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CHILE: THE "RIGHT BALANCE", AN ECONOMIC AND POLITICAL CHALLENGE

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The dynamic growth seen during the last three decades has been accompanied by a fall in poverty, but some inequalities persist. When it comes to social justice, expectations are therefore very high. At the same time, the government will have to deal with a fragmented parliament and fragile coalitions, which do not guarantee he will find it easy to implement his economic and social programme.

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THE RIGHT BALANCE: AN ECONOMIC AND POLITICAL CHALLENGE

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Chile's economy recovered quickly after the shock of the Covid pandemic. After a 6.1% fall in 2020, GDP rose by 11.7% in 2021, supported by very dynamic domestic demand and a rise in the price of copper (pushed up by strong Chinese demand in a context of relatively limited global supply). The effectiveness of the vaccination campaign, the gradual reopening of the economy, government support measures and the authorisation given to employees to access their pension savings largely underpinned strong private consumption and investment, which increased by more than 20% and almost 18% respectively (year-on-year). The level of activity in December 2019 was already exceeded in the third quarter of 2021. The employment rate rose more gradually to 55% in April this year (after falling to 45% in July 2020), and the long-term average is around 58%.

Slower growth looms in the short and medium term

Nevertheless, since the beginning of 2022, the recovery has stalled. Growth slowed significantly in the first half of the year (a year-on-year rate of 6.4% in the first six months, following growth of 14.6% in the previous six months).The gradual withdrawal of support measures linked to the pandemic, inflationary pressures and a much less accommodating monetary policy are acting as a brake on internal demand.

Furthermore, risks associated with the international climate are a dark cloud on the prospects for growth. The direct consequences of the Russia-Ukraine conflict should remain relatively limited. Chilean exports to Russia and Ukraine accounted for less than 1% of total exports in 2019, while imports from Russia and Ukraine accounted for 0.1% of total imports. But the indirect effects could be considerable: the rise in commodity prices has accelerated significantly since the end of February, while at the same time, the conflict could disrupt global trade and value chains, as well as increase financial volatility. In addition, exports to China have steadily increased over the past decade (they accounted for almost 40% of total exports in 2021, compared to 23% in 2011). A pronounced and prolonged slowdown in China could be to the long-term detriment of prospects for growth and investment in Chile.

Finally, inflationary pressures intensified during the second half of 2021 alongside rises in food and energy prices, and these pressures have gathered pace markedly since the start of 2022 (inflation reached a year-on-year rate of 14% in August). Higher prices for basic goods and an increase in transport prices and production costs did more than offset the benefits of a slightly stronger peso (in part thanks to intervention by the Central Bank) and the gradual slowdown in domestic demand.

The Central Bank responded quickly, increasing its main key rate by 175 basis points (bps) at its last three meetings (to 10.75% in September), a cumulative increase of 1,025 bps since July 2021. In the short term, the inflation rate is set to remain high. In its latest Monetary Policy Report published at the beginning of September, the Central Bank revised its forecasts upwards, bringing the inflation rate to 12% year-on-year at the end of the year (its forecast was under 10% in the last report published in June) and underlying inflation to 10.5% (9.7% in June). Logically, the Central Bank plans to pursue a restrictive monetary policy in the short term.

Growth forecasts have also been revised: the range for GDP growth for 2022 was raised slightly to between 1.75-2.25% for the year (it was between 1.5 and 2.25% in the June report), while the range for 2023 was lowered to between -1.5% and -0.5% (it was -1.0 to 0.0% in the previous report).

In the medium term, the growth outlook is modest (around 2.5% per year according to IMF estimates).

