Covid-19 Impact on the Local Economy and Fiscal Response

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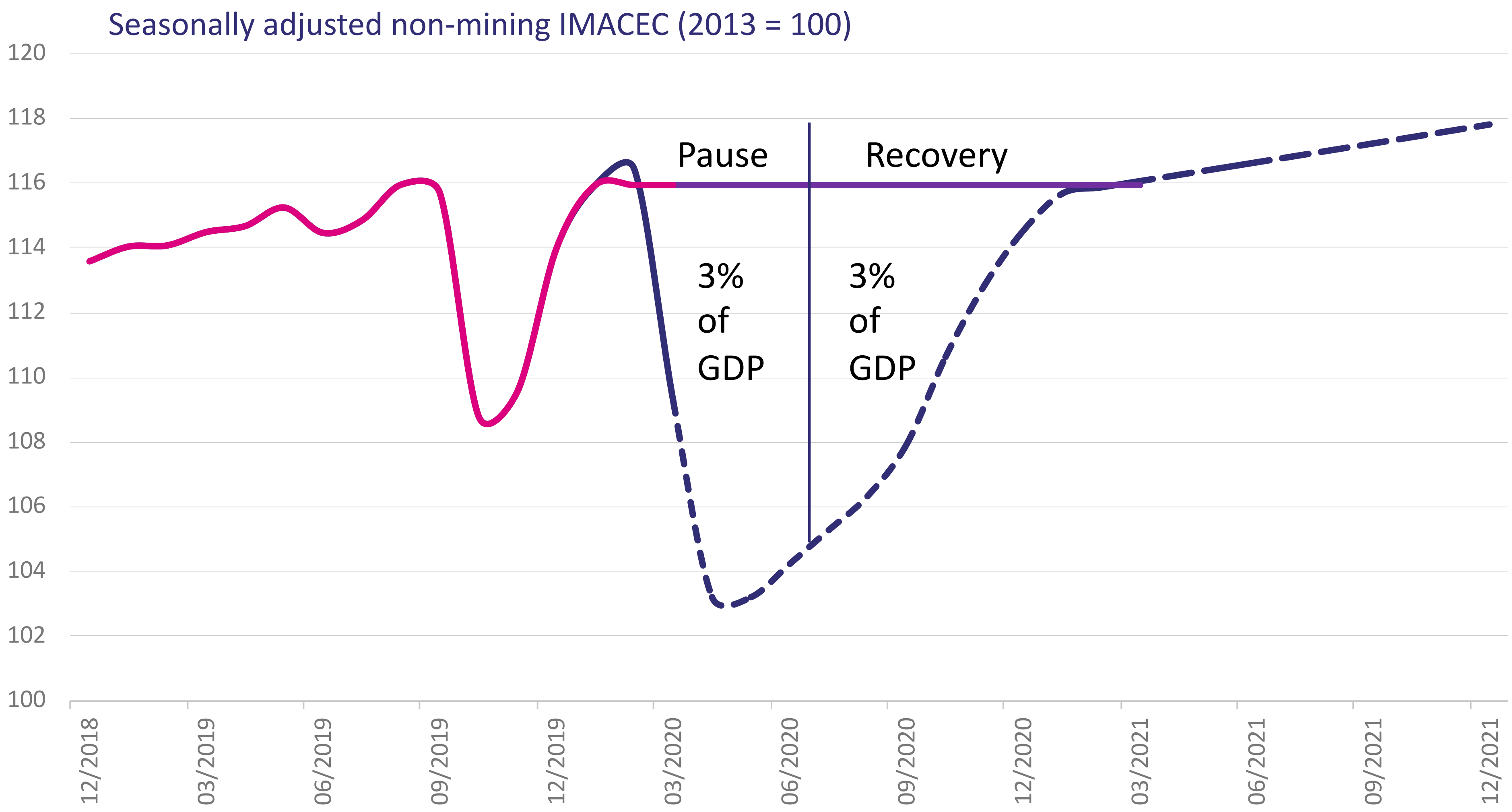
Questions

- How big is the shock for Chile?
- How big is the fiscal package?
- Is there any fiscal space left?

We can divide the income loss in two parts



Non-mining IMACEC %YoY
March: -4.6%
April: -10%
May: -10%
June: -9%
...
December: 0.5%

Total GDP growth 2020: -4%

Total GDP 2019: USD 280 b

Total cost of the shock:
USD 17 b.

