



Chilean Economy Outlook and Perspectives



Council of America, New York
October 30th, 2015



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets

Productivity and Long Term Growth

Better Markets and Democracy



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

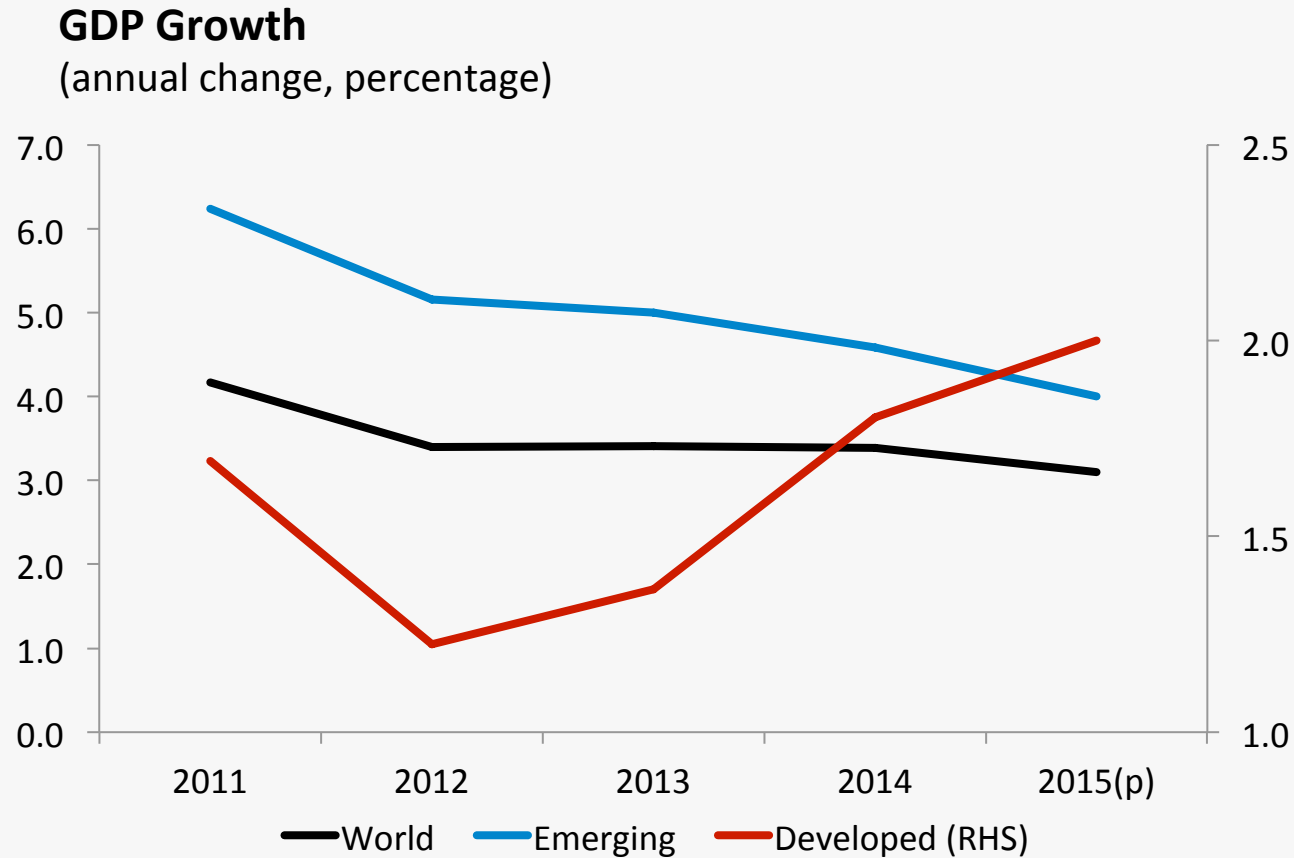
Financial Markets

Productivity and Long Term Growth

Better Markets and Democracy



Global Economy: Growth





Global Economy: Financial Conditions

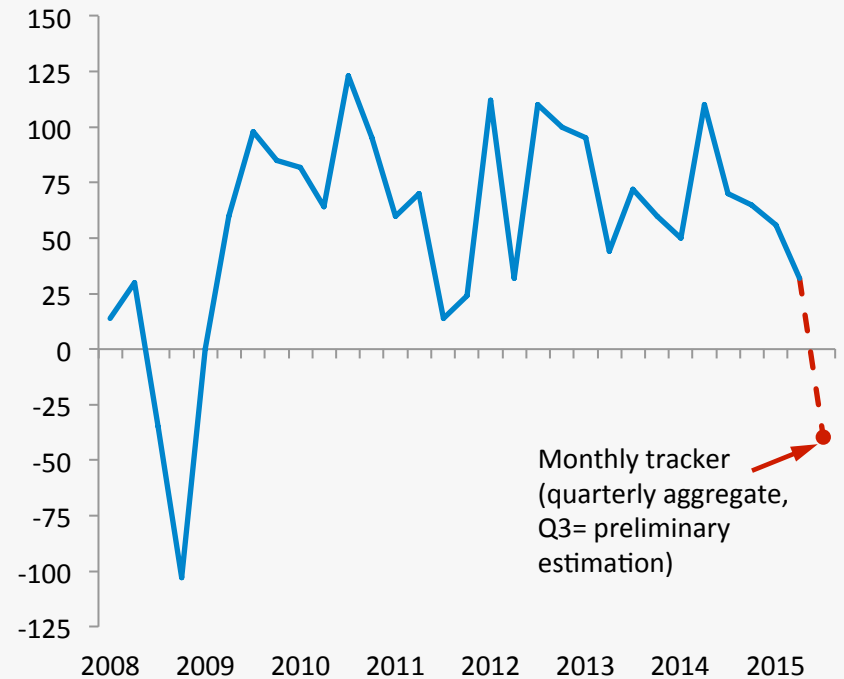
US Treasury Bond Interest Rates

(annual change, percentage)



Non-Resident Portfolio Flows to Emerging Economies

(US\$ billions)



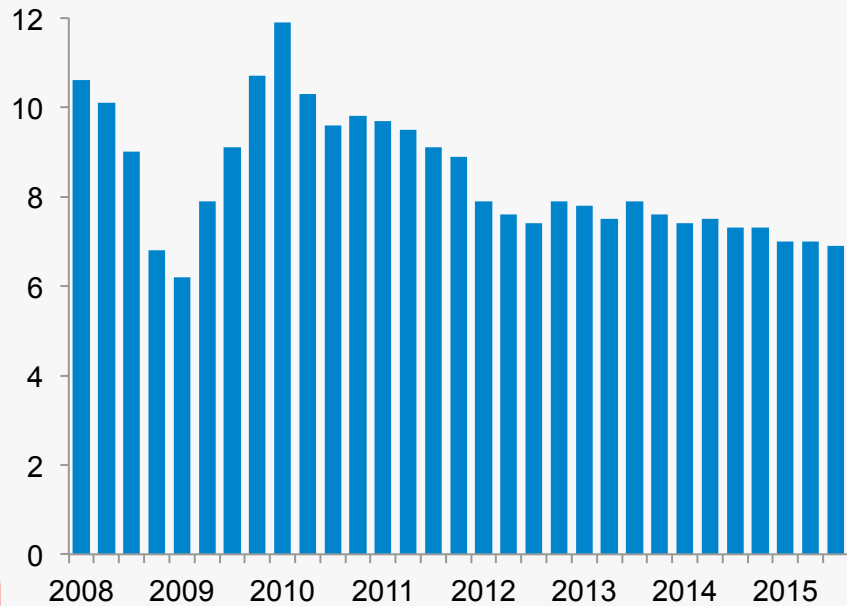
Note: Official quarterly Balance of Payments data through Q4 2014.
Source: Bloomberg and IIF.



Global Economy: China

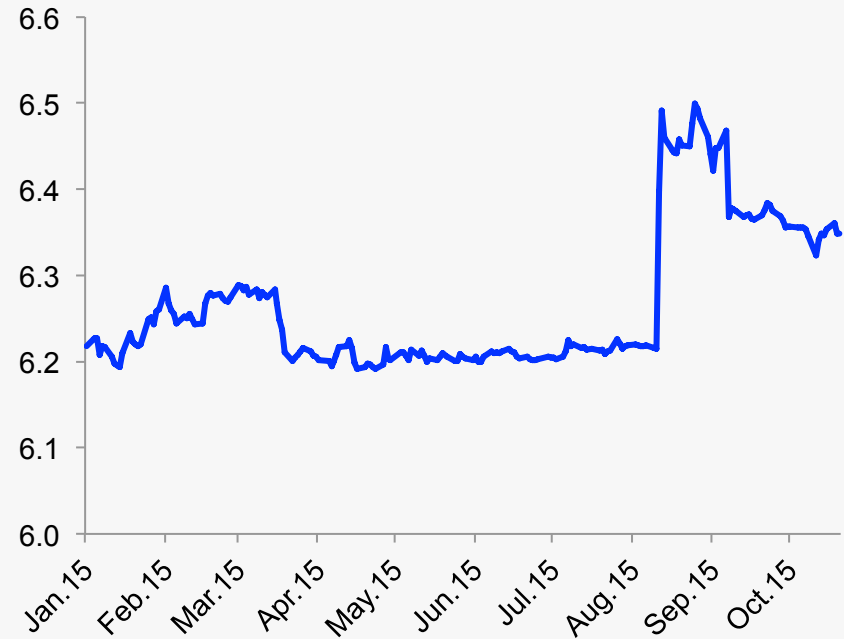
China's Growth

(real annual change, percentage)



Yuan/Dollar Parity

(yuan/US\$)

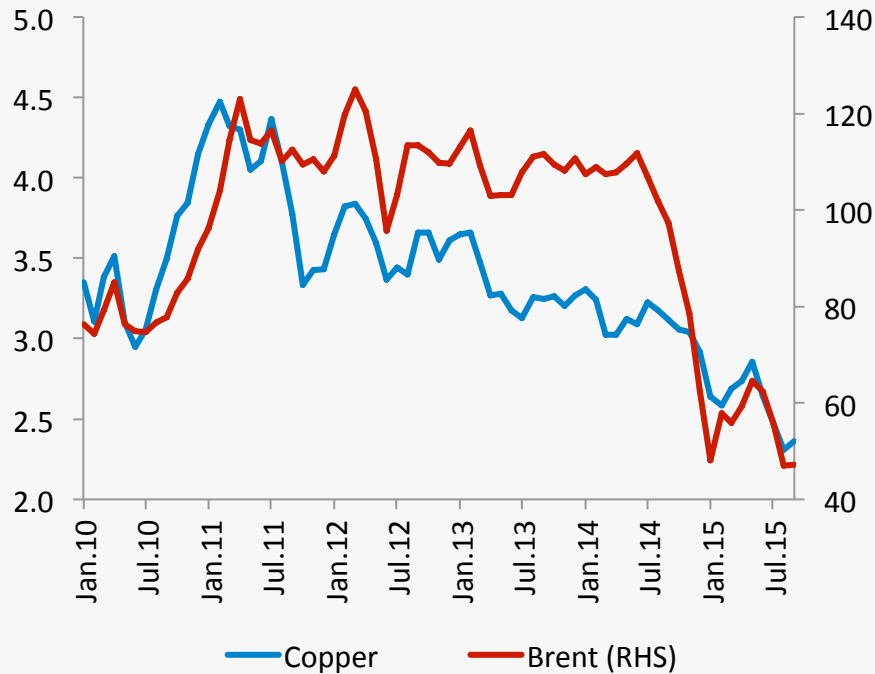


Source: Bloomberg.

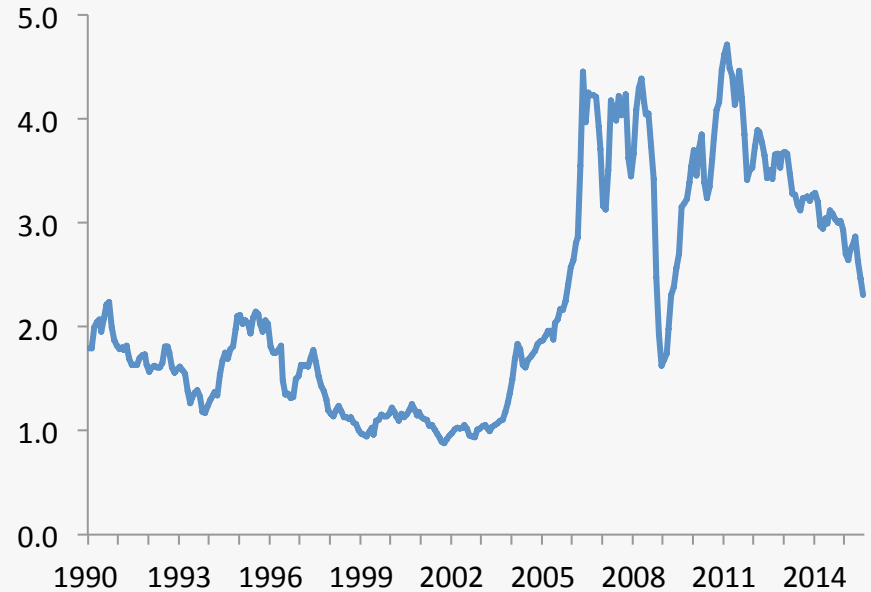


Global Economy: Commodity Prices

Copper and Brent Oil Prices
(US\$/lb, US\$/barrel)



Copper Real Price (1)
(US\$/lb by August 2015)

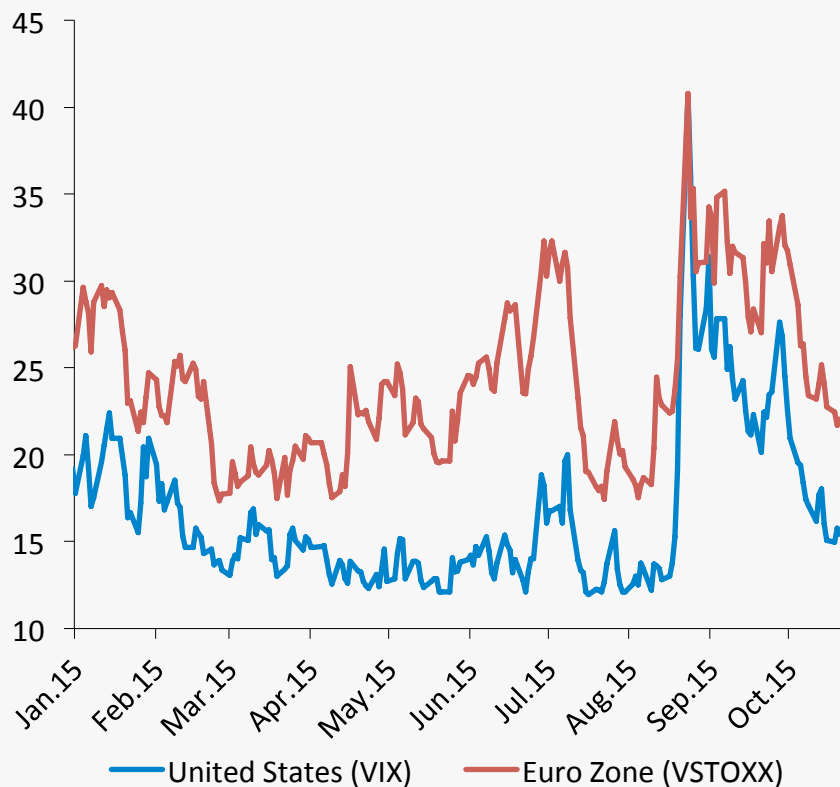


(1) Deflated by PPI of US goods.
Source: Central Bank of Chile.

