Conference call with BBVA

September 2021 Monetary Policy Report

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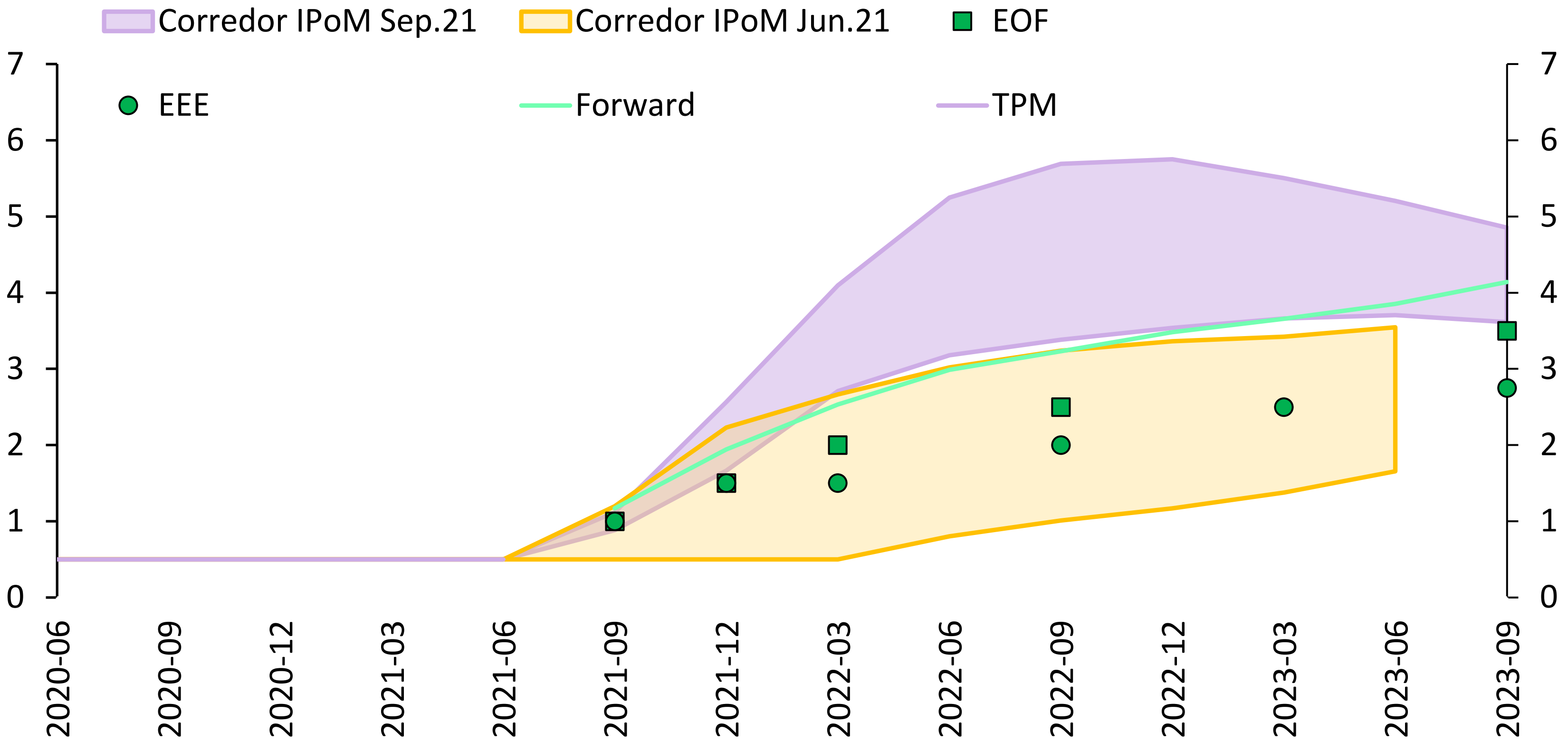
Via Zoom –September 10th, 2021

Monetary policy

The MPR rose to 1.5% in the last monetary policy meeting and a more restrictive path was announced

Monetary policy rate corridor

(%)



(*) The corridor is built following the methodology of Box V.1 of the March 2020 Report. It includes the FOS of August 26, the EES of August 10 and the quarter's mean smoothed forward curve (statistical cutoff). The methodology corresponds to the extraction of the implicit MPR considering the forward curve on the interest rate swap curve up to 2 years, discounting the fixed rates for each term at the simple accrual of the ICP. Source: Central Bank of Chile.

