Monetary Policy Report

Presentation before the Finance Commission of the Honorable Senate of the Republic*

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*The March 2023 Monetary Policy Report can be found on http://www.bcentral.cl.

Introduction

Mr. President of the Senate's Finance Commission, senator Ricardo Lagos Weber, senators members of this Commission, ladies, gentlemen,

On behalf of the Central Bank I thank this Commission for inviting us to present our views on recent macroeconomic developments, as well as their prospects and implications for monetary policy. This view is presented in detail in the March 2023 Monetary Policy Report, which we have published this morning. This background is also the rationale behind the decision adopted by the Board at yesterday's Monetary Policy Meeting.

The presentation of this Report comes at a time when inflation is still very high. Although it has eased from the peaks of the third quarter of last year, it is still four times above the 3% target. Moreover, the core part of the CPI has been around 11% for some time now, accumulating a significant upward surprise in recent months. This is something that cannot be overlooked, as we are aware of the cost that this means for our country's families, especially the most vulnerable ones.

There are several factors behind why inflation is taking so long to come down. Most important is that the economy has been unable to reverse the impacts of the overspending it accumulated between 2020 and 2021. A review of the national accounts shows that the level of consumption over the last three years was ultimately much higher than we had thought: almost $4.3 billion more. Moreover, the speed of the economy's adjustment has been slower than expected.

In the projection scenario that I will now share with you, the improved performance in early 2023 leads to an upward revision of this year's GDP growth projection. However, the economy will continue adjusting in the coming quarters. Therefore, for 2024 our projection is corrected downward. With this, the cumulative growth between 2023 and 2024 does not differ much from what was forecast in the December Report.

Total inflation will continue to decline in the coming quarters. According to our projections, it will return to single digits during the second quarter. However, I want to be emphatic in pointing out that this does not mean the inflationary problem has been solved, much less inflationary convergence is assured. Our goal is to bring inflation down to 3% in two years. Higher inflation is very costly for everyone.

The global economic outlook has turned more difficult since early March. For the Chilean economy, this will imply facing lower external demand and tighter global financial conditions.

Overall, the current scenario is associated with a higher degree of uncertainty than usual. On the one hand, there is the risk of a sharper deterioration of the external scenario, with more profound implications for Chile. On the other hand, the slow decline in domestic consumption could result in a more complex inflationary dynamic.

As we noted in our statement after yesterday's Meeting, we believe that the MPR will need to be maintained at 11.25 percent until the state of the macroeconomy signals that the process of inflation convergence to the 3% target has been consolidated. According to the central scenario of the MP Report, which I will present to you shortly, this will take longer than we anticipated in December.

Inflation has been high for a long time now, which increases the risks of scenarios where it continues to push its decline back. The Central Bank will not relent in its effort to bring it to target and we will act flexibly in case any of the internal or external risks materializes and macroeconomic conditions so require.

Let me now walk you through the contents of the Report.

Macroeconomic scenario and projections

As I just said, annual inflation is stuck at very high levels. Last February, the annual variation of the CPI stood at 11.9 percent, a figure that, while down from its peak in the third quarter of 2022, is still well above the target defined by the Bank.

February's monthly variation was negative —at 0.1 percent— for the first time in several quarters. However, it responded mainly to a drop in volatile prices. As a matter of fact, the core component of the CPI posted a considerable rise in that month (+0.7 percent) (figure 1).

It is worth noting that the annual variation core CPI has hovered around 11 percent for several months now, despite the fact that most inflation fundamentals have been easing.

While the Chilean peso has appreciated around 11.5 percent with respect to the statistical close of the December Report, global cost pressures have decreased. The prices of commodities, including copper, have dropped, supply chains have normalized and transportation costs have fallen too. All in a context in which monetary policy has maintained a clearly contractionary stance (figure 2).

In addition, compared to the projection of the last MP Report, the core part of the CPI accumulates an important upward surprise, around one percentage point. Most of the difference lies in the prices of non-volatile goods. In any case, services inflation also showed higher-than-expected increases. In annual terms, it has risen to maximum levels (figure 3).

One important factor behind the persistence of high inflation has been the slow unwinding of the high levels of private consumption of previous years. The revised National Accounts that we published on March 20th showed that between 2020 and 2022 household consumption exceeded our forecasts by about 4.3 billion dollars. With this, national savings figures were revised downward and the current account deficit increased, indicating that macroeconomic imbalances were larger. Meanwhile, data for late 2022 and early 2023 show that the pace of reduction in private consumption has been slower than expected (figure 4).

The slow decline in consumption is consistent with a recent rebound in employment and reduced local political and economic uncertainty. Developments in the global economy, prior to the banking turmoil, operated in the same direction. Thus, seasonally adjusted, recent months have seen an increase in employment, especially salaried jobs, which has contributed to a slight rebound in the wage bill. Indicators of domestic uncertainty have declined significantly, approaching the levels observed prior to the October 2019 social outbreak. The slower adjustment in consumption also coincides with an increase in revolving consumer credit flows, which reflects a greater use of credit lines and credit cards (figure 5).

In contrast with consumption, investment has been performing poorly for several quarters. The revision to the National Accounts also shows that, seasonally adjusted, the level of gross fixed capital formation has been stagnant since mid-2021. This is consistent with the increase in the cost of credit; for some quarters access to long-term financing was severely constrained; and business expectations deteriorated amid high local political-economic uncertainty. Some of these factors have eased their importance in recent months (figure 6).

As for the current account deficit, in the last quarter of 2022 it showed a significant decrease, and partial first quarter data suggest that this trend will continue. Considering the data for the end of 2022, the cumulative deficit for the last four quarters narrowed to 9%of GDP (10% in the third quarter). This result was significantly influenced by the positive balance of trade, due to both higher exports and lower imports. In the services balance, reduced shipment costs and the temporary increase in imports of services stood out (figure 7).

On the external front, until the beginning of March, there was an environment of higher growth and concern about inflation. On the one hand, the increase in global growth expected for this year was based on upward surprises in the performance of several important economies, such as the United States, China and the Eurozone. On the other hand, in developed world economies, core inflation indicators were high, despite the fall in total inflation. All this heightened the concerns about inflation and the need to raise interest rates by the main central banks. In this scenario, commodity prices rose and risk aversion Fell. In general, interest rates rose as a result of the higher inflation outlook (figure 8).

The tone of the external scenario changed significantly in the last month, as doubts arose regarding the financial health of international banks. The problems of several banks in the United States and Europe opened a scenario of greater global uncertainty. This has generated volatility in financial markets, which reduced risk appetite and led to an appreciation of the dollar and a decrease in government bond yields, anticipating a slower pace of rate hikes by the main central banks. It is worth noting that the market anticipates a lower Fed funds rate path than the Federal Reserve itself has communicated. These weeks have also seen declines in stock markets and reductions in the prices of some commodities (figure 9).

The degree of uncertainty regarding the evolution of the global financial situation is significant. The authorities of the countries involved quickly adopted decisions to contain the impact of these episodes. Of particular note are the coordinated actions taken by central banks to safeguard the provision of liquidity in the markets. Private banks have also made efforts, particularly in the United States. However, there is still anxiety among market agents and volatility remains high.

The Chilean banking system is subject to robust regulation and supervision, which prevent situations such as those that triggered the current episode of uncertainty in international banks. The dominant banking business model in Chile is a traditional one. It is focused on granting credit on a more diversified basis of financing and adequate management of maturity mismatches. The regulatory framework has been updated and considers Basel III capital and liquidity standards for all banks. All of them are subject to continuous risk management, capital adequacy, liquidity and transparency supervision processes. In addition, both the Central Bank and the Commission for the Financial Market, CMF, permanently monitor the banks' capacity to withstand adverse events through stress tests.

