

Monthly Economic Update

January 31, 2022



Cámara
Chileno Británica

100
años
1917-2017

Patrons 2022



Sponsors 2022



NEWS IN CHILE

As he prepares to take office in March, President-elect Gabriel Boric has maintained the more moderate stance he adopted during the second half of the election campaign, calming markets. Speaking to business leaders in January, he promised that his reform program would be implemented gradually and with an eye to stabilizing Chile's public finances. This commitment was reaffirmed by the appointment of the respected economist and Central Bank chairman Mario Marcel as his finance minister who in his first interview ruled out further pension withdrawals.

On January 26th, lawmakers approved legislation to create a Universal Guaranteed Pension which will pay up to CLP 185,000 (US\$229) a month to the over-65s (unless they belong to the 10% richest decile or their private pension exceeds CLP 1 million), benefiting almost 2.5 million people. The measure, which is expected to cost just under 1% of GDP, will be partially financed by the extension of Value Added Tax to services, a new tax on luxury goods and the elimination of some tax breaks.

Lawmakers have approved a wide-ranging reform of Chile's water code more than a decade since it was first

presented to Congress. The legislation grants the authorities greater powers to deal with the growing crisis over water supplies, prioritizing human consumption over other uses and limiting the length of new water rights.

On January 26th, the board of the Central Bank voted unanimously to increase the monetary policy interest rate by a record 150 basis points to 5.50%, ahead of market expectations and up from 0.50% six months earlier, as it tries to curb rapidly rising inflation.

An appeals court has suspended government plans to award contracts to two private companies – Chinese electric vehicle maker BYD and local mining firm Servicios y Operaciones Mineras del Norte SA – allowing them to produce up to 80,000 tonnes of lithium metal each following an international tender. Lawmakers have also presented a bill to end the process after it was questioned by the president-elect who has proposed the creation of a state company to develop Chile's significant lithium resources.

The number of people infected with Covid-19 has surged from less than 2,000 per day in December to almost 30,000 per day by late January following the appearance in Chile of

the highly infectious Omicron variant and an increase in testing rates. The dramatic rise has increased pressure on healthcare services but with almost 90% of the population having received two doses of the vaccines (and more than two-thirds having received a booster jab), the number of deaths has not risen significantly and there remains spare capacity in intensive care units.

ECONOMIC DATA

The economy has continued to grow at double-digit rates as it recovers from the slump caused by the pandemic. Economic activity expanded by 14.3% in November, compared to a year ago, according to preliminary data from the Central Bank, following growth of 15.0% in October and 17.2% in the third quarter of 2021. Services and, to a lesser extent, retail have continued to drive growth, which has exceeded market expectations, boosted by the relaxation of social-distancing rules, government support to households, and the pensions withdrawals.

Activity is expected to slow over the coming quarters. Analysts surveyed by the Central Bank in January predicted the economy to grow by 7.8% in the

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first quarter of this year, 2.0% during the whole of 2022 and 1.7% in 2023, similar to the Bank's own forecasts of 1.5-2.5% (2022) and 0.0-1.0% (2023).

Unemployment fell to 7.2% in the three months to December, down from 10.3% a year earlier and its lowest level since the start of the pandemic. The number of people in work grew by more than 600,000 (to 8.7 million) during the second half of 2021 as restrictions were relaxed. However, the figure masks the huge rise in the number of people classed as inactive of whom there are almost one million more compared to March 2020.

Business confidence has slumped sharply reflecting concern over the incoming government's policies, the rise in inflation and expectations of slow growth over the next two years. The Monthly Business Confidence Indicator, produced by the ICARE business organization and Adolfo Ibáñez University, has moved back into negative territory, reaching 46.56 points in December, its lowest level since August 2020. Confidence among construction executives has fallen more than 20 points in just three months.

Consumer confidence has stabilized with GfK's Economic Perceptions Index reaching 37.6 points in December, its highest level since August, largely due to improved confidence in the economic outlook following the election.

Inflation has continued to climb with the government's Consumer Price Index rising by 0.8% in December, bringing annual inflation to 7.2%, its highest level in fourteen years. The fall in the value of the peso, robust consumer demand and rising energy prices have continued to drive prices. Discounting volatile energy and food prices, core inflation rose by 6.4%, compared to 2.6% twelve months earlier. Analysts surveyed by the Central Bank in January predicted

that the index would end 2022 at 4.7%, declining to 3.7% by the end of 2023.

Share prices have recovered sharply as investor concerns about the incoming administration have declined. The IPSA index of the largest companies listed on the Santiago Stock Exchange rallied to over 4,600 points by mid-January, up almost 14% from its low in the wake of the December vote. However, prices have fallen again amid a global sell-off in stocks on tighter monetary policy and growing tensions in Ukraine.

The Chilean peso appreciated sharply against the US dollar, moving from record levels in December to below CLP 800/CLP by mid-January on expectations that the president-elect would name Marcel as his first finance minister.

Chile's foreign trade has continued to boom driven by strong commodity prices and robust domestic demand. Exports reached US\$25.2 billion in the final three months of 2021, up 23.3% from a year earlier, driven by the high copper prices, while imports rose 59% to US\$24.2 billion on record imports of consumer goods. As a result, Chile's trade surplus narrowed to US\$1.0 billion, down 80% from a year ago.

Copper prices have risen, moving above US\$4.40/lb by mid-January for the first time in several weeks, driven by interest rate cuts in China and low stock levels. However, the Chilean Copper Commission forecast in January that copper prices are entering a downward cycle, averaging US\$3.95/lb this year and US\$3.80/lb in 2023, amid a tightening of monetary policy and slower growth in developed economies.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes

Teléfono: (56) 22370 4106

info@britcham.cl / www.britcham.cl

Economic Committee:

Peter Lynch, Senior Manager Audit South America, BHP Chile

Jorge Selaive, Chief Economist, Scotiabank Chile

Gareth Taylor, First Secretary – Economics and Trade, British Embassy

Guillermo Tagle, President, Credicorp Capital

Leslie Hemery, Vice President, British Chilean Chamber of Commerce

Tom Azzopardi, Journalist

Greg Holland, General Manager, British Chilean Chamber of Commerce