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CHILENO BRITÁNICA
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Chilean Economic Report

First Quarter 2024

1st Edition 2024 — Produced since 1922





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Dear reader

It is good to be able to report that the Chilean economy has had a strong start to the year. Both private analysts and the Central bank have upped their growth forecasts for the year to between 2.0% and 3.0 %. This is based on increasing domestic activity, falling inflation and more stable financial conditions. Conditions abroad have also improved, most importantly with Chile's main trading partners in China and the US, where growth projections have also increased. On the back of this the copper price has moved above US\$4.0 a pound for the first time in two years.

We have now reached the midpoint of President Gabriel Boric's four-year term in office. His government is still struggling to implement the promised social agenda, although some progress has been achieved by making compromises in both the tax and pensions reforms. The outcome of the proposed changes to the health service is still unclear and is cause for concern for many Chileans.

The other area of heightened concern is the significant increase in crime levels since the pandemic. Although still comparatively low compared to the rest of the region, new types of criminal activity, previously never seen in Chile, are raising the fear of attack to be the No 1 issue for a large proportion of the population. We have a special article in this report to give the background to this issue.



Greg Holland

Executive Director (2012-2024)
British Chilean Chamber of Commerce
Santiago, Chile



Elle Denton

Executive Director
British Chilean Chamber of Commerce
Santiago, Chile

Finally, I will be retiring at the end of April, and so this is the last time I will be writing the summary for our wonderful Economic Report. I am delighted to introduce Elle Denton, our new Executive Director, who has already taken the reins of the Chamber. It has been a privilege and a pleasure to work with you all for so many years, and I am confident that Elle will take the Chamber on to a new level with your support. Thank you.

Editorial Group: Peter Lynch, President, British Chilean Chamber of Commerce. Leslie Hemery, Director, Past Presidents Forum, British Chilean Chamber of Commerce. Catalina de la Huerta, Market Access and Trade Policy Officer, British Embassy in Chile. Tom Azzopardi, External Journalist. Greg Holland, Executive Director, British Chilean Chamber of Commerce.

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Key points

- After a strong start, the Chilean economy is expected to grow by 2.0-3.0% in 2024, driven by a recovery in private consumption and improved external conditions.

- Inflation is falling, but the weak Chilean peso and external trade risks will slow convergence with the Central Bank's 3.0% target rate.

- The Central Bank has continued to loosen monetary policy as inflation has fallen, with the rate expected to reach 4.5% by December.

The Chilean peso has fallen 12% in the first quarter against the US dollar – one of the largest declines among emerging market currencies - as monetary policy in the two countries diverges.

- Unemployment remains relatively high (8.5%), reflecting the return of inactive workers to the labour market since the pandemic.

- Boosted by the weak peso and improved external conditions, share prices have rallied on the Santiago Stock Exchange, lifting the IPSA index to record levels.

- Chile's trade surplus has remained steady as exports and imports decline. Capital goods imports have fallen, offsetting a recovery in consumer goods.

- Copper prices have surged above US\$4.0 a pound for the first time in two years, driven by stronger global growth, and smelter closures in China.

- Copper production has begun to recover from a slump in 2022 as Teck ramps up production from its expanded Quebrada Blanca mine.

- As it reaches the half-way point of its four-year term, President Gabriel Boric's government is still struggling to push through its flagship reforms in taxes and pensions.

Domestic Economic Performance

1



Monthly GDP, annual change %, 2022-2024

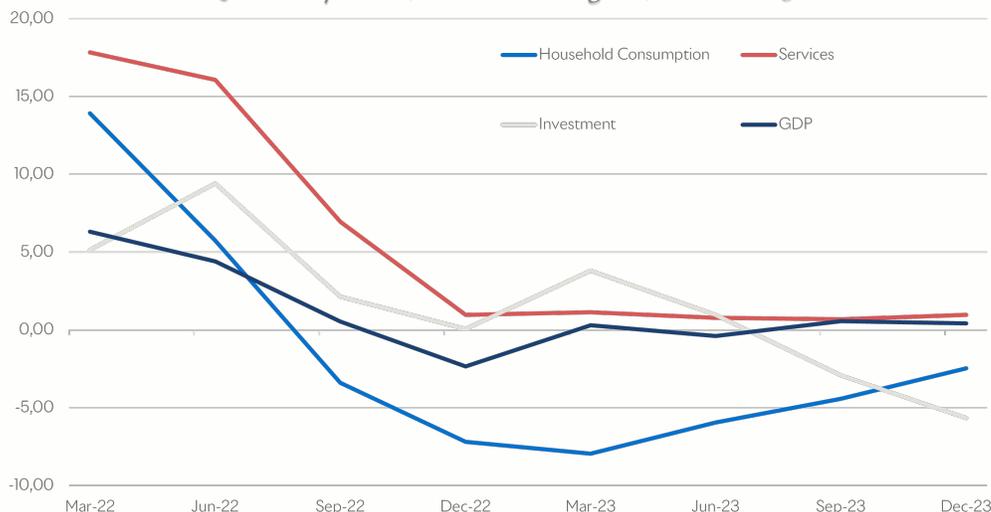


Source: Central Bank of Chile

The Chilean economy has grown vigorously so far this year after the brief downturn caused by the withdrawal of pandemic-era stimulus and the rise in interest rates. Preliminary data showed that activity expanded 4.5% in February, its fastest rate in almost two years, following a 2.5% expansion in January. Encouragingly, growth is spread across most sectors of the economy, including mining (up 11.5%), manufacturing (5.2%), retail (2.0%) and services (3.2%).

This is a significant acceleration from 2023 when the economy grew by just 0.2%. Expansions of 0.6% and 0.4% in the third and final quarters, respectively, meant Chile narrowly averted a contraction in annual activity. But household consumption (down 5.2%) and investment (down 1.1%) both performed poorly, leaving government spending, which rose 1.7% last year, as the main driver of growth.

Quarterly GDP, annual change %, 2022-2023



Source: Central Bank of Chile

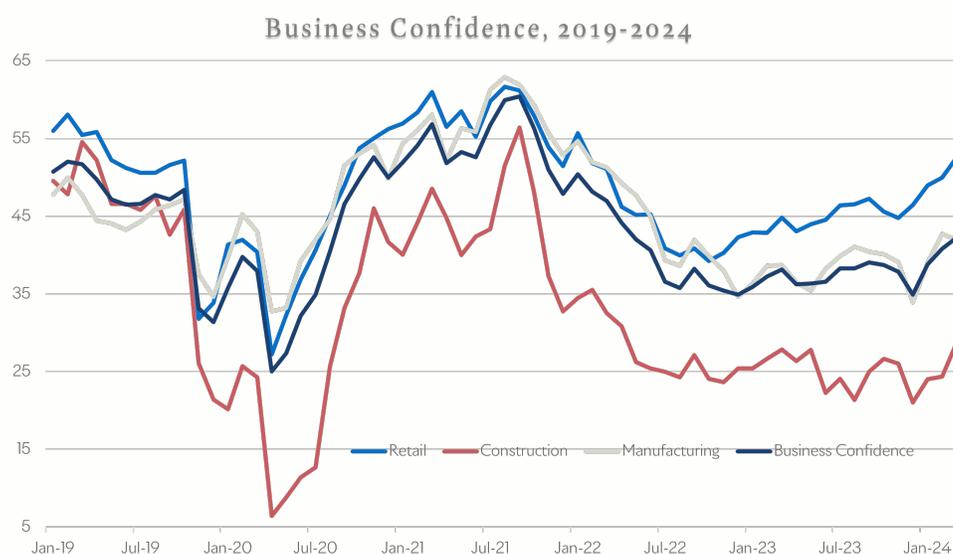


The surge has been bolstered by improved conditions abroad. In April, the Central Bank has estimated that the economies of Chile's main trade partners could grow by 3.0% this year (up from 2.7% predicted last December), driven in large part by the US which will grow by 1.9% this year (versus 0.6% previously). A stronger world economy as well as the weakness of the Chilean peso have boosted exports, including minerals, industrial goods, and fruit.

The economy's strong start (and the weak end to 2023) has bolstered the outlook for this year. In April, the Central Bank forecast growth of 2.0-3.0% in 2024 (up from 1.25-2.25% predicted in December), driven by private consumption while investment will continue to lag. After a spurt in the first quarter, slower rates of growth are expected through the remainder of 2024. Private analysts raised their average forecast to 2.5%, from 1.8% a month earlier.

However, activity is expected to slow beyond 2024 as the pace of expansion converges with Chile's mediocre potential growth rate. The Central Bank cut its outlook for 2025 to 1.5-2.5% (from 2.0-3.0% previously), a growth rate that it said would continue into 2026.

