CHILEAN ECONOMIC REPORT

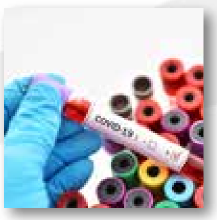
FIRST QUARTER 2020

1 ST EDITION 2020 - PRODUCED SINCE 1922

Cámara ChilenoBritánica

100 años
1917-2017



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Dear Readers,

We are living through an unprecedented global health crisis. As we go to press, the number of cases and deaths related to Covid-19 around the world continue to rise, and even in those countries where the first wave has passed, new cases continue to appear. In addition to the terrible loss of life, we are going into a global recession which is likely to create disastrous levels of hardship and disruption to many people.

Some of the numbers that we include in this Q1 report will be out of date by the time we go to press, as we see metrics changing on an almost daily basis. What is clear is that the positive signs of economic recovery seen in January and February, as Chile emerged from last year's civil unrest, have once again been reversed by the effects of the measures taken to control the spread of Covid-19.

The majority of us are staying at home and trying to discover and manage new and effective ways of working. Britcham is no different. We are operating remotely and remain committed to supporting businesses of every sector, every size and every location at this difficult time. We understand your challenges and are working around the clock to ensure the support and advice you need is reaching members like yours as quickly as possible.

For example, we are successfully maintaining contact with our members and clients via a range of virtual platforms so we can continue with our committee meetings and informative seminars. We have also set up an information hub where you will find useful and relevant articles relating to this crisis. We would love to hear from you to understand what else could add value and would appreciate you taking five minutes to complete this short survey.

Britcham's Economic Report has been published, printed and delivered to its readers consistently since 1922. This is the first time that we will only produce an electronic version, as the current logistics prevent us delivering the printed version. But don't worry, it is still full of the hard data and interesting articles as usual.

Let's hope that by the time our next edition is due in June that we will be past the worst of this Pandemic, but in the meantime please stay safe.

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KEY POINTS

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• The Chilean economy, already weakened by last year's social unrest, is set to enter recession in 2020 as governments around the world take drastic measures to slow the spread of the Covid-19 pandemic.

• The government has closed schools and shopping centres, shut borders, implemented a nationwide night-time curfew and locked down whole cities and large parts of Santiago in a bid to control the disease, while millions are staying home voluntarily.

• Unemployment is expected to rise to double digits in the coming months as businesses lay off employees to survive. A new law allows companies affected by the quarantine efforts to suspend workers without pay or reduce working hours.

• Congress has approved a US$11.8 billion economic stimulus, including additional funds for the public health service and loans, subsidies and tax breaks to help companies and families survive the sharp downturn in economic activity. The government has promised another US$5.0 billion to help small businesses and informal workers.

• In March, the Central Bank cut its monetary policy interest rate by 125 basis points to 0.5%, its lowest level in a decade, to reduce borrowing costs during the slump.

• Amid turmoil in financial markets, short-term interest rates soared, the US dollar rose to record levels against the Chilean peso above CLP860/dollar, while share prices on the Santiago Stock Exchange tumbled.

• After surging since October in line with the weaker peso, inflation began to stabilize in March. The Central Bank now expects the consumer price index to return to its target level in the coming months as activity slows and lower oil prices feed through the economy.

• The price of copper, Chile's principal export, fell to four-year lows below US$2.20/lb as the pandemic hits global demand for the metal. If they persist, the lower prices could force some mines to halt operations.

• Support for President Piñera has improved since the start of the health crisis but remains at historically low levels. The referendum on a new constitution, scheduled to take place in April, has been postponed until October.

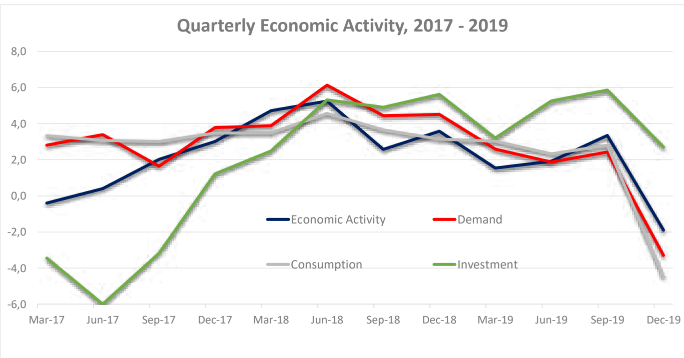
1

DOMESTIC ECONOMIC PERFORMANCE

1.1 GDP Growth

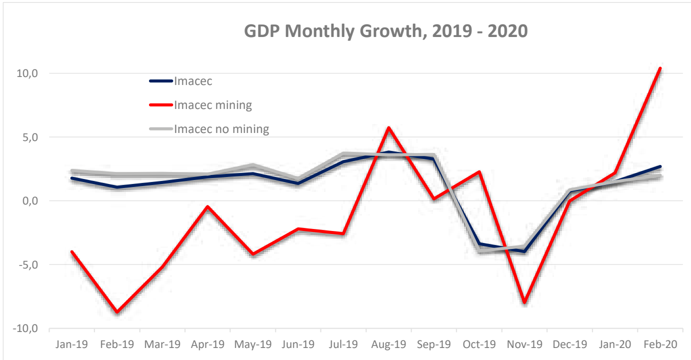
Chile is set to enter recession in the coming months as governments around the world take drastic measures to slow the spread of the Covid-19 virus. The International Monetary Fund has warned that the shock to the world economy will be even larger than that caused by the 2008 financial crisis.

In its latest Monetary Policy Report released on April 1st, the Central Bank warned that the Chilean economy could contract by as much as 2.5% this year as it is buffeted by not only domestic efforts to contain the disease, including the shutdown of entire cities and large parts of the economy, but also by the disruption caused to international trade and global financial markets.



The crisis struck Chile just as it was beginning to emerge from the disruption caused by last year's wave of mass protests and widespread social unrest. Preliminary figures suggest that economic activity has recovered faster than expected. After contracting by 2.1% in the final quarter of last year, the economy grew by an annualized 1.5% in January and 2.7% in February, ahead of private estimates.

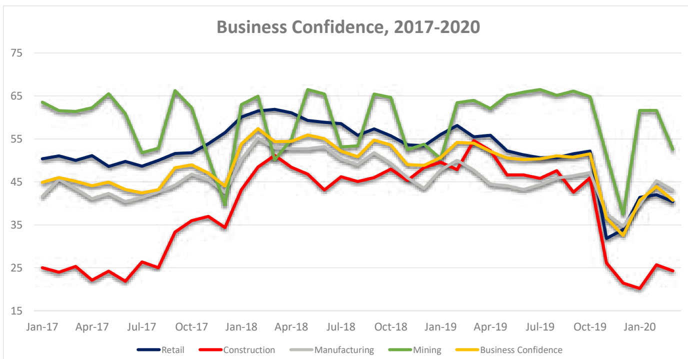
Growth in January was driven by a recovery in construction, mining and services. The strong figure for February largely reflected a 10.4% expansion in mining activity, following a sharp annual rise in copper production (See 2.2 Mineral Exports) while non-mining activity grew by 2.0%, led by construction and manufacturing.



Confidence

The Covid-19 pandemic has rattled confidence among consumers and business executives.

The Monthly Business Confidence Indicator (IMCE), produced by the Adolfo Ibáñez University and the ICARE business organization, reached 40.70 points in March, down three points from February, but significantly above the record

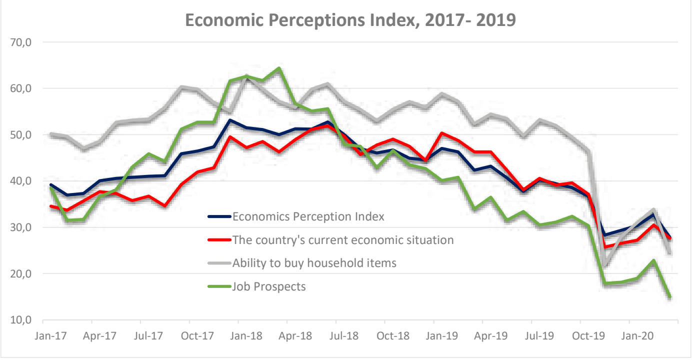


low of 32.52 points reached last December in the aftermath of the social unrest.

However, this survey may have only captured part of the reaction to the current crisis. A survey by the Central Bank in late March of 320 executives across Chile found that more than half expected the next six months to be even worse than the period since last October with nearly all expressing deep concern about the impact of the new Coronavirus. Most companies had at least partially halted operations while the rest were struggling to maintain normal productivity as employees worked remotely.

