CHILE

Economic growth is projected to gradually strengthen to 2.8% in 2018. The pick-up will be underpinned by improving external demand and, reflecting more accommodative financial conditions, investment. The unemployment rate is projected to stabilise and wage growth to pick up, both of which will lower income disparities and raise consumption. Inflation is projected to increase as the impact of the past currency appreciation fades and aggregate demand strengthens.

The central bank lowered its main policy rate to 2.75% in April 2017. Monetary policy will continue to support economic activity, while higher public spending on education and health will boost growth and inclusiveness. The strengthening of the competition authority, the simplification of export and investment procedures, and measures to expand firm financing will raise productivity and investment. However, the planned gradual fiscal consolidation could weigh on public investment. More needs to be done to tackle labour market inequalities as well as to simplify licencing procedures and streamline regulations.

Specialisation in natural resources has implied high integration in global value chains, but also exposure to commodity price volatility. Reducing skill mismatches, supporting the formalisation of employment, easing labour market adjustments, encouraging private innovative investment through streamlined regulations and direct R&D support, and upgrading infrastructure networks would all strengthen productivity growth and broaden trade prospects, while reducing inequalities.

**Investment and GDP growth have been weak**

Economic growth has continued to moderate as exports have lagged despite recent improvements in commodity prices. Weak business confidence, higher policy uncertainty and a cooling housing market have held back investment, despite historically low interest

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1. Goods and services.
2. Trade weighted real imports of trading partners.

Source: Central Bank of Chile; and OECD Economic Outlook 101 database.

StatLink: [http://dx.doi.org/10.1787/888933502883](http://dx.doi.org/10.1787/888933502883)
rates. Self-employment and involuntary part-time employment have increased sharply. The authorities raised public consumption by 5.1% in 2016 to support growth; planned additional spending on education and health-care services will improve inclusiveness and long-term growth prospects.

**Further structural reforms would support more inclusive growth**

Monetary policy remains supportive. The central bank reacted to the growth slowdown by cutting its interest rate from 3.5% in December 2016 to 2.75% in April 2017, well below historical norms. Inflation expectations remain well anchored, and prudential measures have moderated household and business lending growth, thereby containing vulnerabilities. As the economy strengthens and the effects of the recent currency appreciation dissipate, the central bank is projected to slowly raise its policy rate as from the beginning of 2018.

The government plans to raise the central government deficit from 2.7% of GDP in 2016 to around 3.1% of GDP in 2017. This is appropriate given economic uncertainties, and the sustained expansion of healthcare and education spending is welcome. However, after 2017, consolidation is projected in line with the fiscal rule. A further decline in infrastructure investment could weigh on productivity and long-term growth, if the planned increase in public-private projects fails to materialise. Broadening public revenues, notably by increasing real-estate taxes and reviewing the taxation of natural resources, would ensure more sustainable funding for social spending and infrastructure.
The ongoing educational reform, the simplification of export and entrepreneurship procedures, new support programmes for firms, and the reform of the competition framework will improve investment and equity. However, simplified regulations and licensing procedures, more public-private research collaboration and direct support for R&D are needed to strengthen innovation. Further expansion of childcare facilities would boost the still low female employment in paid labour. Easing labour market regulations and extending unemployment insurance would reduce labour market inequalities and skill mismatches.

**Growth will pick up**

Growth is projected to bottom out in 2017 and to strengthen to 2.8% in 2018. Exports will continue to grow at a solid pace, underpinned by improving export markets. Strengthening demand, good financing conditions and recent policy measures to support exports and productivity will boost business investment. Rebuilding efforts following extreme weather events will also support short-term activity. Private consumption is projected to accelerate with increasing real disposable incomes. As growth picks up, the unemployment rate will edge down.

The main risks to growth relate to the performance of Chile’s principal trading partners and the evolution of commodity prices. Lower or higher growth in China, the United States and Latin American neighbours could reduce or boost external demand. In particular, a recovery of copper prices would boost confidence and investment, and increase government revenues. Alternatively, lower export prospects would weigh on growth. Domestic measures to boost competition and productivity and the new infrastructure fund could also increase investment more than assumed. By contrast, growth could be weakened if current uncertainty in the business sector does not dissipate.