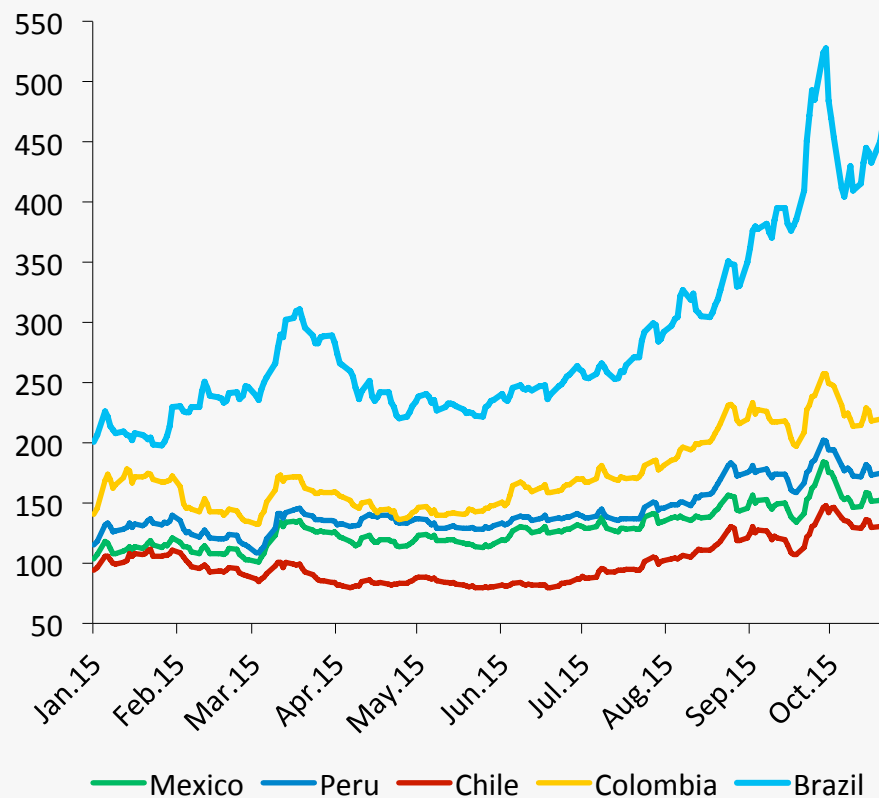


Global Economy: Recent Volatility

Implicit Volatility Indices (1) (percentage points)



Credit Default Swaps (CDS): Latin America (basis points)

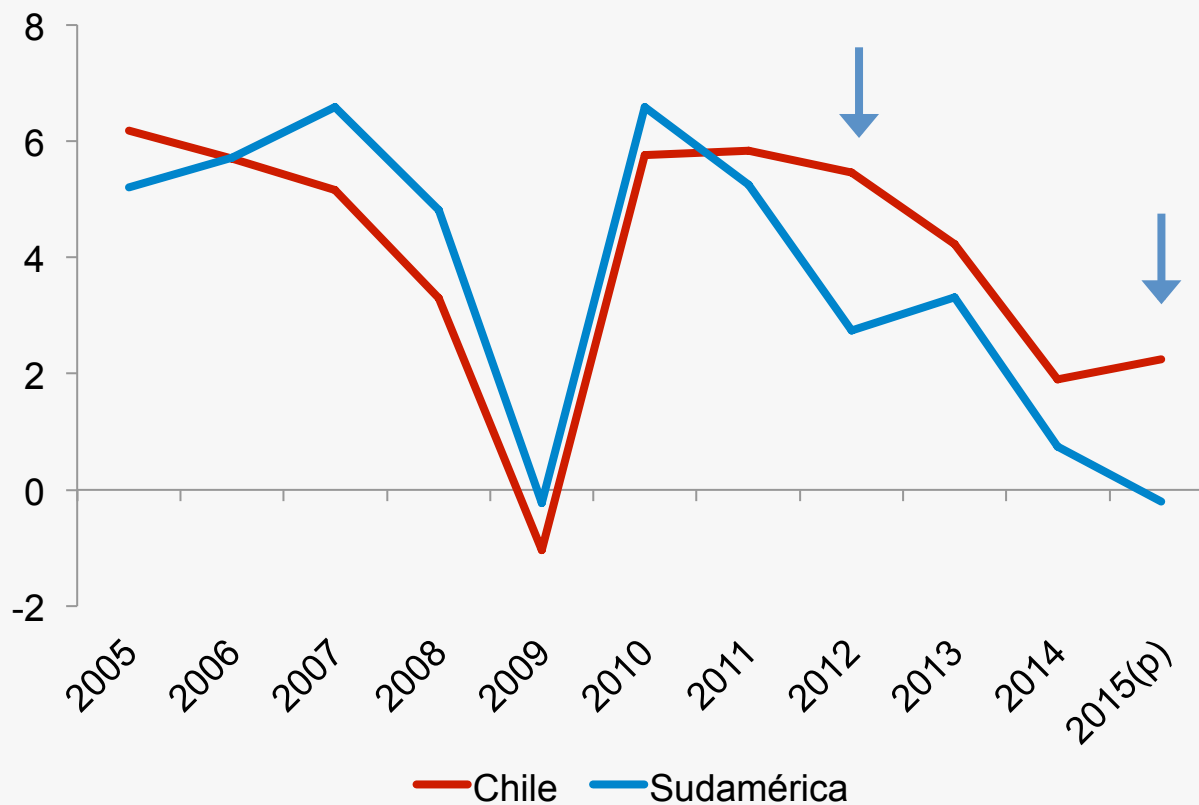


(1): Implicit Volatility Indices of S&P 500 and Euro STOXX 50.
Source: Bloomberg



South America: Slowdown

GDP Growth: Chile and South America
(real annual change, percentage)



Note: 2015 projection from WEO of October 2015.

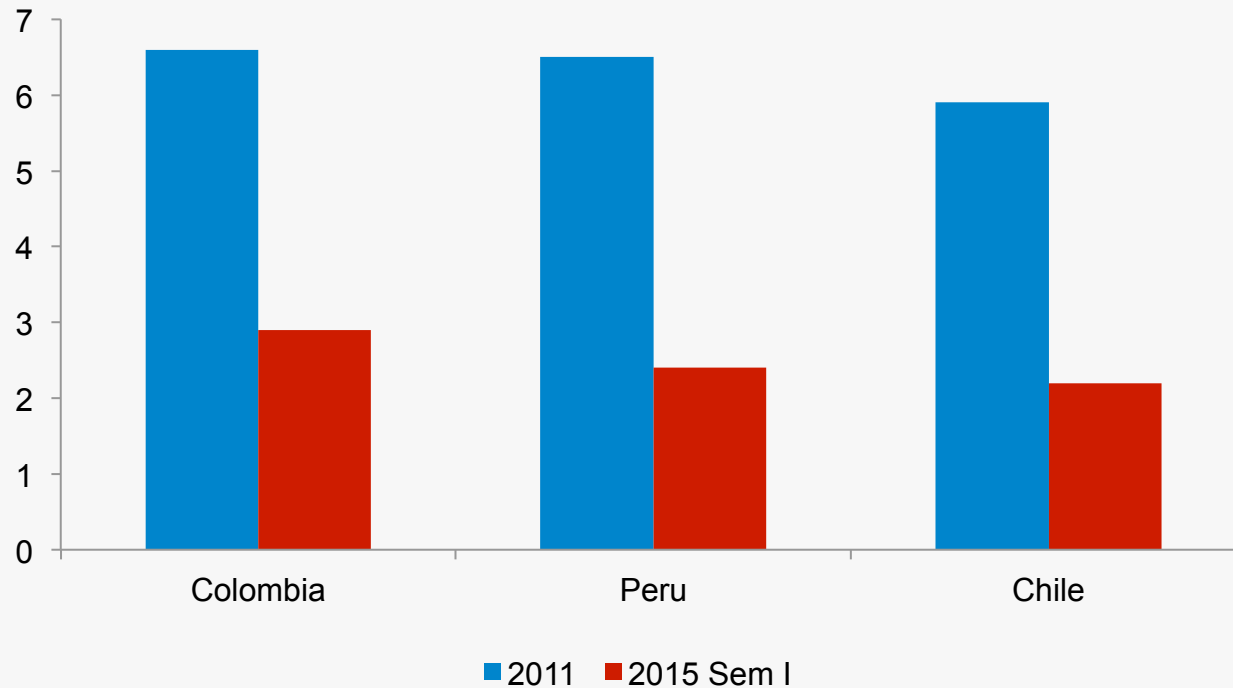
Source: Central Bank of Chile, and IMF.



South America: Generalized Slowdown

GDP Growth

(real annual change, percentage)

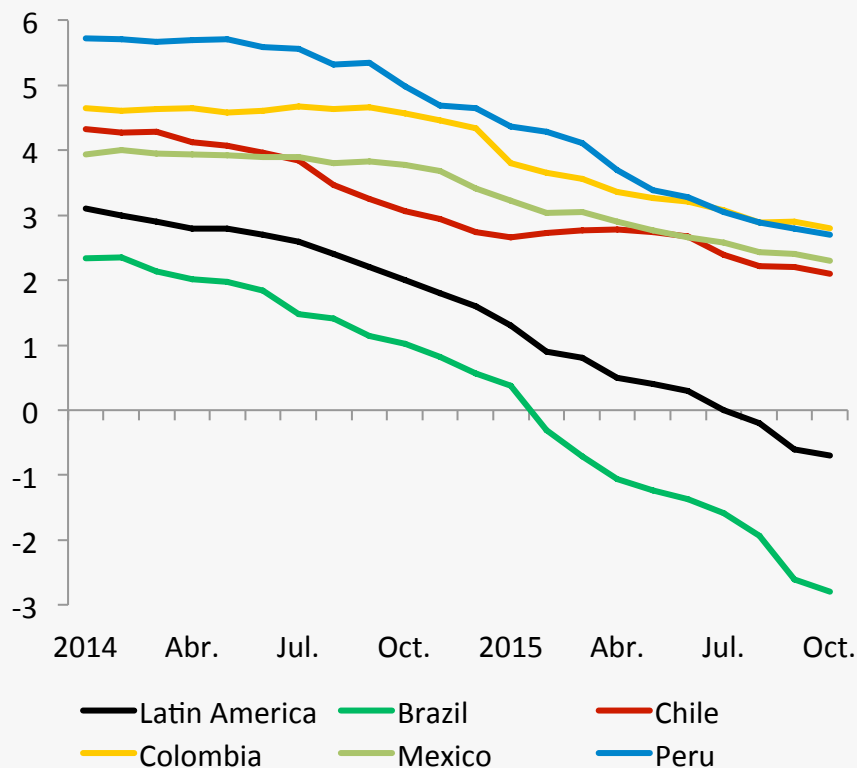




Latin America: GDP Growth in 2015

GDP Growth Forecast for 2015

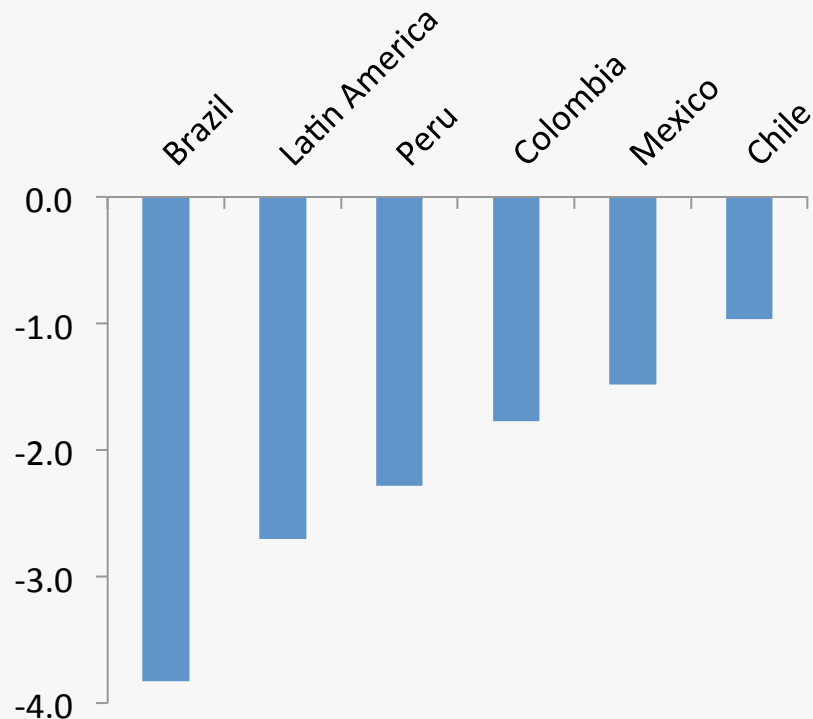
(real annual change, percentage)



Change in 2015 GDP Growth Forecast

(oct. 2014 v/s oct. 2015)

(percentage points)

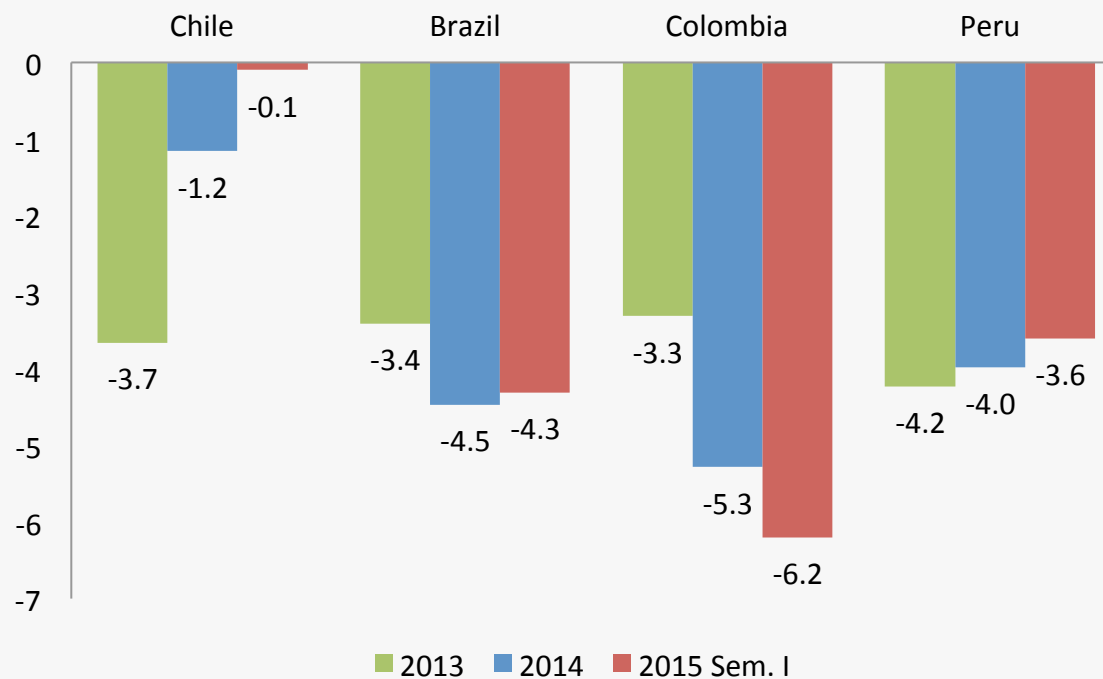


Source: Consensus Forecast.



