

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



**Gobierno  
de Chile**

Ministerio de Hacienda

**International Finance  
Ministry of Finance  
August, 2020**

## Main messages.

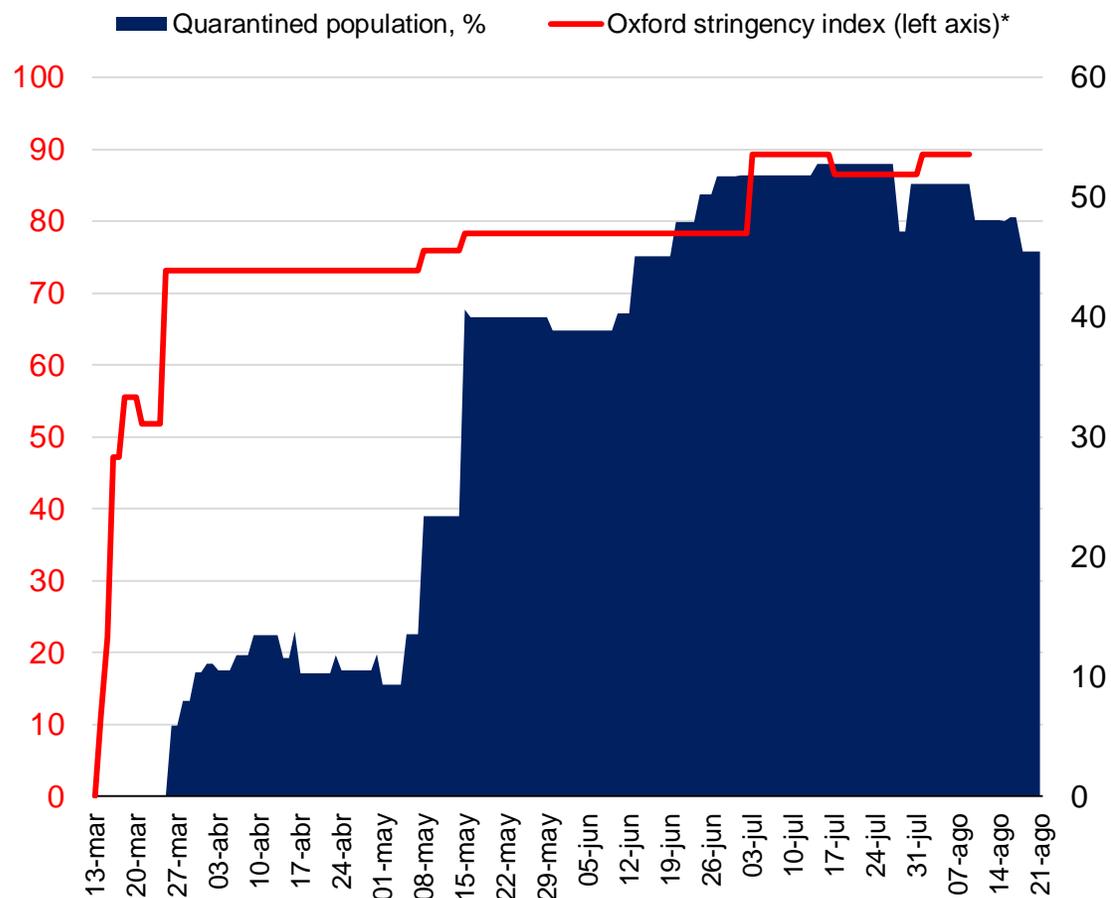
- After several weeks of falling new COVID-19 cases, strict social distancing measures have been gradually and partially lifted in certain areas of the country, based on progress in quantitative metrics.
- Reflecting the impact of the measures taken to contain the pandemic, the Chilean economy experienced sizable sequential contractions between March and May, and an improvement at the margin in June. That being said, activity has been uneven across sectors, with output in the mining sector increasing in annual terms, and other service sectors falling sharply.
- The policy response has been swift and decisive.
  - The Government has announced policies that mobilize up to ~USD28.3 billion in fiscal resources, providing adequate resources for the health sector, supporting households and firms, and injecting liquidity to the real economy.
  - After taking the policy rate to its technical minimum and actively implementing several unconventional measures to support liquidity and credit, the Central Bank of Chile continues to assess options to intensify the expansionary stance and support financial stability.
- In this context, despite recent local and international developments, domestic financial conditions have remained stable, with long-term interest rates falling, corporate and bank spreads narrowing, and the local stock exchange trading sideways. In the credit space, commercial loans continue to increase, in contrast to consumer loans.
- With the global economy in a deep recession, international financial conditions that have eased in recent months, and unprecedented policy support, the Chilean economy is projected to contract by 6.5% in 2020 and snapback towards 5.5% in 2021, albeit with significant uncertainty in the forecast due to the evolution of the pandemic. Pension fund withdrawal requests for ~USD14bn as of mid-August are also expected to provide transitory support to consumption in the short-term.
- The recovery towards 2021 will be aided by fiscal efforts that boost public & private investment, promote job retention and creation, and continue to support SMEs.
- The debt issuance plan for the current calendar year announced in April 2020 has been almost entirely completed; with financing needs and sources (assets/debt) for 2021 to be announced in the next few months.

# COVID-19 in Chile

# The economy has been under strict containment for several months, with mobility measures suggesting the population has largely complied.

## Share of Population in Quarantine

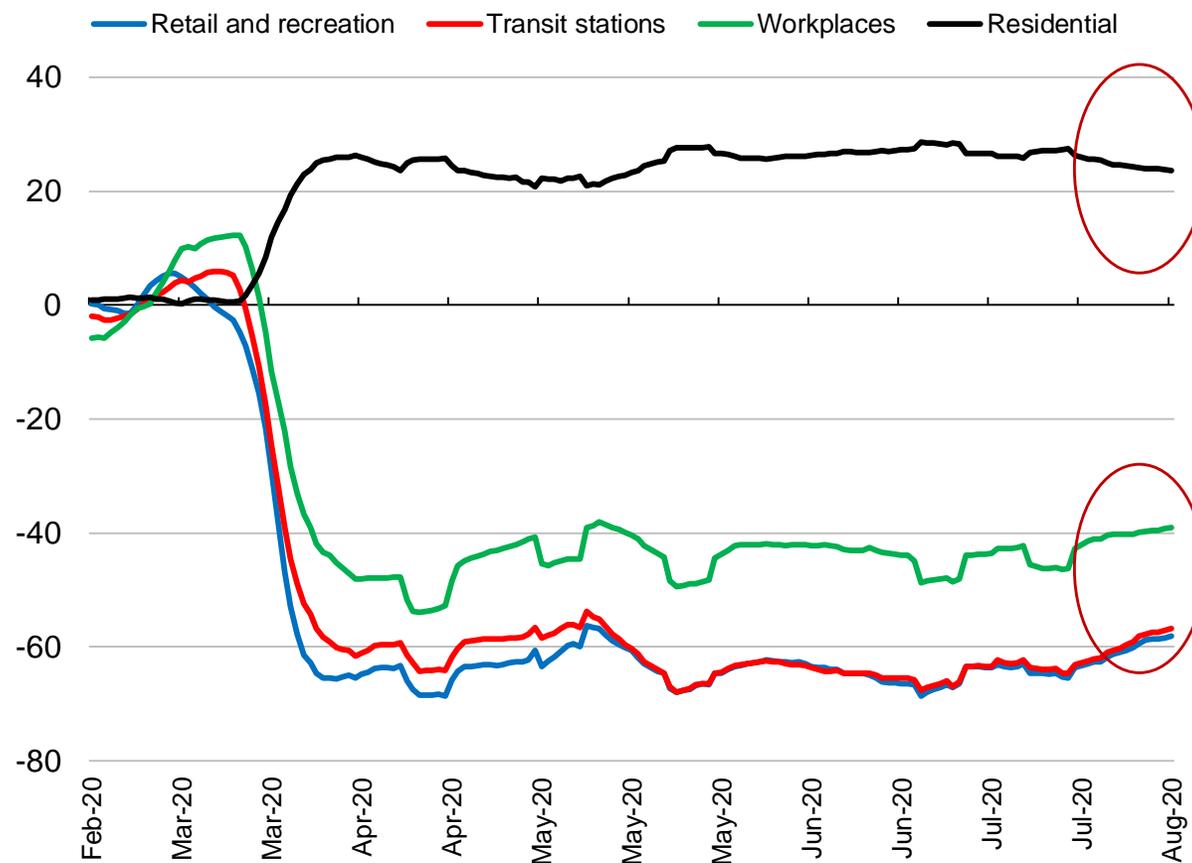
Percent



Source: Ministry of Finance, Oxford Stringency Index, \* Index 0-100, where 100 is strictest.

## Mobility Index for Chile

Percent, median value, for the corresponding day of the week, during the 5-week period Jan 3<sup>rd</sup>-Feb 6<sup>th</sup>.

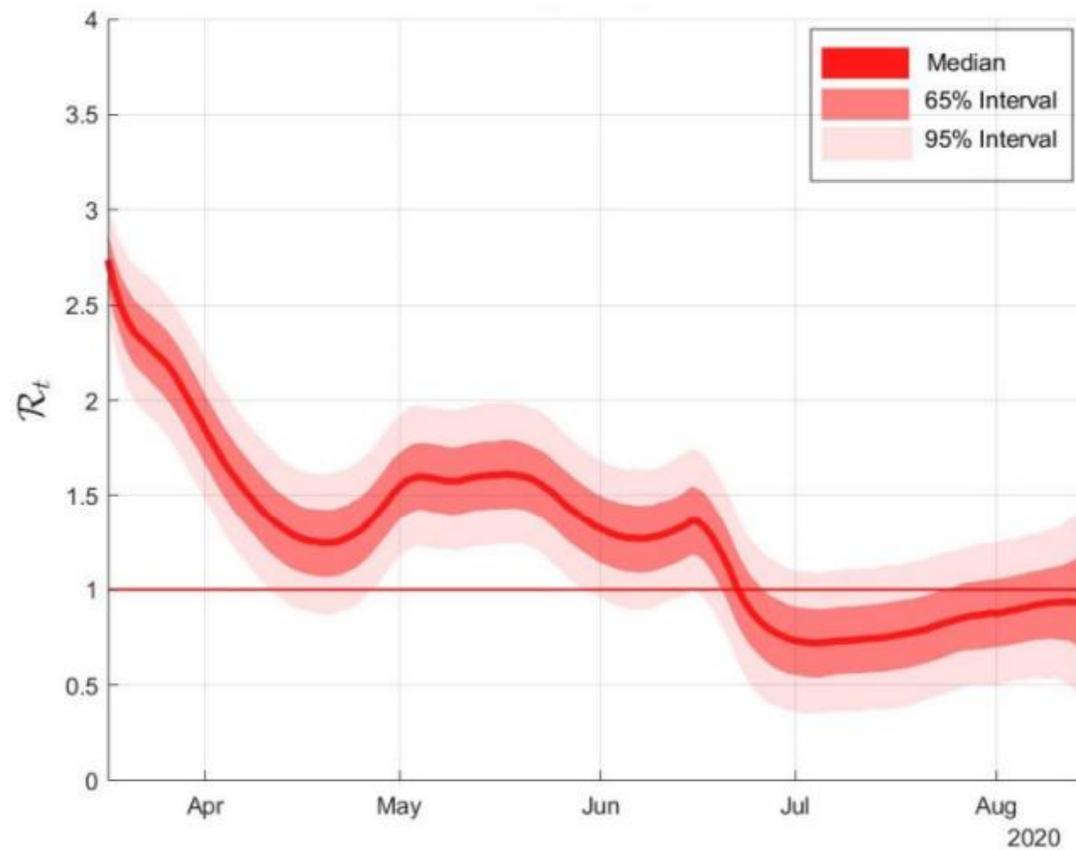


Source: Ministry of Finance based on Google's Community Mobility Report.

## New confirmed cases have been declining for several weeks.

Estimated COVID-19 Effective Reproduction Number

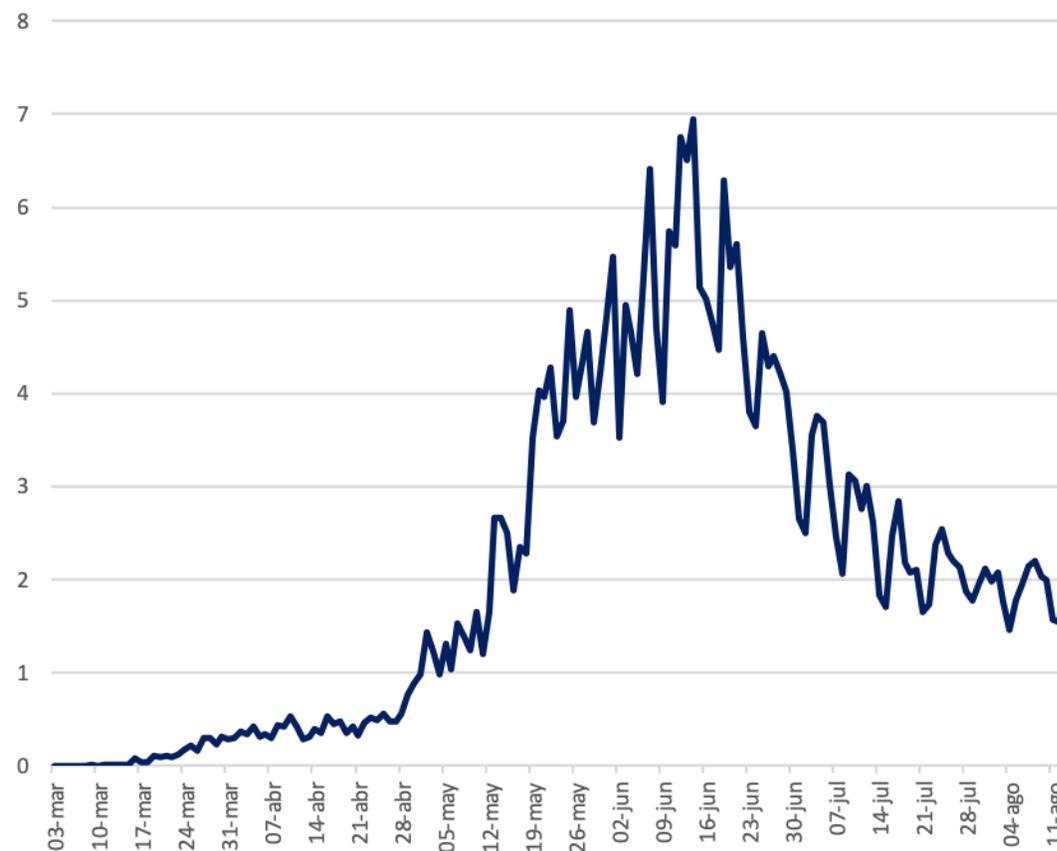
March 17<sup>th</sup> – August 14<sup>th</sup> 2020.



Source: TrackingRt; <https://sites.google.com/g.ucla.edu/trackingrt/home?authuser=0>

COVID-19 Cases in Chile: New Daily Confirmed Cases

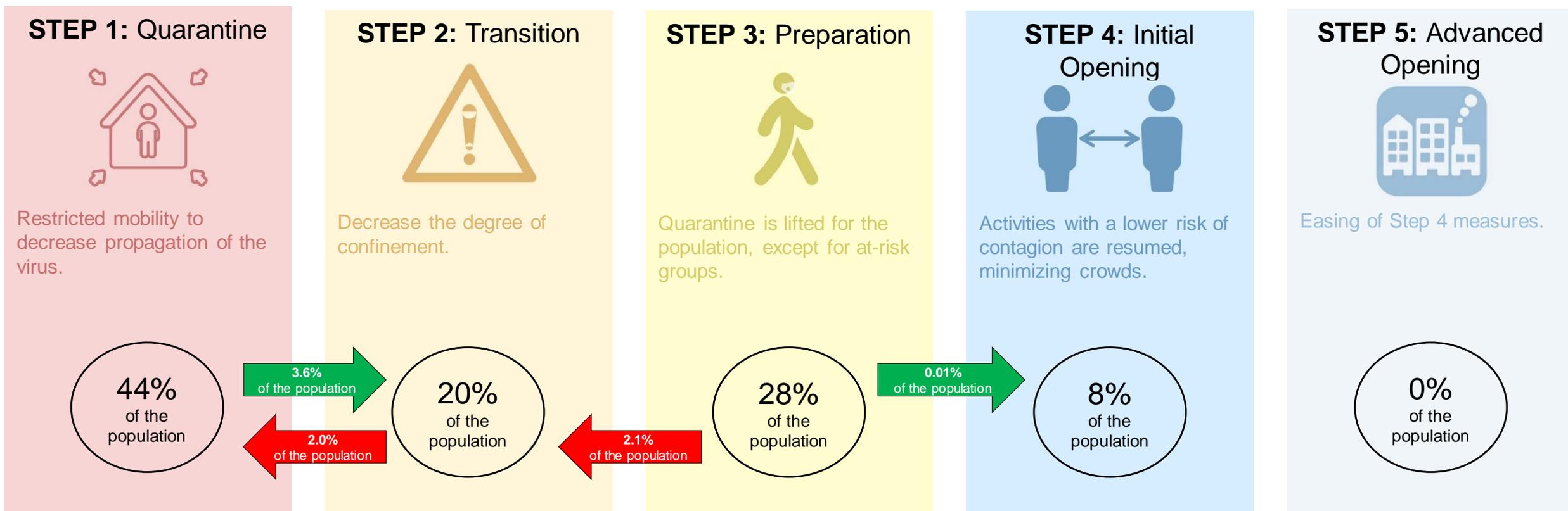
People, thousands. March 3<sup>rd</sup> – August 13<sup>th</sup> 2020.



