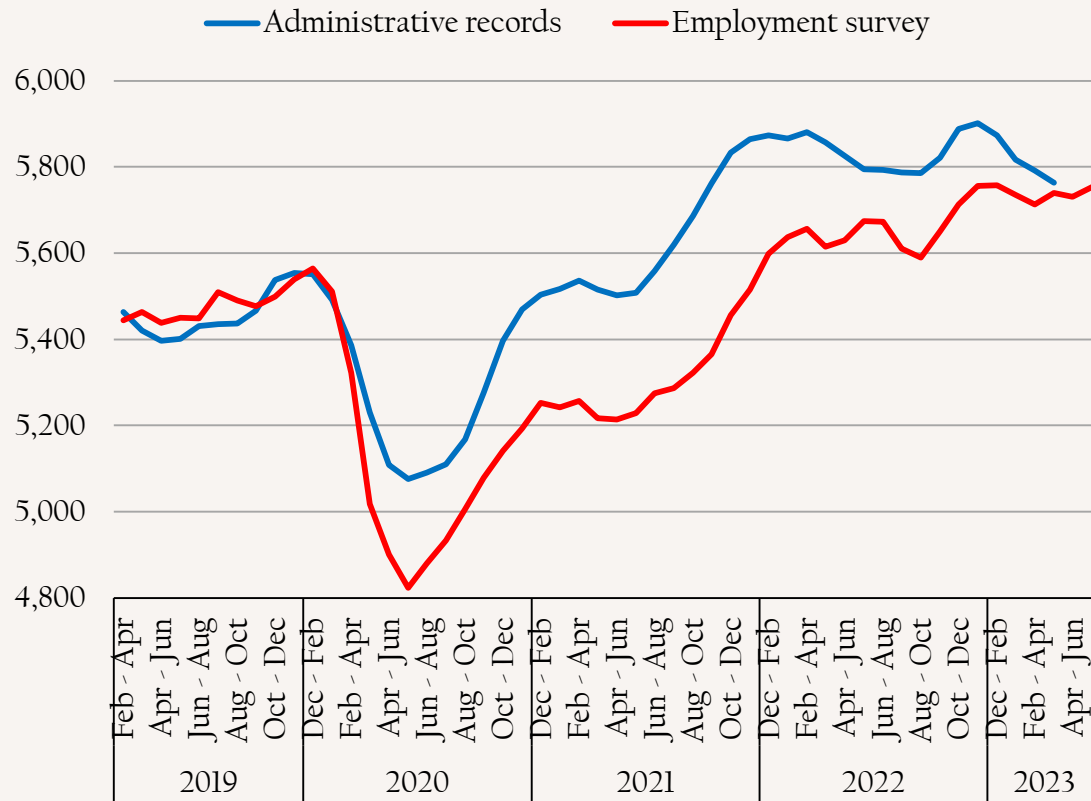


Overall, Chile's average economic growth from 2020 to 2023 is expected to be aligned with its per capita GDP when compared to a wide range of countries

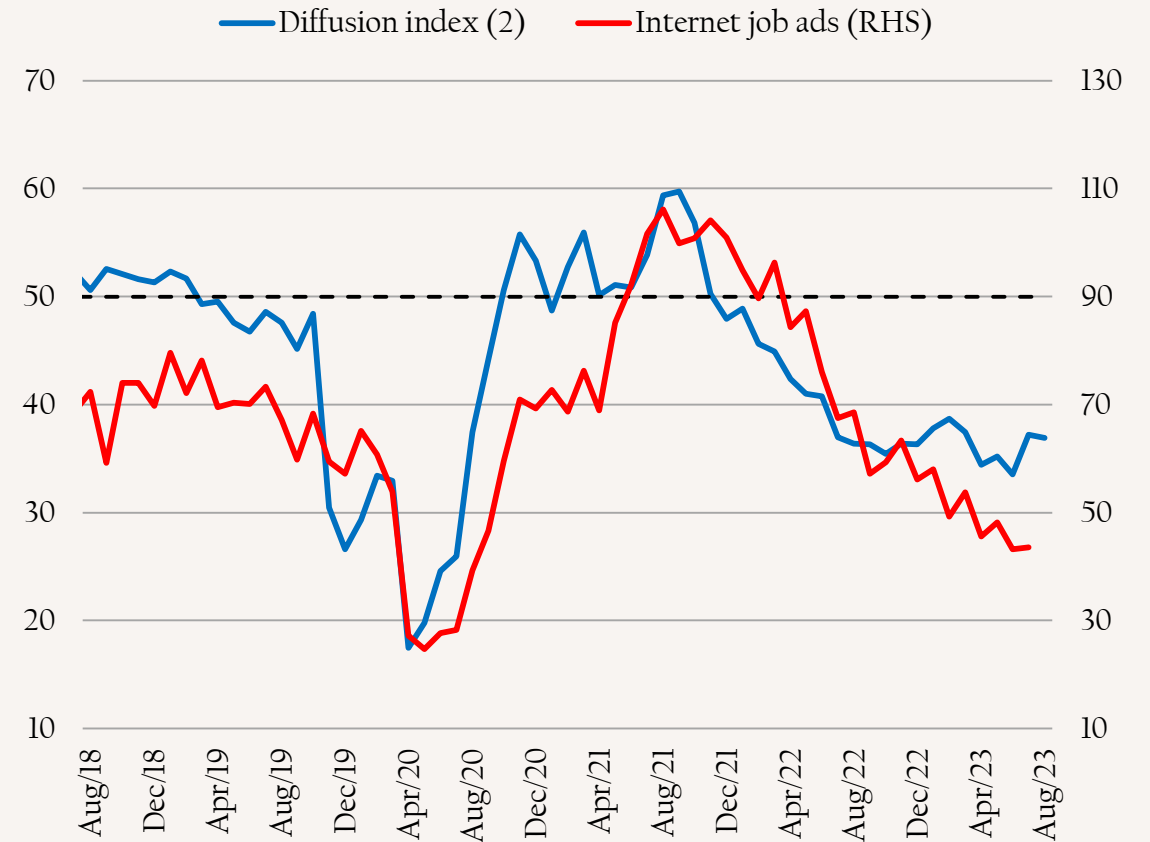
	GDP per capita 2019 (PPP; 2017 international dollar)	Annualized GDP Change Rate between 2019 and 2023 GDP (percent change)
Peru	12.886	1,5
South Africa	13.690	0,1
Brazil	14.799	1,3
Colombia	15.000	2,8
Thailand	18.432	0,3
Mexico	19.923	0,3
Costa Rica	20.272	2,5
Argentina	22.072	1,2
Uruguay	22.661	1,2
Chile (1)	23.906	1,8
Average excl. Chile	26.791	1,9
Malaysia	27.914	2,6
Turkey	28.486	5,3
Croatia	29.326	2,8
Greece	29.660	1,8
Panama	31.646	2,2
Poland	33.259	2,4
New Zealand	42.169	2,0
Canada	49.565	1,1
Australia	50.473	2,1

After a strong recovery from the crisis, labor demand has slowed down significantly. Overall, formal employment has proven more dynamic than informal

Formal salaried employment: Survey and Administrative data (1)
(thousands)



Labor demand (indexes)

