

CHILEAN ECONOMIC REPORT

FIRST QUARTER 2019

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100
años
1919-2019
Cámara
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Dear Reader,

2019 is shaping up to be an interesting and challenging year for Chile. Two major international events will be taking place here during the year and which will put Chile on the world stage, but will also stretch local organisational resources to the full:

The Asia-Pacific Economic Cooperation (APEC) is a forum for promoting growth, technical and economic cooperation, and trade and



investment in the region. This year Chile will host a year-long agenda of meetings, focusing on the digital economy, regional connectivity, and women's role in economic growth. APEC was created in 1989 at the behest of Australia and Japan, and was last hosted by Chile in 2004.

Also at the end of the year Chile will host the 25th session of the Conference of the Parties to the United Nations' Framework Convention on Climate Change, better known as COP25. Chile won the honour to host the world's largest conference on

Climate Change last November at COP24 after Brazil's then-

President Elect Jair Bolsonaro withdrew his country's candidacy

to hold the event. See the Quarterly Insight article in Section 3.

After the first three months of 2019, Chile's growth rate has slowed from last year's five-year high of 4%, partly due to some domestically driven issues, but also on the uncertainty created by the ongoing commercial battle between its two major trading partners China and the USA. See our special article on Global Cooling in section 1. The pro-business tax reform promised by the current administration is also taking longer to deliver given their lack of a majority in Congress.

Here in the Chamber we look forward to seeing you at our forthcoming events and committee meetings during the rest of the year.

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INDEX

1. DOMESTIC ECONOMIC PERFORMANCE	4
1.1 GDP Growth	5
1.2 Key Sector Results	6
1.3 Monetary Policy	8
1.4 Fiscal Policy	8
1.5 Domestic Prices	10
1.6 Employment and Wages	10
1.7 Financial Markets	10
2. EXTERNAL SECTOR	14
2.1 Trade Balance	15
2.2 Mineral Exports	16
2.3 UK Trade and Investment	20
2.4 Current and Capital Accounts	20
2.5 Exchange Rate	22
3. QUARTERLY INSIGHT: Tackling climate change	25
4. POLITICAL CONTEXT	27
5. ECONOMIC OUTLOOK	29
6. LATIN AMERICA REGIONAL NEWS	30

KEY POINTS



- After growing at its fastest rate in five years in 2018, the economy began 2019 weakly after torrential rains across northern Chile hit mine production.
- Analysts have reduced their growth forecast for 2019 to an average of 3.3%, based on a slow first quarter and the weaker outlook for global growth.
- Investment in major projects, estimated to exceed US\$20 billion between 2019 and 2020, is expected to drive economic activity this year and next, offsetting slowing consumption.
- Inflation has fallen sharply this year, due to methodological changes as well as increased competition in some sectors and the impact of recent immigration on wages.
- With inflation not expected to converge with its 3.0% target rate until early 2020, the Central Bank has said that it will raise interest rates more slowly than previously predicted, with just one more rate rise expected this year.
- Like most other currencies, the Chilean peso has appreciated against the US dollar since the start of the year, after the US Federal Reserve said it had no plans to increase interest rates this year.
- Business confidence has moved back into positive territory this year, helped by lower inflation and renewed optimism in the construction sector. But consumer confidence has continued to fall, driven by concerns over job prospects.
- Unemployment has stabilized, reaching 6.7% in the February quarter. But job creation remains lacklustre and driven largely by public sector employment.
- International copper prices have recovered sharply in 2019, moving back above US\$2.90/lb, on hopes that a deal to end the US-China trade dispute could be close.
- Chilean exports fell in the first quarter on lower copper prices and production, narrowing the country's trade surplus.
- The government's legislative agenda, including a wide-ranging tax reform, has been slowed by extended negotiations with opposition lawmakers who have a majority in Congress.

1

DOMESTIC ECONOMIC PERFORMANCE



1.1 GDP Growth

After expanding by 4.0% in 2018, its fastest growth in five years, the Chilean economy slowed dramatically in early 2019, following a sharp fall in mine production. Economic activity expanded by 2.4% in January and 1.4% in February (an eighteen-month low), down from 3.6% in the final quarter of last year.

Mining activity, which accounts for 10% of the economy, contracted by 4.3% and 7.8% in January and February respectively after heavy rains across northern Chile halted a number of operations for several days in early February. Lower ore grades and maintenance shutdowns also played a role (See 2.2 Mineral Exports).

Growth in the rest of the economy has also slowed, expanding by 3.1% in January and 2.4% in February, down from 3.9% in 2018. Robust activity in the services sector was offset by last year's high base of comparison.

The mining industry's poor performance is expected to weigh on growth throughout the first quarter with analysts surveyed by the Central Bank in April predicting an

expansion of just 2.2% in March. Growth figures for March will be released in early May.

The weak start to the year, as well as lower expectations for the world economy this year have led analysts to cut their growth forecasts for the Chilean economy. Analysts predicted that the economy will grow by just 3.3% this year, down from an estimate of 3.8% made six months earlier.

Official forecasts are slightly more optimistic with the Central Bank predicting growth of 3.00-4.00% (down from 3.25-4.25% predicted in December), but Finance Minister Felipe Larraín has conceded that it will be difficult for the economy to expand by more than 3.5% this year.

Demand expanded by 4.5% in the fourth quarter of 2018 for an annual increase of 4.7%, against 3.1% in 2017.

Investment, especially in mining projects, was the key driver of demand, with Gross Fixed Capital Formation growing by 4.7% last year, helping to offset weaker consumption. While consumption grew by

4.0% last year, compared to an average of 2.6% in 2014-2017, it slowed in the second half of 2018, weighed down by slowing sales of durable goods, especially cars.

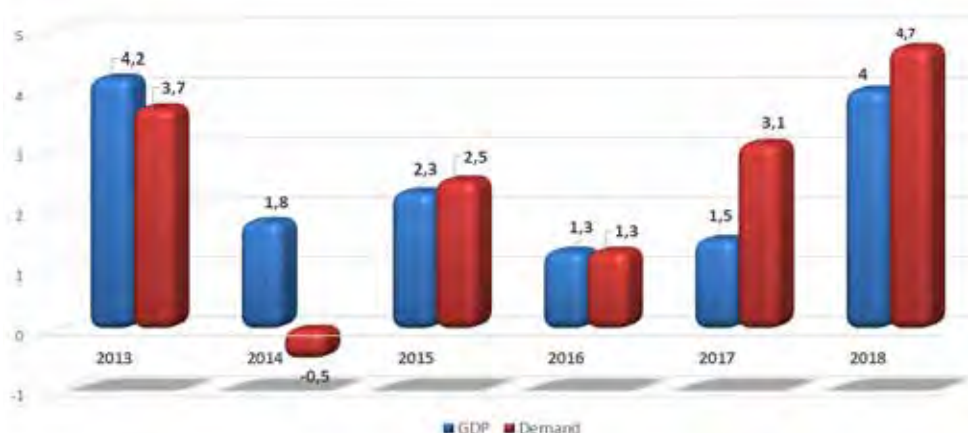
According to the Central Bank, demand is expected to slow this year to 3.7%, as consumption slows to 3.3%.

This is likely to be offset by robust investment over the coming two years. In December, the Capital Goods Corporation estimated that investment in major projects would reach US\$13.0 billion in 2019 and US\$11 billion in 2020, up from a previous forecast of US\$9 billion and US\$6 billion, respectively, made last June. As a result, the Central Bank predicted Gross Fixed Capital Formation to rise by 6.2% in 2019 and 4.3% in 2020.

However, imports of capital goods, a lead indicator for investment, slowed sharply in the first quarter, after growing by 12.5% in 2018.

Despite weak growth in the first quarter, business confidence has recovered strongly

GDP & Domestic Demand, 2010-2018
(Base = 2013; variation over same period of previous year) (%)



since December, with the Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and the ICARE business organization moving back into positive territory and stabilizing around 54 points. In March, confidence among executives in the construction sector became optimistic for the first time since May 2013, while sentiment in manufacturing turned negative.