Confidence



Source: Adolfo Ibáñez University, ICARE



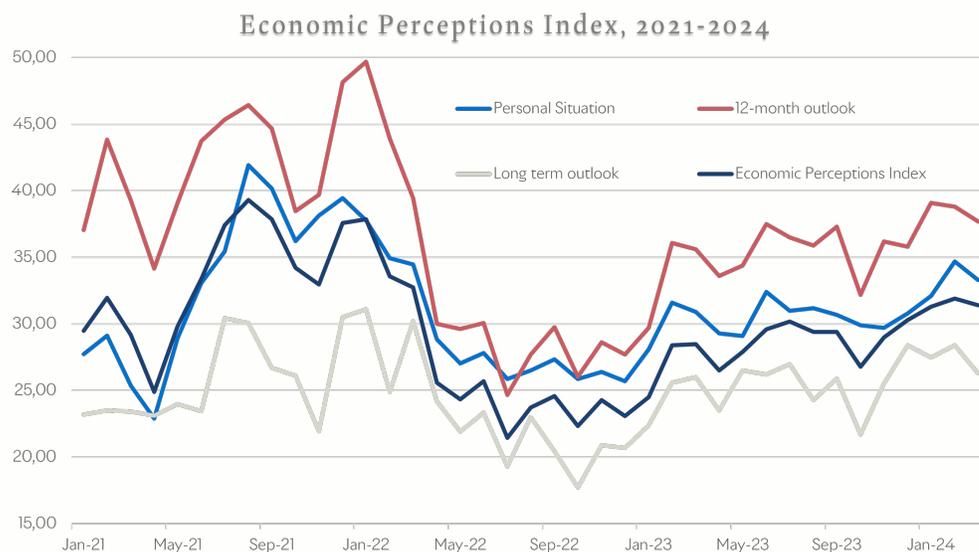
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Business confidence has improved in recent months in line with rising economic activity. Executives surveyed by the Central Bank in February said cost pressures had decreased and margins had improved over the previous quarter, but few were planning significant investment or new hires. The Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and business organization ICARE reached 42.24 points in March (discounting volatile mining data), its highest level in almost two years. While the construction industry remains gloomy, confidence in the retail sector has moved into positive territory (52.55 points) for the first time since March 2022.



Source: GfK

Confidence among consumers has also strengthened but remains at historically low levels. In March, GfK's Economic Perceptions Index reached 31.40 points, up five points from six months earlier, driven by improved optimism about the outlook for the economy and consumers' personal situations.



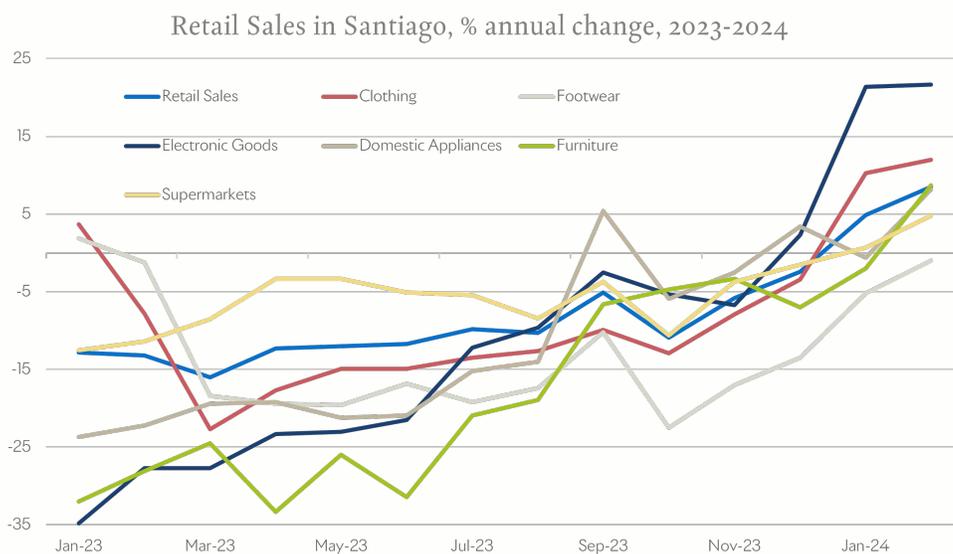
Services

Services (which account for around 50% of GDP) grew by 3.2% in the year to February, driven by rising sales in tourism, transport, business and property services.

Transport sales rose 9.2% to February, reflecting the recovery in air and road travel since the lifting of pandemic-era restrictions. Foreign tourism has played a major role with the number of visitors to Chile during the summer season (December to March) reaching 1.8 million, up 19% from last year although still significantly below pre-pandemic levels.

In contrast, entertainment sales grew just 1% as lower artistic and gambling sales offset a rise in sporting activity.

Retail



Source: National Retail Chamber

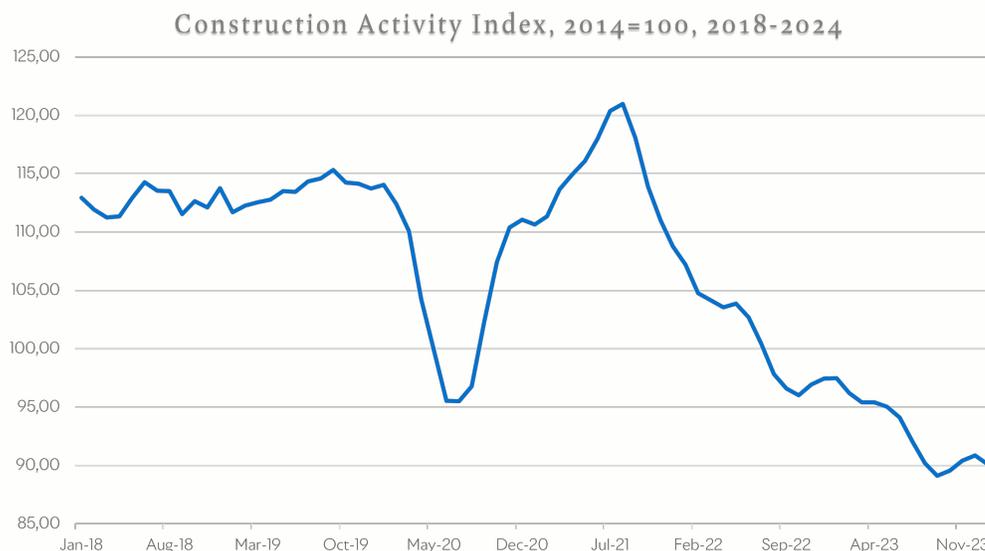
The recovery in retail activity has begun to show up in sales data. Retail sales in Santiago grew by 6.7% during the first two months of 2024, according to the National Retail Chamber, driven by sales of clothing and electronics goods. However, new car sales have continued to decline, falling 22.2% during the first quarter, compared with twelve months earlier.



Manufacturing

Manufacturing activity grew 8.8% in the year to February, driven by an increase in pulp and paper production as a major pulp mill was put back into production, as well as a low base of comparison due to last year's poor fish harvest. This was offset by a decline in equipment orders from the mining industry.

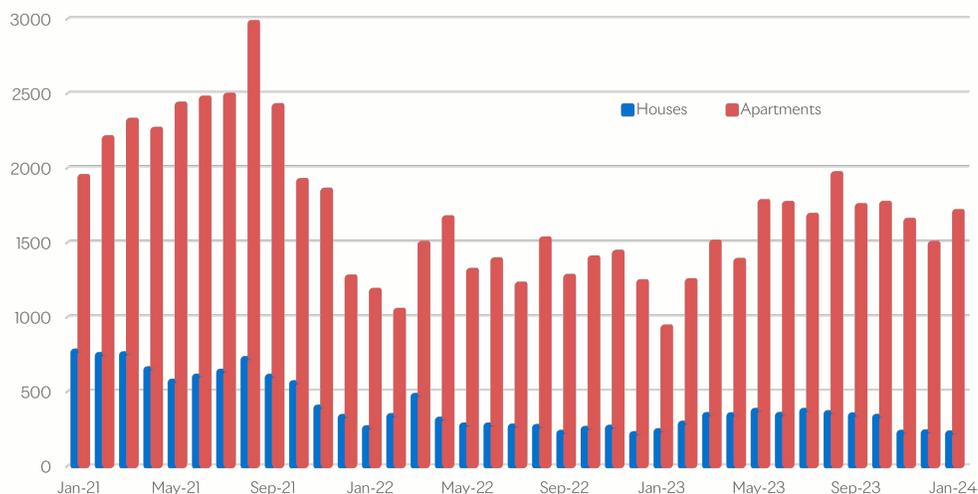
Construction



Source: Chilean Chamber of Construction

The construction sector remains in very poor shape with activity falling below levels seen at the worst point of the pandemic, according to the Chilean Chamber of Construction's IMACON index. Following the slump in house buying (triggered by high interest rates, more restrictive lending by banks, and weak consumer confidence), around 150 construction companies and property developers collapsed last year. The property sector is concerned about a stock of more than 100,000 unsold new homes, an increase of 55% from 2022, which could weigh on future demand for years to come. However, the market for offices is improving with the vacancy rate falling below 10% in the final quarter of 2023 for the first time in two years.

Property Sales in Santiago, 2021-2024



Source: InfoInmobiliario

Steeling industry

The government has hiked imports duties on Chinese steel in a bid to save the country's largest steelmaker from closure.

Imports of Chinese steel bar will face duties of almost 25% while duties of 33.5% will be placed on imports of steel grinding balls, used in the mining industry.

It follows the announcement by Compañía Siderúrgica Huachipato in March that it would halt production within three months, threatening tens of thousands of well-paid manufacturing jobs. Dumping by Chinese steel producers have led huge losses at the plant over the last decade, including US\$385 million in 2024, the company said.

Following a suit by Huachipato and others, the autonomous Anti-Distortions Commission had recommended authorities impose duties averaging 15.3% on steel bars and balls from three Chinese companies. But iron ore producer CAP which owns the steel plant said that these would be insufficient to ensure the business remained viable.

As well as Huachipato's 1,300 direct employees, the closure threatened another 20,000 jobs, at contractors and companies which rely on the plant for raw materials. Unemployment in the Biobio region could rise from 8% to 12%, unions warned.

Faced with that threat, the government decided to impose even higher tariffs on all imports of steel bar and balls from China for the next six months.

