Gobierno de Chile

Ministerio de Hacienda

The Chilean Economy in the Context of the COVID-19 Shock

Investor Relations Office
Ministry of Finance

April 27th, 2020

COVID-19 in Chile

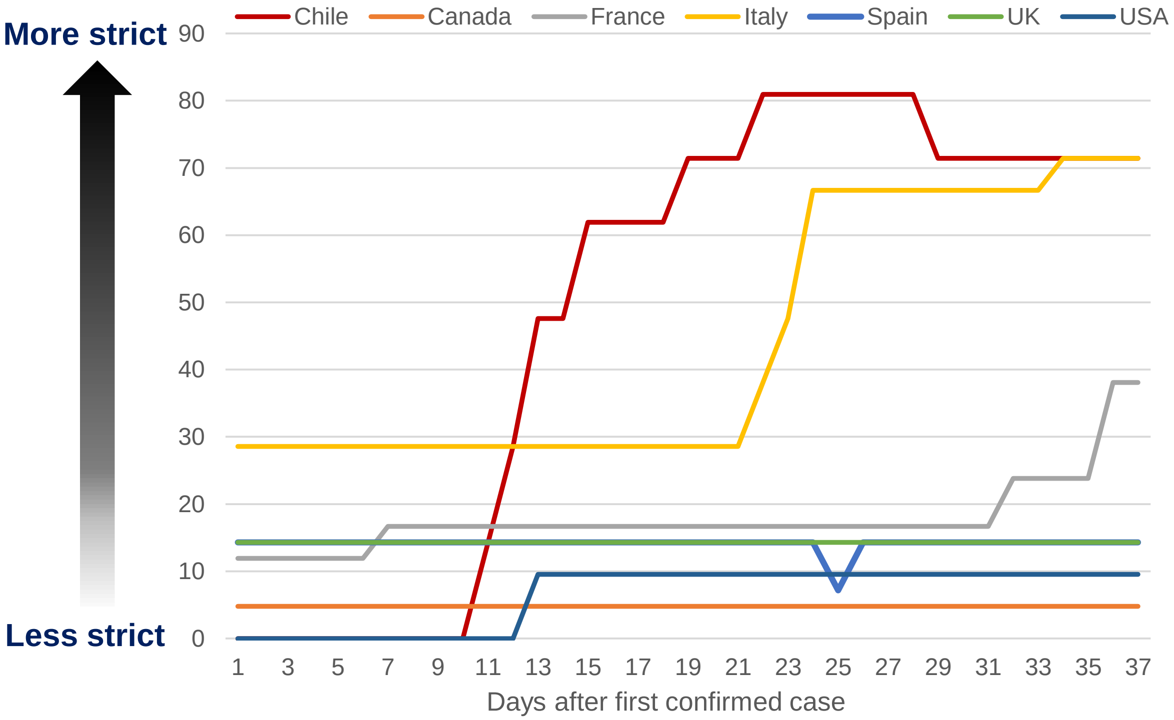
The government acted early and gradually to reduce the rate of contagion.

The Action Plan has consisted in …

- ✓ Declaring Sanitary Alert
- ✓ Strengthening the health system:
    - ✓ increasing health personnel;
    - ✓ greater number of beds;
    - ✓ purchase of technology and medical equipment, as needed;
    - ✓ training staff and ensuring they are prepared.
- ✓ Protecting borders
- ✓ Preparing and conducting PCR tests
- ✓ Closure of schools and bringing vacations forward
- ✓ Declaring “state of catastrophe”
- ✓ Declaring a nationwide curfew
- ✓ Establish customs and sanitary cords
- ✓ Declaring quarantines selectively
- ✓ Closing of all borders.

Stringency Index Across Select Economies

Index, Days after first confirmed case



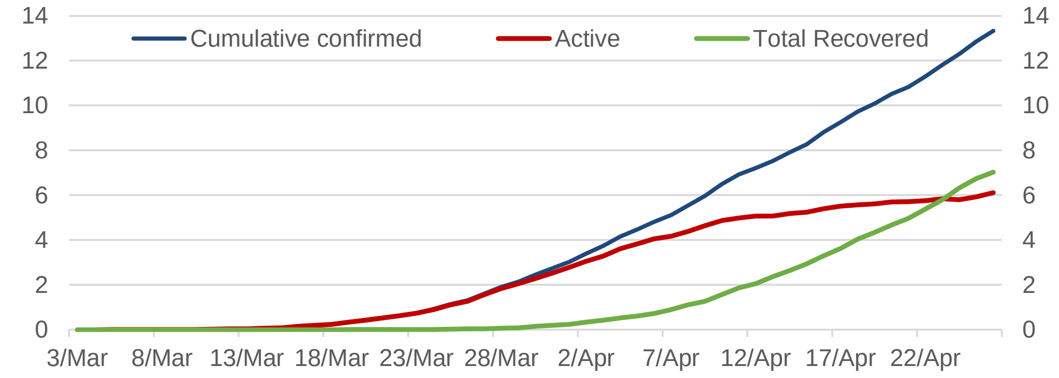
- The Stringency Index is an aggregated policy score of several indicators that reflect policies such as school closures, travel bans, etc., that are recorded on an ordinal scale.
- The index simply records the number and strictness of government policies.

Source: Oxford COVID-19 Government Response Tracker (OxCGRT), data from website as of April 20th, 2020.

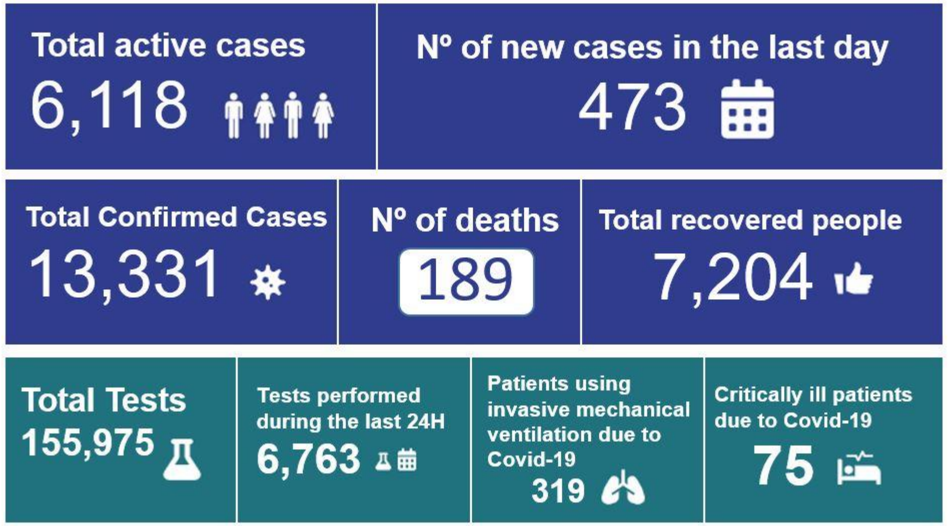
Towards the latter half of April, cumulative cases have topped 13,000, with new cases decreasing gradually.

Confirmed COVID-19 Cases in Chile: Cumulative, Active, and Recovered

People, thousands



Source: Ministry of Health. Data through April 25th, 2020 at 21:00hrs in Santiago, Chile.



Source: Ministry of Health. Data through April 25th, 2020 at 21:00hrs in Santiago, Chile.

Regional Distribution of Confirmed Coronavirus Cases

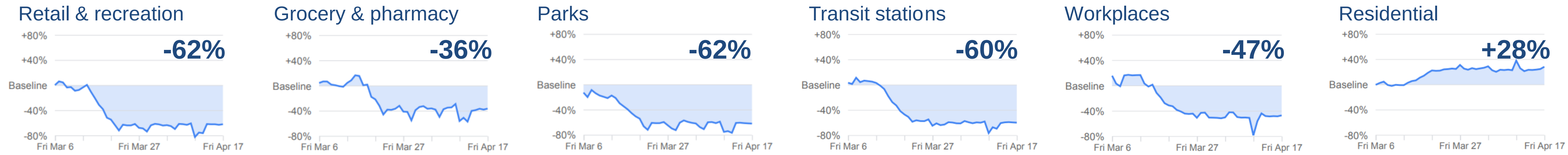
Region	New cases	Total cases	% Total	Deaths
Arica y Parinacota	7	252	1.9%	3
Tarapacá	13	156	1.2%	1
Antofagasta	52	443	3.3%	4
Atacama	5	29	0.2%	0
Coquimbo	0	73	0.5%	0
Valparaíso	6	460	3.5%	9
RM	331	7,496	56.2%	91
O'Higgins	7	92	0.7%	1
Maule	4	354	2.7%	11
Ñuble	6	731	5.5%	14
Biobío	7	703	5.3%	6
Araucanía	13	1,216	9.1%	29
Los Ríos	1	178	1.3%	3
Los Lagos	8	473	3.5%	8
Aysén	0	7	0.1%	0
Magallanes	13	668	5.%	9
Total	**473**	**13,331**	**100%**	**189**

Source: Ministry of Health. Data through April 25th, 2020 at 21:00hrs in Santiago, Chile.

Data suggests the population has largely complied with containment measures.

