



Chile: A tale of two crises

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Clapes UC

14 May 2020

Agenda

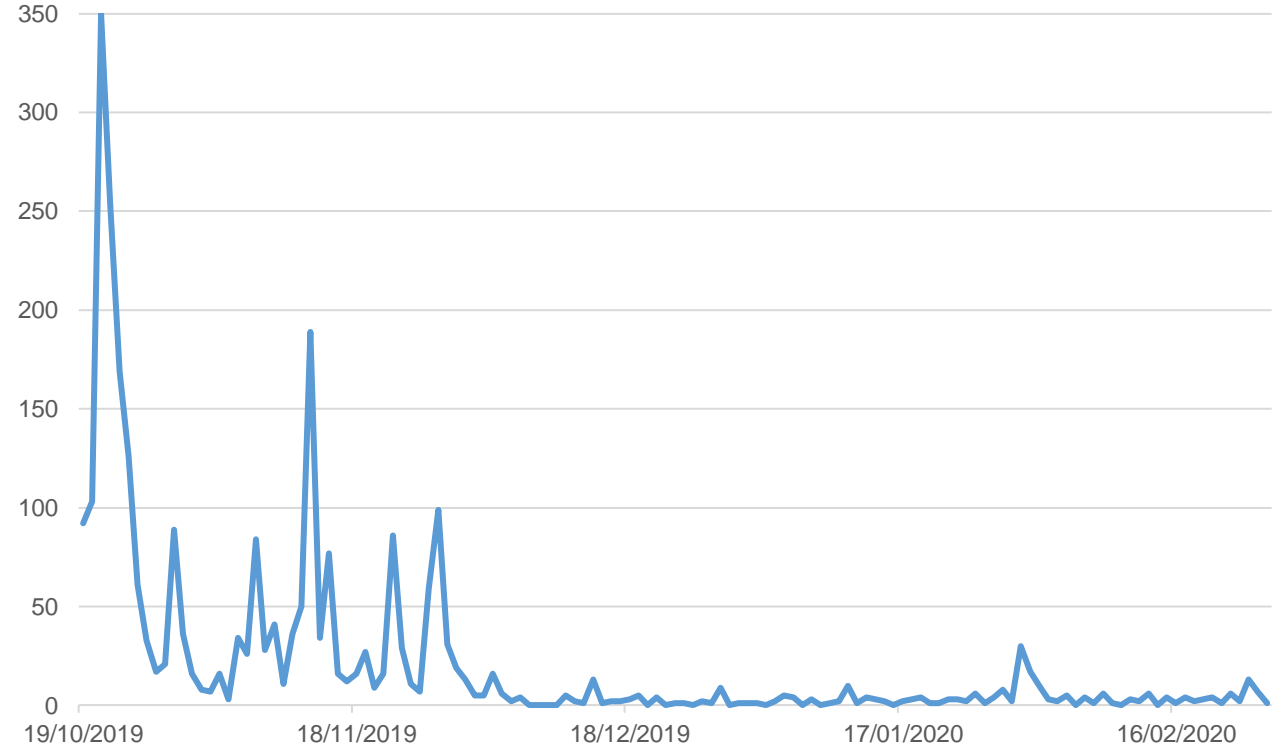
- October 18th: the first shock
- The Covid-19 pandemic
- Final remarks



