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CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Third Quarter 2024

3rd Edition 2024 — Produced since 1922

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Dear reader

Dear Members and Friends of the Chamber,

The past few months have been incredibly busy, filled with high-profile events and back-to-back meetings. It has been wonderful to connect with so many of you in person, hear about your recent successes, and gain a deeper understanding of the challenges you are facing.

As we reflect on the results of the third quarter of 2024, I am heartened by the resilience of Chile's economy as it continues to recover from the pandemic's effects. Although we have experienced slower growth in recent months, the outlook remains optimistic, fueled by significant developments both domestically and internationally.

A notable highlight of this quarter was the Chile Day event held in London and Paris, where Minister Mario Marcel shared an encouraging narrative about Chile's economic potential. This gathering of business leaders and global stakeholders showcased Chile's commitment to trade, innovation, and sustainability. The insights gained and connections forged during the two-day event in London served as a powerful reminder of Chile's strategic role in the global market. The discussions went beyond merely celebrating achievements; they focused on envisioning a future where Chile leads in economic progress, reinforcing its position as a dynamic player on the world stage.

As we look ahead to December, we are on the brink of a significant milestone with the ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In preparation for this, we were pleased to collaborate with the British Embassy in Chile to host a meeting for UK and Chilean businesses aimed at exploring the intricacies of this new treaty. Representatives from the UK Free Trade Utilisation Team at the Department for Business and Trade (DBT) provided valuable insights into the tariff advantages and benefits for key sectors, including renewables, agrifood and drink, infrastructure, agritech, financial services, and mining. They also discussed the implications for temporary entry visas and intercorporate transfers, as well as the impact of the CPTPP on digital trade and the anticipated boost to bilateral trade once the agreement comes into force for the United Kingdom on December 15, 2024. If you missed this event or any of our recent activities, please visit our website for more details.

Elle Denton
Executive Director
British Chilean Chamber of Commerce
Santiago, Chile

I hope you enjoy our latest report, and thank you for your continued support and engagement.

All the best, Elle Denton

Editorial Group: Peter Lynch, President of the Group and Director, Past President's Forum, BritCham. Leslie Hemery, Director, Past President's Forum, BritCham. Catalina de la Huerta, Market Access and Trade Policy Officer, British Embassy in Chile. Tom Azzopardi, External Journalist. Greg Holland, Director of the Board, BritCham. Elle Denton, Executive Director, British Chilean Chamber of Commerce (BritCham).

Chamber of Commerce.

• Production coordinator: María Isabel Juppet C. • Electronic version of the report: www.britcham.cl • Design: Forma •Layout: María Eugenia Gilabert.

Key points

• The Chilean economy is recovering from the post-pandemic slump, but growth has slowed as household consumption has cooled, offsetting rising investment.

• After growing 2.25-2.75% this year, the Central Bank predicts the economy will expand by 1.5-2.5% in 2025 and 2026.

• Unemployment climbed to 8.9% in August as job creation has petered out. While formal employment has stagnated, the size of the informal workforce has continued to grow.

• Inflation surged this year to almost 5.0%, driven by higher energy prices. But analysts expect inflation to return to the Central Bank's 3.0% target rate within two years.

• The Central Bank has continued to loosen monetary policy this year although at a slower rate following the rise in inflation.

• The government has proposed to increase public spending by 2.7% next year in line with the slower rate of growth, reducing the public deficit to 1.0% of GDP, down from 2.0% in 2024.

• The Chilean peso has strengthened against the US dollar following the cuts in US interest rates and the rise in copper prices.

• Copper prices rose to as high as US$4.50/lb on expectations that China would announce a major stimulus package to support its real estate sector.

• After slumping in August amid a global sell-off stocks, Chilean shares have recovered rapidly with the IPSA index moving back above 6,600 points.

• President Boric unveiled legislation to end the state guaranteed student loan system and forgive some outstanding debt, a key campaign promise.

• Support for the government has weakened ahead of regional elections in late October.

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Domestic Economic Performance

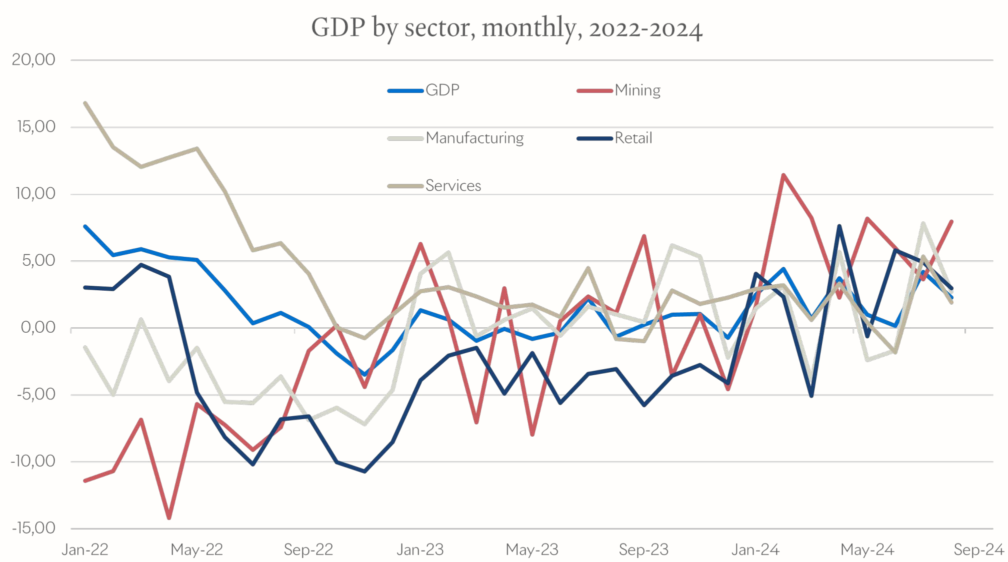
1

Chile's recovery from the post-pandemic slump has slowed. Activity expanded by 1.6% in the second quarter, down from 2.5% during the first three months of the year. Weaker growth in mining and services offset the strong performance of retail which grew at its fastest rate in almost three years.

The cooling reflects weakening demand as household demand shrank by 0.3% from the previous quarter on a seasonally adjusted basis. Lower spending on non-durable goods and services offset a strong recovery in sales of consumer durables. Investment has continued to recover with Gross Fixed Capital Formation rising by 5.2%, driven by the mining sector.

Temporary factors including a weak fishing harvest, harsh weather conditions and the closure of a major copper mine following an accident also weighed on activity in the second quarter.

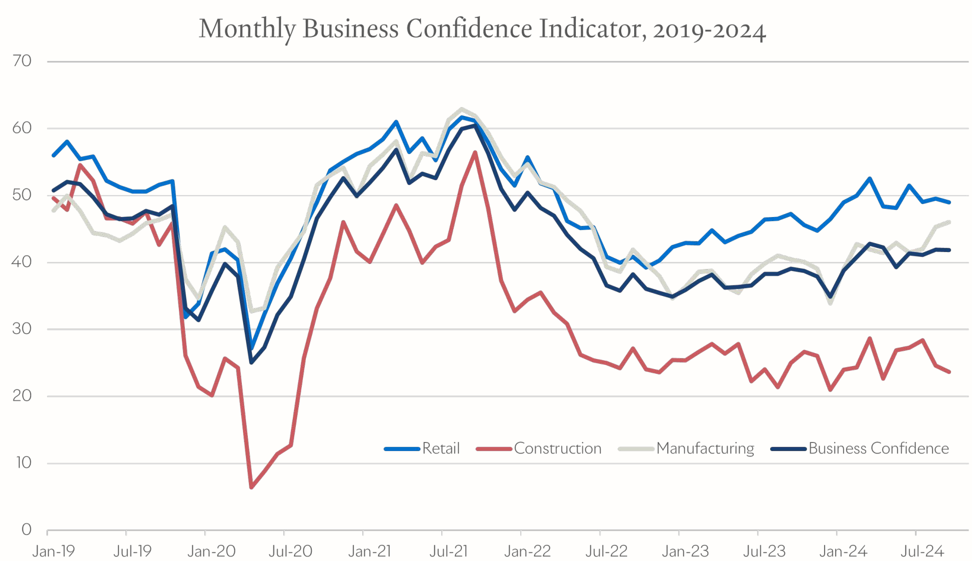
Preliminary data shows that activity picked up in the third quarter, expanding by 4.2% and 2.3% in July and August, respectively (compared with 0.1% and 0.2% in May and June), suggesting that lower interest rates and favourable external conditions could be boosting activity.



