Chile

In 2022, Chile has undergone a period of adjustment following the macroeconomic imbalance registered in 2021, which was caused mainly by the monetary and fiscal stimulus applied during the pandemic. Following GDP growth of 11.7% in 2021, the adjustment has taken the steam out of domestic demand, through weaker private consumption and investment, together with a reduction in public expenditure by the government in order to ward off demand pressures and stabilize the fiscal accounts. Compounding this, inflation, at levels not seen in decades, has eroded household incomes and reduced purchasing power significantly, while job creation in the labour market shows signs of faltering. In response to rising prices, the central bank has continued to raise its monetary policy interest rate, a process that began in 2021, to help stabilize the economy and return inflation to its target range. In the external sector, the current account deficit has continued to widen, owing to an increase in the value of imports. In this scenario, the Economic Commission for Latin America and the Caribbean (ECLAC) forecasts GDP growth of 2.3% for 2022.

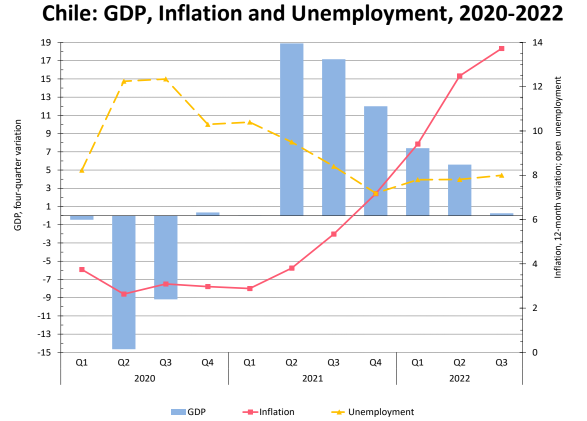
The central government's fiscal outturn in 2022 is likely to show a surplus of 1.6% of GDP, with a structural surplus of 0.9% of GDP, following the 7.7% deficit in 2021. This result is explained by an increase in revenues and a substantial cut in spending.

The expected increase in total revenues for the year (6.3% in real terms) is based on 13% real-terms growth in tax receipts, resulting from higher income declared by taxpayers and the reversal of the tax relief measures implemented after the start of the pandemic. The rise in tax revenues from private mining activities (30.1% in real terms) offsets a reduction in revenue from the State mining company, Codelco, (58% in real terms) in the wake of the fall in the price of copper, lower production levels and the policy of reinvesting 30% of profits that took effect in 2022.

Expenses are forecast to be down by 24.5%, owing to the reduction of subsidies and grants introduced during the crisis caused by the coronavirus disease (COVID-19) pandemic, and to a smaller public sector wage bill, given the need for fewer health professionals and technicians. The government has focused on providing support to sectors that have been left behind in the post-pandemic economic recovery, by promoting job creation, providing subsidies to help families cope with rising prices, speeding up public investment projects and strengthening public-private partnerships. A central government deficit of 2.7% of GDP is projected for 2023, as a result of a drop in revenues and an increase in spending due to tighter economic constraints.

The central government's gross debt is estimated at US$ 110 billion in 2022, equivalent to 36% of GDP and similar to the rate in 2021. In 2023, this is expected to rise to 38.7% of GDP.

Chile: GDP, Inflation and Unemployment, 2020-2022



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

In October 2022, the central bank ended the cycle of monetary policy rate hikes that was introduced in July 2021 to react swiftly to the rise in prices, reduce inflationary expectations and guarantee convergence with the 3% inflation target over a two-year horizon. This process began with the policy rate at 0.5% and culminated at 11.25% after 11 hikes. The rise in the policy rate has fed through to higher rates on loans in all segments (commercial, consumer, foreign trade and housing) and, to a lesser extent, on deposits.

Chile: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-6.0	11.7	2.3
Per capita gross domestic product	-6.8	11.1	1.7
Consumer prices	3.0	7.2	12.8 [b]
Real average wage [c]	0.5	2.1	...
Money (M1)	41.5	39.7	-11.8 [b]
Real effective exchange rate [d]	7.8	-4.3	7.8 [b]
Terms of trade	11.3	11.8	-9.9
	Annual average percentage		
Open unemployment rate	10.8	8.9	7.8 [e]
Central government			
Overall balance / GDP	-7.3	-7.7	...
Nominal deposit rate [f]	0.9	1.7	8.9 [b]
Nominal lending rate [g]	8.0	10.0	16.6 [b]
	Millions of dollars		
Exports of goods and services	153 819	195 311	209 151
Imports of goods and services	123 228	186 234	218 432
Current account balance	-24 492	-27 925	-38 035
Capital and financial balance [h]	10 260	41 892	...
Overall balance	-14 232	13 967	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
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/ Figures as of June.
f/ Average nominal deposit rates for 90-360 days, non-adjustable.
g/ Lending nominal rates for 90-360 days, non-adjustable.
h/ Includes errors and omissions.

