

Recent developments of the Chilean Economy

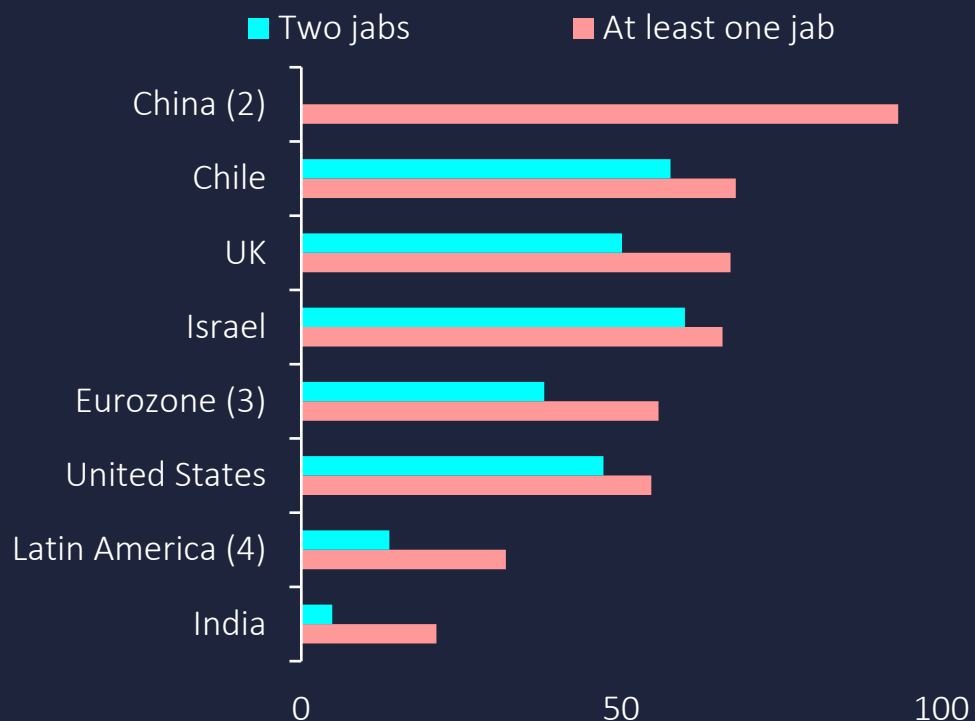
CEMLA-NY FED conference, July 2021



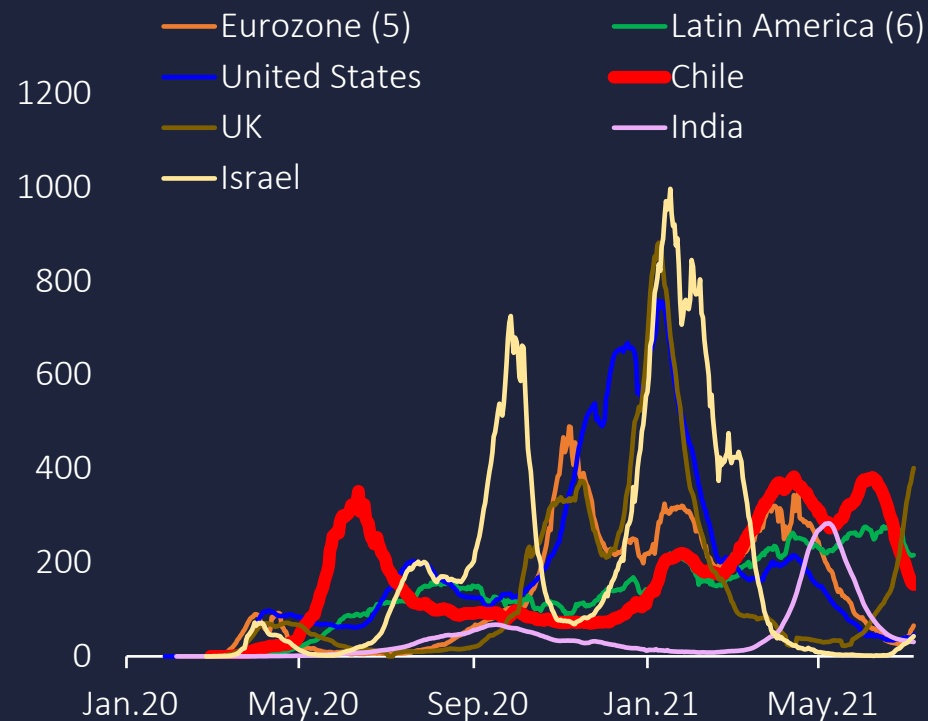


Chile's vaccination program has progressed very favorably. This has contributed to lower cases in recent weeks –especially, severe hospitalizations and deaths– leading to a relaxation of restrictions in recent days.

