

Ministerio de Hacienda



Recent developments, challenges and prospects of the Chilean economy

VI International Invest Chile Forum 2022

December 2022

Mario Marcel | Minister of Finance

Agenda

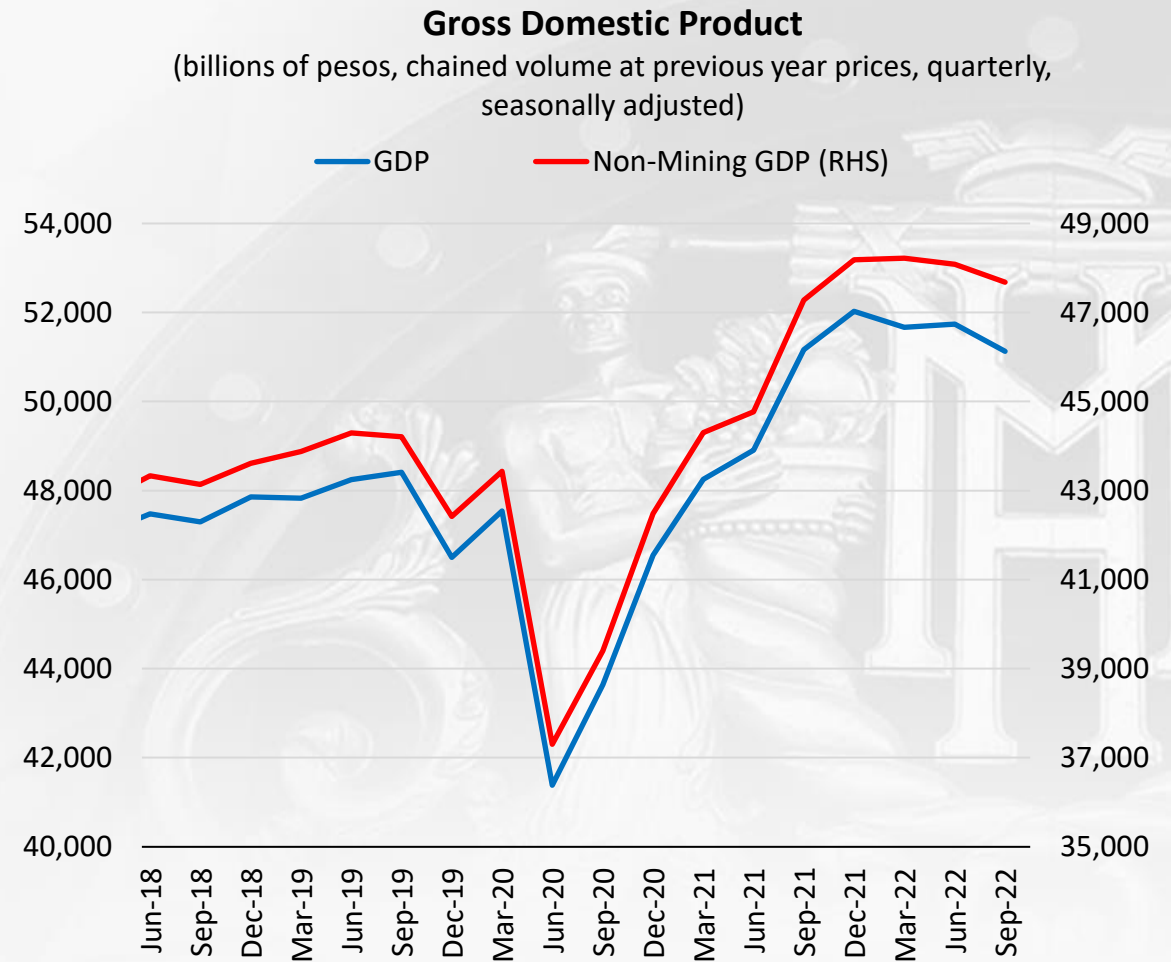
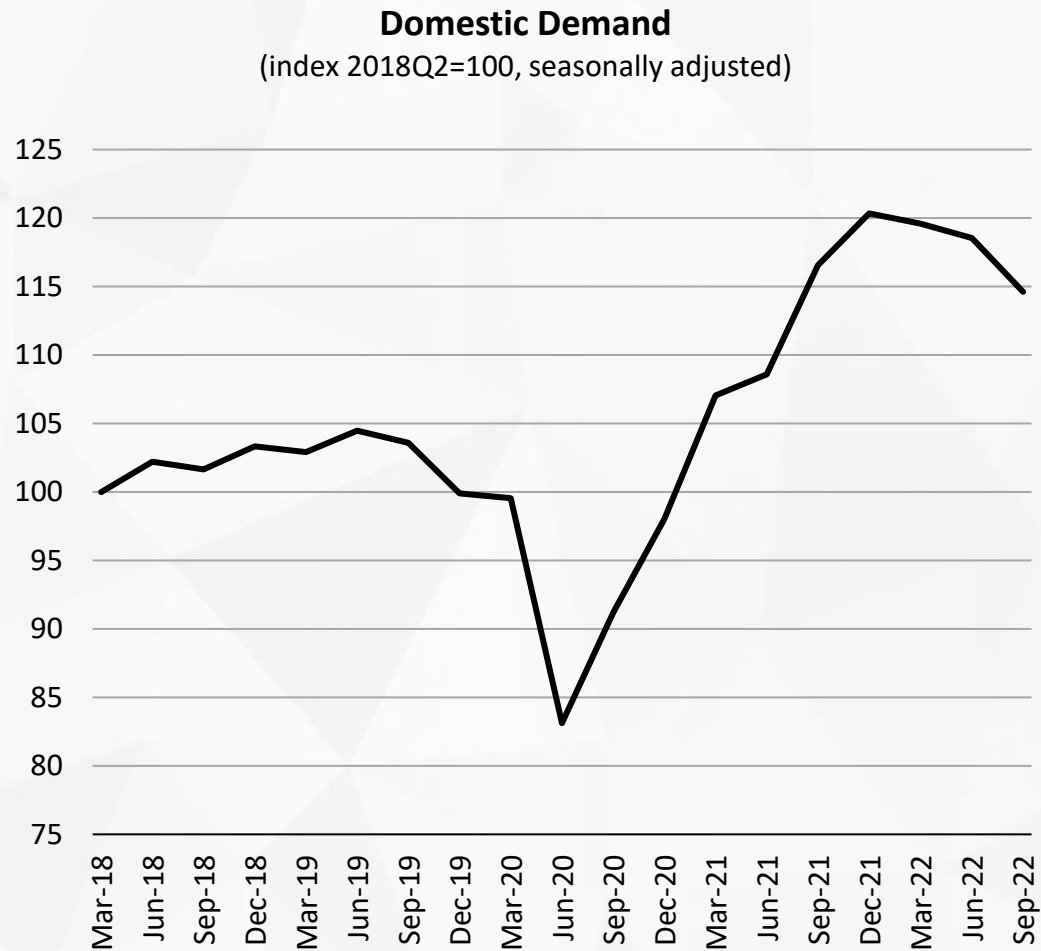
1. Recent Macro Developments

2. Economic priorities, work agenda and opportunities



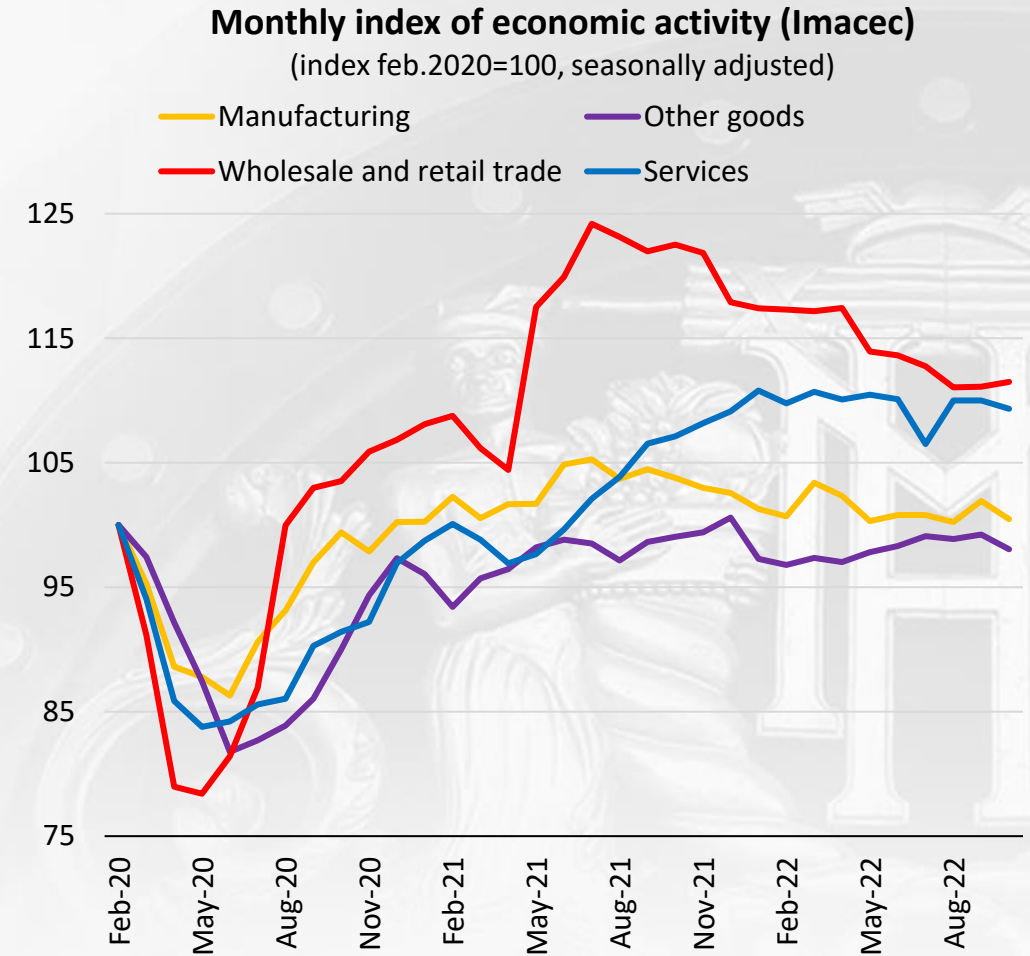
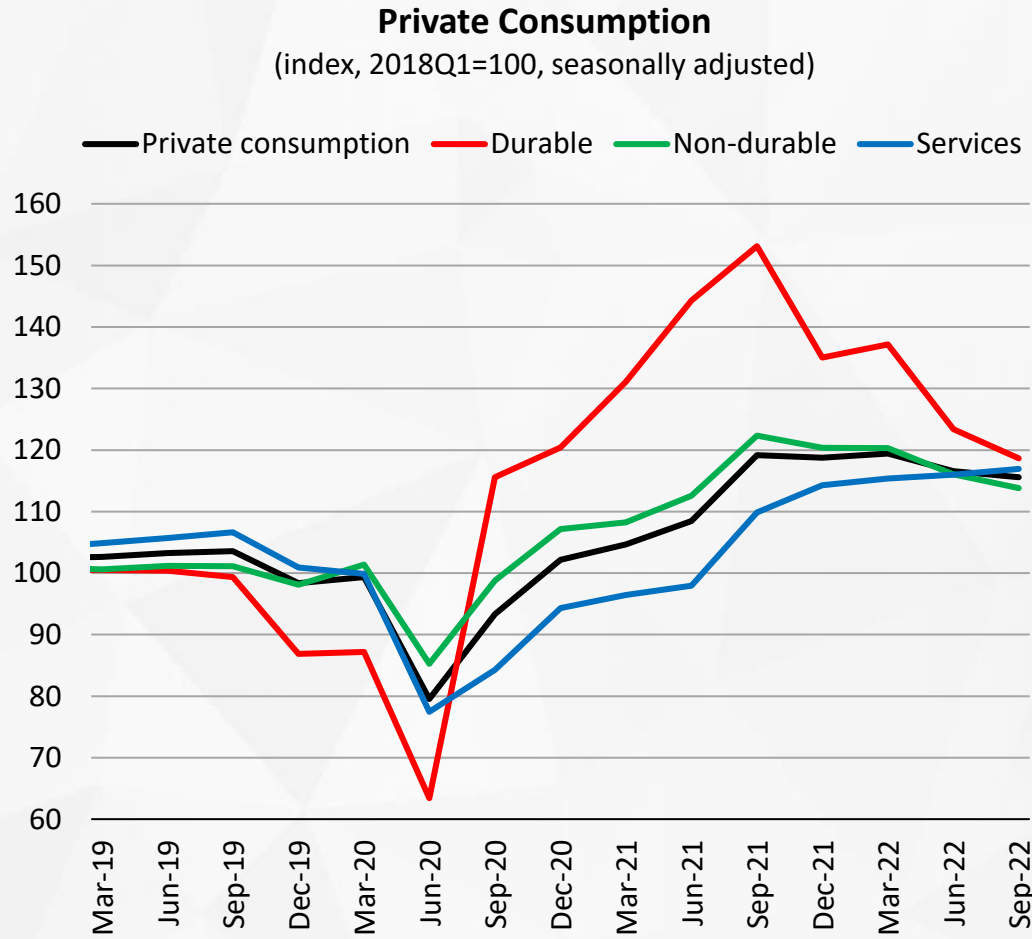
Recent Macro developments and projections

After peaking in 2021Q3, economic activity has slowed down due to fiscal and monetary stabilization. Wholesale and retail trade leads the downturn, reflecting weakening private consumption. The economy is adjusting more moderately than anticipated



Source: Central Bank of Chile.