BREAKDOWN IN LONG-TERM GROWTH

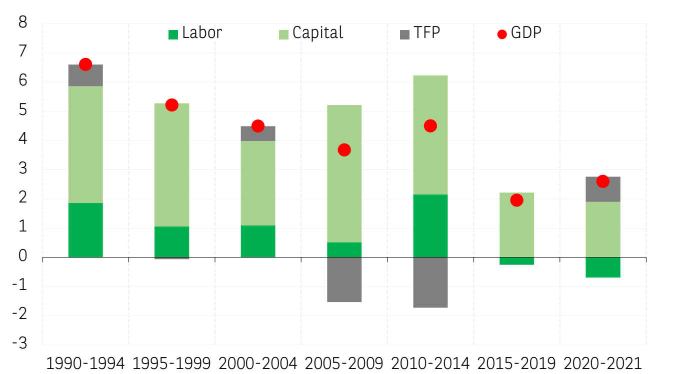

CHART 1 SOURCE: CONFERENCE BOARD, BNP PARIBAS

Growth in GDP slowed sharply between 2015 and 2019 (it fell by half compared to the period 2000–2014) as a result of a slowdown in private and public investment (chart 1) and a nosedive in productivity... The slowdown in growth also reveals the limits of the Chilean economic and social model, with limited access to health and education, limited competition on the markets, very low participation of the female workforce, etc.), fuelling dissatisfaction and distrust towards the bodies behind the protests of autumn 2019.

Political crisis and the rejection of the constitution

In Chile, as in most countries of the region (especially Colombia and Peru), the onset of the Covid-19 health and economic crisis exacerbated economic and social tensions which had been beneath the surface for several decades. Sudden tensions in the social and political climate arose in 2020, with the health crisis highlighting the fragility of health and social protection systems, strong income inequalities, and a high rate of poverty despite the role of shock absorber played by the informal economy. The rise in tensions translated into a marked ascendancy of "anti-system" people's movements and demonstrations, alongside an increase in populist measures.

From the protests of autumn 2019...

In the case of Chile in particular, the political and social climate had deteriorated by the end of 2019. Usually viewed as a politically stable and economically prosperous country (between 1990, the date the country returned to democracy, and 2019, GDP grew by an average of 4.5% compared to an average of 2.7% for South America as a whole), the violent protests that broke out in October 2019 were surprisingly larger in scale and lasted longer than previous episodes, including the student demonstrations of 2011 and 2013.

Spontaneous demonstrations brought together a coalition of various demands. Frustration caused by rising inequalities, opposition to health and pension system reforms put forward by Sebastian Piñera's government and, finally, a lack of trust in institutions, emerged as the chief concerns. After a highly repressive initial response, the government announced several sets of economic and social measures, including an increase in the minimum wage and minimum retirement pension, income support for older people and students (subsequently extended to the poorest families), easier access to healthcare, and increased spending on infrastructure renewal.

However, the measures proposed were not sufficient to deescalate the protests. So, at the suggestion of the opposition parties, an "Agreement for Peace and the New Constitution" was signed at the end of November 2019 with the government, in order to write a new constitution. Passed in 1980 under the dictatorship, the constitution was amended about a dozen times but never subject to detailed revision despite repeated requests from several parties.

A public consultation was held in October 2020 (it was initially scheduled for April 2020 but the vote was postponed because of the pandemic), confirming that a large majority of Chileans were indeed in favour of a new constitution (almost 80% of voters, with a turnout of 51%) and that this constitution should be drafted by a special Convention made up entirely of citizens specifically elected for this task (and not of members of the Congress).

... to the new government of 2022

It was in this context that Gabriel Boric, the candidate of the very broad coalition of left-wing parties, won the second round of the presidential election on 19 December. He won 56% of the votes cast with a turnout of 55%, a record since compulsory voting ended in 2012. In the first round at the end of November, the turnout was 46%. The new government took office on 11 March.

Implementing the new government's economic and social policies is already proving tricky. At first sight, the makeup of the new Congress elected at the end of November looks unfavourable for Boric's government: there is no majority in the Senate, and the left-wing coalition has an advantage of only two seats (out of 155) in the Chamber of Deputies.

Such a situation certainly prevents a radical change in economic policy, as some analysts feared (the stock market price fell by more than 6% the day after the election). But it risks compromising or at least delaying major structural reforms, since many discussions and undoubtedly compromises will be needed for such reforms to be voted and put in place. In any event, the political and social climate is likely to remain tense throughout the parliamentary term.

Gabriel Boric also tempered his initial ambitions once the campaign ended. He has confirmed his objective to undertake extensive reform of the pension system, improve the social safety net and begin a "green transition". But he also announced his desire to respect the commitment made by the outgoing government to bring down the public deficit, which stood at over 7% of GDP in 2021, to below 4% in 2022. As an additional sign of his commitment, he appointed as his government's finance minister Mario Marcel, a former governor of the Central Bank of Chile and a figure close to the previous government.