However, consumer confidence has continued to decline. GfK's Economic Perceptions Index fell to 42.3 points in March, down four points from February, marking its sharpest one-month decline in five years and its lowest level under the current government. The drop reflects increased concern among consumers about the state of the economy, the outlook for Chile, and their personal economic situation. Worries about the labour market have continued to grow, with just 34% of those surveyed expressing confidence about job prospects, down from over 60% twelve months earlier.

1.2 Key Sector Results

Commerce. Commercial activity grew by 4.8% in the twelve months to February, driven by sales of machinery and equipment and buses and trucks. However, retail activity grew by just 0.8% over the same period.

Retail sales in the greater Santiago region in January and February fell 2.8% compared with twelve months earlier, driven by sharp falls in sales of electronic devices and domestic appliances. The National Chamber of Trade and Services attributed the fall to weakness in the labour market and low consumer confidence.

Global cooling

As Chile recovers from its recent slowdown, its biggest worry has become the outlook for the global economy which has weakened significantly since last year.

Economists at the International Monetary Fund have cut their estimates for global growth four times in the last six months, most recently to 3.3%, down from 3.8% forecast in October last year. The slowdown has already begun. After strong growth in 2017 (4.0%) and the first half of 2018 (3.8%), the global economy slowed to just 3.2% in the last two quarters of last year.

The sharpest slowdown has been in China, whose economy has driven global growth for over a decade. Weakening consumer spending and a fall in export orders, the result of the US tariffs on Chinese imports, saw the Chinese economy grow by just 6.0% in the second half of last year, down from 6.8% in the first half.

At what must be the tail-end of its longest boom in history, the US economy is also weakening, growing by 2.6% in the final quarter of last year, partly the result of the 35-day government shutdown. The boost from last year's huge corporate tax cut is also beginning to fade.

The outlook for Europe is even more uncertain with the fiscal situation in Italy and uncertainty about the UK's withdrawal from the European Union both concerning investors. The continent is more exposed to Chinese growth than the US, with Germany almost entering recession late last year principally due to a fall in export orders.

However, authorities around the world have acted to avoid a sharper slowdown.

In March, the Chinese government announced cuts in taxes and other fees worth almost US\$300 billion, putting money back in the pockets of private companies and consumers, and plans to open up more sectors of the economy to foreign investment, among other measures. The same month, the US Federal Reserve dropped plans to raise interest rates further this year in response to the recent weak growth. The move has dissipated most analysts' fears of a recession in the US in the short term.

Similarly, the European Central Bank extended a promise to hold interest rates near zero until at least the end of this year and unveiled a new round of loans to commercial banks designed to promote lending to people and companies.

More importantly, the US and Chinese governments have made significant progress in negotiations to end the trade war which began last year.

There are signs that these efforts are having an impact. In March, China's purchasing managers index, a key lead indicator for growth, unexpectedly jumped above 50 points after months of decline.

However, in its latest World Economic Outlook, the IMF highlighted that the risks remain predominately on the downside, especially if the new stimulus measures prove insufficient to prevent a sharper slowdown, if efforts to prevent a no-deal Brexit fail, or if US-China trade tensions take longer than expected to resolve.



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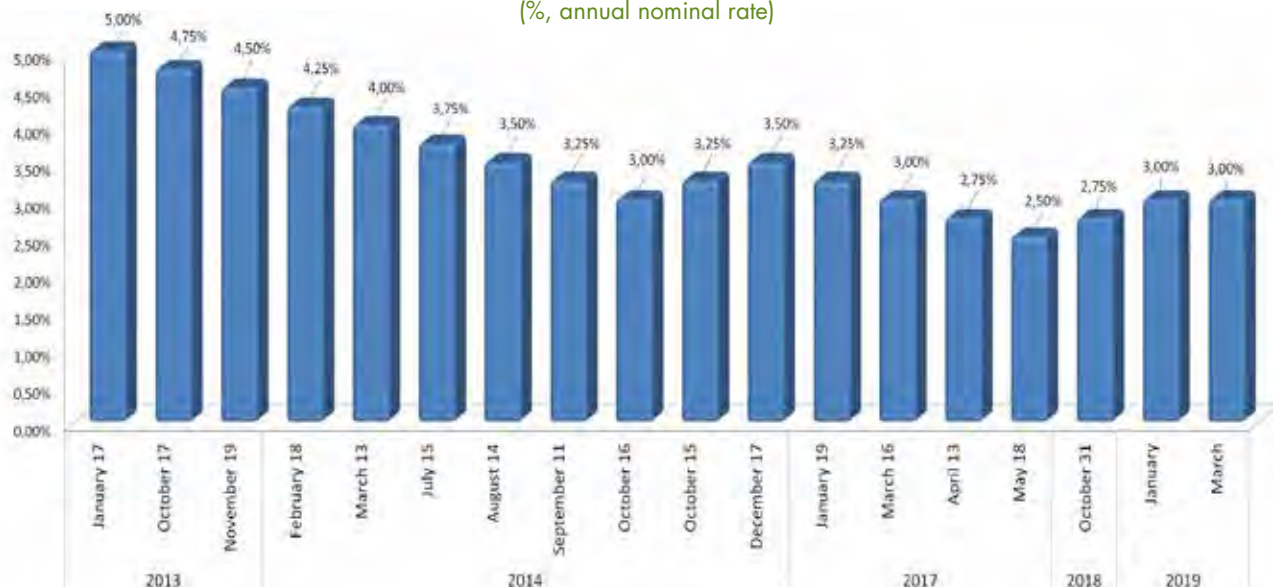
En **Compass Group** hemos comprometido disminuir en un 50% los residuos de alimentos para el año 2030, estando en línea con los objetivos de desarrollo sostenible de la **ONU**, una de las iniciativas en apoyo a este objetivo, es la campaña **Stop Food Waste Day** que lideramos y desarrollamos en más de 37 países en los cuales brindamos servicios de alimentación. El pasado **24 de Abril**, lo celebramos con nuestros comensales y clientes en gran parte de nuestros contratos.



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Central Bank Interest Rate, 2013-2019
(%, annual nominal rate)



94,654 units, including a 9.5% drop in March.

Manufacturing. Manufacturing expanded by 0.9% in the twelve months to February. The restart of production at the Cabo Negro methanol facility in Magallanes, thanks to the resumption of natural gas supplies from neighbouring Argentina, helped to offset falls in output in the printing and leather goods industries.

Construction. Building activity has continued to slow, expanding by 0.7% in 2018, according to the index produced by the Chilean Chamber of Construction (CChC), down from 3.2% in the twelve months to June last year. The fall reflects lower sales of building materials and a drop in new building permits. However, in February, the association predicted a 4.6% increase in investment in the sector this year, driven by large infrastructure and mining projects.

1.3 Monetary Policy

Reflecting the weaker outlook for economic activity and a fall in inflation since the start of the year, the Central Bank said that it will raise interest rates more gradually than previously expected, slowing the withdrawal of the monetary stimulus to the economy. Following January's 25-basis point hike, the board of the Central Bank voted

that was widely anticipated in financial markets. Among other factors, the Bank highlighted lower growth forecasts for the world's leading economies, the impact of lower mine production on economic activity in Chile and lower inflation expectations. Analysts surveyed by the Central Bank in April predicted that the board will approve just one more rate rise this year, raising the interest rate to 3.25% by the end of 2019, compared to 3.50% predicted at the start of the year. The board will hold its third meeting of 2019 on May 9th.

1.4 Fiscal Policy

The government's efforts to strengthen Chile's public finances have begun to pay off. The government deficit fell to CLP3.2 trillion (US\$4.8 billion) by the end of 2018, the equivalent to 1.7% of GDP, compared to the 1.9% deficit predicted in September.

This was in part due to cuts worth US\$1.1 billion announced soon after the new administration took office last year, which limited public expenditure to CLP44.9 trillion (US\$67.6 billion), up 3.4% from 2017.

But the key factor has been the increase in government revenues, which rose 8.8% to CLP41.8 trillion (US\$62.8 billion), thanks to higher tax rates, the rise in

metals prices and stronger economic activity. Taxes paid by private mining companies rose 83% to CLP1.5 trillion (US\$2.3 billion) while state-owned mining company Codelco earned CLP1.1 trillion (US\$1.7 billion), up 21.4% from 2017.

