

Chile and the Covid-19 crisis: Financial stability, policy responses, and economic prospects



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Framing the moment

- The world faces an unprecedented crisis in contemporary history. A global pandemic has simultaneously affected nearly all the economies of the world, with a profound impact on the real economy and financial markets. Authorities have responded with measures that generally exceed those articulated in response to the 2008-09 Global Financial Crisis.
- The abrupt freezing of many activities as a result of non-pharmacological containment measures creates major financing gaps to households as well as companies of various sectors and sizes.
- These gaps compromise the ability of economic agents to meet their financial obligations and raise new funding needs in meeting fixed costs.
- These needs must be met in order to limit the depth of the crisis and its effects on the solvency of companies, employment and financial stability. The measures applied in Chile have followed this orientation.
- Banks have a fundamental role in the provision of credit. To this end, the authorities and regulators have adopted measures aimed at stimulating and facilitating it. These include liquidity provision, government guarantees and regulatory forbearance.

Agenda

1. Covid-19 in Chile
2. Transmission from the world economy
3. Macro policy measures
4. The response of credit supply
5. Economic prospects 2020-2022

The background features a blue-tinted financial theme. It includes several stacks of coins in the foreground, with the tallest stack on the right. In the background, there are faint, semi-transparent images of financial data, including a candlestick chart on the left and a bar chart on the right. The overall aesthetic is professional and data-oriented.

1 Covid-19 in Chile

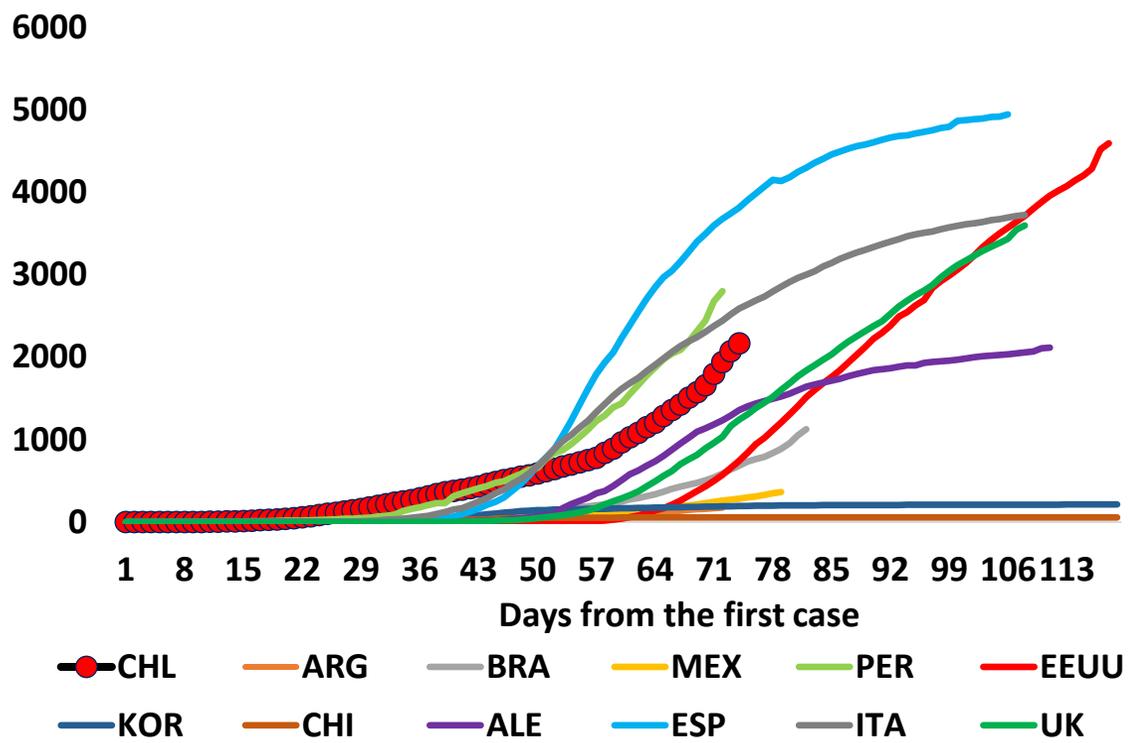
Covid-19 in Chile

- Chile into tenth week of the pandemic
- 43,781 cases, 450 deaths as of May 17
- Active cases stabilizing in last half of April, then escalated due to Santiago pickup.
- Reproduction rate: 1.5. Mortality rate: 1.0%
- Reliable figures due to the highest test application rate in Latin America and the Caribbean
- 1.8% (769) of active cases in intensive care; 1.4% (624) on ventilation
- Ventilator surplus nationwide
- The upcoming Winter season remains a concern due to usual peak in respiratory diseases...
- ...mitigated by social distancing practices and early influenza vaccination campaign

Covid-19 comparative data: cumulative cases and deaths

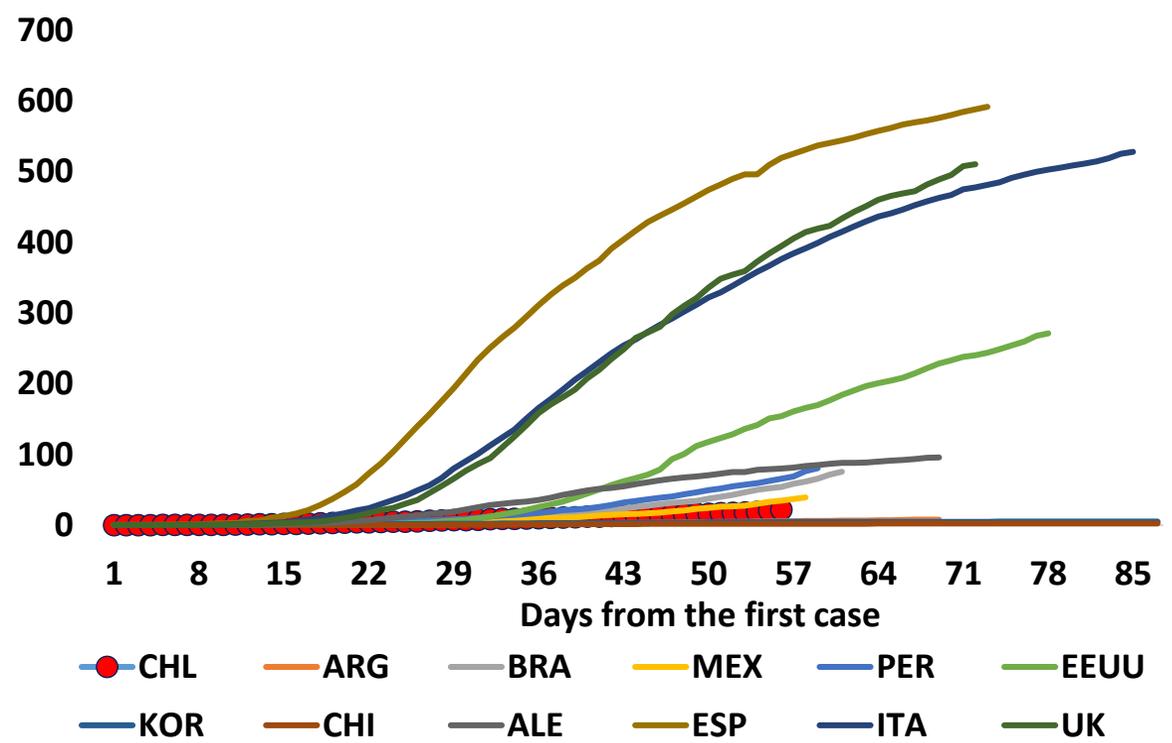
Cumulative cases (*)

(number of cases per million inhabitants)



Cumulative deaths (*)

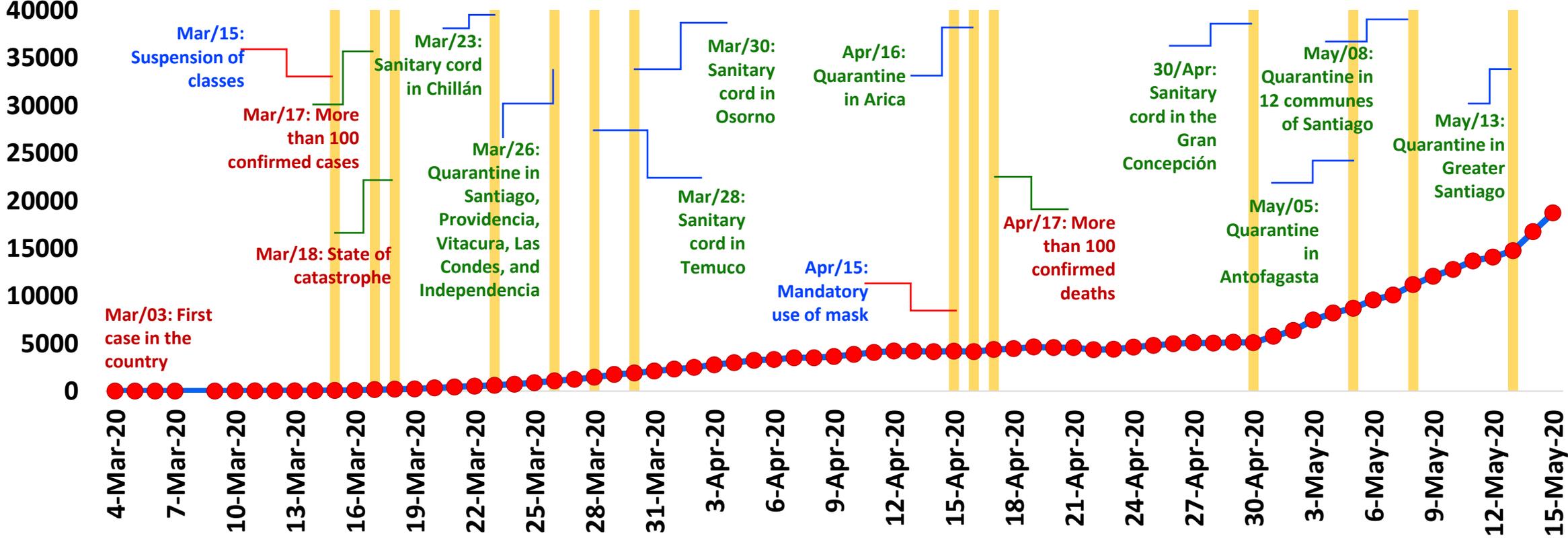
(number of cases per million inhabitants)



(*) Data as of May/17/2020. Source: Johns Hopkins Coronavirus Resource Center.

Evolution of active cases and non-pharmacological containment measures

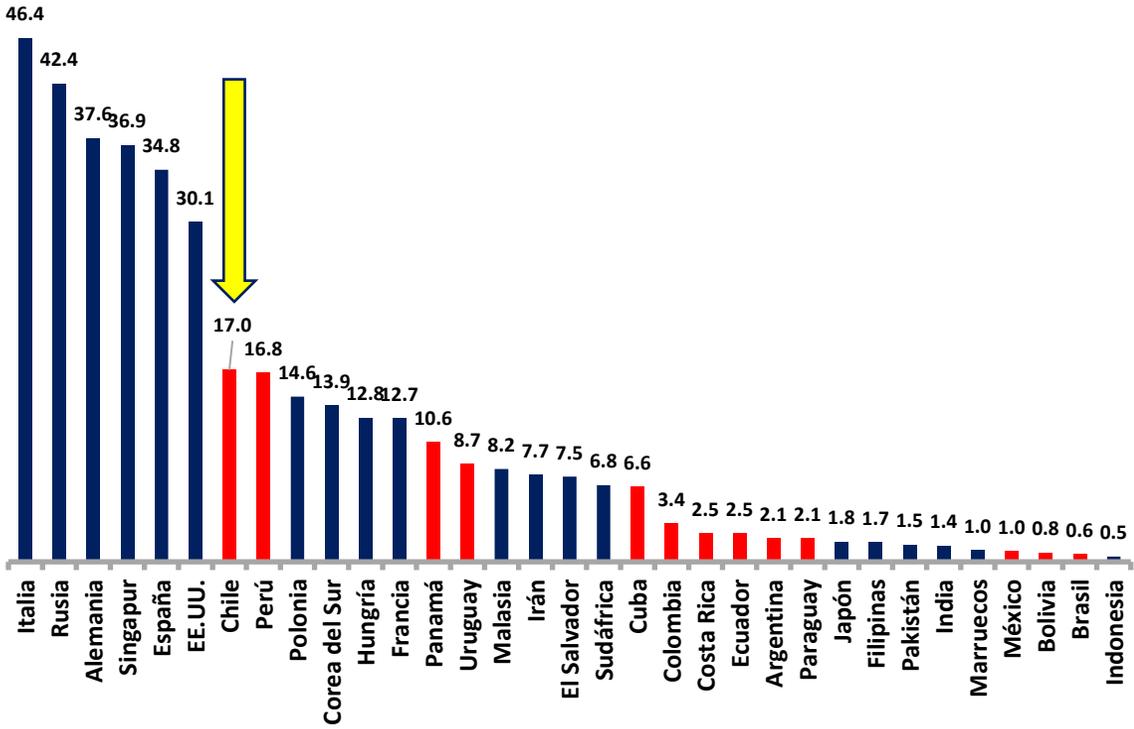
Chile: Active cases of Covid-19 (*) (number of cases)



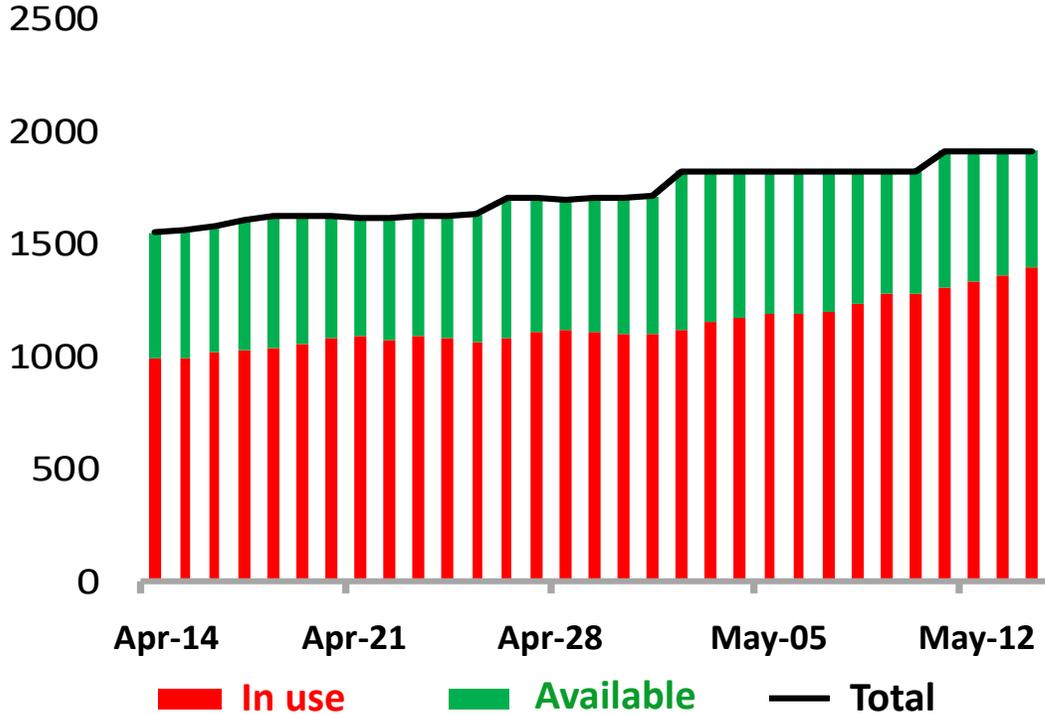
(*) Active cases = Number of cases - number of deaths - number of people recovered. Source: Ministry of Public Health.

Pressure on health system: PCR testing and ventilators

Total Covid-19 tests (1) (per thousand inhabitants)



Chile: Ventilators in intensive care units (ICU) (2) (number)



(1) Red bars are the LAC countries in the sample. Source: *Our World in Data* (<https://ourworldindata.org/covid-testing>). (2) Data up to 14/05/2020. Sources: Minsal and Bloomberg.

