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Back in September we commented on a subdued “fiestas patrias”, but since then the quarantine has been sequentially lifted enabling, many people to get back to work and to spend time with family and friends. Restaurants and shops have been opening for business, again under controlled conditions to ensure social distancing. But unfortunately, these measures have not been enough to prevent a second wave emerging as we head towards Christmas and the summer holidays.



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

Compared to its neighbours Chile has fared well, and since July approximately one million people laid off at the beginning of the pandemic have returned to work, albeit for many on a partial basis. But as elsewhere in the world, a second wave of infections is arriving and may halt or slow down the remarkable recovery seen over the last few months, and again change predictions for growth in 2021.

Other factors impacting the medium-term recovery are, on the positive side, the very high copper price built on the back of a strong demand from China, and the recent approval of a COVID 19 vaccine, which should start to be rolled out in January with a projected inoculation coverage of 15 million people in Chile.

In October, Chileans voted overwhelmingly in favour of drafting a new constitution, launching a process which will dominate politics over the next two years, at the same time as we are going through an intense voting season for municipal and presidential elections during 2021. Britcham will be focussing on these issues at the beginning of 2021, endeavouring to bring you up to date information and analysis to help inform your decision-making processes. In the meantime the team here wishes you a very Happy Christmas and a healthy and prosperous new year.

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



- The Chilean economy has rebounded strongly in the second half of the year with some key sectors returning to pre-pandemic levels of activity as quarantine measures were eased from August onwards.
- The broad recovery in the global economy and the promise of a Covid-19 vaccine have brightened the outlook with the Central Bank lifting its 2021 growth forecast to 5.5-6.5%, after a contraction of around 6.0% in 2020.
- However, Chile's large services sector continues to lag and remains vulnerable to a second wave of infections. In December, the government reimposed a limited lockdown in Santiago, potentially slowing activity over the key Christmas holiday period.
- Around 1 million people have returned to work since July as businesses have reopened, but the number of unemployed and inactive workers is expected to remain at historically high levels for several quarters.
- Despite a transitory spike in September and October, a large output gap, high unemployment and the stronger peso are expected to keep inflation below the Central Bank's medium-term target of 3.0% during 2021.
- Copper prices have soared to over US\$3.50/lb, their highest level in almost eight years, boosting government revenues and employment in the mining industry. In response, the Chilean peso appreciated to its highest level against the US dollar since the start of the pandemic.
- Driven by higher copper prices, exports have recovered to pre-pandemic levels, but imports continue to lag, reflecting lower oil prices and the drop in capital imports.
- The opposition-controlled Congress has continued to dominate the legislative agenda, impeaching a second Interior Minister, stalling pension reform and approving legislation allowing savers to make a second withdrawal from their pension funds.
- In October, Chileans voted overwhelmingly in favour of drafting a new constitution, launching a process which may dominate politics over the next two years.

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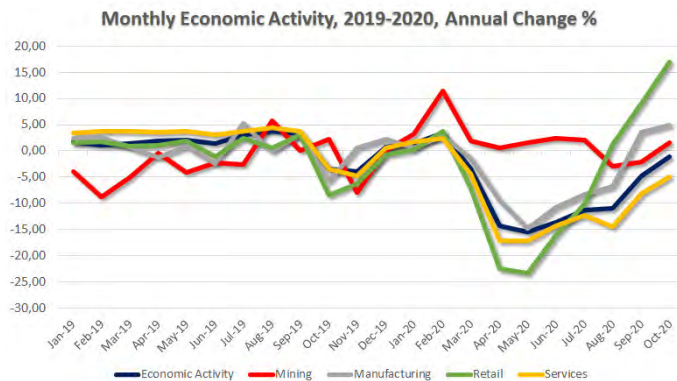
DOMESTIC ECONOMIC PERFORMANCE



1.1 Economic Activity

The rebound in economic activity continued into the final quarter of 2020 following a drop in the number of Covid-19 infections from July onwards.

However, while activity is close to returning to pre-pandemic levels, the recovery has been slower than expected and could be derailed in the coming months by a second wave of infections, like those seen in Europe and North America.

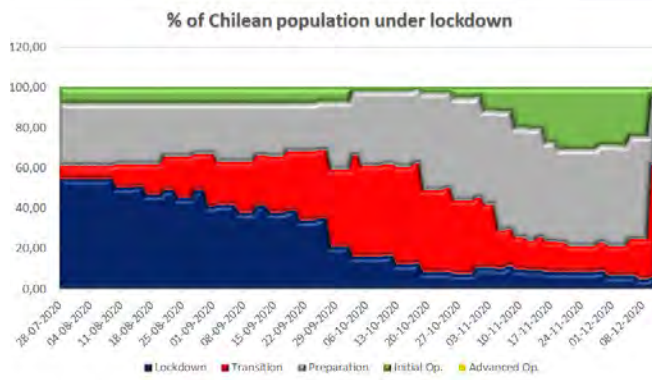


Source: Central Bank of Chile

Preliminary data from the Central Bank showed that activity fell by 1.2% in the year to October (but rose 0.5% from the previous month of September). Analysts had expected a return to positive annualized growth, especially given the low base of comparison in October 2019 (when social unrest caused activity to fall by 3.4%).

As expected, the recovery has been uneven between different sectors of the economy.

Mining has been little affected by the pandemic, manufacturing and retail have largely recovered close to pre-pandemic levels, but services (which account for more than 50% of GDP) continue to lag.



Source: Ministry of Health

The recovery in activity mirrors the relaxing of quarantine measures throughout the country.

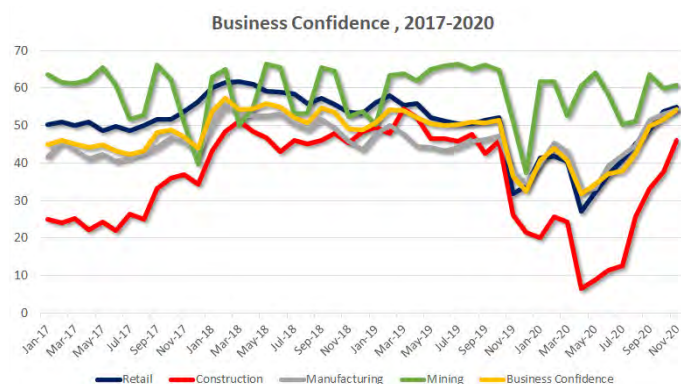
Between late September and early December, the proportion of the population living under or transitioning out of lockdown fell from two-thirds to barely a fifth. However, on December 10th, the government returned the whole of the Santiago metropolitan region back to the transition stage (although allowing schools and outdoor restaurants to remain open) which could slow activity over the key Christmas period.



Source: Central Bank of Chile

Analysts now expect activity during the final quarter of the year to match levels seen at the end of 2019 – a marked improvement from declines of 14.5% and 9.1% recorded in the second and third quarters but benefiting from the low base of comparison. The recovery has been driven by a jump in consumption as the reopening of shopping centres coincided with the withdrawal of US\$17.4 billion by savers from their pension pots. However, investment has lagged the recovery as companies rethink spending plans amidst the downturn.

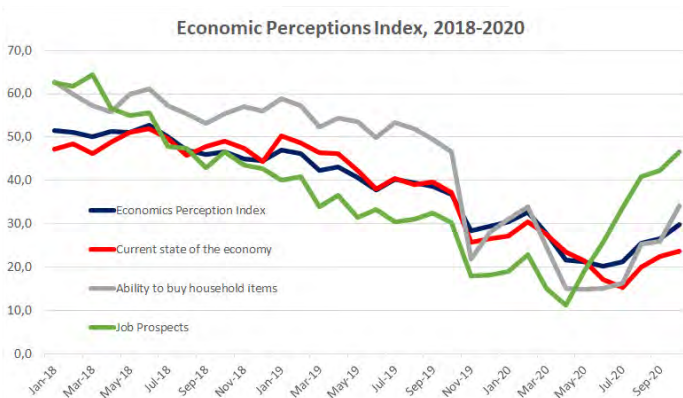
In its latest Monetary Policy Report, published in December, the Central Bank said it now expects the economy to contract by 5.75-6.25% in 2020 (against a previous forecast of 4.5-5.5% in September), followed by a stronger recovery in 2021 (growth of 5.5-6.5% vs 4-5% forecast in September) as the distribution of Covid-19 vaccines around the world, including Chile, allows many economies to return to some kind of normality.



Source: Adolfo Ibáñez University, ICARE

Business and consumer confidence have both recovered strongly in recent weeks, driven by the improved economic conditions as quarantine measures have been eased.

A survey by the Central Bank in October showed most businesses reporting sales improving from mid-year with some returning to pre-pandemic levels although others feared it would take several years for their sectors to recover. In November, the Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and ICARE reached 54.16 points, marking its second consecutive month above 50 points and its highest level in almost two years. The retail and manufacturing sectors are both well into positive territory while confidence in the construction industry has risen almost 35 points since the middle of the year.



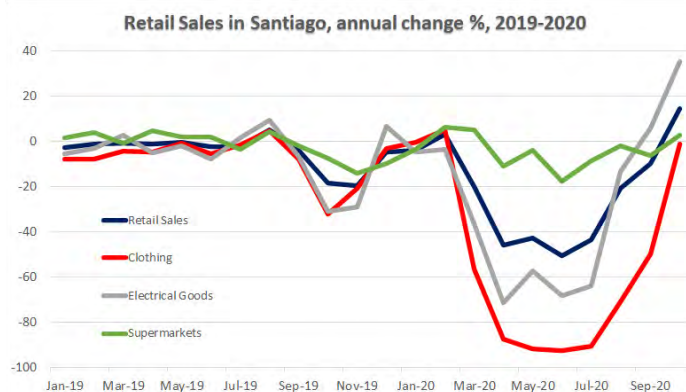
Source: GfK

Reflecting the easing of quarantine measures and the boost to household income from the pension withdrawals, GfK's Economic Perceptions Index reached 29.9 points in October, its highest level since the start of the pandemic. However, it dropped half a point in November which the market research firm attributed to the resurgence in

infections in Europe and North America. The rise in confidence since mid-year reflects consumers' increased optimism about the state of the economy and their personal situation. In particular, confidence in the labour market has rebounded from just 11% in April to 49% by November.