Vaccinated population (1)
(percentage of population)



Evolution of new cases
(new cases per million people)



(1) Information up to June 7, 2021. (2) Corresponds to total doses administered as percentage of population. (3) Weighted average including Germany, Spain, France and Italy. (4) Weighted average including Argentina, Brazil, Colombia, Mexico and Peru. Source: Our World in Data.

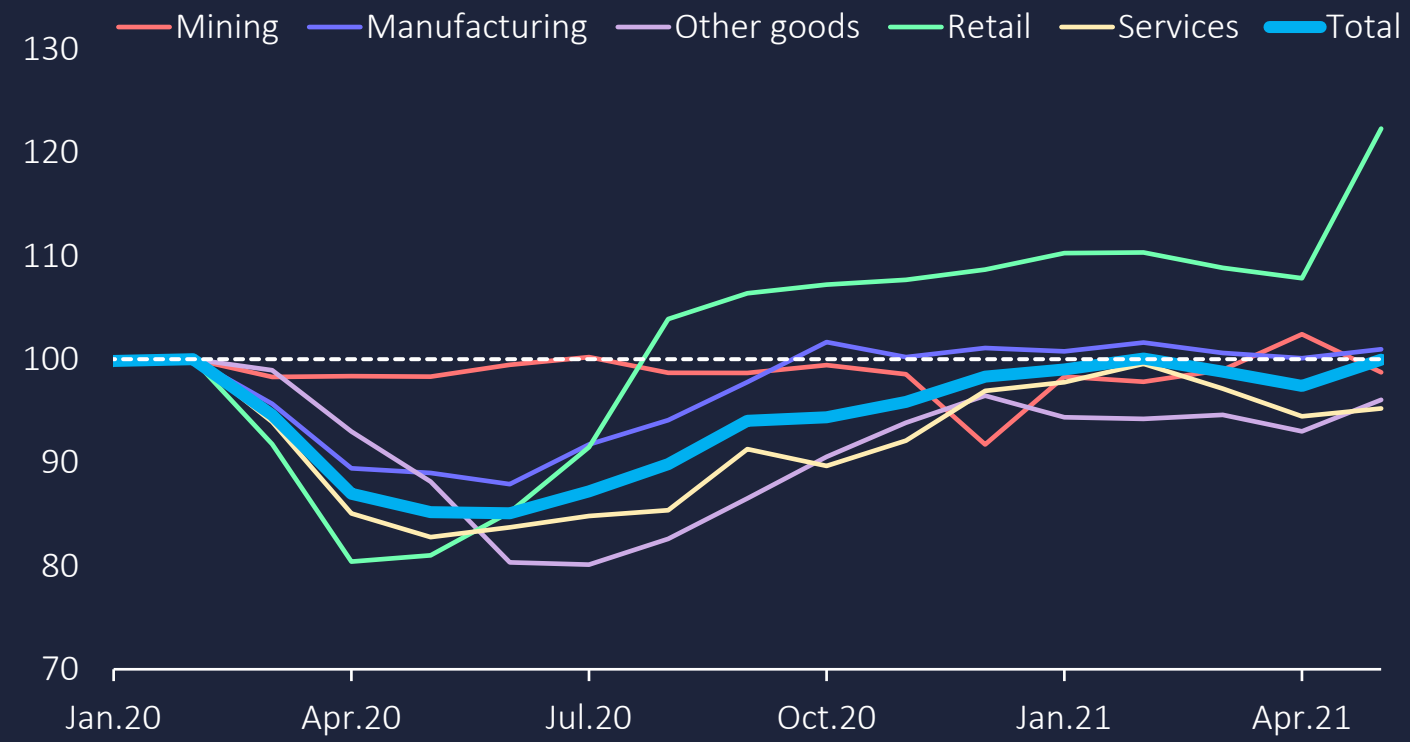
(5) Includes Germany, Spain, France and Italy. (6) Includes Argentina, Peru, Brazil, Mexico and Colombia. Source: Our World in Data.



June MPR: significant upward revision in 2021's growth forecast. Despite longer-lasting pandemic, activity has rebounded (with inter-industry heterogeneity), reflecting *three key factors*.

First: better adaptation to operating under lockdowns (e.g., safety protocols; online sales)...

Monthly activity indicator, by industry
(seasonally-adjusted series; index, February 2020 = 100)



Source: Central Bank of Chile.