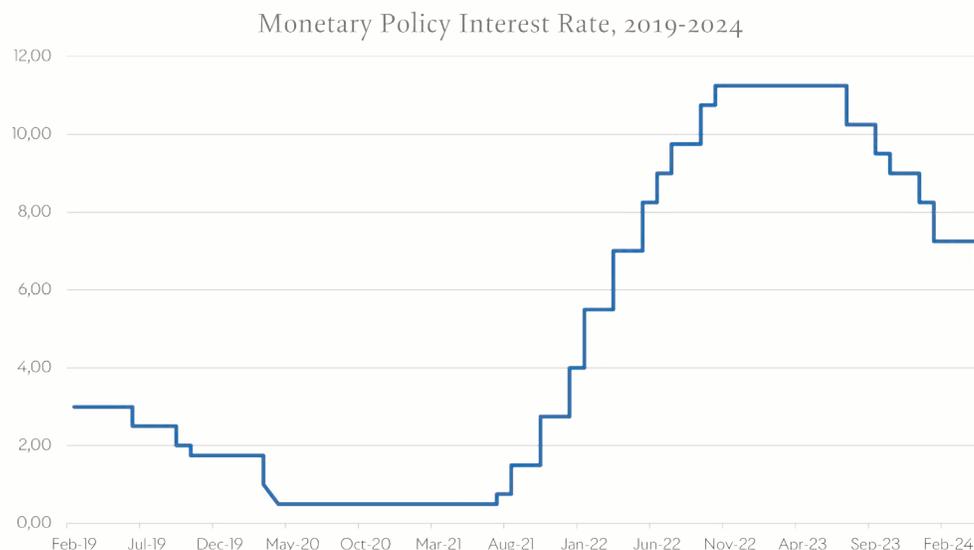
In response, CAP announced that it would put the closure plans on hold. But questions remain about what will happen when the duties expire later this year.

Given the importance of steel to the wider economy, some say the industry deserves protection. Brazil, Mexico, and the US are just some of the countries which have sought to shield their steel industries from foreign competition.

Otherwise, Chile's steel industry could go way of its textiles sector which collapsed in the face of cheaper imports, mostly from China.

The government, which came into office promising to revive domestic manufacturing, is keen not to see that happen. But maintaining higher duties on steel imports would increase costs and potentially cost jobs in other sectors.

Even worse it could trigger countermeasures by China which is by far Chile's largest trade partner. Last year, China was the destination for almost 40% of exports and the biggest buyer of a range of strategic goods, including copper, lithium, fresh fruit, and pulp.



Source: Central Bank of Chile

The Central Bank has continued to loosen monetary policy despite signs that the decline in inflation has slowed since the start of the year (See 1.5 Domestic Prices). On April 2nd, its board voted unanimously to implement a 75-basis point reduction (matching the previous cut implemented in January), bringing the interest rate to 6.50%, its lowest level in two years.

In its April message, the Bank reiterated its commitment to implement further cuts during the rest of the year. Analysts surveyed in early April, after the rate cut, predicted that the interest rate would reach 4.5% by the end of the year, unchanged from March. However, increased inflation expectations have raised uncertainty about how rapidly further cuts will be implemented.

In January, the Senate confirmed President Boric's choice of Claudio Soto – previously chief economist at Banco Santander Chile – to the board of the Central Bank, replacing Pablo García who had completed his ten years in the role. The board elected Stephany Griffith-Jones, Boric's economic advisor during his candidacy, to succeed García as Vice-President.



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The public deficit is set to fall to 1.9% of GDP by the end of this year, down from 2.4% in 2023, according to the Finance Ministry's latest forecasts.

In line with budget legislation passed last year, government spending is set to rise by 5.6% this year to CLP 77.1 trillion (US\$80.2 billion), while government income is expected to rise 8.0% to CLP 71.3 trillion (US\$74.2 billion) as increased economic activity boosts tax revenues.

To help finance the deficit, the government will issue more public debt and withdraw funds from the sovereign wealth funds. In January, the government raised US\$1.7 billion through the issuance of Chilean peso-denominated sustainable bonds and withdrew US\$800 million from the Economic and Social Stability Fund

Tax Reform

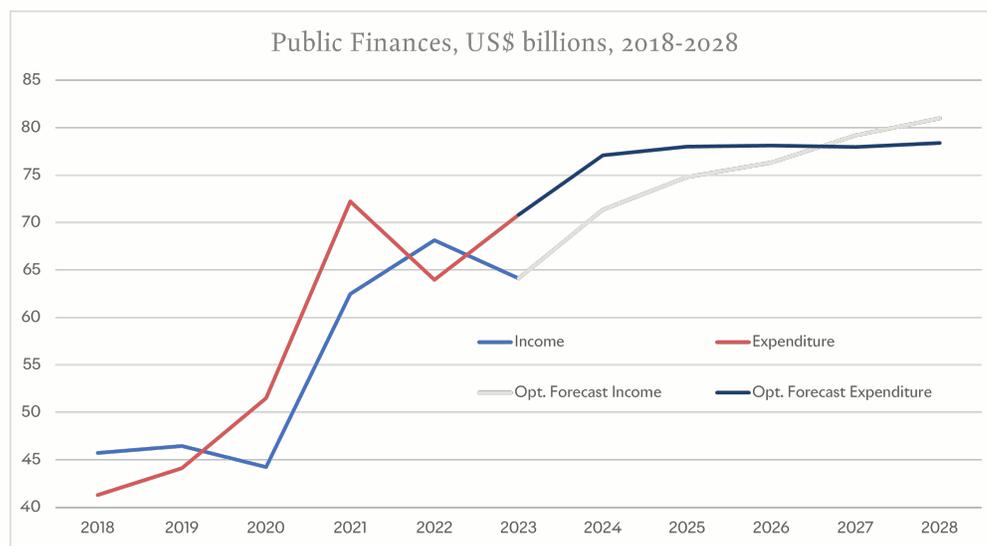
The government has begun to make some progress in efforts to increase public revenues to finance its social program. In April, the Chamber of Deputies approved government legislation to improve tax compliance by granting greater powers to tax authorities, clamping down on aggressive tax planning and providing benefits to small businesses. The package, which is now must be approved by the Senate, is expected to raise the equivalent of around 1.5% of GDP.



But this will only cover half the cost of the government’s proposed social reforms, including higher pensions for the low paid, shorter waiting times in the public health system and debt relief for graduates. However, the centre-right parties, whose support it requires, have so far opposed any tax increases. Finance Minister Mario Marcel has proposed increasing tax rates for people with a monthly income of more than CLP 4.5 million (US\$4,680) while cutting the corporate tax rate from 27% to 25%.

Forecasts

Under the Finance Ministry’s latest forecast, public finances are expected to return to surplus from 2027 onwards (0.6% of GDP under the Ministry’s more optimistic forecast). However, the forecast assumes that GDP will grow by more than 2% annually over the next four years (ahead of potential growth calculated by the Central Bank) while public expenditure will be largely flat.



Source: Budget Office



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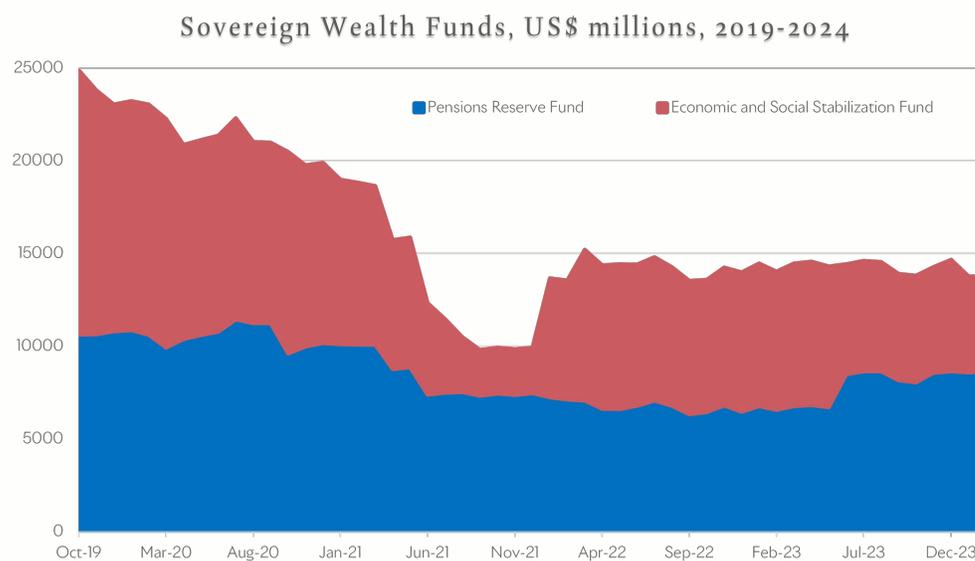


Credit Ratings

| | |
|-------------------------------|---------------------|
| <u>Fitch Ratings</u> | <u>A- (stable)</u> |
| <u>S&P Global Ratings</u> | <u>A (negative)</u> |
| <u>Moody's</u> | <u>A2 (stable)</u> |
| <u>JCR</u> | <u>AA- (stable)</u> |

