



2018 OECD ECONOMIC SURVEY OF CHILE

Boosting productivity and quality jobs

Santiago, 26 February 2018

<http://www.oecd.org/eco/surveys/economic-survey-chile.htm>



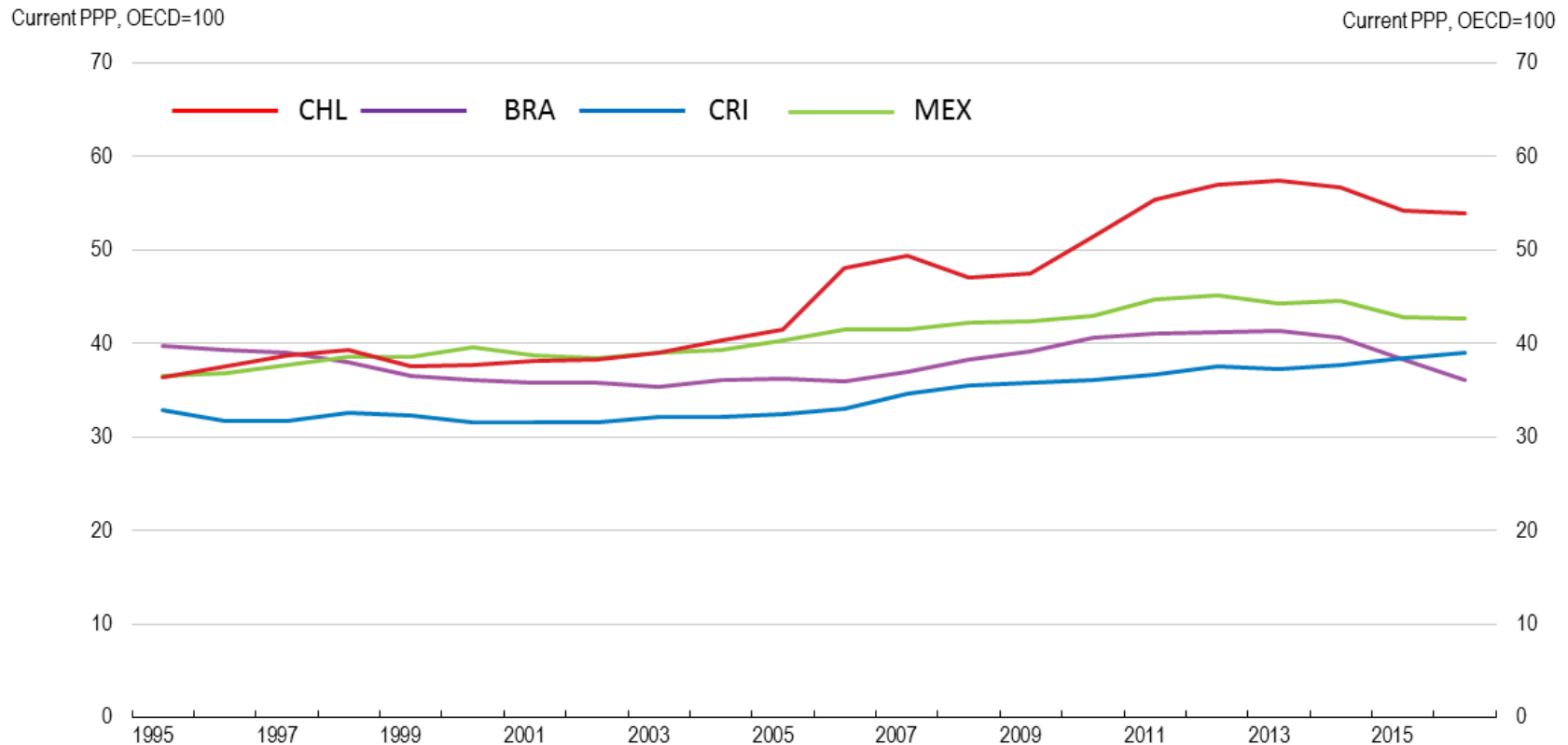
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Convergence has been impressive

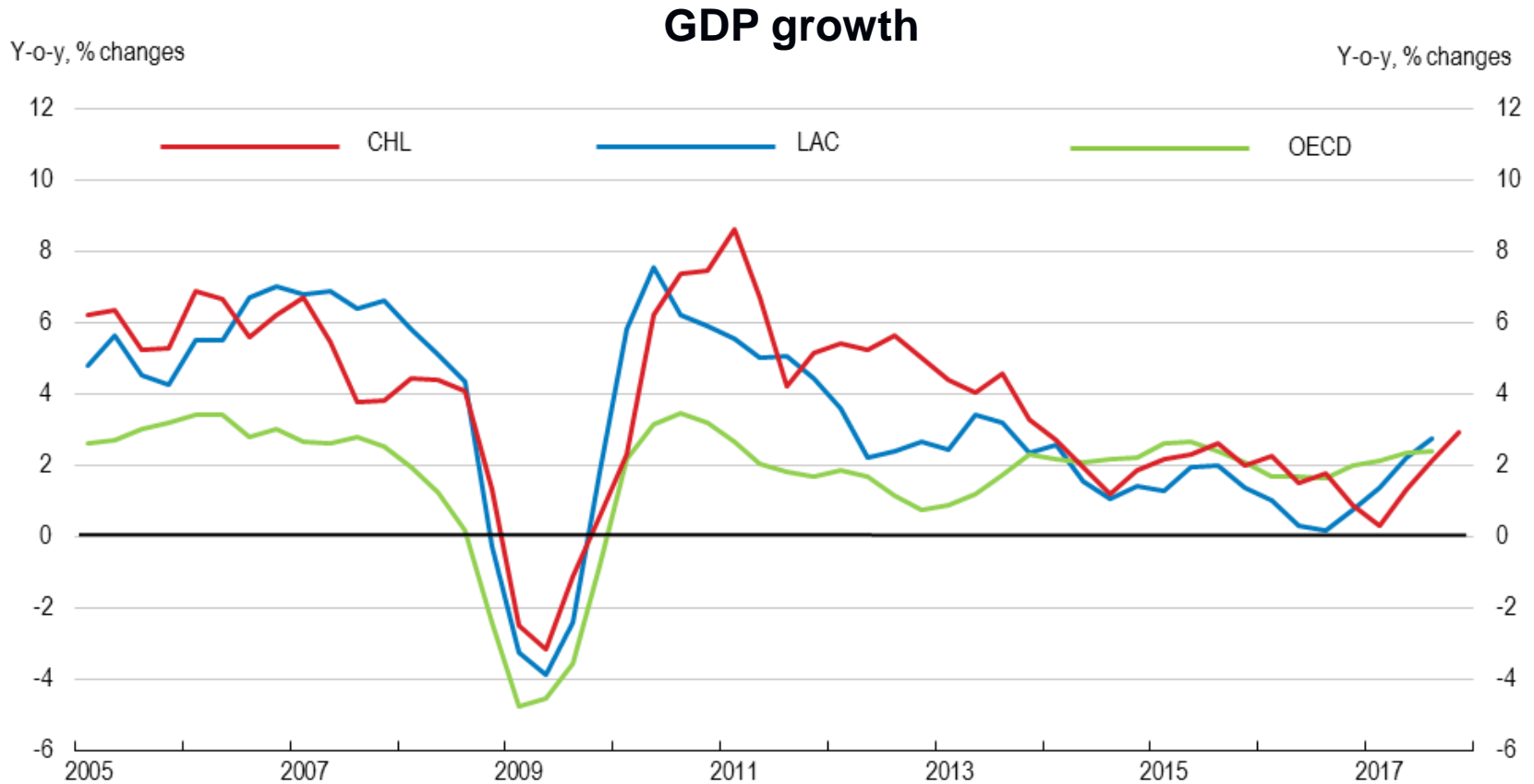
GDP per capita compared to the OECD average



Source : OECD (2017), *OECD National Accounts Statistics*.



Growth is picking up

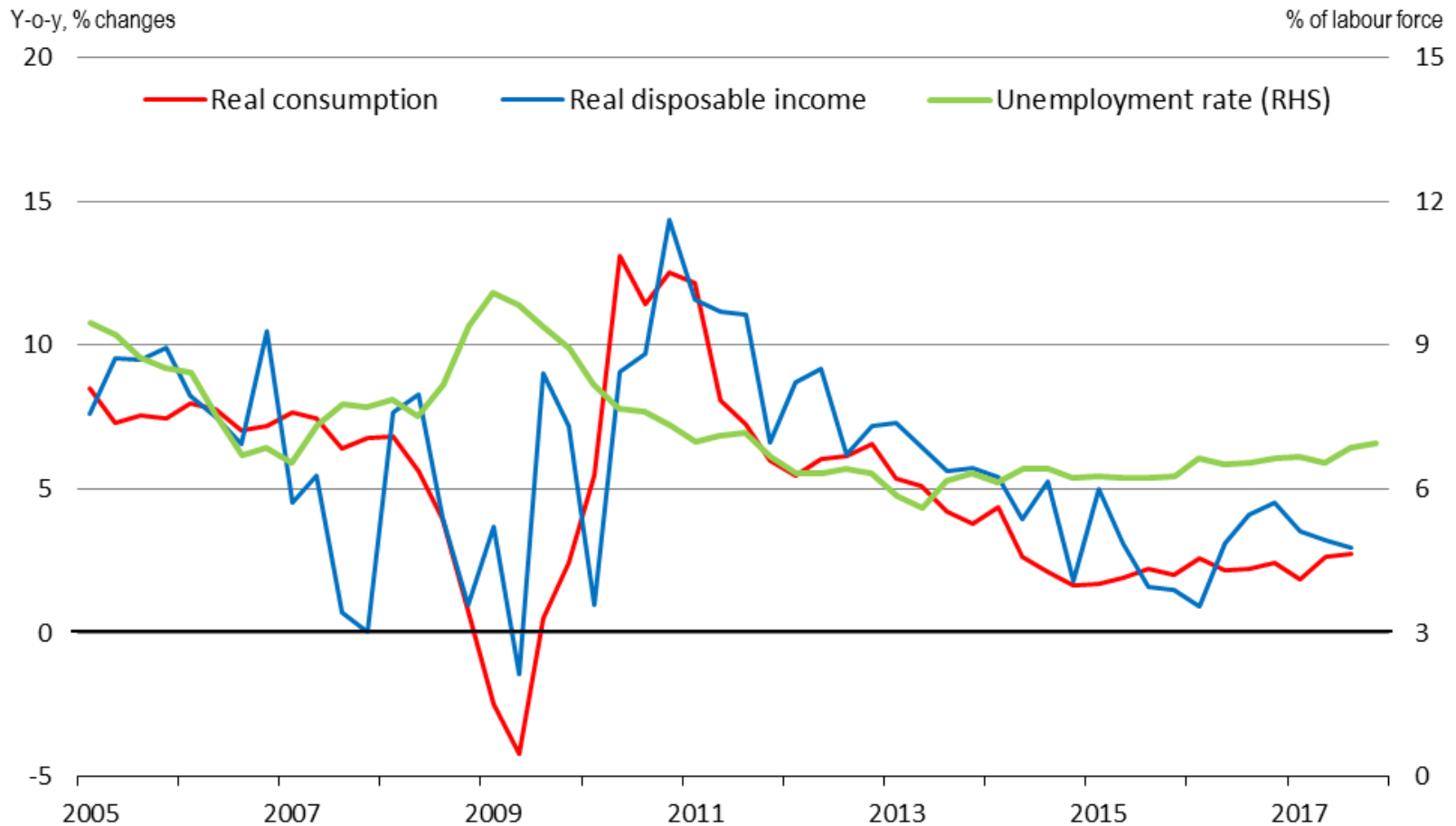


Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*.



Household consumption has been robust

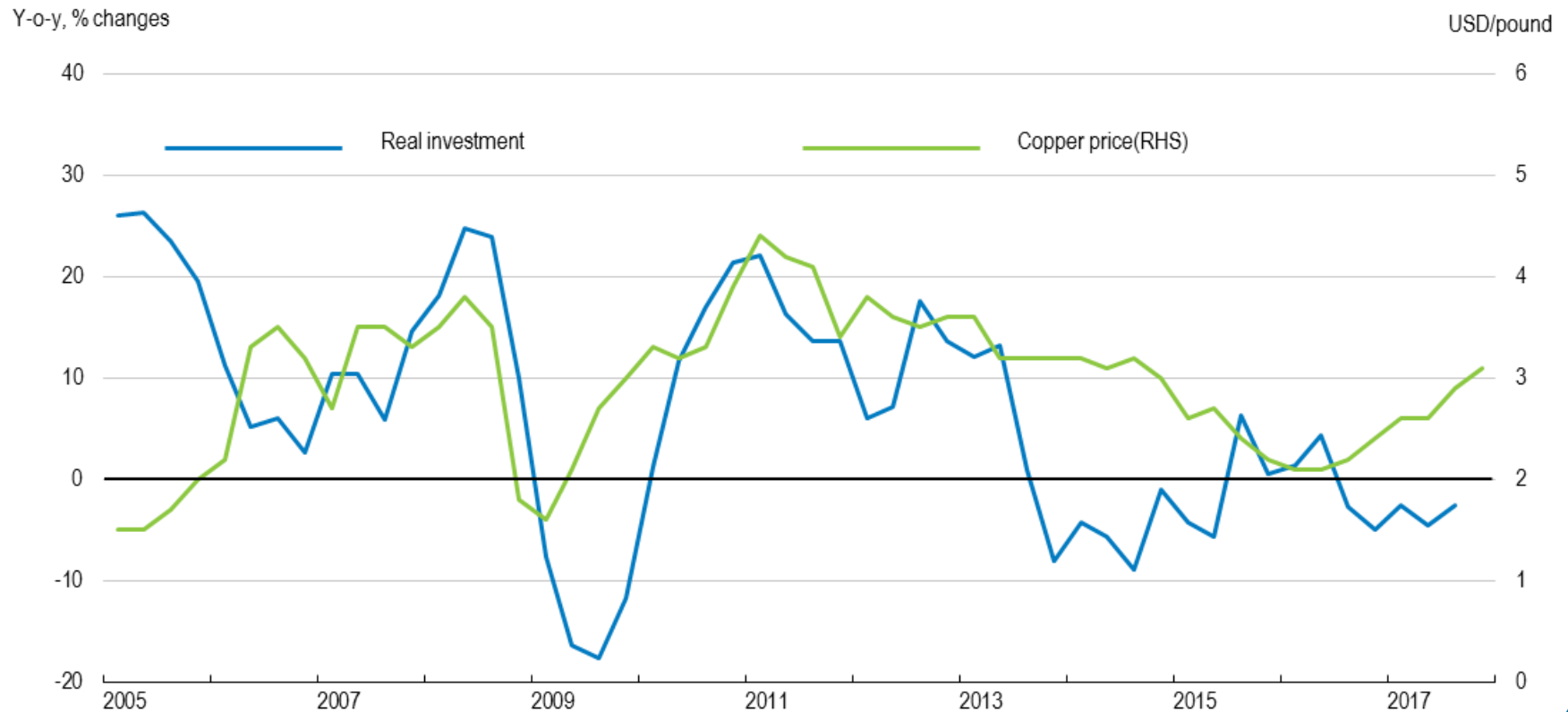


Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*; Central Bank of Chile (2017), *Statistical database*.



