

# On the way to reach GDP growth between 3.5% and 4.5% in 2022

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January 2022



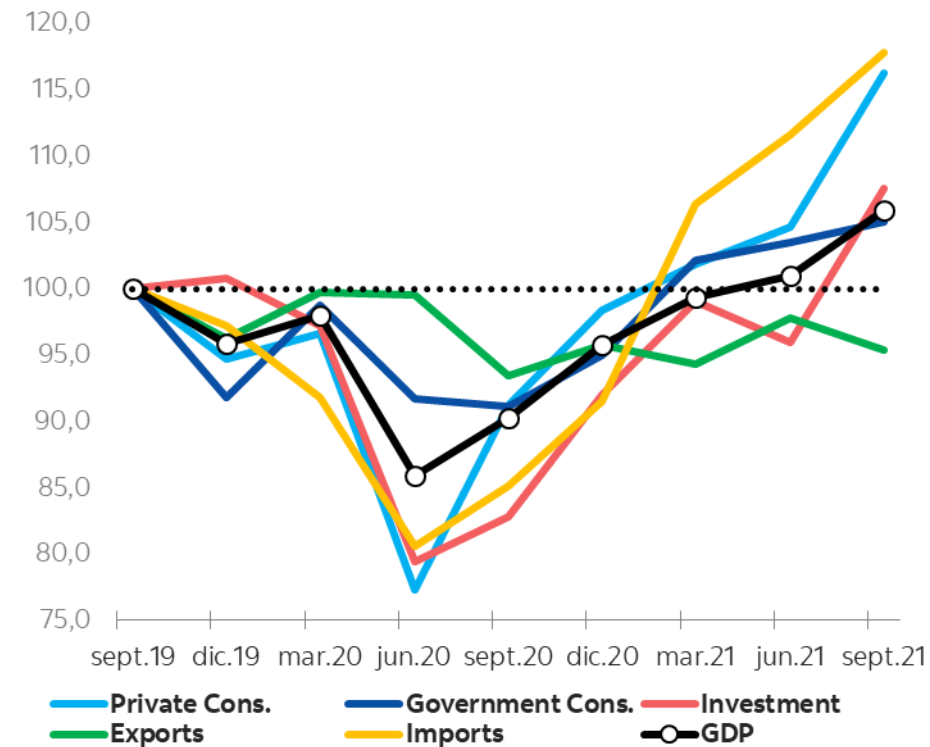
## Key messages

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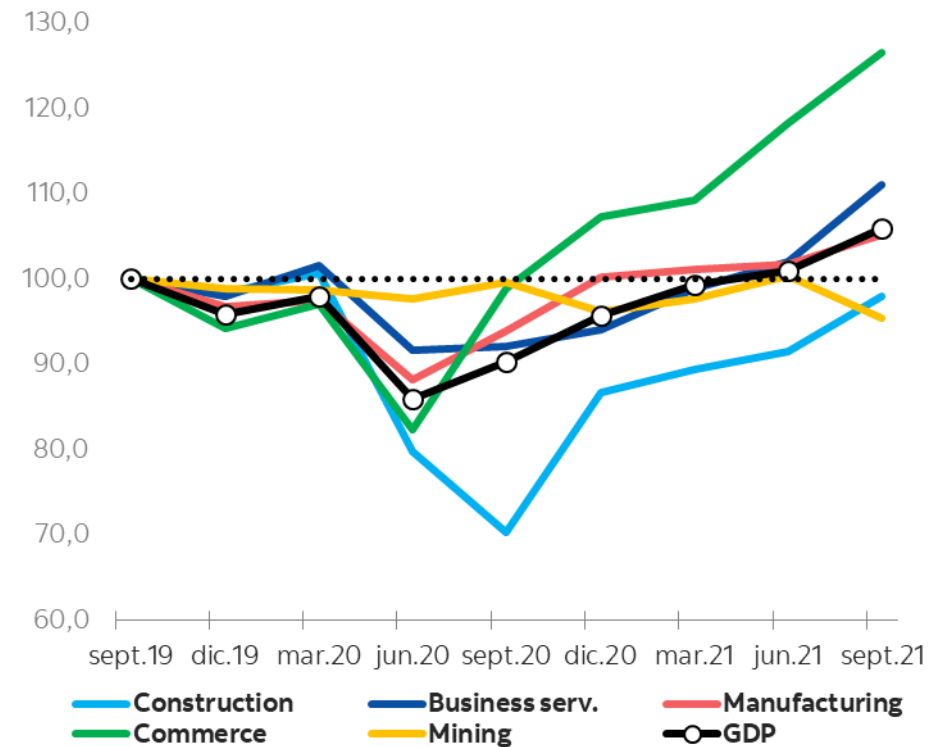
- **The momentum of the economy is very positive entering into 2022.** The high liquidity in households' pockets, a sustainable recovery in labor market and the possible approval of the Universal Pension would allow a less abrupt adjustment in private consumption. **Even though, we are considering a mild technical recession during 1Q22 and 2Q22.** Political conditions/announcements will be key determinant of the performance of the economy during the second half of 2022. **For now, we forecast GDP growth between 3.5-4.5% in 2022, above consensus (2.0%).**
- **Portfolio of investment projects will continue to increase in the coming quarters. Contrary to the Central Bank's baseline scenario, we estimates a slight increase of the total investment between 2-3%.**
- **Purchases with credit and debit cards reaching new fresh highs in December. We forecast Retail Sales expanding 19% y/y in December and between 15-20% y/y in January 2022. Banking credit to medium and large firms recovering dynamism slowly.**
- **For December, we are expecting a monthly GDP growth between 10-11% y/y. So, the economy would have expanded 12% in 2021, in the upper part of Central Bank's scenario.**
- **Central Bank will increase the benchmark rate by "at least" 125 bp. in January's meeting. Monetary Policy Rate would reach 6.0 to 6.5% in the first half of the year.**
- **Even with unfavorable signals from the political field, the Chilean peso (CLP) will not exceed CLP 880: interest rate spread and an active Central Bank's FX policy, will deter major multilateral depreciation. If the price of copper remains at its current level and the Fed's tapering is gradual, idiosyncratic factors will drive an appreciation of the CLP towards the 750-800 by the end of 2022.**

# GDP surpass pre-Covid levels in 2021Q3 led by private consumption and investment. By sector, commerce is the most dynamic sector, followed in the margin by investment related services and construction.

**Level of GDP by expenditure**  
(index, Sep.2019=100, seasonally adjusted series)



**Level of GDP by sector**  
(index, Sep.2019=100, seasonally adjusted series)

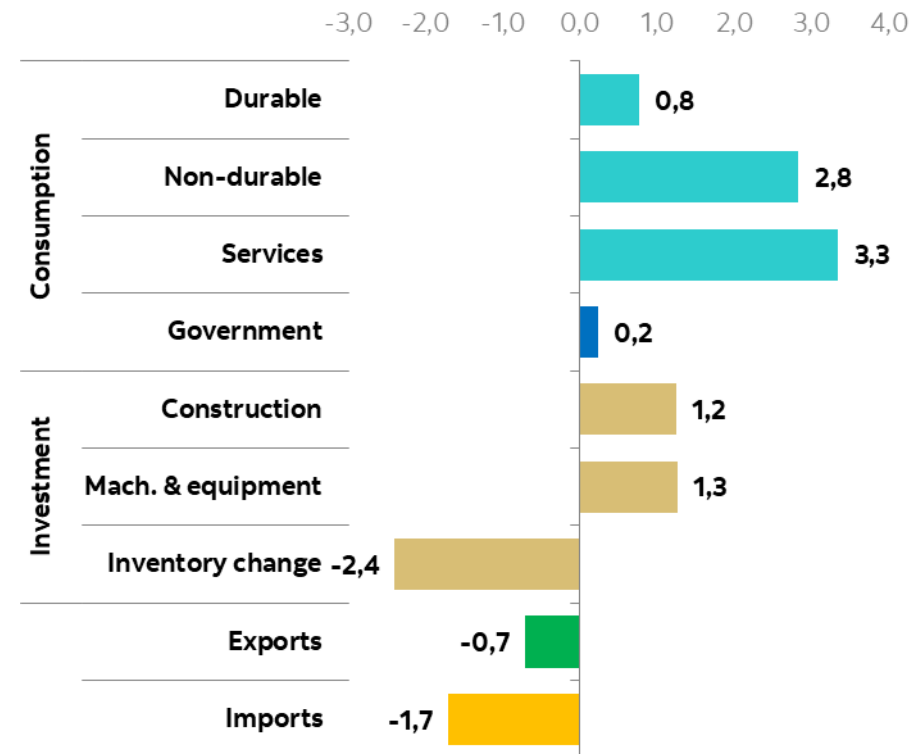


Source: Central Bank, Scotiabank Economics

# Recovery of GDP in Q3 led by consumption of services, non-durable goods and investment. Service sectors supporting GDP in last quarter.

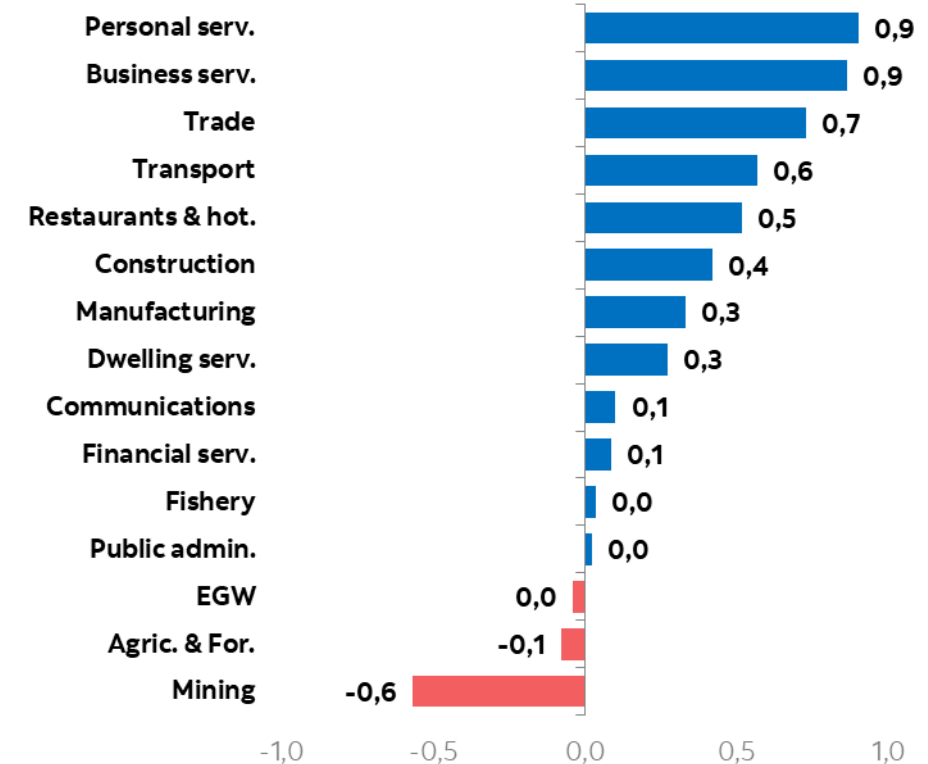
## Contribution to QoQ GDP growth in Q3 2021

(percentage points, contribution to 2021Q3 GDP growth, SA)



## Contribution to QoQ GDP growth in Q3 2021

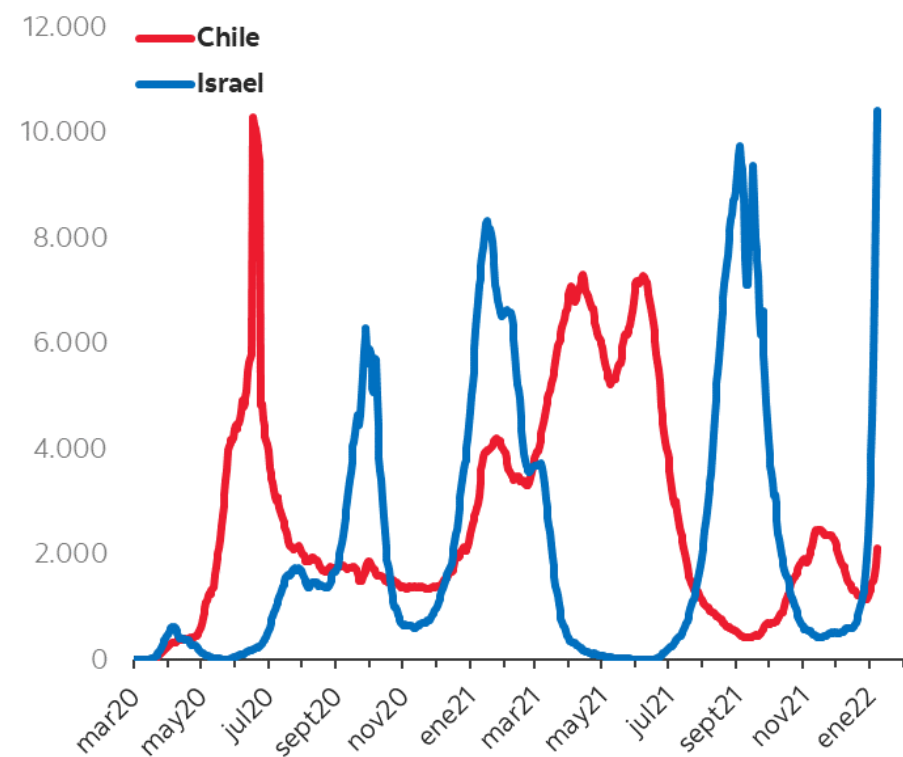
(percentage points, contribution to 2021Q3 GDP growth, SA)



# Rebound in new COVID-19 cases (Omicron), but ICU-bed occupancy remains at lows.

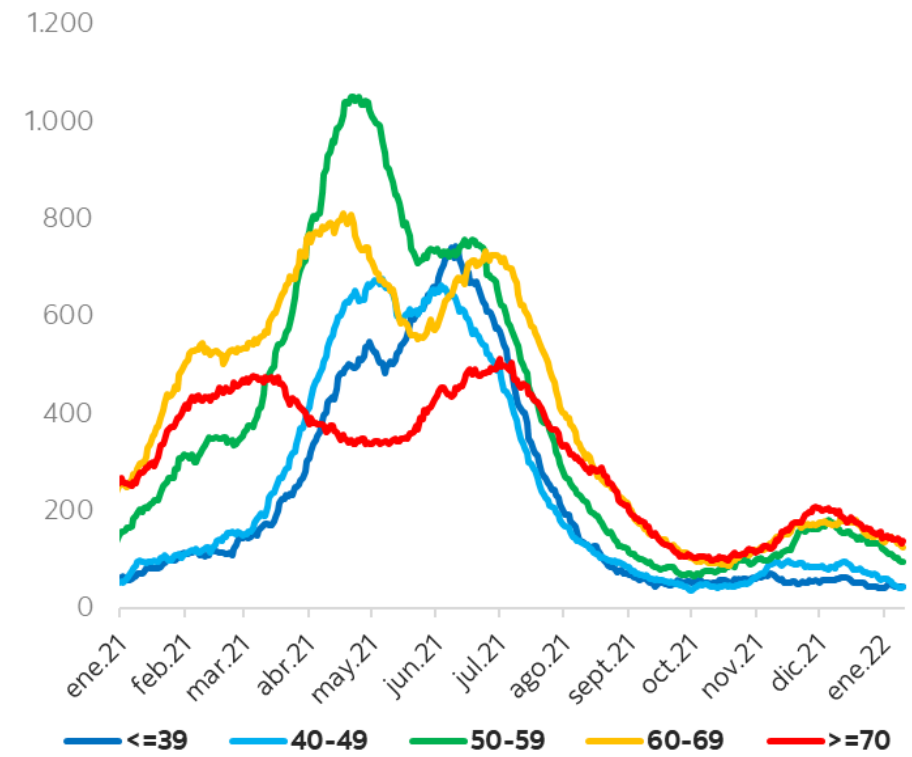
## New cases COVID-19 in Chile & Israel

(number of new cases per day, 7-day mov. avg., up to January 9)



## ICU-bed occupancy by age

(beds by age group, up to January 9)

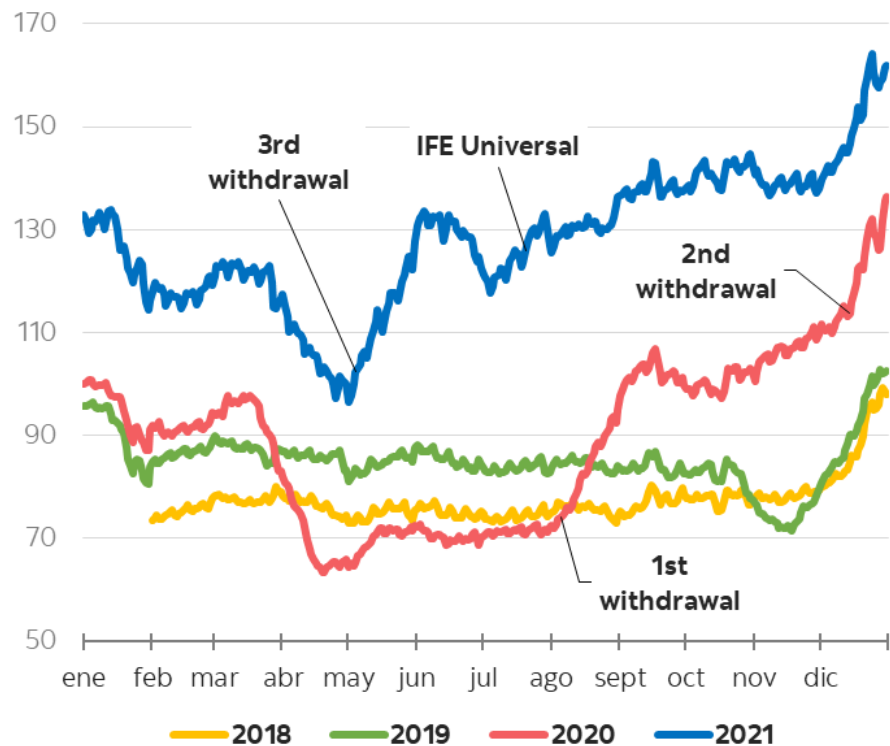


Source: WHO; Ministerio de Salud, Scotiabank Economics

Liquidity is normalizing after the rejection of the fourth pension fund withdrawal. **There is still USD 18 billion in checking and debit accounts that will allow a smooth deceleration of private consumption.**

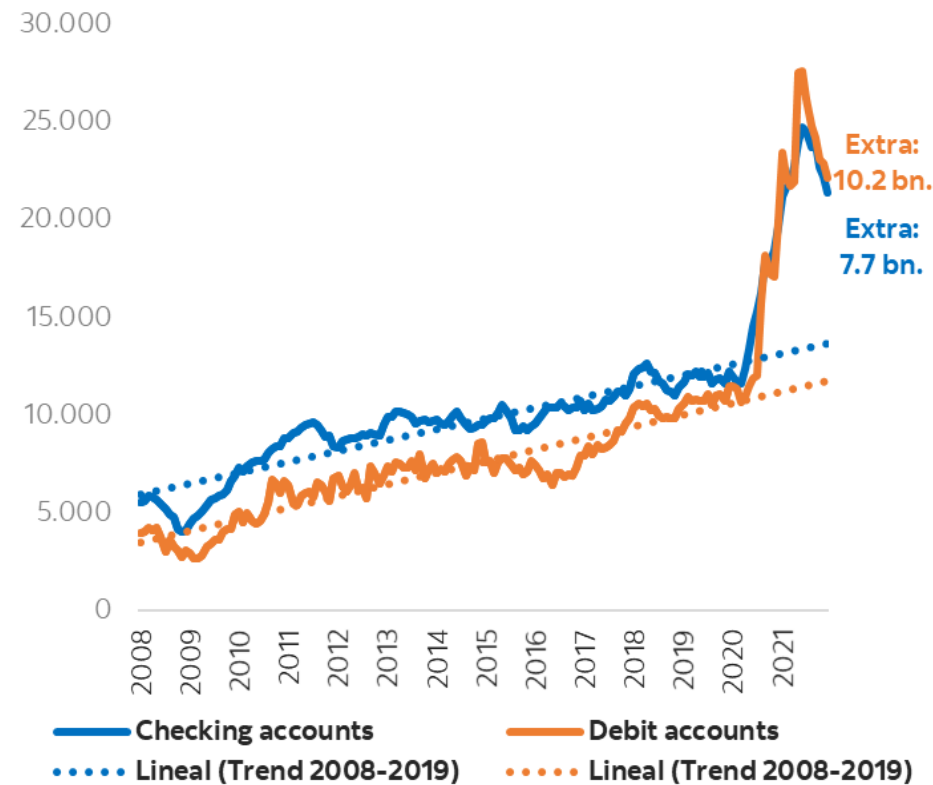
### Level of purchases (debit cards)\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to October 31)



### Liquidity in non-remunerated accounts

(millions of USD, natural persons, as of Oct. 2021)

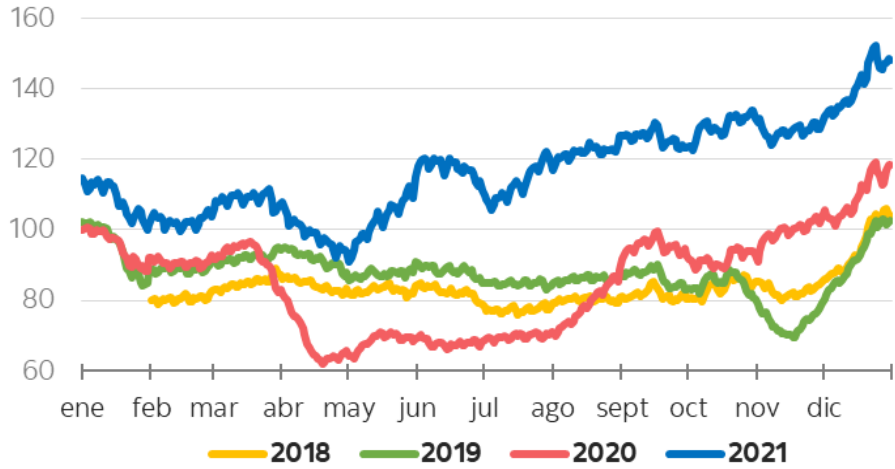


\* Data show purchases with Transbank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index (1-Jan-2020=100).  
Source: Scotiabank Economics