Consumer confidence, as measured by GfK's monthly Economic Perceptions Index, has fallen to its lowest level in almost 20 years (lower even than the nadir of the global financial crisis or the immediate aftermath of 2019 protests).

Consumers expressed particular concern for the short-term outlook for the economy, their family's economic situation and future job prospects, this final index this final indicator falling to a record low of just 15 points. Less than one in ten thought it was a good time to buy a car or a house.



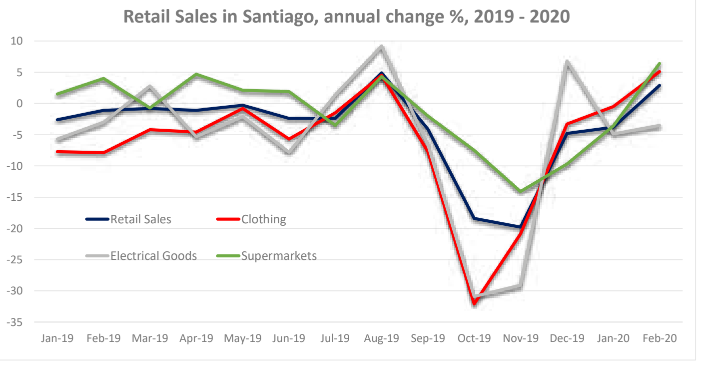
Consumption and Investment
Low confidence levels among consumers and executives will undermine consumption and investment over the coming months. In April, the Central Bank predicted that consumption will contract by 3.3% this year (after growing 1.5% in 2019), hitting sales of consumer durables, such as cars and mobile telephones. Investment, as measured by Gross Fixed Capital Formation, is expected to contract by 8.2% (following an expansion of 4.2% last year), reflecting efforts by companies not just to preserve cash in the face of falling sales but also to protect workers from the pandemic.

Mining companies Antofagasta Minerals, Codelco and Teck all announced temporary suspensions of multibillion-dollar construction projects to reduce the risk of infection.

2.2 Key Sectors

Retail
Chile's retail sector was just beginning to recover from the impact of last year's unrest when the Covid-19 outbreak hit. Retail sales in the greater Santiago area rose by 4.5% (on a store-for-store basis) in February, the first increase in six months.

However, efforts to contain the spread of the disease from mid-March onwards will have a significant impact on retail sales, with some stores already reporting declines of up to 45%. Given the drop in demand, many have closed, some perhaps for good. An early indicator of the outlook for the sector has come from car sales, which fell to 19,177 units in March, down 36.5% from twelve months earlier, with similar declines in sales of buses and lorries.



One bright spot could be online sales, which are set to rise as shoppers seek supplies without

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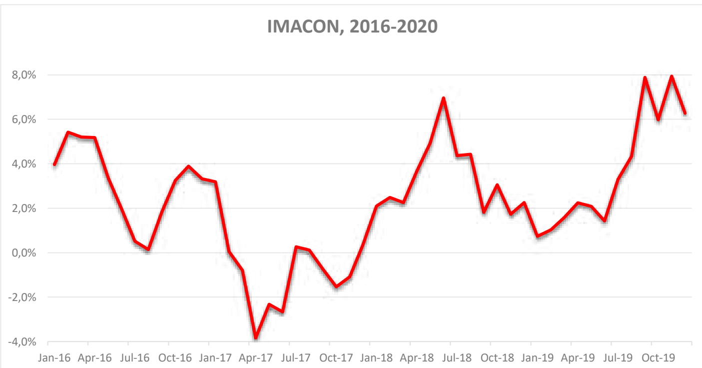
stepping outside. A study by the Santiago Chamber of Commerce based on credit card transactions found that online sales more than doubled in the second half of March, compared to twelve months earlier. By the end of the month, online sales accounted for 13% of total sales, up from 6% at the start of the month.

Construction

Building activity is slowing rapidly as companies cut investment in the face of declining demand and quarantine measures hinder construction work. In April, the Chilean Chamber of Construction forecast that investment in construction will shrink by 10.3% this year (three percentage points more than its forecast in December) with sharp falls in both housing and infrastructure, while around 75,000 jobs could be lost in the sector over the coming months.



Low consumer confidence, rising unemployment, tighter lending conditions as well as the obstacles posed by the quarantine are also likely to hit the property market, which has yet to recover from the impact of last year's social unrest. A study by Colliers International found that new house sales in greater Santiago fell by more than half during the first three months of the year while sales of new apartments fell 60.3%.

Manufacturing

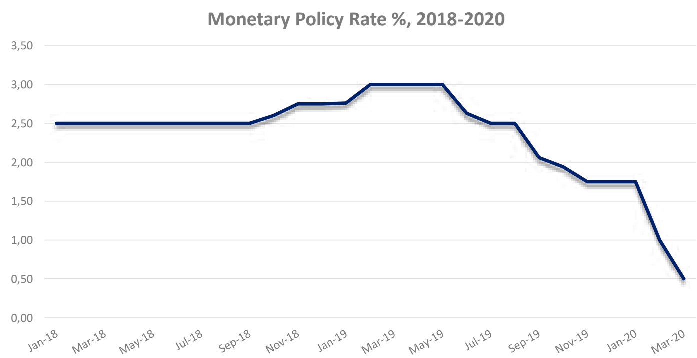
Manufacturing activity expanded by 3.7% in the year to February, maintaining its steady recovery since last year's unrest forced dozens of factories to close. However, activity has slowed significantly since mid-March as the Covid-19 pandemic hinders operations and reduces demand. For example, growth over the last year has been driven principally by a 16.1% increase in production of metallic products, especially steel structures for mining and construction projects, many of which have now been suspended.

Services

All kinds of personal services, from education to tourism, have been badly hit by efforts to quarantine the Covid-19 virus. The tourism industry estimates the pandemic will destroy around 80,000 jobs in the sector as millions of visitors leave early or cancel trips planned for later this year. Shares in Latam Airlines fell by more than 70% during the quarter as carriers were forced to ground all but a handful of aircraft amid declining demand and international travel restrictions.

1.3 Monetary Policy

Chile's Central Bank has slashed its benchmark interest rate to its lowest level in over a decade to cut borrowing costs for companies and households struggling amid the slowdown caused by the Covid-19 outbreak.



The first cut was implemented on March 16th at an unscheduled meeting called after a wave of cuts by central banks around the world led by the US Federal Reserve. In a divided decision, the Bank's board voted to reduce the rate by 75 basis points to 1.00%, the biggest rate cut since the global financial crisis.

Two weeks later, on March 31st, the board voted unanimously to reduce the rate by another 50 basis points to 0.50%, a level not seen since 2009. Explaining the cuts, the Bank said that they were necessary to maximize the monetary stimulus to the economy in face of the unprecedented turmoil caused to businesses and financial markets by the Covid-19 emergency, adding that it expected to keep the rate "in this highly expansionary position for an extended period of time."

As well as the rate cut, the Bank has rolled out a series of measures to increase liquidity in the local financial markets.

- The Bank's program of foreign currency sales, launched last November to stabilize the Chilean peso, has been extended until January 9th, 2021 (they were originally due to expire in May).
- The Bank is to purchase up to US$8.0 billion worth of bank bonds.
- A new credit facility has been launched to lend banks up to 3% of their loan portfolio (repayable within four years at the monetary policy interest rate) on condition that they increase lending to businesses and families affected by the health emergency.

Markets reacted positively to the cut in interest rates and other measures, at least initially. Following the unscheduled meeting on March 16th, yields on sovereign bonds eased and the sell-off in shares slowed. However, turmoil in markets soon resumed as more evidence of the pandemic's economic impact came to light, prompting the second cut.

The Bank highlighted that these measures are not the end to its response to the Covid-19 emergency and said that will continue to take actions as required to control inflation and ensure stability in financial markets.

1.4 Fiscal Policy

The government has launched a package of economic measures, worth almost US$17.0 billion, or 7.0% of GDP, to help businesses and households survive the severe downturn in economic activity over the coming months. In late March, lawmakers approved the government's initial package of economic measures, worth US$11.8 billion. It includes:

- An additional US$1.4 billion for the public health system.
- A one-off payment of CLP50,000 (US$58) per dependent to around 3 million low-income households (US$170 million)
- A US$500 million capitalization for state-owned BancoEstado, allowing it to increase lending to small businesses.
- Additional support for municipal governments (US$100 million)
- The suspension of stamp duty on financial transactions for six months (US$440 million)
- The suspension or postponement of corporate, property and value-added tax payments for the next three months (US$7.5 billion)
- A US$2.0 billion contribution to the unemployment fund.