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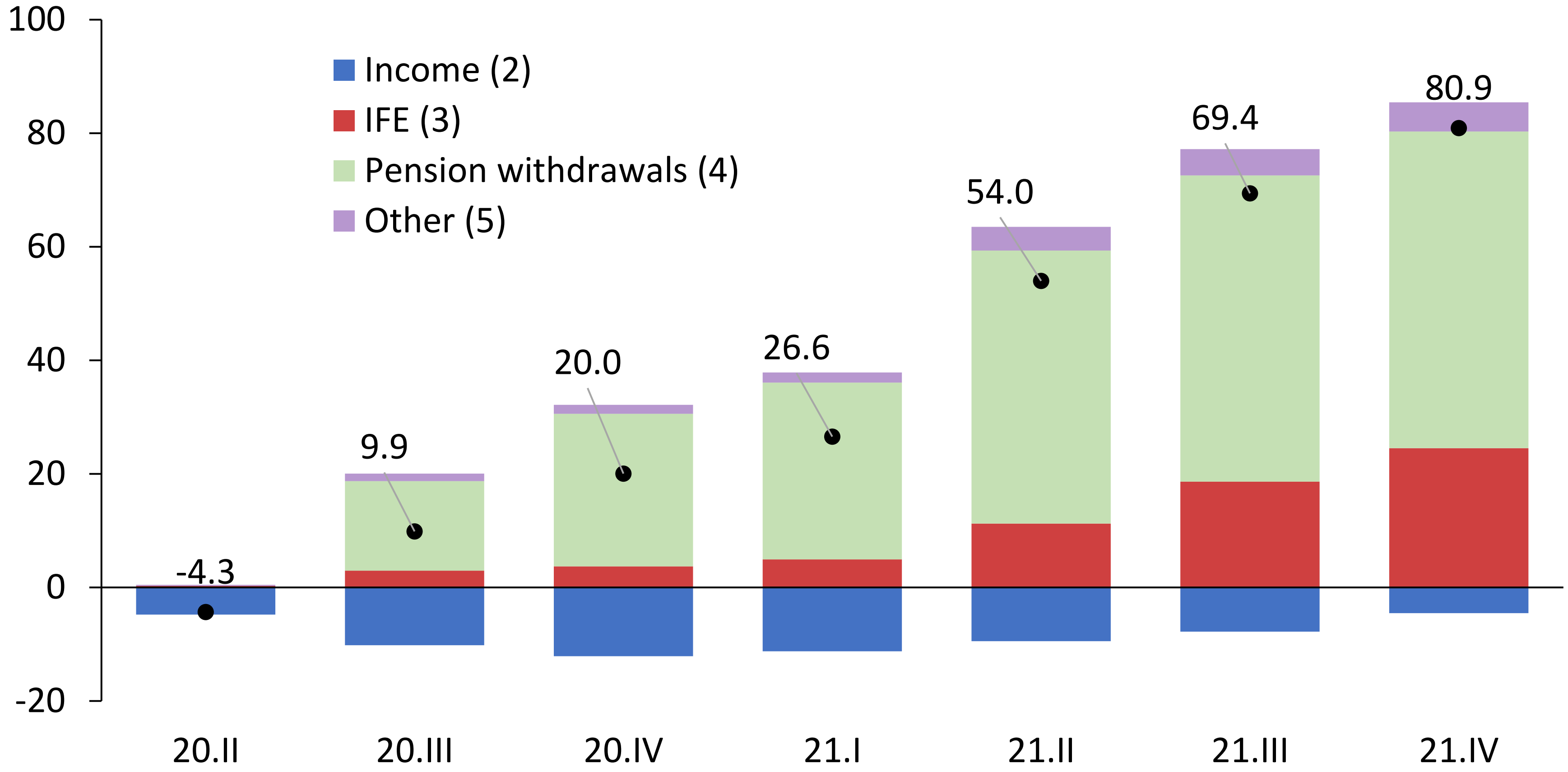
The boost to demand has been much larger than our June projections

The sum of stimuli to demand has far exceeded the fall in household income. Especially in 2021.

HOUSEHOLDS' CUMULATIVE INCOME AND LIQUIDITY INJECTIONS (1)

(%)



