

# The Chilean economy: recent developments and emerging opportunities

**BTG**

**28th March 2023**

Mario Marcel | Minister of Finance



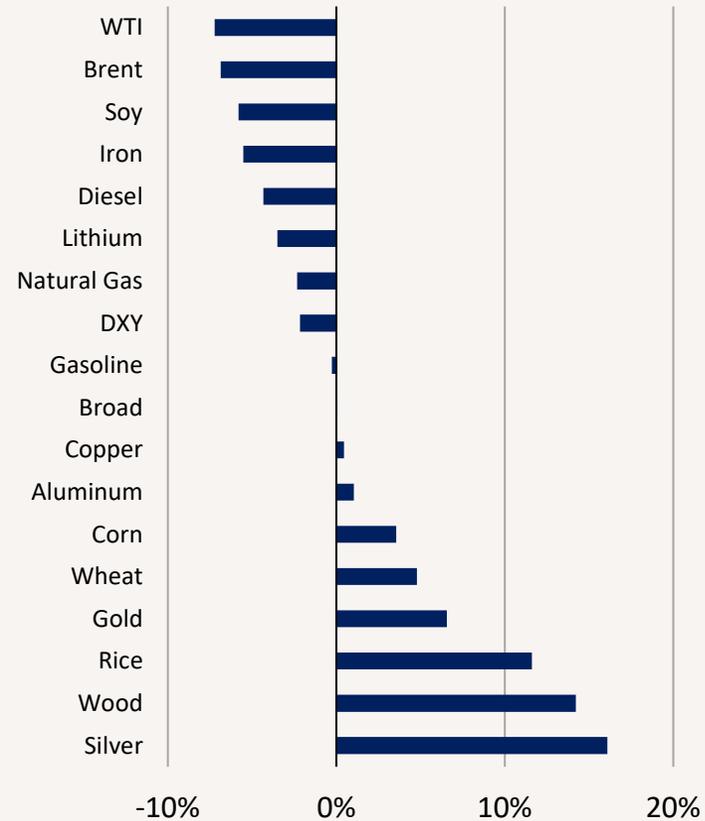
# **Recent international financial events:**

## **US Regional Banks and Credit Suisse**

# The impact on commodities has been heterogeneous, while financial conditions have tightened

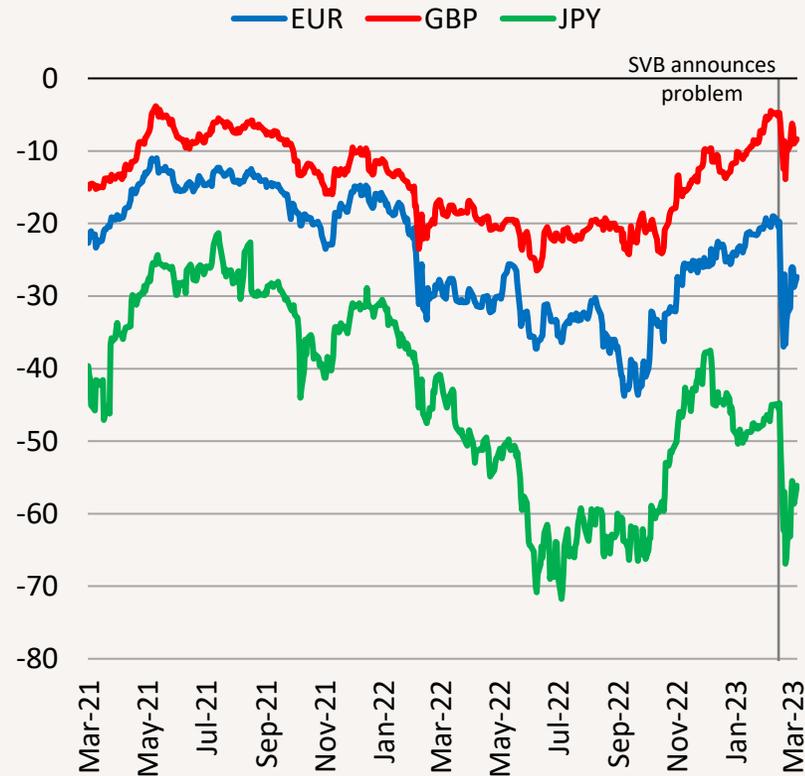
**Commodities**

(change since March 9th, %)



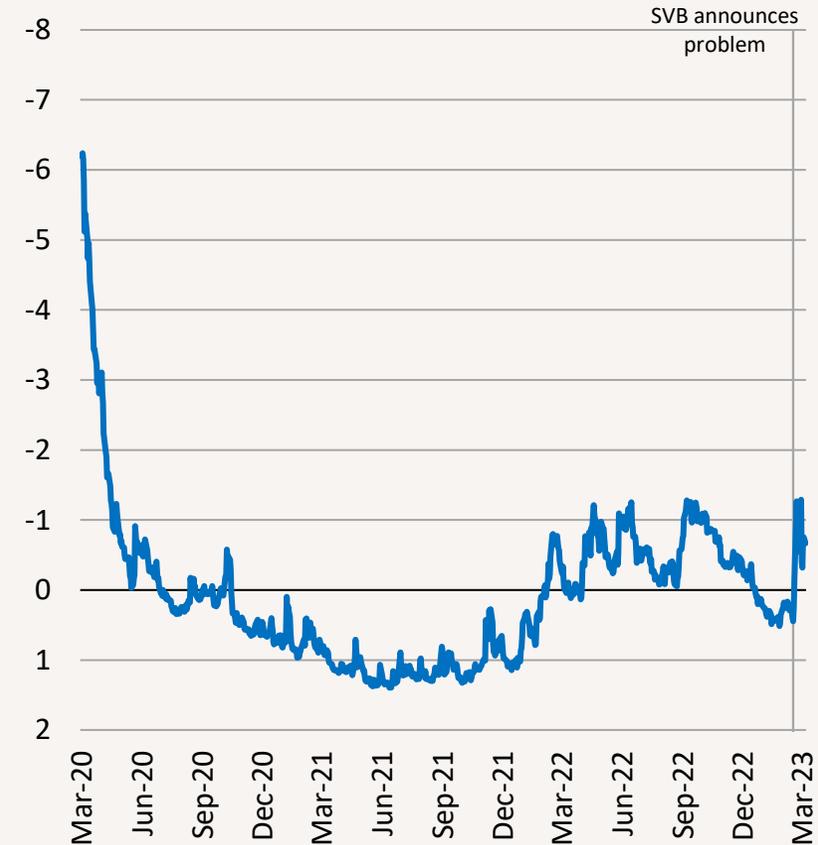
**Cross currency basis against the US dollar**

(basis points)

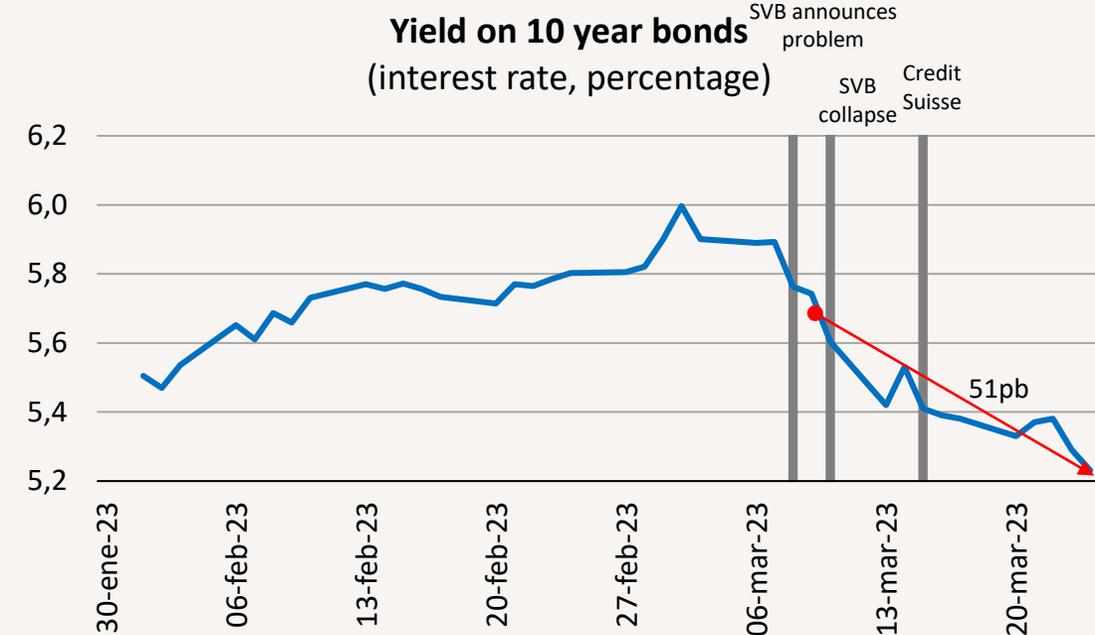
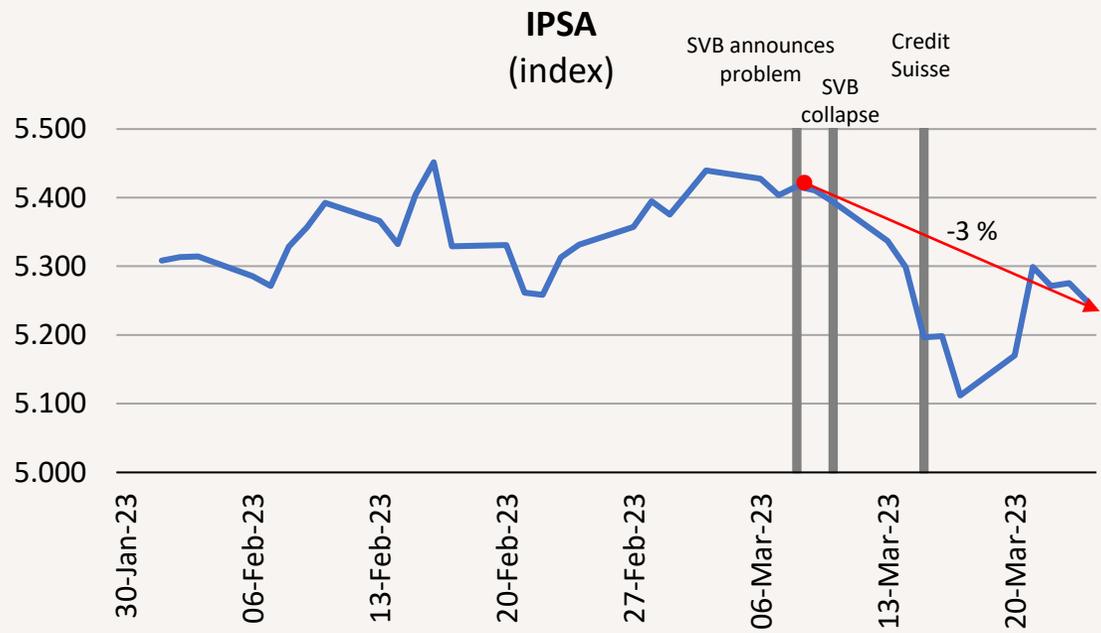
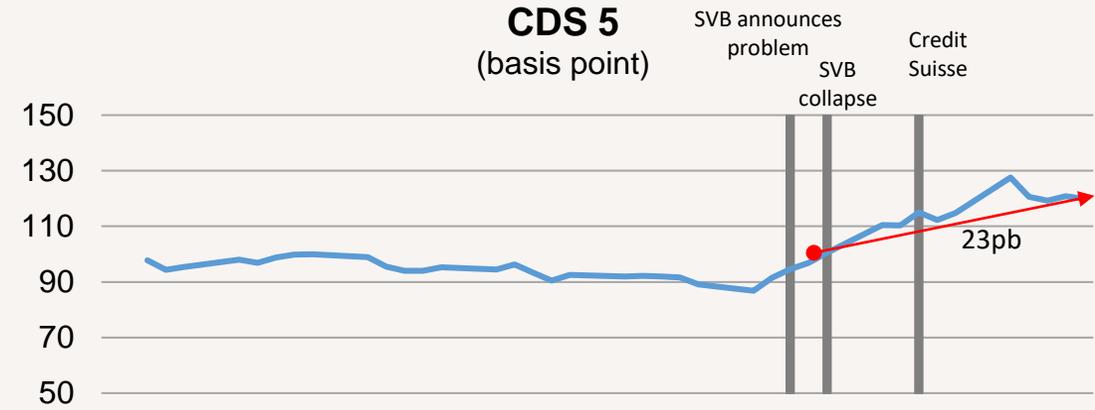
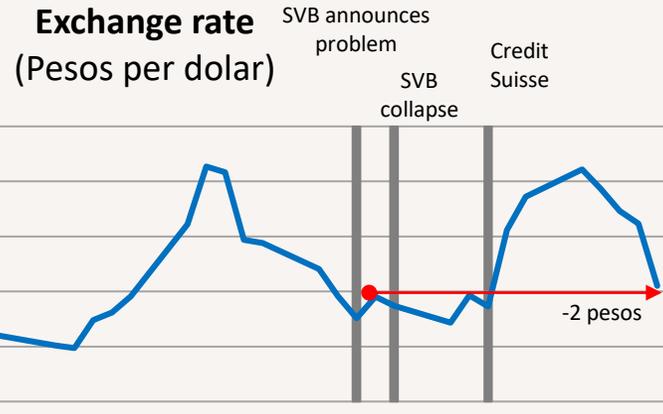


**Bloomberg US Financial Condition**

(Index)



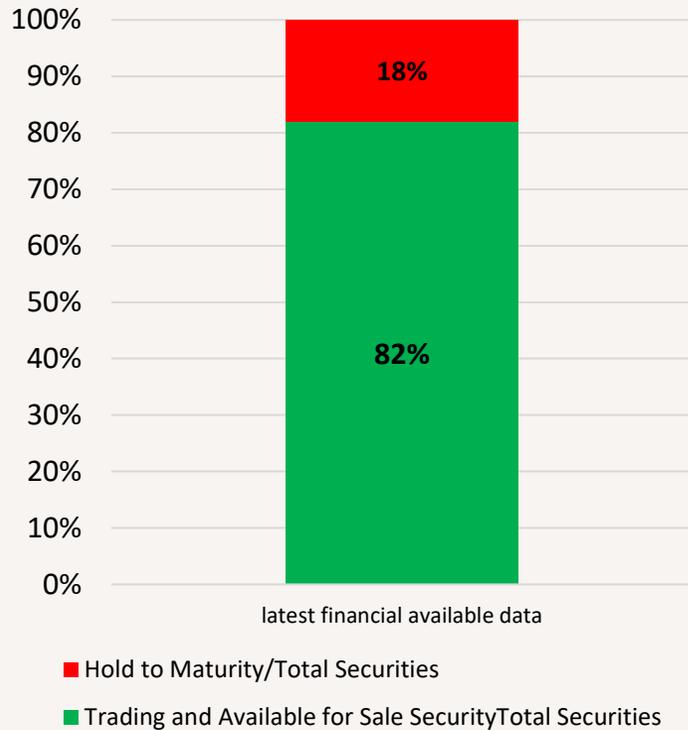
# The events at US Bank and Credit Suisse triggered a risk-off event, initially causing the peso to depreciate, local stock prices to decrease, and bond prices to increase



Note: Difference between 9 march and the last day available  
Source: Bloomberg, Central Bank of Chile.