Income loss due to Covid-19 during the pause

		USD MM	% of GDP
Government	Total	**3,300**	**1.1**
	Copper	300	0.1
	New macroeconomic scenario	3,000	1.0
Payroll	Total	**1,500**	**0.5**
	Government funded agreement to finance furloughs (Covid-19 agreement)	250	0.1
	Regular unemployment benefits (ex Covid-19 agreement)	350	0.1
	Unemployed withouth access to unemployment benefits	900	0.4
Informal economy		**600**	**0.2**
Shareholders		**1,200**	**0.4**
Other		**2,300**	**0.8**
Income loss		**8,900**	**3.0**

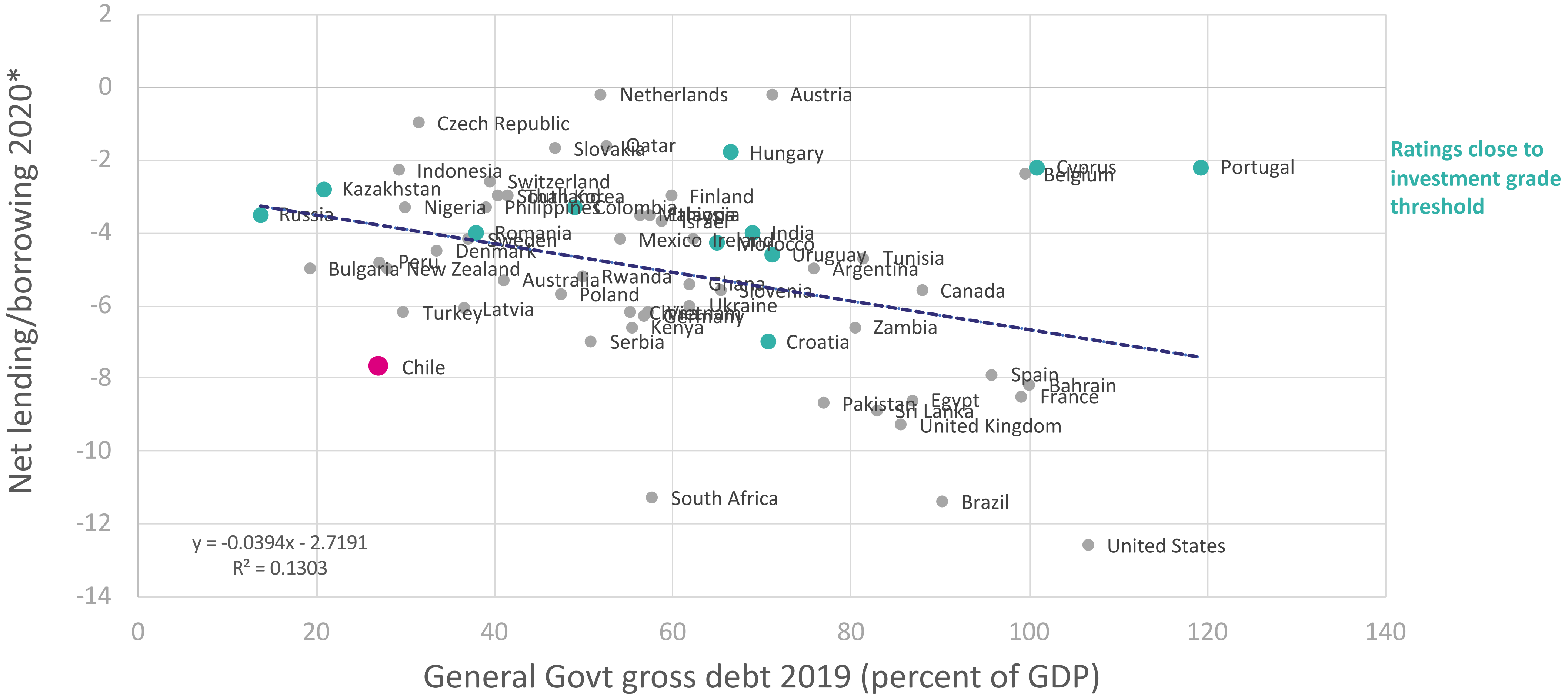
Covid-19 measures in Chile: 7.2% of GDP (USD 17,105 MM)
Fiscal deficit was increased by 2pp after the social crisis and another 4pp after the pandemic
Current fiscal deficit official forecast is -8%