Source: Central Bank of Chile

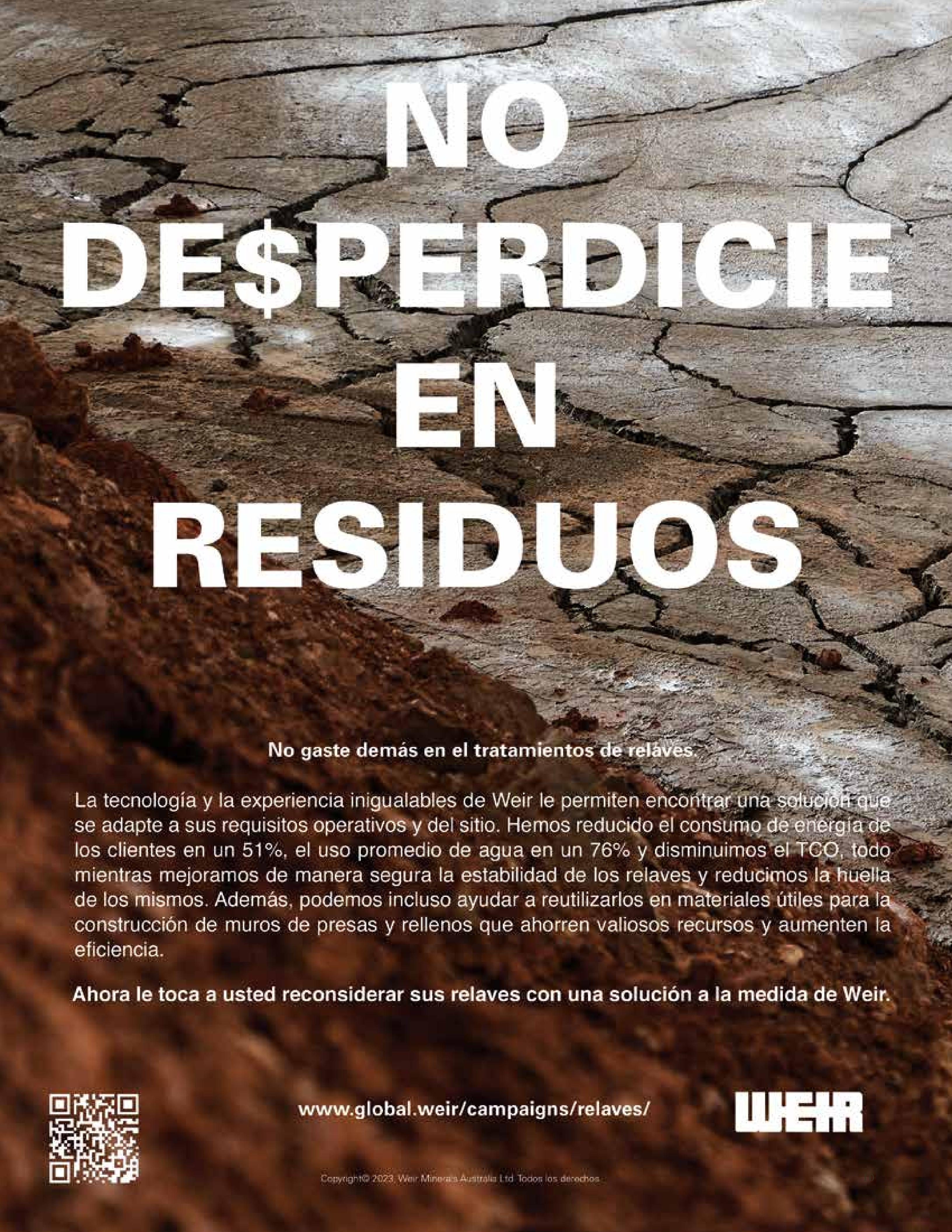
In September, the Central Bank adjusted its growth forecast for 2024 to 2.25-2.75% (down from 2.25-3.00% previously), largely due to lower household consumption (1.7% vs 2.5% predicted in June) while the decline in investment has eased. Private analysts have cut their growth forecasts for the year to 2.4% in October, down from 2.6% in June.

Confidence



Source: Adolfo Ibáñez University, ICARE

Business confidence has stabilized although it remains weak. Executives surveyed in August by the Central Bank warned of slowing sales and rising costs, squeezing margins. In September, the Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and the ICARE business organization, reached 41.87 points (excluding mining), up from 34.89 points at the end of last year, but little changed from previous months. Confidence in the manufacturing sector reached 46.06 points, its highest level in more than two years, reflecting improved demand and increased expectations on production and costs. But all three sectors remain in negative territory.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Ahora le toca a usted reconsiderar sus relaves con una solución a la medida de Weir.
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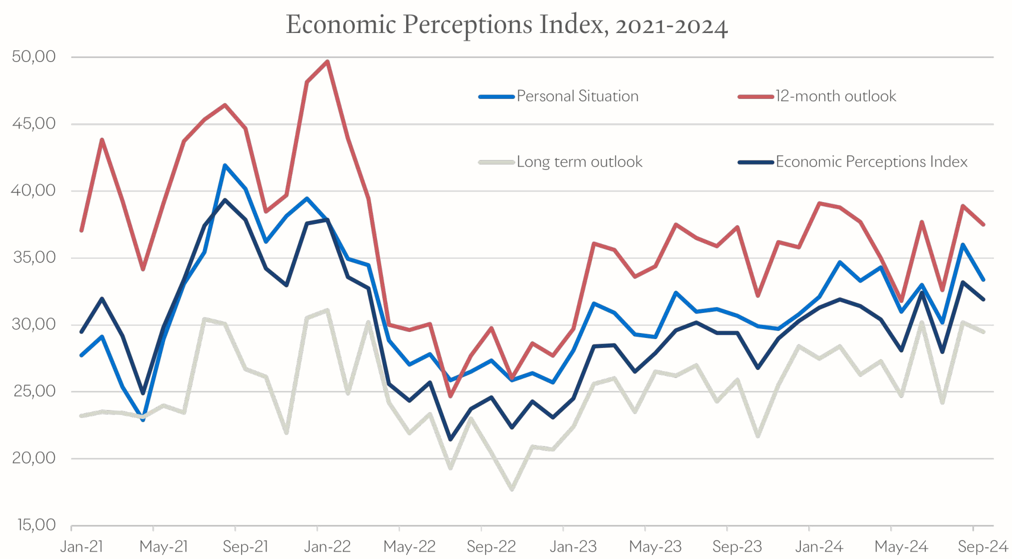


Source: GfK

Consumer confidence has improved in recent months although it remains very weak. In September, GfK's Economic Perceptions Index reached 31.9 points, up four points from two months earlier. The rise reflected increased confidence in consumers' personal situation, the state of the economy, and the country's long-term outlook.

Losing power

Heavy storms in early August left more than a million households in central Chile without power for up to 14 days, sparking protests and government action and raising questions about the stability of basic services in the country.

Winds of up to 120 kilometres per hour brought down thousands of trees, many of which fell on to power lines. For once, better off neighbourhoods including Las Condes, Vitacura and Lo Barnechea were amongst the worst affected.

As families were left without electricity to heat their homes, warm water and cook, significant anger was directed towards ENEL, the Italian-owned energy firm which holds the concession to supply power to more than two million households and businesses in Santiago. After the company failed to meet government deadlines to restore power, Energy Minister Diego Pardow announced that the government would begin procedures to strip ENEL of the concession, the first time this has happened since Chile liberalized its electricity market forty years ago.

The clash even had international implications with Italian Prime Minister Giorgia Meloni promising that ENEL, in which the Italian state owns a 24% stake, would fulfil its commitments to clients. Meanwhile, consumer protection service SERNAC has begun negotiations with ENEL and Chinese-owned CGE for compensation for almost 400,000 clients.

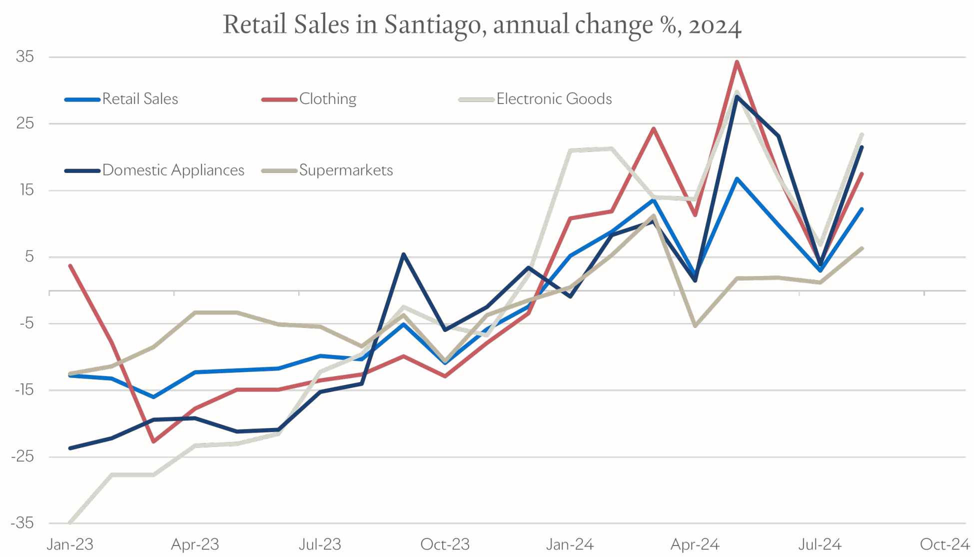
But beyond the immediate repercussions of August's storms, the event has raised questions about the stability of Chile's energy supplies and other critical infrastructure in the face of climate conditions which are expected to grow more volatile as climate change accelerates.

The loss of power to so many households after the storm, and the power companies' slow response, was partly due to the lack of capacity among municipal governments which are responsible for tree maintenance in their districts. Many had cancelled or delayed work to cut back branches due to budgetary restraints.

If such storms and other climatic events are going to become more frequent, Chile will have to invest heavily to ensure that basic supplies are not affected.

Water company Aguas Andinas recently invested US$1.0 billion to expand water storage capacity ensuring that supplies of drinking water to Santiago's six million inhabitants are not interrupted by climatic events. The government has announced plans for the first desalination plant in central Chile to provide drinking water as conditions grow drier.

As well as working to cut Chile's contribution to the causes of climate change, the country will have to do more to make itself more resilient to its effects.



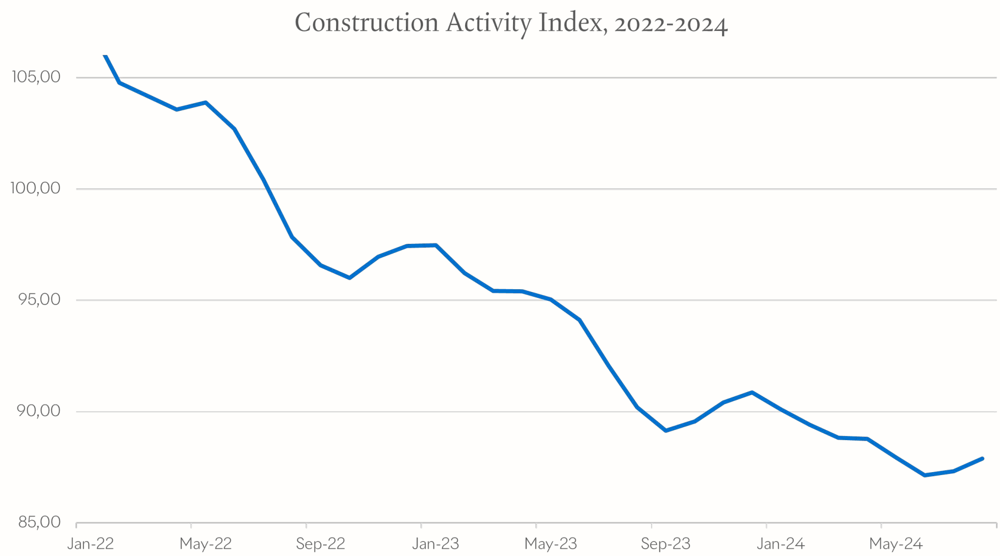
Source: National Retail Chamber

The retail sector has recovered significantly from the slump caused by the withdrawal of pandemic-era stimulus, with the sector expanding by 4.2% in the second quarter, its fastest growth in almost three years. Retail sales in the greater Santiago area rose by 12.2% in the year to August, with sharp rises in sales of clothing and electronic goods while supermarkets sales rose at their fastest rate (6.3%) since last March.

