CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Fourth Quarter 2024

4th Edition 2024 — Produced since 1922


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Dear reader

Dear Members and Friends of the Chamber,

Happy New Year to you! I'm delighted to share with you the latest edition of our popular Chilean Economic Report, offering valuable insights into the current economic climate and how it might impact your business in the year ahead.

As we step into 2025, there's no denying that the economy is showing moderate growth here in Chile, though it's a mixed picture. Investment is on the rise, but household consumption continues to slow. For UK companies operating here or looking to expand, this could mean new opportunities to tap into emerging sectors, but it also signals a need for a careful, adaptive approach.

The good news for UK companies, paticularly those in the trade and service sectors, is the implementation of the CPTPP trade agreement, which went into effect on December 15, 2024. The agreement opens up more accessible markets for UK businesses across the Pacific Rim and allows UK professionals to enter Chile with fewer restrictions, bringing new opportunities for growth and expansion. Notably, the treaty allows for longer stays for businesspeople and their families, with the possibility for accompanying dependents to work as well, making it easier for UK companies to bring teams over for extended periods.

In addition, I would like to remind you that Chilean nationals now need to complete an Electronic Travel Authorisation (ETA) to travel to the UK, which could affect your operations or travel plans. We recommend staying ahead of these changes to ensure smooth business operations.

Elle Denton

Executive Director

British Chilean Chamber of Commerce

Santiago, Chile

Looking ahead, 2025 promises to be a year of opportunity, and the Chamber is here to help you take full advantage of it. With more networking events, business connections, and resources available, we are excited to help you navigate these shifts and thrive in the coming months.

Stay engaged, take advantage of the opportunities that lie ahead, and we look forward to seeing many of you at our upcoming events!

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 has entered a period of moderate growth, marked by rising investment and slowing household consumption.

- After stabilising in 2024, inflation is projected to rise to approximately 5.0% in early 2025, influenced by a weaker Chilean peso, higher labour costs, and rising energy prices.

- The Chilean peso has depreciated against the US dollar, exceeding CLP 1,000/dollar by late December for the first time in two years due to declining copper prices and geopolitical uncertainty.

- The Central Bank has slowed the pace of monetary easing after inflation stopped falling, implementing three 25-basis-point cuts since August 2024.

- Unemployment has declined, averaging 8.2% during the three months ending in November 2024, as economic activity picks up.

- The government suffered significant losses in October and November's municipal and regional elections, reflecting its low approval ratings.

- Veteran centre-right politician Evelyn Matthei, the frontrunner in presidential polls since 2022, officially launched her candidacy in December. The government's candidate for next October's election remains undecided.

- Despite signs of economic improvement, business and consumer confidence remain weak.

- The Central Bank identified geopolitical tensions and rising protectionism as major threats to Chile's economy following Donald Trump's re-election.Copper prices fell by 10% during the fourth quarter, dropping below US$4.00/lb for the first time in nine months.

- Government and opposition lawmakers are struggling to reach agreement on President Boric's flagship pensions reform ahead of a February deadline.

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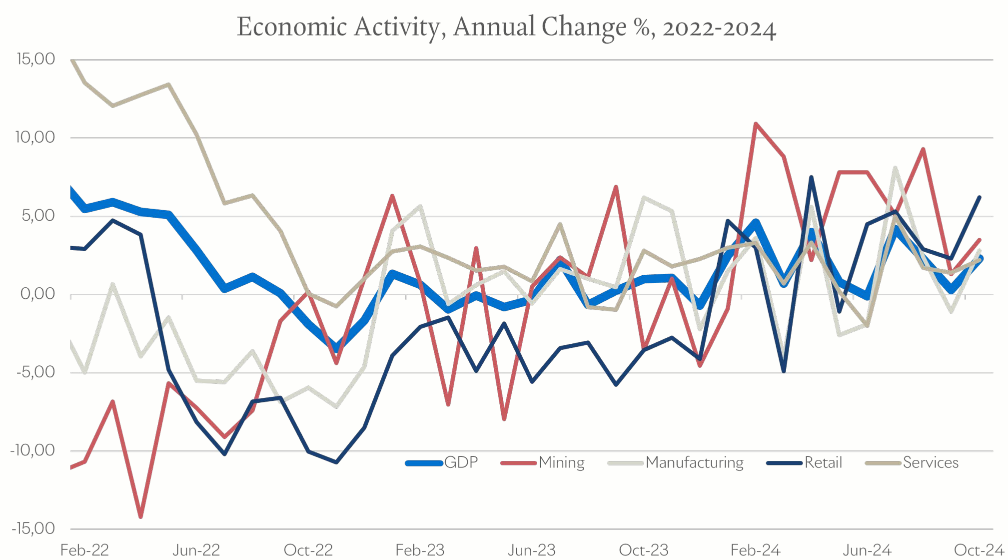
Domestic Economic Performance

1

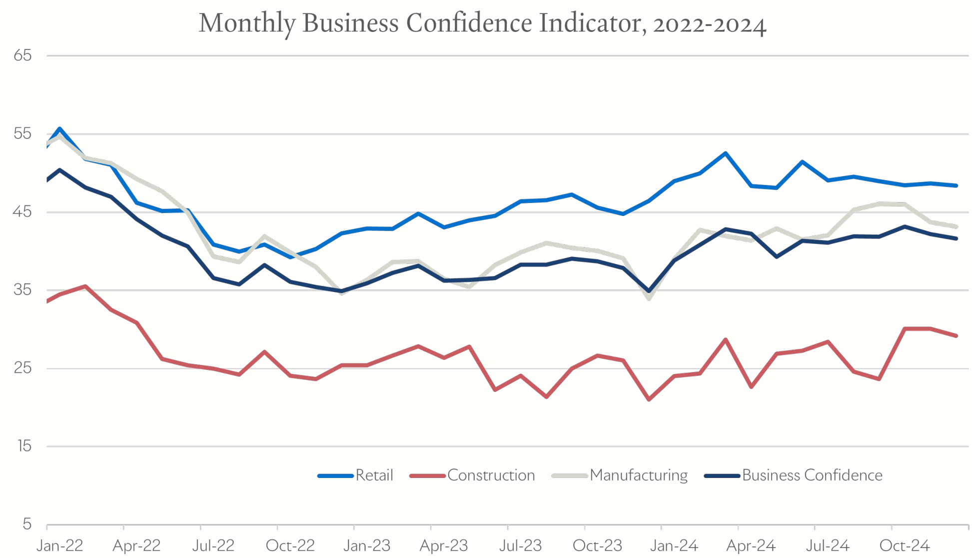


Source: Central Bank of Chile

The Chilean economy is growing moderately after its post-pandemic contraction in 2022-2023. Activity expanded by 2.3% in the third quarter, up from 1.6% in the previous quarter, driven by primarily by mining and retail activity. Growth continued into the final quarter of the year with preliminary figures showing expansions of 2.3% and 2.1% in October and November, respectively.

In December, the Central Bank maintained its forecast that the economy will grow by 1.5-2.5% in 2025 and 2026. This represents a slight deceleration from an estimated 2.3% growth in 2024, as a slowing household consumption offsets a recovery in private investment. This matches private forecasts of 2.0% growth in 2025 and 2026 driven by rising levels of investment, according to a survey of analysts in early January.

