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**Report Highlights:**

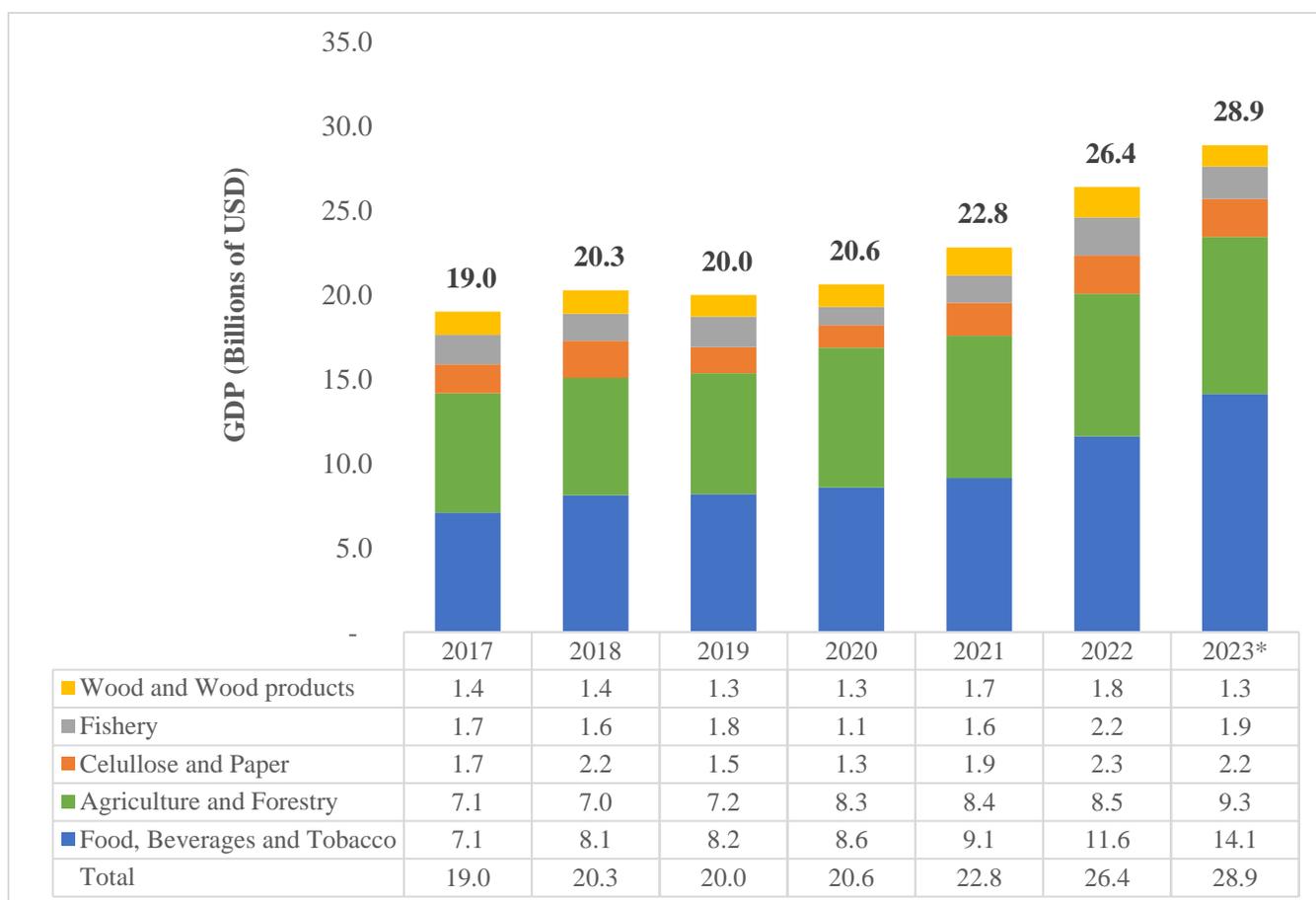
In 2024, political uncertainty will continue to diminish, and GDP will grow between 1.25 and 2.25 percent due to a recovery in consumption. This will bring opportunities for U.S. exporters looking to ship products to Chile. Agricultural GDP grew firmly in the past three years, reaching \$28.9 billion in 2023. One of the most relevant challenges for Chilean agricultural is drought. Drought is particularly severe in the Atacama and the Coquimbo regions, where planted area is decreasing sharply and producers have few alternatives to table grapes. Systems approach access to the United States would help producers regain competitiveness. In 2023, Chile signed an advanced framework agreement with the EU which will bring benefits to trade but also restrictions to U.S. exporters of parmesan, feta, and gruyere cheese. Post will continue to monitor new developments.

