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CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Second Quarter 2022

2nd Edition 2022 — Produced since 1922

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Index

Dear reader

The global situation has deteriorated since our last report. The war in Ukraine continues unabated, causing high and rising energy and food prices around the world. As usual, the pinch is being most severely felt in the poorer economies, and widespread famine and hardship is spreading.

Chile's main export market China is struggling to contain COVID, which further threatens global supply chains and its economic growth. Central banks in developed economies, as well as Chile, are rapidly raising interest rates to control inflation, which is creating financial difficulties for emerging economies and local markets. Prices are rising fast.

Chile awaits the outcome of the vote on adopting a new constitution on September 4th of this year. Work is now complete on the new proposal, but current polls show the vote is almost equally divided between voters for acceptance or rejection. Whatever the outcome, Chile faces many years of legislative change to avoid more social unrest.

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

Put all this together with the ambitious reform program being proposed by President Boric's new administration, it is no surprise that both consumer and business confidence have both fallen during the last three months.

So, there is plenty to think about and discuss. We will continue to bring you information and analysis through our publications and our nine committees. If you haven't done so yet, have a look at our website and consider joining one of them.

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.

• Production coordinator: María Isabel Juppet C. • Electronic version of the report: www.britcham.cl • Design and layout: Forma • Printer: A Impresores S.A.

Key points

• Inflation has soared to its highest level in Chile in almost three decades, in line with global trends. It is driven by high commodity prices, a weaker peso and strong domestic demand, and is expected to continue rising over the coming months.

• Persistent consumer spending has delayed an economic slowdown, but activity is set to contract from the third quarter as consumption and investment fall.

• To contain soaring prices, the Central Bank has hiked interest rates to their highest level since 1998 but this has failed to anchor inflation expectations.

• Business and consumer confidence have both fallen in the face of rising costs and increased political uncertainty.

• Exports have risen to record levels, driven by high commodity prices. Lithium exports have grown tenfold as prices rocket.

• Copper prices fell sharply in April amid fears that the Chinese economy is slowing but remain near record highs. Mine production has slumped on falling ore grades and water shortages.

• Unemployment rose as more people sought work after the pandemic. The labour market is expected to weaken this year as investment slows.

• The Chilean peso fell against the US dollar following the fall in copper prices, a hike in US interest rates and as lawmakers debated a new pensions withdrawal.

• The Santiago Stock Exchange's IPSA index has rallied to record levels as high commodity prices boost company profits.

• Support for President Boric fell amid worsening economic conditions, complicating approval of the government's pensions and tax reforms.

• The Constitutional Convention has almost completed work on the new Constitution. Despite the rejection of some of the more radical proposals, more Chileans say they will vote against the text than for it in next September's referendum.

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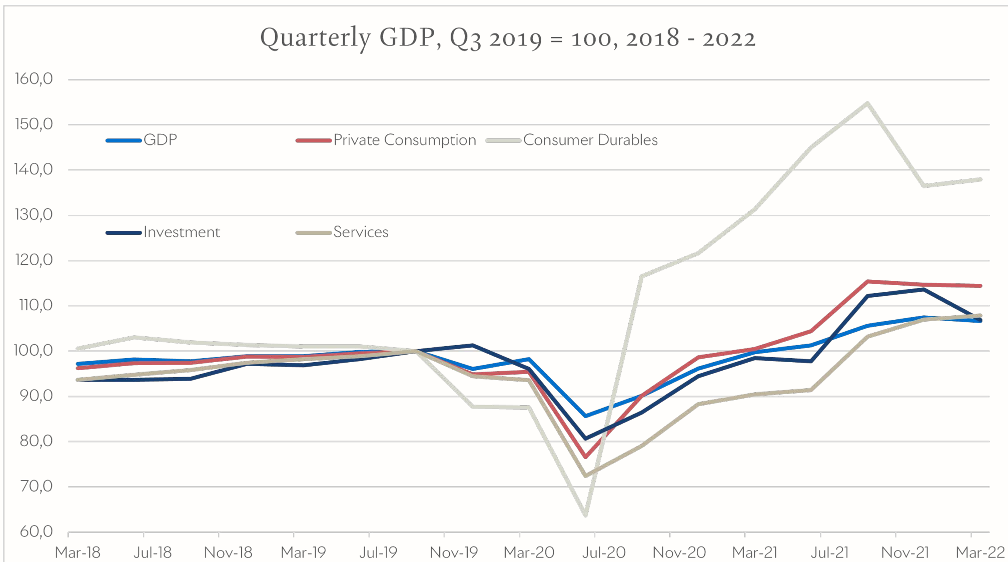
Domestic Economic Performance

1

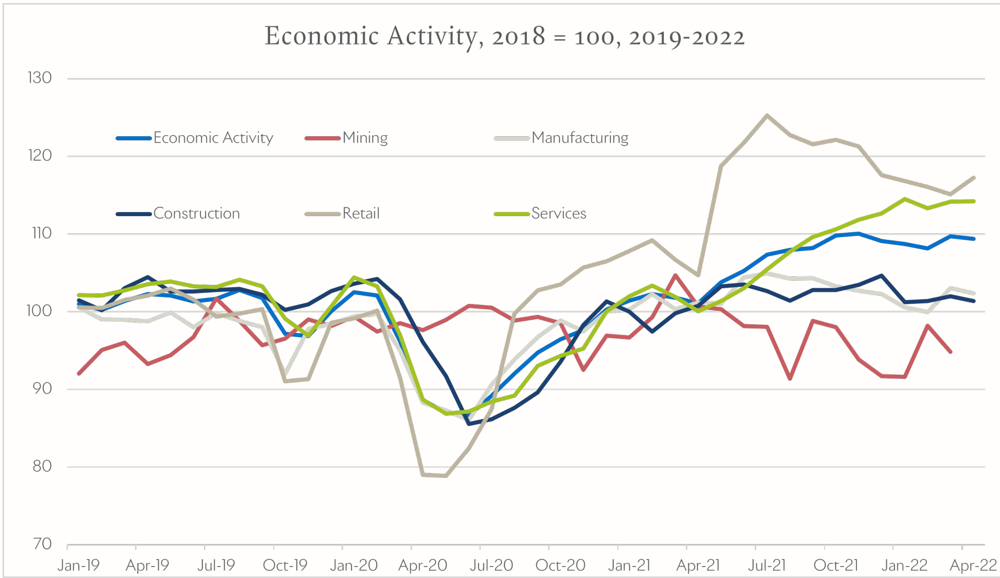
After growing at a record rate in 2021, the Chilean economy has begun to slow. Economic activity in the first three months of 2022 contracted by 0.7% on a seasonally adjusted basis, compared to the final quarter of 2021. On an annualized basis, the economy grew by 7.2% in the quarter, compared to last year's 12.0% expansion.



Source: Central Bank of Chile

However, the adjustment has been smaller than expected, largely due to persistently strong private consumption, which remains close to the highs reached last year, offsetting a fall in investment. The Central Bank estimates that this is because households are still spending funds accumulated from last year's pension withdrawals and government transfers. Spending on consumer durables, which fell sharply in the final quarter of 2021, recovered during the first months of 2022, while spending on services continued to rise.

Investment declined by 5.9%, reflecting lower spending both on construction and machinery and equipment, as businesses slow spending in the face of increased borrowing costs and heightened economic and political uncertainty.

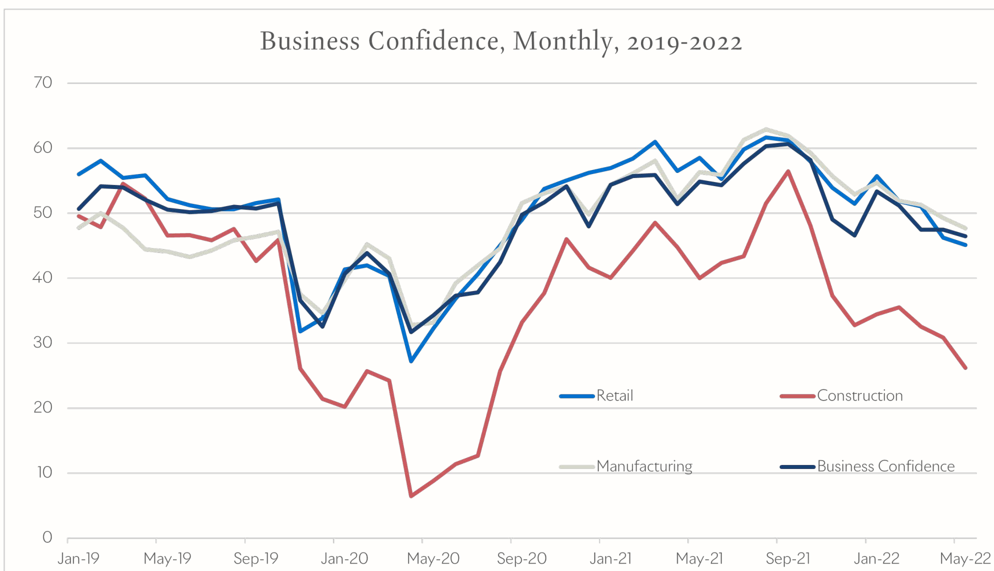


Source: Central Bank of Chile

Preliminary data suggests the trend has continued into the second quarter. Although activity fell in April by 0.3% on a seasonally adjusted basis, compared to March, this was largely due to a 9.3% contraction in mining activity (See Mineral Exports) while the rest of the economy grew by 0.2%, driven by retail and services.

