CHILE

Table 1	2021
Population, million	19.2
GDP, current US$ billion	318.0
GDP per capita, current US$	16554.4
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	1.7
Upper middle-income poverty rate ($6.85)[a]	8.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	80.3
Total GHG emissions (mtCO2e)	54.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

Growth is expected to slow sharply in 2022 and 2023 on a reversal of policy stimulus, domestic uncertainty, and external headwinds. Inflation is well above target, driven by domestic and external factors. Medium-term prospects will be shaped by the outcome of the constitutional process and the capacity to generate more inclusive, productivity-driven growth while preserving sound macroeconomic fundamentals.

Key conditions and challenges

Strong institutions, sound macroeconomic management, a conducive business environment, and the world's largest copper reserves led Chile to be the first country in Latin America to achieve high-income status. However, lingering economic and social challenges have become pressing after the 2019 protests and the Covid pandemic. Chile's economic growth is slowing, as substantial Covid-related policy stimulus is being unwound to relieve pressures on inflation and fiscal accounts. Tighter global financial conditions, weaker external demand, and deteriorating terms of trade have exacerbated the negative impact on growth and inflation.

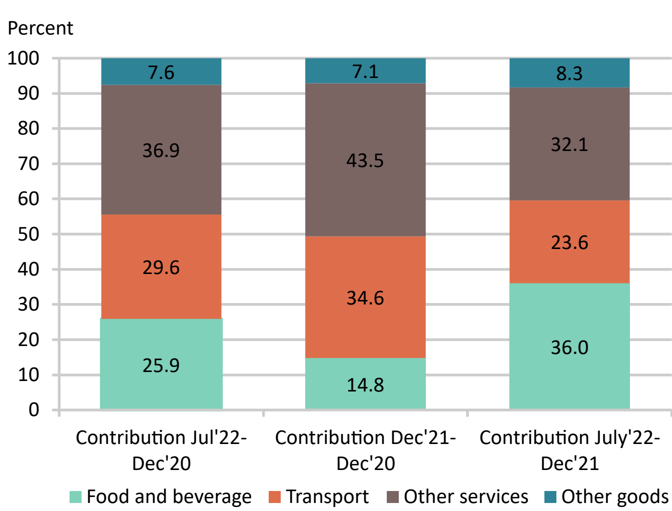
Amid short-term concerns, Chile is also seeking a new path to more equitable and inclusive long-term growth. In a referendum held in September, Chileans rejected a new constitution that contained significant departures from constitutional tradition. While the result sets boundaries for future changes to the political and economic framework, uncertainty will remain as a new constitutional reform roadmap is discussed. At the same time, the government is preparing an ambitious tax reform, aiming to raise revenue by 4.1 percent of GDP over 4 years to finance its policy priorities. A pension reform will also be presented in October. Both projects will face challenging legislative debates as the government does not have a majority in Congress.

Growth, which averaged just 2 percent in the six years before the pandemic, will be critical to maintaining social progress. Increasing productivity growth, which has been on a declining trend for decades, will be key to improving medium-term prospects. This would require efforts to reduce regulatory barriers, foster innovation, promote resource-use efficiency and competition, enhance education quality, and increase female labor participation.

Recent developments

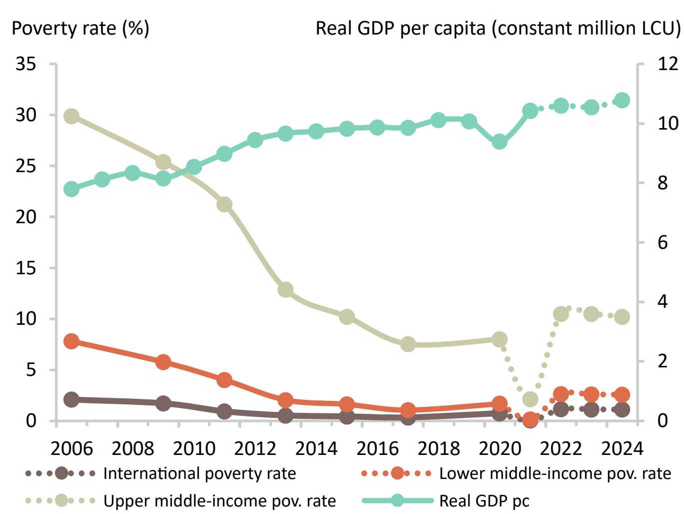
Real GDP growth peaked in the third quarter of 2021. After growing 11.7 percent y/y in 2021, the economy grew 6.4 percent y/y in the first half of 2022, and only 0.3 percent compared to the previous six months. The deceleration was driven by weak investment and consumption. Commerce, industry, agriculture, and mining sectors contributed negatively, but services remained relatively resilient. The job market continues to recover, with unemployment declining. Still, labor market indicators have not yet fully reached pre-pandemic levels, and women and low-skilled workers continue to experience the largest gaps. Inflation started to increase in mid-2021 and accelerated to 13.1 percent y/y in July 2022, the highest reading since 1994, driven by strong demand pressures amid an overheated economy. High energy prices and global supply shocks added new price pressures. Since the start of the war in

FIGURE 1 **Chile** / Contribution to inflation by components



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.