18 October crisis: massive protests, violence, destruction and economic uncertainty

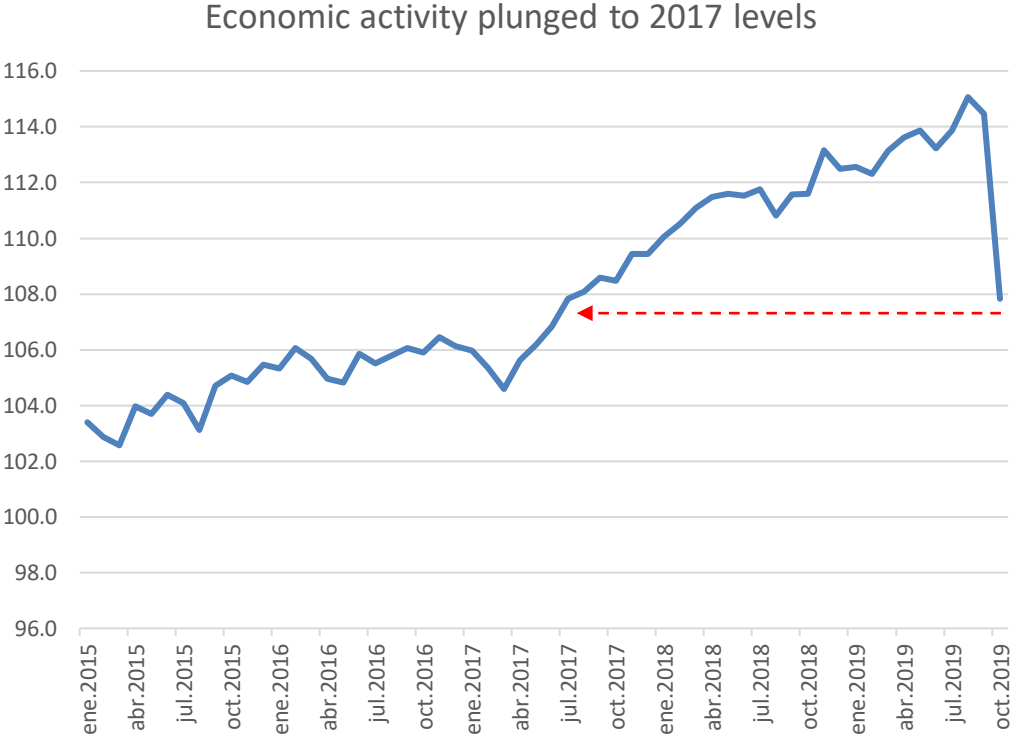
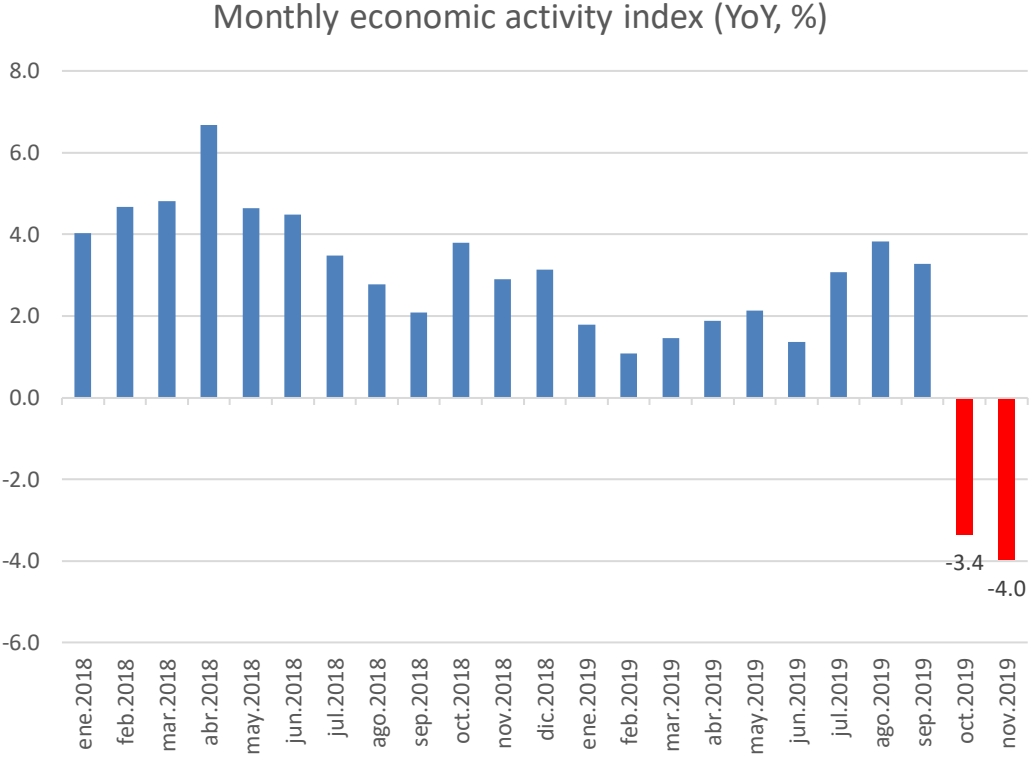


Number of Severe Events in Chile*



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

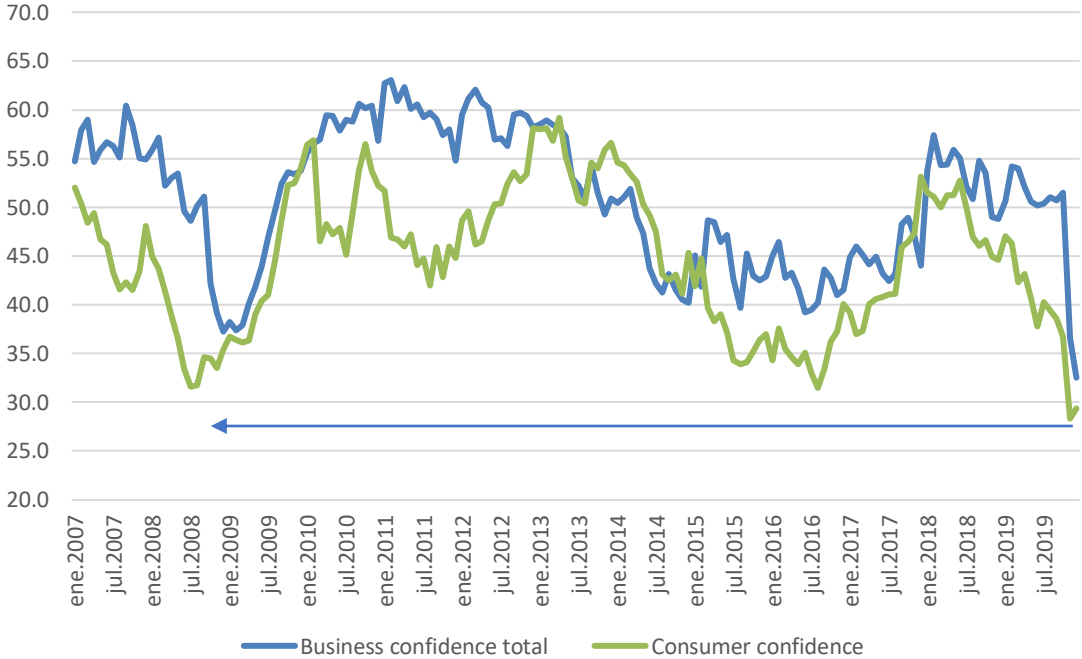
Significant contraction of economic activity in October and November 2019