# Superb performance in Department Stores and stabilization in Supermarkets.

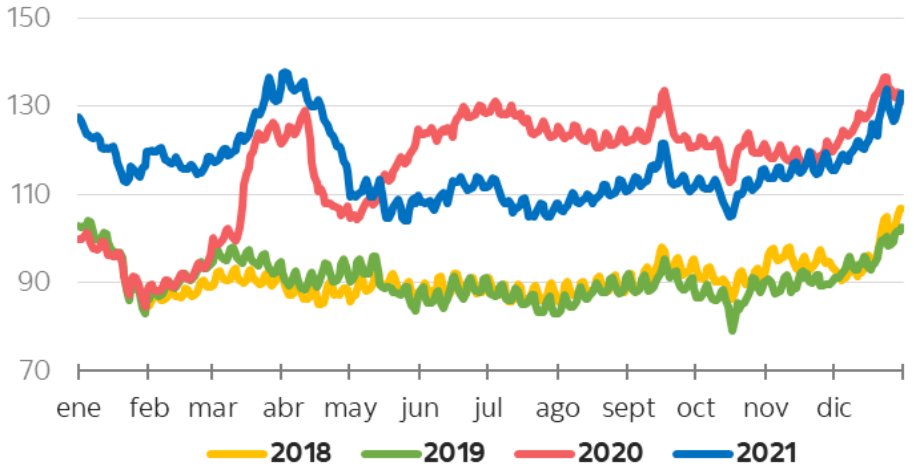
## Total purchases\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



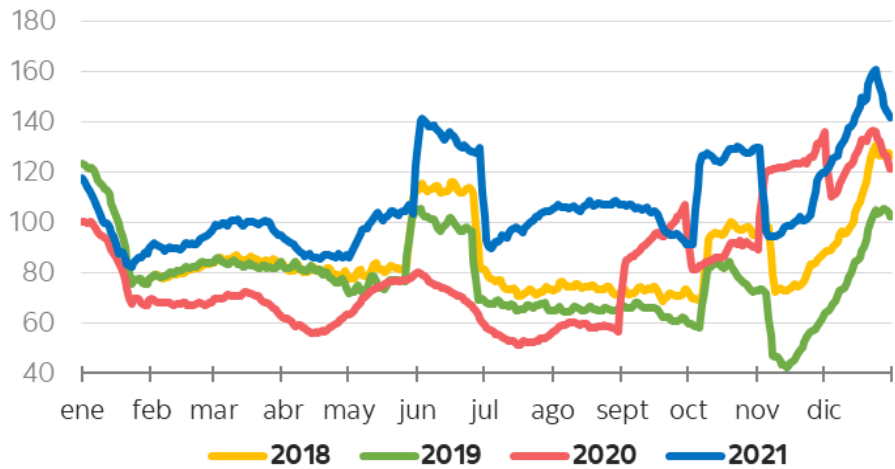
## Supermarkets\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



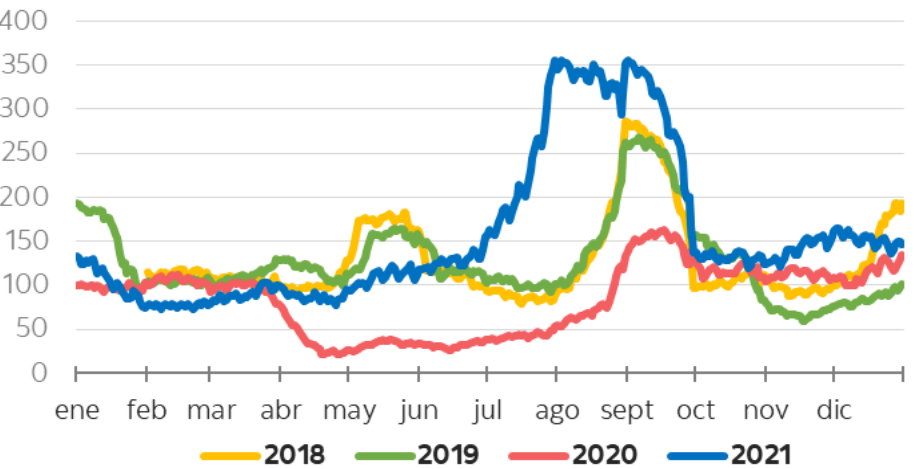
## Department stores\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



## Vehicles\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)

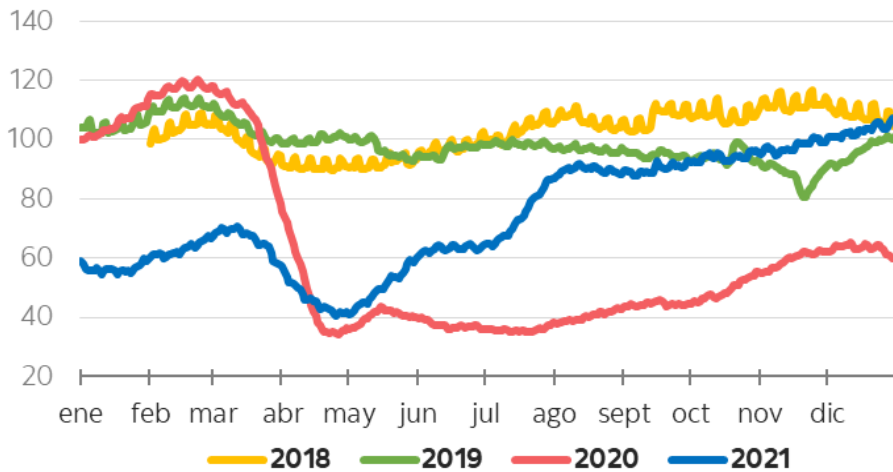


\* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index. Source: Scotiabank Economics

# Services (specially, restaurants and travels) show greater dynamism.

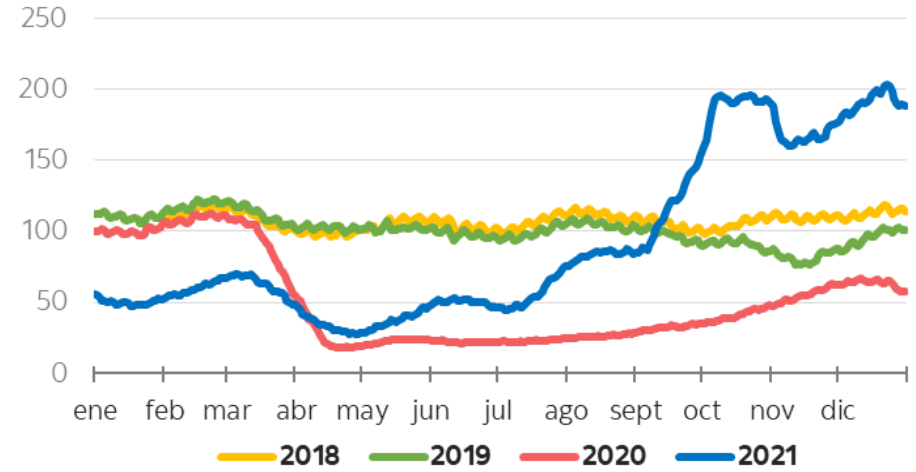
## Fuels\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



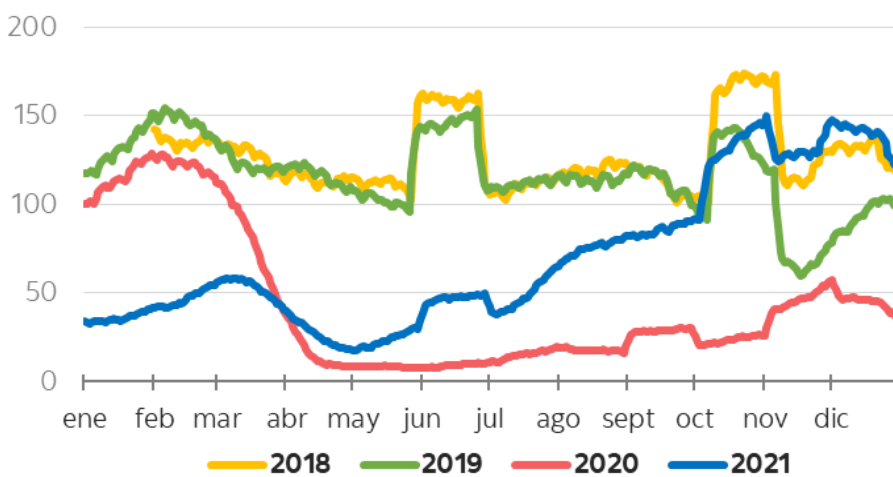
## Restaurants\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



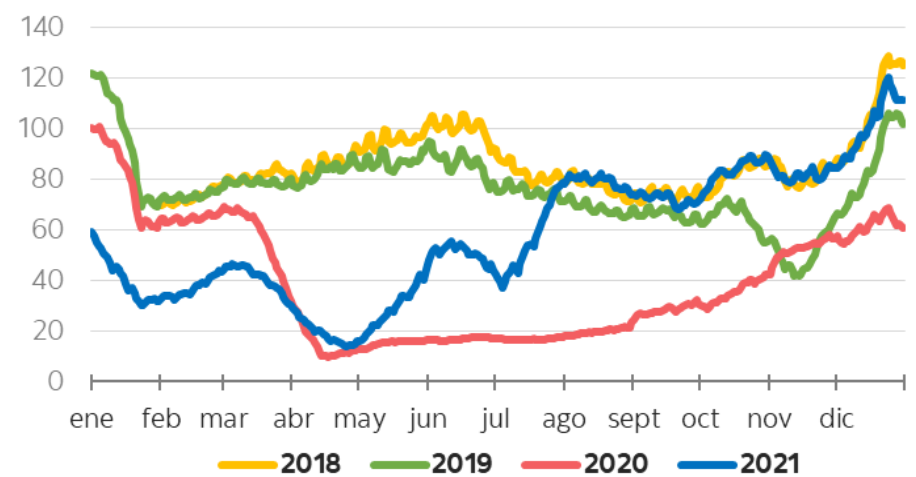
## Tourism travel\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



## Clothing and footwear\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Dec. 31)



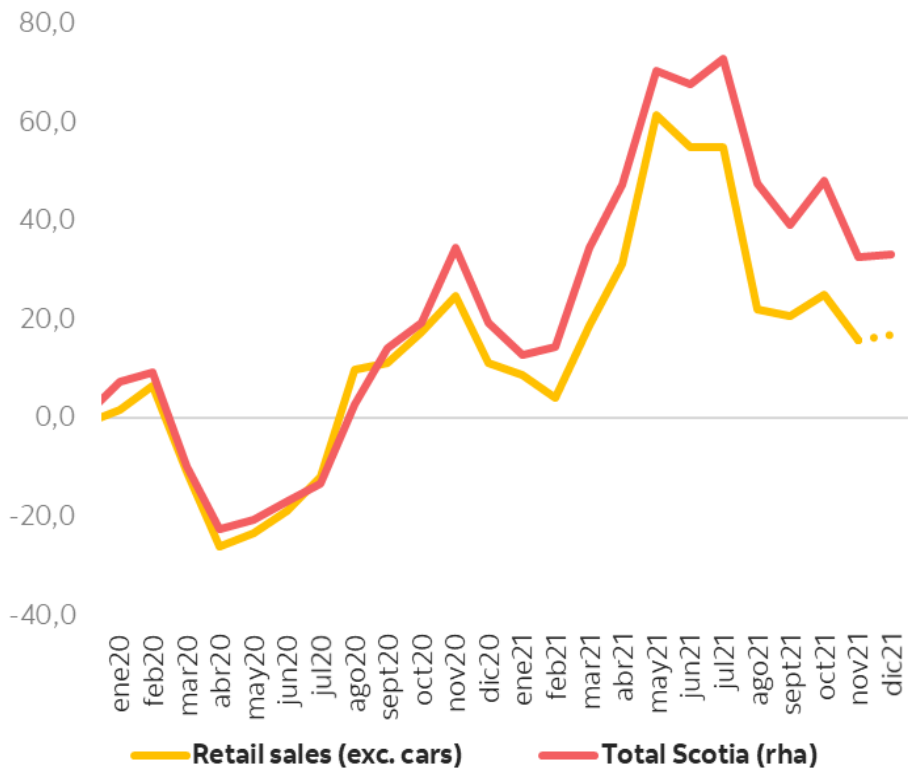
\* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index.  
Source: Scotiabank Economics



# Retail sales: we forecast an expansion of 19% y/y in December. New car sales reached a new high for the month (40,776 units).

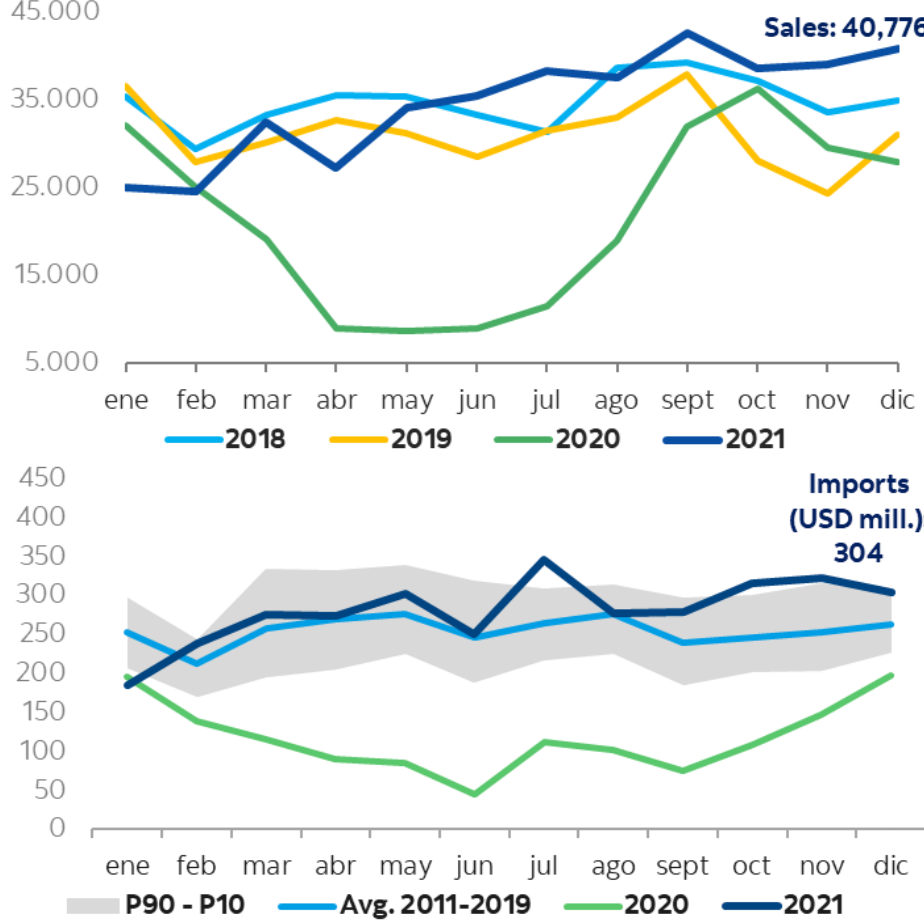
## Retail sales (INE) vs Transactional data\*\*

(percentage, annual growth)



## New cars: sales & imports

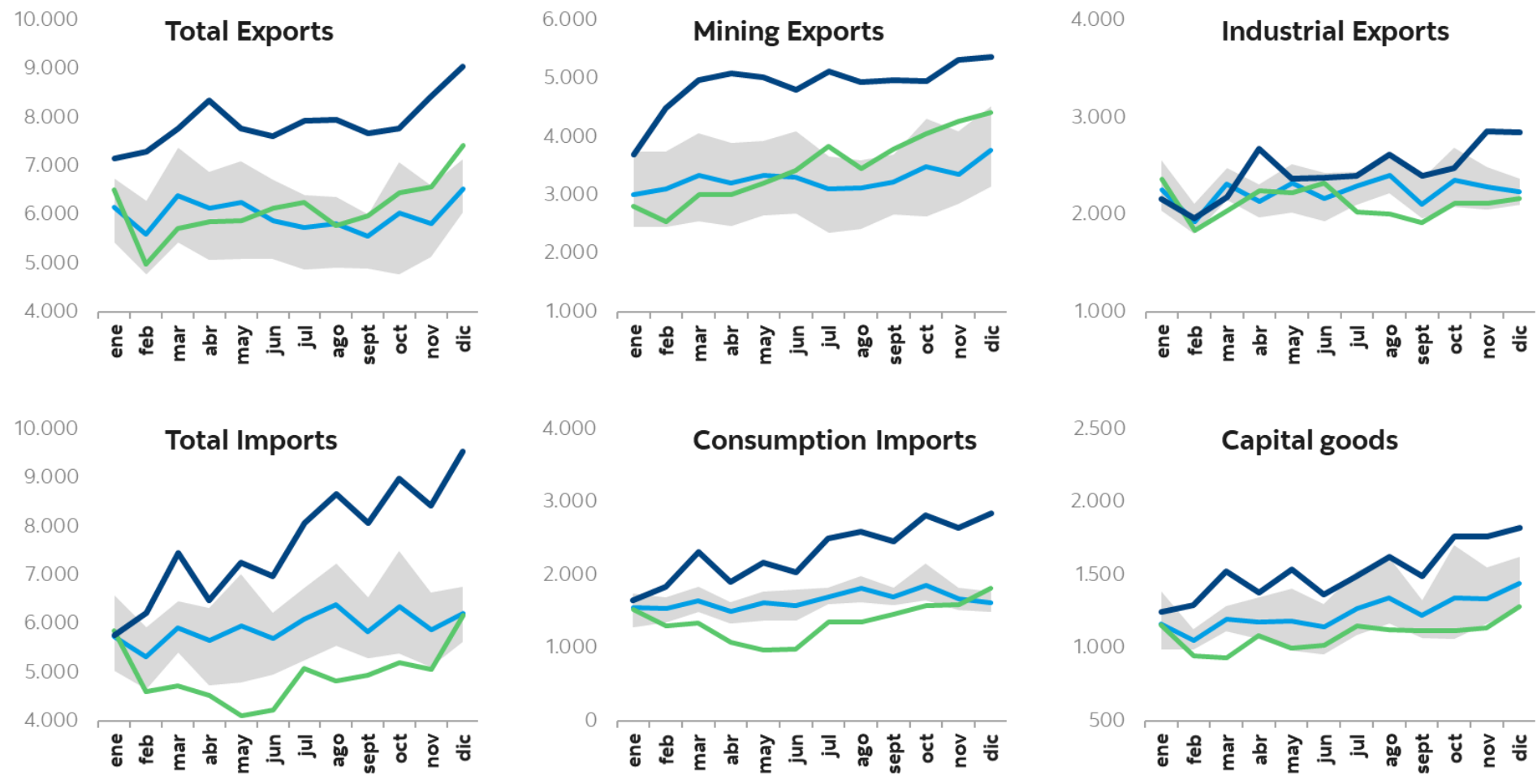
(Sales: units per month; Imports: USD millions)



\*\* This figure compares the INE's monthly retail sales indicator with our data on total purchases with credit & debit cards reported in previous slides.  
Source: National Bureau of Statistics (INE), ANAC, Central Bank, Scotiabank Economics

# Strong recovery in exports. Inventory replenishment continues and capital goods imports remain solid.

**Monthly flow of Exports and Imports**  
(level, USD millions per month)



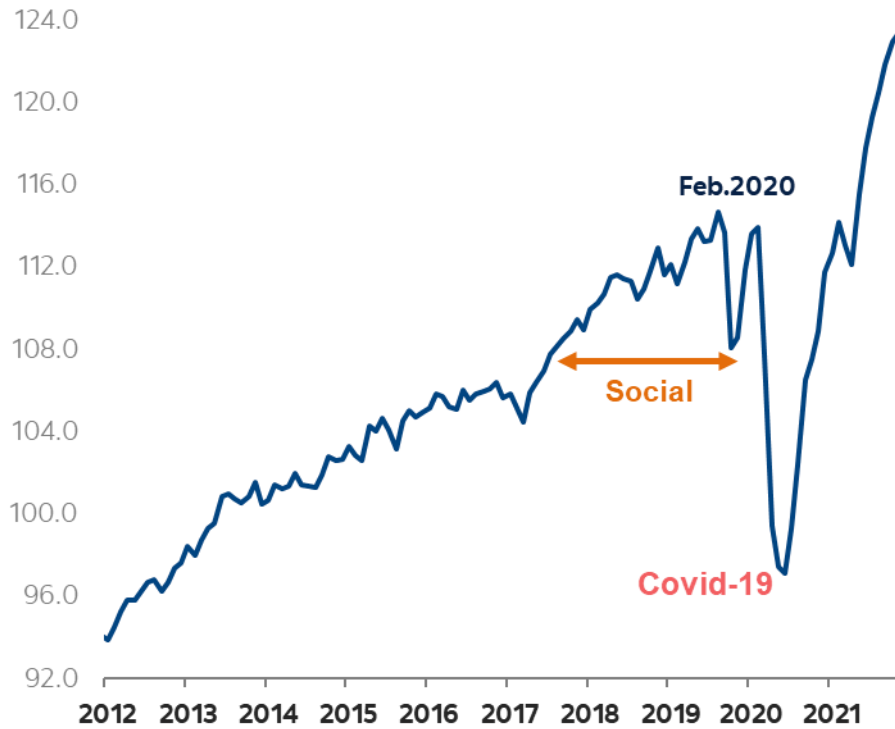
P90 - P10
  Avg. 2011-2019
  2020
  2021

P90 and P10 represent the 90th and 10th percentile.  
Source: Central Bank, Scotiabank Economics

Imacec expanded 14.3% y/y in November (0.3% m/m) driven by services. **GDP growth will reach 12% in 2021 and 3.5-4.5% in 2022.** We estimate that Imacec expanded 10-11% y/y in December.