The state also earned an additional US\$1.1 billion in capital gains tax through the sale by Canadian fertilizer giant Nutrien of shares in lithium producer SQM to China's Tianqi Lithium.

In February, the government capitalised US\$400 million in Codelco, completing a 2014 legal commitment to provide US\$3 billion of fresh capital to support its huge investment programme. Management have said that its investments are now fully-funded until 2020, but after that the company will have to raise more debt or delay investments needed to support production.

Chile's sovereign credit ratings were unchanged. However, in March, the Japan Credit Ratings Agency awarded the country a first-time rating of AA- with a stable outlook, which ranks higher than the grades it currently holds from Fitch, Moody's and S&P.

Fitch Ratings	A (stable)
S&P Global Ratings	AA- (stable)
Moody's	A1 (stable)

By the end of February, Chile's sovereign wealth funds held assets worth US\$24.2 billion, up 1.6% from the end of last year. The biggest gains were made in the Pensions Reserve Fund which grew by 3.2%, driven by higher share prices.

1.5 Domestic Prices

Inflation slowed dramatically in the first months of 2019, reflecting methodological changes and increased competition in several markets, including the labour market.

Following increases of 0.1% and 0.0% in January and February respectively, the government's Consumer Price Index rose by 0.5% in March or 2.0% over the previous twelve months.

Although the monthly increase was above market expectations (analysts had predicted a 0.3% increase) and brings the index back within the Central Bank's tolerance range, inflation remains significantly below the annual increases recorded in the second half of last year.

The chief reason for the fall has been changes made in January to the basket of goods used by the National Statistics Institute for calculating inflation (removing suits and fertilizer and adding online subscriptions, among other changes). However, in April, the Central Bank also highlighted increased competition in the air travel, automobile and telecoms markets as well as the impact of recent immigration on wages, which have offset the limited impact of the depreciation of the Chilean peso against the US dollar.

Low inflation in the first quarter is expected to delay convergence with the Central Bank's medium-term inflation target of 3.0%. Analysts surveyed by the Bank in April predicted that the consumer price index will end 2019 at 2.7% and 2020 at 3.0%.

1.6 Employment and Wages

Unemployment stabilized in the first months of 2019, reaching 6.7% in the December-to-February quarter, down from 0.1% from the previous rolling quarter and unchanged from twelve months earlier.

However, the government's official jobs data shows that the workforce continues to grow (up 0.6% over the last twelve months) at a faster rate than the economy has created new jobs (up 0.5%). The public sector continues to drive job creation with education (up 5.1%) and healthcare (up 8.9%) offsetting losses in retail (down 1.8%), transport (down 3.7%) and hospitality (down 5.4%). The quality of jobs created by the economy is improving with the number of people in formal salaried employment rising 2.1% while those in informal employment fell by 8.9%.

The government has highlighted that its jobs survey may be underestimating the number of salaried jobs being created in the economy. Data on pensions contributions showed that the number of people in salaried employment reached 5.4 million in the final quarter of 2018, almost 400,000 more than the official estimate.

Nominal wages rose by 4.3% in the twelve months to February, according to the government's Remunerations Index, compared to a 3.6% increase recorded six months earlier. Higher wages in construction and manufacturing were behind the rise. In April, the Central Bank highlighted the impact of recent immigration on wage growth as a factor behind subdued inflation this year.

Share prices on the Santiago Stock Exchange largely rose in the first three months of 2019, with the Selective Share Price Index (IPSA) ending the quarter 3.0% higher, following last year's 8.1% decline.

However, after rallying in January and February to its highest levels since the middle of 2018, the index fell sharply in March, giving up most of its earlier gains. The biggest gains were in telecoms and retail stocks while technology stocks fell.

Trading volumes fell sharply in the first quarter of the year to CLP6.9 trillion (US\$10.2 billion), down 34.7% from twelve months earlier and down from CLP9.0 trillion (US\$13.4 billion) in the final quarter of last year when volumes were boosted by the sale of a major stake in mining company SQM.

The coming months will see a number of major Initial Public Offerings on the Santiago Stock Exchange, including the listing of retail group Cencosud's real estate arm, which owns some of Chile's largest shopping malls, and of the Chilean subsidiary of Brazilian meatpacker Minerva SA.

Bank lending has accelerated, growing by 10.3% in the twelve months to February to CLP172.9 trillion (US\$256.7 billion), compared to growth of 7.2% in the twelve months to November 2017.

Growth has been driven by faster corporate and consumer lending. Consumer loans rose by 17.8% to CLP25.9 trillion (US\$39.0 billion), reflecting a 52.3% growth in credit card debt which reached CLP8.9 trillion (US\$13.4 billion). Mortgage lending rose 8.1% to CLP50.5 trillion (US\$76.0 billion), little changed from last year.

1.7 Financial Markets

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Corporate lending grew by 9.5% to CLP100.9 trillion (US\$151.8 billion), against an expansion of 7.7% last year. This was driven by a 9.9% rise in corporate loans to CLP77.8 trillion (US\$117.1 billion) as well as increases in factoring and foreign trade credit.

Banks earned after-tax profits of CLP378.8 billion (US\$570 million) in the first two months of the year, down 11.7% from the same period of 2018. While net commissions rose by 10.6%, spending on provisions rose 17.4%, particularly those related to credit risk on loans. Return on equity (ROE) after tax reached 12.1%, little changed from a year ago.

Medium-term (1 to 3 years) lending rates rose sharply, averaging 15.92% during the first three months of 2019, up from 11.56% during the final quarter of 2018.

The value of assets managed by Chile's private pension fund administrators (AFPs) reached CLP138.4 trillion (US\$205.4 billion) by the end of February 2019, up 6.2% from twelve months earlier, driven by the appreciation of the Chilean peso and the rise in international markets. However, measured in US dollars, their value fell by 3.7% over the same period.

Recent losses on stock exchanges around the world have made the most conservative E funds the most profitable,

securing a real return of 4.37% over the last twelve months, while investors in the riskiest A funds lost 1.28%.

By the end of February, the AFPs owned foreign assets worth CLP57.4 trillion (US\$86.0 billion), or 41.5% of the total, an increase of 3.7% from twelve months earlier. In February, the AFPs increased their foreign assets by around US\$3.8 billion, through the acquisition of Asian and US shares and debt from emerging economies. A total of 254,525 savers switched funds in January. Reversing last year's trend, savers in general moved away from A and B funds (down 54,021 and 18,830 respectively) to the more conservative C and E funds (which added 44,733 and 26,649 respectively).

AFP Assets Under Management (February 2019)

Type of fund	Amount (billions of pesos)	Change March 2018 - February 2019 (%, real in pesos)	Return March 2018 February 2019 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	20,098	1.1	-1.28	80	40
B Funds	22,570	5.7	-0.08	60	25
C Funds	49,362	3.8	2.07	40	15
D Funds	23,702	9.9	3.53	20	5
E Funds	22,608	13.8	4.37	5	0
TOTAL	138,342	6.2		-	-

Source: Pensions Supervisor (Superintendencia de Pensiones)

In March, a newly-created pension fund administrator AFP Uno won the tender to attend all new pensions contributors over the next two years, offering a commission of 0.69%. No other AFP participated in the annual tender. It is the first new AFP to be awarded contributors since AFP Modelo in 2007.



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2

EXTERNAL SECTOR



2.1 Trade Balance

Chile recorded a trade surplus of US\$1.9 billion for the first three months of 2019, down 54.1% from the same quarter of last year, after exports fell 5.1% to US\$18.4 billion.

Imports

Imports in the quarter reached US\$16.5 billion, barely changed from the first quarter of 2018, but down 12.6% from the final quarter of 2018.

Imports of consumer goods fell 1.8% from twelve months ago, largely due to lower imports of durable goods. Car imports fell 12.3% to US\$876 million, offsetting a 36.9% increase in imports of televisions to US\$198 million.

Energy imports fell 6.2% to US\$2.4 billion, following a sharp drop in oil prices in recent months. The West Texas Intermediate benchmark price, used by state energy firm ENAP for pricing fuels imports, averaged US\$54.90/barrel during the first three months of the year, down from almost US\$70.00/barrel six months earlier.

However, the rise in oil prices since the start of the year has led the Central Bank to predict that the price will average US\$58/barrel this year, up from its previous forecast of US\$55/barrel made last December.

