

## CHILE

### 1. General trends

In 2023, the Chilean economy posted positive growth of 0.2%, amid ongoing correction of the macroeconomic imbalances incurred in the preceding years as a result of overspending driven by the expansionary policies adopted to confront the coronavirus disease (COVID-19) pandemic. The adjustment impacted private consumption and investment, with year-on-year declines that eased throughout the year, while government consumption rose slightly. Commerce suffered as a result of the fall in household consumption, while the decline in investment was concentrated in the construction sector. With domestic demand weaker, imports were down much more heavily than exports, which partly accounts for the lower current account deficit.

The central government accounts posted a deficit equivalent to 2.4% of GDP in 2023, after the expenditure adjustment that underpinned a fiscal surplus of 1.1% in 2022. Tax revenues were down amid weak domestic demand, while current spending rose owing to the start-up of the Universal Guaranteed Pension and aid provided in response to emergencies caused by wildfires and heavy rains. Gross debt rose, especially issues of thematic bonds linked to sustainability and gender equality. For 2024, the fiscal deficit is estimated at 1.9% of GDP, while public debt will rise to around 40% of GDP.

Inflation continued to slow in 2023 and the consumer price index ended the year with annual variation of 3.9%. In 2024, inflation has approached 4%, the upper limit of the central bank's target range, with a slight uptick since March, albeit two-year expectations remain within the target range. Price trends during the year have led the central bank to pare down its cuts to the policy rate, which came to 5.75% in June. The policy rate will likely continue to be lowered during 2024, but more gradually than expected at the beginning of the year, given the persistence of inflation since April.

The current account deficit narrowed in 2023, to 3.6% of GDP from the previous year's 9.0%. Lower domestic demand translated into a fall in imports of goods and services, which widened the trade surplus and narrowed the services account deficit, while the deficit on the income account also widened. The financial account recorded net inflows of US\$ 10.345 billion, reflecting the reinvestment of earnings and inward capital investment and debt issuance by the government. In the first quarter of 2024 the balance-of-payments accounts were similar to the year-earlier period and for 2024 overall, the current account is expected to post a deficit of around 2% of GDP.

The first quarter of 2024 saw year-on-year rises in household consumption and gross capital formation, which are expected to set the tone for the rest of the year. The external sector should also provide a boost thanks to better growth prospects in the economies of Chile's trading partners and rising prices for copper. ECLAC estimates that GDP will grow by 2.6% in 2024 and 2.3% in 2025.

### 2. Economic policy

#### (a) Fiscal policy

The central government accounts were in deficit by 2.4% of GDP in 2023.

Total revenues saw a real-term fall of 12.4%, mainly owing to a decline of 16.6% in tax revenues, both from private mining and from other taxpayers, as well as a 44.1% fall in revenues from the State-owned copper mining company Corporación Nacional del Cobre de Chile (CODELCO). These falls were too large to be offset by increases in rental income (16.5%) generated by leases of State-owned land for lithium exploitation, and in other income (13.3%).

Central government expenditures increased by 1.1% in real terms, reflecting growth in current spending (1.6%), in turn resulting from higher pension outlays driven by the new Universal Guaranteed Pension, which increased both the number of beneficiaries and the amount of the benefit. The wage bill was also higher, especially in relation to the Armed Forces, as was allocation of resources for emergency response. Subsidies and grants declined in 2023, because, unlike in 2022, no transfers were made to alleviate fuel rises, and because the government ended the Employment Emergency Family Income (IFE Laboral), created during the COVID-19 pandemic.

Social expenditures also included allocations for hosting the 2023 Pan American and Parapan American Games and for the Electronic Family Account benefit, a monthly allowance per family dependent created to alleviate the rise in food prices.

The fiscal deficit, along with debt amortizations and the payment of top-up credits to ex-affiliates of the legacy pension system, were financed by the net sale of financial and debt assets, which took the central government's gross debt up from 37.9% of GDP in 2022 to 39.4% in 2023. This percentage is still below the prudent medium-term ceiling of 45% recommended by the Organisation for Economic Co-operation and Development (OECD) and the Autonomous Fiscal Council (CFA) of Chile. The proportion of domestic to external debt balances remained stable, at 64% and 36%, respectively.

The central government deficit is expected to come to 1.9% for 2024, reflecting an expansionary policy supported by greater public investment. The central government's gross debt is expected to be around 40% of GDP.