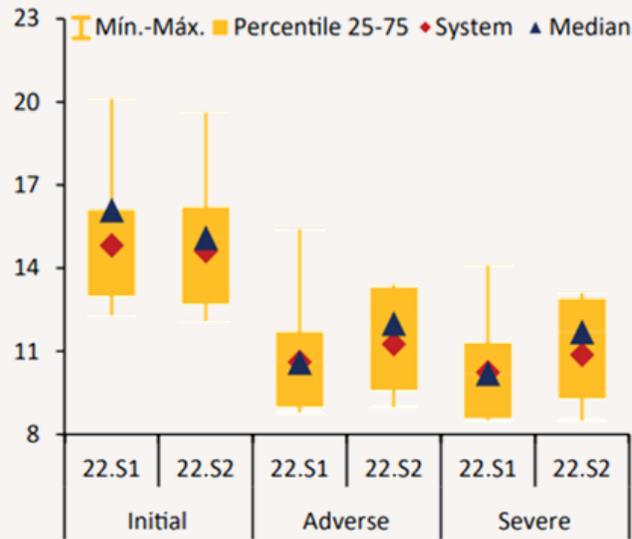
# In Chile, banks have a lower exposure to held-to-maturity securities. The solvency of the banking industry remains high even under simulated stress scenarios, and profitability is above pre-pandemic levels

Chile: Breakdown of rated banks' securities portfolio



Source: Moody's

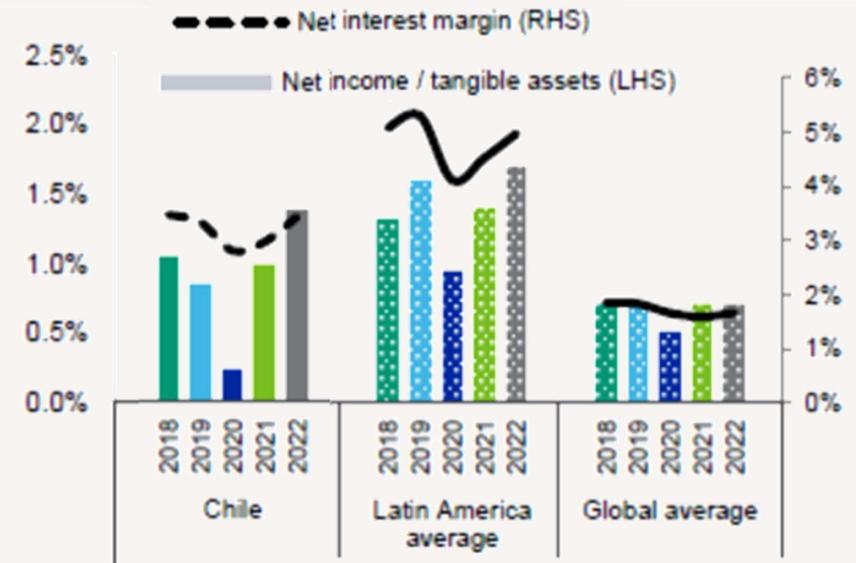
Impact of stress scenario over Capital Adequacy Index (percent of risk-weighted assets)



(\*) Numbers weighted by basic capital of each institution. Calculations do not consider Foreign trade or Treasury banking, nor consumer banks that have exited the system. Source: Central Bank of Chile based on FMC data.

Source: Financial Stability Report Second Half 2022 – Central Bank of Chile

Net income to tangible assets and net interest margin (percent)



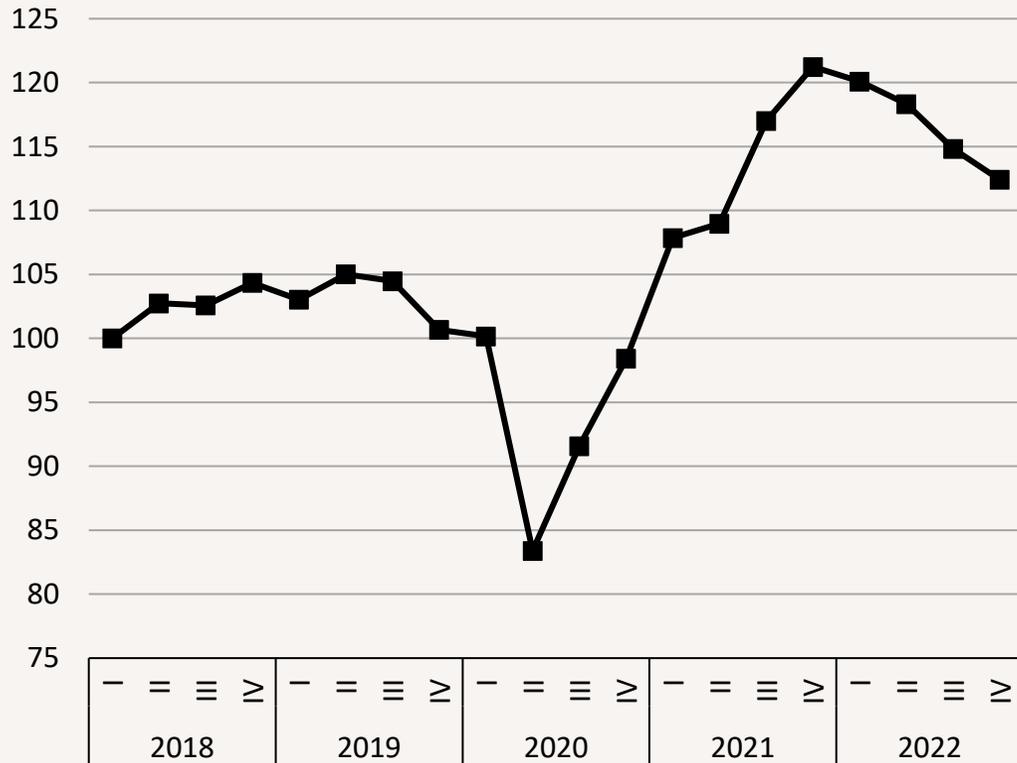
Source: Moody's

# **Recent local Macro Developments and Medium Term Outlook**

Due to fiscal and monetary stabilization, economic activity has slowed down after peaking in 2021Q3. GDP grew 2.4% in 2022.

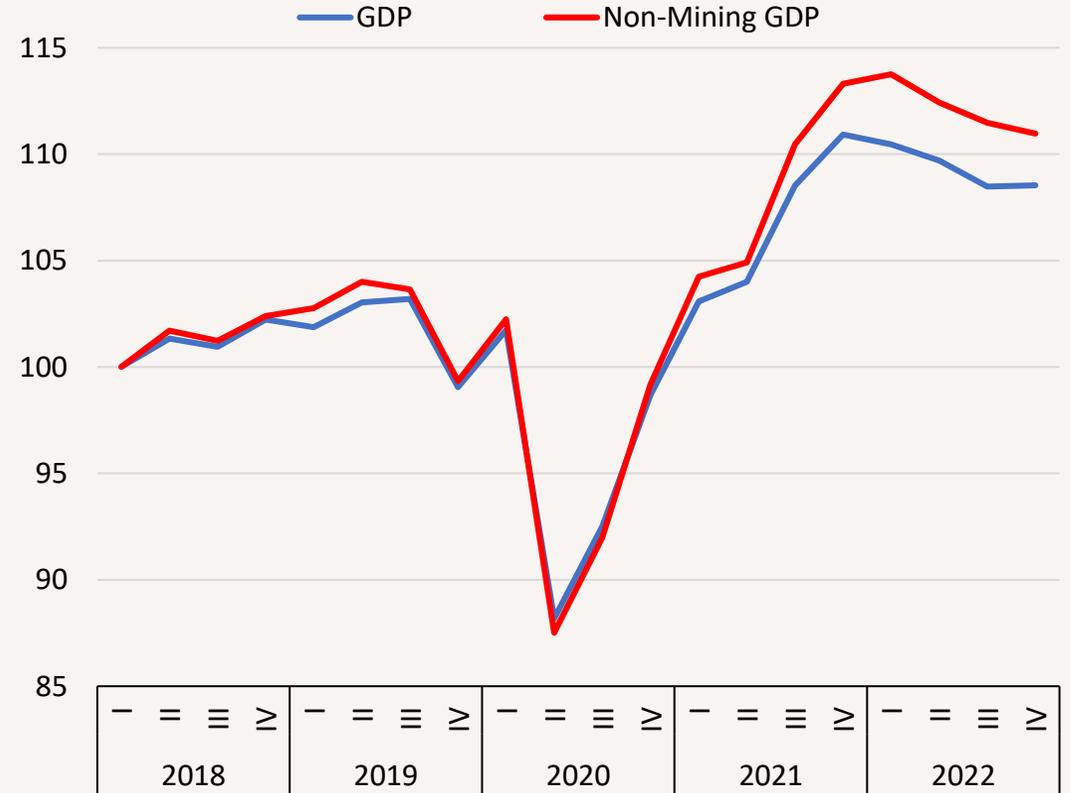
### Domestic Demand

(index 2018Q1=100, seasonally adjusted)



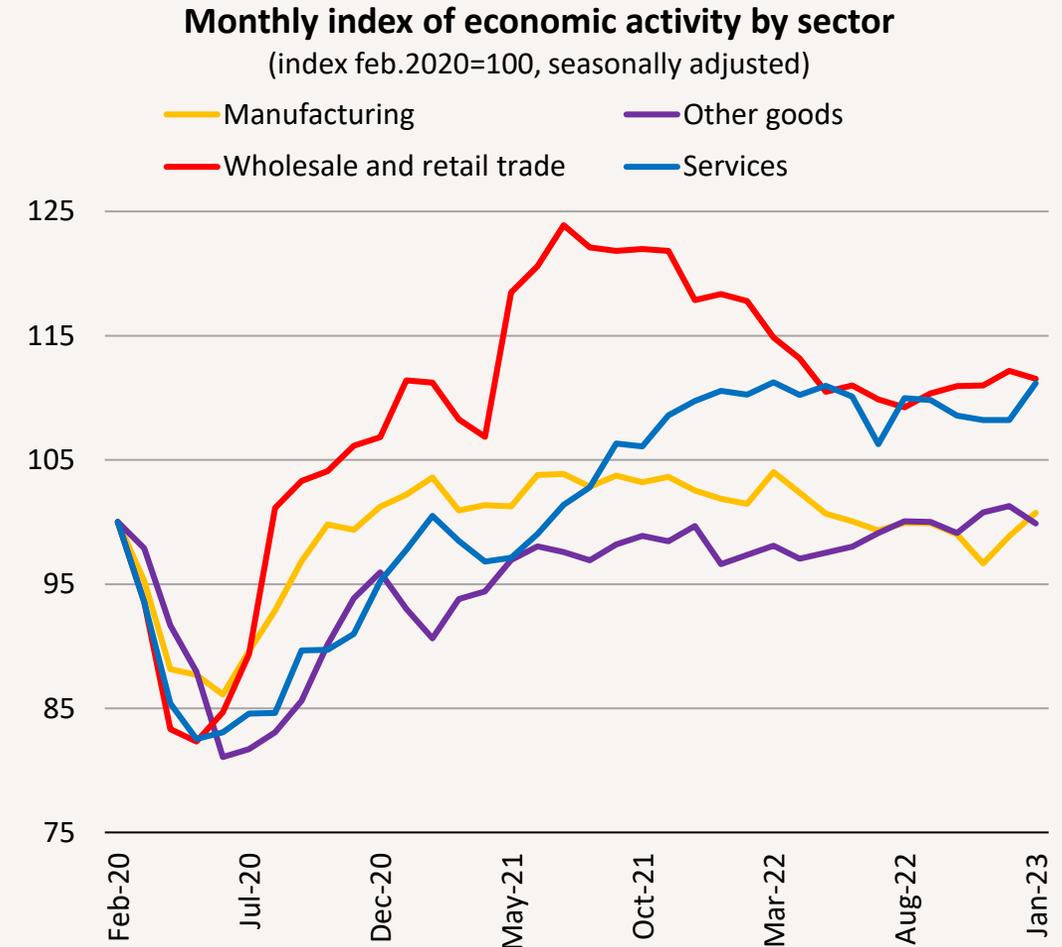
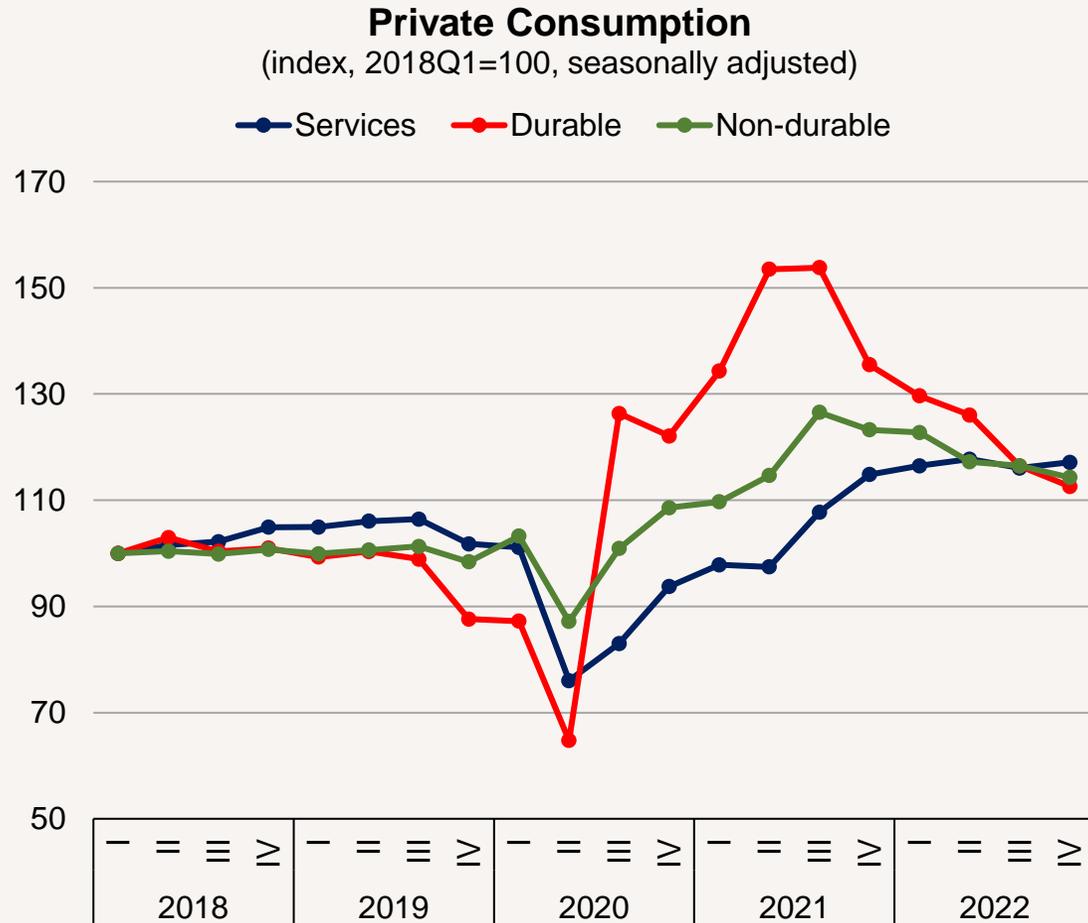
### Gross Domestic Product

(index 2018Q1=100, seasonally adjusted)



Source: Central Bank of Chile.