Business Confidence



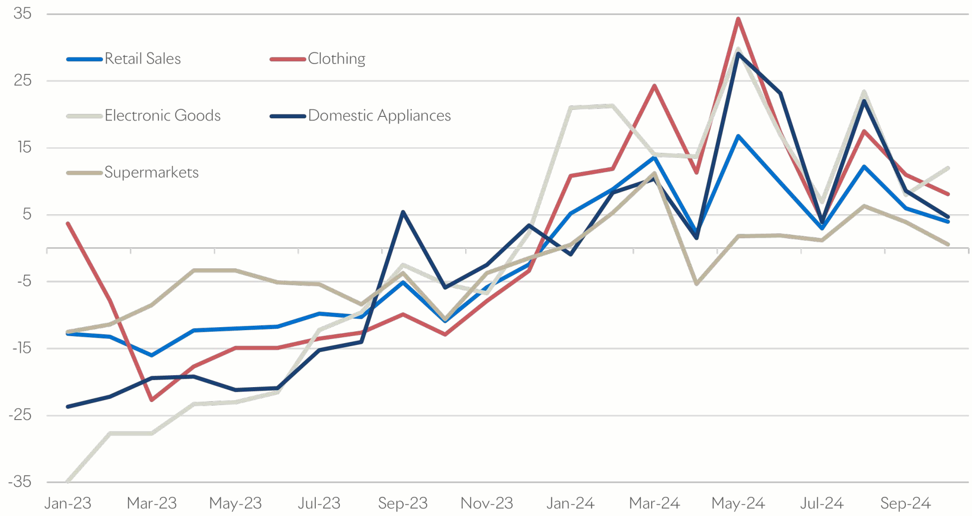
Business confidence has stabilised but remains in negative territory. The Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and business organization ICARE, reached 41.63 points in December (discarding volatile data from the mining sector), little changed from six months earlier. Increased optimism in the construction sector (although still at very low levels) has been offset by declining confidence in manufacturing.

Consumer Confidence

Source: GfK

Consumer confidence remains very low but strengthened during the second half of 2024 amid improving optimism about the economic outlook. In December, GfK's Economic Perceptions Index reached 33.3 points, up three points from twelve months earlier and its highest level in almost three years.

Retail Sales in Santiago, annual change %, 2023-2024



Source: Chilean Chamber of Retail

Retail activity has recovered from the post-pandemic slump although growth has slowed in recent months. Retail sales in Santiago in the year to October grew by 4.0%, down from 12.2% in the year to August, with all categories showing signs of deceleration.

Major retailers, including Falabella and Walmart, have announced significant investments over the coming years to expand capacity both in physical stores and e-commerce.

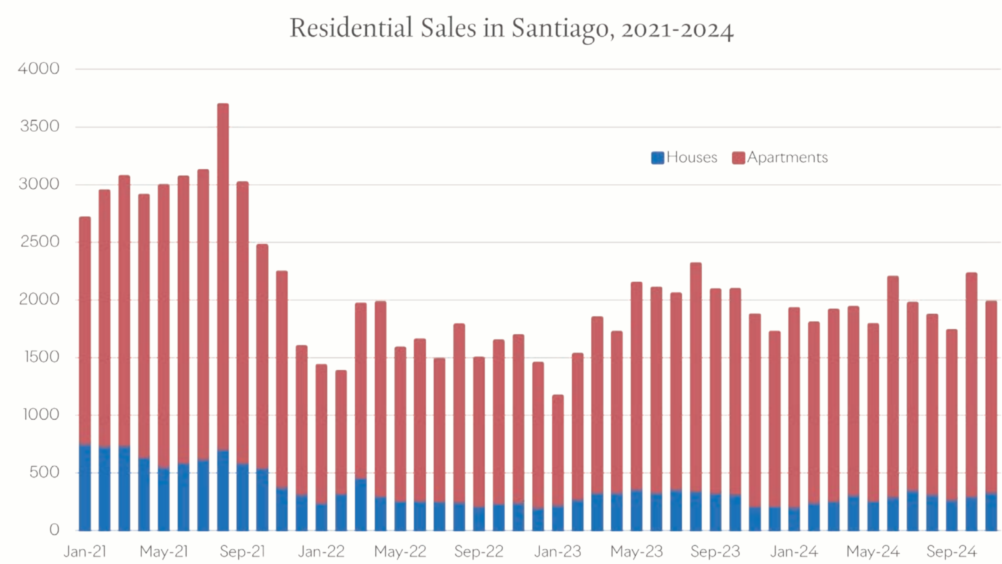
Manufacturing

Manufacturing output rose by 0.6% in the twelve months to November (and by 0.4% from the previous month of October). The rise was driven by an increase in pulp production as Arauco launched production at its new MAPA project and production of machinery and equipment, especially for new projects in the mining industry. This was offset by a fall in metallic products, especially metallic structures for the mining industry.

Construction

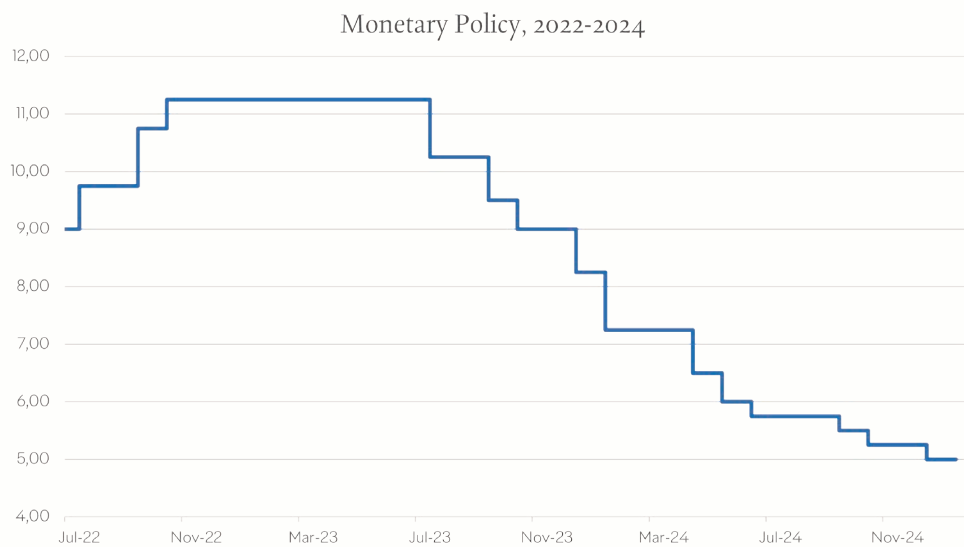
Source: Chilean Chamber of Construction

Construction activity has fallen to historic levels amid the slowdown in investment and home sales over the last two years. However, since falling to a record low in June, the Chilean Chamber of Construction's Construction Activity Index has strengthened in recent months, reaching its highest level since last January. The rise was driven by higher sales of cement and other building materials and increased employment in the sector.



Source: InfoInmobiliaria

Residential property sales have recovered moderately after falling to record lows in 2022, as interest rates fell and consider confidence recovered. Sales in Santiago during the first eleven months of 2024 reached 21,309 units, up 2.0% from the same period of 2023.



Source: Central Bank of Chile

The Central Bank continued to loosen monetary policy during the second half of 2024 although at a slower rate than in the first part of the year. In its final meeting of the year, on December 17th, the board of the Central Bank decided unanimously to reduce its key interest rate by 25 basis points to 5.0 points. This move, the third consecutive 25bp cut since August, reduced the rate to its lowest level in almost three years.

The bank said that future cuts would depend on the performance of the economy, warning of the risk of higher inflation in the short term (See 1.5 Domestic Prices). Analysts surveyed by the Bank in early January predicted that the board would leave the rate unchanged at its next meeting on January 28th and reduce the rate to 4.50% by the end of the year.

Chile's fiscal situation has deteriorated with public spending rising by more than predicted and revenues failing to meet government targets.

By the end of November, public spending had reached CLP68.6 trillion (US$68 billion), up 4.8% from the same period of 2023 and compared to a government target of 3.5%.

Public revenues, in contrast, reached CLP60.3 trillion (US$59.9 billion), up just 0.8% from a year ago, compared to a government forecast of a 5.3% increase. The disappointing figure partly reflects low take-up of a tax amnesty on undeclared overseas assets which raised just 15% of the CLP592 billion (US$586 million) that the government had initially estimated, even after the deadline was extended.

As a result, the public deficit to the end of November had reached CLP 8.2 trillion (US$8.1 billion), the equivalent to 2.7% of GDP, compared to the government forecast for 2024 of 2.0%.

