

An Update on the Chilean Economy



**Gobierno
de Chile**

Ministerio de Hacienda

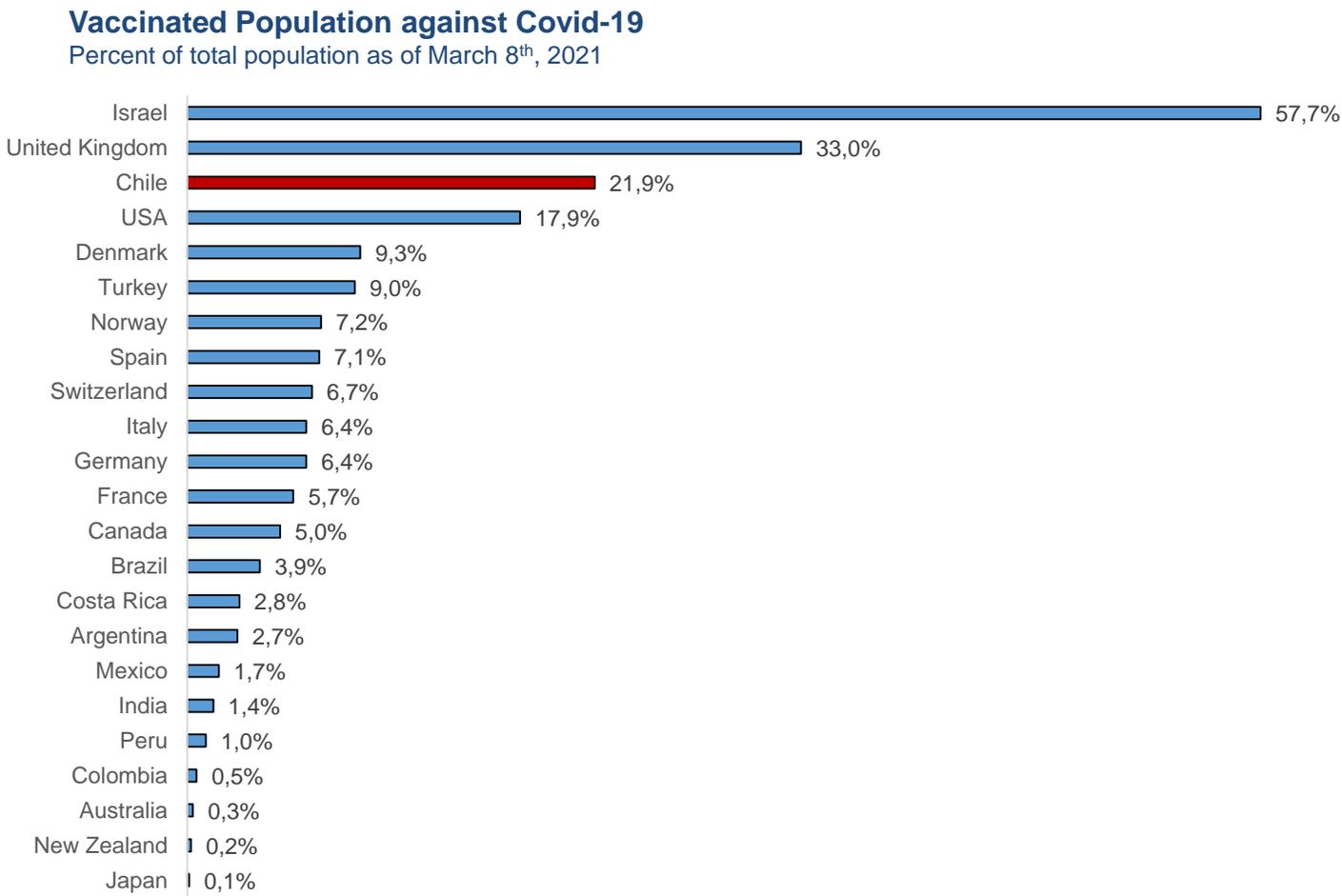
**Ministry of Finance
March 11th 2021**

Main Messages.

- The Chilean economy is set to experience a significant recovery this year, supported by the rapid COVID-19 vaccination program, ongoing unprecedented policy stimulus, and a favorable global economic backdrop.
- Chile's rapid progress on the vaccination front places it among the fastest in the world. Roughly 4 million of an estimated population of 19 million have already received the first dose. The Government targets herd immunity by the end of the first semester in 2021.
- Fiscal policy will continue to support the economy, providing targeted support to those in need, boosting public investment, and supporting job creation.
- The Government remains committed with medium-term fiscal consolidation, with gross public debt projected to stabilize below 45% of GDP by 2024, well below similar rated peers.
- While several political elections are scheduled for 2021, the process thus far has taken place within the institutional framework and in absence of violence.
- The debt issuance plan for 2021 considers total issuance for USD 19 billion, of which roughly USD 4.2 billion were issued in dollar and euro-denominated green and social bonds in January. Local currency issuances will begin through the Central Bank's auction system later this month.

Chile's rapid COVID-19 vaccination campaign is among the fastest in the world.

- The main objective is to achieve a quick and sustainable economic recovery
- The vaccination process has been successful thus far, and more than 4 million people have received the first dose
- The Government secured contracts with several suppliers early on, in order to secure timely delivery
- Economic measures to alleviate the consequences derived from covid-19 restrictions



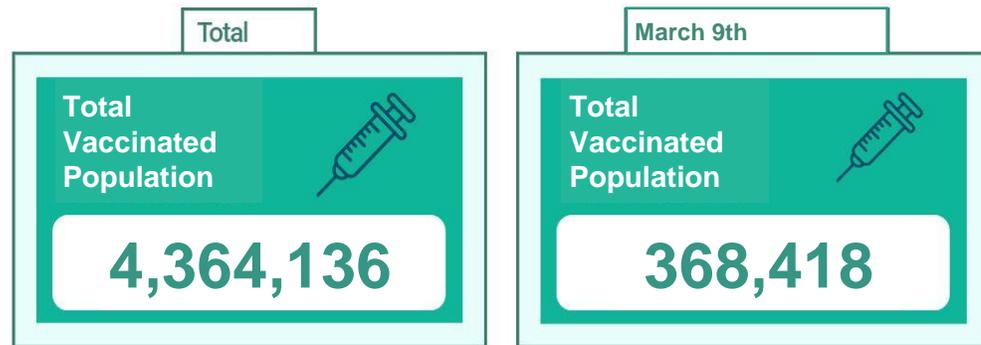
Source: Ourworldindata.org



Chile has agreements with several laboratories to vaccinate the entire population:

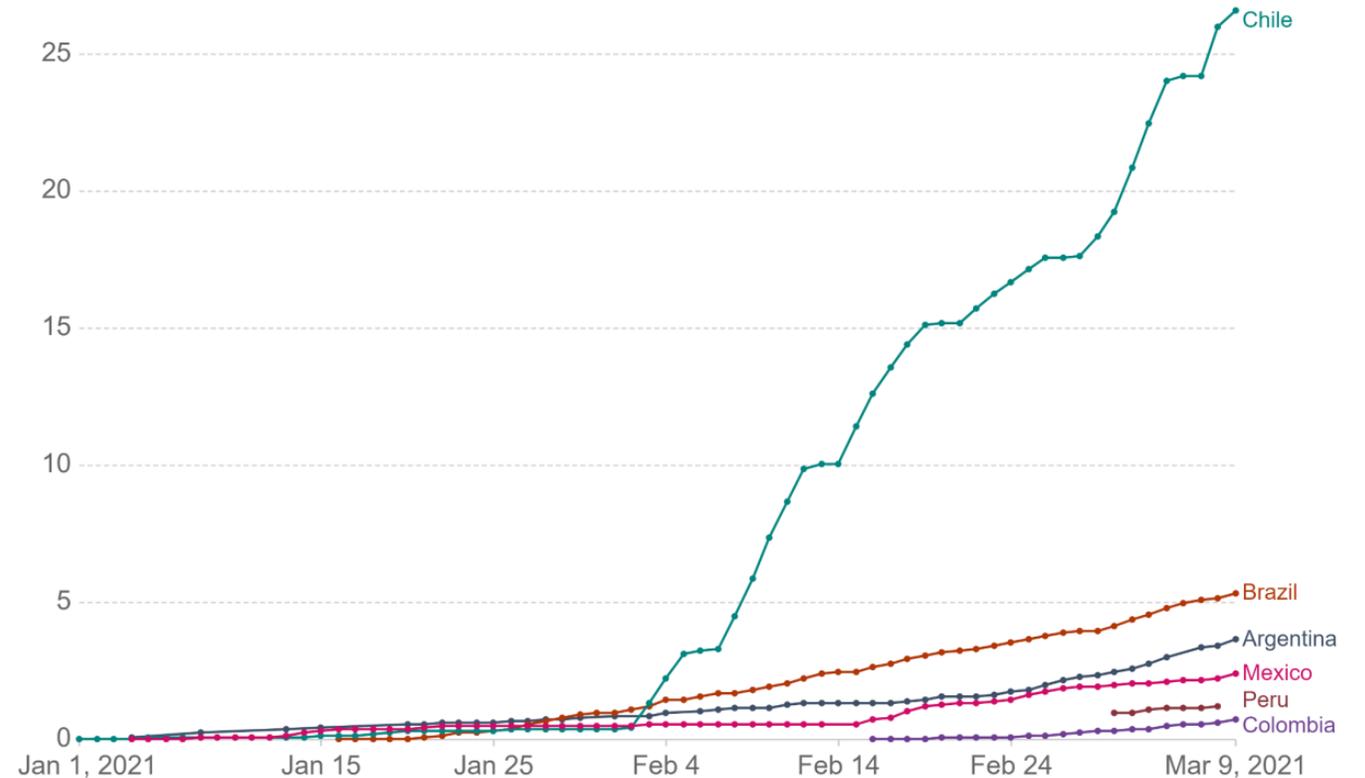
- SINOVAC: 14 million doses (double dose);
- Pfizer-BioNTech: 10 million doses (double dose);
- COVAX Global Alliance: 7.6 million doses (double dose);
- AstraZeneca: up to 4 million doses (double dose);
- Johnson&Johnson: up to 4 million vaccines (mono-dose).