Source: Ministry of Health.

## Step-by-Step Plan

The Government of Chile announced the Step-by-Step plan on July 20th, which provides general guidelines for the gradual lifting of sanitary measures. The plan considers 5 stages or gradual steps, ranging from Quarantine to Advanced Opening, each with specific restrictions and obligations. Movements between stages depend on epidemiological indicators, healthcare network and traceability.

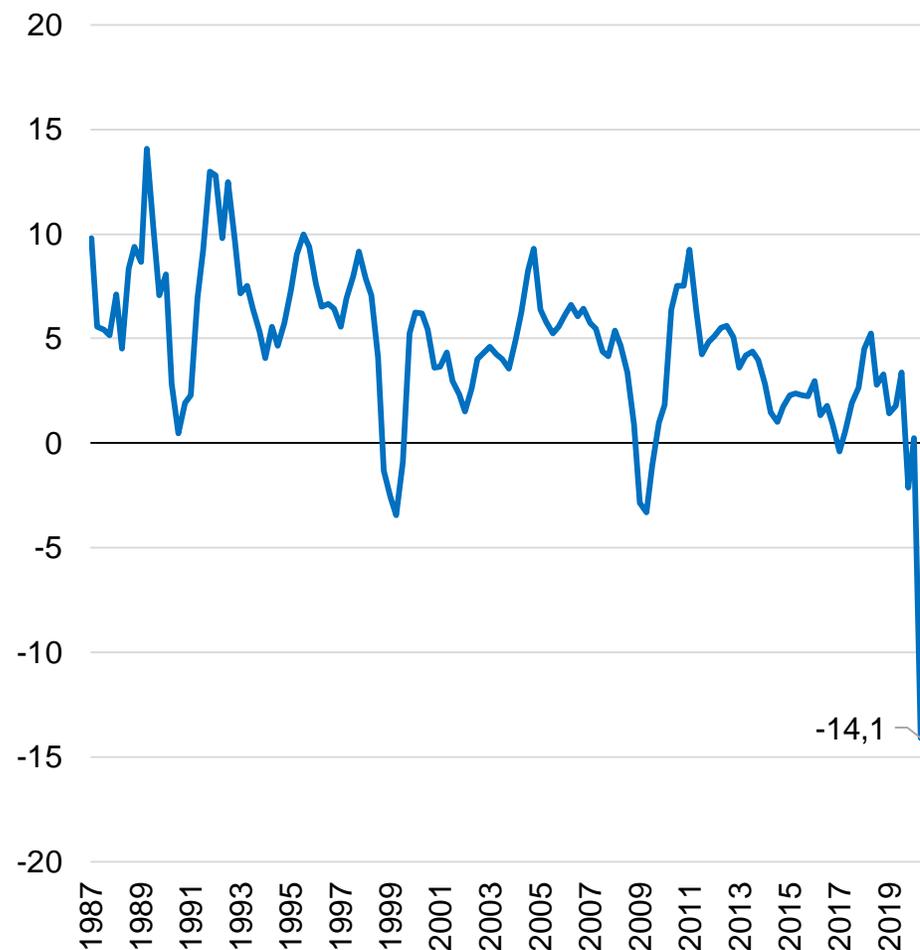


# Recent Economic Performance

# As expected, social distancing measures have triggered a major decline in Chile's economic activity, albeit not as pronounced as in other economies.

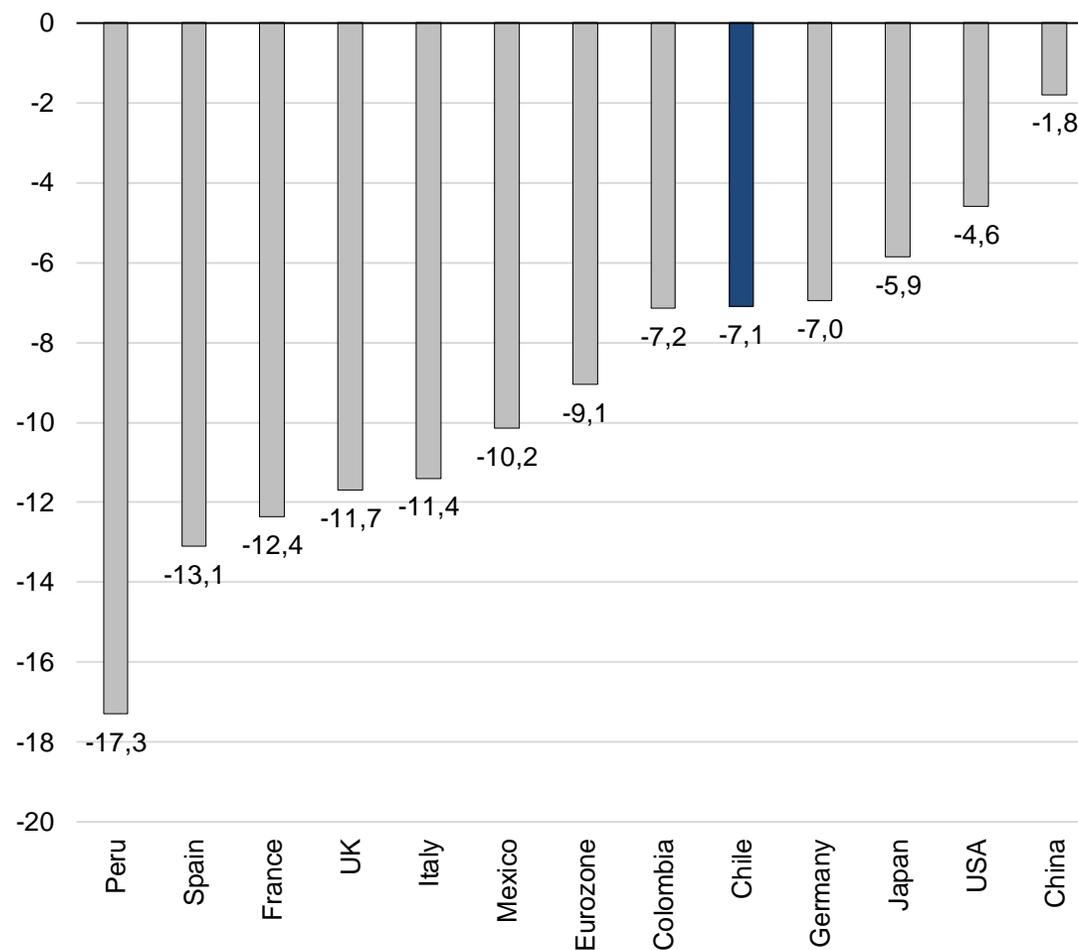
Real GDP at a Quarterly Frequency

Percent, year-on-year, 1986Q1:2020Q2



Real GDP in the First Semester of 2020 across Select Economies

Percent change, year-on-year



# The impact across sectors has been uneven.

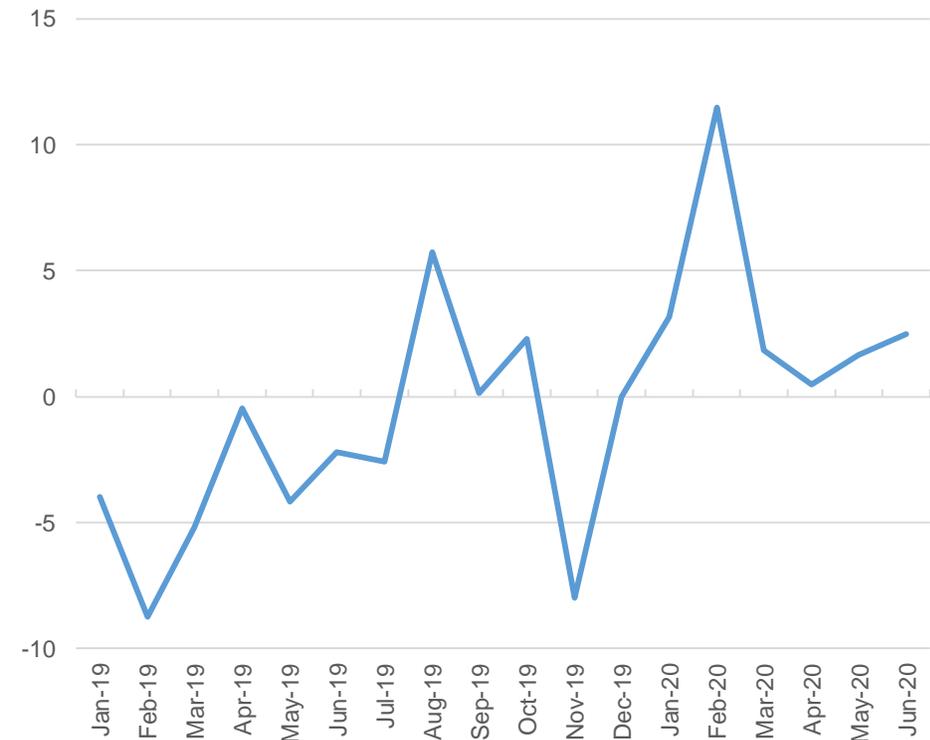
**Sectors reliant on face-to-face contact\***

Percent change, year-on-year



**National Monthly Activity Proxy for Mining (IMACEC Minero)**

Percent change, year-on-year

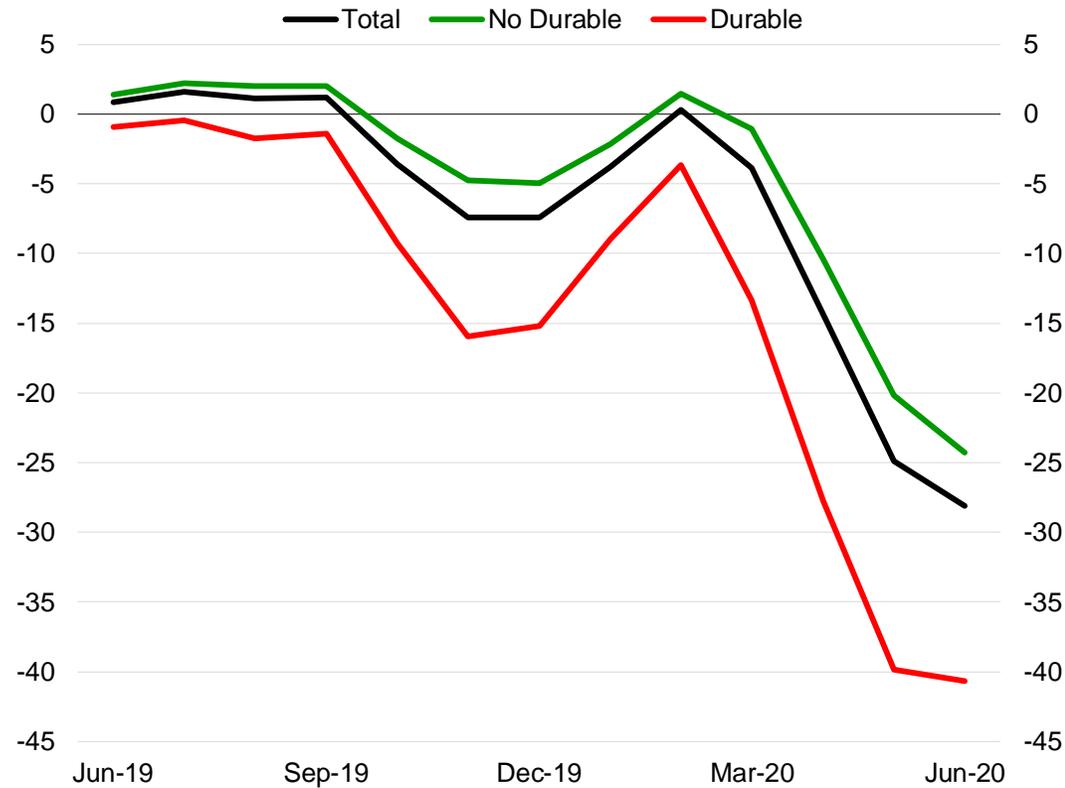


\* Corresponds to the weighted average of the annual variation between the sectors of Commerce, Restaurants and hotels, Transportation and Personal services. Weights are based on the share of each item in 2019 GDP.

# Retail sales continue to fall, while expectations improve at the margin, still in negative territory.

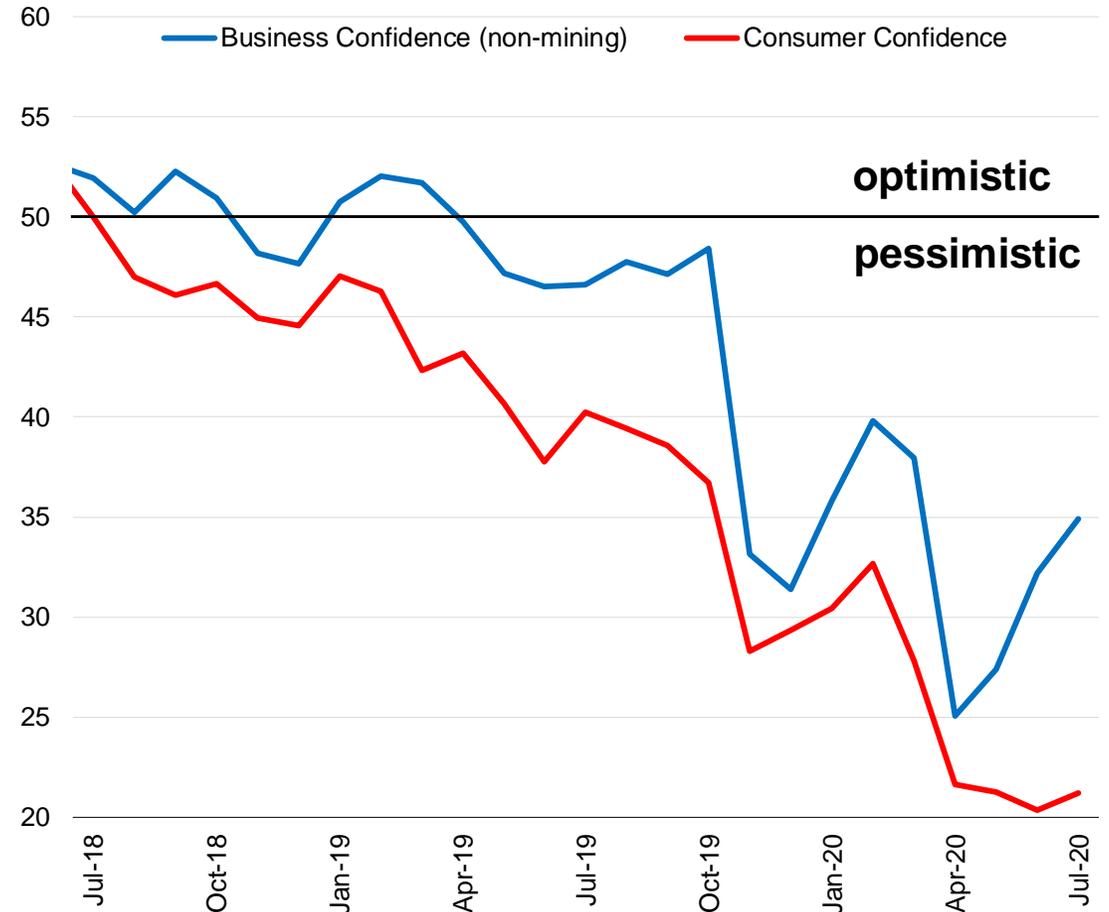
## Retail Sales in Real Terms

Percent change, year-on-year 3mma



## Expectations

Diffusion index, 50 = neutral



# The decline in imports reflects domestic demand conditions, while the mining sector has supported the improvement in exports.

