CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Fourth Quarter 2021

4th Edition 2021 — Produced since 1922

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Dear reader

The second round of presidential elections on the 19th of December resulted in a convincing win for left wing candidate Gabriel Boric, who is promising to make radical changes to Chile's economic and social model as part of plans to reduce inequality. Boric, at 35 years old, will be the youngest person ever to lead Chile as president, but we won't know the range and scale of his ambition until he assumes his role on March 11th next year.

Meanwhile, the ready availability of cash in the economy, thanks to the pension drawdowns and Covid related government handouts, has resulted in an estimated record growth for 2021 of 12%. Not surprisingly this, along with higher energy prices, has pushed inflation way above the Central Bank's reference level of 3%, triggering a jump in the interest rate to 4%, its highest level in ten years.

Clearly things will have to slow down during 2022, as the cash dries up and spending falls back to, or below, pre-pandemic levels. There remains significant political and economic uncertainty, and the Chilean peso is ending the year down at record lows against the US dollar, despite the copper price holding up above US$4/lb.

Here in the Chamber, we are reflecting on an interesting and event packed 2021 and planning our activities and focus for 2022. We wish all our Patrons, Sponsors, and members a healthy and successful new year.

Greg Holland

General Manager

British Chilean Chamber of Commerce
Santiago, Chile

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Key points

- Gabriel Boric won the run-off election on December 19th to become Chile's next president. He will have to govern with a divided legislature; while left-wing parties have a majority in the Chamber of Deputies, the Senate is finely balanced between left and right.

- The Chilean economy is estimated to have grown by a record 12% in 2021, driven by robust private consumption. However, growth is set to slow significantly in 2022 and 2023 as the government and households cut spending and businesses freeze investment, the Central Bank has warned.

- Strong domestic demand, high energy prices and a weaker Chilean peso pushed inflation up to around 7.0% in late 2021, a level it is expected to maintain during the coming months before declining towards 5.0% by the end of 2022.

- To control soaring consumer prices, the Central Bank has ramped up interest rates by 250 basis points during the fourth quarter to 4.0%, their highest level in a decade, and warned of further hikes in the coming months.

- After growing by almost a third in 2021, public spending is set to fall by around a fifth in 2022 under budget legislation approved in November, reducing the government deficit from 8.1% to an estimated 2.3% of GDP.

- The unemployment rate fell to 8.1% in October as people return to work in the wake of the pandemic. But employers are struggling to fill vacancies as hundreds of thousands of women, young people and older workers stay at home.

- Amid booming retail sales, imports of consumer goods have doubled so far this year to US$10.0 billion, helping to push Chile's current account from a rare surplus in 2020 into a significant deficit in 2021.

- Copper prices spiked close to record levels in October amid a squeeze on supplies and hopes of increased investment in renewables but have gradually declined since on concerns over Chinese economic growth and rising global inflation.

- Despite high copper prices, the Chilean peso has continued to decline against the US, falling to record levels around CLP 870/dollar following Boric's election victory.

- Long-term interest rates climbed around 300 basis points in 2021 amid increased political uncertainty and as pensions withdrawals forced institutional investors to liquidate assets. Legislation allowing a fourth withdrawal was narrowly defeated in December, but backers have promised to present the bill again.

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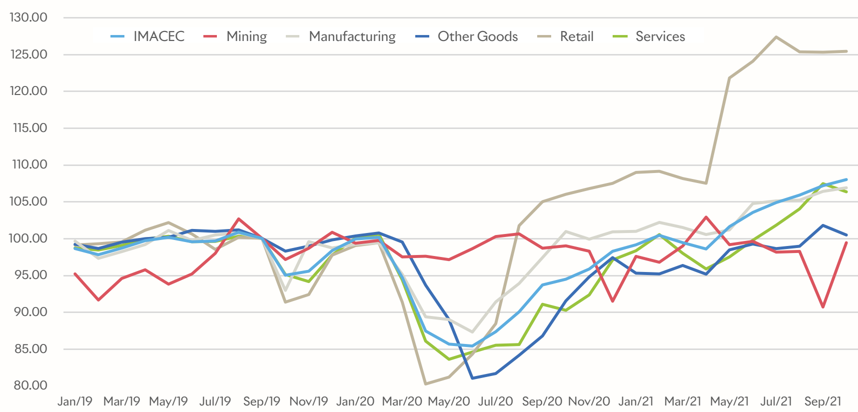
Domestic Economic Performance

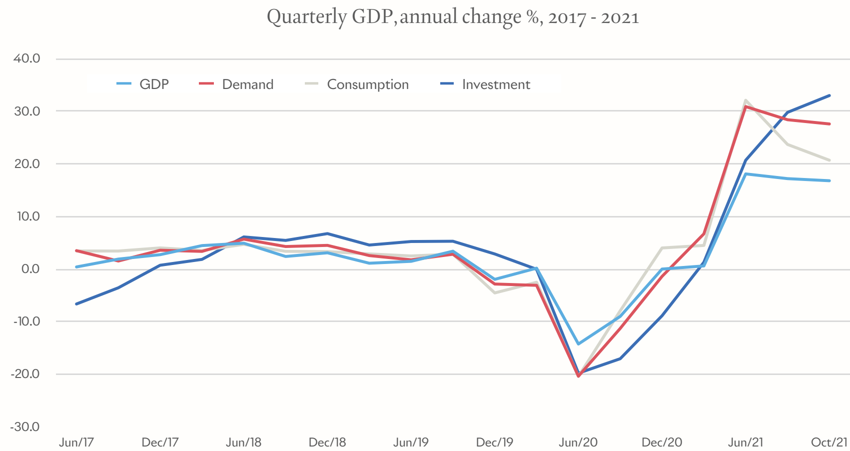
1

The Chilean economy has continued to recover rapidly from the slump in activity caused by the Covid-19 outbreak in early 2020. Activity expanded by an annual 17.2% in the third quarter (and by 4.9% from the second quarter) as the withdrawal of many pandemic-related restrictions, including the curfew and limits on international travel, contributed to significant recoveries in services and construction. Boosted by pensions withdrawals and extended government support to households, retail sales have continued to boom.

IMACEC, September 2019 = 100, 2019 - 2021



Source: Central Bank of Chile



Source: Central Bank of Chile

Private consumption has been the main driver of economic growth this year, reflecting US$70 billion worth of additional household liquidity provided by pensions withdrawals and government transfers since 2020. However, investment has also recovered rapidly, rising almost 30% in the year to September, reflecting the reactivation of several major investment projects, especially in the mining sector. Imports of capital goods rose almost 40% during the first eleven months of the year.

However, the boom is not expected to last. Private consumption and retail sales are expected to slow significantly in 2022 following the withdrawal of the Emergency Family Income and the rejection of a fourth pensions withdrawal bill in December. Although the Central Bank estimates there is an additional US$19 billion (compared to January 2020) still sitting in current accounts, it is not clear how quickly households will spend these resources.

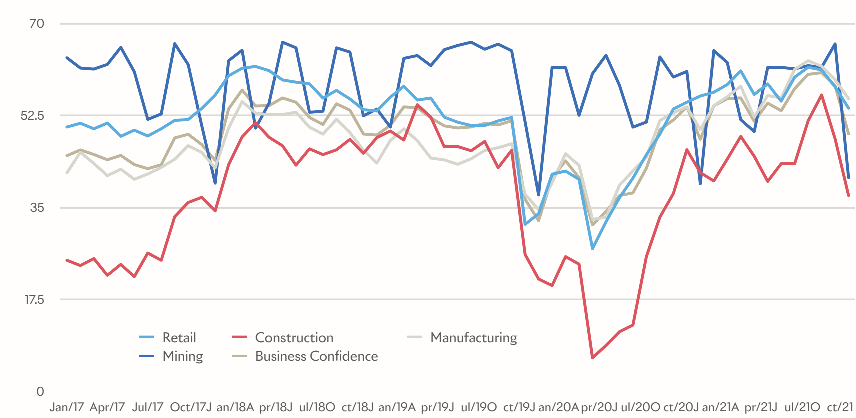
In addition, investment is expected to slump as companies halt projects in the face of higher borrowing costs (See 1.7 Financial Markets) and increased economic and political uncertainty. A survey of executives by the Central Bank in October found that two-thirds of companies were not planning any investments over the coming year, while spending on major projects is expected to fall 17% in 2022.

Business Confidence

The expected decline in investment mirrors the fall in business confidence in recent months. The Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and ICARE, slipped to 49.04 points in November, moving back into negative territory for the first time in almost a year. The declines in confidence among executives in the construction and mining industries were particularly steep.

Executives surveyed by the Central Bank in October found that while most had seen a significant improvement in sales this year, they were concerned by rising costs, labour shortages, and the uncertain political situation ahead of the presidential elections and the debate over a new constitution.

Business Confidence, 2017 - 2021



Source: Adolfo Ibáñez University, ICARE

Global Cooling

Rising inflation, the appearance of a new variant of the Coronavirus and doubts about future Chinese growth have changed the outlook for the world economy in recent months with important implications for Chile.