To finance the package, Finance Minister Ignacio Briones said that the government would:

- increase government borrowing by around US$4.0 billion, in addition to the US$9.0 billion approved in this year's budget;
- draw down US$6.0 billion from Chile's Economic and Social Stabilization Fund;
- and reassign up to US$2.0 billion of spending approved in the current budget as allowed under the constitution.

A second package of measures, announced on April 8th, included a US$2.0 billion fund to support workers in the informal sector and US$3.0 billion in loan guarantees for small businesses affected by the crisis.

The Budget Office estimates that the government response to the pandemic will mean an increase in government spending this year of around 12.0%, compared to the 9.8% expansion approved by Congress last year. The public deficit will grow to 8.0% of GDP, its highest level in almost half a century.

Government revenues during the first two months of the year rose 6.2% to CLP8.0 trillion (US$10.7 billion), driven by a 5.9% increase in non-mining tax revenues to CLP6.6 trillion (US$7.7 billion). Taxes paid by private mining companies rose 24.6% to CLP297.8 billion (US$350 million) while state-owned Codelco contributed CLP114.5 billion (US$135 million).

Government spending over the same period rose 10.7% to CLP6.3 trillion (US$7.4 billion), driven by higher spending on education and health.

Taxing Times

In late February, President Piñera enacted the government's flagship tax legislation, which is expected to increase government revenue by US$2.2 billion annually once fully implemented from 2025. Additional revenue will come from better enforcement of VAT, a new 40% band of personal income tax (for those earning more than CLP15 million (US$17,500) a month) and a new surtax on property worth more than CLP400 million (US$470,000). Fulfilling a key promise to the business sector, the law also simplifies corporation taxation by establishing a single 27% rate for large businesses. However, in the wake of last year's social protests, the government dropped a proposal to reduce the burden on business owners by reintegrating corporate and personal income tax. The bill also expands VAT to online services provided by foreign platforms (such as music and video streaming or cloud-computing) and extends Chile's carbon tax to more industries, including cement plants and copper smelters.

Credit Ratings

Agency	Rating	Date of latest revision
Fitch Ratings	A (negative)	March 12th 2020
S&P Global Ratings	AA- (stable)	July 13th 2017
Moody's	A1 (stable)	July 26th 2018
JCR	AA- (stable)	March 11th 2019

The dramatic developments of the last six months are forcing international ratings agencies to re-evaluate Chile's creditworthiness, which could result in the country's second downgrade in three years. On March 12th, Fitch Ratings maintained its 'A' rating for Chile's sovereign debt (the country's lowest rating among the big three agencies) but reduced its outlook to negative. The report highlighted the impact of last year's protests, the upcoming constitutional process and problems closing the deficit, but barely mentioned the Covid-19 threat.

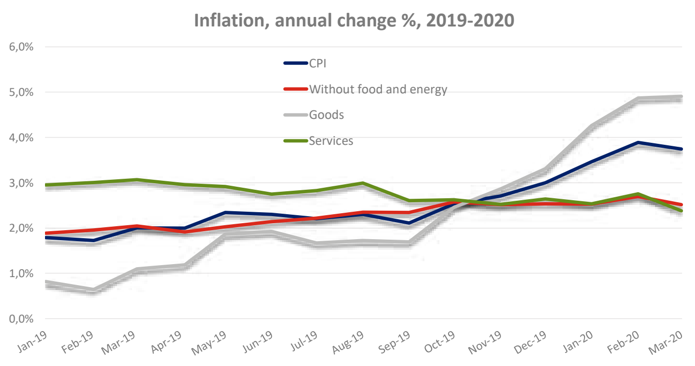
Sovereign Funds

At the end of February, Chile's two sovereign wealth funds held assets worth US$23.0 billion, down from US$23.8 billion at the end of 2018, as capital gains made over the last year were offset by the withdrawal of US$2.6 billion late last year as part of the government's response to the social unrest.

To help finance its response to the health emergency, the government plans to withdraw another US$6.0 billion from the Economic and Social Stabilization Fund and suspend its annual contribution of 0.2% of GDP (around US$500 million) to the Pension Reserve Fund for the next two years.

1.5 Domestic Prices

Inflation surged at the start of the year reflecting the depreciation of the Chilean peso against the US dollar since October, although there are signs that it is slowing. The government's Consumer Price Index rose by 0.3% in March, or 3.7% on an annualized basis, up from 3.0% at the end of 2019, but down from a three-year high of 3.9% reached in February.



The rise has been driven by higher prices for goods, which rose by almost 5.0% in the year to March, compared to less than 2.0% six months earlier. Prices for services grew by 2.4%, little changed over the last two quarters. Core inflation (which discounts volatile energy and food prices) rose by a similar 2.5%.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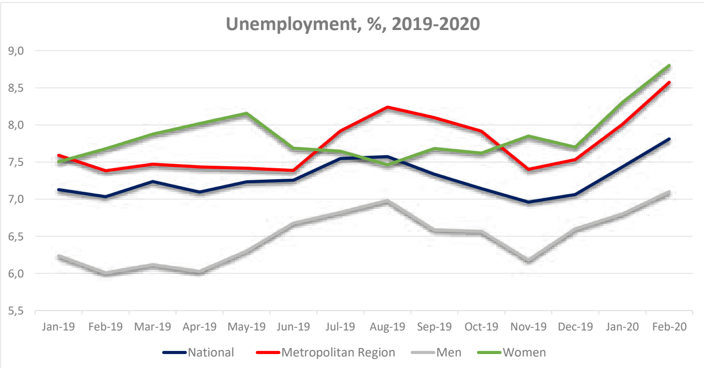
In a change from its previous forecast, the Central Bank now expects inflation to slow over the coming quarters to end 2020 at 3.0% in the middle of its target range, as the slump in activity creates spare capacity in the economy. Dramatically lower oil prices (See 2.1 Trade Balance) will also reduce transport costs for a wide range of products and services.

1.6 Employment and Wages

To help businesses survive the downturn, the government has enacted legislation allowing companies affected by quarantine measures to suspend employees without pay (although they will have to continue paying their pension and social security contributions). Alternatively, companies can negotiate reduced working hours (and pay) with workers. In parallel, the government has made it easier for workers affected by quarantine measure to draw unemployment insurance.



Unemployment is expected to reach double digits in the coming months as efforts to slow the spread of Covid-19 and falling demand force companies to lay off hundreds of thousands of workers.

The emergency comes as the labour market was already severely weakened by the disruptions caused by last year's social unrest.

According to the government´s monthly employment survey, unemployment reached 7.8% in the December-to-February quarter, up from 7.1% at the end of last year and its highest level in almost two years.

More pain is expected as thousands of stores, schools and other establishments were shut from mid-March onwards. Over 80% of executives surveyed by the Central Bank in late March said that they expected to reduce the size of their workforce this year (compared to just over half in December). More than 30% foresaw significant cuts.

The crisis is expected to hit hardest in those sectors already reeling from last year's unrest: education, retail and tourism.

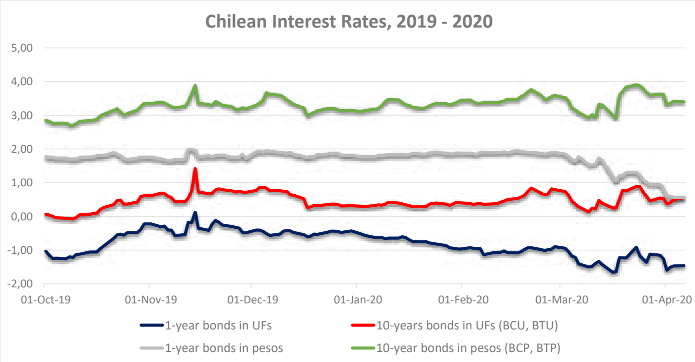
As a result, wages are expected to slow dramatically this year. According to the government's remunerations index, wages grew by 4.5% in the twelve months to February, continuing the recovery from to the intra-year low of 4.0% reached last November. However, taking inflation into account, real wages grew by just 0.6% over the same period, down from 1.6% in December and their slowest rate of growth in four years. Working hours have not recovered with overtime falling 3.7% over the last twelve months.

1.6 Financial Markets

The Covid-19 pandemic has plunged financial markets around the world into turmoil, surpassing even that seen in the wake of the collapse of Lehman Brothers more than a decade ago.