At the same time, the population's expectations are very high. The economic and health crisis has further weakened the health and social security system, which have been in great difficulty despite huge budgetary support over the last two years. In addition, although the population is widely vaccinated (at the beginning of September, more than 91% of Chileans had received two doses of vaccine, and 80% had received three), the economy would suffer in the event of new waves of illness (which would weigh on domestic demand, the tourism sector and exports).

The political impasse was first illustrated in mid-April between the government and a group of deputies (even though they were from the government coalition) on a bill authorising employees to once again draw on their pension savings (two laws had already been passed in 2020, and a third in 2021). The president and the minister for the economy and finance strongly opposed this because of already existing price pressures and a fear that a new round of withdrawals could render the most vulnerable households even more exposed. However, inflationary pressures forced the government to make concessions. The finance minister therefore proposed a bill authorising further withdrawals according to a number of strict criteria in order to limit the effect on inflation. But in the end, Chile's parliament rejected both bills.

A constitution that was too radical

More recently, a large majority of voters (nearly 62%, with an exceptional voter turnout) rejected the proposed new constitution in the referendum held on 4 September 2022. This document, containing nearly 400 articles, did not propose wide-ranging reform of the Chilean economic model. The Central Bank was to remain independent, while property and employment rights were not called into question. But it guaranteed the people better access to a set of social rights (housing, education and healthcare), whereas the state currently only pays for those needs not covered by the private sector. This meant a substantial and long-term increase in public spending.

The most important reforms concerned mainly the executive power (a smaller number of prerogatives granted to the president and the Senate, more powers for the lower house, and a further adjustment to the system of checks and balances for each of the branches). The budget, which is entirely in the hands of the president for the time being, should also count among the deputies' prerogatives. The constitution also proposed strengthening the rights of indigenous peoples by reserving them a number of seats in the Chamber of Deputies, and would have guaranteed an independent justice system.

Furthermore, as requested by Gabriel Boric during his campaign, the planned constitution intended to significantly accelerate public policies in order to start an "aggressive green transition". The water market (which has been totally private since the 1980s) and the mining industry were to be strictly regulated. Thus, in direct contrast to the current rule, water property rights were to be unassignable and non-transferable, and issued on a temporary basis. In particular, these rights could have been revoked or their renewal refused if environmental commitments were not respected. Similarly, glaciers and protected areas were to be excluded from all mining activity, and operating permits made temporary and revocable.

The proposed constitution was rejected in this form and the current constitution remains in force for the time being. But the debate is not over yet. According to polls, the most radical proposals worried voters, but a very large majority of the population and all political parties have declared themselves in favour of a new constitution or as a minimum the amendment of the current one.

Even before the referendum, President Gabriel Boric paved the way for a new constitutional assembly. Several solutions are possible (a new assembly, a "mixed" assembly composed of newly elected members and deputies, or an assembly composed only of deputies already elected).

The first constitutional assembly was elected in May 2021. It was very divided: no party alone had the requisite number of votes to impose its views, which resulted in numerous coalitions and discussions during the drafting process. In addition, independent left-wing and far-left parties won more seats than expected, at the expense of parties close to the previous government (centre-right and right-wing). Again, this reflected the popular aspiration for extensive social reforms, the rejection of "traditional" parties, as well as the lack of trust in the established political class. According to the polls, a "mixed" assembly may be the preferred option to draw up the new proposed document.

As the ministerial reshuffle which took place during the week after the referendum shows, the "no" vote reaches beyond the strict framework of the constitution itself. The new government includes several members of Michelle Bachelet's former team (Bachelet was president of Chile from 2006 to 2010 and from 2014 to 2018), a sign that the government's economic and social proposals will be less radical. Moreover, it is very likely that the number and scope of the reforms put forward by the government for the remainder of its term will be reduced.

Persistent inequalities weigh on social cohesion

Several recent studies illustrate the "Chilean paradox"[1]: the progress made during the last three decades (strong growth and an improvement in various governance indicators, including the credibility of the Central Bank and the regulatory framework) has been accompanied by a sharp reduction in poverty, but no or very little reduction in inequalities in a broad sense (in income or wealth, access to healthcare, education and culture, etc.).

Conventional indicators do indeed show a significant reduction in poverty: the Gini[2] Index, which is a very general measure of inequalities, has been steadily declining since the 1990s, and the poverty rate has fallen sharply. However, the distribution of income between the poorest and richest has only altered very slightly: the share of income held by the richest 10% has only marginally decreased and at the same time, the share of income held by the poorest 10% has remained very low. Among OECD countries with a globally equivalent level of development (measured by GDP per capita, chart 2), Chile is, with Costa Rica, the country with the most unequal distribution of income.

