Chile's economic prospects: removing constraints, taking opportunities, mitigating risks

Chile Day – New York – May 23rd, 2025

Ministerio de Hacienda

Gobierno de Chile

BOLSILLO FAMILIAR ELECTRÓNICO
INNOVACIÓN AVONNI 2023

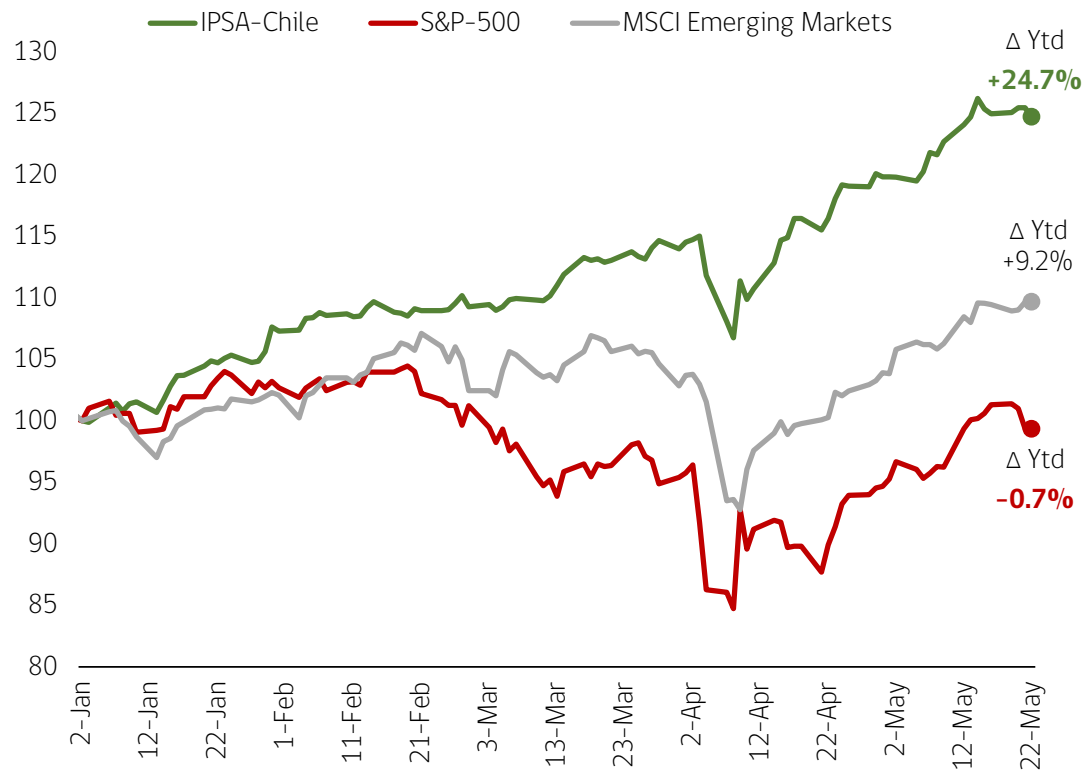
SICEX
CONECTA LOGÍSTICA 2024

I. MACRO SCENARIO

Chilean stocks have been among the World top performers in 2025. While this is partly due to the global reallocation of capital triggered by events in the US, there are also some domestic reasons behind it

Stock market indices performance YTD

(index on January 2, 2025 = 100)



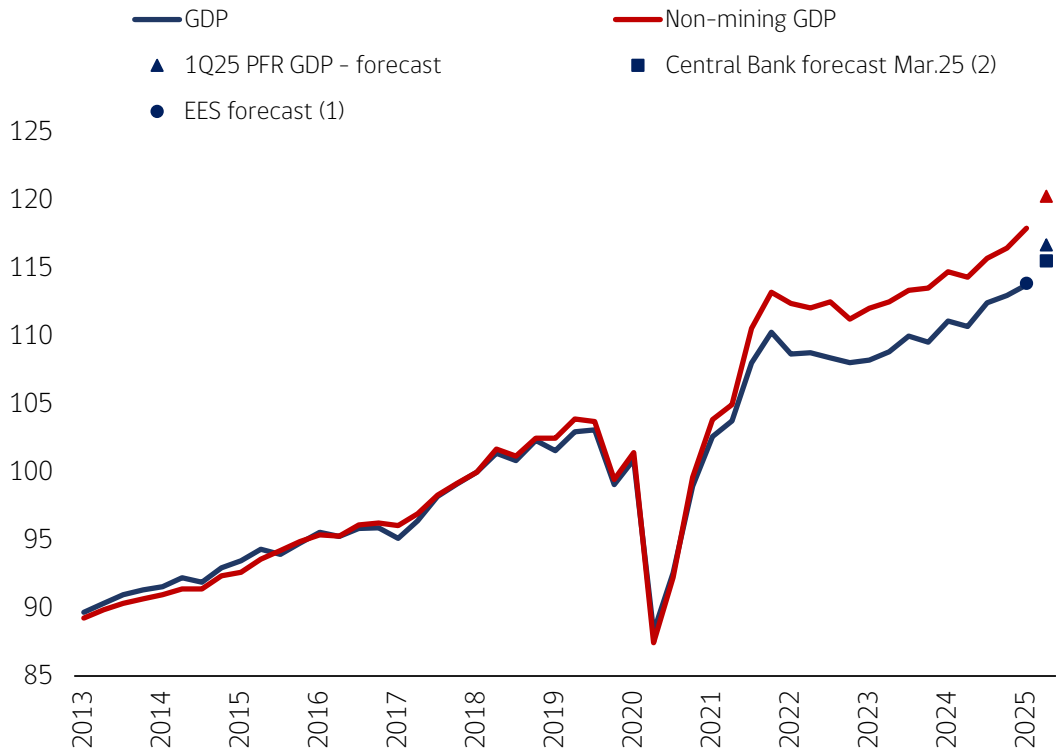
Source: Bloomberg.

- All the main local sources of uncertainty (e.g. pension fund withdrawals, the constitutional process) are already behind us
- The economy is fully normalized after record-level liquidity injections to households and large fiscal imbalances
- Despite political tensions, Pension Reform was passed by the Chilean Congress. Enhanced contributions will feed into the capitals market and will contribute to ease political tensions
- A broad consensus has solidified around the importance of economic growth, macro stability, fiscal responsibility and trade openness as the basis for development and wellbeing
- A growing pipeline of investment projects speak of emerging opportunities and a brighter growth prospect
- The Chilean economy is better prepared to face new challenges from the developing trade tensions abroad

The Chilean economy returned to a growth path in 2024, expanding by 2.6%, led by exports. In 2025 demand has strengthened and the economy could keep growing at around 2.5% if investment plans materialize

- Economic activity has returned to its pre-pandemic trajectory, with a recent slight acceleration
- Non-mining GDP grew more than 2.5 percent over the last two quarters
- While exports led growth in 2024, investment is expected to take over in 2025

Gross domestic product
(index 1Q2018=100, seasonally adjusted)

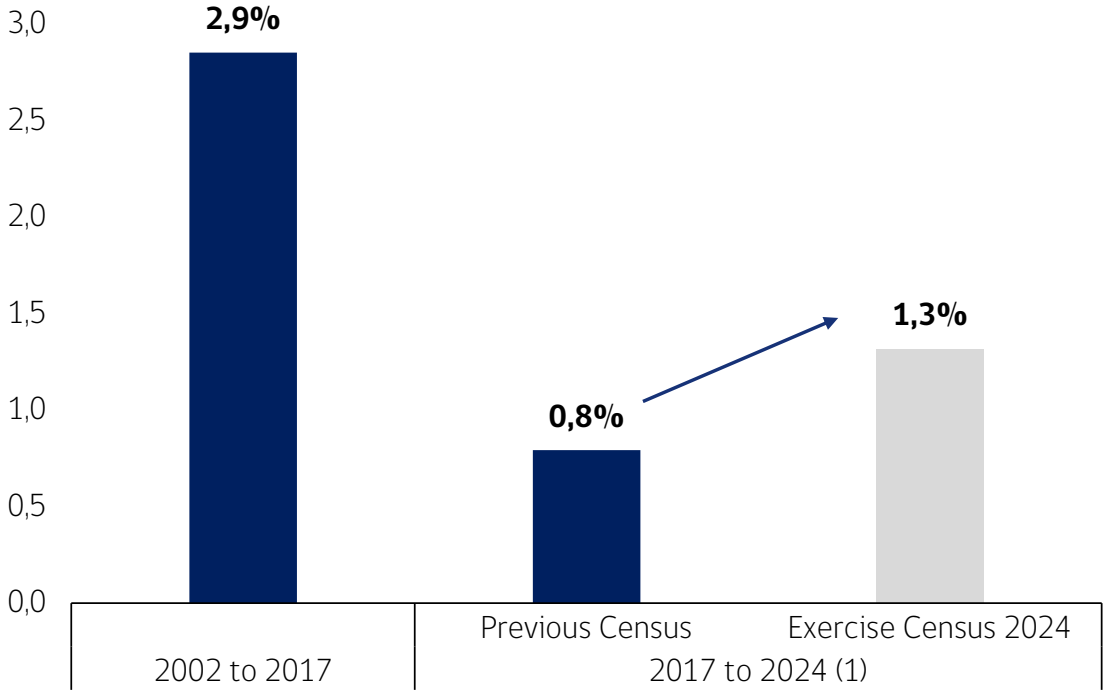


Note: (1) The forecast correspond to the median of the Economic Expectations Survey (EES) from the Central Bank of Chile. (2)) The forecast correspond to the Monetary Policy Report of march 2025.
Source: Central Bank of Chile and Ministry of Finance.

