

Chile's Public Finances in the context of the Pandemic



**Gobierno
de Chile**

Ministerio de Hacienda

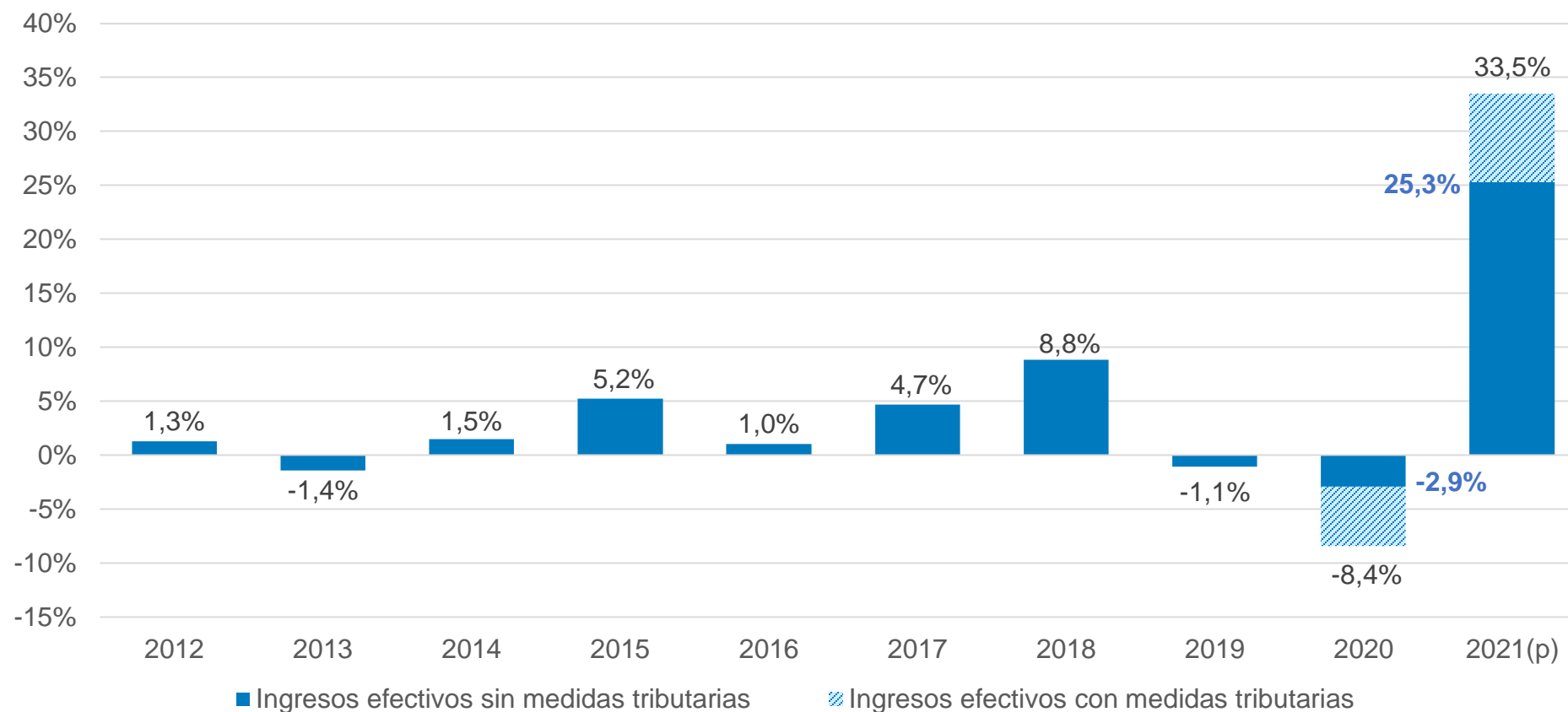
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Head of International Finance
Ministry of Finance
July 20th, 2021

Main Messages

- The updated macro-fiscal projections in the Q2-2021 Public Finance Report reflect the unprecedented fiscal response in the context of the pandemic, with gross financing needs for 2021 reaching approximately US\$36.2 billion.
- To meet these financing needs, the Ministry of Finance will resort to a combination of use of assets and debt issuance.
 - Regarding assets, a total of US\$9,157 million of withdrawals are estimated from the sovereign wealth funds during 2021;
 - Regarding gross debt issuance, a total of US\$27 billion are estimated during 2021, with roughly US\$15,071 million to be issued during the second semester of 2021.
 - The Ministry of Finance has implemented several adjustments to its financing strategy via debt to ensure adequate borrowing terms for the State; these changes include adjustments to the maturity of the instruments, greater flexibility in debt-related announcements, the issuance of labelled bonds, among others.
- Gross public debt by end-2021 is revised up to 34.1% of GDP, from 33% in the previous Public Finance Report; the upward revision is partly contained by the use of assets. Gross public debt is projected to stabilize below 40% of GDP towards the end of the forecast horizon (2025), estimated with projected expenditures that are consistent with the projected structural fiscal balance path.
- Looking ahead, economic growth and post-Covid fiscal consolidation are essential in maintaining Chile's fiscal strength.

Central Government Revenues 2012-2021p

Percent year-on-year, in real terms



Notes:

(1) Tax policy measures implemented in the context of the COVID-19 shock.

p: projection.

Source: Dipres.

Central Government 2021 Revenue Projections

millions of 2021 pesos

	Projection Q1-2021	Updated Projection Q2-2021	Difference	Percent Change 2021/2020
TOTAL REVENUES	52.902.649	55.198.912	2.296.263	33,5
FROM TRANSACTIONS AFFECTING EQUITY	52.883.756	55.180.018	2.296.261	33,5
Net Tax Revenues	42.860.727	43.994.585	1.133.858	31,3
<i>Private Mining Taxation</i>	3.015.752	3.087.851	72.099	122,5
<i>Other Taxation</i>	39.844.975	40.906.734	1.061.759	27,4
Raw Copper	2.962.413	3.350.399	387.986	217,0
Social security contribution	3.127.879	2.884.617	-243.262	-10,4
Transfers	98.798	136.041	37.243	15,3
Property revenues	1.103.762	1.045.908	-57.854	17,0
Operational revenues	794.085	1.353.645	559.560	67,6
Other revenues	1.936.091	2.414.823	478.732	39,2
FROM TRANSACTIONS IN NON-FINANCIAL ASSETS	18.892	18.894	2	24,1
Physical assets sales	18.892	18.894	2	24,1

Source: Dipres.

Central Government revenues are expected to reach 23.4% of GDP in 2021.

Central Government 2021 Expenditure Projections

Millions of USD, millions of 2021 pesos, and Percent year-on-year in real terms

	USD billions	Millions of Pesos (2021)	% change 2021/ 2020	% change 2021/ 2021 Budget Law
2021 Expenditures in Q1-2021IFP⁽¹⁾	86.505	61,561,484	9,2	9,8
IFE Universal ⁽²⁾	9.909	7,051,650		
Measures to support SMEs ⁽³⁾	1.743	1,240,560		
Transfer for retirees (\$200.000)	946	673,200		
Strengthening of the Health Sector	2.023	1,440,000		
Others ⁽⁴⁾	-22	-15,679		
Actualización del Gasto 2020 IFP II Trimestre 2021⁽⁵⁾	101.104	71,951,215	27,3	28,4

(1) With Q1-2021 assumptions for headline inflation and exchange rate forecast at 3.4% and 699.

(2) Includes IFE universal and adjustments to the "IFE Ampliado" based on effective amounts.

(3) Includes amounts in excess of those projected in the Q1-2021 IFP.

(4) Equivalent to a revision in interest payments.

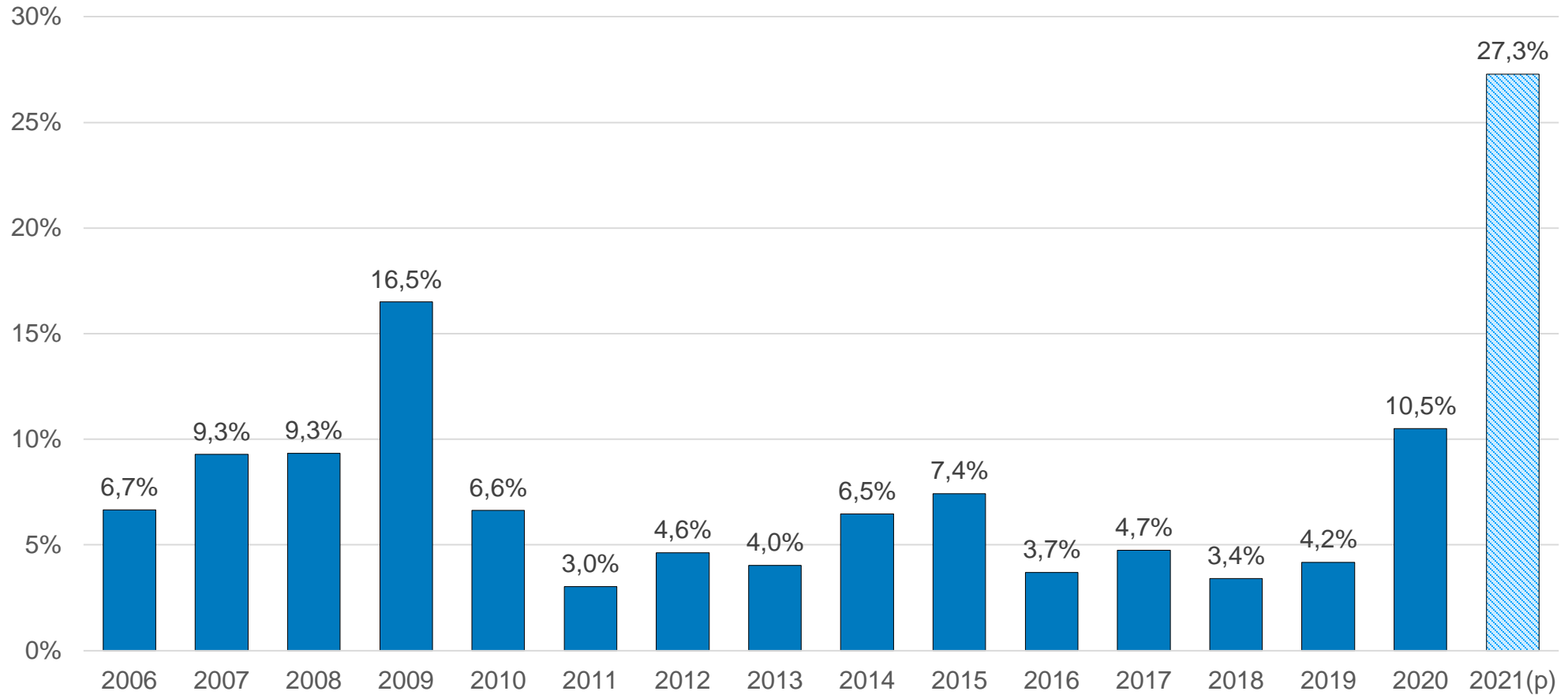
(5) With updated inflation forecast at an average of 3.7% for 2021.

