Rich Investors Pull Out of Chile, Leaving Behind a $50 Billion Hole

- Boric government vows to reshape country's free-market economy
- Capital that has exited country shows little sign of returning

Pedestrians pass in front of the Santiago Stock Exchange in downtown Santiago, Chile. *Photographer: Cristobal Olivares/Bloomberg*

By Eduardo Thomson
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Chile, Latin America's stand-out economy for the better part of 50 years and a darling of Wall Street, is in many ways facing an existential moment.

Its Milton Friedman-inspired constitution is still intact, for now. But virtually everywhere you look, once sacrosanct pillars of the country's free-market system – from its private pensions and health care to how much it taxes big business – are under attack following the election of its most leftist leader in decades.

This has had a chilling effect on the moneyed class here.

From the third floor of an expansive glass building in Santiago's leafy El Golf neighborhood, Juan Ignacio Correa, a partner at multi-family office Avante, recalled how many of his clients used to keep as much as 70% of their wealth in local assets and only 30% abroad, a level unheard of elsewhere in the region and a sign of trust in the country's economic model. "Today it's exactly the opposite," Correa said. "There is a fear of what is happening here."

So abrupt is the shift in sentiment that, if left unchecked, it puts Chile at risk of becoming just one more troubled Latin American investment destination, akin to Brazil, Mexico or Colombia, if not quite a market pariah such as Argentina and Venezuela. Ever since millions of Chileans took to the streets in 2019 to protest gaping inequality – one of the most glaring shortcomings of the current system – and demand changes to free-market policies, investors have pulled more than $50 billion from the country, according to central bank data through September. That equals about one-sixth of Chile's annual economic output.

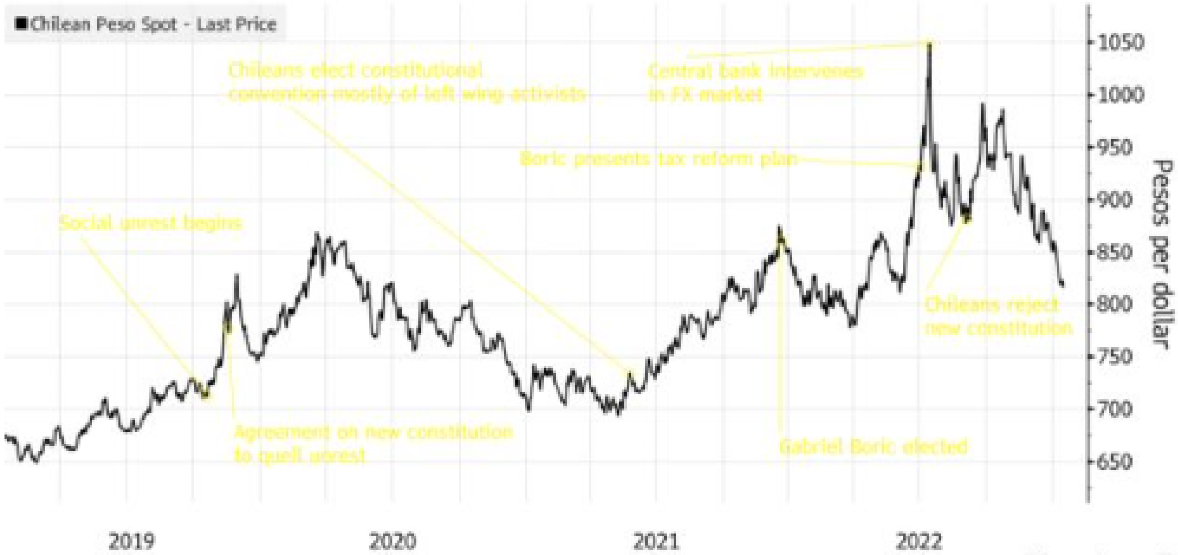
As President Gabriel Boric pushes to, in his words, "redistribute the wealth that Chileans produce," money continues to flow out the door, though at a slower pace than before. With the country facing an unprecedented combination of economic, social and political upheaval, Chile watchers say capital flight will significantly limit the country's ability to remain the dominant economic force in the region it once was.

"The new reality, in which investors, families and companies see that risks are higher, that the economy is vulnerable and that the political scenario is messy," is permanently upending Chile's home-bias advantage, said Sergio Lehmann, chief economist at Banco de Credito e Inversiones. It will "lead to lower levels of investment and therefore a lower long-term growth rate."

A representative for Chile's finance ministry declined to comment.

Tracking the Turmoil

Chile's peso has weakened since the beginning of unrest in 2019



Source: Bloomberg

Granted, Boric's ability to advance his populist agenda has taken a hit in recent months as his public approval rating sinks to an all-time low and criticism mounts over rising crime and accelerating inflation.

Yet for Chile's upper class, that's little comfort. The fear is not that Boric will simply come after their wealth, but even more so that his policies will weigh on an economy the central bank predicts could shrink as much as 1.75% this year.

That stands in stark contrast to the so-called "miracle of Chile," coined by Friedman to described the nation's rapid economic expansion after it pivoted to open market policies including deregulation and privatization in the 1970s and 1980s under dictator Augusto Pinochet. The approach survived leaders and parties of all political leanings after the nation turned toward democracy in the 1990s.

But it also helped fuel vast inequality and, more recently, fan social unrest. Despite years of steady economic growth, the country has one of the biggest gaps between rich and poor among the 38 nations in the Organisation for Economic Co-operation and Development.

In recent months, many of Chile's largest companies have also begun cutting their domestic exposure.

Empresa Nacional de Telecomunicaciones sold its fiber optics assets to a group including KKR & Co. last year year, while electricity provider Enel Chile sold its transmission lines to a unit of Canada's Ontario Teachers' Pension Plan and and Alberta Investment Management Corp. And SM Saam, a unit of the billionaire Luksic family's Quinenco conglomerate, sold $1 billion in port and logistics assets to Hapag-Lloyd.

As money from asset sales comes in, shareholders and executives have shown little interest in reinvesting. Companies in Chile's 57-member IGPA index paid a record 10.9 trillion pesos ($13.2 billion) in dividends in 2021, and another 10.6 trillion pesos in 2022, more than double the prior two years, according to Dolphin Markets.

Gabriel Boric *Photographer: Alejandro Cegarra/Bloomberg*

The lack of new investment is damping the country's long-term prospects.

Chile's central bank lowered its trend growth forecast over the next decade to 2.1% from 2.8% in December. It also raised its forecast for the nation's neutral interest rate to 3.75% from 3.5%.

"Chile is suffering a huge loss of competitiveness," said Gonzalo Trejos, head of strategy at private banker Quest Capital. "This means that things that look cheap right now may stay cheap for a very long time."

Slow Return

Still, some say there are reasons for optimism.

Chileans in September overwhelmingly rejected a new constitution supported by Boric that critics said would have restricted investment and growth, eroded essential checks and balances on power and led to a surge in fiscal spending.

"Due to the rejection of the new constitution and other processes that have been moderated, we have seen a slow return of money to Chile, especially for some opportunities in the local fixed-income market," said Gonzalo Cordova, general manager of wealth management at LarrainVial.

Others like Avante's Correa argue there's little to suggest investors will return to domestic markets in a significant way anytime soon.

"Most investors who took the capital out of Chile will never bring it back," Correa said. "How do you rebuild the economy then? With new local wealth. New rich people. And that will take a long, long time."

– *With assistance by Daniel Cancel*