The fall in copper prices has depressed investment

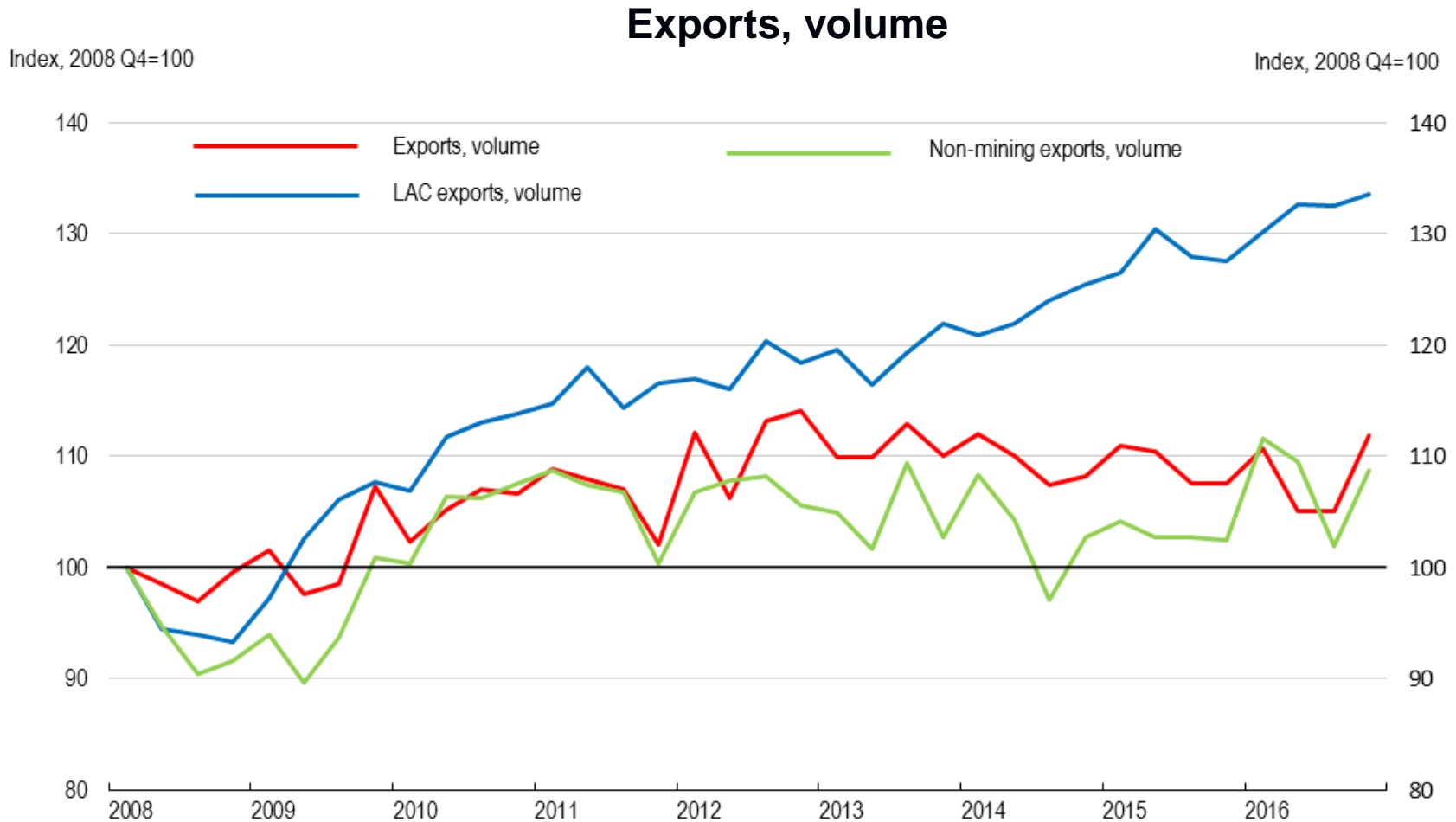
Investment and copper price



Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*; Central Bank of Chile (2017), *Statistical database*.



Export performance has disappointed



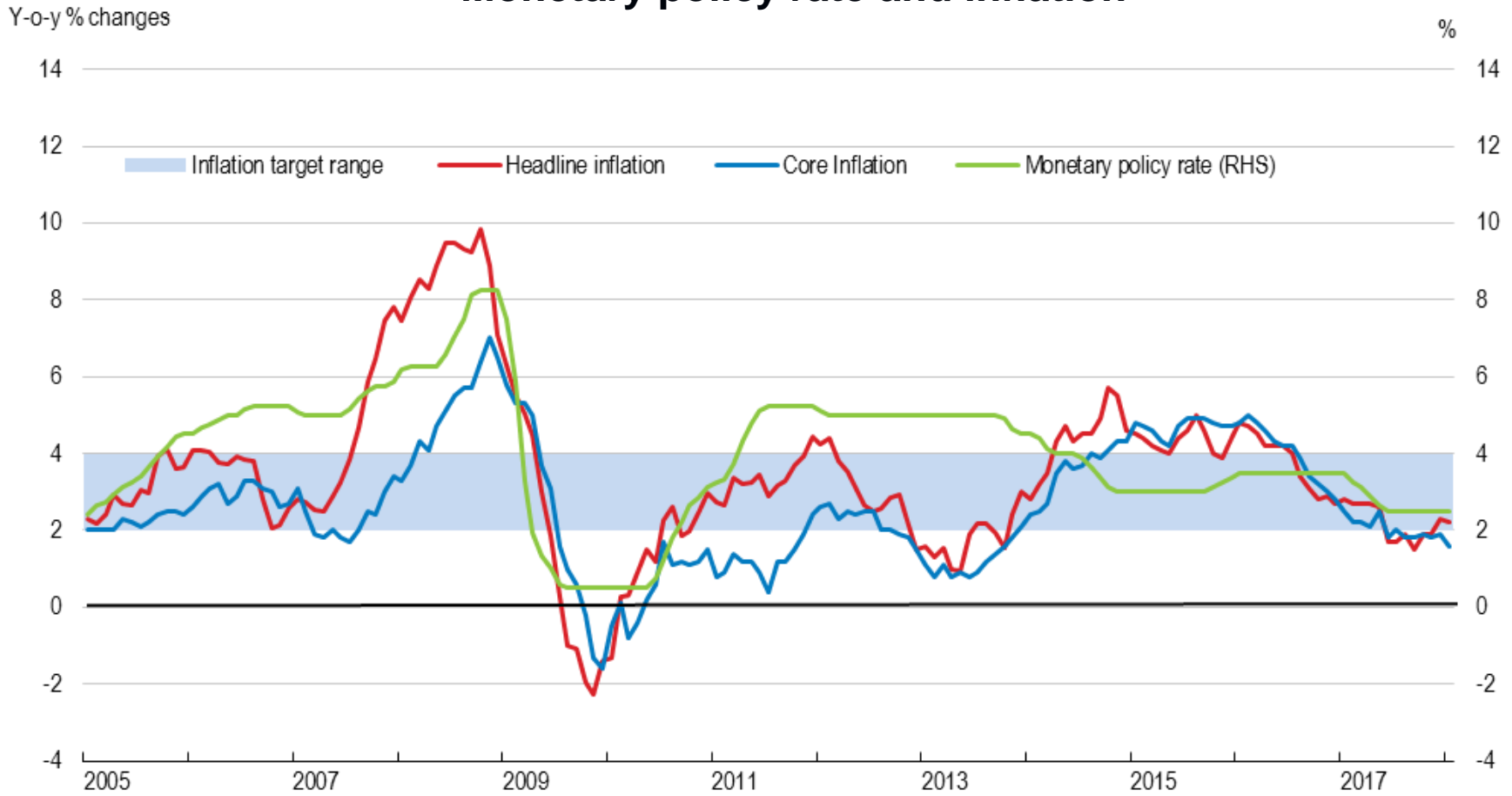
Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*; Central Bank of Chile (2017), *Statistical database*.



Monetary policy has been appropriately accommodative

Monetary policy rate and inflation

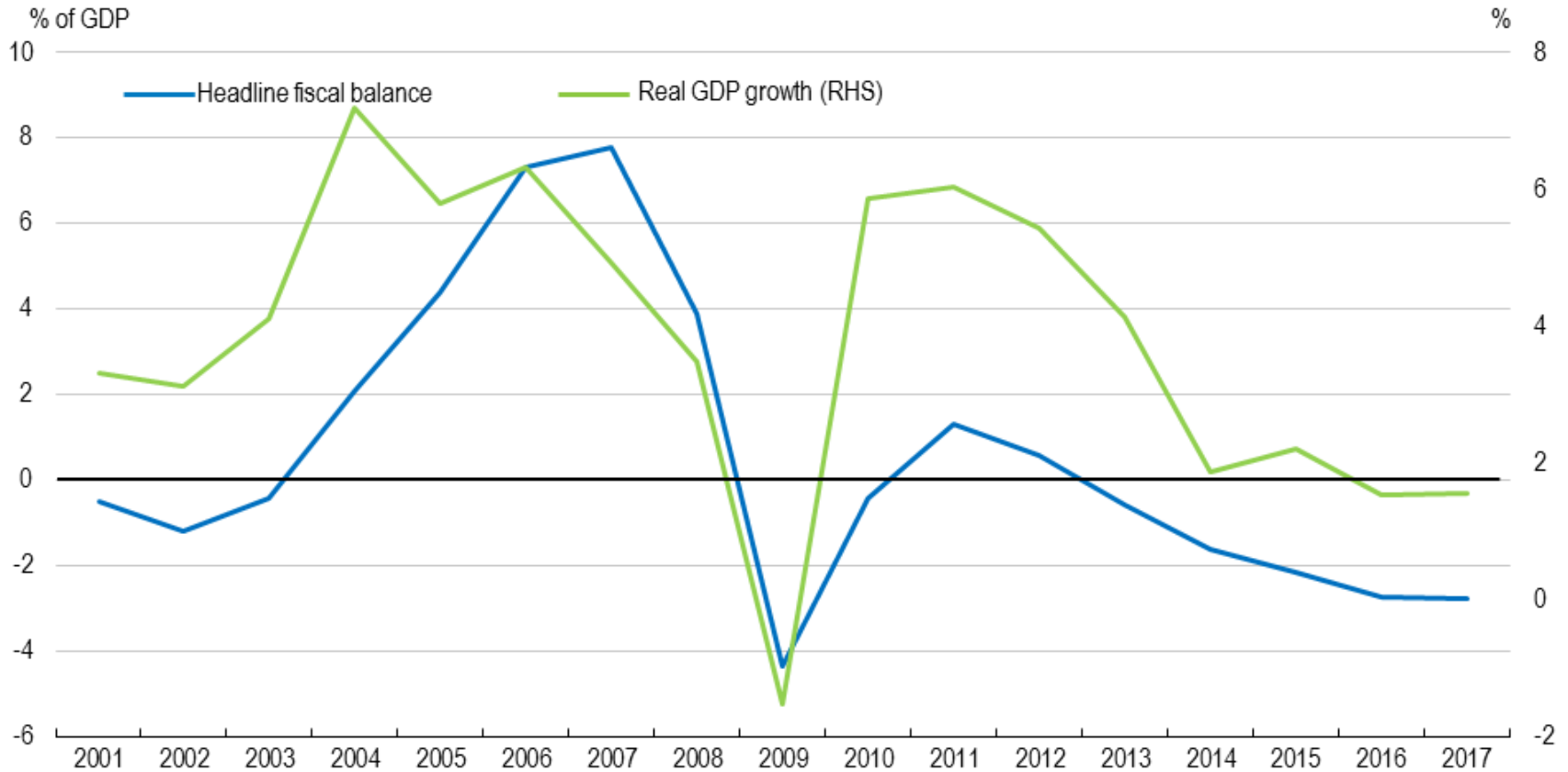


Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*; Central Bank of Chile (2017), *Statistical database*.