Source: Dipres

Expenditures of the Central Government are projected to reach 30.5% of GDP this year.

Central Government Expenditures 2012-2021p

Percent year-on-year, in real terms

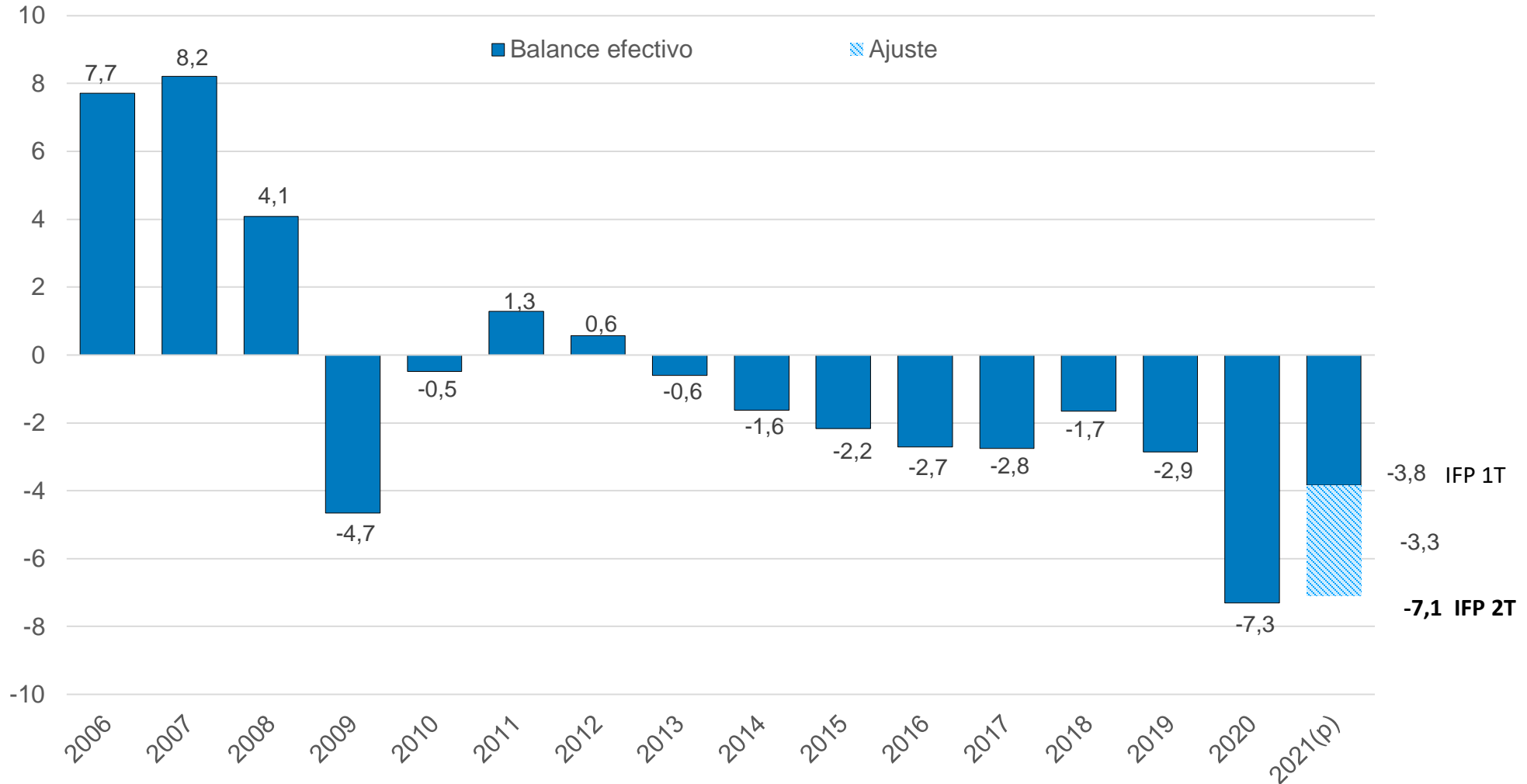


p: projection.

Source: Dipres.

Central Government Fiscal Balance 2006-2021p

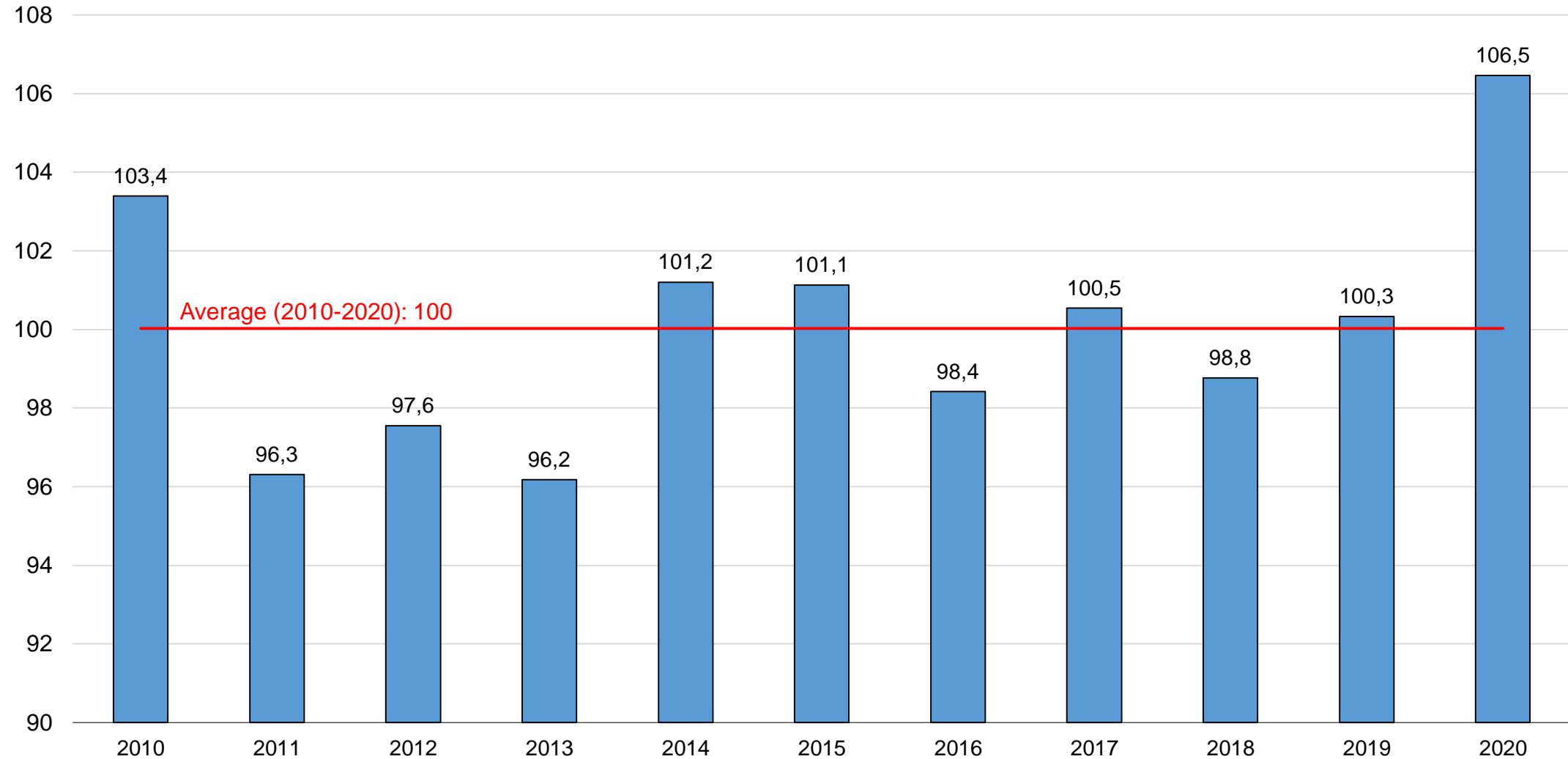
Percent of GDP



p: projection
Source: Dipres.

Central Government: Execution of Annual Fiscal Budget

100 = Budget Law of each Year

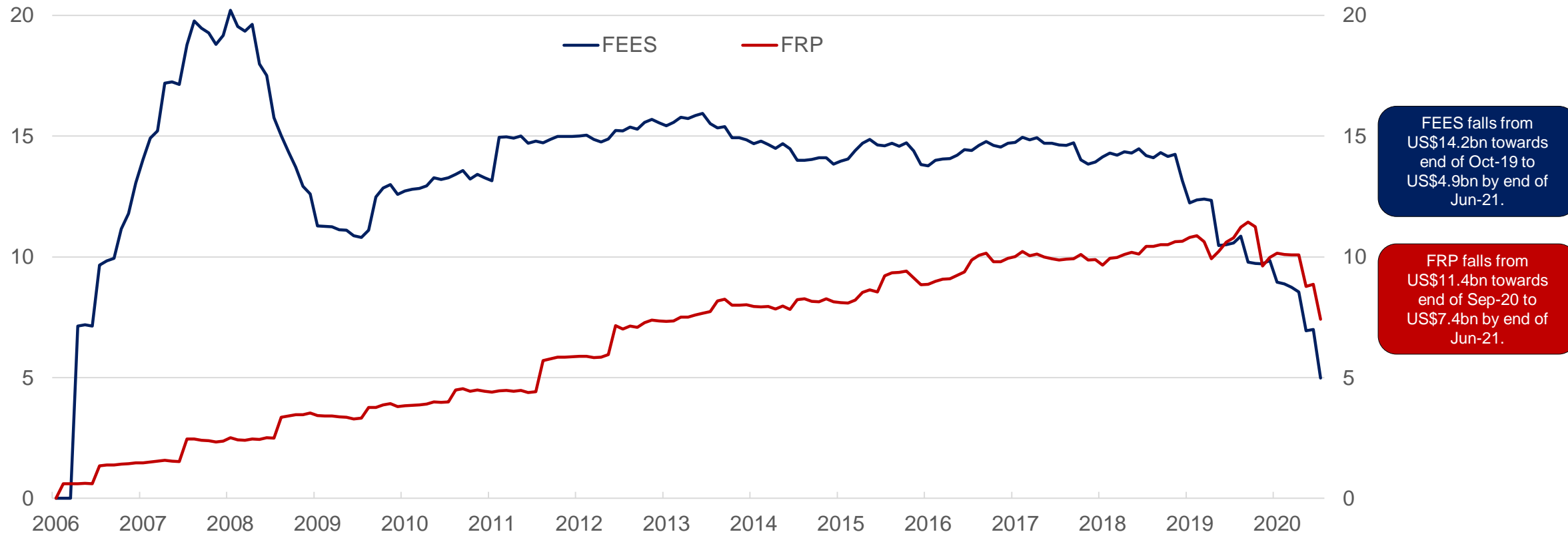


Source: DIPRES.