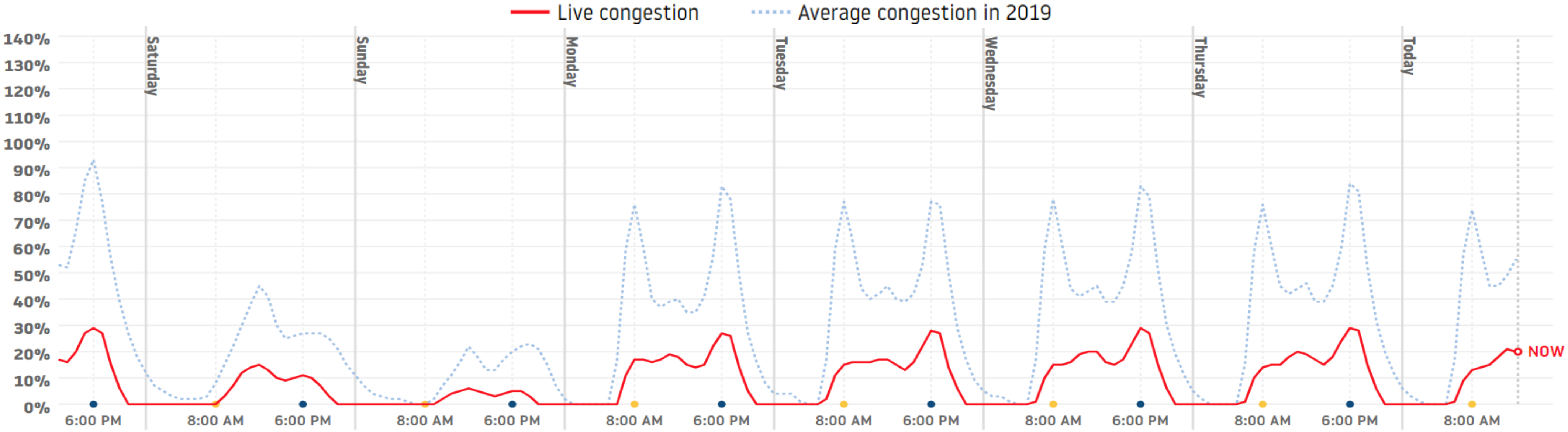
Mobility Trends based on Smartphone User Data

Relative to baseline (Jan 3–Feb 6, 2020)



Source: Google COVID-19 Community Mobility Reports.

Traffic Congestion in Santiago between April 18th-24th

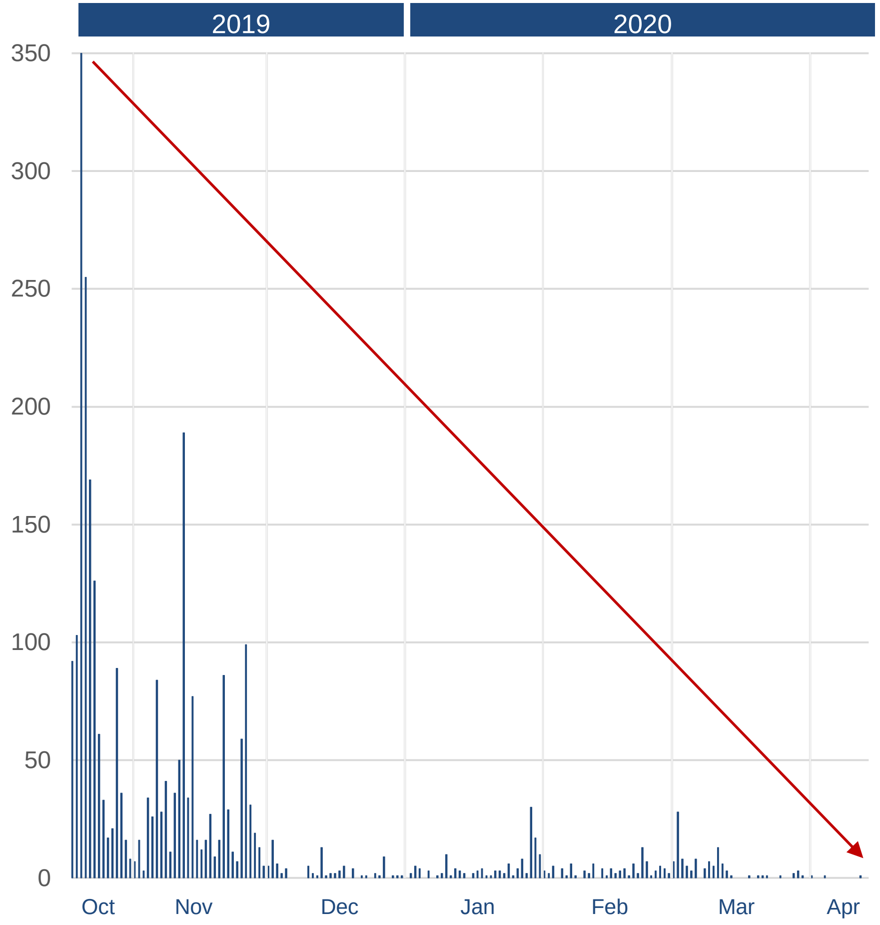


Source: TomTom Traffic Congestion Index. Available at:. https://www.tomtom.com/en_gb/traffic-index/santiago-traffic/

Separately, violence has declined significantly, confidence in institutions has increased, and the political calendar has been postponed.

Number of Severe Events in Chile*

Reported between October 19th 2019 - April 14th 2020



Source: Ministry of the Interior. * Defined as looting, arson, and/or destruction of property.

Evaluation of Institutions[1] and Industries[2]

CADEM survey, April 6th 2020

	Dec-19	Apr-20
Investigative Police (PDI)	57	70
Civil Registry		68
Municipalities		64
Navy	51	63
Air Force	50	63
Army	43	60
Police	35	49
Central Bank	42	43
Attorney General's Office	25	32
Business Associations	26	25
Catholic Church	19	25
Justice Tribunals	18	24
Congress	11	13

	Dec-19	Apr-20
Metro	53	64
Supermarkets	47	67
Telecom Companies	44	46
National Health Insurance System	37	46
Mining Companies	37	44
Banks	34	44
Pharmacies	21	39
Retail	29	37
Transantiago	15	36
Isapres	10	12
AFPs	9	12

Source: CADEM, April 6th 2020. [1] Percent of Approval. [2] Share of answers between 5-7, where 1 is "*nada de confianza*" and 7 is "*mucha confianza*."

Adjustments to the Political Calendar

	Original date (2020)	New date
National Plebiscite on Constitution	Apr 26	Oct 25 (2020)
Primaries for Mayors & Regional Governors	Jun 7	Nov 29 (2020)
*Elections for Municipalities, Regional Governors, and Members of the Constitutional Convention.**	Oct 7	Apr 4 or 11 (2021)
Runoff for Regional Governors	Nov 22	May 2 or 9 (2021)

Source: Ministry of Finance. * Members of the Constitutional Convention will be selected in this election if the "Approve" option obtains a simple majority in the National Plebiscite of October 25th, 2020.

Responding to the Shock

The Ministry of Finance's policy response was designed to be large, timely, transitory, and targeted.

The overall objectives of the policy response are:

1. Ensuring the availability of fiscal resources for the public health sector;
2. Protecting incomes & jobs;
3. Injecting liquidity into the real economy;
4. Strengthening the availability of credit to households and firms.

Announcement of Economic Measures by the Government was quick with respect to other economies

Country	First case	First announcement	Days between first case and first announcement
Chile	Mar. 3, 2020	Mar. 19, 2020	16
Korea	Jan. 20, 2020	Feb. 5, 2020	16
Brazil	Feb. 26, 2020	Mar. 16, 2020	19
Colombia	Mar. 6, 2020	Mar. 27, 2020	21
Peru	Mar. 6, 2020	Mar. 30, 2020	24
Japan	Jan. 16, 2020	Feb. 28, 2020	43
Germany	Jan. 28, 2020	Mar. 13, 2020	45
France	Jan. 24, 2020	Mar. 12, 2020	48
Philippines	Jan. 30, 2020	Mar. 19, 2020	49
USA	Jan. 21, 2020	Mar. 13, 2020	52
Canada	Jan. 26, 2020	Mar. 20, 2020	54
Italy	Jan. 31, 2020	Mar. 25, 2020	54
Singapore	Jan. 23, 2020	Mar. 20, 2020	57
Thailand	Jan. 13, 2020	Mar. 24, 2020	71
China	Dec. 8, 2019	Mar. 5, 2020	88

Source: Central Bank of Chile.

An overview of the MoF's announcements.

Policy announcements imply fiscal resources for up to USD17.1 billion. However, the total fiscal cost for 2020 is estimated at up to USD12.1 billion, with planned financing sources described in detail in the final section.

Phase	Dimension	Policy	Amount (USD million)	Percent of GDP	Status of Implementation
Phase 1 (March 19th)	Fiscal Resources for Public Health	Additional fiscal resources for health expenditures	$ 1,400	0.6	In progress
		New Fund to Finance Medical Expenditures	$ 260	0.1	In force
	Measures to Protect Employment and Support Incomes	Injection to the UI Solidarity Fund	$ 2,000	0.8	UI fund is operating, injection to take place as needed
		Cash transfer for the most vulnerable	$ 167	0.1	Completed
		Municipal Solidarity Fund	$ 100	0.04	In progress
	Injecting Liquidity into the Economy	Suspension of corporate tax payments	$ 2,400	1.0	Implemented by the Ministry of Finance and the tax authority
		Deferred VAT payments	$ 1,500	0.6	
		Early corporate tax refunds for SMEs	$ 770	0.3	
		Deferred corporate tax payments for SMEs	$ 600	0.2	
		Deferred payment on property taxes	$ 670	0.3	
		Accelerated personal income tax refund for self-employed	$ 200	0.1	
		Advance on personal income tax refund for self-employed (withheld Jan. & Feb. 2020)	$ 118	0.05	
		Transitory reduction of the Stamp & Seals Tax	$ 420	0.2	In force
		Accelerated Payments on public procurement obligations	$ 1,000	0.4	In force
		New Capitalization of Banco Estado	$ 500	0.2	Legislation approved
	Subtotal		**$ 12,105**	**4.8**	
Phase 2 (April 8th)	Plan to Protect Economic Activity	Capitalization of FOGAPE	$ 3,000	1.2	Legislation approved
	Plan to Protect Incomes		$ 2,000	0.8	
	Subtotal		**$ 5,000**	**2.0**	
TOTAL			**$ 17,105**	**6.8**	

Source: Ministry of Finance.