South America: Current Account Adjustment

Current Account (percentage of GDP)

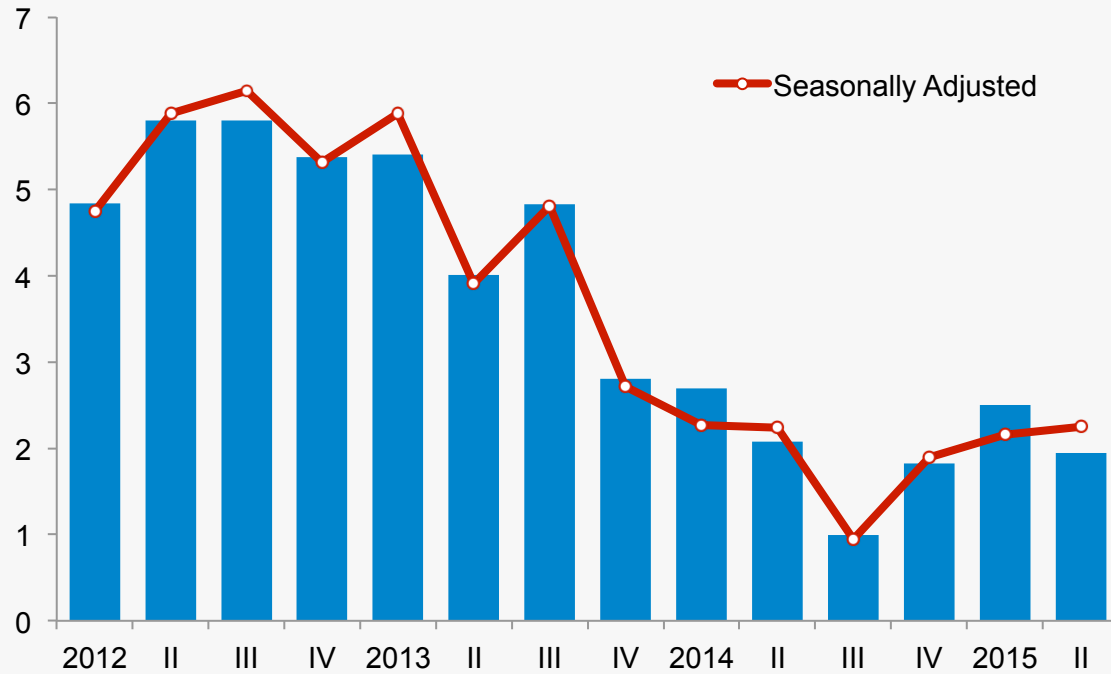




Chilean Economy: Recent Growth

GDP Growth

(real annual change, percentage)

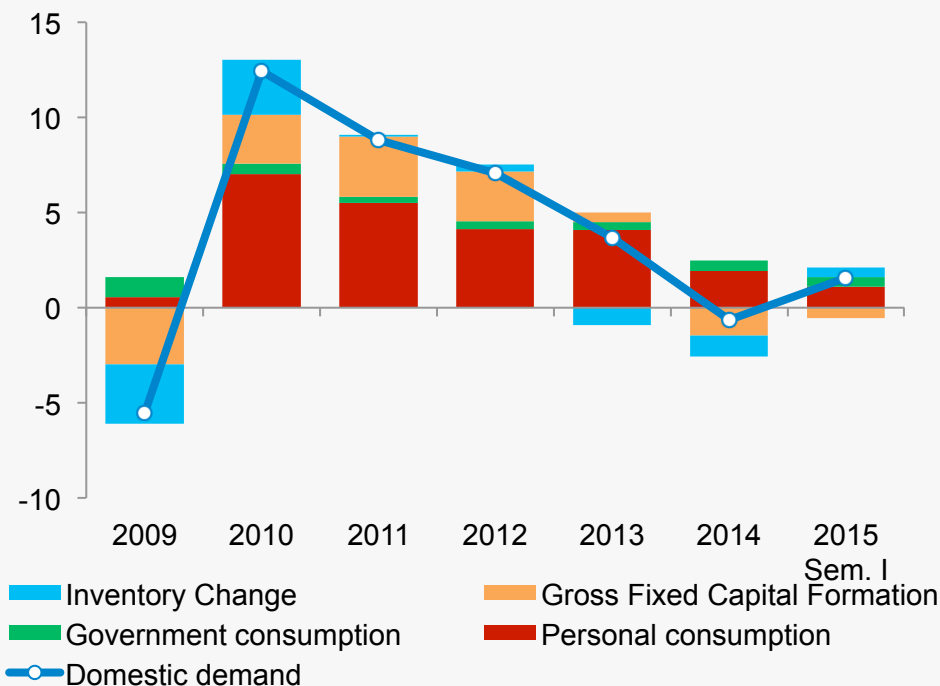




Chilean Economy: GDP and Domestic Demand

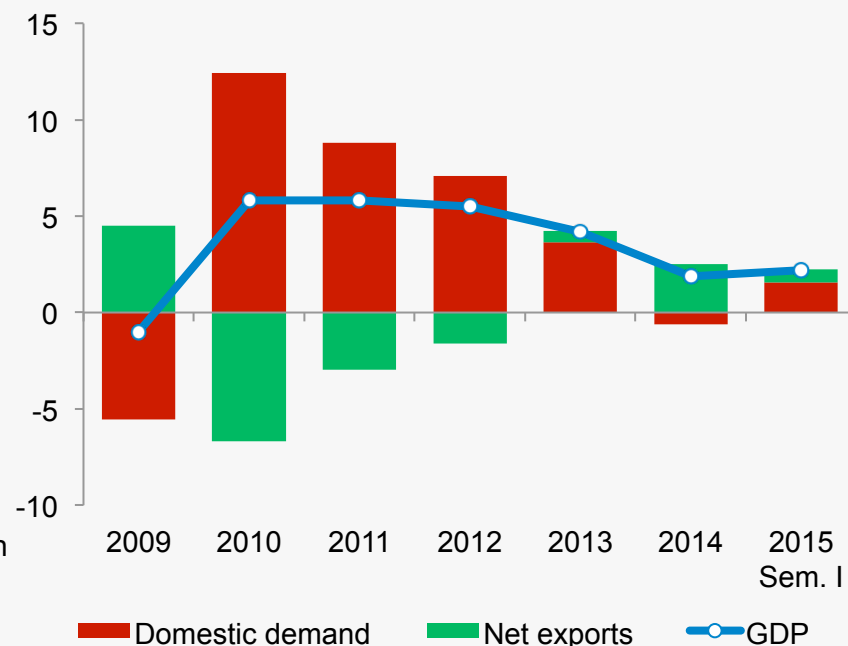
Domestic Demand

(annual change and incidences, percentage)



GDP, Domestic Demand and Net Exports

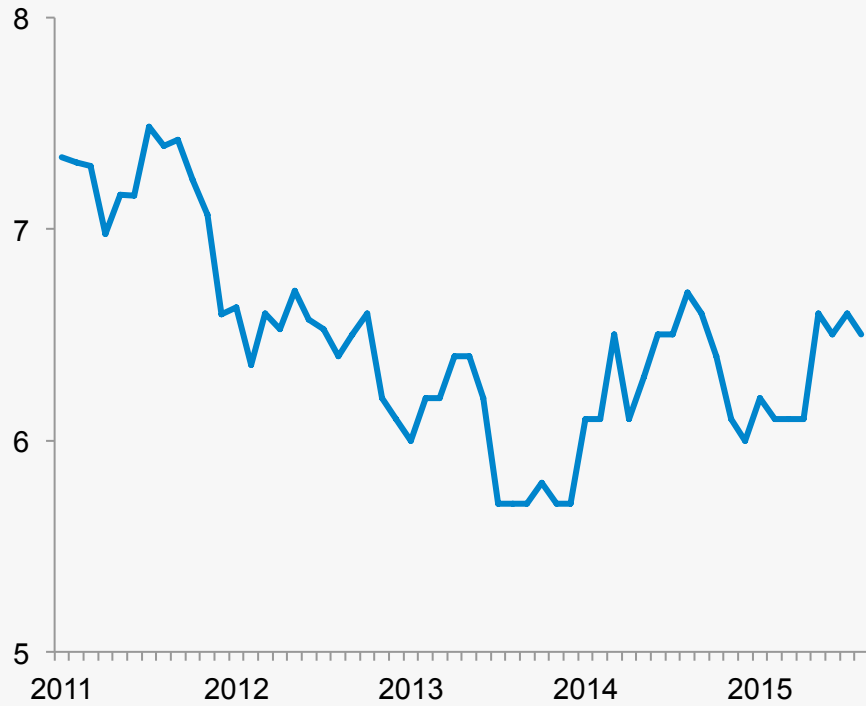
(annual change and incidence, percentage)



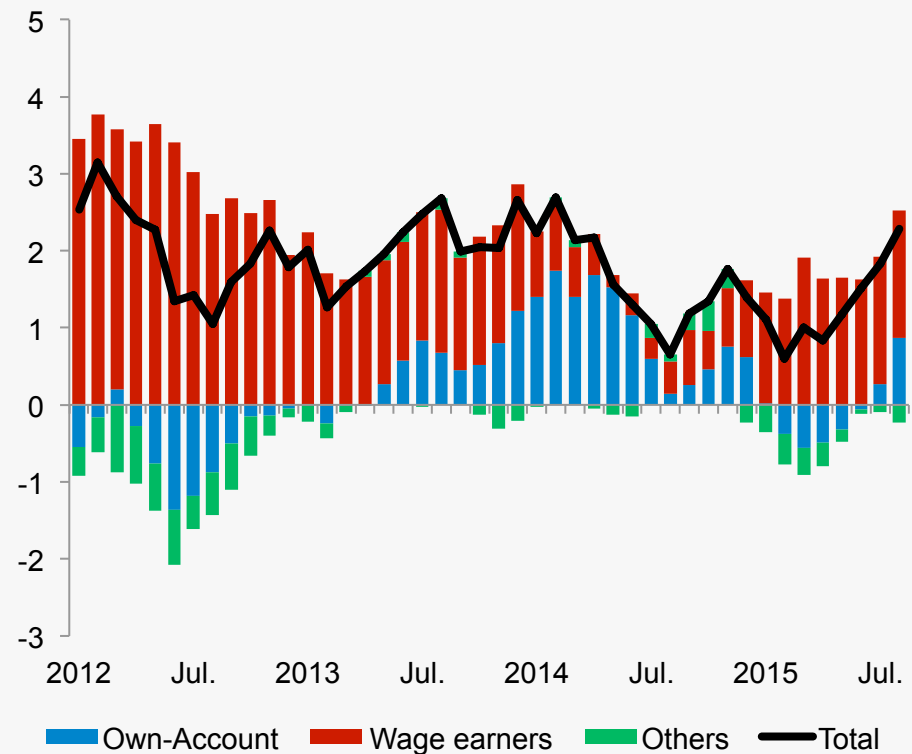


Chilean Economy: Labor Market

Unemployment Rate
(percentage)



Employment Creation
(annual change and incidences, percentage)

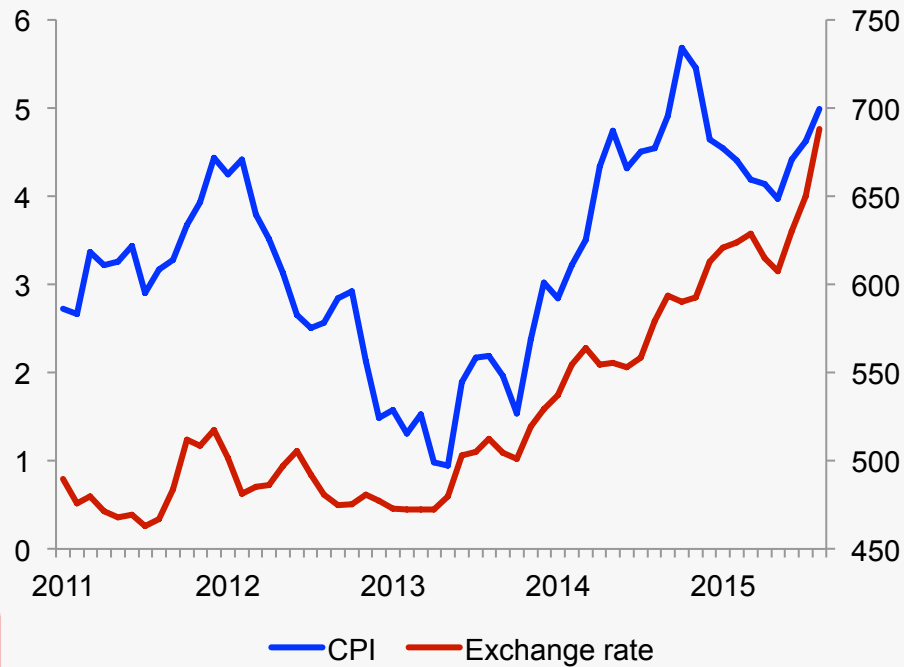


Source: National Statistic Office.

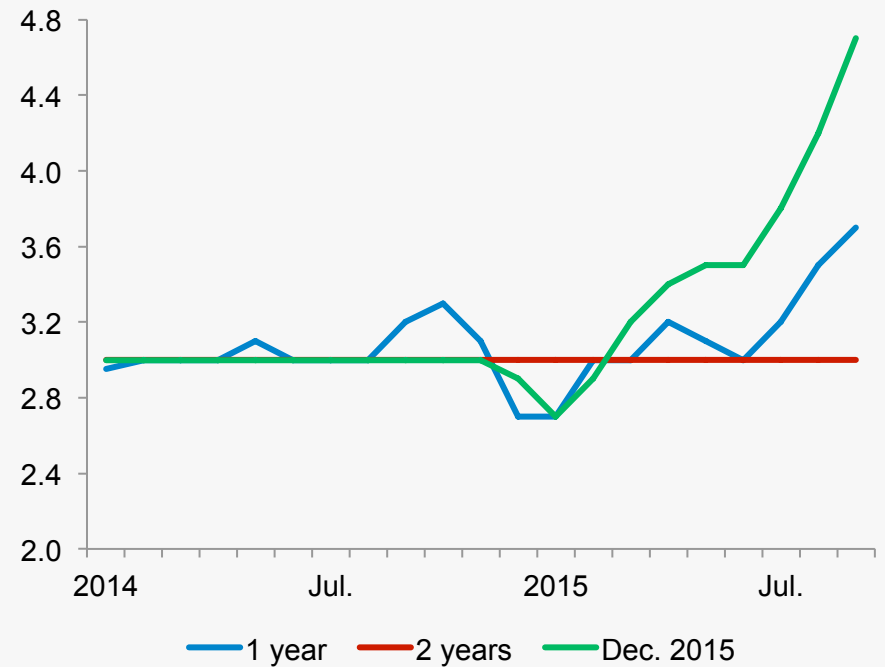


Chilean Economy: Exchange Rate and Inflation

Exchange Rate and Inflation
(annual change, pesos per US\$)