In its 2021 economic study, the OECD also indicated that more than 50% of Chileans remained "economically vulnerable", which means they are not recorded as "poor" but at risk of falling into poverty (chart 3). According to the OECD, these are individuals who occupy jobs which are unproductive, undeclared, with unstable incomes and which provide little social protection (and they have little financial savings allowing them to protect themselves in the event of a shock).

GINI INDEX AND INCOME PER CAPITA (AVERAGE 2015-2018) FOR OECD COUNTRIES

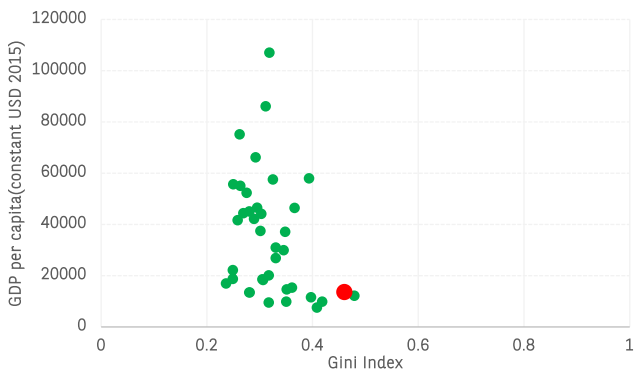

CHART 2 SOURCE: WORLD INEQUALITY DATABASE, OECD

A recent article by the IMF analyses various criteria that provide a better insight into the persistence of inequalities and the expectations the government will face during its term of office. The authors use data mostly available until 2018, making it possible to take a "snapshot" of the state of inequalities just before the 2019 protests and the economic crisis arising from the Covid-19 pandemic.

According to the authors, spending on private healthcare increased more markedly in Chile than in the other countries in the region, while at the same time, waiting times for access to the public healthcare system grew longer. During the same period, the cost of living rose rapidly for the poorest households, access to education remained expensive, and retirement pensions were relatively low. Against this backdrop, Chilean households entered into considerable debt, and debt levels increased more quickly in Chile than in the other countries in the region between 2009 and 2019 (chart 4).

1 "Chile's insurgency and the end of neoliberalism", S. Edwards, Voxeu, Nov 2019

2 The Gini Index is a summary indicator for reporting the level of inequality for a certain variable (e.g. income per capita) and for a given population. It is equal to 0 in a situation of total equality where the variable has an identical value across the entire population. At the other extreme, it is equal to 1 in the most unequal situation possible, where the variable equals 0 across the entire population with the exception of one individual.

"Inequality of opportunity", defined as inequalities that can be attributed to a set of pre-determined circumstances, such as gender, place of birth, religion, family heritage, etc., are considered high in Chile compared to all OECD countries. Finally, tax redistribution remains low compared to other OECD countries, even if it has improved significantly.

Consideration of all these criteria simultaneously can explain the persistence of the inequalities experienced by the population (according to the survey data collected by the Economic Commission for Latin America and the Caribbean) over the past three decades. The Covid crisis has only accentuated this perception of inequality, despite massive support from the authorities.

Necessary pension system reforms: the main challenge for this administration

The desire to reform the Chilean pension system has been at the heart of public debates for over 15 years and is highly likely to be a central point of the government's programme. The main demands, and essential points for reform, are an improvement in the replacement rate (i.e. the percentage of in-work income received by an employee when they draw their pension) and the coverage offered (many Chilean people are completely or partially excluded from the current system), as well as the lack of transparent management of private pension funds.

Broadly speaking, Chile was one of the first countries in the 1980s to replace its old pay-as-you-go pension system with a system of mandatory pension funds with individual defined contributions, managed by pension fund administration companies (*Administradoras de Fondos de Pensiones*, AFP). The reform is ultra-liberal in its inspiration: the pension received by each retired person only represents, in annuities calculated on the basis of an average life expectancy, their personal savings alone (the result of mandatory contributions paid solely by the employee, representing a percentage of their gross salary). Shortly after its implementation, the apparent success of the Chilean pension system led to a wave of reforms in other countries in the region.