Manufacturing

Manufacturing expanded by 3.4% in the year to August, largely driven by an increase in food production (especially fisheries) and production of metallic products, which offset by a fall in iron and steel production. In August, CAP announced the closure of the remaining furnace at its Huachipato complex, Chile's largest steel works, blaming competition from Chinese imports.

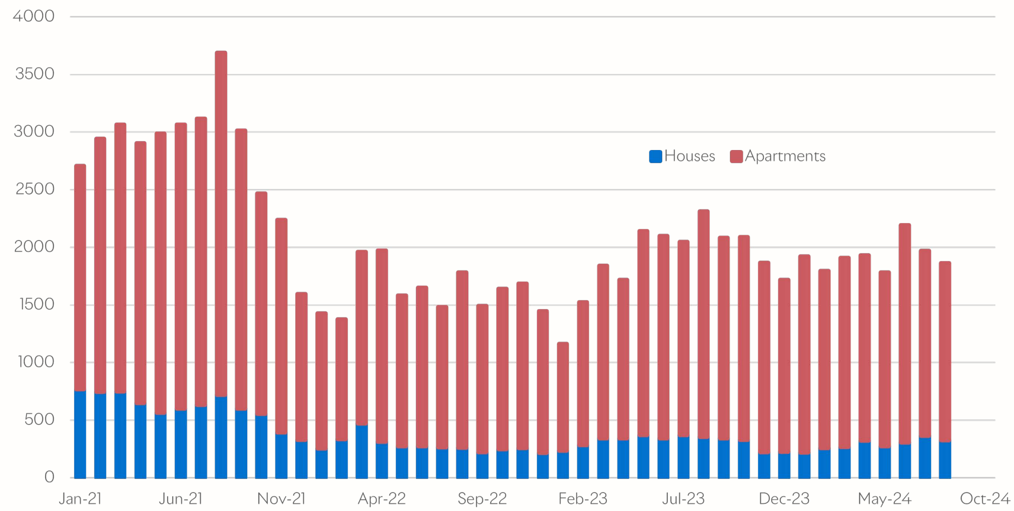
Construction



Source: Chilean Chamber of Construction

Construction remains depressed amid a general lack of investment. Although the construction activity index, produced by the Chilean Chamber of Construction from a range of indicators, has recovered from the record low reached last year, it remains far below pre-pandemic levels.

Home Sales in Santiago, 2021-2024



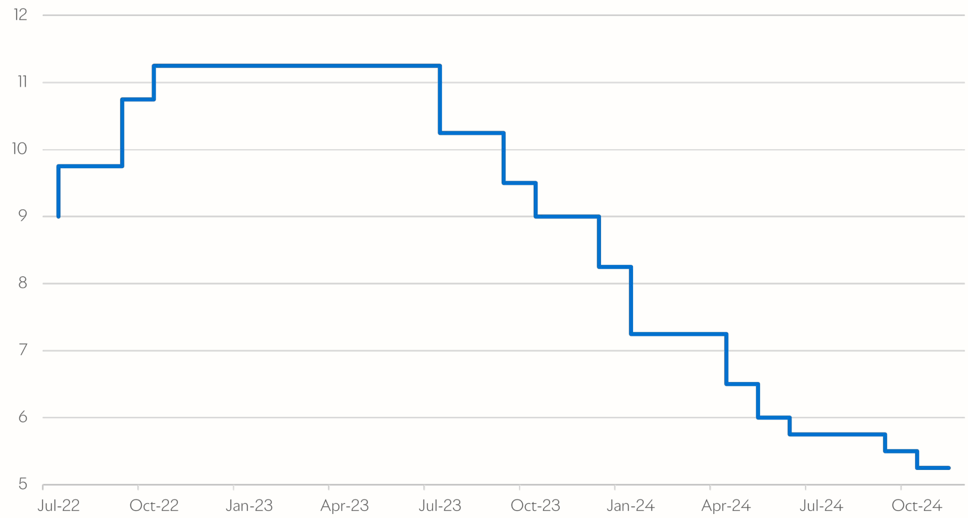
Source: InfoInmobiliario

There has been no significant improvement in the property market over the last six months despite the fall in mortagage interest rates. Residential sales in Santiago during the third quarter reached 6,025 units, down 7.6% from a year ago.

Services

Activity in the services sector, which accounts for around half of Chile's GDP, has slowed, growing by just 0.6% in the second quarter, down from 2.1% in the first three months of the year. The slowdown reflects a decline in business services and education as schools were closed by bad weather and the early winter holidays.

Monetary Policy Rate, %, 2022-2024



Source: Central Bank of Chile

After dramatically loosening monetary policy from July 2023 onwards, the Central Bank has slowed the pace of rate cuts after inflation began to climb again this year.

At its meeting on July 31st, the board left the rate unchanged at 5.75% but subsequently implemented two cuts of 25 basis points each on September 3rd and October 17th, reducing the rate to 5.25%, its lowest level since January 2022. Looking ahead, the bank said it expected to continue reducing the interest rate to its neutral level (3.5-4.5%) in line with macroeconomic conditions and inflation.

The market now sees a very gradual loosening of monetary policy over the coming months. Analysts surveyed by the Central Bank ahead of the latest decision expected interest rates to fall by just 25 basis points (to 5.00%) by the end of the year, compared to 4.50% predicted six months earlier, while it will take almost another a year for the rate to fall to 4.25%.

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The government plans to increase public spending by 2.7% in 2025, under budget legislation sent to Congress in October, lifting expenditure to CLP 82.5 trillion (US$89 billion). The bulk of the increase will be channelled towards law and order, health, housing and education.

Public revenues are expected to rise 9.2% to CLP 79.3 trillion (US$85.4 billion), driven by the growth of the economy and higher metals prices. Revenues from privately-owned mining companies are expected to almost double next year to CLP 4.8 trillion (US$5.2 billion) as copper prices and production rise. Revenues from lithium are expected to rise 25% to CLP 918 billion (US$990 million) as production rises.

As a result, the public deficit is expected to fall to around 1.0% of GDP, down from an estimated 2.0% this year.

The government continues to see the cyclically adjusted deficit (based on long-term estimates for economic growth and the copper price) falling to zero by the end of its four-year term in 2026.

By the end of August, public spending had reached CLP 49.7 trillion (US$53.5 billion), up 5.9% in real terms from the same period of last year, compared to the 3.5% increase approved in this year's budget legislation.

Meanwhile, government revenues have fallen by 4.4% so far this year to CLP 43.0 trillion (US$46.3 billion).

Credit Ratings

Fitch Ratings	A- (stable)
S&P Global Ratings	A (stable)
Moody's	A2 (stable)
JCR	AA- (stable)

In October, S&P Global Ratings lifted the outlook for Chile's sovereign credit rating from negative to stable, citing the stability of the country's institutions and the government's commitment to balance the budget in the coming years. In July, Fitch Ratings confirmed its A- Rating with a Stable outlook, highlighting Chile's strong balance sheet and relatively low debt-to-GDP ratio.


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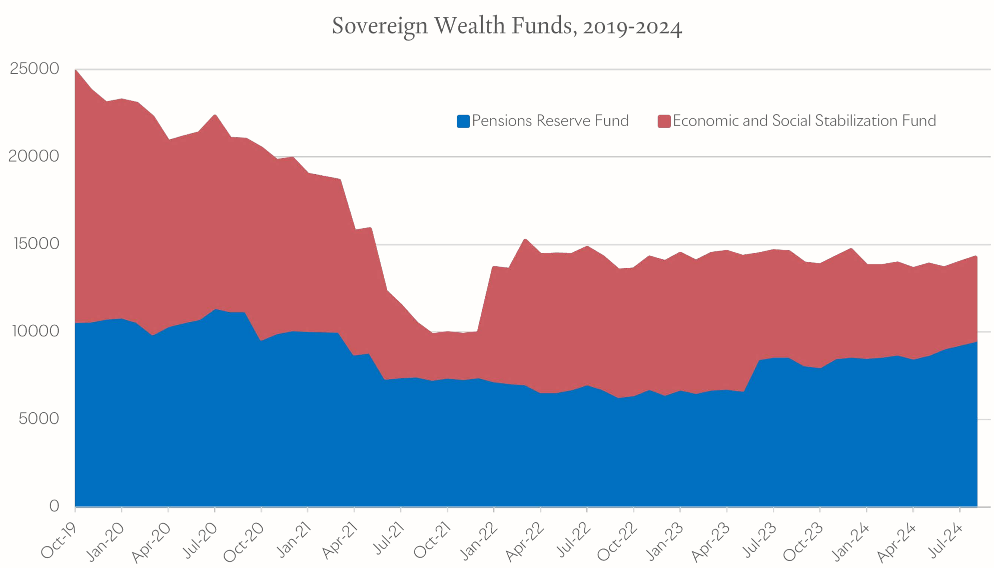
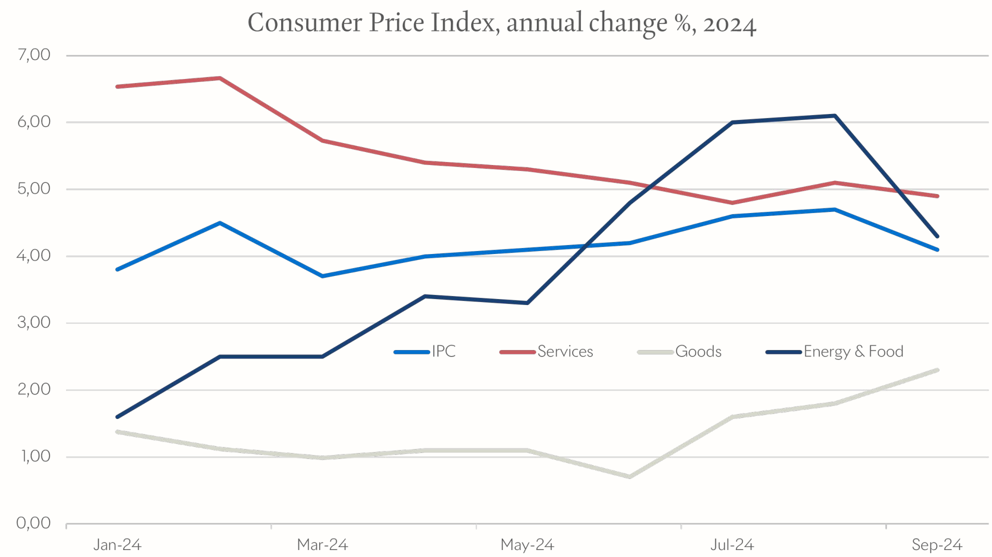
Sovereign Wealth Funds



