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CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Third Quarter 2022

3rd Edition 2022 — Produced since 1922

Our Investors

Platinum Investors

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Dear reader

The production of this edition is overshadowed by the sad news of the death of Her Majesty Queen Elizabeth II. As Patron of the British Chambers of Commerce network, Her Majesty offered immense support and often praised the work we do to help businesses and champion international trade. Last week Peter Lynch, our chairman, and I signed the condolences book at the British Embassy on behalf of the Chamber.

Here in Chile, the long-awaited referendum on the adoption of a new constitution took place on the 4th of September. The vote to reject the new proposal was not a complete surprise, but the magnitude of the majority was. 62% of the almost 85% turnout voted against, and now Congress and the political leaders are determining how the process will go forwards from here. See section 3.0 "Insight" for more details.

Other proposals on the government's agenda right now include a further tax reform which has an ambition to raise an additional 4.1% of GDP by 2026, and a pensions reform, which will invoke employer's contributions for the first time in Chile and reduce the role played by private pension fund administrators. However, both these bills still need congressional approval which could be a significant challenge for the government as it does not hold a clear majority in either house.

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

Annual inflation is currently running at 14%, its highest level for 30 years, fueled by last year's increased public spending, the peso depreciation against the dollar, and high energy prices. This in turn has prompted the Central Bank to rapidly increase interest rates to control it. Economic activity is likely to fall later this year and into 2023 as domestic spending falls as the cash windfalls provoked by the pandemic dry up, and businesses slow investment.

On a brighter note, we will be holding our first golf event for three years on the 14th October at the Prince of Wales Country Club. If you are interested in either playing or sponsoring the 29th Ambassadors Cup please refer to our website for the details.

Economic Report Committee: Peter Lynch, President, British Chilean Chamber of Commerce. Leslie Hemery, Director, 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, External Journalist. Greg Holland, General Manager, British Chilean Chamber of Commerce.

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Key points

• In September, a record 13 million Chileans voted by 62% to 38% to reject the proposed new constitution. Congress is now determining how the process will continue.

• Inflation surged to over 14% in August, its highest level in 30 years, as the peso depreciated sharply against the US dollar, compounding high energy and food prices.

• To prevent inflation becoming persistent, the Central Bank has rapidly ramped up interest rates to reach 10.75% by early September.

• Economic activity is set to fall through the second half of 2022 and early 2023 as households cut spending in the wake of the pandemic and businesses slow investment.

• Unemployment has climbed to 7.9% following a collapse in job creation as activity slows. Real wages have fallen by more than 2% over the last year.

• Copper prices have fallen, cutting exports, amid fears of slower growth, especially in China. Imports have risen to record levels, driven by higher energy costs.

• Chile's current account deficit grew to 8.5% of GDP in the second quarter, reflecting the fall in the trade surplus.

• The Chilean peso traded as low as CLP1,060/dollar in July after copper prices fell and the US Fed tightened monetary policy, recovering only after the Central Bank launched a US$25 billion intervention in currency markets.

• The government has presented a tax reform to increase public revenues by 4.1% of GDP, through higher tax on the wealthy, mining companies and shareholders.

• The public deficit is set to fall to close to zero this year as government spending falls and tax revenues recover.

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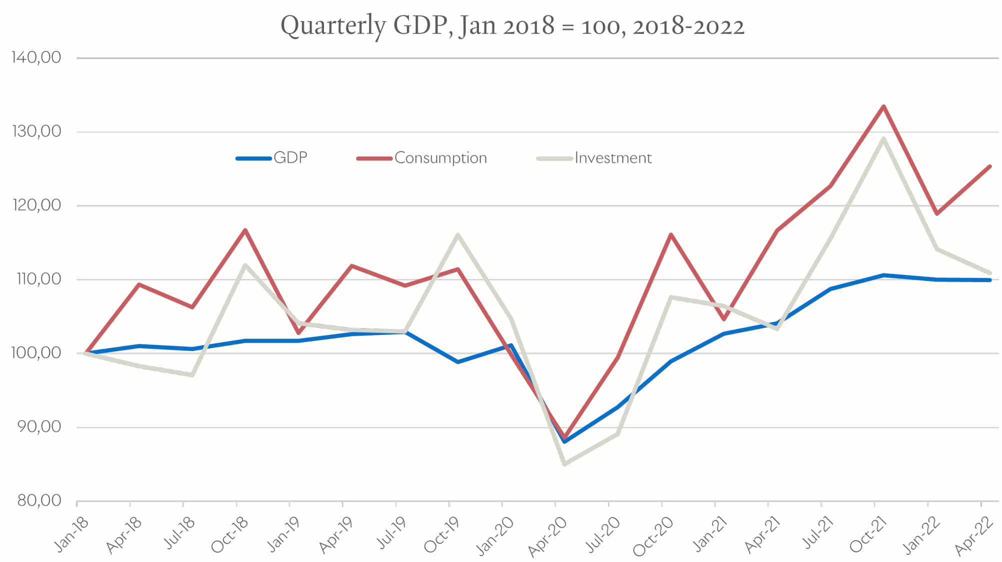
Domestic Economic Performance

1



Source: Central Bank of Chile

The Chilean economy is heading rapidly into recession as it adjusts to the imbalances caused by the Covid-19 pandemic and activity slows around the world.

After recovering to pre-pandemic levels in 2021, economic activity has slowed significantly this year, recording almost no growth over the last three quarters. According to some economists, the economy has already entered a technical recession after contracting by a seasonally adjusted 0.01% in the second quarter (compared to the previous three months) and following a 0.6% drop in the first quarter.

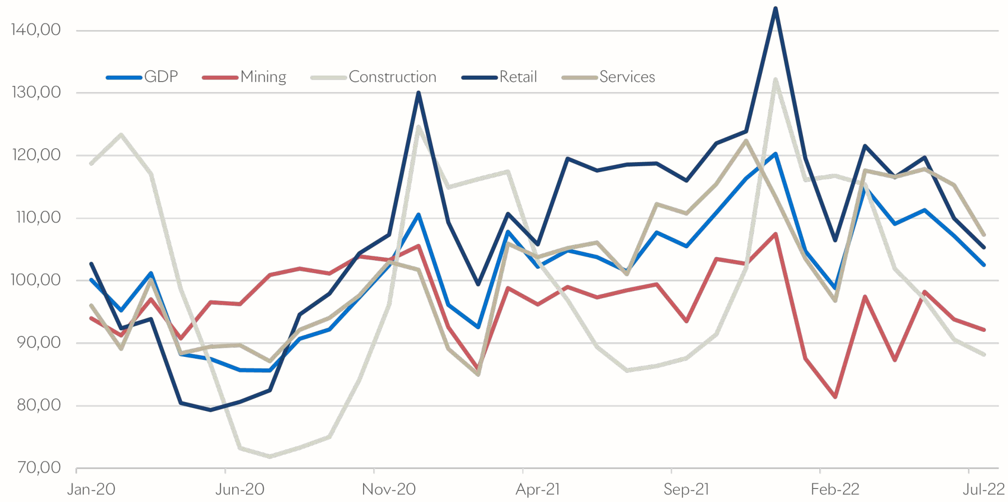
Private consumption, which drove last year's boom, contracted by 2.4% in the second quarter as households pared back spending amid tougher economic conditions and exhausted liquidity accumulated during the pandemic. Investment also fell, contracting by 1.0%. However, it has performed better than expected thanks to the continuance of key investment projects such as the rollout of 5G telecommunications technology and some major mining projects.

By economic sector, the fall in activity was led by retail which shrank by 1.7% but personal services also declined 2.0%, offsetting increased activity in tourism (up 1.4%) and real estate (up 1.5%).

According to preliminary data, this trend has continued into the third quarter. Discounting the mining sector, activity shrank by 2.1% in July, compared to the previous month of June, driven by services (down 1.7%) and retail (down 0.4%).


POR EL CAMBIO CLIMÁTICO,
LO ESTAMOS CAMBIANDO TODO
En Anglo American decidimos cambiar la forma de hacer minería, con un claro objetivo: contribuir a la lucha contra el cambio climático y sus efectos.
Y lo hacemos a través de la innovación y la tecnología.
100% ENERGÍAS RENOVABLES
La electricidad que usamos en nuestras operaciones en Chile proviene de fuentes renovables.
PIONEROS EN HIDRÓGENO VERDE
Construimos la primera hidrogenera para minería en Chile, y desarrollamos el primer camión minero impulsado por hidrógeno del mundo.
REUTILIZAMOS EL AGUA DEL PROCESO MINERO
El 92% del agua que usamos en nuestro proceso es reutilizada y nuestro compromiso es dejar de usar agua fresca en Los Bronces a 2030.
PROGRAMA AGUA RURAL
Colaboramos en 83 Servicios Sanitarios Rurales, aumentando la disponibilidad hídrica para más de 136 mil personas.
Porque si el cobre que producimos es determinante para el futuro del planeta, su proceso productivo también debe serlo.
POR EL CAMBIO CLIMÁTICO, LO ESTAMOS CAMBIANDO TODO

Monthly GDP, 2018 = 100, 2020-2022

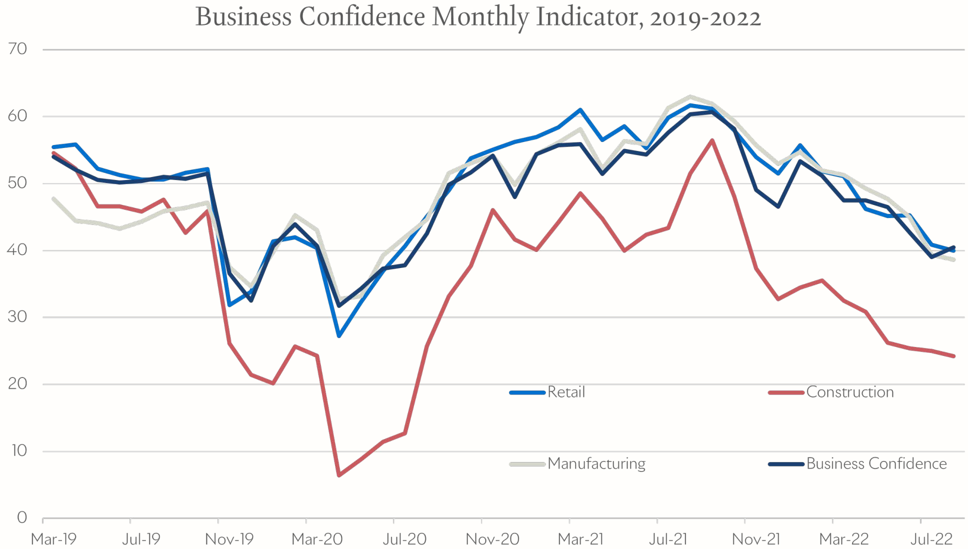


Source: Central Bank of Chile

The slowdown is expected to come into sharper focus in the second half of the year, especially when compared with the spending boom which reached its height in late 2021.

