CHILEAN ECONOMIC REPORT

THIRD QUARTER 2020

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It was a subdued "Fiestas Patrias" this year, an event when Chile normally celebrates its independence with style. When we last published the Economic Report in June, it seemed we were at the peak of COVID-19, but here we are in September and only cautiously coming out of quarantine. We can now see the real impact of the lockdown on the economy and on people's livelihoods, with more than two million job losses since the start of the pandemic, and 48% of the working age population now classed as inactive. The measures taken to date by the government to shore up business and to help people without incomes have partially offset hardship but going forwards there will be a need for even greater support. One such measure was enacted at the end of July, when the constitution was reformed allowing individuals to withdraw up to 10% of their pension savings to offset the impact of the severe economic downturn, with a limit of $4,000,000 (CLP$4M). The response was immediate and huge with 90% of the eligible population removing their money. The sudden injection of cash will have a positive impact on economic activity during the rest of this year.

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

On the bright side, the copper price is at a two year high of over US$3.00/lb, reflecting increased demand from China. This is good news for Chile, and experts now forecast that the economy will contract by (only) 5% this year, and then bounce back by between 4% and 5% in 2021. These forecasts are positive compared to both regional and international pars and demonstrates Chile's resilience during the crisis.

Here in the Chamber we have continued to stay in touch with our members during the quarantine by delivering on average four events per week via our eight active committees. Attendance has been excellent, and gives us confidence to continue to bring relevant news and information to you as we move into phase three of the return to "normal"

Hope to see you soon and keep safe.

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

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KEY POINTS

• After suffering its worst quarter in decades, the Chilean economy is showing signs of recovery albeit from very low levels. The recovery is uneven between sectors with retail and construction still amongst the worst affected.

• The government has begun relaxing quarantine measures in Santiago and other cities following a fall in the number of Covid-19 infections although social-distancing rules remain largely in place throughout the country.

• Job losses since the start of the pandemic reached two million in July while more than 700,000 workers have been furloughed without pay. Further job losses are expected as businesses continue to adjust to the fall in revenues.

• Inflation has continued to fall following the economic slump in activity, but inflation expectations have risen since June as activity and demand begin to recover.

• International trade has returned to pre-pandemic levels, reaching its highest level in six months in July, boosted by increased mineral exports and a recovery in imports of consumer goods.

• The international copper price rallied to over US$3.00/lb in August for the first time in more than two years, driven by Coronavirus-related mine closures and strong Chinese demand. Mines in Chile have continued to operate despite a spike in infections among mineworkers.

• The government suffered a major political defeat in July when lawmakers approved a constitutional reform allowing individuals to withdraw part of their pension savings, despite warnings from ministers and experts about its impact on future incomes.

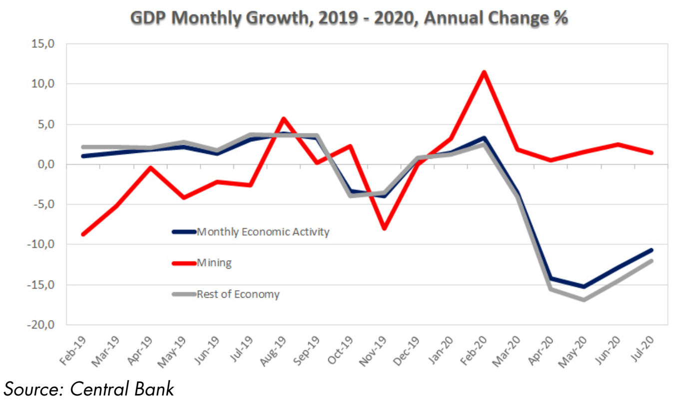
• The pay-out of around US$15.0 billion from the pension funds is expected to boost household consumption during the third quarter, but the debate has raised new doubts about political stability in Chile as it prepares for presidential and congressional elections next year.

• Despite the quarantine measures in place in most of the country, the delayed referendum on a new constitution will take place on October 25th, with polls suggesting a broad majority in favour of change.

1

DOMESTIC ECONOMIC PERFORMANCE

1.1 GDP Growth

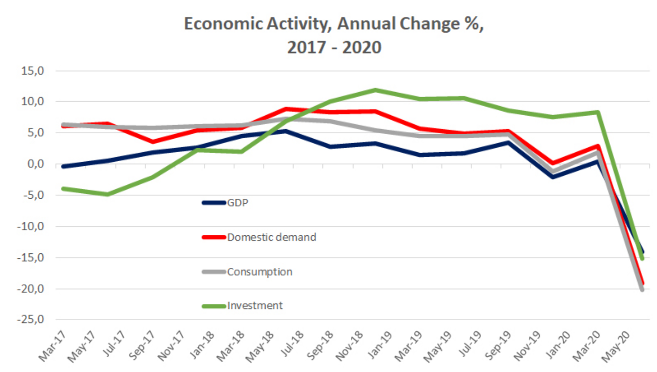


Source: Central Bank

After suffering its sharpest contraction in several decades in the second quarter as a result of the Covid-19 pandemic, the Chilean economy is beginning to show signs of recovery albeit from very low levels. Initial Central Bank data showed that economic activity contracted by 10.7% in the year to July, compared to a 15.2% annualized fall in activity in May.

While mining activity expanded by 1.4%, the rest of the economy shrank by 12.0%, driven by falls in construction, services (especially business services, hospitality and transport) and, to a lesser extent, retail and manufacturing.

Data for the second quarter showed that economic activity fell by 14.1% in the second quarter, the largest contraction since the early 1980s, driven by sharp falls in both consumption and investment and across most sectors of the economy. Consumption fell by over a fifth, reflecting both lower household spending and a shift in government spending from services to direct transfers.



Source: Central Bank

Investment, as measured by Gross Fixed Capital Formation, declined by 15.1%, as construction and other works fell by 17.4% while investment on machinery and equipment dropped by 10.9%.

GDP Forecasts

Following the easing of quarantine measures and the introduction of new economic measures, including pension withdrawals, the outlook for the economy has improved marginally. In its latest forecast, published on September 2nd, the Central Bank predicted that the economy would contract by 4.5-5.5% this year, compared to a previous forecast of 5.5-7.5% made three months earlier. This would be one of the smallest contractions in Latin America, where the International Monetary Fund has predicted a 9.4% decline in regional GDP this year.

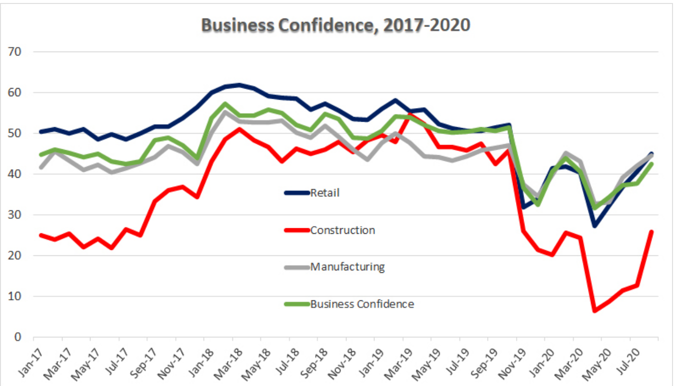
Assuming the continued lifting of quarantine measures throughout the country, the economy is expected to grow by 4.0-5.0% in 2021, its fastest rate in almost a decade.

The Bank's improved outlook for 2020 reflects a lower-than-expected fall in investment this year (to -10.6% from -15.9% predicted in June) following a huge expansion in corporate lending.

Private analysts surveyed by the Central Bank in early August predicted that the economy will shrink by 5.5% this year.

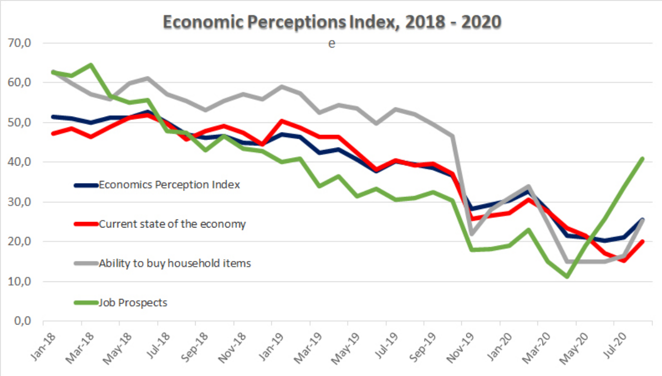
Confidence

Confidence among consumers and business executives has improved sharply in recent months on signs of a recovery in the economy and the loosening of quarantine measures but remains at historically low levels.