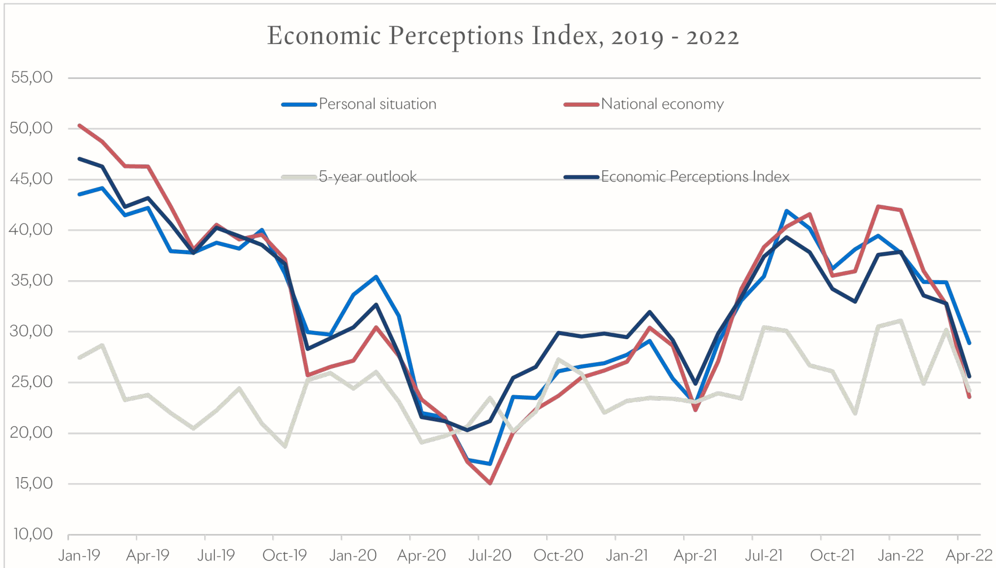
Due to the strength of private consumption so far this year, the Central Bank now expects the economy to grow by a slightly faster 1.5-2.25% this year (compared to 1.0-2.0% predicted in March). However, as consumer confidence weakens and investment declines, activity is expected to slow during the second half of the year and contract by up to 1.0% in 2023. Analysts surveyed the Central Bank in June predicted growth of 1.7% this year and zero growth in 2023.

Confidence



Source: Adolfo Ibáñez University, ICARE

Business confidence has weakened with the Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and business organization ICARE falling in May to its lowest level in almost two years. In particular, confidence in the building sector has fallen almost 10 points in four months to just 26.23 points. Executives surveyed by the Central Bank in April were worried that rising prices could slow household spending while rising costs would squeeze profit margins.



Source: GFK

Consumer confidence has tumbled on rising inflation and slowing growth. GfK's Economic Perceptions Index fell seven points in April alone to 25.6 points, its lowest level in a year. Optimism about the current state of the economy fell nine points to 23.6 points while optimism about the long-term outlook fell six points to 24.2 points. Almost three-quarters of those surveyed expected prices to rise significantly over the next year, while less than 3.0% thought it was a good moment to buy a car or a home, marking a record low.

The world slows

In addition to its domestic difficulties, the Chilean economy will have to cope with a significant slowdown in global economic activity.

According to the latest report by the World Bank, the global economy is expected to grow by 2.9% in 2022, down from 5.7% last year and from a previous forecast of 4.1% issued in January. Russia's invasion of Ukraine, Chinese efforts to contain Covid-19 outbreaks and soaring inflation, which these have exacerbated, explain the gloomier outlook. Many of these problems are expected to persist, preventing any significant rebound in 2023.

For Chile, the biggest risk could be in China, its largest trading partner, where growth is expected to slow to 4.3%, its slowest rate in decades (barring 2020), reflecting the impact of rolling lockdowns, a debilitated property market and high levels of corporate debt. Copper prices, a bellwether for economic growth, dropped sharply in April on these concerns (albeit from extremely high levels) while lockdowns in Chinese ports have caused major headaches for Chilean fruit exporters during the 2021-2022 season.

In Europe and North America, authorities are focused on rising prices which have been stoked by the extension of stimulus measures, tight labour markets and soaring oil prices. After initially playing down the inflation threat, the US Federal Reserve and the European Central Bank are now trying to catch up. In doing so, they will lift borrowing costs for emerging countries and risk pushing their own economies into recession.

The biggest uncertainty is the war in Ukraine which, after three months, shows no signs of ending. The conflict has had an immediate impact in the Euro zone, (where growth has been slashed from 4.2% to 2.5%) but has also roiled energy and food markets through blockades imposed by and against Russia. As well as pushing up global inflation, which reached 7.8% in April, food and fuel shortages and tighter financial conditions could trigger instability in some emerging economies. In May, Sri Lanka appealed for food aid after defaulting on its foreign debt.

So far, these factors have had not a significant impact on growth in Latin America, which the World Bank predicts will grow 2.5% this year, little changed from January, as high commodity prices bolster exports. But given the region's reliance on trade with China and its financial constraints that could change rapidly if conditions worsen.

Services

Accounting for around half of Chilean GDP, services have emerged as the main driver of economic activity as retail sales have cooled. Personal services expanded by more than a fifth in the first quarter of the year, compared to twelve months earlier, lifted by the resumption of face-to-face teaching, while transport services expanded by a similar amount as trade and mobility recover in the wake of the pandemic.

Tourism activity grew by more than 40% in the year to April, with the number of people staying in hotels reaching 1.3 million in April, up more than 100% from a year ago. However, hotel stays during the peak holiday period (in February) were significantly below pre-pandemic levels.

Retail

Source: National Statistics Institute

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After booming last year, retail activity has begun to slow. However, the decline has not been as fast as expected, supporting economic growth so far this year.

Retail sales in the greater Santiago area grew by 16.8% in April compared to one year earlier, largely due to the impact of the lockdown in place in early 2021 as well as the prolonged impact of pandemic measures such as pension withdrawals and fiscal transfers to households. Clothing and footwear sales rose more than fivefold while supermarket sales rose 10.5%.

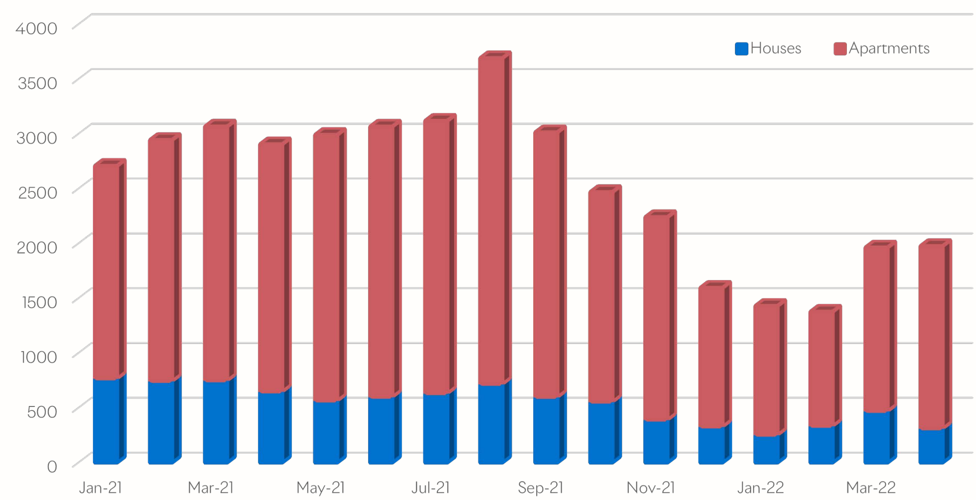
According to the National Retail Chamber, retail sales are expected to slow over the coming months and may suffer a contraction in the second half of the year as additional household liquidity is exhausted and consumer confidence weakens in the face of rising inflation and slower economic growth.

Car sales reached 186,247 units during the first five months of 2022, up 17.5% from a year earlier, although down from levels reached at the end of last year. Online retail sales, which boomed during the pandemic, have slowed dramatically, from a peak of around US$1.0 billion in May 2021 to less than US$500 million a month this year.

Construction

Construction activity has slowed since the start of the year as businesses cut investment and homebuyers waver in the face of higher interest rates. Sales of building materials during the first quarter of the year fell to their lowest level since October 2020 when the country was still emerging from the first lockdown, while the Construction Activity Index, produced by the Chilean Chamber of Construction, fell by 8.4% in the year to March.

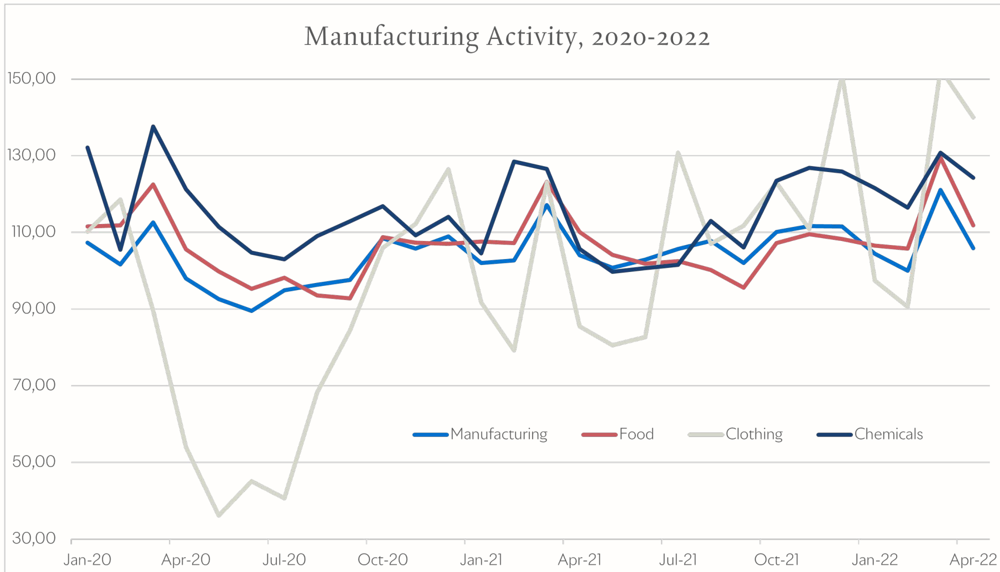
Residential Sales in Santiago, 2021-22



Source: InfoInmobiliaria

Residential sales have recovered slightly since March as banks have relaxed lending conditions but remain significantly below last year's average.

Manufacturing



Source: National Statistics Institute

Manufacturing activity expanded by 3.2% in the year to April, driven by increased production of chemicals, clothing and food.

