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CHILE

Table 1	2021
Population, million	19.2
GDP, current US$ billion	305.5
GDP per capita, current US$	15903.1
International poverty rate ($1.9)[a]	0.7
Lower middle-income poverty rate ($3.2)[a]	1.4
Upper middle-income poverty rate ($5.5)[a]	4.4
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	80.2
Total GHG Emissions (mtCO2e)	47.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Growth will decelerate sharply in 2022 on a reversal of fiscal stimulus and political uncertainty. High inflation is expected to trigger additional monetary tightening. Temporary gains in poverty reduction from increased transfers will fade as emergency measures are removed. Chile's medium-term prospects will depend on its capacity to deliver a new constitution that supports greater equity, inclusion, and environmental sustainability while preserving sound macroeconomic management and unlocking productivity.

Key conditions and challenges

A new government is taking office in March 2022 and will face a challenging macroeconomic backdrop, with growth decelerating significantly and high inflation. The 2022 budget has set a sharp fiscal consolidation path, removing Covid-related cash transfers that helped cushion household income losses. In the absence of emergency cash transfers, poverty (US$5.5 a day) would have increased to 6.2 percent instead of 4.4 percent in 2020. The mitigation effects are estimated to have been even more substantial in 2021, with the rollout of the IFE universal, Chile's most extensive and generous cash transfer, received by 85 percent of the population.

Three pension fund withdrawals worth 16 percent of GDP provided liquidity during 2021 but depressed capital markets and will impact future pensions. Tightening public spending to stabilize debt and inflation and facilitating access to economic opportunities for the poor and vulnerable will be key to a sustainable and even recovery.

In the medium term, Chile needs to address social demands raised during the 2019 protests. Tax and pension reforms will need to be discussed in a new Congress without a clear majority. The ongoing constitutional process is an opportunity to reach a new social consensus that meets the population's expectations, but this also involves risks. Creating a legal framework to attain greater equity, inclusion, and environmental sustainability while preserving a sound macroeconomic environment, securing fiscal responsibility, property rights, and an open trade regime will be critical. Reducing uncertainty during the process will be important to create the conditions for renewed private sector dynamism.

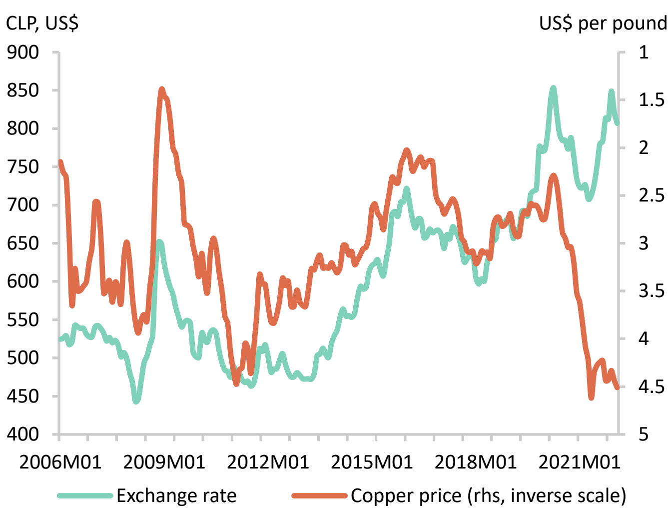
In the longer term, Chile needs to tackle long-standing barriers to productivity growth such as: regulatory hurdles, low competition in some sectors, innovation, education quality, and female labor force participation.

Recent developments

Fueled by a strong fiscal response, Chile's GDP grew at 11.7 percent in 2021, one of the fastest recoveries worldwide. Economic activity far exceeded pre-pandemic levels. All sectors surpassed February 2020 levels by the end of 2021, with the strong rebound in services behind more than half of economic growth in the second part of 2021. Growth was driven by consumption, amid pension fund withdrawals and direct fiscal support worth 9 percent of GDP. One of the fastest vaccination rates globally also contributed to the fast normalization of economic activity.

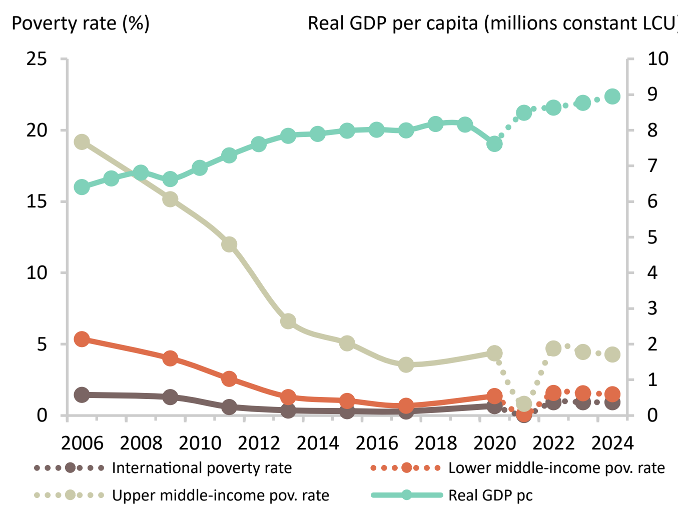
However, job market recovery has been slower than expected, with only 60 percent of the jobs lost in 2020 regained in 2021 and many previously active women (most of them low-skilled) still out of the workforce.

