

CHILEAN ECONOMIC REPORT

THIRD QUARTER 2021

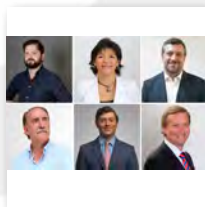
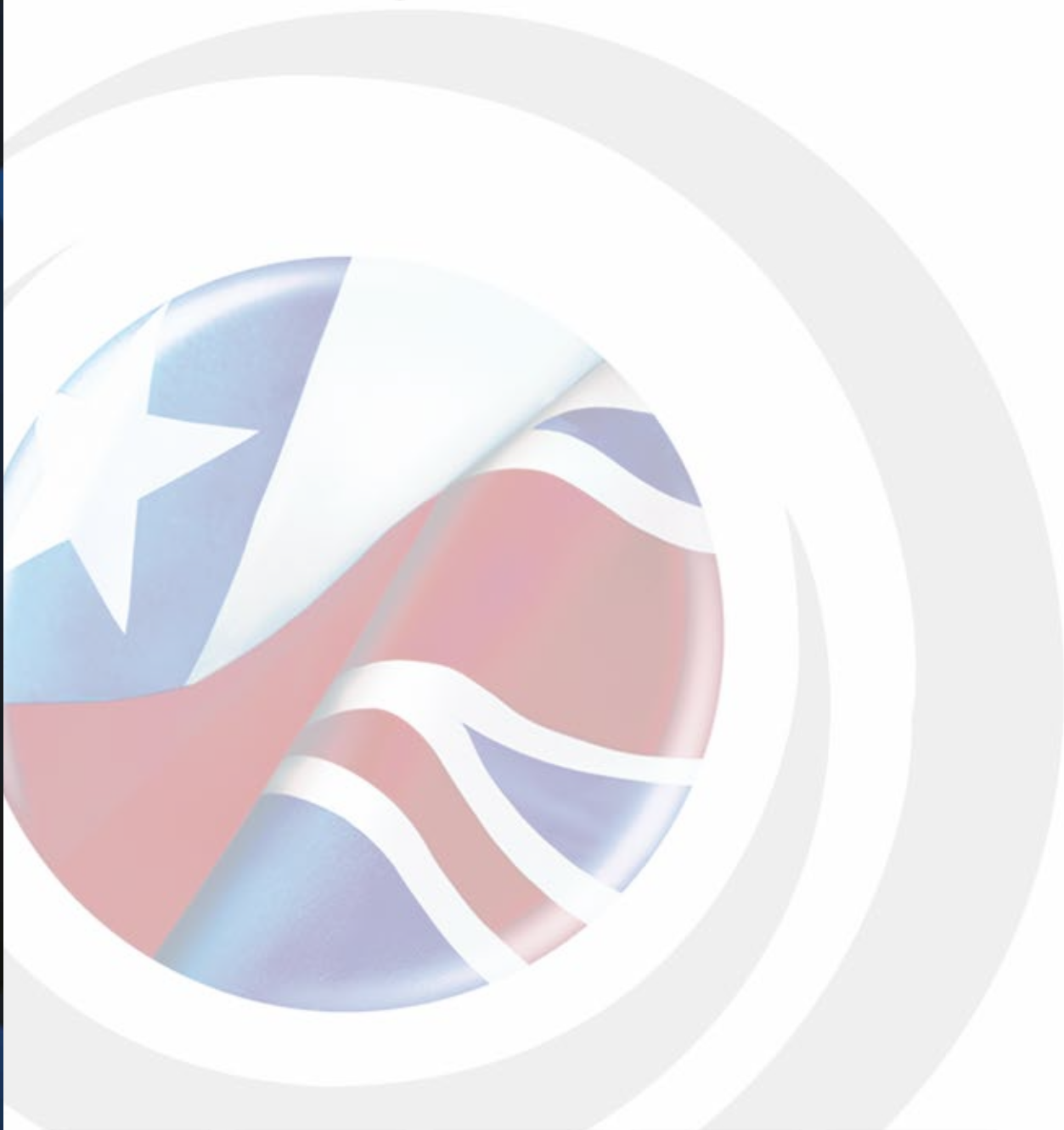
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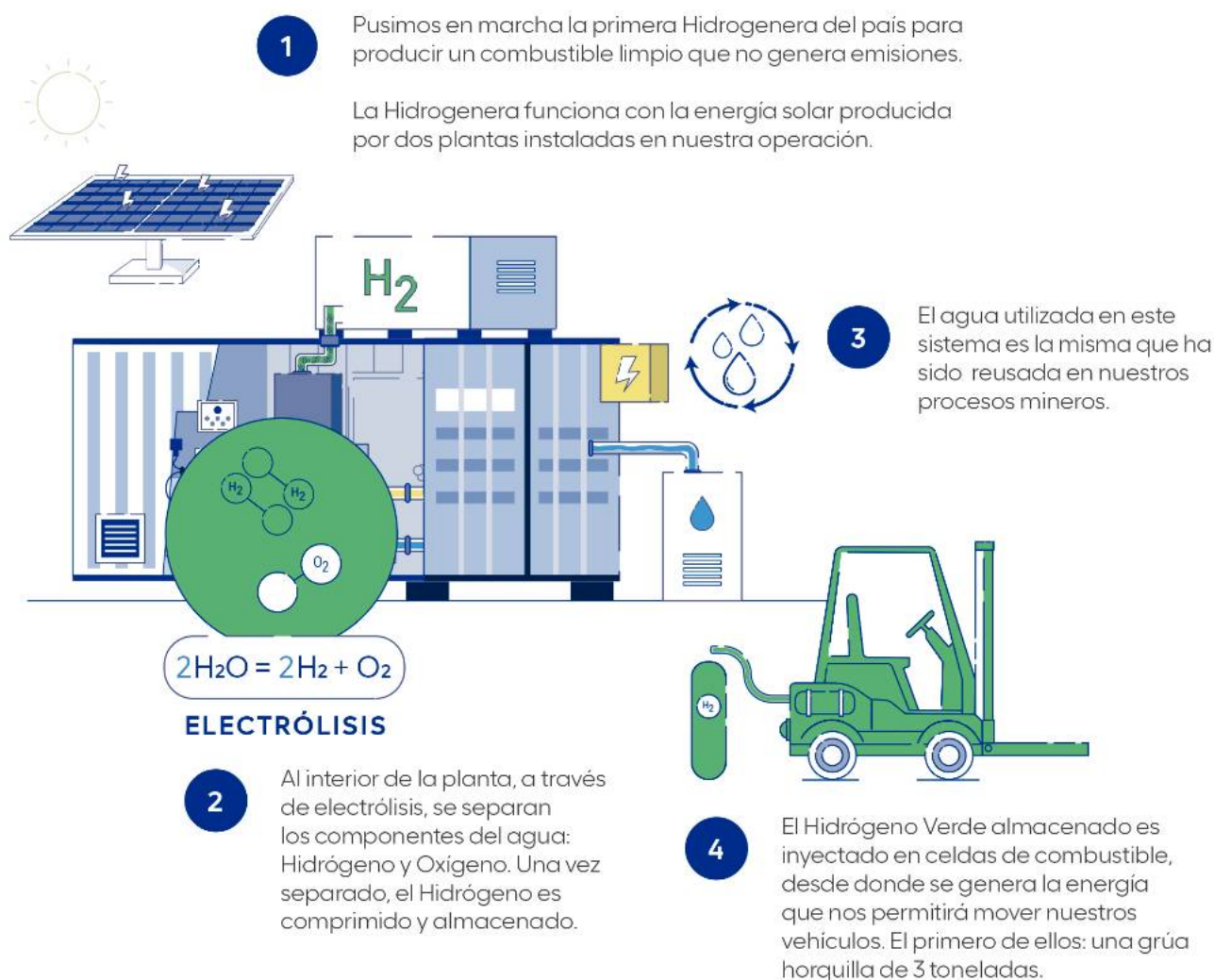
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Dear Reader,

In the run up to the 18th of September Independence Day celebrations it is great to see the whole of Chile out of quarantine and life getting back to some sort of normality. Chile has done a remarkable job with its vaccination program; more than 70% of the population are fully vaccinated which puts Chile 7th in the world rankings and very close behind countries like Singapore and Denmark. There is some nervousness about the impact of the Delta variant, and there is bound to be a significant lowering of the social distancing protocol during the “fiestas patrias”



celebrations, but COVID-wise things are looking very positive here right now.

There has also been a faster than anticipated recovery in the economy, with all the metrics showing record levels of growth driven by the huge injection of cash from pension withdrawals and fiscal transfers. So, unemployment is down, wages are up, imports of consumer goods are at record high levels, and inflation is on the rise. All this is causing concern about the economy overheating, and in response the Central Bank hiked its benchmark interest rate by 75 points in August and with more rises probable during 2022.

*Greg Holland
General Manager
British Chilean Chamber
of Commerce
Santiago, Chile*

There is a high level of uncertainty about how the presidential elections will turn out in November. There are currently 6 candidates remaining in the race, which is being led by candidates whose positions range from the left to the centre right. This, along with the unknown outcome of the work being done by the constitutional convention is contributing to the depreciation of the peso against the US dollar in the last few months.

We will do our best to bring you all the relevant information and analysis during this period of great change and uncertainty. And finally, Felices Fiestas to all our Chilean readers.

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KEY POINTS



- The Chilean economy has recovered to pre-pandemic levels faster than expected, driven by pension withdrawals and fiscal transfers. Growth will exceed 10% this year but is expected to slow dramatically in 2022 and 2023 as spending and investment decline.
- Consumer prices rose by 4.8% in the year to August, their highest rate in five years. Boosted by strong domestic demand, high energy prices and disrupted global supply chains, inflation could reach 5.7% in December and remain above 5.0% through much of 2022, the Central Bank has warned.
- Concerned that the economy risks overheating, the Central Bank raised its benchmark interest rate by 75 basis points to 1.50% in August, its largest hike in two decades, and said that it will raise the rate to around 3.5% in early 2022.
- Government spending is set to rise by more than a third this year after President Sebastián Piñera extended the Emergency Family Income until December, financed by more withdrawals from sovereign wealth funds and government debt.
- The unemployment rate fell to 8.9% in July, its lowest level since the start of the pandemic, as the number of people in work began to rise again for the first time since the first quarter. Wages have risen rapidly as employers struggle to fill vacancies.
- Imports have soared to their highest level in a decade, driven by imports of consumer durables, fossil fuels, and capital goods and pushing Chile's current account back into deficit.
- The Chilean peso has depreciated by 11% against the US dollar since May, reflecting the fall in copper prices as well as concern about growing public spending, the constitutional process, and the upcoming elections.
- Left-wing deputy Gabriel Boric, centre-left senator Yasna Provoste and centre-right former minister Sebastián Sichel are leading the polls in Chile's most uncertain presidential elections in a generation.
- The decade-long drought has worsened. Chile is facing higher energy prices, a fall in farm output, and an increased risk of forest fires after recording one of hottest and driest winters on record.
- In July, the Constitutional Convention began work on drafting Chile's new constitution, electing indigenous activist and academic Eliza Loncón as its president and calling for the release of prisoners detained during the 2019 social unrest.
- Despite warnings that it could trigger a financial crisis and more inflation, lawmakers are advancing legislation to allow savers to make a fourth withdrawal from their individual pension accounts.

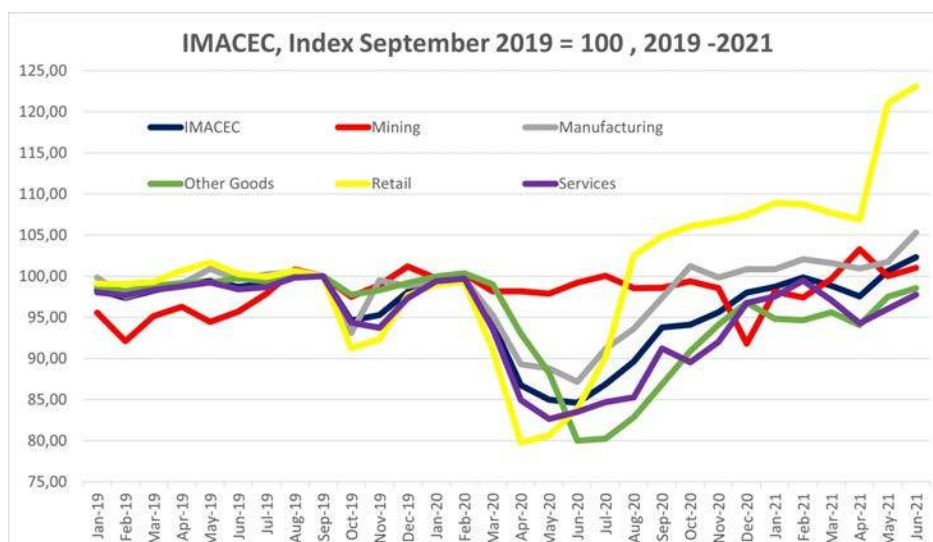
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DOMESTIC ECONOMIC



1.1 Economic Activity

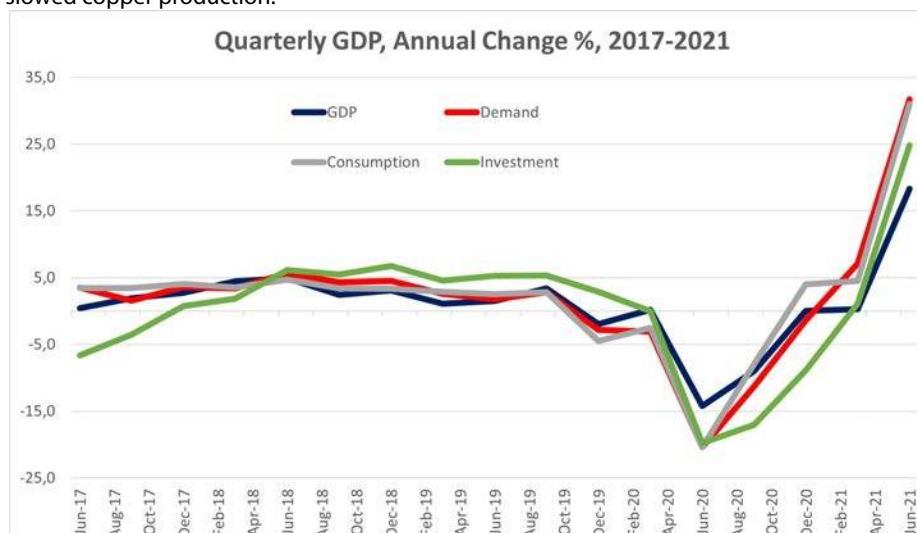
The Chilean economy has recovered rapidly this year, surpassing pre-pandemic levels of activity, driven by favourable external conditions, increased household liquidity, and the adaptation of businesses and households to social-distancing rules. The Central Bank's Monthly Economic Activity Index (IMACEC) showed that the economy expanded by 18.1% in the year to July, exceeding market expectations and matching the growth achieved in the second quarter.