## Economic Outlook for Chilean Agriculture

**The End of Economic Slowdown:** In 2023, Chilean GDP remained stagnant with a 0.0 percent growth due to a decrease in domestic consumption, in line with the broader global economic slowdown (Chilean Central Bank estimate). For 2024, the Chilean Central Bank projects a recovery in economic activity and an increase in GDP between 1.25 and 2.25 percent driven by a recovery in consumption. In 2025, the economy is expected to recover further, and GDP will grow between 2.0 and 3.0 percent.

**Agricultural GDP Keeps Rising:** Since 2017, Chile’s agricultural and related GDP increased significantly, reaching an estimated \$28.9 billion in 2023. The most relevant and dynamic subsector within agricultural and related products was *food, beverages, and tobacco*, which includes important industries such as salmon, wine, and processed foods. Steady, mostly inelastic, demand for food and beverages facilitated its continued growth while other sectors of the economy slowed. The GDP of the *food, beverage, and tobacco* subsector grew from \$7.1 billion in 2017 to \$14.1 billion in 2023 (Figure 1).

**Figure 1: Chile Agricultural & Related GDP (Billions of USD)**



\*Post estimates

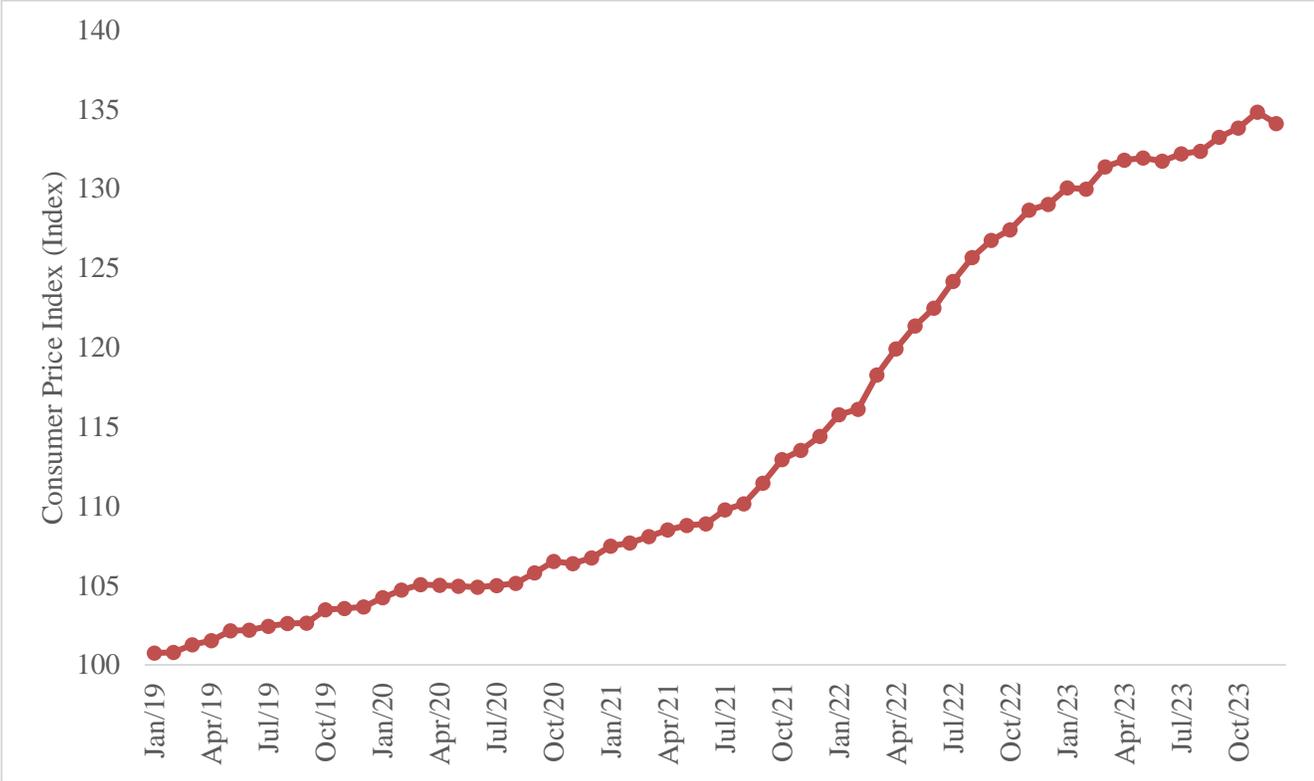
Source: Chilean Central Bank