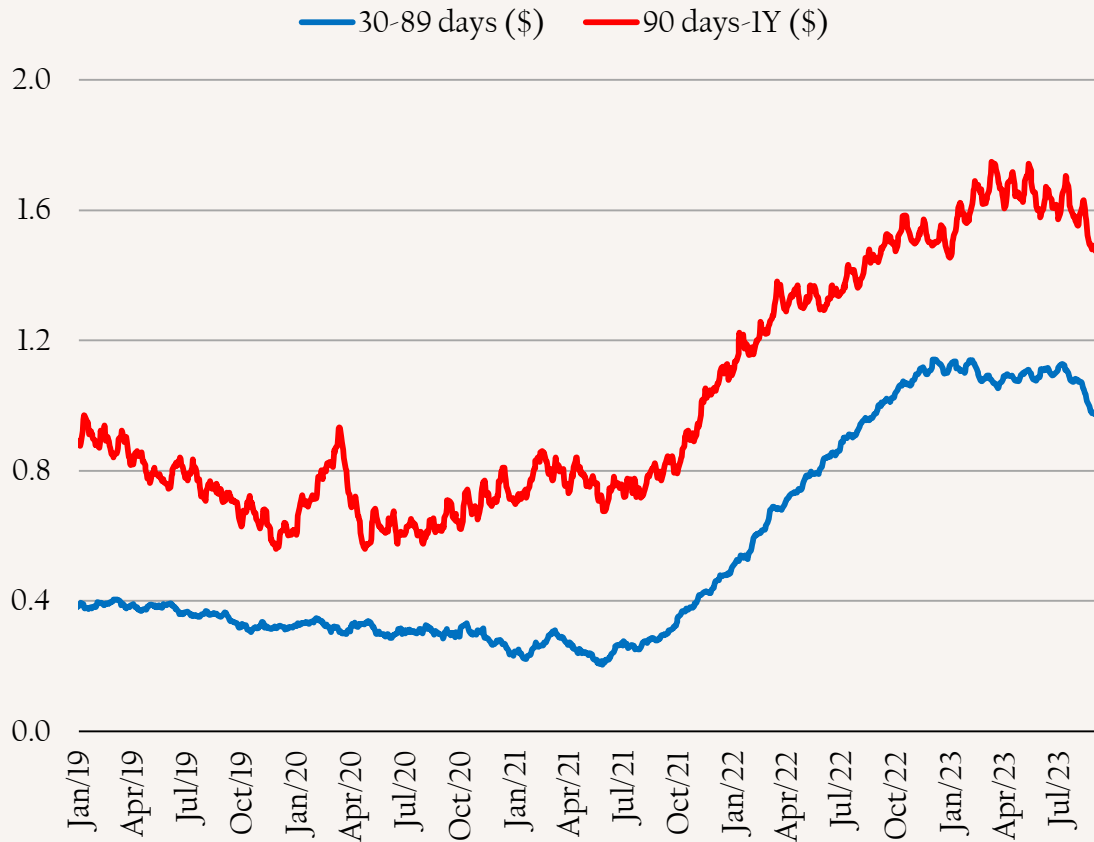


Note: (1) Administrative records correspond to retirement contributors inform by the Pensions Supervisor.
Source: National Statistics Institute and Pensions Supervisor.

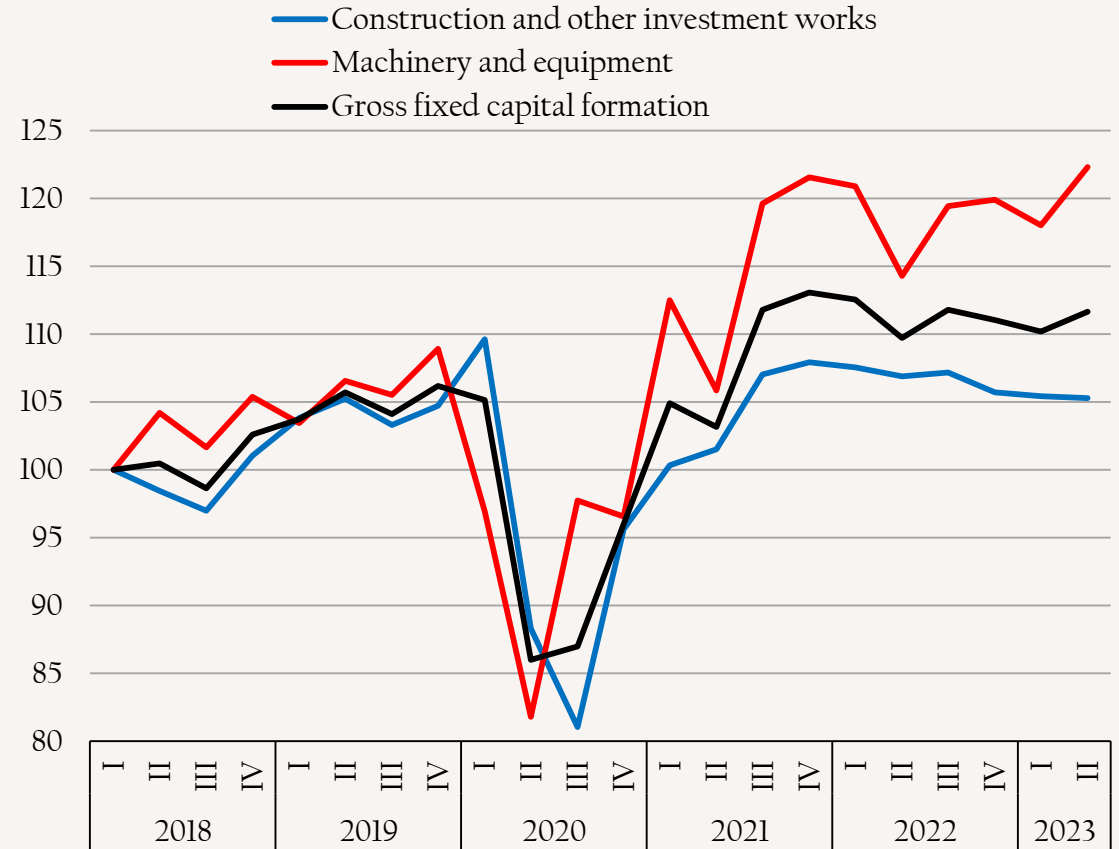
Note: (2) Average of IMCE (monthly business confidence index) employment indicators in Commerce, Industry and Construction. Values above (under) 50 indicate optimism (pessimism).
Source: Central Bank of Chile and Ministry of Finance.

Lending rates have recently started to decline but remain still very high. Further easing of financial conditions should support investment in 2024

Lending rates
(monthly basis, 28-day moving average percentage)

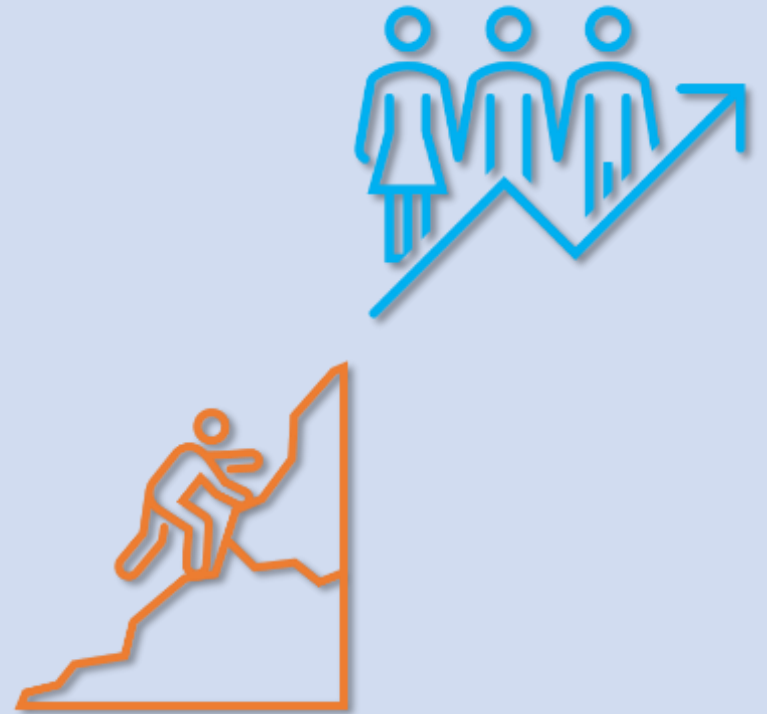


Gross fixed capital formation
(index, 2018Q1=100, seasonally adjusted)



