CHILEAN ECONOMIC REPORT

SECOND QUARTER 2021

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Dear Reader,

We continue to sail in uncharted waters, where uncertainty is the norm and the only thing we can be sure of is more uncertainty. Just as we thought we were getting out of the pandemic, new case numbers have increased again and we are back in lockdown, with the corresponding impact on jobs and the economy.

The really good news is the success of the government's vaccination drive, as more than half the population now have both doses. Evidence also points to the fact that the new increase in cases is predominantly among the younger part of the population that is currently being vaccinated, and there is optimism that the trend will be reversed quickly.

Copper prices remain high, driven by the recovery in the global economy, especially in China which is also Chile's main export destination for other commodities such as fruit and wine. The Chilean Central Bank is forecasting growth of 8.5-9.5% for this year, driven by increased government spending, pension withdrawals and to a lesser extent rising investment.

The elections for municipal officers finally took place in May, alongside the election of candidates for the new constitutional convention that will draft a new constitution. The latter produced a major surprise as voters opted for overwhelmingly left wing and independent candidates instead of the traditional centre-left and centre-right parties. This result leaves scope for the new constitution to bring significant changes to Chile's economic and social model. See our insight in section 3.0.

As usual the Chamber team is working hard to ensure that we bring you up to date news and analysis, and we encourage you to join or sit in on one of our committees to get the latest information, and share experiences and best practice with your peers.

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KEY POINTS

• Driven by a huge increase in public spending, the Chilean economy is expected to grow by almost 10% this year, according to the latest Central Bank forecast. However, growth is predicted to slow sharply in 2022 and 2023 as the fiscal stimulus is withdrawn and investment dries up.

• Under pressure from the opposition, the government has massively expanded support for households and businesses during the pandemic. Government spending is now expected to grow by 25% this year, exceeding last year's stimulus and boosting economic activity.

• The reintroduction of lockdown measures from late March slowed the pace of economic recovery in the second quarter, but by less than anticipated as businesses and households adjusted to social-distancing rules. However, persistent high infections and a third lockdown in Santiago from mid-June have increased uncertainty about the duration of the pandemic.

• Inflation rose by 3.6% in the year to May, its fastest increase in over a year, driven by rising oil prices, strong demand, and supply constraints for some products. The Central Bank predicted that inflation would reach 4.4% by December, ahead of market expectations.

• The recovery in the labour market has been slowed by new measures to contain the pandemic. The number of people in work fell in April while the unemployment rate remains in double digits. The self-employed, low-skilled and those working in the informal sector have been particularly badly hit.

• Voters voted largely for independent and left-wing candidates for the Constitutional Convention which will draft Chile's new constitution, depriving right-wing parties of the one-third of seats needed to veto proposals.

• Share prices in Santiago fell sharply and the Chilean peso depreciated against the US dollar in the wake of the constitutional and municipal elections as investors feared a rise in political instability.

• President Piñera suffered a major defeat when the Constitutional Court refused to hear his constitutional challenge against the third pensions withdrawal bill. Savers have now withdrawn almost US$50 billion from pensions funds over the last year.

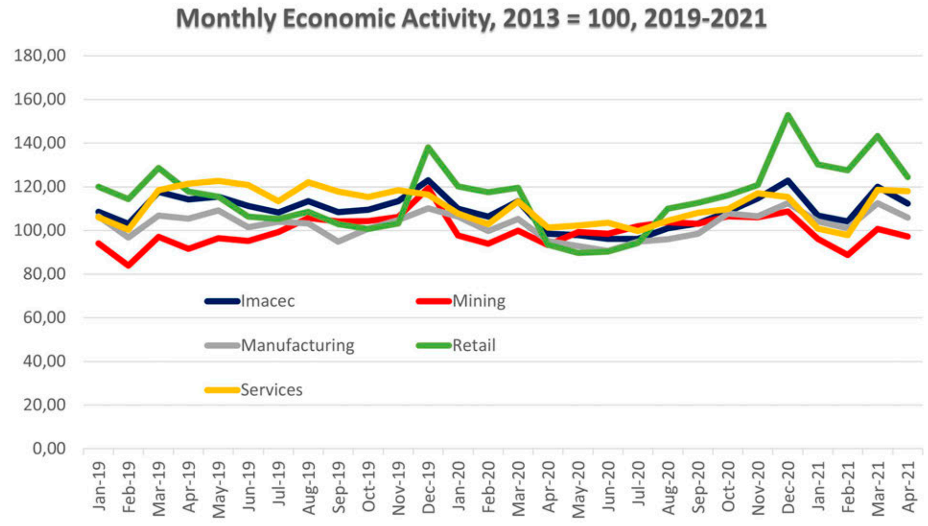
• In June, the Central Bank held its key interest rate at 0.5% but warned that it may begin raising interest rates in the coming months given the strength of domestic demand and rising inflation.

• Copper prices have rallied to record levels as the global economy recovers, boosting the value of Chile's exports. Imports have recovered to pre-pandemic levels driven by consumer and capital goods.

1

DOMESTIC ECONOMIC PERFORMANCE

1.1 Economic Activity



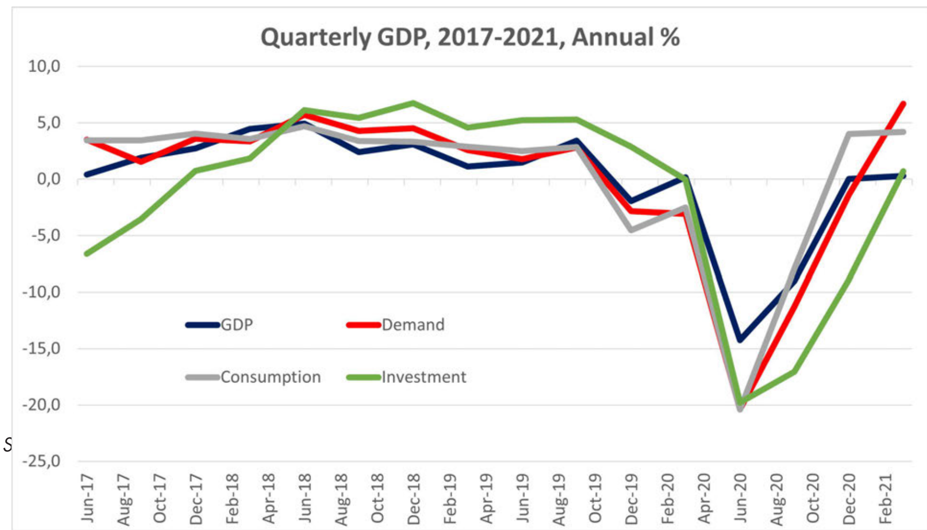
Source: Central Bank of Chile

The reintroduction of lockdown measures across much of Chile from March onwards slowed the recovery in economic activity, according to preliminary data from the Central Bank. On a seasonally adjusted basis, activity declined by 1.4% in April from the previous month of March, as social-distancing rules were severely tightened.

However, on an annualized basis, activity grew by a record 14.1% in April, reflecting the low base of comparison in the second quarter of 2020.

The decline from March was led by those sectors most exposed to the new restrictions on movement. While services activity fell by 0.6%, retail activity declined by 13.2% from the previous month.

Despite almost all of the population requiring authorization to leave their homes from the start of the quarter, the fall in activity was approximately just a fifth the size of the decline caused by last year's initial lockdown as households and businesses adapted to social-distancing rules.



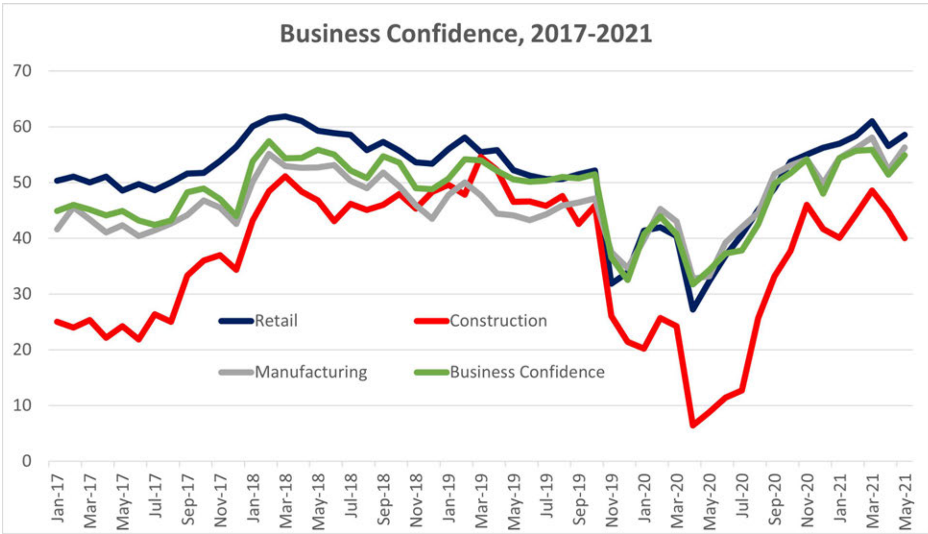
Source: Central Bank of Chile

The slowdown in April comes after quarterly GDP data showed the economy recovering to pre-pandemic levels of activity during the first three months of the year. Activity expanded by 0.3% in the first quarter, compared to twelve months earlier, the economy's fastest rate of growth since the 2019 social unrest.

Growth in the first quarter was driven by domestic demand, which grew by 6.7%, reflecting strong household consumption as families spent fiscal transfers and pensions withdrawals. Spending on consumer durables, particularly cars and electronic goods, rose by almost 50%. Investment grew only marginally as a 21.5% rise in spending on equipment and machinery was largely offset by a sharp drop in construction activity.

In June, the Central Bank predicted that the economy would grow by a record 8.5-9.5% this year, ahead of its previous forecast of 6.0-7.0% given in April, driven by increased government spending, the pension withdrawals and, to a lesser extent, rising investment. Analysts surveyed by the Bank in early June forecast the economy will grow by 7.5% this year.

Business Confidence



Source: ICARE, Adolfo Ibáñez University

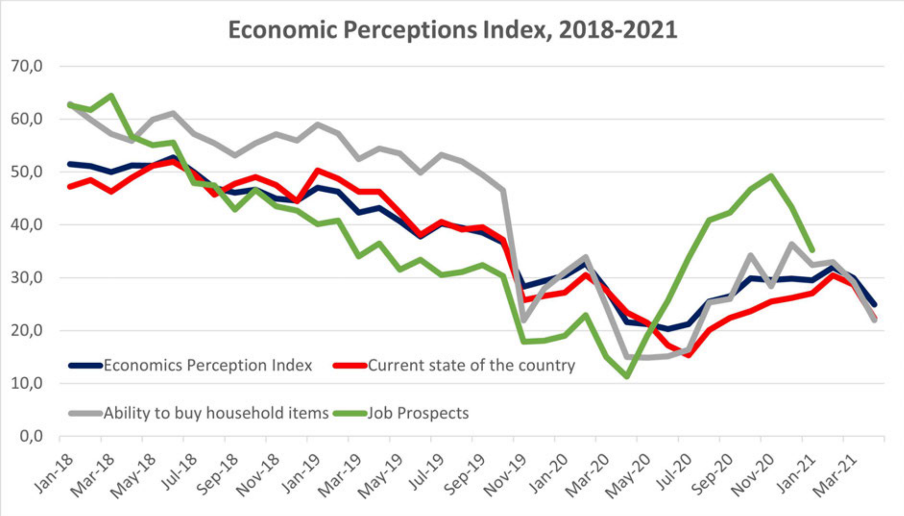
The Monthly Business Confidence Indicator, produced by ICARE and the Adolfo Ibáñez University, fell to 51.42 points in April, its lowest point so far this year, reflecting the reintroduction of lockdown measures and the government's defeat over the pension withdrawals bill.