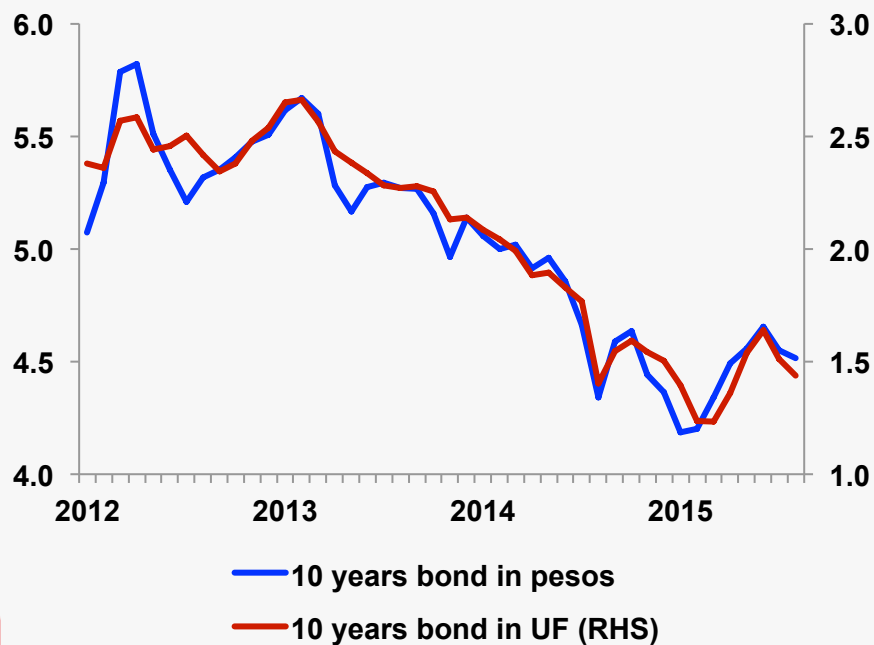
Inflation Expectancies
(annual change, percentage)



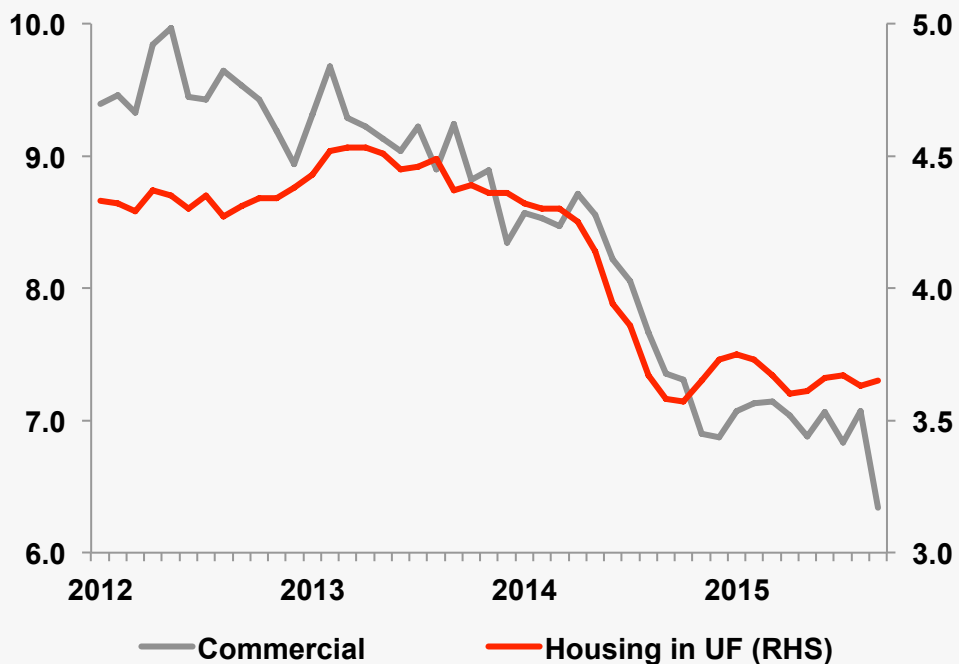


Chilean Economy: Interest Rates

Long Term Interest Rates
(percentage)



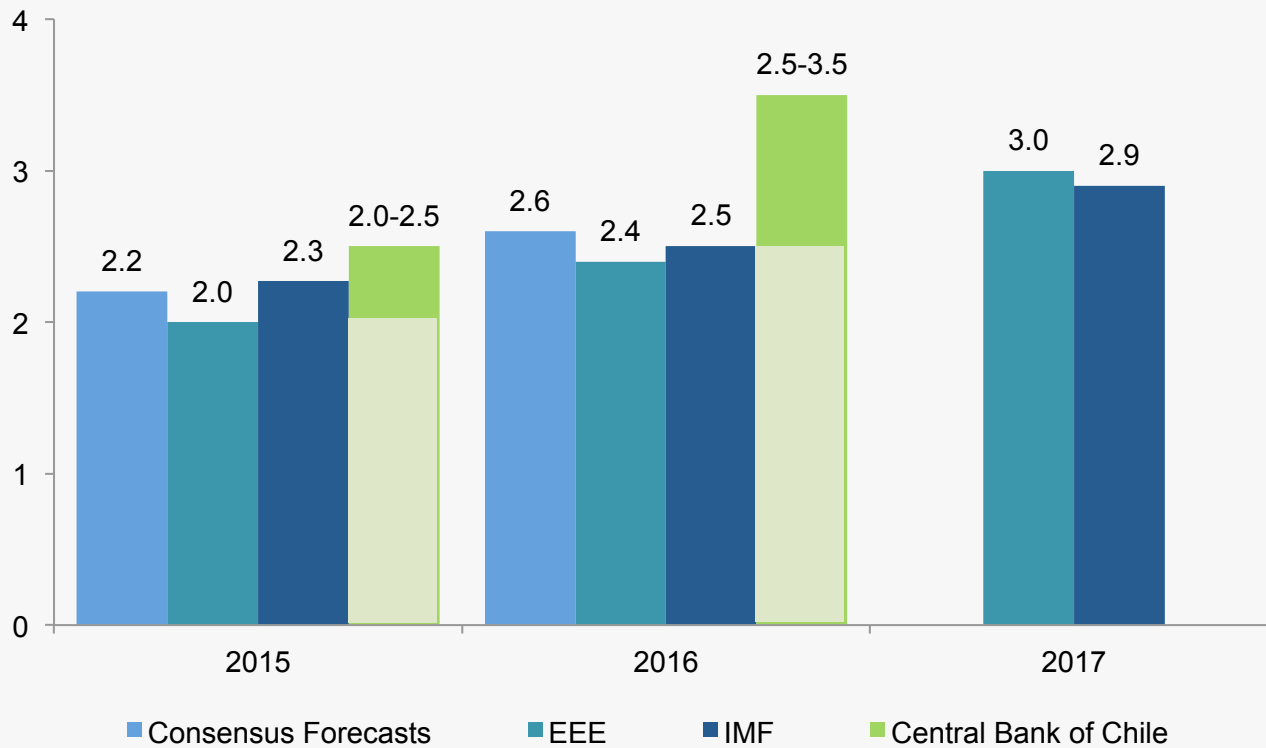
Loans Interest Rates
(percentage)





Chilean Economy: Growth Perspective

Chilean Growth Projections
(real annual variation, percentage)



Source: EEE: Economic Expectation Survey of Central Bank of Chile, September 2015; Consensus Forecasts, September 2015; FMI: WEO July 2015; Central Bank of Chile, Monetary Policy Report September 2015.



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets

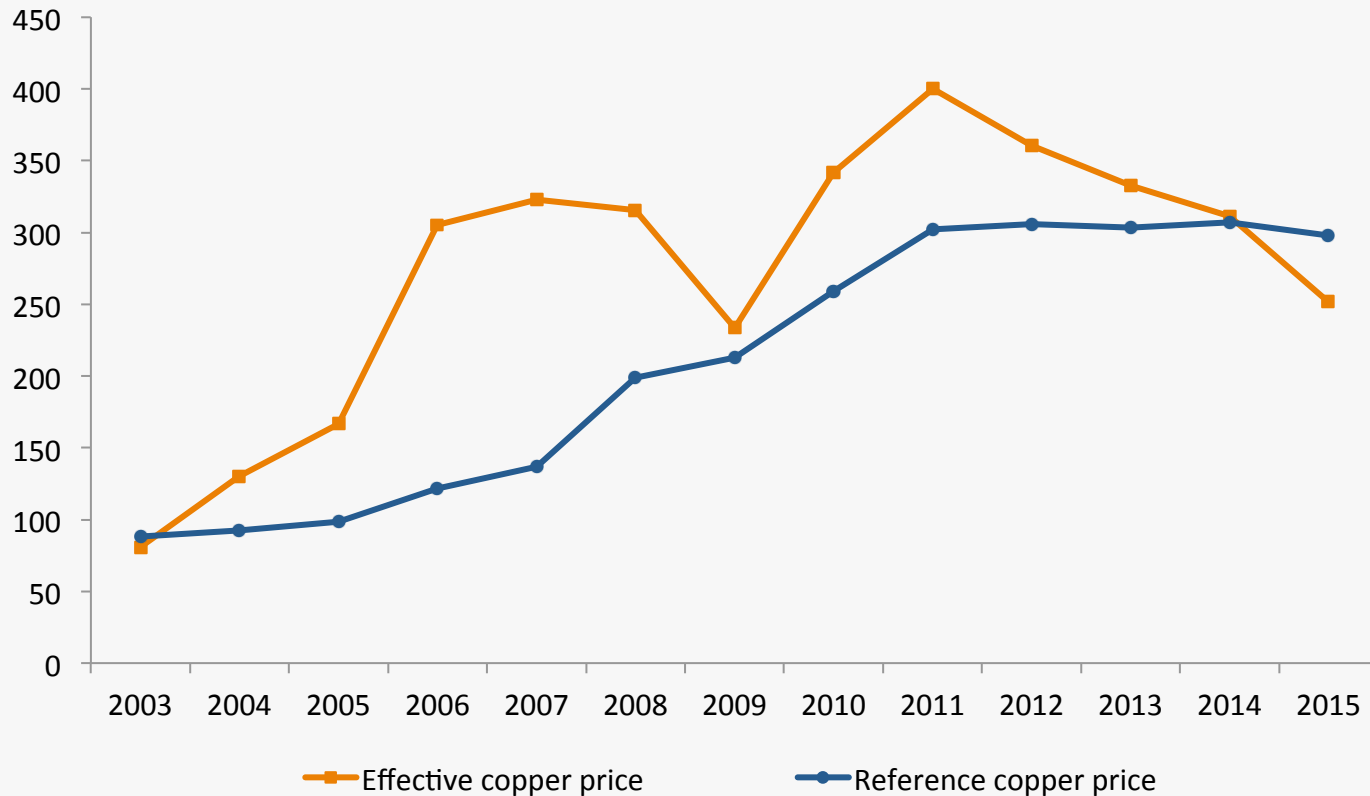
Productivity and Long Term Growth

Better Markets and Democracy



Reference and Effective Copper Price

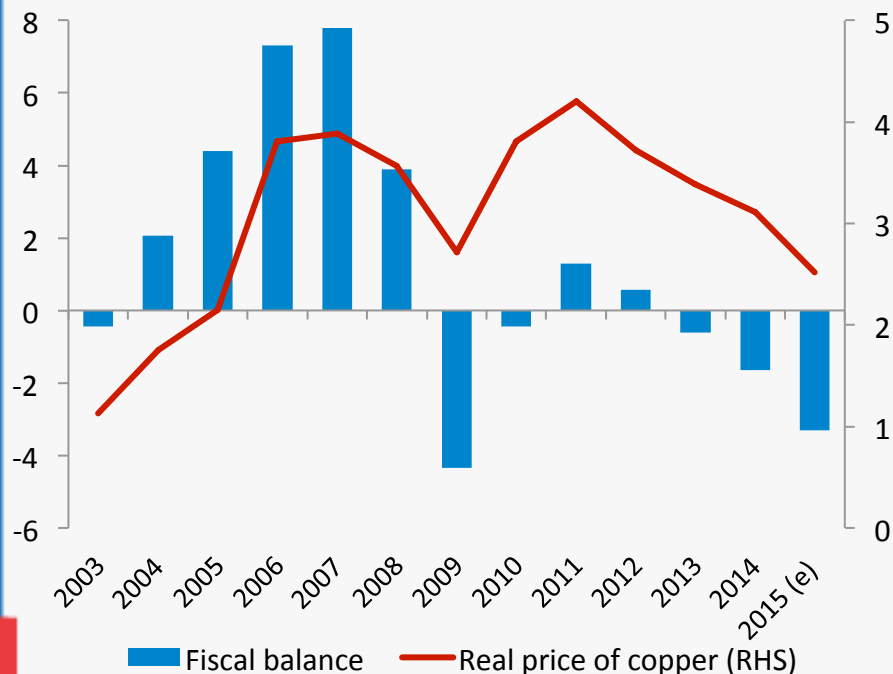
Copper Price
(cUS\$/pound)



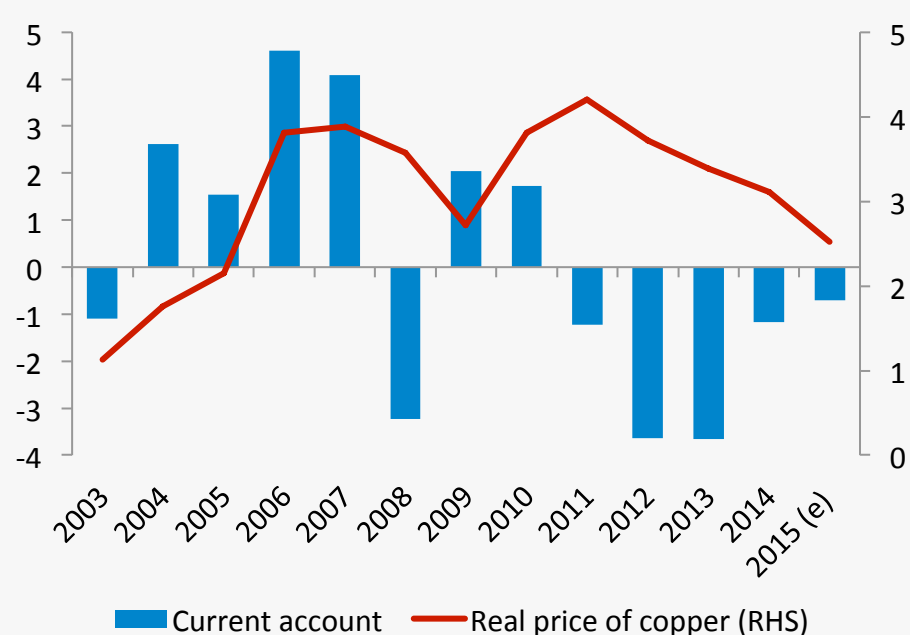


Fiscal Balance and Current Account

Fiscal Balance and Copper Price
(GDP percentage, US\$ per pound)



Current Account and Copper Price
(GDP percentage, US\$ per pound)



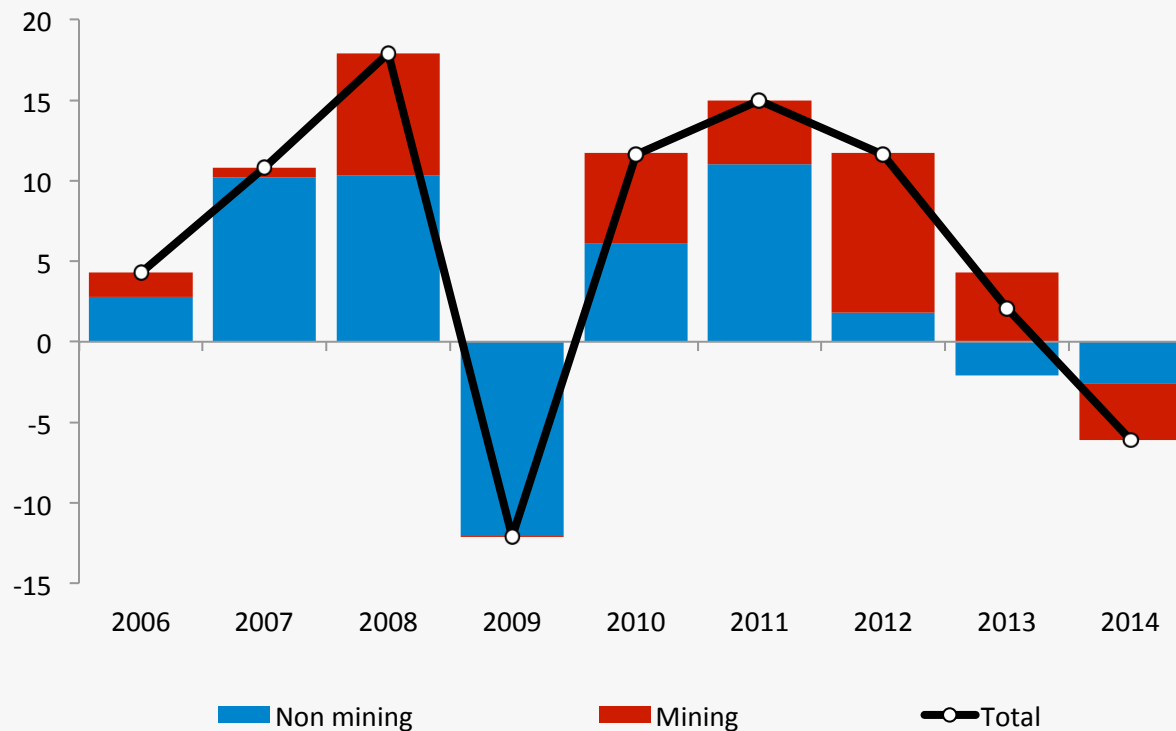
Note: (e) estimated. In 2015 the real copper price corresponds to the average by September, deflected by the US Producer Price Index of goods.