In any case, the shift in the external scenario will have an impact on the local economy. As foreseen in the central scenario of this MP Report, projected growth in the United States and Europe will be negatively affected by lower credit expansion and greater global uncertainty. This effect will be most visible in the second half of 2023 and early 2024. For these years, growth in those developed economies that are Chilean trading partners is expected to average 0.4%, which compares with the 0.7% forecast in December (figure 10). Emerging economies will face tighter financial conditions, which will also affect the external demand relevant to Chile.

The better outlook for China after its reopening, together with the evolution of the copper and oil market balances, has been behind the improvement in our terms of trade, which are revised upwards from the last MP Report. This combines the better outlook for copper prices and lower projected prices for foods and fuels.

For copper, our projected prices for this and the next two years are increased. We foresee an average price of 3.85 dollars per pound in 2023; 3.65 dollars per pound in 2024, and 3 and a half dollars per pound in 2025.

Oil prices have been quite volatile due to the tensions in the financial markets in recent weeks and their possible implications for world growth. In addition, inventories have been accumulated and OPEC has recently announced production cuts. In the central scenario, the average Brent-WTI price is projected to gradually decline from 73 dollars per barrel in 2023 to 67 dollars in 2025. However, the lower growth of our trading partners will gradually reduce the external demand faced by Chile, which will be more noticeable from the second half of this year onwards (table 1).

The Chilean financial market has followed the global market trends. Particularly, the local fixed-income market showed important drops in the rates of sovereign bonds, in addition to allowing the placement of bank and corporate debt.

While these developments are positive, it is important to note that the depth of the Chilean capital market has been significantly reduced in recent years. For the same reason, a relevant factor for the resilience of the Chilean economy is to ensure that this market is not affected again.

Projections

In the central scenario, headline inflation is projected to continue to decline in the coming quarters and to converge to the 3% target in the latter part of 2024. Inflation will end 2023 at 4.6% annually, that is, one percentage point higher than we estimated in the previous MP Report.

This correction originates in the higher levels of inflation of recent months —particularly its core component—, the slower adjustment of consumption, and the output gap taking longer to close. In this scenario, core inflation outpaces the previous estimate and will reach annual variations in the order of 3% only by the end of the projection horizon (figure 11).

For 2023 and 2024, our projections considers a real exchange rate that, on average, is lower than estimated in December. This owes largely to the nominal appreciation of the peso since December. Going forward, it incorporates the impact of tighter global financial conditions on the dollar.

In any case, the pass-through of the exchange rate reduction to inflation is expected to be relatively slow. Such a phenomenon usually occurs in episodes of currency appreciation, especially considering that corporate margins have not recovered all the decline estimated for previous years. For the 2023-2025 period, our projection considers an oil price around 8% lower than expected in December, which reduces the variation of the volatile component of the CPI.

The convergence of inflation to the 3% target still requires the economy to accommodate the high levels of spending it showed in 2021 and 2022. Non-mining GDP accumulated three quarters of contraction during 2022. In the central scenario, this trajectory will be temporarily interrupted in the first quarter of 2023. Towards the second quarter of this year, the output gap will narrow again and will become negative during the second half of 2023 and all of 2024 (figure 12).

In the central scenario, activity will accumulate growth in the order of 1.5 percent between 2023 and 2024, not far from our forecast in our December MP Report. For 2023, the growth range is revised upwards, to -0.5 and +0.5 percent (between -1.75 and -0.75 percent in December). This mainly responds to the slower pace of consumption adjustment in late 2022 and upside surprises in early 2023. For 2024, the growth range is reduced by an equivalent magnitude, between 1 and 2% (between 2 and 3% in December). By 2025, the economy is projected to grow between 2 and 3% annually (table 2).

We project that private consumption will continue to adjust in the coming period. Compared to December, this part of spending will fall less sharply in 2023 and rise more moderately in 2024. This projection assumes greater slack in the labor market, consistent with the expected performance of the economy. It also considers greater uncertainty due to the external situation and that the local monetary policy will remain contractionary for a longer period of time.

Access to credit will imply a more restricted consumption than in previous quarters, in line with the financial burden and delinquency of households that have increased rapidly in recent quarters, especially among lower-income households. All in a context of tighter international financial conditions. Our March 2023 Bank Lending Survey already reports a perception of lower demand for consumer credit and tighter lending standards (figure 13).

Investment will continue to perform poorly this year and next. This assessment assumes a more deteriorated external scenario, greater global uncertainty and financial conditions that will remain constrained. Survey information —prior to the turmoil in the external banking sector— showed low levels of investment planned for the coming quarters (figure 14).

The current account deficit will continue to tighten, to values in the order of 4% of GDP by the end of this year. The continuation of the rebalancing between savings and investment will be a decisive factor in this result. Deficits of similar magnitude are expected for 2024 and 2025.

The projected evolution of the economy over the next three years underscores the need to resolve the imbalances accumulated in years past. Consumption has reached very high levels by historical standards, at the same time that national savings have fallen sharply and the current-account deficit has widened further.

Regarding monetary policy, we believe that it will be necessary to maintain the MPR at 11.25 percent until the state of the macroeconomy indicates that the process of inflation convergence to the 3% target has been consolidated. According to the central scenario of this MP Report, this will take longer than we assumed in December.

In order to consolidate the convergence of inflation, among other factors, consideration should be given to resolving the imbalances that have affected the economy in recent years, including a significant slowdown in consumption, the output gap moves toward negative values, and core inflation takes a clearly downward trend.

The MPR corridor describes an area containing the most likely movements for the Monetary Policy Rate, which envelops the central scenario I have just described and the sensitivities around it. Its borders reflect sensitivity scenarios where the speed of the inflationary convergence process gives way to earlier or later adjustments of the rate with respect to the central scenario. Particularly relevant will be the occurrence and sign of new inflation surprises, the evolution of consumption and the unfolding of external conditions.

The upper boundary of the corridor reflects situations where inflation remains high for longer, consumption maintains a low pace of adjustment and the external scenario is more favorable than expected. In such an eventuality, the MPR would be maintained at its current level for a longer time than described in the central scenario.

The lower bound of the corridor represents a scenario in which the international context worsens more than expected, leading to higher global risk and affecting financial conditions, global activity and commodity prices more strongly. In such a context, a faster adjustment of the local economy could lead to a somewhat earlier reduction in inflation and the MPR (figure 15).

The risks facing the Chilean economy continue to be very significant. Due to their characteristics, should any of them materialize, they would entail major changes. These changes would probably drive economic growth outside the ranges considered in the central scenario. For this reason, they do not form part of the MPR corridor that I have just presented to you.

Today we envision two major risks. First, the evolution of the external scenario requires constant monitoring. In a scenario of significant disruption of global financial conditions, a profound deterioration of the global and the local economies is to be expected, which would lead to a faster convergence of inflation and would be consistent with more abrupt MPR reductions than those signaled by the lower edge of the MPR corridor.

Secondly, the inflationary problem is still present. The inflation convergence process has not been consolidated. Inflation continues to be very high, and its core component has shown no declines in recent months. The adjustment in private spending has been slower than expected. Some measures of inflation expectations remain above 3% in the two-year term.

A scenario where private consumption resumes very high growth rates would compromise the convergence of inflation to the target and would require a significant monetary policy reaction to ensure that the inflation target is achieved.

Final thoughts

Dear senators, we are certainly facing great challenges. The circumstances the Chilean economy is going through are complex and the global environment poses additional difficulties. A year ago, I made my first presentation to you as Governor of the Central Bank. My message contained the inflationary challenges that we would face in 2022, given the extraordinary imbalance of our economy, a scenario to which was added at that time the still present costs in the productive chains left by the economic consequences of Covid, and the then recent Russian invasion of Ukraine.