The monetary aggregates have reacted to the tightening of monetary policy with year-on-year reductions in the quarterly average of the monetary base since the fourth quarter of 2021. There have also been reductions in currency in circulation, demand deposits and the monetary aggregate M1 since the second quarter of 2022. In contrast, time deposits have grown by more than 30% year-on-year since the second half of 2022.

The nominal exchange rate has been highly volatile in 2022, ranging from a low of 777 pesos per dollar in March to a high of 1,062 pesos per dollar in mid-July. Consequently, the 5.7% depreciation recorded in 2022, as of 15 November, does not reflect what happened to the local currency. 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 billion —a process that ended in September and that managed to stabilize the market—, albeit with the exchange rate remaining at record-high levels.

Up to early September, the external factors driving episodes of appreciation and depreciation of the Chilean peso were the slowdown of economic activity in China, the fear of a global recession, international fluctuations in the value of the dollar, rate hikes by the United States Federal Reserve, and fluctuations in the price of copper —all compounded by domestic political, economic and social uncertainty. Since September, the value of the dollar on international markets and the performance of Chile's economic variables have been the main drivers of local currency movements.

In the balance of payments, the current account deficit has grown continuously throughout the year to reach US$ 22.45 billion (equivalent to 9.9% of GDP), US$ 9.7 billion more than the year-earlier period. This result is due partly to an increase in the trade deficit, with imports of goods and services outpacing the corresponding exports, which reflects the buoyancy of consumption in the first half of the year. In addition, there was a net outflow of foreign investment income.

Up to October 2022, goods exports were led by mineral shipments, mainly copper, and industrial shipments of food and chemical products. The price of copper has played an important role, averaging US$ 4 per pound for the year to mid-November. Although this is lower than the 2021 average of US$ 4.22 per pound, the price remains historically high, albeit reflecting a downtrend. Import values were driven by the higher prices of intermediate goods such as energy products, supported by durable and semi-durable consumer goods.

The financial account recorded net inflows of US$ 24.341 billion as of September 2022, up by 57% year-on-year. The largest net capital inflows corresponded to a US$ 9.777 billion increase in reserve assets (resulting from the sale of central bank bonds to support the foreign exchange intervention programme). This was followed by inflows in the “other investment” category (which recorded a reduction in commercial loans) and direct investment.

In 2022, the Chilean economy has undergone a process of adjustment that took longer to start and has been more gradual than economic agents had been expecting. Private consumption and investment, the expenditure components that explained the 11.7% GDP expansion in 2021, continued to grow strongly in the first half of 2022, but have since faltered, to the extent that consumption contracted year-on-year in the third quarter of 2022. The reduction in available cash balances, owing to the ending of pension fund withdrawals and a substantial reduction in the cash subsidies granted by the government, has been decisive in reducing private consumption, while the economic and political uncertainty prevailing in the country, compounded by the high cost of financing and exchange rate depreciation, have restrained private investment. The services (personal, financial and business), transportation, and restaurant and hotel sectors are underpinning the economy in 2022. The performance of trade had recovered relative to 2021, but has since faltered, and in the third quarter of 2022 the sector’s growth was negative. High interest rates have increased the costs of property loans and project financing, which, compounded by the rise in material costs, has taken the momentum out of construction activity. This sector is facing a complex scenario for 2023.

The inflationary uptick that began in 2021 continued into 2022, fuelled by the excess liquidity that was still 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 war between the Russian Federation and Ukraine, and the pass-through of the exchange rate depreciation to import prices. Thus, in August 2022, annual inflation peaked at 14.1%, before slipping back in the ensuing months in response to monetary tightening, a smaller exchange rate depreciation and the fall in prices of food and energy products on international markets. Although all components of the price basket (both goods and services) have risen, food and energy products led the way with year-on-year increases in excess of 20% since May 2022.

Although the Chilean economy has almost completely regained the jobs lost during the health crisis, job creation has slowed in 2022. Despite the increase in the number of employed persons, unemployment has also been rising owing to greater labour market participation. The unemployment rate was 8% in the July–September 2022 rolling quarter, compared to 7.2% in late 2021. Although nominal wages have risen in 2022, they have been outpaced by inflation, so real wages have fallen. While the nominal wage index for September 2022 was up by 11.2% year-on-year, it was 2.3% lower in real terms.

ECLAC expects the economic adjustment in Chile to continue in 2023, with GDP contracting by 1.1%. Consumption and investment behaviour are projected to weaken domestic demand, which in turn is expected to result in lower imports and a smaller current account deficit. Price pressures have started to ease, and inflation is forecast at around 12% at the end of 2022, with the 3% target expected to be reached in 2024.