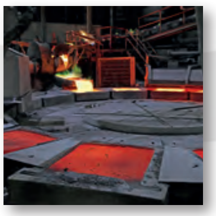
CHILEAN ECONOMIC REPORT

SECOND QUARTER 2020

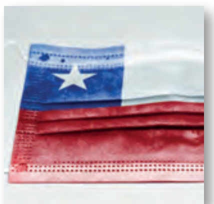
2 ND EDITION 2020 - PRODUCED SINCE 1922

Cámara ChilenoBritánica

100 años 1917-2017







Estrategias para una exitosa renovación de su Programa de Seguros

- **Renovación con la debida anticipación.** Hoy, además de la compleja situación de mercado, y considerando las dificultades propias del "teletrabajo" generalizado, todo es más complejo y más demorado. Por lo tanto, la recomendación es iniciar los procesos de renovación a lo menos 90 días antes, donde es sumamente importante tener información de calidad, revisando la actualización de los montos asegurados con anticipación y las respuestas a los requerimientos de los aseguradores en el caso de existir.

- **Plazos y planes de pago.** En el caso de existir reaseguro facultativo en una colocación, los plazos de pago están muy restrictivos, y por lo tanto es altamente probable que los "planes de pago" que se vieron en vigencias anteriores, se restrinjan ahora de manera importante. A esto se le suma que es altamente probable que el mercado siga su tendencia al alza después de los próximos 12 meses, por lo que es recomendable explorar renovaciones por más de este plazo, eventualmente hasta 18 meses, para apalancar la negociación en caso de ser posible, todo esto como parte del análisis que se debe hacer en conjunto con el asegurado.

- **Único Corredor en el mercado.** En la gran mayoría de los casos, es recomendable que el asegurado salga al mercado con un único corredor para lograr contener todo lo que sea posible las alzas y/o empeoramiento de coberturas. Es importante entonces, que el asegurado entienda que debe definir con la debida anticipación, si seguirá con su corredor actual y/o realizará un proceso donde compita más de un corredor para nombrar al bróker que posteriormente saldrá al mercado. El mensaje aquí es que, si los asegurados salen al mercado con más de un corredor, la consecuencia es que el mercado lógicamente se dividirá, y llegarán ofertas incompletas. Luego entonces, para terminar de colocar, habrá que necesariamente usar los mercados que cotizaron peores condiciones, lo que encarecerá el precio final o empeorará las coberturas, no pudiendo el corredor ganador articular desde el principio todo el mercado para lograr los mejores términos de renovación.

- **Ingeniería de Riesgos.** Generar buena información respecto de las protecciones que hoy dispone el asegurado. Como hoy no es posible realizar visitas presenciales a las diferentes instalaciones, se hace indispensable la colaboración de los asegurados en proveer de buena información a los ingenieros de riesgos del corredor de seguros con quien trabaja y tener reuniones remotas para hacer una buena evaluación del riesgo actual y así poder hacer la mejor presentación posible al mercado, lo que llamamos Engineering Desktop Review.

- **Racionalizar los seguros.** De ser necesario, se efectuará un análisis del programa actual para identificar áreas donde el programa puede dejar sin seguro algunas materias. Esto debería permitir contener los costos, apuntando a un programa que permita asegurar los riesgos y materias más relevantes.

- **Revisar la estructura de transferencia de riesgo actual.** Mediante el uso de herramientas de análisis disponibles por el corredor, de manera de entender si los límites que hoy se contratan son los adecuados, o si los niveles de retención actuales deben cambiar en base a los niveles de aversión al riesgo y al nivel patrimonial que posee la compañía.

- **Cada riesgo es diferente.** Dependiendo del tipo de riesgo del asegurado, sus niveles de protección, su siniestralidad histórica y el sector industrial al cual pertenece, debemos definir la estrategia más adecuada para hacer el mejor marketing del programa en el mercado. Para eso es importante que las estrategias se discutan primero internamente en el equipo y luego con el cliente.

Dear Readers,

It is difficult to fully quantify the impact of the COVID 19 pandemic on our daily lives, our relationships, and our hopes and plans for the future. Governments and decision makers around the world are trying to balance the best way to limit the spread and health risks to populations, against the need to get back to work and limit further economic It is difficult disruption.

Latin America has now become the new epicentre for the virus, and Chile has been forced to extend it'sits lockdown in Santiago and other major cities, waiting for the trend in new cases to take a significant downturn. In the year to April, nearly 900,000 jobs have gone, and the number of people classed as inactive has increased by 15.4%. Unsurprisingly the self- employed have been particularly badly hit, and, despite the many measures introduced by the government to alleviate the suffering, real hardship is being felt by many.

All the economic indicators in Chile are showing record levels of decline, except the copper record levels of decline, except the copper price and the stock market, which have shown positive reactions to the easing of restrictions in other parts of the world whichworld that are further along the time line of recovery.

Here in the Chamber we have had to react to the social distancing rules by moving taking all our events and meetings to virtual platforms. We are happy to report that we now have 8eight active committees, which are meeting on a regular basis and giving our members the opportunity to interact with their peers and get updated on relevant topical issues. The committees include Corporate Governance, Economy, Education, Finance, Human Capital, Legal, Sustainability, and Technology Innovation and Science. Please do make contact if you would like to get involved.

We are using our networks with other chambers around the world to keep abreast of learning opportunities, and are planning to be ready for when it is safe to meet with events like the 4th Female Leadership Summit, our 29th Golf tournament and our 11th Environmental Innovation Awards. We look forward to seeing you later in the year, and in the meantime thank you for your loyalty and support. Keep safe!

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

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- Printer: A Impresores S.A.

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KEY POINTS

• Chile appears to be entering a deep recession as the government and much of the public take drastic measures to slow the spread of the Covid-19 pandemic. Economic activity could shrink by as much as 13.0% during the second quarter as major cities, including Santiago, are placed under lockdown.

• The Central Bank now expects the economy to contract by 5.5%-7.5% this year in line with international estimates. Investment is expected to fall by 15.9% while imports will fall by a third reflecting weak domestic demand.

• More than 1.6 million jobs have disappeared since February while more than 600,000 workers have been furloughed without pay. More job losses are likely as businesses go under during the downturn. Given the difficulties finding work under current conditions, the number of people classed as inactive has grown by more than a quarter to over 7.3 million.

• In June, the government and opposition lawmakers agreed a new package of measures worth up to US$12.0 billion to support businesses and households through the pandemic and revive the economy in its aftermath.

• In June, the Central Bank said that it plans to maintain its benchmark interest rate at 0.50% for the next two years and expanded measures to provide liquidity to financial markets.

• Copper prices have recovered to above US$2.70 a pound, up from less than US$2.10 a pound in March, reflecting increased confidence in the global economy as well as a fall in global mine output. Mines in Chile have continued to operate through the pandemic although unions have threatened to strike following a spike in cases of Covid-19.

• The Chilean peso appreciated sharply against the US dollar from April onwards in line with the stronger copper prices but was knocked back in June after the Central Bank reduced its intervention in foreign exchange markets.

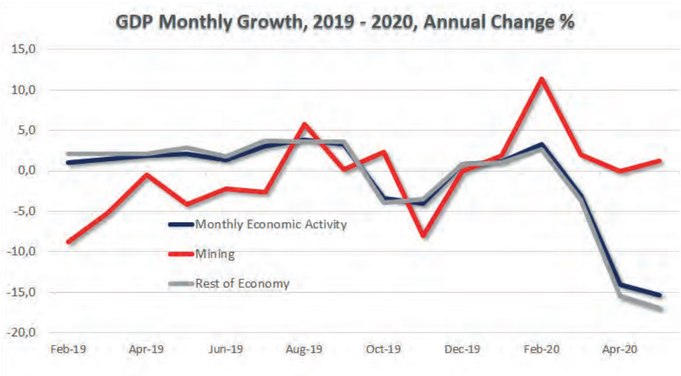
• Inflation is set to slow dramatically this year amid the slump in economic activity and lower international oil prices. The Central Bank predicts that the Consumer Price Index will end the year at 2.0%.

• Share prices on the Santiago Stock Exchange have rebounded significantly since the Covid-19 selloff in March, with the leading IPSA index rallying almost 37%.

1

DOMESTIC ECONOMIC PERFORMANCE

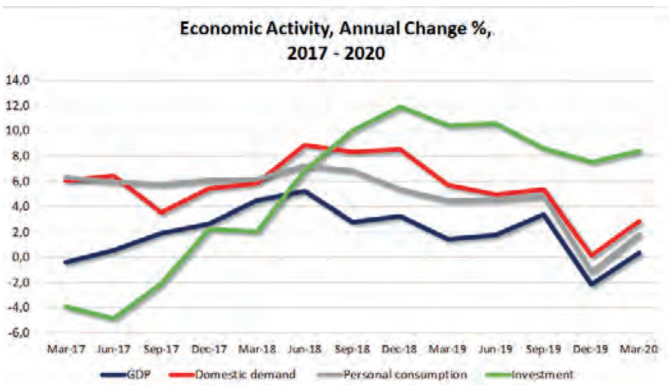
1.1 GDP Growth



Source: Central Bank of Chile

Chile appears to be entering a severe recession as authorites and the public struggle to contain the Covid-19 virus. After recovering from last year's unrest, the economy contracted by 14.1% and 15.3% on an annualized basis in April and May, respectively. The latter was the sharpest monthly contraction on record.