The vaccine is voluntary and free of charge.



Cumulative COVID-19 Vaccination Doses

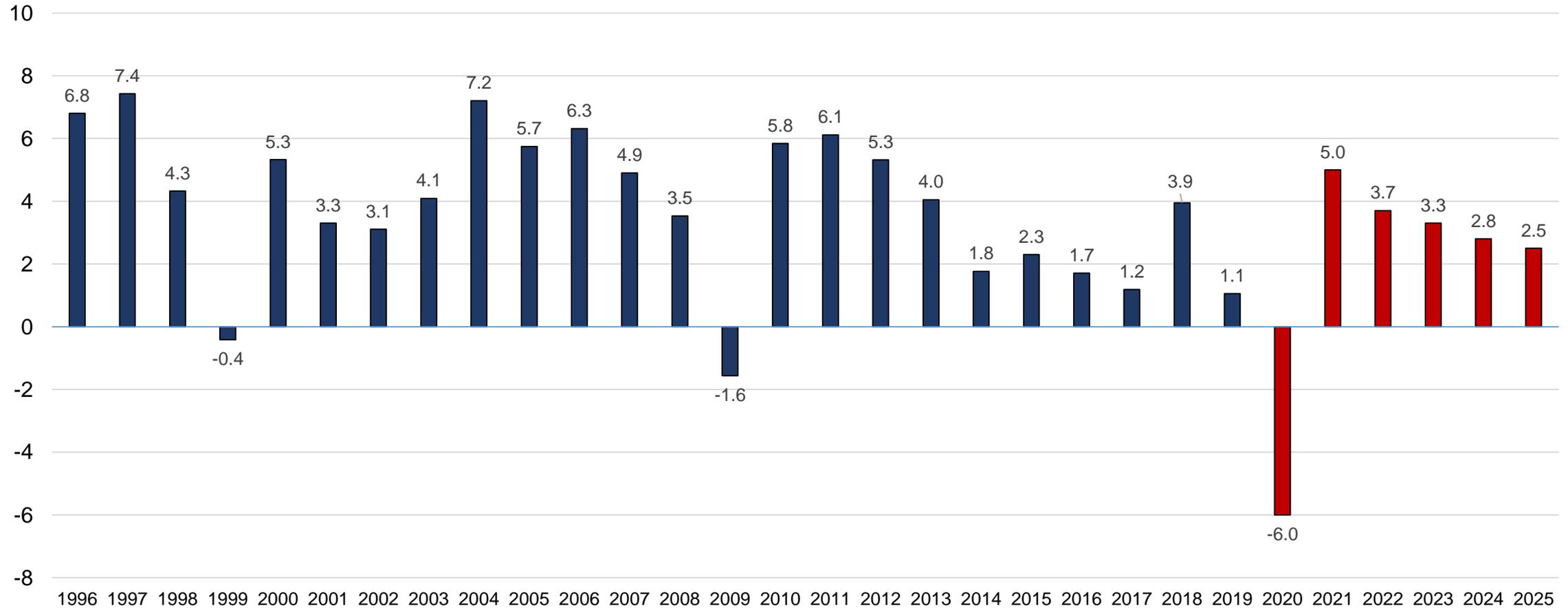
Per 100 people, as of March 9th 2021



The goal is to vaccinate the majority of the ~5 million people of the “at-risk groups” during Q1, and the majority of the 15 million adult population during the first semester of 2021

Chile's economy is projected to snap back sharply in 2021.

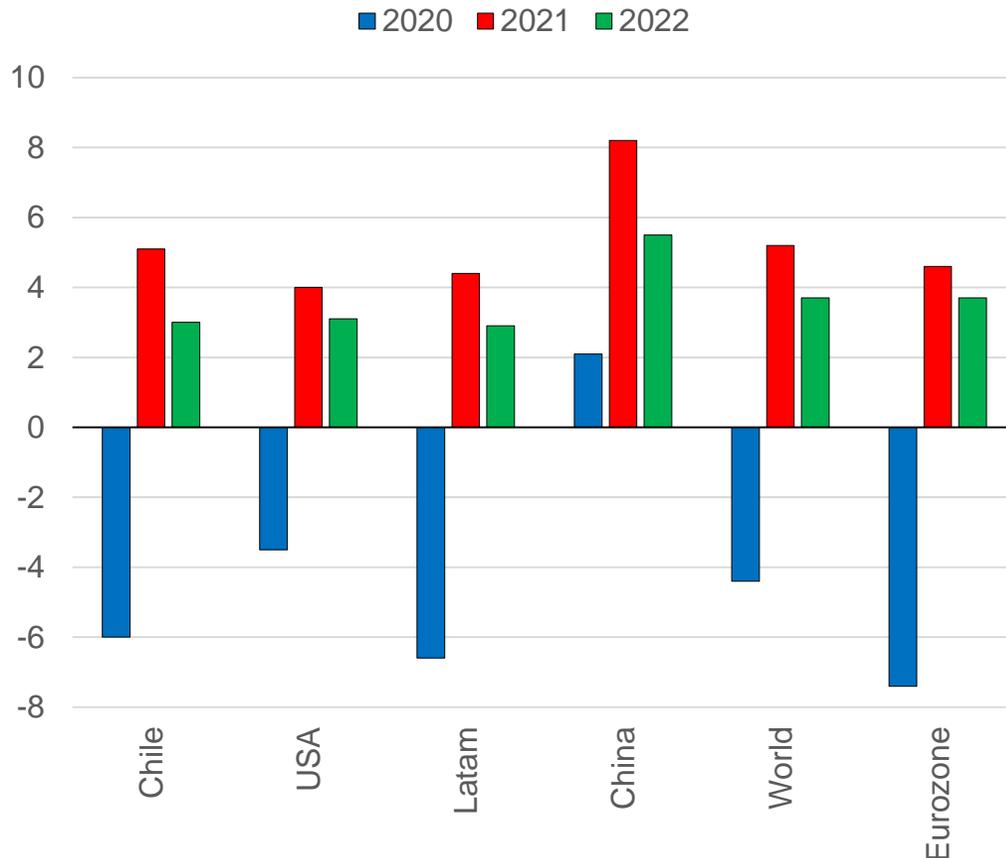
Chile's Real GDP: Actual & Forecast (February, 2021)



Chile is expected to experience a favorable tailwind from the global economy during 2021.

Real GDP Growth Forecasts by Region

Percent year-on-year



Source: Bloomberg.

Changes in Future Prices of Oil & Copper

Jan-20 = 100, through February 9th, 2021.

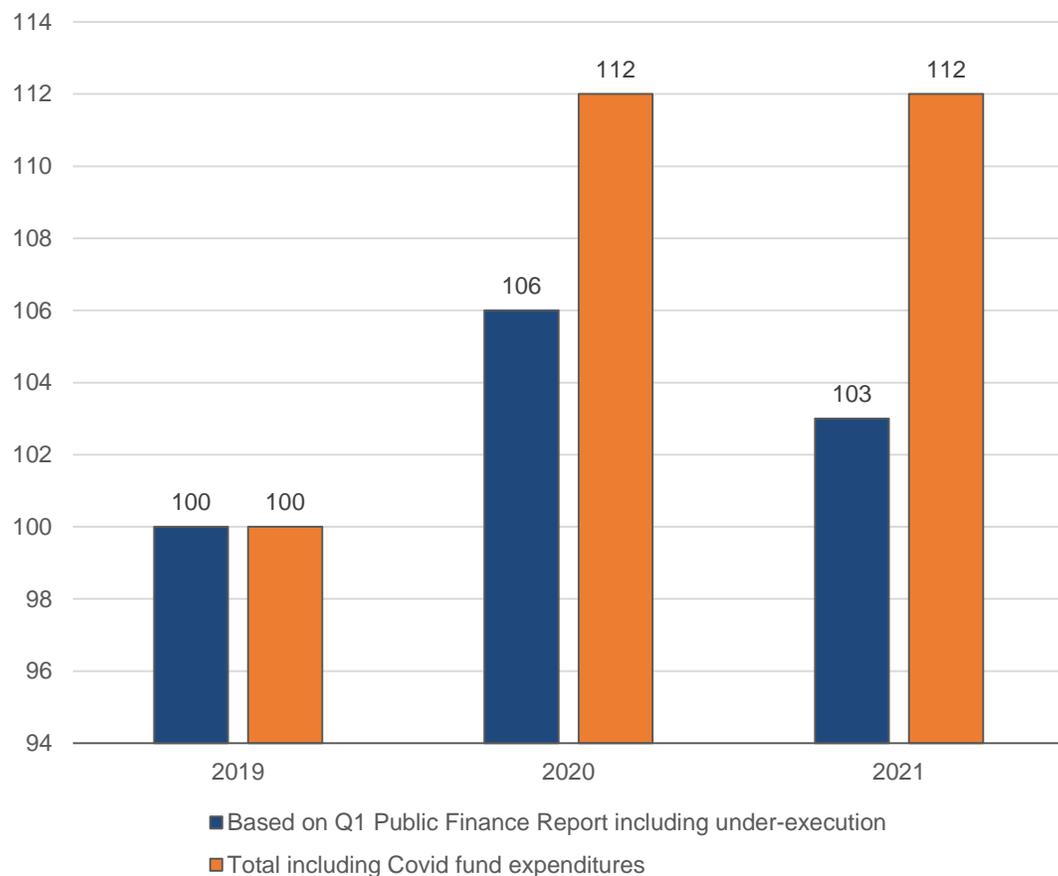


Source: Bloomberg.

