

Macroeconomic environment

ECONOMY¹

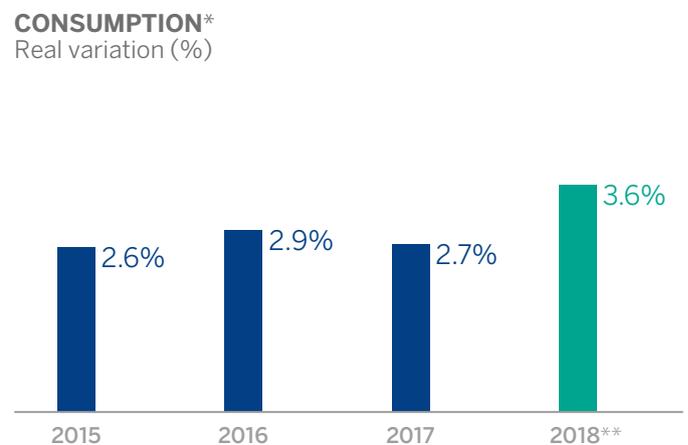
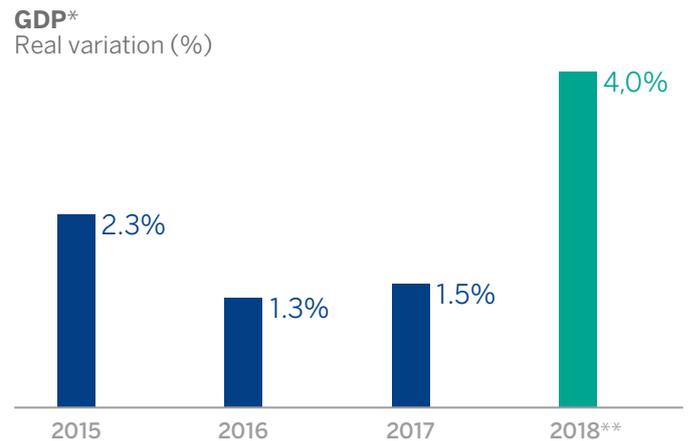
In 2018 the Chilean economy was much more dynamic than in preceding years, growing by 4.0%, fueled by the recovery of domestic demand, principally of investment, particularly the sharp spike in the durable goods component. In the first half the economy expanded by 4.9%, boosted by one-off factors that favored greater momentum in non-mining activities, especially trade, business services and industry. Domestic demand also grew strongly, reflecting greater expansion in private consumption.

However, in the second half the economy slowed, growing by 3.1%, accounted for by a more demanding basis for comparison and poorer performance in mining and industry. These sectors dragged down export momentum and their contribution to growth, in line with the fall in international copper prices and less favorable terms of trade in this period. Consumption also decelerated, due in part to higher unemployment and the fall in the real wage growth rate.

Growth over the year has closed the activity gap, putting the rise in GDP close to its potential, driving more dynamism in prices in the services sector and in non-tradables. This caused inflation, after slipping down to below 2%, to rise throughout 2018, posting at around 2.6% by year end. Goods inflation was 1.5% and in services 3.6%. Prices associated with the tradable sector rose by 1.8%, while those in the non-tradable sectors did so by 3.4%.

Underlying inflation (excluding from the basket a pre-specified quantity of products with volatile prices or whose price variation is a result of factors that are mainly exogenous to the economic cycle) came in at 2.1% in 2018, slightly above the figure for 2017 (1.9%).

Another factor that impacted on inflation in 2018 was the depreciation in the exchange rate, which slid by 12% against the US dollar, due to the greater strength of the latter globally and market turbulence, bringing the real exchange rate to levels close to its 10-year average.



¹ All data from the Chilean central bank. Estimates to the end of 2018 by BBVAMF Research.

* Chilean central bank.
** BBVAMF Research estimate.

Performance in the real sector, as well as price changes, meant that in October the central bank raised its monetary policy rate by 25 base points, taking it from 2.5% to 2.75%, the level at which it closed the year. As inflation converges towards the target, monetary stimulus will be reduced in order to align monetary policy with the medium-term inflation target of 3%.

Shorter term interest rates have risen in accordance with monetary policy developments, while long term rates and risk measures have remained stable due to favorable domestic financial conditions. In the area of credit, the cost remains low and placements are showing more movement.

EMPLOYMENT, POVERTY AND WELFARE²

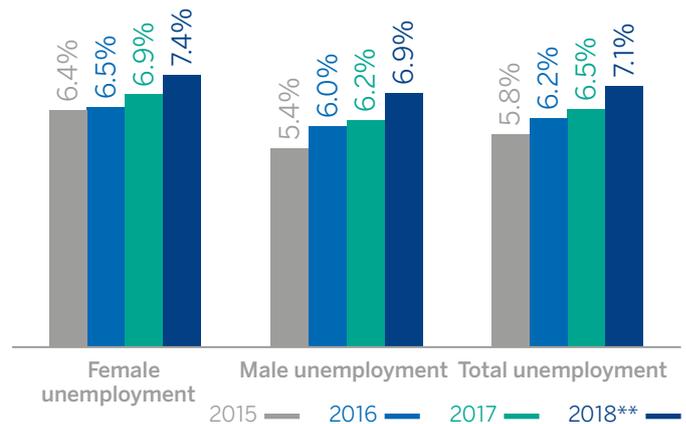
Despite good economic performance, in 2018 the unemployment rate rose by 0.6p.p. to 7.1%. This is accounted for by the 1.4% expansion in the labor force, larger than the increase in the occupied population (1.0%), putting greater pressure on the labor market.

