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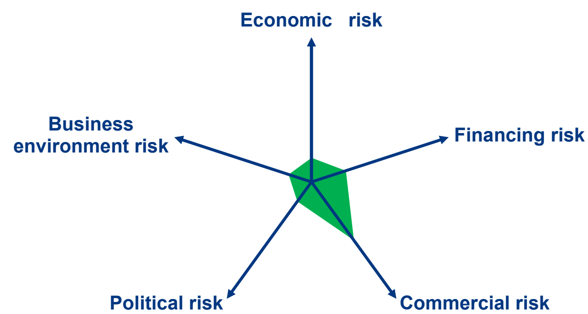
Low
risk for enterprises

Chile

Mines, markets and majorities

GDP	USD335.5bn (World ranking 45)
Population	19.6mn (World ranking 64)
Form of state	Presidential republic
Head of government	Gabriel Boric (President)
Next elections	2025, General



Strengths & weaknesses

- High global demand for copper and lithium due to green energy transition
- Fiscal deficit expected to narrow to 1.0% of GDP by 2026
- Public debt below 45% of GDP, lower than emerging market peers, and strong foreign direct investment planned

- Dependence on China and potential trade and geopolitical tensions
- Governance challenges hinder taxation, pensions and lithium reforms
- High unemployment rates, especially for women, and 30% informality limit inclusive growth

Economic overview

Solid but mild growth ahead

Chile's economy is on a recovery trajectory, with GDP growth projected at +2.3% in 2025 and an acceleration to +3% in 2026. This momentum is driven by a rebound in domestic demand, supported by rising real wages and solid external demand for minerals, particularly copper and lithium. Copper alone accounts for 10% of GDP and 50% of export earnings, making it a cornerstone of the economy. Sustained demand from China and the EU, driven by the global transition to green energy, bolsters Chile's export outlook. However, the economy remains vulnerable to external risks, including slower-than-expected growth in China, its largest trading partner.

Inflation, which is anticipated to average above 3% until early 2026, remains a significant challenge. Electricity tariff hikes of up to 60% between June 2024 and February 2025 are elevating consumer prices, while sticky service inflation persists. The central bank is navigating these pressures through cautious monetary easing. After reducing the policy rate to 5% in late 2024, it plans further gradual cuts, with expectations of a 4% nominal policy rate by late 2025.

Real wage growth will sustain consumer demand, despite intrinsic imbalances. The labor market remains fragile, with unemployment rates hovering near 9% for women and 7.9% for men. Informality exacerbates job quality issues, particularly for women, where rates have risen to nearly 30%. Anecdotal evidence highlights retail sector related fragilities. Retail investors are delaying expansions due to security concerns. Conversely, the mining sector is buoyed by USD7.7bn in copper projects under execution for 2025, including USD4bn from state enterprises and USD3.7bn from private initiatives.

Medium-term strategies to stabilize progress

Chile's medium-term outlook depends on navigating fiscal consolidation while promoting investment. The fiscal deficit is forecast to narrow from 2.3% of GDP in 2024 to 1.3% in 2025 and 1.0% in 2026. This progress hinges on disciplined spending and new revenue measures, including a copper mining royalty and anti-tax evasion policies expected to yield USD1.2bn this year. However, fiscal challenges persist, with public debt projected to remain below 45% of GDP, significantly lower than emerging market peers although facing slightly higher financing conditions.

External dynamics shape Chile's trajectory, with sustained mineral demand from China, the US and the EU driving exports. Copper prices are expected to rise moderately over 2025-2026 due to supply constraints and green energy investments in the US and EU. In contrast, lithium prices are unlikely to recover to their 2022 highs, reflecting oversupply concerns. Despite these variances, robust foreign direct investment (FDI) in the renewable energy and mining sectors strengthens Chile's position.

Regulatory reforms remain pivotal. Efforts to streamline approvals for infrastructure projects have gained momentum, with cross-party support in Congress. These measures aim to attract USD23bn in private investment over the next two years, focusing on sectors like solar and wind energy. However, delayed reforms in taxation and pensions risk undermining fiscal sustainability, social stability and investor confidence.

Delicate balance between openness to business and social stability

Chile remains a regional leader for its business environment, supported by strong institutions and free trade agreements with the US, EU and China. Nevertheless, political polarization and governance challenges pose risks to long-term stability. President Gabriel Boric's administration faces legislative gridlock, complicating the passage of key reforms in taxation, pensions and state-owned lithium. While Congress has approved measures to combat tax evasion, skepticism remains over their ability to deliver USD1.2bn in additional revenue annually.

The subnational elections of late 2024 signaled shifting political dynamics. Centrist candidates gained prominence, reflecting voter fatigue with polarization, while the ruling leftist coalition fared relatively well. However, the incumbent administration lacks a strong contender for the 2025 presidential election, raising uncertainties about policy continuity. The upcoming election is likely to focus on crime and migration, with anti-incumbent sentiment dominating the narrative and increased party fragmentation most likely.

Political risks include potential contract frustration in the mining sector, particularly as the government expands its role in lithium production. International disputes over shared water resources with neighboring Bolivia and Argentina could escalate, complicating cross-border investment. Domestically, addressing inequality through unified social programs and labor market reforms is crucial for maintaining social cohesion and political stability.

Anecdotal evidence underscores the challenges. Mining strikes, once frequent, have subsided, but the cost of government-driven initiatives in the sector remains among the highest in Latin America with potential contingent liabilities maturing in the forecast horizon. In the retail sector, security concerns have prompted some investors to scale back operations. However, sectors such as renewable energy and mining remain robust, with planned investments exceeding USD15bn by 2026. Internationally, Chile's participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) strengthens its trade ties, particularly with Asia-Pacific economies, and reduces dependence on a single market. Chile's ability to navigate these challenges while leveraging its mineral wealth and trade networks will define its economic and political trajectory over the next decade.