Measures	USD MM	% GDP
Direct impact on fiscal deficit	**6,347**	**2.7**
Healthcare spending (2% of current budget)	1,400	0.6
Medical supplies	260	0.1
Unemployment insurance furloughed workers	2,000	0.8
Family income support	167	0.1
Local government spending fund	100	0.0
Tax stamp reduction	420	0.2
Support for the most vulnerable and independent workers	2,000	0.8

Measures	USD MM	% GDP
No direct effect on fiscal deficit	**10,758**	**4.5**
Suspension of advance income tax payments (April-June)	2,400	1.0
VAT deferral	1,500	0.6
Early payment of income tax refunds for SME	770	0.3
Income tax deferral for SME	600	0.3
Real estate tax deferral	670	0.3
Early payment of income tax refunds for dependent workers	200	0.1
Early payment of income tax refunds for independent workers	118	0.0
Accelerated disbursements for public procurement contracts	1,000	0.4
Capitalization of BancoEstado	500	0.2
State guarantees for SME credit	3,000	1.3

PACIFICORESEARCH

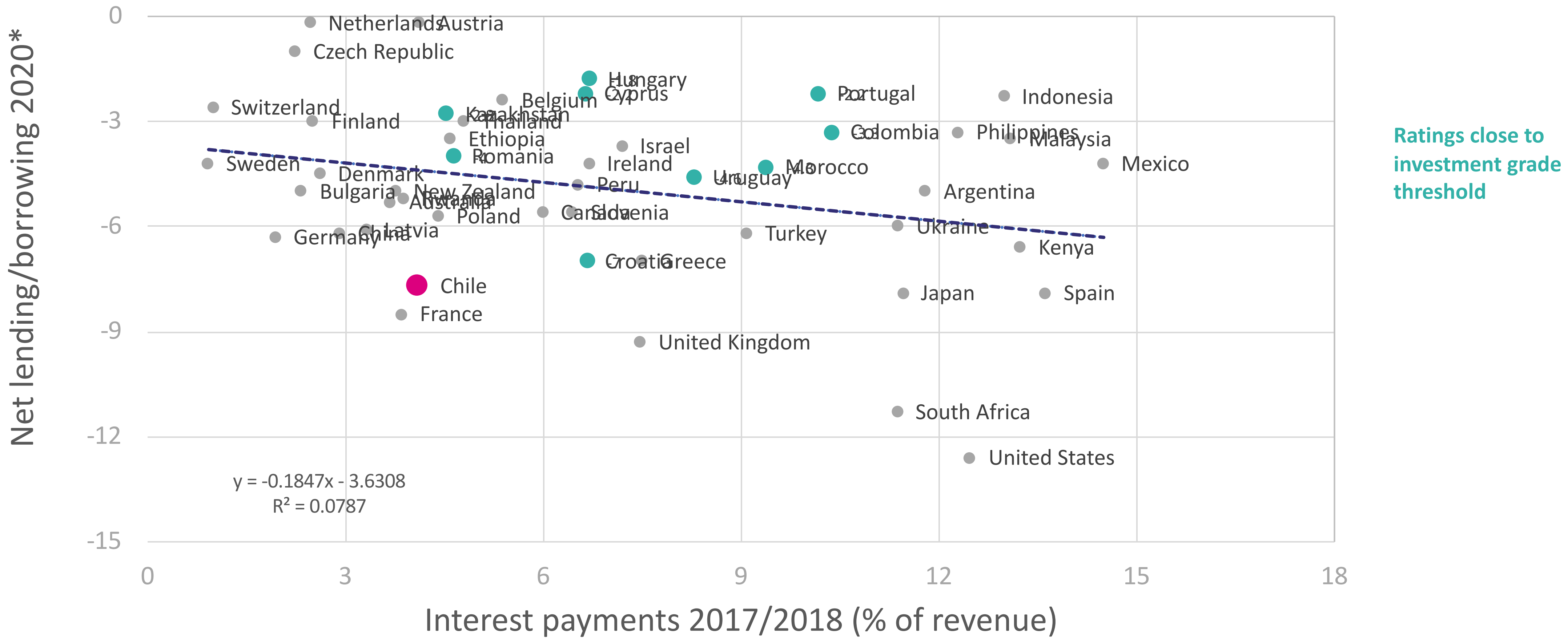
- Apparently, there is NO correlation between the level of debt/GDP and the fiscal effort
- Chile is running a deficit much larger than countries with similar debt/GDP ratio



Source: Bloomberg consensus estimates, IMF (WEO 2019-II).

