CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Chilean Economic Report
Third Quarter 2023

3rd Edition 2023 — Produced since 1922

Our Investors

Platinum Investors

AngloAmerican

Bupa

GSK

HSBC

MarshMcLennan

Gold Investors

ANTOFAGASTA MINERALS

BMW

DIAGEO

MAINSTREAM RENEWABLE POWER

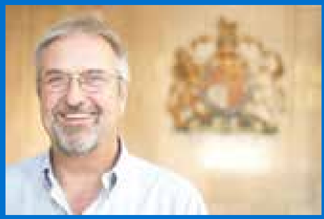
MINI

WEIR Minerals

Index

Dear reader

"JP Morgan's Jamie Dimon recently warned that the world is facing its most dangerous time in decades. Of course, he is referring to the conflicts in Ukraine and Israel, the humanitarian crises, and the impact that is having on energy and food markets. Add to this the lag in the Chinese economy, and the political uncertainty at home, it is not surprising that the Chilean economy remains fragile.



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

It is difficult to find much positive news in this quarter's report. Recent polls show that the current proposal for a new constitution is likely to be rejected when it goes to the vote in December. A new constitution was promised after the social unrest in 2019, and the failure to deliver an acceptable alternative will mean that the political uncertainly will continue.

Inflation has fallen to its lowest level in two years, assisted by significant cuts in interest rates, but other factors such as the devaluation of the peso and other external factors are potential risks against further falls. New jobs are scarce, and unemployment has risen to its highest level in two years.

It is not surprising then that both business and consumer confidence remain very low.

Here in the Chamber, we continue to produce regular events and analysis of the current issues. It is heartening to see so many of our members face to face at our committee meetings and the other bigger events we have delivered during the last quarter. These include our Financial Innovation Awards, the 5th Female Leadership Summit, the 30th Ambassadors Cup, and the 4th Conference on Bilingual Education.

See you soon!"

thanks

Greg

Economic Report Committee: Peter Lynch, President, British Chilean Chamber of Commerce. Leslie Hemery, Director, Past President's Forum, British Chilean Chamber of Commerce.

Gareth Taylor, Head of Economic Affairs & Sustainable Development,

British Embassy in Chile. Tom Azzopardi, External Journalist. Greg Holland, General Manager, British Chilean Chamber of Commerce.

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

Key points

• The Chilean economy is on the cusp of returning to growth, but the recovery will be tepid and is threatened by difficult external conditions and political uncertainty at home.

• The Central Bank has ruled out an expansion in activity this year and predicted only moderate growth (1.25-2.25%) in 2024, highlighting the risk from a slowing Chinese economy and weak investment.

• Inflation has fallen to its lowest level in two years, thanks to lower energy prices, but rose in September on the weaker Chilean peso and food inflation.

• The Central Bank has begun loosening monetary policy with two large cuts in the third quarter, a process that will continue into 2024.

• As monetary policy diverges between Chile and the US, the Chilean peso has depreciated to around CLP 950/dollar against the US dollar, its lowest level so far this year.

• Business and consumer confidence remain gloomy, affected by weak growth, high inflation, and continued political uncertainty.

• Unemployment has climbed to 9.0%, its highest level in two years amid a dearth of new jobs.

• S&P Global Ratings has lowered to negative its outlook for Chile's sovereign debt ("A" rating), citing the lack of political consensus required to enact necessary economic and social reforms.

• The process to draft a new constitution is concluding with polls showing a majority of Chileans planning to reject the text at next December's referendum.

• Copper and lithium prices have fallen while copper production continues to decline as major projects are delayed.

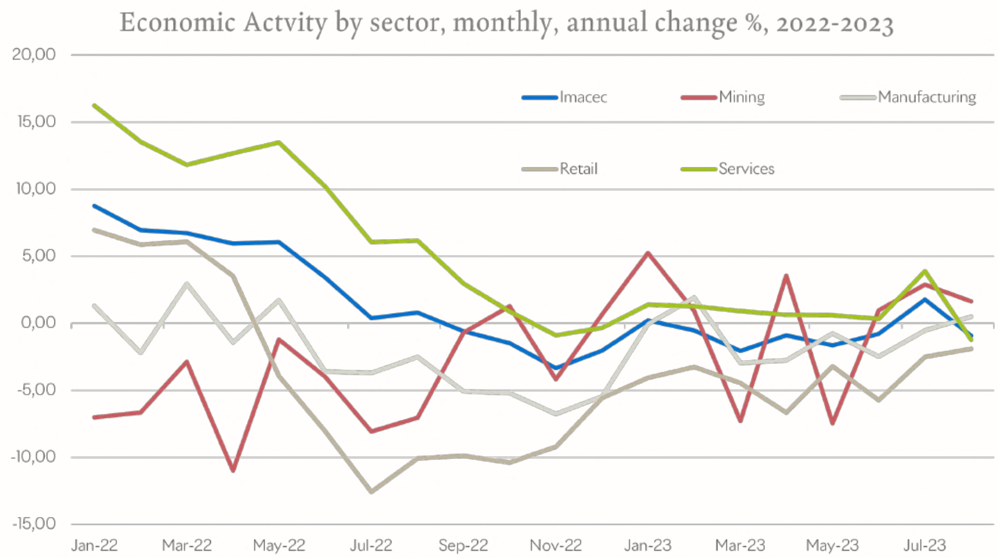
• Exports have fallen on lower minerals prices while imports have recovered, led by consumer goods, shrinking Chile's trade surplus.

• Chilean share prices have declined on concern over the global economy, with the IPSA falling 13% from the record high reached in August.

CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Domestic Economic Performance

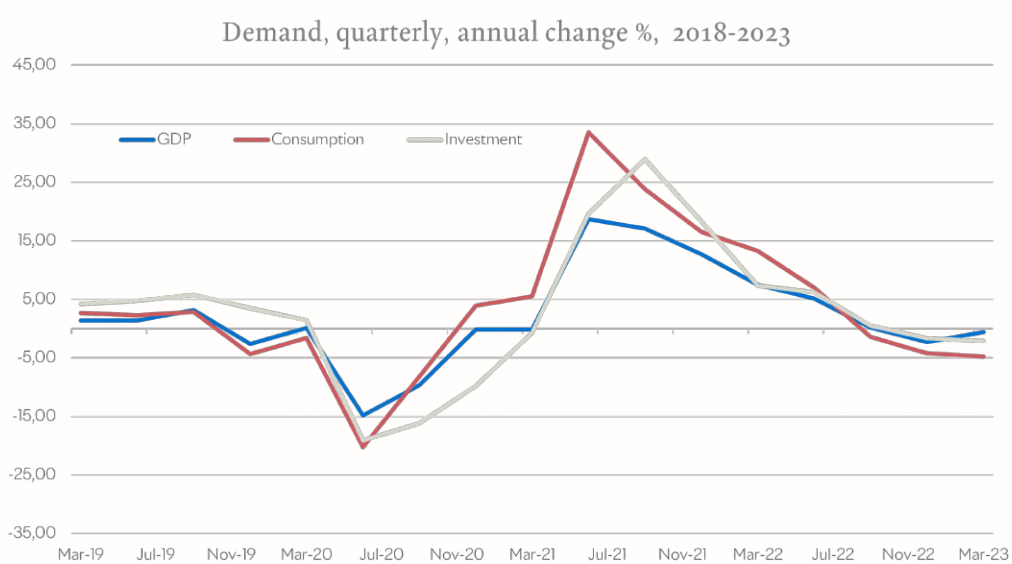
1



Source: Central Bank of Chile

The Chilean economy is expected to start growing again after contracting for three consecutive quarters as inflation declines, monetary policy is loosened, and the base of comparison falls. However, there is uncertainty over the pace of recovery into next year, especially if a slowdown in the Chinese economy intensifies or the weaker Chilean peso reverses the decline in inflation.

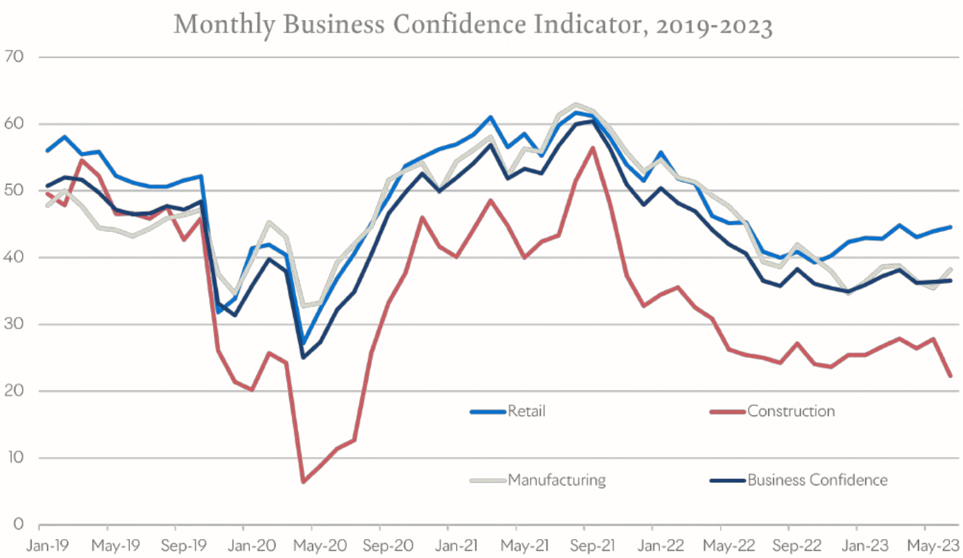
Preliminary data from the Central Bank showed that activity contracted by 0.9% in August, compared with twelve months earlier and below market expectations, after unexpectedly growing by 1.8% in July. That spurt was largely due to transitory factors, including earlier school holidays and energy market conditions. The decline in August reflected a 1.9% decline in retail activity (although this was the smallest decline in the sector in more than a year) and a 1.2% fall in services, partly offset by increased activity in mining (up 1.7%) and industrial production (up 2.7%, led by power generation).



Source: Central Bank of Chile

In its latest forecast released in early September, the Central Bank ruled out any expansion in activity this year (-0.5/0.0%), reflecting the poor performance of the mining industry, while maintaining its expectation of a return to tepid growth (1.25%-2.25%) in 2024. This reflects weakness in consumption and investment. After contracting 4.9% this year (as pandemic stimulus measures were curtailed), private consumption is set to grow by less than 2.0% next year as real incomes recover only gradually from recent inflation. Investment will contract 1.2% this year and 0.6% in 2024, reflecting tight financial conditions and continued political uncertainty, only returning to growth from 2025 onwards.

