

**Ministerio de Hacienda**

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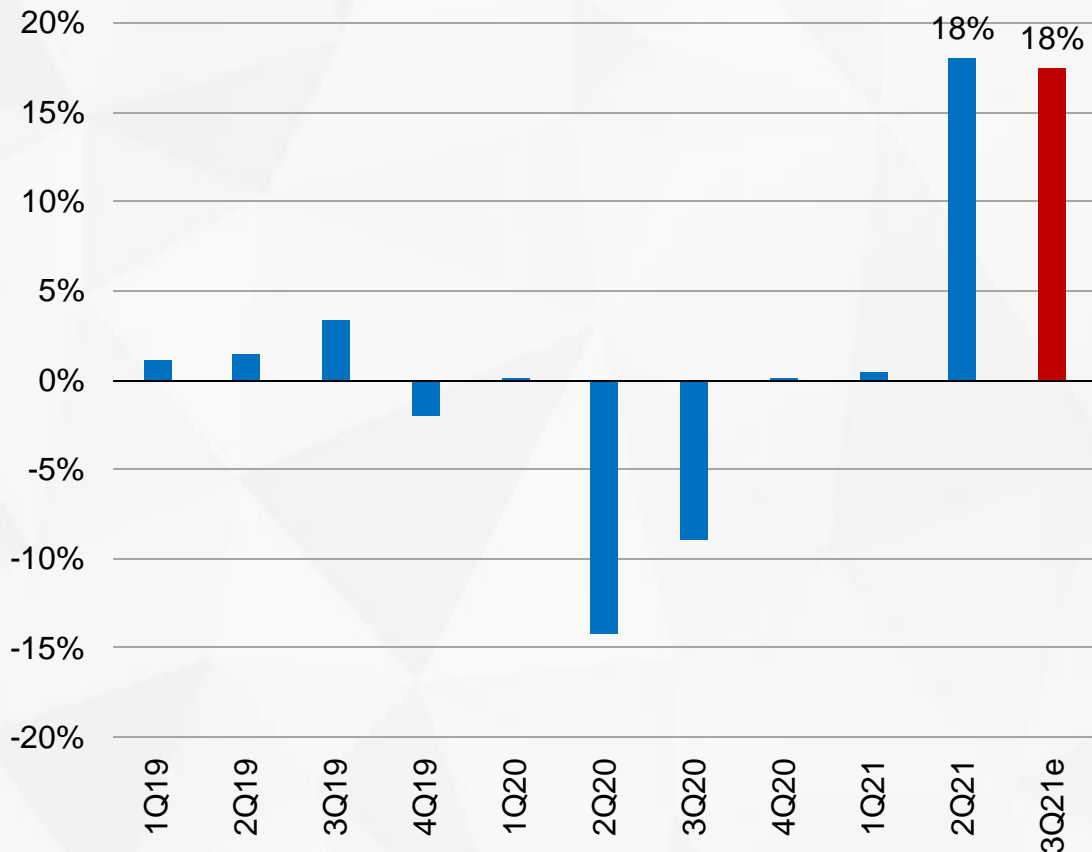
# Chile and Latin America: A conversation on Economics from the public policy perspective

November 15th, 2021

Rodrigo Cerda N. | Minister of Finance

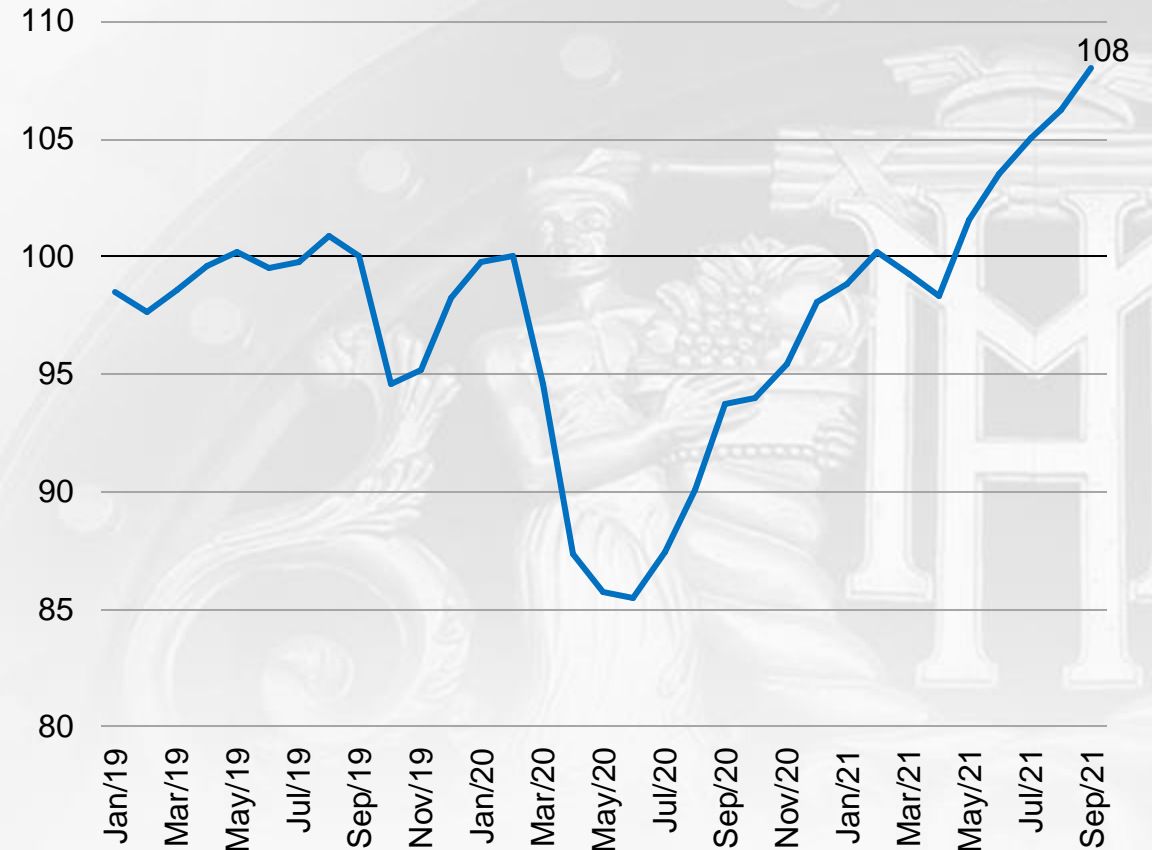
The Chilean economy has moved faster than expected into the recovery phase and currently stands 8% above pre-pandemic levels.

**GDP growth rate**  
(% change YoY)



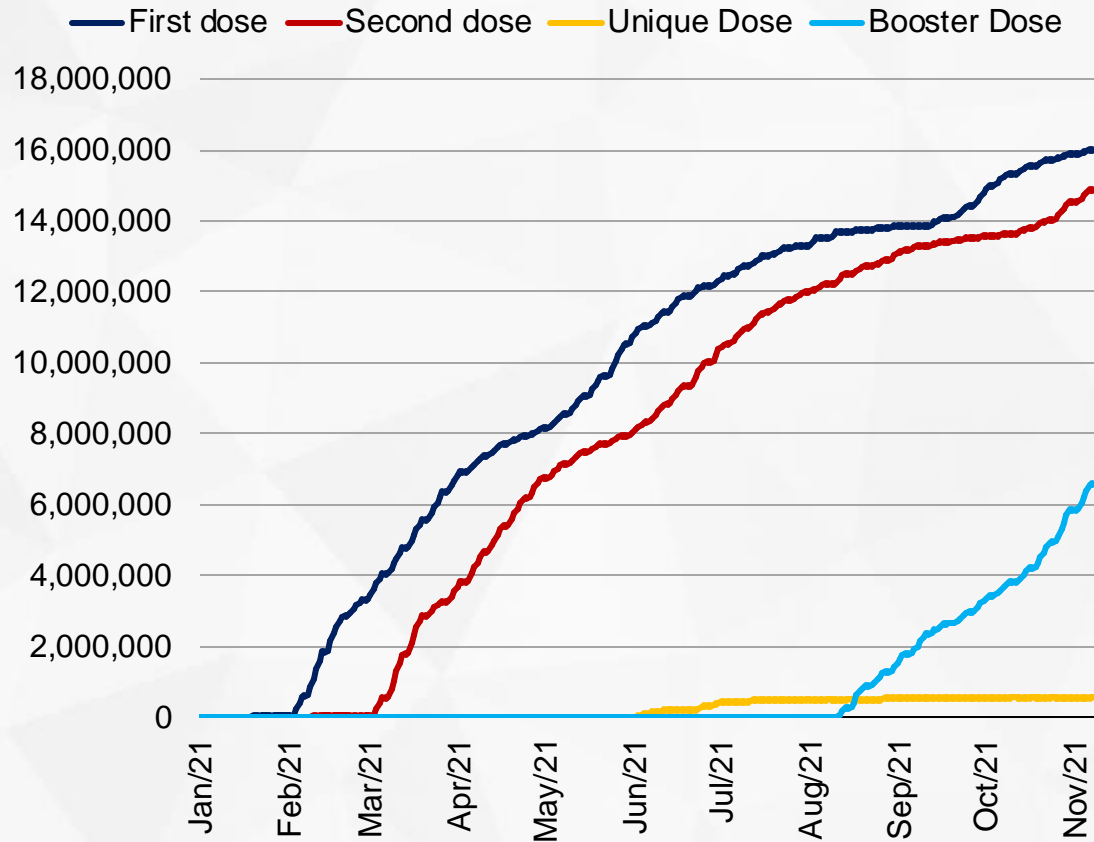
**Monthly GDP**

(seasonally-adjusted series, Feb-20 = 100)

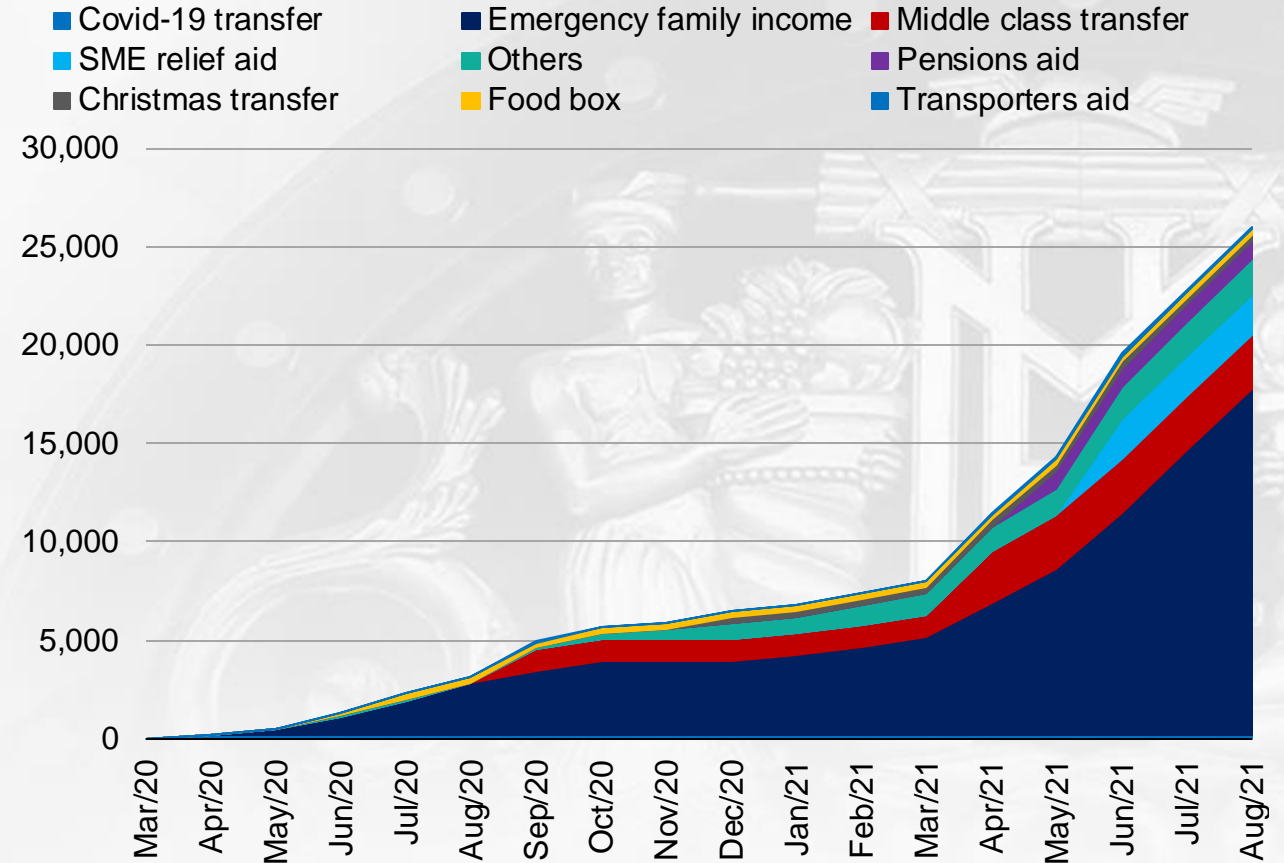


# On the triggers of the recovery: an expansionary fiscal policy, favorable financing conditions and a remarkable vaccination campaign.