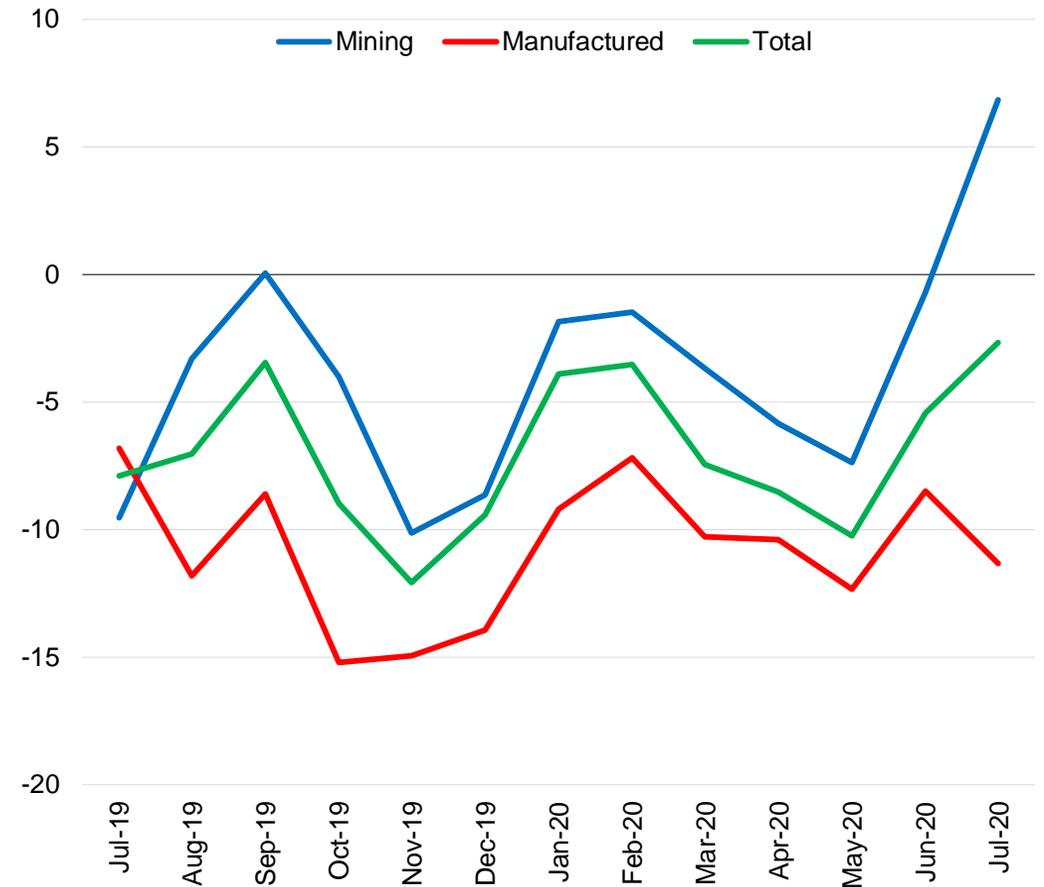
Imports in Nominal Terms

Percent change, year-on-year 3mma



Exports in Nominal Terms

Percent change, year-on-year 3mma

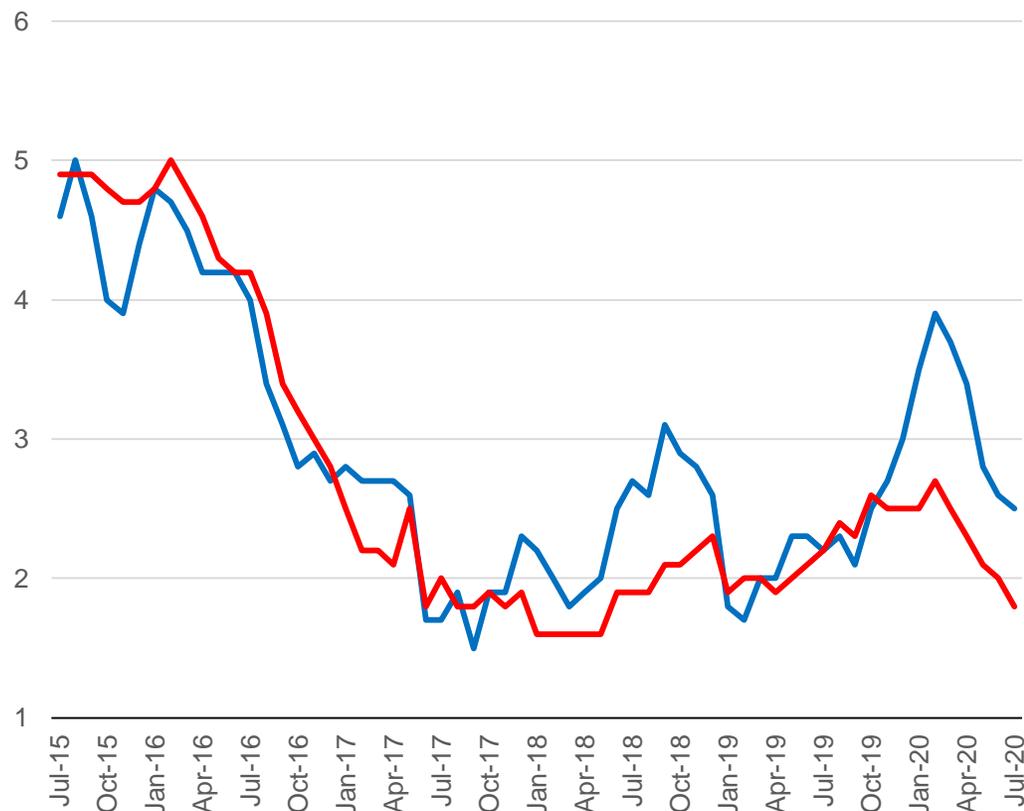


# Inflation has fallen recently, with expectations pointing towards low prints ahead.

**Inflation: Headline & Core**

Percent change, year-on-year

— IPC — IPC SAE



**Inflation Expectations 1-year ahead**

Percent

— Economists — Financial Operators



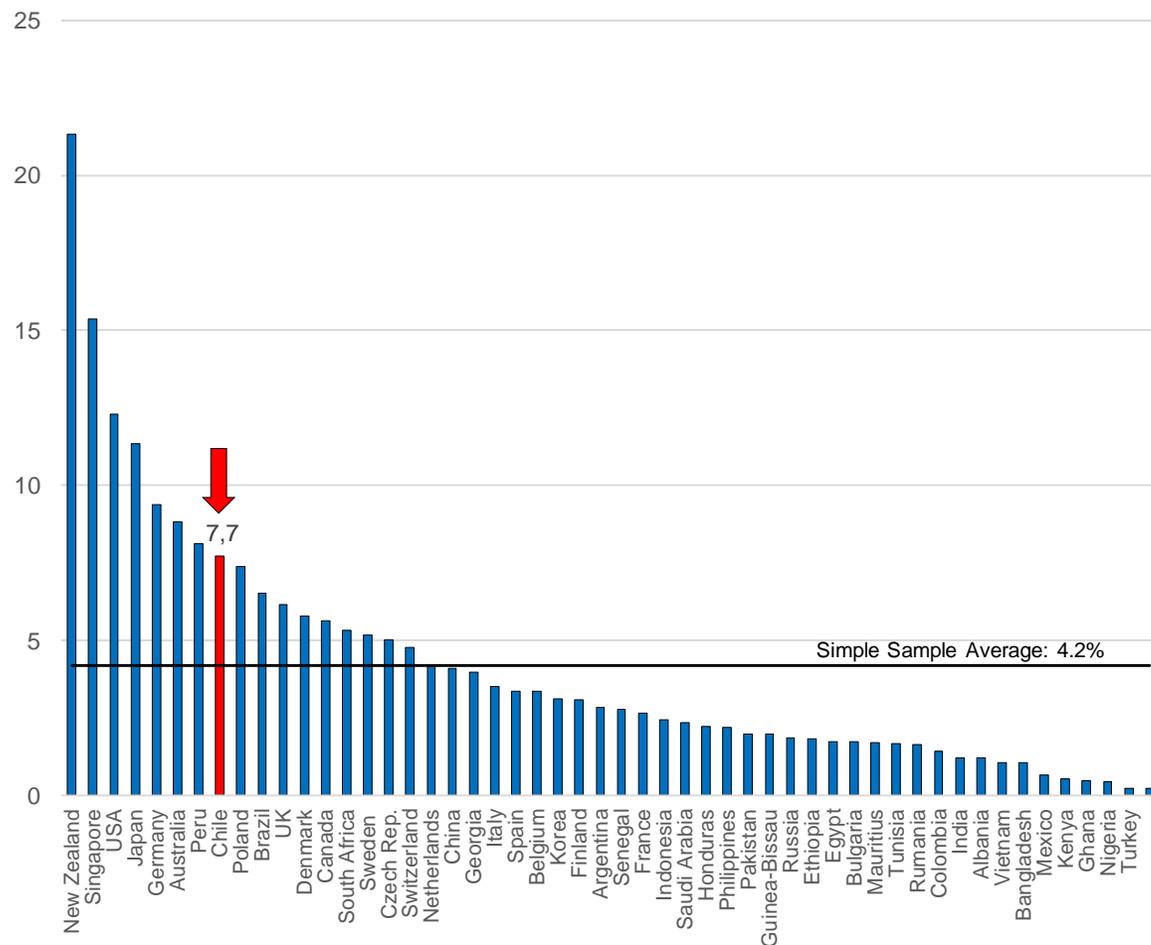
## **Fiscal policy announcements thus far imply the mobilization of ~USD28.3 billion (11.3% of GDP).**

- Measures are transitory in nature, contributing to the fiscal consolidation process thereafter;
- Administrative and legislative initiatives were implemented swiftly;
- Several policies build on already existing institutions and mechanisms that have proved to be effective in the past, such as the state-credit guarantee mechanism (FOGAPE), and the unemployment insurance system;
- Data on the implementation of these measures has been readily available on a timely basis, facilitating their evaluation and the calibration of additional measures;
- Policies geared towards strengthening the credit channel in the economy have been coordinated with the Central Bank of Chile and the Financial Market Commission, thereby enhancing their impact and effectiveness.

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

## Above the Line Fiscal Policy Measures in Select Economies

Percent of GDP



Source: Ministry of Finance, based on IMF data as of July 3rd, 2020.

## Announcement of Economic Measures in Select 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.

## Elements of Fiscal Packages in Select Economies

	Chile	Advanced Economies							Emerging Market Economies							
		US	JP	DE	FR	IT	ES	GB	BR	CN	ID	IN	KR	MX	RU	ZA
<b>Supporting the health sector</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Supporting households</b>																
Transfers (1)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other labor income (2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wage subsidies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tax cuts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tax deferral	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Supporting Firms</b>																
Tax deferral	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Liquidity support (3)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tax cuts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Ministry of Finance based on BIS data. (1) includes cash and in-kind transfers to affected households. (2) extended unemployment and sick leave benefits (3) non-budgetary measures such as equity injections, asset purchases, loans and debt assumptions or government guarantees and contingent liabilities.

## Policy measures have reached households and firms.

- Tax-related measures totalling USD3.3 billion during April-June have supported households and firms by postponing and/or suspending tax payments;
- 1.5 million households received a total of USD166 million in cash transfers in April;
- Since mid-June, ~6.5 million people have received a total of ~USD 1.4 billion in emergency household incomes;
- Since late June, over 270,000 requests totalling USD 84 million have been paid out to independent workers;
- Since August 1<sup>st</sup>, over 1 million cash transfers for the middle class totalling ~USD470 million have been paid out; separately over half a million requests for loans directly from the Treasury.

## Progress can be monitored at: [reporte.hacienda.cl](https://reporte.hacienda.cl)

Plan Económico de Emergencia COVID-19:  
Avances y Cumplimiento

**49** Medidas Económicas y Sociales desde inicio COVID-19  
Ministerio de Hacienda

**PROTECCIÓN DE LOS EMPLEOS E INGRESOS LABORALES**

- Beneficio a Trabajadores Independientes
- Ley de Protección al Empleo

**INYECCIÓN DE LIQUIDEZ PARA APOYAR A LAS EMPRESAS**

- Ampliación de garantías estatales para créditos (FOGAPE)
- Compra Ágil
- Medidas Tributarias - Liquidez

**APOYO A LOS INGRESOS DE LAS FAMILIAS**

- Bono de Emergencia COVID-19
- Fondo Solidario a Municipios
- Ingreso Familiar de Emergencia
- Medidas Tributarias - Ingresos de Familias

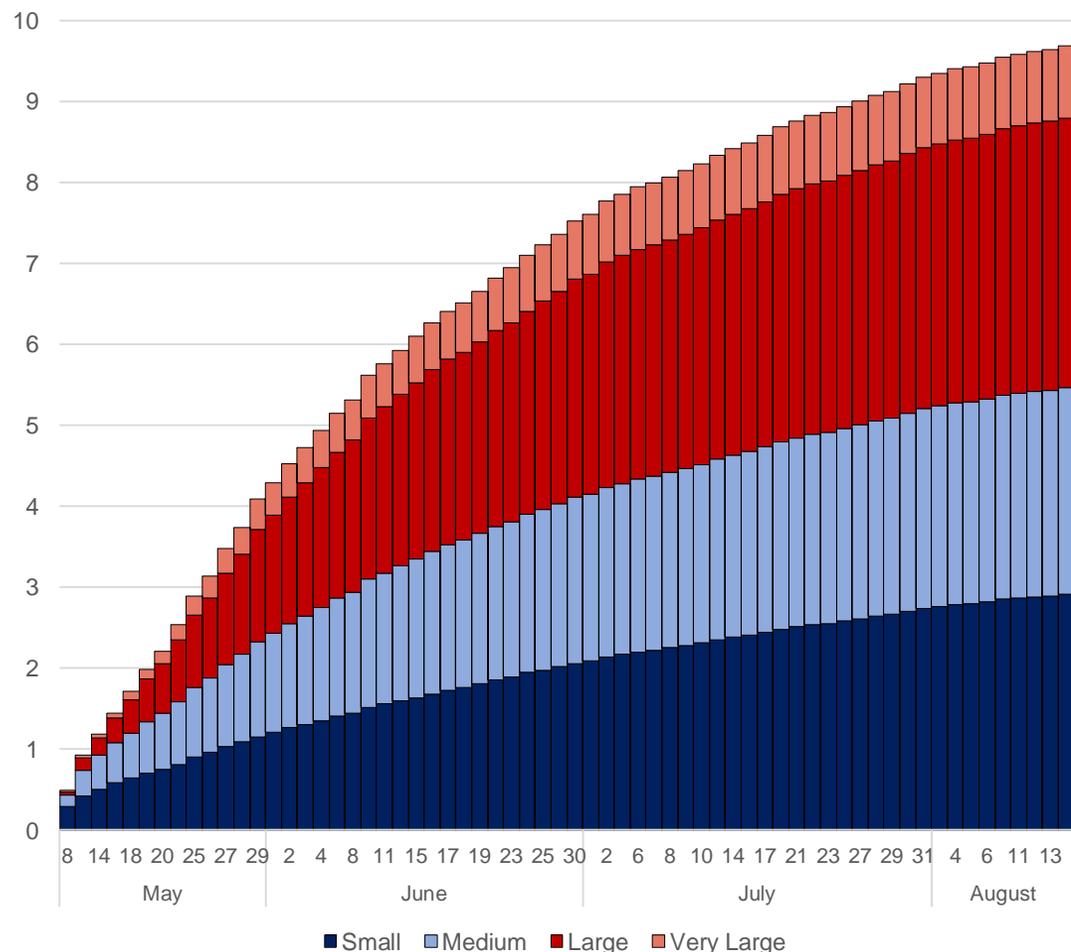
**BENEFICIOS CLASE MEDIA**

- Bono Clase Media

# Policy measures such as commercial loans with state guarantees support continue to support the flow of credit in the economy.

