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Report Highlights:

After a nearly six percent decrease in GDP in 2020, the Chilean economy grew by 11.7 percent in 2021 and by 2.4 percent in 2022. In 2023, the Chilean Central Bank projects a contraction in GDP that will range between 0.75 and 1.75 percent. For agricultural producers and processors, ongoing political and economic uncertainty complicates investment and production decisions, while drought and a changing climate force adaptation. Despite the challenges, the Chilean agricultural sector has proven resilient and remained focused on creating efficiencies and developing new markets for their products.

Economic Outlook for Chilean Agriculture

For the past three years, Chile has gone through a period of relative economic, social, and political instability. Broad social unrest in 2019 led to a complex and ultimately failed constitutional convention. Massive lockdowns associated with COVID-19 stressed the Chilean workforce and dragged down the economy. Finally, a wave of elections throughout 2020 and 2021 created additional political uncertainty.

In 2023 Chile will again try to reform the constitution, adding continued uncertainty for producers and investors. However, unlike the previous convention, the new constitutional process includes guardrails to avoid radical changes to the current political system. For instance, the elected constitutional delegates are tasked with reviewing a draft written by constitutional experts. The draft guarantees a democratic state and protects some existing elements, like emblems and institutional structures.

In 2020, COVID-19 and the associated lockdowns struck the Chilean economy hard, resulting in a nearly six percent drop in GDP (Figure 1). In 2021, after a successful vaccination campaign and reduction in restrictions, the Chilean economy grew 11.7 percent. In 2022, GDP normalized, growing by 2.4 percent (Chilean Central Bank). For 2023, the Chilean Central Bank projects a decrease in GDP between -1.75 and -0.75 percent, followed by a recovery of 2.0 to 3.0 percent in 2024.