Lockdowns peaking at 43% of population and 14%-48% of activity in large economic sectors

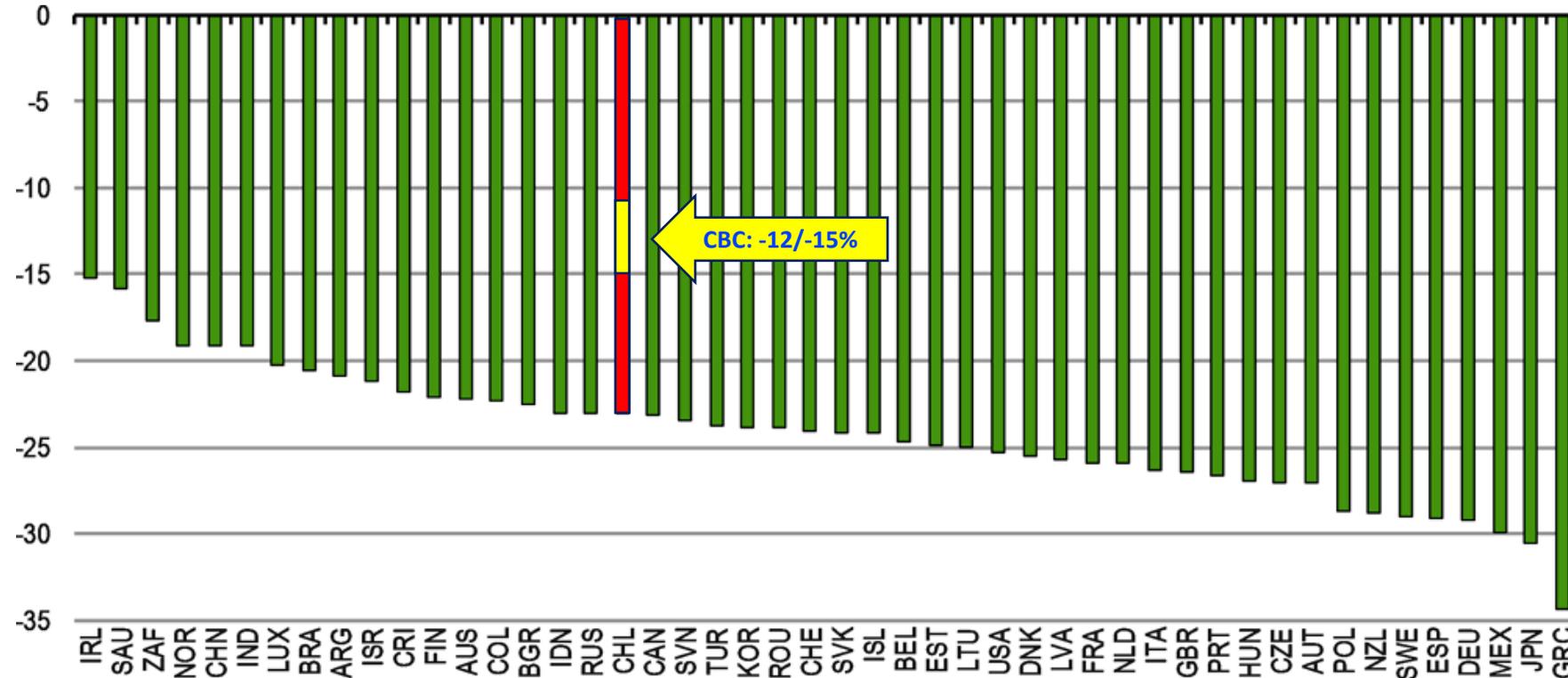
Inhabitants in lockdown and share of GDP key sectors, by territory(*) (percent)

Region	Province/ municipality	Dates:		% of pop.	Contribution to sectoral GDP by region weighted by days in quarantine and % of pop.		
		Begin	End		Industry	Commerce	Construction
Arica y Par.	Arica	16-abr	15-may	98%	0.1%	0.3%	0.6%
Tarapacá	Iquique	15-may	--	58%	0.2%	0.9%	1.2%
	Alto Hospicio	15-may	--	33%			
Antofagasta	Antofagasta	05-may	19-may	60%	0.8%	1.1%	4.9%
	Mejillones	05-may	19-may	2%			
RM	Prov. Santiago (1)	15-may	--	74%	12.2%	45.2%	22.8%
	Prov. Stgo en Cuar. (2)	01-may	14-may	51%			
	Otras Comunas (3)	15-may	--	17%			
	Otras Com. en Cuar. (4)	01-may	14-may	6%			
La Araucanía	Angol	30-abr	15-may	6%	0.1%	0.1%	0.2%
	Victoria	30-abr	15-may	4%			
Magallanes	Punta Arenas	01-abr	07-may	79%	0.2%	0.1%	0.2%
TOTAL				43%	13.5%	47.7%	30.0%

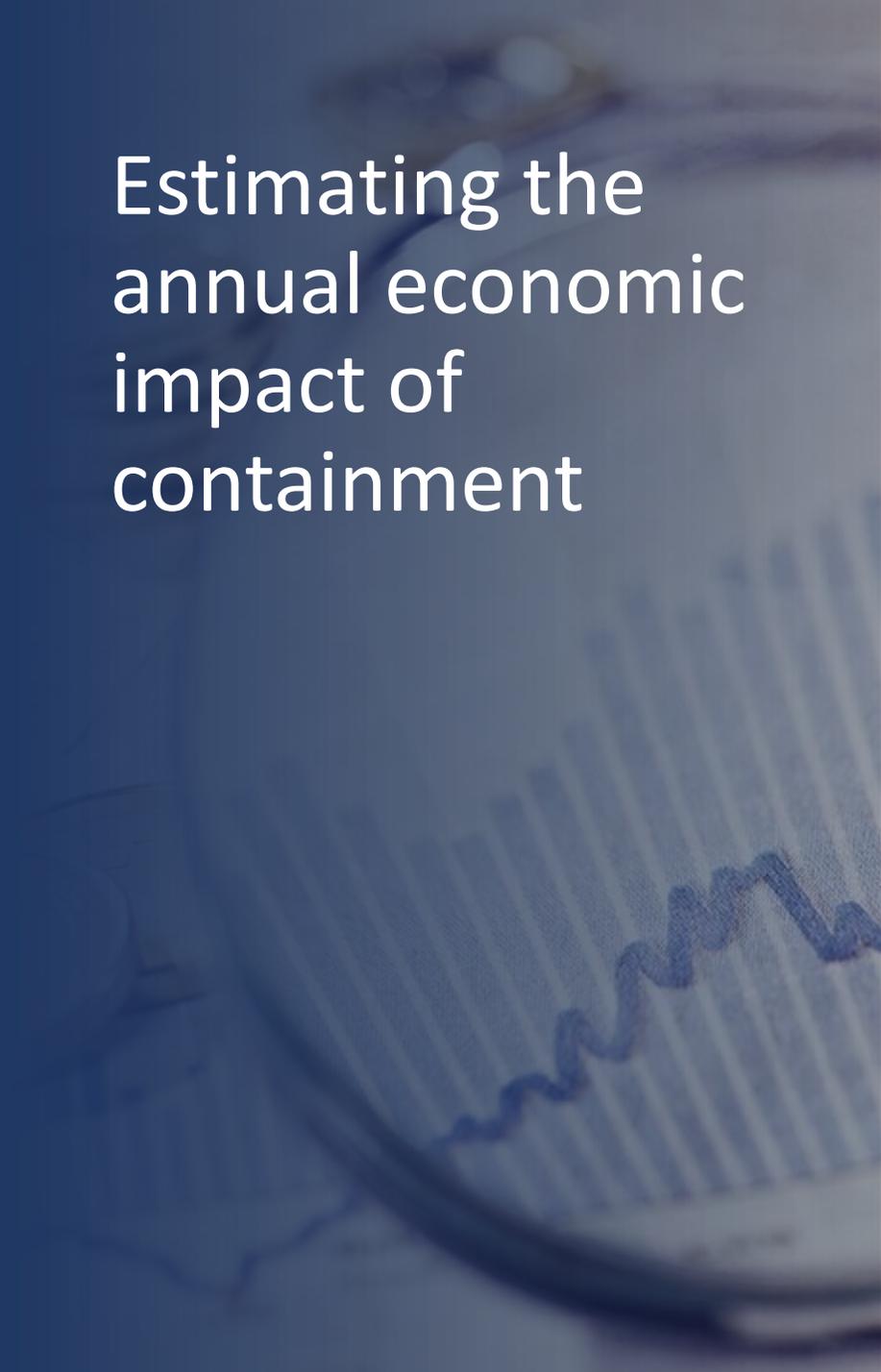
Data available as of 05/13/2020. Assumptions: For those communes without information on the end of the month's quarantine measures, it is assumed that they will remain until May 31. For the industrial sector, it is assumed that it would be partially affected in the quarantined communes (assumption affects only 43%). Notes: (1) Communes that are part of the Province of Santiago. (2) Communes that are part of the Province of Santiago that have already been in quarantine prior to May 15. (3) Communes that are part of the Metropolitan Region and that do not belong to the Province of Santiago. (4) Communes that are part of the Metropolitan Region and that do not belong to the Province of Santiago that have already been in quarantine prior to May 15. Source: Ministry of Health, INE Census 2017, information on the sectorial GDP 2018 based on data from the Central Bank.

Weight of most affected sectors

OECD estimates of potential initial impact on GDP of economy-wide shutdowns (*)
(% of monthly GDP)



(*) The sectoral data are on an ISIC rev. 4 basis in all countries apart from Korea, New Zealand and Brazil, where national data are used. The calculations are based on an assumption of an economy-wide shutdown, rather than a shutdown confined to particular regions only. Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Statistics New Zealand; Brazilian Institute of Geography and Statistics; and OECD calculations.

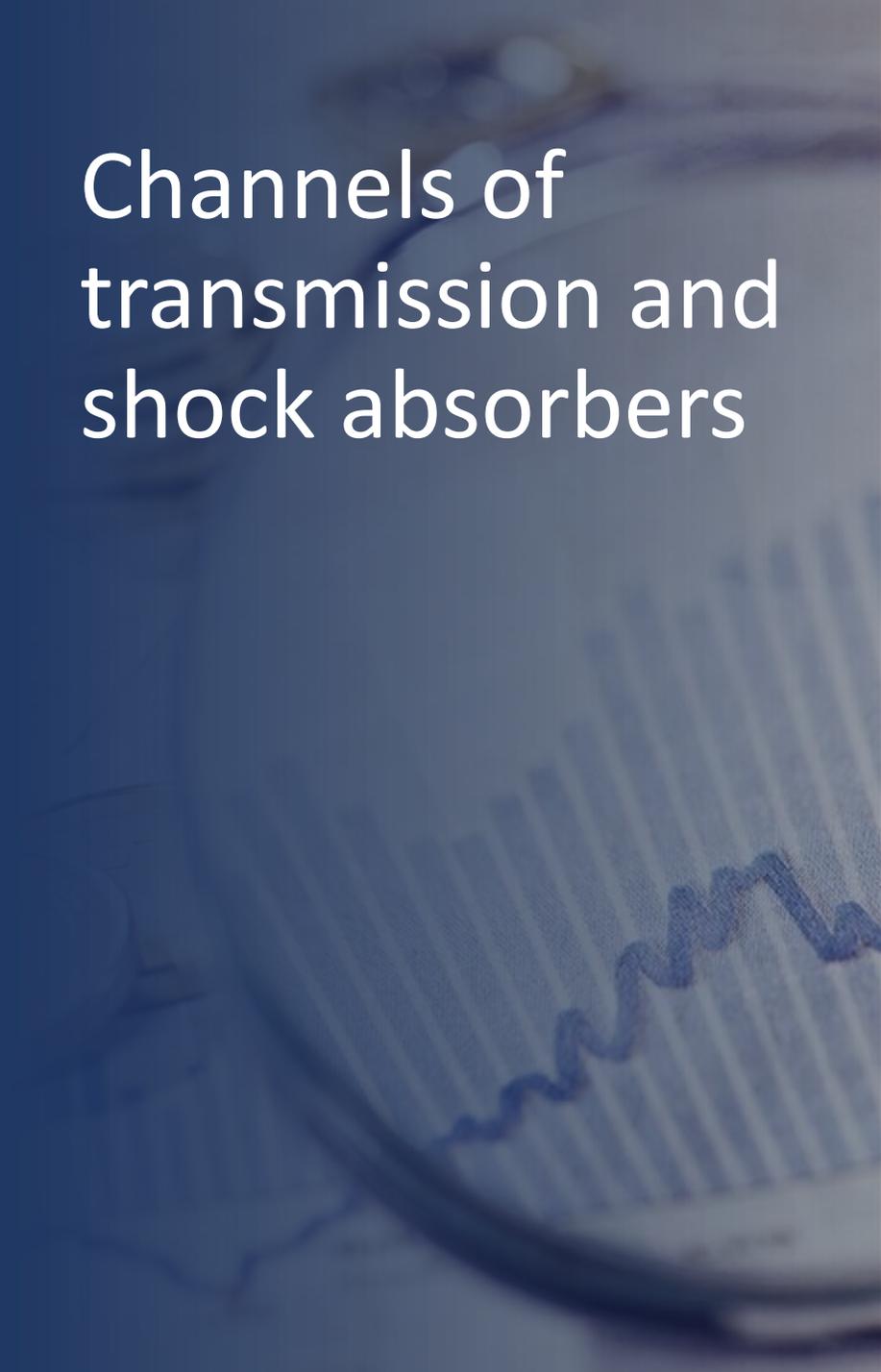


Estimating the annual economic impact of containment

- CBC estimates that monthly GDP would fall 12-15% under current containment strategy; half the 24% OECD estimate of a total lockdown in Chile
- Difference explained by:
 - Lower weight of affected sectors, mining largely not affected
 - Use of teleworking, distance education
 - Partial rather than country wide lockdowns
- Every month of containment measures should cost some 1% of annual GDP
- Current containment measures assumed to last most of 2nd quarter
- Gradual roll-back in 3rd quarter
- 4th quarter on low basis for comparison due to social unrest in 2019.IV
- High uncertainty over projections due to progress of pandemic, containment strategies, resilience of economy, logistic constraints, and global spillovers
- Roll-back strategy as work in progress

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2 Transmission from the world economy

The background of the slide features a blurred image of a document with a line graph. The graph shows a fluctuating line that generally trends upwards from left to right. The document has a grid pattern, and the overall color scheme is a muted blue-grey.

Channels of transmission and shock absorbers

- As an open economy, Chile is always exposed to external shocks. The key issue is whether *shock absorbers* are strong enough to mitigate its impact
- Covid-19 transmission channels:
 - Trade
 - Financial conditions
 - Economic expectations
- Shock absorbers:
 - Flexible exchange rate regime
 - Deep domestic financial system
 - Low exposure of agents to FX risk
 - Policy space
- Data suggests that shock absorbers remain operative
- Financial prices less affected than for other emerging markets

IMF expects simultaneous downturns in all regions, advanced countries, and much of emerging countries, followed by a recovery in 2021.

Swing from previous 2020 projections between 5 and 9% of GDP

IMF GDP growth forecasts (*)

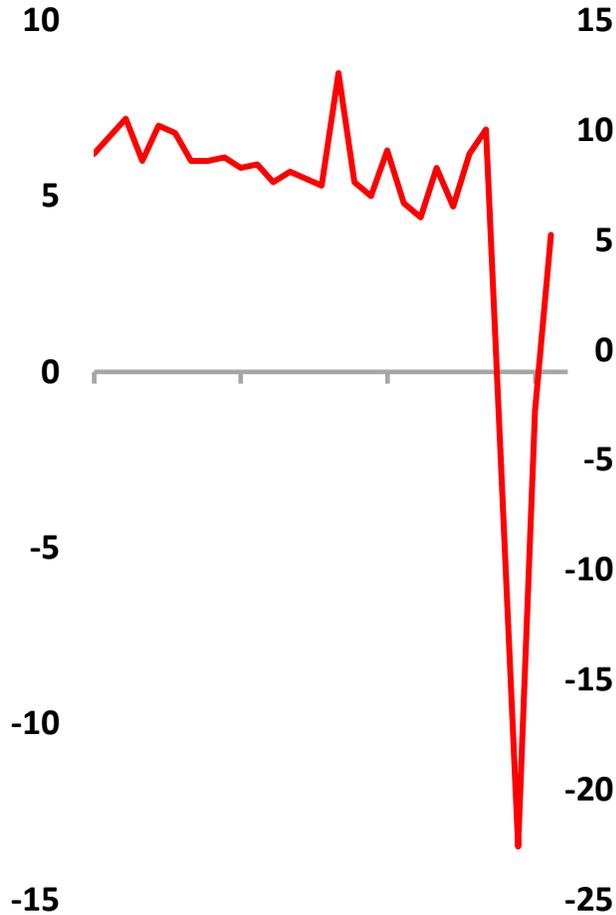
(percent)

	2020	2021		2020	2021
World economy	-3.0	5.8	Emerging and Developing Ec.	-1.0	6.6
Advanced Ec.	-6.1	4.5	Emerging Asia	1.0	8.5
United States	-5.9	4.7	China	1.2	9.2
Eurozone	-7.5	4.7	India	1.9	7.4
Germany	-7.0	5.2	Emerging Europe	-5.2	4.2
France	-7.2	4.5	Latin America and the Caribbean	-5.2	3.4
Italy	-9.1	4.8	Argentina	-5.7	4.4
Spain	-8.0	4.3	Brazil	-5.3	2.9
Japan	-5.2	3.0	Colombia	-2.4	3.7
United Kingdom	-6.2	4.2	Mexico	-6.6	3.0
Canada	-6.2	4.2	Peru	-4.5	5.2
Other Adv. Ec.	-4.6	4.5	Chile	-4.5	5.3

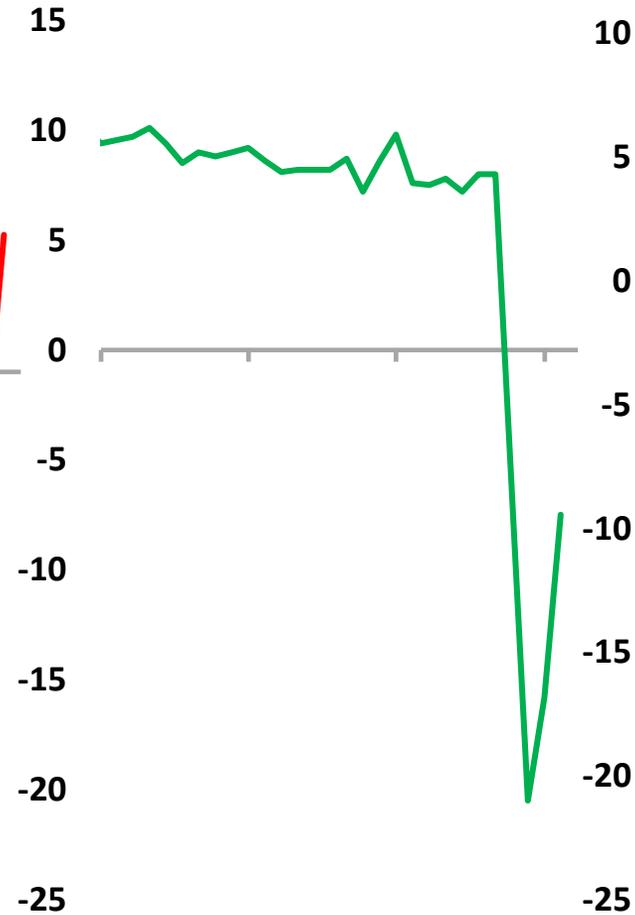
(*) Classifications according to the IMF. Source: IMF, *World Economic Outlook*, April 2020.