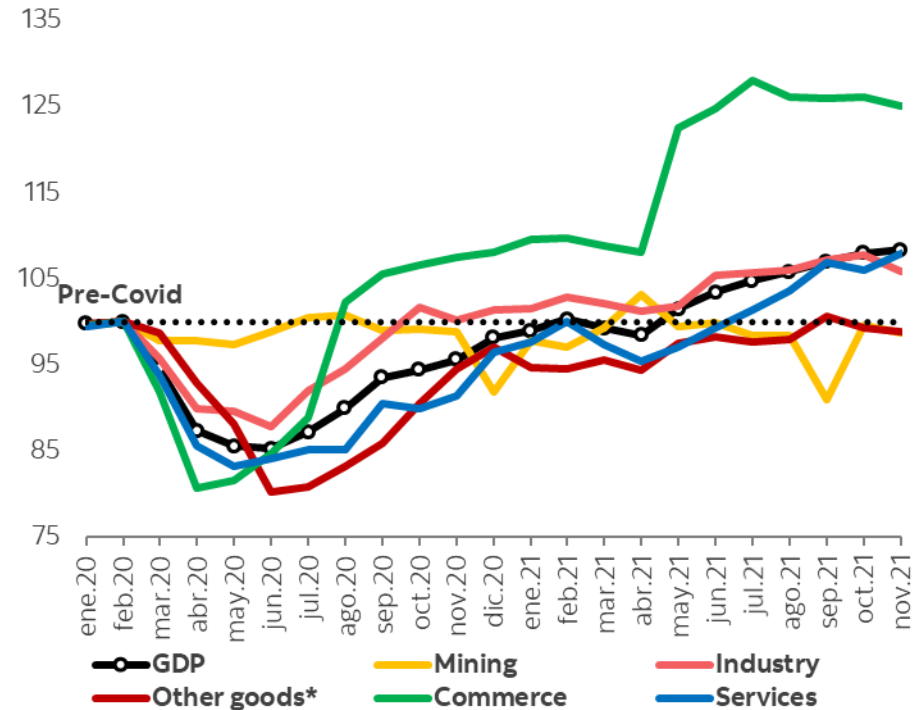
### GDP level

(level, 2013=100, seasonally adjusted, monthly data)



### GDP level by sector

(index, February 2020=100, monthly data)



**Short run forecasts:  
growth of monthly GDP**

**October-21**

**November-21**

**December-21(f)**

**Imacec (% y/y)**

15.0%

14.3%

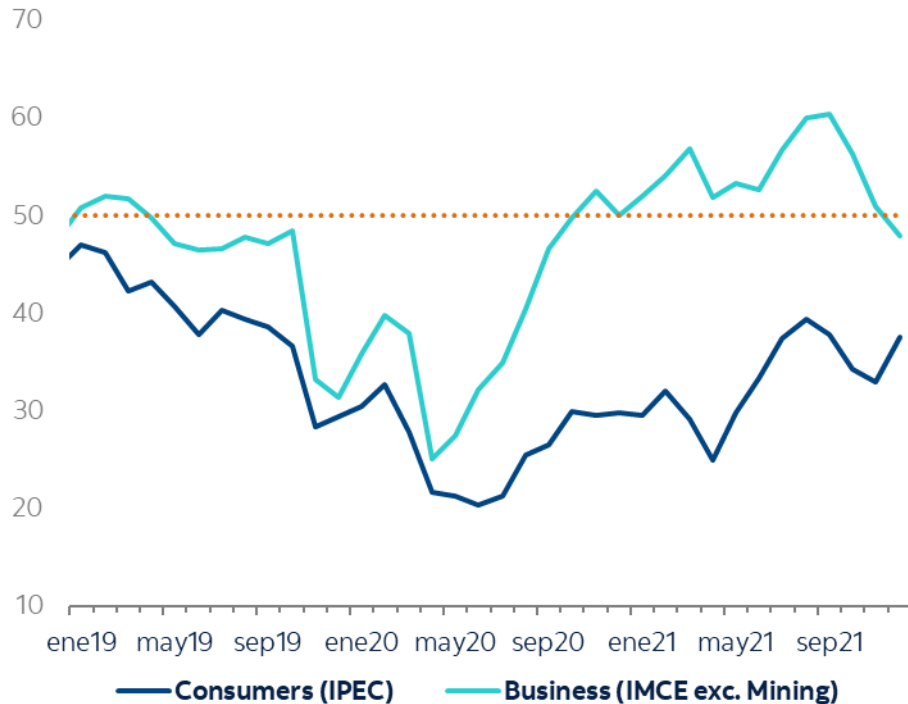
**10-11%**

Source: Central Bank, Scotiabank Economics

# Decline in confidence indicators in December. **Market consensus and Central Bank's baseline scenario anticipates a GDP expansion of 2.0% for 2022.**

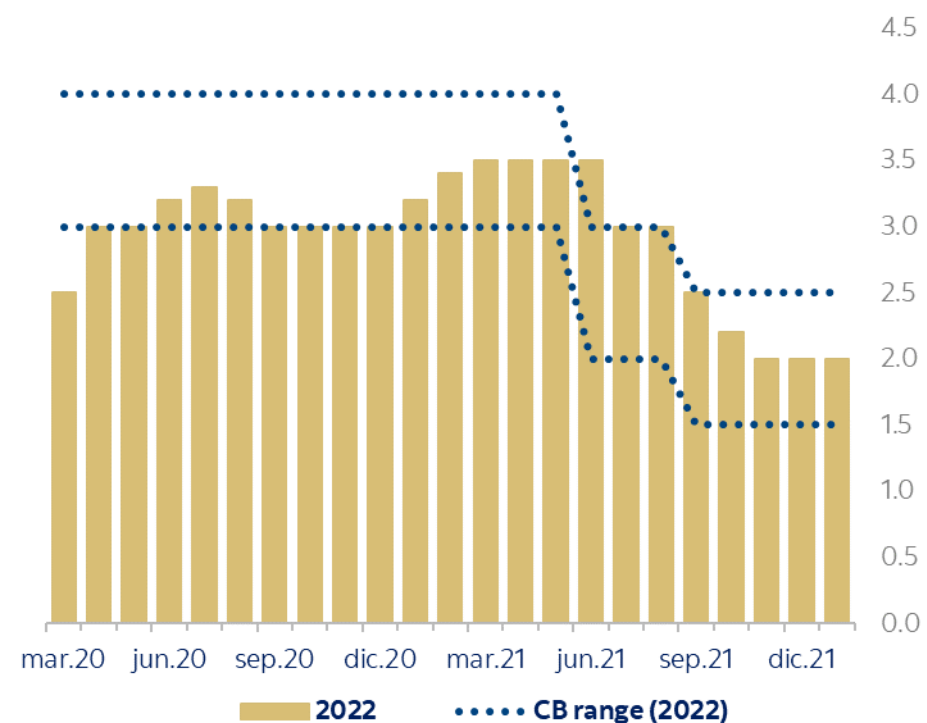
## Business confidence: optimistic levels

(level, 50=neutral)



## GDP expectations for 2022

(%, y/y, EES\*)

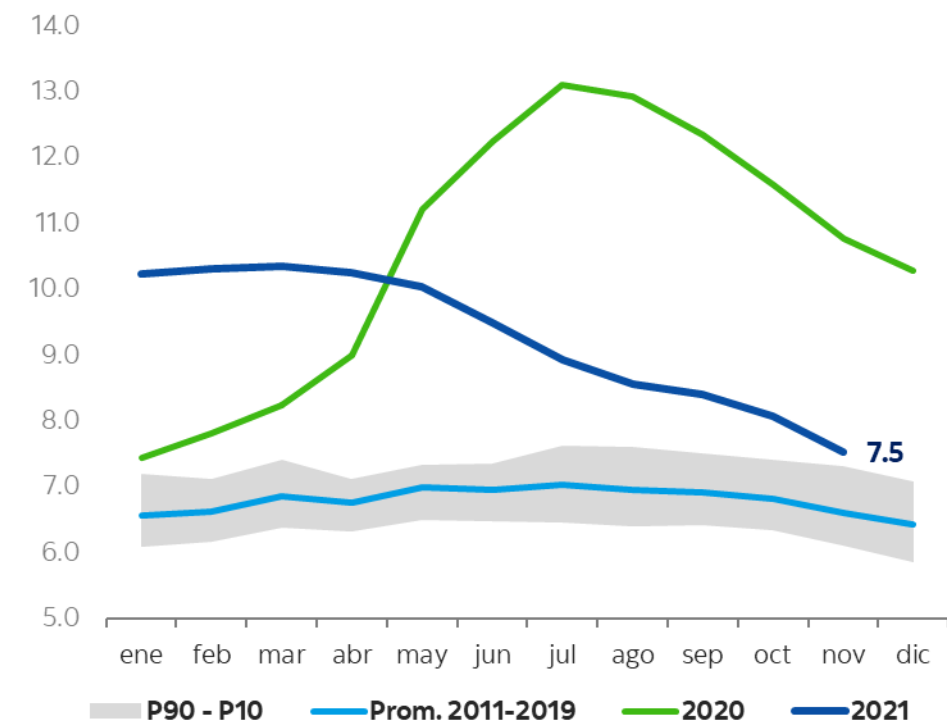


\* EES: Economic Expectations Survey (EEE in spanish).  
Source: Central Bank, Scotiabank Economics

Unemployment rate falls to 7.5% due to a higher growth in employment (1.2% a/a) compared to that observed in the workforce (0.6%). **The employment gap compared to the pre-pandemic level fell to 505k, of which 289k corresponds to formal jobs and 216k to informal jobs.**

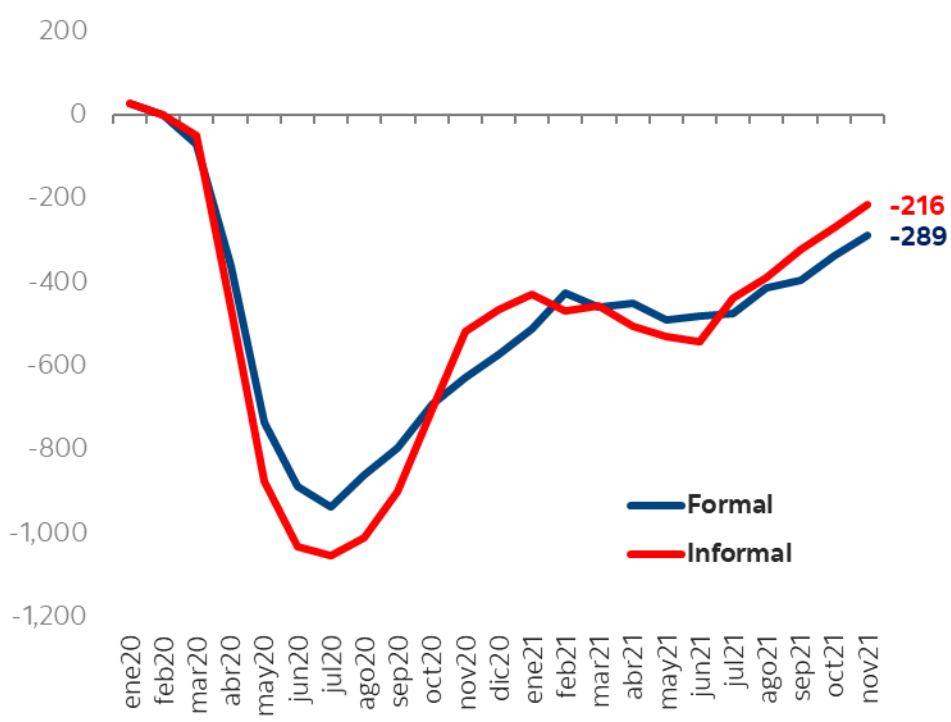
## Unemployment rate

(percentage)



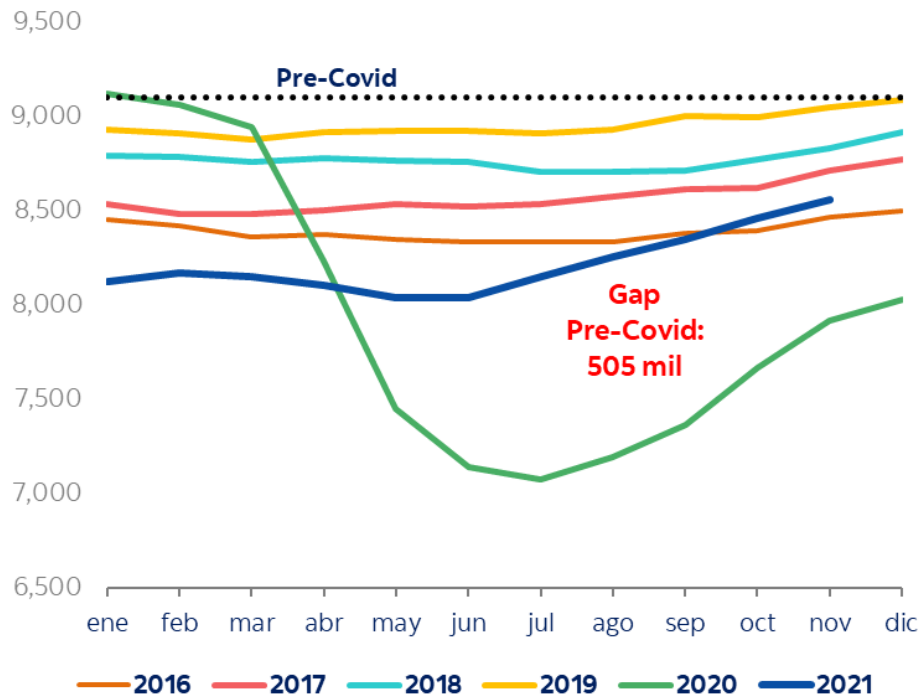
## Gap of employment

(thousands of people per month, diff. wrt Feb.2020)

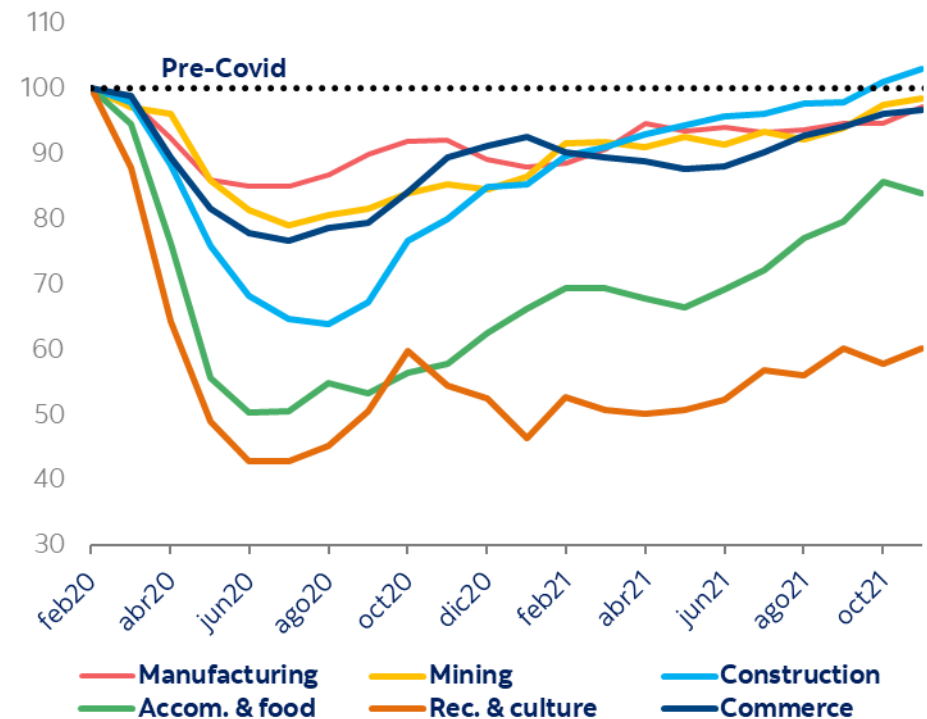


# The employment gap with respect to the pre-pandemic levels decreased to 505k. By economic sector, we highlight the dynamism in the construction sector, which surpassed its pre-COVID-19 level.

**Level of employment**  
(thousands of people per month)



**Level of employment by sector**  
(index, pre-Covid level of Feb.2020=100)

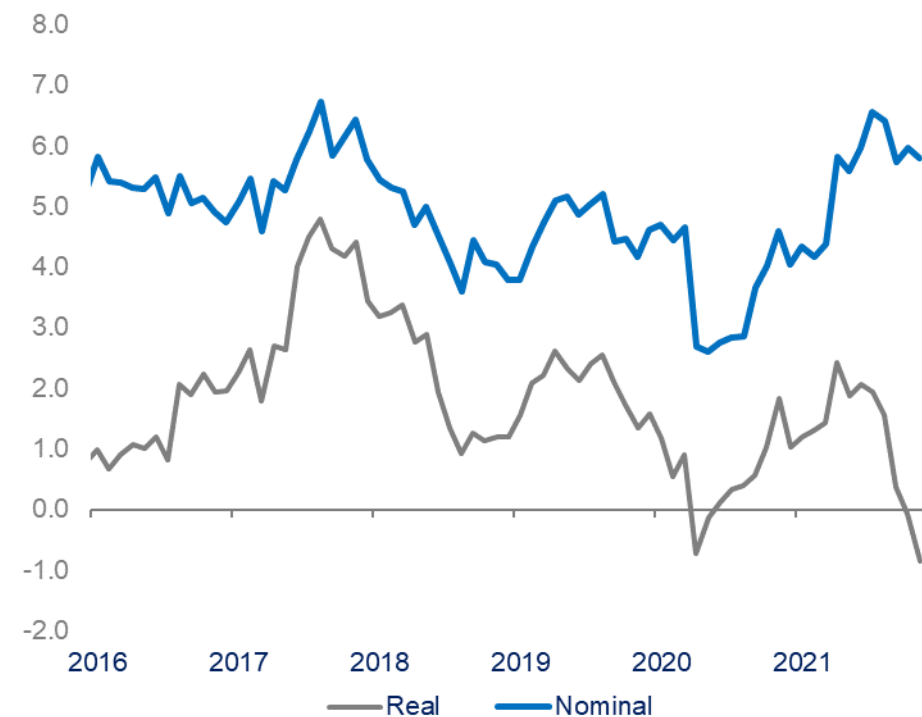


Source: National Bureau of Statistics (INE), Scotiabank Economics

**Despite the increase in nominal wages (0.4% m/m), real wages decreased 0.1% m/m in November, due to the recent inflation figures. Slowdown in real labor incomes.**

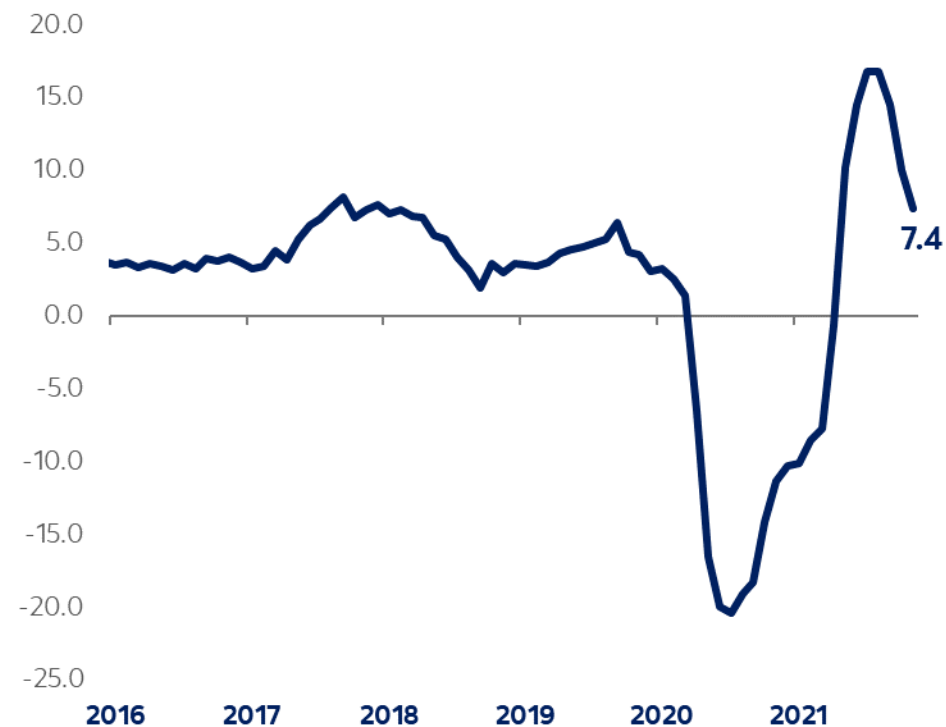
## Wages

(percentage, annual change)



## Labor income

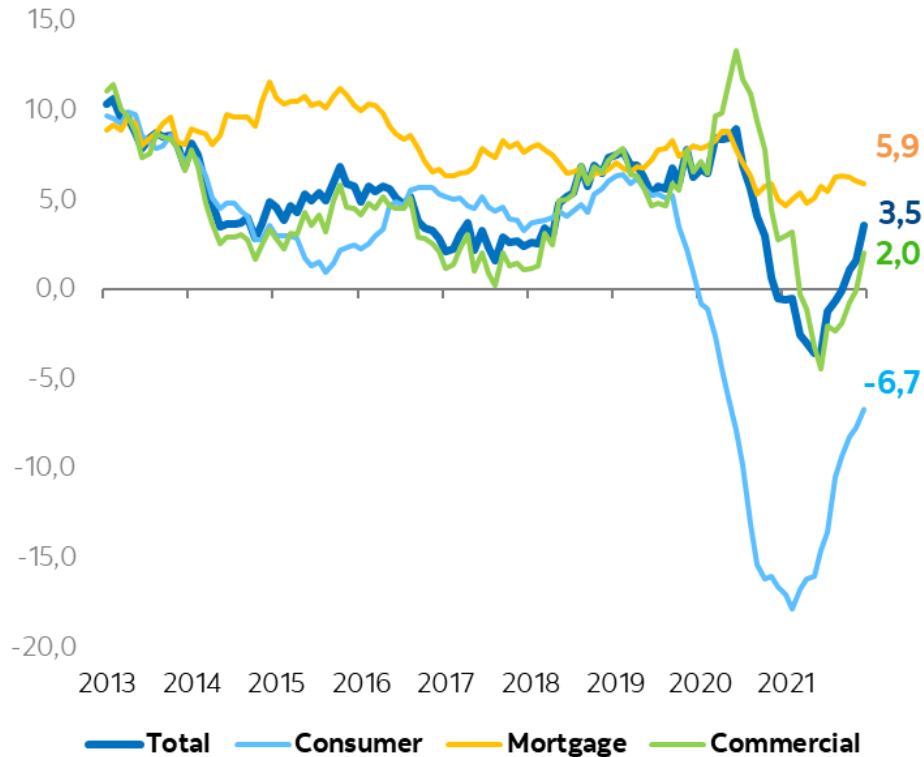
(percentage, real annual change)