1.2 Key Sectors

Retail



Source: GfK

Retail sales have rebounded strongly from August as quarantine measures were relaxed and the pension withdrawals, mostly in August and September, triggered a rush to the shops. Sales in Santiago during the three months to October were down just 7% from a year earlier, compared to the 46.4% decline recorded in the second quarter, according to data from the National Retail Chamber. In recent weeks, sales of some items, including electronic goods, domestic appliances, clothing and footwear and construction materials, have returned to pre-pandemic levels although the latest data is influenced by last October's low base of comparison when social unrest forced thousands of stores to close.

Given the high unemployment rate and low consumer confidence, it is unclear whether the surge in household consumption is sustainable. After reaching a 13-month high in October, new car sales declined 18.6% in November. However, the second round of pension withdrawals as well as the traditional Christmas shopping season may prolong the spree into early 2021.

Manufacturing

Manufacturing has recovered to close to pre-pandemic levels. Output in October marked

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A shot in the arm

The announcement on November 9th by US pharmaceuticals giant Pfizer that its Covid-19 vaccine had approved highly effective against the disease immediately raised hopes that an end to the deadliest global pandemic in a century could be within sight. Stock markets rallied in response (while shares in online meetings platform Zoom and streaming service Netflix fell sharply).

With approvals granted in several countries and more vaccines in development, governments around the world are preparing to implement mass vaccination schemes over the coming quarters. The global pharmaceuticals industry estimates that it could produce enough doses to vaccinate almost half the world's population by the end of 2021. That should be enough for several countries to achieve herd immunity during the second half of 2021 and the rest the following year.

How fast countries can immunize their populations will depend on access to doses and their internal capacity to distribute and administer them.

In Latin America, Chile is one of the countries best prepared for the challenge. The government has already set aside US\$200 million in its 2021 budget to buy Covid-19 vaccines and signed contracts to buy tens of millions of doses from Pfizer, AstraZeneca, Sinovac and the World Health Organization's COVAX initiative. Inoculations are due to begin during the first quarter of 2021, beginning with the elderly and healthcare workers. The aim is to vaccinate 15 million people, almost 77% of the population or sufficient to achieve herd immunity. This will probably take several months.

Chile has a robust vaccination program with well over 90% of infants receiving shots against hepatitis, diphtheria, tetanus, and tuberculosis last year. Between March and June 2019, Chile's health service immunized 5.3 million people against the flu, including a peak of 2.1 million in April alone.

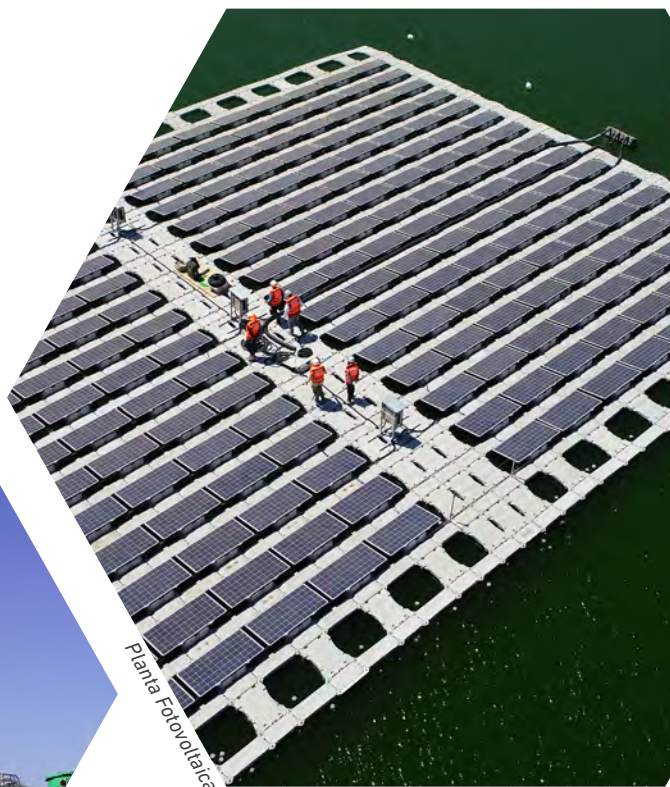
However, given the competition between countries for the vaccine, Chile is unlikely to receive all the doses it requires immediately. The nature of the vaccine may also slow distribution. To be effective, Pfizer's vaccine must be applied in two doses three weeks apart and kept at -70 degrees Celsius, which could prove challenging for health services, especially in rural areas. Finally, as inoculation will be voluntary, it will depend on the willingness of individuals to be vaccinated. False reports about the safety and purpose of the Covid-19 vaccines have heightened resistance in some countries. A survey in late November found that just over a third of Chileans would not have the jab once it becomes available, which could slow the vaccination process.

Given the amount of time that it will take to achieve herd immunity in Chile and the experiences of advanced economies, the authorities are preparing for a second and subsequent waves of Covid-19 infections. In December, the authorities unexpectedly announced a return of weekend lockdowns in Santiago to prevent a resurgence. More restrictions may be imposed in the coming months, especially with the return of the cold weather from next May.

While future lockdowns are likely to be less severe and better targeted than those imposed during the autumn and winter of 2020, they will still force many businesses to close, causing workers to be laid off and further delaying the economic recovery.

LA INNOVACIÓN ES PARTE DE NOSOTROS

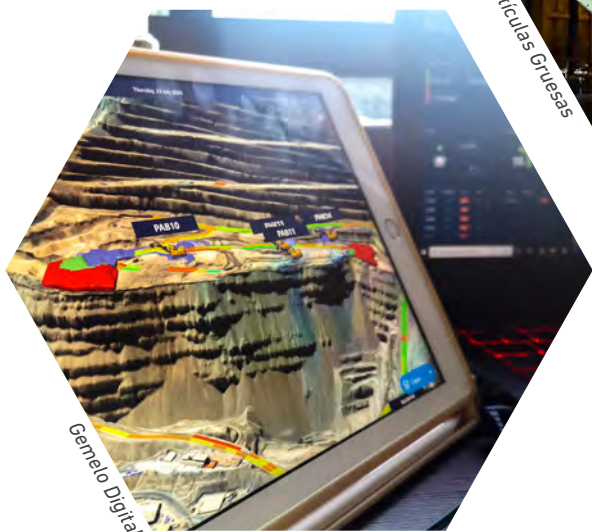
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an annual increase of 7.2% although this was influenced by last year's unrest, which closed many factories. There were marked increases in production of salmon and non-alcoholic beverages (linked to increased consumption) as well as mining equipment (as copper prices soared).

Construction

In contrast, the construction sector remains weak. In August, the Chilean Construction Chamber's monthly activity index reached 96.79 points, up slightly from June and July, but down 15.5% from twelve months earlier. Although the easing of quarantine measures and sanitary protocols have allowed many building sites and major mine projects to reopen, companies have slashed new investment amid the downturn, causing spending on construction to fall 26.1% in the third quarter, compared to a 17.1% decline in the second quarter. In addition, engineering work has continued to decline, falling by 4.5% in the third quarter compared to the second, as less advanced projects were halted or slowed.

However, increased mobility (and the reopening of land registries and notaries) has allowed the property market to recover, with new property sales in Santiago reaching 3,341 units in October, its highest level this year and up 13.2% from a year ago.

Services

The services sector, which accounts for more than half of Chile's GDP, has also lagged the broader economy, especially those activities which involve personal interaction.

Despite the reopening of restaurants from September onward, fast food sales fell 51.9% in the third quarter compared to a year ago (but up from a 79.5% decline in the previous quarter). Meanwhile, the number of nights spent in hotels has fallen by more than two thirds and Chile's hotels are on average less than a quarter full. While the number of passengers travelling on Santiago's metro system more than doubled between July and September to 18.0 million, it remains less than a quarter of last year's levels.

Many restaurants and hotels were hoping for a recovery from October onwards and during the upcoming tourist season, although these expectations have been shaken by the reintroduction of stricter quarantines in Santiago in December.

1.3 Monetary Policy

Monetary Policy Interest Rate, %, 2018-2020



Source: Central Bank of Chile

Despite the surge in inflation in September and October and improved internal and external conditions, Chile's Central Bank has reaffirmed its commitment to hold the monetary policy interest rate at its technical lower limit of 0.5% for the best part of the next two years with the board unanimously voting to make no change to the rate at meetings held in October, November, and December.

Investors broadly accept the Bank's commitment to maintain the monetary stimulus to the economy. Analysts surveyed by the Central Bank in early December foresaw no change in the rate before early 2022, when a majority expected a 25-basis point rise to 0.75%. It would take almost three years for the rate to reach 1.50%, they said. The results of the Bank's next monetary policy meeting will be announced on January 27th.

The Central Bank has continued with measures implemented during last year's social unrest and the start of the pandemic designed to provide liquidity to financial markets. The US\$8.0 billion bank bond-buying program and the Lending Conditional Credit Line could be extended if conditions require, Bank president Mario Marcel said in December.