After public revenues failed to meet government forecasts, Finance Minister Mario Marcel announced that the government would reduce public spending by US$1.0 billion in 2024 (largely in the final quarter of the year) and another US$500 million in 2025. The Finance Ministry also withdrew US$1.0 billion from the Economic and Social Stabilization Fund in October to supplement public income.

Following the cuts, public spending is set to rise in real terms in 2025 by around 2.0% - rather than the 2.7% increase the government requested in the initial budget legislation - to CLP 82 trillion (US$82.2 billion).

In October, the government predicted that public revenue would rise by 8.5% to CLP79.3 trillion (US$78.8 billion). This included a 68% increase in revenues from the mining industry to CLP 5.3 trillion (US$5.2 billion) after royalties were increased, tighter tax enforcement and income from state participation in the lithium industry. As a result, the public deficit would fall to around 1.0% of GDP, down from an estimated 1.9% in 2024.

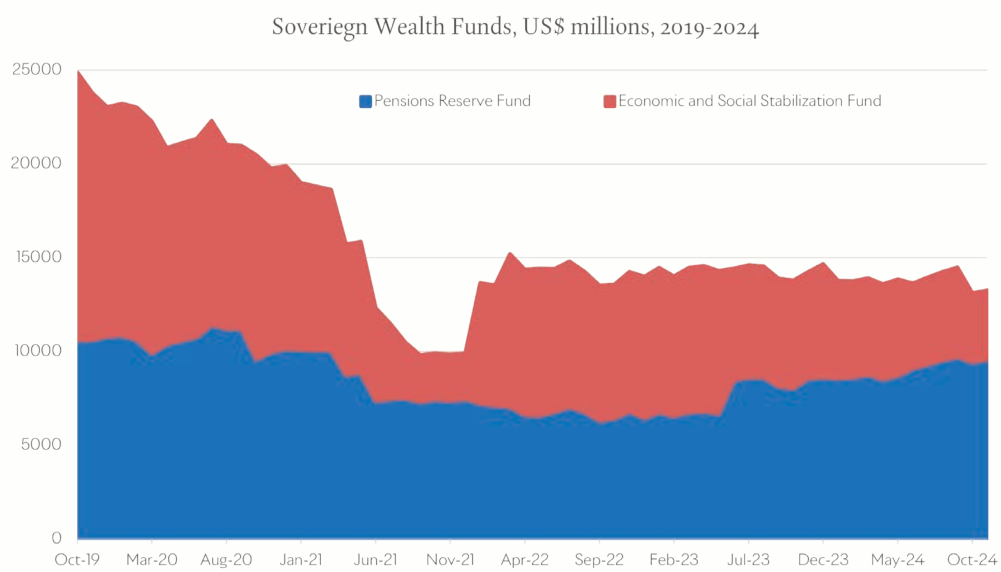
However, this forecast does not include the latest adjustments to estimated spending and revenue. The government is due to publish updated forecasts in February.

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 raised the outlook on its A rating for Chile's sovereign debt 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.

Sovereign Wealth Funds



Source: Finance Ministry

Following the withdrawal of US$1.0 billion from the Economic and Social Stabilisation Fund in October, the value of assets held by Chile's two sovereign wealth funds fell to US$13.3 billion in November, down 7.0% from a year earlier.

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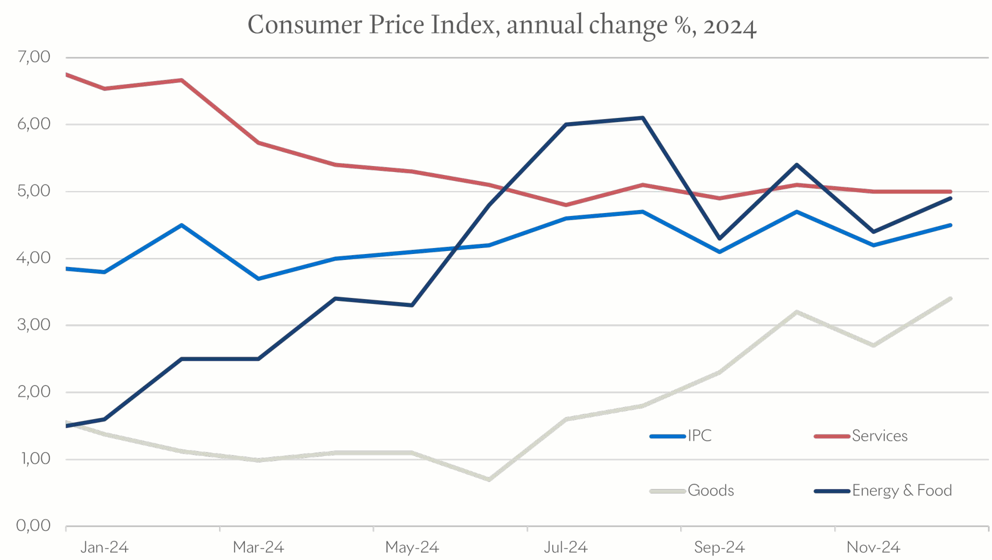


Source: National Statistics Institute

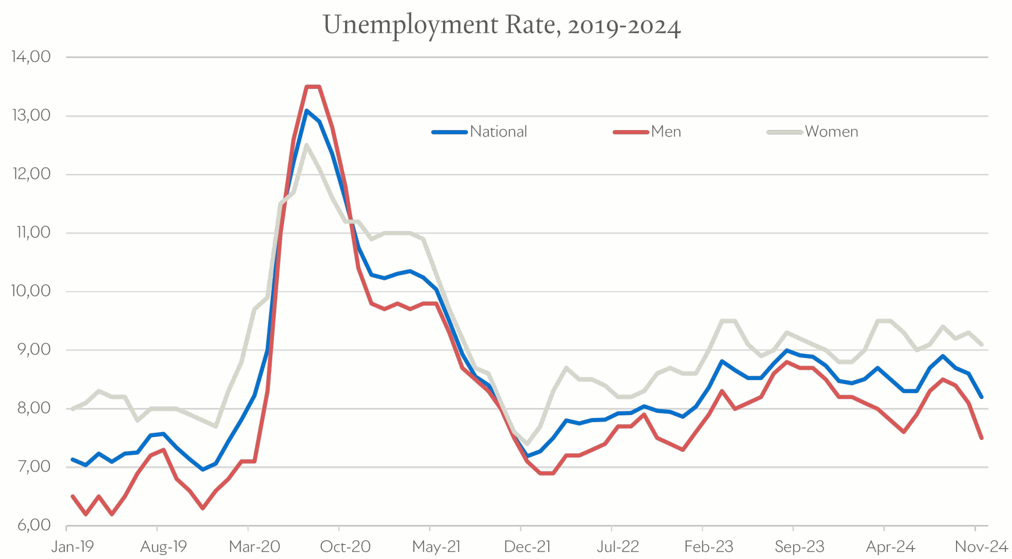
Inflation has stabilised after accelerating in the first half of 2024. In December, the government's Consumer Price Index (CPI) fell by 0.2%, bringing annual inflation to 4.5%, up from 3.9% twelve months earlier.

The rise in inflation over the last twelve months has been driven by an acceleration in energy, food and goods prices. While volatile energy and food prices rose by 4.9% in 2024 (up from 1.4% in 2023), goods prices rose by 3.4% compared with 1.7% twelve months earlier.

In contrast, inflation in services has declined to 5.0%, down from 7.0% in 2023.

Higher energy prices have been driven by sharp hikes in electricity tariffs, which were frozen during the pandemic. These increases were offset by lower gasoline and food prices.

In December, the Central Bank cautioned that inflation is likely to rise again in the coming months, potentially reaching 5.0% in early 2025. This renewed pressure is expected to stem from a stronger US dollar, rising labour costs, and higher energy prices.