Source: Central Bank of Chile

Activity remains uneven between different sectors. Boosted by pensions withdrawals and the expansion of government aid to households, retail activity grew by 43.5%, reflecting July 2020's very low base of comparison when the first lockdown was at its height and even exceeding levels of activity seen before the 2019 social unrest. Services grew 15.6%, led by business and personal services, especially healthcare, and, to a lesser extent, tourism and transport.

Even sectors which had lagged the rest of the economy have begun bounce back with production of other goods growing by 20.1% in July, reflecting the recovery in construction. However, mining contracted by 1.9% as pandemic-related restrictions and low ore grades slowed copper production.



Source: Central Bank of Chile

The rise in economic activity has been spurred by the recovery in both consumption and investment from very low levels last year.

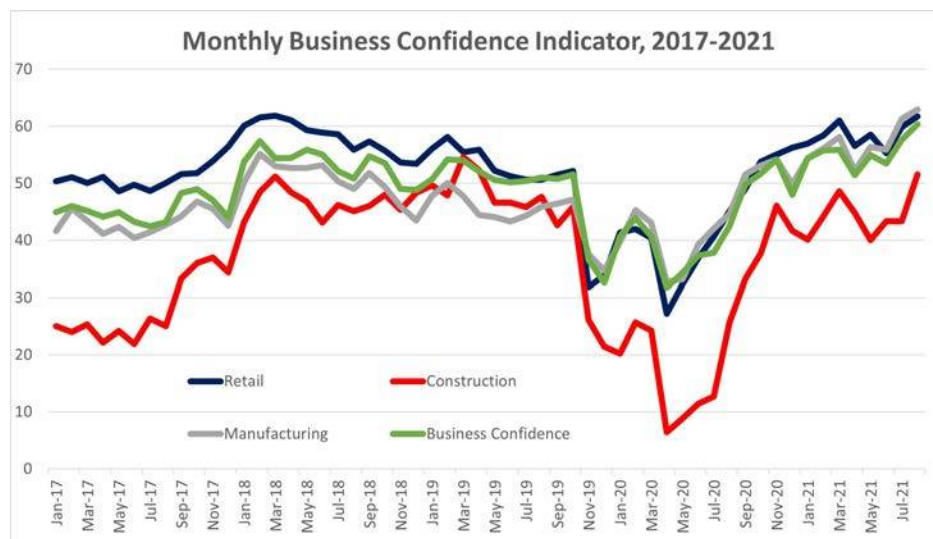
Consumption rose by 31.0% in the second quarter, driven largely by a huge expansion in spending on durable goods (which reached around 50% above levels seen before the 2019 social unrest).

In September, the Central Bank said that high levels of household liquidity suggest that private consumption will continue to drive economic activity over the coming quarters. Funds in current and saving accounts rose by US\$23.0 billion in the year to July while another US\$9.0 billion have accumulated in fixed-term savings deposits and other instruments. However, consumption is expected to slow dramatically once these resources are depleted, growing by just 0.5% in 2022 and 2023.

Investment grew by almost 25.0% in the second quarter, driven largely by spending on machinery and equipment which rose by almost 50%, reflecting demand for intermediate goods and the commissioning of renewable energy projects. In contrast, spending on construction grew by just 13.1% (and remains below pre-unrest levels).

However, investment is expected to slow dramatically in 2022 and 2023 (to around 0.5% annually), according to the Central Bank, due to the limited number of new projects in development, higher borrowing costs, and increased political uncertainty.

As a result, after growing by more than 10% this year, the Central Bank expects the Chilean economy to grow by just 1.5-2.5% in 2022 and 1.0-2.0% in 2023.



Source: Adolfo Ibáñez University, ICARE

Business confidence has continued to recover, reflecting the expansion in economic activity, the easing of the pandemic and social-distancing rules, and favourable external conditions. In August, the Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and the ICARE business organization, reached 60.35 points, its highest level in nine years and up more than ten points since the end of last year. Confidence in the construction sector, which has lagged the rest of the economy, moved back into positive territory in August for the first time since April 2019.



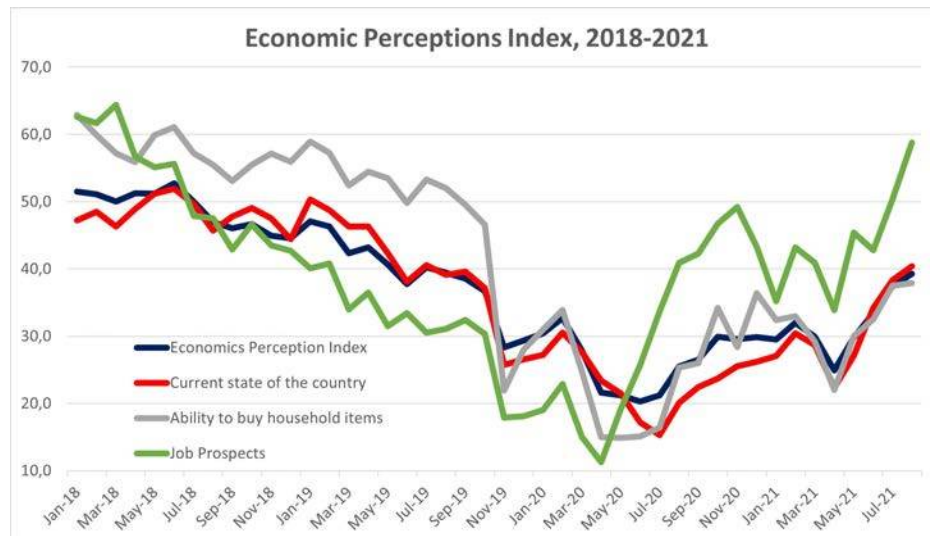
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Consumer Confidence

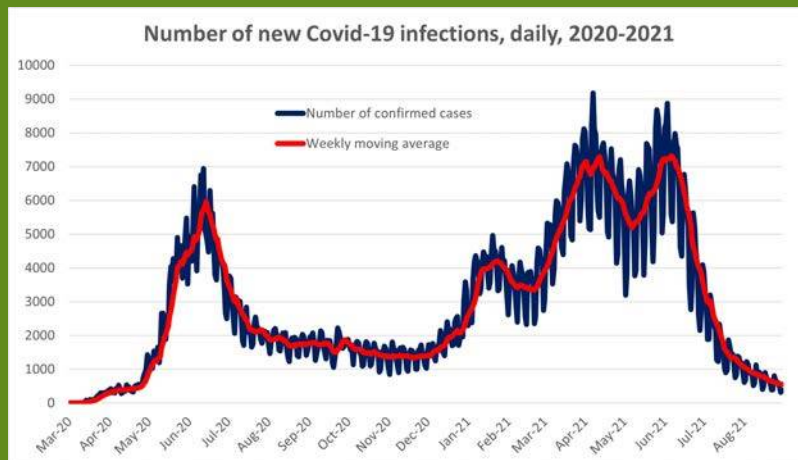


Source: GfK

Consumer confidence has also improved but remains at historically low levels. GfK's Economic Perceptions Index reached 39.34 points in August, up almost ten points from the end of last year and its highest level in two years. Although consumers felt no better about their ability to buy household items, they were more confident about the state of the economy and their chances of finding work, the survey found.

The pandemic eases

The government has significantly rolled back social-distancing measures following the inoculation of most of the population against Covid-19 and a fall in the infection rate to its lowest level since May last year.



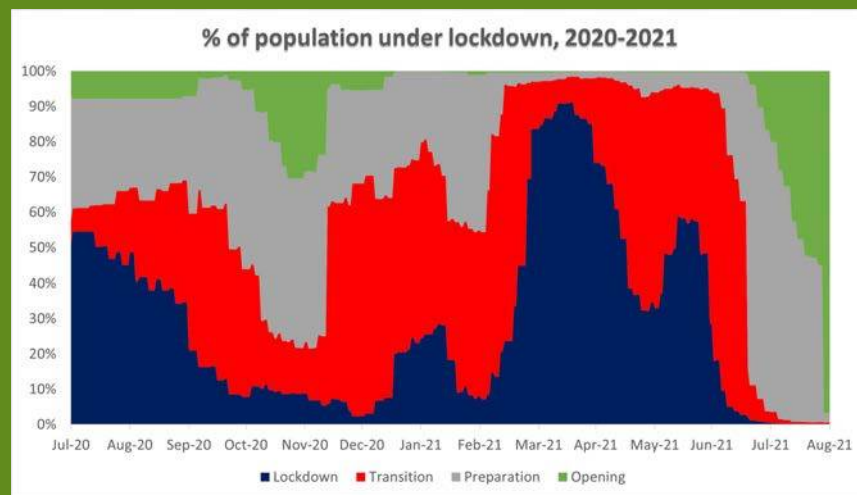
Source: Ministry of Health

The number of new infections has held below 1,000 a day since early August, down from over 8,000 a day two months earlier, while the number of deaths attributed to the disease fell to less than 1,500 in August, down from over 3,000 in June. The fall in the number of active cases has dramatically reduced the pressure on healthcare

services with the proportion of available intensive care beds rising to 17% by late August, up from less than 3% three months earlier, despite hundreds of intensive care beds being decommissioned.

The sharp decline follows the administration of both doses of the vaccines to more than 90% of the target population by the end of August.

In response, the authorities have moved most of Chile, including all of Santiago, to the lightest level of restrictions on movement, meaning that all businesses can open and up to forty people can meet in enclosed spaces (if they have received both shots). The government has also reopened the country's borders, allowing vaccinated Chileans and residents to travel freely abroad again for the first time in almost four months (although they must still undergo seven days' quarantine upon their return).



Source: Ministry of Health

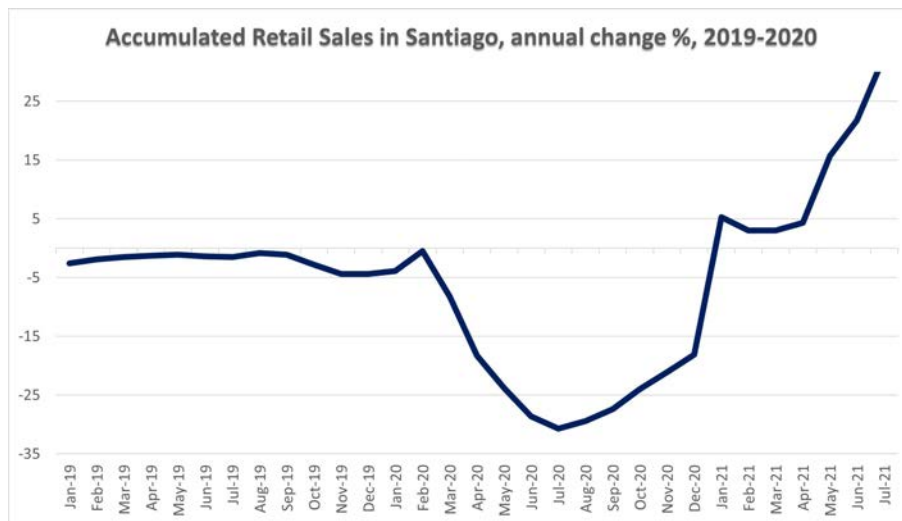
In Santiago, the curfew has also been put back by two hours to midnight, allowing bars, cinemas, and restaurants to stay open later. The easing of social-distancing rules bodes well for economic activity and employment during the second half of the year.

However, authorities remain highly vigilant for signs of an upsurge in cases, especially of the more virulent Delta variant which has triggered new waves of infections across Europe and North America. Having first appeared in Chile in June, just 262 cases of the variant had been detected by the end of August, representing less than 9% of total infections. Although there are examples of community contagion, most cases have been found among individuals who have recently arrived from abroad.

The experience of countries such as the UK and the US suggests the variant poses a risk to the more than 5.0 million individuals who have not yet received either shot of the vaccine (mostly teenagers and children). However, evidence that the Sinovac vaccine loses effectiveness after several months means that Delta could also threaten elderly and vulnerable patients who were vaccinated early in the government's inoculation program.

In early August, the government began to administer booster jabs of the UK-designed AstraZeneca vaccines to around two million individuals aged over 55 who received both shots of the Sinovac vaccine before March 31st. In addition, the authorities have kept Chile's borders closed to non-resident foreigners.

