

CHILE

Table 1 **2023**

Population, million	19.6
GDP, current US\$ billion	345.6
GDP per capita, current US\$	17605.4
International poverty rate (\$2.15) ^a	0.4
Lower middle-income poverty rate (\$3.65) ^a	0.9
Upper middle-income poverty rate (\$6.85) ^a	4.7
Gini index ^a	43.0
School enrollment, primary (% gross) ^b	99.4
Life expectancy at birth, years ^b	78.9
Total GHG emissions (mtCO2e)	52.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

Chile's sound macroeconomic policies led to a recovery from Covid-induced imbalances, including high deficits and inflation. Fiscal and monetary tightening stabilized the economy but stunted 2023 growth. Chile aims for faster, greener, and more inclusive growth, and reforms targeting productivity, technology, competition, and human capital development are crucial for achieving this objective.

Key conditions and challenges

Chile has a strong track record of sound macroeconomic policies and solid institutions. However, large fiscal transfers and pension fund withdrawals generated significant macroeconomic imbalances during the COVID-19 pandemic, including high fiscal and current account deficits and double-digit annual inflation. After strong fiscal and monetary tightening, macroeconomic imbalances have largely been resolved, but growth stagnated in 2023.

Despite being the world's largest exporter of copper and a major producer of lithium, a key challenge for Chile is to move towards higher and more inclusive growth. Growth averaged just 2 percent in the six years preceding the pandemic. Targeted reforms to address specific bottlenecks are needed to boost productivity growth, which has been declining for decades. This includes reducing regulatory barriers, fostering technology adoption, promoting competition, enhancing managerial capabilities, and increasing female labor force participation and job quality. Chile is also expected to leverage the global green transition, with both renewable energy and the plan to expand lithium production through public-private partnerships potentially contributing to increased growth going forward.

To move towards a more inclusive growth, the government is pursuing an ambitious social agenda. An initial tax reform proposal aimed at increasing fiscal

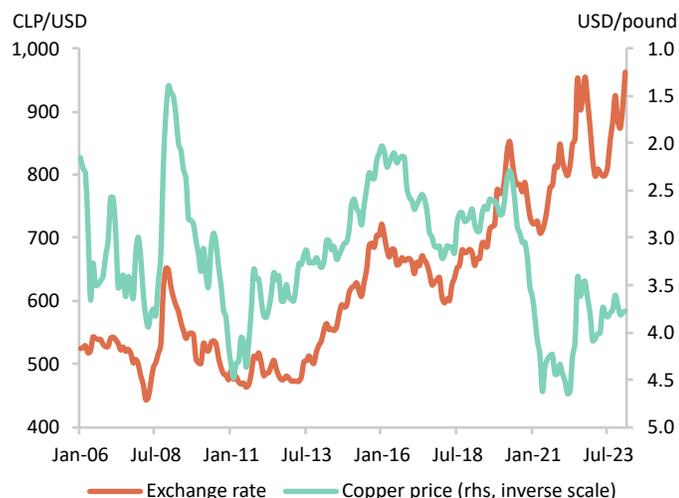
revenues to fund social spending was rejected in Congress. A revised, scaled back tax reform with an enhanced focus on tax compliance is being debated in Congress. A pension reform proposal to increase contributions and replacement rates is also in Congress. The proposed reform also includes a solidarity share of additional contributions.

Recent developments

Real GDP rose by 0.2 percent in 2023, as domestic demand adjusted after tighter macroeconomic policies during the post-Covid period. Services have shown resilience, but construction, commerce, and mining were subdued. The copper industry has performed weakly amid operational disruptions and lower ore grades. On the demand side, private consumption has bottomed out and started to stabilize in recent months, while exports and especially investment remained sluggish overall.

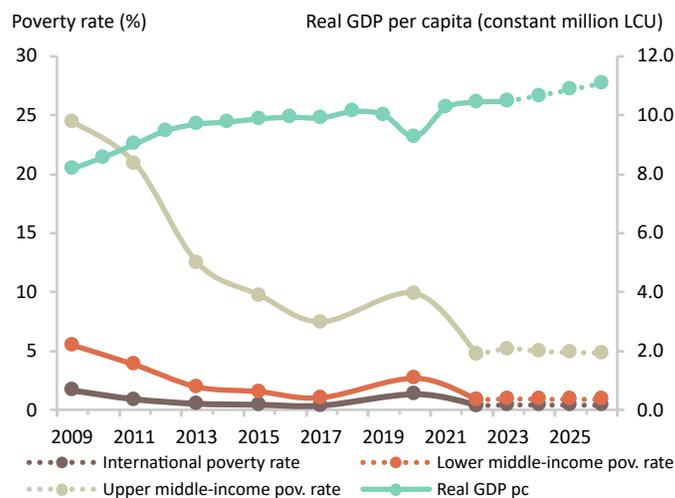
Labor market performance has yet to return to pre-pandemic levels. By December 2023, the employment rate stood at 56.6 percent, still below the rate of 58.6 percent registered during the same period in 2019. The unemployment rate remained high at 8.5 percent. Gender gaps in the labor market remain pronounced, with women's labor force participation at 52.6 percent compared to men's at 71.4 percent. Similarly, women's employment rate was 48.0 percent, while men's was 65.5 percent. Also, women continue to be more likely to work in the informal sector and earn lower salaries.