PACIFICO RESEARCH

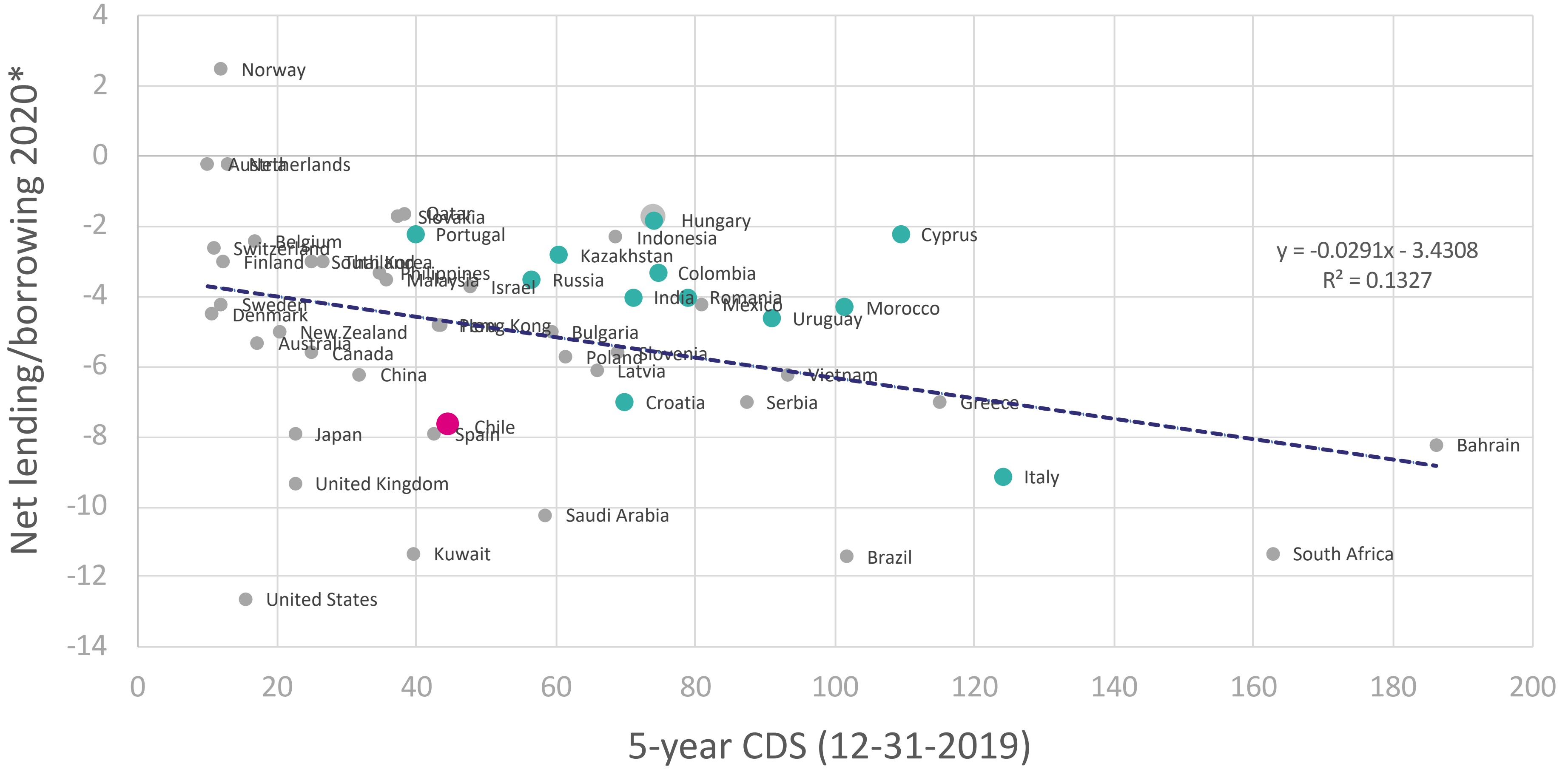
- Apparently, there is NO correlation between debt service and the fiscal effort
- Chile is running a deficit larger than countries with similar financial burden



Source: Bloomberg consensus estimates, World Bank

PACIFICO RESEARCH

- Apparently, there is NO correlation between default risk and the fiscal effort
- Chile is running a deficit similar to other countries with similar risk

