CHILEAN ECONOMIC REPORT

FIRST QUARTER 2021

1 ST EDITION 2021 - PRODUCED SINCE 1922

Cámara ChilenoBritánica

100 años 1917-2017






Marsh
Tus desafíos, nuestro propósito
Este es un tiempo extraordinario para todos.
Los desafíos son grandes, pero también las posibilidades. El futuro del trabajo, la resiliencia climática, la disrupción digital, el bienestar y la salud mental.
Te acompañamos por más de 60 años, navegando la incertidumbre y descubriendo oportunidades en las áreas de riesgo, estrategia y personas.
Y mientras encaramos juntos este nuevo mundo, hay algo que no va a cambiar.
En Marsh, estaremos siempre junto a ti en los momentos que importan.
marsh.com
Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.
Copyright © 2021 Marsh LLC. All rights reserved.

By late March, Chile had overtaken Israel, the United Kingdom and the United States to become the country that was immunizing most people each day (relative to the size of its population). By March 29th, just over 6.5 million people, or a third of the population, had received at least the first shot. Of these, almost three million have received both doses.

This is clearly good news, but it has not yet had sufficient impact to stop new quarantine measures having to be imposed on a large percentage of the population, as infection rates have surged after a relaxation of social distancing measures at the end of last year. Elections previously planned for April have now been pushed back to mid-May to avoid mass gatherings and further contagion.

Greg Holland
General Manager
British Chilean Chamber of Commerce
Santiago, Chile

Despite this situation the Chilean economy is recovering more quickly than previously expected, with the Central Bank predicting growth as high as 7% for 2021.

But the recovery remains highly uneven between different sectors, led by retail sales thanks to cash becoming available from recent pension withdrawal opportunities. It will be interesting to see what happens if the opposition's proposals for a third pensions drawdown come to fruition. Construction and the services sectors continue to lag and are being hard hit as a consequence of the latest lockdown, and it is in these sectors where unemployment is hurting most. But with copper prices at around US$4.00/lb and predicted to stay at these near to record highs for the rest of this year, there is a reasonable chance that the expected rapid recovery can really happen if the latest bout of contagion can be contained until the vaccination program starts to take effect. Let us all do our bit by being careful and sticking to the rules. Here at the Chamber, we are happy to report that our eight committees have made a great start to the year, getting you, our members, together to share experiences and hear the latest news and analysis.

Economic Report Committee: Peter Lynch, Audit Manager, BHP. Leslie Hemery, Vice-President, British Chilean Chamber of Commerce. Guillermo Tagle, President, Credicorp Capital. Andrew de la Mare, External Consultant, Jorge Selaive, Chief Economist, Scotiabank Chile. Gareth Taylor, Head of Economic Affairs & Sustainable Development, British Embassy in Chile. Tom Azzopardi, Editor in Chief, Chile Explore Group. Greg Holland, General Manager, British Chilean Chamber of Commerce.

- Production coordinator: María Isabel Juppet C.
- Electronic version of the report: www.britcham.cl
- Design and layout: María Eugenia Gilabert P.
- Printer: A Impresores S.A.

CHAMBER PATRONS 2021

AngloAmerican

ENGIE

HSBC

Bupa

gsk

MARSH & McLENNAN COMPANIES

CHAMBER SPONSORS 2021

MAINSTREAM RENEWABLE POWER

BHP

DIAGEO

G4S

ANTOFAGASTA MINERALS

wood.

INDEX

KEY POINTS

- The Chilean economy is recovering more quickly than expected from the shock caused by the Covid-19 outbreak and could grow by as much as 7.0% in 2021, the Central Bank has predicted.

- The outlook has been bolstered by the rapid rollout of the government's mass vaccination program which has administered at least one shot to more than seven million people while 4.2 million have received both doses. The campaign is expected to immunize 80% of the population by the middle of the year.

- However, infection rates have soared to record levels since early March forcing the government to reintroduce strict quarantine measures across Santiago and other major cities, dampening projected economic activity during the second quarter. By late March, roughly 80% of Chile's population was under lockdown, meaning they could not leave their homes without authorization.

- The labour market has continued to recover with the number of people in work growing by one million over the last six months, representing half of those who have lost their jobs since the pandemic began. The unemployment rate remains in double digits as more individuals classed as inactive begin to look for work again.

- The recovery remains highly uneven between different sectors of the economy. While retail sales are booming, thanks to the boost to household income provided by pension withdrawals, services and construction continue to lag both in levels of activity and employment.

- Copper prices have soared to over US$4.00/lb, their highest level in a decade, as investors wager on a strong recovery for the global economy in 2021. If prices stay high, they will boost Chilean exports and government revenues.

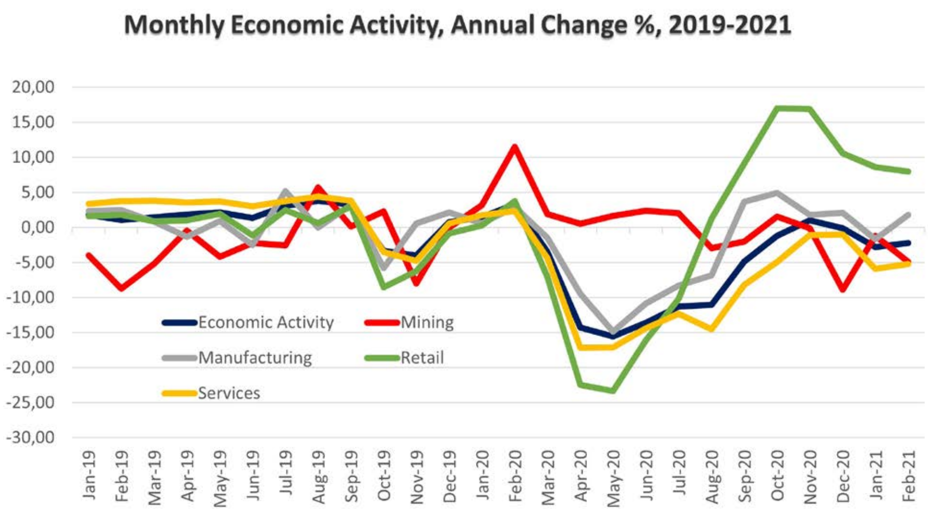
- Inflation is set to rise to almost 4.0% by the middle of the year as energy prices recover from the last year's slump in oil demand. However, slack in the economy should ensure that it moves back towards the Central Bank's 3.0% target rate by December.

- The government has struggled to control the legislative agenda with the opposition majority in Congress advancing bills to impose new taxes on mining companies and millionaires and allow households to draw down more of their pension savings.

1

DOMESTIC ECONOMIC PERFORMANCE

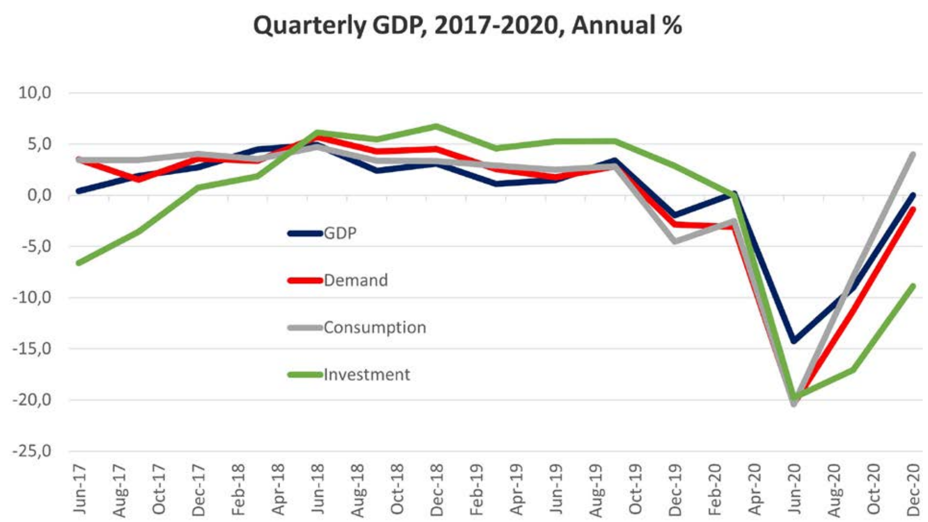
1.1 Domestic Economic Activity



Source: Central Bank of Chile

The Chilean economy has continued to recover from the unprecedented shock caused by the global Covid-19 pandemic which caused the economy to contract by 5.8% last year. Although the economy contracted by 2.8% and 2.2% in January and February compared to twelve months earlier, the level of activity remains significantly above the average for last year. February also had one fewer day than February 2020.

However, the recovery remains uneven across different sectors. While manufacturing and retail have matched or surpassed pre-pandemic levels of activity, sectors more exposed to social-distancing measures, such as services and construction, continue to lag, holding back overall growth.

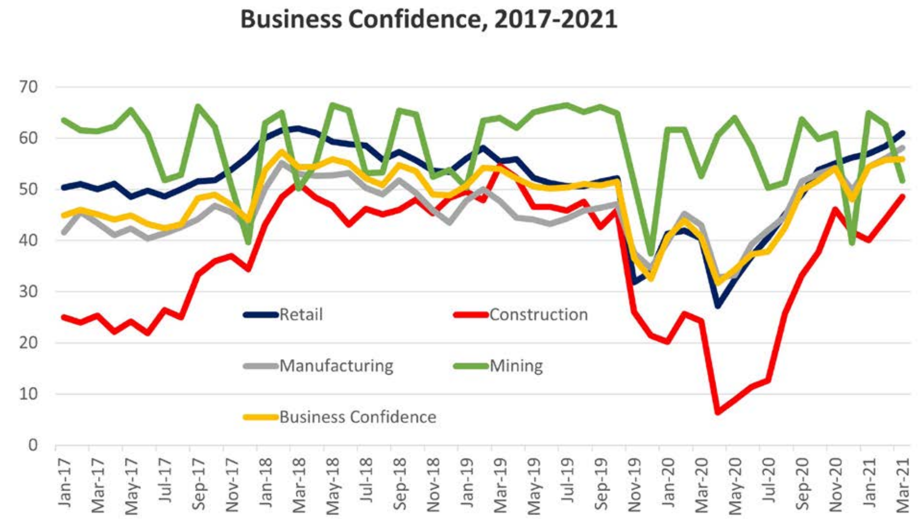


Source: Central Bank of Chile

Confidence in a robust recovery in 2021 has been boosted by the strong finish to 2020. After declining by 14.2% and 9.0% in the second and third quarters respectively, economic activity returned to year-ago levels in the fourth quarter (helped by a low base of comparison because of 2019's social unrest). The recovery was driven principally by consumption, particularly private consumption, as households spent the two pension withdrawals approved by lawmakers in July and December last year.

In its latest Monetary Policy Report, published in late March, the Central Bank lifted its growth forecast for 2021 to 6.0-7.0%, up from 5.5-6.5% three months earlier. The government and private analysts have also adjusted their predictions in recent weeks, eyeing growth of 5.0% and 6.2%, respectively. The reintroduction of strict lockdown measures from late March is expected to dampen economic activity in the second quarter. But while activity will slow compared to the first quarter, the Central Bank said it will not return to the lows of the second quarter of 2020 as companies and households have adapted to life under lockdown conditions.