Imports of natural gas rose 20.5% to US\$339 million following the signing last year of new supply agreements with Argentina.

Imports of intermediate goods rose 2.4% to US\$6.1 billion, on increased imports of metallic goods (up 18.5% to US\$895 million), chemical products (up 6.5% to US\$979 million) and grains (up 31.5% to US\$201 million). However, imports of spare parts for mining and other equipment fell after rising sharply in 2018.

Imports of capital goods have slowed, rising just 1.5% to US\$3.5 billion in the quarter, compared to a 13.7% increase last year. Imports of buses rose 87.6% to US\$214 million, following the acquisition of China-built electric buses for the Santiago transport system, while imports of mining and construction equipment rose 46% to US\$259 million. Imports of lorries and other transport equipment fell 20.7% to US\$435 million.

Principal Exports

	Jan-Mar 2018 (US\$ mill.)	Jan-Mar 2019 (US\$ mill.)	Variation (%)
Copper	8,842	8,098	-8.4%
Molybdenum	481	475	-1.3%
Fresh fruit	2,424	2,399	-1.0%
Salmon & trout	1,495	1,585	5.7%
Wood pulp & cardboard	1,009	931	-8.4%
Timber products	620	618	-0.4%
Wine	476	454	-4.8%

Source: Central Bank of Chile

The value of Chile's non-mineral exports reached US\$9.6 billion in the first quarter, down 1.0% from the same period of last year on lower agricultural and industrial exports.

Agricultural exports fell 0.8% to US\$2.6 billion, reflecting 1.0% drop in fruit exports to US\$2.4 billion. While grape exports fell 9.7% to US\$580 million, exports of cherries rose 1.5% to US\$834 million and plum exports rose 26.4% to US\$158 million.

By volume, fruit exports during the 2018-2019 season to the end of March totalled 1.28 million tonnes, up slightly from a year ago. The rise was driven by increased volumes of plums, offset by lower exports of avocados, cherries, and grapes.

Chile's industrial exports fell 1.1% to US\$7.0 billion in the quarter as exports of pulp and paper, metallic goods and machinery, and wine all declined, partially offset by increased exports of food products.

Exports of pulp and paper fell 8.4% in the quarter to US\$931 million, reflecting largely a 29.0% drop in exports of long-fibre pulp (radiata pine) to US\$312 million. Pulp exports have been hit by a sharp drop in prices following a slowdown in paper demand in China, partly the result of US tariffs on Chinese consumer goods.

Exports of timber products were little changed at US\$618 million as a 15.7% increase in shipments of plywood (to US\$100 million) offset lower exports of other products.

Chile exported US\$1.5 billion worth of salmon in the quarter, up 6.8% from twelve months earlier, as the salmon industry benefited from higher prices in key markets.

The value of Chile's wine exports fell 4.8% in the first quarter to US\$454 million, largely on lower exports of bottled wine. Exports of bottled wine during the first two months of the year (the latest period for which exports by country are available) were driven by exports to China, which rose 10.8% to US\$42 million, and to Brazil, up 33.5% to US\$19 million), while exports to the US, UK and Japan all fell.

2.2 Mineral Exports

Maintenance work and adverse weather conditions slowed activity in the mining sector during the first quarter of 2019. Copper production during the first two months of the year reached 877,243 tonnes, down 6.5% from the same period of last year.

Heavy rains forced many operations in the northern Antofagasta region, the heart of Chile's copper industry, to shut for several days in early February. Worst affected was Freeport McMoRan's El Abra mine which only resumed normal levels of production in early March. Production at state-owned Codelco fell 19.3% in February, compared to twelve months earlier.

However, despite the sector's weak performance in the first quarter, the Chilean Copper Commission predicted in April that copper production would rise 2.2% this year to a new record of 5.96 million tonnes, thanks to additional production at Codelco and BHP's Spence mine.

In March, Codelco said that it aims to produce 1.7 million tonnes of copper this year, similar to 2018. The state-owned company is looking to output from a new US\$5.5 billion underground operation at its Chuquibambilla

mine, which will enter production in May, to offset falling ore grades elsewhere.

Work to upgrade Codelco's Chuquibambilla and Potrerillos smelters into line with tighter emissions standards for metallurgical plants (which came into force late last year) has taken longer than expected. Operations were due to resume in late April, several weeks later than originally scheduled.


The value of Chile's mineral exports fell sharply in the first three months of the year, reflecting the fall in production and the lower copper price. Exports reached US\$8.1 billion in the quarter, down 9.2% from twelve months earlier, principally due to a 19.7% drop in exports of refined copper to US\$3.3 billion.

The value of Chile's iron ore exports also fell in the quarter, down 48.6% to US\$116 million, after a port accident forced CAP, Chile's principle iron ore miner, to halt production at its Los Colorados mine.

Exports of gold fell 15.8% to US\$141 million while silver exports fell 31.4% to US\$48 million.

The international copper price rallied strongly in the first weeks of 2019 and then largely held above US\$2.90/lb during the rest of February and March. The price averaged US\$2.81/lb during the first quarter, up only slightly from the previous quarter but reached its highest levels in over a year in February. The rally coincided with expectations that the US and Chinese governments were close to resolving their dispute over tariffs, boding well for investment in China, which accounts for around half of global copper demand.

In January, Cochilco estimated that copper prices will average US\$3.05/lb



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this year and US\$3.08/lb in 2020, up from US\$2.86/lb in 2018. This is significantly higher than the Central Bank's forecast, released in April, of US\$2.90/lb.

Like copper production, output of molybdenum was hit by the adverse weather and maintenance work at major mines in northern Chile. Production reached 9,904 tonnes in the first two months of the year, down 1.0% from the twelve months earlier, including a 9.5% fall in February.

In addition, molybdenum oxide prices have declined, averaging US\$11.49/lb in the first two months of the year, down from almost US\$12/lb twelve months earlier.

Consequently, the value of Chile's molybdenum exports fell in the first quarter to US\$475 million, down 1.3% from twelve months earlier, largely due to a drop in the value of concentrate exports.

Exports of lithium carbonate, which quadrupled to almost US\$1 billion between 2015 and 2018, have slowed. Chile exported US\$242 million of the mineral in the first quarter, up 10.9% from twelve months earlier.

Lithium production is due to rise sharply over the next two years as the country's two producers invest to expand capacity. In March, SQM obtained environmental approval to increase capacity at its operations on the Salar de Atacama to 120,000 tonnes/year, up from 70,000 tonnes/year reached last year. Meanwhile, Albemarle Corp plans to

Hosting the world

2019 will see Chile host the Asia Pacific Economic Cooperation (APEC) meetings for the second time. Home to 40% of the world's population, the twenty-one economies that make up APEC account for 60% of global GDP and almost two-thirds of Chile's global trade. More than 15,000 officials, observers, business people and journalists are expected to visit the country to attend the more than 200 APEC activities that will take place during the year, culminating with the Economic Leaders' Meeting in November. The summits, workshops and committees will be held in a range of locations throughout Chile, including Santiago, Viña del Mar, Copiapó, and Puerto Varas. As such the country will be the stage for key meetings between global leaders, including US President Donald Trump, Chinese leader Xi Jinping and Russian president Vladimir Putin.

As the host of APEC 2019, Chile has chosen four priority issues for this year's meetings:

- The digital society: Improving the quality and coverage of telecommunications infrastructure and shared regulatory principles that improve electric and digital trade flows.
- Integration 4.0: Improving connectivity between countries in readiness for the Fourth Industrial Revolution by promoting issues such as trade facilitation, automated border management, and regulatory convergence.
- Women, SMEs and Inclusive Growth: Design policies and strategies that increase the participation of women and small and medium-sized businesses in the regional economy and international trade.
- Sustainable Growth: This will focus on issues such as combating illegal fishing, preventing and reducing marine debris, and encouraging the development of clean and renewable energy.



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increase capacity to 85,000 tonnes/year from 2020, up from 45,000 tonnes in 2019, after reaching agreement with the government on how to price domestic lithium sales.

In April, economic development agency CORFO launched a tender to find investors to develop downstream lithium processing industries based on the requirement under SQM's new contract with the government to sell 25% of its lithium output domestically.