In the context of the pandemic, Chile's sovereign wealth funds have been an important funding source.

Chile's Sovereign Wealth Funds: Market Value

USD billions, monthly data between 12.2016 – 06.2021*



Source: Ministry of Finance. * Estimated data for June-2021.

In the context of the pandemic, Chile's sovereign wealth funds have been an important funding source.

- The **Stabilization Fund (FEES)** was set up March 6th, 2007.
- The FEES is an additional source of funding for the Central Government that allows for the financing of fiscal deficits, the annual contribution to the FRP, and the amortizations of public debt.
- In line with the Fiscal Responsibility Law, every year the FEES must receive any positive balance that remains after subtracting the annual contribution to the FRP, public debt amortizations, and anticipated contributions to the FEES.
- **Withdrawals during 2021 are estimated at US\$6,197 million.**
 - As of the end of June 2021, a total of US\$3.75 billion have been withdrawn from the FEES; these withdrawals were announced in April and June.
 - Withdrawals for the rest of 2021 are estimated at US\$2,447 million.
 - As of June 30th, 2021, the market value of the FEES was approximately US\$4.99 billion.

- The **Pension Reserve Fund (FRP)** was set up December 28th 2006.
- The objective of the FRP is to support the funding of fiscal obligations derived from the state guarantee of basic solidarity and disability pensions, as well as solidarity pension contributions. As such, the fund seeks to address contingent pension liabilities over time.
- In line with the Fiscal Responsibility Law, the FRP must receive an annual contribution of at least 0.2% of the previous year's GDP. If the headline fiscal surplus is in excess of 0.2% of GDP, then contributions to the FRP are increased towards the surplus, up to 0.5% of GDP. In the context of the pandemic, mandatory annual contributions were suspended for 2020 and 2021.
- Annual withdrawals are capped at an amount equal **to a third of** the difference between the pension liabilities expense in the respective year and the inflation-adjusted pension liabilities expense in 2008. However larger amounts (entire difference) were authorized for 2020 and 2021.
- **The planned withdrawals from the FRP during 2021 for US\$2.96 billion have already taken place, reported in April and June.**
 - No additional withdrawals are expected for this year.
 - As of June 30th, 2021, the market value of the FRP was approximately US\$7.42 billion.

Regarding the 2021 debt issuance plan ...

- **Initial Debt Issuance plan for 2021**

- In line with the 2021 Budget Law, the Ministry initially announced a debt issuance plan for 2021 of up to US\$19 billion. This plan considered new debt issuance for roughly US\$13 billion, and debt to finance amortizations of roughly US\$6 billion.
- As of June 30th, 2021, bonds for a total of US\$11,919 million had been issued, of which US\$7,755 million are denominated in foreign currency, and US\$4,164 million in local currency. These amounts do not consider notes and bills in local currency issued in 2021 that mature this year.
- During the second semester, this plan considers debt for approximately US\$7,081 million. The local currency issuance calendar for Q3 of 2021 via the SOMA platform of the Central Bank of Chile (acting as Fiscal Agent), considers debt for US\$4,377 million.
- The local currency issuance calendar via SOMA for Q4 will be announced towards the end of September 2021.

- **Additional Debt Issuance Plan**

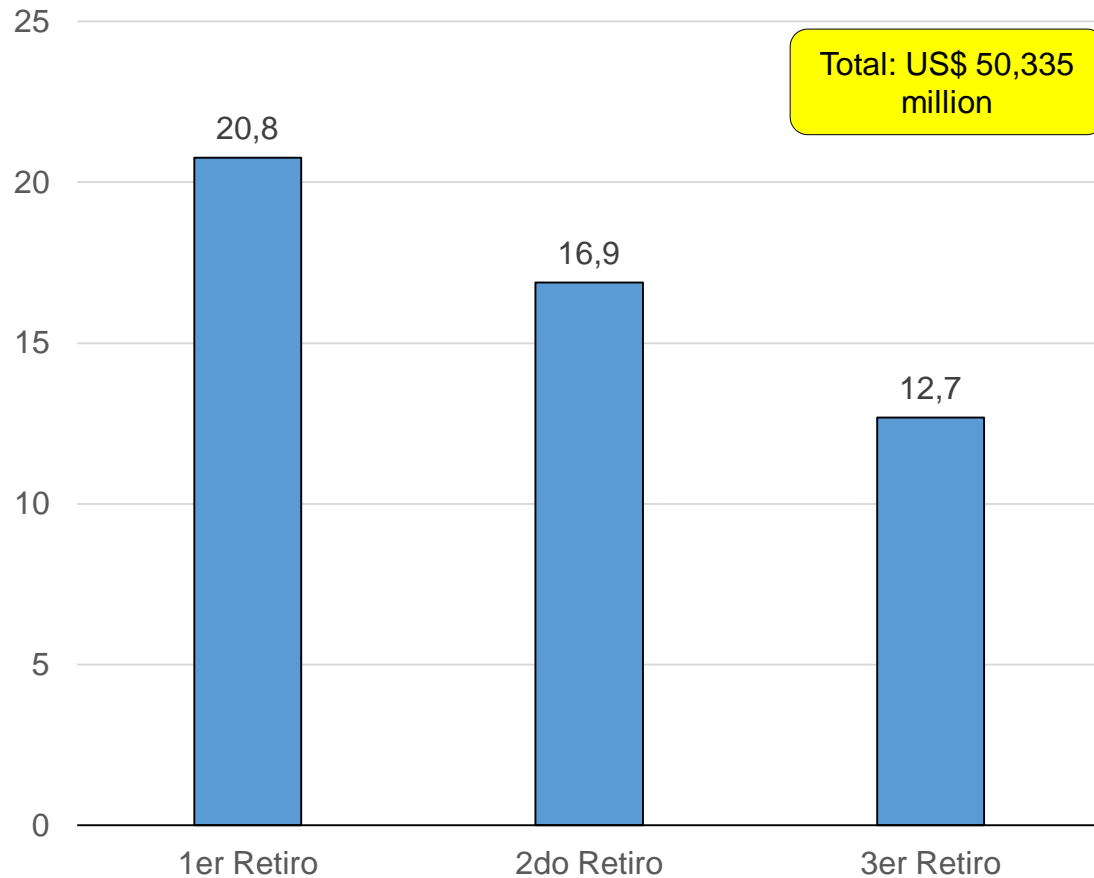
- Up to US\$8 billion, mostly denominated in foreign currency, with remaining share in local currency bonds with maturity not beyond 5 years.

- **As such, total debt issuance for the second semester of 2021 is estimated at US\$15,071 million.**

The local financial market has experienced relevant shocks in the context of the pandemic.

Pension Fund Withdrawals

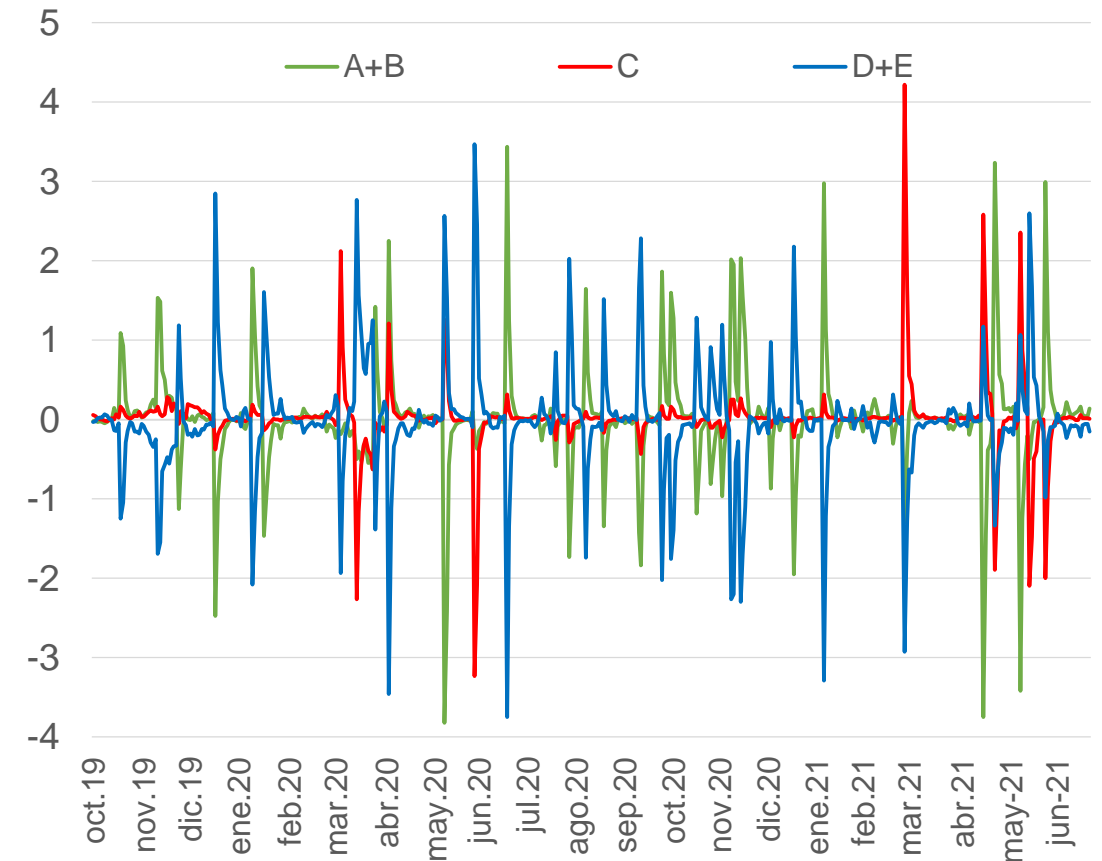
USD billions; Amounts that have been paid out as of June 18th 2021



Source: Superintendencia de Pensiones.