Some indicators already revealing a major deterioration

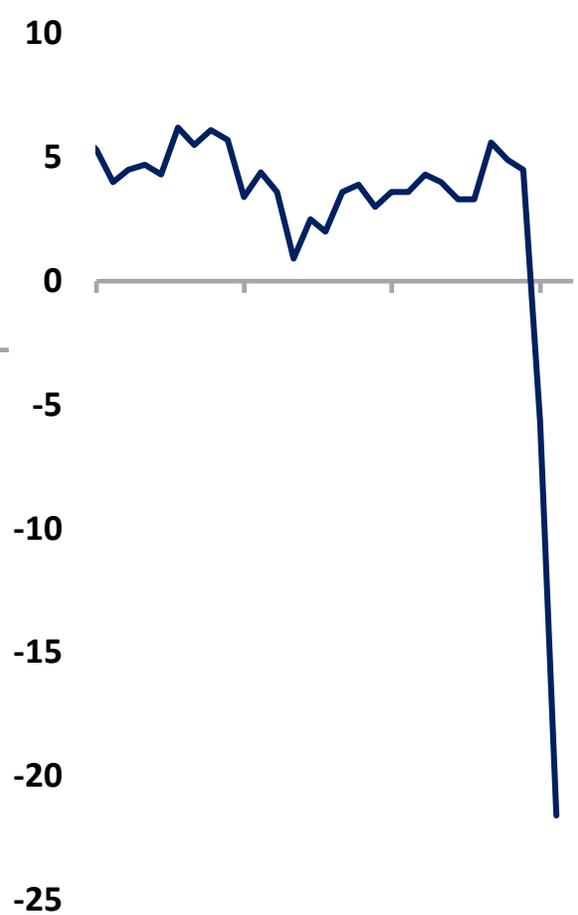
China: Industrial production (*)
(annual variation, percentage)



China: Retail sales (*)
(annual variation, percentage)



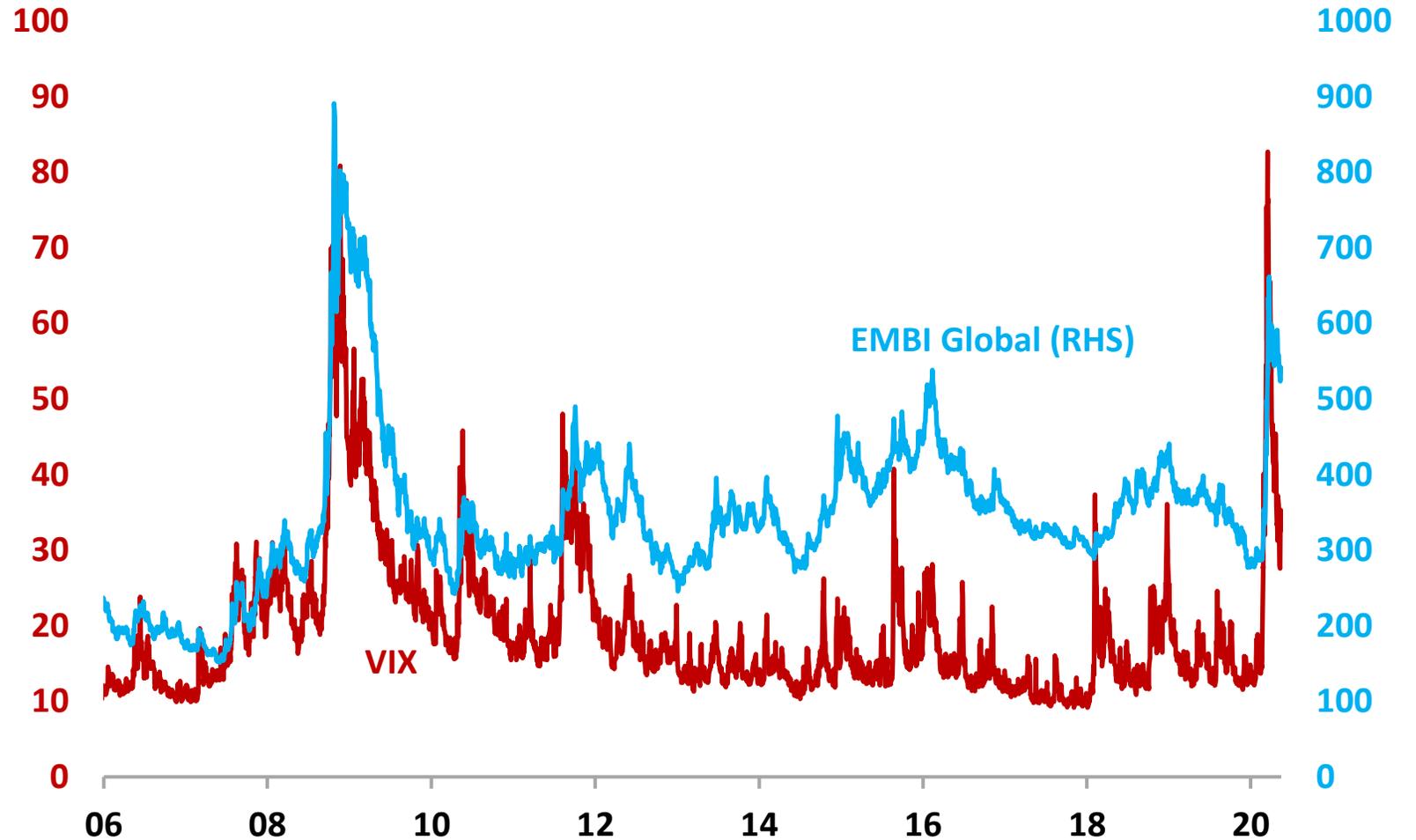
USA: Retail sales
(annual variation, percentage)



(*) Data for the month of February corresponds to the accumulated annual variation of the January-February period.
Source: Bloomberg.

Some financial indicators deteriorating close to GFC levels

VIX and EMBI Global
(percentage points; basis points)

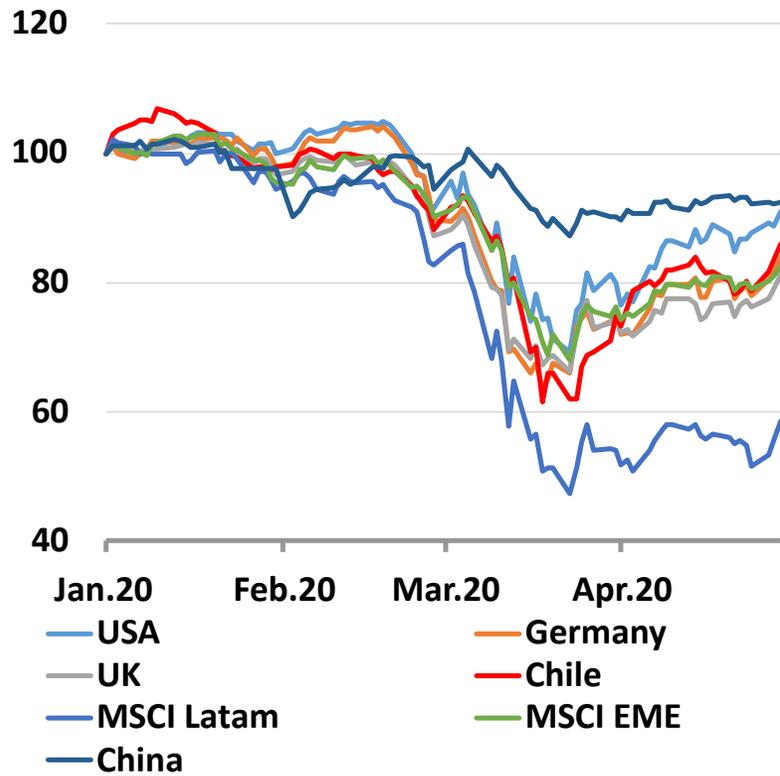


Source: Bloomberg.

Financial markets hit hard by mounting uncertainty and risk aversion. Emerging markets especially affected...

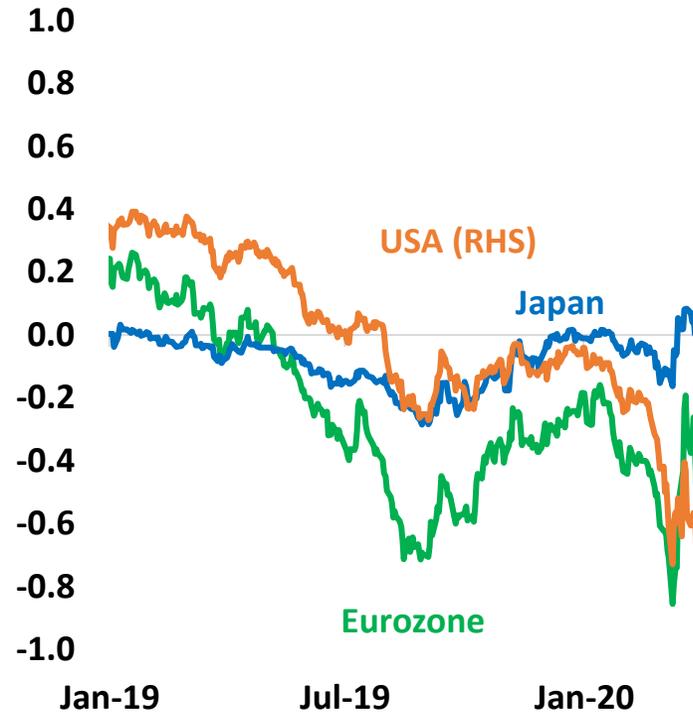
Stock indexes (*)

(index, Jan-01-2020=100)



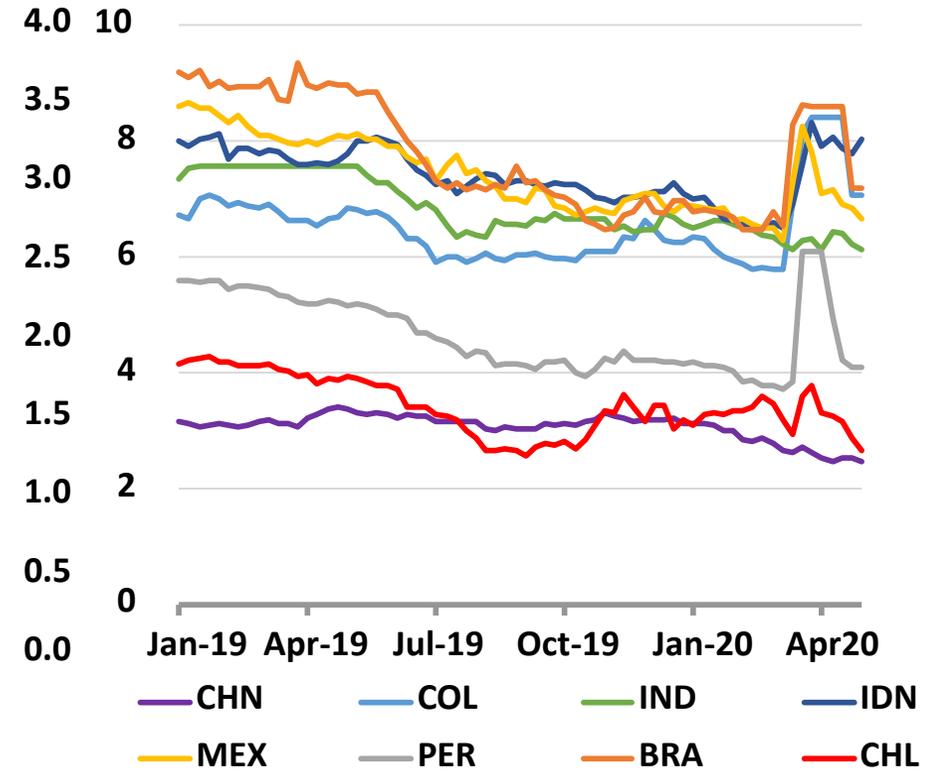
AE 10yr bond rates

(percentage)



EME sovereign rates

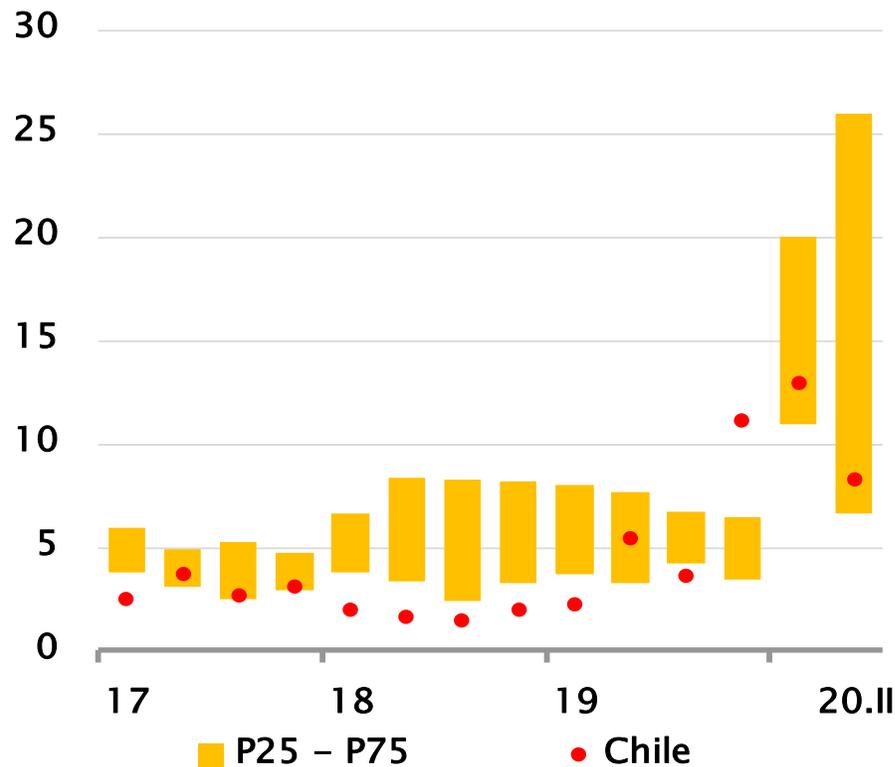
(percentage)



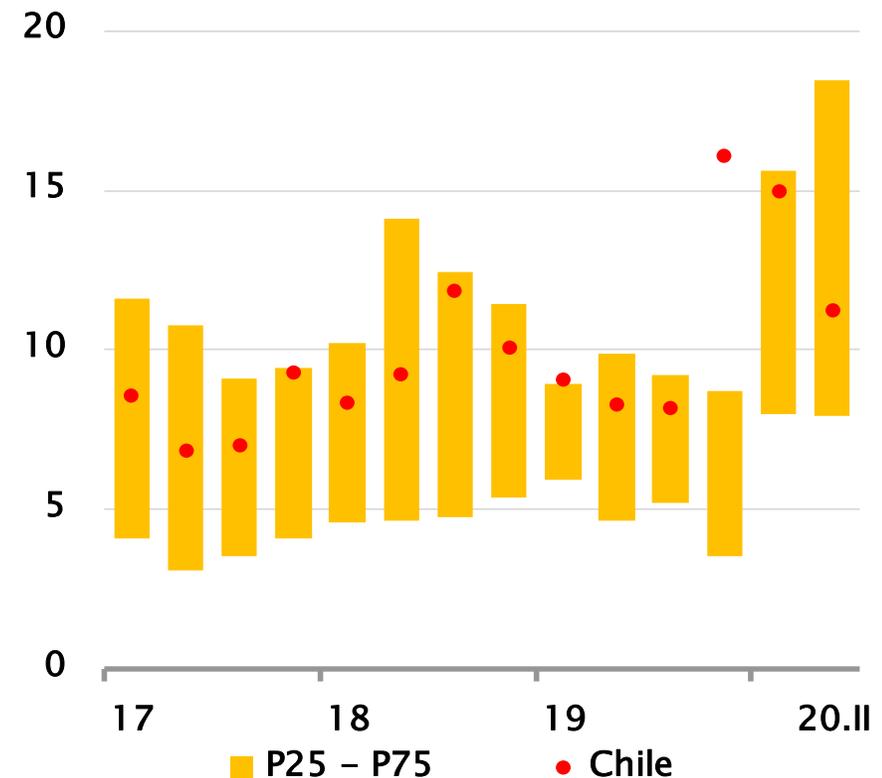
(*) The indexes correspond to the USA: S&P 500; Germany: DAX; United Kingdom: FTSE100; Chile: IPSA; China: Shanghai Composite. Source: Bloomberg.

