

Ministerio de Hacienda



Chile: Perspectives for Finance and Economics in the Aftermath of the Covid-19 Crises

December 2nd, 2021

Rodrigo Cerda N. | Minister of Finance

Our country faced two consecutive extremely negative shocks during the last couple of years. Namely, the Oct-19 social unrest and the Covid-19 pandemic.



Despite the difficulties Chile reacts vigorously and gets back on track

We found a democratic, peaceful, and constitutionally-prescribed solution to the social unrest demands through the discussion and draft of a new Chilean Constitution. A new pact for the next 30-40 years.

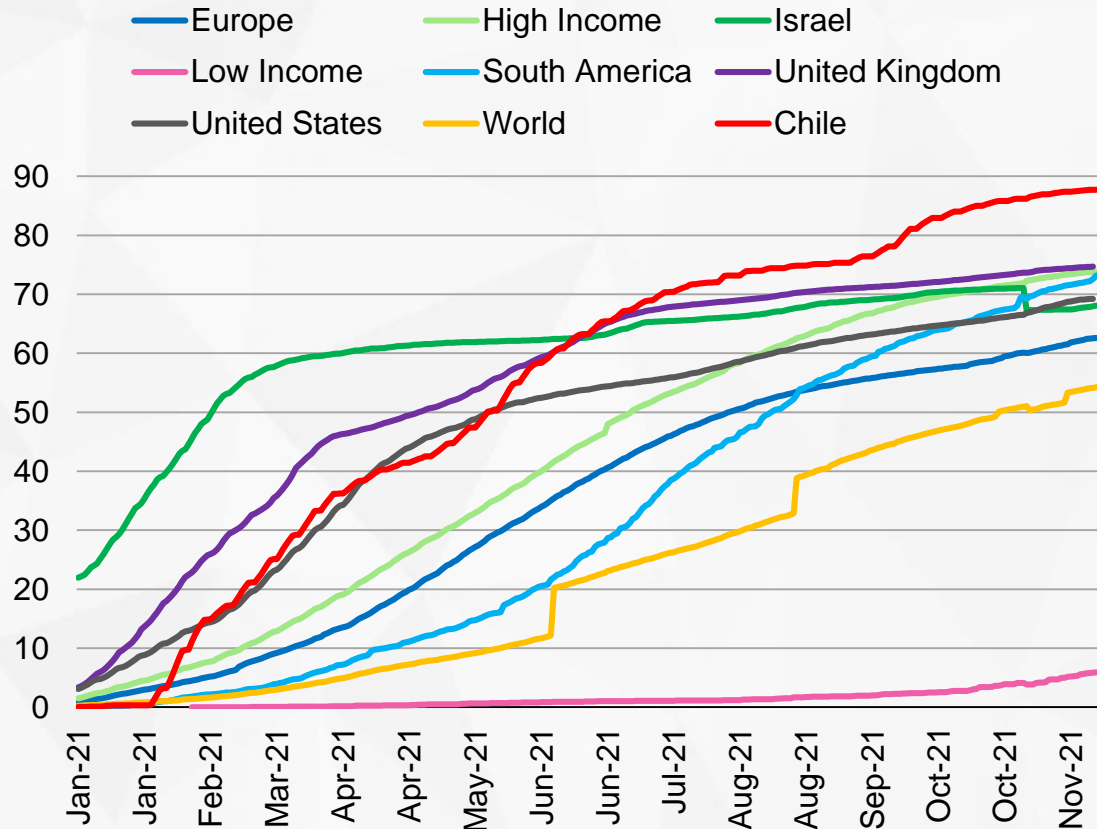


As to the pandemic, Chile has achieved one of the most successful and extensive global vaccination campaigns (~90%). In addition, we have provided historical support to the Households' income through the EFI (~10% of GDP).



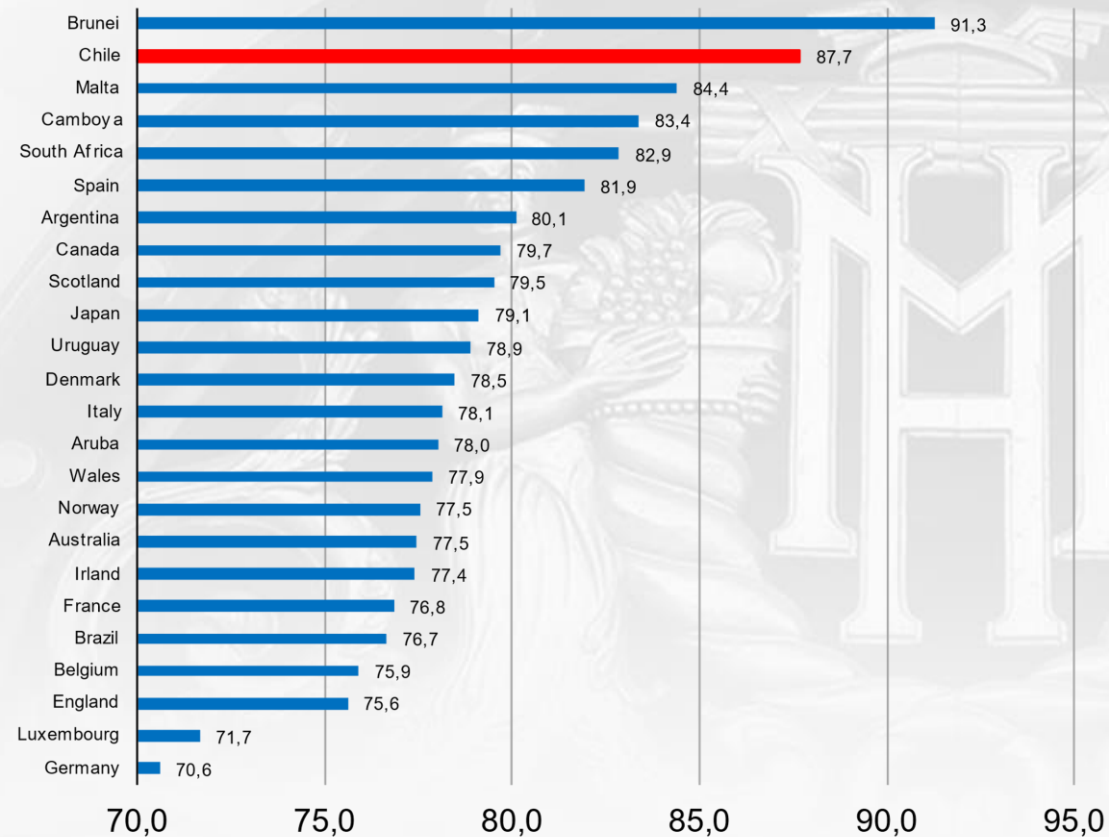
Chile stands out globally among one of the countries that have vaccinated the largest share of its population, allowing for a meaningful reopening of the economy since 2Q21.

Vaccine rollout
(% population)



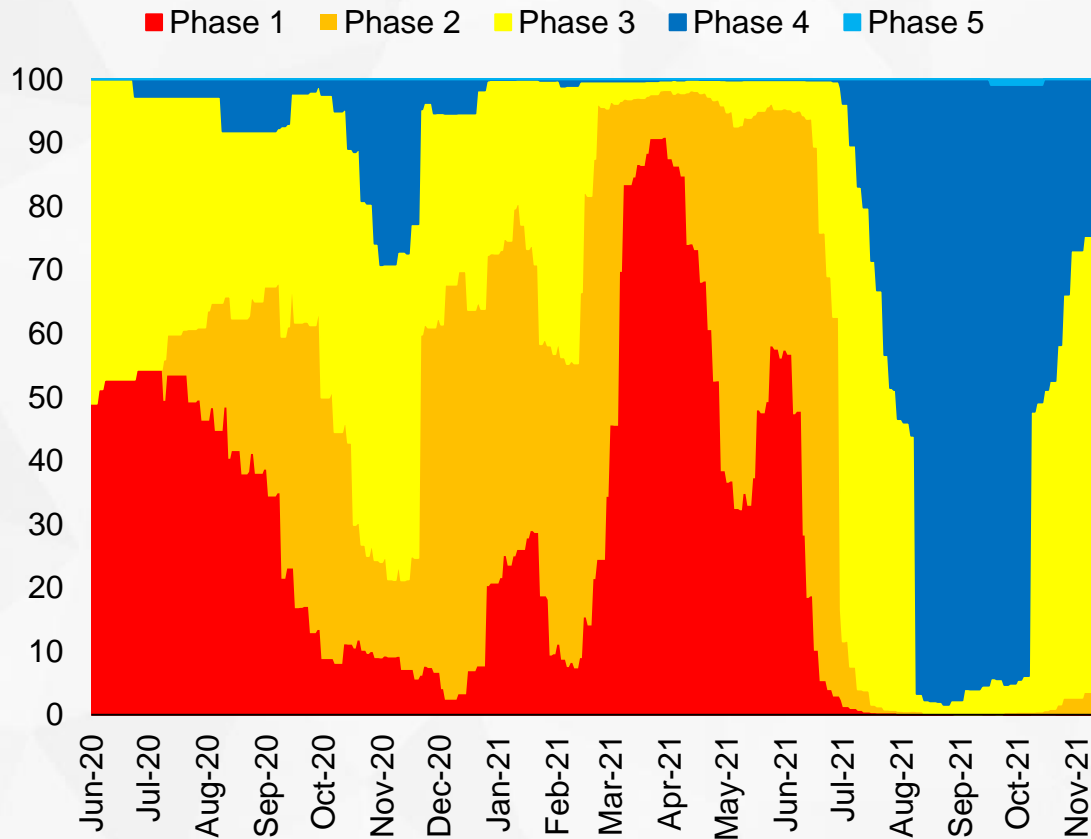
Source: Our world in data.

Vaccination in the world
(% of population with at least one dose)

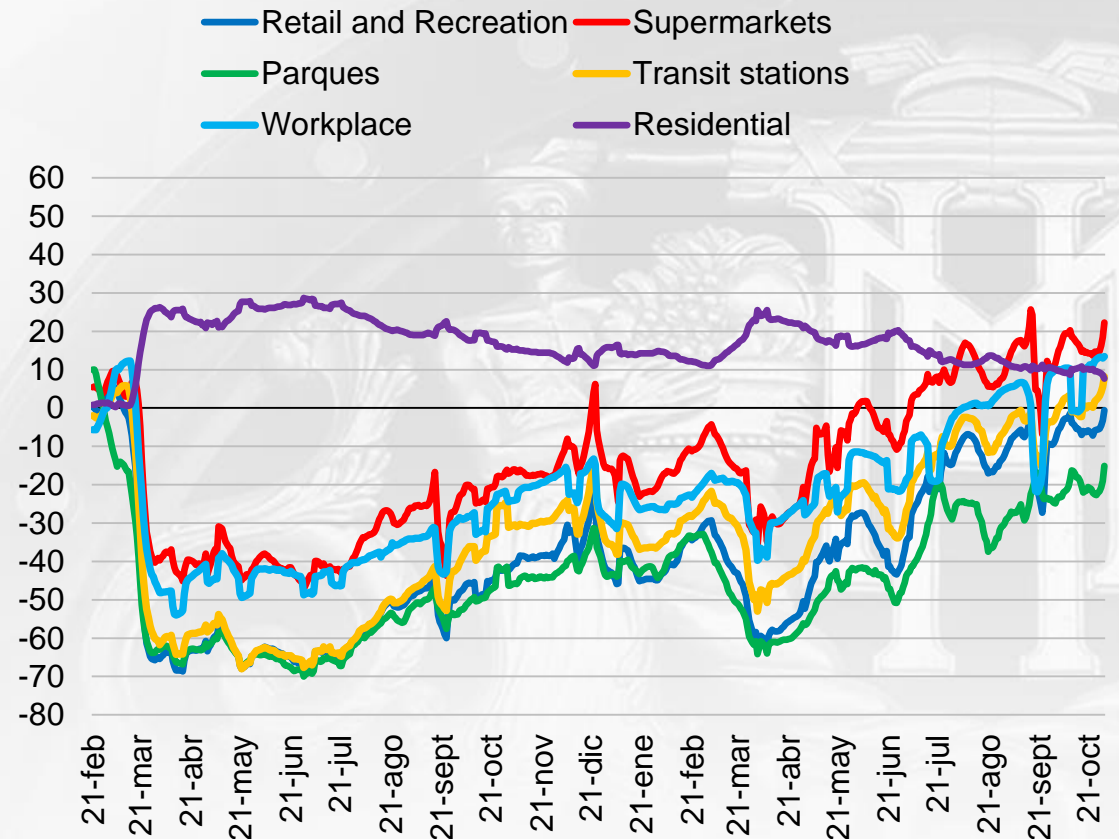


Even after the latest sanitary measures were placed, mobility remained above its pre pandemic levels.