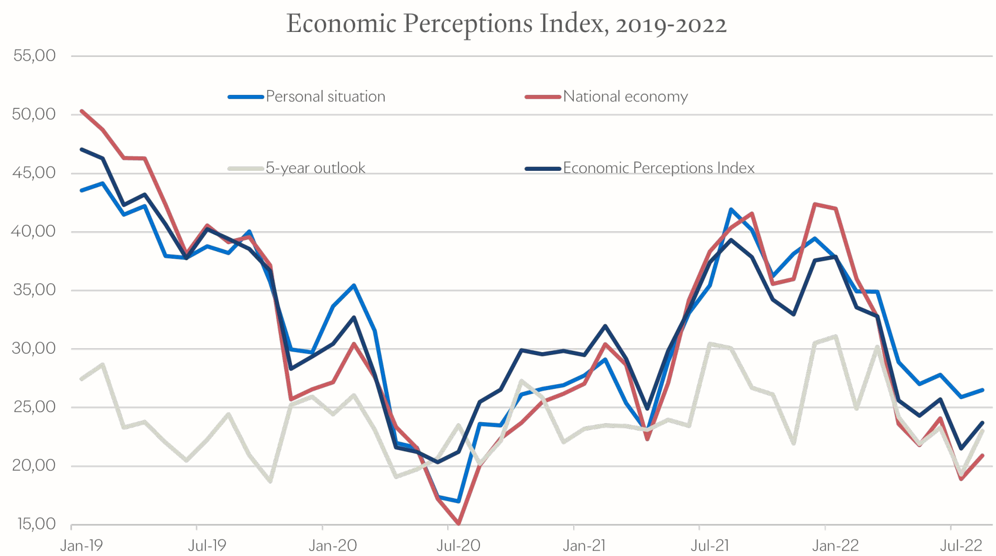
In its latest Monetary Policy Report released in September, the Central Bank predicted growth of 1.75-2.25% this year, which after an annualized expansion of 6.4% in the first half, will require a sharp dip in activity during the rest of the year. The Bank also predicted that activity could contract by as much as 1.5% in 2023. According to the Bank, the decline in activity will be driven by a 5.6% fall in private consumption (after growing 1.4% in 2022) as lower real wages and stagnant growth forces households to cut back.

Business Confidence Monthly Indicator, 2019-2022



Source: Adolfo Ibáñez University, ICARE

Amid rising inflation and slowing growth, business confidence has fallen to its lowest level since the height of the Covid-19 pandemic in mid-2020. The Monthly Indicator of Business Confidence, produced by the Adolfo Ibáñez University and business organization ICARE, fell to 40.49 points in July, down 13 points from the start of the year with executives expressing concern over rising costs, wage inflation and weak demand. Reflecting the fall in investment and house sales, the gloom is deepest in the construction sector.



Source: GFK

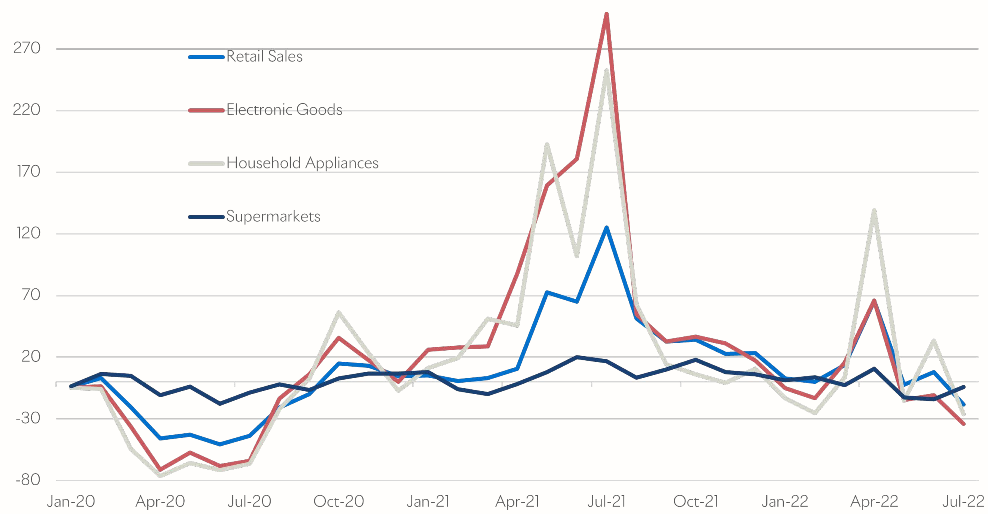
Consumer confidence has declined almost continuously since late 2021, reaching near record lows by the middle of 2022. By July, the Economic Perceptions Index, produced by market research firm GfK, had fallen to 21.5 points, its lowest level in two years, reflecting increased pessimism about the state of the economy and the long-term outlook. However, the index rose 2.2 points in August to 23.7 points, which some attributed to expectations that voters would vote in September against the new proposed constitution, which would have brought radical change.

Retail

Retail activity grew by 1.0% in the year to the second quarter, a significant decline from the 28% expansion recorded during 2021.

The increase this year has been largely due to increased car sales which reached 295,777 units during the first eight months of the year, up 17.6% from the same period of 2021.

Retail Sales in Metropolitan Region, Annual change %, 2020-2022



Source National Retail Chamber

Retail sales in the greater Santiago region rose by 11.4% in the first six months of the year, compared with twelve months earlier. However, in July, sales fell by 18.4%, with sharp declines recorded in sales of clothing and footwear, electronic goods, and household appliances. The National Retail Chamber attributed the fall to the exhaustion of the pension withdrawals, as well as higher inflation, the fall in real wages and low consumer confidence.

Services

Services, which together account for around half of Chilean GDP, have continued to grow on an annualized basis, reflecting the impact of the roll-back of social-distancing measures last year. Transport activity grew by 27.9% as passengers returned to buses, trains, and aeroplanes. Hotel stays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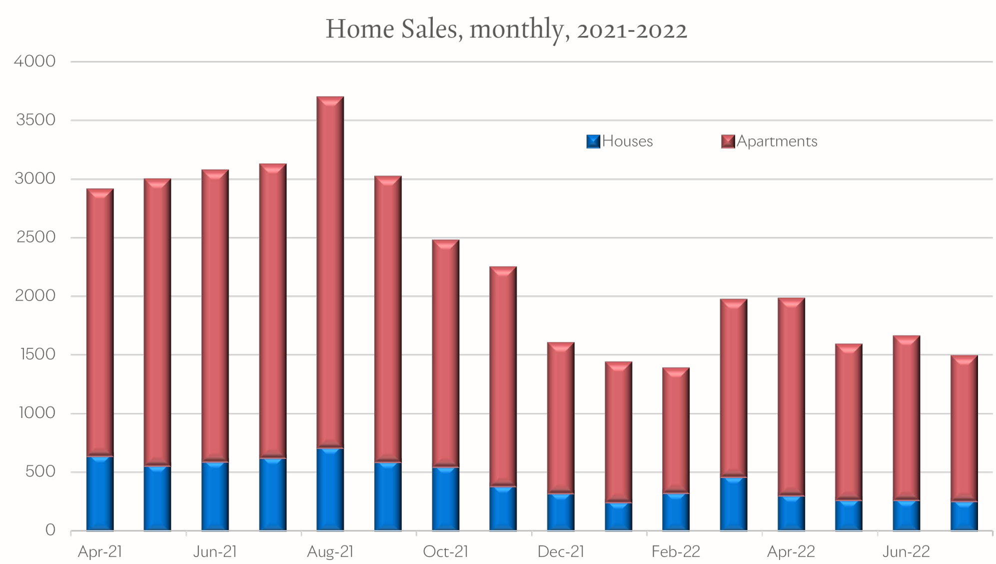
rose by 36.7% to reach 1.7 million in July as tourism recovered, while the number of people travelling on Santiago's metro system rose by 43% to reach 43.6 million.

Construction

The Chilean Chamber of Construction's Construction Activity Index fell by 13.0% in the year to June 30th (compared to a 2.0% decline in 2021), reflecting weaker confidence in the sector and a decline in sales of building materials.

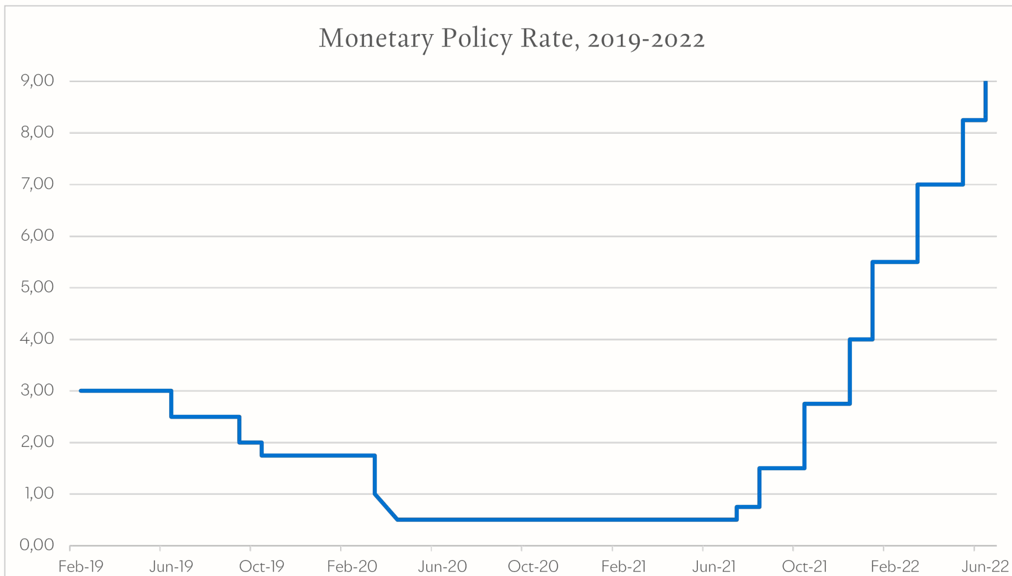
After recovering in March and April, home sales have declined to levels not seen since the peak of the pandemic in 2020, as buyers reacted to slower economic growth and higher interest rates. Sales in the greater Santiago region fell to just 1,482 apartments and houses in July, down more than half from twelve months earlier.



Source: InfoInmobiliaria

Manufacturing

Manufacturing activity declined by 1.3% in the year to July on a seasonally-adjusted basis, reflecting lower concrete production as several major construction projects were completed and a stoppage at a major fertilizer plant. Food production rose 3.4% over the same period, following a recovery in the fishing industry.



Source: Central Bank of Chile

Chile's Central Bank has continued to tighten monetary policy at an unprecedented rate as it strives to get ahead of soaring inflation. On September 6th, the board voted to raise the rate by 100 basis points to 10.75%, its tenth consecutive rate increase since it began withdrawing the stimulus last year. It brings the rate to its highest level in almost three decades.

Despite slowing economic activity, inflation had continued to exceed market forecasts while inflation expectations remained above its two-year 3% target rate, the Bank said in its explanation of the decision.