# Banking credit slowly recovers dynamism.

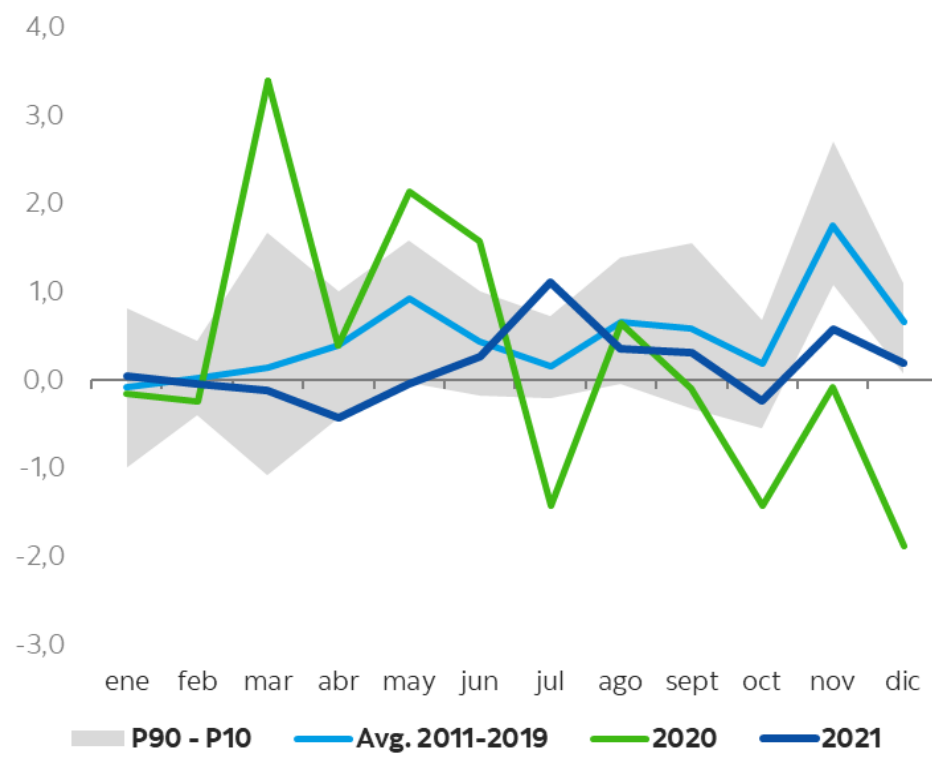
## Loans by segment

(percentage, real annual growth)



## Monthly dynamism of commercial loans

(percentage, real monthly growth)



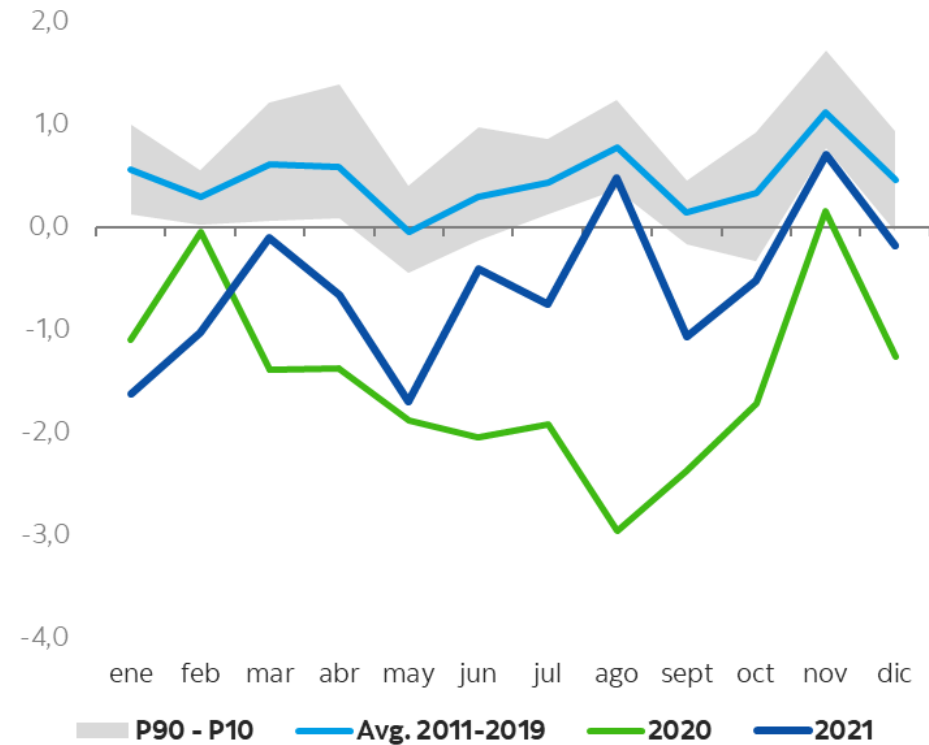
Source: Central Bank, Scotiabank Economics



# Unsecured consumer loans show seasonal weakness in December while mortgage loans remain solid.

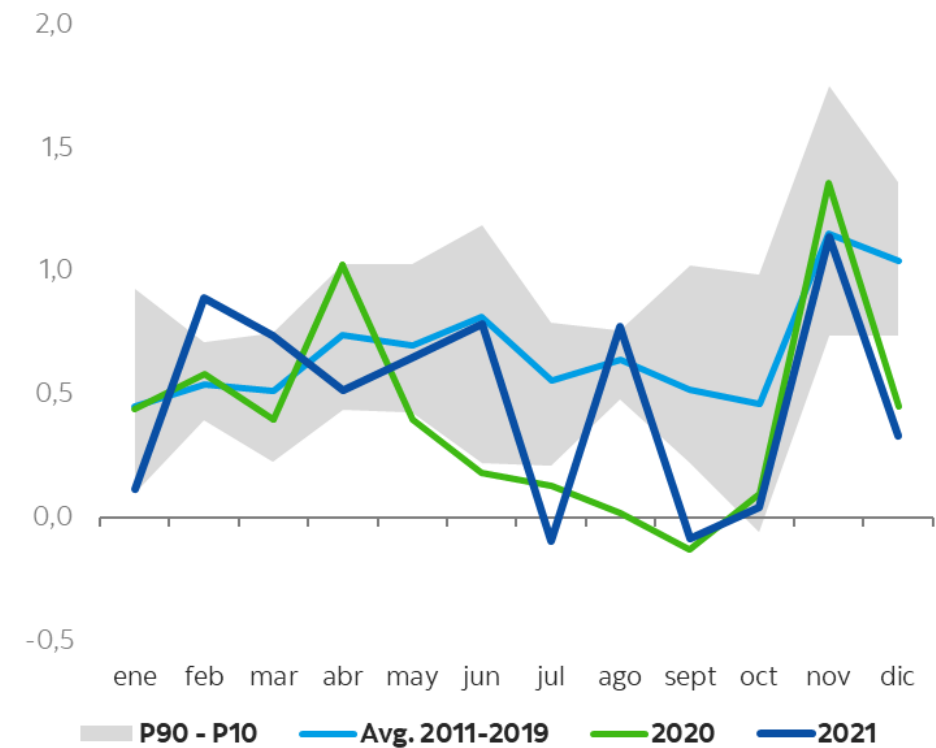
## Monthly dynamism of consumer loans

(percentage, real monthly growth)



## Monthly dynamism of mortgage loans

(percentage, real monthly growth)

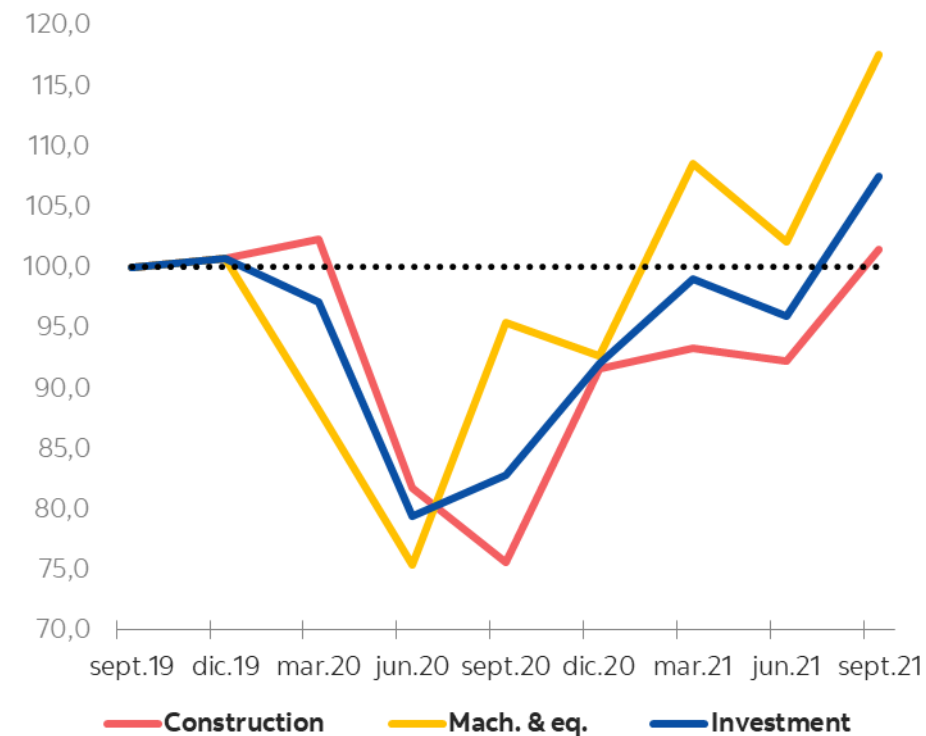


Source: Central Bank, Scotiabank Economics

# Investment components recovered pre-Covid levels. Rapid recovery of the M&E component and normalization in Construction due to the opening of the economy.

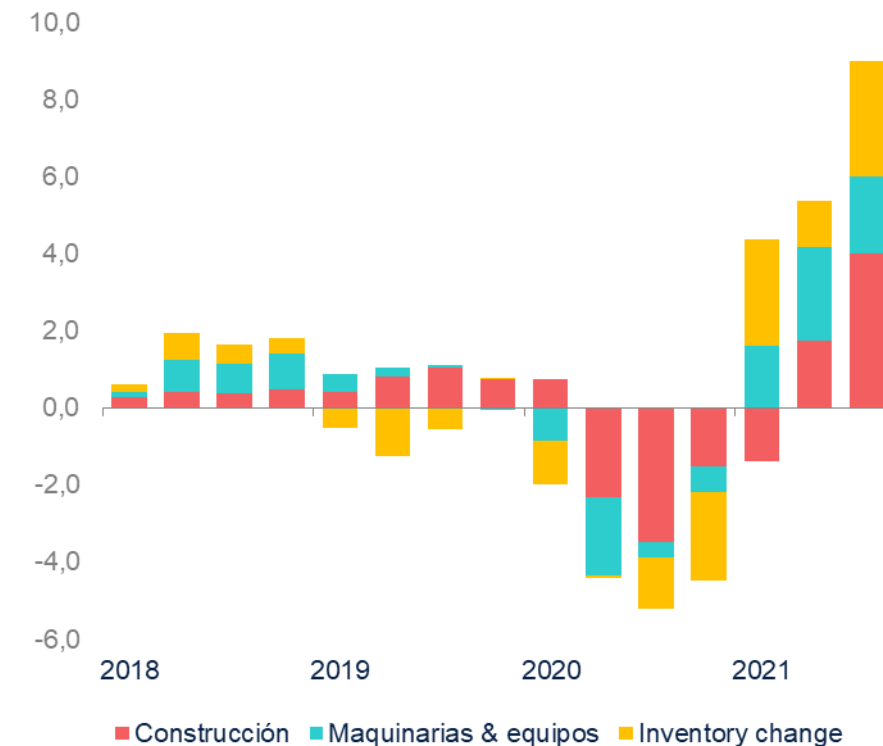
## Level of Investment by components

(index, Sep.2019=100, seasonally adjusted series)



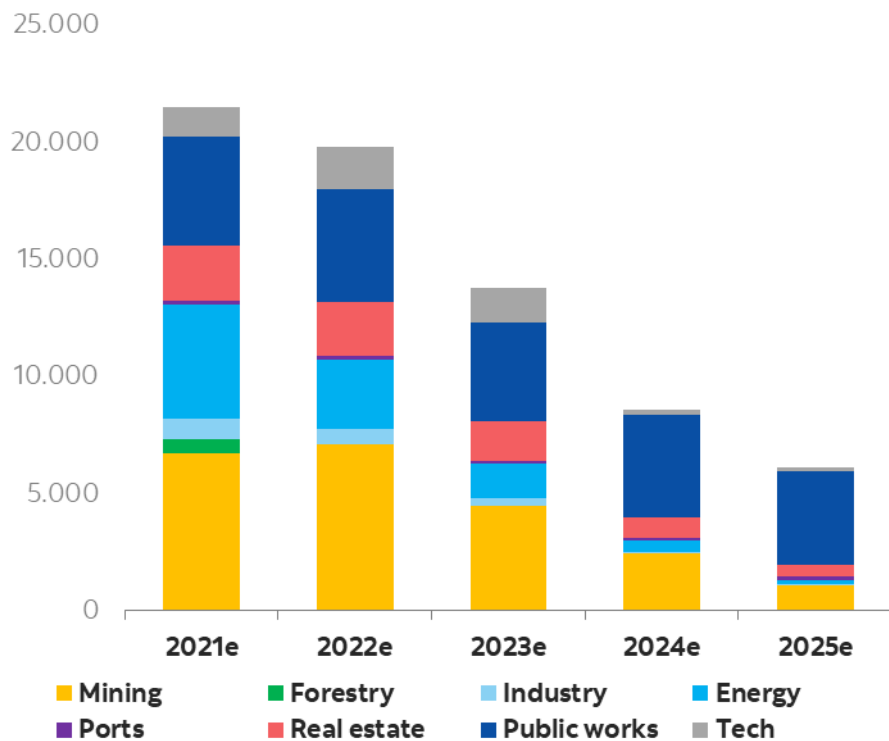
## Contribution of Investment to GDP growth

(percentage points, contribution to annual GDP growth)

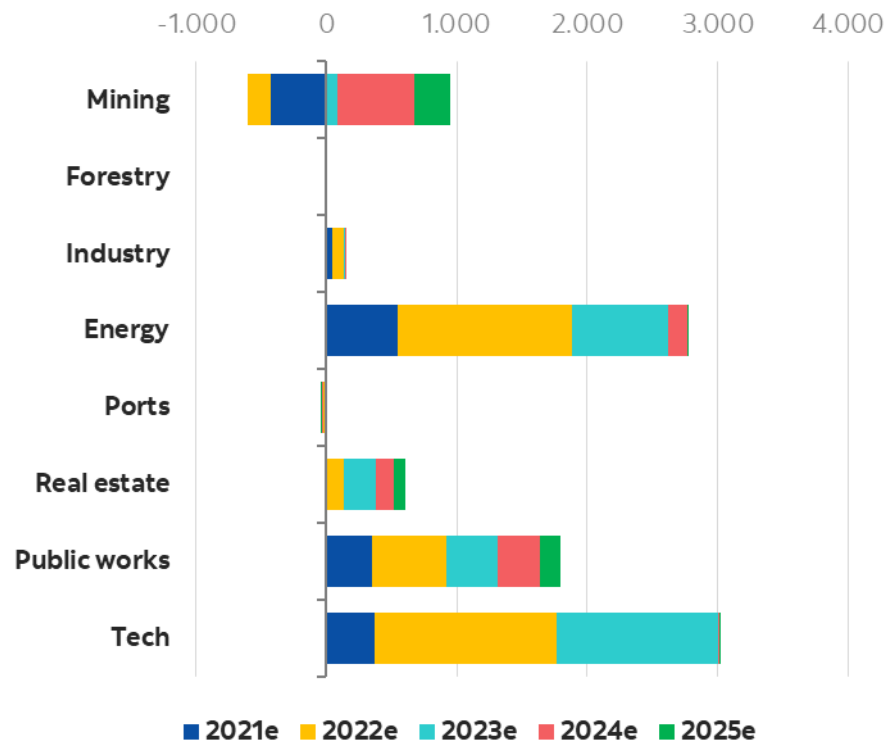


**As of September 2021, the investment projects in the pipeline for the period 2021-2025 reached USD 69,755 million.** Investment was adjusted upward by USD 8,670 million (14.2%) for 2021-25, mainly in Energy, Public works and Tech (5G network), with a focus on 2022 & 2023.

**Total investments to materialize by sector**  
(millions of dollars, projects in pipeline as of Sep-21)



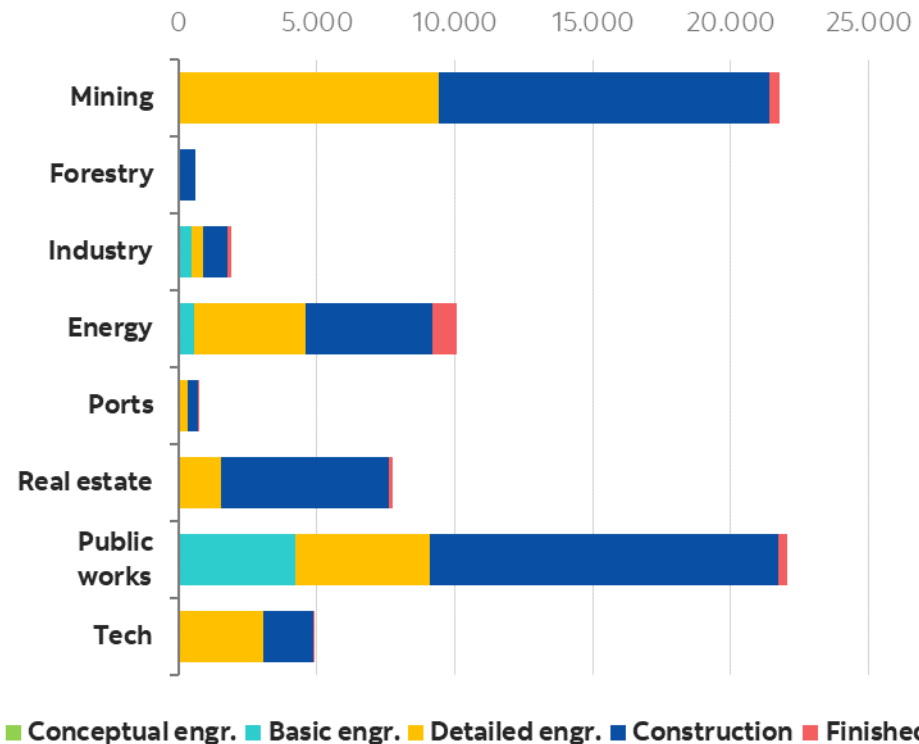
**Adjustment in investments in 2021-2025**  
(millions of dollars, projects added between Sep-21 and Jun-21)



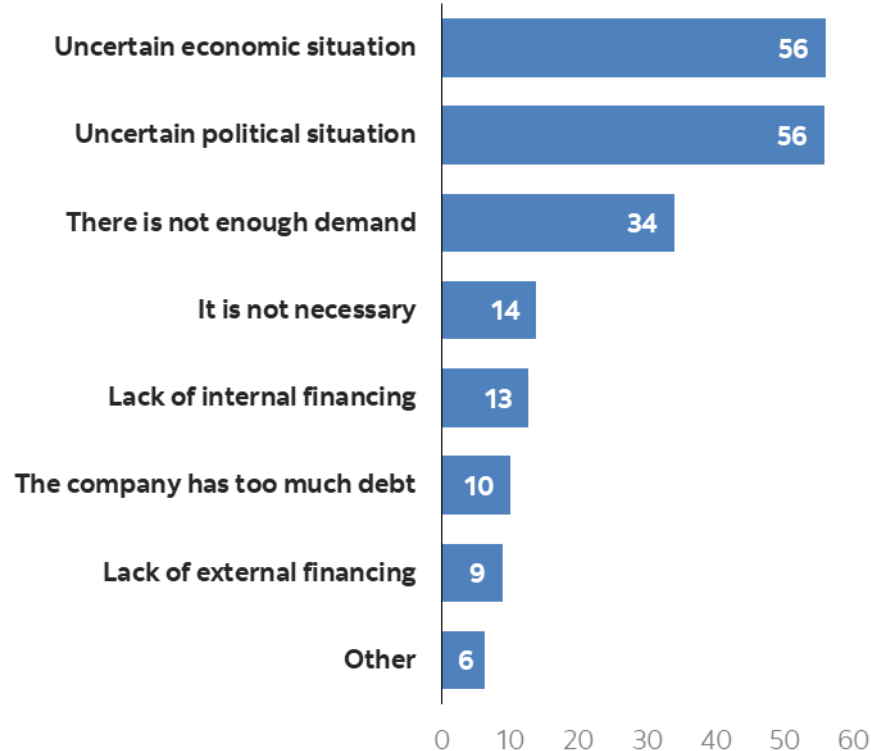
Source: CBC, Scotiabank Economics

# About 53.8% of the projects are in the construction stage. Investment dynamics depending on the materialization of large projects in mining (public and private) and public works.