Among the complexities we would face was the challenge of conducting macroeconomic adjustment in developed economies. This was especially true in the United States, where the task of containing inflation was still pending and history teaches us that the process has never been easy.

In fact, in the last few weeks, some of the risks that we identified in the face of a process of interest rate hikes in the developed world have materialized. Doubts about the financial situation of some banks in the United States have opened up a major channel of uncertainty.

So far, its impacts have been contained. In fact, the central scenario of this Report considers that there will be effects on growth in the developed world and this will have repercussions on our economy. But these are impacts of a much smaller magnitude compared to episodes such as the Global Financial Crisis of 2008. Now the effects are associated with lower confidence and, therefore, with a contraction of credit levels and tighter financial conditions, a consequence of the search for safe assets worldwide.

Since the most recent focus of uncertainty originated in the banking sectors of other economies, it is important to review what is happening in our country. The first thing to reiterate is that the Chilean banking system is subject to adequate regulation and supervision, which makes situations such as those that triggered the current uncertainties in international banking very unlikely to occur.

This does not mean that the Chilean economy, including the banking system, is immune to a further deterioration of the external scenario. As we recognize in the sensitivity and risk scenarios of this MP Report, this is one possible outcome and its implications for the economy should be carefully monitored.

While this is a matter in progress that we must follow closely, inflation has remained high for a long period of time and continues to be a complex and high-impact problem. The costs of this situation are evident. We have all felt the effects of rising prices in our daily lives, and a part of the population has suffered the hardest. Inflation introduces risks and distorts the information contained in prices, thus affecting investment, growth and employment. It is not possible to contemplate sustained growth in employment and activity if inflation is not kept under control. Therefore, bringing inflation back to the 3 percent target is an unavoidable task.

I want to insist that, even if total inflation is on a downward path and will soon return to single-digit figures, the problem has not been solved. The convergence of inflation to 3% has not yet been consolidated and as long as it remains above that figure, the task of the Central Bank will not be complete.

The causes of inflation have been discussed at length. The main one was the excessive increase in spending that led to the liquidation of social security savings and across-the-board fiscal transfers. In addition, there was the pandemic and its consequences on the local economy and in global production chains, plus the effects of the war in Ukraine.

The truth is that after several quarters have passed since these shocks occurred and the Central Bank has made a very significant adjustment in monetary policy, high inflation continues. Moreover, core inflation, the part that best reflects local trends and pressures, has stabilized at high levels and, I must say, bringing important surprises into our projections. The natural question that arises is why is this happening? and why is inflation taking so long to come down?

58. On the one hand, it is very clear that the string of shocks we faced was very unusual. They were very big in magnitude and had a concatenation that exacerbated their effects. On

the other hand, there were the accumulated cost pressures on companies, the volatility of different macroeconomic variables, such as the exchange rate, and a scenario where uncertainty was high for a long period of time. To these elements must be added indexation and other second-round factors that add persistence to the inflationary effects of the mentioned shocks, as has been highlighted in previous reports.

This confirms that a very important element behind this stubborn inflation is that the economy has failed to reverse the impact of the spending excesses that accumulated in earlier years. As I said a while ago, the data for the end of 2022 and the beginning of 2023 show that private consumption is receding, but at a slower pace than expected. This has important effects on inflation dynamics and, as long as we do not succeed in completing the adjustment of the economy, inflation will not come down.

Does this mean that the Central Bank is not worried about low growth or rising unemployment and is only concerned about inflation? Quite the contrary. Monetary policy is always aimed at achieving low and stable inflation, which is achieved by smoothing the business cycle so that the economy can sustain growth without generating price pressures in either direction.

The problem we must solve is that, for several quarters, our economy grew beyond its possibilities. This led to enormous imbalances, which caused high inflation. Therefore, the correction of these imbalances is a necessary condition to return to the 3 percent target.

In our projections, the cumulative growth over the next two years does not differ greatly from what we foresaw in the Report we presented to this Commission last December. However, there is a change in our forecasts for 2023 and 2024, which are raised for this year and lowered for next year. This still considers that the economy will undergo an adjustment, meaning that there are still some quarters ahead where activity will contract.

In order to achieve sustained higher growth with stable inflation in the long term, as a country we must implement policies that expand the economy's growth capacity. For a long time, our economy has been facing very important challenges in this area, such as increasing productivity, boosting savings and investment, working on the incorporation of new technologies and developing new productive poles, among others. These are all matters where it is very important for the country to make progress, but which lie beyond the instruments managed by the Central Bank. The Central Bank can only contribute to welfare and growth precisely by stabilizing prices and the cycle, which helps reduce uncertainty and favors a better allocation of resources.

Let me note that the efforts to bring down inflation has a clear focus on the welfare of households. Families have seen their purchasing power eroded; with the same amount of money they buy an ever shrinking basket for consumption. It is important to control it, stabilize the economy and offer stable conditions to grow and increase employment while protecting wages from the effects of this phenomenon.

In the present circumstances, for inflation to converge to 3% also means boosting our capacity to deal with a more adverse external scenario. Again, we cannot rule out the occurrence of a more adverse external scenario. For the same reason, we must prepare ourselves to address it and mitigate its impacts.

A sound economy with no significant imbalances is key to this, as it gives us more policy slack to address adverse scenarios. Thus, reducing excessive spending and managing to bring inflation down to the 3% target is a priority if we want our economy to be able to adequately withstand the effects of a major disruption of the world economy.

Adequately mitigating the adverse effects of an external shock also needs a deep local capital market. Therefore, it is essential that we recover the buffers that permitted us in the past to mitigate shocks coming from abroad. Macroeconomic stability is one of them. A deep capital market is another, but was weakened in recent years by the withdrawal of pension funds. We must ensure that this buffer is not further debilitated.

Dear senators, The Chilean economy is living complex times. Inflation has been high for a long period, excess spending has not been corrected, and uncertainty has grown in the external scenario. Bringing down inflation is an indispensable condition for the economy to see sustainable improvement and be able to cope in the best possible way with the impact of shocks hitting us from abroad. Total inflation will gradually diminish in the coming quarters so, according to our projections, it can return to single-digit numbers sometime in the second quarter. This does not mean, however, that the problem of inflation has been resolved, nor does it mean that convergence is guaranteed. Our goal is that inflation meets the 3 percent target in two years. Higher inflation is costly to everybody.

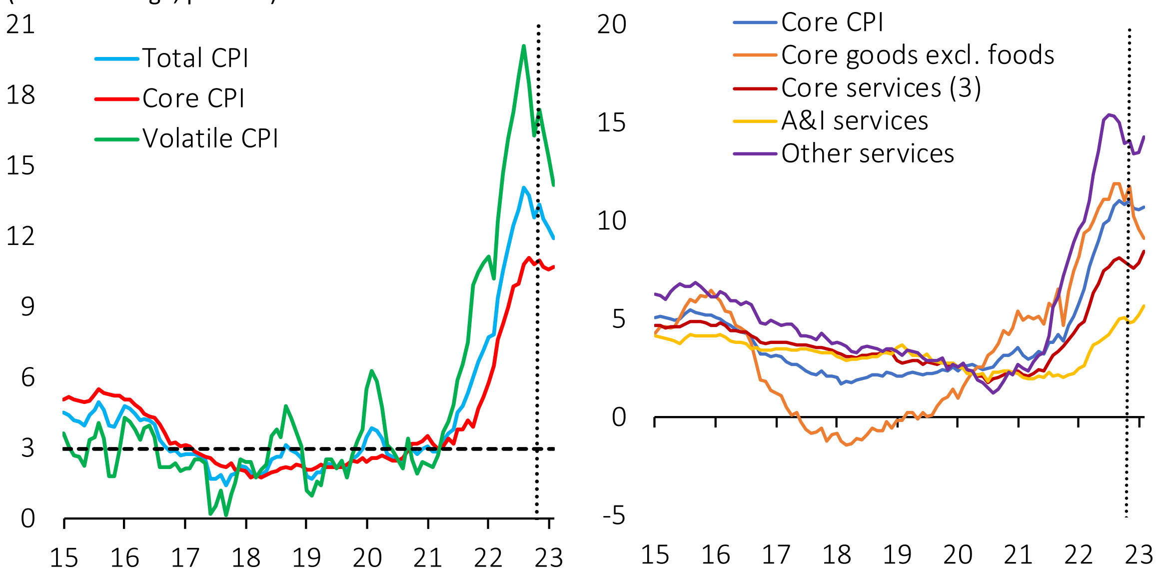
The Central Bank of Chile will not give in to inflation, because it is taking a toll on the whole population, but hitting hardest the most vulnerable.