**Decrease of Inflation and Interest Rates:** Chilean inflation increased significantly in 2021 and 2022 (Figure 2). The main driver of inflation was a rapid increase in consumption pushed by higher availability of disposable income. There was a similar trend in the agricultural sector, which saw strong demand and upward price pressure on imported agricultural inputs such as fertilizers, pesticides, grains, feed, fuel, and transportation.

Until December 2021, Chile’s benchmark interest rate remained below 4.0 percent, the lowest levels amongst Latin American countries (Figure 3). To control inflation, the Chilean Central Bank began to increase interest rates and by November 2022 the benchmark interest rate was 11.2 percent. The high interest rate increased credit cost for agricultural producers, who often rely heavily on loans for initial investments. Interest rates remained high until August 2023, when the Central Bank started to gradually decrease rates as inflation subsided. By December 2023, inflation was reduced to 3.9 percent and interest rates were at 8.7 percent.

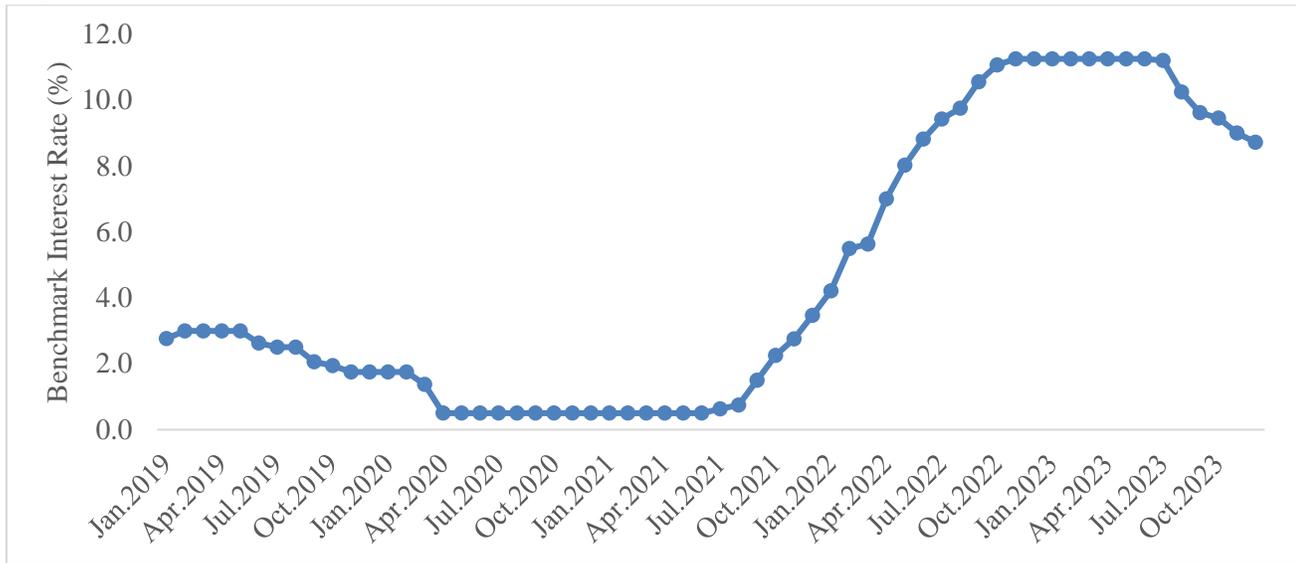
The Chilean Central Bank aims to further reduce inflation to 3.0 percent by mid-2024, thus Post expects interest rates to keep continue decreasing during the remainder of the year. This will allow for farmers to increase their access to credit and resume their investments in agriculture.