Fiscal policy will continue to support the economy through 2021.

Real Primary Expenditures

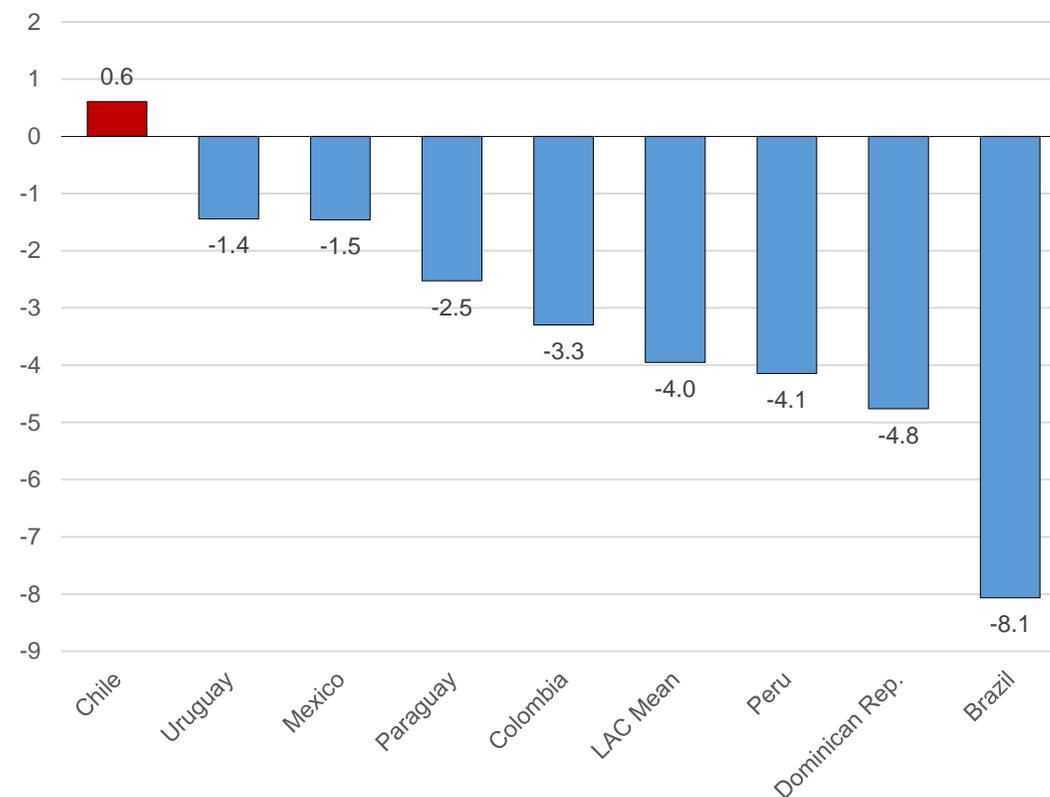
2019=100



Source: Budget Office, Public Finance Report Q3-2020.

2021 Fiscal Impulse* in Select LAC Economies

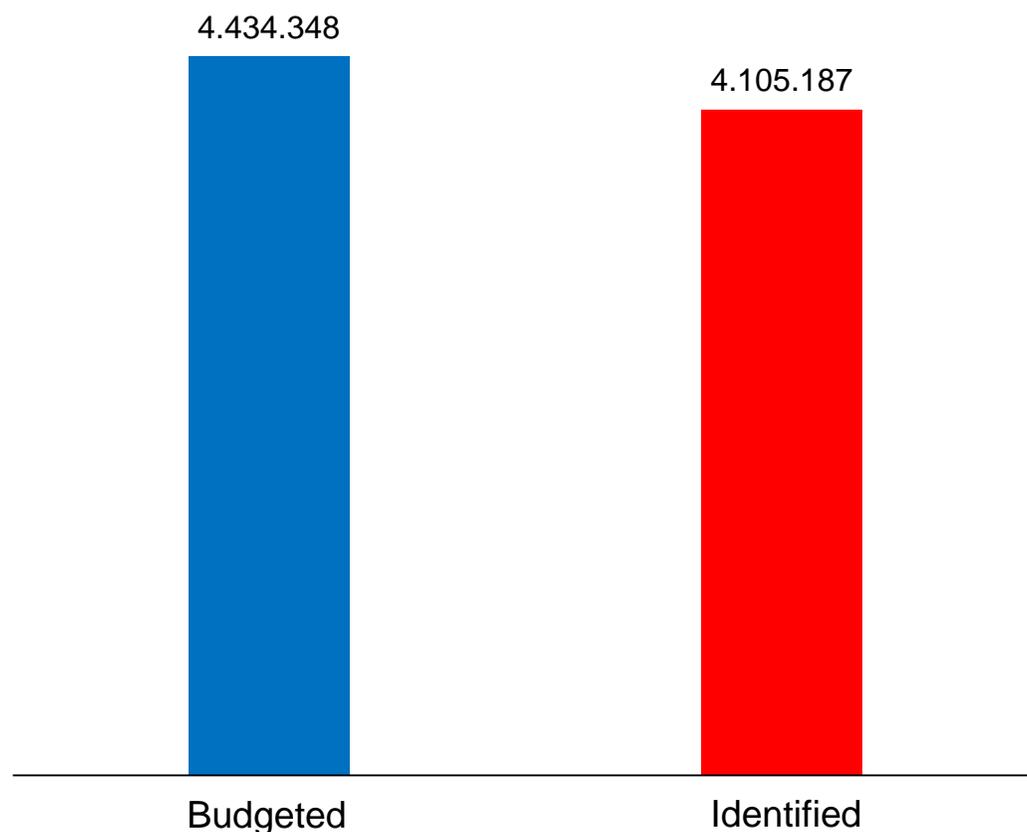
Percent of GDP



Source: IMF Regional Economic Outlook Western Hemisphere, October 2020. * Fiscal impulse measured as the annual change in the primary fiscal structural balance.

Public investment has been brought forward to accelerate the recovery.

Public Investment in the 2021 Budget
(mm CLP)



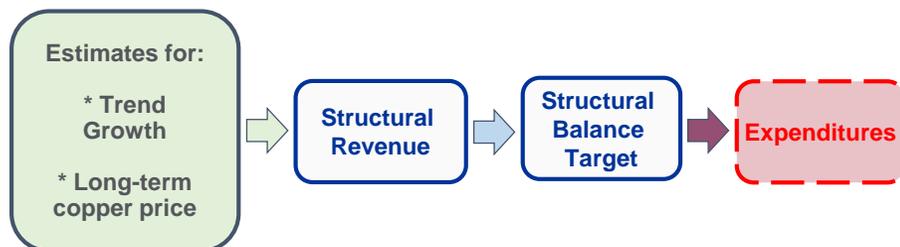
Program	Ppto. 2021 (mm CLP)	Identified (mm CLP)	% Identified
Poder Judicial	40.877	40.877	100%
Contraloría	2.945	2.945	100%
Ministerio del Interior	91.660	90.854	99%
Ministerio de RR.EE.	878	878	100%
Ministerio de Economía	2.345	2.342	100%
Ministerio de Hacienda	6.576	6.574	100%
Ministerio de Educación	127.106	66.702	52%
Ministerio de Justicia	75.975	75.212	99%
Ministerio de Defensa	5.434	5.434	100%
Ministerio de OO.PP.	2.714.437	2.548.258	94%
Ministerio de Agricultura	6.959	3.424	49%
Ministerio de Salud	654.780	612.616	94%
Ministerio de Vivienda	609.034	556.043	91%
Ministerio de Transporte	48.431	47.325	98%
Ministerio Desarrollo Social	865	865	100%
Ministerio Público	9.187	9.187	100%
Ministerio del Deporte	31.882	30.879	97%
Ministerio de Cultura	4.977	4.773	96%
Total	4.434.348	4.105.187	93%

Rules-based fiscal policy has been crucial in developing buffers and supporting a robust fiscal policy response.