By the end of August, Chile's two sovereign wealth funds managed assets worth US$14.2 billion, their highest level since last December, reflecting returns on investments in stocks and bonds. In May, the government transferred US$600 million from the Economic and Social Stabilization Fund to the Pensions Reserve Fund as it prepares for increased spending on pensions.



Source: National Statistics Institute

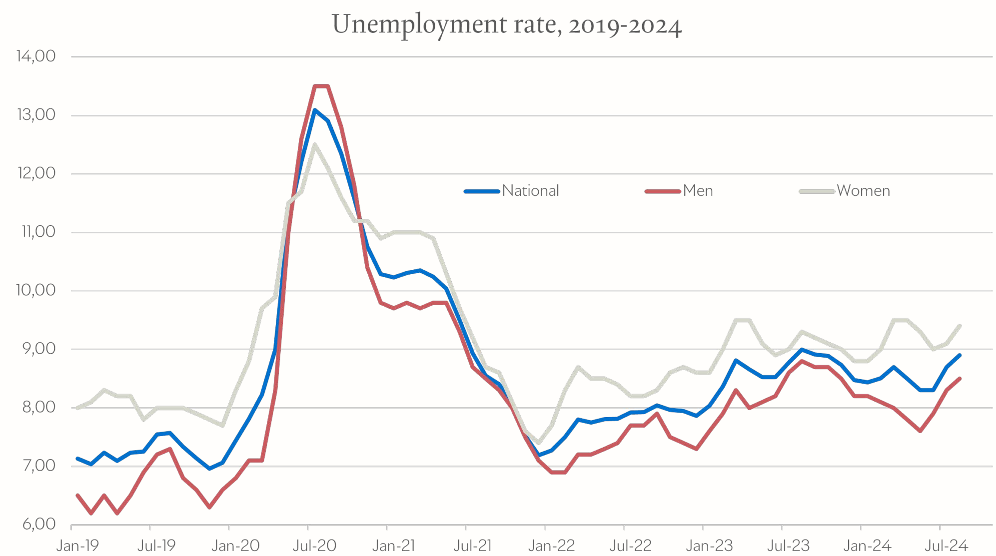
Inflation began to climb again during 2024. In August, the government's Consumer Price Index rose by 0.3% in August, reaching 4.7% on an annualized basis, its highest level in almost a year. The surge has been largely driven by rising food and energy prices. Energy prices, in particular, were lifted by a sharp adjustment in household electricity tariffs as pandemic-era price ceilings expired, while bad weather triggered price rises in some fruits and vegetables. Higher shipping rates and the fall in the Chilean peso also played a role.

However, in September, the index fell 0.1%, reducing the annualized figure to 4.1%, as energy inflation slowed. Energy prices rose by 9.6% in the year to September, down from 15.8% in July, while food prices rose by just 3.4%, down from 6.6% four months earlier.

Inflation in services has moderated, rising by 4.9% in the year to September, down from 5.4% in July, while inflation is building in goods, rising to 2.3% in the latest data, up from 0.7% in June.

The rise in inflation this year has heightened short-term expectations. Analysts surveyed by the Central Bank in October predicted that the index would end the year at 4.5%, up from 3.9% forecast four months earlier and in line with the Central Bank's most recent outlook. However, this trend could be affected geopolitical risks, especially the war in the Middle East which could pressure oil prices upwards and the results of the US presidential and congressional elections in November which could impact financial markets.

However, private analysts and the Central Bank have continued to predict convergence with the Bank's medium-term target of 3.0% within its two-year policy horizon (late 2026).



Source: National Statistics Institute

Unemployment has continued to climb during 2024, averaging 8.9% during the three months to August, up from 8.4% six months earlier, although down from 9.0% from the same period of 2023. While male unemployment reached 8.5%, unemployment among women reached 9.4%. The rise reflects the net loss of around 100,000 jobs, largely seasonal farming jobs this year. The unemployment rate would be higher but for a rise in the number of people now classed as inactive to almost 6.3 million, its highest level in 10 months.

At the same time, people are moving into more precarious kinds of work. While the number of employees has fallen over the last six months, the number of self—employed has remained stable. Meanwhile, the level of informality in the workforce reached 27.6%, up 0.9 percentage points from a year ago.

The majority of executives surveyed by the Central Bank in August said that they were not looking to hire new staff this year. Although the proportions of businesses cutting jobs has not increased, they increasingly blame the cuts on sluggish sales.

Workers' incomes have accelerated, rising by 8.6% in the year to August, or 3.6% in real terms, their fastest rate so far this year. On July 1st, the minimum monthly wage was increased to CLP 500,000 (US$540), up from CLP 460,000 previously, directly benefitting around 800,000 workers.

Banking

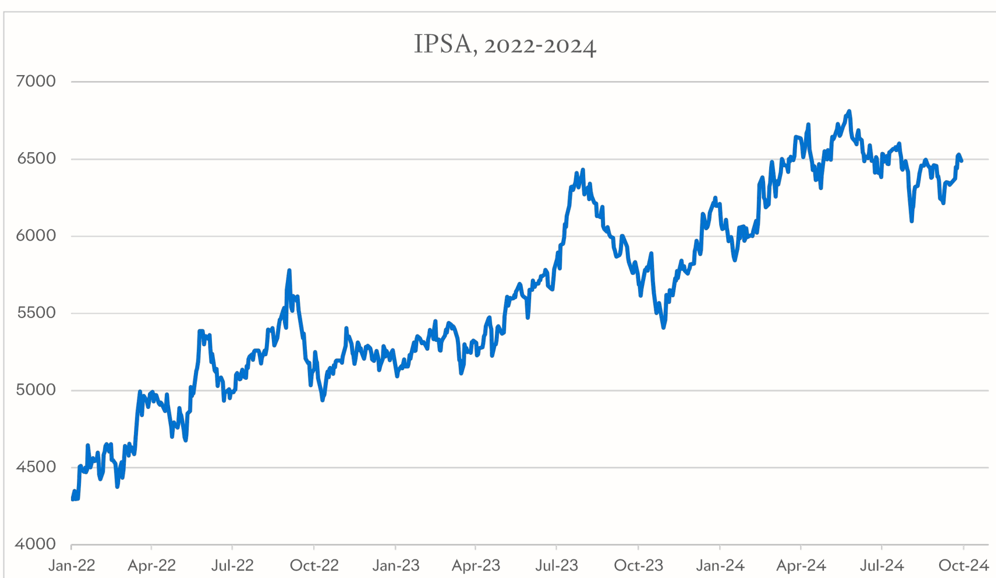
Bank lending has continued to contract with the value of outstanding loans falling to CLP 258.6 trillion (US$278.9 billion) by the end of August, down 1.4% from twelve months earlier. Corporate lending fell 3.2% over the same period to CLP 139.3 trillion (US$150.2 billion) while personal lending rose 1.0% to CLP 117.1 trillion (US$126.3 billion), driven by a 2.1% increase in mortgage lending to CLP 87.7 trillion (US$94.6 billion).

The fall comes despite sharp falls in interest rates as the Central Bank has loosened monetary policy. Interest rates on corporate loans averaged 9.8% in July, down from 15.7% twelve months earlier, while rates on consumer loans fell to 24.9%, down from 28.9% in July 2023. Executives surveyed by the Central Bank in August said that financial conditions remained restrictive as banks demanded larger guarantees.

The banking sector posted profits totalling CLP 3.3 trillion (US$3.55 billion) during the first eight months of the year, up 6.9% from a year earlier, as banks cut interest rates paid on deposits.

In October, Chile's competition regulator has approved the merger of the banking firms BICECORP and Grupo Security. The deal announced last January will create a bank with 2.4 million clients and more than 6% of Chile's loans market.

Share Markets



Source: Santiago Stock Exchange

Chilean share prices recovered rapidly after slumping in August amid a global sell-off in stocks. By late October, the IPSA index of the largest companies listed on the Santiago Stock Exchange was trading at over 6,600 points, up more than 5.0% from the start of the year, but down from a record peak of 6,810 points last May.