### Chile's Vaccination campaign (# of persons)



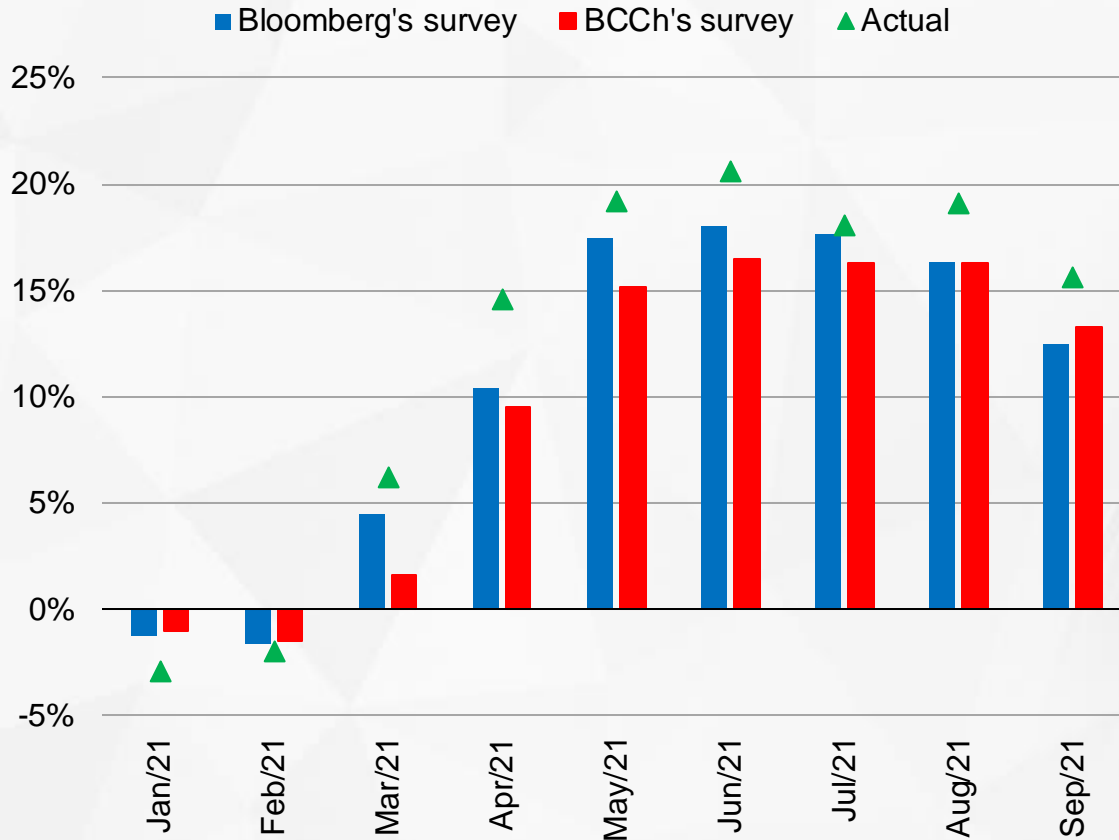
### Fiscal Measures (US\$ million)



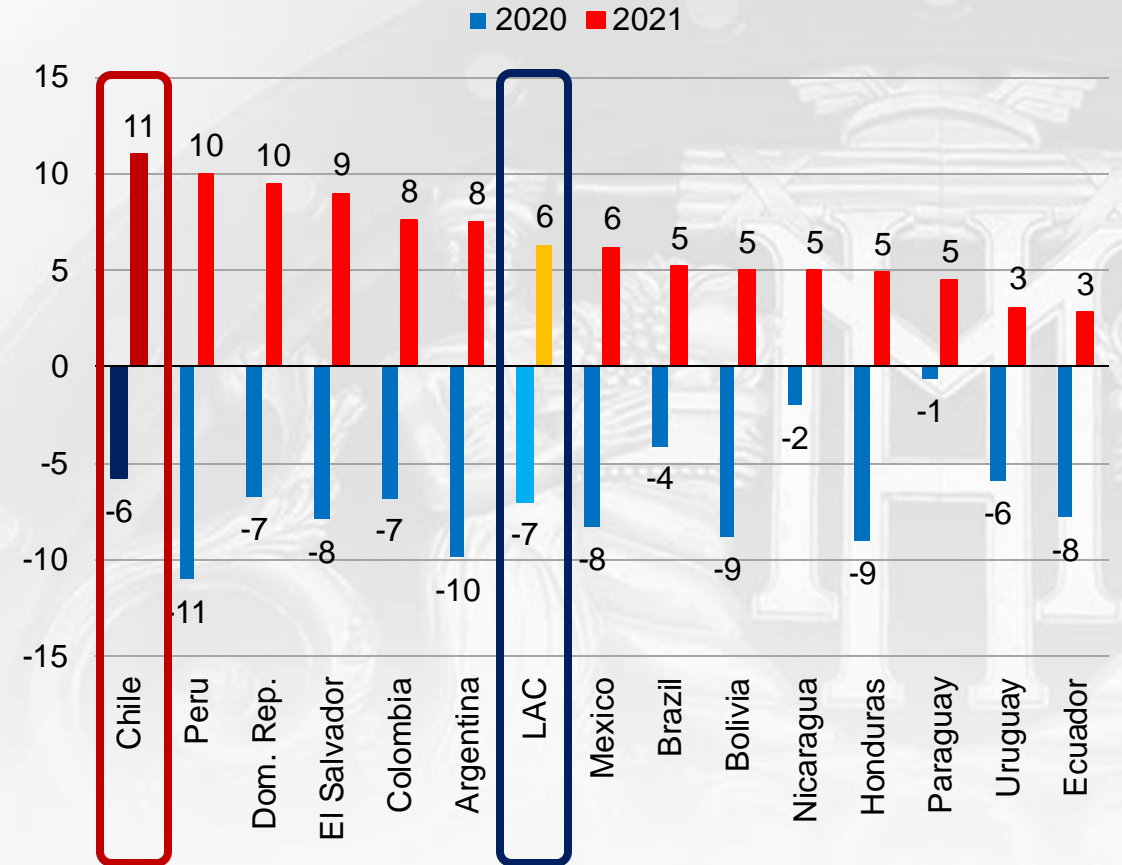
Source: Our world in data, Ministry of Finance.

The economy has quickly adapted to the new context and has been continuously surprising on the upside.

