

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



**Gobierno
de Chile**

Ministerio de Hacienda

**Investor Relations Office
Ministry of Finance
April 23rd, 2020**

COVID-19 in Chile

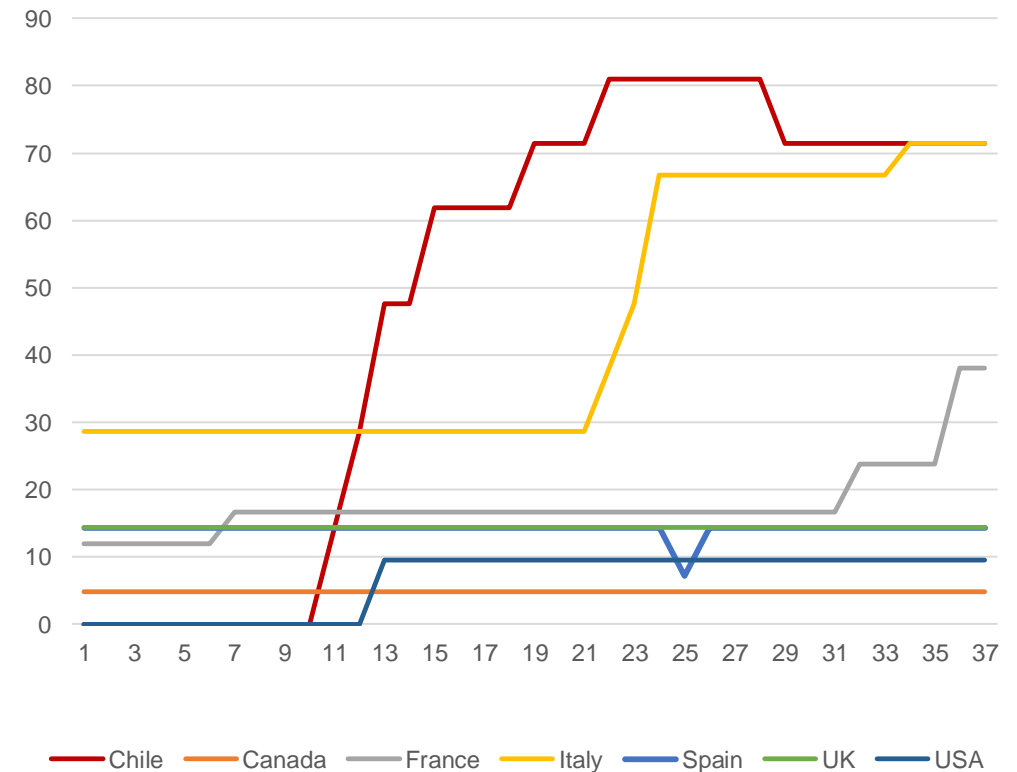
The government has acted early and gradually to reduce the speed of contagion.

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 frontiers
- ✓ 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 frontiers.

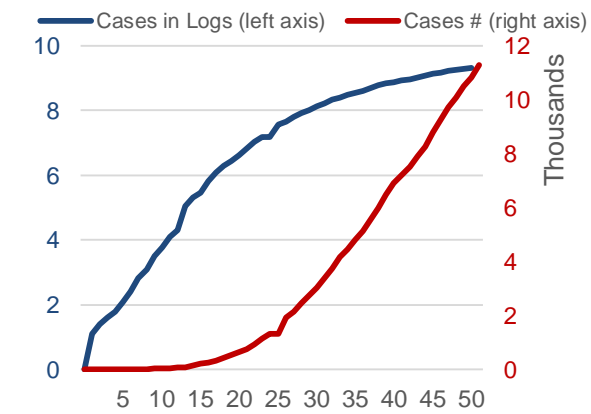
Stringency Index Across Select Economies

Index, Days after first confirmed case



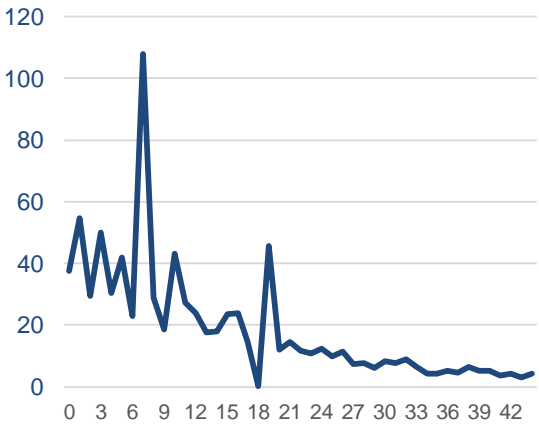
Towards the latter half of April, cumulative cases have topped 11,000, with new cases slowing gradually.

Cumulative COVID-19 Cases in Chile
Days after first Confirmed Case

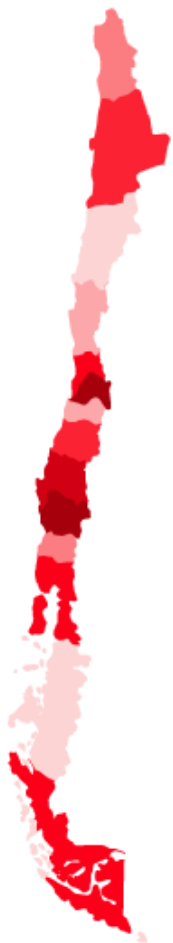


Source: Ministry of Health. Data through April 21th, 2020.

New Cases after 10th Case
Percent Change



Regional Distribution of Confirmed Coronavirus Cases



Región	Casos nuevos	Casos totales	% Total	Fallecidos
Arica y Parinacota	10	180	1.59%	2
Tarapacá	10	114	1.01%	0
Antofagasta	35	326	2.89%	2
Atacama	0	13	0.12%	0
Coquimbo	1	70	0.62%	0
Valparaíso	18	421	3.73%	7
RM	295	6083	53.85%	78
O'Higgins	2	59	0.52%	1
Maule	12	328	2.90%	10
Ñuble	9	703	6.22%	13
Biobío	22	658	5.83%	5
Araucanía	21	1113	9.85%	26
Los Ríos	4	171	1.51%	3
Los Lagos	13	445	3.94%	6
Aysén	0	7	0.06%	0
Magallanes	12	605	5.36%	7
Total	464	11296	100%	160

Source: Ministry of Health. Data through April 21st, 2020 at 21:00 hrs.