Combining the recently released data from the 2024 census, per capita GDP may have grown considerably faster that previously estimated

- Current official population projections (made in 2017-18) forecasted a 9% growth in total population by 2024. The Census data brings this figure down to 5%
- Such population increase raises the growth in per capita GDP from 0.8% to 1.3% in 2017-2024
- This population deceleration vis-á-vis projections seems to go beyond birth rates, maybe including lower immigration flows in the last 3 years. In fact, census working-age population (25-64) grew 6%, half the previous estimate of 11.7%
- According to the above, GDP over working-age population growth may have increased from 0.4% to 1.2% per year in the same period

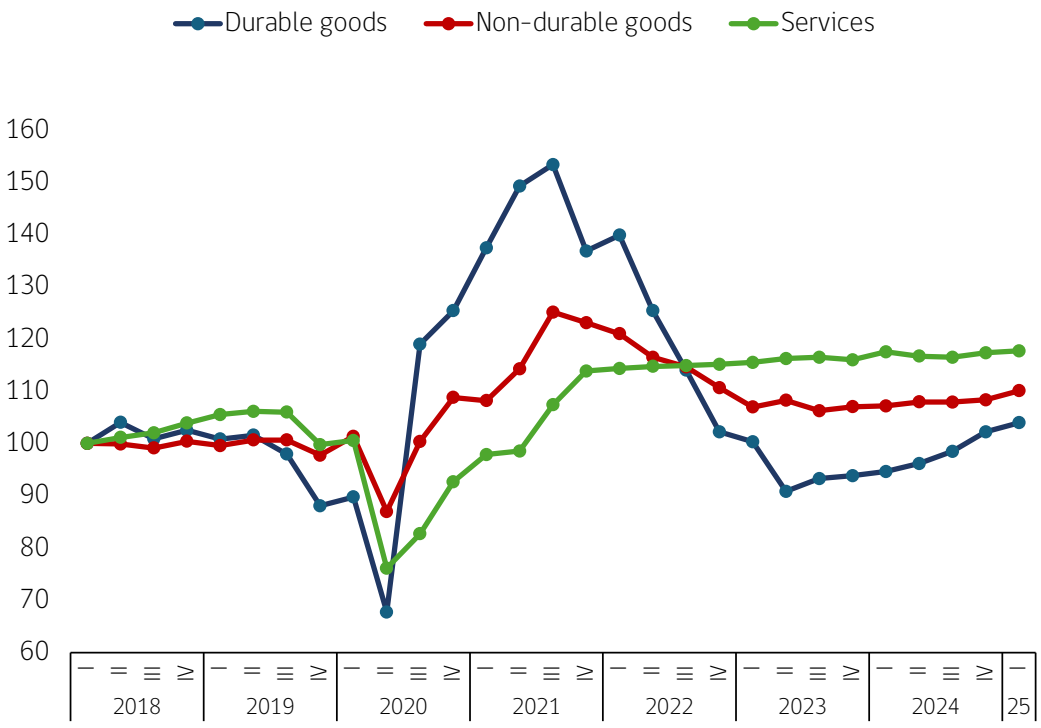
GDP per capita growth: official vs calculations
(annualized)



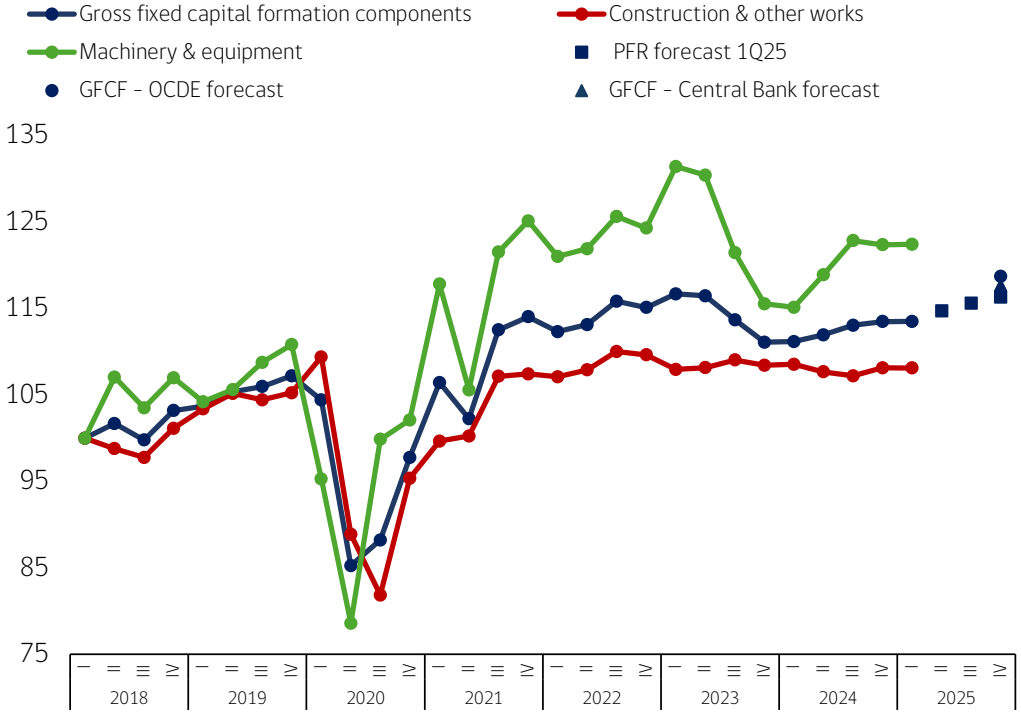
Note: (1) The 2024 population figures are based on an exercise made at Min of Finance using the same 2017 ratio between INE Official Population projections and the previous Census. It also uses Census population 2024. Official Population projections are scheduled by the National Statistics Institute (INE) for January 2026
Source: Central Bank of Chile (GDP) and National Statistics Institute (INE).

2025 is starting on a solid footing. In the first quarter, consumption grew by 2.0% YoY, driven by an 11.0% increase in durables. Gross fixed capital formation (GFCF) rose 1.4% YoY, supported by a 5.3% expansion in machinery and equipment

Components of Private Consumption
(index 1Q2018=100, seasonally adjusted)



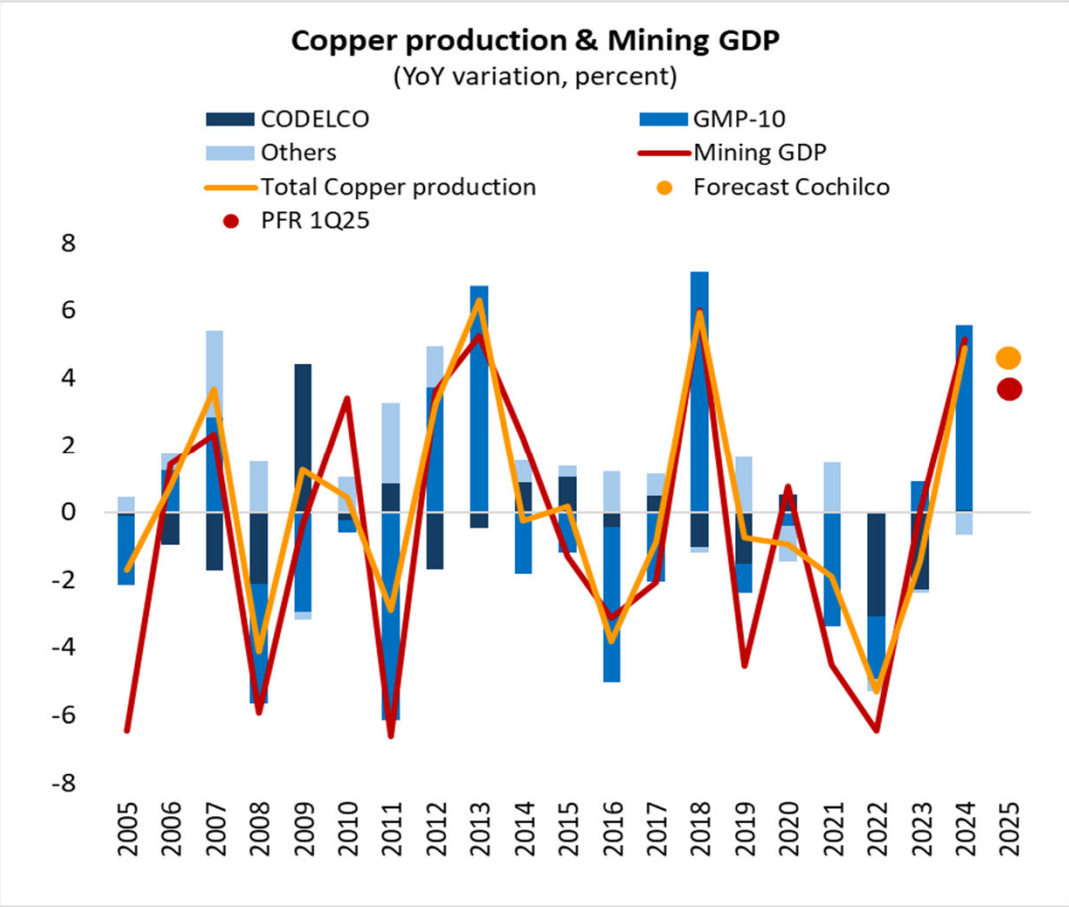
Gross fixed capital formation components
(index 1Q2018=100, seasonally adjusted)



Source: Central Bank of Chile.

Mining production is expected to expand for a second year in a row, reverting some of the losses in mining GDP between 2018 and 2021

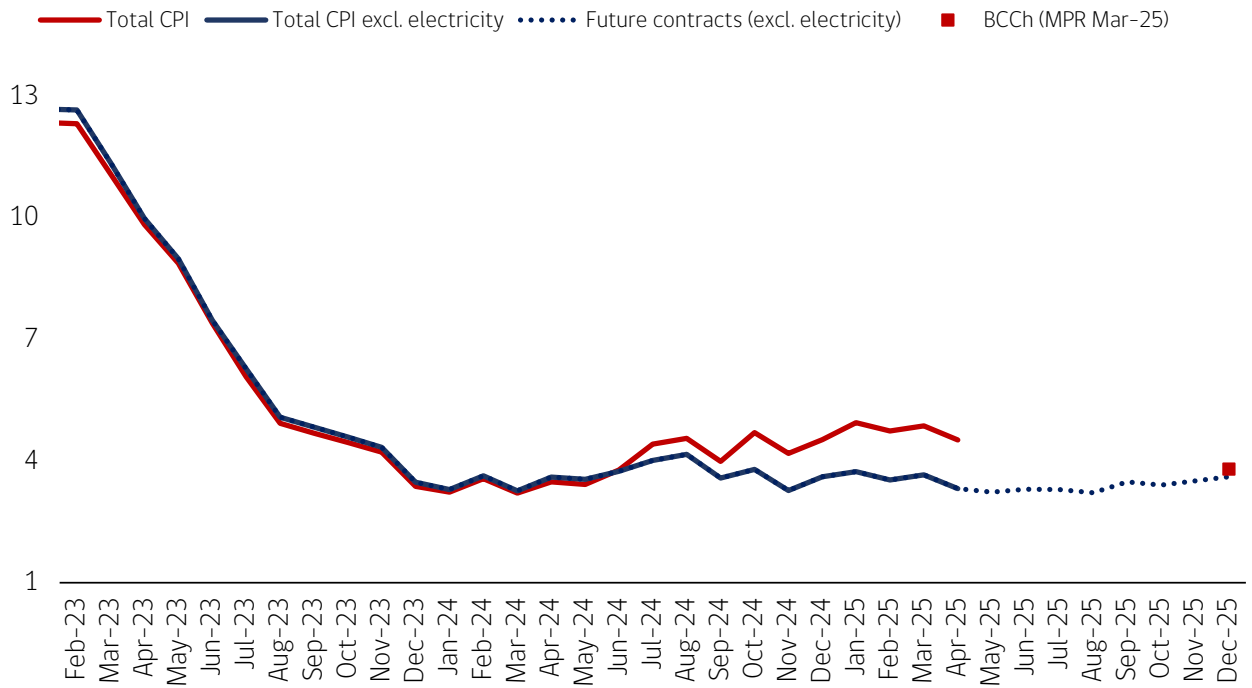
- Mining is now recovering from the massive contraction in the four years 2018Q1 to 2022Q1, when mining GDP dropped by 15%
- In 2025 Codelco could achieve its second-highest production growth in the last 20 years
- Cochilco expects copper production to increase by 1 million tons between 2022 and 2030
- This is partly explained by a growing pipeline of investments projects that is already unfolding



Note: Note the 2018 growth is in part explained as being one year after the workers' strike at Escondida mine.
The 2025 forecast uses publicly available information on the annual target for 2025. Where this information was unavailable, models are used.
Source: COCHILCO and Ministry of Finance.