**Monthly GDP growth figures**  
(% change YoY)

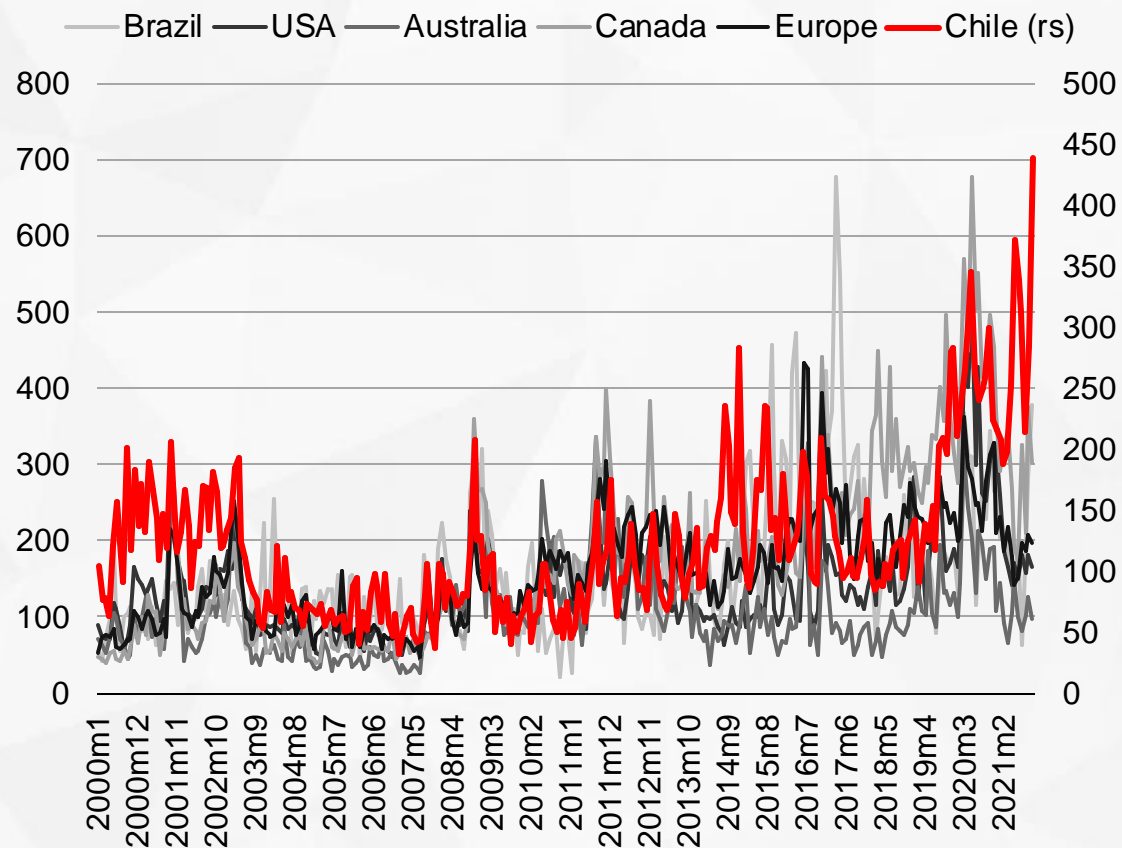


**IMF Oct-21 WEO - Latin America**  
(GDP growth rate, YoY)

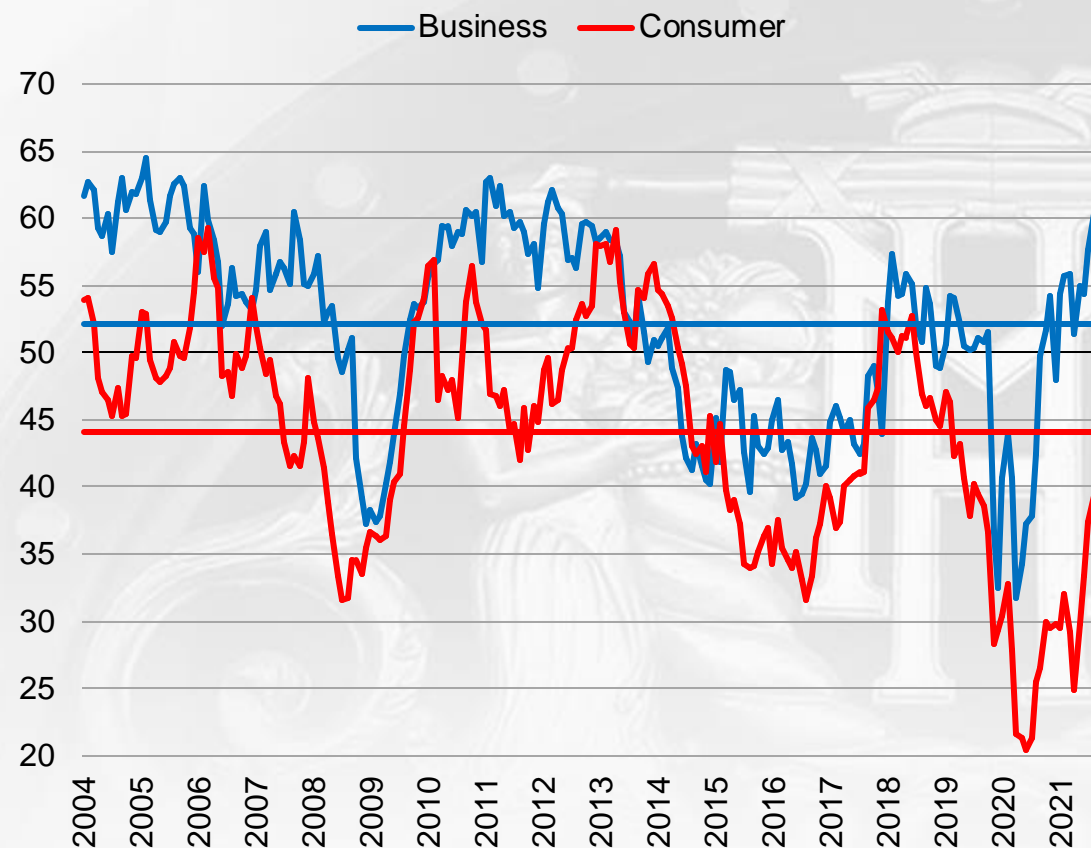


Uncertainty rises and damages some key leading indicators. Although both indexes have returned to mid-21 levels, both stand well-above levels observed at the beginning of the pandemic in Chile

**Economic Policy Uncertainty**  
(Index)

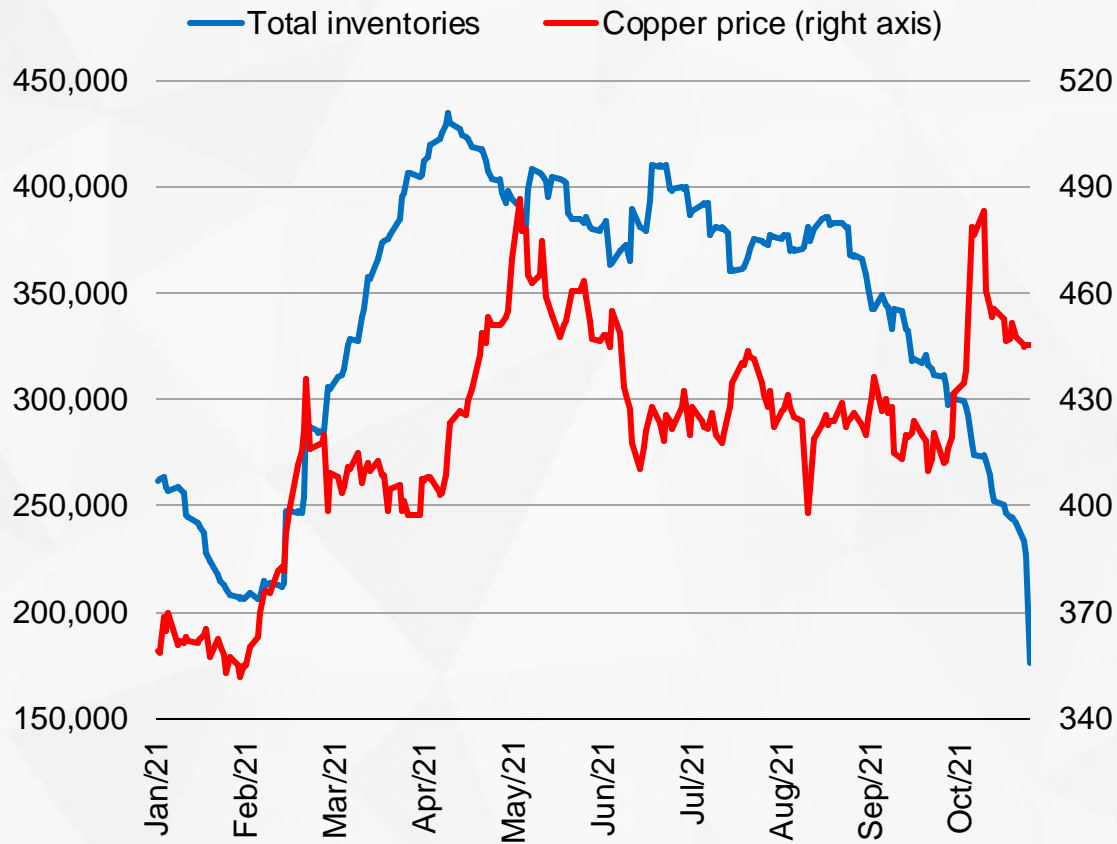


**Consumer & business sentiment**  
(index, 50 = neutral, dashed lines: hist. average)

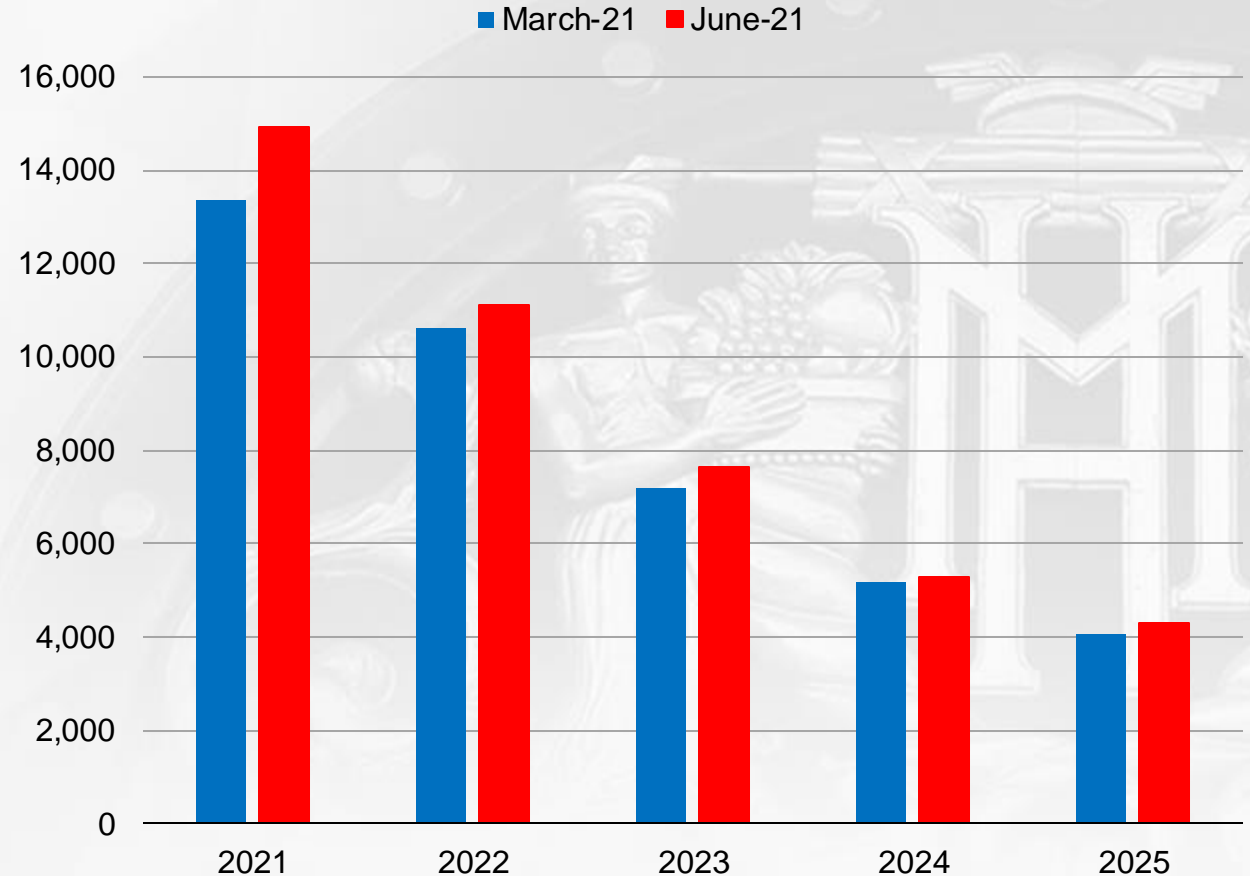


There is no sustainable recovery without investment. Once uncertainty retreats, the investment will contribute higher to GDP growth figures in 2022 and will be key to the employment recovery.

