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CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
First Quarter 2023

1st Edition 2023 — Produced since 1922

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Dear reader

By mid-March, external influences, such as higher copper prices and central bank inflation management, seemed to be stabilizing the Chilean economy. The forecast downturn in GDP is also proving to be less severe than previously feared, probably softened by predictions that consumer consumption will not fall as far as expected. The Chilean Peso has also steadily strengthened against the US dollar since last October. However, observers are closely watching the impact of the bank failures in the USA, which has already caused sales of global stocks and a fall in the IPSA.

Much of the slowly increasing confidence shown by consumers depends on how the government manages its ambitious change agenda. It suffered a major setback in early March when its flagship tax reform was outvoted by a narrow margin in the Chamber of Deputies. This defeat brings doubt about the administration's ability to push through the other components of its revenue raising plans. This in turn will constrain planned expenditure on social projects or require increased borrowing.

Chile continues to suffer extreme drought conditions, and thousands of hectares of forestry, farmland and vineyards have been destroyed, particularly in the central south the country. This was the worst season of forest fires since 2017. Many of the fires were deliberate, and a state of emergency was declared to try and maintain control. Have a look at the special article included in this edition, along with article about Chile's sign up to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP).

We have an exciting year ahead. We are celebrating the 200th anniversary of the beginning of bilateral relations between Britain and Chile, and of course the coronation of King Charles III in May. I hope you can join in!

Greg Holland
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Key points

• The Chamber of Deputies voted narrowly in March to reject the government's flagship tax reform in a major setback for its legislative agenda.

• The Chilean peso has appreciated almost 20% since last October against the US dollar, reflecting investor confidence in the new constitutional process, the higher copper prices, and global weakness in the US currency.

• Analysts are predicting that the Chilean economy will contract by just 0.8% this year after activity unexpectedly grew by 0.4% in the year to January, driven by mining and services activity.

• Inflation remains close to its highest level in thirty years. However, the Consumer Price Index declined in February for the first time in two years thanks to lower food and energy prices.

• The Central Bank has maintained its benchmark interest rate at its highest level in three decades, delaying any cuts until there is clear evidence that inflation is falling.

• Share prices rallied on increased optimism about economic growth and the stronger Chilean peso but lost most of this year's gains amid the global sell-off in banking stocks in mid-March.

• Chile's trade surplus has widened on increased exports of minerals, fresh fruit, and chemicals, while imports of consumer goods have fallen, reflecting the curtailment of pandemic-era stimulus measures.

• Copper prices rallied to over US$4.00 a pound this year after China ended strict social-distancing measures and mines in Panama and Peru were closed.

• After achieving a rare surplus in 2022, public finances will swing back into deficit this year as the economic contraction hits tax revenues.

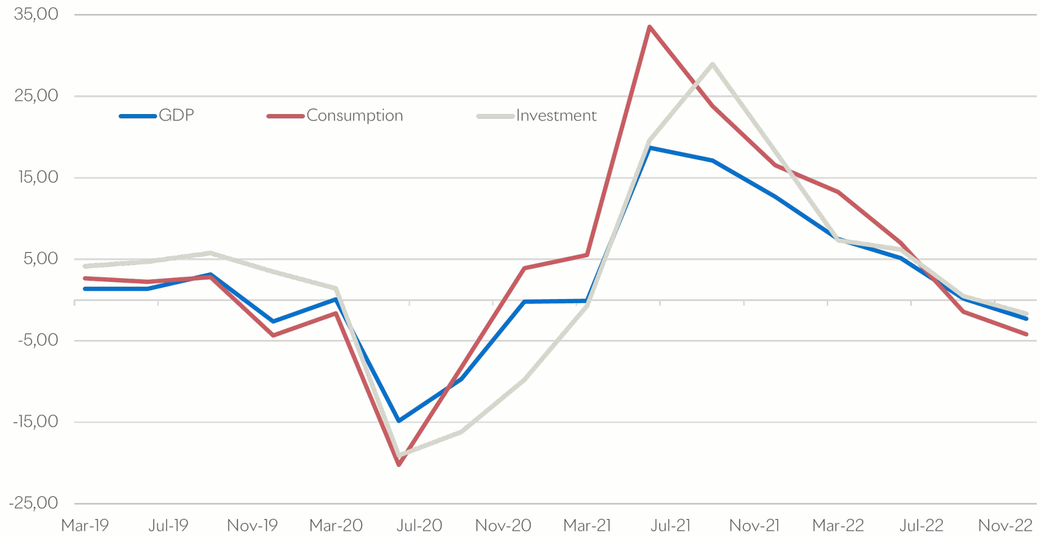
• Unemployment is rising amid a lack of new jobs, reaching 8.0% in January, and real wages have continued to fall. But consumer confidence has begun to rise from historic lows.

• A second attempt to draft Chile's new constitution is underway. Elections to the new Constitutional Council will take place on May 7th,while a referendum on the new constitution will be held on December 17th.

Domestic
Economic Performance

1

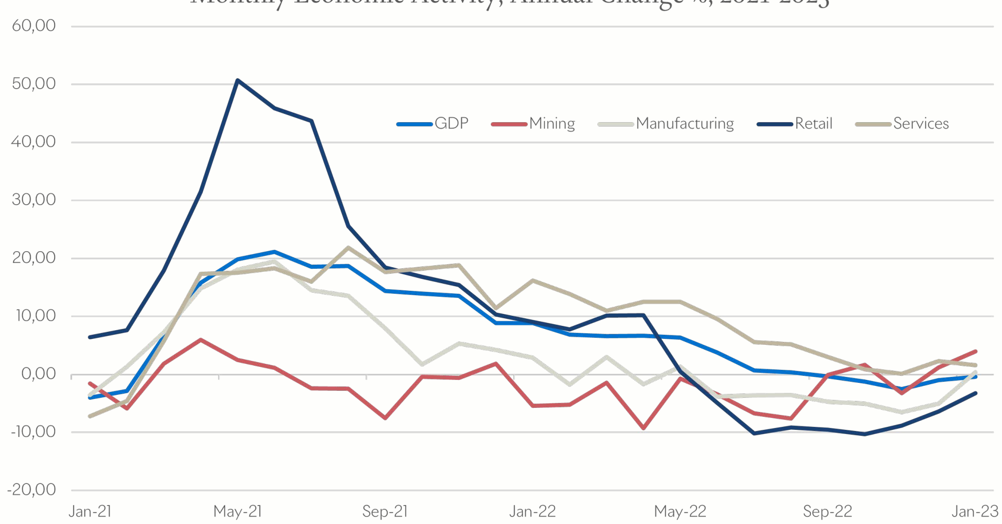
GDP, quarterly, annual change %, 2019-2022



Source: Central Bank of Chile

The Chilean economy is contracting as it rebalances in the wake of a huge increase in government and consumer spending that took place during the pandemic. After growing by 4.3% in the first three quarters of 2022, economic activity fell by 2.3% in the final three months of the year, compared with twelve months earlier, driven by declines in household consumption and investment.

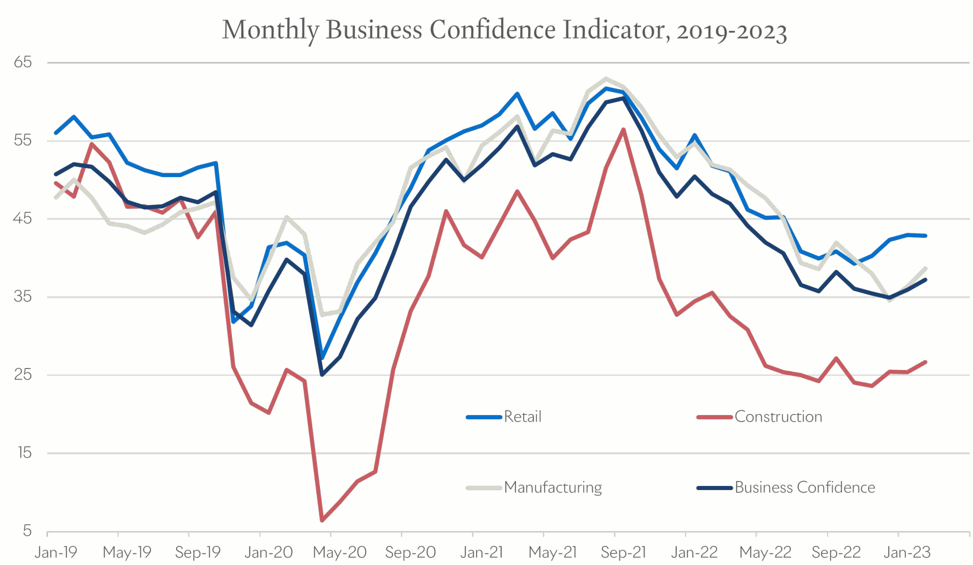
Monthly Economic Activity, Annual Change %, 2021-2023



Source: Central Bank of Chile

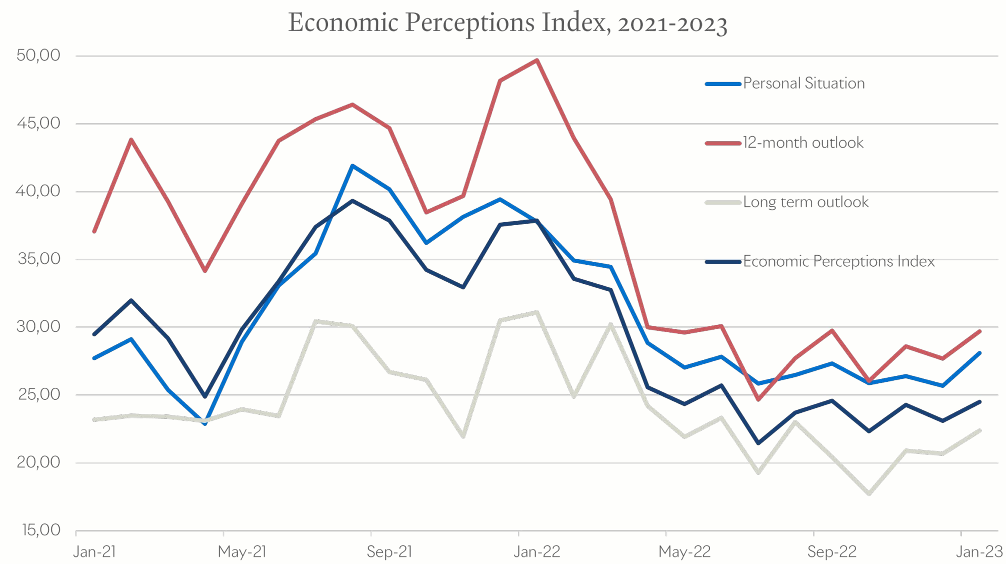
However, there are signs that the downturn will not be as bad as initially feared. Preliminary data from the Central Bank showed that the economy grew by 0.4% in January, compared with twelve months earlier, and by 0.5% on a seasonally adjusted basis compared with the previous month of December. Growth was driven by the recovery in goods production, especially mining (up 4.0% compared with a year ago), and services which grew 1.6%. This was offset by a 3.2% decline in retail activity, especially supermarkets and department stores, although this is significantly smaller than declines recorded in previous months, thanks to a lower base of comparison.