Total de casos activos

5.750

Nº de casos nuevos en el último día

464

Nº Total de contagiados

11.296

Total de personas fallecidas

160

Total de personas recuperadas

5.386

Nº total de exámenes realizados

128.722

Nº de exámenes realizados en las últimas 24 hrs.

6.365

Nº de pacientes conectados a ventilación mecánica invasiva por Covid-19

309

Nº de pacientes en estado crítico por Covid-19

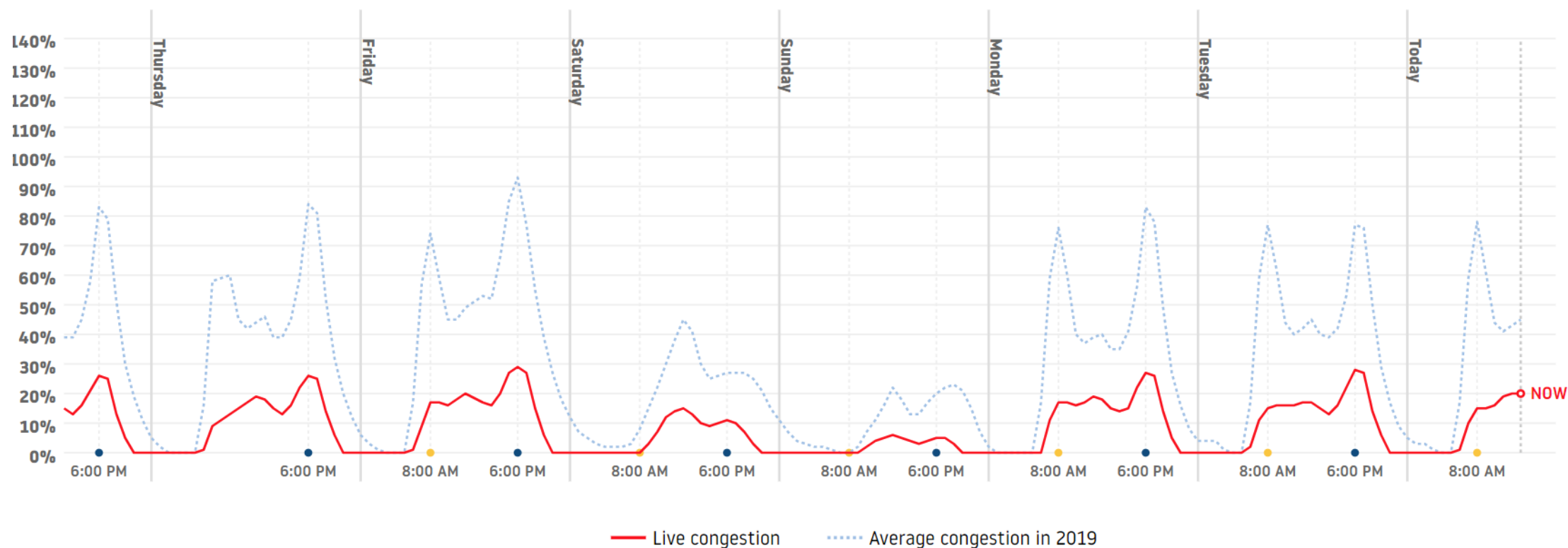
66

Fuente: Base de datos Ministerio de Ciencia, en base a Reporte Diario Coronavirus Ministerio de Salud. Información actualizada hasta las 21 horas del día anterior.

Fuente: Base de datos Ministerio de Ciencia, en base a Reporte Diario Coronavirus Ministerio de Salud. Información actualizada hasta las 21 horas del día anterior.

In Chile, novel data suggests the population has largely complied with containment measures

Traffic Congestion in Santiago between April 16th-April 22nd



In Chile, novel 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)

