

Ministerio de Hacienda



Fundamentals of the Chilean Economy:

A discussion on Fiscal Policy and challenges to finance and economics

November 16th, 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.



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.

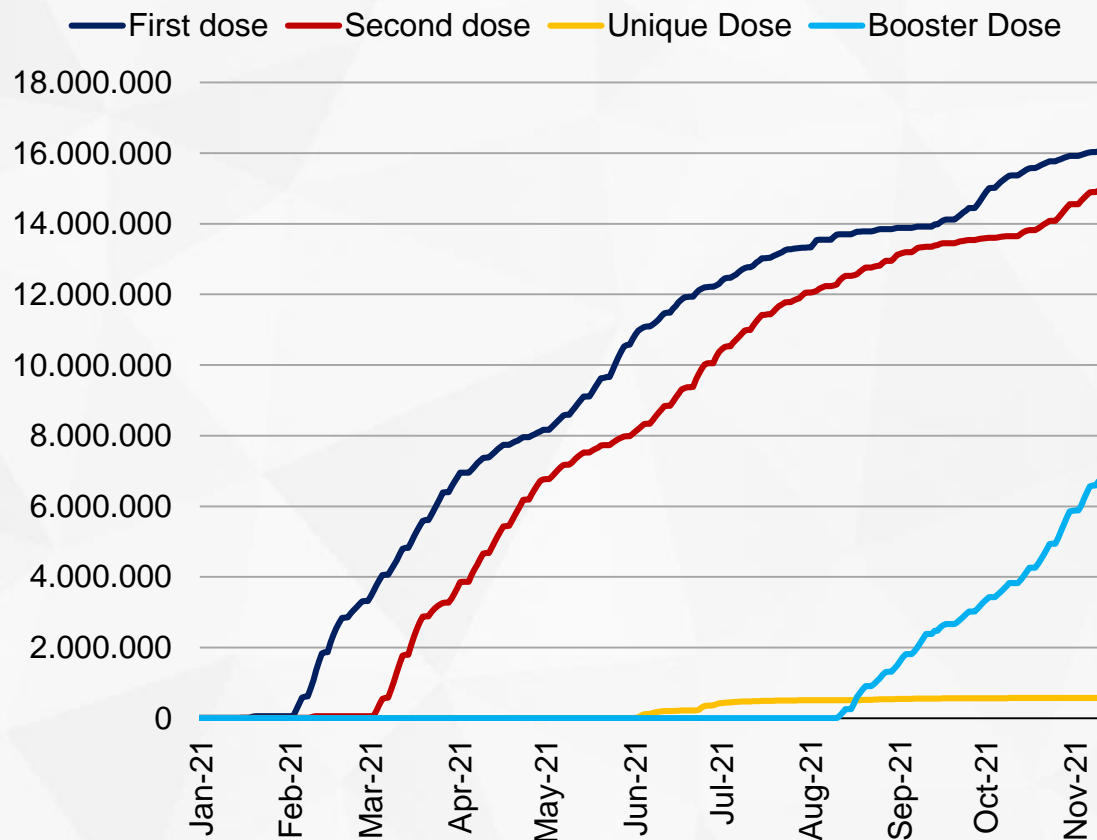


As to the pandemic, Chile has achieved one of the most successful and extensive global vaccination campaigns (>90%). In addition, we have provided historical support to the Households' income through the EFI (~10% of GDP).

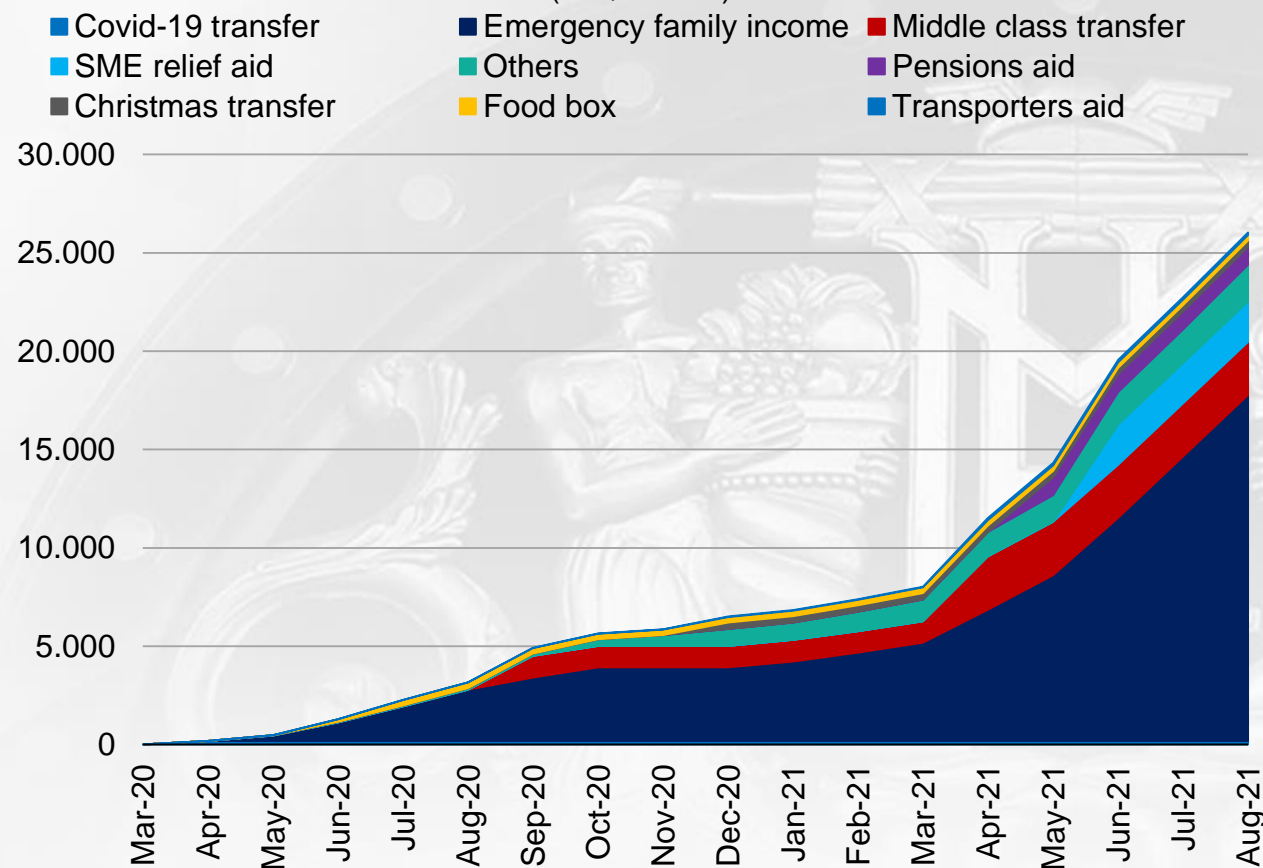


On the triggers of the recovery: an expansionary fiscal policy, favorable financing conditions and a remarkable vaccination campaign.

Chile's Vaccination campaign
(# of persons)

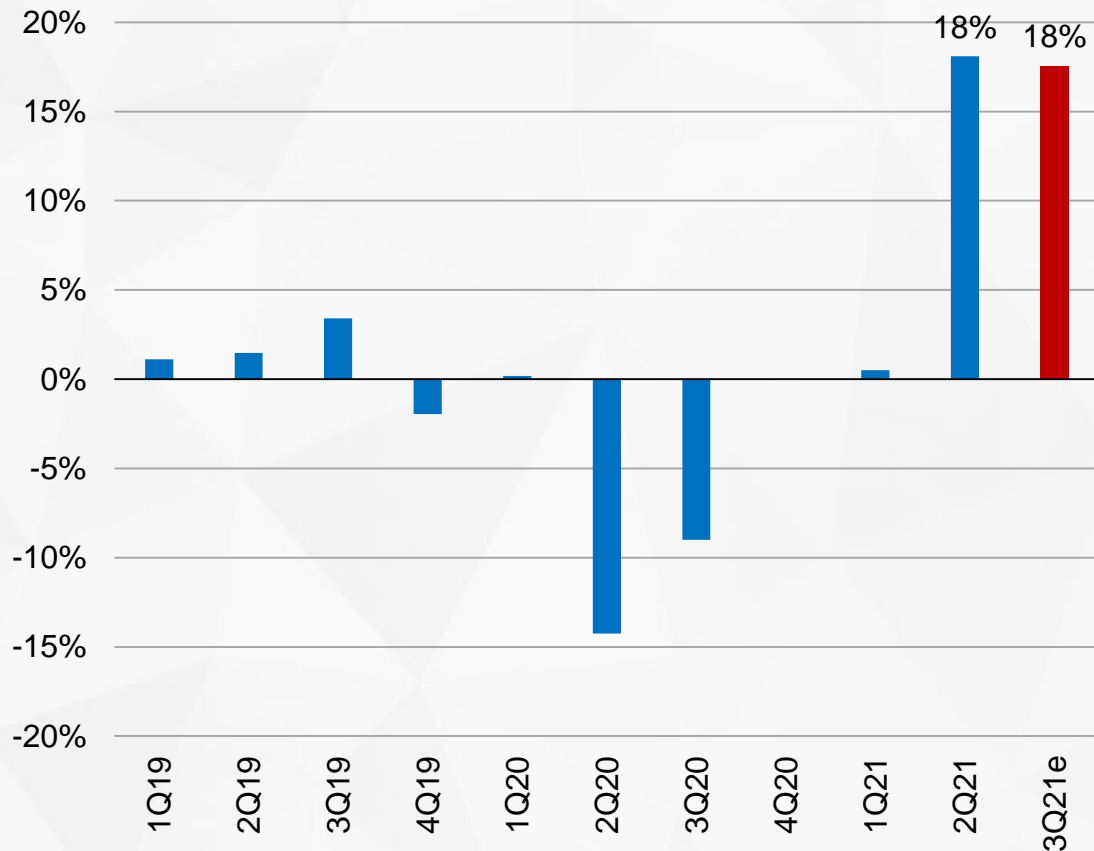


Fiscal Measures
(US\$ million)

