

# Monthly Economic Update

August 30, 2021



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## NEWS IN CHILE

In August, President Sebastián Piñera announced that the government will continue to pay the Emergency Family Income until the end of the year, benefitting around 15.8 million individuals. The government hopes the measure will drain support for a fourth bill in Congress to allow savers to draw down pension savings. However, the extension will add another US\$7.0 billion to government spending which was already predicted to rise 27.1% this year. As a result, the government deficit is now expected to reach 7.1%, close to last year's record deficit.

To finance the additional spending, the government withdrew US\$1.0 billion from the Economic and Social Stabilization Fund in both July and August (bringing to US\$5.8 billion the amount withdrawn so far this year) and issued bonds worth US\$5.8 billion (for a total of US\$21.9 billion issued this year). Government debt is now expected to reach 34.1% of GDP this year, up from around 20% five years earlier.

Concerned by the effectiveness of vaccines against the virulent Delta variant of the Covid-19 virus, the government began administering booster jabs of the AstraZeneca vaccine to the elderly from August 10<sup>th</sup>. The aim is to vaccinate two million over-55-year-olds during the next four weeks. Although only 322 cases of the Delta variant have been detected in Chile so far, there are signs of community transmission, raising the risks for the vulnerable and the 6.8 million people who have not yet been fully vaccinated.

With vaccination rates rising above 70% and infection rates falling below 1,000 daily for the first time since May 2020, the government has continued to relax social-distancing rules, moving most of Chile to the lightest level of restrictions. From August 28<sup>th</sup>, up to forty vaccinated people will be able to meet in enclosed spaces (up from 20 previously), while in Santiago the nightly curfew has been put back two hours to midnight.

Senator Yasna Provoste easily won the unofficial primary held on August 21<sup>st</sup> to choose the candidate for the centre-left Unidad Constituyente bloc (later renamed Nuevo Pacto Social). However, without electoral broadcasts and with less media coverage, the election attracted just 5% of the votes cast in the official primaries held in July. The latest CADEM poll showed Provoste trailing seven points behind frontrunners Gabriel Boric and Sebastián Sichel. They will be joined by four more candidates on the ballot in November: right-winger Jose Antonio Kast, Marco Enriquez-Ominami for the Progressive Party, Franco Parisi from the People's Party and Ricardo Artés from the far-left Patriotic Union.

### Unidad Constituyente

Yasna Provoste	Christian Democrats
91,789	60.8%
Paula Narváez	Socialists
40,161	26.6%
Carlos Maldonado	Radical Social Democrats
18,921	12.5%
<b>Total</b>	<b>150,881</b>

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## ECONOMIC STATISTICS

The Chilean economy has returned to pre-pandemic levels of activity after expanding by 18.1% in the second quarter of the year. Reflecting last year's very low base of comparison, growth has been driven by retail activity which rose by 42.6% and a 36.3% recovery in personal services. Analysts surveyed by the Central Bank in early August predicted growth of 12.6% in the third quarter and annual growth of 8.5% in 2021, close to the Central Bank's most recent forecast of 8.5-9.5%.

Inflation has continued to build with the government's Consumer Price Index rising 0.8% in July, bringing annual inflation to 4.5%, its highest level in almost five years. The increase was driven by rising energy and transport prices (as oil prices continued to climb). Concern about inflation has intensified. Traders surveyed by the Central Bank in late August expected annual inflation to reach 3.5% in two years, above the Bank's medium-term 3.0% target.

On August 31<sup>st</sup>, the board of the Central Bank voted unanimously to raise its benchmark interest rate by 75 basis points to 1.50%, citing the risk of a sustained bout of inflation driven by strong domestic demand, high energy prices, the weak Chilean peso and disrupted global supply chains. Although many expected the Bank to accelerate the withdrawal of its monetary stimulus, the move was ahead of market forecasts for a second 25bp hike.

Confidence among business executives has continued to build amidst the easing of social-distancing rules and the sharp recovery in economic activity. The Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and the ICARE business organization, reached 57.64 points in July, up three points from June and its highest level in eight years, reflecting increased optimism among retail and manufacturing executives. Only the construction sector remains in negative territory.

Consumer confidence has also strengthened with GfK's Economic Perceptions Index reaching 37.4 points in July, its highest level since the start of the 2019 social unrest and up from 24.9 points three months earlier. Consumers were more optimistic about their personal situation, the state of the economy and the outlook for Chile over the next five years.

The unemployment rate fell to 8.9% in the three months to July, its lowest level since the start of the pandemic, and down from 13.1% twelve months earlier. After stalling in the second quarter, the number of people in work has begun to rise again, reaching 8.1 million in the quarter, but there are still almost 7.0 million people classed as inactive (and therefore not looking for work), up more than a fifth since the start of last year.

Chile's foreign trade has continued to soar driven by high commodity prices and strong domestic demand. Exports reached a record US\$7.9 billion in July, reflecting high copper prices, while imports reached an eight-year high of US\$7.3 billion, driven by consumer goods and energy products. As a result, Chile's trade surplus fell to just US\$604 million, its lowest level since the start of the pandemic.

The Chilean Peso has depreciated sharply against the US dollar over the last five months, reaching close to CLP 800/dollar by late August, its lowest level in ten months. The sell-off reflects the decline in the price of copper since May, rising expectations of an easing of the US stimulus as well as increased political risk in Chile following the formation of the Constitutional Convention and ahead of next November's presidential vote.

International copper prices fell briefly below US\$4.00/lb in August for the first time in six months on worries that China and the US could rein in fiscal and monetary policies as inflation rebounds and the rise in Covid-19 cases globally. But prices soon recovered to recent levels around US\$4.20/lb on firm physical demand.

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