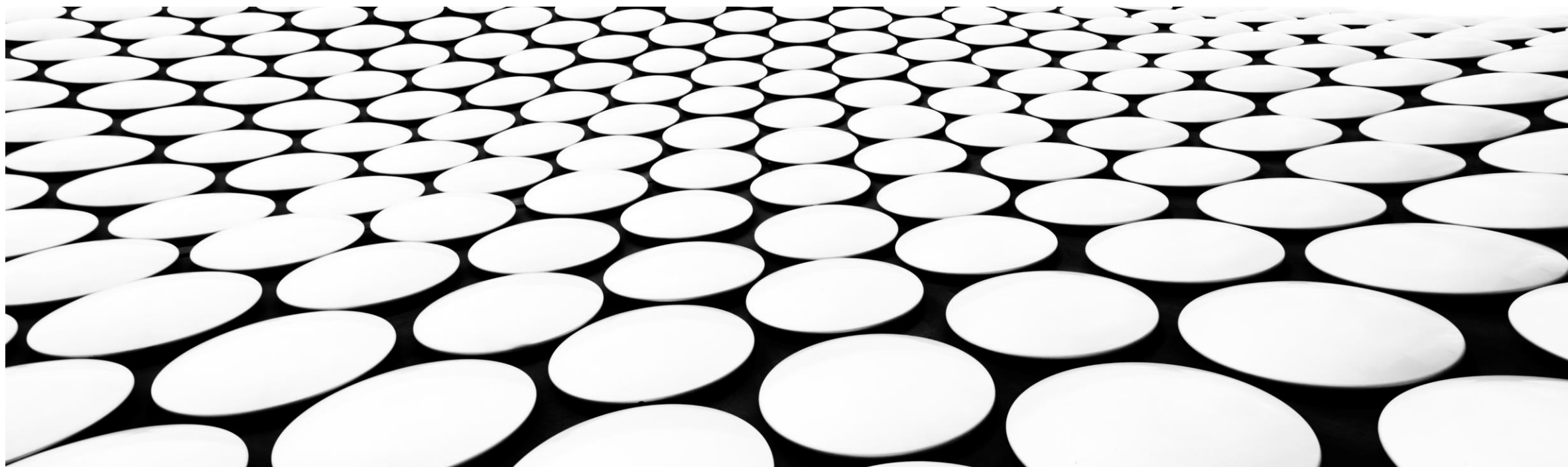

REMARKS ON UNCONVENTIONAL MONETARY POLICY OF THE CENTRAL BANK OF CHILE

DALIBOR ETEROVIC



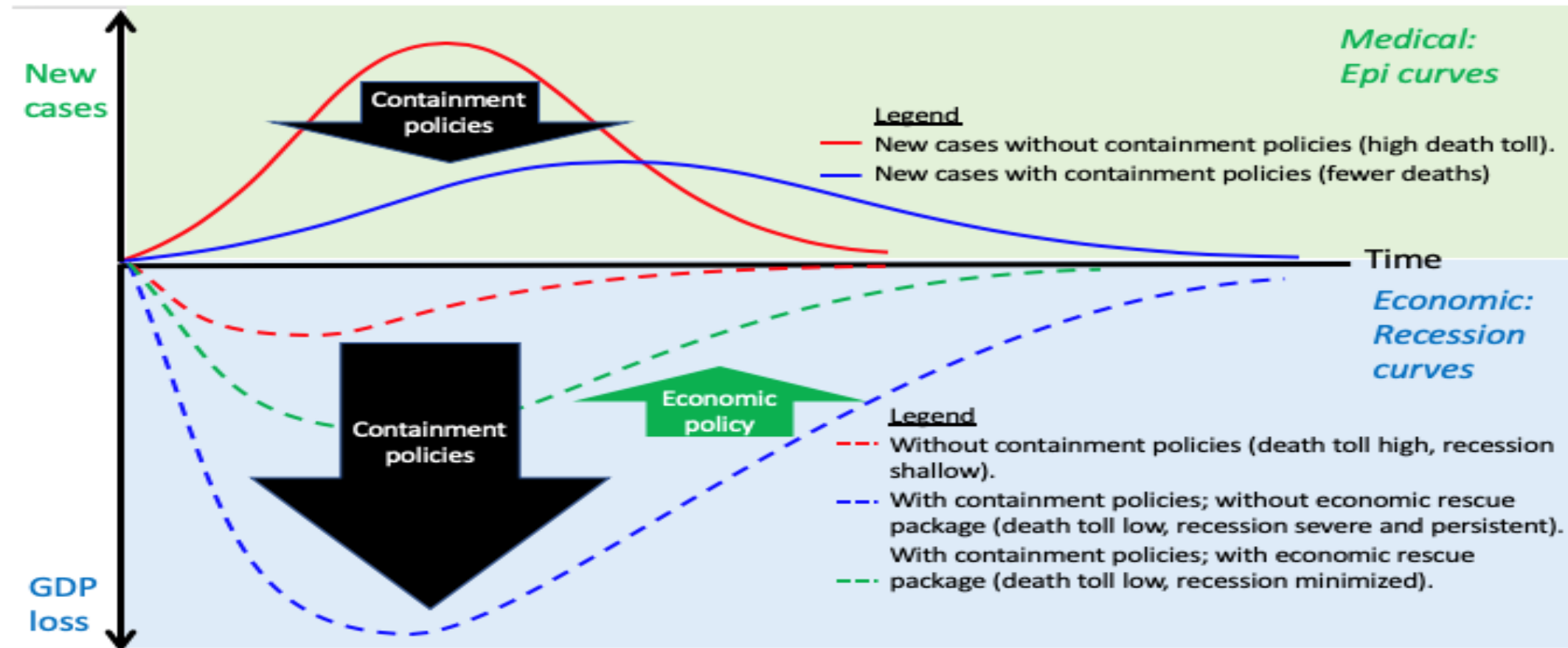


OUTLOOK

1. Nature of the Shock & Policy Responses
2. Long run consequences...more questions than answers

1-NATURE OF THE SHOCK: FLATTENING THE CURVE VS ECONOMIC DAMAGE

Figure 3 The recession, made worse by containment policy, can be mitigated with economic policy.



Source: Author's elaboration based on Gourinchas (2020).