Source: National Statistics Institute

The labour market has strengthened in recent quarters as economic activity recovers. The national unemployment rate averaged 8.2% in the three months to November, down from a peak of 8.9% in August this year, 8.5% twelve months earlier, and its lowest level in almost two years. The number of people in work grew by 1.6% over the previous year, outpacing the expansion of the workforce, driven largely by new jobs in education, healthcare and professional services.

The fall in unemployment has been greater among men, falling from 8.5% to 7.5% since August, while female unemployment fell from 9.5% to 9.1% over the same period. Informal employment has fallen to 26.9% of the workforce (down from a peak of 28.2% six months earlier), as the number of formal workers rose by 3.1% in twelve months.

However, wage growth has slowed. The government's Remunerations Index rose by 0.2% in November (or down 0.1% considering the impact of inflation), compared with a 1.6% increase four months earlier. On an annual basis, the index rose by 7.9%, or 3.6% in real terms.

Chile's minimum monthly wage rose to CLP 511,500 ($509) from January, up from CLP 500,000, in line with inflation. In December, Congress approved a 4.9% increase in public sector pay to be implemented over the next six months, benefitting around 1.7 million employees.

Banking

Borrowing has stabilised in recent months as economic activity has recovered. By the end of November, the value of outstanding loans had reached CLP 265 trillion (US$266 billion), unchanged from twelve months earlier as the decline in corporate lending (down 1.2% to CLP 143 trillion) was offset by the rise in mortgage lending (up 1.9% to CLP 89 trillion).

Interest rates have fallen as the Central Bank has loosened monetary policy with the average rate on 1-3 year loans falling below 15% in December for the first time in three years. Executives surveyed by the Central Bank in November reported that banks continue to impose strict lending conditions (larger guarantees) although there has been some improvement in recent months.

The proportion of non-performing loans has continued to rise, reaching 2.3% in November (including 2.4% of corporate loans), up from 2.1% twelve months earlier.

The banking industry recorded profits of CLP 4.5 trillion (US$4.5 billion) in the year to November, up 7.8% from a year earlier, reflecting the drop in expenditure on interest rates. Returns on investment was little changed at 1.7%

Equities

IPSA, 2022-2024

Source: Santiago Stock Exchange

Share prices in Chile rallied through the fourth quarter of 2024, driven by the depreciation of the Chilean peso. The IPSA index of the largest companies listed on

the Santiago Stock Exchange ended the year with a gain of 8.3% and close to recent record highs above 6,800 points. The biggest gains were seen in banking, retail and property development as economic growth recovered. Shares in SQM, the exchange's most valuable company, fell by 30.6%, mirroring the decline in lithium prices.

Pensions

AFP Assets under Management

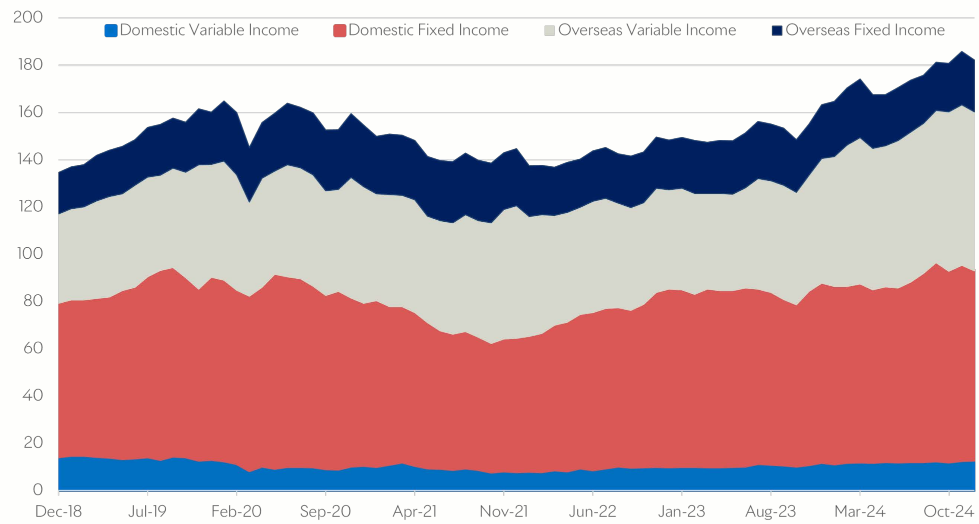
(December 2024)

Type of fund	Amount (billions of pesos)	Change January 2024 – December 2024 (%, real in pesos)	Return January 2024 – December 2024 (%, adjusted for inflation)	Limits on equity investments Limits on equity investments (% of fund assets) Maximum	Minimum
A Funds	31,017	22.6	9.10	80	40
B Funds	38,513	24.2	7.44	60	25
C Funds	62,396	7.7	3.35	40	15
D Funds	31,387	6.5	0.10	20	5
E Funds	21,622	-6.4	0.31	5	0
Total	184,936	10.9			

Source: Superintendence of Pensions

The value of assets managed by the private pension fund administrators (AFPs) reached CLP 184.9 trillion (US$183.1 billion) by the end of December, up 10.9% from twelve months earlier. The move reflects the increase in the value of financial assets as well as the depreciation of the Chilean peso in recent months. The value of foreign shares held by the funds has risen 27.5% over the last year to CLP67.9 trillion (US$66.6 billion), while domestic bond holdings have risen 5.6% to CLP79.9 trillion (US$79.1 billion).

AFPs by asset class, CLP trillions, 2018-2024



Government and opposition senators are struggling to reach agreement over President Gabriel Boric's flagship pensions reform ahead of a February deadline agreed last year. Under the proposal, future pensions would be boosted by a new 6% contribution from employers, but the lawmakers cannot agree what proportion should diverted from workers' individual savings accounts to support low-income pensioners. If approved by the Senate, the legislation would have to return to the Chamber of Deputies before it can be signed into law

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External Sector

2

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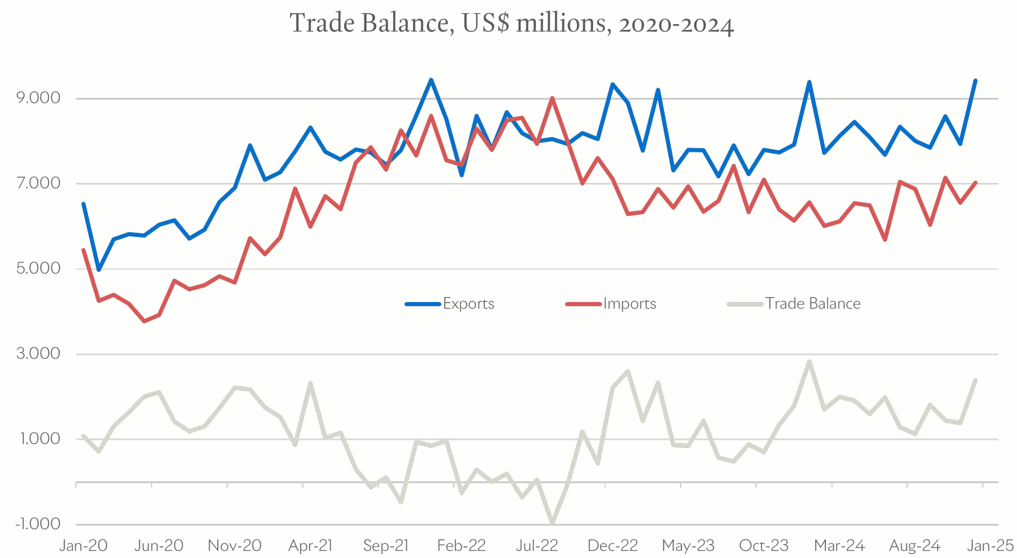
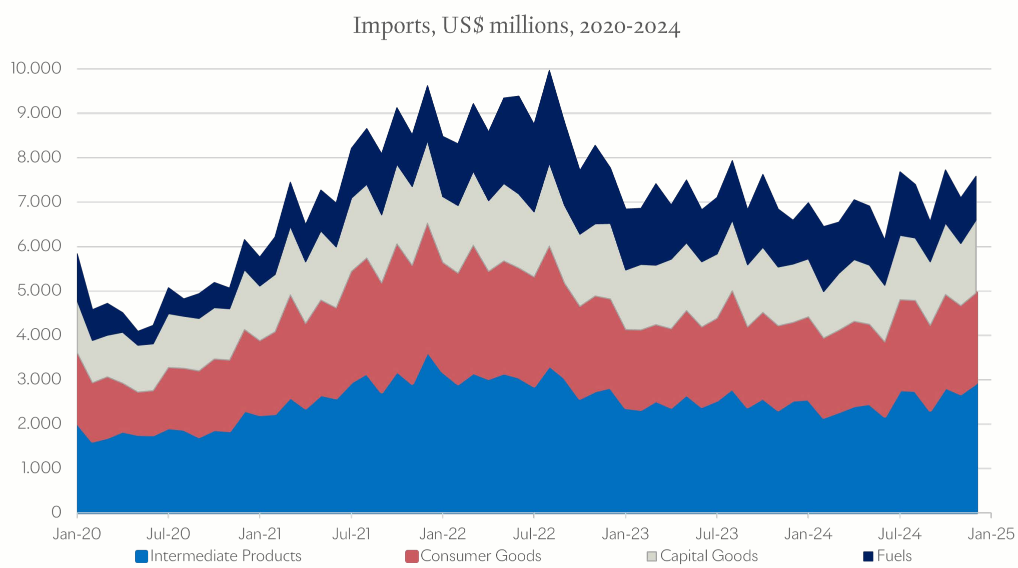