Source: ICARE/Adolfo Ibáñez University

The Monthly Business Confience Indicator (IMCE), produced by the Adolfo Ibáñez University and the ICARE business organization, reached 42.51 points in August, up almost eleven points from the record low reached in April, with optimism rising among executives in all sectors, especially construction. However, a survey of businesses by the Central Bank in August found that many expected to make further cuts to their workforce over the coming months.

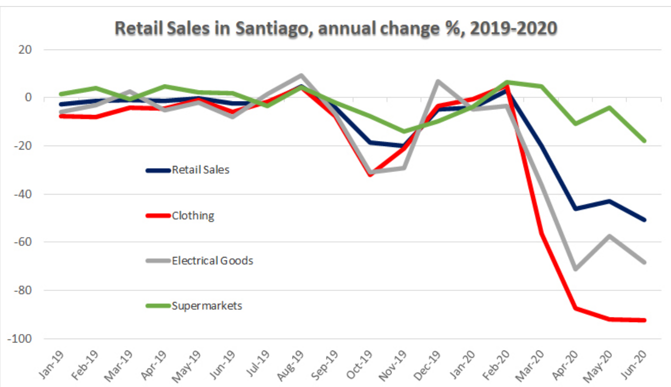


Source: GfK

Similarly, the Economic Perceptions Index, produced by market research firm GfK, reached 25.1 points in August, up five points from the record low reached two months earlier, as confidence in the state of the economy, the short-term outlook and the interviewee's personal situation all improved. Optimism about jobs prospects has risen from just 11.3% in April to over 40% in the latest poll. GfK linked the increased optimism to the pension withdrawals. However, consumers remain gloomy about the stability of the country over the next five years.

1.2 Key Sectors

Retail



Source: National Retail Chamber

As tighter quarantine measures were introduced from May onwards, retail sales fell to very low levels. With only stores selling food and essential items allowed to open since March, instore sales in the greater Santiago area declined 46.4% during the second quarter of the year compared to twelve months earlier. The sharpest fall was in clothing sales which fell to less than 10% of their 2019 levels. Sales in supermarkets (which have not closed) were 17.7% lower.

The decline in retail sales is mirrored by the sharp fall in employment in the sector, with stores dismissing more than a quarter of their staff since March.

The easing of quarantine in many areas, the pensions withdrawals in August and improved consumer confidence are expected to boost retail sales during the rest of the year. Electronic payment data for the middle fortnight of August showed a sharp increase in department store sales, compared to one month earlier.

Another promising sign is new car sales, which reached 19,037 units in August, down 42.4% from August 2019, but up more than twofold from three months earlier.

Manufacturing

Manufacturing output fell by 7.2% in the year to July, driven by falls in food production, metalworking and concrete mixing. However, there are signs that the worst may be past as output grew 2.7% compared to the previous month of June.

Construction

While other parts of the economy are beginning to recover, the construction industry has yet to get moving again. Activity fell by 20.4% in the second quarter, as the expansion of the lockdown to most major cities in May and June forced hundreds of building sites to close and some major mine projects were suspended following an increase in infections among mineworkers. The situation should improve as quarantine measures are eased and mining companies and others resume investments delayed by the health emergency.

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Easing Lockdown

Following a steady decline in the number of new Covid-19 infections reported each day in Chile – from a peak of over 6,000 in mid-June to less than 2,000 by late August -, the government has begun to ease quarantine measures in much of Chile, including the capital Santiago.

However, in light of the resurgence in infections which have hit countries in Europe and North America as they tried to get their economies moving again, the authorities are taking a gradual approach.

Although many residents of Santiago and some other cities no longer need police authorization to leave their house, visit the supermarket, or take their dog for a walk, authorities still recommend that individuals stay at home whenever possible. Some shopping centres, closed for the last six months, are being allowed to reopen and, ahead of the national holidays on September 18th, the government is allowing limited social gatherings in some areas. The nightly curfew has been put back an hour to 11pm.

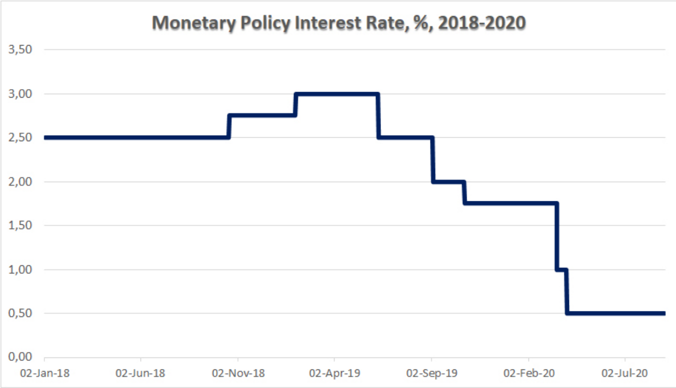
In the southern regions of Aysén and Los Ríos, which have only seen a limited number of infections, restaurants and cinemas have been allowed to operate with restrictions. However, most of the country's schools, universities, cinemas and restaurants as well as many stores remain closed without any firm date for when they will reopen. And while some cities are lifting restrictions, strict lockdowns have been introduced or reintroduced in others, including Antofagasta, Copiapó, and Punta Arenas.

The easing of restrictions on movement in large parts of Chile should allow more businesses to begin operating again, salvage some jobs and help the economy to recover through the rest of 2020 and into next year.

However, a resurgence in the infection rate will be a constant risk over the coming months and many rules introduced this year, such as using facemasks and social distancing in public places, will remain in place until a reliable vaccine becomes widely available.

Even as quarantine measures are relaxed, many sectors will still struggle to return to normal levels of activity. Surveys suggest that less than 10% of parents are ready to send their children back to school despite the impact on their education. Many businesses, such as cinemas and bars, may not be able to operate efficiently while respecting social-distancing rules. These restrictions will weigh on growth and slow the return to pre-pandemic levels of economic activity and employment.

1.3 Monetary Policy



Source: Central Bank

Despite early signs of a recovery in activity and a rise in inflation expectations in recent weeks, the Central Bank has decided to maintain its expansive monetary stimulus. At its seventh meeting of the year, held on September 1st, the Bank's board voted unanimously to hold its benchmark interest rate at 0.50%, the rate reached last March, and reiterated its commitment to maintain the rate at this level, its effective lower limit, for the next two years (the Bank's forecast horizon).

In line with the Central Bank's own guidance, private analysts surveyed in early September predicted that there would no change made to the rate before the middle of 2022, when they expect the rate to rise by 50 basis points to 1.00%.

Amid turbulent trading conditions, the Bank has continued to implement non-conventional measures to ensure stability in local financial markets. These could inject up to US$50.0 billion into the economy in the form of cheap credit lines to banks (US$40.0 billion) and the bank bond-buying program (around US$10.0 billion). In July, the Bank launched a special program to buy and sell back assets from pension fund administrators so that the massive pension withdrawals do not disrupt markets.

These efforts have led to a 60% expansion of the Central Bank's balance sheet during the first six months of 2020, with the Bank's assets growing by CLP19.4 trillion (US$25.1 billion) to 26.2% of GDP, up from 16.4% at the end of last year, while liabilities increased to 11.1% of GDP, up from 7.0%. In September, the Bank said it would consider further non-conventional measures to support financial stability if required by market conditions.

In August, lawmakers approved government legislation eliminating a prohibition on the Central Bank from acquiring public debt, strengthening its ability to provide liquidity to financial institutions at moments of instability. However, to prevent future administrations from printing money indiscriminately, the Bank will only be allowed to buy Chilean treasury bonds on the secondary market and with the approval of four of its five board members.

1.4 Fiscal Policy

In line with the US$12.0 billion package of measures agreed with opposition lawmakers in June, the government has begun to roll out a series of payments, subsidies, and tax breaks to help households and businesses survive the prolonged health crisis and revive the economy in its aftermath.

These include:

• the extension of the Emergency Family Income for vulnerable families through to September. Providing a monthly payment of CLP100,000 (US$130) per family member, it is expected to benefit 2.1 million families.

• a one-off payment worth up to CLP500,000 (US$648) for middle-income workers who have seen their income fall by at least 30% this year. It is expected to benefit almost 1.3 million families at a cost of US$1.7 billion. They can also apply for a zero-interest four-year loan of up to CLP2.6 million (US$3,370).