1-NATURE OF THE SHOCK: ECONOMIC IMPACT

Table 1: Real GDP

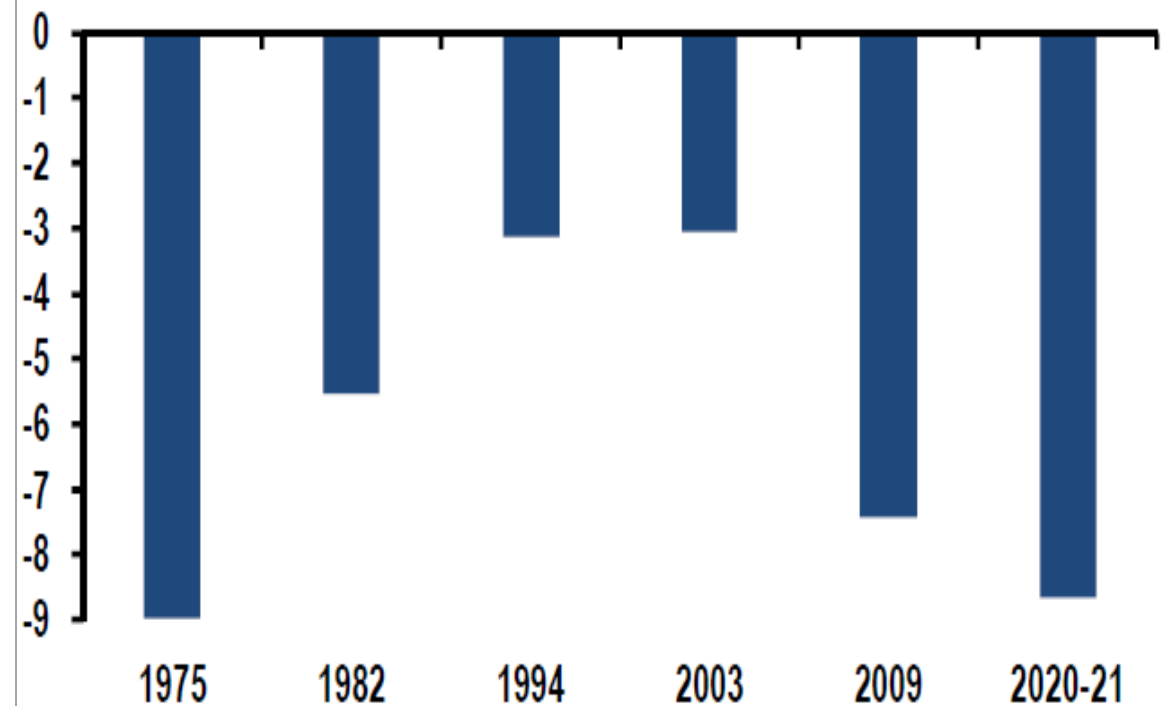
% deviation from Jan 24th baseline

	2020		2021	Cumulative loss
	2Q	4Q	4Q	2020-21
Global	-8.0	-3.5	-2.6	-7.9
Developed	-9.5	-4.2	-2.7	-8.6
US	-10.0	-6.8	-3.5	-11.3
Euro area	-10.4	-1.5	-1.5	-6.1
Japan	-3.6	-2.8	-2.5	-5.5
UK	-11.5	-2.3	-2.3	-7.0
Emerging	-5.6	-2.4	-2.4	-6.7