Following the tightening of quarantine measures since early May, with lockdowns in place across Santiago and other major cities, the fall in economic activity during the rest of the quarter is expected to be even more dramatic. Analysts surveyed by the Central Bank in June predicted a contraction of 13.0% in the second quarter, although this was before the lockdown was extended to the Valparaiso-Viña del Mar conurbation.



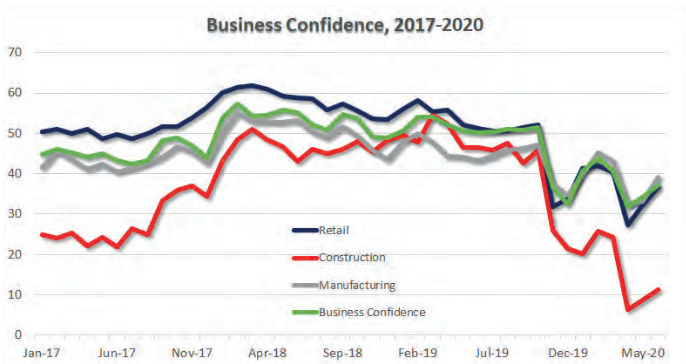
Source: Central Bank of Chile

As economies in Europe, the US and Asia gradually ease lockdown measures, there are hopes that the Chilean economy could begin to return to normal by the fourth quarter, setting the stage from a strong recovery from next year. In June, the Central Bank forecast that the economy will contract by 5.5-7.5% this year, before expanding by 4.75-6.25% in 2021. However, it cautioned that its predictions assumed that social-distancing measures could be relaxed from the third quarter onwards and could be affected by fresh outbreaks of the disease both in Chile and abroad.

The fall in economic activity will be driven by declines in both private consumption and investment. Consumption is expected to fall 4.2%, after expanding 0.8% in 2019, as thousands of businesses remain closed and shoppers stay home. Fixed Gross Capital Formation is expected to contract by 15.9% as most companies halt all but essential spending and major construction projects are suspended to maintain social distancing.

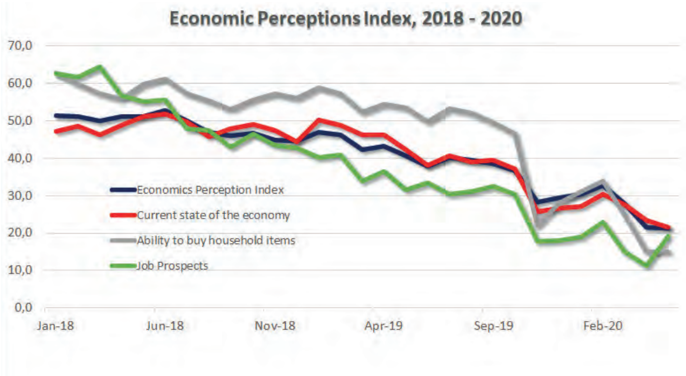
Confidence

In the face of the worst slump in business activity in several decades and the loss of hundreds of thousands of jobs in a matter of weeks, confidence has slumped.



Source: Adolfo Ibáñez University, ICARE

The Monthly Business Confidence Indicator (IMCE), produced by the Adolfo Ibáñez University and the ICARE business organization, fell to 31.74 points in April, a record low, although it recovered slightly to 37.30 points in June. Executives in the construction industry are significantly more pessimistic than colleagues in other sectors.



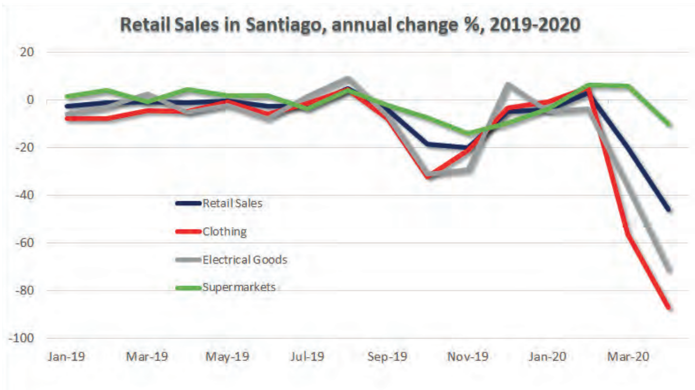
Source: GfK

According to GfK's Economic Perceptions Index, consumer confidence fell to 21.2 points in May, down more than 10 points since the start of the year and its lowest level in almost two decades. As well as concern about the current state of the economy and job prospects, the most pressing concern was the ability to buy basic goods, reflecting the loss of income in many households.

1.2 Key Sectors

Retail

With most stores closed since mid-March (only those selling food and basic goods are allowed to open), retail sales have collapsed over the last three months, devastating a key sector of the economy and one of Chile's largest employers.



Source: National Chamber of Commerce

According to the National Chamber of Commerce, retail sales in the greater Santiago area fell by 19.9% in April compared to a year earlier. Excluding supermarkets, sales declined by 45.9%. Weekly data for May suggests a similar decline. As families strive to save, the largest declines have been in sales of big-ticket items. New car sales fell by over 70% in both April and May. As a result of this dramatic drop in demand, shop workers have borne the brunt of recent job losses with retailers cutting around 350,000 posts since last December. Tens of thousands more have been furloughed without pay.

With most stores closed and many people trying to stay home, ecommerce has taken off. Credit card data suggests that online sales rose threefold in the final week of April, compared to twelve months earlier, driven by sales of durable goods and clothing.

Manufacturing

Manufacturing activity fell 13.3% in the year to May, reflecting the sharp drop in demand as well as the impact of social-distancing rules on production. Food production fell 7.9%, as demand from supermarkets, convenience stores and restaurants dried up. Chemicals production declined 17.2% as methanol production was cut due to a fall in global demand, while clothing production fell 75.2% as factories were shut.

Construction

Construction has been one of the sectors worst affected by the crisis, with hundreds of projects halted across the country and the property market paralyzed by the lockdowns in major cities. The pandemic has made it hard even to gather data on the sector, with both the Chilean Construction Chamber (CChC) and the National Institute of Statistics (INE) delaying the publication of key indicators.

According to CChC, new home sales in greater Santiago fell 46.7% during the first quarter although this largely reflects the impact of last year's unrest rather than the pandemic. The stock of unsold housing has risen to the equivalent to 30 months of sales, up from an historic average of 20 months. Meanwhile, more than 200,000 construction jobs have been lost since the start of the year.

Transport and tourism

Demand for transport and tourism has largely disappeared in the face of the tight restrictions on movement. Just 111,600 passengers took to the air in April, down from almost 1.4 million in March, leaving most aircraft grounded and airlines struggling to stay afloat. The volume of air cargo fell by 28.3% to 24,065 tons. The number of people entering the country fell to just 901 in April, down almost 99% from a year ago, while the number of overnight stays dropped almost 90% in May.

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Controlling a Pandemic

The Chilean government has taken increasingly drastic measures to control the spread of the Covid-19 virus through the population with mixed results.

After a declaring a State of Catastrophe on March 18th, President Sebastián Piñera used the government's newly acquired powers to declare a nationwide nightly curfew, shut Chile's borders to non-resident foreigners and close all schools and universities. As shopping centres and other places where people gather were also closed, most businesses and other institutions switched to teleworking where they could, and many families chose to isolate at home.

With the number of cases mounting, the government implemented a series of rolling district-wide lockdowns (during which people can only leave their homes with police authorization) and strengthened the capacity of the healthcare sector, importing respirators and other vital equipment and conditioning exhibition centres as emergency hospitals.

This moderate approach initially attracted praise as it appeared to slow the rate of infection, while avoiding the nationwide lockdowns adopted in neighbouring Argentina and Peru. President Piñera began to discuss reopening schools and other institutions from May onwards.

However, as the disease has moved from wealthy areas of northeast Santiago, where the first clusters were detected, to the rest of the capital, a different picture has emerged.

In poorer neighbourhoods, people are more likely to work in sectors which involve proximity to the public, such as retail and personal services, increasing their risk of infection. Cramped housing makes it easier for contagion spread and harder for infected family members to self-isolate at home.

Jaime Mañalich, who resigned as Health Minister on June 13th, admitted that he was not aware of the conditions in which many Chileans live, a fact which may have influenced government policy.

As the number of new cases reported each day soared from a few hundred in April to several thousand in May, the government was forced to change course.

Lockdowns were massively expanded in early May to cover the whole of Santiago and other major cities so that by mid-June, approximately 42% of the population was under lockdown, up from just over a quarter in late April.

The government has tried to persuade people to stay home by distributing 2.5 million boxes of basic items and paying an Emergency Family Income of CLP 65,000 (US$79) per person (increased to CLP 100,000 per person from June). But many people feel unable to survive on these handouts or are not yet receiving them (especially immigrants who are less likely to be on official lists), forcing them to go out each day to look for work.

Even with police and soldiers operating checkpoints and stiff sanctions for unauthorized travel, adherence to the lockdowns has been patchy. While in Valparaiso (under lockdown from June 12th) mobility fell by almost two-thirds, traffic in downtown Santiago has remained at around 65% of normal levels and the underground metro system is often busy.

As a result, the pandemic has continued to spread with several thousand new cases confirmed each day. By June 26th, the number of cases had reached 263,360, or almost 15,000 per million, one of the highest levels in the world. Neighbouring Argentina, with a population more than twice as large, had a less than quarter the number of confirmed cases.

