Chile

Outlook

	Average 10-14	2015	2016	2017	2018	2019	Forecasts 2020	2021	2022
GDP growth (%)	4.6	2.3	1.7	1.2	4.0	1.1	-6.0	4.5	3.2
CPI inflation (%)*	2.8	4.3	3.8	2.2	2.3	2.3	2.9	2.7	3.0
Fiscal balance (% of GDP)	0.0	-2.1	-2.6	-2.6	-1.5	-2.6	-8.7	-4.0	-3.8
Public debt (% of GDP)	11.9	17.3	21.0	23.6	25.6	27.9	32.8	37.5	41.7
Reference rate (%)*	4.0	3.1	3.5	2.7	2.6	2.5	0.8	0.5	0.8
Exchange rate (CLP/USD)*	509.2	654.2	676.5	649.1	641.4	703.1	793.7	747.2	748.7
Current account balance (% of GDP)	-2.5	-2.4	-2.0	-2.3	-3.6	-3.8	-1.6	-2.9	-1.8
External debt (% of GDP)	46.0	69.1	63.4	61.8	64.4	75.7	73.3	71.0	68.4

Note: * Annual average.
Source: CaixaBank Research, based on data from national statistical agencies and IMF.

- **Chile has been one of the countries with the lowest rates of COVID-19 in Latin America, therefore the shock in economic terms has been lower than in other countries in the region** and a strong recovery is expected in the upcoming years. This is due to the combination of an aggressive fiscal policy and the approval of two partial pension withdrawals that will increase household consumption in the short term. However, this last resource not only has negative implications for the sustainability of the pension system, but it could also **put Chile on the path to higher spending and fiscal pressure**. Moreover, the constitutional reform process will be long and will require the expansion of social programmes, which implies greater public spending.

- **Real shock of COVID-19 and health strategy.** Chile has had one of the lowest GDP contractions in Latin America, and as a result, will be one of the economies in the region that recovers the fastest from the recession caused by coronavirus. On the external front, the country's exports have benefited from China's recovery and the rise in commodity prices, driven by an extensive global monetary and fiscal stimulus. Domestically, the spread of COVID-19 has been under control and the pension withdrawals approved in 2020 as a financial relief measure for households will continue to boost consumption. This has allowed mobility restrictions to be lifted gradually since August. As a result, in Q3 of 2020, GDP had a positive quarter-on-quarter growth of +5.2% (and a year-on-year fall of 9.1%, lower than in Q2, which was –14.5%).

- **Economic policy response**
  - **Monetary policy.** The Central Bank took a highly expansive monetary stance, which brought the reference rate to historical lows (currently at 0.5%). However, with economic recovery underway, it is highly likely that the Bank will begin a cycle of rate hikes towards the end of 2021. Moreover, inflation has increased in recent months as a result of the short-term impact of government transfers and pension fund withdrawals, but it is expected to remain in the target range (2%-4%) in 2021. The Bank has also adopted special liquidity measures to ensure stability as pension funds liquidate assets to cover the pension withdrawals.

Closing date of this edition: 23 December 2020

Outlook *(continued)*

› **Fiscal policy.** The government's fiscal response was one of the most comprehensive in the region, with a recovery package of almost 12 billion dollars. The plan that has been outlined, called Chile Recovers Step by Step, which will be implemented in 2020-2022, aims to create 1.37 million jobs. As a result of this increase in spending, the government altered its fiscal deficit projection for 2020 to 8.2% of GDP (we expect it to end up somewhat higher, closer to 9% of GDP). For 2021, it is expected that the correction of the deficit will not be as robust as it would be if it resulted from economic improvement, given that social pressure to increase spending will remain high during the constitutional referendum process.

- **Evolution of the sovereign debt**. The country has ample margin to adapt to higher fiscal spending, but this would pose risks in terms of the sovereign rating. Levels of debt will continue to rise in the 2021-2024 period, though at a slower pace than suggested by fiscal deficit projections, as the Treasury will use the sovereign economic stabilisation fund to cover part of its financing needs for 2021, as it did this year. Given this scenario, S&P and Moody's changed their outlook from stable to negative, leading to the possibility of a downgrade in the rating in the coming years.

- **Evolution of the exchange rate**. The Chilean peso depreciated at the start of the year due to the country's exposure to Chinese demand and the price of commodities. In 2021, the currency will benefit from the global economic recovery.