Following the strong start to 2023, analysts surveyed by the Central Bank in early March predicted a 0.8% contraction this year, down from the 1.5% decline forecast in the previous three months. This is at the top end of the Central Bank's most recent forecast (-1.75%/-0.75%) and similar to the government's forecast of a 0.7% contraction. The improved outlook reflected expectations that household consumption will fall by just 3.5% this year, compared with a 4.2% decline forecast in January.



Source: ICARE, Adolfo Ibáñez University

Business confidence remains near historically low levels but showed signs of stabilizing in January and February. Executives surveyed by the Central Bank reported that high inflation, weak demand, and the rise in interest rates were squeezing profits, a situation they expect to continue for the next year or so. The Monthly Business Confidence Indicator, published by the Adolfo Ibáñez University and business organization ICARE, reached 37.23 points in February, up 2 points from the end of last year, driven by increased confidence in the manufacturing sector. But all sectors remain in negative territory.



Source: GFK

Consumer confidence remains near historically low levels but has picked up in recent months. GfK's Economic Perceptions Index reached 28.4 points in February, its highest level in almost a year and up seven points from last year's intra-year low in July, driven by increased optimism about the state of the economy, the country's short-term outlook and interviewees' personal economic situation. Confidence in the jobs market has recovered to 32.4%, up from 26.5% at the end of last year, while inflation expectations have fallen. Just 54% expected prices to rise significantly over the next year, down from more than 70% in the middle of 2022.

A summer of wildfires

Wildfires ripped through the southern-central Chile this summer, killing 27 people, and injuring more than 3,500.

High temperatures, strong winds and the almost complete absence of rain combined to make 2022-2023 the worst season for fires since 2016-2017. Last year's wetter than usual winter may also have contributed by causing more grass to grow during the spring which by December had dried to kindling. This time the fires were concentrated in the southern regions of Araucanía, Biobío and Ñuble where around 450,000 hectares were affected.

Including damage to homes, farms, machinery and livestock, insurance company GPS Corredores de Seguros estimated the losses at as much as US$750 million. Almost 2,500 homes were destroyed, leaving almost 8,000 homeless. Thousands more were evacuated as the blazes threatened their homes. Huge plumes of smokes extended across the region, reaching as far as Santiago 500 kilometres to the north.

To help families affected, the government announced a one-off benefit worth up to CLP 1.5 million (US$1,850) which has so far been claimed by around 3,000 households.

Farming suffered huge losses in one of Chile's most important areas for food production. An estimated 4,500 hectares of farmland were affected by the fires, almost 25,000 animals were killed and up to 50,000 beehives were destroyed. Many of the most affected were wine producers in the Itata Valley, with almost half of the area's 31 wineries affected, with six losing all their vines to the flames.

But it was the forestry industry that bore the brunt of the damage, with 240,000 hectares of plantations being consumed by the flames in just three weeks, including those of around 4,000 small holders. Representing around 11% of the industry's total plantations, the damage may constrain timber and pulp production for years to come.

As many as half of the fires are believed to have been started deliberately and police arrested around 20 people on related charges. To maintain control, the government was forced to declare a state of emergency and use the military to impose a curfew across much of the region.

A few have blamed the forestry industry for the disaster, stating that in their view the continuous plantations allow the wildfires to propagate over huge areas very quickly. In response, Agriculture Minister Esteban Valenzuela called for stricter regulation of the industry, including environmental assessment of plantations and a royalty on production.

The government, however, has dismissed the tax proposal, but it is discussing with the industry how to better combat wildfires in the future, possibly with the creation of more firebreaks and more roads to facilitate the deployment of firefighters.

Retail

Retail activity declined by 7.1% in the twelve months to January, reflecting the end of stimulus introduced during the pandemic (pensions withdrawals and government transfers to households), low consumer confidence, and a weak labour market.

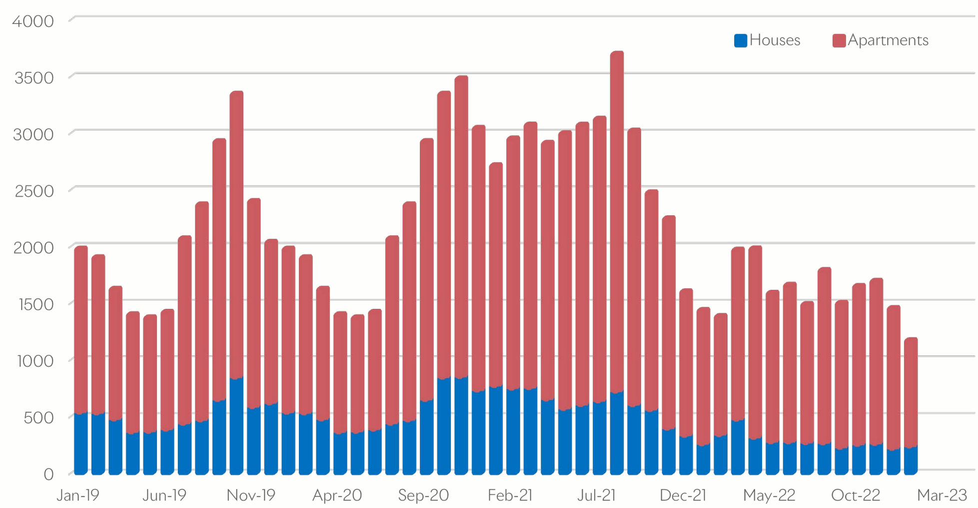
According to the National Retail Chamber, retail sales in the greater Santiago area declined by 18.4% in December, compared with a year earlier, marking six months of consecutive declines. The sharpest declines were in sales of electronic goods and furniture (down around a third each) but supermarket sales also declined by 13.8%.

Car sales have also declined, falling to just 53,837 units in January and February, down 22.0% from the same period of 2022. Car dealers' association ANAC said that the fall reflected last year's high base of comparison and were in line with previous summers.

Construction

The building sector remains weak with the Chilean Chamber of Construction's Construction Activity Index falling 10.4% during 2022. Confidence among construction executives is near record lows while the sector shed almost 70,000 jobs during the second half of last year.

Property sales in Santiago, monthly, 2019-2023



Source: InfoInmobiliaria.com

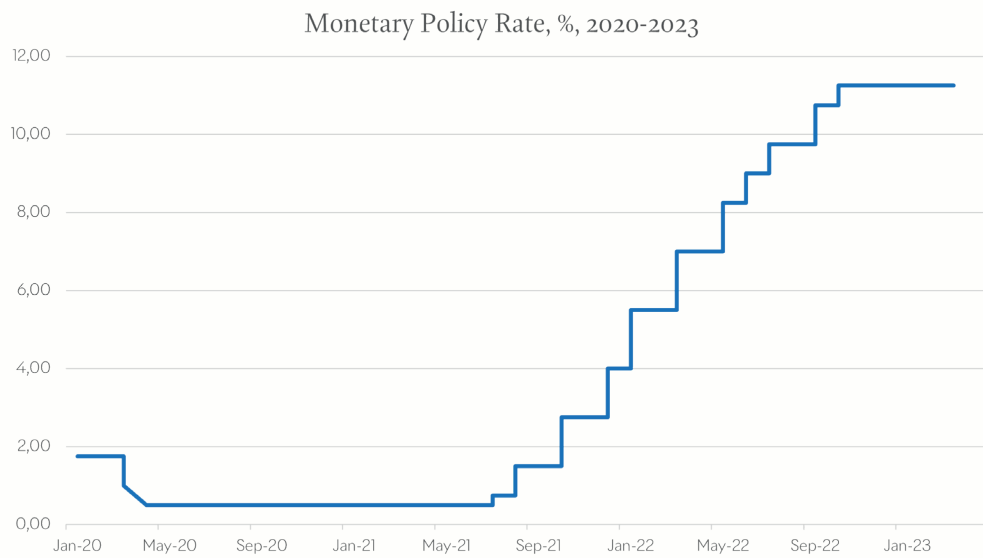
Reflecting low consumer confidence, the rise in interest rates and the weak labour market, property sales have continued to decline. According to InfoInmobiliario.com, just 1,163 residences were sold in Santiago in January, down 18.6% from twelve months earlier. New home sales fell 43% in 2022, compared with 2021.

Services

Services have continued to expand, growing by 1.6% in the year to January, as social-distancing measures have been withdrawn. Growth has been greatest in those sectors most affected by the pandemic. According to government, sales of entertainment and cultural activities rose by a third over the same period while tourism sales rose by almost a fifth. In contrast, professional, scientific, and technical services grew by just 4.2%, driven by architecture and advertising.

Manufacturing

Manufacturing output fell by 1.6% in the year to January. According to INE, the fall reflects a 10.5% decline in chemicals production, particularly methanol due to restricted supplies of natural gas. Production of chipboard and fibrocement, both used in construction, have also fallen due to lower demand and high stocks.



Source: Central Bank of Chile

In the face of sustained high inflation, the Central Bank has held its monetary policy rate at its highest level in three decades, delaying any cuts until later this year. On January 26th, the Board voted unanimously for the second consecutive meeting to hold the rate at 11.25%. Minutes released in February showed that they had not considered other options. The Bank reiterated that it would maintain the rate at this level until there are clear signs that the Consumer Price Index is converging with its 3% medium term target.

As a result, the market has revised its expectations of how quickly the Bank will begin to loosen monetary policy. Analysts surveyed in March expect that the Bank will not begin cutting the rate until at least its fourth meeting of the year on June 19th. They also expect the rate to fall to 8.00% by the end of this year, rather than 7.00% as predicted two months earlier.