Private consumption has continued to decline from its peak on end-2021, without dragging down other sectors



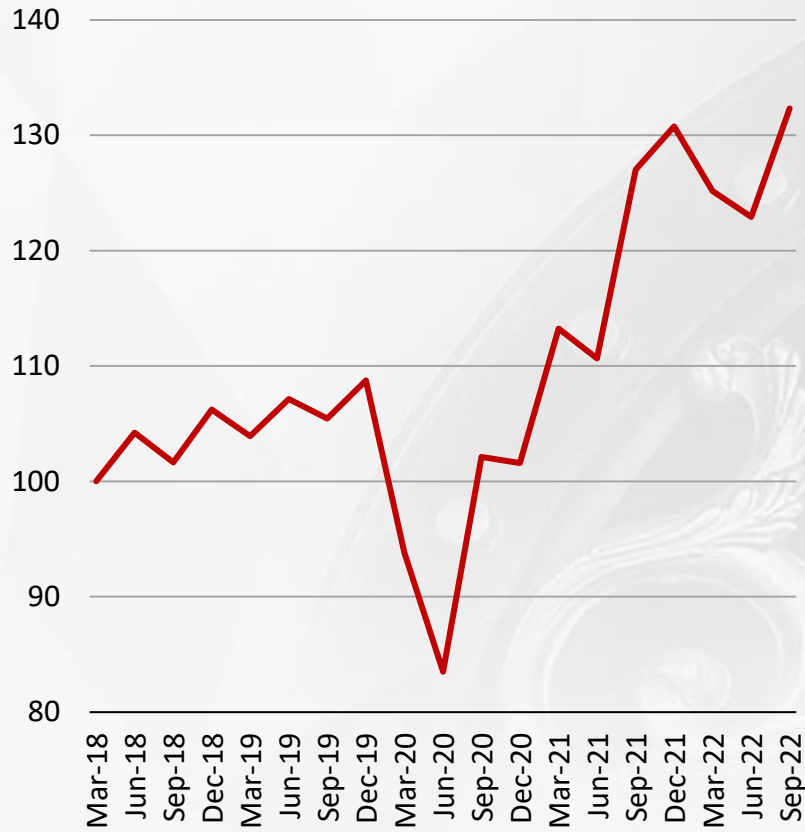
Source: Central Bank of Chile.

Investment in machinery and equipment has recovered...

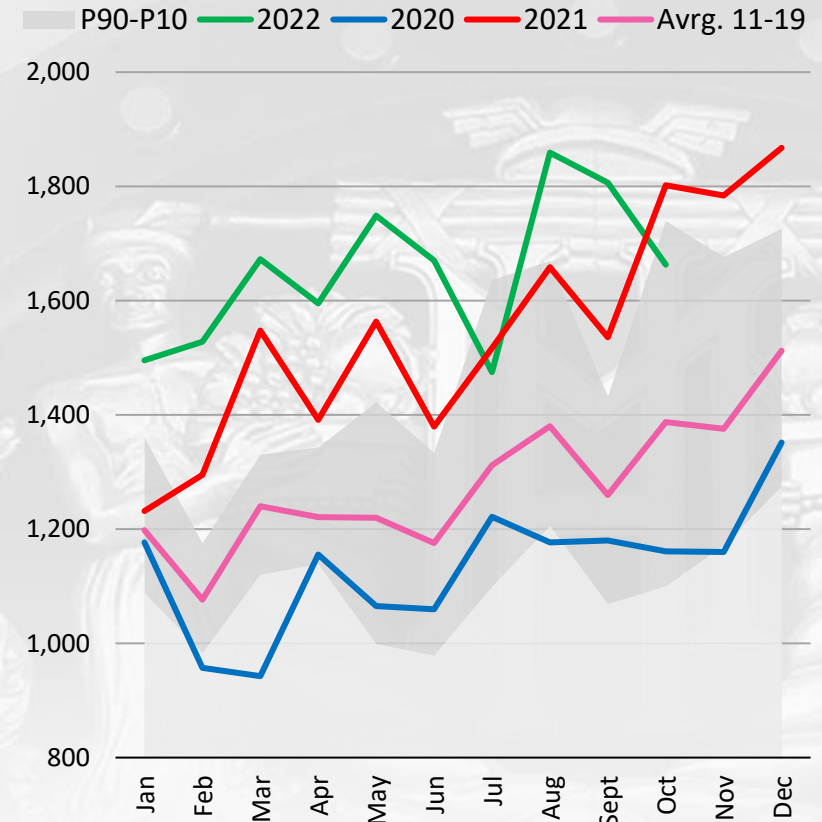
Capital goods imports
(moving quarter, millions of US\$)



Gross fixed capital formation in machinery and equipment
(index, 20181Q, seasonally adjusted)



Capital goods imports
(millions of US\$)

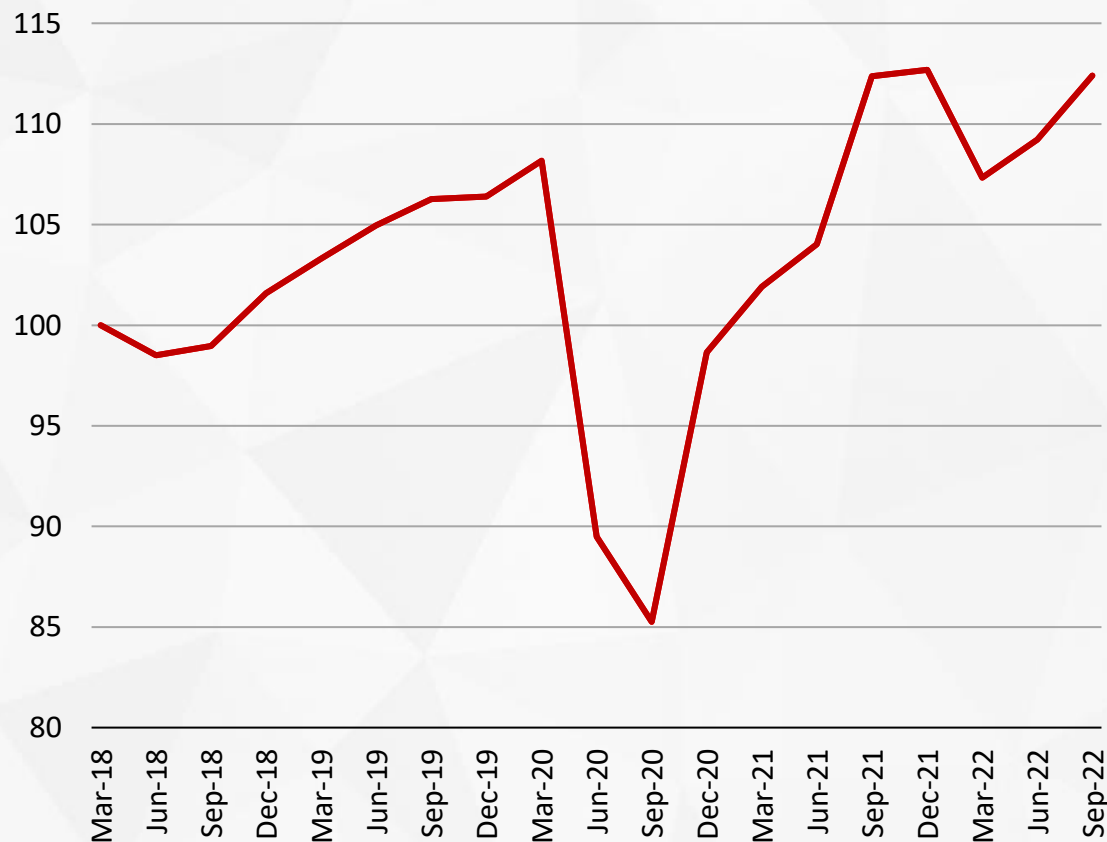


Source: Central Bank of Chile.

...while construction and civil works expand with heterogeneity. Residential construction slows down; technology-based projects peak up

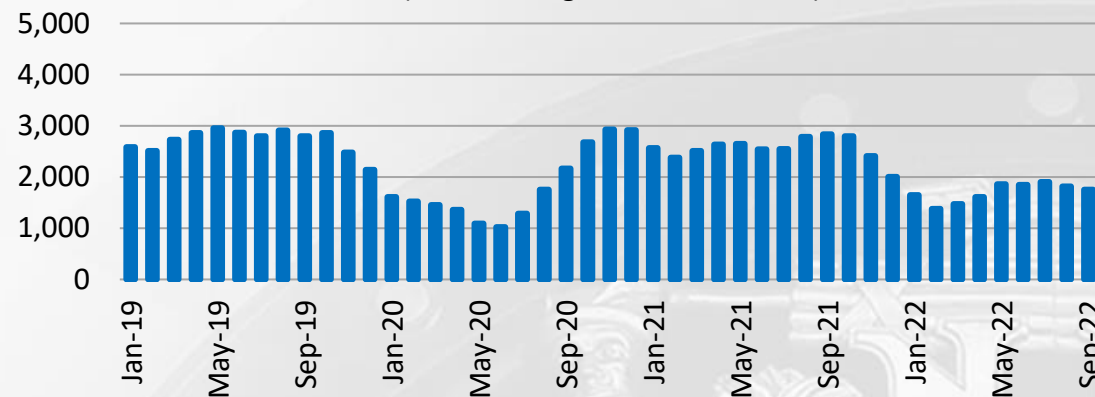
Gross fixed capital formation in construction and other investment works

(index, 20181Q=100, seasonally adjusted)

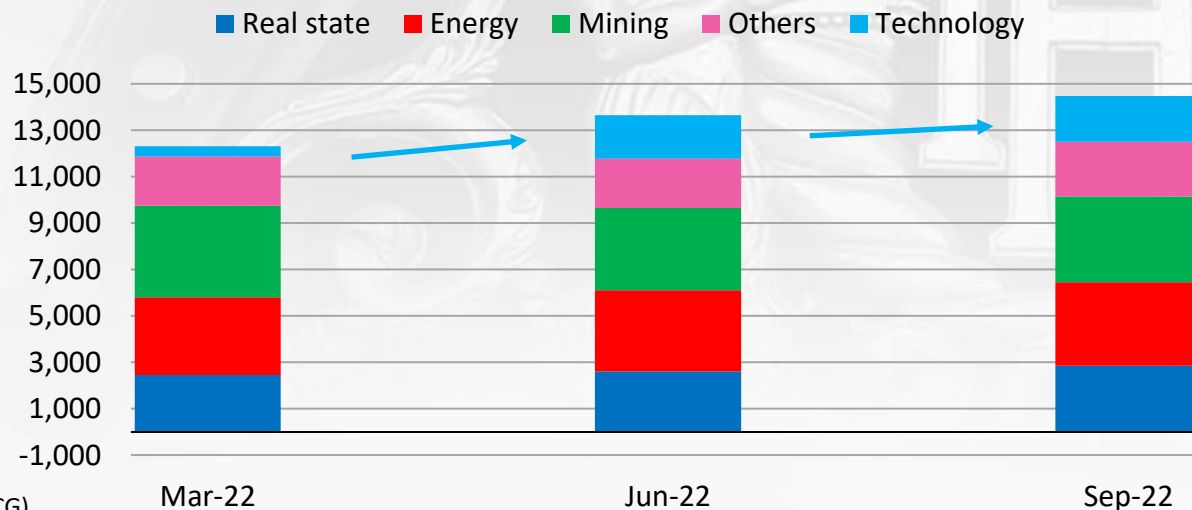


Source: Central Bank of Chile, Chilean Chamber of Construction and Corporation of capital goods (CCG).