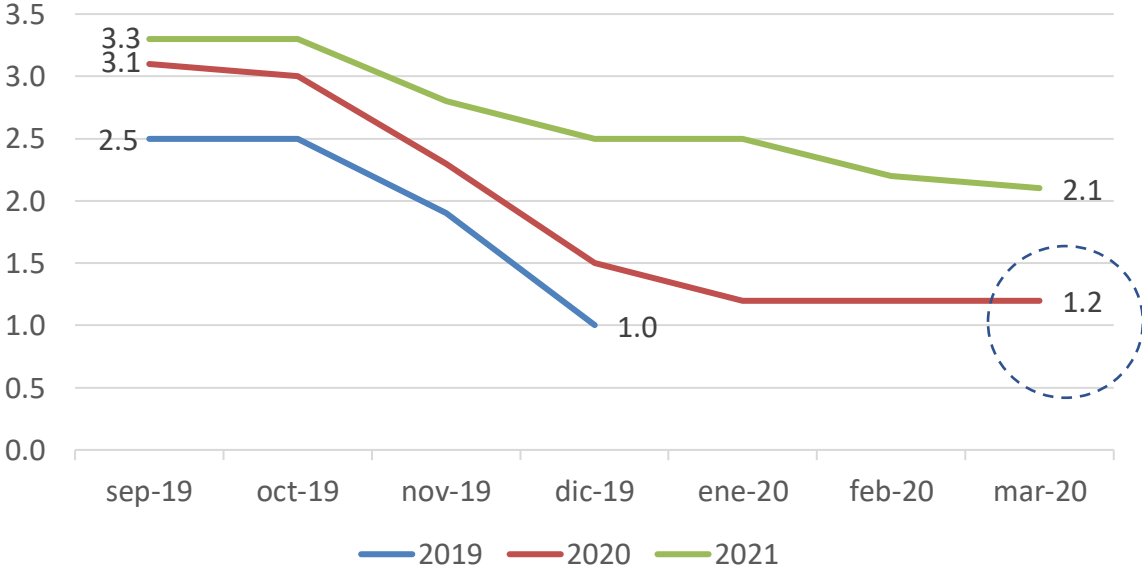
Source: Central Bank of Chile

Economic confidence and GDP growth forecast were sharply reduced because of post 18-Oct events

Economic confidence decreased to GFC levels



2019-2021 economic growth forecasts were revised downwards



Source: Central Bank of Chile

Fiscal response to the “social” crisis

2020 Fiscal Stimulus Package:

- Total amount of USD 5.5 billion (2.1% of GDP)
- USD 4.8 billion in new initiatives
- USD 700 million announced to support Banco Estado (including CORFO-FOGAIN: credits to SMEs)

Three Pillars

1. Working capital for SMEs
2. Reconstruction and boosting public investment
3. Measures to support employment and households