The CPI was under pressure since mid-2024 from the normalization of electricity tariffs, after a 5-year nominal freeze. Once this increase is absorbed, inflation is expected to converge to the 3% policy target, by early 2026

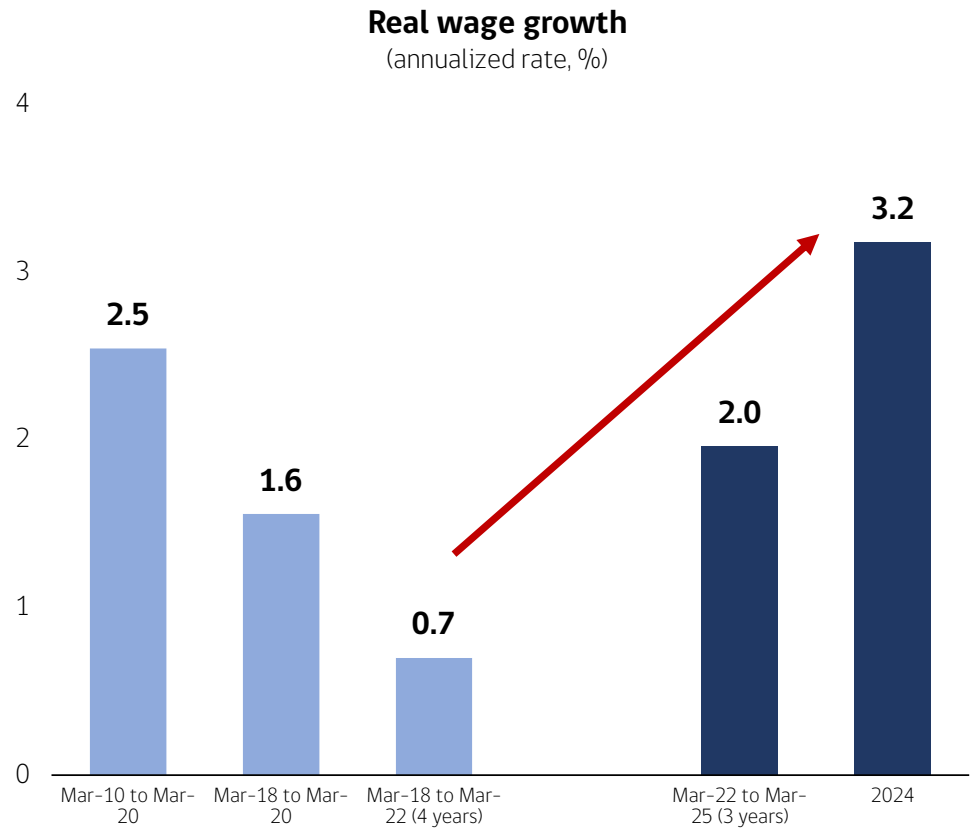
Inflation (1)
(YoY % var.)

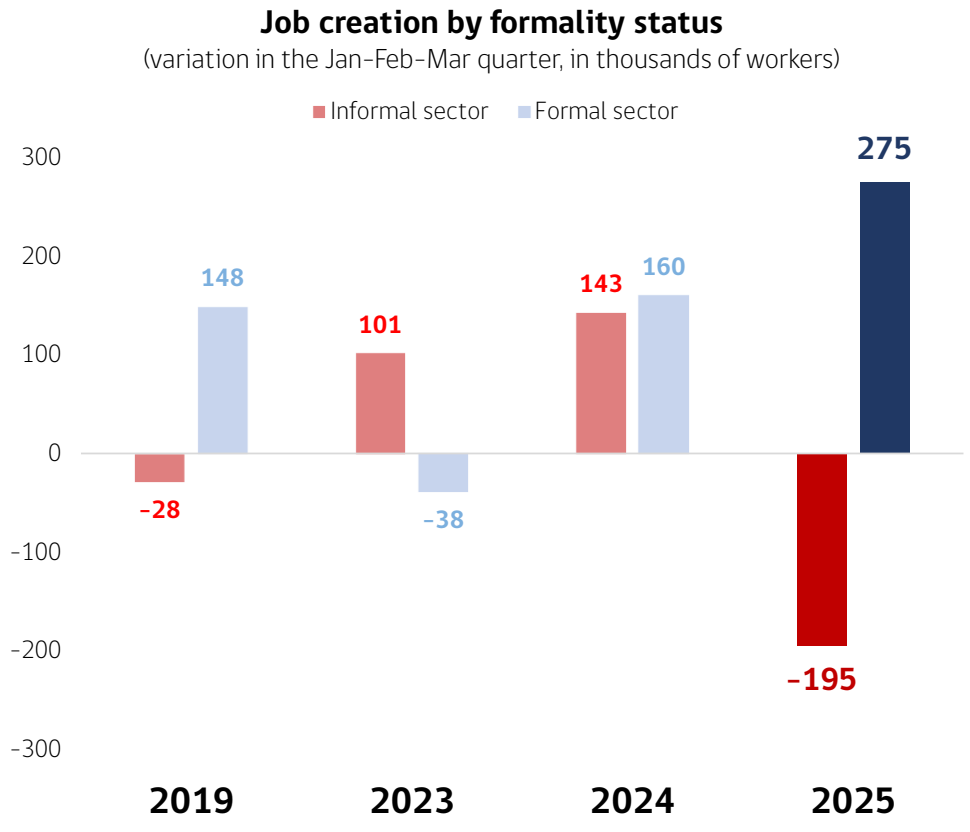


- The unfreezing of electricity rates is already complete
- CPI excluding electricity is currently growing at 3 ½ percent
- Core CPI is expected to grow at 3 ½ throughout the next 6 months

Note: (1) Future contracts data as of May 14, 2025. CPI excluding electricity corresponds to the total CPI index but excluding the Electricity Supply product. The monthly impact of a 7.1% increase in electricity prices was subtracted from the July 2025 inflation insurance.
Source: Bloomberg and Central Bank of Chile.

Labor market shows real wage catch-up after an unusual period of low wage growth in 2018-2022. Employment creation has concentrated in formal, salaried jobs. It reduced informality to a historical minimum, slightly above 25% of employment



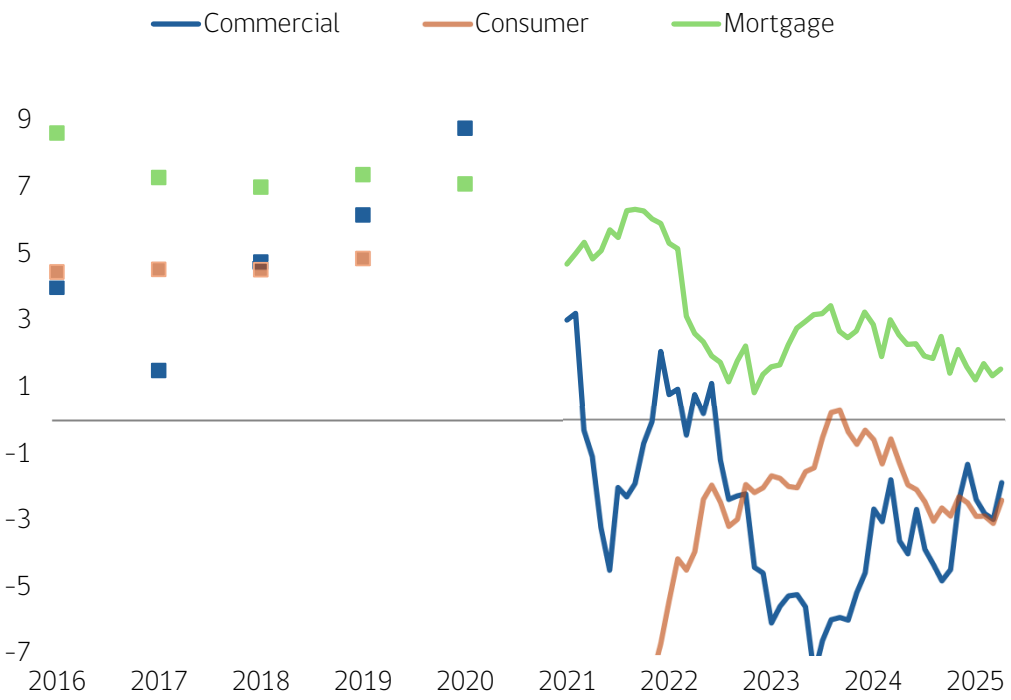


Source: Ministry of Finance based on National Institute of Statistics.

Financial conditions remain restrictive for credit flows and market rates. This is partly due to the legacy of pension funds withdrawals. Other pressures, coming from monetary policy, risk perceptions and bank capitalization requirements may ease in 2025, depending on the impact of global developments

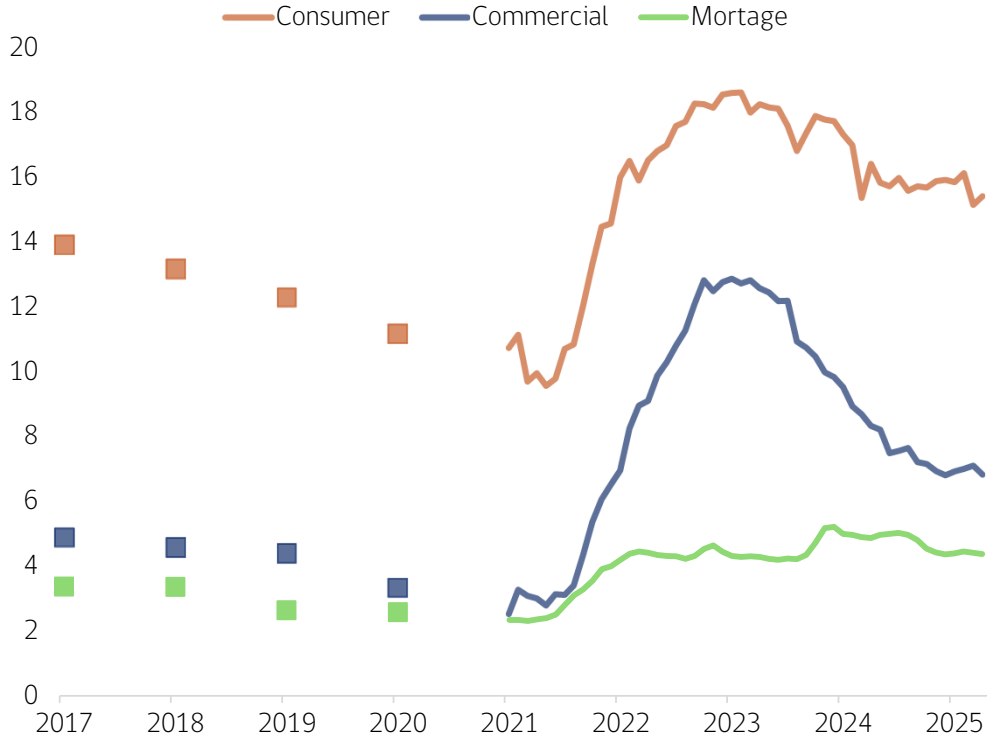
Credit growth ; loans of the banking system (1)