The 100 bp hike took financial markets by surprise. Traders surveyed by the Bank ahead of the meeting had predicted another 75 bp increase, like those implemented in June and July. While previous decisions were unanimous, the board was divided in September on the size of the hike to be implemented, with three board members, including president Rosanna Costa, backing a 100bp increase, while one wanted a 125bp increase and another preferred 75bp.

The Bank said the increase lifts the interest rate to the maximum level considered under the Base Scenario included its latest Monetary Policy Report (released one day after the meeting). However, it did not rule out further hikes especially given that it continues to see high inflation as the main risk facing the economy.

Traders surveyed ahead of the meeting predicted that the rate will be raised to 11% at the Bank's next monetary policy meeting on October 11th-12th before falling to 9.0% by September next year.

Higher tax revenues this year are expected to reduce the public deficit to just 0.1% of GDP, the government said in its latest assessment of public finances, released in July. That compares to 1.7% predicted in May and a record 7.8% deficit in 2021.

Tax revenues are now forecast to rise 4.7% this year to CLP 63.9 trillion (US$72.5 billion), compared to the 0.8% decline predicted earlier this year, boosted by increased corporate tax payments which will offset a fall in income from value-added tax (which accounts for around half of government tax revenues).

Public expenditure is expected to fall 24.1% this year to CLP 64.0 trillion (US$72.6 billion) as the government ends payments under the Emergency Family Income and other pandemic-era benefits.

Since its latest report on public finances, the government has announced a package of measures worth CLP 2.2 trillion (US$2.4 billion), including a one-off payment of CLP 120,000 (US$136) to approximately 7.5 million individuals, the extension of paid parental leave until September and the extension of two job subsidy programs until the end of the year. The government also reduced to zero co-payments that five million individuals living on low incomes will have to make for treatment under the public health system.

In line with the budget legislation passed by the previous administration, government spending has fallen dramatically this year. To the end of July, public expenditure reached CLP 34.5 trillion (US$39.2 billion), down 19.3% from the same period of 2021. Over the same period, government revenues rose 29.3% to CLP 42.5 trillion (US$48.2 billion) boosted by higher income tax payments and revenues related to lithium production contracts.

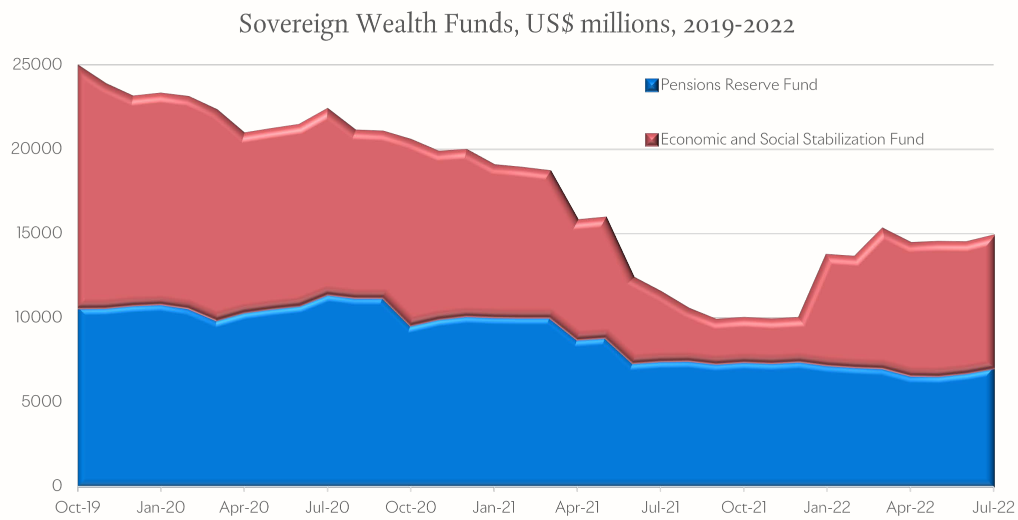
Finance Minister Mario Marcel is due to present his budget for 2023 to Congress by September 30th.

Credit Ratings

Leading ratings agencies have left their ratings of Chile's sovereign debt unchanged.

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 sovereign wealth funds has risen sharply this year, thanks to the injection of almost US$6.0 billion into the Economic and Social Stability Fund by the previous administration. By the end of July, the two funds held assets worth US$14.8 billion, up 49.1% from the end of December.

Taxing times

In July, Finance Minister Mario Marcel presented the government's wide-ranging tax legislation to Congress. A key part of the administration's agenda, the reform aims to raise the equivalent of around 4.1% of GDP by the time it comes fully into force from 2026, helping to finance increased spending on pensions, healthcare and education while reducing Chile's social inequalities.

Government revenues would be boosted by raising taxes on the wealthy, shareholders and high-income earners, mining companies, and polluters. The bill also eliminates several tax breaks, gives authorities greater power to attack tax evasion and avoidance, and provides new incentives for investment and research.

Although this will be the fifth tax hike in Chile since 2010, the administration sees significant room to increase taxes, given that, at 27%, Chile's tax burden is eight percentage points lower than the average among member countries of the OECD.

Companies: Shareholders will no longer be able to discount tax paid at the corporate level from their own tax burden and dividends distributed to individuals will be taxed at 22%. Companies will be able to reduce their corporate tax rate from 27% to 25% if they invest 2% of their profits in research, innovation, and productivity.

Individuals: Marginal rates of income tax for individuals earning more than CLP 4 million (US$4,400) a month will rise between three and five percentage points with the top rate increasing from 40% to 43% for those earning more than CLP 8 million a month. As only 25% of individuals in Chile pay income tax, the increases will only affect 3% of the population.

Small businesses: Taxes will not change for small businesses, but new businesses can opt for a special credit against Value-Added Tax during their first year. Tax incentives will be created to encourage companies to pay smaller providers within 30 days.

Millionaires: Individuals worth more than US$5.0 million will have to contribute 1% of their net assets annually under a new wealth tax. The rate rises to 1.8% from those worth more than US$15.0 million.

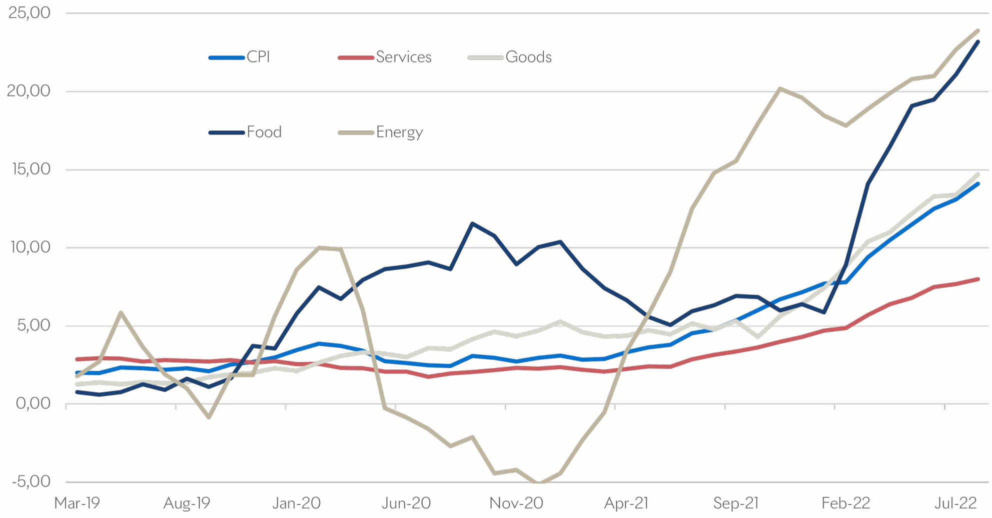
Tax breaks: Exemptions favouring construction companies, stock trading, and homeowners will be limited or eliminated.

Tax evasion: A registry of final beneficiaries will be created while rules on tax havens, valuations and expenses will be strengthened.

Mining: The government also introduced amendments to legislation in Congress to create a new royalty on mine production (See Box 2: Bearing the burden).

Given its lack of majority in Congress, the government will need the support of opposition lawmakers to approve this legislation. This could become more difficult following the defeat of the new constitution in September.

Consumer Price Index, annual change %, 2019-2022



Source: National Statistics Institute

Despite the unprecedented tightening of monetary policy and slowing economic activity, inflation has continued to exceed market expectations, reducing real wages and living standards. Although global food and energy prices have eased in recent months, these have been wholly offset by the sharp depreciation of the Chilean peso since April.

In August, the government's Consumer Price Index rose by 1.2% (after increases of 1.2%, 0.9% and 1.4% in May, June, and July, respectively) to reach 14.1% on an annualized basis, its highest level in almost thirty years.

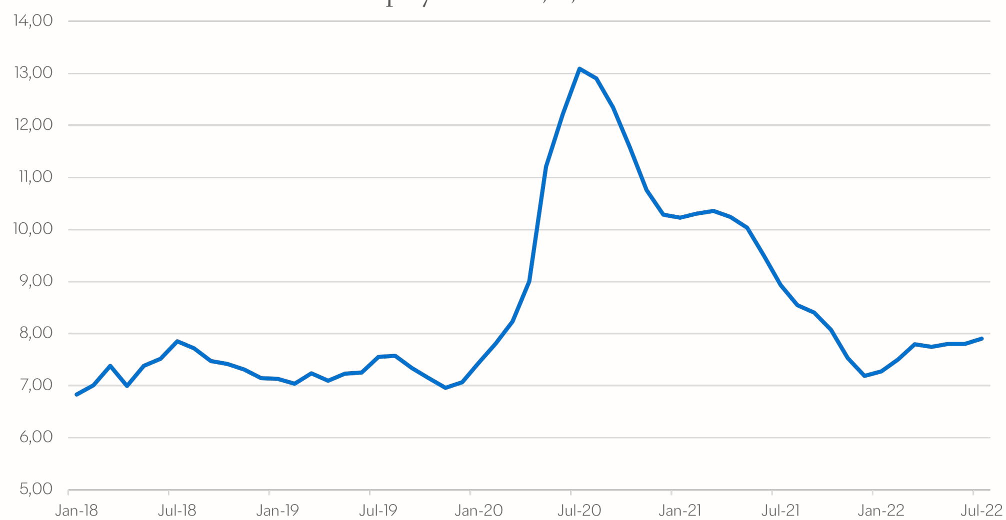
Volatile food and energy prices have continued to drive the index higher, accounting for most of the monthly increase. Gasoline prices rose by 4.6% in August alone while the price of beef and bread both rose by more than 3.0%. But the depreciation of the peso and higher energy prices have been transferred rapidly through the economy (all twelve product categories recorded increases) and core inflation rose by a record 10.9% in the year to August, up from 5.2% in December.

The price increases have been compounded by their inclusion in indexed prices, such as electricity tariffs and property rents.

As prices continue to rise faster than expected, forecasters have adjusted their predictions upwards. In September, the Central Bank predicted that the CPI would end 2022 at 12.0%, up from 10.0% predicted in June and in line with market expectations, before declining back towards its 3.0% inflation target by early 2024.