After achieving its first fiscal surplus in a decade, the government will see its finances squeezed this year by the downturn in the economy.

In 2022, government revenues rose 6.3% to CLP 68.1 trillion (US$85.2 billion), boosted by a 9.6% rise in tax revenue as economic activity rose and a sixfold rise in rental income to CLP 3.6 trillion (US$4.6 billion), largely royalties on lithium production on the Salar de Atacama. This was more than the government received from state copper firm Codelco.

Meanwhile, in line with cuts planned by the previous administration, the government reduced public expenditure in 2022 by 23.1% to CLP 65.2 trillion (US$81.5 billion), as support provided to households during the pandemic was curtailed. As a result, the government recorded an annual surplus of CLP 3.0 trillion (US$3.7 billion), equivalent to 1.1% of GDP.

This year, government spending is expected to rise 1.2% in real terms to CLP 70.8 trillion (US$85.7 billion), lower than the 4.2% increase outlined in the government's budget legislation, due to the high level of execution achieved in 2022.

Government revenues are expected to slide 12.5% to CLP 64.0 trillion (US$80.3 billion) on lower tax revenues, reflecting the contraction in economic activity and a decline in metals prices. That would trigger a deficit of around CLP 6.8 trillion (US$8.5 billion), or 2.4% of GDP.

The government still estimates that the structural fiscal deficit (i.e., one based on long term forecasts for economic growth and the copper price) will fall to zero within four years, as long as the economy grows by significantly more than its trend rate of 2.3% during each of the next four years, copper prices average more than US$4.00/lb during the period and government spending rises by no more than 5.0% by 2027.

However, this forecast may have been upended by the government's defeat over its flagship tax reform bill in March (See 4.0 Political Context).

Tax Reform

To finance its social reform program, the government is advancing three pieces of legislation to increase tax revenues: i) amendments to an existing constitutional reform that would impose a royalty on mining; ii) a bill yet to be presented to Congress to raise taxes on pollutants, tobacco, and other harmful products; and iii) a general tax bill.

First presented to Congress last July, this latter piece of legislation aimed to boost government revenues by almost 5.0% of GDP from 2026 onwards through higher tax rates on the highest income earners, a new wealth tax on millionaires, the elimination of tax breaks for share traders, the construction industry and others, and stronger powers to persecute tax evaders, among other measures. Concessions made during the debate saw the forecast boost to revenues reduced to 2.7% of GDP.

The additional revenues would be used to finance a 21% increase in the Guaranteed Universal Pension to CLP 250,000 a month (US$313) from next year, which is estimated to cost US$2.5 billion, as well as to expand childcare provision and cut hospital waiting times.

Following its defeat in March, lawmakers will take longer to pass the legislation (initially expected for later this year) and the government will have to make more concessions to secure its approval (reducing the boost to future revenues).

The government has other ways to raise revenues, but neither will be sufficient to plug the gap, Finance Minister Mario Marcel has said. The proposed new royalty for the mining industry, currently in the Senate, would raise US$1.5 billion annually (around 0.5% of GDP), but almost a third of this is earmarked for spending in the regions, and its approval looks less likely following the government's defeat. Legislation to increase taxes on pollutants, alcohol, and tobacco would only raise an additional 0.3% of GDP.

As a result, the government may have to delay or curtail implementation of its social programs or increase government borrowing.

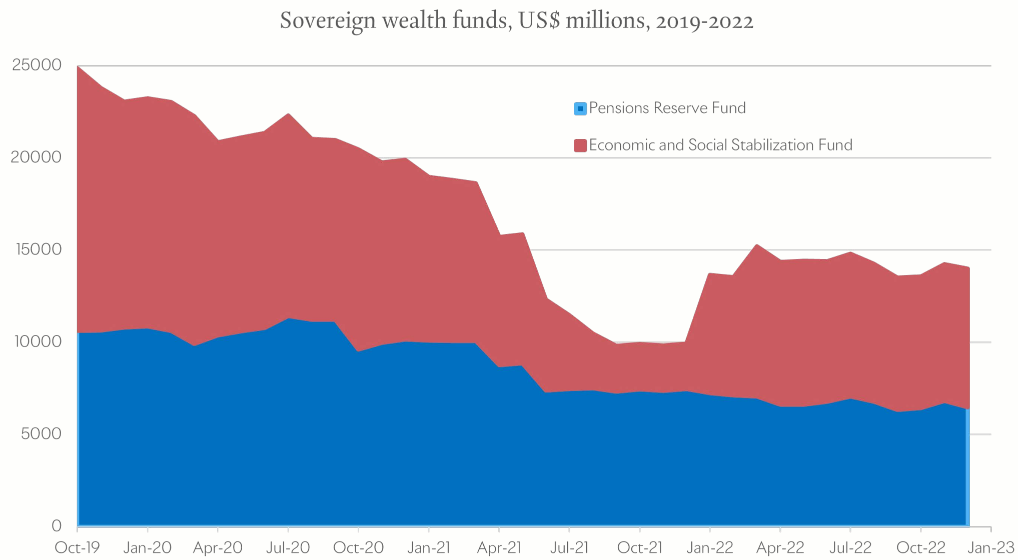
Credit Ratings

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

There has been no significant change in Chile's sovereign credit rating since Moody's downgraded its debt to A2 in September last year.


Si nos reconocen como
la minera más INNOVADORA
de Chile, significa que
vamos por el camino correcto
RANKING 2022
1° LUGAR
MINERÍA
Most Innovative Companies

Sovereign Funds



Source: Ministry of Finance

The value of assets held by Chile's two sovereign wealth funds reached US$14.0 billion by the end of 2022, up 40.9% from twelve months earlier, reflecting US$6.0 billion worth contributions made by the previous administration in early 2022. However, the funds suffered capital losses totalling US$2.4 billion last year as the value of financial assets tumbled of the face of soaring global inflation.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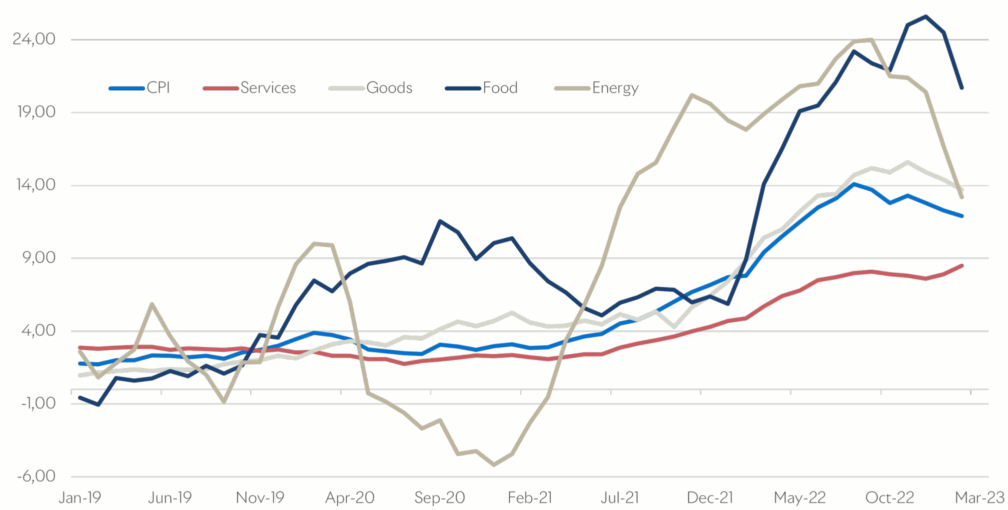
Consumer Price Index, annual change %, 2019-2023



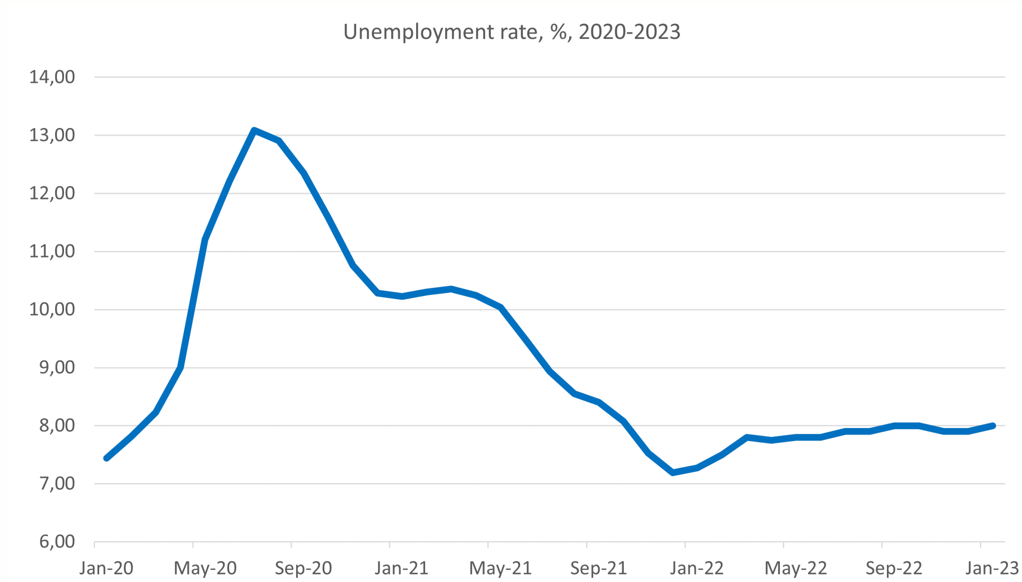
Source: National Institute of Statistics

Inflation remains near its highest level in three decades. However, the government's Consumer Price Index fell by 0.1% in February, its first monthly decline in more than two years, bringing annual inflation to 11.9%, its lowest level since May last year. The figure surprised markets which had predicted a 0.2% increase.

The fall was driven largely by volatile food and energy prices, which declined by 1.0% and 1.4%, respectively. Food and drink prices fell 0.3%, led by lower prices for meat and fresh fruit. Transport and energy prices fell by 2.7% in the month, reflecting a 27.8% drop in airfares and a 3.2% decline in vehicle fuel prices. Gasoline prices in Santiago have fallen by 8.0% over the last three months to reach CLP 1,286/litre (US$1.60) by the first week of March.

However, only three out of the twelve categories declined in the month, core inflation remains firm (rising by 10.7% in the year to February) while services inflation reached a 25-year high of 8.5%.