(real annual change in stock of loans, percent)



Evolution of interest rates on loans (2)

(interest rate, %)

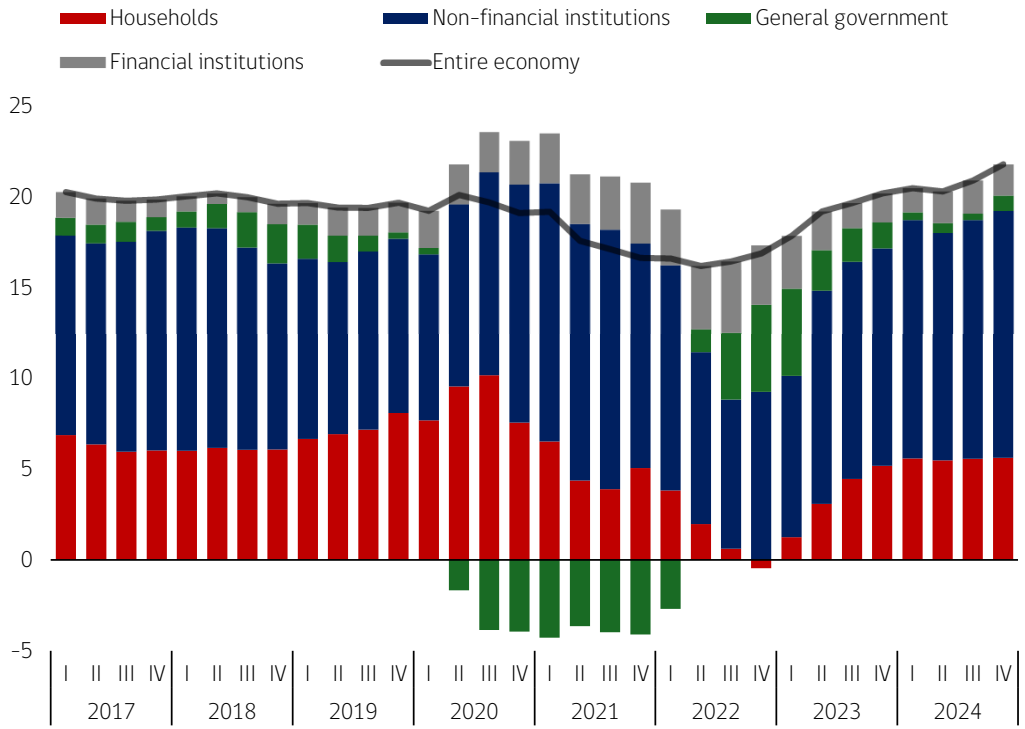


Note: (1) and (2) for the evolution of stock of loans and interest rates for the period 2017-2020 are presented as annual averages and are shown using square markers in the chart. Vertical axis begins at -7 to enhance the visual comparison between series. Mortgage interest rates are CPI indexed rates in UF; the rest corresponds to nominal rates in Chilean pesos

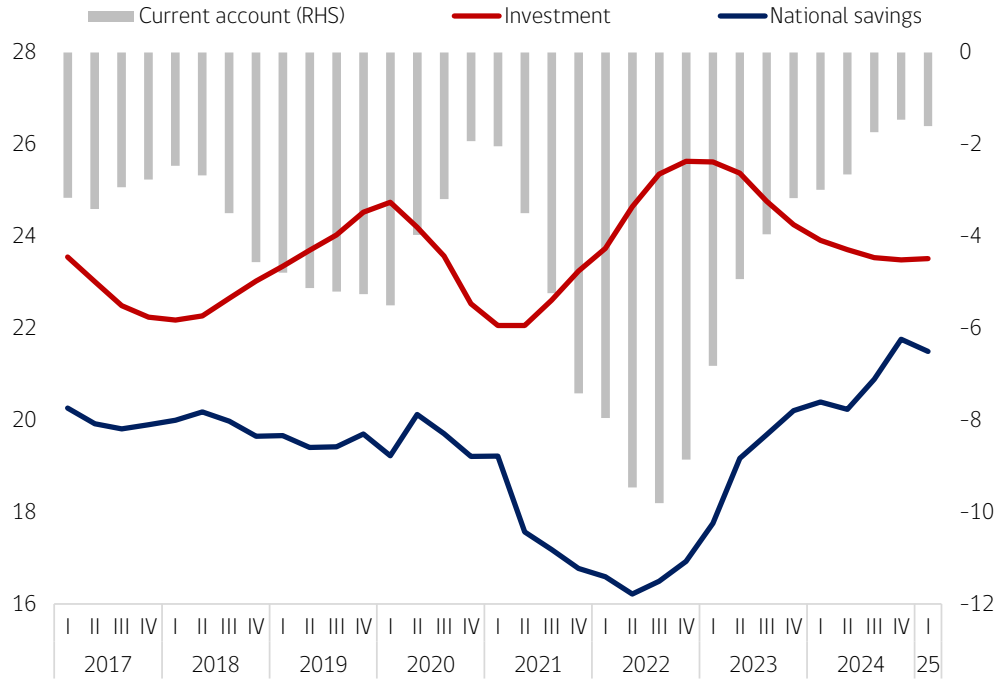
Source: Central Bank of Chile, Financial Stability Report. First half 2025

The normalization of the economy has increased savings, reduced indebtedness and lowered credit default. As a result of the strengthened financial position of domestic agents, current account deficits are at historical lows. The latter is a meaningful buffer in the face of current global uncertainty

Gross saving by institutional sector
(% of GDP, annual moving average)



Current account, Investment and National Savings
(percent of GDP, annual moving average)



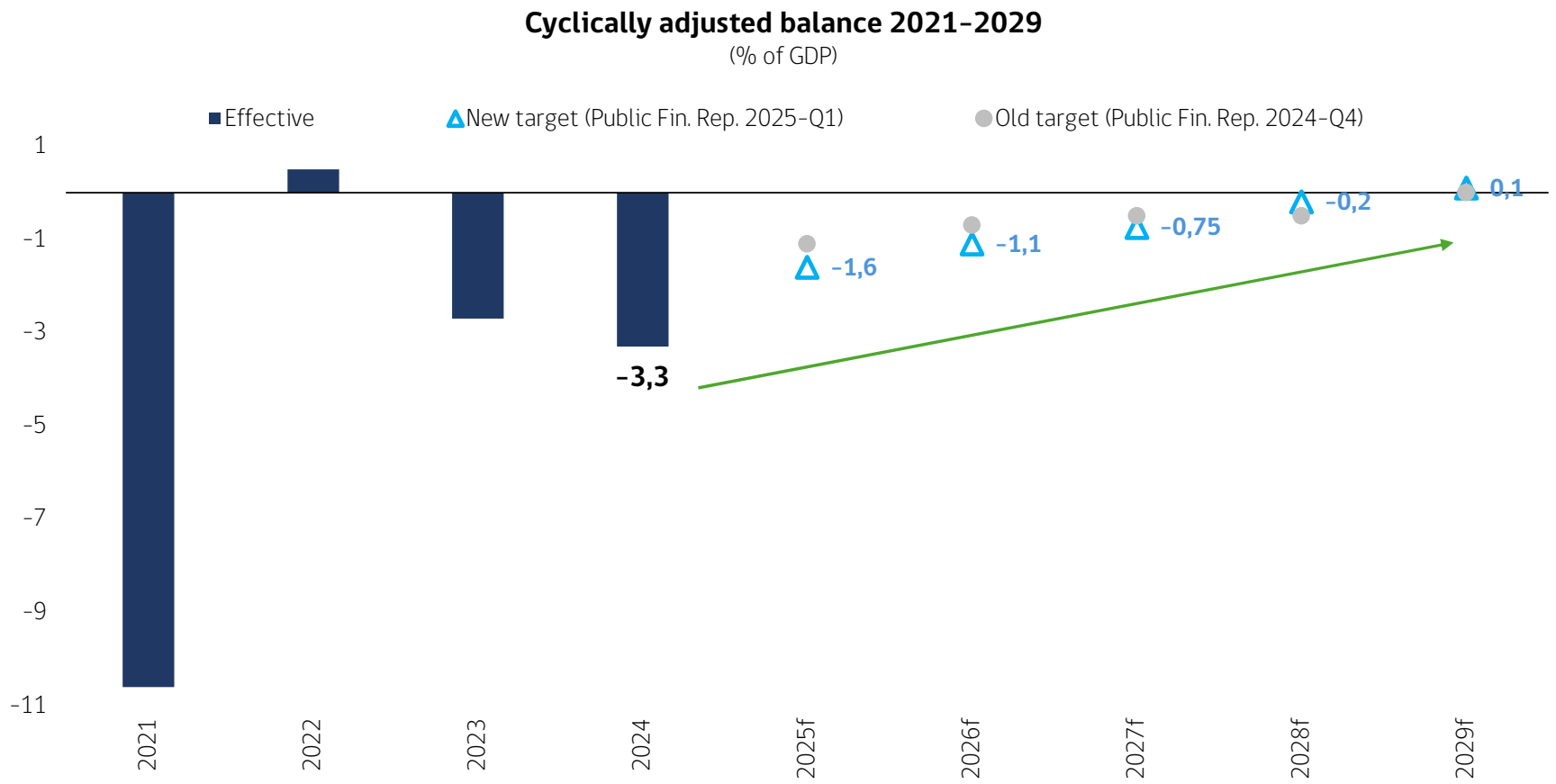
Source: Central Bank of Chile and Ministry of Finance.