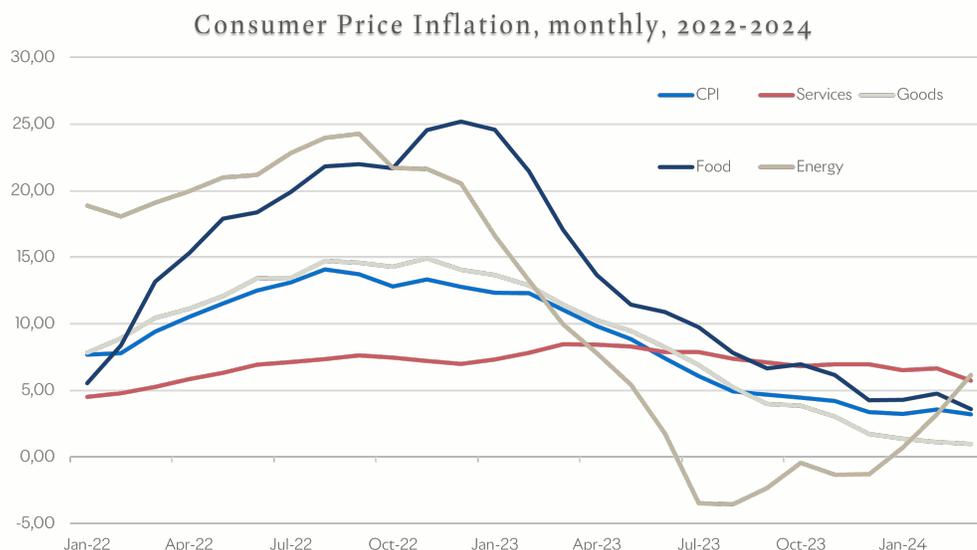
Despite the rise in Chile's debt-GDP ratio over the last year, there has been no change in the country's credit rating. In October 2023, S&P Global Ratings lowered its outlook to negative last October, while in December, Fitch Ratings reaffirmed its A- rating with a stable outlook, citing the country's stable macroeconomic framework and the end of the constitutional process.

Sovereign Wealth Funds



Source: Ministry of Finance

The value of assets owned by Chile's two sovereign wealth funds reached US\$13.8 billion at the end of February, down 1.8% from twelve months earlier. The fall reflects the withdrawal of US\$1.1 billion over the last year from the Economic and Social Stability Fund, including US\$800 million in January this year.



Source: National Statistics Institute

Inflation has continued to fall but the pace of decline has slowed significantly in recent months, reflecting weakness in the Chilean peso and the rise in global cost factors (especially oil prices and shipping rates).

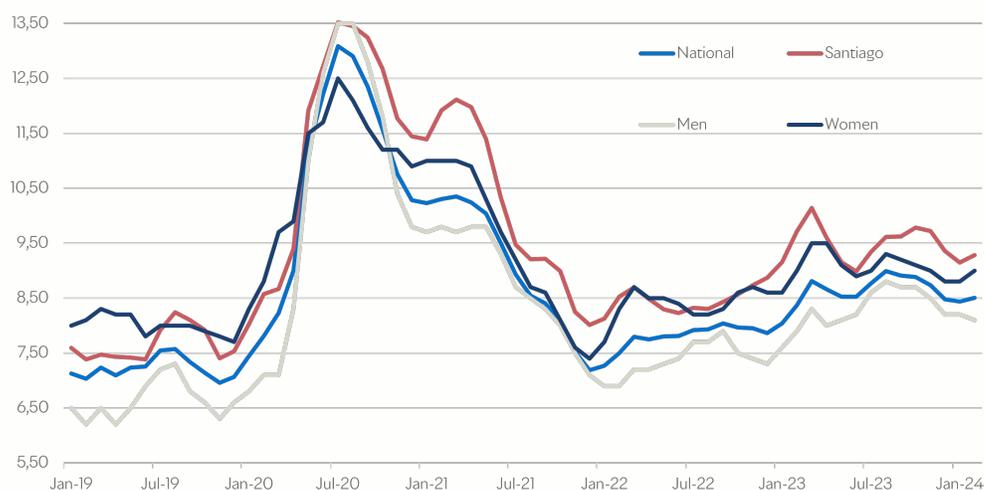
In March, the government's Consumer Price Index rose by 0.4%, bringing annual inflation to 3.7%, down from a peak of 14.7% in mid-2022 but little changed since the end of last year. Inflation in goods and volatile food prices has continued to decline (falling to 1.0% and 3.6% respectively in the year to March) but inflation in services remains relatively high (5.7%). Energy prices, which fell 1.3% last year, have surged in recent weeks (rising by 6.2% in the year to March), driven by higher oil prices (See 2.1 Trade Balance) and the weak Chilean peso.

The fall in March follows a surge in annual inflation in February to 4.5% (from 3.8% in January), its first increase in almost two years, driven by higher transport costs and the peso's depreciation.

As a result of these moves, inflation expectations have risen and a return to the Central Bank's target rate of 3.0% has been delayed. Analysts surveyed in early April predicted that the index would end the year at 3.7% (up from 3.0% predicted two months earlier) while the Central Bank has predicted that inflation will average 3.8% during 2024, up from 2.9% forecast last December. However, both the Bank and analysts see inflation returning to 3.0% by late 2025.



Unemployment Rate, 2019-2024



Source: National Statistics Institute

Unemployment has remained steady over the last year, averaging 8.5% in three months to February, up from 8.4% in the same period of 2023. While unemployment among men rose from 7.9% to 8.1%, female unemployment was unchanged at 9.0%.

Job creation has picked up with the economy adding 300,000 net positions over the last six months, driven by seasonal work in construction, farming and retail, offset by losses in property and professional services.

However, the number of unemployed has been bolstered by people once classed as inactive returning to the labour market in the wake of the pandemic. Although this number has fallen significantly since 2021 (reaching 6.1 million in February), this figure has not yet returned to pre-pandemic in contrast to most other OECD countries. In a recent analysis, the Central Bank noted that while most young people and women have returned to the labour market, many older workers (over 55 years old) appear to have retired, meaning that their withdrawal will be permanent.

According to the government's remunerations index, wages rose by 6.5% in the year to January, their slowest rate in more than two years. However, following the fall in inflation, real wages grew by 2.6%, the eleventh consecutive month that workers' incomes have risen.

In line with legislation approved last year, the monthly minimum wage rose to CLP 460,000 (US\$478) in September 2023 and will rise to CLP 500,000 from July 1st.



Banking

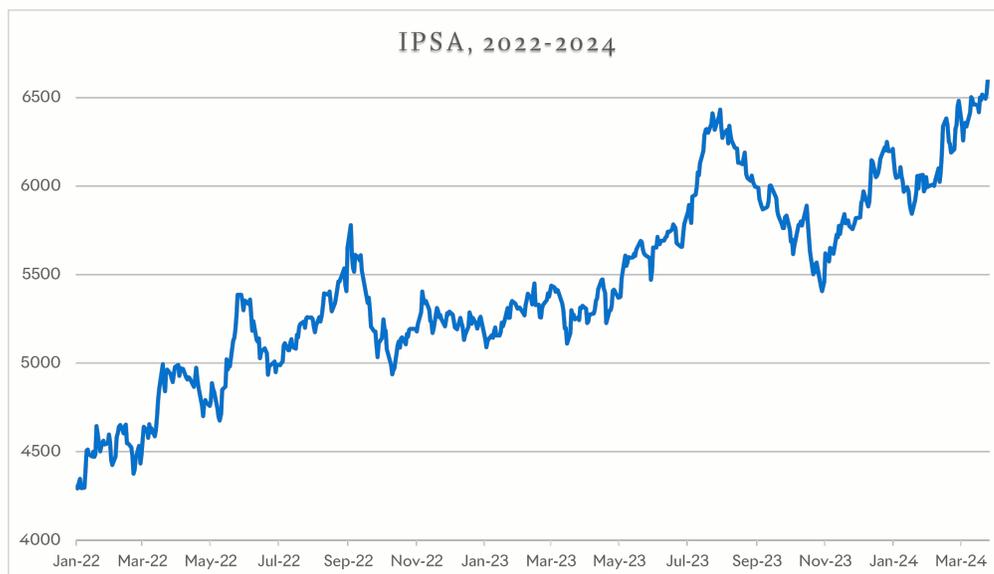
Bank lending is growing again. The volume of outstanding loans rose by 1.98% in the year to February to reach CLP 259.6 trillion (US\$267 billion). While lending to companies rose by 1.3% to CLP 142.7 trillion (US\$147 billion), mortgage lending grew by 3.5% to CLP 85.3 trillion (US\$88 billion) and consumer lending fell by 0.6% to CLP 29.3 trillion (US\$30 billion).

However, the percentage of non-performing loans has grown, reaching 2.3% of the total (and more than 3.0% of consumer loans), up from 1.8% a year ago, leading banks to increase provisions.

Profits in the banking industry during the first two months of the year fell 6.9% to CLP 693.8 billion (US\$715 million), reflecting a sharp fall in income from adjustments. As a result, the banking industry's after-tax return on assets fell to 15.03%, down from 20.2% twelve months earlier.

In the latest consolidation of the sector, Bice Corp and Grupo Security have agreed to merge to create Chile's seventh largest bank by volume of loans. The new company will have 2.4 million clients and assets totaling US\$43 billion

Stock Markets



Source: Santiago Stock Exchange



Share prices in Chile have rallied through the first quarter with the IPSA index of the thirty largest companies listed on the Santiago Stock Exchange rising as high as 6,700 points by early April, up 8.3% from the start of the year. However, the index subsequently lost more than 4.0% of its value (to around 6,430 points) on fears that the Middle East conflict could escalate following Iran's attack on Israel.