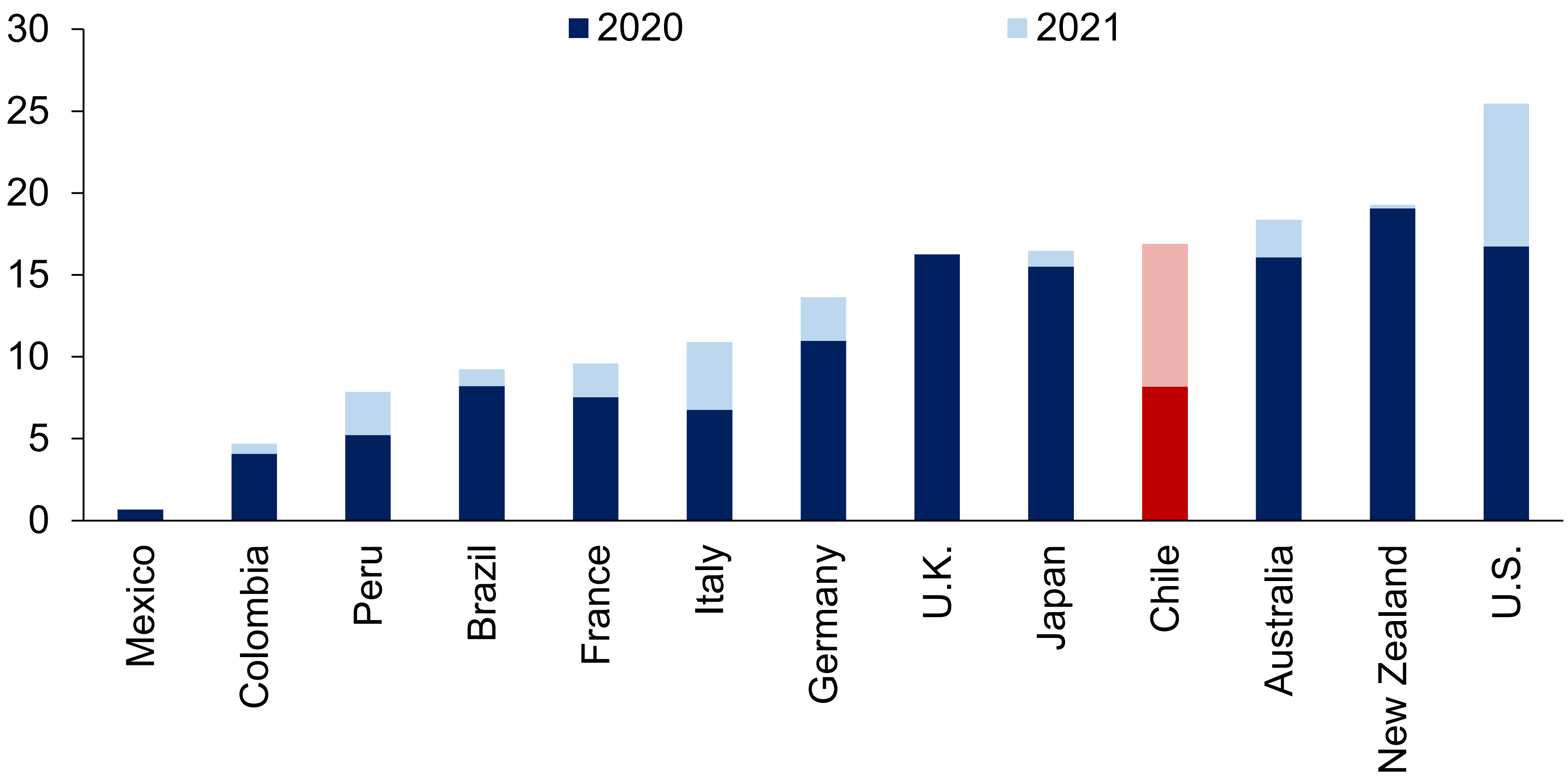
(1) Households' increase in liquidity and support measures from 21.II to 20.IV are estimated based on forecasts consistent with the central scenario. (2) Sum of work income and other earnings (production rents and property rents CNSI). Quarterly values are differences with same quarters of 2019. (3) IFE has grown in amounts and coverage, from over 6 million average recipients between May 20 and March 21, to more than 15 million in July 21. Amounts per capita have risen from US$70 in the beginning to US$200 in July 21. For Aug 21 and Sept 21, figures are based on Public Finances Report No.79, Diprés (06-02-2021).For Oct 21 and Nov-21 there is also Universal IFE of US$3.2 billion in each month (4) Amounts paid based on statistic charts of the Pension Superintendency at 30 July 2021. For 21.III and 21.IV difference weighted between estimated total amounts to withdraw and effectively paid at 30 July 2021. (5) Considers Covid-19 bonus, middle-class bonus, 3rd pension withdrawal, and additional use of Unemployment Insurance and workers IEF. Sources: Finance Ministry of Chile, Superintendency of Pensions (SP), and Central Bank of Chile.

The boost to demand has been much larger than our June projections

The fiscal impulse in Chile is one of the largest in the world and, compared to other countries, much more concentrated in 2021

Government announced expenditures or foregone revenues in response to Covid-19 (*)

(Percent of 2020 GDP)



(*) 2020 figures correspond to January Fiscal Monitor data. 2021 figures are the difference between provision of July and January. For Chile, an additional 2.8% is assumed, due to IFE. Source: Central Bank of Chile based on IMF data.

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Impact on 2021 growth projections

A 1.8% of the 2% increase in the growth rate projected for this year is related to a greater impact or growth in demand stimuli.

