

Chile: Improving economic, regulatory, and political pulse

Investing in emerging markets

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- Chile's economic activity is gaining momentum, driven by a rebound in domestic consumption and copper production, rising business confidence, and prospects for a political regime change.
- Two significant reforms currently working their way through the legislative process should enhance investment sentiment by streamlining sectoral permit applications and modernizing environmental evaluations.
- Chilean sovereign USD bonds look fairly priced, and corporate USD bonds offer attractive investment opportunities. We expect the Chilean peso to trade in a range of 900-925 per USD near term.



After a chaotic few years, Chile appears to be transitioning into a more stable environment, marked by a nascent recovery in business sentiment, some market-friendly reforms, and a potential political regime shift to the right.

Business sentiment recovering

Chile's economic activity is gaining momentum. The monthly GDP proxy averaged 3.7% year over year (yoy) during this period last quarter, compared to 1.6% in the previous two quarters. We expect growth to stabilize at around 2.3% yoy in 2025, driven by recovering domestic consumption amid increased Argentine tourism and the delayed effects of monetary policy rate cuts. Furthermore, business confidence surged in February (see Fig. 1), fueled by rising mining investment, higher copper prices, and anticipated legislative reforms.

Figure 1 - Business confidence is moving higher from depressed levels

Monthly Business Confidence, 50+ = Favorable



Source: Haver, UBS, as of March 2025

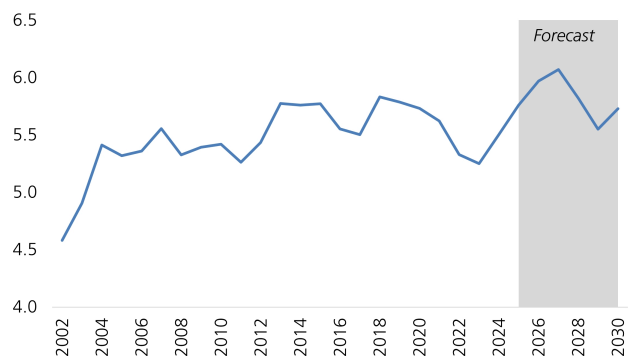
A resurgence in mining

Indeed, copper production is playing a crucial role in Chile's economic recovery. In 2024, mining activity grew by 6.2% y/y after three years of contraction. This growth, primarily driven by the private sector, reflects increased production from existing mines and favorable weather conditions,

despite challenges from declining ore grades. Additionally, future growth in copper production is supported by positive investment prospects, as uncertainties over constitutional changes and new mining royalties have significantly diminished in recent years. According to Chile's Copper Commission (COCHILCO), copper production is expected to continue rising, peaking in 2027 before stabilizing at marginally lower levels (Fig. 2).

Figure 2 - Chile's copper production is rising

Chile actual and projected copper production, millions of metric tons



Source: COCHILCO, UBS, as of March 2025

Pending market-friendly reforms

Two significant reforms currently working their way through the legislative process should enhance investment sentiment by streamlining sectoral permit applications and modernizing environmental evaluations:

- **Sectoral Permits Bill:** Aims to improve regulations, reduce processing times, and provide clearer guidelines for evaluating investment projects. Key measures include setting deadlines for project approval, simplifying processes for low-risk investments, and creating a unified system for permits. The Economy Minister says this legislation could shorten approval times for large new investments by 30-70%.
- **Environmental Evaluations Bill:** Proposes granting more discretion to a centralized agency to better coordinate the evaluation process and prioritize strategic projects that could impact the environment.

For context, compared to other Organization for Economic Co-operation and Development (OECD) countries, Chile's permit system often experiences lengthy processing times for large-scale projects like mining and energy due to multiple required permits across different government agencies. In contrast, most other OECD countries have a

more centralized system where a single agency handles most permits.