In sum

- The Chilean economy has resolved all the major macro imbalances left by the Covid-19 crisis and the oversized responses to it, without undergoing a recession or rising inequality
- Economic growth resumed in 2024, with a GDP increase of 2.6%, above estimated potential, and above the average of the eight years prior to the crisis
- Normalization has also included the unfreezing of utilities and transport fees, which have put some transitory upward pressure on CPI. Without significant second-round effects, inflation should begin to converge to the 3% policy target in the second half of this year
- Normalization is also evident in the labor market, with formal employment and real wages growing
- Still, the disruptive effect of pension fund withdrawals of 2020-21 is still visible in the domestic bond market and bank credit. Both have endured the most restrictive conditions over the past four years
- All these elements combine to an economy that has recovered most of its resilience to external shocks
- A valid remaining question is the pace of economic growth that can be sustained over time
- Similarly, the vulnerabilities and strengths of the Chilean economy to the unusual nature of current external threats, as well as the strategy to face them, need to be properly assessed

II. A DETOUR ON FISCAL POLICY

After major imbalances in 2020–21, government set itself to an aggressive fiscal consolidation. This included strengthening the FRL and an ambitious structural balance path. Targets were exceeded or met in 2022 and 2023 but missed in 2024. The government has charted a path to revert the latter



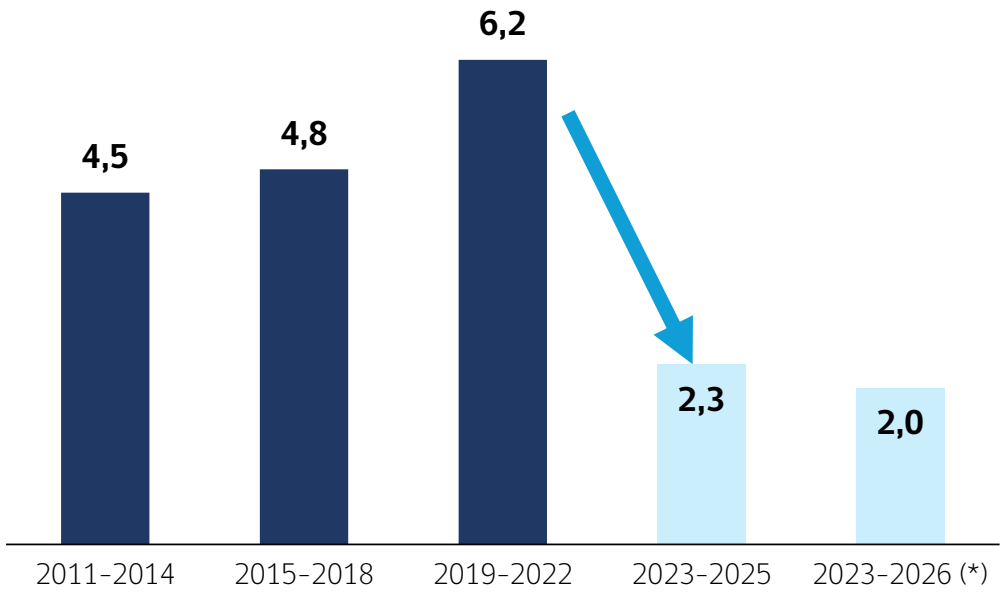
Note: (f): forecast. New refers to the Public Finance Report 1Q 2025, with and without corrective measures; old refers to the Public Finance Report 4Q 2024.
Source: Budget Office.

The compliance gap in 2024 was due to an over-estimation of revenues, not overspending. In addition to the 23% cut in 2022, real public spending 2023–2025 would grow only half as fast as the pre-pandemic average 2011–2018

- Under the current administration, efforts have been made to contain the expansion of public spending
- As a result, government expenditure is projected to grow by an average of 2% per year between 2023 and 2026, below the pace observed in previous periods
- Public pending has remained at 24.3% of GDP over the last two years, the same level as in 2019
- Emerging priorities in public security, housing and health have been funded largely from reallocations
- These efforts have been reinforced by recent corrective measures aimed at preserving fiscal discipline

Average Growth of Total Central Government Expenditure

(YoY % change, Real deflated by CPI)



Note: Does not include Fonasa's Electronic Voucher. (*) The 2023-2026 average accounts for corrective measures in the budget

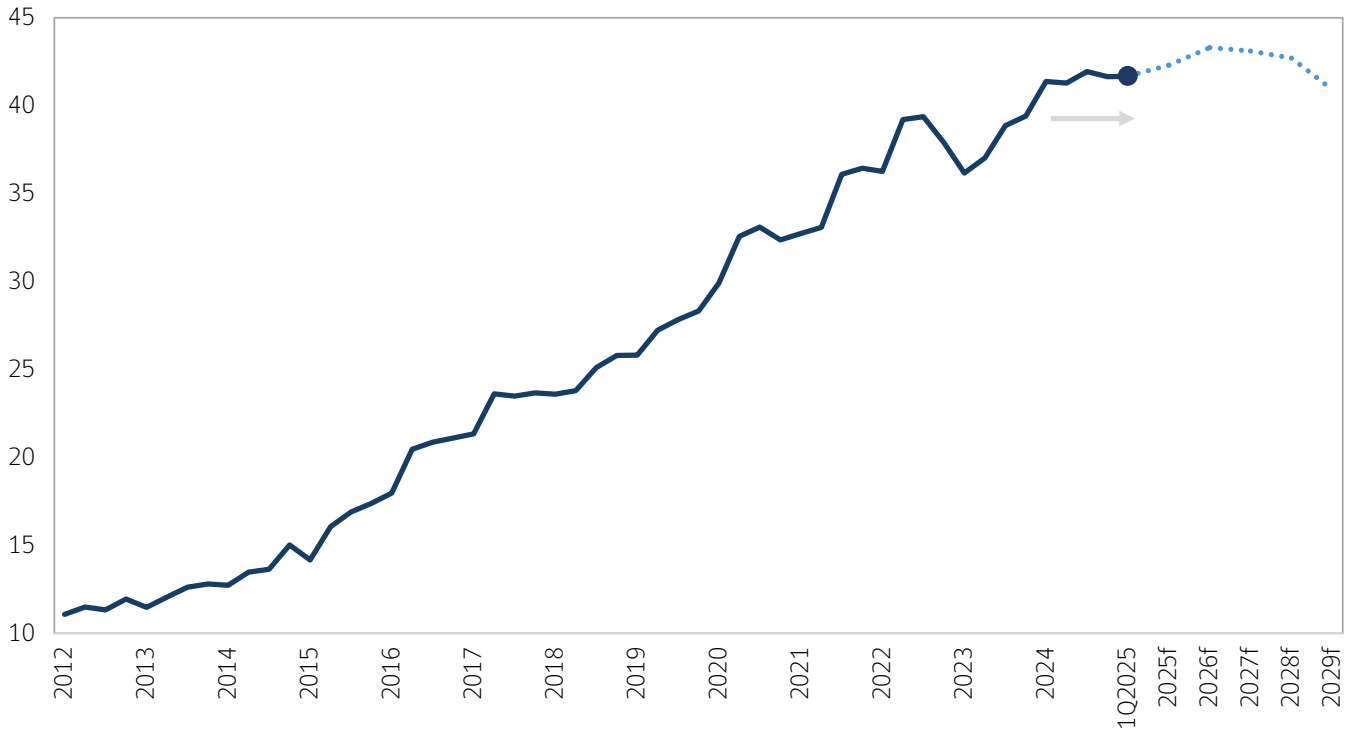
Source: Ministry of Finance based on Budget Office.

Public debt/GDP has slowed down from the trend of the past 14 years and stabilized around 41.7% for the last 5 quarters. Under current projections, it will remain well below the prudential limit of 45% of GDP and start to curve down by 2027

- Debt/GDP ratios depend not only on annual budget balances, but also on exchange rates and below-the-line operations
- Effective data of the last five quarters (up to 2025Q1) already show a meaningful flattening of the curve, with limited growth in Gross debt-to-GDP
- The weight of debt may still increase in the second half of 2025 and peak slightly above in 2026, but will remain well below the 45% of GDP prudential limit
- If the structural balance is reduced to zero in the course of the next Administration -a considerably softer adjustment than in 2022-2026-- Debt/GDP will converge to 40% by 2030

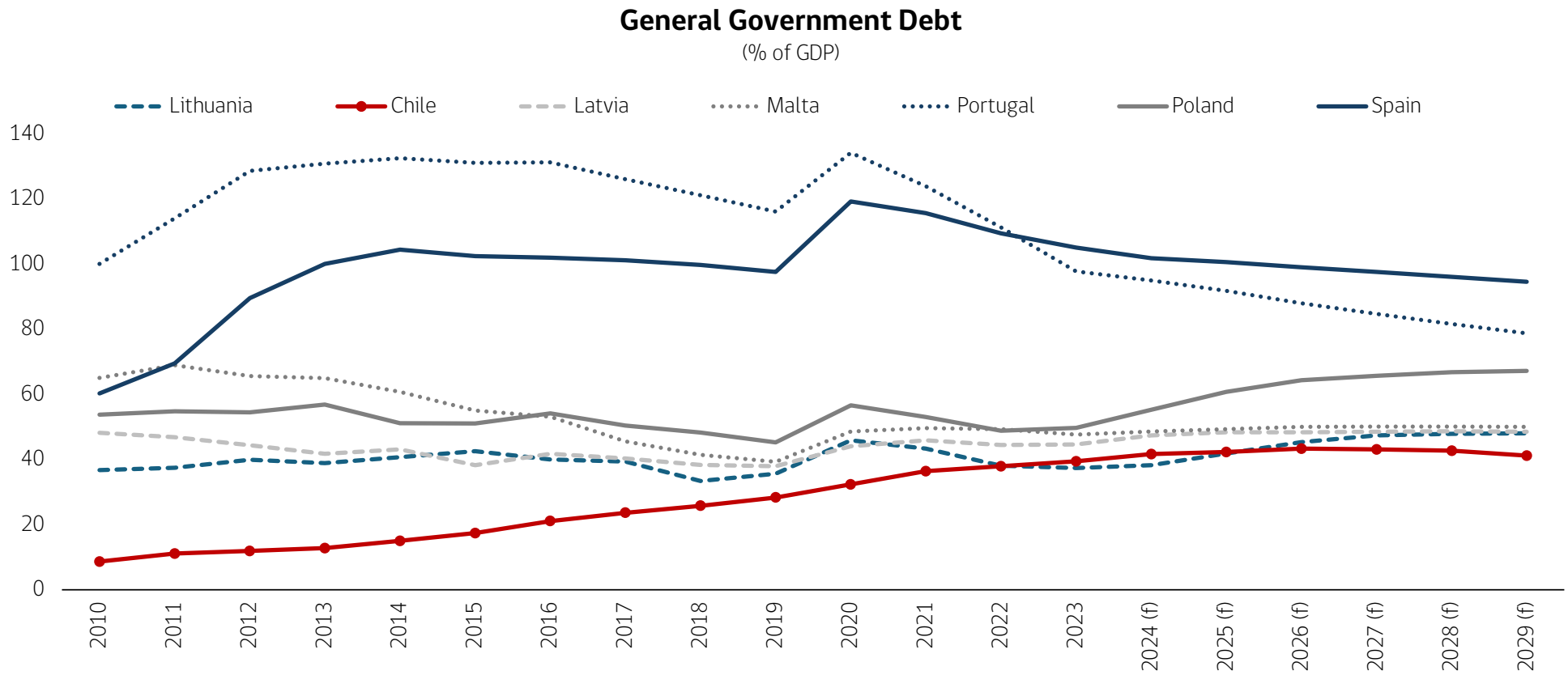
Gross Central Government Debt (1)

(rolling 4 quarters, % of GDP)



Note: (f): forecast, correspond to the Public Finance Report 1Q 2025. (1) Point 1Q2025: Gross debt of the 1Q2025 Budget Execution Report.
Source: Budget Office.