The fall in February has had little impact on inflation expectations. Analysts surveyed in March predicted that the index will rise over the next two months and end the year at 5.2%, up from 5.0% predicted in December 2022.



Source: National Institute of Statistics

Unemployment has crept higher over the last year, averaging 8.0% in the three months to January 2023, up from 7.3% twelve months earlier. However, it remains far below the peak of over 13.0% reached during the pandemic. Although the number of people in work has continued to grow, reaching 9.0 million in January for the first time since the start of the pandemic, there are still 700,000 more people classed as inactive compared with February 2020 and labour market participation remains significantly below pre-pandemic levels for both men (70.7%) and women (51.0%)

The increase in employment over the last year has been driven by hospitality (up 18.8%), transport, and farming and fishing, offset by falls in construction (down 7.4%), the power industry and other services.

According to executives surveyed by the Central Bank in January, few businesses are planning to hire or fire significant numbers of workers over the next year. Around half have found it possible to operate with fewer workers than before the pandemic. They are finding it less difficult to fill positions, reducing pressures on wages, despite high inflation.

The government's remunerations index rose by 10.8% in the twelve months to December, little changed from six months earlier. Rising prices meant that real wages fell by 1.7% over the same period, marking fifteen months of continuous declines.

Banking

Bank lending has accelerated in recent months with the volumes of new loans rising in the three months to January by 18%, compared to twelve months earlier. The growth has been driven by corporate lending, which rose 26% to a monthly average of US$10.3 billion, (especially to large companies; lending to smaller businesses shrank). New mortgage loans fell in the period fell to US$740 million, down 28% from a year ago, reflecting the impact of higher interest rates and lower economic growth on the property market. New consumer loans fell 1% to US$956 million. As a result, the outstanding bank loans reached CLP243.2 trillion (US$296.7 billion), down 3.1% from a year earlier.

Profits in the banking industry are slowing. After seeing profits rise 28.6% last year to CLP 5.4 trillion (US$6.6 billion), profits in January fell 24.1% to CLP 352.7 billion (US$430 million).

Stock Market

Source: Santiago Stock Exchange

Chilean shares climbed during the first two months of the year, reflecting the improved outlook for the global economy, the relaxation of social-distancing measures in China and lower inflation expectations. By the end of February, the IPSA index of the largest companies listed on the Santiago Stock Exchange had moved above 5,400 points, reaching its highest level in six months. However, the index gave up much of the gains made this year in March amid the global sell-off in stocks that followed the collapse of Silicon Valley Bank in the US.

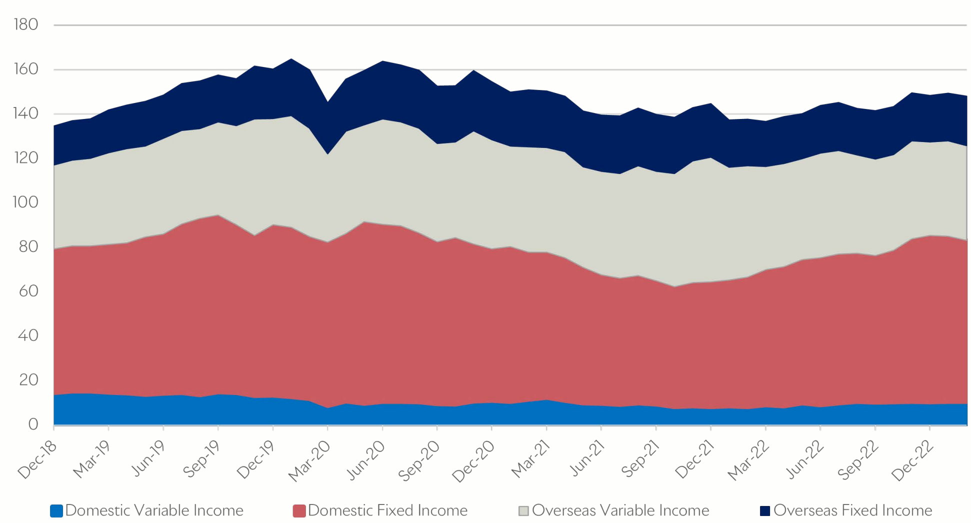
Type of fund	Amount (billions of pesos)	Change March 2022 – February 2023 (%, real in pesos)	Return March 2022 – Februery 2023 (%, adjusted for inflation)	Limits on equity investments Limits on equity investments (% of fund assets)	
				Maximum	Minimum
A Funds	21,882	-8,8	-11.82	80	40
B Funds	25,646	1.4	-8.87	60	25
C Funds	52,696	2.3	-5.28	40	15
D Funds	26,966	19.7	-0.51	20	5
E Funds	23,686	49.4	2.82	5	0
Total	150,875	8.4			

Source: Superintendence of Pensions

By the end of January, Chile's pension fund administrators managed assets worth CLP 150.9 trillion (US$183.0 billion), up 8.4% from twelve months earlier. Over the last year, AFPs have significantly increased their holdings in Chilean fixed income instruments, reflecting the rise in interest rates as well as more than 600,000 savers moving to the more conservative D and E funds. These have risen in value by 32.0% over the last year to CLP 50.7 trillion (US$61.4 billion).

Following the approval of legislation regulating pensions advisors, the number of transfers between the pension multi-funds have declined by 84.9% compared with 2021.

AFPs by asset, US$ billion, 2018-2023



Source: Superintendence of Pensions

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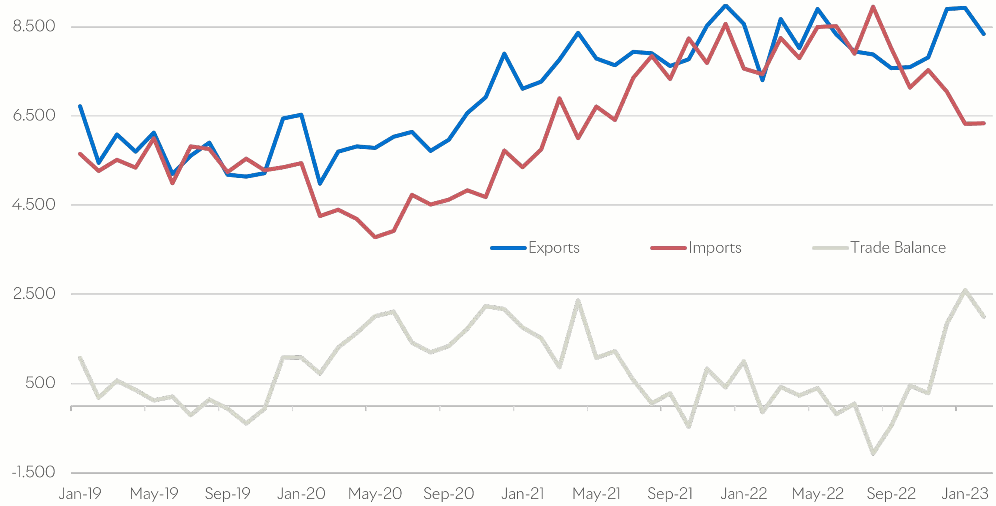
External Sector

2

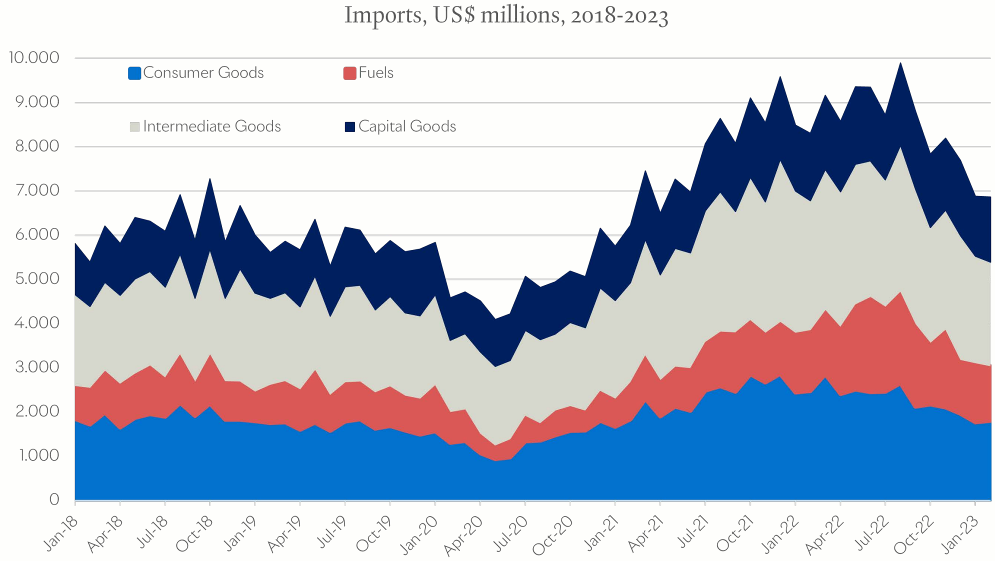
Trade Balance, US$ millions, 2019-2023



Source: Central Bank of Chile

Chile's trade surplus soared to US$4.6 billion during the first two months of the year, up fivefold from a year ago, as exports rose and imports fell. Driven by increased exports of lithium, fruit and chemicals, Chile{s exports rose to US$17.3 billion in the first two months of the year, up 8.8% from twelve months earlier. Imports fell 15.6% over the same period to US$12.7 billion on lower imports of consumer and capital goods and fuels.