This uptick was driven by the construction (4%), hotel & catering (6.6%) and education (3%) sectors. The main falls were noted in household-related activities such as domestic staff employers (-4.7%), public administration (-3.4%) and administrative and support services (-7.2%).

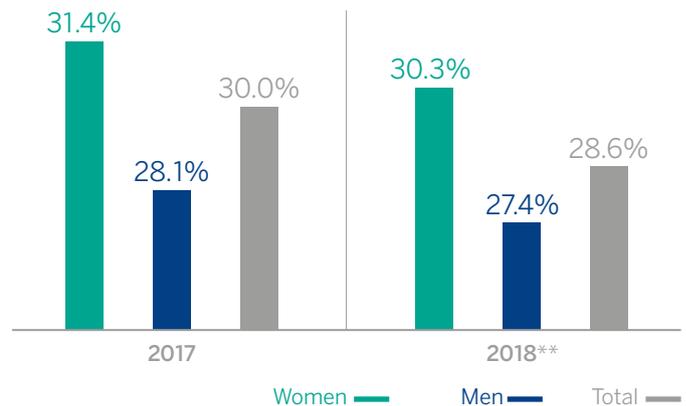
Pressure on the labor market was offset by an increase in the unemployed (bringing it up to 6.4%), around 37,140 more people than before. However, the proportion of those working part-time but who would like to work more, the under-employed, is 16.7%, down by 0.3 percentage points.

The participation and occupation rates fell by 0.2 and 0.5p.p., to 59.5% and 55.2%, respectively. The rate of unoccupied women posted at 7.4%, an increase of 0.5p.p. because of the 1.7% rise in the labor force, which was a shade higher than the 1.6% growth in the number of occupied women.

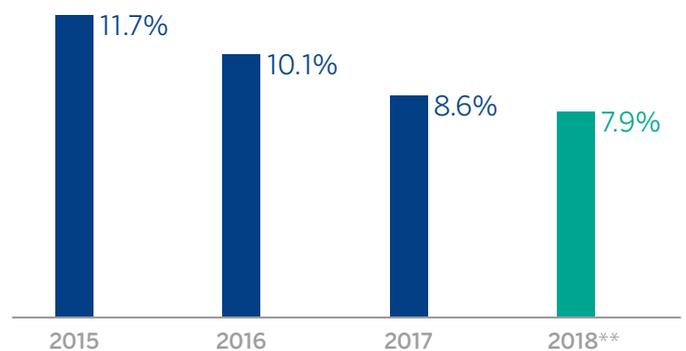
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² Data from INE (the National Statistics Institute), the Chilean central bank and the Casen survey. Estimates by BBVAMF Research.

* INEI.
** BBVAMF Research estimate.

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The number of unemployed women rose (by 2.7%), entirely due to the numbers of those looking for work for the first time (39.3%). Women's rates of participation and occupation stayed the same, at 48.9% and 45.3%, respectively.

The gender gap in the labor market remained stable, with men's unemployment rate at 6.9%, 0.5% lower than women's. The men's rate is 0.7p.p. higher than in 2017, the outcome of a 1.2% expansion in the workforce, which is larger than the 0.6% growth in the occupied population. The participation and employment rates were 70.4% and 65.5% respectively, revealing the significant gap –of 20.5p.p. and 20.2p.p.– with women in each case.

The rate of pressure on labor, that is, the number of occupied people looking for a job, plus the unoccupied and first-time job seekers expressed as a percentage of the work force, was 12.8%, expanding by 0.1p.p. from the year before. The rate of pressure on women rose by 0.2p.p. to 12.7%, whereas the statistic remained unchanged for men, at 12.9%.

Around 28.6% of jobs were in the informal economy, but the biggest growth in economic activity, even though it did not pass through to more employment, did bring about a reduction of 1.4p.p. in the occupancy rate in the informal sector. For men, the rate was 27.4%, while for women it was 30.3%.

The number of those occupied in the informal sector fell, principally among men (-2.4%) and, by age, in the 35–44 age group (-9.7%). By sector, the contraction of those occupied in the informal sector was mainly in the construction sector (-4.7%) and the manufacturing industry (-5.1%).

Poverty measured by income stood at 7.9% in 2018, according to the latest available Casen survey, a fall of 0.7p.p. from 2017 when it came to 8.6%. This puts the country's poverty levels among the lowest in the region.

Behind this percentage are 102,690 people in Chile who climbed out of poverty last year; there are still 1,481,361 people in poverty, of whom 393,779 are in extreme poverty, making up 2.1% of the population.