Neighborhood Lockdowns ('Paso a Paso')
(% of Chile's Population)

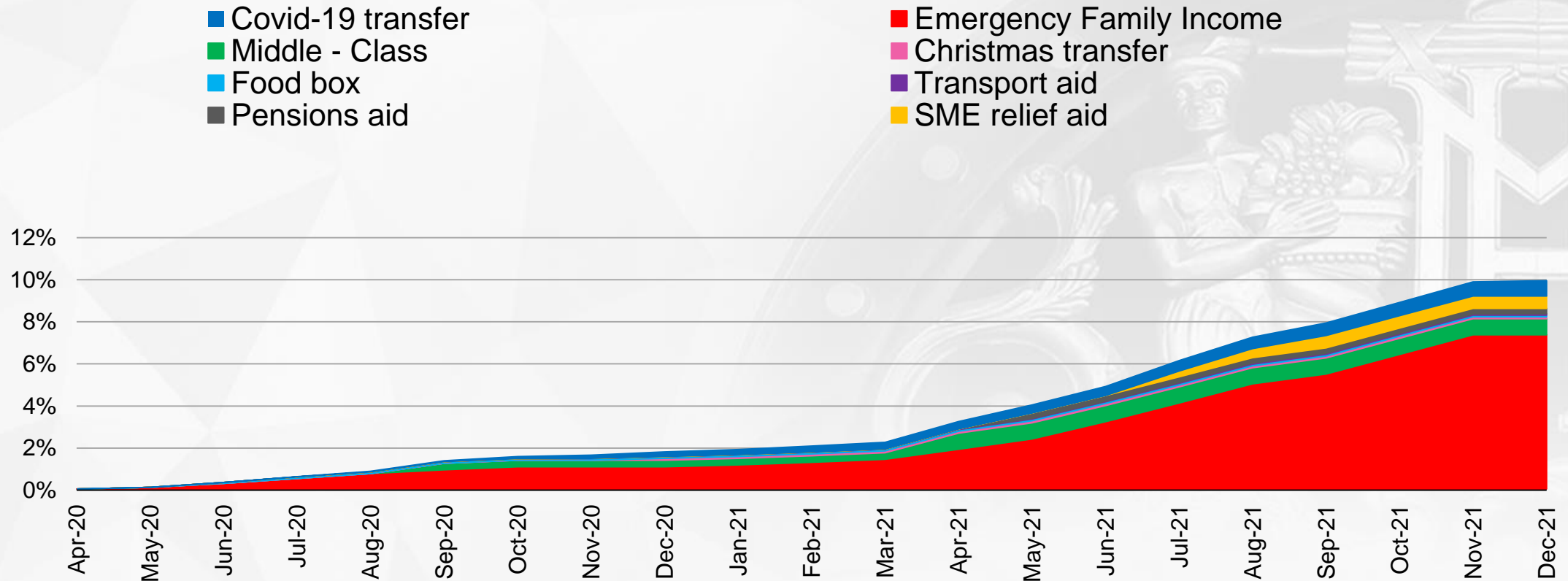


Google Mobility Index, Chile
(vs early-2020 levels, MA7d)



In this challenging context, we have continued to support both household's and firm's income levels amid extending the country's social safety net (mostly through the Emergency Family Income).

Fiscal Measures (As of % of 2021 GDP)

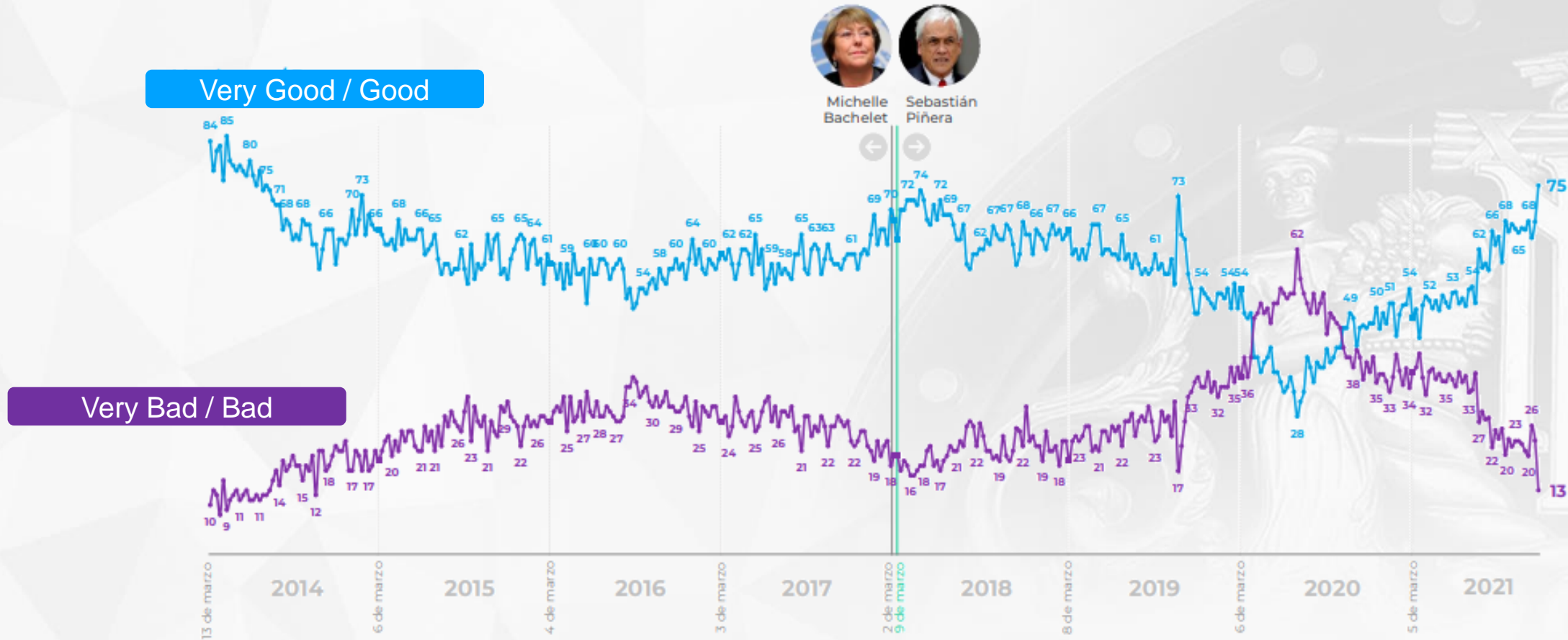


Source: Ministry of Finance.

Efforts began to produce concrete results over 2021

The current domestic economic situation is perceived by firms as even better than before the Oct-19 social unrest.

Firms – Current economic situation (% of total responses)



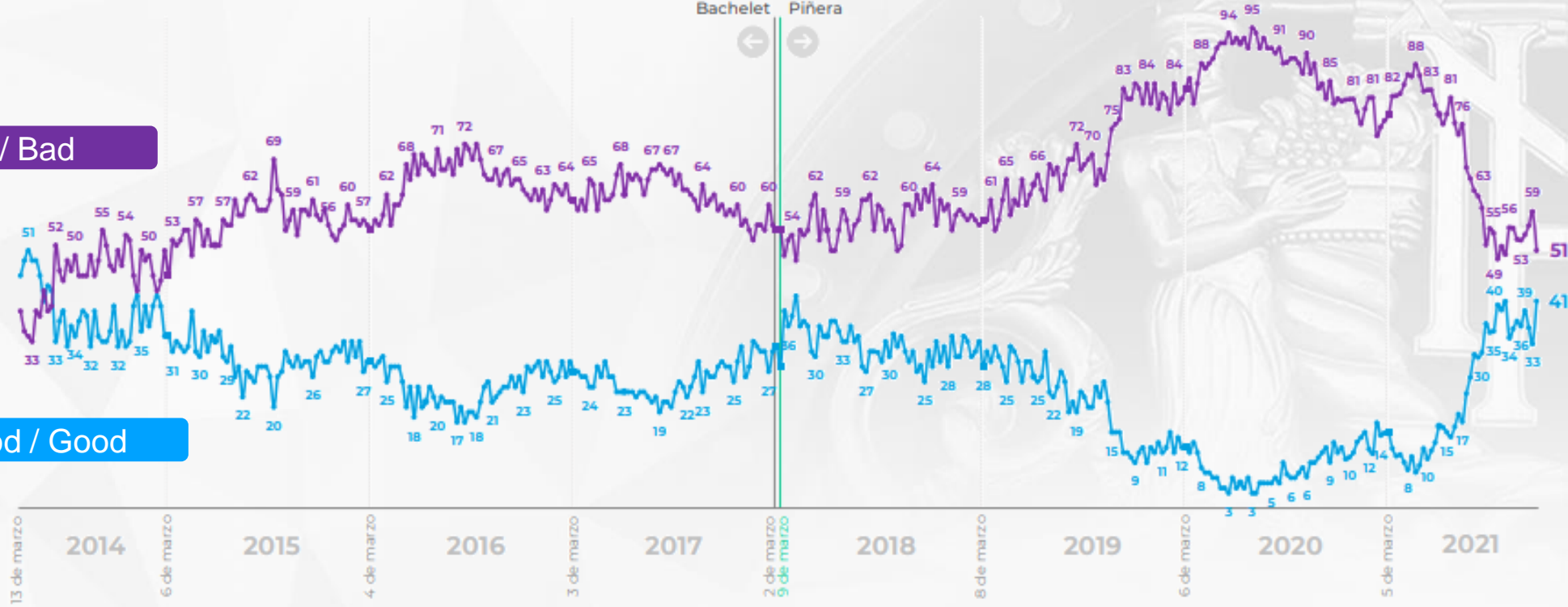
Employment expectations have recovered significantly and currently stand at their highest level in almost 4 years.

Employment expectations (% of total responses)



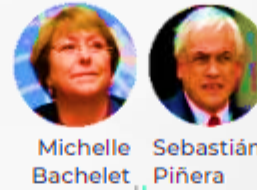
Very Bad / Bad

Very Good / Good



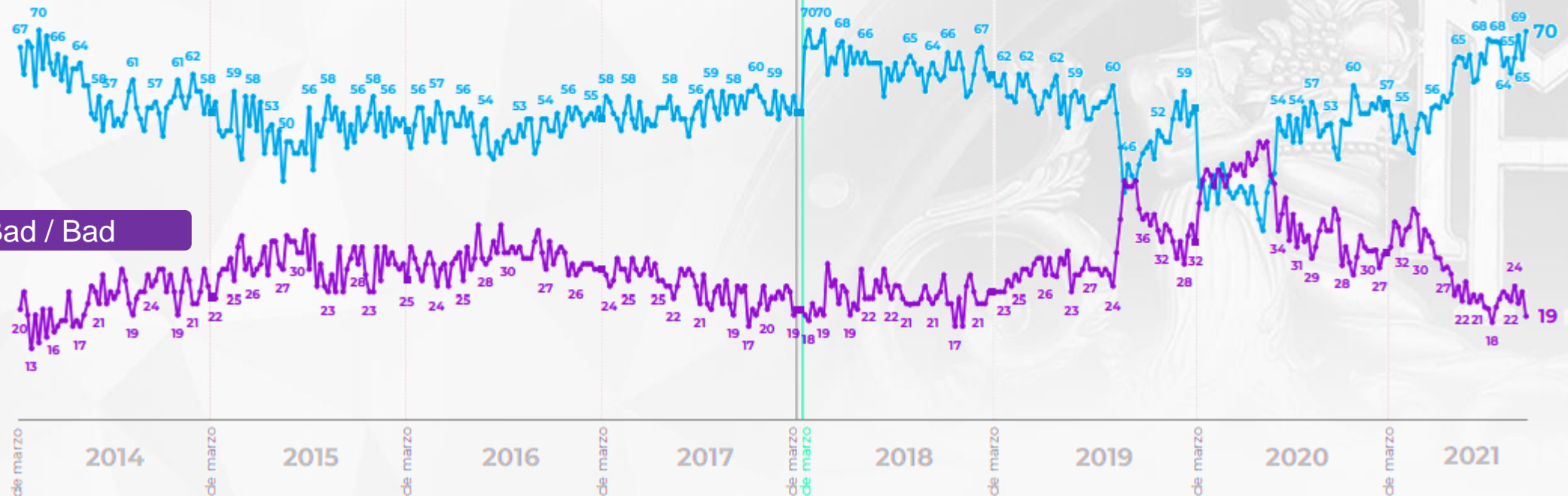
The personal and family economic situation is perceived above levels observed before the Oct-19 social unrest and the previous Government. Despite the crisis, households consider their personal situation as very good or good again.