...raising volatility of long-term interest rates and currencies in emerging countries

Volatility of 10-year sovereign rates of EME (*) (basis points)



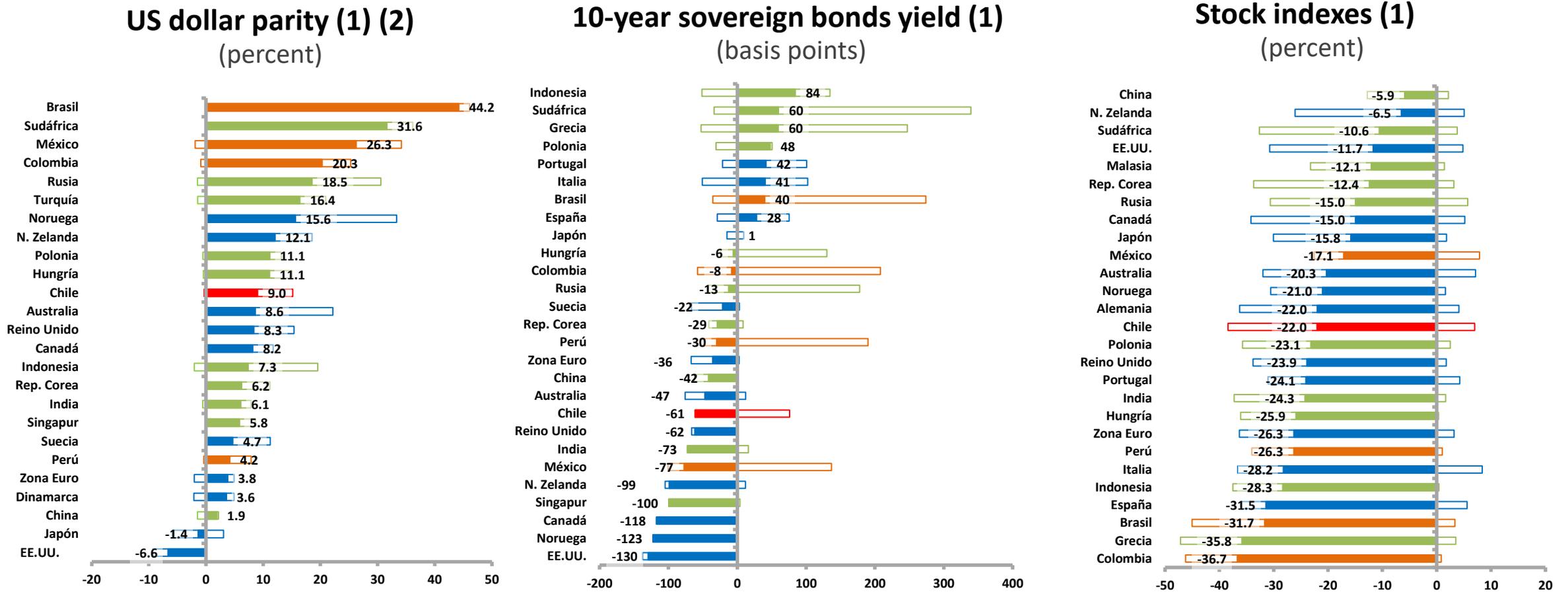
Exchange rate volatility of EME (*) (porcentaje)



(*) EME includes Brazil, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia and Turkey. Annualized volatility. Source: Central Bank of Chile based on information from Bloomberg.

Growing demand for safe and liquid assets contributing to fall in stock markets and long-term rates in AEs; depreciating currencies and assets in most EMEs ...

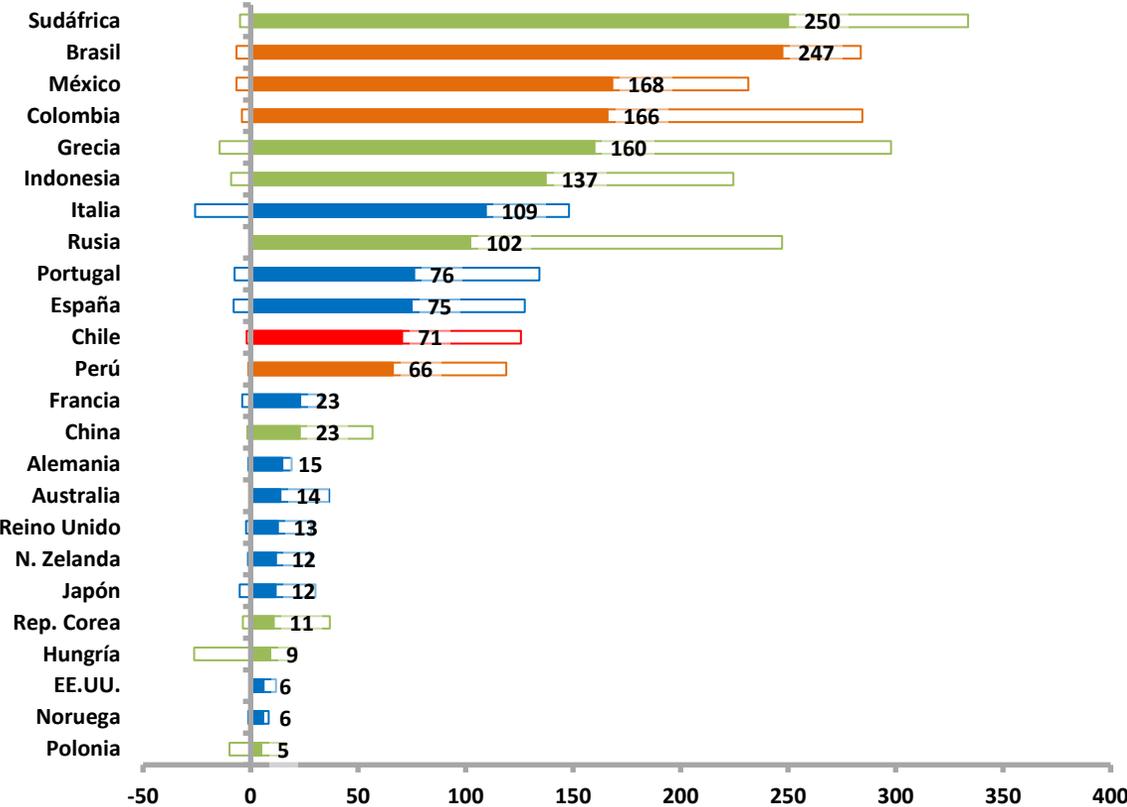
Figure 5



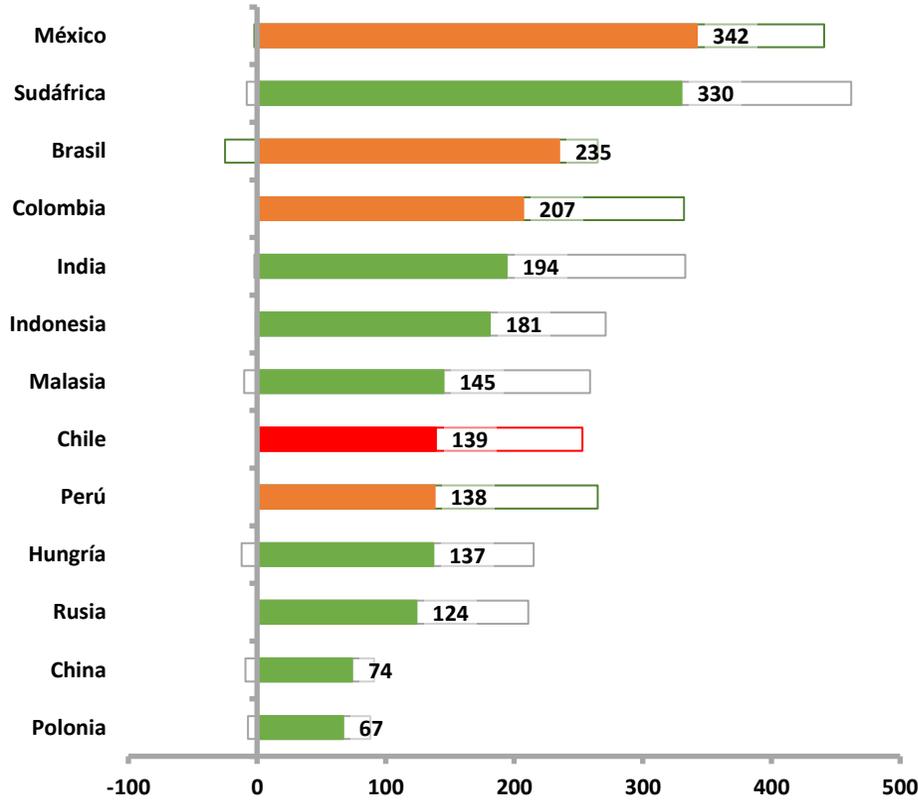
(1) Green bars correspond to emerging, orange to Latin America and blue to developed countries. Solid bars is the variation from the statistical closing of December 2019 and transparent bars to changes with respect to maximums and minimums. (2) Increase (decrease) indicates depreciation (appreciation). For USA corresponds to the multilateral exchange rate. The numbers next to each bar correspond to the size of the bar. Source: Bloomberg.

... Including rising risk premia. Chile in intermediate position

5-year CDS spread (*)
(basis points)



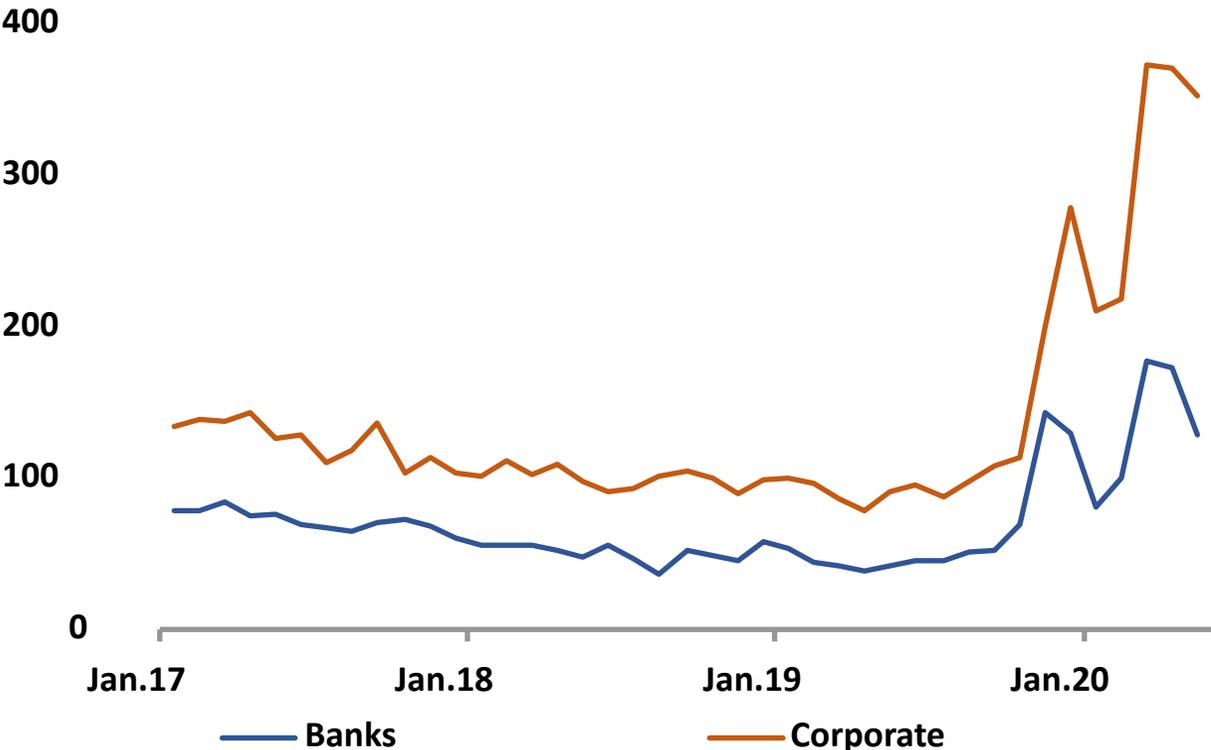
EMBI Spread (*)
(basis points)



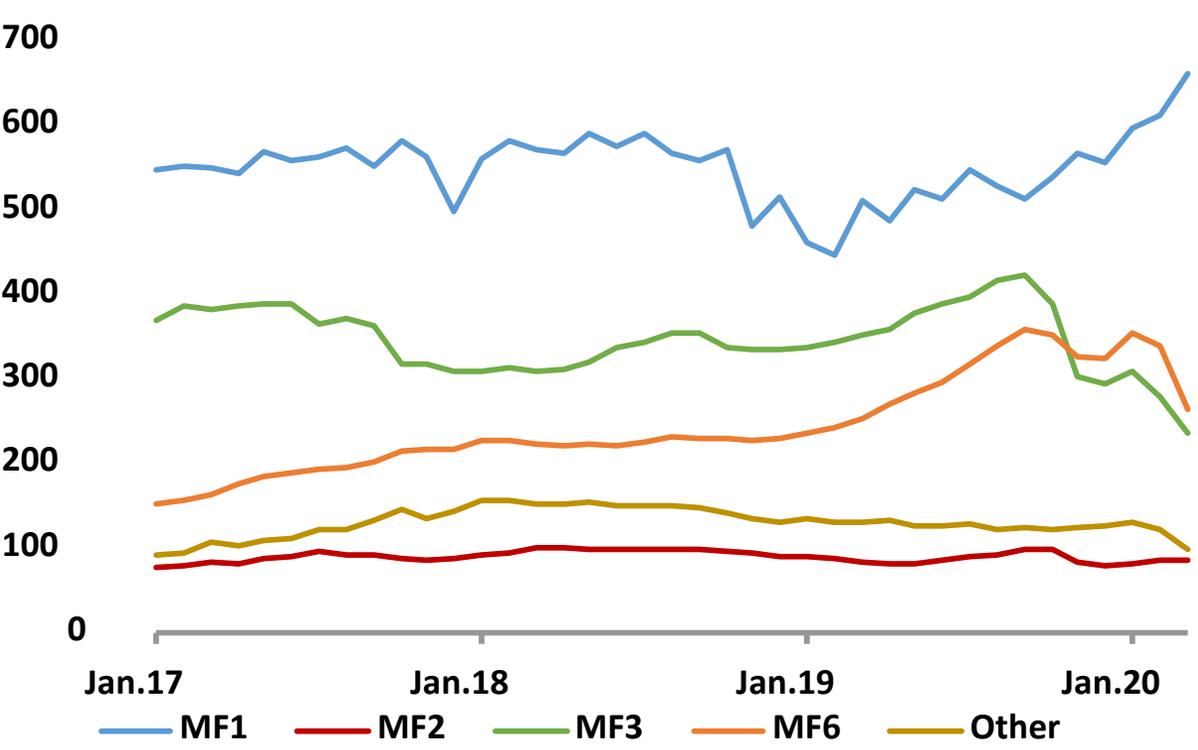
(*) Green bars correspond to emerging, orange to Latin America and blue to developed countries. Solid bars is variation from the statistical closing of December 2019 and transparent bars to changes with respect to maximums and minimums. The numbers next to each bar correspond to the size of the bar. Source: Bloomberg.