• corporate tax breaks, including instant depreciation of capital investments realized between 2020 and 2022 and a reduction in the corporate tax rate for some small and medium-sized businesses to 10% (from 25% previously) for the next three years.

• an additional US$4.5 billion of public infrastructure spending, expanding the portfolio for 2020-2022 to US$34.0 billion. The projects, which include social housing, motorways, ports and railways, are expected to create 250,000 jobs during their construction.

Government spending during the first seven months of the year reached CLP28.4 trillion (US$36.8 billion), up 7.1% from the same period of 2019. The rise reflects increased spending on healthcare and unemployment benefits, among other items.

Government income during the period fell 13.4% to CLP22.5 trillion (US$28.8 billion), reflecting the sharp fall in tax revenues. As a result, the public deficit reached CLP6.2 trillion (US$8.0 billion) or 3.2% of GDP.

The deficit is expected to reach 9.6% of GDP this year, its highest level in almost half a century.

Government debt

Chile's public debt has continued to climb as the government turns to financial markets to fund its response to the pandemic. By the end of the first quarter, government debt had reached CLP59.3 trillion (US$76.5 billion), up 20% from twelve months earlier and the equivalent to 29.5% of GDP. The government's agreement with the opposition foresees debt reaching 43% of GDP by the end of 2022.

In August, the state railway company EFE raised US$500 million in 30-year bonds to finance the expansion of the rail system. The bonds achieved an interest rate of just over 3.0%, the lowest ever for a 30-year bond emitted by a Latin American company.

Credit Ratings

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

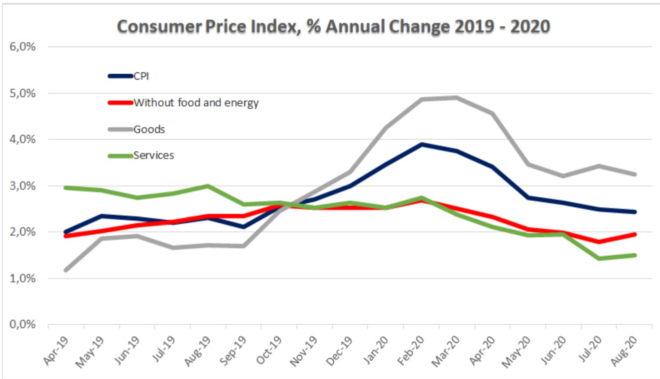
In August, Moody´s followed Fitch Ratings and S&P Global Ratings in lowering its outlook for Chile's sovereign debt rating to negative. The agency warned that the pandemic, rising social demands and slower growth could prevent the government from consolidating public finances.

Sovereign Wealth Funds

In August, the Finance Ministry announced the withdrawal of US$1.1 billion from the Economic and Social Stabilization Fund to finance debt repayments. It follows the withdrawal of US$2.0 billion earlier this year.

At the end of July, Chile's two sovereign wealth funds contained assets worth a total of US$22.1 billion, down from US$23.0 billion at the end of last year. The decline reflects the government withdrawals, partially offset by US$843 million in capital gains, thanks to increases in the value of corporate bonds and shares held by the funds.

1.5 Domestic Prices



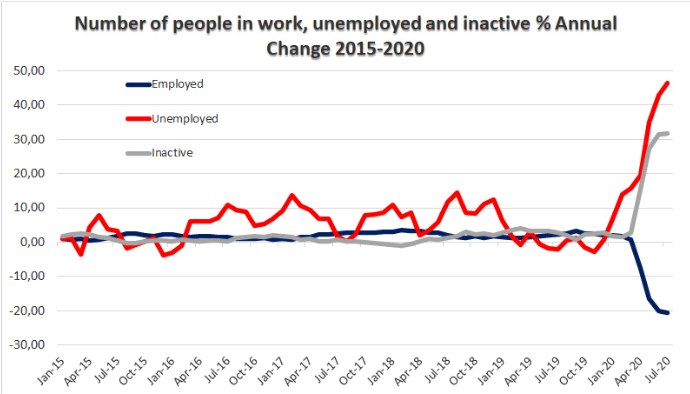
Source: National Institute of Statistics

Inflation has continued to decline during the third quarter, reflecting the slump in economic activity since the start of the pandemic and lower energy prices. In August, the government's Consumer Price Index rose by 0.1%, or an increase of 2.4% over the previous twelve months, compared to a peak of 3.9% in the year to February.

However, core inflation (excluding often volatile food and energy prices) and prices for services have stabilized, rising in August to 2.0% and 1.5% respectively, their first increases in six months. These were offset by the slowing of goods prices to 3.3%.

The weak state of the economy is expected to weigh on inflation over the coming quarters, preventing the CPI from reaching the Central Bank's target rate of 3.0% before 2022. However, forecasts of stronger economic activity and a rise in household spending during the second half of the year have led to a rise in near-term inflation expectations. In September, the Central Bank said that it expects the index to end the year at 2.4%, up from 2.0% predicted in June, while private analysts surveyed by the Bank increased their forecast to 2.2%.

1.6 Employment and Wages



Source: National Institute of Statistics

The Covid-19 pandemic has wrought havoc on Chile's labour market with the number of people in work falling by almost two million or more than a fifth between January and July this year. Of the 7.1 million people still in work, more than 10% have been furloughed since April under the government's job protection legislation and are relying largely on their unemployment insurance for income.

The situation has been exacerbated by the huge fall in the levels of self-employment (their numbers have fallen by around a third to 1.2 million) which often acts as a buffer during downturns in economic activity.

The official unemployment rate reached 13.2% in July, up five points from a year ago and its highest level in more than three decades. However, given the lack of jobs available and the difficulties in looking for work during the pandemic, the vast majority of those who have lost their job since March have been classified as inactive. As a result, the number of inactive individuals has grown by almost a third since December to 7.6 million, or 48% of the working age population.

The brunt of the job losses has been borne by lower paid workers. While the number of professional and technical workers has fallen by around 15%, the number of retail, service and unskilled workers has fallen by almost 45%.

Despite the grim situation, the pace of deterioration appears to be slowing. The number of people in work declined by 67,000 in the year to July compared to a fall of over 700,000 three months earlier.

But conditions in the labour market, which often lags recoveries in economic activity, are expected to continue worsening. Most businesses surveyed by the Central Bank in August said that they still plan to cut more jobs while many of those furloughed since March are unlikely to return because of the restrictions imposed by social distancing.

Wage growth has slowed dramatically since the start of the pandemic. According to the government's Remuneration Index, wages rose by just 2.8% in the twelve months to July, down from 4.6% in 2019, implying a real increase of just 0.3%, accounting for inflation. The decline reflects a 2.2% drop in the number of hours worked while overtime fell by 18.1%.

1.7 Financial Markets

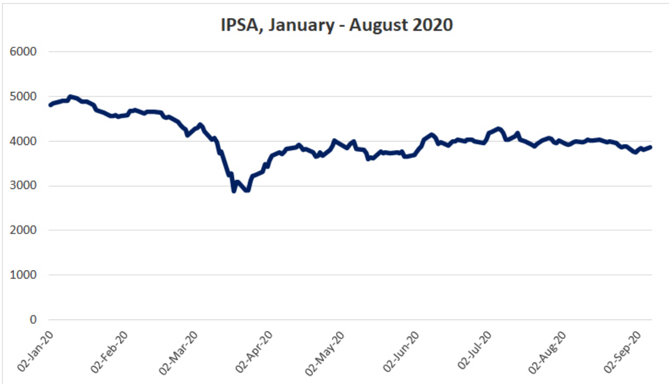
Aided by the easing of quarantine measures, the improvement in the economic outlook and efforts by authorities to ensure liquidity and stability, financial markets have continued to recover from last March's shock.

Bond Markets

New bond issuances have increased since the middle of the year in the wake of the Central Bank's US$8.0 billion asset-buying program. Banks issued US$2.0 billion worth of bonds in July alone. Non-financial companies raised US$1.8 billion between June and August, compared with just US$1.3 billion in the first five months of the years.

Since the peak of the turmoil in financial markets last March, long-term interest rates for inflation-indexed bonds have fallen by 10-30 basis points while spreads for higher risk issuers have narrowed. Rates remain high compared to last year, but many companies have been obliged to accept higher financing costs in order to secure working capital during the downturn in activity.

Equities



Source: Santiago Stock Exchange

Share prices have declined in Chile since the middle of the year, underperforming stock markets in the rest of the region.