1.2 Key Sectors Retail



Source: National Retail Chamber

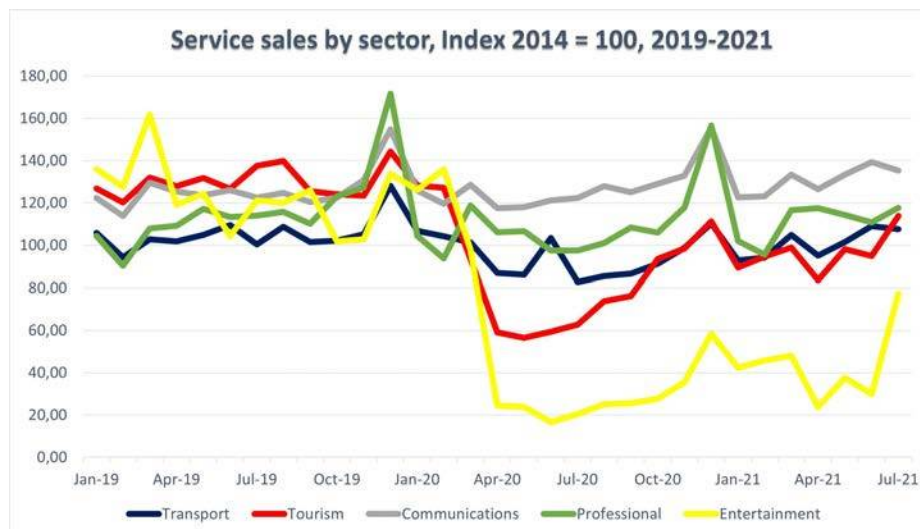
Driven by the relaxation of social-distancing rules, pensions withdrawals and the expansion of the Emergency Family Income, retail sales have risen far in excess of pre-pandemic levels.

Retail sales in greater Santiago more than doubled in July, compared to twelve months earlier, reflecting the almost complete shutdown of the sector at the height of last year's lockdown. They were also more than a third higher than the previous month of June and a fifth higher than the same month of 2019. The boom has affected all categories, but is most marked in non-essential goods, sales of which collapsed last year. While supermarket sales rose 16.6% compared to a year ago, sales of electrical goods almost quadrupled and clothing sales jumped thirteenfold (and were up 61.7% from July 2019).

According to the National Retail Chamber, although the extension of the Emergency Family Income will continue to drive consumption, sales are likely to slow considerably in the coming months, given the higher base of comparison in the second half of 2020.

Services

Service activity has also recovered strongly, especially personal services, which expanded by 36.3% in the second quarter. But due to the relatively recent easing of social-distancing rules, subsectors such as entertainment and tourism have yet to return to levels of activity seen before the pandemic or the 2019 social unrest.





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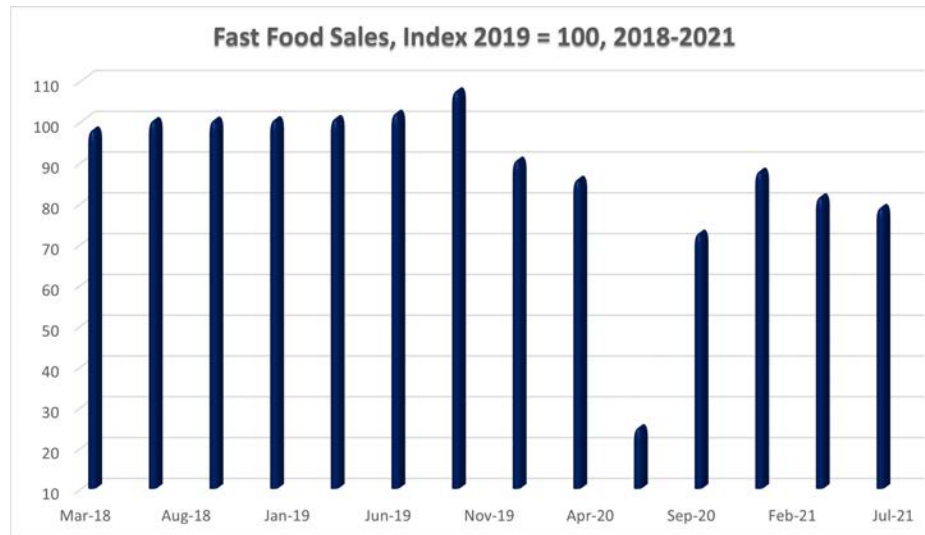
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For example, the fast-food sector has bounced back strongly from the collapse in sales suffered in the second quarter of last year (thanks to the explosion in the use of delivery apps) but has not yet recovered to levels seen at the end of 2020 before the second lockdown.

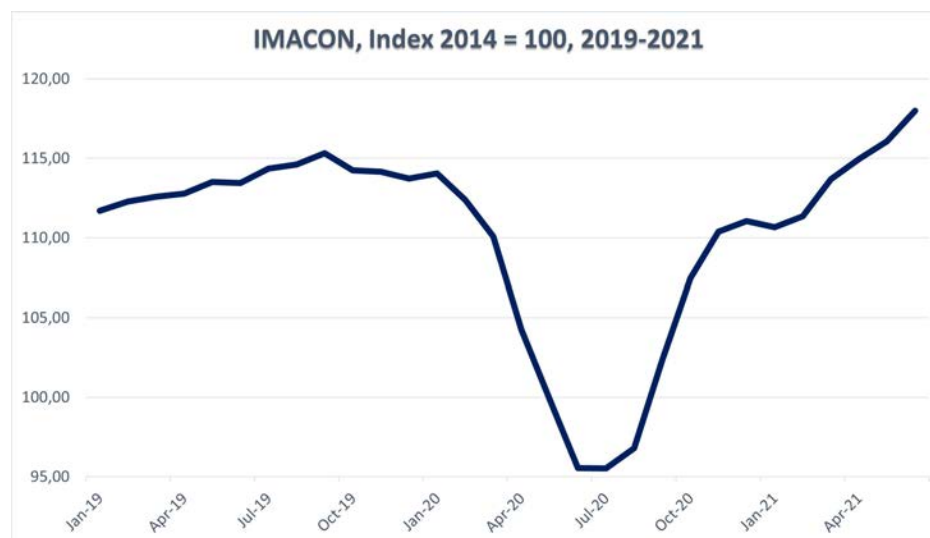


Source: National Retail Chamber

Manufacturing

Manufacturing output expanded by 11.0% in the year to July, reflecting the impact of the original lockdown on the sector last year. The expansion was driven in a large part by a rise in concrete production as construction activity recovers, as well as increases in clothing and food production.

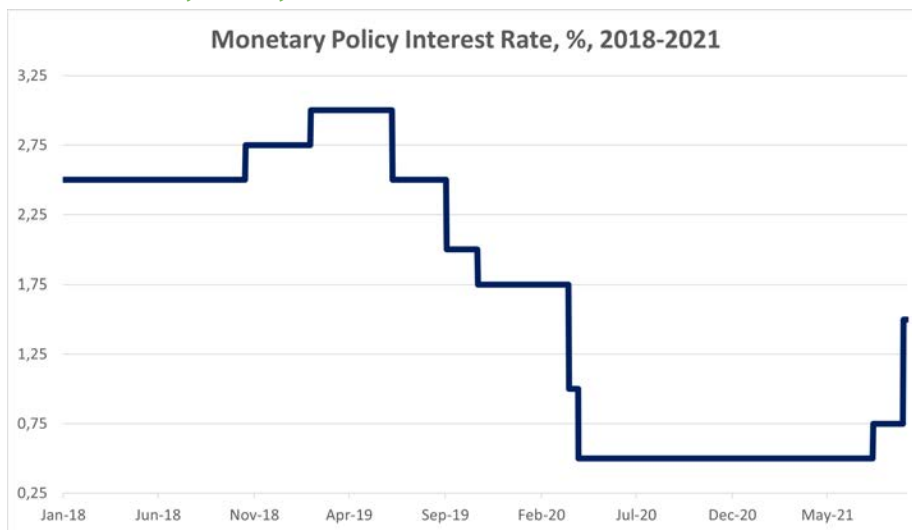
Construction



Source: Chilean Chamber of Construction

After lagging the recovery in the rest of the economy in recent quarters, construction has begun to approach pre-pandemic levels of activity. By June, the Chilean Chamber of Construction's construction activity index (IMACON) reached its highest-ever level (118 points), up from a low of 95.5 points last July, reflecting increased employment in the sector and the rise in sales of building materials.

1.3 Monetary Policy



Source: Central Bank of Chile

Concerned that the economy is at risk of overheating, the board of the Central Bank voted unanimously on August 31st to hike its benchmark interest by 75 basis points to 1.50%, its largest rate increase in almost two decades. It follows a 25 bp increase in July, the first move since the Bank slashed interest rates to 0.50% at the start of the pandemic.

The Bank said the move, the size of which took analysts by surprise, was necessary to ensure that inflation returns to its 3.0% target rate within its two-year horizon. Further increases over the coming months will lift the interest rate to a neutral position of 3.25-3.75% during the first half of 2022, the Bank added, much faster than the market had previously predicted. Traders surveyed ahead of the meeting predicted that the rate would reach just 2.50% by August 2022.

1.4 Fiscal Policy

Public spending has continued to soar this year as the government has expanded and extended fiscal transfers to support households during the pandemic.

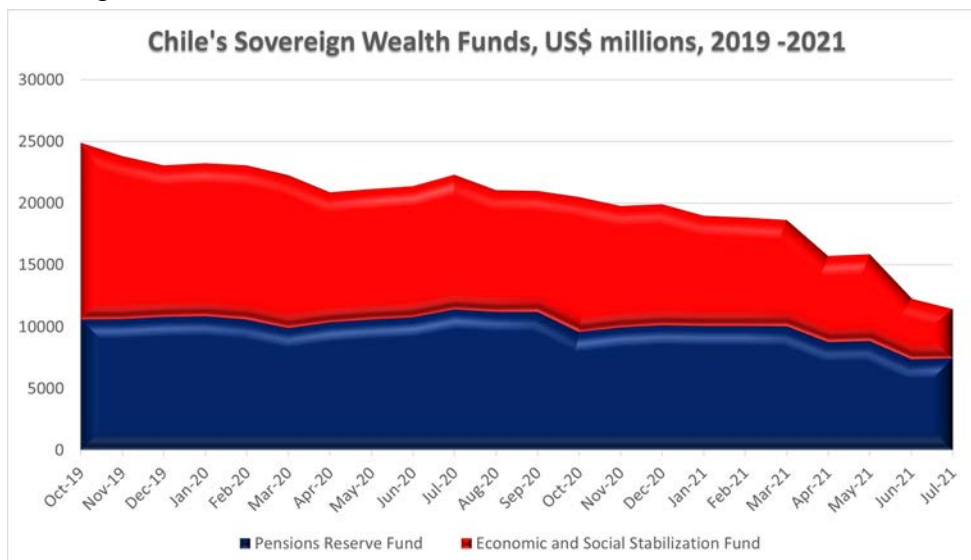
Following President Sebastián Piñera's decision in August to extend the payment of the Emergency Family Income until the end of the year, at a cost of around US\$7.0 billion, the Central Bank estimated that the government expenditure will rise by more than 35% this year to approximately CLP74.0 trillion (US\$94.7 billion). That is significantly ahead of the 9.6% increase approved by Congress late last year or the 27% increase predicted in the Budget Office's latest public finances report, published in July.

Although the government predicted in July that public revenues will rise 42.2% this year to CLP55.2 trillion (US\$70.7 billion) amid the sharp recovery in economic activity and higher copper prices, this will not be enough to cover the increase in expenditure and the public deficit is expected to exceed 7.0% of GDP for a second consecutive year.

To finance the expansion of public spending, the government has continued to issue debt and make withdrawals from the country's sovereign wealth funds.

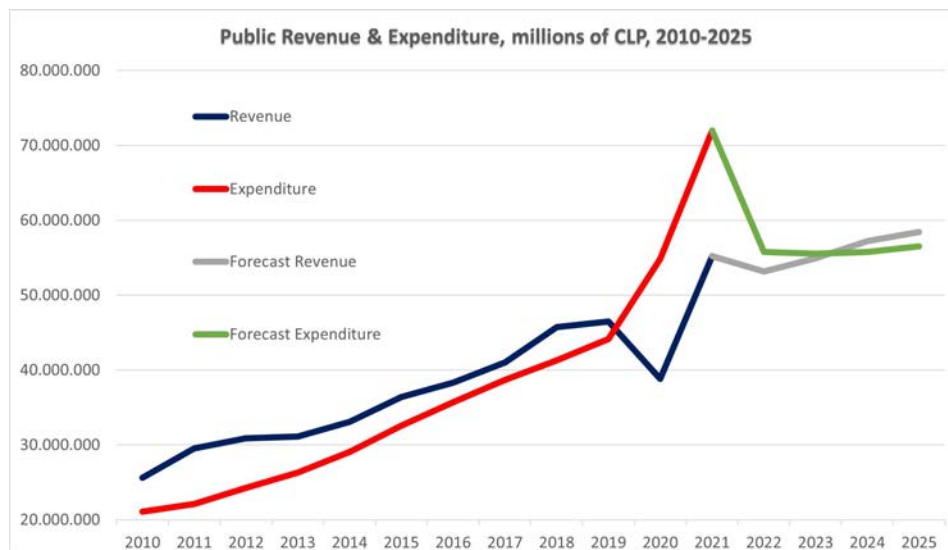
In July, the government issued bonds worth a total of US\$5.8 billion, bringing to US\$21.9 billion the amount raised in bond issues so far this year. They included US\$3.75 billion of US dollar-denominated 12-, 20- and 30-year bonds. The 30-year bonds achieve a spread of 140 points above US Treasury Bonds, compared to 127 points achieved in January this year.