2.3 UK Trade and Investment

Trade in goods between Chile and the UK during 2018 reached US\$1.4 billion, up 19.0% from 2017. While Chilean exports to the UK rose 17.0% to US\$684.7 million, UK exports to Chile rose 21.0% to US\$675 million.

During the fourth quarter of last year, bilateral trade in goods reached US\$333 million, up 21.9% from twelve months earlier.

Chilean exports to the UK in the quarter rose 15.2% to US\$164 million, driven by increased shipments of blueberries, roasted molybdenum concentrates, frozen chicken breasts and wine.

UK exports to Chile rose 29% to US\$169 million in the quarter. The UK's principle exports to Chile included vehicles, crude oil, whisky, and pharmaceuticals.

On January 31st, Chile and the UK signed a bilateral agreement that will ensure that trade between the two countries will continue

under the same conditions set by Chile's Association Agreement with the European Union following the UK's withdrawal from the trade bloc. The deal means that Chilean exporters will continue have the same access to the UK market even if the UK leaves the EU without a withdrawal agreement in place. As well as confirming preferential tariffs for Chilean goods, the deal also maintains quotas for Chilean meat exports to the UK. The two governments also agreed to hold regular talks on how to improve trade relations and further reduce tariffs on farm goods.

2.4 Current and Capital Accounts

Chile's current account deficit rose to US\$9.2 billion, equivalent to 3.1% of GDP, by the end of 2018, compared to 1.5% in 2017. The rise was principally due to profits accrued from Foreign Direct Investment into Chile, especially in the mining industry.

Chile's annual trade surplus shrank compared to 2017, as imports of goods rose faster than exports. The deficit in services rose to US\$4.0 billion, reflecting increased demand for imported transport and business services, while exports of services were flat.

In April, the Central Bank predicted that Chile's current account deficit will decline in 2019 to US\$8.9 billion – equivalent to 2.9% of GDP – and to US\$8.7 billion in 2020.

Capital flows

Chile's capital account deficit rose to US\$8.1 billion, following a rise in government

debt, acquisitions of local bonds by non-residents and the emission of foreign debt.

Foreign Direct Investment reached US\$6.1 billion in 2018, down from US\$6.4 billion in 2017, and was largely funded through the reinvestment of profits. The most popular sectors were healthcare, mining and basic services.

Chileans directly invested US\$1.9 billion abroad during 2018, down from US\$4.8 billion in 2017. In April, forestry company Arauco inaugurated a new US\$450 million particleboard facility in Grayling, Michigan, representing the largest ever Chilean investment in the US.

Financial investment into Chile rose by US\$5.4 billion, driven by the increase in government debt (both the emissions of bonds abroad and the acquisition of local bonds by non-residents) as well as foreign emissions by Chilean companies. These were partly offset by the sale of Chilean stock by foreign investors in the Chilean market.

Financial investment abroad by Chileans grew by US\$3.9 billion in 2018, driven by stock acquisitions by the AFPs and companies.

Foreign debt and international reserves

Chile's foreign debt rose to US\$185.9 billion in 2018 (equivalent to 67.1% of GDP), up from US\$178.4 billion at the end of 2017. The largest increases were recorded in government debt, which reached US\$23.0 billion, bank debt, which reached US\$28.6 billion, and debt amongst non-financial companies, which reached US\$73.0 billion.



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Chile's international reserves reached US\$40.0 billion by the end of 2018, little changed from the end of last year. The reserves were the equivalent to 6.5 months of forecast imports.

2.5 Exchange Rate

The peso/dollar exchange rate averaged 667 pesos/dollar in the first three months of 2019, down from 679 pesos/dollar in the previous quarter but up from an average of 640 pesos/dollar in 2018. However, after depreciating sharply from close to 700 pesos/

dollar at the start of the year to below 650 pesos/dollar by mid-February, the US dollar has since recovered moving back above 680 pesos/dollar by the end of March.

Analysts surveyed by the Central Bank in April predicted that the US dollar would move back towards 660 pesos/dollar during the second quarter and to 650 pesos/dollar over the next two years.

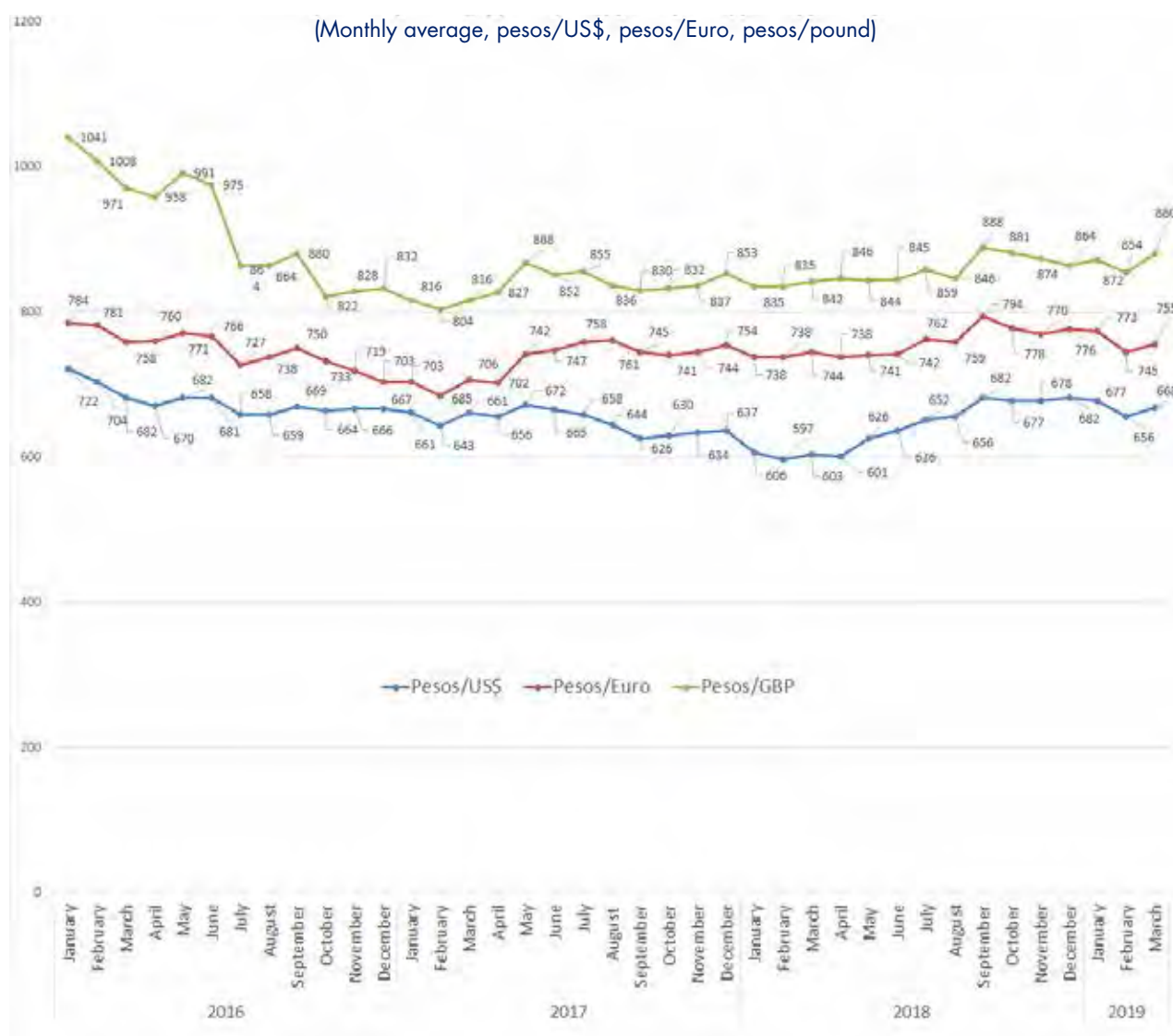
The Euro depreciated against the Chilean peso, trading at an average of 758 pesos/euro during the first three months of the year, compared to 774 pesos/euro in the previous

quarter. Sterling traded at an average of 869 pesos/pound, compared to 873 pesos/pound in the fourth quarter of 2018.