However, the market remains sceptical about the Bank's ability to control inflation. Analysts surveyed in early August predicted that the index would end 2023 at 5.5% (versus 3.3% predicted by the Central Bank) and reach 4.0% within two years, at the upper limit of the Bank's target range.

Unemployment rate, %, 2018-2022



Source: National Statistics Institute

Amid slowing economic growth and falling investment, conditions in the labour market have worsened. Job creation has slowed dramatically with just 14,000 net jobs being created between April and July compared to almost 120,000 in the first three months of the year and over 250,000 in the final quarter of 2021. Labour market participation has stagnated with around 6.5 million still classed as inactive, 300,000 more than before the pandemic. As a result, the unemployment rate has gradually climbed to average 7.9% in the three months to July, up from 7.2% at the end of last year.

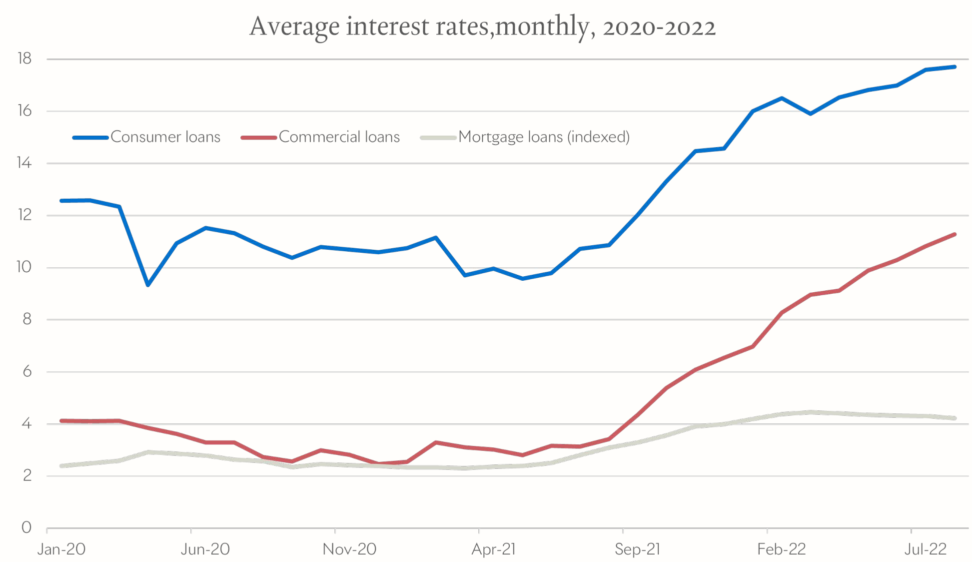
The situation is expected to worsen over the coming quarters, with 30% of businesses surveyed by the Central Bank predicting that their workforce will shrink over the next year, partly because of difficulties filling vacancies. The number of jobs posted online has also fallen dramatically over the last six months.

Workers' wages have continued to rise rapidly, growing by 10.0% in the year to June, according to government data. However, inflation has continued to wipe out these gains, with real wages falling by 2.2% over the same period, marking nine consecutive months of declining incomes.

In August, the government presented amendment to legislation in Congress to reduce the working week from 45 to 40 hours. The change would be implemented over five years, a move the government says will increase productivity and workers' quality of life. Exceptions will be made for shift workers, such as miners, and the transport sector.

Rising inflation and tightening monetary policy have increased volatility in financial markets both in Chile and abroad, especially in the Chilean peso-US dollar exchange rate (See 2.5 Exchange Rates) although this reduced after the Central Bank's intervention.

Bank lending



Source: Santiago Stock Exchange

Bank lending has slowed significantly this year, amid reduced demand for loans and tighter lending requirements from banks. Interest rates for individuals and businesses have risen by around 400 basis points since the start of the year.

By the end of July, outstanding bank loans had reached CLP 240.6 trillion (US$276.7 billion), up 2.55% from twelve months earlier, compared to growth of 4.44% in 2021.

Commercial lending grew by just 0.87% to CLP 135.9 trillion (US$156.2 billion), down from growth of 3.23% to December, largely due to slower lending to small and medium-sized businesses. Lending to large businesses rose by 4.3%.

Consumer lending grew by 4.3% to CLP 27.4 billion (US$31.6 billion), compared to 5.25% in December. Mortgage lending rose by 3.6% to CLP 74.3 trillion (US$85.5 billion), the lowest rate of growth in three decades, according to banking association ABIF.

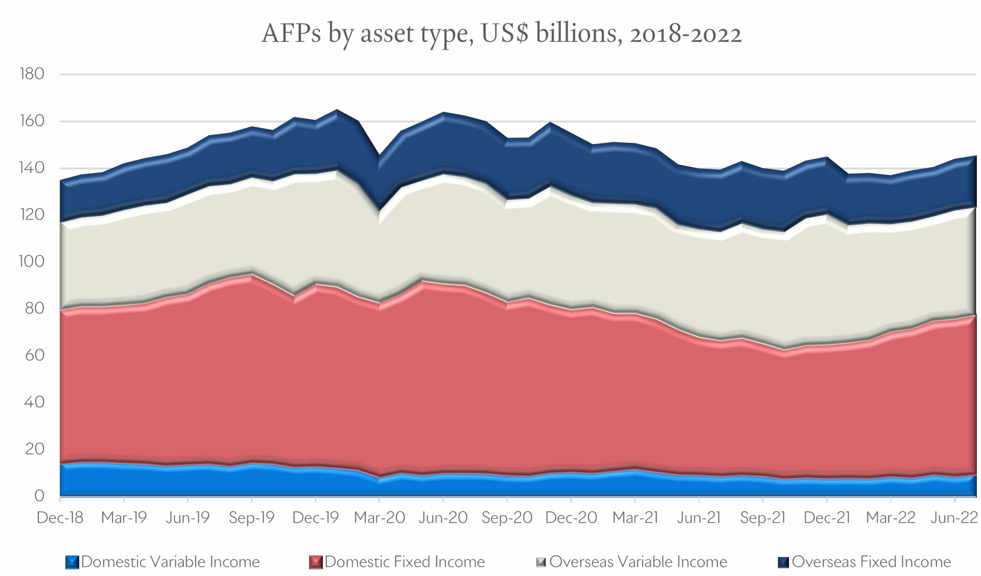
Driven by higher interest rates, bank profits during the first seven months of the year reached CLP 3.4 trillion (US$3.9 billion), up 51.8% from a year earlier. The number of non-performing loans remains relatively low, but banks have increased provisions on expectations that they will rise over the next year.

Stock Market

Source: Santiago Stock Exchange

Share prices in Chile have continued to rally driven by the strong dollar and expectations that voters would reject the proposed new constitution. The IPSA index of the largest companies listed on the Santiago Stock Exchange reached a record high of more than 6,000 points in the wake of the landslide referendum result in early September before pulling back.

Pension funds



Source: Superintendence of Pensions

The value of Chile's pensions funds has begun to rise again following last year's pensions withdrawals, reaching CLP 147.7 trillion (US$171 billion) by the end of July, their highest level since April 2021 and up 1.8% from the start of the year. But the decline in the value of most financial instruments this year, as global inflation soared, meant most savers have suffered losses over the last twelve months. Only investors in the highly conservative E funds registered gains.Source: Superintendence of Pensions

Type of fund	Amount (billions of pesos)	Change July 2021 – June 2022 (%, real in pesos)	Return July 2021 – June 2022 (%, adjusted for inflation)	Limits on equity investments Limits on equity investments (% of fund assets)	
				Maximum	Minimum
A Funds	23,040	3.9	-8.72	80	40
B Funds	25,458	14.8	-6.87	60	25
C Funds	52,769	4.3	-6.46	40	15
D Funds	25,120	-1.0	-2.55	20	5
E Funds	21,348	5.8	2.41	5	0
Total	147,735	5.8			

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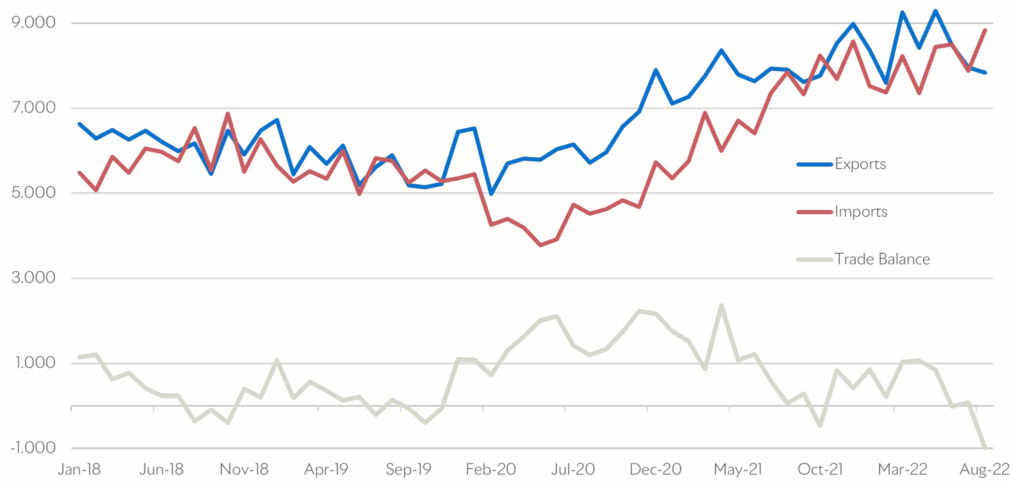
External Sector

2

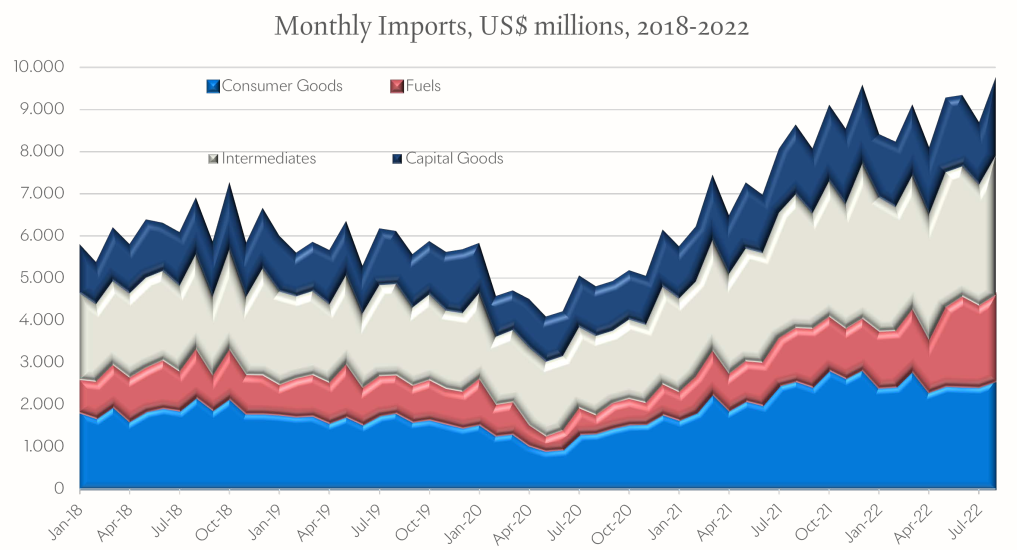
Trade Balance, US$ millions, 2018 - 2022



Source: Central Bank of Chile

Chile's monthly exports have slowed, falling below US$8.0 billion in July and August for the first time since last February and reflecting the fall in copper prices and the end of the fruit-picking season. Imports have continued to rise, reaching a record US$8.8 billion in August, on stronger imports of capital goods and energy products. As a result, the trade surplus for the first eight months of the year fell to just US$961 million, down almost 90% from the same period of last year, including a monthly deficit of almost US$1.0 billion in August, thes largest in a decade.