Consumption, both government and private, will continue to be the major driver of economic growth during 2021. The Central Bank is predicting a double-digit expansion this year, following last year's contraction of 6.8%, as household income recovers, and withdrawn pension funds are spent. The recovery in investment is expected to be much slower as, outside the energy and mining sector, most companies have halted all expansion projects due to uncertainty over the pandemic and high levels of corporate debt.



Source: Adolfo Ibáñez University, ICARE

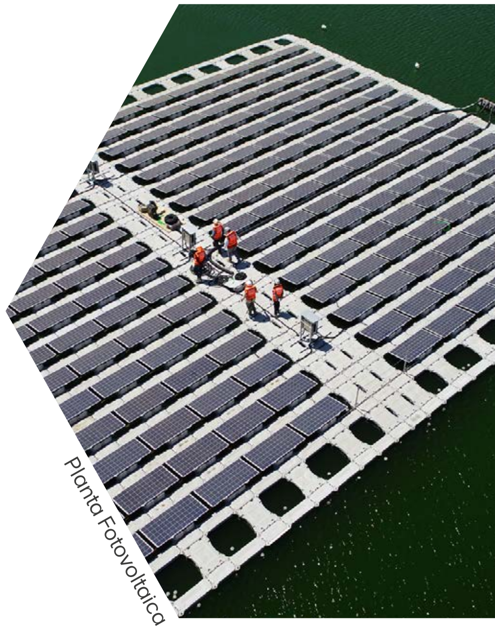
Business confidence has continued to recover with the Adolfo Ibáñez University and ICARE's IMCE index reaching 55.76 points in February, up 13 points from six months earlier and its highest level in almost three years. Optimism improved across all sectors although executives from the construction sector remain gloomier than counterparts in manufacturing and retail who moved back into positive territory in the final quarter of last year.
A survey of business leaders by the Central Bank published before the reintroduction of lockdown measures revealed high levels of uncertainty about the duration of the pandemic and social-distancing measures with some companies in the services sector warning that a return to lockdown could mean the end of their businesses.

AngloAmerican

Personas que marcan la diferencia en minería.

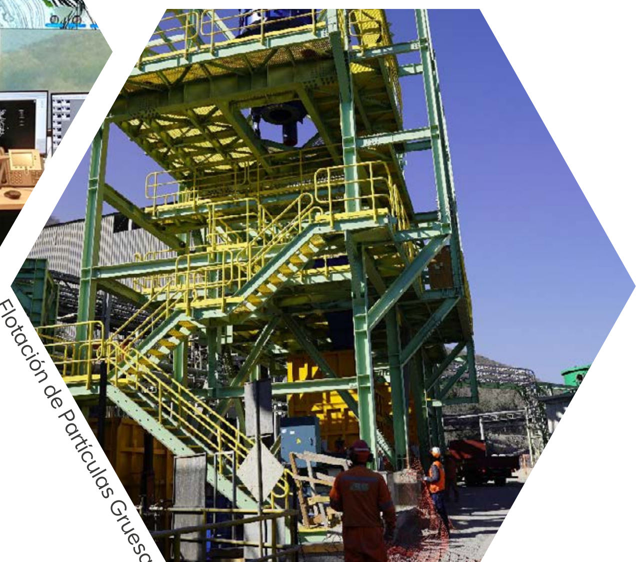
La innovación es parte de nosotros

Estamos avanzando a paso firme hacia la minería del futuro, con operaciones cada vez más seguras, sustentables y eficientes.



Planta Fotovoltaica

Centro Integrado de Operación Remota



Flotación de Partículas Gruesas

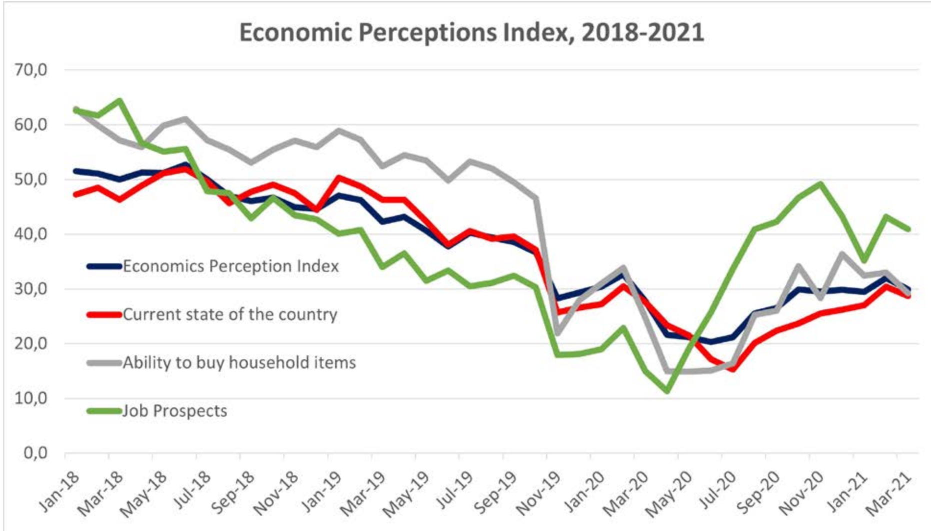
Flota de buses eléctricos

Programa Agua Rural

Gemelo Digital

Conoce más en

chile.angloamerican.com

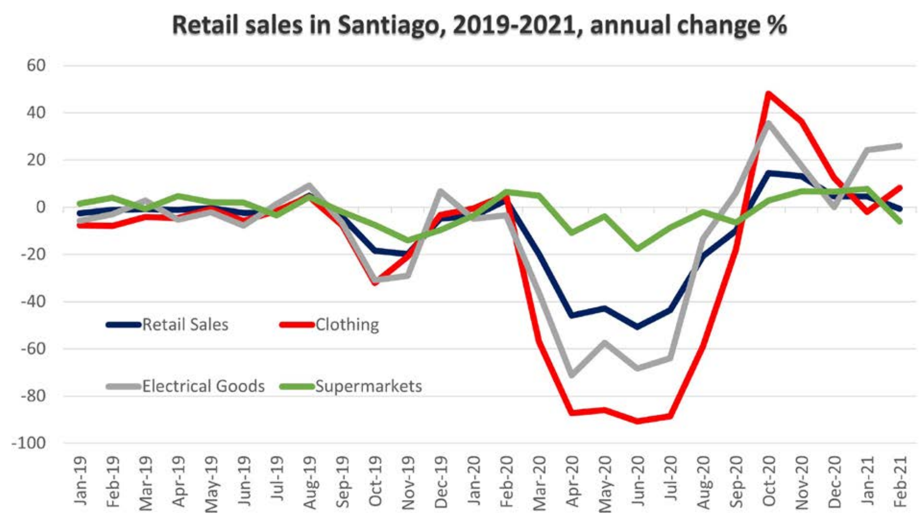


Source: GfK

Rising consumer confidence has been knocked back by the reintroduction of lockdown measures. After reaching its highest level in February since the start of the 2019 social unrest, GfK's Economic Perception Index fell two points in March to 29.92 points. In particular, optimism in the economic outlook for the next twelve months dropped 4.6 points to 39.3 points.

1.2 Key Sectors

Retail

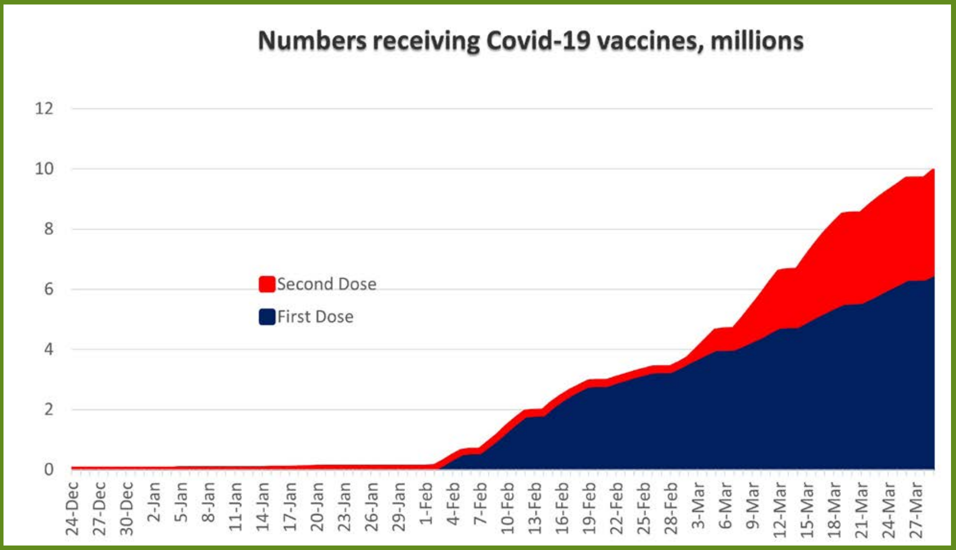


Source: National Retail Chamber

The key driver of economic growth over the last six months, retail activity has begun to slow as the impact of the second pensions withdrawal wears off. In February, retail grew by 8.0%, down from 16.9% last November.

Back to lockdown

The rapid rollout of the government's mass vaccination programme has been unable to prevent a rapid surge in Covid-19 infections, forcing the reintroduction of strict lockdown measures across much of Chile.



Source: Ministry of Health

Launched in early February, following the delivery of almost four million doses of the Chinese Sinovac vaccine, the mass vaccination program has been designed to reach those at risk from the virus first, with healthcare workers, the elderly, those with underlying diseases, and other priority groups at the front of the queue.
Take-up has been rapid with thousands attending large vaccination centres or mobile clinics in every city and town each day. By April 6th, just over 7.1 million people, or more than a third of the population, had received at least the first shot. Of these, almost 4.3 million have received both doses.

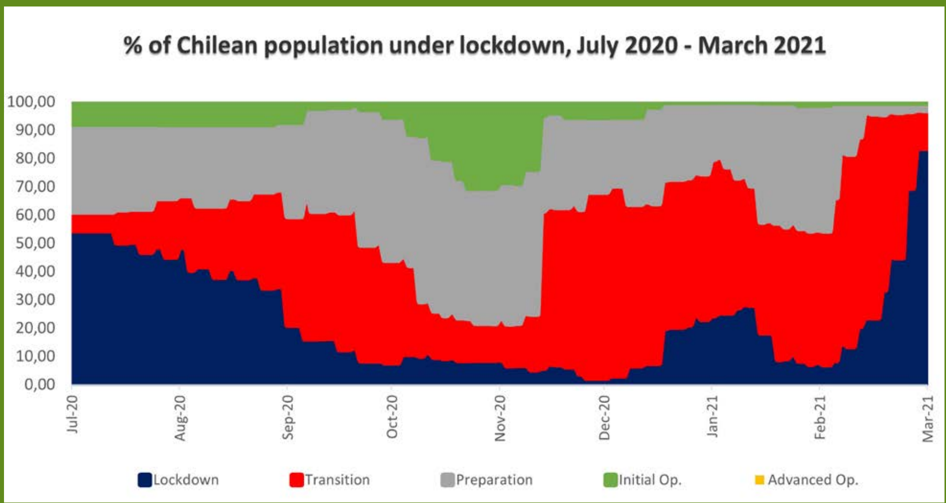
By late March, Chile had overtaken Israel, the United Kingdom, and the United States to become the country that was immunizing most people each day (relative to the size of its population).