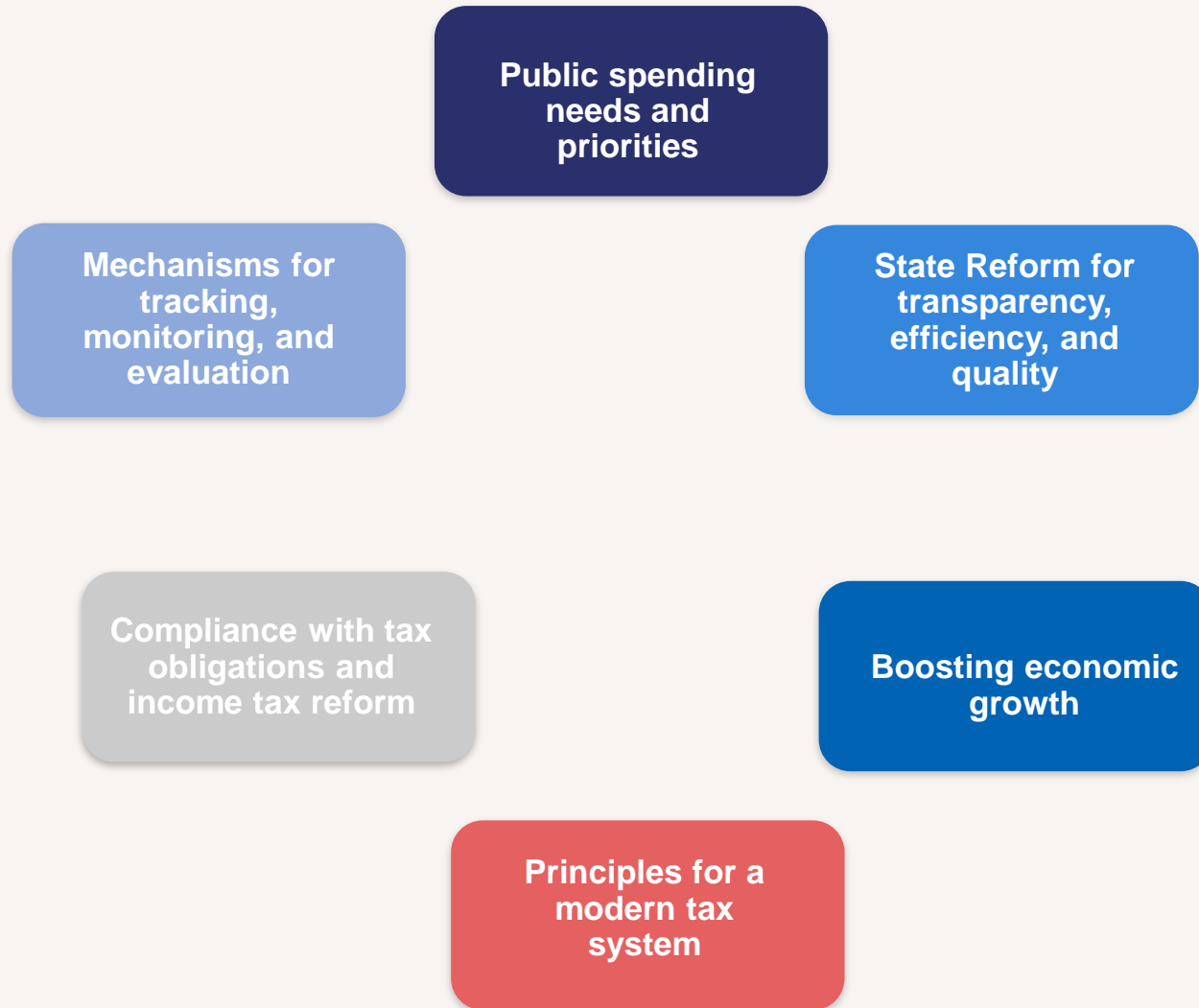
Source: Central Bank of Chile and Ministry of Finance.

Fostering economic growth and fiscal sustainability



- Economic growth is a necessary condition to improve the well being of the Chilean people and to make the transition to inclusive and balanced development.
- During its first year, the Boric Administration acknowledged the importance of growth, investment and jobs, filling various gaps in its original agenda. This translated into several pro investment proposals, a productivity agenda, new free trade agreements, and financial sector reforms to deepen capitals markets.
- A pro-growth agenda is emerging as part of the Fiscal Covenant proposed by President Boric in his address to the nation last June. Growth is singled out not only as a source of additional fiscal revenue, but also as an objective itself. In particular, the Government has proposed a set of 38 pro-growth measures grouped in three categories: (a) fostering private and public investment; (b) increasing productivity, and (c) reducing informality.
- In order to make a lasting impact in economic activity and fiscal revenues, this agenda should be able to recover potential growth, which decelerated significantly over the last 15 years. This appears as feasible in the light of the economic performance of similar economies and the opportunities that changes in the World economy are opening to Chile. Still, it will require consistency, persistence and a strong political backing.
- Other topics in the Fiscal Covenant agenda are public sector reform, principles for a modern tax system, strengthening of tax compliance and income tax reform. A follow-up and evaluation mechanism is also considered. This agenda is currently under discussion in a forum integrating all political parties and by a technical commission of former ministers of finance, central bank governors, and leading economists. The agenda is expected to converge into a comprehensive agreement by the end of September and feed into a reform fast-track pipeline.

Fiscal Covenant: an unprecedented all-party dialogue to promote sustainable growth, economic inclusion, fiscal sustainability and lower uncertainty through coordinated action



Fiscal Covenant: boosting economic growth through consistent action in key dimensions

Regulatory
rationalization for
investment projects

Tax incentives for private
investment

Opportunities for
productive diversification

Increased productivity
and human capital

Public investment boost

Reduction of informality
and incentives for
formalization

Streamlining regulations for investment projects

Sector permits

Comprehensive Reform to the Processing of Sectoral Permits

Environmental licence

Reform to the Regulation of the Environmental Impact Assessment System (Phase 2).
Reform to the Law on General Bases of the Environment(19.300)

Maritime Concessions and National Monuments

Legal and regulatory reforms to two of the license with the highest level of delay and of greater quantitative importance

Monitoring Metrics

Monitoring framework to reduce processing times by at least one third

Fund for tax credits on investments with multiplier effect

Tax benefits for private R&D

Development rate

Incentives for SME investment

Semi-instant depreciation

Temporary reduction of stamp duty tax

Venture Capital Financing

Productivity and Development Fund

**National Care System
and Child Daycare to Foster women's labor
participation**

Fighting informality

**New path of entrepreneurship:
Tax regime for small-sized companies is extended
and expanded**

The Pan-American Highway
of Chile
(12 projects)

Water Security
(2 projects)

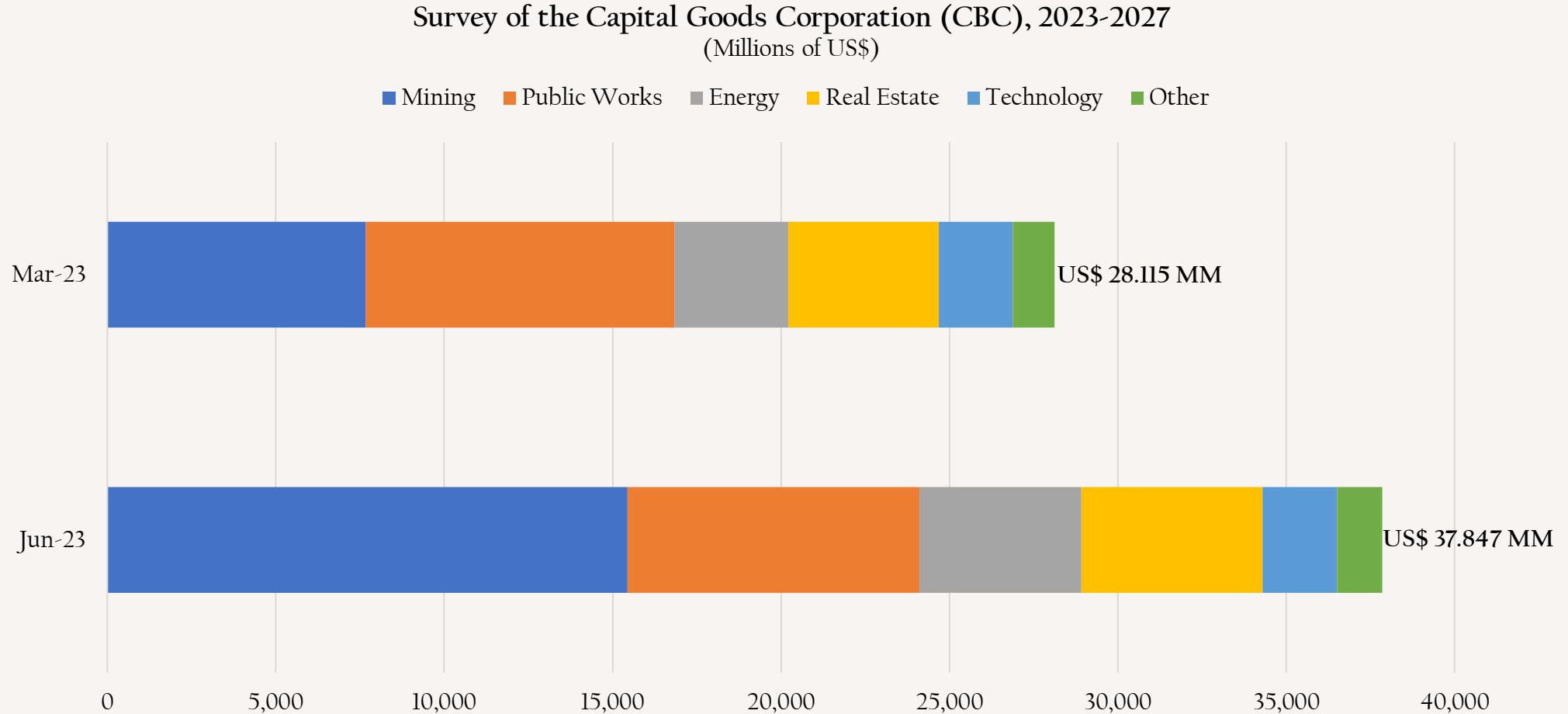
Airport
Service
(7 projects)