Business Confidence

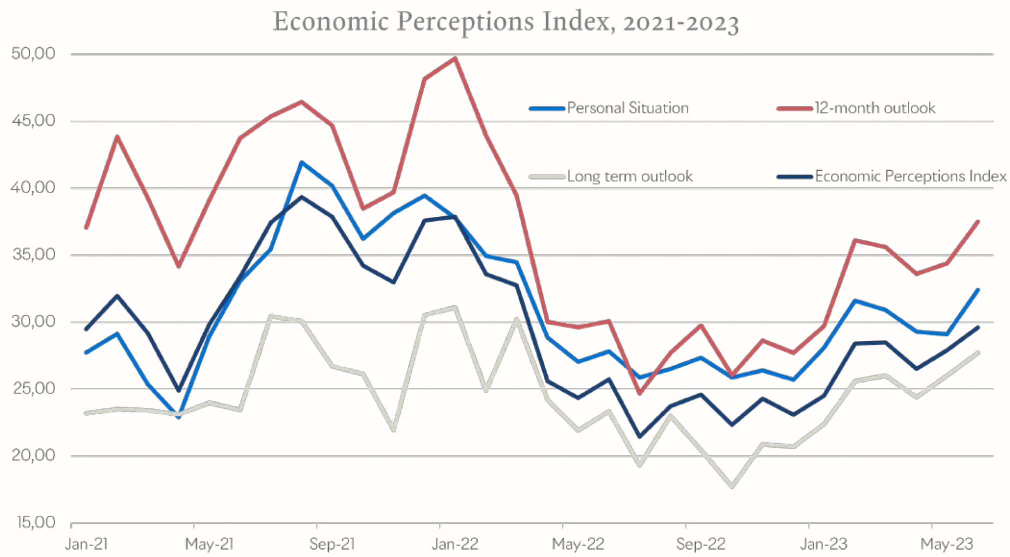


Source: Adolfo Ibáñez University, ICARE

Business confidence has stagnated this year amid the downturn in activity, continued political uncertainty at home and weakness in the world economy. The Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and business organization ICARE, reached 39.06 points (discounting mining) in September, unchanged from six months earlier. While confidence in the retail sector has improved marginally, pessimism in the construction industry is close to lows last seen at the height of the Covid-19 shutdown in 2020.

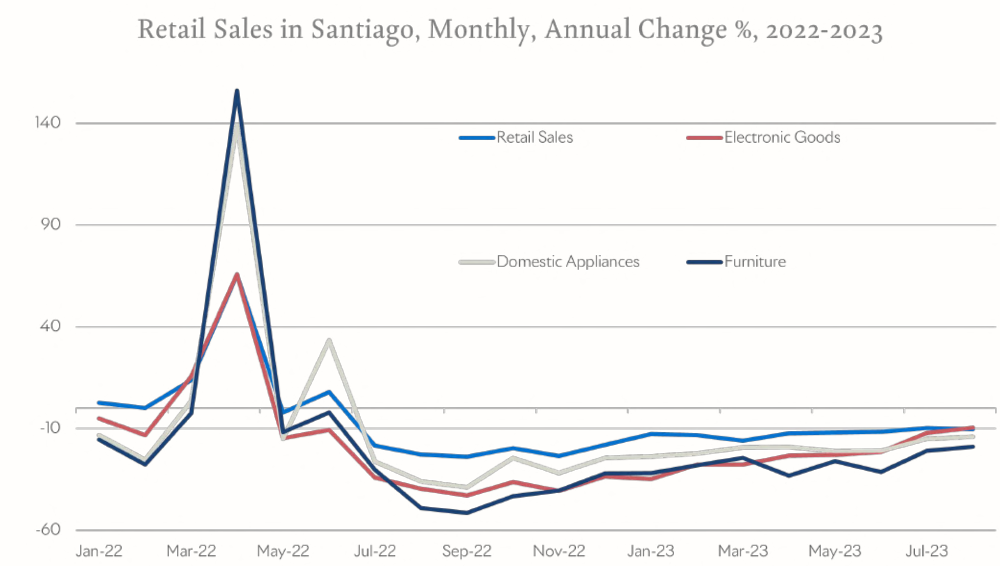
JUNTOS
Santiago
2023
Juegos PanAm | ParapanAm
ANTOFAGASTA
MINERALS
SPONSOR OFICIAL

Consumer Confidence



Source: GFK

Confidence among consumers has improved it although remains near historically low levels. By August, the GfK's Economic Perceptions Index had reached 29.35 points, up six points from the end of last year, driven by consumers' improved economic situation and the outlook for the economy over the next year. However, confidence in Chile's long-term stability remains weak.

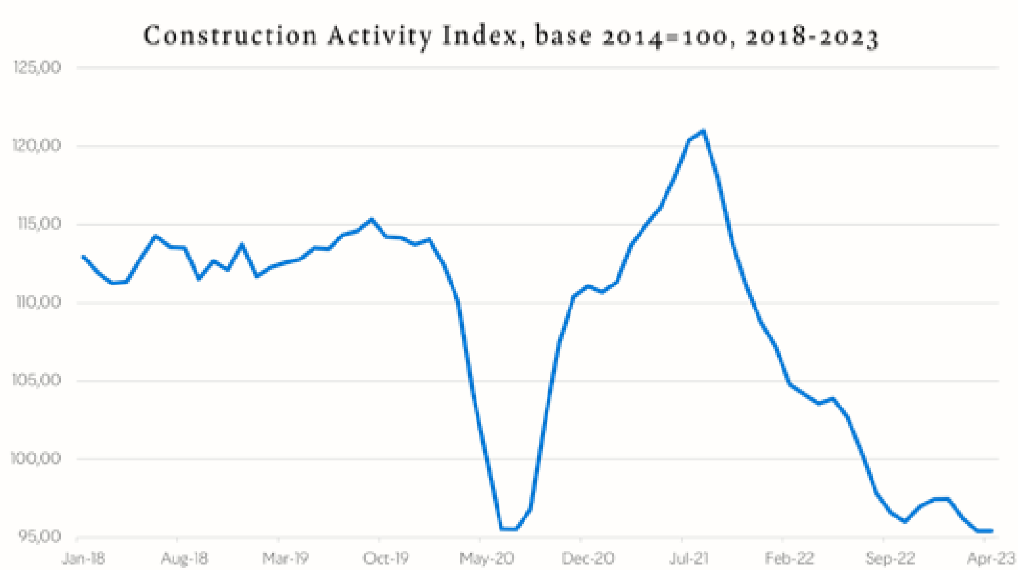


Source: National Retail Chamber

Retail activity has continued to contract in the wake of the post-pandemic consumer boom (driven by pension withdrawals and government transfers to households) although the size of the crash has moderated as the base of comparison has fallen. Retail sales in Santiago were down 10.3% in August, compared with a year earlier (after contracting by 18.0% during 2022). Employment in the sector has recovered to levels not seen since before the 2019 social unrest, confidence in the retail sector is at its highest level in over a year and imports of consumer goods are on the rise.

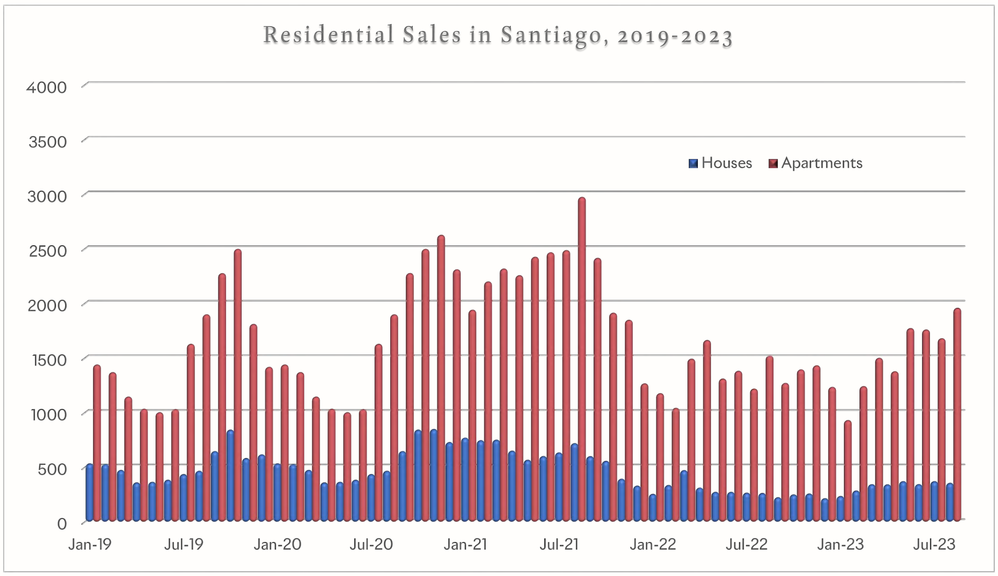
New car sales in the year to August were down 28.8%, reflecting high inflation and last year's record sales.

Construction



Source; Chilean Chamber of Construction

Activity in the building sector remains very weak, with the Construction Activity Index published in July by the Chilean Chamber of Construction falling to its lowest level in over a decade. Employment has fallen 9.0% over the last twelve months, sales of building materials have fallen by a fifth and new residential building permits are down by almost as much.



Source: InfoInmobiliario

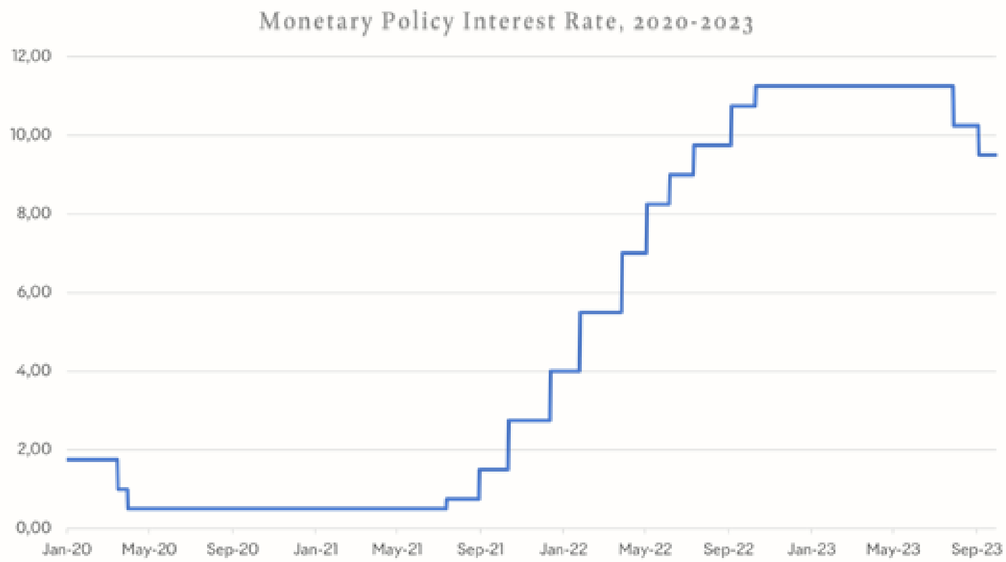
Residential sales have begun to recover as monetary policy has been loosened and banks have begun to cut interest rates. Home sales in Santiago reached 2,312 in July, their highest level in almost two years, driven principally by sales of apartments.