Source: Central Bank of Chile

The Central Bank has ramped up interest rates at an unprecedented pace to contain soaring inflation. On June 7th, the board unanimously agreed to raise the rate by 75 basis points to 9.0%, its highest level in more than two decades. However, this latest increase is the smallest so far this year, following hikes of 125 bp in May and 150 bp in January and March. The Bank justified the move by noting that inflation had continued to exceed expectations while the slowdown in economic activity had not been as sharp as predicted.

The increase was in line with expectations among traders surveyed by the Bank ahead of the meeting.

In its latest Monetary Policy Report, released on June 8th, the Bank said persistent inflation meant that it would have to continue raising interest rates this year to ensure convergence with its 3.0% medium-term target rate, although it expected future hikes to be smaller. Analysts surveyed after the meeting predicted that the Bank would implement a 25 bp hike in July and keep the rate at 9.25% until the end of the year.

As inflation persists, the interest rate is expected to remain above its neutral level of 3.25-3.75% over the coming two years. Analysts predicted the rate to decline to 7.50% by mid-2023 and 5.00% by mid-2024. However, the Bank said that there was a significant risk of inflation persisting for longer than already predicted which would force further increases in the interest rate.

Developing a Digital Currency

The collapse of the stable coin Terra in May and the resulting fallout through cryptocurrency markets have drawn attention to the huge size of the asset class and its inherent instability. After investors lost faith in the ability of Terra´s organizers to maintain convertibility, cryptocurrencies fell in value by around US$300 billion within a few days.

Although promoted as a more reliable alternative to fiat money, millions of people (an estimated 15% of Americans) have invested in these virtual currencies attracted by the huge volatility displayed by cryptocurrencies such as BitCoin, Binance Coin and Ether. Many may now be rueing that decision.

Despite (or perhaps because of) the massive losses suffered by crypto-investors, central banks around the world are studying the potential of virtual currencies to create a more efficient, reliable, and inclusive banking system. In May, Chile's Central Bank published a preliminary assessment of issuing its own Central Bank Digital Currency (CBDC).

Unlike a cryptocurrency, a CBDC is a virtual currency established and run by a central bank, which is maintained at par with the country's existing currency. Individuals would store their CBDCs in accounts with the Central Bank.

Most of us already use a kind of a virtual currency every day in the form of the money we see in our online bank account. But this system is extremely costly to run, requiring coordination between a huge number of institutions to ensure that payments occur correctly. It can take several days for payments to be settled. In addition, banks' obligation to convert this digital currency into physical cash on demand raises the risk of bank runs, which requires insurance.

Given the cost of running thousands of bank branches and employing millions of bank clerks, plus the insurance and other costs involved, an article published last year by the Harvard Business Review estimated that switching to a banking system based on CBDC could save the US economy around US$750 billion annually or the equivalent to what Americans spent on food each year.

By cutting out banks, millions of people without bank accounts could be incorporated into the financial system with huge gains for the economy.

But there are risks. For a start, removing cash deposits from banks could make it much more expensive for them to lend money and cause liquidity problems.

Nevertheless, some Caribbean islands and Nigeria have already issued CBDCs, while several larger economies, including China, South Korea, and Uruguay, are experimenting with pilot programs.

In its report, Chile's Central Bank concluded that the lack of international experience and standards meant that it would take several years before it could decide whether to issue its own CBDC. However, it is organizing a series of seminars to discuss the idea further with the public.

Public spending is set to fall sharply this year as the widespread support paid to households during the pandemic is curtailed.

In its first public finance report, released in May, the new government said that public expenditure will fall by around a fifth to CLP 61.8 trillion (US$74.8 billion) while revenues will fall 8.1% to CLP 57.4 trillion (US$69.5 billion). As a result, the public deficit is expected to end the year at 1.7% of GDP, down from a record 7.7% in 2021.

In the longer term, Finance Minister Mario Marcel said the government aims to reduce the structural deficit (calculated based on long-term forecasts for economic growth and the copper price) to 0.75% of GDP when its term ends in 2026, down from 3.3% in 2022.

These forecasts would leave around US$25.0 billion available for discretionary spending over the life of the government. This figure will be supplemented from 2024 onwards by additional revenue generated by the tax reform, which is expected to raise the equivalent to around 4.0% of GDP. However, it is not clear that these resources will be sufficient to cover the government's ambitious reforms, which include higher basic pensions, a universal healthcare program and the writing off of student debt.

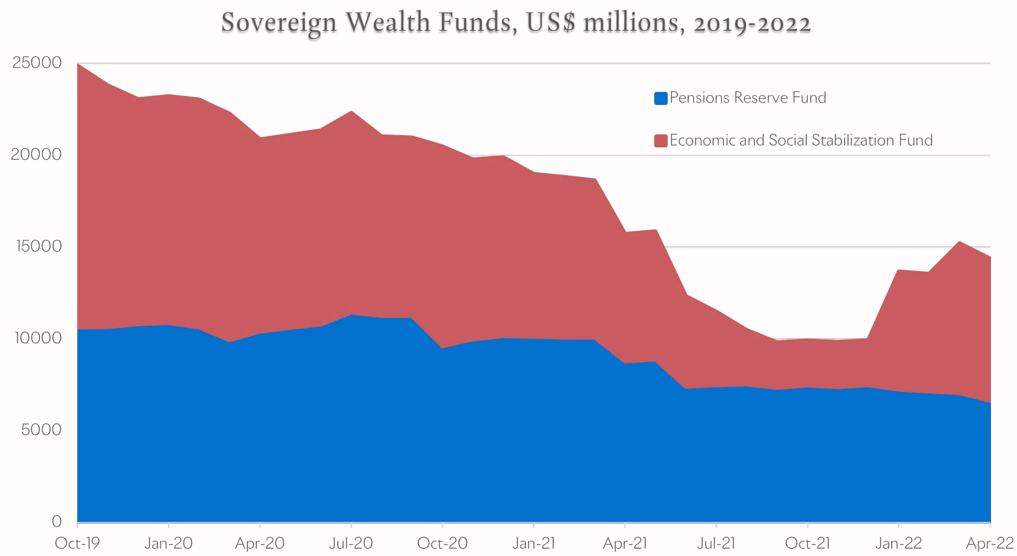
In April, the government announced a package of measures, valued at US$3.7 billion, to help mitigate the impact of rising inflation. These included lower fuel prices, wage subsidies, a freeze on bus and train fares, more support for working parents as well as a historic rise in the minimum wage (See 1.5 Employment and Wages). The additional spending will be financed through the reassignment of resources, higher than expected tax revenues and loans from multilateral entities.

Credit Ratings

In May, Fitch Ratings became the first global ratings agency to issue a report on Chile since the new government took office, reaffirming its A- rating with a stable outlook for the country's sovereign debt. After praising Chile's macroeconomic strengths, the agency highlighted the risk that the government's tax reforms could be watered down in Congress while spending rises further than expected, causing public debt to rise.

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

Sovereign Wealth Funds



Source: Ministry of Finance

The value of Chile's two sovereign wealth funds reached US$14.4 billion at the end of April, up 45% from the end of last year, after the outgoing administration injected a total of US$6.0 billion in the Economic and Social Stabilization Fund during the first quarter. However, some of this increase has been offset by capital losses totalling US$1.2 billion suffered by both funds following the fall in asset prices globally so far this year.

SOMOS GENERACIÓN DE CAMBIO

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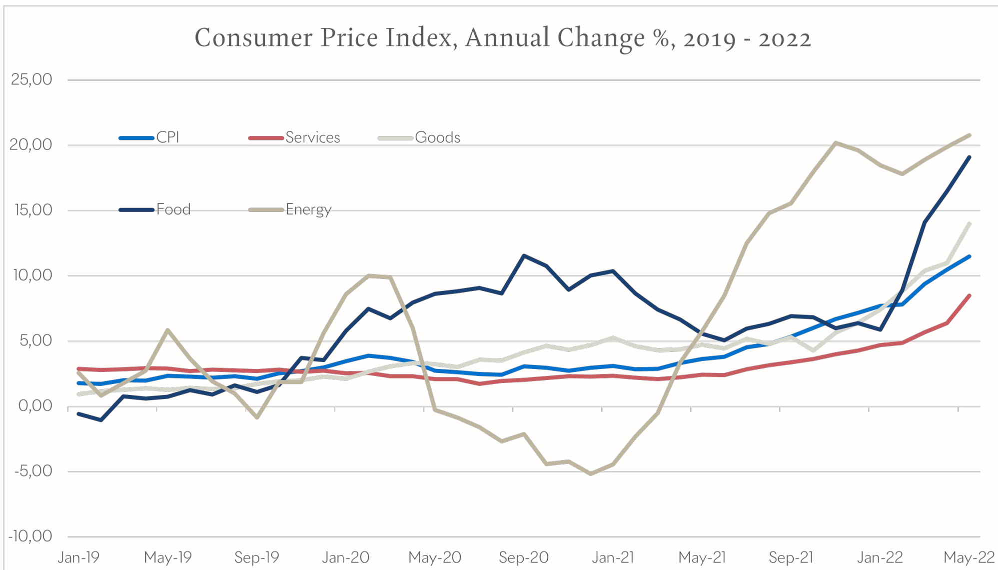


Source: National Statistics Institute

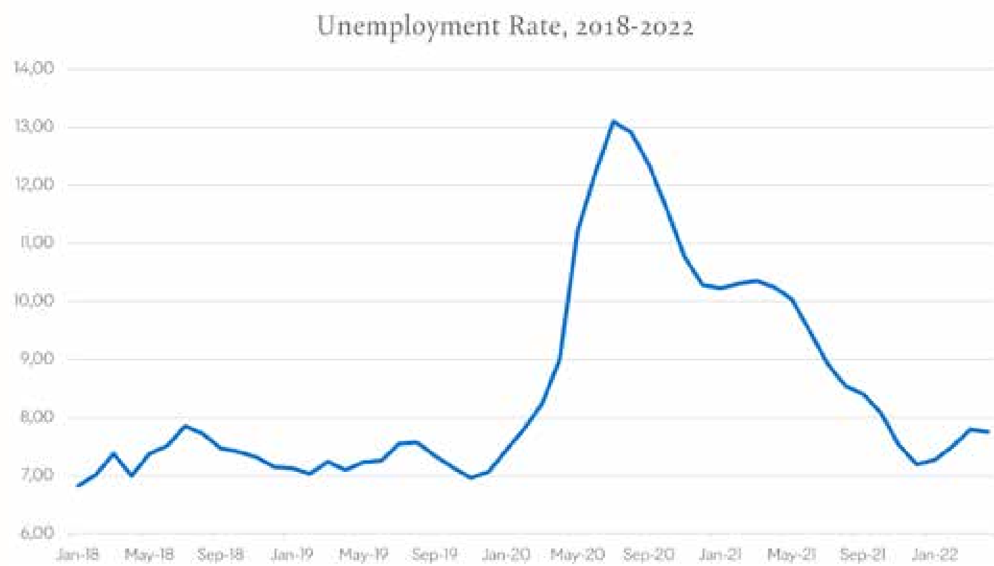
Inflation has risen to record levels in recent months. In May, the government's Consumer Price Index rose by 1.2% (following increases of 1.9% and 1.4% in March and April) to reach 11.5% on an annualized basis, its highest level in almost three decades.

