CHILE

1. General trends

Chile's GDP rebounded in 2021 with a growth rate of 11.7%, after contracting by 6% in 2020 as a result of the coronavirus disease (COVID-19) pandemic. All components of domestic demand showed double-digit growth, with private consumption rendering the strongest performance, bolstered by the government's cash subsidies to families, partial withdrawals from pension funds and the gradual easing of health-related restrictions. The fastest growing economic sectors in 2021 were commerce, restaurants and hotels, services and construction. Employment figures improved, albeit more slowly than economic activity. In 2022, economic growth will be sustained by consumption but will post a slower rate of 1.9%, according to the estimation by the Economic Commission for Latin America and the Caribbean (ECLAC).

Strong demand, in conjunction with supply constraints and rising food and energy prices, pushed up inflation from the second half of 2021, so that the year ended with an increase of 7.2%. Inflationary pressures have mounted in 2022 on account of the effects of the conflict between the Russian Federation and Ukraine, the persistence of supply chain problems and the increased pass-through to prices of the sharp peso depreciation. In the second half of the year, commodity prices have begun to drop, as has the exchange rate, so the pressure on prices may be expected to fall and the year should end with inflation above 10%.

The fiscal deficit increased from 7.3% of GDP in 2020 to 7.7% in 2021. This was despite higher revenues from the strengthened economic activity, as expenditures increased at a faster rate as the government continued and stepped up measures to soften the economic and social effects of the pandemic. Debt was issued to finance spending, which rose to 36.5% of GDP. For 2022, the fiscal deficit is expected to fall to 1.7% of GDP, marking the start of a process of normalization of the fiscal accounts.

The increase in the rate of inflation, rising inflation expectations among economic actors, the growth in consumption as of the second quarter of 2021 and the possibility of macroeconomic misalignments led the central bank to change its policy stance. Thus, it began to shift away from cuts to the monetary policy rate and non-conventional liquidity-boosting tools, towards sustained interest rate rises. The rate was raised nine time between July 2021 and July 2022, bringing it to 9.75% from a starting point of 0.5%.

In 2021, the current account recorded a deficit of 6.4% of GDP owing to a lower surplus on the goods balance, a higher deficit on the services balance and higher profit remittances by foreign companies. The financial account presented net capital inflows, mainly on account of the issuance of government bonds and the repatriation of assets to cover pension fund withdrawals. In 2022, data as of the second quarter showed a surplus on the goods balance —albeit a smaller one than in the prior-year period— as a result of increased imports. The financial account reported net capital inflows, largely reflecting foreign direct investment.

2. Economic policy

(a) Fiscal policy

Fiscal policy during 2021 was geared towards strengthening the economic plans adopted in 2020 to support families and the economy in response to the economic and social impacts of the COVID-19 pandemic. The boost provided by the recovery in activity lifted total revenues, which grew by 37.9% in real terms, mainly through improvements in the collection of non-mining taxes. At the same time, spending rose by 33.4% in real terms, because of higher transfers and an increase in public investment. Although spending increased less than revenue in percentage terms, in absolute terms the rise was greater; thus, the central government's balance sheet posted a deficit of 7.7% of GDP in 2021, higher than the deficit of 7.3% of GDP recorded in 2020. Deficit financing was secured by selling financial assets and issuing bonds, bringing public debt to 36.5% of GDP in 2021 (against 32.5% in 2020). The actual fiscal deficit is projected to be 1.7% of GDP in 2022, while public debt will amount to 38.8% of GDP.

Amid the new economic context of higher inflation and lower growth, in March 2022 the incoming government launched the Plan Chile Apoya ("Chile Support Plan") at a cost of US$ 3.726 billion. The plan includes 24 measures focused on job creation and support for those economic sectors lagging behind in the post-pandemic recovery, family benefits to assist with rising prices and provide cash relief, and measures to support micro, small and medium-sized enterprises (MSMEs). The measures include increased resources to stabilize fuel and oil prices, a freeze on public transport fares, a grant to support MSMEs following the increase in the minimum wage and a monthly family benefit to finance a basic food basket.

Since 2001, fiscal policy has been governed by the structural balance rule, under which fiscal spending operates countercyclically according to structural fiscal revenues that reflect cyclical fluctuations in GDP and copper prices, as well as cyclical adjustments. The structural deficit was 10.8% of GDP in 2021, and is projected at 3.3% in 2022, thereafter decreasing by 0.75 percentage points yearly. Given the additional financing required by the recent fiscal situation, the government has committed to responsible management of public funds and has adopted the recommendation made by the Organisation for Economic Co-operation and Development (OECD) and the Autonomous Fiscal Council (AFC) to set targets for the structural balance that are consistent with a prudent level of public debt. Thus, it is estimated that public debt will stabilize below 45% of GDP during the current presidential term.