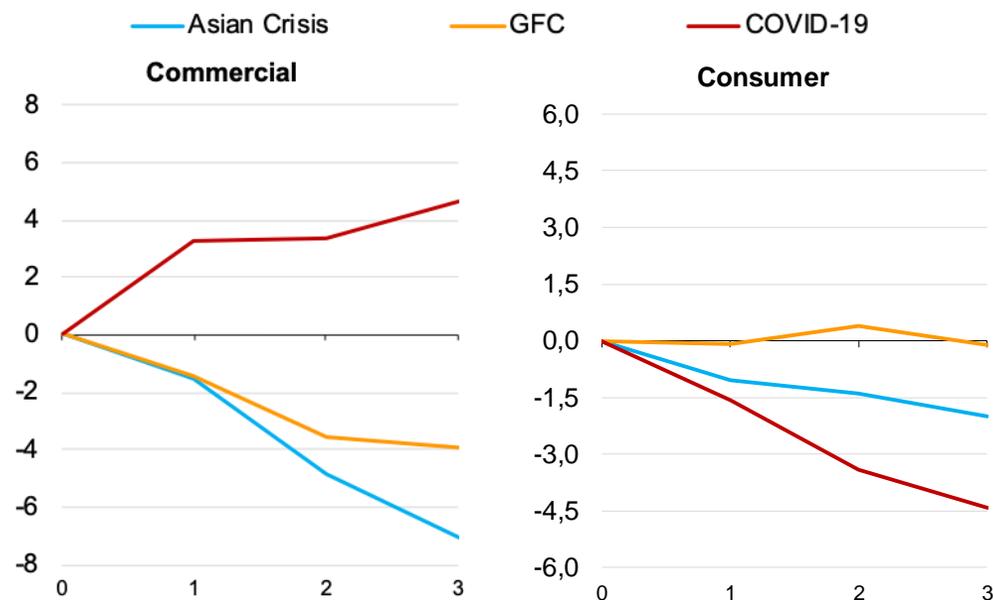
FOGAPE: Cumulative Placements through August 14<sup>th</sup>

USD Billions



Commercial & Consumer Loans during Recessions in Chile

Cumulative annual percent change with respect to month 0



Small (0-25,000UF), Medium (25,000-100,000UF), Large (100,000-600,000UF), Very Large (600,000-1,000,000UF)

Source: Ministry of Finance based on data from the Financial Market Commission.

Source: Central Bank of Chile based on data from the Financial Market Commission\*.

\* Month 0 is the first month with negative IMACEC interannual print.

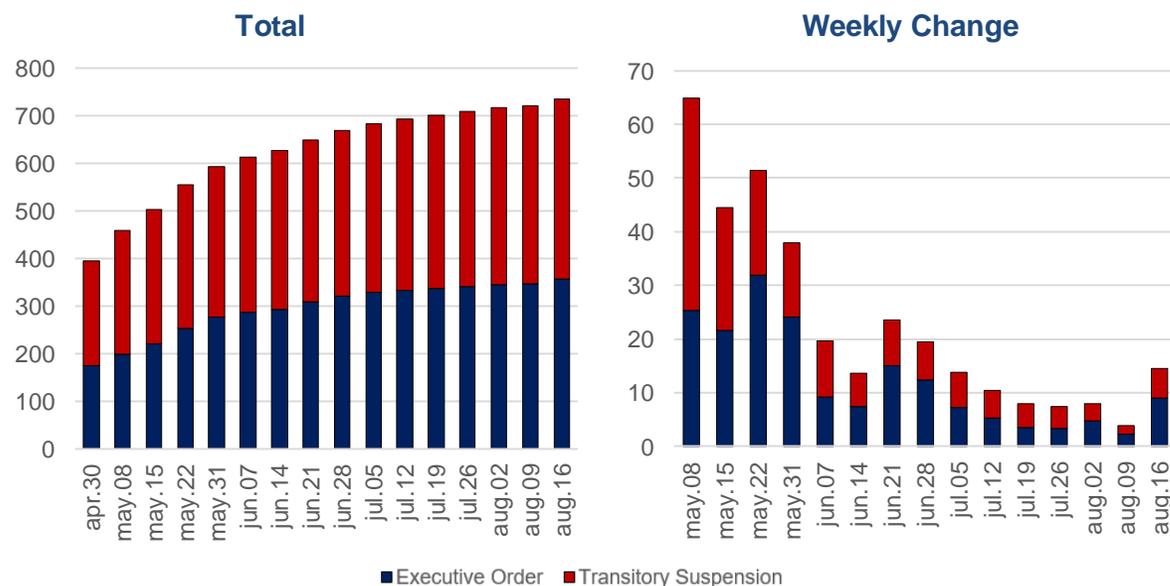
# Recent labor market reforms have mitigated an even sharper deterioration of the labor market, incomes, and the real economy.

## Employment Protection Law

- Allows for the transitory suspension of the worker-employer relationship of up to 6 months, with the employer paying 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 August 19<sup>th</sup>, personal UI accounts amounted to ~USD 7.9 billion, and the Solidarity Fund had ~USD3.9 billion.

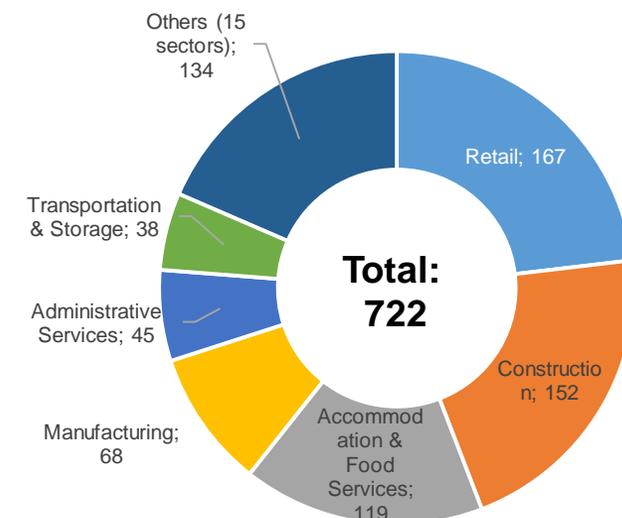
### Workers with Approved Requests

Thousands of workers. Data through 8/16/20



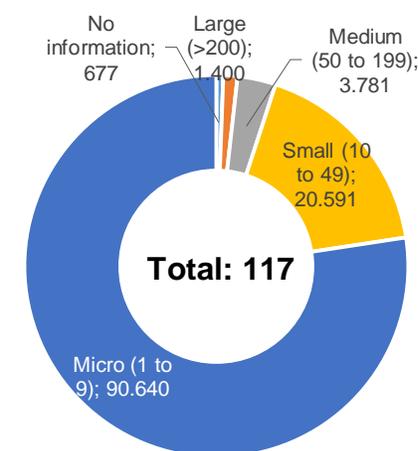
### Workers by Sector

Thousands of workers. Data through 8/16/20



### Firms by Number of Employees

Total number of firms through 8/16/20

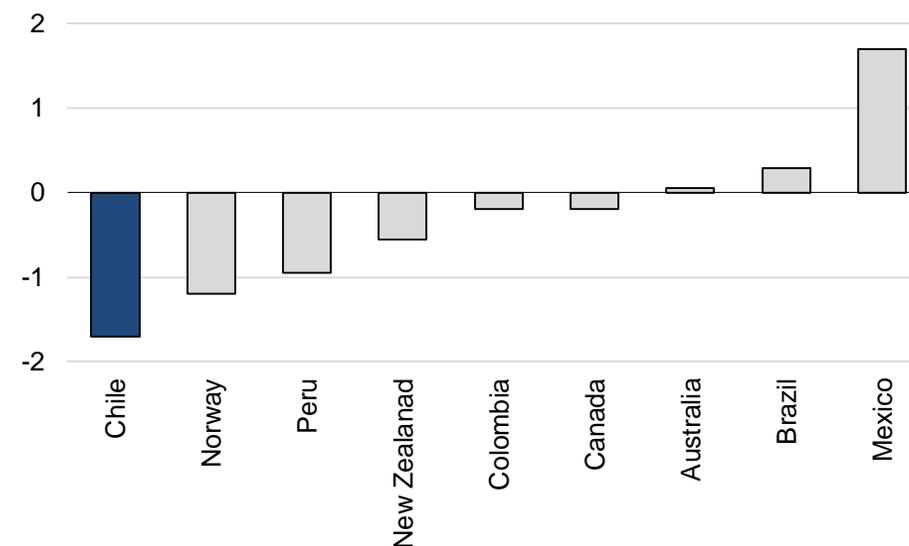


## The Central Bank of Chile has actively implemented extraordinary measures.

- 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;
- Bank bonds purchase program (USD8 billion)
- Special assets purchase program (USD8 billion)
- Term deposit purchase program (USD8 billion)
- Repo on instruments issued by banks (USD10 billion)
- Liquidity Credit Line also made available; corporate bonds allowed as eligible collateral in peso liquidity facilities;
- Adjustments to the peso and USD REPO & FX swap arrangements;
- USD sales program extended until 9/1/21;
- Transitory adjustments to reserve requirements, flexibilization of liquidity requirements for banks.

Real Monetary Policy Rate \*

Percent



\* Real monetary policy rate equivalent to the nominal monetary policy rate deflated with inflation expectations for 2020Q4. **Source:** Bloomberg

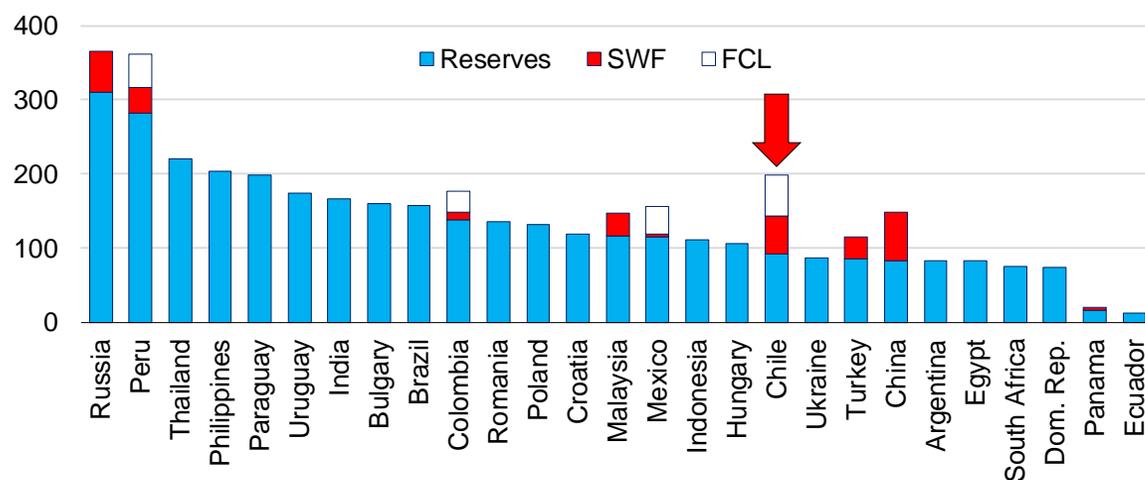
# While it has also further expanded its toolkit to manage financial shocks.

## Precautionary tools bolster the Bank's ability to weather shocks

- **2-year IMF Flexible Credit Line for USD23.9 billion**, reflects Chile's very strong fundamentals, institutional policy frameworks, track record of economic performance and policy implementation and commitment to maintain such policies in the future;
- **Access to NY FED FIMA Repo facility**;
- Increase in **bilateral swap line** with the PBoC, now equivalent to RMB 50.000 million (USD7.1 billion).

## Reserves + Sovereign Wealth Funds for Select Economies

Percent of ARA Metric

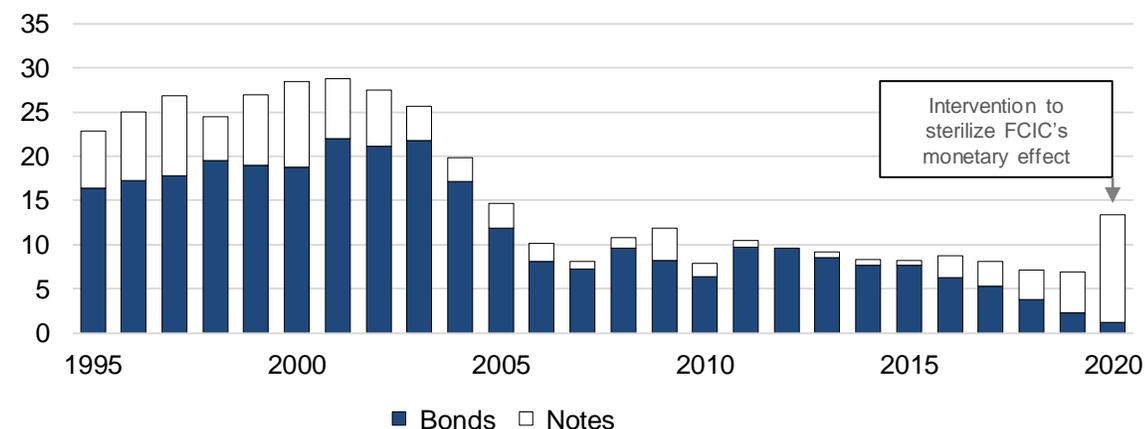


## New ability to purchase Treasury Bonds in the Secondary Market

- Recent legislative adjustments have provided the Central Bank the ability to purchase Treasury bonds in the secondary market, under exceptional and transitory circumstances, in order to facilitate the Bank's fulfillment of normal functioning of internal and external payments.
- This adjustment occurs in the context of low outstanding amounts of Central Bank debt available in the secondary market available to act to stabilize financial markets.

## Central Bank of Chile's Outstanding Bonds & Notes

Percent of GDP



\* ARA: Assessment of Reserve Adequacy Metric: Fixed (Float) Exchange Rate = 10(5)% x Exports + 10(5)% x Broad Money + 30% x ST Debt + 20(15)% x Other Liabilities. ST External debt on a remaining maturity basis.

Source: Central Bank of Chile based on IMF and Sovereign Wealth Fund Institute data.

## The Financial Market Commission has also implemented several measures to ensure the proper flow of credit.

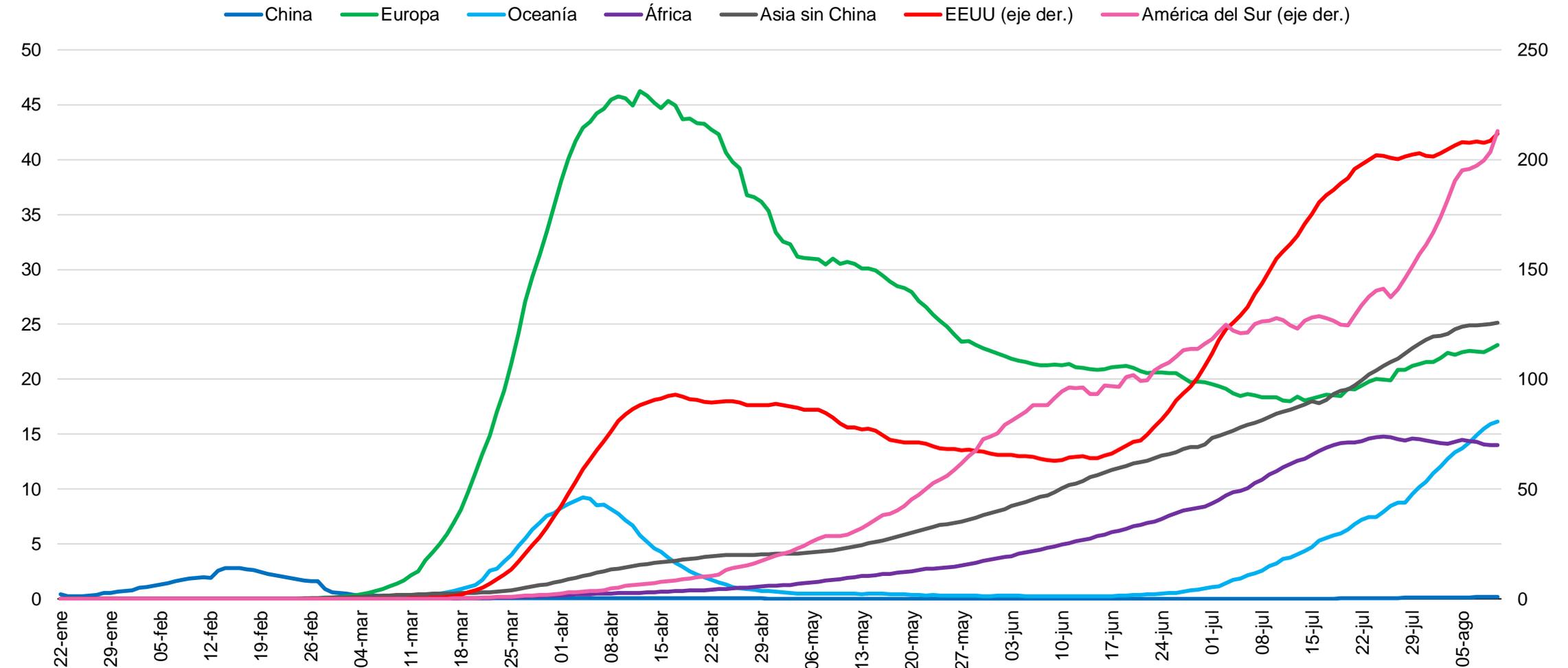
- Enhanced monitoring and supervisory activities, both individually and in coordination with the Financial Stability Council, with particular emphasis on credit risk;
- Issued and/or modified rules that provide greater flexibility to financial entities to support credit
  - Greater flexibility certain regulatory liquidity requirements and allowed for greater supervisory discretion on the Liquidity Coverage Ratio;
  - Updated provision requirements to banks and other credit providers (including insurance companies)
    - Issued regulation so that Banks may use state guarantees to mitigate credit risk consistent with Basel III capital standards;
    - Facilitate voluntary renegotiation of loan payments, including the possibility of including grace periods of up to 6 months in commercial and housing loans, by not requiring additional provisions for banks, credit cooperatives and insurance companies;
    - Delayed the timetable of transition towards Basel III standards on capital requirements (Pillar 1) so as to reduce the pro-cyclical effects of additional capital requirements, while maintaining the timetable for supervisory tools contemplated in Pillar 2.
- Issued regulation to expedite issuance of debt (bonds and commercial paper) in local Markets;
- Greater engagement with other local and foreign financial market oversight bodies;
- Strengthened proactive role as a public institution on financial market services.