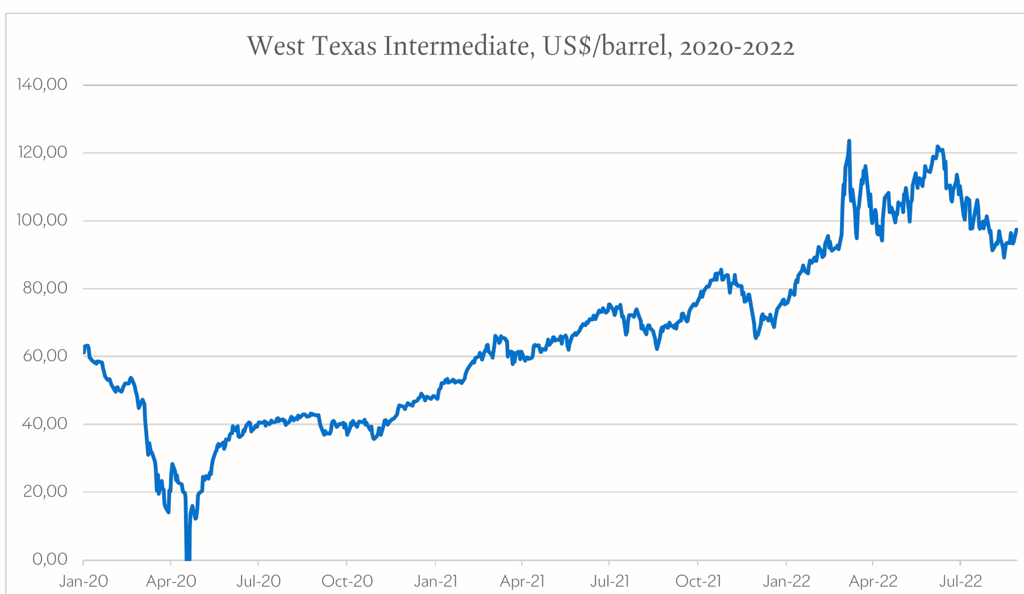
Imports



Source: Central Bank of Chile

Imports during the first eight months of the year reached a record US$64.7 billion, up 23.7% from the same period of 2021. The increase has been driven by increased imports of energy and other intermediate products, reflecting higher commodity prices, as well as consumer and capital goods.

The value of Chile's energy imports during the first eight months of the year rose 82.4% to US$13.7 billion, reflecting the rally in oil prices this year since Russia's invasion of Ukraine in February. The West Texas Intermediate benchmark price averaged US$100.93/barrel during the period, up 48.1% from 2021. However, the price has gradually declined since reaching a peak of over US$120/barrel in mid-June amid concerns over global growth. The biggest rise has been in diesel imports which rose almost threefold to US$5.0 billion, as state oil firm ENAP was forced to increase imports while it carried out maintenance to its largest refinery. Imports of gasoline rose more than sixfold to US$993 million.



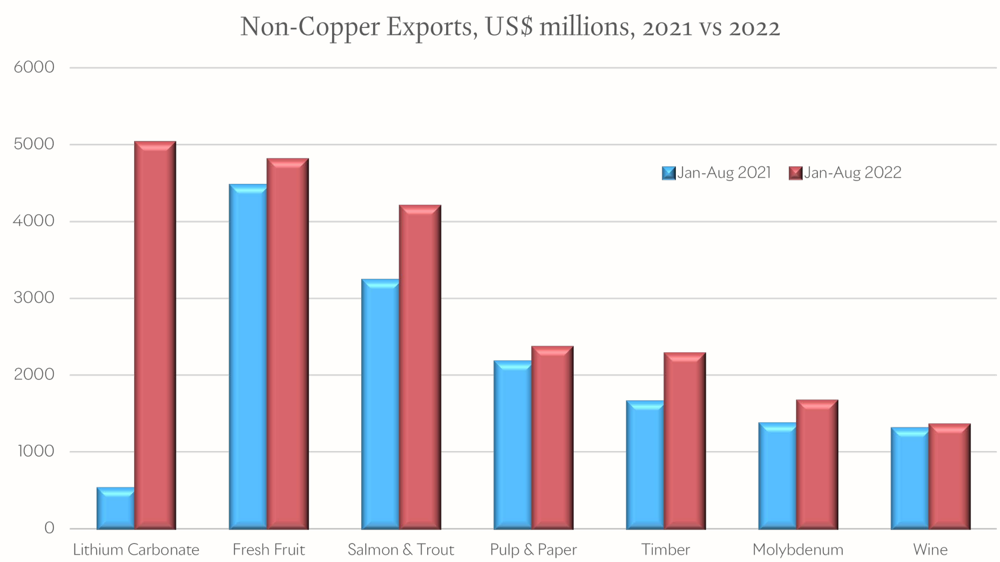
Source: St Louis Federal Reserve

Imports of intermediate goods rose 18.7% to US$24.8 billion on increased imports of chemical and metallic products, fertilizers and spare parts.

Despite the slowdown in investment, imports of capital goods have continued to rise, driven by imports of lorries, buses and other machinery. Imports to August reached US$13.0 billion, up 12.6%, including US$1.9 billion in August, the highest monthly figure in a decade.

Import of consumer goods rose by 19.2% to US$20.2 billion, driven by imports of clothing and footwear, cars and gasoline. Car imports rose 30% to US$2.7 billion.

Exports



Source: Central Bank of Chile

The value of Chile's non-copper exports reached US$36.2 billion during the first eight months of the year, up 32.9% from the same period of last year, driven by a huge increase in lithium exports (See 2.2 Mineral Exports) as well as higher exports of fruit, fish, and forestry products.

Agricultural exports reached US$5.4 billion during the first eight months of the year, up 7.3% from a year earlier, driven by increased shipments of fresh fruit. While cherry exports increased by almost a third to US$1.5 billion and grape exports rose 17.9% to US$1.1 billion, shipments of apples fell 9.8% to US$475 million.

Industrial exports rose 24.9% to US$23.4 billion, driven by increased exports of chemicals, timber, and salmon.

Chemical exports rose 58.6% to US$5.8 billion on higher prices for methanol, iodine, potash, and fertilizers (which rose 64% to US$661 billion).

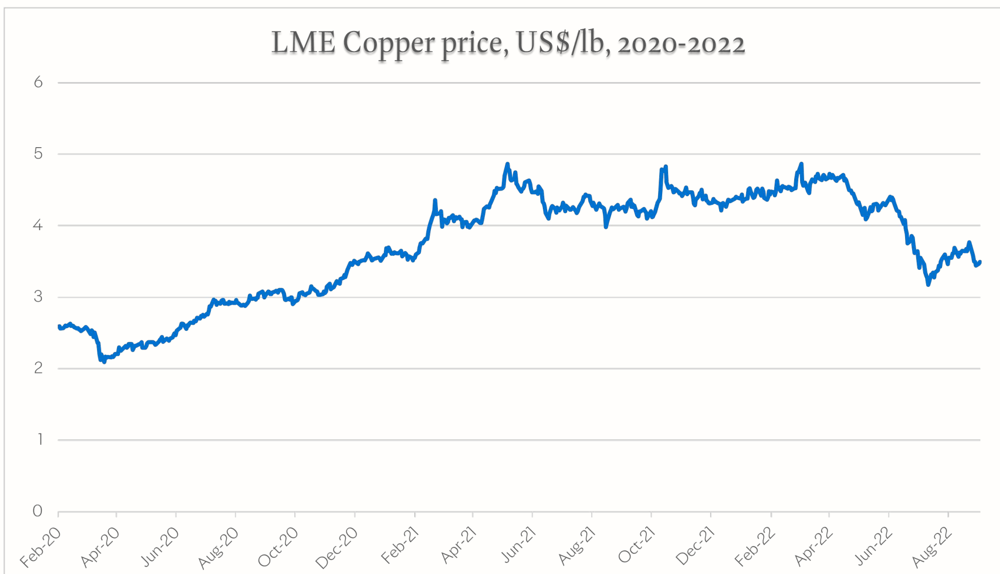
Exports of salmon and trout reached US$4.2 billion during the first eight months of the year, up 29.9% from twelve months earlier, reflecting higher prices and volumes. According to Chile's Salmon Council, exports during the second quarter reached 161,303 tonnes, up 2.7% from twelve months earlier, while prices rose 30.5% to US$9.60/kilogram as demand from hotels and restaurants around the world has recovered since the pandemic.

Exports of timber products rose 37.9% to US$2.3 billion, driven by exports of sawn timber and wood fibre panels. Pulp and paper exports rose 8.9% to US$2.4 billion on increased exports of long-fibre pulp. According to pulp producer Empresas CMPC, pulp prices have rallied sharply this year, with prices for Bleached Softwood Kraft Pulp rising from US$758 a tonne in the final three months of 2021 to US$954 a tonne in the second quarter of this year.

Exports of Chilean wine reached US$1.3 billion, up 3.9% from the same period of last year. According to agricultural statistics office ODEPA, the increase reflects higher production and export volumes which rose 3.4% to 524.7 million litres during the first seven months of the year, offsetting lower prices. Exports to China and Brazil, the two largest markets for Chilean wine, have fallen this year while exports to the UK have risen, thanks to higher volumes.

Chile's mineral exports have declined, on lower copper prices, but largely offset by a rise in the value of shipments of lithium.

Copper exports reached US$29.4 billion during the eight months of the year, down 14.7% from the same period of 2021, reflecting lower prices and production of Chile's principal export.