Following the approval of the second pension withdrawals bill in early December, the Bank announced the reintroduction of precautionary measures to ensure that pension fund administrators (AFPs) can sell large volumes of assets without risking the stability of financial markets or causing asset prices to slump. They



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include the reopening of programs to buy term deposits (up to US\$7.75 billion) and bank bonds (up to US\$8.0 billion) and the extension of the REPO program with banks out to May 2021.

1.4 Fiscal Policy

To boost the economic recovery over the next two years, the government has sharply increased public spending, with a focus on investment in infrastructure and job creation. Under the 2021 budget approved by Congress in November, public expenditure is set to rise by 9.6% in 2021 to CLP56.1 trillion (US\$76.1 billion), following an estimated increase of 11.4% in 2020. The budget increase is in line with last June's agreement with lawmakers to set up a US\$12.0 billion fund to reactivate the economy in the wake of the pandemic.

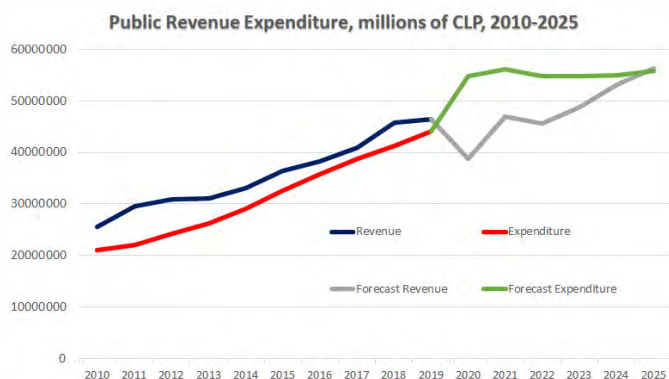
In a major change from previous years, the new budget was designed from zero (barring spending linked to existing legal commitments) with each government department having to justify the whole of its expenditure rather than year-on-year changes, which allowed for obsolete programs or duplicated spending to be eliminated.

The largest increase will be at the Ministry of Labour whose budget will rise 24.6% to CLP10.0 trillion (US\$13.6 billion), overtaking the Health Ministry to become the second largest ministry by expenditure and driven by contributions to the unemployment fund, job subsidies and retraining.

To boost public investment, the Public Works Ministry will see its budget rise by over a third to CLP3.4 trillion (US\$4.6 billion), lifting expenditure on road construction and maintenance by 34% and doubling investment in airports.

In contrast, spending by the Education Ministry, whose budget has doubled over the last decade, will be frozen at CLP11.0 trillion (US\$14.9 billion).

With public sector revenue set to rise 18.4% to CLP47.0 trillion (US\$63.8 billion) as economic activity recovers, the government expects the public deficit to reach 4.3% of GDP by the end of 2021, compared to 8.2% in 2020, the largest in almost half a century. If sustained, the recent rise in copper prices may mitigate the deficit by boosting taxes paid by mining companies and profits at state-owned Codelco.



Source: Central Bank, Government Budget Office

Despite the sharp rise in spending since 2019, the government expects public finances to be placed on a more sustainable path after next year. In its medium-term forecast, the government's Budget Office predicted that the structural deficit (based on long-term forecasts of GDP growth and the copper price) could return to 0.9% by 2025 as the economy recovers.

Given the favourable financial conditions available and in line with this year's agreement with lawmakers, the additional spending will be financed through increased public borrowing with government debt rising from an estimated CLP76.6 trillion (US\$103.9 billion) or 36.4% of GDP in 2021 to a peak of 44.1% by 2024.

However, the government's debt and deficit forecasts would require spending to stabilize at around CLP55.0 trillion (US\$74.6 billion) from 2022 onwards. This could be challenging given the huge social demands expressed during 2019's massive protests and which will continue to be aired during 2021's election campaign and the debates over a new constitution.

This panorama led the Autonomous Fiscal Council to warn lawmakers in October about the sustainability of Chile's public finances. Already under the government's forecast, annual interest payments on government debt are set to rise from 0.9% of GDP in 2019 to 1.2% by 2025 (equivalent to Chile's GDP growth in 2019). Failure to achieve higher rates of growth or cut the deficit would lead to even higher debt servicing costs for the Chilean state and reduce the access to credit of companies and households, the council said.

This has led many economists and politicians to raise the need for another tax reform to



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finance social spending over the coming years. In October, Finance Minister Ignacio Briones appointed a commission of sixteen leading economists, including three former Central Bank chairmen and two former Finance Ministers, to study all aspects of Chile's tax system with a particular emphasis on tax breaks. A study by the International Monetary Fund and the Organization for Economic and Development Cooperation found that the government could raise an additional 2.5% of GDP by increasing levies on fuels, sugar, and carbon emissions to OECD levels and closing related tax breaks.

Credit Ratings

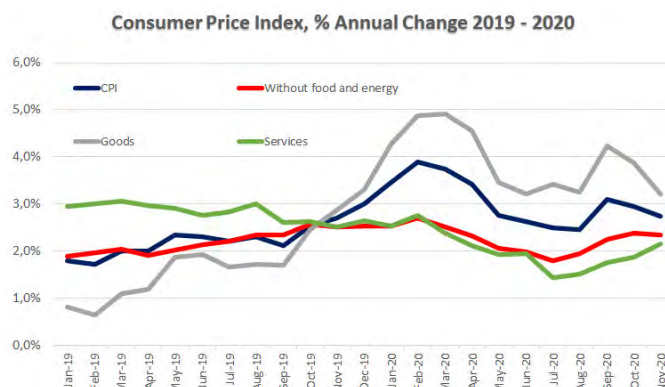
Fitch Ratings	A- (stable)
S&P Global Ratings	AA- (negative)
Moody's	A1 (negative)
JCR	AA- (stable)

In October, Fitch Ratings lowered its sovereign debt rating for Chile from A to A-, the first downgrade the country has suffered since last year's social unrest, citing the challenges the country faces stabilizing its public finances. Moody's and S&P Global Ratings may follow having put the country on negative watch earlier this year.

Sovereign Wealth Funds

The government has withdrawn almost US\$3.1 billion from Chile's Economic and Social Stability Fund this year to help finance the response to the COVID-19 pandemic. Combined with the withdrawal of almost US\$2.6 billion from the fund last year, this reduced the value of Chile's two sovereign wealth funds to US\$19.3 billion by the end of October, down from a peak of US\$24.7 billion at the end of 2017.

1.5 Domestic Prices



The recovery in economic activity and a surge in household spending (triggered by the first pension withdrawal) caused a temporary spike in inflation which appears now to have dissipated.

After rising by 0.6% and 0.7% in September and October, its fastest rate since late 2019, the government's Consumer Price Index fell by 0.1% in November, reducing annual inflation to 2.7%, down from 3.1% two months earlier.

The temporary spike in inflation was caused by a sudden jump in goods prices, which rose by 4.2% in September (against 3.3% in August), as shoppers rushed to stores newly reopened after months of lockdown and retailers rebuilt inventories of imported goods at a higher exchange rate than twelve months earlier. In comparison, prices for services rose by just 1.7% that same month.

However, in November, a sharp drop in clothing and footwear prices (down 4.9%, following a 3.6% increase in October), caused inflation in goods prices to slow to 3.1%.

The Central Bank now expects the index to end the year at 2.8% while analysts surveyed by the Bank in early December predicted a rise of 2.6%.

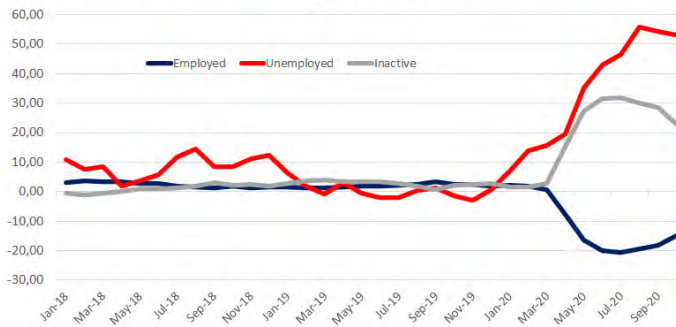
Despite the recent surge (which could be repeated following approval of a second pension withdrawal), the low level of economic activity, high unemployment, low oil prices and the stronger peso are expected to keep a cap on inflation over the coming quarters.

The Central Bank predicted that the index would reach 2.6% by the end of 2021, while private analysts forecast a return to the Bank's medium-term target rate of 3.0%.

1.6 Employment and Wages

As quarantine measures have been steadily eased, allowing many businesses to reopen, the number of people in work has risen by almost 600,000 since July to reach 7.7 million, mirroring declines in the number of unemployed and inactive workers. It means that roughly a third of those who lost their jobs so far this year have now returned to work.

Number of people in work, unemployed and inactive % Annual Change 2015-2020

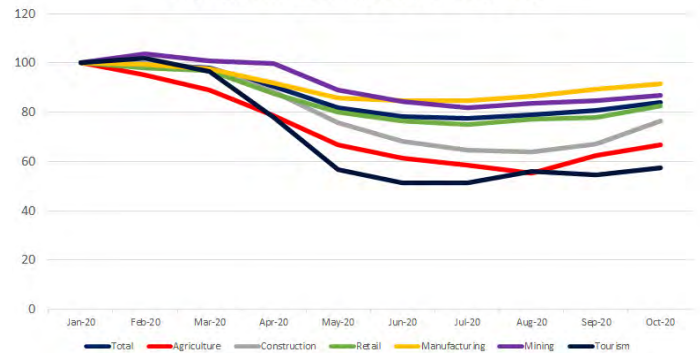


Source: Central Bank of Chile

In addition, more than 400,000 of the 750,000 employees who have been furloughed without pay under the government's Employment Protection Law have now returned to their old jobs. As a result, after peaking at 13.1% in July, the unemployment rate fell to average 11.6% in the three months to October.