Retail & recreation

-75%

compared to baseline



Parks

-74%

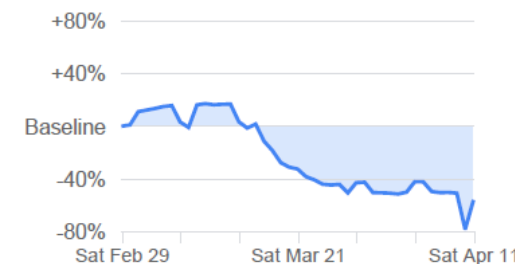
compared to baseline



Workplaces

-56%

compared to baseline



Grocery & pharmacy

-51%

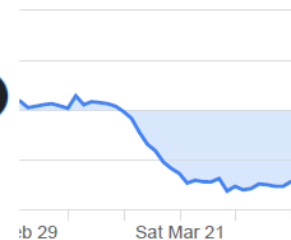
compared to baseline



Transit stations

-67%

compared to baseline



Residential

+26%

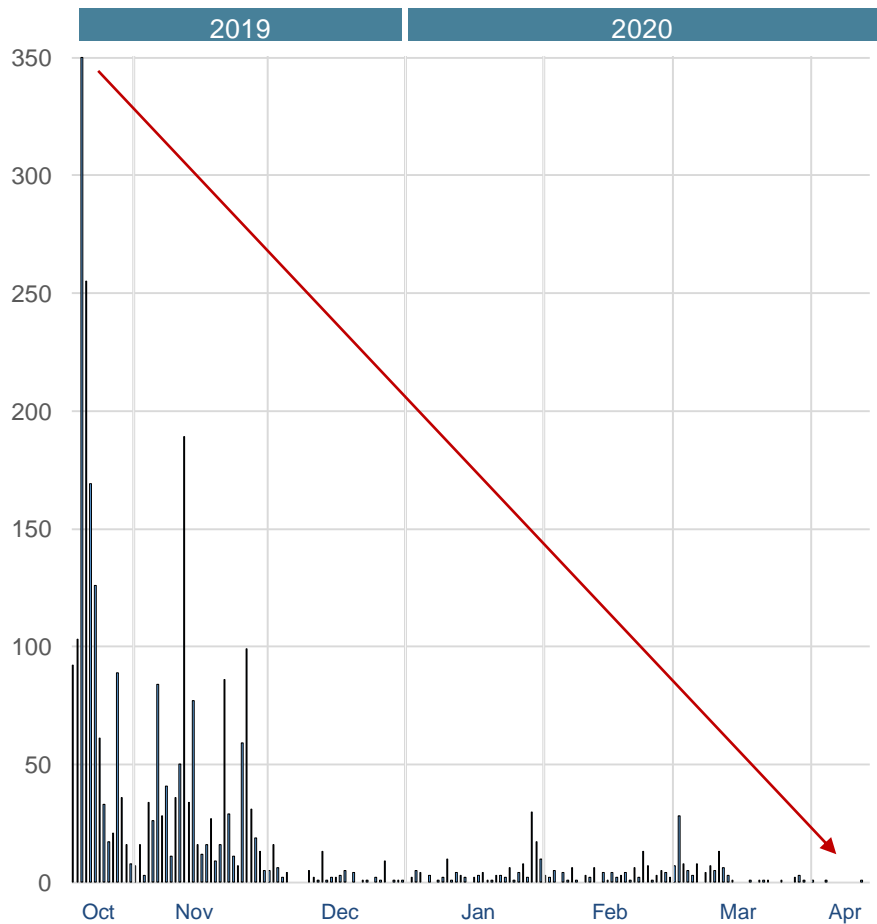
compared to baseline



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 Institutions¹ and Industries²

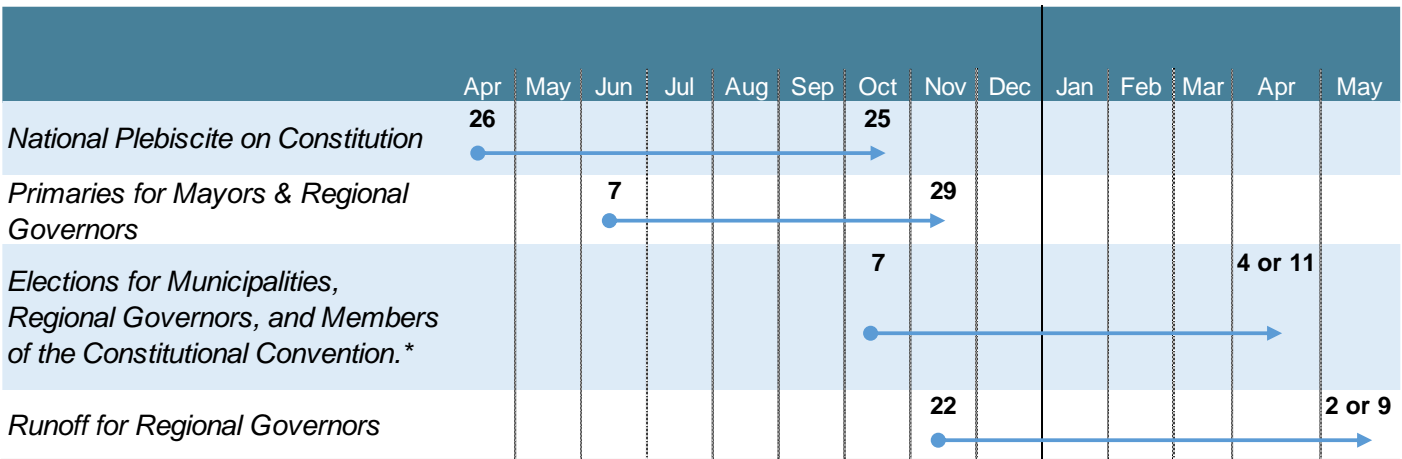
CADEM survey, April 6th 2020

	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 "muchísima confianza."

Adjustments to the Political Calendar



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. Ensure the availability of fiscal resources for the public health sector;
2. Protect Incomes & Jobs;
3. Inject liquidity into the real economy.

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

Country	Days since first confirmed case
Chile	16
Korea	16
Brazil	19
Colombia	21
Peru	24
Japan	43
Germany	45
France	48
Philippines	49
USA	52
Canada	54
Italy	54
Singapore	57
Thailand	71
China	88

Source: Central Bank of Chile.

An overview of the MoF's announcements

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	

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 and maximum coverage 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 also agreed to defer payments on installments of outstanding loans for at least 6 months;
- Policy has been coordinated with the Central Bank of Chile and the Financial Markets 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*



- Policy rate cut to 0.5% (technical minimum);
- New Conditional Financing Facility (*FCIC*): banks have access to 4-year loans at the policy rate, 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)*



- 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)
 - 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.

* 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](#).

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 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.
- As of April 20th, personal UI accounts amounted to ~USD7.4 billion, and the Solidarity Fund had ~ USD3.4 billion.

Employment Protection Law

Data for the period between April 8-15th shows that 56,986 firms that employed 786,790 workers had registered their intention to resort to this Law.

As of April 16th, about half of these firms (23,097) had enrolled the worker payroll with the UI system. 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 due to the coronavirus pandemic.