Better Cities
(31 projects)

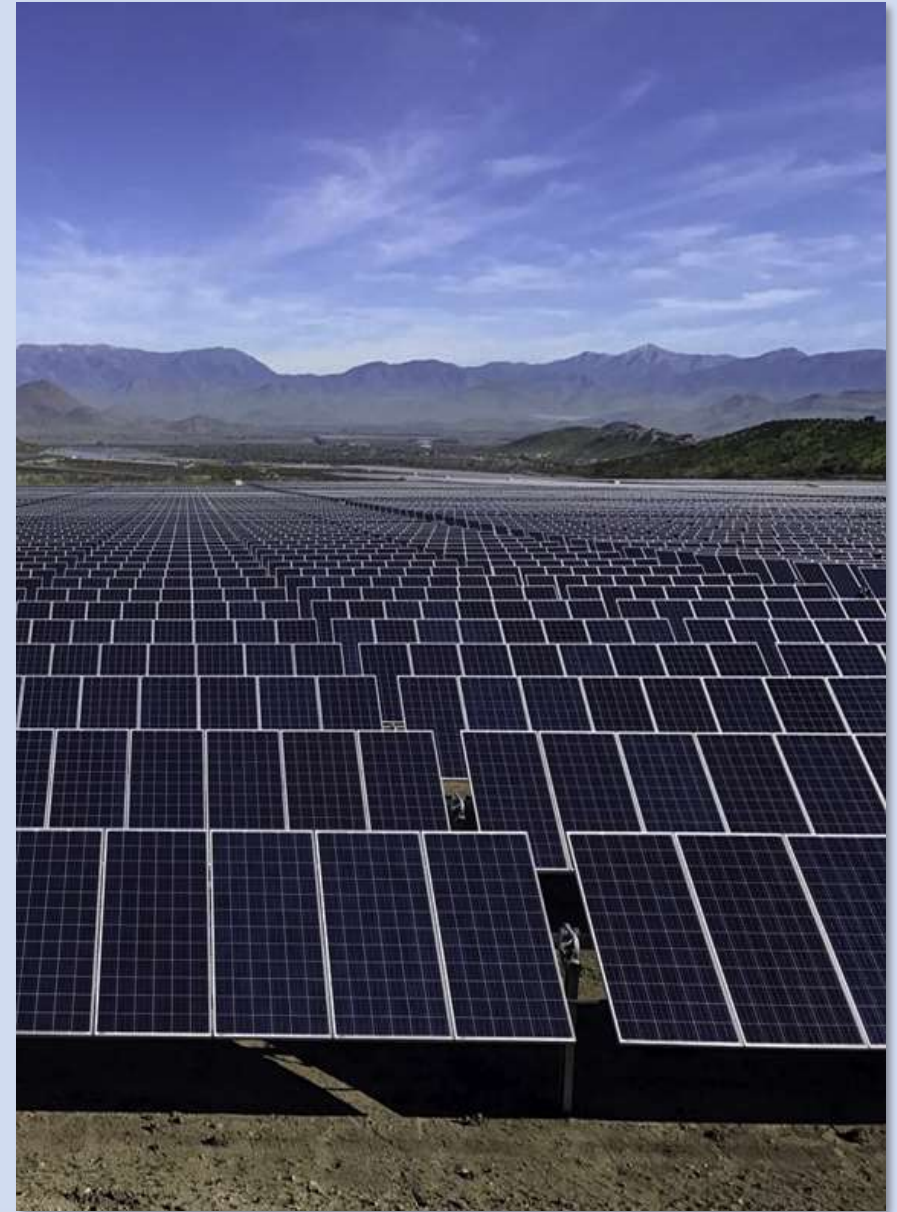


- Improvement of works: "Good Neighbor Program" (858 USD Millions)
- National Toll Policy
- Modernization agenda of the General Concessions Directorate

Private investment prospects for 2023-2027 are already improving. The survey of major investment projects by the Capital Goods Corporation increased by US\$ 9.7 billion (35%)



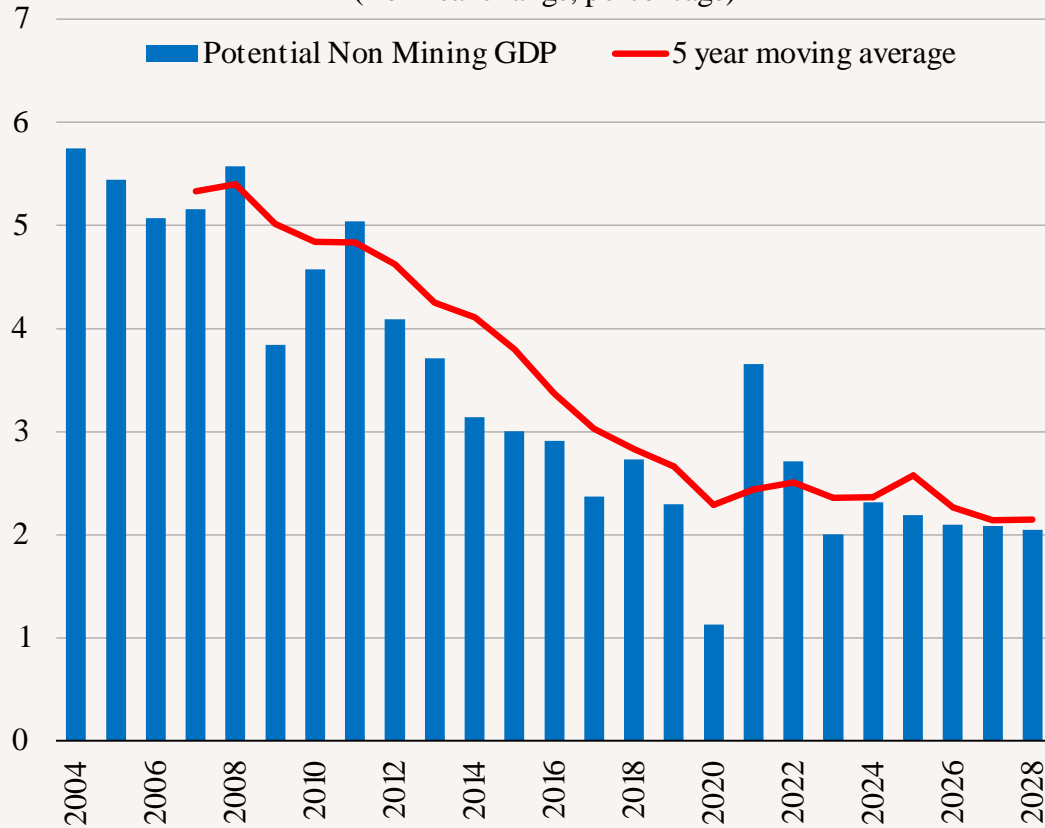
Emerging opportunities to increase potential growth