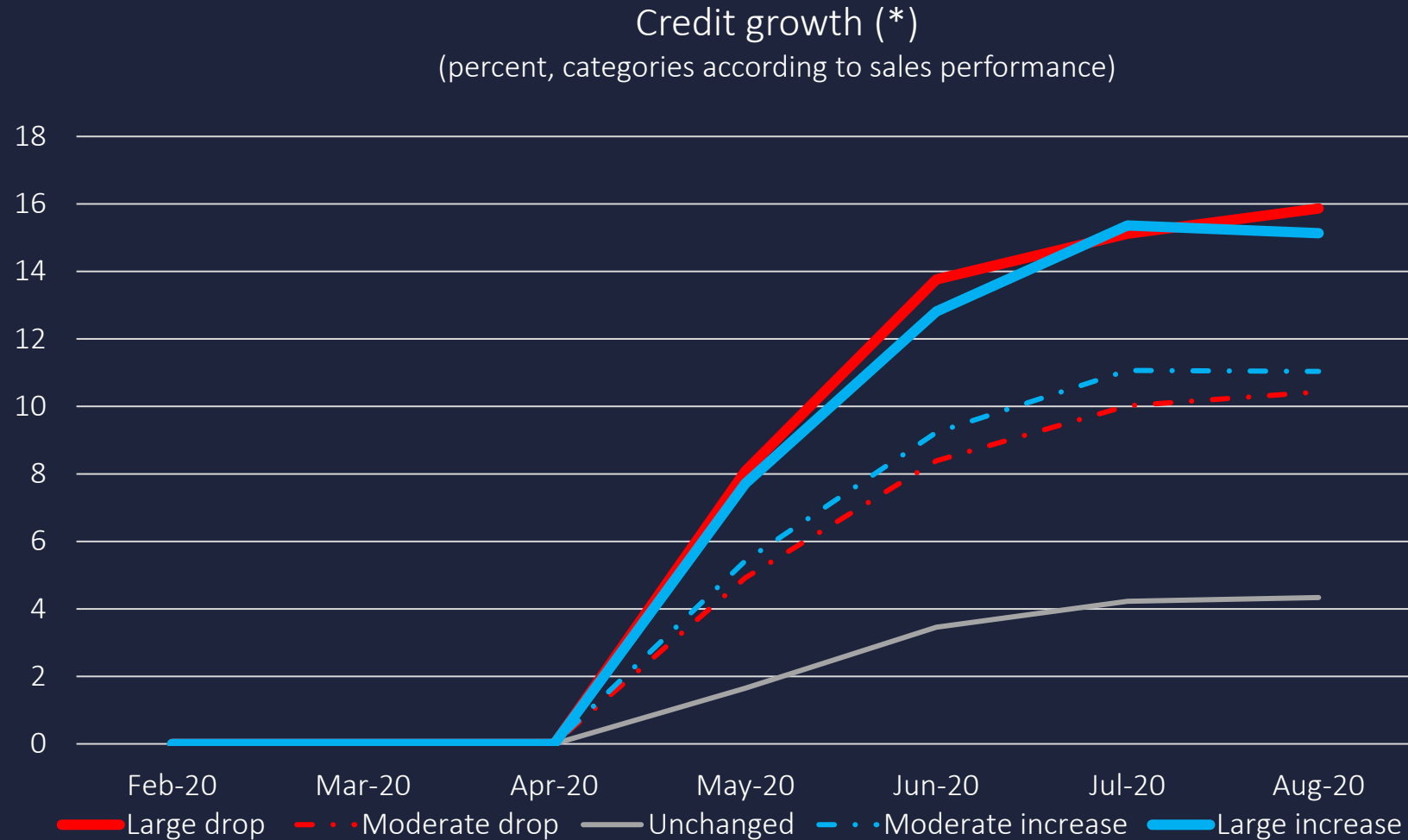
2020

-5.8%

2021 (f)

8.5-9.5%

Second: survival of firms. Preliminary evidence of scarring effects has been better than anticipated. Special credit programs (CB liquidity + govt. guarantees) reached the most affected firms early in the crisis. Availability of merged micro-data key for design and evaluation of these programs.