Thank you

Figure 1

Inflation indicators (1) (2)

(annual change, percent)

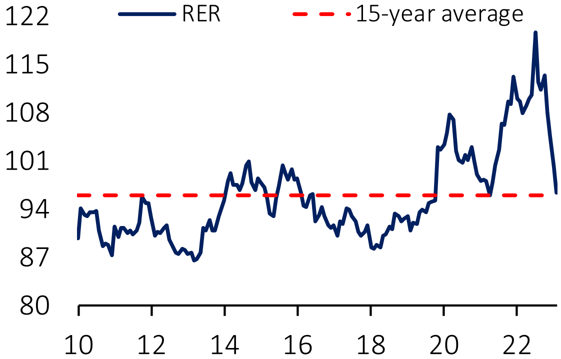


(1) Dashed vertical line marks statistical cutoff for the December 2022 MP Report. (2) For details on the different groupings and their share in the total CPI basket, see box IV.1 in December 2019 Report, Carlomagno and Sansone (2019), and Economic Glossary. (3) Sum of Administered and indexed services and Other services.

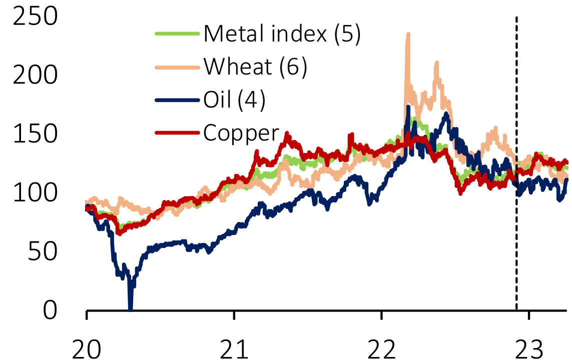
Sources: Central Bank of Chile and National Statistics Institute.

Figure 2

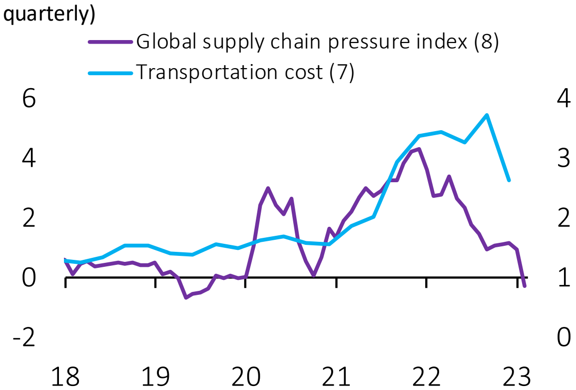
Real exchange rate (RER) (1)(2)
(average, 1986 average=100)



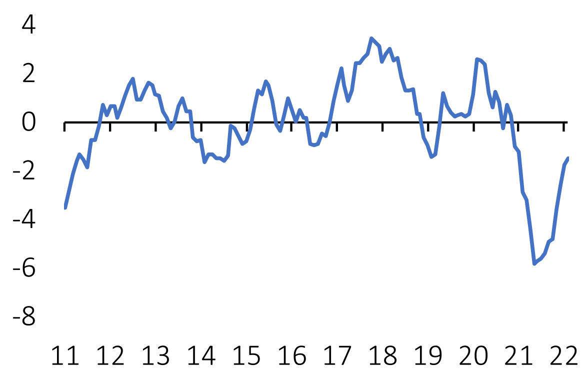
Commodity prices (3)
(index, 2010-2023 average=100)



Transportation costs and supply chains
(st. deviation of historical average, monthly; percent of GDP, quarterly)



Cyclical component of aggregate margins
(percent, moving 3-month average)

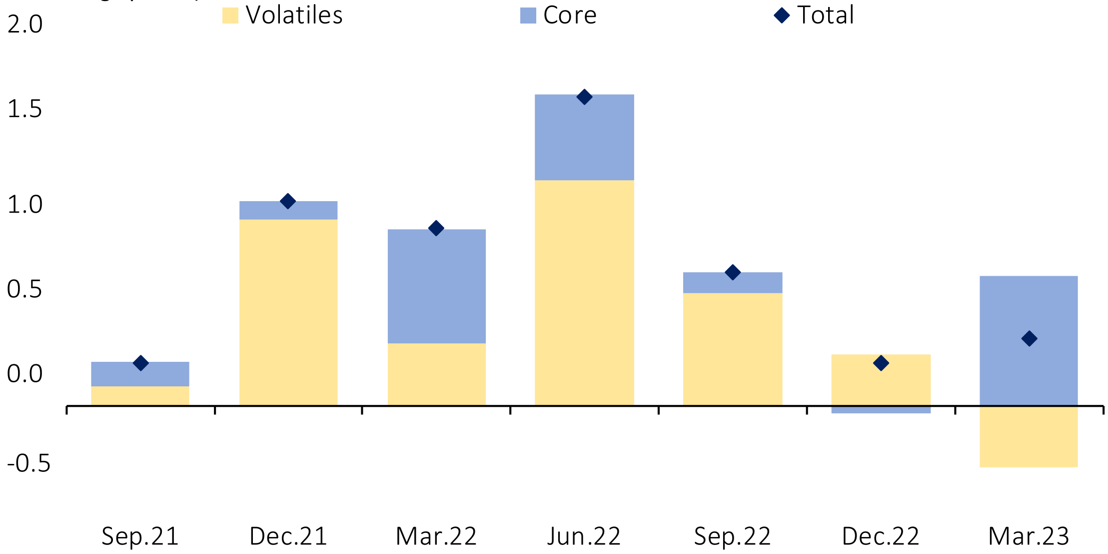


(1) March 2023 data is preliminary average of the month. (2) Average of the last 15 years. Corresponds to the period Mar.08-Feb.23 (3) Dashed vertical line marks statistical cutoff of December 2022 MP Report. (4) WTI-Brent average. (5) S&P GSCI industrial metals. (6) One-month futures price. (7) Calculated as difference between CIF and FOB imports. (8) For details, see Global Supply Chain Pressure Index by Fed NY.
Sources: Central Bank of Chile, Barrero et al. (2023), Acevedo et al. (2023), and New York Federal Reserve.

Figure 3

Inflationary surprises by components (1)

(percentage points)



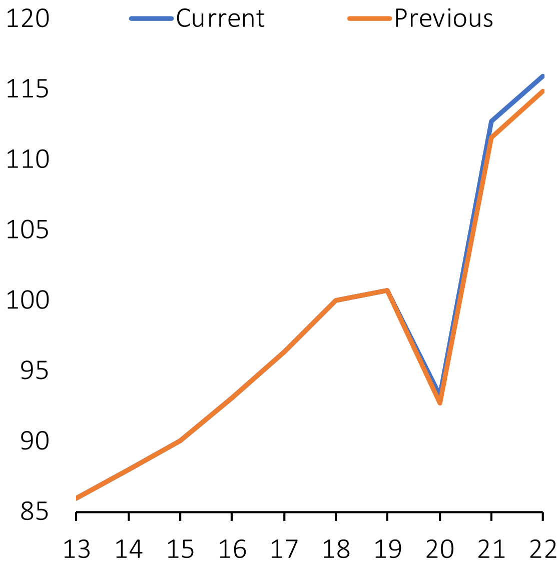
(1) Cumulative surprises in respective MP reports.

