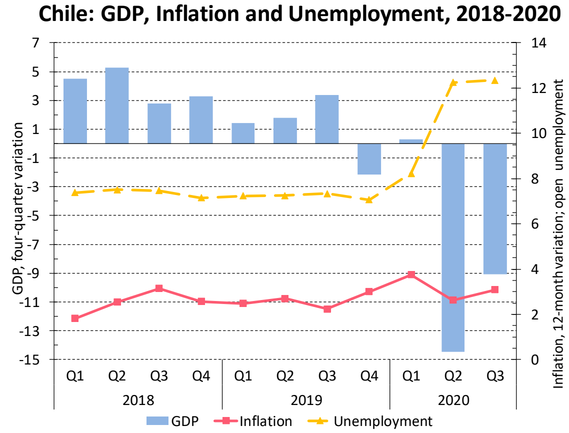
Chile

In 2020, Chile has been confronting one of the worst economic crises in its history, and the Economic Commission for Latin America and the Caribbean (ECLAC) predicts that the country's GDP will contract by 6%. The slump in output resulting from the social crisis that started in the last quarter of 2019 continued, as economic activity weakened further in the first few months of 2020. Border closures, prolonged quarantines and the suspension of certain economic activities to control the spread of the coronavirus disease (COVID-19) have resulted in a reduction in domestic demand, lower production levels and higher unemployment. To address this situation, the Government implemented economic measures aimed at supporting household incomes, protecting jobs, and providing economic relief to businesses affected by the pandemic. Meanwhile, the central bank has deployed both conventional and unconventional measures to boost liquidity in the economy and stabilize the financial system. Weak external and domestic demand has been reflected in foreign trade, with exports and imports both shrinking. The fourth quarter has seen the start of an incipient recovery in activity, both as an effect of the economic measures adopted and thanks to the gradual lifting of the health measures. In 2021, GDP is projected to grow by 5%.

The arrival of COVID-19 in Chile created a new fiscal scenario for the central Government, with total revenues falling by 10.6% and total expenditure rising by 11.4%, both figures in real terms, relative to their 2019 levels. Thus, in a framework of shrinking GDP, the fiscal deficit is set to rise from 2.8% of GDP in 2019 to 8.2% in 2020. Tax revenues are predicted to fall by 13.6% in real terms, as the combined result of weaker domestic demand and the tax benefits put in place to help families and businesses during the crisis. The measures adopted by the Government to respond to needs arising from the pandemic have entailed additional fiscal spending. This has been funded through budgetary reallocations, funds withdrawn from the Economic and Social Stabilization Fund, the sale of public treasury assets and an increase in public debt (both domestic and foreign), the balance of which is projected to be 33.7% of GDP in 2020. The debt is expected to continue to grow temporarily until 2025, when it would be equivalent to 44.1% of GDP.[1]

Owing to the health, economic and social crisis generated by the pandemic, the Government designed an Emergency Economic Plan based on three pillars: protection of jobs and labour incomes, provision of liquidity for businesses and support for family incomes. The measures adopted include the Employment Protection Law, the Emergency Family Income (IFE), payment of the COVID-19 Emergency Bonus and the granting of State guarantees on loans to small businesses. To reactivate the economy, a recovery plan was agreed upon in June, which focuses on providing

Chile: GDP, Inflation and Unemployment, 2018-2020



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

[1] See Budget Office of the Ministry of Finance, *Informe de Finanzas Públicas: Tercer Trimestre 2020*, Santiago, October 2020 [online] https://www.dipres.gob.cl/598/articles-210554_Informe_PDF.pdf

incentives for job creation, increasing public and private investment, providing support to small and medium-sized enterprises (SMEs) and simplifying procedures for new projects. The total cost of this plan is close to US$30 billion, a fiscal effort of 11.7% of GDP.

On the monetary-policy front, the central bank's objectives have been to provide liquidity, stimulate credit to the different sectors of production and provide stability to the financial system. To this end, it has deployed conventional measures, such as twice cutting the monetary-policy interest rate, which lowered it to 0.5%, and repurchasing bonds from the bank. However, the magnitude of the crisis has led the central bank to intensify its actions through non-conventional measures, such as the Financing Facility Conditional on Increased Lending (FCIC), the purchase of bank bonds, an increase in the range of collateral eligible for liquidity operations and amendment of the rules on reserve requirements. In addition, the central bank signed international financing agreements with the People's Bank of China, the United States Federal Reserve and the International Monetary Fund (IMF).

Chile: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	3.9	1.1	-6.0
Per capita gross domestic product	2.5	-0.1	-6.8
Consumer prices	2.6	3.0	3.1 [b]
Real average wage [c]	1.9	2.1	0.3 [b]
Money (M1)	11.8	12.6	37.4 [b]
Real effective exchange rate [d]	-1.8	5.3	11.9 [b]
Terms of trade	-2.5	-0.8	2.9
	Annual average percentage		
Open unemployment rate	7.4	7.2	10.9 [b]
Central government			
Overall balance / GDP	-1.6	-2.8	...
Nominal deposit rate [e]	3.0	2.7	1.0 [f]
Nominal lending rate [g]	10.6	8.5	8.2 [f]
	Millions of dollars		
Exports of goods and services	85 040	79 306	37 435 [h]
Imports of goods and services	85 159	80 238	31 737 [h]
Current account balance	-10 601	-10 933	916 [h]
Capital and financial balance [i]	11 997	10 780	-5 059 [h]
Overall balance	1 397	-152	-4 143 [h]

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/ Figures as of October.
g/ Lending nominal rates for 90-360 days, non-adjustable.
h/ Cumulative figures to the second quarter of 2020.
i/ Includes errors and omissions.