Volatility has been extreme as investors fled all exposure to the shutdown in economic activity around the world, leading to falls in the prices of most asset types (including gold and US Treasury bonds) while concerns about liquidity have caused some short-term lending rates to soar.

Fixed Income and Money Markets



The turmoil in global financial markets has been mirrored in Chilean markets, with volatile movements in corporate and government bond yields and steep increases in short-term interest rates as investors worried about liquidity.

Yields on corporate bonds surpassed levels reached last November, and sharp increases were recorded in onshore and term deposit swap spreads. However, these eased after the Central Bank announced a package of measures to ensure liquidity.

Stock Market

In Chile, share prices slumped. The IPSA index of the largest companies on the Santiago Stock Exchange declined by 25.3% during the first quarter. The sharpest falls were seen in sectors most exposed to the economic impact of the outbreak, including banking, construction, retail and airlines.

Movements have been extreme, including the largest one-day decline in more than three decades (down 14.3% on March 19th). However, after dropping below 3,000 points for the first time since 2009, share prices rallied by more than 20% during the final days of the quarter following the approval of major economic stimulus packages in Europe and the US.

Trading volumes reached CLP6.6 trillion (US$7.8 billion), down 30.2% from the frantic trading seen in the wake of last year's social unrest

Banking

The banking industry is set to play a key role in the coming months providing credit to families and businesses to survive the slump in economic activity. Most banks have heeded a call by the government to let individuals and companies in financial difficulties postpone loan repayments.

To help them, the Central Bank announced a new credit facility, available for the next six months, which will lend them the equivalent to 3% of their loan portfolio at the Bank's monetary policy interest rate on the conditions that they increase lending, especially to small businesses and individuals. It has also launched a program to buy US$8.0 billion of bank bonds.

Stamp duty on financial transactions has been cut to 0%, from 0.8% previously, for the next six months.

In addition, financial regulator CMF has delayed by twelve months the deadline by which Chilean banks must begin complying with Basel III capital requirements, which were originally required by the end of 2020.

By early April, the banking industry estimated it had received more than 600,000 requests to postpone repayments on consumer and mortgage loans, more than 90% of which had been approved.

Bank lending has continued to expand, rising by 7.3% in the twelve months to February to CLP193.3 trillion (US$227.4 billion). The increase was driven largely by increased corporate lending, which rose by 8.3% to CLP114.0 trillion (US$134.1 billion), and mortgage lending, which grew by 8.6% to CLP57.0 trillion (US$67.1 billion). However, consumer lending has slowed dramatically, growing by just 0.9% in the year to February to CLP27.4 trillion (US$32.2 billion), largely due to falling demand since last year's unrest.

Pension Funds

AFP Assets Under Management
(March 2020)

Type of fund	Amount (billions of pesos)	Change April 2019 - March 2020 (%, real in pesos)	Return April 2019 marcha 2020 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	16,728	-18.3	-8.2	80	40
B Funds	21,196	-8.0	-6.6	60	25
C Funds	49,532	-2.1	-3.45	40	15
D Funds	26,002	6.6	-2.3	20	5
E Funds	30,997	33.6	0.3	5	0
TOTAL	144.456	2.0			

Source: Pensions Supervisor (Superintendencia de Pensiones)

Total assets under management by Chile's pension fund administrators (AFPs) declined to CLP144.5 trillion (US$171.9 billion) by the end of the first quarter, down 9.9% from the end of last year, after the global sell-off in shares and bonds in March wiped out all of the gains made over the previous twelve months.

The largest losses were made in the riskiest A and B funds, which recorded negative returns of 8.2% and 6.6% respectively over the previous 12 months. The most conservative E funds achieved an average return of just 0.3%.

The total losses on the risker funds have been magnified by the movement of large numbers of savers to more conservative funds last year – more than 151,000 moved from A funds to E funds in December alone (the latest month for which data is available).

This year's losses mean that individuals close to retirement are facing much lower pensions than they were expecting just a few weeks ago. The situation has led to calls from some AFPs to create a sixth type of fund for near retirees that would completely shield them from the vagaries of financial markets.

AFP UNO has suggested that savers be allowed to withdraw up to 5% of their pensions savings to help them survive the downturn. However, the proposal was rejected by the authorities and the rest of the industry.

In April, the Supreme Court threw out injunctions brought by three individuals seeking to withdraw all their pensions savings.

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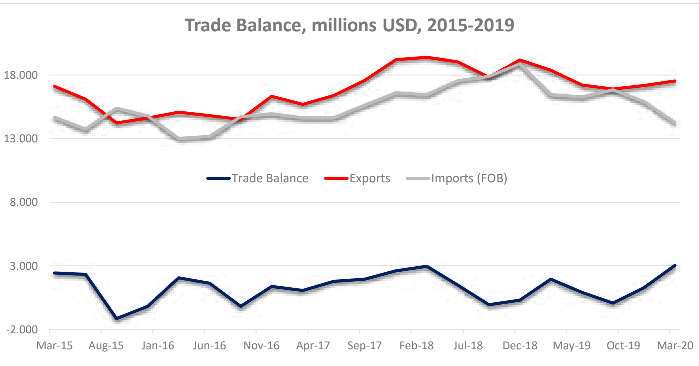
2
EXTERNAL SECTOR

2.1 Trade Balance

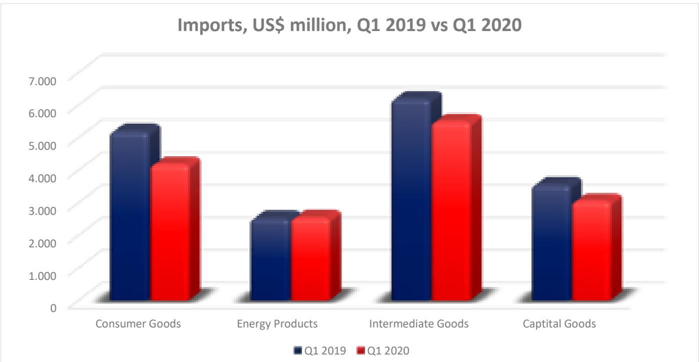
The Covid-19 pandemic is causing significant disruption to global trade flows, reducing demand for a huge range of products and triggering sharp falls in commodity prices.

Chile's exports during the first three months of the year fell to US$17.5 billion, down 4.0% from the same period of 2018, while imports declined 13.4% to US$14.2 billion. As a result, Chile's trade balance for the period reached US$3.3 billion, up more than 80% from a year ago.



Imports

The sharp decline in imports during the quarter reflected lower imports of consumer, capital and intermediate goods while fuel imports were little changed.



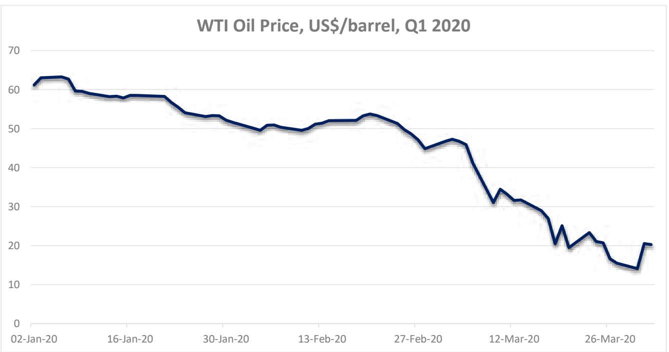
Imports of consumer goods reached US$4.2 billion, down 19.5% from twelve months earlier, mirroring declines in retail sales and consumer confidence since last year's unrest.

Imports of durable goods fell 31.3% to US$2.0 billion, including a 39.0% drop in car imports (to US$457 million) and a 56.7% drop in imports of televisions (to US$68 million). Clothing imports fell 20.9% to US$689 million.

Imports of capital goods declined 14.2% to US$3.1 billion compared to twelve months earlier. The hardest hit included imports of buses, which fell 59.8% to US$81 million, and mining and construction equipment, which fell 38.8% to US$158 million.

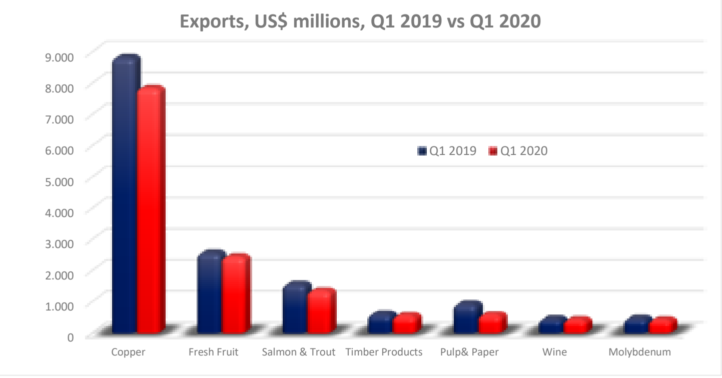
Imports of intermediate products fell 11.4% to US$5.5 billion, driven by lower imports of metallic and chemicals goods.