Home sales (Gran Santiago, number, 3MMA)

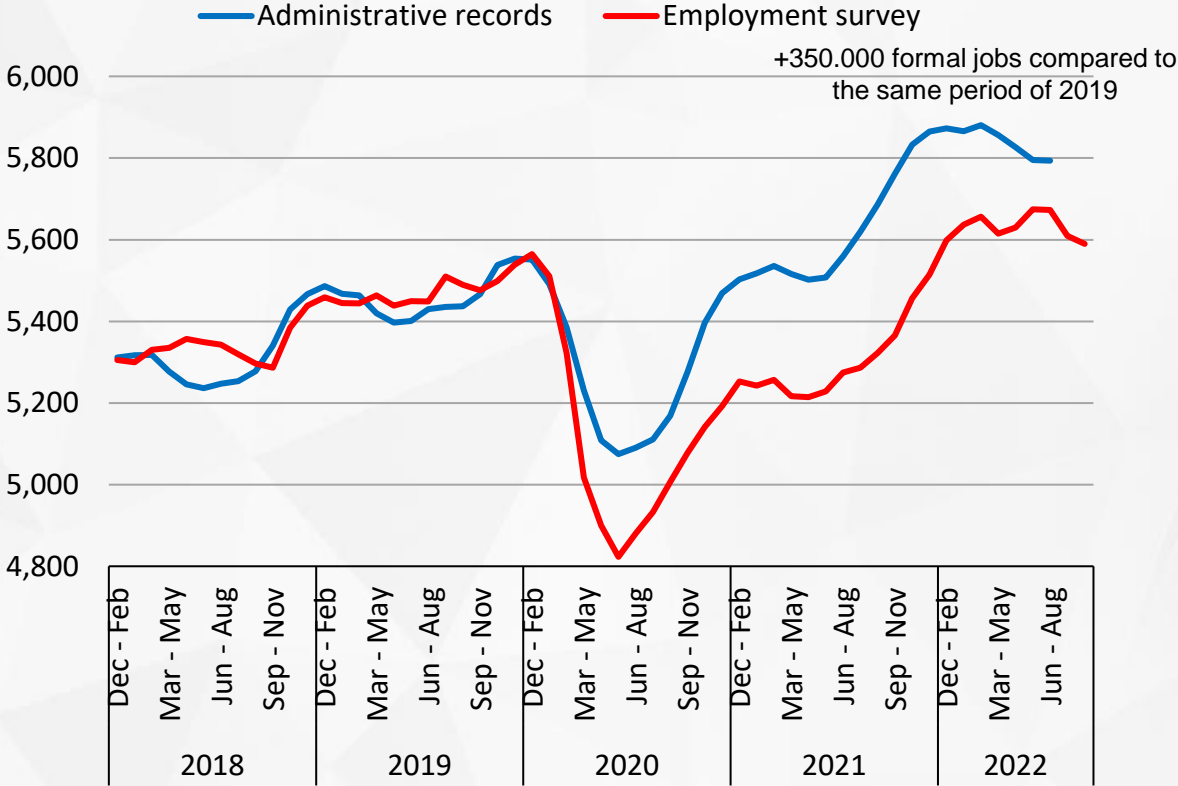


Survey of the Capital Goods Corporation (CBC): 2022 (millions of US\$)

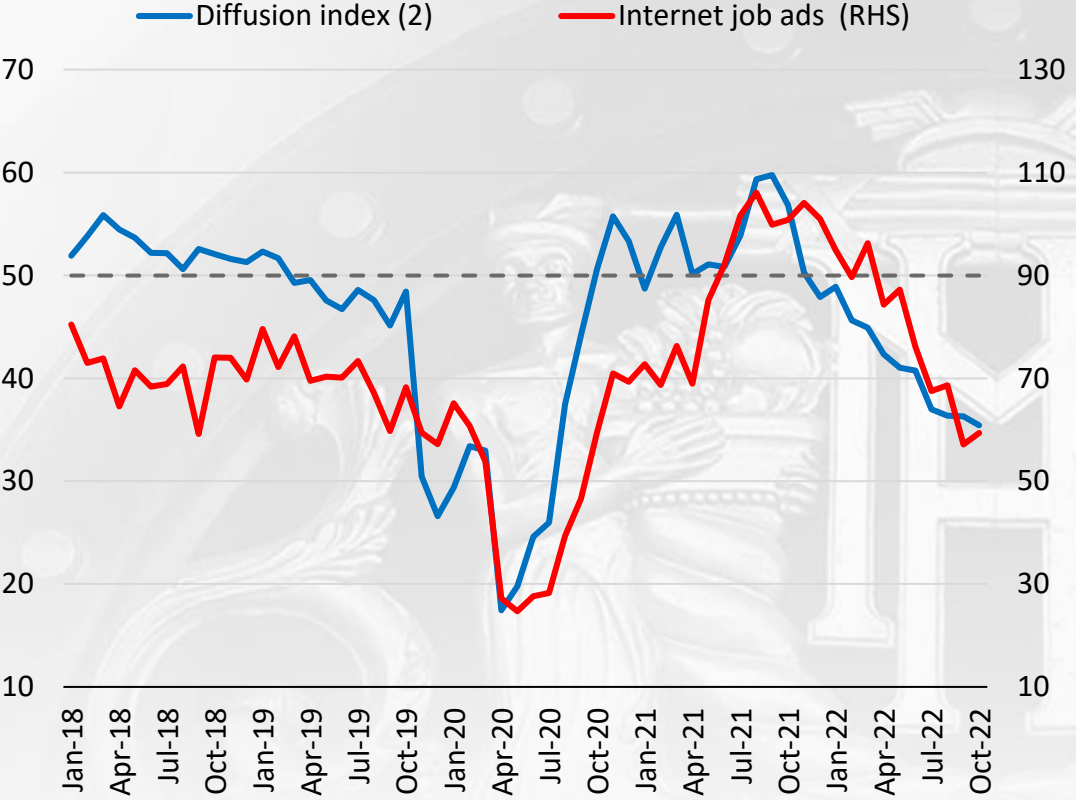


The labor market has created formal jobs, but in the last months has lost steam

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



**Labor demand
(indexes)**

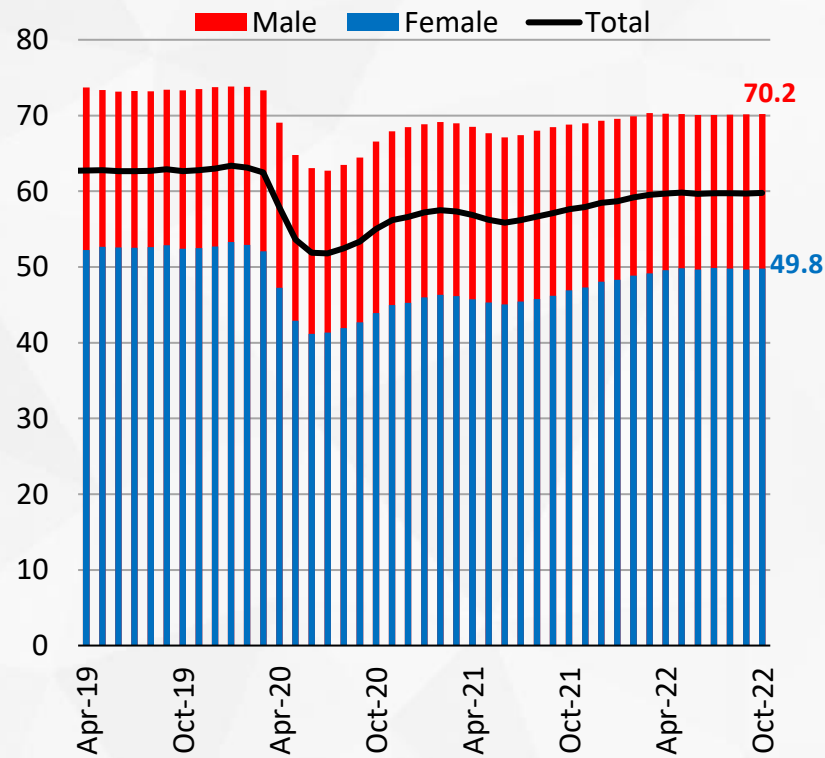


Note: (1) Administrative records correspond to retirement contributors inform by Superintendency of pensions. (2) Average of IMCE employment indicators in Commerce, Industry and Construction. Values above (under) 50 indicate optimism (pessimism).

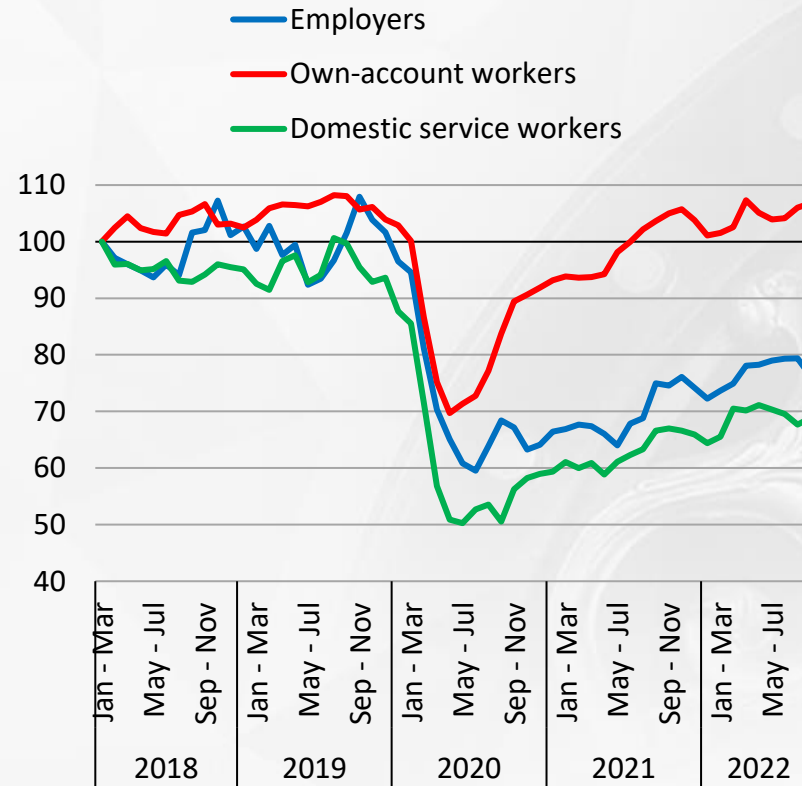
Source: Central Bank of Chile, National Statistics Institute and Superintendency of pensions.