Despite a fragmented political system with numerous parties and a divided Congress, the Chilean Congress has recently demonstrated its capability by successfully passing technical reforms, including a pension reform and a medium-term debt anchor law. This fragmentation and division will likely pose challenges for passing structural reforms on more contentious issues, such as wealth and income taxes.

Election momentum favors the right, but race remains open

In October 2025, Chileans will elect a new president, the entire lower house, and half of the Senate. Center-right candidate Evelyn Matthei currently leads the presidential polls, but independent far-right libertarian Johannes Kaiser has gained traction amid ongoing security concerns.

On the left, Carolina Tohá, who served as Minister of the Interior and Public Security under President Gabriel Boric, is emerging as the candidate of choice. This development follows former President Michelle Bachelet's announcement that she will not run. Regarding Congress, it appears unlikely that either right or left-leaning parties will achieve clear majorities in the election.

Despite the current momentum favoring the right, the race remains wide open. Increased competition among popular center-right candidates could allow for a united leftist coalition to win, even with Gabriel Boric's government facing low popularity. For instance, if a far-right candidate were to end up being the candidate of the center-right coalition, a leftist contender could have a fair chance of winning.

Copper tariffs: a key risk

US-based copper prices (COMEX) have surged by 20%, while London and Shanghai copper prices have increased by only 10%. This divergence is likely due to the heightened likelihood of US tariffs, following President Trump's directive for an investigation into copper imports on national security grounds. In anticipation, US copper importers have rushed to build up inventory.

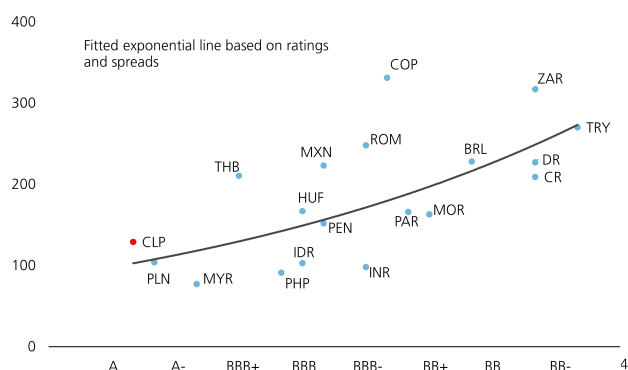
This situation is a significant risk to Chile. First, as a share of overall copper exports, Chile exports 12% to the US, or 1.8% of its GDP. This directly exposes it to tariffs. Second, should the US impose tariffs, demand for copper could weaken considerably.

Investment Implications

- **Sovereign USD Bonds:** We believe that most Chilean USD bonds are trading at fair levels. Spreads are slightly wide relative to their credit rating (Fig. 3), which appears justified amid a still unclear electoral cycle. We prefer the intermediate and long end of the curve, given the low cash prices and high coupon income.
- **Corporate USD Bonds:** We see attractive investment opportunities across sectors. Chilean corporate credits we cover include systematically important, well-capitalized state-owned entities and agricultural and industrial commodity producers whose activities range from the production and exploration of copper; the exploration, production, refining, and marketing of hydrocarbons and their derivatives; and production of pulp and forestry products.
- **Currency:** The Chilean peso has appreciated 6% against the US dollar this year, recovering roughly half of its depreciation from last year. The recovery of the Chilean peso is consistent with the strength in most emerging market currencies against the US dollar. Rising copper prices, the prospect of an end to the Chilean central bank interest rate cutting cycle, and an overall positive domestic economic and political backdrop have also helped. We expect the currency to trade in a range of 900-925 per USD in coming months.

Figure 3 - Chilean USD sovereign bonds relative to Chile's credit rating

JP Morgan EMBIG spreads to credit rating, basis points



Source: JP Morgan, Bloomberg, UBS, as of March 2025

Notes: EMBIG Diversified spreads used for all countries except Mexico, where EMBI+ spreads were used to exclude PEMEX. Average credit rating of the three major credit rating agencies used (Fitch, Moody's, and S&P). Currency country codes used.

Appendix

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