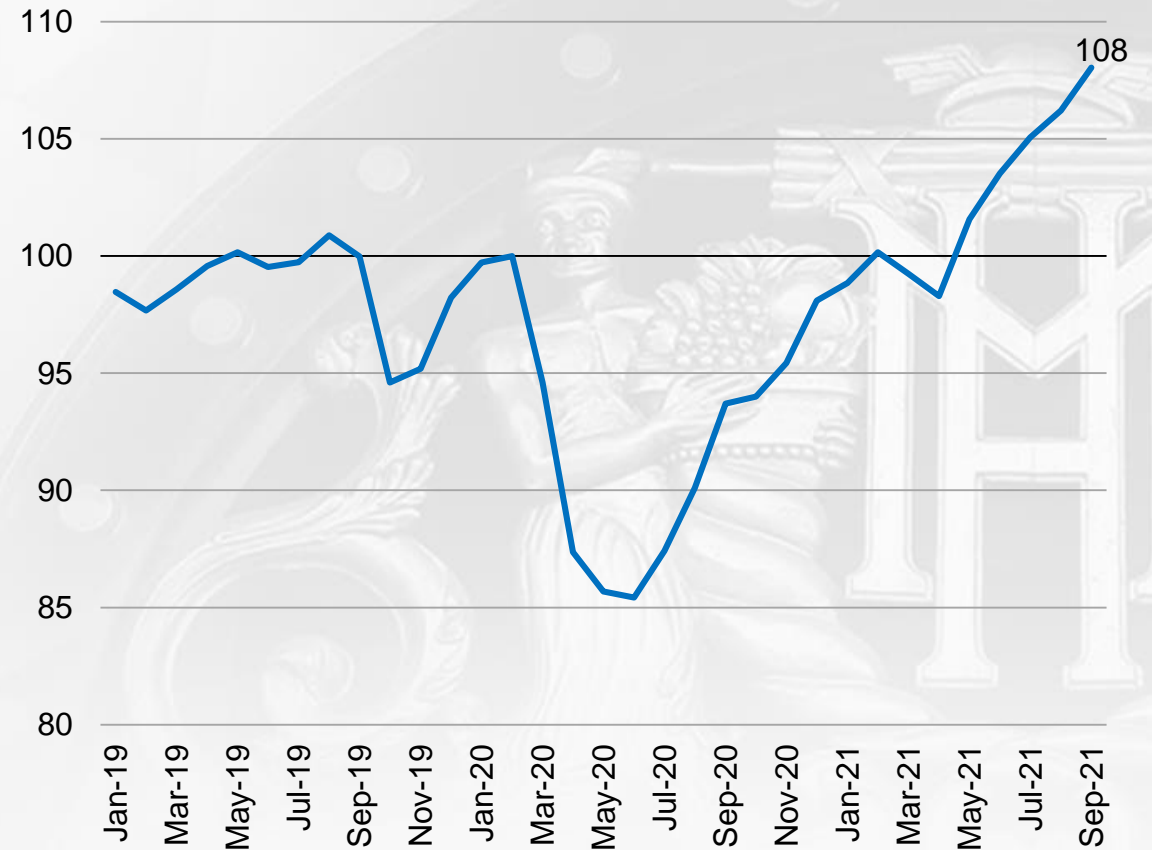


The Chilean economy has moved faster than expected into the recovery phase and currently stands 8% above pre-pandemic levels.

GDP growth rate
(% change YoY)

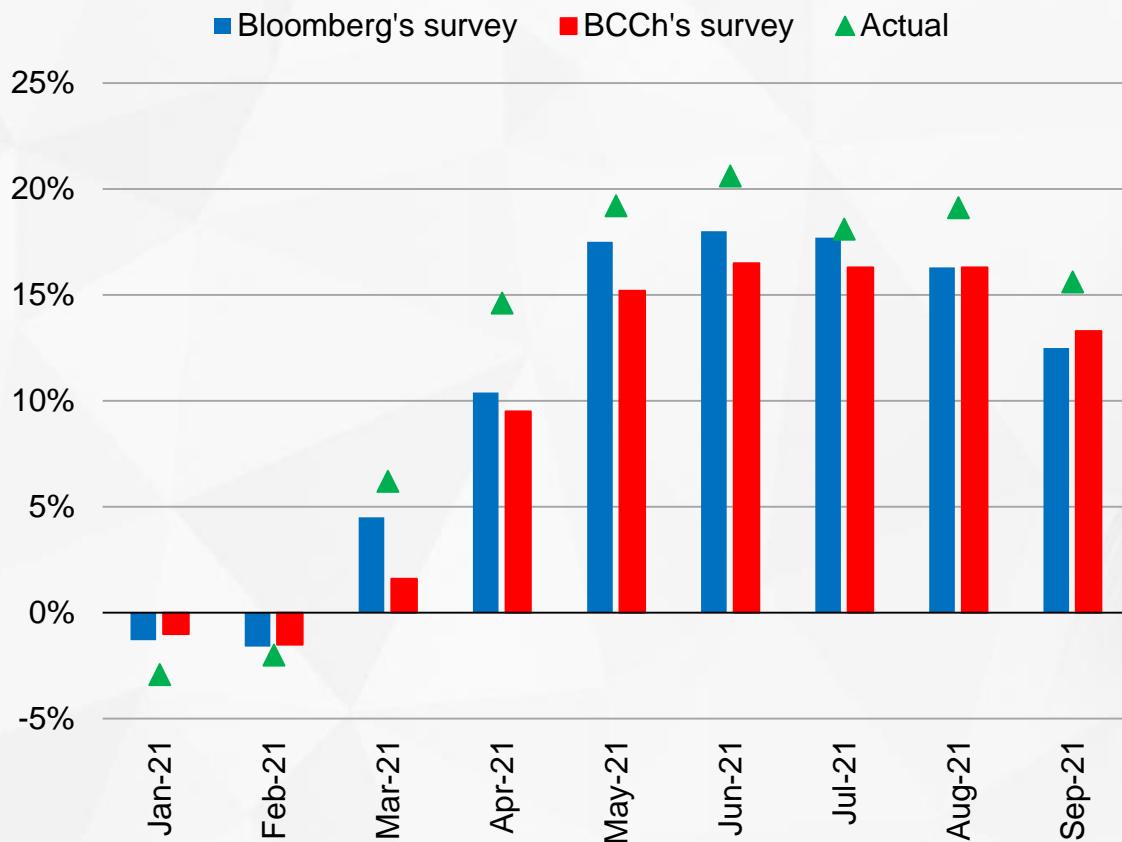


Monthly GDP
(seasonally-adjusted series, Feb-20 = 100)

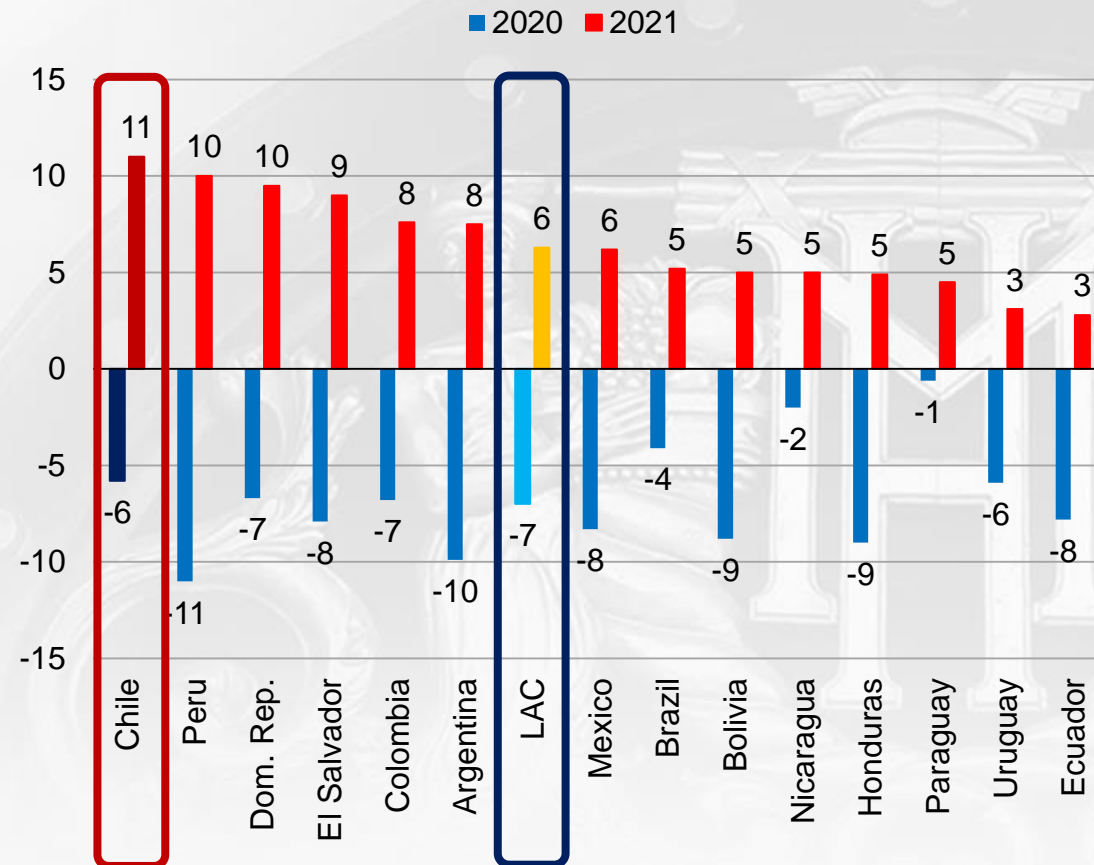


The economy has quickly adapted to the new context and has been continuously surprising on the upside.