Manufacturing

Manufacturing activity rose 0.5% in August compared with twelve months earlier, the first annual increase in the sector in more than a year. The increase was driven by a sharp rise in machinery production (up 31.4%), reflecting sales of mining equipment, chemicals output (up 9.4%on increased methanol production), and oil refining (following a major shutdown last year at the country's largest refinery). This was offset by 18.6% fall in production of non-metallic minerals due to lower demand from the construction industry.

Services

After driving growth for most of the past year, the services sector (which accounts for around 50% of GDP) has begun to contract, falling by 1.2% in the year to August, its biggest fall in more than two years, with declines recorded in business, transport, and educational services. The latter was affected by this year's later winter school holidays and a one-week strike by teachers.



Source: Central Bank of Chile

The Central Bank has begun loosening monetary policy as inflation declines and the economy contracts. After a 100-basis point cut on July 28th, the board voted unanimously to implement a second cut on September 5th although following the strong activity figures for July and the rise in oil prices, it opted for a 75bp reduction to 9.50%.

The Bank is expected to implement two further cuts in meetings on October 28th and December 20th and to continue reducing the rate through 2024. However, contradictory data on activity and prices have raised uncertainty about the development of monetary policy over the coming months. Analysts surveyed in early October predicted the rate will end this year at 8.00% and reach 5.25% by the third quarter of next year.

Following this year's weak economic performance, a series of natural disasters and the political deadlock over the government's proposed tax reform, the state of the public finances has deteriorated over the last quarter. However, the government plans to hike spending next year in order to reactivate the economy.

Despite US$2.0 billion of spending cuts announced in August to help balance the budget, the government still expects public spending to rise 2.2% this year to CLP 71.7 trillion (US$78.1 billion), ahead of the 0.7% increase in this year's budget.

Meanwhile, revenues are expected to fall by 11.1% to CLP 65.2 trillion (US$71.1 billion), reflecting lower tax revenue and reduced income from mining. As a result, the public deficit is expected to grow to CLP 6.5 trillion (US$7.0 billion) this year, the equivalent to 2.3% of GDP, up from 1.9% predicted three months earlier.

Budget 2024

In its budget legislation for 2024, presented to Congress in late September, the government proposed to increase public spending by 3.5% (in real terms from this year's estimated expenditure) to around CLP 76.9 trillion (US$83.4 billion).

Health (8.1%), housing (11.9%) and education (4.2%) will receive the bulk of the rise with significant increases also planned for law and order (5.7%), emergencies (28%), and public care (20%).

While social spending will rise 4.5%, public investment will rise 4.1% in a bid to create new jobs and spur economic activity.

The rise reflects government estimates that public revenues will rise 5.7% in real terms to CLP 71.3 trillion (US$77.8 billion), which should reduce the public deficit to around CLP 5.6 trillion (US$6.1 billion), or 1.9% of GDP.

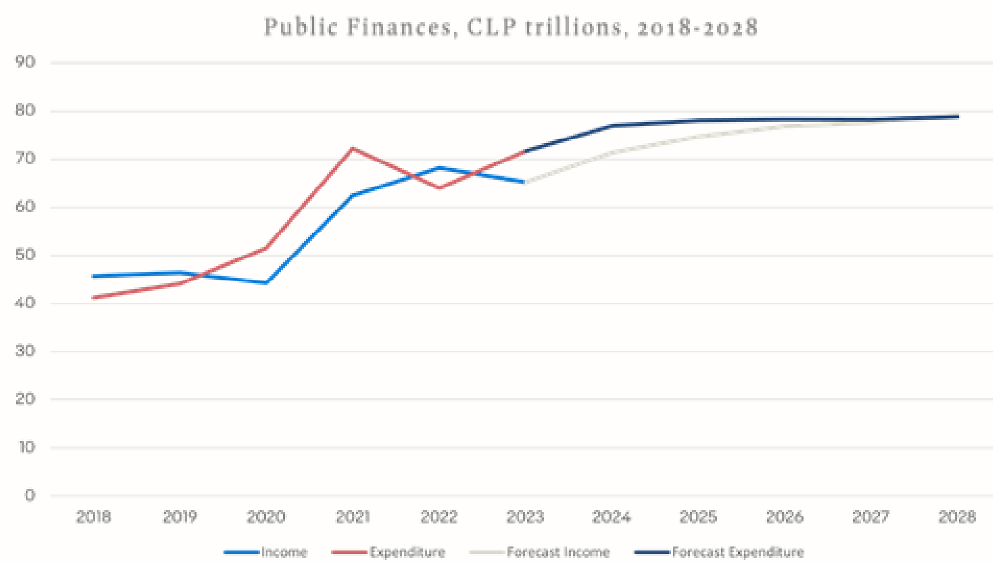
However, these figures have been questioned as overly optimistic by some economists. For a start, the figures assume that the economy will grow by 2.5% next year, ahead of Central Bank and private forecasts (1.25-2.25% and 1.8% respectively).

In addition, the government cannot count on additional revenue from its proposed tax reform (rejected by Congress last March) which it estimated would have provided an additional US$5.5 billion in higher taxes and reduced evasion from 2024. In comparison, the higher royalty on mine production approved in July will only raise 0.15% of GDP next year.

As a result, the deficit will have to be funded through additional debt which is expected to reach 41.1% of GDP, up from 38.2% by the end of this year.

The government also assumes that income from state copper company Codelco will only fall 6.6% next year despite severe operational and financial difficulties (See 3.0 Insight). Income from lithium royalties on the Salar de Atacama may also decline more than expected given the sharp fall in lithium prices since the start of the year.

The debate on the budget through Congress is expected to be choppy, given the opposition's renewed confidence (following its victories in the constitutional process) and the scandal over state donations to non-governmental organizations related to government supporters.



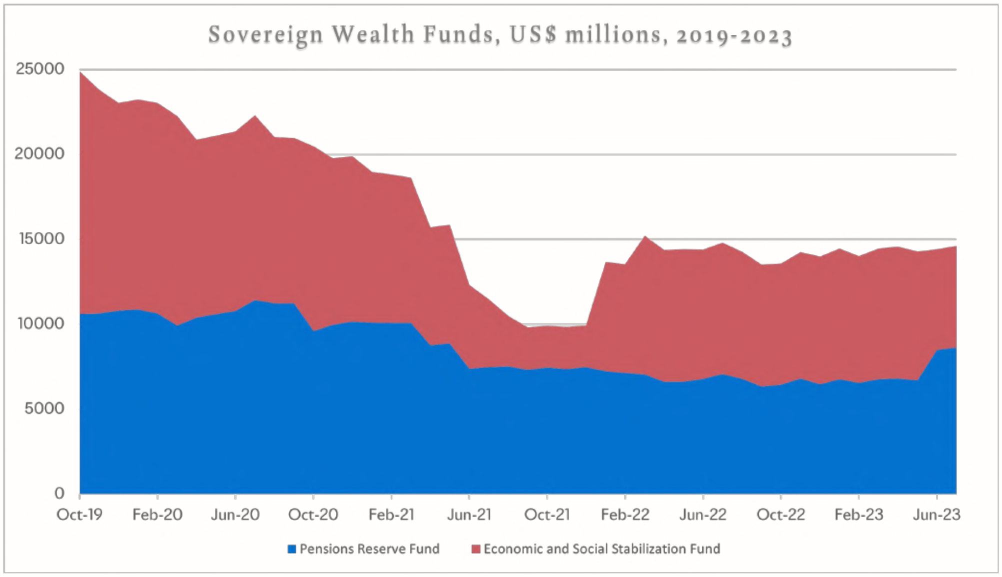
Source: Budget Office

Despite these challenges, the government continues to forecast a return to balanced budgets by the end of its four-year term in 2027. However, this assumes that government revenues will rise significantly between 2023 and 2027, presumably through the approval of higher taxes and strong growth, while spending will be largely flat from 2025 onwards despite unmet social demands. In turn, government debt will not grow significantly as a percentage of GDP.

Credit Ratings

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

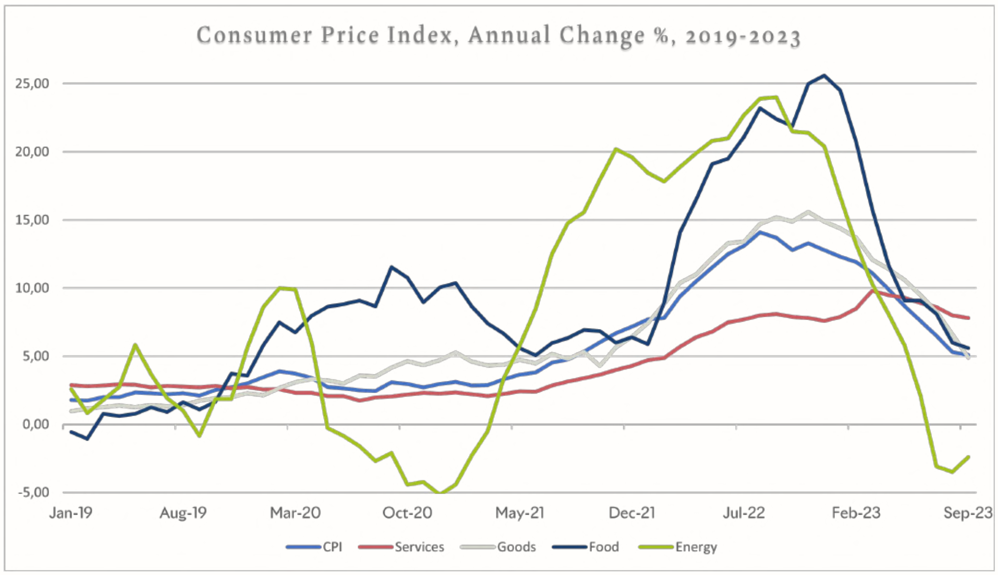
In October, S&P Global Ratings lowered to negative its outlook for Chile's sovereign debt ("A" rating), citing the lack of political consensus required to enact necessary economic and social reforms. The decision means the agency could announce a credit downgrade within the next 24 months if the political deadlock and deterioration of Chile's fiscal situation are not resolved following conclusion of the constitutional process.



Source: Finance Ministry

By the end of July, Chile's two sovereign wealth funds held assets worth US$14.6 billion, up 4.4% from the end of last year. In June, the government transferred US$1.6 billion from the Economic and Social Stability Fund to the Pensions Reserve Fund as it prepares to pay out higher universal pensions under its proposed pensions reform, which is still in Congress.