EM Asia	-5.0	-1.6	-1.7	-6.0
China	-4.6	-0.8	-0.8	-5.7
India	-10.5	-3.5	-4.1	-9.1
Other	-3.2	-2.7	-2.6	-5.3
LatAm	-8.1	-5.3	-5.2	-10.3
EMEA EM	-6.0	-3.3	-3.1	-6.7

Source: J.P. Morgan

Figure 4: Cumulative real GDP loss following cyclical peaks, DM

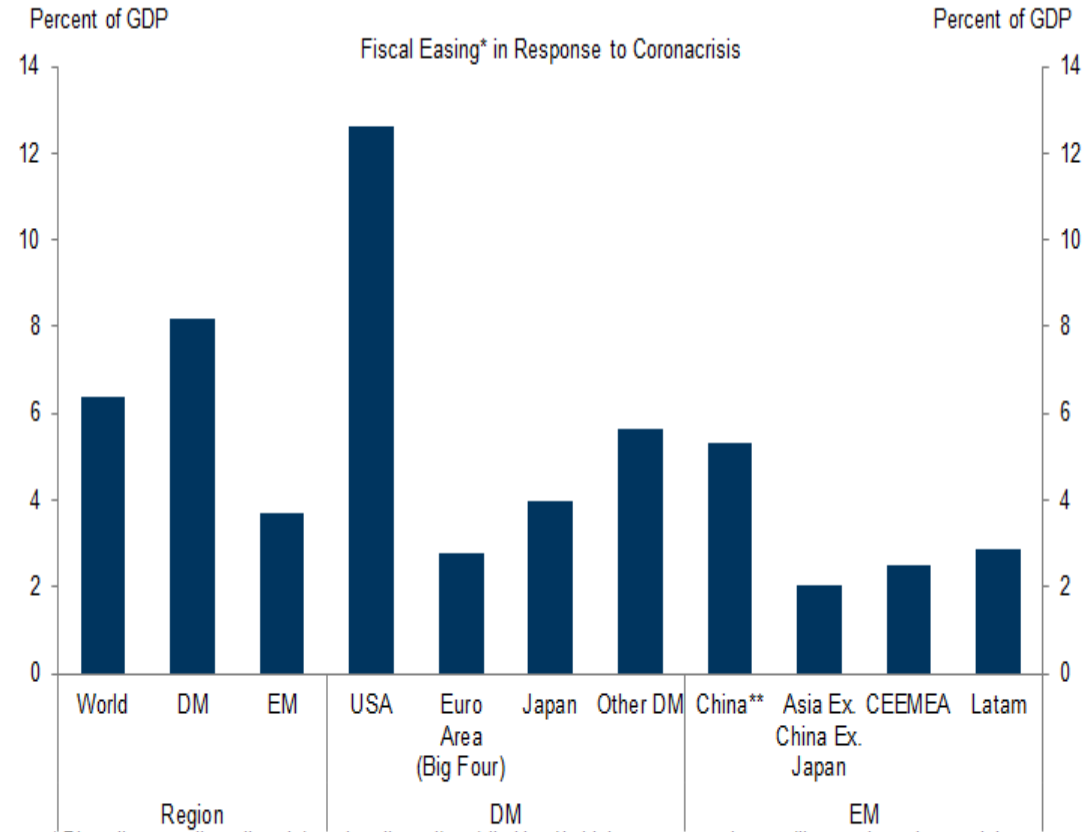
%, relative to potential, losses cumulated over 8 q following peak