In 2021, 7.6% of State revenues came from the State-owned Corporación Nacional del Cobre de Chile (CODELCO), the world's largest mining company, which had hitherto delivered all its profits (US$ 1.943 billion in 2021) to the Treasury. Now, the policy adopted for 2021–2024 is to reinvest 30% of company profits, in order to finance its investment projects and strengthen its balance sheet, reducing the need for borrowing. By 2030, these investments are expected to generate 75% of the total output of CODELCO.

Early in the second half of 2022, the government embarked on a tax reform proposal, whose first stage was to send to Congress bills covering income taxes, measures against evasion and avoidance, and mining royalties; initiatives on corrective taxes, including green taxes, and a regional revenue law are to be sent during the fourth quarter of the year. The principles enshrined in the proposed reform include progressiveness and equity, as well as the State's obligation to make transparent and efficient use of public resources and to tackle tax evasion and avoidance and any tax injustice. This reform, once in force, is expected to increase revenues by 4.1% of GDP —approximately US$ 12 billion per year— which will be used to fund the government's social agenda.

(b) Monetary policy

The central bank made a policy shift in the second half of 2021, after its expansionary policy in 2020 to provide the economy with liquidity amid the economic crisis that followed the onset of the pandemic. The conventional and non-conventional measures taken by the central bank were supplemented by three partial withdrawals from pension funds and by the transfers granted by the government in 2020 and 2021. This exceptional boost to the economy's liquidity, with a year-on-year increase of 136% in the monetary base in April 2021 and a nominal maximum value of the M1 monetary aggregate in July of the same year, fuelled a rise in private consumption that has put pressure on prices and, as of April 2021, has pushed inflation above the 3% target set by the central bank. In July 2022, the balance in current accounts and demand deposits was equivalent to 1.3 times the balance at the onset of the pandemic in 2020.

Persistent and mounting inflation, expectations of higher inflation and the aim of avoiding greater imbalances between supply and demand led the monetary authority to raise the base rate of interest at each of its monetary policy meetings since July 2021, to a 24-yearr high. Those steps have taken the policy rate from 0.5% to 9.75% over a period of one year.

This considerable hike in the monetary policy rate translated into sizeable increases in business, consumer and mortgage interest rates, although there has been a reversal in the mortgage rate since April 2022. Mortgage credit has been the most affected and its growth showed a real-term year-on-year drop in 2022, while consumer credit has posted negative year-on-year variations in real terms since 2020.

(c) Exchange-rate policy

In January 2021, the central bank began gradually buying up foreign exchange in order to accumulate reserves to replace the preventive function of the credit line extended by the International Monetary Fund (IMF) in 2020 during the pandemic. These purchases built up US$ 7.440 billion, taking reserves to a peak of US$ 55.031 billion in October 2021, when the buying programme concluded. At the end of the first half of 2022, the international reserve balance stood at US$ 45.813 billion.

The peso depreciated by 19.5% in 2021, with the exchange rate rising from 711 to the dollar at the end of 2020 to 850 at the close of 2021. Although there was a trend towards peso appreciation during the first three months of 2022, this reversed and gave way instead to unprecedented exchange-rate levels; in June, the Chilean peso was the most depreciated currency in the world, as the exchange rate rose 11.3% with respect to the end of May and reached historic values of over 1,000 pesos per dollar in July. As a result of Chile’s high level of commercial and financial openness, external factors —such as new lockdowns causing a slowdown of economic activity in China, the fear of a world recession, the global strengthening of the dollar on the back of the performance of the United States economy, interest rate hikes by the United States Federal Reserve and the drop in the price of copper— have a strong impact on the exchange rate, and this is compounded by the political, economic and social uncertainty that the country is facing.

The heavy depreciation of the peso has had a great impact on rising domestic prices, which, together with the volatility of the exchange rate, led the central bank to adopt a currency intervention programme for up to US$ 25 billion, due to end in September. By mid-August —one month after the start of its foreign-exchange intervention operations— the peso had appreciated by 15%.