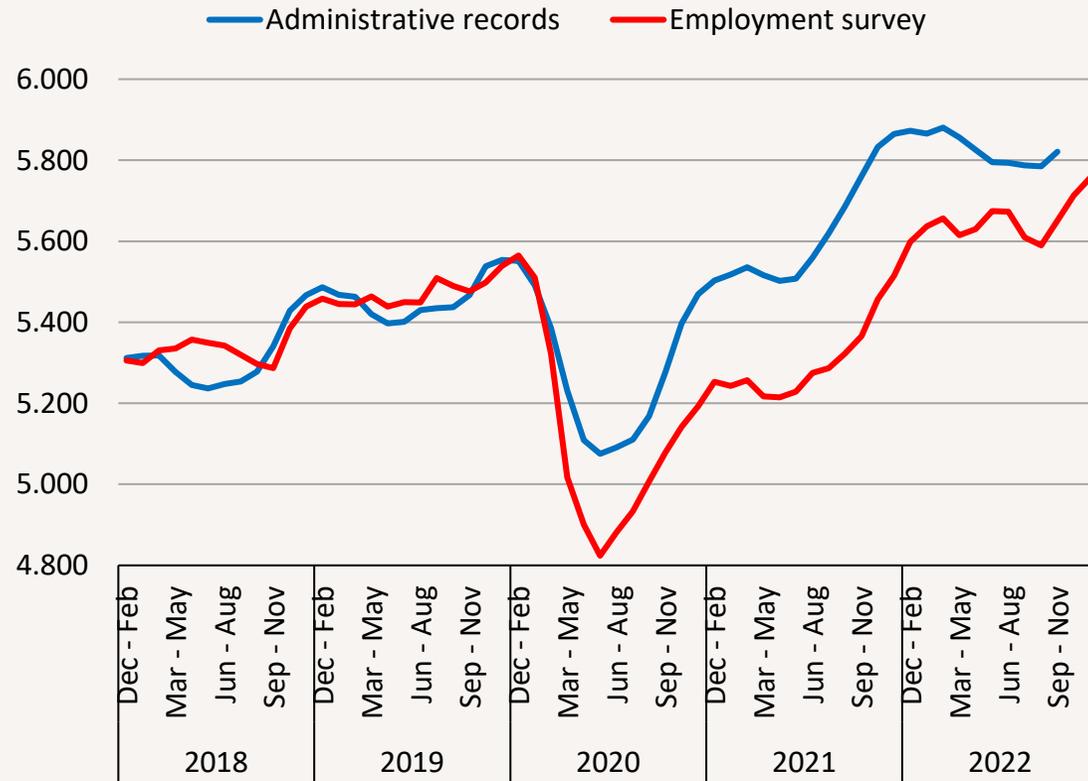
From its peak at the end of 2021, private consumption has continued to decline. This has been reflected in a downturn of wholesale and retail trade that has not dragged down other sectors



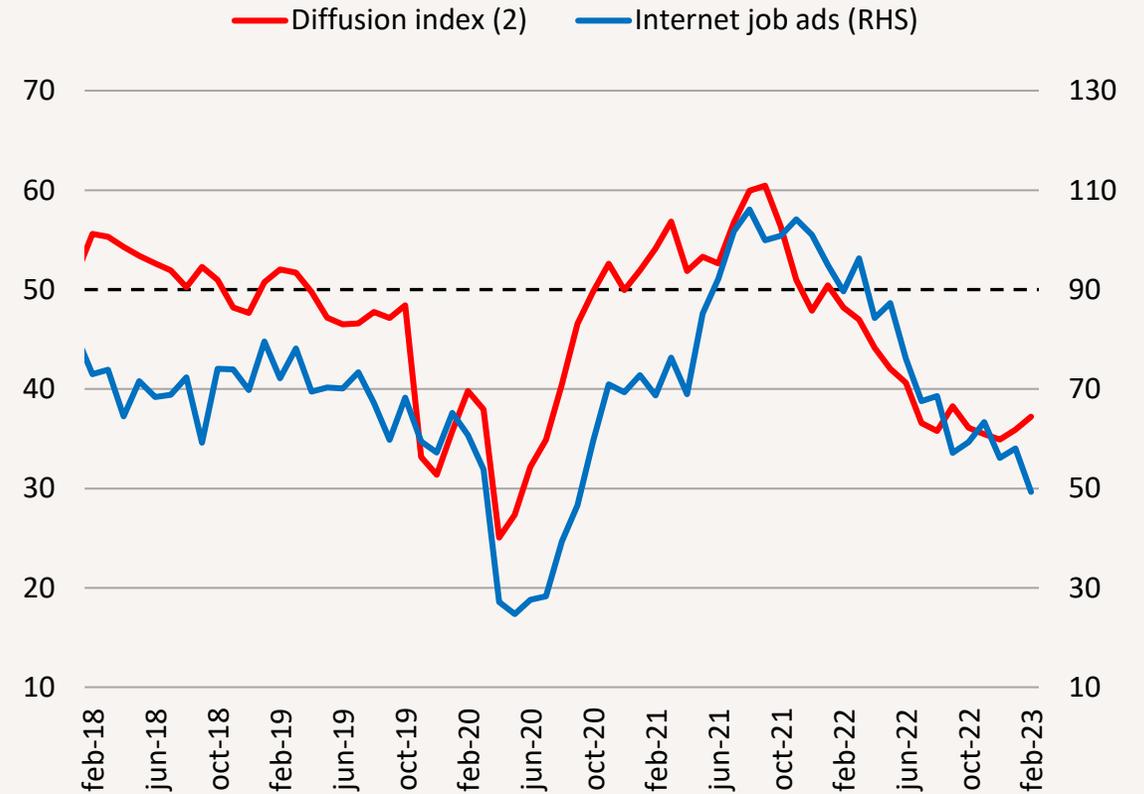
Source: Central Bank of Chile.

# The labor market has created formal jobs

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



**Labor demand (indexes)**



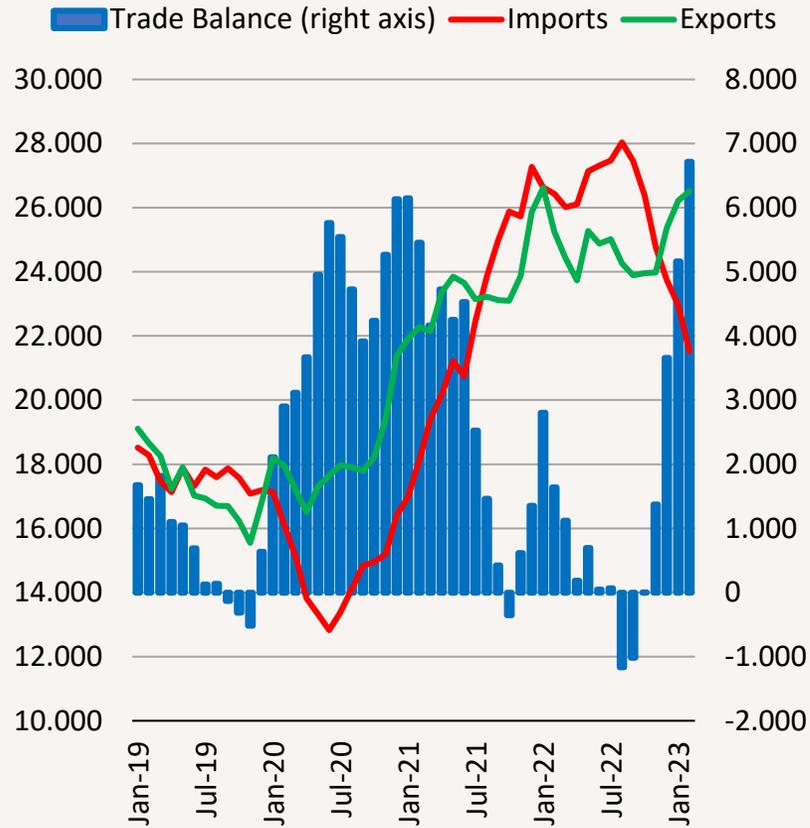
**Note:** (1) Administrative records correspond to retirement contributors inform by the Pensions Supervisor. (2) Weighted average of IMCE employment indicators in Commerce, Industry and Construction. Values above (under) 50 indicate optimism (pessimism).

**Source:** Central Bank of Chile, National Statistics Institute and Pensions Supervisor.

# The improved performance of the trade balance, lower transportation costs, and the recovery of the tourism sector have all contributed to a positive outlook for the current account

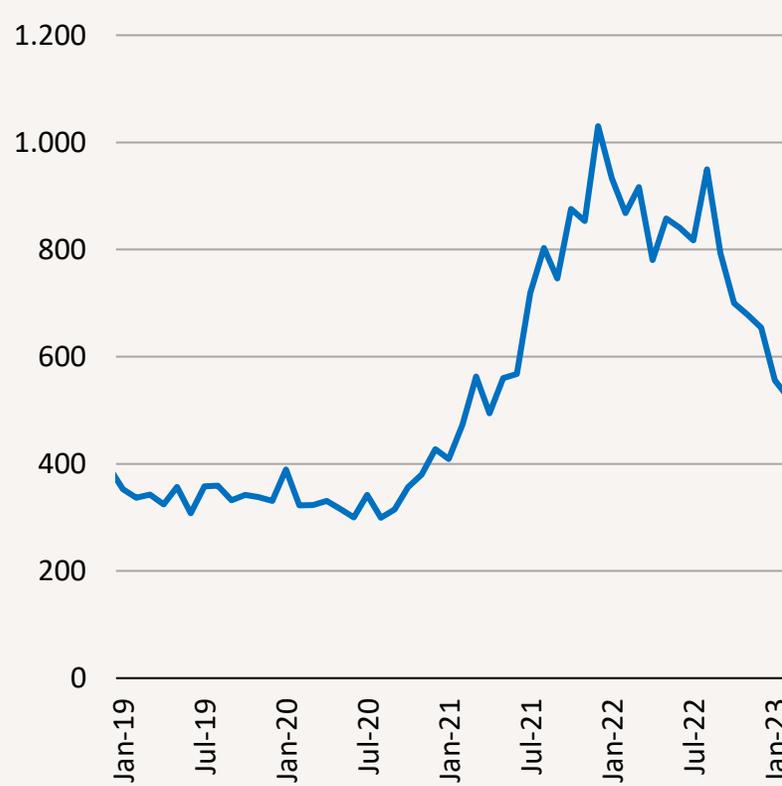
**Trade Balance**

(quarterly moving sum, millions of US\$)



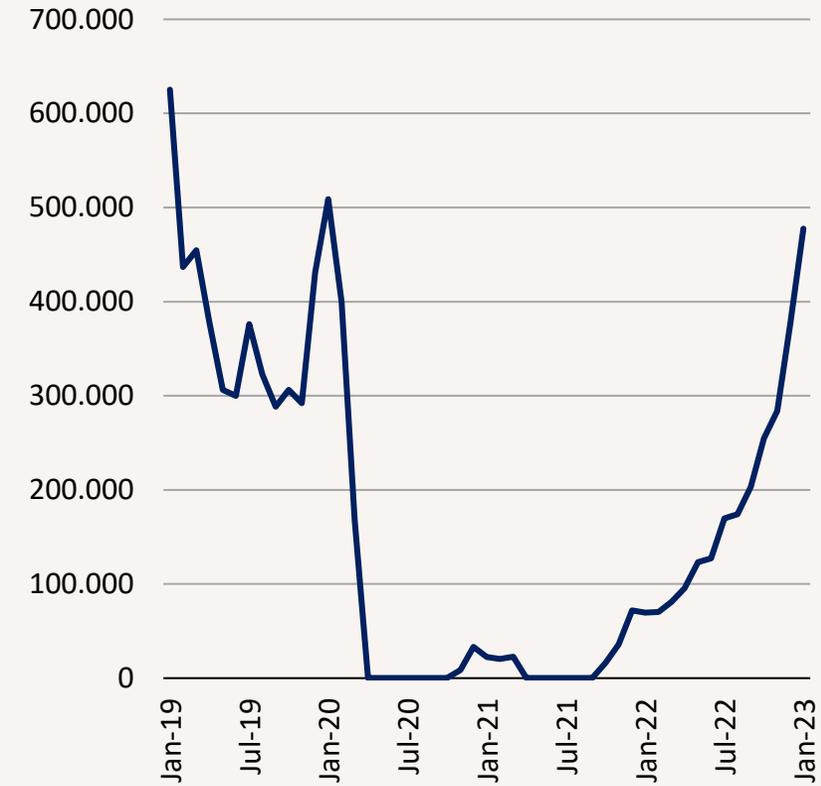
**Freight costs**

(CIF-FOB, US\$ millions)



**Tourist arrivals**

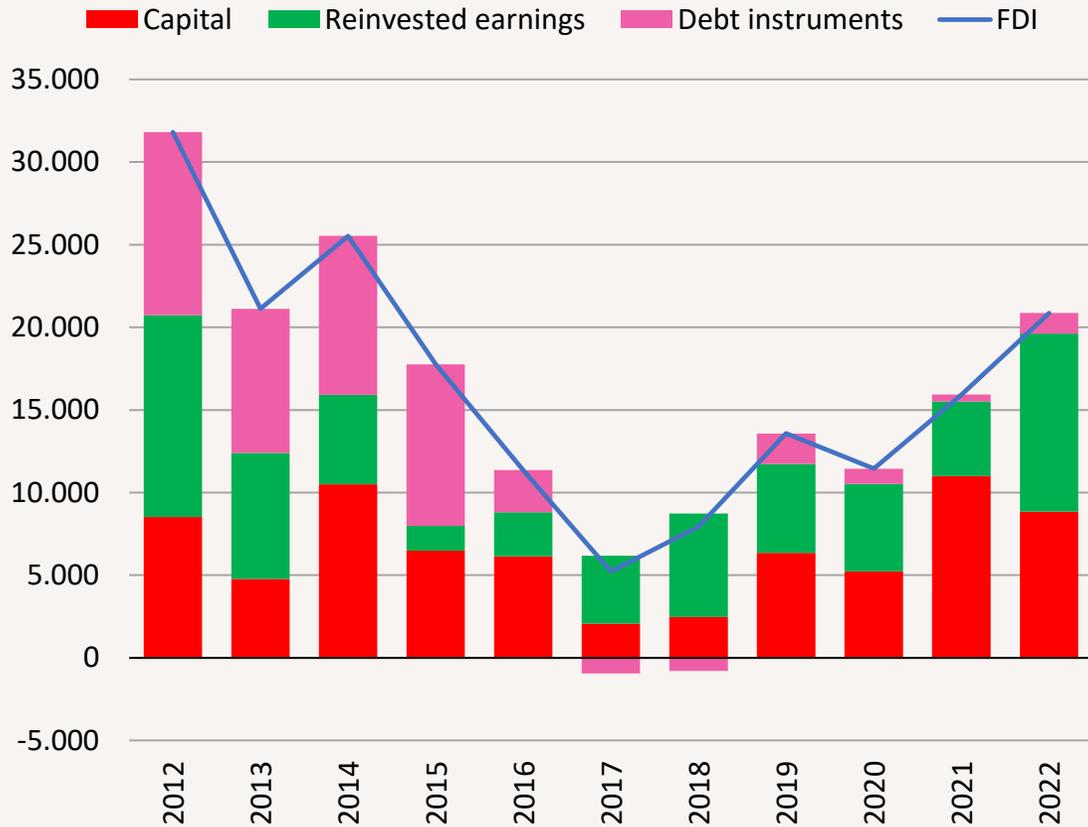
(number)



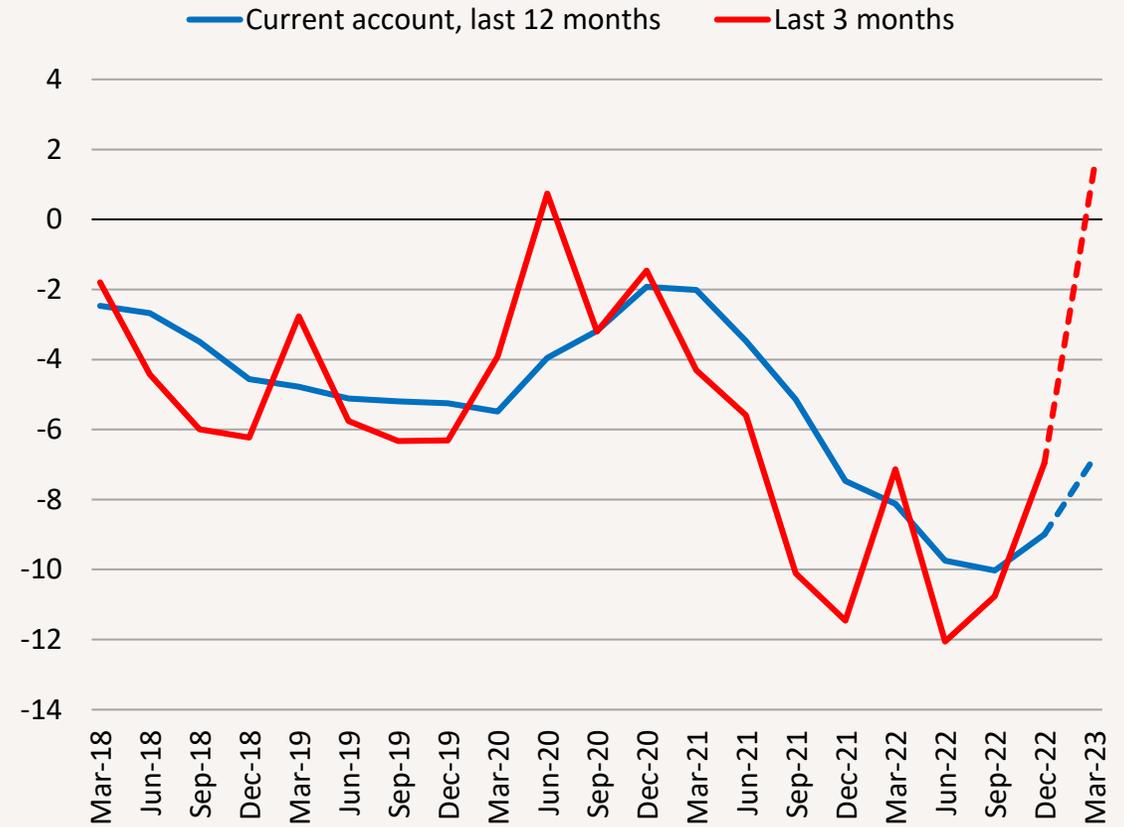
Source: Central Bank of Chile, Undersecretary of Tourism.