In 2008, the system was supplemented by the creation of a solidarity pillar, financed by taxation and administered by the State. After violent demonstrations in 2016, the then President Michelle Bachelet put forward a reform (now the system of AFPs but with a proposal to increase the contribution rate), but this was not approved.

Until 2019, the Chilean pension system was therefore composed of:

- a solidarity pillar (pillar 1) intended for workers on the most modest incomes. This consisted of a solidarity contribution (*aporte previsional solidario,* or APS) allowing employees who had paid contributions to supplement their pension to obtain a pension equivalent to the minimum wage, and a basic solidarity pension (*pension basica solidaria*, or PBS), intended for working people who have not paid pension contributions.
- a mandatory capitalisation pillar (pillar 2) for which each employee pays contributions directly into an individual account. Funds accumulated during people's working lives are managed by six private institutions – the AFPs.
- an optional capitalisation pillar (pillar 3). Under this pillar, contributions may be individual or collective, depending on the company agreement. Management is also more flexible than for pillar 2, and accumulated capital can be managed by AFPs or other financial bodies authorised by the regulator (in insurance, for example).

HOUSEHOLD DEBT IN LATIN AMERICA

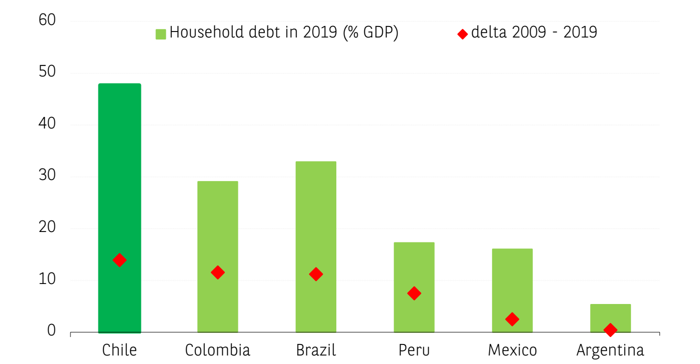

CHART 3 SOURCE: IMF

HOUSEHOLDS VULNERABILITY

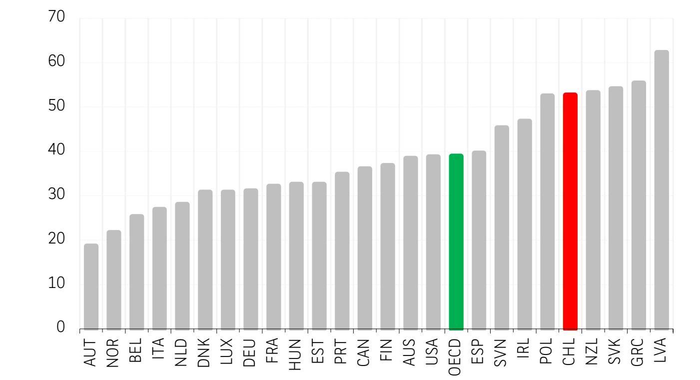

CHART 4 SOURCE: WORLD INEQUALITY DATABASE, OECD

The limits of this system quickly emerged: at the time it was implemented and in order to encourage participation in the new pension system, the contribution rate was set at a level sufficiently low to result in an increase in net salaries (funded by raising the minimum retirement age), that is, 10% of taxable income. But the rate eventually remained unchanged, and these low contributions led to low replacement rates.

According to OECD estimates (taking into account payments made under the solidarity pillar), the average replacement rate for a Chilean worker retiring in 2020 was considerably lower than that of the other countries in the region, at 38% for a man and 35% for a woman (chart 5). On average, the replacement rate for OECD countries is 63%.

Separately, the prominence of the informal economy, the large number of self-employed workers (who are not subject to compulsory contributions), and frequent job changes by employees have limited the contributions paid and reduced the cover that people effectively receive when they retire. According to OECD calculations, in 2019, the probability that a person of working age contributes to their retirement in a given month was on average 60% for a man and 50% for a woman. For women, the low likelihood of making contributions, added to a lower statutory retirement age than for men (60 compared to 65), explains why their pension amounts and replacement rates are lower.

In addition, the initial formula has never been revised, and so does not take demographic changes into account: as a result of an increase in life expectancy, the savings accumulated during one's working life must now cover an average of five more years than at the time the reform was introduced (with the term and contribution rate remaining unchanged). Lastly, real interest rates have been heading downwards since this regime was adopted (chart 6) and are expected to remain low in the medium to long term.