Labour force participation has stagnated. A number of informal jobs have disappeared

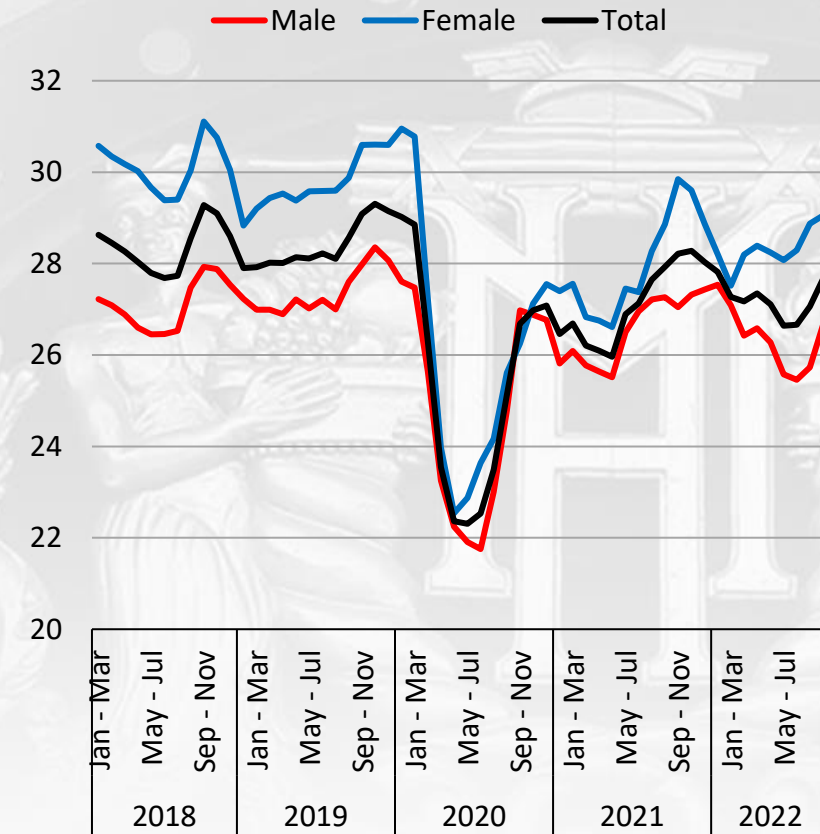
Labour force participation rate by gender
(%, moving quarter)



Employers, own-account workers and domestic service workers
(Index, quarter Jan-Mar 2018=100)

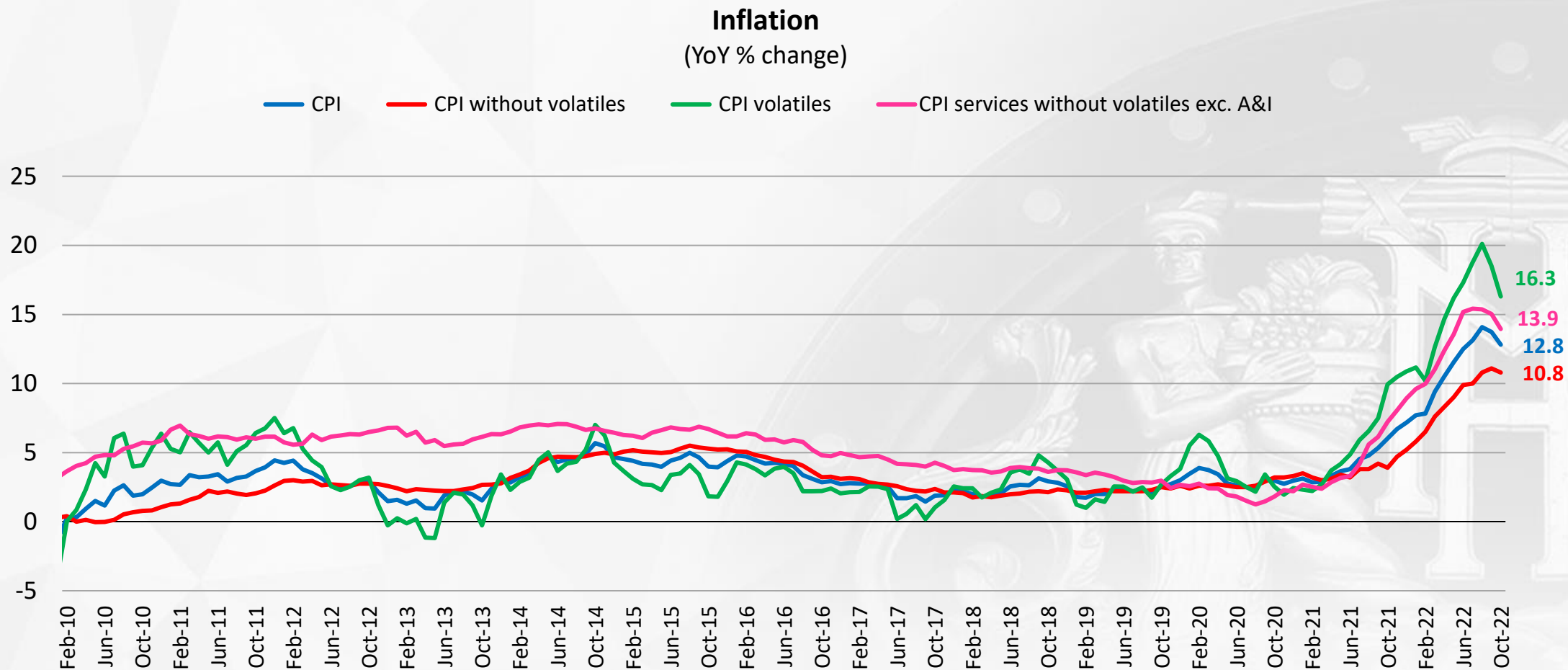


Informal employment rate by gender
(%)

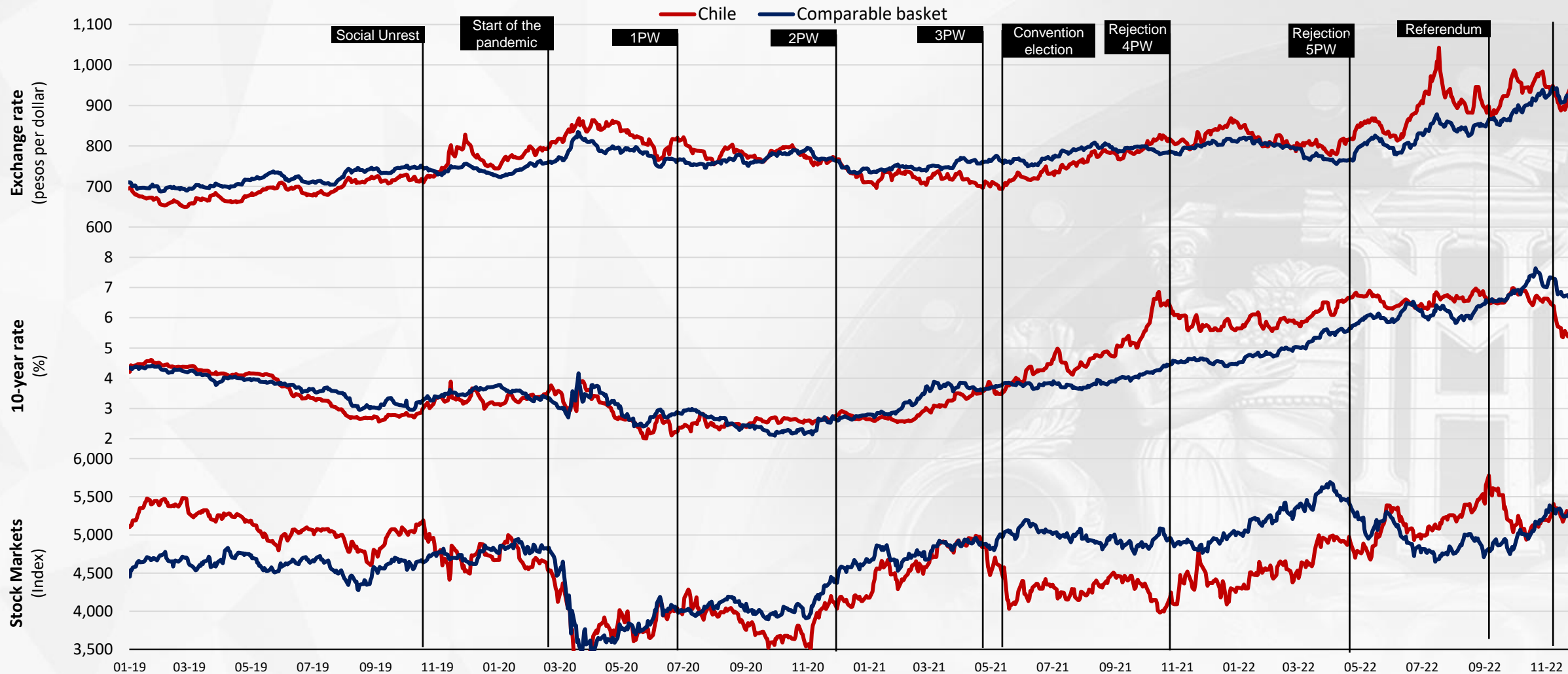


Source: Employment survey, National Statistics Institute.

Annual inflation has moderated in the last two months to 12,8%, descending from the 14,1% peak observed in August



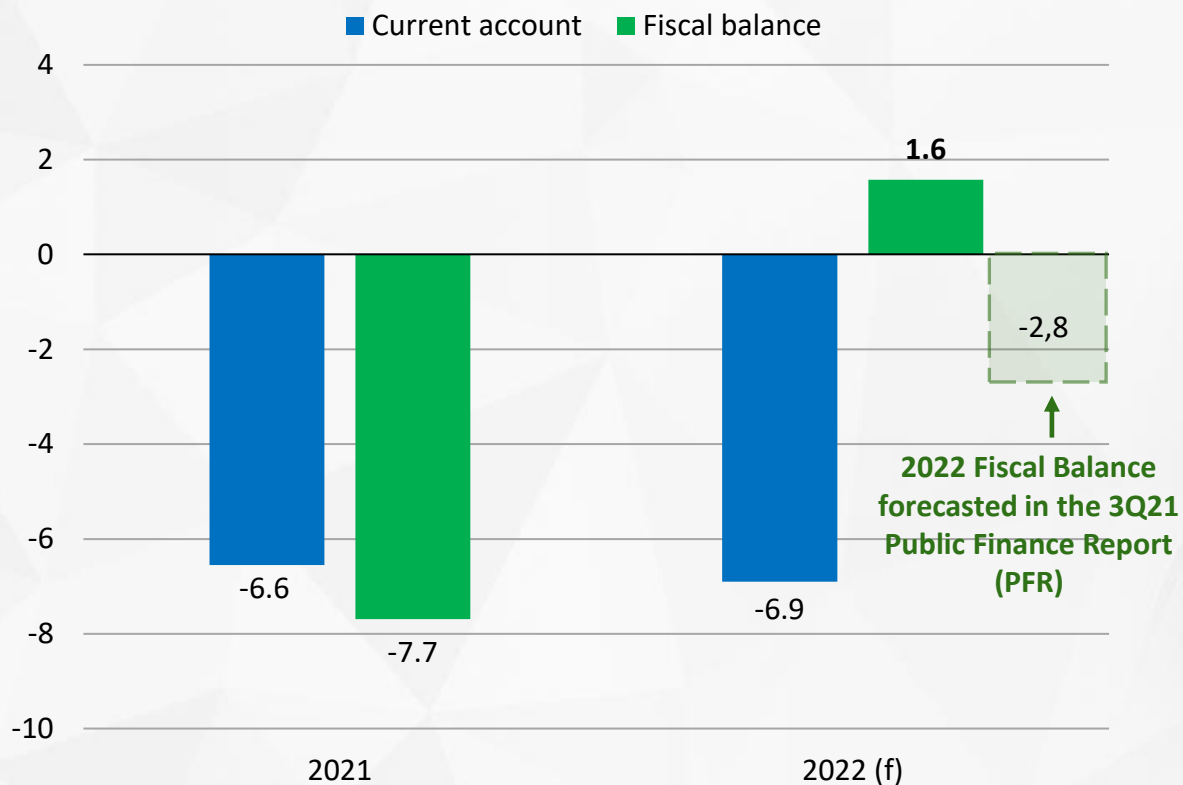
Recently, the stock market and exchange rate have aligned with peer countries. Instead, long rates have decreased since positive October inflation surprise and Pension Reform announcement