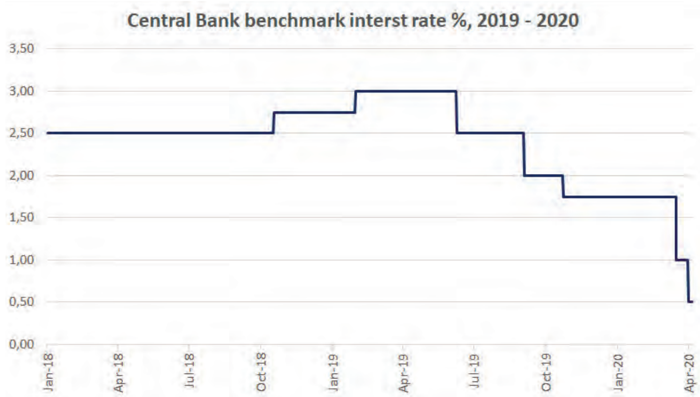
The figure partly reflects the large number of tests carried out in Chile, which is now approaching one million, compared to just 330,000 in Argentina.

The number of confirmed deaths from Covid-19 has now exceeded 5,500, suggesting a case fatality rate of around 2.0%, half the level recorded in the US. However, in June, the government admitted that at least another 3,000 people are suspected to have died from the disease.

While the number of cases in the capital began to flatten in late June, there has been a rise in the number of new cases in cities in northern Chile, such as Antofagasta and Calama.

On June 15th, President Piñera extended the State of Catastrophe by another 90 days.

1.3 Monetary policy



As the economic outlook worsens, the Central Bank has intensified its monetary stimulus.

On June 16th, at its fifth meeting of the year, the board voted unanimously to hold its benchmark interest rate at 0.50%, a "highly expansionary position" that it now expects to maintain until the middle of 2022 as the economy strives to recover.

Analysts surveyed before the meeting had predicted that the Central Bank would raise the rate by 25 basis points by the end of next year.

The board also announced an expansion of the Bank's liquidity program. This includes a new stage of the Lending Conditional Financing Facility, which offers banks cheap credit on the condition that they increase lending to businesses and households. The new stage is worth up to US$16.0 billion spread over the next eight months and includes stronger incentives to lend to small and medium-sized businesses.

It also launched a programme to buy up to US$8.0 billion worth of Central Bank and bank bonds to inject liquidity into financial markets. Together the two measures are worth the equivalent of 10% of GDP.

Meanwhile, the Bank announced that it will begin winding down its long position in US dollar swap contracts, letting them expire at the rate of US$250 million a week.

To reduce its exposure to external risk and improve market confidence, the Central Bank has negotiated credit lines with multilateral institutions and other central banks.

In May, the International Monetary Fund approved a Flexible Credit Line worth up to US$24.0 billion over the next two years. In June, the Central Bank joined the Federal Reserve of New York´s Temporary Foreign and International Monetary Authorities Repo Facility, which will allow it to temporarily sell back US Treasury Bonds in exchange for US dollars, offering more flexibility for US dollar swaps.

The Central Bank also plans to sign a bilateral currency swap agreement with the People's Bank of China worth up to CNY 22.0 billion (US$3.1 billion) to facilitate foreign trade with China in the Chinese currency.

1.4 Fiscal Policy

The government is ramping up public expenditure to support households and businesses struggling to survive amid the slump in economic activity caused by the Coronavirus.

Following negotiations with opposition lawmakers, President Sebastián Piñera announced on June 14th a third package of measures to continue its support through the lockdown period and to revive economy activity over the next two years.

- The Emergency Family Income (or IFE from its initials in Spanish) will be extended, providing 2.1 million families with a monthly payment of CLP100,000 (US$122) per member during June, July and August.
- The unemployment insurance fund will be extended and strengthened so that all workers receive at least 55% of their previous salary.
- Additional funds totalling more than US$500 million will be provided to healthcare services, municipalities, and non-governmental organizations to help manage the health crisis.
- Monthly corporate tax payments have been suspended for another three months while the tax rate for SMEs will be cut by half during 2020, 2021 and 2022.

To revive the economy once the peak of the pandemic has passed, the government plans to boost public investment, principally in

infrastructure and housing, and offer tax breaks to companies that invest and create new jobs.

All together the measures, the majority of which must be approved by Congress, are expected to cost up to US$12.0 billion.

According to the latest assessment by the government budget office, the response to the pandemic will cause public expenditure to expand by 28.7% this year to CLP54.8 trillion (US$67.4 billion), while government revenues will fall 16.1% to CLP 36.4 trillion (US$44.8 billion) in line with the slump in economic activity. As a result, the government deficit will expand to CLP18.4 trillion (US$23.2 billion), equivalent to 9.6% of GDP, up from 4.7% estimated at the end of last year. It would be Chile's largest public deficit in almost half a century.

The government plans to finance increased spending through a mix of drawdowns from Chile's sovereign wealth funds and additional borrowing. The agreement with opposition lawmakers foresees that by the end of 2022, government debt will rise to 43% of GDP, up from 28% at the end of last year, while the value of sovereign wealth funds will fall from 9.5% to 5% of GDP.

In May, the government issued bonds worth almost US$2.0 billion to help finance its response to the emergency. Demand among investors was strong with US dollar-denominated eleven-year bonds achieving a spread of 180 basis points over US Treasury bonds, the lowest spread achieved by an emerging economy government since March 1st.

Government revenue during the first four months of the year fell 11.8% to CLP15.6 trillion (US$19.1 billion), driven by the fall in economic activity as well as the cancellation and postponement of some taxes to support businesses. Revenue in April alone fell by 35.9%.

Government spending to April rose to CLP 14.1 trillion (US$17.2 billion), an increase of 7.3% from the same period of last year.

Credit Ratings

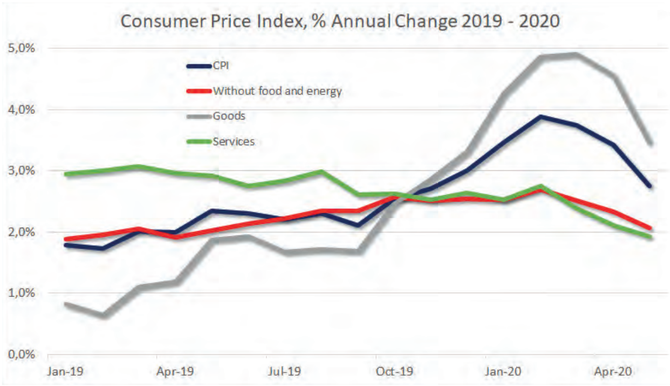
Fitch Ratings	A (negative)
S&P Global Ratings	AA- (negative)
Moody's	A1 (stable)
JCR	AA- (stable)

In April, S&P Global Ratings reduced its outlook for Chile's credit rating to negative, following a similar a move by Fitch Ratings the previous month. S&P highlighted the sharp depreciation of the Chilean peso over the previous six months, as well as the pressure to increase public spending since last year´s unrest and the cost of the Covid19 emergency.

Sovereign Wealth Funds

During April, the government withdrew a total of US$3.5 billion from Chile's two sovereign wealth funds to finance its response to the pandemic. At the end of the month, the funds contained assets worth US$20.9 billion, down from over US$23.0 billion at the end of last year.

1.5 Domestic Prices



Source: National Institute of Statistics

Inflation has slowed rapidly since the start of the year, cooled by the appreciation of the Chilean peso, the fall in oil prices and the sudden contraction in economic activity since March.

In May, the government's Consumer Price Index fell by 0.1% or an increase of 2.8% over the previous twelve months, down from 3.9% in the year to February.

The fall largely reflects the decline in core inflation (which excludes often-volatile energy and food prices) to 2.5% in May, reflecting the stronger peso.

Fuel prices declined by 5.5% in the year to May, mirroring the collapse in oil prices and a 45% drop in international petrol prices since February, which has been compounded by the depreciation of the US dollar.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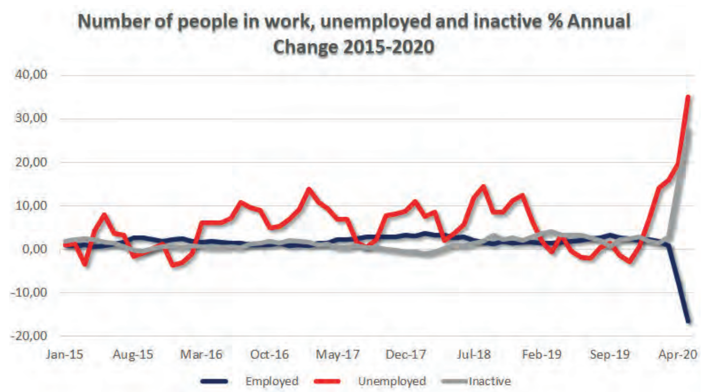
These declines were partly offset by rising food prices. Prices for fresh fruit and vegetables have risen by 11.1%, possibly reflecting the impact of Chile's decade-long drought on farm production, which has intensified in recent months, and logistical difficulties linked to social-distancing measures. The Central Bank noted that the rise was out of step with the sharp falls recorded in international food prices.

In June, the Central Bank said that it expected inflation to slow rapidly in the coming months to end at the year at just 2.0%, at the bottom end of its target range. Analysts surveyed by the Bank at the start of the month predicted the index to fall to 2.4% by December.

1.6 Employment and Wages



Source: Central Bank of Chile

The Covid-19 pandemic has had a devastating impact on Chile's labour market, with the number of people in work falling by almost 18% or 1.6 million between February and May this year.

The official unemployment rate rose to 11.2% in the March-to-May rolling quarter, up from 7.1% at the end of last year. However, the figure does not fully capture the disruption caused by the outbreak. Firstly, the first weeks of the period predate the social-distancing measures imposed from mid-March.