Expenditures are set by permanent revenues and a structural target

- Structural balance rule smooths out spending throughout the business cycle and allows for:
 - Flows in/out from the FEES when cyclical revenues deviate from structural revenues
- Estimates for trend GDP growth and the long-term price of copper are delivered every year by an independent panel of experts via a transparent process

A Simplified Version of the Fiscal Rule



Robust Fiscal Institutional Framework

- Fiscal responsibility is further supported by an enhanced Autonomous Fiscal Council with more independence, its own resources, and a broader mandate

Chile's Sovereign Wealth Funds

Supported by a solid institutional framework, clear rules on withdrawals and contributions, and in line with international best practices in transparency

Economic and Social Stabilization Fund (FEES)

- Established in 2007, the FEES is designed to complement the structural balance rule providing the government with financing needs throughout the cycle

- The FEES is invested primarily in highly liquid assets with low levels of credit risk

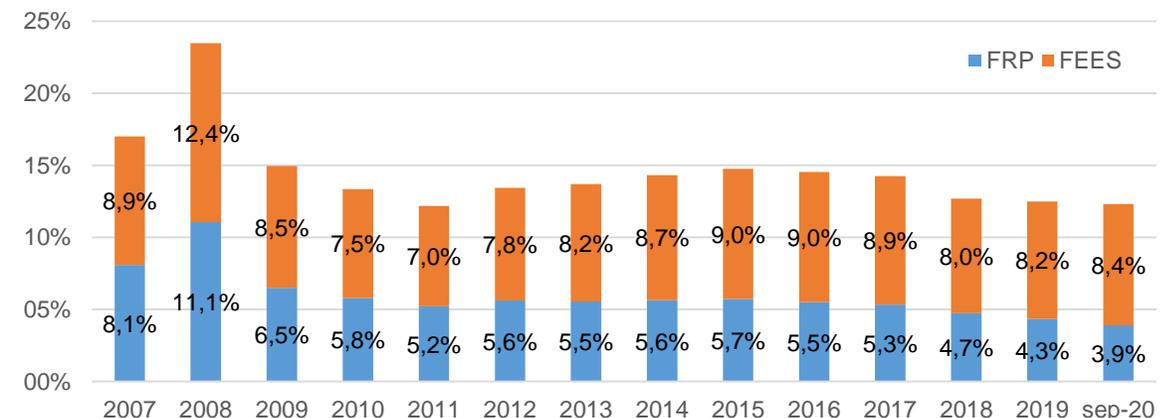
Pension Reserve Fund (FRP)

- Created in 2006 to support state-financed pensions and old-age benefits over time

- New investment policy aims to obtain an annualized expected return in Chilean pesos of at least 2% above inflation in a ten-year horizon with at least a 60% probability

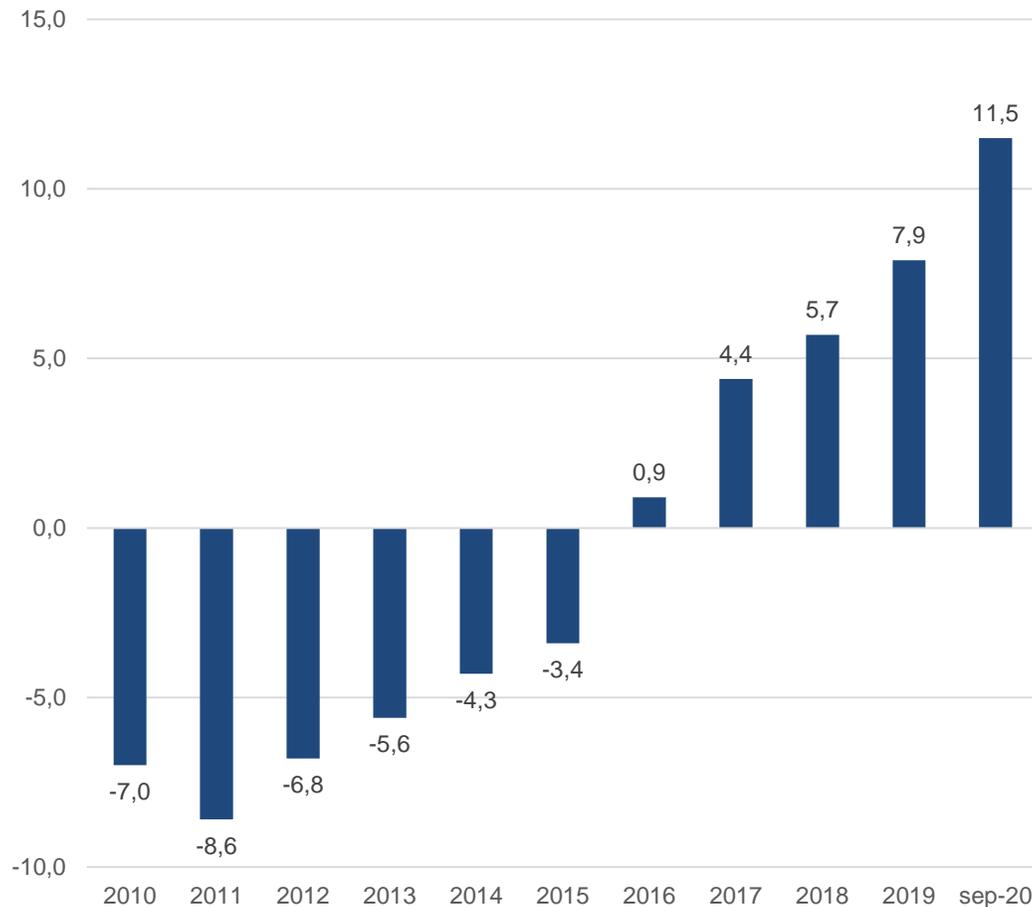
Sovereign Wealth Funds

Total Assets as a Percent of GDP



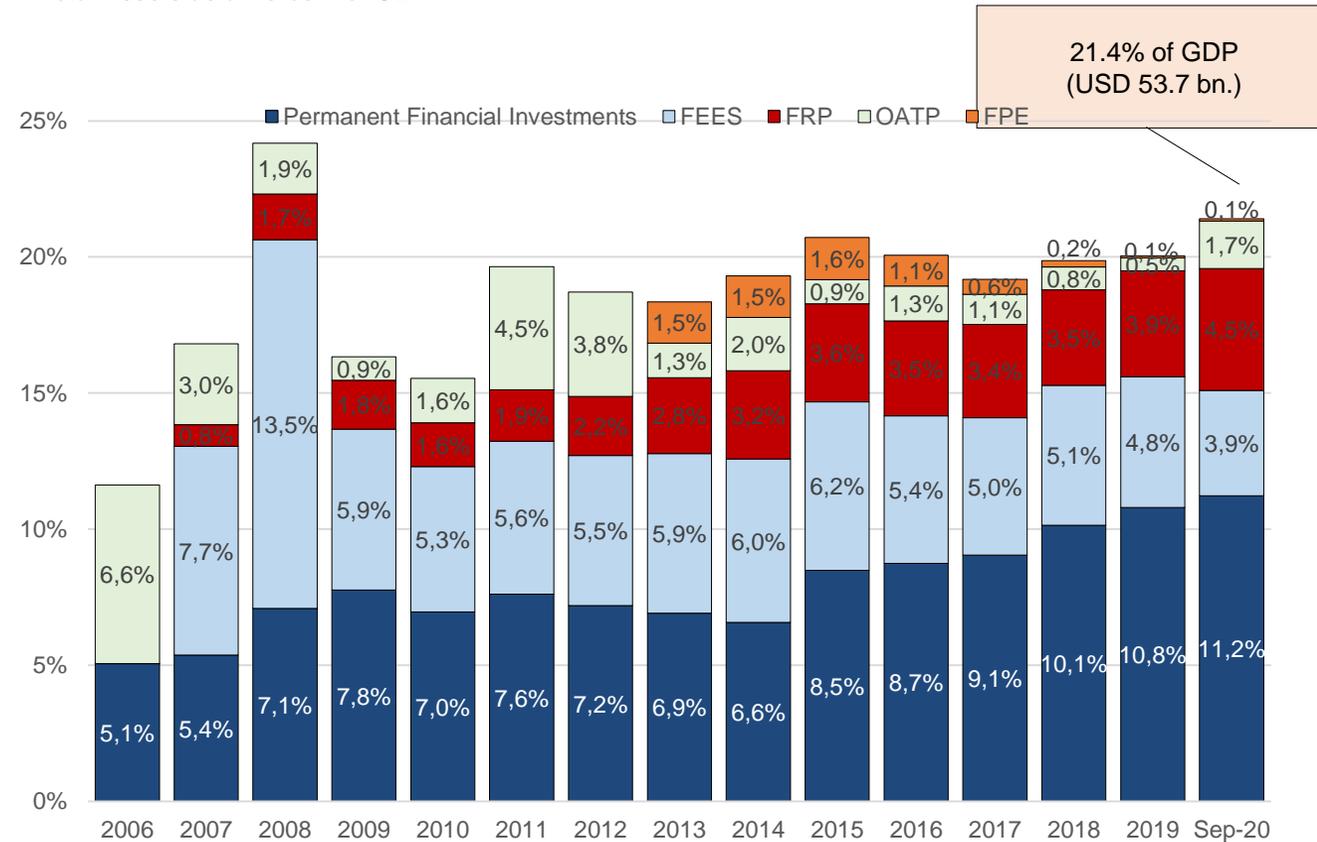
Chile has the fiscal space to support the economy.

Central Government's Net Debt
Percent of GDP



Source: Ministry of Finance.