Net Transfer Requests between Pension Fund Portfolios

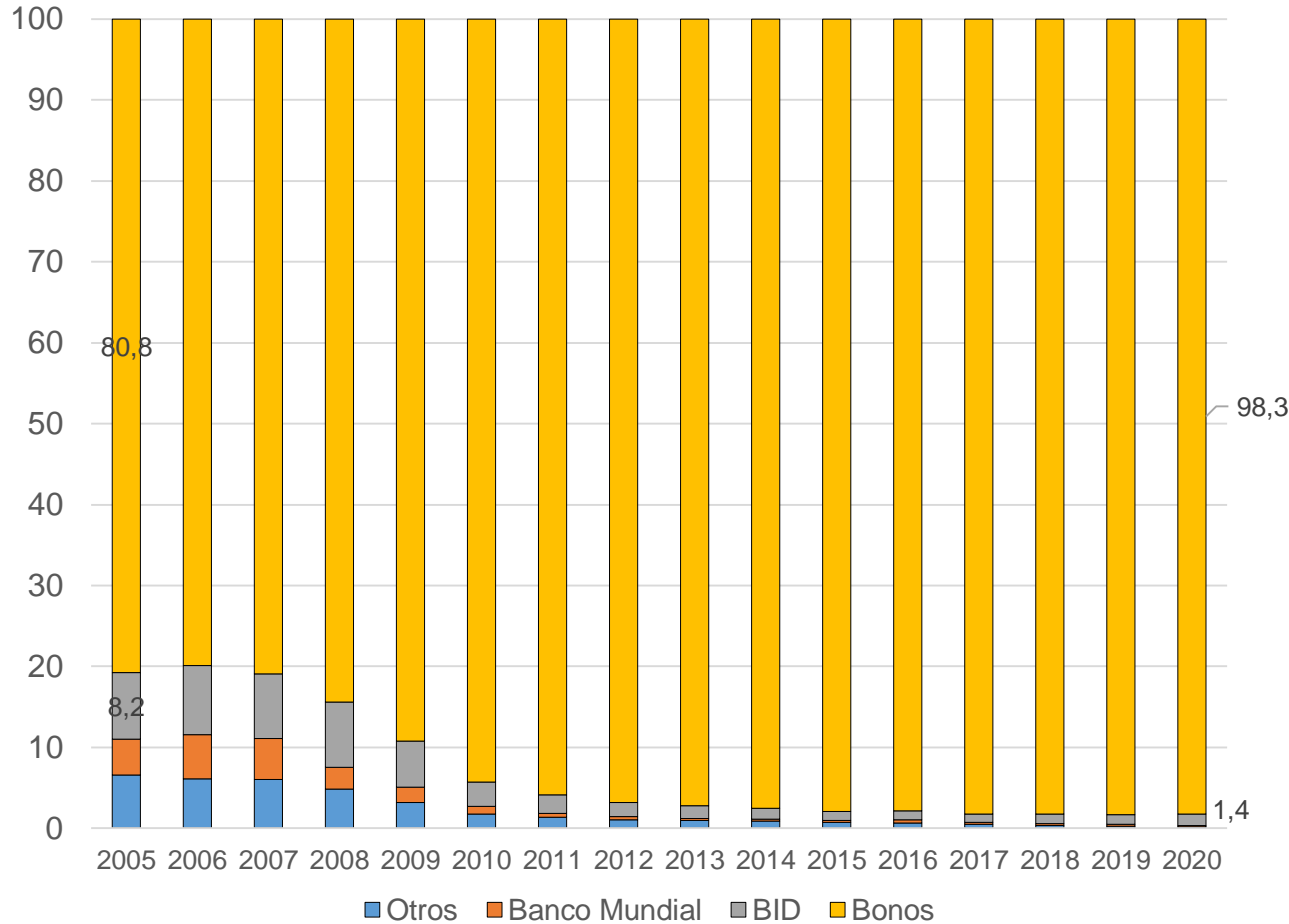
USD billions; between 2019.01.01 – 2021.06.22



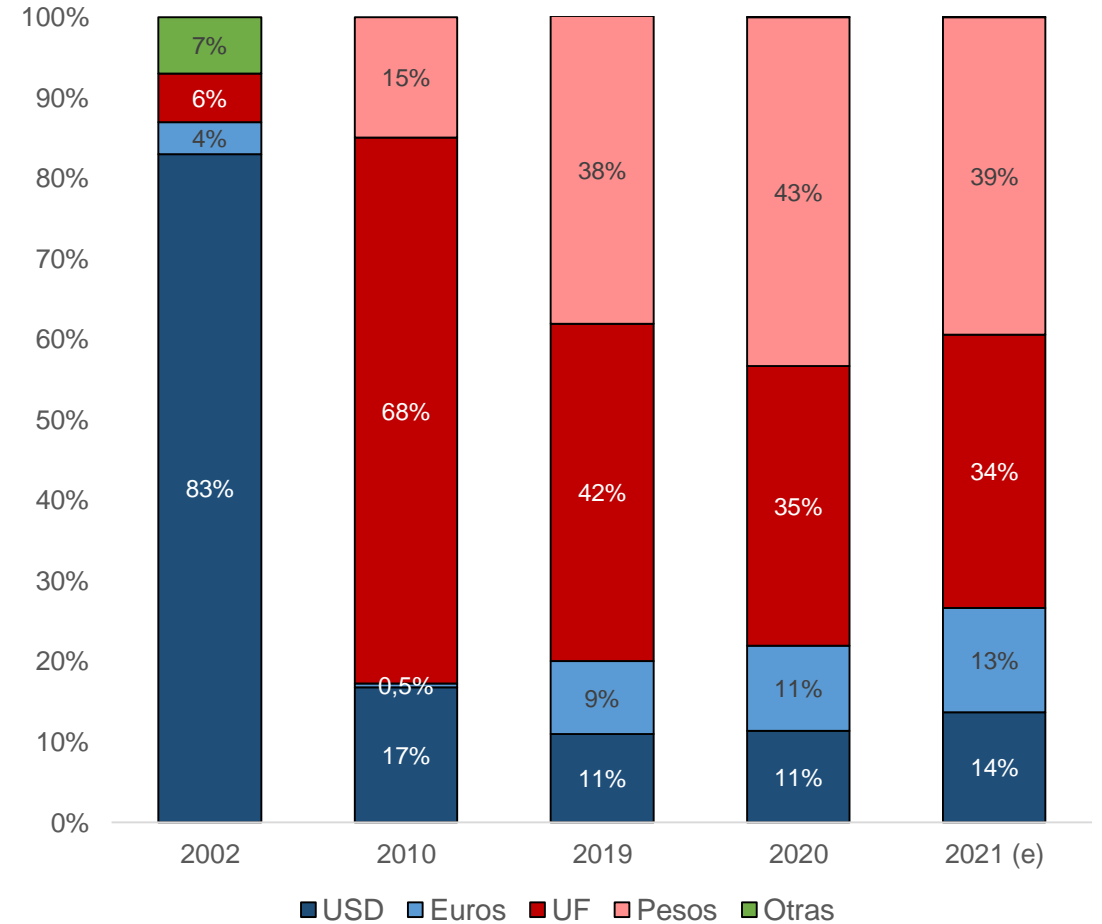
Source: Ministry of Finance based on data from the Superintendencia de Pensiones.

Public debt is mainly composed of local currency denominated bonds.

Composition of Public Debt by Instrument
Percent of total, 2005-2020



Public debt by Currency *
Percent of total



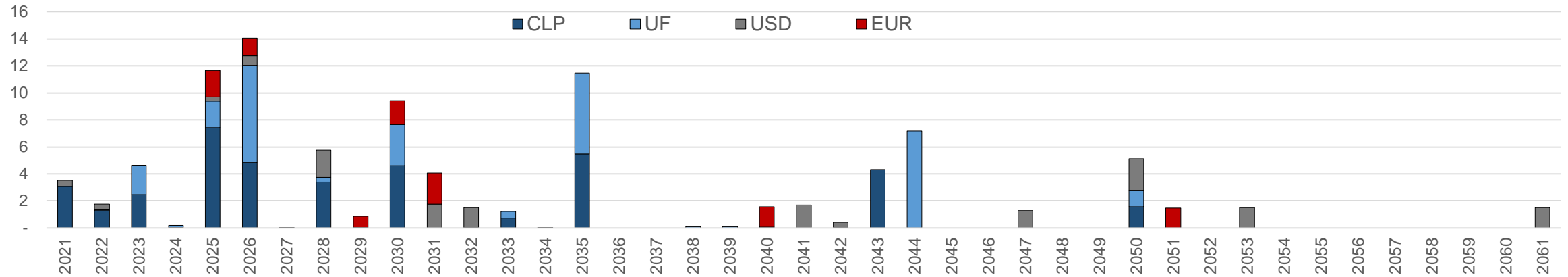
Source: Ministry of Finance

Source: Ministry of Finance. * 2021 estimate does not include additional debt issuance plan for the second semester of 2021.

The maturity profile is well distributed, anchored in key benchmarks, with a high level of average maturity.

Maturity Profile

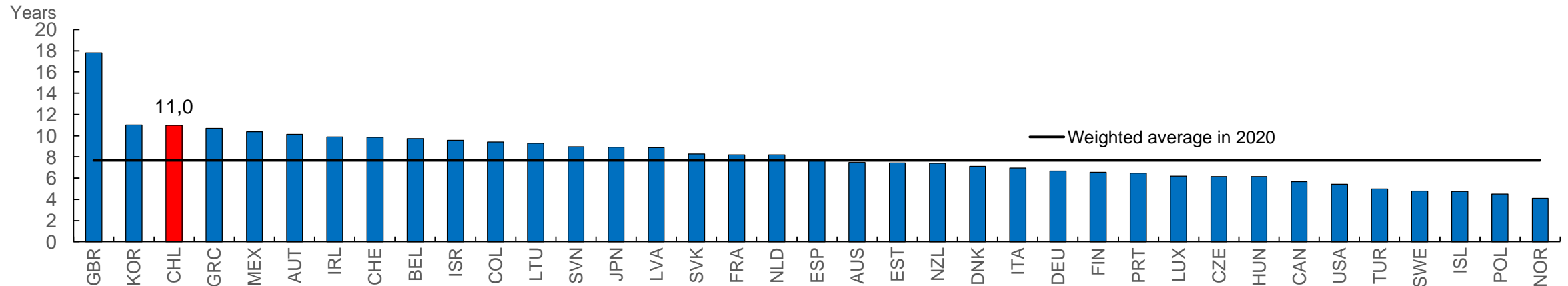
USD billions, as of July 9th, 2021



Source: Ministry of Finance.

Average Weighted Maturity of Tradable Government Debt for Select OECD economies

Years, as of the end of 2020.