Monthly GDP growth figures
(% change YoY)

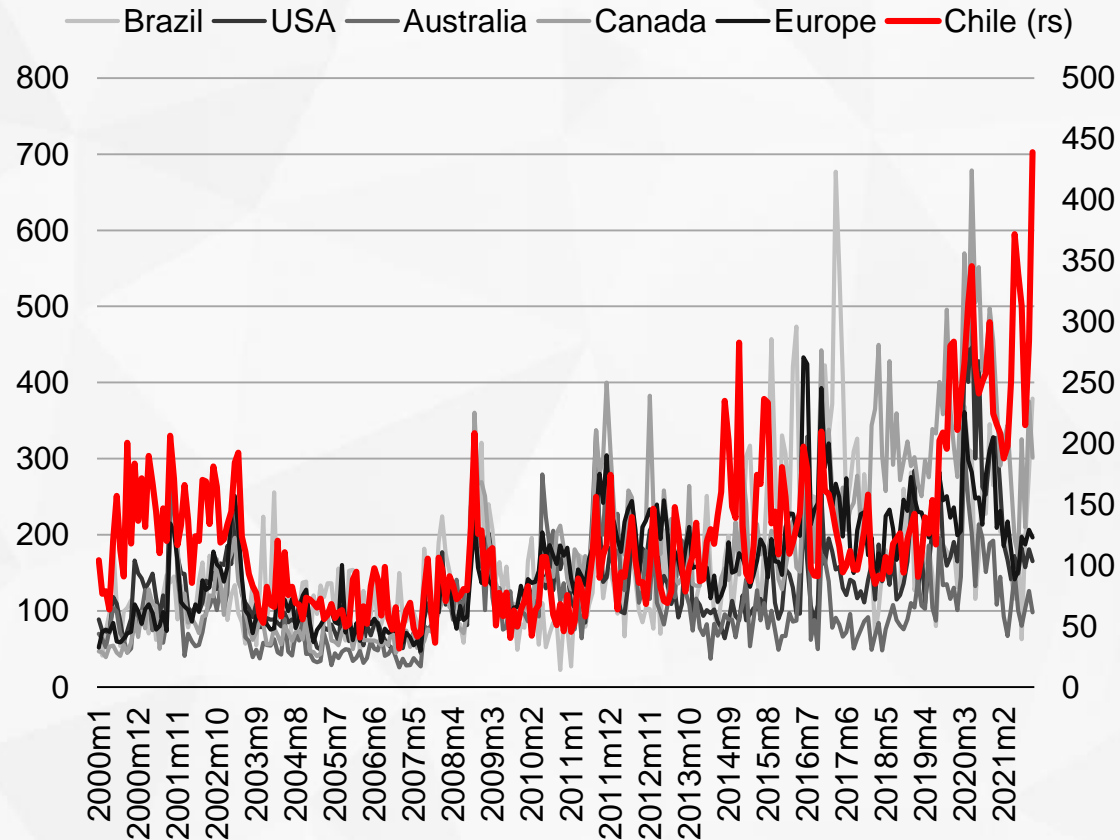


IMF Oct-21 WEO - Latin America
(GDP growth rate, YoY)

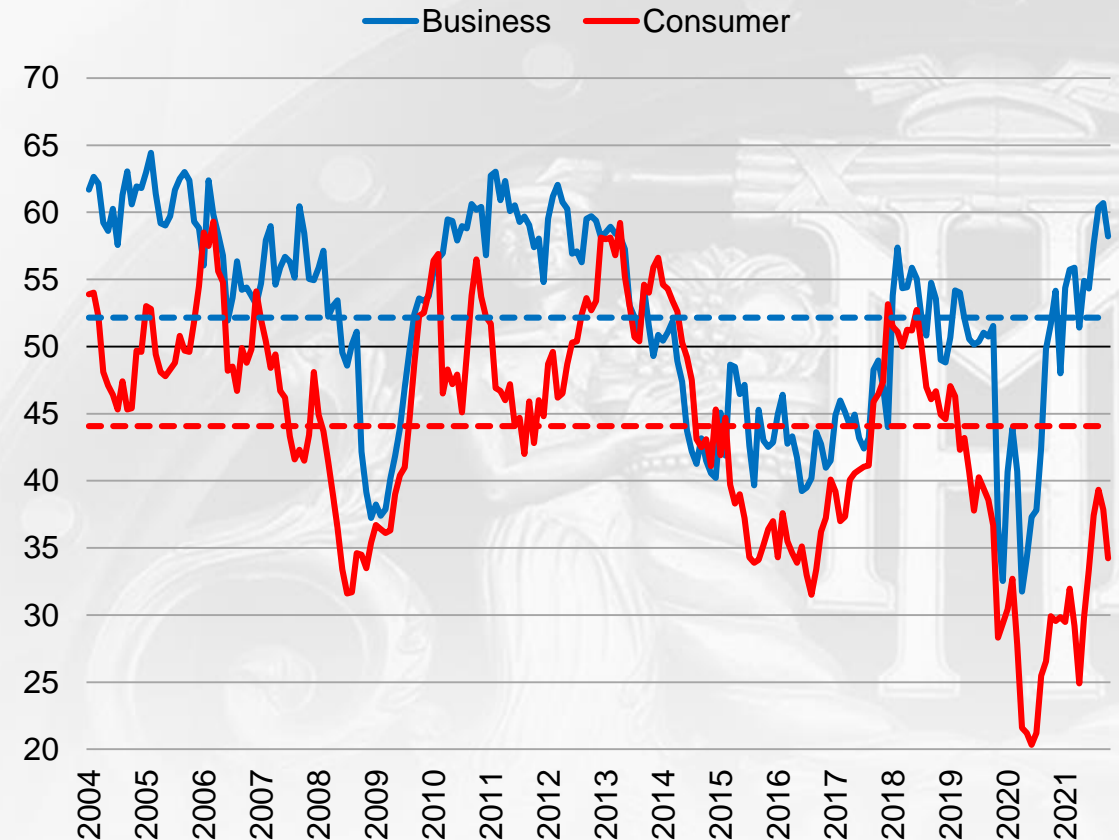


Uncertainty rises and damages some key leading indicators. Although both indexes have returned to mid-21 levels, both stand well-above levels observed at the beginning of the pandemic in Chile

Economic Policy Uncertainty
(Index)

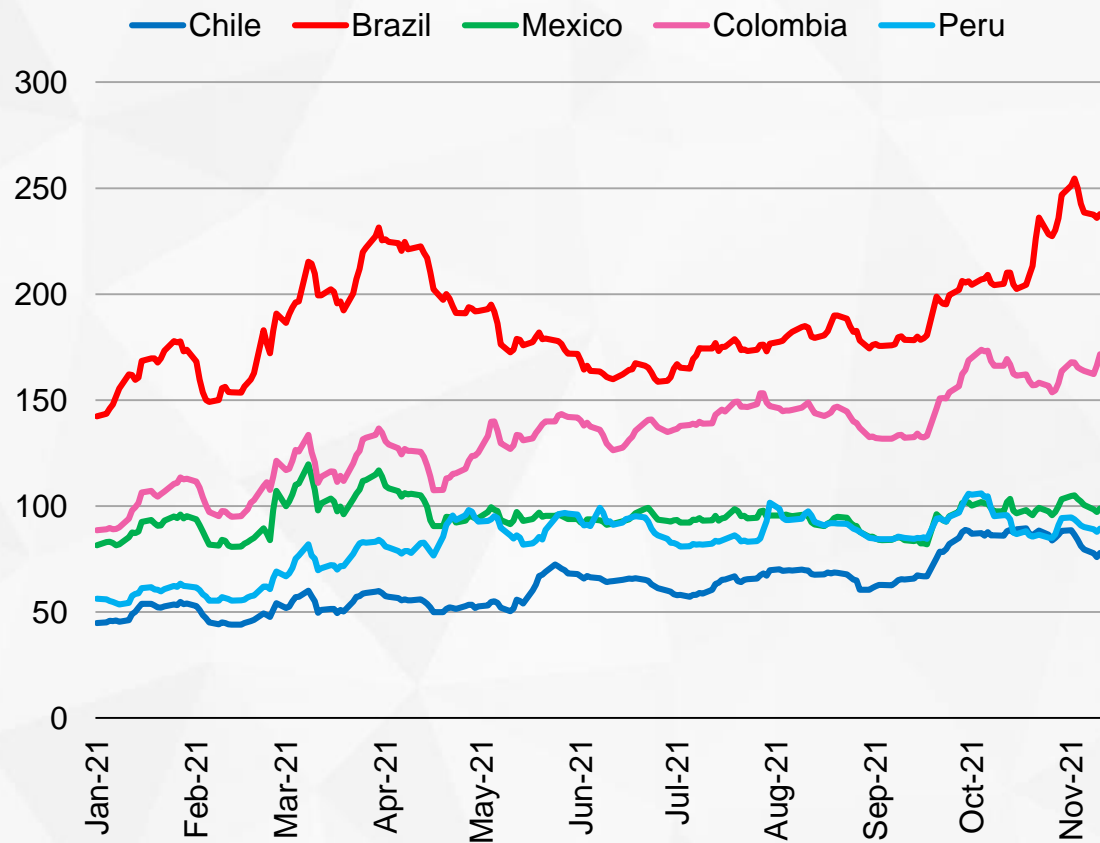


Consumer & business sentiment
(index, 50 = neutral, dashed lines: hist. average)

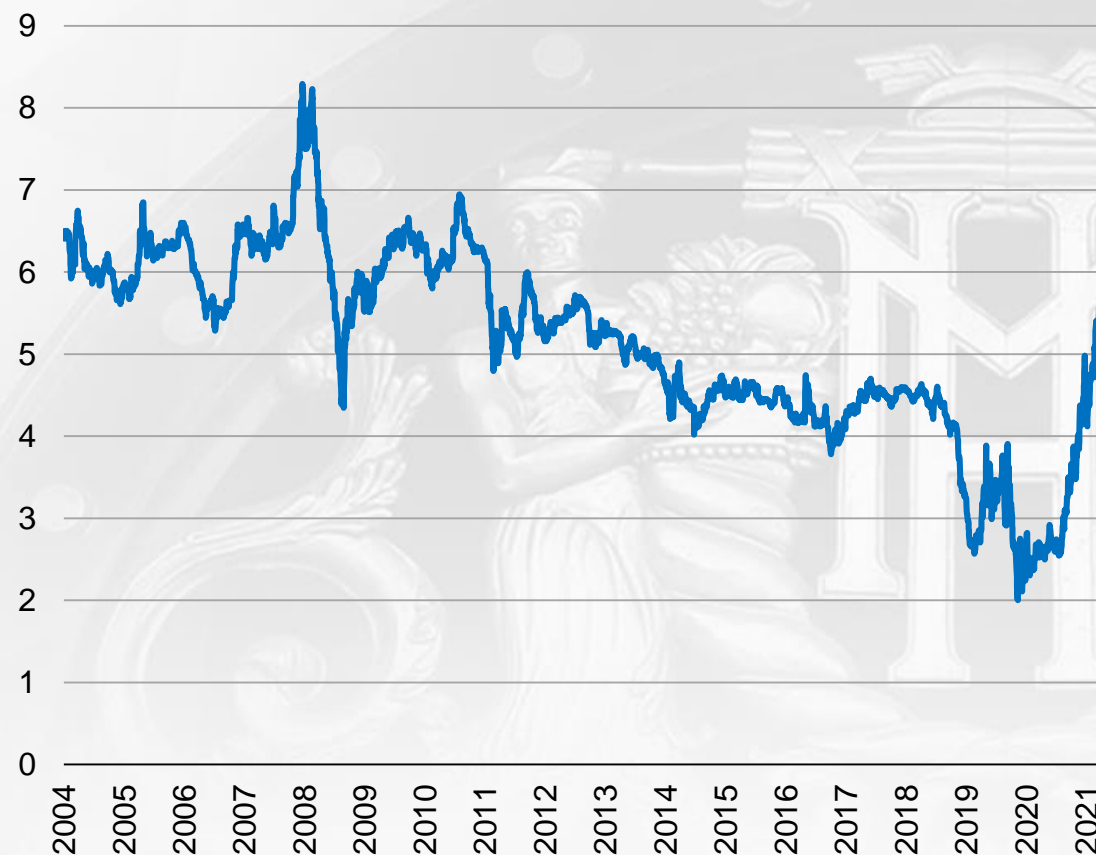


The recent refusal to legislate the 4th PF withdrawal caused a positive market reaction.

