CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Monthly Economic Update

October 27th, 2022

Lawmakers from across the political spectrum reached a draft agreement on the contents of the country's new constitution in early October. The twelve points include that Chile will remain a democratic republic with a single, decentralized state, recognition of human rights, existing international treaties and Chile's indigenous peoples and the independence of the three arms of government, including a two-chamber legislation. However, they have yet to agree on the process for drafting the new text after voters overwhelmingly rejected the version drafted by the Constitutional Convention earlier this year.

Finance Minister Mario Marcel has proposed a 4.2% hike in government spending in his budget for 2023, with a focus on infrastructure investment and law and order. As spending rises, public finances will return to a deficit of 2.7% of GDP next year, down from an estimated surplus of 1.7% in 2022.

To overcome parliamentary opposition, the government has presented amendments to its flagship tax reform bill that would reduce the estimated increase in revenue to 2.7% of GDP from 2024, compared with 4.1% previously. Changes include increased incentives for investment, a limit on the wealth tax and the elimination of the proposed exit tax.

Support for the government has weakened with approval of President Gabriel Boric's performance falling to 26% by late October, down from 39% a month earlier, according to CADEM's weekly poll. Rising crime has emerged as the public's primary concern, ahead of rising prices and social reforms.

Four years after its signing, Congress ratified the Comprehensive and Progressive Trans-Pacific Partnership. However, given the opposition to the deal among his supporters, President Boric has said that he will only sign the treaty into law if the ten other members of the pact sign side letters absolving Chile to the requirement to submit disputes with foreign investors to the Washington DC-based International Centre for Settlement of Investment Disputes.

In October, S&P Global Ratings confirmed its A/A-1 rating and stable outlook for Chile's foreign currency sovereign debt, highlighting government efforts to stabilize net debt at around 30% of GDP and to draft a more moderate constitution.

Economic Statistics

Government data showed inflation slowing slightly. The Consumer Price Index rose by 0.9% in September (its lowest increase in three months), bringing annual inflation to 13.7%, down from 14.1% in August, the first fall since January 2021. While food prices rose 2.3% in September alone, fuel & transport prices fell by 0.2% and core inflation rose by just 0.4%. Nevertheless, analysts surveyed by the Central Bank predicted inflation to reach 12.6% by end-year, up from 12.4% a month earlier,

On October 12th, the board of the Central Bank voted unanimously to raise its benchmark interest rate by 50 basis points to 11.25%. However, the board said that the hike likely marked the high point of the cycle of tightening monetary policy, and it would hold the rate at this level until it saw signs of inflation converging with its medium-term target rate of 3.0%. Private analysts continue to see inflation at close to 4.0% over the Bank's two-year policy horizon.

Economic activity has continued to slow into the third quarter. Preliminary data showed that activity in August was flat compared with twelve months earlier, compared with a 5.4% expansion in the second quarter. Activity also fell 0.6% on a seasonally-adjusted basis from the previous month of July. Stronger services activity was largely offset by falls in mining and retail. Analysts now expect the economy to grow 2.0% this year before contracting 1.1% in 2023, in line with Central Bank forecasts.

Unemployment averaged 7.9% in the three months to August, unchanged from the previous rolling quarter as net job creation fell close to zero in recent months. Real wages fell by 2.6% in the year to August, as inflation wiped out an 11.1% gain in nominal incomes.

Mine production slumped in August as copper output fell to 422,888 tonnes, down 9.4% from a year ago and its lowest monthly figure since last February. Statistics institute INE attributed the fall to lower grades and throughput. Production during the first eight months of the year totalled 3.51 million tonnes, down 6.9%.

Business confidence has stabilized in recent weeks. The Monthly Business Confidence Indicator, published by Adolfo Ibanez University and business association ICARE, reached 43.27 points in September, up from a low of 39.01 in July, thanks to increased optimism in all sectors.

Consumer confidence has also recovered, with GfK's Economic Perceptions Index reached 24.6 points in September, up three points from two months ago, driven by increased optimism about the state of the economy although consumers remain gloomy about the long-term outlook.

Chile reported a trade deficit of US$1.4 billion in the third quarter, its largest quarterly deficit since 2012, as lower copper prices and the end of the fruit-picking season caused exports to slump. Exports fell to US$23.3 billion in the quarter, down from US$25.3 billion in the previous three months, while imports were little changed at US$24.8 billion as increased energy imports offset a fall in imports of consumer goods.

The Chilean peso has depreciated against the US dollar to around CLP 970/dollar by late October, close to the lows reached in September, reflecting the global strength of the US currency and lower copper prices

International copper prices have stabilized in recent weeks at US$3.40/lb, significantly below the levels seen earlier this year pressured by the strong US dollar and fears of a slower Chinese activity.

Share prices have declined sharply through September and October as investors react to tightening monetary policy, rising inflation and concerns of a global slowdown. By mid-October, the IPSA index of the large companies on the Santiago Stock exchange had fallen below 5,000 points for the first time since May and from a peak of 6,000 points in the immediate wake of the constitutional referendum.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes Teléfono: (56) 22370 4106

info@britcham.cl | www.britcham.cl

Economic Committee:

Peter Lynch, Senior Manager Audit South America, BHP Chile

Jorge Selaive, Chief Economist, Scotiabank Chile

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

Guillermo Tagle, President, Credicorp Capital

Leslie Hemery, Vice President, British Chilean Chamber of Commerce

Tom Azzopardi, Journalist

Greg Holland, General Manager, British Chilean Chamber of Commerce