Source: Central Bank of Chile

Chile's trade surplus rose to US$22.1 billion in 2024, its largest in seventeen years as exports increased while imports fell. Exports rose 5.9% to a record US$100.1 billion on higher shipments of farm and mineral products while imports fell 1.5% to US$78.0 billion as imports of capital goods and fuels declined.

Imports



Source: Central Bank of Chile

The fall in imports was driven by declines in imports of capital goods and energy products.

Energy imports fell 10.7% to US$14.3 billion reflecting falls in imports of oil, diesel, coal and natural gas. The West Texas Intermediate benchmark price, which ENAP uses to price fuel sales, averaged US$76/barrel during 2024, unchanged from the same period of last year. Prices have declined below US$70/barrel in recent months on concerns that demand in China and the US is slowing.

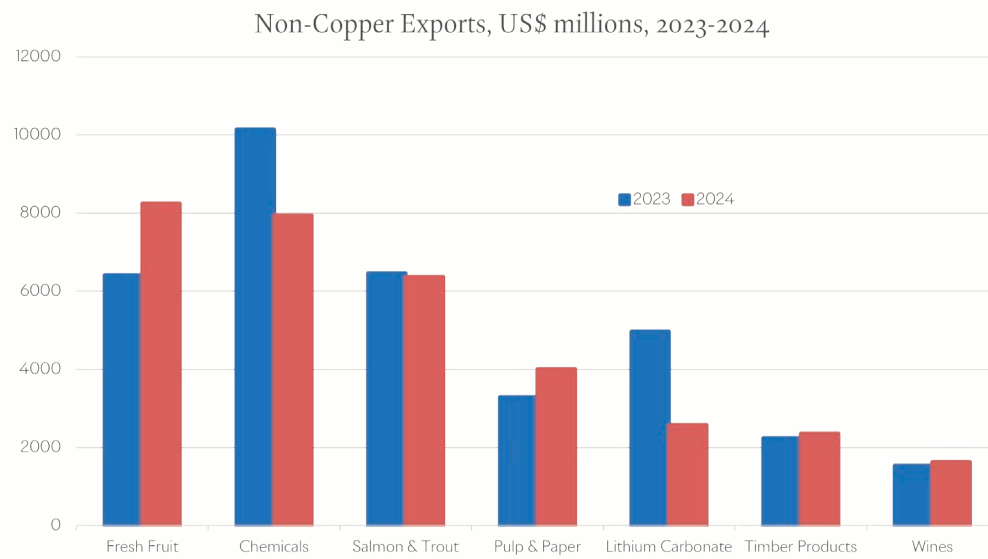
Source: St Louis Federal Reserve

Imports of capital goods declined 3.9% to US$16.6 billion, reflecting the fall in investment over the last year. The sharpest falls were in imports of buses, construction and mining equipment, and motors, generators and transformers.

Imports of intermediate goods rose 1.6% to US$30.5 billion, as increased imports of molybdenum concentrates offset declines in spare parts for mining and construction equipment, grain, and sugar and sweeteners.

Imports of consumer goods rose 3.4% to US$22.7 billion. Imports of consumer durables rose 3.1% to US$7.2 billion, as increased imports of electronic goods offset a fall in car imports.

Exports



Source: Central Bank of Chile

Chile's non-mineral exports reached US$42.7 billion in 2024, up 1.5% from 2023, as a rise in farm exports offset lower industrial exports.

Farm exports rose 24.9% to US$9.0 billion, driven by a 28.6% increase in shipments of fresh fruit. Shipments of cherries rose 51.4% to US$3.6 billion, reflecting higher prices and exports. Grape exports rose 39.2% to US$1.3 billion.

Industrial exports declined 3.3% to US$33.7 billion in 2024, driven by a 21.8% drop in shipments of chemical s to US$7.9 billion. The decline reflects lower exports of lithium hydroxide and sulphates and molybdenum oxides as metal prices fell (See 2.2 Mineral Exports).

Exports of salmon and trout fell 1.5% to US$6.4 billion. The fall reflects lower prices for salmon while export volumes rose 1.0% to 782,076 tonnes.

Pulp and paper exports rose 21.7% to US$4.0 billion as pulp prices recovered. Prices for bleached short-fibre kraft pulp (made from radiata pine) in China averaged US$765 a tonne during the third quarter, up from US$670 a tonne twelve months earlier.

Shipments of wine rose 6.7% to US$1.6 billion. According to farm statistics office ODEPA, lower prices (US$2.07 a litre in 2024 vs US$2.24 a litre in 2023) were offset by a 13.4% rise in volumes to 711 million litres (in the year to November).

Chile's mineral exports reached US57.4 billion in 2024, up 9.5% from 2023, driven by higher copper prices and production as well as a rise in the value of precious metal shipments.

Copper exports rose 17.3% to US$50.9 billion, led by increased shipments of concentrates as major mines ramped up production.

Copper production has continued to recover after slumping to its lowest level in a decade in 2023. Production during the year to November totalled to 5.0 million tonnes, up 4.1% from twelve months earlier, driven by the ramp-up of Teck's expanded Quebrada Blanca mine as well as recoveries at state-owned Codelco, and privately-owned Escondida, the world's largest copper mine.

In December, the Chilean Copper Commission predicted that production would rise 3.0% in 2024 to 5.41 million tonnes, and by another 6% in 2025 to 5.72 million tonnes.

Copper price, US$/lb, 2023-2024

Source: Chilean Copper Commission

Copper prices have declined in recent weeks amid concern that the trade policies of incoming US President Donald Trump could hit growth in China, falling below US$4.00/lb in December for the first time in almost nine months. The international copper price averaged US$4.17/lb during the fourth quarter of 2024, down from US$4.20/lb in the previous three months, but up from US$3.85/lb during 2023.

In November, BHP unveiled plans to invest up to US$14.0 billion over several years to bolster copper production from its mines in northern Chile, building new processing plants at Escondida and Spence and reopening its Cerro Colorado operation (currently in care and maintenance).

Exports of molybdenum, a byproduct in several copper mines, declined 18.6% to US$2.5 billion. The fall reflects lower production and prices for the metal. Production to November fell 15.9% to 34,360 tonnes while prices for molybdenum oxide averaged US$21.20/lb, down from US$24.21/lb a year earlier.