**Copper price and inventories**  
(USD/pound and MT)

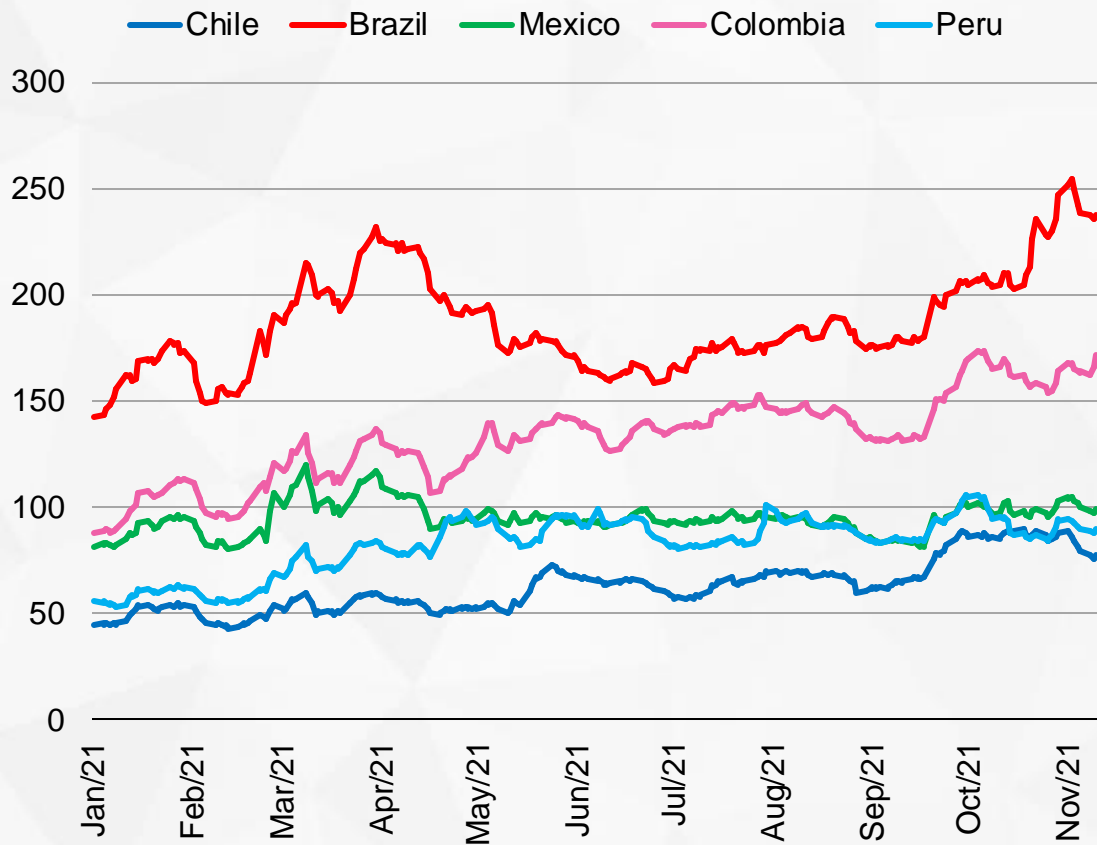


**Next 5-Yr investment pipeline**  
(US \$ MM)

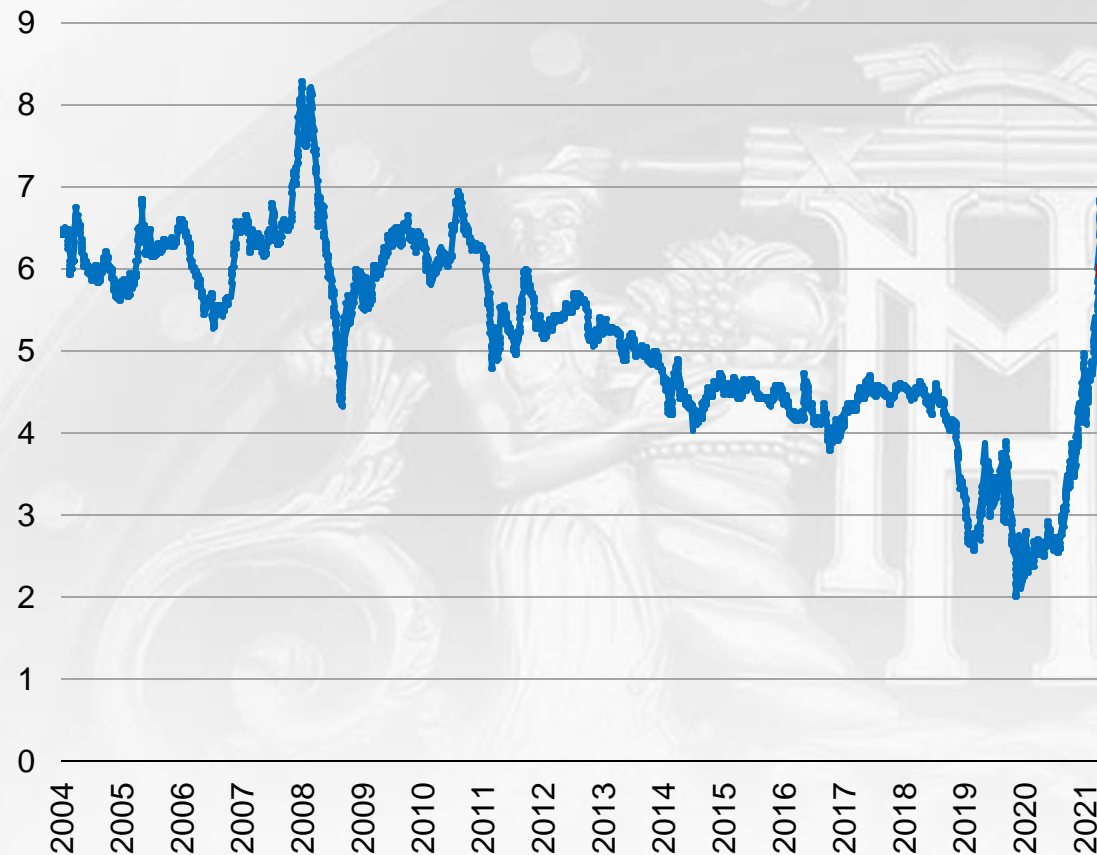


# The recent refusal to legislate the 4<sup>th</sup> PF withdrawal caused a positive market reaction.

**LatAm: 5yr CDS**  
(in USD)



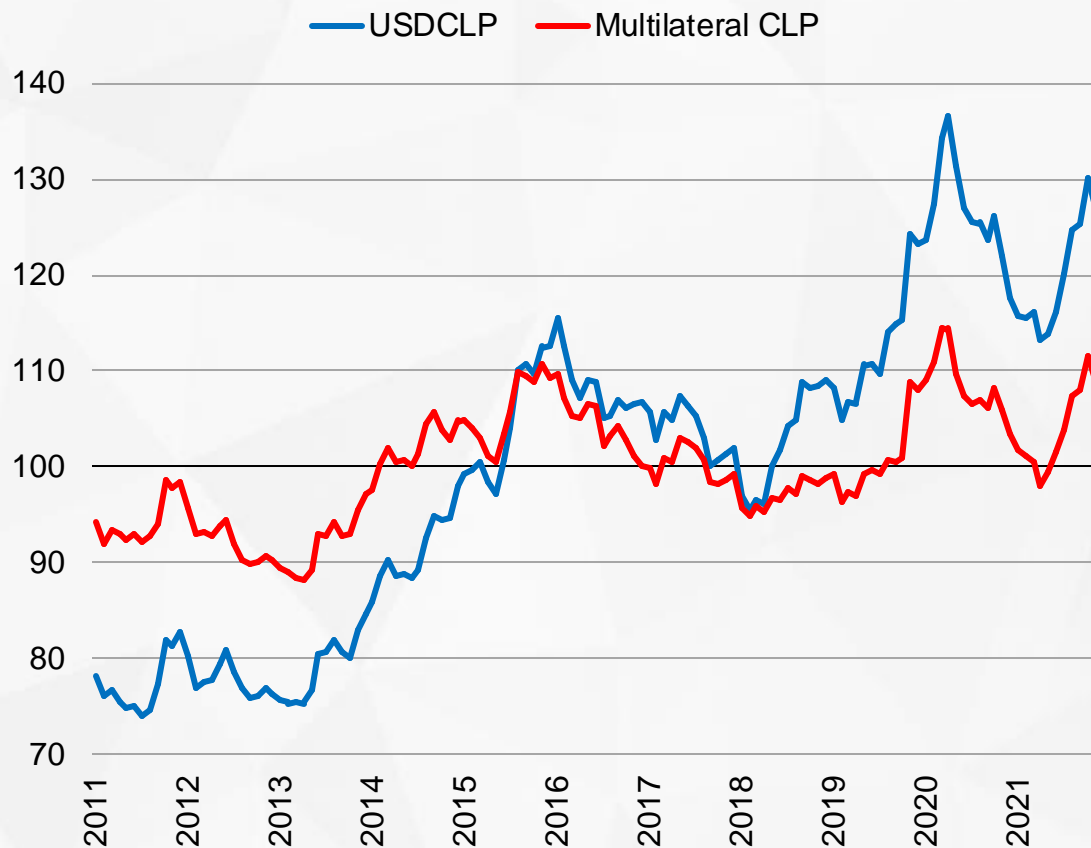
**Chile 10y Sovereign Bond**  
(%)



A clear FX mismatch. The Chilean Peso (CLP) has stood among the worst performers this year on across EM. The latter, despite high copper price, the BCCh rate hikes and the 2021e GDP growth rate.

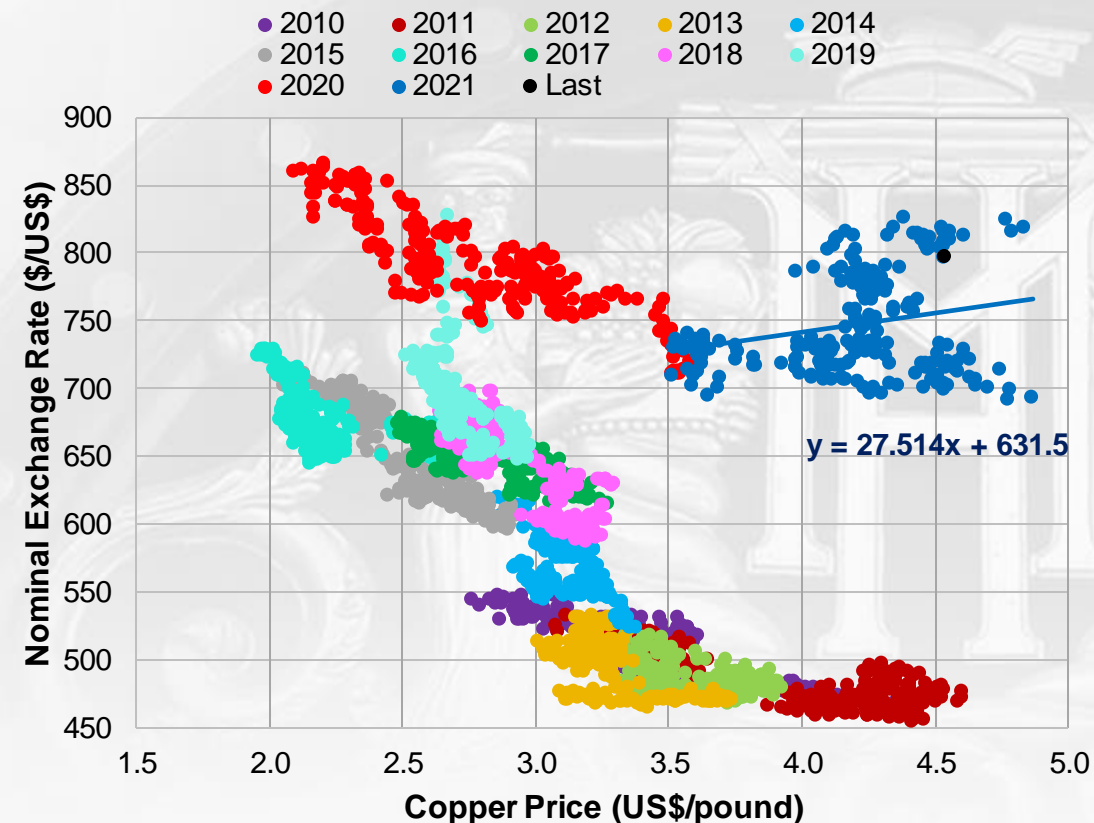
**USDCLP and multilateral CLP**

(2011-21 average = 100)