Source: J.P. Morgan

1. POLICY RESPONSES: TRADITIONAL MONETARY AND FISCAL...

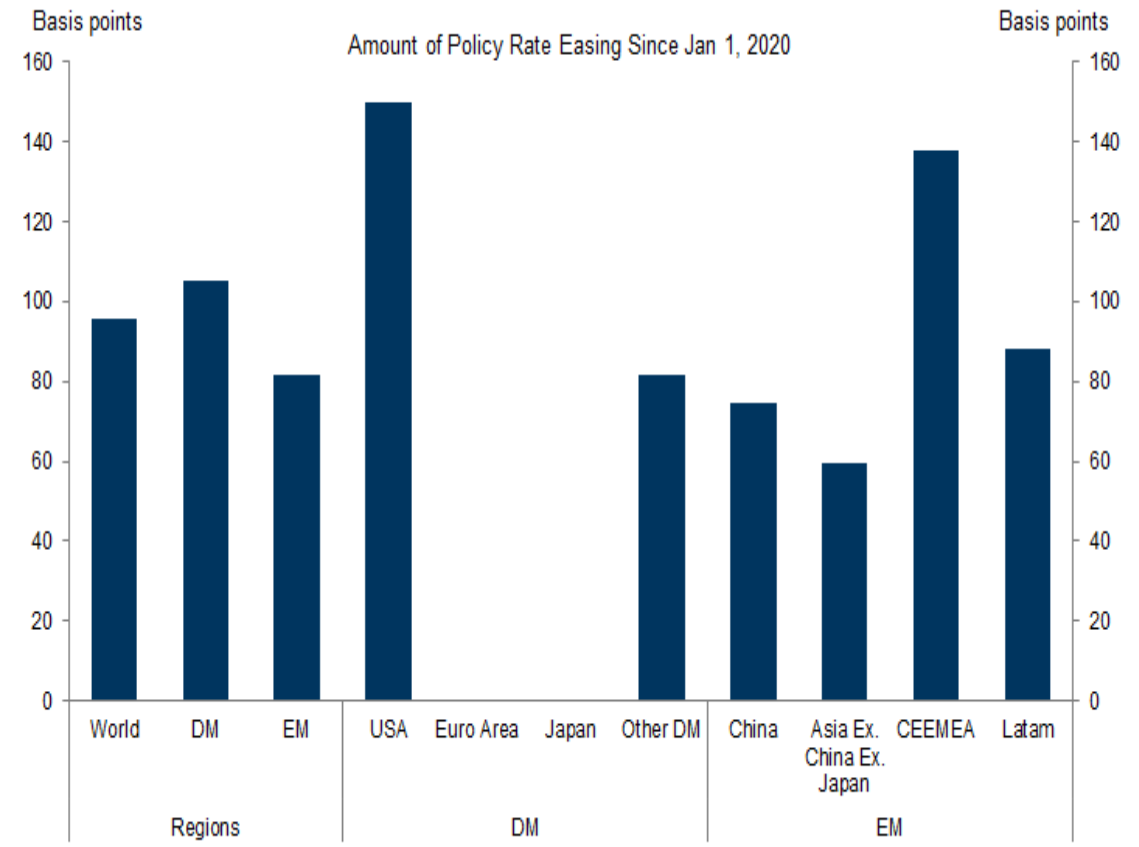
Discretionary Fiscal Easing



* Discretionary policy actions taken since the outbreak that lead to higher government expenditures or lower tax receipts
 ** GS expected easing

Source: Goldman Sachs Global Investment Research

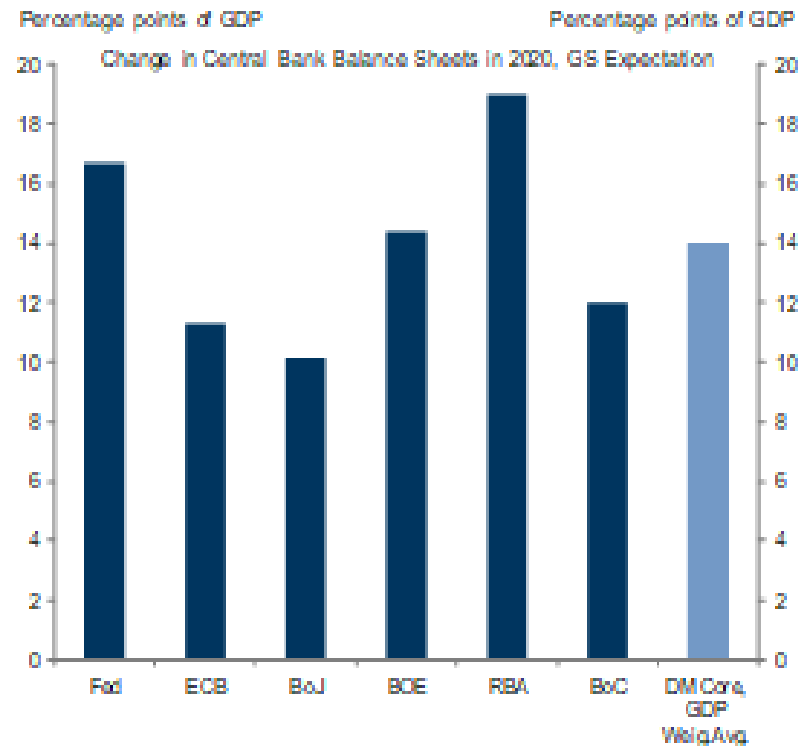
Policy Rate Easing Since January 1



Source: Goldman Sachs Global Investment Research

UNCONVENTIONAL MONETARY POLICY

Core DM Central Bank Balance Sheets



Source: Goldman Sachs Global Investment Research

Four main channels

1. Quantitative Easing
2. Liquidity provisions (discount windows, facilities, swaps)
3. Support flow of credit (IG and HY corporates)
4. Regulatory changes

QUESTION 1: SUPPLY OR DEMAND? RATES SAY DEMAND BUT...