Chilean asset prices driven by a search for liquidity since social unrest

Banks and corporate bonds spreads (basis points)



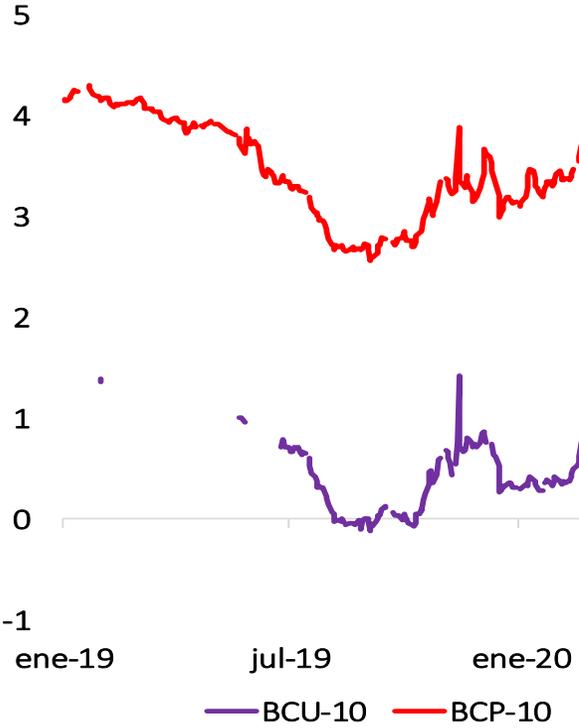
Mutual Funds capitalization (million of UF)



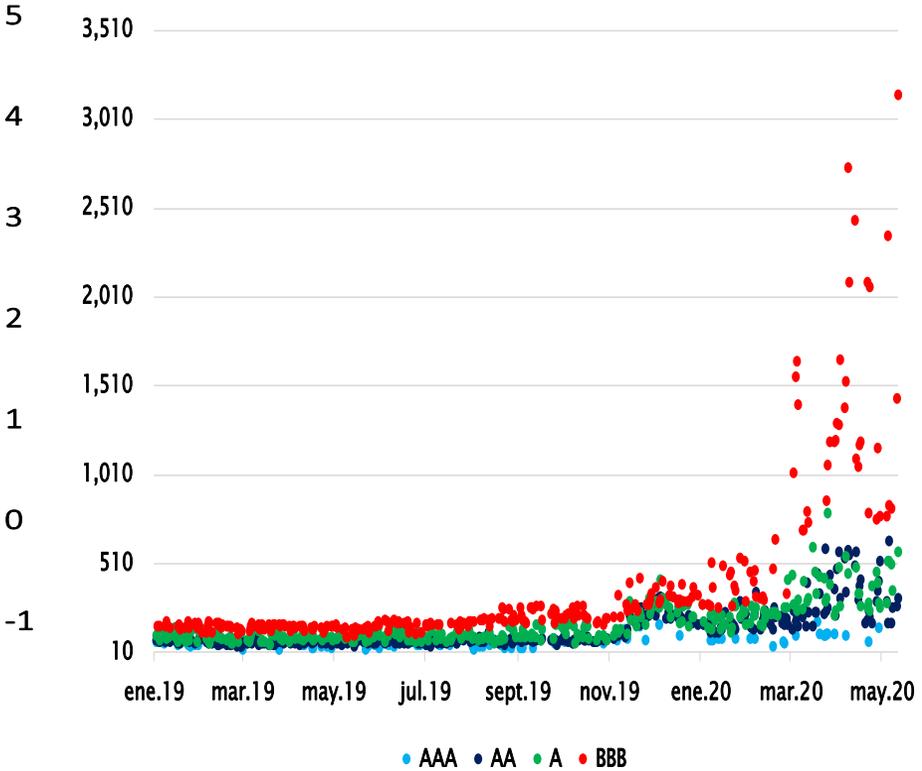
Sources: Central Bank of Chile based on BCS, CMF and AAFM.

While some financial prices have normalized, others remain under pressure

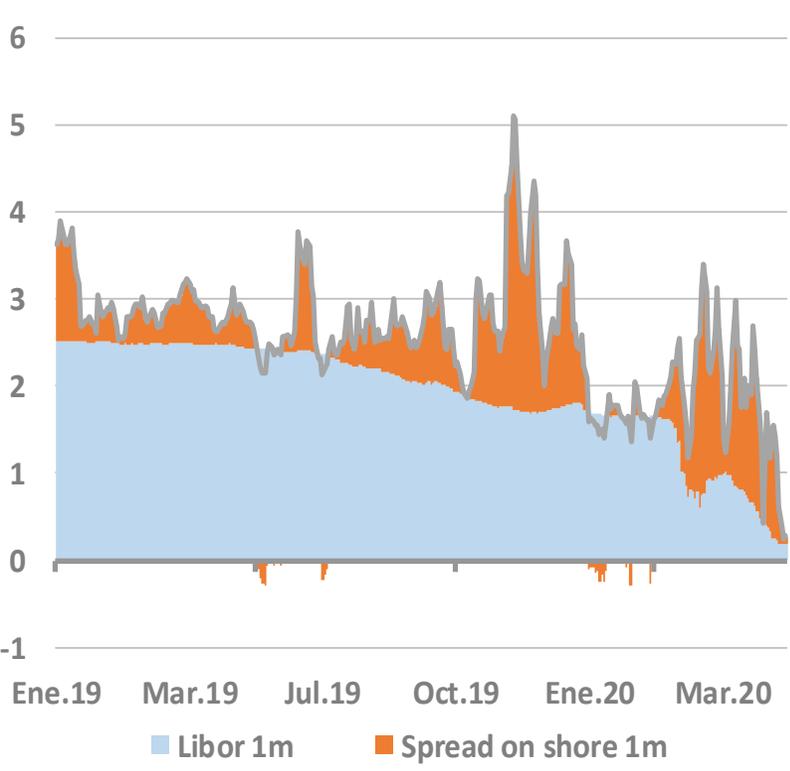
Interest rates of the Central Bank bonds (percent)



Corporate spreads by risk class (*) (basis points)



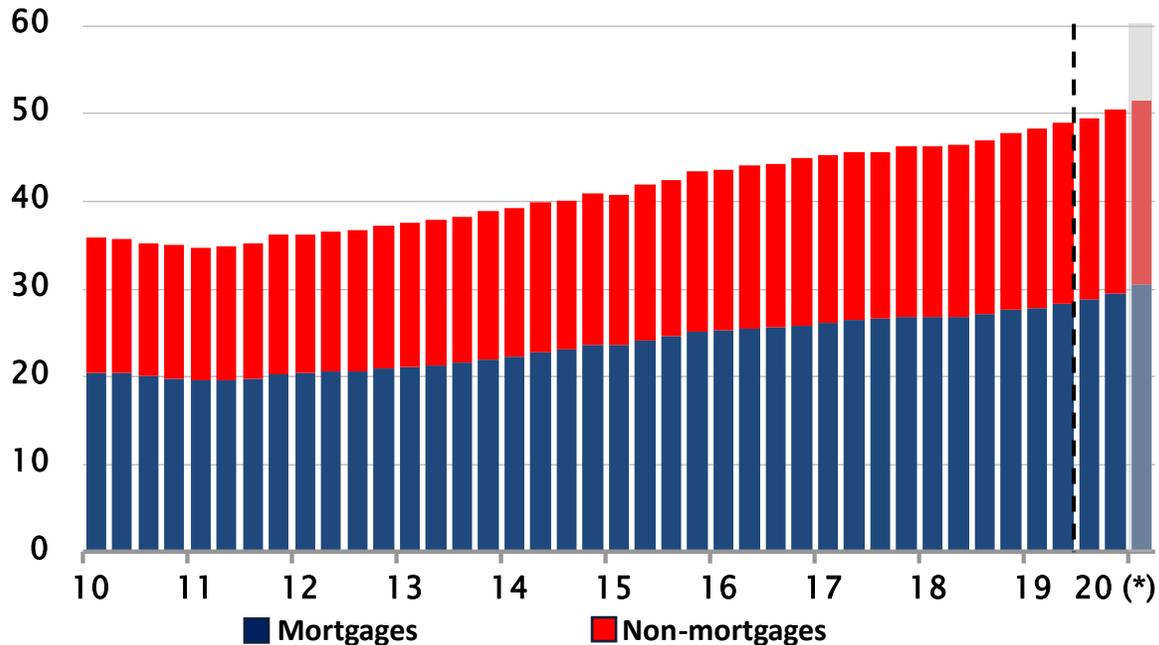
Money market dollar spread (basis points)



(*) Spread over the sovereign bond in UF. Each point is the daily average weighted by amount of each instrument within the category. Last data is preliminary. Source: Central Bank of Chile based on information from the BCS and Bloomberg.

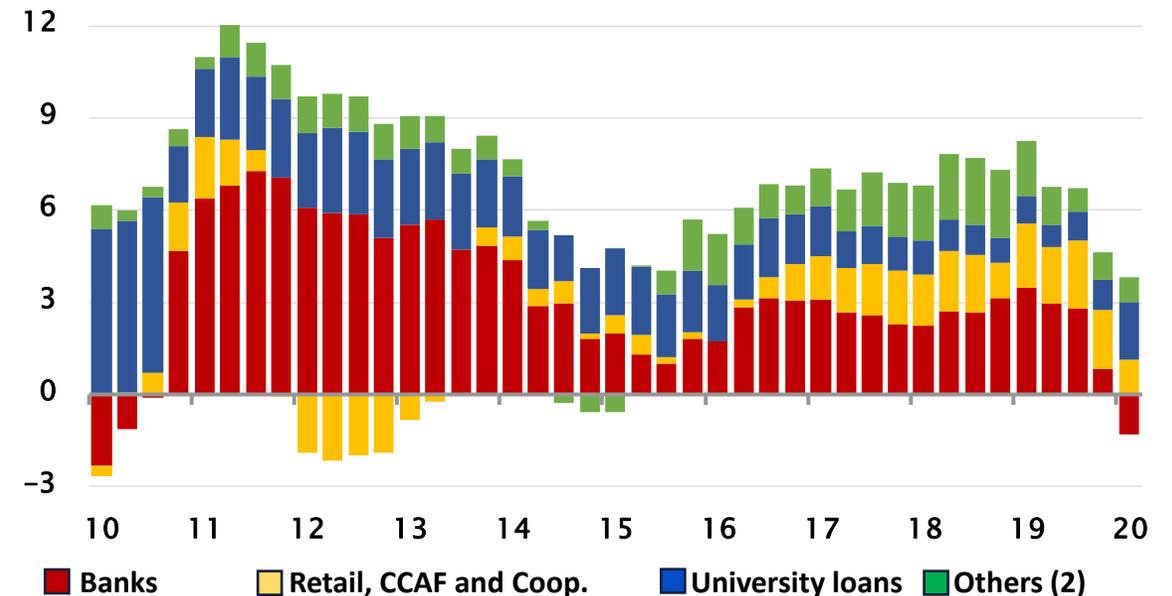
Household debt at 52% of GDP in 2020 Q1. Growth explained by mortgages; bank consumer lending declining recently

Household indebtedness
(per cent of GDP, 2020.I)



Source: Central Bank of Chile based on information from the CMF, SUSESO, and SP.

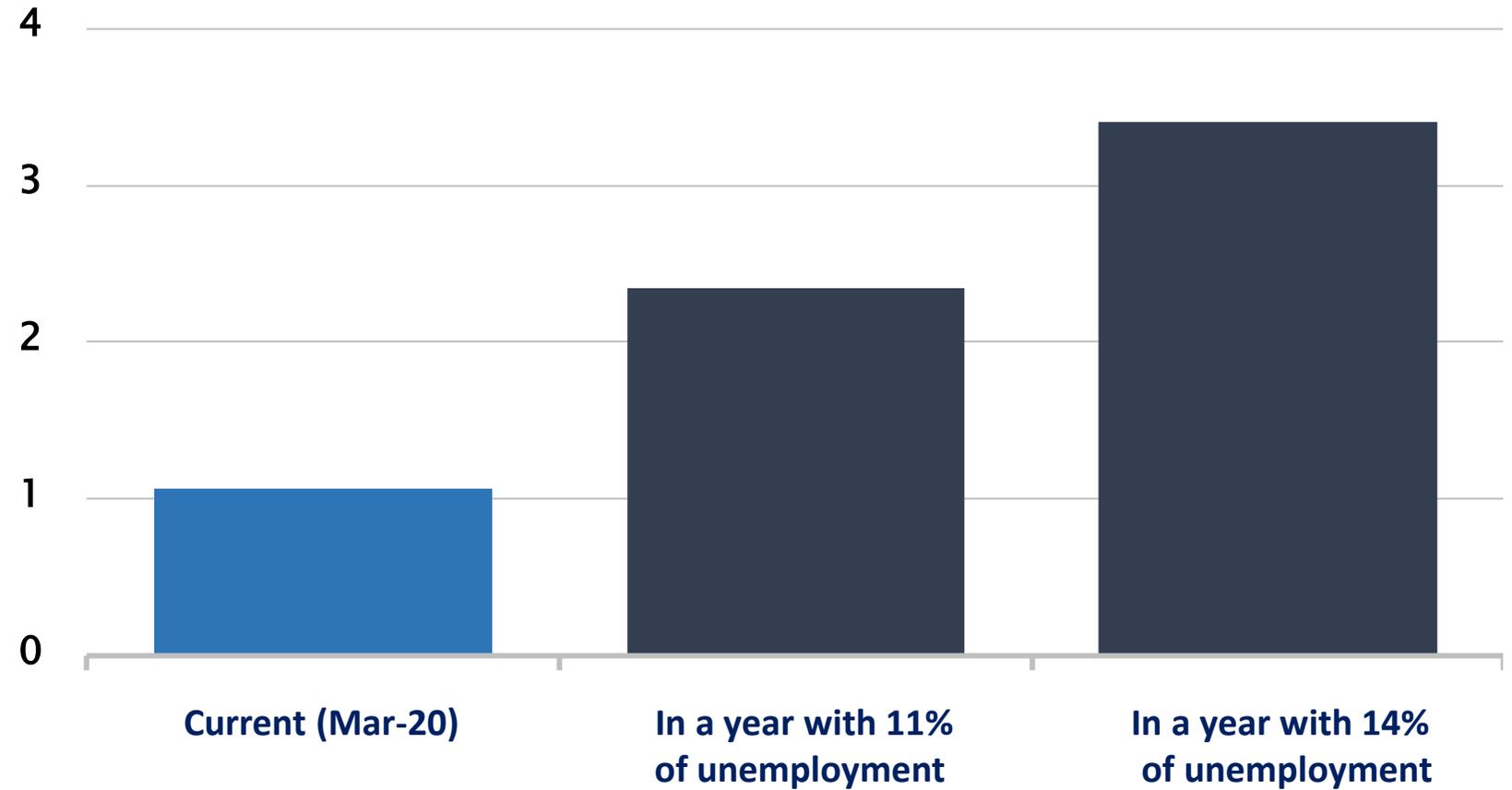
Non-mortgage debt (1)
(real annual variation, percentage)



(1) As of 2019.IV, the participation on the total debt stock is 20% for bank consumption, 9% for commercial houses, CCAF and savings cooperatives, 7% for university debt and 6% for others.
(2) Others include leasing and insurance companies, automotive companies and central government (FONASA and others). Source: Central Bank of Chile based on information from the CMF, DIPRES and SUSESO.

Higher unemployment would increase low-performing bank debt

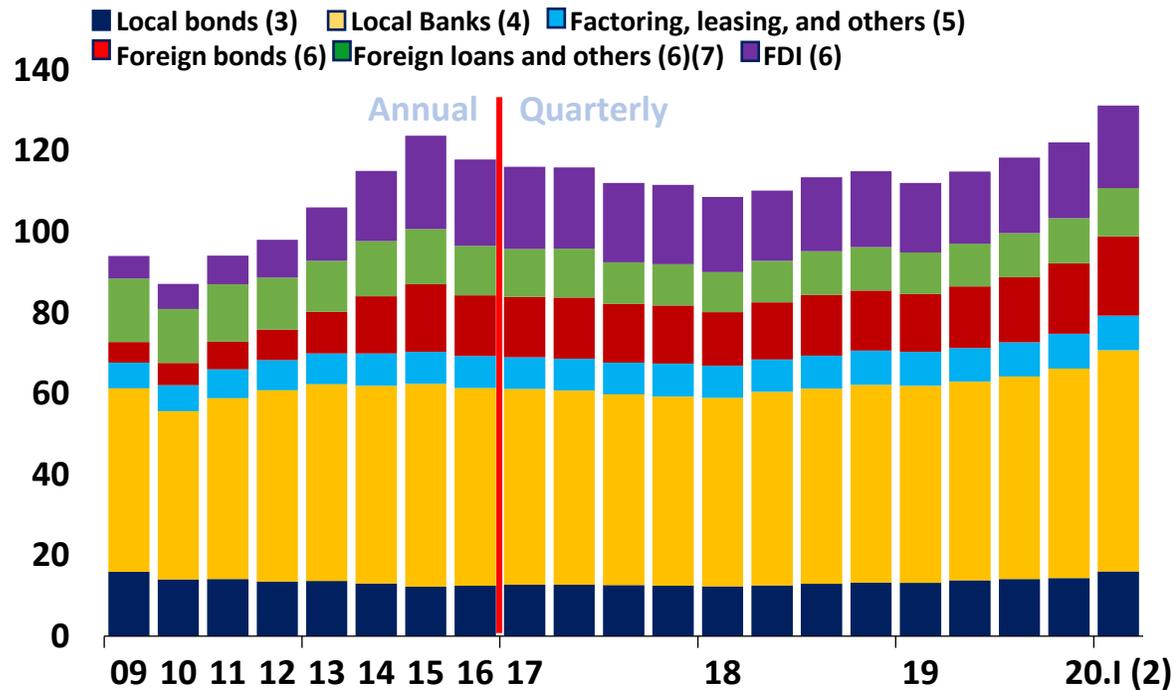
Bank debt at risk of households (*) (per cent of 2019 GDP)



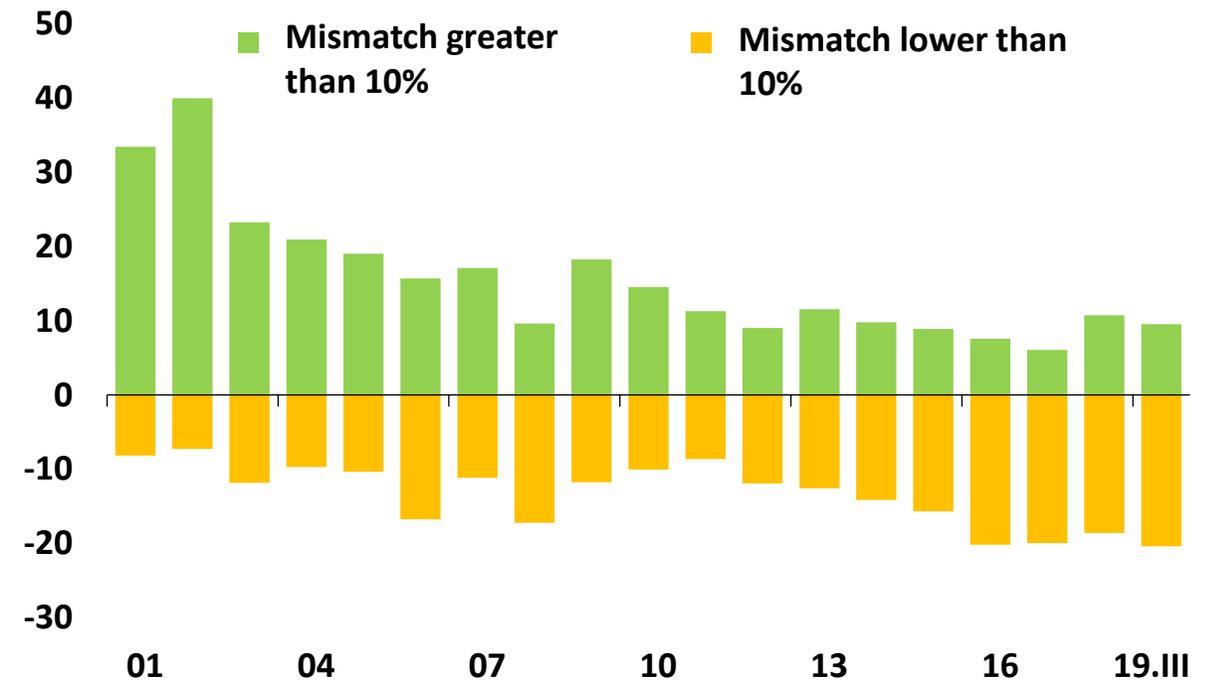
(*) Household bank debt (consumer and mortgage) is equivalent to 37% of GDP and 40% of total bank loans at the end of 2019.
Source: Central Bank of Chile based on information from SUSESO and CMF.