Sources: Central Bank of Chile and National Statistics Institute.

Figure 4

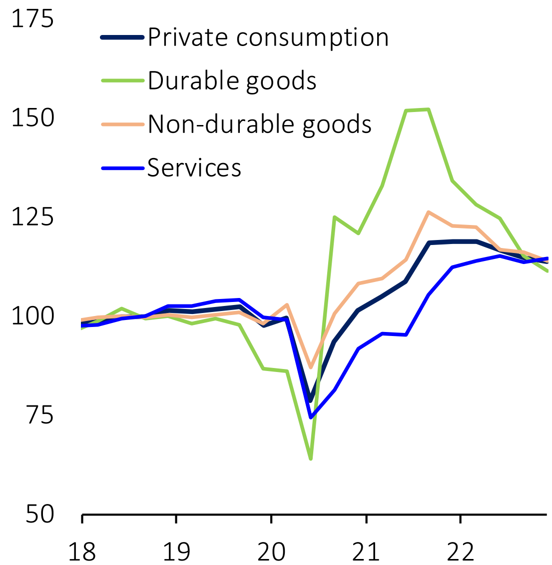
Private consumption (*)

(index, 2018=100, original real series)



Private consumption of goods and services

(index, 2018=100, seasonally adjusted)

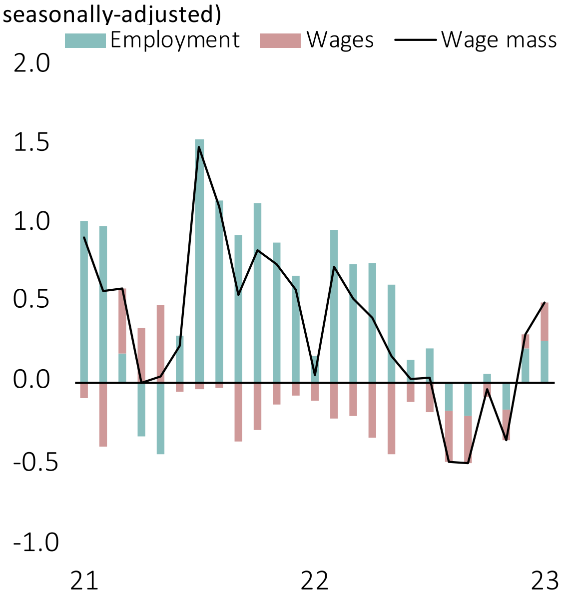


(*) For the fourth quarter of 2022 of the previous series, the annual change in the current series is used.

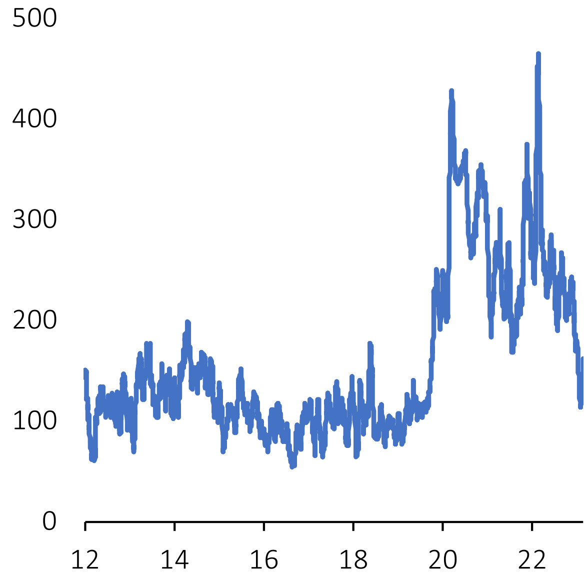
Source: Central Bank of Chile.

Figure 5

Real wage mass (*)
(percent, contributions to monthly change, seasonally-adjusted)



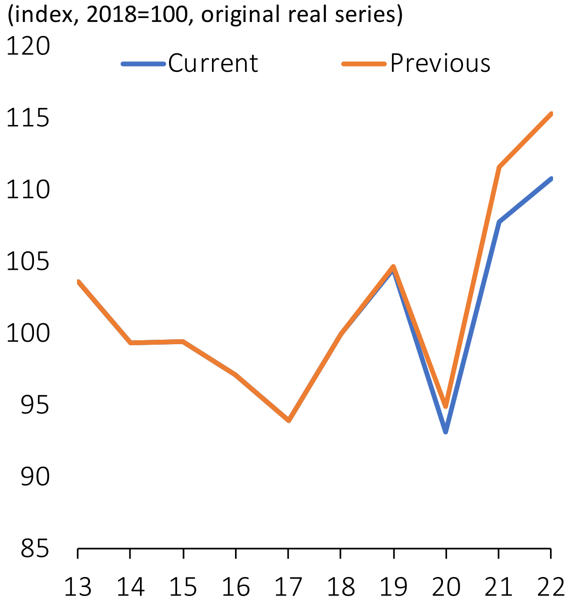
Daily index of economic uncertainty (DEPUC)
(index)



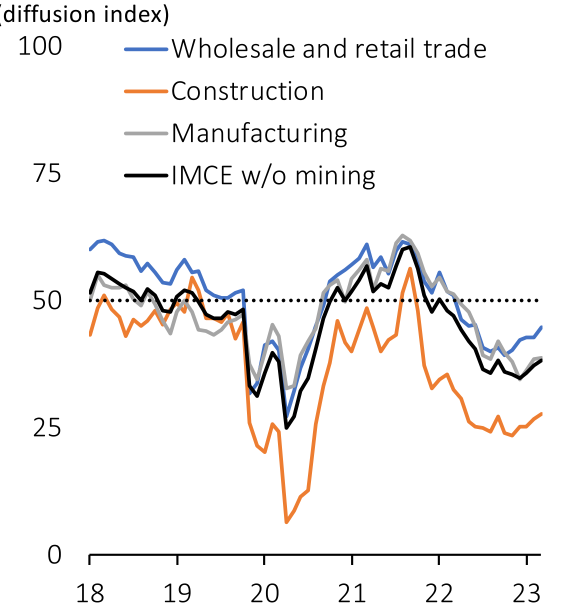
(*) Estimated using seasonally-adjusted series of real labor costs, hours usually worked and employment.
Sources: Central Bank of Chile, Becerra and Sagner (2020), and National Statistics Institute.

Figure 6

Gross fixed capital formation (1)
(index, 2018=100, original real series)



IMCE (2)
(diffusion index)