The real exchange rate – calculated by the Central Bank based against a trade-weighted basket of currencies – fell to 90.96 points by the end of February, down from 92.90 points at the end of 2018 and its lowest level since June last year. In March, the Central Bank said that the real exchange rate remains below its averages for the last fifteen and twenty years, suggesting that it is undervalued, and that it should return to these levels over the next two years.

Peso/Dollar Exchange Rate 2013-2019
Jan 2013 - 2019

(Monthly average, pesos/US\$, pesos/Euro, pesos/pound)

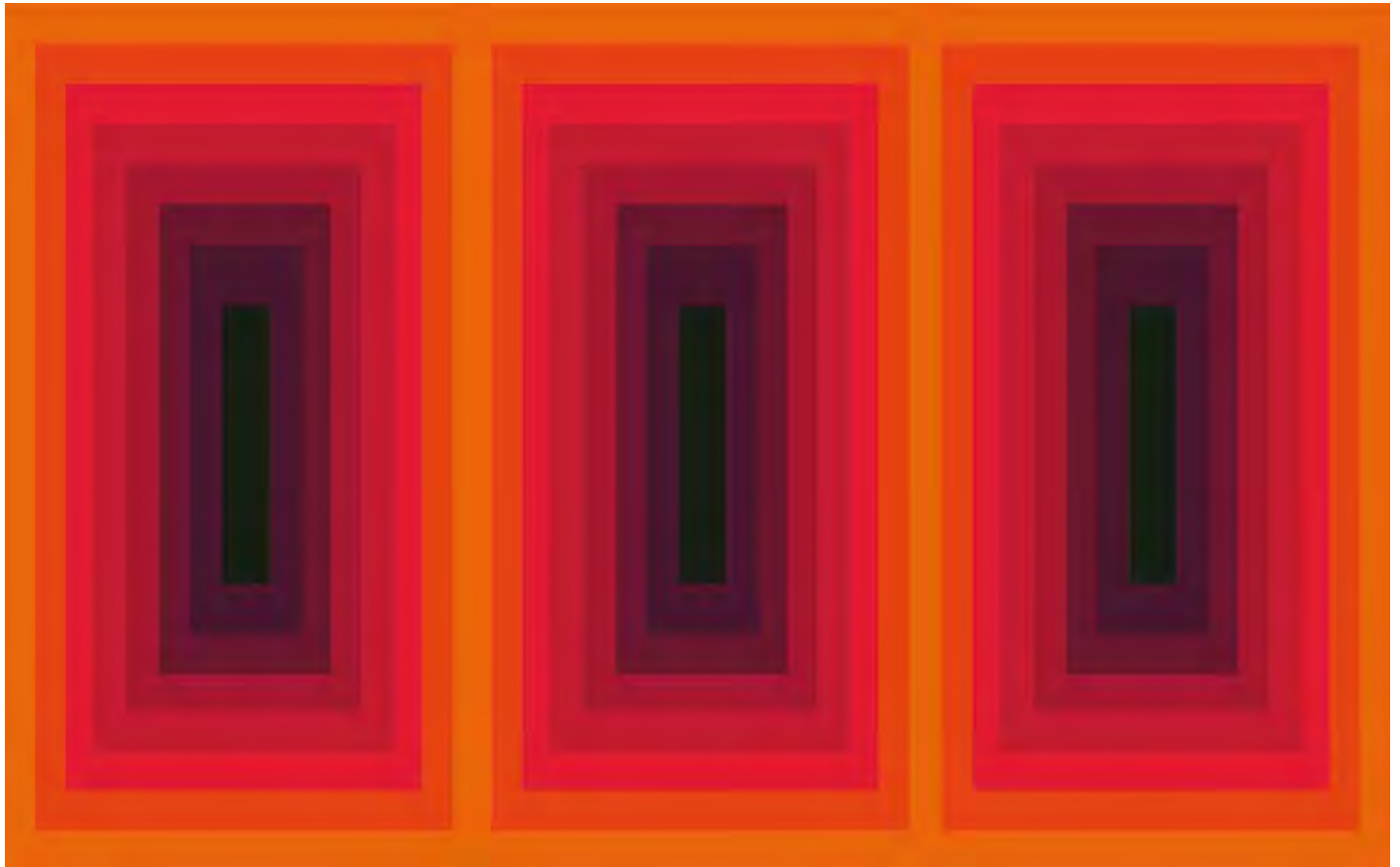


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3

QUARTERLY INSIGHT: TACKLING CLIMATE CHANGE



COP25
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CONFERENCE

3.0 QUARTERLY INSIGHT: TACKLING CLIMATE CHANGE

This year, Chile will host the 25th session of the Conference of the Parties to the United Nations' Framework Convention on Climate Change, better known as COP25.

The huge twelve-day event will take place next December in Santiago on the grounds of the old Cerrillos airport, President Sebastian Piñera has announced. Chile won the honour to host the world's largest conference on climate change last November at COP24 after Brazil's then-President Elect Jair Bolsonaro withdrew his country's candidacy to hold the event.

While visitors to COP24, held in Katowice, the heart of Poland's coal industry, were able to consider the causes of climate change, in Chile they will be able to witness some of its effects.

As global temperatures rise over the coming decades, Chile is expected to be one of the countries most exposed to changing weather conditions. The fertile Central Valley is already becoming hotter and drier. The arid north is predicted to experience increased precipitation.

This summer Chileans were able to experience again what climate change will bring.

High temperatures and minimal rainfall through the spring and early summer brought a resurgence in forest fires which swept through large swathes of central and southern Chile.

Although not as bad as the fires suffered two years ago, when an inferno destroyed the entire town of Santa Olga, killing eleven people, 2019 saw the phenomenon spread.

Almost a fifth of the lands affected by forest fire this year were located in the southern Aysén region, which is normally too cold and rainy for fires to propagate. But this year they did, destroying almost 160,000 hectares of native forest.

Remote and sparsely populated and without a road connection to mainland Chile, local firefighters struggled to combat the flames which ripped through pristine native woodlands rather than the forestry plantations found further north.

Then in February, northern Chile suffered its heaviest rains in over seven decades with parts of the normally bone-dry Atacama Desert receiving more water in a few hours than they normally do several years.

The rains and flooding swept away roads and crumbled hillsides. Six people died and hundreds had to abandon their homes in the aftermath. The adverse weather conditions also forced a large part of the country's mining industry to halt production for several days, dampening economic growth in the first quarter.

Attributing individual phenomena to climate change is difficult (most of the fires were probably started by human activity), but scientists agree that such extreme weather events are becoming more common.

Not surprisingly Chileans are worried. Last year's National Environment Survey found that 93% of them described climate change as an important or very important issue. Launching COP25 on April 11th, President Piñera said that the event was an

opportunity for the world's governments to commit to even more ambitious targets for reducing carbon emissions than those agreed in Paris four years ago.

Chile has committed to reducing its emissions of greenhouse gases by 30% relative to GDP by 2030. It is already making good progress.

- A target to source 20% of electricity from nonconventional renewable sources by 2025 has already been met. Renewables could meet 50% of Chile's electricity demand by 2030.
- In 2014, Chile introduced the region's first tax on greenhouse gases.
- Government and industry have committed to a timetable to phase out the country's coal-fired power plants over the coming decades.
- Electrification of the transport sector has begun with the introduction of 200 electric buses in Santiago this year.

But Chile's contribution to climate change is miniscule, accounting for less than 0.3% of global carbon emissions.

More pressing than reducing its own emissions is how to prepare the population to adapt to the impacts of climate change, some of which are already being felt.

This will include helping farmers to grow new crops, building new reservoirs and desalination plants to protect water supplies and strengthening infrastructure to better withstand extreme weather.

Following a nationwide public consultation, the Environment Ministry plans later this year to present the country's first Climate Change Law to Congress which would institutionalize these efforts.

4

POLITICAL CONTEXT



4.0 POLITICAL CONTEXT

The government's ambitious legislative agenda, including major reforms in taxation, labour laws and pensions, have been slowed by rejection of the measures by opposition lawmakers who control both houses of Congress

In some cases, such as the government's flagship tax reform and legislation reintroducing selection for public schools, the opposition has threatened not even to admit the bills for debate.