Fuel imports reached US$2.5 billion in the period, up 0.5% from twelve months earlier. While oil imports rose 5.7% to US$944 million and diesel imports by 8.3% to US$788 million, these were offset set by lower imports of coal, liquefied natural gas, and lubricants. At the end of the quarter, oil prices slumped to their lowest level in almost twenty years amid rapidly declining demand as a result of the Covid-19 pandemic and a price war between Saudi Arabia and Russia, two of the world's biggest oil producers. By early April, the West Texas Intermediate benchmark price had fallen to US$20.40 /barrel, compared to an average of US$57.10/barrel during 2019.



Exports

The fall in exports during the first three months of the year reflected a sharp drop in agricultural and industrial exports, offsetting a marginal increase in mineral exports.



Agricultural exports during the quarter fell to US$2.6 billion, down 5.5% from the same period of last year. Grape exports fell 7.8% to US$578 million, plum exports declined 25.6% to US$128 million while shipments of cherries declined 1.7% to US$1.0 billion.

The decline mirrors a fall in export volumes, which reached 1.1 million tons during the 2019-2020 season, down 4.8% from the previous season. Increased exports of grapes and cherries (up 27% to 228,548 tons) were offset by declines in avocados, apples and plums.

Fruit exports to China were hindered in February by government measures to contain the Covid-19 outbreak, which left around 2,000 refrigerated containers of Chilean fruit stranded in Chinese ports. Despite these difficulties, Asia overtook the US to become the principle market for Chilean fruit with shipments across the Pacific rising 10.3% to 366,645 tons while exports to the US declined 23% to 349,664 tons.

Industrial exports declined 9.9% to US$6.3 billion.

Paper and pulp exports fell to US$586 million, down 37.2% from twelve months earlier, largely on lower pulp prices. According to Empresas Copec, Chile's largest pulp producer, bleached softwood kraft prices in China averaged US$583/ton during the first three months of the year, down from 15% from a year ago, while hardwood pulp prices averaged US$475/ton, down 29.5%.

Forestry exports totalled US$557 million, down 9.1% from a year ago, as a 21.7% rise in shipments of woodchips was offset by sharp falls in exports of plywood, sawn timber and wood profiles.

Exports of salmon and trout reached US$1.4 billion, down 13.7% from twelve months earlier. The fall reflects lower demand in China as a result of the Covid-19 outbreak, tighter sanitary restrictions in Russia (the fourth largest buyer of Chilean salmon) and the cancellation of thousands of commercial flights (used to transport fresh salmon).

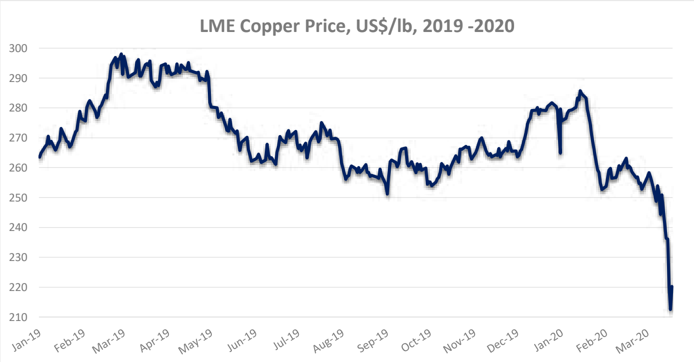
Wine exports during the first quarter reached US$429 million, down 5.4% from twelve months earlier, largely reflecting a 25.1% drop in shipments of bulk wine (to US$81 million). Bottled wine exports were little changed at US$429 million. Government figures for January and February showed export volumes of bottled wine rose to 73.3 million litres, up 9.0% from twelve months earlier. Exporters compensated for lower exports to China, as the largest wine market for Chilean wine was hit by the Covid-19 outbreak, with increased shipments to Brazil, Japan and the UK. Bulk wine exports fell 4.4% to 62.1 million litres, including a 17.3% drop in shipments to China.

2.2 Mineral Exports

Chile's mineral exports reached US$8.6 billion during the first quarter, up 1.3% from twelve months earlier, as increased shipments of iron ore, gold and silver offset lower exports of lithium carbonate and molybdenum concentrates.

Exports of copper, Chile's principal export, reached US$7.8 billion during the quarter, barely changed from twelve months earlier, despite the sharp fall in the price of copper. However, the figure marked a 12.6% fall from the final quarter of 2019.

Copper prices plummeted during the first quarter from over US$2.80/lb in mid-January, after the US and China signed a preliminary trade agreement, to less than US$2.20/lb by late March, their lowest level in four years, as the impact of Covid-19 on the global economy became clear.

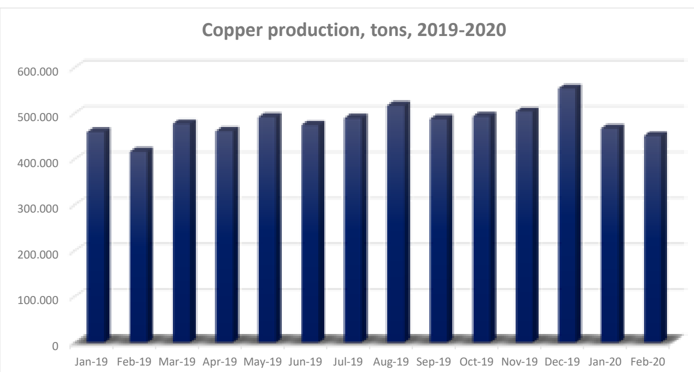


Prices averaged US$2.56/lb during the quarter, down from US$2.82/lb in the same period of last year.

If prices remain at current levels for a prolonged period, as some forecasts suggest, some mining companies could be forced to close less efficient operations.

However, there is significant divergence about how long these lower prices will last. In its latest Monetary Policy Report, released April 1st, the Central Bank forecast that copper prices will average US$2.15/lb this year, recovering to US$2.45/lb in 2021. Two days later, the Chilean Copper Commission lowered its forecast for 2020 to US$2.40/lb but predicted a sharp recovery in US$2.90/lb in 2021.

The mining industry has performed well so far this year with copper production reaching 919,333 tons during the first two months of the year, up 4.8% from the same period of 2019. This largely reflected the low base of comparison in the first quarter of 2019 when mine output was hit by a combination of floods in northern Chile, lower ore grades, and maintenance shutdowns.



The Covid-19 outbreak is likely to hinder mine production in the coming months as companies seek to protect staff from infection. Several major companies, including Anglo American, BHP and Codelco, have reduced staffing levels at their operations while work on major investment projects, including Antofagasta Minerals' INCO Los Pelambres, Codelco's Rajo Inca and Teck's Quebrada Blanca 2, has been suspended.

Exports of molybdenum, Chile's second most important mineral export, reached US$422 million in the quarter, down 11.9% from twelve months earlier, reflecting lower prices and production.

Molybdenum oxide prices averaged US$9.97/lb during the first two months of the year, down 12.5% from twelve months earlier. Production of molybdenum reached 9,092 tons in the same period, down 8.8% from a year earlier.

Iron ore exports rose 88.9% to US$242 million in the quarter. CAP, Chile's leading iron ore producer, has said it plans to export more than 16.0 million tons of iron ore this year, up from 9.3 million tons in 2019, following the reopening of its Guacolda II port facility last December.

Gold exports rose 41.2% to US$198 million, reflecting a 20.8% rise in the price of the precious metal to average US$1,587/ounce this quarter. Gold Fields and Kinross Gold have announced investments totalling US$1.1 billion to increase gold production in Chile. Exports of lithium carbonate fell 32.5% to US$165 million, reflecting the sharp fall in prices over the last year as well as disruptions related to the Covid-19 outbreak. SQM, Chile's leading lithium producer, expects prices to fall again this year as supply continues to outpace demand. However, both SQM and Albemarle Corp are pushing ahead with investments to increase production from the Salar de Atacama.