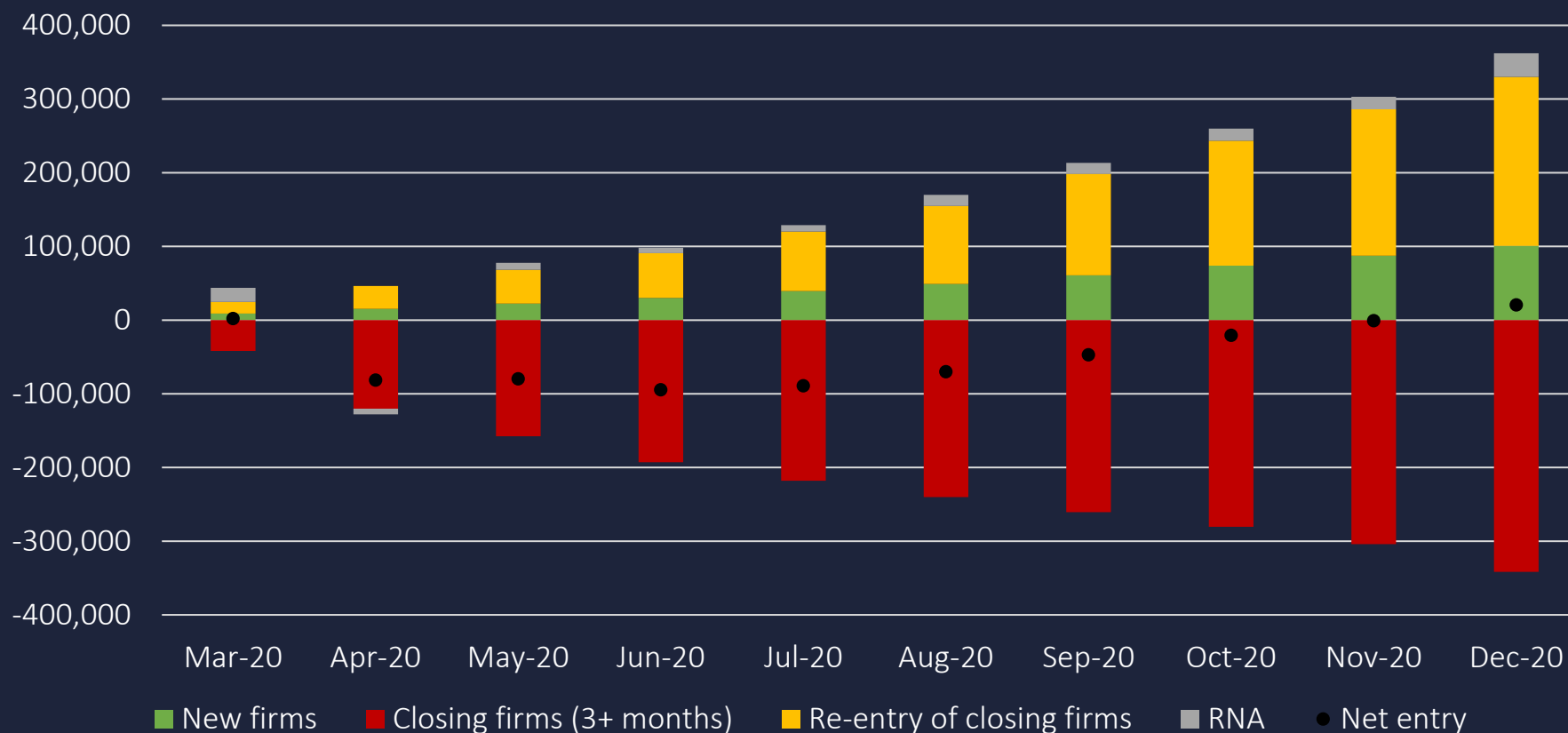


(*) 12-month growth in commercial loans each month, relative to February 2020. Groups of companies defined according to y/y sales growth, relative to February 2020. Large drop/increase: changes between 20 and 100%; Moderate drop/increase: changes between 1 and 20%. No change: less than 1%. Proportion of firms in each category: large drop: 46%, moderate drop: 17%, no change: 3%; moderate increase: 13%, large increase: 21%. Source: XXX



Timely liquidity provision may have played a role in the bounce back of firm closures: for every *three* that closed during 2020, *two* have restarted operations. Together with a pick-up in firm creation, the number of operating firms ended 2020 slightly higher than in February 2020.