Growth forecasts: September versus June

(%)

2021

June 2021: 9,5 % – 8,5 %

September 2021: 11,5 % – 10,5 %

2022

June 2021: 3,0 % – 2,0 %

September 2021: 2,5 % – 1,5 %

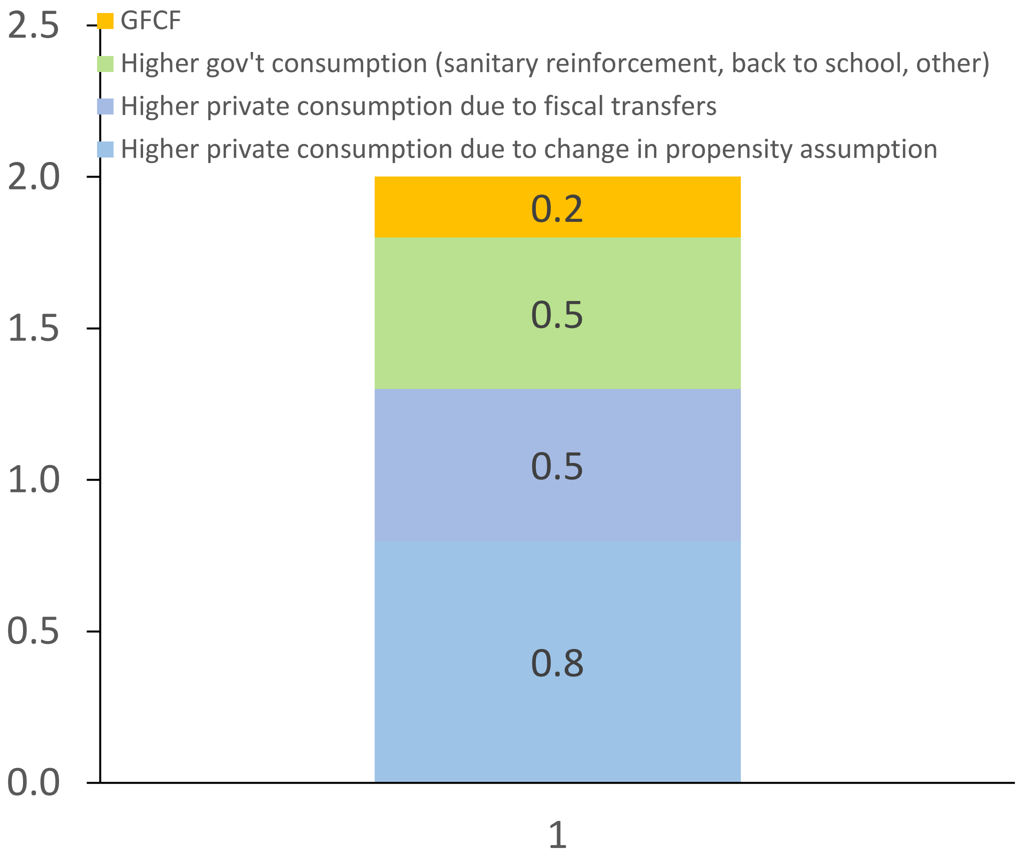
2023

June 2021: 2,75 % – 1,75 %

September 2021: 2,0 % – 1,0 %

Contributions to revision to 2021 GDP growth (*)

