

CHILE

1. General trends

Chile registered GDP growth of 2.4% in 2022, lower than the 11.7% rate posted in 2021. This slower growth occurred as the economy adjusted to monetary and fiscal constraints aimed at correcting the macroeconomic imbalance that had resulted from the economic measures adopted during the coronavirus disease (COVID-19) pandemic. Economic activity showed differing behaviour over the course of 2022, with a dynamic first half and a second half that brought falls in output, total consumption, investment and net exports. By sector, this pattern was observed in construction, commerce, transportation and financial services. The slacker activity continued into the first quarter of 2023, in addition to the baseline effect produced by strong activity in the prior-year quarter. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Chile's GDP will grow by 0.3% in 2023.

Inflation ended the year at 12.8%, as the excess liquidity seen in 2021 continued during the first half of 2022, added to the increase in production costs, higher international fuel and food prices, and the pass-through of exchange-rate depreciation to imported goods. Inflation is expected to end 2023 slightly above 4%. The higher prices resulted in a drop in real wages of 1.7% in 2022. The easing of inflation has permitted some recovery in real wages, but they remain lower than at the end of 2021. Although the employed population increased, the participation rate grew more rapidly; accordingly, unemployment climbed from 7.2% in December 2021 to 7.9% at the end of 2022.

Both the central bank and the government took measures to stabilize the economy. The central bank continued the cycle of monetary policy rate increases that had begun in 2021 and made a final hike in October 2022, bringing the rate to 11.25%. Then, at the end of July 2023, the central bank began a series of cuts to the policy rate, with a reduction of 100 basis points, to 10.25%. The central government reduced its expenditures by 23% in real terms, while its revenues showed a real variation of 6.2%, to record a fiscal surplus for the first time in 10 years, equivalent to 1.1% of GDP. Central government gross debt rose from 36.3% of GDP in 2021 to 38.0% of GDP in 2022. The central government deficit will come to an estimated 1.9% of GDP in 2023, while gross debt is expected to remain close to 38% of GDP.

The current account closed 2022 with a deficit of US\$ 27.102 billion, equivalent to 9% of GDP (the current account balance averaged 3.2% of GDP in the 10 years prior to the start of the pandemic), reflecting the deficit on the services balance and the increase in revenue payments abroad. Both foreign direct investment and portfolio investment recorded net capital inflows, so the financial account showed a net inflow of US\$ 25.387 billion. For 2023, the current account deficit is estimated at close to 4% of GDP.

2. Economic policy

(a) Fiscal policy

In 2022, the central government balance posted a surplus for the first time since 2012, at 1.1% of GDP, representing a process of fiscal consolidation after two years with deficits in excess of 7% of GDP.

Total central government revenues were up by 6.2% in real terms, reflecting a 9.6% increase in tax revenues, on the back of higher income tax collection following increased annual tax statements for the 2021 tax period in a context of higher economic growth. Conversely, value added tax was down by 3.6% in real terms, reflecting the lower collection in the second half of the year due to the drop in consumption.

As noted above, total central government spending declined by 23% in real terms, as a result of a 26.2% real drop in current spending, owing to smaller outlays on grants and subsidies and lower payroll spending, as programmes and contracts put in place as part of the effort to contain the effects of the COVID-19 pandemic came to an end. Capital spending increased by 4.7%, despite a decrease in investment (18%), which was offset by an increase in capital transfers (31.3%).

Central government gross debt rose from 36.3% of GDP in 2021 to 38.0% in 2022. Of total debt issuance, 64.8% was on the local market, and the remaining 35.2% on the international market. The increase in debt pushed up the costs of servicing, which was 14.9% higher than in 2021. In 2022 Chile set up a sustainability-linked bond framework and in March that year began issuing bonds of this type. The government has again issued sustainability-linked bonds in 2023, with two issues in particular: one for 750 million euros and another for US\$ 2.25 billion, which also include gender equality commitments with a view to increasing the percentage of women on company boards.