Government Funding Needs for 2020

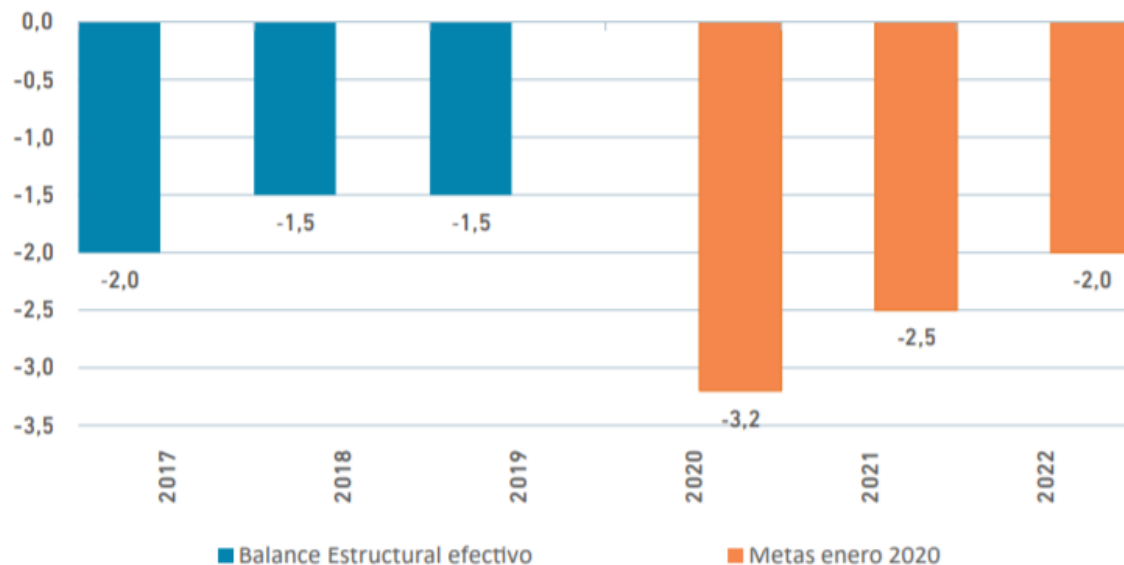


Fiscal Expenditure growth in 2020: 8,5% YoY in real terms

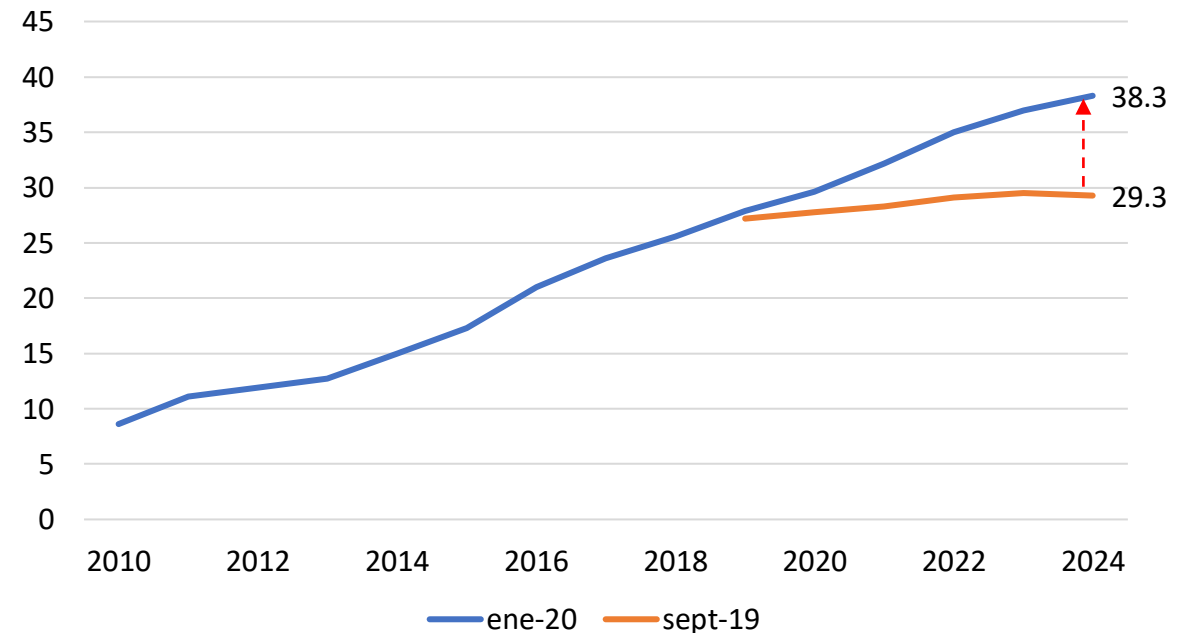
Not only short-term impacts: this is our fiscal starting point to confront the Covid-19 pandemic

Fiscal objectives were revised, postponing the convergence

Meta de Déficit Estructural
(% del PIB)



Public debt forecasts: from 29% to 38% of GDP in 2024



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Consensus points to a large contraction in GDP and an increase in unemployment / doubts about recovery shape

Chile: GDP forecasts 2020-2021

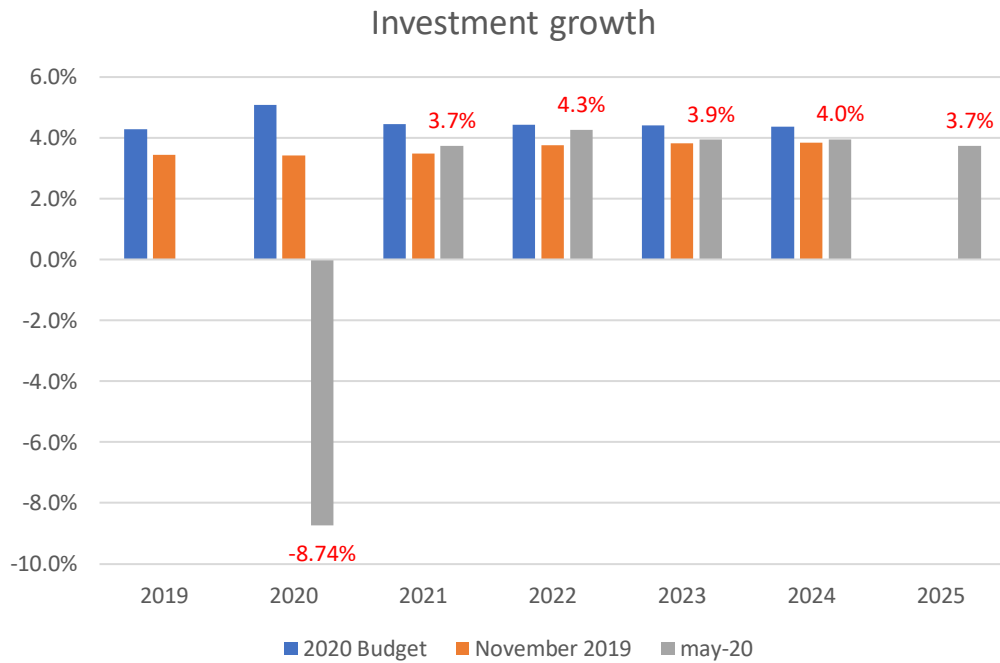
	2020	2021
Central Bank	-2.5 to -1.5	3.75 to 4.75
IMF	-4.5	5.3
Consensus Forecasts	-2.9	3.4
CB Economic Expectations Survey	-2.7	3.5