In May, the index recovered to 54.88 points as optimism grew among retail and manufacturing executives. However, confidence among executives in the construction industry fell almost five points to 40.00, the lowest point since December, as social-distancing measures slowed building activity.

A survey of executives by the Central Bank published in May found that small businesses had been the worst affected by the reintroduction of lockdown measures this year, with half halting operations. Meanwhile, a significant percentage of companies have cancelled or are rethinking investments planned for this year.


En un mundo que nos sorprende cada día, la capacidad de adaptación es clave

Consumer Confidence

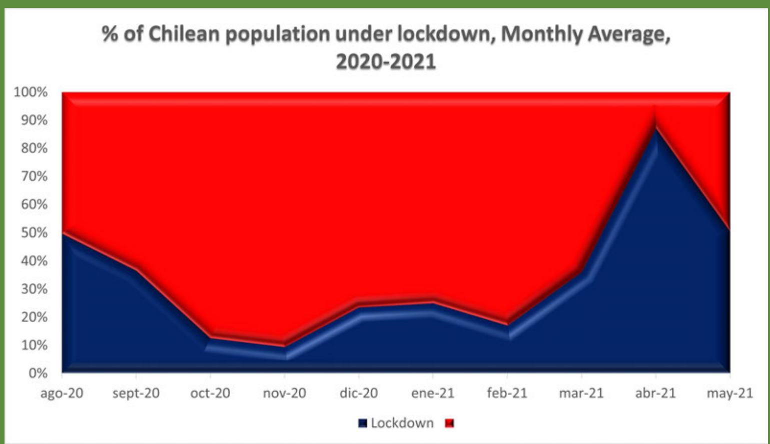


Source: GfK

Despite stronger economic activity and increases in public spending, confidence among consumers has fallen sharply since February amid the reintroduction of social-distancing measures and the rise in Covid-19 infections. In April, GfK's Economic Perceptions Index fell to 24.9 points, its lowest level since last August and down from 32 points two months earlier. The sharpest falls were in confidence about consumers' personal economic situation, the current state of the country and economic expectations over the next 12 months.

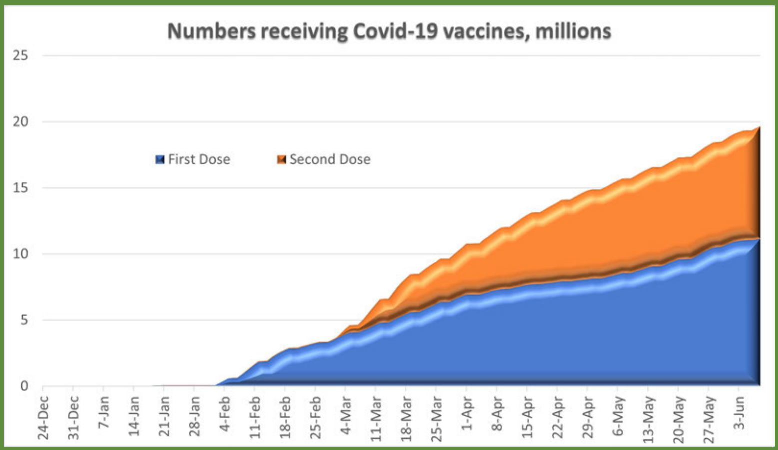
Handling the second wave

Despite the rapid reintroduction of strict lockdown measures from late March onwards and the rollout of the nationwide vaccination programme, Chile continues to face worryingly high rates of Covid-19 infections. Throughout April and May, the number of new cases reported daily has climbed repeatedly as high as 8,600 while the number of active cases has exceeded 50,000 since early May, placing the country's strained health services under increased pressure. After relaxing quarantine rules from late April in areas where infection rates had fallen, such as eastern Santiago, the government placed the whole of the capital back under strict lockdown from June 12th, a move which will slow economic growth over the coming weeks.



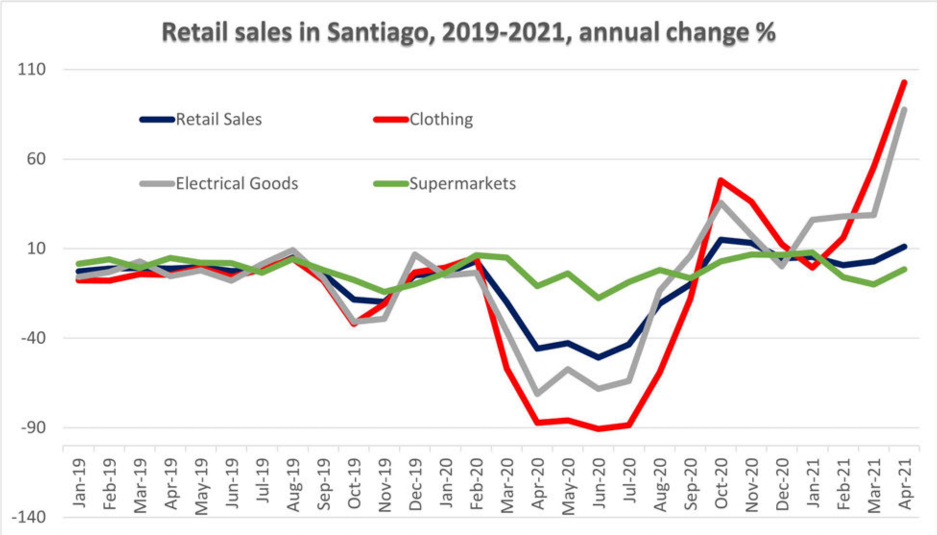
The government's vaccination programme ensured that more than 11.0 million people (or almost 56% of the total population) received at least one dose by early June while 8.5 million have received both jabs. However, slowing attendance rates at vaccination centres throughout the country could mean the government will struggle to achieve its target of delivering at least one shot to 15.0 million people by mid-year. In response, authorities have opened the programme to younger people and teenagers so all those who want to be vaccinated can do so as soon as possible.

In late May, the government launched a new mobility pass allowing individuals who have received both shots to move freely in one's own district during the lockdown and between regions when restrictions are lifted. Although criticized by medical associations for sending out the wrong message about the risks posed by the virus, the measure appears to have encourage more people to get vaccinated.



1.2 Key Sectors

Retail



Source: National Retail Chamber

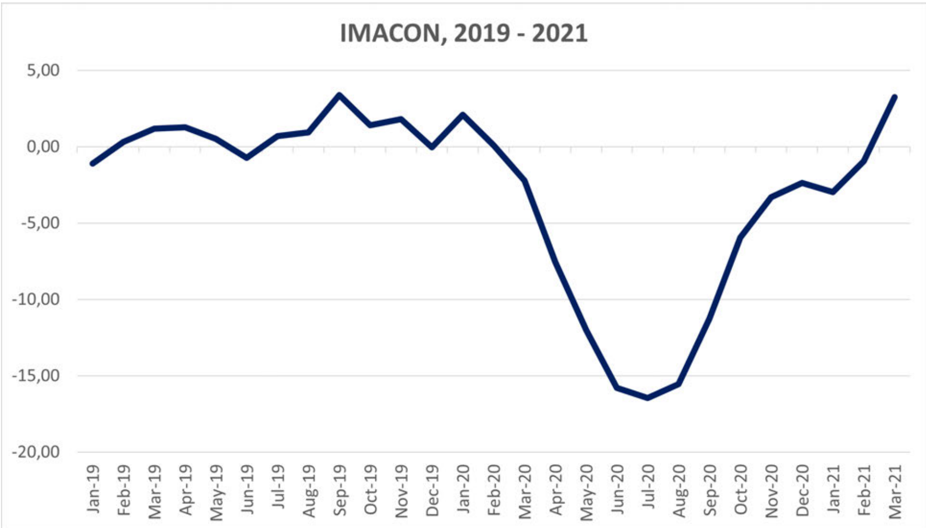
Despite the re introduction of lockdown measures, the retail sector has continued to drive growth into the second quarter, expanding by 33.1% in April on an annualized basis, reflecting last year's low base of comparison as well as the impact of fiscal transfers and pensions withdrawals on household liquidity. Retail sales in the Santiago area grew by 11.2% in the year to April, according to the National Retail Chamber. While supermarket sales contracted by 1.6%, sales of clothing and electronic goods almost doubled compared to a year earlier. Footwear sales have declined by around 40% over the last year.

As well as the low base of comparison, the figures reflect the rise of online shopping as consumers adapt to life under lockdown. Data from the Santiago Chamber of Commerce found that ecommerce grew by 55% last year so that it now accounts for more than 10% of retail sales (compared to 18% globally), up from 6% in 2018. Sales during the 2021 CyberDay online sales event, held on May 31st-June 2nd hit US$640 million, an increase of 57% from last year's version.

Construction

The building sector continues to lag the recovery underway in the rest of the economy with spending on construction falling by 10% in the first three months of the year, compared to twelve months earlier, according to Central Bank data. While social-distancing rules continue to hinder homebuilding, many major investment projects have been delayed or slowed as companies face increased indebtedness, uncertainty over the duration of the pandemic, and the rise in political instability.

However, there are signs of recovery. The Chilean Chamber of Construction's IMACON index rose by 3.3% in the year to March, its highest level since the 2019 social unrest, driven by increased sales of building materials and the issue of new residential building permits.