Main risks

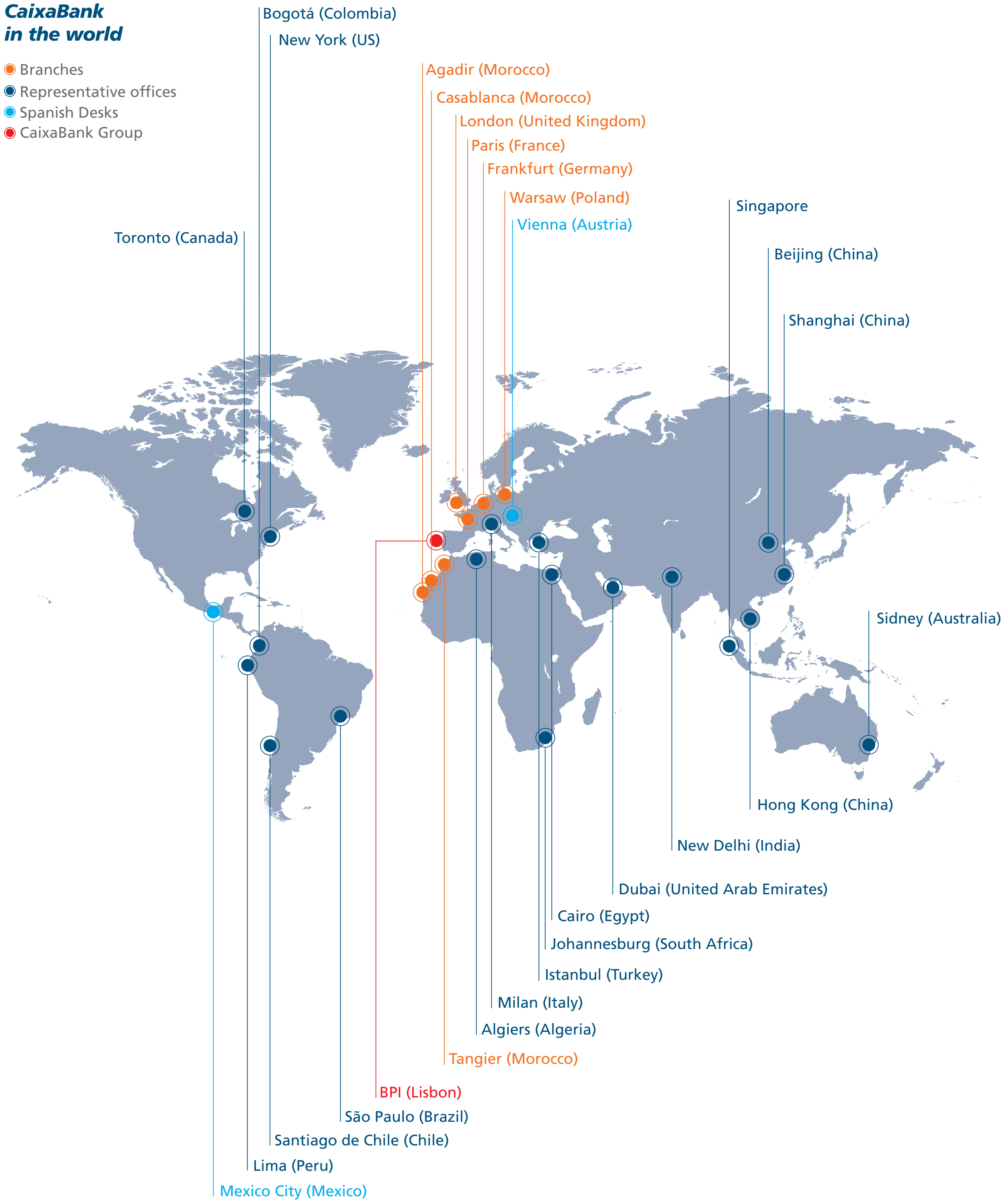
The balance of risks is clearly trending downward, especially in the following two areas:

- **Macrofinancial risk.** Congress approved two partial pension withdrawals, leading to the possibility of more withdrawals next year. If this occurs, the savings of pension funds, which have driven the growth of capital markets in Chile, as well as future returns, could be put at risk. This, in turn, would force the government to invest more resources in the pension system, resulting in a further deterioration of public finances.
- **Political risk.** The result of the referendum on constitutional reform in October was in line with the polls, with 78% of votes in favour. Next year, the political scene will be dominated by the strong election season. In April, the members of the constitutional assembly will be elected, which will provide some clarity on the political stance going forwards. In the event that these elections lean more to the left, it could increase the perception of the free market being put at risk that has characterised Chile for years. Although this interpretation is excessive, productive investment, which has been very sensitive to changes in the country's institutional framework in the past, could slow down. Municipal and governor elections will be held at the same time as these elections. The centre-right parties have already reached an agreement to hold primary elections to choose a candidate, while the main left-wing parties have not reached a similar agreement.

	Rating	Last changed	Outlook	Last changed
STANDARD &POOR'S	A+	13/07/17	Negative	27/04/20
MOODY'S	A1	26/07/18	Negative	25/08/20
FitchRatings	A-	15/10/20	Stable	15/10/20

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

CaixaBank in the world



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