The MoF has committed to a sizable capitalization of a state-credit guarantee facility to ensure the credit channel operates effectively.

Capitalization of up to USD3 billion for FOGAPE, a state credit-guarantee facility available to the banking sector, expected to provide access to new working capital loans with credit guarantees of up to USD24 billion.

- Estimated to mobilize resources to 99.8% of all firms and 84% of the economy's formal workers;
- Guaranteed loan limits were raised and maximum coverages were increased;
- Banking sector to provide new loans capped at three month average sales (10/18-10/19) at 3% + monetary policy rate (currently at 0.5%);
- New loans will have a 6-month grace period and shall be paid in quotas between a 24/48 month period;
- Banks have agreed to defer payments on installments of outstanding loans for at least 6 months for firms that obtain new working capital loans;
- Policy has been coordinated with the Central Bank of Chile and the Financial Market Commission to ensure the maximum impact and availability of credit and working capital to firms.

The Central Bank of Chile and the Financial Market Commission have also implemented extraordinary measures.

Central Bank of Chile[1]

- Policy rate cut to 0.5% (technical minimum);
- New Conditional Financing Facility (*FCIC*): banks have access to 4-year loans at the policy rate (0.5%), with loan size increasing as a function of additional credit to more stressed segments;
- Liquidity Credit Line also made available;
- Corporate bonds allowed as eligible collateral in peso liquidity facilities;
- Purchase of bank bonds for up to USD8 billion;
- Adjustments to the peso and USD REPO & FX swap arrangements;
- USD sales program extended until 9/1/21;
- Transitory adjustment to reserve requirements;
- Flexibilization of liquidity requirements for banks.

Financial Market Commission (CMF)[2]

- Enhanced monitoring and supervisory activities.
- Issued and/or modified rules that provide greater flexibility to financial entities.
  - Updated provision requirements to banks and other credit providers (including insurance companies)
    - Banks may incorporate up to 15% of loans with state-credit guarantees as additional provisions;
    - Allowed for the possibility to defer loan payments up to 6 months without additional provisions;
    - Delayed initial changes in the transition towards Basel III standards on capital requirements.
- Greater engagement with other local and foreign financial market oversight bodies;
- Strengthens proactive role as a public institution on financial market services.

[1] More information on the rationale to implement these measures is available at the following link, with additional information on the status of implementation in the following link.

[2] More information available at the following link.

Sources: Central Bank of Chile, Financial Market Commission.

Recent labor market reforms have mitigated a sharper deterioration of the labor market, incomes, and the real economy.

Employment Protection Law

- Allows for the transitory suspension of the worker-employer relationship of up to 6 months, with the employer continuing to pay health and pension contributions. Workers maintain the contractual relationship, all rights, and receive monthly payouts from the unemployment insurance (UI) system according to current withdrawal rules.

- Reduced work schedule (up to 50% reduction) allows for a smoother adjustment in the labor market and should facilitate the recovery. Employers pay for the hours worked, and the UI system supplements this labor income by up to 25% of the wage.

- These programs are funded from the UI funds and do not have an impact on the fiscal balance. As of April 20th, personal UI accounts amounted to ~USD7.4 billion, and the Solidarity Fund had ~ USD3.4 billion.

Employment Protection Law.

- Preliminary data for the period between April 8-23th shows that 66,573 firms that employed 516,826 workers had registered their intention to resort to this Law.

- Most of the firms (70%) declared the transitory suspension due to a mutual agreement between the worker-employer, and the remaining 30% due to an official decision by public authorities to suspend economic activities related to the COVID-19 pandemic.

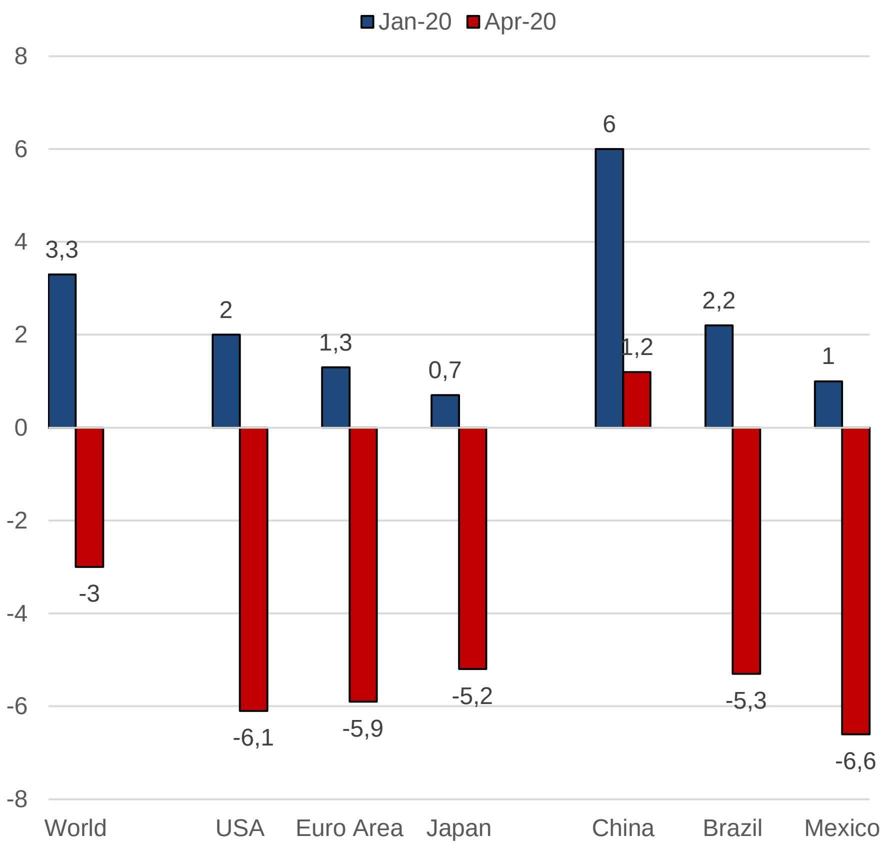
- As of April 23rd, 73.9% of the firms have <10 workers, and 99.7% are MSMEs. Large firms (≥200 workers) have been 1.3% of the registered firms.

Macro-fiscal Forecasts for 2020

Global contraction and tighter financial conditions are significant headwinds, somewhat mitigated by a relative improvement in ToT.

IMF's GDP Growth Forecasts for 2020

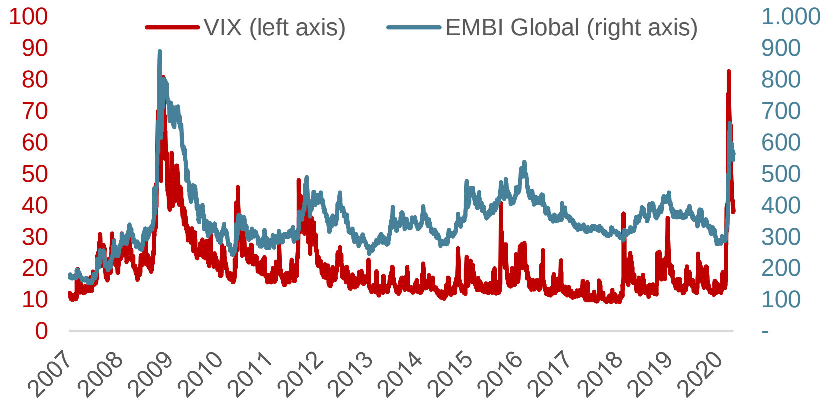
Percent Change



Source: Ministry of Finance.