Fiscal policy has supported growth

Central-government deficit and GDP growth



Source : OECD (2017), *OECD Economic Outlook 102 Database (and updates)*; DIPRES (2017), *Estadísticas Fiscales*.

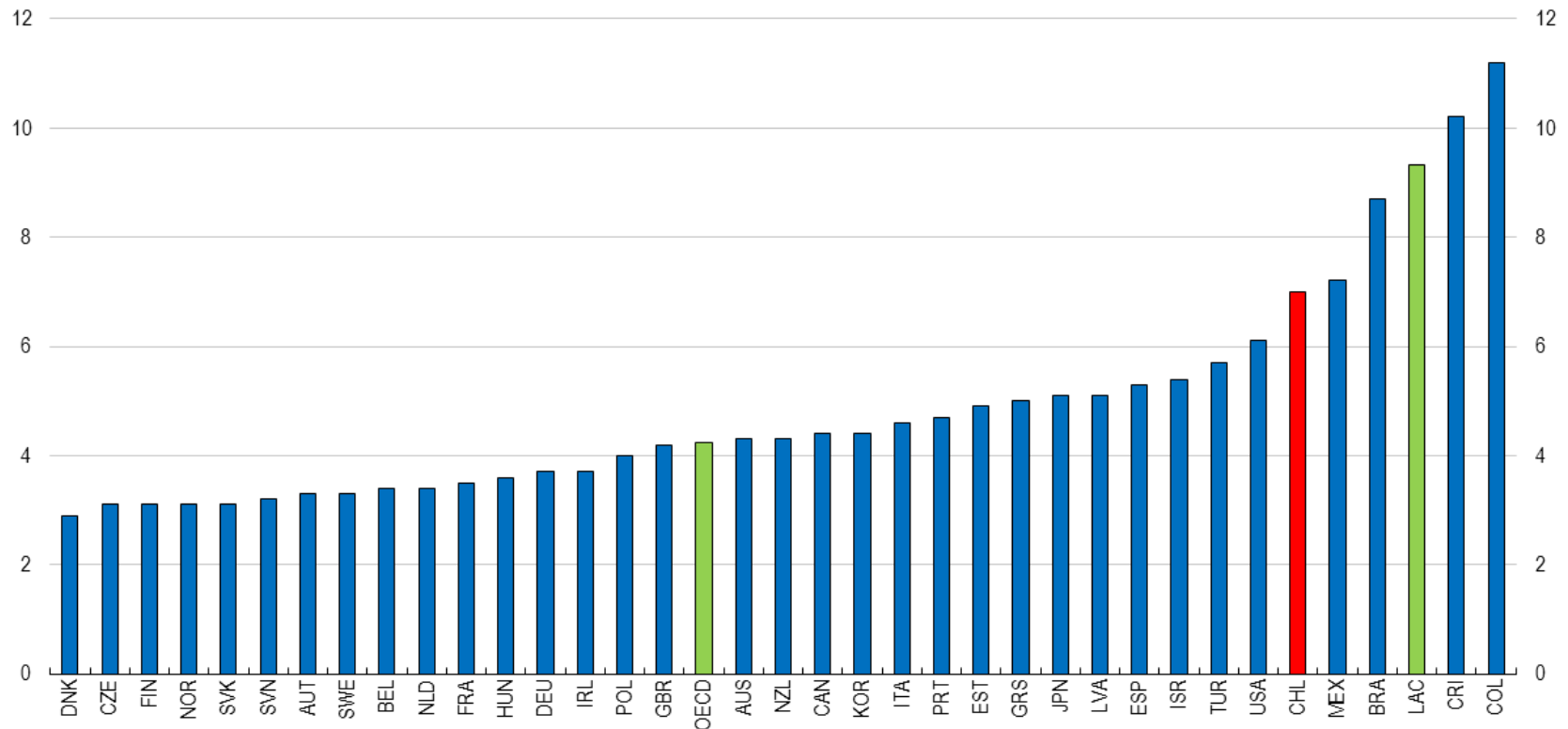


Challenges for more inclusive growth



Despite progress, inequality remains high

Interdecile ratio of disposable income 2016 or latest available year



Note: LAC is the unweighted average of Brazil, Colombia, Costa Rica and Mexico. The interdecile ratio (P90/P10) is the ratio of the disposable income of the 10% of people with highest income to that of the poorest 10%.

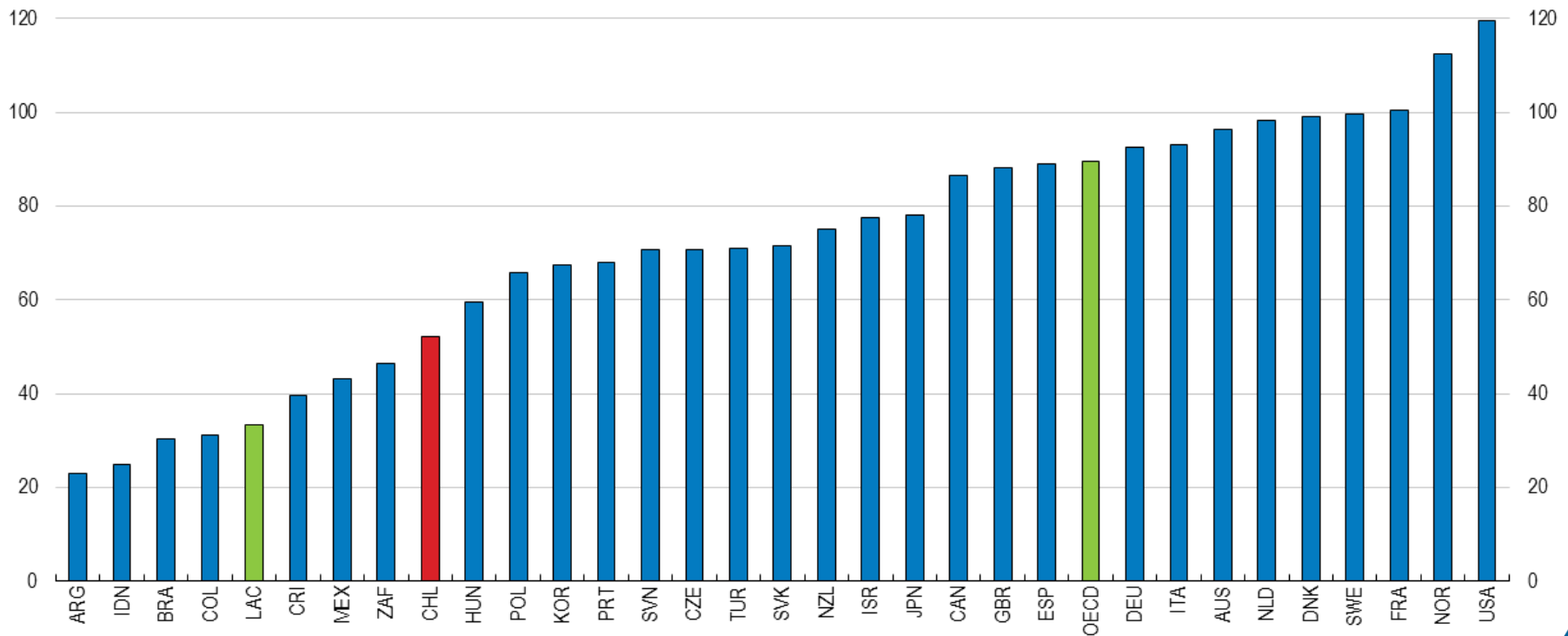
Source : OECD (2018), *OECD Income distribution database*; OECD (2017), *Economic Survey of Colombia 2017*.



Low productivity weakens living standards

Labour productivity levels

1,000 USD per person employed (PPPs), 2016



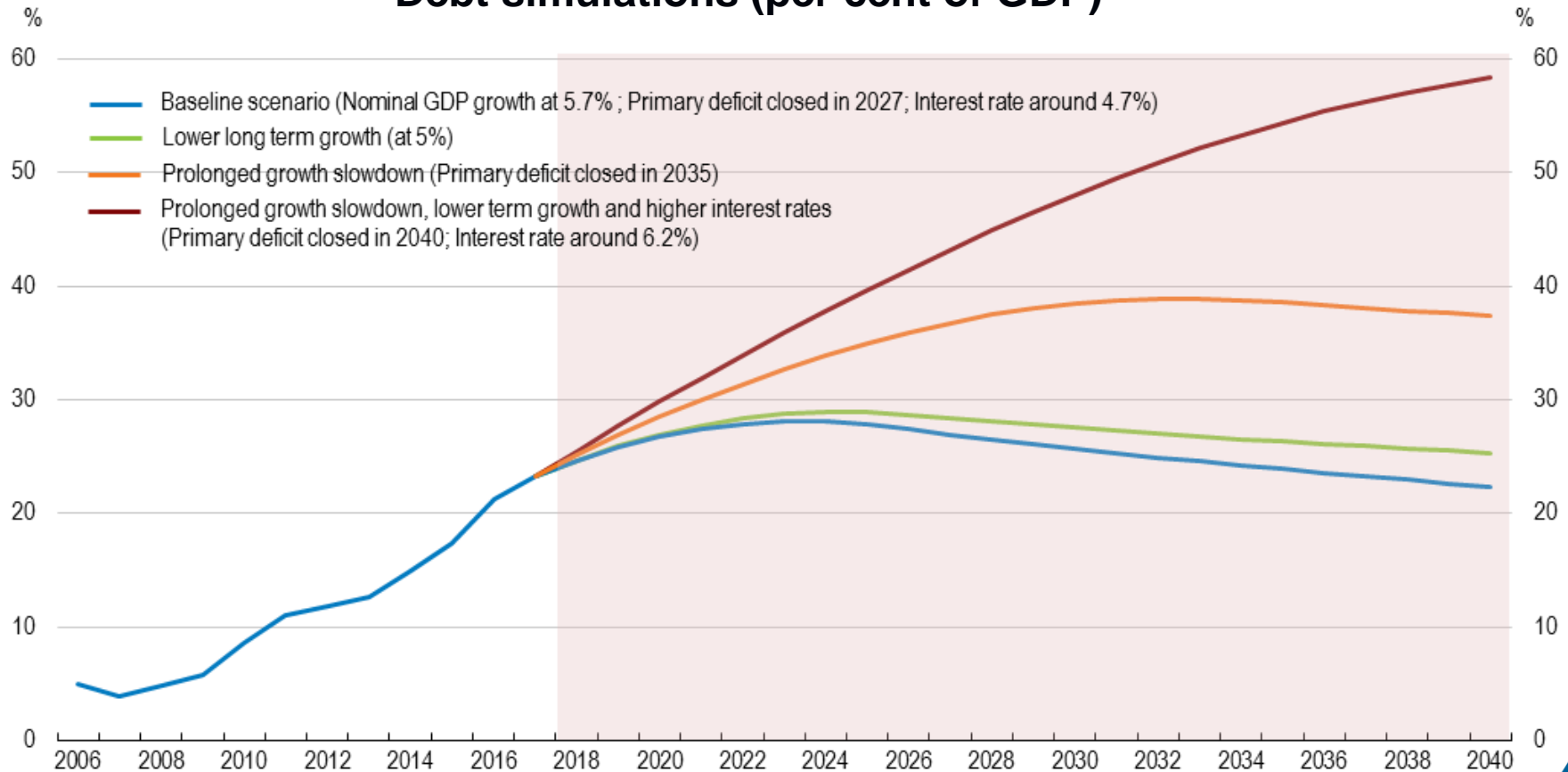
Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: OECD (2017), *Productivity Database*.



Inclusiveness needs high growth and higher fiscal revenues

Debt simulations (per cent of GDP)

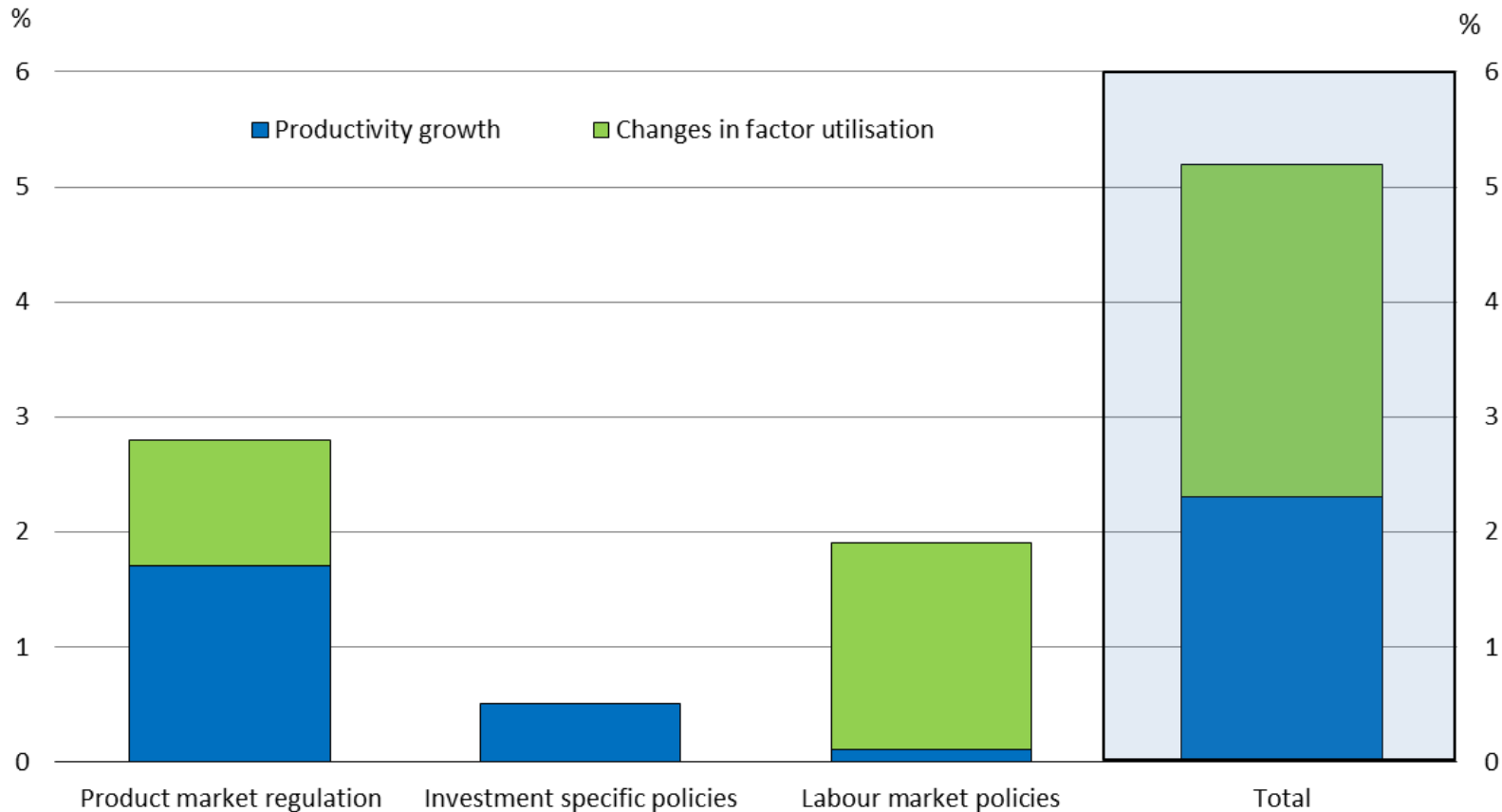


Source: OECD calculations based on the OECD (2017), *Economic Outlook 102 Database*, Dipres and Central Bank of Chile.