However, this figure does not account for the roughly 2.2 million individuals who having lost their jobs are now classed as inactive. Of these, more than 70% are women, most of whom say they cannot return to work due to family responsibilities, especially as most schools remain at least partially closed. Female participation in the labour market has fallen to 44%, down from 53% twelve months earlier and its lowest level in a decade.

Employment by sector, 2020, January = 100



Source: Central Bank of Chile

Like the recovery in economic activity, the increase in employment has been uneven between sectors. While manufacturing and mining are returning to pre-pandemic levels, unemployment remains highest in those sectors of the economy worst affected by social-distancing rules, especially tourism (where the number of workers has fallen 42% since January), construction (down 23.4%) and retail (down 17.5%).

Under a subsidy program launched in September, the government is paying companies CLP 160,000 (US\$215) for up to six months per furloughed worker that is taken back and CLP250,000 (US\$336) for new workers. So far 265,000 workers have benefited from the scheme, mostly in these three sectors. However, for more workers to benefit, potential employers will have to be confident of a lasting recovery, something which is now threatened by the reintroduction of a partial lockdown in Santiago.

Workers' incomes have begun to rise more rapidly, with the government's Remuneration Index reaching 4.0% in the year to October (or by just 1.0% accounting for inflation), its fastest rate since last March.

1.7 Financial Markets

Financial markets have continued to stabilize in the wake of the March-April shock with interest rates and share prices returning to pre-pandemic levels.

Supported by the Central Bank's liquidity measures, rates on short-term bonds have fallen significantly, eliminating the liquidity premium against longer-term instruments and steepening the nominal yield curve.



Source: Santiago Stock Exchange

Share prices in Chile have rallied strongly since early November as investors around the world reacted to the election of Joe Biden as US president and, more importantly, the successful testing of the first vaccine against Covid-19. November was the best month for the IPSA index (of the 30 thirty largest companies listed on the Santiago stock exchange) in almost three decades.

However, the index lost 1.45% of its value on December 7th after the government announced the reintroduction of quarantine measures in Santiago, driven by falls amongst retail companies.

Banking

Bank lending has stagnated in recent months as lending to individuals has continued to decline and companies no longer require credit to provide working capital as their sales recover. According to the latest official figures, bank lending reached CLP 196.7 trillion (US\$267.9 billion) in October, up 3.2% from a year ago but down from a peak of CLP198.1 trillion (US\$269.8 billion) in July. Corporate lending reached CLP 119.9 trillion (US\$163.3 billion), up 6.9% from twelve months earlier, but down from CLP121.3 trillion (US\$165.2 billion) in the previous month. Consumer loans fell by 8.9% to CLP24.8 trillion (US\$33.8 billion) although mortgage lending grew by 6.8% to CLP58.1 trillion (US\$79.1 billion).

In December, the government announced it will extend its state-guarantee loans scheme (known as FOGAPE) to help small businesses finance investments during the recovery. More than US\$14.0 billion has lent to businesses under the scheme during the pandemic.

As well as taking out fewer new loans, many people appear to have used their pension withdrawals to pay off outstanding loans. The percentage of nonperforming loans to individuals (consumer and mortgage) fell to 1.63% in October, down from 2.33% in October 2019, while the number of nonperforming corporate loans was unchanged. According to the Central Bank, this figure may rise as loans rolled over earlier this year become due. In preparation, banks increased spending on loan loss provisions to CLP3.4 trillion (US\$4.6 billion) during the year to October, up 38% from twelve months earlier, causing profits to fall by 62.1% to CLP822.8 billion (US\$1.1 billion) over the same period.



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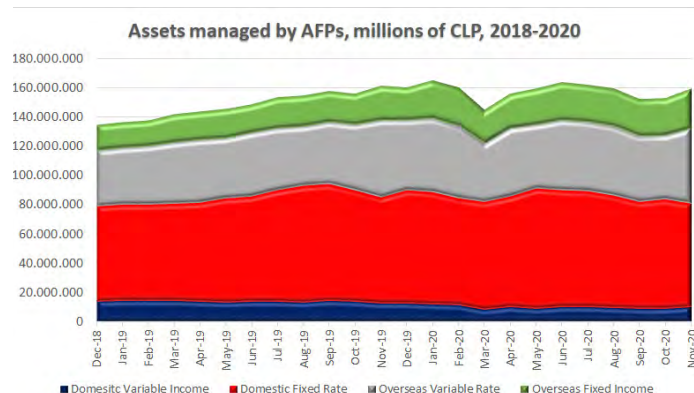
Pension Funds

AFP Assets Under Management (November 2020)

Type of fund	Amount (billions of pesos)	Change Dec 2019 - Nov 2020 (%, real in pesos)	Return Dec 2019 Nov 2020 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	22,740	-6.5	-0.7	80	40
B Funds	23,953	-11.6	2.2	60	25
C Funds	53,774	-5.5	4.5	40	15
D Funds	31,869	1.3	5.6	20	5
E Funds	31,869	32.1	6.7	5	0
TOTAL	160,610	0.1			

The withdrawal of almost US\$17.4 billion by pension savers in August and September together with the slump in assets prices earlier this year meant that the value of assets held by the AFPs reached CLP160.6 trillion (US\$218.7 billion) at the end of November, barely changed from twelve months earlier. However, after dropping in September to CLP152.9 trillion US\$208.2 billion), their lowest level since April, in the immediate aftermath of the withdrawals, the funds bounced

back boosted by the sharp rise in share prices around the world following the announcement of the first successful Covid-19 vaccine.

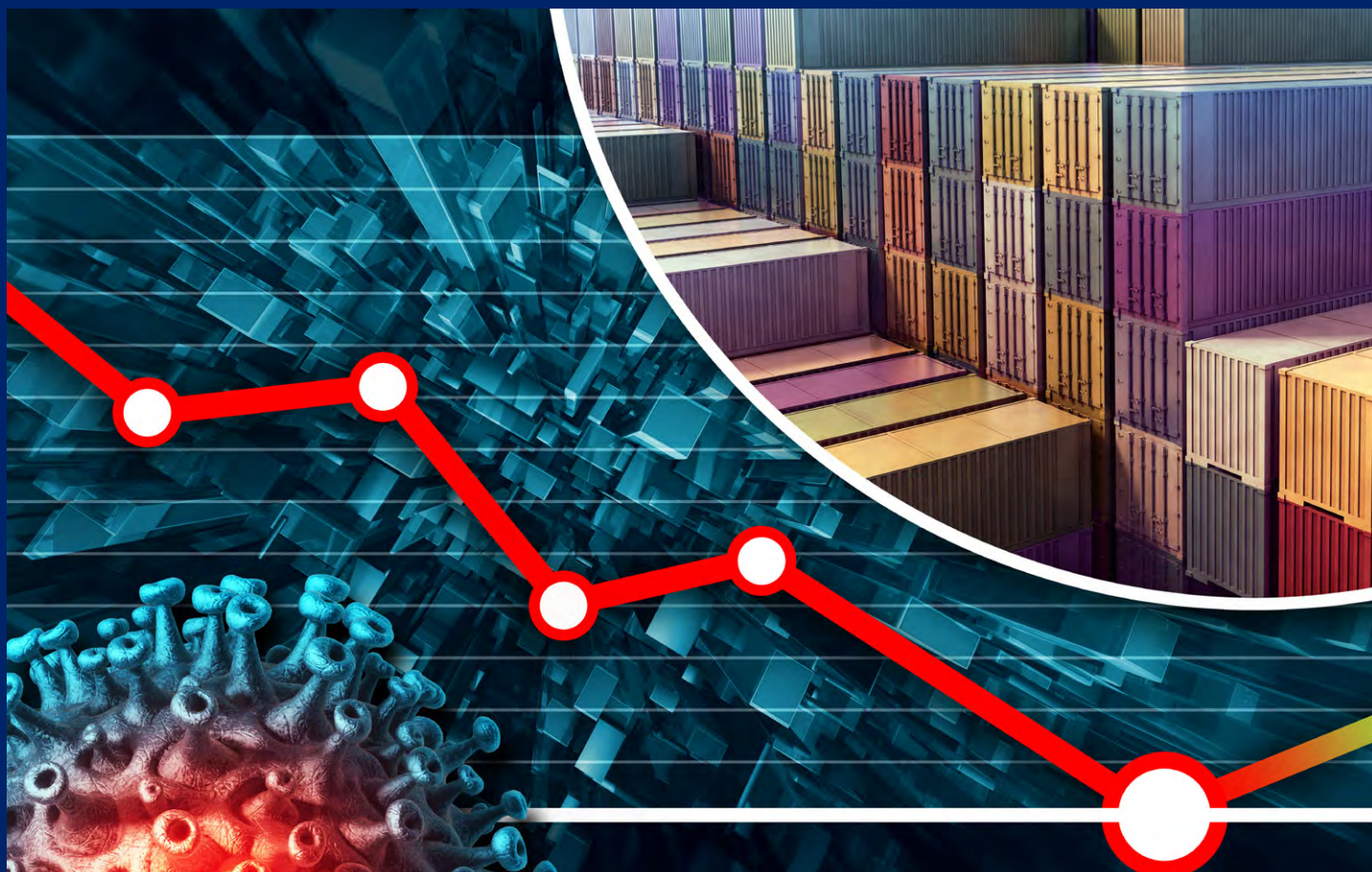


Source: Superintendency of Pensions

Like the first withdrawal law, the second allows savers to draw up to CLP 4.3 million (US\$5,950) from their pension funds. Given that around two million individuals exhausted their funds with the first withdrawals, the Central Bank estimated that savers will withdraw around US\$16.6 billion from their savings, boosting consumption in December and the first quarter of 2021.