In its latest Monetary Policy Report, the Central Bank said it expected the economies of Chile's trade partners to grow by 3.6% in 2022, down from 6.0% in 2021 and a previous forecast in September of 4.0%.

The main threat to growth has been the surge in prices since the middle of the year, driven by shortages of many products as the global economy bounced back from the pandemic. Energy prices have soared, especially oil and gas, as production has struggled to keep up with the recovery in demand. As a result, annual inflation has soared to over 5.0% in many developed countries, including Germany, the UK, and the US, for the first time in several decades.

In response, central banks in many countries have started to withdraw the huge stimulus packages introduced during the pandemic and, in some cases, including the UK, hiking interest rates. Critically, the US Federal Reserve announced in December that it will begin reducing its asset-buying program ahead of a possible rate increase in 2022, after declaring that inflation was more persistent than previously thought.

Another threat is the resurgence in Covid-19 infections in many regions, especially in Europe where several countries, including Germany, the Netherlands, and the UK, have begun reintroducing social-distancing measures. This trend has accelerated with the appearance of the Omicron variant in late November. Although its strength is unclear, it appears even more virulent than the Delta variant and, since being detected in South Africa, has spread rapidly around the world.

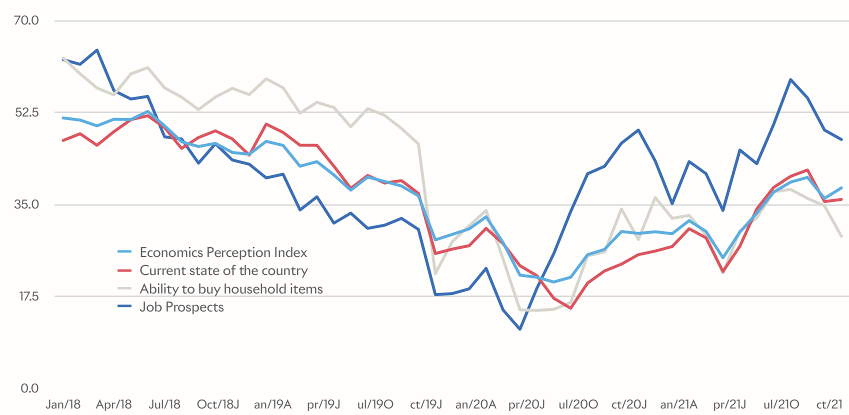
The move is likely to slow economic growth in Europe and other regions and could create more logistical problems for global trade in 2022. Oil prices have already retreated by as much as US$10 a barrel from recent highs on expectations that the rise in infections and the reaction by individuals and governments could reduce fuel demand over the coming months.

But perhaps the biggest risk for Chile is the growing doubts over the strength of the Chinese economy, Chile's largest trading partner and the main market for most of its exports, from copper to wines. The world's second largest economy grew by 4.9% in the third quarter, below market expectations and its slowest rate in a year. The slowdown follows government efforts this year to clamp down on Covid-19 outbreaks, clean up polluting industries and combat soaring commodity prices. In addition, investors have been spooked by the difficulties at China Evergrande Group, the country's largest property developer, to repay debts totalling more than US$300 billion which are sending shockwaves through China's giant property sector.

Consumer Confidence

Consumer confidence has also weakened in recent weeks. After reaching a two-year high in September, GfK's Economics Perception Index slipped to 36.2 points in October, before rising to 38.2 points in November. While confidence in the current state of the country has recovered, but consumers' confidence in the jobs market and their own economic situation has fallen.

Economic Perceptions Index, 2018-2021



Source: GfK

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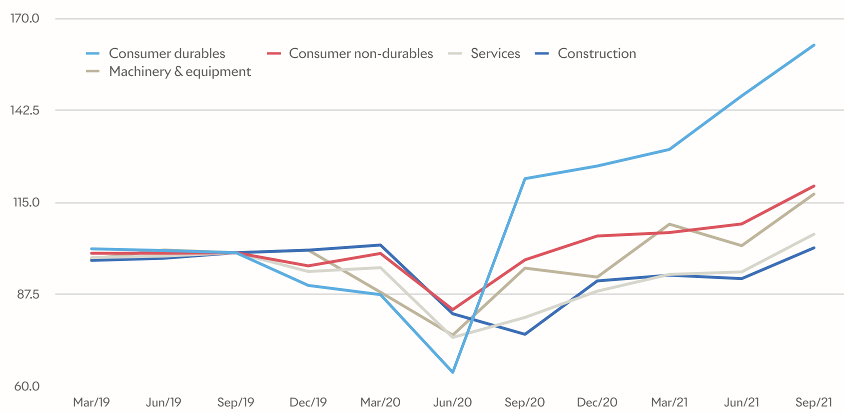
Retail

The retail sector has continued to drive economic growth, expanding by 29% in the third quarter. In particular, sales of consumer durables have soared as households spent their pension withdrawals and government transfers, rising to 60% above pre-pandemic levels, while annual car sales are expected to exceed 400,000 for the first time since 2018. This dynamism is expected to continue into the final months of the year with the government's retail activity index growing by 22.7% in the year to October, led by sales of clothing and footwear, electronic devices, and food.

Internal demand by sector, Q3 2019 = 100, 2019- 2021

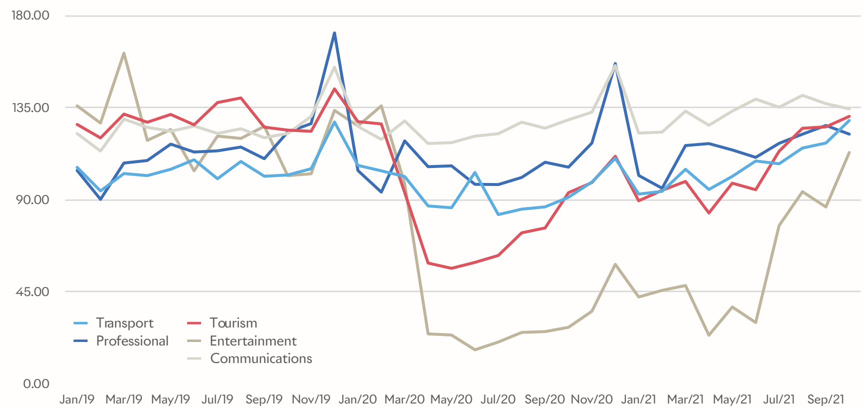


Source: Central Bank of Chile

Services

As social-distancing measures have been relaxed, services (which account for half of Chilean GDP) have also recovered, expanding by 19.1% in the third quarter. Growth has been driven by business services, entertainment, and healthcare, among others. Hospitality sales rose by almost 30% in the year to October, driven by a sharp increase in restaurant and food delivery sales, while sales of entertainment and artistic services grew more than fourfold, led by spending at casinos, visits to sports matches and artistic events

Service sales by sector, Index 2014 = 100, 2019-2021



Source: Central Bank of Chile

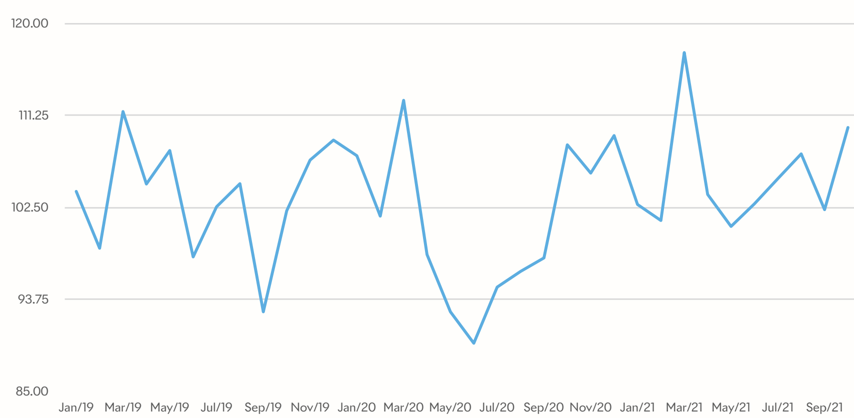
Construction

Construction is another sector to have benefited significantly by the relaxation of pandemic-related restrictions. Investment in construction and other works grew by 34.4% in the third quarter, as large building projects and engineering works in the mining sector were restarted. The Chilean Chamber of Construction's IMACON index grew by 25% in the year to August, reflecting booming sales of building materials, a 52% increase in the number of people working in the sector and a rise in residential construction permits. However, the sharp rise in mortgage interest rates since July (See 1.7 Financial Markets) is expected to hit house sales over the coming months.

Manufacturing

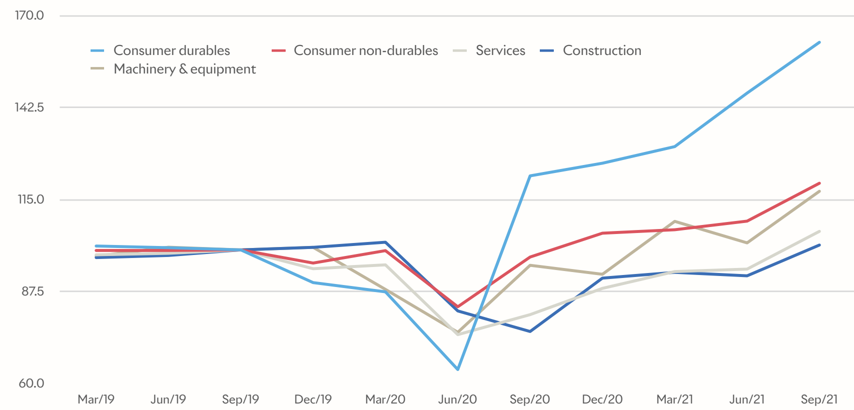
Manufacturing activity grew 1.5% in the twelve months to October, or by 0.3% from the previous month, driven by increased production of methanol, paper products and wine.