Source: Chilean Construction of Chamber

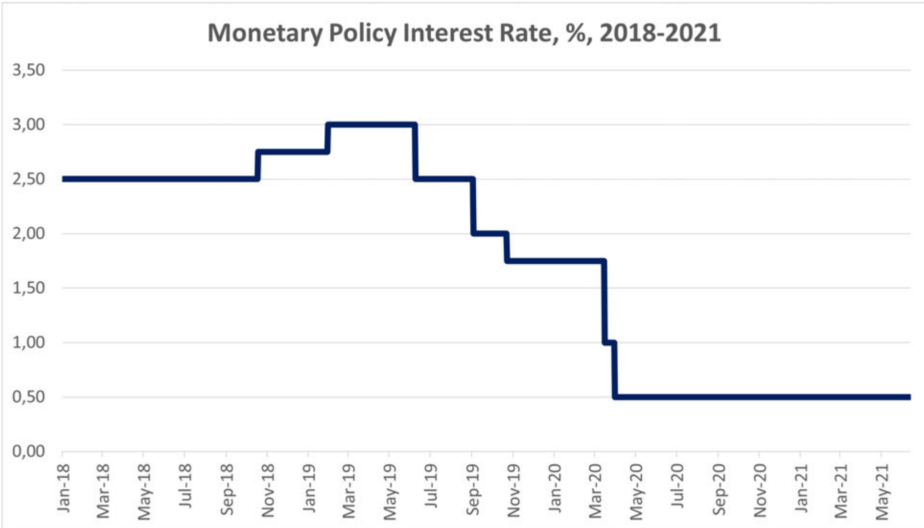
Manufacturing

Manufacturing activity expanded by 5.9% in the year to April although it shrank by 1.2% from the previous month of March on a seasonally adjusted basis. The annual expansion has been driven by a 17.8% rise in beverage production, especially soft drinks following a rise in demand. Food production rose 4.2% on increased bread production, while chemicals production fell 14.3%

Services
The services sector, which accounts for more than half of Chile's GDP, has begun to grow again, expanding by 16.3% in the twelve months to April, largely due to the low base of comparison, although it contracted 0.6% from the previous month of March. The Central Bank highlighted the growth in personal services, especially education and healthcare, although demand for business, transport, and hospitality services has also grown.

Sales of fast food shrank by 10.6% in the first three months of the year, compared to twelve months earlier.

1.3 Monetary Policy



Source: Central Bank of Chile

On June 8th, the board of the Central Bank voted unanimously to hold its benchmark interest rate unchanged at 0.5% (the rate maintained since March 2020), highlighting the continued impact of the pandemic on the economy and the slow recovery of the labour market. However, in a significant change of tone, the bank warned that strong domestic demand and the boost to private spending would require adjustments to monetary policy over the coming months, rather than coming quarters expressed in May, or the two-year horizon suggested at the start of the year.

Analysts surveyed after the meeting predicted for the first time that the Bank would raise the rate by 25 basis points before the end of 2021.

Meanwhile, the Central Bank has begun to wind down unconventional measures designed to stabilize and provide liquidity to financial markets since the start of the pandemic. By early June, the Bank had completed the third phase of its Lending Conditional Credit Facility for banks and concluded its bank bond buying programme. The Bank's stock of bonds will now be gradually reduced as they expire.

1.4 Fiscal Policy

Under pressure from the opposition majority in Congress to provide more support to families and businesses through the pandemic, the government has dramatically increased public spending this year, far in excess of the 9.5% expansion approved in last year's budget legislation. Although the Finance Ministry's Budget Office has yet to provide an official figure for the likely increase, the Central Bank estimated in June that spending could rise by as much as 25%, compared to the 5% increase estimated in March.

Following the reintroduction of lockdown measures in late March, the government initially proposed a US$6.0 billion package of measures, which included:

- An extension of the Emergency Family Income through April, May, and June, available to 80% poorest households worth CLP 100,000 (US$139) per family member per month.
- A one-off "middle class" bonus of CLP 500,000 (US$694) plus monthly loans worth up to CLP 650,000 (US$902) to individuals with incomes of up to CLP 1.5 million (US$2,084), who have suffered a 10% reduction in their income.
- An extension of unemployment insurance for dismissed and suspended workers worth 80% of their previous wages.
- A one-off payment of CLP 1.0 million (US$1,393) to approximately 600,000 businesses with annual sales of up to CLP 741 million (US$1.0 million) plus tax breaks and loan extensions.

However, following criticism of the complex application process for the benefits, especially the middle-class bonus, and approval of the third pensions withdrawal bill in late April, the government announced a significant expansion of the Emergency Family Income. Approved by Congress on June 6th, the benefit will now continue to be paid through to mid-September, to around 15 million individuals at an increased rate of CLP 500,000 (US$694) for a family of four. The benefit is expected to cost US$10.0 billion, the equivalent to around 15% of total government expenditure last year.

According to the Central Bank, fiscal transfers to individuals since the start of the pandemic have now cost the state around US$26 billion, one of the largest such programmes undertaken globally, second only to the US in terms of coverage and the largest relative to per capita income.

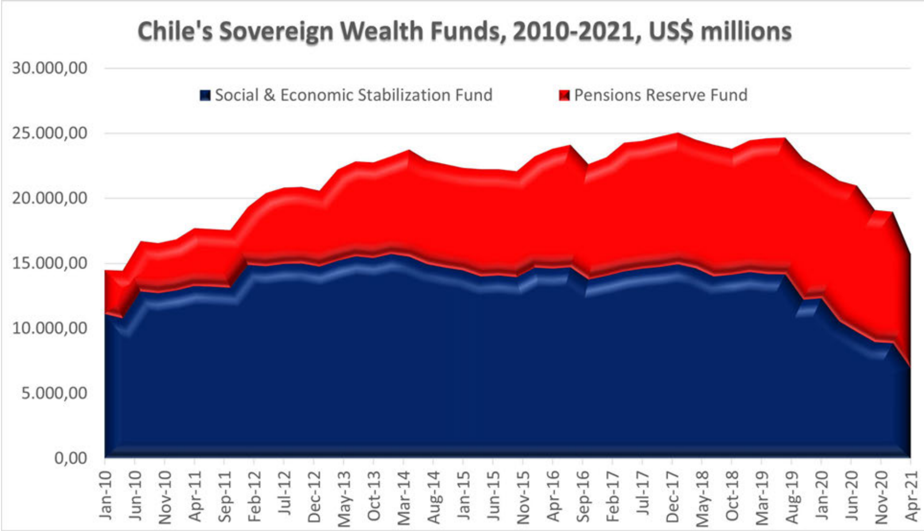
Lawmakers have also approved government legislation to return accumulated tax credits under value-added tax to businesses with sales of up to CLP 2.9 billion (US$4.1 million), which is expected to cost an additional US$1.2 billion.

Finance Minister Rodrigo Cerda has said that increased revenue from the mining industry, thanks to record copper prices, will cover part of the cost of the new pandemic measures. But the rest will be met through increased borrowing and drawdowns from the country's sovereign wealth funds. As a result, the government deficit is not expected to shrink to 3.3% of GDP as previously forecast (down from 7.4% in 2020). A new official estimate is expected in early July.

By the end of April, government expenditure reached CLP 17.1 trillion (US$23.8 billion), an increase of 16.4% from the same period of last year. The increase was driven principally by the Emergency Family Income.

Government revenue rose 17.4% to CLP 18.9 trillion (US$26.3 billion) following a sharp increase in tax revenues from mining and non-mining taxpayers.

Sovereign Wealth Funds



Source: Ministry of Finance

In April, the government withdrew an additional US$3.2 billion from Chile's two sovereign wealth funds to help pay for additional public spending during the pandemic. It included US$1.8 billion from the Economic and Social Stabilization Fund and US$1.5 billion from the Pensions Reserve Fund and brings to US$12.5 billion the amount withdrawn by the current administration from the funds since March 2018.

As a result, Chile's two sovereign wealth funds held assets worth a total of US$15.7 billion at the start of April, down from US$19.0 billion at the end of last year and a peak of US$25.0 billion in early 2018.

Credit ratings

Despite the government's defeat over the third pensions withdrawal and the victory of left-wing candidates in the elections to the Constitutional Convention, the leading ratings agency have left their ratings for Chile's sovereign credit unchanged.

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

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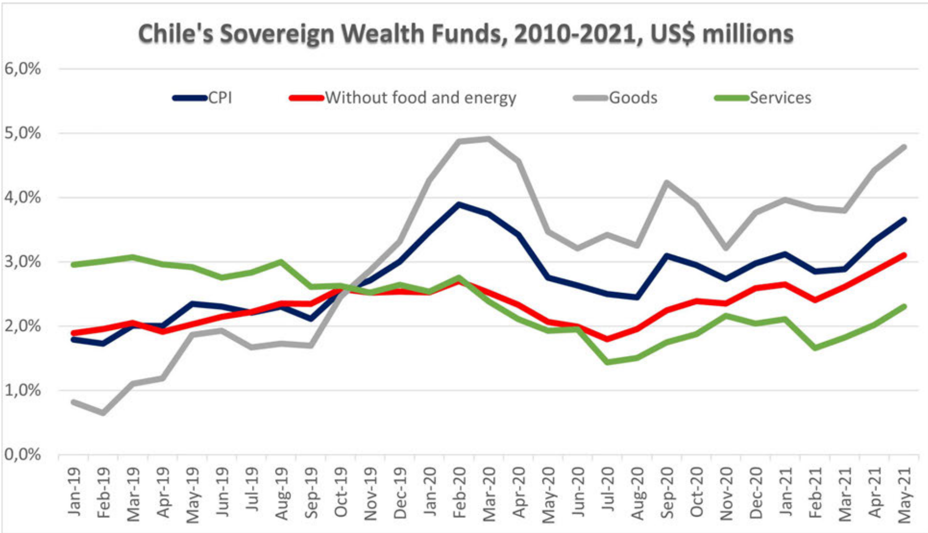
1.5 Domestic Prices



Source: National Statistics Institute

Inflation has continued to gather strength in the second quarter, driven by rising energy and goods prices. The government's Consumer Price Index rose by 0.3% in May, lifting annual inflation to 3.6%, up from 3.3% in April and its highest level since the start of the pandemic.

Petrol prices, which have risen 16.4% since the start of the year, and intercity bus fares explained much of the rise. Excluding food and energy prices, the index rose by just 3.1% over the previous year. Goods prices rose by 4.8% in the year to April, their fastest rate in over a year, reflecting limited inventories of some products and strong demand.

Inflation is expected to continue rising over the coming months as higher oil prices combine with the stronger domestic demand. In June, the Central Bank predicted that the index would end the year at 4.4%, driven by higher energy prices, before converging towards its medium-term target rate of 3.0% by late 2023.

Analysts surveyed by the Central Bank in June predicted that the index would end the year at 3.5%.

Concern about inflation has spread to the public. Sixty per cent of consumers surveyed by GfK in May expected prices to rise significantly over the next twelve months, up from less than half nine months earlier.

Inflation returns

The rise in inflation in Chile over the last six months mirrors rising prices in the rest of the world, which could challenge the recovery underway in the global economy in the wake of the Covid-19 pandemic.

In the US, consumer prices rose by 5% in the year to May, up from 4.2% in April, and their fastest rise in more than twelve years.

Rising prices have been driven partially by the recovery in oil prices since last year's slump. Given last year's low base of comparison, that would suggest the surge in inflation would be transitory.

But there are signs that the huge adjustments forced on the global economy by the Covid-19 pandemic is causing permanent price increases.

A shortage of microchips, caused the closure of factories during the pandemic last year, has slowed car making, leading to sharp increases in car prices.