Figure 1: GDP Growth



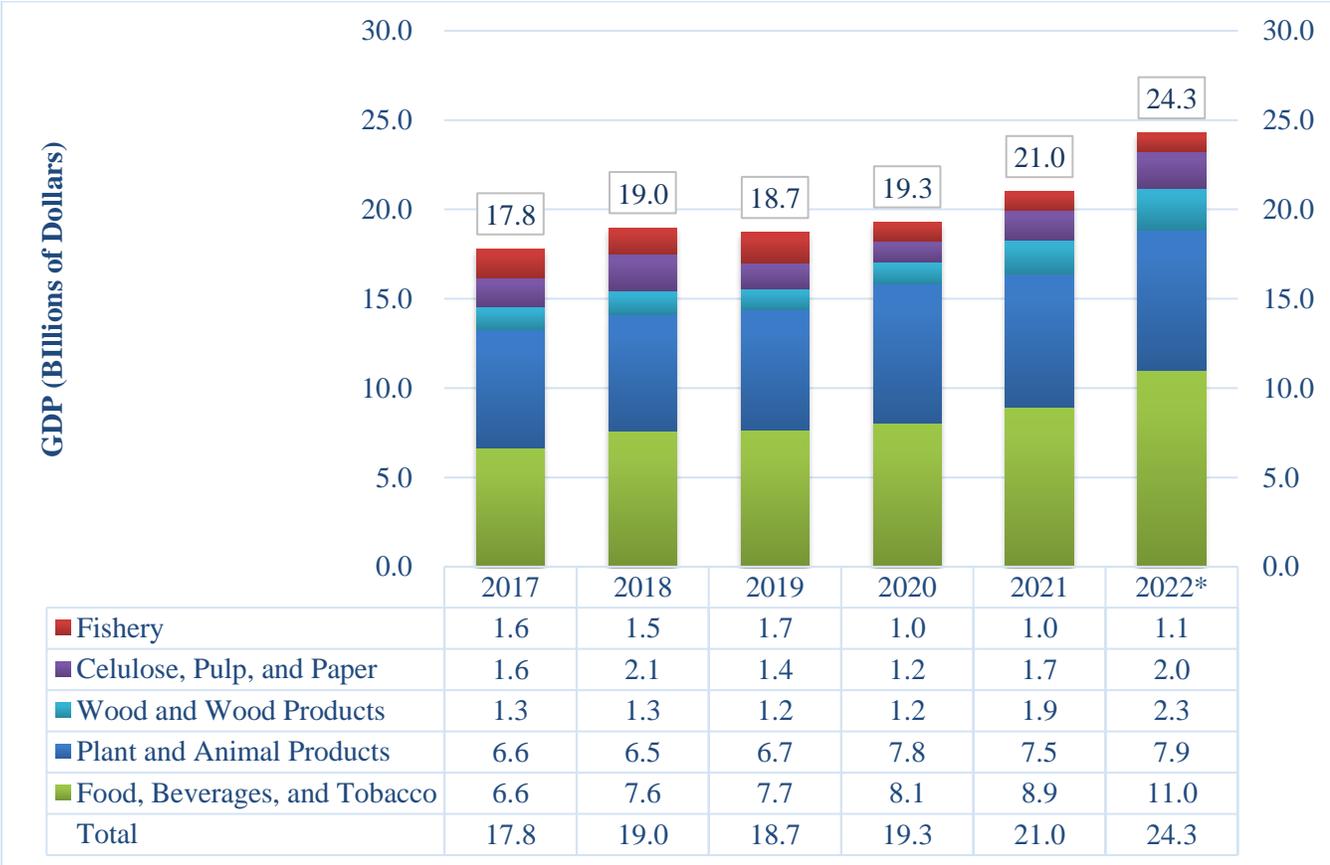
Source: Chilean Central Bank

*Post estimates

During 2022, inflation became a central issue in the Chilean economy, with annual inflation rates reaching 11.6 percent. The Chilean Central Bank increased interest rates significantly to curb spending and control the increase in prices. For 2023, the Chilean Central Bank projects 6.6 percent annual inflation and, for 2024, 3.2 percent annual inflation as the Chilean economy slows and international commodity prices decrease.

Since 2017, GDP in agricultural and related products increased markedly, reaching \$24.3 billion in 2022. The most dynamic sector within agricultural and related products was *Food, Beverages, and Tobacco*, which encompasses large slices of the Chilean agro-industrial complex, including salmon, wine, and processed foods¹. The GDP in that sector grew from \$6.6 billion in 2017, to \$11.0 billion in 2022 (Figure 2).

Figure 2: Chile Agricultural & Related GDP (Billions of USD)