Manufacturing Activity, 2019 - 2021



Source: Central Bank of Chile

Internal demand by sector, Q3 2019 = 100, 2019- 2021



Source: Central Bank of Chile

The Central Bank has accelerated the withdrawal of its monetary stimulus in a bid to contain soaring inflation. On December 14th, the board of the Central Bank voted unanimously to increase its benchmark interest rate by 125 basis points, matching the record hike implemented in October and lifting the rate to 4.00%, its highest level in seven years.

In its statement, the Bank said it expected to continue increasing interest rates over the coming months in order to bring inflation expectations back in line with its medium-term target of 3%. Analysts surveyed by the Bank ahead of the December meeting predicted that the Bank would continue hiking the interest rate to reach 5.00% by mid-2022, where it would stay for the following 18 months.

On October 22nd, President Sebastián Piñera said that he had asked the Central Bank's president Mario Marcel to remain in the post for another five years until the end of 2026, highlighting his contribution to macroeconomic policy and Chile's economic development. In November, the Senate confirmed former Economy Minister Luis Felipe Cespedes as the Bank's newest director, replacing current vice-president Joaquín Vial who has completed ten years on the board.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After rising by almost a third in 2021, public spending is set to fall sharply as government support provided to households and businesses during the pandemic is withdrawn. Under budget legislation approved by Congress on November 29th, government expenditure will reach CLP 60.7 trillion (US$72.2 billion) in 2022, a 3.7% increase from the previous budget but a drop of 22.5% from actual spending in 2021 after the government expanded the Emergency Family Income to cover approximately 15 million Chileans. As result, public spending is expected to fall to less than 24% of GDP, down from over 30% in 2021.

Public revenues are expected to fall 7.0% to CLP 53.6 trillion (US$63.1 billion) in 2022, reflecting the slowdown in economic activity. As a result, the government expects the public deficit to shrink to approximately 2.8% of GDP, down from a record 8.3% in 2021.

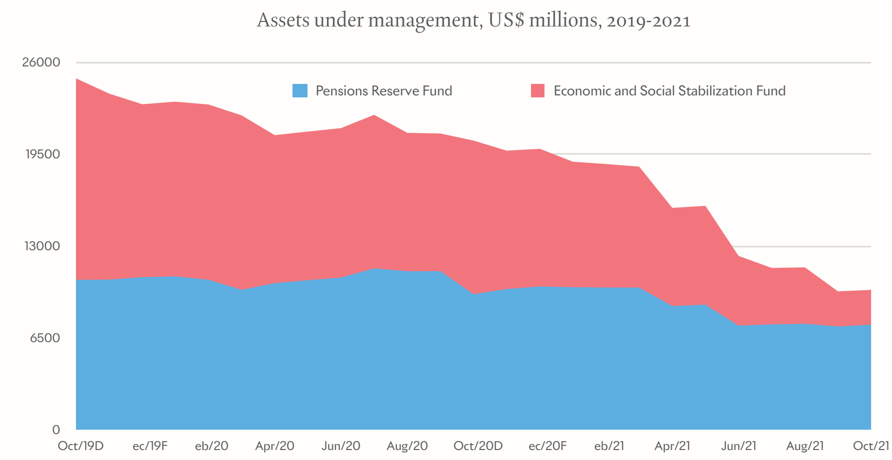
To pay for the sharp rise in public spending during 2021, the government has continued to raise debt and draw down resources from Chile's sovereign wealth funds.

In September, Chile issued social bonds worth US$2.1 billion denominated in Euros (Euro 918 million) and US dollars (for US$1.0 billion), bringing to US$24.2 billion the amount of debt emitted during the year. As a result, Chile's public debt was expected to reach CLP 82.5 trillion (US$97.4 billion) by the end of 2021, equivalent to 34.9% of GDP.

Despite increased concern about Chile's growing public debt and the direction of politics in the country, the 30-year dollar-denominated bonds achieved a spread of just 158 points over US treasury bonds.

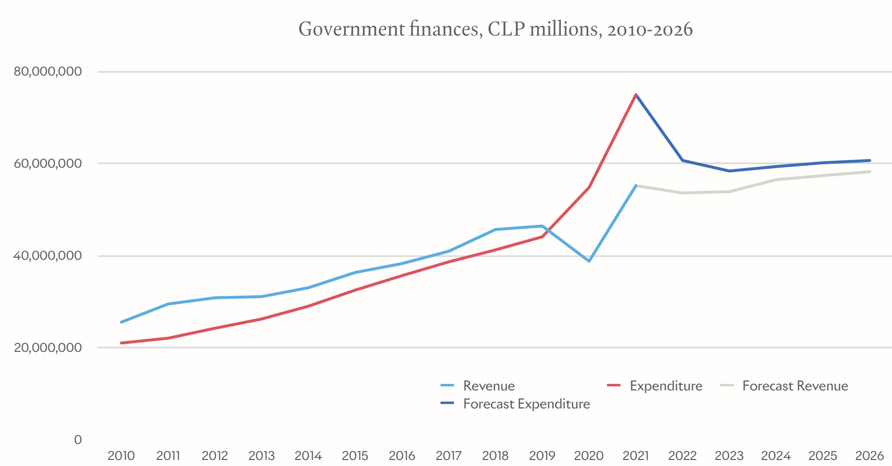
Sovereign Wealth Funds

In September, the government withdrew another US$447 million from the Economic and Social Stabilization Fund, bringing to US$6.2 billion the amount withdrawn from the fund during 2021. By the end of October, Chile's sovereign wealth funds held assets worth a total of US$9.9 billion, down from almost US$25.0 billion two years earlier.



By implementing a sharp reduction in 2022, the government hopes to put Chile's public expenditure on a more sustainable path, with debt rising to approximately CLP 113.1 trillion (US$133.1 billion) or 38.6% GDP by 2026, up from 21.01% a decade earlier. Economists had warned that without a cut, public debt could hit 50% of GDP by the middle of the decade.

However, it is not clear to what extent the new administration will adhere to these spending plans.



Credit Ratings

The world's leading ratings agencies have left Chile's sovereign credit ratings unchanged despite the sharp increase in government debt over the last year. In October, Fitch Ratings reaffirmed its A-rating with a stable outlook, predicting that Chile's economic framework would survive the pressure to increase public spending and that the country's new constitution will not affect the autonomy of its Central Bank.

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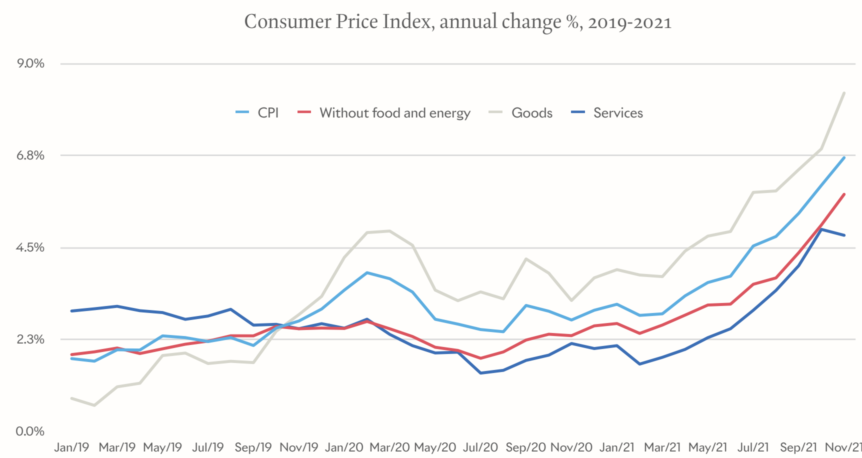


Source: National Statistics Institute

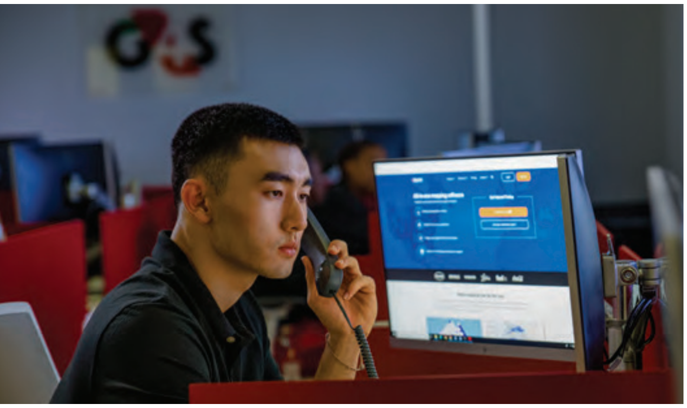
Inflation has accelerated in the final months of the year with the government's Consumer Price Index rising by 0.5% in November (following increases of 1.2% and 1.3% in September and October, respectively), pushing annual inflation to 6.7%, up from 4.8% three months earlier and its highest level in a decade. Inflation is expected to end the year at around 7.0%.