Source: Central Bank of Chile and Budget Office.



Investment Cycle

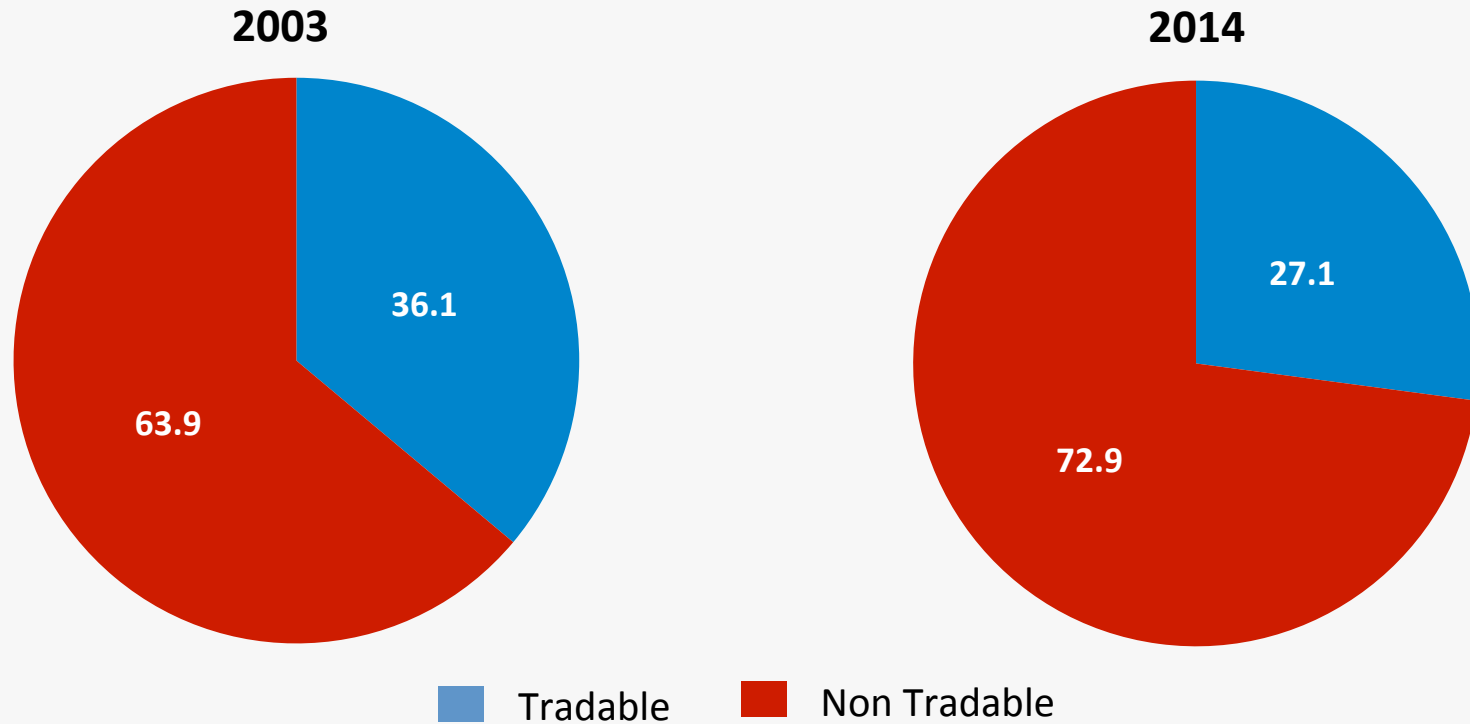
Gross Fixed Capital Formation
(real annual change)





Boom and Expansion of Non Tradable

GDP Composition by Sectors
(percentage)



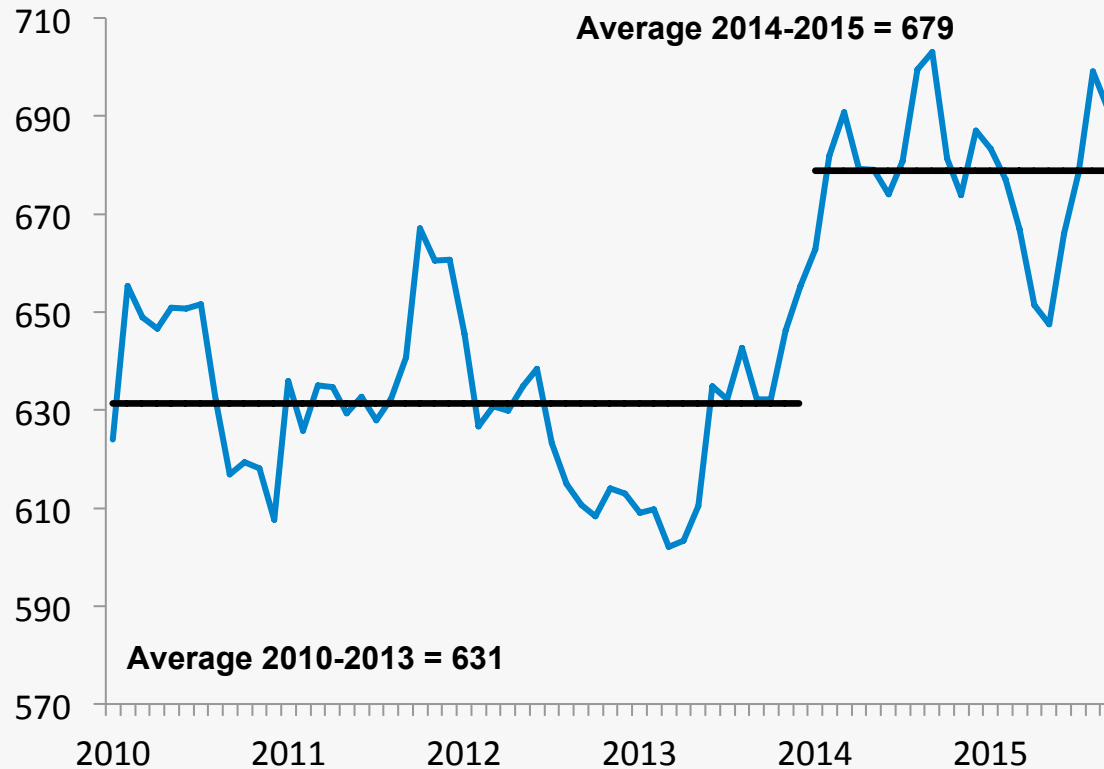
Note: Tradable Sector: Agriculture, Fishing, Mining and Industries; Non Tradable Sector: Electricity, Gas and Water (EGW), Services and Public Administration.

Source: Central Bank of Chile.



Adjustment to the New External Scenario

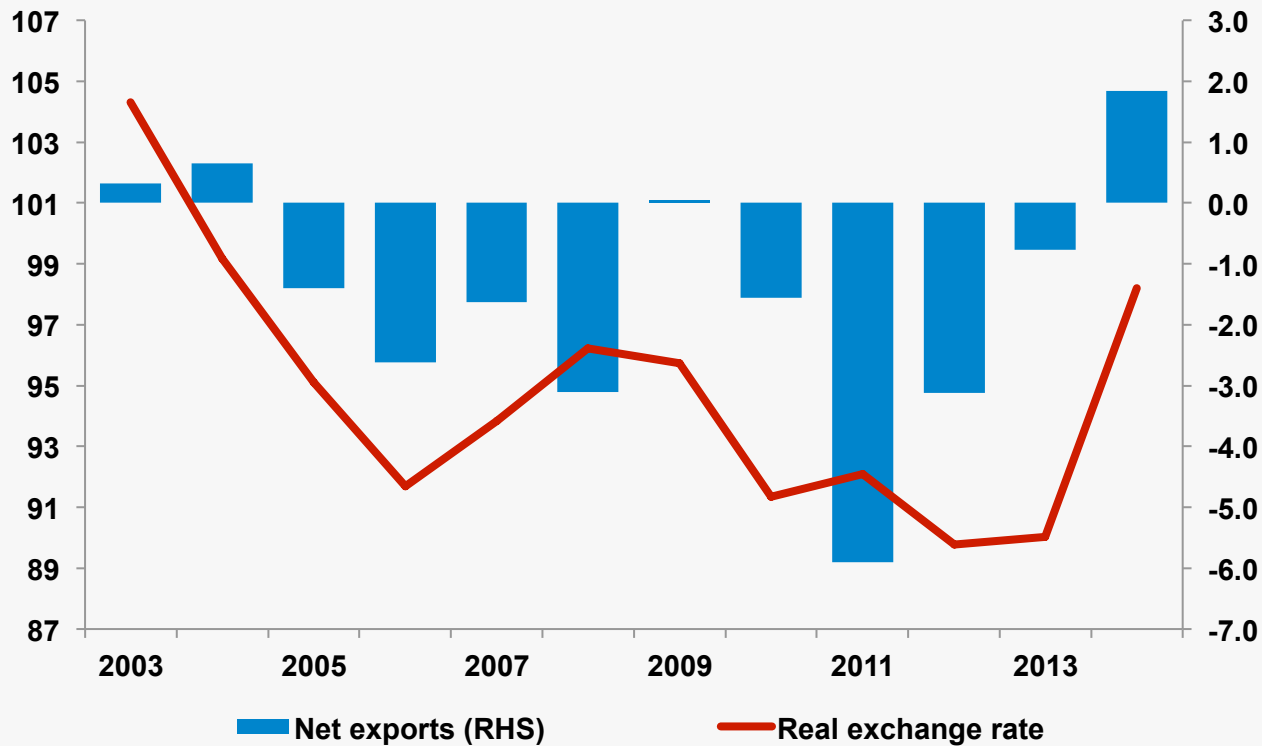
Real Exchange Rate
(Pesos as of September 2015)





Adjustment to the New External Scenario

Real Exchange Rate and Net Exports
(index 1986=100; percentage)

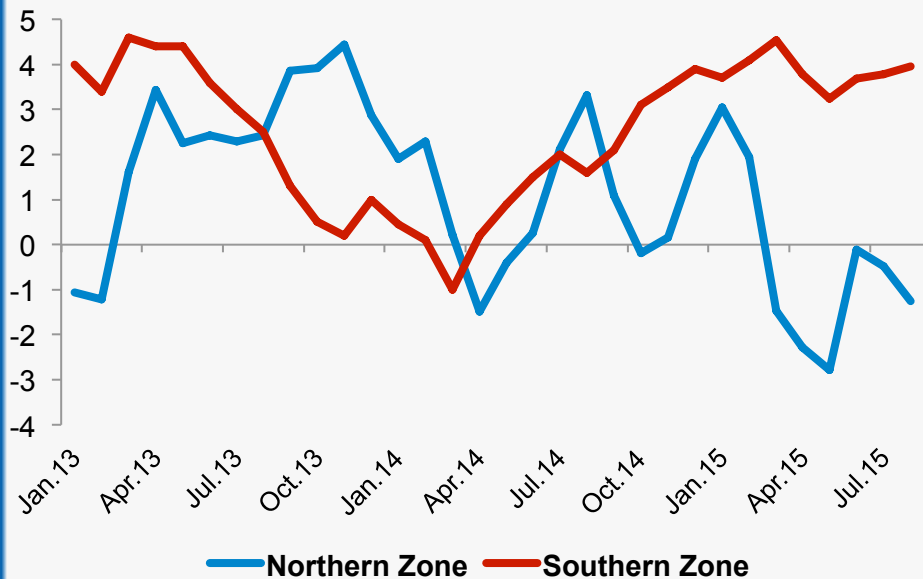


Source: Central Bank of Chile.
Note: Net Exports, Biannual average.

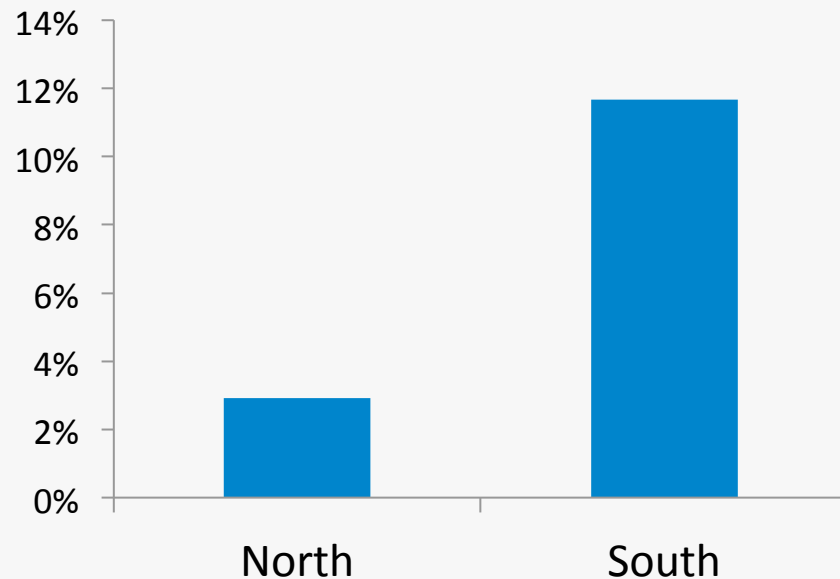


Regional Reallocation

Employment by Geographical Area
(annual change, percentage)



Nominal Income Growth (NESI*)
(Dec. 2014- dic 2013 change, percentage)



Note: Northern Zone: Antofagasta and Atacama; Southern Zone : Maule to the south.

(*) Nueva Encuesta Suplementaria de Ingresos

Source: National Institute of Statistics.



