Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile—Technical Recession in Q2-2022

- **Chile: The worst of the current account deficit (8.5% of GDP) is behind**

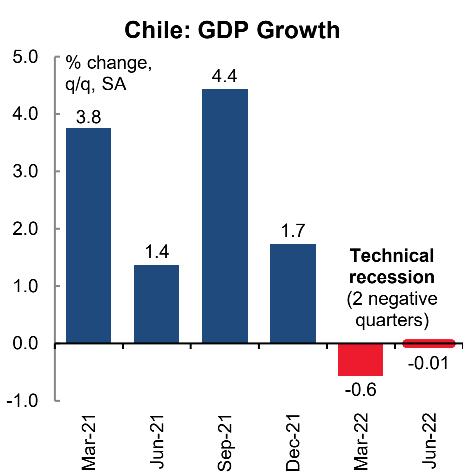
CHILE: THE WORST OF THE CURRENT ACCOUNT DEFICIT (8.5% OF GDP) IS BEHIND

On Thursday, August 18, the central bank (BCCh) released GDP growth for the second quarter of 2022, which expanded 5.4% y/y, less than previously estimated based on monthly GDP growth (5.7% y/y). In seasonally adjusted terms, economic activity fell 0.01% q/q due to negative contributions from the service and trade sectors. With this, the economy fell into its first technical recession since the first quarter of 2017 (chart 1). By components, total consumption fell 2.5% q/q due to the slowdown in both private consumption—mainly goods—and government consumption. At the same time, total investment decreased 1% q/q, thanks to the expected drop in its machinery and equipment components and the lack of dynamism in investment in construction. In turn, inventories grew strongly, partially offsetting the drop in consumption and investment. Considering all of the above, we incorporate a mild downward bias in our GDP growth forecast of 2.1% for this year and reiterate our forecast of -0.9% for 2023.

For its part, the current account deficit expanded to 8.5% of GDP during the second quarter of 2022 (from 7.3% of GDP in the first quarter), worse than expected by Scotiabank Economics (8% of GDP) but marking a turning point according to our projections. According to the BCCh, the current account deficit was explained by a deterioration in the trade balance in the second quarter, mainly due to an increase in imports of goods. To the extent that imports begin to reflect the slowdown in domestic demand, we expect a slight improvement in the external accounts in the coming quarters. Along the same lines, as we mentioned in our ***Latam Insights*** on July 27, we have probably already seen the worst in terms of the current account deficit in the second quarter of 2022. We expect a smooth but persistent convergence of the current account deficit towards sustainable levels in the coming quarters. With this, the current account deficit would converge to 6.6% of GDP by the end of 2022 and 4.5% of GDP by 2023, levels even lower than those observed at the beginning of 2019 (chart 2).

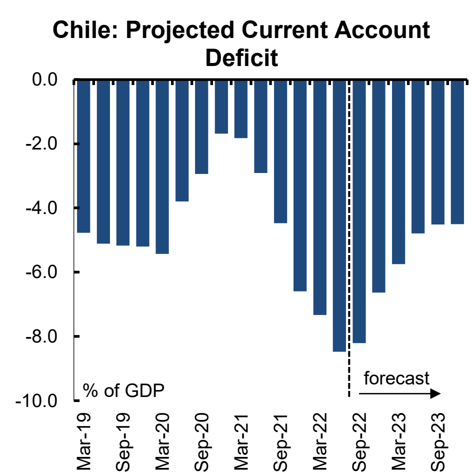
—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Source: Scotiabank Economics.