Banco de Chile, Chile's third largest bank by loan volume, has become the exchange's largest company by market capitalization, overtaking SQM which has seen its share price fall by a third as lithium prices have declined.

| Type of fund | Amount (billions of pesos) | Change April 2023 – March 2024 (%, real in pesos) | Return April 2023 – March 2024 (%, adjusted for inflation) | Limits on equity investments | |
|--------------|-------------------------------|--|--|------------------------------|---------|
| | | | | Maximum | Minimum |
| A Funds | 28,941 | 39.3 | 24.18 | 80 | 40 |
| B Funds | 34,729 | 38.7 | 18.21 | 60 | 25 |
| C Funds | 60,981 | 15.9 | 9.49 | 40 | 15 |
| D Funds | 29,963 | 8.0 | 1.31 | 20 | 5 |
| E Funds | 22,037 | -11.5 | -1.70 | 5 | 0 |
| Total | 176,662 | 16.9 | | | |

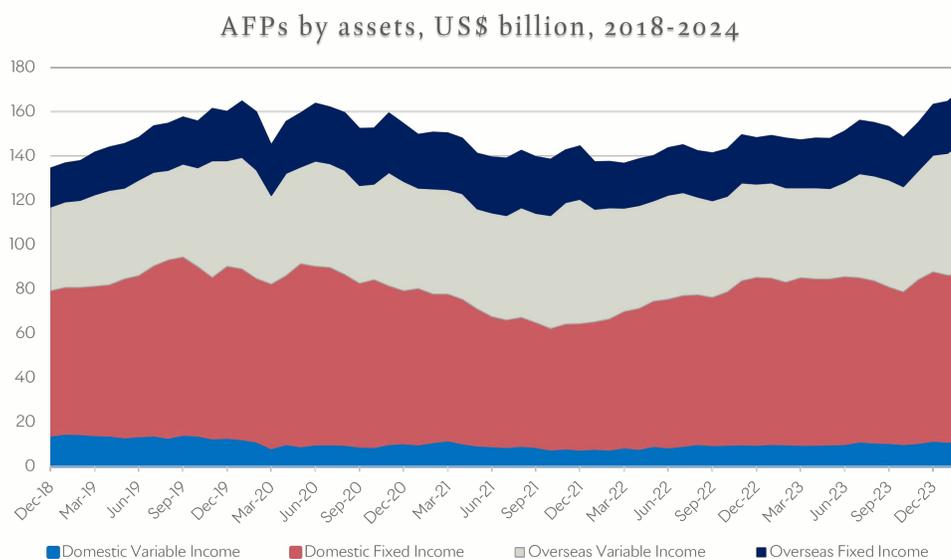
Source: Superintendencia of Pensions



Pension Funds

The value of assets managed by pension fund administrators (AFPs) rose by 16.9% in the year to March to CLP 176.7 trillion (US\$182 billion), driven by the depreciation of the Chilean peso (inflating the value of foreign assets) and the rally in Chilean share prices. The riskiest A and B funds made the biggest gains (24.2% and 18.2% respectively).

In April, the Central Bank announced changes to the limits on how much pension funds can invest in alternative assets. The A funds will see the limit rise from 13% to 15% from August 1st this year and to 20% from August 1st, 2027. The limit for E funds will rise from 5% to 6% over the same period.



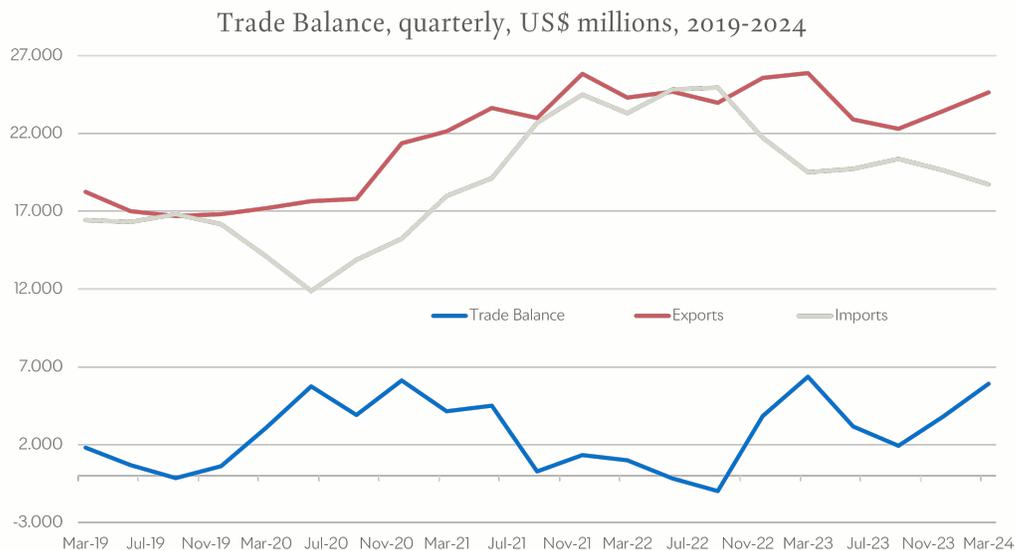
Source: Superintendencia de Pensiones

In January, the Chamber of Deputies approved the government's flagship pensions reform bill, including clauses to increase the universal guaranteed pension benefit, boost the pensions of the low paid and split the role of the AFPs between pension administrators and private pension investors.

However, deputies did not approve the creation of a new state entity to manage pension investments or a new 6% contribution by employers to workers' pensions, part of which would be used to boost the pensions of the low-paid. Labour Minister Jeannette Jara has said that the government will reintroduce these proposals when the bill reaches the Senate.

External Sector

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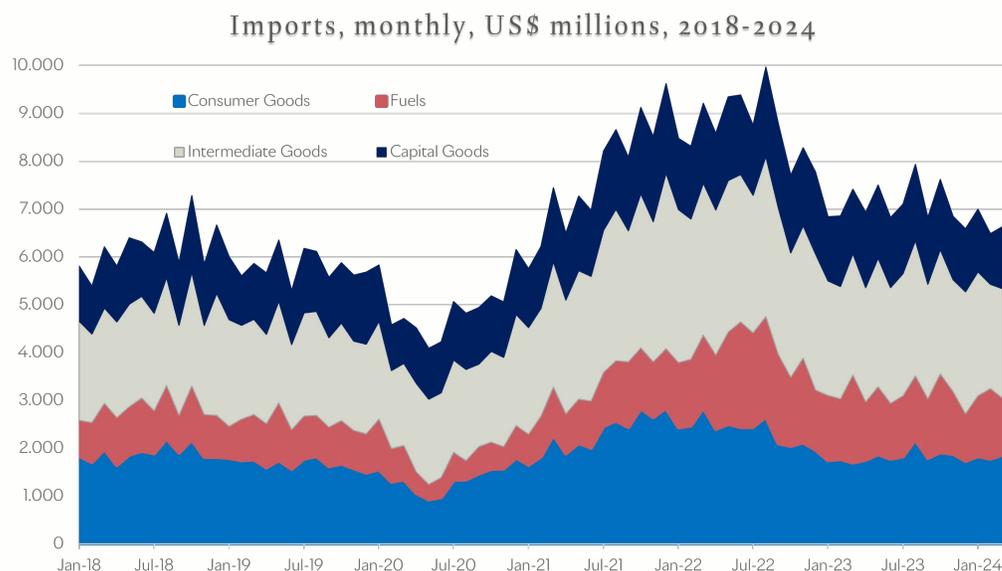


Source: Central Bank of Chile

Chile's trade balance reached US\$5.9 billion in the first three months of the year, down 7.3% from a year ago. The fall mirrors declines in both imports and exports over the same period. While exports fell 4.8% to US\$24.7 billion, on lower shipments of industrial products, imports fell 4.0% to US\$18.7 billion.

In April, the Central Bank predicted that Chile's trade surplus would end the year at US\$16.2 billion, up from US\$15.3 billion in 2023, as exports rise faster than imports.

Imports



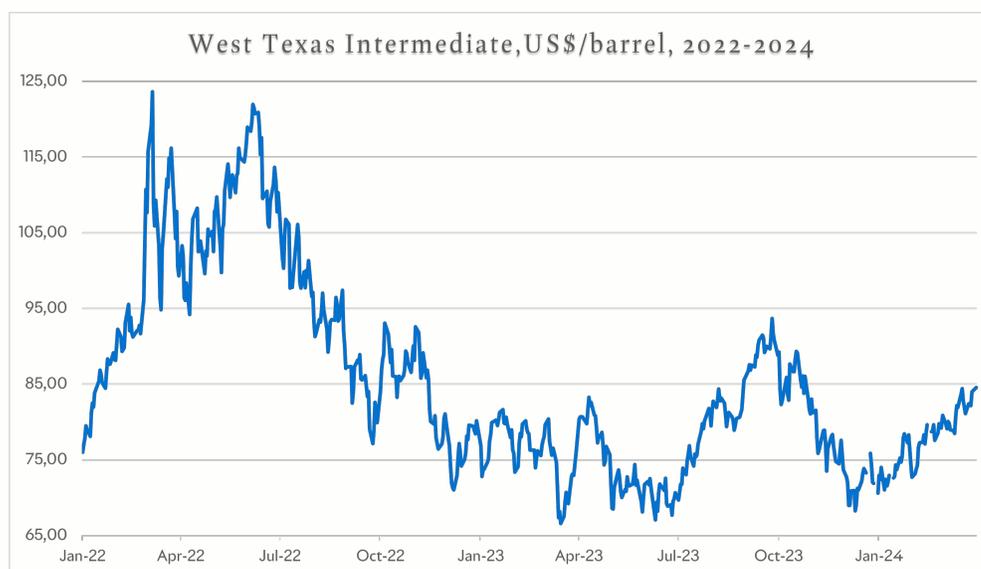
Source: Central Bank of Chile



Imports during the first three months of the year declined to US\$18.7 billion, down 4.0% from the same period of 2023, as a rise in imports of consumer goods was offset by falls in fuels, intermediate goods, and capital goods.