The rise in prices has been driven to largely by goods prices which rose by more than 8.0% in the year to November. Prices for services rose by 4.8%, slowing slightly from October. Among product categories, the biggest increases were in clothing and footwear and recreation and culture (especially package holidays and video consoles).

Higher energy prices combined with the fall in the value of the Chilean peso explain much of the rise. Petrol prices have risen almost a third since the start of the year, exceeding CLP 1,000/litre (US$1.19) in petrol stations in Santiago for the first time ever. Discounting often volatile energy and food prices, inflation rose by 5.8% in the twelve months to November.

As higher prices feed into long-term contracts and indexed tariffs, inflation is expected to stay around current levels well into 2022 before declining. Analysts surveyed by the Central Bank in early December predicted that the government index will end 2022 at 4.5%, below the Bank's latest forecast of 5.0%.

Popular concern about inflation has grown. In October, GfK's Economic Perceptions Index found that almost three-quarters of consumers expect prices to rise over the next 12 months, the highest proportion since 2008.



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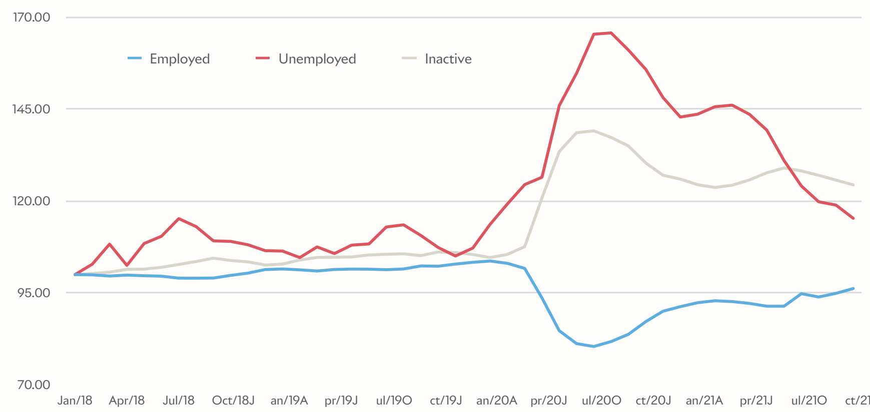
Labour market, January 2018 = 100, 2018 - 2021



Source: National Institute of Statistics

Conditions in Chile's labour market continued to improve as restrictions on movement were relaxed. The unemployment rate averaged 8.1% in the three months to October, down from 10.0% six months earlier and 11.6% in October 2020, reflecting the rise in the number of people in work to 8.5 million, its highest level since the start of the pandemic. The number of people in formal employment has now reached pre-pandemic levels and the numbers of self-employed and in informal employment have also continued to recover.

The lag in the recovery of the labour market is not due to a lack of demand for workers. The number of job openings has risen sharply since April this year while the number of applications has fallen. Employers surveyed by the Central Bank have reported difficulties filling posts, especially for less qualified roles.

This mirrors the high number of working-age people not participating in the labour force. Although the number of people classed as inactive has fallen by around a million since mid-2020 (to 6.8 million in October), there are still almost a million more than before the pandemic. They are largely older workers, young people, and women, who may be unable to work because not all schools have fully reopened.

As employers struggle to fill posts, wages have continued to climb rapidly. The government's Remunerations Index rose by 5.9% in the twelve months to October, its highest rate for almost five years. However, adjusted for inflation, the index fell by 0.1% in the year to October, the first decline since May 2020.

In early December, President Sebastián Piñera announced that the government would extend its job subsidy program until the end of March 2022. Around 400,000 workers have received the benefit, known as IFE Laboral, which provides CLP 200,000 (US$238) a month for each new worker employed (or CLP 250,000 (US$298) if they are female, disabled, aged under 24 or more than 55 years old). The payment was originally due to expire in December 2021.

Tackling Immigration

A key challenge facing the new government will be how it deals with the huge rise in the number of immigrants arriving in Chile.

Chile's foreign-born population has expanded rapidly over the last decade, from less than 500,000 in 2010 to almost 1.5 million in 2019, swelled by huge numbers of migrants seeking a better life in one of Latin America's most prosperous economies. The exodus to Chile has been one of the fastest and largest (relative to the size of the host population) anywhere in the world in recent decades.

In response, the current government sought to tighten up Chile's antiquated and lax migration laws, banning visitors on tourist visas from applying for residence and requiring those who want to work here to apply from their home country. Special dispensations were offered to Venezuelans as more than five million people escaped the country's collapsing economy, but not to arrivals from impoverished Haiti. More than a thousand immigrants who entered Chile illegally or committed crimes in the country have been deported.

However, the new rules have failed to halt the flow of arrivals even after authorities closed Chile's borders to contain Covid-19. While the numbers arriving by air or bus have fallen, the numbers arriving illegally through Chile's extensive borders with Bolivia and Peru have grown, rising from 16,500 in 2020 to over 25,000 during 2021. Around 19 have died trying to make the perilous crossing in recent months.

Meanwhile, following the rise in unemployment during the pandemic, more immigrants have found themselves begging on the streets and living in shanty towns, especially in northern cities like Antofagasta and Iquique, increasing tensions with local people.

During the elections, migration was a key issue, especially in the north of the country, with some candidates promising tough new policies to stop the flow. However, with many companies struggling to find all the workers they need, some business leaders have called for immigration rules to be made more flexible. Farmers, especially, have struggled without the help of temporary visitors from Bolivia and Peru to gather the harvest.

On the campaign trail, President-elect Gabriel Boric said he would provide greater support for new immigrants, including access to housing, while clamping down on illegal immigration, especially the people traffickers who facilitate it. His programme also promises to improve the procedures by which those who have arrived illegally can legalize their presence in Chile.

IPSA, 2020 -2021

Source: Santiago Stock Exchange

Chile's financial markets have grown volatile in recent months as investors react to political developments, including the presidential and legislative elections, the effort to impeach President Piñera and the debate over pension withdrawals.

Stock Market

On October 19th, the IPSA index of the thirty largest companies listed on the Santiago Stock Exchange closed briefly below 4,000 points for the first time in almost twelve months in the wake of violent protests to mark the start of the 2019 social unrest.

Share prices subsequently recovered with the index rising briefly above 4,700 points after the results of legislative elections suggested that the new government will have to negotiate any reforms with lawmakers. However, it sank again after early polls suggested that Gabriel Boric would beat José Antonio Kast in the second round of voting on December 19th.

The index suffered another blow on November 27th when shares in LATAM Airlines fell as much as 80% after the company revealed that its restructuring deal with creditors would dilute the participation of existing shareholders to just 0.1%.

Following Gabriel Boric's victory in the presidential elections, the IPSA fell again on December 21st, losing 6.2% in one day and closing just above 4,000 points.

10 -year interest rates, Chile vs comparable basket, 2016-2021

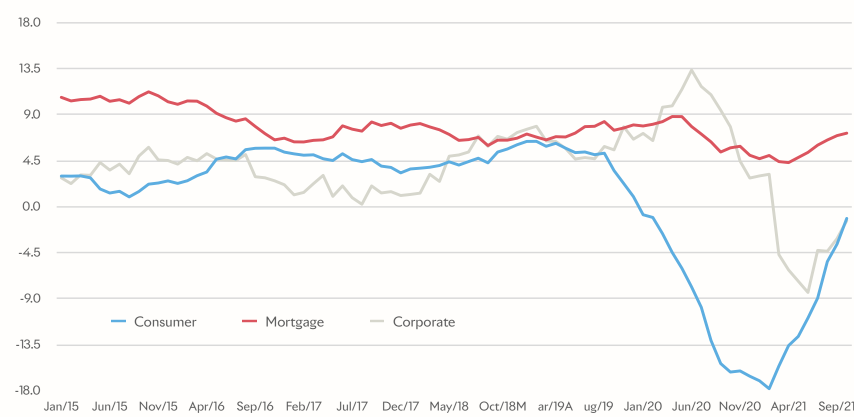
Source: Central Bank of Chile

Bond markets

Interest rates on long-term debt instruments have soared this year amid increased political uncertainty and as successive pension withdrawals reduced demand from institutional investors, such as pension fund administrators and insurance companies. In October, rates on 10-year Chilean peso-denominated instruments rose to 7.0%, their highest level in over a decade. Although rates have since declined in the wake of the legislative elections and the rejection of the fourth withdrawal bill in December, they remain around 300 basis points higher than where they were at the start of the year.

Faced with the higher financing costs and the lack of appetite for investments among companies, new corporate bond issues have fallen sharply. Issues to the end of November totalled just CLP 1.1 trillion (US$1.3 billion), down from CLP 3.6 trillion (US$4.2 billion) in the whole of 2020. Larger companies which have needed to raise funds have turned increasingly to international markets, such as Colbún's US$600 million green bond to finance the construction of Chile's largest wind farm.