Ambitious structural reforms would raise productivity and living standards

Simulated impact of some of the key OECD recommendations Impact on GDP per capita over 10 years



Source: OECD calculations in OECD (2018), *Economic Survey of Chile 2018*.



More growth- and equity-friendly taxes would increase revenues

Illustrative long-term fiscal effects of some OECD recommendations

Measure	Change in fiscal balance (% GDP)
Accounting effects of the structural reforms	
Increase family benefits in kind.	-0.2
Increase expenditure per unemployed.	-0.4
Increase public support for business R&D.	-0.1
Accounting effects of other revenue and spending measures	
Increase property taxes, notably recurrent taxes.	0.8
Increase green taxes.	0.9
Increase spending on the solidarity pension pillar.	-0.2
Expected impact of other measures as evaluated by other institutions	
Lower the bands at which the personal income taxes and the higher income rate are levied.	1.3
Raise employer pension contributions.	-0.5
Effect of structural reforms on the budget through higher GDP growth	
The estimated impact of structural reforms on the fiscal balance.	1.2

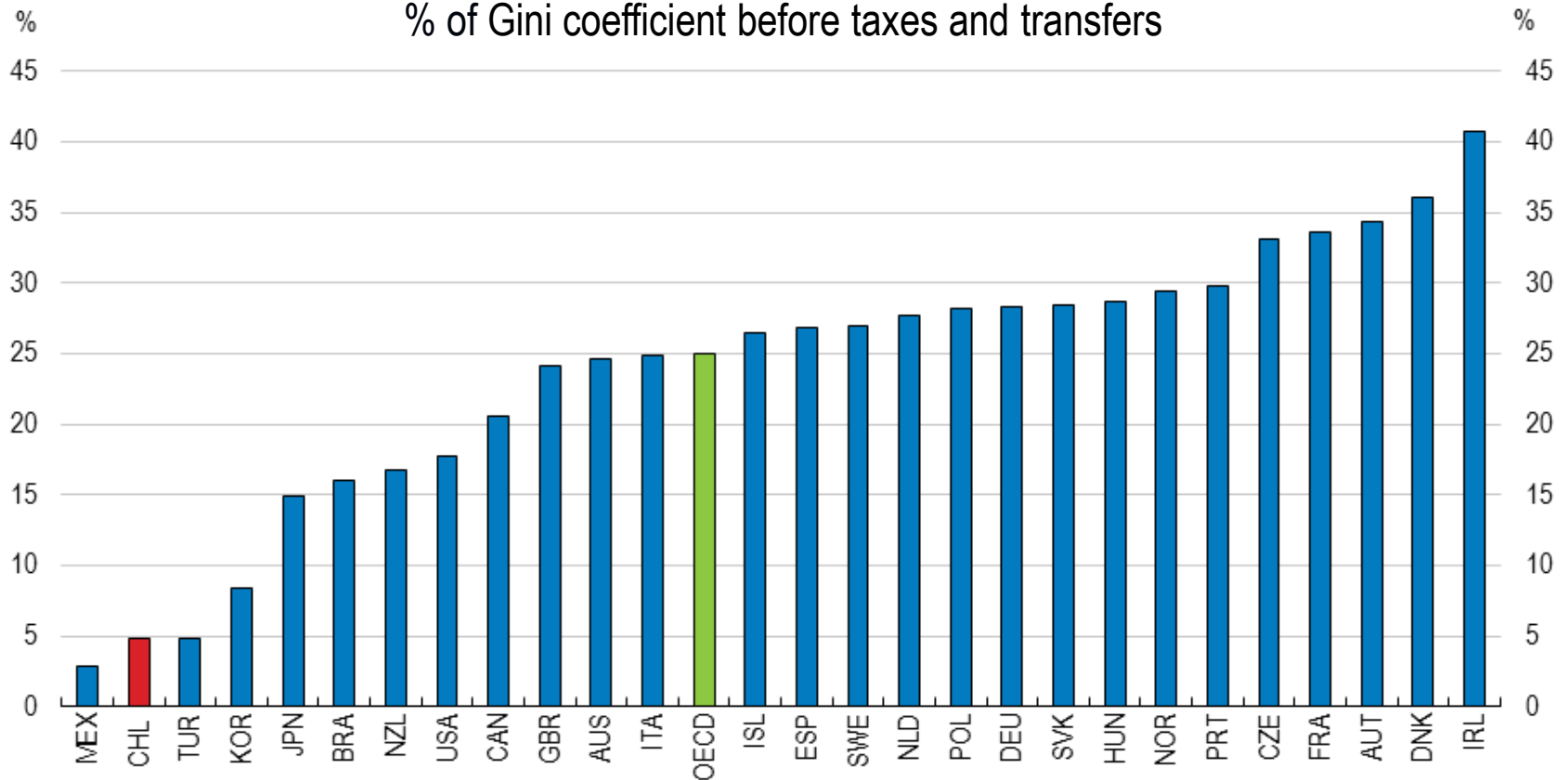
Source: OECD calculations in OECD (2018), *Economic Survey of Chile 2018*.



Redistribution needs to increase

Redistribution through the tax and transfer system, 2015

% of Gini coefficient before taxes and transfers

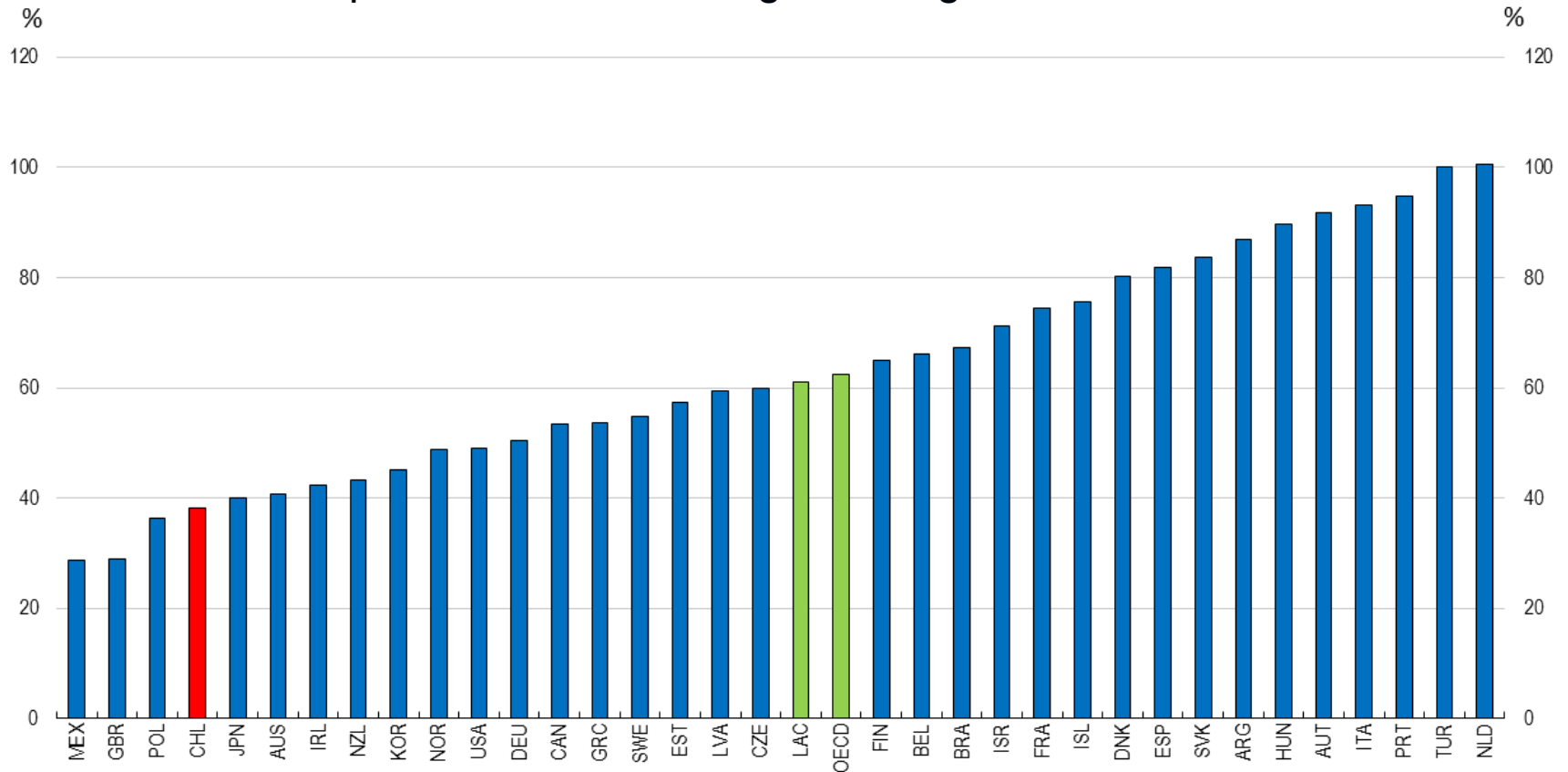


Source: OECD (2018), *Income Distribution Database*.



Old-age pensions are low

Projected net pension replacement rates, 2016
% of pre-retirement earnings, average for men and women



Note: LAC is the unweighted average of Argentina, Brazil and Mexico.

Source: OECD (2018), *Net pension replacement rates (indicator)*.



Main recommendations for inclusive and sustainable fiscal policy

- ✓ Further increase social spending to reduce inequalities.
- ✓ Strengthen cash benefits, notably employment subsidies and unemployment- and health-insurance support.
- ✓ Continue to increase the solidarity pillar funded with general taxation.
- ✓ Raise pension contributions to increase savings for retirement.
- ✓ Progressively increase and align the retirement age of women and men.
- ✓ Increase further public revenues from environmental, property and personal income taxes to increase equity and stimulate growth over time.
- ✓ Secure the mandate, resources and independence of the Fiscal Advisory Council in Law and strengthen its role in medium-term budgetary planning.