Unemployment rate forecasts 2020

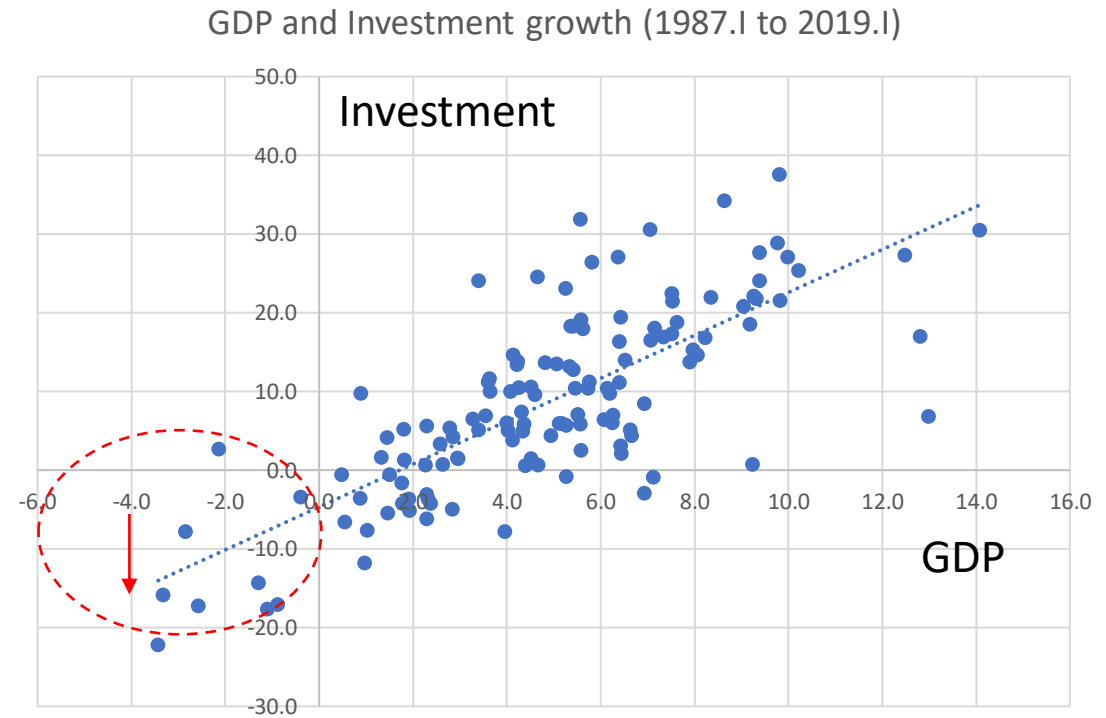
Unemployment Rate	GDP Growth
9.1%-11.1%	-3.0%
9.9%-11.9%	-4.0%
11.6%-13.6%	-5.0%

Source: Own estimations

Investment: consensus points to an 8-9% contraction but risks are tilted downwards



Source: External experts, Ministry of Finance



Source: Central Bank of Chile data

Policy announcements imply fiscal resources for up to USD17 billion/ Economic policy response has been timely and of relevant size

Dimension	Percent of GDP
Fiscal Resources for Public Health	0.7
Protection of the Employment and Support Incomes	0.9
Liquidity Measures	3.4
Capitalization of Fogape (government guaranties)	1.2
Plan to protect incomes	0.8
Total	7.0