Bank lending, annual change %, 2015 - 2021



Source: Financial Markets Commission

Banking

The slowdown in bank lending has eased significantly in recent months as corporate and consumer lending recover. By the end of October, outstanding loans reached CLP 210.2 trillion (US$250.2 billion), up 1.5% from twelve months earlier, compared to the 4.7% decline recorded in the year to June.

Corporate lending fell 1.4% in the year to October to CLP 124.5 trillion (US$147.5 billion), compared a decline of 8.4% in the year to June. Consumer lending fell by 1.1% to CLP 24.5 trillion (US$29.1 billion), but that compares to the 17.8% decline recorded in the twelve months to February this year. Only mortgage lending has held up through the pandemic, rising by 7.2% in the year to October to CLP 66.4 trillion (US$79.1 billion).

The growth in mortgage lending comes despite the sharp rise in mortgage interest rates in 2021 from less than 2% in February to almost 5% by November as pensions withdrawals reduced demand for long-term investments among institutional investors. Banks have also cut the maximum length of mortgage loans from 30 years to 15 years.

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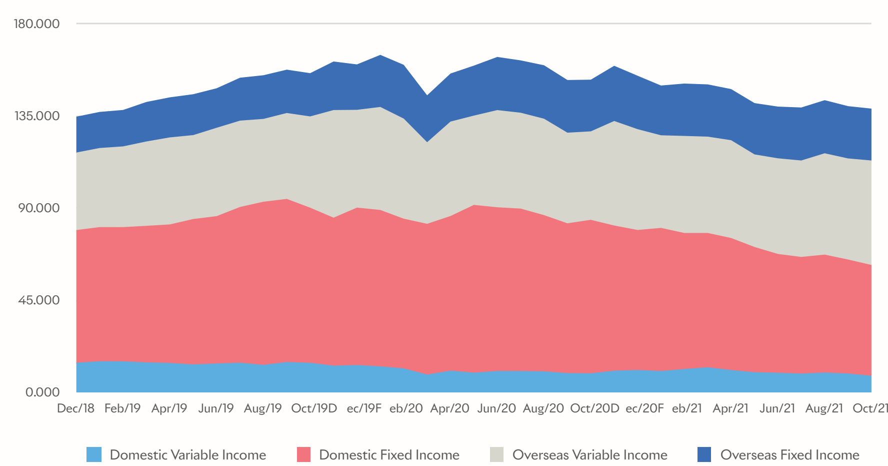
Pension Funds

The value of assets managed by Chile's private pension fund administrators (AFPs), the country's largest institutional investors, fell to CLP 138.9 trillion (US$195.3 billion) at the end of October, down 9.6% from twelve months earlier, reflecting the impact of successive pension withdrawals as well as the decline in the value of fixed income instruments.

By the end of November, savers had withdrawn more than US$47 billion from their pension funds under the three bills passed since August 2020. The withdrawals together with the rise in interest rates caused the value of the most conservative E funds to fall by 60% over the last year to CLP 14.9 trillion (US$17.7 billion) while the value of the riskiest A funds has risen by almost half to CLP 25.1 trillion (US$29.7 billion).

The withdrawals have forced the AFPs to sharply reduce their exposure to fixed income assets which have also fallen in value as a result of the higher interest rates. By the end of October, they owned Chilean fixed income instruments worth CLP 54.1 trillion (US$63.8 billion), down from almost CLP 80.0 trillion (US$96.7 billion) before the withdrawals. Meanwhile, holdings of foreign variable income instruments reached CLP 51.0 trillion (US$60.2 billion) in October, up 18.1% from a year earlier.

AFPs by instrument, CLP trillions, 2018 - 2021



Source: Central Bank of Chile

On December 3rd, legislation allowing savers to make a fourth withdrawal of up to CLP 4.6 million (US$5,430) from their pensions account was narrowly rejected by the Chamber of Deputies. While ministers, the Central Bank and economists had all warned of the damage that further withdrawals would cause to financial markets (and future pensions), the bill only failed to pass after the government forced a debate when several supporters of the measure were out of the country and unable to vote.

Supporters of the withdrawals have now proposed a fifth bill which would allow savers to withdraw all their remaining funds.

Type of fund	Amount	Change	Return	Limits on equity investments	
	(billions of pesos)	November 2020 – October 2021 (%, real in pesos)	November 2020 – October 2021 (%, adjusted for inflation)	Limits on equity investments (% of fund assets)	
				Maximum	Minimum
A Funds	25,090	46.2	17.91	80	40
B Funds	25,203	22.7	10.72	60	25
C Funds	52,163	2.5	-0.75	40	15
D Funds	21,529	-22.3	-11.09	20	5
E Funds	14,946	-60.0	-16.60	5	0
Total	138.932	-9.6			

Source: Superintendence of Pensions

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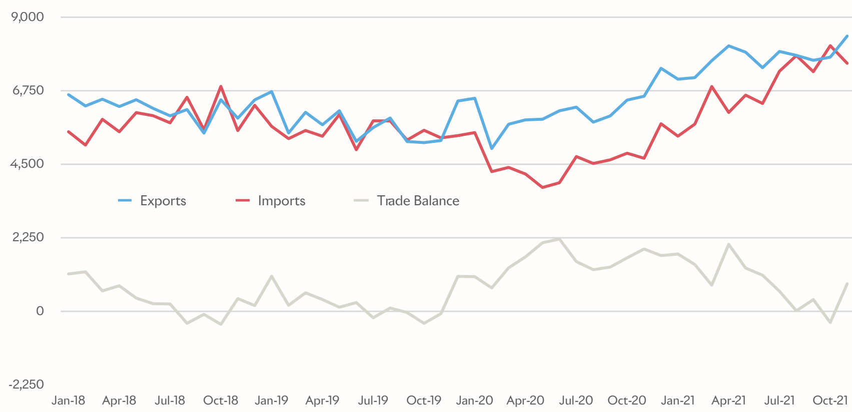
External Sector

2

Monthly trade balance, US$ millions, 2018-2021



Source: Central Bank of Chile

Chile's foreign trade has continued to soar during the final months of the year, driven by higher prices for its commodity exports, especially copper, and strong domestic demand for consumer and capital goods. While exports during the first eleven months of the year rose 29.7% to US$85.7 billion, imports grew by more than half over the same period to US$75.3 billion, reducing Chile's trade surplus to US$10.4 billion, down more than a third from last year.

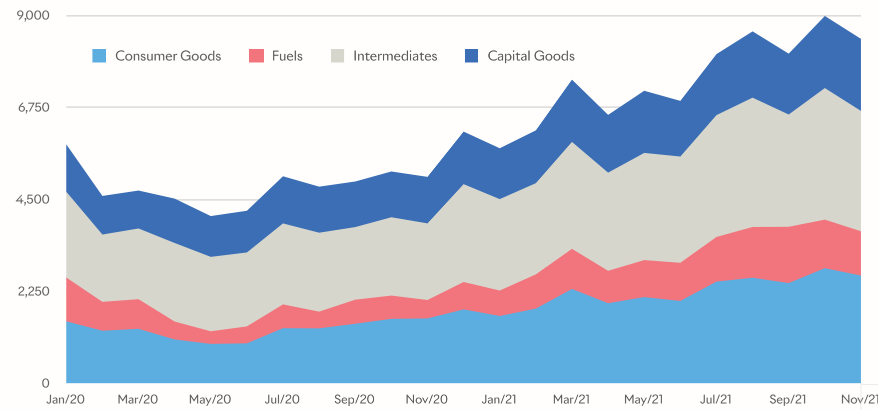
Imports

Strong private consumption, driven by the reopening of the economy and increased household liquidity, lifted imports of consumer goods to a record US$24.9 billion in the year to November, up 71.5% from twelve months earlier. Imports of cars rose 152.5% to US$3.1 billion while clothing imports rose 42.6% to US$2.8 billion.

Imports of capital goods have grown as investment has recovered, rising 39.8% in the eleven-month period to US$16.5 billion. Imports of lorries and transport vehicles more than doubled to US$2.6 billion while imports of construction and mining equipment rose 74.0% to US$1.0 billion.

Reflecting the rise in oil prices since the start of the pandemic and increased demand for fuels, the value of Chile's energy imports rose 78.6% to US$11.2 billion. The worsening of the drought has boosted demand for fossil fuels as energy firms turned to thermoelectric plants to replace constrained hydropower. Diesel imports since July have more than doubled to US$1.8 billion while coal imports almost tripled to US$690 million over the same period.