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets

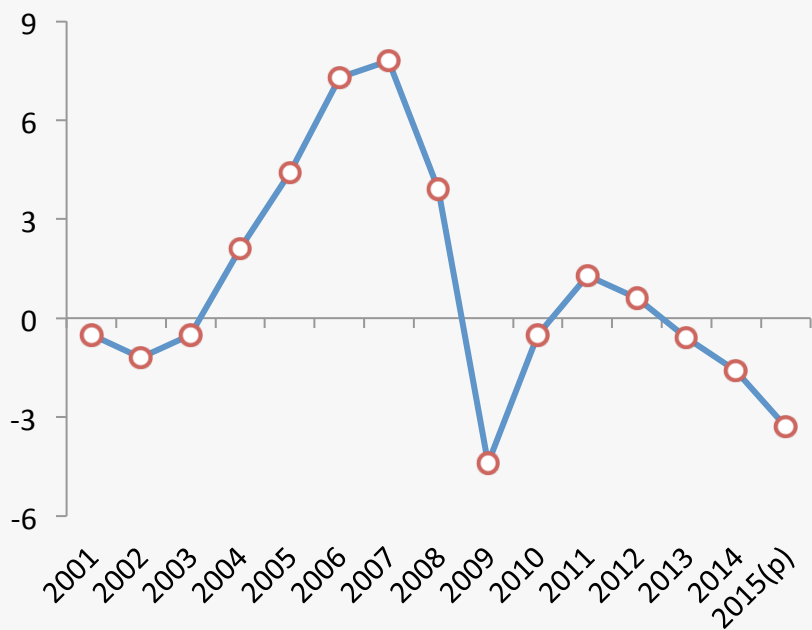
Productivity and Long Term Growth

Better Markets and Democracy

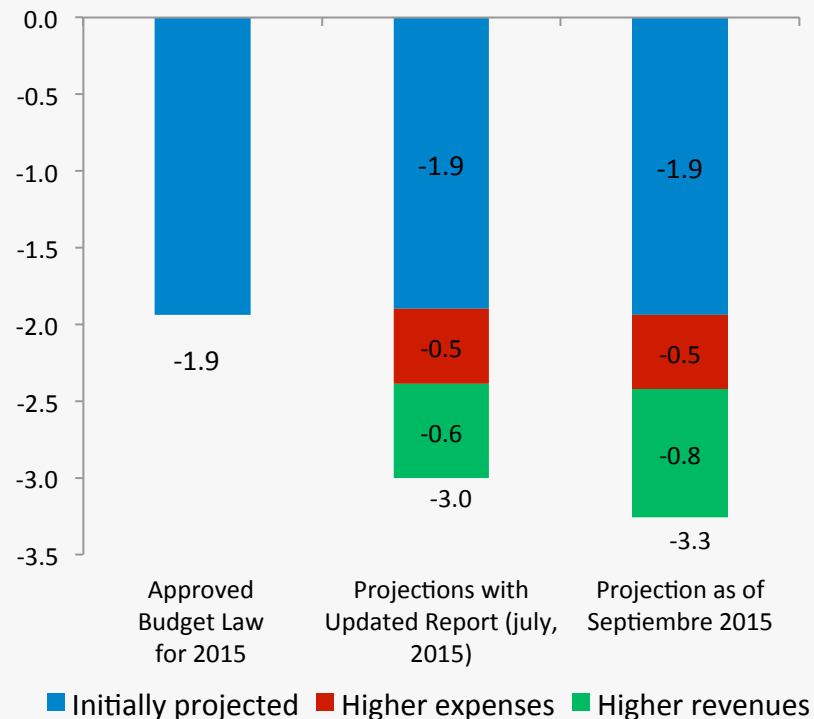


2015 Fiscal Policy

Fiscal Balance Evolution
(percentage of GDP)



2015 Fiscal Balance
(percentage of GDP)

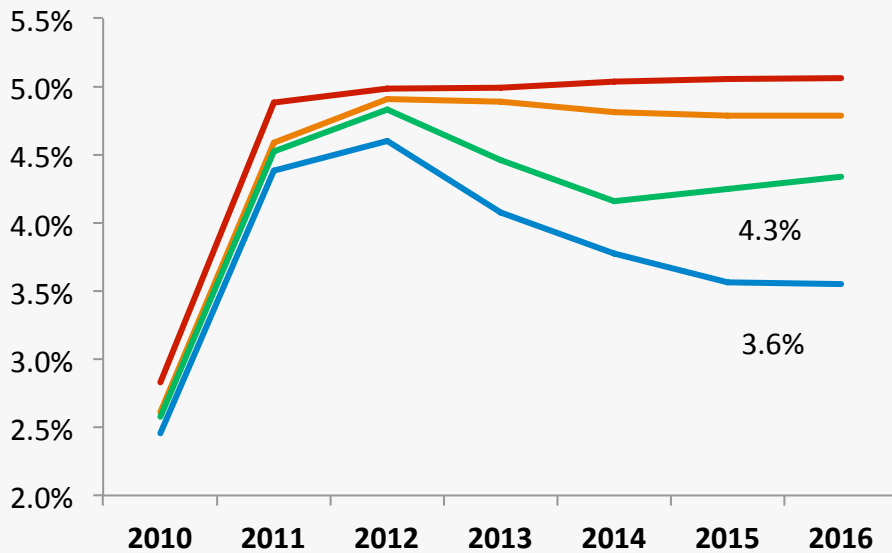


Source: Budget Office.



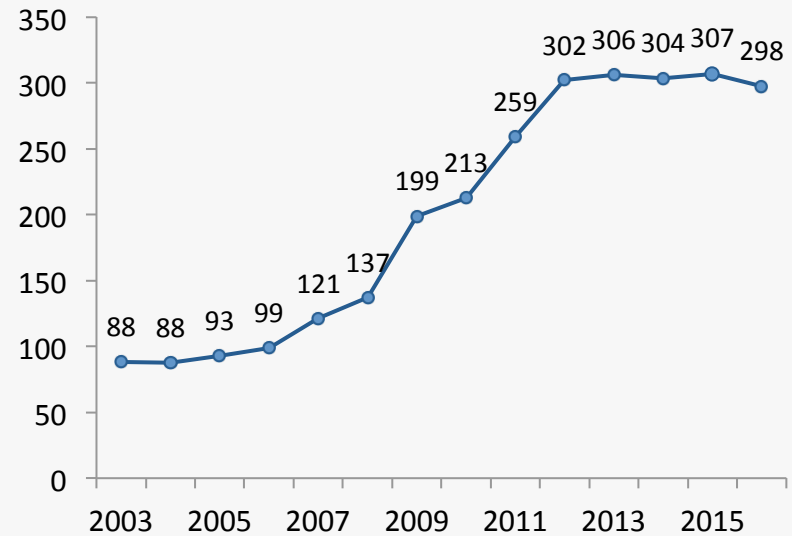
Structural Parameters

Trend GDP
(Percentage)



— 2012 consultation — 2013 consultation
— 2014 consultation — 2015 consultation

Copper Reference Price
(dollar cents/pound)

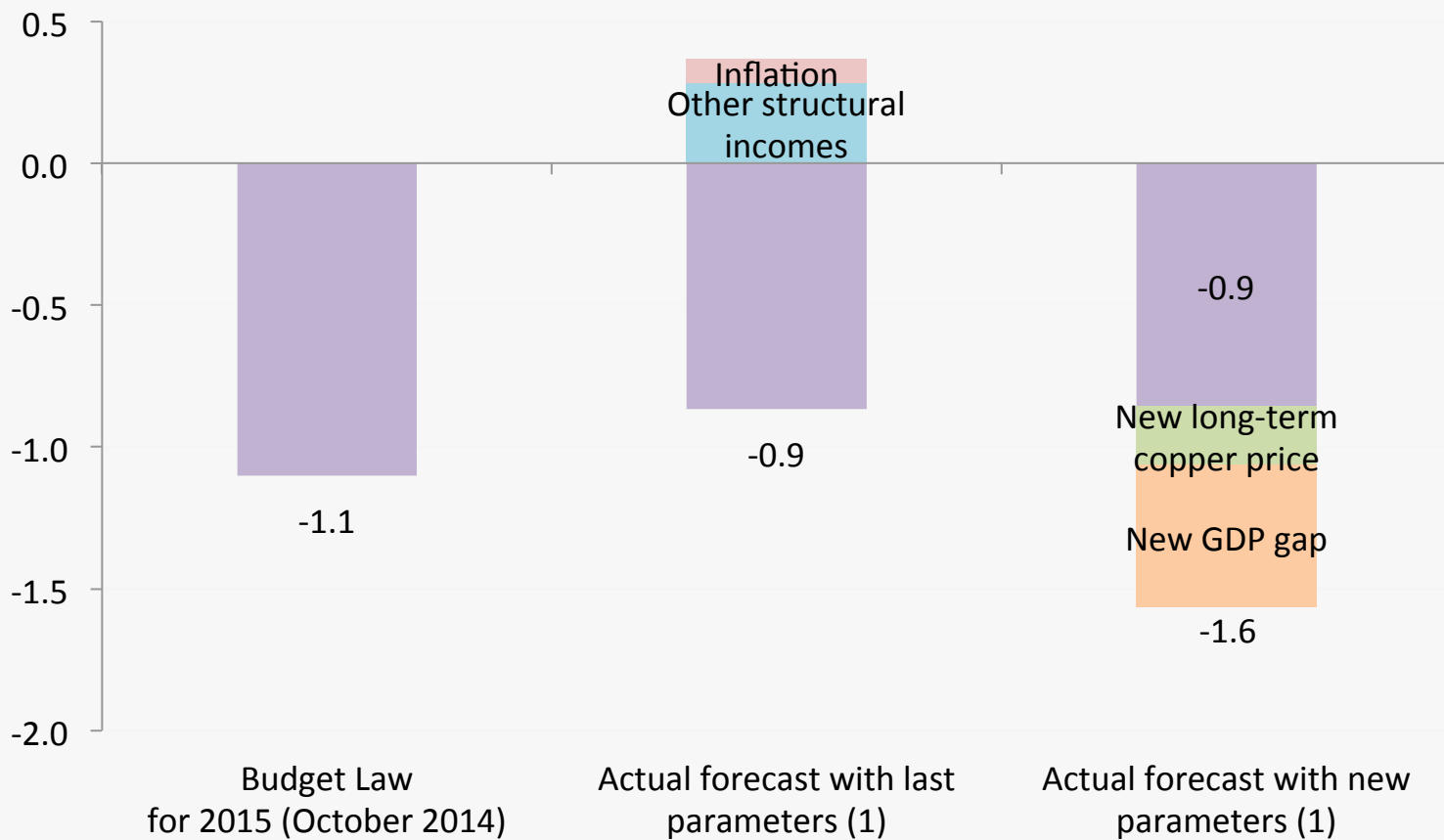




Structural Balance 2015

Structural Balance 2015

(percentage of GDP)



Source: Budget Office.

(1) Current forecast for old and new parameters exclude molibdenum price adjustment.

Fiscal Strategy

Structural deficit of
1.6% of GDP for 2015

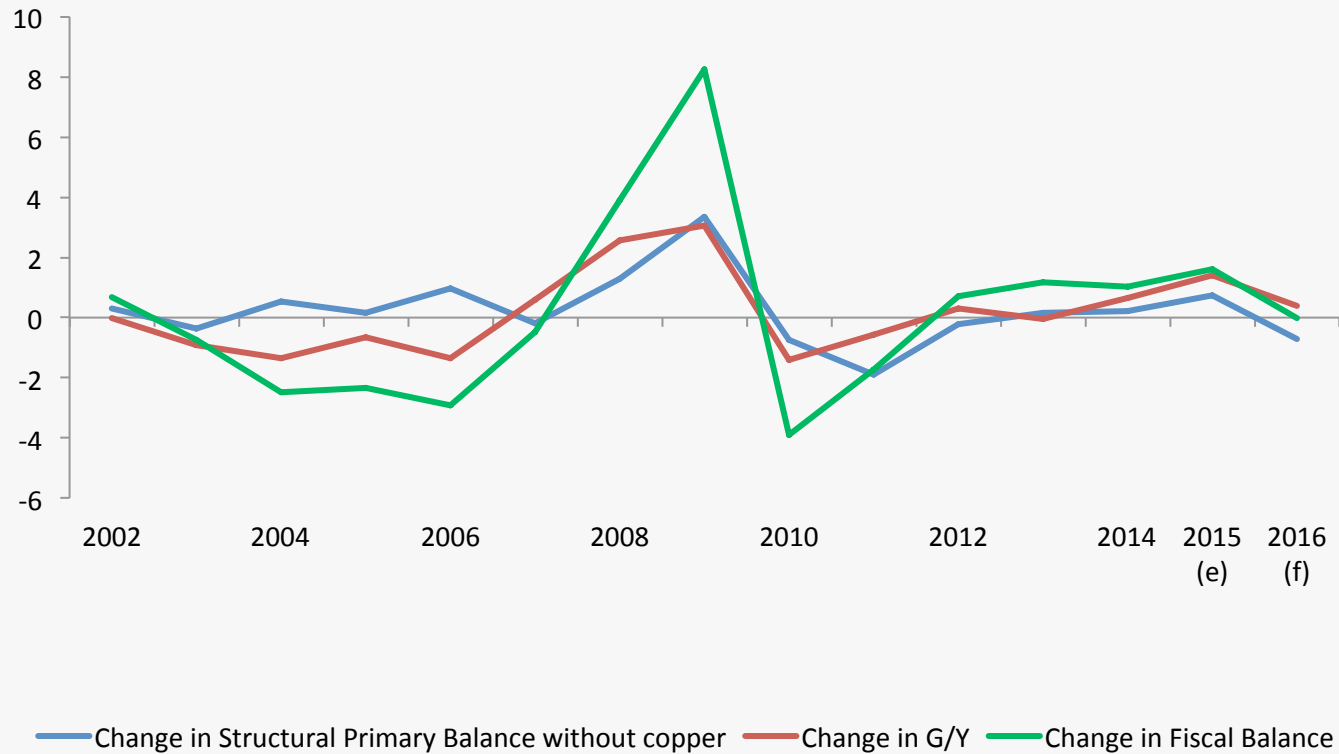
Need of Fiscal
consolidation

Commitment: reduce
structural deficit
around ¼% of GDP
per year



Fiscal Stimulus

Fiscal Stimulus measures
(percentage of GDP)

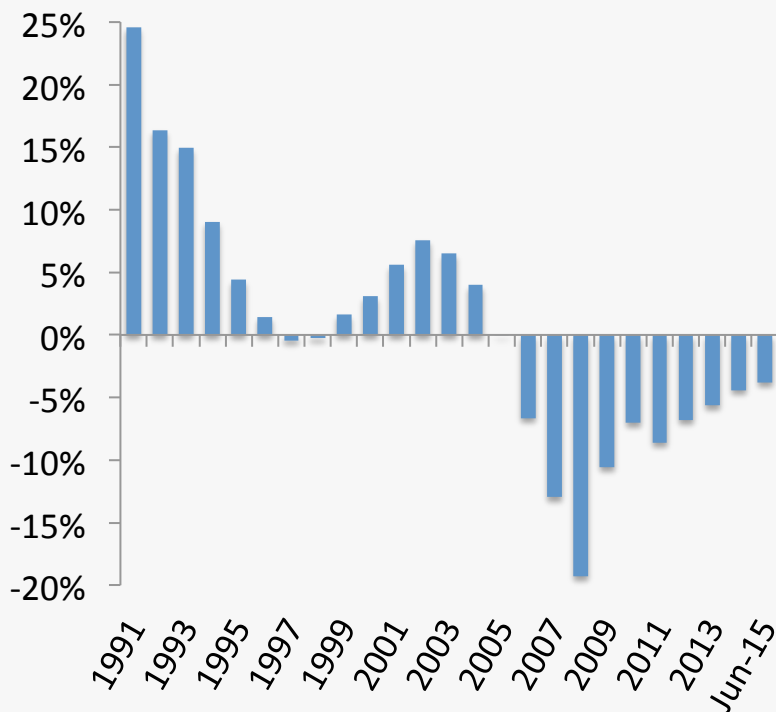


(e) estimated (f) forecasted
Source: Ministry of Finance.