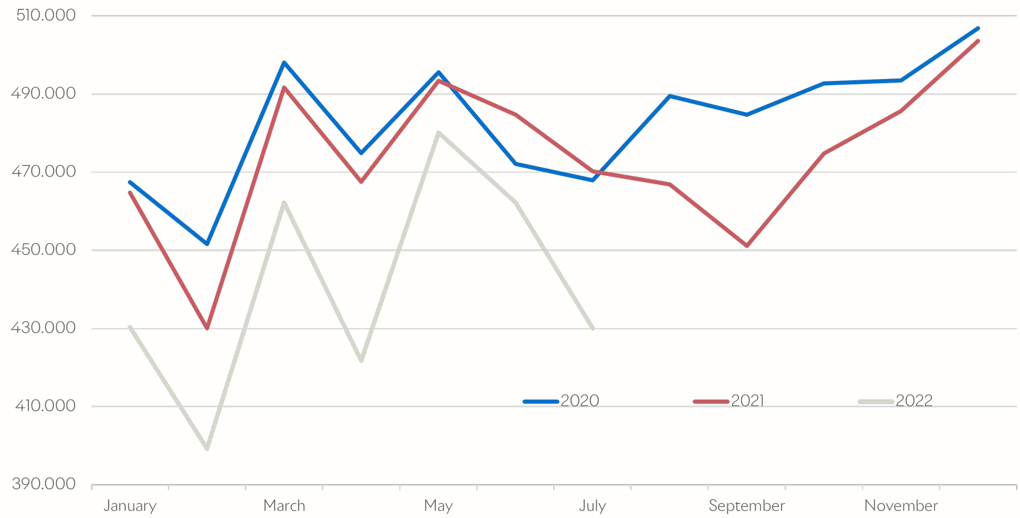


Source: Chilean Copper Commission

After declining sharply during the second quarter amid fears that tightening monetary policy could dampen global demand, copper prices have recovered to above US$3.50/lb in recent weeks.

Lower prices have forced analysts to pare back their forecasts. In August, the Chilean Copper Commission predicted that copper prices will average US$4.00/lb this year, down from a previous forecast of US$4.40/lb and maintained its 2023 outlook unchanged at US$3.95/lb. In September, the Central Bank predicted a copper price of US$4.00/lb for 2022 and US$3.50/lb for 2023.

Copper production, monthly, 2020-2022



Source: National Statistics Institute

As well as lower prices, mineral exports have been impacted by a drop in production at Chilean mines this year. Copper production during the first seven months totalled 3.1 million tonnes, down 6.6% from the same period of 2021. In July, Cochilco has cut its production forecast for 2022 to 5.43 million, down 3.4% from last year and its lowest level in a decade.

Output has been hit by lower ore grades, water shortages and other problems which have slowed production at several of Chile's largest copper mines. In June, environmental protests forced Antofagasta Minerals to halt production at its Los Pelambres mine for several weeks.

Chile's mining industry is concerned by decisions by environmental authorities to reject licenses for several projects, including expansions of Anglo American's Los Bronces and El Soldado mines and a new gold mine, which could slow future investment.

Exports of lithium carbonate during the first eight months of the year reached US$5.0 billion, up almost 1,000% from a year ago, driven by higher production and prices. Prices have averaged more than US$40,000 a tonne this year, up sixfold from a year ago, while export volumes rose 55% to almost 150,000 tonnes as producers Albemarle and SQM ramp up output.

In August, SQM, Chile's largest producer, said delays to new lithium supply would keep the global market tightly balanced and support prices through to the end of the year.

The value of Chile's iron ore exports fell by a third to US$1.2 billion, reflecting lower prices and volumes.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ANTONIO MACHADO
KEEP WALKING
JOHNNIE WALKER
BLACK LABEL
Blended Scotch Whisky
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Bearing the burden

In July, as part of its broader tax reform, the government presented amendments to legislation in Congress to impose a new royalty tax on the copper industry.

The proposal unveiled by Finance Minister Mario Marcel is a hybrid between the ad-valorem model approved last year by the Chamber of Deputies (but not the Senate), and the existing Specific Tax on Mining which targets a mine's operating profits.

Under the ad-valorem component, mining companies producing more than 50,000 tonnes of copper annually would have to pay 1% of their mineral sales, rising to 2% when copper prices exceed US$2/lb.

The scale would rise to 1-7% for mines that produces more than 200,000 tonnes a year, with the top rate coming into force when prices exceed US$3/lb.

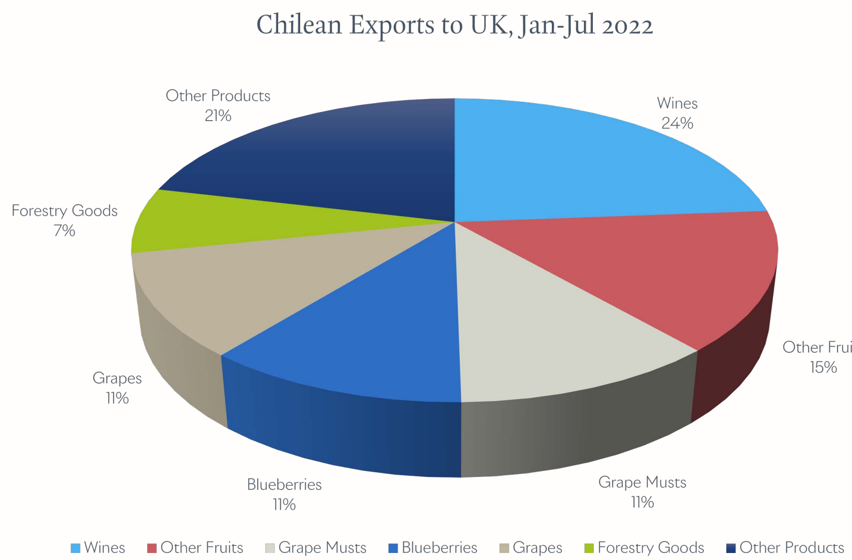
In addition, liable mining companies would be subject to a tax on their operating profits, of 5-32% depending on the size of their profit margin.

Although most of Chile's mining industry is currently protected from tax rises by investment protection agreements signed at the start of the last decade, most of these expire next year.

Presenting the modifications to Congress, Marcel said that the model was designed to maximise government participation in the industry's profits while ensuring Chile remained competitive.

But mining industry leaders have criticised the proposal as representing an existential threat to higher cost mines as they would have to pay the ad-valorem royalty even when operating at a loss.

The higher tax burden could also make Chile less attractive to mining companies which can choose between projects around the world.



Source: Central Bank of Chile

Trade in goods between Chile and the UK totalled US$665 million during the first seven months of the year, down 0.5% from twelve months earlier. Chilean exports to the UK reached US$353 million during the period, up 5.9% from a year earlier, while UK exports to Chile were valued at US$312 million, down 6.8% from the same period of 2021.

The increase in Chilean exports was driven by higher exports of forestry products (US$10 million) and pulp (US$16 million), offsetting declines in shipments of fruit and bottled wine.

The decline in imports from the UK reflects a fall in imports of cars and medicinal alcohol, largely offset by increased imports of machinery, including generators and electric motors.

In July, UK automotive distributor Inchcape signed a US$400 million agreement to acquire Derco which sells cars in Chile, Bolivia, Colombia, and Peru. In exchange, Chile's Del Rio family would receive a 9.3% stake in Inchcape.

Chile's current account deficit grew to US$6.6 billion in the second quarter, the equivalent to 8.5% of GDP, up from 6.6% in 2021. The increase was driven largely by the fall in Chile's trade surplus to just US$490 million, down almost 90% from a year earlier, reflecting the fall in copper prices and strong fuel and capital goods imports.

The Central Bank attributed the large deficit to government transfers to households which were then spent partly on imported consumer goods. Chile's balance of payments has been a key concern for currency traders and the announcement of the enlarged deficit caused the Chilean Peso to fall sharply in August.

In its latest Monetary Policy Report, the Central Bank predicted that the deficit will gradually decline over the coming quarters to around 6.3% of GDP by the end of 2022 and to 3.6% in 2023.

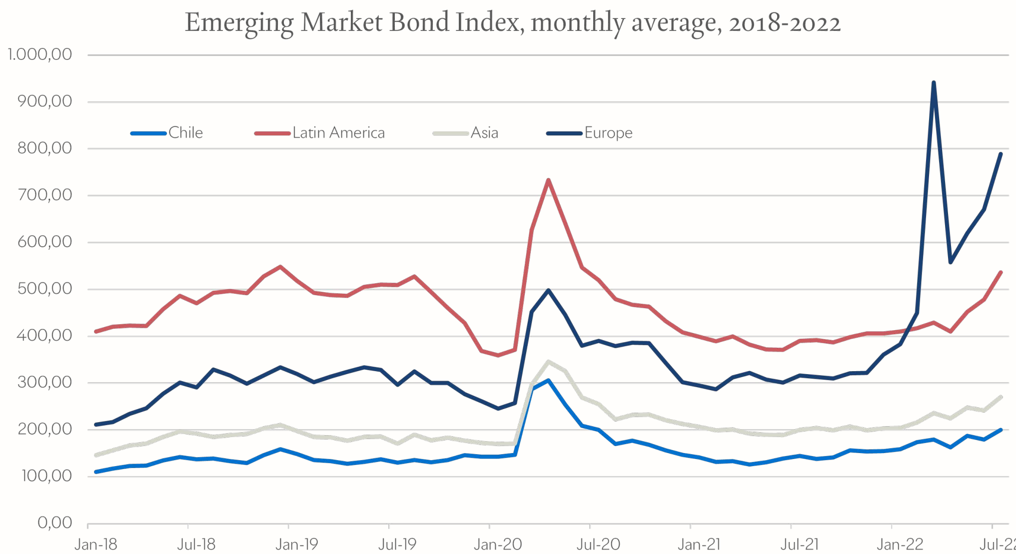
Chile's finance account deficit reached US$6.3 billion, up from US$5.7 billion in the previous quarter, reflecting a sharp decline in Foreign Direct Investment by Chileans abroad.

Net financial investment into Chile fell sharply from US$8.6 billion in the first quarter to just US$978 million in the second, largely due to a fall in long-term bond issuances. Outgoing financial investment fell from US$5.6 billion to US$2.7 billion as Chileans invested less in foreign debt. The Central Bank linked the fall to pension funds and banks repatriating foreign investments.

Chile's International Investment Position reached a net debt of US$28.5 billion by June 30th, equivalent to 10.2% of GDP, down from US$37.6 billion three months earlier, reflecting the revaluation of assets and debts following appreciation of the US dollar.

The country's foreign debt reached US$233.9 billion, or 84% of GDP, down from US$244.8 billion in the first quarter, as the value of the government and corporate bonds issued abroad fell.