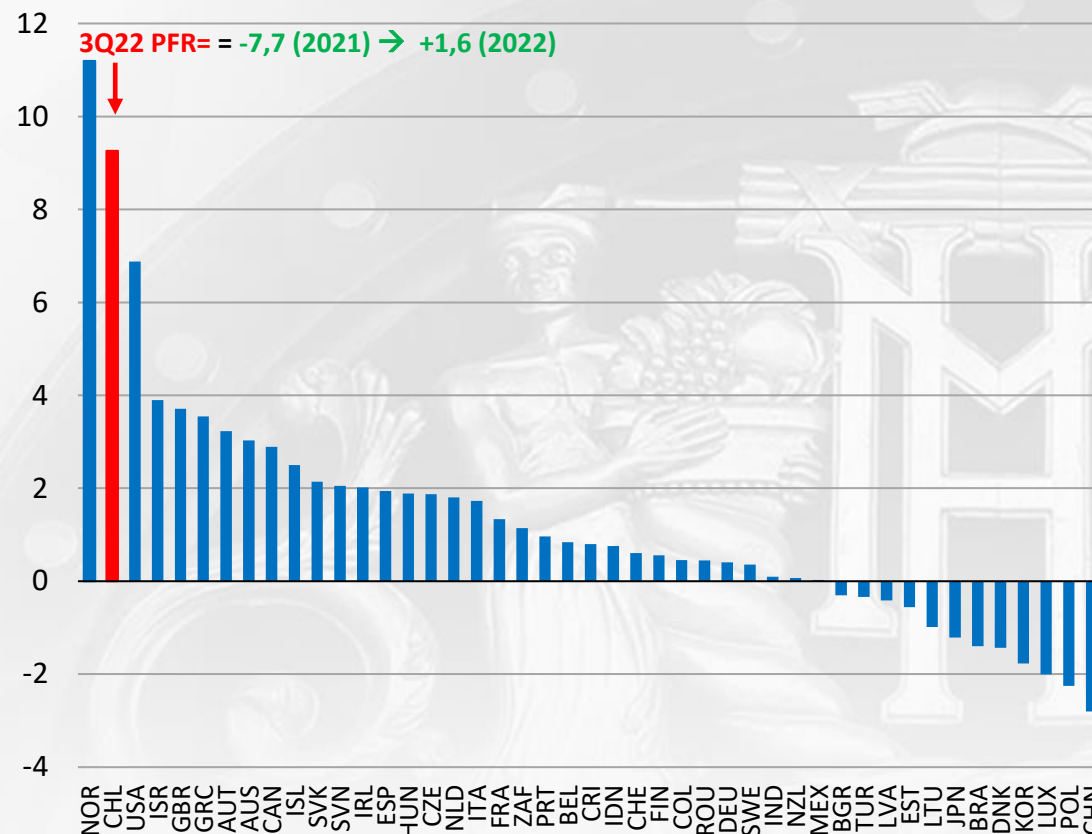
Note: The basket of comparable economies considers Latin American and commodity exporters countries (Brazil, Colombia, Mexico, New Zealand, and Peru). Weights are the coefficients of a cointegrating relationship with Chile's variables. Data up to December 1st. **Source:** Bloomberg, Central Bank of Chile, and Ministry of Finance.

Fiscal accounts have dramatically improved in 2022, articulating one of the largest post-Covid-19 fiscal consolidations

Current account and overall fiscal balances (1) (2)
(% of GDP)



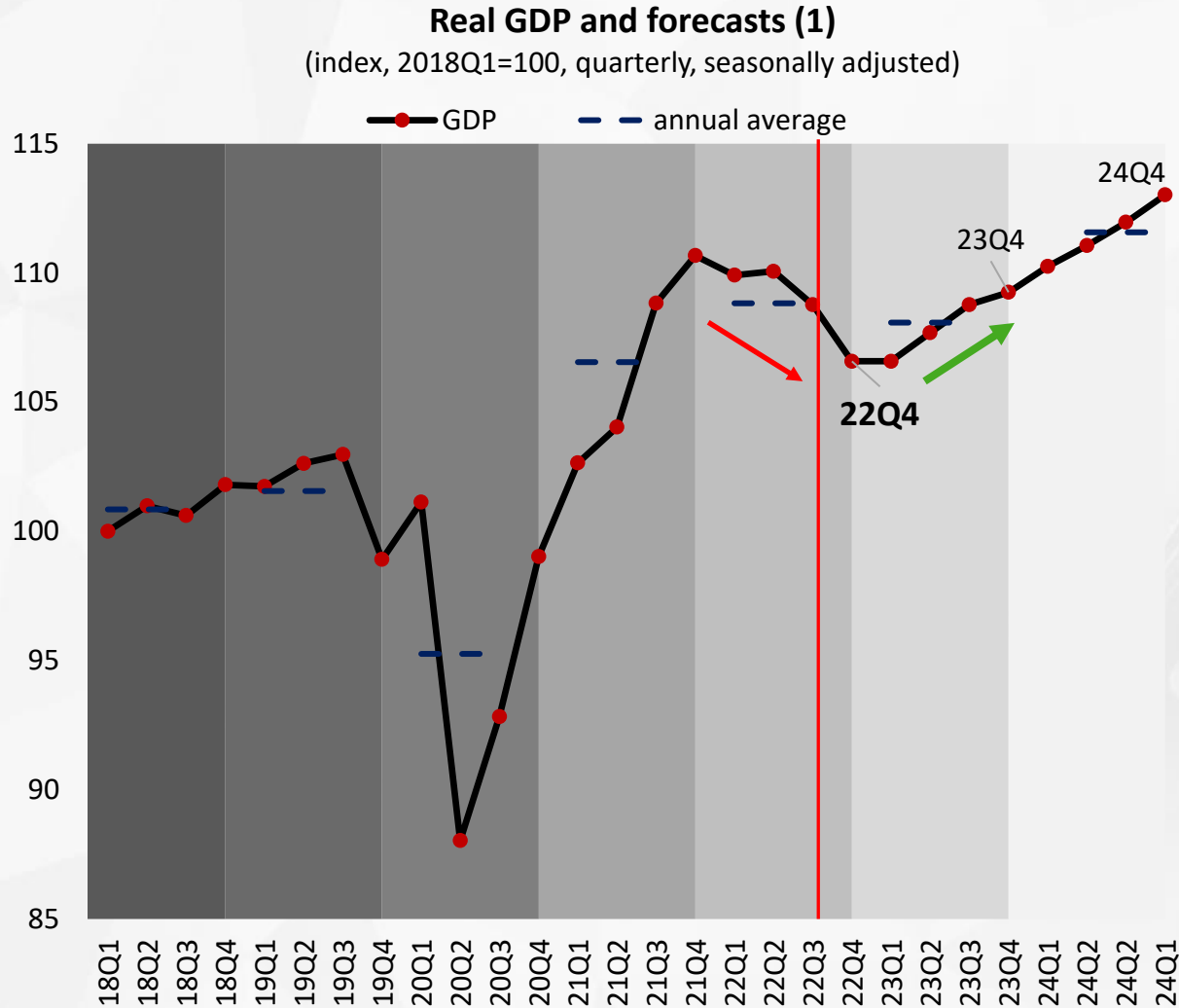
Fiscal consolidation 2021-2022 (3)
(% of GDP, IMF)



Note: (1) (f): forecast. (2) PFR: Budget Office's Public Finance Report. (3) Calculations are made with the general government net lending data, according to the IMF World Economic Outlook (October 2022). For Chile, the calculation is based on the central government's overall balance data.

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

After declining in the 2nd half of 2022, GDP is expected to resume growth in 2023Q2. At the same time, inflation will be declining

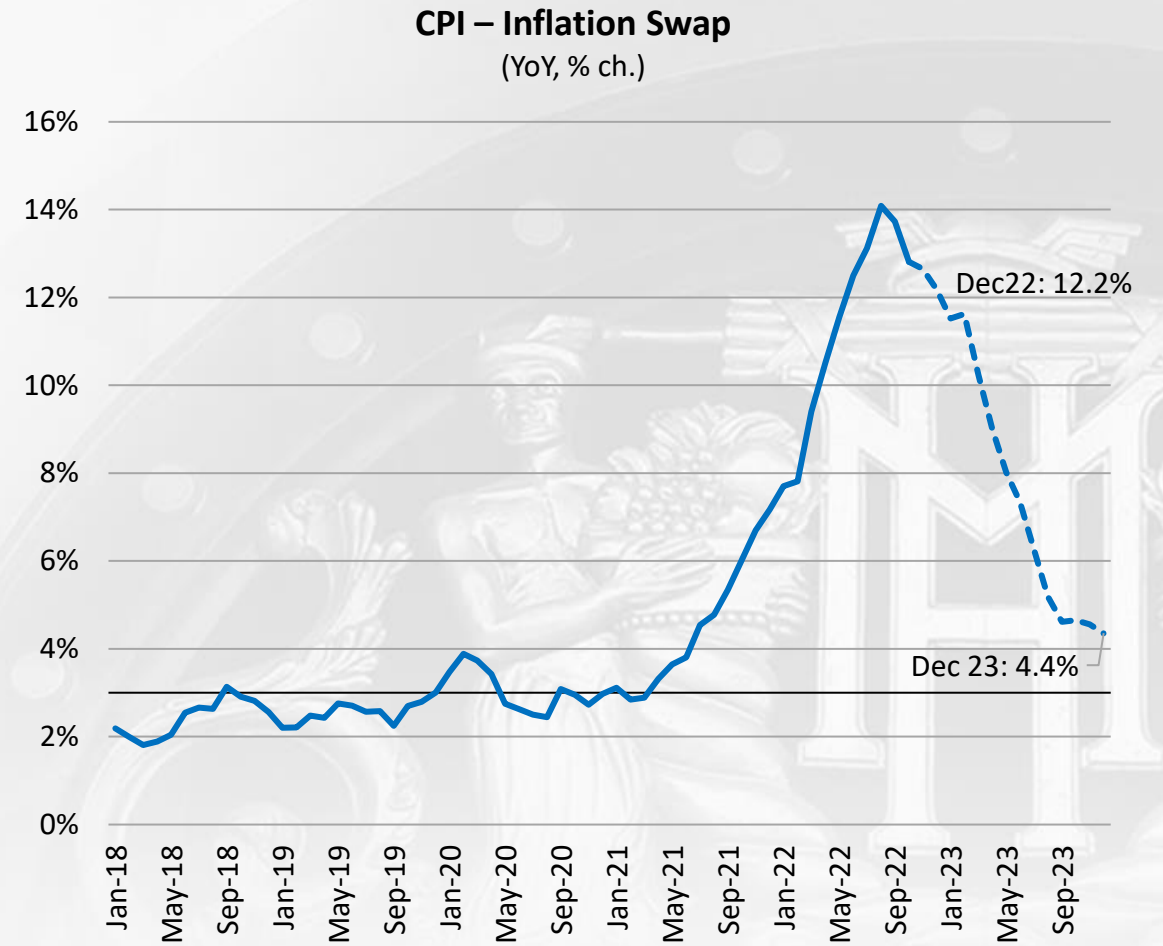
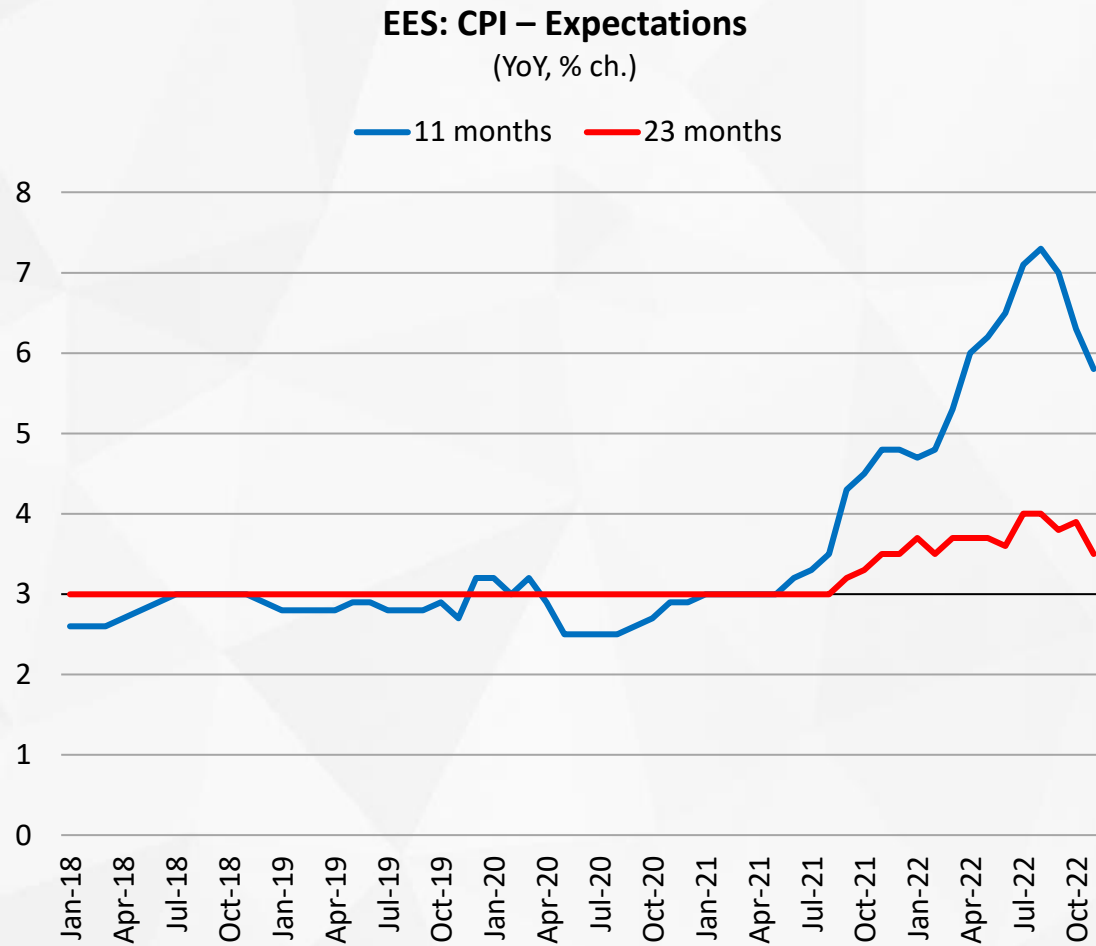


