

Monthly Economic Update

November 25th, 2019



Cámara
Chileno Británica

100
años
1917-2017

Patrons 2019



Sponsors 2019



More than twenty people have died, and thousands injured after protests over a CLP30 (US\$0.04) rise in public transport fares escalated into weeks of marches, rioting and looting across Santiago and other major cities. Concerned that police were being overwhelmed following simultaneous arson attacks on dozens of metro stations on October 18th, President Sebastián Piñera ordered troops onto the streets and imposed a curfew in the capital for the first time since the return to democracy. But the measure, and the security forces' heavy-handed approach to crowd control, only further inflamed protesters whose complaints expanded from rising living costs and meagre pensions to demands for better public services and calls for a new constitution.

The government and opposition have begun negotiations on a new social agenda to satisfy the protesters' demands, including higher basic pensions, a new government-supported minimum monthly income of Chilean Peso 350,000 (US\$448), additional health insurance and reductions in the cost of basic services, such as electricity and pharmaceuticals.

On November 15th, with no end in sight to the violence, leaders of almost all the political parties represented in Congress reached agreement on a process to write a new constitution. Voters will be asked in a referendum in April next year whether they are in favour of a new constitution and whether the new charter should be designed by a constituent convention of specially-elected representatives or a mix of representatives and existing lawmakers. Following elections to choose members in October 2020, this body will then have nine months to elaborate the new constitution which must be approved by two-thirds of its members before it is put to a second referendum in late 2021 or early 2022.

Amid the unrest, President Piñera carried out the largest cabinet reshuffle so far of his second government, replacing eight cabinet members, including Interior Minister Andrés Chadwick and Finance Minister Felipe Larraín. Opposition lawmakers are seeking the impeachment of Piñera and Chadwick over the decision to deploy the army and alleged human rights abuses committed during the unrest. Support for the government has collapsed, with approval of Piñera

falling to a record low of 13%. The APEC and COP25 conferences, due to take place in November and December respectively, were both cancelled on security concerns.

Weeks of turmoil have hobbled Chile's economy. The government estimates that rioting and looting has caused around US\$3 billion worth of damage, especially in the retail sector. A third of the country's supermarkets have been looted, including 69 which have been set alight. Tens of thousands of businesses, especially small ones, have closed, some permanently, as a result of looting or the loss of business caused by the curfew, disruptions to public transport and weeks of protests. After contracting by as much as 0.5% in October, the government estimates that the economy will grow by just 2.0% this year and 2.2% in 2020 (down from 3.2% estimated in September).

Port strikes, stoppages and barricades have disrupted many key sectors. Exports in October fell to US\$5.3 billion, little changed from September but down from 26% from twelve months earlier, reflecting lower copper prices as well as disruptions to a range of key export industries. Barricades on highways in

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southern Chile prevented workers accessing salmon farms, putting at risk more than one million fish, and the transport of fresh salmon to Santiago for export.

The disruption to the economy and increases in public spending have set Chile's public finances on a radically different trajectory from just a few weeks ago. Income from value-added tax, the government's largest revenue source, fell by 25% in the first week of unrest. To finance the additional public spending, incoming Finance Minister Ignacio Bionis agreed to drastic changes to the government's tax reform bill, dropping plans to reintegrate personal and business taxes and introducing a new tax on properties worth more than Chilean Peso 400 million (US\$500,000) and a new income tax band for those earning more than Chilean Peso 15 million (US\$18,750) a month. The reformed bill will increase tax revenues by US\$ 1 billion from 2020 and by US\$2 billion once fully implemented. The government also plans to withdraw US\$600 million from Chile's sovereign wealth funds to help cover the gap.

Copper prices rose in October on expectations that the Chinese and US authorities would reach an agreement to end their ongoing trade war and concern that unrest in Chile could hit mine production. Prices on the London Metals Exchange rose from just over US\$2.50/lb in early October to almost US\$2.70/lb by November 11th before settling around US\$2.65/lb.

The Chilean Peso sunk to over 800 pesos/dollar against the US Dollar, its lowest level ever as investors reacted to the impact of the unrest and the announcement of a new constitution. On November 13th, the Central Bank announced that it would make available liquidity options allowing investors to buy up to US\$4 billion worth of US dollars, but this has only slowed the peso's descent.

Inflation has picked up, with the government's Consumer Price Index rising 0.8% (or by 2.5% on annualized basis) in October, its largest monthly rise in five years. Further increases are expected as the effects of the weaker peso spread through the economy.

The government estimates that as many as 300,000 people have lost their jobs since the unrest began, a figure which could triple over the coming months, suggesting a sharp increase in unemployment from 7.0% recorded in the July-to-September quarter.

In October 23rd, the Central Bank cuts its benchmark interest rate by 25 basis points to 1.75%, reacting to worsening external conditions and the impact of the unrest. Analysts surveyed by the Bank in early November expected the board to implement another 25bp cut at its final meeting of the year on December 6th although stronger inflation could delay further cuts.

Shares on the Santiago Stock Exchange plunged in the wake of the unrest, with the IPSA index of the thirty most-valuable companies falling 15% to its lowest level since early 2017. However, investors returned to the market on expectations of an agreement on a constitutional process, triggering a 10% gain in just two days.

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