The fiscal deficit for 2023 is estimated to be 1.9% of GDP, with a fall in real revenues of 10.9% and an increase of 0.7% in total real expenditures. The government's gross debt, meanwhile, will remain at around 38% of GDP (about US\$ 133.0 billion).

Extreme weather events associated with the climate crisis led to large forest fires in the summer of 2023 and rainfall-induced flooding in the winter. In response, the government allocated funds to support affected municipalities, households and sectors through various measures, at a combined cost of close to 125 billion pesos (US\$ 155.75 million).

The government has also pursued clean energy initiatives with the establishment of the Fund for the Development of Green Hydrogen and the formulation of the National Lithium Strategy. This includes setting up a national lithium company and a public technological and research institute on lithium and salt flats, and—as a matter of strategy—public-private partnership for the production of lithium.

(b) Monetary policy

In 2022, the central bank continued the cycle of monetary policy rate hikes, as inflation figures and expectations remained above the 3% target, in addition to persistently high core inflation and ongoing real impacts on the economy from excess spending in previous years. The series of monetary policy rate rises began in July 2021, taking the rate from 0.5% at that time to 11.25% in October 2022, after 11 hikes. At the end of July 2023, the central bank began to reduce the monetary policy rate, with a 100-basis-point drop, to 10.25%, consistently with the decline in inflation and inflation expectations and the fact that the economy has evolved as expected. The monetary constraint established by the central bank led to a decrease

in the monetary base and the M1 monetary aggregate, whose levels in the first half of 2023 were similar to those of July 2020, before the first withdrawal of pension funds was authorized and the Universal Emergency Family Income was made available.

On the macroprudential front, in May 2023 the central bank agreed to activate the countercyclical capital buffer, setting the measure at 0.5% of risk-weighted assets, which will be enforceable within one year. This measure is intended to boost the economy's resilience in the face of uncertain conditions and deteriorating international financial markets.

In June 2023, the central bank began a programme of international reserves replenishment and expansion, in the amount of a US\$ 10 billion, to strengthen the international liquidity position. The programme will consist of daily purchases of US\$ 40 million for one year. The bank will also engage in monetary sterilization measures to avert any resulting effects contrary to its monetary policy stance. International reserves stood at US\$ 39.626 billion prior to the start of the programme which, although similar to the average since 2012, is 28% lower than the peak of US\$ 55 billion in October 2021.

(c) Exchange-rate policy

The depreciation of 1.1% in the Chilean peso in 2022 does not reflect the volatility seen during the year, as the dollar price oscillated between a low of 777 pesos in March and a high of 1,062 pesos in mid-July, with an annual average of 872 pesos to the dollar. These variations were the result of local political and economic uncertainty, the international value of the dollar and the evolution of economic activity in China, Chile's main trading partner. The sharp depreciation of the Chilean peso in July prompted the central bank to implement a foreign-exchange intervention programme of up to US\$ 25.0 billion. This process ended in September 2022 and did stabilize the market, albeit with the exchange rate remaining at record-high levels.

As of June 2023, the nominal exchange rate had appreciated 7% with respect to year-end 2022. The peso's appreciation in value is mainly thanks to the easing of local uncertainty, the international evolution of the dollar following the interest rate decisions made by the United States and, to a lesser extent, the price of copper and the performance of the Chinese economy.

Despite the rise in inflation, the average real exchange rate depreciated by 7.4% in 2022, while in the first quarter of 2023 it rose by 3.1% year-on-year, so that the nominal exchange rate effect has prevailed over local inflation.

3. The main variables

(a) The external sector

The current account deficit widened from US\$ 20.307 billion (6.6% of GDP) in 2021 to US\$ 27.102 billion, equivalent to 9.0% of GDP, in 2022. Although goods trade returned a surplus of US\$ 3.8 billion (US\$ 6.663 billion less than the previous year), the services trade deficit increased to US\$ 14.824 billion, as a result of higher shipping costs and greater imports of financial services and tourism.