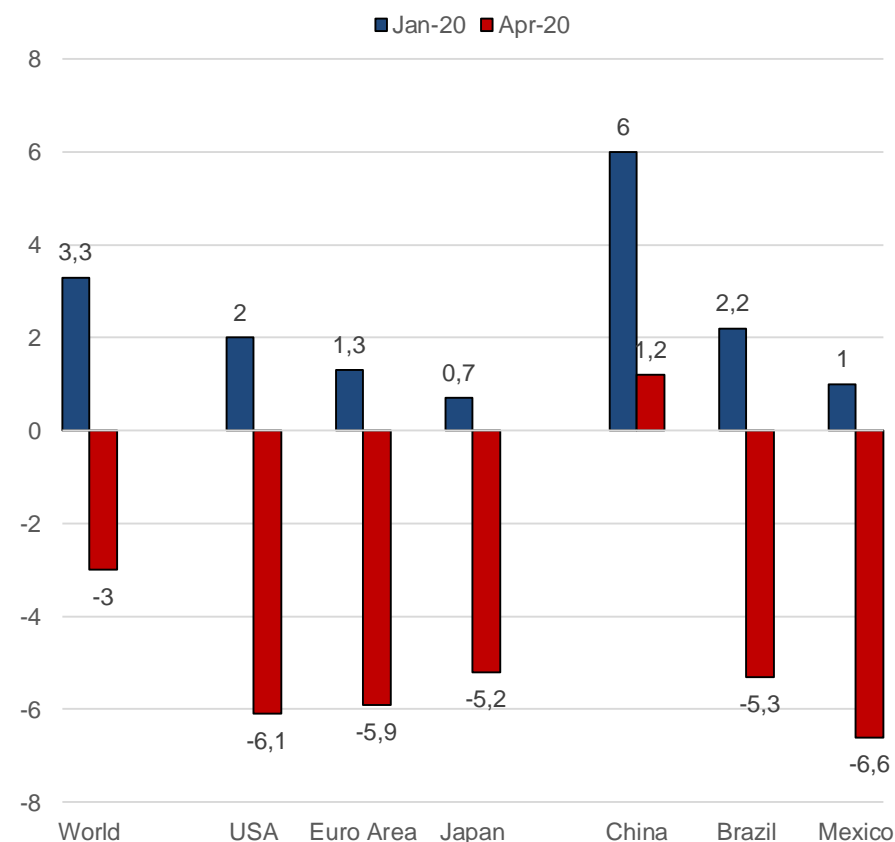
Preliminary information suggests 90% of the registered firms have ≤ 10 workers, and 94.8% are MSMEs. Large firms (≥ 200 workers) have been 3% of the registered firms.