Ukraine, inflation drivers switched to a larger contribution from food prices (Figure 1). High inflation caused a drop in real wages, significantly impacting households' purchasing power, especially among the most vulnerable. The Central Bank hiked interest rates significantly from 0.5 to 10.75 percent in one year.

Fiscal consolidation efforts allowed the 12-month rolling public deficit to fall below 3 percent of GDP by June 2022. Spending fell 15.5 percent y/y in real terms in the first half of the year, starting to normalize after an extraordinary stimulus in 2021. Targeted measures have been implemented to support households affected by food and fuel price inflation, including cash transfers and subsidies adding up to 1.6 percent of GDP.

Chile`s current account accumulated a decades-high deficit, reaching – in 4 quarter rolling terms - 8.5 percent of GDP in June 2022, driven by continuously high imports and a deterioration in terms of trade. The financing of the past year`s deficit (USD 27 bn), shifted from FDI (only USD 0.5 bn in the period) to portfolio investment inflows (USD 20 bn) that resulted from the repatriation of pension fund assets and the issuance of external sovereign debt. Reserves remain at a solid 14 percent of GDP. The currency depreciated sharply since June, and the Central Bank announced an aggressive FX intervention which, together with some improvement in external conditions, led to a partial recovery of the peso. The credibility of the Central Bank's response was further bolstered by the signature of a new Flexible Credit Line with the IMF for USD 18.5 billion in August.

Outlook

Chile will likely register negative quarterly growth rates in the second half of 2022 and into 2023 as both fiscal and monetary policy have tightened. Domestic political uncertainty is also expected to weigh on investment, while external conditions would exacerbate the impact on growth. GDP is forecast to grow 1.8 percent in 2022 and to contract by 0.5 percent in 2023.

Inflation is projected to remain high in the second half of 2022, further fueled by the recent currency depreciation. Pressures are expected to wane in 2023, as macroeconomic imbalances are addressed, and the external shock subsides.

Temporary gains in poverty reduction due to massive cash transfers implemented in 2021 will recede in 2022. Amid economic slowdown, high inflation, and limited public transfers to support vulnerable households, poverty (US$6.85 a day) is projected to increase to 10.5 percent and the Gini index to 47.1 percent in 2022, remaining at these levels in 2023 without returning to pre-pandemic levels in the medium term. Poverty projections do not yet incorporate the tax and social reforms announced by the new Government still subject to debate in Congress.

The fiscal deficit is expected to drop to 0.8 percent in 2022. In the medium term, and if increased social spending is accompanied by commensurate increases in revenue mobilization, it should gradually converge towards the structural deficit target to stabilize the debt to GDP ratio slightly above 40 percent.

Risks to the outlook on the external front include persistent geopolitical tensions, global stagflation, and faster-than-expected interest rate hikes in developed markets. Local political developments will also be key, mainly regarding the constitutional process and social unrest.

TABLE 2 Chile / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.8	-6.0	11.7	1.8	-0.5	2.2
Private Consumption	0.7	-8.0	20.3	2.1	-2.3	1.9
Government Consumption	0.5	-4.0	10.3	-1.4	-0.5	2.2
Gross Fixed Capital Investment	4.7	-9.3	17.6	-0.5	-2.7	2.0
Exports, Goods and Services	-2.5	-1.1	-1.5	2.0	2.0	2.0
Imports, Goods and Services	-1.7	-12.7	31.3	-0.8	-4.0	1.0
Real GDP growth, at constant factor prices	0.9	-5.9	10.5	1.8	-0.5	2.2
Agriculture	-0.7	-1.6	2.4	2.0	2.0	2.0
Industry	-0.5	-3.5	5.8	1.1	0.9	1.5
Services	1.7	-7.3	13.4	2.1	-1.3	2.6
Inflation (Consumer Price Index)	2.3	3.0	4.5	11.1	6.8	3.4
Current Account Balance (% of GDP)	-5.2	-1.7	-6.4	-6.5	-4.1	-3.4
Net Foreign Direct Investment Inflow (% of GDP)	1.2	1.0	0.3	0.0	0.3	0.5
Fiscal Balance (% of GDP)	-2.7	-7.1	-7.5	-0.8	-2.6	-1.9
Debt (% of GDP)	28.2	32.5	36.1	38.4	40.6	41.9
Primary Balance (% of GDP)	-1.8	-6.2	-6.6	0.1	-1.5	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.7	0.1	1.1	1.1	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.0	1.7	0.2	2.6	2.6	2.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.4	8.0	2.1	10.5	10.5	10.2
GHG emissions growth (mtCO2e)	10.9	-10.8	10.7	2.0	-0.7	2.8
Energy related GHG emissions (% of total)	167.3	175.3	168.3	167.2	167.9	166.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SEDLAC harmonization, using 2020-CASEN. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.