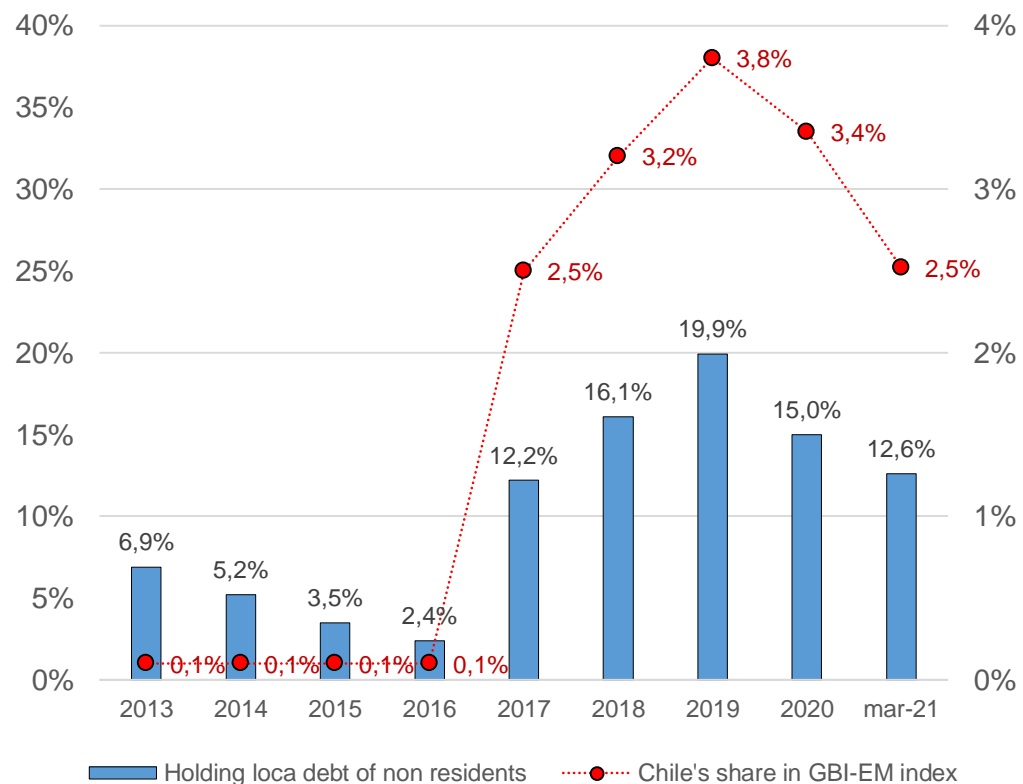


Source: OECD Sovereign Borrowing Outlook 2021.

Non-residents have played an important role in the diversification of Chile's investor base.

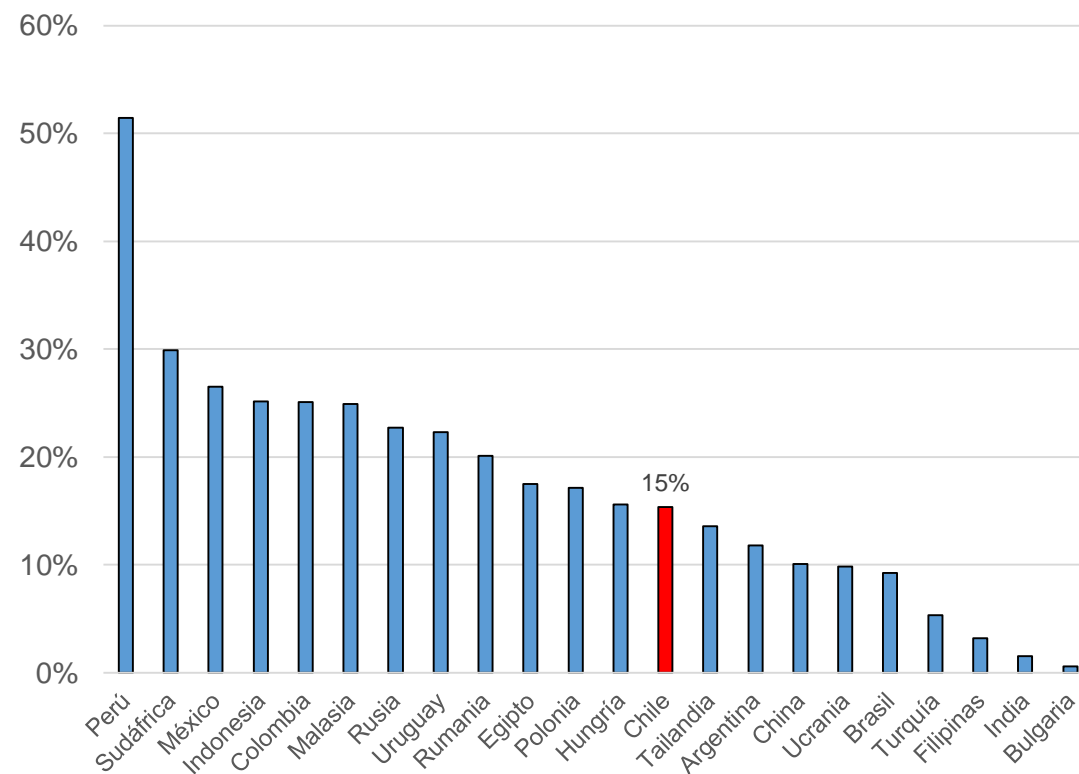
Non-resident holdings of Chile's LC debt & Chile's Weight in GBI-EM Index

Percent of total, by end of March-21



Non-resident holdings in LC in Select Economies

Percent of total in LC, by end of Q4-2020



Source: Ministry of Finance & JPMorgan.

Source: IMF, Sovereign Debt Investor Base for Emerging Markets.
<https://www.imf.org/~media/Websites/IMF/imported-datasets/external/pubs/ft/wp/2014/Data/wp1439.ashx>

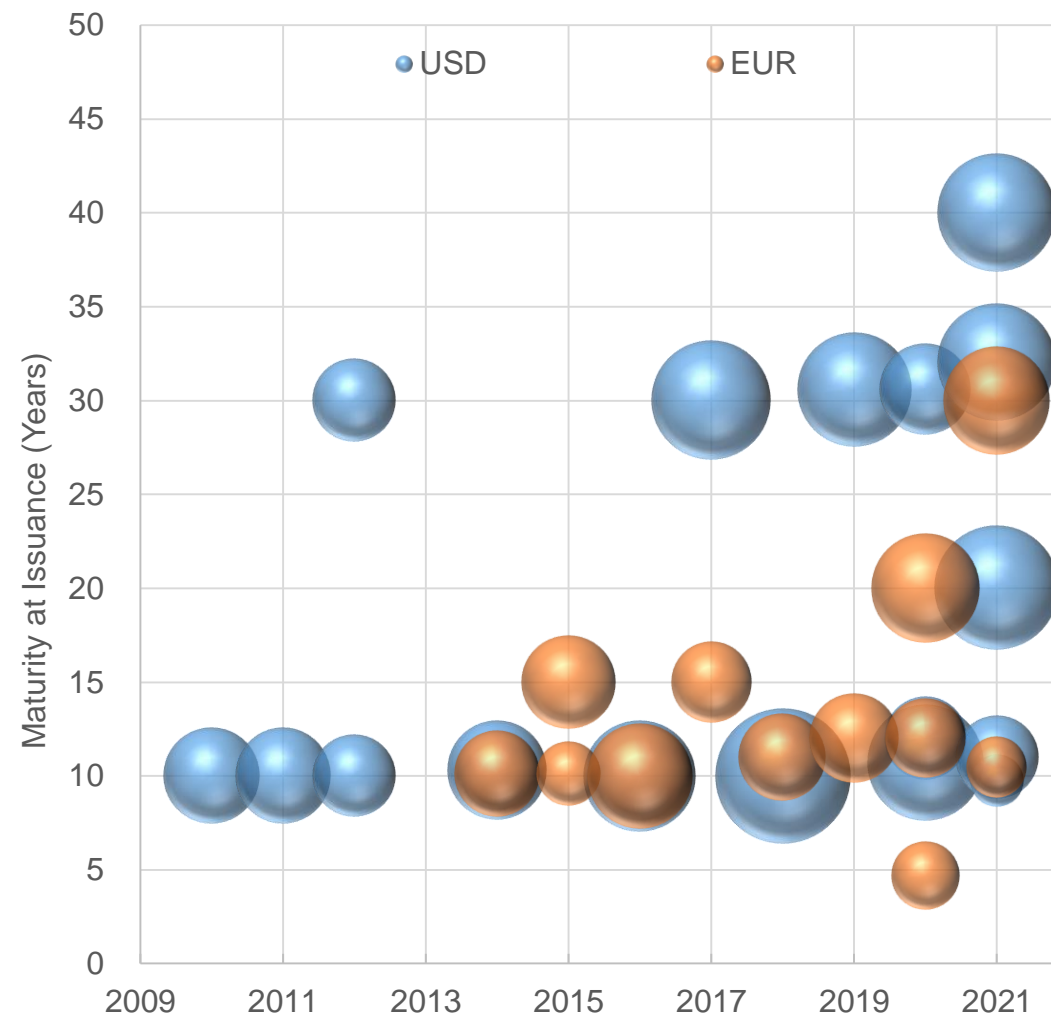
Top-30 Issuers in 2021: Hard Currency Sovereign Bonds

USD billions, by end-June 2021

Issuer	2020	2021	Mar-21	Apr-21	May-21	Jun-21
Mexico	14.9	8.3	-	3.3	-	-
Indonesia	10.8	8.1	-	-	0.9	3.0
Turkey	8.7	7.7	-	-	-	4.3
Chile	5.5	7.7	1.5	-	2.0	0.0
Saudi Arabia	11.9	6.8	-	-	-	-
Philippines	6.4	6.0	0.5	2.5	-	3.0
Colombia	4.2	5.0	-	3.0	-	-
Oman	2.5	5.0	-	-	-	1.8
Peru	7.0	4.9	4.9	-	-	-
Panama	5.2	4.7	-	-	-	2.1
Romania	13.2	4.1	-	4.1	-	-
Egypt	5.8	3.8	-	-	-	-
United Arab Emirates	20.8	3.2	1.2	-	2.0	-
Ghana	3.0	2.9	2.9	-	-	-
Dominican Republic	7.2	2.5	-	-	-	-
Pakistan	-	2.5	2.5	-	-	-
Croatia	2.2	2.4	-	-	-	-
Brazil	6.1	2.2	-	-	-	2.2
Bahrain	4.0	2.0	-	-	-	-
Russia	2.4	1.8	-	-	1.8	-
Malaysia	-	1.3	-	1.3	-	-
Ukraine	4.0	1.3	-	1.3	-	-
Benin	-	1.2	-	-	-	-
Serbia	3.3	1.2	-	-	-	-
Côte d'Ivoire	1.2	1.1	-	-	-	-
Kenya	-	1.0	-	-	-	1.0
Mongolia	0.6	1.0	-	-	-	1.0
Senegal	-	0.9	-	-	-	0.9
Paraguay	1.5	0.9	-	-	-	-
North Macedonia	0.8	0.8	0.8	-	-	-
Cameroon	-	0.8	-	-	-	0.8
Armenia	-	0.7	-	-	-	-
Uruguay	0.5	0.6	-	-	0.6	-
Georgia	-	0.5	-	0.5	-	-
Bosnia and Herzegovina	-	0.4	-	0.4	-	-
Maldives	-	0.3	0.2	0.1	-	-

Chile's Foreign Currency Issuances by Maturity and Volume

Between 2010 – June 2021; Maturity at Issuance in Years; Bubble size scaled by issuance size.