Sovereign Wealth Funds



Source: Finance Ministry

After withdrawing a total of US\$3.75 billion from the Economic and Social Stabilization Fund during the second quarter, the Finance Ministry has withdrawn another US\$2.0 billion so far during the third quarter. The withdrawals reduced the value of the fund to US\$2.95 billion by the end of August, down from US\$8.9 billion at the start of the year and over US\$14.6 billion before the 2019 social unrest.



Source: Budget Office

Looking ahead, the government predicted that a future administration would put public finances on a more sustainable path, achieving a cyclically-adjusted fiscal deficit of approximately 1.0% of GDP by the middle of the decade. However, for this to occur, the incoming government would have to implement a punishing 22.5% reduction in public spending next year and then keep expenditure growth to less than 5.0% throughout its term in office.

However, the programs of the leading presidential candidates foresee significant increases in expenditure, rather than a spending freeze. Following the sharp rise in government debt and the decline in Chile's sovereign wealth funds during the 2019 unrest and the pandemic, they plan to finance their programs through increases in the tax burden worth between 3% (Sebastián Sichel) and 8.5% (Gabriel Boric) of GDP.



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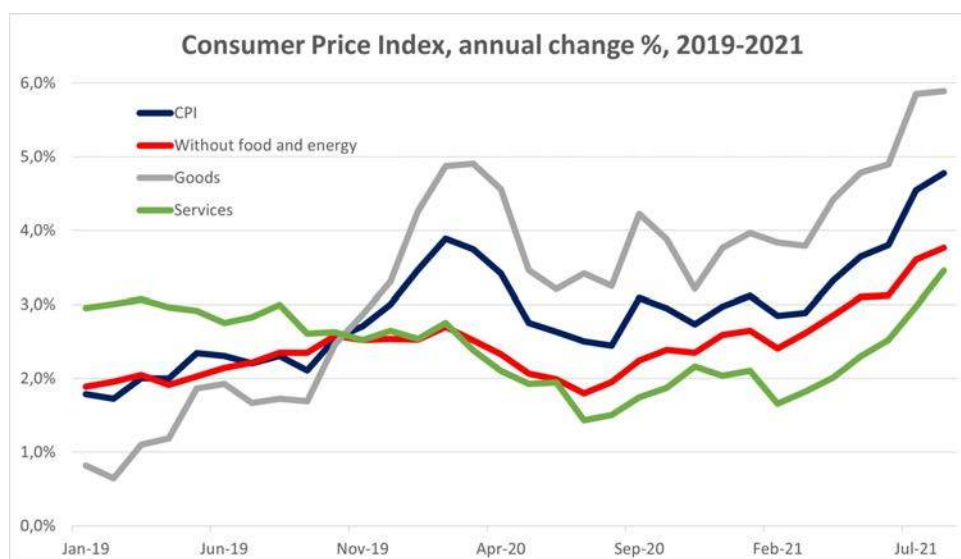
Meanwhile, government debt is expected to rise from CLP76.7 trillion (US\$98.2 billion), equivalent to 34.1% of GDP, this year, to CLP102.7 trillion (US\$131.5 billion), equivalent to 44.1% of GDP, by 2025. The annual cost of servicing government debt will rise from 0.9% of GDP (US\$2.6 billion) in 2019 to 1.2% (US\$4.2 billion) by the middle of the decade.

Credit ratings

Despite the sharp rise in public spending this year as well as the uncertainty triggered by the pensions withdrawals and the drafting of a new constitution, the leading ratings agency have so far left Chile's credit ratings unchanged.

| | |
|--------------------|---------------|
| Fitch Ratings | A- (stable) |
| S&P Global Ratings | A (stable) |
| Moody's | A1 (negative) |
| JCR | AA- (stable) |

1.5 Domestic Prices



Source: National Statistics Institute

Inflation has surged in recent months as booming private consumption, the depreciation of the Chilean peso and higher energy prices feed through into local prices. The government's Consumer Price Index rose by 0.4% in August, after increases of 0.8% in July and 0.1% in June, bringing annualized inflation to 4.8%, its highest level in more than five years and ahead of market expectations.

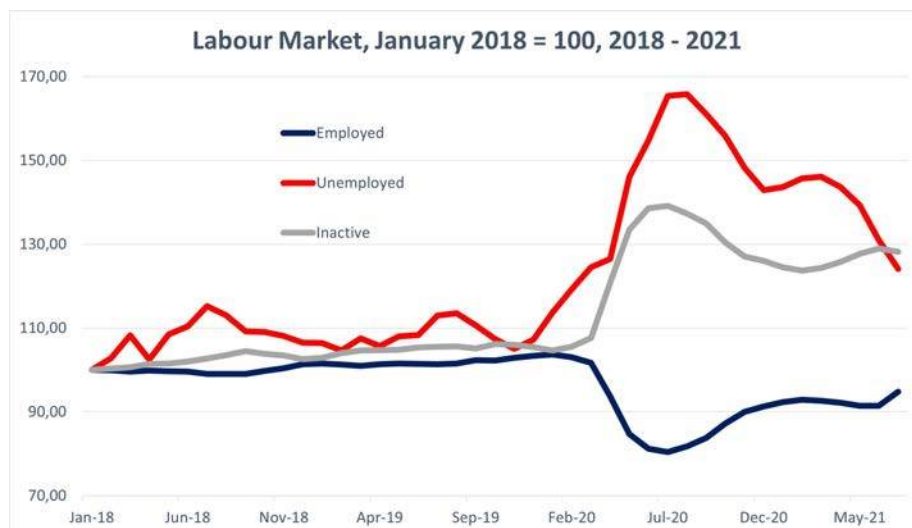
The rise was driven by a 5.9% annual increase in goods prices, especially liquefied petroleum gas and beef, which rose by 4.1% and 2.9% respectively in August alone.

In September, the Central Bank warned that inflationary factors once thought transitory, such as strong domestic demand and pandemic-related disruptions to global supply chains, would continue to drive prices higher over the coming quarters. As a result, consumer prices could rise by as much as 5.7% this year and remain above 5.0% during much of 2022. This is significantly ahead of market expectations which had predicted an increase of 4.2% by next December, according to analysts surveyed by the Central Bank in early August.

In early August, the Finance Ministry made changes to the workings of its Fuel Price Stabilization Mechanism (MEPCO) which caused petrol prices to fall by 2.5%,

after months of consecutive rises. In response, lawmakers shelved legislation to slash the specific tax on fuels by 50% for the duration of the pandemic.

1.6 Employment and Wages



Source: National Statistics Institute

After stalling during the second lockdown, the recovery in the labour market resumed in the third quarter. The number of people in work reached 8.1 million in three months to July, its first rise in five months, while the unemployment rate fell to 8.9%, down from 13.1% twelve months earlier and its lowest level since March 2020. Almost 108,000 new jobs were created in the quarter with gains in almost all sectors, but driven by construction, manufacturing, and services, especially transport, tourism, and healthcare.

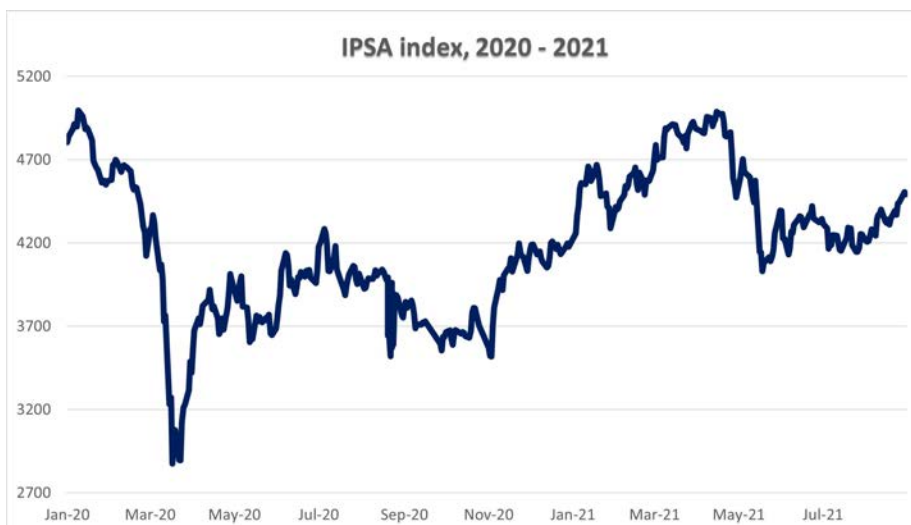
However, there are still almost one million fewer people in work than at the start of the pandemic while almost 7.0 million are still classed as inactive (and therefore not looking for work), up more than a fifth since the start of last year. In addition, informal employment has risen sharply to 26.9% of those in work in July, up from 22.3% a year earlier, and accounting for 96% of the jobs created over the last quarter.

Despite relatively high levels of unemployment and inactivity, employers have reported difficulties filling vacancies, especially in construction and farming, which economists have linked to increased government support for households, pension withdrawals and the closure of schools, which prevents parents (overwhelmingly women) from returning to work. As a result, incomes are rising rapidly with the government's Remunerations Index rising by 6.5% in the year to July, its fastest increase in almost four years. However, the rate falls to 1.9% once inflation is taken into account.

1.7 Financial Markets

The pension withdrawals, the expansion in government spending, the depreciation of the Chilean peso and the rise in political uncertainty have led to a deterioration of financial conditions in Chile, including a rise in long-term interest rates and a fall in asset prices.

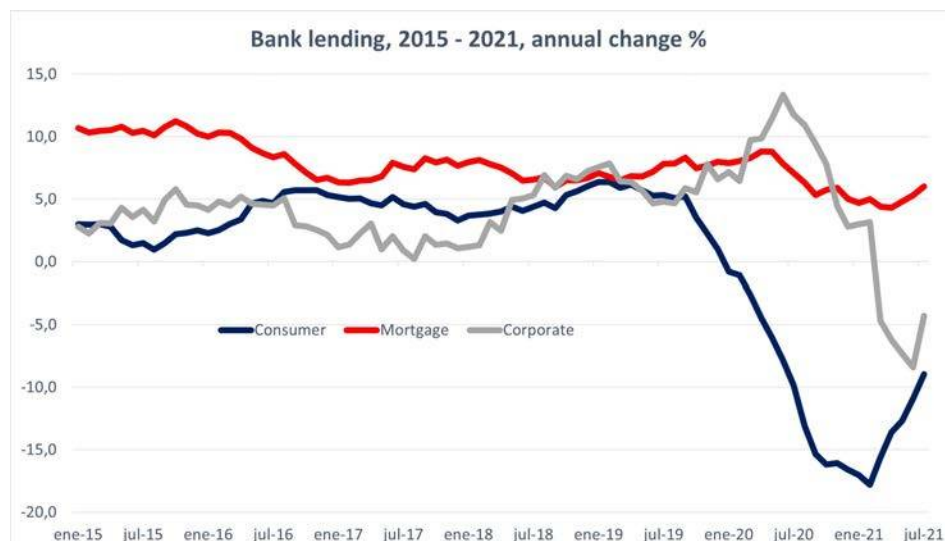
Stock Market



Source: Santiago Stock Exchange

After slumping sharply in the wake of the elections to the Constitutional Convention in May, share prices in Santiago have steadily recovered as social-distancing rules are eased and economic activity picks up. By late August, the IPSA index of the thirty largest companies listed on the Santiago Stock Exchange had recovered close to 4,500 points, up 11.4% from its recent low. However, reflecting investor worries about political risk in Chile, the IPSA has performed poorly compared with other indexes, gaining just 7.5% since the start of the year, compared to the 22% rally in the US S&P 500 or the 12.7% rise in Australia's ASX 100.

Banking



Source: Financial Markets Commission

The slowdown in bank lending has eased. Outstanding loans reached CLP202.2 trillion (US \$258.9 billion) by the end of July, down 1.7% from twelve months earlier but compared to a 4.7% decline in the year to June.

The fall has been driven by the decline in corporate lending, which fell to CLP119.9 trillion (US\$153.5 billion), down 4.3% from a year ago, reflecting reduced demand for credit from businesses as they delay investments.

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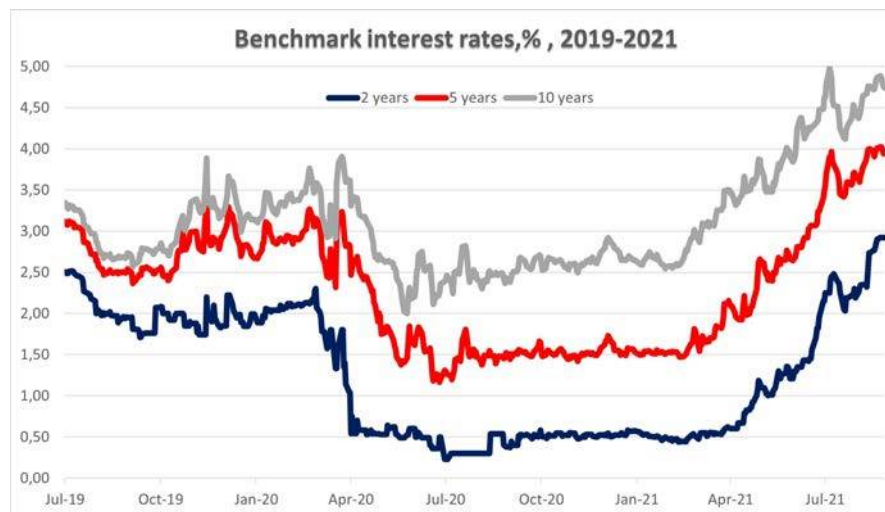


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Consumer loans reached CLP23.4 trillion (US\$30.0 billion), down 9.0%, while mortgage lending rose 6.0% to CLP63.9 trillion (US\$81.8 billion). The fall in consumer lending has been linked to the rise in household liquidity following the pension withdrawals and increased fiscal transfers, reducing the demand for credit among individuals.