The highly successful start means that Health Minister Enrique Paris is confident that the government will meet its target of immunizing 80% of the population (around 15 million people) by June 30th.

That should mean social-distancing measures can be gradually eased during the second half of the year, boding well for economic growth. However, doubts remain about how effective the vaccines will prove at halting the spread of the disease.

Recent tests of the Sinovac vaccine (the one received by most Chileans so far) found that it was 100% effective in stopping patients from becoming seriously ill or dying but only 54% effective in preventing infections (compared to 90% for the Pfizer vaccine). It is also unclear how effective they are against new strains of the virus which have appeared (or could emerge in the coming months).

Despite the success, Chile remains far from achieving herd immunity. Instead, following the relaxation of social-distancing measures late last year and over the summer, the country is now in the grip of a second wave of Covid-19 infections almost as deadly as the first.
After remaining below 2,000 for most of the second half of last year, infection rates surged to over 8,000 new cases reported each day by early April, surpassing the peak of the first wave of infections in the second quarter of last year. Although patients are more likely to survive than last year's victims (due their lower average age and improved treatment techniques), this second wave of infections has put renewed strain on Chile's healthcare system, with the number of intensive care beds available nationally falling below 200, or less than 5% of the total.
In response, the government has reimposed strict lockdown measures across the country so that by the end of March, 82% of the population (including all of Santiago, Concepción, and Valparaíso) could not leave their homes without authorisation, up from just 10% in January.



Source: Ministry of Health

Although the government had hoped to be able to ease restrictions in time for the constitutional, gubernatorial, and municipal elections on April 10th-11th, experts warned that this would be too soon given the high contagion rates. On April 6th, lawmakers backed a government proposal to delay the votes until May 15th-16th, suggesting the lockdown will remain in place until then.
With almost all schools, restaurants, and non-essential stores set to remain closed for the coming weeks, the move is likely to have a chilling effect on the economic activity during the second quarter of the year.

Retail sales in Santiago grew by just 0.7% in February, down from 4.5% in January, largely due to a 6.0% fall in supermarket sales, while sales of electric goods and domestic appliances remained strong. Car sales during the first two months of the year totalled 49,476 units, down 13.4% from a year ago, reflecting delays unloading vehicles at San Antonio, Chile's principal port.

Services

Services, which account for almost half of GDP, remain the main drag on the economy contracting by 5.2% in February, reflecting reduced activity in restaurants, hotels, transport, and other personal services due to social-distancing measures.

Tourism recovered slightly after the government allowed families to make a single trip between regions during the summer season, but still the number of overnight stays in January remained 40% below last year's levels. With many international borders still closed, the aviation industry continues to operate at a fraction of capacity. Passenger numbers fell almost 70% in February from a year ago.

Fast food sales have recovered significantly, recording an annual fall of just 3.0% in December, compared to almost 80% in last March. However, the reintroduction of lockdown measures across Santiago and other major cities could lead to another sharp fall.

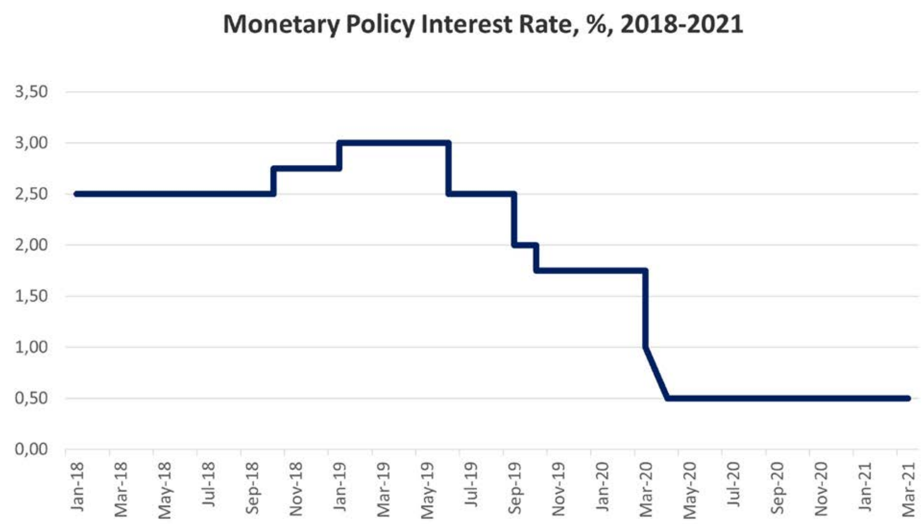
Manufacturing

Manufacturing output fell 0.6% in the year to February, driven by lower food production (especially food for fish), a drop in production of equipment and machinery and production of metal products. Meanwhile, chemical production rose 20.4%, driven by fertilizer production.

Construction

The building sector has recovered significantly with activity returning close to pre-pandemic levels in January. This follows a 14.1% contraction in 2020, largely due to a fall in residential building caused by social-distancing rules.
In January, the Chilean Chamber of Construction predicted that the sector would grow by up to 9.6% this year as social-distancing measures are eased, business confidence recovers, and the government increases public investment to stimulate the economy.

1.3 Monetary Policy



Source: Central Bank of Chile

At its second meeting of the year, held on March 30th, the board of the Central Bank voted to maintain its benchmark interest rate unchanged at 0.5%, marking a whole year at this level.

However, in a change of tone, the Bank said that it would be necessary to maintain the current monetary stimulus for several more quarters until the recovery "takes hold and spreads to the more lagging components", in place of the two-year horizon stated in previous announcements.

The shift mirrors growing international concern about the return of inflation and guidance from central banks around the world, including those in Brazil and Mexico, that they are planning rate hikes over the coming months. Analysts surveyed in early March expected the bank to raise the rate to 1.0% by the middle of next year, 25 basis points more than predicted one month earlier.

The Central Bank also said that it will maintain non-conventional measures implemented since late 2019 to provide liquidity and stability to financial markets, including the Loan Conditional Credit Facility for banks, the asset-buying program and the Flexible Credit Line with the International Monetary Fund.

In January, the Central Bank announced that it will buy US$12.0 billion worth of foreign currency over the next 15 months to replace and expand its depleted international reserves in preparation for the expiration of the IMF line next year (See 2.5 Exchange Rate).

1.4 Fiscal Policy

In its latest report on the state of public finances, published in February, the government budget office predicted that spending would remain stable this year at approximately CLP 56.1 trillion (US$76.1 billion), following last year's 11% expansion.

Government revenues were forecast to rise in 2021 by 19.3% to CLP49 trillion (US$66.5 million), up from CLP47.0 trillion predicted late last year, as a result of the higher copper price and increased revenues from non-mining taxpayers in 2021. This prediction was made before copper prices soared above US$4.0 a pound.

As a result of the sharp recovery in government revenues, the public deficit is expected to end the year at 3.3% of GDP, down from 7.4% in 2020, which was Chile's largest deficit in almost half a century.

However, with the worsening of the pandemic since February and the extension of lockdown measures, the government has been forced to increase public spending again to support vulnerable families and small businesses through the coming months.

On March 22nd, President Piñera announced a new US$6.0 billion package of measures. They include:

1) The extension of the Emergency Family Income of CLP100,000 (US$139) per family member per month to 80% of households in districts under full lockdown for two weeks or more during April, May, and June. It will benefit 10.4 million individuals.

2) A one-off bonus worth CLP500,000 (US$696) to individuals with an income of up to CLP1.5 million (US$2,087) plus a three-year soft loan. These will benefit around two million people at a cost of up to US$1.9 billion.


Bupa
Seguros
Suscripción digital de asegurados
Plataformas de reembolso Web y APP
Biblioteca Virtual
Telemedicina
Atención Remota
Bonificación en línea
Chatbot Consultas
Bupa Seguros
Rut
123456789
Contraseña
Recuperar Contraseña
Iniciar sesión
Seguros Complementarios de Salud
100% digitales para tu empresa

3) A bonus worth CLP 100,000 for retirees with pensions worth less than CLP408,125.

4) An extension of unemployment insurance for dismissed and suspended workers worth 80% of their previous wage and a new jobs subsidy of CLP50,000 (US$70) per month during six months for new workers in formal employment.

5) An additional US$200 million in subsidies for small and medium-sized enterprises. State bank BancoEstado will also roll over loans to SMEs.

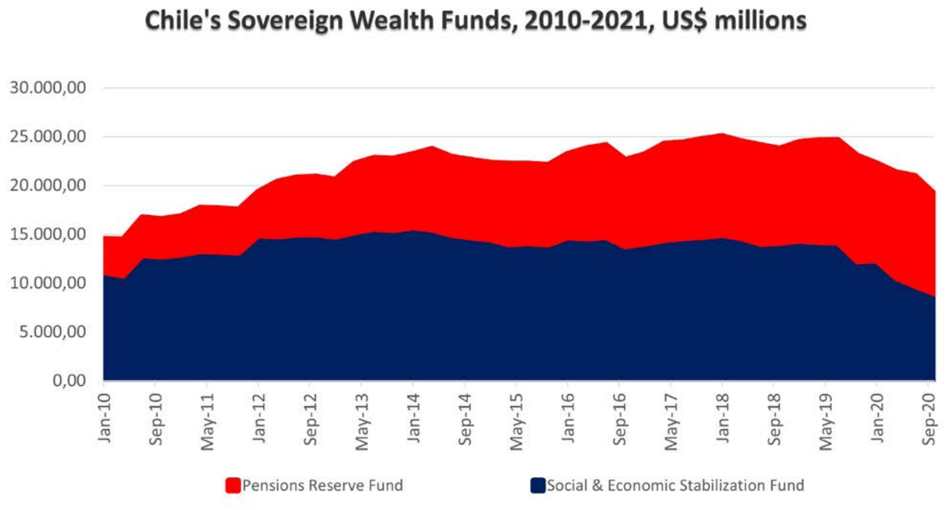
6) An additional US$300 million to support the country's healthcare system.

The first three measures were approved by Congress on April 5th.

The package represents a 50% increase on the US$12.0 billion Covid fund agreed with lawmakers in June last year to mitigate the impact of the lockdown.

Despite the additional expenditure, the government still has room for manoeuvre. It has only spent half of the funds agreed in the original fund while Finance Minister Rodrigo Cerda said that the measures will be paid for through the higher copper prices expected this year (which could increase government revenues by up to US$4.0 billion) as well as possible drawdowns from the Social & Economic Stabilization Fund. Additional funds could be raised through redistributions within the current budget.