After recovering to close to pre-pandemic levels in early July, the IPSA index of the largest companies listed on the Santiago Stock Exchange ended August at 3,767 points, its lowest level in almost three months and down 19.3% from the start of the year.

The index lost around 4.0% of its value during the parliamentary debate in mid-July over the pension withdrawals on fears it would spark a sell-off. It briefly recovered only to be hit by disappointing financial results from leading retailers.

Banking

Bank lending grew by 7.3% in the year to July to reach CLP198.1 trillion (US$255 billion), as a massive expansion of corporate lending offset a fall in consumer lending.

Corporate lending grew by 18.1% in the year to reach CLP97.7 trillion (US$125.9 billion) as banks met increased demand for credit from thousands of businesses which have seen their incomes collapse as a result of the slump.

The rise in corporate lending has been driven by the Central Bank´s conditional financing program which offers banks cheap loans to fund lending to businesses and the government's FOGAPE system of state-backed corporate loans. To date, the banks have consumed almost 78% of the US$24 billion available under the Central Bank program, while almost 275,000 FOGAPE loans worth US$12.6 billion have been approved since April.

Consumer lending has slumped during the pandemic to CLP24.8 trillion (US$31.9 billion), down 8.9% from a year ago, with falls in both consumer loans and credit card debt. Mortgage lending has slowed slightly, growing by 6.8% to CLP58.1 trillion (US$74.8 billion), compared to an expansion of 8.8% three months earlier, reflecting the drop in home sales since March.

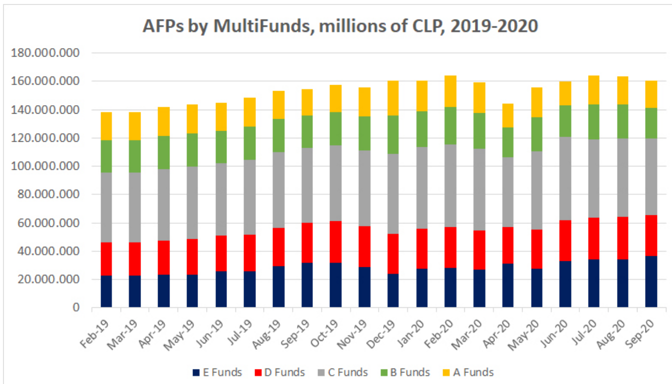
Bank profits during the first seven months of the year fell to CLP403 billion (US$519 million), down 75.5% from the same period of 2019. The fall in profits reflects an 8.2% drop in income from interest payments to CLP7.7 trillion (US$10.0 billion) while spending on provisions rose 45.6% to CLP2.4 trillion (US$3.0 billion).

Pension Funds

AFP Assets Under Management (August 2020)

Type of fund	Amount (billions of pesos)	Change Spt 2019 - Aug 2020 (%, real in pesos)	Return Spt 2019 Aug 2020 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	19,012	3.2	8.8	80	40
B Funds	22,121	-2.9	7.7	60	25
C Funds	54,000	1.6	6.3	40	15
D Funds	29,051	7.7	3.5	20	5
E Funds	336,434	15.4	2.5	5	0
Total	160,618	4.0			

The value of assets managed by Chile's private pension fund administrators (AFPs) reached CLP160.6 trillion (US$210 billion) by the end of August, up 4.0% from twelve months earlier, but down 2.2% from the peak reached last February before the start of the pandemic and the pension withdrawals. The annualized rise reflects a 18.5% increase in the value of overseas assets, partly reflecting the depreciation of the Chilean peso, while the value of domestic assets fell by 7.0%.



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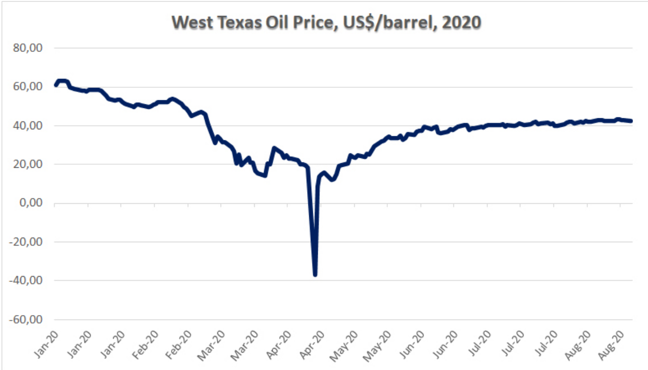
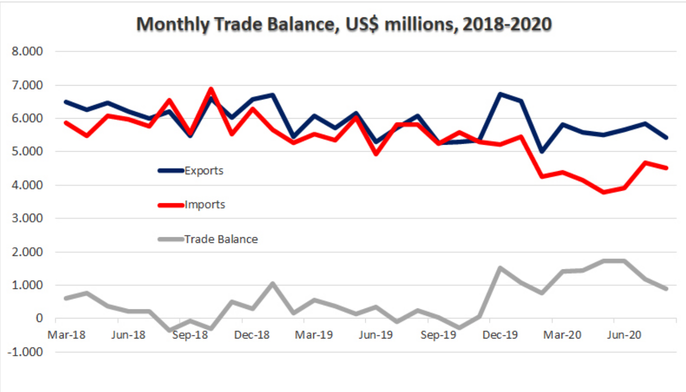
2
EXTERNAL SECTOR

2.1 Trade Balance

International trade has begun to recover from the shock caused by the Covid-19 pandemic, with both exports and imports reaching six-month highs in July, before declining slightly in August. Exports during the first eight months of the year fell to US$45.4 billion, down 3.9% from last year, while imports fell 20.8% to US$35.2 billion. As a result, the trade surplus has more than tripled this year to US$10.2 billion.



Source: St Louis Federal Reserve



Source: Central Bank

Imports

Imports of consumer goods reached US$9.8 billion during the first eight months of the year, down 28.4% from twelve months earlier, reflecting sharp falls in imports of cars (down 58.3%), clothing (down 34.3%) and televisions (down 37.2%). However, imports have recovered in the third quarter, exceeding US$1.3 billion in both July and August, compared to around US$1.0 billion in May and June. Similarly, car imports reached US$102 million in August, up twofold from June.

Fuel imports during the first eight months of the year fell to US$4.6 billion, down 36.2% from a year earlier, reflecting lower energy prices and lower volumes. Demand for fuels has fallen by as much as 40% as the quarantine measures reduce traffic levels. Oil imports recovered sharply in July as ENAP prepared to restart its Biobio oil refinery following a two-month maintenance shutdown.

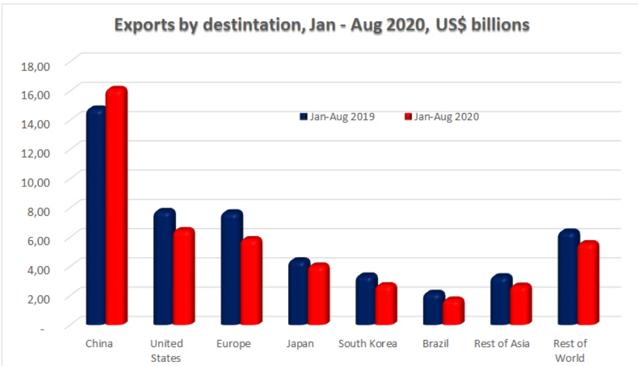
The West Texas Intermediate benchmark price used by ENAP to price fuel sales has stabilized at around US$40/barrel since early June when the Organization of Petroleum Exporting Countries (OPEC) and allies implemented sharp production cuts.

Exports

Exports to China have expanded rapidly, offsetting declines to all other major markets, consolidating the country's position as Chile's top trade partner. Exports to China during the first eight months of the year reached US$16.1 billion, up 9.1% from the same period of last year, and accounting for almost 36% of total exports, up from 30% a year ago.

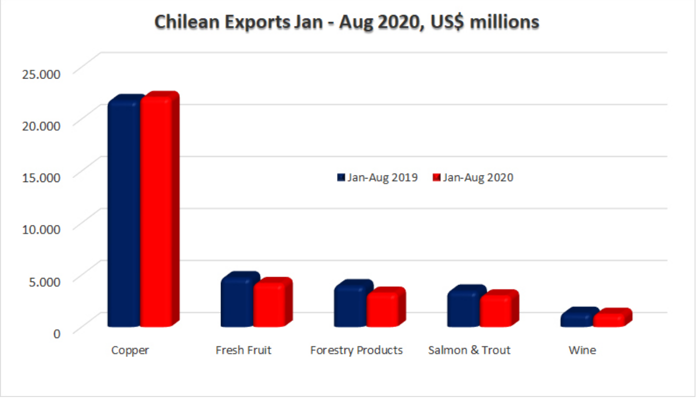
Over the same period, exports to the US declined by 8.1% to US$5.7 billion and to Europe by 8.4% to US$5.1 billion.