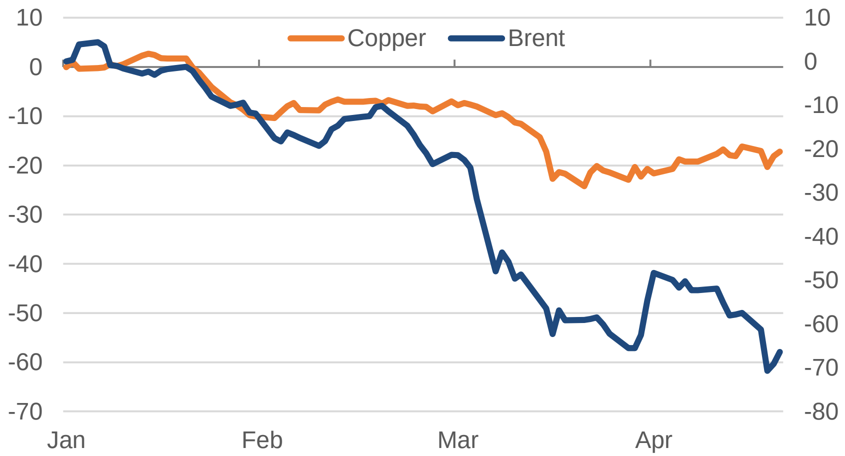
VIX & EMBI Global

Percent Change; basis points. Data through 4/20/20



Year-to-date change in Futures Prices

Percent Change relative to 1/1/20. Data through 4/23/20

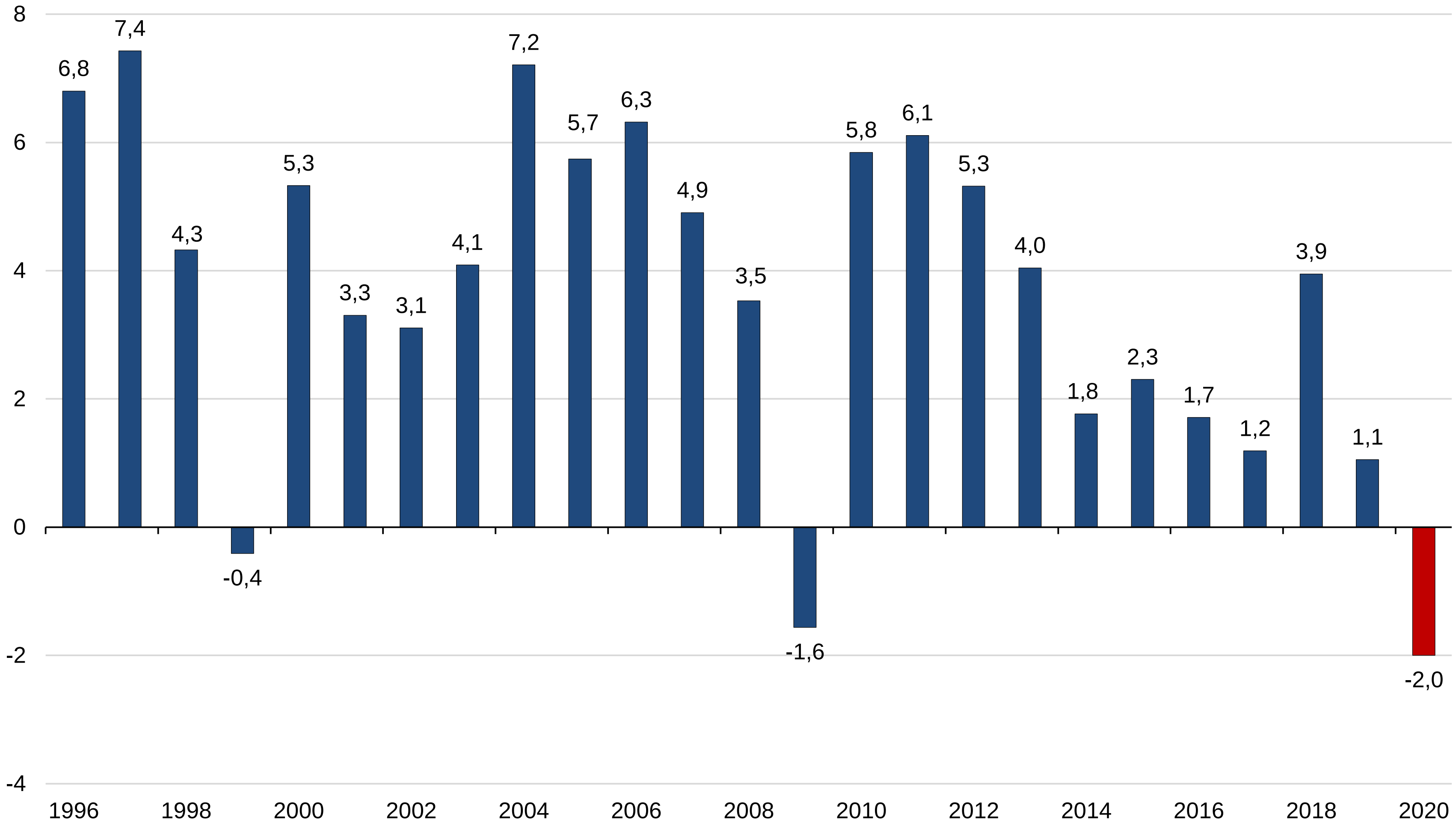


Source: Bloomberg.

In this context, and with heightened uncertainty, Chile's economy is projected to contract by 2% this year.

Chile's Real GDP: Actual & Forecast

Percent year-on-year

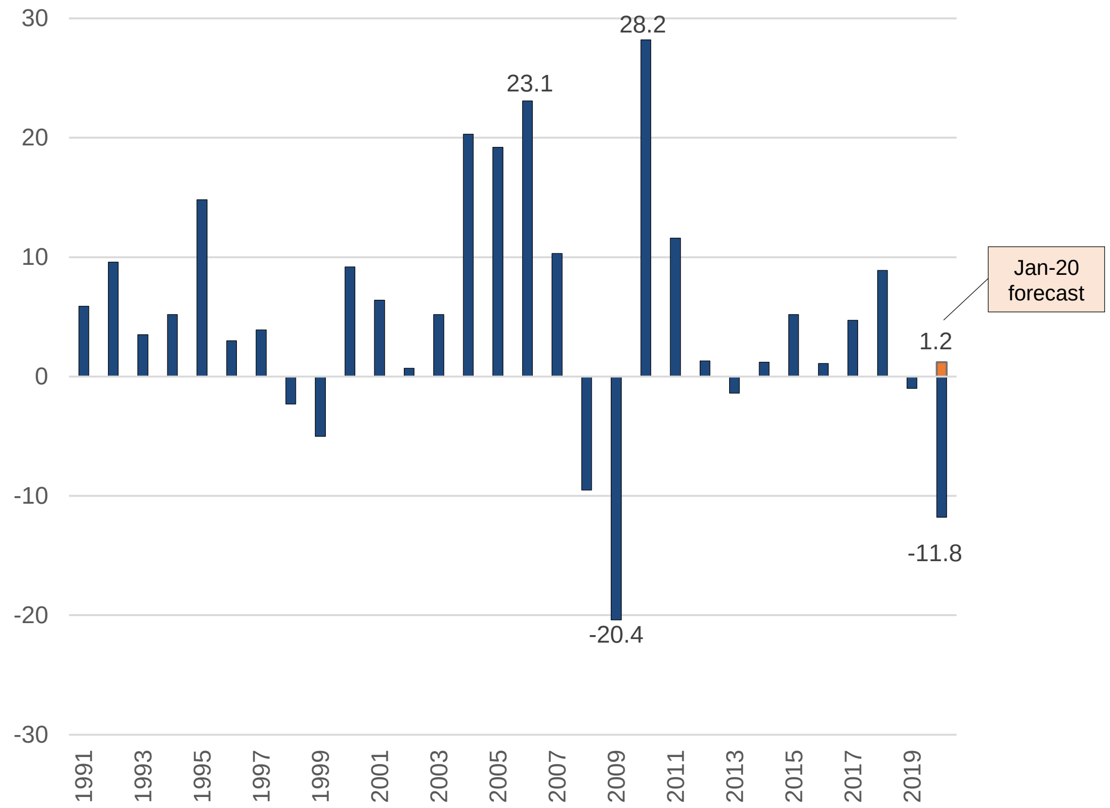


Source: Ministry of Finance.

Revenues and expenditures reflect COVID-19's impact and policy response.

Central Government's Revenue (1991-2020F)

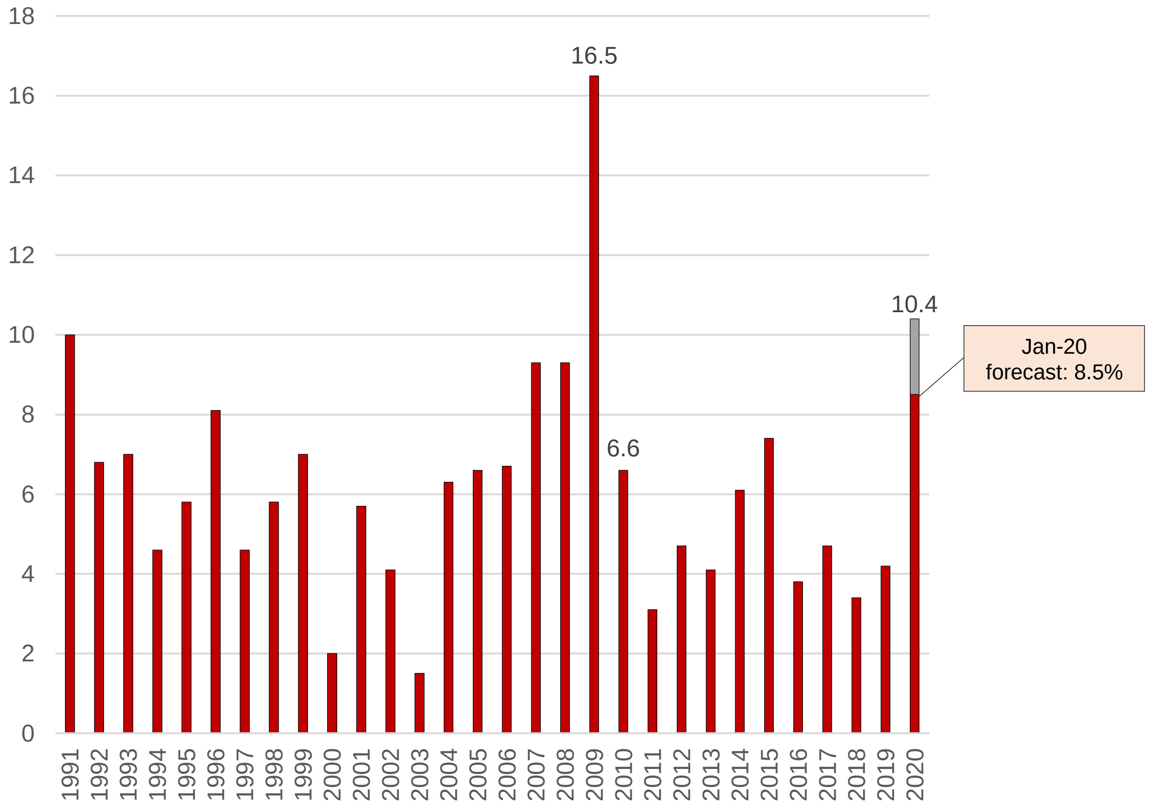
Percent change in real terms



- The 12.7% fall in real revenue growth with respect to the February projection is explained by tax and administrative measures that revert in 2021 (6.9%) and lower growth (5.8%).
- Revenue as a share of GDP is projected to reach 19.1% by end-2020.