In 2022, goods exports were led by copper, due to the high price of the mineral (US\$ 4 per pound as an annual average), and lithium, as well as food and chemicals manufacturing exports. On the import side, higher prices for energy products helped push up the value of imports of intermediate goods, which

showed a year-on-year increase of 61%. While in 2021 durable goods led consumer goods imports, in 2022 other consumer goods (mainly food) were at the head of this category.

The income balance also showed a deficit (US\$ 15.913 billion), as investment income in Chile was higher than income earned on investment abroad. The financial account recorded net inflows of US\$ 25.387 billion, as reserve assets were boosted by the liquidation of bonds to support the foreign-exchange intervention programme. Direct investment also produced net inflows, owing to reinvestment of profits, as did portfolio investment, with foreign capital entries into the local stock market and bond issuances by the government and companies.

In the first quarter of 2023, the current account showed a surplus of US\$ 752 million, although the 12-month cumulative balance was a deficit of 6.9% of GDP. By the end of 2023, the current account deficit is expected to have fallen to 4% of GDP.

b) Economic activity

In 2022 the Chilean economy underwent an adjustment, beginning with vigorous growth in the first quarter, which was then diluted over the course of the year and ended with a fall in the last quarter, bringing annual growth to 2.4% (versus 11.7% in 2021).

The reduction in available cash balances was a determining factor in the decline of private consumption, while economic and political uncertainty in the country, together with the high cost of financing and the exchange-rate depreciation, slowed private investment. In annual terms, total consumption growth went from 19.3% in 2021 to 3.1% in 2022. Consumption of services was the main driver of consumption expenditure, since the goods component declined by 16%. Investment went from growth of 29.9% in 2021 to a decrease of 0.3% in 2022. Despite an increase in investment in machinery and equipment and in construction, the balance of gross capital formation was driven by negative variation in the accumulation of inventories. The economic adjustment process continued into the first quarter of 2023 and this, combined with the high comparison base, resulted in declines in GDP (0.6%), private consumption (6.7%) and investment (16.8%).

The fastest-growing sectors in 2022 were restaurants and hotels, personal services and transportation, consistently with the normalization of the economy following the COVID-19 pandemic. Conversely, commerce, mining and manufacturing showed the largest downturns. In the first three months of 2023, fishing, the electricity, gas and water sector and personal services showed the largest gains year-on-year, while the forestry and livestock sector, commerce and transportation showed the largest year-on-year decreases.

The adjustment process has been more gradual than economic agents had expected and so will likely continue during the second half of 2023. Consumption will continue to contract, albeit more slowly, in the first months of the second half-year, likely turning into growth by year-end, owing to expectations of more benign credit conditions in view of the decrease in the monetary policy rate in July and the expectation of more reductions during the rest of the year, and higher real wages as a result of lower inflation. Investment, conversely, is not expected to show major changes, given that the number of projects in the construction sector pipeline has not increased significantly. No significant boost can be expected to the national economy from the external sector as long as international financial uncertainty continues and the economic activity of Chile's trading partners remains lacklustre. ECLAC estimates that Chile will post 0.3% GDP growth in 2022.

(c) Prices, wages and employment

Inflation was high in general in 2022, with a sustained climb until the month of August, when the annual rate peaked at 14.1%. This was fuelled by the excess liquidity still being held by households in the first half of the year, in conjunction with higher production costs, the rise in fuel and food prices as a result of the conflict between the Russian Federation and Ukraine, and the pass-through of exchange-rate depreciation to import prices. Inflation began to ease in September and stood at 12.8% at year-end, in response to monetary tightening, a smaller exchange-rate depreciation and the fall in prices of food and energy products on international markets. The gradual reduction in inflation continued until July 2023, when the year-on-year price variation was 6.5%. By the end of 2023, inflation is expected to be slightly above 4%.