The government has withdrawn a total of US$9.3 billion from Chile's two sovereign wealth funds since 2018, reducing the value of assets held by the funds by almost a quarter to US$19.1 billion at the end of January.

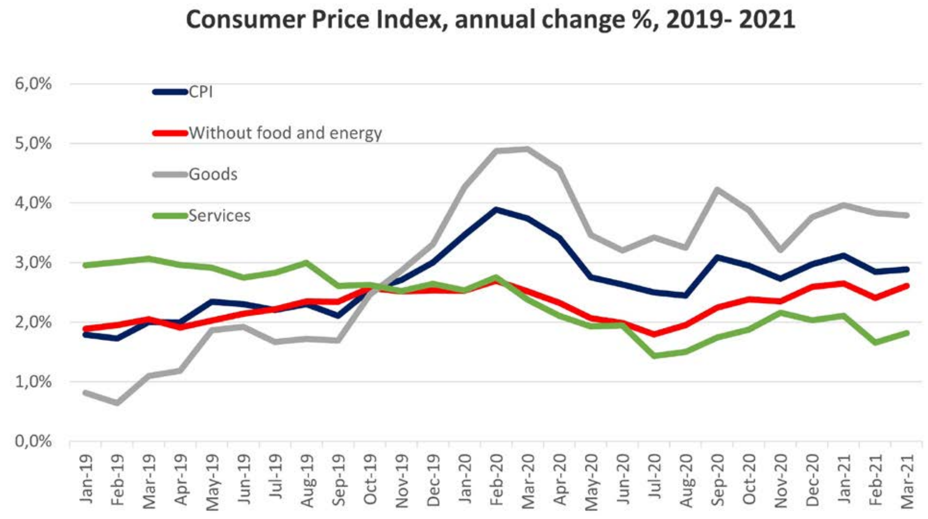


As the pressure on spending grows, warnings about the sustainability of Chile's public finances have increased. In March, following Piñera's announcement, S&P Global Ratings became the second major ratings agency to downgrade Chile's sovereign debt since the 2019 social unrest. The agency cut its credit rating from AA+ to A (with a stable outlook), citing a decade of deteriorating finances and the likelihood that government debt will continue to grow over the coming years amid popular pressure for increased public spending.

Government debt is expected to reach CLP 75.0 trillion (US$101.8 billion) by the end of the year, equivalent to 34.9% of GDP, up from 21% five years ago.

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

1.5 Domestic Prices



Source: National Statistics Institute

Inflation has slowed in recent months with the government's Consumer Price Index rising by 0.2% and 0.4% in February and March respectively, down from 0.7% in January. As a result, the index rose by 2.9% in the year to March.

The decline largely reflects a slowdown in the price of services, which rose by just 1.8% in the year to March, down from 2.2% five months earlier. Meanwhile, goods prices rose by 3.8%, spurred by rising food and energy prices, the latter driven by the recovery in global oil prices.

Not counting volatile energy and food prices, prices rose by just 2.6% in the year to March.

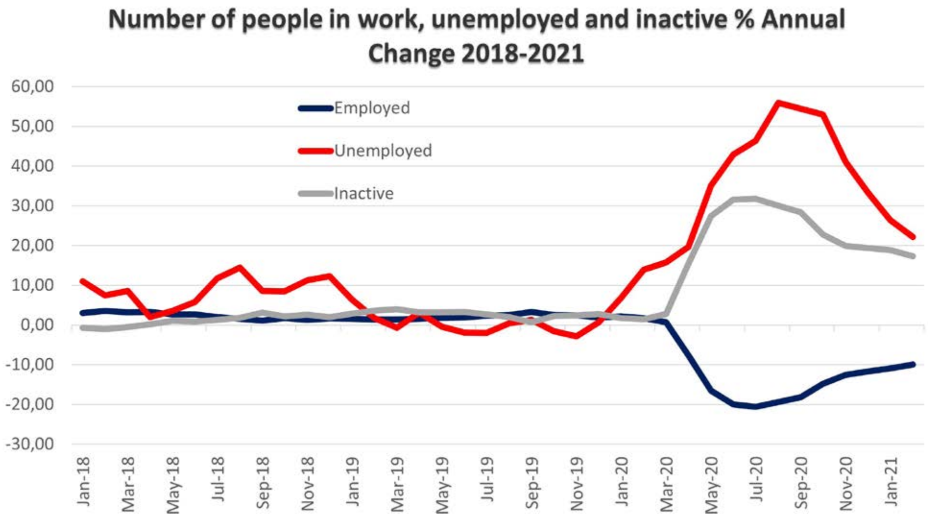
Inflation is expected to rise again in the coming months as the recent rise in fuel prices contrasts with the sharp drop in oil prices during the second quarter of last year. In addition, strong demand for and the limited supply of some durable goods, especially electronic items and cars (as families spend more of their pension withdrawals), could cause further price increases. Companies have also complained of rising logistics costs, especially in shipping.

However, with the economy still running roughly 10% below capacity and unemployment still high, these inflationary pressures are expected to be transitory. After rising to 4.0% by the middle of the year, the Central Bank said that it expected the CPI to move back towards its medium-term target of 3.0% by December. Analysts surveyed by the Central Bank in April predicted that the index would end this year at 3.2%, up from 2.8% predicted seven months earlier.

Juntos y juntas construimos un futuro más sostenible

MAINSTREAM
RENEWABLE POWER
CHILE

1.6 Labour Market

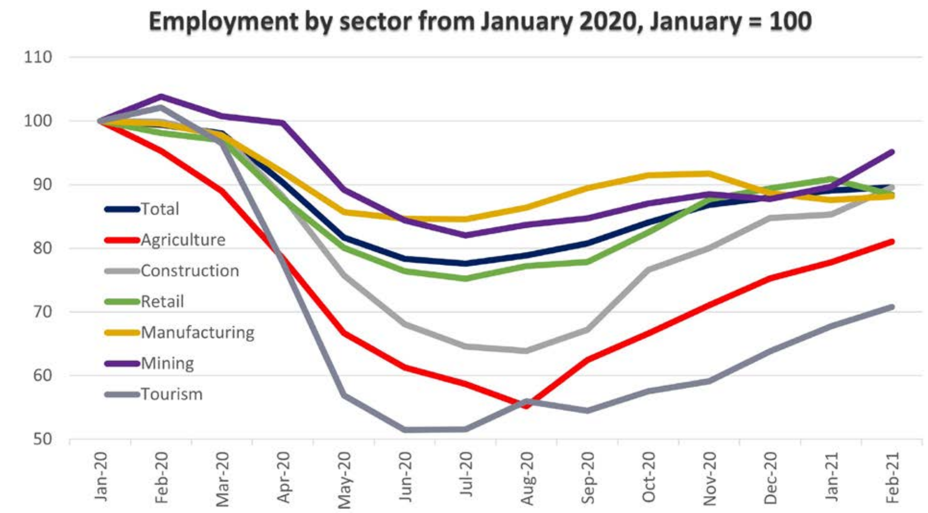


Source: National Statistics Institute

The labour market has continued to recover with the number of people in work averaging almost 8.2 million in the three months to February, one million more than six months earlier, while the number of people classed as inactive has fallen by 740,000 over the same period. The number of vacancies posted online has recovered to levels not seen since before the 2019 social unrest.

This has not yet led to a significant decline in unemployment. After declining from a peak of 13.1% in July, the jobless rate has stabilized at around 10.3% in the last three rolling quarters, as individuals previously classed as inactive begin looking for work again.

Workers' incomes have moderated. After rising by 4.9% in the year to November, their fastest rate since mid-2019, the government's wage index rose by just 4.1% in February on an annualized basis.



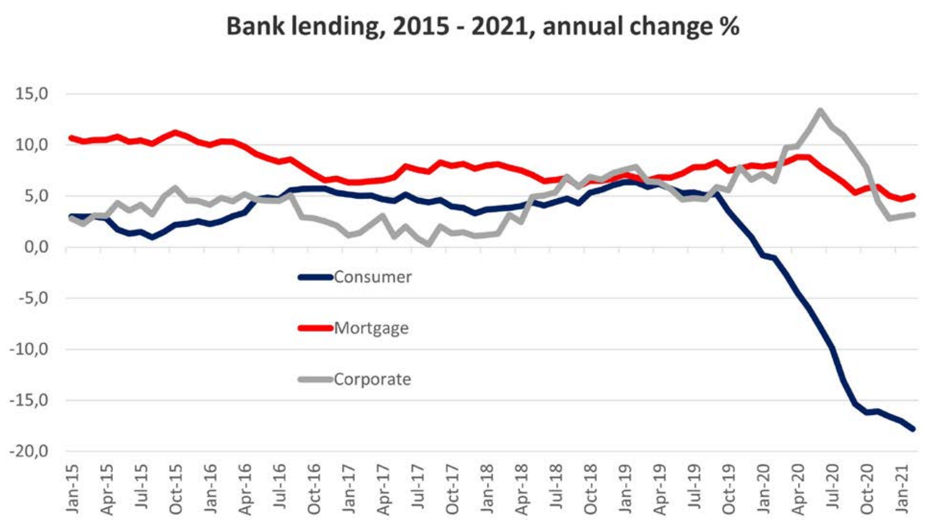
Source: National Statistics Institute

There are almost one million fewer people in work than at the start of the pandemic, especially in areas of the economy which have not fully recovered, such as construction and tourism. However, even in sectors which have returned to pre-pandemic levels of activity, employment has not bounced back to the same degree. Despite the boom in retail sales over recent months, the number of people employed in the sector remains 200,000 below its peak in December 2019. According to the Central Bank, this may reflect caution by employers as well as the transition to less labour-intensive ways of operating, such as e-commerce.

In March, the government announced the extension of measures to support the labour market, including a subsidy of CLP 50,000 per month for new employees under contract for at least six months as well as improvements to unemployment insurance.

1.7 Financial Markets

Banking



Source: Financial Markets Commission

Bank lending has slowed dramatically over the last six months, reversing a key factor in the reactivation of the economy since the middle of last year.

In the year to January 2021, bank lending fell 0.5% to CLP 195.4 trillion (US$264 billion), its first contraction in over a decade, dragged down by a sharp fall in consumer lending and slowing corporate lending.

Consumer lending declined 17.3% to CLP 23.3 trillion (US$31.7 billion), continuing a trend seen since last year, while mortgage lending grew by 4.2% to CLP 60.4 trillion (US$83.9 billion).

Corporate lending reached CLP116.0 trillion (US$157.8 billion), barely changed from a year ago, compared to growth of 13.3% in the year to June 2020.

Corporate lending over the last year has been driven by the government's FOGAPE program of state-backed loans which has awarded loans worth US$14.6 billion, largely to small and medium-sized businesses. In contrast, lending to large corporations fell by 3.8% over the same period.

Unlike the first version of the program, the new FOGAPE Reactiva allows companies to borrow to finance new investments. It is supported by a third version of the Central Bank's credit facility for banks to support business lending under which banks have so far borrowed approximately US$1.5 billion.