Central Government's Expenditures (1991-2020F)

Percent change in real terms



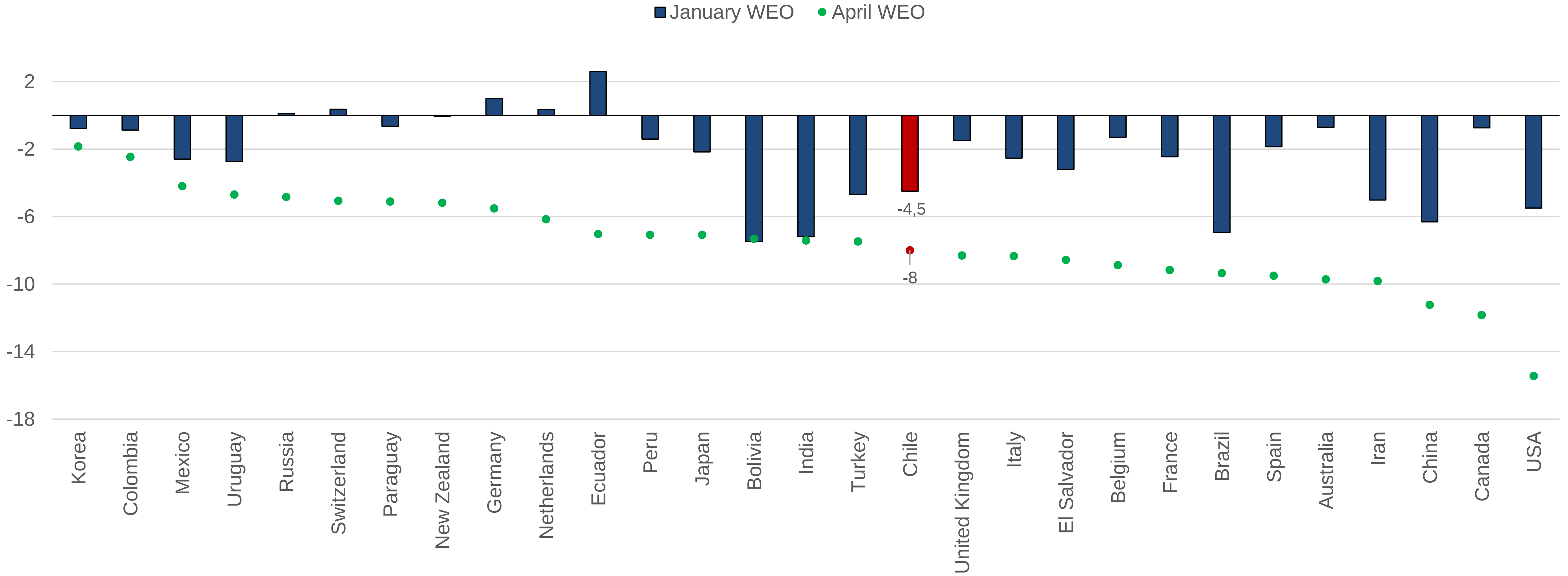
- Real expenditures in 2020 are projected to rise by 10.4%, up from the 8.4% forecasted in February, driven by fiscal measures implemented to support the economy in the context of the COVID-19 shock.
- As a result, expenditures as a share of GDP are expected to rise to 27% by end-2020.

Source: Ministry of Finance.

Chile's fiscal deficit is expected to widen this year, in line with broad fiscal support across the globe.

Projected Headline Fiscal Balances in 2020 Across Select Economies

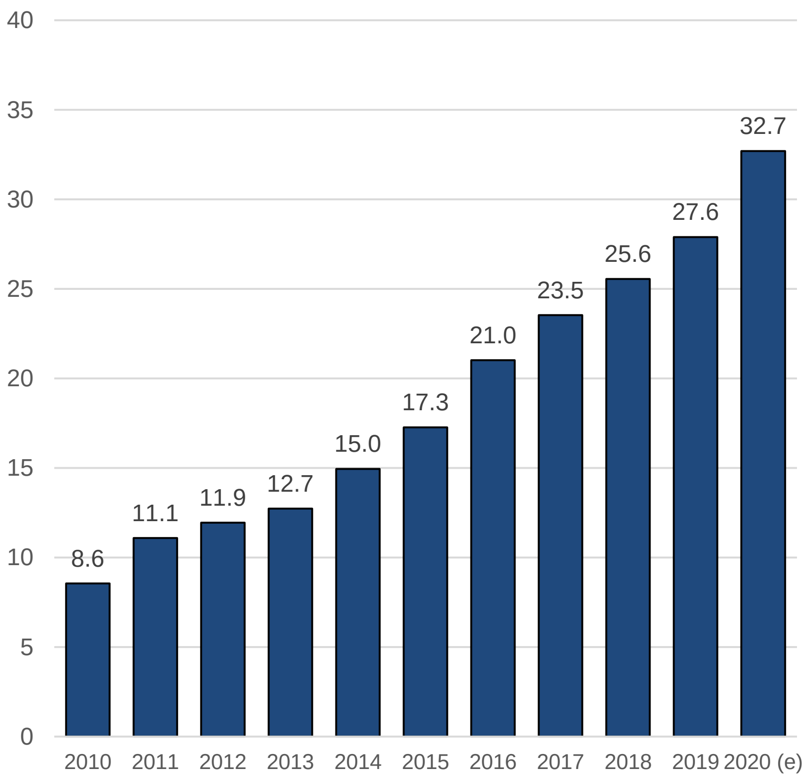
Percent of GDP



Source: IMF for all economies except for Chile. Chile's January and April data is from the February and April *Informe de Finanzas Públicas* report

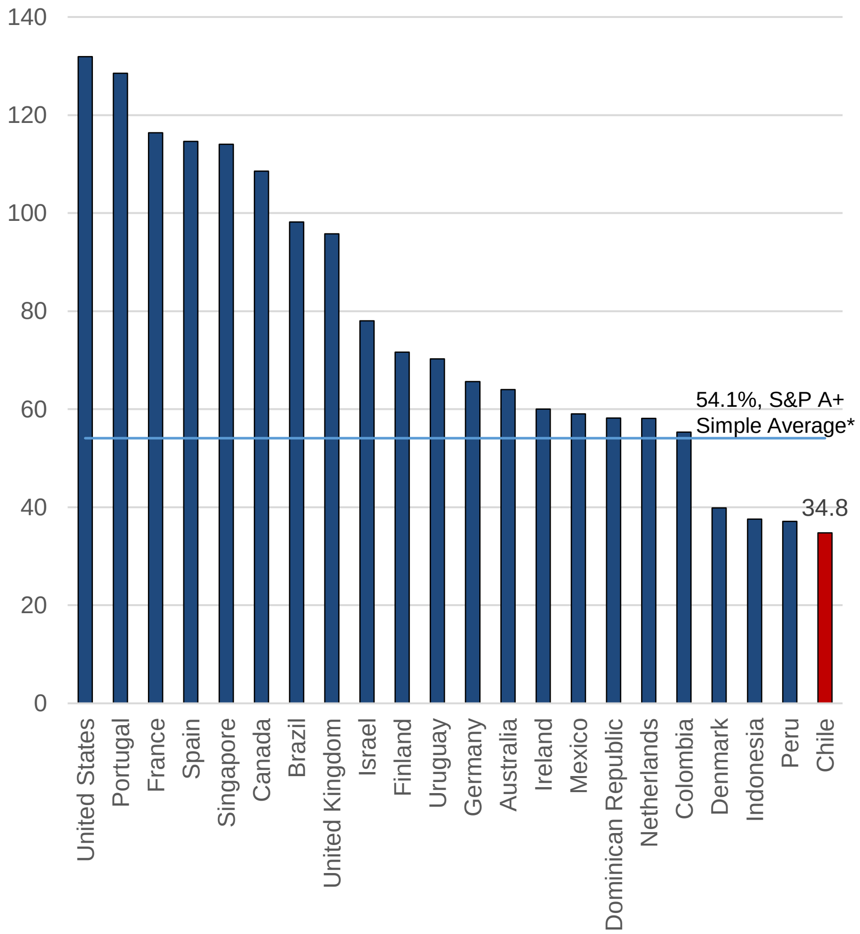
Debt has risen, but remains low relative to peers.

Central Government's Gross Debt
Percent of GDP



Source: Ministry of Finance.