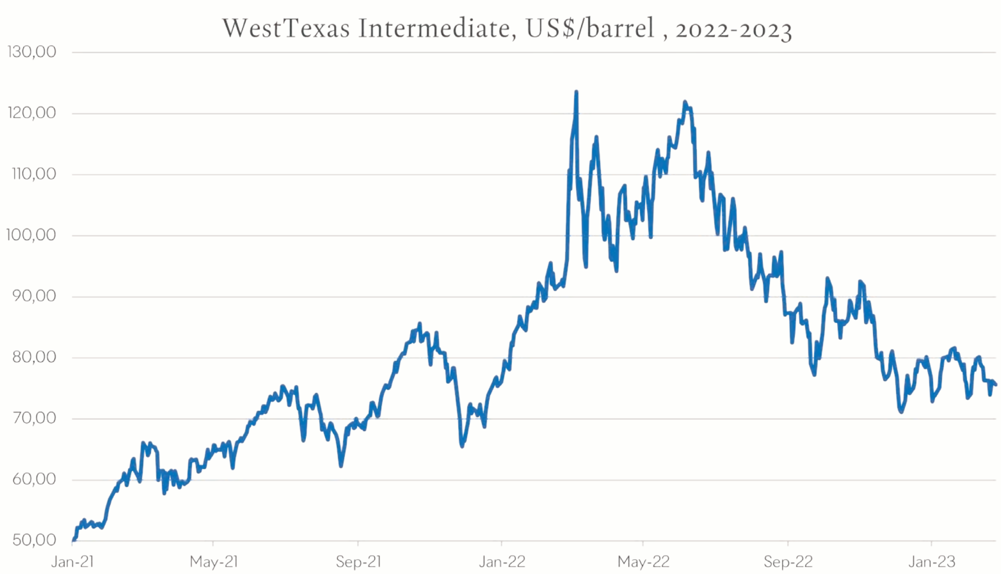
Imports



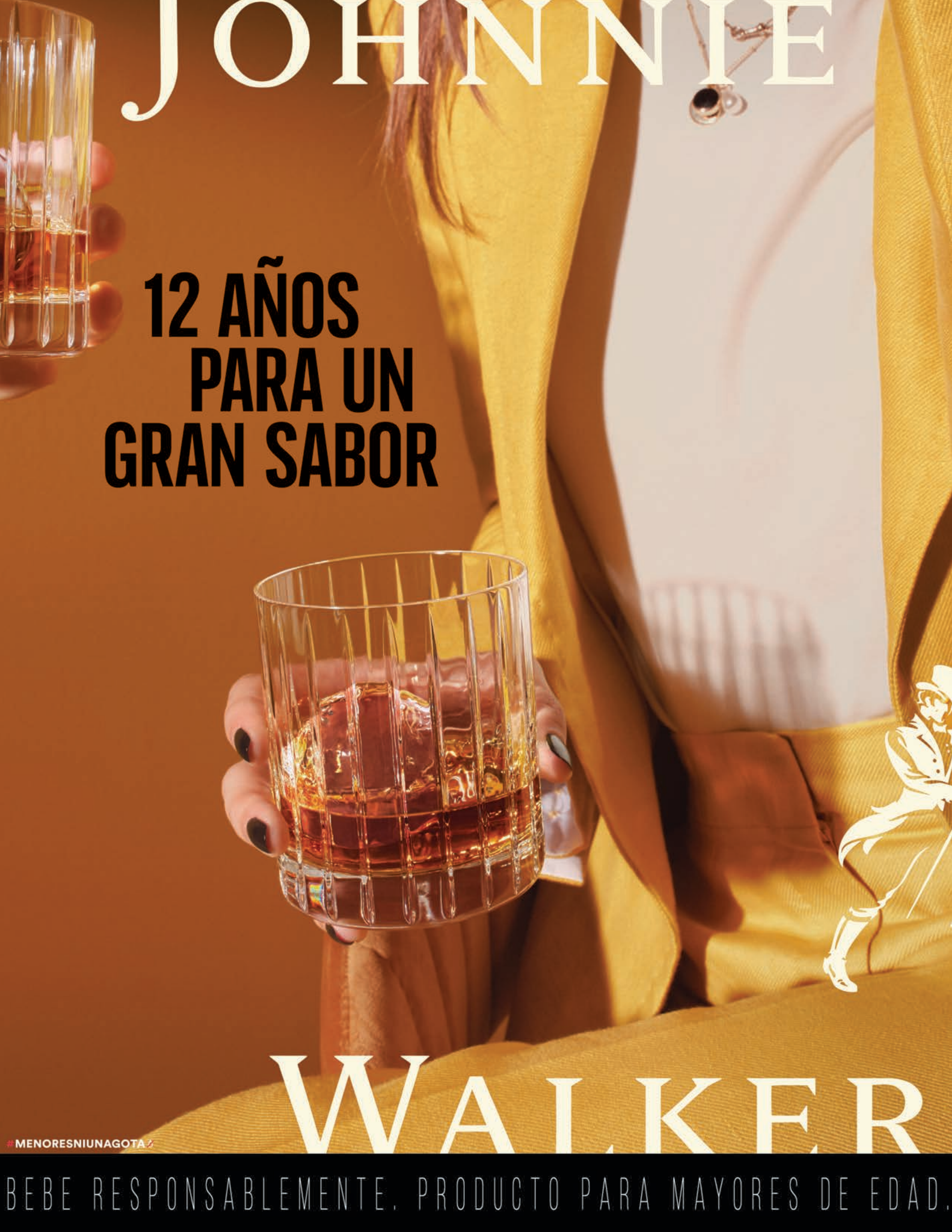
Source: Central Bank of Chile

Imports of consumer goods during the first two months of the year fell to US$3.6 billion, down 27.4% from twelve months earlier, driven by lower imports of consumer durables, clothing, and footwear.

Fuel imports reached US$2.6 billion, down 5.9% from the same period of 2022, reflecting lower oil prices.



Source: St Louis Federal Reserve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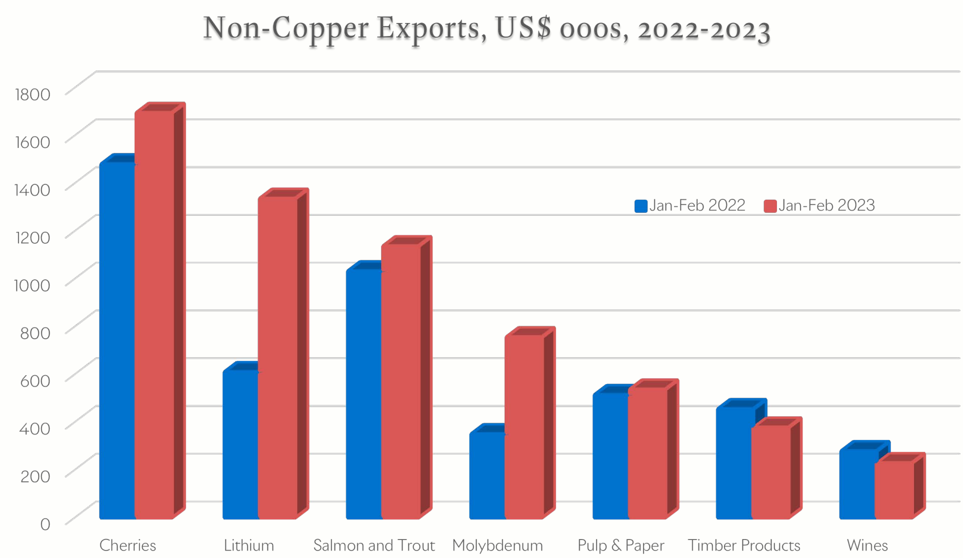
The West Texas Intermediate oil price, which state oil firm ENAP uses to price imports, averaged US$77.5/barrel during the first two months of 2023, down from US$83.1/barrel in the same period of last year. After declining sharply during the second half of last year, prices have stabilized in recent months below US$80/barrel. Oil imports fell 20.5% to US$771 million, partly offset by a 46.4% increase in imports of natural gas, especially from Argentina.

Imports of intermediate products fell 22.1% to US$4.8 billion, driven by lower imports of metallic and chemical products and textiles, while imports of fertilizer, spare parts and molybdenum concentrates rose.

Imports of capital goods declined 6.3% to US$2.8 billion, reflecting declines in imported electrical motors and generators, pumps and compressors and other machinery. However, imports of buses and other transport vehicles more than tripled to US$259 million.

Exports



Source: Central Bank of Chile

Agricultural exports during the first two months of the year reached US$2.8 billion, up 20.9% from the same period of last year, driven by increased shipments of fresh fruit. Now Chile's main fruit export, shipments of cherries rose 15.2% to US$1.7 billion, while grapes rose 25.9% to US$253 million. According to farms statistics office ODEPA, cherry exports reached 239,500 tonnes in January, up 26% from a year ago, with China accounting for 91% of shipments.

In March, Chile suspended exports of chicken meat (worth US$700 million in 2022) after avian flu was detected on a poultry farm.

Industrial exports reached US$6.1 billion, up 19.3% from a year earlier, driven by exports of chemicals which rose by 51.9% to US$2.1 billion. This rise reflected increased exports of iodine, molybdenum oxide and tyres, among other products.

Salmon and trout exports rose to US$1.1 billion, up 10.2% from a year ago, on a 5.2% increase in volumes and higher prices. According to salmon producer AquaChile, recovering demand from hotels and restaurants and lower production in Chile has pushed prices higher globally.

Exports of timber products fell 17% in the period to US$377 million as high inflation, weak housing markets and low economic growth hit demand in Europe, Asia, and the US.

Pulp and paper exports rose 4.6% to US$536 million in January and February, reflecting a 15.7% increase in exports of long fibre pulp to US$206 million. Pulp prices have risen over the last year, with long fibre pulp averaging US$916 a tonne in the final three months of 2022, up from US$809 a tonne in the first quarter, according to Empresas CMPC. In December, Arauco started production from a third line at its Arauco pulp mill, which will lift capacity by around 1.6 million tonnes annually.

Wine exports in the period fell to US$228 million, down 17.8% from twelve months earlier. According to industry association Vinos de Chile, exports of bottled wine fell in January to three million boxes, down 16.4% from a year earlier, as companies faced high inflation and high inventories. Brazil became the main destination for Chilean wine as exports to China fell by almost half while shipments to Germany rose threefold.

Joining TPP-11

The Comprehensive and Progressive Agreement on Trans-Pacific Partnership, better known as TPP-11, finally came into force in Chile in February, almost five years since the deal was signed in Santiago.

Although Chile was a founding member and played a key role in salvaging the pact after the US unexpectedly withdrew in 2017, opposition to the deal (especially clauses on the investor-state dispute mechanism and seed patents) prevented its ratification by lawmakers until last October.

Critics included President Gabriel Boric, then an opposition deputy, and other lawmakers now in government.

But faced with growing support in Congress, President Boric agreed to sign the agreement while seeking side letters from other member countries that would exempt Chile from being subject to the World Bank's International Centre for Settlement of Investment Disputes. In the end, only New Zealand provided such a document.

Although Chile already has Free Trade Agreements in place with the other ten members, TPP-11 will significantly improve market access. Around three thousand Chilean products will now enter tariff-free into major markets including Canada, Japan, and Vietnam.