Figure 5 Relative supply shifts: Services are easier to produce remotely.

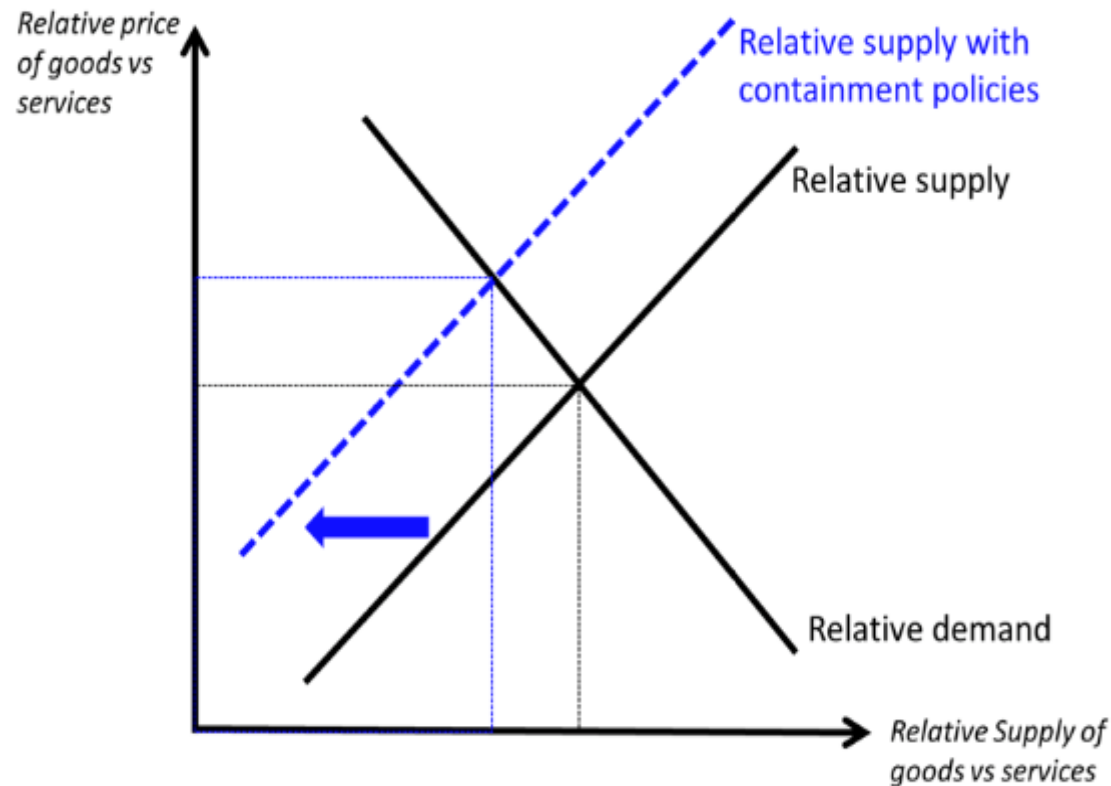