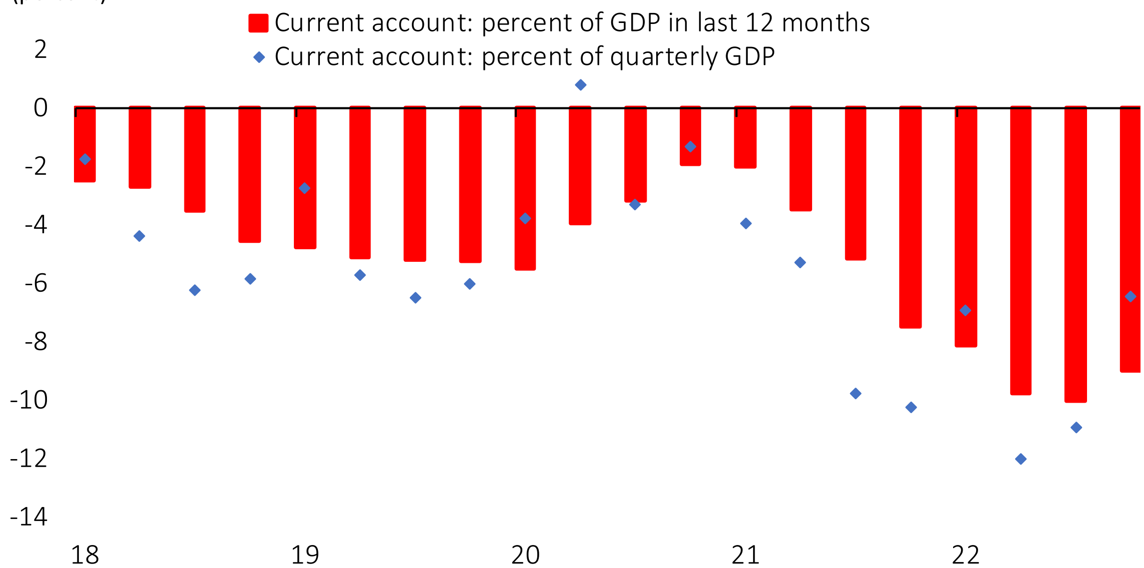


(1) For the fourth quarter of the previous series, the annual change of the current series is used. (2) Value above (below) 50 indicates optimism (pessimism).
Sources: Central Bank of Chile and UAI/ICARE.

Figure 7

Current-account deficit

(percent)



Source: Central Bank of Chile.

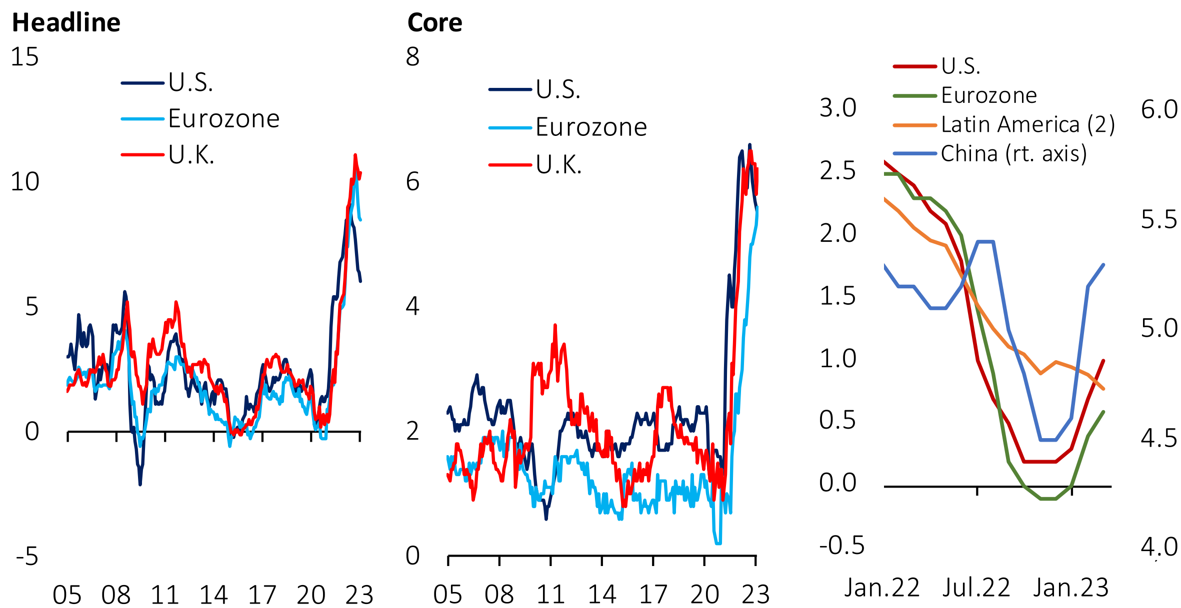
Figure 8

Inflation in developed economies

(annual change, percent)

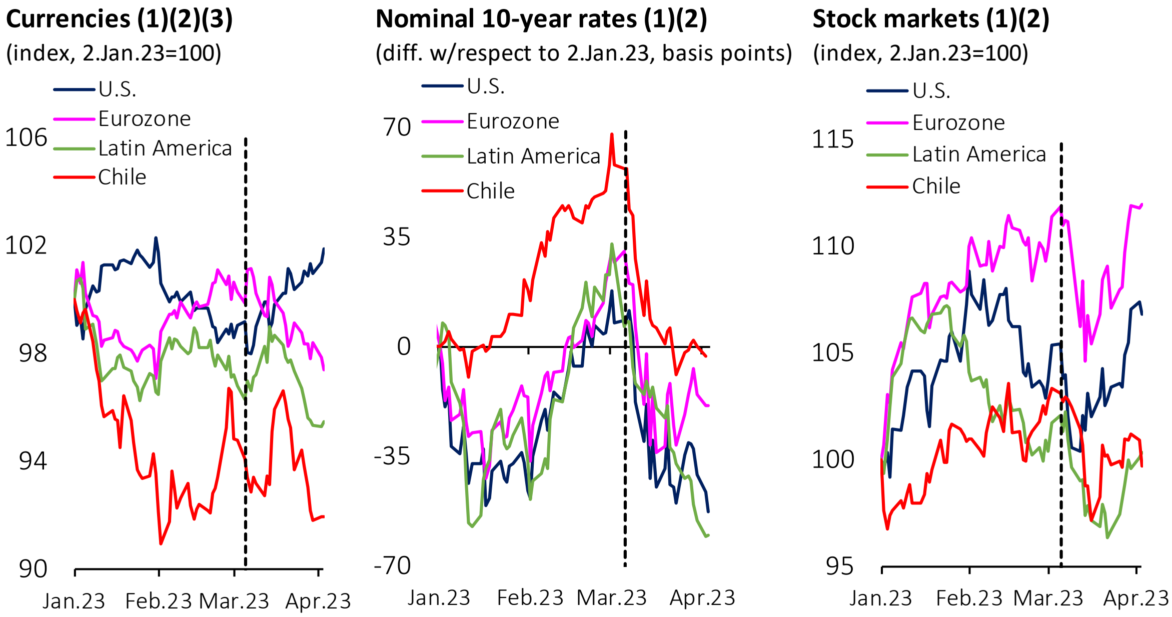
Growth forecast for 2023 (1)

(percent)



(1) March 2023 forecasts were made in different periods during March. For this reason, in some cases, these forecasts contain only partial information on the recent financial developments. (2) Considers Brazil, Argentina, Peru, Colombia and Mexico. PPP-weighted growth, shares of each economy according to WEO (IMF). Sources: Bloomberg, Consensus Forecasts and IMF.