	Forecasts		
	23Q2	23Q3	23Q4
GDP (Central Bank, 22Q3 IPoM) (YoY % change)	-2,2%	-0,4%	1,9%
GDP (Ministry of Finance, 22Q3 PFR) (YoY % change)	-1,9%	0,6%	2,3%
GDP (Ministry of Finance, 22Q3 PFR) (QoQ % change, SA)	1,0%	1,0%	0,4%
Inflation (Central Bank, 22Q3 IPoM) (YoY % change)	6,9%	4,3%	3,3%
Inflation (Market) (YoY % change)	8,1%	5,4%	4,5%

Note: (1) Forecasts from 2022Q4 with PFR 2022Q3 data.

Source: Central Bank of Chile and Ministry of Finance.

Inflation expectations are picking up these trends



Note: inflation swap of November 29.

Source: Central Bank of Chile.



Economic priorities, work agenda and opportunities



The government presented a plan to boost investment and the economy. The “Let’s Invest in Chile” plan has six pillars and 28 specific measures

- The plan was set in motion in September 2022.
- The plan has an estimated impact of a five percentage points increase on investment in 2023, with additional spillovers for 2024.
- In addition, it will generate between 50,000 - 70,000 new job positions.
- The measures are based on recommendations from Chilean and international institutions, and on proposals from trade associations to boost the country’s economy.

Let’s Invest in Chile Plan



Some of the 28 measures

1. Tax Incentives for Private Investment

- Tax incentive for investment projects with a multiplier and green effect.
- A temporary semi-instantaneous depreciation mechanism will be applied during 2023.
- Extend the reduction in the first category tax for SMEs for two years.

2. Improvements in access to financing

- The State will guarantee financing of 10% of the mortgage deposit for buying a first home.

3. Improving public investment

- Increase public investment in 2023 and improve administrative processes.
- Recovery of unfinished public works.
- Extension of the polynomial readjustment coverage.
- Accelerate the construction of high standard bike lanes.
- Confirming (Reverse factoring)

4. Promoting foreign investment

- Reopening of investment attaché offices abroad.
- The investment promotion team will be strengthened.

5. Improvements in the effectiveness of regulation and permit procedures

- Fund for the strengthening of critical services in the processing of projects.

6. Public-private partnerships for investment

- Public-private efforts to promote investment.



Infrastructure Plan, Public-Private Partnerships by US\$ 13,258 million

The infrastructure plan, **Public-private partnerships 2022-2026**, includes **43 tenders and 52 projects**, with an estimated investment of **US\$ 13,258 million**. The Plan has four pillars:



I. Chile's Pan-American road:

12 tenders with an estimated investment of US\$ 4,552 million.



II. Better cities:

25 tenders and 31 projects, with an estimated investment of US\$ 7,639 million.



III. A better airport service:

4 tenders and 7 projects with an estimated investment of US\$ 618 million.



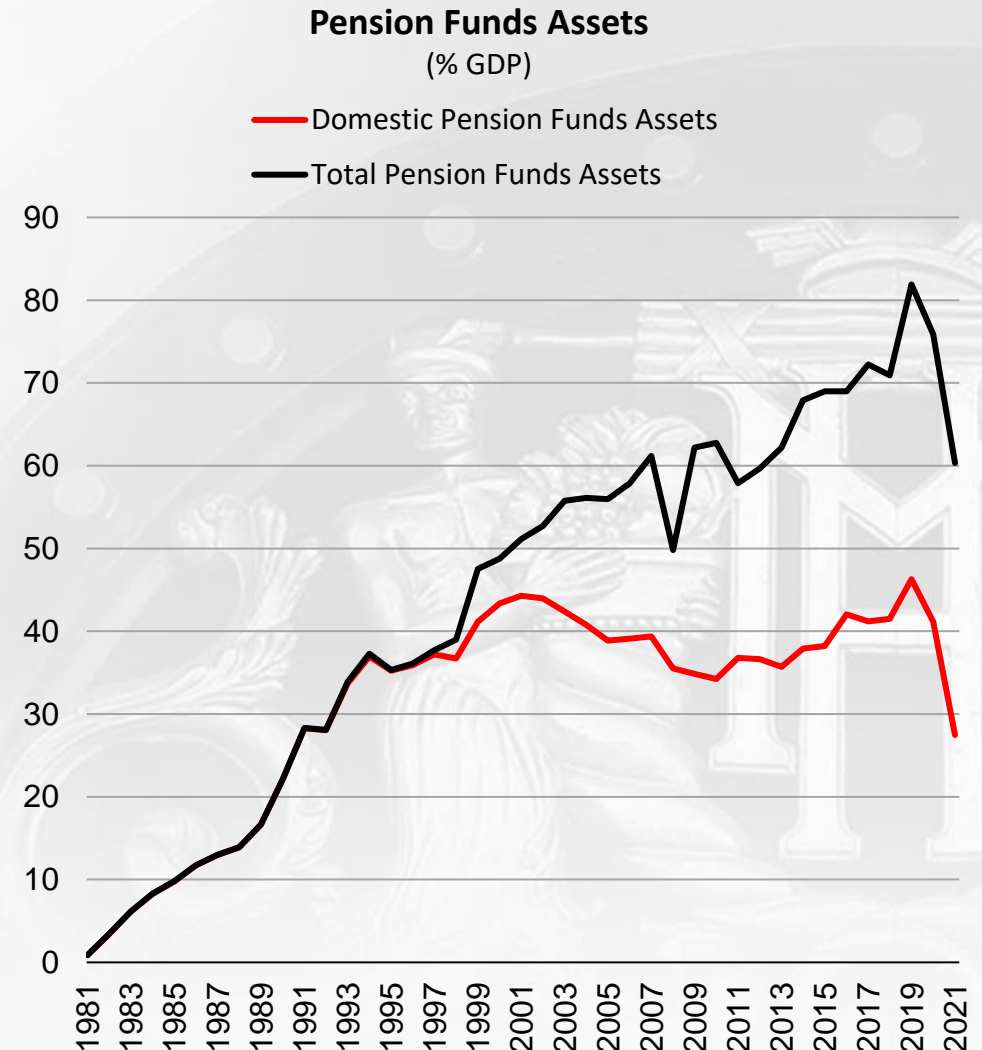
IV. Water Security:

2 tenders with an estimated investment of US\$ 449 million.

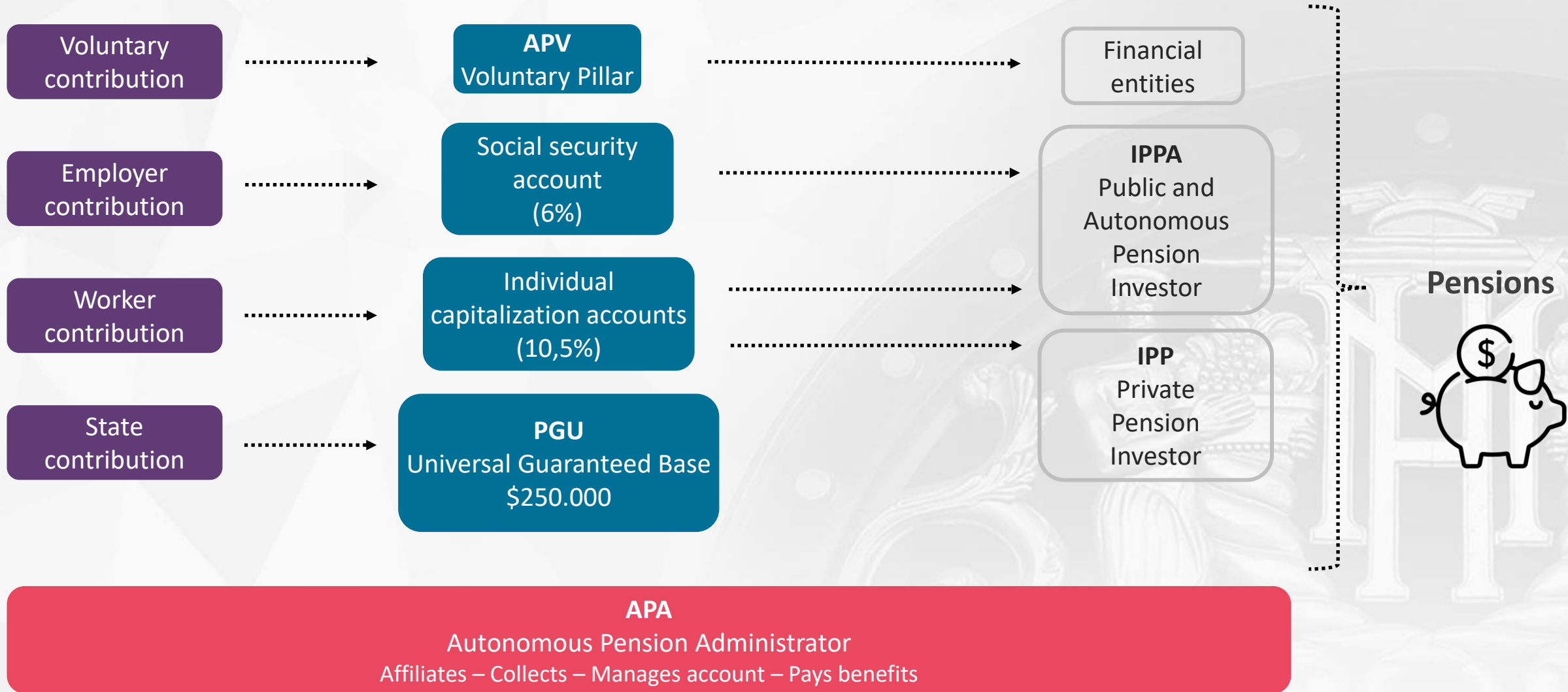
The Chilean capital market lost more than 20% of GDP as a result of Pension funds withdrawals, but initiatives are being promoted to rebuild it. The pension reform will contribute significantly to this

Several ongoing initiatives will promote further progress toward deeper, more stable, and inclusive capital markets:

- Regulation related to the Financial Innovation Law. (**Fintech**)
- **Resilience** of the financial system and its infrastructure: allow the Central Bank to grant liquidity to non-bank financial players; Internationalization of the CLP (simplified RUT).
- Risk-based **supervision on insurance companies**.
- Consolidated **debt registry**.
- Legal protection and treatment of personal data, creation of Agency for the **Protection of Personal Data**.
- **Market makers program** for government bond issuances.