However, with many companies halting investments due to the uncertain economic panorama, most corporate lending has been directed at refinancing existing loans.

Increased spending on loan losses provisions saw bank profits fall 54.7% to US$1.6 billion last year.

Debt markets

The interest rates and spreads on Chilean bonds have continued to decline, but emissions have fallen to historically low levels as companies delay investments. Longer term interest rates have risen as the outlook for the Chilean and international economy has improved and on expectations of rate hikes by central banks in the US and elsewhere.

Stock Markets

Source: Santiago Stock Exchange

Share prices in Chile have rallied strongly since November in line with gains seen in bourses around the world as investors anticipate stronger economic growth with the rollout of the vaccination program. The IPSA index of thirty largest companies listed on the Santiago Stock Exchange ended March above 4,900 points, its highest level since January 2020 and up 15.1% since the start of the year.

The rally contrasts with the performance of other share indexes in South America which have largely fallen. Brazil's Bovespa has lost 2.5% this year while Colombia's COLCAP has fallen 8.1%.

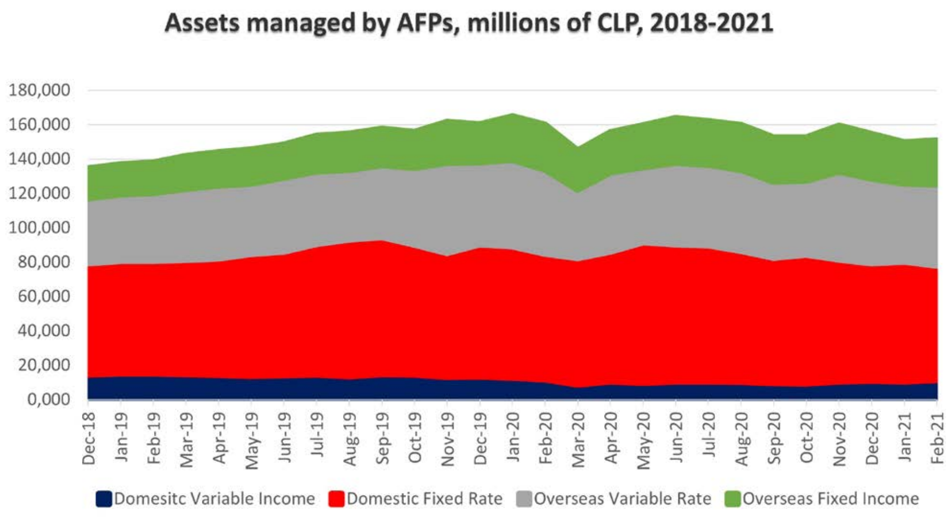

¿Cómo te aseguras de comunicar las cosas que importan en los informes no financieros?
A medida que los actores de la sociedad exigen más transparencia, la sostenibilidad es cada vez más importante en las empresas. En EY tenemos las personas, la experiencia y conocimientos en marcos internacionales de reportabilidad como el Task Force on Climate-related Financial Disclosures (TCFD) para agregar valor a tus divulgaciones no-financieras.
Conoce más en **eychile.cl**.
The better the question. The better the answer. The better the world works.
EY
Building a better working world

Pension Funds

AFP Assets Under Management
(November 2020)

Type of fund	Amount (billions of pesos)	Change March 2020 - Feb 2021 (%, real in pesos)	Return March 2020 Feb 2021 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	22,338	4.2	3.4	80	40
B Funds	22,497	-12.2	3.0	60	25
C Funds	51,048	-11.2	0.9	40	15
D Funds	26691	3.5	-0.9	20	5
E Funds	29,854	10.3	1.2	5	0
TOTAL	152,429	-4.3			

Withdrawals under legislation passed by lawmakers last year has caused the value of Chile's pensions funds to continue to fall. By the end of February, Chile's seven pensions fund administrators (AFPs) controlled assets worth CLP 152.4 trillion (US$207.0 billion), down 4.3% from a year ago.



Source: Superintendency of Pensions

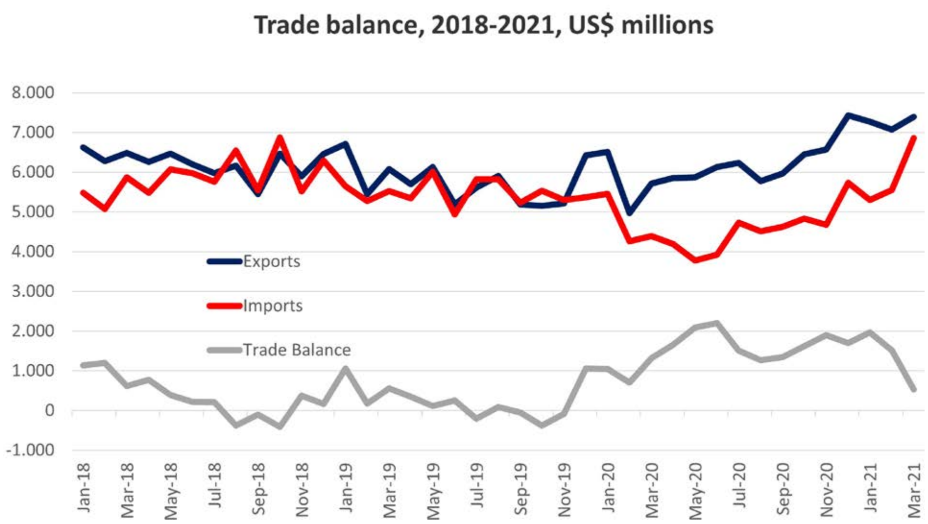
By the end of March, savers had withdrawn a total of US$34.8 billion, the equivalent to around 12% of GDP, from the funds. That month, opposition lawmakers submitted a bill to Congress allowing savers to make a third withdrawal of up to 10% of the savings.

In March, lawmakers approved legislation limiting how often savers can switch between funds and requiring pensions advisors to register with Chile's financial markets commission and contract loss insurance. The government legislation aims to shield savers from the losses caused by frequent fund movements as well as the market volatility that the advisers' recommendations can trigger.

2
TRADE BALANCE

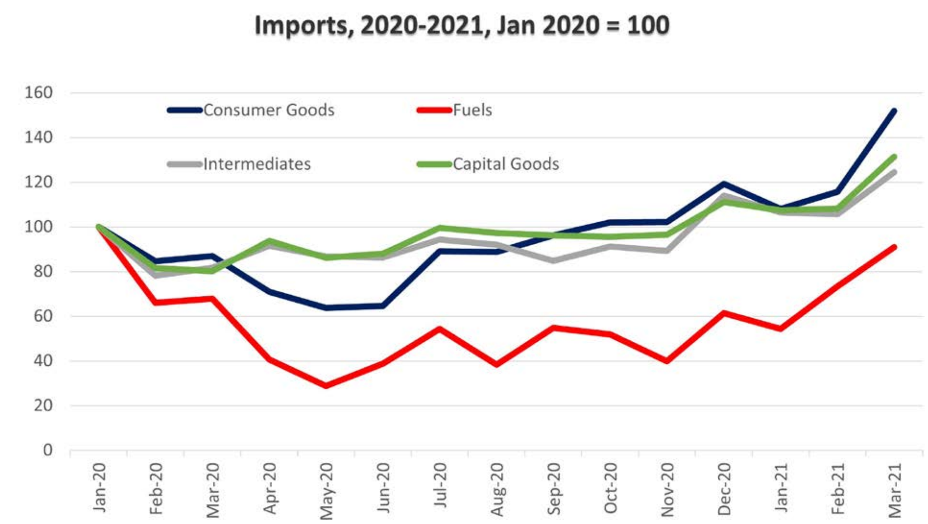
2.1 Trade Balance

Chile's trade balance reached US$4.0 billion in the first three months of 2021, up 30.7% from twelve months earlier, as exports jumped following the rally in copper prices. However, in March, the monthly trade surplus shrank to just US$535 million, its lowest level since November 2019 as imports surpassed pre-pandemic level amid a rise in domestic consumption and investment.



Source: Central Bank of Chile

Imports
Imports reached US$17.7 billion during the first quarter of 2021, up 25.4% from the same period of 2020.



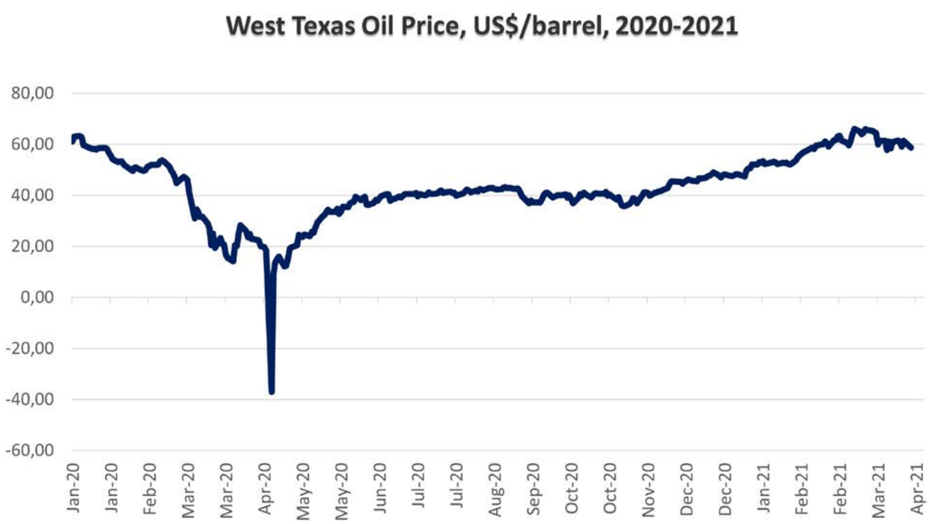
Source: Central Bank of Chile

The rise was driven by imports of capital, consumer and intermediate goods which all rose by around a third while energy imports fell slightly.

Imports of consumer goods rose 37.6% to US$5.7 billion, following a 68.9% rise in consumer durables to US$2.3 billion (led by cars, computers, mobile phones, and domestic appliances).

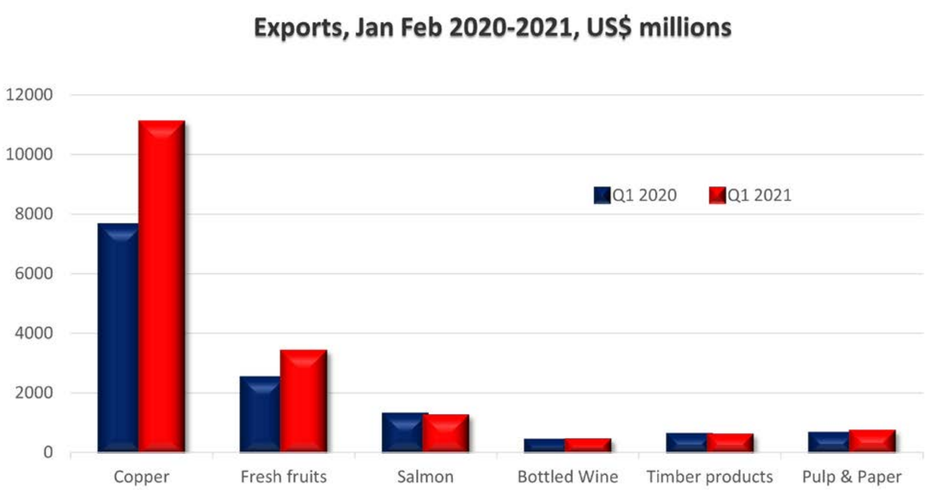
Capital goods imports rose 32.6% to US$4.0 billion, reflecting the expected increase in investment this year. Imports of lorries and other goods vehicles rose 42.9% to US$588 million, imports of construction and mining equipment rose 50.9% to US$237 million, while imports of electric motors, generators, and transformers rose 51.6% to US$348 million.

