Chile: Recent developments and policies

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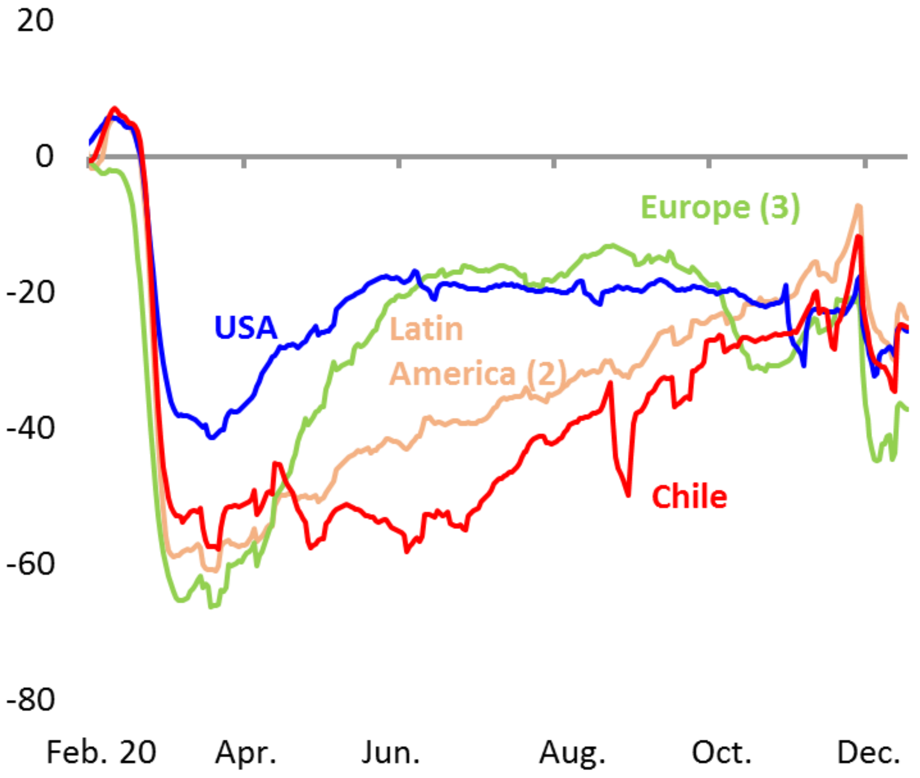
Santiago, January 20, 2021

Activity recovered in the last part of 2020, hand in hand with the lifting of stricter sanitary restrictions, but some degree of mobility restrictions has returned both in Chile and the world.

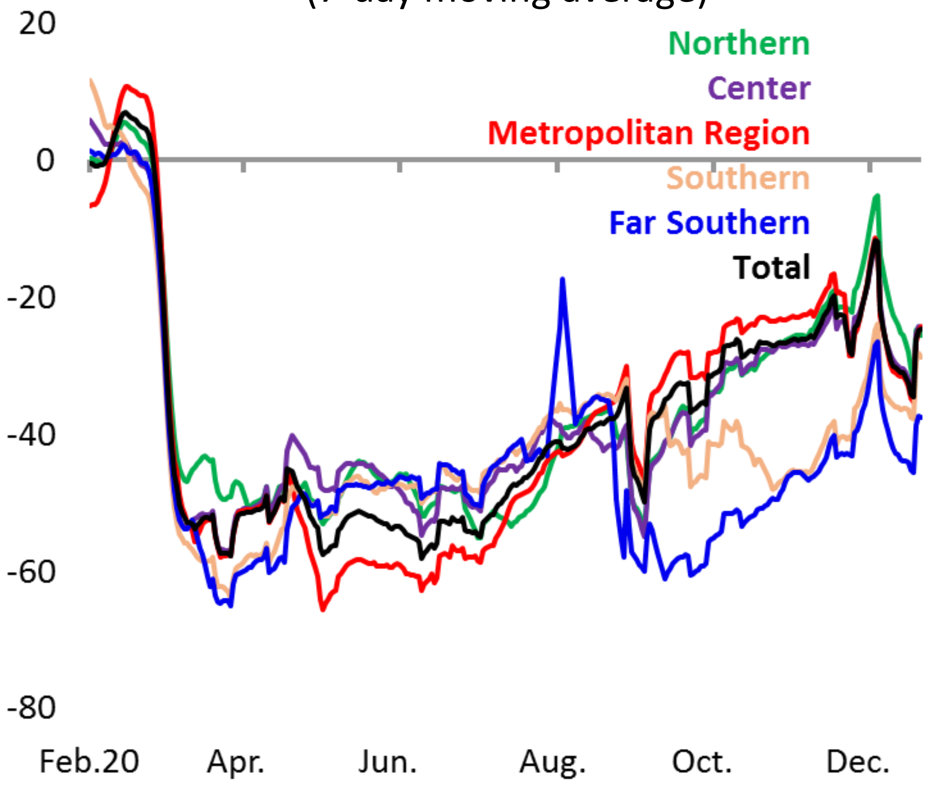
Mobility (1) (4)