# Short-term Outlook

# The main source of uncertainty is the evolution of the pandemic, including risks of second waves after gradual reopenings.

New Confirmed Cases (per million)

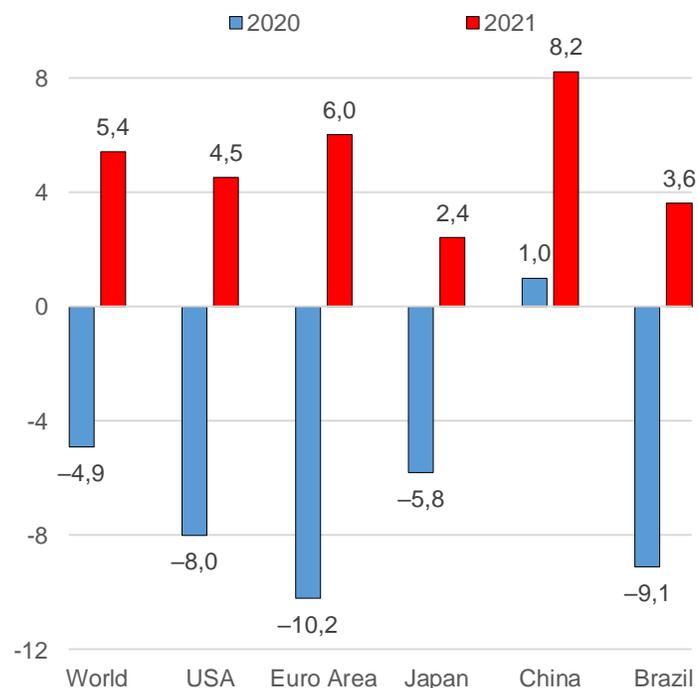
15 day average



# The global economy is expected to contract sharply in 2020 and snapback in 2021, while global financial conditions have eased and Chile's ToT improved.

## Real GDP Growth Forecasts by Region

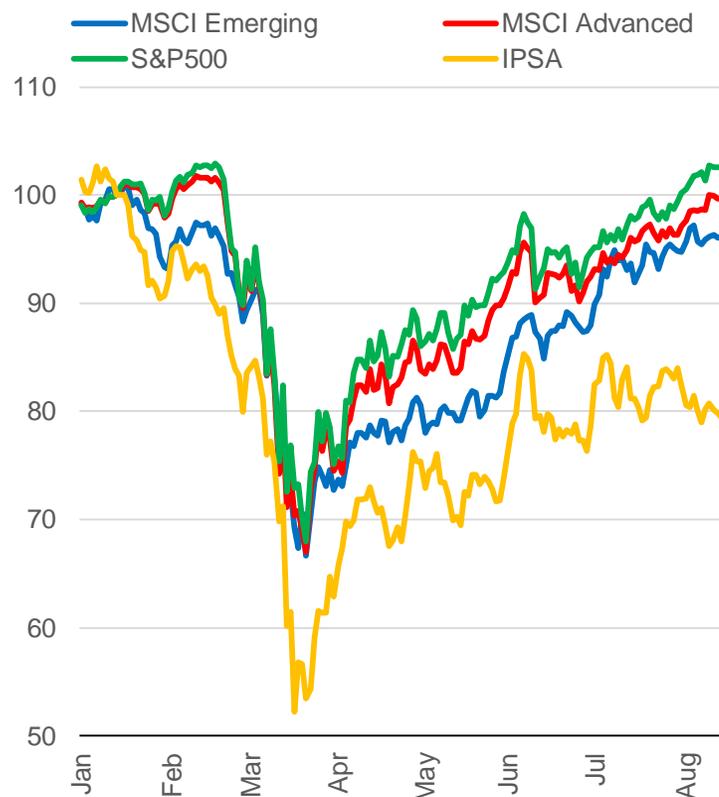
Percent year-on-year



Source: IMF, June-2020 WEO data.

## Equity Indices

Jan.15=100, through August 17<sup>th</sup>, 2020.



Source: Bloomberg.

## Year to date change in Future Prices

Jan-20 = 100, through August 18<sup>th</sup>, 2020.

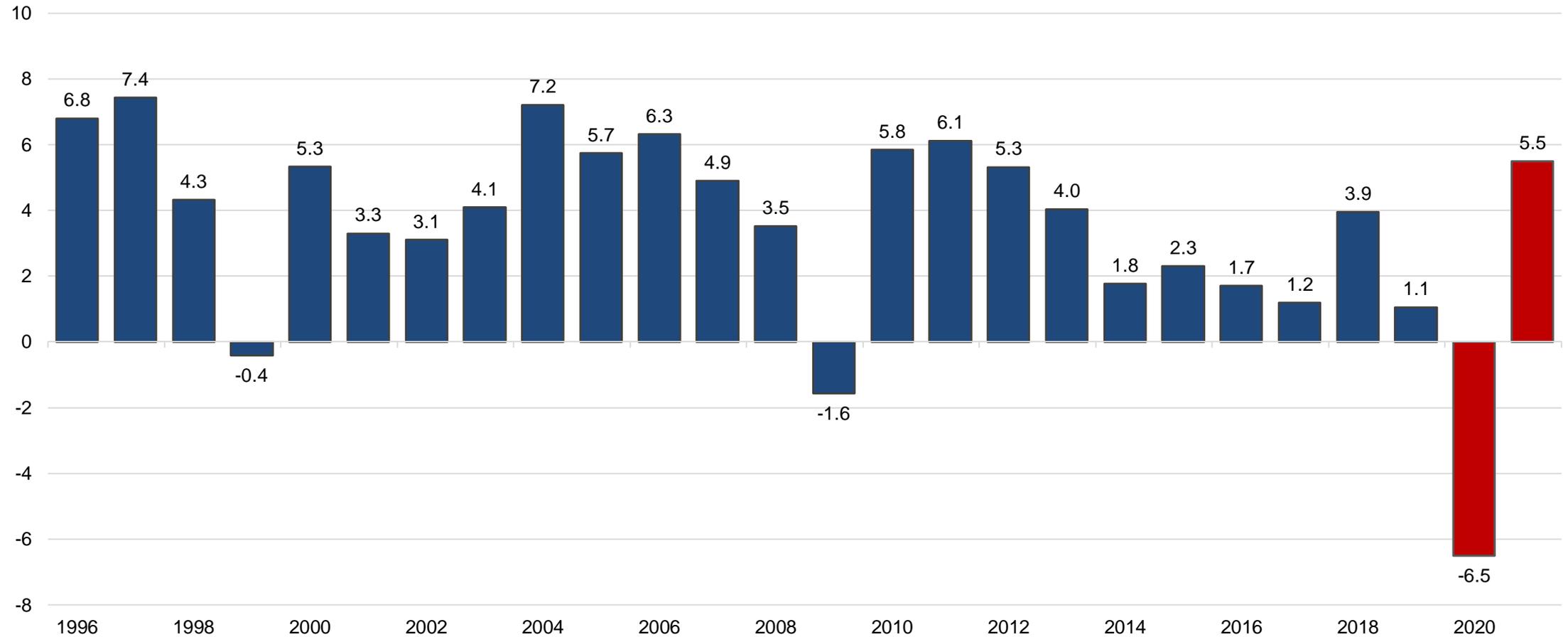


Source: Bloomberg.

# Chile's economy is projected to contract sharply in 2020 and snapback in 2021.

## Chile's Real GDP: Actual & Forecast

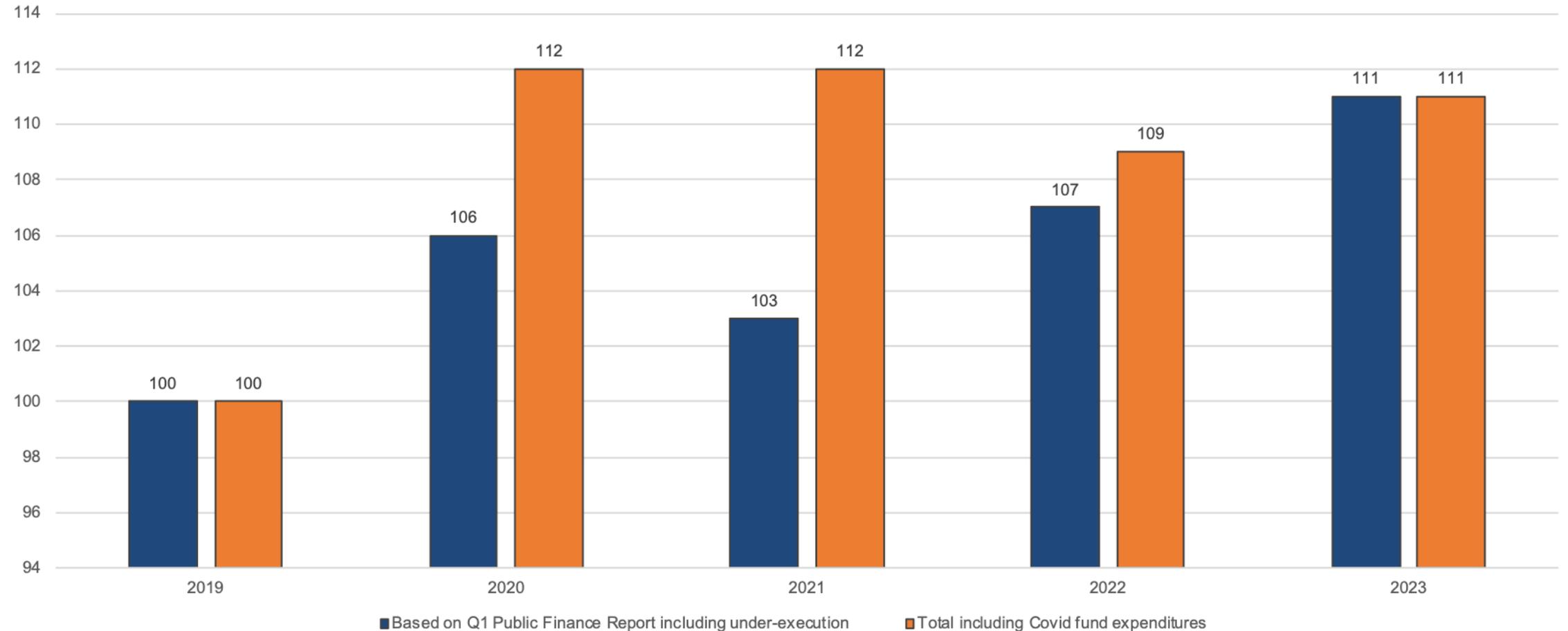
Percent year-on-year



# Fiscal support remains through 2021.

## Real Primary Expenditures

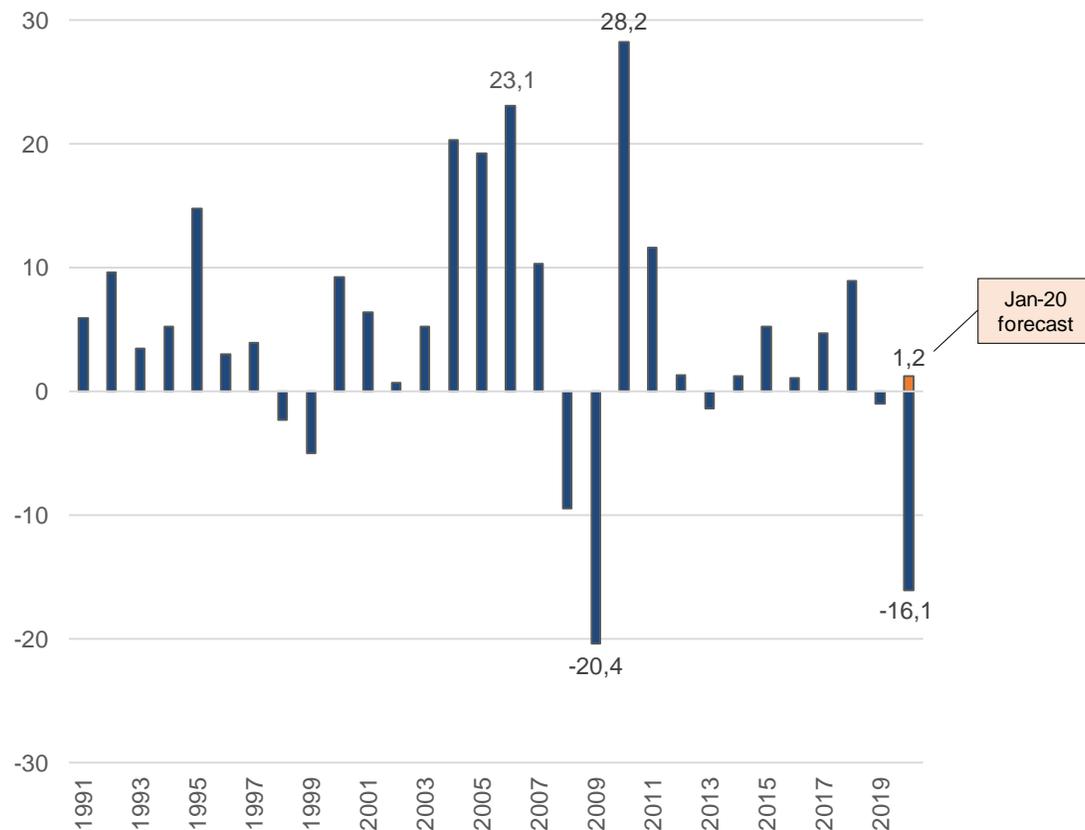
2019=100



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

## Central Government's Revenue (1991-2020F)

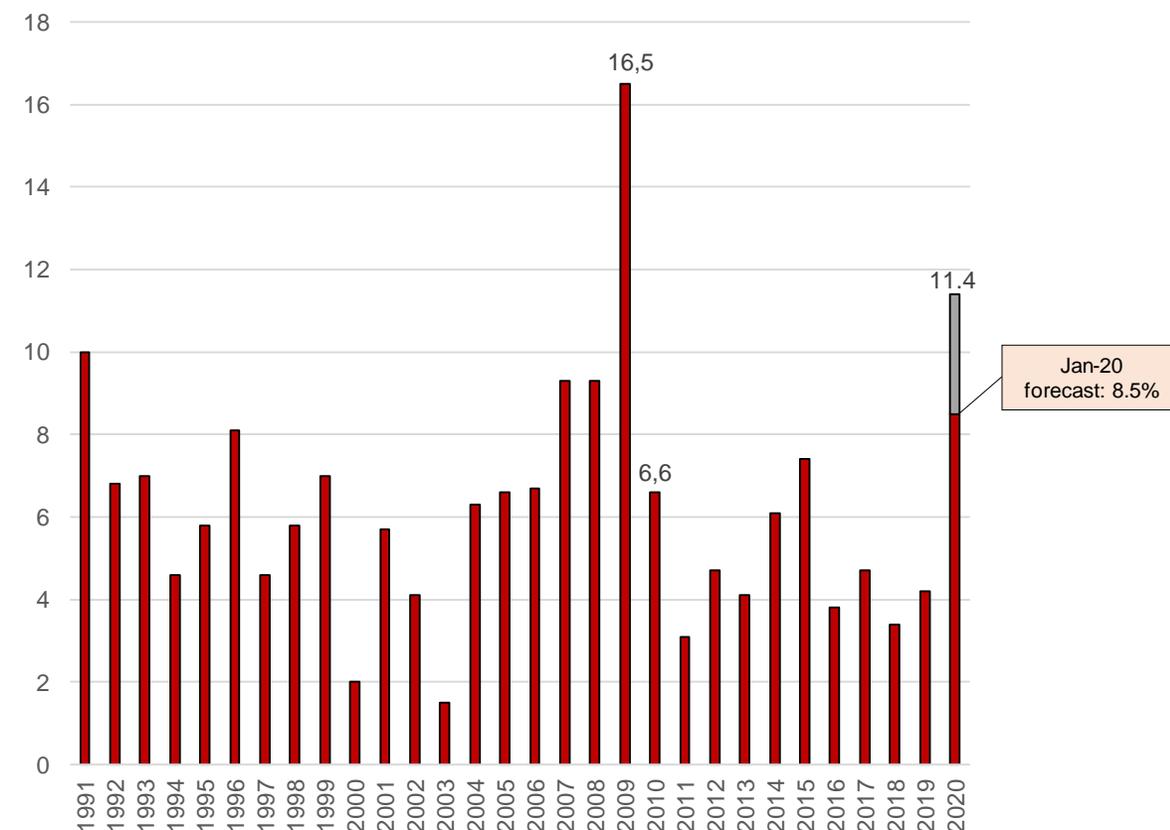
Percent change in real terms



- Revenues are expected to fall by 16.1% in real terms with respect to 2019, down from the -11.8% estimated in April. The revision is explained by lower growth (-3.8%) and tax and administrative measures (-0.5%).
- 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