FIGURE 1 Chile / Exchange rate and copper prices



Source: Central Bank of Chile.

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



Source: World Bank based on CASEN data for 2006-2020. Notes: see Table 2.

Inflation accelerated to 7.8 percent y/y in February, driven by strong demand pressures, commodity price increases, supply disruptions, and the peso depreciation. Persistent high inflation is risking second-round effects and has become a paramount concern, leading the Central Bank to increase the monetary policy rate by 5 percentage points between July 2021 and January 2022.

Despite recovering revenues, the fiscal deficit closed at around 7.7 percent of GDP in 2021 due to high public spending. Notwithstanding the heavy use of public savings funds, public debt reached 37 percent of GDP, the highest in three decades.

Despite the record surge in copper prices, the current account deficit reached 6.6 percent of GDP in 2021 after a sharp increase in imports fueled by the consumption-led recovery. Net FDI flows turned negative in the third quarter amidst policy uncertainty around the ongoing constitutional process and election outcomes. The local currency depreciated by 16 percent in 2021 in a deviation from its historically close alignment to the copper price.

The sharp rise in the non-labor incomes of the poor and vulnerable due to the massive cash transfers implemented in 2021, mainly the IFE universal, is estimated to have temporarily lowered poverty (US$5.5 a day) to less than 1.0 percent. Further, the Gini coefficient is estimated to have dropped from 0.45 in 2020 to 0.39 in 2021.

Outlook

Real GDP growth is expected to decelerate to 1.9 percent in 2022 due to the reversal of policy stimulus, while tighter financial conditions and persistent political uncertainty will weigh on investment. Still-high liquidity in households and the enhanced Guaranteed Universal Pension is expected to provide some cushion to the slowdown in consumption. Exports will contribute positively to GDP growth amid a projected increase in copper output after supply disruptions in 2021. Further ahead, the removal of direct social transfers, tighter financial conditions, a deteriorated capital market and persistent uncertainty would lead to weak growth through 2024.

Inflation is projected to remain above 7 percent for most of 2022 and begin to drop gradually towards 3 percent within the forecast horizon, provided fiscal and monetary imbalances are addressed.

Fiscal spending is expected to decline in 2022 as Covid-related transfers are removed, leading to a reduction in the government`s deficit to 3.8 percent of GDP. Interest payments will increase amid higher debt stock and rates. In the medium term, the fiscal deficit should gradually converge towards the structural deficit target if increased social spending is accompanied by increases in revenue mobilization.

The current account deficit is projected to narrow to around 3 percent of GDP, as imports normalize.

Amid the ceasing of emergency transfers and challenging macroeconomic conditions, poverty (US$5.5 a day) is projected to increase to 4.7 percent and the Gini coefficient to 0.46 in 2022, and they are not expected to return to the pre-pandemic level in the medium term.

Risks to the outlook are mostly on the downside and include new Covid variants, climatic events, and deterioration in external financial conditions as central banks increase policy rates. The Russia-Ukraine conflict poses an upward risk to inflation given the increase in commodity prices, together with a downward risk to growth due to the impact on export demand, terms of trade and financial uncertainty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.8	-6.0	11.7	1.9	1.5	2.0
Private Consumption	0.7	-8.0	20.3	1.2	0.7	1.8
Government Consumption	0.5	-4.0	10.3	-3.7	0.8	1.7
Gross Fixed Capital Investment	4.7	-9.3	17.6	1.0	1.1	2.1
Exports, Goods and Services	-2.5	-1.1	-1.5	5.6	3.7	2.9
Imports, Goods and Services	-1.7	-12.7	31.3	0.2	1.0	2.4
Real GDP growth, at constant factor prices	0.9	-5.9	11.7	1.9	1.5	2.0
Agriculture	-0.7	-1.6	2.4	2.2	1.5	1.5
Industry	-0.5	-3.5	5.8	1.7	1.5	1.5
Services	1.7	-7.3	15.2	2.0	1.5	2.2
Inflation (Consumer Price Index)	2.3	3.0	4.5	7.7	4.5	3.0
Current Account Balance (% of GDP)	-5.2	-1.7	-6.6	-3.1	-2.5	-2.1
Net Foreign Direct Investment (% of GDP)	1.2	1.0	0.3	1.1	1.0	1.1
Fiscal Balance (% of GDP)	-2.7	-7.1	-7.7	-3.8	-3.3	-2.7
Debt (% of GDP)	28.3	34.1	37.1	40.5	43.3	41.1
Primary Balance (% of GDP)	-1.8	-6.2	-6.4	-0.5	-0.1	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.7	0.0	0.9	0.9	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		1.4	0.1	1.6	1.6	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		4.4	0.8	4.7	4.5	4.3
GHG emissions growth (mtCO2e)	3.6	-15.8	5.5	-2.8	-2.1	-1.0
Energy related GHG emissions (% of total)	168.6	182.0	179.2	182.1	184.8	186.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2020-CASEN.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using microsimulation model for 2021 and neutral distribution with pass-through = 1 based on GDP per capita in constant LCU for 2022-2024.