Macro-fiscal Forecasts

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

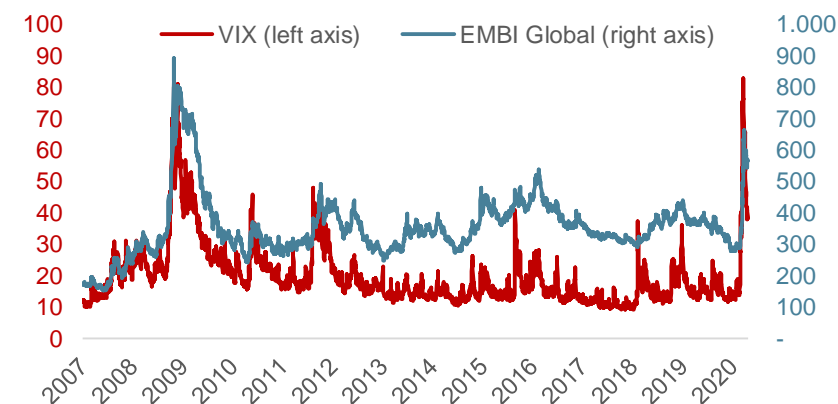
IMF's GDP Growth Forecasts for 2020

Percent Change



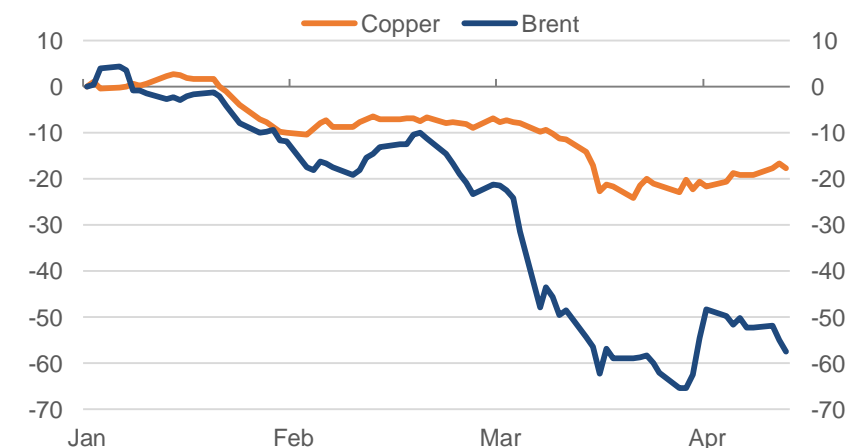
VIX & EMBI Global

Percent Change; basis points



Year-to-date change in Futures Prices

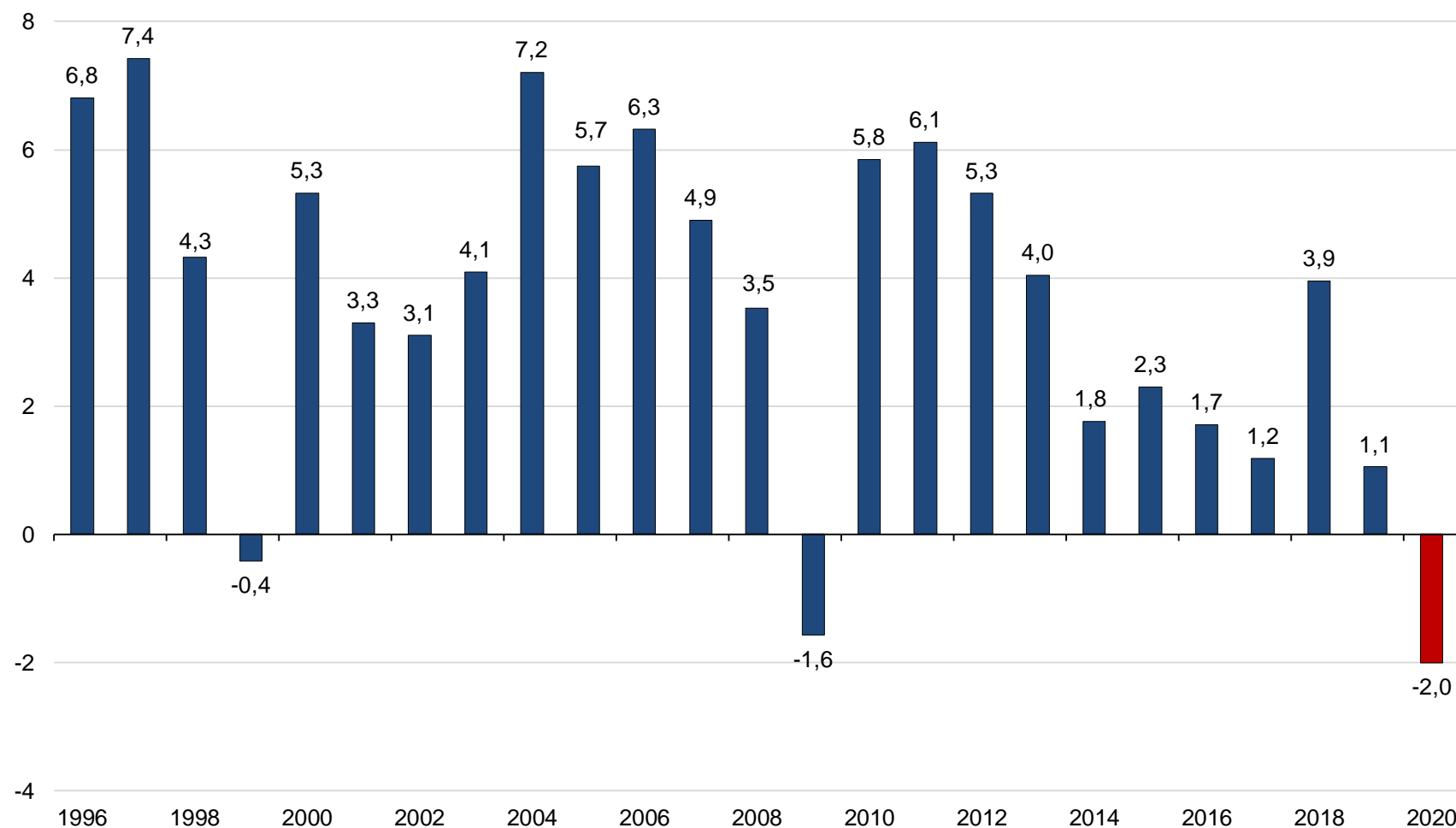
Percent Change relative to 1/1/20. Data through 4/15/20



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

Chile's Real GDP: Actual & Forecast

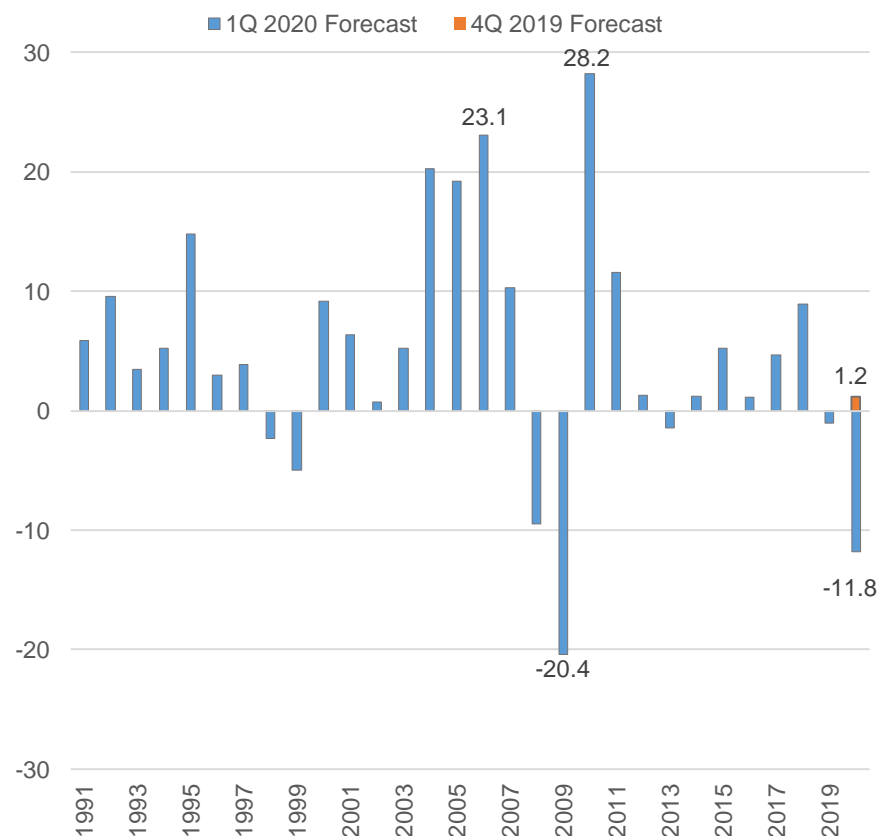
Percent year-on-year



Revenues and expenditures reflect COVID19's impact and policy response

Central Government's Revenue (1991-2020F)