The strength of the recovery in the US labour market is also pushing up wages with companies are increasingly complaining that it is getting harder to recruit staff, especially for low-skilled positions.

US core inflation, excluding volatile food and energy prices, reached 3.8% in May, its fastest increase in almost three decades.

Concerns over inflation are not restricted to the US.

In China, producer prices have rose 9.0% in the year to May, up from 6.8% in April, reflecting soaring commodity prices, although these have yet to be passed onto consumer prices. Germany's Bundesbank has warned that inflation could hit 4.0% later this year, far ahead of the European Union's 2.0% target rate.

The return of rising prices around the world has raised fears of a new inflationary era in developed countries, a problem they thought they had vanquished decades ago.

The risk is that the rising prices may force governments and Central Banks in developed countries to act sooner to keep their economies on an even keel.

Authorities in China have reacted to rising commodity prices with measures to boost supplies and warnings that it will show zero tolerance towards hoarding and speculation. Iron ore prices fell by almost a quarter in the following days.

Brazil's central bank has already increased its interest rate twice this year to counteract inflation. The Bank of Mexico could raise rates later this year as high US inflation spreads south of the border. Central banks in Canada, Norway and South Korea have discussed raising rates in the coming months.

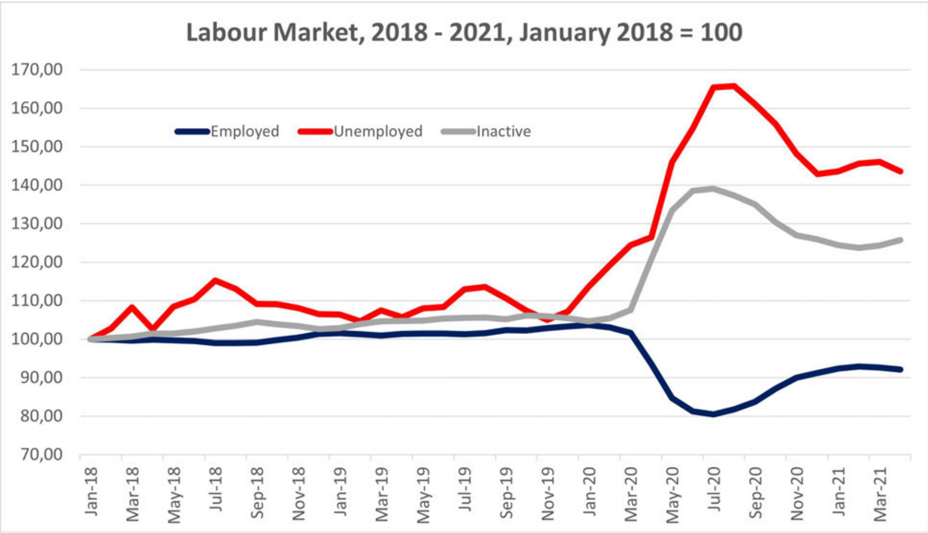
But as usual the focus is on what action the US Federal Reserve could take.

Some fear that the withdrawal of its massive asset-buying program could trigger a move similar to the 2013 taper tantrum when investors pulled out billions of dollars from emerging markets, causing currencies and asset prices to slump.

A hike in US interest rates could force central banks in the developing world to raise interest rates before their economies have fully recovered from the effects of the pandemic.

Although Chile is not amongst the countries most exposed to this risk, rising interest rates could slow the economic recovery underway in many parts of the world, leading to a deterioration in external conditions, and lift financing costs for government and businesses.

1.6 Employment and Wages



Source: National Statistics Institute

The labour market deteriorated during the second quarter with the reintroduction of lockdown conditions from March onwards. The number of people in work fell by around 163,000 to 8.1 million between February and April this year, mirroring a similar rise in the number classed as inactive (to 6.8 million).

As a result, the number of unemployed reached 925,000 or 10.2% of the total workforce, little changed from the end of last year.

Job losses were heavily concentrated in areas most exposed to social-distancing rules as well as the end of the summer tourism season, including domestic employment (down 17.0%), administrative and support services (down 15.7%) and hospitality (down 11.0%). While formal employment (as measured by pensions and insurance contributions) has returned to pre-pandemic levels, the number of people classed as self-employed, low-skilled, and in informal jobs has yet to recover.

Despite the weakening of the labour market this year, wage growth has accelerated significantly as the economy has recovered. The government's Renumerations Index rose by 5.8% in the year to May, its fastest rise in almost five years, or 2.4% when adjusted for inflation. The increase was driven by higher wages in construction, manufacturing, mining, and retail.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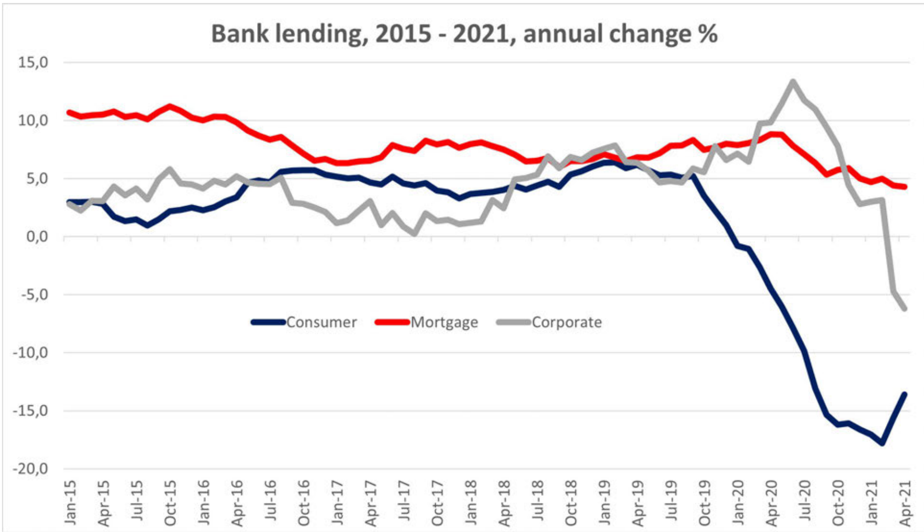
1.7 Financial Markets

Banking



Source: Financial Markets Commission

Bank lending has continued to slow into the second quarter as large companies delay or cancel investment plans and households pare back borrowing. Outstanding loans reached CLP 196.6 trillion (US$272.6 billion) by the end of April, down 4.2% from twelve months earlier.

Corporate lending contracted by 6.2% to CLP 116.3 trillion (US$161.3 billion) over the period, partly reversing the sharp increase in borrowing recorded during the second quarter of last year.

According to banking association ABIF, the fall reflects a record 10.9% fall in borrowing by large companies while lending by small and medium-sized enterprises grew by 15.0%, driven by the FOGAPE programme of state-guaranteed loans. Around US$5.5 billion has been lent under the programme, largely to small businesses, half of them in the retail sector.

Consumer lending fell by 13.6% to CLP 23.4 trillion (US$32.4 billion). Only mortgage lending has continued to expand, rising by 4.3% to CLP 62.2 trillion (US$86.2 billion) in the year to April.

The Central Bank noted that levels of corporate and household debt have fallen since last year, thanks to the recovery in sales and the pensions withdrawals, respectively. The percentage of nonperforming loans fell to 1.55% in April, down from over 2.0% a year earlier, with the sharpest fall seen in consumer loans.

Bank profits have continued to fall, totalling CLP 1.2 trillion (US$1.6 billion) in the first four months of the year, down 8.2% from twelve months earlier, reflecting reduced income from interest payments. The return on assets in the sector averaged 0.66% in April, down from 1.21% in April 2020.

Debt Markets

Corporate spreads have narrowed back to levels not seen since before the 2019 social unrest, especially for bank bonds, although other sectors are lagging. However, unlike bonds in the US and elsewhere, long-term rates in Chile have grown in the wake of recent political developments with the nominal yields for 10-year bonds rising by around 100 basis points.

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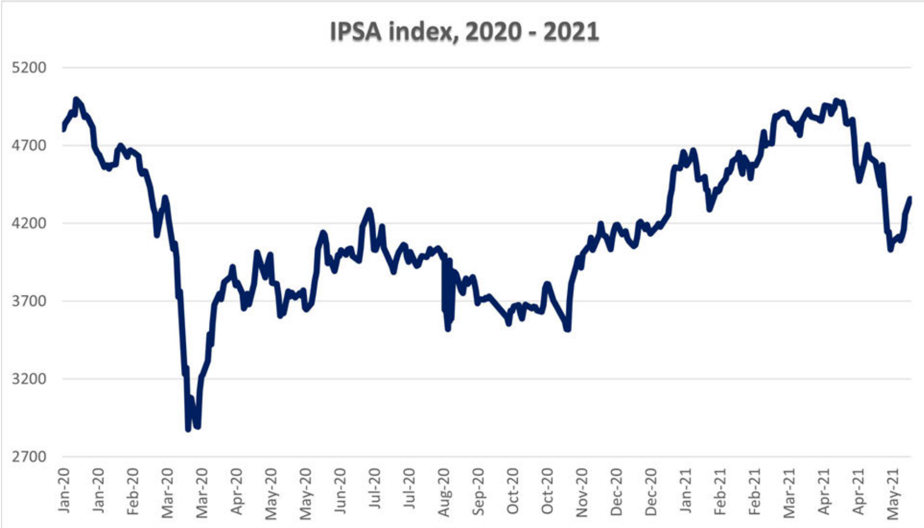
Stock Markets



Source: Santiago Stock Exchange

Share prices fell sharply in Santiago following the surprise results of the elections to the Constitutional Convention. After reaching its highest level since the 2019 social unrest, the IPSA index of the thirty largest companies listed on Santiago Stock Exchange fell by almost a fifth to its lowest level since last November. The index recovered to 4,300 points by the end of May as the government relaxed social-distancing rules and increase welfare spending. However, the index slipped almost 4% on June 2nd as the government tightened lockdown rules.

The value of assets controlled by the private pension fund administrators fell to CLP 142.4 trillion (US$197.9 billion) by the end of May, down 11.0% from twelve months earlier and its lowest level in more than two years.

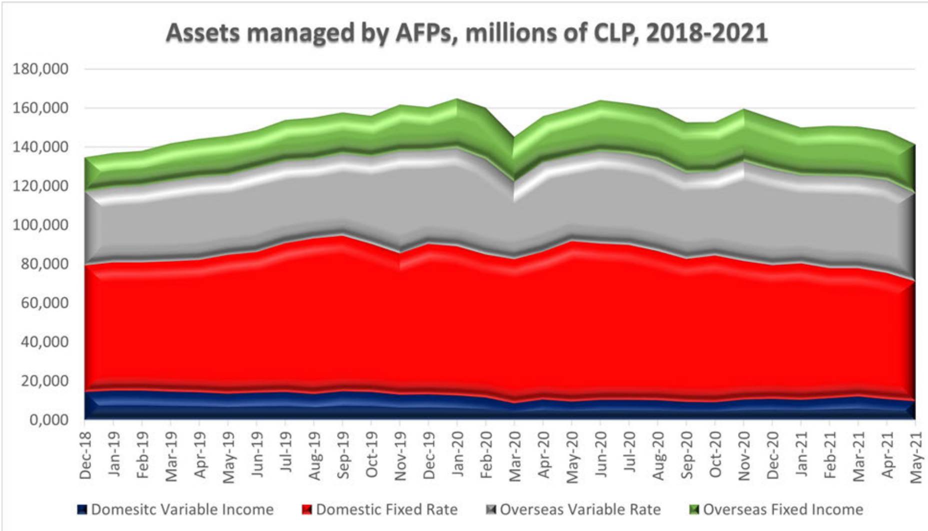
The fall was driven by the withdrawal of almost US$49.0 billion by savers from pensions funds under the three bills passed by lawmakers since August last year.