Personal and family current situation (% of total responses)

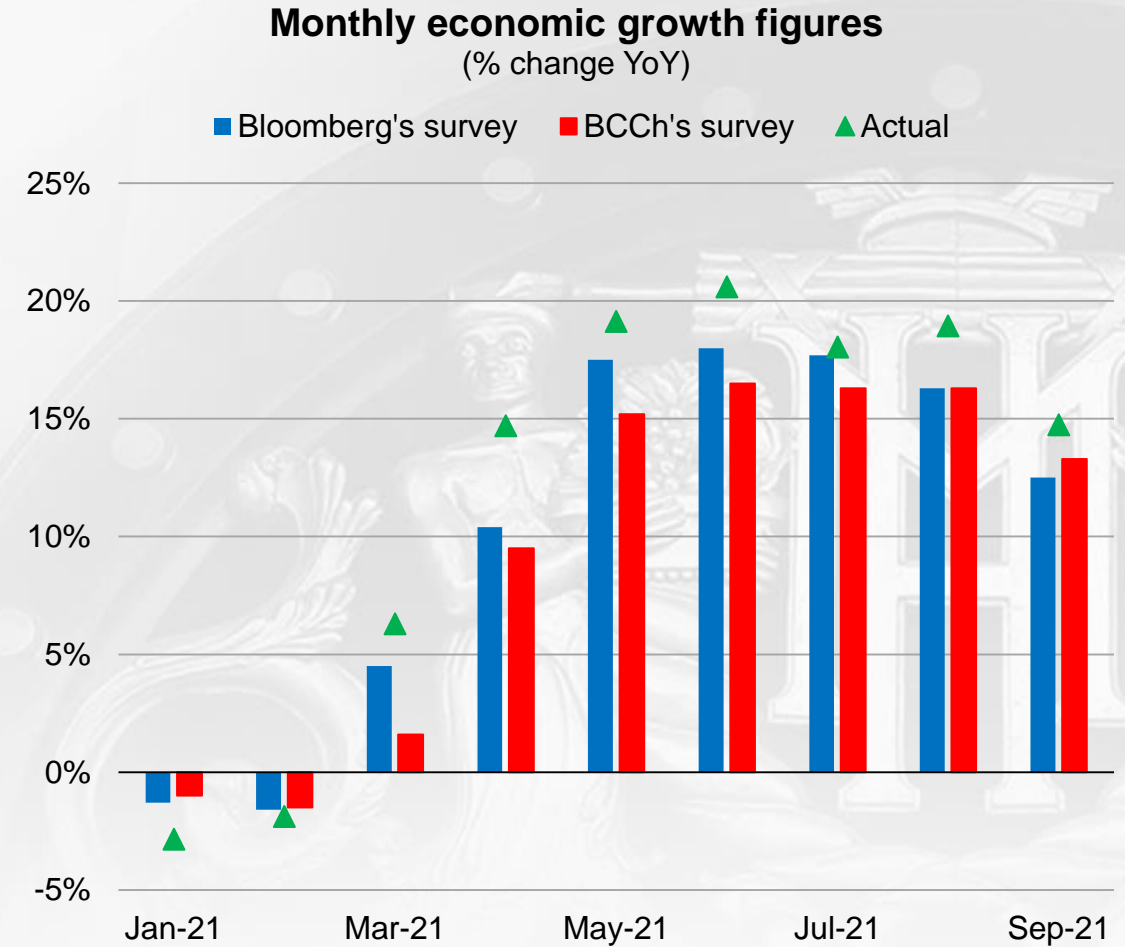


Very Good / Good

Very Bad / Bad

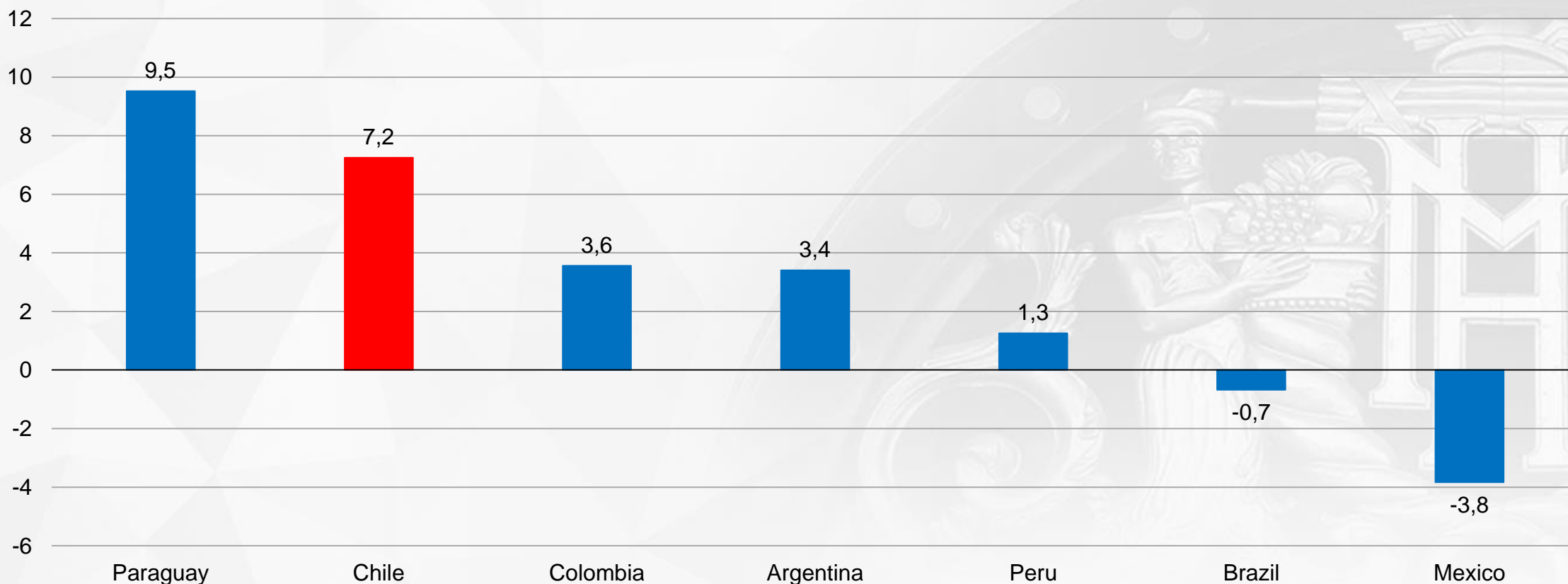


Indeed, after a sizeable downturn, the Chilean economy has recovered its pre-pandemic levels throughout 3Q21. The monthly figures have been continuously surprising on the upside.



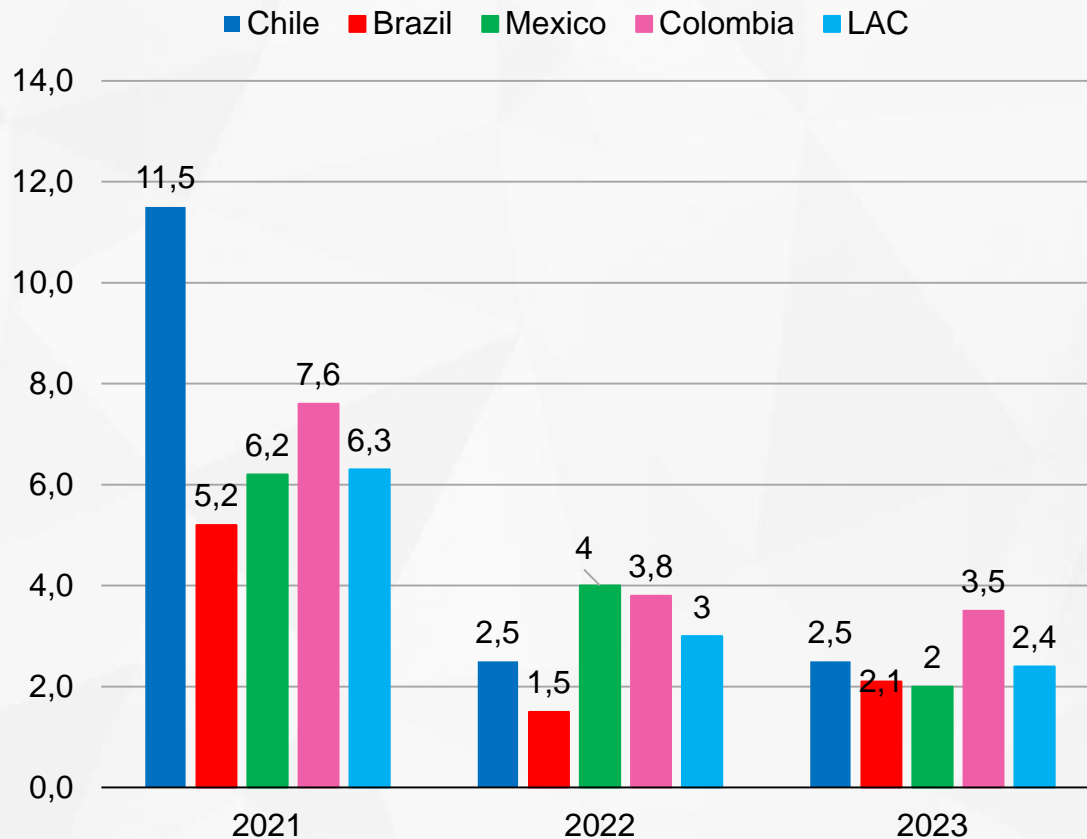
Achieving a high-speed recovery when compared to peers; our economy closed the output gap caused by the pandemic during 3Q21.

Economic activity level
(% change -latest data vs jan-20 level)



According to the IMF (Oct-21), Chile will reach the largest GDP growth expansion this year across LAC countries.

Growth projections
(% change YoY)



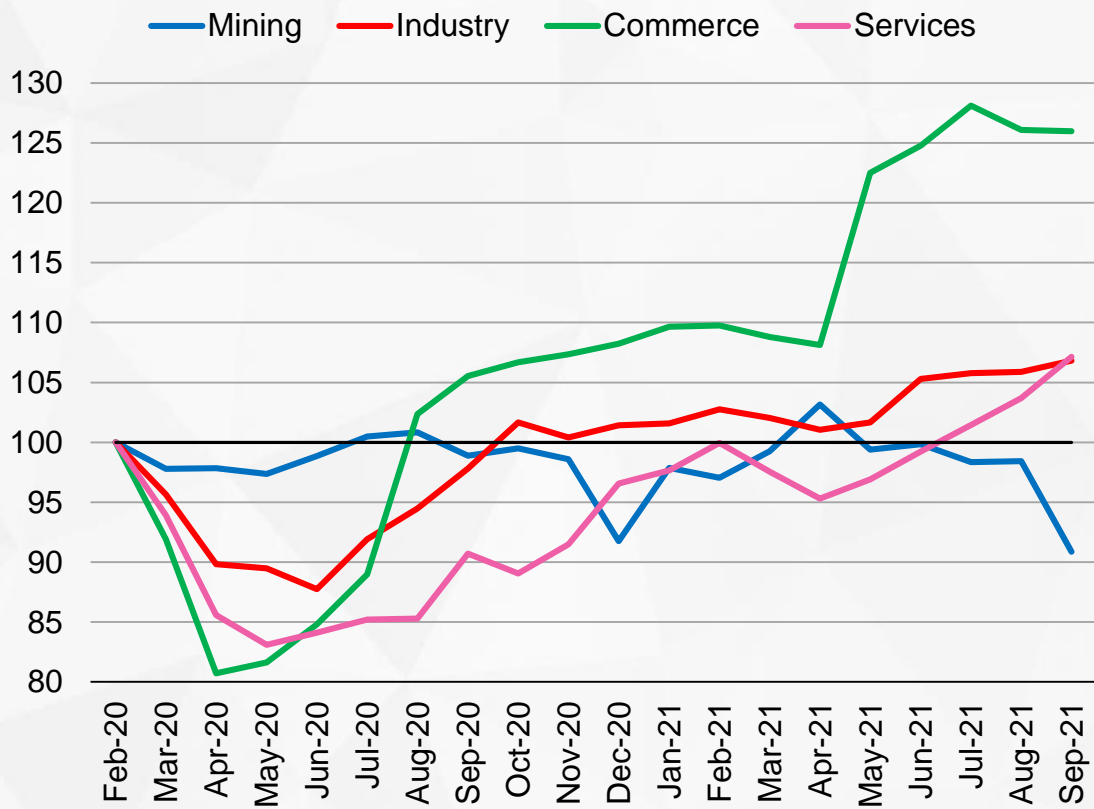
GDP forecast	2021	2022	2023
IMF (October)	11,0	2,5	2,5
Central Bank (September)	11,0	2,0	1,5
MoF (September)	9,5	2,5	2,5
World Bank (October)	10,6	2,4	1,8

IMF	2021	2022	2023	2024	2025
Inflation (aop)	4,0	4,4	3,0	3,0	3,0
Inflation (eop)	5,4	3,4	3,0	3,0	3,0

However, the recovery has been uneven across sectors. As well, meaningful challenges remain for the labor market.