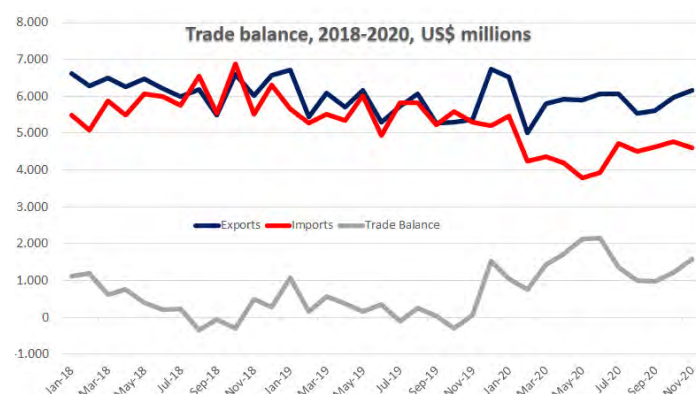
2

EXTERNAL SECTOR



2.1 Trade Balance

Chile's external trade has recovered sharply from the slump suffered at the start of the Covid-19 pandemic in line with a rise in global trade.



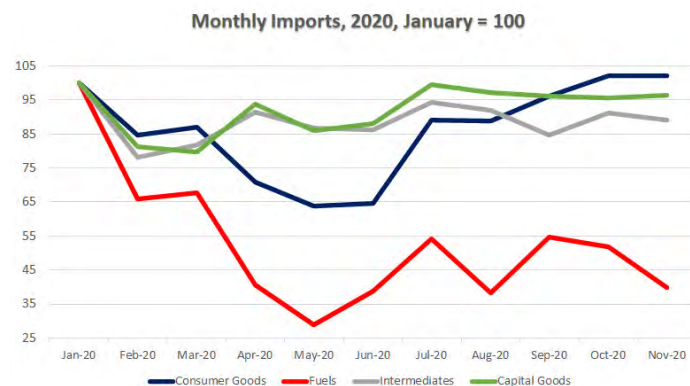
Source: Central Bank of Chile

Driven by the strong recovery in the global economy and a rally in copper prices, Chile's exports have returned to pre-pandemic levels, reaching US\$65.6 billion during the first eleven months of the year, up 2.3% from a year ago.

Imports have also risen, thanks to a recovery in imports of consumer goods but remain significantly below levels seen last year. During the year to November, imports totalled US\$49.2 billion, down 18.7% from the same period of 2019.

As a result, Chile's trade balance has continued to widen, reaching US\$15.4 billion to November, up almost sixfold from a year ago.

Imports



Source: Central Bank of Chile

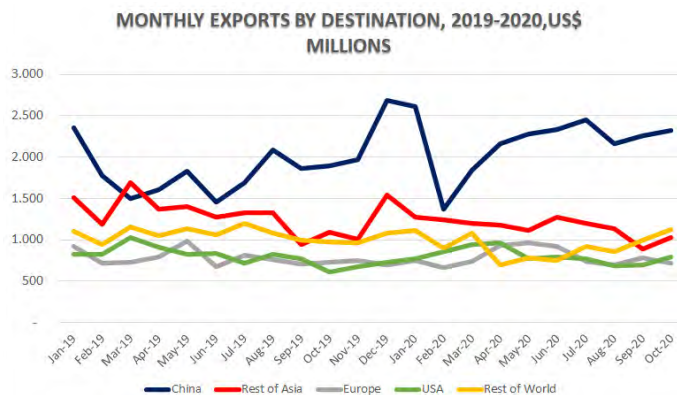
Following a sharp fall during the first half of the year and the reopening of most stores and shopping malls since August, imports of consumer goods have recovered sharply. Imports of consumer goods during the first eleven months of the year totalled US\$14.4 billion, down 22.5% from a year ago. However, in November, monthly imports reached US\$1.6 billion, down just 1.6% from the same month of 2019. The increase has been driven by imports of computers and televisions (up 45.2% and 97.6%, respectively), as many consumers rushed to spend their pension withdrawals on goods for the home. However, monthly imports of cars, clothing and footwear remain between a fifth and a third below 2019 levels.

Imports of capital goods have continued to decline amid the slump in investment, totalling US\$11.7 billion in the first eleven months of the year, down 14.6%. However, while imports of lorries and construction and mining equipment have fallen almost 40% this year (to US\$1.1 billion and US\$595 million, respectively), imports of electrical motors, generators and transformers have more than doubled to US\$1.6 billion amidst the boom in renewable energy projects.

Fuel imports have continued to decline reflecting the sharp fall in oil prices in the first half of the year as well as weak demand as motorists stayed home during lockdown. Energy imports reached US\$6.2 billion to November, down 36.3% from a year earlier, with oil imports falling by almost half to US\$2.0 billion. State oil firm ENAP has said that fuel demand has returned close to levels seen last year after falling by 35% between April and August.

Imports of intermediate products have declined just 7.4% this year to US\$20.5 billion, as lower imports of chemical and metallic products were offset by increased imports of wheat and maize, sugar and sweeteners and fibres and textiles.

Exports



Chile's exports have rebounded strongly, thanks to increased shipments of minerals, fresh fruit and other products to China, the only major economy which is expected to grow this year.

In recent months, exports to other markets, especially in Asia, have begun to recover.

However, exports to the US and Europe, Chile's second and third largest markets, remain subdued, reflecting the prolonged impact of the pandemic on their economies.

While mineral exports have surged, the value of Chile's non-mineral exports have slumped 6.0% this year to US\$28.6 billion, reflecting the decline in demand for many products.

Agricultural exports declined 8.4% to US\$5.4 billion, reflecting a poor 2019-2020 season for fruit exports. However, the fruit exporters' association ASOEX has predicted a rise in fruit exports during the 2020-2021, including a 35.8% rise in cherry exports, following heavier rainfall in much of central Chile this winter.

Industrial exports have fallen 5.5% this year to US\$23.3 billion but have begun to show signs of recovery rising by 1.4% in November. Exports of pulp and paper fell by 20.4% to US\$2.4 billion in the first eleven months of the year, reflecting weak global demand for paper and low pulp prices.

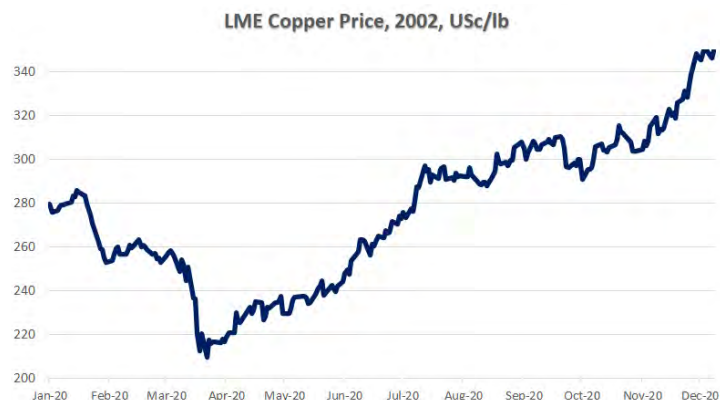
Wine exports during the first eleven months of the year reached US\$1.7 billion, down 3.8% from a year earlier. While volumes have been steady, prices for Chilean wine have fallen by

6.0% to average US\$2.11/litre this year. However, while bulk wine exports remain almost a third below last year's levels, exports of bottled wine have recovered well since June, rising 17.1% in November to US\$141 million.

Food exports declined 3.8% to US\$8.8 billion, dragged down by a 15.8% drop in salmon and trout exports. Salmon sales have been hit by the closure of restaurants around the world where approximately 40% of the fish is sold.

2.2 Mineral Exports

The value of Chile's mineral exports has soared since the middle of the year driven by a rally in copper price.



Mineral exports to the end of November reached US\$36.0 billion, up 9.4% from the same period of 2019, including a 24.2% jump in November. Almost all of the increase came from copper exports which rose 8.4% to \$32.6 billion over the same period.

By mid-December, copper was trading at close to US\$3.50/lb, its highest level in more than seven years and up more than 60% from the nadir reached during the turmoil in financial markets last March. The rally has been driven by strong demand in China, signs of economic recovery in Europe and North America, labour conflicts in Chile as well as the disruption caused to mine production by the pandemic, especially in Peru and Mexico.

Lundin Mining was forced to halt production at its Candelaria copper mine for more than a month during October and November due to strikes by labour unions. The mine produced 111,400 tons of copper in 2019, equivalent to 2% of Chile's total production. However, a series of pay talks at

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.

China at the door

The global Covid-19 pandemic has accelerated many trends, from the rise of e-commerce to the spread of virtual meetings. Another is China's apparently unstoppable rise. The only major economy to grow this year, China's share of global trade is also expected to rise reaching almost 14%, up from less than 13% in 2019.

Chile has been one of the countries to benefit most from China's ascendancy. During the first ten months of 2020, China accounted for 37.3% of its exports, up from 32.5% in 2019 and was the largest market for its copper, iron ore, paper pulp, and cherries, among other goods. China also accounted for more than a quarter of Chilean imports. Until recently, Chinese investment into Chile had lagged its position as a top trading partner. That has now changed.

Since 2016, Chinese companies have made major acquisitions in Chile in industries ranging from wine and mining to salmon and fresh fruit. In 2018, Tianqxi paid US\$4.1 billion for a 24% stake in SQM, Chile's largest lithium producer. Chinese firms have also begun to bid on infrastructure concessions for hospitals and motorways and are expected to supply almost all the electric buses for Santiago's public transport system.