(7-day moving average)



Chile: Total and regional mobility (4)

(7-day moving average)

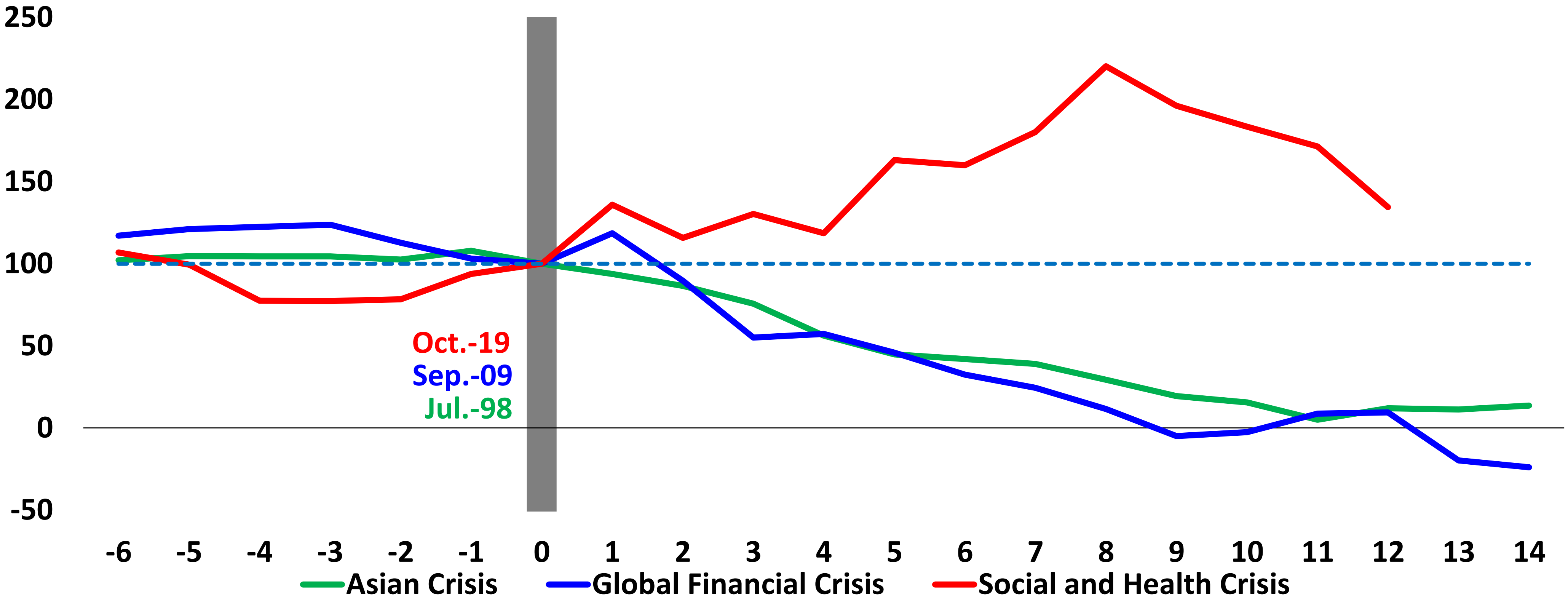


(1) Corresponds to the average of the categories shops and leisure, supermarkets and pharmacies, transport stations and workplaces. (2) Simple average between Argentina, Brazil, Mexico, Colombia and Peru. (3) Simple average between Germany, Spain, France, Italy and the United Kingdom. (4) Information until Jan.10, 21. Google Index shows changes from the reference value (median of that day of the week corresponding to the 5-week period from January 3 to February 6, 2020).

Source: *Covid-19 Community Mobility Report*, Google Inc