Pension Funds

AFP Assets under Management

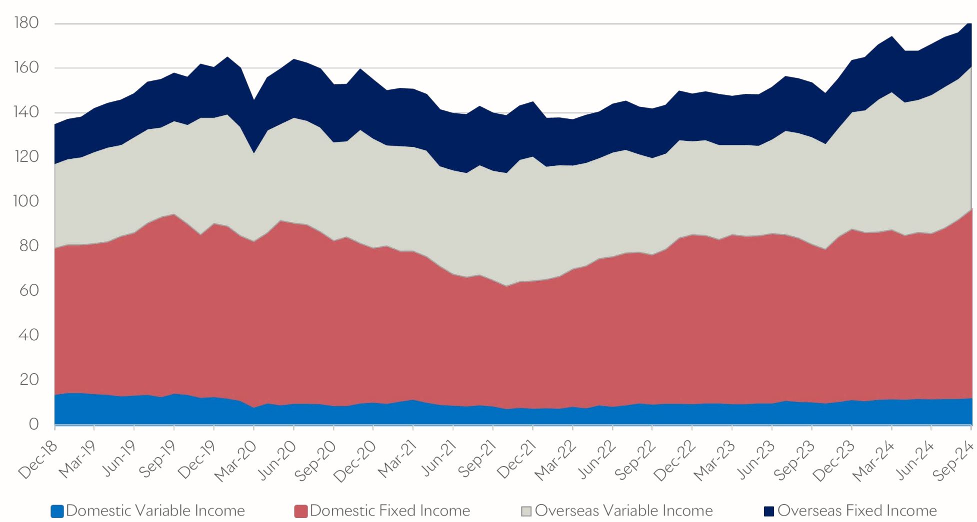
(September 2024)

Type of fund	Amount (billions of pesos)	Change Oct 2023 – Sept 2024 (%, real in pesos)	Return Oct 2023 – Sept 2024 (%, adjusted for inflation)	Limits on equity investments (% of fund assets)	
				Maximum	Minimum
A Funds	29,282	24.2	11.19	80	40
B Funds	36,843	30.0	11.93	60	25
C Funds	63,882	18.4	12.75	40	15
D Funds	33,239	22.9	15.19	20	5
E Funds	24,133	10.3	17.08	5	0
Total	187,381	21.0			

Source: Superintendence of Pensions

The value of assets managed by Chile's private pension fund administrators reached CLP 187.4 trillion (US$197.0 billion) by the end of September, up 21.0% from twelve months earlier. The rise has been led by gains in domestic fixed income assets, such as bonds, as inflation has fallen.

AFPs by asset class, US$ billions, 2018-2024



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A Band-Aid for healthcare

The future of Chile's system of private healthcare has entered a critical stage as legislation comes into force designed to ensure the financial stability of the sector while complying with court rulings limiting how much health insurers can charge clients.

Chile's private health insurers (known as ISAPREs), which provide health insurance to around two million policy holders, have long been criticised for increasing premiums far ahead of inflation. Hundreds of thousands of Chileans have sued to keep them down. During the pandemic, lawmakers blocked price rises.

Meanwhile, the number of people signed up with Chile's public health system FONASA has grown by around 1.2 million over the last two years as families try to cope with rising medical bills. Those switching are on average younger, leaving the ISAPREs with older policyholders who are more likely to require treatment.

Combined with higher healthcare costs and the rise in sick leave since the pandemic, this has led to growing losses in the sector. These reached CLP 77 billion (US$82 million) during the first six months of 2023. Several have closed clinics and other units while some healthcare providers, concerned by their financial troubles, have annulled agreements with ISAPRES, requiring patients to pay in full for treatment upfront.

The final straw came with a November 2022 ruling by the Supreme Court requiring the ISAPREs to adopt a standardised method for calculating premiums. Critically the judges ruled that this method should be applied retroactively, requiring the industry to return as much as US$1.2 billion to policy holders.

With the viability of the entire sector at stake, the government has been forced to intervene despite its preference for a universal healthcare system.

The legislation, approved in May by Congress and in force from September 1st, seeks to boost the financial stability of the ISAPREs by requiring them to raise their premiums to 7% of their clients' income while giving them up to 13 years to return the past excess charges. However, it also bans ISAPREs from charging higher premiums to individuals with preexisting conditions.

It is not still clear that these changes will be sufficient to stop one or more ISAPREs from going under.

With around 700,000 policy holders or around a third of the ISAPREs´ remaining clients set to see their premiums rise, the flight to the public sector is expected to continue.

Investors remain worried. In July, US health giant UnitedHealth Group announced it had put its South American operations up for sale, including the ISAPREs BanMedica and Vida Tres and associated businesses in Chile. UK-based BUPA has written down the value of ISAPRE Cruz Blanca by GBP 215 million (US$281 million) to reflect the impact of the regulatory changes.

The industry association has called for authorities to show flexibility to ensure the sector remains viable.

Questions also remain over the strength of Chile's public health system which attends the majority of the population in Chile, and which will be put under increased strain as more Chileans abandon private healthcare in the coming months. Although waiting times have fallen since the end of the pandemic, patients in the public sector wait on average eight months to see a specialist doctor and ten months for surgery. Unsurprisingly, polls show healthcare is the issue that matters most to Chilean voters after crime and pensions.

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External Sector

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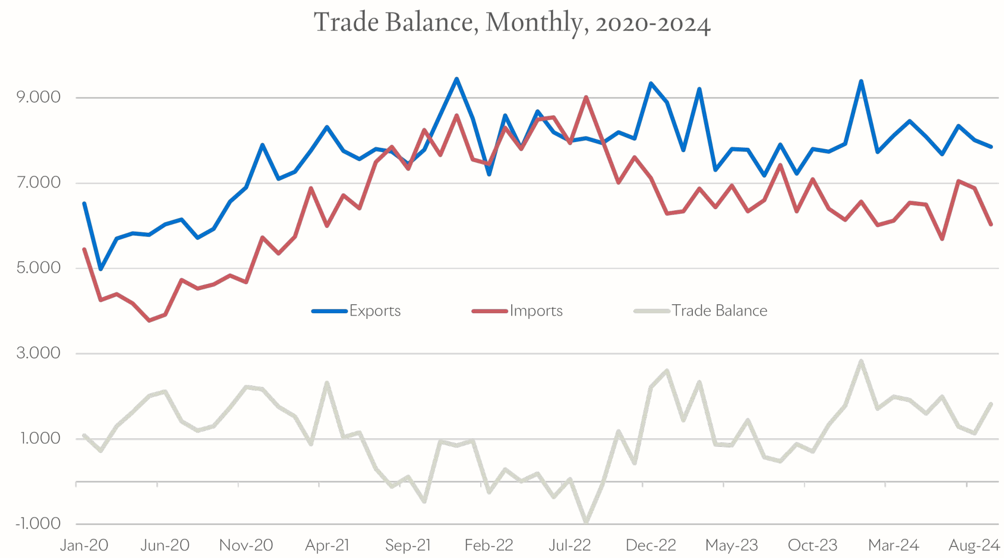
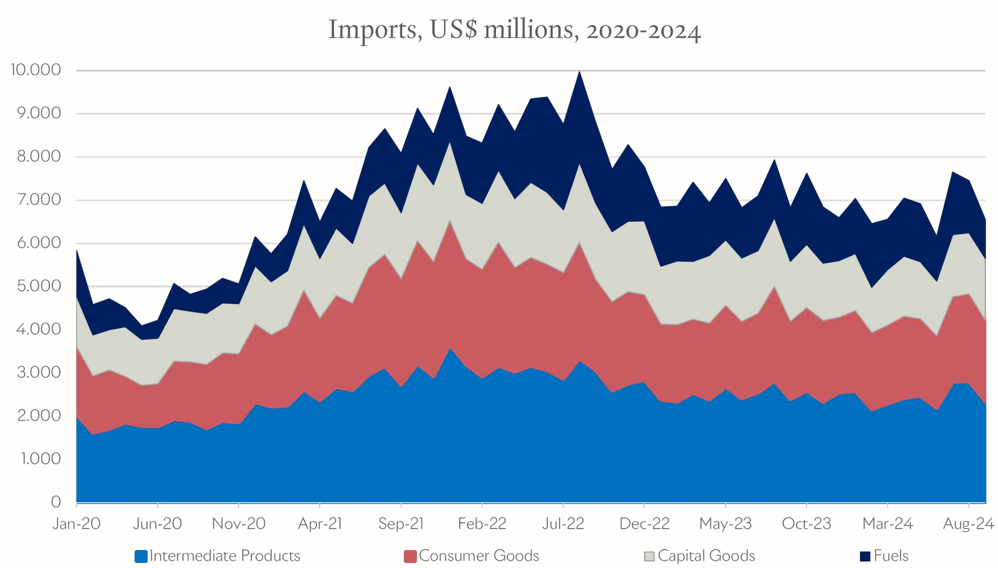


Source: Central Bank of Chile

Chile's trade surplus in goods rose to US$16.8 billion during the first nine months of the year, up 46.0% from the same period of 2023, as exports rose, and imports fell. While exports grew 4.3% to US$74.2 billion as a rise in minerals and farm exports offset lower industrial exports, imports fell 6.5% to US$24.7 billion on lower imports of capital and intermediate goods.

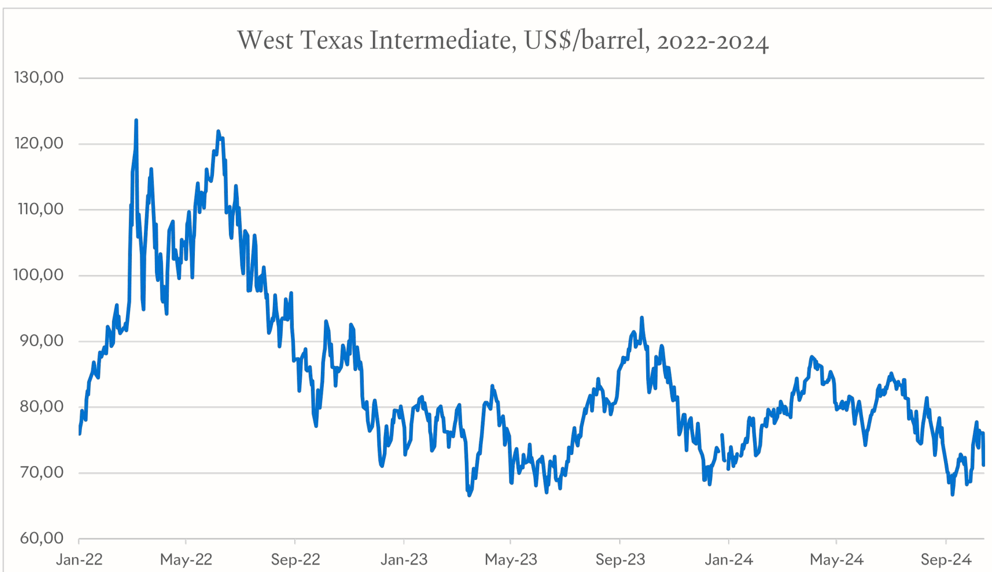
Imports



Source: Central Bank of Chile

In the year to September, imports of consumer goods rose 1.1% US$16.6 billion, driven by increased imports of durable and semi-durable consumer goods. While car imports fell 6.7% to US$1.8 billion, imports of television rose 7.2% to US$1.3 billion, and computer imports rose 50% to US$500 million.