Secondly, as the vast majority (95% according to the Central Bank) of individuals who have lost work are not looking for a new job, they are counted as inactive rather than unemployed.

According to the government's latest employment survey, the inactive population grew by 27.4% to 7.3 million in the year to May. It means that 52.4% of Chile's working age population are now classed as either inactive or unemployed, up from just 41.3% in January.

According to the Central Bank, most people who lose their jobs are probably not looking for work because social-distancing measures make it impossible or they are discouraged by the lack of opportunities. It found that the number of jobs posted online fell by 65% in May, compared to twelve months earlier.

The majority of job losses have been in those sectors worst affected by the social-distancing measures, including construction, retail, tourism and some personal services. The self-employed have been particularly badly affected by the restrictions on movement with more than 500,000, or almost a third of the total, losing their livelihoods since the start of the year.

As well as official job losses, more than 600,000 formal employees have been furloughed without pay. Under the government's Job Protection Law, approved in April, these can draw unemployment insurance in the hope that when the pandemic passes, they can return to work quickly, hastening the economic recovery.

However, many business executives surveyed by the Central Bank in May thought it difficult that furloughed staff would be able to return to work.

The pandemic has also hit workers' income as companies cut working hours, impose wage reductions and cancel bonuses. According to the government's Remuneration Index, wages rose by just 2.6% in the twelve months to April, implying a real decrease of 0.8% once inflation has been accounted for.

1.7 Financial Markets

After plunging into chaos in mid-March, financial markets have stabilized during the second quarter of the year, bolstered by a global effort by central banks to provide liquidity.

In Chile, long-term interest rates for banks and corporations have fallen since early April. Bank bonds have been supported by the Central Bank's bank bond purchasing of which around US$3.3 billion of the US$8.0 billion available had been consumed by mid-June. However, interest rates for corporate bonds remain at historically high levels.

Despite companies´ increased need for credit, the number of bond issues fell to their lowest level since 2010, suggesting that large companies are turning to banks to meet their financing needs.

Source: Santiago Stock Exchange

Matching rallies around the world, share prices in Santiago bounced back quickly during April, recovering much of the losses suffered since mid-February. The IPSA index of the largest companies listed on the Santiago Stock Exchange ended June up 36.8% from its mid-March low, but still down 17.6% from the start of the year.

Banking

Bank lending grew by 9.5% in the year to April to reach CLP 199.6 trillion (US$244 billion). The expansion has been driven by an acceleration in corporate lending, which grew by 13.4% over the twelve-month period to CLP 120.6 trillion (US$147.6 billion). Hundreds of thousands of businesses have negotiated new loans to help them survive the sharp downturn in activity since March, bolstered by the Central Bank's Lending Conditional Financial Facility and the government's FOGAPE state-guarantee loans scheme (See 3.0 Insight).

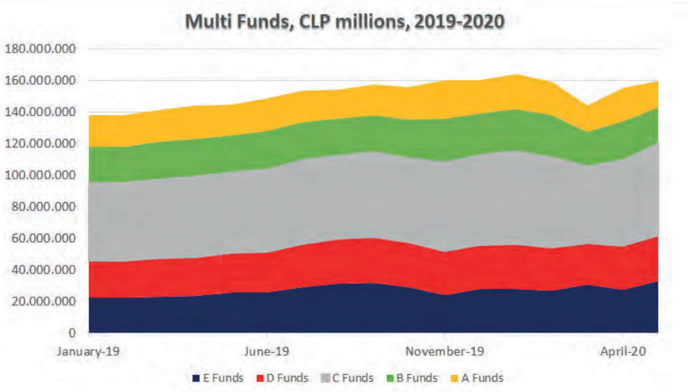
Consumer lending contracted by 3.5% to CLP 26.4 trillion (US$32.3 billion), due to weak demand, while mortgage lending grew by 8.8% to CLP 58.0 trillion (US$70.9 billion). Reflecting the decline in economic activity since last year, bank profits during the first four months of the year totalled CLP 813 billion (US$995 million), down 6.8% from the same period of last year.

Pension Funds

AFP Assets Under Management (May 2020)

Type of fund	Amount (billions of pesos)	Change June 2019 - May 2020 (%, real in pesos)	Return June 2019 May 2020 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	16,971	-13.8	-1.3	80	40
B Funds	22,323	-2.6	0.8	60	25
C Funds	58,634	14.1	5.2	40	15
D Funds	29,173	15.5	6.9	20	5
E Funds	32,920	27.4	7.6	5	0

The value of assets managed by Chile's private pension fund administrators (AFPs) reached CLP



160.0 trillion (US$195.8 billion) by the end of May, up 10.3% over the previous twelve months. The rise largely reflects the depreciation of the Chilean peso against the US dollar over the last year, boosting the value of overseas assets.

In June, the Antofagasta Court of Appeals became the first to accept an injunction by a pension holder to force an AFP to hand over their savings. AFP Cuprum plans to appeal the ruling before the Supreme Court. The government remains opposed to allowing savers to withdraw any of their savings, warning that it could leave pensioners worse off in their retirement.

The Pied Piper of Pensioners

The volatility in financial markets and share prices is leading Chilean pension-savers to switch between funds in unprecedented numbers. In March this year, the number of transfers reached a record 897,292, four times last year's monthly average. In April, this figure reached 833,491, equivalent to 15.1% of the total number of savers.

The huge increase in the number of transfers since 2017 has been encouraged by a popular online community which recommends to its roughly 120,000 paying subscribers when they should switch funds to take advantage of changing market conditions. Its recommendations can trigger huge movements in financial markets, sometimes the equivalent of 1% of GDP in a single day. Following a recommendation to switch to E funds on May 27th, the websites of many AFP collapsed as thousands of savers tried to request the move before the close of business.

The government now plans to clamp down on these recommendations, which not only disrupt financial markets but also cause savers to suffer worse average returns on their investments, economists have found. Although the recommendations are often on the ball, the savers do not realize the promised gains as the AFPs can take up to four working days to complete requests to switch funds.

In May, the government reactivated legislation in Congress that would require such companies to register with the Financial Markets Commission as regulated pensions advisors (requiring a capital of at least US$2.0 million). To discourage savers from changing funds frequently, the bill would also allow AFPs to take up to 30 days to switch funds which could only be moved one level of risk at a time (e.g. from A to B or from D to C).

2

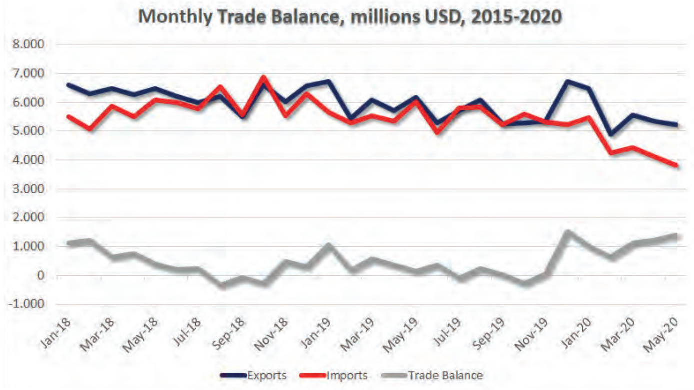
EXTERNAL SECTOR

2.1 Trade Balance

Chile's international trade has slowed in line with a collapse in domestic demand, lower energy prices, the contraction of the global economy and production problems in some sectors.

Imports during the first five months of the year declined to US$22.1 billion, down 20.5% from the same period of 2019, including a 36.4% drop in May when monthly imports fell below US$4.0 billion for the first time in a decade.

Exports fell by 8.8% to US$27.5 billion over the same period, causing Chile's trade surplus to almost double to US$5.4 billion.

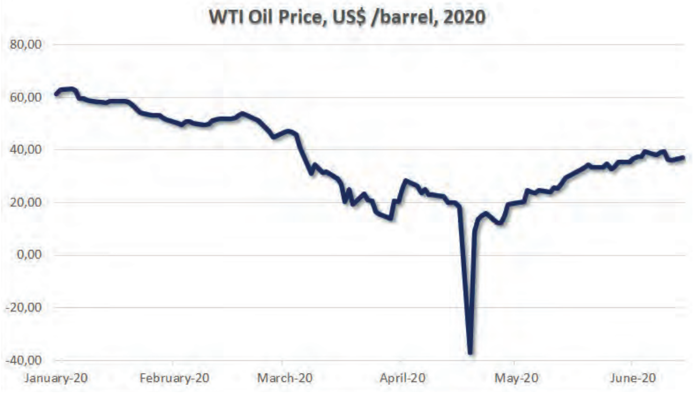


Source: Central Bank of Chile

Imports

The sharpest declines were recorded in imports of consumer goods, which fell 27.5% to US$6.2 billion. Car imports dropped 50.7% to US$621 million while clothing imports fell 30.3% to US$906 million.

Energy imports fell 29.2% to US$3.3 billion, following the collapse in oil prices in March and a 40% drop in demand for fuel. In June, ENAP began a two-month maintenance shutdown at its Biobio refinery - originally scheduled for November - as it sought to work off accumulated fuel stocks.