But the treaty's real importance could be in providing strength in numbers. Bringing together countries with a total population of more than 500 million and economies that represent around 13.4% of global GDP, the TPP-11 will be the world's third largest free trade area behind the US-Mexico-Canada agreement and the FTA between Canada and the European Union.

As other economic powers, such as the United States, the EU and China, grow more protectionist, with subsidies and tax breaks for key industries, belonging to a larger trade bloc is likely to become more important over the coming decades. Other countries are already lining up to join with Costa Rica, Ecuador, Taiwan, Uruguay, and the United Kingdom all making formal requests.

UK accession talks are at an advance stage with an announcement on UK accession-in-principle (agreement on the main terms of a deal) expected soon.

The other benefit is the signal it gives to the world that Chile, a pioneer in bilateral trade negotiations, remains committed to free trade. Before taking office, President Boric had suggested that Chile's network of trade agreements should be revised to ensure alignment with government policy.

However, since then, the administration appears to have warmed to free trade. Shortly before the president signed the TPP11 into law, Chile concluded negotiations on a new expanded trade deal with the European Union which must now be presented to Congress. The dismissal of Subsecretary for International Economic Agreement José Miguel Ahumada, the man tasked with making these revisions to Chile's existing trade agreements, is another indication of this change in policy.

Chile's mineral exports fell to US$8.4 billion in the first two months of 2023, down 0.8% from the same period of 2022, as increased exports of lithium, molybdenum and precious metals were offset by a decline in exports of copper.

Copper exports totalled US$6.3 billion in January and February, down 13.1% from twelve months earlier, largely due to a 18.4% decline in exports of copper cathode. The decline reflects lower copper prices, which have averaged US$4.07/lb so far this year, down from US$4.47/lb in 2022.

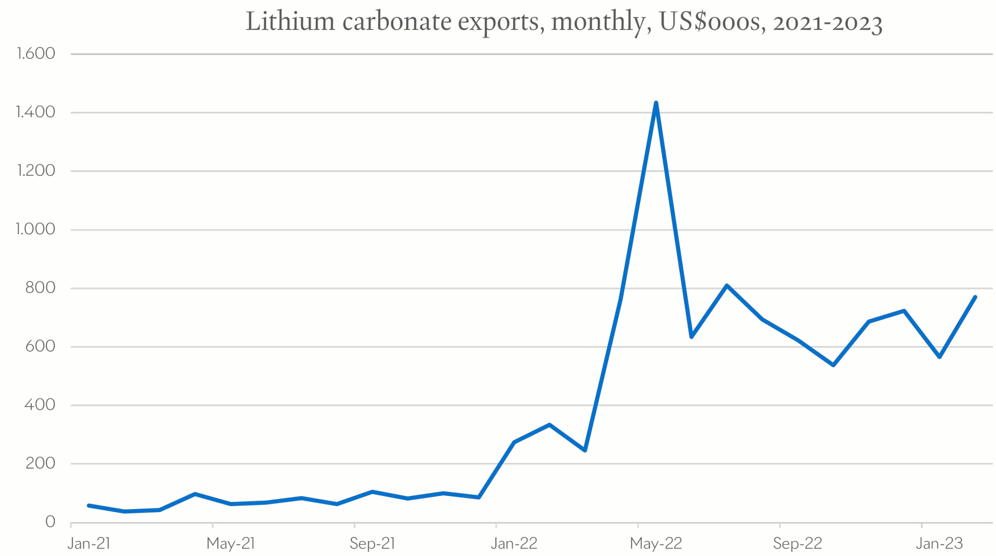
Source: Chilean Copper Commission

However, after falling sharply last year, copper prices have recovered in recent months, reaching US$4.30/lb in January, up almost 35% from six months earlier, driven by the reopening of the Chinese economy and interruptions to supply. Social unrest has slowed exports in Peru, the world's second largest producer, while a dispute over tax in Panama has halted the country's largest mine.

Analysts have begun to revise price forecasts in light of the rally. In January, the Chilean Copper Commission predicted that prices would average US$3.85/lb during 2023 and US$3.95/lb in 2024, up from US$3.55/lb and US$3.45/lb predicted by the Central Bank in December. Some investment banks have predicted prices could exceed US$5.00/lb for the first time during the next year.

After falling 5.8% to 5.4 million tonnes in 2022, production is set to rise 7.5% to 5.7 million tonnes this year, according to government predictions, driven by the start of Teck's new QB2 mine which began commissioning late last year. It is expected to produce 150,000-180,000 tonnes of copper concentrate in 2023. Total Chilean production in January reached 435,939 tonnes, up 1.3% from the same months of last year.

In January, lawmakers approved legislation that would allow Codelco to shut its Ventanas copper smelter which it decided to close due to pressure over its environmental impact.

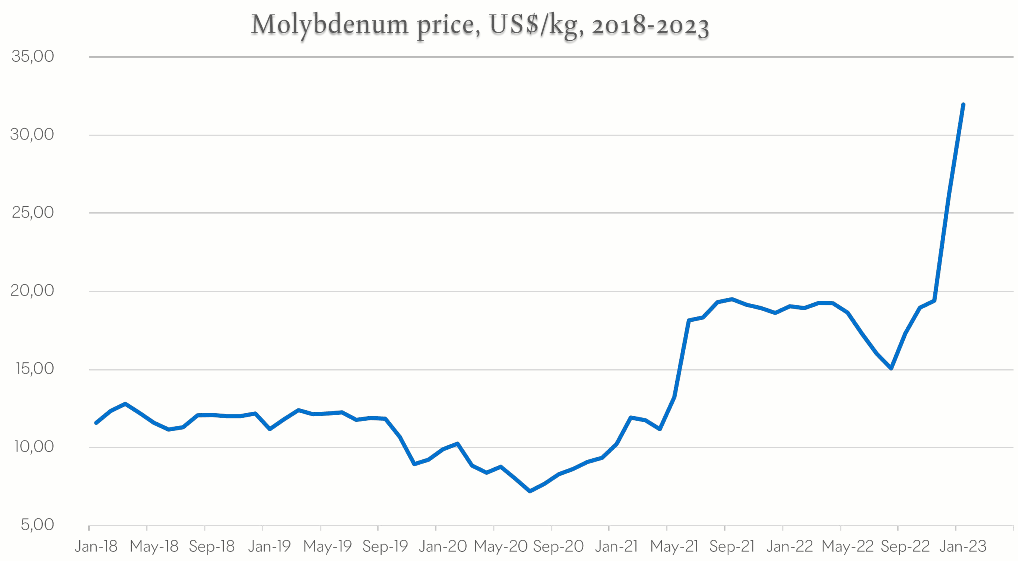


Source: Central Bank of Chile

Chile's lithium exports have continued to soar driven by higher prices and volumes. Exports during the first two months of the year totalled US$1.3 billion, up more than threefold from twelve months earlier.

In January, Australia's Lithium Power International announced that it intends to begin construction later this year of a facility in Chile that could produce 15,000 tonnes annually of lithium carbonate. Although legislation reserves production of the mineral to the state, LPI's project is based on mineral claims which predate the restrictions.

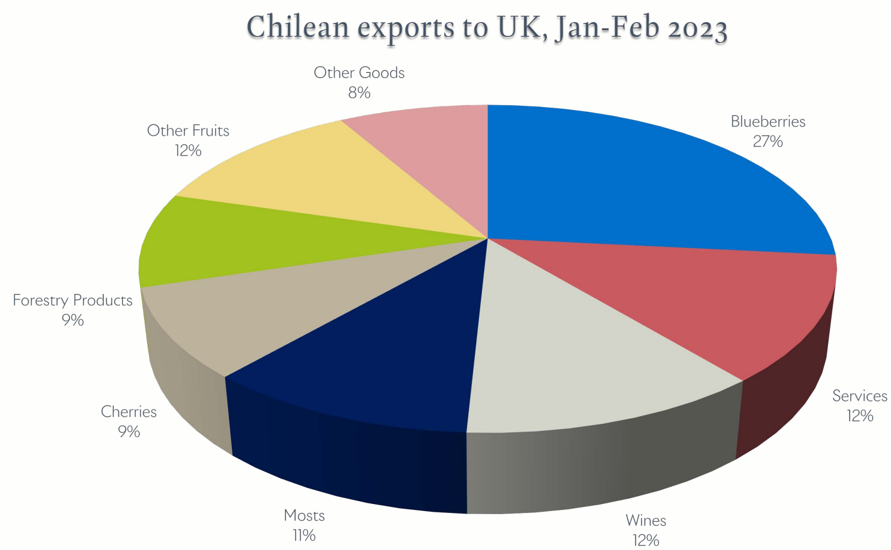
President Boric is expected to announce the government's lithium strategy in March, including the creation of a new National Lithium Company.



Source: Chilean Copper Commission

The value of Chile's molybdenum exports has ballooned in recent months on higher prices, reaching US$755 million during the two first two months of 2023. Prices averaged US$31.97 a kilogram in January, up 70% from an average of US$18.67/kg in 2022. The rally has been driven by strong demand for molybdenum-bearing steels from the offshore oil industry (as oil prices encourage drilling) as well as the closure of some copper mines in Peru (which produce molybdenum as a by-product).

Exports of gold and silver reached US$217 million, up 29.9% from a year earlier, while iron ore exports rose 2.6% to US$213 million.



Source: National Customs Service

Trade between Chile and the UK has declined so far this year, totalling US$172.4 million during the first two months of the year, down 11.0% from a year earlier.

Chilean exports to the UK fell to US$98.8, down 8.1% from twelve months earlier, as lower shipments of wines, grapes and blueberries were partially offset by increased exports of cherries and forestry products.

UK exports to Chile totalled US$73.6 million in January and February, down 14.7% from a year earlier. Shipments of liquid alcohol fell 41.4% to US$4.2 million as the Covid19 pandemic retreated while shipments of machinery and equipment fell 4.1% to US$18.6 million. This was partly offset by an 87% increase in cars and passenger vehicles to US$5.6 million.

In January, UK car retailer Inchcape completed its acquisition of Chile's Derco which sells cars in Chile, Colombia, Bolivia, and Peru.

In December, a delegation of Chilean executives and officials, led by Finance Minister Mario Marcel, travelled to London for the annual Chile Day event to meet with UK investors. The UK Treasury and Chilean Finance Ministry signed a Memorandum of Understanding to deepen collaboration in financial services during the visit.