These last two arguments explain the fall in the replacement rate for the youngest cohorts and the intense debates that have occurred over the last few years on the subject of changes to the pension system.

Employees authorised to draw on their pension savings

As part of measures designed to support the economy, employees were authorised to draw on their pension savings three times – in July and December 2020, then in April 2021. The measure was put forward by opposition parties and approved, although the Pinera government was opposed to it.

These three withdrawals allowed workers to withdraw up to 10% of the total amount of their individual pension savings at each withdrawal (pillar 2). The first and third withdrawals were tax-free for everyone, while the second was tax-free only for "low income" workers.

According to the Chilean government, over 90% of the employees affected have withdrawn pension savings since July 2020. Assets fell from USD 212 billion (82% of GDP) in January 2020 to USD 168 billion (60% of GDP) in January 2022 (chart 7).

According to the IMF and the Central Bank of Chile, in the short term, the first authorised withdrawals served to offset the drop in household income. They enabled retail sales and durable goods consumption to bounce back strongly from the second half of 2020 (chart 8). The second and third withdrawals were followed by a stronger acceleration in sales than after the first withdrawals. However, it was the most affluent households that benefited the most. Government assistance and pension savings withdrawals did in fact more than offset a loss of income caused by the crisis, so much so that this category of households took the opportunity to put money aside.

According to IMF estimates, around 25% of contributors in total had withdrawn all their pension savings after the first two waves of withdrawals. The scale of the withdrawals has led to a fall in replacement rates for many employees.

Goal of the reforms: to increase the average replacement rate

The next pensions reform proposal will therefore need to take into account the long-term effects of these withdrawals, which will exceed the strict pensions framework. All other things being equal, the IMF estimates that the "post-withdrawals" replacement rate will decline by an average of 3 percentage points for men and 1.5 percentage points for women (women are generally more reliant on the solidarity pillar, which explains why their replacement rate is less subject to change). Even if contribution rates increase significantly and access to the solidarity pillar is strengthened, the IMF estimates that the replacement rate will decrease in the medium to long term.

REPLACEMENT RATE BY GENDER

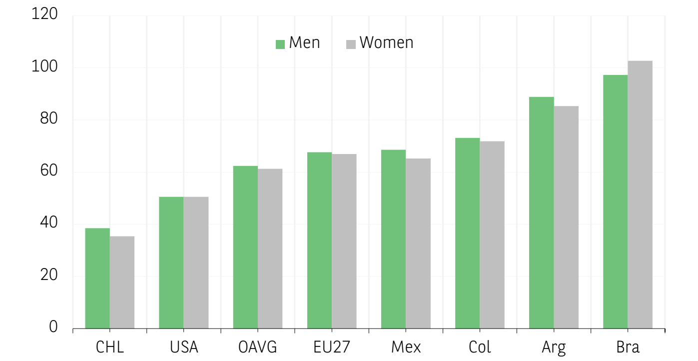

CHART 5 SOURCE: OECD :