In 2006 income poverty in Chile affected 29.1% of the population, which means that over the last 12 years, around 3,275,875 Chileans have escaped it. However, even though income distribution has improved, as seen in the fall in the Gini ratio over the period, inequality has increased recently. The latest official survey showed that the incomes of the richest 10% are 39.1 times higher than those of the poorest 10%. In 2015 the multiple was just under 34 times.

FINANCIAL INCLUSION

According to the World Bank³, in Chile 74.3% of adults are banked, making it the country with the highest financial inclusion in the region. 67% of the adults in the poorest 40% of households are banked, compared to 79% of adults in the richest 60%, showing an inclusion gap by income differentiation of 12 percentage points, one of the smallest in the region.

71% of adult women are included in the financial system, representing a gender gap of 6.5p.p., in comparison with 77.8% of included adult men. The biggest gap (25.3p.p.) is between adults who are in the work force and those who are excluded.

54% of adults with primary education at best are included in the financial system, but this figure rises to 81% for adults who have completed secondary studies or higher, which confirms that unbanked adults are more likely to have a lower educational level.

Looking at the determinants for being unbanked, 54% of the unbanked give the main reason for exclusion as being that financial services are "very expensive". 23% have issues with the documents needed, 21% say that financial institutions are too far away, while 57% of adults alleged that the main reason was insufficient funds.

49% of adults have saved money in some way in the previous 12 months, but only 21% used a financial institution. In the segment of adults with the lowest 40% of incomes, 41% have made some kind of savings, but in this segment only 14% did so through a financial institution.

³ Global Findex 2017, World Bank.

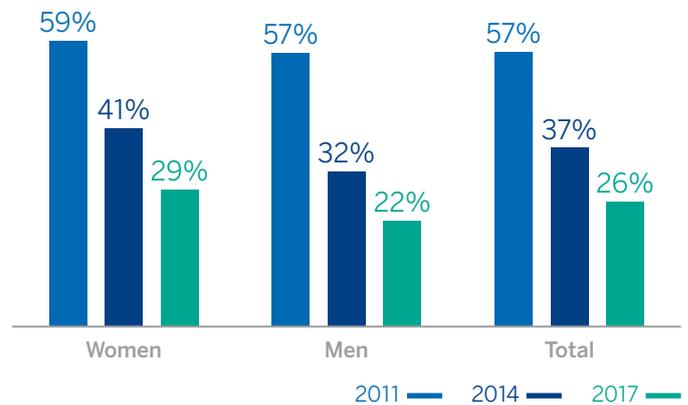
One of the purposes of savings was to begin or expand a productive activity. 17% of adults overall saved money in the previous year with this intention; while in the segment of adults with the lowest 40% of incomes it was 12%, this ratio rises to 20% in the higher income segment.

45% have received at least one loan, but only 13% have done so through a financial institution, whereas 15% have received their loan from family members or friends. For adults with lower incomes, although 38% have received a loan, only 12% have obtained it through financial institutions, whereas 15% borrowed the money from family members or friends.

According to local sources⁴, 98% of the population has a financial product of some kind. On average every Chilean has 5.3 products. One in every three adults has credit products, savings products and a checking account. 76% of the adult population has a checking account, while 69% and 52% have a savings or credit product, respectively.

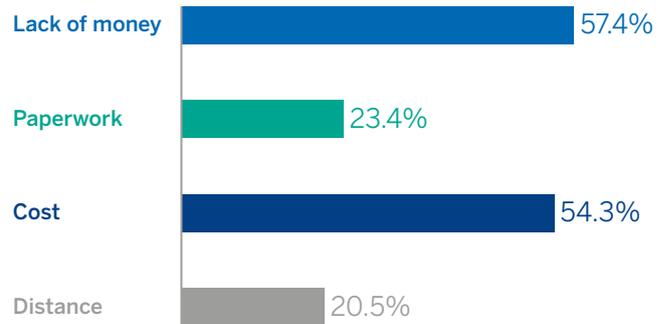
UNBANKED ADULTS*

Total over 15 years old (%)



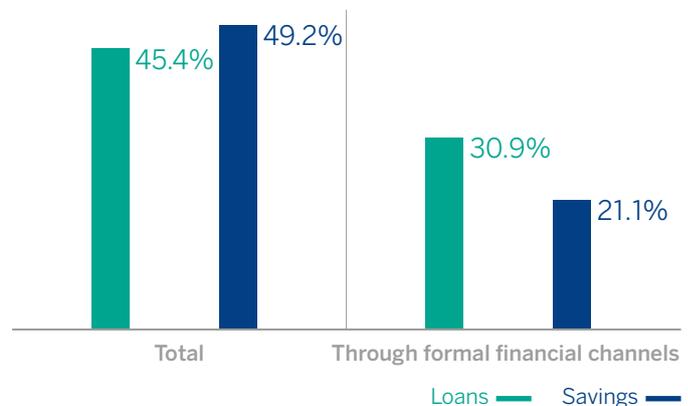
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



⁴ Source: 2016 Financial Inclusion Report. Chilean Banking & Financial Authority.

* Global Findex, World Bank.