# Recent data shows that the current account and foreign direct investment are experiencing a strong recovery

**Foreign Direct Investment**  
(USD millions)



**Current account (1)**  
(percentage of GDP)



**Note:** (1) the dotted lines represents data projections using monthly information.

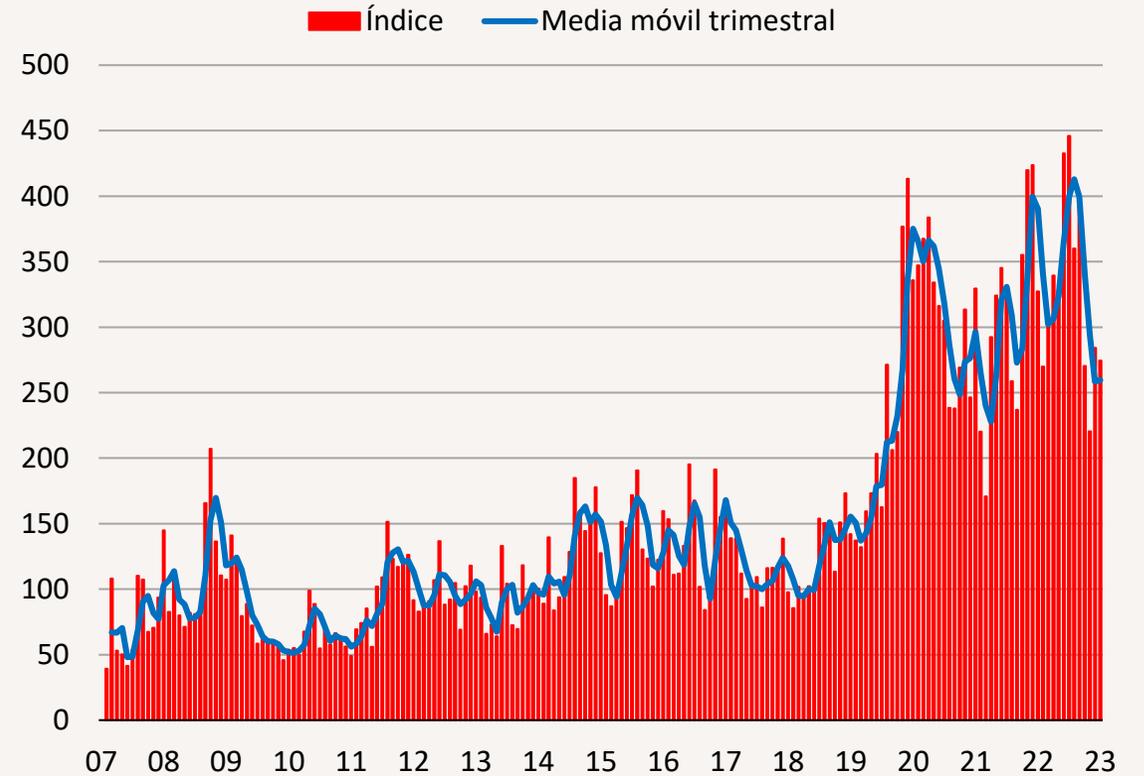
**Source:** Central Bank of Chile, and Ministry of Finance.

# Economic uncertainty has decreased in Chile and is close to pre-social unrest levels, whereas the rest of the world continues to experience high levels of economic uncertainty

Chile: Economic Uncertainty (index)

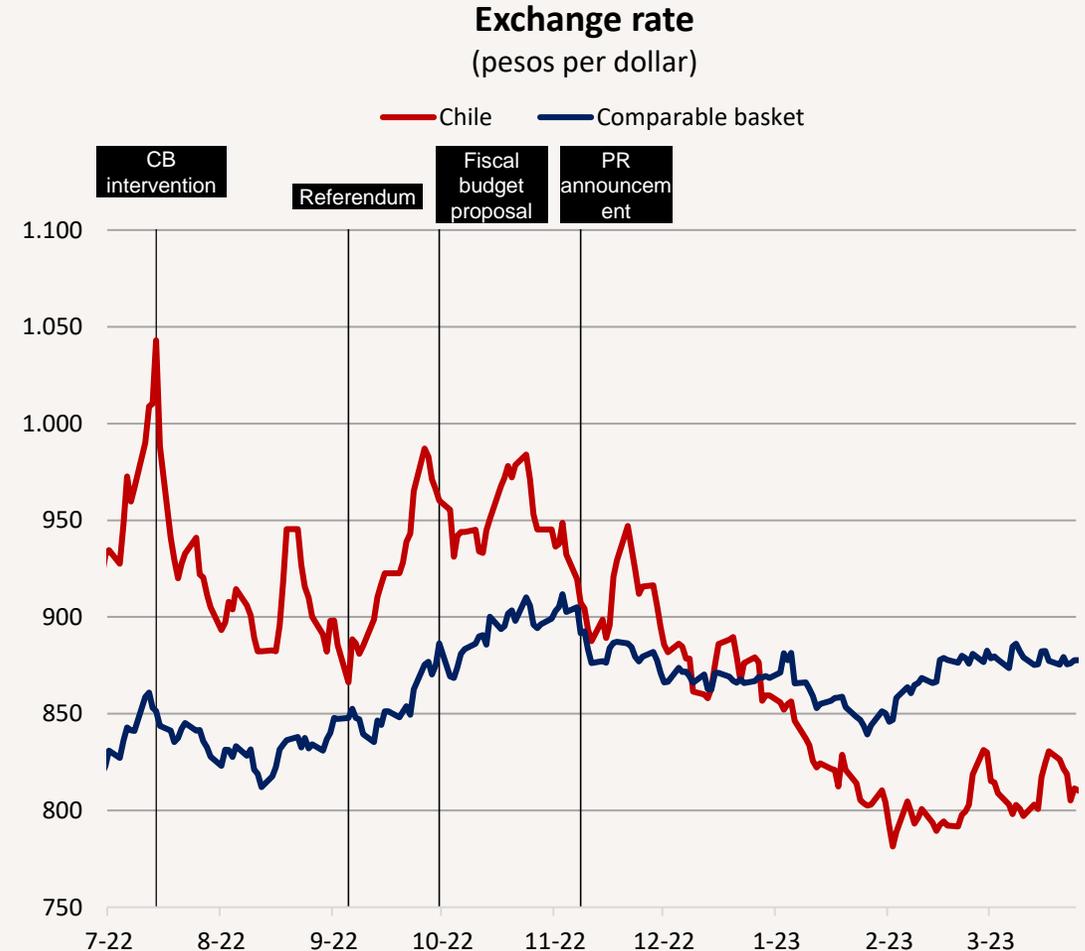
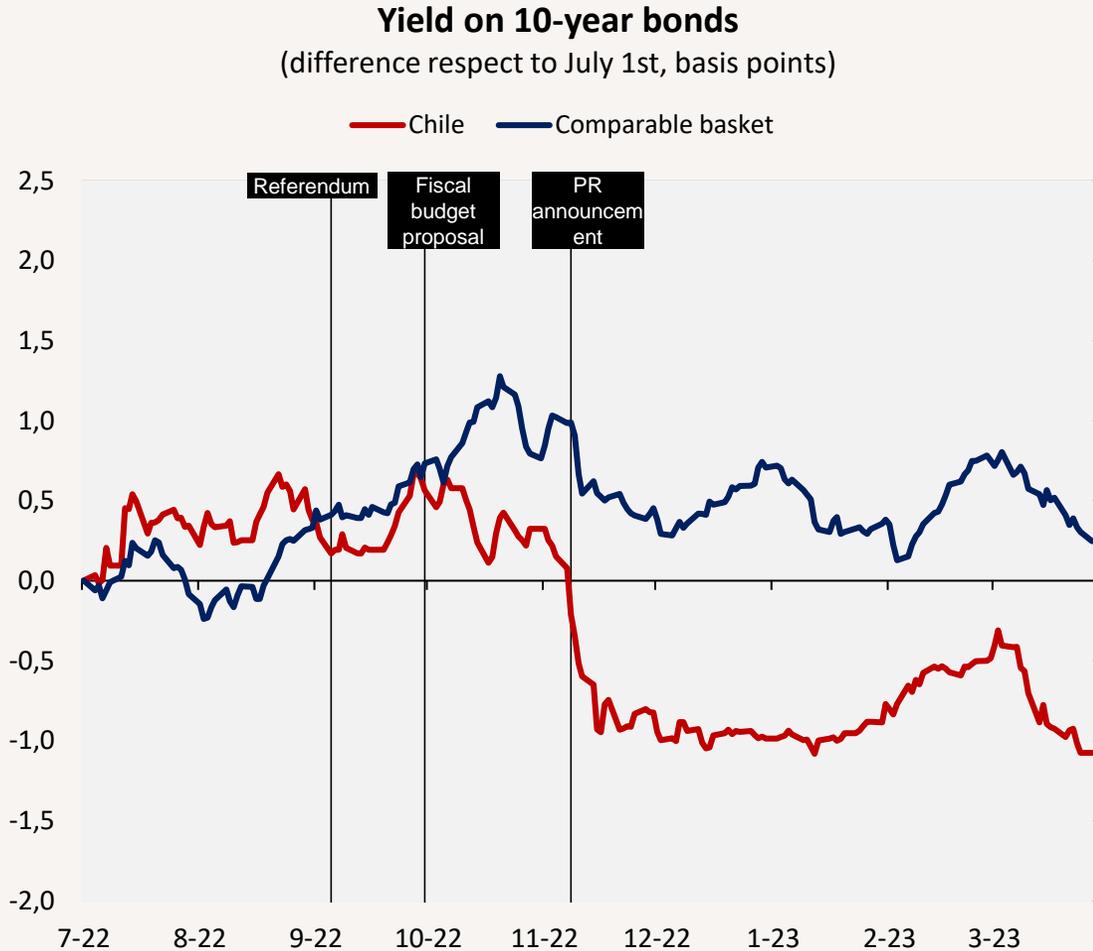


Global Economic Uncertainty (index)



Source: Central Bank of Chile based on Becerra and Sagner (2020), Economic Policy Uncertainty.

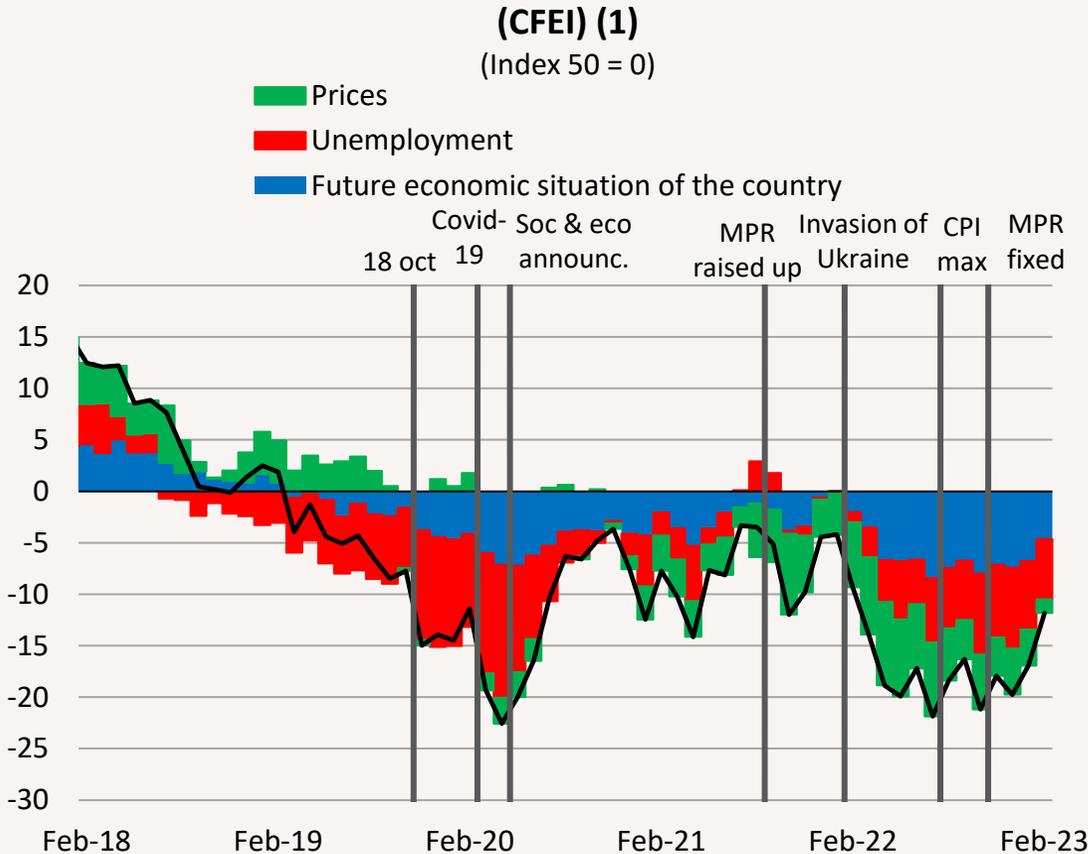
# Since the announcement of the fiscal consolidation plan and the Pension Reform, long rates have decreased. Recently, long rates have moved in line with their peers



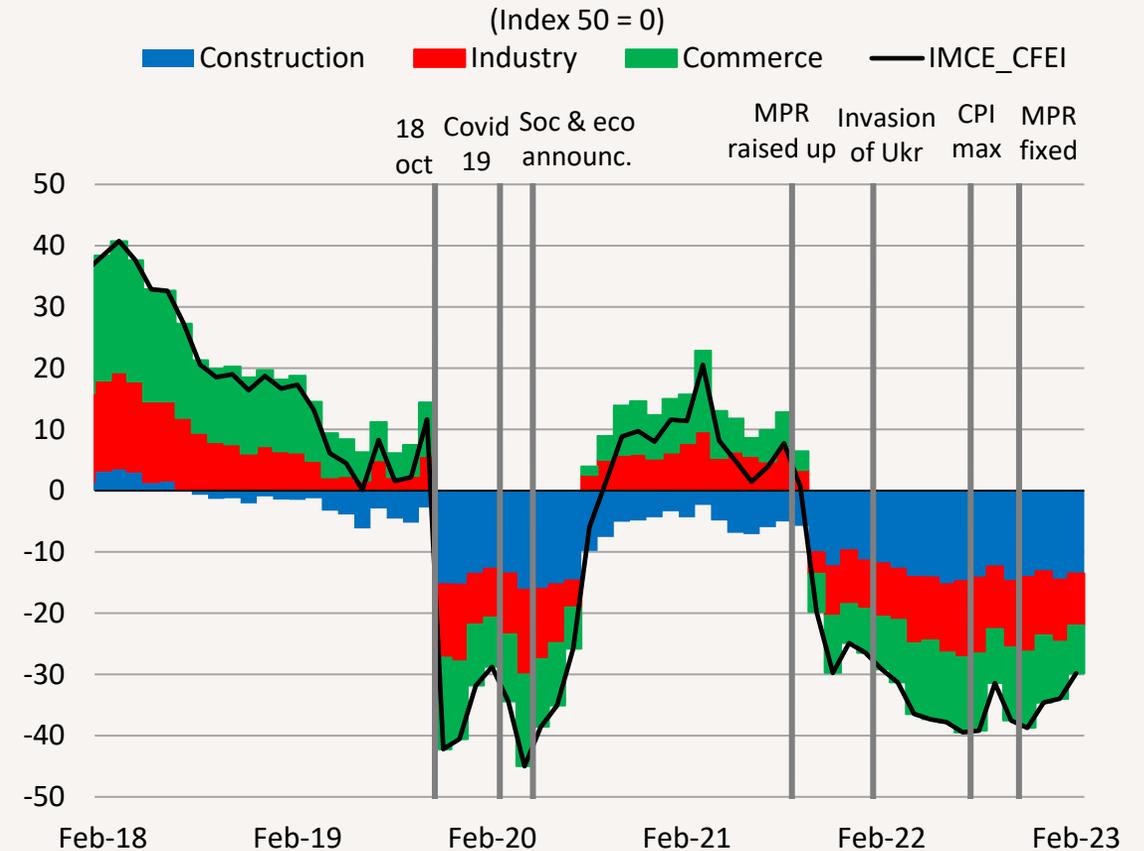
**Note:** PR: Pension Reform, PW: Pension withdrawals.  
**Source:** Central Bank of Chile, and Ministry of Finance.