FIGURE 1 Chile / Exchange rate and copper prices



Source: World Bank based on Central Bank of Chile.

FIGURE 2 Chile / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Inflation has continued its descent, closing 2023 at 3.9 percent y-o-y after a determined monetary tightening and receding supply shocks. A policy easing cycle started in July 2023, with accumulated rate cuts of 400 basis points, bringing the reference rate to 7.25 percent in January 2024.

Real public expenditures remained contained in 2023, increasing by 1 percent largely due to emergency measures to support vulnerable households affected by El Niño phenomenon. However, revenues fell by 13 percent due to the slowdown in economic activity and declining mining revenues, leading to a fiscal deficit of 2.4 percent of GDP.

Poverty (\$6.85/day per capita 2017 PPP) is estimated at 5.2 percent in 2023 and the Gini inequality coefficient at 0.43.

After reaching a decades-high 9 percent of GDP in 2022, the current account deficit narrowed sharply to 3.6 percent by the end of 2023, as a contraction in nominal imports of goods (-16 percent y-o-y in 2023) amid the adjustment of domestic demand significantly surpassed that of exports (-3.7 percent). Foreign direct investment largely financed the current account deficit.

The peso depreciated by 18 percent from July 2023 to February 2024. Depreciation pressures are mostly driven by Chile being

ahead of other economies in the monetary policy easing cycle, with a rapidly narrowing interest rate differential with the U.S. The real exchange rate is now about 5 percent weaker than in 2019 since depreciation exceeded the inflation differential with trade partners. In 2021, a wedge appeared in the normally close alignment of movement between the peso and copper prices. While their close correlation has returned more recently, this appears to be the case at a lower equilibrium rate for the peso (Figure 1).

Outlook

Economic activity is forecast to recover gradually towards trend GDP growth of 2.0 percent in 2024. Consumption is expected to be the main driver of the recovery, and exports would contribute positively amid the start of new copper mining operations and the growing momentum in lithium production. Investment is projected to remain weak, as suggested by registries and sentiment surveys. With inflation on track to return to the 3 percent target this year, further monetary easing is expected.

Amid expected modest economic growth and controlled inflation, poverty (US\$6.85/day, 2017 PPP) is projected to reach 5.0 percent in 2024 and will stay around this value in the medium term. The Gini coefficient is projected to remain at 0.43.

The fiscal deficit is expected to narrow to 2.2 percent of GDP in 2024 as domestic revenues rise due to rebounding GDP growth, then to narrow gradually over the medium term amid a decline in the expenditures-to-GDP ratio. These projections do not include potential revenue increases from future tax reforms and assume a consolidation path toward medium-term structural deficit targets. The public debt-to-GDP ratio is projected to be near 42 percent by 2026, still comparing favorably with the 50.6 percent median of “A” rated peers. The current account deficit would decline toward 3 percent over the medium term.

Downside risks to the outlook include higher-for-longer interest rates in the U.S., geopolitical tensions, weaker-than-expected growth in China, and stronger-than-expected climate disasters like El Niño and La Niña. Domestic risks stem mainly from political gridlock, the inability to pass structural reforms in Congress, and potential social discontent.

TABLE 2 Chile / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	11.7	2.4	0.2	2.0	2.2	2.3
Private consumption	20.8	2.9	-5.2	1.9	2.1	2.2
Government consumption	13.8	4.1	1.6	2.4	2.2	2.2
Gross fixed capital investment	15.7	2.8	-1.1	0.2	2.4	2.4
Exports, goods and services	-1.4	1.4	-0.3	2.8	2.6	2.9
Imports, goods and services	31.8	0.9	-12.0	1.2	2.7	2.7
Real GDP growth, at constant factor prices	10.6	2.6	0.2	2.0	2.2	2.3
Agriculture	4.4	0.1	-1.0	2.4	2.3	2.2
Industry	4.6	-0.9	-0.2	2.0	1.9	1.8
Services	14.0	4.4	0.5	2.0	2.3	2.5
Inflation (consumer price index)	4.5	11.6	7.6	3.3	3.0	3.0
Current account balance (% of GDP)	-7.3	-9.0	-3.6	-3.6	-3.4	-3.1
Net foreign direct investment inflow (% of GDP)	0.6	2.7	3.4	3.0	3.0	3.0
Fiscal balance (% of GDP)	-7.5	1.4	-2.4	-2.2	-2.0	-1.7
Revenues (% of GDP)	26.0	28.1	23.0	23.7	23.6	23.6
Debt (% of GDP)	36.3	38.0	39.8	41.3	41.6	41.8
Primary balance (% of GDP)	-6.6	2.4	-1.3	-1.0	-0.7	-0.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.1	0.4	0.4	0.4	0.4	0.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	0.3	0.9	1.0	0.9	0.9	0.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	3.5	4.7	5.2	5.0	4.9	4.8
GHG emissions growth (mtCO₂e)	13.6	-7.5	0.4	2.6	2.4	2.6
Energy related GHG emissions (% of total)	163.3	167.9	166.7	164.1	161.6	159.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2022-CASEN. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.