At the same time, with a view to securing monetary and financial protection in the event of exceptional circumstances, the central bank has entered into liquidity agreements with the Bank for International Settlements (BIS) and IMF, in addition to the liquidity lines it can access through its recent incorporation into the Latin American Reserve Fund (FLAR).

3. The main variables

(a) The external sector

The current account deficit widened to the equivalent of 6.4% of GDP in 2021 (US$ 20.307 billion), following the deficit of 1.7% registered in 2020. This result was due mainly to higher remittances of profits on foreign investments in Chile compared to the previous year, so the income balance entered deeper into deficit in 2021. Although the goods balance remained in surplus, it was lower than the previous year's, due to the fact that imports grew more than exports. Mining shipments bolstered exports, while purchases of consumer durables —such as automobiles, computers and mobile phones— and energy products, within intermediate goods, reflected the recovery of consumption and investment, as did the increase in imports of capital goods. At the same time, as foreign trade picked up, imports of transport and travel services increased faster than exports of those services. The current account carried over those same dynamics into 2022: a deficit on the income account due to profit remittances and a deficit on the services balance that was larger than the shrinking goods trade surplus.

Meanwhile, the financial account reported a net capital inflow of US$ 22.412 billion, the result of capital inflows from government bond issues and the liquidation of pension fund assets to finance pension fund withdrawals. Net foreign investment was slightly negative (US$ 797 million) on account of a greater inflow of foreign capital (US$ 15.252 billion) intended mainly to finance non-conventional renewable energy projects, which is in line with Chile's policy of moving towards clean energy to curb the climate crisis. In the first half of 2022, the financial account recorded net capital inflows of US$ 9.305 billion, including the inflow of US$ 10.644 billion in profit reinvestments.

Since copper is Chile's main export, fluctuations in its price are highly significant for the economy and fiscal revenue. The Budget Office estimates that every cent in the price of copper earns US$ 24 million for the nation's coffers. The global economic recovery in 2021 —especially in China, which is the country's main trading partner— resulted in a 51% year-on-year increase in the average copper price and a 2.2% rise during the first half of 2022 over the average price in December 2021. A peak copper price was recorded in March 2022, at US$ 4.64 per pound; since April, however, its price has been falling, to stand at US$ 3.55 a pound at the beginning of July: in other words, a decrease of 19.2% during the year. The drop in the price of copper is due to new COVID-19 lockdowns in China, which reduce the demand for production inputs, and fears of a global recession that would lessen future demand for the metal.

b) Economic activity

In 2021, Chile's GDP grew by 11.7%, exceeding the levels recorded pre-pandemic and prior to the social unrest of 2019, and recovering from the 6% decline registered in 2020. Domestic demand was the main driver of this growth, and private consumption was the fastest-growing component (20.4%), mainly in the form of spending on consumer durables. Household consumption was boosted by government cash transfers, together with partial withdrawals from pension funds and greater freedom of movement allowed within the pandemic-related measures. Gross fixed capital formation posted year-on-year growth of 17.6%, thanks to acquisitions of machinery and equipment and construction works and other projects. Consumption and investment patterns were offset by an increase in imports, so that net external demand was negative. The commerce, hospitality, services, construction and transport sectors led the recovery.

Since the first quarter of 2022, growth has lost momentum in the context of adjustments following the significant increase in domestic demand; in addition, the low baseline that favoured output growth figures in 2021 no longer applies. Although consumption still shows some inertial growth and high year-on-year rates of change —albeit lower than those of the previous three quarters— investment growth has slowed sharply, especially in construction and other works. The expectation of a drop in consumption, the uncertainty surrounding political and economic affairs (such as the tax reform) and higher borrowing costs are among the factors dragging on investment, which is expected to contract in 2022.

(c) Prices, wages and employment

The inflation rate stood at 7.2% at the close of 2021. Demand pressures as a result of higher monetary liquidity, together with increases in production costs, were the main factors behind the rise in prices, which as of April 2021 exceeded the central bank's inflation target. Those factors are being compounded in 2022 by the sharp depreciation of the peso and the impact on food and energy prices of the conflict between the Russian Federation and Ukraine. Since February 2021, inflation has been rising steadily: it reached an annual rate of 13.1% in July 2022, its highest level since 1994.

The items whose prices have increased the most in 2022 are food and energy, with variations as of June of 13.3% and 11.3%, respectively, due to the effects of the conflict between the Russian Federation and Ukraine. However, the second half of the year has seen a decline in commodity prices, although they are expected to remain above pre-conflict levels. It must also be recalled that the basic food basket has a high content of imported goods, so variations in the exchange rate directly affect the most vulnerable families, given the composition of their consumption.