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



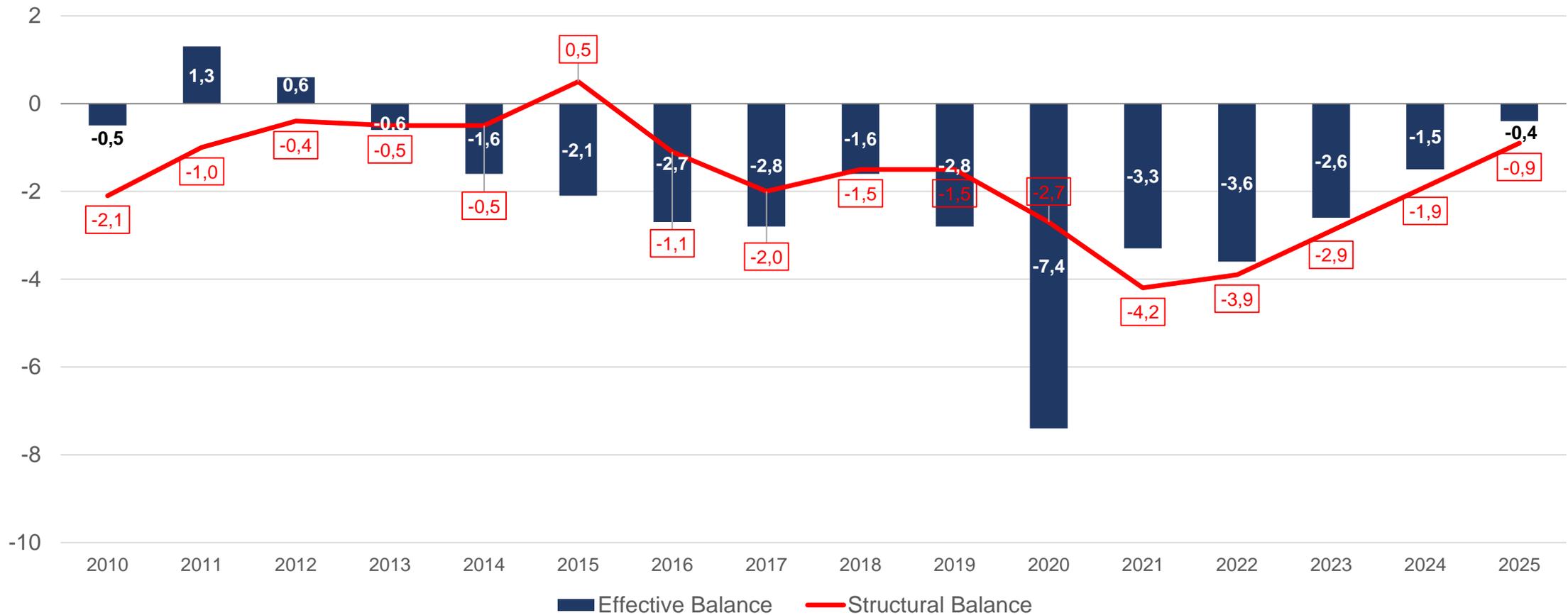
21.4% of GDP
(USD 53.7 bn.)

(*) 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

The fiscal consolidation path balances policy support in the short-term, supporting social and development needs, as well as public debt stabilization.

Central Government's Structural and Headline Balance (2010-2025F)

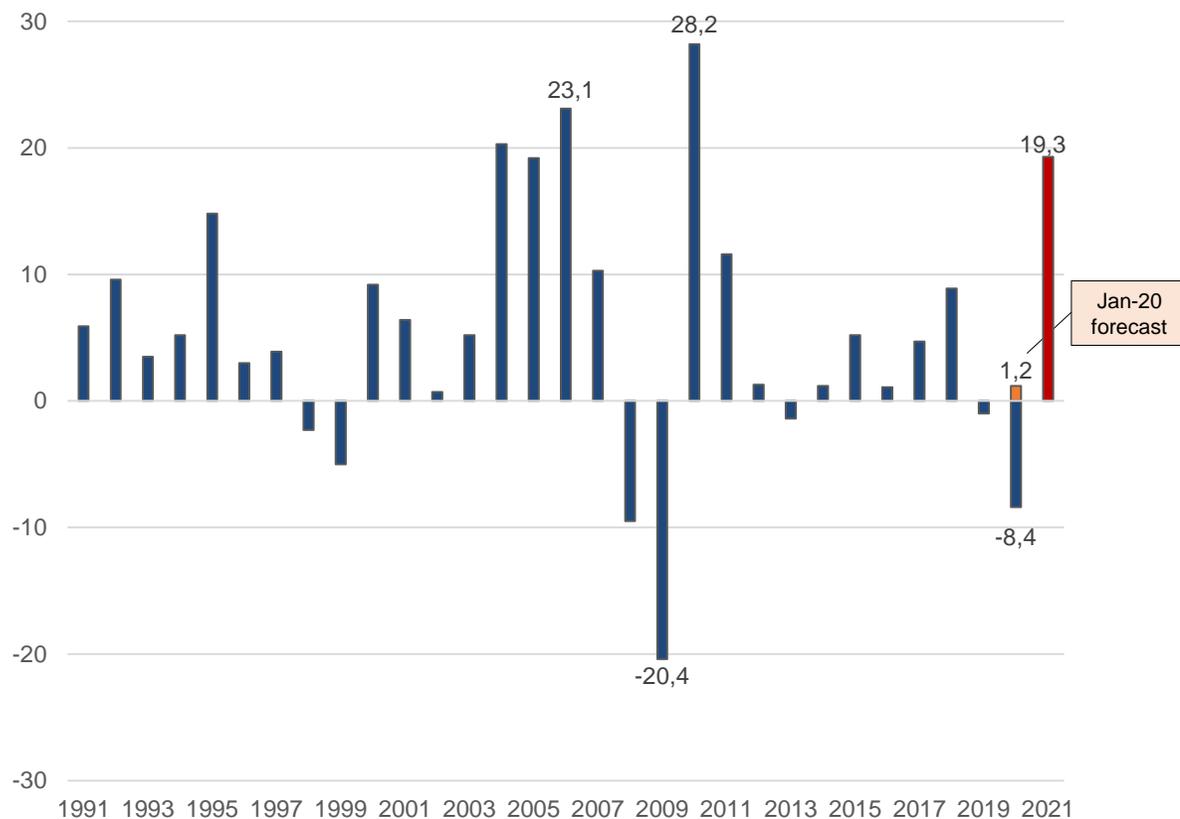
Percent change in real terms



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

Central Government's Revenue (1991-2021F)

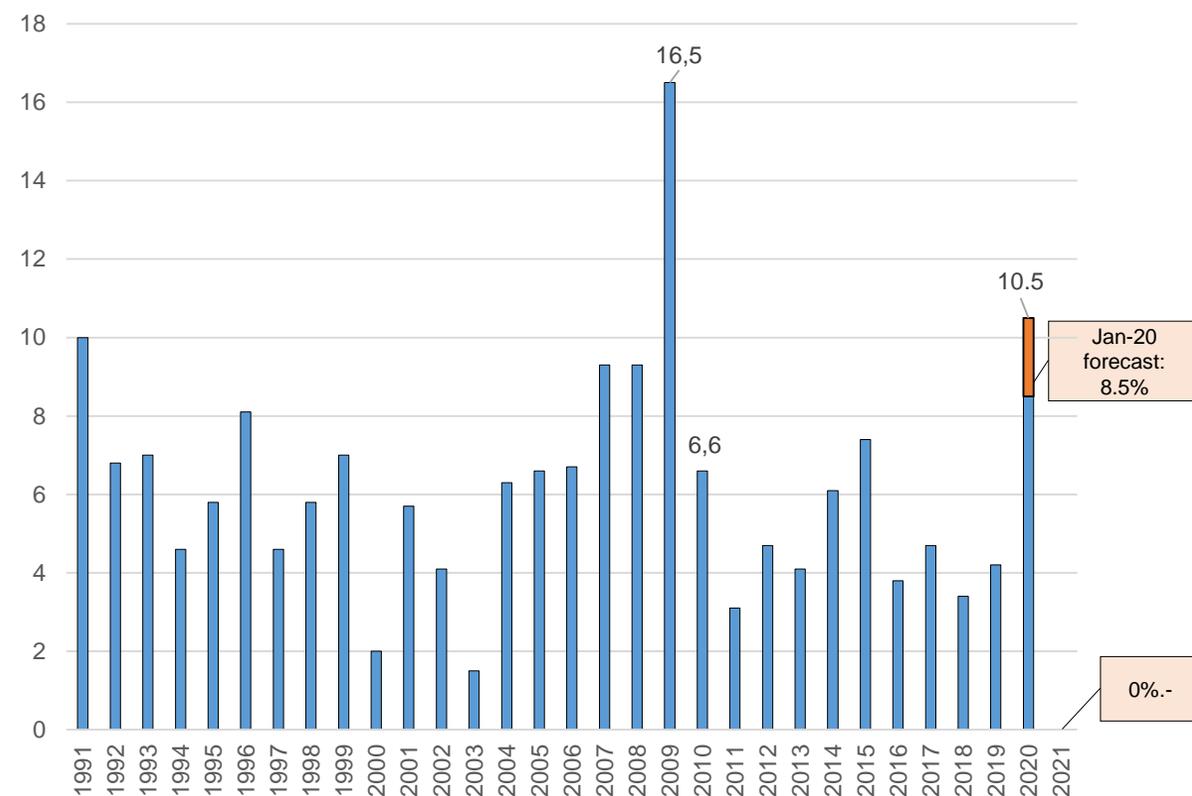
Percent change in real terms



- Fiscal revenues for 2020 fell by 8.4% y/y in real terms, mainly affected by the decrease in non mining revenues, as well as for the measures adopted to face the economic effect of COVID. This was a lower contraction than anticipated in October, mainly due to a less intensive use of tax policy measures.