LatAm: 5yr CDS
(in USD)



Chile 10y Sovereign Bond
(%)

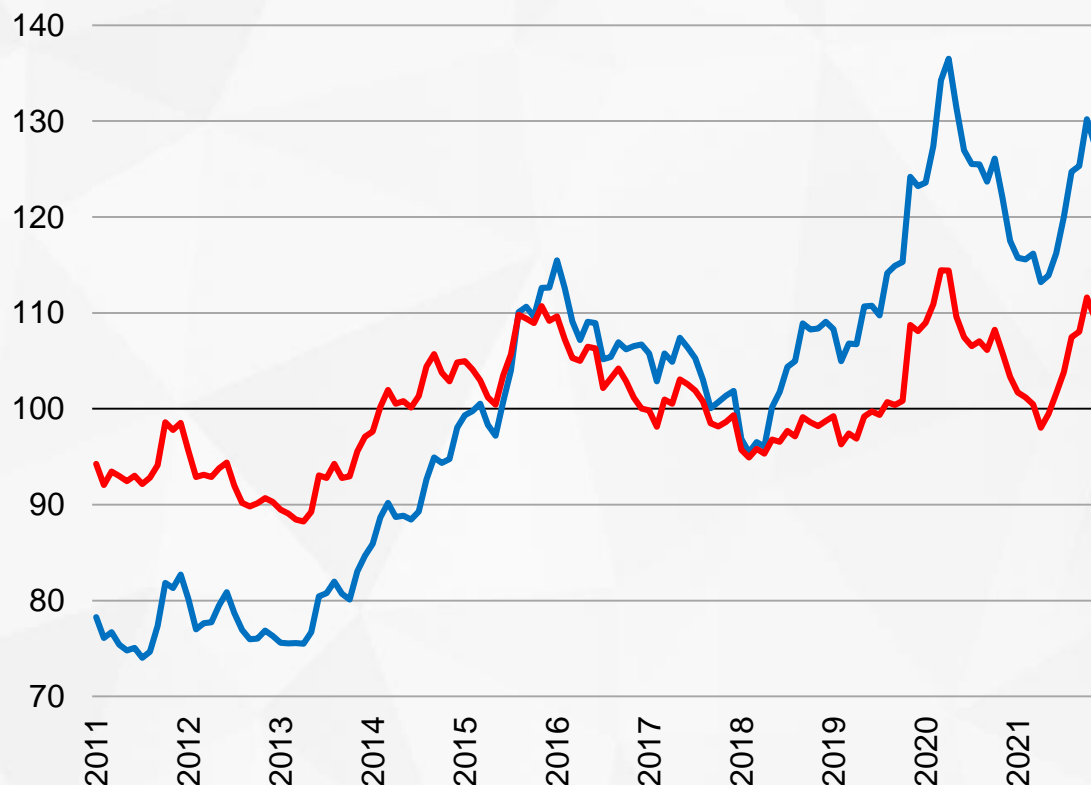


A clear FX mismatch. The Chilean Peso (CLP) has stood among the worst performers this year on across EM. The latter, despite high copper price, the BCCh rate hikes and the 2021e GDP growth rate.

USDCLP and multilateral CLP

(2011-21 average = 100)

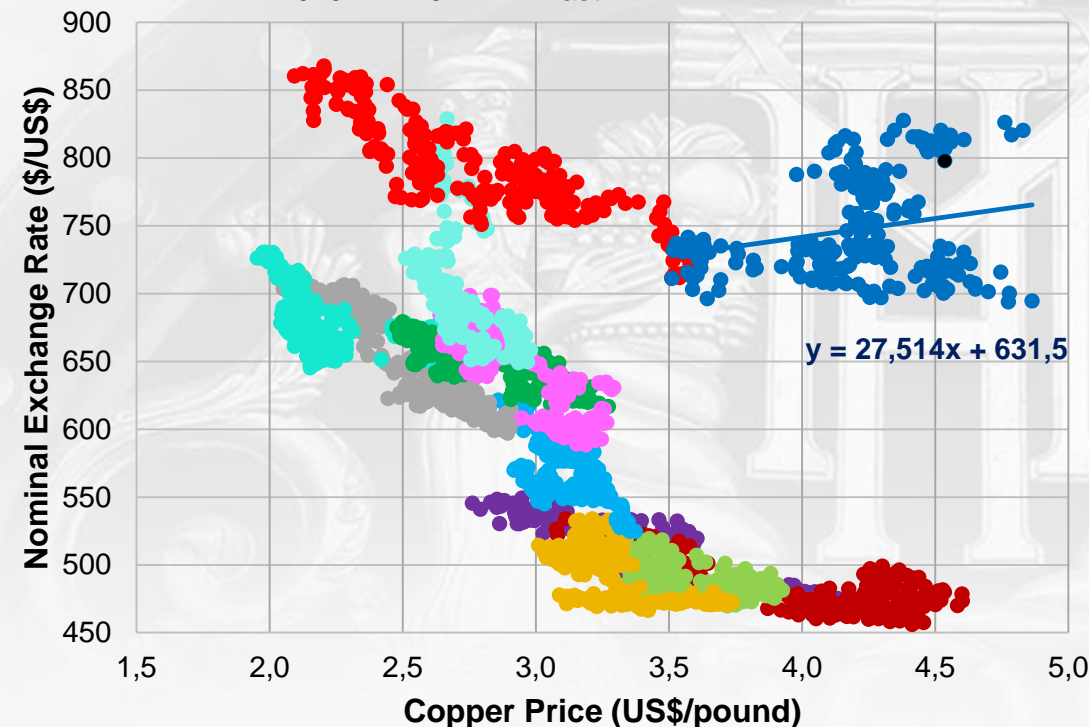
— USDCLP — Multilateral CLP



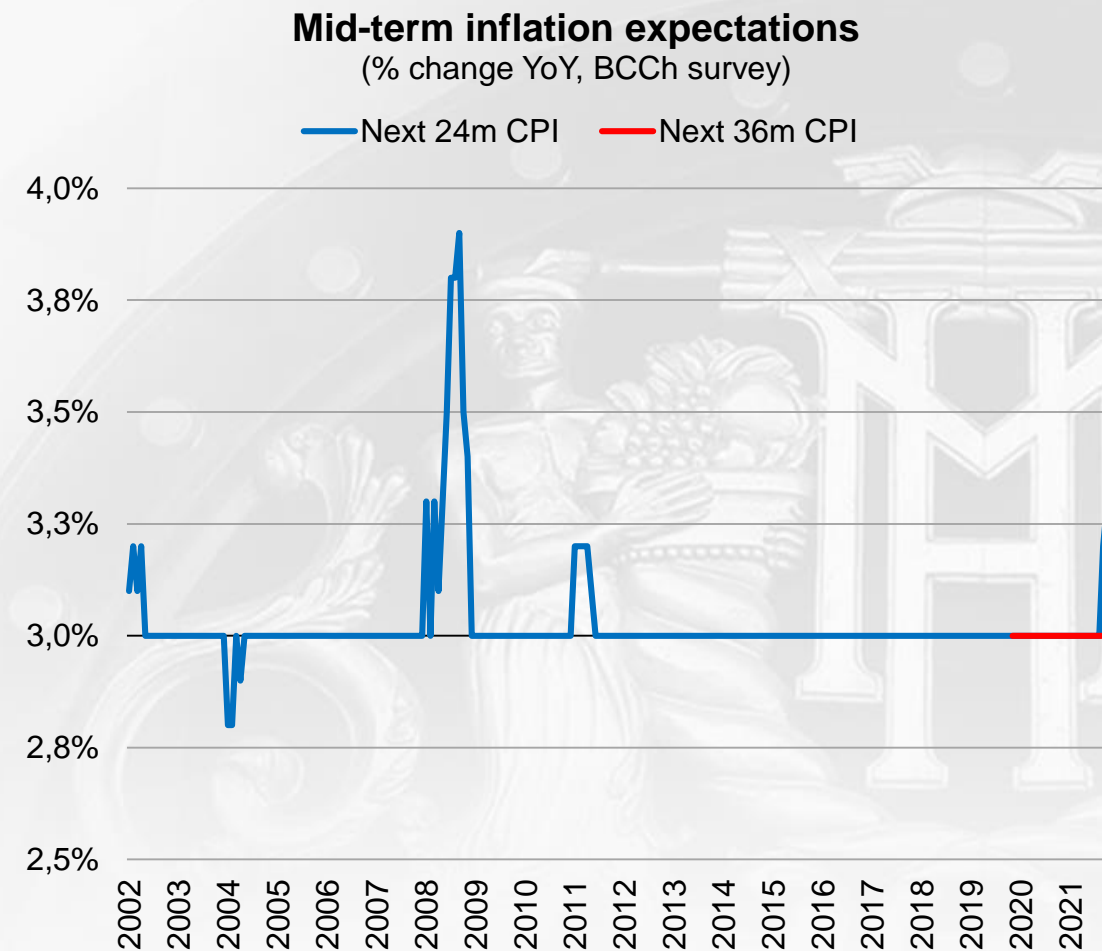
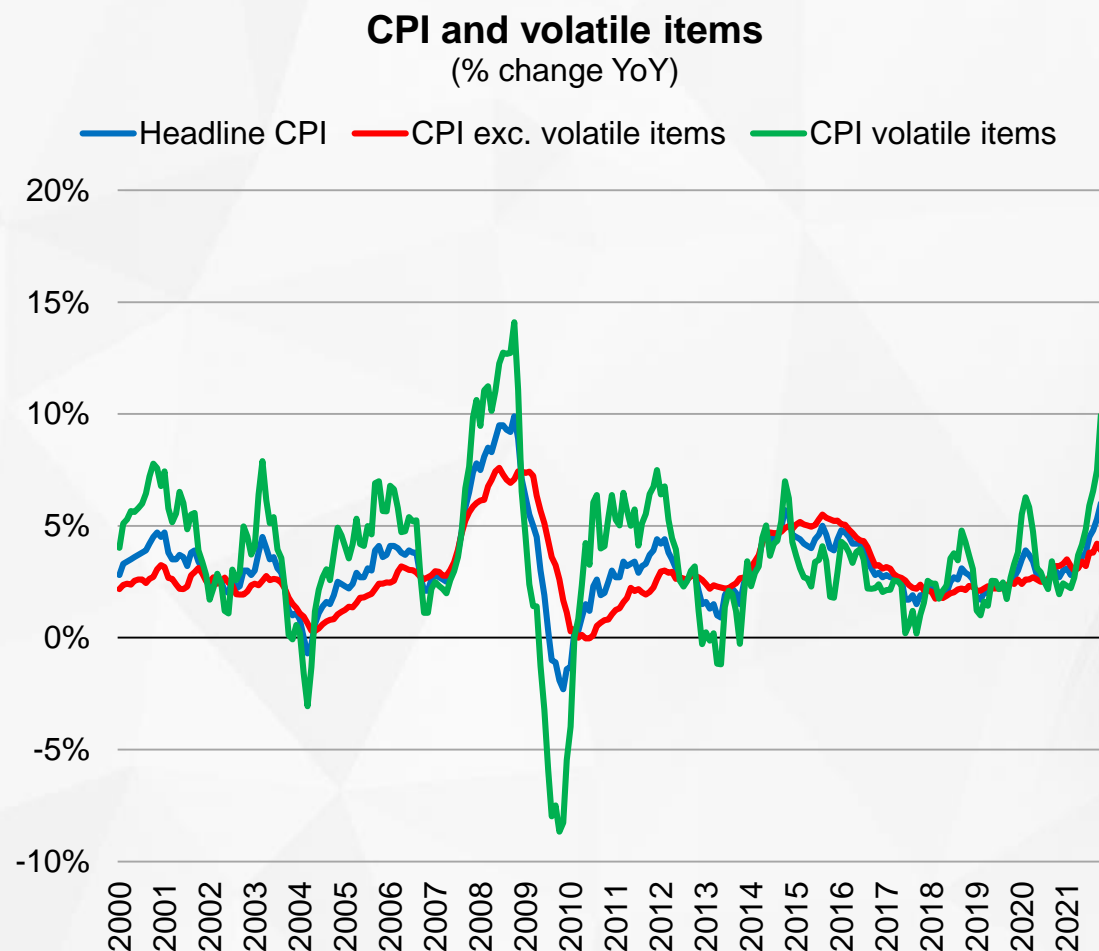
USDCLP and copper price