Percent change in real terms

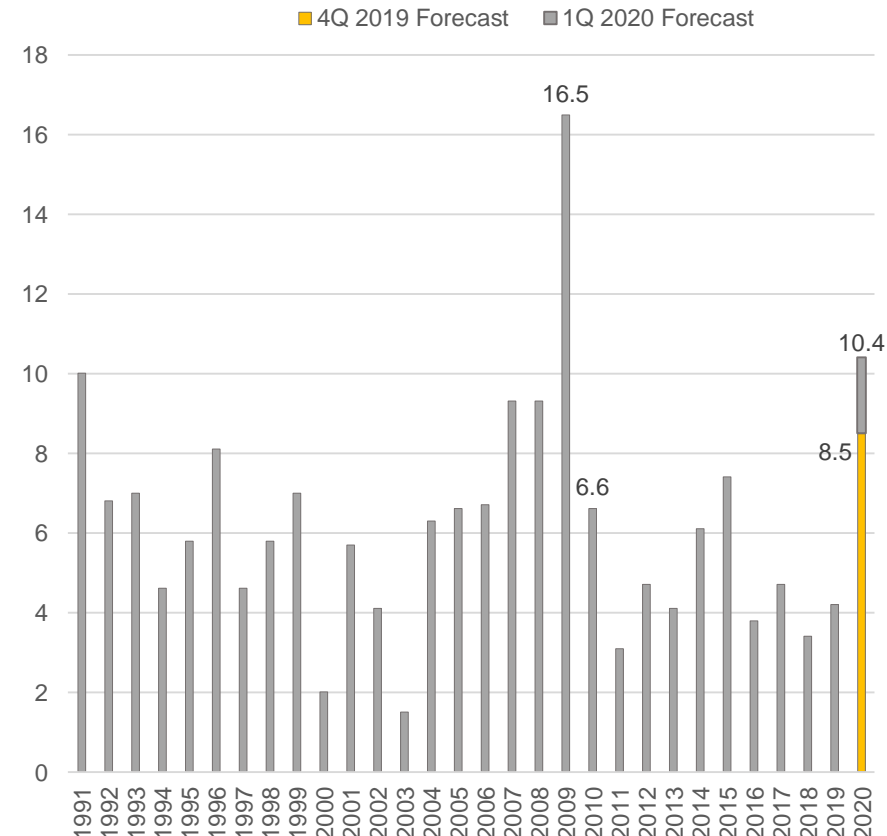


The 12.7% fall in real revenue growth with respect to the February projection is explained by tax and administrative measures that revert in 2021 (6.9%) and lower growth (5.8%).

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



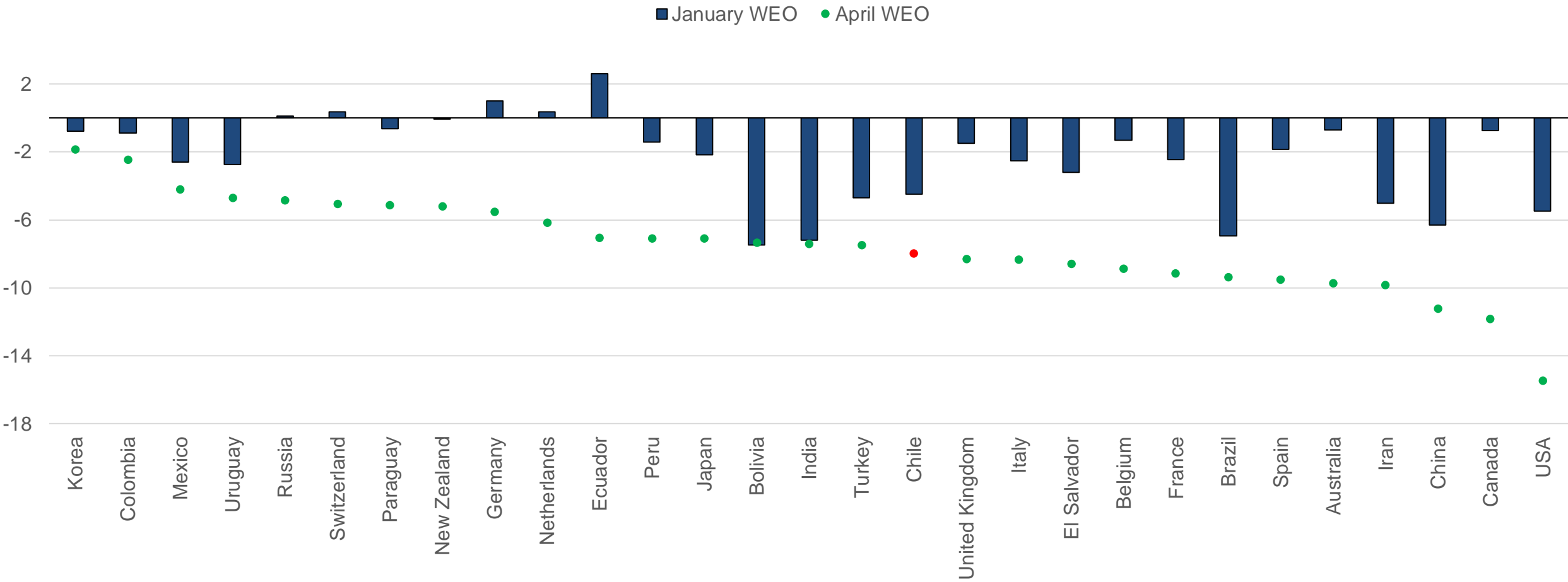
Real expenditures in 2020 are projected to rise by 10.4%, up from the 8.4% forecasted in February, driven by fiscal measures implemented to support the economy in the context of the COVID-19 shock.

As a result, expenditures as a share of GDP are expected to rise to 27% by end-2020.

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

Headline Fiscal Balances Across Select Economies

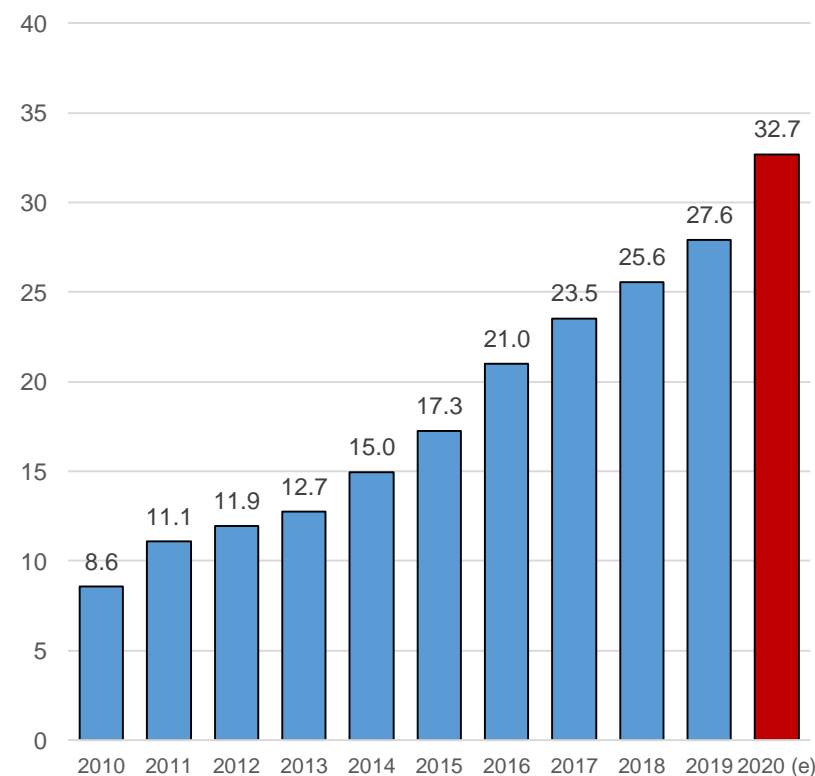
Percent of GDP



Debt has risen, but remains low relative to peers.

