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FEATURED Q&A

What Factors Are Driving Chile's Economic Outlook?



Chile's government is expecting 7.5 percent economic growth this year. Santiago is pictured above. // File Photo: Pixabay.

Q Chile's government in July revised its economic growth outlook for this year to 7.5 percent, up from a previous forecast of 6 percent. However, it expects the economy to expand 2.9 percent in 2022, down from an earlier estimate of 3.5 percent. What are the most important factors driving Chile's economic outlook for this year and next year? What are the biggest headwinds facing the Chilean economy in the period ahead? How big of a role has the country's rapid pace of vaccination played in the country's economic recovery?

A Mariana Zepeda, Latin America analyst at FrontierView: "A few short-term factors are driving Chile's faster-than-expected 2021 rebound: an aggressive vaccination campaign, sky-high copper prices and expanded fiscal stimulus. However, Chile is not out of the woods. On the Covid-19 front, risks remain that new variants could disrupt Chile's emergence from the pandemic despite high vaccination levels. While higher mobility levels are bound to bolster economic activity in the second half of this year, fiscal stimulus will eventually fade out and with Chileans largely tapped out on pensions savings, consumption levels should begin to moderate. Export revenues from copper are likely to slow into 2022 as well, further raising fiscal risks. This means Chile will need private investment to continue to bolster its recovery momentum and propel labor market recovery, which has stalled in recent months. But an uncertain political environment may complicate that investment recovery. Chile is entering a pivotal moment

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TODAY'S NEWS

ECONOMIC

Mexico's Economy Rebounds in Q2 With 19.7% Growth

Mexico's economy rebounded in the second quarter, driven by services and manufacturing for export to the United States.

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BUSINESS

Workers at Chile's La Escondida Mine Vote to Strike

Workers at BHP Group's La Escondida copper mine in Chile voted to strike after their labor union rejected the company's latest contract offer. BHP has requested government-mediated talks in an effort to prevent a work stoppage.

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ECONOMIC

Pedro Francke Tapped as Peru's Finance Minister

Peruvian President Pedro Castillo confirmed Pedro Francke Friday night as his finance minister. Francke had not been sworn in with other ministers on Thursday, leading to questions about whether he had rejected the job.

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Francke // File Photo: Peruvian Government.

ECONOMIC NEWS

Peruvian President Confirms Francke as Finance Minister

New Peruvian President Pedro Castillo late Friday confirmed moderate leftist Pedro Francke, a former economist at the World Bank, as his finance minister, the Financial Times reported. Castillo had widely been expected to tap Francke as finance minister until last Thursday when the new president named far-leftist Guido Bellido as his prime minister. While Castillo confirmed most of his cabinet on Thursday, Francke left the ceremony shortly before the new ministers were sworn in, leading to questions as to whether he had refused the job or was not offered it. Markets reacted to the development, with Peru's stock exchange plunging as much as 6 percent and the country's currency, the sol, experiencing its sharpest drop in seven years. After the markets closed on Friday, Castillo said Francke had "our complete backing" to implement his promised economic plan, the Financial Times reported. In a [Q&A](#) published Feb. 17 in the Advisor, Francke said Peru's pension system would be among the reforms debated after the transition to a new government. "Peru's pension system,

which Alberto Fujimori privatized after the 1992 self-coup, is quite deficient," Francke told the Advisor. During his campaign, Castillo vowed to increase taxes on mining companies in order to pay for health and education reforms, Reuters reported. Among the other officials Castillo named to his cabinet was Iván Merino, a mining specialist close to Castillo's Free Peru party.

Mexico's Economy Rebounds in Q2 With 19.7 Percent Growth

Mexico's economy rebounded in the second quarter, driven by services and manufacturing for export to the United States, according to a preliminary estimate the national statistics agency released Friday, Reuters reported. Economic growth was up by 19.7 percent as compared to the same quarter in 2020, when much of the formal and informal economies were shut down due to pandemic-related restrictions. It was the first time since before the pandemic began that Mexico posted year-on-year quarterly growth. The Mexican economy contracted 8.5 percent last year, its worst performance since 1932. Demand in the United States for cars and electronics prompted much of the annual growth in the second quarter, while remittances sent home by Mexicans

NEWS BRIEFS

Nicaragua Grants Citizenship to Former Salvadoran President

Nicaragua has granted citizenship to former Salvadoran President Salvador Sánchez Cerén, according to Nicaragua's official gazette, the Associated Press reported. The former leader is facing an international arrest order in connection with corruption charges in his home country. Sánchez Cerén's wife, daughter and grandson also received citizenship in Nicaragua, according to government documents. Last Wednesday, a judge in El Salvador ordered the pre-trial arrest of Sánchez Cerén and nine other former government officials on corruption charges.