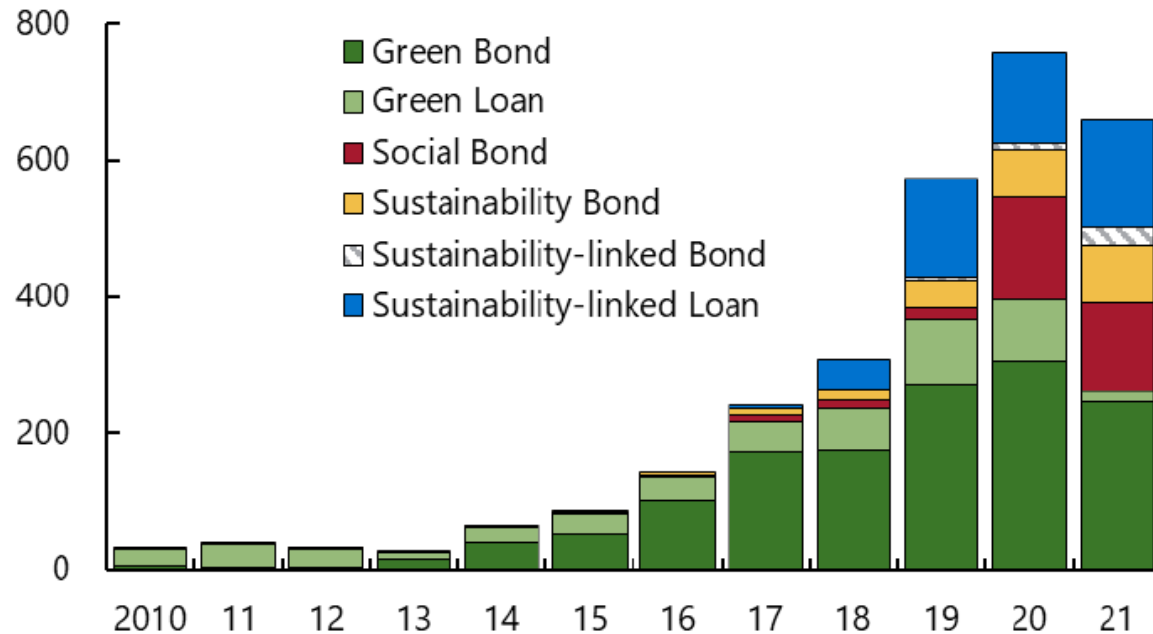


Source: Ministry of Finance.

In the context of greater demand for ESG-type instruments, the Ministry of Finance has led the region in the issuance of labelled bonds.

Global Sustainable Debt Issuance

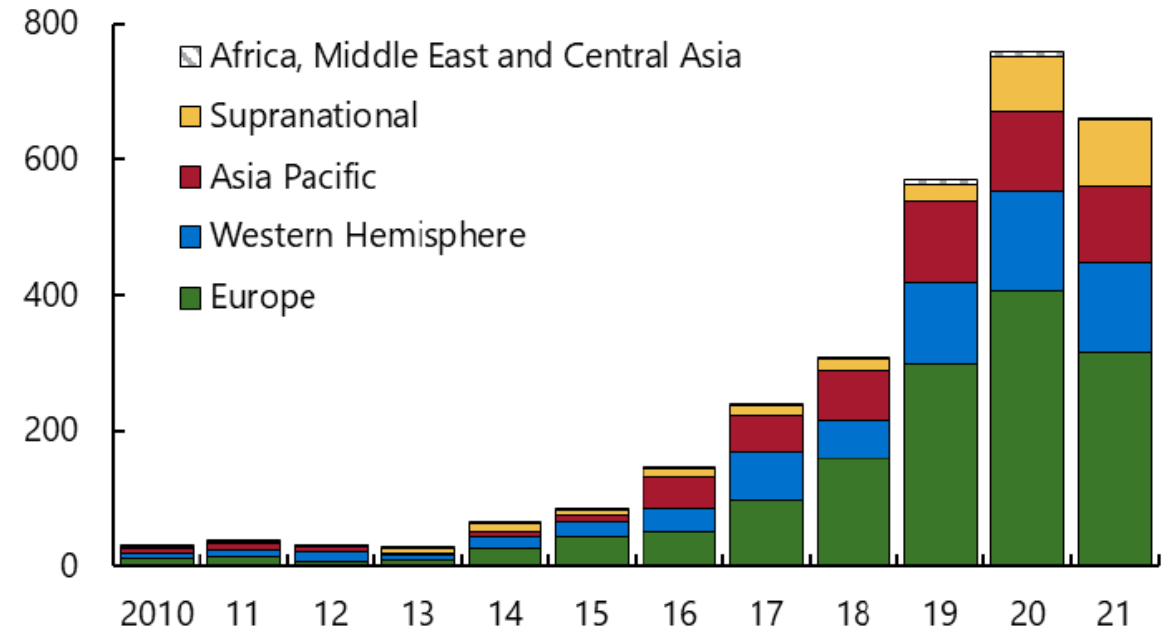
USD billions; as of June 7th, 2021



Source: BloombergNEF

Global Sustainable Debt by Region

USD billions; as of June 7th, 2021



Source: BloombergNEF

Labelled bonds have also broadened Chile’s investor base.

As of July 19th, 2021, the Ministry of Finance has issued US\$18.1 billion in labelled bonds:

Social: US\$8.9 billion;

Green: US\$7.7 billion;

Sustainable: US\$1.5 billion.

In sum, these reach roughly 18.4% of Chile’s Central Government debt.

ESG-Investor Demand in Chile’s Primary Market Issuances*

Share of total allocation

	2019		2020			2021		
	USD	EUR	USD	EUR	CLP	USD	EUR	CLP
Green	35%	76%	36%	36%		~50%	~80%	
Social					NA	~50%	~80%	
Sustainable						NA		

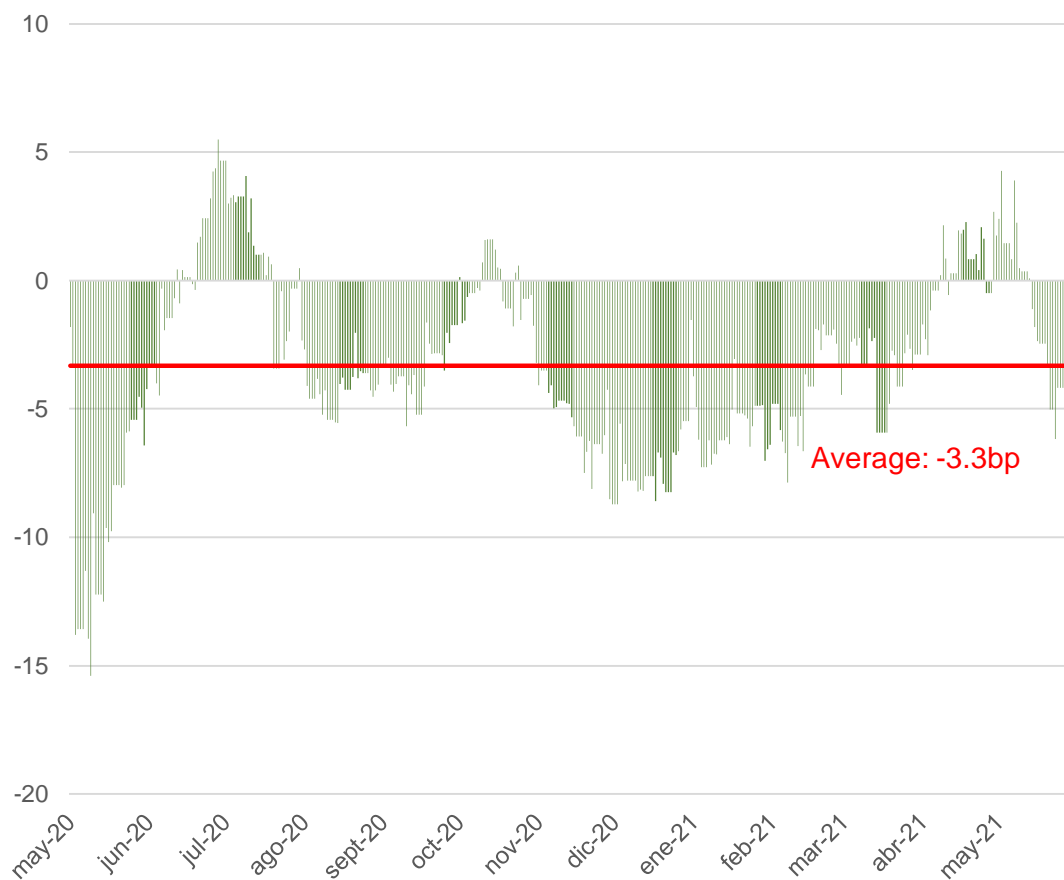
Source: Ministry of Finance; * Does not include the June-21 local currency issuance.



Chile's green bonds have also outperformed (on average) in the secondary market, with respect to their plain-vanilla counterparts.

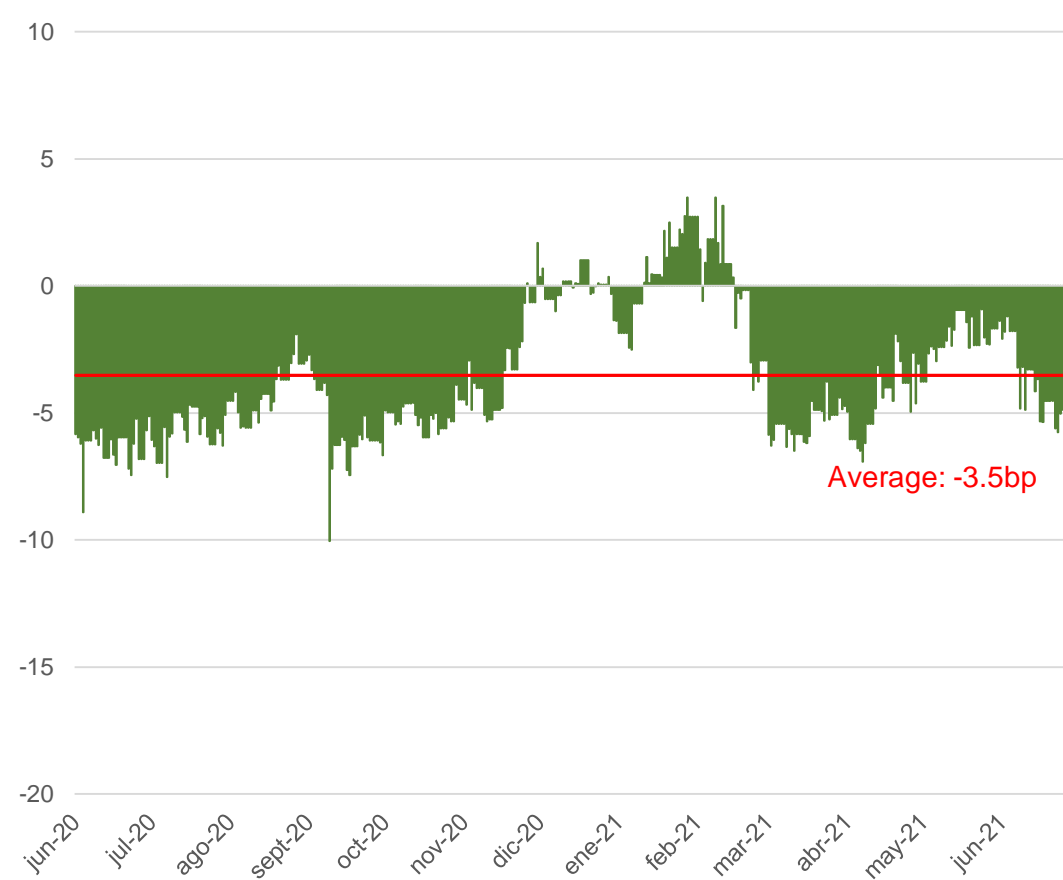
Z-Spread Difference between Green EUR-2031 & EUR-2030

Basis points (Z-spread), between 05.16.2020 – 06.16.2021.