Bank lending grew in 2020, in sharp contrast with contractions in previous recessions. Corporate lending responded to policy measures from the Government, the Central Bank and the Financial Regulator.

Corporate lending in perspective (*)
(annual growth, *t*=0: 100)



(*) The period *t* = 0 corresponds to Jul-98 for the *Asian Crisis*, Sep-09 for the *Global Financial Crisis* and Oct-19 for the *Social and Health Crisis*.
Source: Central Bank of Chile based on information from the CMF.

The Chilean economy has recovered a significant part of the sharp decline it suffered in the first half of 2020, although with marked differences across sectors.

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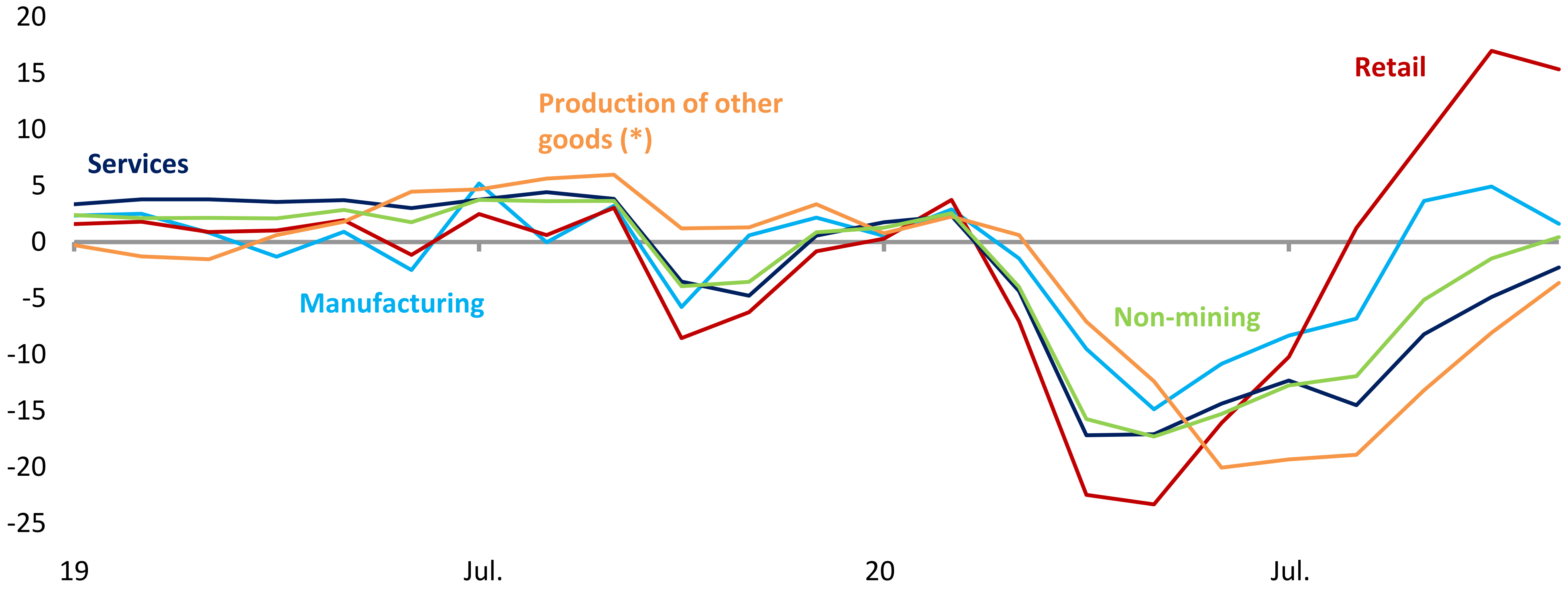
(annual change, percent)