Negotiations over the tax reform have been particularly drawn out with deputies criticizing a plan to reintegrate personal and corporate income taxes as benefiting the wealthy while reducing government revenues. On April 10th, almost eight months after the bill was presented to Congress, the Chamber of Deputies' Finance Committee finally voted to admit the bill after Finance Minister Felipe Larraín promised to limit a series of tax exemptions that would save the government almost US\$500 million annually.

Ministers are also considering an opposition proposal to gradually require employers

to pay the equivalent of 6-8% of an employee's wages into their pension fund, in addition to the 10% paid by workers. The government bill would require employers to make a 4% contribution.

On April 17th, deputies voted by 77 to 68 in favour of ratifying the Comprehensive and Progressive Agreement on Trans Pacific Partnership (CPTPP), an eleven-country regional trade deal. The vote was twice delayed to allow more discussion in committee of provisions on intellectual property rights and rules on investor-state conflict settlement. The treaty must now be debated by the Senate.

Support for the government has weakened since the start of the year. According to the weekly poll produced by market research firm Cadem, approval of President Piñera fell to 36% in the first week of April, down from 44% in February and his lowest poll rating since taking office last year. Disapproval rose to 51%. The fall in support has been largest amongst low-income voters and those outside of Santiago.

International affairs

In February, President Piñera travelled to Cúcuta on the Colombia-Venezuela border, along with his Colombian and Paraguayan counterparts Iván Duque and Mario Abdo, to meet with the head of Venezuela's National Assembly Juan Guaidó who declared himself his country's acting President in January. Efforts to pressure the Venezuelan authorities into opening the border to humanitarian aid largely failed.

In March, President Piñera played host in Santiago to a summit of presidents from five South American countries, including Argentina, Brazil and Colombia, with the aim of creating a new regional forum for promoting regional integration and cooperation, democracy and human rights. The entity, known as PROSUR, seeks to replace the Union of South American States (UNASUR), which is falling apart over ideological differences. However, the new body has been criticized as being as much as a right-wing project as its predecessor was a left-wing one.

5

ECONOMIC
OUTLOOK



5. ECONOMIC OUTLOOK

Expectations for the Chilean economy have dimmed in recent months.

Analysts surveyed by the Central Bank in April forecast that the economy will grow by just 3.3% this year, down from 3.8% predicted six months earlier, while some leading economists expect growth to be closer to 3.0%.

The Central Bank cut its forecast to a more optimistic 3.0-4.0% (down from 3.25-4.25% in December) but even Finance Minister Felipe Larraín has said that growth of more than 3.5% looks unlikely this year.

A key factor has been the increasingly gloomy outlook for the global economy this year with the Chinese, European and US economies facing risks on the downside (See Box: Global Cooling) combined with the Chilean economy's weak start in the first quarter. As consumption slows, reflecting weakness in the labour market and low consumer confidence, investment is expected to drive growth. In March, the Capital Goods Corporation lifted its investment forecast

for 2019 and 2020 to over US\$23 billion, up from US\$15 billion predicted last year.

The international copper price, key for sustaining mining investment, is expected to remain firm this year with the Central Bank and the Chilean Copper Commission estimating \$2.90/lb and US\$3.05/lb, respectively.

An expected recovery in inflation to the Central Bank's medium-term target of 3.0% has been delayed, after inflation slowed suddenly at the start of the year following the methodological changes to the Consumer Price Index as well as increased competition in some sectors. Analysts now expect the official figure to end the year at 2.7%, down from 2.9% predicted in January.

Weaker growth and inflation have led the Central Bank to slow the withdrawal of its monetary stimulus to the economy. The market now expects the Board to approve just one more 25-basis point increase in its benchmark interest rate this year, one less than previously predicted, to reach 3.25% by December.

Economic Forecasts, 2019

	Central Bank ^{1/}	Finance Ministry ^{2/}	Private analysts ^{3/}
GDP (% annual variation)	3.00 - 4.00	3.8	3.30
Inflation (% annual variation)	2.6	3.0	2.7
Monetary-policy interest rate (% annual, nominal, end-year)	3.25	NA	3.25
Exchange rate (pesos/US\$)	NA	650	650
Copper price (annual average, US\$/lb)	2.90	3.00	NA

^{1/} Monetary Policy Report, April 2019.

^{2/} Report to Congress, October 2018

^{3/} Average of selected private analysts surveyed by Central Bank, April 2019.

Source: Central Bank of Chile

6. LATIN AMERICA REGIONAL NEWS

Argentina: In March, the International Monetary Fund gave a favourable report on the President Mauricio Macri's efforts to reduce Argentina's fiscal and current account deficit, noting that last year's recession is bottoming out. However, high unemployment and inflation have garnered support for former president Cristina Fernández in next October's presidential elections. In April, the peso fell to a record low of 43.90 pesos/dollar, halving its value in twelve months.

Brazil: President Jair Bolsonaro has struggled to secure parliamentary support for his flagship pensions reform which would save the state over US\$250 billion over ten years.

Confidence in the country's economy have weakened with the Central Bank predicting growth of 2.0% this year, down from 2.4%.

Bolivia: President Evo Morales is tied with his predecessor Carlos Meza in polls to predict the result of next October's presidential elections. A Chinese consortium has signed a preliminary agreement to invest US\$2.3 billion to extract and process lithium from two Salares.

Colombia: President Iván Duque has asked Congress to consider changes to the 2016 peace deal that ended the country's forty-year civil war. In April, the government warned that it would not

meet its deficit target as a result of the growing Venezuelan migration crisis.

Ecuador: In February, the IMF approved a US\$4.2 billion loan to Ecuador to stabilize the country's public finances. The economy is expected to shrink by 0.5% this year, after growing by 1.0% in 2018, as the government cuts back spending.

Mexico: Analysts expect the Mexican economy to grow by just 1.0% this year, half the government's estimate, amid a fall in retail sales, foreign investment and slower US growth. Incoming President Andrés Manuel López Obrador was forced to water down legislation to cut banking fees after banking shares crashed.

Peru: The Central Bank expects the economy to grow by 4.0% this year despite growth slowing to less than 2.0% in January on weaker mining and manufacturing activity. Protests by local communities forced the partial closure in early April of the Chinese-owned Las Bambas copper mine, one of Peru's largest.

Venezuela: National Assembly president Juan Guaidó has been recognized as Venezuela's head of state by more than fifty governments, including the US, the European Union and most of Latin America, after he declared last year's re-election of President Nicolás Maduro to be fraudulent. A nationwide collapse of the electricity network has worsened the country's humanitarian crisis.



UK ECONOMY Q3 – 2018

1. Economic growth

The Office of National Statistics (ONS) stated the UK economy slowed to 0.2% in the quarter from October to December, following comparatively strong growth in Q3. Growth in Q3 was revised up slightly to 0.7% where some of this activity is likely to have reflected one-off effects of the warm weather and the World Cup. Growth in Q4 was driven by the services sector, while all four sub-sectors of production and construction contributed negatively to GDP growth. Private consumption and government consumption contributed positively, while gross capital formation and net trade contributed negatively. In comparison to the same quarter a year ago, GDP increased by a revised 1.4%, continuing the relatively subdued performance of late.

2. Inflation

Annual CPI inflation fell to 2.1% in December and is expected to decline slightly below the 2% target in the near term determined by the Bank of England's Monetary Policy Committee (MPC). This was largely due to the sharp fall in petrol prices, which has occurred since November. Food price inflation, and clothing and footwear price inflation were also slightly lower than expected. Annual output price inflation was 2.2% on the year to February 2019, up from 2.1% in January 2019. Input price inflation rose to 3.7%, increasing 1.1% from January, following four months of slow growth. House price growth in the year to January 2019 grew 1.7%, down from 2.2% in December. Over the past two and half years, there has been a slowdown in UK house price growth, driven mainly by a slowdown in the south and east of England.

3. Monetary policy

On the 6th of February 2019, the MPC voted unanimously to maintain the Bank Rate at 0.75%. The Committee also voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. Assuming an orderly withdrawal from the European Union, the MPC projects four-quarter GDP growth to fall during 2019, before picking up to close to 2% in 2121. Demand growth is weaker than the November forecast in the near term, but the projection is somewhat higher further out. Demand and business investment growth are boosted as Brexit uncertainties are assumed to subside. Fiscal policy loosening supports demand relative to the November forecast. Consumption growth is projected to be modest relative to historical rates.