Corporate debt at 131% of GDP. Recent increase due to CLP depreciation; longer term driven by FDI-related borrowing, either by foreign multinational and Chilean multilatinas. Asset and liability composition plus use of derivatives minimizing FX risk

Total company debt by type of debt (1)
(percent of GDP)

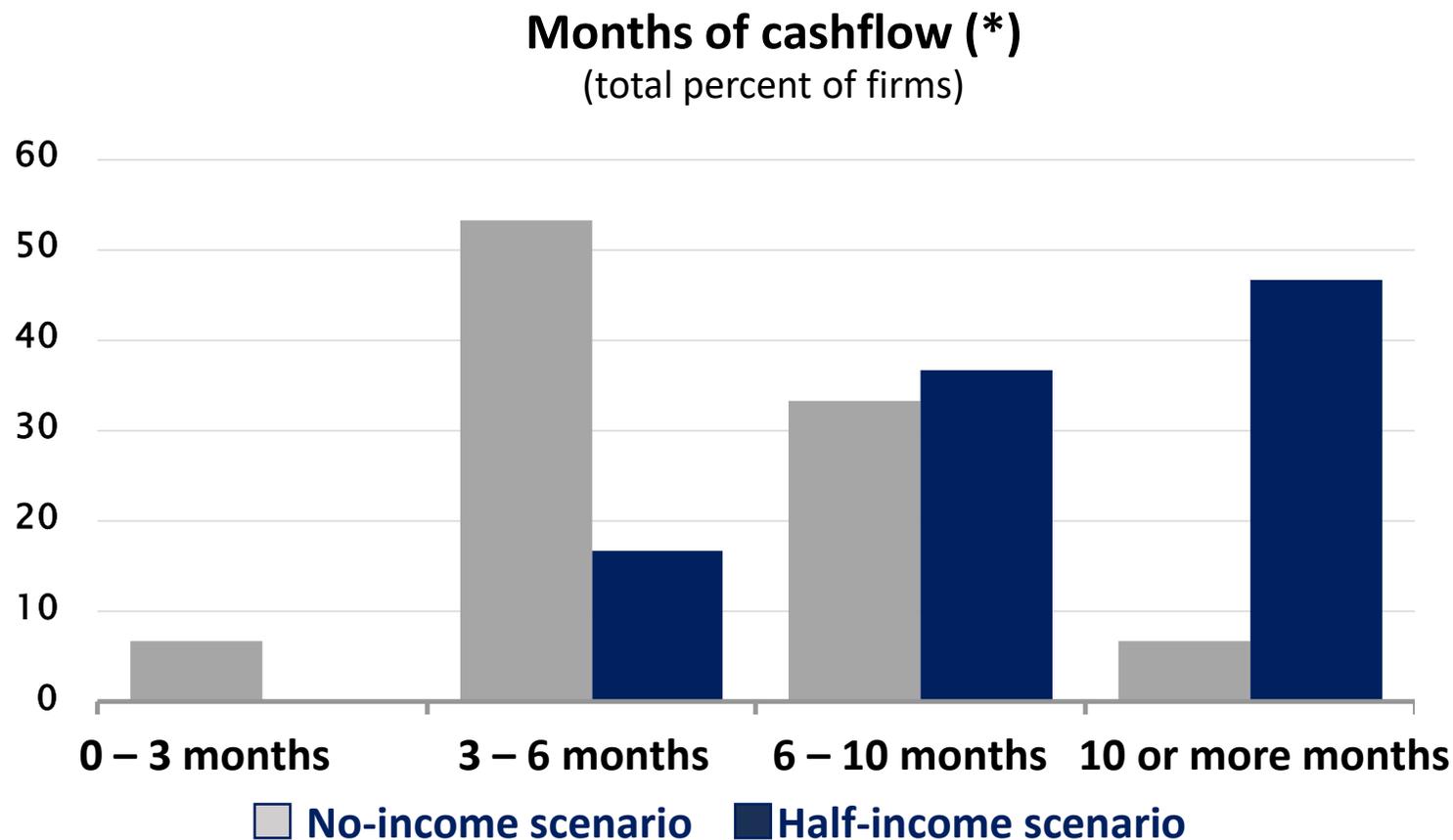


Mismatch of CMF reporting companies (8)
(per cent of total assets)



(1) Based on information at the company level with the exception of *Factoring, leasing and others*, securitized bonds and bills of exchange. Until 2017 year-end data, then quarterly data. Data as of March 2020 corresponds to an estimate of the sources of financing with the data reported to date. (2) The GDP of the moving year ended in each quarter is considered. (3) Corporate bonds, securitized bonds with underlying of non-bank origin and bills of exchange. (4) Includes contingent credits, people and COMEX. Does not include student loans to individuals. (5) Factoring includes banking and non-banking institutions (estimated as of December 2018). Debt (mainly leasing) from Life Insurance Companies is included. (6) Converted to pesos according to the average exchange rate of the last month of each quarter. (7) Includes multilateral organizations. Source: Central Bank of Chile based on information from ACHF and CMF. (8) Consider a sample of companies that report their balance in pesos. The mismatch is calculated as liabilities in dollars less assets in dollars, less net position in derivatives, on total assets. It does not consider state companies, and those from the Financial Services and Mining sectors. Annual data, except September 2019.

How long can corporations withstand large revenue losses?



(*) No-income scenario: Employee costs are adjusted to 70% and suppliers to 30%, in addition to an adjustment in accounts receivable and inventories. Half-income scenario: Employee costs are adjusted to 80% and supplier payments are adjusted to 60%, in addition to adjustments in accounts receivable and inventories. Source: Central Bank of Chile based on information from the CMF.

The background of the slide is a composite image. On the left, there are four stacks of coins of varying heights, arranged from left to right in increasing order of height. The background is a dark blue gradient with a semi-transparent white table of financial data. The table has several columns with numerical values and the letters 'ATO'.

3 Economic policy response



Timeliness, size and potential effectiveness of policy responses

- Economic policy reacted fast to the emergency. First measures taken within two weeks from first Covid-19 case
- Priorities:
 - Sustain household incomes
 - Reduce companies cash gaps and fund the remainder
 - Reduce portfolio adjustment frictions
- Responses in three areas:
 - Conventional fiscal policy
 - Credit support
 - Financial markets
- In each of these areas, Chile's response between advanced and emerging economies
- Heightened coordination between the Government, the Central Bank and regulators
- Several measures still into implementation phase
- Ongoing work to address remaining challenges in three areas:
 - Larger corporations
 - Nonbank lending
 - Unbanked small business and self-employed

Chile has been one of the countries with faster economic policy response to the emergency

Time elapsed since first Covid-19 case and first economic measures

	Date of first case	Number of days between the first case and the first response of:	
		Central Bank	Government
Chile	3-Mar-20	9	16
China	8-Dec-19	57	88
Spain	1-Feb-20	40	-
Russia	1-Feb-20	38	-
Brazil	26-Feb-20	12	19
Mexico	29-Feb-20	20	
Thailand	13-Jan-20	17	71
Japan	16-Jan-20	35	43
S. Korea	20-Jan-20	56	16
USA	21-Jan-20	42	52
Singapore	23-Jan-20	56	57
France	24-Jan-20	53	48
Canada	26-Jan-20	38	54
Germany	28-Jan-20	50	45
Philippines	30-Jan-20	46	49
Italy	31-Jan-20	38	54
Argentina	3-Mar-20	16	14
Colombia	6-Mar-20	0	21
Peru	6-Mar-20	20	24
Average		35	44

The magnitude of the fiscal and monetary policy response in Chile is closer to advanced countries than to emerging economies

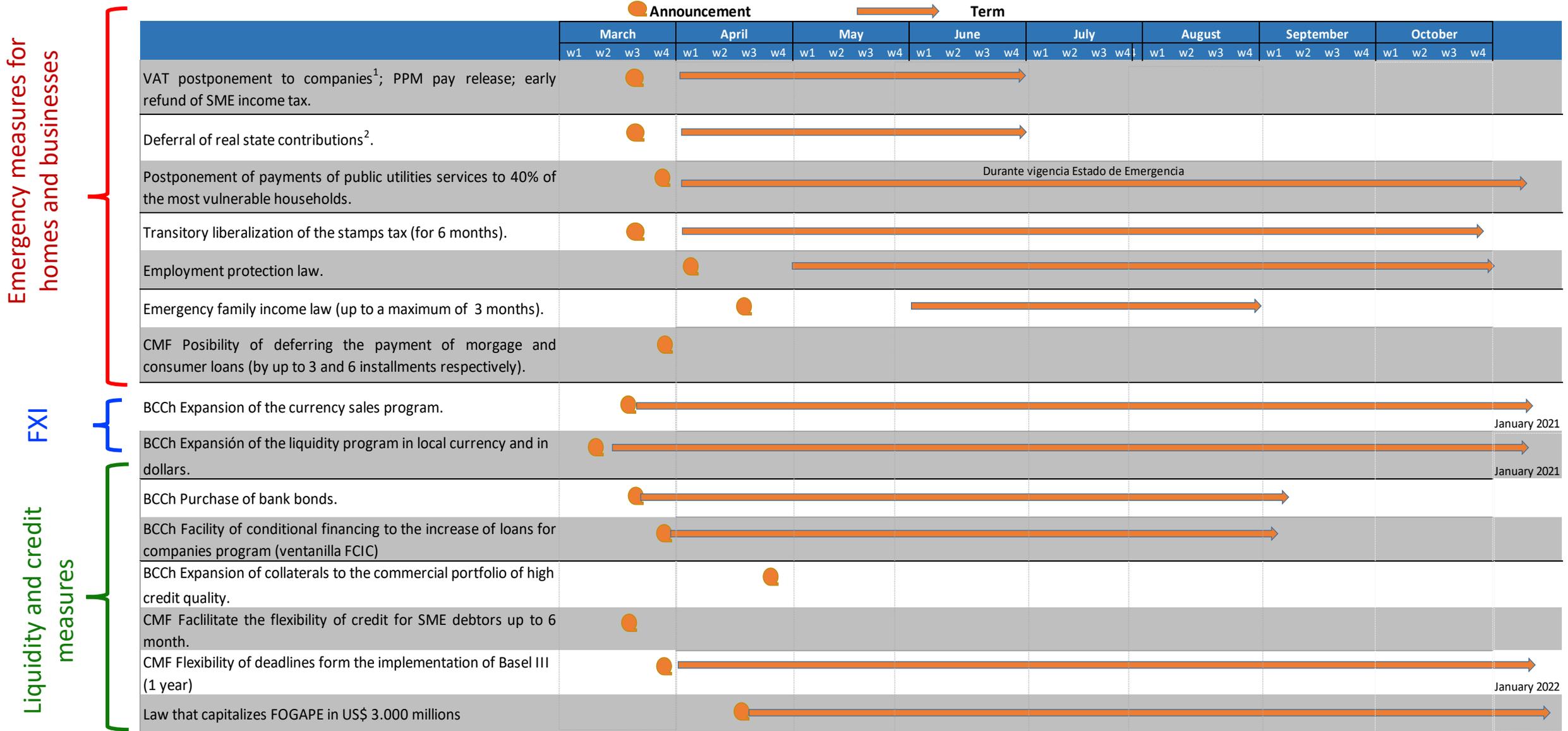
Fiscal and monetary plans in the face of shock Covid-19 (*)

(percentage of GDP; as of March 26, 2020 unless otherwise indicated)

	Fiscal	Monetary
United Kingdom	4.9	48.5
Spain	17.9	26.3
Canada (28/Mar)	41.3	0.8
Germany	28.5	4.5
France	14.3	14.5
Norway	2.2	25.9
Japan (31/Mar)	11.0	15.3
New Zealand	3.3	23.0
Italy	1.8	21.5
USA	10.3	12.4
South Korea	12.7	9.5
Australia	7.0	8.4
Peru (29/Mar)	12.0	0.0
Chile (Apr)	4.9	17.0
China	2.4	1.7
Brazil (27/Mar)	2.0	0.4
Colombia	1.5	0.7
Russia	0.3	1.1

(*) Sources: Bloomberg, Central Bank of Chile, International Monetary Fund, and press releases.

Time profile of economic measures



(1) Companies with sales under UF 350.000. (2) The payment is reinstituted in the next installment and is payed in 3 installments.

Progress in the implementation of credit stimulus

Mar/09 -
Mar/15

Mar/16 – Mar/22

Mar/23 – Mar/29

Mar/20 -
Abr/05

Abr/20 -
Abr/25

Abr/27 –
May/03

CBC

- Extension of terms of liquidity programs in pesos and dollars (since Mar/16)

CBC

- Inclusion of corporate bonds as collateral.
- Extension of the currency sales program.
- Transitory modification of reserve requirements.
- Purchase of bank bonds.

Ministry of Finance

Announces *Economic Emergency Plan*:

- Employment protection.
- Postponement or suspension of taxes (since April).

CBC

- FCIC (since Mar/20)
- Activation of LCL (since Mar/20)
- Transitory suspension (90 days) for requirements of term mismatches.
- LCR limit flexibility (since 03/30)

CMF

- Facilitate the flexibility of SME debtor loans up to 6 months.
- Use of mortgage guarantees to protect SME loans.

CMF

- Flexibility of Basel III implementation deadlines.
- Relaxation of provisions for reprogramming.

Ministry of Finance

- Announces increase in state guarantees (FOGAPE).

Ministry of Finance

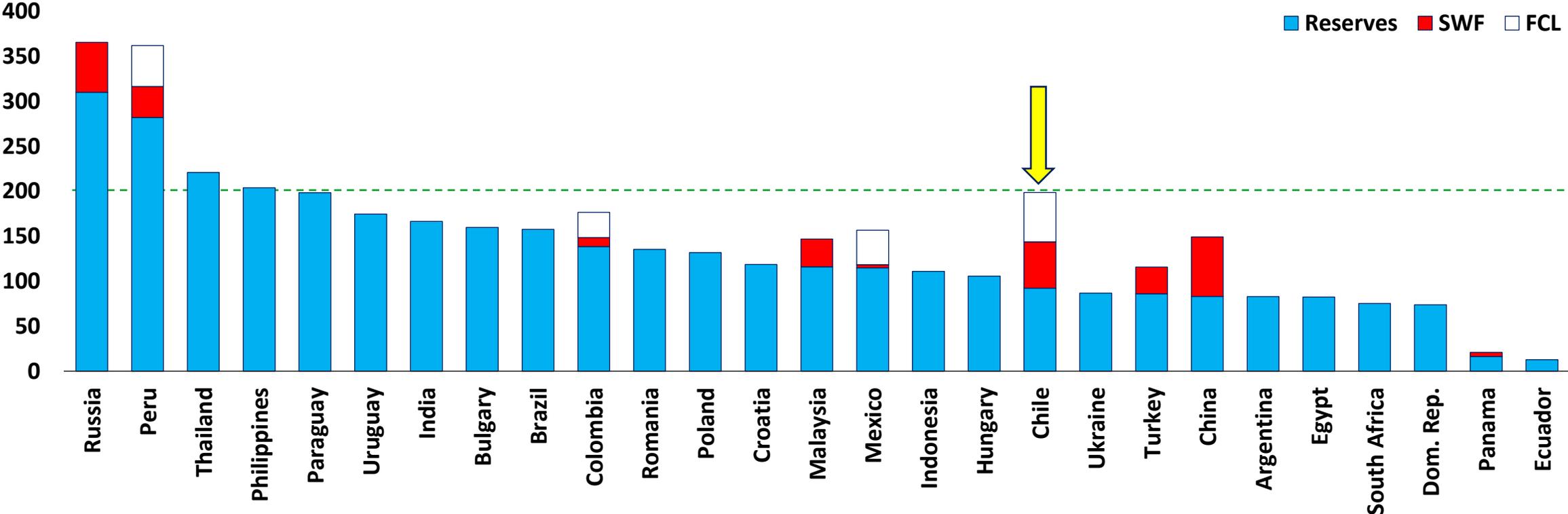
- Announces Covid-19 credit line.