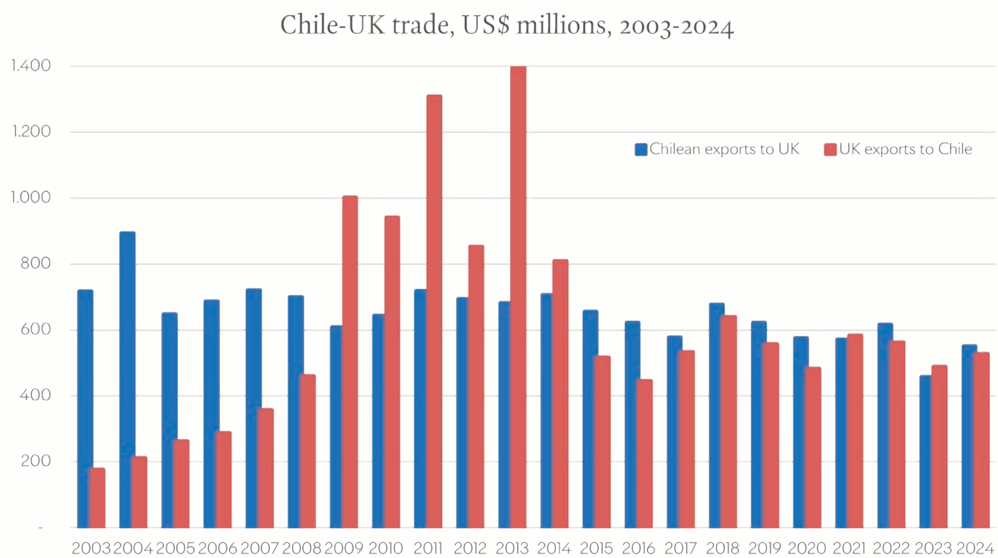
Exports of lithium carbonate fell 48.1% to US$2.6 billion, as lower prices offset rising production at Albemarle and SQM. Prices for the mineral declined by around two-thirds in 2024, falling below US$10,000 a tonne down from a peak of almost US$80,000 a tonne two years earlier.

Despite the fall in prices and mounting losses, SQM said in November that it plans to continue ramping up production from its operations in Chile on the expectation that higher cost producers in Australia and elsewhere would withdraw from the market.

Exports of precious metals rose 11.3% to US$1.8 billion as gold prices rose to record levels above US$2,600 an ounce. Production is also rising as Gold Fields ramps up production from its new Salares Norte mine.

Exports of iron ore fell 8.8% to US$1.5 billion. Prices for the mineral have fallen around 15% this year on lower demand in China and increased port stocks.

In January, ministers voted for the third time to block the development of the US$3.0 billion Dominga iron ore-copper project, upholding complaints that the mine-port complex would impact local marine life. The project has the potential to double production of iron ore in Chile.



Source: Central Bank of Chile

Trade between Chile and the United Kingdom reached US$1.1 billion during 2024, up 13.9% from 2023.

UK exports to Chile reached US$529 million, up 8.1% from a year ago. A 22.0% increase in shipments of non-energy intermediate products to US$256 million was offset by an 16.7% drop in exports of consumer goods to Chile to US$144 million.

Chilean exports to the UK reached US$551 million, up 20.1% from twelve months earlier. Exports of fresh fruit rose to US$191 million, up 30.8% from 2023, while exports of bottled wine rose 26.8% to US$116 million.

British-Australian mining firm Rio Tinto is one of the companies in the running to partner state mining company Codelco in development of lithium production in the Salar de Maricunga, estimated to host the country's second largest lithium resource.

The UK joins Chile in the CPTPP

On December 15th, 2024, the United Kingdom officially joined the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), strengthening commercial ties with the eleven other members, including Chile.

Chile has been a pivotal member of the CPTPP since its inception. In 2005, along with Brunei, New Zealand and Singapore, it signed the P4 agreement laying the foundation for a modern free trade area spanning the Pacific.

The initiative gained momentum when the US government identified the agreement as a strategic tool to extend its influence across the Pacific Ocean, counterbalancing China's growing presence. Subsequently, major economies such as Australia, Canada and Japan joined.

However, in 2017, then-President Donald Trump unilaterally withdrew the United States from the agreement, citing concerns over its impact on American manufacturing jobs.

Undeterred, the remaining countries, led by Chile and Japan (the others are Australia, Brunei, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) renegotiated the agreement to address the absence of the US. The revamped deal, renamed the CPTPP, was officially signed in Santiago in January 2018.

Nine of the original eleven members have now ratified the agreement with just Canada and Mexico yet to finalize their approvals.

President Boric initially opposed ratifying the CPTPP due to opposition among his supporters to provisions on genetically-modified crops and protection for foreign investors. However, he signed the agreement into Chilean law after it was approved by Congress in December 2022.

The CPTPP represents a landmark achievement for the United Kingdom as it is the first trade agreement the country has joined since leaving the European Union in 2020.

Covering a combined population of almost 600 million people and encompassing economies with a Gross Domestic Product of approximately US$15.8 trillion, the CPTPP is one of the world's largest trade blocs, behind the EU, the United States-Canada-Mexico Agreement and Asia's Regional Comprehensive Economic Partnership in terms of size and scope.

By joining the CPTPP, the UK gains access to reduced tariffs with other member countries while the rules of origin provisions will offer UK businesses greater flexibility for sourcing intermediate goods. The deal also aims to facilitate investment between CPTPP countries allows businesses to compete on equal terms in each other's government procurement markets and makes it easier for UK business professionals and their dependents to live and work in Chile.

Chile's current account deficit grew to US$3.1 billion in the third quarter of the year, equivalent to 3.9% of GDP, up from US$2.4 billion in the second quarter but down from US$5.3 billion in the same period of last year. The fall from a year ago was driven by the expansion of Chile's trade surplus, especially the rise in minerals exports.

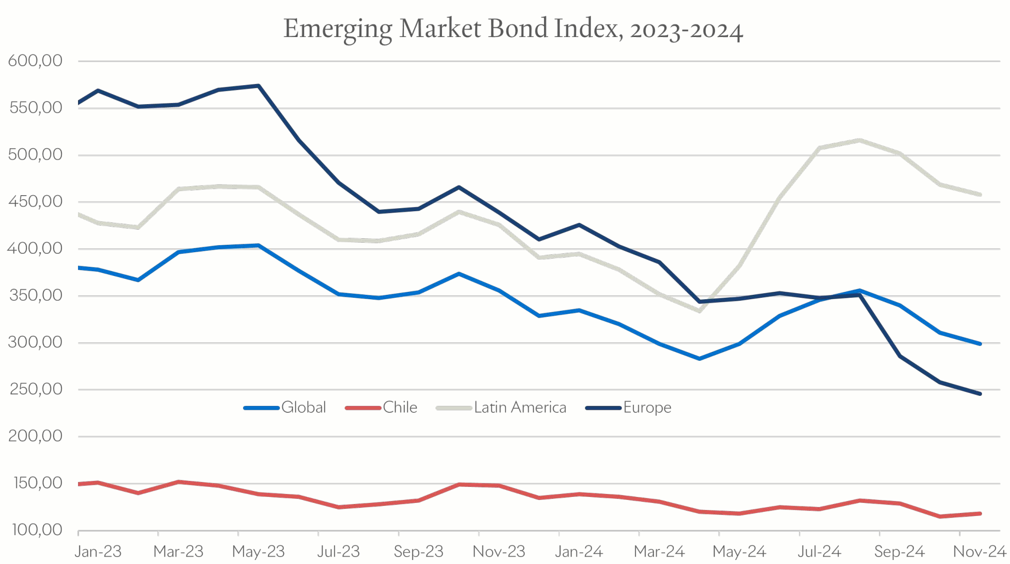
In December, the Central Bank predicted that the current account deficit would shrink to US$7.8 billion in 2025, down from an estimated US$11.9 billion in 2024, as the country's trade surplus grows to US$21.6 billion.