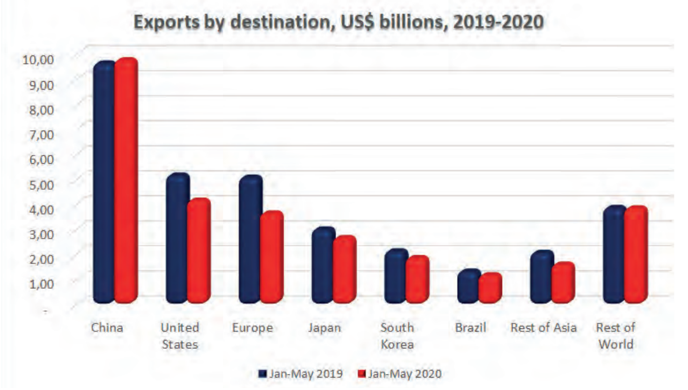


The West Texas Intermediate benchmark oil price (used by ENAP to price domestic fuel sales) collapsed in April, trading briefly below zero as producers and traders in the US Midwest struggled to find buyers or storage capacity for their output. However, prices have since recovered to around US$40 a barrel as the oil industry shut off unprofitable wells.

In June, the Central Bank predicted that the price would average US$38 a barrel this year, down from US$57 a barrel in 2019.

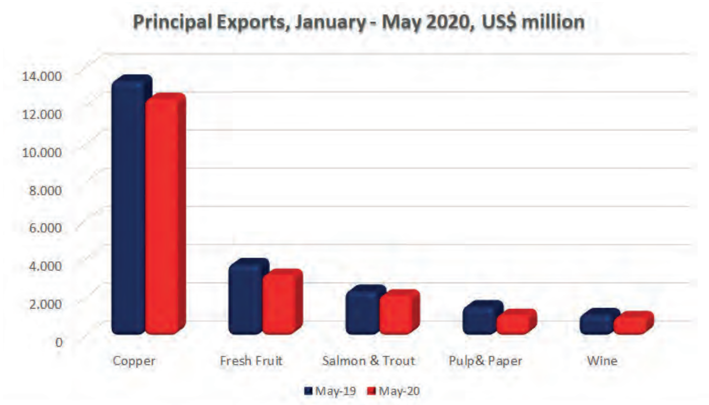
Mirroring the sharp drop in forecast investment, imports of capital goods declined 16.9% to US$5.1 billion. Imports of trucks fell 35.3% to US$564 million, while imports of construction and mining equipment fell 37.1% to US$285 million. These were partly offset by an 87.1% jump in imports of electrical equipment to US$521 million, for use in a series of renewable energy projects.

Exports



Source: Central Bank of Chile

The dramatic adjustments to world trade over the last year is increasing Chile's dependency on China, already the main market for most of its exports. While shipments to China during the first five months of the year were little changed at US$9.8 billion (accounting for 34% of total exports, up from 30% a year ago), exports to other key trading partners fell. Exports to the US declined 19.5% to US$4.2 billion while exports to Europe fell 28.2% to US$3.6 billion.



Source: Central Bank of Chile

The value of Chile's non-mineral exports during the first five months of the year totalled US$13.7 billion, down 12.1% from the same period of 2019. The fall reflected a 14.7% drop in agricultural exports to US$3.5 billion while industrial exports declined 11.2% to US$10.2 billion.

The fall in agricultural exports was largely the result of a decline in fresh fruit exports, which dropped 14.9% to US$3.2 billion, as prices fell in many markets.

Salmon exports declined to US$1.9 billion in the year to May, down 13.1% from the same period of 2019. Social-distancing measures forced salmon farmers to reduce harvesting by up to two-thirds of normal levels in March and April while prices have fallen around 20%, reflecting lower demand.

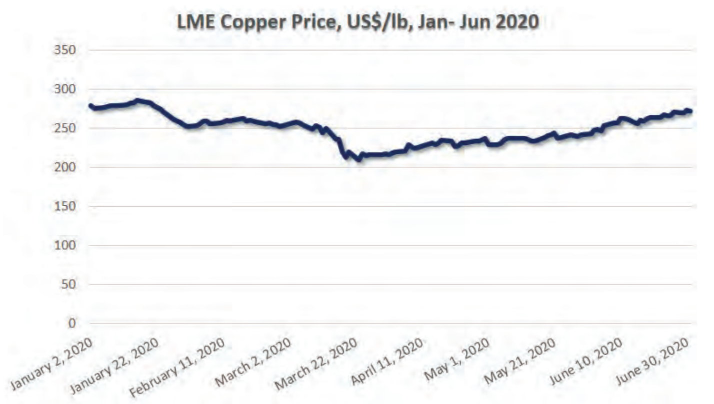
In June, China, the fifth largest market for Chilean salmon, briefly banned all imports on reports that linked imported salmon to a Covid-19 outbreak in Beijing. The ban was lifted a few days later after all samples tested negative.

Paper and pulp exports declined to US$1.1 billion during the period, down 29.5%. According to Empresas CMPC, Chile's largest pulp producer, export prices for hardwood pulp averaged US$464 a ton during the first three months of the year, down almost a third from a year ago. However, the company reported strong demand, especially for tissue products, during the outbreak.

Forestry exports declined 11.7% to US$900 million on lower exports of plywood, wood profiles and sawn timber.

Finally, Chile exported US$953 million worth of wine during the first five months of the year, down 14.4% from twelve months earlier. Agriculture Ministry data for the year to April showed that the Covid-19 pandemic had forced exporters to divert shipments during the early part of the year. A 32.8% drop in exports to China (to 15.3 million litres) was compensated by sharp increases in exports to the UK, Brazil and Japan.

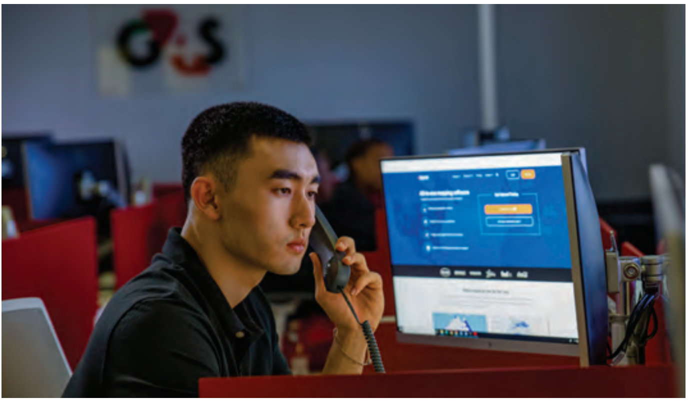
2.2 Mineral Exports



Chile's mining industry, the country's main source of foreign currency, has operated at close to normal levels throughout the pandemic after the government declared the sector an essential activity.

In order to protect workers from infection, mining companies have introduced strict sanitary measures, including frequent temperature tests, compulsory use of facemask and social distancing in transport and canteen areas.

In addition, onsite personnel have been reduced by 30% to the minimum level required to maintain production, while non-essential tasks, including mine development, exploration and



some maintenance work, have been halted. In addition, work on major construction projects, such as Teck's Quebrada Blanca 2 and Codelco's Rajo Inca, was suspended for several weeks until proper sanitary measures could be implemented.

As a result, while mine production in neighbouring Peru and Argentina has fallen sharply, Chile's mining industry has maintained high levels of output. Production of copper during the first five months of the year reached 2.388 million tons, up 3.4% from twelve months earlier, reflecting the impact of flooding, maintenance shutdowns and low ore grades on production during the early part of 2019.

A spike in the number of cases among mineworkers could make it difficult to maintain current levels of activity over the coming months. Unions at major mines, including state-owned Codelco, have demanded that the government step up inspections to ensure management are adhering to health guidelines with some threatening stoppages if measures are not taken.

In mid-June, Codelco announced that it would shut the smelter and only use local staff at its giant Chuquicamata copper mine and suspend all construction projects in northern Chile in order to maintain social distancing.

Chile's mineral exports during the first five months of the year reached US$13.8 billion, down 5.3% from the same period of 2019, as a fall in copper prices offset higher production.

Copper prices declined sharply during the first part of the year in reaction to the Covid-19 pandemic, averaging US$2.47 a pound during the first five months of the year, down 12.5% from last year.

However, after dropping to a four-year low below US$2.10 a pound in March, prices have recovered strongly reaching US$2.62 a pound by mid-June as the pandemic slows mine production around the world and the Chinese economy gets moving again.

In reaction to the lower prices, Freeport McMoRan announced in April that it will reduce mining activity at its El Abra mine (which produced 81,900 tons of copper cathode in 2019) by around 40%.

Shipments of iron ore have reached US$459 million so far this year, up 65.4%, following the restart of a key loading facility late last year as well as a rebound in prices for the mineral. Iron ore traded above US$100 a ton in June, up 30% from April, as the pandemic closed major mines in Brazil, the world´s second largest producer of the mineral.

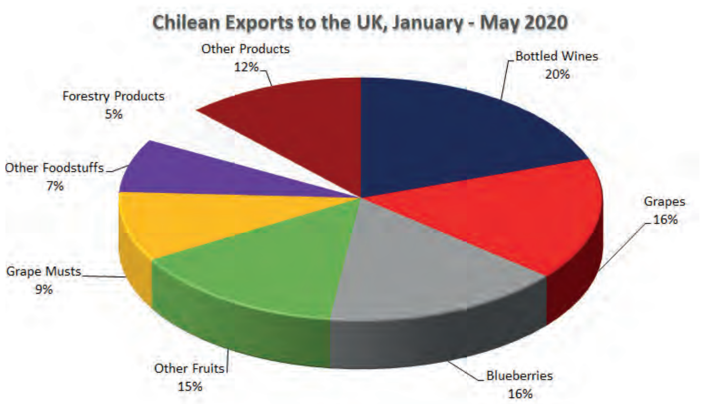
Exports of lithium carbonate reached US$297 million during the first five months of the year, down 16.4% from a year earlier, as sharply lower prices for the mineral offset increased production. Lithium carbonate prices averaged just US$6,000 a ton during the year to May, down 31% from a year ago, as global demand for the mineral contracts after years of double-digit growth.