Energy imports fell 7.7% to US$11.1 billion as declines in imports of diesel, coal and natural gas offset higher oil imports. Despite the growing violence in the Middle East, oil prices declined during the third quarter on rising inventories in the US and lower demand forecasts for next year. The West Texas Intermediate benchmark price, which state oil firm ENAP uses to price fuel imports, averaged US$76/barrel during the third quarter, down from US$82/barrel twelve months earlier.

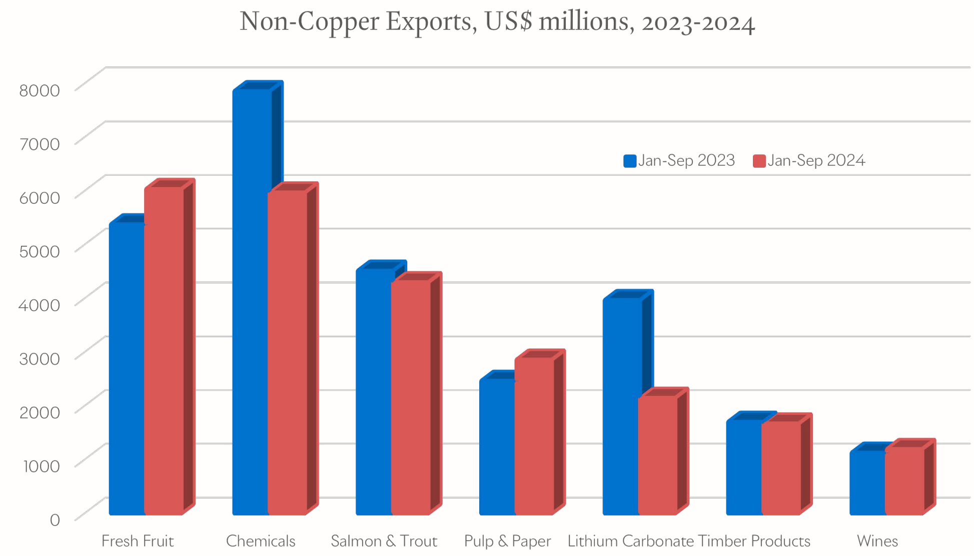


Source: St Louis Federal Reserve

Imports of intermediate goods declined 1.9% to US$22.1 billion, with significant declines in imports of metallic goods, spare parts for construction and mining equipment, wheat and maize, and sugar and sweeteners.

Reflecting the decline in investment, imports of capital declined 9.2% to US$13.2 billion during the first nine months of the year. Imports of construction and mining equipment fell 27.2% to US$794 million, imports of motors and generators declined 34.7% to US$969 million while imports of lorries fell 29.7% to US$185 million.

Exports



Source: Central Bank of Chile

The value of Chile's non-mineral exports totalled US$31.4 billion during the first nine months of the year, down 3.2%, as lower industrial exports offset higher agricultural exports.

Agricultural exports rose 11.2% to US$6.7 billion, driven by a strong fruit harvest earlier in the year. Fruit exports rose 13.8% to US$6.0 billion, including a 22% rise in cherry shipments to US$2.2 billion while grapes exports rose 21.3% to US$1.1 billion.

This was offset by a 6.5% drop in industrial exports to US$24.7 billion, largely due to a 24.0% decline in chemical exports to US$6.0 billion. The fall in chemical shipments largely reflected lower prices for refined metal products. Shipments of molybdenum oxide fell 23.9% to U$1.3 billion, exports of lithium hydroxide fell 92.0% to US$190 million and shipments of lithium sulphate fell 92.0% to US$48 million.

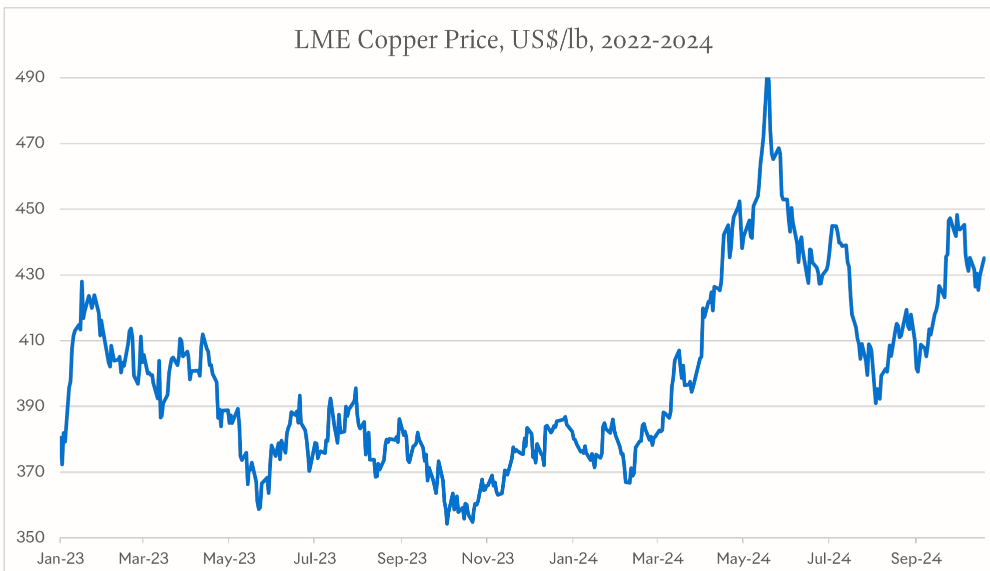
Shipments of salmon and trout fell 4.8% to US$4.6 billion, reflecting lower prices globally. Export volumes rose 1.1% to 555,801 tonnes over the same period.

Pulp and paper exports rose 15.9% to US$2.9 billion while timber exports fell 19% to US$1.7 billion. Pulp prices have continued to rise with prices for short fibre pulp (made from eucalyptus) averaging US$801 a tonne in the second quarter, up 17% from a year ago, according to producer Empresas CMPC. Prices for long fibre pulp (made from radiata pine) rose 33.0% to US$730 a tonne.

Wine exports rose 6.0% to US$1.2 billion as higher volumes offset lower prices. According to farm statistics office ODEPA, Chile shipped 514.2 million liters of wine to August, up 17.3% from twelve months earlier, driven by increased volumes of bulk wines. However, prices fell by 10.3% on average, including a 17.7% drop in the average of bulk wines.

Chile's mineral exports reached US$42.7 billion during the first nine months of the year, up 10.7% from the same period of 2023, driven by the rise in copper prices and mine production.

Exports of copper, Chile's principal export, rose to US$37.5 billion, up 18.9% from the same period of 2023, as shipments of concentrates rose by more than a third.



Source: Chilean Copper Commission

After slipping below US$4/lb in early August, copper prices rallied during the remainder of the third quarter, on expectations that China would announce a major stimulus package for its troubled housing industry. By late September, prices peaked just below US$4.50/lb, bringing the average price for the year so far to US$4.14/lb, up from US$3.92/lb in 2023. However, copper prices fell in October after the size of the measures unveiled by Beijing fell short of market expectations.

Price forecasts have slipped slightly as the outlook for the global economy grows gloomier. In September, the Chilean Copper Commission cut its price forecast for the year to US$4.18/lb, down from US$4.30/lb predicted in April, reflecting weakness in demand in the main consuming countries, the delay in Federal Reserve rate cuts as well as rising stocks. According to the Central Bank, prices will average US$4.25/lb during 2025 and 2026.

Copper production has begun to recover after falling to its lowest level in a decade in 2023. During the first eight months of the year, production reached 3.5 million tonnes, up 2.9% from a year earlier (including a 7.1% increase in August). Production has been boosted by a recovery at state-owned Codelco (including the restart of its Radomiro Tomic mine after a fatal accident earlier this year) as well as the commissioning of a major expansion at Teck's Quebrada Blanca mine. However, in September, the government cut its forecast for production this year to 5.4 million tonnes, down from 5.5 million tonnes previously.

Codelco has acquired a 10% stake in Quebrada Blanca from state mining firm ENAMI for US$510 million. The deal will allow ENAMI to pay down crippling debts while boosting Codelco's production.

In contrast, the value of Chile's lithium carbonate exports fell to US$2.2 billion during the year to September, down 45.8% from twelve months earlier, reflecting the sharp fall in lithium prices over the last two years. While lithium export volumes rose 21.7% to 195,476 tonnes over the same period, prices for lithium carbonate have continued to fall, trading below US$10,000 a tonne in recent weeks, down from an average of US$46,000 a tonne in 2023.

In the next stage of the government's strategy to boost production of the mineral, the Mining Ministry has chosen six sites with potential for lithium production which will be auctioned to private investors early next year.

Exports of molybdenum fell to US$1.8 billion to September, down 26.8% from a year earlier, reflecting lower prices and production. Production of molybdenum, a by-product in many Chilean copper mines, fell to 24,671 tonnes during the first eight months of the year, down 17.1% from twelve months earlier, while molybdenum oxide prices have averaged US$21.07 a kilogram so far this year, down from US$25.50 a kilogram in the same period of 2023.

Shipments of iron ore reached US$1.3 billion to September, up 13.8% from twelve months earlier. In October, Chile's principal iron ore producer CAP said that it expects to produce 1.1 million tonnes less of iron ore (compared to deliveries of 17 million tonnes in 2023) over the coming months after geotechnical problems forced the partial closure of its Los Colorados mine. In September, the company closed its Huachipato steel works , blaming competition from Chinese imports.