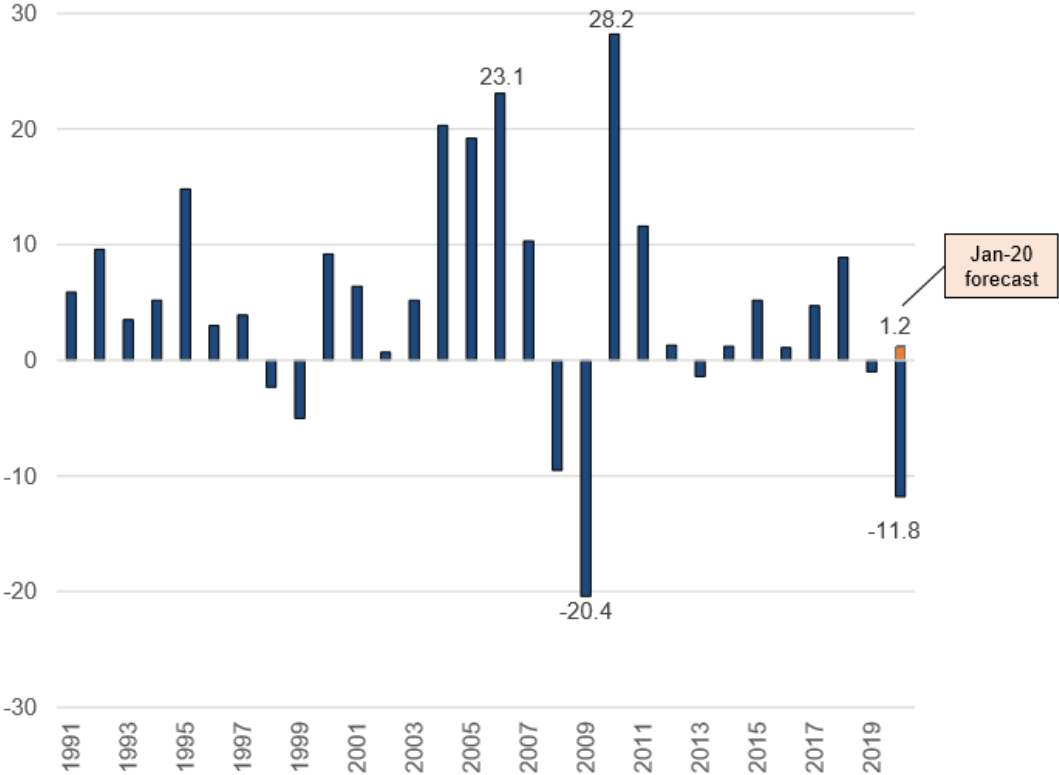
Sources of additional financing in 2020 associated with Covid-19 measures

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 <i>Fondo de Reserva de Pensiones</i>	\$ 1,000
Deferral of Contributions to:	
<i>Fondo de Contingencia Estratégico</i>	\$ 936
<i>Fondo de Reserva de Pensiones</i>	\$ 650
	\$ 12,186

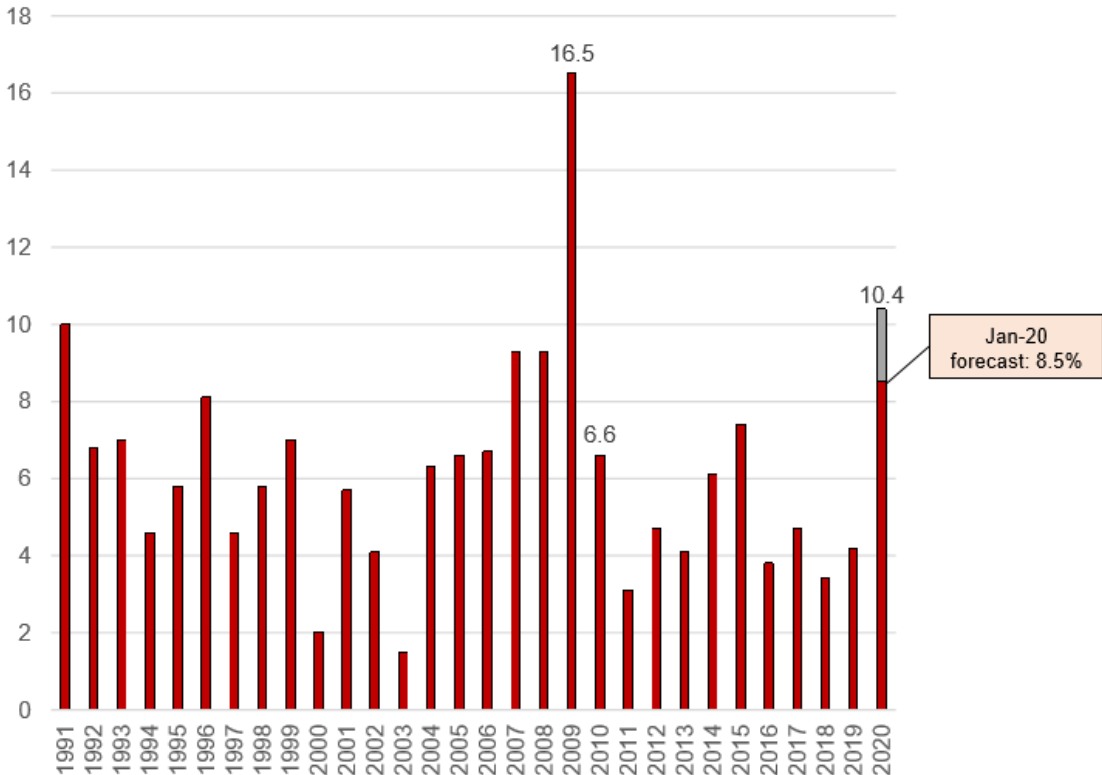
Total Debt Issuance in 2020: US\$ 4 bn
 Total Use of Assets: US\$ 5.7 bn
 Budget Reallocations: US\$ 2.5 bn

Covid-19: change in fiscal scenario: revenues fall, and expenditures increase even more

Central Government Revenues
(yoy growth in real terms)