**Figure 2: Consumer Price Index (2018 = 100)**



Source: Chilean National Statistics Institute – INE, 2024

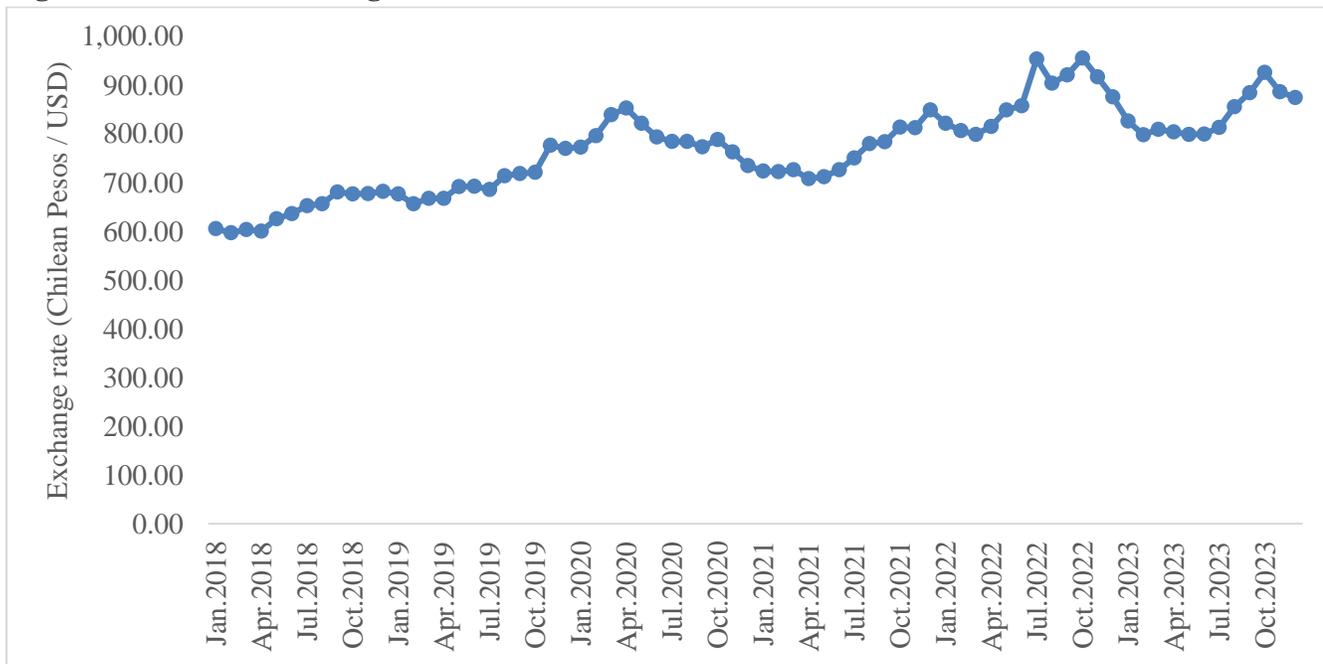
**Figure 3: Benchmark Interest Rate (%)**



Source: Chilean Central Bank

**Exchange Rate:** The U.S. dollar remains strong against the Chilean Peso, which favors exporter incomes (see Figure 4). However, this also results in an increase in the cost of agricultural inputs such as chemical products, imported feed, equipment, machinery, and seeds or plants. As a result, margins do not necessarily increase, while inflation does increase.