The increase has been driven largely by soaring food and energy prices as Russia's invasion of Ukraine worsened existing shortages. Food inflation has accelerated in recent months to reach 19.1% in May, approaching the 20.8% increase seen in energy prices over the last year. Strong consumer demand (driven by last year's stimulus measures), snags in global logistics and a weaker Chilean peso have also played their part. Not counting volatile food and energy prices, core inflation reached 9.0% in May, up from 5.8% six months earlier.

The rapid run-up in prices this year has forced up inflation expectations. In June, the Central Bank predicted that the government index could rise as high as 13.0% in the third quarter before ending the year at around 10.0%, up from 8.2% predicted just three months earlier. This is in line with private estimates.

Given the current high level of inflation, it is expected to take several years for inflation to return to more sustainable levels. Analysts surveyed by the Bank in June saw the index falling to 6.5% by mid-2023 and 3.6% by mid-2024, above the Bank's 3.0% target rate for that date.

The government announced a series of measures to help mitigate the impact of rising prices on households. These include freezing public transport fares and tripling the funds available to the Fuel Price Stabilization Mechanism to US$3.0 billion.



Source: National Statistics Institute

Unemployment has risen as more people look for work again in the wake of the pandemic. The number of people of out of work averaged 7.7% in the three months to April, up from 7.2% at the end of last year.

The number of people in work has risen by almost 150,000 so far this year (to reach 8.8 million, its highest level since the start of the pandemic). Tourism, mining, and manufacturing accounted for most of the new jobs while the number of people employed in construction jobs has fallen by more than 30,000. Most of the new jobs have been in the formal sector while the number of self-employed has fallen since the start of the year.

However, employment has yet not returned to pre-pandemic levels given the expansion of the workforce over the last two years. There are still 600,000 people who have not joined or returned to the workforce since the start of the pandemic.

The job market is expected to weaken as the economy slows. Many of the businesses surveyed by the Central Bank in April were planning to restructure their workforces to help contain costs, while the number of vacancies posted online has fallen since the end of last year.

Despite the rise in unemployment, nominal wages have risen rapidly as employers struggle to fill vacancies, especially for low-skilled roles. However, pay has failed to keep up with record inflation. The government's Remunerations Index rose by 8.0% in the year to April, its fastest rate since 2009, but fell in real terms by a record 2.3%.

In May, lawmakers approved the largest increase in the minimum wage in almost three decades. The monthly minimum rose to CLP 380,000 (US$460), up from CLP 350,000 previously, and will rise again in August to CLP 400,000. A further increase to CLP 410,000 will be implemented in January if annual inflation exceeds 7%. The legislation also includes a subsidy of up to CLP 22,000 per worker to help small and medium-sized businesses for May to August, then rising to CLP26,000, when the minimum wage increases to CLP 400,000.

With financial markets around the world becoming increasingly risk averse, with higher long-term interest rates and falls in asset prices, Chile's markets have performed relatively well. Interest rates on ten-year bonds have not varied significantly over the last three months while share prices in Santiago have risen. However, the number of new bond issues remains subdued, reflecting the impact of last year's pension withdrawals.

Stock Market

Source: Santiago Stock Exchange

The IPSA index of the largest companies listed on the Santiago Stock Exchange soared to a record high of almost 5,400 points at the end of May, up 25.0% from the start of the year (and up almost 12% in May alone). The rally contrasts with declines seen in most global stock indexes, including the Dow Industrial Average (down 10%), Shanghai Composite (down 9%) and Euro Stoxx 50 (down 12%). Much of the expansion reflects the rally in shares in lithium and nitrates producer SQM which have more than doubled so far this year, making it the most valuable company listed in Santiago.

Bank lending

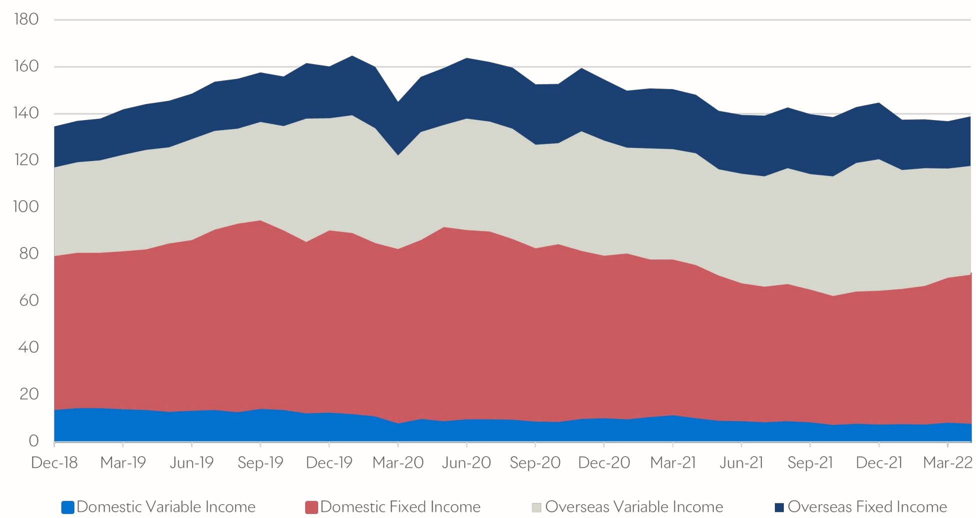
Bank lending has continued to slow as consumers and businesses react to higher interest rates and worsening economic conditions. Interest rates on consumer loans reached 25.1% in May, their highest level in seven years, while rates on corporate loans reached 12.3%, their highest since 2012.

The value of new mortgage loans issued in May fell to US$630 million, down from US$1.2 billion twelve months earlier, as banks put more restrictions on borrowers. Corporate lending averaged US$8.6 billion in the quarter to April, down almost a third from pre-pandemic levels. Only consumer lending has risen over the last year, largely due to an increase in revolving credit, such as credit lines and credit cards.

Thanks to higher interest rates, bank profits have almost tripled so far this year, reaching CLP 1.8 trillion (US$2.3 billion) during the first four months of the year. While the number of non-performing loans remains low and stable, banks have increased provision for such loans due to increased uncertainty over the state of the economy.

Pension Funds

AFPs by asset, billions CLP, 2018-2022



Source: Superintendence of Pensions

The value of assets controlled by Chile's pensions funds declined to CLP 140.7 trillion (US$171 billion) by April 30th, down 4.2% from the end of last year. Although pensions withdrawals have ended (the window for the third withdrawal expired on April 28th), the value of the funds have been hit by the decline in asset prices around the world this year.

Type of fund	Amount (billions of pesos)	Change May 2021 – April 2022 (%, real in pesos)	Return May 2021 – April 2022 (%, adjusted for inflation)	Limits on equity investments (% of fund assets)	
				Maximum	Minimum
A Funds	22,680	4.4	-5.71	80	40
B Funds	24,507	9.8	-5.61	60	25
C Funds	51,315	-8.5	-7.56	40	15
D Funds	23,637	-7.8	-6.83	20	5
E Funds	18,573	-21.5	-4.30	5	0
Total	140,712	-5.8			

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External Sector

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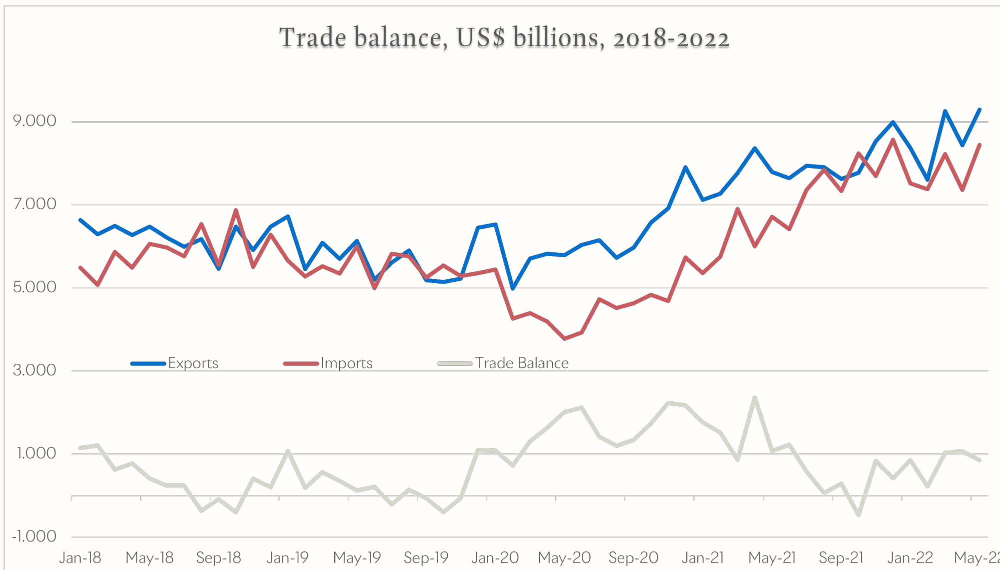

After slowing at the start of the year, Chile's foreign trade has taken off with exports rising to record levels, driven by industrial exports, high mineral prices, and a strong fruit harvest. Imports have also recovered but not to the heights seen at the end of 2021. As a result, Chile's monthly trade balance has widened in recent months although the accumulated surplus remains below levels seen last year.


