

Monthly Economic Update

December 27-th, 2024

Political Developments

Government and opposition senators are nearing an agreement on the government's flagship pension reform. The proposed deal would allocate most of the new 6% employer contribution to workers' individual savings rather than directing it to low-income workers. Lawmakers aim to finalize the agreement before the February summer recess.

Senators from both major political parties in Congress have unveiled a proposal to reform the electoral system. The plan seeks to limit the number of political parties and facilitate legislative deal-making by requiring parties to secure at least 5% of the national vote to win a seat. The proposal has faced opposition from lawmakers in smaller parties.

The government suffered significant setbacks in regional gubernatorial elections, the second round of which took place on November 24th. The number of opposition governors rose from one to six while government supporters fell from 15 to 9. However, centre-left independent Claudio Orrego was re-elected as governor of the key Metropolitan Region, defeating the opposition candidate in the run-off.

Support for the government has strengthened in recent weeks but remains low. President Gabriel Boric's approval rating rose to 32% in early December, marking a 7-point increase over the past two months.

In recent polling, veteran centre-right politician Evelyn Matthei, who stepped down as Mayor of Providencia in December,

remains the preferred presidential candidate with 26% of support, followed by far-right leader José Antonio Kast (8%) and former centre-left president Michelle Bachelet (7%). 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.

Economic Data

Economic activity grew by 2.3% in October, matching the growth rate recorded in the third quarter. The expansion was primarily driven by increased mining output (notably higher copper production) and stronger retail activity.

In its December Monetary Policy Report, the Central Bank maintained its growth forecast for 2025 and 2026 at 1.5-2.5%, down slightly from the 2.3% forecast for 2024. Growth in 2025 is expected to be driven by a 3.6% increase in investment (lower than the 5.1% forecast in September) and a 1.8% rise in household consumption.

Inflation has slowed in recent weeks. In November, the Consumer Price Index rose by just 0.2%, bringing annual inflation down to 4.2%, compared to 4.7% in October and 4.8% a year ago. This decline is largely due to easing energy and food prices, which rose by 4.4% over the year to November, down from 5.4% in October.

However, in December, the Central Bank warned that inflation could rise to as high as 5.0% in the early months of 2025, driven by a weaker Chilean peso, higher electricity tariffs, and rising labour costs. However, the Bank forecast that the index would decline to 3.6% by December 2025, returning to its medium-term target of 3.0% by early 2026.

The Central Bank continued to ease monetary policy, though at a slower pace than earlier in the year. On December 18th, it voted unanimously to reduce the benchmark interest rate by 25 basis points to 5.00%. The prospect of higher inflation in the coming months may delay further rate cuts.

Unemployment averaged 8.6% in the three months to October, slightly lower than the 8.7% in the previous rolling quarter and 8.9% a year earlier.

Business confidence has stabilized but remains in negative territory. The Monthly Business Confidence Indicator, compiled by Adolfo Ibáñez University and the ICARE business organization, stood at 42.19 points in November (excluding volatile mining data), unchanged from five months earlier.

Consumer confidence has remained very low but showed signs of recovery in the second half of the year, with GfK's Economic Perceptions Index reaching 32.3 points in November, a 4-point increase over the past six months.

The Chilean peso has depreciated by more than 10% against the US dollar in the final quarter of the year, trading near CLP 1,000

per dollar by mid-December. This decline reflects the fall in copper prices, rising geopolitical risks, and the potential impact of US trade policies under president-elect Donald Trump on the global economy.

International copper prices have stabilized at around US\$4.00/lb after a 10% drop since late October. The decline reflects concerns that US-imposed tariffs could slow growth in China, the world's largest consumer of copper.

Chile's trade surplus reached US\$19.7 billion during the first eleven months of the year, a 45.9% increase from the same period in 2023. Exports rose by 4.7% to US\$90.7 billion, driven by higher shipments of agricultural and mineral products, while imports fell by 2.9% to US\$80.0 billion, primarily due to a decline in capital goods imports.

The Chilean stock market has experienced a rally in recent weeks, driven by the depreciation of the Chilean peso. The IPSA index, which tracks the 30 largest companies listed on the Santiago Stock Exchange, surged to nearly 6,800 points in December, approaching previous record highs before retreating after the Central Bank's warning about rising inflation.

The mining sector has continued to recover from last year's output slump. Copper production in the first ten months of 2024 reached 4.5 million tonnes, a 3.8% increase from the same period last year, driven by higher output from both private mines and state-owned Codelco.

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