Bank profits rose to CLP2.0 trillion (US\$2.5 billion) during the first seven months of the year, up almost fivefold from a year earlier, reflecting a write-down of assets by Itaú Corpbanca last year. Profitability has also improved with the return on assets in the sector averaging 1.14% in July, up from 0.68% twelve months earlier.

Interest Rates



Source: Central Bank of Chile

Long-term interest rates have risen sharply since the start of the second quarter, with the benchmark rate for 5-year bonds rising to almost 4.0% by late August, up from less than 1.7% at the start of the year. The rise has been linked to the withdrawal of almost US \$50.0 billion from pensions funds over the last year, reducing demand for fixed income instruments among Chile's largest institutional investors. Interest rates for mortgage loans (denominated in the inflation-indexed Unidad de Fomento) have also risen sharply, reaching 3.15% by late August, up from 2.36% in January.

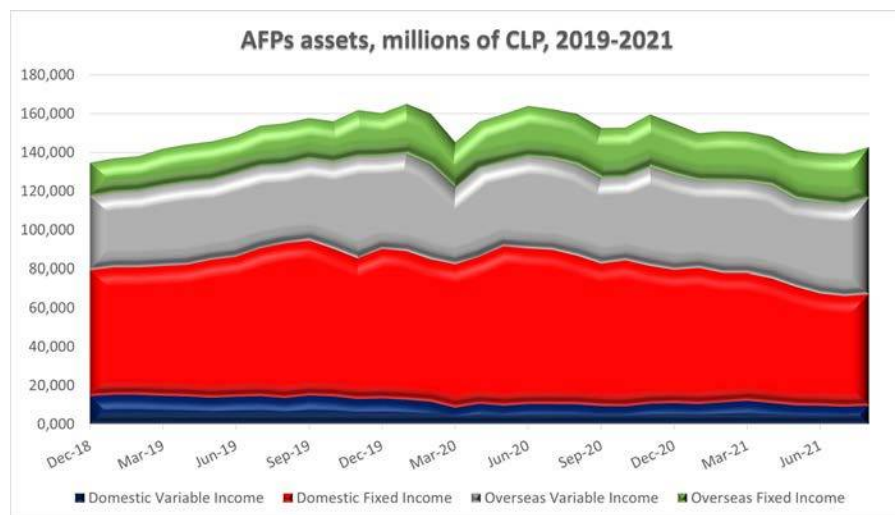
AFP Assets under Management (August 2021)

| Type of fund | Amount (billions of pesos) | Change September 2020 August 2021 (%, real in pesos) | Return September 2020 – August 2021 (%, adjusted for inflation) | Limits on equity investments (% of fund assets) | |
|--------------|-------------------------------|---|--|--|---------|
| | | | | Maximum | Minimum |
| A Funds | 23,593 | 24.1 | 13.86 | 80 | 40 |
| B Funds | 23,491 | 6.2 | 8.68 | 60 | 25 |
| C Funds | 52,499 | -2.9 | -0.20 | 40 | 15 |
| D Funds | 23,275 | -19.9 | -8.1 | 20 | 5 |
| E Funds | 19,962 | -45.2 | -11.47 | 5 | 0 |
| Total | 142,770 | -11.1 | | | |

Source: Superintendence of Pensions

The value of assets controlled by the private pension fund administrators fell to CLP142.8 trillion (US\$182.6 billion) by the end of August, down 11.1% from twelve months earlier, reflecting the huge withdrawals made by savers over the last year. By late August, withdrawals under the three bills approved by Congress had reached US\$48.7 billion.

Following the approval of third withdrawal bill in April, lawmakers have now begun debating a fourth withdrawal bill. However, it is unclear whether this one will achieve the necessary votes to be approved after presidential candidate Sebastián Sichel called on government supporters not to back the measure.



Source: Superintendencia of Pensions

As a result of the withdrawals and increased political uncertainty in Chile, the AFPs have significantly reduced their exposure to Chilean shares and bonds. Holdings in Chilean fixed income instruments fell to CLP57.6 trillion (US\$73.7 billion) by the end of August, down 24.5% from a year ago, while holdings in variable income assets fell 5.5% to CLP9.7 trillion (US\$12.5 billion). On the other hand, the value of the funds' overseas assets rose 3.1% CLP75.4 trillion (US\$96.6 billion). Returns were highest in the riskiest A funds, reflecting the recovery in asset prices since the start of the global pandemic in March last year.

Chilecon Valley

North American visitors to Chile often spot similarities with California. As well as cougars, condors, and Chardonnays, Chile can now boast another species found in the Golden State: tech start-ups.

In August, food company NotCo became Chile's latest unicorn (an unlisted company worth more than US\$1.0 billion) after it raised US\$235 million to finance its global expansion. Designed using artificial intelligence, its plant-based versions of milk, mayonnaise, and chocolate ice-cream can now be found on supermarkets shelves in San Francisco and Sao Paulo as well as Santiago. NotCo is not alone.

In July, Uber Inc. acquired the remaining 47% of grocery deliveries app Cornershop, valuing the company at more than US\$3.0 billion. The ride-hailing giant is now rolling out the business across the Americas, with operations in Brazil, Canada, Colombia, and the US as well as Chile.

More Chilean start-ups are looking to jump into the big time. Earlier this year, BetterFly, which encourages employees to live more healthily, was valued at US\$300 million in its second round of funding.

The growing number of Chilean start-ups reflects the country's strong economy, robust financial markets, and relatively high educational standards, compared to the rest of the region. A sympathetic public sector has also helped.

In 2010, during President Piñera's first administration, the government launched Start-Up Chile, a program to provide seed capital and technical advice to any entrepreneurs who decided to base their company in the country. A decade later the program has supported almost 2,000 new businesses (of which around half are still active) worth an estimated US\$2.1 billion. The program has transformed Chile into one of the leading centres for innovation in Latin America and one of the top ten hubs globally. Around fifty governments have copied the Start Up Chile model.

But while Chile has succeeded in creating an attractive environment for entrepreneurs during the early stages of their business, Santiago remains a long way from imitating global innovation centres, such as London or Tel Aviv, never mind San Francisco, a recent study by the ESE Business School found.

For a start, the country's capital markets are dominated by institutional investors, such as the pension fund administrators (AFPs), which are banned by law from investing in such risky ventures.

Another barrier is the lack of competition in many sectors of the Chilean economy which makes companies less willing to embrace innovative business models.

In 2018, Chile's banks shut the accounts of three cryptocurrency exchanges over security concerns. NotCo is being sued by Chilean dairy farmers who say the name of its NotMilk drink confuses shoppers.

As a result, those Chilean start-ups which manage to go global often get out. Cornershop is now run from Uber's San Francisco headquarters and NotCo's executives are now largely based in the US (although its AI-driven food lab remains in Santiago).

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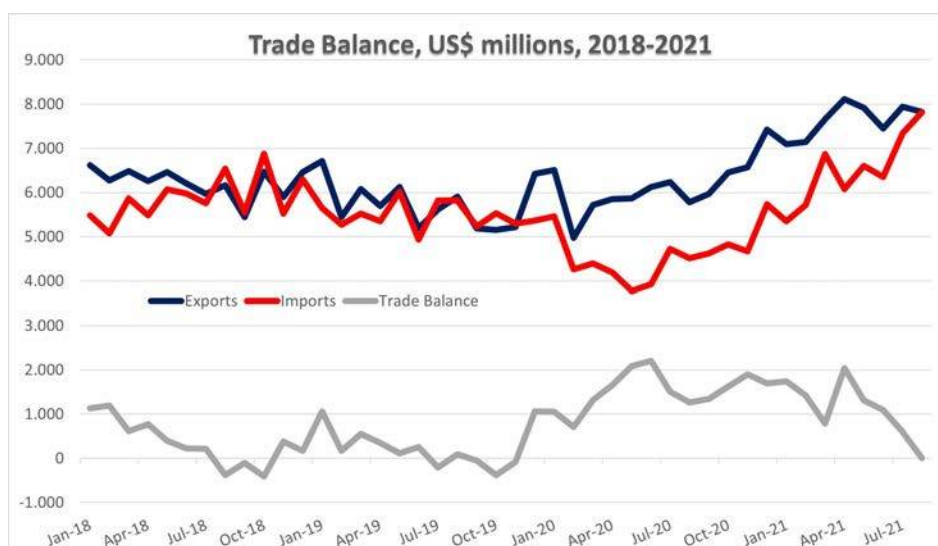
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2

EXTERNAL SECTOR



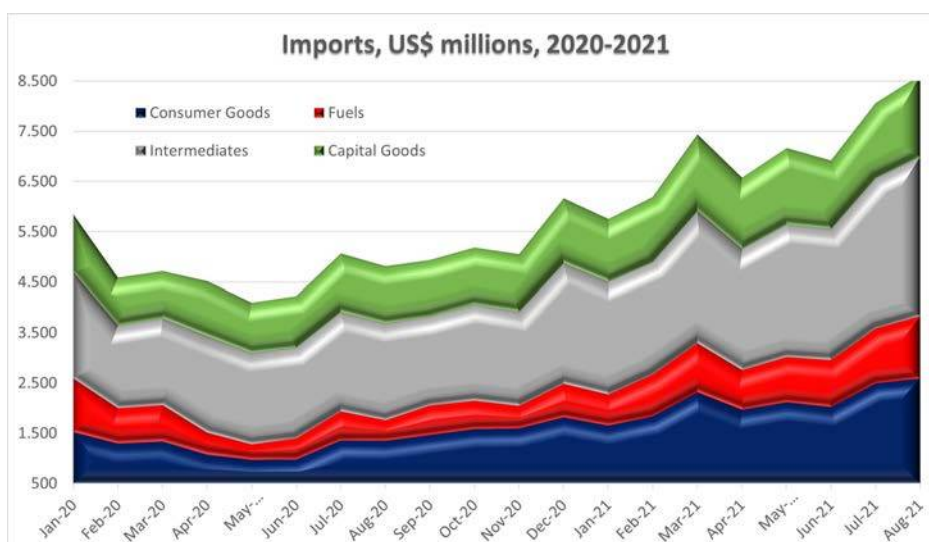
2.1 Trade Balance



Source: Central Bank of Chile

Chile's foreign trade has continued to expand driven by high commodity prices and robust domestic demand for consumer and capital goods. Exports during the first eight months of the year reached US\$61.2 billion, up 30.1% from the same period of 2020, while imports rose 48.0% to US\$52.2 billion. As a result, Chile's trade surplus for the period fell to US\$9.1 billion, down 23.3% from a year ago.

Imports



Source: Central Bank of Chile

Imports of consumer goods have continued to soar, driven by strong domestic demand, reaching US\$17.0 billion during the first eight months of the year, up 71.7% from a year ago. The rise was led by consumer durables, which more than doubled to US\$6.9 billion, reflecting increased imports of cars, computers, televisions and domestic appliances.

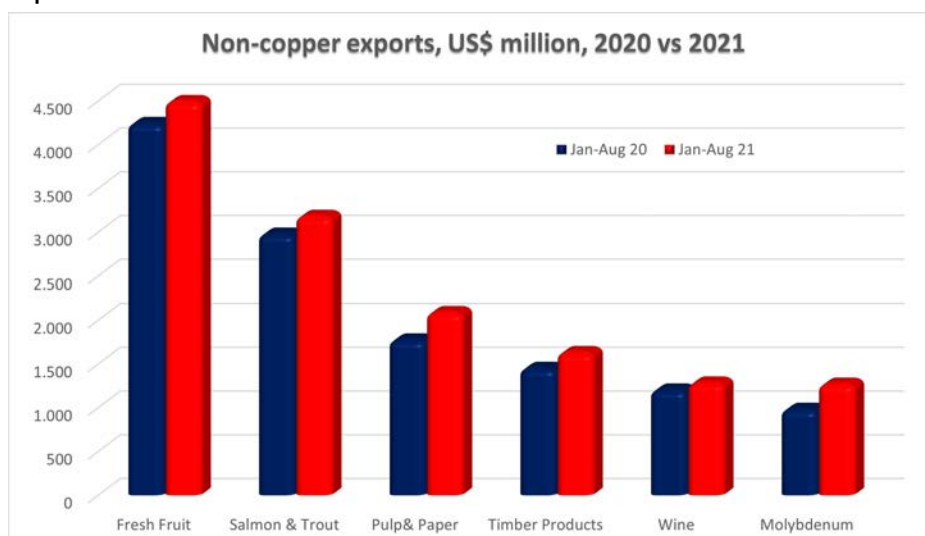
As oil prices rose and fuel demand recovered, imports of energy products reached US\$7.5 billion in the year to August, up 60.6% from a year ago. While diesel imports rose 33.2% to US\$1.9 billion, imports of crude oil more than doubled to US\$2.8 billion, reflecting the closure of Chile's largest oil refinery last year for maintenance. The West Texas Intermediate benchmark oil price, against which state oil firm ENAP prices its imports, averaged US\$72.46/barrel during July, its highest level in almost seven years, as oil demand rebounds around the world.