2.3 Chile-UK Trade

Bilateral trade in goods between Chile and the UK reached US$262.0 million in the fourth quarter of 2019, down 17.8% from the same period of 2018. Chilean exports to the UK totalled US$143.2 million, down 12.1% from twelve months earlier. While exports of fresh fruit reached US$54.4

million in the quarter, up 20.7%, exports of bottled wine declined 22.3% to US$32.4 million, and exports of pulp fell 11.7% to US$8.2 million.

UK exports to Chile declined to US$119 million, down 23.7% from the final quarter of 2018. Exports of consumer goods, led by cars and whisky, declined to US$43.0 million, down 29.9%, exports of intermediate goods fell 18.6% to US$45.9 million (reflecting the absence of oil shipments in the period), while exports of capital goods fell 19.4% to US$36.8 million.

2.4 Capital Flows

Current Account

Chile's current account deficit reached US$10.9 billion by the end of 2019, equivalent to 3.9% of GDP and up from US$10.6 billion in 2018.

The increased deficit was the result of a fall in inbound tourism and lower tax payments into Chile by non-resident taxpayers. These were partially offset by a decline in profits related to foreign direct investment into Chile.

In April, the Central Bank forecast that Chile's current account will move into surplus (US$800 million or 0.3% of GDP) this year for the first time in a decade. The country's trade surplus is expected to almost triple to US$11.9 billion as imports plunge to their lowest level in 15 years. The current account will return to a modest deficit (US$1.7 billion) in 2021 as imports rebound.

Financial Account

Chile recorded a financial account deficit of US$8.6 billion last year, down from US$10.6 billion in 2018, reflecting a sharp rise in foreign direct investment by Chilean companies.

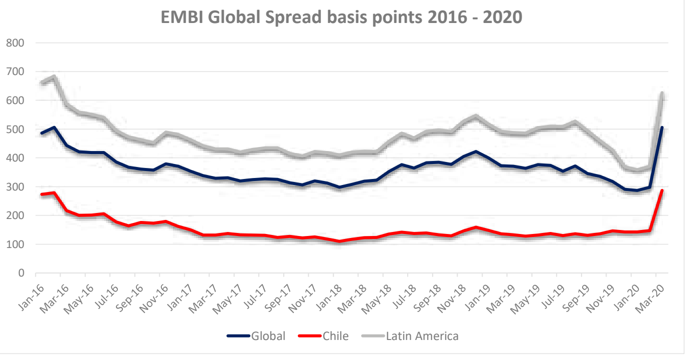
Outward direct investment reached a net US$8.4 billion as Chilean companies made contributions to subsidiaries in Brazil, Peru, the US and the Netherlands, while net Foreign Direct Investment into Chile reached US$11.9 billion, driven by capital contributions in the utilities, mining and services sectors.

Financial investment into Chile reached US$11.7 billion, driven by the acquisition of long-term corporate and government debt. Meanwhile, Chileans, led by the AFPs, invested US$3.3 billion abroad last year, down from US$4.1 billion in 2018, largely reflecting the sale of long-term foreign debt.

Chile's net international investment position fell last year to US$40.1 billion, down 36% from 2018 and its lowest level since 2015, reflecting the rise in the stock of foreign investment and higher share prices around the world.

By the end of January, Chile's foreign debt reached US$205.9 billion, an increase of 10.9% over the previous twelve months. A 28.4% increase in government debt (to US$31.1 billion) led the rise followed by the 14.1% increase in non-financial corporate debt (to US$82.0 billion).

Meanwhile, Chile's international reserves reached US$37.5 billion by the end of March, down 3.2% from twelve months earlier, and the equivalent to 9.4 months of forecast imports.



Risk premiums have soared amid concerns over the impact of the Covid-19 virus on emerging economies. JP Morgan Chase's Emerging Bond Index (EMBI) for Chile reached 287 basis points by March, its highest level since the global economic crisis.

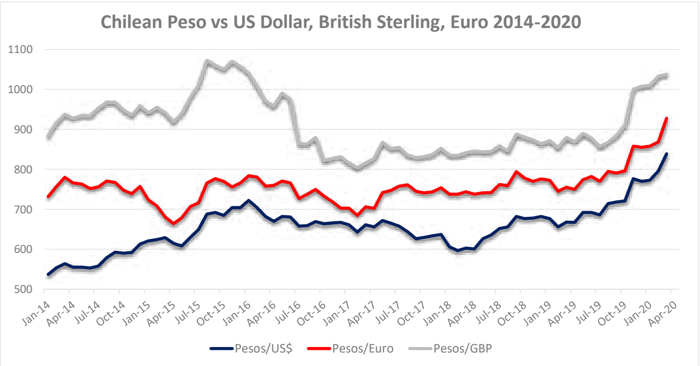
Similarly, five-year Credit Default Swaps on Chile debt soared to 139.6 basis points by March 30th, their highest level in four years and up from an historic low of 29.0 basis points reached last September.

2.5 Exchange Rate

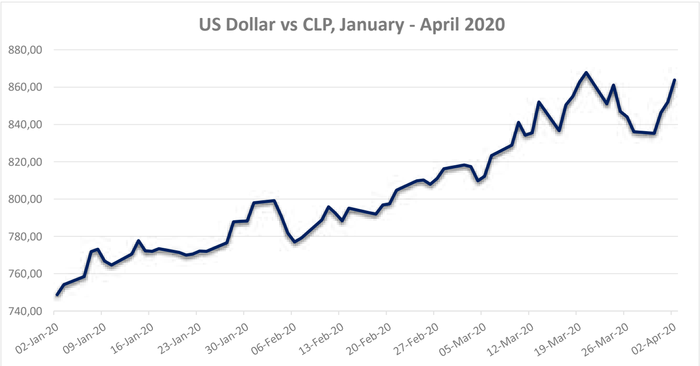
The Chilean peso has depreciated sharply against the US dollar as investors flee emerging markets amid the turmoil in financial markets.

By March 19th, the US dollar had soared past the peaks reached in the wake of last October's unrest, setting a new record above CLP860/dollar, up 16% from the end of 2019. The peso recovered in late March, moving below CLP840/dollar again on the back of economic stimulus packages approved in the US and Europe and the extension of the Central Bank's foreign currency sales until January next year.

However, by early April it had moved back above CLP860/dollar as more evidence emerged of the spread of Covid-19 and its impact on the global economy.



Unlike last year, when social unrest in Chile caused the Chilean peso alone to devalue, this time the US dollar has appreciated against almost all emergency market currencies. The Real Exchange Rate – calculated by the Central Bank based on a trade-weighted basket of currencies – reached 107 by late March, surpassing the highs seen at the end of last year and above its 20-year average.



Source: Central Bank

AngloAmerican

Personas que marcan la diferencia en minería.

#LaMineríaNoLeFallaAChile

3

QUATERLY INSIGHT: FIXING CHILE'S HEALTH SECTOR

3.0 QUATERLY INSIGHT: FIXING CHILE'S HEALTH SECTOR

The growing Covid-19 crisis will to place Chile's healthcare system under unprecedented strain just as it is facing other challenges.

Healthcare in Chile is considered amongst the best in South America. Its doctors are respected and it is home to some of the region's most advanced hospitals.

Taking one indicator of health, life expectancy has risen steadily over the last four decades from 67.2 years in the late 1970s to 80.2 years in 2016, comparable with the average for members of the Organization of Economic Cooperation and Development (OECD).

But the country lags far behind other OECD members and even within South America on other measures of healthcare. The country's 39,000 hospital beds mean that there are just over two for every 10,000 individuals. That compares to five in neighbouring Argentina and more than eight in Germany.

It also lacks trained medical staff, with just sixteen medical doctors per 10,000 people, compared to an OECD average of 34.

Chile currently spends around 8.4% of GDP annually, but these resources are unevenly distributed.

Almost four-fifths of the population are cared for through the public health service, which is financed by the national health fund FONASA through a mix of taxation and social security contributions.

However, half of spending on health occurs in the private sector.

As a result, spending per patient under the private health insurance providers known as ISAPREs is estimated to be 39% higher than under FONASA. This inequality is even greater when one considers that ISAPRE affiliates tend to be younger and healthier on average than the general population.

According to the doctors' association Colegio de Medicos, Chile's 40,000 doctors spend more than half their time attending to private patients who represent just over 20% of the population, leaving less time for the rest of the country.

As a result, the standard of healthcare for most Chileans can be deficient. Waiting times for many medical procedures can be long, more than two years in the case of knee replacement surgery. In some parts of the country, it can be difficult to see a doctor.

Moreover, healthcare can be very expensive, even in the public sector, with patients paying more than a third of medical bills themselves (compared to an average of 20% in developed economies), largely due to the high cost of some medicines.