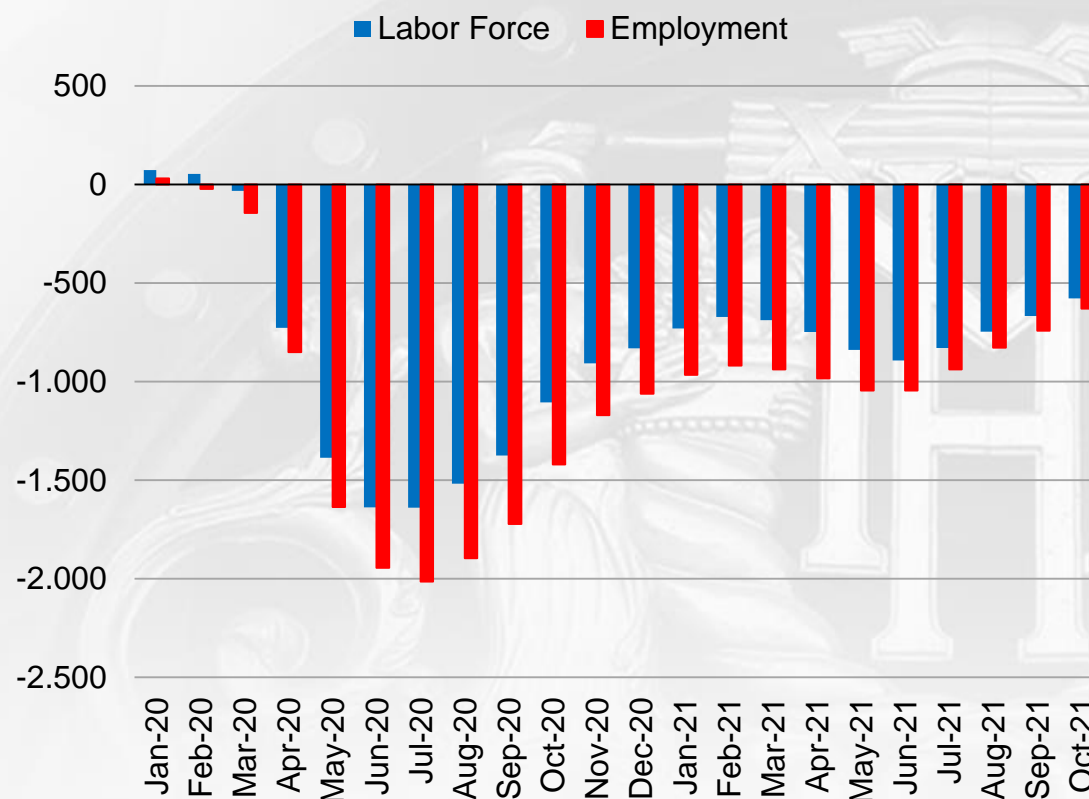
Economic sectors

(seasonally-adjusted monthly figures, base 100 = Feb-20)



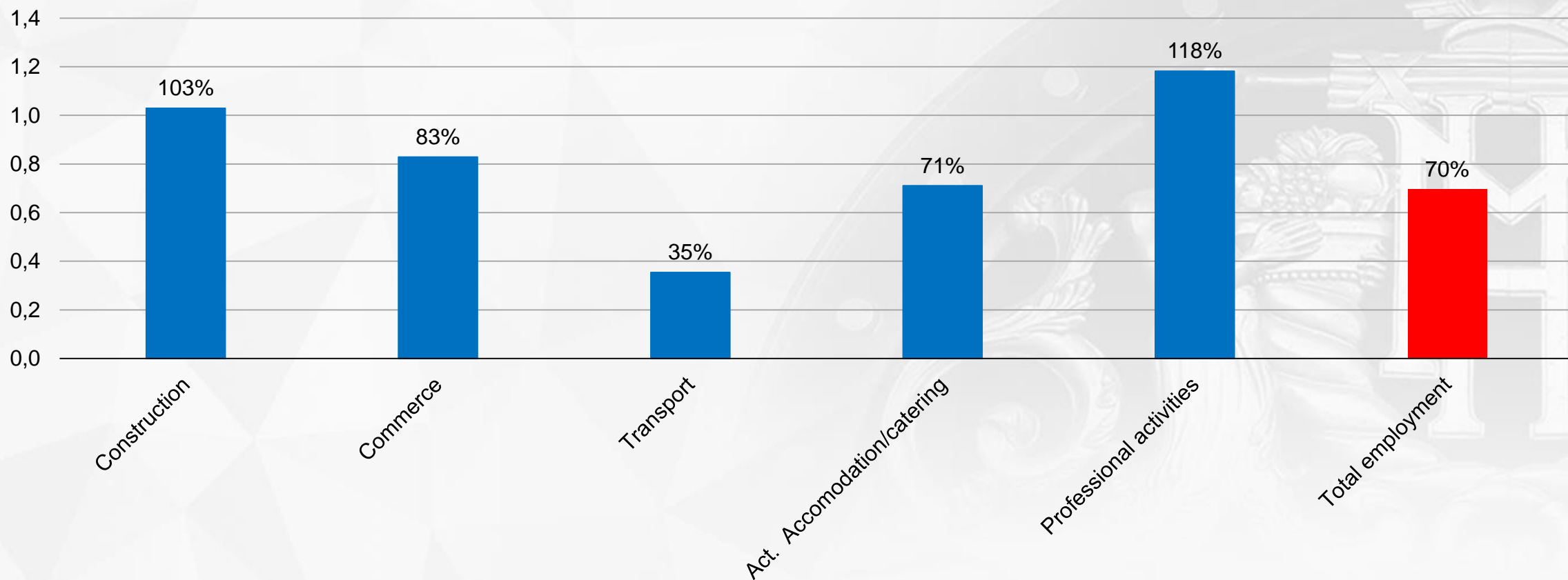
Cumulative change on employment and labor force

(thousands since Jan-21)

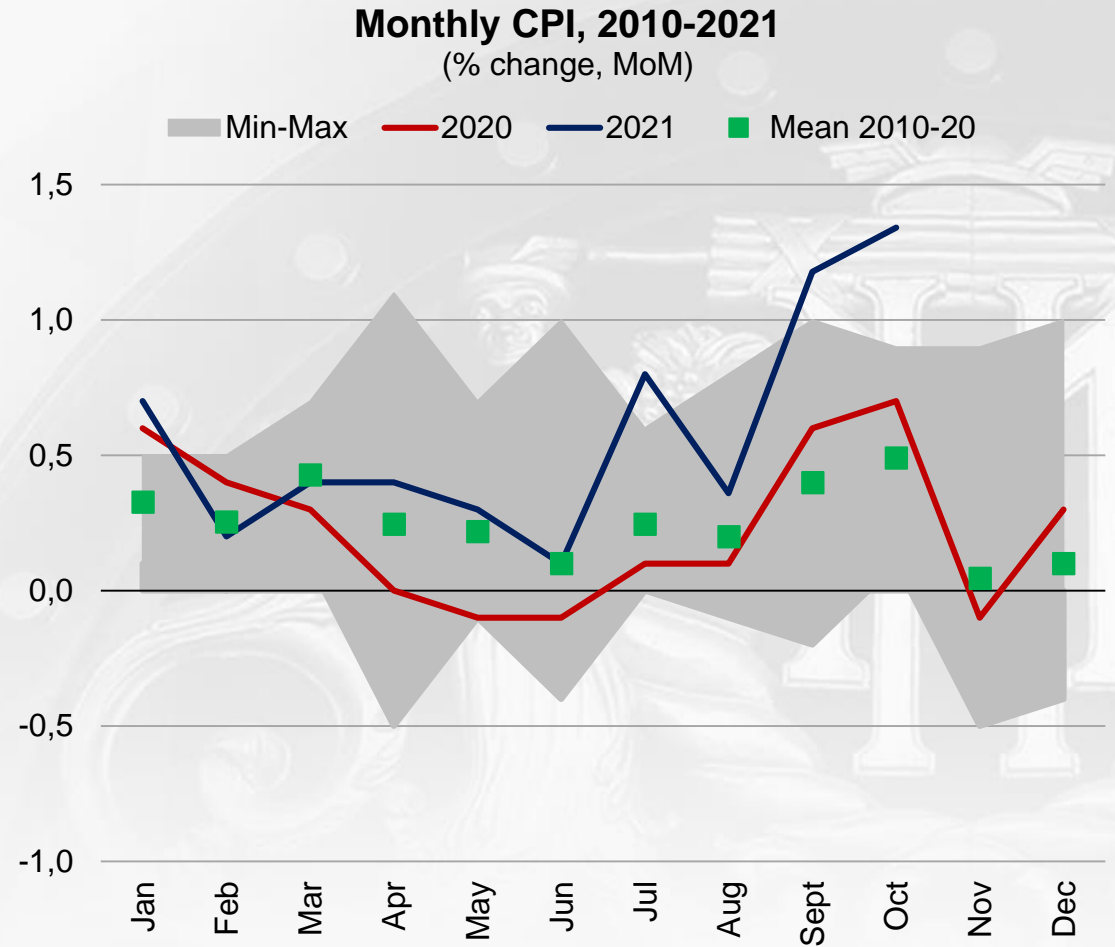
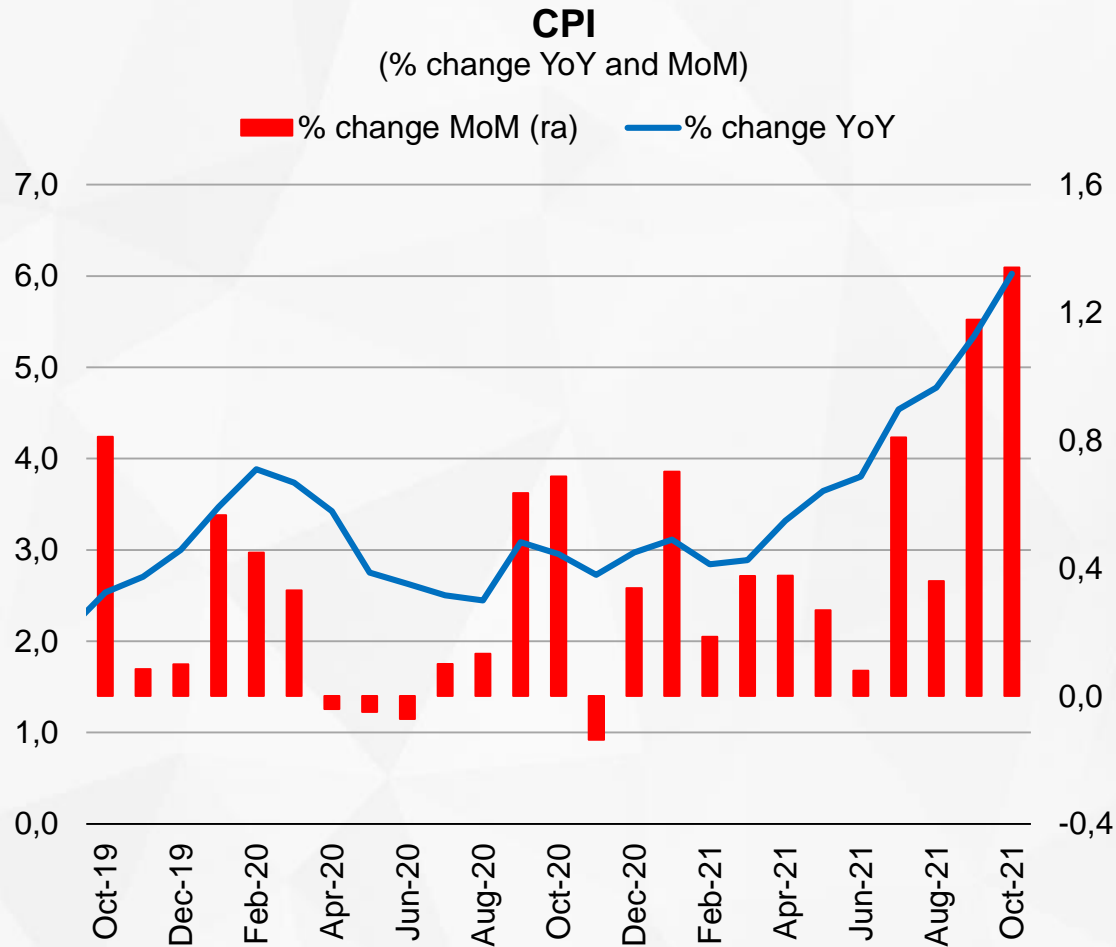


So far, the economy has recovered 70% from the roughly 2mm job losses seen during 2Q20. Higher mobility is promoting the services' recovery and, thus, triggering higher formal employment figures.

