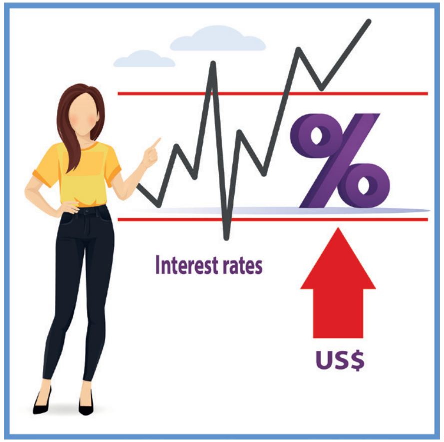
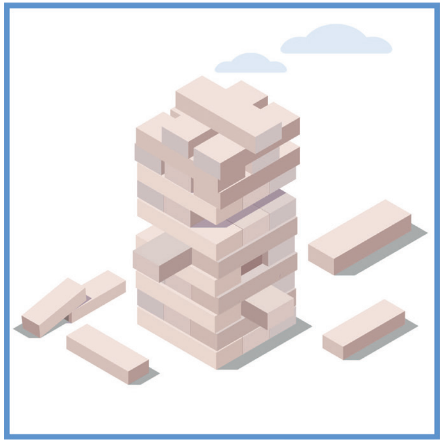
What does this IEF tell us? Second Half 2021





The economy has managed to recover from the recession caused by the Covid-19. The policies implemented prevented the bankruptcy of firms, and the contagion of the crisis towards the banking sector, which remains resilient.

However, the strong increase in private consumption has pushed the economy beyond its potential, fiscal accounts have deteriorated, and forced financial assets liquidations by pension funds have created a complex scenario.

These factors, together with high uncertainty, have raised the exchange rate, and long-term interest rates beyond those observed in other countries, which has affected the mortgage market, and the valuation of pension funds.

New forced liquidations of financial assets represent a significant risk to financial stability. The Central Bank of Chile will continue to act to contain short-term volatility but cannot reverse structural changes.

The economy has managed to recover from the recession caused by the Covid-19. The policies implemented prevented the bankruptcy of firms, and the contagion of the crisis towards the banking sector, which remains resilient.

- The substantial stimulus measures, while allowing many companies to stay in business, has helped the economy to recover faster, based on a buoyant private consumption.

- Fiscal support for households increased their liquidity and made it possible to compensate for income drops, helping to keep delinquency rates in check.

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- The reduction in the size of the intermediated funds directly affects the provision of long-term financing, which combines with other factors that have caused a deterioration in financial conditions.

- Moreover, because of high uncertainty, the demand for dollar assets has soared and capital outflows have intensified after rising since the social outbreak. These elements have eroded national savings, thus increasing the country's dependence on external financial markets.

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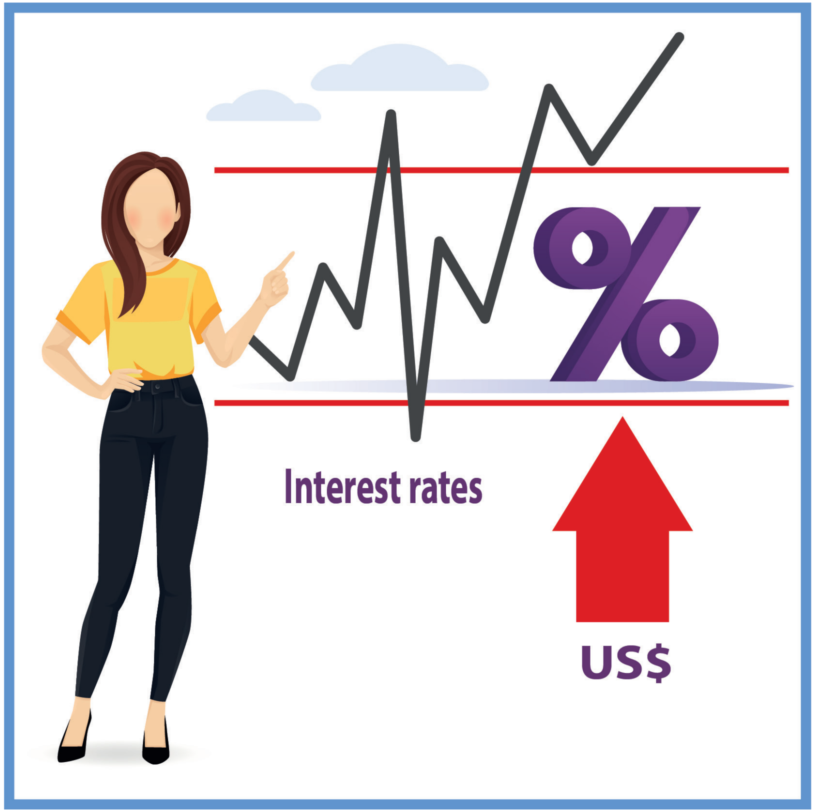
- Financial conditions have worsened as a result of uncertainty and massive asset liquidations by institutional investors that are reducing the depth and adjustment capacity of the capital market.

- Both the exchange rate and local interest rates have shown strong corrections compared to other economies, accompanied by increased volatility of various asset prices.



New forced liquidations of financial assets represent a significant risk to financial stability. The Central Bank of Chile will continue to act to contain short-term volatility but cannot reverse structural changes.

- New forced liquidations of financial assets would increase uncertainty and further reduce the capacity of the fixed-income market to provide financing and cushion external shocks.

- This would further increase the cost of financing and impose greater restrictions on access to mortgage credit for individuals, investment funds for companies and government funding.

- These elements, in turn, would result in slower long-term growth. Furthermore, the derivatives market would become shallower, which would restrict foreign exchange risk management mechanisms for companies. All these elements would make the Chilean economy more vulnerable to external fluctuations and changes in global financing conditions.