(USDCLP and US\$/pound)

2010 2011 2012 2013 2014
 2015 2016 2017 2018 2019
 2020 2021 Last

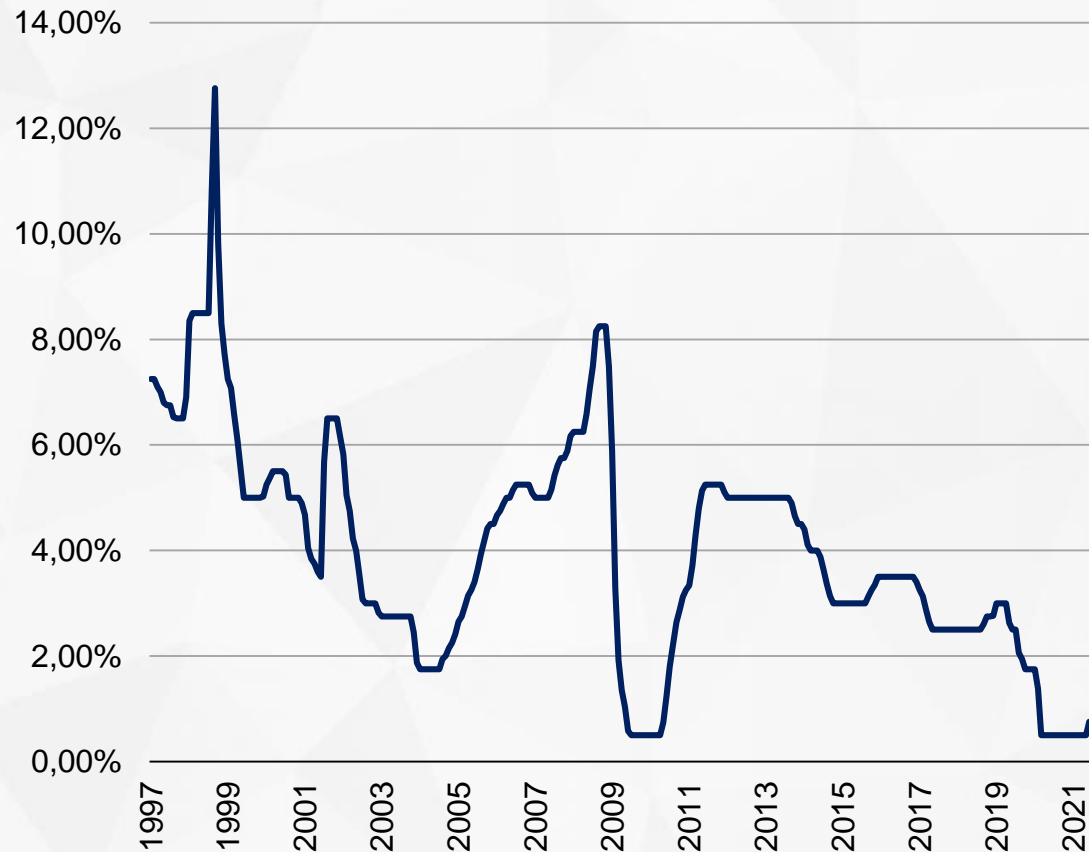


Inflation doubles the BCCh target due the reopening of the economy, some supply-demand mismatches, favorable comparison base effects, the FX depreciation, among others. Inflation expectations are above the 3%.

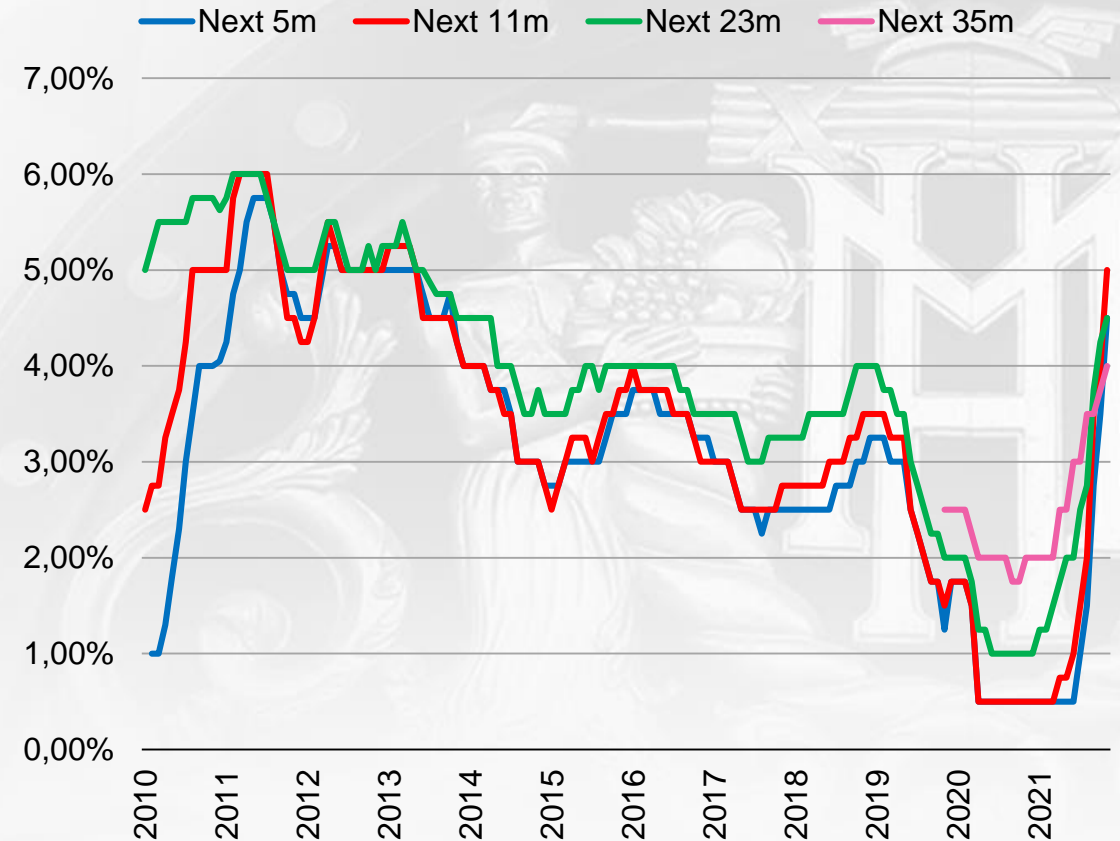


A rapid monetary policy normalization is expected. The BCCh projects the policy rate will reach its neutral level sooner than foreseen in the Sep-21 Monetary Policy Report.