LONG-TERM REAL INTEREST RATES

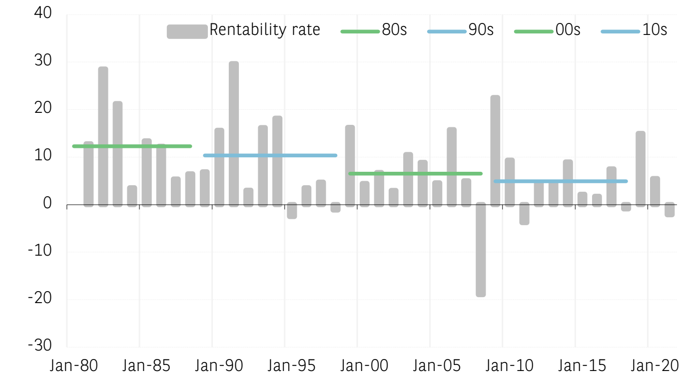

CHART 6 SOURCE: DEPARTMENT OF PENSIONS, GOVERNMENT OF CHILE

PENSION FUND ASSETS

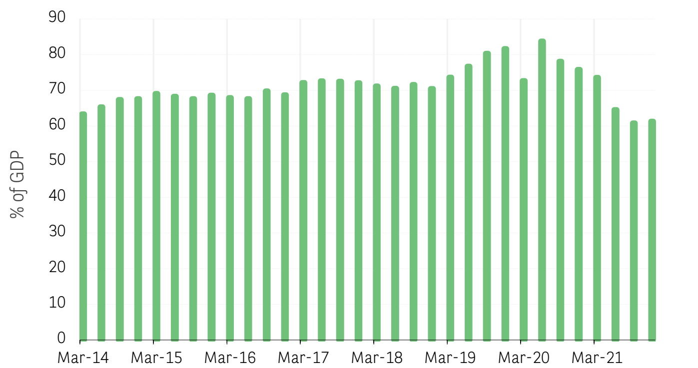

CHART 7 SOURCE: MINISTRY OF ECONOMY AND FINANCE

Although relatively moderate (according to IMF estimates), the effect on the public finances must be taken into account when the next reforms are made: the drop in the replacement rate and the number of working people who have withdrawn all of their individual pension savings will increase the number of retirees dependent on the solidarity pillar, and thus increase public spending on a continuous basis. Since individual pensions are also subject to tax, income will decrease by the same amount.

These new constraints will be added to the country's pre-existing challenges. In his general policy speech on 1 June, President Boric confirmed his intention to incorporate the proposals of the last reform (increase in the contribution rate from 10% to 16% of gross salaries, with the difference in contribution paid by the employer, and the retention of the universal guaranteed pension)[3] and to initiate reforms allowing a gradual transition to a more solidarity-based public scheme. The president's long-term objective is to increase the average replacement rate to 50% (and 60% for the most vulnerable workers).

Where are the public finances heading?

The risk of a deterioration in the public finances is relatively low in Chile. President Boric seems determined to respect his double commitment to increase public spending in order to improve social justice, while remaining "fiscally responsible". The new forecasts for growth and the direction of the public finances, published on 3 May in the government's public finances report, bear this out. After standing at over 8% in 2020-2021, the budget deficit should fall to just over 4% of GDP in 2022-2023. But the finance minister confirmed the government's intention to limit the increase in public debt during the government's term, by gradually bringing the primary deficit down to near zero over the next four years. According to government assumptions, debt should continue to rise during its term of office, stabilising at a level slightly below 45% of GDP in 2025. In 2019, it was at less than 30% of GDP.

The gradual withdrawal of pandemic-related economic support measures is expected to result in a reduction in public spending in the next two years, while the high copper price and depreciating peso will support export receipts. But the reduction in the deficit might not be as significant as expected, if the government announces further support measures designed to compensate for the slowdown in growth and the rise in the rate of inflation.

At the end of June, President Boric announced that fiscal strategy would be structured around four draft laws. The first two, which mainly relate to income tax, are due to be presented to parliament in July, and the other two will cover taxation and mining activity and be brought forward to parliament later this year. The objective is to gradually increase government revenue, so that it reaches at least 26% of GDP at the end of its term in 2026 (currently revenue is at 22% of GDP – a much lower amount than the median for OECD countries, which is close to 35% of GDP). The bills put forward provide for an increase in income tax for the most affluent households (affecting 3% of households), the creation of a wealth tax for households with assets totalling more than USD 5 million, as well as a new mining levy for companies whose copper production exceeds 50,000 metric tons annually.

3 However, in January 2022, shortly before the new president entered office, Congress approved a change to the pension system, introducing a universal guaranteed pension (UGP) aiming to improve upon and eventually replace the existing solidarity pillar. According to government estimates, the UGP is expected to affect almost 2.5 million people (25% of whom had no resources before the UGP came into force, with the remainder having a lower income than the new minimum amount). This reform is ultimately more generous than the ambition of the Pinera government, but less so than what was proposed by (the then candidate) Gabriel Boric.