Imports, monthly, US$ millions, 2020-2021



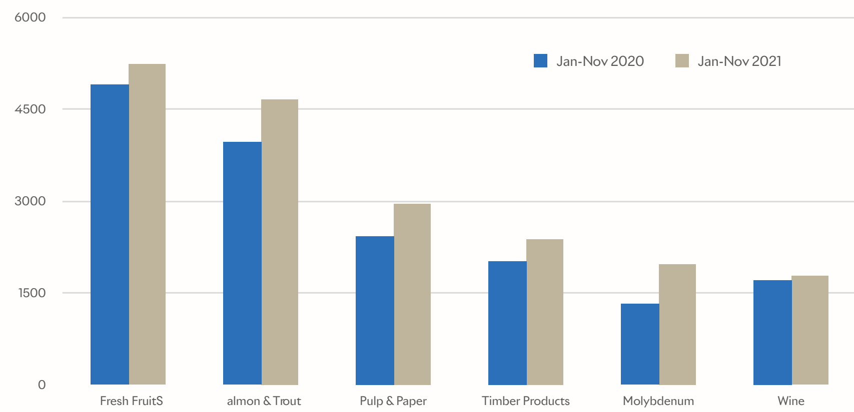
Source: Central Bank of Chile

The rise comes as the West Texas Intermediate benchmark prices, against which state oil firm ENAP prices its imports, averaged US$80.34/barrel in October and November, up from US$70.58/barrel in the third quarter. However, oil prices fell to below US$70/barrel in late November on fears that the new Omicron variant of the Coronavirus could lead to new lockdowns around the world, hitting fuel demand.

WTI Oil Price, US$/barrel, 2020-2021

Source: St Louis Federal Reserve

Non-copper exports, US$ millions, 2020 vs 2021



Source: Central Bank of Chile

Exports

Chile's industrial exports reached US$26.4 billion in the first eleven months of the year, up 14.0% from twelve months earlier, while agricultural exports rose 6.9% to US$5.9 billion, driven by increased exports of fresh fruits, especially blueberries and cherries.

Pulp and paper exports rose 22.4% to US$3.0 billion, reflecting higher pulp prices. According to Empresas CMPC, Chile's largest pulp producer, export prices for softwood pulp reached US$854 a ton in the third quarter, up 56.4% from a year earlier but have since declined.

Timber exports rose to US$2.4 billion in the period, up 17.1% from a year earlier, driven by strong demand in China and the US, the forestry industry's two largest markets.

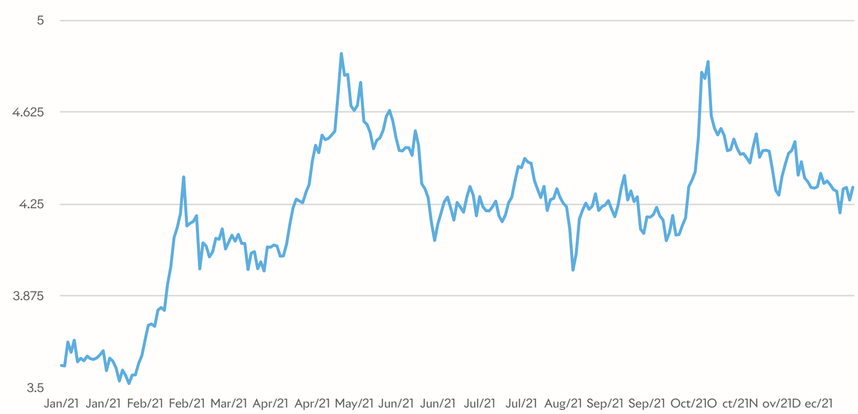
Exports of salmon and trout totalled US$4.7 billion in the year to November, up 17.9% from twelve months earlier, reflecting strong demand in North America and Asia as restaurants and hotels reopened after the pandemic.

Exports of wine rose 5.0% to US$1.8 billion. According to farm statistics office ODEPA, the rise reflects higher prices which were largely offset by a drop in volumes. Exports of wine to China, the largest market for Chilean wine, rose 47% to the end of October to US$207 million offsetting a 19% drop in exports to Japan to US$89 million.

The value of Chile's mineral exports continued to be driven by copper prices which rose even higher during the final quarter of the year. Mineral exports in the first eleven months of the year reached US$53.3 billion, up 42.8% from the same period of 2020. The rise was led by exports of copper which rose 42.8% to US$48.5 billion.

Copper prices rallied sharply in mid-October to near-record highs above US$4.80/lb as investors reacted to the global energy crisis as well as a squeeze on stocks. However, prices soon came back down, declining to US$4.30/lb by mid-December.

LME Copper Price, US$/lb, 2021

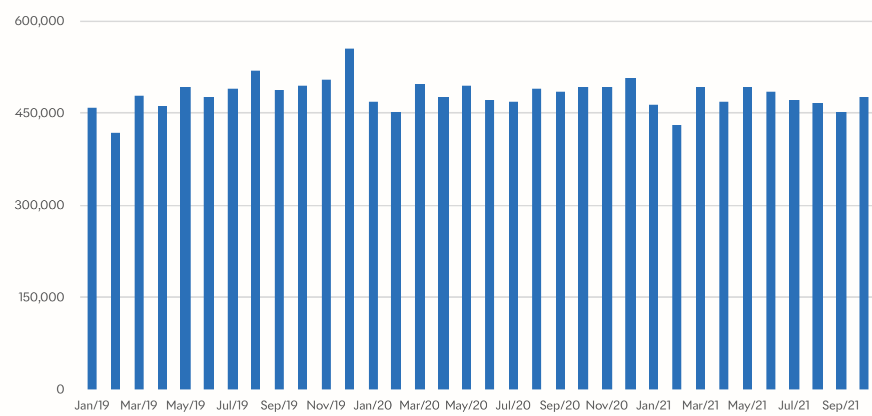


Source: Chilean Copper Commission

Prices are expected to remain relatively high over the coming year. In November, the Chilean Copper Commission reaffirmed its prediction that prices would average US$3.95/lb during 2022, down from US$4.25/lb in 2021, and similar to the Central Bank's latest forecast of US$4.05/lb.

The mining industry has struggled to maintain production in the face of lower ore grades, labour disputes and technical problems. Mines in Chile produced 4.7 million tonnes of copper during the first ten months of the year, down 2.1% from the same period of 2020. Workers at the Andina and Caserones copper mines returned to work in mid-September after more than a month on strike. However, labour negotiations at some of Chile's largest copper mines, including Chuquicamata, El Teniente and Escondida, have been concluded without disruption.

Copper production, tonnes, 2019-2021



Source: National Statistics Institute

High copper prices have bolstered profits at mining companies. In November, state copper company Codelco reported earnings of US$5.2 billion for the first nine months of the year, up almost fourfold from a year earlier, while profits at the giant Escondida copper mine rose 78% to US$2.7 billion.

On November 30th, the Senate gave its general backing to legislation to impose a new royalty on mineral exports. However, the legislation will now return to the committee stage where the senators are expected to tone down the version approved by the Chamber of Deputies last May which included a marginal rate of up to 75% when copper prices rise above US$4.00/lb.

Iron ore exports reached US$2.3 billion so far this year, up 69.3% from twelve months earlier, driven by higher prices and higher volumes.

Lithium prices have soared in recent months on the back of strong demand for electric vehicles, boosting Chile's exports of the mineral. Exports of lithium carbonate almost doubled to US$182 million in the year to November, driven by higher volumes and prices. Export volumes reached almost 152,000 tons in the same period, up 41.6% from twelve months earlier as Chilean producers ramp up production from operations on the Salar de Atacama. In November, SQM said it expected to reach expanded annual capacity of 180,000 tons of lithium carbonate by the middle of 2022, up from just 70,000 tons in 2019, as it rushes to meeting growing global demand for the mineral.

Molybdenum exports reached US$2.0 billion, up 49.1% from the same period of last year, driven by higher prices for the metal. Prices for molybdenum oxide have averaged more than US$15/lb so far this year (including US$19/lb in October), up 76% from the average for 2020, offsetting a 14.4% drop in production to 42,063 tons.

Molybdenum oxide prices, US$/lb, 2017-2021

Source: Chilean Copper Commission

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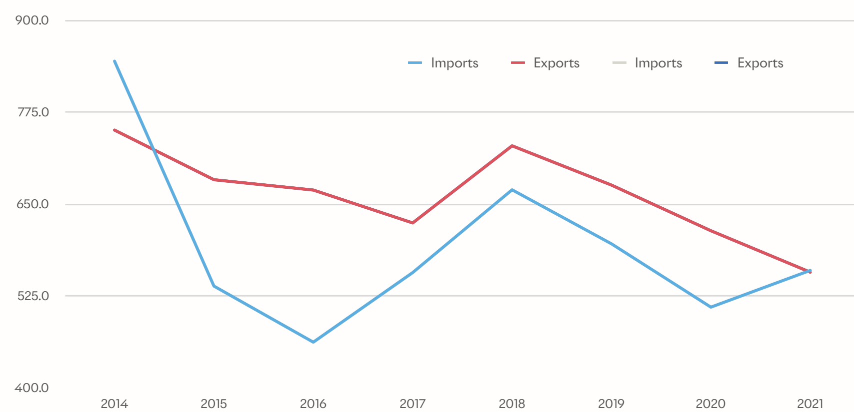
Trade in goods between Chile and the United Kingdom reached US$1.1 billion during the first ten months of 2021, up 11.9% from the same period of 2020, driven by a sharp rise in UK exports to Chile.

UK exports to Chile rose 19.7% during the period to US$560.0 million, driven by shipments of machinery, cars, clothing, and footwear.