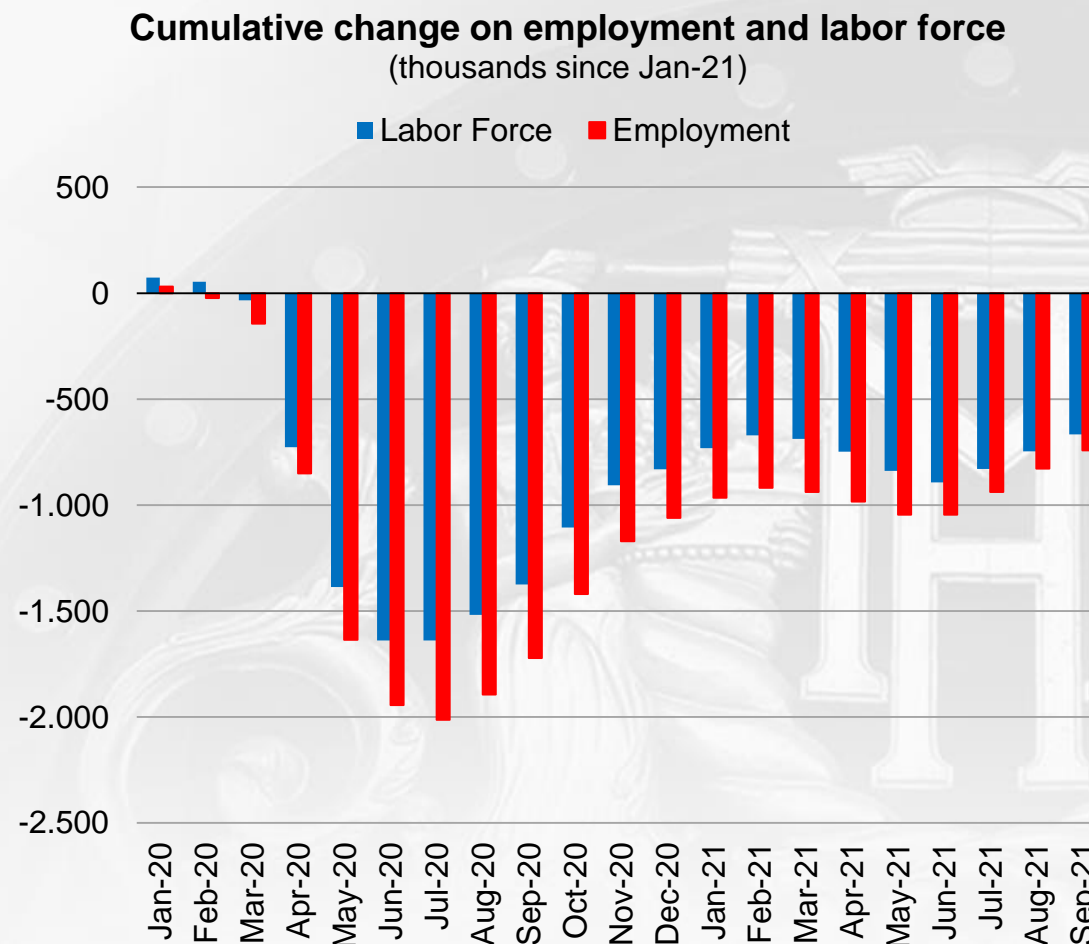
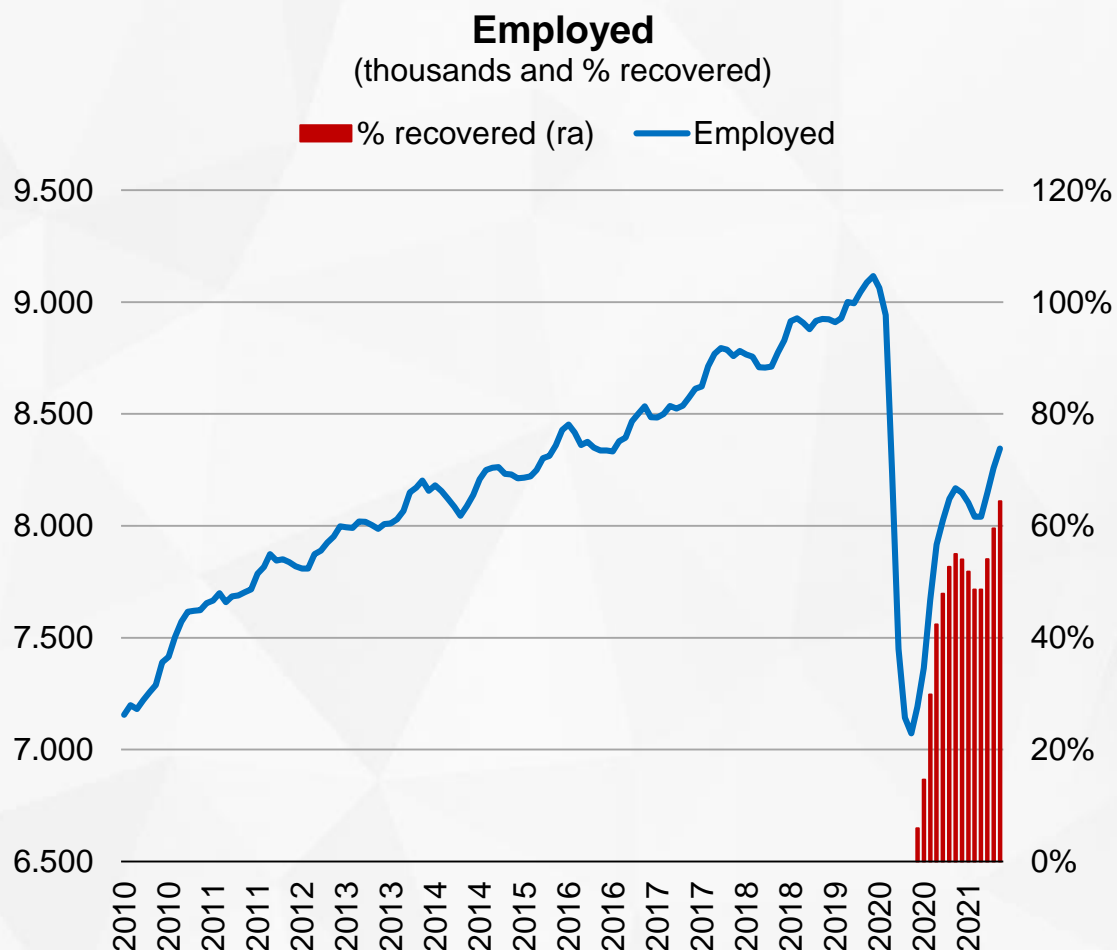
BCCh Monetary Policy Rate
(%)



BCCh survey: monetary policy rate expectations
(%)

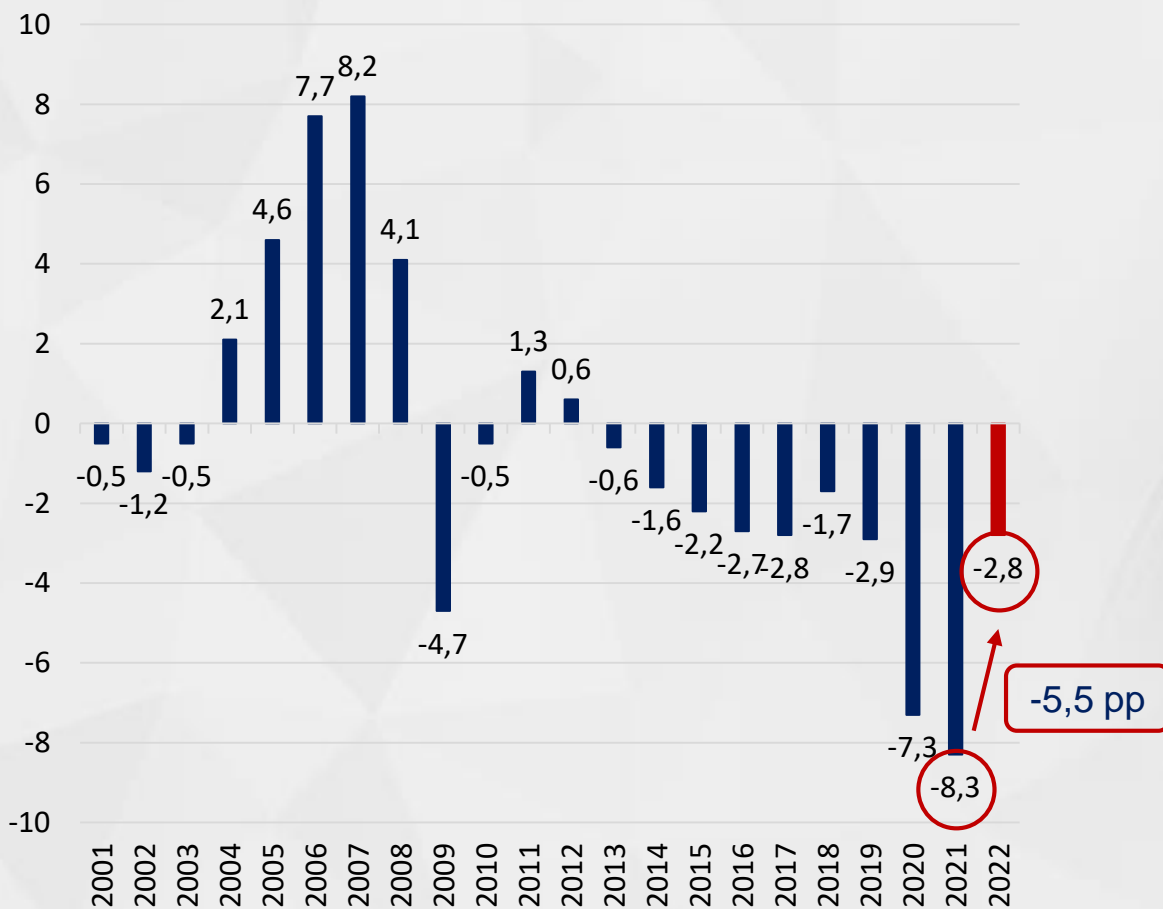


The sizeable economic recovery triggered by the expansionary fiscal policy is also reflected in healthier labor market indicators. The economy recovered 300K job positions during the last quarter.

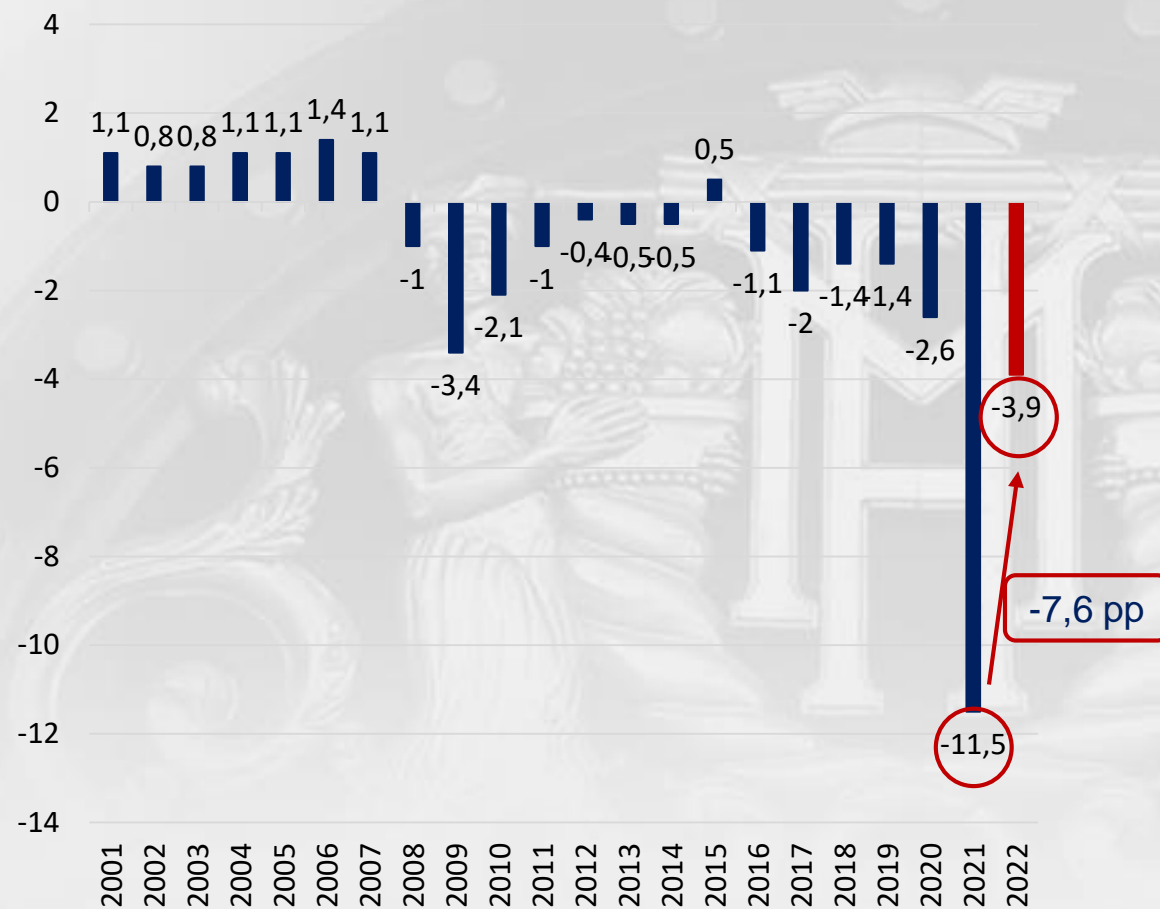


The need to restore Chile's globally-recognized macroeconomic balances. We need to support the public finance's sustainability, starting as soon as next year.