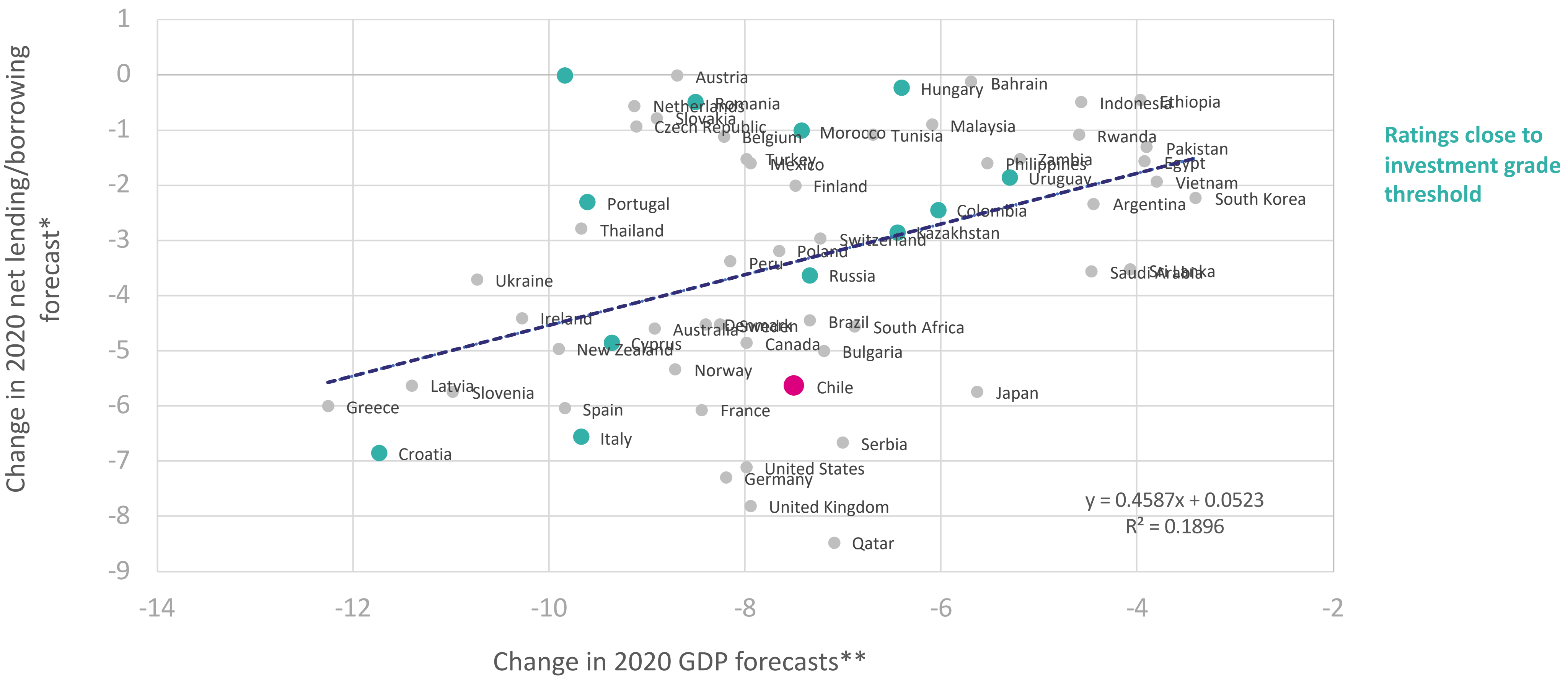


Ratings close to investment grade threshold

Source: Bloomberg consensus estimates.