Central Government's Expenditures (1991-2021F)

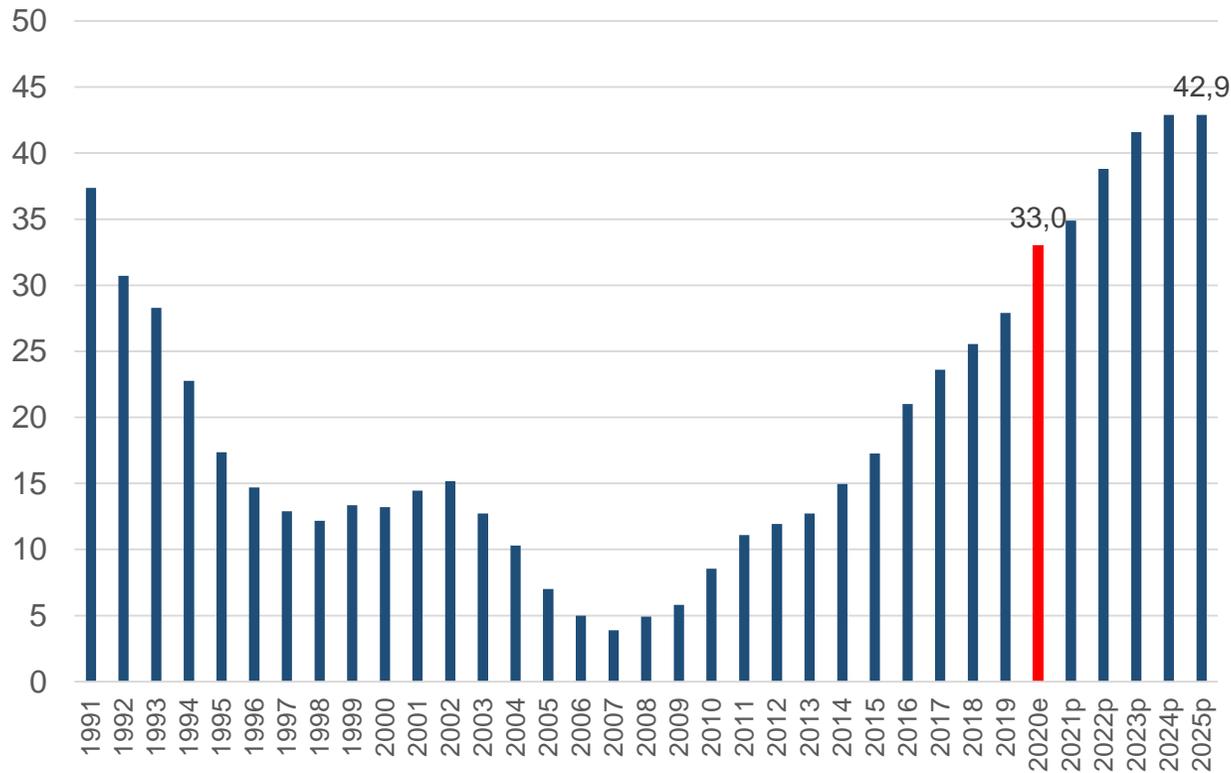
Percent change in real terms



- Real expenditures in 2020 are projected at +10.5%, 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 rose to 27.6% by end-2020.

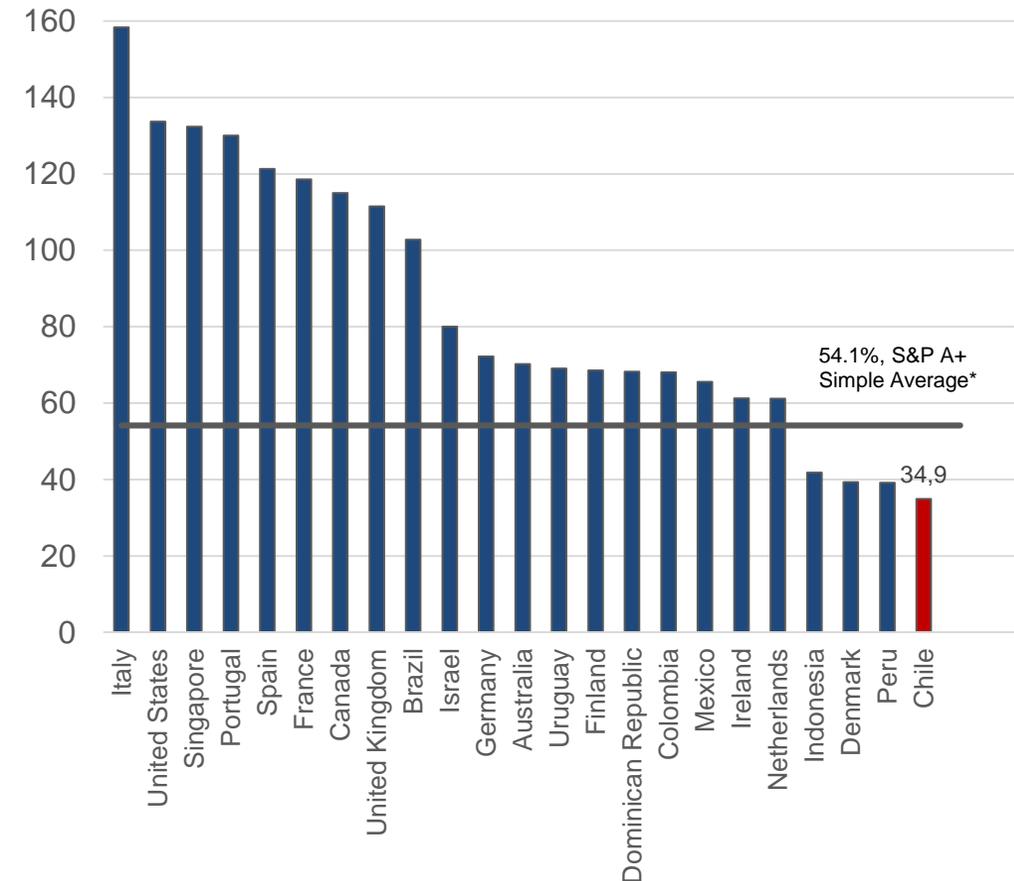
Gross public debt is projected to stabilize below 45% of GDP, well below projections for peers.

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, except from Chile which was taken from IFP 4Q, 2020; Budget Office.

Political Calendar Ahead

An Overview of the 2021 Political Calendar

	Constitutional Process	Others
2021	Apr 11th, Election of Constituents	11th - Regional Governors, Mayors, Councilmen
	May 14th, Deadline for Constituents to begin sessions	9th - Regional Governor runoff
	Jul	4th - Primaries for President, Senators, and Deputies
	Nov	21st - Election of President (First round), Senators, Deputies, Regional councilmen
	Dec	19th - Presidential runoff
2022	Feb/May Deadline for Constituents to approval new Constitution (9/12 months after the beginning of sessions)	
	Apr/Jul Referendum to approve or reject new Constitution (60 days after the approval of Constituents)	

Source: Ministry of Finance.

Constitutional Process Timeline*

October 25th, 2020 - National Plebiscite

Q1. Do you want a new Constitution?

Approve or Reject

Q2. What type of body should draft the new Constitution?

Mixed Constitutional Convention or Constitutional Convention

Approve

Constitutional Convention

“Approve” reached 78% of the votes, and “Reject” the remaining 22%. Drafting a new constitution through a Constitutional Convention reached 79%, over the 21% of the Mixed Convention.

April 11th, 2021 - Election of Conventional Constituents

Some norms and procedures of the Convention...

- A two-thirds majority of the Convention members is needed to approve the text of the new Constitution.
- Convention may not intervene or exercise any other functions over other organs or authorities.
- The Convention dissolves after the new Constitution’s text is approved/rejected by its members, or its term expires.

- ✓ Voluntary participation
- ✓ Election will take place on the same date as municipal and regional elections

April 2022 (≤ 3 months) – Convention delivers Text

July 2022 (≤ 3 months) – Plebiscite to Ratify Const.

Do you approve the text of the New Constitution proposed by the Convention?

Approve or Reject

Approve

Reject

- ✓ Mandatory participation
- ✓ Simple majority
- ✓ The text of the New Constitution to be ratified in a plebiscite that must be in accordance with the status of Chile as a Republic, its democratic regime, the judicial sentences, and the international treaties ratified by Chile.

President ratifies New Constitution.