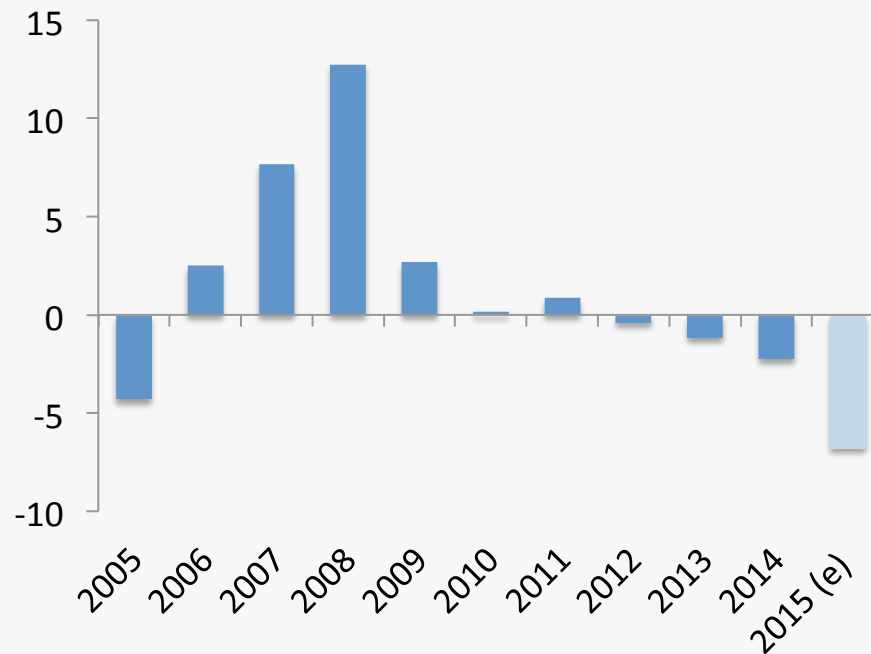


Fiscal Position

Central Government Net Debt
(percentage of GDP)



Net Financial Position
(percentage of GDP)



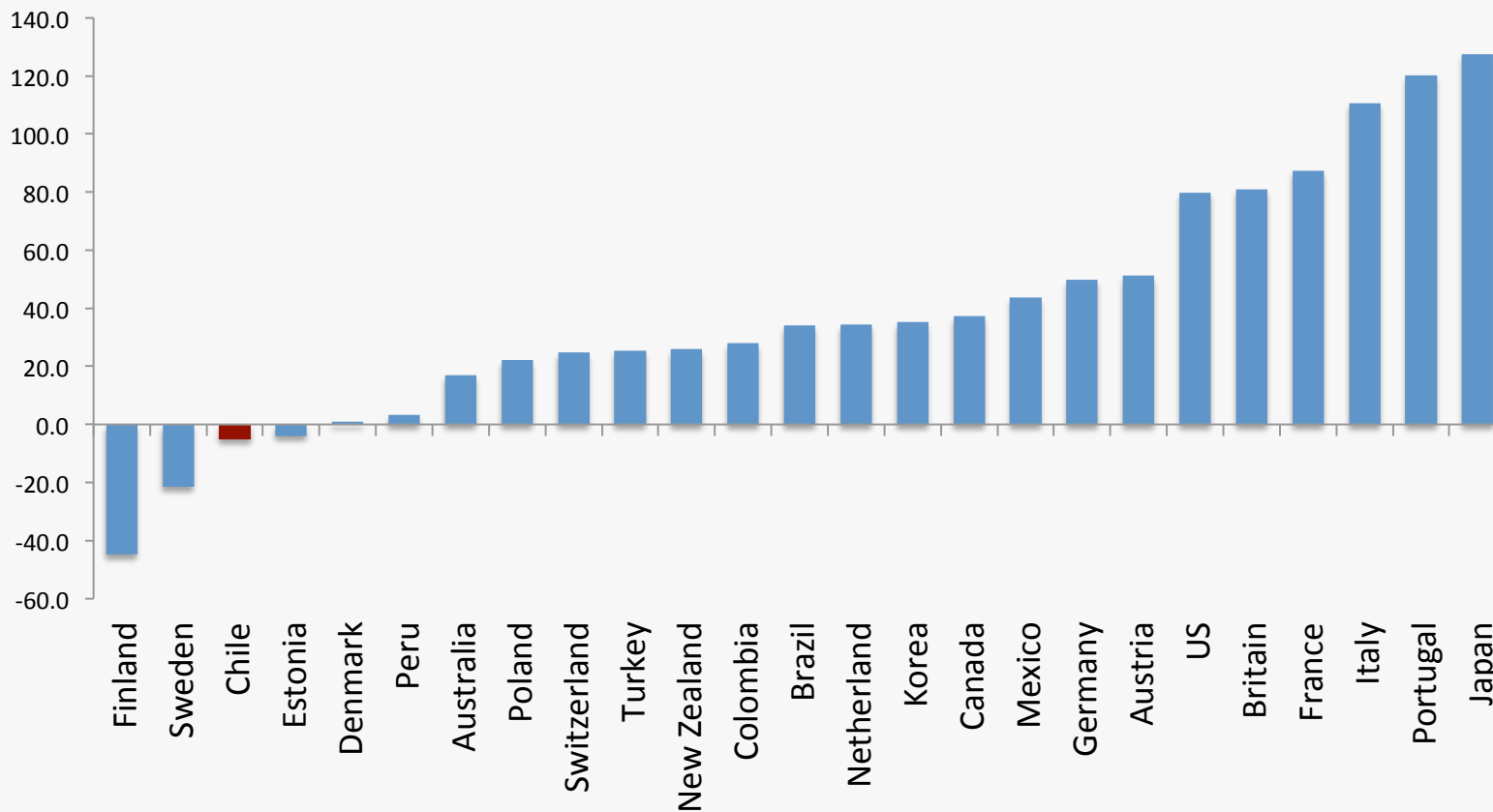
Note: (e) estimated.

Source: Ministry of Finance and Budget Office.



International Comparison of Fiscal Position

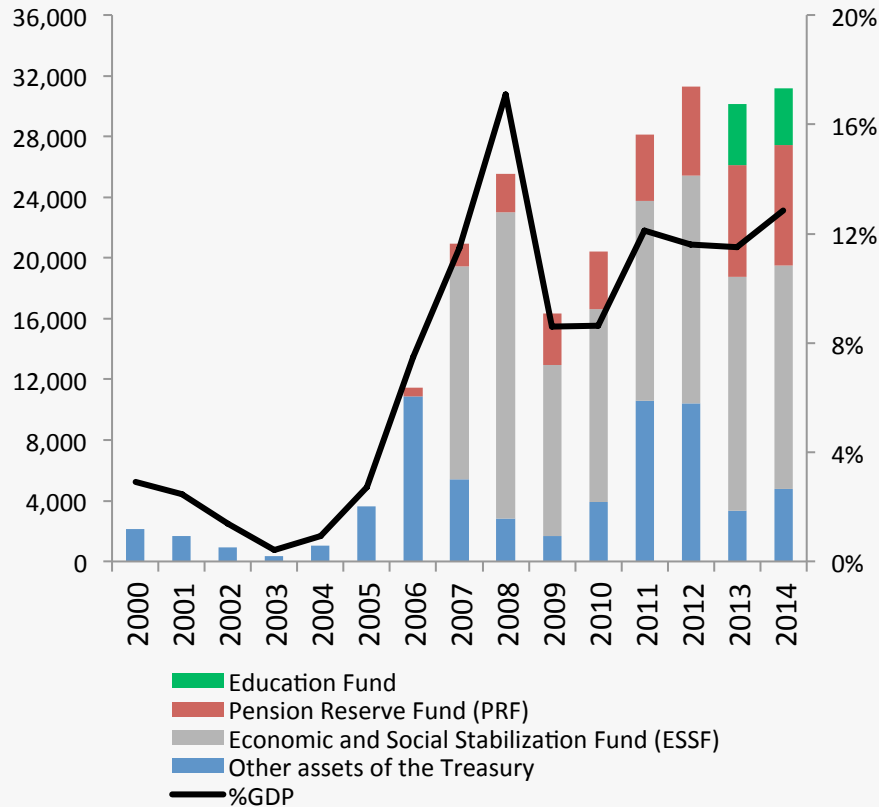
2014 Net Debt
(percentage of GDP)



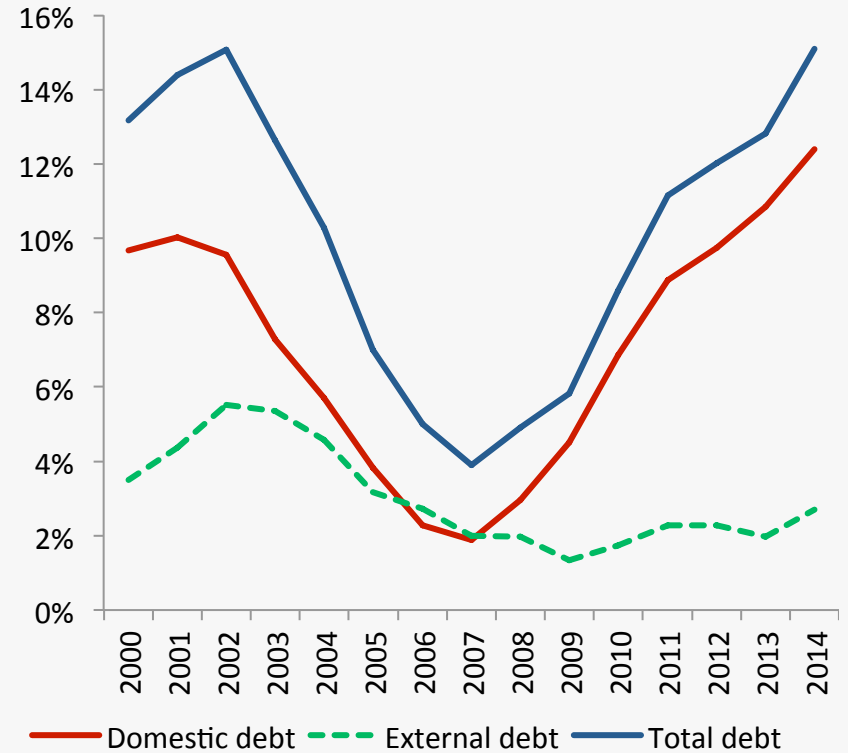


Assets and Gross Debt

Consolidated Assets of the Treasury
(million of US\$, percentage of GDP)



Central Government Gross Debt
(percentage of GDP)

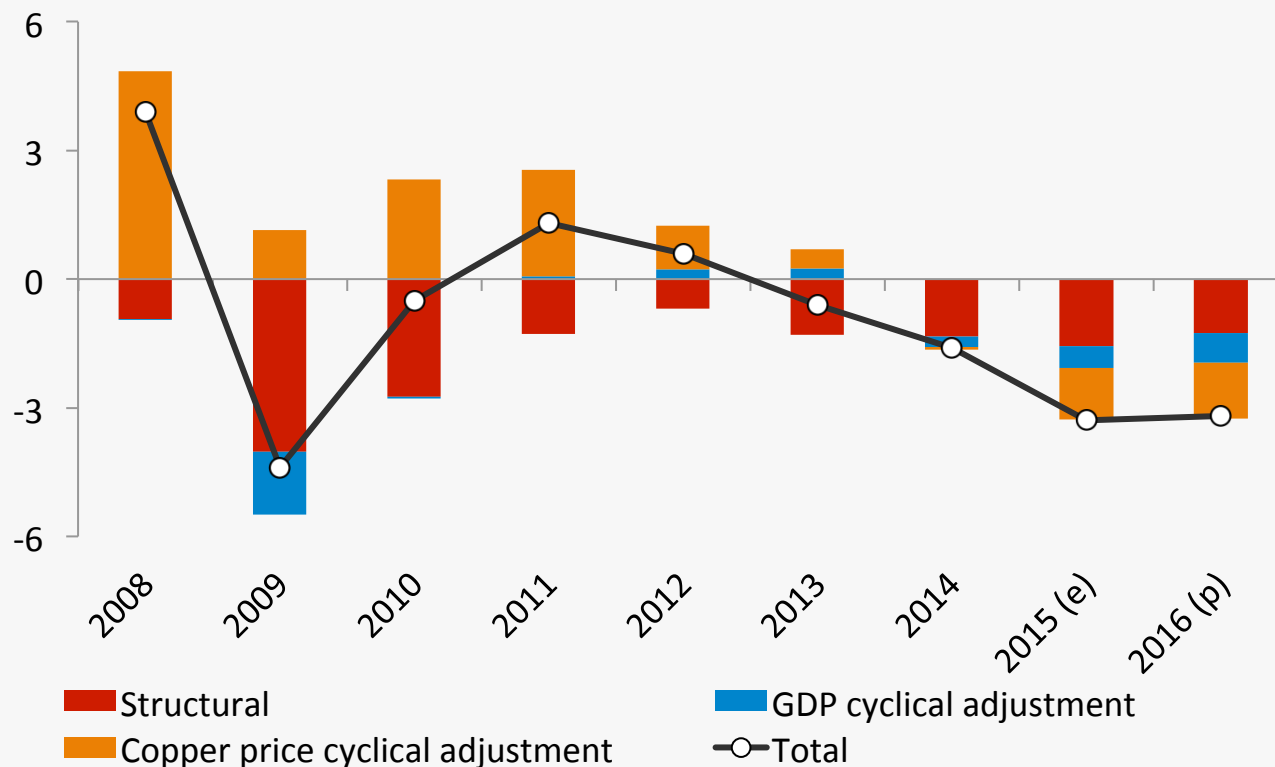


Source: Ministry of Finance.



Fiscal Balance Evolution

Effective Balance, Structural and Cyclical
(percentage of GDP)



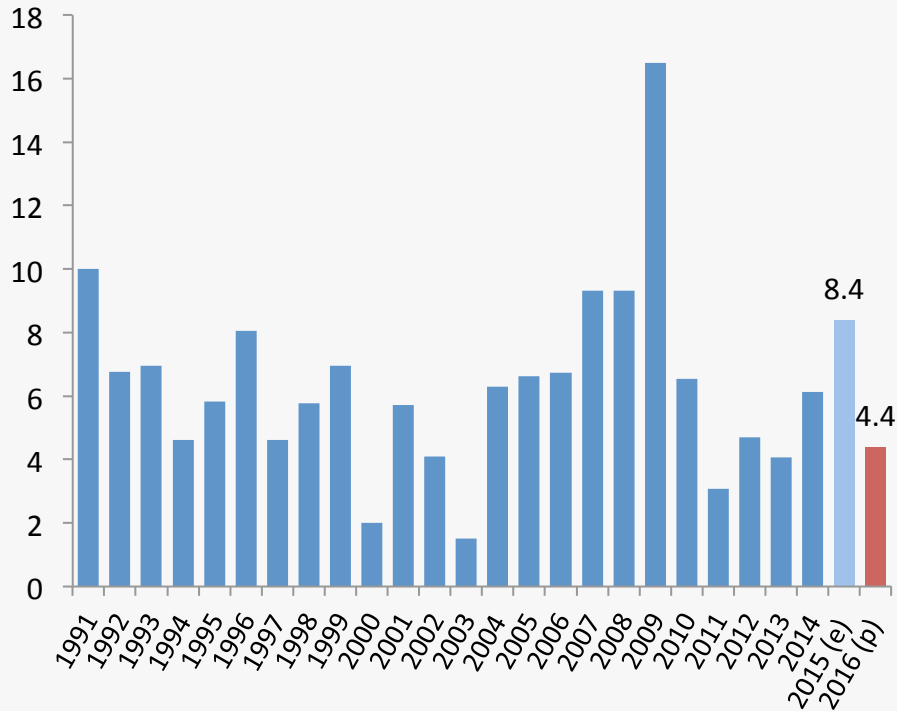
(1) Structural balance is estimated without molybdenum adjustment and with trend GDP estimated by the Trend GDP Advisory Committee.