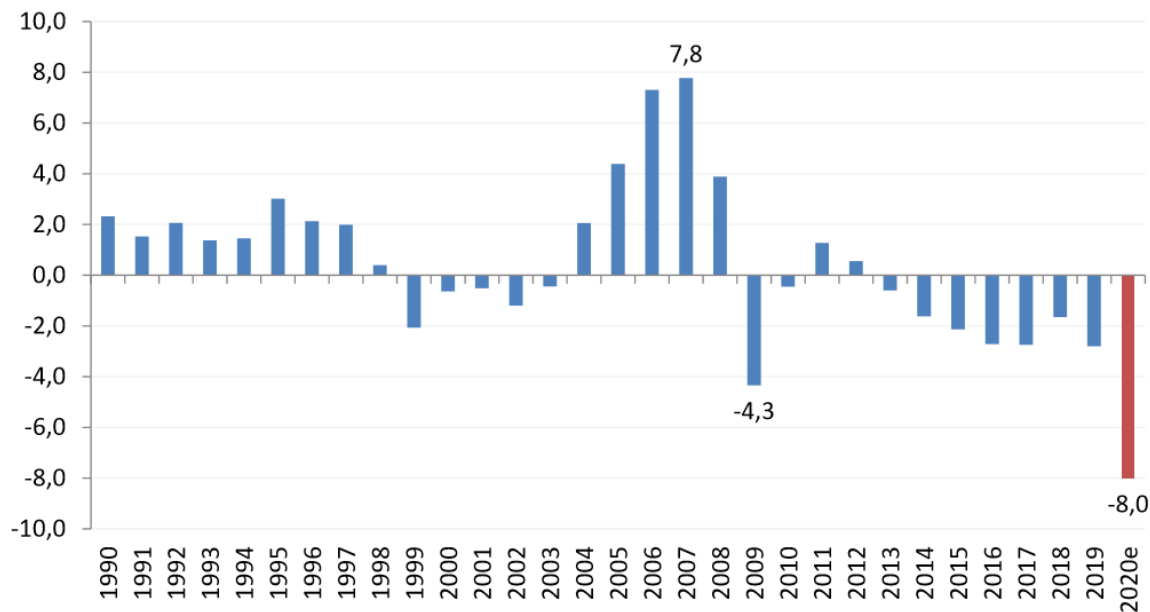
Central Government Expenditures
(yoy growth in real terms)



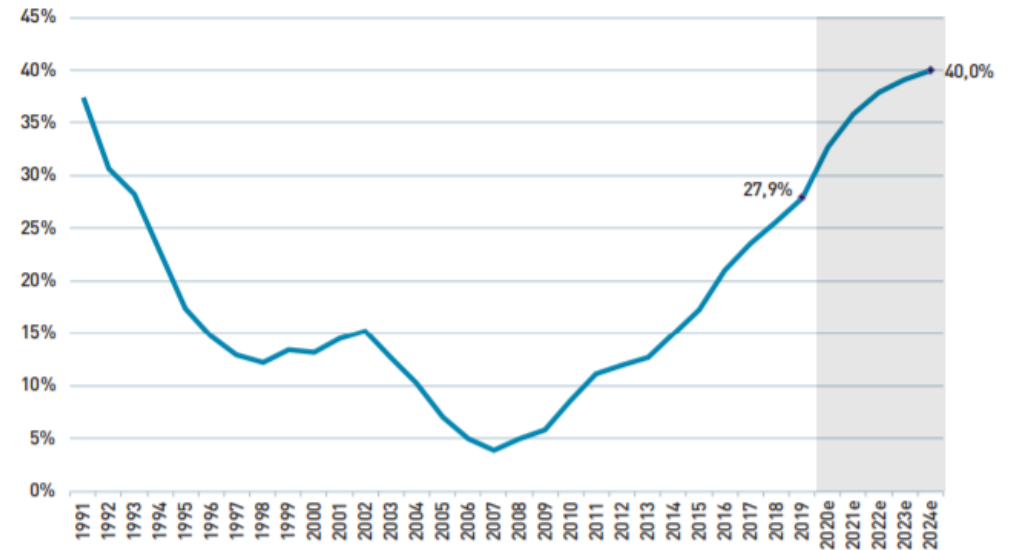
Source: Ministry of Finance of Chile

Fiscal deficit will be the largest since the 1970's. Public debt will increase to 40% of GDP, risk to the upside