RETAIL SALES AND SALES OF DURABLE GOODS, DEC. 2019 = 100

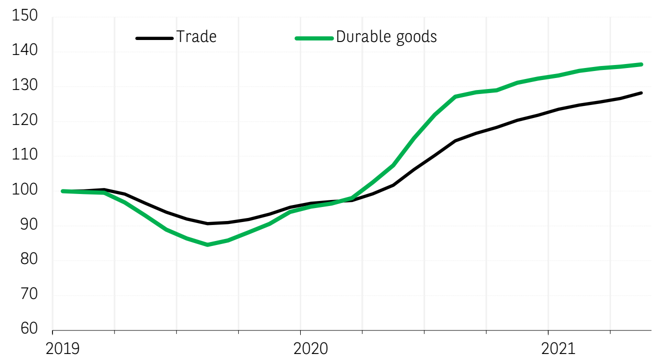

CHART 8 SOURCE: MINISTRY OF ECONOMY AND FINANCE

GOVERNMENT REVENUE AND EXPENDITURE

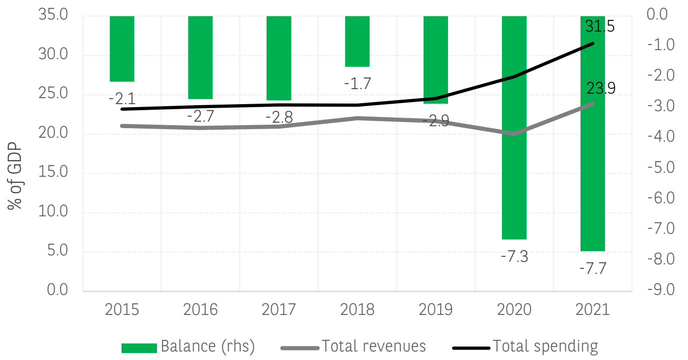

CHART 9 SOURCE: MINISTRY OF ECONOMY AND FINANCE

PUBLIC DEBT

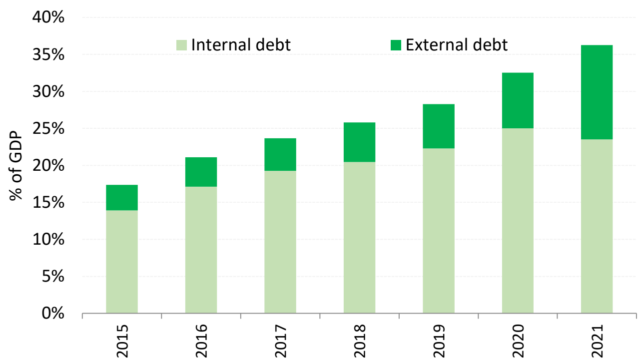

CHART 10 SOURCE: CONFERENCE BOARD

Finally, the fight against tax evasion should be stepped up, and several exemptions withdrawn.

Given the rather unfavourable political climate for the government, it is very likely that some of the proposed measures will be difficult (if not impossible) to implement. Moreover (or in particular), additional pressures (not included in the assumptions outlined by the government) could significantly increase expenditure, depending on the content of the forthcoming new constitution. We believe that in the long term, the primary deficit is likely to remain higher than the government has anticipated in its initial forecasts.

Yet the public finance trends are not, at least in the short-to-medium term, worrying. The country's debt profile is also favourable. The average maturity of its debt is at almost 12 years: the burden of interest represents only 4% of income and contingent debt is very low, reflecting prudent and effective regulation of the banking system. In the event of sudden changes in financing conditions, the liquidity risk for Chile would remain very low.

Conclusion

Chile bounced back quickly after the shock caused by the pandemic. In the short and medium term, however, the prospects for growth are moderate. The international environment, the gradual withdrawal of support measures, and the tense political climate are all weighing on short-term growth. In the medium term, everything is in place to allow Chile to restore its potential growth and start the green transition to which the government has committed. The rate of poverty has decreased over the past thirty years, and the country's institutions and macroeconomic fundamentals are robust.

But the lack of social cohesion is detrimental to the government's ability to implement the necessary reforms: many inequalities have persisted or even widened in recent decades, affecting the country's productivity. In terms of social justice, expectations of the new government are very high and the absence of a majority could hamper the president's ambitious objectives.

Though there is majority support in Chile for a new constitution, its rejection and the continuing debates on this subject illustrate the difficulties the government will face throughout its term of office. Furthermore, a single legislative term will not be long enough to implement the structural policies necessary to fundamentally change an economic, political and social model that has been called into question for several decades.

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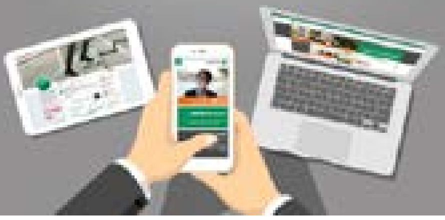

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