Figure 9

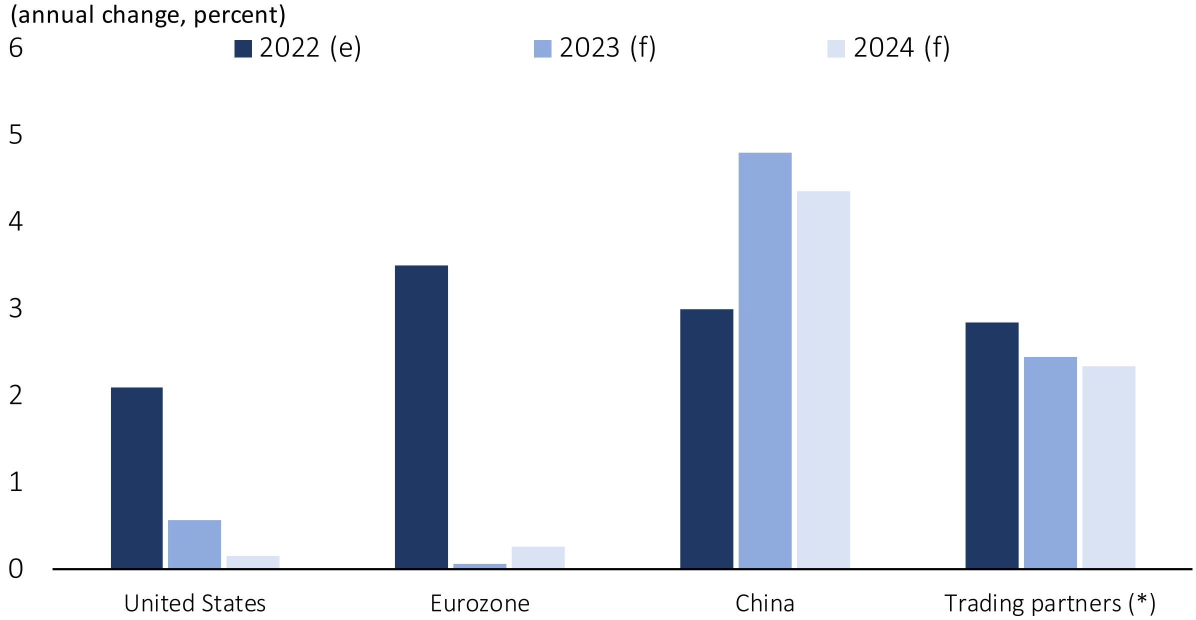


(1) Dotted vertical line marks 7 March 2023. (2) For Latin America, considers simple average for Brazil, Mexico, Colombia, and Peru. (3) An increase (decrease) indicates a depreciation (appreciation) of respective currency.
Sources: Central Bank of Chile and Bloomberg.

Figure 10

Growth forecasts for selected economies

(annual change, percent)



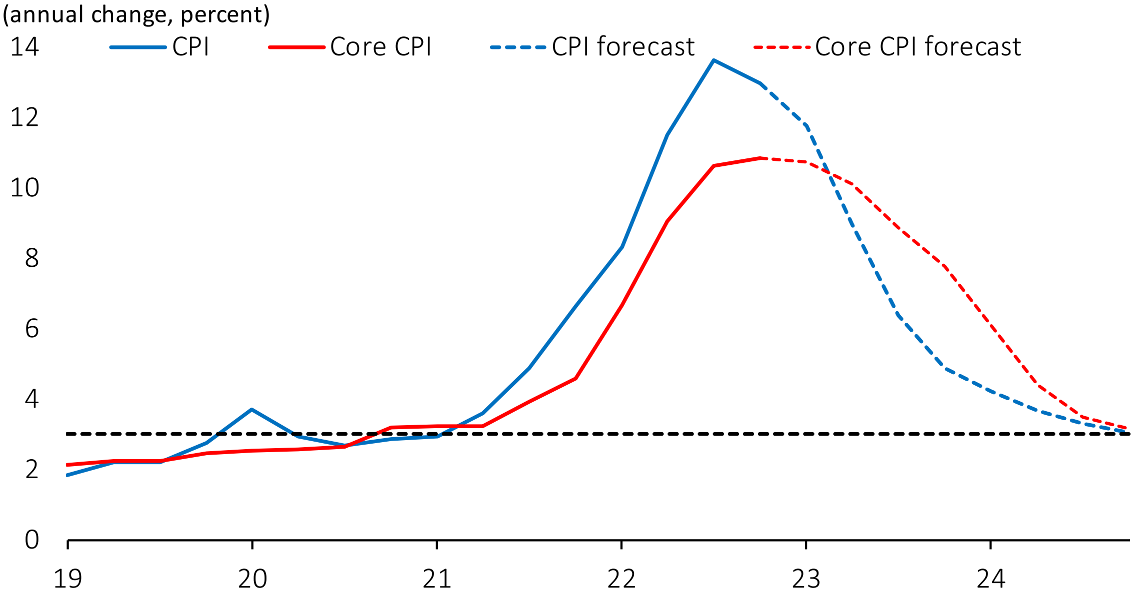
(e) Estimate. (f) Forecast.
(*) For definition, see Glossary.
Source: Central Bank of Chile.

Table 1
International scenario

	2021	2022	2023 (f)		2024 (f)		2025 (f)
			Dec.22 MP Report	Mar.23 MP Report	Dec.22 MP Report	Mar.23 MP Report	Mar.23 MP Report
	(annual change, percent)						
Terms of trade	11.9	-7.7	-1.1	2.3	0.4	-1.6	-2.2
Trading partners' GDP	6.6	2.8	2.1	2.4	2.7	2.3	3.0
World GDP at PPP	6.5	3.3	1.9	2.1	2.8	2.2	3.1
Developed economies' GDP at PPP	5.2	2.7	-0.1	0.3	1.3	0.3	1.8
Emerging economies' GDP at PPP	6.6	3.7	3.1	3.2	3.7	3.3	3.9
	(level)						
LME copper price (US$cents/lb)	423	400	355	385	345	365	350
WTI-Brent average oil price (US$/barrel)	69	97	81	73	76	70	67

(f) Forecast.
Source: Central Bank of Chile.

Figure 11
Inflation forecast (*)
(annual change, percent)

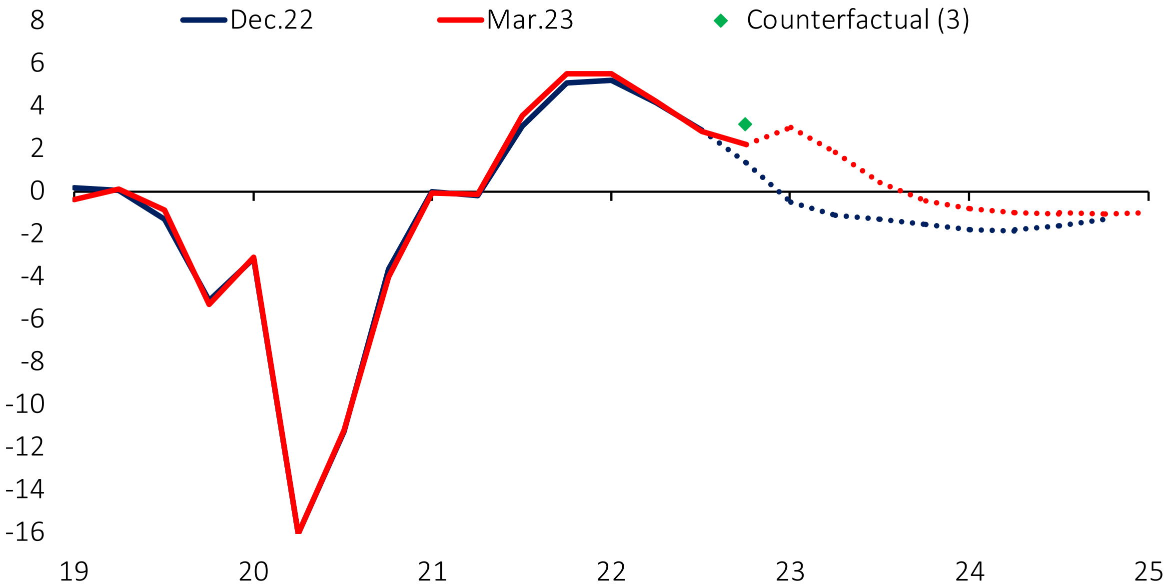


(*) As from the first quarter of 2023, slashed lines shows forecast in March 2023 MP Report.
Sources: Central Bank of Chile and National Statistics Institute.

Figure 12

Output gap (1) (2)

(level, percentage points)



(1) Constructed using seasonally-adjusted data. Dotted lines show forecasts. (2) Forecasts use structural parameters updated in the December 2022 MP Report (trend) with methodological revision of potential GDP. (3) Counterfactual estimate for 2022.Q4 is based on the assumption that the value added measure of the Transportation sector remains at its 2022.Q3 level, which is equivalent to zero velocity. All other non-mining sectors use published velocities. For the fourth quarter, both the effective and counterfactual gaps are calculated using the same potential GDP.