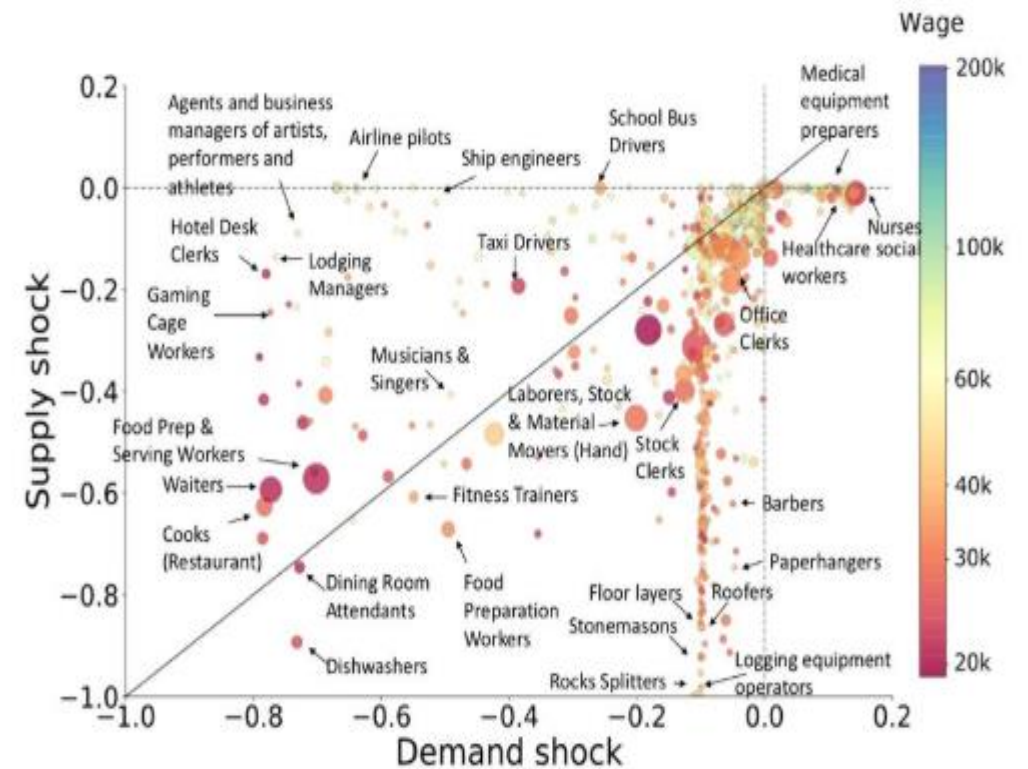
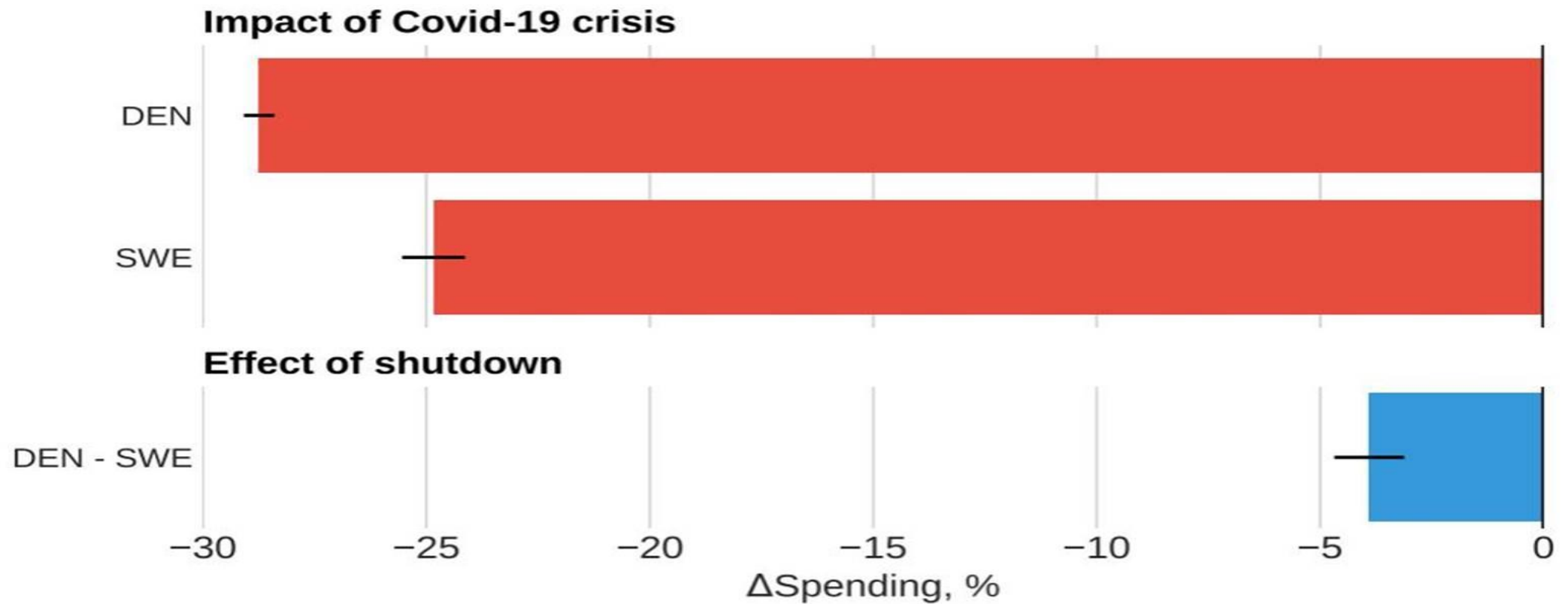