AFP Assets Under Management
(May 2021)

Type of fund	Amount (billions of pesos)	Change June 2020 - May 2021 (%, real in pesos)	Return June 2020 May 2021 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	20,233	19.2	20.54	80	40
B Funds	20,626	-7.6	14.97	60	25
C Funds	51,420	-12.3	5.71	40	15
D Funds	24,255	-16.9	-2.17	20	5
E Funds	225.825	-21.6	-6.58	5	0
TOTAL	142,361	-11.0			

Following the approval of the third bill in April (See 4.0 Political Context), some legislators have submitted bills allowing savers to withdraw all of their remaining savings.

Returns were highest in the riskiest A funds reflecting the sharp recovery in assets values since the start of the global pandemic in March last year.

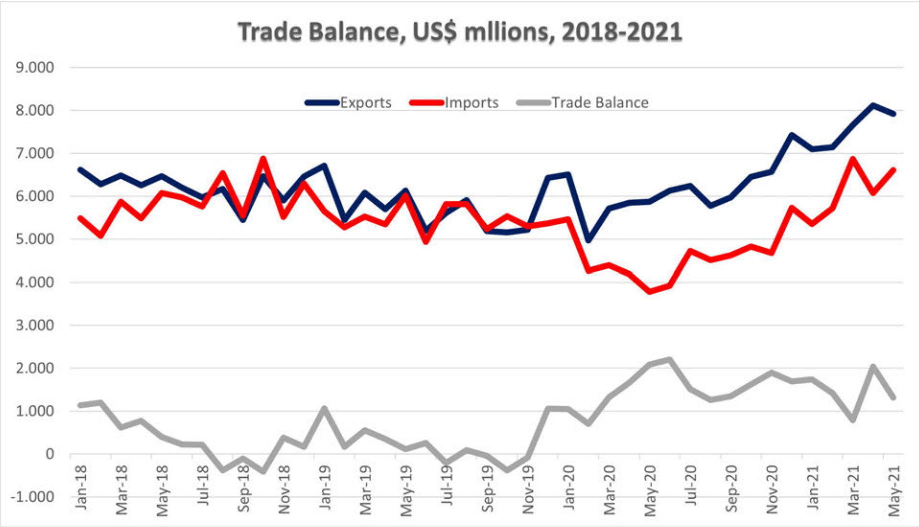


Source: Superintendence of Pensions

2

TRADE BALANCE

2.1 Trade Balance



Source: Central Bank of Chile

Chile's foreign trade has expanded rapidly this year amid booming commodity prices, especially copper, and the recovery in global trade. Exports during the first five months of the year reached a record US$37.9 billion, up 31.2% from the same period of 2020, driven by soaring copper prices, while imports rose 38.6% to US$30.6 billion over the same period, on increased imports of consumer, capital, and intermediate goods.

As a result, Chile's trade surplus reached US$7.3 billion during the period, up 7.1% from the same period of last year.

Imports

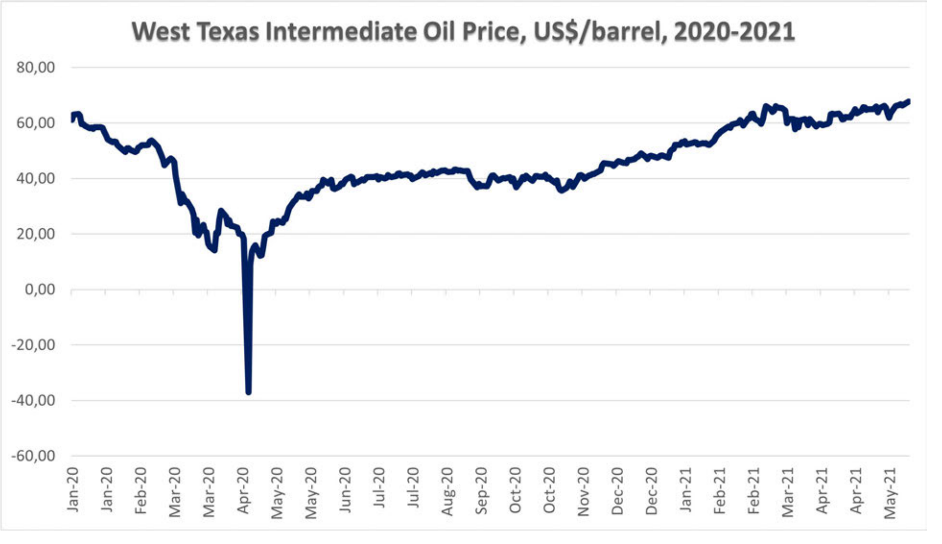
Source: Central Bank of Chile

Imports of consumer goods have contionued to soar, amid strong consumer demand, reaching US$9.9 billion during the first five months of the year, up 59.3% from twelve months earlier. Imports of consumer durables more than doubled to US$4.1 billion, on increased imports of cars, computers, mobile telephones and televisions.

Similarly, imports of capital goods rose 36.7% to US$7.0 billion, reflecting the recovery in investment so far this year. Imports of lorries and other transport vehicles almost doubled to US$1.1 billion, while imports of mining and construction equipment rose 56.7% to US$447 million.

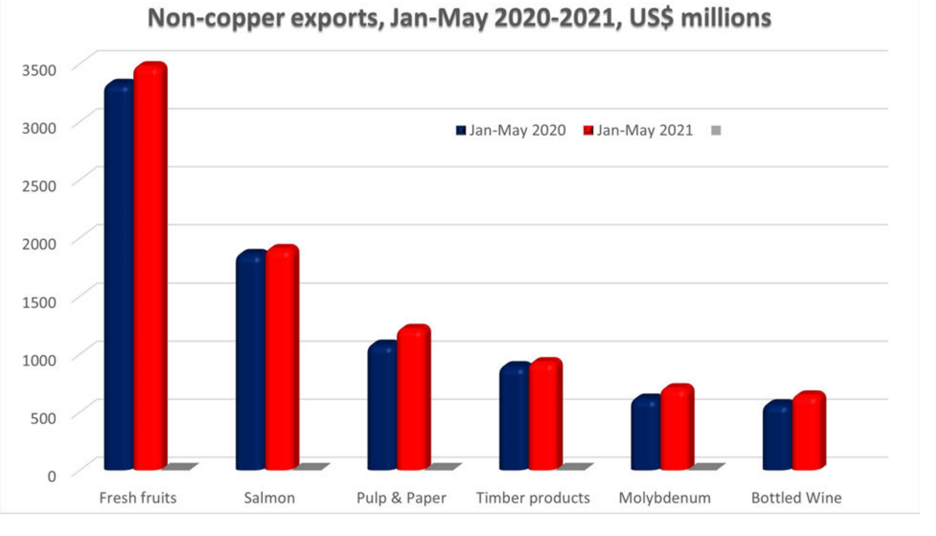
Imports of other intermediate goods rose by 31.3% to US$9.2 billion in the five month period, led by chemicals, metallic products, fertilizers and spare parts for machinery.

Energy imports reached US$4.1 billion, up 27.4%, reflecting increased fuel consumption and higher oil prices. By June 1st, the West Texas Intermediate benchmark had reached US$67.80 a barrel, its highest level in more than two years, reflecting growing demand for fuel.

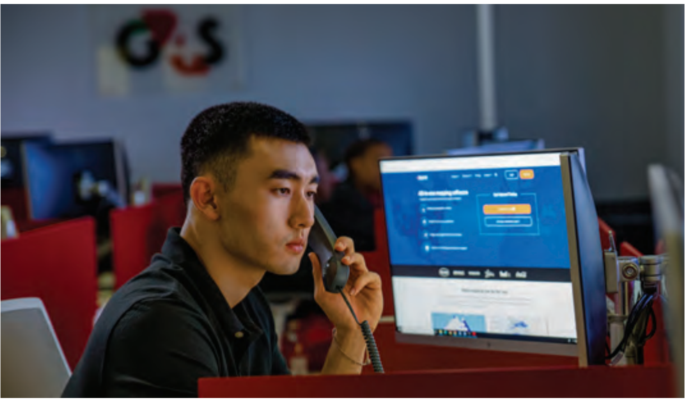


Source: St Louis Federal Reserve

Exports



The rise in exports was driven largely by the huge rise in mineral exports as copper prices reached record levels (See 2.2 Mineral Exports). Agricultural exports rose 3.4% to US$3.8 billion, on higher fruit exports, while industrial exports rose 2.3% to US$10.9 billion.



Exports of fresh fruit have risen 4.6% this year to US$3.5 billion. A 34.6% increase in exports of cherries to US$1.3 billion offset sharp declines in exports of apples, grapes and avocados. Exports of blueberries rose 29.2% to US$544 million.

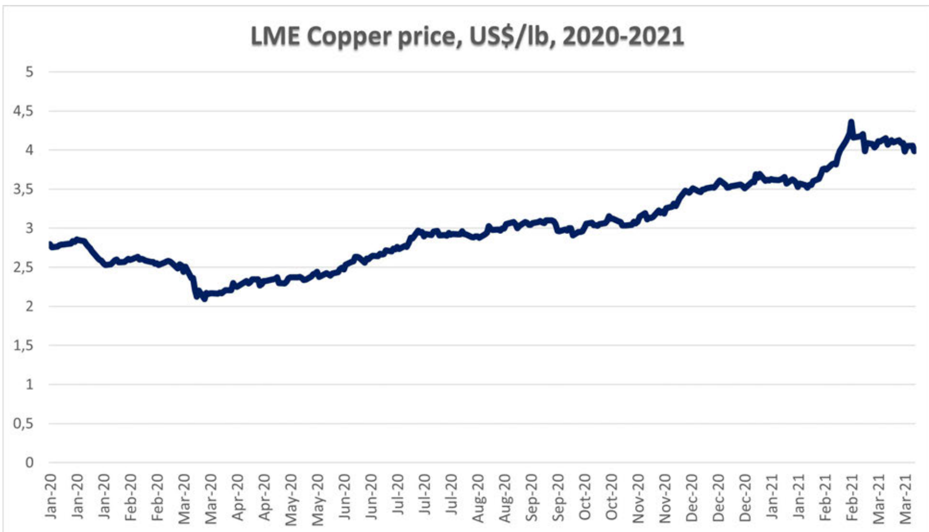
Pulp and paper exports rose 12.6% to US$1.1 billion during the five-month period, driven by increased shipments of long-fiber pulp. While exports of short-fiber pulp fell 7.3% to US$369 million, exports of long fiber pulp rose 17.5% to US$396 million. The rise reflects pulp prices which have risen by around a fifth since a year ago, said Empresas Copec, while pulp volumes rose 2.2% to 1.8 million tons.