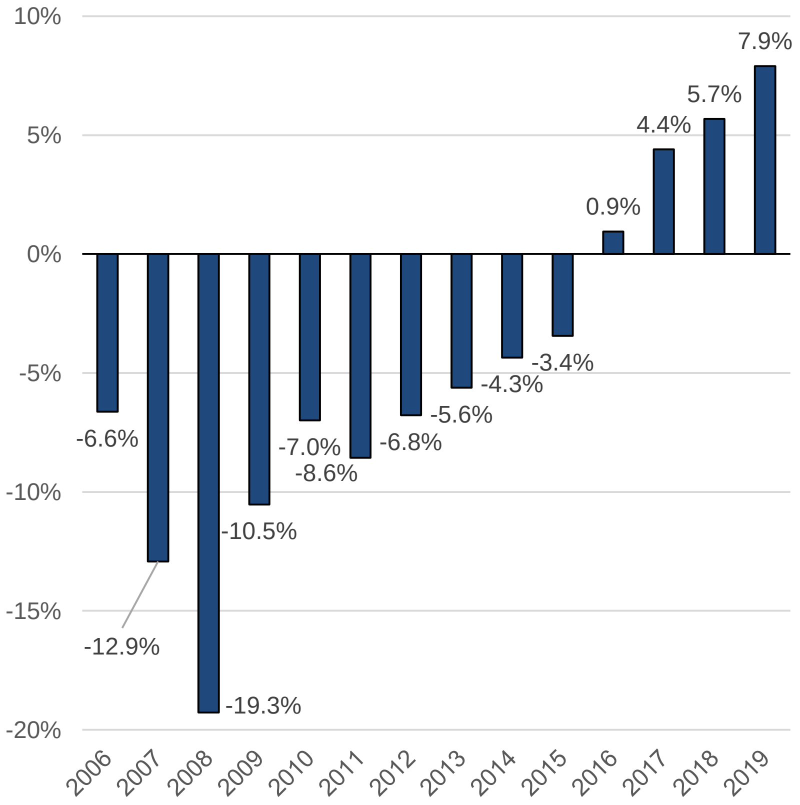
Gross Public Debt Forecast for Selected Economies
Percent of GDP, 2021



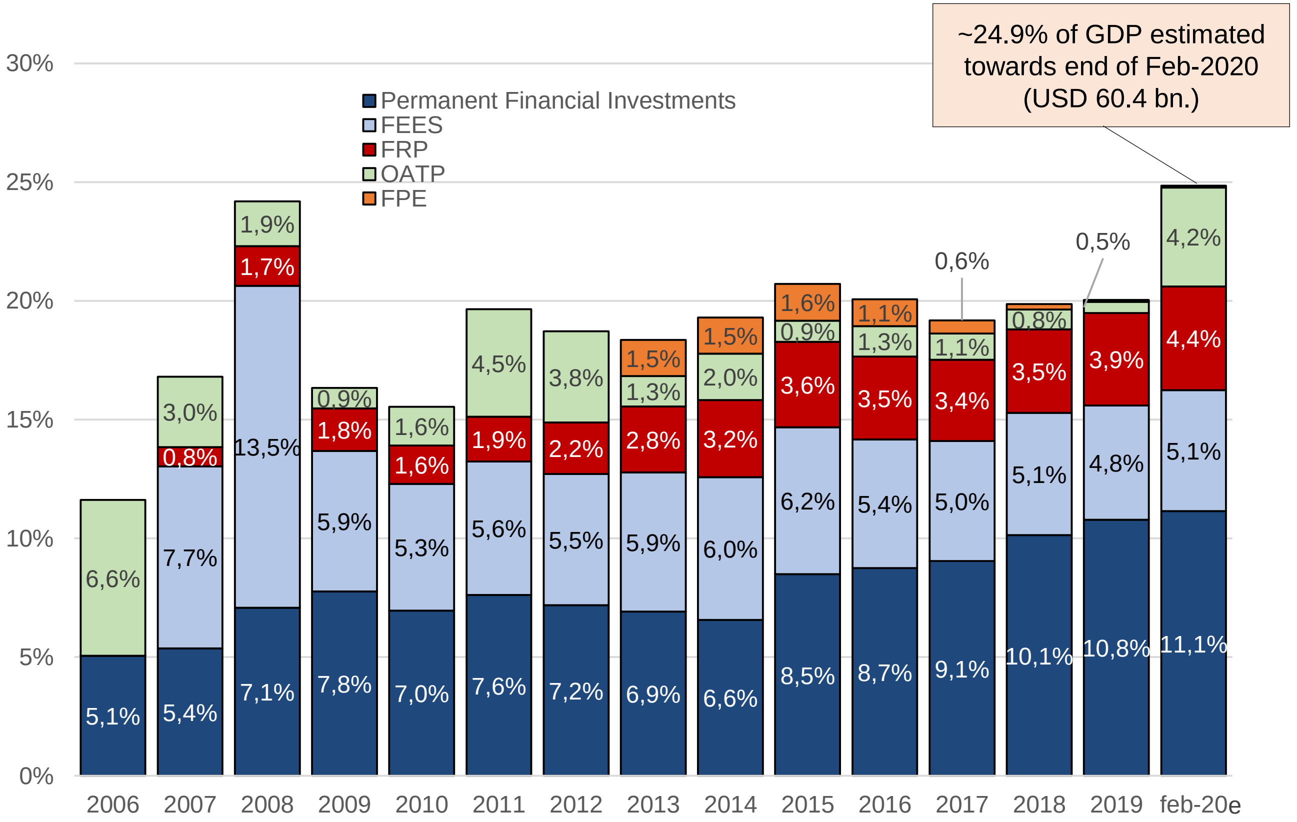
* Includes Chile, China, and Slovak Republic
Source: All forecasts are from the IMF's Fiscal Monitor April 2020.

Chile has the fiscal space to support the economy.

Central Government's Net Debt
Percent of GDP



Public Treasury Assets(*)
Total Assets as a Percent of GDP

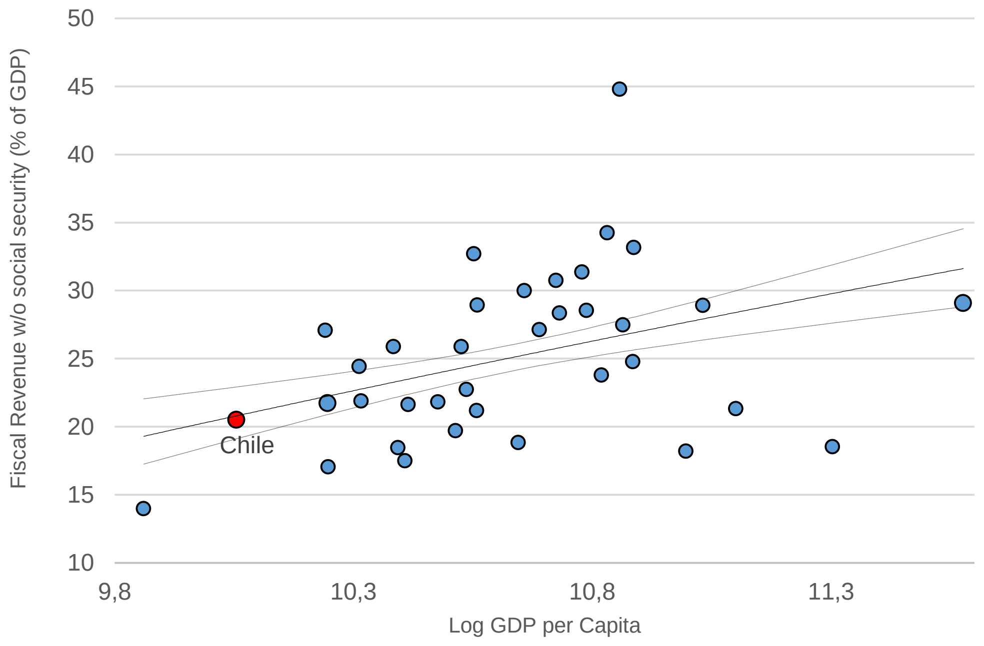


(*) FEES: Economic and Social Stabilization Fund; FRP: Pension Reserve Fund; OATP: Other Financial Assets of Public Treasury; FPE: Education Fund; Permanent Financial Investments: Include historical capital transfers to State Owned Enterprises, student loans, participation in private utilities enterprises, among others.
e: estimated

Source: Ministry of Finance.

Looking ahead, we will further strengthen our efforts to improve effectiveness and efficiency of fiscal spending.

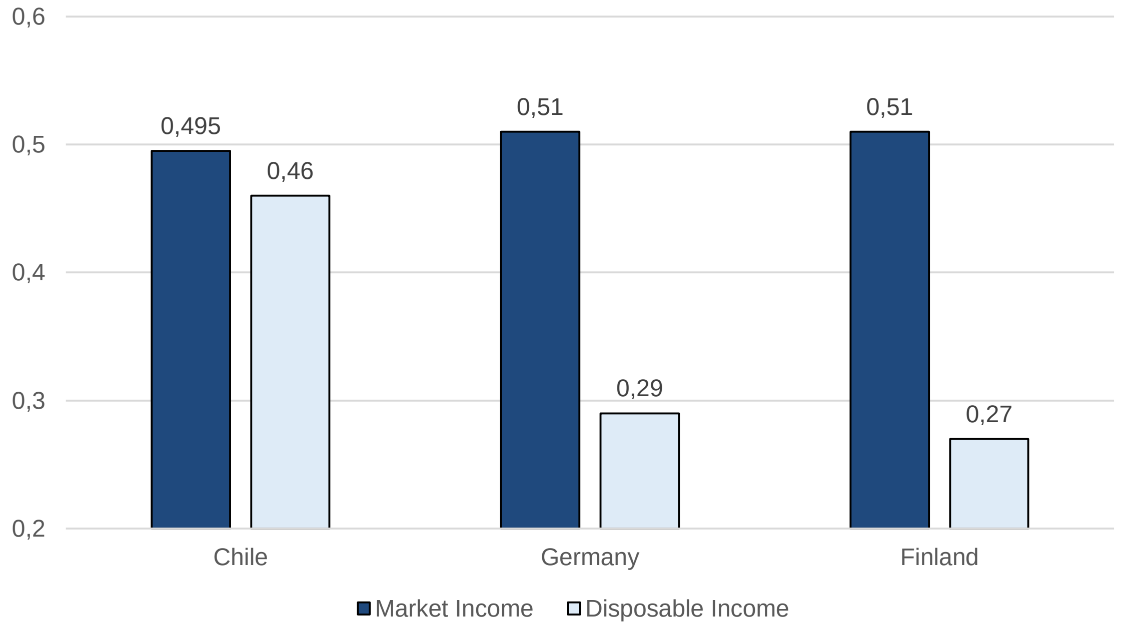
Income & Fiscal Revenue* in OECD Economies



Source: Ministry of Finance based on OECD data for 2018.