THE XM
El placer de conducir
*Imagen corresponde a modelo BMW XM, stock de 3 unidades. Precio de lista $244.490.000. La marca BMW y sus logotipos son marcas registradas de BMW AG.
MÁS INFORMACIÓN

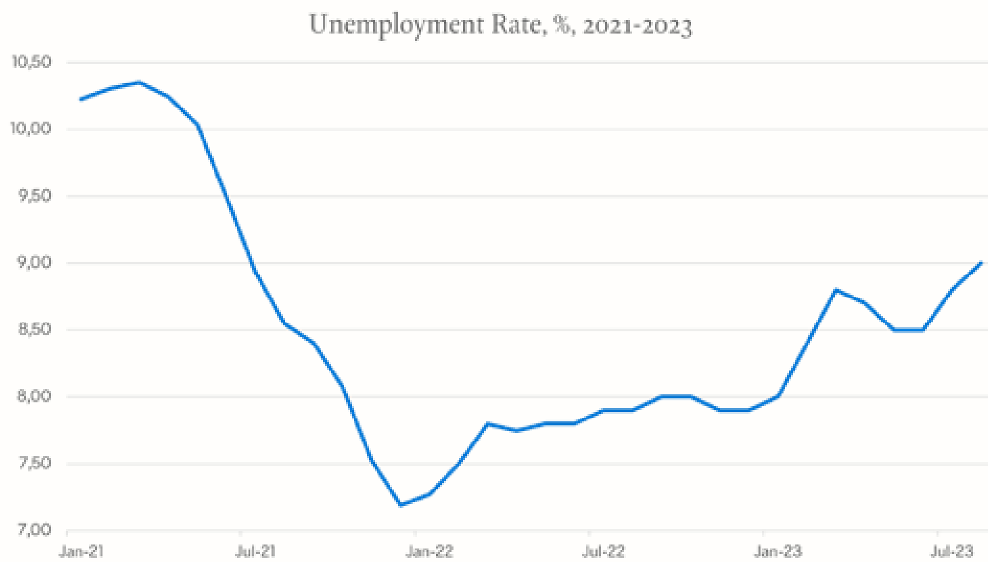


Source: National Statistics Institute

Inflation has fallen sharply this year, slowed by the drop in energy prices since mid-2022. However, the depreciation of the Chilean peso and rising oil prices since July have slowed the decline and could delay convergence with the Central Bank's 3.0% target rate.

In September, the government's Consumer Price Index fell to 5.1%, down from 13.7% twelve months earlier and its lowest level in more than two years. Month on month, the index rose by 0.7%, compared to a 0.1% rise in August. This was its fastest monthly rise since January, led by energy and food prices (up 2.2% and 2.1% respectively) while core inflation rose 0.2%, led by services.

The decline in inflation this year has reduced inflation expectations. In September, the Central Bank predicted that inflation would end this year at 4.2% and return to its medium-term rate target rate of 3.0% by late 2024. Analysts surveyed by the Central Bank in September predicted the rate would end the year at 4.0%, their lowest forecast in two years.



Source: National Institute of Statistics

Unemployment has risen again amid a shortage of new jobs. The unemployment rate averaged 9.0% in the three months to August, up from 7.9% at the end of 2022 and its highest level in more than two years.

The number of people in work has not grown since January while the workforce has expanded by almost 2.0%. Job losses largely in agriculture and construction have been offset by gains in retail, manufacturing as well as public administration and education, areas largely determined by public spending.

Wages have continued to rise rapidly and, as inflation has declined, workers are beginning to benefit. The government's remunerations index rose by 8.0% in the twelve months to August and by 2.6% when adjusted for inflation, marking six months of rising real incomes.

Wages have been boosted in part by the rise in the monthly minimum wage to CLP 420,000 (US$467) from May 1st and CLP 440,000 from September 1st. Under legislation passed last May, it will rise to CLP 500,000 from July 2024.

Source: Santiago Stock Market

Shares prices in Chile have declined sharply in recent weeks. After reaching a record 6,432 points in early August, the IPSA index of the largest companies listed on the Santiago Stock Exchange had declined more than 13.0% by early October, reflecting concern over the state of the Chinese economy. In particular, shares in SQM, the exchange's most valuable company, have fallen by almost a quarter following the drop in lithium prices.

Bank lending

Bank lending has continued to contract with the value of outstanding loans reaching CLP 251.1 trillion (US$272.5 billion) by the end of August, down 2.9% from twelve months earlier, marking its thirteenth month of negative activity.

Corporate lending declined by 5.6% to CLP 137.6 trillion (US$149.3 billion). According to banking association ABIF, lending to large companies has returned to pre-pandemic levels, but loans to smaller businesses remain 55% lower, reflecting lower demand, more restrictive conditions, and additional lending during the pandemic.

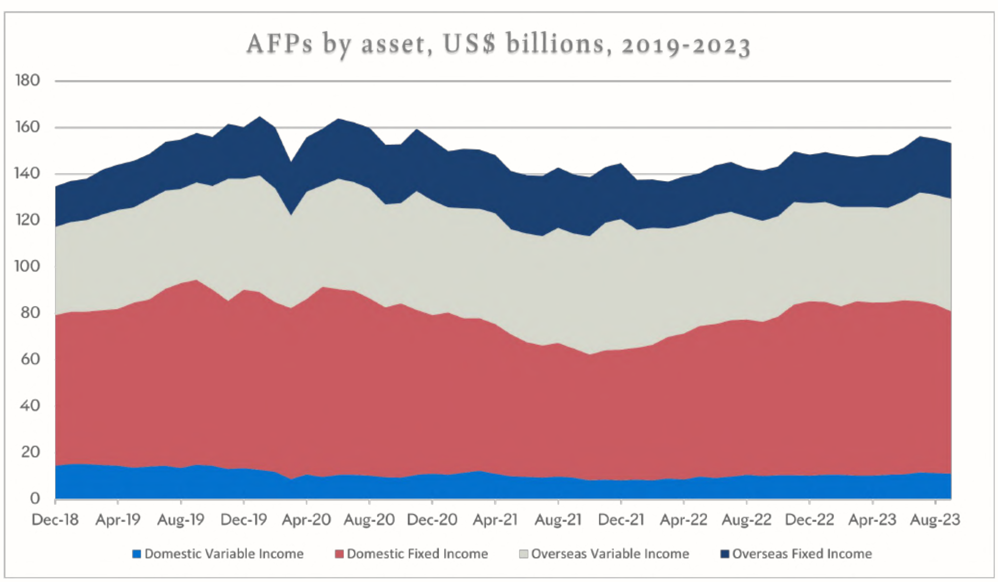
Consumer lending fell by 2.4% to CLP 28.8 trillion (US$31.3 billion) while mortgage lending rose by 2.1% to CLP 82.2 trillion (US$89.2 billion).

Bank profits have fallen due to increased provisions against non-payment of loans. They totalled CLP 3.0 trillion (US$32.1 billion) during the first eight months of the year, down 27.5% from a year earlier. The proportion of non-performing loans reached 1.94% of the total in August, up from 1.53% twelve months earlier, with increases in all loan categories.

Type of fund	Amount (billions of pesos)	Change October 2022 – Sept 2023 (%, real in pesos)	Return October 2022 – Sept 2023 (%, adjusted for inflation)	Limits on equity investments (% of fund assets) Maximum	Minimum
A Funds	23,575	5.0	-1.12	80	40
B Funds	28,343	13.7	-0.36	60	25
C Funds	53,960	5.5	0.05	40	15
D Funds	27,041	9.9	0.02	20	5
E Funds	21,881	5.9	0.24	5	0
Total	154,800	7.7			

Source: Superintendence of Pensions

The value of assets managed by Chile's private pensions fund administrators reached CLP 154.8 trillion (US$165.2 billion) by the end of September, up 7.7% from twelve months earlier, driven by the depreciation in the Chilean peso over the last year and investment in foreign debt.

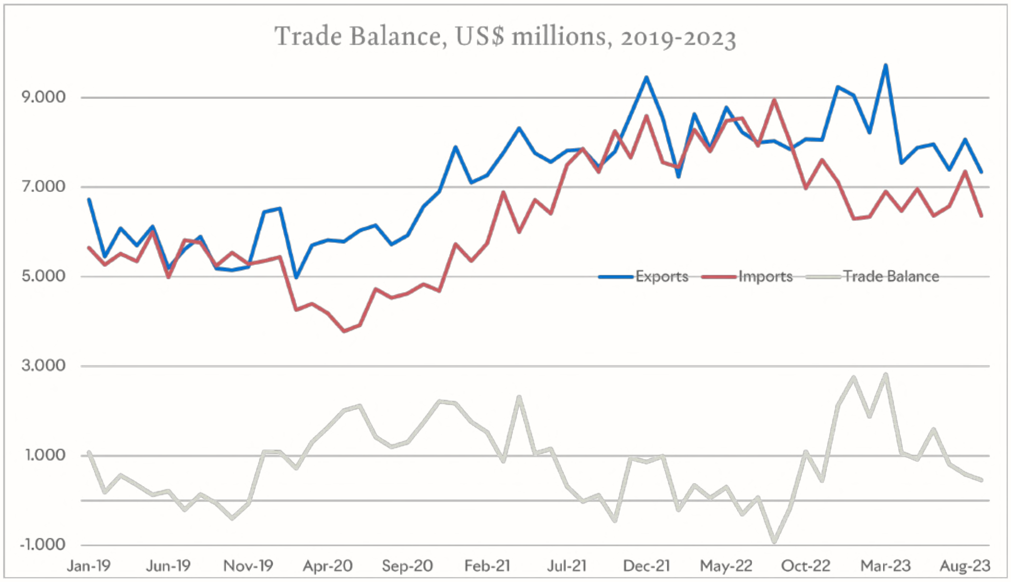


Source: Superintendence of Pensions

CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

External Sector

2



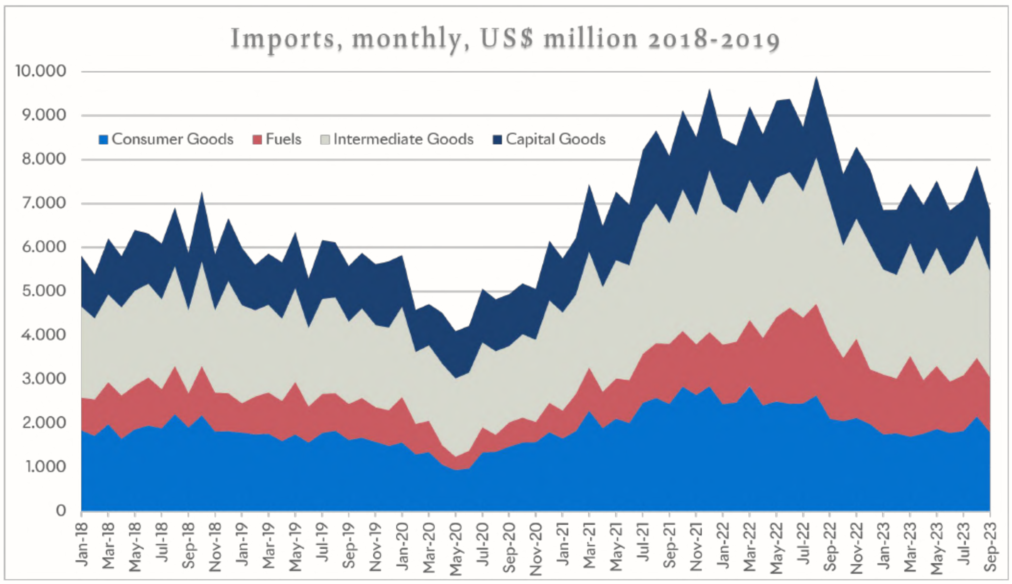
Source: Central Bank of Chile

Chile's trade surplus has declined through 2023 as exports, particularly of minerals and agricultural products, have fallen. From US$7.5 billion in first three months of the year, the surplus fell to just US$2.5 billion in the third quarter (although compared to a US$1.0 billion deficit in the same period of 2022). Exports reached US$22.8 billion in the third quarter, down 4.5% from a year ago, while imports declined 18.5% over the same period to US$20.3 billion.