G-Spread Difference between Green USD-2050 & USD-2047

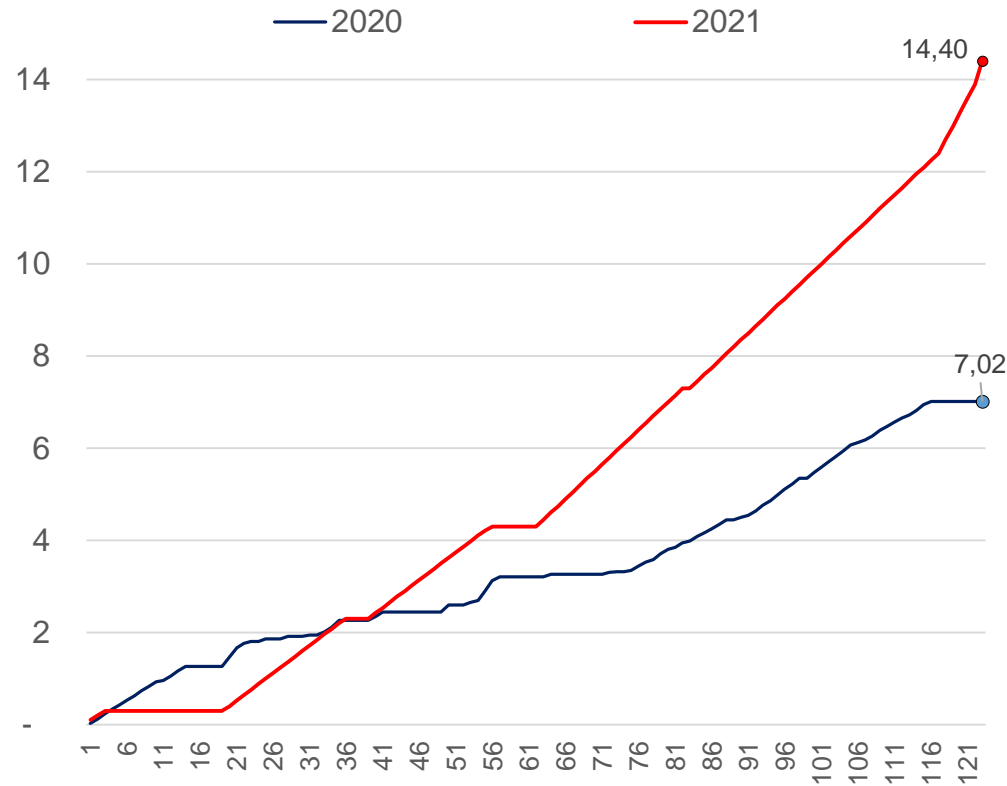
Basis points (G-spread), between 05.19.2020 – 07.12.2021



The Central Government auctions dollars through a widely used platform in the local market since April 2020.

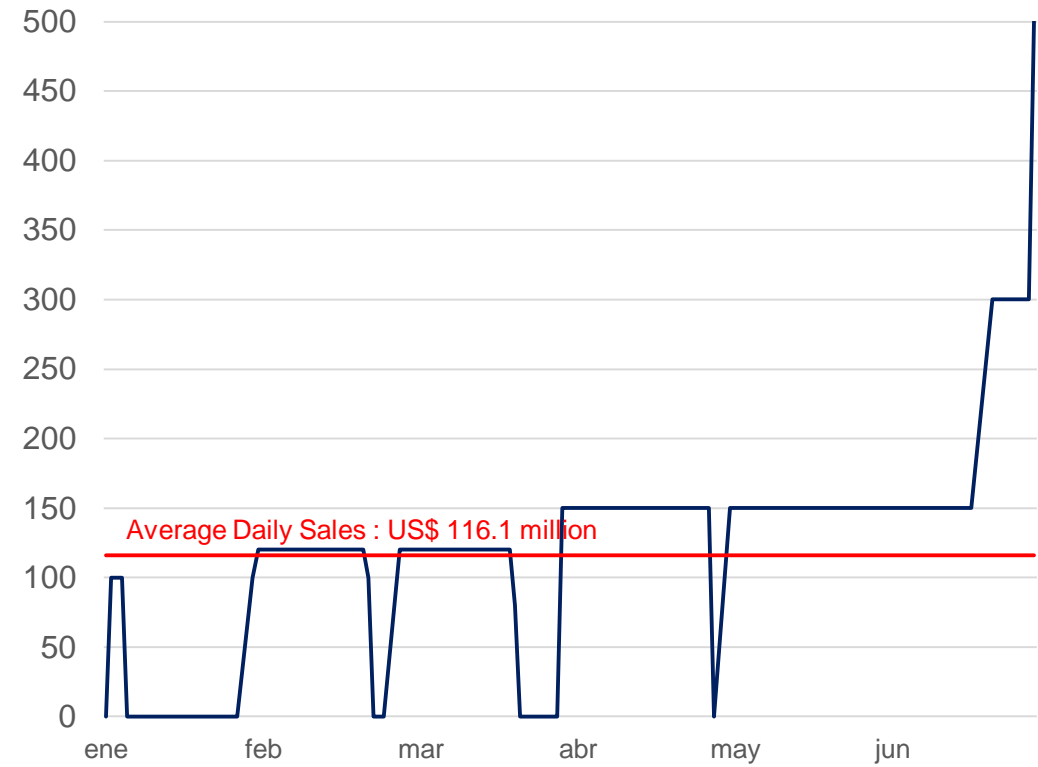
Central Government's Daily Dollar Auctions (Cumulative)

USD billions, per trading day as of the end of the first semester of each year



Central Government's Daily Dollar Auctions in 2021

USD millions, by the end of the first semester of 2021

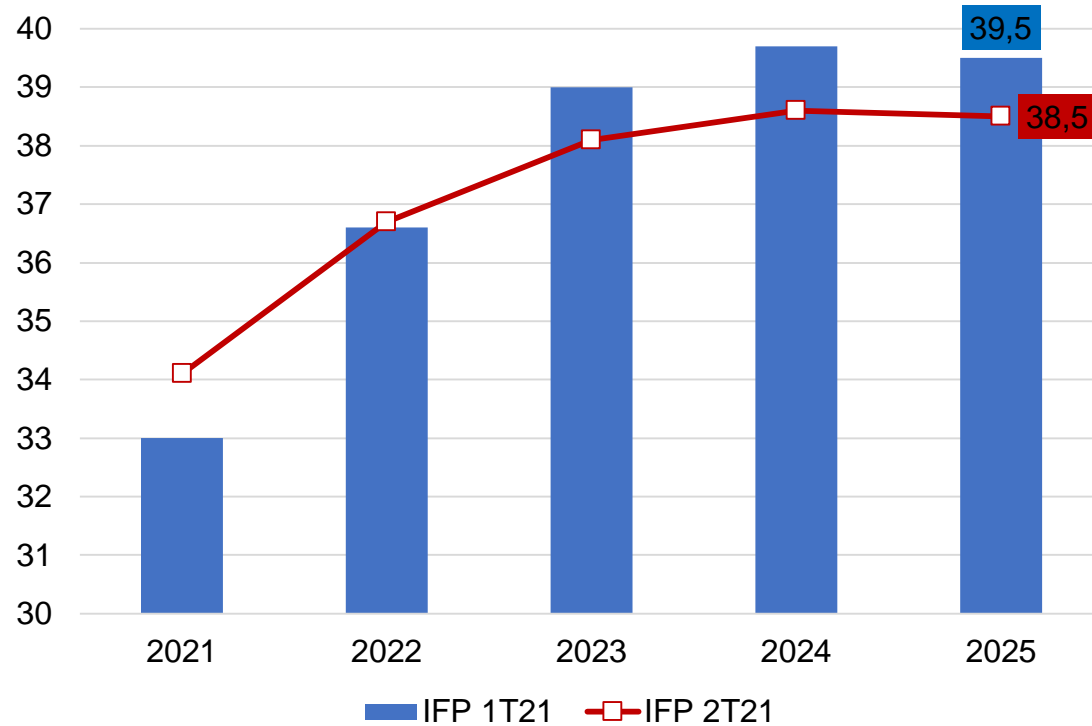


Source: Ministry of Finance.

Gross Public Debt and Net Financial Position 2021-2025

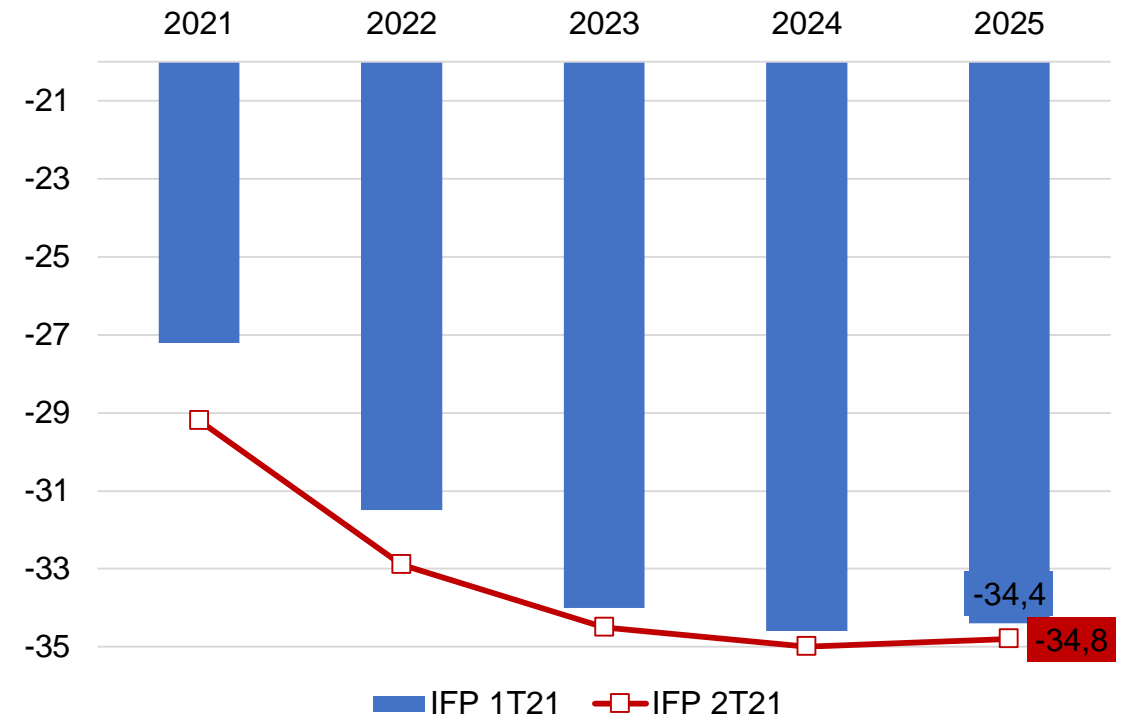
Percent of GDP, end of each calendar year.