Gold and silver exports reached US$444 million during the five-month period, up 22.9% from a year ago, as precious metal prices surged on international markets. The price of gold reached an eight-year high of US$1,800 an ounce on June 30th, reflecting investor concern about the global pandemic and geopolitical tensions.

2.3 Chile-UK Trade

Trade between Chile and the UK during the five months of the year totalled US$503.3 million, down from US$546.4 million in the same period of last year.

Chile exported goods worth US$290.3 million to the UK during the five-month period, down from US$309.1 million in the same period of 2019. Principal exports included fresh fruit (US$135.9 million), wines (US$84.2 million), other foodstuffs (US$16.1 million), forestry products (US$14.7 million) and seafood (US$4.6 million).



Source: Chilean Customs Service

During the first five months of 2020, UK exports to Chile declined to US$213.0 million, down from US$237.3 million twelve months earlier. Exports to Chile were led by vehicles and vehicle parts (US$46.1 million), machinery (US$26.7 million) and pharmaceuticals (US$25.1 million).

To ensure that trade between Chile and the UK is not impacted by the UK's withdrawal from the European Union, the two countries signed in 2019 the UK-Chile Association Agreement which maintains the same preferential tariffs and trading arrangements currently allowed under the EU-Chile Association Agreement. Both nations aim to ratify this agreement later this year in time for implementation on December 31st 2020 when the UK transition period with the EU expires (See 7.0 Brexit Update).

2.4 Capital Flows

Chile's current account deficit reached US$969 million, during the first three months of the 2020, equivalent to 1.5% of GDP on an annualized basis, compared to a deficit of US$1.9 billion in the same period of 2019. The fall reflects a decrease in remitted profits earned from Foreign Direct Investment, particularly from non-mining companies, in addition to the expansion of the trade surplus in the period. Income from Chilean overseas investment also fell.

In June, the Central Bank predicted that Chile would record a current account surplus of US$2.1 billion this year, compared to last year's US$10.9 billion deficit, and its first surplus in a decade. The country's trade surplus is expected to surge to a record US$15.7 billion as imports fall to below US$50.0 billion for the first time since 2010. The current account will move back into deficit in 2021 (US$1.7 billion) as imports of goods and services recover.

Financial Account

Chile recorded a financial account deficit of US$2.9 billion during the first quarter, compared to a deficit of US$917 million in the same period of last year.

Net Foreign Direct Investment into Chile reached US$6.3 billion, thanks to capital injections in the transport, manufacturing and retail sectors, compared to a net inflow of US$2.3 billion a year earlier.

Chilean overseas FDI reached a net US$1.9 billion, up from an outflow of US$1.2 billion a year ago.

Chilean investment in overseas financial instruments rose by US$4.1 billion in the quarter, led by corporate share purchasing and the acquisition of foreign bonds by the AFPs, compared to an increase of US$3.8 billion of the first quarter of 2019.

Meanwhile, net financial investment into Chile reached US$7.0 billion reflecting the emission of corporate and government bonds on international markets, compared to US$1.2 billion in the same period of 2019.

However, after receiving a net inflow of US$8.2 billion in January, as the government and Codelco completed major bond issues, net outflows totalling US$2.8 billion were recorded in March and April, largely through the sale of long-term debt by foreign investors.

Chile's international investment position reached a net debt of US$45.5 billion at the end of March, up 13.5% from the end of last year, reflecting the sharp fall in the value of international stocks held by Chileans.

By the end of April, Chile's foreign debt reached US$200.3 billion, up 1.1% from the end of last year. While foreign debt held by the country's banks rose 8.3% (to US$33.8 billion), government debt fell 1.0% to US$28.1 billion and corporate debt by 0.6% to US$77.0 billion. Debt related to Foreign Direct Investment rose 0.9% to US$57.9 billion.

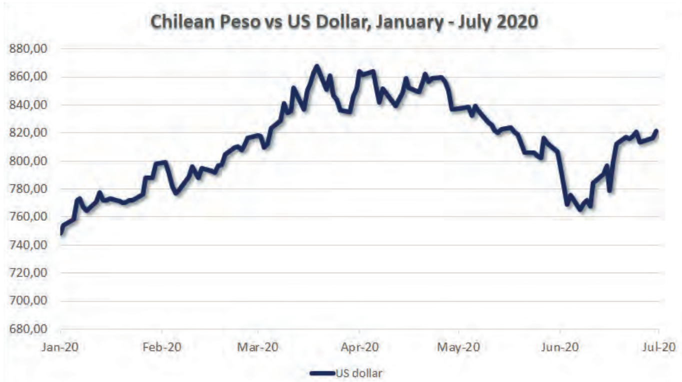
Country Risk

Country risk for emerging economies has risen to historic levels as investors ponder the economic damage caused by the pandemic. JP Morgan Chase's Emerging Market Bond Index (EMBI) for Chile rose to 306 points in April, up from 143 points at the start of the year and its highest level since the global financial crisis, before declining to 254 points in May.

The spreads on five-year Credit Default Swaps on Chilean debt eased to 77.7 points by July 1st, down from the record high of almost 163 points reached on March 23rd. However, the spread remains significantly wider than last year's peak of 54.4 points reached during the social unrest.

2.5 Exchange Rates

Like most other emerging economy currencies, the Chilean Peso has appreciated sharply against the US dollar in the last two months, mirroring renewed investor confidence in the global economy beyond the Covid-19 pandemic and the rally in copper prices since March.

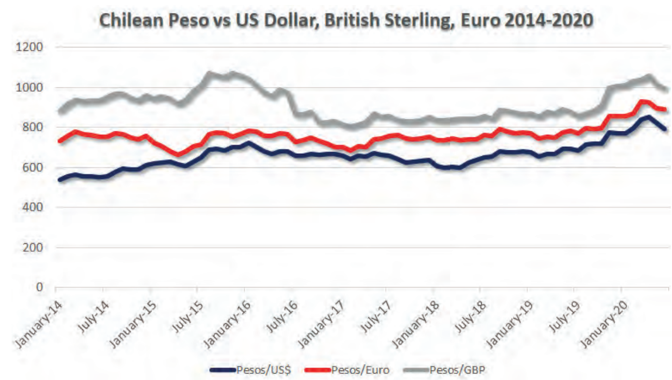


Source: Central Bank of Chile

After reaching record levels above CLP860/dollar in early April, the US dollar depreciated against the Chilean peso to reach CLP765/dollar by June 1st.

However, the US dollar has since recovered some ground after the Central Bank announced in early June that it will begin winding down its seller position of forward US dollar contracts, allowing contracts to expire at the rate of US$250 million a week. It will maintain its program of US dollar sales, which began in the wake of last year's social unrest and has now been extended until January next year.

Similar moves were seen against the Euro and British Sterling.



Source: Central Bank

In recent weeks the Real Exchange Rate– calculated by the Central Bank based on a trade-weighted basket of currencies – has fallen sharply (indicating an appreciation), reaching 100 points in May, down from 107 points in March.

#LaMineríaNoLeFallaAChile

3

QUATERLY INSIGHT: LOCKDOWN ECONOMICS

3.0 QUARTERLY INSIGHT: LOCKDOWN ECONOMICS

The nature of the Covid-19 pandemic is creating unprecedented challenges for governments around the world, both over what measures to implement to contain the spread of the disease and how to limit the economic damage that these measures cause.

Normally, during economic slumps, authorities inject resources into the economy, through monetary policy, public spending or lower taxes to get the economy moving again as quickly as possible.

This time, as medical experts warn of the need to isolate to slow the spread of infection, the challenge is how to keep the economy in a semi-dormant state for several weeks or months until the peak of the pandemic passes, the rate of infection slows and shopping centres, restaurants, and other businesses can safely open again.

In Chile, the government, Central Bank and regulators have worked together to encourage the largely privately-owned banking industry to provide sufficient credit to hundreds of thousands of businesses, large and small, to survive the massive decline in sales that most will suffer this year.

To reduce refinancing costs for individuals and businesses, the 0.8% stamp duty on financial transactions has been eliminated for eight months while the financial regulator CMF has eased pressure on Chilean banks by delaying until the end of next year the deadline by which they must begin complying with Basel III capital requirements

In March, the Central Bank launched its Lending Conditional Financing Facility (known as FCIC from its initials in Spanish), under which banks can borrow the equivalent to 3% of their loan portfolio on the condition that they increase lending to businesses and households. The loans are repayable within four years at the monetary policy interest rate.

By early June, the banking industry had consumed 83% of the US$24.0 billion available under the first stage of FCIC with some banks having used up all their individual quota. In response, the Central Bank launched a second stage worth up to US$16.0 billion to be lent over the next eight months.

The government in turn has massively expanded its existing program of state-guaranteed loans for small businesses (known as FOGAPE). In April, state-owned bank Banco Estado awarded around US$1.0 billion of guarantees to ten private banks and one financial cooperative. By late June, banks had granted 173,000 FOGAPE loans worth almost US$9.5 billion, mostly to SMEs.

As a result, rather than bank lending shrinking during the downturn – a phenomenon which often exacerbates economic crises – corporate lending by Chilean banks expanded by 13.4% in the twelve months to April to CLP120.6 trillion (US$147.6 million), compared to an expansion of 8.3% in the year to February.