In comparative terms, Chilean Debt/GDP is significantly lower than in countries with similar Credit Rating. Interest payments are also below those in these countries



Note: (f): forecast from the April World Economic Outlook (WEO) and, for Chile, correspond to the Public Finance Report 1Q25 with effective figures for 2024. China and Japan are excluded due to change in the axis from higher Debt/GDP ratio.
Source: Ministry of Finance based on Budget Office, and World Economic Outlook April 2025, IMF.

Reforms under the current Administration will increase revenue/GDP over the next few years. This would provide funding of the fiscal part of pension reform without pressing other parts of the budget

Estimates of additional structural income from implemented measures

(% of GDP)

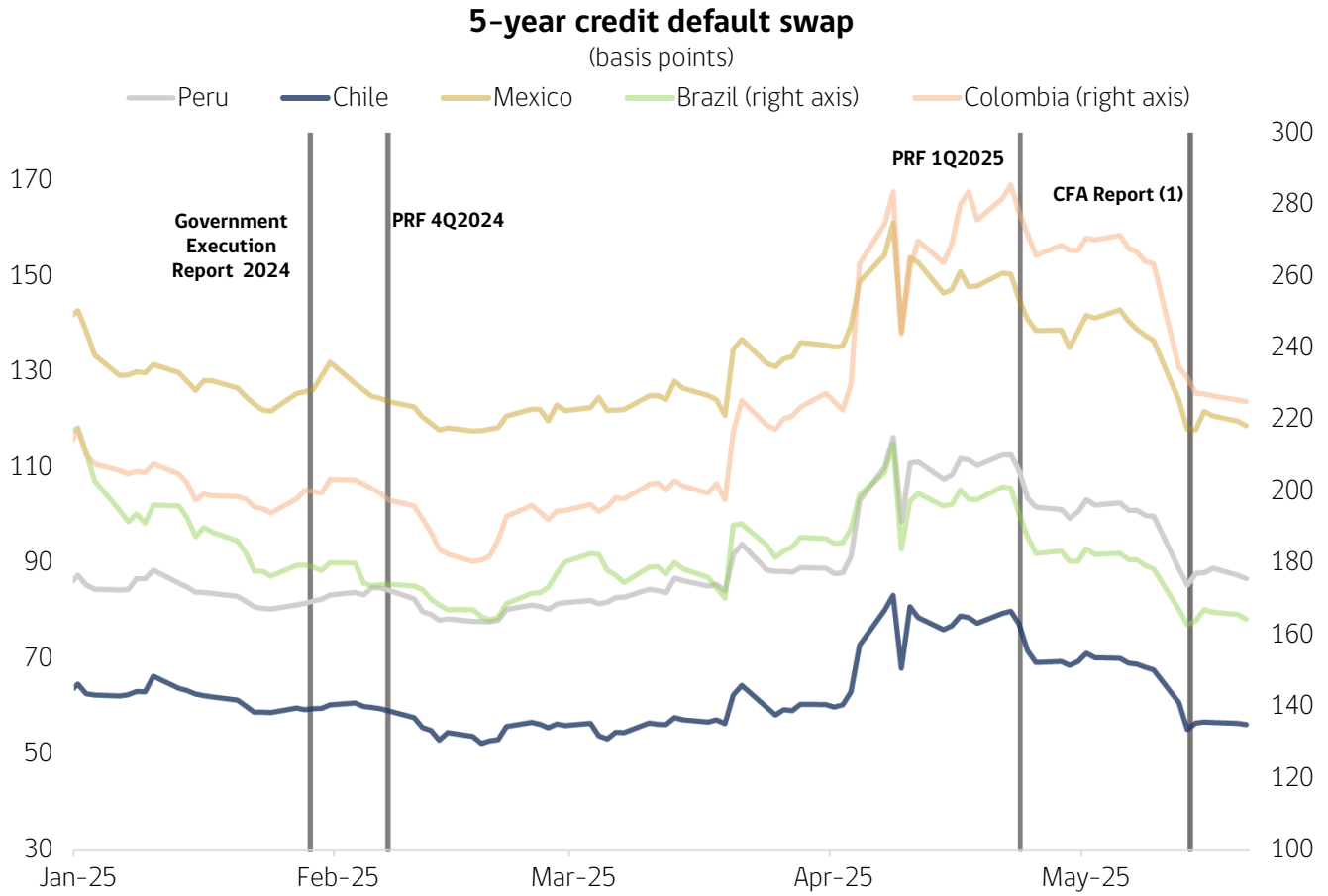
	2024	2025	2026	2027	2028	2029
Tax adjustments to finance PGU Pensions (1)	0.2	0.3	0.3	0.3	0.3	0.3
Boosting growth			0.1	0.2	0.5	0.6
Mining Royalty	0.1	0.4	0.4	0.4	0.4	0.4
Tax Compliance & Related	0.3	0.5	0.7	1.1	1.5	1.5
Total	**0.6**	**1.2**	**1.5**	**2.0**	**2.7**	**2.8**

Note: (1) Measures approved in January 2022. Includes a surcharge on luxury goods, which could not be implemented until September 2024 (measures for its implementation were included in the Tax Compliance Law). The second row about boosting growth is the only one not considered in the revenue forecasts of the Public Finance Report 2025-Q1

Source: Budget Office and Ministry of Finance.

Possibly for the former reasons, markets have remained unscathed from the fiscal debate in Chile

- Coherent with signals of credible fiscal policy, both CDS data and EMBI sovereign bond markets show no signal of any distress
- Both prices display movements with global and emerging market fundamentals, not with country-specific factors



Note: (1) CFA means Autonomous Fiscal Council is an independent technical body created in 2019 to advise on fiscal matters (CFA, by its acronym in Spanish).
Source: *Bloomberg.*

The Boric Administration took over after two years of the largest fiscal imbalances in living memory. For this reason, it made fiscal sustainability a central purpose of macro policy

- To this end, the Administration substantially upgraded the Fiscal Responsibility Law, introducing a dual rule by adding a prudential debt/GDP ceiling, setting Annual fiscal targets and establishing procedures to deal with exceptions and divergence from targets
- After largely exceeding the target in 2022 and fully meeting it in 2023, the target was missed in 2024. The gap was explained by underperforming revenues rather than overspending
- Digging deeper into the causes, we concluded that it was due to an over estimation of the impact of tax changes in 2020-2022. As a result, the MoF carried out a thorough review of the 2025 revenue estimates
- The MoF has charted a path to revert the 2024 gap in the remaining two budgets of the current Administration. The speed of convergence was calibrated against macro stability to prevent a fiscal contractionary shock in 2025. Debt/GDP is expected to remain below the 45% ceiling throughout
- Convergence measures includes legal reforms to contain spending and creates fiscal space in the years to come
- Still, Chile will remain confronted with structural spending pressures from demographic transition that cannot be resolved solely by spending cuts. Addressing this sooner than later will be the key to fiscal sustainability in the next decade

III. LONGER-TERM GROWTH POTENTIAL

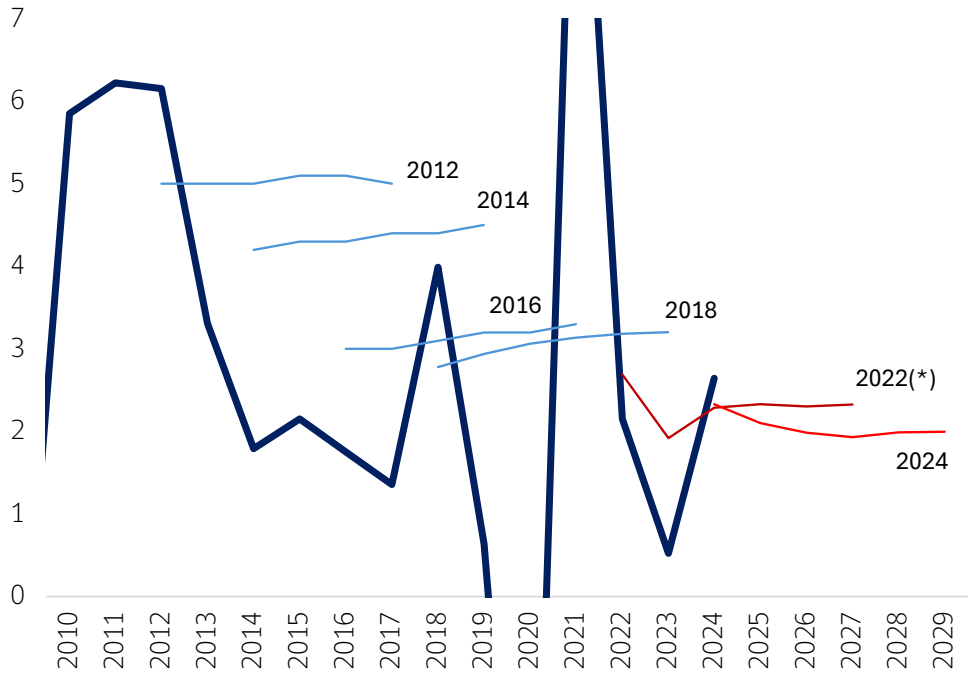
How much can the Chilean economy grow in the next five years?