Figure 3 Supply and demand shocks for occupations

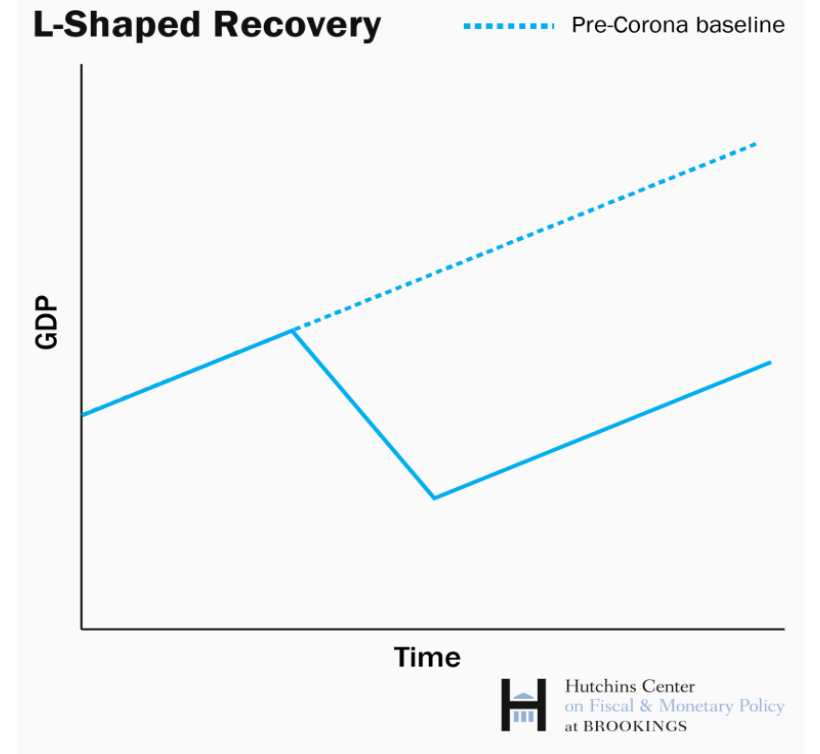
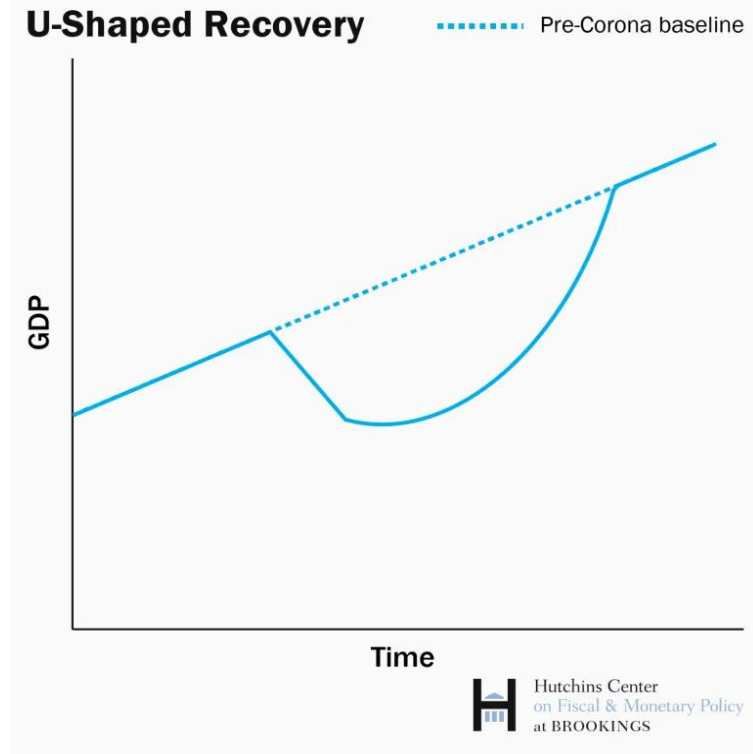
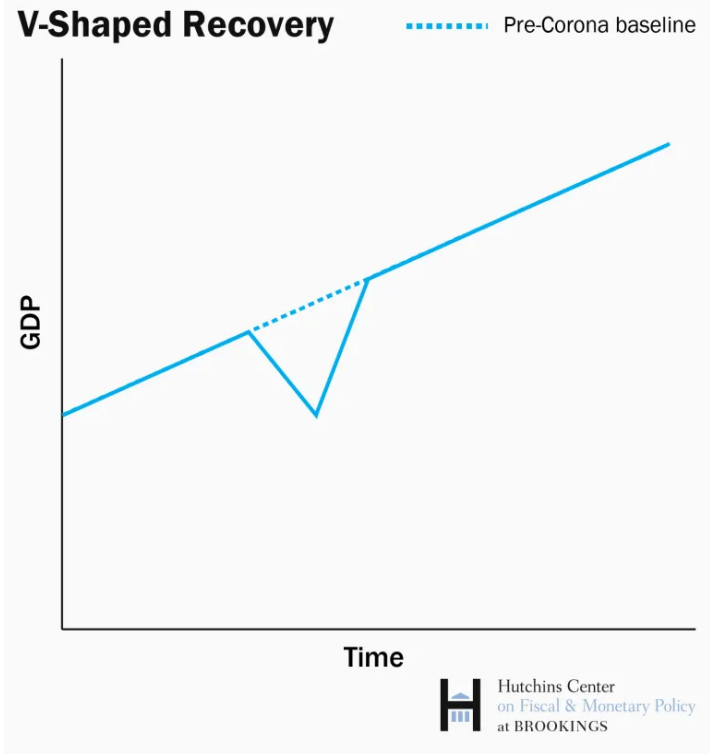