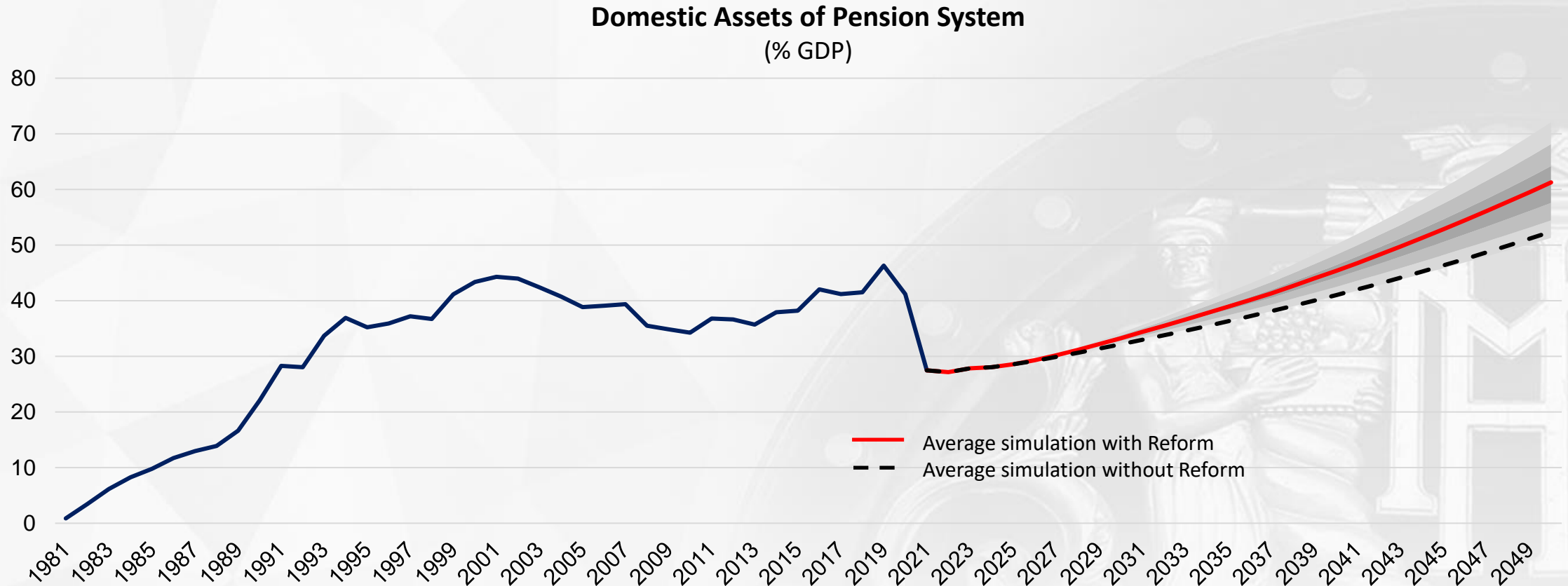


Pensions System New Structure



Note: Acronyms come from the spanish translation.
Source: Ministry of Finance.

The Pensions Reform will allow to recover the long-term private savings base of the economy and increase the depth of the capital market

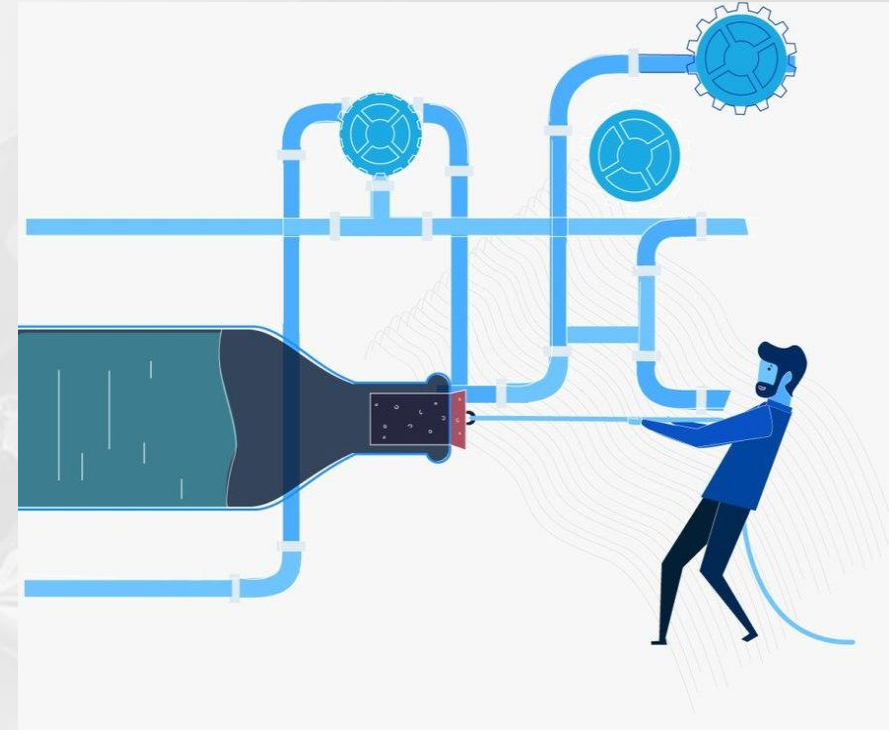


Note: Simulations assuming different scenarios of increases in pension contributions, growth, domestic investment, decrease in contribution gaps, etc. The results of the minimum and maximum scenarios are plotted in the light gray area while the dark gray areas represent more central scenarios. The red line corresponds to the average of all the simulations. The dotted black line corresponds to the projection of assets in the absence of the pension reform.

Source: Ministry of Finance, Chile's Pension Supervisor (SAFP), Budget Office (Dipres)

Productivity Agenda: Since June, a Productivity roundtable has systematically reviewed improvement options

1. Tackle administrative and regulatory obstacles to trade
2. Investment streamlining
3. Improve operating conditions for productive SMEs
4. Improve competition conditions in financial markets
5. Primary Health Care Management improvement
6. Improve the Notary and Registry system
7. Address R&D gap
8. Improve business environment and development of strategic sectors
9. Address labor informality and its effects on development



At the end of the cycle, administrative, regulatory and legislative proposals will be prepared to increase productivity.

The Ministry of Finance has become a relevant actor in developing conditions to mobilize and channel public and private financial resources towards sustainable development

Financial Strategy against the Climate Change



1. Greening Finance:

- Preparatory Committee for a Green Taxonomy.
- Fiscal Framework for measuring public spending on climate change.
- Natural Capital Measurement.

2. Promote green financing:

- Thematic Sovereign Bond Issuance Strategy.
- Green Climate Fund.
- Tax Reform: Development of corrective economic instruments.

3. Promote and strengthen the "Green" system and positioning Chile as a regional and global leader in green finance

- Public-Private Roundtable on Green Finance.
- The Coalition of Finance Ministers for Climate Action.
- Launch of the Regional Climate Change Platform of Ministries of Finance, Economy and Finance of Latin America and the Caribbean.
- New Quantified Collective Target for Climate Finance.
- Finance and Sustainable Development Working Group of the Pacific Alliance.

Chile is committed to confront Climate Change, with relevant changes in the energy matrix that will lead renewable sources, including hydroelectric generation, to surpass hydrocarbons during the next five-year period. In ten years, Chile would stop depending on imported hydrocarbons entirely

Regulatory Framework

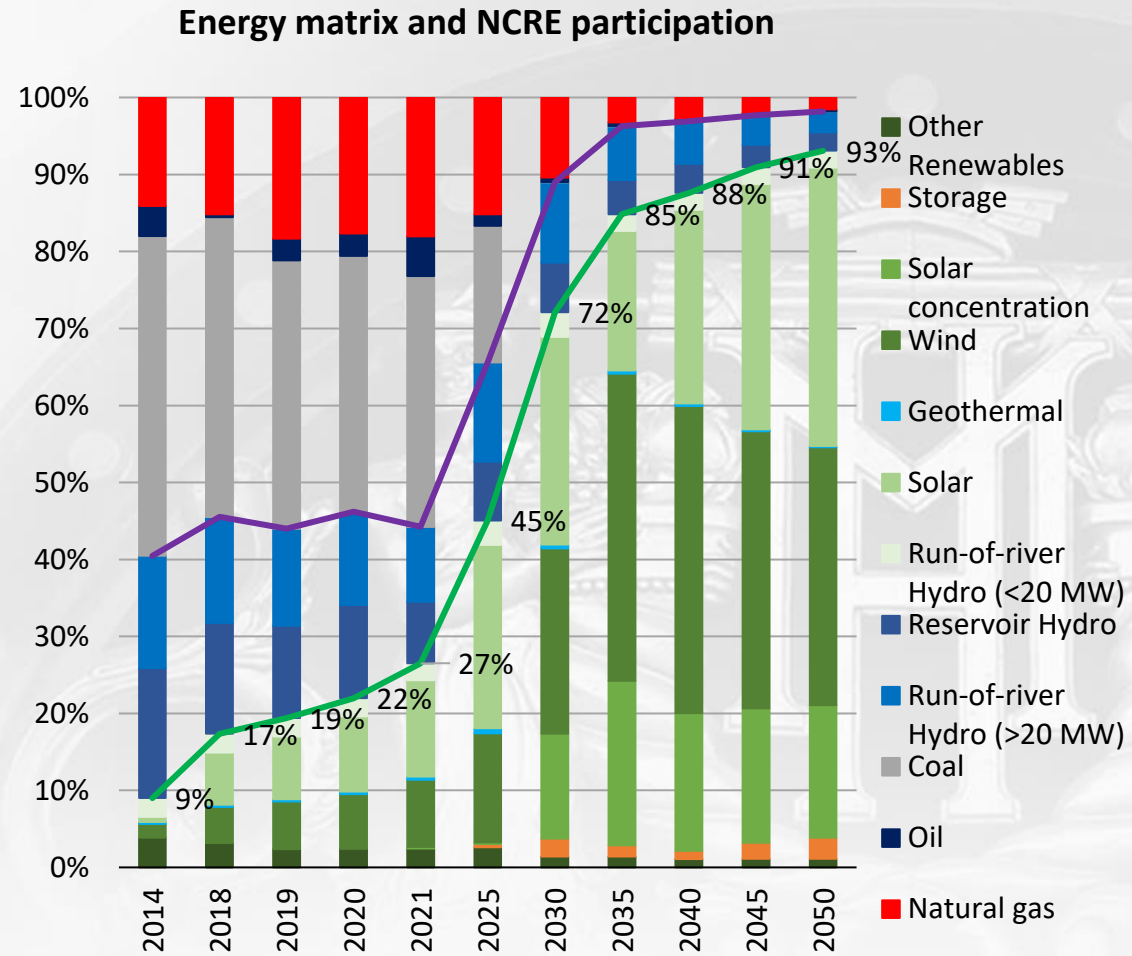
- **Framework Law on Climate Change** : setting goals, institutions and tools.
- **Energy Efficiency Law**: focus on the industrial, mining and transport sectors, in order to reduce emissions by 2% per year.

Objectives and Goals

- **NDC 2020.**
- Chile committed to a gross carbon budget of no more than 1,100 MtCO₂eq for the period 2020-2030, reaching a peak in 2050, and a level of 95 MtCO₂eq in 2030.
- Others: reduce at least 25% of carbon emissions by 2030; sustainable management and recovery of 1,100 hectares of native forest by 2030; creation of marine protected areas.
- **Long-Term Climate Strategy, with goals to 2050.**

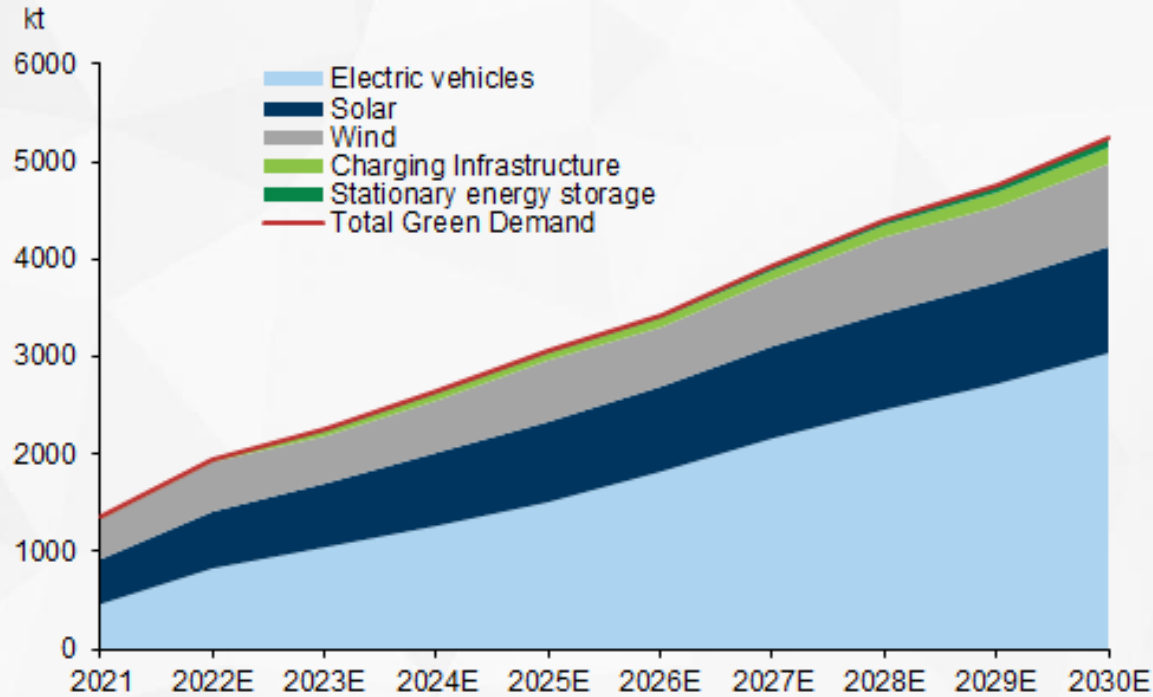
Public Policies

- **Long-Term Energy Planning**: every five years, in order to foresee long-term scenarios (30 years).
- **Electromobility Law.**
- **National Green Hydrogen (H₂V) Strategy**:
 - (i) Domestic consumption.
 - (ii) Transportation and export.