## **(b) Monetary policy**

In July 2023, the central bank embarked upon a cycle of cuts to monetary policy rate, after 10 virtually successive months of drops in inflation and four months of year-on-year falls in the monthly index of economic activity (IMACEC), following the contractionary monetary and fiscal policies initiated in 2022. The policy rate thus came down from a high of 11.25%, to 5.75% in June 2024. With persistent inflation since early 2024, especially in food and energy, however, these cuts have been pared back and further reductions of similar size and frequency now look less likely, notwithstanding that the two-year inflation expectation remains firmly at the heart of the monetary policy target.

The decrease in the policy rate has been reflected mainly in consumer and business lending rates. Yearly rates on consumer loans went from a monthly high of 29.4% in February 2023 to 24.9% in June 2024, and rates on business loans fell from 16.6% to 10% in the same period. Conversely, mortgage rates have been on the rise since 2021, in response to factors such as the long financing horizons of this category of lending, tighter credit restrictions, and weaker activity in the construction sector. The interest rate cuts mentioned above have eased the real-term fall in consumer and business credit portfolios, from the steepest year-on-year contraction of 3.4% and 7.7%, respectively, in June 2023, to a drop of 1.8% in May 2024 for both portfolios. Conversely, mortgage lending has continued to see real growth close to 3% since mid-2022, although that figure is the lowest for 25 years.

In relation to macroprudential policy, in May 2023 the central bank agreed to activate the countercyclical capital requirement at 0.5% of risk-weighted assets and this has been maintained until mid-2024. In June, the central bank also started a programme to replenish and expand international reserves. However, in October the scheme was suspended owing to the peso's depreciation since July. Nevertheless, reserves continued to increase and peaked at US\$ 47.085 billion in January 2024, an increase of almost US\$ 6.50 billion compared to January 2023. From then up to June 2024, international reserve stock has come down to US\$ 44.063 billion.

### **(c) Exchange-rate policy**

Exchange-rate patterns followed two main trends in 2023: appreciation in the first half-year, owing mainly to lower local uncertainty and global dollar trends, and depreciation in the second half, because of the wider spread between the monetary policy rate domestically and in the developed countries. Thus, the exchange rate began the year at 856 pesos to the dollar, falling to around 800 pesos at the end of June and ending 2023 at 885 pesos, despite the end of the abovementioned programme to replenish and expand international reserves.

The depreciation of the Chilean peso continued until mid-April 2024; however, the rise in copper prices pushed down the average exchange rate in the second quarter, compared to the first. It is worth remarking that dollar price variations have largely reflected copper price movements.

## **3. The main variables**

### **(a) The external sector**

The current account deficit decreased by US\$ 14.263 billion in 2023, from the equivalent to 9.9% of GDP in 2022 to 3.6%, thanks to a larger surplus in the trade balance, a smaller deficit on the services balance and the swing from a deficit to a surplus in current transfers or secondary income. The primary income deficit, which widened by US\$ 2.785 billion, also contributed substantially to the outcome of the current account.

The trade surplus came to US\$ 15.323 billion, with both exports and imports of goods down on 2022, but the decline in imports by US\$ 11.594 billion more. The fall in exports was due mainly to weaker exports of lithium, copper and forestry products, while slack domestic demand underpinned the drop in imports across all categories, led by intermediate then consumer goods. By product, the largest falls in imports occurred in energy goods, automobiles and clothing.

In 2023, the financial account recorded net capital inflows of US\$ 10.345 billion, thanks to the increase in capital inflows from foreign direct investment, which reached US\$ 15.460 billion, the highest figure since 2014. Foreign investment in Chile consisted mainly of equity and reinvestment of profits. Conversely, portfolio investment showed net capital outflows of US\$ 1.771 billion, with outward investment by pension fund administrators exceeding inflows from the issuance of government bonds.

The current account posted a deficit of US\$ 104 million, or 0.1% of GDP, in the first quarter of 2024, reflecting deficits on the income account and the services balance too large to be offset by the goods trade surplus. Notable in the first half of 2024 were increased exports of copper and cherries and a drop in lithium exports, compared to the prior-year period. Imports showed another year-on-year drop in the first half of 2024, largely because of smaller imports of intermediate and capital goods. Contrasting with net

capital outflows in the first quarter of 2023, foreign and portfolio investment produced net capital inflows in 2024.

The copper price is expected to be higher in 2024 overall, having reached an average of US\$ 4.14 per pound in July (compared with a 2023 average of US\$ 3.85), which would underpin an unturn in exports and a fresh reduction in the current account deficit, to around 2% of GDP.

