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# Chile—The Space that CLP Gives and Takes Away from Public Debt

- A CLP appreciation to 800 would bring the debt-to-GDP ratio under 40%

Public debt rose from 15% to 42% of GDP in the last decade, with a growing proportion of debt denominated in US dollars (USD) (chart 1). The evolution of public debt is one of the main concerns not only for the government and local agents, but it is also under permanent observation by multilateral organizations and credit rating agencies, among others. Successive fiscal deficits since 2013, together with the pandemic crisis at the beginning of the current decade are part of the factors that explained the sharp increase in public debt. In parallel, sovereign funds experienced a significant reduction, all of which has deteriorated public finances. As a consequence, the Chilean economy has faced an increase in credit risk premiums, as well as a downgrade of a couple of notches in its sovereign debt credit rating.

The higher issuance of debt denominated in USD and, therefore, the influence of the exchange rate, has played a relevant role in the increase of debt as a percentage of GDP. In fact, from 2014 to the end of 2024, the CLP has depreciated by 63%, explaining 4.5 pts of the increase in public debt in the same period (27.3 pts). In other words, the CLP depreciation explained about one-fifth (1/5) of the increase in public debt between 2014 and 2024. This impact is not only related to the CLP depreciation but it is also due to the higher share of foreign currency debt with respect to the total (chart 2). In 2014, the stock of public debt in foreign currency reached 2.4% of GDP, which represented 16% of total gross public debt in that year. As of December 2024, USD-denominated sovereign debt reached 15.7% of GDP, representing 37% of the total.

## OUR VIEW

We estimate that a 10% appreciation (depreciation) of the CLP reduces (increases) the gross public debt to GDP ratio by 1.12 pts. Considering the above figures, Scotiabank estimates the sensitivity of gross public debt as a percentage of GDP to changes in the exchange rate. This includes not only the direct effect on gross public sovereign debt in USD, but also the mitigating effect on nominal GDP<sup>1</sup>.

Around one-quarter (1/4) of the increase in public debt during the Boric administration is explained by a higher exchange rate. Since the beginning of the current administration,

Chart 1

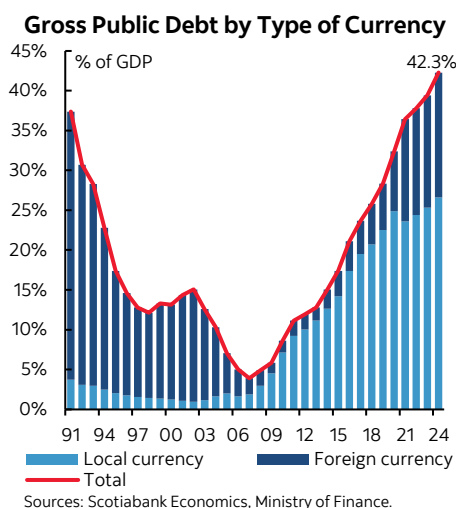
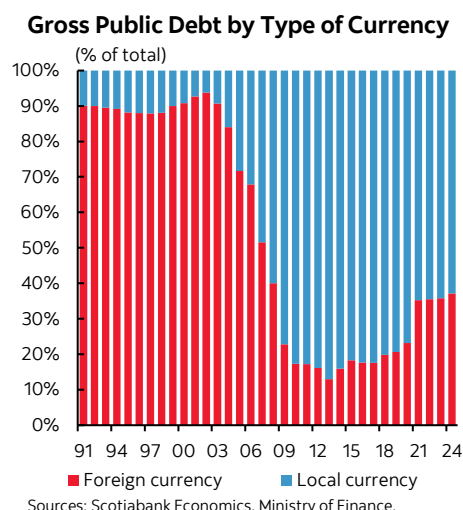


Chart 2



<sup>1</sup> The elasticity of nominal GDP to exchange rate of 11% used by the Ministry of Finance in the Public Finance Report for Q4-24 is considered.

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the debt over GDP ratio increased from 36.4% to 42.3% in December 2024 (+6 pts), of which 1.6 pts is explained by the depreciation of the CLP. As part of the public policies implemented to support households in the face of the pandemic, close to USD 50bn were withdrawn from pension funds, which reduced the depth of the local capital market and would have contributed to the increase in the issuance of foreign currency debt bonds by the government. As a result, debt exposure to exchange rate movements increased.

Considering the current public debt issuance schedule for the year 2025, the share of foreign currency debt would continue to increase, which would not contribute to reduce the sensitivity of public debt to the exchange rate. It should be noted that about USD 5bn in foreign currency is expected to be issued this year, of which USD 3.4bn have already been issued.

An exchange rate of CLP920 per dollar would reduce the debt to GDP ratio to 41% in 2025. Based on different levels for the exchange rate, we estimate scenarios for public debt as a percentage of GDP as of December 2025 (table 1).

Table 1: Chile—Scenarios for Public Debt as of December 2025*		
Level of CLP (\$/US\$)	Detail	Gross debt/GDP
800	CLP which would bring the debt ratio to 40% of GDP	40.0%
850	CLP at the beginning of the current administration (end 2021)	40.6%
890	Scotia's projection for Dec-25	41.1%
920	Level at the close of this report (\$920)	41.4%
975	2024-Q4 IFP Baseline scenario for Dec-25	42.1%
1240	CLP that would bring the debt ratio to the prudent threshold	45.0%
*Only the exchange rate effect on dollar debt and the mitigating effect on nominal GDP are considered. Therefore, the exercise estimates a change in the debt to GDP ratio due to the valuation effect, without considering other effects on real GDP growth and inflation.		
Source: Scotiabank Economics.		

The Q4-24 Public Finance Report (IFP) projection is considered as a baseline, where debt reaches 42.1% of GDP with an exchange rate of CLP975. In an illustrative scenario, if the exchange rate were to reach a level above CLP1,200, public debt would reach the prudent threshold of 45% of GDP, just because of this effect of debt valuation in US dollars. Similarly, if the exchange rate appreciates towards CLP800, the debt to GDP ratio would return to below 40% of GDP.

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