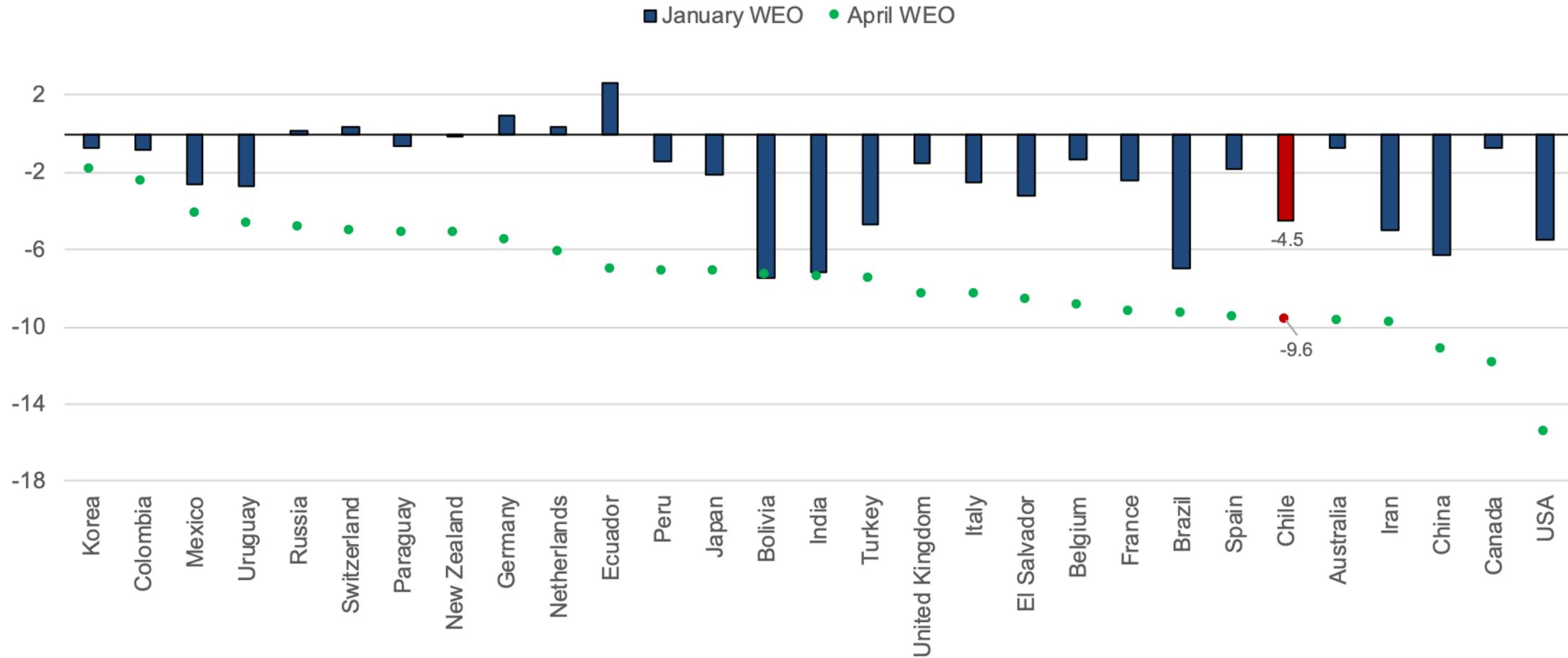


- Real expenditures in 2020 are projected to rise by 11.4%, up from the 10.4% forecasted in April, driven by fiscal measures implemented to support the economy in the context of the COVID-19 shock.
- As a result, expenditures as a share of GDP are expected to rise to 28.7% by end-2020.

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

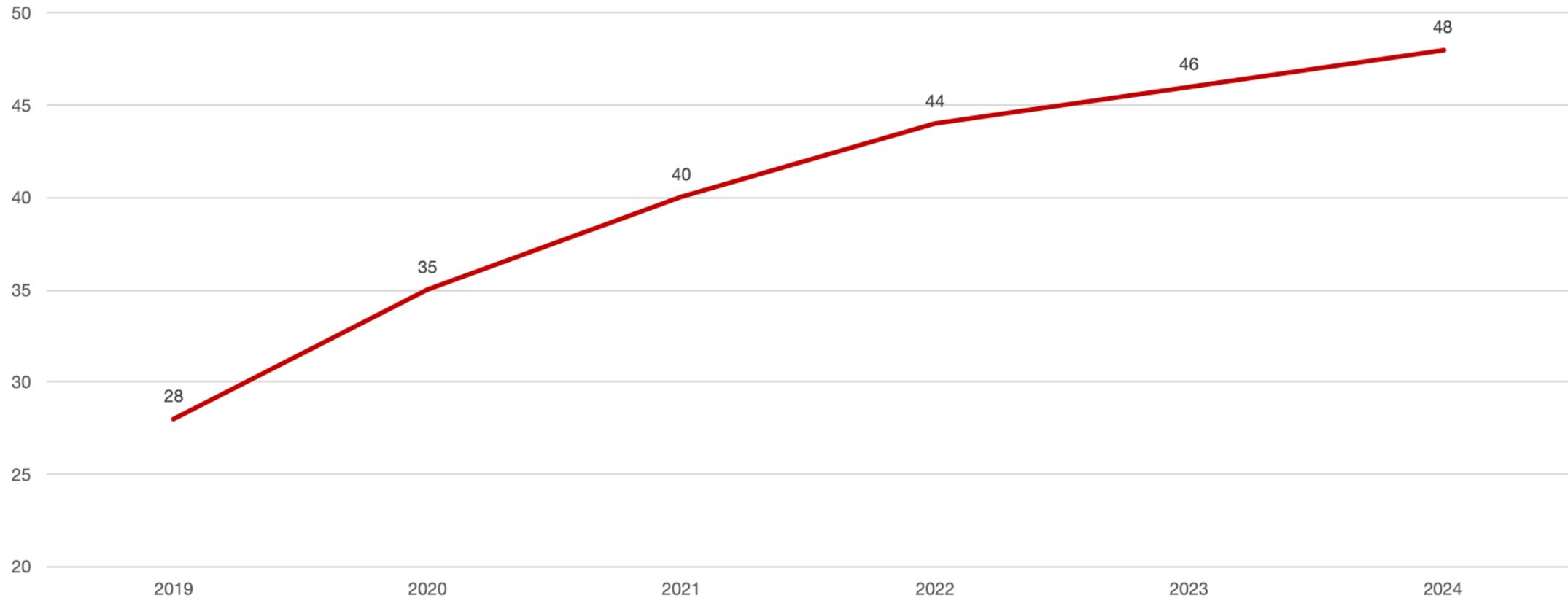
## Projected Headline Fiscal Balances in 2020 Across Select Economies

Percent of GDP



# Gross public debt is projected to rise until 2024, mainly due to transitory and exceptional fiscal support for the economy.

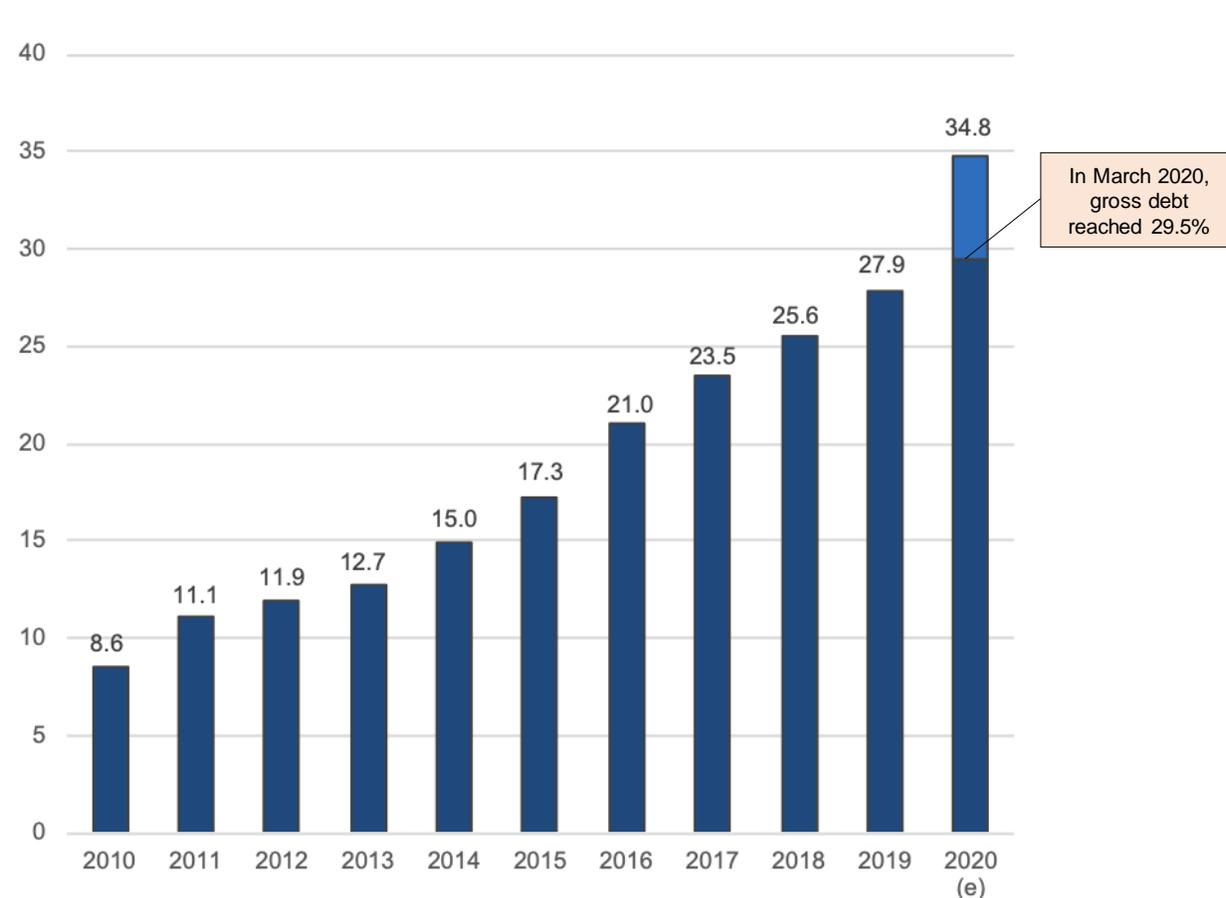
Central Government Debt Growth Stabilization Forecast  
Percent year-on-year



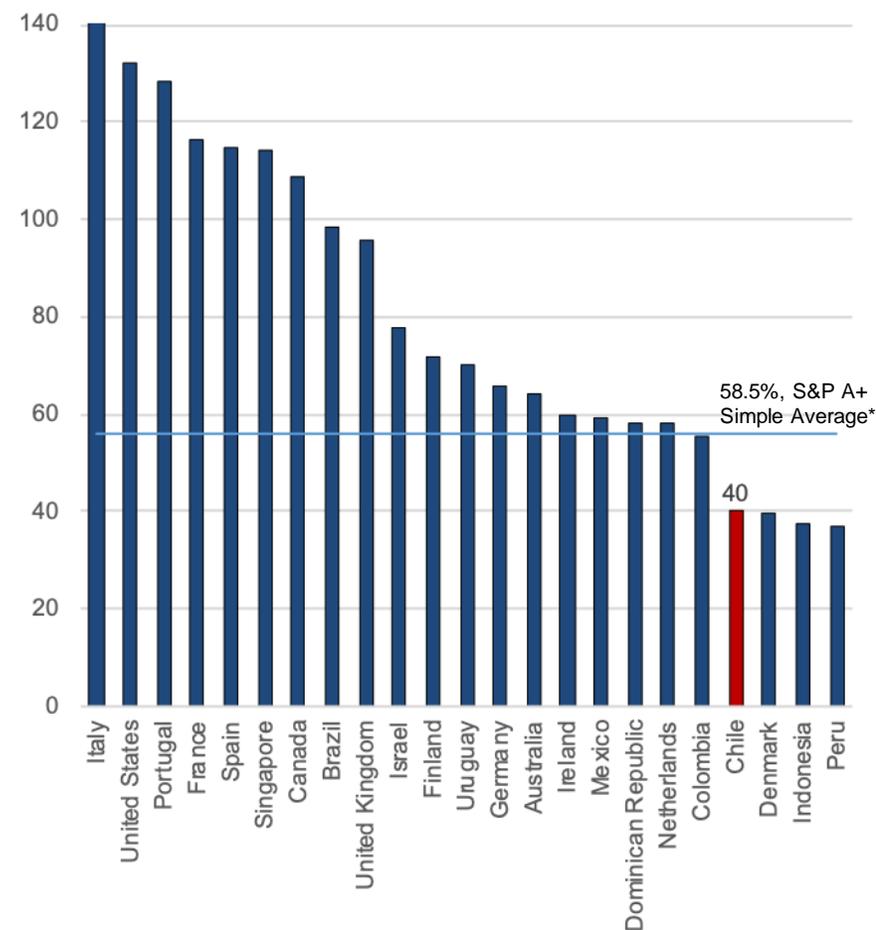
Source: Ministry of Finance. Public Finance Report 2020 Q2.

# 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

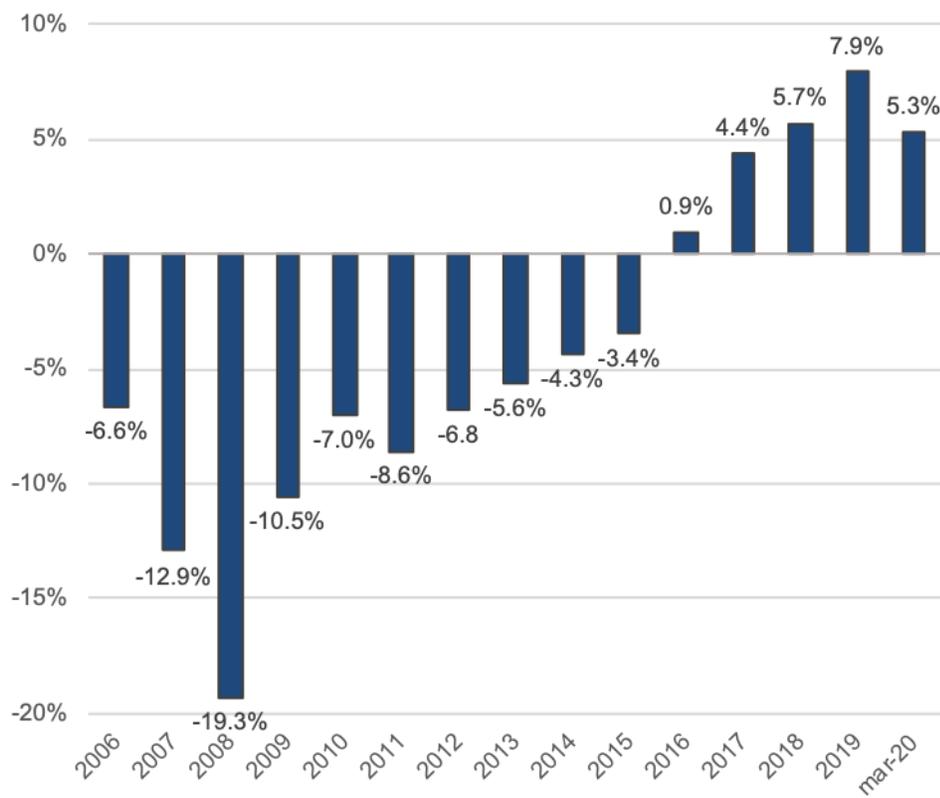


Source: Ministry of Finance.