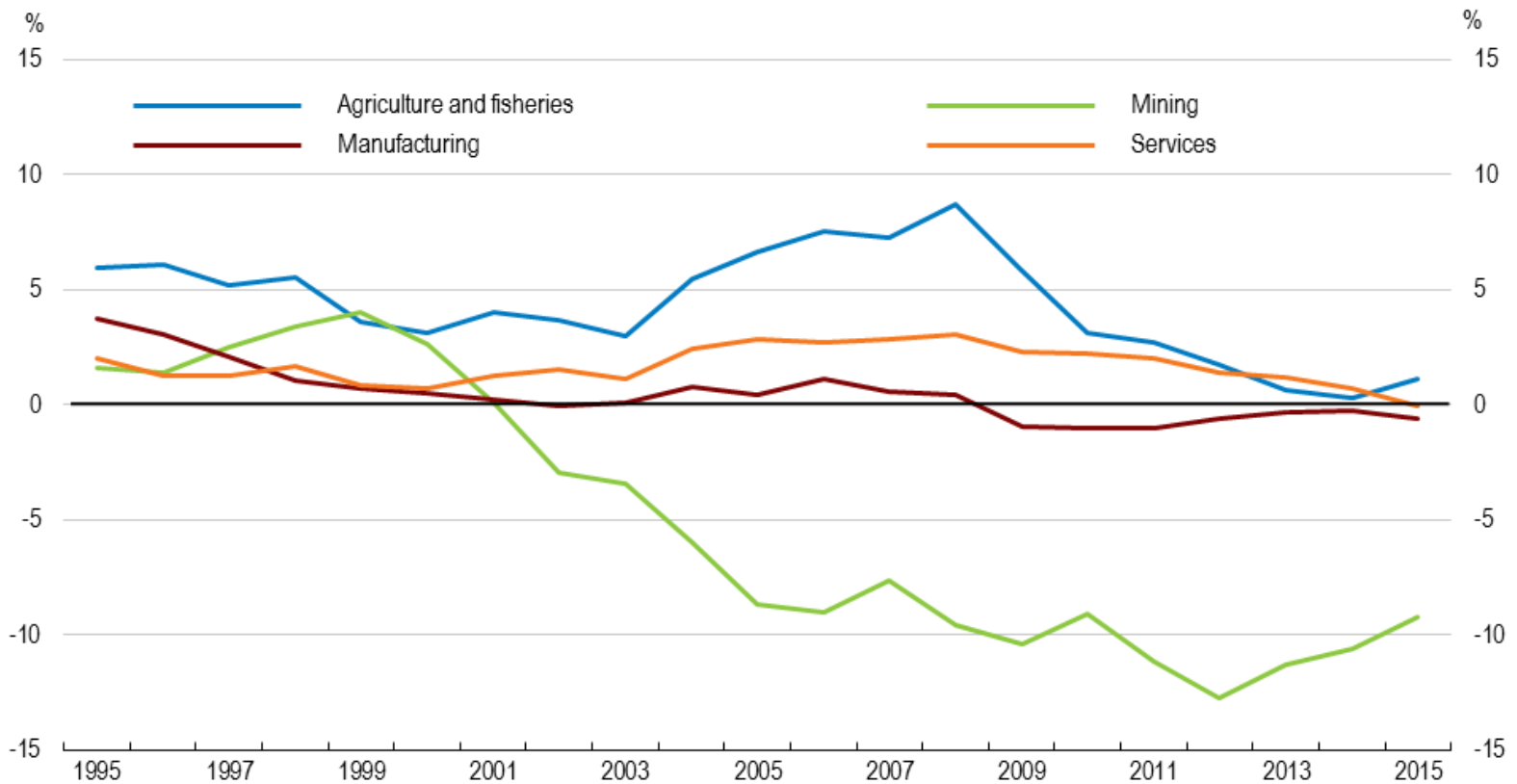


**Boosting productivity and exports
is key to higher growth**



Productivity growth has declined

5-year average of multifactor productivity growth

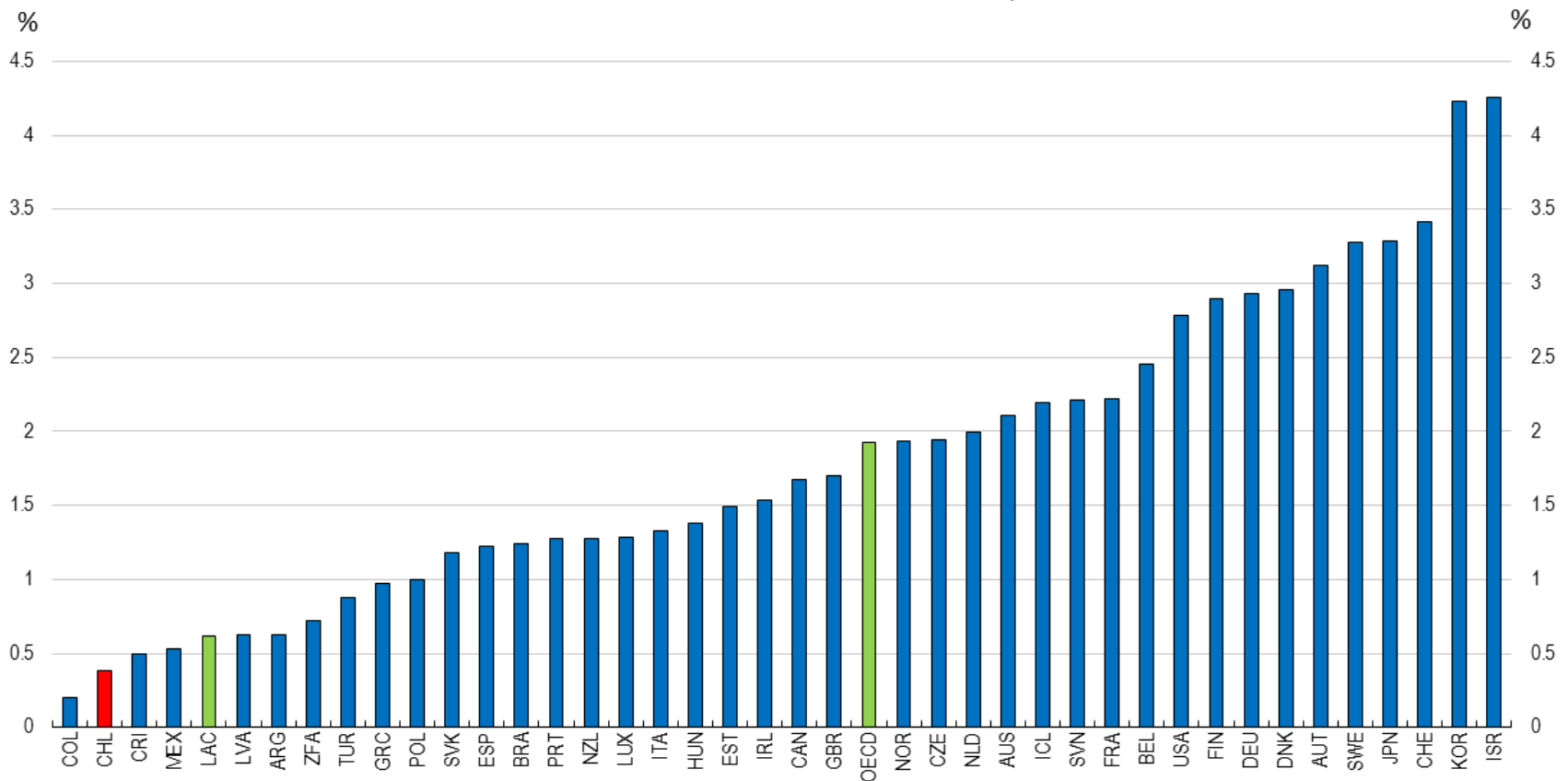


Source: CNP (2017), *Informe de Productividad Annual 2016*.



R&D spending and innovation are low

Expenditure on R&D
% of GDP, 2016 or latest available year



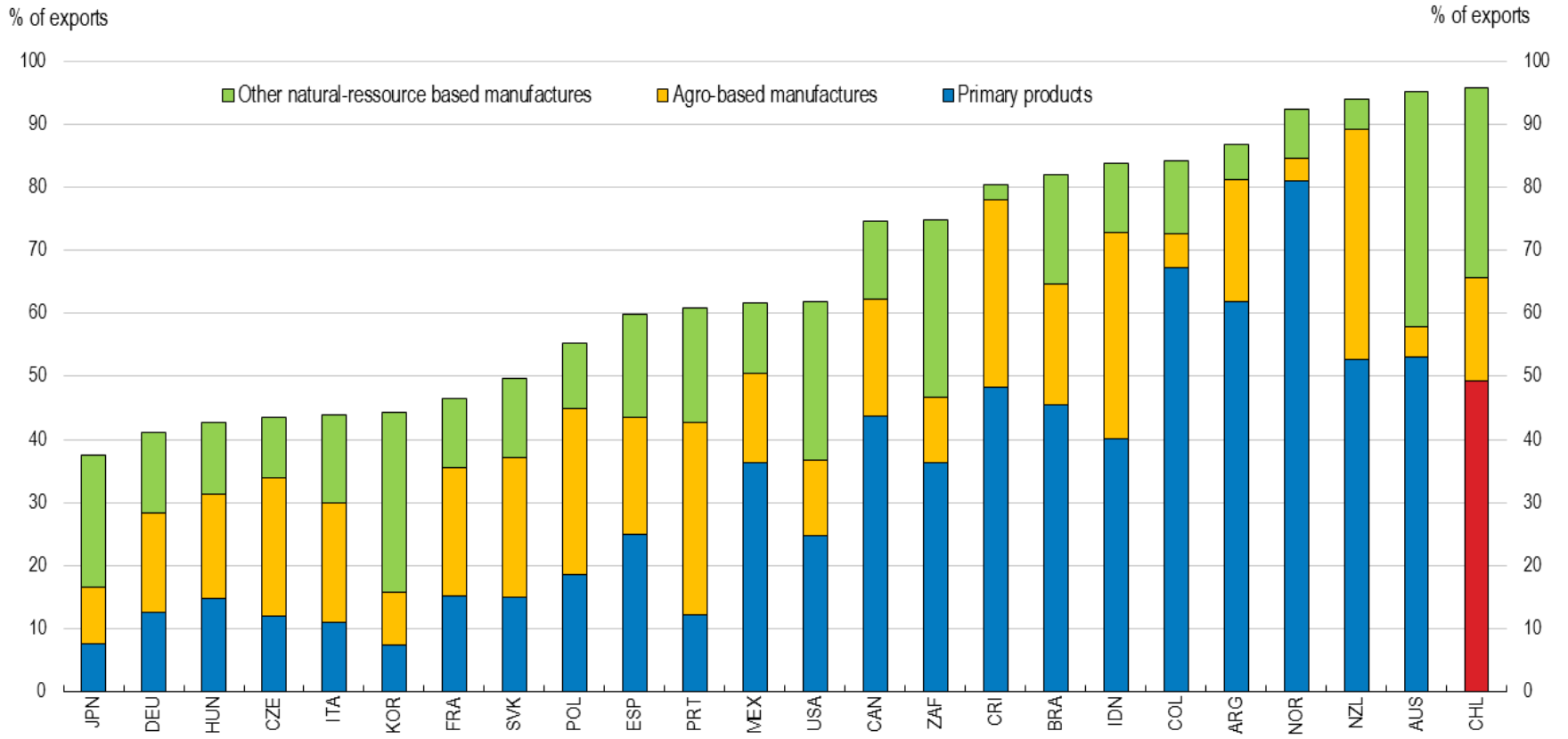
Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: OECD (2017), *Main Science and Technology Indicators* and OECD Surveys.



Natural resources are still the bulk of exports

Exports by technology intensity, 2016
% of exports in value

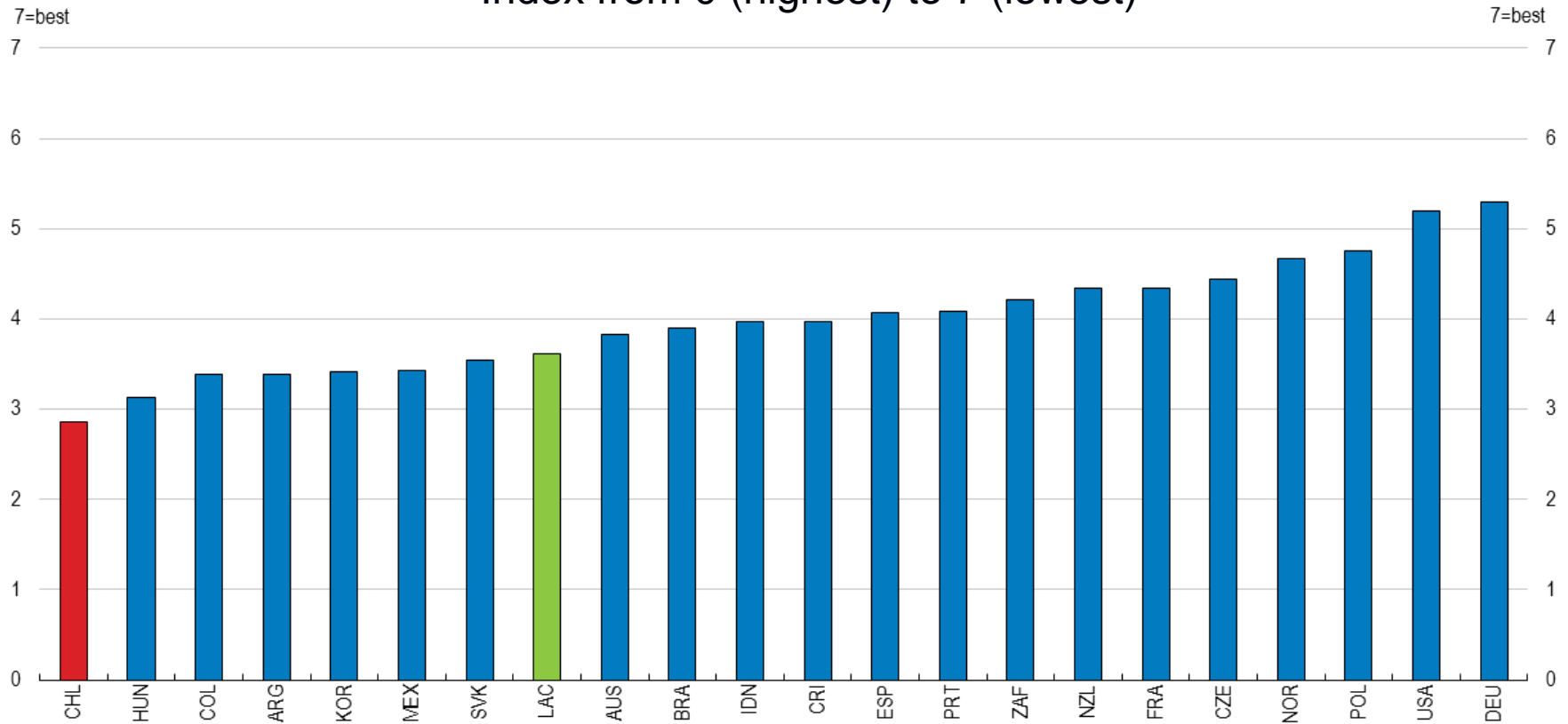


Source: OECD calculations based on Comtrade.