In September, the Central Bank predicted that Chile's trade surplus would grow to US$14.4 billion this year, up from US$3.8 billion in 2022, before declining to US$11.1 billion in 2024 as imports recover.

Source: Central Bank of Chile

Imports



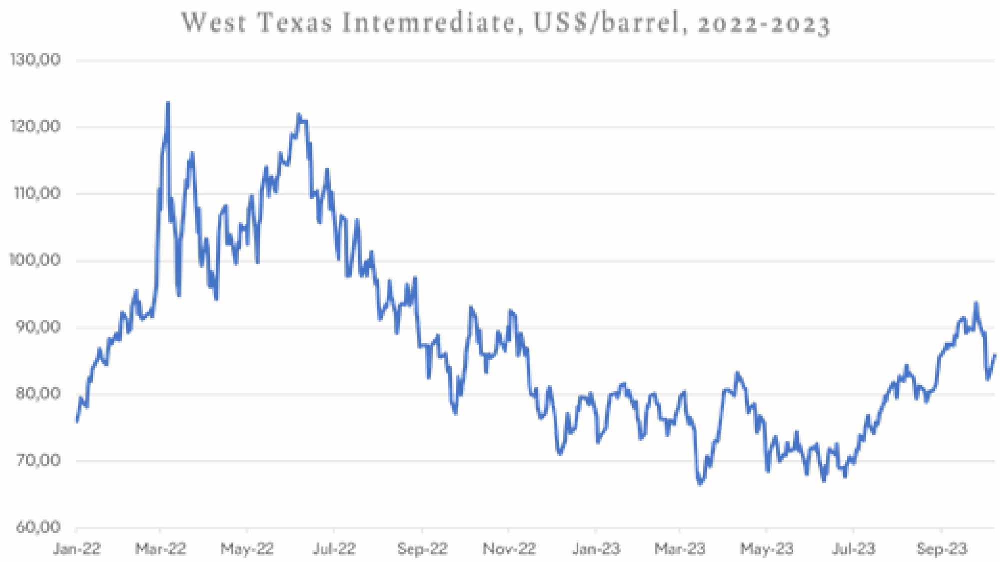
Source: Central Bank of Chile

The drop in imports has been driven by declines in imports of consumer goods and fuels, although imports of intermediate and capital goods have fallen.

Imports of consumer goods totalled US$5.8 billion in the third quarter, down 19.6% from the same period of 2022, reflecting lower imports of cars, other consumer durables, clothing, and footwear. However, imports are recovering, and the third quarter represented the highest quarterly figure so far this year.

The value of Chile's energy imports reached US$3.9 billion in the third quarter, down 34.8% from a year ago and little changed from the previous quarter, reflecting lower oil prices. The West Texas Intermediate benchmark price, which ENAP uses to price imports, averaged US$82/barrel in the quarter, down from US$93/barrel twelve months earlier. However, oil prices have risen in recent weeks, reaching US$90/barrel for the first time this year after oil producing countries agreed to cut production.

Diesel imports fell 40.5% in the quarter to US$1.2 billion, reflecting the closure of Chile's largest oil refinery for prolonged maintenance last year. Following the rehabilitation of a trans-Andean pipeline, state oil firm ENAP has begun importing oil from neighbouring Argentina for the first time in almost twenty years, reducing its reliance on seaborne crude.

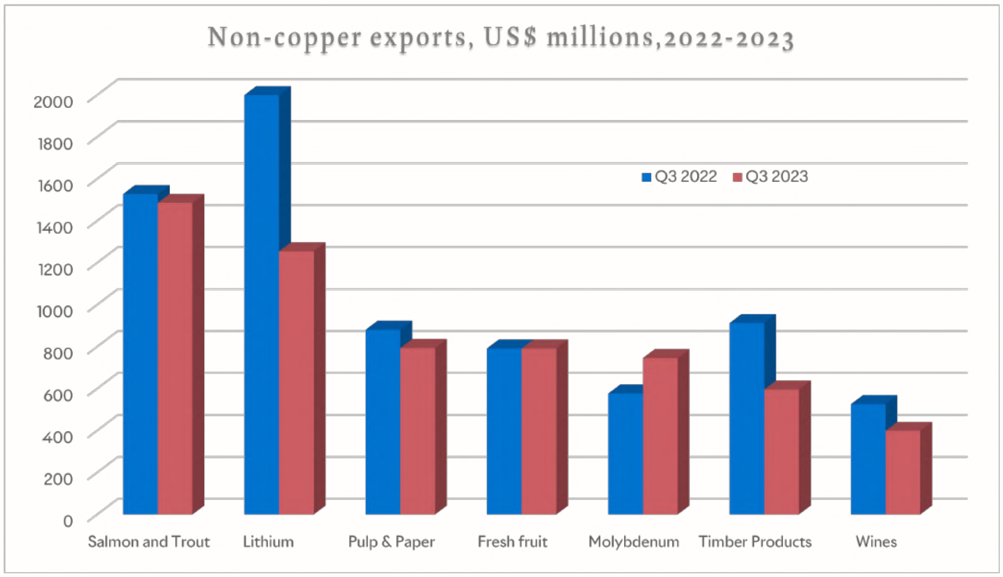


Source: St Louis Federal Reserve

Imports of intermediate goods totalled US$7.7 billion in the third quarter, down 16.7% from a year ago, as imports of chemicals, metallic goods and spare parts for mining equipment all fell.

Capital goods imports fell to US$4.4 billion, down 12.7%, reflecting lower imports of lorries, buses, and electrical equipment while imports of mining and construction equipment rose 32.7% to US$431 million.

Exports



Source: Central Bank of Chile

Chile's non-mineral exports fell in the third quarter, compared with a year ago. While agricultural exports fell 3.2% to US$934 million, industrial exports fell 7.7% to US$8.6 billion.

The fall in farm exports reflects a 59.1% drop in fisheries exports to US$18 million while fruit exports were little changed at US$792 million.

The fall in industrial exports reflects declines in exports of forestry products and food and drink.

Exports of salmon and trout reached US$1.5 billion in the quarter, down 2.8% from a year ago. According to the Chilean Salmon Council, higher volumes this year have been offset by lower prices, especially in the US, Chile's main market.

Pulp and paper exports fell 9.8% to US$794 billion, reflecting lower pulp shipments. According to Empresas CMPC, pulp prices have continued to decline with the price for bleached short fibre kraft pulp averaging US$682 a ton in the second quarter of this year, down from US$954 a ton twelve months earlier. Exports of timber products fell 34.7% to US$596 million.

Wine exports fell 24.3% to US$399 million in the quarter. Industry association Vinos de Chile has blamed high inflation, interruptions to global trade and high inventories abroad for the fall.

Chemical exports rose 2.5% to US$2.4 billion, as increased exports of molybdenum oxide, tires, and iodine, offset lower methanol and fertilizer exports.


mainstreamrp.cl
GENERAMOS ENERGÍA 100% LIMPIA Y UN MEJOR FUTURO PARA TODOS
Chile tiene como meta que las ERNC (Energías Renovables No Convencionales) representen el 60% de la matriz energética nacional para el 2030. Y en Mainstream estamos comprometidos con ese desafío, aportando más de 2.3 GW de energía limpia, renovable y libre de CO_2 en los próximos años.
Para más información siguenos en
MAINSTREAM RENEWABLE POWER

Chile's mineral exports have declined so far this year, as a sharp decline in exports of lithium carbonate (due to lower prices) offset increased exports of copper, iron ore, molybdenum, and precious metals. Exports in the third quarter totalled US$13.2 billion, down 2.5% from a year ago and compared to a peak of US$15.3 billion in the final quarter of last year.

Source: Chilean Copper Commission

Copper exports reached US$10.9 billion in the third quarter, up 4.1% from a year ago, reflecting higher prices for the metal. Prices averaged US$3.79/lb in the third quarter, up from US$3.51/lb twelve months earlier, but down from US$3.84/lb in the second quarter and US4.04/lb in the first. This year's decline mirrors growing concern about the state of the Chinese economy.

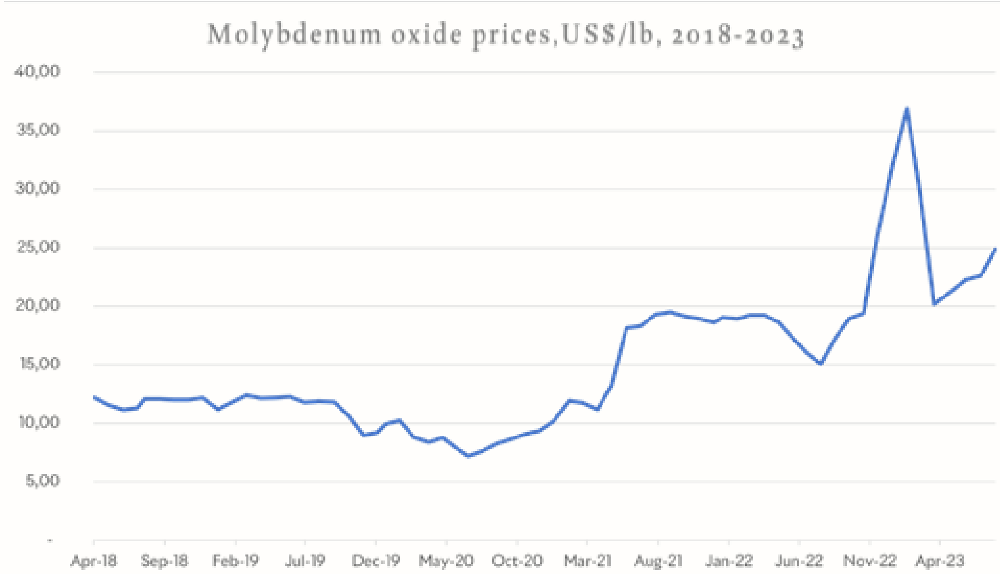
The higher prices offset the fall in production this year as mining companies contend with lower ore grades, water shortages and delays to key expansion projects. Production during the first eight months of the year reached 3.4 million tons, down 2.6% from a year earlier. In July, the Chilean Copper Commission cuts its production forecast for this year to 5.4 million tons, down from 5.6 million tons previously and close to the 5.39 million tons produced in 2022, the weakest figure in a decade.

As well as the difficulties at state mining company Codelco (see 3.0: Insight), Antofagasta plc and Teck have both cut their production guidance for this year as major investments projects have been delayed.