Chile's current account deficit reached a record US$27.1 billion in 2022, equivalent to 9.0% of GDP, up from 6.6% in 2021, driven by the fall in the trade surplus as imports rose.

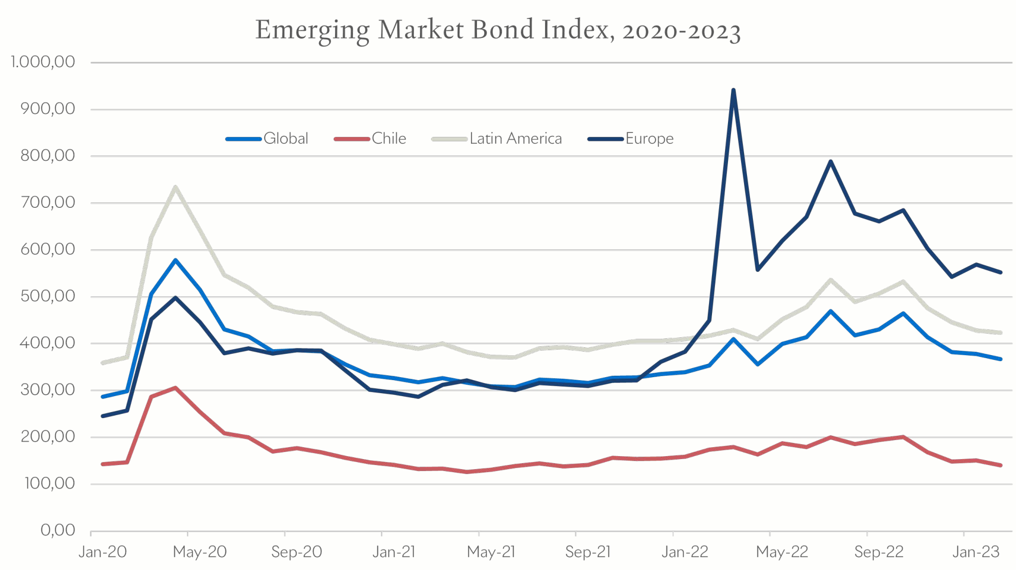
However, the deficit is expected to decline as the trade surplus widens again with the Central Bank predicting a decline to 4.9% by the end of 2023. In the fourth quarter, the current account deficit fell to US$5.0 billion, down from US$7.5 billion in the previous quarter, reflecting the swing back to surplus in the trade balance.

Chile's financial account ended 2022 with a net deficit of US$25.4 billion, up from US$24.8 billion in December 2021. A sharp fall in the acquisition of overseas financial assets by Chileans (which fell 55.9% to US$14.4 billion) was largely offset by a sell-off in Chilean financial derivatives.

Chile's International Investment Position reached a net debt of US$55.4 billion by the end of December, up from US$23.9 billion twelve months earlier. The sharp increase reflected lower valuations of overseas financial assets held by the pension fund administrators.

Chile's foreign debt declined to US$233.3 billion at the end of 2022, equivalent to 76.4% of GDP, down from US$237.7 billion twelve months earlier. The fall was largely due to a 9.7% drop in government debt to US$41.2 billion and a 4.0% fall in corporate debt to US$96.0 billion. Foreign debt held by Chilean banks rose 8.2% to US$32.1 billion.

Country Risk



Source: JP Morgan

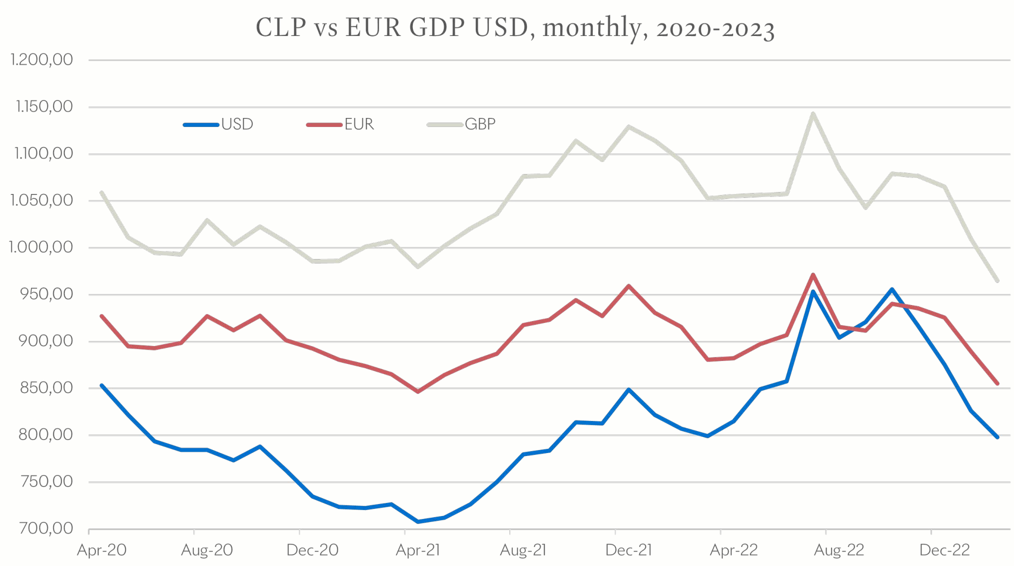
Risk premiums have declined in recent months as fears of a global recession have faded. JP Morgan's Emerging Market Bond Index (EMBI) for Chile reached 140 points in February, down from a peak of 201 points last October and its lowest level since September 2021.

Source:Central Bank of Chile

The Chilean peso rallied strongly against the US dollar, gaining 16.5% since October, making it the second strongest emerging market currency in that period (behind the Hungarian forint). By February, the exchange rate had reached CLP 782/dollar, its highest level since April 2022. The move reflects the rally in copper prices, stronger external conditions as well as increased investor confidence about the new constitutional process. However, the peso had weakened by early March, most recently in reaction to the sell-off in global banking stocks that followed the collapse of Silicon Valley Bank in the US.

On January 31st, the Finance Ministry announced that it would extend its intervention in foreign exchange markets, by selling up to US$2.0 billion worth of foreign currency (or US$150 million daily) during February. The move would help support the peso and raise funds to cover government spending needs.

The Chilean peso also rallied against other key currencies, including the Euro and British pound.



Source:Central Bank of Chile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CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Quarterly Insight

3

In December, lawmakers reached a deal on a process to draft a new constitution for Chile.

After voters overwhelmingly rejected the radical text proposed by last year's Constituent Convention, political parties from across the spectrum agreed on a series of steps they hope will ensure that this second attempt will result in a constitution that a broad majority of Chileans can support.

A first draft of the new constitution will be written by a committee of 24 experts appointed by the political parties represented in Congress. In strong contrast to the Convention, which was dominated by members without political experience or affiliation to traditional parties, the committee is made up of members of Chile's political elite, including six former ministers and undersecretaries. In their first meeting in early March, they chose Verónica Undurraga, a law professor linked to the centre-left Party for Democracy as their president.

Unlike last year, the drafters will not be starting with a blank slate. In December, lawmakers also listed a series of founding principles which must form the basis of the new constitution, including:

- That Chile will remain a democratic republic with a unified, decentralized state;
- With three independent arms of government, including a bicameral legislature, an autonomous Central Bank and National Prosecutor's Office, armed forces, and law enforcement agencies (including the Carabineros)
- And the power to declare state of emergency or catastrophe when required.
- The constitution will also recognize human rights as defined by international treaties signed by the state, and its indigenous peoples within the nation;
- Promote protection of the environment;
- And maintain Chile's national symbols such as the flag, the coat of arms and the national anthem.

After last year's drafters sought to eliminate the Senate, grant autonomy to indigenous peoples and recognize the rights of Nature, the aim is to prevent radical changes to the way Chile is currently run.

The final text will be debated and decided by an elected body known as the Constitutional Council whose members will be chosen through elections to be held on May 7th.

The vote will be mandatory, and the 50 members will be chosen through the same d'Hondt method of proportional representation used for electing the Senate. There will be seats reserved for representatives of indigenous peoples but the room for independents has been curtailed.

Chile's main political parties have formed three lists from which voters can choose candidates: the government's Unidad para Chile, the centre-left Todo por Chile and the centre right opposition's Chile Seguro while the populist Republican Party and People's Party will field their own candidates.

The Council will have five months to debate the contents of the new constitution based on the experts' draft which must be presented by November 7th. Each article must be approved by a three-fifths majority of the council members.

The completed text will then be put to a second mandatory referendum on December 17th, meaning that, if approved, the new Constitution could be ratified by Congress and become effective by mid-2024.

Among investors, expectations are high that the new process will deliver a constitution which will be supported by a majority of voters and provide much-needed stability to the country's politics and economy. Since December, the Chilean peso has outperformed all other currencies in Latin America, shares prices have rallied while risk premiums have fallen.

However, after last year's prolonged debate, Chileans are more sceptical of this second attempt. A poll by Cadem in early March found that less than a third of those surveyed were confident that the new process would result in a legitimate Constitution and just a fifth thought it would resolve the crisis in the political system. They are also less interested, assigning more importance to other news such as this year's wildfires and the rejection of the government's tax reform.


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CHILENO BRITÁNICA
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Political Context

4

The government suffered a major legislative defeat on March 8th when the Chamber of Deputies narrowly voted to reject in general the government's flagship tax reform bill. Although 73 government supporters voted in favour of the legislation (versus 71 against and three abstentions), this was less than the 74 votes required, meaning that the lower house will not continue to discuss the bill in detail.

The defeat reflects the administration's difficulties in uniting its disparate alliance. The bill would have passed if three deputies allied with government had not left the Chamber before the vote. However, after the vote, ministers blamed the opposition for blocking a reform which would allow the government to increase pensions and expand childcare provision.

The vote means that the government cannot send similar legislation to the Chamber for twelve months. Although it could send the bill to the Senate, Finance Minister Mario Marcel has said that the government will seek talks with supporters, the opposition, business leaders and others to reach a wider consensus on how to increase government revenues.

Given the importance of the legislation to the government's spending plans (See 1.4 Public Finances), the defeat means that it may have to delay or curtail implementation of some key social programs or increase borrowing.

Two days after the vote, President Boric undertook the second and largest reshuffle of his cabinet so far, naming five new ministers and fifteen new undersecretaries.