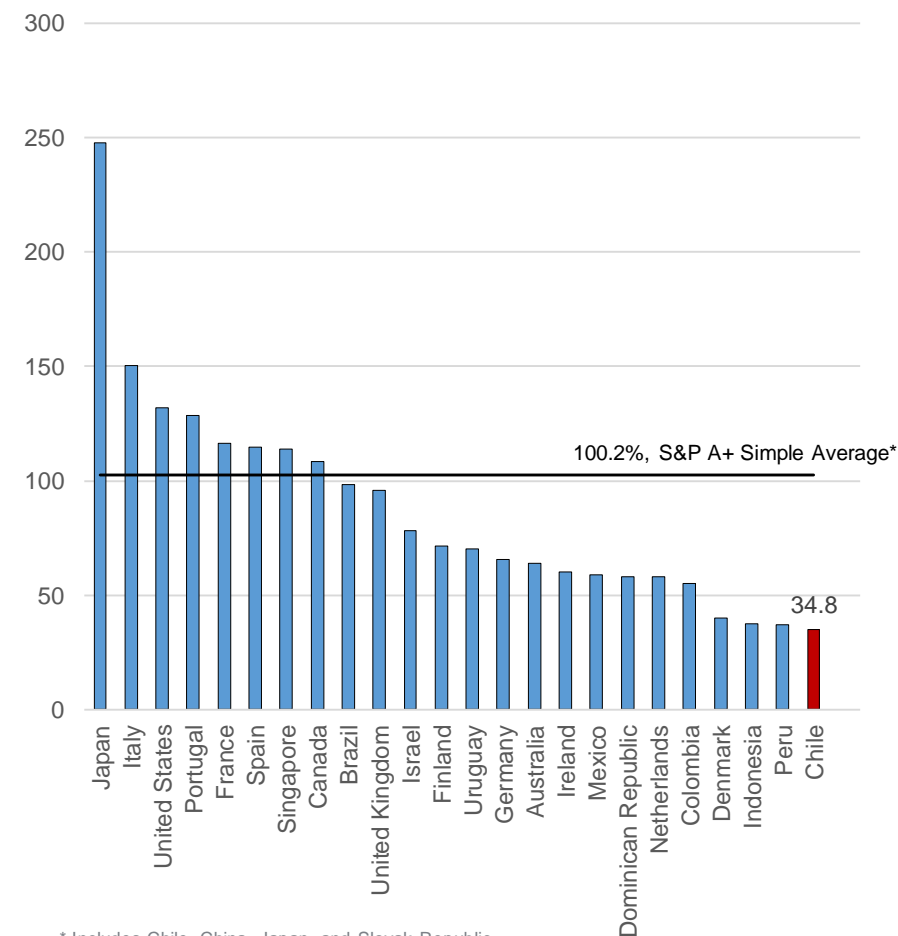
Central Government's Gross Debt

Percent of GDP



Gross Public Debt Forecast for Selected Economies

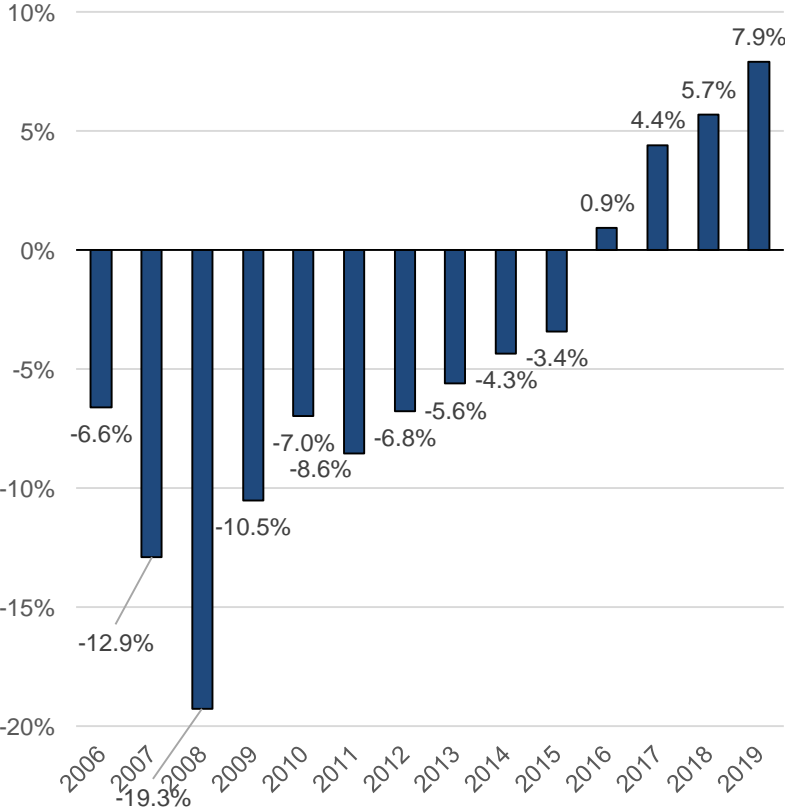
Percent of GDP, 2021



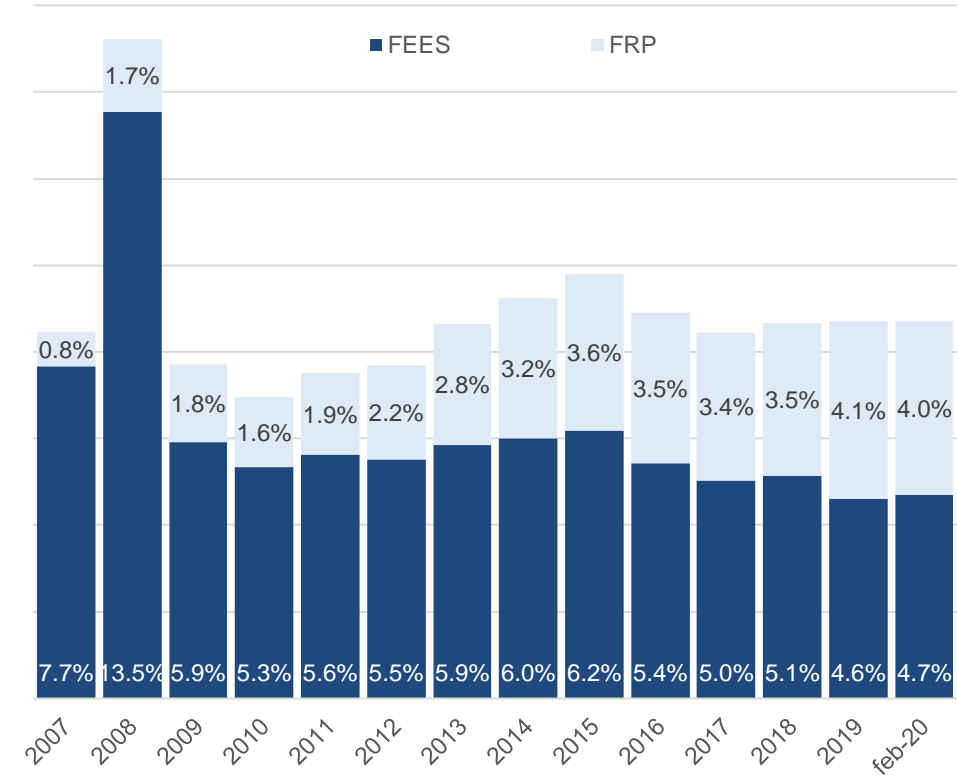
* Includes Chile, China, Japan, and Slovak Republic
Source: All forecasts are from the IMF's Fiscal Monitor April 2020.

Chile has fiscal space to support the economy.

Central Government's Net Debt
Percent of GDP

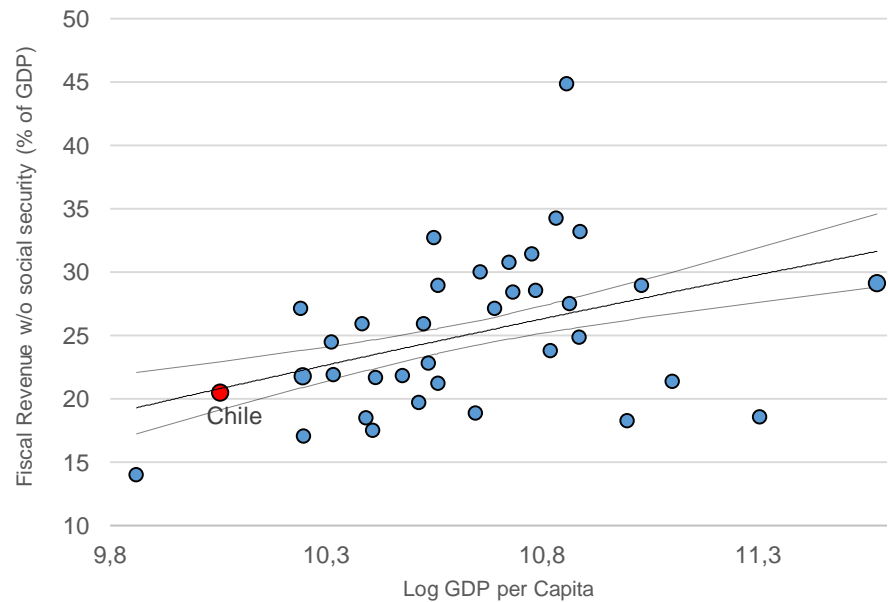


Sovereign Wealth Funds
Total Assets as a Percent of GDP