**Total investments to materialize by stage**  
(millions of dollars, projects in pipeline as of Sep-21)



**Business perception report Nov.2021: Why do you think your company will not invest in 2022?**  
(percentage of total, Nov.21)

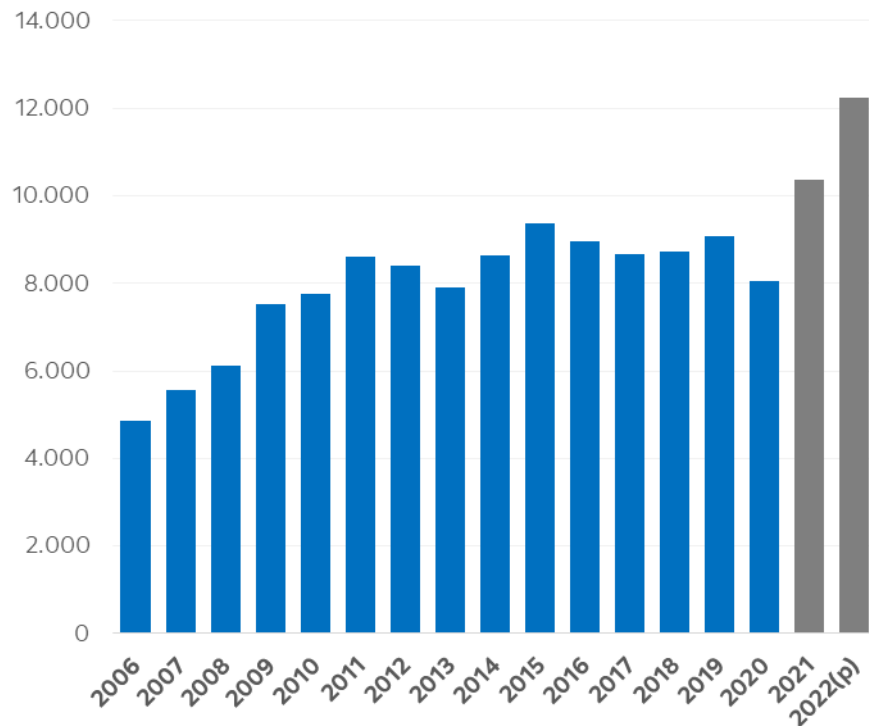


Source: CBC, Central Bank (Encuesta de Percepciones de Negocios, Nov. 2021), Scotiabank Economics

# Strong fiscal impulse in public investment in 2021. **Fiscal Budget for 2022 includes an increase of 18% in capital expenditures.**

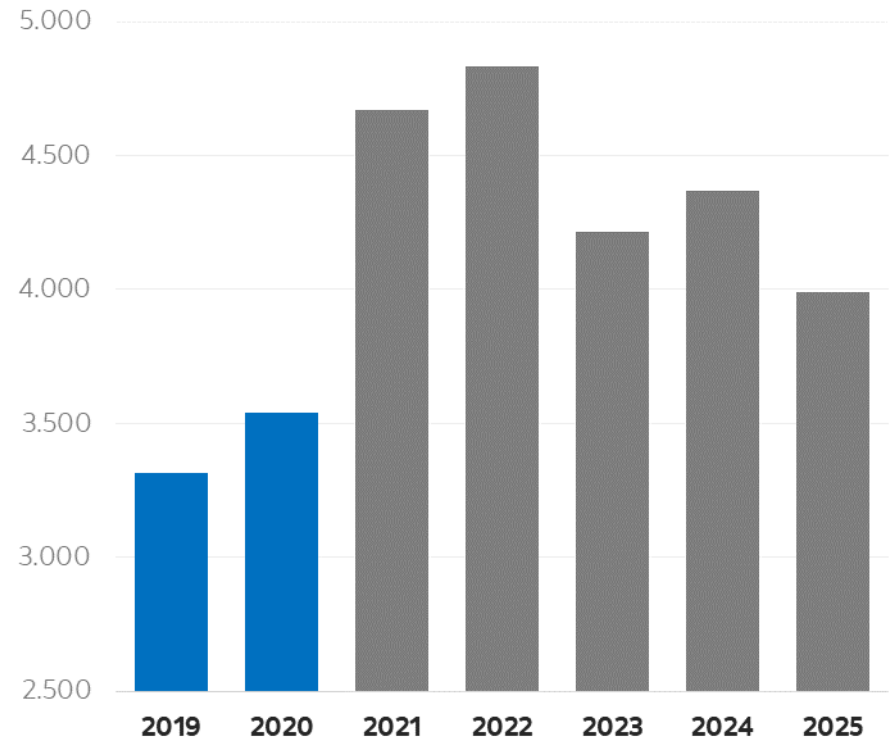
## Public investment

(millions of dollars)



## Investment to materialize in Public works

(millions of dollars, projects in pipeline as of Sep-21)

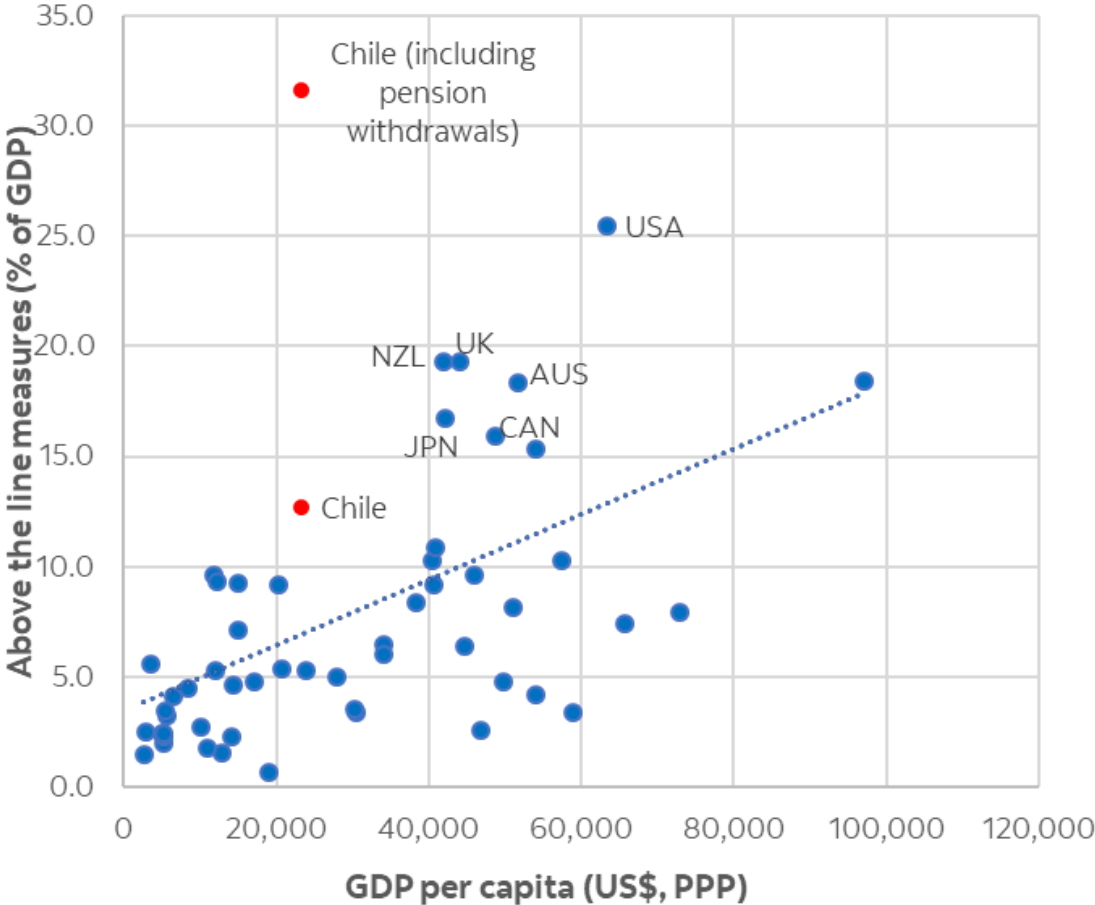


Source: DIPRES, CBC, Scotiabank Economics

# Fiscal aid and PFs withdrawals reached 31.6% of GDP.

## Fiscal measures & GDP per capita

(percentage of 2020 GDP and GDP per capita in USD PPP)

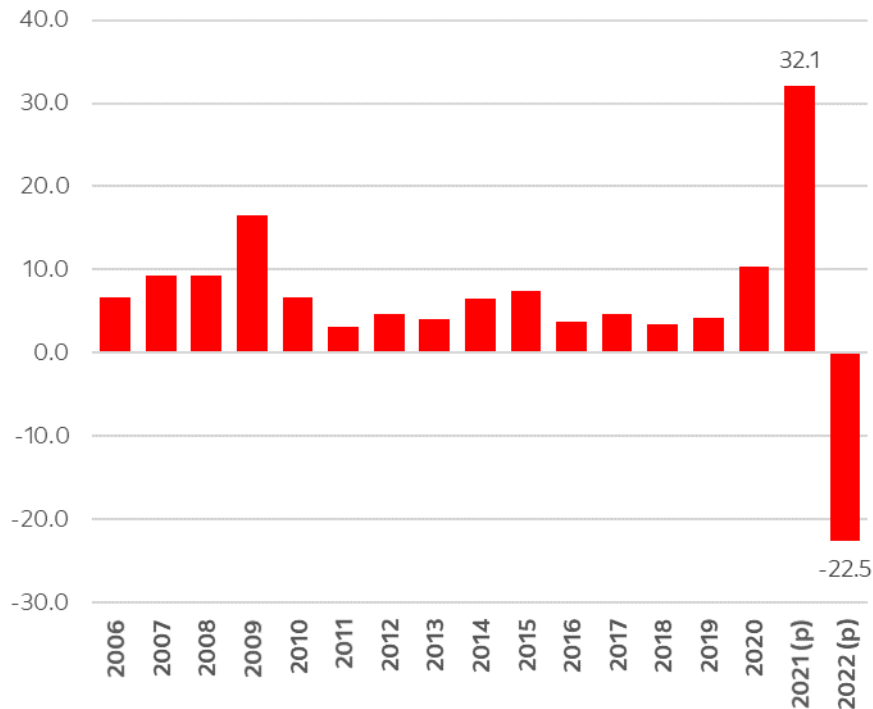


Source: Budget Office, IMF as of October 2021, Scotiabank Economics

**For 2022, fiscal expenditures will decrease 22.5%.** Use of sovereign funds and freely available funds could limit the drop in fiscal spending next year.

### Fiscal expenditures

(percentage, real annual growth)



### Freely available funds for the new authorities

	USD mn
Supplementary distribution	460
Reallocation	340
<b>Total</b>	<b>800</b>



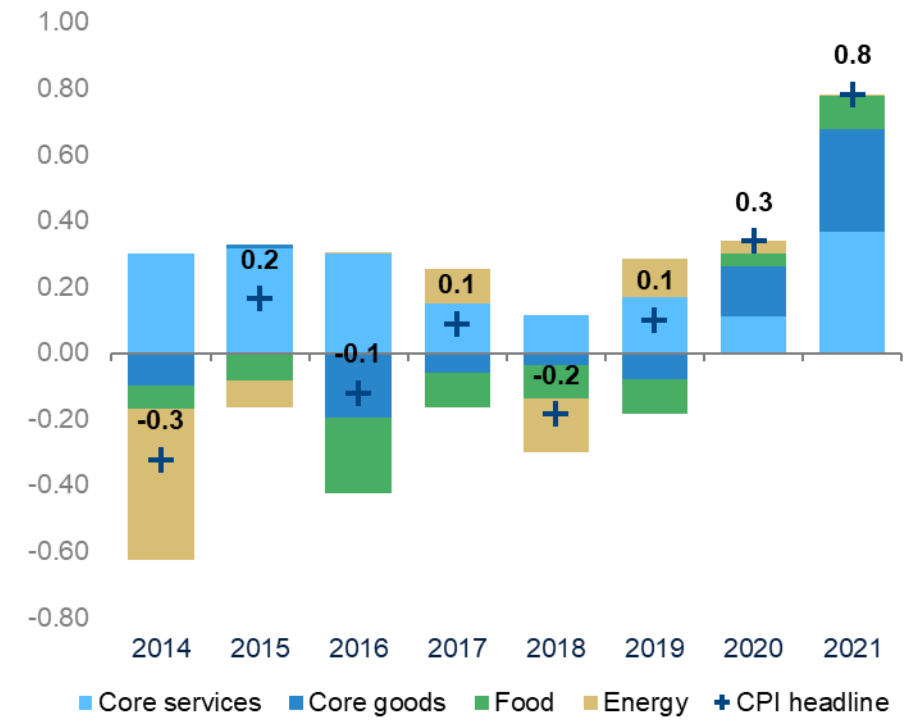
Contribution of USD 2 bn for the Economic and Social Stabilization Fund



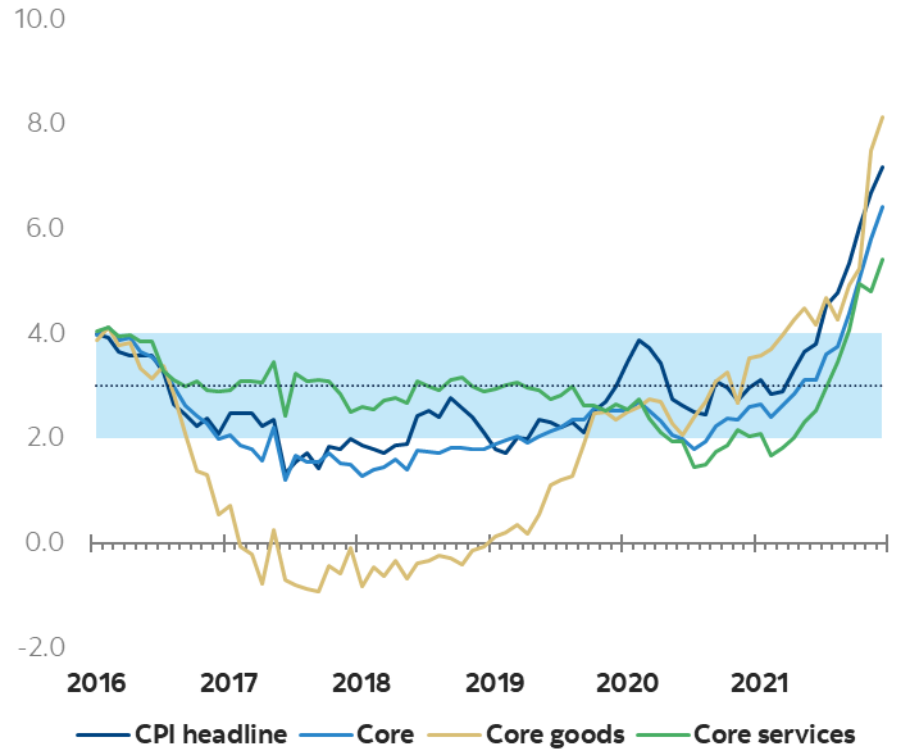
**2022 Fiscal expenditures:  
from -22.5 to -20.0%**

# December CPI increased 0.8% m/m (7.2% y/y) broadly explained by rises in core goods and services. **For January, we forecast an increase of 0.8% m/m (7.3% y/y).**

**Contribution to monthly inflation in December\***  
(percentage points, monthly contribution)



**Headline and core CPI inflation**  
(percentage, y/y)



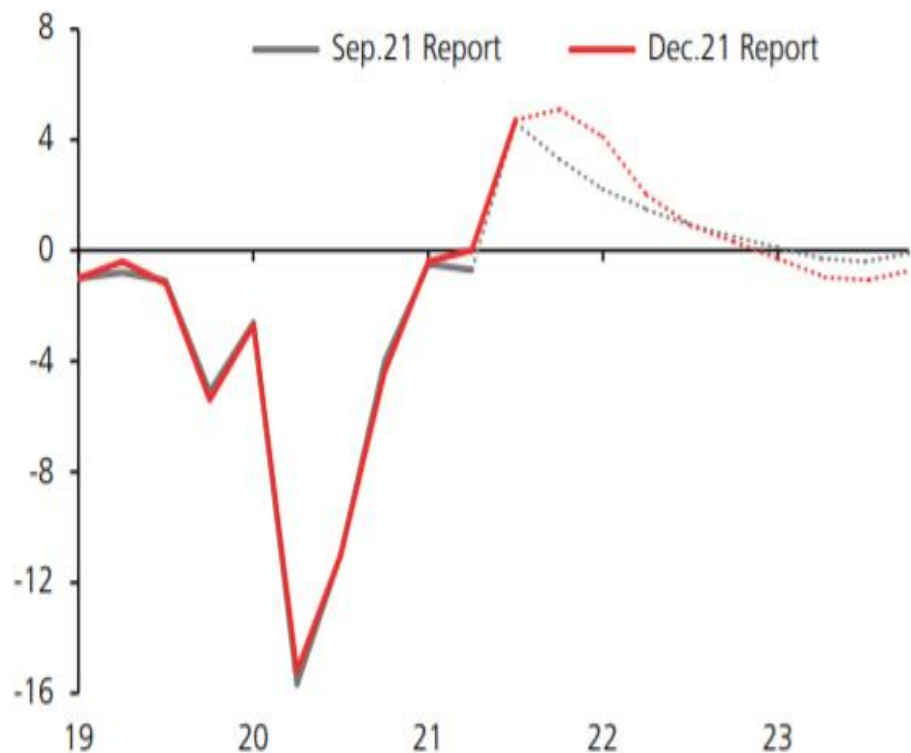
\* Core CPI: excludes food and energy.  
Source: INE, Central Bank, Scotiabank Economics



CB will increase the benchmark rate by "at least" 125 bp. in January. MPR would reach 6.0-6.5% in 1H22. **Worrisome de-anchoring of longer-term inflation expectations (3,7% in 2y and 3,1% in 3y) might trigger more aggressive response of the CB in the short-run.**

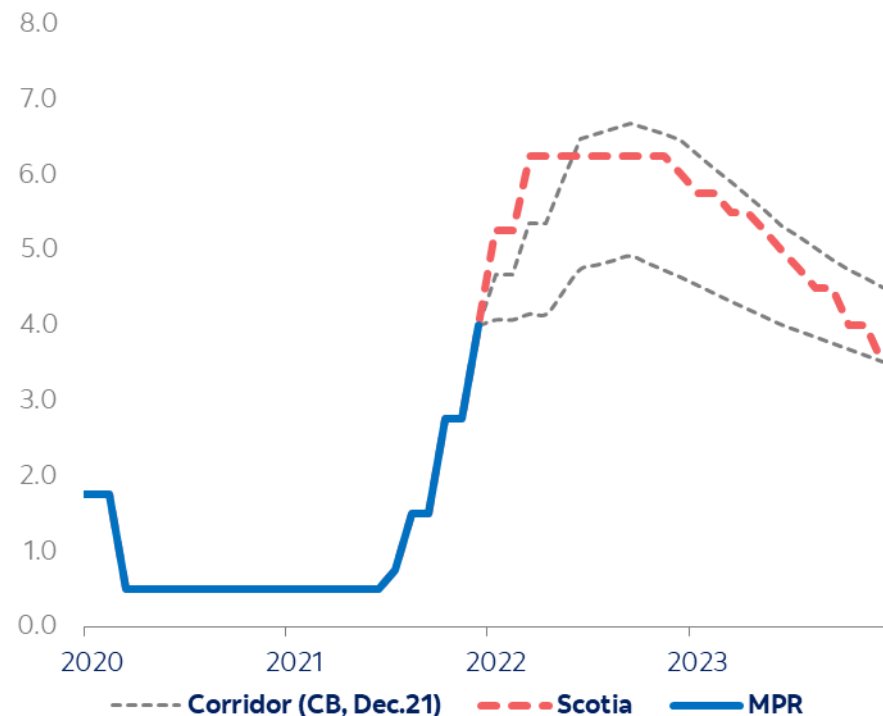
### Output gap

(%, Central Bank estimation)



### MPR expectations and CB corridor

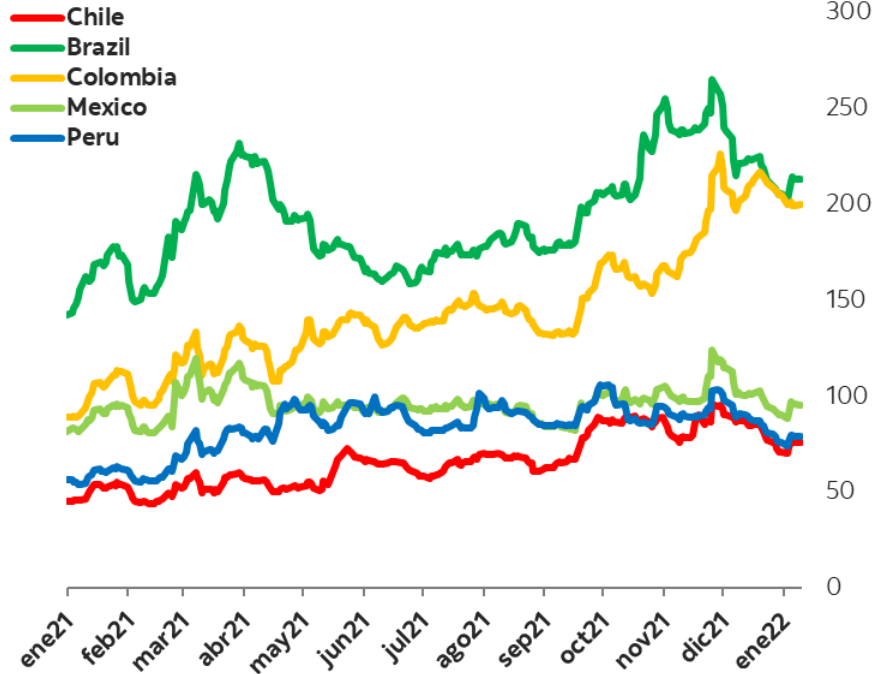
(percentage, nominal)



Country risk slightly higher. Chile maintains access to capital markets at levels consistent with its credit rating. **However, long-term interest rates have risen in a period of heightened political tensions and a wide range of legislative initiatives.**

### 5Y Sovereign Credit Default Swap (CDS)

(basis points)



### 10Y interest rate: Chile & USA

(%)



	Rating	Outlook
Moody's	A1	Negative
Fitch	A-	Stable
S&P	A	Stable

Source: Bloomberg, Ministry of Finance, Scotiabank Economics

# Rise in short-term nominal interest rates and 10-year rates falling and down to negative arena for first time since 2008-09.