Source: Chilean Central Bank
 *Post estimates

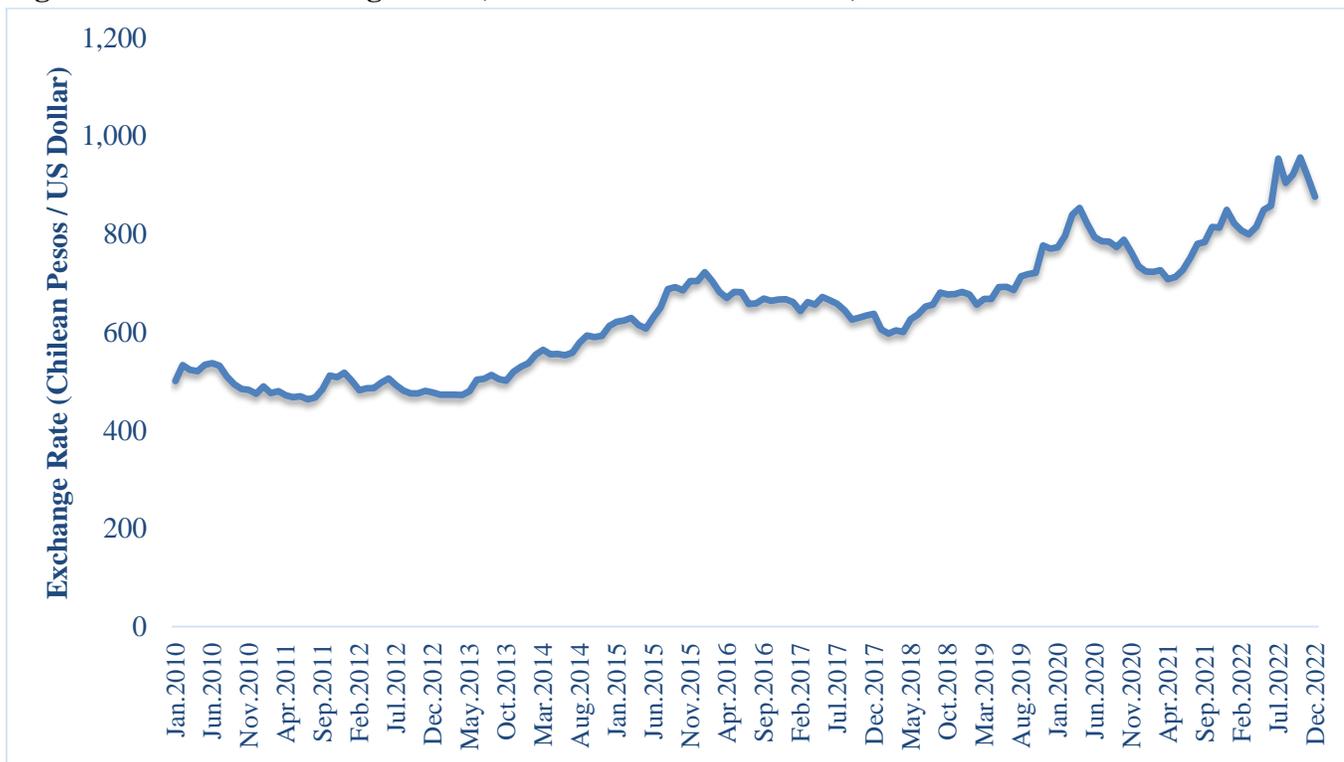
¹ Agricultural and related GDP includes the following sectors: “Plant and Animal Products”, “Fishery”, “Cellulose, Pulp and Paper”, “Food, Beverages and Tobacco”, and “Wood and Wood products”.

Current Trends in Chilean Agriculture

Inflation: In 2022, global commodity prices increased significantly, which was an important factor in Chilean inflation reaching 11.6 percent. High commodity prices drive up input costs for Chilean agricultural producers by increasing the cost of imported agricultural inputs, such as fertilizers, pesticides, grains, feed, and fuel. In 2023, there is an expectation that global commodity prices will decrease. For example, public sources suggest that average fuel prices have already begun to decrease, from \$6.40 per gallon in November 2022 to \$6.18 per gallon in January 2023.

Exchange Rate: The U.S. dollar remains strong against the Chilean peso, which generally favors exporter incomes (Figure 3). However, production costs also increased because Chilean producers import many inputs such as chemical products, feed, equipment, machinery, and plant genetics. As a result, Chilean export margins did not necessarily increase.

Figure 3: Nominal Exchange Rate (Chilean Pesos / U.S. Dollar)



Source: Chilean Central Bank

Economic Contraction: In 2023, the Chilean economy will suffer the consequences of 2022's high inflation, uncertainty, and the global economic slow-down. The Chilean Central Bank projects a decrease in GDP that will range from -1.75 and -0.75 percent. In 2024, the economy is expected to recover and grow between 2.0 and 3.0 percent.

Political Uncertainty: According to Chilean polls, the Boric administration has low levels of approval. On January 8, 2022, the Chilean political pollster CADEM reported a 27 percent approval rating and 70 percent disapproval rating of President Boric's administration. The approval levels decreased significantly after September 4, 2022, with the failure of the first constitutional convention. The administration had vocally supported the constitutional reform, which was eventually rejected by 62 percent of voters. A new constitutional reform will begin in May 2023 with the election of constitutional delegates to review the draft charter. A referendum on an updated constitution is expected in December 2023.