Effective Fiscal Balance
(% of GDP)

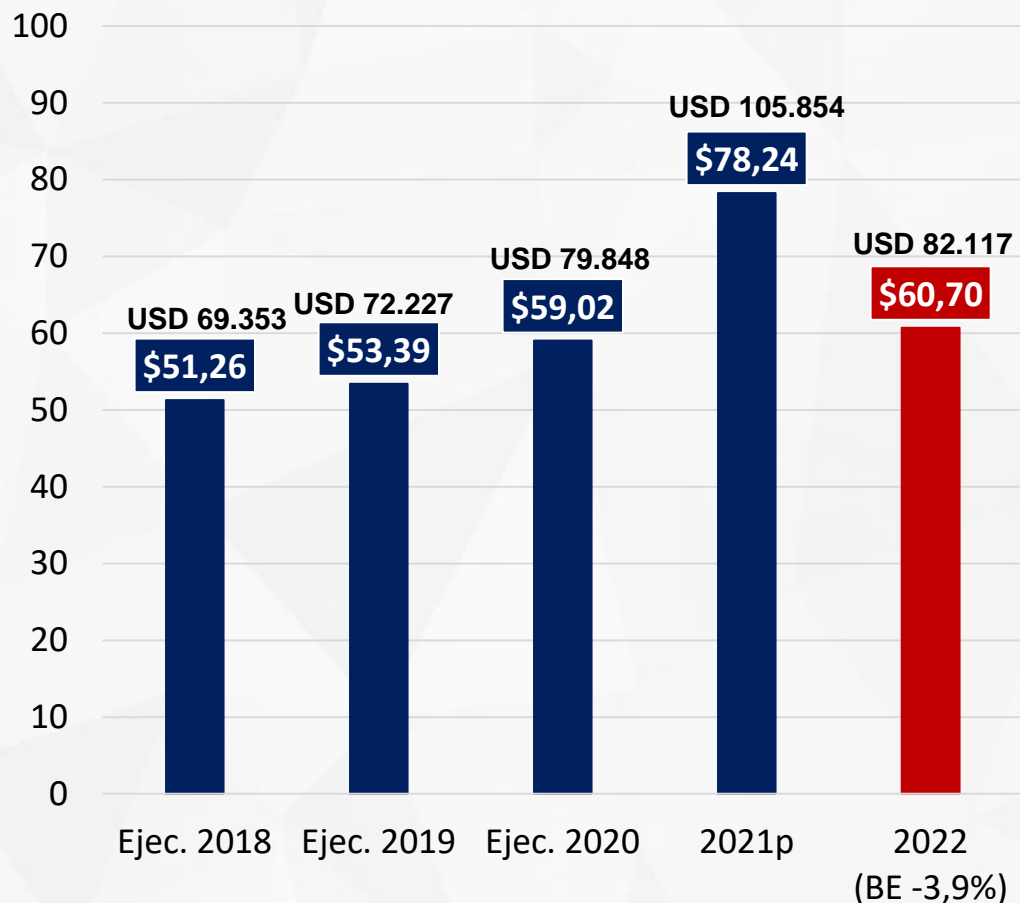


Structural Fiscal Balance
(% of GDP)

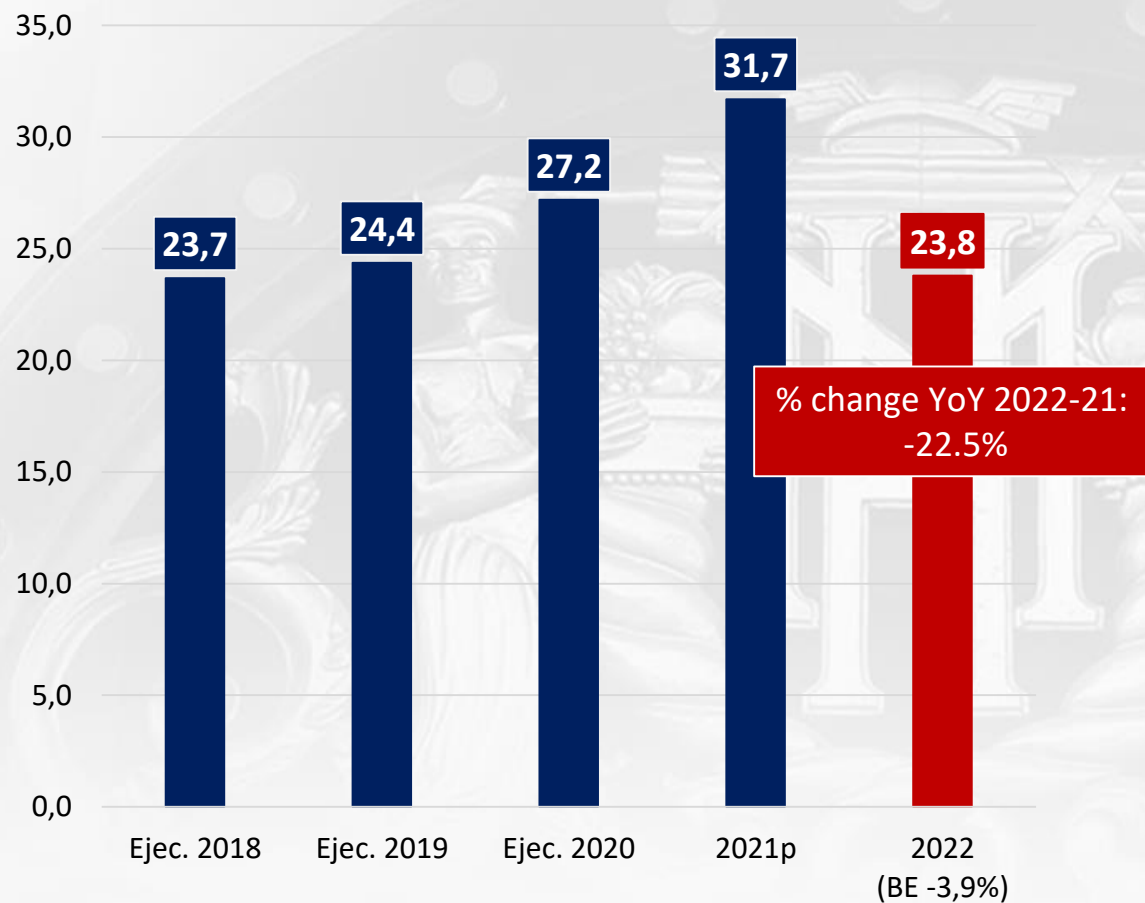


With an economic recovery in progress, it is time to start a necessary fiscal consolidation process. The 2022 Budget Law is fiscally responsible but does not ignore the required support still needed to achieve a sustainable recovery.