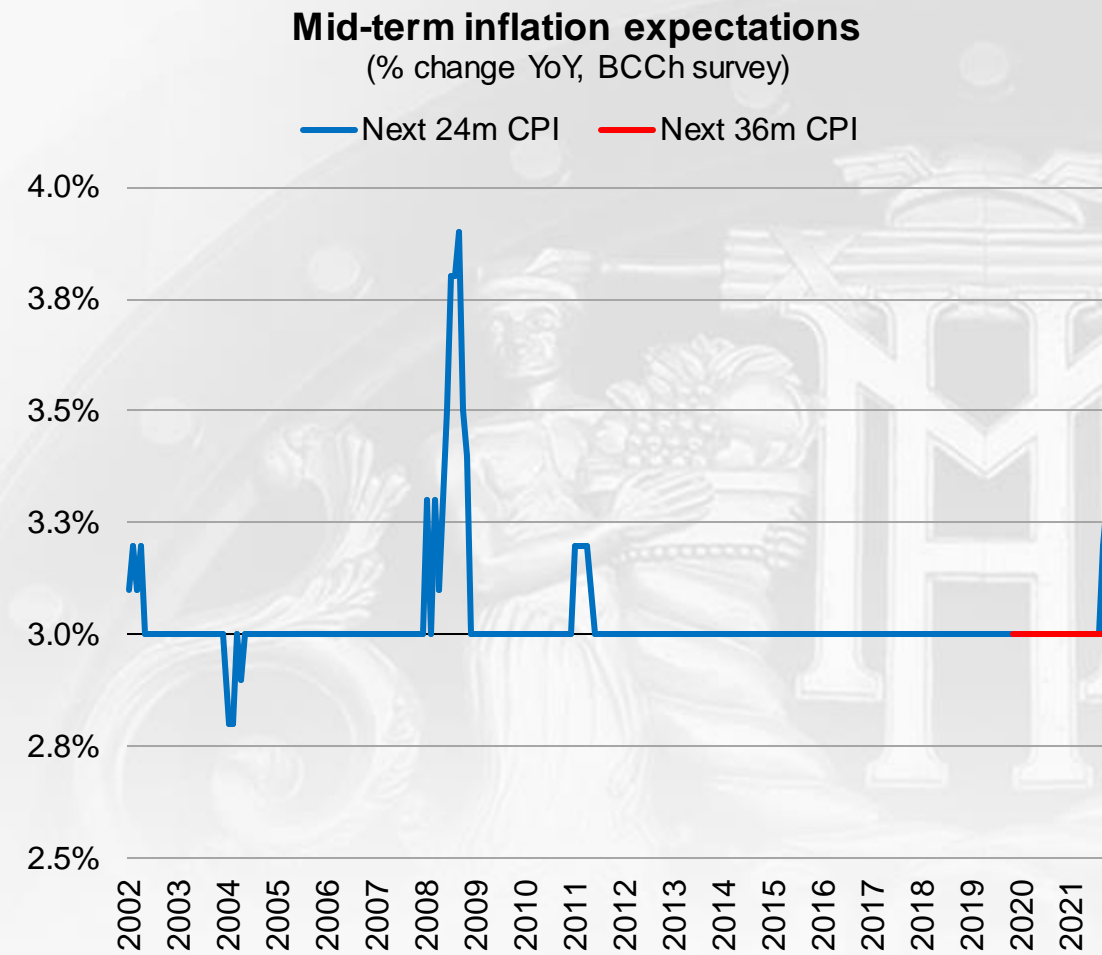
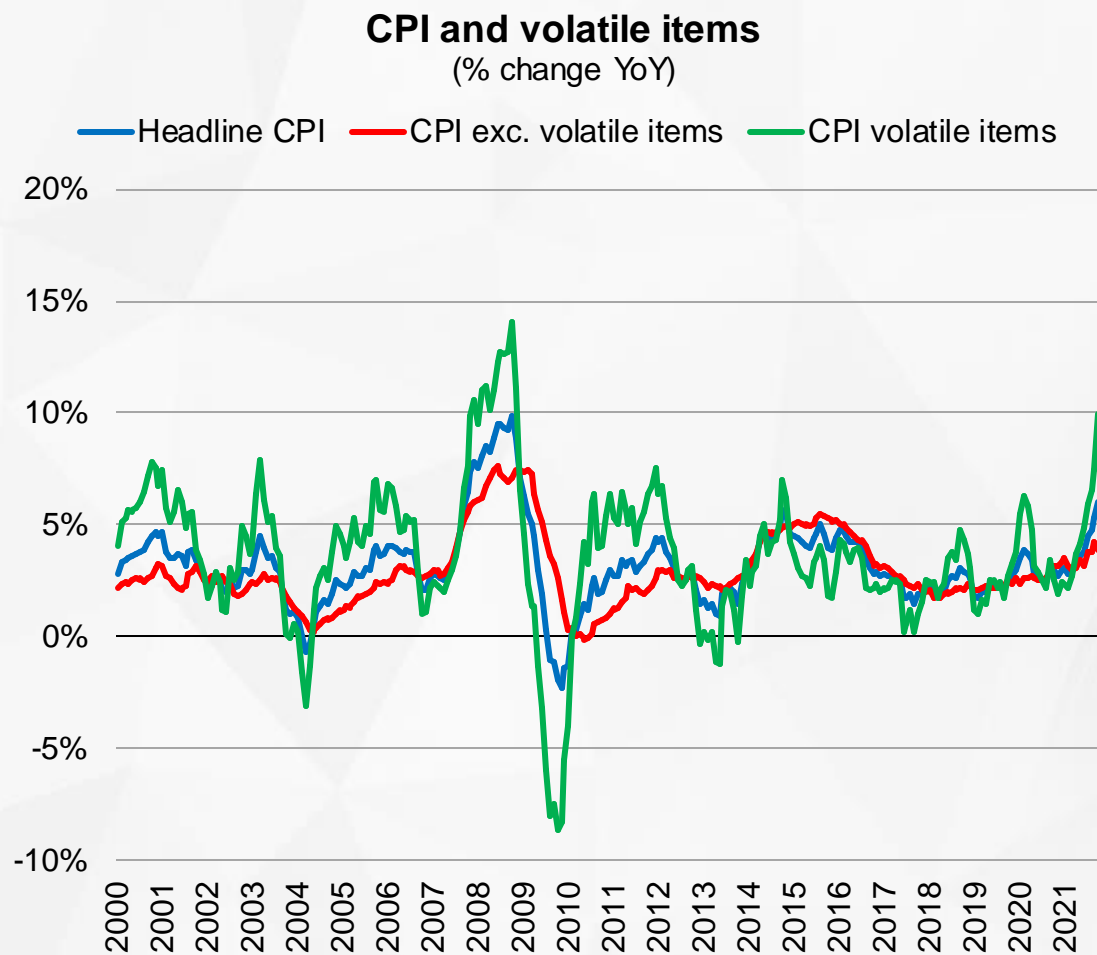
**USDCLP and copper price**

(USDCLP and US\$/pound)



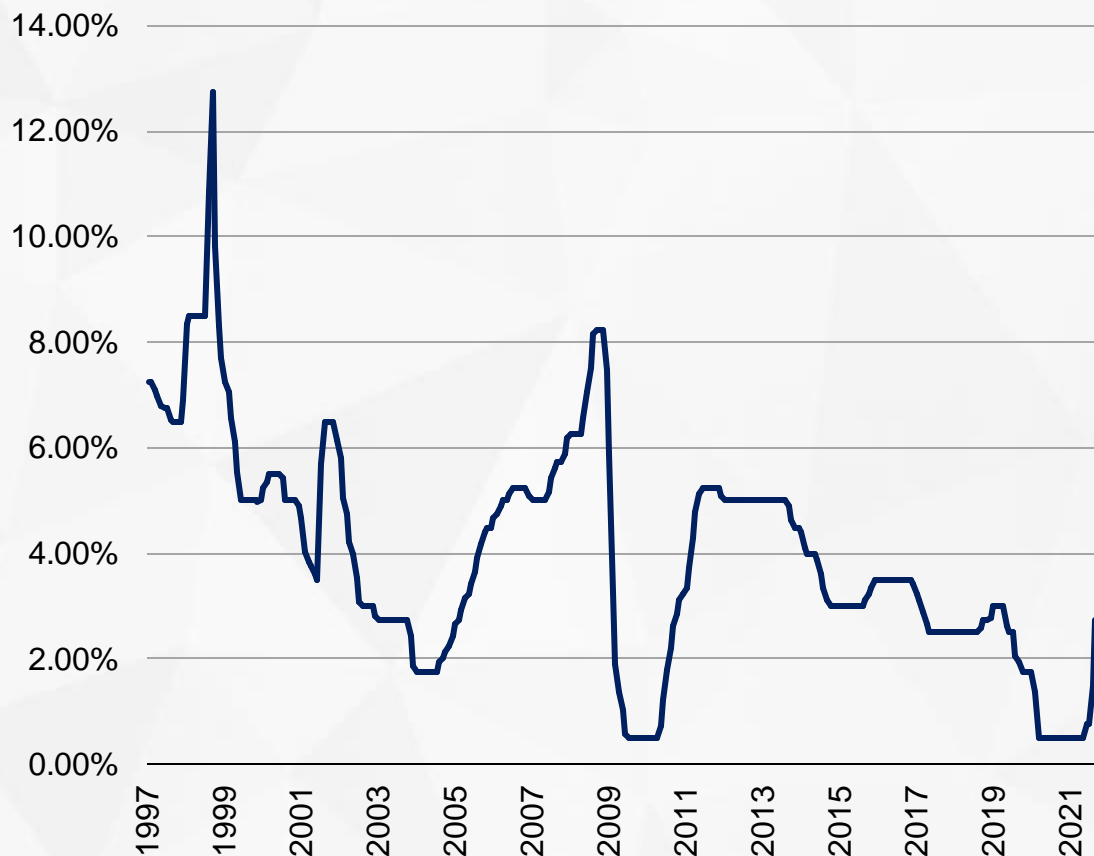


Inflation doubles the BCCh target due the reopening of the economy, some supply-demand mismatches, favorable comparison base effects, the FX depreciation, among others. Inflation expectations are above the 3%.

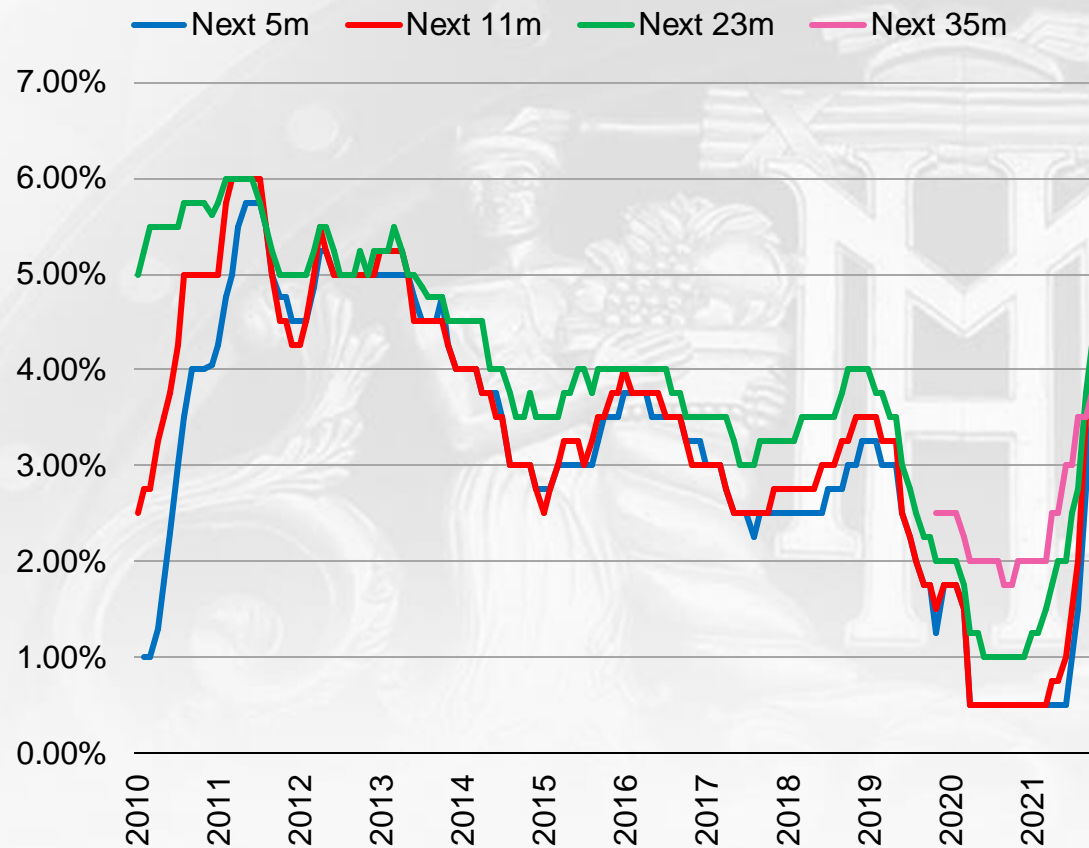


A rapid monetary policy normalization is expected. The BCCh projects the policy rate will reach its neutral level sooner than foreseen in the Sep-21 Monetary Policy Report.