In the latest and largest investment so far, China's state power firm State Grid is buying two of Chile's largest electric utilities, CGE and Chilquinta, in separate deals worth almost US\$7.5 billion. The CGE transaction is expected to close in February 2021. Chile's leaders have been keen to attract Chinese investment. In 2017, the two governments agreed to deepen their bilateral trade agreement, adding a chapter to facilitate investment, and Chile joined the Asian Infrastructure Investment Bank, set up to finance China's One Belt, One Road global infrastructure program. But as China increases its presence in Chile, some politicians are worried about its growing influence over the country.

China has not been afraid to use its economic heft to sway politics abroad. In 2020, it slapped tariffs on Australian coal, grain and wines after the country's Prime Minister demanded an investigation into the origins of the Covid-19 virus. There is concern that the same could happen here. With its acquisition of CGE and Chilquinta, State Grid will become Chile's largest power distributor, supplying electricity to around two million households. Chile's competition regulator FNE has already announced that it is investigating the deal for potential antitrust issues.

But concern goes beyond possible implications for the heavily regulated electricity market. State Grid is also a major consumer of copper, Chile's principal export, buying around two million tons a year (equivalent to a third of Chile's annual output). In December, lawmakers presented legislation that would require foreign investments in strategic companies to be approved by Congress. Other countries, including the UK, the US, and Germany, have taken similar measures. China's diplomats have dismissed such concerns.

When Chile announced in July that a new fibre optic cable linking South America with Asia would connect Santiago with Australia, the route favoured by the US, rather than a more direct route to China, Beijing remained silent. The challenge will be to maintain Chile's ability to act in its own interests without slighting such an important trading partner and investor.

larger mines, including Collahuasi, El Teniente and Escondida, were concluded without disruption.

Although the current copper price is not thought to be sustainable, the recent rally has led analysts to lift their forecasts for 2021. While in late November, the Chilean Copper Commission (Cochilco) forecast that copper prices would average US\$2.90/lb in 2021, up from US\$2.80/lb in 2020, in mid-December, the Central Bank predicted that prices would average US\$3.20/lb, which would make it the best year for copper prices since 2013.

Chilean mine production has continued to hold up through the Covid-19 pandemic despite reductions in personnel and the suspension of some activities as mining companies strive to halt the spread of the disease. By the end of October, Chilean mines had produced 4.8 million tons of copper, up 0.4% from the same period of last year. With production in 2020 expected to match last year's output of 5.8 million tons, Cochilco predicted that production will rise 3.0% to a record of almost 6.0 million tons in 2021.

Exports of other minerals also largely rose. Shipments of iron ore more than doubled to US\$1.3 billion to the end of November, reflecting the reopening of CAP's Guacolda II port late last year as well as a rally in the price of mineral to almost US\$150/ton, up 60% since January. Exports of gold have risen 19.5% to US\$774 million as the precious metal trades near record highs of more than US\$1,900/ounce.

However, exports of lithium carbonate have continued to fall, declining 18.0% this year to US\$614 million, as lower prices offset increased production. In November, SQM, Chile's largest lithium producer, approved a US\$150 million investment to almost triple production of the mineral to 180,000 tons/year by the end of 2023. Under pressure from environmental authorities, it has also committed to sharply reduce the amount of fresh water it consumes and how much brine it extracts from the mineral-rich but environmentally sensitive Salar de Atacama by the end of this decade.

2.3 Chile-UK Trade

Trade in goods between Chile and the UK reached US\$1.0 billion during the first eleven months of the

year, down 10.8% from the same period of 2019. Chilean exports to the UK reached US\$575.9 million during the first eleven months of the year, down from US\$623.6 million in the same period of 2019. The decline reflects lower exports of blueberries, apples, and other goods, offset by a 16.1% rise in wine exports.

UK exports to Chile reached US\$468.1 million, down from US\$546.4 million, reflecting declines in exports of cars and other machinery.

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's current account slipped into a deficit of just US\$25 million in the third quarter of the year, compared to a surplus of US\$2.7 billion in the second quarter. The move reflects the reduction in Chile's quarterly trade surplus in goods from US\$6.0 billion in the third quarter to US\$3.3 billion in the second quarter as imports surged, offsetting a fall in profits remitted from foreign investments in Chile.

In December, the Central Bank predicted that Chile's current account will record a deficit of US\$4.4 billion or 1.5% of GDP in 2021, compared to an estimated surplus of US\$2.2 billion in 2020 and down from a previous forecast of a US\$6.8 billion deficit. The change reflects a higher trade surplus next year as exports continue to outpace imports.

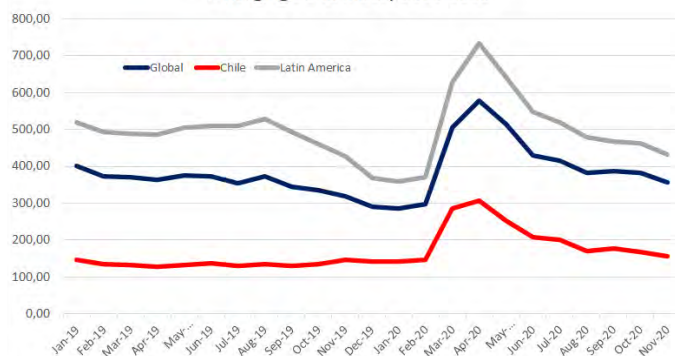
The financial account recorded a third quarter deficit of US\$1.3 billion, compared to a surplus of US\$1.8 billion in the previous quarter. The change largely reflected the net sale of overseas financial assets worth US\$11.5 billion, as the Chilean government and pensions funds sold assets to finance welfare payments and savings withdrawals. Chile's International Investment Position fell to a net debt of US\$34.5 billion in the third quarter, down from a net debt of US\$35.4 billion in the previous quarter, largely explained by the increased value of foreign shares as

stock markets rallied. Banks and non-financial companies both reduced their foreign net debt position by paying off loans and bonds and by seeing the value of their external assets rise.

Chile's foreign debt reached US\$205.5 billion by the end of the third quarter, equivalent to 81.9% of GDP, down from 85.9% of GDP, three months earlier. The fall reflects the payment of bonds and loans by the banking sector and a reduction in debt related to foreign direct investment and government debt.

Country Risk

Emerging Bond Index, 2019-2020



Source: JP Morgan Chase

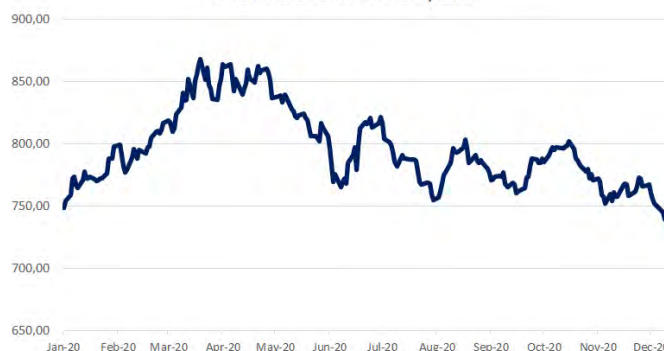
JP Morgan Chase's Emerging Bond Index (EMBI) for Chile reached 156 points in November, down from a record 306.1 points in April, matching similar declines in the rest of Latin America.

The spreads on five-year Credit Default Swaps on Chilean debt have held steady around 55 points since September, down from the record high of 163 points reached during last March's financial crisis. However, the spread remains higher than the highs reached during last year's social unrest.

2.5 Exchange Rates

Mirroring the depreciation of the US dollar globally since April as well as the sustained rally in the copper price, the Chilean peso continued to appreciate against the US dollar through the fourth quarter. On December 15th, it reached CLP 731/dollar, its highest level since December 2019 and against an average of CLP795/dollar during the year to date.

US dollar vs Chilean Peso, 2020



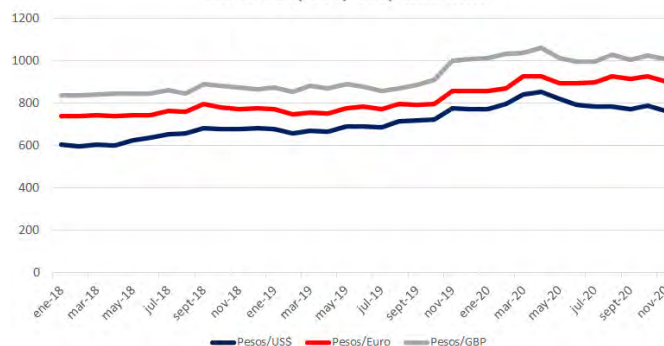
Source: Central Bank of Chile

Despite its recent rise, the Chilean peso remains at historically low levels against the US dollar, considering the high copper price and the large trade surplus recorded this year. The last time copper was trading near US\$3.50/lb (in early 2013), the Chilean peso was valued at less than CLP480/dollar, more than a third below its current level.

While this makes imports more expensive, it offers a huge advantage to Chile's exporters just when the economy is relying on the external sector to drive activity.

The move against the US dollar have been mirrored by the Chilean peso's moves against the Euro and British Sterling.

CLP vs EUR, GDP, USD, 2018-2020



Source: Central Bank of Chile

Liderando la transición energética en el mundo



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3

QUATERLY INSIGHT: REWRITING THE CONSTITUTION



3.0 QUARTERLY INSIGHT: REWRITING THE CONSTITUTION

On October 25th, Chileans voted in a rare referendum overwhelmingly in favour of drafting a new constitution. Of the 7.5 million votes cast, almost 78.3% supported replacing the document which has overseen the country's transition to democracy. The vote also decided how the new constitution will be written, with a similar majority voting to exclude standing lawmakers from participating in the drafting process.