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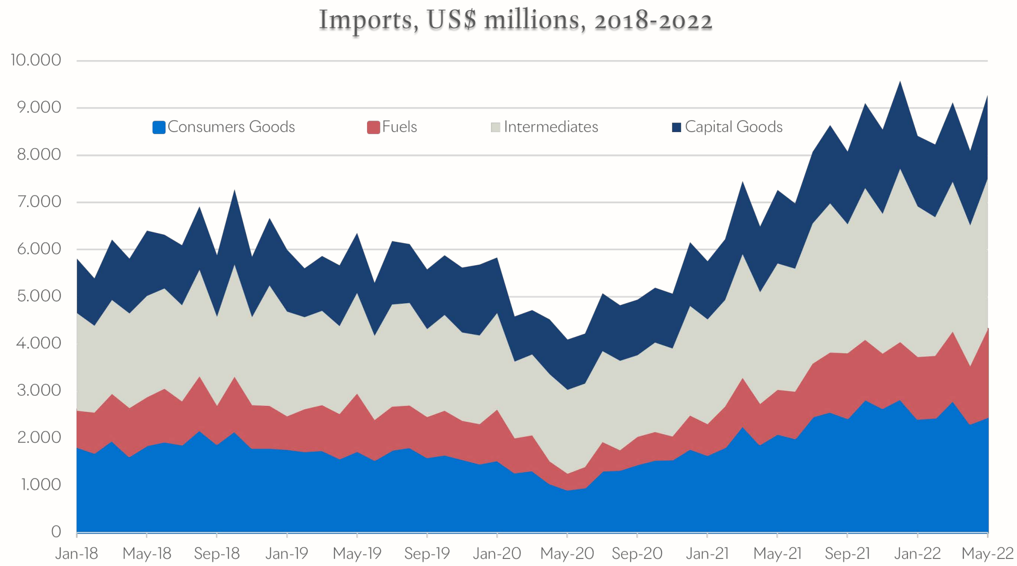
Imports



Source: Chilean Customs Service

After peaking late last year, Chilean imports have slowed during the first months of 2022, reflecting reduced imports of consumer and capital goods. However, they remain significantly above levels from a year ago, with imports during the first five months of the year reaching US$38.9 billion, up 27% from the same period of 2021.

Imports of consumer goods reached US$12.5 billion so far this year, up 28% from a year ago. However, after hitting US$2.9 billion in December, imports fell to US$2.5 billion in May. The decline has been sharpest in imports of consumer durables, especially computers and televisions, although car imports have held up.

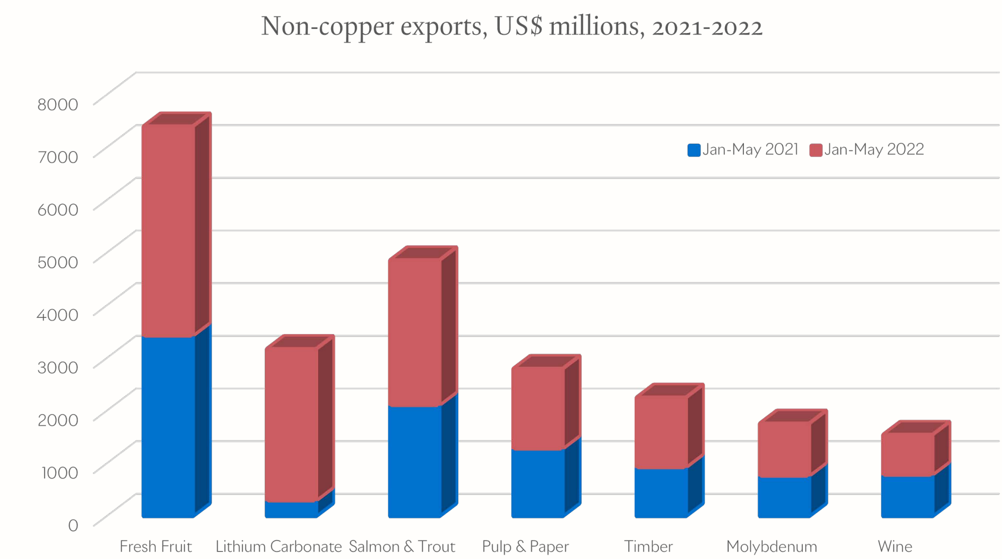
Source: St Louis Federal Reserve

Fuel imports have continued to rise, driven by soaring energy prices. Imports during the first five months of the year reached US$7.0 billion, up more than two thirds from a year ago. Following the closure of ENAP's Biobio refinery for a major maintenance turnaround, diesel imports have more than doubled to US$1.9 billion. The West Texas Intermediate oil price has risen sharply this year, driven by sanctions imposed on Russia, to reach almost US$115/barrel by late May. Prices have averaged US$99/barrel so far this year, up almost 50% from the average for 2021.

Imports of capital goods during the first five months of the year totalled US$8.1 billion, up 15% from a year ago, although monthly imports have slowed since the end of last year. The decline has been sharpest in imports of mining and construction equipment and electric motors and generators.

Imports of intermediate goods rose 27% to US$15.5 billion during the year to May although they have declined since the end of 2021. Imports of metal products, fertilizers and grain have all slowed in recent months.

Exports



Source: Central Bank of Chile

Chile's exports reached US$42.9 billion during the first five months of the year, up almost 12.1% from a year earlier, driven by increased exports of lithium carbonate (See 2.2 Mineral Exports), chemicals and fresh fruit.

Exports of fresh fruit reached US$4.0 billion during the first five month of the year, up 16% from a year ago. Exports of cherries rose 24.4% to US$1.5 billion, while grape exports rose 16.9% to US$1.0 billion. Despite the increase in exports, the sector has been badly hit by the congestions in ports around the world. Fedefruta has estimated that problems in Chinese ports cost cherry exporters around US$350 million while the industry body is studying legal action against US ports over the delays.

Industrial exports rose 23.7% to US$14.1 billion, driven by increased exports of chemical goods and food products. Chemicals exports rose 56.0% to US$1.3 billion, reflecting increased shipments of fertilizers (up 150% to US$479 million), potash (up 84.8% to US$222 million) and methanol (up 89.7% to US$211 million).

Food exports rose 18.2% to US$5.0 billion, largely due to a 31.8% increase in salmon shipments to US$2.6 billion. According to Chile's Salmon Council, the increase reflects higher prices as hotels and restaurants have reopened around the world in the wake of the pandemic and higher transport costs, offsetting a fall in salmon production.

Wine exports have fallen 2.8% so far this year to US$763 million, reflecting a fall in shipments of bottled wine. Farm statistics agency ODEPA said that exports of bottled wine during the first four months of 2022 fell 5.5% to 129.4 million litres, driven by lower shipments to China and Brazil, the two largest markets for Chilean wine.

Source: Chilean Copper Commission

The value of Chile's mineral exports reached US$24.8 billion during the first five months of the year, up 7.0% from the same period of 2021, as a massive increase in lithium carbonate exports offset falls in exports of copper concentrates and iron ore.

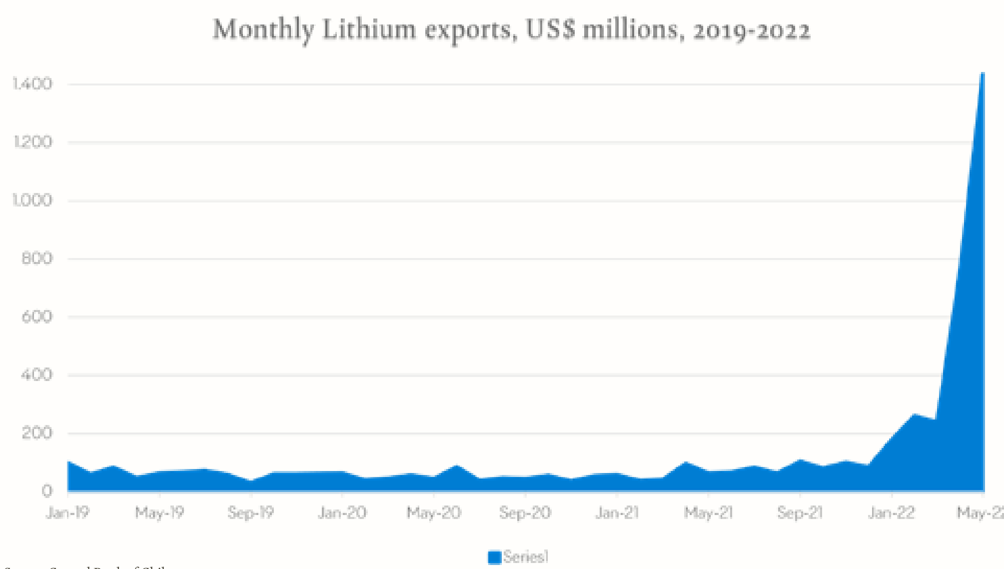
Exports of copper fell 3.2% this year to US$20.5 billion, driven by an 11.9% drop in copper concentrates, as lower mine production offset the impact of higher prices.

International copper prices have averaged US$4.49/lb so far this year, up from US$4.23/lb in 2021. However, prices fell suddenly in late April from around US$4.60/lb to below US$4.30/lb amid growing concern about the health of the Chinese economy as authorities in Beijing struggled to contain numerous Covid-19 outbreaks.

The rally in copper prices this year in the wake of the Russian invasion of Ukraine has led analysts to increase their forecast for the next two years. In April, the Chilean Copper Commission (Cochilco) predicted that copper prices will average US$4.40/lb during 2022, and US$3.95/lb in 2023 (up from US$3.95/lb and US$3.80/lb respectively, the prediction made at the start of the year). In June, the Central Bank adjusted its forecasts for 2022 and 2023 to US$4.35/lb and US$3.70/lb respectively, down slightly from three months earlier.