## **b) Economic activity**

After the adjustment in the Chilean economy the year before, 2023 was a year of relative stabilization, in which the domestic demand contractions began to slacken and, together with growth in public consumption and net external demand, brought GDP variation to 0.2%.

Household consumption was down by 5.2% in the annual figure, with declines in both durable and non-durable goods. The services sector was resilient throughout the year, with 0.9% growth overall in 2023. Gross fixed capital formation fell 1.1% due to the high cost of financing, exchange-rate depreciation, and political and social uncertainty in the first half-year. The construction and machinery and equipment components began the year stronger in year-on-year terms, but ended the second half with falls. Growth on government consumption was slightly less than in previous years, at 1.8%.

By branch of economic activity, commerce posted the heaviest decline in absolute terms, down 3.5% in annual figures, as a direct impact of the fall in consumption. It was followed by copper mining, with a contraction of 2.3% in 2023, reflecting production losses, increased production costs and, in the case of CODELCO, operational difficulties in several mines. As noted earlier, the lower copper production had implications for tax revenues and exports.

Domestic demand grew again in the first quarter of 2024, after falling for six straight quarters, at 2.0% over the prior-year period, while GDP grew 2.3%. The strongest contributors to the higher GDP rise were the electricity, gas and water sectors and mining. For the time being, only investment in construction and machinery and equipment continue to show year-on-year contraction.

## **(c) Prices, wages and employment**

After peaking at 14.1% in August 2022, in 2023 inflation continued steadily downwards, ending the year at 3.9%, within the central bank's target range. This was the result of the measures adopted by the central bank and the government to cool an overheated economy, a lower exchange rate, especially at the beginning of the year, and the decrease in food and energy prices. In 2024, inflation has persisted amid stronger domestic demand and rising energy and food prices, and has been around 4% in the first half-year. Core inflation (that is, excluding food, energy and other volatile components) also came down in 2023, to 4.7% in December, and continued to ease in 2024, reaching 3.2% in June. Inflation is expected to gradually ease to around 4% at the end of 2024 and meet the target of 3% in 2026.

As of March 2023, real wages have shown year-on-year increases, producing a rise of 3.6% at the end of the year. Although nominal wages rose by over 10% between June 2022 and June 2023, the real wage gain is due chiefly to the decrease in inflation. Average wages showed a real year-on-year increase of 2.4% up to May 2024, led especially by large and medium-sized enterprises and the commerce, manufacturing and services sectors.

The unemployment rate rose by 0.6 percentage points in 2023, peaking at 9% in August and standing at 8.5% at year-end, reflecting a larger increase in the labour force, at 3.6%, than the number of employed, which rose 2.9%. In 2024, up to May this had been reversed, with a 3.3% year-on-year increase in the number of employed versus 3.1% in the labour force, which took unemployment to 8.3% in this period.

The strongest job-creating sectors in 2023 were health, commerce and manufacturing, compared with public administration and defence, transportation and construction in the first five months of 2024. Although the jobs lost during the pandemic were recovered by November 2023, employment creation has slowed since then. Lastly, informality increased in 2023, to 27.5%, driven mainly by the figures for women, which rose 7.2% over the year, compared to a 0.5% rise in male informality. By May 2024, the informality rate increased to 28.2%.

The Economic Commission for Latin America and the Caribbean (ECLAC) projects Chile's GDP growth at 2.6% in 2024. Although policy rate cuts will likely be smaller and less frequent in the second half of the year amid persistent inflation, domestic demand will be stronger on the consumption side, given the better performance of commerce and the services sector so far this year. Investment may contract less than had been estimated, given stronger public investment and the ongoing momentum of investment in energy and mining, on the back of higher copper prices. Above-expected copper prices early in the year and a brighter economic outlook for trading partners could underpin higher exports.