Gross Public Debt*



Source: Dipres. * Projections estimated with an expenditure path that is consistent with the projected structural fiscal balance path.

Net Financial Position



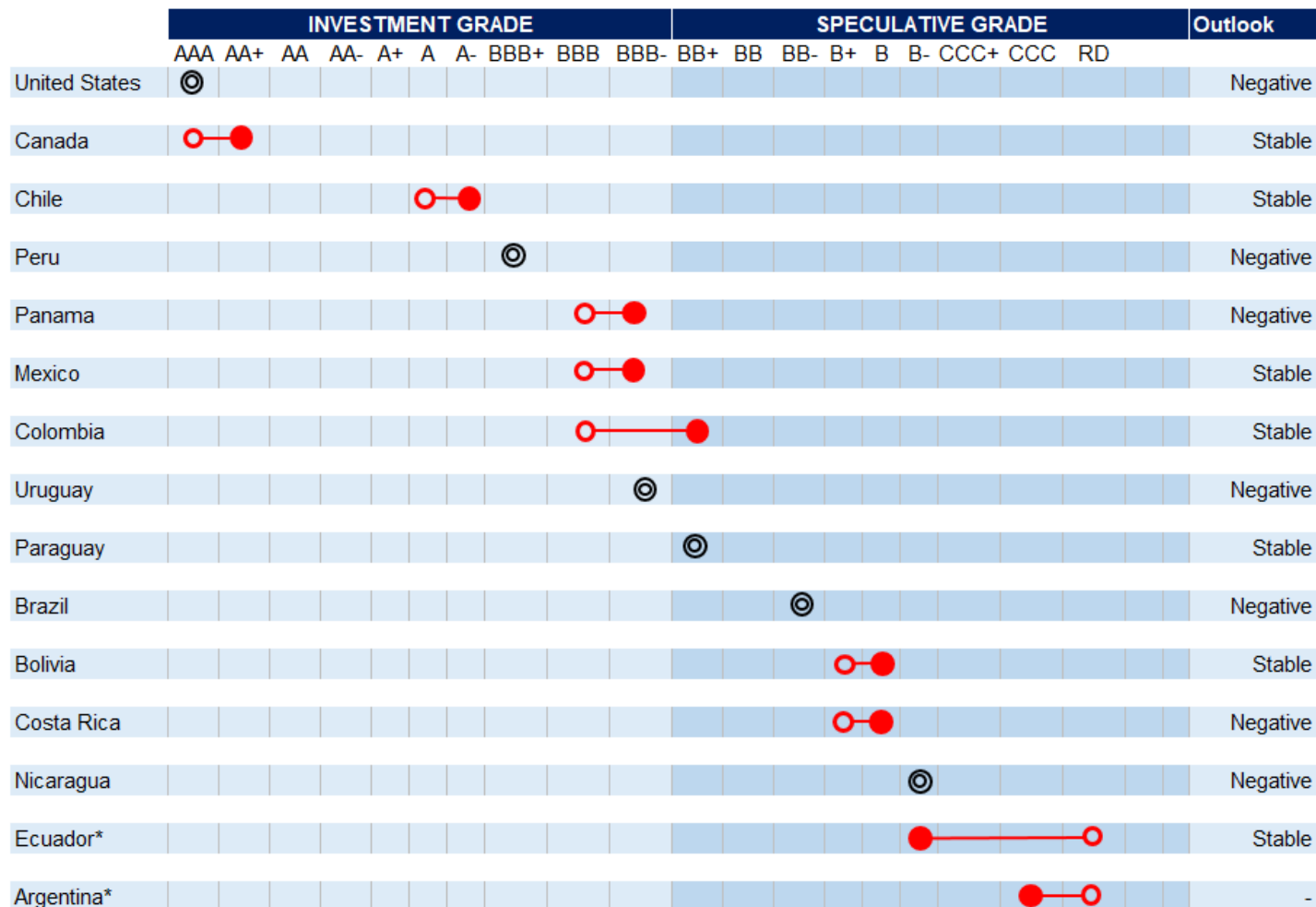
Source: Dipres.

The COVID shock has had a negative impact on credit ratings in Chile and the world.

Credit Rating Adjustments (Fitch) for Economies in the Americas since 2020

As of July 12th 2021

⊙ Sin cambios ○ Inicial ● Actual



* Technically adjustments from a "restricted default" to the current rating is classified as an *upgrade*.

Global Scenario in Sovereign Credit Ratings as of June-21

Since the beginning of 2020, 37% of sovereigns had experienced at least one downgrade; the region that had suffered the most was Latin America and the Caribbean (35%).

Among those that had not experienced a downgrade, 25% experienced at least a negative adjustment in their outlook.

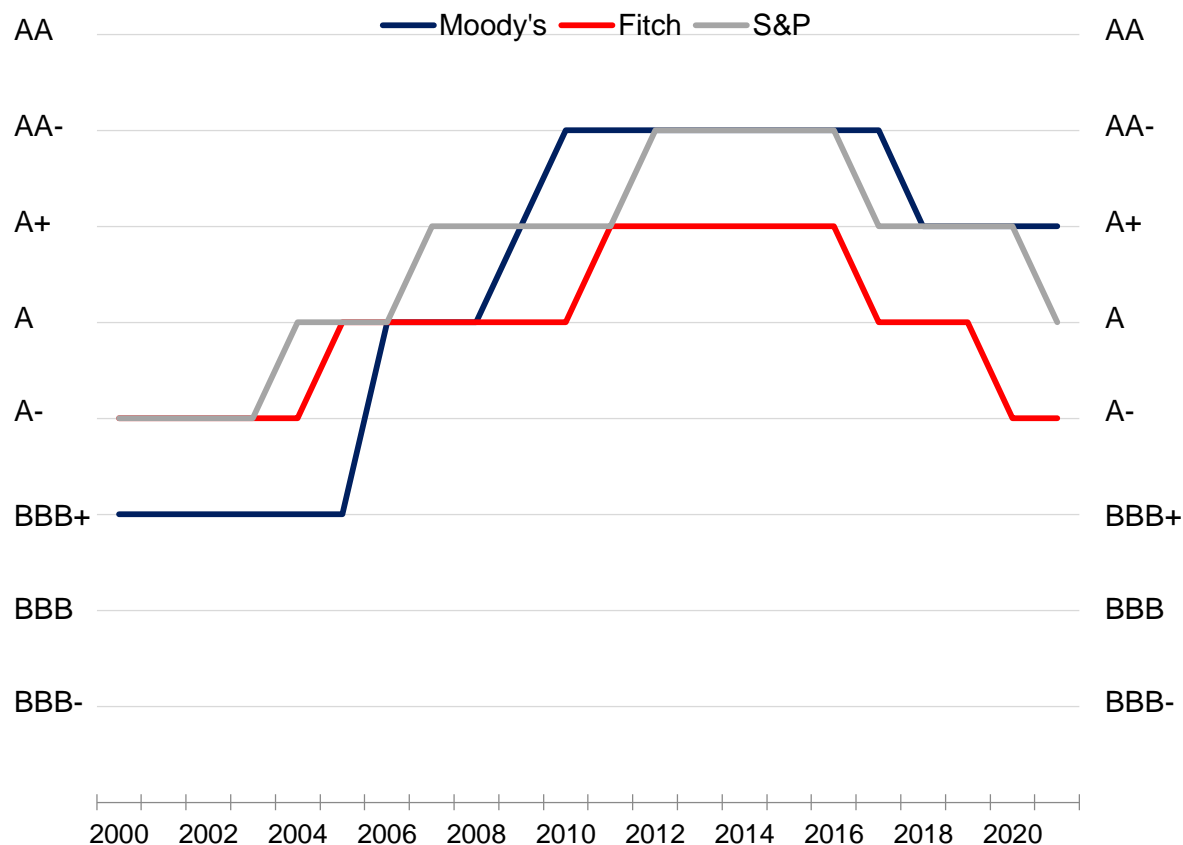
During 2020, there were more than 100 negative outlooks in the world.

Only 36% of sovereigns did not experience a negative action in their credit rating since 2020.

Despite recent rating actions, Chile maintains access to capital markets at levels consistent with its investment grade.

Chile's Sovereign Credit Rating since 2000

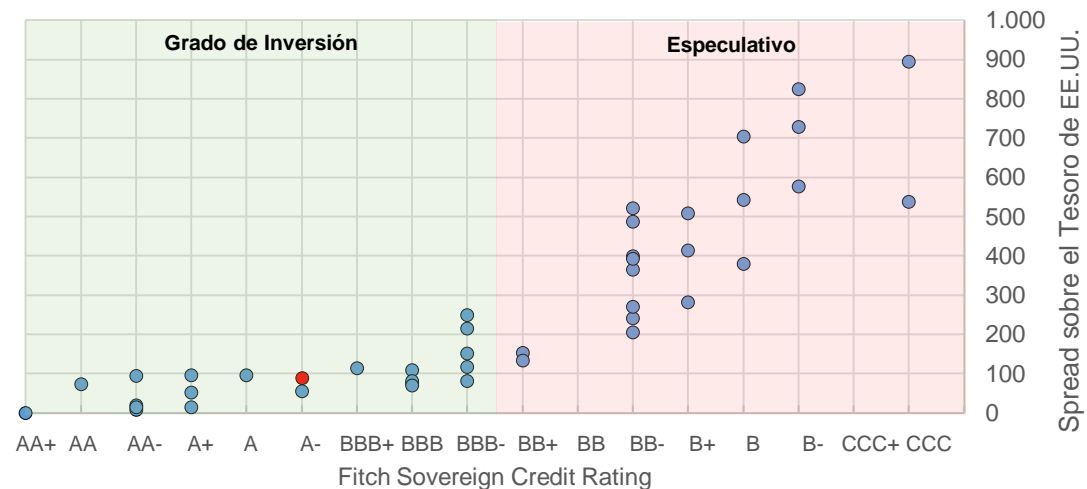
Long-term foreign currency rating



Source: Fitch, Moody's, y S&P.

10-Year Spreads in USD for Select Economies

Basis Points, spreads above the 10Y U.S Treasury. Chile in red at A-, as of July 12th, 2021



	Clasificación	Spread sobre el Tesoro de EE.UU.
Grado de Inversión	AA	35
	A	64
	BBB	126
Grado Especulativo	BB	317
	B	551
	CCC	717

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