- Economic growth slowed down significantly in Chile over the past 15 years
- Estimates of trend growth have moved from 5% in the mid-2000 to less than 2% recently. Most of the decline is due to stagnant productivity, in sharp contrast with its substantial contribution to growth in 1990-2005
- In the meantime, many structural changes have taken place and not all of them can be easily captured by conventional growth decomposition exercises.
- One major change is on the demographic front, where the growth in working-age population decreased from 1.6% in 1993-2005 to 1.1% in 2017-2024. Moreover, UN Population Prospects suggest very little growth in the next decade (UN: 0.3%, INE: 0,2%, on average, in the next 6 years)
- Growth decomposition exercises tend to be heavily shaped by past data. Even when assumptions on future productivity growth are included, analyses tend to reflect strong inertia and cannot easily integrate structural changes in the economy, like emerging comparative advantages
- As the economy grows steadily at 2 ½ per cent or above, despite financial constraints and without emerging imbalances, it is worth asking whether the trend growth slightly below 2% estimates remain valid
- This is compounded by the evidence of emerging new industries, that are contributing to investment and economic expansion in Chile

In recent years, volatility has made GDP forecasts particularly challenging. Nowadays, projections remain below the most recent data, and discussion tends to evolve around trend GDP estimates slightly below 2%. This deserves further scrutiny

GDP growth: effective vs trend forecasts

(YoY var., %)

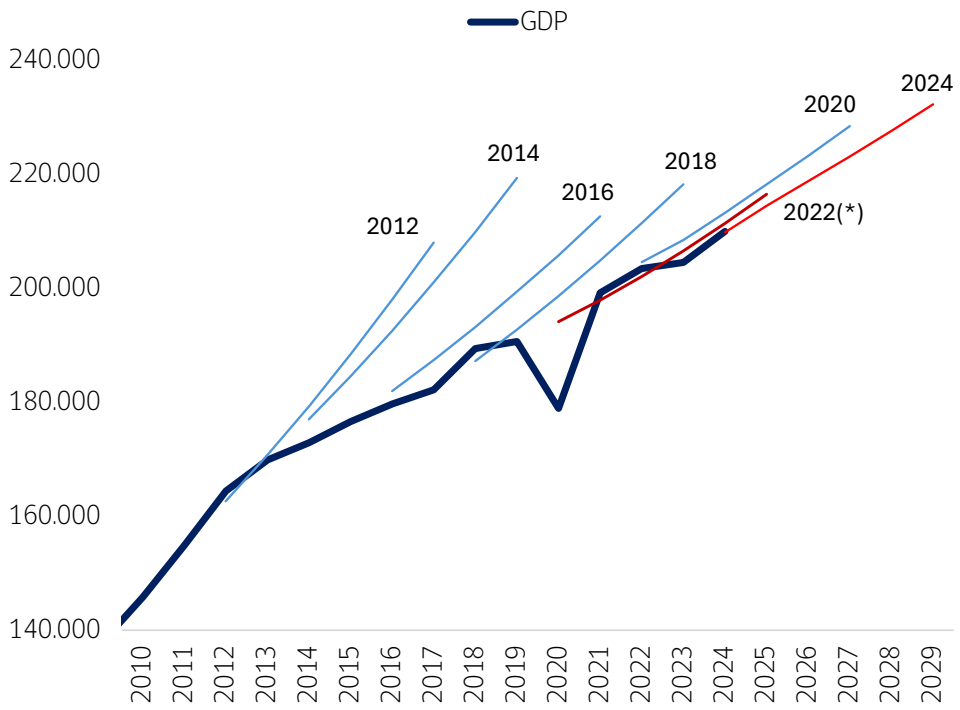


- Some 12 years ago Chile was making budgets as if growth had a transitory drop rather than a permanent one
- After the deceleration of Chilean growth around mid 2012, forecasts took a significant time to converge to the actual path. There is some backward-looking inertia
- But nowadays inertia may be generating overly pessimistic scenarios
- In fact, in the last year and-a-half the economy expanded at around two and a half percent, without any visible sign of overheating

Note: (*) 2022 is the Trend of non mining GDP.
Source: Central Bank of Chile and Ministry of Finance.

The Committee of Experts that the Ministry of Finance convenes in preparation of the Budget has revealed some inertia to respond to emerging evidence. By the same token, now they may not be responding enough to new positive developments in the economy

GDP growth: effective vs trend forecasts
(chained volume at previous year price reference 2018, billions of pesos)



- For several years fiscal projections were based on growth scenarios that were steeper than actual GDP growth
- This gap between projected and actual outcomes contributed to the accumulation of structural fiscal imbalances
- Adjustment to the baseline scenarios were gradual, leading to a persistent overestimation of public revenues
- Using levels instead of growth rates makes it easier to visualize the accumulated discrepancy past expectations and actual trends

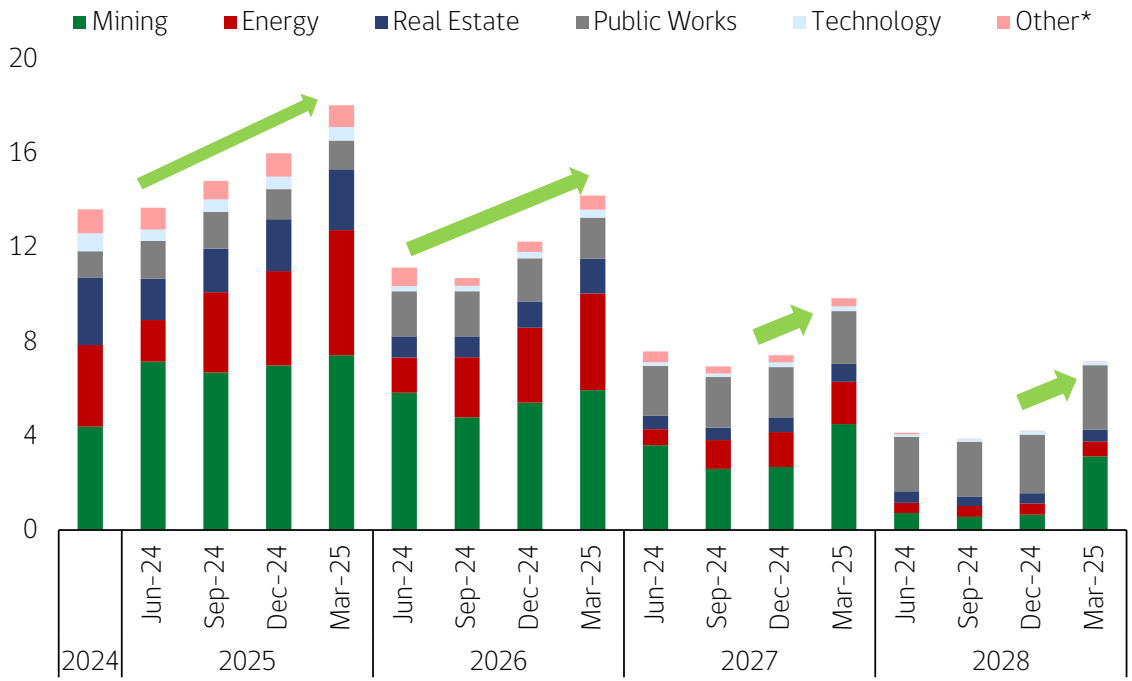
Note: * 2022 is the Trend of non mining GDP
Source: Central Bank of Chile and Ministry of Finance.

The current pipeline of investment projects with corporate commitment (CBC) is the strongest in more than a decade. Mining and energy lead the ranking, but technology and infrastructure follow suit

- Investment projects for the 2025–2028 period amounted to approximately US$49 billion, representing a 24% increase compared to the previous registry made from one quarter ago
- We have also observed growth in investment intentions over time. The amounts projected for 2025 and 2026 have increased by 21.7% and 32.8%, respectively, compared to what was projected six months ago

Estimated annual private investment from 2024–2028, by sector

(billions of dollars; CBC)



Note: *Other consider Manufactory, Forestry, and Ports.
Source: Ministry of Finance based on Quarterly private investment registry of the Capital Goods Corporation.

The pipeline of projects not yet in the CBC Registry is even stronger, reaching around USD 40 billion from only 4 recent announcements. Cochilco, the copper supervising agency, has identified US$ 83bn in copper mining projects for the next decade

- The figures from the registry of the Capital Goods Corporation do not consider the new projects that have not entered the CBC registry: An investment of around 40 billion dollars, 80% of what is recognized in the registry
- We could double the Corporation's figure simply by making progress in the materialization of these announcements
- The report "Investment in Chilean Mining: Project Portfolio 2024-2033" includes 51 initiatives valued at $83 billion dollars, an amount 26.6% higher than the previous survey, constituting the highest in the last ten years

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TotalEnergies

New opportunities are materializing in lithium, renewable energies, green hydrogen and digital infrastructure. New copper mining investments are framed within a renewed framework of enhanced environmental and social responsibility. Goals set for 2026 are within reach

Economic sector	Goal by 2026
Clean and competitive mining	Substantial progress in increasing copper production by 1 million metric tons by 2030
Lithium	3 to 4 new projects under development
Renewable energies	2/3 of matrix of electricity generation from renewable sources
Green hydrogen	10-12 projects under development
Digital economy	Growth of the digital economy triples the average growth of the economy
Tourism	Increase the number of foreign tourists entering the country by more than 1 million per year

To materialize these investments, Chile needs to (a) speed up investment approvals; (b) unfreeze the domestic bond and credit market. All that taking advantage of the lower domestic policy uncertainty

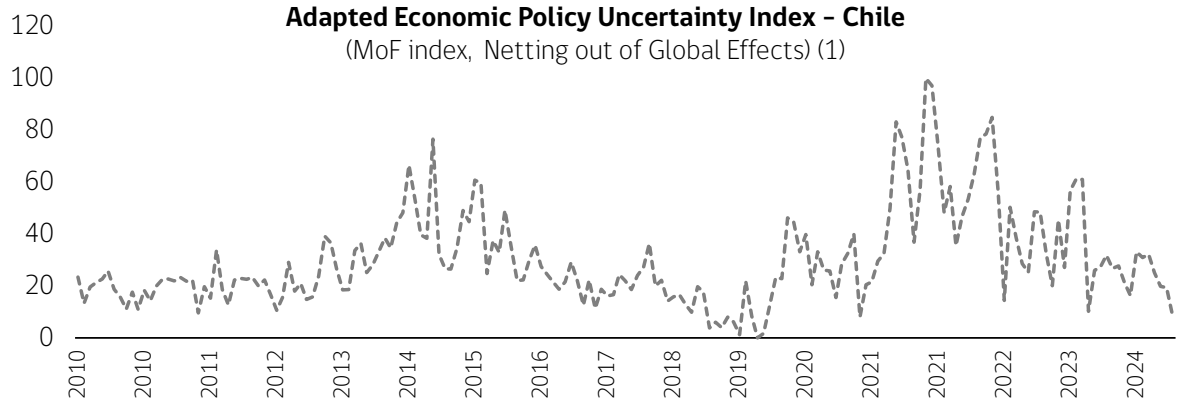
- Political Risk and Uncertainty has decreased substantially
- The outcome of the two Constitutional processes suggest citizens are not willing to change core long-term rules of the game
- Long term commitment to multilateralism and checks and balances
- Strong across support for better reforms that fast-track investment across the political spectrum

"(...) reflecting its long track record of stable and peaceful political transitions, well-established rights for participation in the political process, strong institutional capacity, effective rule of law and low level of corruption." Jan 15,2025

FitchRatings

" (...) Despite changes in political leadership and parties in recent years, we think there is political consensus on much of the country's economic model, including its shortfalls, but there are differences on how to resolve them." Oct 15, 2024