Table 1  
CHILE: MAIN ECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2020	2021	2022	2023 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	2.2	1.8	1.4	4.0	0.6	-6.1	11.3	2.1	0.2
Per capita gross domestic product	1.1	0.6	-0.2	2.1	-1.2	-7.4	10.2	1.5	0.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.4	3.3	3.8	3.8	-0.7	-2.7	3.8	-0.2	-0.3
Mining and quarrying	-1.3	-3.1	-2.1	6.0	-4.5	0.8	-4.5	-6.4	-0.3
Manufacturing	1.6	-0.1	0.9	5.2	-1.8	-2.2	5.7	-4.2	1.9
Electricity, gas and water	-1.0	3.5	7.0	3.0	0.7	-0.3	0.6	9.8	17.8
Construction	5.6	0.9	-4.4	4.7	4.5	-11.6	5.7	2.2	-0.2
Wholesale and retail commerce, restaurants and hotels	2.7	1.4	2.9	3.6	-0.3	-10.6	23.9	-1.1	-2.5
Transport, storage and communications	4.3	3.5	3.8	2.0	2.1	-11.6	13.2	8.4	3.4
Financial institutions, insurance, real estate and business services	1.6	-0.1	-0.7	4.0	3.7	-1.9	9.2	5.0	1.1
Community, social and personal services	2.9	6.2	2.5	3.8	0.1	-11.1	19.2	8.8	1.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	4.1	3.8	3.6	0.7	-6.6	19.5	2.6	-3.9
Government consumption	5.0	7.6	4.7	3.1	0.6	-3.5	14.1	6.5	1.7
Private consumption	2.4	3.3	3.6	3.8	0.7	-7.4	21.0	1.6	-5.2
Gross capital formation	0.1	-2.4	-3.3	6.5	4.5	-10.8	16.0	3.9	-1.1
Exports (goods and services)	-2.3	0.6	-1.0	4.9	-2.5	-0.9	-1.5	0.8	-0.3
Imports (goods and services)	-0.9	1.2	4.5	8.6	-1.7	-12.3	31.9	1.5	-12.0
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	25.6	23.7	22.6	24.2	24.9	21.1	24.1	25.6	23.0
National saving	22.9	21.1	19.9	19.7	19.7	19.1	16.8	16.9	19.4
External saving	2.7	2.6	2.8	4.5	5.2	1.9	7.3	8.6	3.5
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-6 631	-6 534	-7 616	-13 265	-14 505	-4 952	-22 962	-26 162	-11 899
Goods balance	3 576	4 951	7 490	4 409	3 016	18 917	10 305	3 729	15 323
Exports, f.o.b.	62 120	60 769	68 904	74 838	68 792	74 024	94 604	98 557	94 557
Imports, f.o.b.	58 544	55 819	61 414	70 430	65 776	55 108	84 299	94 827	79 234
Services trade balance	-5 571	-5 479	-5 611	-7 341	-8 085	-7 472	-12 494	-15 599	-10 782
Income balance	-5 984	-6 936	-10 756	-12 162	-10 411	-15 865	-17 947	-14 224	-17 009
Net current transfers	1 348	929	1 260	1 829	974	-532	-2 827	-69	568
Capital and financial balance d/	6 842	8 340	4 866	14 662	14 353	2 057	35 174	16 961	18 687
Net foreign direct investment	19 681	14 850	7 939	14 039	16 813	16 497	15 781	23 267	38 072
Other capital movements	-12 839	-6 510	-3 073	623	-2 460	-14 439	19 393	-6 306	-19 385
Overall balance	211	1 805	-2 750	1 397	-152	-2 895	12 211	-9 201	6 788
Variation in reserve assets e/	-211	-1 805	2 750	-1 397	152	2 895	-12 211	9 201	-6 788
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	100.0	99.0	95.3	92.0	98.5	106.3	101.8	109.3	105.2
Terms of trade for goods f.o.b./f.o.b. (Annual growth rates)	-2.5	3.7	10.2	-2.6	-1.8	11.4	12.2	-8.6	3.7
Net resource transfer (millions of dollars)	858	1 404	-5 889	2 500	3 942	-13 807	17 227	2 737	1 678
Total gross external debt (millions of dollars)	159 613	165 217	179 976	184 220	198 396	208 485	237 690	233 325	240 968
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	62.0	62.1	62.7	63.0	62.8	56.1	57.2	59.8	61.2
Unemployment rate	6.3	6.7	7.0	7.4	7.2	10.8	8.9	7.9	8.7
Visible underemployment rate	9.0	9.6	9.5	9.4	9.5	7.2	5.9	5.0	4.6

Table 1 (concluded)