Boosting competition is key

Perceived extent of market dominance, 2017
Index from 0 (highest) to 7 (lowest)



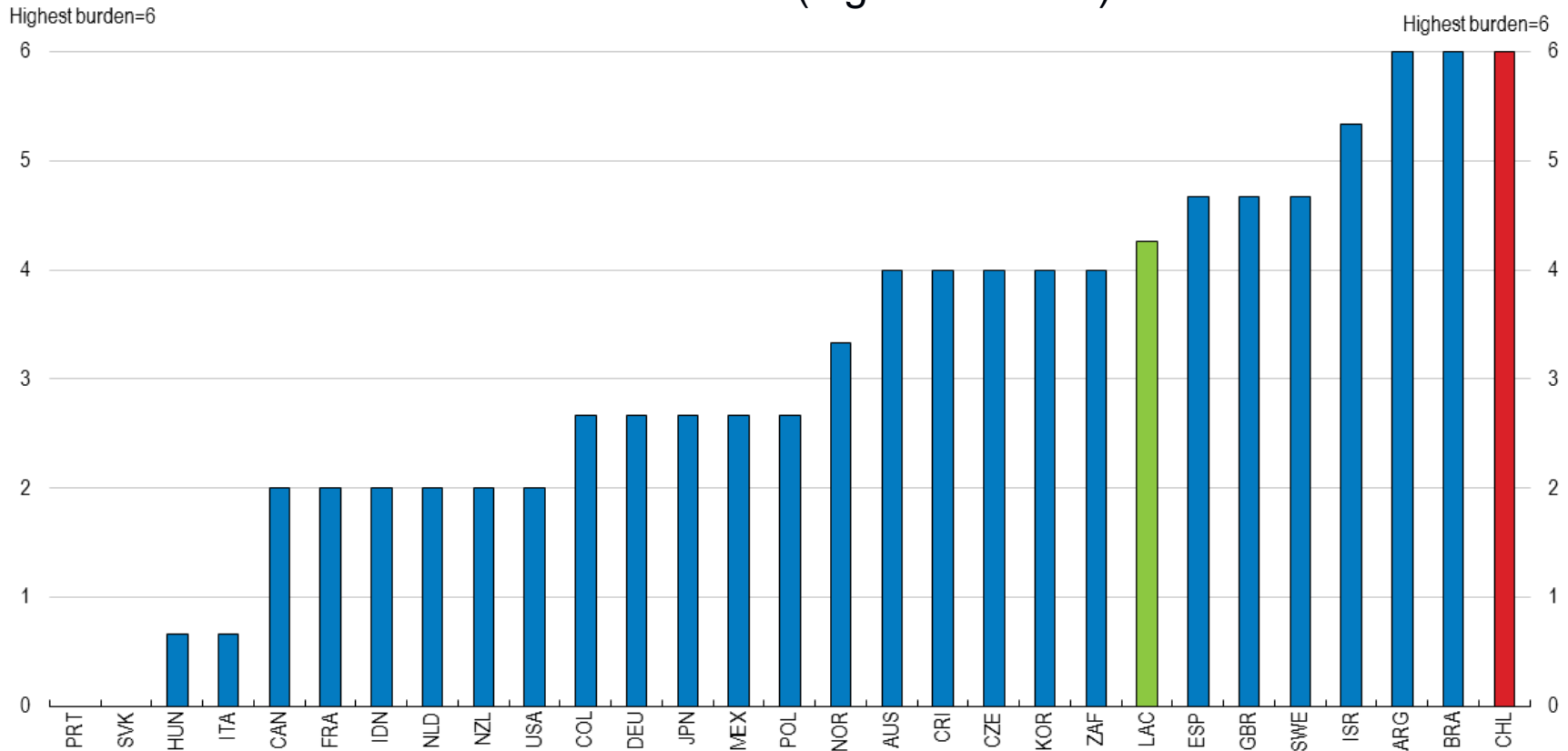
Note: LAC refers to the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: World Economic Forum (2017), *Global Competitiveness Index dataset*.



Burdensome licensing procedures hinder competitiveness

License and permit system Index from 0 to 6 (highest burden)



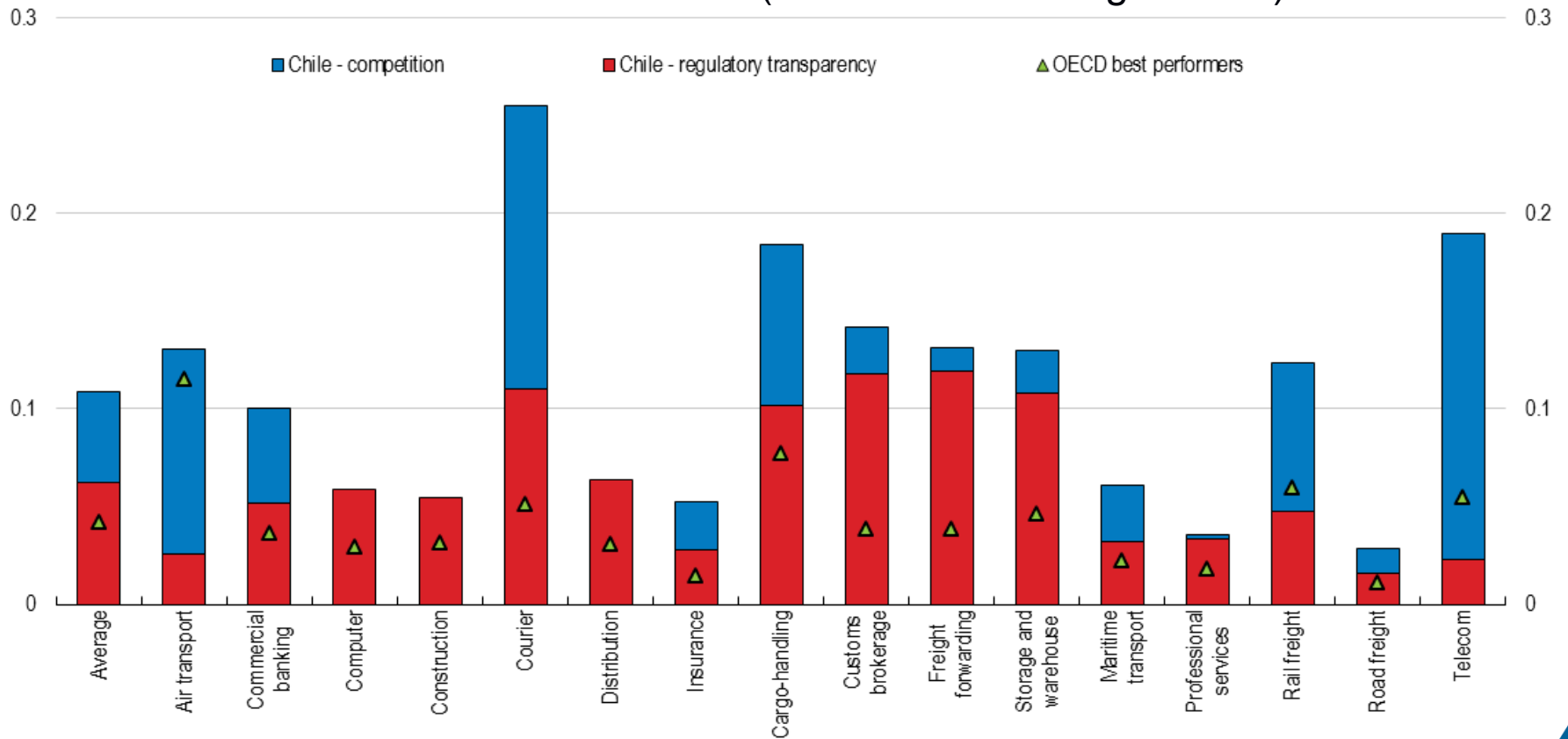
Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: OECD (2017), *Product Market Regulation Database*.



Many regulations are inefficient

Regulatory transparency and barriers to competition, 2017
Index scale from 0 to 1 (most restrictive regulations)



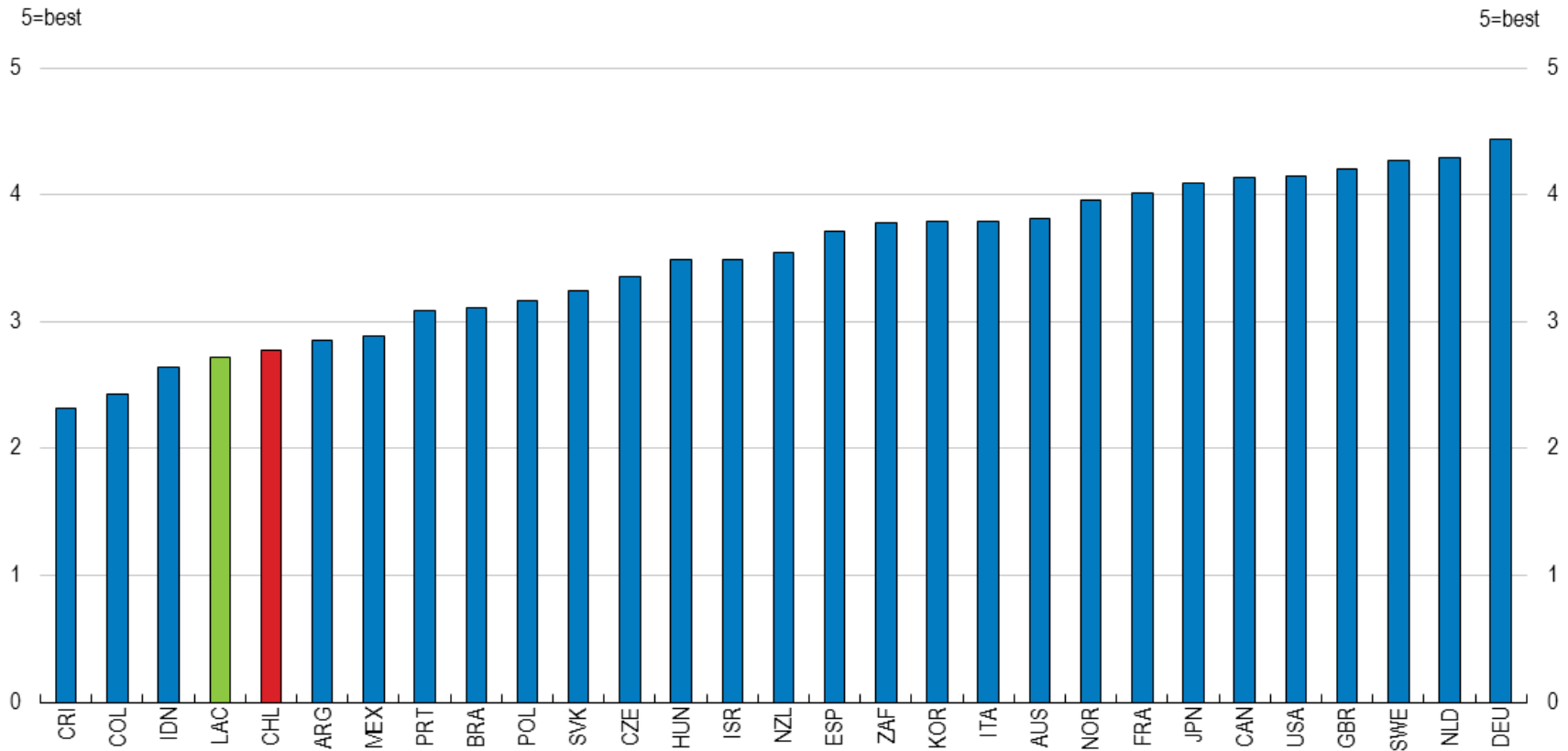
Note: The OECD best performers is the average of the five OECD countries with the regulations the most conducive to trade.

Source: OECD (2017), *Service trade restrictiveness index*.



Infrastructure gaps reduce productivity

Perceived quality of logistic infrastructure, 2016
Index from 0 to 5 (best)



Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: World Bank (2017), *Logistics Performance Index*.



Main recommendations to boost productivity and export performance

- ✓ Strengthen national e-procedures for firm registration and authorisation, and focus on ex-post controls for businesses that have low associated sanitary and environmental risks.
- ✓ Streamline permits to encourage investment and simplify regulations that depend on firm size, such as childcare provision, to limit their impact on firm growth.
- ✓ Involve stakeholders further in the design of regulations through early consultation procedures. Conduct systematic ex-ante and ex-post evaluations of regulations.
- ✓ Continue efforts to fully integrate the single window mechanism with the domestic logistic infrastructure and with regional partners.
- ✓ Systematically review competitive pressures in key sectors.
- ✓ Strengthen policy evaluation by beefing-up data collection, systematic reviews and independent studies. Expand R&D support programmes that are proven to work.
- ✓ Improve further technical assistance and mentoring to small firms.
- ✓ Develop national, regional and metropolitan long-term infrastructure strategies. Integrate the regulation of public and private ports.
- ✓ Reduce barriers to entry in maritime services and railways.