PACIFICORESEARCH

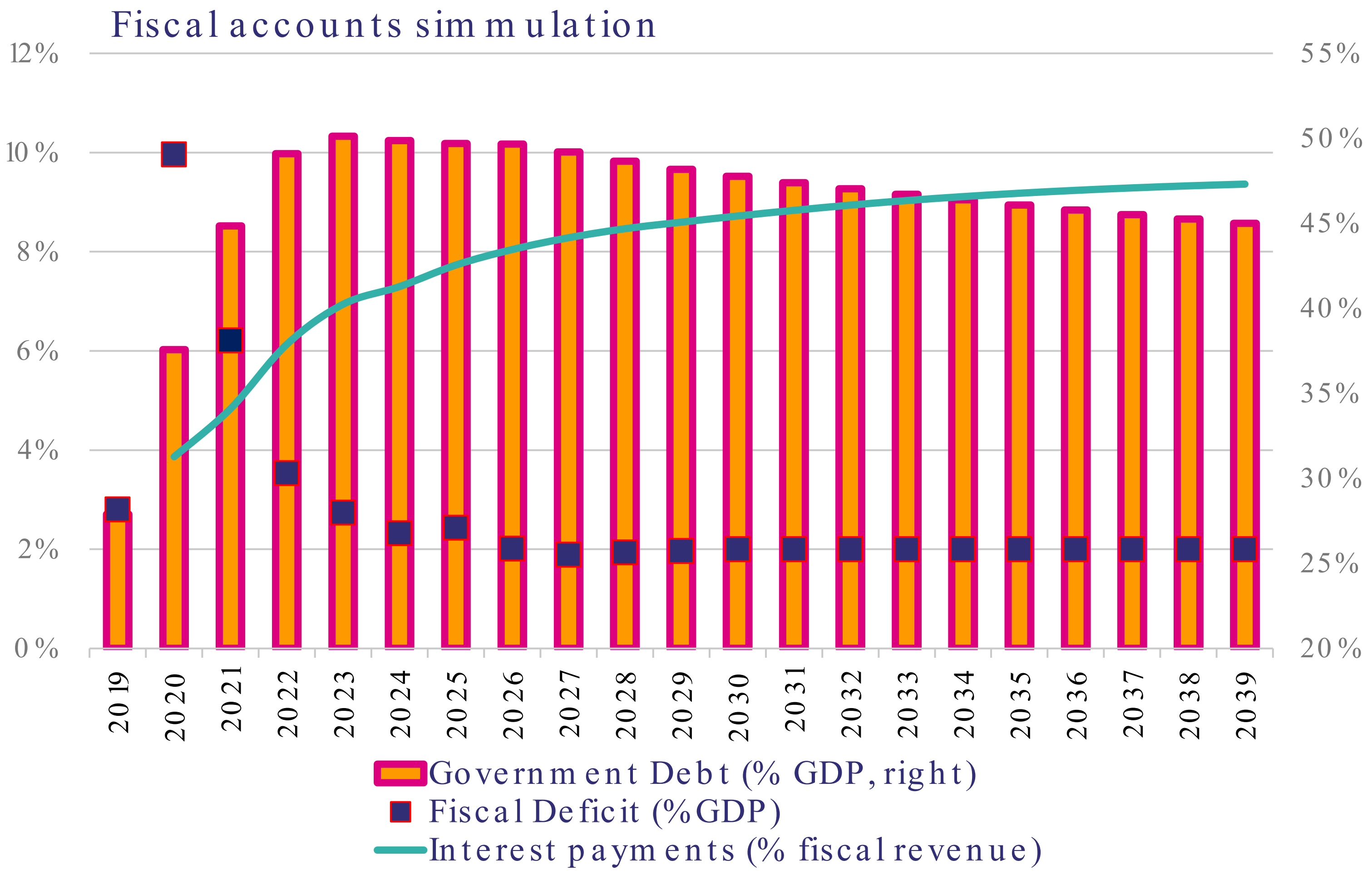
- Apparently, there IS a correlation between the size of the shock and the increase in the deficit
- Chile is increased its deficit similar to other countries with comparable shocks



Source: *WEO 2019-II vs Bloomberg Consensus estimates. **IMF: WEO 2019-II vs WEO 2020-I.

PACIFICORESEARCH

- The Chilean government can easily increase its debt without jeopardizing fiscal sustainability
- In a more realistic scenario Debt/GDP reverts to 30% and interest/revenue to 5%



Assumptions

	GDP growth	Inflation	Interest rate
2020	-4	1	3.2
2021	4	2	4.0
2022	2	2	4.5
2023	2	2	5.0
2024+	2.5	2.5	6.0

Conclusions

1. The shock is huge, could cost the economy as much as 6% of 2019's GDP (about USD 17 b)
2. The current fiscal effort is big compared to other countries in similar conditions
3. There is space for increasing expenditure because:
    a. Interest rates are extremely low (r<g)
    b. Initial debt level is low
    c. There is still consensus that this has to be a one-time effort

It is important to bear in mind the potential costs of under-spending:

- Difficulties to recover)long lasting effects)
- Re-burst of the social crisis

GRACIAS