Source: Central Bank of Chile.

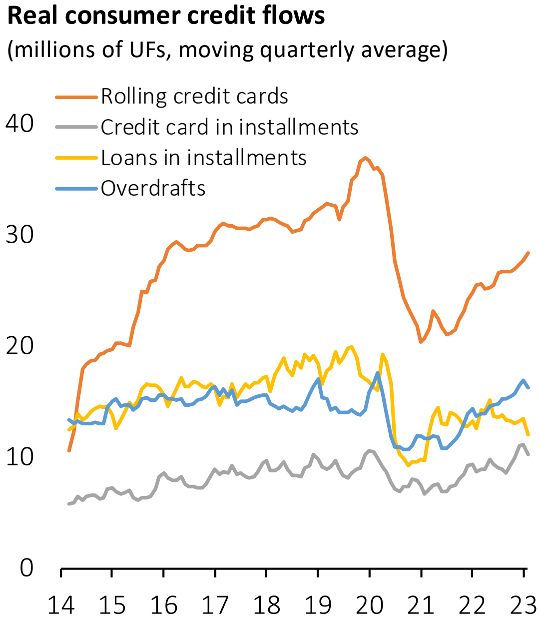
Table 2

Domestic scenario

	2022	2023 (f)		2024 (f)		2025 (f)
		Dec.22 MP Report	Mar.23 MP Report	Dec.22 MP Report	Mar.23 MP Report	Mar.23 MP Report
	(annual change, percent)					
GDP	2.4	-1.75 / -0.75	-0.5/0.5	2.0-3.0	1.0-2.0	2.0-3.0
Domestic demand	2.3	-5.3	-4.0	1.7	1.1	2.1
Domestic demand (w/o inventory change)	3.0	-4.6	-3.0	1.9	0.7	1.9
Gross fixed capital formation	2.8	-5.0	-2.9	-0.2	-0.7	2.3
Total consumption	3.1	-4.5	-3.0	2.5	1.1	1.8
Private consumption	2.9	-5.9	-3.8	2.5	0.9	1.9
Goods and services exports	1.4	6.0	4.5	3.2	3.7	2.2
Goods and services imports	0.9	-5.4	-6.5	0.9	2.5	0.5
Current account (% of GDP)	-9.0	-4.9	-4.0	-4.1	-4.1	-4.0
Gross national savings (% of GDP)	16.4	20.2	18.7	19.8	18.9	19.2
Nominal GFCF (% of GDP)	24.8	24.3	23.3	23.8	23.2	23.2

(f) Forecast.
Source: Central Bank of Chile.

Figure 13



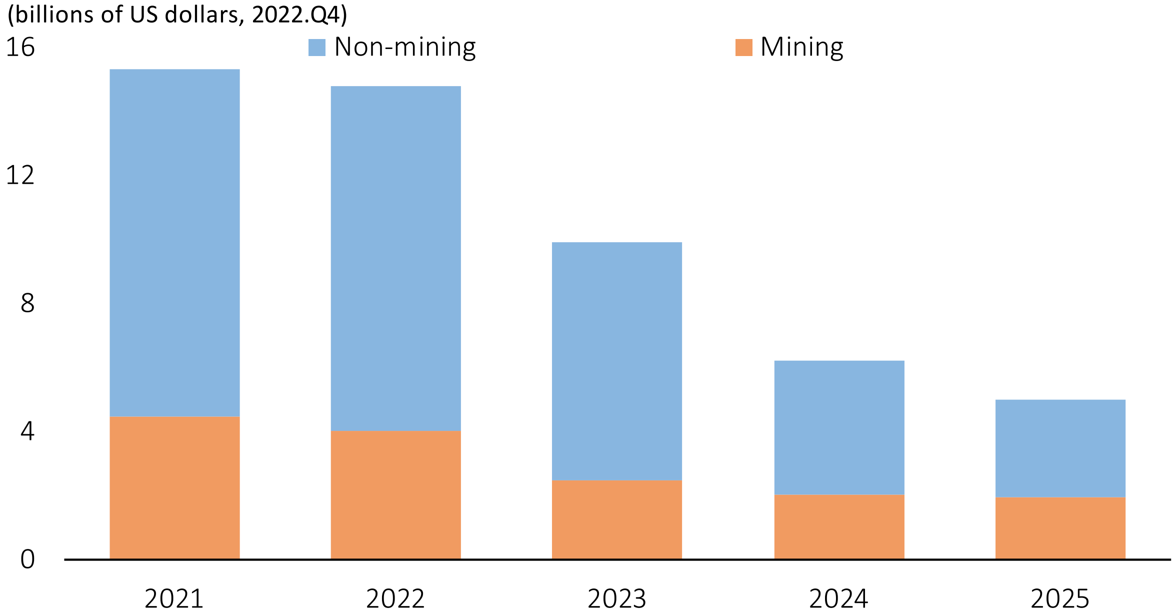
(*) Median debtor's financial burden. Monthly income includes labor component (salaried formal) and pension fund withdrawals prorated over six months as from receipt of payment.

Sources: Central Bank of Chile, Financial Markets Commission CMF, and Superintedency of Social Security SUSESO.

Figure 14

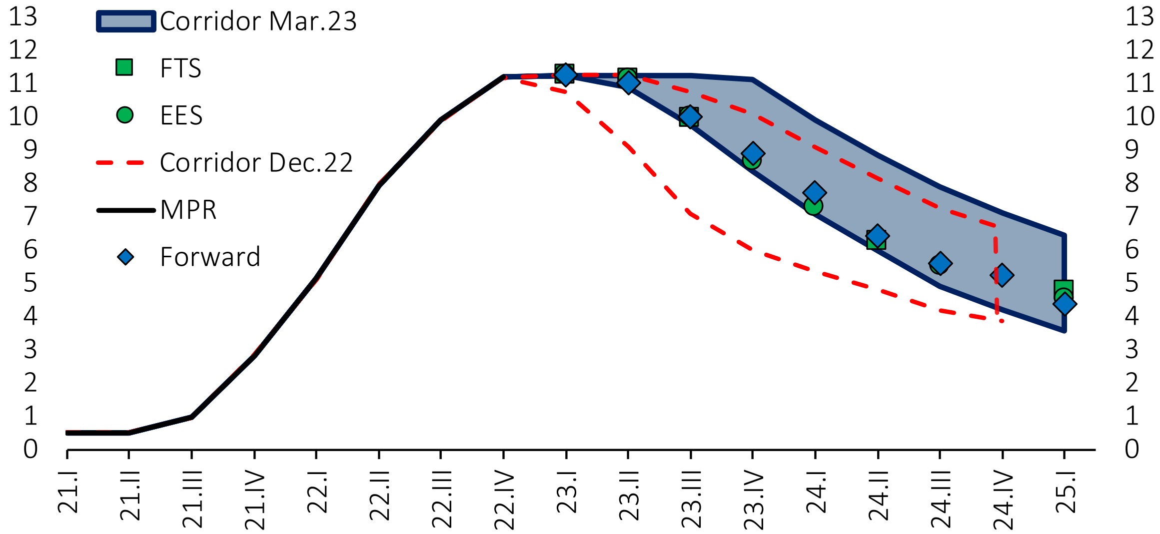
Investment

(billions of US dollars, 2022.Q4)



Source: Capital Goods Corporation CBC.

Figure 15
MPR corridor (*)
(quarterly average, percent)



(*) The corridor is constructed using the methodology described in box V.1 of March 2020 MP Report and box V.3 of March 2022 Report. For details, see methodological note in figure II.1, chapter II, December 2022 Monetary Policy Report.
Source: Central Bank of Chile.