Decomposition of net firm entry, 2020*



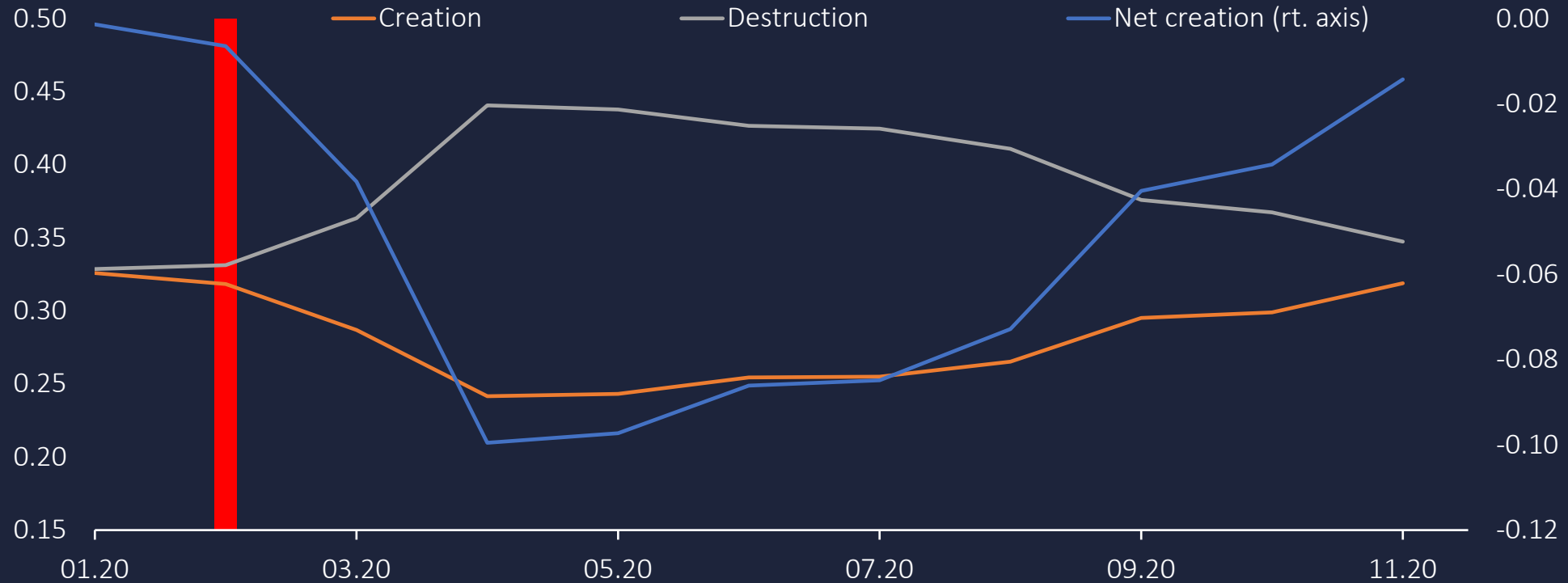
*Net entry: difference between outstanding firms in each month, relative to Feb. 2020. Closing firms: firms that stop reporting positive sales for 3 or more months, during 2020. Re-entry of closing firms: firms in the “Closing firms” group that recover positive sales during 2020. For further details, see Box V.1, Monetary Policy Report, March 2021. Source: Central Bank of Chile calculations, based on form F29 of the IRS.

This recovery can also be traced to inter-firm linkages. After dropping more than 10% in the worse months of the crisis, linkages have recovered almost all losses. This bodes well for the discussion about bottlenecks and diminished productivity.



Creation and destruction of relationships with suppliers (*)

(annual change, %)