Current Constitution remains

Debt Management



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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 an “ESG” green asset class (green/social/sustainability bonds) that attracts foreign investment in support of the country’s sustainable infrastructure needs, while diversifying the investor base

Debt Issuance Plan for 2021

Total bond issuances for up to USD19 billion in 2021 (includes new debt for USD12.75 billion, and USD6.25 billion to finance amortizations)

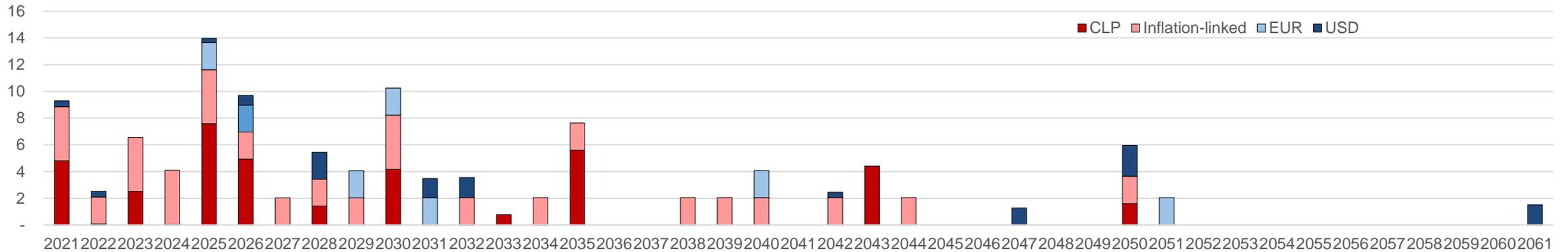
- **The plan considers issuance in foreign currency for up to USD6 billion and in local currency for up to USD13 billion.**
 - By end-2021, 74% of debt is expected to be denominated in local currency and 26% in foreign currency .
- **Local currency issuances for up to USD13 billion of which USD4 billion would be in short-term notes and USD9 billion in medium to long-term bonds:**
 - Auctions for a total of USD10 billion, through the SOMA system of the Central Bank of Chile. These issues will be announced in quarterly calendar updates.
 - Issuance(s) of peso “social” bonds for a total of USD3 billion allocated through a book-building process, in operations that will be duly informed before their execution.
- **Foreign currency issuances up to USD6 billion will likely include bonds with the “Green”, “Social” or “Sustainability” labels. These operations are subject to market conditions and will be duly informed before their execution.**

Operation	Amount (USD billion)
Short term local currency debt	4.0
Medium to long-term local currency debt	9.0
Foreign currency debt	6.0
Total 2020 Issuances	19.0

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

Maturity Profile

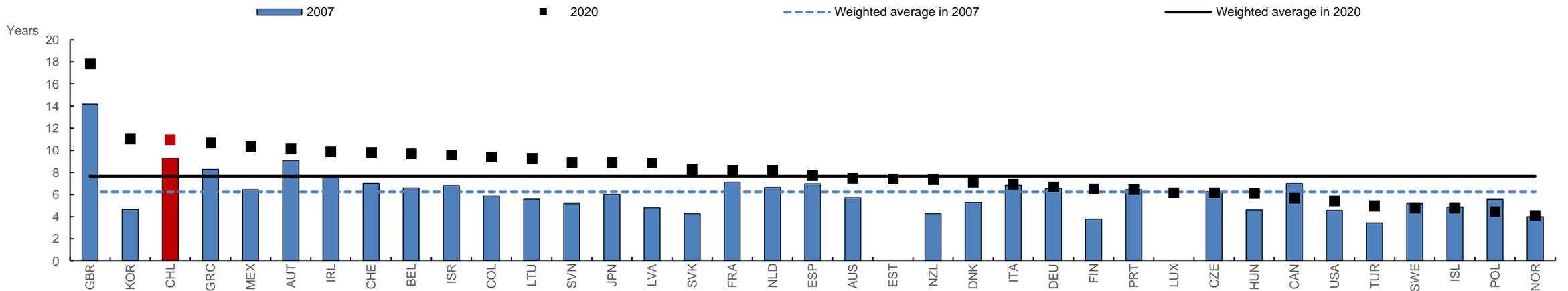
As of January 30st, 2021; USD billion



Source: Ministry of Finance

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

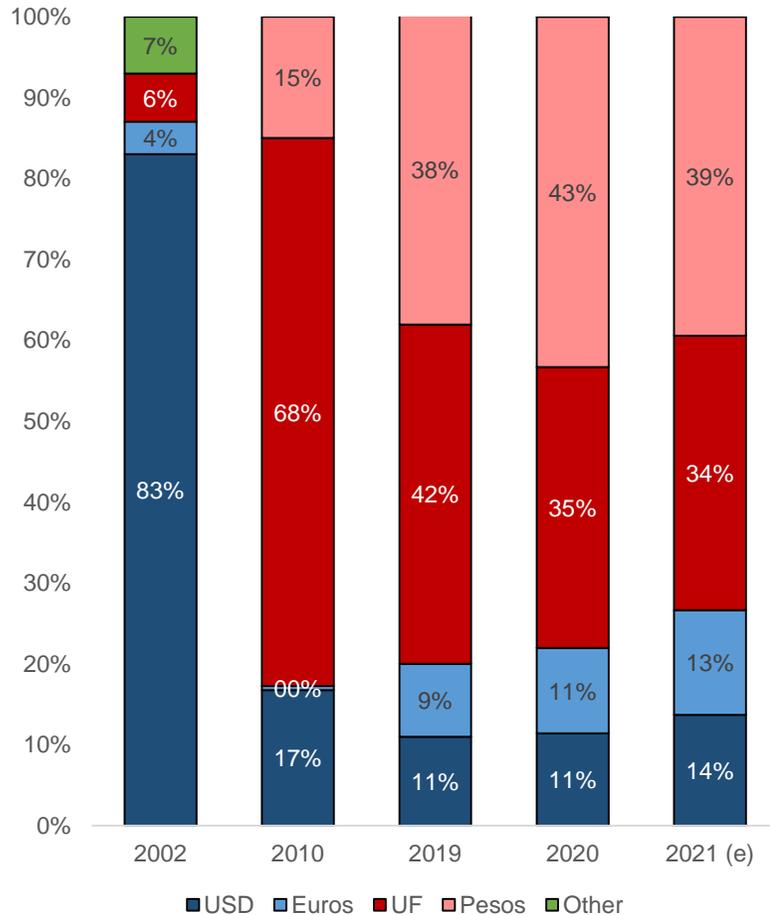
Calculated on December 31, 2007, 2020; years



Source: OECD Sovereign Borrowing Outlook 2021.

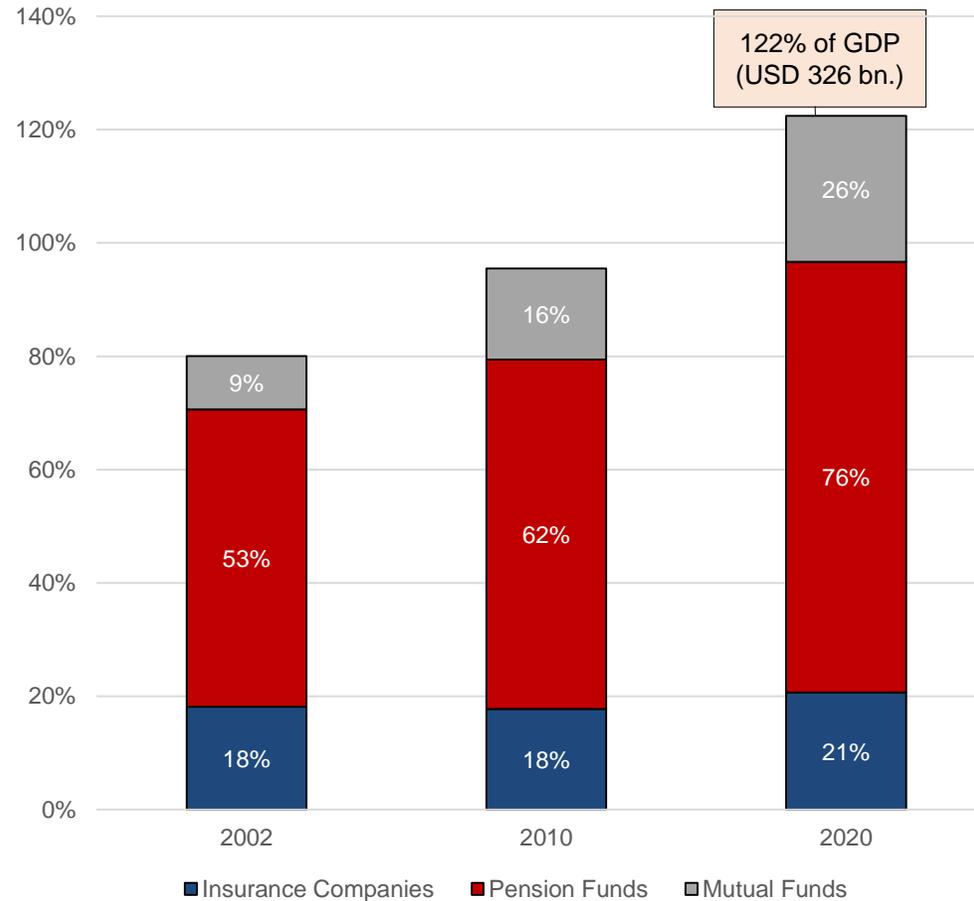
Debt is mostly denominated in local currency, and held by important local institutional investors, while green bonds provide access to new investors.

Debt Composition by Currency
Percent of total



Source: Ministry of Finance

Total Assets Managed by Institutional Investors
Percent of GDP



Source: Financial Market Commission



Thematic bond issuances have accomplished several milestones

2019 Green Bonds USD - \$1,431mm 3.500% 2050 Notes
 EUR - €861 mm 0.830% 2031 Notes

First sovereign green bonds in the Americas, first in Euros issued by a non-European sovereign, longest tenor debut USD green bond.

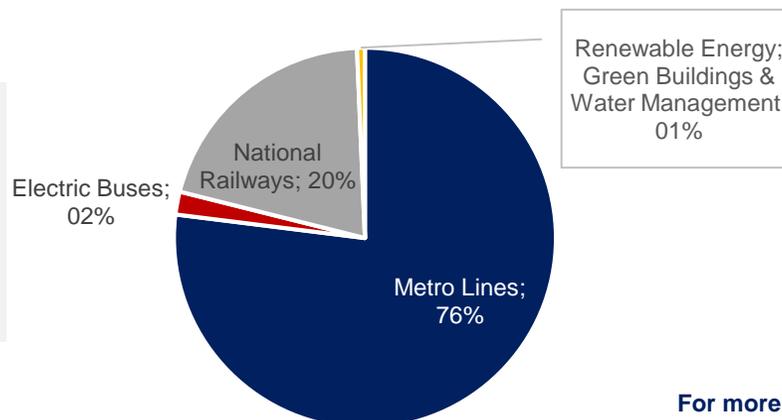
Lowest yields ever obtained in both currencies, low spreads, record demand from global markets (12.8x for USD, and 4.7x for the EUR).