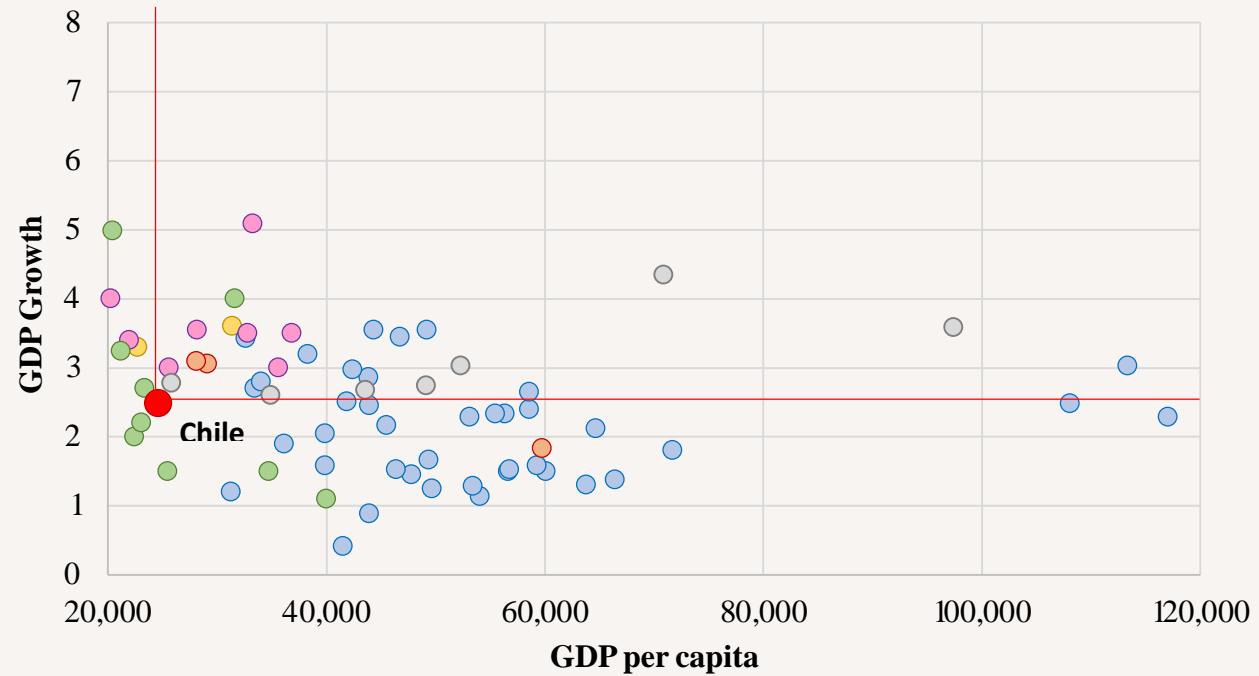
- During the last 15 years, growth potential has declined substantially in Chile, mostly due to stagnant productivity. While many factors can explain the latter, declining returns and growing environmental barriers to the growth strategy that emerged in the 1980s and 90s, plus global trade conflicts, have played an important role.
- The global move towards environmental sustainability and the development of the digital economy are opening new growth opportunities to Chile. The country has strong comparative advantages in the production of essential inputs to electromobility and renewable energies, as well as deep broadband penetration.
- Adequate policies and regulations are essential to grab these opportunities. The Government is building on previous experience to develop an enhancing environment. This includes fostering the greening of copper mining; developing a national lithium policy and a green hydrogen action plan; reinvesting lithium and copper earnings on R&D and infrastructure; full domestic connectivity and with business partners abroad, and the development of green financing.
- Private investment, foreign capital and technology are also key to a new development strategy. The government is working on speeding up project preparation and authorizations, as well as removing remaining sources of business uncertainty.
- The Fiscal Covenant agenda includes concrete targets in the five areas for 2026, alongside specific measures to achieve them.

Potential growth has declined by 2 ½ pp between 2005 and 2023. Stagnant productivity explains a large part of this. Comparison with countries at a similar level of development indicate that improvements are possible.

Potential Non Mining GDP (1)
(YoY real change, percentage)



GDP per capita and GDP Growth
(YoY percentage change, constant 2017 US dollar)



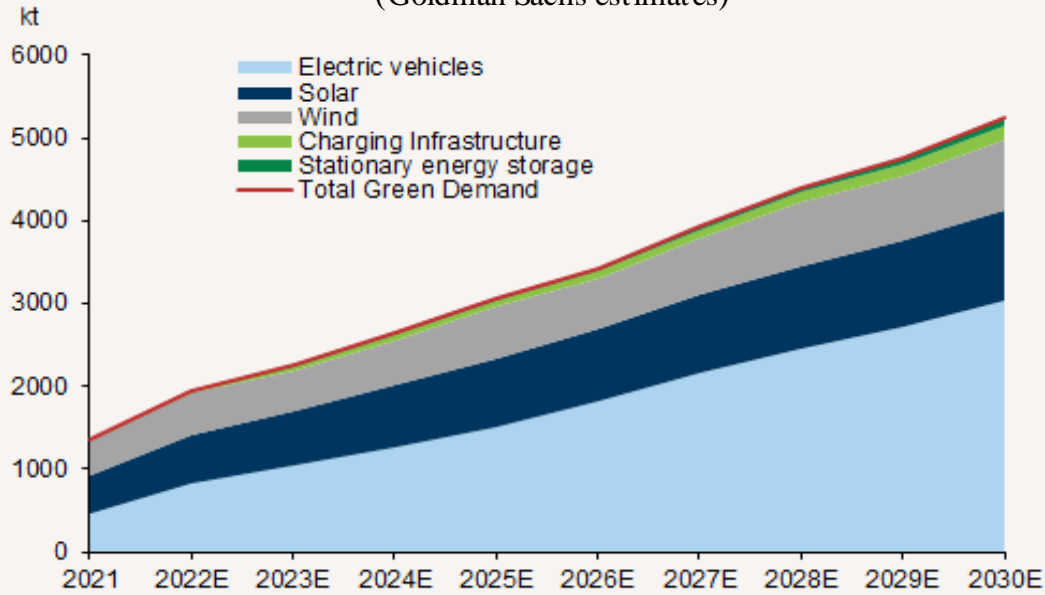
Note: (1) Trend GDP estimated by a Committee of Experts for Trend GDP in 2023.
Source: Ministry of Finance.

Note: Economies with GDP per capita greater than 20,000 constant 2017 international dollars are considered. GDP per capita is for the year 2022 at constant prices in Purchasing Power Parity (PPP). GDP growth is for the year 2028 at constant prices.
Source: International Monetary Fund (IMF)

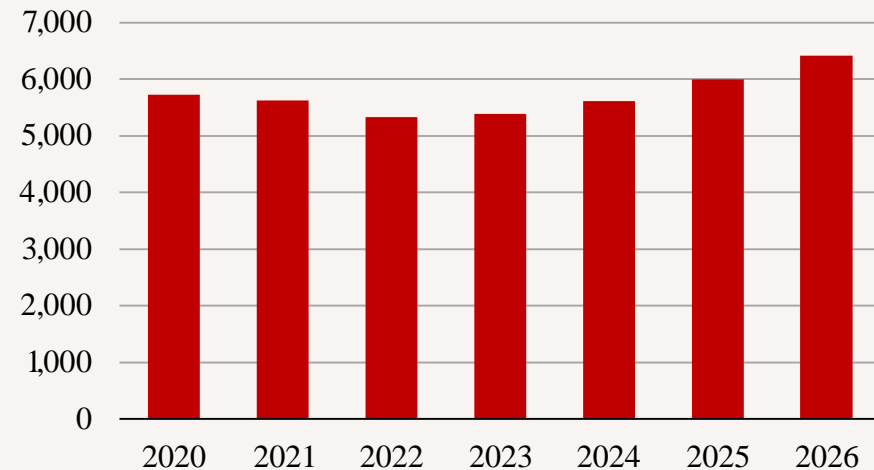
Economic sector	Goal to 2026
Clean and competitive mining	Accomplish and keeping production forecast of Cochilco
Lithium	3 to 4 new projects in development
Renewable energies	2/3 of matrix of electricity generation from renewable sources
Green hydrogen	10-12 projects in development
Digital economy	The growth of the digital economy triples the average growth of the economy

A greener global economy will increase demand for Chilean commodities like copper. Mining companies are investing to become a cleaner, greener industry

Copper demand from “green factor”
(Goldman Sachs estimates)