# Future consumers' expectations have shown a 10-point increase since the CPI peak in August, due to better expectations about inflation and the future situation of the country. The IMCE has shown a similar movement

IPEC INDEX Country's Future Expectation Indicator



IMCE Index Country's Future Expectation Indicator (CFEI) (1)

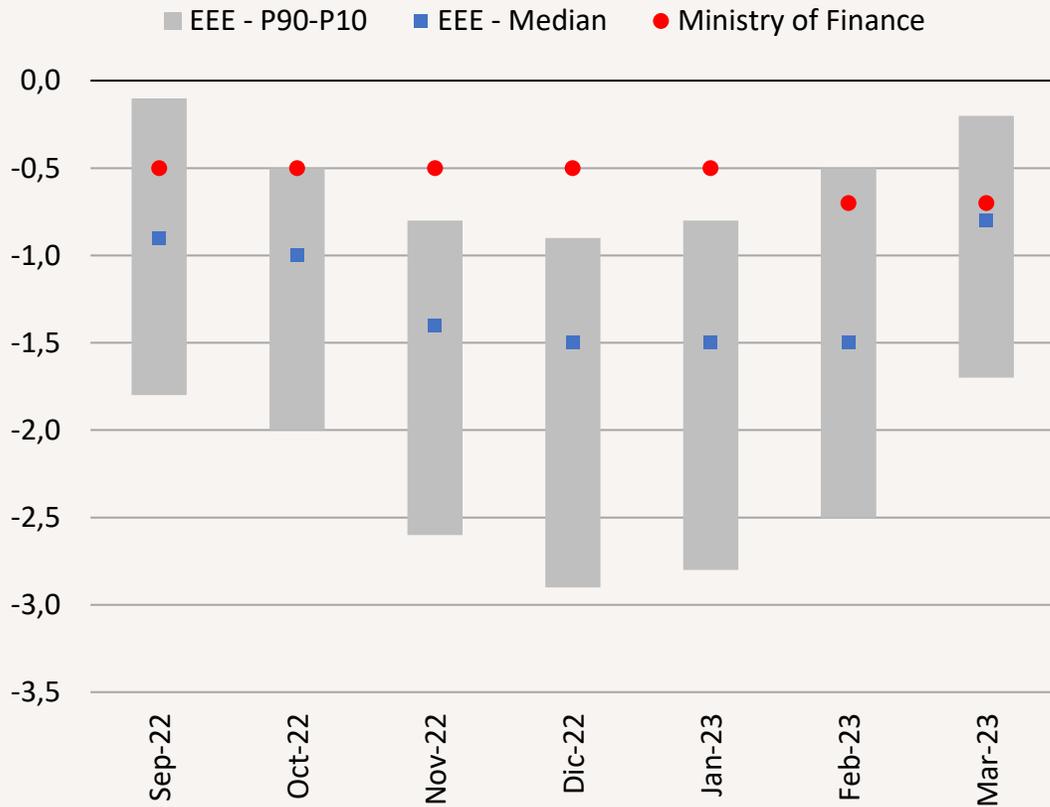


**Note: (1)** IPEC Country's Future Expectation Indicator (CFEI) is based in Chanut, Marcel and Medel 2018. Its index is a mean of future expectation of country, unemployment and prices change. (2) index over 50 indicates pessimism

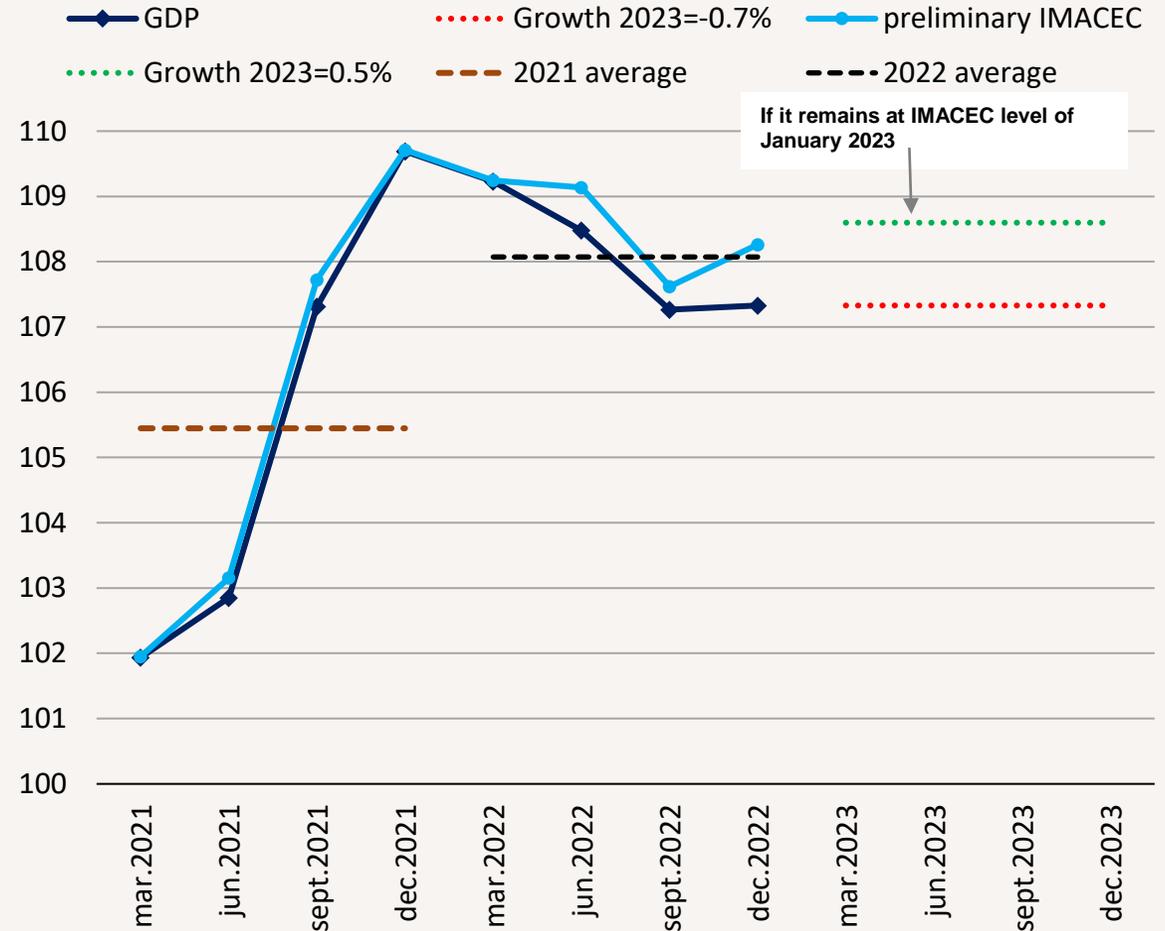
**Source:** Gfk Adimark, Central Bank of Chile and Ministry of Finance.-

# Significant upward revisions have been made to growth expectations for 2023. The January IMACEC suggests a higher probability of GDP growth in 2023

**2023 GDP Forecast**  
(percentage)



**GDP**  
(Index; 2018=100, seasonally adjusted)

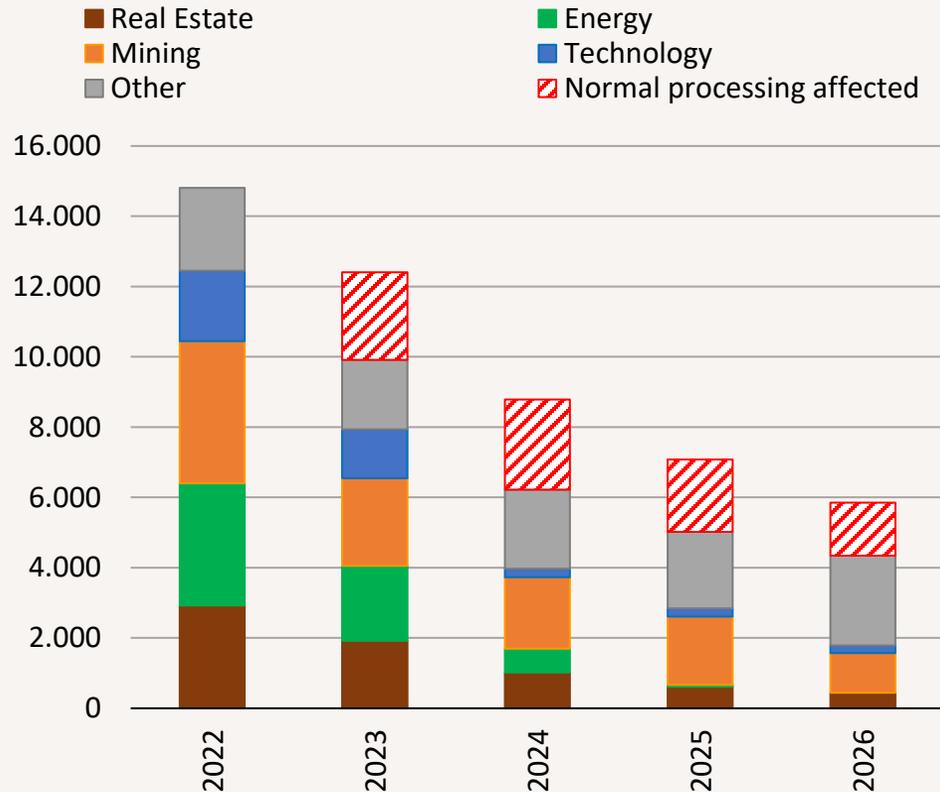


Source: Ministry of Finance, Central Bank of Chile.

# With the advance of new projects, it is possible that the level of investment will continue to rise compared to previous projections

## Recently announced projects

Planned annual investment forecast 2023Q1 (1)  
(USD millions)



**Minera Teck presenta proyecto por US\$3.000 millones para acelerar explotación de Quebrada Blanca Fase 2**

**Lundin Mining invertirá este año US\$400 millones en Candelaria**

**Territoria apuesta por la zona cero: invertirá US\$ 130 millones en nuevo proyecto inmobiliario**

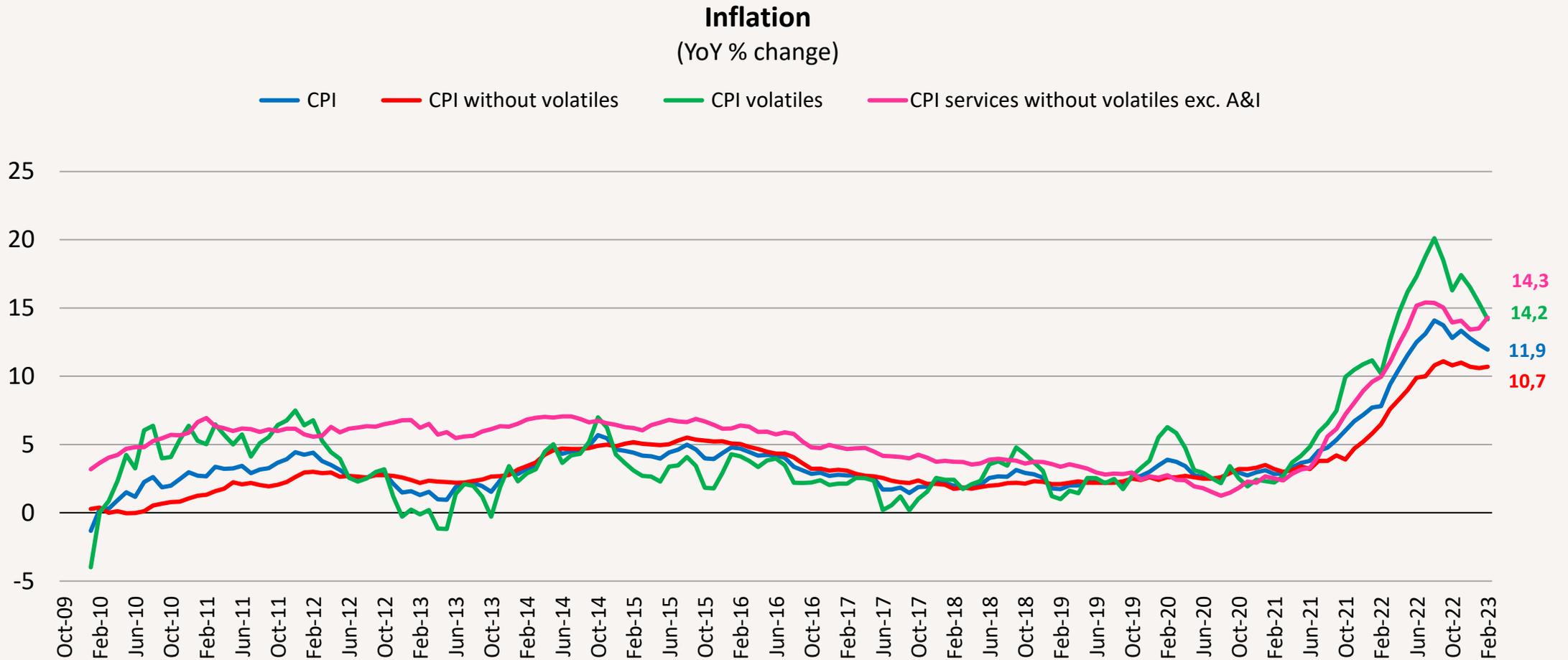
**US\$ 1.600 MILLONES SERÁ LA INVERSIÓN DE BHP SPENCE PARA SU PROYECTO ADECUACIÓN OPERACIONAL**

**Uno de los más grandes de Latinoamérica: Engie construirá sistema BESS de 638 MWh en la planta PV Coya**

**Note:** (1) March 2023 forecast built after December 2022 Capital Goods Corporation (CBC) Census data. Normal processing affected projects are a Ministry of Finance estimate based on the Investment Projects Affected in their Normal Processing according to the CBC (projects that are pending processing for permits from public institutions). Projects considered have a total investment superior to US\$ 100 MM.