IMF Flexible Credit Line (FCL)

- FCL: provide countries with strong macro fundamentals with prudential tool, unconditioned
- Other cases: Mexico, Poland, Colombia, and Peru
- Situation in Chile
 - FCL requested by the Central Bank to strengthen external position in high risk external scenario
 - Following discussion at an informal IMF Board meeting, the Managing General will recommend approval with an access (value) of 10 times the country's quota
 - Equivalent to nearly USD 24,000 million, more than 60% of International Reserves
 - Timing: going to Board in 2 weeks, for 2yr availability
- How does it benefit the country?
 - Reduces its exposure to external risks at a time when they have risen sharply
 - Increase market confidence, reduce financing costs
 - Allows Central Bank to continue acting proactively in supporting financial stability, bank lending

Adding sovereign funds and FCL availability to International Reserves puts Chile on brighter spot compared to other EMEs

Reserves + sovereign funds (*)
(percent of ARA metric)



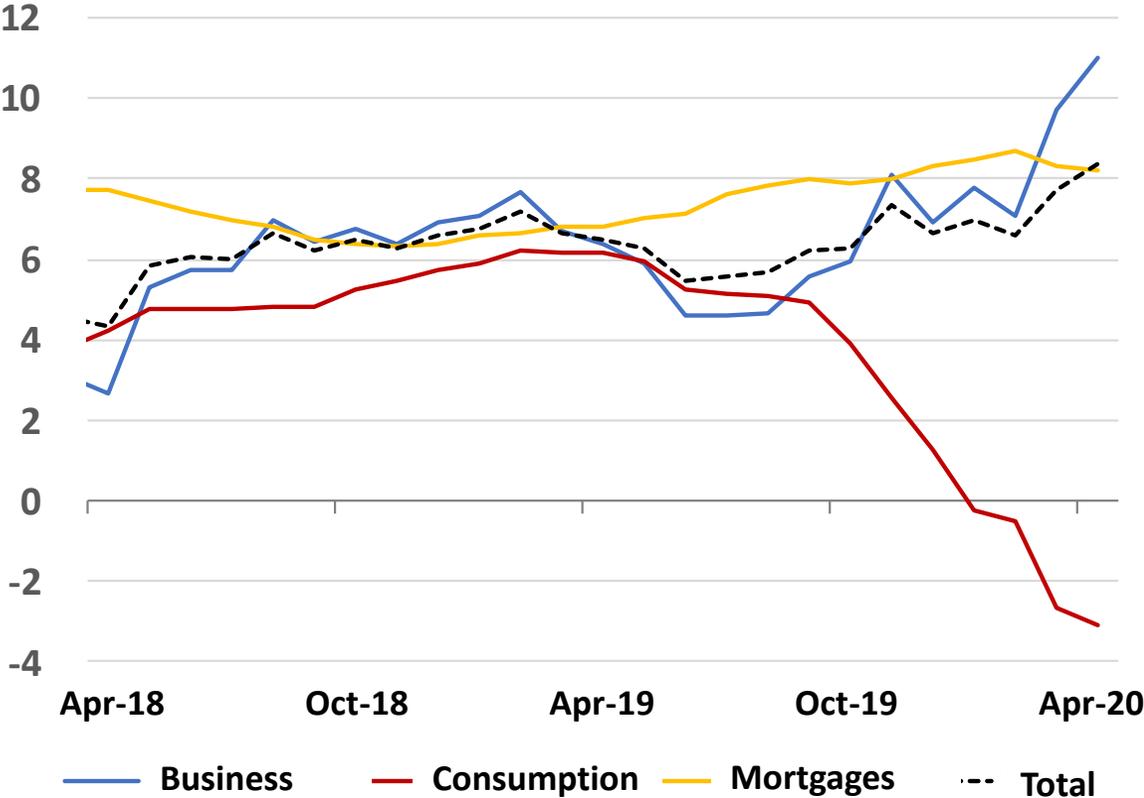
(*) ARA: Assessment of Reserve Adequacy. Metric: Fixed (Float) Exchange Rate = 10(5)% × Exports + 10(5)% × Broad Money + 30% × ST Debt + 20(15)% × Other Liabilities. ST external debt on a remaining maturity basis. Source: IMF and SWFI.

The background features a blue-tinted financial theme. It includes several stacks of coins of varying heights, a line graph with a yellow trend line, and a bar chart with blue bars. Faintly visible in the background are various financial data points, including numbers like 21,300, 14,200, 27,100, 68,700, 8,200, 4,300, 1,800, 20,500, 20,200, 10,20, 17,500, 21,800, 41,400, 5,200, 4.48, 6,921, 9,037, 8.65, 8.70, 8.75, 9.50, 41.30, 8.75, 41.00, 41.25, 41.50, and 4.00, along with the acronym 'ATO' repeated multiple times.

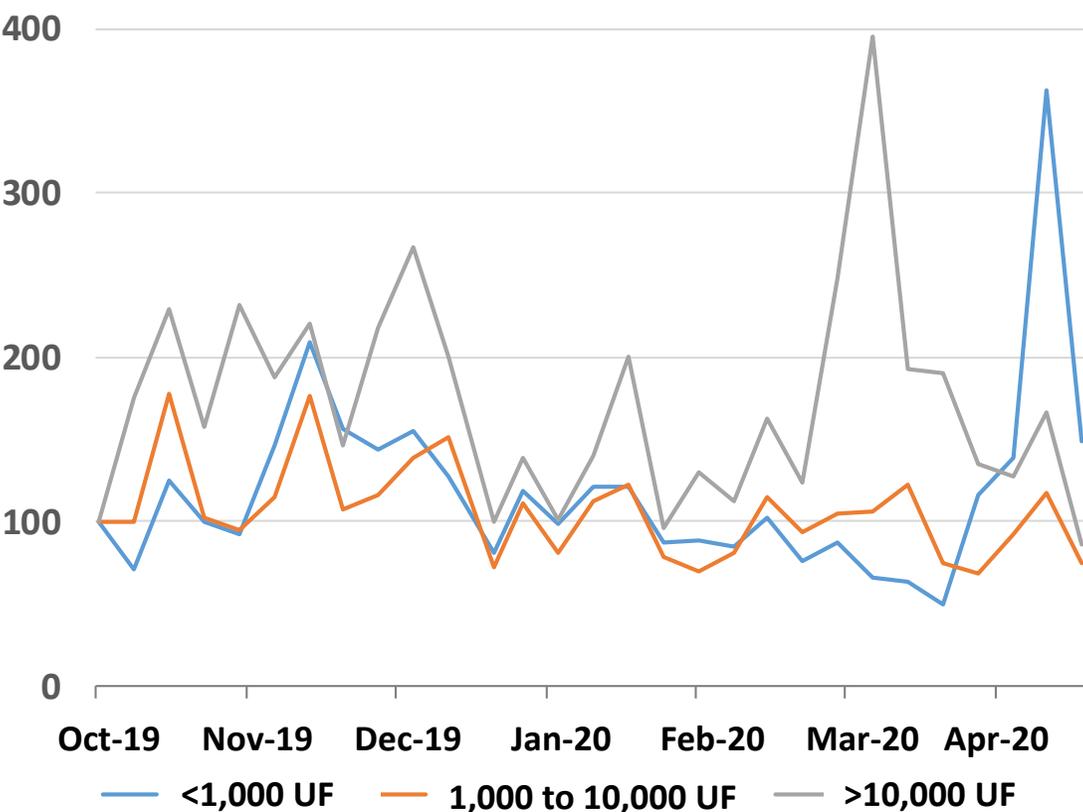
4 Credit supply

Bank lending growing both for larger and smaller companies

Real growth stock of loans (annual variation, percentage)



Business lending flows by size (*) (index, base 100=Oct-19)



(*) By credit size, weekly frequency. Source: Central Bank of Chile based on information from the CMF.

Beneficiaries of credit reprogramming

Debt rollover operations approaching 1 million, close to 25% of banks' portfolio.

BANKS						
	Operations		Total of portfolio		Percentage	
	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)
Consumption	482,694	3,675,486	10,618,693	26,200,786	4.5%	14.0%
Mortgages	255,357	16,803,235	1,193,479	54,852,895	21.4%	30.6%
Commercial (gropued)	113,011	3,594,409	729,448	17,056,334	15.5%	21.1%
TOTAL	851,062	24,073,130	12,541,620	98,110,015	6.8%	24.5%
CO-OPERATIVES						
	Operations		Total of portfolio		Percentage	
	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)
Consumption	49,353	325,542	380,144	1,426,366	13.0%	22.8%
Mortgages	1,346	41,079	15,755	404,978	8.5%	10.1%
Commercial (gropued)	1,414	13,277	8,131	59,711	17.4%	22.2%
TOTAL	52,113	379,898	404,030	1,891,055	12.9%	20.1%
NON-BANKS ISSUERS						
	Operations		Total of portfolio		Percentage	
	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)	Number of clients	Loan amount (mm CLP)
Consumption	45,937	5,091	1,732,251	476,856	2.7%	1.1%
Mortgages						
Commercial (gropued)						
TOTAL	45,937	5,091	1,732,251	476,856	2.7%	1.1%

Source: CMF information as of May 08, 2020.

Progress of government guaranteed lending, especially for SMEs

Progress of the *Facility of Conditional Credit to the Increase of the Loans (FCIC)* as of May 14 (1) (million of USD)

	Total amount	Used amount	Remaining amount
LIQUIDITY WITH CREDIT INCENTIVE			
FCIC-LCL	24,000	16,025	7,975
3% Base (flow)	4,800	4,603	197
Conditional addition (flow)	19,200	11,422	7,778

Credits associated with the **FOGAPE** program as of May 08 (2) (number of operations and amount in CLP)

By firm size	Number	Amount (CLP)	Amount (mill. USD)
Micro and Small	12,278	233,394,553,890	281.9
Medium-sized	1,028	105,231,241,349	127.1
Large Enterprises I	81	36,802,460,458	44.4
Large Enterprises II	11	13,247,000,000	16.0
TOTAL	13,398	388,675,255,697	469

(1) Source: Central Bank of Chile.

(2) Preliminary information (subject to rectification). Accumulated data as of May 8, 2020. Micro and Small Enterprises: Enterprises whose annual net sales do not exceed 25,000 UF. Medium-sized Enterprises : between 25,000 and 100,000 UF. Large Enterprises I: between 100,000 and 600,000 UF. Large Enterprises II: between 600,000 and 1,000,000 UF.

Source: CMF.

5

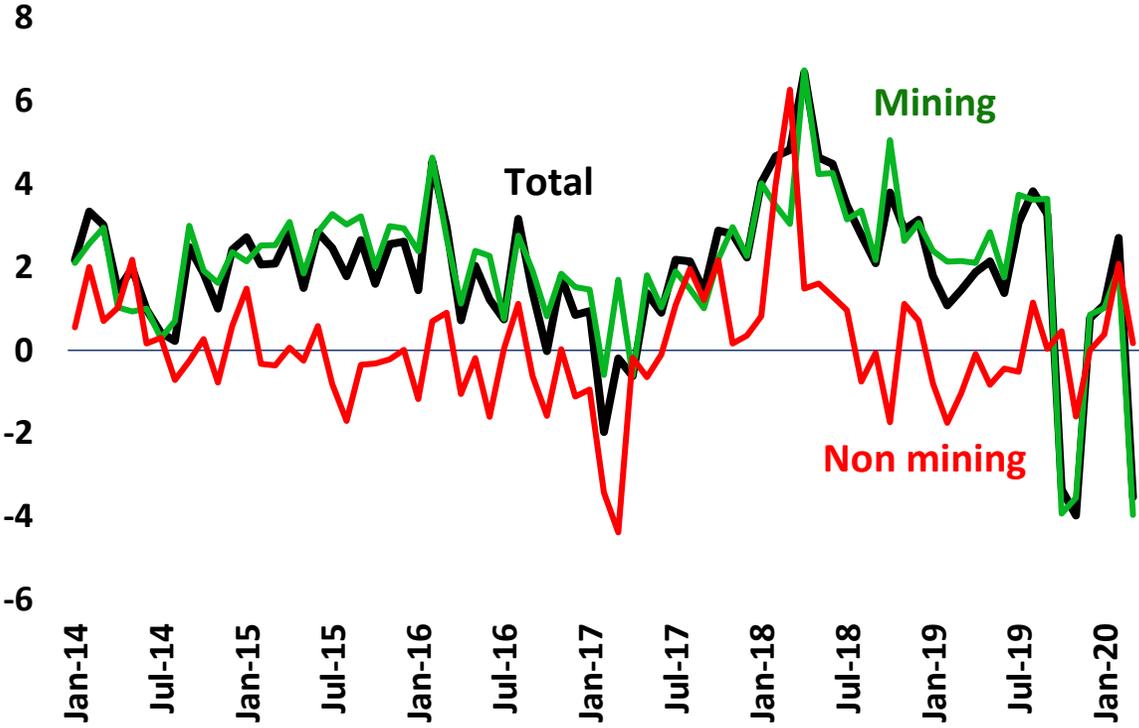
Economic prospects 2020-2022



Most recent economy-wide indicators

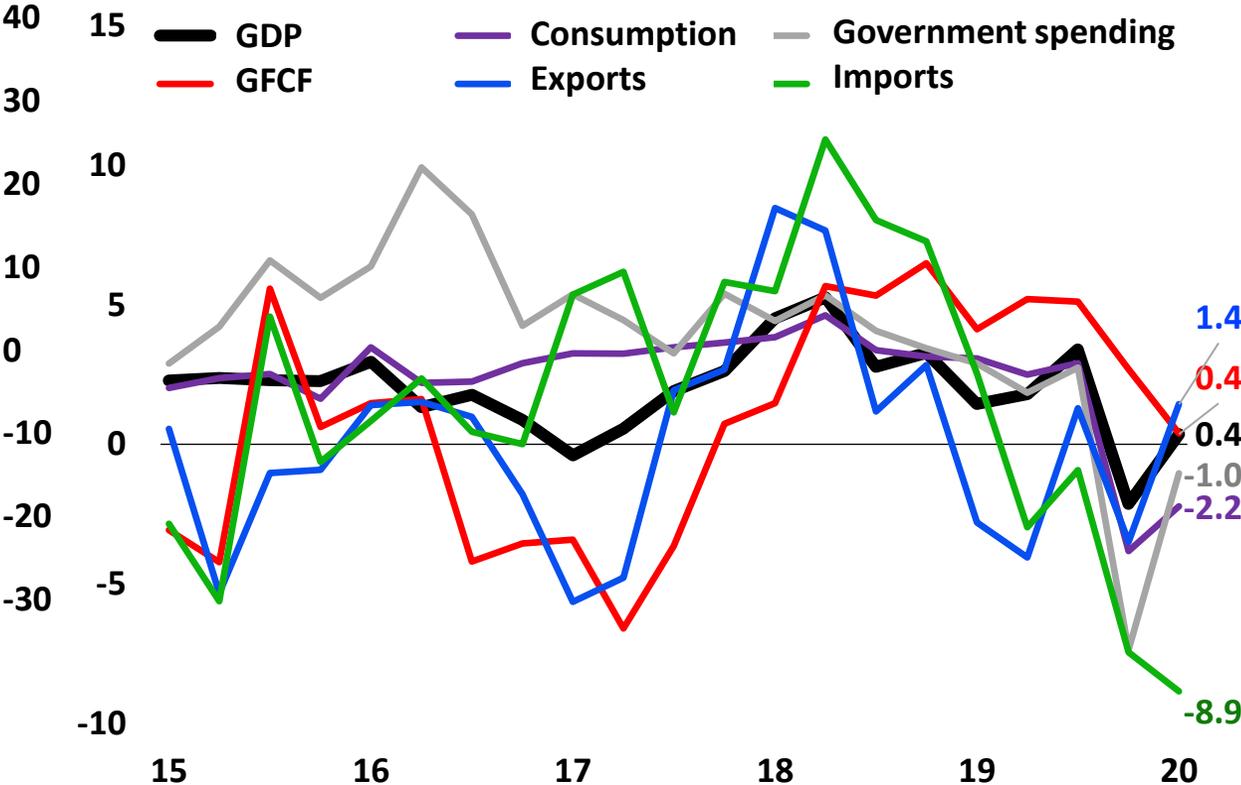
IMACEC: Total, Mining, and Non mining

(annual variation, percentage; March 2020)



GDP: Quarterly National Accounts

(annual variation, percentage; 2020.I)