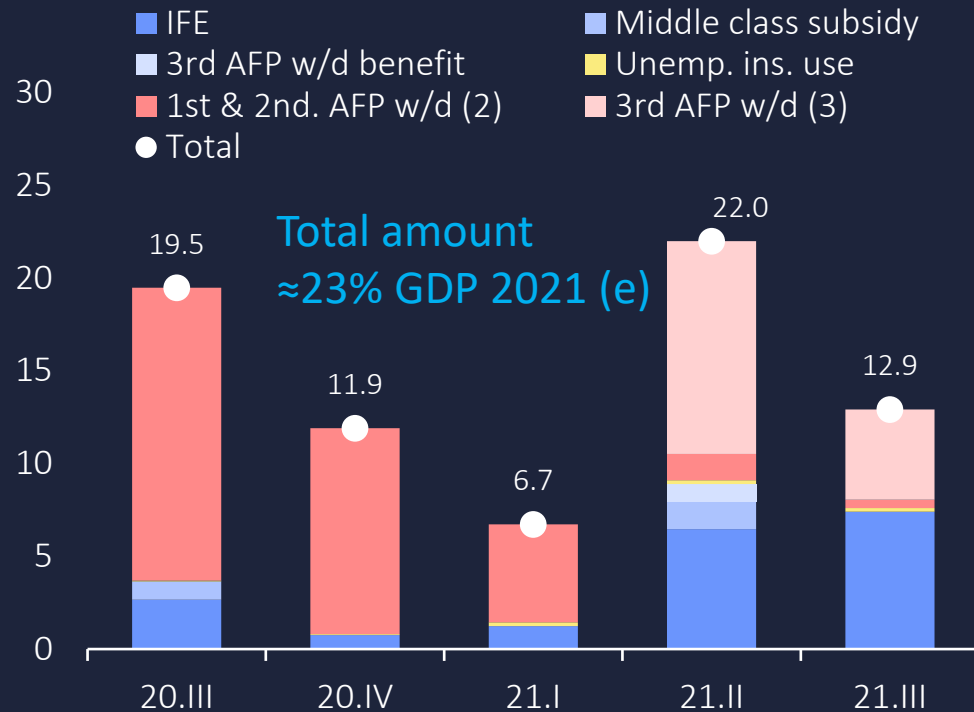


(*) Documents gross creation and destruction (left axis) and the creation (right axis) of productive relationships of firms with their suppliers, expressed in year-on-year growth. Firms belonging to the National Accounts Directory are included, except those linked to EGW and Public Administration. Red vertical line marks February 2020. Source: Central Bank of Chile based on digital invoicing data.

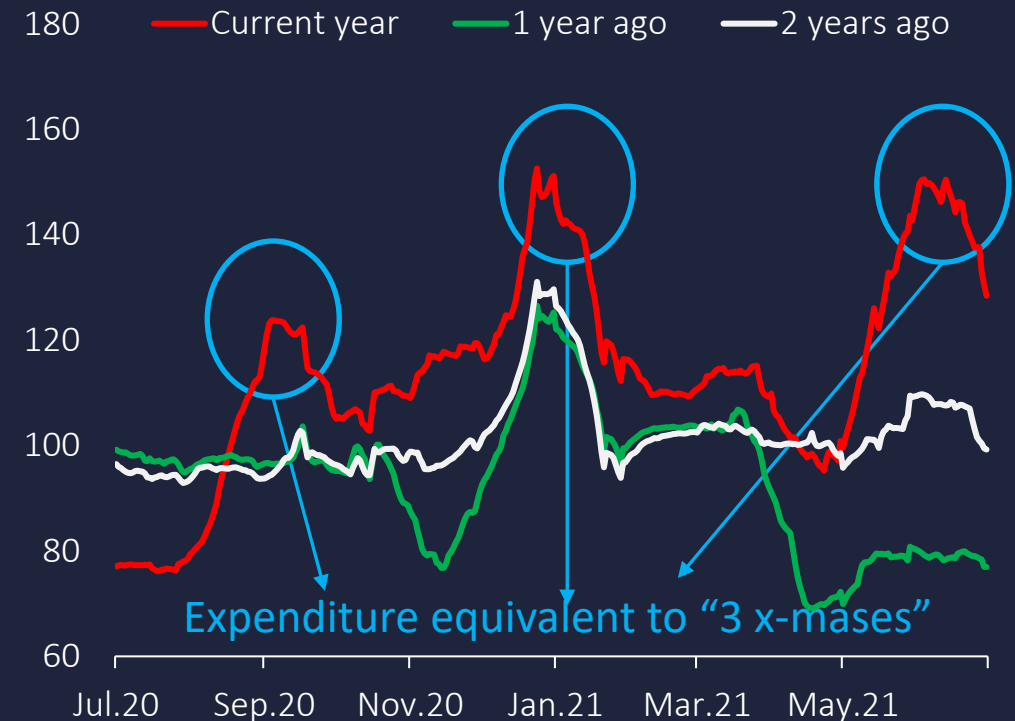


Third: liquidity support to households has also been substantial –three pension withdrawals + enhanced fiscal support add up to over 20% of GDP since 2020.Q3. High frequency data suggests consumers are spending a significant portion (“3 Christmases” during last 12 months)

Liquidity support measures for households
(US\$ billion)



Retail sales (e-receipts) (1)
(Jan.20=100, 28-day MA)