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

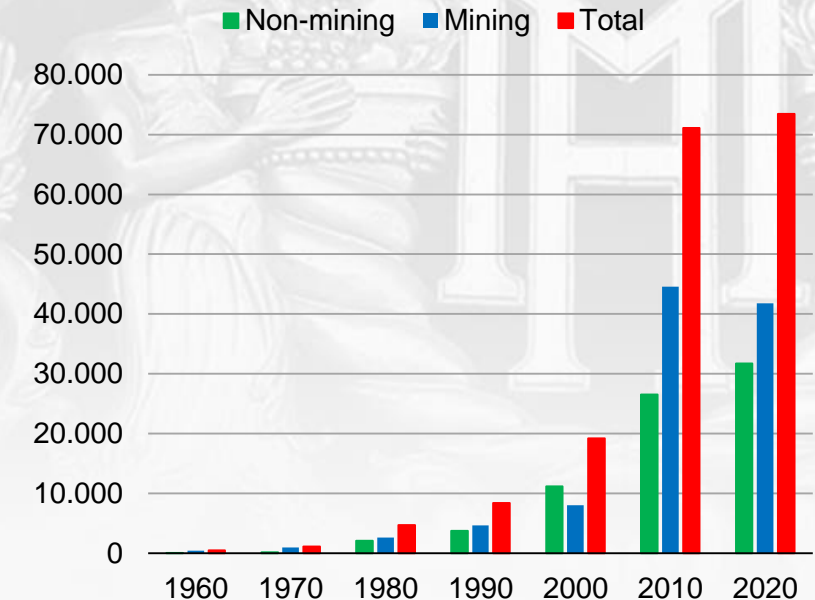
~5,000

million people

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

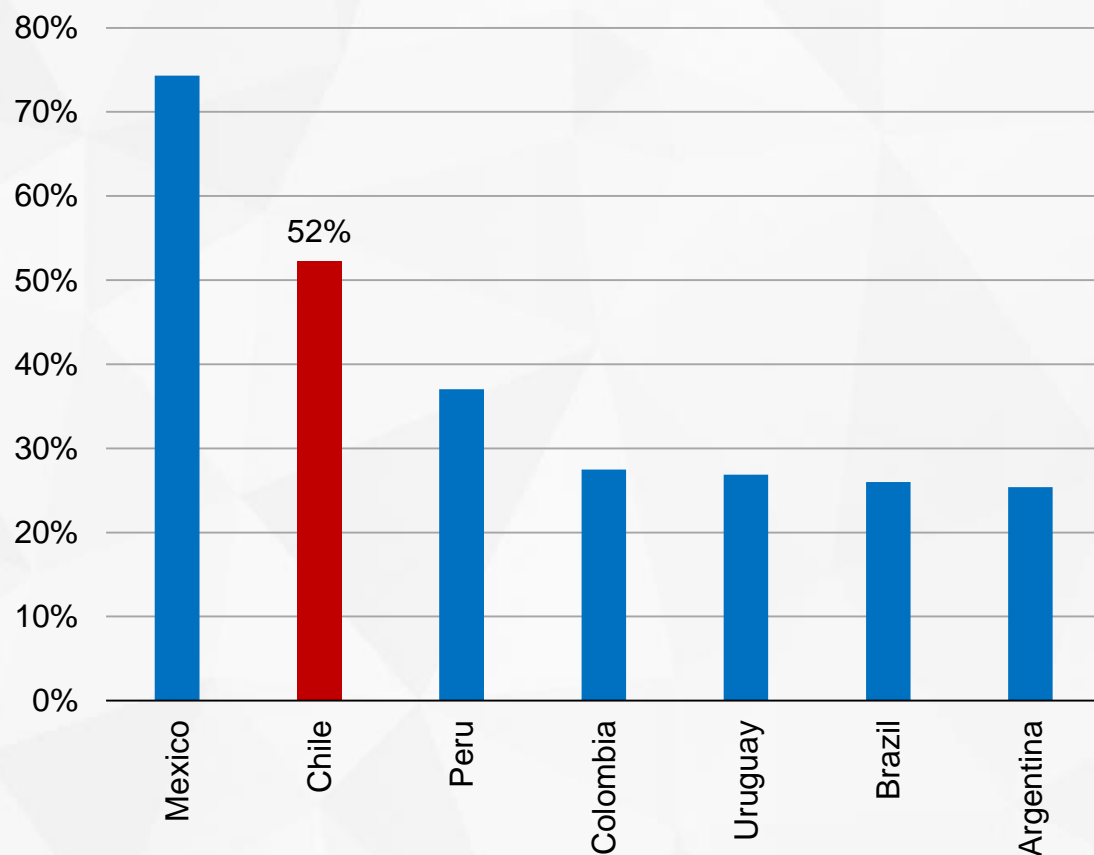
- 2003: Chile – US FTA. First LatAm country with a next-gen agreement
- 2003: Chile – European Union
- 2011: Chile – Pacific Alliance (+ Colombia, Mexico & Peru)
- 2021: Chile – UK (post Brexit)

Chile's Exports
(MM US, FOB)

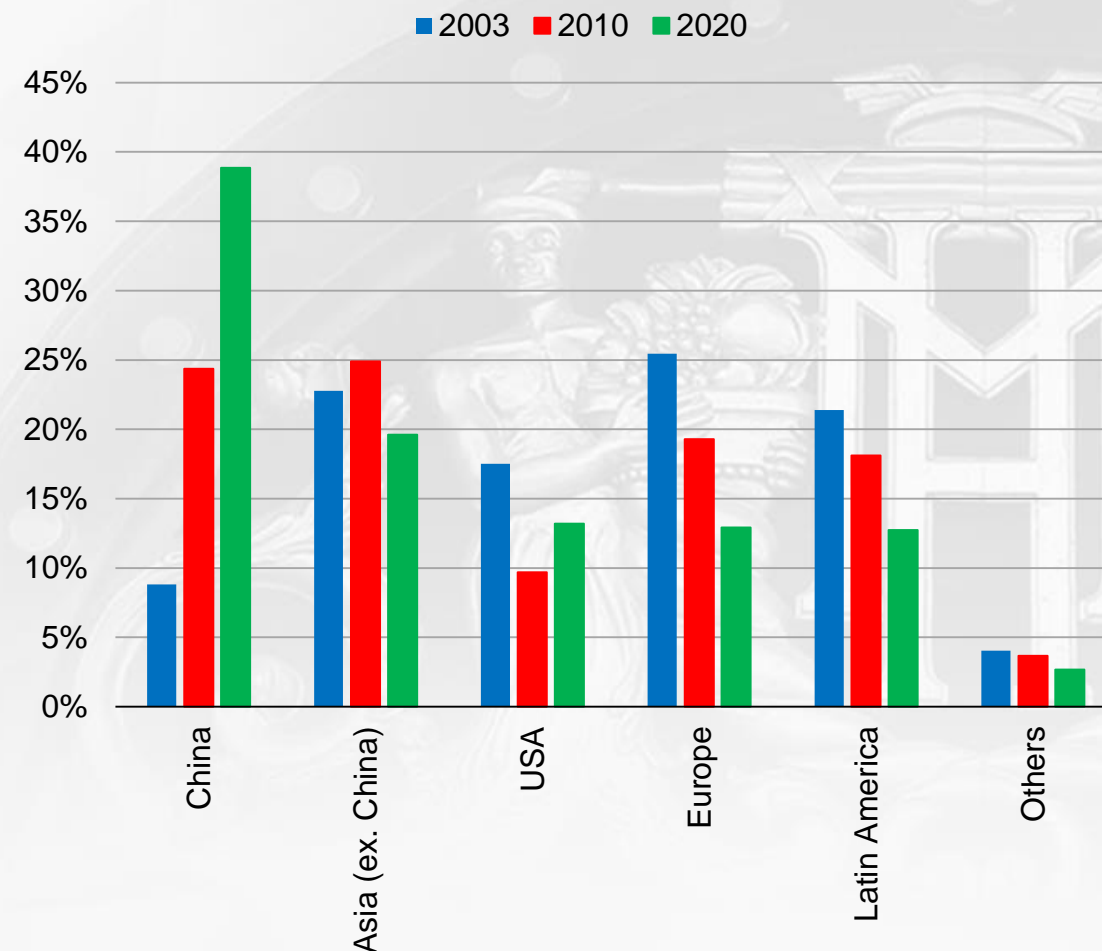


A diversified and relevant external sector that will allow our economy to benefit from better external conditions after the pandemic.

Trade Volume
(USD, % GDP as of 2020)

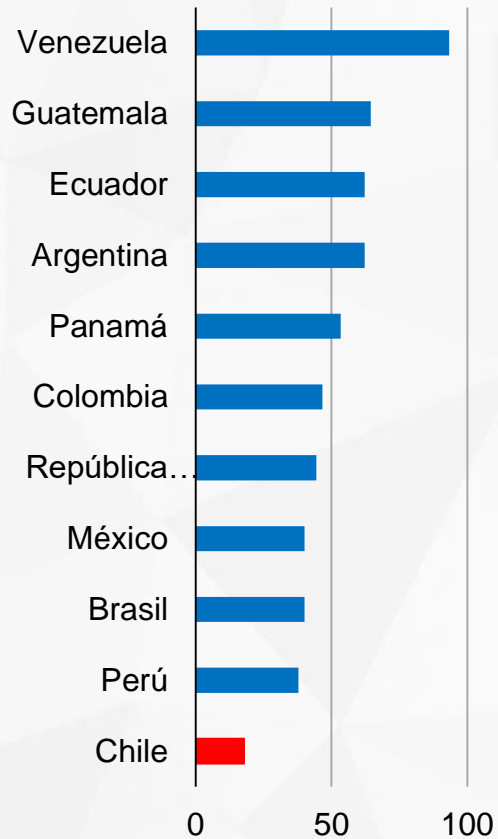


Chile's Exports Destination
(% of total)



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

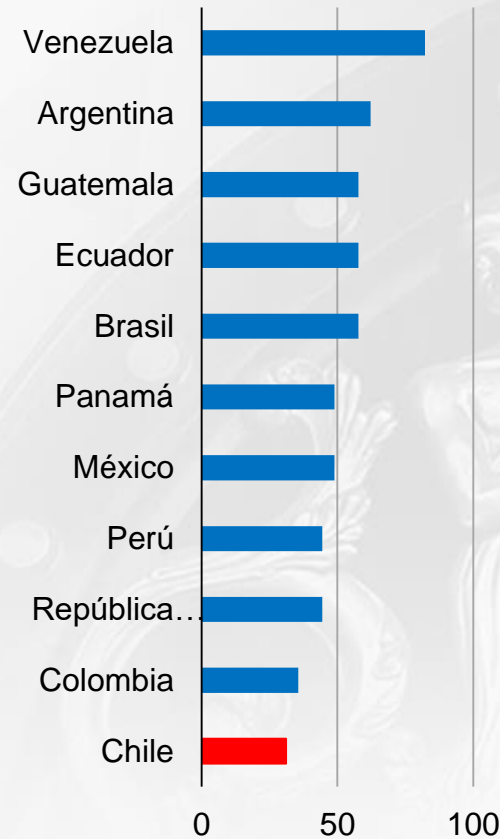
Regulatory and Legal Risk
(0 to 100 index, 100 = riskier)



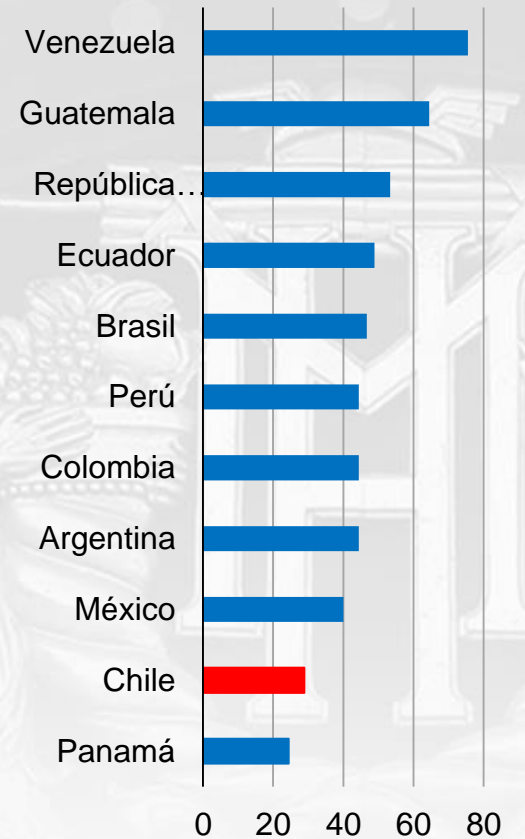
Tax Policy Risk
(0 to 100 index, 100 = riskier)



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



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



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

- Chile economy's fundamentals made possible a fast recovery and will play a key role to make it a sustainable process. Regulatory, tax, labor, and infrastructure-related risks stand amongst the lowest levels in the region, making Chile a safe and stable country to invest and bet on the long-run.
- As of November 2021, Chile has currently in force 30 Free Trade Agreements with 66 countries, representatives of the ~90% of global GDP, being the first Latin American country to conclude a comprehensive and so-called next generation agreement with the US.
- From early 2000's, Chile also became exporter of services, including financial services. The protection of investment rules and juridical architecture for foreign direct investment has been widely recognized as a fundamental achievement.
- On Trade Facilitation, the pandemic has showed and highlighted on the importance of procedures at the border for a smooth and efficient trade. 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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