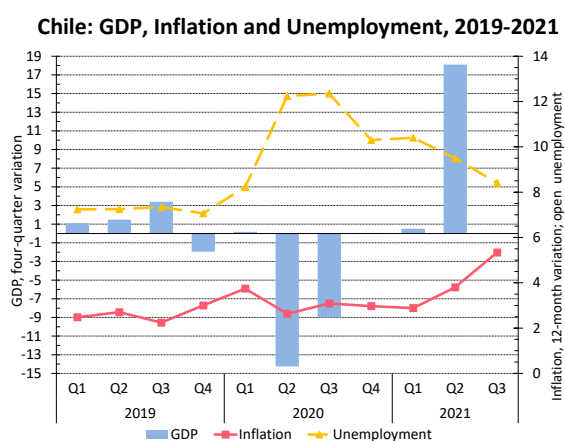


Chile

After a 5.8% drop in 2020, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Chile's gross domestic product (GDP) will grow by 11.8% in 2021, returning to levels seen prior to the social demonstrations of 2019. A number of factors have fed through into higher demand for domestic and external goods and into increased production: the gradual lifting of health-related restrictions and better adaptation of the economy to them, a high rate of vaccination against coronavirus disease (COVID-19) (over 90%), higher household incomes as a result of government cash transfers and withdrawals from pension savings, increased fiscal spending and a copper price at historically high levels. In addition, 2020 provided a low basis for comparison, which has contributed statistically to the high growth rate. Despite this strong economic growth, employment has not recovered to pre-pandemic levels, and the participation rate remains below 60%. The government has therefore put in place measures to encourage formal job creation, while extending financial subsidies to households. The strong dynamism of consumption, among other factors, has put pressure on prices, pushing inflation above the central bank target. As a result, the bank has begun to reduce monetary stimulus, raising interest rates on several occasions. Lower growth is expected for 2022, mainly owing to the withdrawal of monetary and fiscal stimulus and the working through of the statistical effect from a low basis of comparison.

The recovery of economic activity in 2021 has boosted central government revenues, which are expected to rise by 33.1% in real terms from their 2020 level to the equivalent of 23.3% of GDP. Tax revenues (18.7% of GDP) are expected to be 31.9% higher than in 2020, with receipts from private sector mining rising by 121.5% in real terms as a result of higher copper prices and exchange-rate movements. The same factors account for an estimated 267.2% rise in revenues from the State mining company, Codelco. Total government spending (31.7% of GDP) will be up 32.1% in real terms, owing to the continuation of social assistance to address the health crisis and measures to boost employment. The fiscal deficit is estimated at 8.3% of GDP. By the end of 2021, gross central government debt is projected to be about 35% of GDP, as compared to 32.5% of GDP in 2020. In 2022, a combination of lower GDP growth and higher prices is projected to produce a real-term decline in total government revenues, but a larger cut in total expenditures to stabilize the fiscal accounts is expected to bring the deficit down to 2.8% of GDP, with government debt rising to 37.5% of GDP.

The extension until December 2021 of benefits such as the Emergency Family Income (IFE), whose coverage was expanded in June to all households belonging to the most vulnerable 90% of the Social Household Register, together with measures aimed at protecting and creating jobs, such as the new Employment IFE subsidy and the Recruit (*Contrata*) and Return (*Regresa*) subsidies, have swelled spending on measures to address the social and economic impact of the



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

health crisis. By the end of 2021, the amount allocated for this purpose is expected to have totalled US\$ 33.8 billion, or more than 12% of GDP.

The increase in inflation to above the target (3%), rising inflationary expectations, strong economic activity and consumption from the second quarter onward and the possibility of macroeconomic imbalances led the central bank to raise the monetary policy rate four times in 2021, from a historic low of 0.5% to 0.75% in July and 1.5% in September. In October, the market was surprised by an increase of 125 basis points, bringing the rate to 2.75%. This increase was then repeated in December, taking the rate to 4.0%. In response to these rises, consumer, commercial and especially mortgage rates reacted with increases from the second half of the year. However, the downward trend in lending has been reversed, although consumer and business loans continue to show negative year-on-year changes in real terms. This pattern can be explained by households and SMEs paying down debt thanks to State transfers and the three pension fund withdrawals (which totalled US\$ 48.106 billion by November). The monetary base and the M1 monetary aggregate have increased substantially since July 2020, reflecting the greater liquidity in the economy, with year-on-year changes peaking at 125% and 56.5%, respectively. In the second half of 2021, these increases became progressively smaller. After applying non-conventional measures in 2020 in response to the economic crisis, the central bank stopped using these tools in June 2021. In October, furthermore, with reserves now exceeding US\$ 55 billion, the bank suspended the international reserve accumulation programme initiated in January 2021.

After the depreciation that followed the first cases of coronavirus disease in the country, the Chilean peso began a process of appreciation at the end of the first quarter of 2020, albeit a somewhat volatile one, so that the exchange rate strengthened from 868 pesos per dollar in March 2020 to 695 pesos per dollar in May 2021. Since then, the rate has moved back to over 800 pesos per dollar. This development is due to international dollar movements, expectations about the Chinese economy and local political, social and economic uncertainty, the effects of which have not been fully offset by positive data on economic activity and the high copper price.