Gold exports rose to US$935 million during the nine-month period, up 15.2% in twelve months on higher price and production. Exports of silver fell 13.8% to US$342 million. The prices of both metals have rallied to record levels in recent weeks on fears over the Middle East conflict, the impact of the US election and the fall in interest rates globally.

Gold Fields is expected to begin ramping up production from its new Salares Norte gold-silver mine in the final quarter of the year, significantly increasing precious metals production in Chile.

Trade in goods between Chile and the United Kingdom totalled US$702 million during the first eight months of the year, an increase of 12.3% from the same period of 2023.

Exports from Chile to the UK rose 16.7% to US$378 million, driven by a 25.4% increase in fruit shipments to US$134 million while shipments of wine rose 20.4% to US$73 million

Meanwhile, UK exports to Chile rose 7.6% to US$324 million as a 27.9% increase in exports of intermediate products offset declines in shipments of consumer and capitals goods.

The Chilean and UK governments have signed an agreement which could provide up to GBP 5 billion (US$6.5 billion) in UK export credit support for the green hydrogen sector.

In December 2024, the UK will accede to the Comprehensive and Progressive Agreement for Transpacific Partnership, a trade group focused on the Pacific basin whose eleven members include Chile.

Current Account

Chile's current account deficit reached US$1.6 billion in the second quarter, equivalent to 2.3% of GDP, and up from US$313 million in the first quarter. The expansion of the deficit reflected the decline in Chile's goods surplus as exports fell while remittances of profits linked to Foreign Direct Investment rose. But compared to twelve months earlier, the deficit fell, largely to the sharp expansion in the goods surplus of this period.

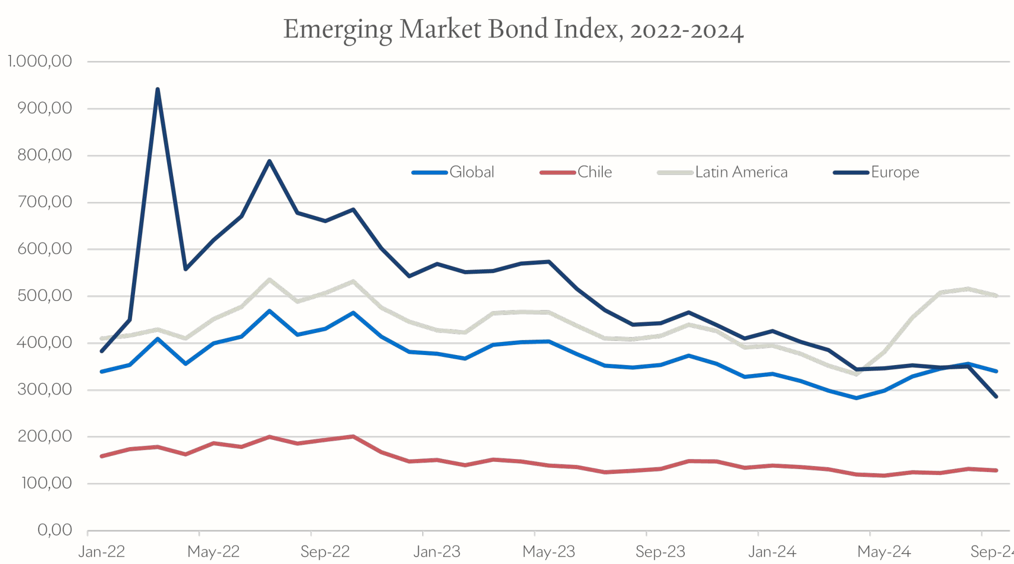
In September, the Central Bank predicted that Chile's current account deficit would shrink from US$11.9 billion in 2023 to US$6.6 billion this year, equivalent to 2.1% of GDP, this year thanks to stronger exports, before expanding to US$8.8 billion in 2025 as imports recover.

Chile's financial account recorded a deficit of US$3.7 billion in the second quarter, up from US$360 million in the first three months of the year, driven by an increase in Foreign Direct Investment into Chile (which rose by US$4.5 billion).

Chile's Net International Investment Position reached a net debt of US$58.9 billion, up US$4.7 billion from the previous quarter, as the appreciation of the Chilean peso reduced the value of Foreign Direct Investment into Chile and value of its foreign debts.

The value of Chile's foreign debt reached US$244.5 billion, equivalent to 79.3% of GDP, and up US$2.8 billion from three months earlier. The rise reflected an increase in debt related to Foreign Direct Investment and the banking sector.

Country Risk



Source: JP Morgan

Chile's risk premium has risen moderately in recent months. In September, JP Morgan's Emerging Market Bond Index for Chile reached 129 points, up 11 points since May. However, the increase is very low for Latin America, whose overall EMBI score reached 516 points in August, up 134 points since May and its highest level since the height of the pandemic in 2020.

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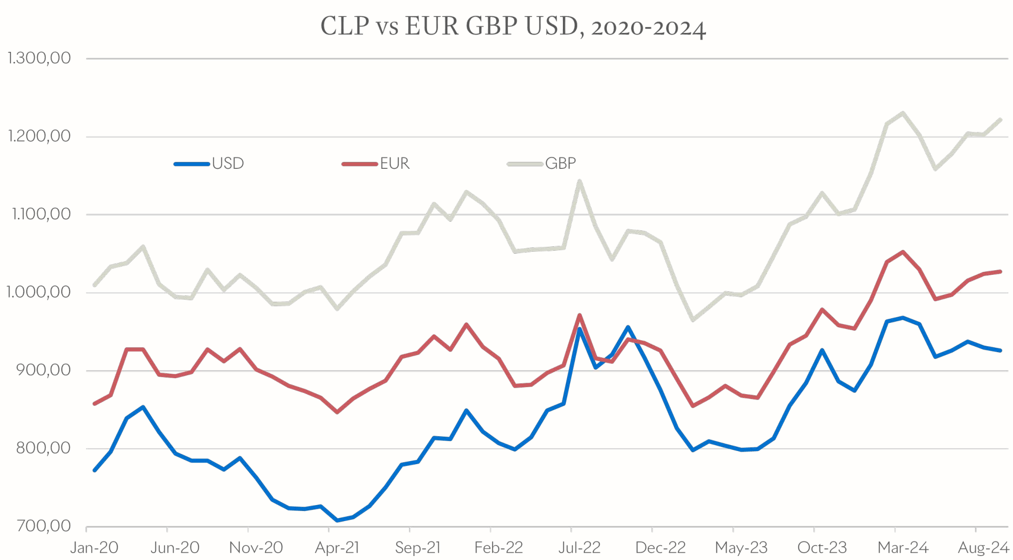
Source: Central Bank of Chile

The Chilean Peso has traded in a volatile range between approximately CLP 900/dollar and CLP 950/dollar, driven by changing views on the Chinese economy and copper prices, inflation and US monetary policy. In late September, the exchange moved through CLP 900/dollar in late September for the first time in four months following the decision by the Federal Reserve to cut interest rates as well as a rally in copper prices. But by late October, the peso had depreciated to almost CLP 950/dollar on strong macroeconomic data in the US and the loosening of monetary policy in Chile.



Source: Central Bank of Chile

While the Chilean peso has appreciated against the US dollar, it has lost value against other currencies, such as the Euro and British sterling, reflecting the divergence in interest rates between the different markets.

CÁMARA
CHILENO BRITÁNICA
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Quarterly Insight

3

As the Chilean economy recovers from a post-pandemic slump, authorities are increasingly looking to investment rather than private consumption to drive growth over the coming years.

Hopes for a recovery in investment comes after a decade of falling investment figures. The end of the commodity boom, changes to tax rules and uncertainty about business and political conditions saw investors, especially local ones, look abroad for investment opportunities.

Now the pendulum has swung the other way. With the end of the three-year constitutional process, investors, especially those from abroad, are recognizing again the inherent stability of Chile's macroeconomic framework and other key institutions.

The centre-left government led by President Boric has also changed its stance. Once sceptical about the need for foreign investment and free trade, the administration has become strongly supportive of the need for major projects to support economic activity, even risking the support of its environmental supporters to push through controversial proposals. The government has also proposed lowering corporate tax returns which would increase the rate of return on such investments.

As a result, many projects halted during the recent political instability are beginning to advance again.

The rise in metals prices since the start of the pandemic as well as the agreement reached last year over higher mining royalties has unlocked several major mining projects which could enter construction over the next three years.

With copper now trading significantly above US$4 a pound again, mining companies are fighting to bring new mines to market. With by far the world's largest copper reserves and unmatched knowhow in copper production, Chile is the obvious place to start.

Projects edging towards construction include Antofagasta Minerals' Nueva Centinela (US$4.4 billion), a 2nd expansion of Teck's Quebrada Blanca (US$3.0 billion), Collahuasi (US$3.2 billion); Anglo American's Los Bronces Integrado (US$3.0 billion) and Capstone Copper's Santo Domingo (US$2.0 billion).

Together they could boost Chile's GDP by 0.7% annually during 2024-2026, the Central Bank has calculated.

The other area of growing interest is clean energy where Chile's massive potential for renewable power like wind and solar gives it a major advantage.

Although investment in renewables themselves has slowed, investors are looking to related technologies, such as batteries which can store electricity and release it when the sun is not shining, or the wind is not blowing, or green hydrogen which can be exported to distant markets.

In July, a consortium of Austrian and Danish companies applied for license to build a green hydrogen complex including wind turbines, electrolysers and a port to export ammonia to northern Chile. At US$11 billion, it is the largest ever submitted to Chile's environmental assessment program although approval is likely to take several years.

The government's National Lithium Strategy should also attract a mix of private and public investment to extract the mineral from a dozen sites across northern Chile.

However, complicated permitting rules could slow this promised recovery in investment. Thirty years since its creation the country's environmental assessment system has become highly bureaucratic, taking many years to assess large projects, and increasingly subject to interventions through the court systems.