Gini Coefficients based on Market & Disposable Income

Index



Source: OECD Income Distribution dataset. Gini coefficient, 0 = complete equality; 1 = complete inequality. Disposable income considers the Gini coefficient after adjusting for taxes and transfers.

Financing

These measures have a fiscal cost in 2020 of ≤USD 12.1 billion, financed by a combination of additional debt, assets, and budget reallocations.

Fiscal Cost of COVID-19 Economic Policy Measures for 2020

Phase	Dimension	Policy	Amount (USD million)	
Phase 1	Fiscal Resources for Public Health	Additional fiscal resources for health expenditures	$	1,400
		New Fund to Finance Medical Expenditures	$	260
	Measures to Protect Employment and Support Incomes	Injection to the UI Solidarity Fund (partial)	$	1,000
		Cash transfer for the most vulnerable	$	167
		Municipal Solidarity Fund	$	100
	Injecting Liquidity into the Economy	Suspension of corporate tax payments (*)	$	2,400
		Deferred VAT payments (*)	$	750
		Advance on personal income tax refund for self-employed (withheld Jan. & Feb. 2020) (*)	$	118
		Reduction of the Stamp & Seals Tax	$	420
		New Capitalization of Banco Estado	$	500
Subtotal			**$**	**7,115**
Phase 2	Plan to Protect Economic Activity	Capitalization of FOGAPE (†)	$	3,000
	Plan to Protect Incomes		$	2,000
Subtotal			**$**	**5,000**
TOTAL			**$**	**12,115**

* Tax revenues from the transitory suspension of monthly corporate tax payments will be recovered in 2020 & 2021, whereas deferred VAT payments and advances on personal income taxes for self-employed in 2021.

† The table considers the full capitalization of FOGAPE to take place in 2020, although the actual schedule may vary, as needed.

Sources of Additional Financing for 2020

Source	Amount (USD million)	
Additional Debt Issuance	$	4,000
Budget Reallocations	$	2,500
Treasury Assets	$	1,600
Economic & Social Stabilization Fund (*)	$	1,500
Additional withdrawal of the *Fondo de Reserva de Pensiones*	$	1,000
Deferral of Contributions to:		
Fondo de Contingencia Estratégico	$	936
Fondo de Reserva de Pensiones	$	650
	$	**12,186**

* Resources to complete the capitalization of FOGAPE in 2020, as needed.

Source: Ministry of Finance.

Debt Management Strategy

Strategy

- **Domestic:** to develop and lengthen yield curves (nominal and real), while deepening liquidity by fostering greater participation of non-residents
  - Recent issuances have strengthened new benchmarks and have created longer tenors, extending the debt maturity profile in line with international standards
- **External:** to establish benchmarks for Chilean companies in international capital markets
- **In addition:** to promote the development of a green asset class (social/green bonds) that attracts foreign investment in support of the country's sustainable infrastructure needs, while diversifying the investor base

Debt Issuance Plan for 2020

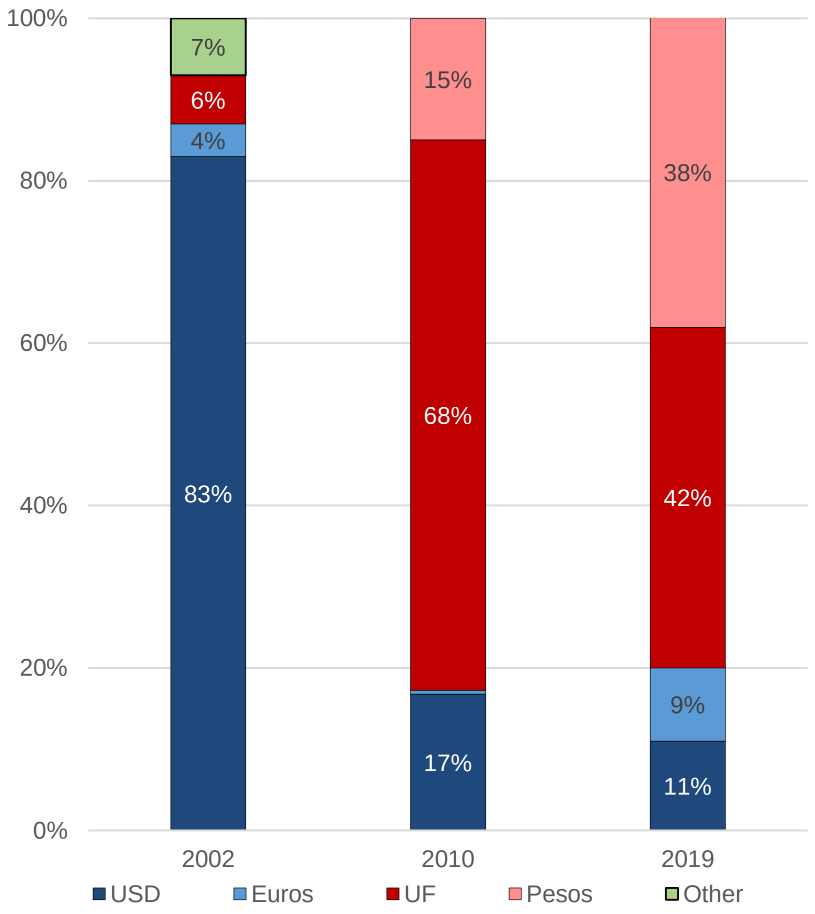
Total bond issuances for USD12.7 billion in 2020 (USD8.7 billion plus USD4 billion for the COVID-19 plan)

- **In January 2020, the Republic of Chile issued the equivalent of USD 3.3 billion in USD & EUR denominated green bonds.**
- **Local currency issuances for ~USD4.9 billion in Q2 2020, have been scheduled through the local auction system:**
  - Continuing our efforts to further develop liquid benchmarks across the yield curves, new benchmarks maturing in 2025 in Peso and UF (inflation-linked) curves. Longer bonds in local currency are not planned for 2020.
  - In order to further improve the liquidity and depth of the domestic fixed-income market in the short end of the curves, the Republic will issue new bills maturing in 6 and 12 months.
  - Furthermore, the Ministry of Finance will continue implementing liability management (LM) operations of local currency bonds throughout 2020.
- **The currency composition and timing of remaining issuances (USD4.5 billion) will depend on market conditions.**

Operation	Amount (USD billion)
Green Bonds in FX issued in January 2020	$3.3
2020 Q2 local currency bonds auction	$4.9
Transactions in 2020 yet to be announced	$4.5
Total 2020 Issuances	**$12.7**

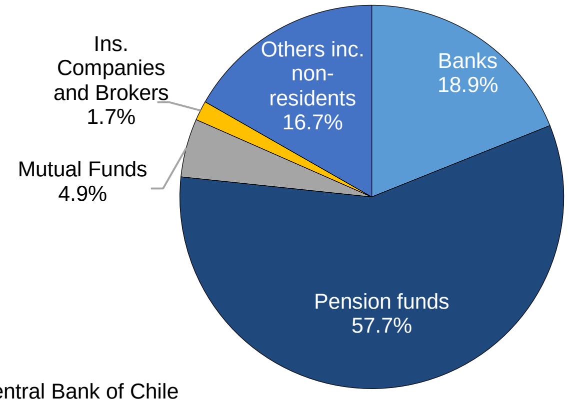
Chile's debt is characterized by a high share of local currency and ample availability of financing sources by local institutional investors.