Unsurprisingly the poor state of public healthcare was a key complaint during last year's social protests.

Recent governments have strived to improve public healthcare, by pumping resources into the sector. Public spending on health has almost tripled over the last decade to CLP9.0 trillion (US$10.5 billion) last year.

Special emphasis has been placed on improving infrastructure. The current administration plans to spend US$10 billion on 75 new hospital projects, a third of which will be completed by the time it steps down in 2022. Several are being rushed into service to deal with the expected surge in demand caused by the Covid-19 outbreak.

More is being done to retain doctors in the public sector (their numbers rose by more than a third between 2014 and 2018) which in turn has helped to bring down waiting times.

But many believe that these improvements are not commensurate with the huge increase in spending since 2010 and that further progress will only be achieved through structural change.

In the wake of last year's protests, President Sebastian Pinera unveiled legislation to transform FONASA into a public health insurance scheme.

Rather than targeting health spending on specific conditions, the new system would cover 80% of all patients' medical bills, including medicines (while the over-60s and those living below the poverty line will receive 100% coverage).

Lawmakers were due to beginning debating the bill in the coming weeks.

En Marsh estamos comprometidos con apoyarlos a llevar su negocio a otro nivel, por eso, contamos con un equipo experto, que puede asesorarlo en cómo enfrentar estos desafíos de mejor forma.

Contamos con soluciones en materia de respuesta y recuperación que pueden ayudarle a responder de la mejor manera al COVID-19.

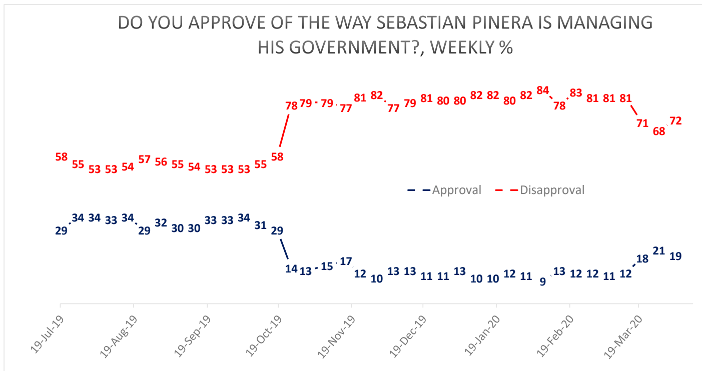
MARSH & McLENNAN COMPANIES

4

POLITICAL CONTEXT

4.0 POLITICAL CONTEXT

Since the appearance of the first case of Covid-19 in Chile on March 3rd, the government has rolled out progressively stricter measures to slow its spread through the population. While resisiting calls for a total shutdown, like those implemented in neighboring Argentina and Peru, President Sebastián Piñera has used emergency powers under a 90-day state of catastrophe to impose a nationwide nighttime curfew, close schools, shopping centres and other places where people mingle, shut the borders to foreigners and prohibit all but essential movement in some districts, including the main business and commercial centers of Santiago.



The government's rapid response appears to have paid off so far. Propogation of the disease appears to have been slower than some European coluntries with just 3,737 cases detected within the first month. However, the govenrment is preparing for a huge increase in the number of cases over the coming weeks, making an additional US$1.4 billion available for the public health service, opening new hospitals early and converting convention centres to the task. The crisis is likely to place Chile's health system under severe strain.

After months of stalling on the government's legislative agenda, the opposition-controlled Congress has acted quickly to approve emergency bills to respond to the crisis, including a US$11.8 billion package of economic measures, an expansion of unemployment insurance, and more flexible labor rules to support business.

Lawmakers have also approved key parts of the government's response to last year's social crisis, including a US$2.2 billion tax hike and a new guaranteed monthly income of CLP350,000 (US$404) for around 700,000 low-wage earners. In January, the government unveiled its new proposal for pensions reform under which employers would contribute the equivalent to 6% of an employee's wages to the pensions system, half of which would go to the worker's indivudal account and the rest redistributed to those living on low pensions.

Support for the government has risen since the start of the health emergency, but remains at historically low levels. A March 30th poll by Cadem found that 21% of respondents approved of President Piñera's performance, his highest poll rating since the start of last year's social unrest, while disapproval declined from over 80% to 68%. Close to 90% of respondents supported measures taken to control the virus, such as closing restaurants and shopping centres.

In March, the government and lawmakers agreed to postpone the referendum on a new constitution (orginally scheduled to take place on April 26th) until October when it is hoped the health emergency will have passed. Campaigns for and against the prosposal were just beginning in March before being suspended amid fears of infection. Polls suggest that most Chileans support a new constitution although the majority has shrunk from 86% in late December to 67% by mid-February.

Following a lull during the summer months, mass protests of the type which rocked Chile late last year resumed in early March. The government estimated that at least 800,000 people marched through downtown Santiago on March 8th to mark International Women's Day, the largest protest to take place since late October. But dozens of protests planned for the rest of the month were called off in the face of the Covid-19 outbreak.

5
ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

Like hundreds of countries around the world, Chile is facing a period of significant hardship as economic activity is curtailed in order to bring the Covid-19 pandemic under control.

The health emergency will hit Chilean economy from several directions. As well as keeping factories and shops closed for weeks at a time, the crisis will also reduce demand for its exports, from copper to wine, disrupt financial markets, and slow foreign investment. A significant contraction of the economy is certain.

The length and severity of the downturn will depend on to a large extent on how long it takes for the pandemic to disappear. In its latest Monetary Policy Report, the Central Bank assumes that many of the restrictions now being imposed could be lifted by the end of the second quarter, allowing the economy to return to normal during the second half of the year and paving the way for a vigorous recovery (3.75-4.75%) in 2021.

But, as the Bank acknowledges, there is huge uncertainty about how long the pandemic will last. While the number of people infected in Chile and other countries is likely to peak within the coming weeks, the experience of past global pandemics suggest that the disease can often return, at least until a reliable vaccine is developed and made available (a process which is expected to take 18 months). As this report went to print, residents of the Chinese city of Wuhan, which was placed under quarantine in January, were being told to remain indoors again on fears of a second upsurge.

The Central Bank's second key assumption is that Chilean families and businesses will be able to access the credit they require to survive a transitory freeze in economic activity. The authorities have taken unprecedented steps to help them, with almost US$17 billion worth of subsidies, benefits, loans and tax breaks and massive intervention in financial markets. Despite these efforts, the current emergency is set to have a long-term impact on the health of Chile's corporate sector, the state of its public finances and the country's social fabric.

Beyond the current emergency, Chile still faces a period of prolonged political uncertainty, first with the referendum on a new constitution (now delayed until October) and then, assuming Chileans vote in favour, a further two years to debate and approve the new document. This issue will likely overshadow politics for the rest of the current government, slowing other reforms, and with the risk of renewed social unrest.

	Central Bank [1/]	Private analysts [2/]
GDP (% annual variation)	-1.5 - 2.5	1.5
Inflation (% annual variation)	3.0	3.2
Monetary-policy interest rate (% annual, nominal, end-year)	0.50	0.50

1/ Monetary Policy Report, December 2019.
3/ Average of selected private analysts surveyed by Central Bank, January 2020.

6. LATIN AMERICA REGIONAL NEWS

Argentina: In February, the International Monetary Fund began talks with Argentinean authorities on its ability to repay the fund's record US$57 billion bailout loan. Talks were suspended in March without a deal as Argentina implemented a nationwide lockdown to contain the spread of the Covid-19.

Bolivia: Elections to choose a new government, following the resignation of Evo Morales last November, were due to take place on May 3rd, but were suspended after interim president Jeanine Áñez announced a state of emergency to deal with the Covid-19 outbreak.

Brazil: Just ten days after predicting growth of 2.1% in 2020, the government slashed its growth forecast to zero, citing the impact of Covid-19. Support for President Jair Bolsonaro fell sharply after he played down the risk posed by the virus.