\* 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 2Q, 2020; Dipres.

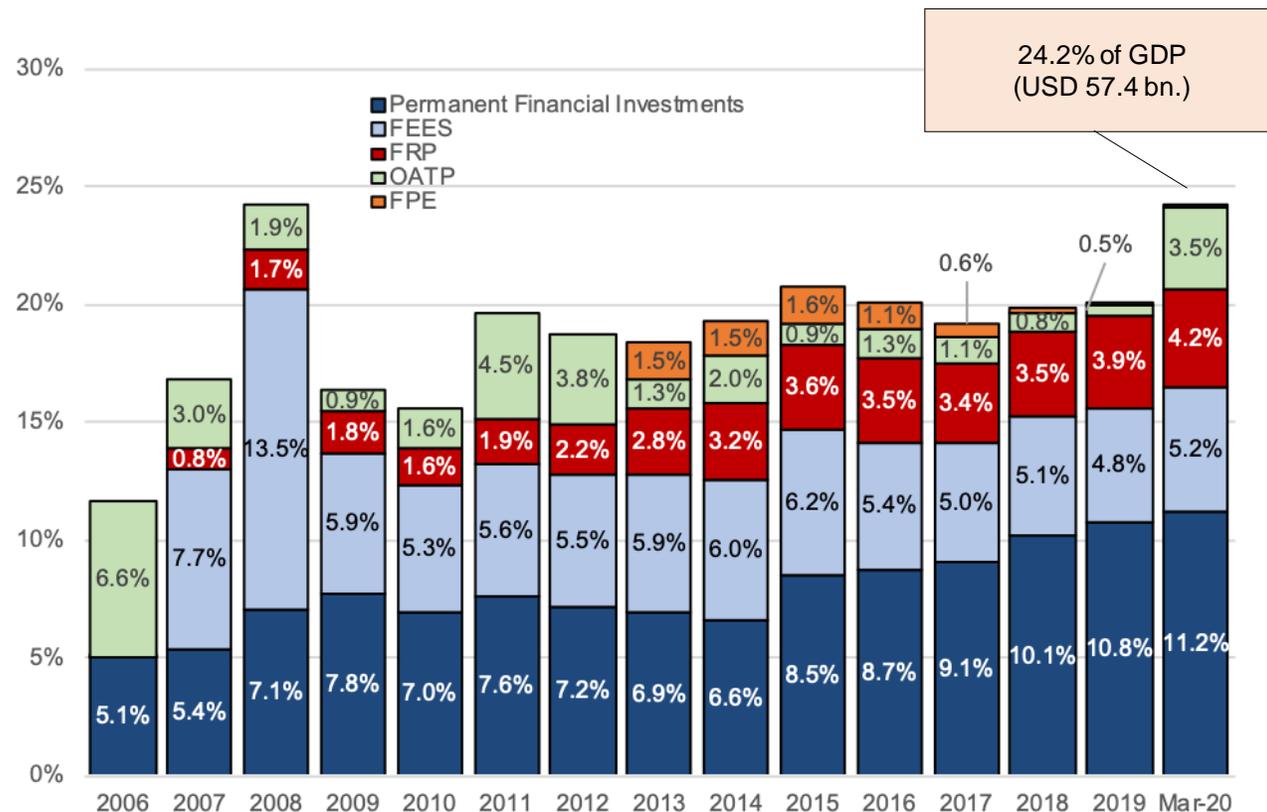
# Chile has the fiscal space to support the economy.

**Central Government's Net Debt**  
Percent of GDP



**Public Treasury Assets(\*)**

Total Assets as a Percent of GDP, as of March-20.

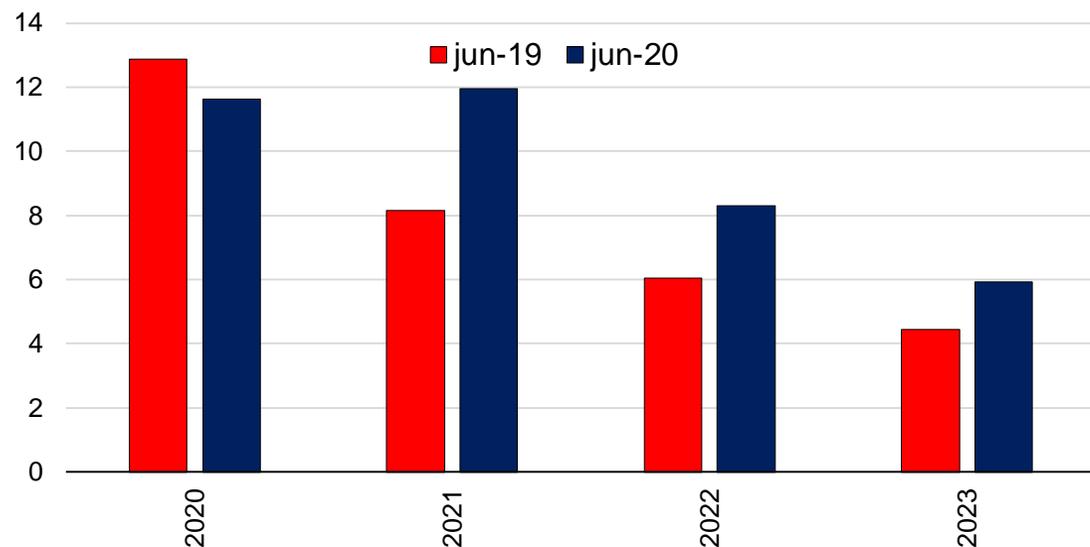


(\*) FEES: Economic and Social Stabilization Fund; FRP: Pension Reserve Fund; OATP: Other Financial Assets of Public Treasury; FPE: Education Fund; Permanent Financial Investments: Include historical capital transfers to State Owned Enterprises, student loans, participation in private utilities enterprises,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

# An increasing and diversified investment pipeline should also support growth.

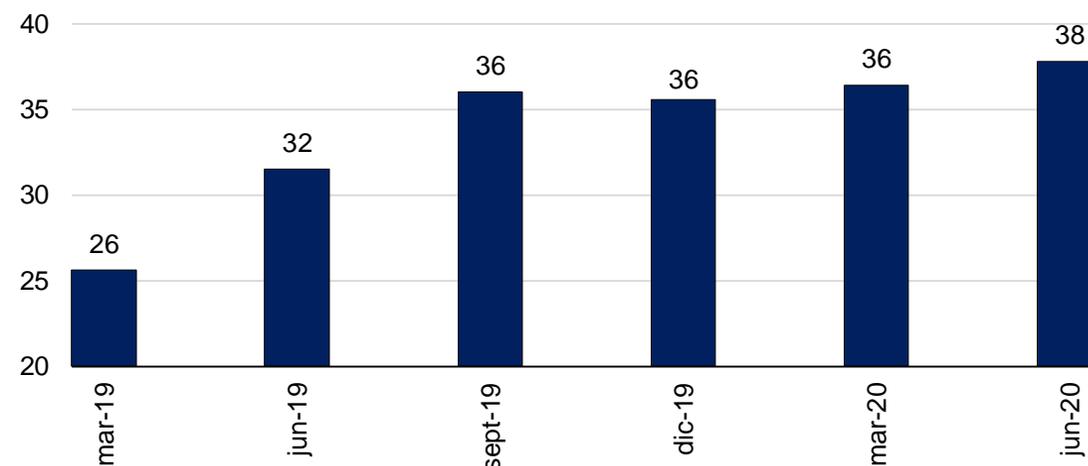
Private Investment Pipeline per Year

USD billion



Private Investment Pipeline over a 4-year horizon

USD billion



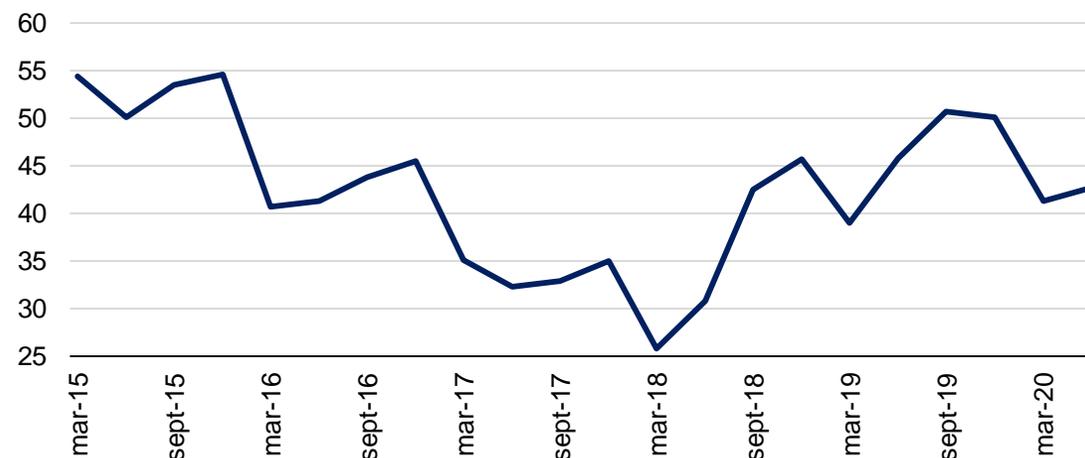
Private Investment Pipeline per Year by Sector

USD billion

	2020	2021	2022	2023	2024	Total
Mining	2,890	4,903	4,131	2,099	1,156	15,181
Housing	2,008	2,275	1,693	1,013	577	7,566
Energy	4,082	1,974	437	339	165	6,998
Public Works	797	1,244	1,452	2,181	2,764	8,438
Others	566	338	235	185	158	1,482
Industrial	561	605	318	86	50	1,619
Forestry	717	597	0	0	0	1,314
Ports	6	25	44	37	3	116
<b>TOTAL</b>	<b>11,628</b>	<b>11,961</b>	<b>8,311</b>	<b>5,939</b>	<b>4,873</b>	<b>42,713</b>

Private Investment Pipeline over a 5-year horizon

USD billion



# Efforts are now focused on strengthening the economic recovery.



## 1 Boosting Investment

### Public Investment push

- 2,544 public investment projects totaling ~USD 34 billion in 2020-2022, of which USD 4.5 billion were recently added.

### Public Investment Pipeline per Year by Ministry\*

USD billion

Ministry	2020	2021	2022	2020-2022
Public Works	2,862	4,239	3,861	10,962
Housing	2,512	3,274	2,969	8,755
Transport & Telecommunications	140	128	181	449
Interior	1,882	2,101	1,783	5,766
Sports	40	84	136	260
Agriculture	112	187	154	453
Other Ministries	2,502	2,273	2,341	7,116
<b>TOTAL</b>	<b>10,050</b>	<b>12,286</b>	<b>11,425</b>	<b>33,761</b>

Source: Ministry of Finance. \* Preliminary pipeline subject to review.

### Facilitating private investment projects

- 138 private projects totaling USD 24.5 billion over 2020-2022 have been identified and will be streamlined;
- Bidding and construction of 31 public works projects under concessions for ~USD 8.6 billion, including hospitals, airports, highways, among others;
- Tendering of 114 fiscal properties.





## 2 Promoting Jobs

**Wage subsidy schemes in the order of USD 2 billion:**

- On the job retention front, firms that have experienced a decline in their sales and have temporarily suspended workers, shall receive a fixed sum per worker during the recovery phase;
- To promote job creation: partly subsidized wages on new hires paid to employers for up to 6 months;
- In addition, when the hiring subsidy expires, a hiring tax credit shall be implemented, equivalent to 23% of the wage.



**Job Training & Reconversion programs**



## 3 Support for SMEs

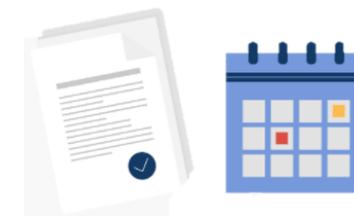


- **Special financing instruments and subsidies;**
- **Technical Assistance;**
- **Promotion of National Tourism;**
- **Roundtables with relevant parties.**



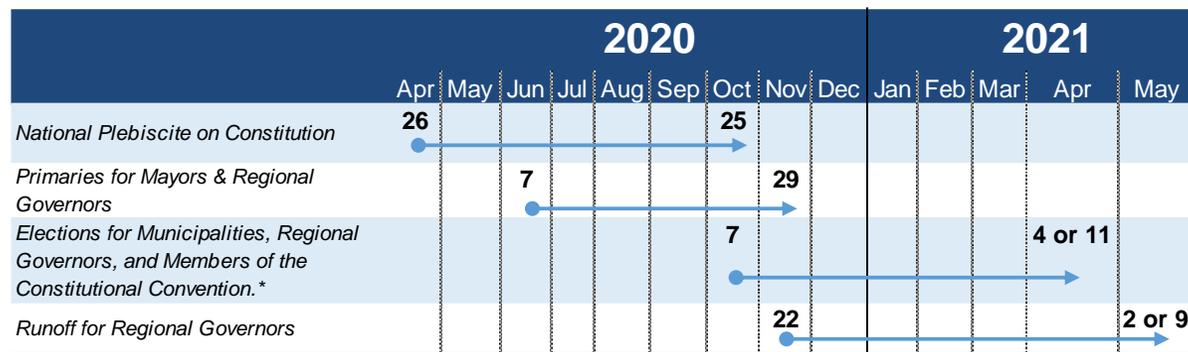
## 4 Facilitating & Simplifying Permits

- **Agenda that includes 28 measures to reduce red-tape in the preparation processes of private investment projects, following the recommendations of the National Productivity Commission.**
- **Special focus on reducing bureaucracy for SMEs.**



# In the context of several elections ahead, confidence in institutions has increased and violence has declined.

## Recent 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 25<sup>th</sup>, 2020.

## On the Constitutional Reform Process ...

- The process to reform the constitution was decided within the current constitutional framework;
- The design was supported by close to all the political and social forces across the political spectrum, hence it is not an imposition from a minority;
- New constitutional norms require a high quorum of 2/3;
- The constitution must respect all existing international treaties currently in place;
- The body eventually elected will be solely responsible for drafting the new Constitution, and will not have any right over other bodies, powers of the State, nor have the ability to alter voting quorums;
- The constitutional convention will not interfere with the legislative work of Congress, or affect the electoral political cycle currently in place;
- If the “approval” vote reaches majority, the process is likely to stretch for two-years.

## Approval of Institutions<sup>1</sup> and Industries<sup>2</sup>

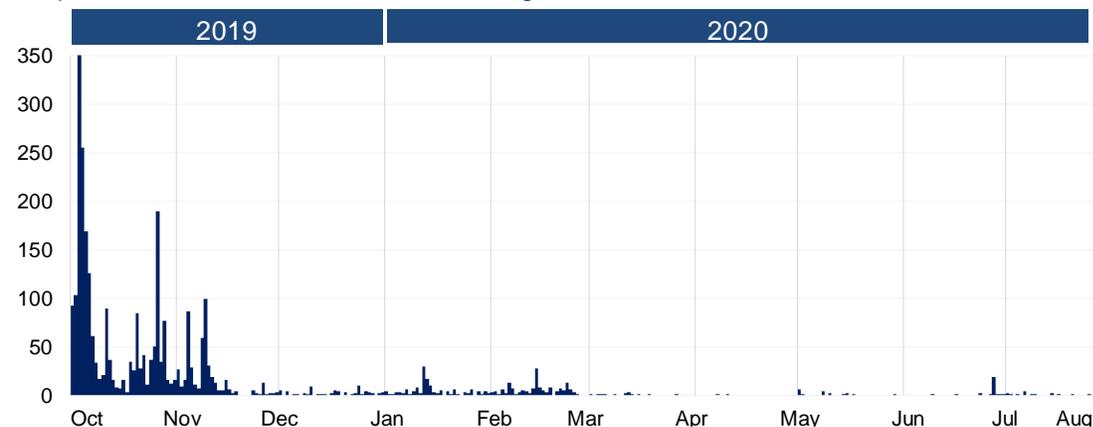
CADEM surveys, August 17<sup>th</sup> and August 10<sup>th</sup>

	Dec-19	Aug-20		Dec-19	Aug-20		
Investigative Police (PDI)	57	72	↑	Supermarkets	47	68	↑
Municipalities		66		Metro	53	63	↑
Civil Registry		62		National Health Insurance System	37	57	↑
Air Force	50	60	↑	Mining Companies	37	55	↑
Navy	51	60	↑	Pharmacies	21	55	↑
Army	43	57	↑	Banks	34	49	↑
Police	35	52	↑	Telecom Companies	44	48	↑
Central Bank	42	52	↑	Retail	29	40	↑
Attorney General's Office	25	29	↑	Transantiago	15	34	↑
Business Associations	26	29	↑	AFPs	9	23	↑
Catholic Church	19	27	↑	Private Health Insurance Comp.	10	22	↑
Congress	11	25	↑				
Justice Tribunals	18	19	→				

Source: CADEM, August 17<sup>th</sup> 2020. <sup>1</sup>Percent of Approval. <sup>2</sup>...answers between 5-7, where 1 is “nada de confianza” and 7 is “mucha confianza.”