Timber exports rose 3.9% to US$929 million, as increased exports of wood profiles, sawn wood and plywood offset a sharp fall in exports of wood chips.

Exports of salmon and trout reached US$2.1 billion in the year to May, down 1.2% from twelve months earlier, as increased salmon exports was offset by a 28.6% drop in exports of trout to US$170 million. Shipments of salmon and trout rose 2.5% over the period to 337,000 tons.

Exports of wine reached US$784 million during the first five months of the year, up 11.8% from last year. According to agricultural statistics office ODEPA, export volumes rose 3.1% during the first four months of the year to 270 million litres while average prices for bottled wines rose 7.9% to US$3.35 a liter. Exports to China, Chile's largest wine market, have recovered sharply this year, rising 43% to US$80.0 million while exports to Brazil rose 12% to US$48.6 million.

2.2 Mineral Exports



Source: Chilean Copper Commission

Copper prices soared to record levels during the second quarter, reaching a high of US$4.86 a pound on May 10th, surpassing the previous record set during the commodity super-cycle at the start of the last decade. However, prices fell to around US$4.30 a pound in mid-June after the Chinese government announced it would sell metal from strategic stockpiles..

The rally in prices during the quarter has forced analysts to adjust their price forecasts for the year upwards. On May 19th, the Chilean Copper Commission predicted that copper prices would average US$4.30 a pound during 2021, up from US$3.30 a pound predicted in January this year, before declining to US$3.95

a pound next year. In June, the Central Bank said prices would average US$4.25/lb this year before declining to US$4.00/lb in 2022 and US$3.70/lb in 2023.

Driven by the higher copper prices, the value of Chile's mineral exports reached US$23.2 billion during the first five months of the year, up 59.4% from the same period of last year. Copper exports rose 61.9% to US$21.3 billion.

Mine production has slowed so far this year as mining companies contend with lower ore grades and restrictions imposed by the Covid-19 pandemic. Copper production reached 1.854 million tons during the first four months of the year, down 2.0% from the same period of 2020.

Despite the record copper price and tense political climate, a series of labour negotiations at major copper mines have passed off largely without disruption. While unions at state-owned Codelco mines have agreed to contracts without any pay increase or additional benefits, workers at private mines have demanded large signing bonuses to close the deal.

Attention will now turn to negotiations with workers at the BHP-operated Escondida mine, the world's largest copper mine, which accounted for a fifth of Chilean production last year. The 2,300-strong union is one of Chile's most militant and has already said that it is preparing for a prolonged strike if pay talks fail. Their 2017 strike lasted for 44 days, making it one of the longest in Chile in several decades.

Iron ore exports reached US$824 million during the period, up 61.3% from a year ago, reflecting higher prices. The rise reflects a rally in prices this year to over US$200 a ton by early May. Export volumes were little changed at 5.7 million tons.

However, iron ore prices slumped from highs over US$210 a ton to less than US$160 a ton in just a few days in mid-May after the Chinese government announced that it will crack down on speculation in commodity prices.

Exports of molybdenum, a by-product in many of Chile's large copper mines, reached US$705 million in the five months to May, up 14.6% from a year earlier. While molybdenum production fell 3.0% over the period to 17,331 tons, prices for molybdenum oxide have averaged US$11.53 a pound, up 26.5% from the same period of 2020.

Gold exports rose 1.7% to US$332 million as higher prices were offset by a fall in production. Gold production fell to 10,049 kilograms during the first four months of the year, down 9.6% from twelve months earlier.

Similarly, exports of silver have risen 50% to US$180 million, reflecting the sharp rise in silver prices since a year ago. The rise offset the fall in silver production to 391,254 kilograms, down 12.4% from the first five months of 2020.

2.3 Chile/UK trade

Trade between Chile and the UK totalled US$403.9 million during the first four months of the year, down 1.5% from the same period of last year, as a fall in Chilean exports was partially offset by a rise in UK exports to Chile.

Chilean exports to the UK during the first four months of 2021 totalled US$216 million, down 10.8% from the same period of 2020, reflecting reduced shipments of fresh grapes, apples, and wines, offset by increased exports of blueberries and cherries.

UK exports to Chile during the year to April totalled US$188 million, up 11.8% from the same period of 2020. The increase was led by exports of machinery (up 9.3% to US$39.5 million), while shipments of vehicles fell 15.7% to US$28.5 million.

2.4 Capital Flows

Chile's current account deficit reached US$1.6 billion by the end of the first quarter, representing 0.9% of GDP, compared to a surplus of US$503 million in the final three months of 2020. The move reflected the contraction of Chile's trade surplus in goods, from US$5.2 billion to US$4.0 billion, as well as an increase in the primary income deficit as foreign companies, especially in the mining sector, remitted more profits abroad.

In June, the Central Bank predicted that Chile's current account will end 2021 with a deficit of US$2.5 billion, or 0.8% of GDP, compared to a surplus of US$3.4 billion in 2020.

Chile's financial account ended the first quarter with a deficit of US$2.3 billion, compared to a surplus of US$1.7 billion in the final three months of 2020. The move largely reflects a rise in direct overseas investment by Chilean companies which reached US$3.0 billion in the quarter, up from US$543 million, while Foreign Direct Investment into Chile fell from US$3.4 billion to US$1.7 billion.

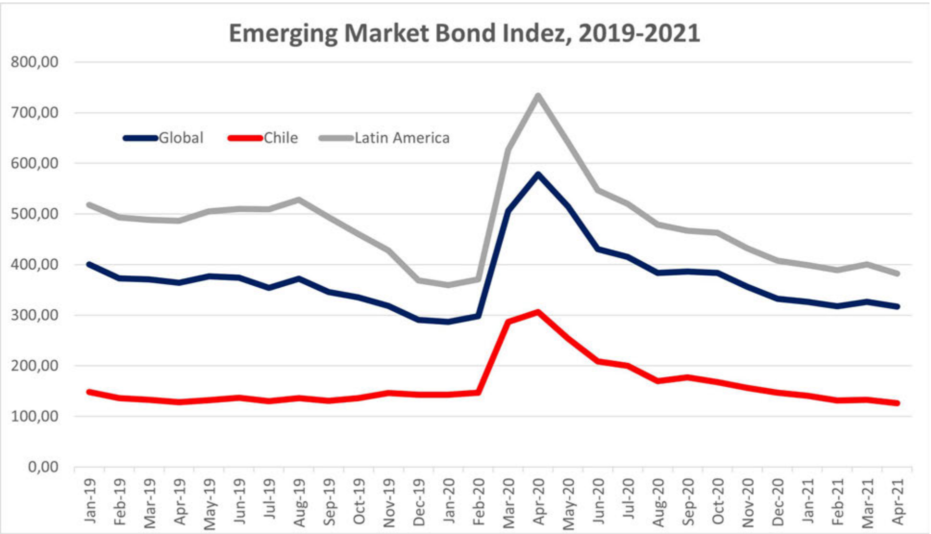
Foreign investors increased their financial holdings in Chile by U$4.4 billion, largely through purchases of government bonds, after divesting US$2.0 billion in the previous quarter. Chileans acquired US$3.9 billion worth of overseas financial assets, after reducing their holdings by US$1.2 billion in the previous quarter.

Chile's International Investment Position reached a net debt of US$29.0 billion by the end of March, equivalent to 10.3% of GDP, up from 8.9% at the end of 2020. The deterioration of the position largely reflected the depreciation of the Chilean peso against the US dollar and the revaluation of liabilities linked to the strong performance of share prices in Santiago during the first quarter.

Chile's external debt reached US$211.0 billion in the period, up from US$195.8 billion twelve months earlier, although measured as a percentage of GDP, it fell from 82.9% to 75.1% over the same period.

The increase largely reflects the growth in government foreign debt over the last year, up 21.4% to US$33.8 billion, and corporate debt, which grew 20.4% to US$90.4 billion, while bank debt fell 23.4% to US$24.8 billion.

Country Risk



Source: JP Morgan

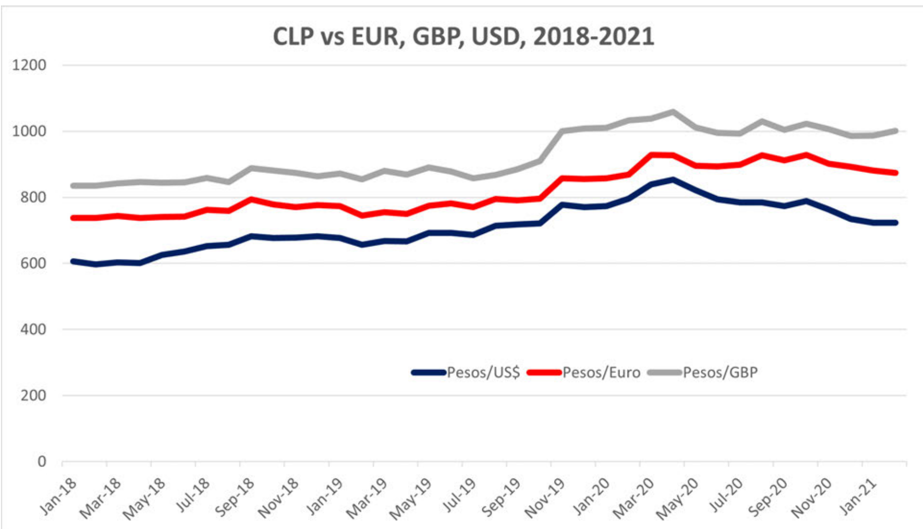
The results of the constitutional elections in May have shaken investor confidence in Chile. Following the vote, the spread on five-year Credit Default Swaps jumped 8.6% to 58.58 points, its highest level since early April. However, JPMorgan Chase's Emerging Market Bond Index (EMBI) has continued to decline, reaching its lowest level since April 2018.

2.5 Exchange Rates

Source: Central Bank of Chile

After appreciating above CLP 700/dollar in early May for the first time in two years as copper prices soared to record highs, the exchange rate plummeted to CLP 730/dollar in the wake of the results of the constitutional and municipal elections in the middle of the month.

Traders surveyed by the Central Bank in late May predicted that the US dollar would average around CLP 700/dollar over the next two years.



Source: Central Bank of Chile

The movement against the Euro and British Sterling has been even more pronounced with the Euro rising 5% the day after the elections to reach CLP 900/Euro for the first time this year.