There are still problems directing resources to companies before they are consumed by debt and cashflow problems. In June, President Sebastián Piñera named Sebastián Sichel, his popular Social Development Minister, as the new chairman of BancoEstado with the aim of accelerating lending to small businesses. Sichel has said he aims to grant 100,000 FOGAPE loans by the end of July. Even with the additional borrowing, thousands of small businesses are likely to disappear this year.

The government's other pressing challenge is how to help the major corporations struggling in the downturn.

Already since March, Enjoy, Chile's largest casino operator, and LATAM Airlines, the region's largest airline, have sought protection from creditors while they renegotiate their debts after social-distancing measures closed all or most of their respective businesses.

While governments in richer countries have provided direct support to big businesses, in Chile this option appears to have been ruled out. In the wake of last October's anti-inequality protests, providing financial support for businesses owned by some of Chile's wealthiest families while millions survive on meagre government handouts is politically impossible. The situation with LATAM is particularly delicate given Piñera's historical links as a former director and major shareholder.

Instead, Finance Minister Ignacio Briones has proposed legislation to facilitate credit to struggling corporations by creating a new class of emergency lenders who would have priority over all other kinds of creditor.

4
POLITICAL CONTEXT

4.0 POLITICAL CONTEXT

Since March, political debate has been dominated by government efforts to contain the Covid-19 pandemic and limits its economic impact.

While the government has sought to balance the need to support households and businesses through the emergency with the health of public finances, opposition lawmakers have pushed for higher spending, taking advantage of low interest rates in international markets and the country's sovereign wealth funds. Given its lack of a majority in either house of Congress, the government has been forced to compromise.

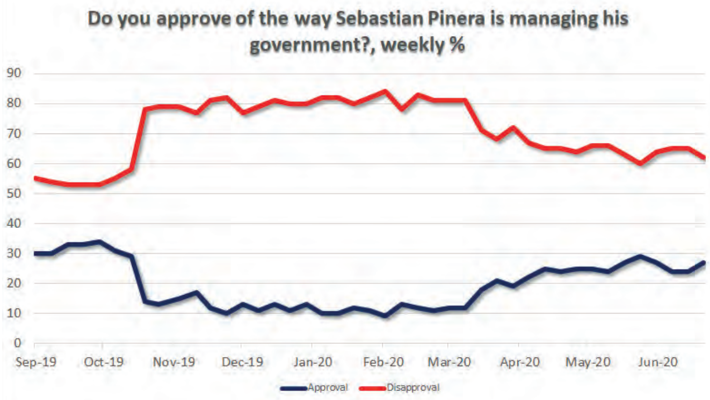
On June 14th, the government completed negotiations with lawmakers from opposition parties on a National Agreement on measures to support the country through the extended lockdown period and revive the economy in its wake. The deal was only reached after ministers agreed to increase the size of the Emergency Family Income to be paid to poor families over the next three months to CLP 100,000 (US$122) per person, up from the government's original figure of CLP 65,000 (US$79).

It came after President Piñera made a series of changes to his cabinet, including the naming of a new Secretary of the Presidency (responsible for the government's legislative agenda), new Ministers of Housing, Social Development and Women and on June 13th, a new Health Minister.

Meanwhile, opposition lawmakers have begun to take advantage of their nominal majority in Congress to advance their own legislative response to the pandemic. In May, Congress approved legislation that would prevent companies that have furloughed staff under the government's Jobs Protection Law from distributing dividends to shareholders. They have also passed a law banning utility companies from cutting off customers for non-payment.

In June, opposition lawmakers presented legislation to impose a 2.5% wealth tax on multimillionaires to finance a basic income for vulnerable families and to extend maternity leave during the pandemic. However, both bills face constitutional problems. In response, President Piñera proposed that rules for testing the admissibility of new legislation should be tightened, a move which was criticized by lawmakers.

Support for the government has continued to build through the health emergency albeit from very low levels. According to the latest weekly poll produced by market research firm Cadem, support for President Piñera reached 27% in late June, up from a low of 9% last February and back to levels not seen since before last October's social unrest. Disapproval fell to 62% from over 80% at the end of last year. The government scored even better for its response to the health emergency with almost 40% approving of its management of the crisis.



Source: Cadem

Opposition parties remain even less popular than the government.
However, Izkia Siches, the president of the Medical College who has become a leading critic of government policy during the pandemic, has emerged as one of the country's most popular politicians. A member of northern Chile's Aymara ethnic minority, she tied with Las Condes mayor Joaquín Lavín (a government supporter) in a June 15th poll by Cadem.

The pandemic has pushed into the background the debate and upcoming referendum over the need for a new constitution, which is now due to take place on October 25th this year. Following the extension of the State of Catastrophe until mid-September, there are increasing doubts whether the vote will take place as planned.

NUESTRAS MEJORES MARCAS LISTAS PARA ESTAR EN TU BAR.

Cómpralas escaneando
este código QR

o ingresando a
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#MENORESNIUNAGOTA

BEBE RESPONSABLEMENTE. PRODUCTO PARA MAYORES DE 18 AÑOS.

5
ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

Together with much of the world, Chile will enter its deepest recession in several decades as the country struggles to contain the spread of the Covid-19 pandemic.

In its latest forecast, the Central Bank predicted that economic activity will contract by 5.5-7.5% this year, reflecting sharp drops in private consumption and investment as households and businesses cut spending in the face of a drastic decline in income.

However, a strong recovery is forecast with the economy expected to grow by 4.75-6.25% in 2021. The rapid reopening of economies once the peak of the pandemic has passed, the stabilization of financial markets, the recovery in commodity prices as well as the government's economic stimulus package all suggest this is possible.

Nevertheless, the Bank warned that it will take until the middle of 2022 for activity to recover to the levels reached before last year's social unrest knocked the Chilean economy off-course.

By then significant damage will have been caused. Despite efforts to facilitate credit, tens of thousands of companies are likely to go under, disrupting the economy. Almost 1.6 million people (or 16% of the workforce) have been put out of work so far this year, largely in the weeks since the start of the outbreak. Another 630,000 formal employees have been furloughed without pay or any guarantee that they will be able to return to their old job.

Analysts hope that many of the workers now sitting at home can return to work as social-distancing rules are relaxed from the third quarter onwards.

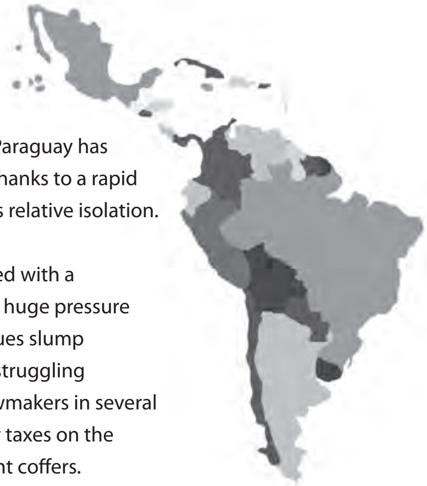
However, those firms that survive are likely to have taken on significant debt, which will slow their ability to expand in the coming years. Chile's public finances are set to deteriorate significantly which will require a period of public austerity to contain government debt at sustainable levels. The upcoming debate on a new constitution is also likely to heighten political tensions as the country strives to recover.

The Central Bank highlighted that Covid-19 has injected unprecedented uncertainty into its economic forecasts. No one is sure how long the pandemic will last, whether it could return and what long-term impact it will have on the behaviour of businesses and individuals for years to come.

There are already signs that the pandemic has accelerated existing trends, such as the rise of e-commerce, working from home and virtual meetings, which will add to the disruption in the economy. Many jobs may disappear permanently as businesses go under, companies find more efficient ways to operate under quarantine and demand for some goods and services fails to return in the post-pandemic economy.

	Central Bank [1/]	Finance Ministry[2/]	Private analysts[3/]
GDP (% annual variation)	-5.5 - 7.5	-6.5	-4.8
Inflation (% annual variation)	2.0	2.8	2.4
Copper price (US$/lb)	2.50	2.48	NA
Monetary-policy interest rate (% annual, nominal, end-year)	0.50	NA	0.50
Exchange rate (pesos/US$)	NA	792	760[4/]

[1/] *Monetary Policy Report, June 2020.*
[2/] *Government budget report, October 2019*
[3/] *Average of selected private analysts surveyed by Central Bank, June 2020.*
[4/] *May 2021*



6. LATIN AMERICA REGIONAL NEWS

The economies of Latin America are suffering sharp contractions as they struggle to contain the Covid-19 pandemic, cases of which exploded from May onwards. In June, the World Bank forecast that regional GDP would shrink by 7.2% this year, compared to growth of 1.8% predicted in January. Recent growth figures, such as Peru's 40% contraction in April, suggest it could be even worse.

The spread of the disease in different countries has mirrored the wide range of policies adopted by governments across the region. In Argentina, which adopted a strict lockdown early on, the number of cases only recently exceeded 1,000 per one million inhabitants. Brazil, where President Jair Bolsonaro has flouted the advice of his own medical experts, has recorded more than five times as many cases per capita.

However, in almost every country, efforts to contain the disease have been undermined by cramped living conditions, high levels of informal employment and limited welfare systems which force the poor to breach social-distancing rules. In Peru, tens of thousands of urban migrants spread the disease into rural areas as they fled hunger in major cities.

One place to emerge relatively unscathed from the pandemic has been Uruguay thanks to a lack of urban squalor, free healthcare and widespread adherence to government advice. By mid-June it had reported just 824 cases (the majority of which have recovered) and 24 deaths in its population of 3.4 million and begun to reopen schools and shopping centres. Paraguay has kept the disease largely at bay thanks to a rapid response by government and its relative isolation.