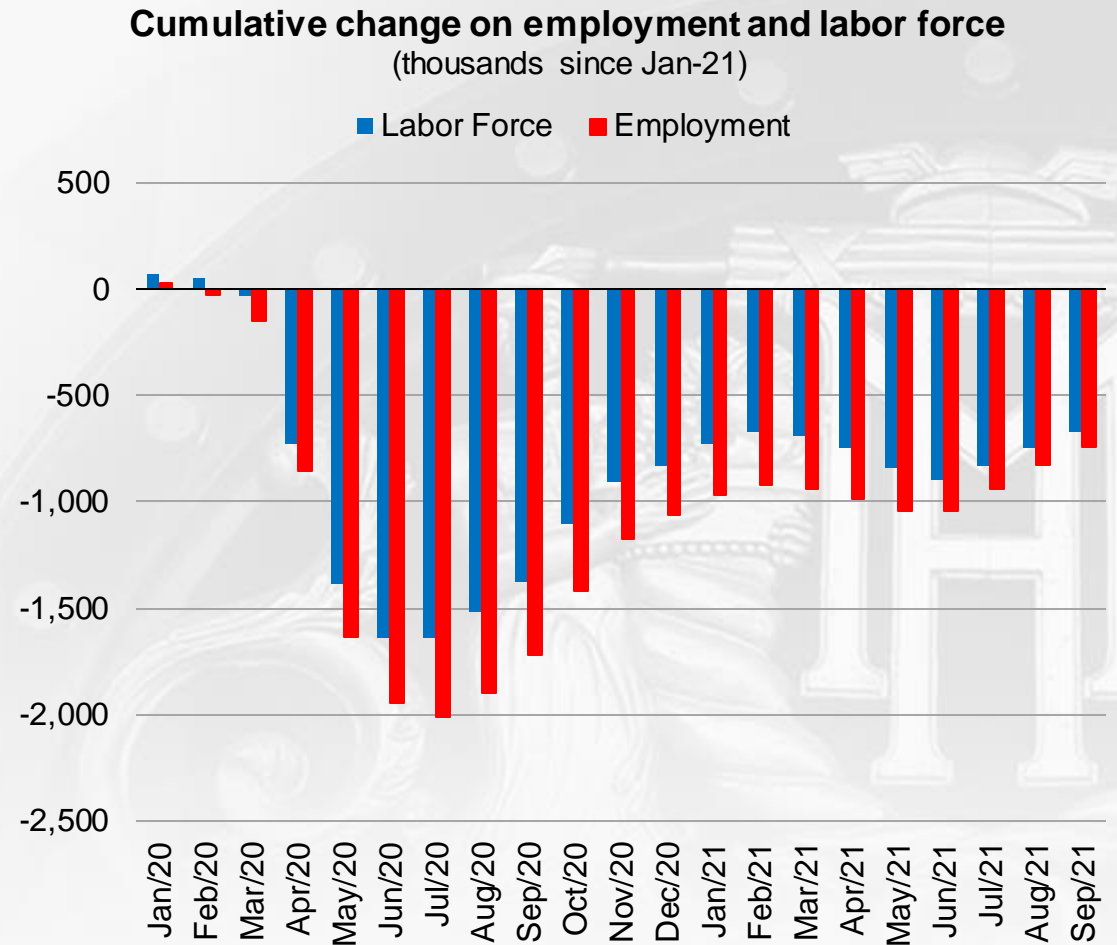
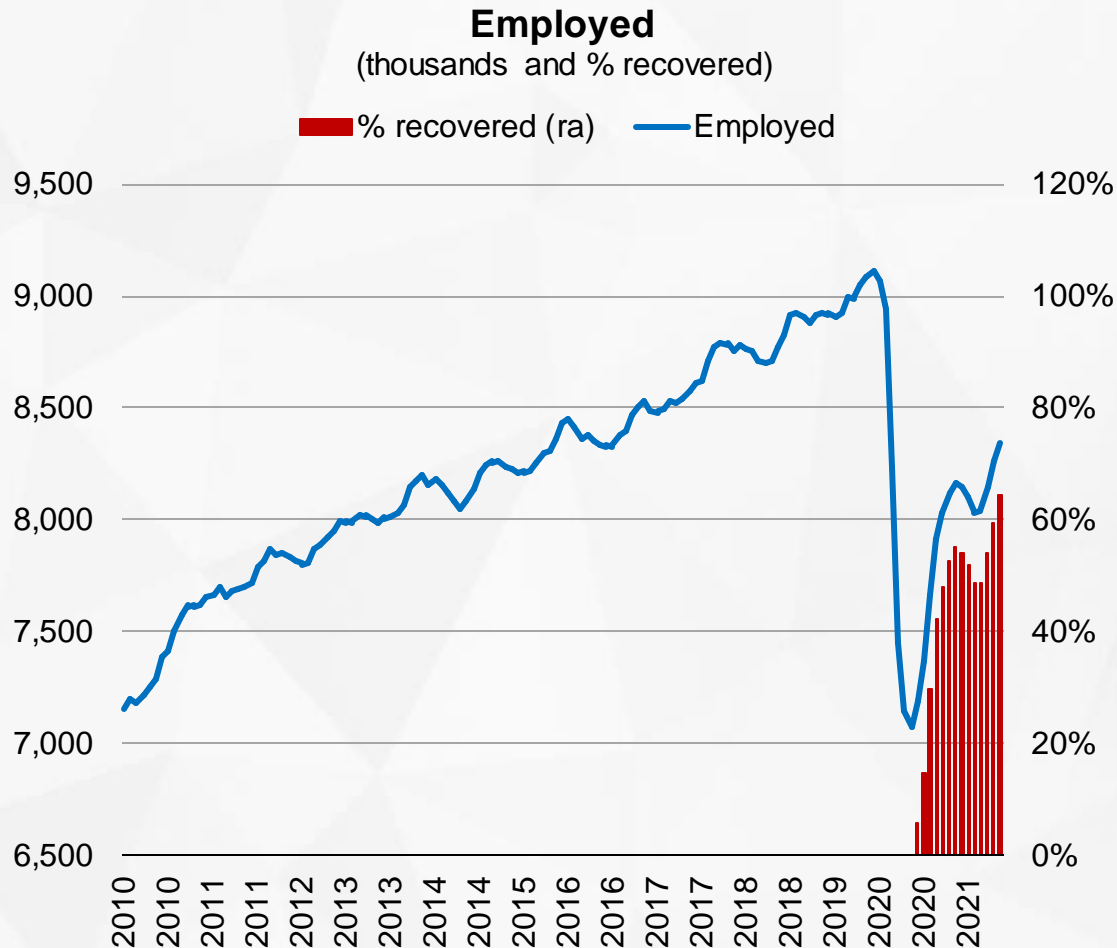
**BCCh Monetary Policy Rate**  
(%)



**BCCh survey: monetary policy rate expectations**  
(%)



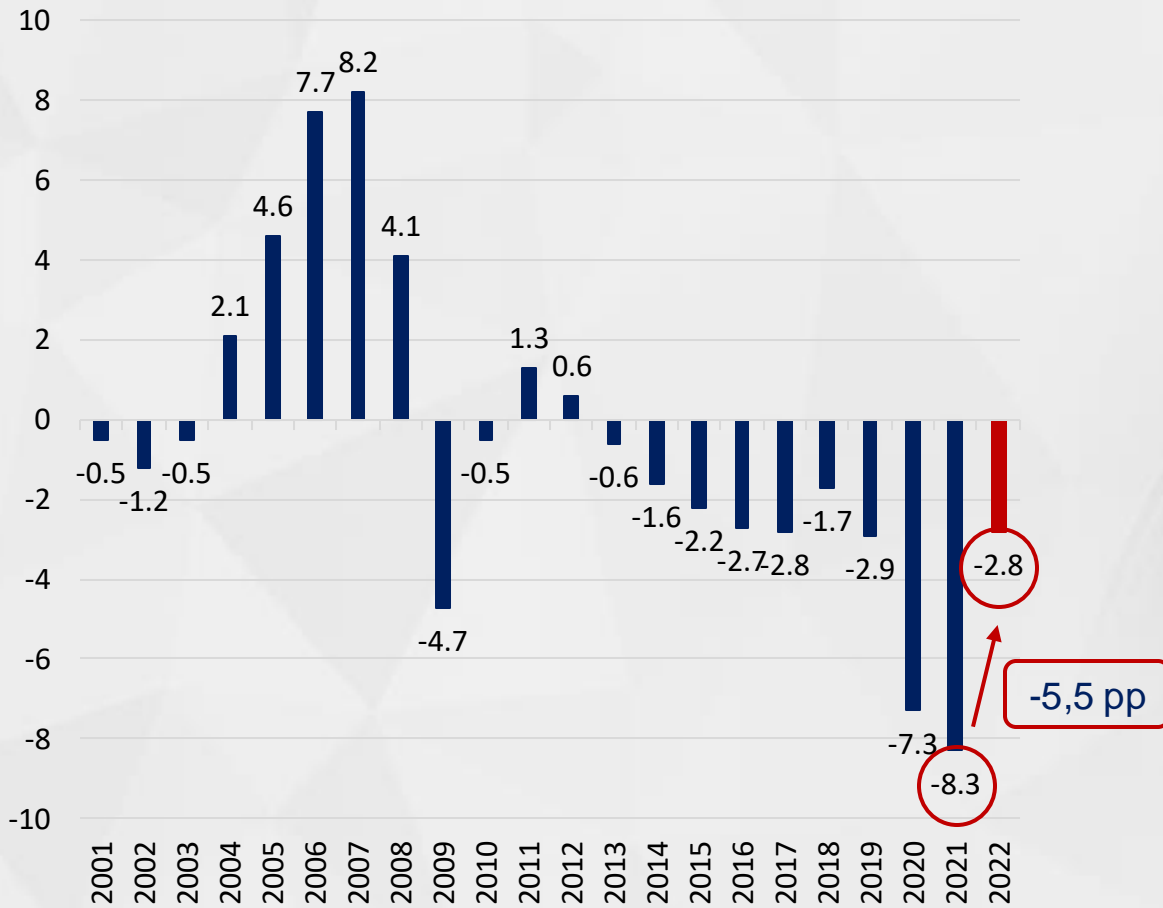
The sizeable economic recovery triggered by the expansionary fiscal policy is also reflected in healthier labor market indicators. The economy recovered 300K job positions during the last quarter.



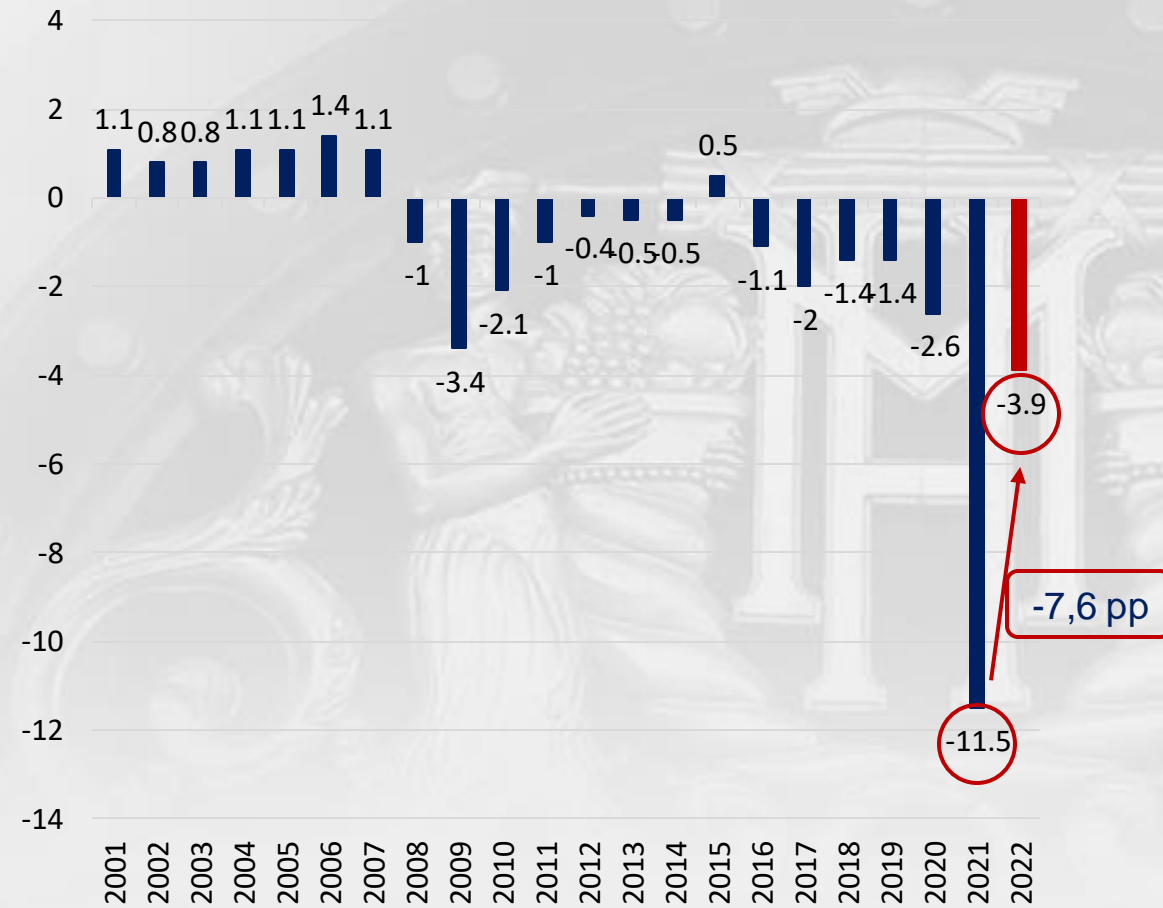


The need to restore Chile's globally-recognized macroeconomic balances. We need to support the public finance's sustainability, starting as soon as next year.