Debt Composition by Currency
Percent of total



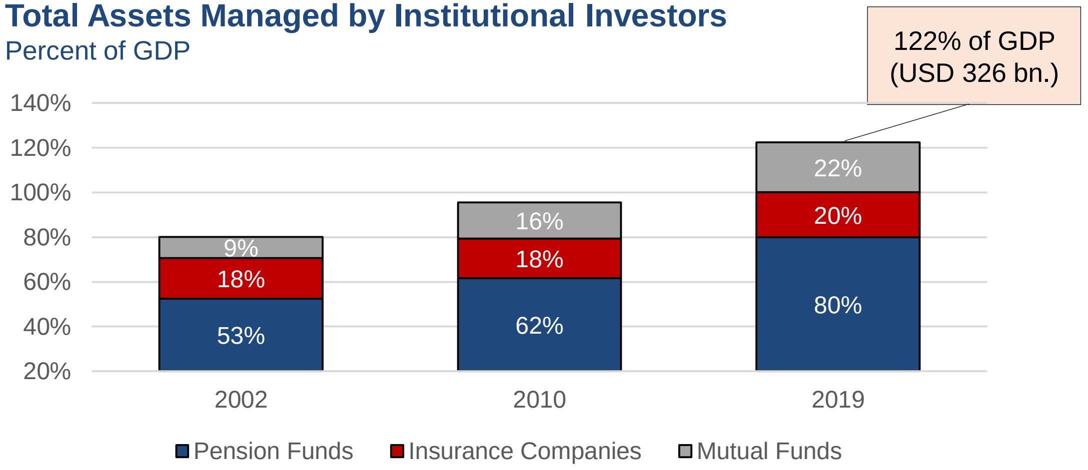
Source: Ministry of Finance

Holdings of Local Currency Treasury Bonds by Type of Institution
Percent of Total, as of April 16, 2020



Source: Central Bank of Chile

Total Assets Managed by Institutional Investors
Percent of GDP

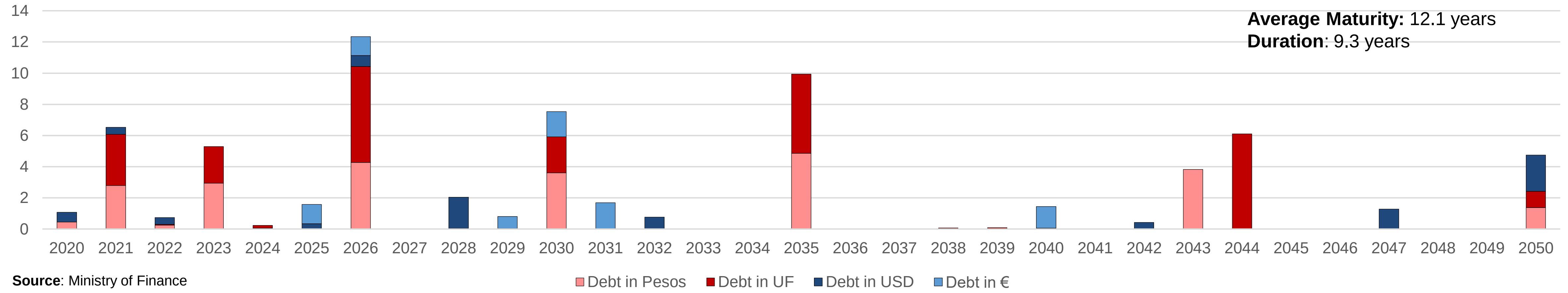


Source: Financial Market Commission

Chile’s debt stands out among its peers by a high average maturity and well distributed maturities.

Maturity Profile

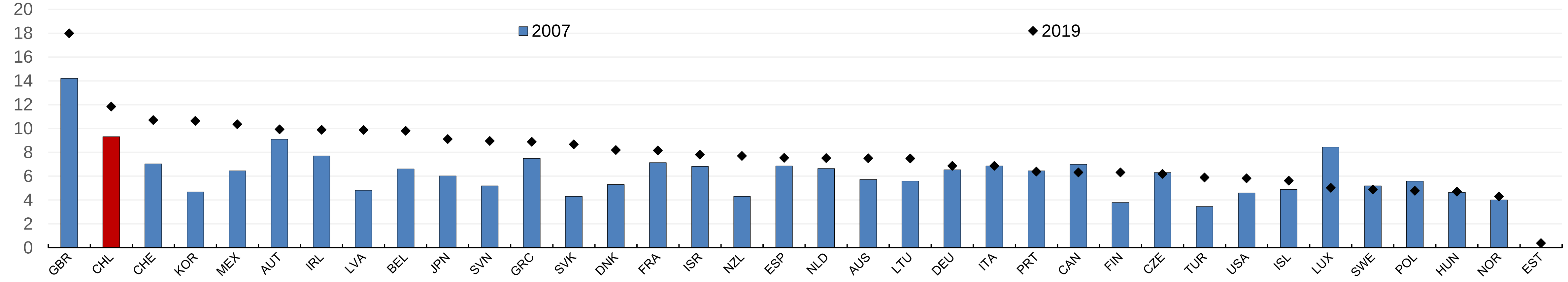
As of March 31, 2020; USD billion



Source: Ministry of Finance

Average term-to-maturity of Outstanding Marketable Debt in selected OECD countries

Calculated on December 31, 2007 and 2019; years



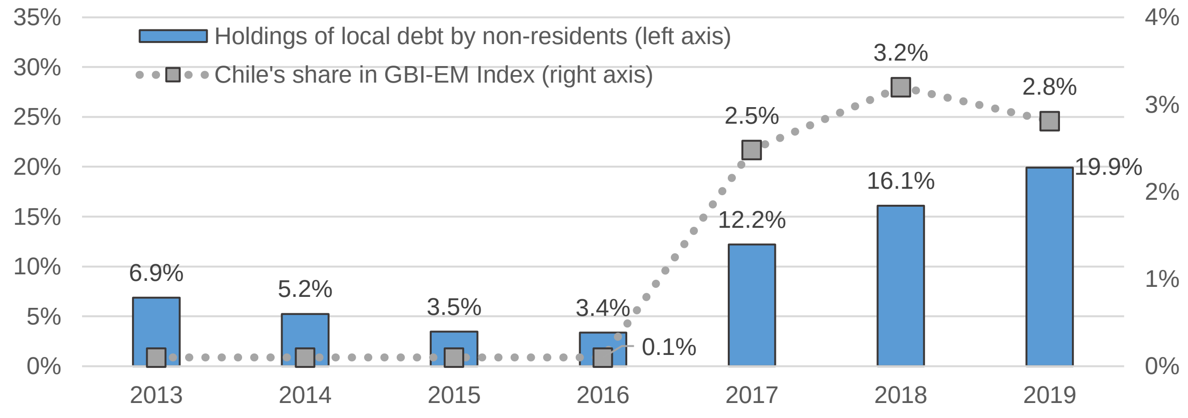
Source: OECD Sovereign Borrowing Outlook, February 2020.

The Ministry of Finance has made significant progress towards improving liquidity in the local fixed income market in recent years.

- **Concentration of trading in key benchmarks, achieved by liability management operations in local currency bonds**
  - Aimed at creating strong references both in inflation-linked and nominal curves
  - Implemented by exchanging illiquid & low outstanding bonds (“non-benchmark bonds”), with “benchmark bonds” with high liquidity and larger outstanding amounts
- **Legislative adjustments that facilitated Euroclearability**
- **Greater weight in the GBI-EM Bond index**
  - Four local Euroclearable primary bond issuances since 2017 have allowed for a broader inclusion of Chilean bonds in the GBI Emerging Market Bond Index
  - Chile’s share in this index increased from 0.10% in 2016 to 2.8% by 2019 and non-resident holdings share reached 19.9%

Non-resident Holdings of LC Debt & GBI-EM Share

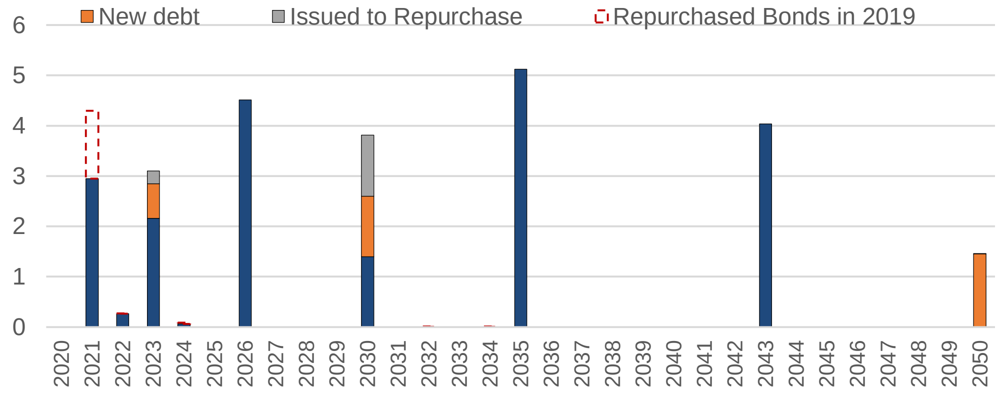
Percent of total



Source: Central Bank of Chile and JP Morgan

Maturity Profile: Nominal Curve

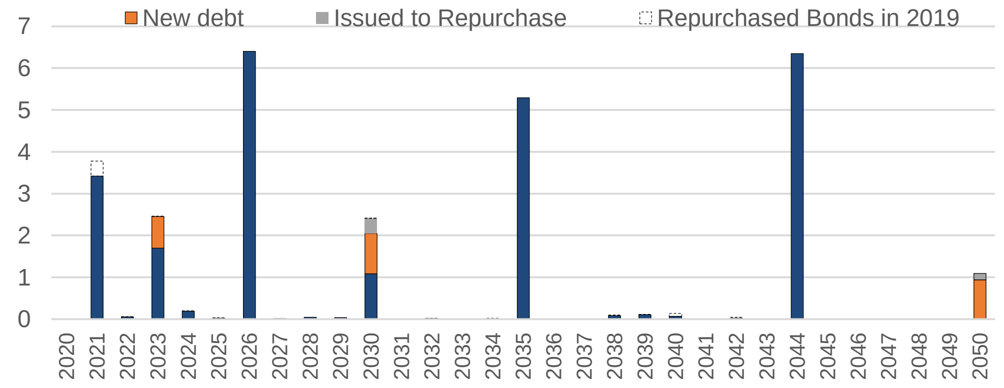
As of February 28, 2019; USD billion



Source: Ministry of Finance

Maturity Profile: Inflation linked Curve (UF)

As of February 28, 2019; USD billion



Source: Ministry of Finance

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Gobierno de Chile

Ministerio de Hacienda

Investor Relations Office
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