Source: St Louis Federal Reserve

Imports of capital goods reached US\$11.5 billion during the first eight months of the year, up 36.2% from a year ago, led by imports of trucks, mining and construction equipment, and communications and computer equipment. Imports of intermediate goods rose 39.5% to US\$20.8 billion, on increased imports of metallic goods, chemicals and spare parts for machinery.

Exports



Source: Central Bank of Chile

Chile's farm exports during the first eight months of the year rose 7.4% to US\$5.1 billion, driven by a 8.0% increase in shipments of fresh fruit to US\$4.6 billion. The rise reflected higher fruit prices in most markets, with export volumes little changed at 1.9 million tons. Shipments of cherries rose 41.7% to US\$1.4 billion while blueberries exports rose 18.0% to US\$497 million, offsetting lower exports of apples and grapes. Exports during the upcoming packing season are expected to fall as the worsening drought hits production.

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Industrial exports rose 6.4% over the period to US\$18.1 billion, driven by exports of pulp and paper, forestry products, chemicals, and base metals.

Exports of pulp and paper rose 17.5% to US\$2.1 billion, boosted by higher pulp prices. Prices for Bleached Softwood Kraft Pulp in China averaged US\$860 a ton in July, up 55% from a year earlier, according to Empresas Copec, Chile's largest pulp producer. However, the price represents a fall from almost US\$1,000 a ton in May when Chinese authorities acted to cap commodity prices.

Chemical exports rose 15.7% to US\$3.6 billion on increased exports of fertilizers and tyres, while exports of base metals more than doubled to US\$622 million on shipments of ferromolybdenum and copper wire.

Shipments of salmon rose 10.6% to US\$2.9 billion in the period. The Chilean Salmon Council attributed the rise to higher prices and increased demand from hotels and restaurants as social-distancing rules are eased around the world. Exports to the US, the largest buyer of Chilean salmon, rose 17% to US\$576 million.

Wine exports rose 6.7% to US\$1.3 billion. While export volumes in the year to July were little changed from last year at 507.7 million litres, prices for bottled wine averaged US\$3.39/litre, up from US\$3.10/litre twelve months earlier. Exports to China, Chile's largest market, rose 55% to US\$146.7 million, while exports to the UK were unchanged at US\$89.3 million.

Rain, rain gone away

With wildfires raging from Canada to Turkey and deadly floods in China and Germany, the impact of climate change is becoming more palpable around the world with each passing month. In Chile, the drought that has so far lasted more than a decade appears to be worsening.

Meteorologists had expected 2021 to be an average year for rainfall, but after almost no rain or snow fell through July and most of August, the country is now facing one of its driest years on record.

So far Chile has received less than a third of the precipitation that it does in a normal year, reducing water levels in reservoirs to less than half their historic average while the volume of snow in the mountains is just a fraction of what it should be.

As usual, farmers are on the frontline. The National Farming Association (SNA) has warned that fruit exports could fall by 8% next year as a result of the drier conditions, but wheat, dairy and wine production are also at risk. North of Santiago, banks are increasingly unwilling to support farmers.

The lack of rainfall is also hitting electricity supplies. With hydroelectric generation limited by low reservoir levels, companies have had to fire up expensive and dirty diesel generators, pushing up spot power prices to as high as US\$280/MWh in early August, a threefold increase from average levels. Authorities may delay plans to take coal-fired power plants offline.

Meanwhile, water shortages could also hit Chile's mining industry. In August, Antofagasta plc warned that production at its Los Pelambres copper mine could fall by almost 14% if it does not see significant rainfall before it commissions a new desalination plant in late 2022.

The dry weather has also increased the risk of forest fires which in 2017 destroyed an area twice the size of Luxembourg.

In response, the government has promised to boost investment in more efficient irrigation techniques (such as drip irrigation and lined canals) and accelerate development of desalination plants (projects under construction and development could triple capacity to around 18,000 litres per second from current levels).

But these will do little to ameliorate the damage that the drought will cause to the economy this year and next.

2.2 Mineral Exports



Source: Chilean Copper Commission

The value of Chile's mineral exports has soared to record levels in 2021 on the back of higher metals prices, reaching US\$38.0 billion during the first eight months of the year, up 50.4% from the same period of 2020. Copper exports rose 51.9% to US\$34.7 billion, with increases in shipments of both cathodes and concentrates.

After falling from record levels above US\$4.80/lb in May, copper prices have stabilized during the third quarter at around US\$4.20/lb, lifting the average price for the year to date to US\$4.16/lb, up almost 50% from last year. Copper prices are expected to remain near current levels with Chile's Central Bank predicting in September that prices would average US\$4.15/lb this year and US\$4.00/lb in 2022.

Copper production during the first seven months of the year totalled 3.3 million tons, down 0.8% from the same period of last year. Mining companies have warned that pandemic-related restrictions, water shortages and lower ore grades could slow production of the metal during the rest of this year and next. The Chilean Copper Commission has forecast production could reach 5.8 million tons this year, up 1.8% from 2020.

Profits at mining companies in Chile have boomed thanks to the increase in copper prices. State-owned Codelco posted earnings of US\$3.8 billion for the first six months of the year, a tenfold increase from a year ago and its best results in a decade.

The rise in copper prices has increased tensions in labour negotiations at several major mines. Workers at Codelco's Andina division and JX Nippon Mining & Metals' Caserones mine held strikes lasting several weeks in August and September after mediated talks ended without agreement. More significant disruption was avoided after workers at the BHP-operated Escondida mine and the state-owned El Teniente mining and smelting complex (which together accounted for more than 28% of Chile's copper production last year) accepted deals including bonuses and benefits worth almost CLP25 million (US\$31,800) per worker, a significant increase on previous agreements.

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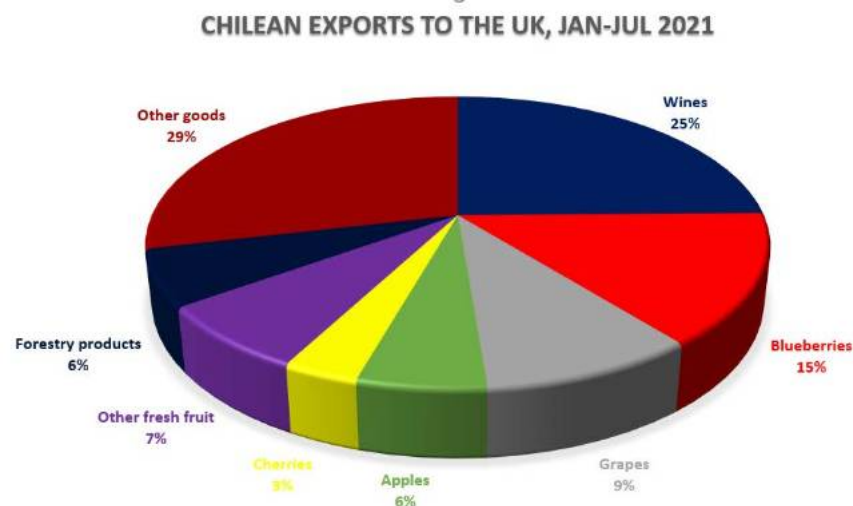
Exports of iron ore in the year to August reached US\$1.6 billion, up 64.1% from twelve months earlier, as a twofold increase in iron ore prices this year offset a fall in volumes due to industrial action at the Port of Huasco. However, iron ore prices in China fell to around US \$140/ton in August, down around 30% from their peak in May after Chinese authorities promised to clampdown on speculation in commodity prices.

In August, authorities in northern Chile approved plans to build the country's largest iron ore mine which would increase Chilean production by around 75% to 28 million tons annually. However, the Dominga project requires further approvals before it can be developed and is opposed by environmentalists due to its potential impact on marine life.

Exports of lithium carbonate reached US\$510 million during the period, up 17.9% from the same period of 2020, as producers Albemarle and SQM lifted production from their operations on the Salar de Atacama. Exports reached 95,722 tons of lithium during the period, up 42.6% from a year earlier.

Gold exports reached US\$536 million, little changed from twelve months earlier, while exports of silver rose 26.9% to US\$283 million.

2.3 Chile-UK trade



Source: Chilean Customs Service

Trade between Chile and the United Kingdom reached US\$717 million during the first seven months of the year, up 2.7% from the same period of 2020.

Chilean exports to the UK totalled US\$363 million to July, down 10.7% from twelve months earlier, reflecting lower shipments of wines and fresh fruit, particularly grapes and apples, offset by increased shipments of forestry products, especially paper, cardboard and timber.

UK exports to Chile reached US\$354 million, up 21.6% from the same period of 2020, driven by increased shipments of machinery, cars, and clothing.

2.4 Capital Flows

Current account

The sharp rise in imports this year has pushed Chile's current account back into deficit. It reached US\$2.6 billion in the second quarter, the equivalent of 1.1% of GDP, up from a deficit of US\$1.8 billion in the first quarter. As well as the smaller trade surplus, the move also reflected increased remittances, especially profits from mining companies as copper prices soared.

In September, the Central Bank predicted that Chile's current account deficit would rise this year to US\$7.1 billion, or 2.2% of GDP, and hold around 2.0% through 2022 and 2023. This compares to last year's current account surplus of 1.4% and the Bank's previous forecast for 2021 of a deficit of 0.8% made in June.

Financial account

Chile's financial account recorded a deficit of US\$4.8 billion in the second quarter, compared to a deficit of US\$919 million in the previous quarter, as the government made withdrawals from sovereign wealth funds and pensions funds sold foreign assets to finance withdrawals by savers.

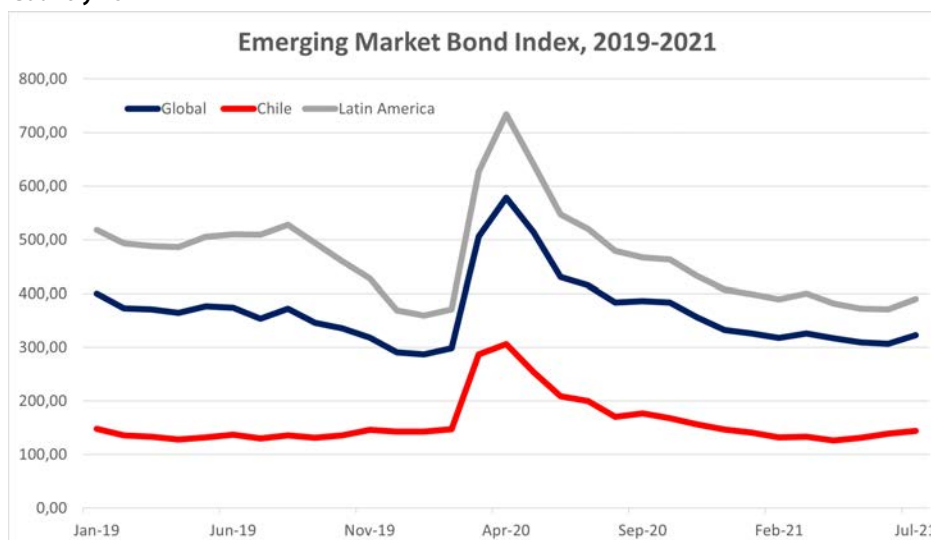
Foreign Direct Investment into Chile rose by a net US\$4.9 billion while Chilean overseas investment rose by US\$3.4 billion.

Chilean investment in overseas financial assets fell by US\$5.4 billion as the government and pensions funds liquidified foreign assets while foreign investment in Chilean financial instruments rose by US\$6.4 billion, as the government and companies issued debt.

Chile's International Investment Position reached a net debt of US\$16.7 billion by the end of June, equivalent to 5.6% of GDP, down from US\$29.0 billion three months earlier, reflecting the impact of the rise in global share prices on Chileans' overseas holdings.

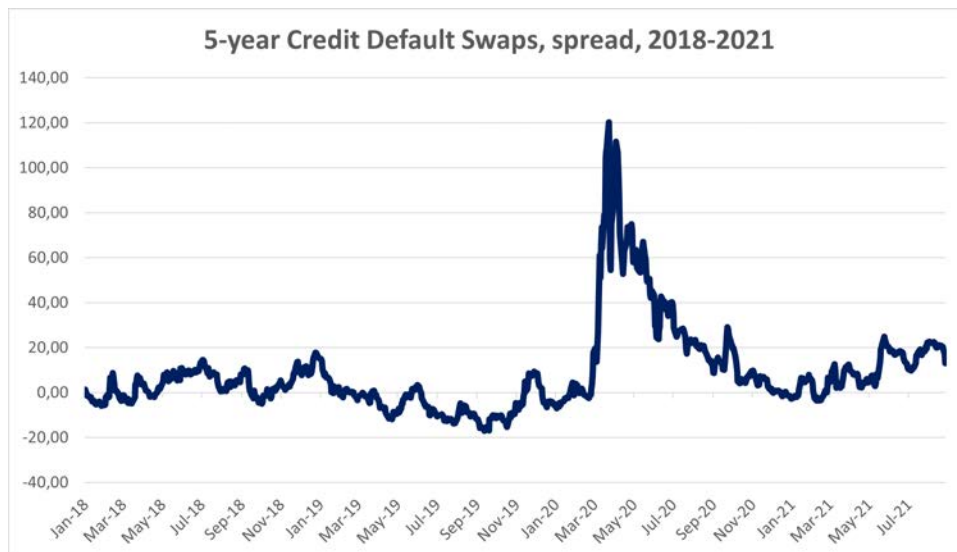
Chile's external debt reached US\$213.3 billion in the second quarter, equivalent to 72.1% of GDP and up from US\$209.5 billion at the end of the first quarter, reflecting the rise in government debt which reached US\$70.3 billion, up from US\$66.5 billion one year earlier.

