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Chile—Our Take on the December 17th Referendum

- **More political than financial impacts**

New Constitution to end social unrest? In November 2019, following the political and social crisis that erupted on October 19th of that year (social unrest), representatives of all political forces (with the exception of the Communist Party) signed the “Agreement for Social Peace and New Constitution”. The main commitment that emerged from this agreement was to promote a plebiscite on a new Constitution, as well as the type of body that should draft it. On this basis, in October 2020 a referendum was held, which resulted in 78% of voters in favour of drafting a new Constitution (which would replace the one drafted in 1980), as well as 79% of voters in favour of the drafting body being a Constitutional Convention where its members would be 100% elected by popular vote, rejecting the option of a Mixed Constitutional Convention made up of elected members and parliamentarians.

With this, in May 2021, the 155 members of the Constitutional Convention were elected, where the ruling political parties, the independents and indigenous peoples obtained more than the two-thirds required to approve the norms presented, leaving the center-right wing parties without relevant representation. After a year of work, the Convention delivered the proposal for a new Constitution to President Boric in July 2022, setting the plebiscite for September 4th of that year. In the plebiscite, 62% of the voters rejected the proposal, keeping the current Constitution in force and leaving the way open for a new process.

In December 2022, representatives of a broad group of government and opposition political parties signed the “Agreement for Chile”, whose main objective was to enable a new constituent process. In this agreement, it was defined that the drafting body of the new constitutional proposal would be the Constituent Council, composed of 50 people elected by popular vote. At the same time, an Expert Commission was established, made up of 24 technical and academic professionals elected by the parliament, whose function would be the drafting of a preliminary draft law that would be the main input of the Constituent Council. With this, in May 2023 the election of the 50 Councilors took place, where more than three-fifths of those elected represented center-right wing parties and more than two-fifths represented the Republican Party (extreme right), giving the majority needed to approve the norms to the opposition and the power of veto to the Republicans. Finally, the proposed new Constitution was delivered to President Boric on November 7th, which will be submitted to an exit plebiscite on December 17th.

Recent polls point to a tight result. According to the results of all available polling firms, both options win by very small margins. However, most polls show the “En Contra” (against) option as the winner. In the case of Cadem’s poll, it shows a 54% victory for “En Contra” with a confidence interval between 51% and 57%. In the case of Criteria Research’s poll, it gives a 42% victory for “En Contra” versus 20% for “A Favor” (in favour). The other polls, such as that of Black and White, give a 52% victory for “En Contra”. The polling firm Partner LLC, considered the most accurate in the last two elections (referendum in Sep-22 and Councilors in May-23), gives a 53% victory for “A Favor”.

Market implications. Although a victory of “A Favor” should be read positively by local financial assets, especially the exchange rate, we do not expect relevant or significant impacts. We believe that a victory for the option most associated with right-wing political parties would be read favourably by markets since it would represent a (new) third defeat for the government’s political coalition and would favour additional moderation in structural reforms (pensions and tax). The degrees of political uncertainty should decrease somewhat in the event of a victory of “A Favor” given that the constitutional adjustments for the implementation of the new constitution would take between 5 to 10 years, which would make it difficult/impossible for a constitutional process to take place through popular election before the new constitution is implemented.

In the event of a victory of “En Contra”, political uncertainty would also be reduced given that there is an implicit agreement among left-wing parties and government to not launch a new constitutional process during the next two years. The above, however, does not imply that after 2025 voices will emerge for a constitutional process from the left-wing parties, especially those that raised the issue of a new constitution during the social unrest of October 2019 (table 1).

Table 1: Chile - Possible Impact of Referendum Result Across Key Variables		
Context/Market	"En Contra"	"A Favor"
FX Market	No effect	Slight appreciation of the Chilean peso
Stock Market	No effect	Slight gains, especially in companies impacted by/at risk of pension and tax reform bills
Political Scenario	Relief and renewed momentum for left-wing parties that have pushed for a new constitution prior to social unrest in Q4-2019	Stronger position for right-wing parties ahead of municipal elections (Oct 2024) and presidential elections (Nov 2025)
Constitutional Process	Probable push for a new constitutional rewrite process in 2026	Implementation of a new constitution would prevent a new constitutional process for at least 5 to 10 years
Long-term Interest Rates	No effect	To rise due to a better long-term GDP growth outlook given the lower possibility of aggressive pension and tax reforms
Short-term Interest Rates	No effect	To fall due to exchange rate appreciation (pressure off the BCCh to hold higher)

Source: Scotiabank Economics.

Political implications. The political reaction to the result may be much more important than the implications for local financial assets. Indeed, a victory for “A Favor” would position the extreme right party’s (Republicans) José Antonio Kast as the most likely presidential candidate for the 2026 election. In any case, given that the moderate right-wing parties have also supported the ‘for’ option, this practically guarantees that the new president of Chile would come from right-wing parties (E. Matthei or J.A. Kast). A victory of “En Contra” would provide some political respite to Boric’s ruling coalition, avoiding a third political defeat after the rejection of the last constitutional proposal and the overwhelming election of right-wing councilors in the most recent constitutional assembly vote.

A victory of “A Favor” should also have an impact on political support for structural reforms (pensions and tax). Indeed, this would force the government to focus on security and economic growth, with no room for a pension reform with a solidarity component. As for taxes, most likely the door to tax increases would be definitively closed, leaving only the possibility of approval in Congress of measures linked to efficiency in public spending, improvements to the environmental impact assessment system, and corrective taxes. Likewise, a victory for “A Favor” could lead to drastic changes in the heads of key ministries (like Economy and Environment), which, although changes may also occur in the case of “En Contra” winning the vote, these would likely be in much less relevant departments (table 1 again).

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