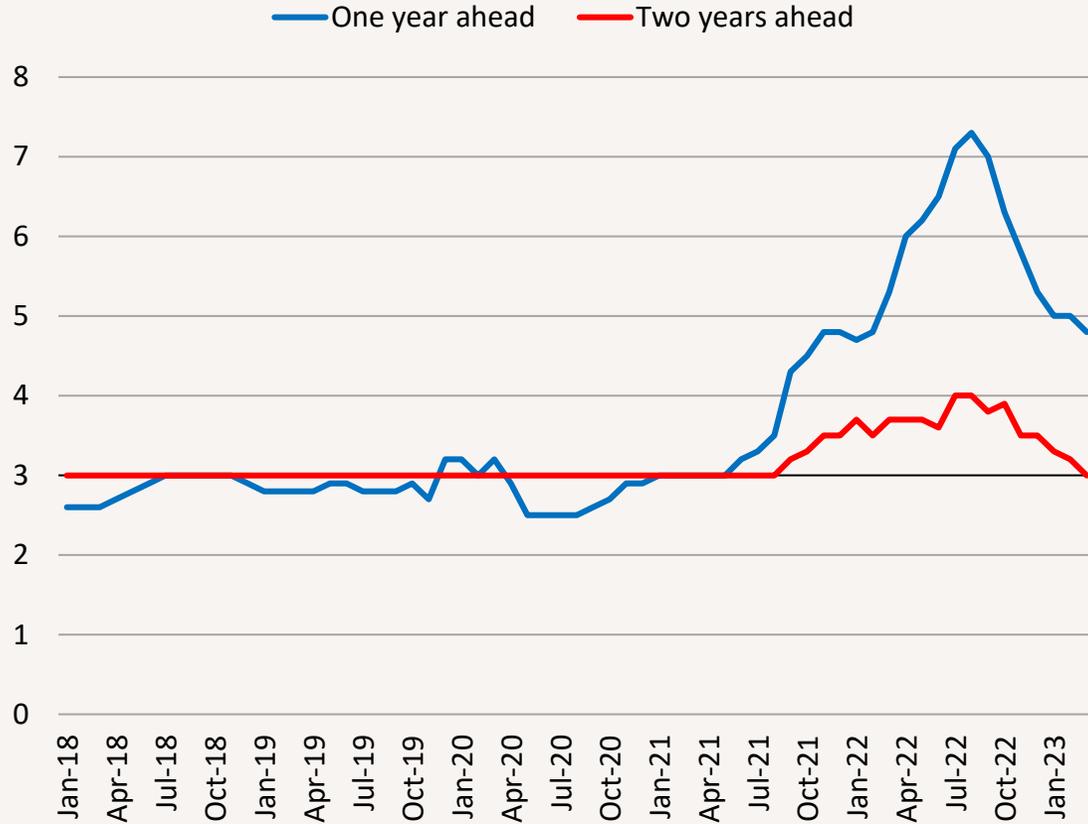
**Source:** CBC Census (December 2022) and Large Projects Office (December 2022).

**Inflation reached a turning point in August, dropping by 2.1 percentage points since then. A consistent decline in inflation is expected due to the contraction of domestic demand, lower international prices of food and energy, and the appreciation of the local currency**

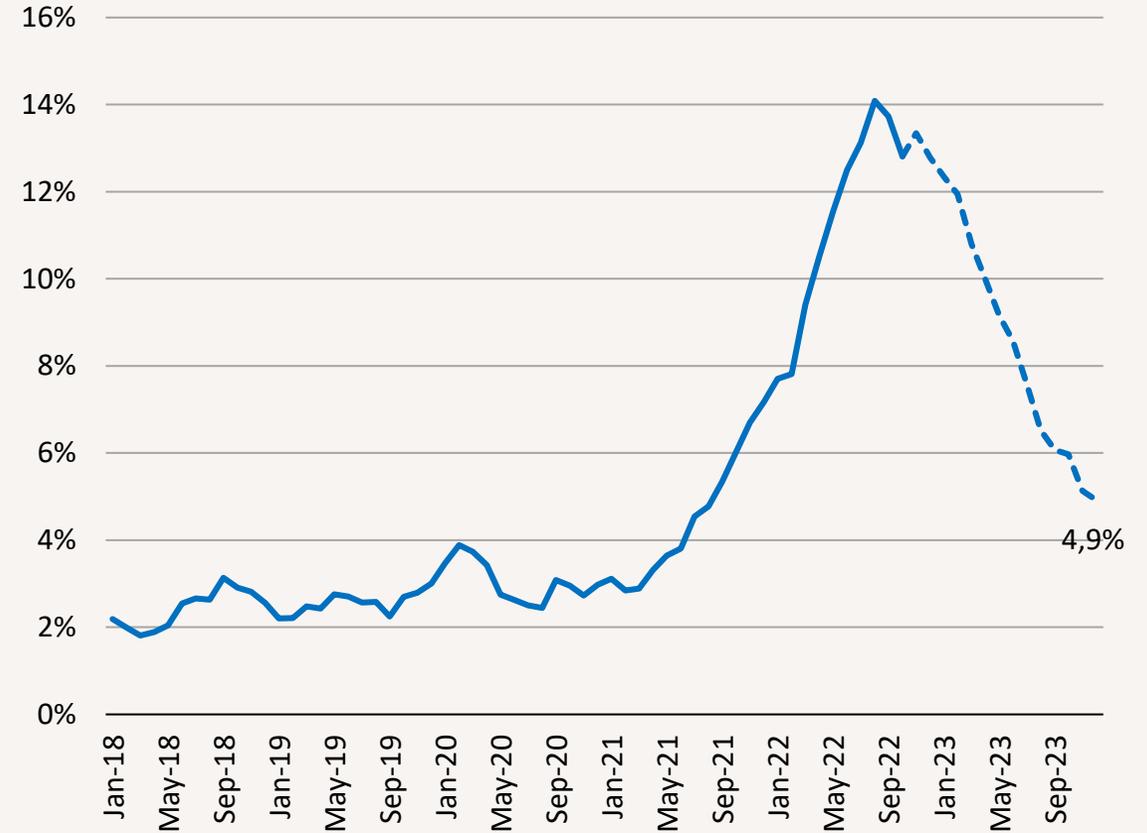


# Markets are validating the prospect of declining inflation, and pointing to a convergence towards the 3 percent target in 2024

**EES: CPI – Expectations**  
(annual change, percent)



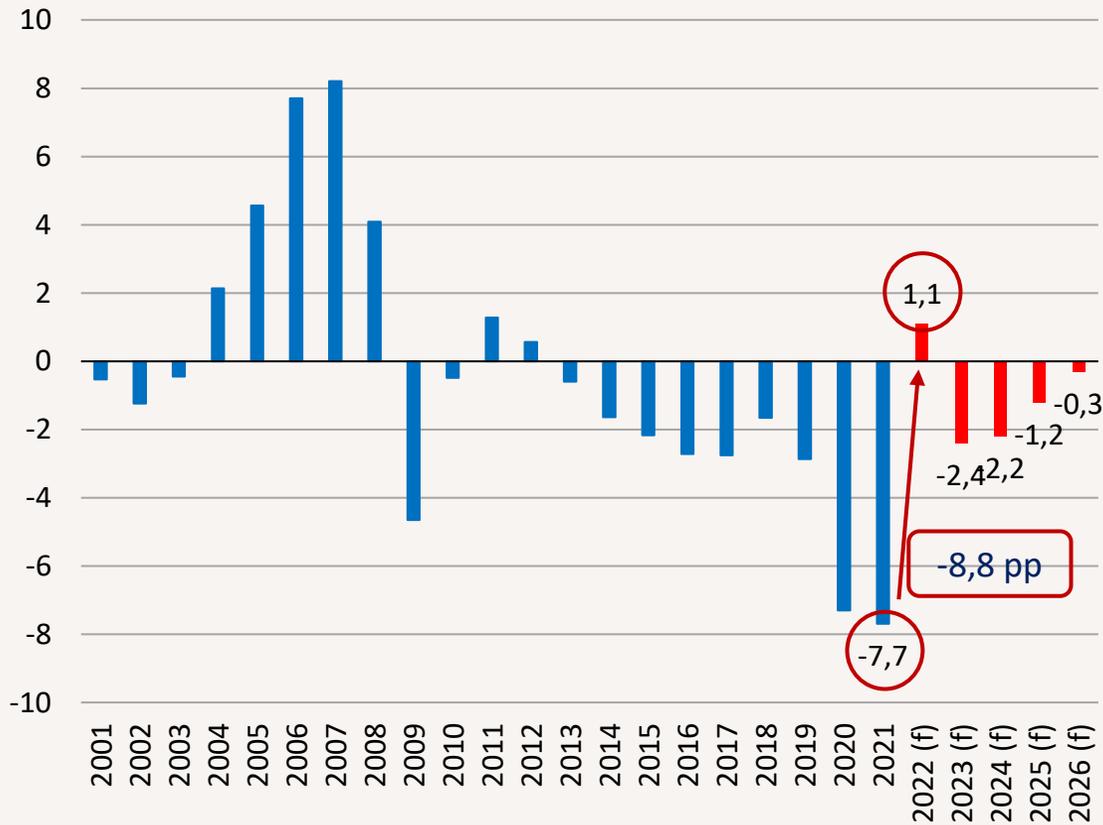
**CPI – Inflation Swaps (1)**  
(annual change, percent)



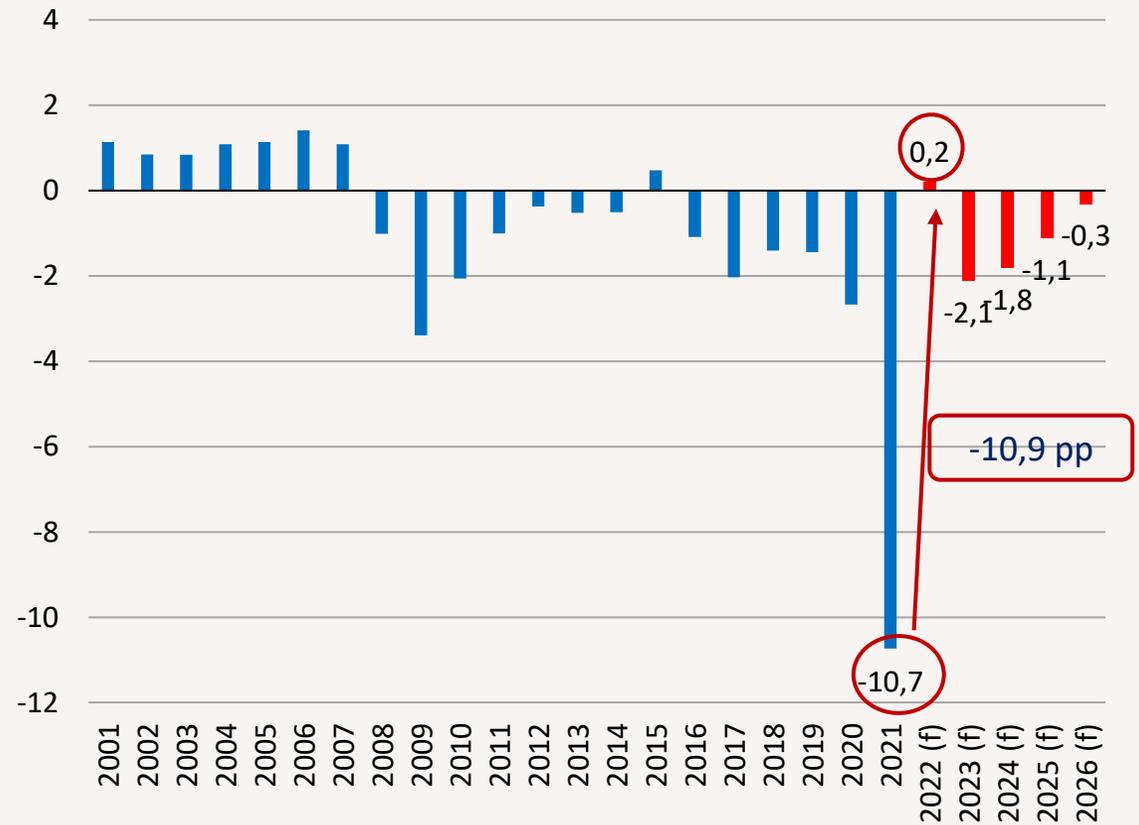
**Note:** (1) inflation swaps of March 24.  
**Source:** Central Bank of Chile, Bloomberg.

The new government reined-in fiscal imbalances, articulating one of the largest post-Covid-19 fiscal consolidations. For this year we expect a deficit that will converge to zero in the medium term

Overall Fiscal Balance (% of GDP)



Structural Fiscal Balance (% of GDP)



# Policy agenda

### Personal income tax, wealth tax and reduction of tax exemptions and anti-evasion measures:

- The idea of legislating the project was rejected by the Chamber of Deputies.
- Now, the government is engaged in a round of consultations and dialogue with different economic, social, and political actors to define what adjustments or changes will be made to the proposal in order to return to the legislative process.

### Mining royalty:

- In January, the Mining and Energy Committee of the Senate dispatched the project.
- The Senate Finance Committee is now discussing the bill.

### Corrective taxes:

- This bill is expected to be submitted at the end of this month or the beginning of April.

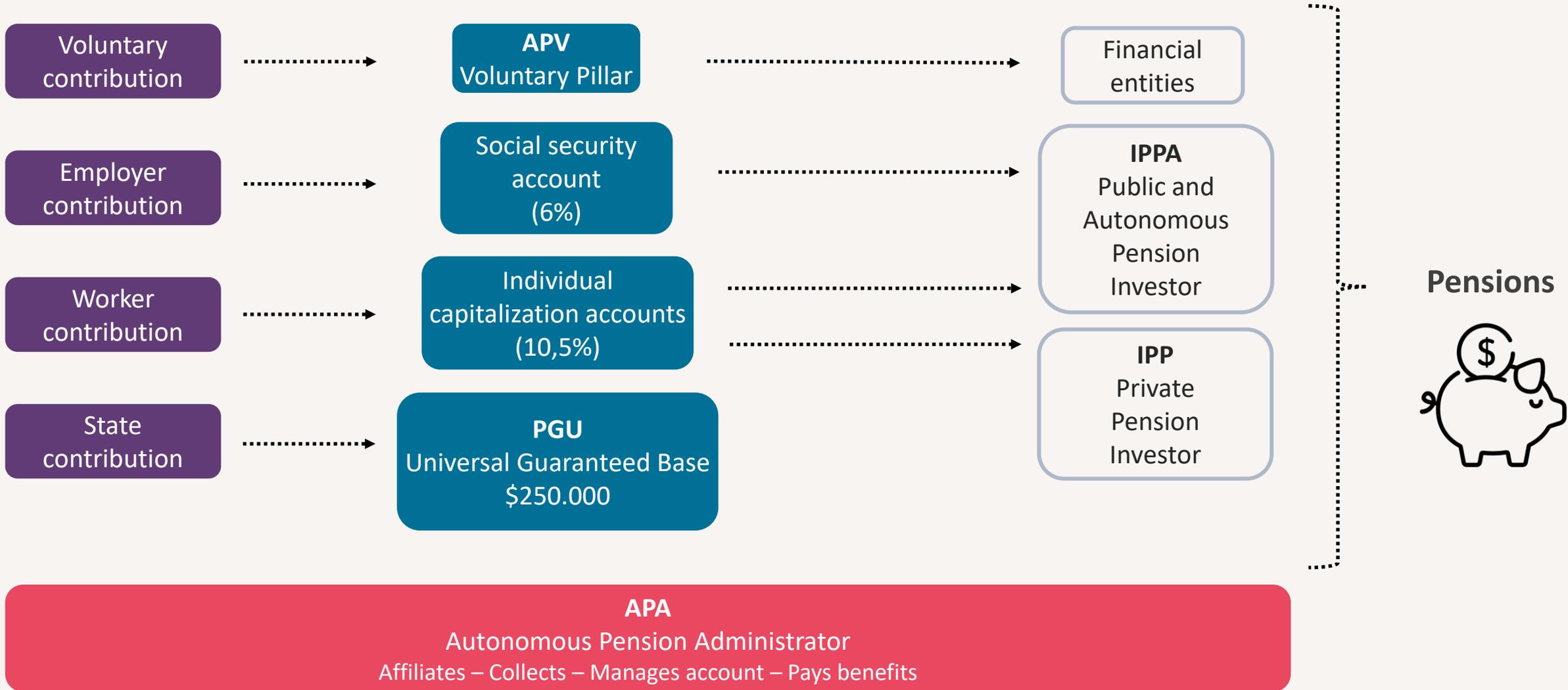
### Regional rents:

- This bill is expected to be submitted at the end of this month or the beginning of April.