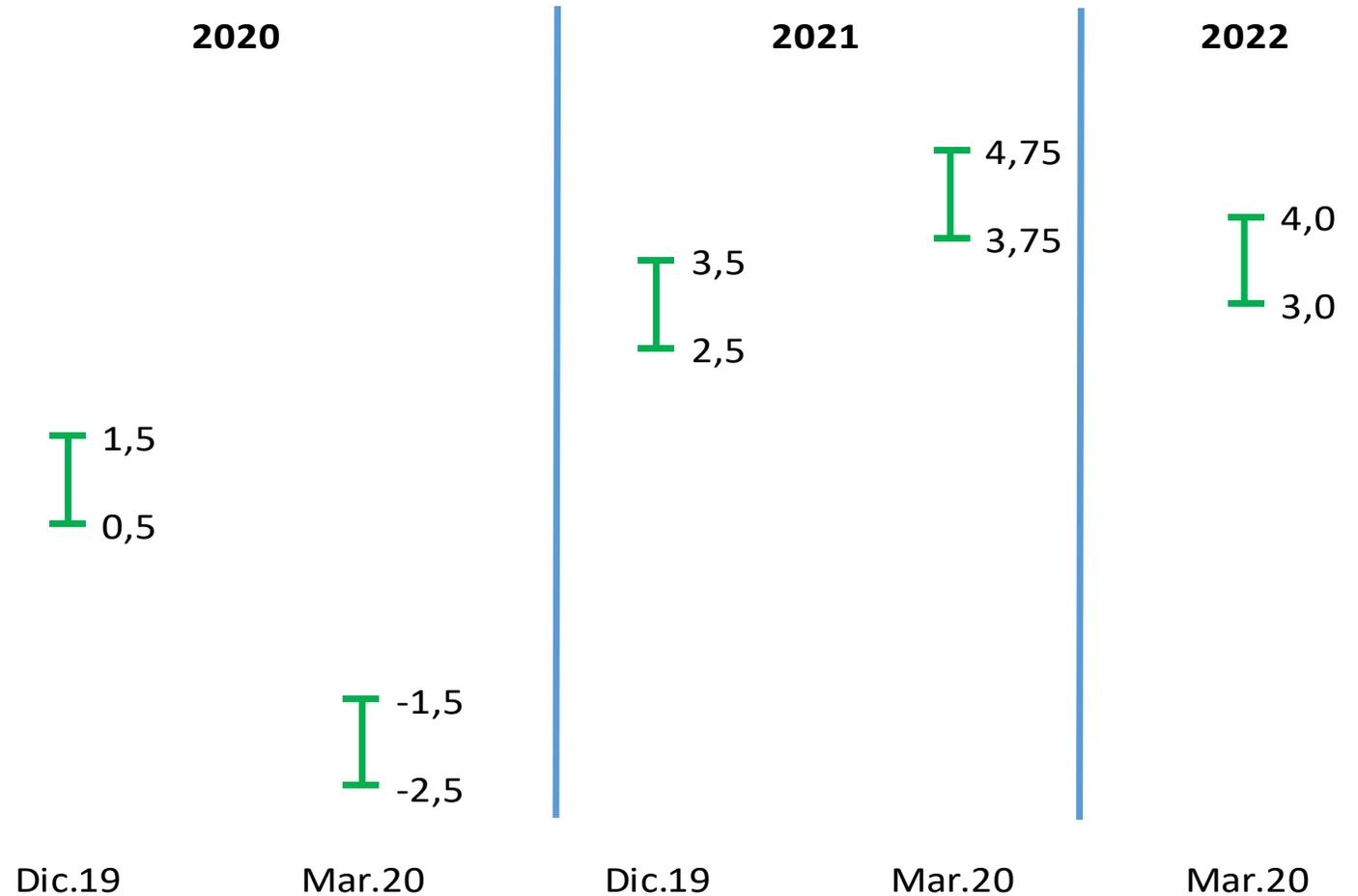


Source: Central Bank of Chile.

March Monetary Policy Report:

- 2020 GDP between -1.5 and -2.5%
- 2021 recovering at 3.75 to 4.75%
- 2022 at trend growth rate

GDP growth forecast: 2020-2022 (real anual variation, percentage)



Source: Central Bank of Chile.

Projections based on ...

The activity will contract in the second half of March, which implies ...

Lower growth for the first quarter

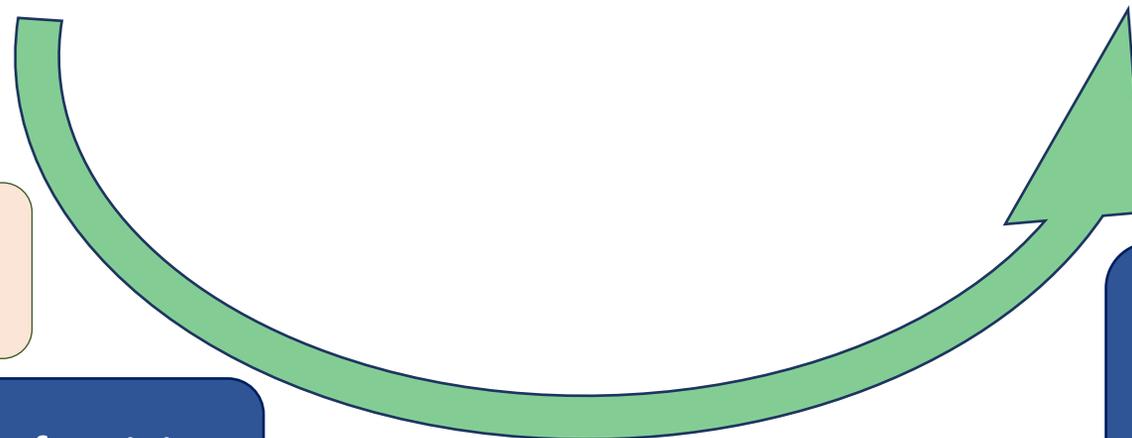
A contraction of activity in the second quarter ...

- Due to lower starting point that will be delivered the previous quarter
- Due to greater restrictiveness of sanitary measures, according to announcements from the authority

Due to relaxation of sanitary measures

Relevant rebound in growth rates in the last quarter of 2020 and all of 2021

The economic recovery process will begin in the third quarter...



... depending on
key assumptions

1

Most companies and individuals will be able to resume their activities as contagion recedes



Depending on financing needs of these agents being met and...



..large investment projects resuming

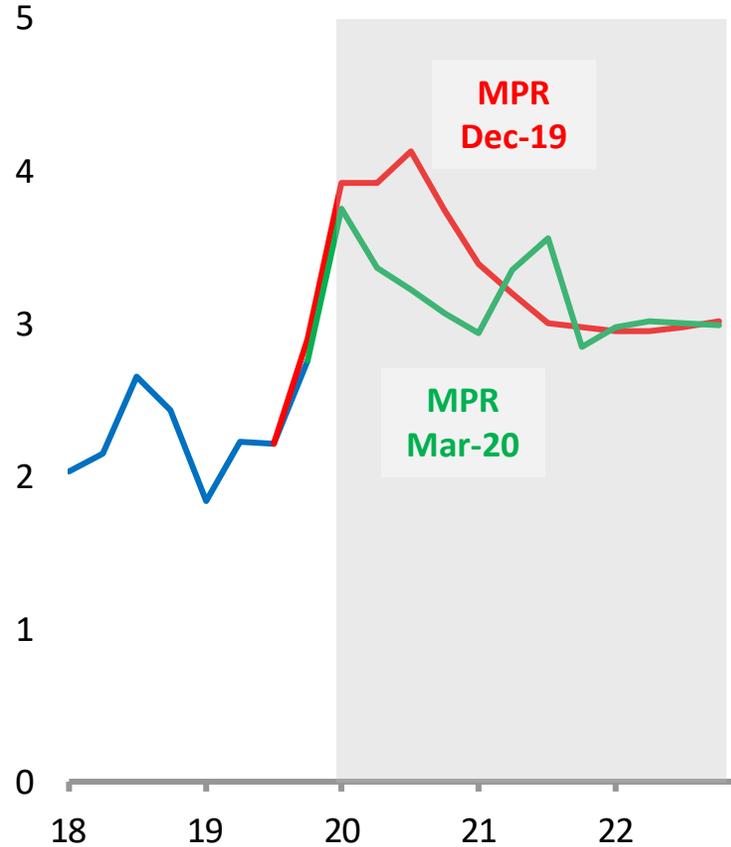
2

Institutional channeling of the social crisis reducing uncertainty and preventing violence

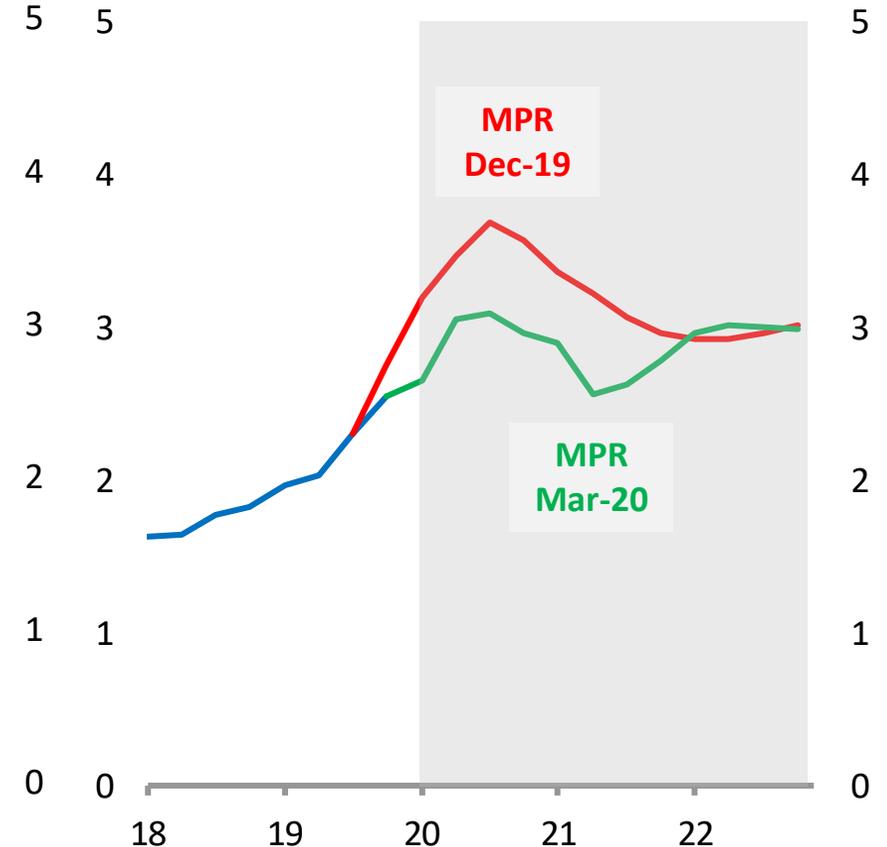
Inflation dynamics dominated by the widening output gap.

Over the short term, a lower price of oil contrasts with CLP depreciation.

Headline inflation forecast (1) (2)
(annual variation, percentage)



Core inflation forecast (1) (2)
(annual variation, percentage)



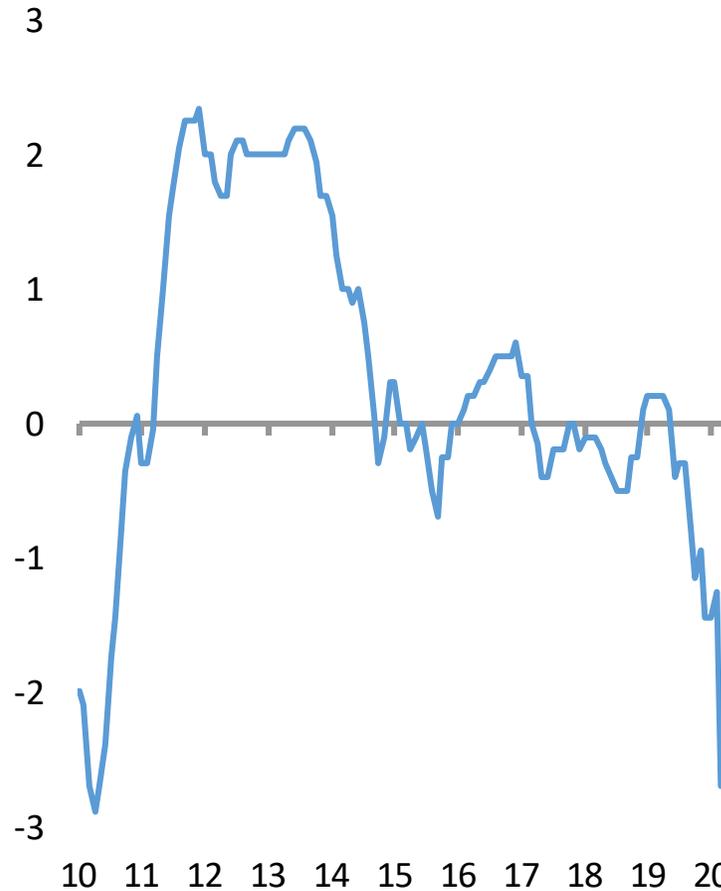
(1) For 2018, it is displayed the annual variation obtained by splicing the series with base 2013=100 with the monthly variations of the 2018=100 basket as of February 2018. See Box IV.1 of the March 2019 *Monetary Policy Report*. (2) The gray area, as of the first quarter of 2020, corresponds to the projection. Sources: Central Bank of Chile and National Statistics Institute.

The Board cut the Monetary Policy Rate to its technical minimum level.

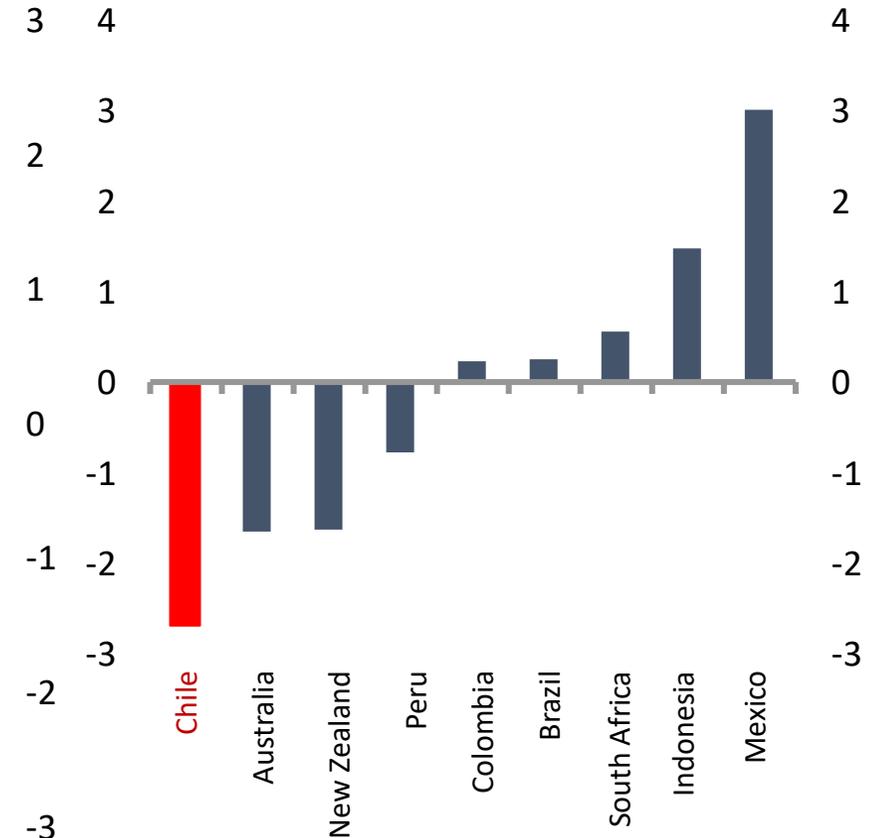
Expansiveness exceeding comparable economies.

To ensure inflation convergence to target, monetary policy should remain highly expansionary over many months.

Chile's real MPR (1)
(percentage)



Real MPR: International comparison (2)
(percentage)



(1) Calculated as the nominal MPR in force at the end of each month minus the one-year inflation expectations derived from the *Economic Expectations Survey*. Consider the decision made at the Monetary Policy Meeting of March 31, 2020.
(2) Current MPR minus one-year expected inflation. Sources: Central banks of each country.

Risks and challenges

- Bank lending is not the only answer to corporate and household cash needs. Public policies and regulation should help mobilize other sources of credit and reach sectors that have not been served by banks.
- Despite the depth of the adjustment in economic activity and the drastic reversal of risk appetite, the economic scenario is still exposed to further downside risks.
- These may come from an extension of the health emergency, a worsening of the external scenario or the transformation of liquidity problems into solvency problems. Such phenomena carry additional risks for financial stability.
- In view of such risks, the CBC, while implementing adopted measures, has sought mechanisms to reinforce Chile's international position, and create the space to implement new initiatives, if needed.
- For policy interventions to be successful, coherence and sustainability is of the essence. Such coherence requires strong collaboration and dialogue between relevant authorities, including Congress.

Chile and the Covid-19 crisis: Financial stability, policy responses, and economic prospects



Mario Marcel
Governor, Central Bank of Chile

Videoconference organized by *LarraínVial*, May 18, 2020