**Figure 4: Nominal Exchange Rate (Chilean Pesos / U.S. Dollar)**



Source: Chilean Central Bank

**Drought:** Chile is facing a drought that has lasted over a decade. Agricultural producers see the drought as a structural problem and recognize the need to adapt to it by making irrigation systems more efficient. Moreover, producers are investing in their own water storage infrastructure and incorporating technology into their production systems. However, 2023 marked a possible end to the drought with high levels of rainfall in the central and southern parts of the country. In most weather stations in the central and southern regions, from the *Valparaíso* region to the south, there was a surplus in the level of rainfall compared to pre-drought years.

Despite the rainfall in the south and central parts of the country, drought remains particularly severe in the northern *Atacama* and the *Coquimbo* regions. These regions, and particularly the *Coquimbo* region, had less rainfall than normal in 2023. Moreover, until January 2024, most of the large water reservoirs in the northern part of the country accumulated less water than their historical average and are holding volumes below 10 percent of capacity (Table 1).

**Table 1: Capacity and Availability of Water Reservoirs in January 2024**

Name	Region	Capacity (Million M3)	Jan 2024 (Million M3)	Current Volume (%)	Historical Average (Million M3)
<i>Conchi</i>	<i>Antofagasta</i>	22	12.9	59%	15
<i>Lautaro</i>	<i>Atacama</i>	26	0.3	1%	8
<i>Santa Juana</i>	<i>Atacama</i>	166	78.8	47%	122
<i>La Laguna</i>	<i>Coquimbo</i>	38	13.4	35%	30
<i>Puclaro</i>	<i>Coquimbo</i>	209	15.3	7%	139
<i>Recoleta</i>	<i>Coquimbo</i>	86	6.5	8%	63
<i>La Paloma</i>	<i>Coquimbo</i>	750	31.9	4%	414
<i>Cogotí</i>	<i>Coquimbo</i>	156	2.8	2%	70
<i>Culimo</i>	<i>Coquimbo</i>	10	0.7	7%	2.5
<i>El Bato</i>	<i>Coquimbo</i>	26	9.6	38%	20
<i>Corrales</i>	<i>Coquimbo</i>	50	27.9	56%	39
<i>Convento Viejo</i>	<i>O'Higgins</i>	237	223.8	94%	178
<i>Lag. Maule</i>	<i>Maule</i>	1,420	584.4	41%	732
<i>Bullileo</i>	<i>Maule</i>	60	52.0	87%	37
<i>Digua</i>	<i>Maule</i>	225	139.7	62%	82
<i>Tutuvén</i>	<i>Maule</i>	22	11.6	53%	7.1
<i>Coihueco</i>	<i>Ñuble</i>	29	22.4	76%	17
<i>Lago Laja</i>	<i>Biobío</i>	5,582	2,176.5	39%	2010

Source: *Dirección Nacional de Aguas* - Chilean Ministry of Public Works

The *Copiapó* valley in the *Atacama* region is specialized in table grape production for export with few alternatives for production due to its dry climate and saline soils. The *Coquimbo* region is also specialized in table grape production but has additional citrus production. The *Coquimbo* and the *Atacama* regions account for 17 percent and 14 percent of the area planted in table grapes, respectively (Table 2).

Table grape area planted is decreasing. Area planted decreased from 53,851 hectares in MY 2011/12 to 43,025 hectares in MY 2022/23. Table grape area planted decreased significantly in all regions, including *Atacama* and *Coquimbo*, where many table grape producers have gone out of business. In the central regions of *Valparaíso*, *Metropolitana*, *O'Higgins*, and *Maule*, producers are shifting their crops to cherries, walnuts, avocado, citrus and hazelnuts, which are viable and profitable alternatives.