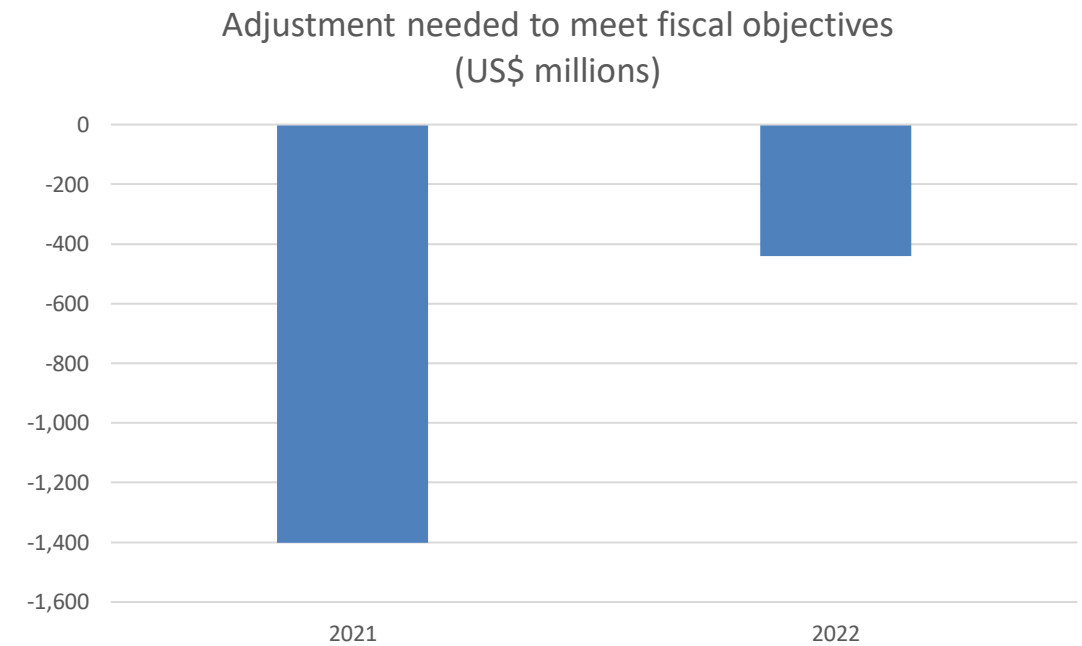
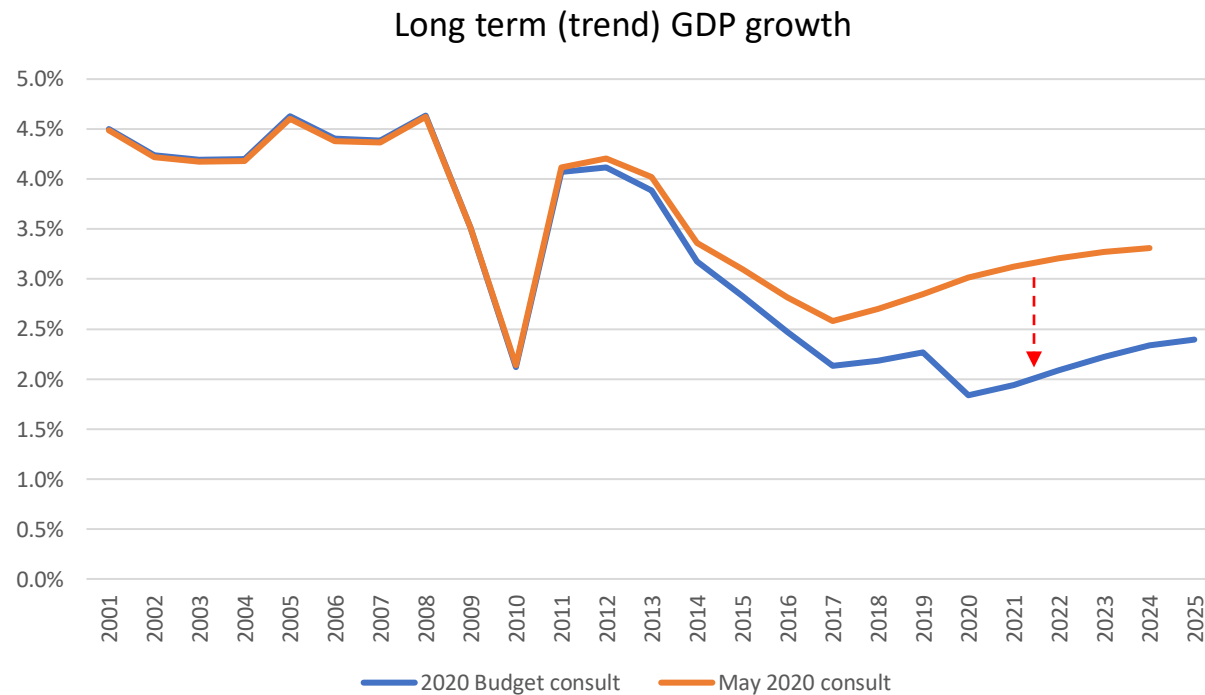
Fiscal Balance
(% of GDP)



Public Debt
(% of GDP)



Revision of LT GDP reduces spaces for fiscal expenditure: fiscal adjustment or change in fiscal objectives to come



Source: Ministry of Finance of Chile

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The Economy

- Two years of political, constitutional uncertainty and risks of return of the violence
- Covid-19 related doubts: 2nd or 3rd wave?
- How long will it take to return to the “new normal”?
- V shape recovery is less probable, U, L?
- External risks: depth and duration of global recession plus ongoing commercial-political tensions between US and China

Fiscal Policy

- Political pressures in an election year and need of a “budget for support recovery”
- Long-term GDP forecasts are likely to continue being revised downwards, reducing fiscal spaces
- Government will not be able to avoid a change in fiscal targets. Options: more debt, use of assets or a new tax reform...
- Raising debt cost and real risk of a sovereign downgrade
- **Focus must return to recover long term economic growth**



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