More information in **Chapter 1 of the Economic Survey**

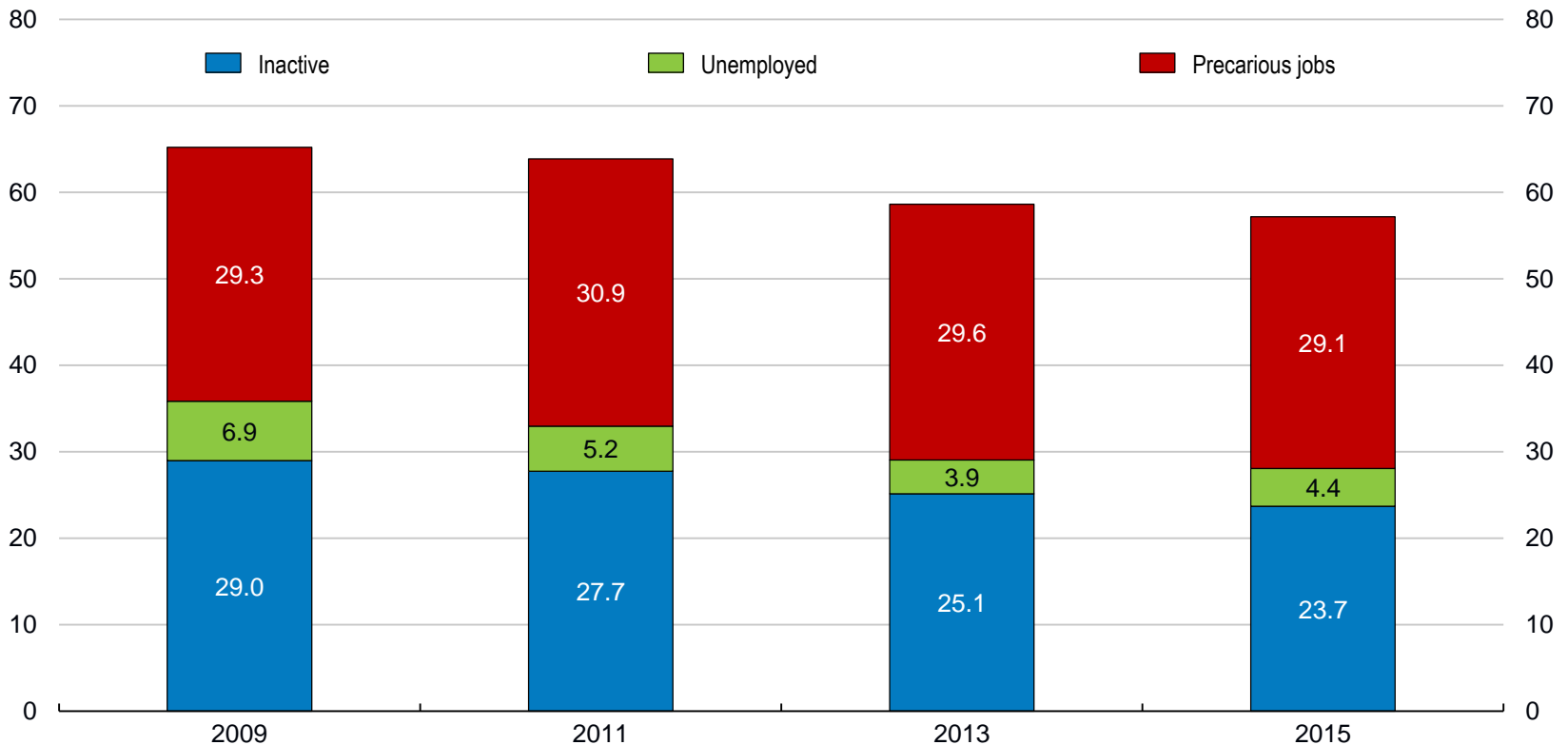


Creating better quality jobs



A high share of the population holds precarious jobs

% of population aged 18-64 not in full-time education



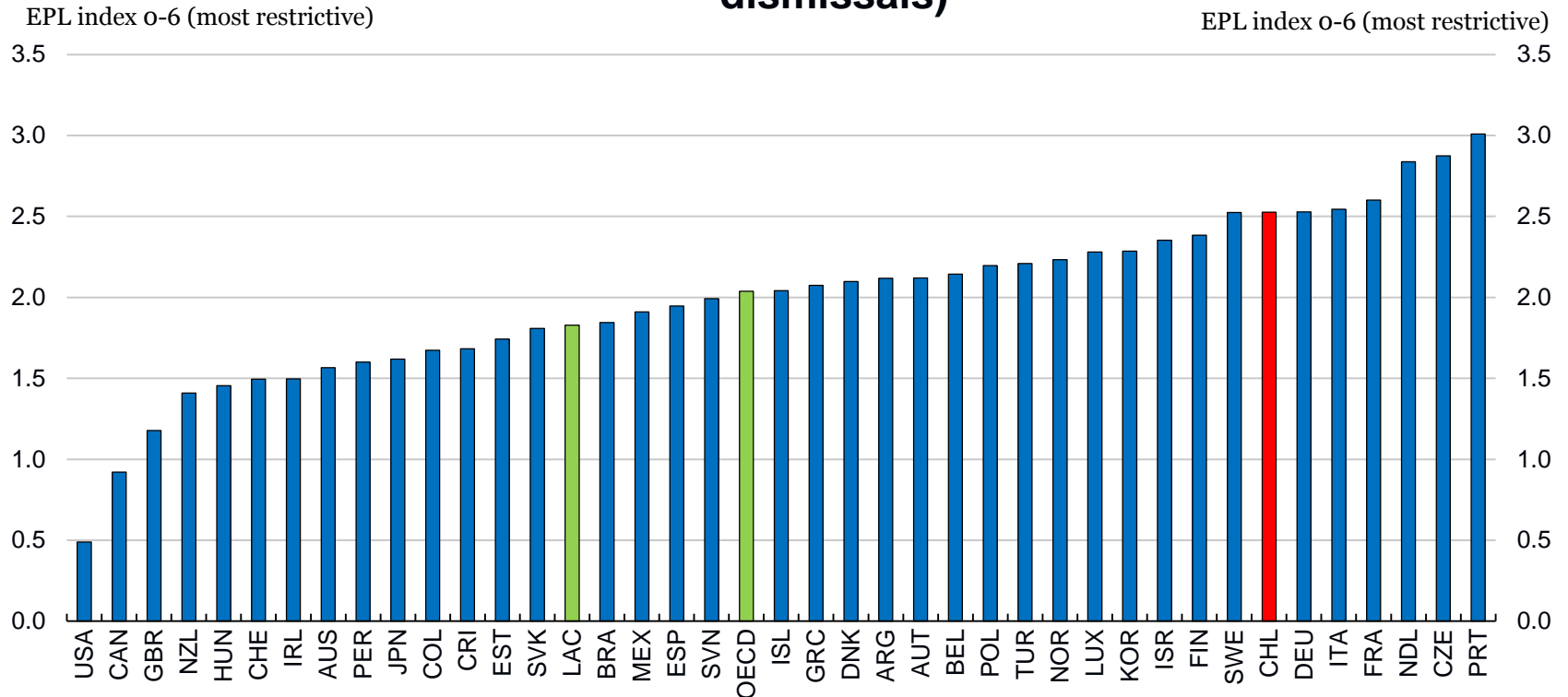
Note: Precarious jobs are defined as unstable jobs (non permanent jobs) or informal jobs (not affiliated or contributing to the pension system), having very low earnings (labour income below the first decile) or jobs with restricted hours (working less than 20 hours a week).

Source: OECD Secretariat calculations using CASEN.



Restrictions on permanent contracts hinder job quality

Employment protection in regular contracts (individual dismissals)



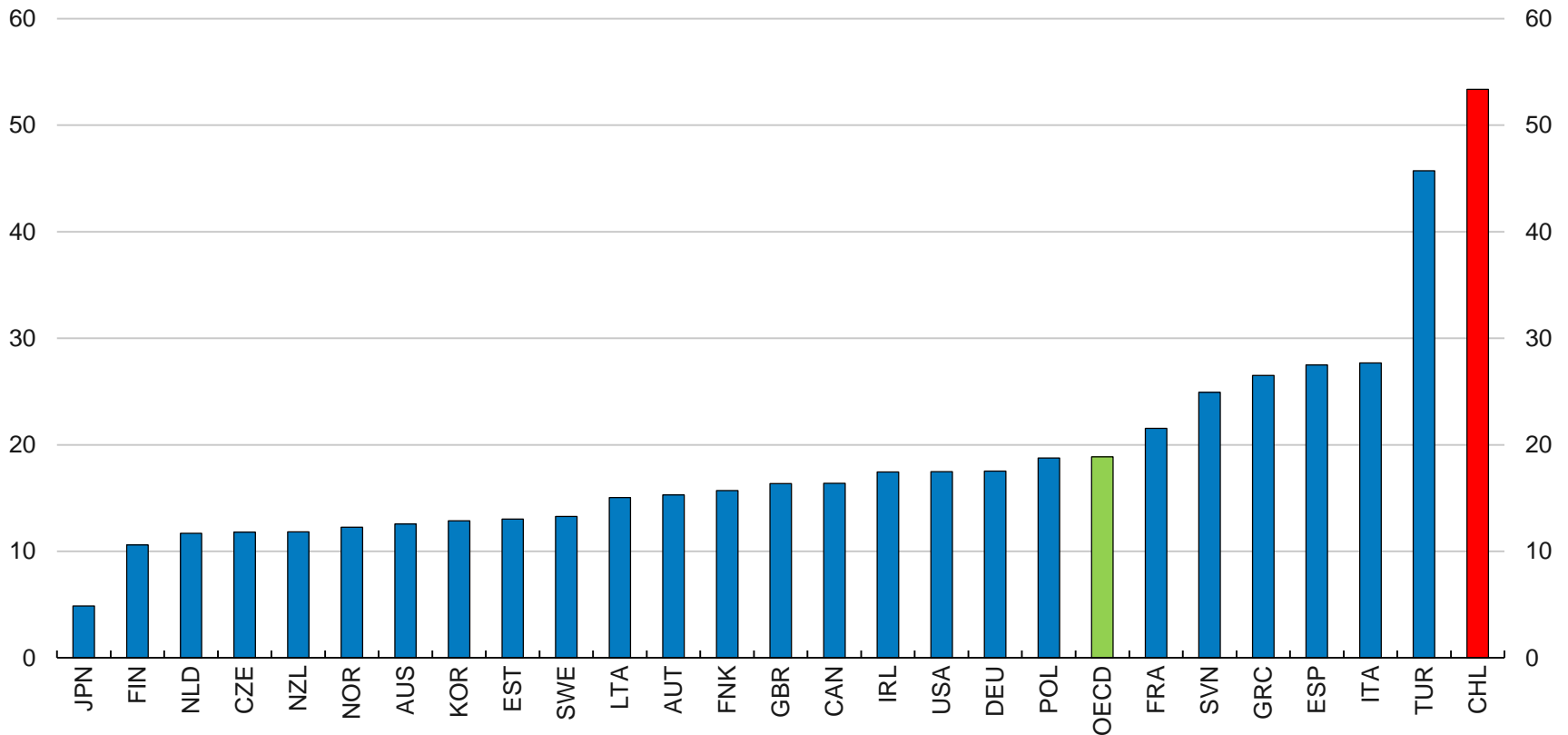
Note: LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.

Source: OECD (2017), Employment Protection Legislation Indicators Database.



Too many adults have weak basic skills

% of adult population with low literacy skills, 2015



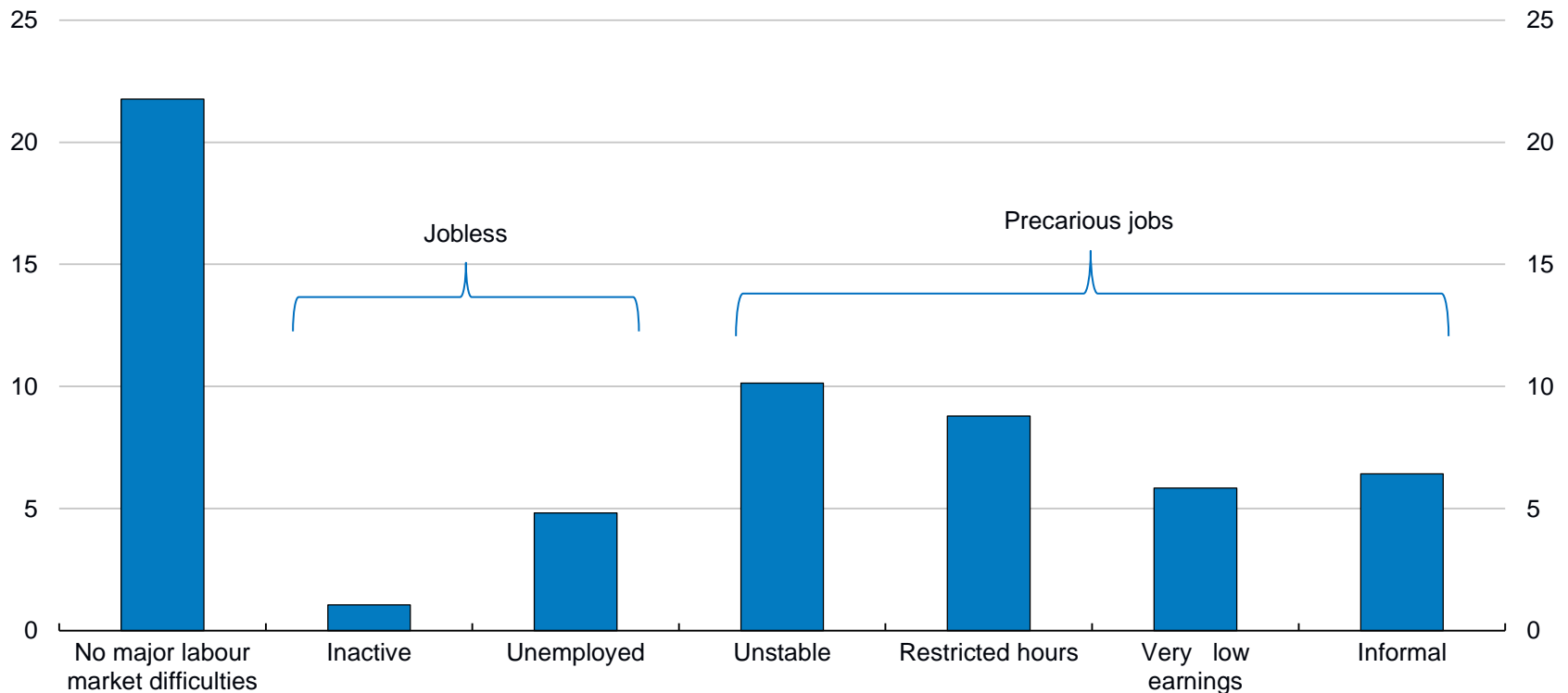
Note: Or last year available. Low proficiency levels are level 1 in PIAAC.