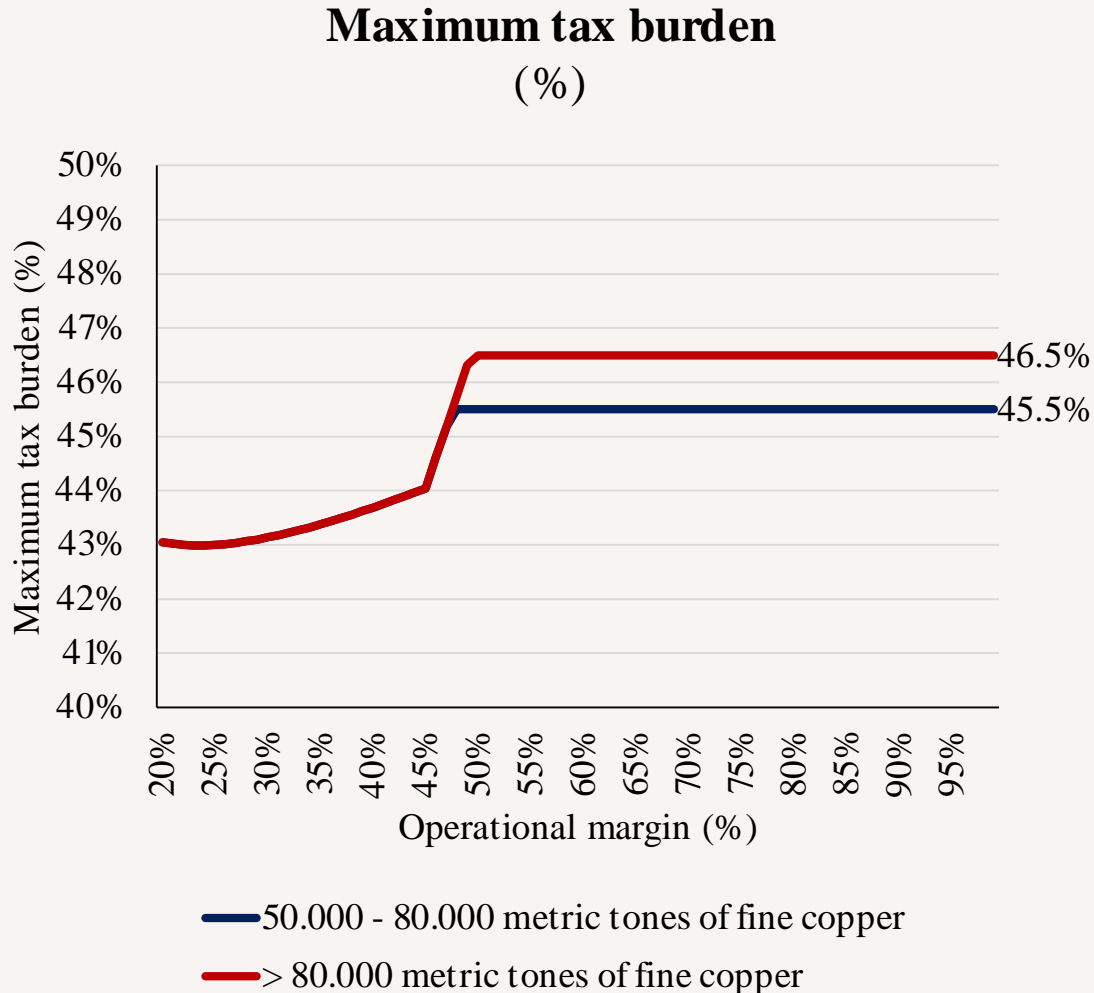
Copper production forecast
(millions of tons)



Copper greening:

- Desalination plants
- Water recirculation processes
- Renewable energy supply
- Stricter emission standards
- More efficient, cleaner smelting plants

Copper mining Royalty increases revenues for the State while ensuring stability and preserving incentives to invest



Home > News > Media Centre > Reports and presentations

Mike Henry speech at World Mining Congress 2023

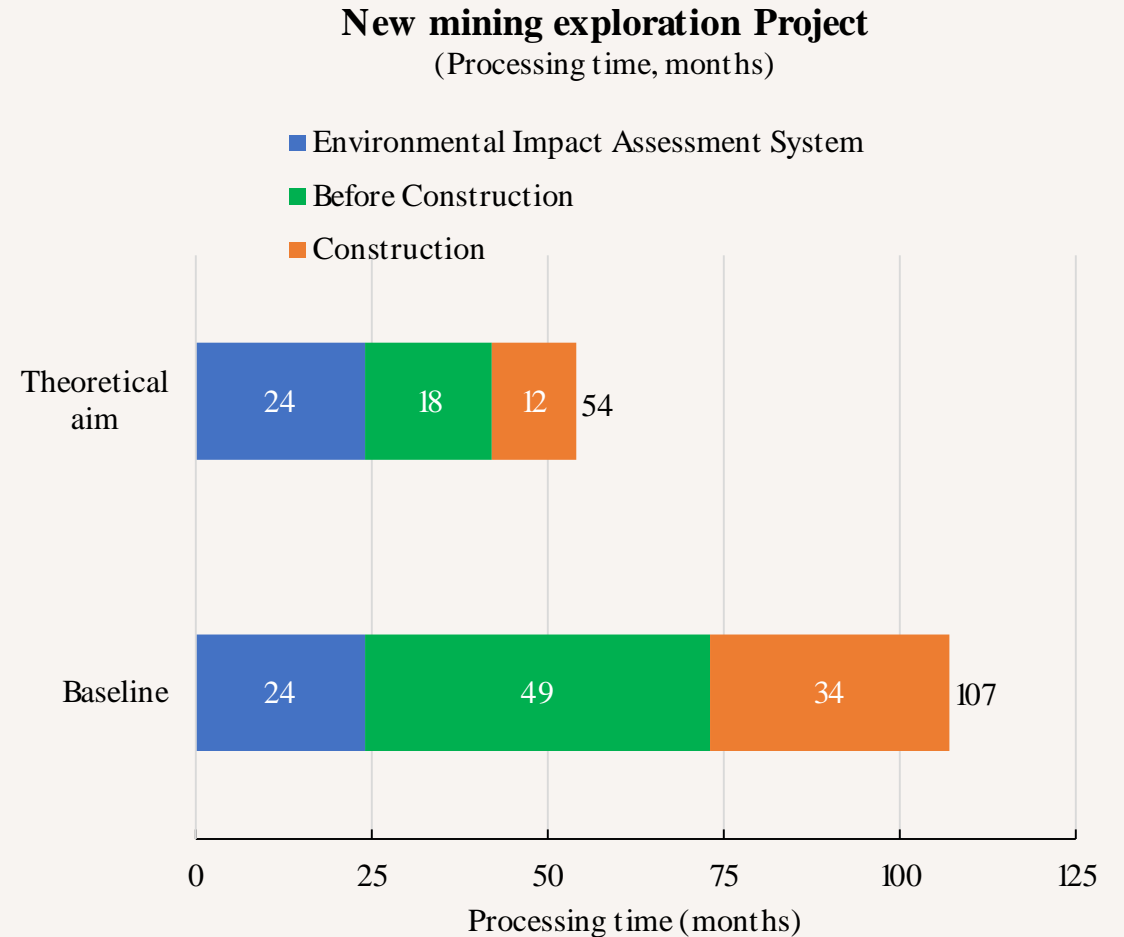
Mike Henry, CEO BHP:

The Government “engaged industry, and sought to understand and to work towards an outcome that struck a balance between public needs and what was required to keep industry and the country competitive (...). The process was respectful, with a focus on understanding and collaboration.”

“Both the outcome and the process lent themselves well towards maintaining investment attractiveness and BHP will continue to invest there.”

A technical committee is identifying ways to reduce processing times for mining investment authorizations by a third. A recent study by the National Evaluation and Productivity Commission (CNEP) estimates this is an feasible goal

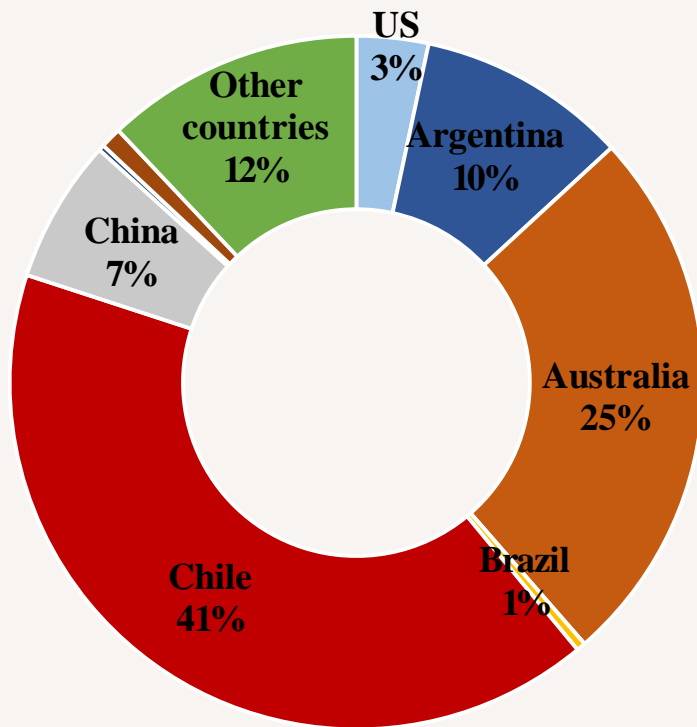
- As part of the mining royalty negotiations, a technical committee was established, comprising representatives from key regulatory bodies, relevant ministries, the CNEP and the private sector.
- Its objective is to recommend a set of legal, regulatory, administrative, managerial, and budgetary measures to reduce by a third the aggregate processing time of the procedures required for an investment project to be approved, while maintaining protection standards (e.g., environmental).
- The CNEP was mandated to build a baseline, which will provide an integral measurement of the effective processing times before the measures are implemented and their evolution. The figure shows the impact on processing times of some recommendations according to the CNEP (2023).