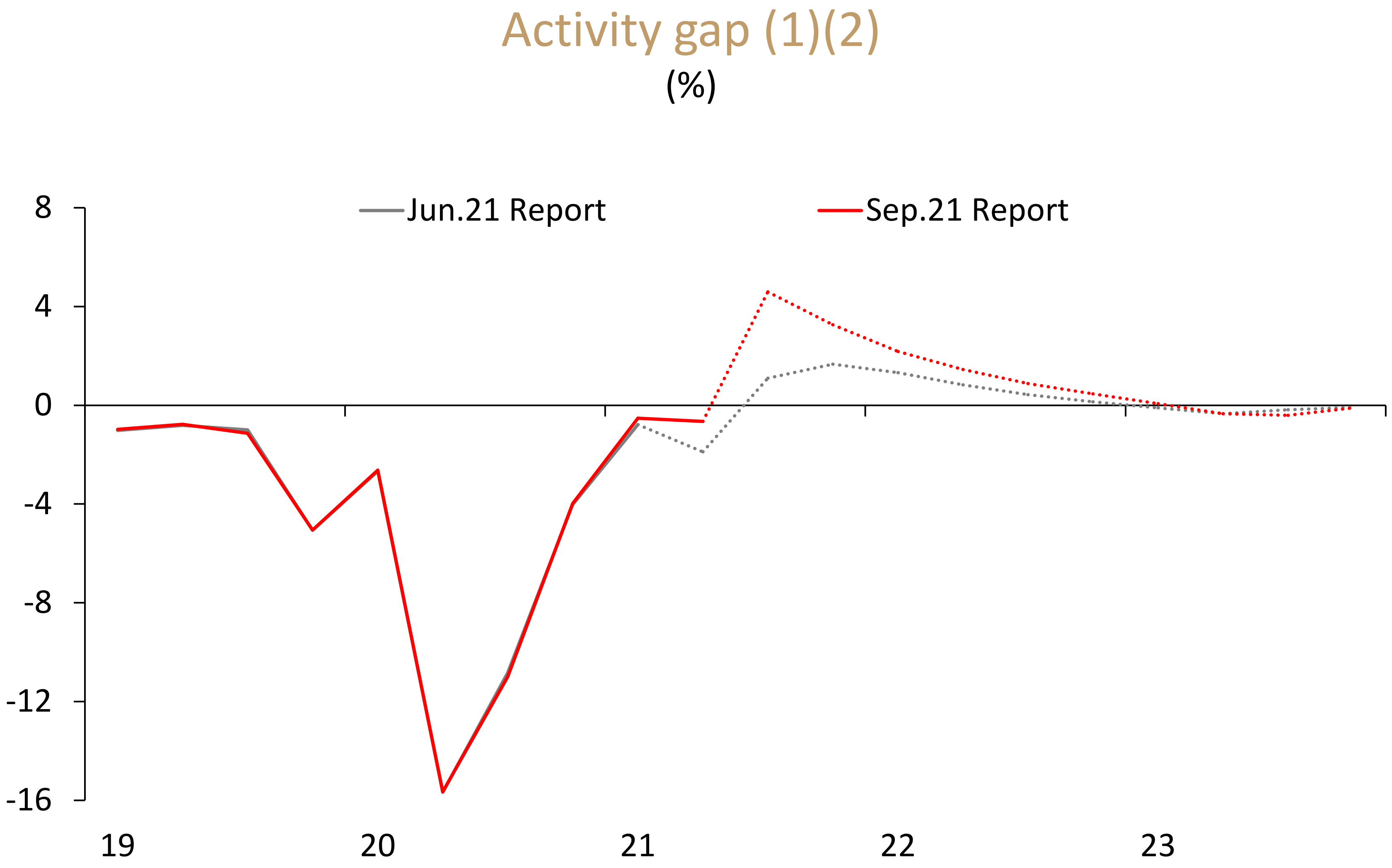
(%)



(*) Built using midpoint of forecast range of June and September 2021 Monetary Policy Report.. Source: Central Bank of Chile.

Impact on the output gap

The sum of fiscal stimuli, monetary stimuli and those derived from the withdrawals of pension savings is exacerbating the cycle, not attenuating it



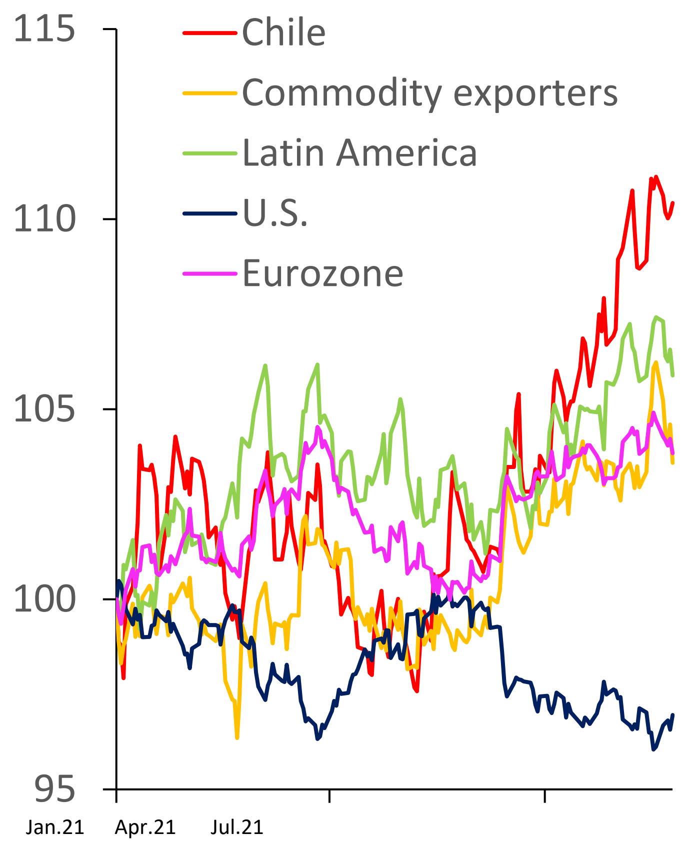
(1) Dotted lines show forecast. . (2) Forecast assumes structural paramenters updated in June 2021 Report. Source: Central Bank of Chile.