Energy imports fell 6.4% to US$2.3 billion, reflecting reduced imports of crude oil, diesel, and natural gas. However, the value of Chile's energy imports are rising in line with the recovery in oil prices since last November. By mid-March, the West Texas Intermediate benchmark had reached US$65/barrel, up 38% from the start of the year and its highest level since late 2018. Chile's oil imports reached US$353 million in February, their highest level in over a year.



Source: St Louis Federal Reserve

Exports



Source: Central Bank of Chile

NUESTRAS MEJORES MARCAS LISTAS PARA ESTAR EN TU BAR.

Cómpralas escaneando
este código QR

o ingresando a
micoca-cola.cl/the-bar

#MENORESNIUNAGOTA

BEBE RESPONSABLEMENTE. PRODUCTO PARA MAYORES DE 18 AÑOS.

Chilean exports reached US$21.7 billion during the first quarter, up 26.4% from a year earlier, driven by increased agricultural and mineral exports.

Chile's agricultural exports rose to US$3.5 billion, up 33.5% from the same quarter of last year. The rise was driven by cherry exports, which doubled to US$1.9 billion. This offset falls in exports of grapes, apples, and pears while shipments of blueberries rose 19.4% to US$498 million.

Cherries, shipments of which have risen sixfold over the last decade, are now by far Chile's most important fruit export. This year's sharp rise comes despite a scare in China, which buys more than 80% of Chile's cherries, linking imported fruit to Covid-19 outbreaks.

Industrial exports were barely changed during the quarter at US$6.2 billion. Pulp and paper exports rose 11.1% to US$652 million, driven by a recovery in shipments of short and long fibre pulp. The jump reflects a 9.1% jump in volumes, reflecting the impact that the Covid-19 pandemic had on global trade in early 2020.

Increased demand has begun to impact prices with bleached softwood kraft averaging US$590/ton in the final quarter of last year, its highest level since 2019, according to producer Empresas CMPC. However, long-fibre pulp prices were little changed at US$465/ton.

In contrast, timber exports fell 5.0% to US$526 million, as a sharp drop in exports of woodchips offset rising exports of wood profiles, plywood, and wood fibre boards.

Salmon exports fell to US$1.2 billion in the quarter, down 5.1% from a year ago. While export volumes rose slightly to 223,000 tons, values were hit by a fall in salmon prices since last year. The industry has warned that exports could be hit this year by the fall in the number of flights, particularly between Santiago and Miami, due to pandemic-related travel restrictions.

Shipments of bottled wine rose 3.3% to US$360 million during the first three months of the year. A report by agricultural statistics office ODEPA using data for January and February showed a fall in wine volumes (down 8.8% to 137.4 million litres) offset a 5.9% rise in prices, especially for bottled wines. Meanwhile, exports to China, the largest market for Chilean wine, have risen sharply to US$44 million, up 19%, offsetting last year's decline.

2.2 Mineral Exports

Chile's mineral exports reached US$12.1 billion during the first three months of 2021, up 44.2% from a year ago as copper prices reached their highest level in almost decade (See 3.0 Insight: Red-Hot Copper).

Copper exports rose 45.7% to US$11.0 billion as the higher prices offset a fall in volumes of concentrates. While the value of cathode exports rose 50.7% to US$4.7 billion, concentrates rose 44.4% to US$5.9 billion.

Copper production during the first two months of the year totalled 894,888 tons, down 2.6% from the same period of 2020, reflecting lower ore grades and throughput at some mines as well as fewer working days. The Chilean Copper Commission has estimated that copper production will rise to record levels this year of close to six million tons.

Iron ore shipments have continued to rise, reaching US$436 million, up more than two thirds from one year earlier, reflecting higher volumes and prices. Since the end of last year, benchmark iron ore prices have risen by around a third to over US$160/ton on strong Chinese demand.

Shipments slowed in February after a labour conflict forced CAP, Chile's principal iron ore producer, to close its pellets plant and terminal at the northern port of Huasco. However, normal operations resumed by the end of that month.

Lithium carbonate exports fell to US$138 million, down 8.6% from a year earlier, as low prices for the mineral continue to offset rising production on the Salar de Atacama. In March, SQM said it expects to complete a capacity expansion to 120,000 tons/year of lithium carbonate by the end of this year and is already working to reach 180,000 tons/year by the end of 2023.

Exports of molybdenum fell 3.3% to US$386 million in the first quarter, reflecting lower production volumes. Molybdenum production fell to 8,615 tons during the first two months of the year, down 4.6% from 2020. Prices rallied by more than 20% to reach over US$12.0/lb in February but have since declined.

In March, the Chamber of Deputies voted in general to approve legislation that would impose a 3% royalty on copper and lithium production to finance social and environmental projects in mining areas. The government has said that, if approved, it will challenge the legislation on constitutional grounds.

In February, Mantos Copper announced that it had secured financing for a US$748 million expansion of its Mantoverde mine that will lift production to 110,000 tons/year of copper and 33,000 ounces/year of gold. The company said the deal was the largest project finance completed in the mining industry since the start of the global pandemic last year.

2.3 UK-Chile Trade

Trade in goods between Chile and the United Kingdom totalled US$304.7 million during the first three months of 2021, down 0.8% from the same period of last year.

Chilean exports to the UK fell 11.0% to US$159.6 million, largely due to a fall in exports of fresh fruit, wine, and chicken. Shipments of avocado fell 86.1% to US$1.4 million although this was partly offset by a 83.4% increase in cherry exports to US$12.8 million.

UK exports to Chile rose 13.3% to US$145.1 million. Shipments of pharmaceuticals fell 20.2% to US$12.2 million and car exports fell 16.0% to US$21.2 million. These were largely offset by an increase in imports of other products, including whisky, shipments of which more than doubled to US$9.8 million.

The UK-Chile Association Agreement came into force in January following the UK's effective withdrawal from the European Union. The agreement ensures continuity of tariffs and customs procedures between Chile and the UK. In January, the UK announced that it is formally applying to join the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP) of which Chile is a signatory but not a full member

2.4 Capital Flows

Chile ended 2020 with a current account surplus of US$3.4 billion (equivalent to 1.4% of GDP), its first surplus in a decade and compared to a deficit of 3.7% of GDP in 2019. The move reflected the expansion of Chile's trade surplus to US$13.4 billion in 2020, up from a deficit of US$2.2 billion in 2019. The deficit in the trade of services was little changed at US$5.0 billion while the remittance of profit related to foreign direct investment reached US$14.6 billion, down slightly from 2019.

The Central Bank attributed the swing into surplus, one of the largest such moves among emerging economies, to restrictions imposed on consumption by the pandemic as well as the higher copper price, rather than any restriction in external financing.

In March, it predicted that Chile's current account will return to a deficit of around 1.0% of GDP this year.

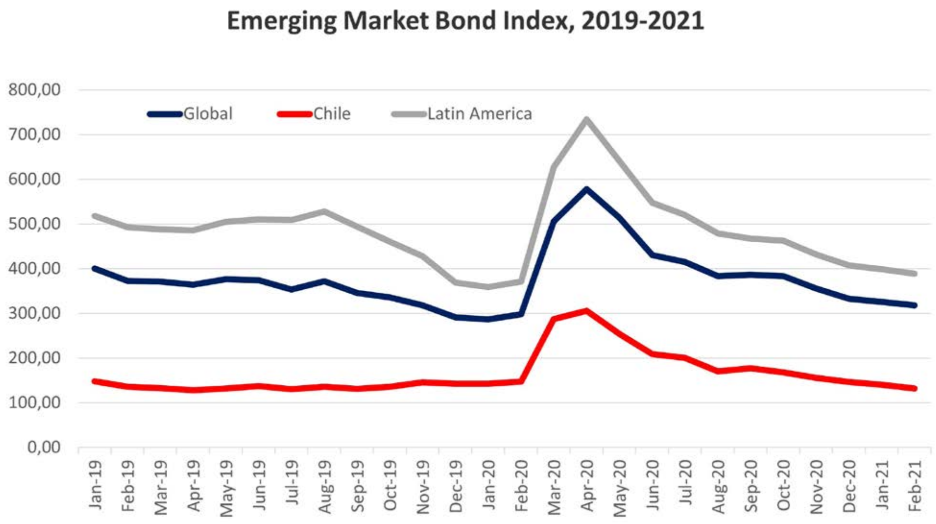
Chile's financial account ended the year with a surplus of US$995 million, compared to a deficit of US$9.2 billion in 2019. The change reflected a net direct investment of US$3.2 billion, compared to a deficit of US$3.2 billion in 2019, as Foreign Direct Investment into Chile rose to US$11.7 billion while Chilean investment abroad fell to US$8.5 billion.

Financial investment into Chile fell by US$5.4 billion, as investors sold long-term debts, while Chileans, including the pensions funds, increased their foreign financial investments by US$6.9 billion, largely in the form of long-term debt instruments.

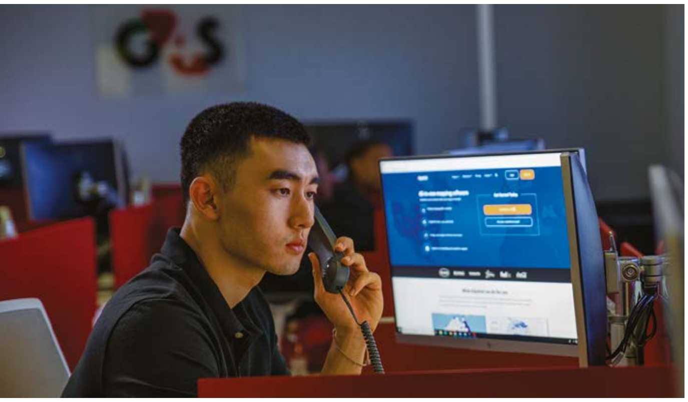
Chile's International Investment Position ended 2020 at a net debt of US$25.0 billion (equivalent to 8.9% of GDP), down from US$40.3 billion twelve months earlier, reflecting the rise in value of assets held by pensions funds and sovereign wealth funds over the last year.