Note: Assumptions: project in rural location, necessity of an Environmental Impact Evaluation.
Source: “Analysis of Priority Sector Permits for Investment in Chile” study, National Evaluation and Productivity Commission (2023).

Lithium demand is booming. Chile, the second-largest producer, leads in reserves internationally

Lithium reserves by country in 2023
(percentage of total reserves)



Top prospects regarding their geological potential to host lithium projects (1)

SALARES ZONA NORTE

1. Atacama
2. Tara
3. Aguas Calientes Norte ó 1
4. Pujsa
5. Loyoques o Quisquiro
6. Aguas Calientes Centro ó 2
7. El Laco
8. Aguas Caliente Sur ó 3

SALARES ZONA SUR

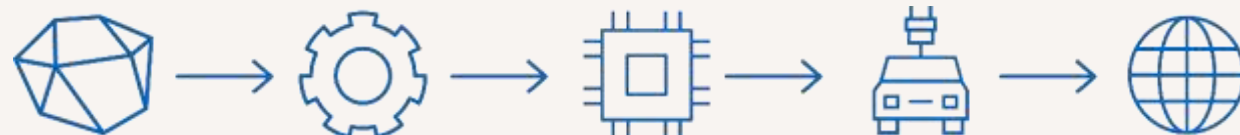
9. Aguas Calientes Sur Sur ó 4
10. Pajonales
11. Gorbea
12. Agua Amarga
13. La Isla
14. Aguilar
15. Parinas
16. Grande
17. Pedernales
18. Maricunga

Note: (1) The National Geology and Mining Service (SERNAGEOMIN) identified 18 salt flats located in the regions of Antofagasta and Atacama as the top prospects regarding their geological potential to host lithium projects.

Source: United States Geological Survey (USGS), National Geology and Mining Service (Sernageomin), www.gob.cl/litioporchile and Ministry of Finance.

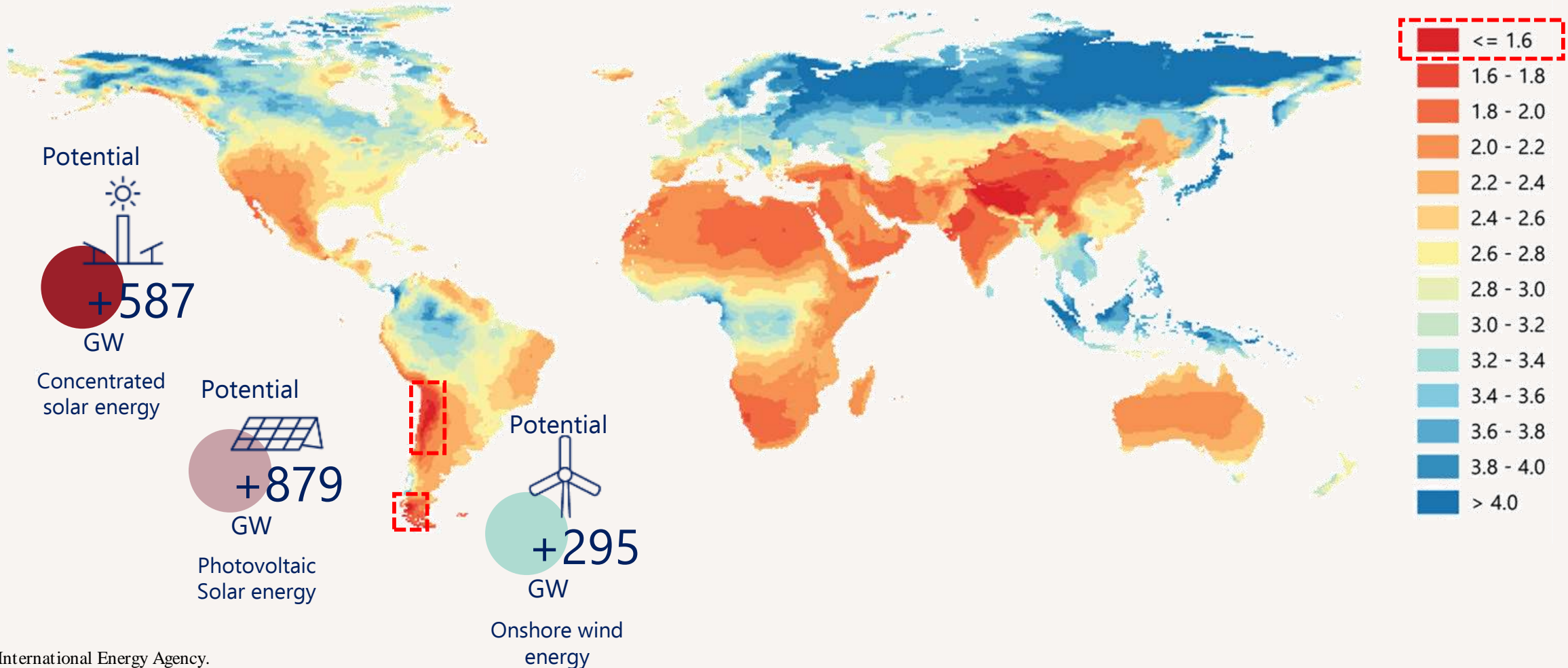
The main objectives of the National Lithium Strategy address aspects of productive diversification, sustainability, stakeholders, mining development and economic growth. The development of the industry will leverage public-private cooperation through joint ventures

Strategy's Implementation Timeline



Chile is uniquely positioned to produce renewable energy and Green Hydrogen. The Atacama Desert provides the highest photovoltaic potential while Patagonia strong and constant winds create great advantages for the generation of windpower

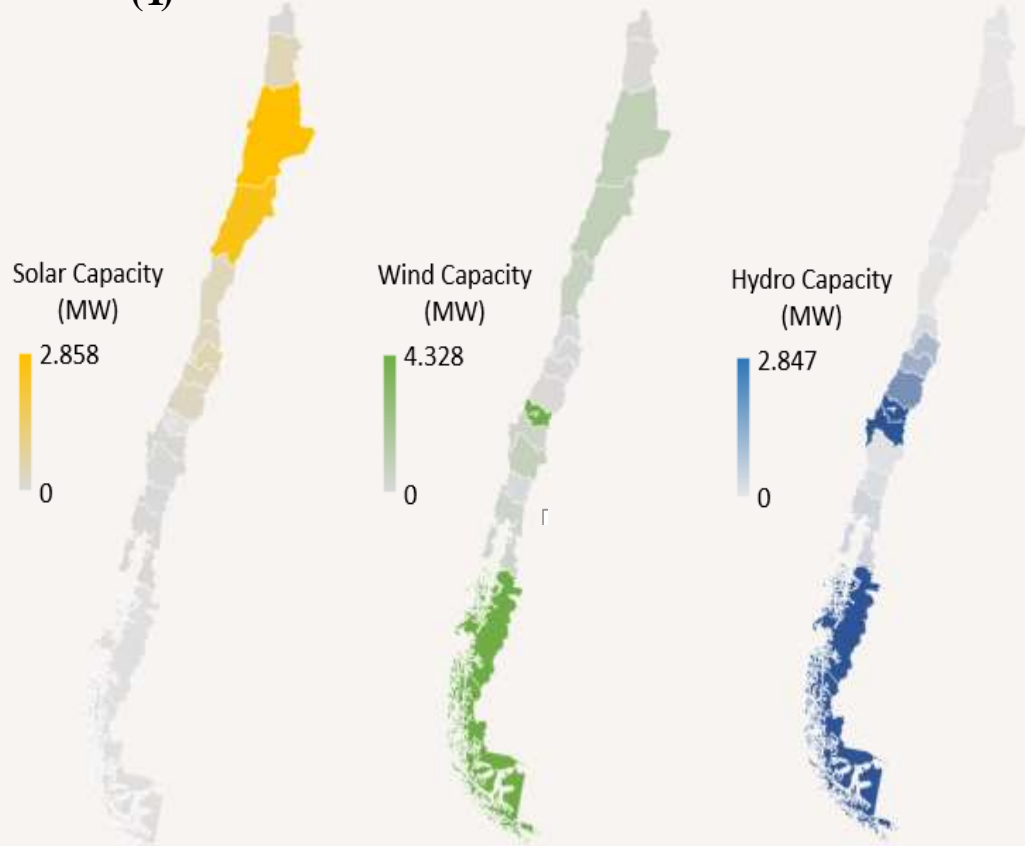
Hydrogen costs from hybrid solar PV and on-shore wind system in the long term
(USD/kgH₂)