The rise in exports to China reflects increased exports of copper (US$11.3 billion), fresh fruits (US$1.3 billion), iron ore (US$847 million) and pork (US$345 million), offsetting declines in shipments of pulp (US$831 million) and wines (US$116 million).



Source: Customs Service

Exports by sector



Source: Central Bank

The value of Chile's non-mineral exports this year have mostly fallen, reflecting the decline in trade globally.

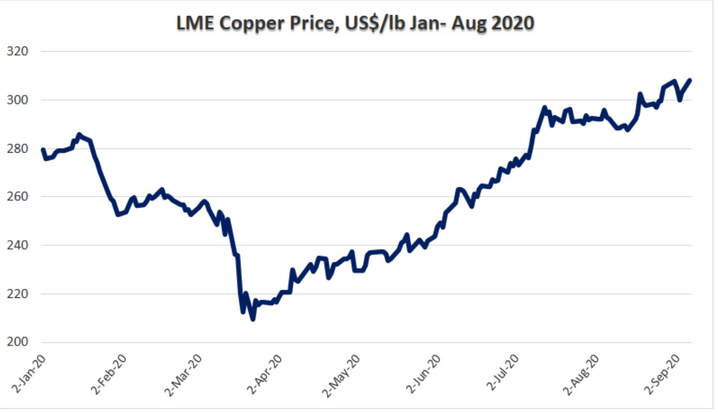
Exports of fresh fruit totalled US$4.2 billion during the first eight months of the year, down 11.9% from twelve months earlier.

Salmon and trout exports fell to US$3.0 billion during the period, down 13.8% from the first eight months of 2019, due to lower prices. According to Blumar Seafoods, international prices for Atlantic salmon averaged US$4.77/ kilogram during the first six months of the year, down 22% from 2019, reflecting the impact of restaurant closures on global demand.

Exports of pulp and paper products fell 23.3% to US$1.8 billion. Pulp prices have stabilized after declining sharply over the previous eighteen months, with prices for hardwood pulp averaging US$469 per ton during the second quarter, down 25% from a year earlier but little changed from the previous two quarters. Pulp producer Empresas CMPC predicted that recovering demand in China as well as numerous maintenance shutdowns at pulp mills would improve market conditions in the second half of the year.

Chile's wine exports during the first eight months of the year were worth US$1.2 billion, down 8.4% from 2019, reflecting lower volumes and prices. Shipments of bottled wine to July declined 3.6% to 248.1 million litres while prices fell 6.2% to US$3.10/litre. Shipments to China, the largest buyer of Chilean wine, have continued to decline, falling 39.4% this year to 26.2 million litres, compensated by increased shipments to Brazil, Japan and the UK.

2.2 Mineral Exports



Source: Chilean Copper Commission

International copper prices have soared since April in the face of a strong recovery in the Chinese economy and production cuts in major copper-producing countries, including Mexico and Peru. By September 1st, the price had reached US$3.07/ lb, its highest level in more than two years.

Mineral exports during the first eight months of the year reached US$24.5 billion, up 3.3% from the same period of 2019, driven by increased shipments of copper and iron ore. Copper exports rose 1.4% to US$22.1 billion as higher volumes offset lower prices during the early part of the year.

A rise in the number of infections among mineworkers in June forced some mining companies to implement stricter measures to shield employees from the disease. State copper company Codelco temporarily halted the smelter at its Chuquicamata mine and suspended work on two major construction projects.

However, no significant mines have been halted as a result of the pandemic and so far, the impact on production has been marginal. Copper production reached 3.3 million tons during the first seven months of the year, up 1.9% from the same period of last year, although production declined to a six-month low of 467,753 tons in July.

Iron ore exports during the year to August reached US$882 million, up 91.5% from twelve months earlier, reflecting higher prices and as the reopening of CAP Minería's Guacolda port facility

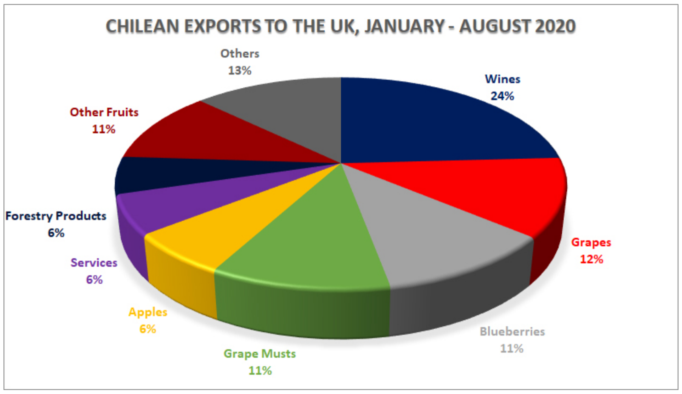
last December fixed a logistics bottleneck. Over 95% of Chile's iron ore was shipped to China.

Exports of lithium carbonate during the first eight months of the year declined to US$476 million, down 17.5% from the same period of 2019, reflecting a 45% fall in prices over the last year. The decline comes despite the expansion of lithium operations on the Salar de Atacama. Export volumes of lithium products during the year to August reached 77,546 tons, up 16.6% from a year earlier.

In August, SQM, Chile's largest lithium producer, said it expects prices to continue falling during the second half of the year amid stagnant demand and rising supply.

Exports of molybdenum reached US$1.0 billion during the first eight months of the year, down 12.0% from the same period of 2019, reflecting lower prices. While production of the metal, a by-product in some copper mines, rose 9.1% this year to 33,632 tons, prices have averaged US$9.61/kilogram, down 28.1% from the same period of last year.

2.3 Chile-UK Trade



Source: Central Bank

Trade between Chile and the UK declined to US$769 million during the first eight months of the year, down from US$888 million in the same period of 2019. While Chilean exports to the UK declined 6.82% to US$441 million, UK exports to Chile declined 20.8% to US$329 million.

The decline in Chilean exports to the UK reflects lower exports of fresh fruit, services and forestry products while wine exports rose 21.3% to US$106 million. The fall in UK exports to Chile follows a 60% decline in car exports to US$31.5 million while exports of pharmaceuticals rose 11.5% to US$47 million.

To ensure continuity of tariffs and customs procedures between Chile and the UK following the UK's effective withdrawal from the European Union at the end of 2020, the two countries have signed the UK-Chile Association Agreement which maintains the trade arrangements in the existing EU-Chile Association Agreement. This will come into effect on January 1st 2021.

2.4 Capital Flows

Chile recorded a current account surplus of US$1.2 billion in the second quarter, equivalent to 2.1% of quarterly GDP, compared to a deficit of US$237 million in the first three months of the year. The move reflects the expansion of the country's trade surplus in goods and services to US$3.7 billion, up from US$2.0 billion three months earlier, partially offset by the fall in profits earned from Chilean investment overseas.

Having previously predicted a current account surplus for this year, the Central Bank now expects Chile to record a current account deficit of US$3.4 billion, equivalent to 1.4% of GDP. The change reflects expectations that imports will not fall as sharply as previously predicted and a larger deficit in services. The current account deficit will rise to US$6.8 billion (or 2.5% of GDP) in 2021 as imports recover to near pre-pandemic levels, the Bank said.

Financial Account

Chile recorded a financial account surplus of US$1.2 billion in the second quarter, compared to a deficit of US$1.9 billion in the first three months of the year.

Foreign Direct Investment into Chile rose by a net US $3.4 billion in the quarter, compared to an increase of US$6.2 billion three months earlier. Overseas Foreign Direct Investment rose by US$937 million, compared to an increase of US$1.2 billion in the first quarter.

Foreign investors increased holdings of Chilean financial assets by a net US$2.6 billion in the quarter, reflecting purchases of corporate and government bonds on international markets, while Chileans invested a net US$6.2 billion in overseas financial instruments, driven by share purchasing by the AFPs.

The Great Green Hope

The rise of hydrogen as a new green fuel over the coming decades could transform Chile into a leading energy supplier by the middle of this century.

Countries around the world are looking to the super-light gas as a potential solution to society's energy needs and the climate crisis. Highly flammable, it only emits water vapour during combustion.