Country risk



Source: JP Morgan

Investors are growing more concerned by recent political developments in Chile and the sustainability of its public finances. In July, the JP Morgan's Emerging Market Bond Index (EMBI) for Chile reached 144 points, up 18 points from three months earlier and its highest level since December, while the average spread on five-year Credit Default Swap rose to levels not seen since the end of last year.



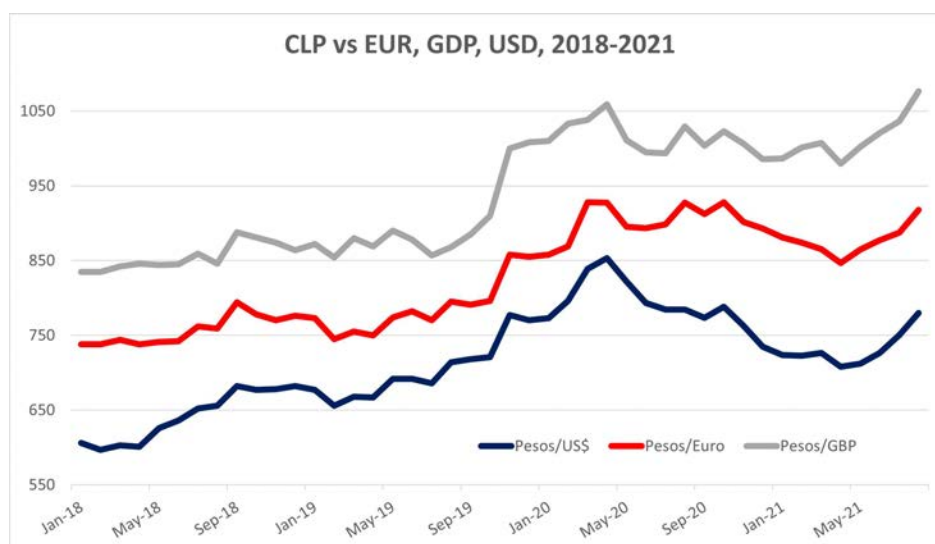
Source: Central Bank of Chile

2.5 Exchange Rates



Source: Central Bank of Chile

The Chilean Peso has depreciated by 11% against the US dollar since May, reaching close to CLP800/dollar by late August, its lowest level since October 2020. It has also fallen significantly against most other currencies, falling 9.0% against the Central Bank's multilateral exchange rate (TCM).



Source: Central Bank of Chile

The peso's decline has been one of the sharpest among currencies globally, reflecting not only the fall in copper prices and the appreciation of the US dollar, but also investor concerns about the rise in public spending, the impact of the pensions withdrawals and increased political risk in Chile. In addition, Chilean banks have purchased US dollars to build up their technical reserve required under the Basel III banking regulations (which come into force this year) while more foreign-denominated current accounts have been opened in the country.

3

POLITICAL CONTEXT



POLITICAL CONTEXT

The race to become Chile's next president has been thrown wide open by surprise results in the primaries to choose the candidates for two of the main coalitions.

In the contest to represent the government's ChileVamos coalition, former minister Sebastián Sichel easily beat veteran politician Joaquín Lavín while former student leader deputy Gabriel Boric attracted almost a million votes in the Apruebo Dignidad primary, knocking out Communist mayor Daniel Jadue.

Apruebo Dignidad

| Candidate | Party | Votes | Share |
|----------------------|----------------------------|----------------|--------------|
| Gabriel Boric | Convergencia Social | 968,951 | 60.2% |
| Daniel Jadue | Partido Comunista | 639,596 | 39.8% |
| | Total | 1,608,547 | |

Chile Vamos

| Candidate | Party | Votes | Share |
|-------------------------|----------------------|----------------|--------------|
| Sebastián Sichel | Independent | 609,097 | 49.0% |
| Joaquín Lavín | Unión Demócrata Ind. | 391,700 | 31.5% |
| Mario Desbordes | Renovación Nacional | 123,504 | 9.9% |
| Ignacio Briones | Evópoli | 119,667 | 9.6% |
| | Total | 1,243,968 | |

The results appear to reflect the desire among voters for a new generation of leaders to emerge (Boric and Sichel are both around twenty years younger than the rivals they beat) and without links to the parties which have ruled Chile since 1990 (Sichel is independent while Boric's party was only formally registered last year). They also represent the more moderate strands of their respective pacts.

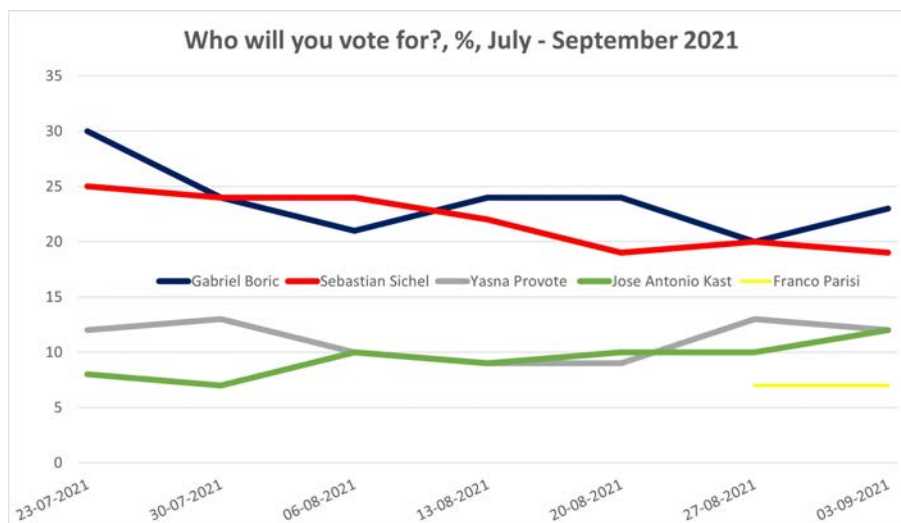
The removal of Jadue (whose government program included a 50% hike in the tax burden and legislation to control the media) from the contest calmed investors' nerves, with the Santiago Stock Exchange's IPSA index jumping almost 2.0% the day after the vote.

The centre-left Unidad Constituyente coalition (heirs to the once-dominant Concertación) held its own unofficial primary on August 21st where senator Yasna Provoste from the Christian Democrats beat Socialist Paula Narváez and Radical Carlos Maldonado.

Unidad Constituyente

| Candidate | Party | Votes | Share |
|-----------------------|-----------------------------|---------------|--------------|
| Yasna Provoste | Democracia Cristiana | 91,789 | 60.8% |
| Paula Narváez | Partido Socialista | 40,161 | 26.6% |
| Carlos Maldonado | Partido Radical | 18,921 | 12.5% |
| | Total | 150,881 | |

Boric, Provoste and Sichel will be joined on the ballot on November 21st by José Antonio Kast from the right-wing Republican party, Franco Parisi from the People's Party, and Eduardo Artés from the far-left Patriotic Union. If no candidate wins more than 50% of the vote, the two who win most votes will advance to the run-off vote on December 19th.



Source: CADEM

Weekly polls carried out by market research firm CADEM since the primaries in July show Boric and Sichel topping the voters' preferences, significantly ahead of Kast and Provoste, although their lead has narrowed.

In August, President Sebastián Piñera approved a three-month extension of the Emergency Family Income to the end of the year, at a cost of around US\$7.0 billion. Around 15.8 million Chileans will receive the benefit which is worth around CLP500,000 (US\$651) a month for a family of four. As well as helping households, the measure sought to drain support for another bill allowing savers to withdraw part of their pensions savings which is advancing through Congress.

The Constitutional Convention was officially constituted on July 4th. Members elected Elisa Loncón, an indigenous activist and academic, as the president of the body while left-wing lawyer Jaime Bassa was chosen as her deputy. The mostly left-wing and independent members have approved some radical proposals, including calling for the release of prisoners detained during the 2019 social unrest and recent violence in the southern Araucanía region. Work on the text of the Constitution itself is due to begin in October.



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4

QUATERLY INSIGHT: CHILE'S PRESIDENCIAL ELECTIONS



The proposals from the candidates

In November 2021, Chile faces its most uncertain elections since the return to democracy thirty years ago. Voters will be able to choose between seven candidates whose views range from the extreme left to conservative. Here we outline the views on key issues of the candidates from the three main political blocs.

Gabriel Boric – Apruebo Dignidad (left-wing)

Fiscal Policy: Revise fiscal rule together with Autonomous Fiscal Council to allow the construction of a welfare state with a responsible framework without affecting public investment. Lift tax burden by 8.0-8.5% of GDP

Taxation: Impose a wealth tax on millionaires, a royalty on mine production, higher tax rates for higher income earners and raise fuel taxes.



Pensions: Provide universal pension of around CLP 250,000 (US\$332) to all pensioners at a cost of 3.5% of GDP, funded through taxation and the Pension Reserve Fund.

Employment: Redesign job subsidy program to offer 100% subsidy for female employees earning up to CLP 1 million a month. Guarantee preschool care for all children of working parents aged up to two years old.

Foreign trade: Revise existing trade agreements for alignment with environmental, gender and regionalist policies. Seek to become full member of Southern Common Market.

Law and Order: Transfer policing powers to elected regional directors.
Revise drugs legislation to decriminalize possession for person use.
Innovation: Increase public expenditure on science and technology to 1% of GDP.

Sebastián Sichel – Chile Podemos + (centre-right)

Fiscal Policy: Put public finances on a sustainable path through savings and budget re-assignments and gradual increases in the tax burden following recommendation of Fiscal Advisory Council.

Taxation: Eliminate unjustified tax breaks; revise taxation of luxury goods, property, and inheritance; consider lowering top income tax rates; return VAT on food and medicines to low-income families; reduce taxation of SMEs.



Pensions: Lift basic pension above CLP 177,000 (US\$231), extending coverage to all pensioners that lack high income or wealth. Direct 6% contribution by employers to workers' individual accounts.

Employment: Job subsidy of up to CLP 96,000 a month for workers earning less than CLP 517,000 (US\$652), up from CLP 394,000 currently.

Foreign trade: Increase regional trade and investment through coordination between Pacific Alliance and Southern Common Market

Environment: Extend recycling law; accelerate development

of green hydrogen, renewable energy.

Law and Order: Create Ministry of Law and Order and specialist antinarcotics police

Yasna Provoste – Nuevo Pacto Social (center-left)

Fiscal Policy: Increase tax burden by 5% of GDP

Taxation: Eliminate tax breaks for construction, investment funds, transport companies, increase taxes on capital income, mining industry

Pensions: New employers' contribution of 6-8% to be split between collective savings fund and workers' individual accounts

Employment: Extend the job subsidy for female workers to 80% most vulnerable for up to six years.

Healthcare: Create a transitory fund worth US\$8.0-10.0 billion to finance response to Covid-19, treatments delayed by pandemic.

Environment: Turn CORFO into development bank to finance climate resilience. Accelerate investment to achieve 100% renewable power by 2035 and net zero emissions by 2040.

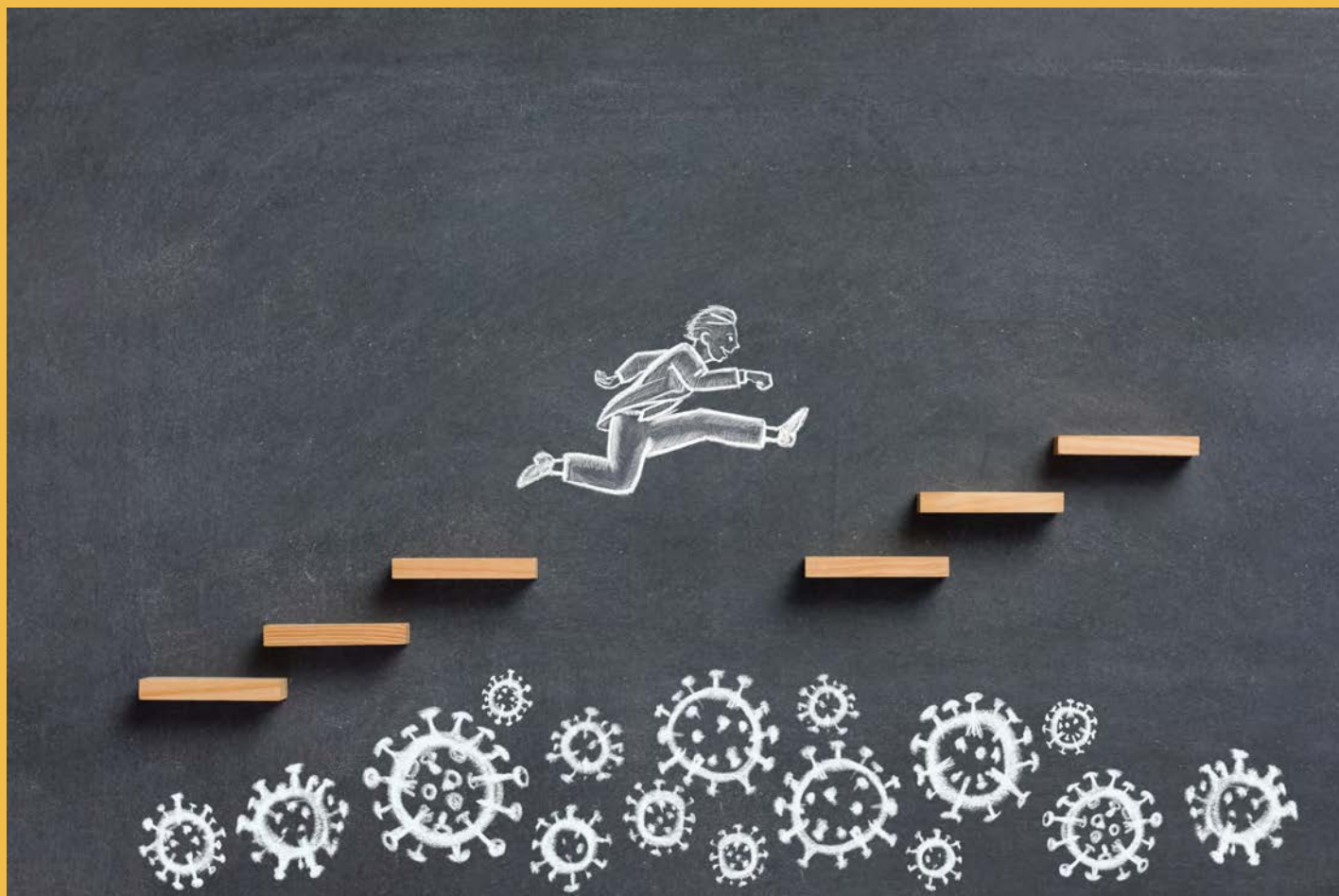
Law and Order: Major reform of Carabineros to bring under civilian control.