### Fiscal responsibility:

- **Permanent expenditure proposals will have permanent income** for their financing, in compliance with the fiscal rule

# Pension reform

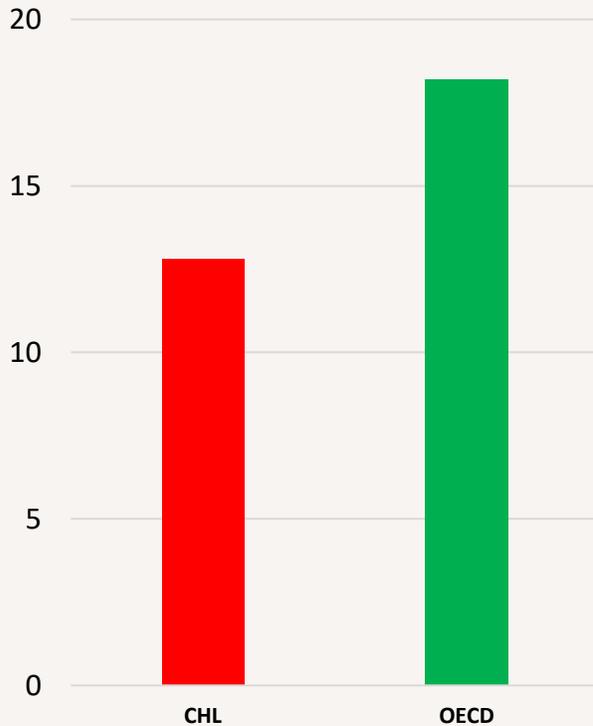


**Note:** Acronyms come from the spanish translation.

**Source:** Ministry of Finance.

# The Pension Reform aims to increase pensions while also enabling the long-term recovery of the private savings base of the economy and deepening the capital markets

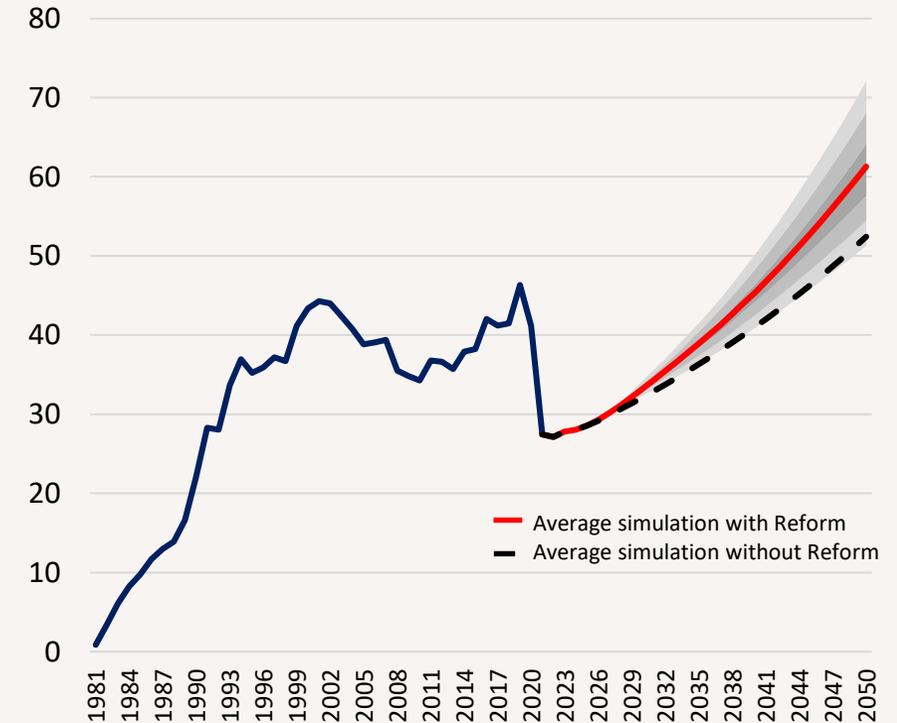
**Effective contribution to the pensions system (1)**  
(% gross income, 2020)



**Estimated Impact on future pensions (2)**

Pension year	Increase (in UF)	Without Reform (Median)	Additional pension with Reform (Median)
2065	<b>Total pension</b>	11,6	
	Increase PGU		1,0
	Increase PAFE (industrial reog.)		1,4
	Increase 6% benefit		3,0
	<b>Total increase</b>		<b>5,6 (48%)</b>

**Domestic Assets of Pension System (3)**  
(% GDP)



**Note:** (1) Green column stands for the OECD average and the red column for Chile. In Chile, figures includes the disability insurance and fees paid to AFPs. (2) The medians are not addable through the components of the pension.. (3) 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:** OEC, Ministry of Finance, Chile’s Pension Supervisor (SAFP) and Budget Office (Dipres).

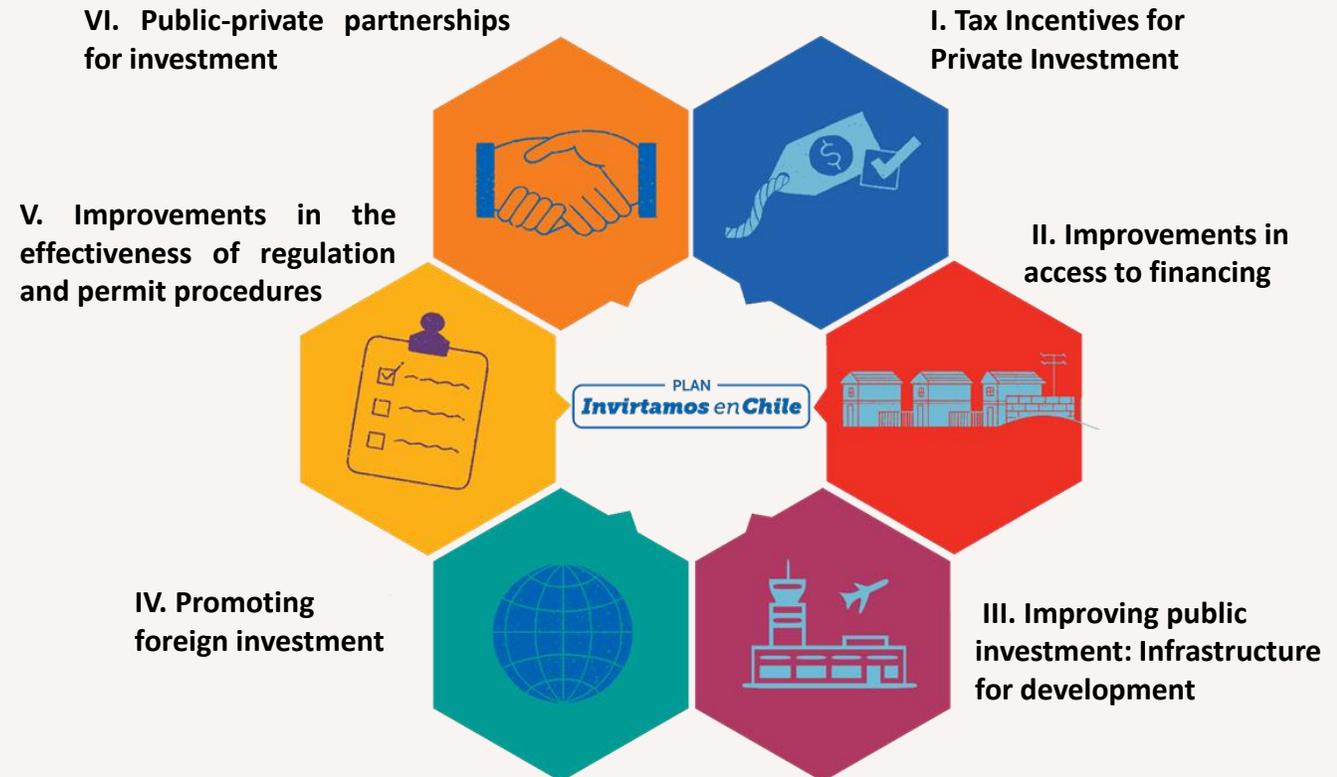


## Fostering investment:

The government has presented the "Let's Invest in Chile" plan, which consists of six pillars and 28 specific measures aimed at boosting investment and the economy

- 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



## In January, a Productivity Agenda to promote growth and dynamism of the economy was announced

The agenda was the product of an inter-ministerial work with different business unions and the main organization of workers in the country, which after months of work, reached consensus that materialized in more than 40 measures in the following topics:

**Structural reform of the sectoral permit system for investments**

**Expansion of digital skills training programs**

**Creation of a Venture Capital Fund to finance innovative companies**

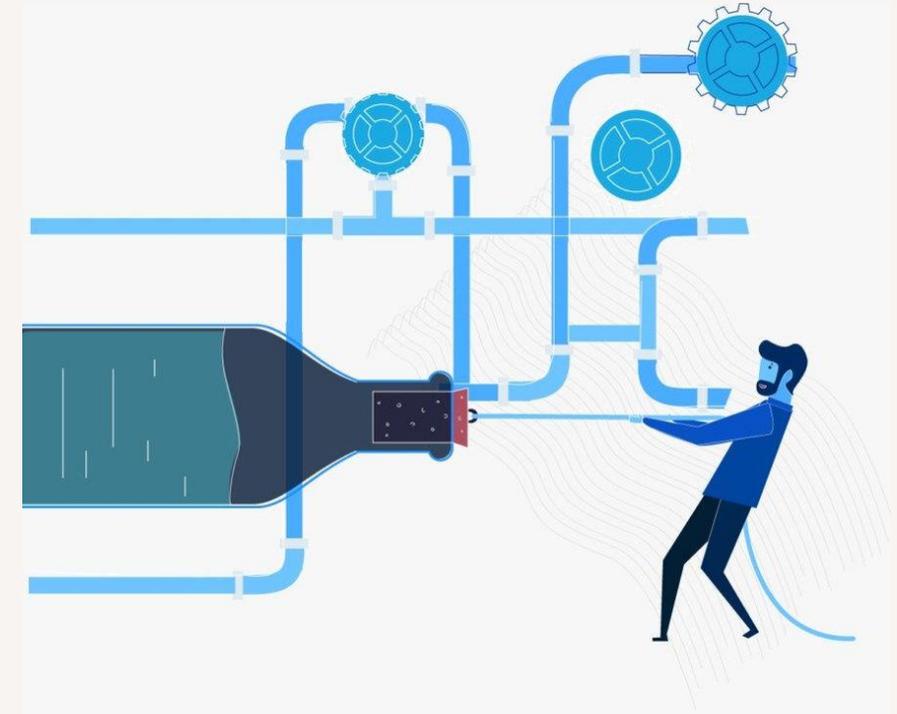
**Elimination of the requirement of notarial procedures**

**Digitization of foreign trade and logistics processes**

**Greater competition in the maritime cabotage market**

**Redesign of employment subsidies with a focus on women and youth**

**Increase the participation of SMEs and cooperatives in public purchases**



**1**

**Extraordinary contribution to the Permanent Family Contribution**

**2**

**Increase in the Family Allowance and Subsidy**

**3**

**Electronic Family Pocket**

**4**

**Increase in Food Grant for Higher Education and in Higher Education Access Test Grant**

**5**

**Labor Emergency Income and *Protege* Subsidy extension**

**6**

**Agreement on medications prices**

**7**

**Special Guarantee Fund for Construction**

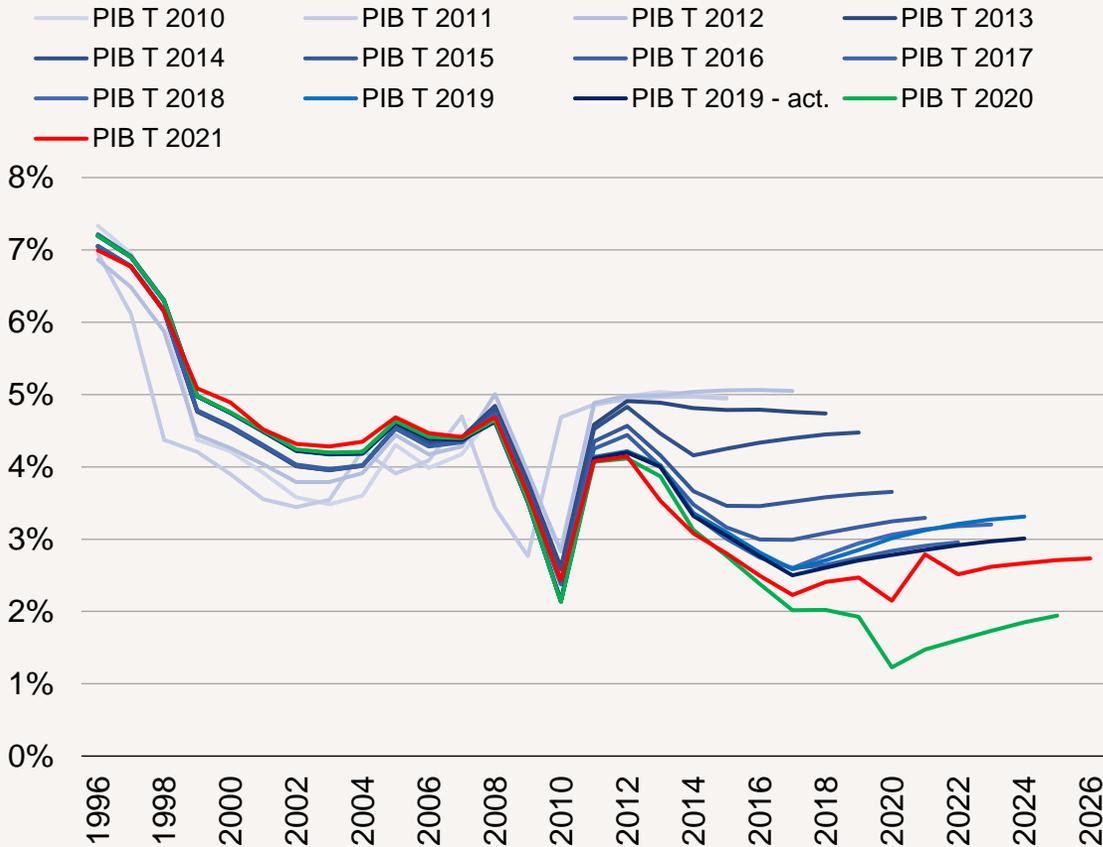
## Several ongoing initiatives will promote further progress towards deeper, more stable, and inclusive capital markets

- **Financial Innovation Law (Fintech):** will bring certain groups of fintech services within the regulatory perimeter of the Commission for the Financial Market ("CMF")
- **Open Finance:** the recently approved Fintech Law also includes open finance provisions that would allow for further competition in the financial services industry
- **Internationalization of the CLP (simplified RUT):** will stimulate greater competitiveness and efficiency in local financial markets, removing obstacles for non-residents to act as players in the local market
- **Resilience of the financial system and its infrastructure:** a draft bill proposes to allow the Central Bank to grant liquidity to non-bank financial players
- **Bill establishing a risk-based supervision system for insurance companies**
- **4-part model for retail payments:** The M4P seeks to end the integration between issuers and acquirers, promoting the entry of new acquiring or sub-acquiring actors.
- **Pension fund management:** the vertical disintegration of the AFP model will create opportunities for new actors in pension fund management
- **Derivatives market:** a new repository for derivatives is being implemented, allowing for a broader span of cross-border operations and counterparts for interest rate and FX derivatives
- **Market makers program:** for government bond issuances.