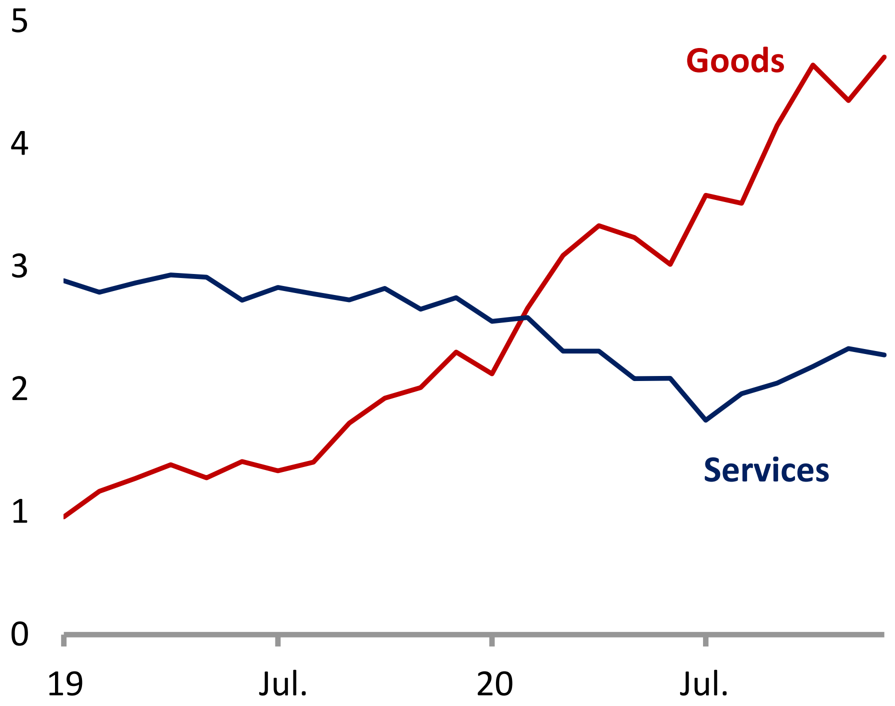
(*) Considers agricultural and forestry activities, fishery, EGW and waste management, and construction.

Source: Central Bank of Chile.

The boost to tradable goods consumption coming from the withdrawal of pension savings has prompted an increase in some prices, driving inflation above expectations. However, these price increases will hardly have an impact on medium-term inflation given the wide gap in activity that the pandemic has opened up.

CPI w/o volatiles

(annual change, percent)



Sources: Central Bank of Chile and National Statistics Institute.

Annual inflation in Dic.20

3.0%

To face this unprecedented shock, a strong fiscal and monetary impulse was required. The Central Bank adopted a score of measures in four areas.

Conventional Monetary Policy
- Monetary Policy Rate cut by 125 bp to its estimated effective zero lower bound
- Forward guidance

Unconventional Monetary Policy
- FCIC1
- FCIC2
- Collateral expansion
- Asset purchase program

Enhance Policy Space
- IMF *Flexible Credit Line*
- Repo and swap lines with central banks
- Constitutional reform on the purchase of Treasury bonds in the secondary market

Market Stabilization
- Swap and Repo to provide CLP and USD liquidity
- FX intervention
- Buy selloff bonds
- *CC-VP* and purchase DAP due to pension savings withdrawal

The most recent measure announced was a program of replenishment and expansion of international reserves

- Purpose: increasing the level of international reserves to around 18% of GDP, to strengthen the international liquidity position (in preparation for the end of the IMF Flexible Credit Line in 2022).
- The Central Bank will buy US$12 billion over 15 months.

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