Financial markets

Contrary to usual, the expansion in activity has not gone hand in hand with an appreciation of the peso. Sign that the economy has been hit by an idiosyncratic risk shock

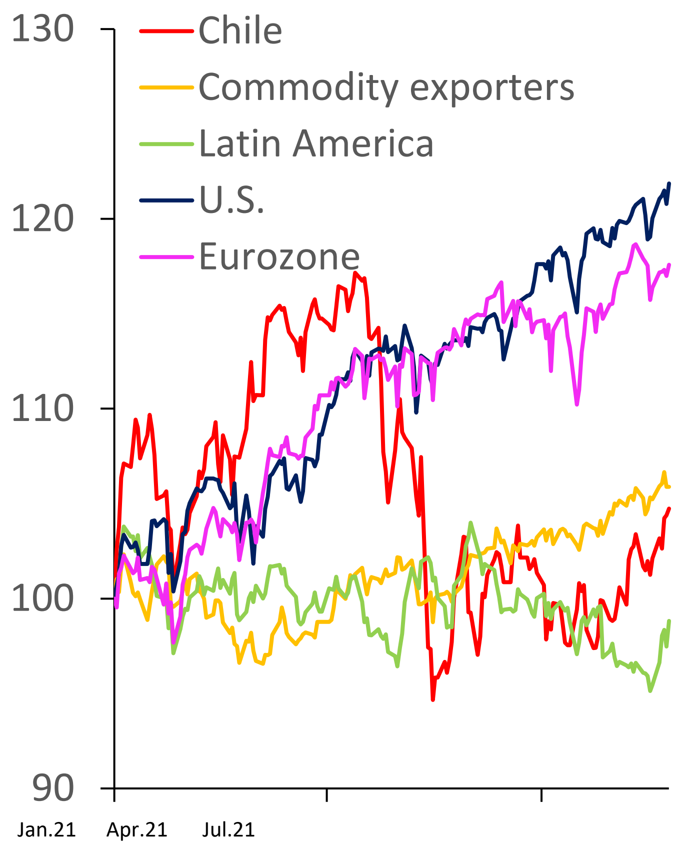
Currencies (*)

(index, 4 January 2021=100)



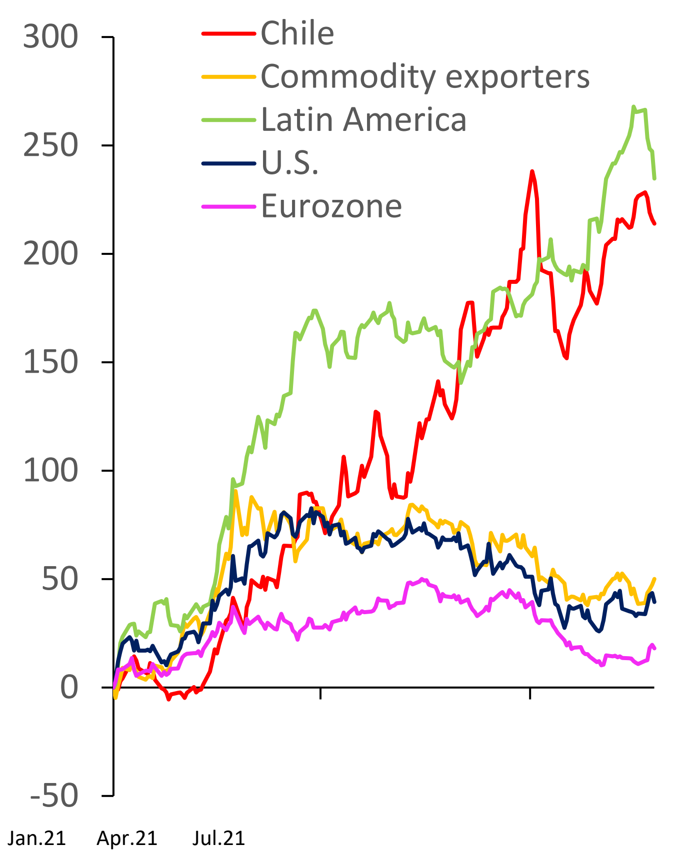
Stock markets (*)

(index, 4 January 2021=100)



Nominal 10-year interest rates (*)

(difference w/r to 4 Jan.2021, basis points)



(*) For Latin America, the simple average of the indexes of Brazil, Colombia, Mexico and Peru are used. For commodity exporters, the simple average of the indexes of Australia and New Zealand are used..
Sources: Central Bank of Chile and Bloomberg.