## 10-2 year yield spread

(%, nominal swap rates)



## 10-1 year yield spread

(%, nominal swap rates)

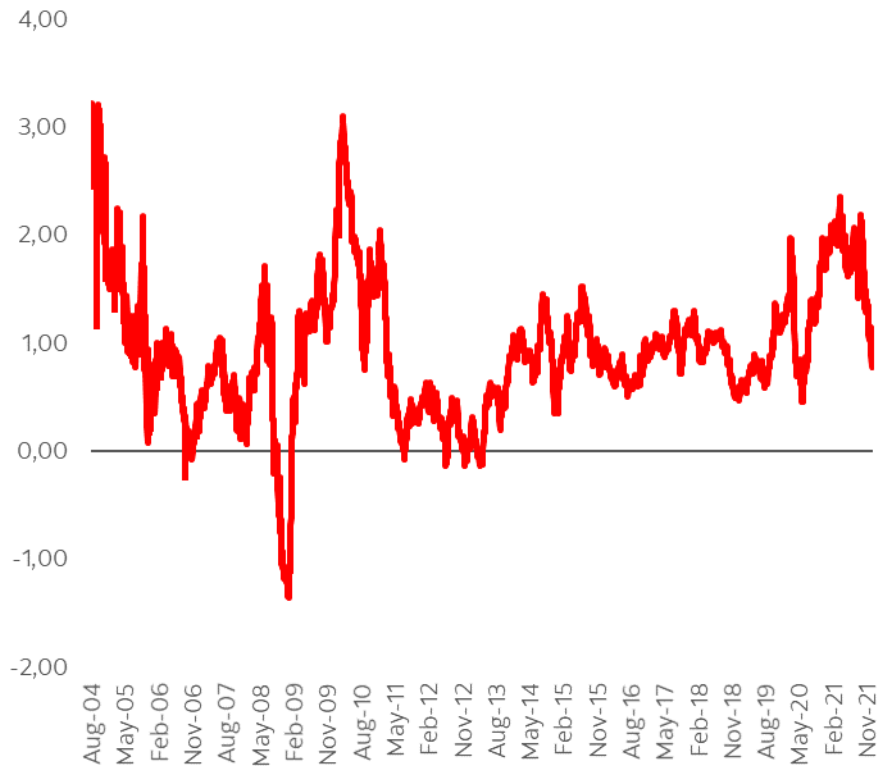


Source: Bloomberg, Scotiabank Economics

Spread of real interest rates is positive. **Higher inflation expectations.**

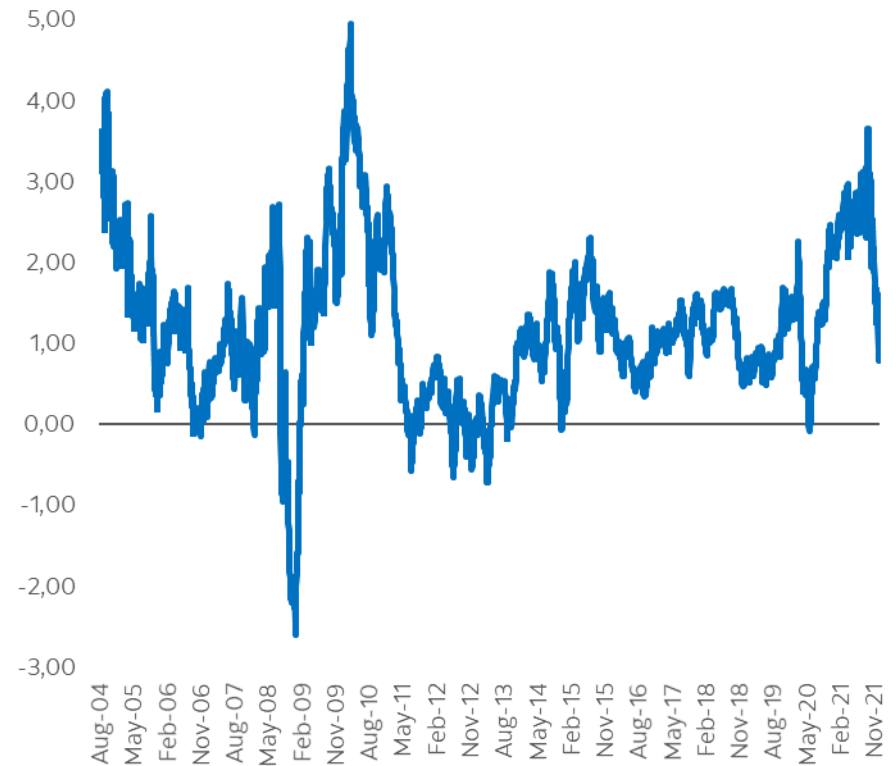
### 10-2 year yield spread

(%, real swap rates)



### 10-1 year yield spread

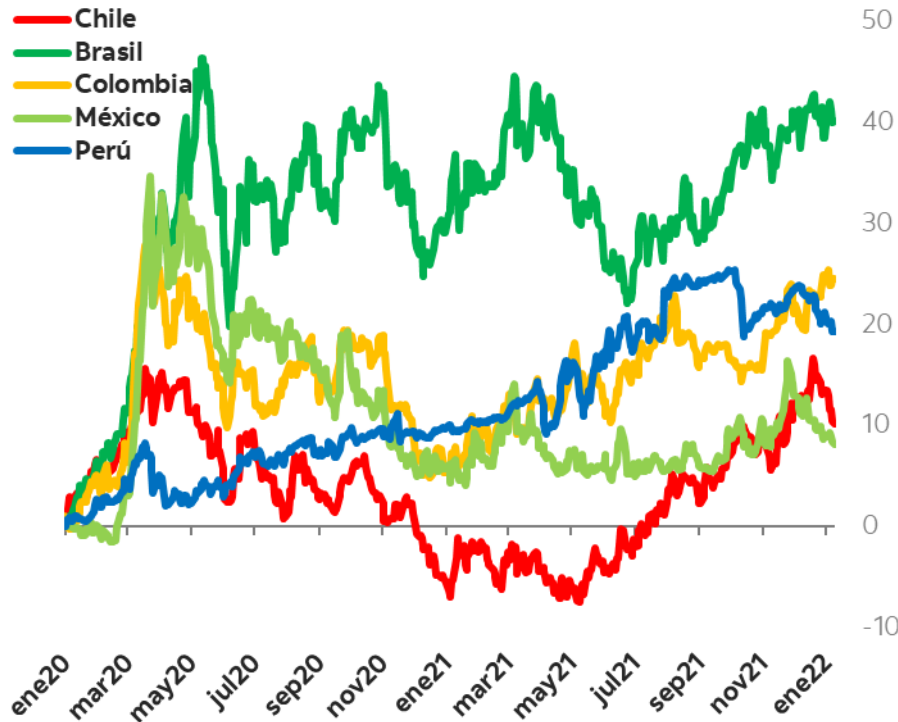
(%, real swap rates)



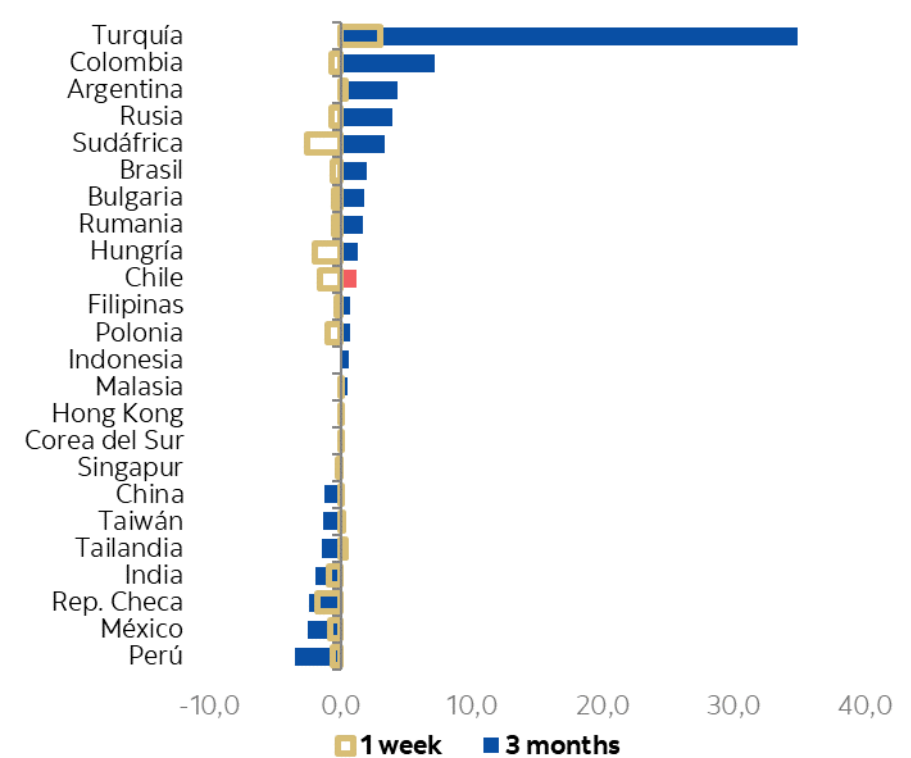
Source: Bloomberg, Scotiabank Economics

# CLP keeps stable in last 3 months, but at high levels. **Political uncertainty is the main driver.**

**Latam exchange rates\***  
(percentage wrt levels of 1-Jan-2020)



**Emerging market exchange rates\***  
(percentage, change in the last week and 3 months)



\* Positive values indicate depreciation against US dollar.  
Source: Bloomberg, Scotiabank Economics

**Growth differential in favor of Chile is not reflected in the CLP. Even with a 2-digits GDP growth in 2021, domestic asset prices are responding to political drivers. Again, political uncertainty will be the main driver of the CLP in the forthcoming months**

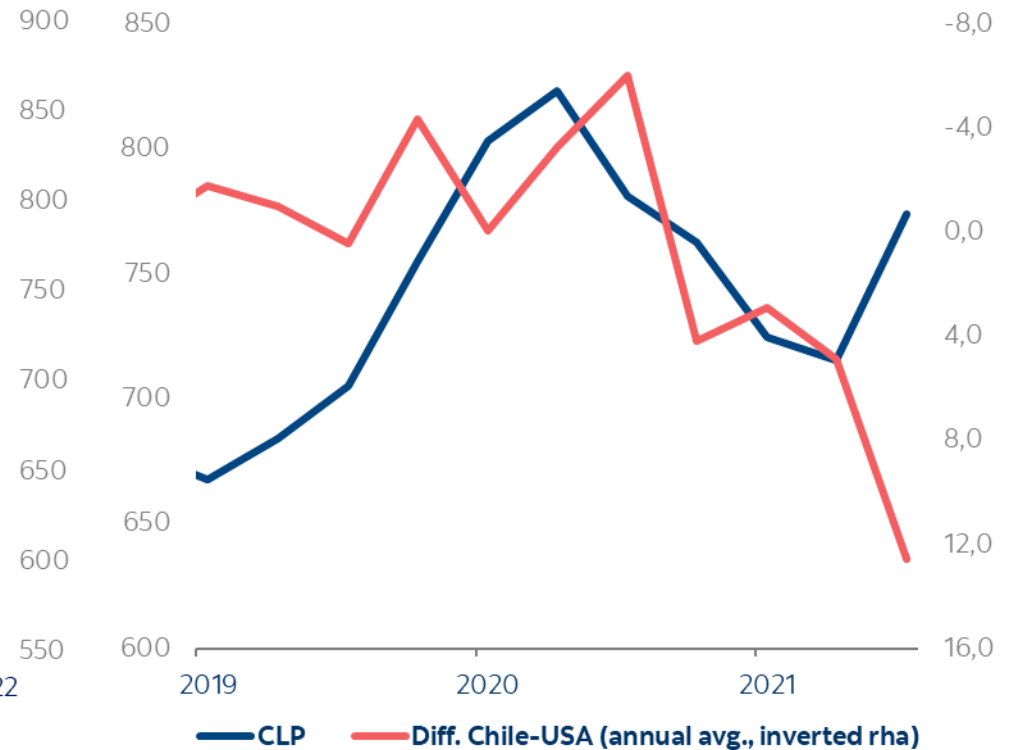
### Dollar index & CLP

(index DXY, \$ per US dollar)



### GDP growth differential: Chile vs USA

(\$/US\$, percentage points, QoQ saar)

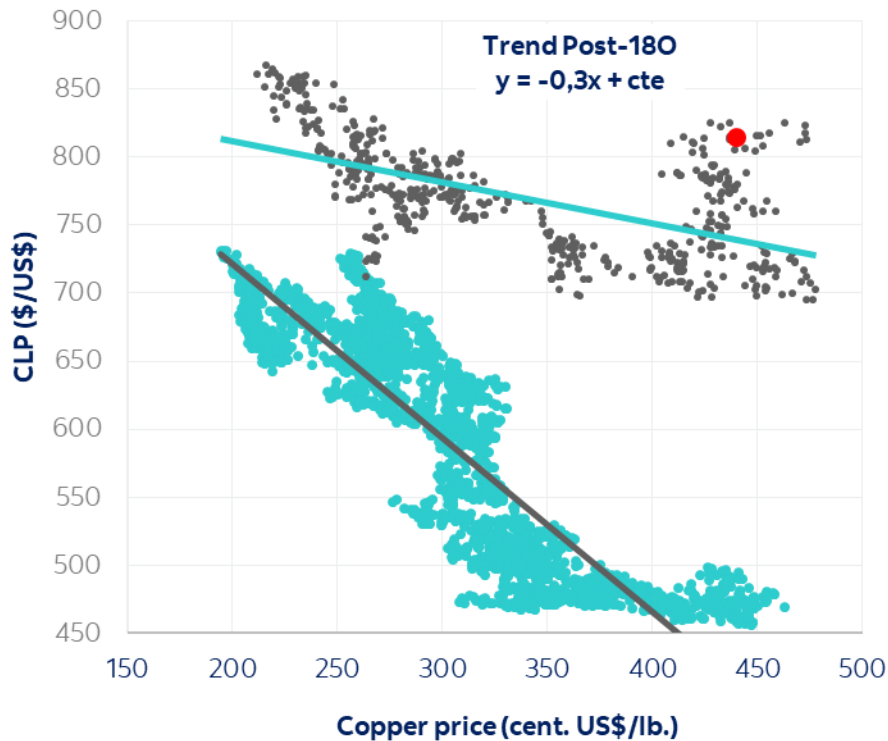


Source: Bloomberg, Central Bank, Scotiabank Economics

# Terms of trade continue to favor the CLP due to the high price of copper. **Relation between CLP and the copper price has reduced after the social unrest (18-O) in Chile**

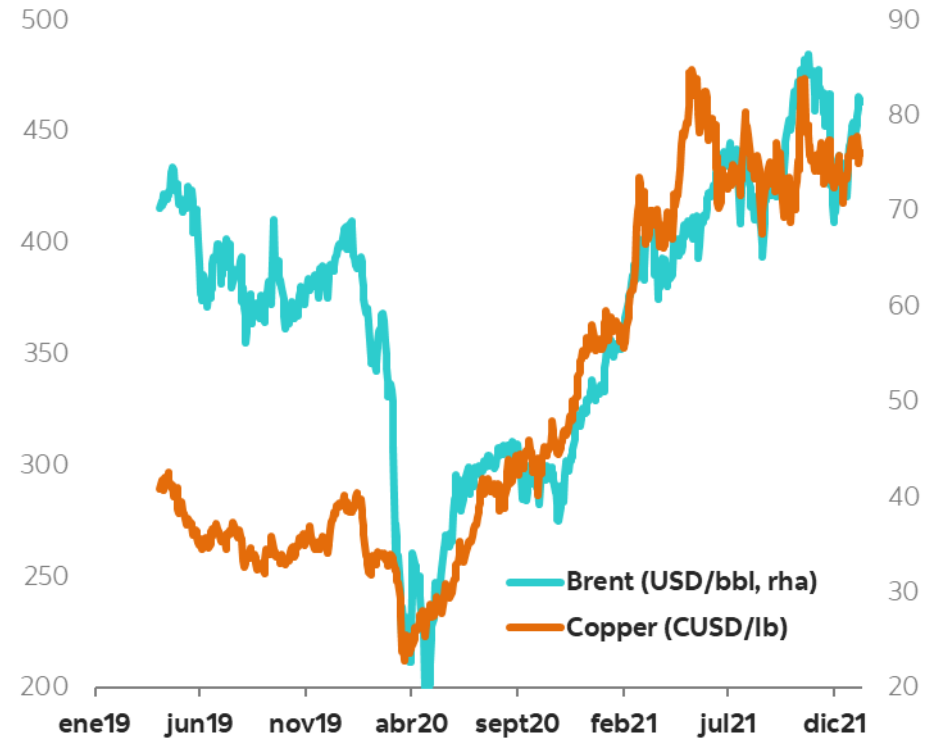
## Copper price and CLP

(\$ per US dollar, cUS\$/lb)



## Oil and copper price

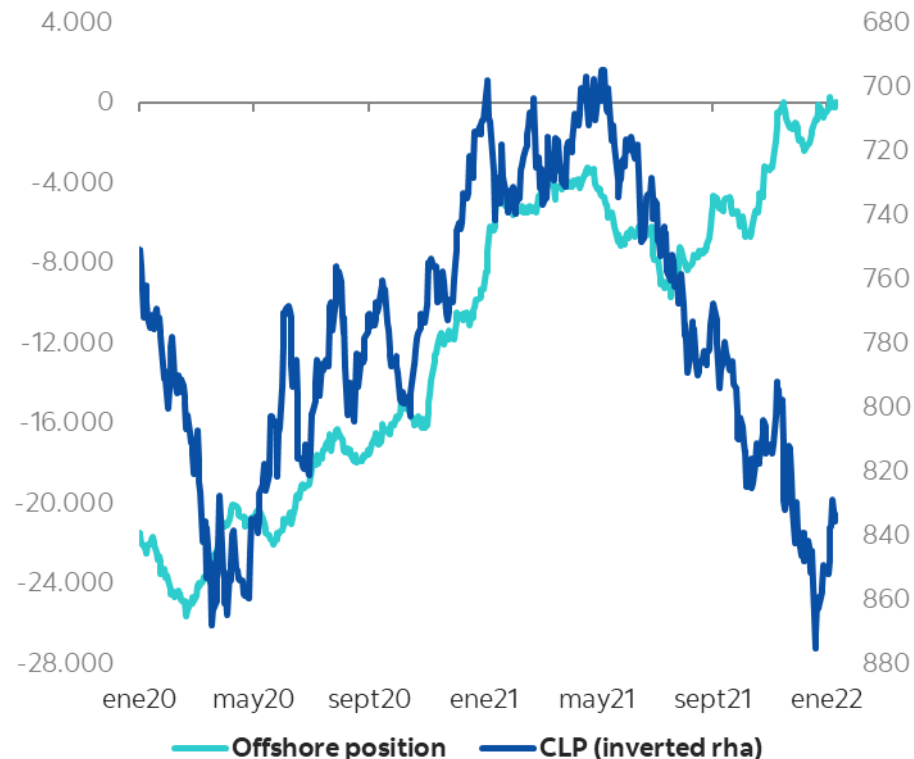
(cUSD/bl., USD/bbl.)