Core inflation has been more stubborn than headline inflation, standing at 5.2% in December 2021, 10.7% in December 2022 and 8.5% in July 2023. This pattern reflects an increase in the price of services, probably owing to higher demand as pandemic-related restrictions ended and the price rigidity caused by the indexation of the prices of some services such as education and housing.

Nominal wages showed an average 12-month increase of 10.8% in 2022; however, the high level of inflation resulted in real wage falls during the year (1.7%), and up until February 2023. As the increase in inflation was contained, wages posted an increase of 1.6% in real terms in June 2023 compared to the year-earlier period. In the comparison of wages with pre-pandemic values, nominal wages had grown by 28.3% up to June 2023, compared with 2.0% growth for real wages.

The unemployment rate rose in 2022 and in the first five months of 2023, from 7.2% in December 2021, to 7.9% in December 2022 and 8.5% in June 2023. Although the average monthly number of employed was on the rise in 2022, larger numbers also entered the labour force, accounting for the increase in the unemployment rate. The same occurred in the first five months of 2023.

Although the informal employment rate varied by only 0.1 percentage points in a year, reaching 27.2% in the April–June 2023 moving quarter, the number of people working informally grew by 2.5%, reaching a total of almost 2.5 million. The rise in female participation since 2022, which the formal labour market has been unable to absorb, explains the 12-month increase of 0.4 percentage points in women's labour informality rates, as men's informality rates were down by 0.2 percentage points.