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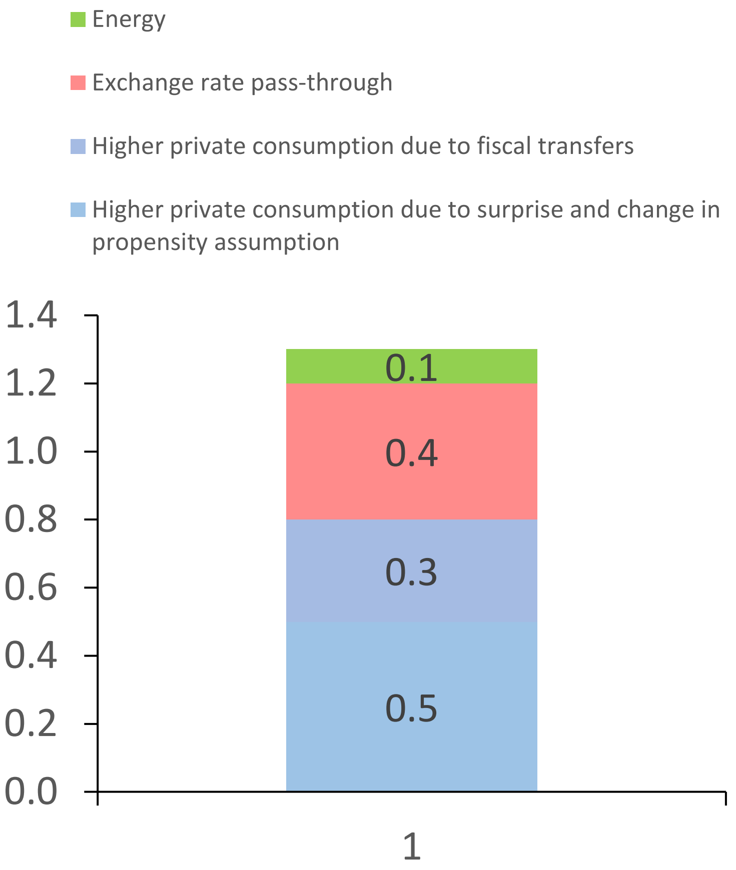
The impact on inflation has been significant and, although there are transitory elements, it has a relevant degree of persistence

Contributions to revision to December 2021 inflation forecast (*)

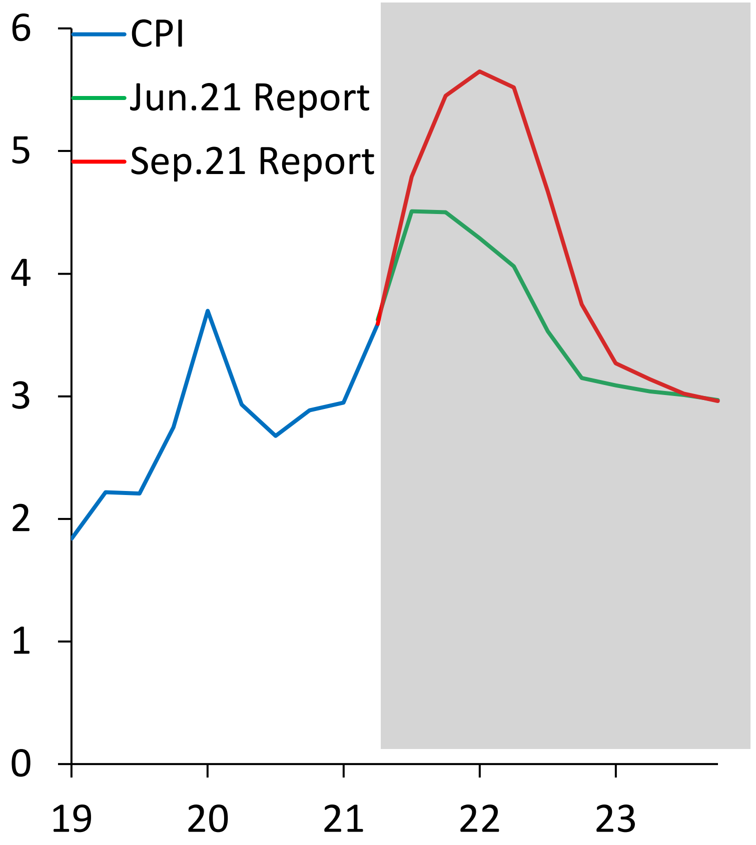
(percentage points)