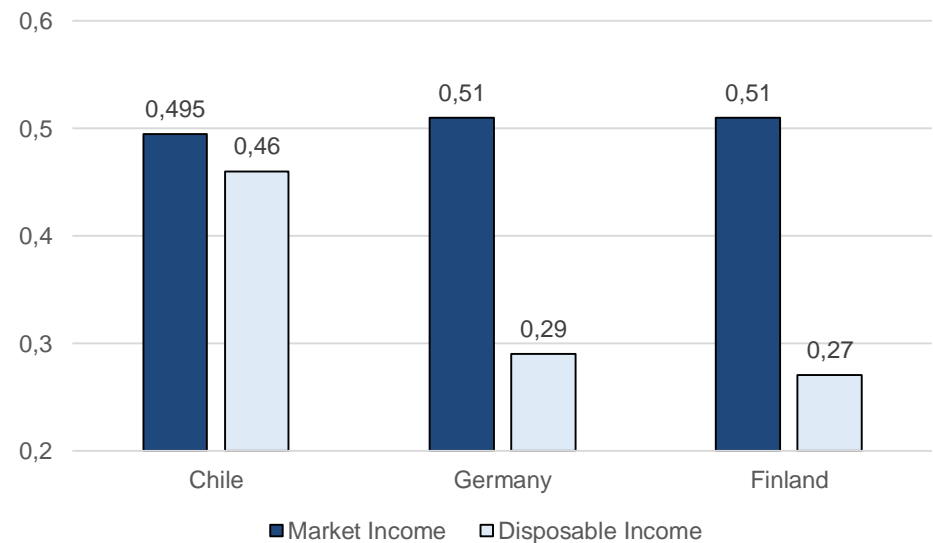


Looking ahead, we will further strengthen our efforts to improve effectiveness and efficiency of fiscal spending.

Income & Fiscal Revenue* in OECD Economies



Gini Coefficients based on Market & Disposable Income Index



Source: Ministry of Finance based on OECD data.

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.

The Chilean Economy in the context of the COVID-19 shock



**Gobierno
de Chile**

Ministerio de Hacienda

**Investor Relations Office
Ministry of Finance
April 23rd, 2020**