The historic vote sets Chile on a process which is expected to take up to two years before a new constitution is agreed, approved, and officially enacted.

The first step is the election of the members of the Constitutional Convention which will draft its text. Voting will take place on April 11th, the same day that municipal mayors and councillors and provincial governors will also be chosen.

Voting will be based on the existing system for electing deputies to the lower house of the Chilean Congress, with 155 members each representing a geographical district. However, under legislation approved after the referendum, 23 of the seats will be reserved for the country's indigenous peoples.

Once chosen, the elected members will be convened by President Sebastián Piñera to meet where they will elect by absolute majority a president and vice-president and approve the rules to govern the voting process.

The Convention will then have nine months to debate, agree and approve the contents of the new Constitution, each article of which must be approved a two-thirds majority. This period may be extended once by a further three months.

Once approved by the convention members, the president is required to put the proposed constitution to a second national referendum in which all registered voters will be required to vote on pain of a fine.

If a majority vote to approve the text, then the president must call a plenary meeting of the country's Congress at which the new Constitution will be enacted, and lawmakers will swear loyalty to the document.

If the proposal is rejected by voters, then the existing constitution will remain in force.

Given the presidential elections due to take place next November, the new constitution could come into force a few months after a new head of state has been sworn into office in March 2022.

While the official process for drafting and approving a new constitution appears relatively simple, the debate over its content will not be.

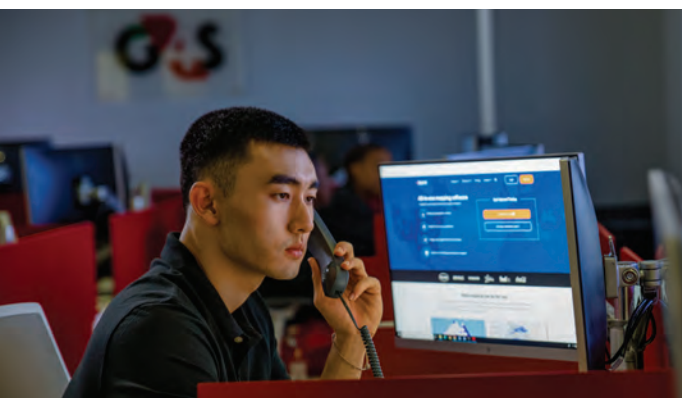
Rewriting the constitution potentially means rewriting the rules on which Chile has been run for the last forty years. Following last year's social unrest, a majority of Chileans view the current constitution, imposed by dictator Augusto Pinochet, as a straitjacket which prevents the development of a more equal and fairer society. But many others are wary that a new constitution could undermine the guarantees which have allowed the country to become one of the wealthiest in South America.

Some of the key issues are:

- **The powers of the president** – Chile's presidency has wide-ranging powers that

do not require oversight from Congress. In addition, only the president can present legislation to raise taxes or government expenditure. Many would like to rebalance government in favour of the legislature.

- **More regional government** – to redress Chile's highly centralized form of government, some constitutional campaigners want regional authorities to be popularly elected and to have tax-and-spend powers.
- **Curbing the constitutional court** – opponents claim that by blocking (on constitutional grounds) legislation approved by Congress, such as stronger labour laws and consumer protection rules, this body effectively limits democracy.
- **A more powerful state** – a single line in the current constitution side-lines the Chilean state to a subsidiary role implying that it cannot take on tasks which could be provided by the private sector. Eliminating this stricture would allow key social reforms, advocates say.
- **More environmental protection** – environmentalists would like protection of the environment to be strengthened at the constitutional level and to give people a binding say in what projects can be developed in their local area.
- **Limiting water rights** – as Chile grows hotter and drier, many want to see water rights, protected under the current constitution, to be curtailed, making it easier for the state to redistribute or annul these rights in exceptional circumstances.



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4

POLITICAL CONTEXT



4.0 POLITICAL CONTEXT

In December, Congress approved government legislation allowing Chileans to make a second one-time withdrawal from their pension funds of up to CLP 4.3 million (US\$5,780). Unlike a rival opposition bill, the government proposal requires individuals earning more than CLP18.4 million (US\$24,700) annually to pay income tax on the withdrawal, a proposal which was heavily criticized by opposition lawmakers and on social media, but supported by technical experts. Víctor Pérez resigned as Interior Minister on November 3rd after Deputies voted to impeach over his handling over the lorry drivers' protests in August and alleged police abuses in Santiago. Appointed in July, the former Senator was the government's third interior minister in just two years. President Piñera named Rodrigo Delgado, previously mayor of working-class Estación Central to replace him.

Support for the government has tumbled again amid the debate over the 2nd pension withdrawal and referendum vote. According to Cadem's weekly poll, President Piñera's approval rating fell to 13% in early December, its lowest level since July (when the first pension withdrawal bill was approved) while disapproval reached 78%.

However, the opposition is almost as unpopular as the government with the main opposition political parties achieving support of 20% or less. Despite the government's low ratings, the public are more supportive of its handling of the Coronavirus pandemic and 70% of those polled supported the relaxing of quarantine measures in their district.

With a year to go before next year's presidential elections, the main candidacies are beginning to emerge. On the government side, likely runners are Joaquín Lavín and Evelyn Matthei, both ministers in Piñera's first government from the right-wing UDI party and now mayors in two of Santiago's wealthiest districts. The opposition remains split between the former Concertación parties (which ruled Chile between 1990 and 2010) and the more left-wing Frente Amplio and Communist parties. At this point, the latter will probably choose between Daniel Jadue, a Communist mayor who has gained fame for expanding municipal services to include cut-price pharmacies and a free university, and Deputy Pamela Jiles, a leading proponent of the pension withdrawals. The presidential contest will be the last of an unprecedented slew of elections to take place during 2021.

April 11th, 2021

- Members of the Constitutional Convention
- Municipal mayors and councillors
- Provincial governors (the first time to be elected)

July 4th, 2021

- Presidential primary elections

November 21st, 2021

- First round of voting in presidential election
- Deputies and Senators for National Congress
- Regional councillors

December 19th, 2021

- Second round of voting in presidential election

5

ECONOMIC OUTLOOK



5. ECONOMIC OUTLOOK

With the approval of the first vaccines against Coronavirus and a broad recovery in the global economy from the third quarter onwards, the outlook for the Chilean economy has improved significantly from just three months ago. The rapid recovery in global trade and the rally in copper prices will bolster economic activity and investment over the coming quarters while distribution of the vaccine in Chile from early next year should allow those sectors of the economy, such as hospitality and construction, to recover to pre-pandemic levels.

But while external conditions have improved, Chile's domestic economy remains weak. Beyond the transitory impact of the pension withdrawals, high levels of unemployment and the fall in household wealth will continue to weigh on consumption for several quarters. The weakened state of many businesses will slow a recovery in investment.

Despite the faster growth predicted for 2021 in its latest report (5.5-6.5% vs 4.0-5.0% forecast in September), the Central Bank still expects it to take until mid-2022 for the Chilean economy to recover to its size before October 2019.

There is also still significant uncertainty. It is still not clear whether the vaccines will prove as effective at combating the disease as testing suggests. The resurges in infection in Europe and North America and the sudden reintroduction of quarantine measures in Santiago indicate that the return to normality will not be smooth. It is unlikely that by the start of the Chilean winter enough of the population will be vaccinated to prevent some resurgence in cases, which would trigger fresh lockdowns. As the report went to print all of Santiago was under partial lockdown which is expected to last two weeks.

In addition, with municipal, provincial, and national elections all due to take place during 2021 as well as the start of the debate over the new constitution, the political situation in Chile may cause further shocks to the economy, denting business confidence and putting off investment. Given the deteriorated relations between government and the opposition, key reforms (including pensions and healthcare) could be derailed. It will also be difficult for a new government to withdraw the fiscal stimulus to the economy in time to prevent a deterioration of Chile's public finances.

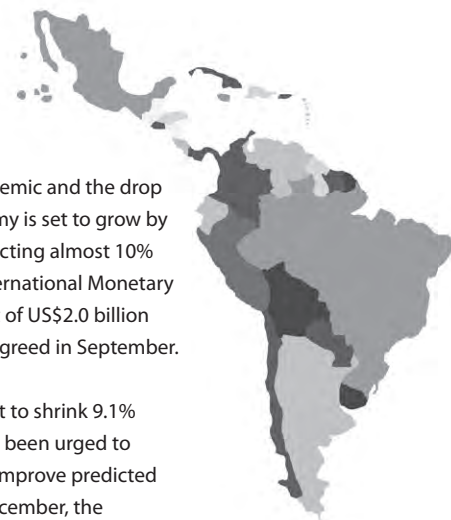
	Central Bank ^{1/}	Finance Ministry ^{2/}	Private analysts ^{3/}
GDP (% annual variation)	5.5 - 6.5	5.5	4.7
Inflation (% annual variation)	2.6	2.3	3.0
Monetary-policy interest rate (% annual, nominal, end-year)	0.50	NA	0.50
Exchange rate (pesos/US\$)	NA	766	750 ^{4/}

^{1/} Monetary Policy Report, December 2020.

^{2/} Government budget report, October 2020

^{3/} Average of selected private analysts surveyed by Central Bank, December 2020.

^{4/} November 2021



6. LATIN AMERICA REGIONAL NEWS

Argentina: In the wake of August's deal with foreign creditors, the government imposed strict measures to stem the flow of dollars out of the country, including a 35% withholding tax on all transactions involving foreign currency. Negotiations with the IMF on a new loan agreement began in November.

Bolivia: Former Finance Minister Luis Arce won a landslide victory in October's presidential elections, marking the return of the left-wing MAS party to power almost exactly a year since former president Evo Morales was forced to flee over electoral fraud charges.