While electric cars, powered by lithium batteries, have attracted more attention, many believe that hydrogen will play a bigger role in future energy supplies, in a range of applications from transport to chemicals production and power generation.

A recent study by business consultants McKinsey & Co forecast that hydrogen could meet almost a fifth of the world's energy needs by 2050. Dozens of countries and businesses are now jostling to take the lead in this nascent industry.

Today most hydrogen is produced from fossil fuels. But in the future, it will increasingly be produced using renewable energy.

Given that electricity can represent up to 80% of the cost of so-called green hydrogen, countries with significant potential to produce renewable energy will have a head-start.

McKinsey estimates that the Atacama Desert, which boasts the world's highest levels of radiation, could make Chile one of the most competitive places to produce the fuel with costs of less than US$1.50 per kilogram, compared to up to US$2.00 per kilogram in Australia, the US and the Middle East.

By mid-century, Chile could be producing as much as 25 million tons of hydrogen annually, worth an estimated US$30 billion or almost as much as the country currently exports in copper and other minerals, according to Energy Minister Juan Carlos Jobet.

Despite Chile's competitive advantages, there are barriers which the government is looking to overcome.

For a start, Chile has no experience of hydrogen production, so the government has sought the advice of counterparts in Australia, Germany and the UK, among others. It is also working to identify gaps in its laws and regulations that will need to be filled to develop a homegrown hydrogen industry.

The attraction of hydrogen is not just the opportunity to export a raw material, but also to reduce the costs and carbon footprint of existing export industries, such as mining, forestry and agriculture, and create new ones.

Through economic development agency CORFO, the government is supporting a series of pilot programs focusing on a range of applications, from powering mine trucks to storing and exporting liquid hydrogen.

One of the most advanced is an initiative between Chilean explosives manufacturer ENAEX and energy firm ENGIE to use green hydrogen to produce ammonia, the raw materials for explosives as well as fertilizers. They plan to begin work on a pilot plant within a couple of years.

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.

Chile's net international investment position reached a deficit of US$40.00 billion, down from US$45.2 billion three months earlier, reflecting the rise in the value of overseas assets held by the AFPs which offset an increase in corporate and household debt.

By the end of June, Chile's foreign debt reached US$208.1 billion, equivalent to 85.9% of GDP, up 5.6% from the end of March. The increase was driven by an 11.6% increase in government overseas debt to $31.0 billion and a 10.8% increase in non-financial corporate debt.

Country Risk

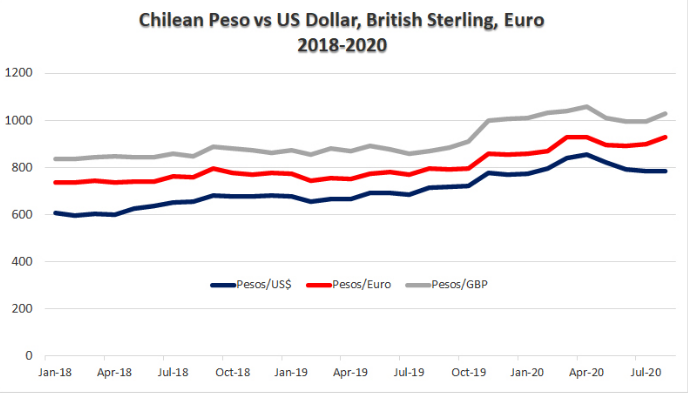
Country risk for emerging economies has declined steadily since the March crisis. JP Morgan Chase's Emerging Market Bond Index (EMBI) for Chile reached 199.8 points in July, down from a record 306.1 points in April, matching similar declines in the rest of Latin America.

By the end of August, the spreads on five-year Credit Default Swaps on Chilean debt had eased to 57 points, down from a record high of almost 163 points reached March 23rd and close to the peak of 54 points reached during last year's social unrest.

2.5 Exchange Rates

The Chilean peso has moved in a volatile range against the US dollar in recent weeks, caught between the appreciation of the US currency, a rising copper price and concern over the impact of the pension withdrawals. On July 31st, the peso reached CLP754/dollar, its highest level against the US dollar since the start of the pandemic, on concerns that withdrawals from pension funds could trigger a sell-off of foreign assets by the AFPs. It has since moved back into a range between CLP780/dollar and CLP800/dollar as the US dollar appreciated against most currencies.

The depreciation against other currencies, including the Euro and British Sterling, has been even more marked in recent weeks. The Real Exchange Rate – calculated by the Central Bank based on a trade-weighted basket of currencies – has moved back to 100 points in recent weeks, suggesting the peso is neither over- nor undervalued.



Source: Central Bank

Source: Central Bank

3

QUATERLY INSIGHT: PENSIONS WITHDRAWAL

3.0 QUARTERLY INSIGHT: PENSIONS WITHDRAWAL

On July 23rd, following a rapid but intense debate, lawmakers approved a constitutional reform allowing individuals to withdraw part of their savings in Chile's private pensions system.

The legislation allows individuals to withdraw 10% of their savings up to a maximum of CLP4.3 million (US$5,538). Those with savings of less than CLP10 million (US$12,880) can withdraw up to CLP1 million (US$1,288).

Although widely criticized by ministers and economists as regressive and weakening future pensions, lawmakers, including many government supporters, backed the legislation arguing that it would help the population mitigate the impact of the severe economic downturn.

With roughly two million put out of work since the start of the year and hundreds of thousands relying on unemployment insurance, government handouts and soup kitchens to survive, the measure has proved extremely popular.

By September 2nd, barely four weeks since the legislation was enacted, more than 9.4 million requests had been filed to make withdrawals, equivalent to 86% of participants in the system. Despite their initial opposition to the measure, the pension fund administrators (AFPs) have strived to complete the withdrawals as quickly as possible, fulfilling more than 91% of requests by early September.

The sums involved are huge. Payments made to date have totalled US$13.3 billion, equivalent to almost 5.0% of GDP (2019), enough to have a significant impact on economic activity during the remainder of 2020.

According to Central Bank estimates, around half of the sums withdrawn will be used to buy food, basic items and other goods. Data on electronic payments suggests a significant increase in online sales by the country's major department store chains from early August onwards, especially of electronic items and clothing. Sales during Cyberday Chile, an online discount event held on August 31st-September 2nd, doubled last year's version.

This bodes well for economic activity during the third quarter of the year and, combined with the relaxing of quarantine measures from August onwards, could aid a more rapid economic recovery.

However, its impact is likely to be transitory. With much of the funds being spent on goods manufactured abroad, the additional sales will not boost local production nor create many new jobs.

After consumption, polls found paying off debt is the second likely use for the funds. This should reduce or at least stabilize household debt when hundreds of thousands are struggling to keep up payments on mortgages and other loans.

While the withdrawals will have a positive if passing impact on the economy, the move threatened huge disruption to financial markets even before the reform had been approved. In anticipation of a huge sell-off of assets by the AFPs to finance the withdrawals, share prices fell (the IPSA fell 4% during the congressional debate), interest rates rose, and the Chilean Peso appreciated.

However, the widely predicted slump in asset prices did not occur. This was due in large part to additional financing measures offered by the Central Bank, more flexible investment rules put in place by the pensions regulator and coordination between the AFPs to ensure they could raise the necessary funds without triggering an overreaction in the markets.

Rather than falling, share prices largely rose in the wake of withdrawals, partly on expectation of a recovery in internal demand, while the Chilean peso depreciated against the US dollar in line with most Latin American currencies.

The withdrawals' longer-term impact will be on the continuing debate over the pensions system which leaves too many savers facing a penurious old age, largely due to insufficient contributions and gaps in employment. Many proponents in Congress would like to abolish the AFPs and some have now presented a second bill that would allow savers to withdraw even more of their savings (if they have any left).

President Sebastián Piñera promised to work harder to secure approval of his reform of Chile's pensions system, which would gradually increase pensions contributions from 10% to 16% of workers' wages, to be paid for by employers. Many lawmakers are now calling for all of the additional contribution to be redistributed to those with the smallest pensions, rather than going to workers' individual savings accounts, although this runs counter to public opinion.

Instead, the withdrawals could strengthen support for the private pensions system. A poll published August 17th by Cadem found 80% of interviewees now believed that funds in their pensions account belonged to them, up from 56% two months earlier.