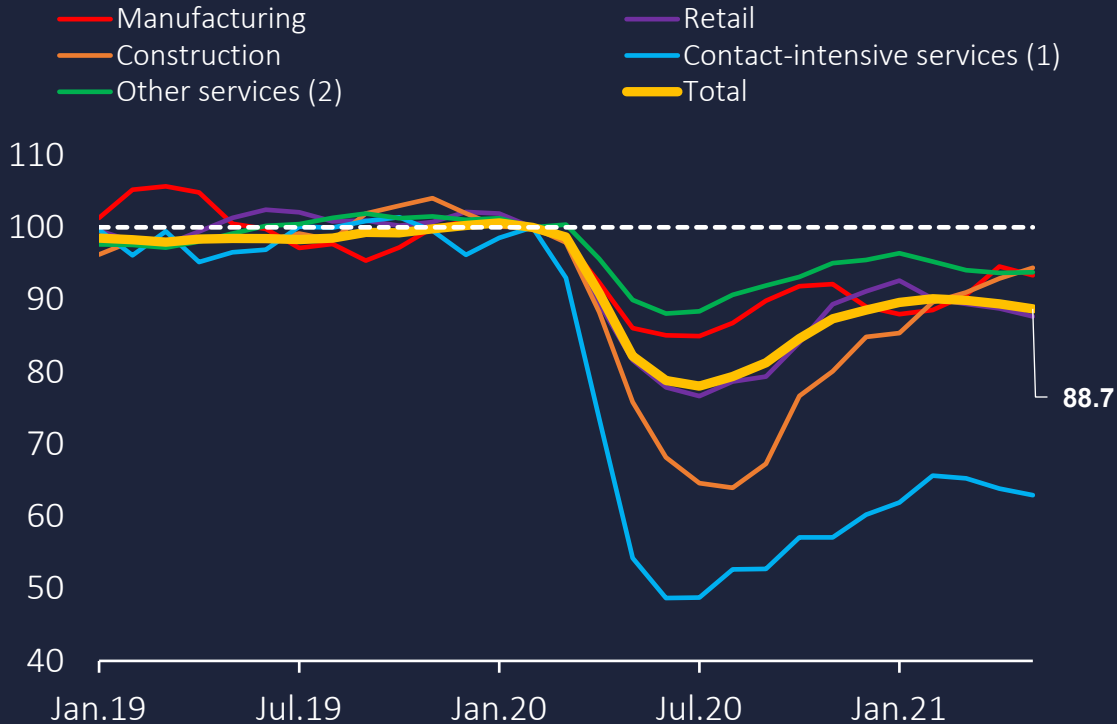
(1) Last daily data available: June 30, 2021. (2) 1st and 2nd AFP withdrawals correspond to amounts paid based on statistical bulletins from Superintendencia de Pensions up to April 30, 2021. For 21.III the difference between total amount estimated to be withdrawn and amount paid up to April 30, 2021 is considered. (3) 3rd AFP withdrawal: 21.II corresponds to amounts paid based on statistical bulletin from the Superintendencia de Pensions up to May 28, 2021 and 21.III corresponds to the difference between total amount estimated to be withdrawn and amount paid up to May 28, 2021. Sources: National Statistics Institute, Central Bank of Chile, Ministry of Finance and Superintendencia de Pensions.

The job market remains the key source of uncertainty, with signs of staling in recent data. However, it could well be reflecting labor supply issues (e.g., significant liquidity, with lingering pandemic and safety concerns).