(2) Source: Budget Office.

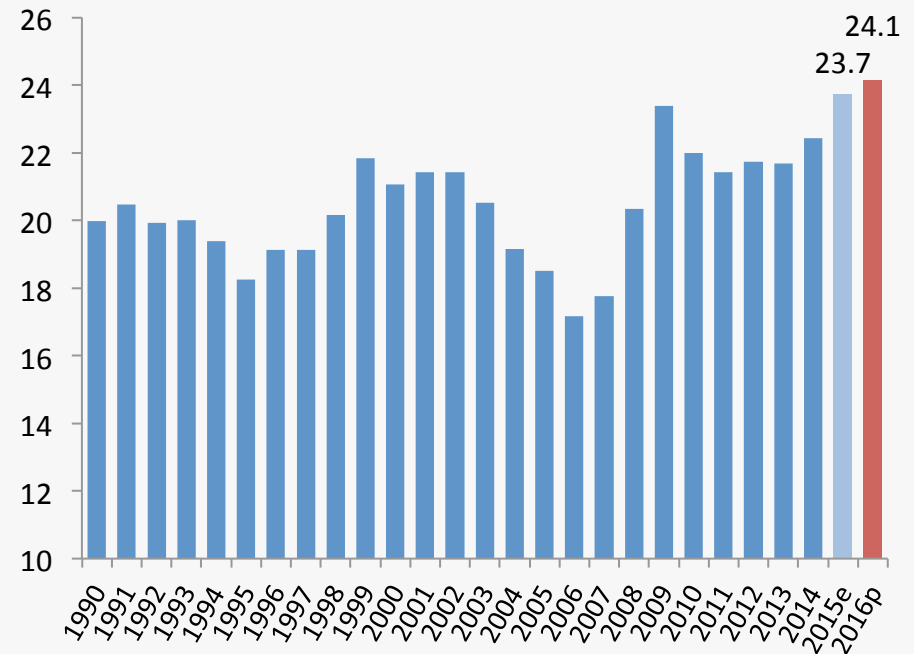


Public Expenditure

Public Expenditure
(Growth, %)



Public Expenditure
(% of GDP)

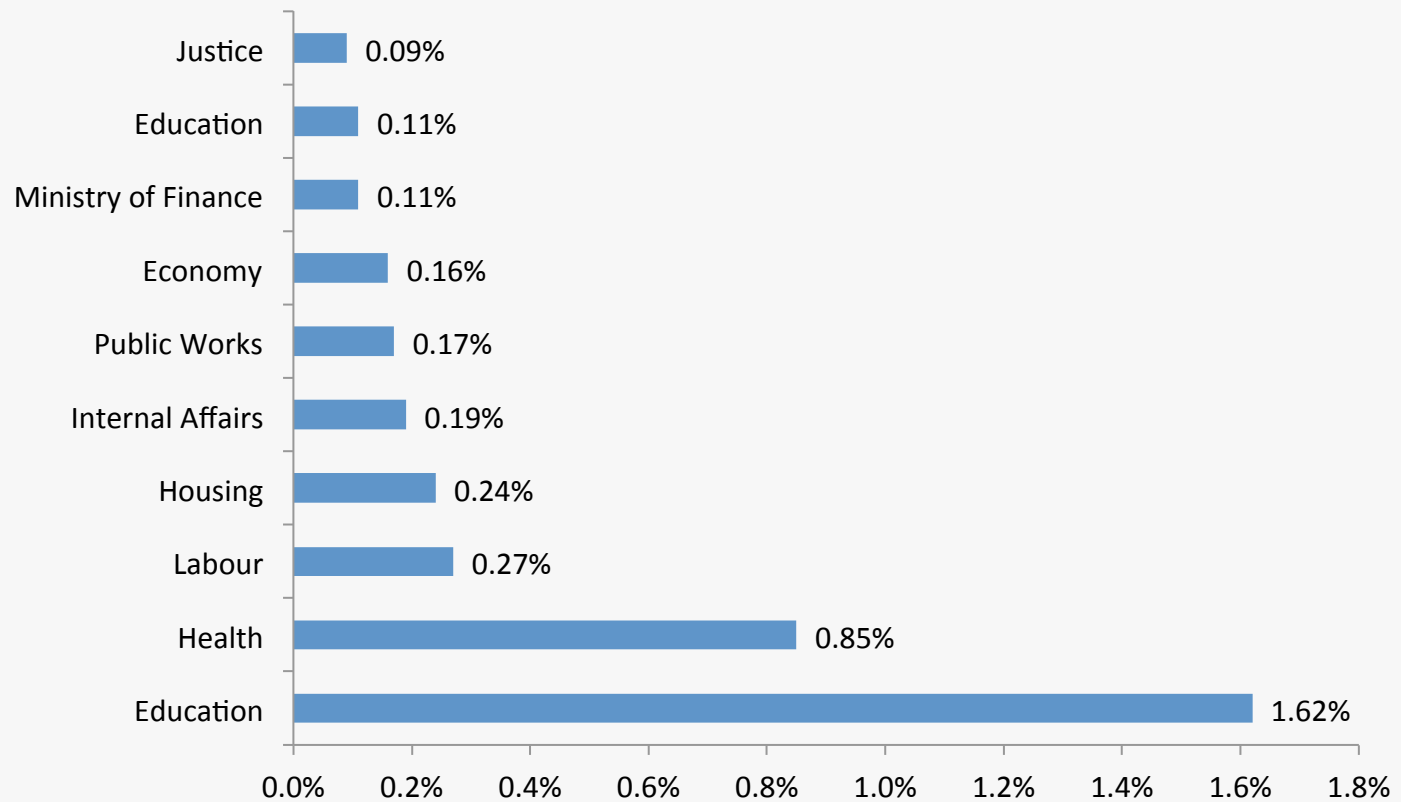




Budgetary Priorities

Total Public Expenditures Growth

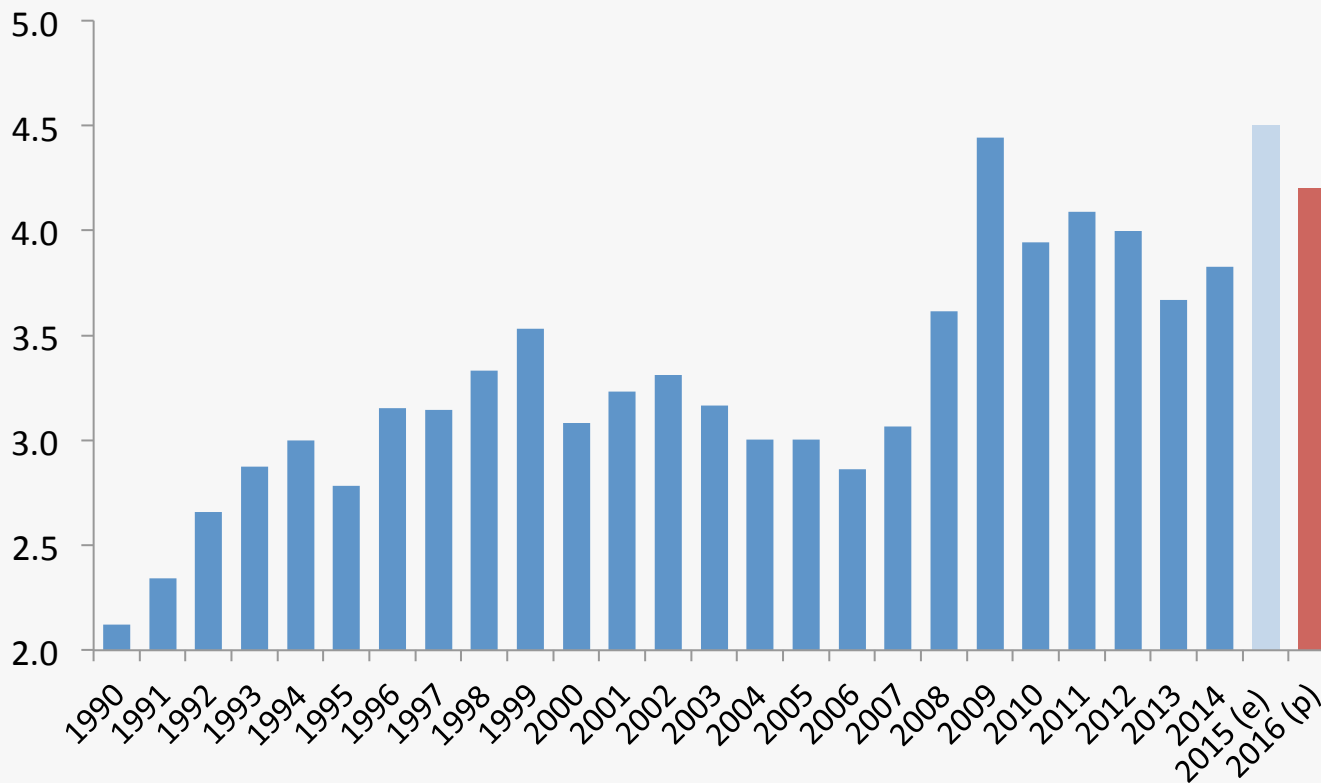
(Incidence into budget growth; Ministries with higher incidence)





Public Investment– ratio to GDP

Public Investment
(percentage of GDP)



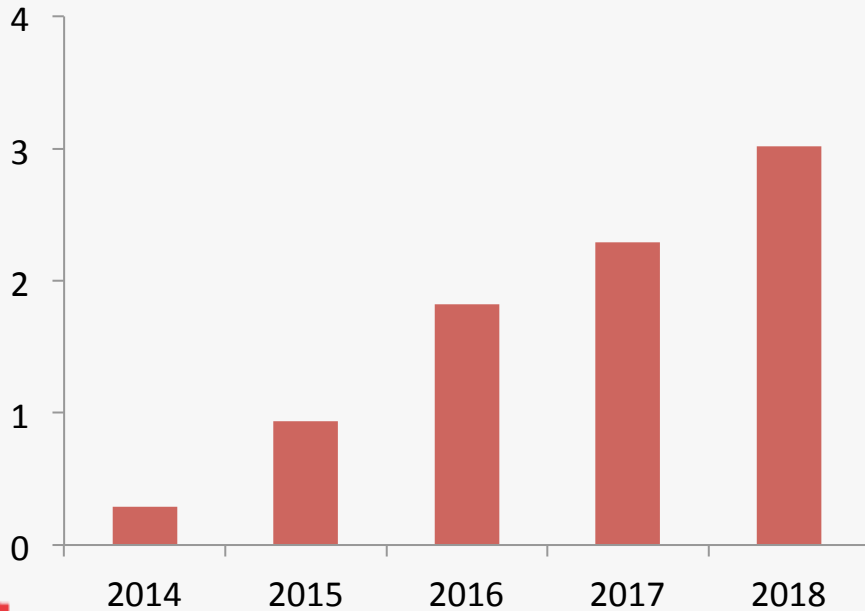
Note: Public Investment corresponds to investment spending plus capital transfer. (e): estimated. (p): 2016 budget bill.

Source: Budget Office.

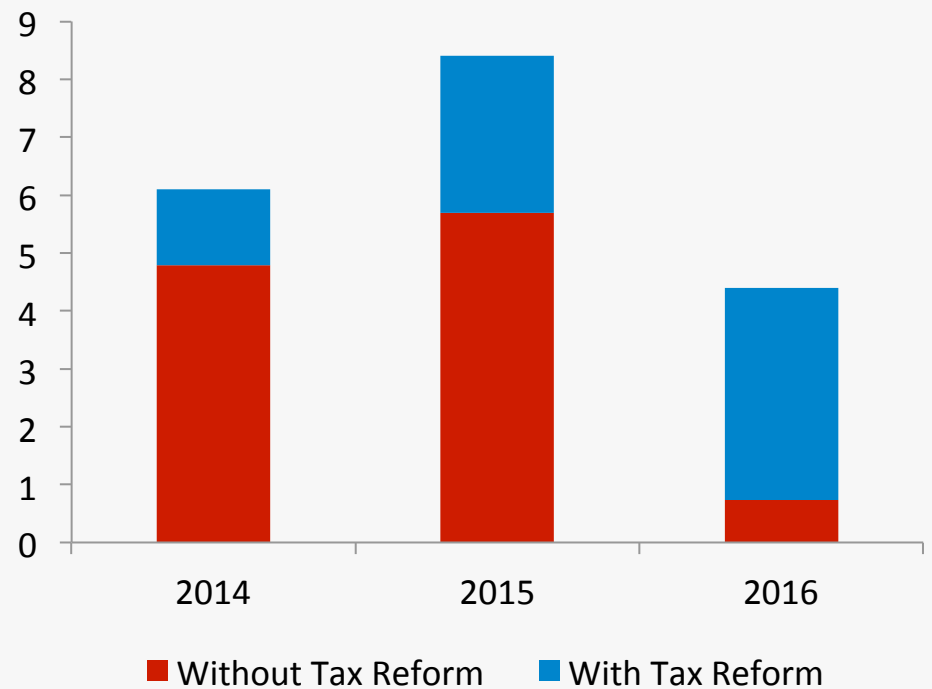


Tax Reform and Expenditure Growth

Tax Reform Collection
(percentage of GDP)



Public Expenditure
(annual change, percentage)



Source: Ministry of Finance



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets

Productivity and Long Term Growth

Better Markets and Democracy



Measures to Increase the Liquidity of the Financial Market

- Adjustment of currencies and terms structure of new debt issuances
- Incentives for the participation of foreign investors and removal of constraints
- Permanent program for repurchasing debt



Better Regulation and Supervision of the Financial Market

- Financial Stability Board (CEF)
- Securities and Insurance Commission
- Payment instruments
- General Banking Law



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets

Productivity and Long Term Growth

Better Markets and Democracy



Measures to Boost Productivity

- Productivity, Innovation and Growth Agenda
 - ✓ Strengthening market competition
 - ✓ Fostering innovation and entrepreneurship (CORFO)
 - ✓ Supporting SME
 - ✓ Strategic Investment Fund
 - ✓ National Commission on Productivity
- Quality of Human Capital
- Modernization of labor relations



Agenda

Macroeconomic Outlook

Adjustment to the New External Scenario

Structural Balance Policy and Fiscal Strategy

Budget Priorities

Financial Markets for Development

Productivity and Long Term Growth

Better Market and Democracy



Agenda of Transparency and Probity in Business and Politics

- Prompt and adequate response to scandals
- 14 administrative measures
- 21 legal initiatives



Agenda of Transparency and Probity in Business and Politics

- Securities and Insurance Commission
- Prevention and sanction of conflicts of interest
- Transparency in land market transactions
- New responsibilities for market agents
- Creation of the General Office of PPA



Agenda of Transparency and Probity in Business and Politics

- Improvement of Public Servant Hiring system
- New financing scheme for politics



Chilean Economy Outlook and Perspectives



Council of America, New York
October 30th, 2015