4

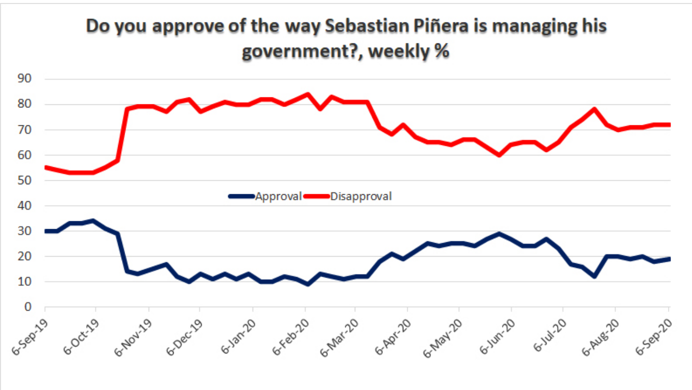
POLITICAL CONTEXT

4.0 POLITICAL CONTEXT

Lawmakers dealt the government a major defeat on July 23rd when they approved legislation allowing workers to withdraw part of the pensions savings. The opposition, which controls both houses of Congress, was able to achieve the two-third majority required to pass the constitutional reform after a significant number of government-supporting deputies and senators ignored government warnings about its impact on future pensions and backed it.

The proposal was highly popular, with more than 80% of respondents in recent polls supporting the measure while take-up has reached almost 90%. The strength of support partly reflects disappointment with other government measures to support households through the downturn.

During the debate, support for President Piñera slipped to just 12%, according to the weekly Cadem poll, its lowest level since the start of the pandemic. However, following the approval of the bill and its rapid enactment, support quickly recovered to around 20%.



Source: Cadem

Following the defeat in Congress and the drop in poll ratings, President Piñera announced a major cabinet reshuffle, bringing in two veteran senators from the government coalition, Víctor Pérez and Andrés Allamand, to the key posts of Interior Minister and Foreign Relations Minister.

Fresh from their victory over pension withdrawals, opposition lawmakers began debating legislation to impose a 2.5% wealth tax on Chile's multimillionaires that would finance payments to vulnerable families during the pandemic. They also threatened to throw out corporate tax breaks designed to help the economy recover over the next three years until the government increased support for small and medium-sized enterprises.

The conflict over indigenous land claims in the southern Araucanía region heated up in early August when protesters seized and, in some cases, set fire to municipal buildings in five cities. They were protesting in support of prisoners of Mapuche descent demanding special privileges. The protests have been accompanied by an increase in the number of arson attacks and shootings against forestry companies and others in the region.

On August 27th, lorry drivers blocked major motorways in central and southern Chile, including the highway between Santiago and the ports of San Antonio and Valparaíso, demanding a clampdown on the violence in Araucanía. The protest ended after a week after the government promised to increase policing of major roads and provide more compensation to victims.

Campaigning for the upcoming referendum on whether Chile needs a new constitution began in late August. Delayed from April as a result of the pandemic, the vote is now scheduled to go ahead on October 25th. While the opposition strongly supports a new constitution, the government and its supporters are divided. Polls suggest that most Chileans support change although the size of the majority has declined since the end of last year. Voters will also be asked whether the new constitution should be drafted by a convention of specially elected members or a mixture of sitting lawmakers and elected members.

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NUESTRAS MEJORES MARCAS LISTAS PARA ESTAR EN TU BAR.

Cómpralas escaneando
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micoca-cola.cl/the-bar

#MENORESNIUNAGOTA

BEBE RESPONSABLEMENTE. PRODUCTO PARA MAYORES DE 18 AÑOS.

5

ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

The Chilean economy has begun to show signs of recovery from the unprecedented blow wrought by the Covid-19 outbreak and the attempts to contain it. Aided by the gradual easing of quarantine measures as well as the transitory boost to household spending financed through pension withdrawals, the Central Bank now expects the economy to contract by 4.5-5.5% this year, compared to a fall of up to 7.5% predicted three months earlier.

As the health emergency subsides, activity is expected to expand significantly over the coming quarters, allowing the economy to grow by 4.0-5.0% in 2021, which would be its fastest rate of growth in almost a decade.

The strong recovery in the Chinese economy bodes well for Chile (which now ships more than half of its exports across the Pacific) as does the copper price, which is at its highest level in more than two years.

Significant risks remain. The experience of countries in Europe and North America suggest that resurgences in Covid-19 infections are likely to occur, forcing the government to reimpose some quarantine measures, which could slow the recovery. However, the experience gained this year as well as the strengthening of healthcare services should avert a return to the drastic lockdowns imposed since March and still in place in many parts of the country.

In addition, the pandemic has caused long-term damage to the Chilean economy, particularly in the form of lost jobs and businesses, that will weigh on growth for years to come. The number of people out of work is likely to continue rising in the coming months as businesses adjust to lower levels of sales or lay off employees who have already been furloughed. Many of those posts will not return as demand for some services fails to recover or companies find more efficient ways of operating and it is likely to take several years to replace the hundreds of thousands of jobs lost in the last six months.

Businesses will continue to require significant support from financial markets to restart operations or adjust to post-pandemic conditions.

Political uncertainty will be a key factor over the coming year as the country faces not only the debate over a new constitution, following next October's referendum, but also municipal and gubernatorial elections in April 2021 and congressional and presidential elections at the end of next year. Although the country looks set to follow the institutional path agreed by politicians last November, there is a risk that the protests and violence of late 2019 could return, especially as the hardships caused by the pandemic magnify Chile's large social divides.

	Central Bank [1/]	Finance Ministry[2/]	Private analysts[3/]
GDP (% annual variation)	-4.5 / -5.5	-6.5	-5.5
Inflation (% annual variation)	2.4	2.8	2.2
Monetary-policy interest rate (% annual, nominal, end-year)	0.50	NA	0.50
Exchange rate (pesos/US$)	NA	792	767[4/]

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

6. LATIN AMERICA REGIONAL NEWS

Argentina: After months of negotiations with creditors, President Alberto Fernández reached a deal to restructure US$65 billion of government debt. A strict nationwide lockdown has largely failed to slow the spread of the Covid-19 pandemic.

Bolivia: Interim President Jeanine Áñez has approved new presidential elections to take place on October 18th where she will face former president Carlos Mesa and socialist Luis Arce, the candidate backed by her self-exiled predecessor Evo Morales.

Brazil: Brasilia´s response to the pandemic (the third largest in the world in terms of the number of cases) has been hobbled by splits between President Jair Bolsonaro and his ministers. His Health and Justice Ministers have both resigned while he has also clashed with Economy Minister Paulo Guedes on welfare reform.

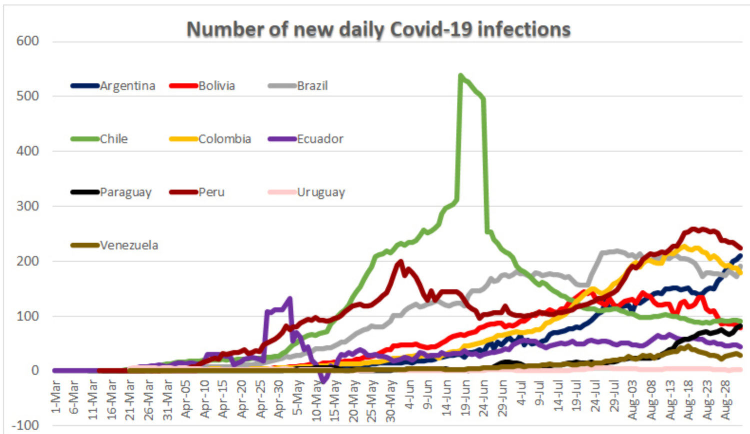
Colombia: Colombia's economy is expected to shrink by 7.0% this year as it battles a resurgence in Covid-19 infections and the fall in energy prices. The pandemic has allowed an increase in violence in rural areas related to guerrilla movements and drugs trafficking.

Ecuador: The government led by President Lenin Moreno reached deals with creditors and the IMF to restructure US$17.4 billion worth of foreign debt just ahead of a September 1st deadline. Already reeling from spending cuts imposed last year, the economy is set to contract 11% this year.