Despite the rise in the interest rate differential, net offshore position continue rising in favor of the CLP, reaching positive level for first time since 2010. **Any positive political perception will trigger further CLP appreciation.**

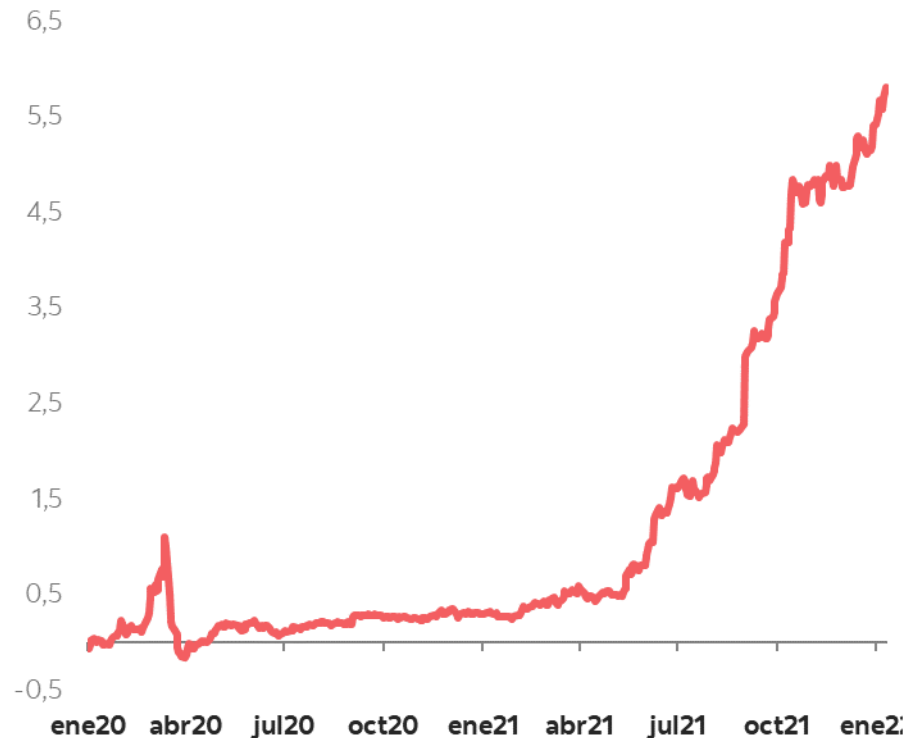
### Net offshore position CLP/USD\*

(millions of dollars, \$ per US dollar)



### Swap spread 1Y: Chile vs USA

(%, 1Y interest rates Chile-USA)



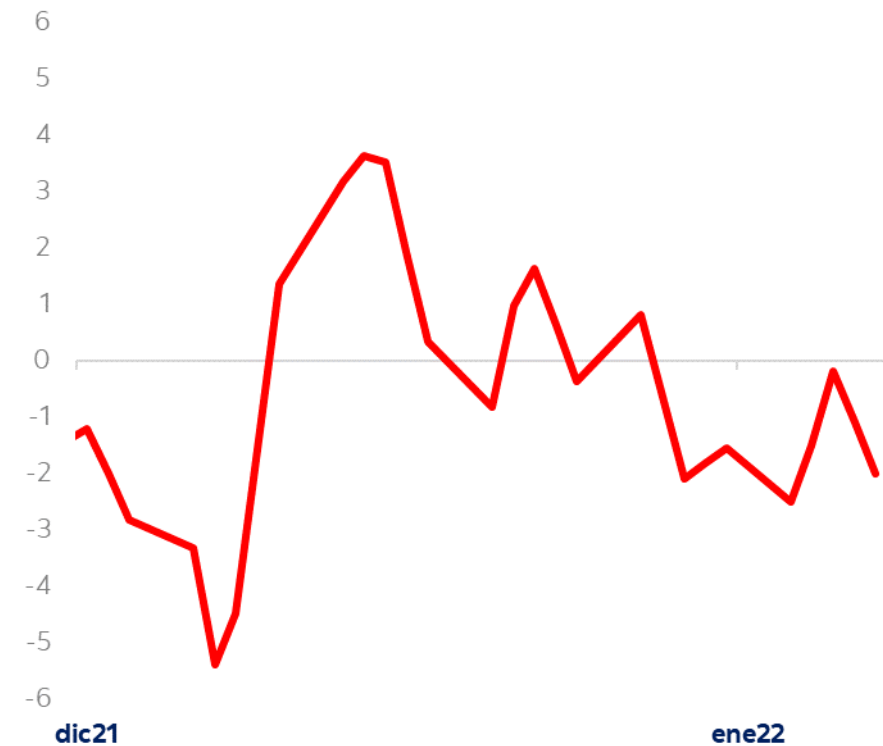
\* Net NDF position (Non-deliverable forward) of local banks with non-residents.  
Source: Bloomberg, Central Bank, Scotiabank Economics



# The worst relative performance of risky fund in last months increased the incentive of contributors to change their asset allocation in favor of fund E (with high share of peso-denominated in fixed income)

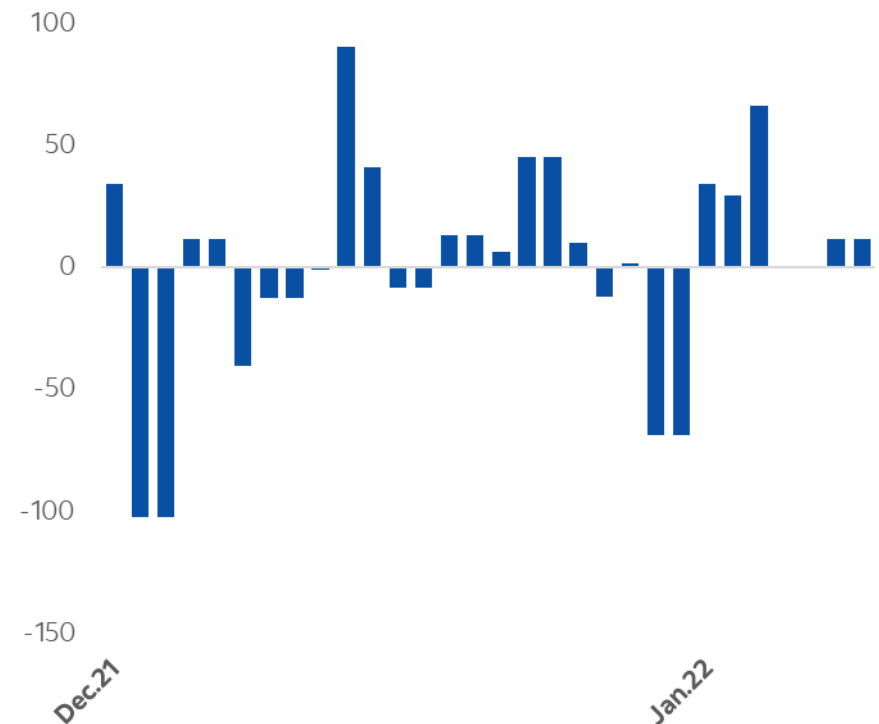
## Relative return: Fund A vs Fund E

(%, return of fund A minus E, 5-day mov. avg.)



## Contributors' flow to Fund A\*

(millions of dollars, daily flow of contributors to fund A)

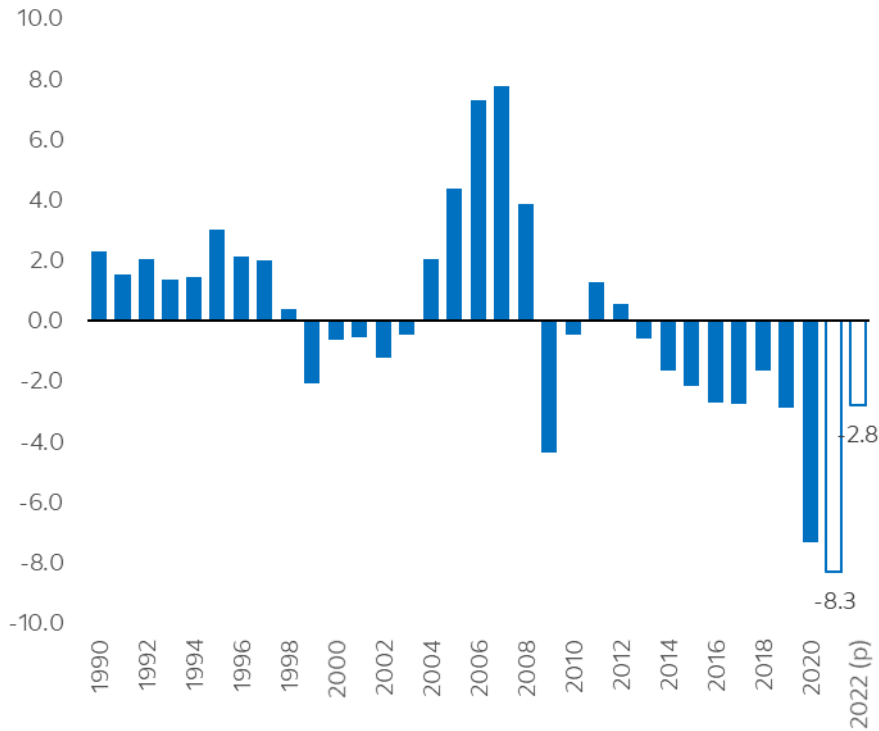


\* **Relative return:** weekly return of fund A minus fund E. **Contributors' flow:** flow to fund A (in millions of US\$).  
Source: Bloomberg, Scotiabank Economics

**Budget Bill authorized a maximum of issuances of USD 21 bn. in 2022. We expect greater amount of issuances in foreign currency. MoF announced the sell of a daily amount of USD 80 mn. in January (total of USD 1.68 bn.)**

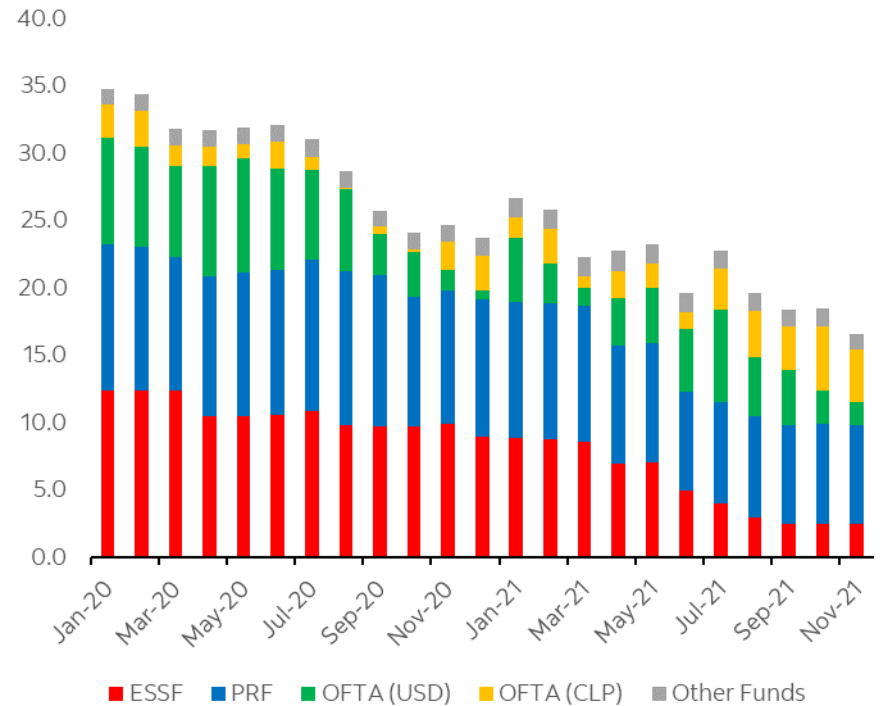
### Effective Fiscal Balance

(% of GDP)



### Sovereign Wealth Funds and Treasury Assets

(USD bn)

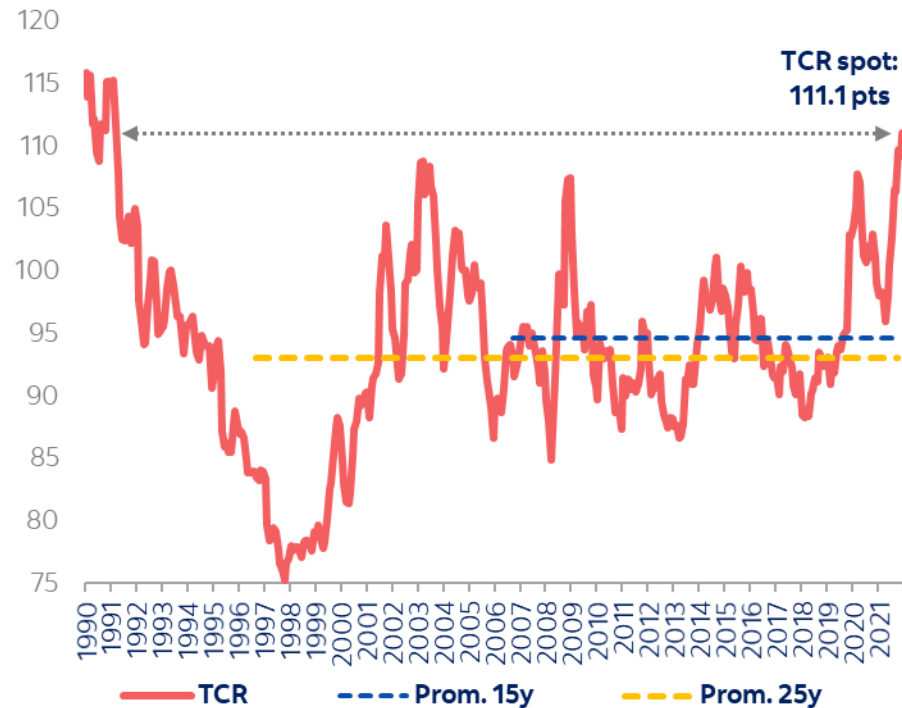


Source: Ministry of Finance, Scotiabank Economics

**REER reached its highest level since early 1991. On-shore spread is in negative levels, reflecting high short-term liquidity.**

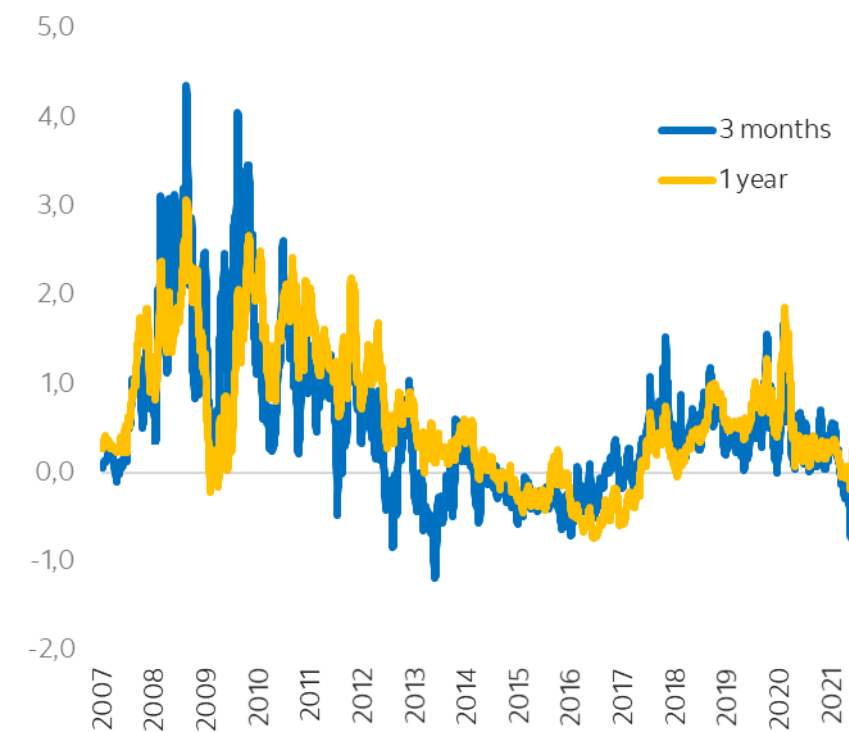
### Real exchange rate (REER)

(index 1986=100)



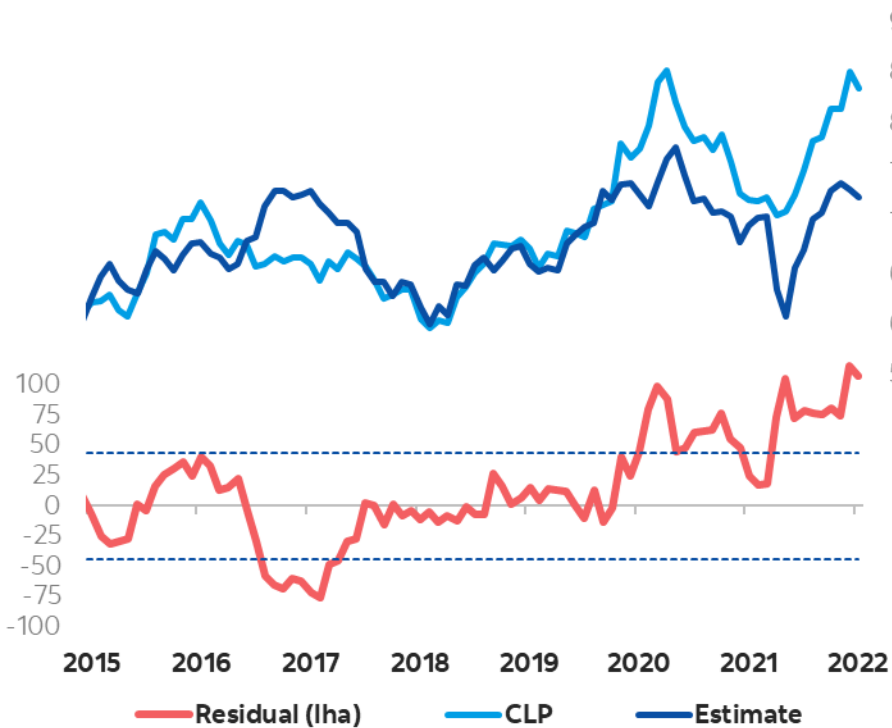
### Spread on-shore over Libor: 3 months & 1 year

(percentage)

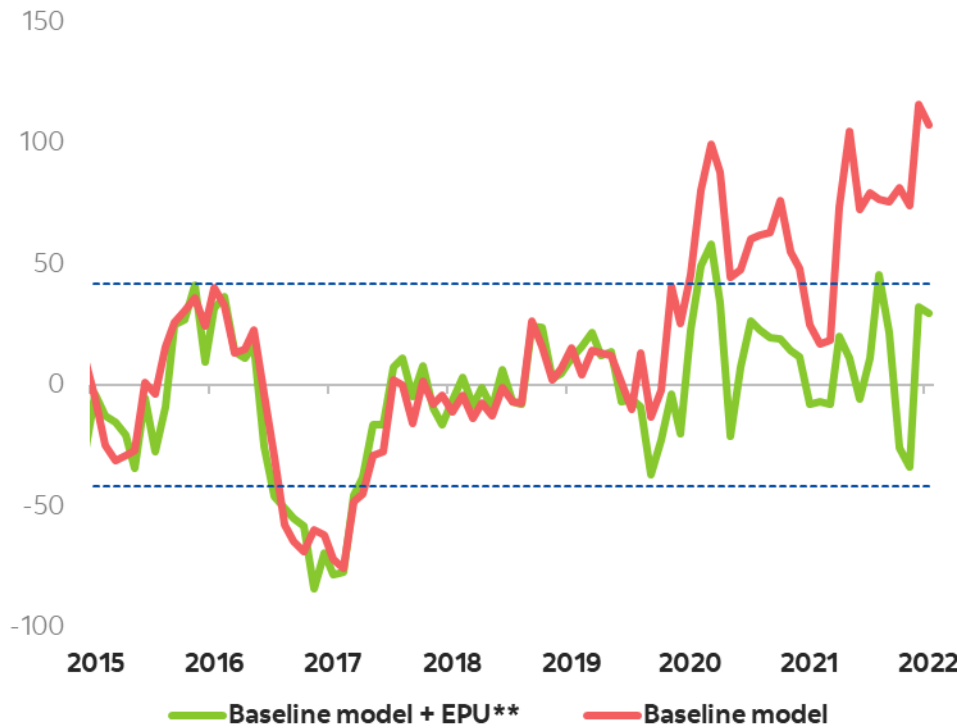


# Our baseline model reveals a wide misalignment of the CLP compared to its classic fundamentals. **However, when we include Economic Policy Uncertainty misalignment disappears**

**CLP misalignment: baseline model\***  
(\$ per US dollar)



**CLP misalignment disappears after controlling for Economic policy uncertainty (EPU\*\*)**  
(\$ per US dollar, misalignment comparison between models)



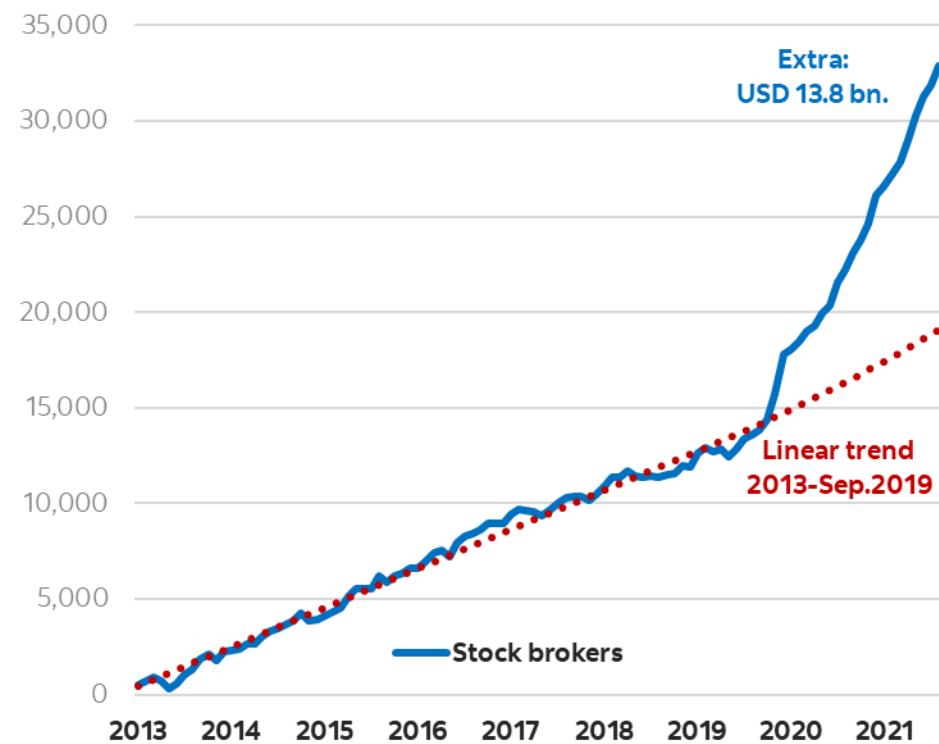
\* Based on a short-term fundamentals model, including copper price, broad dollar (DXY), swap spread (Chile-USA) and expectations (IMCE exc. mining), among others.  
 \*\* The EPU index is a measure of total economic policy uncertainty in two Chilean Newspapers. Data available at [http://www.policyuncertainty.com/chile\\_monthly.html](http://www.policyuncertainty.com/chile_monthly.html) (Rodrigo Cerda, Álvaro Silva and José Tomás Valente). Also available at Clapes UC (<https://www.clapesuc.cl/indicadores/indice-de-incertidumbre-economica-iiiec>).