Chile's foreign debt reached US$212.3 billion at the end of January, up 3.6% from twelve months earlier. The increase was driven by the expansion of government debt, which rose 18.1% to US$36.7 billion, and corporate debt, which grew by 11.0% to US$90.1 billion. Bank debt declined 24.8% to US$24.1 billion over the same period.

Country Risk



Source: JP Morgan



Perceptions of Chile's country risk have continued to decline. JP Morgan Chase's Emerging Market Bond Index (EMBI) fell to below 130 points in late March for the first time since before the start of the 2019 social unrest, and down from a peak of almost 300 points twelve months earlier. However, the spread on five-year Credit Default Swaps on Chilean debt has risen in recent weeks amid the debate over pension withdrawals and the return to lockdown in Santiago.

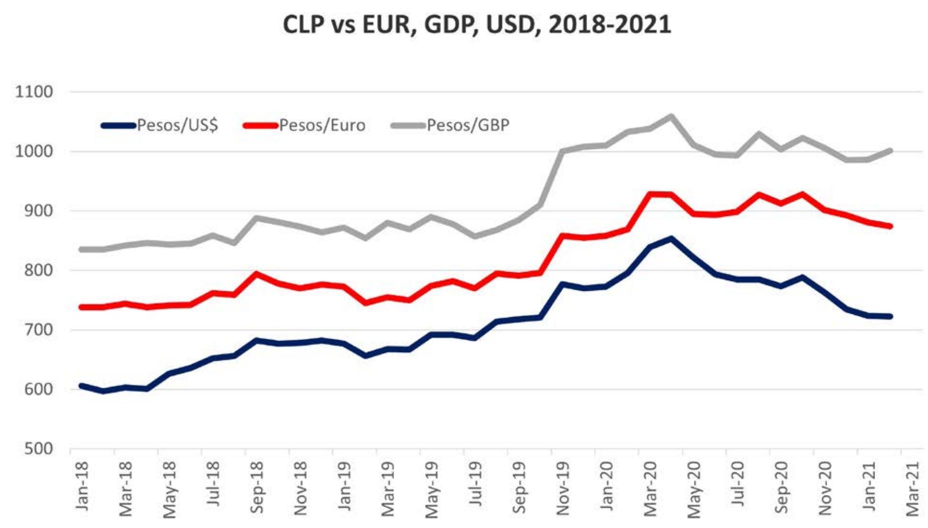
2.5 Exchange Rates

Source: Central Bank of Chile

The Chilean Peso continued to appreciate against the US dollar but after moving briefly below CLP 700/dollar in January for the first time in eighteen months, the exchange rate has fluctuated around CLP 730/dollar. The move comes despite the strong rally in copper prices whose movements the exchange rate usually tracks inversely, reflecting Central Bank intervention in currency markets.

On January 13th, the Central Bank announced a program to rebuild and expand its depleted international reserves to around 18% of GDP before its Flexible Credit Line with the International Monetary Fund expires in June next year. The Bank plans to buy US$12.0 billion worth of foreign currencies over the next 15 months in daily auctions.

The movement against the US dollar have been roughly mirrored by moves versus other currencies although in February, the peso fell against British sterling while rising against the euro and dollar.

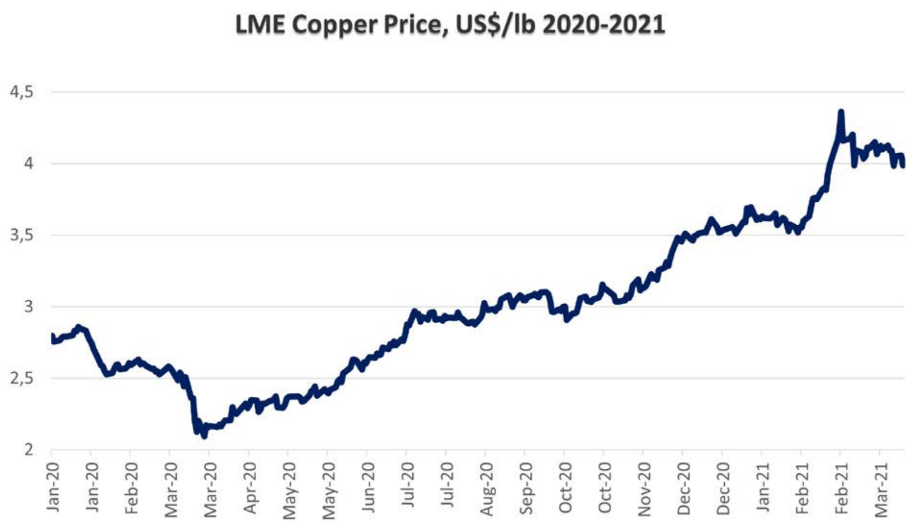


Source: Central Bank of Chile

3

QUATERLY INSIGHT: RED-HOT COPPER

3.0 Quarterly Insight: Red-hot Copper



Source: Chilean Copper Commission

Copper prices have soared to their highest level in a decade, which could bode well for the Chilean economy in 2021 and beyond.

After surging through US$4.00 a pound in mid-February, prices moved as high as US$4.40 a pound, before stabilizing around US$4.10/lb for most of February and March.

Prices have averaged US$3.85/lb so far this year, up more than a third from the average for 2020 and are expected to remain close to these levels for the rest of the year. In March, the Central Bank predicted the price of the metal would average US$3.95/lb this year, US$3.75/lb in 2022 and US$3.55/lb in 2023.

The rally has been driven by a mix of physical and financial factors. Prices began to rise sharply last November with the announcement of the first vaccines against Coronavirus, raising the chances of a strong economic recovery in 2021. Strong growth figures in China, Europe and the US have bolstered these hopes as have the approval of large stimulus packages in Washington and Brussels.

Meanwhile, the Covid-19 pandemic has squeezed supplies as some producers, particularly in Latin America, were forced by government restrictions to halt operations. In Peru, the world's second largest exporter of copper, production fell 13% last year to 2.1 million tons. As a result, global copper production fell for the first time in almost two decades.

Finally, the highly expansionary policies adopted by the US Federal Reserve and government to kickstart the world's largest economy have caused the US dollar to depreciate, pushing up the prices of most assets, including commodities.
The effects of the higher copper price on the Chilean economy are multiple.

Firstly, it boosts the value of Chile's exports, which have risen to historic highs, and bolsters the country's current account which swung into surplus for the first time in a decade in 2020.

That could force the Chilean peso to appreciate. So far it has remained stable against the US dollar, partly due to Central Bank intervention in currency markets and other factors.

Higher copper prices will also bolster government revenues in the form of profits at state-owned Codelco, still the country's largest copper producer, and taxes raised from the privately-owned mines. With copper prices now significantly above production costs, each additional cent in the price will have a greater impact on government finances as mining companies earn more profits and begin to pay higher rates under Chile's specific mining tax.

Budget Director Matias Acevedo has said that the increase in copper prices since the government published its budget for 2021 could mean an additional US$4.0 billion of revenue.

The question facing policymakers and executives now is how long the high prices will last. Some analysts have predicted the start of a new commodity supercycle, like that which pushed copper prices to record highs at the start of the last decade. But there are reasons to be cautious.

Higher prices are likely to attract new production to market. Although new mines take years to be built, shuttered operations could be restarted within a matter of months. More scrap metal is likely to become available.

Secondly, China's economic stimulus package is unlikely to be as large and enduring as its response to the 2008-2009 global financial package. While that led to huge expenditure on copper-intensive infrastructure, such as the country's high-speed rail network, this time the authorities in Beijing are increasingly worried by the country's growing indebtedness and are focused on boosting consumption rather than investment.

Thirdly, with the ink still wet on President Joe Biden's US$1.9 trillion stimulus package, there is already concern that these measures may unlock inflationary pressures which could trigger a rapid reversal in policy, strengthening the US dollar.

But another longer-term trend looks set to bolster prices over the next decade. In recent months, the issue of climate change has come to the fore again with the US re-joining the Paris agreement on climate change, China setting a target to achieve net carbon neutrality by 2060 and the European Union requiring member countries to invest more than a third of the bloc's stimulus package on climate projects.

All these indicate increased investment in sustainable technologies from wind turbines and solar panels to electric vehicles and energy storage, all of which are much more copper intensive than the technologies they seek to replace.

Chile should hope that these long-term trends, rather than transitory ones explain copper's recent rise.

4
POLITICAL CONTEXT

4.0 POLITICAL CONTEXT

The government has continued to struggle to wrest control of the legislative agenda from opposition lawmakers.

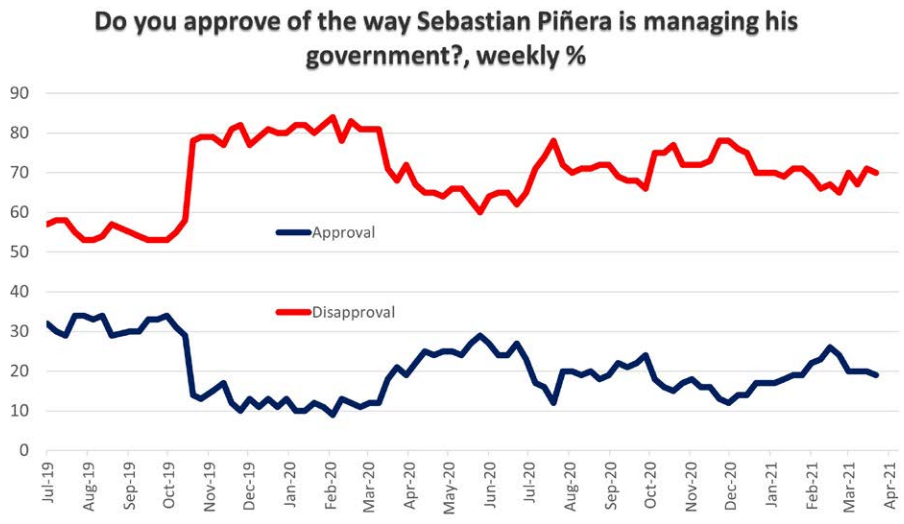
In March, President Sebastián Piñera unveiled modifications to the government's pensions reform legislation designed to win the support from opposition senators. In addition to a new contribution from employers worth 6% of workers' wages (of which half would go to worker's individual accounts and half to a new collective savings program), the bill would expand coverage of the basic pension to 80% of the population, up from 60% currently, and increase payments to keep all pensioners above the poverty line. However, opposition lawmakers continue to demand that all the employer contribution go towards collective savings.

In March, the Chamber of Deputies approved in general a bill to impose a 3% royalty on copper and lithium production. The measure was heavily criticized by the mining industry for jeopardizing foreign investment while the government has promised to challenge the bill before the Constitutional Court, if passed by the Senate, as only the executive has the power to propose tax-raising measures.

Meanwhile, legislation to impose a new tax on the country's millionaires to finance a basic income for household during the pandemic has moved to the committee stage in the Chamber of Deputies. The constitutional reform would impose a one-time 2.5% charge on the wealth of individuals worth more than US$22 million.

In March, opposition lawmakers presented legislation that would allow savers to make another withdrawal from their pension funds. After enacting the first two such bills, the government has vowed to block the third.