Chilean exports to the UK rose 4.1% to US$557.6 million during the ten-month period, as increased exports of wines, forestry products and services offset a fall in fresh fruit shipments.

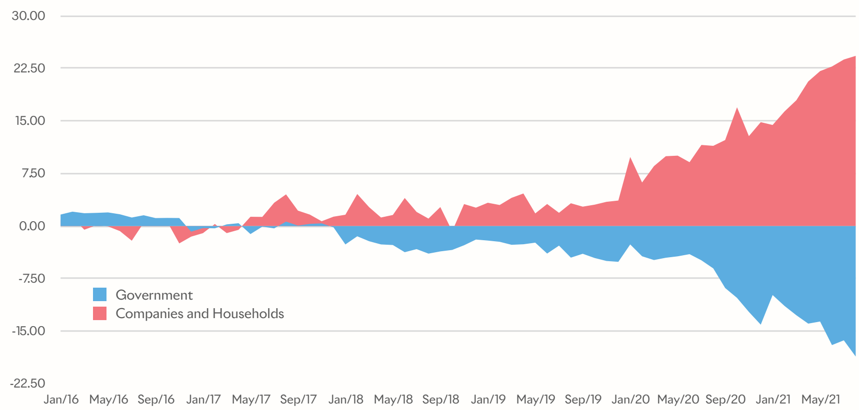
Chile-UK trade, US$ millions, 2013-2021*



Source: Central Bank of Chile

* Shows figures for first ten months of 2021.

Liquid Financial Assets held Abroad, US$ billions, 2016-2021



Current account

Chile recorded a current account deficit of US$6.5 billion in the third quarter of 2021, equivalent to 3.5% of GDP, compared to a deficit of US$2.6 billion in the second quarter. The Central Bank attributed the rise to increased remittances of profits derived from Foreign Direct Investment as well as the boom in imports.

In December, the Central Bank predicted that Chile would end 2021 with a current account deficit of US$14.1 billion, equivalent to 4.5% of GDP, compared to last year's US$3.4 billion surplus, driven by the sharp rise in imports of goods and services. In 2022, the deficit is expected to narrow to US$9.8 billion (3.0% of GDP) as exports rise, expanding the country's trade surplus.

Financial Account

Chile recorded a financial account deficit of US$7.5 billion in the third quarter compared to a deficit of US$4.8 billion in the second quarter. The increase is due to the expansion of the deficit in portfolio investment to US$15.7 billion, reflecting foreign bond issues by the Chilean government, companies and, to a lesser extent, banks during the quarter.

Direct Foreign Investment rose by just US$209 million in the quarter while investment by Chileans abroad rose by US$1.9 billion.

In the face of growing political uncertainty at home, Chilean households and non-financial businesses are increasingly moving assets abroad. According to the Central Bank, these reached US$50 billion during the first nine months of 2021. Chileans have also been opening US dollar-denominated accounts in record numbers. These contained US$1.6 billion by the end of October.

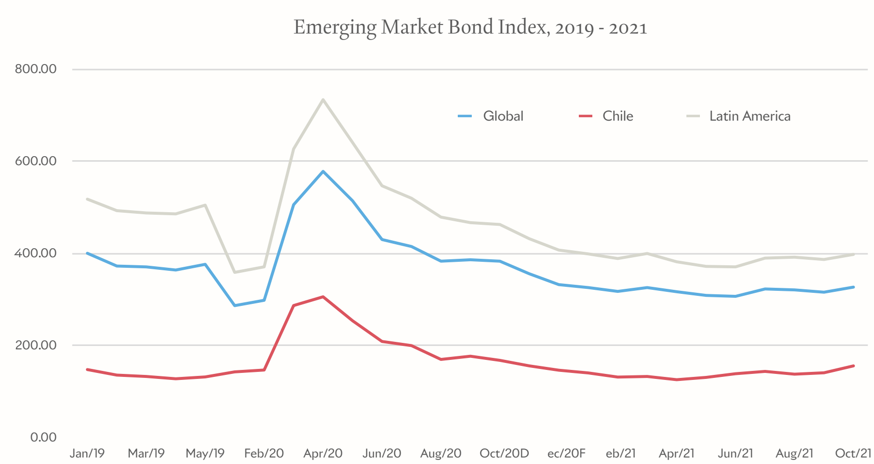
Chile's International Investment Position fell to US$14.3 billion, equivalent to 5.0% of GDP, as foreign debt was revalued following the depreciation of the Chilean Peso.

Chile's external debt reached US$233.2 billion by the end of the third quarter, equivalent to 81.3% of GDP, up from US$213.3 billion three months earlier, reflecting the increase in government and corporate debt. Government foreign debt reached US$44.2 billion at the end of the period, up almost a third since the start of the year, while corporate debt rose almost 10% to US$98.8 billion.

Country Risk

Chile's risk premiums rose during the fourth quarter, reflecting investor concern over the presidential elections, the constitutional process, and the pension withdrawals. In October, JP Morgan's Emerging Market Bond Index (EMBI) for Chile reached 156 points, its highest level in a year and up 30 points from six months earlier.

Meanwhile, the spread on five-year Credit Default Swaps on Chilean debt reached 90 points in November ahead of the elections, its highest level since the peak of last year's crisis and briefly exceeding those of Peru and Panama. It declined to around 83 points as the results of the presidential and legislative elections emerged.



Source: JP Morgan

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Quarterly Insight: President Boric's program for government

3

The election of left-wing candidate Gabriel Boric on December 19th marks a major departure for Chilean politics. The first candidate to be elected from outside the two main blocs that have dominated politics since the return to democracy thirty years ago, the former student leader and deputy has said that he wants to make radical changes to Chile's economic and social model, expanding welfare services and increasing state intervention in the economy to reduce inequality.

But after making it through into the run-off vote, the candidate moderated several parts of his radical program with the help from respected progressive economists in a bid to attract votes from more centrist voters.

Pensions: President-elect Boric has said he wants to implement a basic monthly pension of CLP 250,000 for everyone upon retirement that would be funded through taxation and Chile's US$7.5 billion Pension Reserve Fund. In a change from his original program, he now plans to maintain individual pension accounts although future contributions would be managed by a new public entity rather than the privately-owned pension fund administrators (AFPs),

Taxes: To fund increased public spending, Boric has proposed raising taxes to increase government revenues by approximately 5% of GDP by the end of his four-year administration. Higher taxes will be raised on companies, the mining industry, wealthy individuals, and those earning more than CLP 4.5 million (US$5,535) a month. He has also proposed eliminating tax breaks for the construction industry, share traders and lorry drivers, among others.

Public Finances: Although he aims to increase public spending, Boric has said he will seek to consolidate Chile's public finances and contain the rapid rise in government debt over the last decade.

Trade and investment: In what would be a major change for Chilean foreign policy, the candidate wants to revise the country's network of international trade agreements and seek full membership of the Southern Common Market (MERCOSUR) which would imply significant revisions to its tariff system. He would also introduce stricter controls over foreign investment.

Employment: To increase female participation in the workforce (which has fallen sharply during the pandemic), Boric has said that the state should subsidize the wage of female employees earning less than CLP 1,000,000 (US$1,180) a month.

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Political Context

4

Gabriel Boric decisively won the race to become Chile's next president, beating rival José Antonio Kast by almost 12 percentage points in the second round of voting held on December 19th and garnering more votes than any other candidate in a Chilean presidential election.

The former student leader was able to more than double his vote in the first round (see below) by uniting the centre-left voters after moderating his radical programme for government and attracting endorsements from former presidents. His victory was also helped by the highest turnout ever (8.3 million votes or 55.7% of the electorate) since the introduction of voluntary voting in 2012. At 35, the former student leader will be the youngest person to become president.

Candidate	Pact	Votes	% Vote
Gabriel Boric	Apruebo Dignidad	4,620,671	55.87%
José Antonio Kast	Frente Social Cristiano	3,649,647	44.13%

The run-off between Boric and right-wing lawyer Kast followed the elimination of both the government candidate Sebastian Sichel and Yasna Provoste from the once dominant centre-left parties during the first round of voting in November, the first time that candidates from Chile's two main political blocs have not made into second round. These were beaten in fourth and fifth place by populist economist Franco Parisi who obtained almost 900,000 votes without once stepping foot in Chile during the campaign.

Candidate	Pact	Votes	% Vote
José Antonio Kast	Frente Social Cristiano	1,961,122	27.91%
Gabriel Boric	Apruebo Dignidad	1,814,809	25.83%
Franco Parisi	Partido de la Gente	899,403	12.80%
Sebastián Sichel	Chile Podemos +	898,510	12.79%
Yasna Provoste	Nuevo Pacto Social	815,558	11.61%
Marco Enríquez-Ominami	Partido Progresista	534,485	7.61%
Eduardo Artés	Frente Patriótico	103,181	1.47%

Despite his huge election victory, the divided nature of Congress means that President Gabriel Boric will have to work hard to push through his government programme. While left-wing parties won a slight majority (81 seats) in the lower Chamber of Deputies, right-wing parties control half (25) the seats in the Senate, giving them an effective veto on any legislative initiatives.