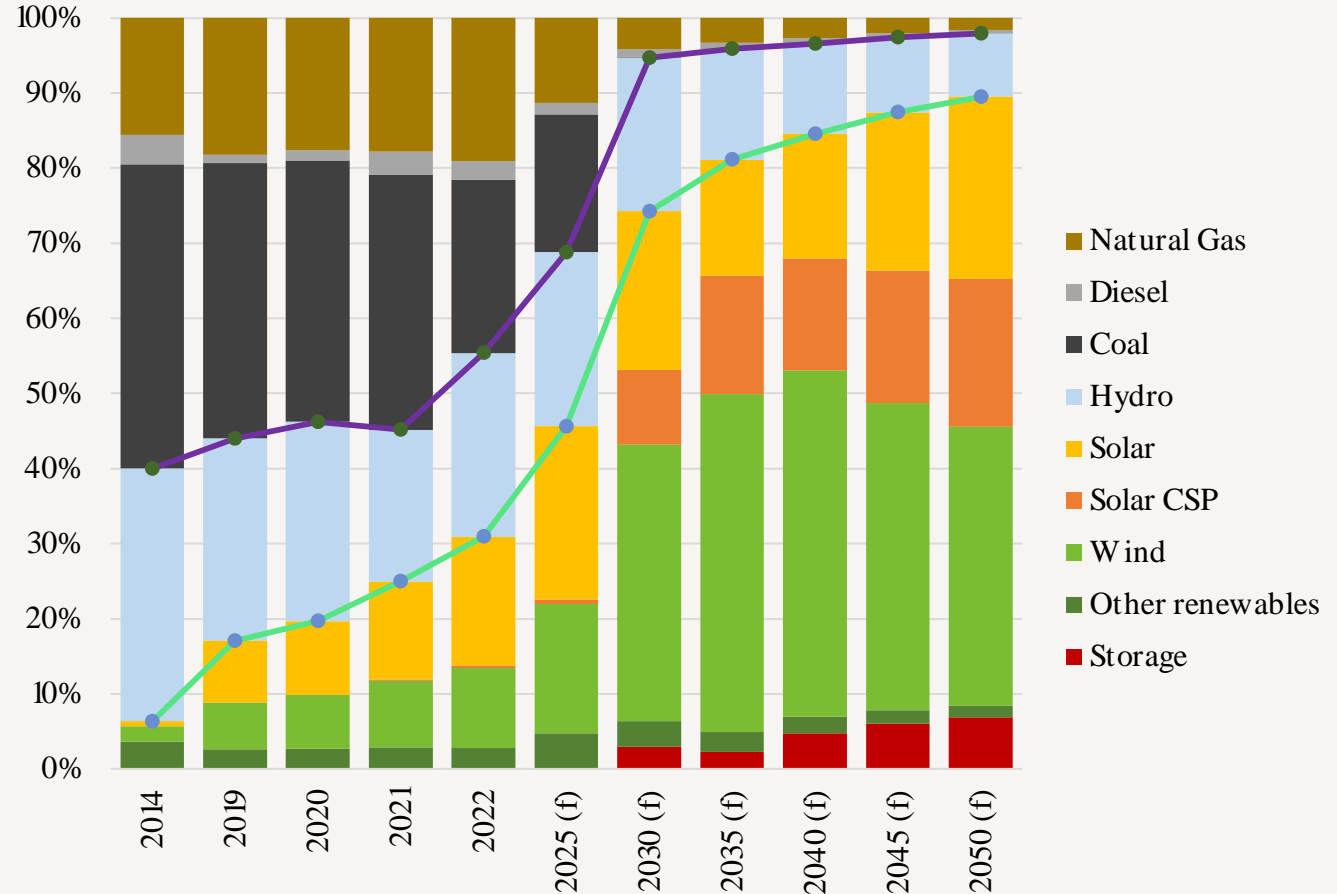
Chile is committed to confront climate change by making significant changes to its energy matrix. Chilean renewable installed capacity has already a great potential to become the main producer of energy in the country

Gross Power Installed Capacity by Region in 2022

(1)



Electricity generation by technology and NCRE participation



Note: (1) Maximum gross power installed in the National Electric System. It considers operational power plants as well as those in the testing phase. (f): forecast.

Source: National Electric Coordinator and Ministry of Energy.

The current administration is working on a Green Hydrogen Action Plan 2023-2030. More than 50 projects across the country are under study while several pilot initiatives are starting to operate

Some measures in the H2V Action Plan

- Development of environmental baselines
- US\$ 1bn financial facility with WB, IADB, KfW, EIB and CAF, to provide credit, risk coverage
- Magallanes GH2 Regional Transformation and Green Corridors project
- National Plan for the Promotion of Green Hydrogen Production in Fiscal Territory (*Ventana al Futuro*)
- Ports plan, with involvement of regional governments, ENAP and National Government

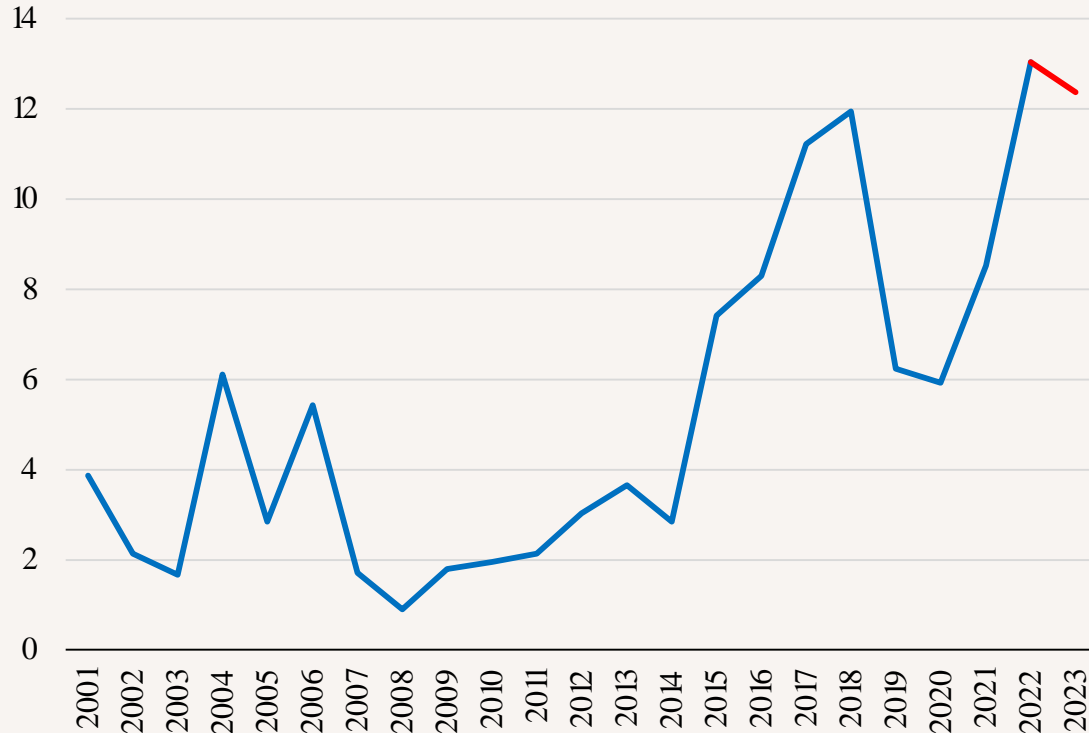


The goal to 2026 is that the growth of the digital economy triples the average growth of the economy

Technological sector participation on private investment

(% of total private investment)

— Historical — Estimation



Source: Capital Goods Corporation 2023Q2 survey.

Development instruments

Increase investment in science and technology to 1% of GDP

Investment of mining and lithium revenues in R&D

Public investment in connectivity in excluded areas

Expansion of training programs in digital skills: Increase coverage to up to 50,000 people by 2026, in addition to other SENCE and CORFO programs.

Submarine cable linking Asia-Pacific and South America through Chile

- Foreign investment is welcome to contribute to the development of a new inclusive, sustainable growth path in Chile.
- Strong and reliable institutions, transparent regulations, respect for the rule of law, a solid, resilient economy, an educated labor force are some well-known strengths.
- A sophisticated financial market offers opportunities for both portfolio investments, FDI and venture capital.
- Taxation on proceeds from foreign investment will remain stable after the Royalty on mining, given the overall cap on tax burden. Tax reform is committed not to touch foreign investors.
- Chile's broad network of trade agreements also foster market access, investor protection as well as world-class labor and environmental standards.
- Progress in addressing social and security needs should further contribute to grant a favorable and stable business environment and to make Chile as a top destination for global investors.

Rebalancing the Chilean economy to build a better future

Chile Day – London 2023

September 2023



Mario Marcel | Minister of Finance