

Monthly Economic Update

April 26th, 2023

On April 20th, President Boric unveiled the government's National Lithium Strategy which aims to increase state participation in the industry, encourage the development of downstream manufacturing while also strengthening environmental protection of Chile's mineral-rich salt-flats. The government will send legislation to Congress later this year to create a National Lithium Company which will form joint ventures with private investors to explore, produce and develop the mineral. Until it is up and running, state mining firms Codelco and ENAMI will fulfil this role. Codelco will also open negotiations with SQM to obtain a majority stake in its operations on the Salar de Atacama before its rental contract expires in 2030 (Albemarle's does not expire until 2043).

Amid criticism that its new royalty on copper and lithium production would slow investment, the government offered to cap the overall tax burden on mining companies at 48% (versus up to 60% without the cap). The proposal still leaves mining companies at a disadvantage to Australia, Canada, and Peru and the government is expected to lower the cap when negotiations resume in May.

The Council of Ministers has approved Anglo American's application for a license for its US\$3.3 billion project to bolster production at its Los Bronces copper mine, near Santiago, after the project was rejected last year at a regional level.

Law and order became the priority issue on the political agenda after three police officers were shot dead in separate incidents. In response, Congress approved four bills, protecting police officers who use their firearms, clamping down on gun possession, and lifting the sentences for kidnapping and extortion. Polls show support for the uniformed police reached 79% in April, its highest level in almost eight years.

The government has agreed to increase the minimum monthly wage gradually to CLP 500,000 (US\$622) by July 2024, up from CLP 410,000 currently. Lawmakers approved legislation that will reduce the working week from 45 to 40 hours.

Support for the government has fallen, with approval of President Boric falling to 29% by late April, down six points from mid-March.

Ana Lia Uriarte resigned on health grounds as Minister for General Secretary of the Presidency (responsible for the government's legislative agenda) and was replaced by Socialist Senator Álvaro Elizalde.

Chileans will vote on May 8th in mandatory elections to choose the fifty members of the Constitutional Council which will debate and draft the new constitutional proposal. However, campaigning has been muted with few candidates actively canvassing votes, reflecting limited public interest in the new constitutional process.

Economic Data

Inflation remains very high with the government's Consumer Price Index rising by 1.1% in March (after a surprise fall in February), bringing annual inflation to 11.1%. Although volatile food and energy prices have slowed, core inflation has continued to rise with inflation for services reaching record highs.

Continued high inflation has raised inflation expectations. In April, the Central Bank predicted that inflation would fall to just 4.6% by year-end (compared to a forecast of 3.6% made late last year) while private analysts surveyed by the bank in April predicted it would reach 5.1%

With prices rising rapidly, the Central Bank has hardened its position on monetary policy. On April 4th, its board voted unanimously to hold its benchmark interest rate at 11.25%, the level reached in October, and reiterated that would not begin cutting until there was clear signs that inflation was returning to its medium-term target of 3.0%.

According to its base scenario, the Bank does not expect to make any cuts until the second half of the year unless recent turbulence in financial markets acts it to act sooner. Analysts surveyed by the Bank predicted that the first cut would not occur until the third quarter and that the rate would reach 8.50% by December, up from 7.0% predicted late last year.

Economic activity has continued to contract, falling by 0.5% in February, compared with twelve months earlier, and by 0.3% from the previous month on a seasonally adjusted basis. The decline was driven by falling retail and construction activity. Retail sales in Santiago fell by 14% during the first quarter, reflecting the end of the pensions withdrawals, high inflation and lower consumer confidence.

However, following the economy's better than expected performance during the last two quarters, the Central Bank predicted near flat growth this year (-0.5%/0.5%), rather than the contraction predicted last December (-1.75%/-0.75%). The key change has been that household consumption is falling slower than previously predicted. However, this implies a slower recovery next year when the economy will grow by just 1.0-2.0%, down from 2.0-3.0% predicted in December.

Business confidence has improved slightly but remains at historically low levels. The Monthly Indicator produced by the Adolfo Ibáñez University and ICARE, reached 38.17 points in March (excluding mining), its highest level in six months.

Consumer confidence has also improved albeit from very low levels with GfK's Economic Perceptions Index reaching 28.5 points in March, a twelve-month high.

Unemployment averaged 8.4% in three months to February, up from 7.5% twelve months ago as the expansion of the workforce outpaced job creation and construction and retail both shed jobs.

After appreciating sharply since last September, the Chilean peso has stabilized against the US dollar, trading in a range around CLP 800/dollar since February.

Chile's trade surplus expanded to US\$7.5 billion, during the first three months of 2023, up 100% from the final quarter of 2022, as exports rose to a record US\$27.0 billion. Exports were driven by shipments of fresh fruit, lithium carbonate and molybdenum oxide. Imports declined to US\$19.5 billion as imports of consumer and capital goods fell sharply.

Copper prices slipped to below US\$3.90 a pound in late April for the first time in six weeks on disappointing figures from China's manufacturing sector.

Chile's mining industry has performed weakly so far this year, with copper production during the first two months of the year totalling 820,563 tonnes, down 1.1% from the same period of 2022. Production at Teck's new QB2 mine began in March.

After recovering the losses suffered in March following the collapse of Silicon Valley Bank in the US, the IPSA index of the largest companies listed on the Santiago Stock Exchange fell sharply in mid-April, as shares in SQM fell around 20% after the government announced its National Lithium Strategy.

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