High Credit Costs and Interest Rates: In December 2021, the benchmark interest rate was 4.00 percent, one of the lowest in Latin America. During 2022, the Central Bank increased the benchmark interest rate to curb spending and mitigate inflation. The current benchmark interest rate is situated at 11.25 percent as of December 2022. The rise in the benchmark interest rate increases credit cost for agricultural producers, which rely on loans to cover their initial investments. Experts expect the benchmark interest rate to decrease slightly, towards levels of 10.00 percent in 2023, as inflation slows. However, observers do not expect levels as low as 4.00 percent until after 2024.

High Labor Costs: Since 2020, agricultural producers have lamented difficulties in finding workers for critical production tasks like harvesting, packing, and processing. Labor costs increased after the beginning of the COVID-19 pandemic and have not returned to pre-pandemic levels. In mid-2020, during the pandemic, unemployment reached levels as high as 13.1 percent; however, unemployment is currently at 7.9 percent (Sep-Nov 2022), a 0.4 percent increase over Sep-Nov 2021. Analysts suggest that a growth in the labor force is to blame for persistently high unemployment.

High Transport Costs and Logistical Difficulties: Chile does not produce fossil fuels and relies solely on fuel imports. In 2022, transport costs increased due to high fuel prices. Additionally, freight costs increased since there was a lower supply of containers and ships due to high international demand. This situation directly impacted logistics costs for the Chilean agricultural sector. Chile's largest agricultural and food exports are heavily dependent on distant markets, such as the United States, the EU, or China.

Drought: According to the Chilean [Ministry of Environment](#), Chile is facing a drought that has now lasted 14 years. Despite the long-term trend, 2022 was normal year in terms of rainfall volume. The additional precipitation helped to fill water reservoirs and favored higher crop yields. Agricultural producers see drought as a structural problem and recognize the need to adapt by seeking efficiencies in irrigation and water storage systems. Producers are investing in water storage infrastructure and incorporating new technology into their production systems.

Pending Trade Agreements: There are two trade agreements that are in the final stages before implementation: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP-11) and the modernization of the EU-Chile Free Trade Agreement.

The agricultural sector advocated for the approval of CPTPP to further market access for its products. On December 22, 2022, Chile ratified CPTPP and it will be implemented 60-days after ratification, in

February 2023. The new agreement gives trade benefits to 11 countries: Australia, Japan, Singapore, Vietnam, Brunei Darussalam, Canada, Malaysia, Mexico, New Zealand, Peru, and Chile. These countries represent 13 percent of the world's trade value.

The modernization of the free trade agreement with the EU was [signed on December 9, 2022](#). The agreement still needs to be ratified by the Chilean congress, so its implementation date is still pending. Under this agreement 99.6 percent of Chilean exports to the EU will receive tariff reductions, an increase from the previous 94.7 percent. The agreement has chapters on sustainability, labor rights, and gender issues. It also includes modification on geographical indications for cheese names including parmesan, gruyere, and feta. The use of these three names will be limited to producers already in the Chilean market. In the case of feta, grandfathering is limited to a period of six years.

Post Comments:

Despite the difficulties and challenges presented in this report, Post does not foresee any major or immediate changes in the Chilean agriculture sector. Both the private sector and the government are aware of the problems discussed here and taking steps to adapt to maintain agricultural productivity and protect exports.

Post does not expect any near-term changes in regulations or major obstacles to the \$1.2 billion in U.S. agricultural trade to Chile. Within the context of trade agreements, the modernization of the trade agreement with the EU will carry difficulties for certain U.S. dairy exporters.

Post will continue to monitor further developments report as necessary.

Attachments:

No Attachments.