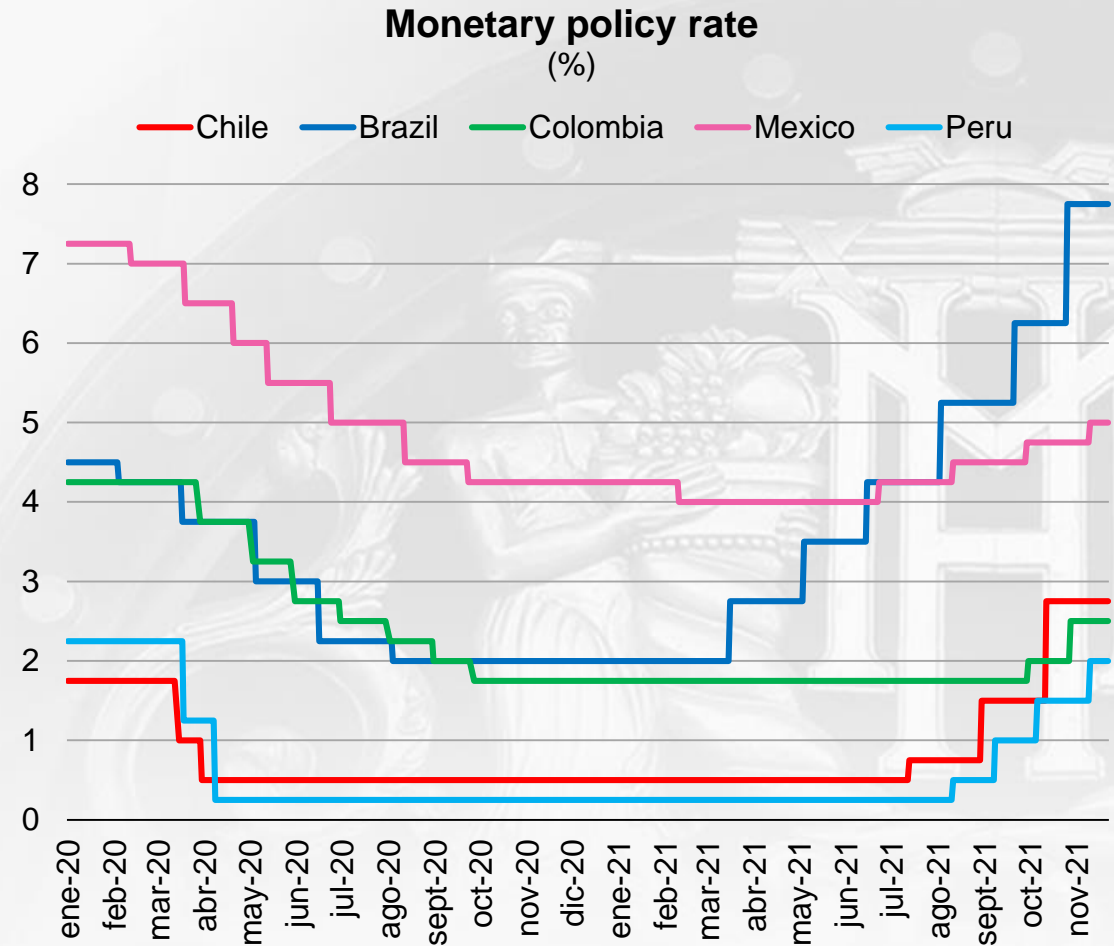
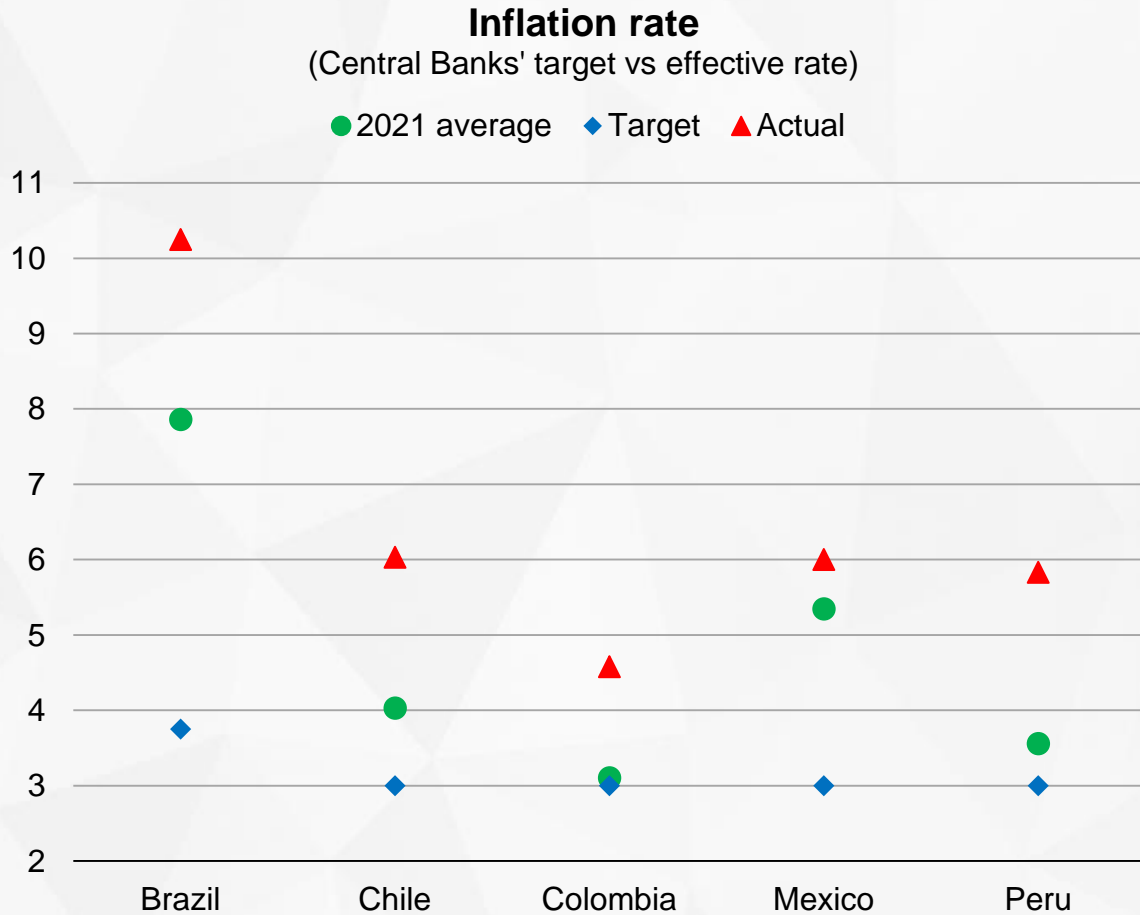
Employment recovery by sector
(% recovered from 2Q20)



Following the global trend, inflation stands above the BCCh tolerance range (2-4%), currently at 6.0% YoY. Although likely a transitory process, upside risks are significant.

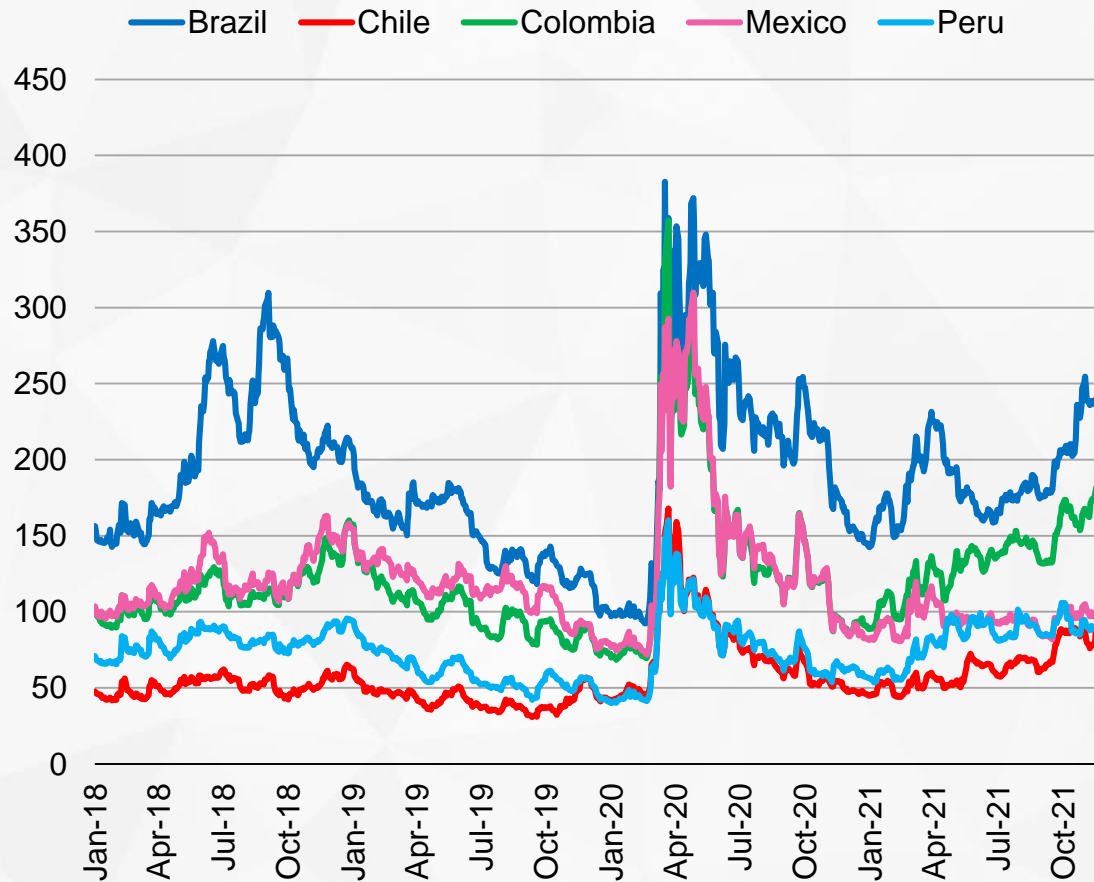


Global inflation worries are passing through LatAm. The withdrawal of the monetary policy stimulus is gaining traction in the region amid fears of a de-anchoring phenomenon.

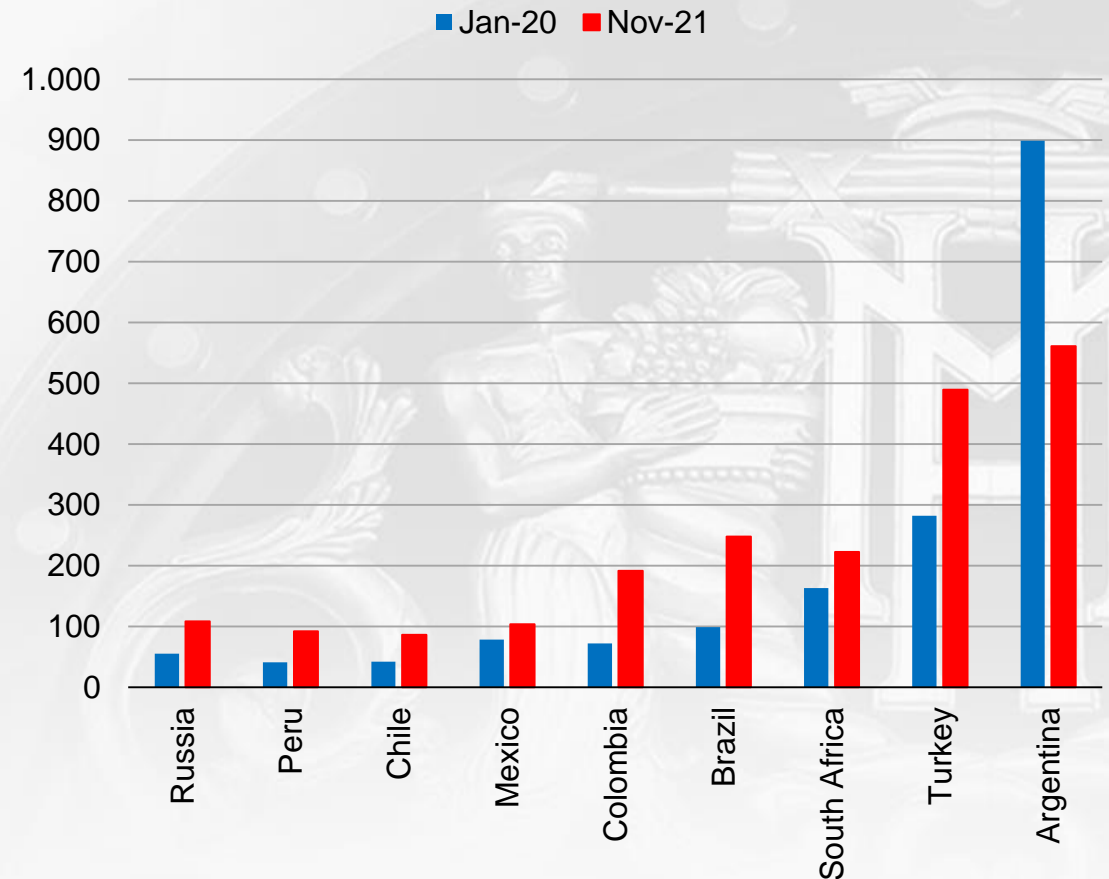


Despite the markets' recent risk-off mode, Chile still stands out as one of the less risky economies in the region and among other EM peers.

CDS 5Y
(Base points)



CDS 5Y
(Base points)



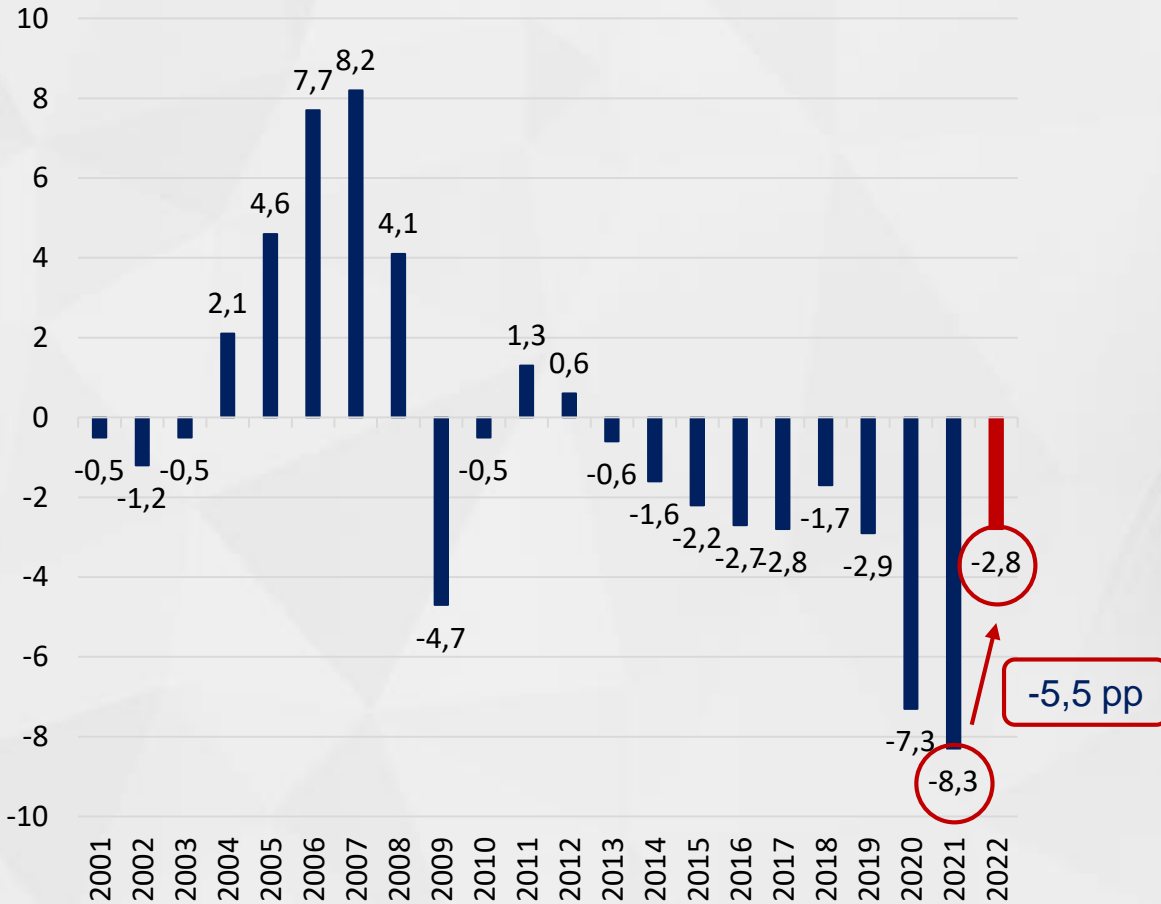
**The results achieved were possible
mainly after decades of fiscal
responsibility**

The Chilean Government has followed a Fiscal rule since 2001 according to the status of a small open economy and natural resource net exporter.