Lastly, in April 2023, legislation was passed reducing the working work from 45 hours to 40, and in May, a law was enacted to increase the monthly minimum wage from 410,000 pesos to 500,000 pesos. Both laws will come into effect gradually.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Annual growth rates b/									
Gross domestic product	1.8	2.2	1.8	1.4	4.0	0.7	-6.1	11.7	2.4
Per capita gross domestic product	0.8	1.1	0.6	-0.2	2.1	-1.0	-7.4	10.6	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.3	3.4	3.3	3.8	3.8	-0.7	-2.7	4.3	0.1
Mining and quarrying	2.2	-1.3	-3.1	-2.1	6.0	-3.7	0.7	-1.6	-4.1
Manufacturing	0.5	1.6	-0.1	0.9	5.2	-1.5	-2.3	8.1	-2.5
Electricity, gas and water	4.1	-1.0	3.5	7.0	3.0	0.7	-0.3	2.5	9.9
Construction	-2.3	5.6	0.9	-4.4	4.7	4.5	-11.6	9.3	0.6
Wholesale and retail commerce, restaurants and hotels	0.6	2.7	1.4	2.9	3.6	-0.3	-10.6	23.6	-0.9
Transport, storage and communications	3.2	4.3	3.5	3.8	2.0	2.1	-11.6	10.9	9.2
Financial institutions, insurance, real estate and business services	2.8	1.6	-0.1	-0.7	4.0	3.7	-1.9	8.4	4.4
Community, social and personal services	3.1	2.9	6.2	2.5	3.8	0.1	-11.1	19.0	8.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.7	2.9	4.1	3.8	3.6	0.7	-6.6	19.3	3.1
Government consumption	4.1	5.0	7.6	4.7	3.1	0.6	-3.5	13.8	4.1
Private consumption	2.4	2.4	3.3	3.6	3.8	0.7	-7.4	20.8	2.9
Gross capital formation	-4.1	0.1	-2.4	-3.3	6.5	4.5	-10.8	15.7	2.8
Exports (goods and services)	0.5	-2.3	0.6	-1.0	4.9	-2.5	-0.9	-1.4	1.4
Imports (goods and services)	-6.6	-0.9	1.2	4.5	8.6	-1.7	-12.3	31.8	0.9
Percentages of GDP									
Investment and saving c/									
Gross capital formation	25.2	25.6	23.7	22.6	24.2	25.0	21.1	24.4	25.4
National saving	21.7	22.9	21.1	19.9	19.7	19.8	19.2	17.1	16.4
External saving	3.5	2.7	2.6	2.8	4.5	5.2	1.9	7.3	9.0
Millions of dollars									
Balance of payments									
Current account balance	-8 982	-6 631	-6 534	-7 616	-13 265	-14 505	-4 952	-23 193	-27 102
Goods balance	6 731	3 576	4 951	7 490	4 409	3 016	18 917	10 470	3 807
Exports, f.o.b.	75 324	62 120	60 769	68 904	74 838	68 792	74 024	94 774	98 548
Imports, f.o.b.	68 594	58 544	55 819	61 414	70 430	65 776	55 108	84 304	94 741
Services trade balance	-5 656	-5 571	-5 479	-5 611	-7 341	-8 085	-7 472	-12 318	-14 824
Income balance	-11 575	-5 984	-6 936	-10 756	-12 162	-10 411	-15 865	-18 518	-16 520
Net current transfers	1 519	1 348	929	1 260	1 829	974	-532	-2 827	434
Capital and financial balance d/	10 038	6 842	8 340	4 866	14 662	14 353	2 057	35 405	17 901
Net foreign direct investment	40 976	19 681	14 850	7 939	14 039	16 813	16 497	17 920	28 954
Other capital movements	-30 937	-12 839	-6 510	-3 073	623	-2 460	-14 439	17 485	-11 054
Overall balance	1 057	211	1 805	-2 750	1 397	-152	-2 895	12 211	-9 201
Variation in reserve assets e/	-1 057	-211	-1 805	2 750	-1 397	152	2 895	-12 211	9 201
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	92.9	100.0	99.0	95.3	92.0	98.5	106.3	101.8	109.4
Terms of trade for goods (index: 2018=100)	92.1	89.8	93.2	102.7	100.0	98.2	109.6	123.0	112.6
Net resource transfer (millions of dollars)	-1 536	858	1 404	-5 889	2 500	3 942	-13 807	16 887	1 381
Total gross external debt (millions of dollars)	153 696	159 613	165 217	179 976	184 220	198 396	208 485	237 690	233 325
Average annual rates									
Employment g/									
Labour force participation rate	61.9	62.0	62.1	62.7	63.0	62.8	56.1	57.2	59.8
Unemployment rate	6.5	6.3	6.7	7.0	7.4	7.2	10.8	8.9	7.9
Visible underemployment rate	9.5	9.0	9.6	9.5	9.4	9.5	7.2	5.9	5.0