3

QUATERLY INSIGHT: CHILE'S CONSTITUTIONAL CONVENTION

3.0 Quarterly Insight: Chile´s Constitutional Convention

On May 15th-16th, Chileans voted to choose the participants in the Constitutional Convention that will draft the country's new constitution.

In a major surprise, voters opted overwhelmingly for left-wing and independent candidates instead of the traditional centre-left and centre-right parties which have dominated politics since the return to democracy three decades ago.

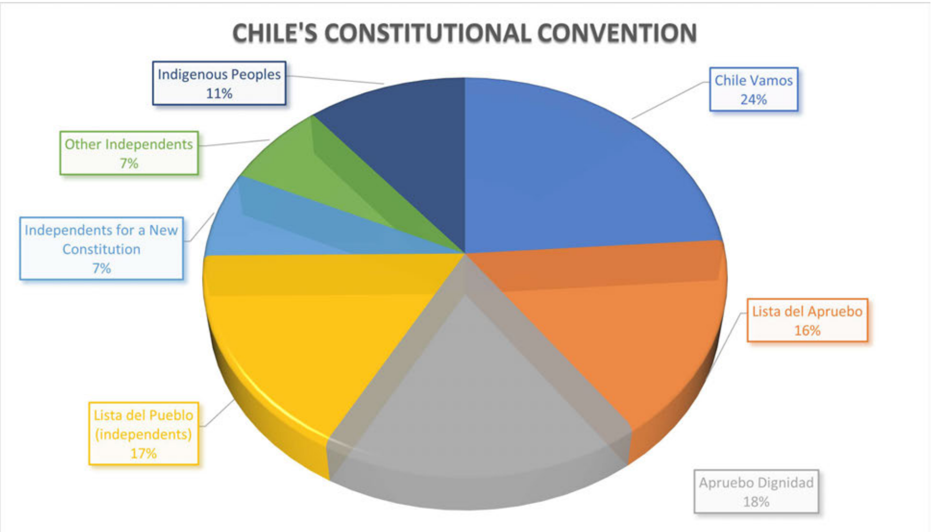
Like the Chamber of Deputies, the body's 155 members were chosen from lists of candidates using the D'Hondt system of proportional representation, but with 17 seats reserved for representatives of Chile's indigenous communities.

Almost 6.2 million people participated in the vote, representing 41.51% of the suffrage, less than the 51% who voted in last October's overwhelming referendum vote in favour of drafting a new constitution.

Of the votes cast, the government coalition Vamos Chile obtained just 20.56% and the Lista del Apruebo (centre-left parties from the once dominant Concertación alliance) another 16.27%.

Instead, almost 40% of voters chose a range of independent candidates while the Apruebo Dignidad list (including the Communist Party and far-left Frente Amplio pact) obtained almost 19% of the vote.

The vote means Vamos Chile obtained 37 seats, Lista del Apruebo 25, Apruebo Dignidad 28 and independent candidates 48 while another 17 were reserved for indigenous candidates.



As agreed by the leading political parties at the height of the social unrest in November 2019, the participants now have nine months to debate the contents of the new constitution, a period which can be extend a further three months if there is no agreement. The final text will then be put to a second referendum in which all registered voters must participate.

Rules requiring all articles to be approved by a two-thirds majority had initially calmed fears among business leaders and investors that the new constitution would prevent a radical transformation as the traditional conservative vote would be able to veto the extreme proposals that a left-wing majority might support.

However, the disappointing performance of conservative candidates in the election leaves the door open for the new constitution to bring drastic change to Chile's economic and social model.

A survey of the opinions of just over one hundred elected candidates, carried out by the online platform Votamos Tod@s, found significant consensus on a broad range of issues.

Candidates overwhelmingly want the constitution to require the state to guarantee free and quality access to healthcare, education, housing, internet, and pensions to all citizens.

A majority also believes that Chileans should also receive a minimum guaranteed income, whether they are working or not.

The new constitution should require the government to seek greater social equality and protection of the environment even if this comes at the cost of slower economic growth.

Although the majority did not favour state control over natural resources, such as fishing and mining, private companies in these sectors should be required to provide significant benefits to the country.

They also want greater state control over water resources, with the power to strip water rights from private owners to benefit local communities.

A majority also want to radically reform how Chile's political system works.

For example, the public should be able to participate in key decisions through referendums and consultations, including the right to recall public officials.

Regions should be granted greater political and economic autonomy as should the country's indigenous communities, recognizing Chile as a pluri-national state.

However, significantly fewer candidates supported reverting the autonomy of the Central Bank, eliminating the Constitutional Court, or turning Congress into a single chamber legislature.

How many of these ideas make it into the final constitution is hard to ascertain. The large number of independents elected, although generally on the left of the political spectrum, hold a wide range of views and are less bound by ideology or political loyalty than the party politicians elected.

Their views may also change significantly during the weeks and months of debate ahead. The lack of consensus may see many demands left out of the final text.

Nevertheless, the results of the May elections mean that the significance of the constitutional process on which Chile has now embarked is much less certain than many had predicted when first proposed eighteen months before.

4

POLITICAL CONTEXT

4.0 POLITICAL CONTEXT

The political opposition in Congress has dominated the legislative agenda in recent weeks, advancing legislation to increase1 taxes on the mining industry and cut consumption taxes and pressuring the government to massively increase public spending.

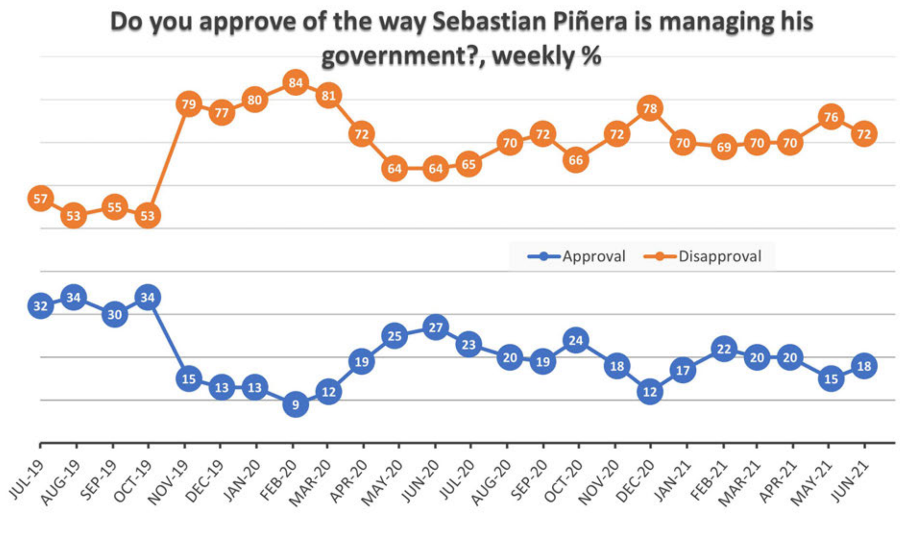
On April 23rd, lawmakers approved legislation allowing savers to make a third withdrawal from their private pensions savings despite warnings from ministers and economists about its impact on future pensions. Like the previous two bills, passed in July and December last year, the legislation allows savers to withdraw up to CLP 4.5 million (US$6,200), based on the size of their pension fund. Although opposed to the measure, President Sebastián Piñera signed the bill into law after the Constitutional Court refused to hear his appeal over its unconstitutionality.

In a change from the first two withdrawal bills, the new law also allows pensioners to withdraw a similar amount from their retirement annuity. Insurance companies have begun to take legal action, including international arbitration under Chile's investment treaties, against the proposal which they say amounts to expropriation.

Following his defeat over the pensions bill and criticism of the government's support for people during the pandemic, President Piñera launched negotiations with centre-left opposition lawmakers, business groups and civil society over the legislative agenda for the remaining ten months of his administration, focusing on providing more help for households and businesses plus tax measures to finance it. Although talks failed to reach agreement, the government unveiled a proposal in May to expand the Emergency Family Income to 15 million people through to the middle of September at an estimated cost of around US$10 billion (See 1.4 Fiscal Policy) plus additional aid for small businesses.

Meanwhile, on May 6th, the Chamber of Deputies approved legislation to impose a punishing royalty on copper exports. Originally conceived with a flat 3% rate on sales, an amendment approved in the debate increases the marginal rate to 15% when copper prices exceed US$2.00/lb, rising to 75% when prices exceed US$4.00/lb. The government and mining industry have warned that the initiative would freeze investment in Chile's largest export sector and force some mines to close. The Senate has now begun debating the measure.

On May 18th, deputies approved a draft constitutional reform to temporarily cut value-added tax from 19% to 4%-10% on hundreds of goods and services, including food, medicines, and tourism. However, an article to impose a one-time 2.5% levy on the fortunes of individuals worth more than US$22 million did not obtain the necessary three-fifths majority. Proponents have promised to reintroduce the article when it is debated in the Senate.



Source: CADEM

Support for the government remains at historically low levels. A poll in early June by market research firm CADEM showed that just 18% of those surveyed approved of President Piñera's performance. However, this marks a sharp increase from just 9% in late April following his defeat over the third pensions withdrawal bill, his lowest rating since the start of the pandemic in March last year.

Disaffection with the government and the traditional political parties was reflected in the results of the municipal and regional elections which were held on May 15th-16th. The number of mayors aligned with the government coalition Chile Vamos fell from 145 to 87, while the number of independent mayors more than doubled to 105. Similarly, voters opted largely for left-wing and independent candidates for the Constitutional Convention which will draft Chile's new constitution (See 3.0 Insight).

Following the election results, the main political coalitions rushed to register their candidates for the presidential primary elections which will take place in July. Four candidates will compete to represent Chile Vamos, of whom Las Condes mayor Joaquín Lavín and former minister Sebastián Sichel are the favourites. The far-left Apruebo Dignidad pact will choose between deputy Gabriel Boric and Communist mayor Daniel Jadue, who has led many recent presidential polls. The centre-left opposition parties, which failed to register for an official primary by the May 19th deadline, are expected to choose between Radical Carlos Maldonado, Socialist Paula Narváez and Senate president Yasna Provoste, who has emerged as a late favourite after leading negotiations with the government.

5

ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

Driven by a dramatic rise in government spending and the adjustment of business to life under lockdown, the Central Bank now expects the Chilean economy to expand by 8.5-9.5% in 2021 (up from 6-7% predicted in March). The expansion (the fastest in several decades) will be driven by a 15% increase in household spending, thanks to increased fiscal transfers and the pensions withdrawals, while investment will rise by 11.4%.

However, the boom is not expected to last. According to the Central Bank, growth is forecast to slow sharply to 2.0-3.0% in 2022 and 1.75-2.75% in 2023, reflecting a freeze on government spending and a dramatic slowdown in investment, especially construction, due to high levels of corporate debt and the lack of new projects in development.