The balance-of-payment current account went from a surplus of US\$ 3.37 billion (1.7% of GDP) in 2020 to a deficit of US\$ 11.274 billion (5.3% of GDP) in 2021 to the third quarter, mainly as a result of a decrease in the goods surplus and an increase in the income deficit resulting from profit withdrawals. In 2021 to September, goods exports were up 29.5% on the year-earlier period, driven by shipments of copper and industrial products, while imports were up 49.3% because of growth in international purchases of consumer durables, machinery and equipment. The copper price averaged a record US\$ 4.2 per pound in 2021, as against an average of US\$ 2.8 per pound in 2020. The financial account registered a net capital inflow of US\$ 3.6 billion as of the third quarter owing to net foreign direct investment inflows made up of capital injections and reinvested profits and to portfolio investment movements in

Chile: main economic indicators, 2019-2021

	2019	2020	2021 ^a
Annual growth rate			
Gross domestic product	0.9	-5.8	11.8
Per capita gross domestic product	-0.2	-6.6	11.2
Consumer prices	3.0	3.0	5.3 ^b
Real average wage ^c	2.1	0.5	1.7 ^b
Money (M1)	12.6	41.5	46.6 ^b
Real effective exchange rate ^d	5.5	8.5	-6.3 ^b
Terms of trade	-1.7	9.8	13.6
Annual average percentage			
Open unemployment rate	7.2	10.8	9.4 ^b
Central government			
Overall balance / GDP	-2.9	-7.3	...
Nominal deposit rate ^e	2.7	0.9	0.8 ^b
Nominal lending rate ^f	8.5	8.0	9.1 ^b
Millions of dollars			
Exports of goods and services	78 022	79 803	104 957
Imports of goods and services	80 172	66 432	93 997
Current account balance	-10 454	3 370	-7 688
Capital and financial balance ^g	10 301	-6 265	...
Overall balance	-152	-2 895	...

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

a/ Estimates.

b/ Figures as of September.

c/ General index of hourly remuneration.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Average nominal deposit rates for 90-360 days, non-adjustable.

f/ Lending nominal rates for 90-360 days, non-adjustable.

g/ Includes errors and omissions.

the form of inflows of government assets and assets repatriated by the pension fund administrators (AFP) to pay for withdrawals of retirement savings.

The economic recovery that began in the fourth quarter of 2020 firmed up in 2021. Thus, the Monthly Index of Economic Activity (IMACEC) showed year-on-year growth from March, with an average of 16% and a peak of 20.6% in June. Cumulative domestic demand to the third quarter of 2021 showed an increase of 21.4% over the same period in 2020, with strong growth in private consumption (21.9%), mainly in the form of durable goods purchases, in gross capital formation (16.6%), centring on machinery and equipment purchases, and in government consumption (11.0%). Government transfers and pension fund withdrawals have increased household income, which explains the increase in private consumption, the component that contributes most to GDP; however, some of this income is still being held in demand accounts, current accounts and, to a lesser extent, saving accounts, which suggests that private consumption could remain buoyant during the early months of 2022. The easing of health restrictions allowed sectors of the economy such as commerce, restaurants and hotels, construction, transport and personal services to achieve cumulative year-on-year growth of more than 10% to the third quarter of 2021. Manufacturing also achieved year-on-year growth of 10% as it adapted to operate within the constraints of the health measures. Agriculture grew less, while mining declined slightly after experiencing virtually no pandemic-related fall in output in 2020.

The boost to domestic demand mentioned earlier has pushed prices up, in conjunction with other factors such as the depreciation of the peso, higher fuel costs and higher production costs owing to a drop in input inventories and rising logistics costs. In November, year-on-year inflation was 6.7%, while core 12-month inflation was 5.8%. The prices of vehicles, transport services, package tours and home maintenance and repair—for all of which demand has risen—climbed particularly sharply. The increase in international fuel prices has resulted in higher energy prices.

While economic activity has been buoyant, the recovery in employment has lagged. The health crisis resulted in a loss of almost 2 million jobs, of which 720,000 have not yet returned. The unemployment rate was brought below double digits from the April–June quarter of 2021 and fell to 8.1% in the August–October. Fear of infection, care work at home, State support and the decision by many to wait for employment conditions to improve resulted in a decline in the participation rate to 51.8% in the May–July 2020 period, but the easing of lockdown measures allowed participation to increase to 57.6% in August–October 2021. Difficulty in filling job vacancies owing to the drop in the supply of workers, particularly lower-skilled and female workers, has put upward pressure on wages, which rose by 5.9% over the 12 months to October 2021.

ECLAC estimates that Chile's GDP will grow by 1.9% in 2022. This lower growth reflects a higher basis for comparison, lower private consumption due to the ending of State transfers and a reduced likelihood of new pension saving withdrawals being approved, reduced fiscal spending and the cancellation or delay of investment decisions owing to the political uncertainty entailed by the entry to office of a new government, institutional uncertainty associated with the drafting of a new constitution, and economic and social uncertainty resulting from the effects of the pandemic.