**Table 2: Table Grape Area Planted by Region MY 2022/23 (hectares)**

Region	Area Planted (hectares)	Three Year Variation (%)	Share (%)
Atacama	5,987	-12.4%	13.9%
Coquimbo	7,321	-10.3%	17.0%
Valparaiso	9,970	-10.9%	23.2%
Metropolitana	6,848	-14.1%	15.9%
O'Higgins	12,736	-5.2%	29.6%
Maule	163	-32.3%	0.4%
Others	1		
<b>Total</b>	<b>43,025</b>	<b>-10.7%</b>	<b>100.0%</b>

Note: Variation of area planted is measured every three years; data provided are the latest available

Source: Based on data from ODEPA, 2023

Chile seeks a *systems approach* to improve market access for table grape exports to the United States, which would benefit the *Atacama*, *Coquimbo*, and *Valparaiso* regions. The regions would reduce current fumigation requirements which significantly decreases the quality and shelf life of the fruit, ultimately increasing their export industry's competitiveness. The final rule is awaiting final publication.

In the past, the United States prioritized and accelerated the implementation of market access requests from Chile, as was the case of the *systems approach* for Chilean plums or the more recent avian influenza regionalization agreement in mid-2023. In late 2023, USDA [officials noted](#) that the United States was prioritizing U.S. market access concerns in the face of [potential trade disruptions](#).

**Political Uncertainty:** Through 2020 to 2023, Chile went through numerous elections which resulted in a period of higher-than-normal political uncertainty. Moreover, there were two failed processes to amend and revamp the Chilean constitution during that period. In both cases, the Chilean population voted to reject constitutional proposals in September 2022 and in November 2023. Currently, there is no plan to carry out a third constitutional process, thus leaving the current constitution in place.

According to local polling, Chilean President Boric's administration has fallen to all time low levels of public approval. According to data from the Chilean political pollster CADEM, in 2023, President

Boric's approval rate averaged 31 percent, a 4.0 percent decrease from 2022. In the same period, disapproval of President Boric's administration increased by 6.0 percent and averaged 63 percent.

**EU-Chile Advanced Framework Agreement Pending Congress Ratification:** Chile and the European Union signed an advanced framework agreement [on December 13, 2023](#). The agreement has yet to be ratified by the Chilean congress, so its implementation date is still pending but it is likely to occur on the first half of 2024. The new agreement expands market access for Chilean products to the European market and grants expansive protections for 216 geographical indications (GIs), including many commonly used names like *feta*, *gruyere*, *kölsch*, and *parmesan*. As a result, Chilean importers will have fewer sources of product, and the Chilean dairy industry will be limited in their ability to produce and potentially export products bearing European-origin names. Moreover, protection of common names will grant monopolistic profits to EU exporters of *parmesan*, *gruyere*, and *feta* at the expense of consumers.

Registered prior users of *parmesan*, *gruyere*, and *feta* which shipped products to Chile in the twelve months after December 9, 2022, should be able to continue exporting their products to Chile. Un-registered users will lose access for *parmesan*, *gruyere*, and *feta* in the Chilean market.

**Post Comments:** The Chilean economy was mostly stagnate in 2023; however, Post projects improvements in 2024 and 2025 as economic activity and domestic consumption rebound. The economic recovery should bring opportunities for Chilean agricultural producers, workers, service providers, importers, and exporters of agricultural products. The Chilean food production industry sources many inputs from the United States, such as wheat, feed, dairy powders, and vegetable oil. Chilean consumers demand a wide variety of food products such as beer, beef, poultry, pork, spirits, dairy, and processed foods from the United States.

Chilean agriculture has been suffering the consequences of drought for over a decade, and producers have invested in technology to remain productive. However, agricultural producers in the northern regions of *Atacama* and *Coquimbo* will be impacted by drought in the short/medium-term. Moreover, producers in these regions face an additional challenge of having few alternatives of production and the requirement of fumigation for table grape exports to the U.S. market, all of which will considerably reduce their competitiveness.

Within the context of trade agreements, the modernization of the trade agreement with the EU will present difficulties to new U.S. exporters looking to ship *parmesan*, *gruyere*, and *feta* to Chile. U.S. exporters who were able to register as "prior users" of *parmesan* and *gruyere* should expect fewer difficulties in the short-term. U.S. exporters of impacted products should work closely with their Chilean importers to ensure regulatory compliance.

Post will continue to monitor further developments report as necessary.

**Attachments:**

No Attachments.