Imports of consumer goods reached US\$5.5 billion during the quarter, up 5.0% from a year earlier. While durable goods fell 1.2% to US\$1.7 billion (largely due to a 13.3% drop in car imports to US\$541 million), imports of semi-durable goods rose 10.7% to US\$1.5 billion as imports of clothing and footwear recovered. There were also important increases in imports of gasoline and liquified petroleum gas (fuels which the Central Bank classifies as consumer goods).

Imports of other fuels declined 12.2% over the same period to US\$3.9 billion with significant falls in imports of crude oil (down 14.7%), diesel (down 6.9%), coal and natural gas.



Source: St Louis Federal Reserve

Oil prices have rallied this year. By early April, the West Texas Intermediate benchmark price had reached US\$87/barrel, up 23.2% from the start of the year. As a result, prices averaged US\$77 a barrel during the quarter, little changed from the same period of last year.

Imports of intermediate products declined to US\$7.1 billion, down 2.9% from a year earlier, amid declines in chemicals, fertilizers, spare parts for mining and construction equipment, and foodstuffs.

JUNTOS

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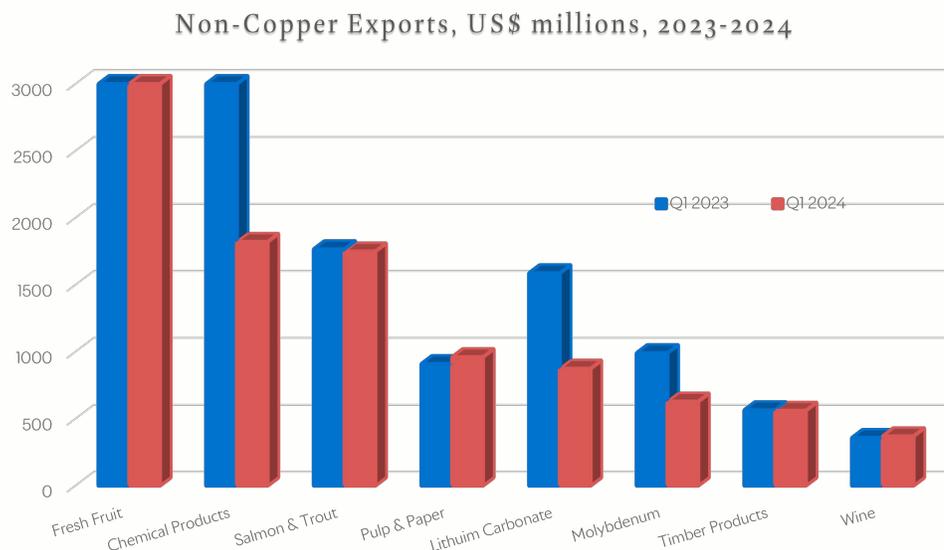
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MINERALS**

Juntos desarrollamos minería **para un futuro mejor**



Imports of capital goods fell 12.2% to US\$3.7 billion with lower imports of buses, lorries, mining equipment and motors, turbines, and generators, reflecting the decline in investment over the last year.

Exports



Source: Central Bank of Chile

Chile's exports fell during the first three months of the year as industrial exports fell 14.4% to US\$8.0 billion, while agricultural exports rose 7.2% to US\$3.8 billion. Mineral exports fell 1.1% to US\$12.9 billion.

Farm exports were driven by shipments of fresh fruit which rose 10.4% to US\$3.6 billion. Now accounting for more than half of Chile's fruit exports, shipments of cherries rose 16.4% to US\$2.1 billion during the quarter. The rise reflects higher prices for the fruit. Volumes during the December-March season were flat at 414,000 tonnes. Exports of grapes were little changed at US\$501 million while blueberry shipments rose 19.8% to US\$379 million.



Industrial exports were dragged lower by chemicals products which fell 40% to US\$1.8 billion amid declines in exports of fertilizers, molybdenum oxide and lithium hydroxide.

Exports of salmon and trout reached US\$1.7 billion during the first quarter, down 1.0% from twelve months earlier.

Exports of pulp and paper rose 5.6% to US\$960 million as exports of short-fibre pulp (made from eucalyptus) rose 32.7% while shipments of long-fibre pulp (pine) fell 18.6%. Pulp prices have fallen significantly over the last year – long-fibre pulp prices averaged US\$710 a tonne in the fourth quarter of 2023, down 22.5% from twelve months earlier.

Chile exported US\$369 million of wine during the quarter, up 3.4% from the same period of 2023. According to farm statistics office ODEPA, exports of bottled wine during the first two months of the year rose 9.9% to 55.6 million litres, offsetting lower prices. Brazil has emerged as the main market for bottled wine (8.3 million litres), ahead of China, Japan, and the US.

Almuerzo General

Contaremos con la presencia del:

Ministra de Minería
Sra. Aurora Williams

14 de mayo, 13:00 hrs

Tickets para el almuerzo:

\$50.000 socio / \$60.000 no socio

Contacta a

Paulina.galaz@britcham.cl



CÁMARA
CHILENO BRITÁNICA
DE COMERCIO



Dirección

Hotel Plaza El Bosque

Ebro 2828, Piso 17

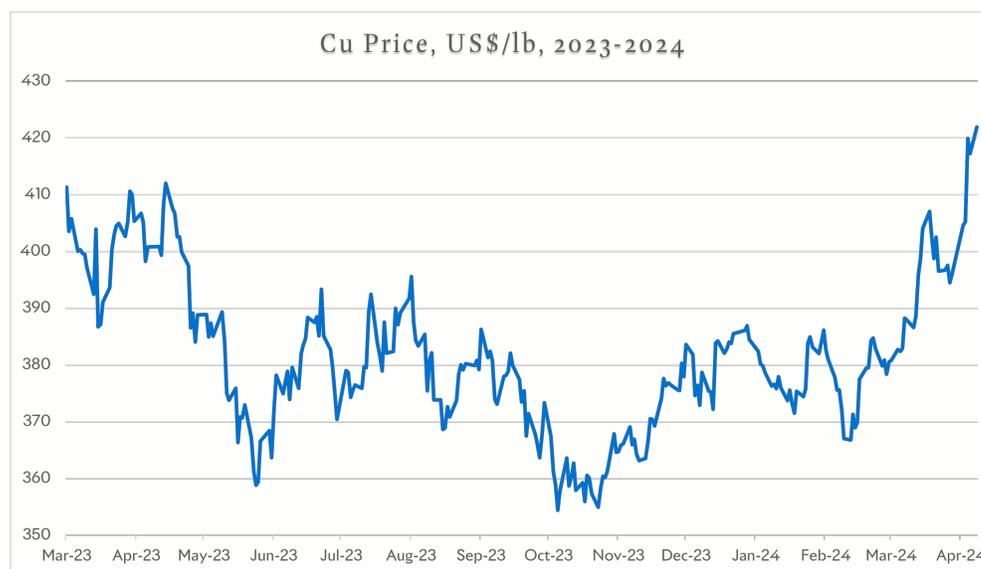
Las Condes

Organiza: Cámara Chileno Británica de Comercio



Mineral exports during the first three months of the year totalled US\$12.9 billion, down 1.1% from the same period of last year, as increased shipments of copper, iron ore, and precious metals were offset by a sharp decline in the value of Chile's lithium carbonate exports.

Copper exports rose 4.2% to US\$10.9 billion as increased volumes of exports offset lower prices. Copper prices averaged US\$3.83/lb during the first quarter, down from US\$4.05/lb twelve months earlier.



Source: Chilean Copper Commission

However, copper prices have rallied in recent weeks moving above US\$4.20/lb in early April for the first time in almost two years. As well as the brighter outlook for the global economy, the buying has been driven by supply concerns following the closure of a major copper mine in Panama and production cuts by Chinese smelters following a fall in treatment and refining charges.

In January, the Chilean Copper Commission predicted copper prices will average US\$3.85/lb this year and US\$3.90/lb in 2025, up from an average of US\$3.78/lb in 2022.

Copper production during January and February reached 420,242 tonnes, up 9.9% from the same period of 2023. After slumping to its lowest level in over a decade in 2023, copper production is expected to rise 6.7% to 5.6 million tonnes this year, driven by higher production at major mines and the ramping up of Teck's newly expanded Quebrada Blanca mine. State copper company Codelco expects to produce up to 1.39 million tonnes this year, after seeing output fall to a 25-year low of 1.32 million tonnes in 2023.



Exports of lithium carbonate fell to US\$874 million during the first three months of the year, down 44.9% from the same period of 2023, while exports of lithium hydroxide, a key derivative, fell 75.4% to US\$80 million. Increased production was offset by the sharp decline in prices for the mineral over the last year. Driven by slowing electric vehicle sales in China, lithium carbonate prices have fallen as low as US\$12,000 a tonne in recent weeks, down from over US\$60,000 a tonne twelve months earlier.

Despite the fall in prices, SQM, Chile's largest lithium producer, has said that it will increase output to over 210,000 tonnes this year but withhold some inventory from the market given current conditions.

The government has continued efforts to boost production of the mineral while increasing state participation. Codelco has extended negotiations with SQM to take a majority stake in its lithium business on the Salar de Atacama from next year and in March completed its US\$244 million acquisition of Lithium Power International which owns a project to produce lithium on the smaller Maricunga salt flat.

