

Chile: The Culmination of the Constitutional Process

After exit plebiscite, a vote "against" a new constitutional proposal triumphs:

- The constitutional process has finalized
- Increase in invalid and blank ballots reflects election fatigue
- Priorities of the political agenda will be taken up again
- Market reacts on the sidelines; stocks fall, Chilean peso appreciates

A TRIUMPH OF NO ONE

In Chile, the constitutional process began with the social outburst in 2019 and the country has been immersed in this discussion for more than four years. This process has had a significant impact leading to economic, political and investment uncertainty, which has led to five consecutive quarters with year-on-year contractions.

The "against" vote was achieved with 6.9 million votes (55.8%), versus an "in favor" option that had 5.5 million votes (44.2%), with participation reaching 85% of the electoral roll, slightly below that of the 2022 exit plebiscite. The "in favor" option triumphed in only three of Chile's 16 regions; Ñuble, Maule and Araucanía, the latter being marked by the indigenous conflict and a strong security crisis.

This result was foreseen by some local polls, while international polls projected results that differed substantially from the outcome. The "against" triumph was incorporated in the prices and was the base scenario; and so, the market reaction has been limited.

Compared to the previous plebiscite, the number of null and blank votes doubled, despite being a binary option consistent with the low interest of the Chilean population in this process, as shown by the surveys. This plebiscite was the tenth election process since 2020, which has caused an important electoral fatigue in the population. However, elections will continue for the next two years, with regional and municipal elections in 2024, and presidential and parliamentary elections in 2025.

The presence of elections in the agenda adjusts the space to promote initiatives and effectively resume the discussion of political priorities in a forceful manner. However, the presidential speech did not acknowledge a triumph and the constitutional process was considered finalized, at least for the duration of this government. At the same time, the priorities and urgencies (such as pension reform, economic growth, security and health) requested by Chileans will be taken up again by the current government.

The announcements by the government and the ruling party not to resume the constitutional discussion dissipate the economic and political uncertainty that has marked the agenda in the last four years. In addition, a second rejection of a constitutional proposal increases the legitimacy of the current constitution, which does not seem to be modified in the short term. In this context, we should note that in 2022 a reduction of the quorum required to modify the constitution from 3/5 of the votes of the Congress to 4/7 was approved, which could facilitate eventual changes.

The rejected proposal included a change in the current political system, which has resulted in a high polarization with 21 political parties present in the Chamber of Deputies. This is one of the causes of the lack of political consensus cited in the S&P Global report, which revised the outlook for Chilean sovereign debt from "stable" to "negative". In this context, after the rejection of both the constitutional proposal of 2022 and 2023 (current one), authorities will have to address the security and health crises the country is facing, economic stagnation, pension reform, among other issues.

The current government has to focus on building agreements necessary to advance the country's urgent needs.

Regarding the effects on Chilean asset prices:

- Chilean stocks marginally declined (1.1% in CLP, 1.5% in dollar terms), showing high volatility and marginally decoupling from regional market rises.
- The Chilean peso appreciated 0.4%, also having started the day with an opposite trend and in line with the rest of the currencies in the region.
- Local rates continue to be coupled to global rates, with marginal increases and awaiting the Monetary Policy Meeting of December 19, 2023.

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