Source: National Statistics Institute

Copper production has slumped as mining companies struggle to maintain output in the face of lower ore grades, technical problems, water shortages and absenteeism linked to Covid-19 outbreaks. Production during the first four months of the year reached 1.713 million tonnes, down 7.6% from the same period of 2021. Despite the weak start to 2022, Cochilco has forecast that production will rise 2.6% to 5.78 million tonnes, lifted by the commissioning of Teck's QB2 project later this year.

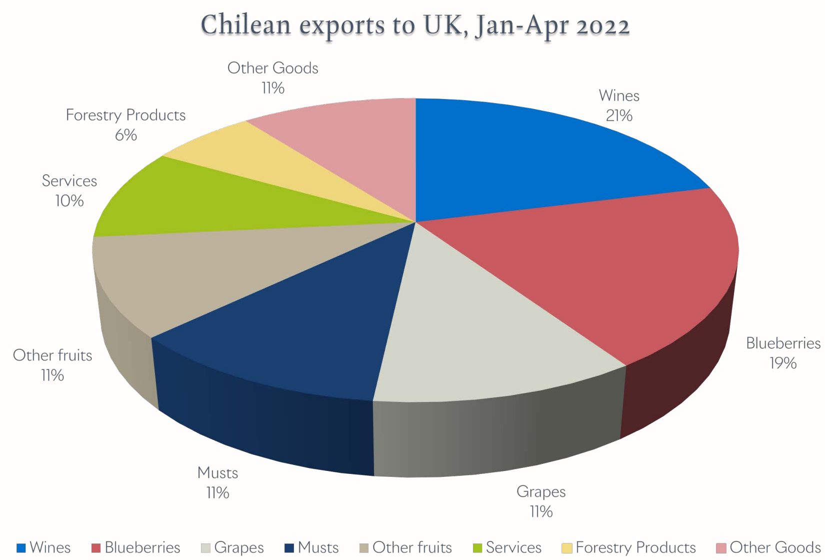


Source: Central Bank of Chile

The value of Chile's lithium exports has soared driven by rocketing prices and rising production. Chile exported US$2.8 billion worth of lithium carbonate during the first five months of the year, up almost ninefold from the same period of last year, including US$1.4 billion in May alone, as spot prices for lithium carbonate rose as high as US$80,000/tonne in China. Local producers Albemarle Corp and SQM have been able to capture more of these higher prices by renegotiating supply contracts with clients. Export volumes rose to almost 100,000 tons, up more than 60% from twelve months earlier as the two companies increase production from their operations on the Salar de Atacama.

In June, President Gabriel Boric reaffirmed plans to create a majority state-owned national lithium company to spur development of Chile's lithium industry. The new government has annulled authorizations granted to two private companies to produce lithium after the Supreme Court upheld injunctions brought by Indigenous communities against the special lithium contracts.

Exports of iron ore fell 29.9% to US$686 million as lower prices offset the impact of increased shipments.



Source: Central Bank of Chile

Trade between Chile and the UK during the first four months of 2022 fell to US$405.4 million, down 1.7% from the same period of last year.

The fall reflects a 4.0% decline in UK exports to Chile to US$193.7 million as vehicle exports dropped 43.4% to US$15.3 million and shipments of medical alcohol fell 13.1% to US$20.1 million. Exports of machinery and equipment rose 16.8% to US$52.7 million.

Chilean exports to the UK were at a similar level at US$211.7 million. While wine exports rose 5.8% to US$68.3 million and service exports rose 44.4% to US$20.7 million, fruit exports fell 10.2% to US$87.2 million, following a sharp drop in shipments of blueberries.

Chile's current account deficit fell to US$5.6 billion at the end of the first three months of the year, the equivalent to 7.3% of annual GDP, down from US$7.3 billion in the final quarter of 2021. The drop largely reflects the expansion of the trade surplus in goods this year as imports slowed as well as a fall in profits linked to Foreign Direct Investment.

In June, the Central Bank predicted that the current account would reach US$21.2 billion this year, equivalent to 6.6% of GDP, unchanged from last year, before declining to 4.5% of GDP in 2023.

The financial account ended the first quarter with a deficit of US$3.9 billion, down from a deficit of US$6.9 billion in the previous quarter. The fall largely reflected a swing in other investments from a net deficit of US$6.1 billion in December to a surplus of US$1.1 billion in March, as Chileans moved US$6.7 billion abroad ahead of and after last year's elections.

External Debt

Chile's foreign debt reached US$243.5 billion at the end of March, up from US$239.0 billion at the end of last year, driven by the 7.5% growth in government debt to US$49.1 billion while corporate debt fell. However, as a percentage of annual GDP, external debt fell to 76.8%, down from 84.4%, reflecting the growth of the economy last year.

Chile's Net International Investment Position (which measures the difference between a country's external financial assets and liabilities) expanded to a debt of US$35.4 billion (or 11.2% of GDP), up from US$15.5 billion three months earlier. The rise reflects the decline in asset prices globally, reducing the value of Chileans' overseas holdings, while the appreciation of the Chilean peso impacted the value of Foreign Direct Investment in Chile.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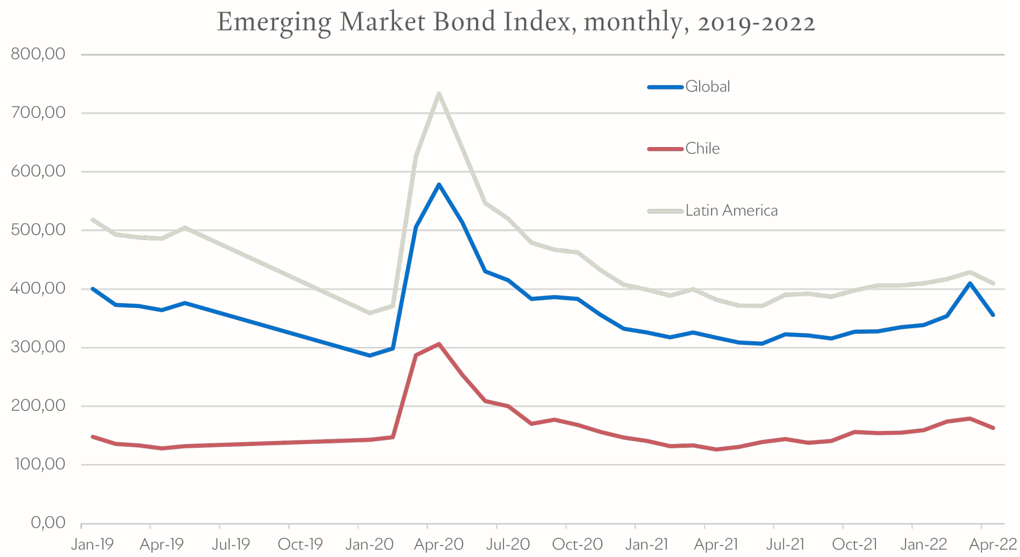
Country Risk



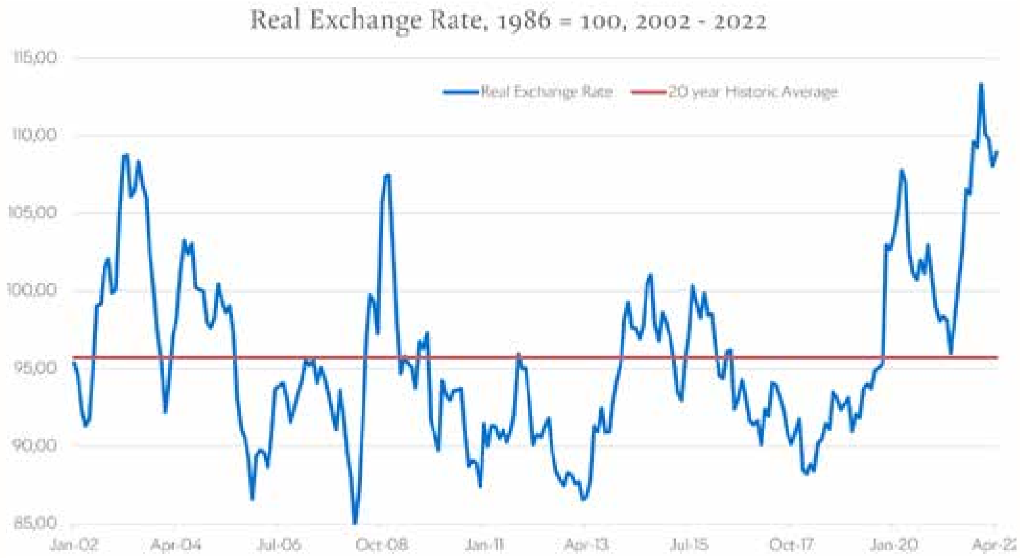
Source: JP Morgan

Risk premiums in Chile and around the world have declined in recent weeks after rising in the wake of Russia's invasion of Ukraine in late February. JP Morgan's Emerging Market Bond Index for Chile declined from 179 points in March, its highest level since the early months of the pandemic, to 164 points in April.

Premiums on five-year Credit Default Swaps for Chile spiked in April after lawmakers agreed to debate a constitutional reform to permit savers to make another withdrawal from pension accounts. However, the premium fell again after the bill was rejected.

Source:Central Bank of Chile

The Chilean peso has depreciated against the US dollar amid volatile trading. Beginning in early April, the local currency returned to the record levels reached after last December's presidential election as investors reacted to the debate on pension withdrawals, the drop in copper prices and a large increase in US interest rates. In May, the peso quickly recovered towards CLP 810/dollar as copper prices stabilized and the debate on the new constitution concluded but remains significantly above levels seen at the end of the first quarter.



Source:Central Bank of Chile

The Chilean Peso appears significantly undervalued, trading above the 15-year and 20-year historic averages of its Real Exchange Rate. Analysts have attributed most of its depreciation compared to similar currencies to the increase in political uncertainty since the 2019 social unrest. The rate could come under further pressure as the central banks abroad continue to increase interest rates, the global economy slows, and the vote on the new constitution approaches.

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Quarterly Insight

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In May, members of the Constitutional Convention completed voting on the permanent articles of Chile's proposed new constitution.

The initial text is a long one, containing almost 500 articles, which would make it the world's longest constitution (Bolivia's has 411 articles, India's has 446). But it is likely to be shortened by the Harmonization Commission which must now edit the document for coherence and propose changes to correct any omissions or contradictions. The Constitutional Convention then has until July 4th, when it is due to be dissolved, to approve the final text.