S&P Global

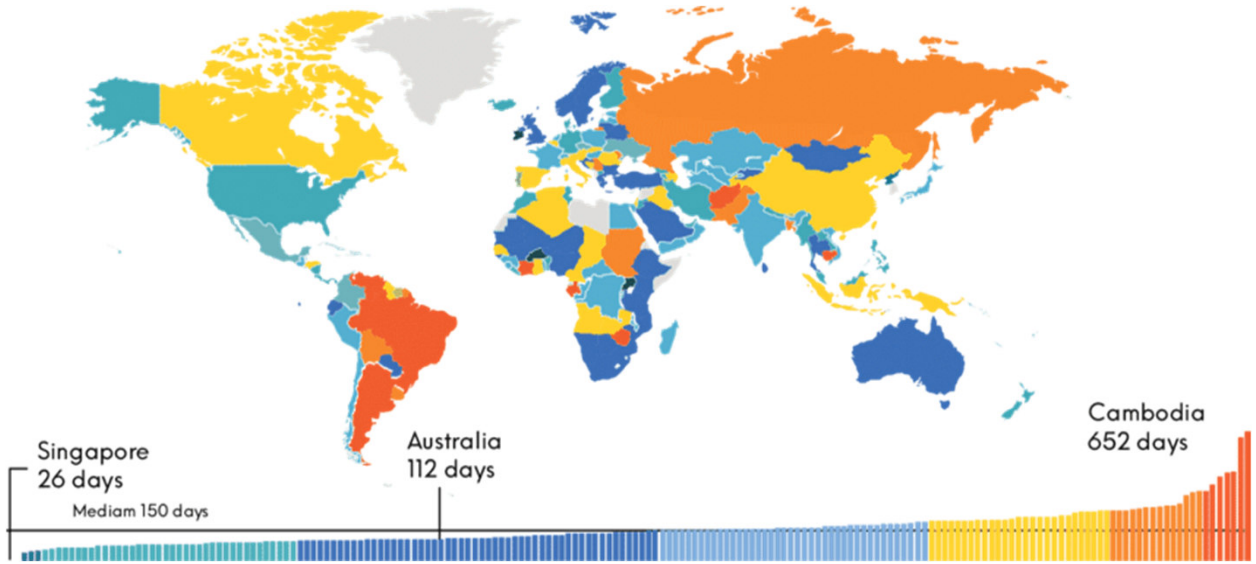


Note: (1) Obtained as the residual from an OLS regression of Chile's uncertainty index on the global index. The resulting series was normalized to a 0-100 scale using a min-max transformation.
Source: Ministry of Finance estimate based on Central Bank of Chile data.

In the past few years, many countries have stepped up requirements for investment projects. While responding to higher environmental, social standards, they have also extended permitting standards quite significantly

- In **United States,** for an **energy project**, the average review **timeline is 4.5 years**
- For **transmissions projects**, the average is **6.5 years** and often can take over 10 years

Days required to complete all permitting and approval procedures for infrastructure projects



Source: McKinsey Global Institute (2017).

Chile is not and exception to the above. The Boric Administration introduced four bills to reform procedures and regulations without lowering standards. The goal is to reduce permitting times by one third

Sectorial Permits/Authorizations	Maritime Concessions and Coastal Border	Cultural Heritage	Environmental permits
The bill establishes a framework law for sectoral authorizations and modifies legal bodies, addresses all necessary non-environmental permits, simplifying processes and reducing processing times, without altering technical standards	This bill aims at generating a more adequate and strengthened institutional framework with sufficient response capacities. This involves transferring permitting authority from the Ministry of Defense to a platform managed by the Ministry of National Assets	Updating Cultural Heritage legislation to reduce processing times and provide greater guarantees for those who require them to carry out economic activities. To this end, authority will be decentralized away from a cumbersome central body on a stricter definition of cultural heritage	This initiative aims and streamlining environmental assessments of investment projects, including a frontloading of social consultations, strengthening the role of technical bodies, fully integrating mixed permits, and broadening the opportunities for dialogue prior to a final decision

As Chilean Congress moves closer to approve the bill on sectoral permits, the Government will now adopt further measures to speed-up strategic investment projects. To this end, a Presidential Directive will establish an expedite process for more than 100 projects in the public interest

1 **Expedited and coordinated permitting process**, aimed at strategic investment projects

- ❖ **Reduce uncertainty and costs associated with the permitting process**
- ❖ **Improve institutional coordination and administrative efficiency**

2 **Accelerated certificate** of regulatory certainty for investment projects that meet defined objective criteria

- ❖ **It will provide signals that allow investors and financial institutions** to access consolidated information on regulatory viability and outstanding risks
- ❖ **Strengthen investment project** financing decisions at early stages
- ❖ **Reduce risk for financiers**

Source: Ministry of Finance.

The Government will also introduce a short bill to expedite and reduce uncertainty for de-carbonization investment projects. This will include a reform to the Environmental Impact Assessment System (SEIA) to speed up environmental impact evaluation of 25 projects worth more than US$ 7 1/2 bn without rolling back standards. This would allow a faster decommissioning of coal fire plants

Monitoring of sectoral procedures

Projects prioritized for accelerated processing will have a affidavit treatment in some of the associated permits

Mechanism to prevent regulatory changes from affecting projects under evaluation

Express coordination and prioritization rule will be incorporated to address strategic projects in public services and administrative bodies responsible for authorization procedures

The EAS may help investors via assistance during the evaluation of projects

Reduction of judicialization of the EQR

Reduction of legal regulatory requirements that entail redundancies

Reduction in iterations based on SABEC reports

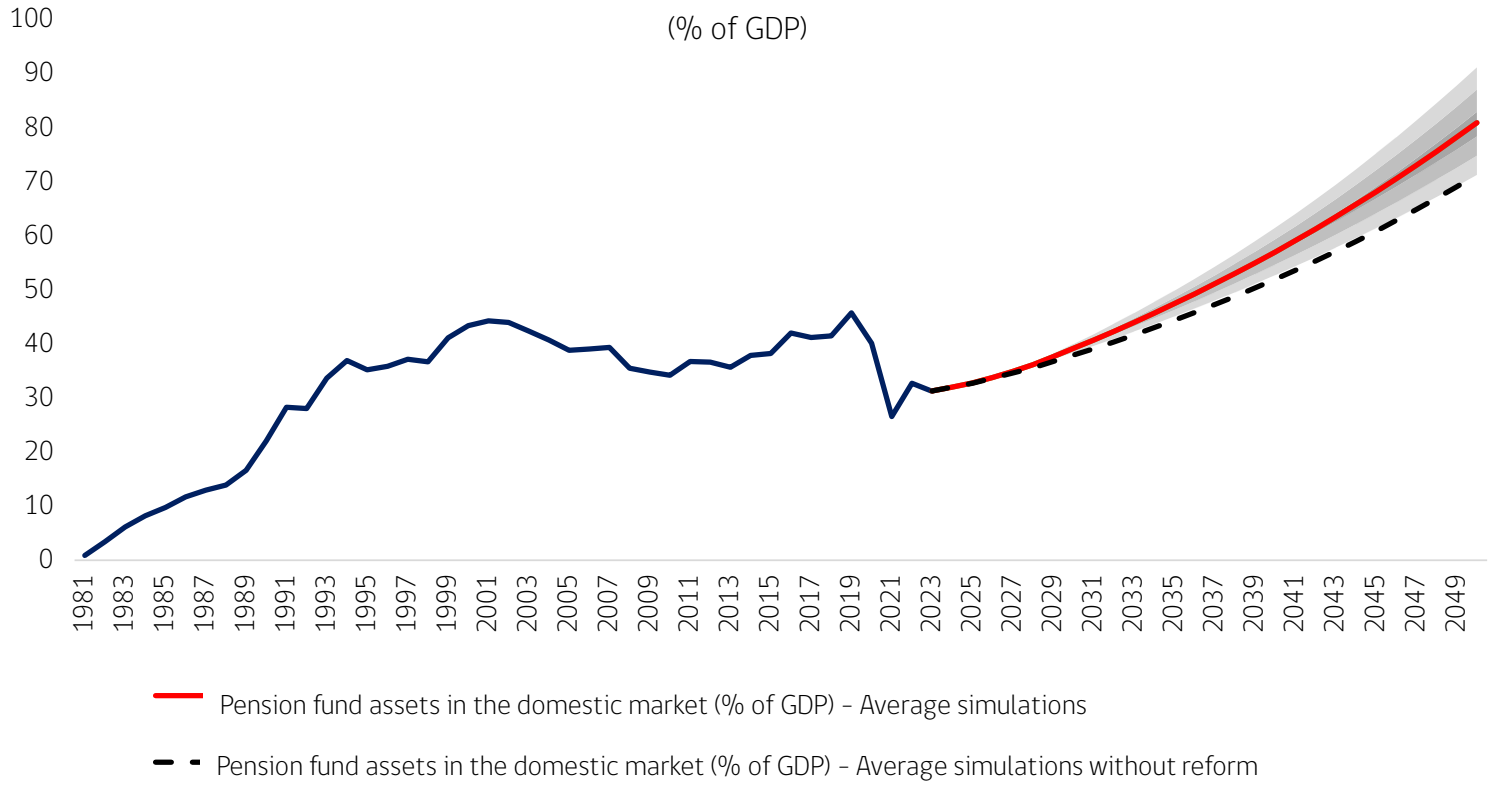
Note: EQR: Environmental Qualification Resolution. EAS: Environmental Assessment Service. SABEC: State Administration Bodies with Environmental Competence.
Source: Ministry of Finance.

To foster the development of the green hydrogen industry, the Government will introduce a bill with tax incentives to foster project development

- Pool of tax credit for investments that develop nascent industries
- Tax incentives for the demand and use of green hydrogen in industrial processes, including mining, manufacturing and transportation
- This combines with:
  - The credit facility articulated by CORFO and Banco Estado to provide Project financing and risk-management tools for H2V projects
  - Investment in infrastructure that will support projects in the investment and operational phases

The capital market will gain substantial depth from the additional certainty and contributions coming from the recent pension reform, passed last January. This will enlarge the pool of finance for investment projects

Simulation of the evolution of pension fund assets in the domestic market in scenarios with and without the reform (1)



Note: (1) Reference simulations developed by the Ministry of Finance to have a general order of magnitude of the impacts. (2) According to the estimates of Cavallo and Pedemonte (2016), on average, for every 1 percentage point increase in national savings, domestic investment increases by 0.39 percentage points in Latin American countries and, for a more recent period, this coefficient is 0.2 percentage points.

In sum

- Over the last three years, Chile rebalanced its economy and returned it to a sustainable growth path
- We also left behind major sources of uncertainty and succeeded in passing major reforms
- As a result, Chile is now in a stronger footing to face turbulence in the World economy
- Given the gained stability and the emergence of new opportunities, Chile is also on course to lift its growth potential
- Macro and micro policies are getting in place to move ahead, and the government is committed to pass additional pro-growth reforms
- Better politics, involving dialogue and consensus building around key issues, like fiscal management, better regulation and environmental protection is still an essential ingredient to materialize a better future for our people

Chile´s economic prospects: removing constraints, taking opportunities, mitigating risks

Chile Day – New York – May 23rd, 2025

Ministerio de Hacienda

Gobierno de Chile

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