Important broadening of Chile’s investor base towards institutional investors with green mandates.

2020 Green Bonds USD - \$900 mm repap of 3.500% 2050 Notes
 \$750 mm 2.450% 2032 Notes
 EUR - €694 mm repap of 0.830% 2031 Notes
 €1,269 mm 1.250% 2040 Notes

2021 Green Bonds USD - \$750 mm repap of 2.450% 2032 Notes
 EUR - €400 mm repap of 0.830% 2031 Notes

Chile has issued more than US\$7.7 bn in green bonds, which are being allocated in the following sectors.



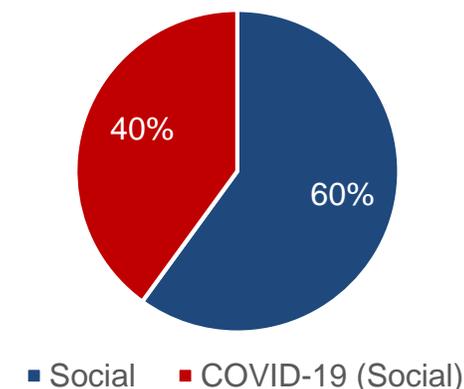
2020 Social Bonds CLP - CLP\$1,040,000 mm 2.300% 2028 Notes
 - CLP\$560,000 mm 2.800% 2033 Notes

After the publication of the Sustainable Bond Framework in early November-20, Chile issued euroclearable social bonds denominated in pesos, becoming the first social bond issuances in local currency in the Americas.

2021 Social Bonds USD - \$1,500 mm 3.100% 2061 Notes
 EUR – €1,,250 mm 1.250% 2051 Notes

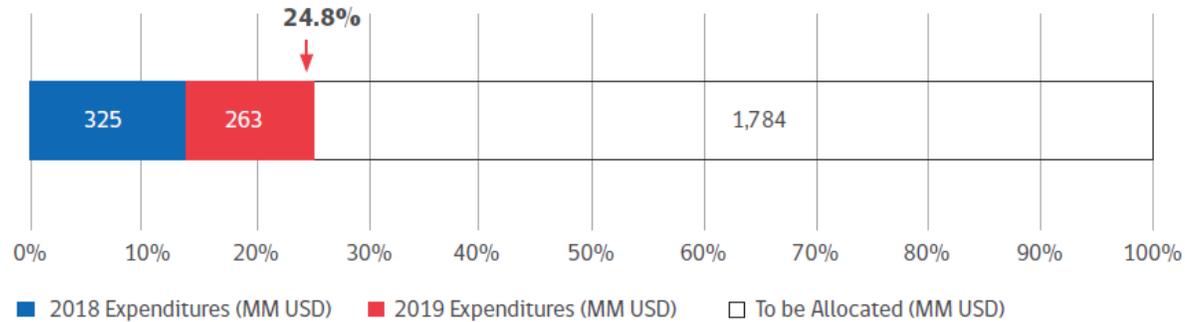
Chile has issued more than US\$5.2 bn in social bonds, which are being allocated in the following sectors.

- Around 60% of the expenditures included in the social project portfolio are related to social projects as described in the Sustainable Bond Framework.
- The 40% remaining of expenditures include specific expenditures related to COVID-19 (Social) pandemic economic consequences, as established in the category of the framework that considers the consequences of a pandemic.

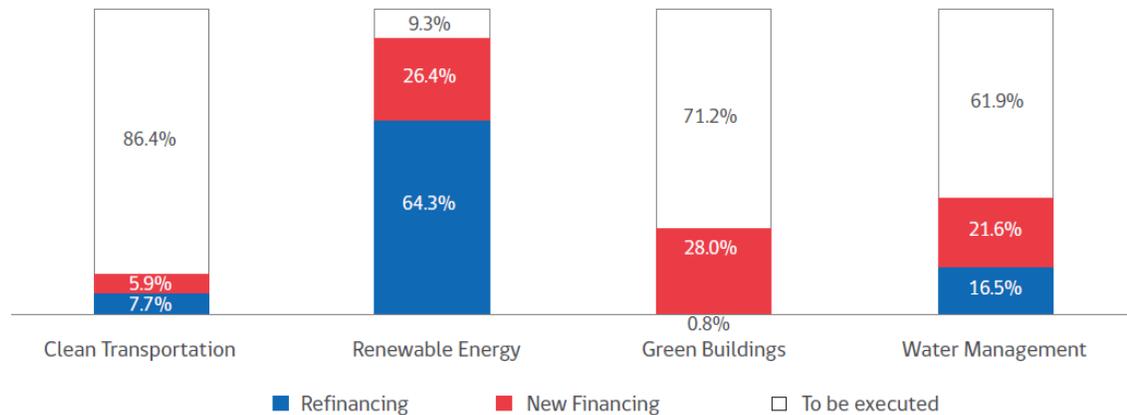


Reporting on allocations and impact remains a key component of the post-issuance process.

2019 Green Bond Allocation and Pending Disbursements



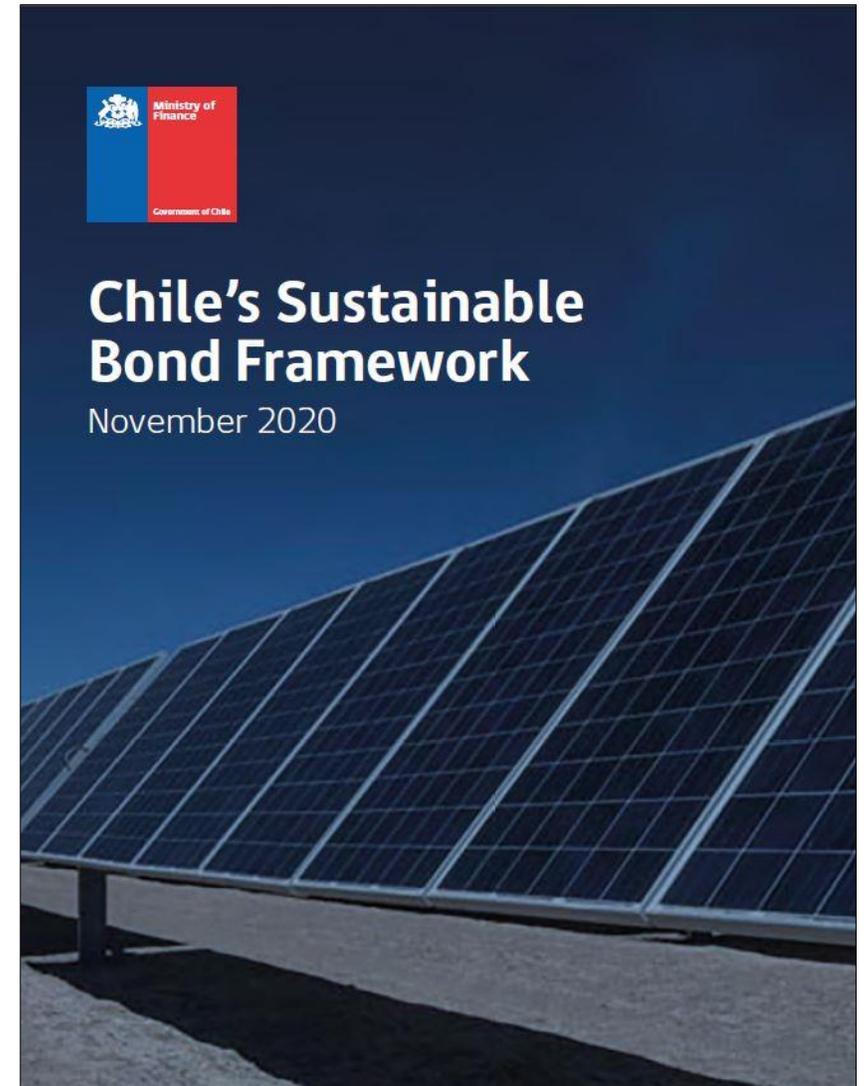
Disbursements by Green Sector



Chile's Sustainable Bond Framework

November 2020

- The new framework updates and broadens the Green Bond Framework, laying the guidelines for the issuance of Chile's Social, Green, and Sustainable Bonds
- Like the Green Bond Framework, this new document establishes the Use of Proceeds, the Evaluation and Selection of the Projects' process, the Management of Proceeds and the Reporting process after the issuance of these instruments
- The Framework adds new social categories, including those that have been crucial in supporting the population most affected by the COVID-19 pandemic
- This framework complies with ICMA standards for Green and Social bonds and received a favorable SPO from Vigeo Eiris
- Considering its Paris Agreement commitments, in 2020 Chile presented an update of its Nationally Determined Contributions ([NDC](#))
 - On the mitigation side, Chile committed the goal of reaching 95 MtCO₂eq for 2030, the peak year in 2025 and a carbon Budget that will not exceed 1.100 MtCO₂eq for the 2020-2030 period
- Chile has made significant progress in the social dimension over the last thirty years, with poverty falling from 68% in 1990 to 8.6% in 2017.



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