Country Risk



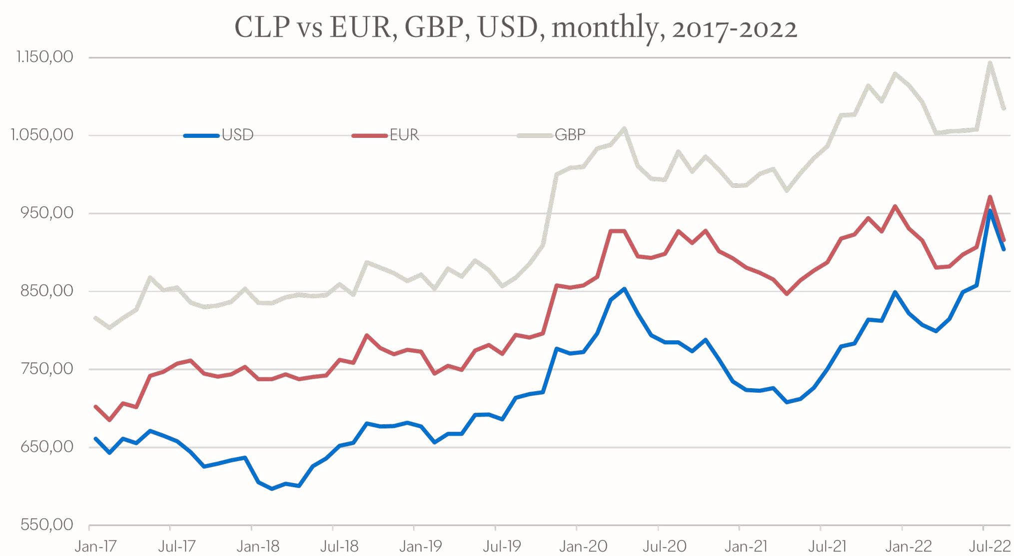
As in the rest of the world, risk premiums have increased in Chile. JP Morgan's Emerging Market Bond Index (EMBI) reached 200 points in July, its highest level since mid-2020. Amid concern over the constitutional process, the spread of 5-year Credit Default Swaps on Chilean debt reached 150.9 points in late August, exceeding that of neighbouring Peru.

Source:Central Bank of Chile

Amid volatile trading through the third quarter, the Chilean peso plummeted to unprecedented levels against the US dollar in mid-July before rapidly recovering after the Central Bank launched a major intervention in currency markets. The peso traded at CLP 1,060/dollar on July 15th, down 30% from just three months earlier, as investors reacted to tightening monetary policy, fears of a US recession and the sharp drop in copper prices.

The exchange rate quickly bounced back to under CLP 900/dollar after the Central Bank announced an unprecedented sale of US$25 billion worth of US dollars in cash and currency instruments between late July and September 30th.

However, the peso lost most of the gains in August after balance of payments figures showed that Chile suffered a larger than expected current account deficit in the second quarter of the year. It then recovered through the rest of the month in anticipation of a negative vote in the constitutional referendum, reaching a three-month low of CLP 860/peso as investors reacted to the size of the vote.



Source:Central Bank of Chil

The peso's depreciation against the US dollar reflected both macroconditions in Chile and the US currency's growing strength globally, amid fears of a global economic slowdown and tighter monetary policy. In July, the dollar reached parity with the Euro for the first time since 2002 and reached a 37-year high against British Sterling.

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Quarterly Insight

3

After Chileans voted by a huge majority to reject the proposed new constitution on September 4th, the country's political class have begun discussing how to continue the constitutional process.

Under the agreement signed by political parties in November 2019, if the constitution proposed by the constitutional conventional were rejected, then the current constitution should remain in place.

But given the overwhelming vote two years ago in favour of pursuing a new constitution, almost all politicians and a majority of the public agree that the status quo is unsustainable and that the constitutional process should continue to find a text that a broad majority can support.

Speaking hours after the results of the referendum, President Boric said that the discussions over how to reach that goal would be led by Congress while his government, which had openly supported adoption of the rejected text, concentrates on addressing more immediate challenges, such as recovering economic growth, containing living costs and stemming crime.

While politicians now meeting are agreed on the goal, there is little consensus yet about what the new constitution should look like or who should draft it. Several options are on the table.

1) A new convention

One widely backed method would be to convene a new constitutional convention to draft the text with members again elected by voters. This was the method agreed by politicians in the original 2019 agreement.

Ahead of the referendum, President Boric also viewed a new convention as the most suitable path if voters rejected the proposal. This option is also supported by most voters, according to recent polls.

This time, politicians would likely design a different method for electing convention members to ensure the body is closer to the political mainstream and avoid its domination by political extremes. This could mean limiting the space for independent members and using an alternative formula for ensuring the representation of Chile's indigenous peoples.

However, some lawmakers would prefer to keep the constitutional process in the hands of experienced politicians, given the questionable results of the first convention.

2) A panel of experts

Some have called for an official committee of constitutional, legal, and economic experts and politicians to advise and guide the debate on the new constitution. This could help balance any lack of political experience or legal knowledge among the convention members elected by the public. This was a clear weak spot in the first convention where a majority of members had no political experience before being elected, a fact which slowed the debate and hindered consensus-building.

3) Reforming the current constitution

During the referendum campaign, leading opponents of the new constitution said that once it had been rejected, major changes should be made to Chile's standing constitution that would address the most pressing issues raised over the last three years. To facilitate reform, lawmakers approved a constitutional amendment that would reduce the necessary qualified majority to approve modifications to four-sevenths down from two-thirds or three-fifths previously.

This method would be potentially much quicker than drawing up a new constitution from scratch. But there is no consensus between the proponents about what modifications should be made and, no matter how large the changes, this option would fall short of voters' demand to replace the current constitution with a new one.

Whichever path politicians decide to take, it is clear that Chile's constitutional process – already about to enter its third year – will drag on well into 2023, if not beyond.

Given the impact of continued uncertainty on politics and the economy, authorities are keen to wrap up the debate as quickly as possible. With municipal elections scheduled for 2024 and presidential and parliamentary elections due in late 2025, politicians hope that any process could be concluded over the next eighteen months to avoid an overlap in the campaigning. Newly-appointed Interior Minister Carolina Tohá has suggested September 11th next year – the 50th anniversary of the 1973 coup –as a suitable deadline.

But given the voting, debating, and campaigning that would have to take place by then, that date already looks optimistic.

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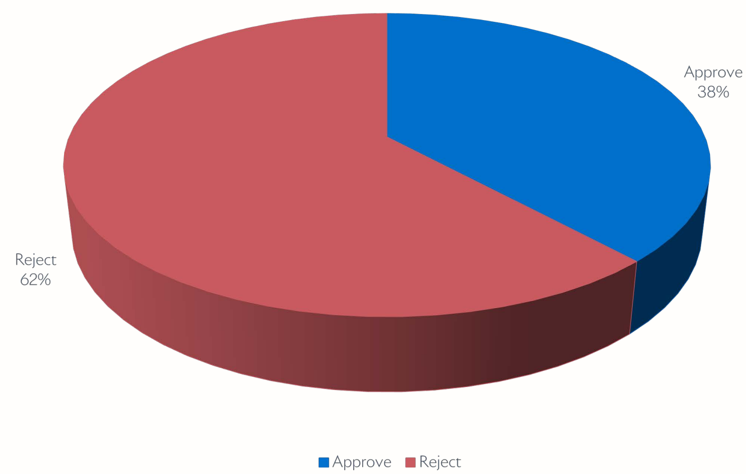
Political Context

4

On September 4th, Chileans voted overwhelmingly to reject the proposed new constitution in a major setback for President Gabriel Boric and raising questions about how the country's three-year constitutional process will resolve itself.

Although rejection of the document was widely expected to triumph in polls ahead of the referendum, the margin of victory is a major blow to the government.

Result of the Constitutional Referendum



Source: National Election Service

Key to the result appears to have been the decision to make the vote compulsory (or face fines worth up to CLP 180,000 (US$197)) which increased turnout to almost 85%, encouraging millions of people who had not participated in previous elections to vote.

Although the constitution promised greater social rights, decentralization and to cut the link with the military regime of Augusto Pinochet, many voters felt the document went too far in dismantling historic institutions such as the Senate and turning Chile into a pluri-national state. The weakening of some property rights worried business owners and farmers while churchgoers were alarmed by an open-ended right to abortion. The vote was also a chance to criticize the current government over rising crime and worsening economic conditions.

Opposition to the constitution was widespread with rechazo winning in all sixteen regions (including Santiago where support for change was highest) while just eight of Chile's 346 communes voted in favour of apruebo.

The result is likely to limit the government's ability to guide the next stage of Chile's constitutional process (see 3.0 Insight) and implement its legislative agenda as they lack a majority in Congress.

In July, the government presented its flagship tax reform (See Box 1: Taxing Times) which aims to raise public revenues by around 4.1% of GDP from 2026 onwards, by increasing taxes on shareholders, the wealthy and mining companies.

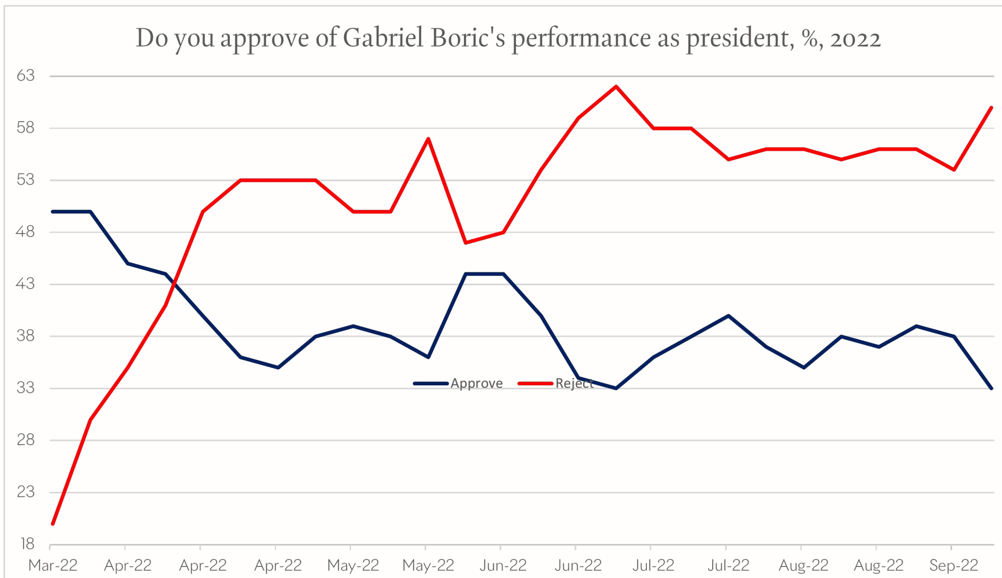
The government is expected to announce its proposal to reform Chile's pensions system in the coming weeks which will require employers to contribute to workers' pensions funds for the first time and limit the role played by the private pensions fund administrators (AFPs).

Ahead of the referendum, the government announced a series of measures designed to shield vulnerable families from soaring inflation and energy prices.

Following the defeat in the constitutional referendum, President Boric undertook his first cabinet reshuffle since taking office in March, naming six new ministers. To improve relations with allies in Congress, he replaced two of his closest allies, Giorgio Jackson and Izkia Siches, with experienced centre-left politicians, Ana Lya Uriarte and Carolina Tohá, in the key roles of Secretary General of the Presidency and Interior Minister.

Ministry	Outgoing	Incoming
Interior	Izkia Siches	Carolina Tohá
Secretary General of the Presidency	Giorgio Jackson	Ana Lya Uriarte
Health	María Begoña Yarza	Ximena Aguilera
Energy	Claudio Huepe	Diego Pardow
Science and Technology	Flavio Salazar	Silvia Diaz
Social Development	Jeannette Vega	Giorgio Jackson

Support for the government has weakened significant since the referendum. Approval of President Boric fell to 33% in early September, down six points from August, according to the weekly poll by CADEM.