In April, the Chilean government launched a Request for Information from companies interested in developing lithium on around two dozen smaller salt-flats which have not been reserved for development by state companies or for environmental protection. This could lead to the first permits to produce lithium being granted to private companies next year.

Iron ore exports rose 36.4% in the quarter to US\$466 million, reflecting higher prices for the mineral.

Precious metals exports reached US\$450 million during the quarter, up 30.6% from a year ago, reflecting increased production and prices. Gold prices averaged US\$2,074 an ounce during the quarter, up from US\$1,890 an ounce twelve months earlier.

In March, South Africa's Gold Fields poured the first gold at its new Salares Norte in northern Chile. The mine is expected to produce around 500,000 ounces annually of gold equivalent during the next five years, boosting Chile's gold output by almost 40%.



Trade between Chile and the UK during the first three months of the year reached US\$288 million, up 14% from the same period of 2023.

Chilean exports to the UK during the first quarter reached US\$169 million, up 21% from twelve months earlier. Shipments of fresh fruit rose 15.1% to US\$65 million, led by blueberries and cherries, while shipments of wine rose 36.2% to US\$47 million. Service exports rose 49% to US\$24.5 million.

UK exports to Chile reached US\$119 million during the quarter, up 5.4% from twelve months earlier. Shipments of liquid alcohol rose 20.6% to US\$11 million offsetting a 10.4% fall in machinery exports.



Chile's current account deficit shrank to US\$11.9 billion in 2023, equivalent to 3.6% of GDP, down from US\$26.1 billion in 2022. The decline in the size of the deficit largely reflected the 16.4% drop in imports last year, partly offset by an increase in the remittance of profits related to foreign investment.

In April, the Central Bank predicted that Chile's current account deficit would grow to US\$12.2 billion, equivalent of 3.4% of GDP, in 2024, as the recovery in exports outpaced rising imports.

The financial account deficit fell to US\$10.3 billion, down from US\$27.9 billion in 2022, reflecting a rise in net Foreign Direct Investment.

The size of Chile's external debt reached US\$241.0 billion by the end of December, up from US\$230.0 million at the end of 2022, driven by increases in government and corporate debt. Government foreign debt reached US\$47.2 billion, up 14.8%, while corporate debt grew by 4.4% to US\$101.0 billion. Debt related to Foreign Direct Investment rose 3.5% to US\$54.5 billion, while bank debt fell 2.4% to US\$31.4 billion.

As a result, Chile's Net International Investment Position reached a net debt of US\$63.9 billion, compared with US\$60.4 billion twelve months earlier.

Country Risk



Source: JP Morgan

Country risk in Chile is returning to historic levels after surging ahead of last December's constitutional referendum. By March, JP Morgan's Emerging Market Bond Index for Chile had fallen to 131 points, down more than 20 points from twelve months earlier.



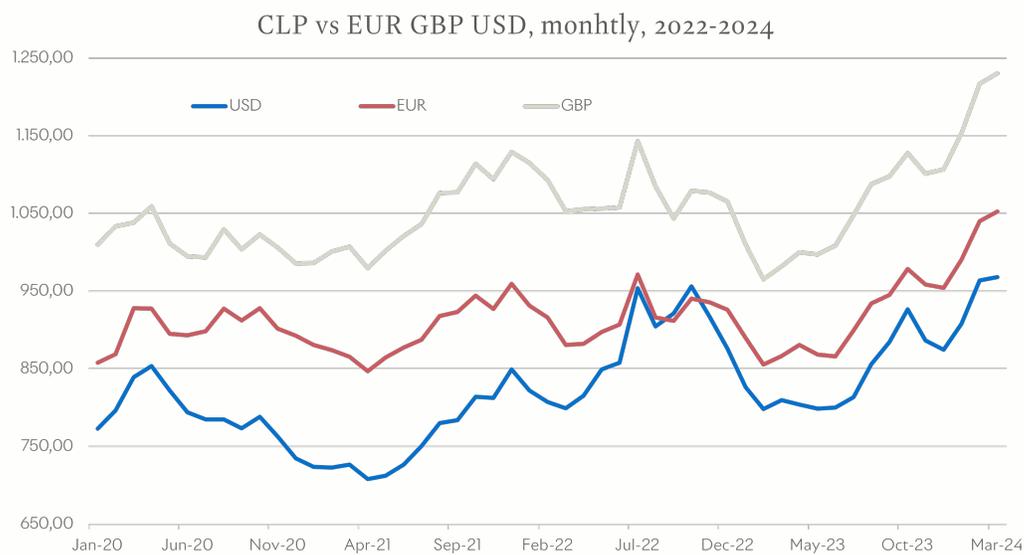
Source: Central Bank of Chile

The Chilean peso depreciated by 12% against the US dollar during the first quarter – one of the largest declines among emerging market currencies - to reach its lowest level (CLP 983/US dollar) in almost two years. The move reflects the divergence in monetary policy between the two countries as Chile's Central Bank continued to reduce interest rates while the US Federal Reserve delayed planned cuts.

The issue looks set to dominate exchange rates over the coming quarters. Following the Central Bank's forecast in April of higher inflation during 2024, the Chilean peso recovered sharply against the US dollar on expectations that it could delay the loosening of monetary policy. However, the peso depreciated again in mid-April after Federal Reserve chairman Jerome Powell said more time was required to rein in US inflation.



Analysts surveyed in April predicted the Chilean Peso would average CLP 893/dollar over the next eleven months, up from CLP 850/dollar in late 2023.



Source: Central Bank of Chile

The depreciation of the Chilean peso against the US dollar has been matched by similar moves against other key currencies. By early April, it had fallen around 10% against the Multilateral Exchange Rate.

Quarterly Insight

3



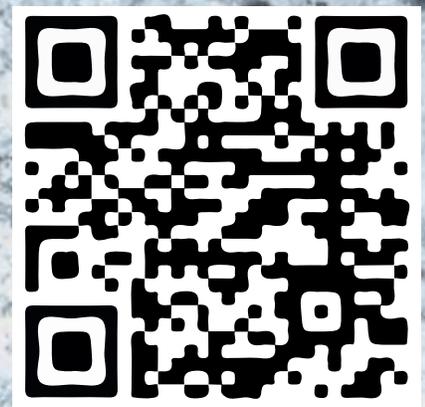
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INSIGHT REPORT

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Shocking stories of kidnapping, assassinations and armed robberies have been dominating the news in Chile for months. The gruesome news reflects a significant increase in crime levels since the pandemic.

In 2023, 36.6% of households claimed to have suffered a crime in the previous six months, up from 27.7% in 2020, while the murder rate reached 4.5 per 100,000 inhabitants, an increase of 73% from four years earlier.

This spike in crimes has also seen the appearance of types of crimes largely unknown in Chile, such as kidnapping for ransom and armed robbery on the streets.

The use of firearms in crime has become more common with the number of deaths by shooting rising by 60% in the five years to 2020.

Large-scale and often undocumented immigration from other countries has facilitated the arrival of criminal gangs into the country, bringing with them new criminal techniques and levels of violence. The most notorious gang, Venezuela's Tren de Aragua, has diversified quickly from people-trafficking to the drugs trade and gun-running.

High-profile funerals for known criminals have highlighted the influence that these gangs have acquired in many cities and neighbourhoods of Santiago.

At the same time, Chile has become an increasingly important transit country for narcotics moving from South America to Asia, Europe, and North America, often through its busy ports.

Against this background, fear of crime has risen to record levels. A survey last year by NGO Fundación Paz Ciudadana found that almost a third of the population (30.5%) was afraid of falling victim to crime, up from just 10.4% five years earlier.

Despite this rapid rise, crime levels in Chile remain relatively low within the region. The murder rate last year, for example, was lower than that of Argentina (5 per 100,000), Uruguay (11.2), Brazil (18.1) and Colombia (25.7). A global index on organized crime placed Chile in 114th place out of 193 countries.

But as crime levels creep up, Chileans worry that things could get a lot worse. Ecuador is a cautionary tale; once known for its safe streets and low crime rate, the country has sunk into drug-related violence in just few years. . When criminal gangs in Guayaquil launched a wave of attacks on hospitals, universities, and a TV station last January, more than half of Chileans feared that the same could happen here.



The rise in crime has also impacted major industries. An open trade in stolen timber led to a wave of attacks on forestry companies. Thieves have targeted trains carrying copper from mines in northern Chile.

So far this rise in crime does not appear to have affected Chile's international image. Large corporations still see the countries as relatively safe compared to its neighbours although an exodus of businesses from downtown Santiago has accelerated.

Under pressure over the rising crime numbers (and wary of their criticism over the police during the 2019 social unrest), President Gabriel Boric's government has responded by providing police forces with record funding and unprecedented powers.

This year spending on law and order will rise 5.7% to CLP 4.3 trillion (US\$4.3 billion), following a 4.4% rise in 2022, allowing police to recruit more officers, build more police stations and buy better equipment.

The government has launched a national policy on organized crime, combining efforts between police, intelligence services, customs, and prosecutors to fight the gangs.

Early signs suggest that some of these measures are working. A clampdown on violent crime last year in the northern port city of Iquique saw the murder rate fall 15% during the first half of 2023.

The deployment of armed troops to a large part of southern Chile and a new law criminalizing the trade in stolen timber (under the threat of prison sentences) has drastically reduced the number of attacks on forestry companies in the area.

But even with extra funding, there are questions about whether or not Chile has the police it needs. Policing levels in Chile are low at just 167 per 100,000 compared to the US (243), Colombia and Peru (over 300) and Argentina (almost 800). Efforts to recruit more officers have been hobbled by high retirement rates.