Given the time and money involved, some companies prefer to step away. Earlier this year, US investment fund Atlas Renewable Energy dropped plans for a US$325 million wind farm in Chiloe after local officials questioned the suitability of the project.

In September, energy firm Colbún withdrew plans for a US$1.4 billion pumped storage-hydroelectric plant in Antofagasta after it was effectively blocked by regional officials.

Recognizing the problem, the administration is already taking action to help key projects move into construction.

Last year, the Committee of Ministers gave its backing to Anglo American's Los Bronces Integrado project which had been rejected at a regional level. This year, the government fired the official responsible blocking the Colbun project.

Authorities are also taking a proactive role in negotiating deals with indigenous communities for new lithium projects.

But more structural changes are required to facilitate investment in the long term. To this end, the government has sent two bills to Congress to shake up permitting, the first reforming the environment assessment process and a second streamlining the dozens of other permits (from port concessions to felling permits) required for major projects.

After nine months in Congress, both bills have advanced. The reform of the assessment system has received the general consent of the Senate but time is now being given for lawmakers to present amendments. The Chamber of Deputies completed approval of the permits bill in October. It is now with the Senate Finance Committee. Investors will be watching to see whether either can approved before next year's presidential and congressional elections slows the legislative process.

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Political Context

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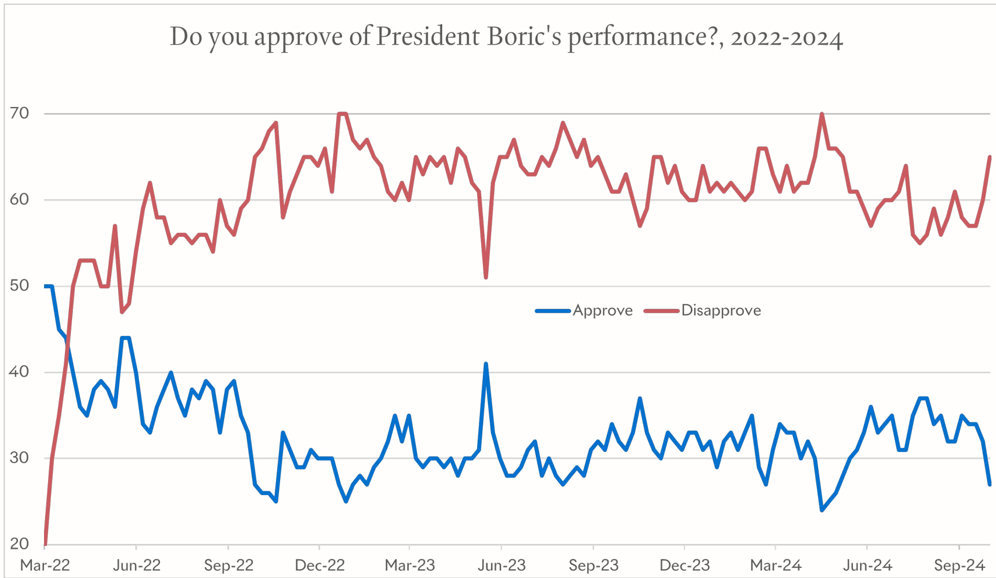
The government is expected to perform badly in the regional and municipal elections which take place on October 26th-27th in line with its poor poll ratings since taking office two years ago. Support for the government, which had strengthened in recent months, has been hit by its handling of the resignation of Subsecretary for Interior Manuel Monsalve following accusations of sexual assault. Approval of President Boric fell to 27% in the latest weekly poll (October 18th) by Cadem, its lowest level in almost six months, while disapproval jumped to 65%



Source: Cadem

However, it is not clear that the opposition will be able to capitalize on the government's weakness. Their position has been weakened by the failure to agree a single list of candidates for the vote between the centre-right Chile Vamos coalition and the more right-wing Republicanos.

Support for Chile Vamos could be affected by the investigation into alleged bribery and influence trafficking by the lawyer Luis Hermosilla, which has affected several leading politicians including former Interior Minister Andrés Chadwick as well as revelations about the elevated salary earned by former minister Marcela Cubillos at a private university.

A less than stellar performance could raise doubts about the opposition's chance in next year's presidential vote. Veteran senator and minister Evelyn Matthei continues to lead polling although in the respected CEP survey in September she led former president Michelle Bachelet (who has so far said she would not run again) by just two percentage points. Interior Minister Carolina Tohá is expected to stand although so far the government supporter to confirm their candidacy is Liberal Senator Vlado Mirosevic.

In early October, three weeks before the elections, President Boric announced legislation to replace the state-backed system of student loans (known as CAE) and forgive some debts, a key promise during his election campaign in 2021.

In September, lawmakers approved government legislation designed to clamp down on tax avoidance and evasion. The Finance Ministry estimates that the measures could boost government revenues by the equivalent of 1.5% of GDP. However, the government has yet to present a second tax bill that would reduce the corporate tax rate while increasing personal income and eliminating some tax breaks. The government's plan to reform the pensions system – by boosting pensions for the poorest and introducing a 6% employers' contribution - remains stuck at the committee stage of the Senate

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Economic Outlook

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The Chilean economy is continuing to recover from the post-pandemic slump although the pace of expansion has slowed since the first half of the year. The Central Bank and private analysts now expect activity to expand by around 2.5% in 2024, before slowing next year.

After rising again this year, inflation is expected to fall helped by declining energy prices and slowing demand. Critically, this year's surge has not altered private expectations that the Consumer Price Index will converge with the Central Bank's medium term target rate of 3.0% within its two-year policy horizon.

This will allow the Bank to continue loosening monetary policy over the next two years although at a much slower rate than its recent spate of cuts. Private analysts now expect interest rates to only fall to just 5.0% by the end of the year and to 4.25% by 2026 (just 100 basis points below its current level).

This will weigh on growth which the Central Bank expects to average 1.5-2.5% over the next two years as investment compensates for weakening household consumption.

This will depend significantly on investment in the mining sector which could rise as high as 6.5% of GDP close to the record levels set during the mining boom a decade ago. This could boost growth by up to 0.7% of GDP during 2024-2026, according to the Central Bank. However, the major projects in development remain vulnerable to changes in market conditions, investment decisions and regulatory delays.

But the recovery in largely foreign-backed investment in the mining sector will only compensate the lack of investment in the rest of the economy.

Economic Forecasts, 2024	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	2.25-2.75	2.6	2.5
Inflation (% annual variation)	4.5	3.9	4.5
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	5.00
Exchange rate (pesos/US$)	NA	928	880 4/
Copper price (US$/lb)	4.15	4.15	NA

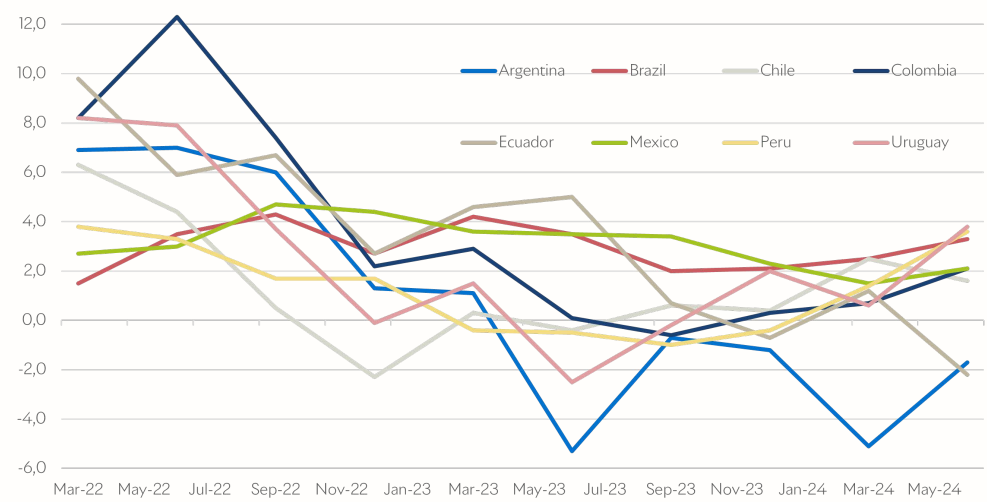
1/ Monetary Policy Report, September 2024
2/ Public Finances Report, October 2024
3/ Average of selected private analysts surveyed by Central Bank, October 2024
4/ September 2025

Latin America

Regional News

6

Quarterly GDP, annual change %, 2022-2024



Source: Trading Economics

Argentina: The economy shrank by 3.4% during the first six months of 2024 and unemployment rose to over 7.0% as President Javier Milei imposed harsh measures to cut the fiscal deficit and reduce inflation. The government posted a fiscal surplus for the first half of the year while monthly inflation fell to 3.5% in September, down from over 25% in December.

Brazil: The Central Bank raised interest rates by 25 basis points to 10.75% as inflation expectations rose again. Tighter financial conditions, as well as a worsening global economy, could slow the recovery in activity which has been boosted by increased government spending and a strong labour market.

Colombia: The economy has continued to recover, growing by 3.7% in July and forecast to grow 1.75% this year, as lower interest rates offset the impact of the unfavourable business environment. Support for President Gustavo Petro has fallen to less than 30% over his plans to withdraw fuel subsidies.

Ecuador: The economy shrank by 2.2% in the second quarter, reflecting the impact of higher sales taxes on demand as well as rolling power cuts as the country faces a major drought.

Mexico: Claudia Sheinbaum was sworn in as Mexico's first female president on Octobre 1st promising to continue the social programs of her predecessor and mentor Andrés López Obrador. The economy is expected to slow to 2.4% this year as the US economy cools.

Peru: The economy is expected to grow by 3.1% this year, after last year's recession and boosted by legislation allowing Peruvians to withdrawal approximately US$7 billion from their pension funds. Interim president Dina Boluarte plans to continue in office until 2026 despite calls for early elections and ongoing corruption investigations.

Uruguay: Centre-left opposition candidate Yamandú Orsi is the favourite to win this year's presidential election, the first round of which takes place on October 27th. Uruguayans will also vote in a referendum promoted by labour unions to fix the retirement age at 60, link pensions to the minimum wage and eliminate private pension funds.

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