



# LATIN AMERICA RAPID RESPONSE

## Chile GDP (Q2 2023)

Fall in GDP will sustain central bank's dovish turn

- **Chile's GDP contracted by a shallower-than-expected 0.3% q/q in Q2, but the fall in output alongside downwards revisions to GDP growth in Q4 and Q1 will keep the door open for the central bank to continue its monetary easing cycle (probably with further large cuts) over the coming months.**
- The outturn was better than our own and the consensus forecast (both -0.6% q/q). But growth was revised down in Q4 of last year (from 0.2% to 0.0% q/q) and in Q1 of this year (from 0.8% to 0.4% q/q). In year-on-year terms, GDP fell by 1.1%, following a 0.8% drop in Q1.
- The breakdown of the data showed that **the fall in GDP was driven by a decline in government consumption and in exports. (See Table 1.) Fixed investment put in a strong performance in q/q terms.**
- **Taking a step back, the data add to a string of poor activity figures over the past 18 months. The level of real GDP is some 2% lower than its recent peak in Q4 2021.** Having been well above trend in 2021 and early 2022, GDP is now significantly below trend. (See Chart 1.)
- This weakness should give the central bank more room to cut interest rates, having kicked off its easing cycle with a chunky 100bp rate cut last month. We think the policy rate will be lowered from its current level of 10.25% to 7.50% by year end, which puts us on the dovish end of the spectrum.
- One positive from this period of weak growth is that the imbalances in Chile's economy that looked worrying last year have largely dissipated. Indeed, data also released today showed that, although the current account balance worsened between Q1 and Q2, the deficit is much smaller than it was in 2022. **As we argued in a recent *Focus*, easing imbalances allow for looser policy, which should drive a stronger recovery than most expect in 2024-25.**

Chart 1: Chile GDP

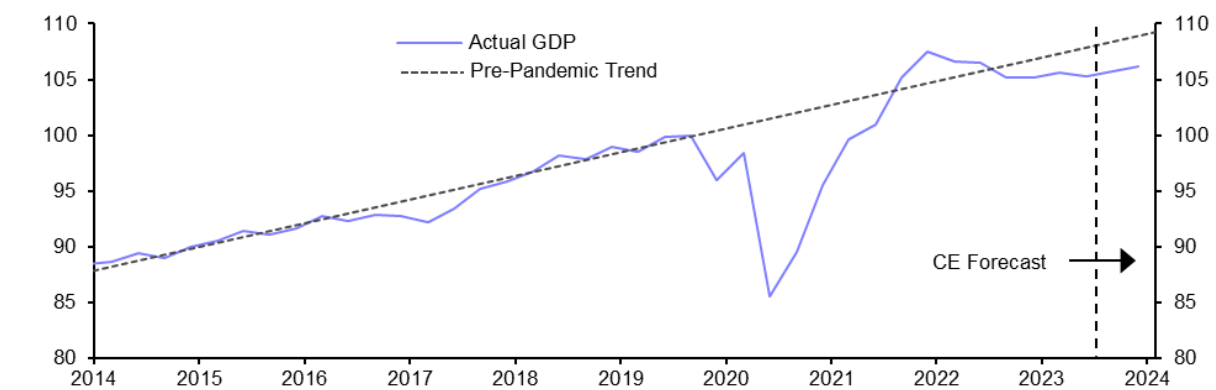


Table 1: Chile GDP by Expenditure

	GDP	Private Cons.	Investment	Govt Cons.	Exports	Imports
	% q/q (% y/y)	% q/q (% y/y)	% q/q (% y/y)	% q/q (% y/y)	% q/q (% y/y)	% q/q (% y/y)
Q3 2022	-1.2 (0.2)	-2.5 (-2.4)	1.9 (-2.9)	-1.7 (2.8)	0.3 (4.7)	-5.6 (-2.6)
Q4 2022	0.0 (-2.3)	-1.2 (-4.7)	-0.7 (-17.9)	1.4 (-2.1)	-0.6 (1.6)	-7.0 (-15.8)
Q1 2023	0.4 (-0.8)	-2.5 (-7.0)	-0.8 (-15.6)	4.4 (2.7)	0.5 (2.5)	-4.4 (-16.9)
Q2 2023	<b>-0.3 (-1.1)</b>	<b>0.0 (-6.1)</b>	<b>1.4 (-8.1)</b>	<b>-2.1 (1.5)</b>	<b>-1.3 (-1.2)</b>	<b>3.2 (-13.2)</b>

Sources: Refinitiv, Central Bank of Chile



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