The potential of green growth: A greener global economy will increase demand for Chilean commodities

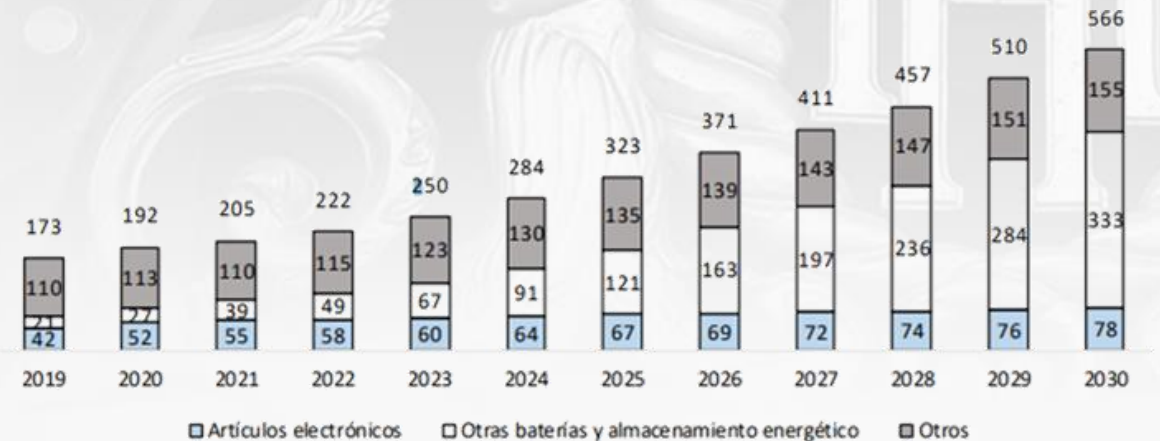
Copper demand from “green factor”
(Goldman Sachs estimates)



Lithium demand for electric vehicles forecast
(kt LCE, 2019-2030)

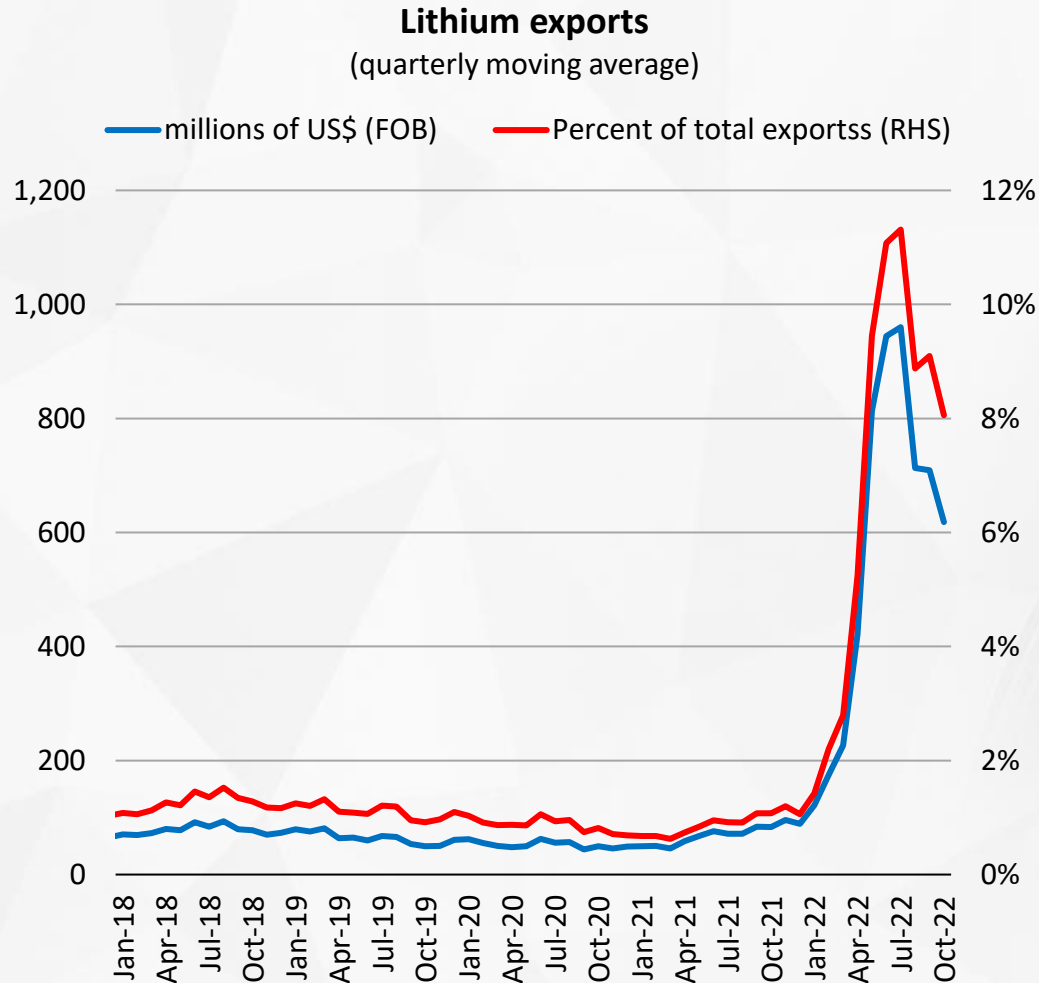


Lithium demand not associated with electric cars forecast
(kt LCE, 2019-2030)



Source: Goldman Sachs Global Investment Research, Cochilco.

Lithium exports are booming. The 2023 Budget Law includes a budget program to allocate tax revenues from lithium to the development of Green Hydrogen and a sustainable productive diversification

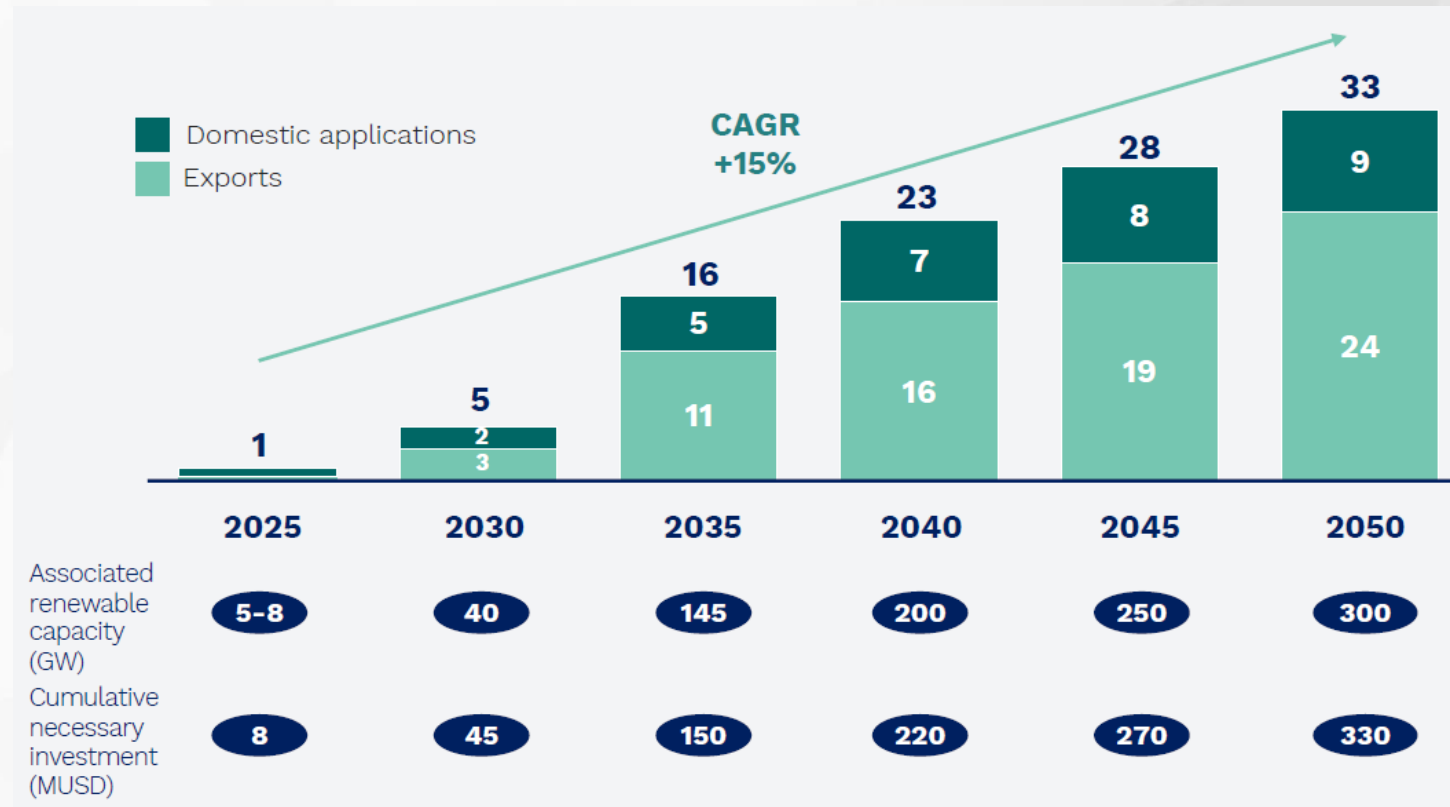


- Part of the lithium revenue will be invested in a new program called “Sustainable Productive Development”.



The competitiveness of Chile in renewable energy production and the global need for clean energy carriers will open the door for Green Hydrogen to match the size of the Chilean mining sector

Chilean markets for Green Hydrogen and its derivatives forecast
(USD billions, McKinsey & Company estimates)



Source: National Green Hydrogen Strategy, Energy Ministry of Energy.

The Green Hydrogen Industry development project is an emblematic case that reveals various aspects of the coming productive transition

- **Chile has privileged conditions** worldwide for energy production:
 - Sunlight reception, rare earths, wind potential.
 - Potential to produce renewable energy at a **much lower cost** than in other countries.
 - Projections of significant growth in the capacity to generate this kind of energy, especially **solar (concentration) and wind power**.
- **State-level priority:** Interministerial Committee (11 ministries and Corfo), with the aim of developing the industry.
- **National strategy** includes recognition of territoriality and sustainability, environmental assessment, planning of common infrastructure, engine of innovation and incorporation of technologies.
- **Energy Independence:** Transition from an economy that imports fossil fuels, to one capable of producing, being self-sufficient, and eventually exporting Green Hydrogen, a source of green energy.
- **Public-private alliances**, and the role of multilaterals, for development, accompaniment and financing. Support for companies that in turn support “green”, as part of a coordination with the industry and local demand. Strategic alliances with potential buyer countries and technology providers.

National Green Hydrogen Strategy

2025



Top destination for green hydrogen investment in LATAM



Electrolysis capacity operating and under development



Production in at least 2 Hydrogen valleys in Chile



Leaders in export of Green hydrogen and derivatives



The cheapest green hydrogen on the planet



Leaders in production of green hydrogen via electrolysis

2030

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