Ministry	Out	In
Foreign Relations	Antonia Urrejola (PS)	Alberto Van Klaveren (PPD)
Sports	Alexandra Benado (Ind.)	Jaime Pizarro (PPD)
Public Works	Juan Carlos García (Lib.)	Jessica López (PS)
Sciences	Silvia Díaz (PPD)	Aisén Etcheverry (Ind.)
Culture	Julieta Brodsky (CS)	Jaime de Aguirre (Ind.)

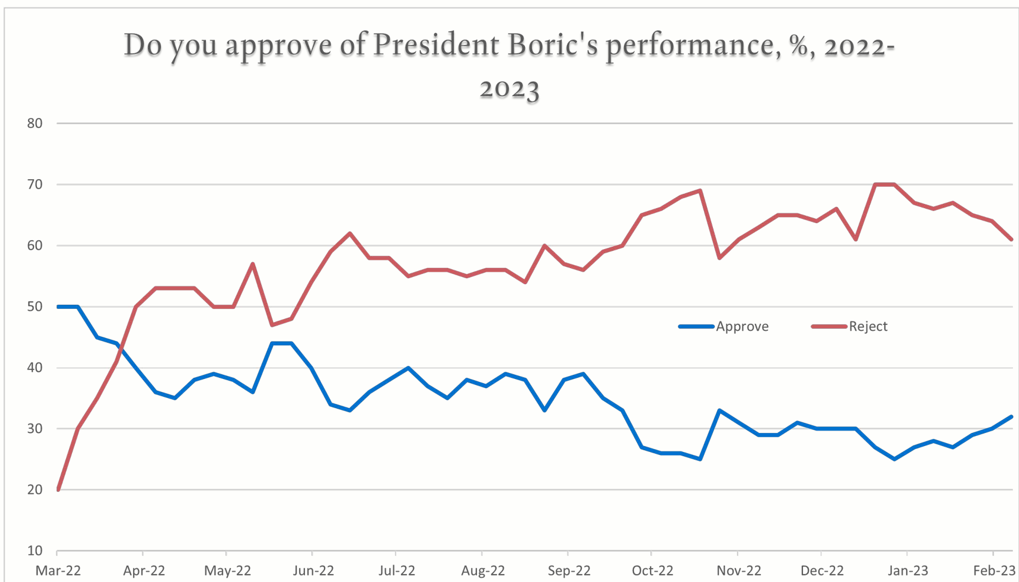
With the change, President Boric has brought more experienced politicians into the cabinet. The new Foreign Relations Minister Alberto Van Klaveren is a former Subsecretary of Foreign Relations who represented Chile in the International Court of Justice during the maritime dispute with Peru. The new Public Works Minister is a former chairwoman of state-owned BancoEstado while Jaime de Aguirre is a veteran television executive.

The reshuffle also increases the presence in the administration of the centre-left Socialist Party (PS) and Party for Democracy (PPD) on which the president has become more dependent since the rejection of the new constitution last September and the appointments of Carolina Tohá (PPD) as Interior Minister and Ana Lya Uriarte (PS) as General Secretary of the Presidency.

Despite the opposition of the government, populist lawmakers have begun to advance a sixth constitutional reform that would allow savers to withdraw part of the pensions savings. The first three, approved during the pandemic, led to US$50 billion being withdrawn from pensions funds while the fourth and fifth bills were rejected. Ministers have warned that further withdrawals would stoke inflation and destabilize an economic recovery.

The government came under heavy criticism after President Boric pardoned twelve individuals imprisoned for their involvement in the 2019 riots as well as a former member of a left-wing guerrilla group jailed for his participation in a 2013 bank robbery. Opposition politicians criticized that several of those pardoned had long criminal records predating the 2019 unrest. The Supreme Court also criticised the president for questioning the guilt of those he had pardoned.

Following the pardons, the centre-right withdrew from negotiations with ministers over the government's law and order agenda and refused to approve the government's candidate for national prosecutor. In response, Justice Minister Marcela Ríos and the president's chief of staff Matías Meza-Lopehandía both resigned their posts.



Source: CADEM

After slumping to record lows in January following the pardons, approval of President Boric's performance has increased but remains at historically low levels.

In March, Congress approved an extension of the state of emergency in the southern Araucanía region and neighbouring provinces until late May. Initially opposed by the government, ministers now say that the measure (which allows armed forces to support law enforcement in the area) has reduced rural violence by 35% and the murder rate by 63%.

In January, President Boric unveiled a plan for a new train connection between Santiago and Valparaiso. The train would take one hour and 30 minutes to travel from Quinta Normal in the capital to Limache where it will connect with the existing urban rail service in the Valparaiso area. The government plans to hold a tender for the works in 2025, with operations beginning in 2030.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CHILENO BRITÁNICA
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Economic Outlook

5

The Chilean economy is set to contract for the second time in four years during 2023 as it rebalances after the huge increases in government and private spending during the pandemic. Investment and private consumption are both set to contract in the face of high inflation, a weaker jobs market, dismal consumer confidence, and tighter financial conditions.

However, the downturn is proving milder than initially feared. Analysts surveyed by the Central Bank in March predicted a 0.8% annual decline in GDP, down from 1.5% predicted during the previous three months. This is at the low end of the Central Bank's most recent forecast range (-1.75%/-0.75%) and in line with the government's outlook. The improvement largely reflects predictions that the fall in private consumption will not be as sharp as expected.

External conditions have improved in recent months with the reopening of the Chinese economy pushing copper prices back above US$4.00/lb while central banks around the world are gradually bringing inflation under control. However, the collapse in March of Silicon Valley Bank and the subsequent global sell-off in bank stocks has increased uncertainty.

The slowdown in the economy will make life harder for Chileans. Real workers' incomes have been falling over a year as prices have soared and it is not clear how long it will take for inflation to return to sustainable levels. Unemployment is set to continue rising as companies put off investment and new hires until they have certainty about the timing of an economic recovery.

This will depend to a great extent on the outcome of the new constitutional process launched in March with the creation of a committee of experts which will write the first draft. The agreement between parties about the contents of the new constitution and the limited time for debate have reassured investors about the likely outcome as shown by the Chilean peso's recovery since October. But there are still important debates to be had on key issues, ranging from environmental protection, to the place in society of indigenous peoples.

The defeat of the government's flagship tax bill has also raised concern about the political climate. President Boric will have to make further concessions to advance his reform agenda, but this could split his already divided coalition and foment newpopulist measures, such as further pensions withdrawals which could destabilize any economic recovery.

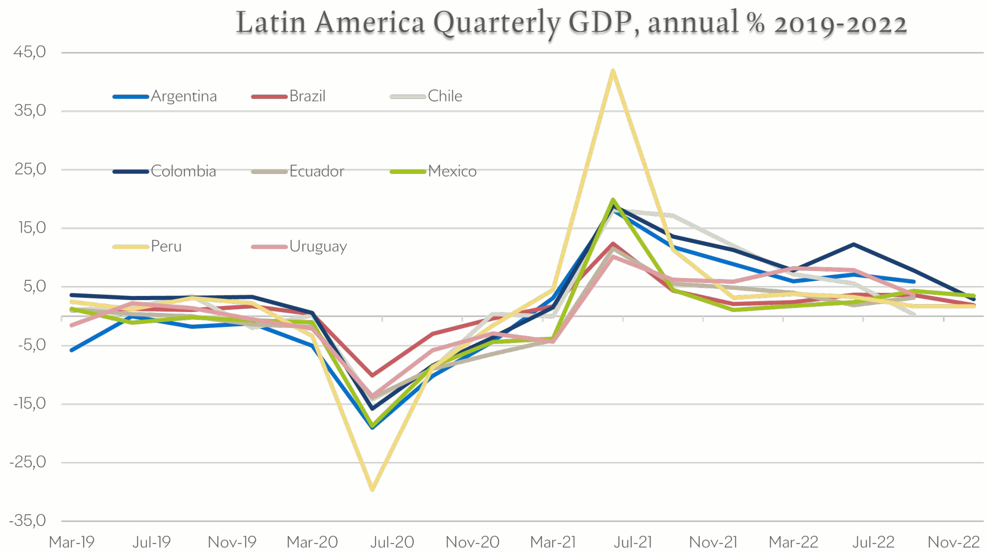
Economic Forecasts, 2022

	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	-0.75 - 1.75	-0.7	-0.8
Inflation (% annual variation)	3.6	7.3	5.3
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	8.0
Exchange rate (pesos/US$)	NA	850	800 [4/]
Copper price (US$/lb)	4.00	3.74	NA

[1/] Monetary Policy Report, December 2022.
[2/] Public Finances Report, February 2023
[3/] Average of selected private analysts surveyed by Central Bank, March 2023.
[4/] February 2024

Latin America Regional News

6



Source: Trading Economics

Argentina: Economy Minister Sergio Massa announced new measures to manage the depreciation of the peso as annual inflation rose to over 100% in February, its highest level in more than thirty years. With presidential and legislative elections scheduled for November, growth is expected to slow this year to less than 1.0%.

Bolivia: Authorities have struggled to contain panic about the availability of foreign currency which threatens to break the bolivar's 15-year-old peg with the US dollar. In January, President Luis Arce signed a US$1.0 billion deal with Chinese companies to develop the country's huge lithium reserves.

Brazil: President Luiz Inácio Lula da Silva took office for the second time in January, promising to protect the poor and the environment and to implement the major Mercosur trade deal with the European Union. Economists expect the economy to barely grow this year as investors fear that increased public spending could stoke inflation, keeping interest rates high.

Colombia: President Gustavo Petro has clashed with key members of his government over a proposed overhaul of the healthcare sector. The Colombian peso has lost around a quarter of its value against the US dollar since October, causing inflation to rise to a 24-year high and slowing economic growth.

Ecuador: In February, voters rejected all eight proposals put to a referendum by President Guillermo Lasso, upending his government program. Growth is expected to slow to 3.0% this year, reflecting lower oil production and high inflation.

Mexico: President Manuel Lopez Obrador's plan to weaken the national elections service triggered huge protests by people concerned by the threat to Mexico's democracy. Tesla's proposed US$10 billion investment in a gigafactory in Monterrey bodes well for the economy which is expected to slow sharply this year.

Peru: Protests demanding a new government and a new constitution have paralyzed much of the country since Pedro Castillo was impeached and arrested last December following his attempt to close Congress, but lawmakers have so far resisted bringing forward next year's elections. The economy is still expected to grow by 2.0% this year, assuming the protests end soon.

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