Senate 2022-2026

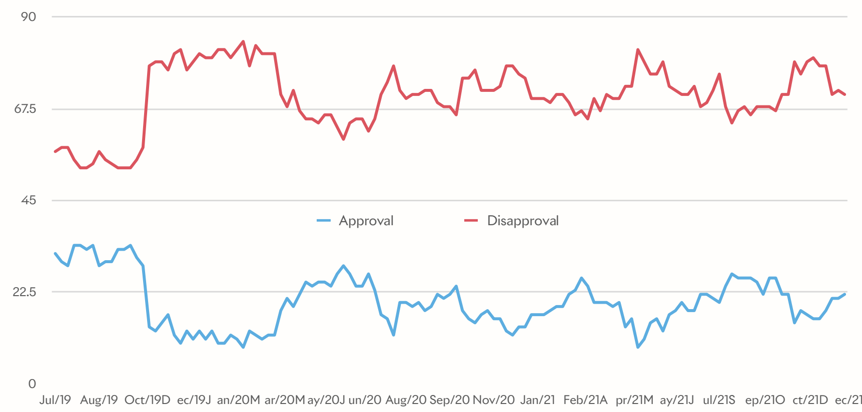
Pact	% Vote	Senators elected	Senators
Chile Podemos +	27.85%	12	24
Frente Social Cristiano	8.62%	1	1
Nuevo Pacto Social	15.59%	8	18
Apruebo Dignidad	19.58%	4	5
Independents	9.30%	2	2
Total		27	50

Chamber of Deputies 2022 – 2026

Pact	% Vote	Deputies elected
Chile Podemos +	25.43%	53
Frente Social Cristiano	11.18%	15
Partido de la Gente	8.45%	6
Apruebo Dignidad	20.94%	37
Nuevo Pacto Social	17.16%	37
Dignidad Ahora	5.10%	3
Partido Ecologista Verde	4.83%	2
Independientes Unidos	2.96%	1
Independents	1.44%	1
Total		155

To calm investors worried by his election, president-elect Boric has promised to name the members of his first cabinet within the next month, including the key positions of Finance Minister and Interior Minister which will give strong clues as to how he plans to govern.

Is President Piñera doing a good job?, %, 2019-2021



Source: CADEM

The new government will have to oversee the adoption of Chile's new constitution which is expected to be put to a referendum in the second half of 2022. In October, the Constitutional Convention began work on the text of the document after agreeing on the rules which will govern the drafting process. Boric's overwhelming election victory may tempt some convention members to push for a more radical constitution, including more social rights and changes to Chile's system of government, but they will be tempered by the need to secure the support of a majority of Chileans in the upcoming referendum vote.

On November 17th, an opposition attempt to remove President Piñera from office collapsed after the motion failed to attract the necessary 29 votes in the Senate. One week earlier, deputies had approved the president's impeachment, arguing that he had used his office to favour a controversial mining project in which his family owned a stake. The deal was mentioned in the Pandora Papers leak of confidential documents showing how politicians and celebrities have used tax havens to hide their wealth.

Support for the government has remained at historically low levels. According to the weekly poll by market research firm CADEM, approval of President Piñera sank to 15% in October in the wake of the Pandora Papers revelations, his lowest poll rating in six months, before recovering above 20%.

In a bid to clamp down on arson attacks and organized crime in the southern regions of Araucanía and Biobio, the government declared a state of emergency in four provinces, allowing the armed forces to be deployed in a support role to police.

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Outlook

5

After expanding at a record pace in 2021, the Chilean economy is set to slow dramatically over the next two years as government and household spending falls and companies slash investment. Under the Central Bank's latest forecast, the economy will grow by around 2.0% and 0.5% in 2022 and 2023, respectively, down from almost 12% in 2021.

Private consumption is expected to contract by 0.2% in 2022 and 1.5% in 2023, as the government cuts pandemic-related support to households and consumers exhaust pension withdrawals. Investment is also set to slow dramatically, with Gross Fixed Capital Formation expected to shrink 2.2% in 2022 and grow only marginally in 2023, as businesses drop projects in the face of increased economic and political uncertainty as well as higher financing costs.

After surging on the back of red-hot domestic demand as well as higher commodity prices, inflation is set to remain near current levels around 7.0% through early 2022 before declining to below 5.0% by the end of the year. To control rising consumer prices, the Central Bank is expected to continue raising interest rates over the coming months.

To what extent these predictions are fulfilled or even exceeded will depend on the policies adopted under the new government which will take office next March. If the new administration decides to slow the drastic cut in public spending (around 19% in real terms) approved in the 2022 budget legislation, this could mitigate the slowdown in private consumption and economic activity, but also further stoke inflation.

Similarly, if lawmakers pursue legislation allowing savers to make more withdrawals from pension funds, it could push up long-term interest rates even further, potentially destabilizing Chile's debilitated financial markets.

On the other hand, the worsening economic or political situation could persuade consumers to curtail household spending faster than currently expected, causing the economy to grow at a slower rate next year than currently foreseen but allowing inflation to return more quickly to historic levels.

Externally, actions by central banks to contain inflation, especially the withdrawal of the US Federal Reserve's asset-buying program, is likely to have a cooling effect on the global economy. Additionally, the growing problems in the Chinese economy, including supply bottlenecks, energy shortages and the slowdown of the property sector, could hit growth. Both scenarios could affect Chile's terms of exchange, particularly the prices of copper and other key commodities.

Economic Forecasts, 2022

Pact	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	1.5-2.5	2.5	2.0
Inflation (% annual variation)	5.0	4.4	4.5
Monetary-policy interest rate	NA	NA	5.00
(% annual, nominal, end-year)	NA	713	810 4/
Exchange rate (pesos/US$)	4.05	3.95	NA
Copper price (US$/lb)			

1/ Monetary Policy Report, December 2021.

2/ Public Finances Report, September 2021

3/ Average of selected private analysts surveyed by Central Bank, December 2021.

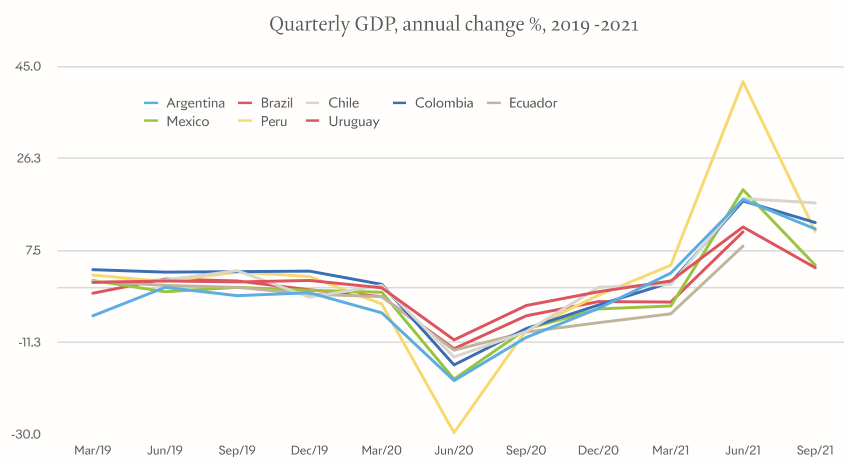
4/ November 2022

Latin America Regional News

6

Argentina: The ruling Frente de Todos lost its majority in the Senate in mid-term elections held in November, limiting President Alberto Fernández's ability to pursue unorthodox economic policies or negotiate a deal with the International Monetary Fund. Annual inflation rose to over 50% in September and October, its fastest rate since the start of the pandemic.

Bolivia: The government has forecast that the economy will grow by 5.1% in 2022, driven by increased investment and the easing of the pandemic. In October, President Luis Arce repealed legislation granting authorities greater powers to pursue money launderers following nationwide protests against the measure.



Brazil: The economy entered a technical recession after contracting by 0.1% in the third quarter which followed a 0.4% contraction in the second quarter, reflecting the impact of a sharp hike in interest rates on business activity. In October, a Senate committee accused President Jair Bolsonaro of committing crimes against humanity over his government's mishandling of the pandemic.

Colombia: Colombia's economy will expand by 5.5% in 2022, making it one of the fastest growing in Latin America, according to the OECD. Higher commodity prices, stronger growth among its main trading partners and increased government support for poor households will drive activity.

Ecuador: President Guillermo Lasso has accelerated liberalization of the energy sector to take advantage of the rise in oil prices this year. The economy is recovering weakly from the impact of the Covid-19 pandemic, with growth estimated at just 2.75% in 2021 and 3.5% in 2022.

Mexico: The economy shrank by 0.4% in the third quarter compared to the previous quarter as global logistical difficulties hit local manufacturing with car production falling by a third in September. Polls show almost two-thirds of Mexicans continue to support President Andrés López Obrador three years after he took office.

Peru: In December, lawmakers rejected an opposition motion to impeach President Pedro Castillo over alleged campaign financing breaches. The Central Reserve Bank of Peru now expects the economy to grow by 3.4% in 2022, down almost 12.0% in 2021 and from a previous forecast of 4.5%. It blamed weak business confidence and slowing investment for the decline.

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