Haitian Authorities Arrest Fourth Police Officer in Moïse Assassination

Haitian authorities said Friday that they had detained a fourth police officer in connection with the July 7 assassination of President Jovenel Moïse, the Associated Press reported. National Police spokesperson Marie-Michelle Verrier said 27 people have been arrested and others are still being sought as part of the case. Meanwhile, nine officers are being held in isolation for questioning on whether they actively participated or were negligent in their duties in relation with the murder. Verrier also asked the population for help. "Give your participation, help us find these people," said Verrier.

Biden Administration Sanctions Cuban Police and Two of its Leaders

The administration of U.S. President Joe Biden on Friday sanctioned Cuba's police force and two of its leaders in response to the government's crackdown on protesters last month, Reuters reported. The sanctions came after Biden met with Cuban-Americans at the White House to discuss the demonstrations.

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amid a long-awaited constitutional process that could alter the country's political and economic model. The Nov. 21 presidential election is approaching, and recent Constituent Assembly elections and presidential primaries signal that Chilean voters are shifting left and away from the political establishment. High levels of political uncertainty will persist beyond the elections. Political noise is likely to weigh on investment levels as the constitutional process unfolds, addressing sensitive topics such as the pension system or the government's role in providing social services. While our view is that uncertainty will gradually dissipate in the long run

and that Chile will remain one of the most competitive countries in Latin America, the country's medium-to-long-term economic growth could hinge on decisions made over the next few months."



Alfredo Coutiño, director for Latin America at Moody's Analytics:

"Chile has shown a rapid recovery after the plunge caused by the Covid-19 crisis in 2020, which has been driven by strong external demand and progressive domestic reopening. The economy in the first quarter of 2021 put production at a level above the pre-pandemic level."

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living abroad, mostly in the United States, also helped to boost consumption. Compared to the first three months of the year, seasonally adjusted economic growth in the second quarter was up 1.5 percent, the Associated Press reported. That marked the fourth consecutive quarter of economic expansion, Reuters reported. However, Goldman Sachs economist Alberto Ramos warned of risks in the period ahead. "We expect real GDP growth to reach 6.0% in 2021, but the recent deterioration of the COVID backdrop, high inflation and rising rates could slow down the envisaged recovery," Ramos said in a note, Reuters reported.

BUSINESS NEWS

Workers at Chile's La Escondida Mine Vote to Strike

The labor union representing workers at BHP Group's La Escondida copper mine in Chile on Saturday rejected the company's latest contract offer, with employees instead voting to go on strike, The Wall Street Journal reported. Following the announcement, BHP requested government-mediated talks in a final effort to avoid strikes that could disrupt supply of the red metal to the world's economies from the number-one global copper exporter. La Escondida, the world's largest copper mine, produced about 5 percent of global supply, which is a key component of electrical wiring and motors as well as in construction and other applications, the newspaper reported. If confirmed, the government-mediated talks could last for between five and 10 days, according to Chilean labor law, Reuters reported. If the two parties fail to reach an agreement, then the strike would ensue. By law, miners must continue to work while the negotiations are ongoing. The union said in a statement that 99.5 percent of employees who participated in the vote rejected BHP's final contract offer after nearly two months of talks, which have been conducted in secret. "We hope that this strong vote will be a decisive wake-up call for BHP to begin substantive talks ... if it is to avoid an extensive conflict

THE DIALOGUE CONTINUES

Will the Colombian Government's Revised Tax Plan Win Approval?

Q Colombian President Iván Duque on July 20 presented lawmakers with a nearly \$4 billion tax reform bill, a more modest proposal than a plan his government presented in April, which sparked weeks of deadly protests and nationwide strikes. How much of a chance does the new plan have at winning approval in Congress, and how might lawmakers revise it? Does the public support the plan, and what chance is there that protests will again derail it? To what extent would Duque's new plan address Colombia's fiscal problems, and would its passage help Colombia to regain its investment-grade status, which it lost in early July?