Exports of lithium carbonate reached US$1.3 billion in the third quarter, down 41.0% from twelve months earlier, reflecting lower prices and lower volumes. Spot prices in China have declined from over US$80,000 a ton in late 2022 to as low as US$20,000 a ton in recent weeks. In response, producers Albemarle and SQM appear to have slowed shipments despite recent investments in additional capacity on the Salar de Atacama.

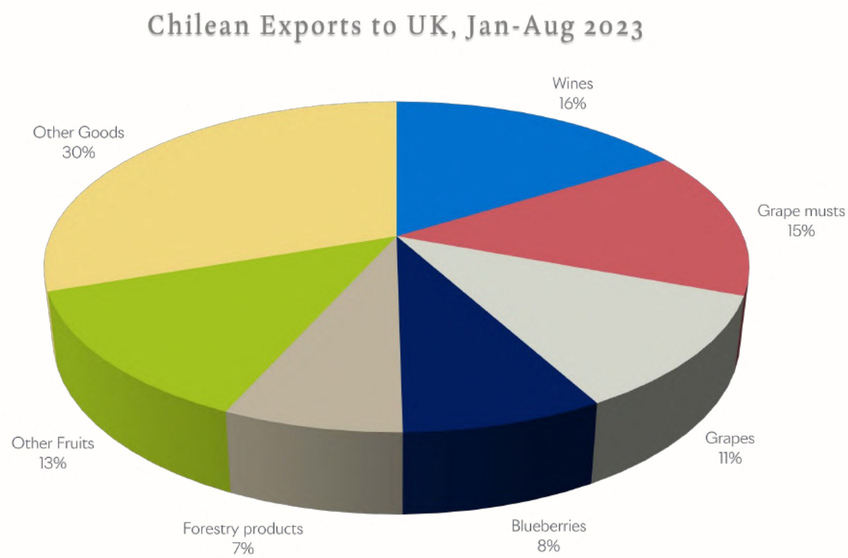
Codelco expects negotiations with SQM over its lithium operations on the Salar de Atacama to conclude by the end of the year although neither side has commented on how talks are progressing.

Shipments of molybdenum (including concentrates, oxides, and ferromolybdenum) reached US$746 billion during the third quarter, up 29.3% from a year ago (although down from a peak of US$1.1 billion in the first three months of this year). The move reflects this year's spike in prices to over US$35/lb. After declining sharply, prices have begun to climb again.



Source: Chilean Copper Commission

Iron ore exports reached US$397 million in the quarter, up 10.7%, while shipments of precious metals rose 41.1% to US$427 million.



Source: National Customs Service

Trade between Chile and the United Kingdom declined to US$691.7 million in the first eight months of the year, down 15.4% from the same period of 2022.

Chilean exports to the UK reached US$373.7 million during the period, down 11.0% from twelve months earlier. Shipments of wine fell 24.7% to US$114.7 million, fresh fruit fell 16.3% to US$120.0 million while forestry products fell 16.2% to US$26.0 million.

UK exports to Chile during the period fell 20.1% to US$318.0 million, reflecting a 32.0% drop in shipments of machinery to US$72.5 million and a 25.6% drop in liquid alcohol to US$33.3 million, while car shipments rose 50.9% to US$29.4 million.

In September, Finance Minister Mario Marcel led a delegation of business leaders and government officials to the annual Chile Day in London.

Chile recorded a current account deficit of US$2.8 billion during the second quarter of the year, equivalent to 4.5% of GDP, up from US$752 million in the first three months of the year.

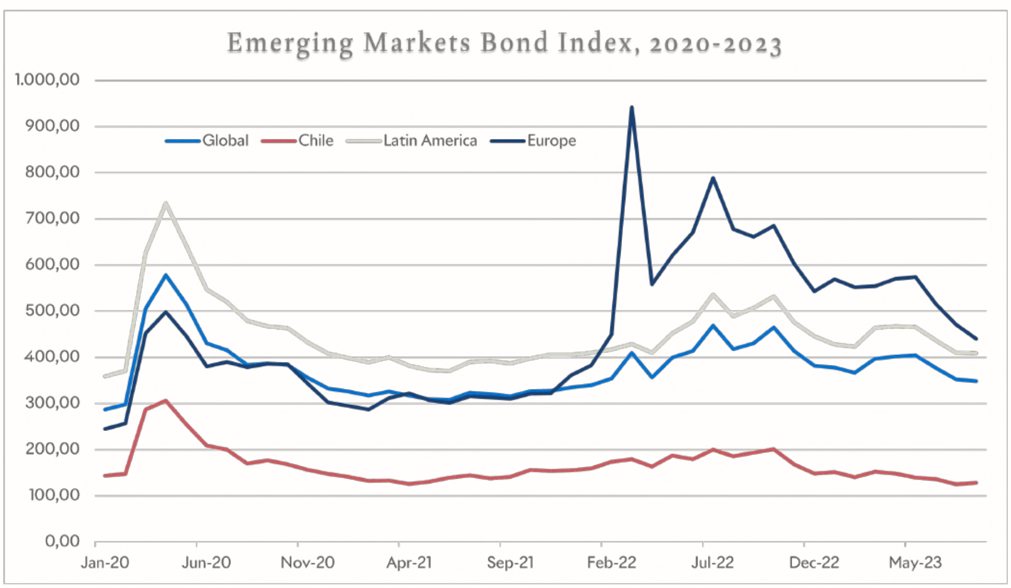
In September, the Central Bank predicted that Chile would end the year with a current account deficit equivalent to 3.4% of GDP, down from 9.0% in 2022. It would rise to 4.0% in 2024 as the trade surplus shrinks to US$11.1 billion on stronger imports.

Financial Account

Chile's financial account recorded a surplus of US$1.8 billion in the second quarter, compared to a surplus of US$2.6 billion in the first quarter, as foreigners increased investments in Chilean businesses and debt while Chilean financial investments abroad rose by US$3.4 billion as pensions funds bought foreign shares.

Chile's foreign debt was little changed at US$239.8 billion as lower bank debt was offset by increased government and corporate debt. Chile's International Investment Position reached a net debt of US$53.8 billion, little changed from the previous quarter.

Country Risk

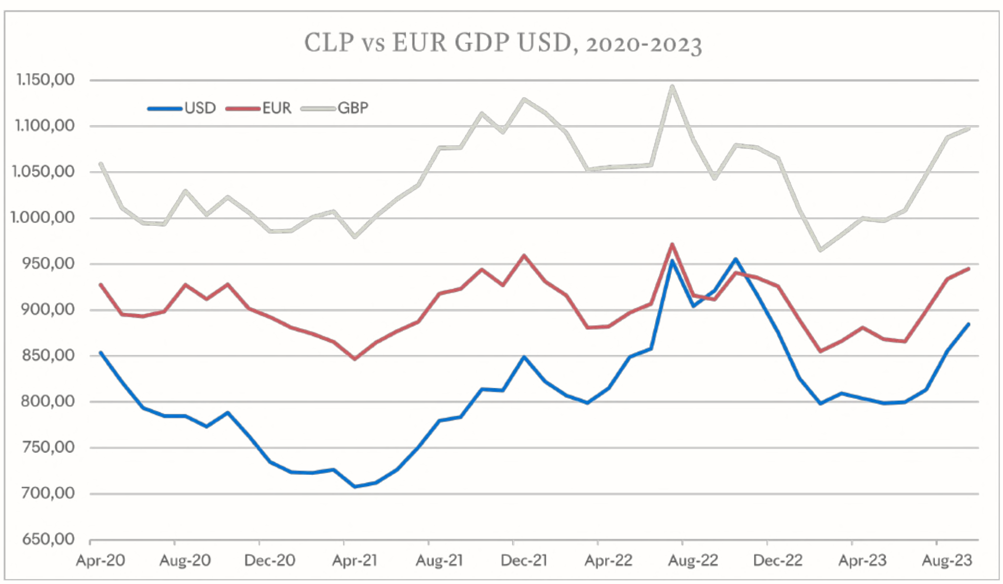


Source: JP Morgan

Risk premiums have declined around the world in recent months, including in Chile. In August, JP Morgan's Emerging Bond Market Index for Chile fell to 125 points, its lowest level more than five years.

Source: Central Bank of Chile

The Chilean peso has depreciated sharply against the US dollar since August as monetary policy in the two countries diverges and investors react to concern over the state of the Chinese economy. By mid-October, the peso was trading as high as CLP 950/dollar for the first time since late 2022. The fall comes despite the announcement in August by the Finance Ministry that it plans to sell US$2.0 billion worth of US dollars by the end of the year.



Source: Central Bank of Chile

The Chilean peso also depreciated against most other currencies. In September, the Multilateral Exchange Rate, measured against a trade-weighted basket of currencies, reached 113.88, its highest level so far this year.

CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Quarterly Insight

3

Codelco, Chile´s giant state-owned mining company and the world's largest producer of copper, is facing its most difficult decade since it was created fifty years ago.

Delays developing a series of mammoth investment projects mean that output from its mines has fallen sharply.

Last year, copper production fell to 1.4 million tons, and it will fall again this year to around 1.30-1.35 million tons, its lowest level in more than 25 years. Management have warned it could take until the end of the decade for production to recover to previous levels of around 1.7 million tons annually.

The slump has hit profits which fell to US$325 million during the first six months of this year, down almost 90% from the same period of 2022.

The situation has significant implications not only for the company and its 60,000 employees and contractors but also Chile as a whole, given its importance to the economy, exports, and public finances.

Codelco's problems could also have global implications given estimates for future copper demand as the world rushes to cleaner forms of energy, from renewables to electric vehicles.

Some of Codelco's difficulties are the same faced by all mining operations. As mines age, ore grades deteriorate, meaning miners must move, crush, and process more rock to produce the same amount of metal. Since 2007, the average ore grade in Codelco's mines has fallen 12%.

But Codelco's mines are much older than the competition's, with Chuquicamata and El Teniente in continuous production for more than a century (with Andina and Salvador only a few decades younger). To stay in production, the company is having to invest billions of dollars in tunnels, pits, and plants to access fresh ore.

The engineering, environmental and financial challenges are immense, and there have been significant overruns in time and budget, something not unknown with projects of this scale.

A new mine level at El Teniente has been scaled back after hitting challenging geological conditions. A huge underground mine beneath Chuquicamata is now in production but will take years to reach capacity. A major expansion of Andina has been delayed after running into environmental opposition.

Projects already under construction have cost US$15 billion more than expected, around 50% more than their initial budget, according to CESCO, a mining think-tank.

But without them, management warn production would fall by more than half by the end of this decade, jeopardizing Codelco's viability as a business.

Another problem is how the company finances these investments.

As a wholly state-owned enterprise, Codelco has been required to hand over almost all its profits to the state, representing a key source of revenue for successive governments as well as contributing to the US$15.0 billion Chile has accumulated in its sovereign wealth funds.