**Effective Fiscal Balance**  
(% of GDP)

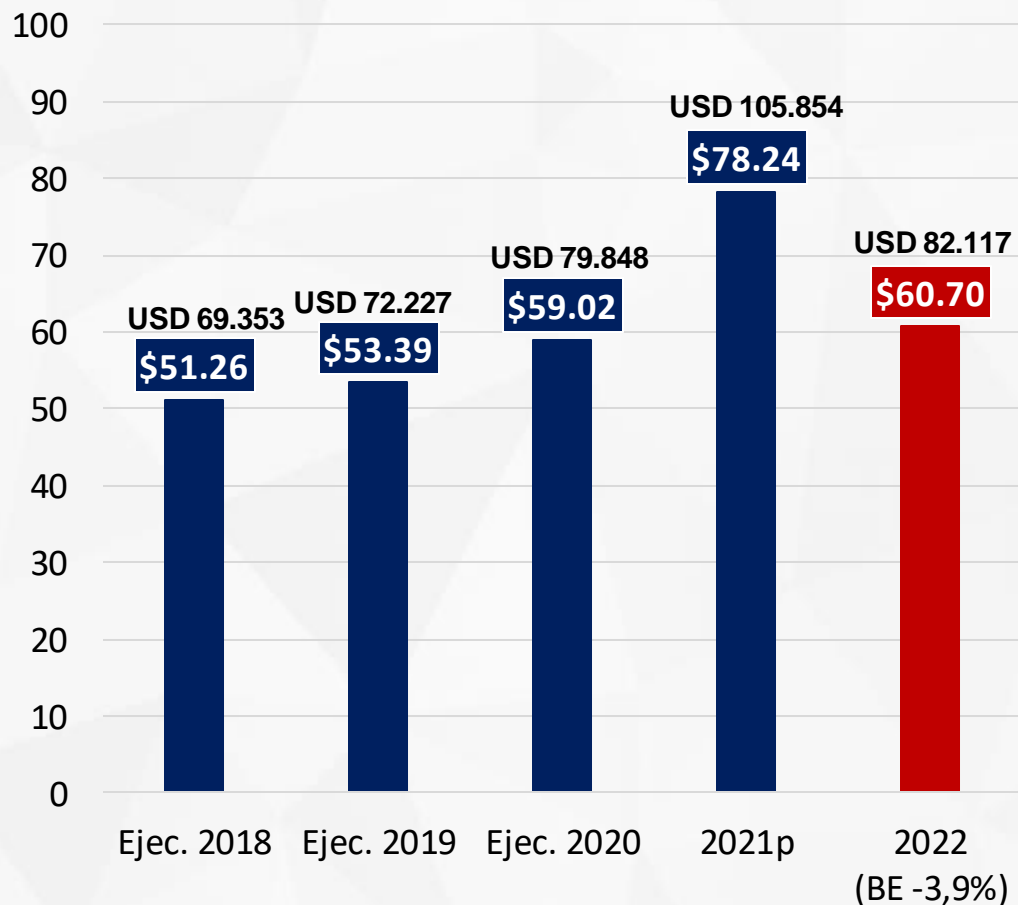


**Structural Fiscal Balance**  
(% of GDP)

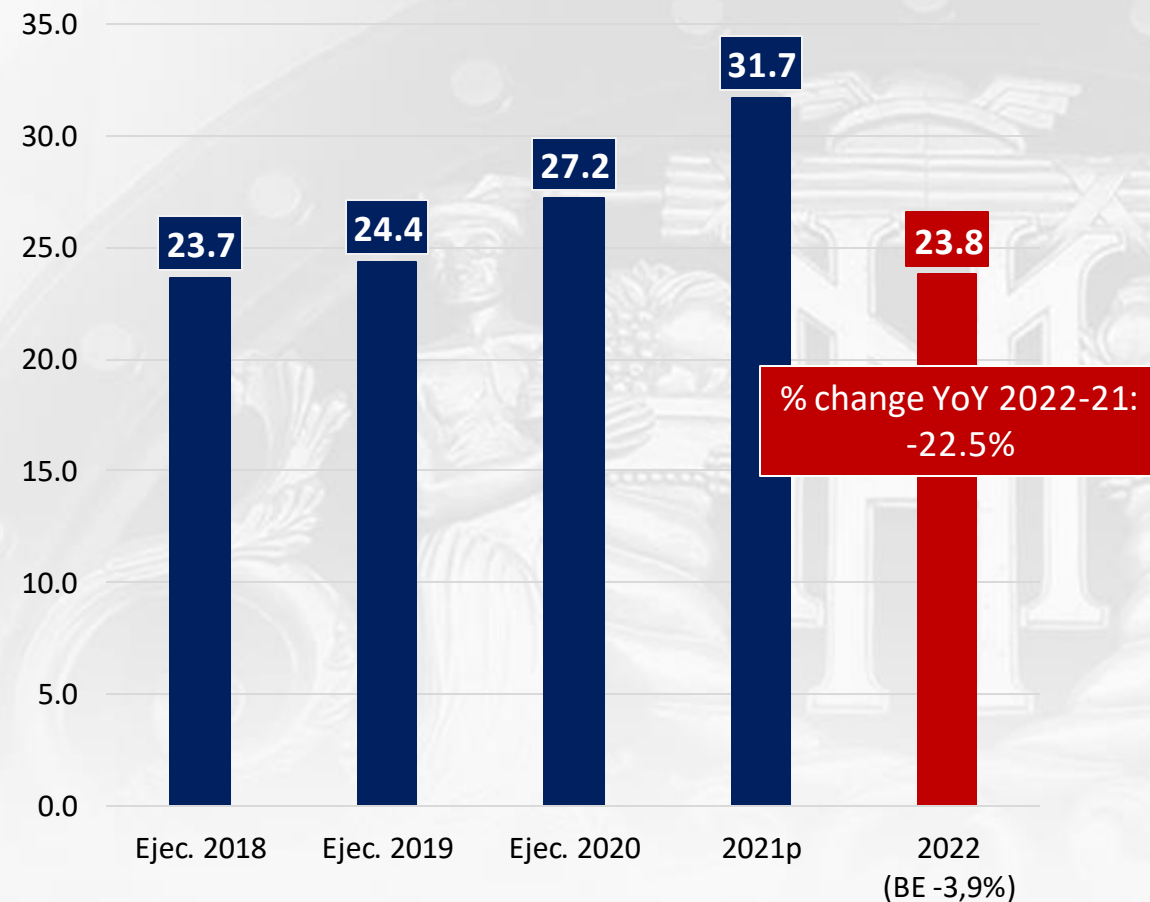


With an economic recovery in progress, it is time to start a necessary fiscal consolidation process. The 2022 Budget Law is fiscally responsible but does not ignore the required support still needed to achieve a sustainable recovery.

**Total Fiscal Expenditure**  
(CLP trillions and USD millions)



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





Chile: a small but open economy. Over the last three decades, our country achieved 30 FTAs, reaching roughly 90% of Global GDP.

**30**  
Free Trade  
Agreements

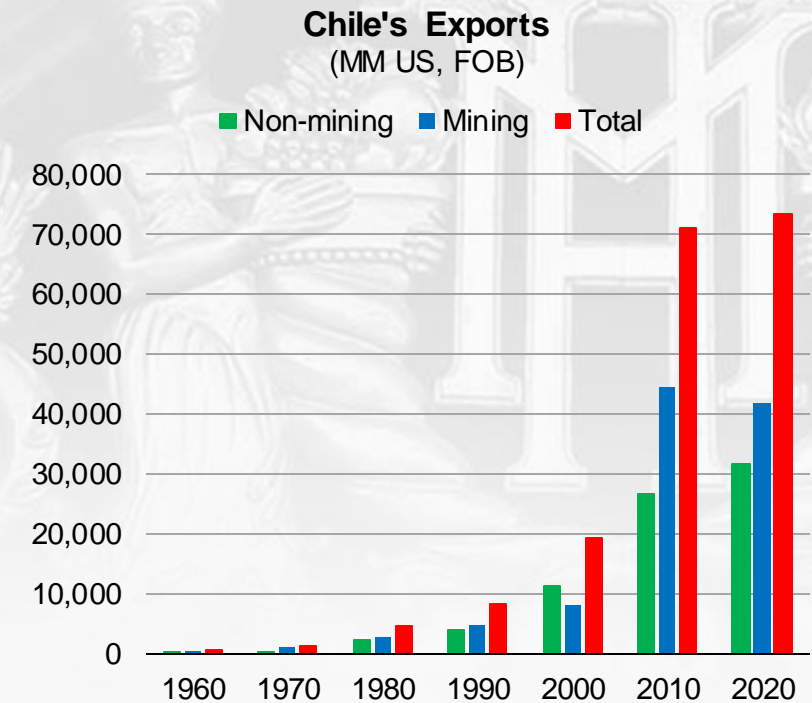
**66**  
Countries

**90%**  
of Global GDP

**~5,000**  
million people

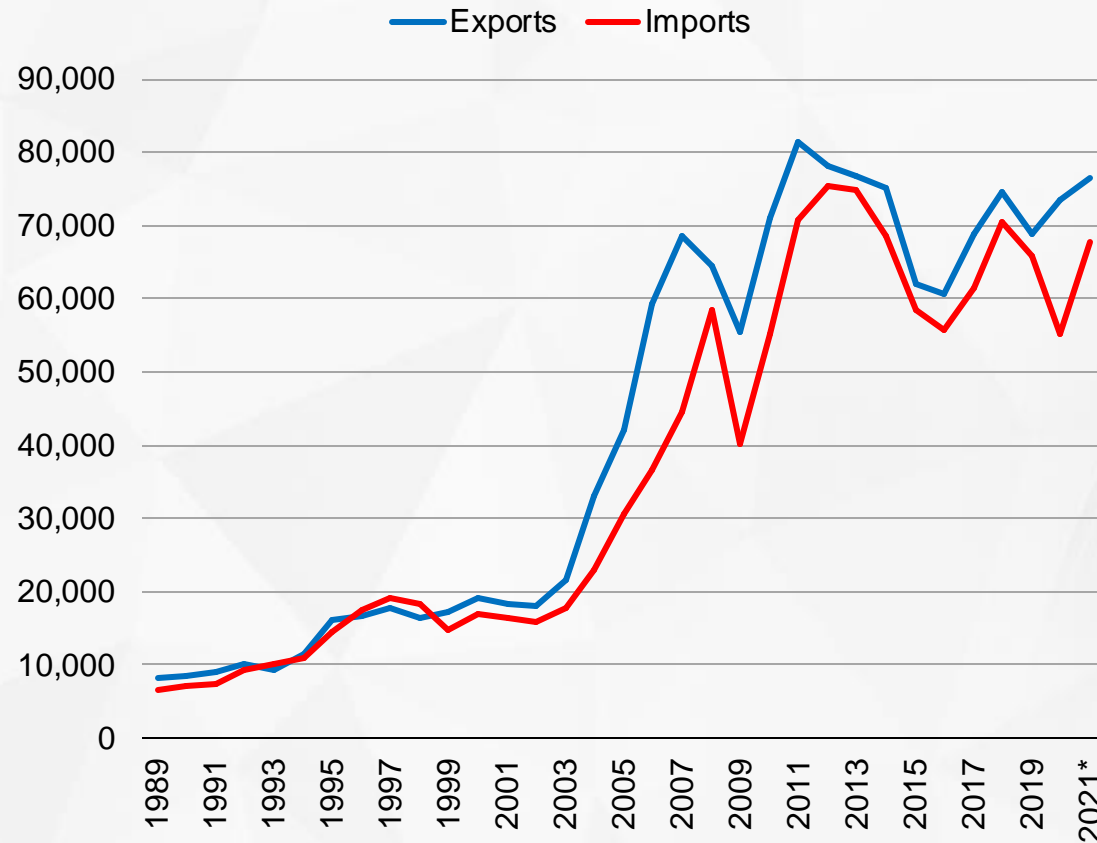
Our country began **FTA negotiations in the early 90s**, highlighting:

- 2003: Chile – US FTA. First LatAm country with a next-gen agreement
- 2003: Chile – European Union
- 2011: Chile – Pacific Alliance (+ Colombia, Mexico & Peru)
- 2021: Chile – UK (post Brexit)

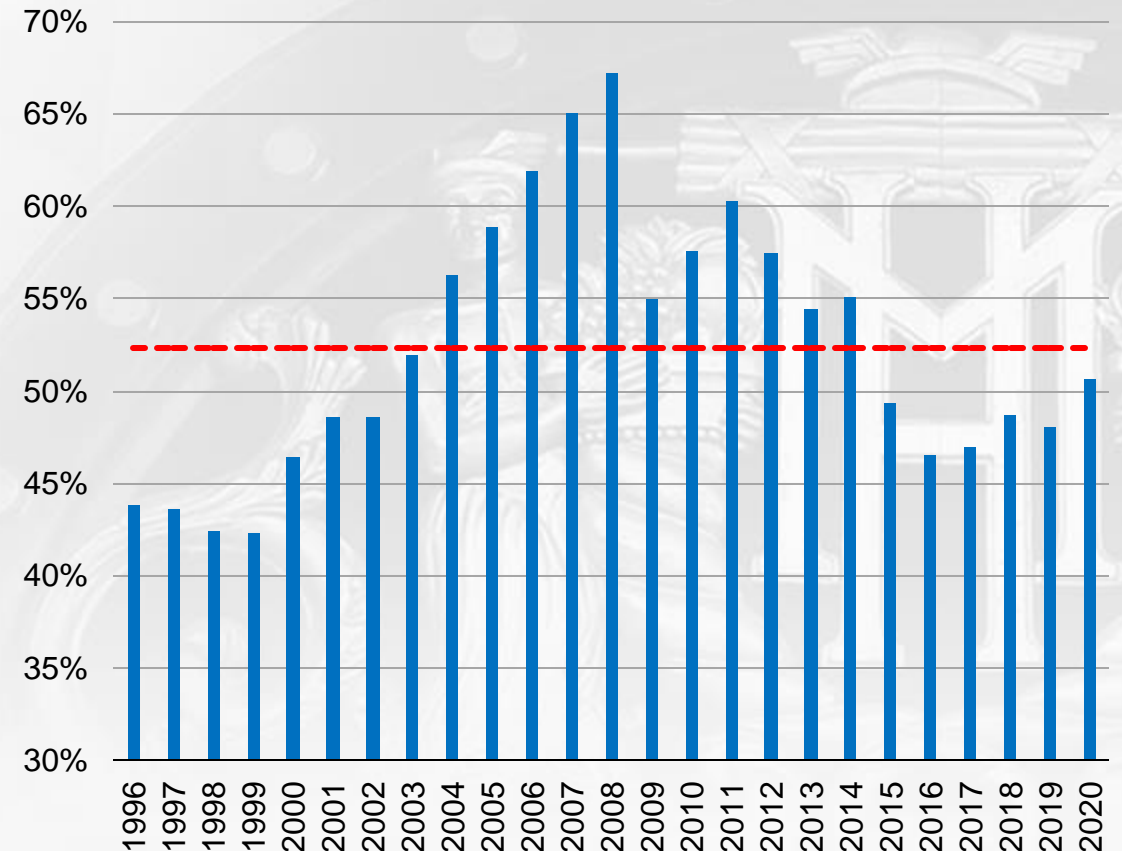


Our successful trade strategy adopted since the 90s allowed our economy to reach exports and imports' levels 10 times higher than three decades ago.

**Total exports and imports**  
(MM USD, spliced series)



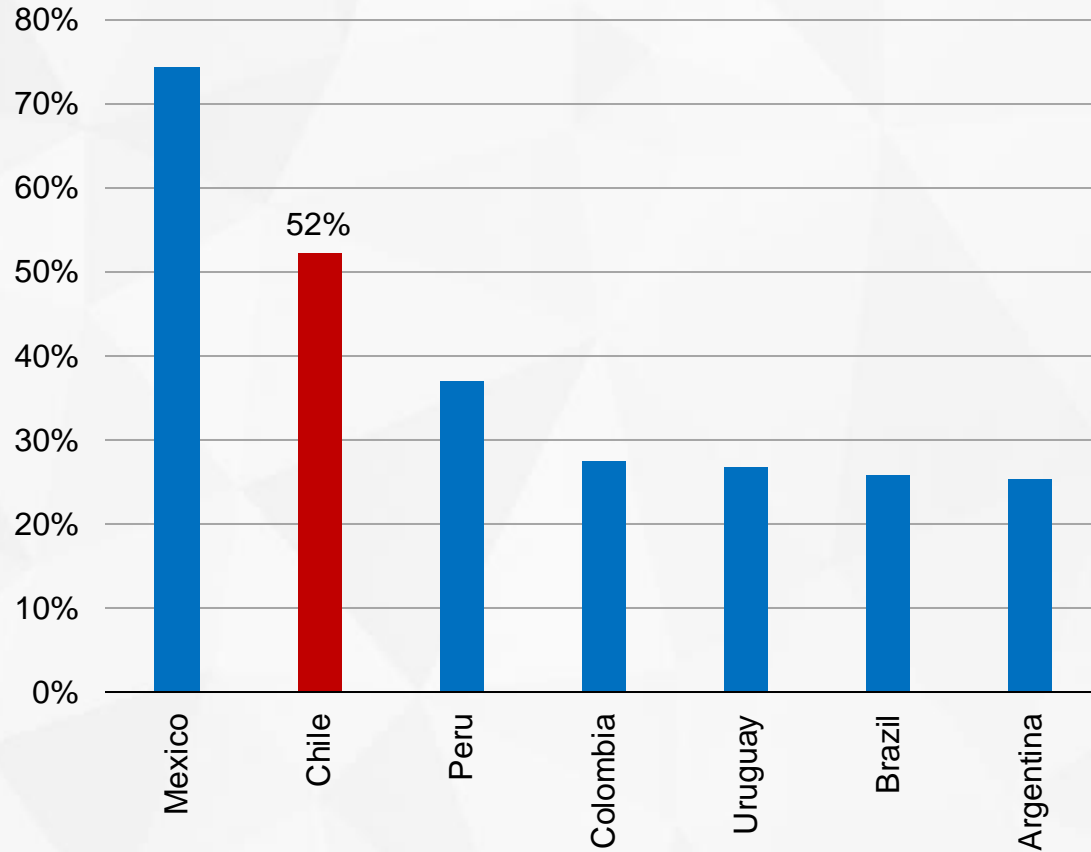
**Trade Balance as % of GDP**  
(Exports + Imports, MM USD)



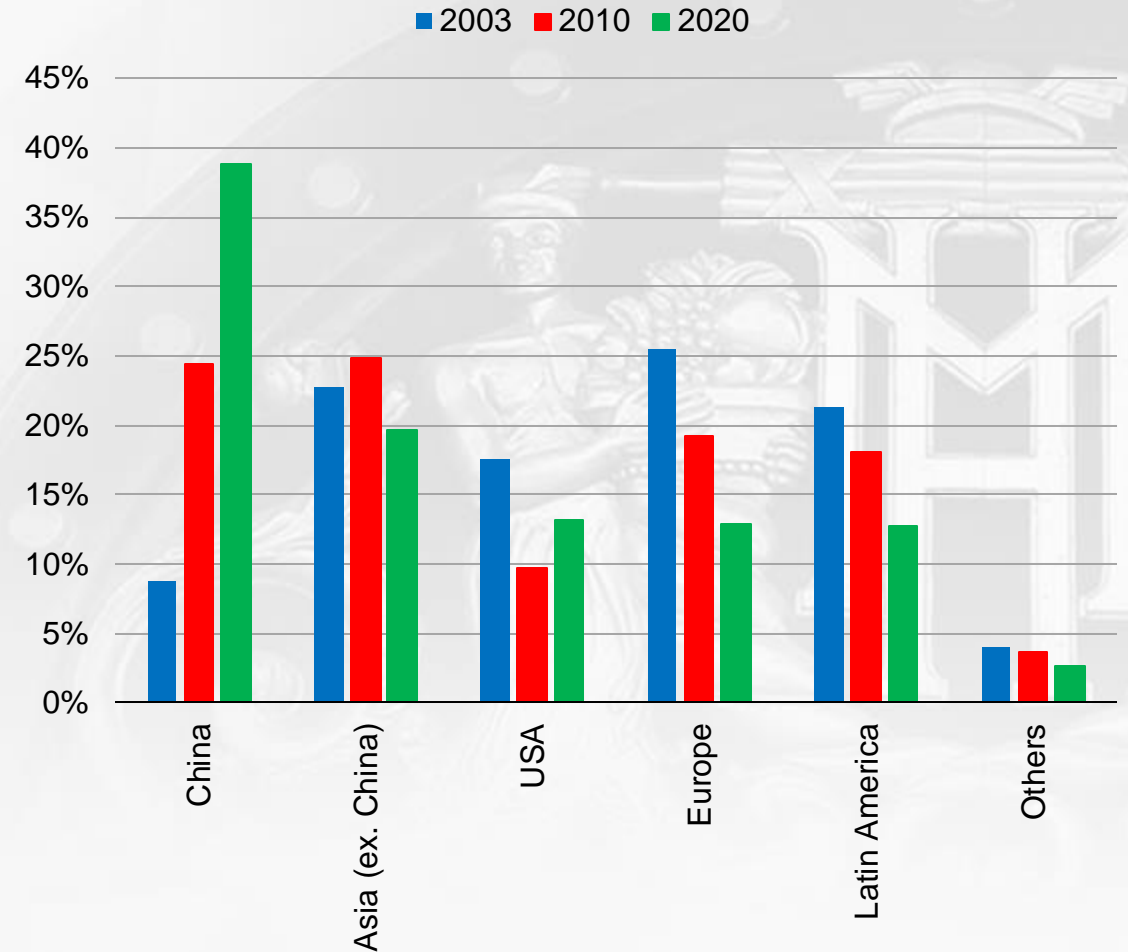
Source: Central Bank of Chile. (\*) As of Oct-21, cumulative YTD.

A diversified and relevant external sector that will allow our economy to benefit from better external conditions after the pandemic.

**Trade Volume**  
(USD, % GDP as of 2020)



**Chile's Exports Destination**  
(% of total)







# The Chilean economy has moved faster than expected into the recovery phase and currently stands 8% above pre-pandemic levels.

- As of November 2021, Chile has currently in force 30 Free Trade Agreements with 66 countries, representatives of the ~90% of global GDP . Among these economic instruments (Free Trade Agreements) one could highlight Chile – United States FTA (2003) as being the first Latin American country to conclude a comprehensive and so-called next generation agreement with the US.
- From early 2000's and until now, Chile also became exporter of services, including financial services (i.e., with the United Kingdom) and the protection of investment rules and juridical architecture for foreign direct investment has been widely recognized as a fundamental achievement made by Chile which allowed the country to take advantage of a scale up of direct investment of USD 15.0 BN by 2010 to USD 8.5 BN by 2020.
- On trade in goods and economic integration. What are the next steps to look at? – Chile, as other economies is exploring ways and policies to boost its participation in Global Value Chains.
- On Trade Facilitation, the pandemic has showed and highlighted on the importance of procedures at the border for a smooth and efficient trade which can be essential not only for trade itself but for supply of essential goods (e.i. medical goods). Our government has made several efforts and established work and initiatives to provide for a concrete implementation of the WTO Agreement on Trade Facilitation.

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