Source: Author's elaboration.

QUESTION 2: WHAT HAPPENS WHEN COUNTRIES RE-OPEN?



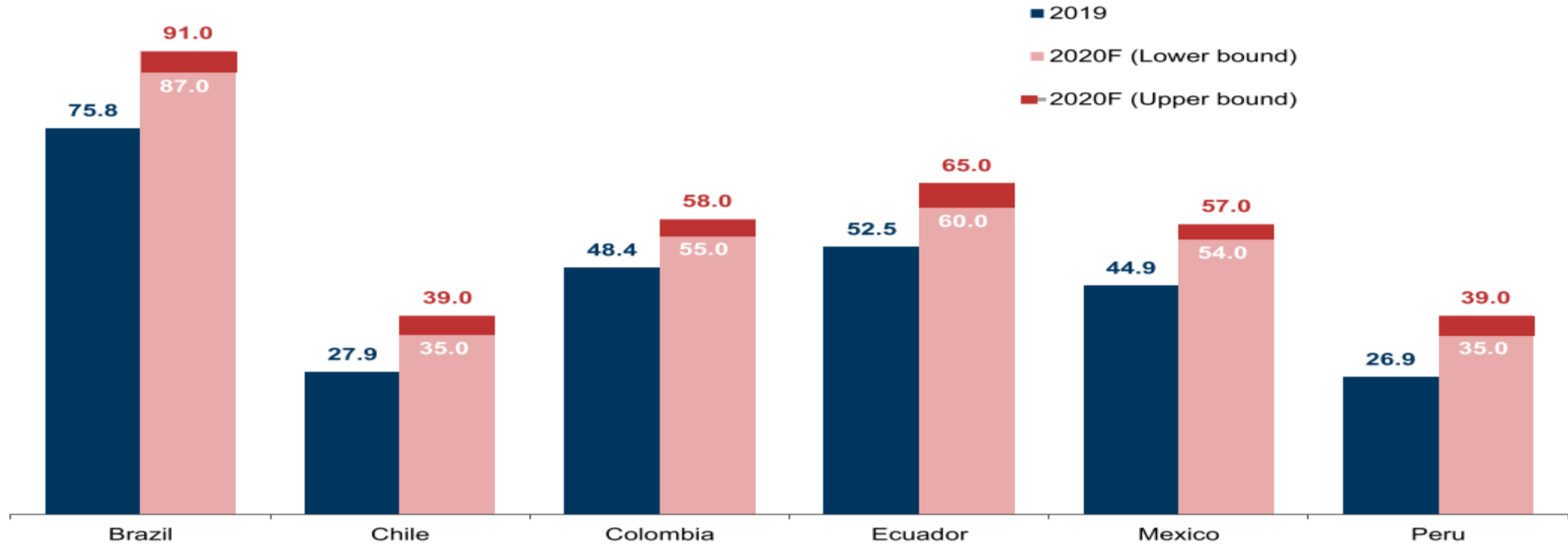
ALPHABET OF RECESSIONS: SHORT TERM VS LONG TERM SHOCKS



LATAM: FISCAL DETERIORATION MEANS LESS CAPACITY TO SPEND IN THE FUTURE

Exhibit 10: Gross Public Debt Burden Expected to Increase Significantly

% GDP



Source: Goldman Sachs Global Investment Research

TO CONCLUDE

1. The policy response in Chile (both fiscal and monetary) to the COVID-19 shock has been the most comprehensive and aggressive in the history of the country...30 years of economic and institutional development allowed it
2. But the costs of the policies are equally immense...balance sheet deterioration and institutional risks ahead when impulse and credit must be withdrawn
3. Finally, the policies implemented are most efficient when the nature of the economic shock is transitory