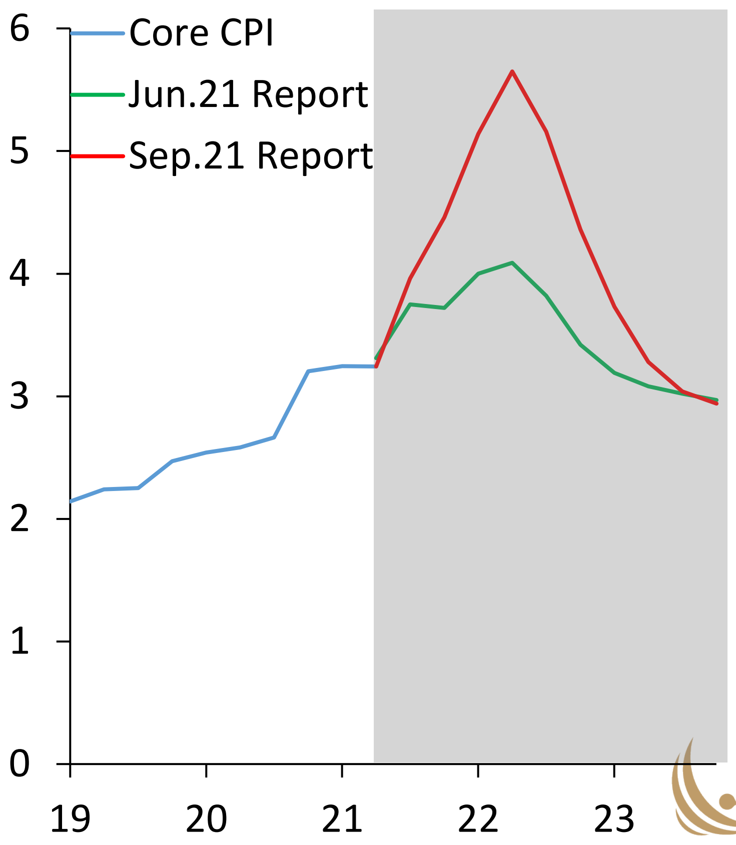


(*) Built considering the projection for the total CPI inflation of the June and September 2021 Report. Sources: Central Bank of Chile and National Statistics Institute (INE).

Inflation forecast (1) (2)

(annual change, percent)





(1) Gray area, as from second third 2021, shows forecast. (2) Core inflation is measured using CPI excluding volatile. Sources: Central Bank of Chile and National Statistics Institute (INE).

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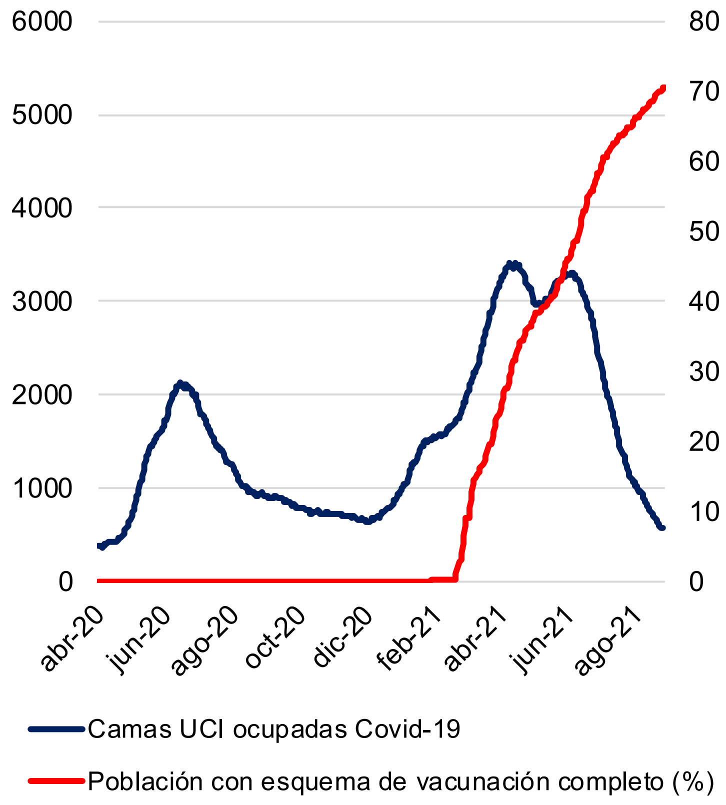
Of course, behind this forecast there are other important elements. Among them, a successful vaccination process and a strong external impulse stand out

UCI beds and population with complete vaccination scheme (2)

(level; percentage of population)



International Baseline Scenario Assumptions

	Avg. 10-19	2020	2021 (f)	2022 (f)	2023 (f)
			(annual change, percent)		
Terms of trade	1.1	8.9	14.1	-3.0	-4.7
External prices (in US$)	0.6	-1.5	10.3	2.2	2.3
			(level)		
LME copper price (US$cent/pound)	306	280	415	400	370
WTI oil price (US$/barrel)	72	39	65	63	60
Brent oil price (US$/barrel)	80	42	67	66	63
Gasoline parity price(US$/m3) (*)	610	333	559	548	511
US Federal Funds Rate (%)	0.7	0.5	0.3	0.3	0.7

Summary

- Since the last report, inflationary pressures have increased considerably.
- Behind this there is a mix of new stimuli to demand, a greater impact of the stimuli already delivered and an exchange rate that has remained high.
- This occurs in a context where inflation is expected to approach 6% in the short term, where some indicators of two-year inflation expectations have exceeded 3%, and where there are more risks that point to higher inflation than a minor
- The Central Bank has deemed it prudent to withdraw the monetary stimulus more quickly, to ensure the convergence of inflation to its 3% target within two years.
- Of course, there are also scenarios in which the economy turns out to be weaker than expected, in which case the path for the MPR will change accordingly.

(1) Dotted lines show forecast. . (2) Forecast assumes structural paramenters updated in June 2021 Report. Source: Central Bank of Chile.

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