	2015	2016	2017	2018	2019	2020	2021	2022	2023 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	4.4	2.7	2.3	2.6	3.0	3.0	7.2	12.8	3.9
Variation in industrial producer prices (December-December)	-10.7	10.2	8.4	0.9	6.1	10.2	31.5	3.0	0.4
Variation in nominal exchange rate (annual average)	14.6	3.4	-4.1	-1.0	9.5	12.6	-4.0	14.9	-3.8
Variation in average real wage	...	1.4	2.4	1.9	2.1	0.5	1.1	-1.8	1.8
Nominal deposit rate h/	3.9	3.8	4.0	3.0	3.0	2.7	1.7	9.2	9.8
Nominal lending rate h/	10.8	9.3	10.4	11.5	10.6	8.5	10.0	16.8	18.9
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	21.2	20.9	21.0	22.2	21.8	19.9	24.2	26.0	23.0
Tax revenue	18.9	18.6	18.6	19.6	19.2	17.6	20.1	22.0	18.8
Total expenditure	23.3	23.6	23.8	23.9	24.6	27.2	31.9	24.9	25.3
Current expenditure	19.0	19.5	20.0	20.2	20.8	23.8	28.6	21.4	21.9
Interest	0.7	0.7	0.8	0.9	0.9	1.0	0.9	1.0	1.1
Capital expenditure	4.4	4.1	3.8	3.7	3.8	3.4	3.3	3.5	3.5
Primary balance	-1.5	-2.0	-1.9	-0.8	-1.9	-6.3	-6.9	2.1	-1.3
Overall balance	-2.2	-2.7	-2.8	-1.7	-2.9	-7.3	-7.7	1.1	-2.4
Central government public debt	17.3	21.0	23.6	25.6	28.3	32.5	36.3	38.0	39.4
Domestic	13.9	17.3	19.2	20.3	22.3	25.0	23.5	24.5	25.3
External	3.4	3.7	4.4	5.3	6.0	7.5	12.8	13.5	14.1
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	71.7	71.6	72.1	75.0	79.9	79.8	74.0	74.4	71.4
To the public sector	-0.4	-0.4	1.6	1.5	2.2	6.4	7.5	6.5	6.1
To the private sector	82.5	81.6	80.4	83.8	89.1	89.3	82.6	82.5	79.8
Others	-10.4	-9.5	-10.0	-10.4	-11.4	-15.9	-16.1	-14.7	-14.5
Monetary base	5.8	6.1	6.2	6.0	6.3	15.0	9.0	6.7	6.0
Money (M1)	17.8	17.4	18.0	18.7	21.7	32.5	33.3	22.5	20.6
M2	56.7	55.2	54.1	54.7	57.5	61.3	56.5	51.9	49.4
Foreign-currency deposits	9.2	8.6	8.0	8.3	10.8	12.2	13.2	12.0	10.9

**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 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

	2022				2023				2024	
	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/	6.3	4.4	0.5	-2.3	0.3	-0.4	0.6	0.4	2.3	...
Gross international reserves (millions of dollars)	43 778	42 529	34 945	36 354	37 063	37 018	38 987	41 319	38 970	...
Real effective exchange rate (index: 2005=100) c/	106.4	108.2	114.0	108.8	102.9	110.1	107.4	108.4	106.0	110.4 d/
Unemployment rate	7.8	7.8	8.0	7.9	8.8	8.5	8.9	8.5	8.7	...
Employment rate	54.9	55.0	54.9	55.5	55.7	55.7	55.5	56.6	57.0	...
Consumer prices (12-month percentage variation)	9.4	12.5	13.7	12.8	11.1	7.6	5.1	3.9	3.8	4.2
Wholesale prices (12-month percentage variation)	24.9	22.0	17.3	3.03	-1.9	-9.5	-5.8	0.42	8.8	12.5 d/
Average nominal exchange rate (pesos per dollar)	808.5	844.3	927.1	913.9	810.5	801.3	853.1	896.1	948.2	958.8 d/
Average real wage (variation from same quarter of preceding year)	-0.7	-2.0	-2.6	-1.9	-0.5	1.6	2.9	3.1	1.7	...
Nominal interest rates (average annualized percentages)										
Deposit rate e/	6.6	8.7	10.5	11.2	11.0	10.8	8.9	8.3	6.6	...
Lending rate e/	15.2	16.0	17.9	18.2	20.1	20.0	18.5	16.6	16.6	...
Interbank rate	5.1	7.9	10.0	11.2	11.3	11.3	9.9	9.1	7.6	...
Monetary policy rates	6.0	8.1	10.1	11.3	11.3	11.3	9.9	8.8	7.6	6.5 d/
Sovereign bond spread, Embi Global (basis points to end of period) f/	158.468	195.513	208.281	139.581	153	132	135	132	127	...
International bond issues (millions of dollars)	8 404	500	-	2 176	1 084	7 159	5 343	3 570	5 651	1 850
Domestic credit (variation from same quarter of preceding year)	6.5	11.2	12.2	11.0	13.9	8.8	3.9	2.6	-92.8	...

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

d/ Figures as of April.

e/ Non-adjustable 90-360 day operations.

f/ Measured by J.P.Morgan.