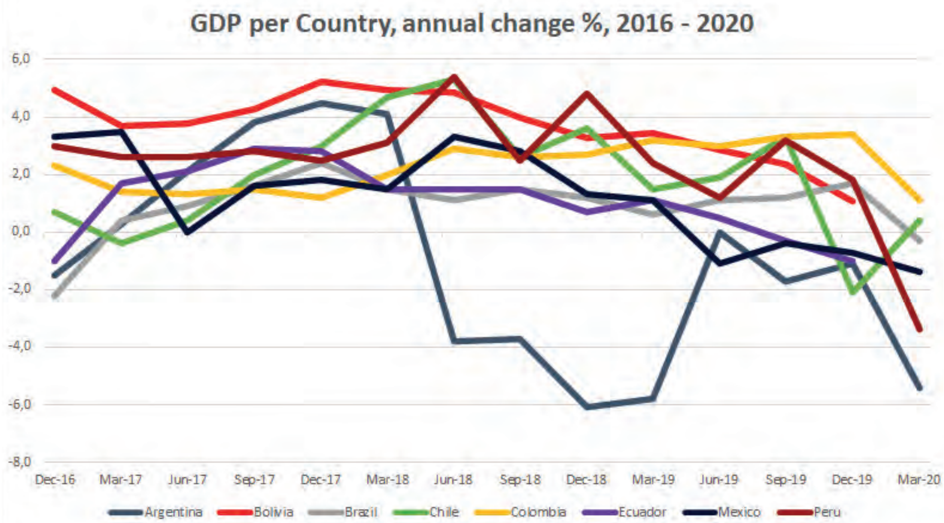
The health emergency, combined with a collapse in oil prices, has placed huge pressure on public finances, as tax revenues slump and governments pump aid to struggling households and businesses. Lawmakers in several countries have proposed higher taxes on the wealthy to replenish government coffers.

The crisis has coincided with and exasperated fiscal crises in both Argentina and Ecuador, both of which have held debt renegotiations with the International Monetary Fund and foreign lenders.

But the crisis appears to have strengthened the position of President Nicolás Maduro in Venezuela. In May, in defiance of US sanctions, the government began receiving shipments of petrol from Iran, staving off a collapse in fuel supplies, shortly after crushing an attempted coup.

In Bolivia, the opposition has accused interim President Jeannie Añéz of trying to hold onto power after she refused to back a new presidential vote on September 6th, claiming it would be dangerous in light of the pandemic.

Bucking the trend is tiny Guyana (population 779,000) whose economy is expected to grow more than 50% this year thanks to huge oil discoveries off its Atlantic coast. Following a recount, opposition leader Mohamed Irfaan Ali claimed to have won national elections held on March 2nd but, as of June 30th, Prime Minister David Granger had yet to concede defeat.



UK ECONOMY Q4 - 2019

1. C19 impact

Analysis by the Bank of England (BoE) suggests the UK's GDP could shrink by 30% in the first half of 2020 – the deepest recession in more than a century. Their modelling assumed an illustrative scenario in which social distancing measures and government support schemes remained in place until early July, before being wound down throughout Q3. They also assume a quick "V-shaped" recovery beginning in the second half of 2020 and continuing until mid-2021. In this scenario, UK GDP would fall by around 3% in Q1 and 25% in Q2, with over two thirds of this fall being driven by a reduction in consumer spending during lockdown. The Bank also warned the contraction could be greater if banks refused to lend to companies and forced more firms into bankruptcy. In its latest report, the IMF downgraded growth for the UK in 2020 to a 10.2% contraction (3.7 points lower than stated in April).

2. Economic Growth

The UK GDP contacted by 2.0% in Q1 2020, after flat growth in the last quarter of 2019. This contraction was primarily driven by a month-on-month fall of 5.8% in March. For the quarter, the services sector fell by 1.9% while production and construction contracted by 2.1% and 2.6%, respectively. Services contracted by 6.2% in the month of March, largely due to a sharp fall in travel, accommodation and air transport. Production and construction sectors also shrank, by 4.2% and 5.9%, respectively. The continued economic slowdown in the first half of Q2 means the UK will experience a severe recession this year.

3. Inflation

Annual CPI and CPIH inflation (the latter includes housing costs) were 0.8% and 0.9% in April, both down from 1.5% in March. A fall in the price of energy and motor fuels were the largest downward contributors to the month-on-month change in the annual inflation rate. Rising prices for recreational goods produced the largest upward contribution to the change. Annual growth in average weekly earnings for employees in Q1 2020 was 2.4% for total pay (including bonuses) and 2.7% for regular pay (excluding bonuses). Pay continued to grow faster than inflation over this period, but its rate of growth has slowed since mid-2019. In real terms, annual growth is estimated to be 0.7% for total pay and 1.0% for regular pay. The latest pay data is for March 2020, therefore not incorporating the impact of the C19 outbreak, as monthly payroll announcements would typically have been set in advance of the lockdown measures.

4. Monetary policy

In its May meeting, the Bank of England's Monetary Policy Committee voted unanimously to keep interest rates at a historic low of 0.1%. Andrew Bailey, Governor of the Bank, confirmed that negative interest rates were now under "active review". Such a policy would be first for the Bank in its 324-year history. While no new policy announcements have been made, the yields on 2-year, 3-year, and 5-year gilts sank below zero for the first time in May, indicating the markets expect further monetary intervention, either in form of further interest rate reductions of increases to the Bank's quantitative easing program.

5. Labour market

The UK employment rate was at a record high of 76.6% in Q1 of 2020, 0.6 points higher than a year earlier, and 0.2 points higher than in Q4 of 2019. The unemployment rate for Q1 2020 was estimated to be 3.9%, 0.1 point higher than a year earlier and 0.1 point higher than the previous quarter. A record of 33.1 million people aged 16 and over were in employment in Q1 2020, 448,000 more than a year earlier. This increase was driven by higher numbers of women, workers aged above 50 years and between 25 to 34 being in employment. The majority of the data was gathered before social distancing measures were enforced so they do not reflect the impact of C19. Recent data shows there were 1.5 million claims made to Universal Credit (the UK's new integrated benefits system introduced in the past few years) in the period of 12th of March to 9th of April, which is six times more than the same period last year.

6. Trade

The total trade deficit, excluding non-monetary gold and other precious metals, narrowed to £2.3 bn in the first quarter of 2020 This represents a £1.3 bn deficit reduction compared to the final quarter of 2019. Imports and exports both fell over the period, by £13.3 bn (7.4%) and £12.0 bn (6.9%) respectively. The underlying trade deficit in goods narrowed by £1.5 bn (5.5%) while the underlying trade surplus in services also narrowed, by £0.2 bn (0.8%). Goods imports and exports both fell over the period, chiefly driven by reduced imports and exports of machinery and transport equipment, miscellaneous manufactures, and chemicals fuel imports also fell. The trade in goods deficit with the EU narrowed by £2.5 bn (11.2%) in the first quarter of 2020 while the trade in goods deficit with non-EU countries grew by £1.0 bn (20.8%).

7. Government finances

Public sector net borrowing (excluding public sector banks) in April 2020 was £62.1 billion, £51.1 billion more than in April 2019. This is the highest borrowing in any month since records began (January 1993). The UK's public sector net debt (excluding public sector banks) at the end of April 2020 was £1,887.6 billion (97.7% of GDP), an increase of £118.4 billion compared with April 2019, when debt stood equal to 80.3% of GDP. This is the largest year-on-year increase as a percentage of GDP on record. Part of the increase is a temporary effect attributable to the Bank of England's quantitative easing program. Removing this temporary effect reduces the debt at the end of April to 88.1% GDP. These figures make use of the Office for Budget Responsibility's C19 reference scenario, which assumes a 3-month lockdown followed by a swift recovery, to forecast tax receipts accrued in April. As such, estimates of borrowing this month are subject to larger revisions than normal, due to the continuing uncertainty around C19's long-term impact on the UK economy.

7.0 Brexit Update

The United Kingdom and the European Union resumed trade negotiations in April (via video-link) in a bid to find a permanent arrangement between the two following the UK's withdrawal in January this year.

Trade is currently continuing as if the UK remained part of the trade bloc, but this is due to end on December 31st when an eleven-month transition period expires.

Negotiations were due to start in March but were delayed after the top negotiators for both sides and UK Prime Minister Boris Johnson contracted Coronavirus.

Face-to-face talks are now expected to continue through July, August and September giving enough to time for any deal to be approved before Christmas. The aim is to arrive at a framework deal only, leaving many details to be resolved in future negotiations.

In June, the UK increased the pressure on negotiators by formally informing the EU that it would not be seeking an extension to the transition period to allow more time for talks. The decision means that should the two sides fail to reach a deal by December, the UK will leave the bloc without any agreement, potentially disrupting trade flows just as economies on both sides of the English Channel are struggling to recover from the pandemic.

The main sticking points in negotiations have not changed. The EU has warned that the UK must continue to comply with its standards on environmental protection, labour rights and state aid or face the reintroduction of customs procedures, regulatory checks and animal inspections for the 43% of UK exports which go to Europe.

The UK wants to retain market access while keeping regulatory requirements to a minimum.

Following its withdrawal from the EU, the UK has begun negotiating Free Trade Agreements with other major economies. The first and second rounds of talks for a UK-US FTA took place in May and June, the opening of negotiations with Japan were announced in May and with Australia and New Zealand in June.

In addition, the UK in June announced its intension to pursue accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a regional deal between 11 Pacific economies, including Australia, Chile and Japan.

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