# Prospects and emerging opportunities

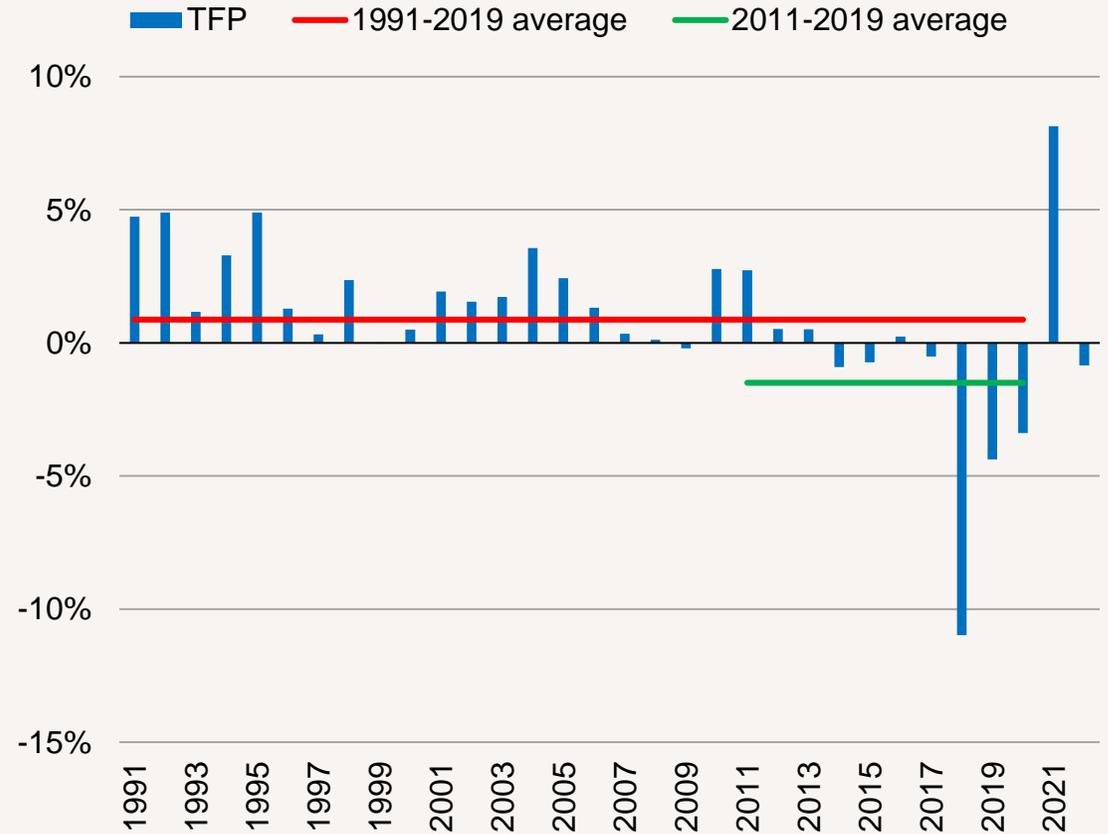
# Chile has experienced a noticeable slowdown in growth since 2012. In the last 10 years, experts have reduced estimates of annual trend GDP growth by 2 1/2 percentage points

**Trend GDP (1)**  
(annual change)



(1) Trend GDP estimated by the committee of experts in each consultation year.  
Source: Central bank of Chile and Finance Ministry.

**TFP growth for Non-mining GDP**  
(var. %, YoY)



Source: National Productivity Council

## Chile is deepening its integration into the World economy. Recent developments includes joining CPTPP and a landmark agreement to modernize the Agreement with the European Union

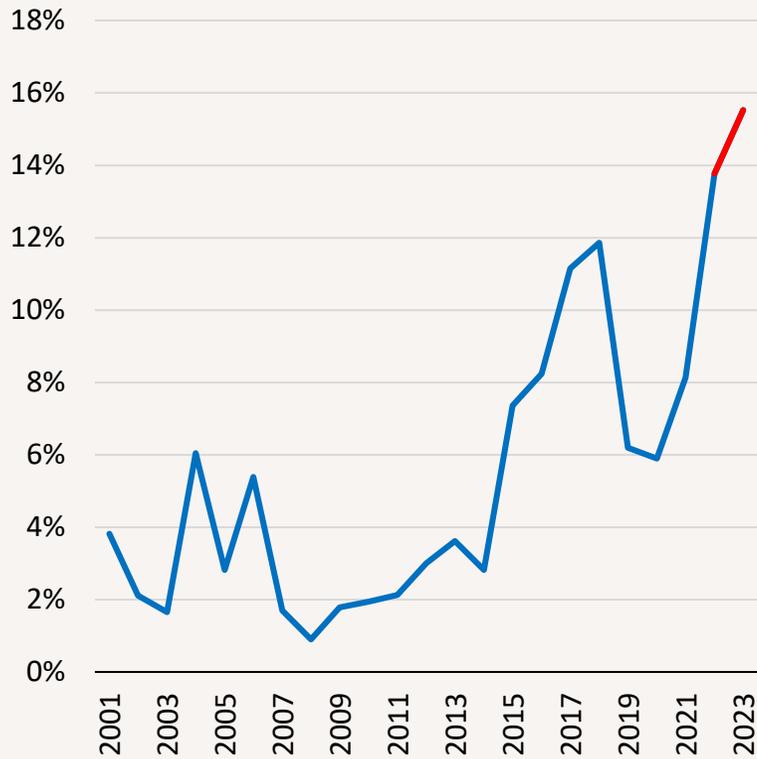
- Chile holds 30 Free Trade Agreements with market access to 65 economies, accounting for 88% of GDP.
- In February 2023, Chile joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
  - It has been adhered by 11 countries.
  - Trade equivalent to 16% of Chile's exports (over 3,000 Chilean products), 13% of GDP, and reaches 498 million people. Chile receives 32% of FDI from this region.
  - Benefits extend beyond trade, and include data protection, environment, gender, among others
- On December 6, Chile signed the Political Agreement for the Modernization of European Union Agreement (negotiated since 2017, initiated by Bachelet 2015).
  - An interim Trade agreement will now go to European Parliament, and then member countries will ratify, as well as Chile's Congress, expected by Nov.23
  - 15 bilateral Investment Agreements will be replaced.
- Accession process of Chile began as a Full Member of the Development Bank of Latin America (CAF) as part of the integration and cooperation process in the region, which constitutes a priority for the government.
  - Could reach loan stock US\$ 4.500 (at most 15% of CAF portfolio). Regional office in Chile. Technical assistance particularly to building region capacity

# Chile has been increasing investment in digital infrastructure and connectivity to provide services to the world

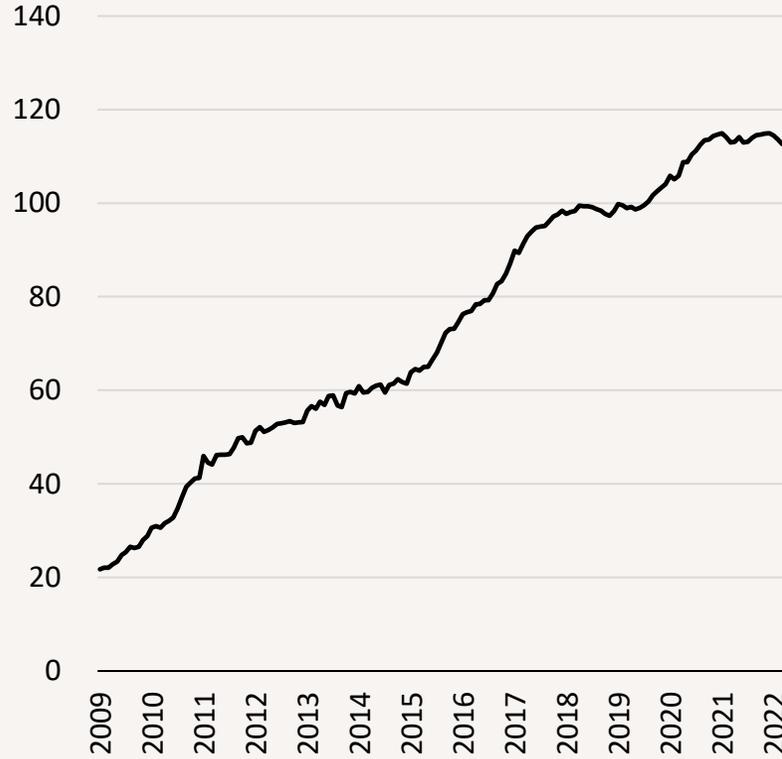
**Technological sector participation on private investment (1)**

(% of total private investment)

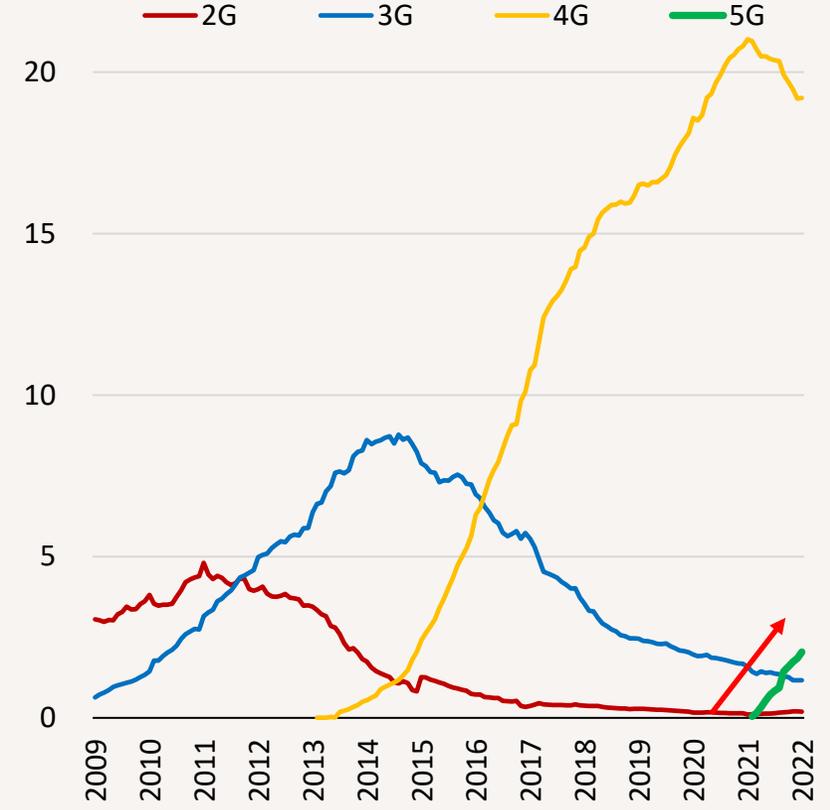
— Historical — Estimation



**Internet Access Service: Total Mobile Connections**  
(total Penetration per 100 inhab.)

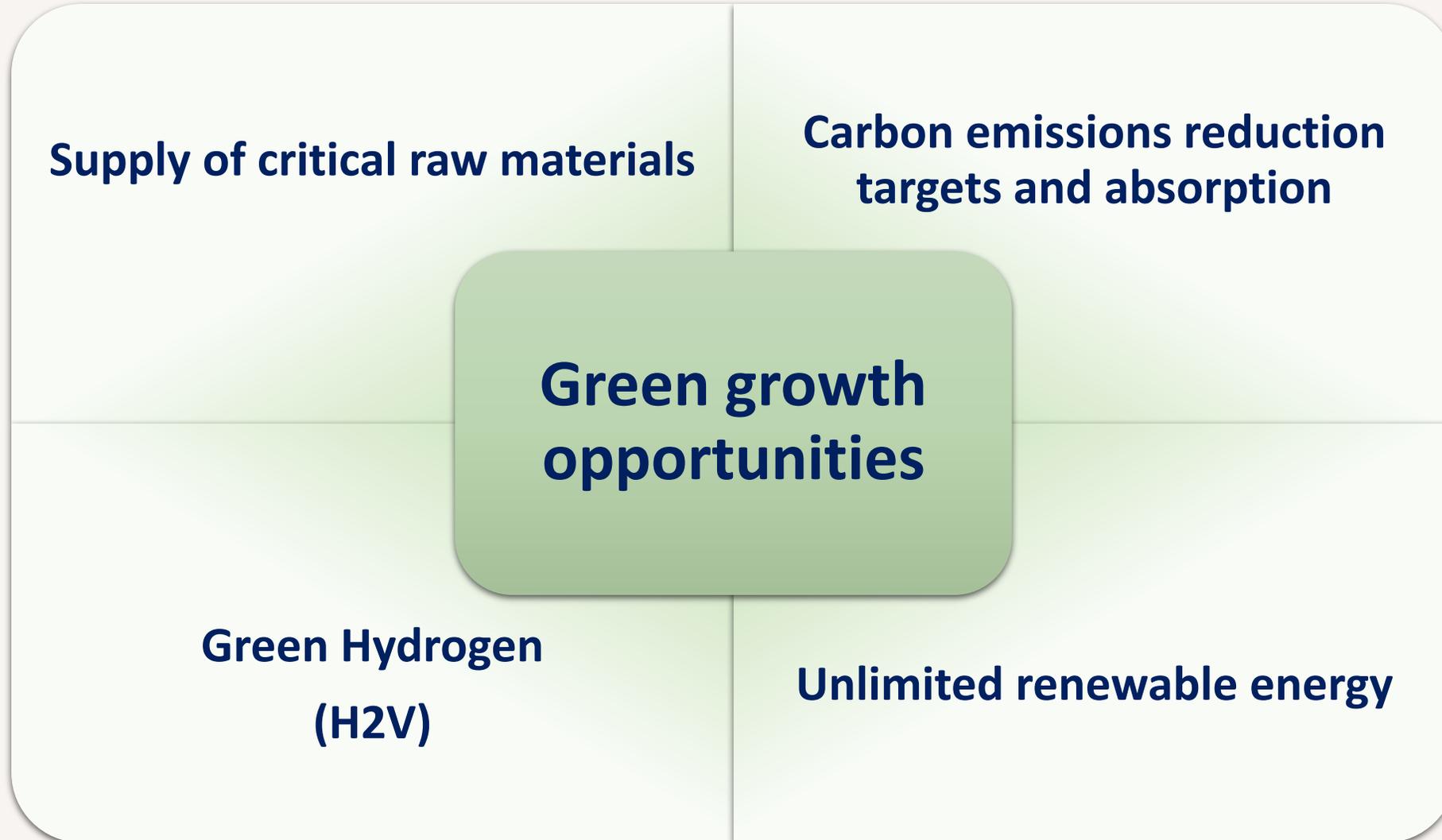


**Internet Access Service: Mobile Connections by Technology**  
(millions)



Note: (1) Estimates were monetarily corrected to June 2022.

Source: Office of Major Projects (OGP) of the Ministry of Economy, Chilean Chamber of Construction and Corporation of capital goods (CCG) and Telecommunications Undersecretary



# Green Hydrogen makes an emblematic case of productive transition

## National Green Hydrogen Strategy

- **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.

# 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

- **After more than a decade of declining potential growth and stagnant productivity, Chile can largely benefit from technological change and the greening of the World economy**
- **This will add to well-known institutional strengths, an open economy and a deep domestic capitals market**
- **The Government's agenda is well aligned with global developments, including strong commitments to environmental sustainability, inclusiveness and productive diversification**
- **Recent and ongoing measures will open new opportunities for competition in financial services**
- **Private investment –domestic and foreign– will be key in realizing these opportunities**
- **Investments, research, development and innovation can draw from incentives recently announced by the Government**