Implicit in the Bank's forecast is the expectation that the new government (to be elected later this year) will make a concerted effort to place Chile's public finances on a more sustainable footing, largely by reining in spending over the next two years. However, this could be challenging given the increased demand for better public services in the wake of the 2019 social unrest, the pandemic and increased political tensions this year. Further increases in spending would jeopardize Chile's sovereign credit rating, which would put up borrowing costs for government, businesses, and households. One presidential candidate has promised a sharp increase in taxation in order to finance a new public pensions system.

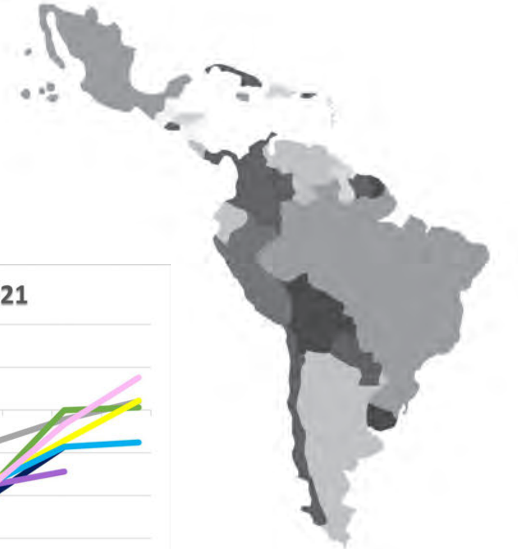
Rising costs for companies, as a result of higher energy and transports costs, will push up inflation over the coming quarters. Although the current rise is expected to be transitory, a more persistent increase, especially if linked to global inflationary pressures, could force the Central Bank to push up interest rates more quickly, chilling economic activity.

Economic Forecasts, 2021

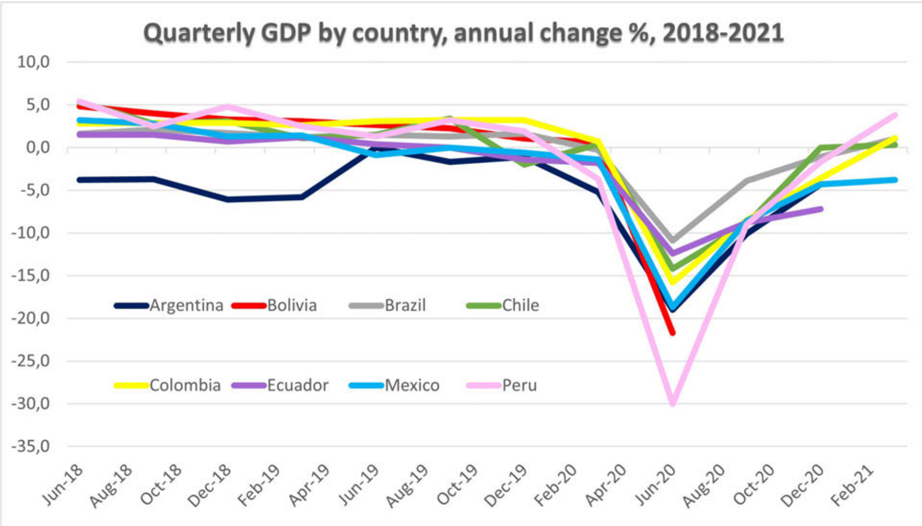
	Central Bank [1/]	Finance Ministry[2/]	Private analysts[3/]
GDP (% annual variation)	8.5 - 9.5	5.0	7.5
Inflation (% annual variation)	4.4	3.0	3.5
Monetary-policy interest rate (% annual, nominal, end-year)	1.0	NA	0.75
Exchange rate (pesos/US$)	NA	723	727[4/]
Copper price (US$/lb)	4.25	3.35	NA

[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*

Another key risk is the development of the Covid-19 pandemic. Although most of the population should be fully vaccinated in the coming months, persistently high infection rates and the reintroduction of a full lockdown in Santiago in June shows that it is far from clear when social-distancing measures will begin to be relaxed permanently. This will slow growth in those parts of the economy most exposed to social-distancing and prevent the recovery of the labour market.



6. REGIONAL NEWS



Argentina: In May, President Alberto Fernández announced Argentina's strictest lockdown yet as Covid-19 infection rates soared. The government suspended beef exports for 30 days to curb inflation, which hit 43% in March.

Brazil: Driven by booming commodity prices, especially soya and iron ore, economic activity recovered to pre-pandemic levels during the first quarter and could grow by 4% this year. In May, lawmakers reached a preliminary deal to reform Brazil's labyrinthine tax system by uniting a myriad of levies into a single tax on sales.

Colombia: Protests over President Iván Duque's proposed tax reform exploded into weeks of unprecedented street violence which have left dozens of people dead. In May, S&P Global Ratings downgraded Colombia's credit rating to junk status, causing share prices and the currency to drop sharply.

Ecuador: Guillermo Lasso took office as the country's first conservative president to be elected twenty years on May 24th, promising to reduce red-tape and taxes to revive the battered economy. He will also have to renegotiate the country's bailout agreement with the International Monetary Fund which requires tax increases to stabilize public finances.

Mexico: In mid-terms elections in June, President López Obrador's Morena party and its allies failed to gain the three-quarters majority required to approve constitutional reforms. The economy is expected to grow 5% this year as social-distancing rules are relaxed and strong US demand lifts exports.

Peru: Left-wing union activist Pedro Castillo was elected as Peru's new president on June 6th, with promises to boost public spending and hike taxes on foreign investors. While opponent Keiko Fujimori has promised to challenge the close result, his lack of support in Congres means recent political instability in the country is likely to persist.

UK ECONOMY Q1 - 2021

According to the UK Office for National Statistics, the UK economy saw its largest fall in annual output in over 300 years in 2020. The comprehensive support package in response to the pandemic and the on-going vaccine rollout have laid the foundations for recovery. Over 80% of UK adults have now been vaccinated. Following the early stages of the government's roadmap out of lockdown there are now increased numbers of diners returning to restaurants, greater high street footfall, and the number of job advertisements are close to pre-pandemic levels. The final step of the roadmap, the removal of social distancing measures were postponed by Prime Minister Johnson to 21st July due to the fast spread of the Delta variant, first identified in India. By July 19th, the UK expects to have given at least one vaccine dose to all adults and that two thirds of the population will be fully protected with both vaccine doses.

1. Economic growth

Real GDP grew 2.1% in March 2021, the fastest growth since August 2020. The increase resulted from the easing of lockdown restrictions with schools in some areas reopening, spurring a rise in online consumer spending. This leaves March GDP 1.1% below the initial recovery peak in October 2020 and 5.9% below pre-pandemic levels in February 2020. Despite the growth in March, real GDP contracted by 1.5% in Q1 of 2021 (output fell by 2.5% in January and only increased by 0.7% in February), marking the first quarterly contraction since the 19.5% contraction in Q2 of 2020. Construction expanded by 5.8% in March 2021, whilst manufacturing and services increased by 2.1% and 1.9% respectively. On a quarterly basis construction expanded by 2.6%, whilst manufacturing and services decreased by 0.7% and 2% respectively.

2. Inflation

Annual CPI (Consumer Price Index) and CPIH (CPI including housing costs) inflation rates were 1.5% and 1.6% respectively in April, up 0.7% and 1.0% from March. The increase was due to a rise in wholesale energy prices and the re-opening of non-essential businesses as lockdown restrictions eased. Inflation is expected to continue rising in the coming months as further lockdown restrictions ease and temporary tax cuts are reversed. The Bank of England expects inflation to reach 2.5% in 2021, before falling to 2% in 2022. Growth in average total pay (including bonuses) was 4.0% in the three months to March 2021 whilst regular pay (excluding bonuses) was 4.6%. However, growth is increasingly being driven by a decline in the number of lower-paid jobs and could slow down in the coming months as restrictions ease. In real terms, total pay is now growing at a faster rate than inflation, at 3.1%, and regular pay growth in real terms is also positive, at 3.6%.

3. Monetary policy

In its May meeting, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to hold interest rates at a historic low of 0.1% and to maintain the target for the total stock of its bond purchases at £895 billion (quantitative easing). The next meeting will be held on 24th of June. The Bank significantly revised its February GDP growth forecast, upgrading 2021 by 2.25 percentage points to 7.25% due to the successful vaccination rollout and easing of lockdown restrictions. However, it downgraded its 2022 forecast by 1.5 percentage points to 5.75%. Governor Andrew Bailey has stated the MPC would not tolerate a persistent overshoot of inflation from its 2% target, signalling it could increase interest rates in such a scenario.

4. Labour market

The UK employment rate in Q1 of 2021 was estimated at 75.2%. This is 1.4% lower than before the pandemic (the three months up to February 2020), but 0.2% higher than in the previous quarter. This figure includes all workers furloughed as part of the government's job retention scheme. Since the start of the scheme a cumulative total of 11.5 million jobs have been supported by the scheme at various times (includes all claims submitted by mid-April 2021). The redundancy rate decreased by a record 6.9 per thousand in Q1 of 2021. The number of payroll employees has increased for the fifth consecutive month as sectors such as hospitality recover with the easing of lockdown restrictions, however the number of payroll employees remains 772,000 below pre-pandemic levels. Since February 2020, the largest fall in payrolled employment has been in the hospitality sector, among those under 25 years' old, and those living in London.

5. Trade

UK trade continued to recover in March after sharp falls in January, and a partial rebound in February. UK exports and imports both increased by £2.3 billion in March 2021, 9.3% and 6.5% up respectively on the previous month. Monthly figures also show a small shift in trade towards non-EU countries. Exports and imports of goods with the EU, excluding precious metals, increased by £1.0 billion (up 8.6%) and £0.8 billion (up 4.5%) respectively in March 2021; whilst they increased by £1.3 billion (up 9.9%) and £1.5 billion (up 8.4%) with non-EU countries. For Q1 of 2021 as a whole, the total trade deficit, excluding non-monetary gold and other precious metals, narrowed by £8.4 billion to £1.4 billion. This came as imports fell by £17.3 billion to £138.4 billion, while exports fell by £8.9 billion to £137.0 billion. This was due to trade disruptions in January, caused by the end of the EU-exit transition period, alongside supply chain disruptions caused by the pandemic.

6. Government finances

Public Sector New Borrowing excluding public sector banks (PSNB ex) was estimated at £31.7 billion in April 2021, £15.6 billion less than April 2020 but the second highest April borrowing since records began in 1993. Borrowing in the financial year 2020-21 (ending March 2021) is estimated to have been £303.3 billion, revised down by £2.8 billion from last month's provisional estimate but remaining the highest borrowing since records began in 1946. Public sector net debt excluding public sector banks (PSND ex) was £2.17 trillion at the end of April 2021, 98.5% of GDP, the highest ratio since the 99.5% recorded in March 1962. Provisional April 2021 estimates of central government receipts were £58.0 billion, up £3.8 billion (or 70.0%) compared with April 2020, while central government bodies spent £95.9 billion, down £12.9 billion (or 11.9%) from April 2020.

Cámara ChilenoBritánica

100 años

1917-2017