Source: OECD Secretariat calculations using Survey of Adults Skills (PIAAC) 2012 and 2015.



The training system does not reach the vulnerable

% of workers participating in training, 2015



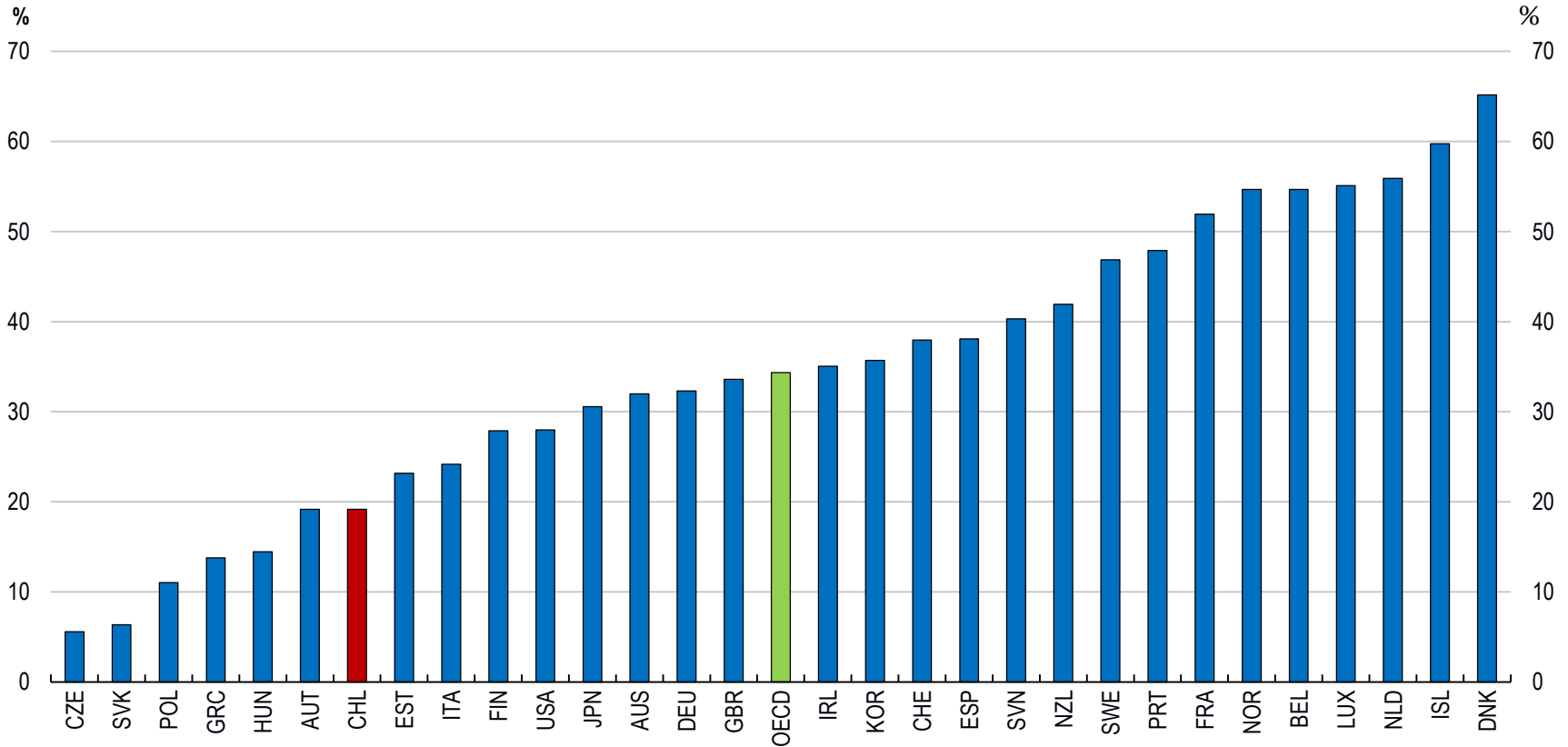
Note: Workers holding precarious jobs are defined as unstable jobs (non permanent jobs) or informal jobs (not affiliated or not contributing to the pension system) or having low earnings (labour income below the first decile) or jobs with restricted hours (working less than 20 hours a week).

Source: OECD calculations based on CASEN (2015).



Broader access to high-quality childcare is crucial

Participation of 0-to-2-year-olds in formal childcare, 2015



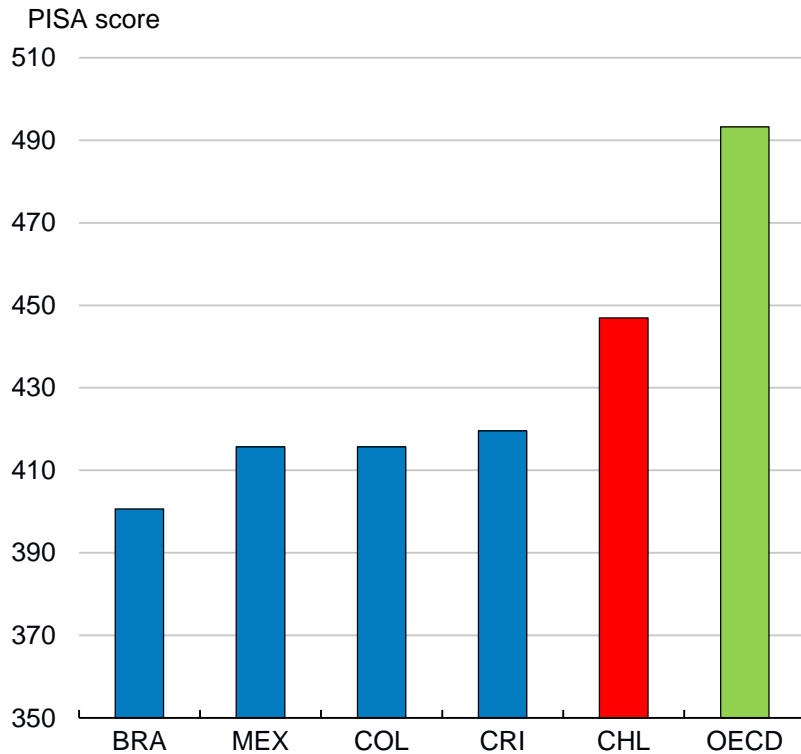
Note: Data for the United States refer to 2011, and for Chile to 2015.

Source: OECD, Family Database.

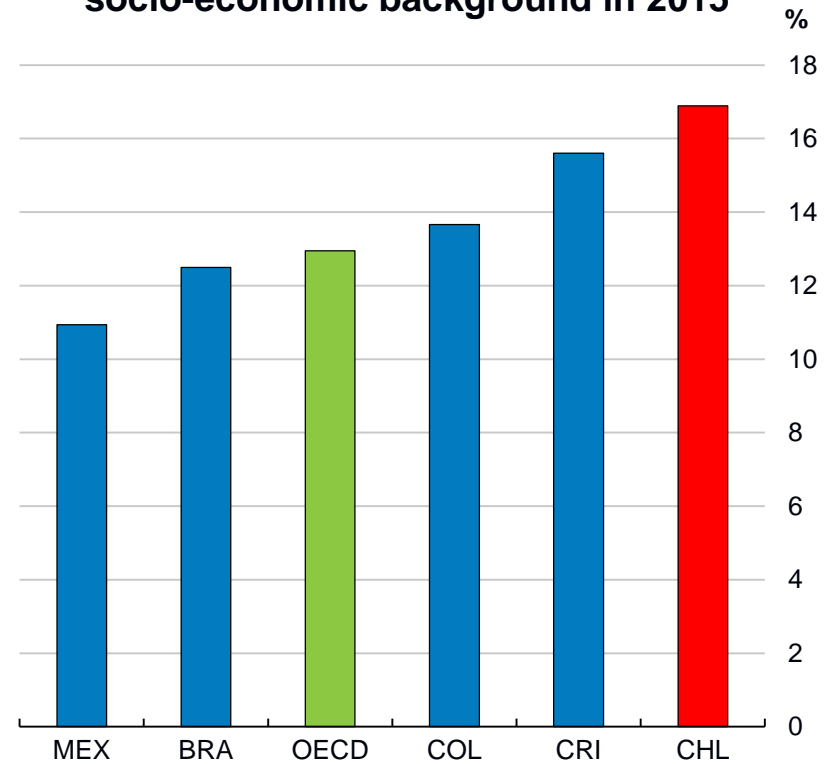


Access to quality education should be improved for the most vulnerable

Science performance in 2015



Science performance explained by socio-economic background in 2015

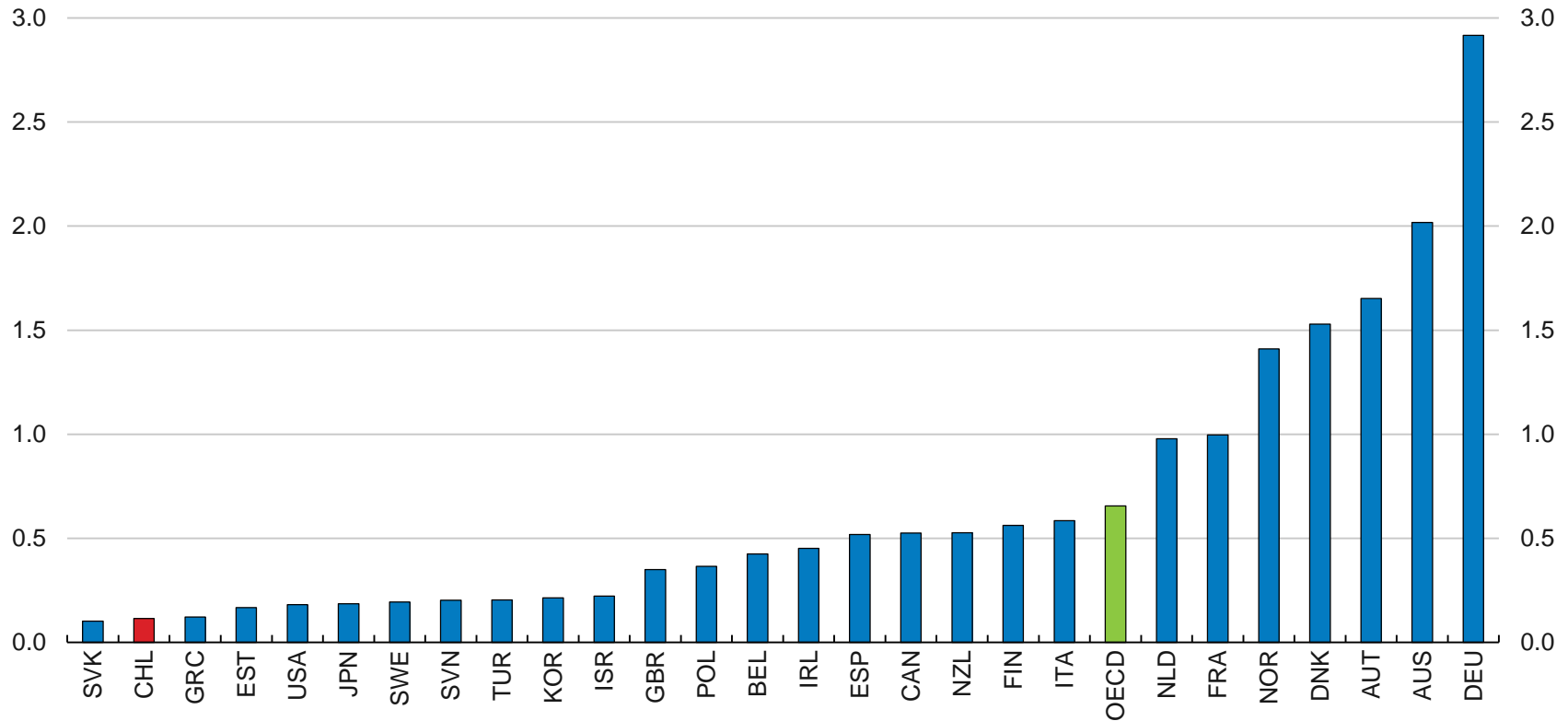


Source: OECD PISA 2015 Database.



Developing apprenticeships would increase access to higher quality jobs

% of workers in apprenticeships or training contracts, 2015



Note: Or last year available.

Source: OECD calculations using PIAAC (2012, 2015).



Main recommendations for creating more and better quality jobs

- ✓ Reduce severance payments for permanent contracts and increase coverage of unemployment benefits.
- ✓ Expand the existing wage subsidies in formal jobs for young and vulnerable workers.
- ✓ Better target training programmes to the most vulnerable workers.
- ✓ Continuously evaluate active labour market policies to focus funding on those that are performing well.
- ✓ Further increase affordable, good-quality child care, and expand opening hours for childcare institutions. Eliminate the requirement for firms to finance childcare once they employ 20 female workers or more.
- ✓ Continue ongoing efforts to improve quality at all levels of education.
- ✓ Develop apprenticeships, integrating work and school-based learning.

More in **Chapter 2 of the Economic Survey**



For more information

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