Brazil: Brazil's economy has begun to recover from the Covid-19 pandemic, growing 7.7% in the third quarter compared to the previous period, although infections have begun to pick up again in major cities. With the public deficit set to reach 16.7% in December, the government has warned that it plans to begin withdrawing emergency fiscal measures in 2021.

Central America: Hurricane Eta wrought widespread destruction through the region, killing almost 200 people and causing US\$6.7 billion worth of damage just as the countries are struggling with the cost of the pandemic.

Colombia: The country's public deficit is expected to reach 8.9% in 2020 as it ramps up spending on healthcare and business aid. Finance Minister Alberto Carrasquilla said that the government will present a major tax reform to Congress in early 2021 to stabilize public finances.

Ecuador: Rocked by the pandemic and the drop in oil prices, Ecuador's economy is set to grow by just 2.5% in 2021, after contracting almost 10% in 2020. In December, the International Monetary Fund approved disbursement of US\$2.0 billion from the US\$6.5 billion loan agreed in September.

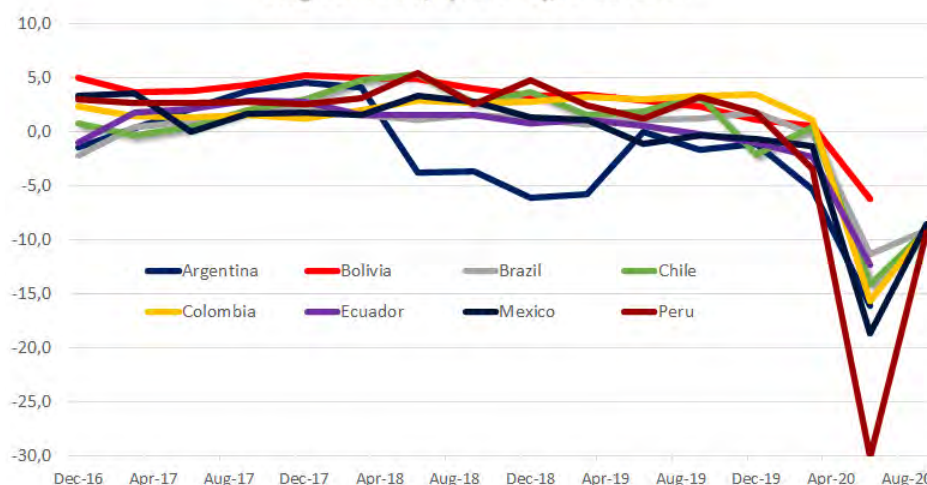
Mexico: With the economy set to shrink 9.1% this year, the government has been urged to increase its fiscal stimulus to improve predicted growth of 3.6% in 2021. In December, the government halted legislation to tighten up labour laws following protests from business.

Peru: In November, lawmakers ousted President Martín Vizcarra over alleged corruption. Protests over his ousting forced his successor Manuel Merino to resign after just five days. His replacement Francisco Sagasti has promised to hold office until a new president is takes office next July, following elections in April.

Uruguay: After surviving the pandemic largely unscathed, infection rates have surged in recent weeks forcing President Luis Lacalle to reimpose quarantine measures. The economy is expected to contract by 3.5%, one of the smallest falls in the region.

Venezuela: Supporters of President Nicolás Maduro won more than half the seats in the National Assembly in elections that were widely condemned as undemocratic, including by the Organization of American States. The victory comes despite the continued collapse of the country's economy with the Bolivar losing 60% of its value during 2020 and annual inflation reaching an estimated 1,800%.

Regional GDP, quarterly, 2016-2020



UK ECONOMY Q3 - 2020

The UK rebounded strongly in Q3 as Covid-19 restrictions were lifted in the summer months amid clear improvement regarding the level of infections. Both the Office for Budget Responsibility and the Bank of England agree that the actions taken have helped mitigate the impact of the virus on the UK economy. Since the beginning of Autumn, like other European countries, the UK has seen a resurgence of the virus, and now a return to greater restrictions in order to protect lives and contain the spread of Covid-19. Containing the virus is crucial for the economy and a long-term recovery. The UK government's response is one of the largest and most comprehensive in the world, totalling over £280bn in support since March.

1. Economic growth

GDP grew by 15.5% in Q3 2020 following two consecutive quarterly falls of 19.8% and 2.5% in Q2 and Q1 respectively. This came as restrictions on movement eased from July to September. In Q3, the services, manufacturing and construction sectors grew by 14.2%, 18.7% and 41.7% respectively. In September, GDP grew 1.1%, below market expectations and slowing from previous months. The economy remains around 8.2% smaller than it was in February 2020. In September, construction saw the highest growth of 2.9% followed by services at 1%. The manufacturing sector slowed to 0.2% growth.

2. Inflation

The Annual Consumer Price Index (CPI) and CPIH 2 inflation were 0.7% and 0.9% respectively in October, up from 0.5% and 0.7% in September. CPI rose due to upward contributions from clothing, food and furnishings despite downward contributions from recreation and some transport sectors. Despite this, inflation remains at record lows and significantly below the 2% target. Annual growth in employee pay continue to strengthen as more employees returned to work from furlough. Growth in average total pay (including bonuses) increased by 1.3% in Q3, whilst growth in regular pay (excluding bonuses) increased by 1.9%. Bonuses fell by 10.7% in Q3. In real terms, total pay in Q3 grew by 0.5% (at a faster rate than inflation), whilst regular pay growth grew by 1.2%.

3. Monetary policy

In its November 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 increase the Bank's holdings of government bonds by £150 billion. This increase will take the total stock of the Bank of England's asset purchases to £895 billion and aims to help the UK economy recover from a second wave of the pandemic. Though negative interest rates have been ruled out in the short term, the Bank has projected modestly negative interest rates for Q4 2021 in its November MPC report.

4. Labour market

The UK employment rate for Q3 2020 was estimated at 75.3%, 0.8 percentage points down on the year, and 0.6 percentage points down on the previous quarter. This figure includes all workers furloughed as part of the government's job retention scheme, with the number of people on furlough decreasing between July and September. In the two weeks to 20 September 2020, 9% of the workforce were on partial or full furlough leave. The 1 As usual, the UK Economic update is based upon the latest official figures released by the Office for National Statistics.

2 Including housing costs.

Unemployment rate in Q3 was estimated at 4.8%, 0.9 percentage points higher than a year earlier and 0.7 percentage points higher than in the previous quarter. Redundancies in Q3 climbed to a record 314,000, a rise of 195,000 from the previous year. Estimates show that redundancies have been increasing since June 2020, with strong growth during the first two weeks of September. The Claimant Count (the number of people receiving jobseekers allowance and universal credit) decreased slightly in October to 2.6 million. This represents a monthly decrease of 1.1% and an increase of 112.4% or 1.4 million, since March 2020.

5. Trade

The total trade surplus, excluding non-monetary gold and other precious metals, decreased by £3.4 billion to £4.2 billion in Q3. Exports and imports both increased over the period by £13.8 billion and £17.3 billion respectively. This was largely due to the £2.4 billion widening in the trade in goods deficit whilst the trade in services surplus narrowed by £1 billion. Within goods, shipments rose mainly for machinery and transport equipment and material manufactures whilst the main drivers of change within services imports and exports were travel, other business services and intellectual property. The trade in goods deficit with the EU,

excluding non-monetary gold and other precious metals, grew by £5.9 billion to £21.2 billion in Q3. The deficit with non-EU countries narrowed by £3.4 billion to £3.7 billion in the same period.

6. Government finances

Public Sector New Borrowing excluding public sector banks (PSNB ex) was estimated at £22.3 billion in October 2020, £10.8 billion more than in October 2019. This marks the highest October borrowing and the sixth-highest borrowing

in any month since monthly records began in 1993. Borrowing in the first seven months of this Financial Year (April to October 2020) is estimated to have been £214.9 billion, £169.1 billion more than in the same period last year and the highest public sector borrowing in any April to October period since records began. Public sector net debt excluding public sector banks (PSND ex) rose by £276.3 billion in the first seven months of the financial year to reach £2.08 trillion at the end of October 2020, or around 100.8% of GDP.

Brexit Update

The United Kingdom finally completed its withdrawal from the European Union on December 31st, 2020.

Although UK membership of the EU ended on January 31st, 2020, the UK remained subject to EU law until the end of 2020 to give time to iron out the details of the long-term relationship between the two neighbours.

The security and trade agreement that will govern that relationship was still being negotiated as this report went to print.

Following a private meeting on December 9th between the President of the European Commission, Ursula von der Leyen, and UK Prime Minister Boris Johnson, both sides agreed to extend the deadline for talks for several days.

The extended negotiations have reduced fears that the UK could withdraw from the bloc without an agreement in place, an outcome which could have disrupted trade flows across the English Channel.

The main sticking point remains to what extent the UK will have to align with EU standards on issues such as workers' rights, environmental protection and state aid to ensure access to the European Common Market. The UK also wants to regain control of fishing rights in its territorial waters.

The two sides have already reached an agreement on goods moving in and out of Northern Ireland, another bone of contention. As Northern Ireland will remain subject to EU regulations (to preclude the need for border checks on its sensitive land border with the Irish Republic), the deal requires tariffs to be paid on goods entering Northern Ireland bound for the EU while animal and food products in Northern Ireland must continue to comply with EU standards.

In October, the UK signed a free trade agreement with Japan, the first to be signed with a major economy since it left the EU in January. The deal essentially mirrors the Economic Partnership Agreement signed between the European Union and Japan in 2019, with chapters on agriculture, financial services, and investment.

Negotiations with Australia, New Zealand, and the United States, among others, are continuing.



Cámara
Chileno **Británica**

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