Following an increase in the number of violent incidents in southern Chile, the government created a new committee including the Defence and Interior Ministers to strengthen security in the area. However, the president's envoy to the Araucanía resigned after criticizing the armed forces' reluctance to participate in security missions



President Piñera had to make changes to his cabinet as several ministers resigned to run in this year's elections. In January, he appointed former Budget Director Rodrigo Cerda as his third finance Minister in as many years after Ignacio Briones resigned to stand as a presidential candidate for the centrist Evópoli party. Baldo Prokurica became Defence Minister after Mario Desbordes resigned to run as a presidential candidate for the National Renewal party. Energy Minister Juan Carlos Jobet took over the mining brief.

The worsening of the pandemic and the reintroduction of lockdown measures have hit the government's popularity. By March 29th, support for President Piñera in the weekly Cadem poll had fallen to 19%, down from 24% in mid-February, while approval of the way the government is managing the pandemic fell from 58% to 42% over the same period.

With eight months to go before the first round of voting in this year's presidential election, the race remains wide open with no candidate receiving more than 7% of spontaneous responses in a March 8th poll by Cadem. Daniel Jadue, the Communist mayor of working class Recoleta, received 6% of responses followed by right-wing mayors Joaquín Lavín (5%) and Evelyn Matthei (5%), former BancoEstado president Sebastián Sichel (3%) and far-right candidate Jose Antonio Kast (3%). Meanwhile,former Finance Minister Ignacio Briones and Michelle Bachelet's former spokeswoman Paula Narváez received just 1% each.

Which candidates make it onto the final ballot will hinge on how the parties on the right and left organize their respective primaries. While government parties look set to choose a single candidate, the opposition remains divided between the centre-left parties of the once-dominant Concertación alliance and the more radical Communist and Frente Amplio parties.

More than one thousand candidates have registered to stand for the Constitutional Convention which will draft the country's new constitution. Originally due to take place on April 10th-11th, the elections to the body, along with municipal and gubernatorial votes, have been delayed until mid-May following the rise in infection rates.

5
ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

Despite the disruption caused by the return of strict lockdown measures across most of Chile, the outlook for the economy has continued to improve. In March, the Central Bank raised its growth forecast for 2021 to 6.0-7.0%, up from 5.5-6.5% in December, while private analysts predicted growth of 6.2%, up from 4.7% four months earlier. The brighter prognosis reflects not only the rapid implementation of mass vaccinations programs in Chile and abroad, but also a better-than-expected final quarter to 2020 (implying faster growth in the coming quarters) as well as the significant improvement in external conditions.

The approval of major stimulus packages in the US and the European Union should trigger rapid recoveries in their respective economies, pushing the global economy to grow by an estimated 6.2% this year, an expectation reflected in rising share and commodity prices. The boom in copper prices will significantly improve Chile's terms of exchange and partly mitigate the additional costs caused by the extension of the pandemic to public finances.

With the government's mass vaccination program on track to cover 80% of the population by the end of the June, the authorities should be able to gradually relax social-distancing measures during the second half of the year further boosting growth.

However, there is still a significant level of uncertainty. While the vaccines against Covid-19 have proved effective in reducing serious illness mortality, it is unclear how effective they will prove in reducing infections rates or in fighting the new strains of the Coronavirus which have appeared. Lockdown measures may have to be reimposed later in the year if the country is hit by another wave of infections.

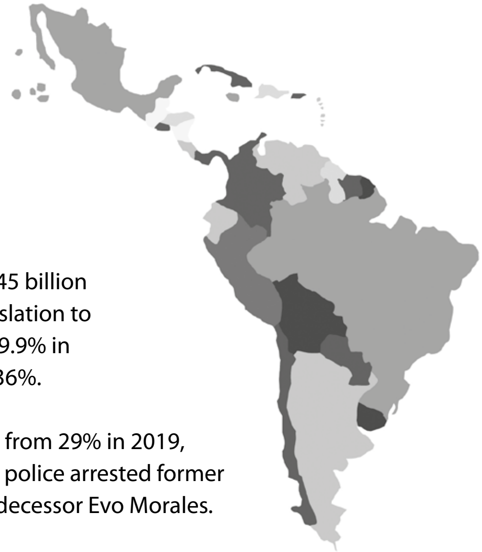
While many parts of the economy are returning to pre-pandemic levels of activity, the labour market continues to lag, especially in those sectors most affected by social distancing. High levels of unemployment and inactivity may prove a drag on consumption and public finances.

The results of the next October's presidential elections remain wide open while the start of the debate on the country's new constitution could polarize politics over the next year to eighteen months. A return of the mass protests and street violence which marked 2019 remains a risk.

Finally, while inflation remains under control in Chile, the return of stable growth and the threat of inflation abroad will force many central banks to raise interest rates which could increase borrowing costs just when Chilean businesses have significantly higher levels of debt than eighteen months ago.

	Central Bank [1/]	Finance Ministry [2/]	Private analysts [3/]
GDP (% annual variation)	6.0 - 7.0	5.0	6.2
Inflation (% annual variation)	3.4	3.0	3.2
Monetary-policy interest rate (% annual, nominal, end-year)	0.50	NA	0.50
Exchange rate (pesos/US$)	NA	723	720 [4/]
Copper price (US$/lb)	3.95	334.6	NA

[1/] *Monetary Policy Report, March 2021.*
[2/] *Government budget report, February 2021*
[3/] *Average of selected private analysts surveyed by Central Bank, Abril 2021.*
[4/] *March 2022*



6. LATIN AMERICA REGIONAL NEWS

Argentina: The government is seeking to delay renegotiation of its US$45 billion IMF loan until after legislative elections in October, instead pushing legislation to exempt most workers from paying income tax. The economy shrank by 9.9% in 2020, marking its third year in recession, while inflation was running at 36%.

Bolivia: Government debt is expected to reach 50% of GDP this year, up from 29% in 2019, raising concerns about the sustainability of its public finances. In March, police arrested former interim president Jeanine Áñez for allegedly staging a coup against predecessor Evo Morales.

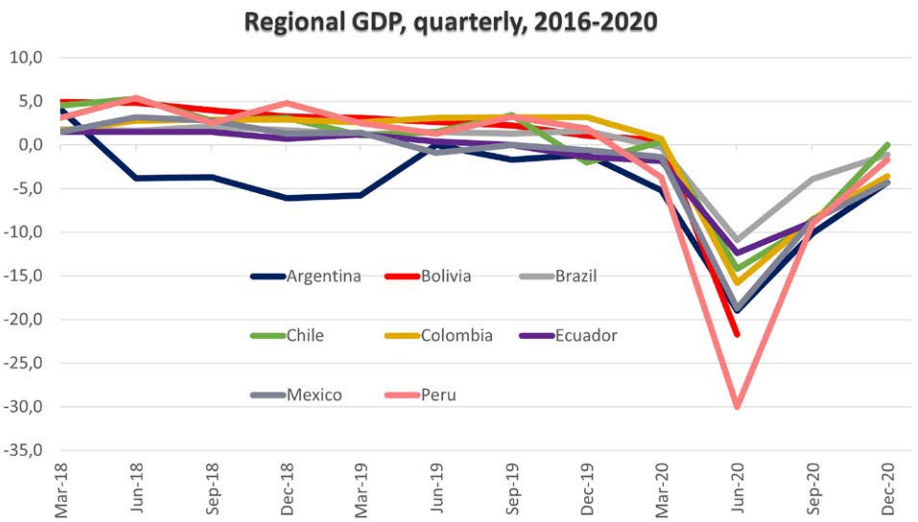
Brazil: Suffering one of the worst Covid-19 outbreaks globally, the Brazilian economy is expected to grow by 3.3% this year, after contracting a record 9.7% in 2020. The heads of all three branches of the armed forces resigned in late March in an unprecedented move, amid growing criticism of President Jair Bolsonaro's handling of the health crisis.

Colombia: The economy is expected to grow by 5% this year but will take until late 2022 to return to pre-pandemic levels of activity. In March, President Ivan Duque dropped plans to extend value-added taxes to basic foods items to bolster public revenues in the face of massive popular opposition.

Ecuador: Former banker Guillermo Lasso beat left-wing economist Andrés Arauz in a run-off vote on April 11th to become Ecuador's new president. During the campaign, both candidates criticized commitments to raise taxes under the current government's US$6.5 billion loan agreement with the International Monetary Fund.

Mexico: In March, the Central Bank left its key interest rate unchanged at 4% on concern that inflation is building. The government says the economy will grow more than 5% this year, boosted by the US$1.9 trillion US stimulus package and the global vaccine rollout.

Peru: Peruvians voted in legislative and presidential elections on April 11th. As this report went to print, it remained unclear which of the eighteen presidential candidates would proceed to the run-off vote on June 6th. The Central Reserve Bank has predicted that the economy could grow by more than 10% this year after suffering one of the largest contractions in the region in 2020.



Source: Trading Economics

Brexit Update

The United Kingdom effectively completed its withdrawal from the European Union on December 31st, 2020.
With the end of the eleven-month transition period that followed the UK's official departure from the bloc last January, goods and services moving across the English Channel became subject to the new trading arrangement agreed between the two sides rather than internal EU rules.
The agreement follows last minute negotiations between the UK government and the EU Commission completed just days before the year-end deadline.
Under the deal, the UK goods moving into the EU will not subject to any tariffs or quotas, one of Prime Minister Boris Johnson's main demands, but will now have to undergo the customs and sanitary checks required of imports from any other country into the bloc and comply with rules of origin and local content requirements.
To overcome a major sticking point on how to ensure a level regulatory playing field between the two sides, the parties agreed to the principle of "managed divergence" granting both sides the right to retaliate with customs measures if, following a judicial review, they believe the other has gained an unfair competitive advantage through changes to its regulations.
On fisheries, another flashpoint, the EU agreed to cede up to 25% of existing fishing quotas in UK waters over a five-year transition period after which fishing rights will be renegotiated annually.
The end of the transition period also means the end to the free movement of people between the UK and the EU. UK nationals will now require a visa if they want to stay in an EU country more than 90 days during a six-month period.
Initial trade data showed a sharp fall in trade across the Channel in January with UK exports to the EU falling 40.7% in January to GBP 5.6 billion, while imports from the EU fell 28.8% to GBP 6.6 billion. The UK Office for National Statistics said that the drop reflected stockpiling in late 2020 before the end of the transition period as well as the impact of stricter lockdown measures in the UK from January onwards.
The mass vaccination program against Covid-19 triggered the first major row between London and Brussels since the UK's effective departure when the EU threatened to block exports of vaccines to the UK. The UK has achieved one of the world's fastest vaccination rates in thanks to millions of doses of the AstraZeneca and Pfizer vaccines, a significant proportion of which are imported from the EU. Meanwhile, implementation in EU countries has been much slower due to vaccine shortfalls.
In March, the two sides issued a joint statement promising to work together to expand the vaccine supply for their citizens.

100
años
1917-2017
Cámara
ChilenoBritánica