## Number of Severe Events in Chile\*

Reported between October 19<sup>th</sup> 2019 – August 17<sup>th</sup> 2020



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

# Financing

## Debt Management Strategy

### Strategy

- **Domestic:** to develop and lengthen yield curves (nominal and real), while deepening liquidity by fostering greater participation of non-residents
  - Issuances have strengthened 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 growth of a green asset class (social/green bonds) that attracts foreign investment in support of the country's sustainable infrastructure and development 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, Chile issued the equivalent of USD 3.3 billion in USD & EUR denominated green bonds. In May 2020, Chile issued additional USD 2.0 billion in USD & EUR denominated bond.
- Local currency issuances for ~USD6.6 billion in Q2 and Q3 2020, have been scheduled through the local auction system:
  - In order to further improve the liquidity and depth of the domestic fixed-income market in the short end of the curves, Chile issued new T-bills maturing in 6 to 12 months.
  - New benchmarks maturing in 2025 was issued, but no longer bonds in local currency are planned for 2020.
  - Furthermore, the Ministry of Finance will continue implementing liability management (LM) operations of local currency bonds throughout 2020.
- Remaining issuances for USD 0.8 billion will be announced in the months to come.

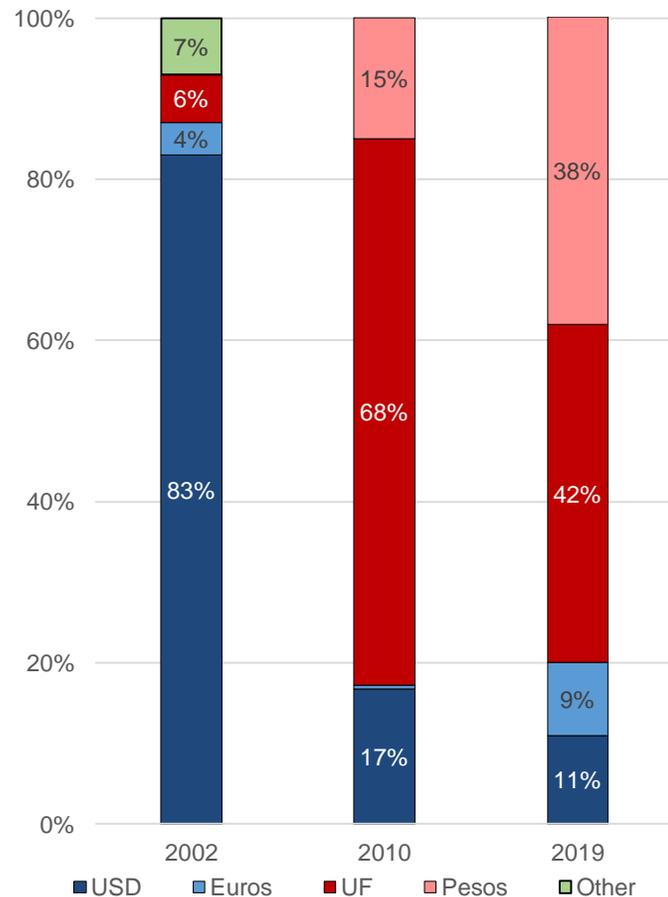
Operation	Amount (USD billion) (*)
Bonds in FX issued in January & May 2020	5.3
Local currency issuances thus far	6.6
Remaining issuances for 4Q	0.8
<b>Total 2020 Issuances</b>	<b>12.7</b>

(\*) The exchange rate used to express local currency bonds in USD corresponds to that of the date of Supreme Decree Nr. 507 (April 3, 2020))

# 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

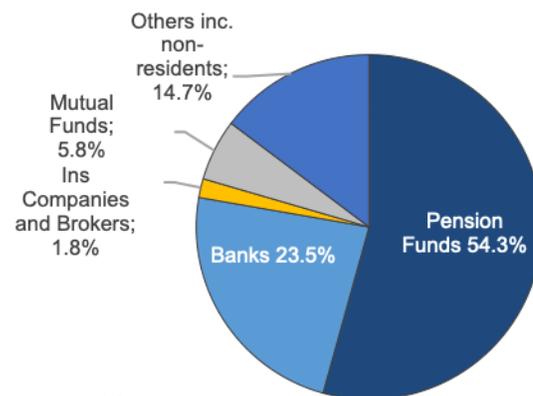
Percent of total



Source: Ministry of Finance

## Holdings of Local Currency Treasury Bonds by Type of Institution

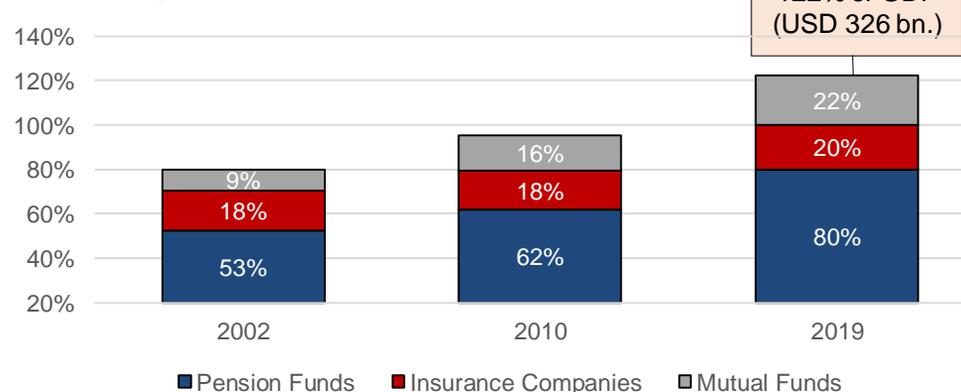
Percent of Total, as of July 3, 2020



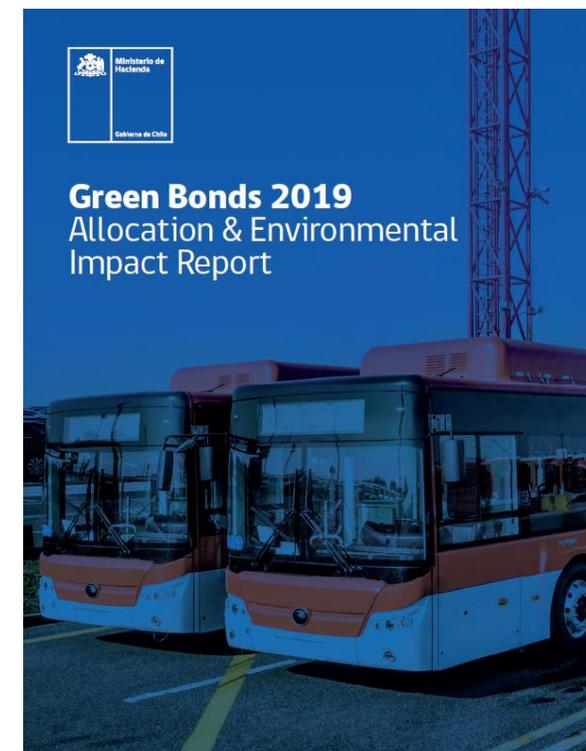
Source: Central Bank of Chile

## Total Assets Managed by Institutional Investors

Percent of GDP



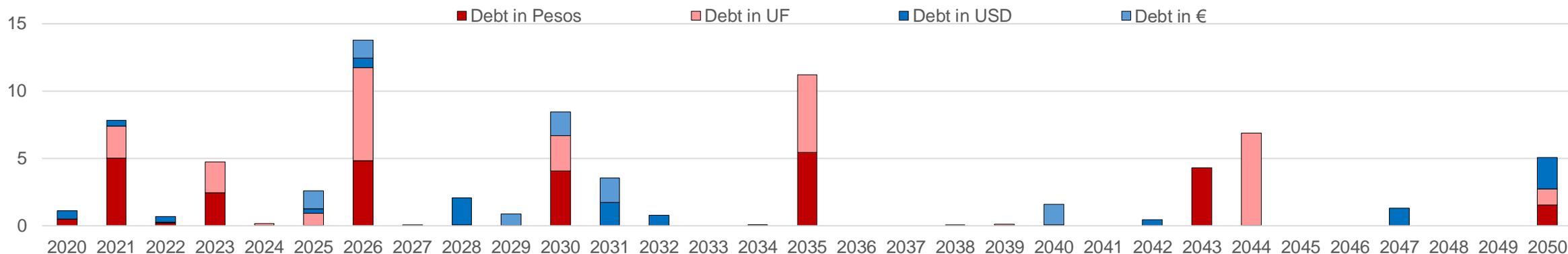
Source: Financial Market Commission



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

## Maturity Profile

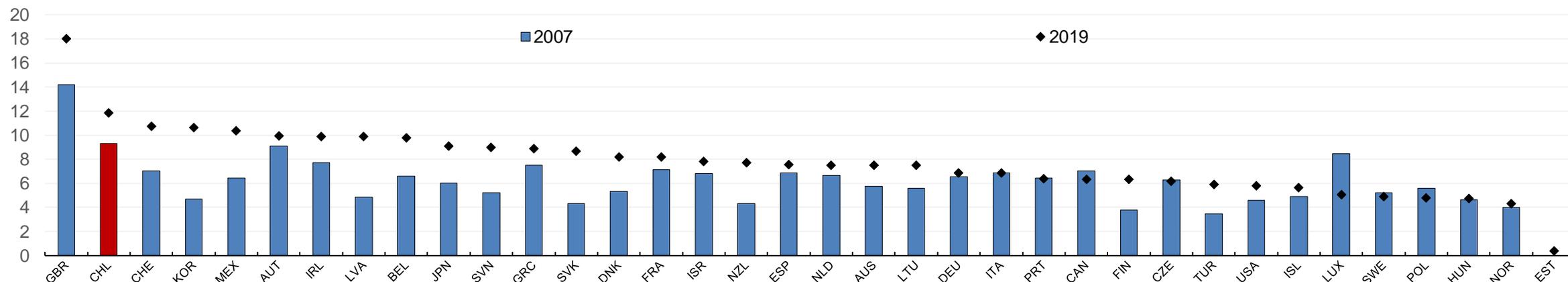
As of July 31, 2020; USD billion



Source: Ministry of Finance

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

Calculated on December 31, 2007 and 2019; years

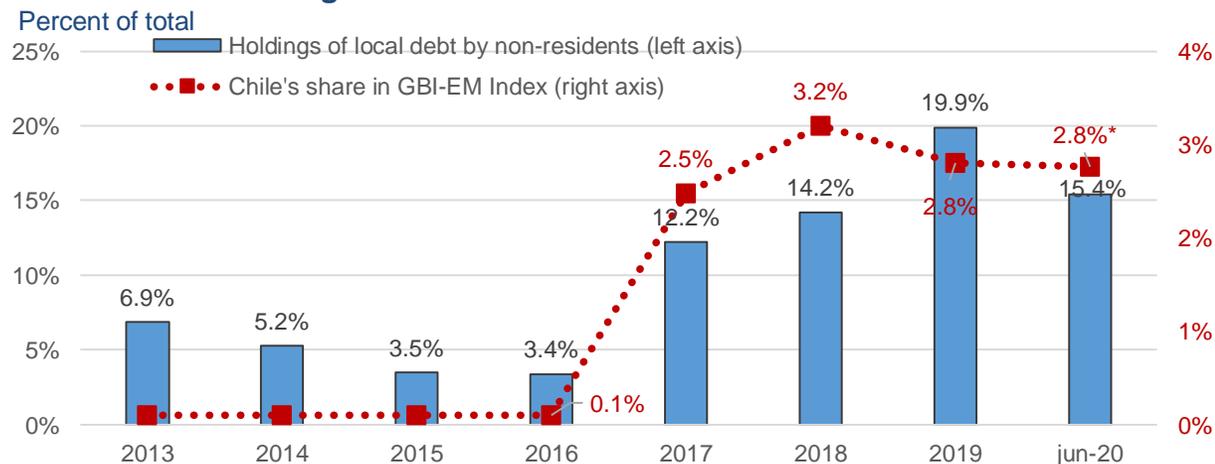


Source: OECD Sovereign Borrowing Outlook, February 2020.

# 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 liquid “benchmark bonds” that have larger outstanding amounts
- **Legislative adjustments that facilitated Euroclearability**
- **Greater weight in international fixed-income indices**
  - 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 July, 2020 and non-resident holdings share reached 15.4% by June, 2020

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

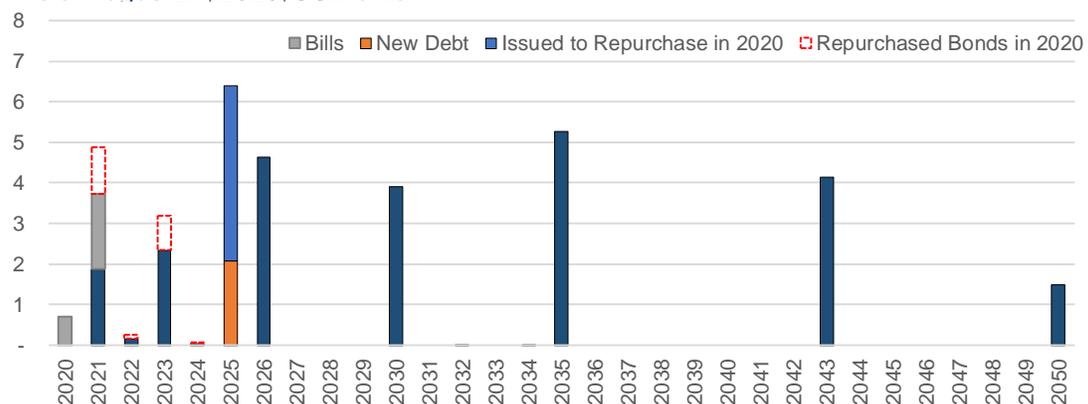


Source: Central Bank of Chile and JP Morgan

\*Estimated for July 2020.

## Maturity Profile: Nominal Curve

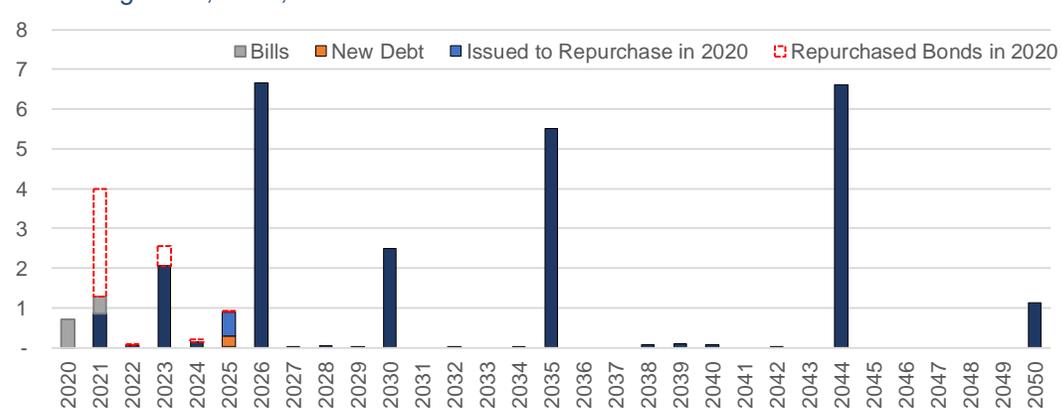
As of August 21, 2020; USD billion



Source: Ministry of Finance

## Maturity Profile: Inflation-linked Curve (UF)

As of August 21, 2020; USD billion



Source: Ministry of Finance

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



**Gobierno  
de Chile**

Ministerio de Hacienda

**International Finance  
Ministry of Finance  
August, 2020**