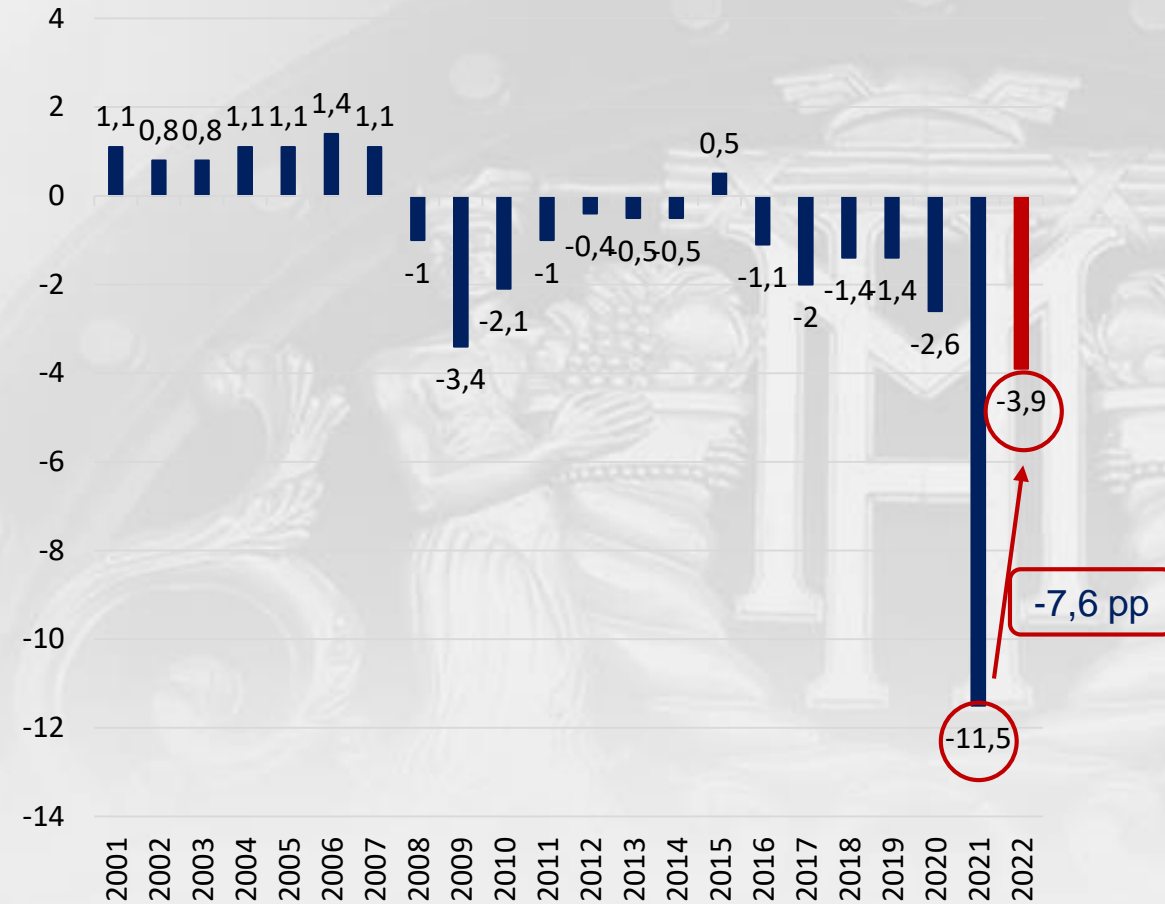
- The objective of the Fiscal rule is to produce savings in booms and use them in recessions.
- The Fiscal rule takes in account the effect of the economy cycles in the government income and expenditure with the aim to establish an a-cyclically fiscal policy.
- The main adjustments come from the variations on the long-term copper price and the trend GDP growth.
- Currently, the fiscal rule is based on a structural balance target. The expenditure level is proposed by the Government and discussed in Congress in the budget Law.

The need to restore Chile's globally-recognized macroeconomic balances. We need to support the public finance's sustainability, starting as soon as next year.

Effective Fiscal Balance
(% of GDP)



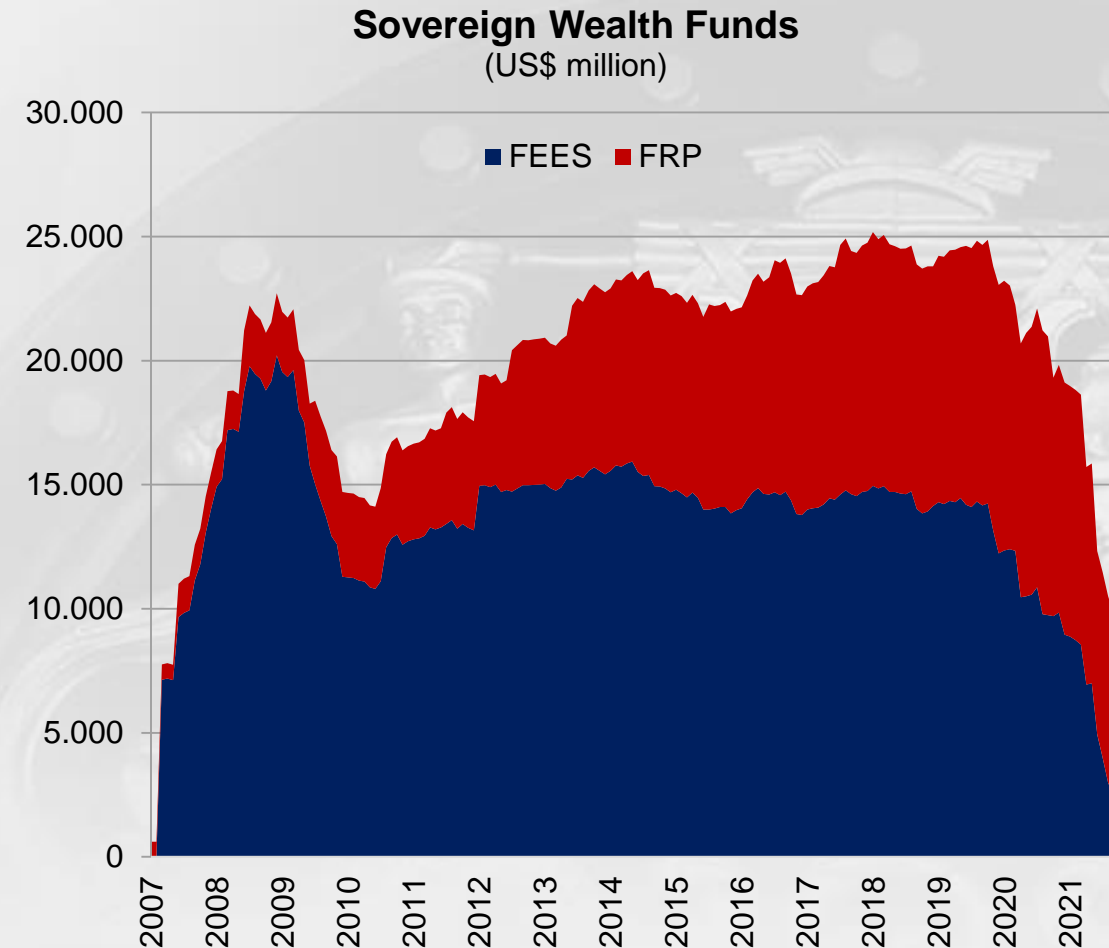
Structural Fiscal Balance
(% of GDP)





In addition to higher public debt, previously-saved sovereign funds played a key role to provide support to households and firms during the crisis.

- Chile's Economic and Social Stabilization Fund (FEES) **reduces the need to turn to the issuance of public debt while dealing with a crisis.**
- As of Sept-21, up to US\$24.2bn have been withdrawn from the FEES (since 2007), of which **US\$6.2bn corresponds to the 2021 requirements** to finance public spending to deal with the Covid19 crisis. In addition, US\$3.0bn were withdrawn from the Pension Reserve Fund (FRP) in 2021.
- Accordingly, **the total amount of sovereign funds stood at US\$9.8bn**, including US\$2.5bn from the FEES and US\$7.3bn from the FRP.
- Importantly, **the 2022 Budget Law starts to restore the sovereign funds used to deal with the crisis, by increasing them by roughly 1% of GDP.** The latter, following suggestions made by the Autonomous Fiscal Council (CFA) to secure access to short-term liquidity needs if required.



MoF – 2021-2022 Bond Issuances Plan

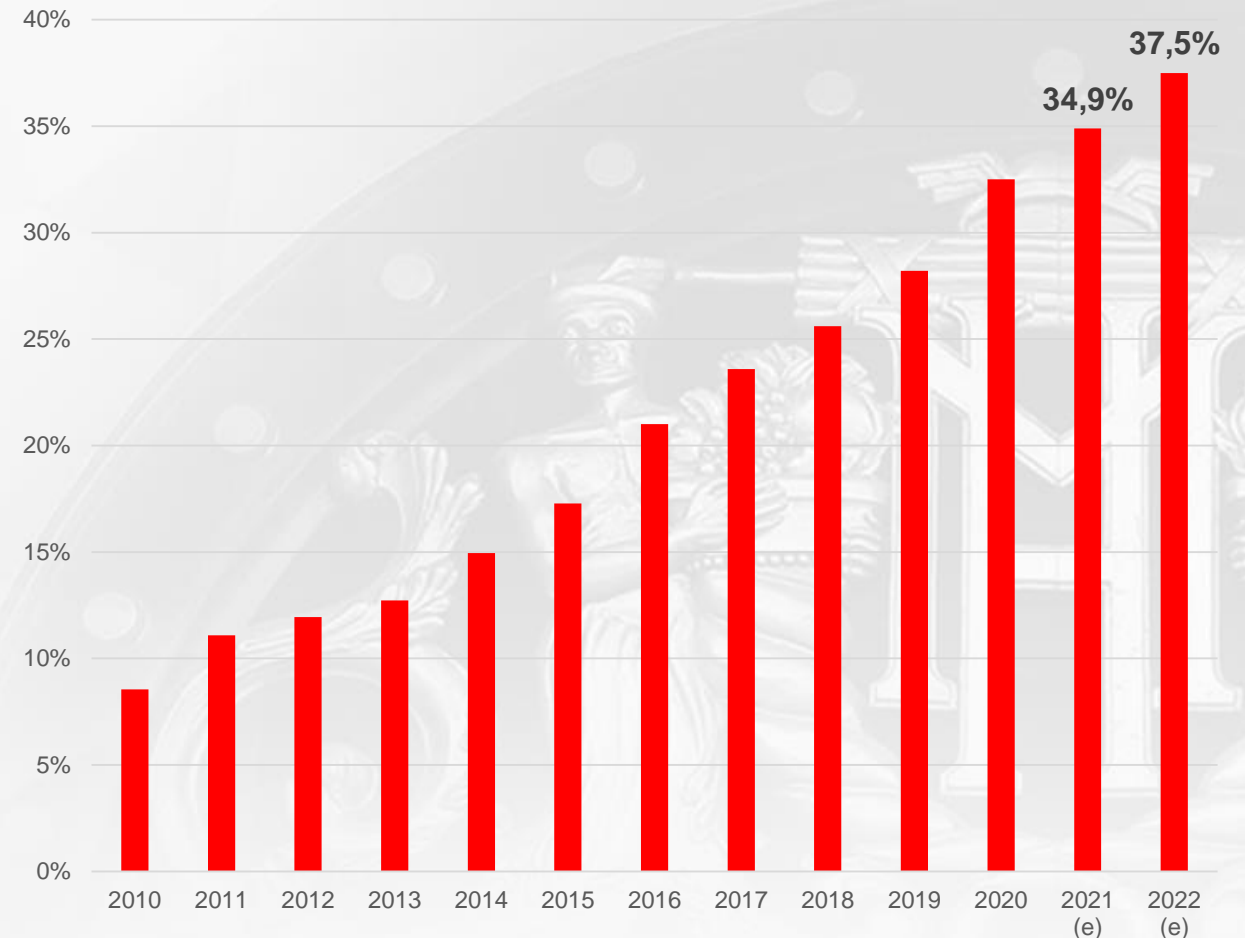
2021 Bond Issuances plan

- Currently issued US\$26 billion from a plan of US\$27 billion (19 from original 2021 budget + additional 8 announced in July, 2021):
 - US\$6 billion to finance amortizations
 - 58% in Foreign Currency and 42% in Local Currency, and
 - 65% were thematic bonds