Employment has shown a continuous upturn since the second half of 2021, although the momentum from new hires is declining. In May 2022, therefore, 208,000 of the nearly 2 million jobs lost during the pandemic had yet to be recovered. Commerce, construction and hospitality are the sectors that have contributed the most to job recovery.

The unemployment rate recorded a low of 7.2% in the October–December 2021 moving quarter, and in the period from March to May 2022 it rose to 7.8%, reflecting an increase in labour participation. Women's employment has shown improvement, although their participation rate has increased more than men's, so the unemployment gap has been widening since the last quarter of 2021. Over the March–May 2022 period, male unemployment was 7.3% and female unemployment was 8.5%.

Trade, manufacturing and construction are the sectors with the greatest impact on wage growth, which resulted in wage and labour cost indices increasing to reach year-on-year changes of 10.0% and 9.9%, respectively, in June 2022. However, because of double-digit inflation, there was a 2.2% drop in the real earnings index in June 2022.

For 2022, ECLAC estimates growth of 1.9%. For the remainder of the year, consumption growth is expected to slow as the government's distribution of cash benefits comes to an end and withdrawals from pension fund balances decrease; this will be compounded by a drop in investment, due to expectations of lower activity and local uncertainty. The current account deficit is expected to widen, despite an increase in the annual value of exports, especially from the mining industry. At the same time, monthly inflation is expected to start declining as a result of recent drops in prices for such commodities as foodstuffs and oil, giving an inflation rate of above 10% by the end of 2022.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	Annual growth rates b/								
Gross domestic product	3.3	1.8	2.2	1.8	1.4	4.0	0.8	-6.0	11.7
Per capita gross domestic product	2.3	0.7	1.0	0.4	-0.1	2.6	-0.4	-6.8	11.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.8	-2.3	3.4	3.3	3.8	3.8	-0.7	-1.8	2.3
Mining and quarrying	5.3	2.2	-1.3	-3.1	-2.1	6.0	-3.7	2.3	-0.6
Manufacturing	1.0	0.5	1.6	-0.1	0.9	5.2	-1.4	-3.3	8.3
Electricity, gas and water	6.0	4.1	-1.0	3.5	7.0	3.0	0.7	-1.7	1.1
Construction	2.0	-2.3	5.6	0.9	-4.4	4.7	4.5	-12.1	13.6
Wholesale and retail commerce, restaurants and hotels	3.1	0.6	2.7	1.4	2.9	3.6	-0.3	-10.5	24.1
Transport, storage and communications	5.8	3.2	4.3	3.5	3.8	2.0	2.0	-8.0	11.5
Financial institutions, insurance, real estate and business services	2.4	2.7	1.6	-0.1	-0.8	4.0	7.3	-2.0	8.4
Community, social and personal services	3.1	3.1	2.9	6.2	2.5	3.8	0.1	-11.2	16.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.9	2.7	2.9	4.1	3.8	3.6	0.7	-7.2	18.2
Government consumption	2.9	4.1	5.0	7.6	4.7	3.1	0.5	-4.0	10.3
Private consumption	5.3	2.4	2.4	3.3	3.6	3.8	0.7	-8.0	20.3
Gross capital formation	1.3	-4.1	0.1	-2.4	-3.3	6.5	4.7	-9.3	17.6
Exports (goods and services)	3.1	0.5	-2.3	0.6	-1.0	4.9	-2.5	-1.1	-1.5
Imports (goods and services)	1.9	-6.6	-0.9	1.2	4.5	8.6	-1.7	-12.7	31.3
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	27.5	25.2	25.6	23.7	22.6	24.2	25.1	21.6	25.3
National saving	22.7	21.7	22.9	21.1	19.9	19.7	19.8	19.9	18.9
External saving	4.8	3.5	2.7	2.6	2.8	4.5	5.2	1.7	6.4
Balance of payments	**Millions of dollars**								
Current account balance	-13 249	-8 982	-6 631	-6 534	-7 616	-13 265	-14 505	-4 283	-20 307
Goods balance	2 399	6 731	3 576	4 951	7 490	4 409	3 016	18 976	10 528
Exports, f.o.b.	77 070	75 324	62 120	60 769	68 904	74 838	68 792	74 086	94 677
Imports, f.o.b.	74 670	68 594	58 544	55 819	61 414	70 430	65 776	55 110	84 148
Services trade balance	-4 965	-5 656	-5 571	-5 479	-5 611	-7 341	-8 085	-7 360	-11 979
Income balance	-12 321	-11 575	-5 984	-6 936	-10 756	-12 162	-10 411	-15 927	-18 423
Net current transfers	1 637	1 519	1 348	929	1 260	1 829	974	28	-433
Capital and financial balance d/	13 560	10 038	6 842	8 340	4 866	14 662	14 353	1 389	32 518
Net foreign direct investment	11 798	15 448	1 915	3 487	2 702	6 096	3 234	2 500	797
Other capital movements	1 762	-5 410	4 927	4 853	2 164	8 566	11 119	-1 111	31 721
Overall balance	311	1 057	211	1 805	-2 750	1 397	-152	-2 895	12 211
Variation in reserve assets e/	-311	-1 057	-211	-1 805	2 750	-1 397	152	2 895	-12 211
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	95.0	92.1	89.8	93.2	102.7	100.0	98.2	109.4	122.3
Net resource transfer (millions of dollars)	1 239	-1 536	858	1 404	-5 889	2 500	3 942	-14 539	14 095
Total gross external debt (millions of dollars)	136 351	152 135	160 904	165 217	179 976	184 220	198 396	209 591	239 002
Employment g/	**Average annual rates**								
Labour force participation rate	61.6	61.9	62.0	62.1	62.7	63.0	62.8	56.1	57.2
Open unemployment rate	6.1	6.5	6.3	6.7	7.0	7.4	7.2	10.8	8.9
Visible underemployment rate	11.6	11.3	10.3	10.9	9.6	9.5	9.5	6.4	5.3