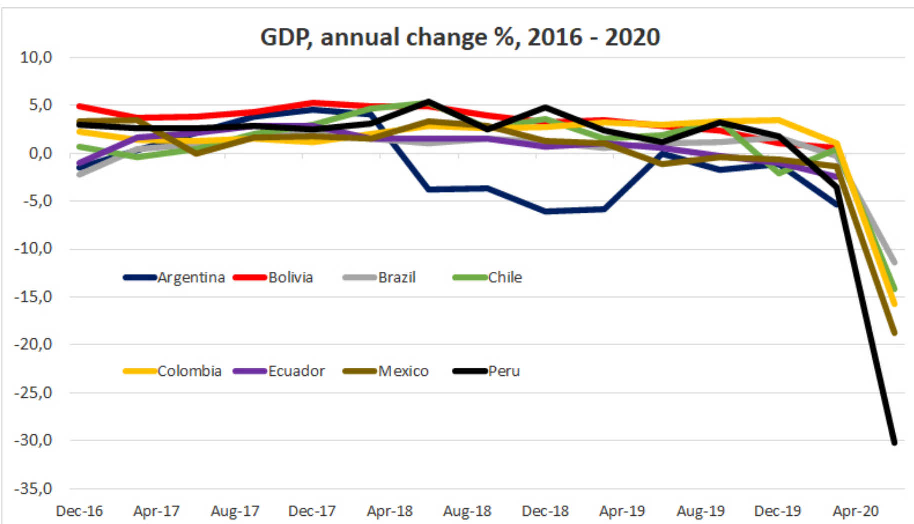
Mexico: President Andrés López Obrador is advancing legislation to limit private participation in the energy sector, reversing his predecessor's liberalizing reforms. GDP, which was already shrinking before the pandemic struck, is expecting to fall by up to 13% this year.

Peru: After initially getting on top of the pandemic, Peru is now suffering the region's worst outbreak while the strict lockdown imposed early on by President Martín Vizcarra caused the economy to contract by 30% during the second quarter.

Uruguay: With life largely getting back to normal in the wake of the pandemic, the Uruguayan economy is expected to shrink by just 3.0% this year, one of the smallest contractions in the region.



Source: Our World in Data



Source: Trading Economics

UK ECONOMY Q2 - 2020[1]

The UK is now on a path to re-open its economy. It is clear that the UK and the rest of the world are facing significant economic disruption in the wake of the Covid-19 pandemic. While our interventions have supported millions of jobs and businesses, the UK cannot save every job and every business. Both the OBR and the Bank of England agree that the actions we have taken have helped mitigate the impact of the virus on our economy - and that without our package of measures things would be worse. The UK economy has a strong and proven macroeconomic framework. The UK remains one of the best places in the world to do business, the ninth most competitive country globally, and the most attractive country for inward investment in Europe.

1. Economic growth
GDP contracted by 20.4% in Q2 2020, after a 2.2% contraction in Q1 confirming the UK economy to be in the largest technical recession on record. This quarterly contraction in GDP was mainly driven by a month-on-month fall of 20.0% in April; the economy subsequently grew 2.4% and 8.7% in May and June, respectively. The economy remains around 17.2% smaller than it was in February. In the three months to June, the services, production and construction sectors contracted by 19.9%, 16.9% and 35.0%, respectively. In June, all sectors rebounded, led by construction (23.5%), followed by production (9.3%). The services sector slowly recovered at 7.7%.

2. Inflation
Annual Consumer Price Index and CPIH[2] were 1.0% and 1.1%, respectively, in July, up from 0.6% and 0.8% in June. Rising prices for recreation and culture resulted in the largest upward contributions to the change in inflation between June and July. Partially offset by downwards contributions from food. Annual growth in average weekly earnings fell sharply in the three months to June 2020. Average total pay (including bonuses) fell by 1.2% whilst regular pay excluding bonuses) fell by 0.2%. This illustrates a sharp slowdown in growth from the period prior to the introduction of lockdown measures (December to February) when it was 2.9%. Pay declined in industries where furloughing was most prominent; many of these are amongst the lowest paying industries, in particular accommodation and food service activities.

3. Monetary policy
In its August meeting, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep interest rates at a historic low of 0.1%. The MPC also voted unanimously for the Bank of England to continue with its existing programme of quantitative easing, maintaining the target for the total stock of purchased UK government bonds at £745 bn. The MPC noted the recovery in UK output had been "earlier and more rapid" than in their May illustrative scenario, reflecting earlier easement of lockdown measures and stronger than expected activity during the lockdown.

4. Labour market
The UK employment rate in the three months to June 2020 was estimated at 76.4%, 0.3 points higher than in a year earlier, but 0.2 points down on the previous three month period. This figure includes all workers furloughed as part of the government's job retention scheme, as they are still counted as being in employment. The unemployment rate in the three months to June was estimated at 3.9%, largely unchanged from a year earlier and the previous quarter. About 32.92 million people aged 16 years and over were in employment in the three months to June 2020. This is 220,000 lower than in the previous three months period, and represents the largest quarterly fall since 2009.
The total number of weekly hours worked in the three months to May was 849.3 million, down a record 203.3 million hours on the year. The number of people claiming out–of-work benefits (either Universal Credit or Jobseeker's Allowance) increased by 3.6% to 2.7 million from May to June, but an increase of 116.8% since March.

5. Trade
The total trade surplus, excluding non-monetary gold and other precious metals, widened by £8.6 billion to £8.6 billion in

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[1] *As usual, the UK Economic update is based upon the latest official figures released by the Office for National Statistics.*
[2] *ncluding housing costs.*

the three months to June 2020, the largest underlying total trade surplus on a three-month basis since records began in 1998. Imports and exports both fell over the period by £35.2 billion (22.4%) and £26.7 billion (16.9%), respectively. The underlying trade deficit in goods narrowed by £7.4 billion to £20.7 billion, while the underlying trade surplus in services also narrowed, by £1.2 billion to £29.3 billion. When adjusted for inflation, the total trade surplus increased by £7.2 billion to £7.8 billion in the three months to June, as exports fell by £23.8 billion and imports fell by £31.1 billion.

6. Government finances

Public Sector New Borrowing (PSNB ex) was estimated to be £26.7 billion in July, £28.3 billion more than in July 2019. This was the fourth highest monthly figure since records began, with both April and May being record highs. Cumulative borrowing in this fiscal year (April to July) at £154.6 billion is almost three times the size of the entire previous fiscal year (£55.4 bn). Public Sector Net Debt (PSND ex), reached £2,004 billion in July (100.5% of GDP), an increase of £227.6 billion (or 20.4%) compared with July 2019. This represents the highest debt-GDP ratio since 1961, although volatility in the debt-GDP ratio is the result of great uncertainty in the current value of GDP.

EU Exit Update

Negotiations to agree a new trading relationship between the European Union and the United Kingdom beyond the latter's effective withdrawal from the trade bloc at the end of the year have continued through the Northern Hemisphere summer.

Negotiators from both sides met for a new round of face-to-face talks on September 8th. Following the UK's official withdrawal from the trade bloc last January, trade across the English Channel is continuing as if it remained a member.

However, this eleven-month transition period ends on December 31st. To replace the existing rules, the UK is pushing for a broad free trade agreement, like those the EU has signed with Canada and Japan, which would allow UK goods to enter the EU unhindered by tariffs and quotas.

However, the EU is adamant that this is not workable given the proximity of the UK to the European single market and the size of their existing trade relations.

In particular, the EU wants to make unfettered access to the single market conditional on the UK agreeing to maintaining European standards in a variety of areas, from labour rights to environmental protection.

While progress has been made on many issues, there is sharp disagreement over state aid where the EU wants to prevent UK companies being able to undercut European rivals thanks to government subsidies. UK Prime Minister Boris Johnson has said the UK should be free to regulate in this area as it sees fit.

The two sides have also made little progress on fishing rights – an economically insignificant but politically sensitive issue on both sides of the Channel. The UK is seeking a separate treaty on fisheries while the EU has said the issue must be included in the trade agreement.

Despite this, negotiators are working to reach agreement on a legal text by October 31st, which would provide enough time for the European Council and the European Parliament to approve the deal by the end of the year.

Given the lack of time remaining, both sides have warned that the risk of the UK leaving the EU without an agreement has increased, an outcome which would slow trade flows and could trigger shortages of some basic goods. The UK government has begun a public information campaign to inform businesses on any changes to customs procedure (see www.gov.uk/transition for more information).

The UK government has continued to pursue agreements with trade partners around the world to open new markets for UK exports and services. Negotiations on a free trade agreement with Japan (based on an existing deal with the EU) are expected to conclude in the coming weeks. A new round of talks with the US began on September 8th while negotiations with Australia will resume on September 21st. The UK has also announced its intention to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, an eleven-member trade bloc, including Japan, Australia, Mexico and Chile.

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