2022 Bond Issuances plan

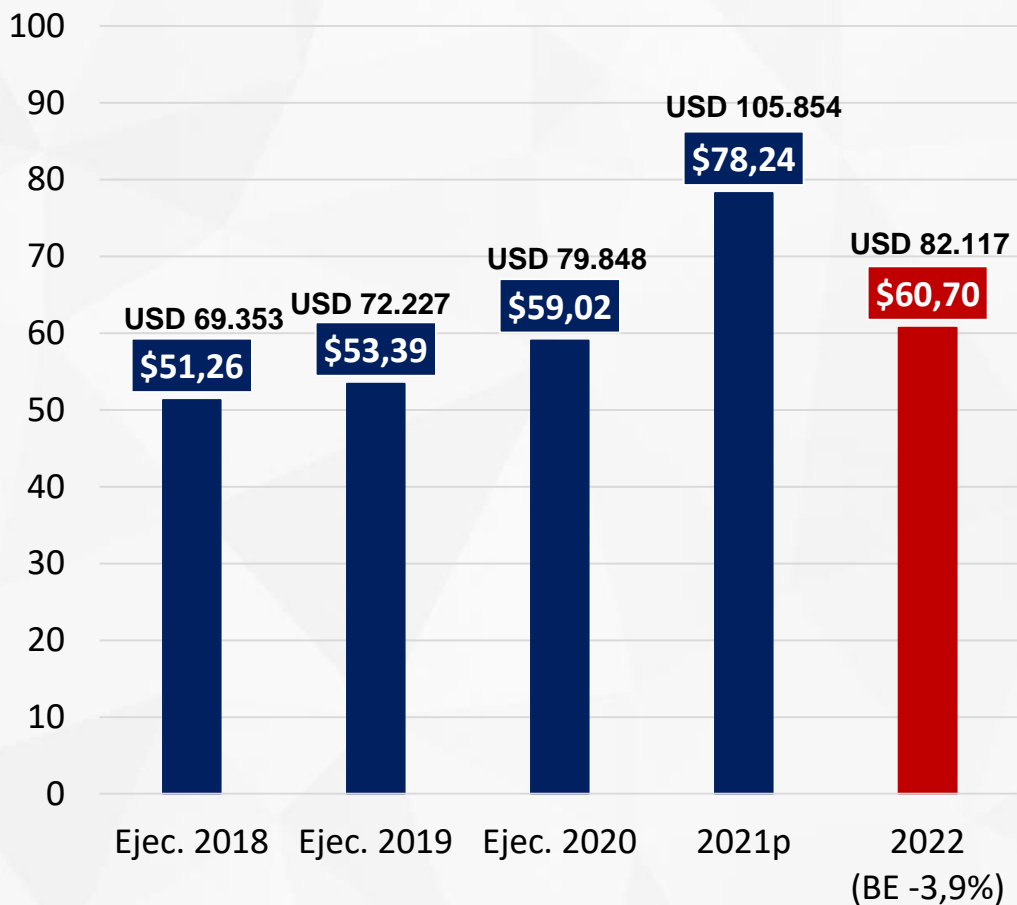
- Budget bill: US\$21 billion
 - US\$3.2 billion to finance amortizations
 - US\$2.0 billion to finance contribution to ESSF

Gross Debt of the Central Government (% GDP)

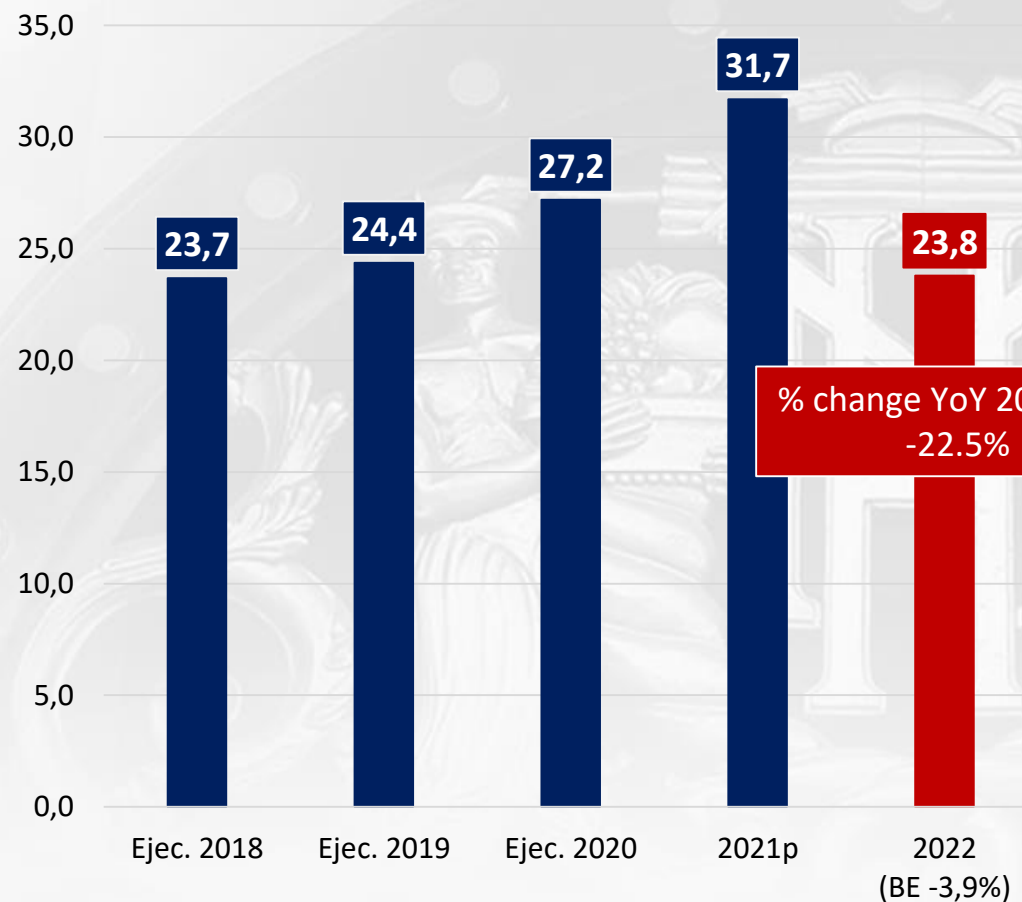


With an economic recovery in progress, it is time to start a necessary fiscal consolidation process. The 2022 Budget Law is fiscally responsible but does not ignore the required support still needed to achieve a sustainable recovery.

Total Fiscal Expenditure
(CLP trillions and USD millions)

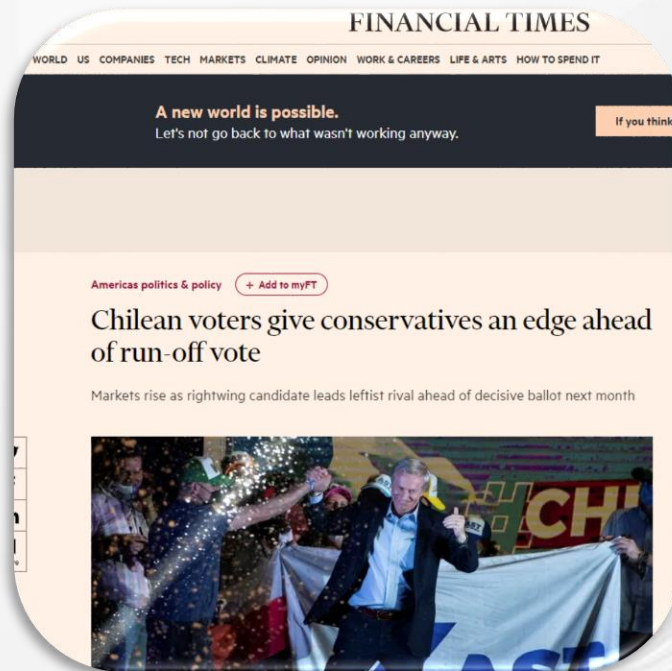


Total Fiscal Expenditure
(% of GDP and % change YoY)



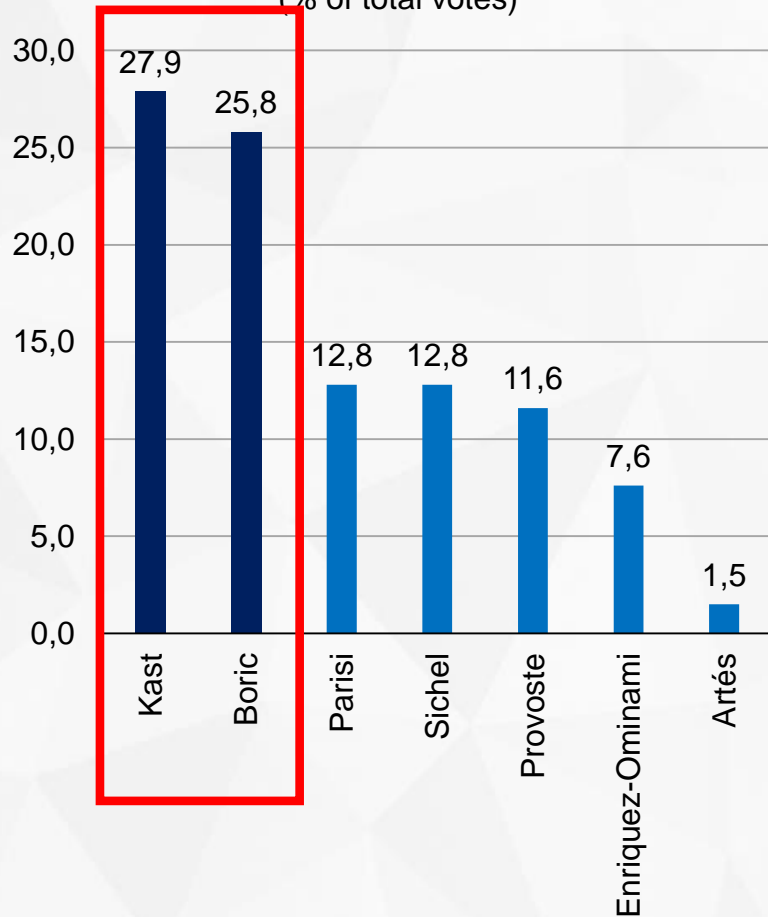
A positive outcome after the general elections held in November

Both Presidential and Congress outcomes received a meaningful coverage from international media as well.

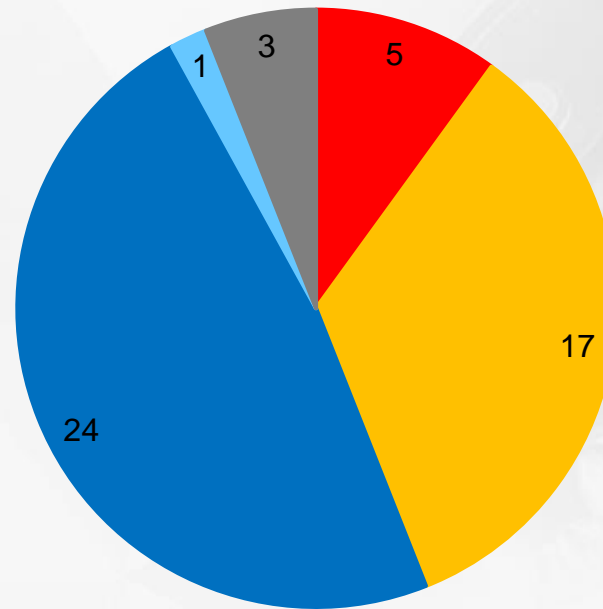
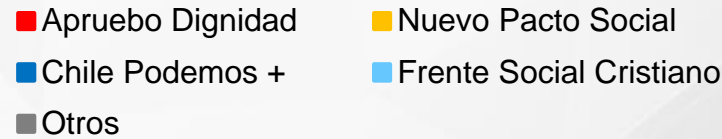


Chile's 2021 Presidential Election Outcomes: Kast & Boric advances to the *ballotage*, while political forces in Congress will be balanced.