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.6	4.4	2.7	2.3	2.6	3.0	3.0	7.2	12.8
Variation in industrial producer prices (December-December)	-3.3	-10.7	10.2	8.4	0.9	6.1	10.2	31.5	3.0
Variation in nominal exchange rate (annual average)	16.5	14.6	3.4	-4.1	-1.0	9.5	12.6	-4.0	14.9
Variation in average real wage	...	0.3	1.4	2.4	1.9	2.1	0.5	1.1	-1.8
Nominal deposit rate h/	5.2	3.9	3.8	4.0	3.0	3.0	2.7	1.7	9.2
Nominal lending rate h/	13.2	10.8	9.3	10.4	11.5	10.6	8.5	10.0	16.8
Central government	Percentages of GDP								
Total revenue	20.7	21.2	20.9	21.0	22.2	21.7	19.9	24.1	26.1
Tax revenue	18.0	18.9	18.6	18.6	19.6	19.2	17.6	20.0	22.1
Total expenditure	22.3	23.3	23.6	23.8	23.9	24.6	27.2	31.8	25.0
Current expenditure	18.2	19.0	19.5	20.0	20.2	20.8	23.8	28.5	21.5
Interest	0.6	0.7	0.7	0.8	0.9	0.9	1.0	0.9	1.0
Capital expenditure	4.1	4.4	4.1	3.8	3.7	3.8	3.4	3.3	3.5
Primary balance	-1.0	-1.5	-2.0	-1.9	-0.8	-1.9	-6.3	-6.8	2.1
Overall balance	-1.6	-2.2	-2.7	-2.8	-1.7	-2.9	-7.3	-7.7	1.1
Central government public debt	15.0	17.3	21.0	23.6	25.6	28.3	32.5	36.3	38.0
Domestic	12.3	13.9	17.3	19.2	20.3	22.3	25.0	23.5	24.5
External	2.7	3.4	3.7	4.4	5.3	6.0	7.5	12.8	13.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	62.9	71.7	71.6	72.1	75.0	79.8	79.7	73.8	74.7
To the public sector	-0.1	-0.4	-0.4	1.6	1.5	2.2	6.4	7.5	6.6
To the private sector	79.9	82.5	81.6	80.4	83.8	89.0	89.3	82.3	82.9
Others	-16.8	-10.4	-9.5	-10.0	-10.4	-11.4	-15.9	-16.0	-14.7
Monetary base	5.5	5.8	6.1	6.2	6.0	6.3	15.0	8.9	6.7
Money (M1)	17.2	17.8	17.4	18.0	18.7	21.7	32.5	33.2	22.0
M2	55.9	56.7	55.2	54.1	54.7	57.4	61.2	56.3	51.0
Foreign-currency deposits	8.6	9.2	8.6	8.0	8.3	10.8	12.2	13.2	12.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2013 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Non-adjustable 90-360 day operations.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2021				2022				2023	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	0.5	36.8	34.3	12.7	7.5	5.2	0.2	-2.3	-0.6	...
Gross international reserves (millions of dollars)	39 594	45 132	51 366	53 225	49 778	46 955	41 309	38 539	39 299	39 820 c/
Real effective exchange rate (index: 2005=100) d/	97.3	96.5	103.7	109.6	106.4	108.2	114.0	108.8	103.1	...
Unemployment rate	10.4	9.5	8.4	7.2	7.8	7.8	8.0	7.9	8.8	...
Employment rate	51.4	50.6	52.3	54.3	54.9	55.0	54.9	55.5	55.7	...
Consumer prices (12-month percentage variation)	2.9	3.8	5.3	7.2	70.6	12.5	13.7	12.8	-28.8	7.6
Wholesale prices (12-month percentage variation)	24.1	30.4	27.3	31.53	24.9	22.0	17.3	3.03	-1.9	-9.5 e/
Average nominal exchange rate (pesos per dollar)	724.1	716.3	773.6	826.4	808.5	844.3	927.1	913.9	810.5	801.3
Average real wage (variation from same quarter of preceding year)	1.3	2.1	1.3	-0.4	-0.7	-2.0	-2.6	-1.9	-0.5	...
Nominal interest rates (average annualized percentages)										
Deposit rate f/	0.4	0.5	1.7	4.3	6.6	8.7	10.5	11.2	11.0	10.8
Lending rate f/	9.2	8.9	9.1	12.6	15.2	16.0	17.9	18.2	20.1	20.0
Interbank rate	0.3	0.3	0.9	2.8	5.1	7.9	10.0	11.2	11.3	...
Monetary policy rates	0.5	0.5	1.0	3.2	6.0	8.1	10.1	11.3	11.3	11.3
Sovereign bond spread, Embi Global (basis points to end of period) g/	121.7	134.521	150.181	153.264	158	196	208	140	153	132
International bond issues (millions of dollars)	7 752	3 357	13 975	6 536	8 404	500	-	2 176	1 084	6 554
Domestic credit (variation from same quarter of preceding year)	2.1	0.0	3.4	7.8	6.5	11.2	12.2	11.0	13.9	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2018 prices.

c/ Figures as of April.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of May.

f/ Non-adjustable 90-360 day operations.

g/ Measured by J.P.Morgan.