Source: Scotiabank Economics

# Stock brokers and firms have been increasing its purchases, **above the trend level before the social unrest.**

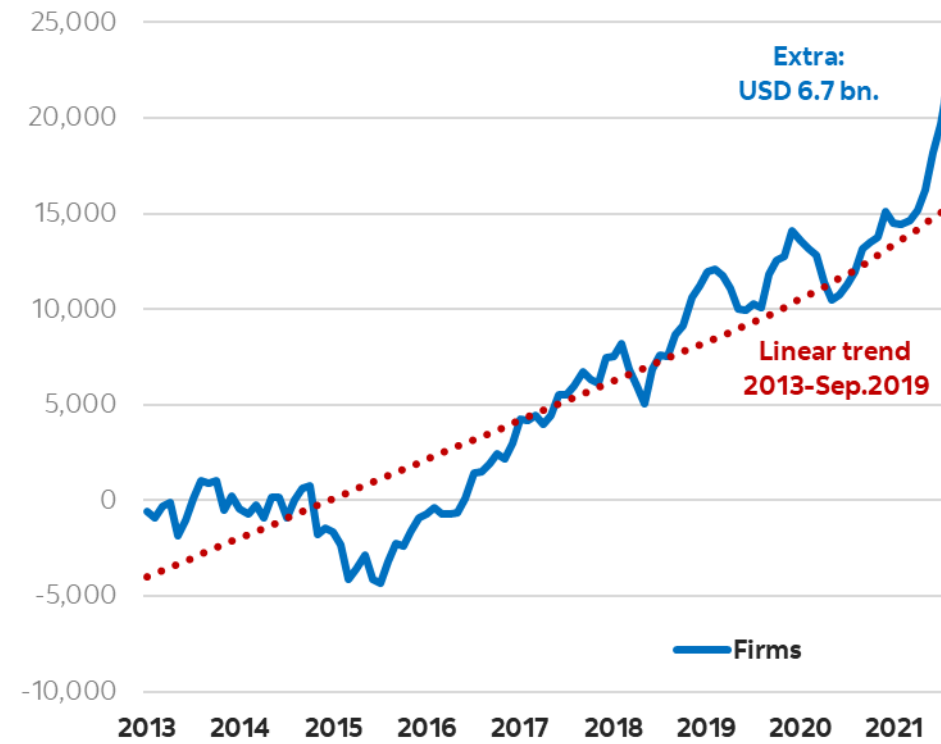
## Net purchases of foreign currency: Stockbrokers

(millions of USD, accum. since 2013)



## Net purchases of foreign currency: Firms

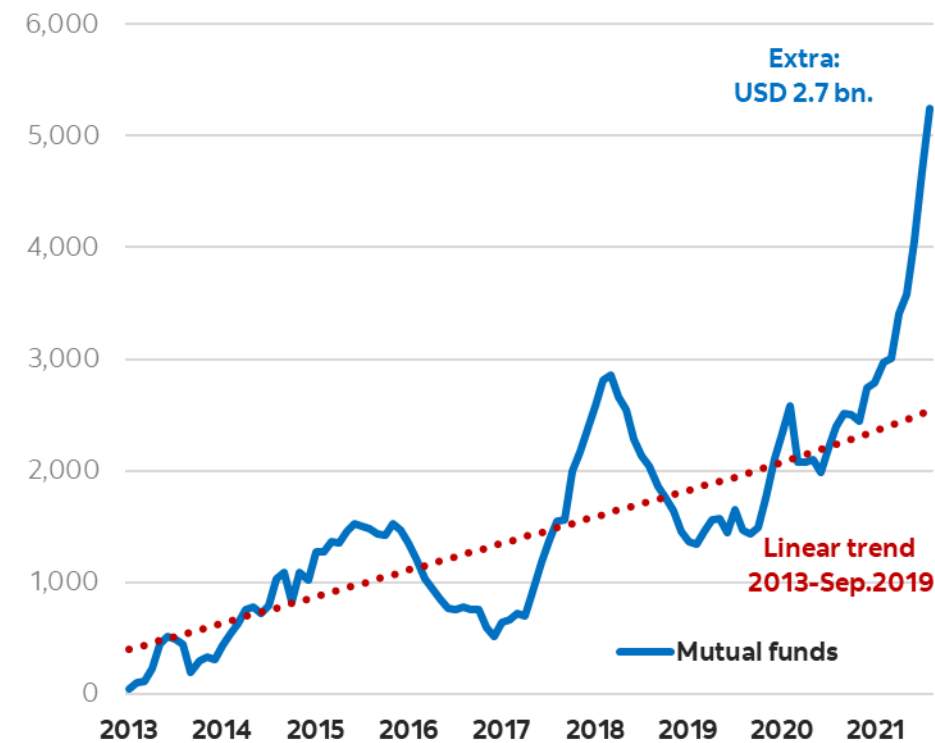
(millions of USD, accum. since 2013)



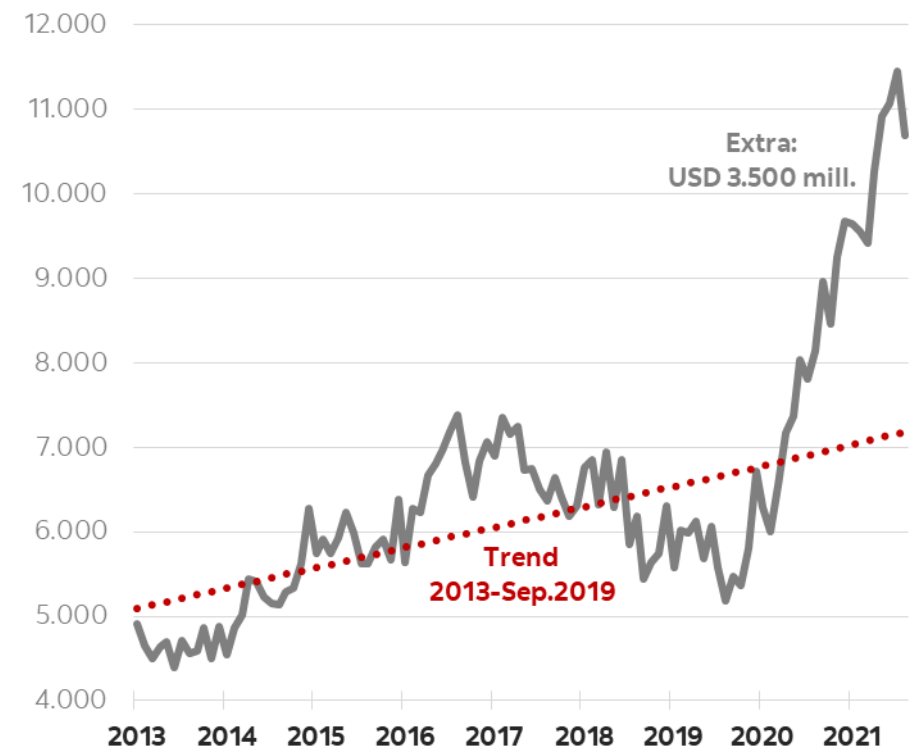
Note: Net purchases of foreign currency (purchases – sales).  
Source: Central Bank, Scotiabank Economics

# Balance in checking accounts denominated in foreign currency also increased

**Net purchases of foreign currency: Mutual funds**  
(millions of USD, accum. since 2013)



**Balances in checking accounts in foreign currency** (millions of USD)

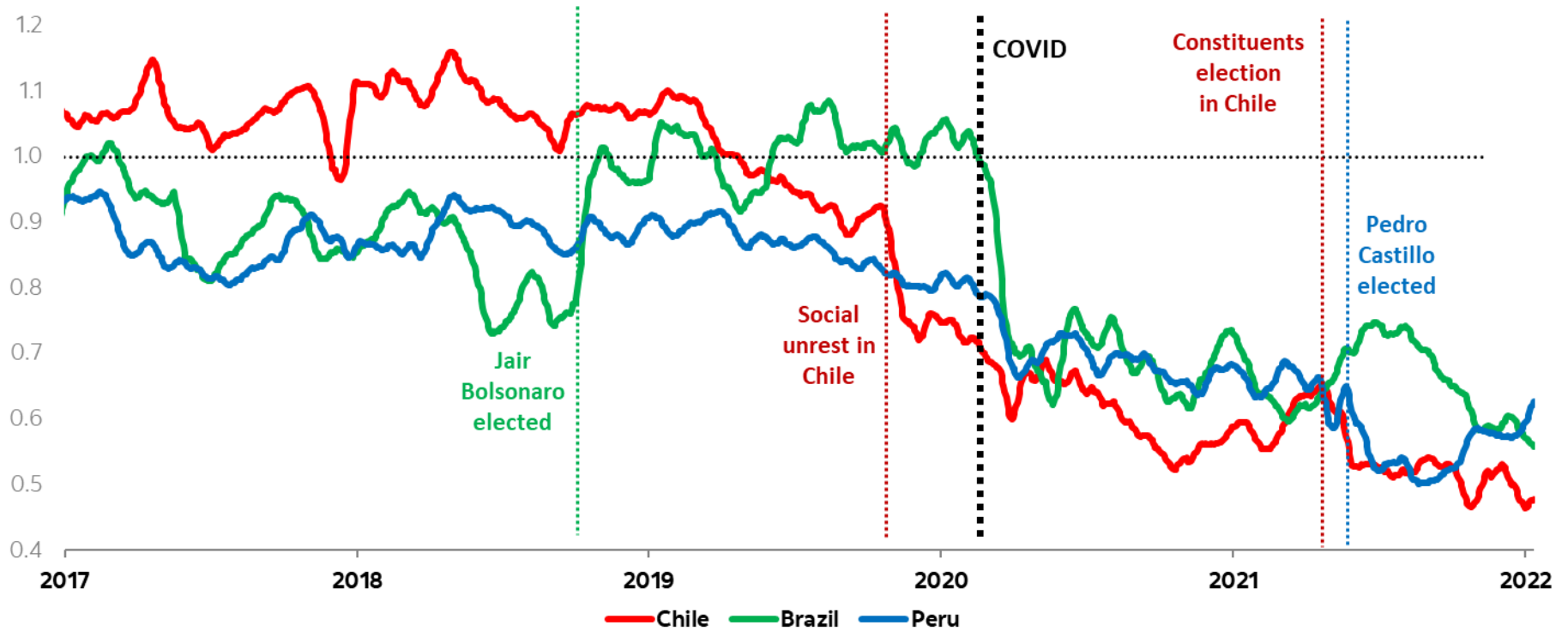


Note: Net purchases of foreign currency (purchases – sales).  
Source: Central Bank, Commission for the Financial Market, Scotiabank Economics

**High risk premium.** We estimate that the tail-risk political scenario is, in a great extent, internalized in CLP and stock market

## Latam countries vs Emerging market

(ratio: ETF of Peru, Chile and Brazil wrt ETF Emerging markets)

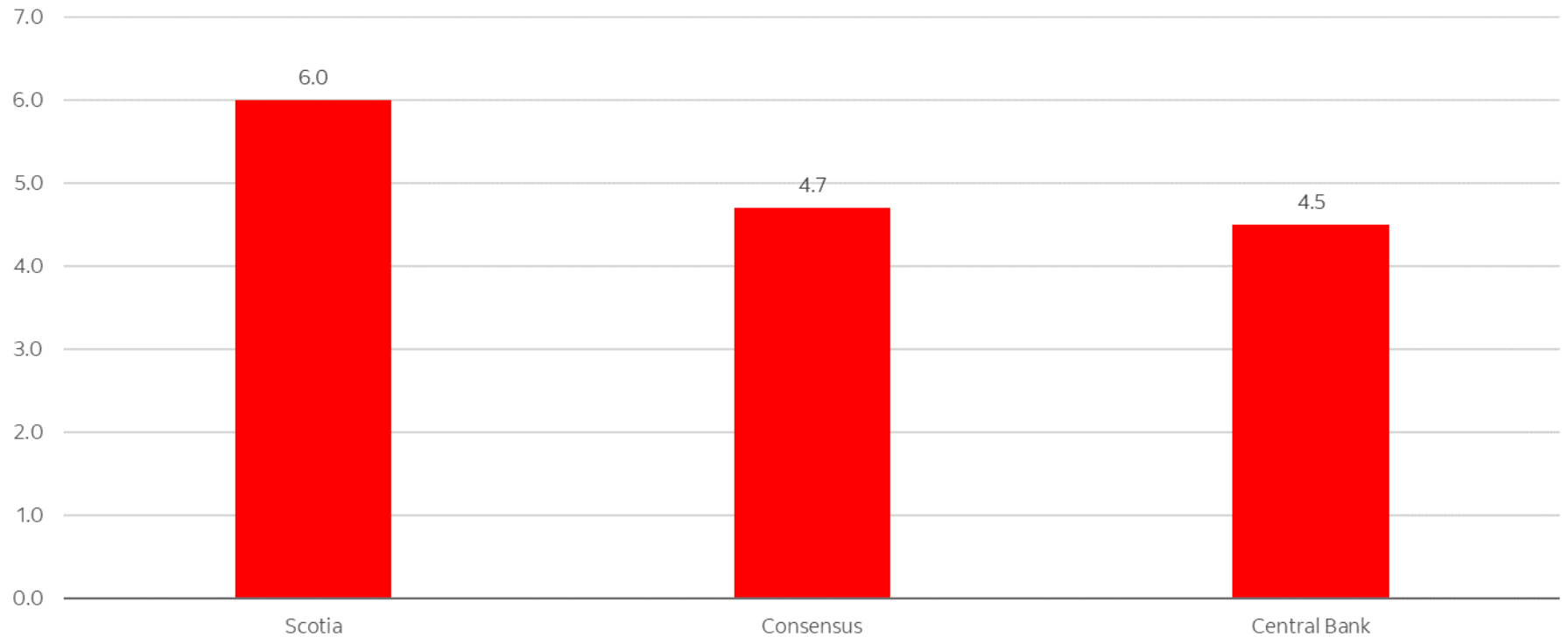


Source: Bloomberg, Scotiabank Economics

# Late in 2020, both CB and consensus underestimated GDP growth for 2021.

## GDP forecast for 2021 made in December 2020

(%)



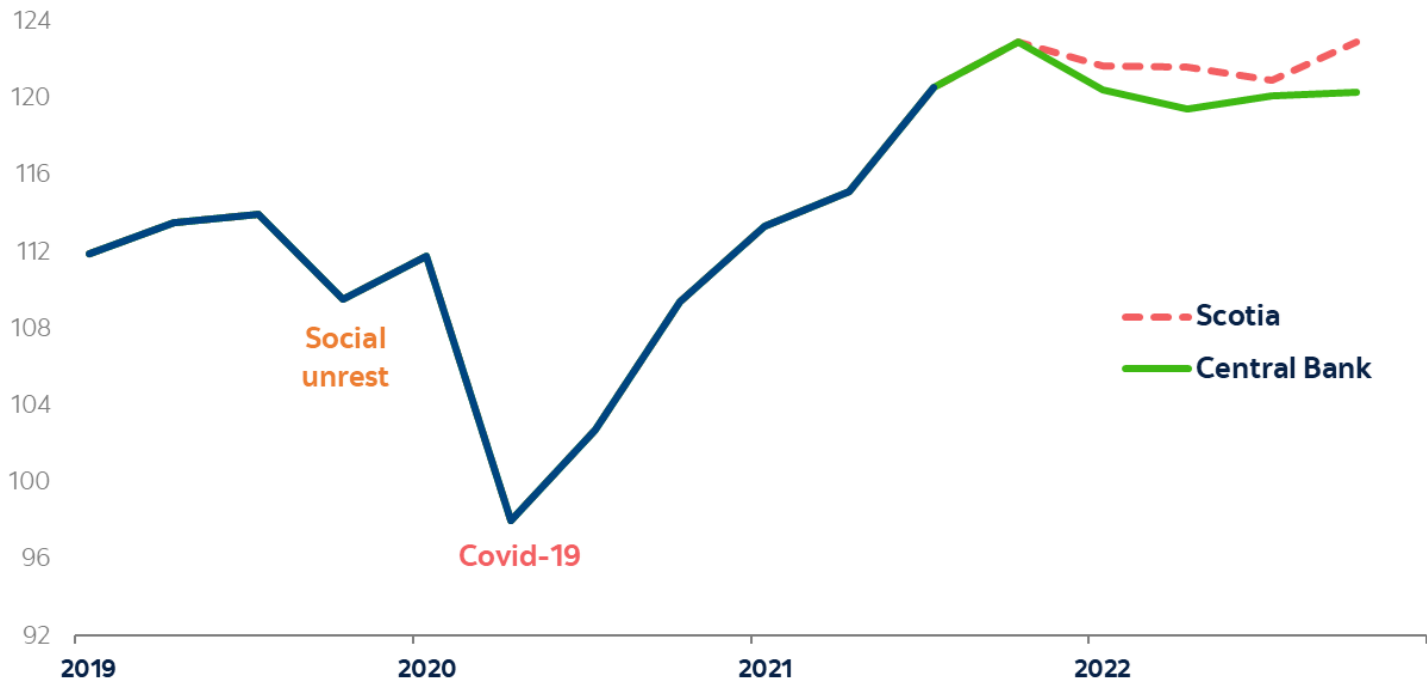
Source: Central Bank, Consensus Forecasts, Scotiabank Economics.



**Central Bank is estimating a drop in the level of GDP which keeps low during 2022-23.** It seems that the CB is forcing a rapid long-run convergence and/or giving significant weight to political uncertainty.

## GDP level

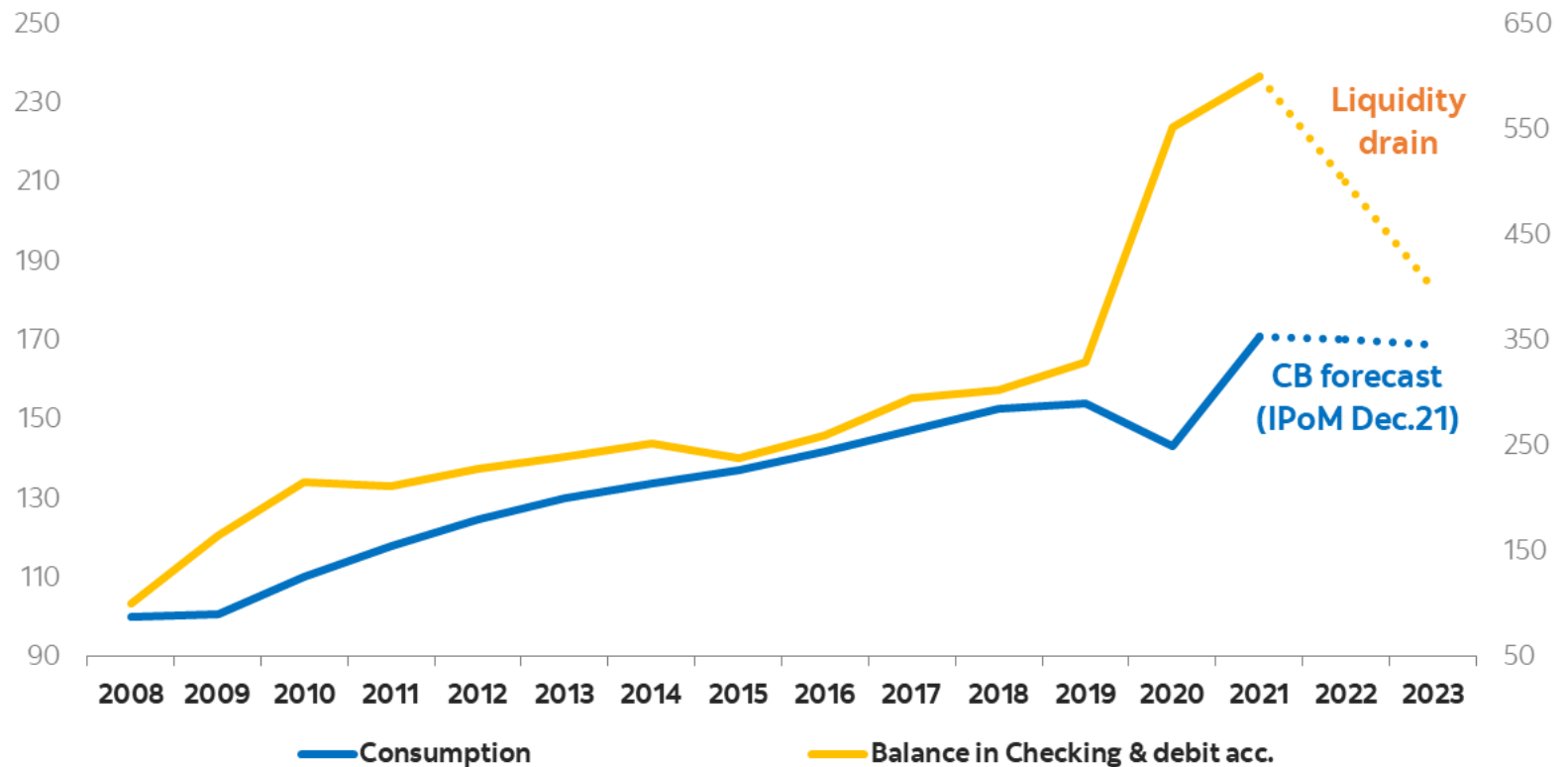
(level, index 2013=100, seasonally adjusted)



Source: Central Bank, Scotiabank Economics.

# Central Bank forecast a reduction in the level of consumption in 2022 and 2023. Liquidity drain would avoid a sharp adjustment on consumption.

Consumption and Liquidity in non-remunerated accounts  
(index 2008=100)



Source: Central Bank, Scotiabank Economics

# Economic Outlook

Forecast	2018	2019	2020	2021	2022	2023
<b>GDP (% yoy)</b>	3.7	0.9	-5.8	<b>12.0</b>	<b>3.5-4.5</b>	<b>1.0-2.0</b>
<b>Inflation (% yoy, eop)</b>	2.1	3.0	3.0	7.2	<b>4.5</b>	<b>3.0</b>
<b>Exchange rate (vs. USD, eop)</b>	695	753	711	850	<b>750-800</b>	<b>750</b>
<b>Monetary policy rate (% , eop)</b>	2.75	1.75	0.5	4.0	<b>6.5</b>	<b>3.5</b>
<b>Copper price (US\$/lb, eop)</b>	2.7	2.8	3.5	4.5	<b>4.0</b>	<b>3.8</b>
<b>Total consumption (% yoy)</b>	3.7	0.8	-6.8	<b>16.5</b>	<b>2.0</b>	<b>2.0</b>
<b>Investment (% yoy)</b>	5.1	4.4	-11.5	<b>18.0</b>	<b>2.5</b>	<b>2.0</b>
<b>Fiscal balance (% GDP)</b>	-1.7	-2.8	-7.4	<b>-8.3</b>	<b>-4.5</b>	<b>-2.0</b>
<b>Current account (% GDP)</b>	-4.0	-3.7	1.4	<b>-4.5</b>	<b>-3.5</b>	<b>-2.5</b>

Source: Scotiabank Economics