As these modifications are unlikely to vary significantly from the content already approved by the Convention, we now have a very good idea of what Chile's new Constitution will look like.

System of government: The proposed constitution would maintain the presidential system although the president's powers would be curtailed, losing, for example, the exclusive right to present tax and spending bills to Congress. In another change, Presidents would be allowed to run for re-election.

Legislature: The legislature will nominally retain two chambers. However, the Congress of Deputies would be able to approve many bills on its own while the new Chamber of the Regions would only be consulted on legislation that affects the system of government, taxation, or the allocation of resources around the country.

Decentralization: Chile's regional governments would gain significant levels of autonomy, with powers to control their own budget and raise debt. Indigenous peoples would also gain greater powers over their territories, including their own systems of justice.

Social rights: Citizens would be guaranteed rights to education, healthcare, pensions, and other forms of welfare although the details of how these would be implemented would be left to legislation.

Mining: Proposals to nationalize the mining industry and limit mining claims were finally rejected. But claims would not enjoy the same degree of protection they do under the current constitution and Congress would be responsible for setting fair compensation for expropriation. Mining would be banned from glaciers and protected areas.


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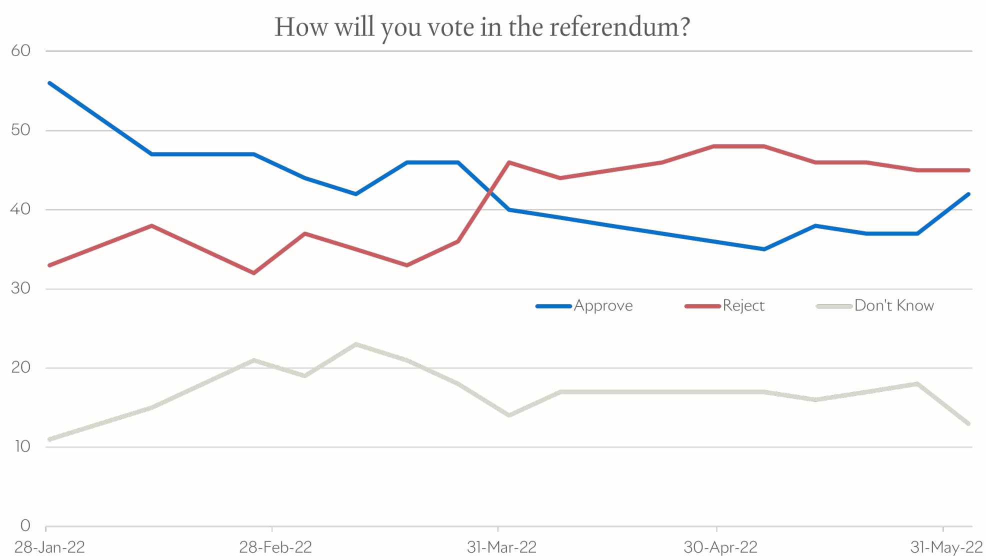
Water: The new constitution would grant more powers to the state to regulate water rights which would be exercised through a national water agency, and regional basin councils, a move which is likely to favour rural communities.

Reaction to the proposed constitution has been mixed. While government supporters have largely said that they support it, the centre-right opposition has said it will campaign against adopting the document.

Although some of the more radical articles proposed to the Convention were finally rejected (e.g. nationalization of natural resources), financial analysts have pointed out that the numerous social rights are likely to increase pressure on Chile's public finances in the medium term while increased environmental protection could deter investment in mining and other industries. The changes to the legislative system would limit its checks and balances, making it easier to approve popular but technically questionable measures, such as last year's pensions withdrawals.



Source: CADEM

The final say on the constitution, however, belongs to Chilean voters who will decide in a referendum on September 4th. Although almost of 80% of Chileans voted in favour of drafting a new constitution in October 2020, support for the document has declined as the debate has advanced. By early June, CADEM's weekly poll found that just 42% would approve the constitution, down from almost 60% at the start of the year, while 46% of voters would reject it.

Support may recover once the campaign gets underway next quarter. The constitution addresses the social demands raised during the 2019 unrest while many of the off-the-wall proposals, which alarmed more centrist voters, were finally not included.

Much could depend on the stance adopted by President Boric and the government. Although legally prohibited from campaigning, ministers have already warned that rejection would increase political uncertainty and prevent the government from implementing its ambitious reforms.

However, experiences of referendums elsewhere suggest that they often serve as proxy polls on the current administration. Rejection of the constitution has so far closely tracked disapproval of President Boric, which could increase as economic conditions deteriorate and his political challenges grow.

The Convention is now debating transitory articles which will govern its implementation, although they have already decided that President Boric should serve out his term without the right to stand for re-election.

If Chileans vote to reject the proposed text, it could imply a major political crisis. As maintaining the current constitution unchanged could trigger a return of the violent protests which shook the country three years ago, opposition politicians have called for wide-ranging constitutional reforms which could be facilitated by reducing the necessary qualified majority from two-thirds to four-sevenths.

Whatever the outcome of the referendum, the constitutional process will continue to dominate Chilean politics for several years.

CÁMARA
CHILENO BRITÁNICA
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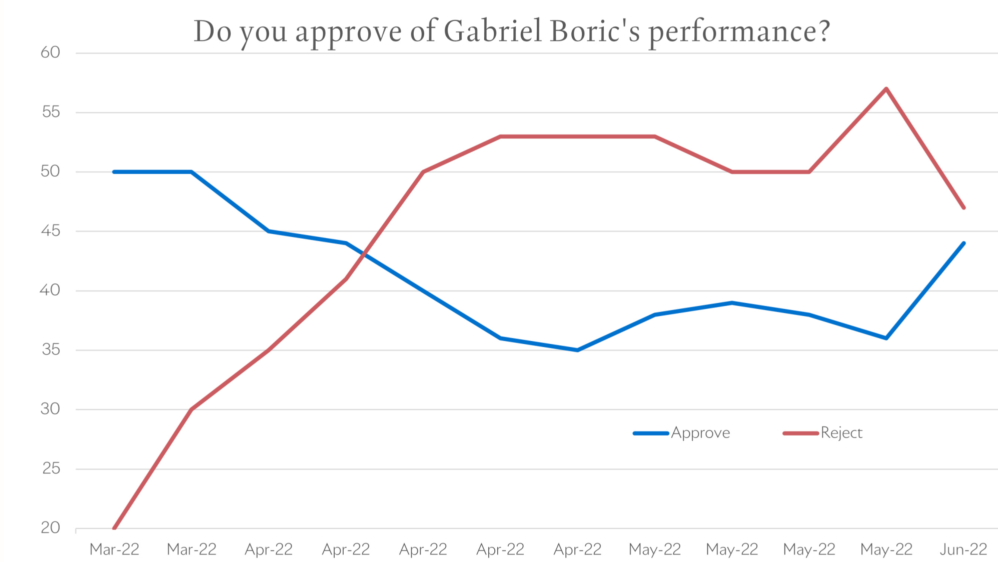
Political Context

4

In his first annual address to Congress on June 1st, President Boric reaffirmed several of his campaign promises, including a major tax reform, the increase of the minimum basic pension, a universal healthcare plan, the writing off of student debt and the establishment of a national lithium company.



Source: CADEM

After declining sharply during his first months in office, support for President Boric recovered significantly after the speech. According to the weekly poll conducted by CADEM, support for President Boric fell from 50% to 35% by late May while disapproval rose from 20% to over 50% within a just few weeks, a much faster deterioration than suffered by previous administrations. The president is less popular than most of the government's leading ministers with the exception of Interior Minister Izkia Siches.

In April, the government announced a US$3.7 billion package of measures designed to shield households from the effects of rising prices and the slowing economy. They include a sharp increase in the minimum wage, an extension of job subsidies, more subsidies for diesel, petrol, and heating fuel, greater support for working parents and a freeze in public transport fares.

Following discussions with business leaders and civil society, Finance Minister Mario Marcel plans to unveil the administration's tax reform at the end of June. The package is expected to increase government revenues by approximately 4.0% of GDP by raising taxes on high income earners, the wealthy, the mining industry, and polluters and cracking down on tax avoidance and evasion.

The disparate nature of the ruling coalition as well as the lack of majority in the Senate could hinder approval of its legislative program.

In April, government supporters in Congress agreed to debate a constitutional reform allowing savers to make another withdrawal from their pension funds despite warnings from ministers that it would stoke inflation and harm future pensions. Under pressure, the government presented its own bill which would have limited withdrawals for specific purposes, such as alimony, mortgage down payments or healthcare bills. In the end, neither proposal obtained the necessary three-fifths majority.

In May, the government reintroduced a state of emergency, though in a limited form, across the southern regions of Araucanía and Biobio allowing armed forces to support police efforts to clamp down on violence in the area. Upon taking office, President Boric had ended the state of emergency introduced by his predecessor in October last year in order to pursue dialog to end the violence but these efforts have not succeeded.

In foreign affairs, President Boric withdrew Chile from the Forum for the Progress and Integration of South America (PROSUR), the alliance established centre-right governments in the region in 2019. In June, he attended the Summit of the Americas in Los Angeles.

CÁMARA
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Economic Outlook

5

Chile is facing a very challenging period, with record-high inflation, slowing economic activity and political uncertainty over the new constitution and the implementation of the new government's ambitious reform program.

Inflation is expected to continue rising over the coming months and to end the year at around 10.0%, driven by high energy and food prices, strong consumer demand and a weaker peso. This will require the Central Bank to maintain interest rates near current high levels until at least early 2023. The war in Ukraine, global supply problems, and the slow response of authorities in developed economies to rising prices raise the risk that inflation could persist, which would force the Central Bank to take more radical measures.

Strong consumer demand, fuelled by last year's stimulus measures, have delayed a slowdown in activity so that the Central Bank now expects the economy to grow by a slightly faster 1.5-2.25% this year. However, rising prices, weak consumer confidence and falling investment will take their toll from the second half of the year, causing the economy to contract by as much as 1.0% in 2023.