Chile's financial account recorded a deficit of US$4.3 billion in the third quarter, down from US$8.0 billion a year ago and US$5.1 billion in the previous quarter. The decline reflected increased investments abroad by Chileans, especially the acquisition of foreign shares by pension funds.

Chile's international debt rose to US$254.4 billion by the end of September, up US$10.8 billion from three months earlier and equivalent to 76.1% of GDP. The increase was led by the government (through the issuance of new bonds) and nonfinancial corporate debt (largely new loans).

Chile's Net International Investment Position grew to a deficit of US$64.2 billion by the end of September, up US$3.8 billion from the previous quarter, reflecting the expansion of the country´s international debts and the impact of the stronger US dollar on the value of direct investments into Chile.

Country Risk



Source: JP Morgan

Chile's risk premium has continued to decline. JP Morgan's Emerging Market Bond Index fell to 118 points in November, down from 148 points twelve months earlier. This marks a divergence from the index for Latin America as a whole, which rose sharply during 2024, largely on fiscal concerns in Brazil and Mexico.

CLP USD, 2022-2024

Source: Central Bank of Chile

The Chilean peso depreciated by more than 10% against the US dollar during the final quarter of the year, trading around CLP1,000/dollar by late December. The drop mirrors the fall in copper prices since October, growing geopolitical risks as well as concern over the impact of president-elect Donald Trump's protectionist trade policies on the global economy. Analysts surveyed in early January by the Central Bank forecast that the exchange rate would appreciate to around CLP 950/dollar by the end of 2025.

CLP vs EUR GBP USD, 2020-2024

Source: Central Bank of Chile

The Chilean peso has suffered similar depreciations against other major currencies including British Sterling, the Euro and the Chinese yuan.

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CÁMARA
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Quarterly Insight:
Trump, trade, what next?

3

The return of Donald Trump to the White House has the world on edge.

Following the Republican Party's clean sweep of the US Congress in November's election and with a team of loyalists lined up to take over the levers of government, the former president is expected to face fewer obstacles to shaking up US and global politics than he did in his first term in office.

That could mean sweeping change in wide areas of public policy, from immigration and financial regulation to global geopolitics and international trade.

Domestically, Trump's promise to slash taxes in the US, without any corresponding spending cuts, would further increase the US federal debt which is already at almost its highest level (relative to GDP) since World War Two. This could unsettle financial markets further. Already, the value of gold and the US dollar have soared as investors seek refuge from turbulence.

Higher inflation could also force the Federal Reserve to slow the loosening of monetary policy or even to implement interest rate hikes, triggering further shocks.

It is also unclear how the new president's foreign policies, including a détente with Putin's Russia and a more aggressive stance with China, will pan out.

Chile's economy is already being impacted by the coming storm.

Since Trump's re-election, the value of the peso has fallen to around CLP1,000/dollar, threatening a new surge in inflation during the early part of 2025, while the price of copper, its principal export, has fallen by more than 10% to under US$4.00/lb, pressuring government finances.

But the biggest impact of Trump's policies is likely to be seen in international trade where the president plans to use steep import tariffs to revive domestic manufacturing.

Since his election, he has proposed imposing a blanket 10% tariff on all imports into the US, a 60% tariff on imports from China and additional measures against Canada and Mexico unless they curb immigration and drugs smuggling.

Thanks to the 2003 Free Trade Agreement, Chile is unlikely to be subject to new tariffs on its exports to the US, which reached US$15.5 billion in 2024. These are largely natural resources - copper (32%), salmon (17%) and fresh fruit (9%), - that pose little threat to Trump's reshoring agenda.

However, if his protectionist policies ignite a general trade war, the resulting slowdown in global economic activity could harm Chile´s small and open economy.

Chile's trade relationship with China - its largest trade partner and the primary buyer of key exports such as copper, lithium, pulp, and cherries - would be particularly vulnerable.

A significant downturn in China's economy could weaken Chilean exports, dampen growth, and stymie investment, leading to job losses. Lower copper prices might strain government finances and slow vital mining investments, which the authorities are hoping will drive economic growth this decade.

Since Trump's first term, Chile has sought to diversify its export markets, implementing the Trans-Pacific Partnership, enhancing its agreement with the European Union and seeking a larger deal with fast-growing India.

But these would do little to compensate for a slump in China or a slowdown in global trade.

Trump's stance on climate change and fossil fuel development adds another layer of complexity.

While withdrawing US support for global climate initiatives might shift clean energy investments to Chile—particularly green hydrogen projects in Magallanes—it could also slow the global transition to clean energy. This, in turn, would dampen demand for Chile's critical minerals, such as copper and lithium, harming the mining industry.

Like the rest of the world, Chile will be watching anxiously how far the new president goes in fulfilling his promises.

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Political Context

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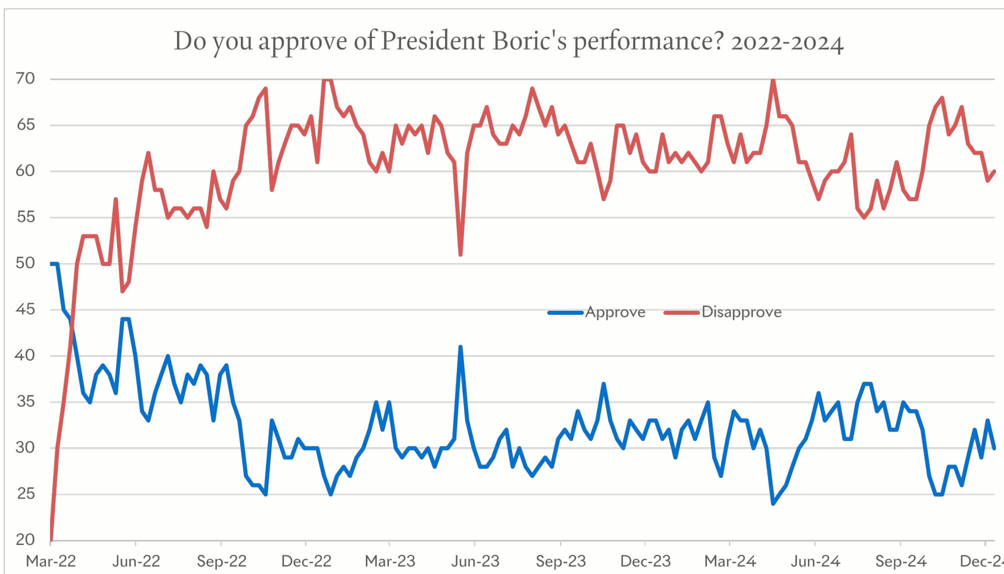
The government and its supporters suffered significant losses in municipal and regional elections in October and November, losing more than 40 mayors and six regional governors. Opposition parties (centre-right Chile Vamos and conservative Republicanos) together received 42% of the votes cast (in the regional elections) while government parties received just 36%.

However, the opposition did not perform as well as expected, especially in major cities. Centre-left independent Claudio Orrego was re-elected governor of the Metropolitan Region, while government mayoral candidates won in Valparaiso and Viña del Mar.



Source: Cadem

Support for the government slumped ahead of the elections following the resignation of Deputy Interior Minister Manuel Monsalve over a rape accusation. However, after falling to 25% in mid-November, approval of President Boric recovered to over 30% by late December.

Monsalve, who had been leading the government's law and order agenda, was jailed while the accusations (brought by a former aide) are investigated. President Boric appointed Justice Minister Luis Cordero to replace him.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Government and opposition senators are struggling to reach agreement over President Boric's flagship pensions reform ahead of a February deadline agreed last year. Under the proposal, future pensions would be boosted by a new 6% contribution from employers, but lawmakers cannot agree what proportion should diverted from workers' individual savings accounts to support low-income pensioners. If approved by the Senate, the legislation would have to return to the Chamber of Deputies before it can be signed into law.

Science Minister Aisén Etcheverry replaced Camila Vallejo as Cabinet Spokeswoman during her parental leave. In December, President Boric announced that he will become a father this year with his new partner.