Source: CADEM

Following the increase in violence in southern Chile this year, detectives arrested Hector Llaitul, the leader of Coordinadora Arauco-Malleco (CAM), a militant group which has claimed responsibility for dozens of arson and firearm attacks against farms and forestry companies in the region. Social Development Minister Jeannette Vega resigned after it emerged that she had sought talks with him prior to his arrest.

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Economic Outlook

5

Chile's economy is sliding into recession as the Central Bank aggressively tightens interest rates to control rapidly rising inflation.

With global energy prices now falling, supply chain problems easing and the Chilean peso appreciating against the US dollar, inflation is thought to be close to the peak of the current cycle. But high inflation is likely to persist through 2023 and will not return to the Central Bank's target range until 2024.

As inflation comes under control, the Central Bank will be able to begin easing monetary policy and provide some stimulus to the economy. However, this will take several quarters and most analysts see interest rates still at the relatively high level of 7.0% by early 2024.

Meanwhile, the outlook for the global economy has deteriorated amid tightening monetary policy, a Chinese economy weakened by an inflexible approach to the Covid-19 pandemic as well as the impact of Russian aggression on global energy supplies.

Rising prices and high interest rates together with continued political uncertainty and a debilitated global economy will have a chilling impact on activity. Falling real wages and a weakened labour market are triggering a rapid decline in household consumption from the unsustainable levels reached in 2021, while businesses are expected to postpone investment amid tighter financial conditions and concerns over the political future. As a result, after growing by around 2.0% this year, the Chilean economy is expected to contract in 2023, for the second time in just four years.

The rejection of the proposed new constitution by the overwhelming majority of voters has reduced political uncertainty by removing the risk of radical institutional change, buoying markets. However, there is little clarity about how or when Chile's constitutional process will resolve itself and this uncertainty will likely hang over investment into next year.

Beyond a dismal 2023, the Central Bank sees economic activity expanding by a relatively robust 2.25-3.25% in 2024. But issues such as the war in Ukraine, the fragility of the Chinese economy, the resolution of the constitutional process and the future of the government's reform program mean that Chile faces multiple risks which could hinder a return to better times.

Economic Forecasts, 2022

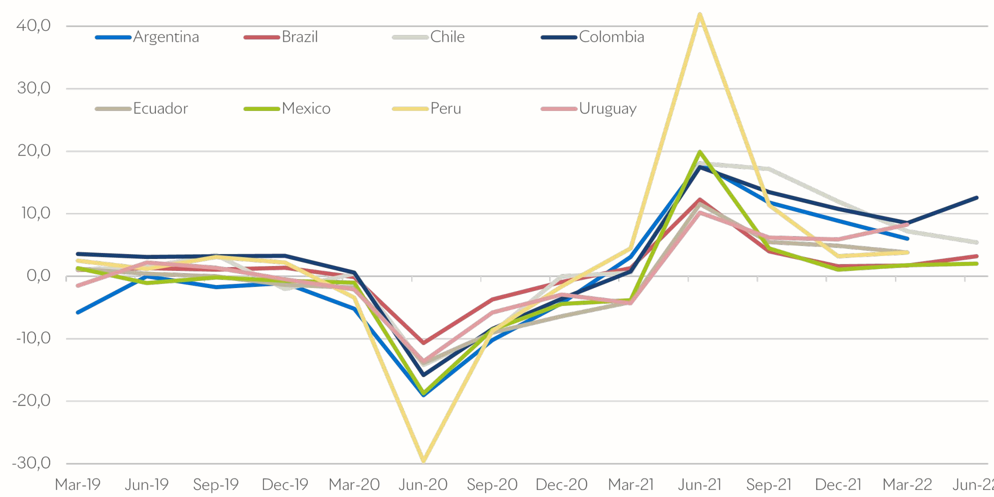
	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	1.75 - 2.25	1.6	1.9
Inflation (% annual variation)	12.0	11.1	12.5
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	11.0
Exchange rate (pesos/US$)	NA	854	883[4/]
Copper price (US$/lb)	4.00	4.19	NA

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

Latin America Regional News

6

Quarterly GDP, annual change %, 2019-2022



Source: Trading Economics

Argentina: Annual inflation soared to 71% in July after Finance Minister Martín Guzmán resigned following pressure from government supporters over his efforts to axe energy subsidies. The new minister, former deputy Sergio Massa, has promised not to ask the Central Bank to print more money to finance government spending.

Brazil: Former president Luiz Inácio Lula da Silva is leading in polls to win next October's presidential elections and will likely face incumbent Jair Bolsonaro in a run-off vote. The economy's recent strong performance (GDP grew 3.2% in the second quarter) could boost support for Bolsonaro.

Colombia: On his first day in office, President Gustavo Petro announced a major tax reform to boost government revenue by 5% of GDP by increasing taxation on the wealthy, high income earners and the energy and mining sectors. Despite investor concerns, GDP grew by 12.6% in the second quarter, ahead of market expectations.

Ecuador: Higher oil prices and a recent tax reform are expected to reduce the government deficit to just 1.8% of GDP this year although negotiations to end nationwide protests that rocked the country in July could potentially lead to higher spending. The economy is set to grow 3.2% this year, down from 4.2% in 2021.

Mexico: The Bank of Mexico cut forecast growth for 2022 to 1.8%, down from 2.4% previously as the country struggles with soaring inflation and a possible recession in the US, its largest trading partner.

UK Economy Update

Peru: Despite continuing political turmoil, Peru is expected to grow by 3.0% this year, making it one of the fastest growing economies in South America. The opposition has launched its third attempt to impeach President Pedro Castillo since he took office in July 2021.

Countries around the world are seeing slowing growth and higher inflation, and the UK is not immune from these challenges. High global energy and commodity prices and problems with international supply chains are driving up inflation, affecting consumers and businesses worldwide and pushing up the cost of living. The UK government has stated that their focus is on growing the economy to improve living standards in the longer term, while also supporting families and businesses with immediate pressures. This includes using the tools of independent monetary policy, fiscal responsibility, and supply side reform to get inflation down in the near term.

1. Economic growth

In quarterly terms, UK GDP contracted by -0.1% in Q2 of 2022. This leaves UK GDP 0.6% above the pre-coronavirus levels from Q4 of 2019. The service sector contracted by 0.4% in Q2 2022 and is now 1.1% above pre-coronavirus pandemic levels. Production output rose by 0.5% in Q2 2022 but is still 1.2% below pre-pandemic levels due to supply chain constraints. The largest contribution to growth came from a rise in electricity, gas, steam and air conditioning supply output (1.4%). Construction output rose by 2.3% in Q2 2022 and is now 2.7% above pre-coronavirus pandemic levels. In monthly terms GDP contracted by 0.6% in June 2022, after a 0.4% expansion in May. All sectors saw declines, with service sector output being the largest contributor to the contraction, falling by 0.5% with the production sector falling by 0.9% and construction falling by 1.4%.

2. Inflation

Annual Consumer Price Index (CPI) and CPIH (CPI including housing costs) inflation rates registered at 10.1% and 8.8% respectively in July 2022, up from 9.4% (CPI) and 8.2% (CPIH) in June. This is the highest CPI 12-month inflation rate in the data series, which began in January 1997. Since April, inflationary pressure from rising fuel costs has been the main driver of inflation. The Bank of England expect inflation to continue increasing, peaking in October. The largest contribution to inflation overall continued to come from housing and household services (2.8ppt) and transport (2.0ppt), with the latter seeing an annual increase of 15.1% in July 2022 due to the fuel price rise. Growth in average total pay (including bonuses) was 5.1% and regular pay (excluding bonuses) was 4.7% for the three months from April to June 2022. In real terms (adjusted for inflation), total pay and regular pay fell by 2.5% and 3% respectively. The fall in regular pay was a record fall since current records began in 2001.

3. Monetary policy

In its most recent meeting in August, the Bank of England's Monetary Policy Committee (MPC) voted to increase interest rates to 1.75% from the previous 1.25%. The half percentage point rise pushes borrowing costs to the highest level since 2009 and is the largest single rise since 1995. In addition to the interest rate rise the BoE also laid out plans to begin quantitative tightening in September. The Bank plans to sell gilts to reduce broad money within the economy. This will be the first time the Bank have actively sold gilts under a quantitative tightening policy, and the nature and extent of the impact on market prices remains uncertain. This monetary tightening by the BoE follows inflation remaining elevated, reaching 9.4% in June well above the BoE's inflation target of 2%. The MPC now expect inflation to peak at 13.3% in October 2022, remaining elevated at 9.5% in mid-2023 before cooling down and reaching 2% in Q4 2024.

4. Labour market

The UK employment rate in the three months to June 2022 was 75.5%, 0.7ppts lower than before the pandemic (three months to February 2020) and 0.24ppts lower than the previous quarter. The unemployment rate rose in the three months to June 2022 to 3.8%, 0.2ppt lower than before the pandemic, and 0.1ppts higher than the previous quarter. The redundancy rate in the three months to April fell to 1.9 people per thousand employees, decreasing by 0.6 per thousand employees. Tight labour markets continue as the number of job vacancies in the three months to July 2022 reached 1,270,000; an increase of 478,800 from pre-pandemic levels, but 19,800 lower than the previous quarter.

5. Trade

The UK's total trade deficit, excluding precious metals, widened by £2bn to £27.9bn in the three months to June 2022 compared with the three months to February 2022. This was mainly driven by the goods deficit, which widened by £1.5bn to £62.6bn in the same period, as imports of goods increased by £12.2bn (8.3%), and exports increased by £10.7bn (12.4%). The trade in services surplus narrowed slightly by £0.5bn in the three months to May 2022 to £34.7bn. Operational and data collection changes by HMRC in January 2022 mean caution should be taken when using month on month estimates and movements across periods which include January 2022 data, such as Q1 data (January to March). In the month of June 2022 alone, total imports of goods, excluding precious metals, decreased by £0.6bn (1.1%), driven by a £1.1bn (4.1%) fall in imports from EU countries. Total exports of goods, excluding precious metals increased by £2.7bn (8%), driven by a £2bn (11.9%) decrease in exports to non-EU countries.

6. Government finances

Public sector net borrowing (excluding public sector banks, PSNB ex) was £4.9n in July 2022. This was £0.8bn less than in July 2021, but £5.9bn more than before the pandemic (July 2019). PSNB for the financial year-to-June 2022 was £55bn, this was £12.1bn less than the same period last year, but £32.6bn more than in the financial year to July 2019. Public sector net debt (excluding public sector banks, PSND ex) was £2,388bn at the end of June 2022, equivalent to 95.5% of UK GDP, a 1.4ppt of GDP increase compared to July 2021. Central government receipts were £78.2bn in July 2022, £6.1bn higher than in July 2021. Of the Central government receipts, £58.6bn were tax receipts, an increase of £5.1bn from the previous year.

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