A Juan Carlos Valencia Marquez, partner at Holland & Knight: "The new tax bill is the product of a consensus with the most representative groups in Congress, and this ensures a high probability of approval. Given that the government took several months to prepare the bill, it is likely that lawmakers will support its approval in an expeditious manner and without suggesting major

changes. The bill will be discussed under an urgent notice, and it is expected to be approved by the end of August. Generally, the bill has been well received by the public, mainly because it places most of the burden of tax rate increases on companies. No provisions affecting individuals are included. In my view, protest organizers used the prior reform as an excuse to continue what they started back in 2019. This became clear after the government withdrew the bill, but the protests continued under other motives. It's hard to imagine that the same groups will be against a proposal that does not affect individuals or expand the value-added tax to basic goods. Because the proposed reform is limited in terms of its collection goal, the next government will likely need to consider a more ambitious tax bill. Unfortunately, Colombia's investment-grade status may take several years to recover, and it will demand more than one tax bill."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Friday's issue of the Advisor.

that could become the costliest in the country's union history," the union said in a statement, Reuters reported.

POLITICAL NEWS

Referendum That Cost Mexico \$25 Mn Draws Low Turnout

A referendum pushed by Mexican President Andrés Manuel López Obrador to ask whether former officials should be put on trial for illegal

acts drew just 7 percent turnout on Sunday as few people liked what critics said was a poorly worded question and would-be voters stayed home amid a third wave of the Covid-19 pandemic, the Associated Press reported. While 90 percent of those who cast ballots voted "yes," the turnout was far below the 40 percent threshold needed to make the vote binding. The referendum cost the country \$25 million, the AP reported. Critics of holding the referendum noted that Mexico has no formal amnesty for ex-officials, and nothing in current law precludes them from being tried for alleged crimes. José Antonio Crespo of Mexico's Center for Economic Research and Training called the vote a gauge of López Obrador's support.

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demic volume reported at the end of 2019. However, the volume of production is still one percentage point below the peak in the third quarter of 2019. The recovery's main driver has been the solid advance of the world's two main locomotives (China and the United States), which are important consumers of Chile's exports. The domestic market is a second driver, which keeps gaining traction as the economy reopens, thus reabsorbing spare labor. The domestic market is also supported by the mitigation

“**The recovery's main driver has been the solid advance of the world's two main locomotives, China and the United States...**”

– Alfredo Coutiño

policies that the government and the central bank have implemented. The acceleration of the vaccination process has reinforced confidence and improved Chile's business climate and prospects. All this supports an economic rebound of between 7 percent and 7.5 percent in 2021, a growth rate amplified by the arithmetic effect generated by the low comparison base in 2020. Moreover, the recovery has already moderated to rates more consistent with the economy's capacity, which will bring growth in 2022 to a rate in the range of 3 percent and 4 percent. The country is facing two main risks, which could slow the recovery. First, the new wave of infections caused by new virus strains could introduce mobility restrictions and partial business interruptions. Second, the steady increase in inflation already forced a change in monetary plans, triggering an earlier policy normalization. A persistent inflation trend could force a faster monetary normalization that could cause a sudden market adjustment and affect consumption

and investment decisions. Therefore, the recovery is not free from risk.”

A **Dorotea López Giral, director of the Institute of International Studies at the University of Chile:** “The crisis in Chile caused by the pandemic has overlapped with the effects of social protests, the future of a new constitutional framework and an acutely polarized political situation. Therefore, the real equation of economic performance must incorporate health-related variables, the capacity to add value to our products and recover employment and the ability to democratically consider the central questions that Chileans have raised since October 2019 about the country's institutions, its social contract and its economic model. Women have been the most affected in today's global context, and there are many uncertainties about their future. The uncertainties at the national level will start to dissipate when solutions surrounding employment issues are put in place, particularly for low- and middle-income women who have been affected. There will also be more clarity when the constitutional process settles after an unsteady start. Several variables show a high potential for a number of conflicts to emerge, creating an uncertain environment. These include a resurgence in protests, a slowing of the vaccination process and the emergence of new virus variants. Among the many challenges that the pandemic has highlighted is the urgent need to improve income distribution through addressing the provisional health and educational reforms. Chile must continue to implement more public policies and adopt a digital paradigm for its long-term growth, particularly among women. If external conditions are favorable, meaning more economic dynamism in China and the United States, the main challenges will be to stabilize the national scenario and give priority to addressing the gender gap.”

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