Foreign trade: Fully respect Chile's existing treaties, seek Foreign Direct Investment to develop regions.



5

OUTLOOK



5. OUTLOOK

Driven by booming government spending and private consumption, the Chilean economy is set to expand at its fastest rate in several decades. However, after growing by more than 10.0% this year, economic activity is expected to slow dramatically over the next two years. Combined with several quarters of high inflation and the need to stabilize public finances after this year's unprecedented fiscal stimulus, these could pose significant challenges for the new government which will take office in March 2022.

Boosted by the expansion of the government's Emergency Family Income and the withdrawal of almost US \$50.0 billion from pensions funds over the last year, household consumption is expected to grow by around 20% during the second half of 2021, bolstering the retail and service sectors and driving imports (particularly of consumer durables) to record levels.

Although this boom in private spending is now expected to continue into next year (given the large sums sitting in bank accounts), it will slow dramatically as these resources are depleted and the government cuts the pandemic-related transfers.

At the same time, investment is set to fall significantly. After rising by 15.9% in 2021, driven by purchases of new machinery and equipment (after last year's 12.0% contraction), investment is likely to grow by just 0.3% and 0.6% in 2022 and 2023, respectively, reflecting higher financing costs and increased political uncertainty in Chile. This slump is already reflected in the decline in the number of large investment projects under development.

In September, the Central Bank downgraded its growth forecast for 2022 to 1.5-2.5% (down from 2.0-3.0% predicted in June), citing this year's higher base of comparison, while growth will slow again in 2023 to just 1.0-2.0% (from 1.75-2.75% predicted in June) as government spending is reined in and tighter monetary policy chills economic activity.

Meanwhile, inflation is expected to surge on rising energy prices, a weak Chilean peso and strong domestic demand. Under the Central Bank's forecast, inflation will peak at 5.7% at the end of 2021 and remain above 5.0% through much of 2022 before converging with the Bank's 3.0% target rate by mid-2023.

To keep this convergence on track, the Central Bank has promised to rapidly withdraw its monetary stimulus to the economy, hiking its benchmark interest to its neutral level (estimated at 3.25-3.75%) by the middle of the first half of 2022. This will put up borrowing costs for Chilean companies and households, slowing spending and investment. This effect could be amplified if inflation abroad forces central banks in industrialized economies, especially the US Federal Reserve, to begin increasing interest rates sooner than expected.

This could also slow a recovery in the labour market which has so far lagged the wider economy, creating additional fiscal pressures for the new administration. However, there are also signs that some jobs may have disappeared permanently as sectors such as retail and services adapted to new ways of operating during the lockdown

| Economic Forecasts, 2021 | Central Bank ^{1/} | Finance Ministry ^{2/} | Private analysts ^{3/} |
|---|----------------------------|--------------------------------|--------------------------------|
| GDP (% annual variation) | 10.5-11.5 | 7.5 | 8.5 |
| Inflation (% annual variation) | 5.7 | 3.7 | 4.2 |
| Monetary-policy interest rate (% annual, nominal, end-year) | NA | NA | 1.50 |
| Exchange rate (pesos/US\$) | NA | 712 | 755 ^{4/} |
| Copper price (US\$/lb) | 4.15 | 4.11 | NA |

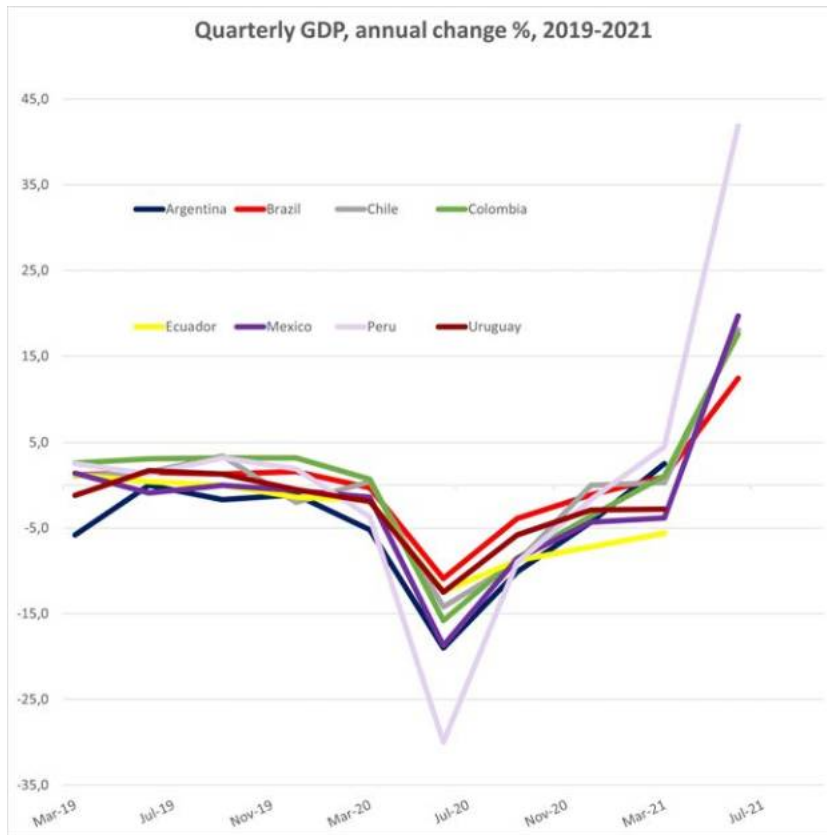
^{1/} Monetary Policy Report, September 2021.

^{2/} Government public finances report, July 2021

^{3/} Average of selected private analysts surveyed by Central Bank, August 2021.

^{4/} July 2022

6. REGIONAL NEWS



Source: Trading Economics

Argentina: A deal with the Paris Club of creditor countries and a US\$4.4 billion allocation of Special Drawing Rights have given Argentina more time to reach a deal with the International Monetary Fund on loan repayments. In August, the government tightened capital controls in a bid to stabilize exchange rates ahead of mid-term legislative elections in November.

Brazil: Former president Luiz Inácio Lula da Silva, whose convictions for corruption were quashed earlier this year, has emerged as a likely contender in the 2022 presidential elections. Facing possible impeachment for his mishandling of the pandemic, President Jair Bolsonaro extended emergency aid to vulnerable families until October.

Colombia: Fitch Ratings downgraded Colombia's credit rating to junk status in July after violent protests forced President Iván Duque to withdraw a tax reform bill designed to stabilize public finances. Left-wing senator and former guerrilla Gustavo Petro has emerged as an early frontrunner for next year's presidential elections.

Ecuador: The economy will grow by 2.8% this year, according to the Central Bank, slower than most other countries in the region. Incoming President Guillermo Lasso has derogated censorship rules implemented by former president Rafael Correa.

Mexico: Inflation reached 5.8% in July as the economy picks up speed, forcing the Bank of Mexico to raise interest rates. The country has been hit by a wave of infections of the Delta variant of the Coronavirus, with daily cases reaching record highs in August.

Peru: Pedro Castillo was declared Peru's new president in July after beating Keiko Fujimori by just 44,000 votes but his lack of support in Congress will hinder implementation of his government program. In his inaugural speech as head of state, he promised "change with responsibility" suggesting a softening of the radical proposals he championed during the campaign.

Venezuela: Mediated by Norway, government and opposition representatives began negotiations in August to end Venezuela's long-running political and economic crisis. Recent elections mean that President Nicolás Maduro has more support in the region than when the two sides last met.



UK Economy, Quarter 2 - 2021

Over the course of the pandemic the UK has announced direct support in response to Covid-19 worth around £352bn across 2020-21 and 2021-22. Including the increase in capital investment announced at the Budget 2020, total support for the economy has come to £407bn in 2020-21 and 2021-22 the largest peacetime support package for the economy on record. The evidence suggests there are reasons for optimism. The UK has now vaccinated 80% of adults enabling the lifting of almost all restrictions and supporting a return to a more normal life. Challenges remain ahead however, due to the impact of the Delta variant, its impact in the UK and the world.

1. Economic growth

UK GDP grew 4.8% in Q2 2021 following the easing of the coronavirus restrictions. GDP is now 2.2% below where it was pre-pandemic in February 2020. Real GDP expanded by 1.0% in June 2021, marking the fifth consecutive month of growth. The largest contributors to this increase were wholesale and retail trade, accommodation and food service activities and education. The service sector expanded by 5.7% in Q2 2021, having contracted by 2.1% in Q1. Production output rose by 0.5% in Q2, following a fall of 0.5% in Q1, and remains 3.3% below its pre/coronavirus pandemic level. This was driven mainly by a 1.8% rise in manufacturing, in particular that of food products, beverages and tobacco, and machinery and equipment. Construction output increased by 3.3% in Q2, reflecting a rise in new work (3.7%), particularly in infrastructure, and repair and maintenance. Construction is now close to pre-pandemic output levels, at 0.6% below Q4 2019.

2. Inflation

Annual Consumer Price Index (CPI) and CPIH (CPI but including housing costs) inflation rates registered at 2.0% and 2.1% (year-on-year) respectively in July, down from June levels of 2.5% (CPI) and 2.4% (CPIH). The largest upward contribution to CPIH came from transport (0.85ppts), housing and household services (0.63ppts) and furniture and household goods (0.15ppts). Growth in average total pay (including bonuses) was 8.8% and regular pay (excluding bonuses) was 7.4% for the three months from April to June 2021. The figures have been inflated by greater job losses among low-paid workers and comparison with depressed wages a year ago amid the first national lockdown, however the increase still does point to economic recovery as national restrictions eased in Spring 2021. Total and regular pay are now growing at a faster rate than inflation, meaning that in real terms wages increased by 6.6% for total pay and 5.2% for regular pay.

3. Monetary policy

In its August meeting, the Bank of England's Monetary Policy Committee (MPC) voted to hold interest rates at 0.1% and maintain the level of quantitative easing (QE) at £895 billion, despite an uptick in inflation. The next meeting will be held on 23rd September. However, the MPC signalled an intent to tighten monetary policy over the next two years, warning that inflation would likely rise further above the 2% target up to 4% towards the end of the year, requiring a "modest tightening" in policy. This would likely involve a gradual rise in interest rate to 0.5% by 2024. The Bank expects GDP to grow by 3% in Q3 2021, slightly weaker than forecasted in the May report, due to the development of the Delta variant of Covid-19. Output in June was expected to be around 2.5% below pre-Covid levels in Q4 2019.

4. Labour market

The UK employment rate in the three months to June 2021 was estimated at 75.1%, 1.5ppts lower than before the pandemic (three months to February 2020), but 0.3ppts higher than in the previous quarter. The unemployment rate in the three months to June was estimated to be 4.7%, 0.8ppts higher than before the pandemic but 0.2ppts lower than the previous quarter. The redundancy rate in the three months to June decreased by 1.9 per thousand employees on the quarter to 3.6 per thousand employees, returning to pre-pandemic levels.

5. Trade

In Q2 2021, the total trade deficit widened by £3.6bn to £5.2bn. Total imports of goods, excluding previous metals, were £12.8bn (12.4%) higher than Q1, with increases in imports from EU and non-EU countries. The rise of imports of goods in June came from both EU and non-EU countries, with EU goods imports driven by cars and non-EU goods imports driven by mechanical machinery. Total exports of goods, excluding precious metals, also rose in Q2 but by a smaller amount, leading to a wider trade deficit. Exports were £9.1bn (12.5%) higher than Q1, driven almost entirely by increasing exports to the EU.

6. Government finances

Public Sector New Borrowing excluding public sector banks (PSNB ex) was estimated at £10.4bn in July 2021; this was the second-highest July borrowing since monthly records began in 1993, but £10.1bn less than in July 2020. PSNB for the financial year-to-July was estimated to have been £78bn, also the second-highest level for the equivalent period since records began, but £61.6bn less than the same period last year. Public Sector Net Debt (excluding public sector banks, PSND ex) was £2,216bn at the end of July 2021, equivalent to 98.8% of GDP, the highest ratio since March 1962. Central government receipts in July 2021 were estimated to have been £70.0bn, £9.5bn more than in July 2020, while central government bodies spent £79.8bn, £2.9bn less than in July 2020.



Cámara
Chileno**Británica**

100
años
1917-2017