4. Labour market

In the three months to January 2019, the unemployment rate was estimated at 3.9%; the lowest since 1975 – in the same quarter. Employment rates have been generally increasing since early 2012, mainly because of changes to the State Pension age for women, resulting in fewer women retiring between the ages of 60 and 65 years. In the last quarter the employment rate was 76.1%, the highest since comparable records began in 1971. Average weekly wages grew in nominal terms 3.4% (excluding and including bonuses) in the three months to January 2019. After adjusting for inflation, average weekly wages grew 1.4% excluding bonuses, and 1.5% including bonuses.

5. Trade

The UK's total trade deficit narrowed by £1.3 billion in the three months to January 2019. This was due to the trade in goods deficit increasing £2.4 billion, offset partially by a £1.1 billion widening of the trade in services surplus. Falling exports of cars and fuels, and rising car imports, were the main reasons for the widening of the trade in goods deficit.

6. Government finances

Public Sector Net Borrowing, excluding public sector banks, in the financial year from April 2018 to February 2019 was £23.1 billion, £18 billion less than the same period last year. This was the lowest borrowing year to date in 17 years. Borrowing in February 2019 was £0.2 billion, £1.0 billion less than in February 2018. At the end of February 2019, Public Sector Net Debt was £1,785.6 billion (or 82.8% of GDP); a fall of 1.4% GDP since February 2018.

7. IMF World Economic Outlook

The IMF has revised down its projection for UK growth since January, by 0.3 and 0.2 percentage points, respectively, to 1.2% for 2019 and 1.4% for 2020. Downward revisions are attributed to the negative effects of prolonged Brexit uncertainty, partially offset by positive impacts of the 2019 budget stimulus announcement. Baseline projections assume a gradual orderly transition following a deal reached in 2019, with a broad EU free trade agreement, though considerable uncertainty persists. The Fund notes a 'no-deal' Brexit, which severely disrupts supply chains and raises trade costs, could have a large and long lasting negative impact on both UK and EU growth.

Brexit Update

On April 10th, European leaders agreed to put back the date by which the United Kingdom is set to leave the European Union by six months giving more time to the UK government to seek parliamentary support for a deal that will permit an orderly withdrawal from the trade bloc.

The decision came after Members of Parliament voted three times this year to reject with significant majorities the deal reached between Prime Minister Theresa May and European Commission last October.

That proposal would see the Great Britain and Northern Ireland remain in a customs union with the EU until agreement on a permanent trading arrangement can be reached.

This is seen as necessary to preclude the need for the reintroduction of border measures between Northern Ireland and the Republic of Ireland which many fear could provoke sectarian conflict in the province. But many pro-Brexit MPs rejected the agreement as effectively tying the UK indefinitely to the EU (as during the transition, the UK would have to adopt new EU laws).

Even after Mrs. May offered to resign as Prime Minister, a majority of MPs refused to support the deal.

Amid the impasse and with the original March 29th deadline to leave fast approaching, Parliament, led by Speaker John Bercow, tried to take the initiative by calling a series of indicative votes to see whether any alternative option could command a majority.

However, despite coming close, motions calling for a permanent customs union with the EU, a second referendum on EU membership and a relationship with EU like that held by Norway all failed.

MPs, however, did approve a motion calling on the government to avoid a no-deal Brexit, i.e. leaving the EU without a withdrawal agreement, which the government, EU, the Bank of England and businesses have all warned would lead to chaos at UK borders, shortages of food and medicine and an economic downturn.

After the original deadline was missed and with a second fast approaching on April 12th, Mrs. May announced a radical change of strategy by opening negotiations with the opposition Labour Party and its leader Jeremy Corbyn to find some arrangement that could be approved by a majority of MPs.

On this basis, the Prime Minister approached European leaders seeking an extension of the deadline to give enough time for talks.

Frustrated by the UK government's failure to approve their existing deal and sceptical of the Prime Minister's new strategy succeeding, the European Council, led by President Donald Tusk, agreed to extend the deadline until October 31st.

Mrs May has said that she hopes that a deal can be reached with MPs in the coming weeks that would allow the UK to leave the EU by the end of June. That would also avoid the need for the country to hold elections for the European parliament, which take place on May 23rd.



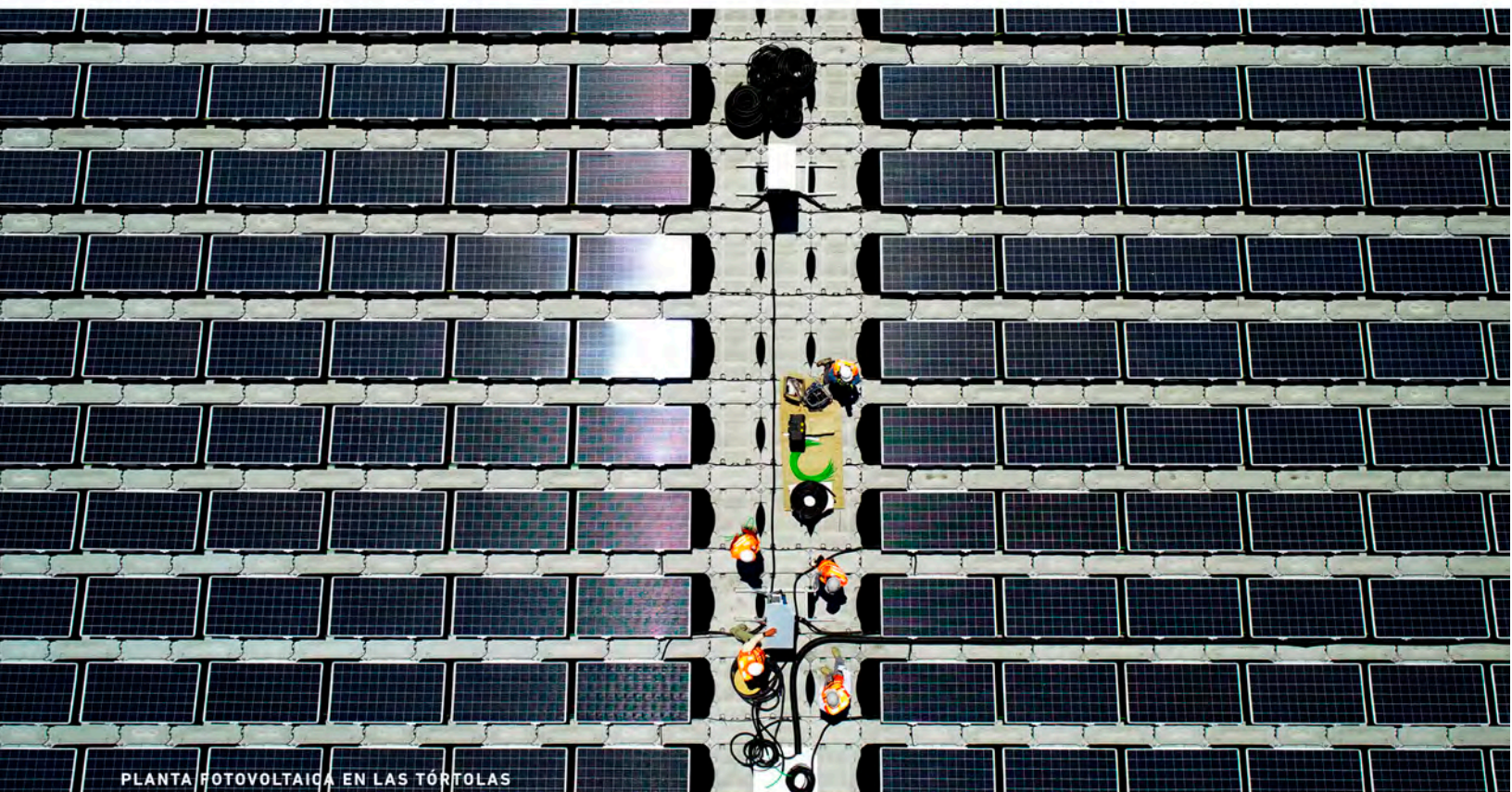
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