Unable to reinvest its profits, Codelco has been increasingly forced to raise debt to finance projects. As its investments have grown, its debts have ballooned from less than US$10.0 billion a decade ago to almost US$20.0 billion today.

That is much higher than other mining companies. US-based Freeport McMoRan, a similar sized copper producer, has net debts of less than US$3.0 billion.

More worryingly, Codelco's situation could be unsustainable. In August, CESCO warned its debts could reach US$30.0 billion by the end of the decade, a level which could affect Chile's sovereign debt.

In October, concerned by the drop in production, lower profits and rising indebtedness, rating agency Moody's cut its rating from A3 to Baa1, potentially increasing future borrowing costs.

Codelco management deny that it is facing financial difficulties. Investors agree. A US$2.0 billion bond issue in September was almost five times oversubscribed and achieved competitive yields.

But financial conditions could become more difficult especially if project delays put back the recovery in production and further squeeze profits.

Some say the answer is for the Chilean state to allow Codelco to reinvest more. In 2014, President Bachelet allowed Codelco to reinvest US$4.0 billion. President Boric has authorized Codelco to reinvest 30% of its profits through 2027 (although the drop in production has reduced the impact of the measure). But policy between administrations has been inconsistent.

Others say Codelco should seek private partners to finance projects although this could run counter to overwhelming public support for state ownership as well as Codelco's powerful labour unions.

For now, Codelco's situation looks manageable.

It is a long way from struggling state enterprises elsewhere in Latin America such as Mexico's Pemex or Venezuela's PDVSA, which have seen production collapse after years of underinvestment and mismanagement.

But Chile's politicians will have to take some difficult investment decisions to prevent that from being Codelco's future.

CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Political Context

4


Somos
Anglo American:
Somos Minería,
Cobre
e Innovación
AngloAmerican
Con innovación **#LoCambiamosTodo**
Conoce más en **chile.angloamerican.com**

Commemorations of the fiftieth anniversary of the 1973 coup which led to seventeen years of military dictatorship dominated Chilean politics in September and highlighted its growing divisions. Although most parties share a commitment to democracy and human rights, the centre-right opposition refused to sign President Gabriel Boric's proposed declaration enshrining these values, instead releasing their own text. That is largely because they feel threatened by the rise of the far-right Republican Party, led by former presidential candidate José Antonio Kast, which won a third of the seats in the Constitutional Council in May and could make big gains in next year's municipal elections.

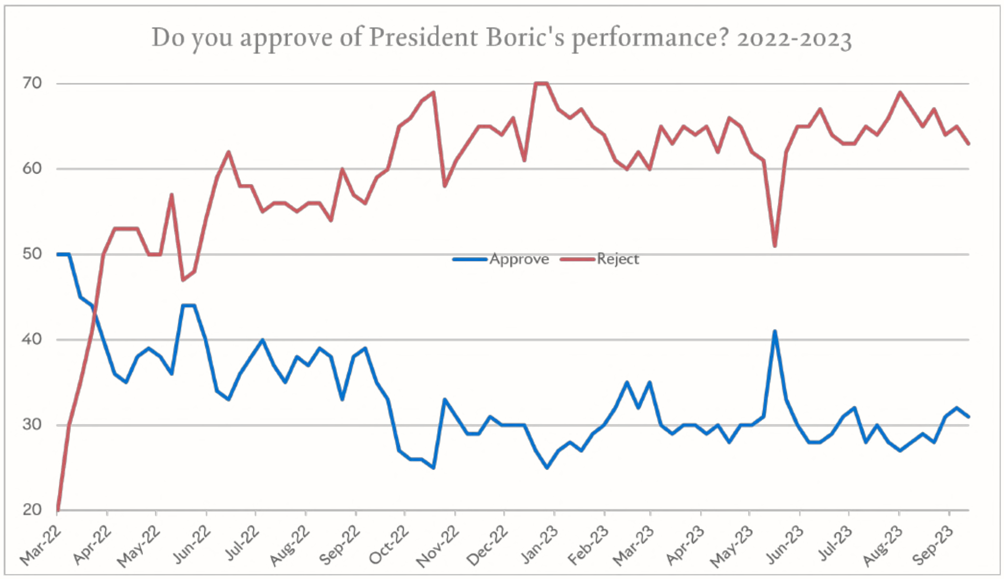
Political tensions have been further heighted by the Convenios scandal - a series of irregular payments from government entities to organizations related to parties in President Boric's Frente Amplio coalition. Police and prosecutors are now investigating donations totalling CLP 32 billion (US$36 million) to 53 organizations in 11 regions. The revelations have severely impaired the Frente Amplio coalition's claims to being more ethical than previous administrations.

On August 11th, Giorgio Jackson, a close ally of President Boric, resigned as Social Development Minister following weeks of pressure about donations to organizations linked to his party Revolución Demócratica. Culture and Arts Undersecretary Andrea Gutierrez also quit after she was found to have approved donations worth almost CLP 300 million (US$340,000) to an NGO for which she had previously worked. Susana Herrera resigned in August as Chile's ambassador to the UK, accused of abusing her position.

Following Jackson's resignation, President Boric undertook his third cabinet reshuffle since taking office, naming five ministers and five new undersecretaries. Unlike previous reorganizations, it did not significantly rebalance political forces within the administration.

Ministry	Out	In
Culture	Jaime de Aguirre (Ind.)	Carolina Arredondo (PPD)
Education	Marco Antonio Ávila (RD)	Nicolás Cataldo (Communist)
Mining	Marcela Hernando (Rad.)	Aurora Williams (Radical)
National Assets	Javiera Toro (Comúnes)	Marcela Sandoval (RD)
Social Development	Giorgio Jackson (RD)	Javiera Toro (Comúnes)

The reshuffle has not helped to rebuild support for the government which has been reduced to its core voters who represent less than a third of the electorate. By late September, just 31% of those asked approved of President Boric's performance while opposition stood at around 63%, little changed from the previous three months, according to the latest CADEM poll.



Source: Cadem

Growing political tensions have derailed the government's major legislative proposals.

Months of negotiations with opposition parties, business associations and civil society on how to raise taxes to finance social reforms have made little progress with discussions focusing instead on how to make public spending more efficient and reduce tax evasion.

Nor have political parties been able to agree on how to reform the pensions system. Negotiations have centred on how to distribute a proposed contribution by employers (eventually to be worth 6% of workers' wages) between workers' individual accounts and a redistributive fund to benefit the low-paid. President Boric's campaign promise to eliminate the private Pensions Fund Administrators also looks in doubt.

Strained relations with the opposition may also affect the debate over next year's government budget which is due to be wrapped up by November 30th. The government aims to raise spending by 3.5% to help reactivate the economy but will have to secure the support of at least some opposition lawmakers who are focusing on fiscal mismanagement in the wake of the Convenios scandal.

Constitutional countdown

Chile's second attempt at writing a new constitution is progressing, according to the timetable set down by lawmakers late last year.

In October, the Constitutional Council completed approval of the text of the proposed new constitution which will be put to voters in a new mandatory referendum on December 17th.

Although based on a draft prepared by the experts, the document has been significantly amended by the Council. Most amendments have come from the far-right Republican Party which holds more than a third of the seats in the fifty-person Council and which by working with other right-wing parties had enough votes to meet the supra-majority required to modify the text as they wish.

Changes include language designed to limit abortion rights, ensure choice in education and healthcare, and reduce the size of parliament. The government and its supporters have warned that the resulting constitution could prove objectionable to many voters (like its predecessor last year), leading to its rejection at the ballot box in December.

Opposition to this new constitutional process is already high with barely a quarter of Chileans planning to vote in favour in December while more than half of those asked say they will vote against it.

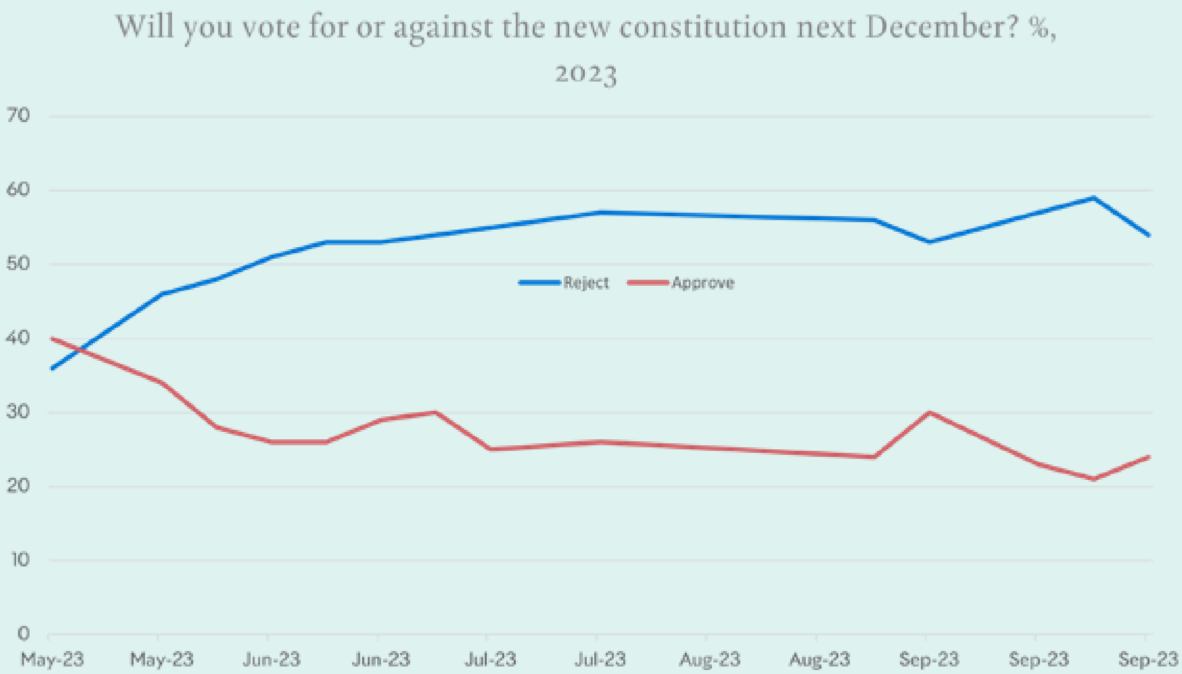
Many object to the lack of participation by ordinary people in the process which has been dominated by political parties.

Opposition to the new constitution has strengthened as the debate has progressed, reaching as high as 59% in one recent poll by CADEM, up from just 36% after last May's elections to the Council.

Opposition could decline once campaigning begins in November and politicians from both sides begin to extol its virtues to voters. Given that a majority of Chileans still support a new constitution, many may vote in favour when the choice is between this one or sticking with the existing one.

But some politicians, especially from the extremes (including former presidential candidate Daniel Jadue), have discussed the possibility of opposing the new constitution which could reduce the chances of approval.

It is unclear what would happen if the new constitution were rejected. President Boric has ruled out a third attempt at constitutional change during his administration. But given the strength of feeling over the issue, the cause of constitutional change is likely to hang over Chilean politics for many years to come, especially if overdue social reforms (healthcare and pensions) are not carried out.



CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

Economic Outlook

5

The Chilean economy is on the cusp of returning to growth, but the recovery is expected to be tepid and is threatened by political uncertainty at home and external conditions which have worsened in recent months.

The biggest threat is the slowdown in China, Chile's biggest trading partner, which faces a drop in exports, a crisis in its housing sector and a rapidly aging population. Depending on how the situation is handled by Beijing, this could mean lower prices and demand for Chile's mineral and agricultural exports, a decline in Chinese investment (which has become key to Chilean infrastructure) and more difficult financial conditions as investors retreat from emerging markets in general.

Inflation will continue to fall, with the Consumer Price Index expected to reach 4.2% by December and the Central Bank's 3.0% target rate by late 2024. This will allow the Central Bank to continue loosening monetary policy, boosting consumption and investment into next year.

However, the normalization of inflation could be delayed by the Chilean peso's sharp depreciation since July and the rise in oil prices, both factors that could be affected by external factors, including the continuing war in Ukraine and renewed violence in the Middle East.

Having ruled out an expansion in activity this year (-0.5%/0%), the Central Bank is forecasting a slow return to trend growth (2%-3%) from 2025 onwards.

But this will require a recovery in consumption and investment. With consumer confidence near historic lows, unemployment climbing, and workers' income yet to recover from eighteen months of high inflation, private consumption is not expected to make a significant contribution to the economic recovery. After declining almost 5.0% this year, it is expected to grow less than 2% in 2024 and 2025.

After an austere first two years in office, the government is planning to increase public spending by 3.5% next year with a focus on public investment to help reactivate the economy. However, there are doubts whether this can be accomplished while meeting its target of balancing the budget by 2027. It also will require the support of an emboldened opposition which is focusing heavily on the administration's fiscal mismanagement.

The missing leg is private investment which has slowed dramatically amid uncertainty over the constitution as well as a lack of regulatory clarity on key new sectors such as lithium, green hydrogen, and renewables.

Next December's referendum represents an opportunity for Chile to recover its reputation for political stability. However, polls suggest only a quarter of voters would currently support the proposal while a majority would vote against it and stick with the existing constitution. It is not clear what would happen if they prevail.

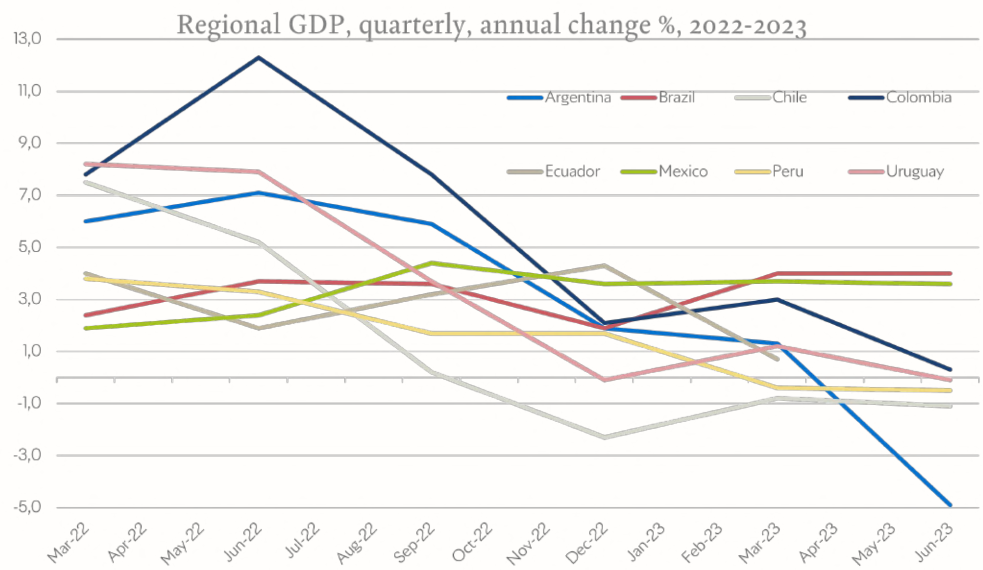
Economic Forecasts, 2024

	Central Bank 1/	Finance Ministry 2/	Private analysts 3/
GDP (% annual variation)	1.25-2.25	2.5	1.8
Inflation (% annual variation)	3.0	3.0	3.0
Monetary-policy interest rate (% annual, nominal, end-year)	NA	NA	4.50
Exchange rate (pesos/US$)	NA	832	850 4/
Copper price (US$/lb)	3.70	3.85	NA

1/ Monetary Policy Report, September 2023
2/ Public Finances Report, October 2023
3/ Average of selected private analysts surveyed by Central Bank, October 2023
4/ September 2024

Latin America Regional News

6



Source: Trading Economics

Argentina: Despite soaring inflation and a collapse in the value of the currency, current Economy Minister Sergio Massa won the first round of the presidential election with 37% of the vote after slashing income tax and boosting welfare payments. The surprise win means that he will face libertarian economist Javier Milei (who won 30%) in a run-off election on November 19th.

Brazil: The economy could grow by more than 3.0% this year, boosted by increased government spending (including transfers to households) and falling food inflation. Markets have reacted positively to new spending limits approved by the opposition-controlled lower house of Congress.

Colombia: The Central Bank has held interest rates at their highest level in more than two decades (13.25%) as it waits for inflation to fall. The government estimates that the economy will grow by just 1.7% this year, down from 2.1% in 2022.

Ecuador: Conservative deputy Daniel Naboa beat leftwinger Luisa González in a run-off vote to become Ecuador's next president after a violent election campaign. The economy is set to grow by just 1.5% this year, down from 2.5% previously, reflecting the political uncertainty, lower oil exports and the impact of El Niño.

Mexico: Deputy Xóchitl Galvez, representing the opposition PAN and PRI parties, will face Mexico City Mayor Claudia Sheinbaum from the ruling leftwing MORENA party in next year's presidential elections. The IMF has raised its growth forecast for 2023 to 3.2%, up from 2.6% previously, citing low employment, strong manufacturing activity and the opportunities provided by multinationals nearshoring.

Peru: The Peruvian economy is expected to grow by less than 1.0% this year following this year's widespread protests against President Dina Boluarte, a slowdown in mine investment and the impact of El Niño on farming and fishing.

Uruguay: The economy is set to grow 2.0% this year while inflation is expected to decline to 7.6% by the end of the year.

UK Economy, Quarter 2 – 2023

Revised economic projections based on more accurate data from the national accounts 'blue book' process have cast the UK economic picture in a more positive light. The rebound from the recession caused by the coronavirus pandemic happened more quickly than was previously thought. It was previously thought the UK had the slowest recovery in the G&, but the updated figures show the UK recovered faster than France, Germany, Italy and Japan, with the economy 0.6% above pre-pandemic levels by the end of 2021. Inflation is falling and projected to fall further, although this still well above the 2% government target. The high growth in average total pay has helped to soften the effects of inflation. Unemployment has risen slightly but still remains low.

1. Economic growth

In quarterly terms, GDP grew by 0.2% in Q2 2023. This follows a 0.3% expansion in Q1 2023. GDP is now estimated to be 1.8% above pre-coronavirus pandemic levels, a correction on previous estimates that had the economy slightly below pre- pandemic levels. Production output increased by 1.2% in Q2 2023, revised up from a first estimate of 0.7%. Construction output rose by 0.3% whilst the service sector showed no growth. In monthly terms, GDP contracted by 0.5% in July 2023, following a 0.5% expansion in June, driven by a 0.7% contraction in the production sectors, alongside a 0.5% decrease in both services and construction output.

2. Inflation and Wages

The annual Consumer Price Index (CPI) and CPIH (which includes housing costs) inflation rates registered at 6.7% and 6.3% year-on-year respectively in August 2023, with CPI down from 6.8% and CPIH down from 6.4% in July. In August, the Bank of England expected inflation to reach 6.9% in Q3 2023 and to fall to 4.9% in Q4 2023 and 4.3% by Q1 2024. The largest contribution to inflation overall came from food and non-alcoholic beverages (1.6%), while restaurants and hotels (1.1%) are the second largest contributor. Growth in employees average total pay (including bonuses) grew by 8.5% from May-July 2023, the largest annual growth rate seen outside the coronavirus pandemic, while regular pay (excluding bonuses) grew by 7.8%, the same as the previous three-month period. In real terms (adjusted for inflation), growth in total pay rose by 1.2%; while regular pay rose by 0.6%.

3. Monetary policy

In its most recent meeting in September, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 5-4 to maintain the base rate at 5.25%. The Committee also voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next twelve months, to a total of £658 billion. The next MPC meeting will be on the 2nd November 2023.

4. Labour market

The UK employment rate in the three months to July 2023 was 75.5%, 0.5% lower than the previous three-month period. The unemployment rate increased by 0.5% in same period, to 4.3%. The redundancy rate in the three months to July 2023 rose to 3.6 people per thousand employees, growing from the previous quarter by 0.3 per thousand employees. Tight labour markets persist as the number of job vacancies in the three months to August 2023 fell to 989,000, 64,000 lower than the previous quarter, indicating job vacancies are slowly reducing. This is the 14th consecutive fall in vacancy numbers. There were 281,000 working days lost because of labour disputes in July 2023, the majority of which were in the Education and Health and social work sectors. The inactivity rate in the three months to July 2023 increased by 0.1% in the quarter to 21.1%.

5. Trade

The UK's total trade deficit, excluding precious metals, decreased by £0.8bn to £13.1bn in the three months to July 2023 compared to the three months to April 2023. This was driven by the goods deficit, which narrowed by £4.7bn to £51.3bn, while the trade in services surplus fell by £3.9bn to £38.2bn. Between May and July 2023, total exports of goods, excluding precious metals, increased by £0.2bn (0.2%), with a fall in exports to the EU offset by a rise in exports to non-EU countries. Total imports of goods excluding precious metals decreased by £1.8bn (1.2%), driven by a £3.9bn (5.8%) decrease in imports from non-EU countries, while imports from EU countries grew by £2.1bn (2.7%). These estimates have not been adjusted to account for the effects of inflation.

6. Government finances

Public sector net borrowing (excluding public sector banks) was £11.6 billion in August 2023. This was £3.5bn more than in August 2022, making it the fourth highest August borrowing since records began in 1993. Public sector net debt (excluding public sector banks) was £2,594.1bn at the end of August 2023, provisionally estimated at 98.8% of GDP. Public sector net borrowing for the financial year-to-August 2023 was £69.6bn, £19.5bn more than the same period in 2022, but £11.4bn less than the £81bn forecast by the Office for Budget Responsibility. Central government receipts were £76.6bn in August 2023, £3.1bn more than a year earlier and £1.2bn more than forecast by the Office for Budget Responsibility.

CÁMARA
CHILENO BRITÁNICA
DE COMERCIO

britcham.cl | fb britcham | tw britcham | in britcham