As a result of these measures, lending and deposit interest rates have both fallen, while the monetary aggregates have expanded. Programs to facilitate credit to businesses resulted in an increase in trade credit, owing to firms' needs to maintain cash flows and working capital, and to pay debts to suppliers and banks. As a result, average trade credit between April and July was up by 17% relative to the year-earlier period. In contrast, mortgage lending has remained relatively stable, while consumer credit has retreated.

After Congress approved a law allowing for the withdrawal of 10% of pension savings, the central bank implemented a number of regulations to preserve financial stability in the face of asset sales by the pension fund managers (AFPs). A bill authorizing a second withdrawal of funds from pension savings was passed in early December.

The nominal exchange rate has been highly volatile in 2020, owing to the irruption of the pandemic throughout the world, the rise in the price of copper, the subsequent resurgence of COVID-19 in Europe, the withdrawal of pension savings, and local and international political events. At the start of the year, the exchange rate was 749 pesos to the dollar, and it had risen to a peak of 867 pesos per dollar in March. Thereafter, there was a trend towards appreciation, while remaining volatile, and the rate had dropped back to 770 pesos per dollar in November.

Up to the third quarter of 2020, the current account of the balance of payments reported a cumulative surplus of 1.3% of GDP, in contrast to the 4.0% deficit recorded in the same period in 2019. The services trade deficit narrowed, with exports and imports of travel and transportation services both shrinking, as a result of border controls. Chile received US$6.974 billion in foreign direct investment up to the third quarter, mostly concentrated in the first three months of the year. The sale of government debt and income bonds by AFPs explains the negative balance of net portfolio investment.

Although the merchandise trade account is in surplus, both exports and imports decreased cumulatively until October, with year-on-year falls of US$ 968 million and US$ 10.855 billion, respectively. The reduction in agricultural, forestry and manufacturing exports was not offset by the increase in mining shipments. In the case of copper, Chile's main export, shipments abroad were up by 6.8% year-on-year to October. Although the average price of copper between January and November 2020 was similar to the previous year's average (US$ 2.7 per pound), an uptick in China's economic performance, in conjunction with dwindling inventories and the depreciation of the dollar, had pushed the copper price up to US$ 3.3 per pound in November —its highest level in nearly seven years. On the import side, there have been reductions in all economic uses, although the steepest falls were in consumer items, mainly durables.

Chile's international reserves amounted to roughly US$ 39 billion in November, almost US$ 1.5 billion less than in late 2019, owing mainly to the precautionary withdrawal of foreign currency deposits by banks during the economic crisis. Borrowing by the government and nonfinancial firms up to the third quarter increased the external debt by US$ 7.4 billion, to a total of US$ 205.52 billion.

Control of COVID-19 through quarantines, reduced mobility and restrictions on the operation of services that require face-to-face contact have undermined both domestic demand and supply. Since March, the Monthly Index of Economic Activity (IMACEC) has been displaying negative year-on-year variations, and in May these peaked at -15.5%. Since June, the falls have been less steep, and in September the variation was -4.8%. In the third quarter, consumption and investment were down by 8.8% and 18.5% year-on-year, respectively. Uncertainty regarding possible resurgence of COVID-19 and new social protests leading to violence have placed investment decisions on hold. Since October, consumption has increased as a result of the gradual lifting of the health measures and a higher monetary income, thanks to the bonuses issued by the Government and the withdrawal of 10% of AFP pension savings.

The recovery has varied across production sectors. The primary, trade and manufacturing have all made progress; and public-sector real estate construction and other works have partly made up for the postponement of private construction. In contrast, the tourism, restaurant, culture and entertainment sectors have seen their recovery delayed for more than a year, initially because of the social crisis and then because of the pandemic. The greater availability of water resources, resulting from higher rainfall, provided relief to the agriculture sector; but this has not been sufficient to prevent a fall in sector output.

Owing to weakened economic activity, price pressure has been subdued since March, and inflation came in below the central bank's target in the May–August period. The consumption growth has been stoking inflation, which rose to 3% in October, although price trends among different goods and services have varied. Whereas prices on services that require person-to-person contact have been lowered, prices have risen on the back of products and services for which there is stronger demand and dwindling inventories or the increased costs associated with implementing the health and hygiene measures and logistical problems in production.

The rise in unemployment and the fall in family incomes are among the major economic and social consequences of COVID-19. According to the latest available figure, an unemployment rate of 11.6% is predicted for the August-October quarter. It should be noted that the rate would be higher (over 20%) were it not for the Employment Protection Law, which enables workers to maintain their employment relationship with their firm while economic activities are suspended. More than 700,000 workers have applied for this benefit. The labour market stabilized in October, thanks to fewer layoffs, the progressive reintegration of suspended workers and new hiring. The latter has benefited from the employment subsidy established in September by the Government.

In 2021, ECLAC projects that the Chilean economy will expand by 5%, as a result of consumption growth and a lesser increase in investment, which will go towards the renewal of infrastructure, machinery and equipment rather than to new projects. Exports of transportation and tourism services are expected to recover as restrictions on international mobility are eased. Increased domestic demand can be expected to draw in additional imports of durable and capital goods. On the other hand, employment is likely to take longer to recover than activity levels; and inflation is expected to stay around 3%.