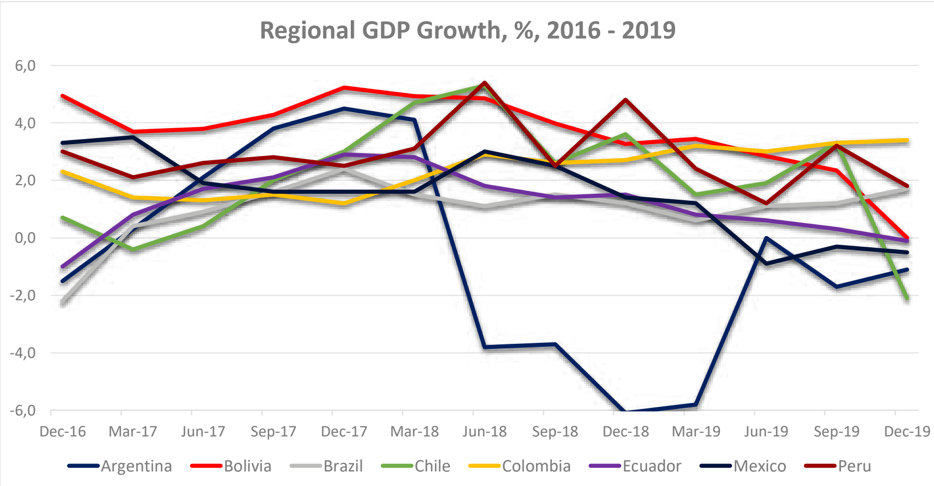
Colombia: Fitch Ratings downgraded Colombia's credit rating to BBB with a negative outlook in March as the economy faced a 0.5% contraction, compared with growth of 3.3% forecast just a few weeks earlier.

Ecuador: President Lenin Moreno has delayed interest payments on some government bonds and sought emergency funding from the IMF as the country struggles amid the collapse in oil prices and the Covid-19 emergency. The city of Guayaquil is suffering one of the worst outbreaks of the disease in South America

Mexico: The Mexican economy could shrink by almost 4.0% this year as it faces the twin threats of the Covid-19 crisis and the slump in oil prices, the government has said. President Andrés López Obrador has come under fire for his tardy response to the health crisis with mass meetings only banned in the final week of March.

Peru: Parliamentary elections in January resulted in major losses for the once-powerful APRA and Fuerza Popular parties, both linked to recent bribery scandals, suggesting strong popular support for President Martín Vizcarra's anti-corruption program. His poll ratings hit almost 90% after he swiftly implemented a nationwide lockdown to combat the Covid-19 outbreak.

Venezuela: The easing of restrictions on the use of foreign currency late last year had injected some life into Venezuela's moribund economy. But the Covid-19 emergency, reducing remittances from the country's more than four million emigrants, and the collapse in the oil price are expected to cause yet more hardship.



UK ECONOMY Q4 - 2019

As usual, the UK Economic update is based upon the latest official figures. Like other major economies, the UK is facing significant economic disruption due to Covid-19, some of which is yet to be reflected in the latest data. As a result, this section begins with a few words on the UK Government's response to Covid-19 before reporting the latest economic results, mostly drawn from the fourth quarter of 2019.

1. COVID19 Response

On March 11th, Rishi Sunak, Chancellor of the Exchequer, introduced a Budget that contained a large-scale loosening of fiscal policy. This included a £30 billion short-term injection to deal with the economic fallout of the health crisis, £12 billion targeted at specific Covid-19 measures, and an additional £175 billion for infrastructure and investment projects over the next five years. The following week, Sunak announced an unprecedented additional package of support of £330 billion of guarantees – equivalent to 15% of UK GDP. This package aims to protect business and workers against the current economic emergency through a series of measures. These include significant changes to the operation of statutory sick pay, universal credit, and employment and support allowance to ensure that people have quicker and more generous access to a support system. The government has taken further immediate steps to give businesses access cash to pay their rent, salaries or suppliers.

2. Economic growth

GDP growth was flat both in January and the three months leading up to January. The construction sector grew by 1.4% in this period, but the UK's dominant service sector flat lined, and production fell by 1.0%. In the month of January, services grew by 0.1%, offset by a 0.1% contraction in production and a 0.8% fall in construction. The National Institute for Economic and Social Research maintained its GDP growth forecast of 0.2% for Q1 2020, but noted, "the outbreak of COVID-19 poses a major threat to that outlook". In that regard, the OECD downgraded its growth forecast for the UK economy to 0.8% for both 2020 and 2021, down 0.2% and 0.4% respectively. As the effects of Covid-19 are felt more keenly, these forecast are likely to be revised down once again.

3. Inflation

Annual Consumer Price Index (CPI) and CPIH[1] inflation rates were both 1.7% in February, down 0.1% from January. This continued a trend of low UK inflation, which has remained below the Bank of England's 2% target since August. Falls in the price of motor fuels, games, toys and hobbies resulted in the largest downward contributions to the 0.1% change in the inflation rate. These figures do not include the impact of Covid-19 and economists expect inflation to fall significantly because of the pandemic, driven by a fall in oil prices and weaker economic activity. Whole economy regular pay growth (excluding bonuses) in January fell 0.2% on the month to 3.1%, whilst total pay growth (including bonuses) rose 0.2%, also to 3.1%. When adjusted for inflation real wages have grown for 19 consecutive months.

4. Monetary policy

On March 19th, the Bank of England Monetary Policy Committee voted unanimously to cut interest rates by 15 basis points to a record-low of 0.1% in an attempt to reduce economic disruption from Covid-19. This followed another emergency cut of 50 basis points to 0.75% just a week before. The bank will also expand its quantitative easing programme, increasing its holdings of UK government and corporate bonds by £200 billion to a total of £635 billion, largely to improve liquidity in government bond markets. The Bank stated the economic shock could "Prove sharp and large, but should be temporary", referencing the impact on commodity prices and government bonds, the extreme levels of uncertainty in financial markets, and the deteriorating outlook for global and UK growth.

5. Labour market

The UK employment rate in the three months up to January 2020 was estimated at 76.5%, a joint-record high. The UK unemployment rate in the three months to January 2020 was estimated at 3.9%, largely unchanged compared to a year earlier, but 0.2% higher than the previous

Including housing costs.

three-month period. The economic inactivity rate (which refers to those who are not actively seeking work) continued to fall to a record low of 20.4%, 0.3% lower than a year earlier. The increase in the employment rate was largely driven by increases in female employment (up by 171,000) and full-time employment (up by 225,000).

6. Trade

The underlying total trade deficit (excluding non-monetary gold and other precious metals) narrowed by £3.9 billion, from £4.4 billion in November to £0.5 billion in December. This was largely driven by a narrowing of the goods deficit by £6.3 billion, down to £23.9 billion, as imports of machinery and transport equipment, chemicals, and miscellaneous manufactures fell. The trade in services surplus also narrowed but by a smaller amount (down by £2.4 billion to £23.3 billion). Including non-monetary gold and other precious metals, the total trade balance increased by £19.5 billion to a surplus of £14.0 billion, as the typically volatile exports of precious metals rose by £13.3 billion.

7. Government finances

Public Sector Net Borrowing in the first eleven months of the financial year was £44.0 billion, £4.2 billion higher than the same period last year. However, the deficit in current spending for the first eleven months of the financial year was £2.4 billion, £0.4 billion less than in the same period the previous year and the lowest since 2001/02. Public Sector Net Debt fell by 1.1% compared with February 2019, to 79.1% of GDP.

Brexit Update

The United Kingdom officially left the European Union on January 31st.
Following its withdrawal from the trade bloc, the UK has entered an eleven-month transition period during which it will remain in both the EU customs union and single market. As a result, although UK Members of the European Parliament no longer sit in Strasbourg, not much has changed in most people's daily lives.
UK citizens can still travel, live and work in the EU without restrictions and trade between the UK and the EU is continuing without any additional charges or checks.
The transition period is designed to give both sides time to negotiate permanent trading arrangements that will come into force from December 31st 2020.
The UK and the EU set out their opening positions in February. The EU favours giving the UK a large degree of unhindered access to European markets in exchange for which London would have to commit to keeping UK regulations in line with those enforced by Brussels.
However, UK Prime Minister Boris Johnson has said that the UK must gain the right to set its own rules even if that means reduced access to the country's largest market for exports.
Sticking points include state aid for industry, which the EU strictly regulates, and fishing rights over waters around Great Britain, which the UK is keen to recover.
The gap between the two sides' positions has led many observers to speculate that eleven months may not be enough time to negotiate a full free trade agreement, a process which typically takes several years. Instead, both sides have said that they hope to agree on the outlines of a deal by next October, giving time for lawmakers to ratify the partial agreement by the end of the year.
If a deal is not reached, Mr Johnson has said that he is prepared to take the UK out of the customs union and single market without a deal, in line with last year's campaign promise to "get Brexit done."
Negotiations on the new trade agreement were due to begin in March but were delayed after both the UK's chief negotiator David Frost and his EU counterpart Michel Barnier tested positive for Covid-19.