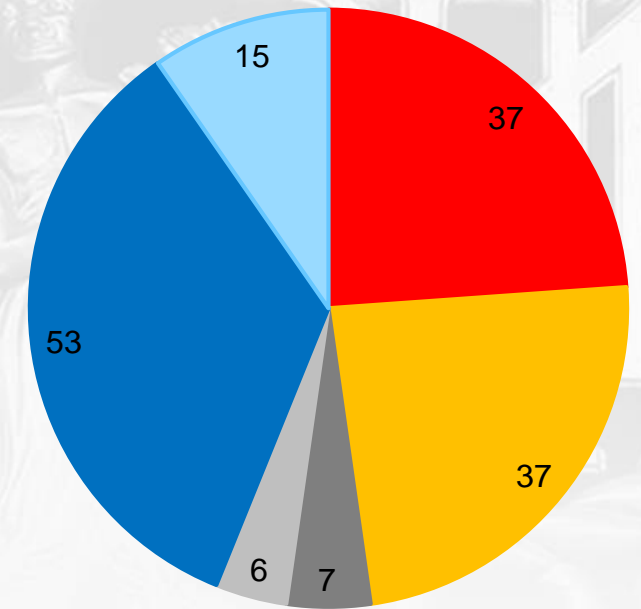
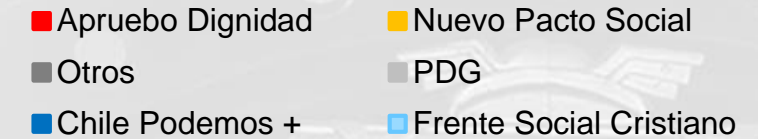
First round outcome
(% of total votes)



Seats in the Senate
(#)

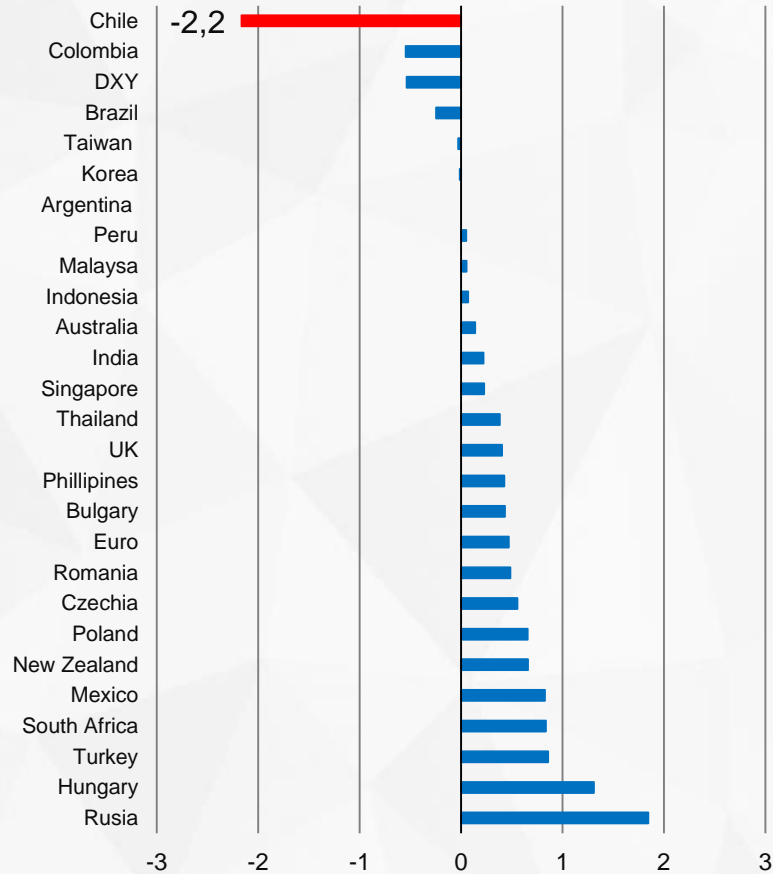


Seats in the Lower house
(#)

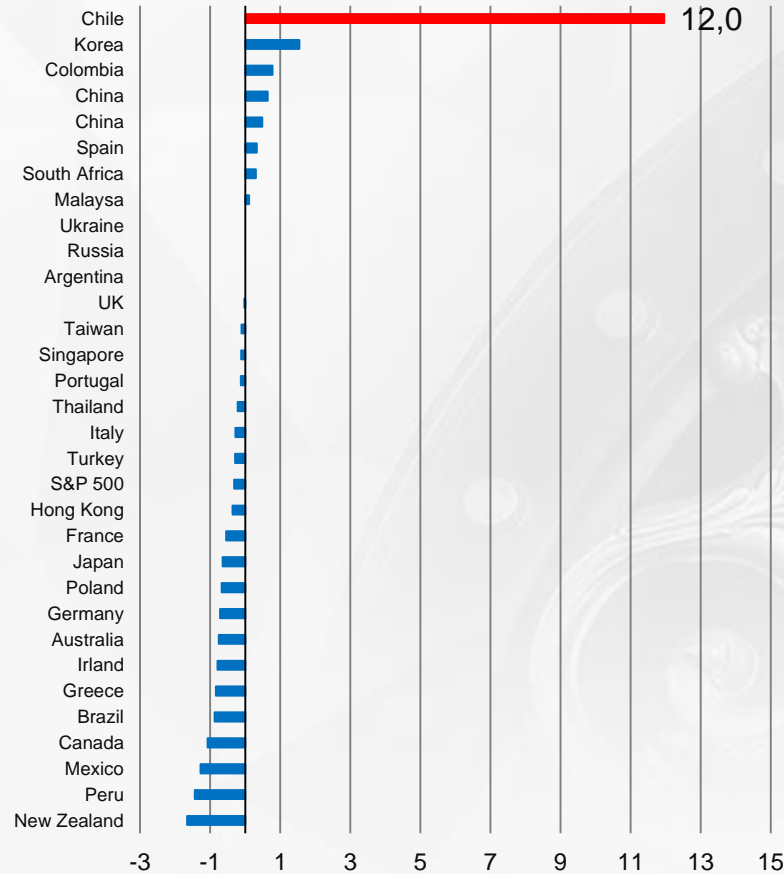


The markets' reaction was extremely positive and all Chilean assets outperformed their peers after the results.

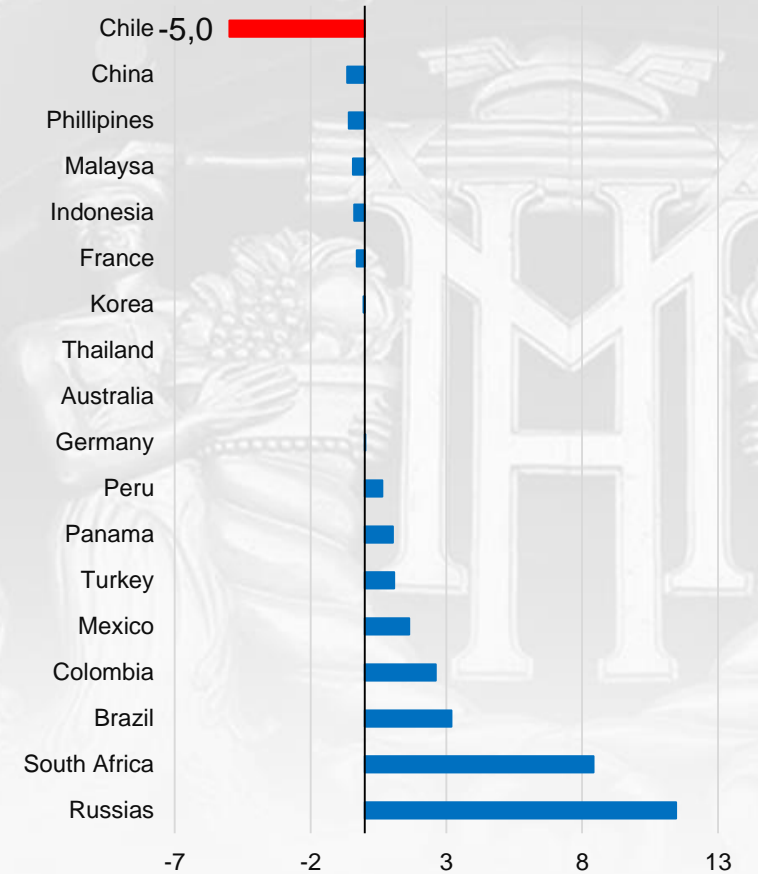
Exchange rate
(LU/USD, % change)



Stock market
(in USD, % change)

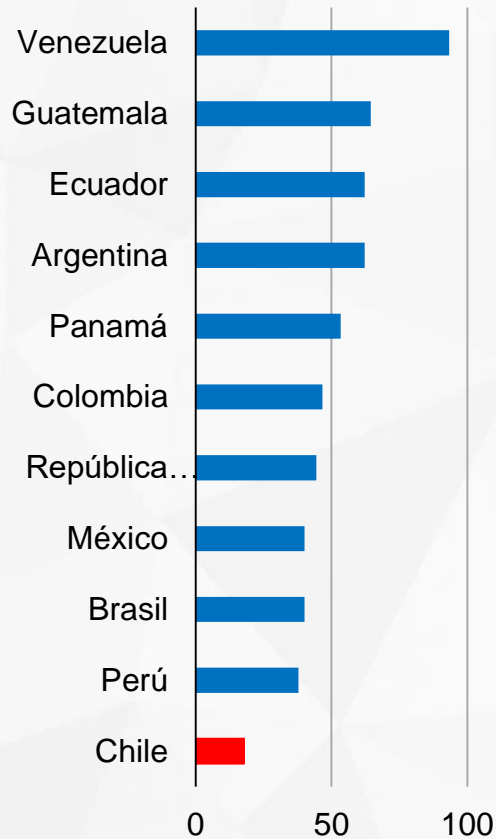


CDS
(change in basis points)



All-in, Chile continues to be one of the safest and more stable countries in the Region.

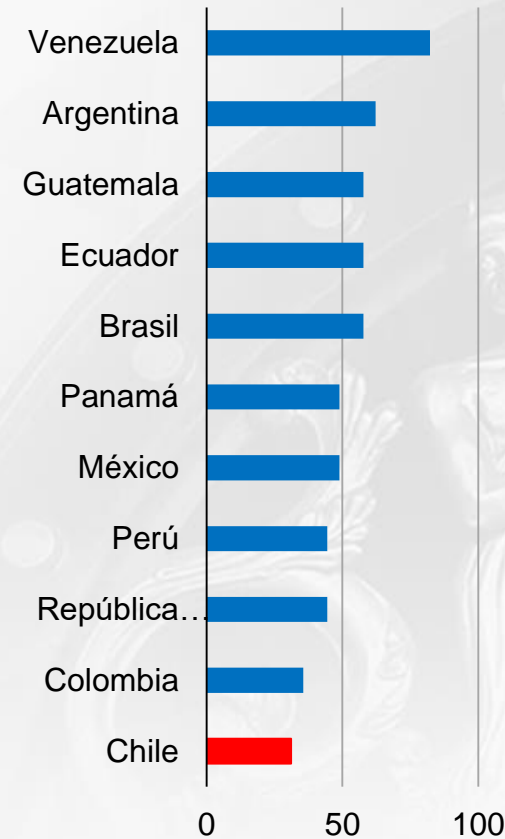
Regulatory and Legal Risk
(0 to 100 index, 100 = riskier)



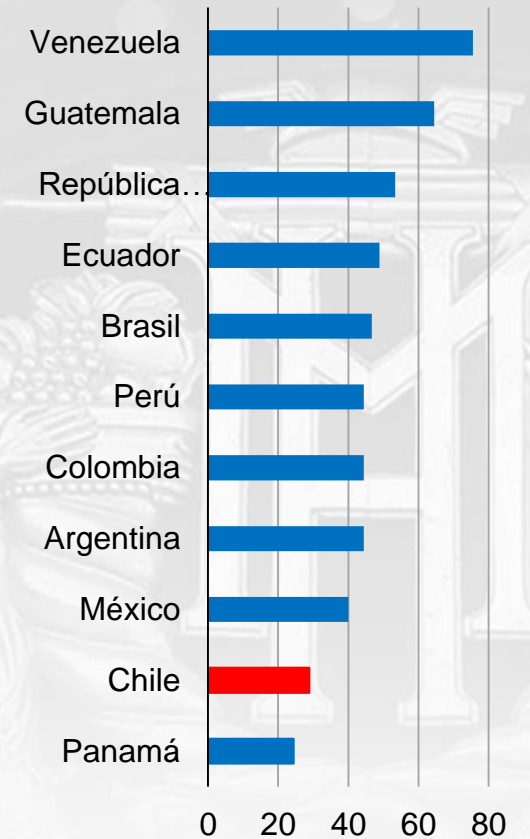
Tax Policy Risk
(0 to 100 index, 100 = riskier)



Labor Market Risk
(0 to 100 index, 100 = riskier)



Infrastructure Risk
(0 to 100 index, 100 = riskier)



Source: The Economist Intelligence Unit (EIU). A number closer to 100 represents higher risk.

Chile has a great opportunity ahead: peaceful and institutionally-based solutions to the social unrest and the pandemic.

- Chile has found a way out to the crisis faster-than-expected: the economic activity has recovered significantly throughout 2021. Currently, economic activity stands 7% above pre-pandemic levels.
- Higher activity levels are also being reflected in healthier employment indicators. During the last 4 months, Chile has created over 400K job positions, recovering roughly 70% of the employment lost during the crisis.
- Consumer and business sentiment indicators point towards a robust recovery ahead as well. Business confidence gauges stand close to its highest levels in the last decade. Having found an institutionally-based solution to the crises faced by our country, we see a peaceful and harmonized way out to the recent challenging years.
- Chile's solid macroeconomic policy and institutions (namely, the MoF and BCCh) allowed our country to avoid short-term volatility and potential long-term scars caused by the pandemic.
- 2021 General elections: a balanced Congress will avoid extreme economic policies ahead and promote necessary agreements among diverse political forces.
- The Constitution would be finished in August 2022 concluding, hopefully, the period of political crisis that faced the country.

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