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	3.1	4.6	4.4	2.7	2.3	2.6	3.0	3.0	7.2
Variation in industrial producer prices									
(December-December)	-2.8	-3.3	-10.7	10.2	8.4	0.9	6.1	10.2	…
Variation in nominal exchange rate									
(annual average)	1.9	15.2	14.7	3.3	-4.0	-1.0	9.5	0.5	…
Variation in average real wage	3.9	1.8	1.8	1.4	3.1	1.9	2.1	0.5	1.1
Nominal deposit rate h/	5.9	5.2	3.9	3.8	4.0	3.0	3.0	2.7	1.7
Nominal lending rate h/	13.5	13.2	10.8	9.3	10.4	11.5	10.6	8.5	10.0
Central government	**Percentages of GDP**								
Total revenue	21.0	20.7	21.2	20.9	21.0	22.2	21.7	20.0	23.9
Tax revenue	18.2	18.0	18.9	18.6	18.6	19.6	19.2	17.7	20.0
Total expenditure	21.6	22.3	23.3	23.6	23.8	23.9	24.6	27.3	31.5
Current expenditure	17.7	18.2	19.0	19.5	20.0	20.2	20.8	23.9	28.2
Interest	0.6	0.6	0.7	0.7	0.8	0.9	0.9	1.0	0.9
Capital expenditure	3.9	4.1	4.4	4.1	3.8	3.7	3.8	3.4	3.3
Primary balance	0.0	-1.0	-1.5	-2.0	-1.9	-0.8	-1.9	-6.3	-6.8
Overall balance	-0.6	-1.6	-2.2	-2.7	-2.8	-1.7	-2.9	-7.3	-7.7
Central government public debt	12.8	15.0	17.3	21.0	23.6	25.6	28.3	32.5	36.3
Domestic	10.8	12.3	13.9	17.3	19.2	20.3	22.3	25.0	23.5
External	2.0	2.7	3.4	3.7	4.4	5.3	6.0	7.5	12.8
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	63.2	62.9	71.7	71.6	72.1	75.0	79.8	80.2	88.5
To the public sector	0.9	-0.1	-0.4	-0.4	1.6	1.5	2.2	6.4	9.0
To the private sector	78.1	79.9	82.5	81.6	80.4	83.8	89.0	89.7	98.8
Others	-15.8	-16.8	-10.4	-9.5	-10.0	-10.4	-11.4	-16.0	-19.2
Monetary base	6.4	5.5	5.8	6.1	6.2	6.0	6.3	15.1	8.9
Money (M1)	16.1	17.2	17.8	17.4	18.0	18.7	21.7	32.6	33.2
M2	65.5	66.5	69.1	69.6	68.7	71.1	76.3	75.3	68.3
Foreign-currency deposits	7.0	8.6	9.2	8.6	8.0	8.3	10.8	12.2	13.2

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.