The global economy poses significant risks to Chile's development over the coming quarters. As central banks in developed economies hike rates to contain soaring inflation, financial conditions for emerging economies will deteriorate and they could push their own economies into recession. China's failing efforts to stamp out coronavirus threaten to further hobble global supply chains and stall economic growth in Chile's main trading partner. Copper prices are expected to decline this year and next.

At home, President Boric is likely to struggle to advance his ambitious reform program, given the disunited nature of the ruling coalition and his lack of a majority in the Senate. If this requires a planned tax increase to be watered down, then the government's plans in pensions, healthcare and education would have to be cut or it will have to break promises to contain government debt.

The new constitution is another uncertain factor. If approved, it will launch a long process of implementation with major changes to the whole government structure. If rejected, the government and lawmakers will have to negotiate an alternative response to the demands raised during the 2019 protests or risk another outbreak of social unrest.

Economic Forecasts, 2022

	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	1.5-2.25	1.5	1.75.8
Inflation (% annual variation)	10.0	8.9	10.0
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	9.50
Exchange rate (pesos/US$)	NA	811	820[4/]
Copper price (US$/lb)	4.25	4.45	NA

[1/] Monetary Policy Report, June 2022.
[2/] Public Finances Report, May 2022
[3/] Average of selected private analysts surveyed by Central Bank, May 2022.
[4/] May 2023

Latin America Regional News

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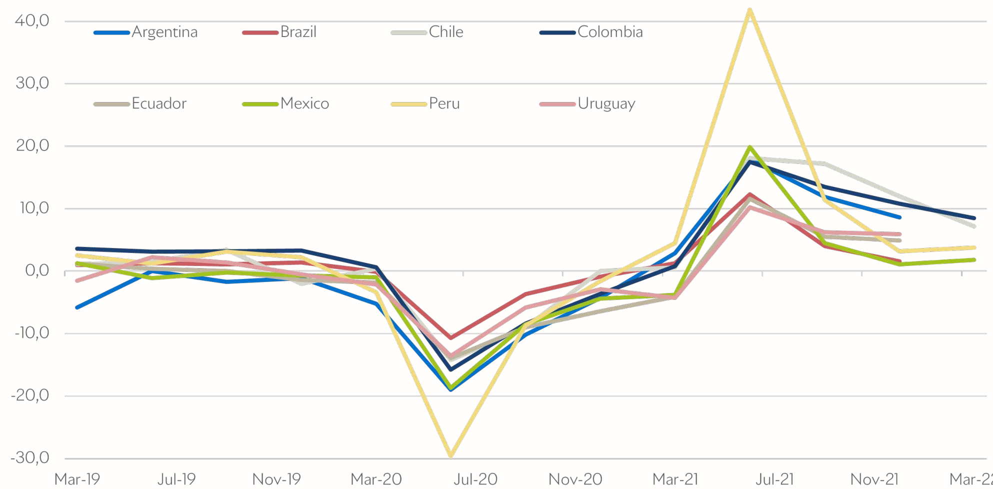
Quarterly GDP, annual change %, 2019 - 2022



Source: Trading Economics

Argentina: Annual inflation reached 61% in May and is set to continue rising this year, while the economy is expected to contract in the third quarter. To contain rising prices and bolster government finances, President Alberto Fernandez has banned beef exports and urged lawmakers to hike export taxes on other foodstuffs.

Brazil: Former president Luiz Inácio Lula da Silva has a double-digit lead in polls to become Brazil's next president, although incumbent Jair Bolsonaro may gain support following the withdrawal of two centrist candidates. Inflation rose by almost 12% in the year to April, putting pressure on the government to contain food and fuel prices.

Colombia: Left-wing senator Gustavo Petro and populist former mayor Rodolfo Hernández will compete to become Colombia's next president on June 19th after attracting almost 70% of the votes in the first round on May 29th. The economy is set to grow 5.0% this year driven by retail and services, but investors are worried by Petro's promise to raise taxes on the rich and halt oil and gas exploration.

Mexico: The economy is set to grow by 2.2% this year after expanding by just 1.0% in the first quarter. In April, lawmakers rejected President Lopez Obrador's proposed constitution reform to increase state control over the energy industry.

Peru: The government of President Pedro Castillo remains in constant turmoil, with successive cabinet reshuffles and numerous impeachment attempts, while the opposition threw out his proposal to draft a new constitution. Growth will slow to 3.2% this year, according to the IMF.

Venezuela: Independent analysts have forecast that the economy will grow by around 8.0% in 2022 driven by a sharp recovery in oil production. The widespread adoption of the US dollar has helped curb inflation to just 16.3% during the first four months of the year, its lowest level in eight years.

UK Economy Q1 – 2022

The UK economy has recovered from the pandemic faster than previously expected, growing 7.4% in 2021. However, global factors mean the outlook for growth and inflation is challenging. High global energy prices and supply chain pressures are pushing up prices in many economies, including the UK – and are worsened by Russia's invasion of Ukraine. The UK government is providing support for households worth £37bn. Policies are based on the principle that growing the economy sustainably into the future is the best way to support families in the long term. (All data below is based on the latest update of the UK's Office for National Statistics unless otherwise specified).

1. Economic growth

In quarterly terms, GDP is estimated to have grown by 0.8% in Q1 2022, this leaves UK growth 0.7% above pre-pandemic Covid-19 levels in Q4 2019. The service sector grew by 0.4% in Q1 2022 and by 9.9% compared with Q1 2021. It is now 1.4% above pre-coronavirus pandemic levels. The largest contribution to service sector growth came from the information and communication sector (3.6%), driven by rises in computer programming and information service activities. Production output rose by 1.2% in Q1 but is still 1.8% below pre-pandemic levels due to supply chain constraints. The largest contribution to growth came from a rise in manufacturing output (1.3%). Construction output rose by 3.8% in Q1 2022 and is now 1.9% above pre-coronavirus levels, with both new work and repair and maintenance (2.8% and 5.5% respectively) contributing to the quarterly growth. In monthly terms GDP fell by 0.1% in March 2022, after no growth in February 2022. Both the service and production sector output fell by 0.2%, whilst the construction sector grew by 1.7%.

2. Inflation

Annual CPI and CPIH inflation rates (the latter includes housing costs) registered at 9.0% and 7.8%, respectively, in April 2022, up from March 2022 levels of 7.0% (CPI) and 6.2% (CPIH). This is the highest CPI 12-month inflation rate in the data series, which began in January 1997. The largest contribution to inflation was housing and household services (2.67 ppt), which rose 1.59 ppt from the previous month, overtaking transport (1.84ppts) as the biggest contributor to inflation. This follows an increase in the Office of Gas and Energy Markets (Ofgem) price cap in April which led to energy prices rising by 46.5% in the month (the price of electricity rising by 40.5% and the price of gas rising by 66.8%). Growth in average total pay (including bonuses) was 7.0% and regular pay (excluding bonuses) was 4.2% for the three months from January to March 2022. In real terms (adjusted by inflation), growth in total pay was 1.4% but regular pay fell for the year by 1.2%. Strong bonus payments have kept real total pay growth positive.

3. Monetary policy

In its most recent meeting in May, the Bank of England's Monetary Policy Committee (MPC) voted to increase interest rates to 1.0% from the previous 0.75%, while all members voted for an increase 3 members voted for a larger 0.5ppt increase. The rise comes in response to inflation remaining high in March at 7%, well above the Bank of England's inflation target of 2%. In the Bank of England's May report, the Bank expected CPI inflation to continue increasing, reaching 9.3% in Q2 before peaking around 10% in Q4 2022 as the price cap on energy increases in October 2022, before cooling down to 6.6% by mid-2023. Cost of living is expected to rise, with prices likely rising faster than income for many people. This is expected to lead to slower growth overall in 2022.

4. Labour market

The UK employment rate in the three months to March 2022 was 75.7%, 0.9ppts lower than before the pandemic (three months to February 2020) and 0.1ppts above the previous quarter. The unemployment rate fell in the three months to March 2022 to 3.7%, 0.2ppt lower than before the pandemic, and 0.3ppts lower than the previous quarter. The redundancy rate in the three months to March fell 2.5 people per thousand employees, decreasing by 0.1% per thousand employees to reach record lows and below pre-pandemic levels. Tight labour markets continue as the number of job vacancies in the three months to April 2022 was a record high of 1,295,000; an increase of 499,300 from pre-pandemic levels and 33,700 higher than the previous quarter.

5. Trade

The UK's total trade deficit, excluding precious metals, widened by £14.9 billion to £25.2bn in Q1; the largest deficit since records began in 1997. This was mainly driven by the goods deficit, which widened by £19.6bn to £62.2bn in Q1 2022, as imports of goods increased by £19.3bn (15.2%) and exports decreased by £0.3bn (0.3%). The trade in services surplus increased by £4.7bn in Q1 2022 to £37.0bn. In the month of March 2022 alone, total imports of goods, excluding precious metals, increased by £4.4bn (9.3%) in March 2022, due to a £2.4bn (9.9%) rise in imports from non-EU countries and a £2.0bn (8.6%) rise in imports from EU countries. Total exports of goods, excluding precious metals, on the other hand increased by £0.6bn (2.1%), driven by a £0.4bn (2.6%) increase in exports to non-EU countries while exports to EU countries increased by £0.3bn (1.7%).

6. Government finances

Public Sector New Borrowing excluding public sector banks (PSNB ex) was £18.6bn in April 2022, the fourth-highest April borrowing since monthly records began in 1993; this was £5.6bn less than in April 2021 but still £7.9bn more than in April 2019, before the pandemic. PSNB for the financial year-to-March was revised down to £144.6bn from the provisional estimates of £151.8bn last month. But it remains the third-highest level for the equivalent period since records began in 1947. Public sector net debt (excluding public sector banks, PSND ex) was £2,347.7bn at the end of April 2022, equivalent to 95.7% of GDP, a 0.9ppt of GDP jump compared to April 2021. Central government receipts were £70.2bn in April 2022, £9.9bn higher than in April 2021. Of the central government receipts, £50.2bn were tax receipts, an increase of £5.5bn from the previous year.

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