The government has responded by suggesting armed forces be deployed in tough neighbourhoods in major cities which have become no-go areas for the police. Generals have resisted the move, noting that troops lack the necessary training or legal mandate to support law enforcement.

While progress has begun to be made, tackling rising crime will require a sustained effort by successive governments.

Political Context

4

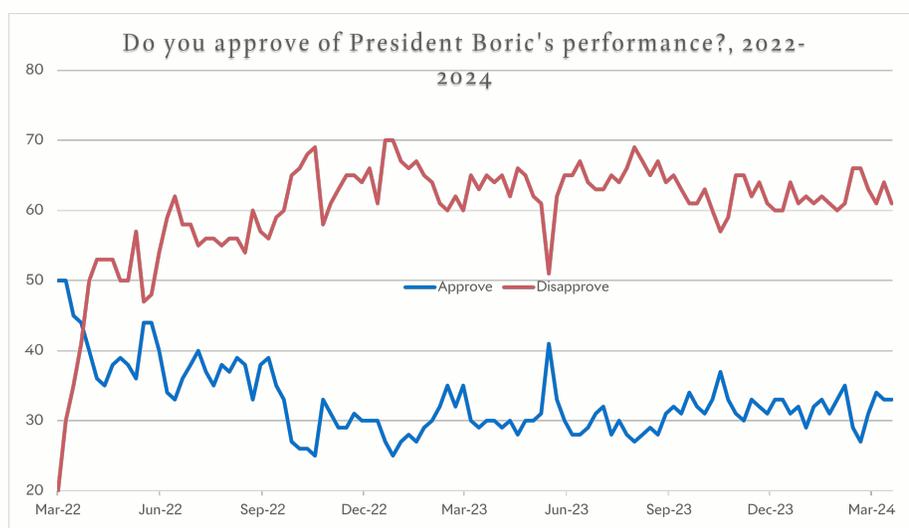


As President Gabriel Boric moves into the second half of his four-year term, his government has made partial progress in advancing its social reform agenda.

After months of negotiation with the private sector over tax reform, the Finance Ministry has advanced legislation to raise revenues by clamping down tax evasion and closing loopholes that would raise the equivalent to 1.5% of GDP. Approved by the Chamber of Deputies in April, the bill has now advanced to the Senate.

To get around centre-right opposition to higher taxes, Finance Minister Mario Marcel has proposed reducing the corporate tax rate from 27% to 25% while increasing tax rates on higher income earners (see 1.4 Fiscal Policy).

In January, the Chamber of Deputies approved the government's wide-ranging reform of the pensions system which would reduce the role of the private pension fund administrators and lift state pensions. However, the deputies voted against the key clauses creating a new employers' contribution (worth up to 6% of workers' income), half of which would be used to bolster the pensions of the low-paid. Labour Minister Jeannette Jara is expected to submit the clauses again when the bill is debated in the Senate.



Source: Cadem

Support for the government remains steady at around 30% of the electorate, according to weekly polls by CADEM.

Former president Sebastián Piñera's sudden death in a helicopter accident in February has left a large gap in the centre-right opposition. Although he was not expected to run in next year's elections, the Chile Vamos alliance has depended on his leadership for almost twenty years. Without him, the right-wing may eschew his pragmatic approach for more ideological politics.

So far, his close associate, former minister and Mayor of Providencia Evelyn Matthei remains Chileans' favourite choice to succeed President Boric next year (25%), a long way ahead of José Antonio Kast of the right-wing Republicanos party (12%).

No potential government candidate has comparable levels of support, including former president Michelle Bachelet (4%), government spokeswoman Camila Vallejo (3%) and Interior Minister Carolina Tohá (2%).



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Economic Outlook

5



The Chilean economy is in better shape than it has been for several years. As the impact of the pandemic - and the spending boom and inflation that followed - fades, activity is expanding, inflation has fallen, and financial conditions are normalizing.

A surge in activity during the first months of the year means that the Central Bank now expects the economy to grow by up to 3.0% this year (up from 0.2% in 2023), helped by stronger external conditions (especially in the US), lower interest rates and recovering household consumption.

On the other hand, bolstered by the weakness in the Chilean peso, higher oil prices and stronger activity, inflation is expected to take longer to fall than previously expected, not returning to the Bank's 3.0% medium target rate until later next year.

This could force the Bank to loosen monetary policy at a slower pace than previously expected, although so far private analysts continue to see interest rates falling to 4.5% by the end of the year, unchanged from March.

Longer term the outlook is not so bright. From 2025, growth is set to slow to 1.5-2.5%, in line with Chile's mediocre potential growth rate.

Although household consumption is expected to recover as the labour market strengthens, investment is still lacking. Gross Fixed Capital Formation is expected to fall again in 2024. Although the end of the constitutional process has reduced political risk, most businesses do not yet feel confident enough to launch major projects.

Without new investment, unemployment is unlikely to fall.

Government proposals to cut permitting times will help as well as new clarity on the national lithium strategy but the timing of both is unclear.

Much of the government's efforts will be used pushing through its proposed reforms in pensions and taxation in the face of an increasingly confident centre-right opposition. Meanwhile, politicians are focusing on this year's regional elections and presidential and congressional elections in 2025, where crime and immigration, rather than growth, are likely to be the main issues.

| Economic Forecasts, 2024 | Central Bank ^{1/} | Finance Ministry ^{2/} | Private analysts ^{3/} |
|--------------------------------|----------------------------|--------------------------------|--------------------------------|
| GDP (% annual variation) | 2.00-3.00 | 2.5 | 2.5 |
| Inflation (% annual variation) | 3.8 | 3.1 | 3.7 |
| Monetary-policy interest rate | | | |
| (% annual, nominal, end-year) | NA | NA | 4.5 |
| Exchange rate (pesos/US\$) | NA | 868 | 893 ^{4/} |
| Copper price (US\$/lb) | 3.85 | 3.84 | NA |

^{1/} Monetary Policy Report, April 2024

^{2/} Public Finances Report, February 2024

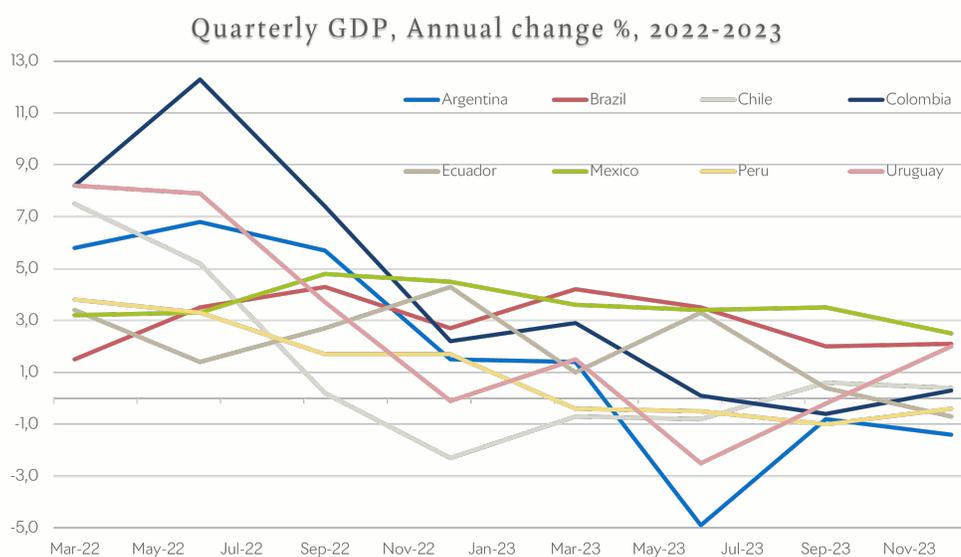
^{3/} Average of selected private analysts surveyed by Central Bank, April 2024

^{4/} November 2024



Latin America
Regional News

6



Source: Trading Economics

Argentina: President Javier Milei's efforts to reform Argentina's troubled economy – by ramping up interest rates, cutting government spending and liberalizing trade – have begun to bring down inflation, which has fallen from 25% in December to 11% in March. But with the economy set to contract by 2.4% this year, lawmakers and the courts have blocked efforts to slash environmental and labour regulations.

Bolivia: Followers of former president Evo Morales blocked major highways in his conflict with his successor Luis Arce, causing losses estimated US\$100 million. The government has relaxed restrictions on farm exports and fuel supplies to combat a shortage of US dollars.

Brazil: The economy is set to expand by almost 2.0% this year, according to private forecasts, down from 2.9% in 2023. President Lula da Silva is pushing to increase public spending, including by state companies such as Petrobras, to lift growth.

Colombia: The economy is expected to grow 1.5% this year, up from just 0.6% in 2023, as agriculture and manufacturing recover. Inflation is falling which will allow the Central Bank to continue cutting interest rates. Congress has continued to block President Gustavo Petro's reform program.



Mexico: Claudia Sheinbaum, the chosen successor of President Andrés López Obrador, has a lead of more than 20 points ahead of next July's elections. Growth is set to slow to around 2.0% this year (down from 2.5% in 2023) in line with slowing US activity.

Peru: With President Dina Boluarte under investigation for alleged corruption, lawmakers have approved the creation of a second legislative chamber and further pension withdrawals. Analysts expect the economy to grow 2.4% this year, after shrinking by 0.4% in 2023.

Uruguay: After growing by just 0.4% in 2023 (as drought hit agricultural output), the economy is expected to expand by 3.5% this year, driven by better conditions in neighbouring Brazil. That should help the ruling centre-right coalition in next October's presidential elections.



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