Having stepped down as mayor of Providencia, Evelyn Matthei officially launched her campaign to become the presidential candidate of the Chile Vamos bloc. She continues to lead the polls attracting 22% of spontaneous responses, followed by Republicanos leader Jose Antonio Kast (14%) and former president Michelle Bachelet (6%).

It is still unclear who the government will field in next year's election. Bachelet has so far ruled herself out of the race, while support for other potential candidates such as Interior Minister Carolina Tohá and Cabinet Spokeswoman Camila Vallejos remains low.

Reforming Congress

Alongside pensions, taxation and law and order, Chile's legislators are debating another issue close to their hearts: how they get elected.

The last reform of Congress took place a decade ago when President Michelle Bachelet did away with the controversial binominal system. That mechanism, in place since the return to democracy in 1990, saw the two highest-voted candidates from each district or region elected. As its designers intended, the system ensured a tight balance of power in Congress, forcing the government to negotiate any reforms with the opposition. But critics called it undemocratic.

To improve representativity, Bachelet introduced a system of proportional representation to elect legislators, with up to eight candidates returned from each district selected using the D'Hondt method and open party lists.

The change had a radical impact on politics, allowing the incorporation of new political forces into Congress and a significant increase in the number of female legislators.

But allowing a wider range of views into the debate has complicated the dealmaking necessary for a government to push its legislative programme through Congress.

Since 2015, the number of parties represented in Congress has risen from 15 to twenty-two today. Rules mean that lawmakers can change parties and pacts almost at will and ignore party discipline when it suits them.

The result of this fragmentation has been a sharp increase in political deadlock with successive governments struggling to win approval for their agenda. Take pensions as an example. Despite a widespread consensus for more than a decade that Chileans need to save more to avoid an impecunious old age, lawmakers have failed to approve the necessary reform of the pensions system.

Critics of the new electoral system had hoped that the constitutional process launched in 2020 would provide an opportunity to introduce some much-needed corrections. But those hopes were dashed after voters rejected two constitutional proposals in referendums in 2022 and 2023.

Lawmakers have now been discussing their own reform to their place of work. In December, an alliance of government and opposition senators unveiled a reform which they hope could go some ways amending the current gridlock. Their draft bill would require parties to secure at least 5% of the national vote to win a seat and prevent legislators from changing parties mid-term.

But the proposal has been rejected by legislators from smaller parties which could be forced to merge with rivals under the plan or disappear from Congress.

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Economic Outlook

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The Chilean economy is experiencing a period of moderate growth but faces several challenges, including rising inflation, a slowdown in household consumption and growing external risks.

Inflation is expected to rise again in the coming months, driven by the stronger US dollar, adjustments to electricity tariffs, and rising wages. The Central Bank forecasts that the Consumer Price Index (CPI) could reach 5.0% in the first half of 2025, before easing to 3.6% by the end of the year, followed by a return to its medium-term target of 3.0% by early 2026.

This inflationary pressure is likely to delay further cuts in the benchmark interest rate, with analysts predicting that it will only fall to 4.50% by the end of 2025. As a result, borrowing costs for households and businesses will remain relatively high in the near term, dampening investment and consumption.

Consequently, the Central Bank is forecasting economic growth of just 1.5-2.5% over the next two years as household consumption slows and investment rises only moderately.

Private investment (expected to increase by 3.6% in 2025) will be driven primarily by the mining sector. This growth will be largely concentrated in major projects such as Antofagasta Minerals' Nueva Centinela, Freeport-McMoRan's El Abra, and Anglo American's Los Bronces Integrado. However, the timing of these investments will depend on the speed of permitting, which the government is working to expedite, and the continued strength of copper prices (which have fallen in recent months).

Economic Forecasts, 2025	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	1.5-2.5	2.6	2.1
Inflation (% annual variation)	3.6	3.9	3.8
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	4.50
Exchange rate (pesos/US$)	NA	928	950 4/
Copper price (US$/lb)	4.20	4.15	NA

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

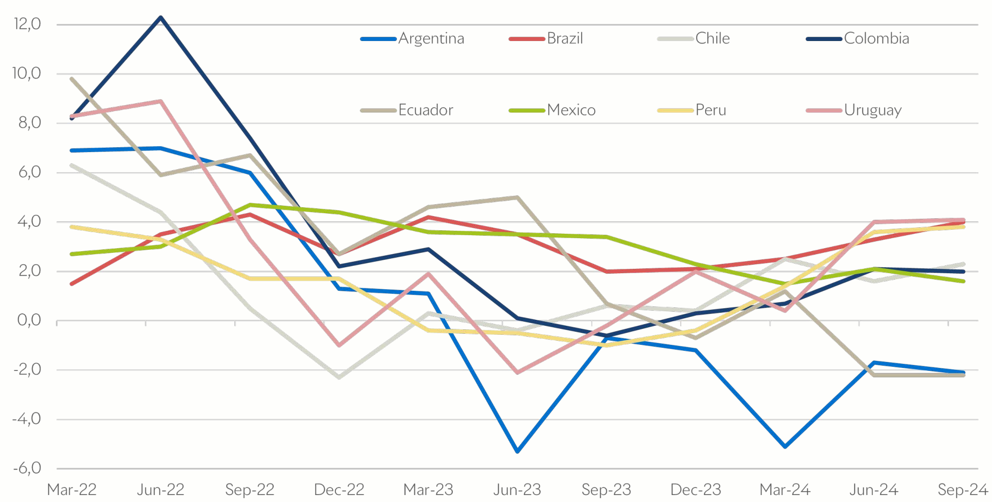
External geopolitical risks also pose a significant threat to Chile's economic outlook. Ongoing conflicts in Ukraine and the Middle East, as well as tensions in the South China Sea, could escalate, potentially destabilizing financial markets and driving up food and energy prices. Additionally, US President Donald Trump's threat to impose steep tariffs on imports could undermine growth in China, Chile's largest trading partner, and spark a broader trade war, which would likely slow global economic activity.

At home, attention is shifting to next year's presidential and legislative elections. While opposition candidates have led in the polls for more than two years, the outcome remains uncertain. Unlike the 2021 elections, the debate is expected to focus on measures to accelerate economic activity and job creation and tackle rising crime and illegal immigration. The next administration's success will largely depend on whether it can gain control of both the fragmented Congress and the executive branch.

Latin America
Regional News

6

Latin America Quarterly GDP, annual change %, 2022-2024



Source: Trading Economics

Argentina: President Javier Milei's radical policies to correct the economy reduced monthly inflation to less than 2.5% in December, while activity has continued to contract. Despite a rise in unemployment and poverty levels, polls suggest that more than half of Argentineans continue to support the president.

Brazil: The Brazilian Real lost almost 20% of its value in 2024 against the US dollar amid investor concern over the government's fiscal policies and forcing the Central Bank to hike interest rates by 100 basis points to 12.25%. Growth is set to slow to 2.0% in 2025, down from an estimated 3.5% in 2024.

Colombia: Economic growth is expected to improve in 2025 and 2026 as rising wages, falling inflation and lower interest rates bolster household demand. President Gustavo Petro is planning to slow government spending after Congress rejected a US$2.8 billion tax hike.

Ecuador: The economy has contracted for two consecutive quarters after a major drought forced the government to implement rolling power cuts. Support for President Daniel Noboa fell to below 40% in December, down from 80% in February when he faced down rising violence from drug gangs.

Mexico: Economic activity is expected to slow amid uncertainty under President Claudia Sheinbaum's proposed reform of the judiciary, public spending cuts and potentially new tariffs on exports to the US.

Peru: The economy is expected to grow 3% in 2024 despite the political deadlock as interim President Dina Boluarte resists congressional pressure to stand down early.

Uruguay: Yamandú Orsi from the centre-left Frente Amplio won the presidential election in a run-off vote against government candidate Álvaro Delgado. IMF has predicted growth of 3.0% in 2025 driven by a strong agricultural harvest.

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