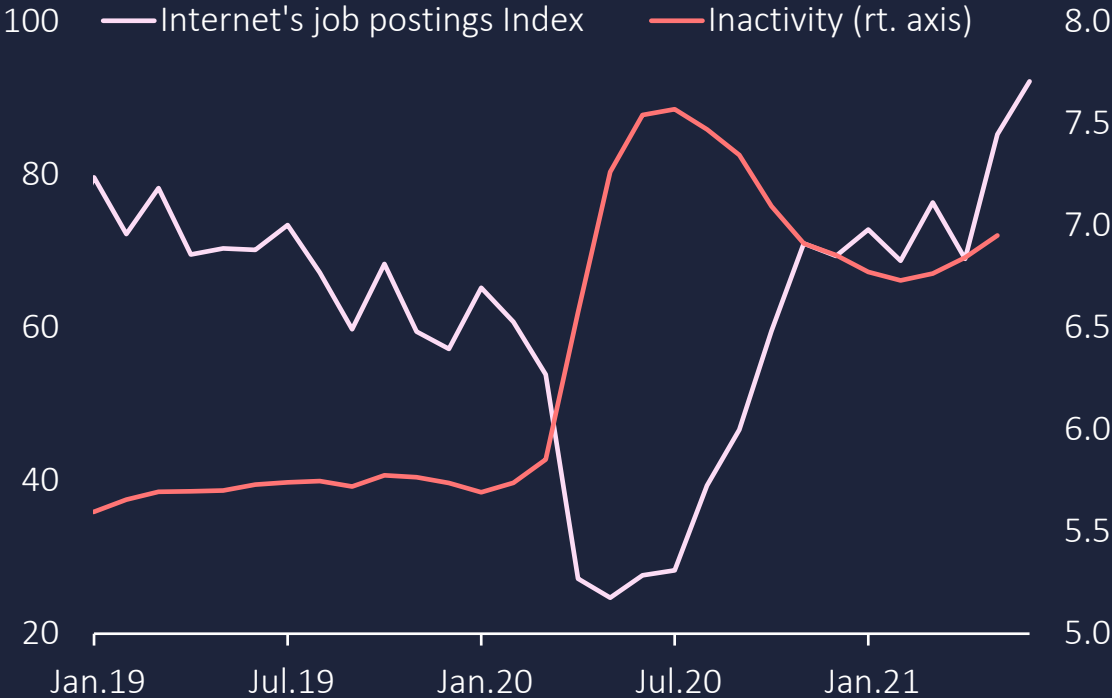
Employment, by industry

(index, February 2020 = 100)



Inactivity and job postings

(index, January 2015=100; %)

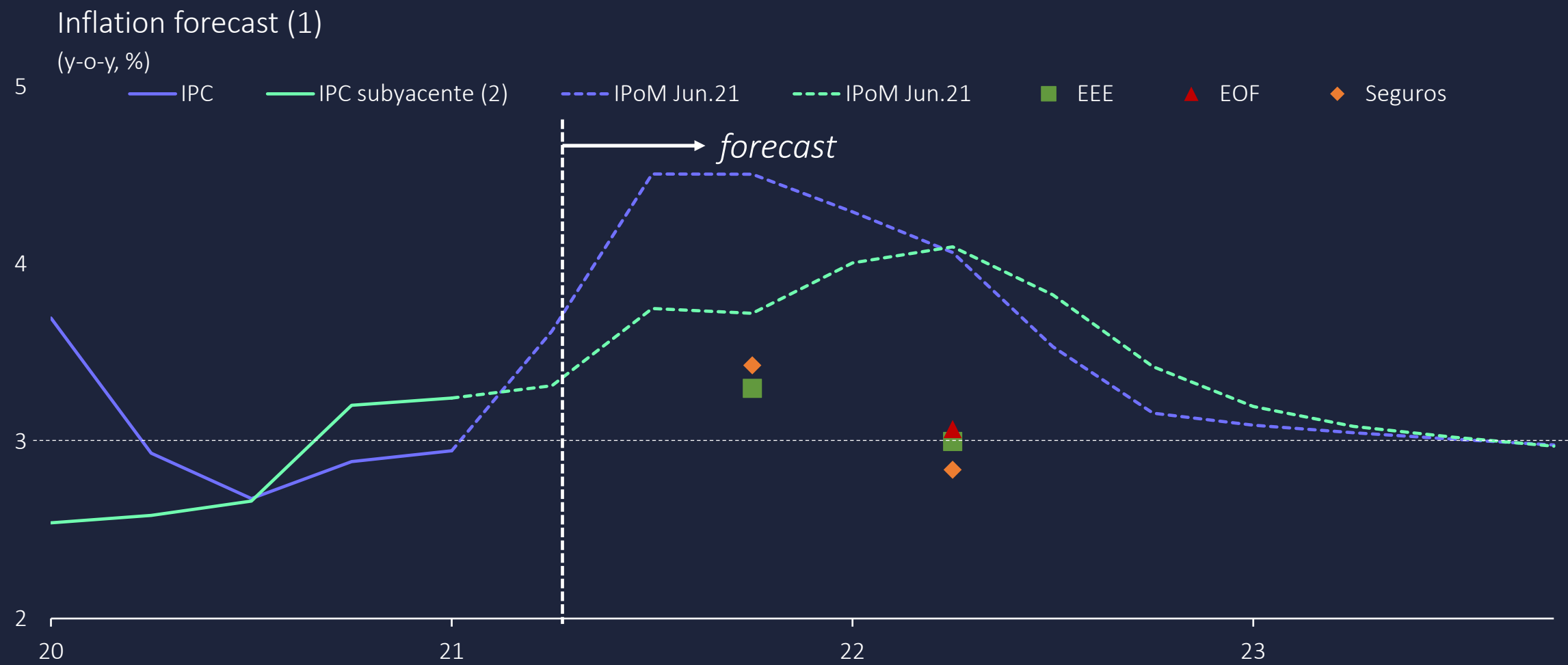


(1) Includes accommodation, food services, arts, entertainment, and recreation activities. (2) Includes financial and insurance; real estate; professional, scientific and technical; administrative and support service activities; public administration and defense; education; human health care and social work activities; Source: National Statistics Institute (INE).

Sources: Central Bank of Chile and National Statistics Institute (INE).

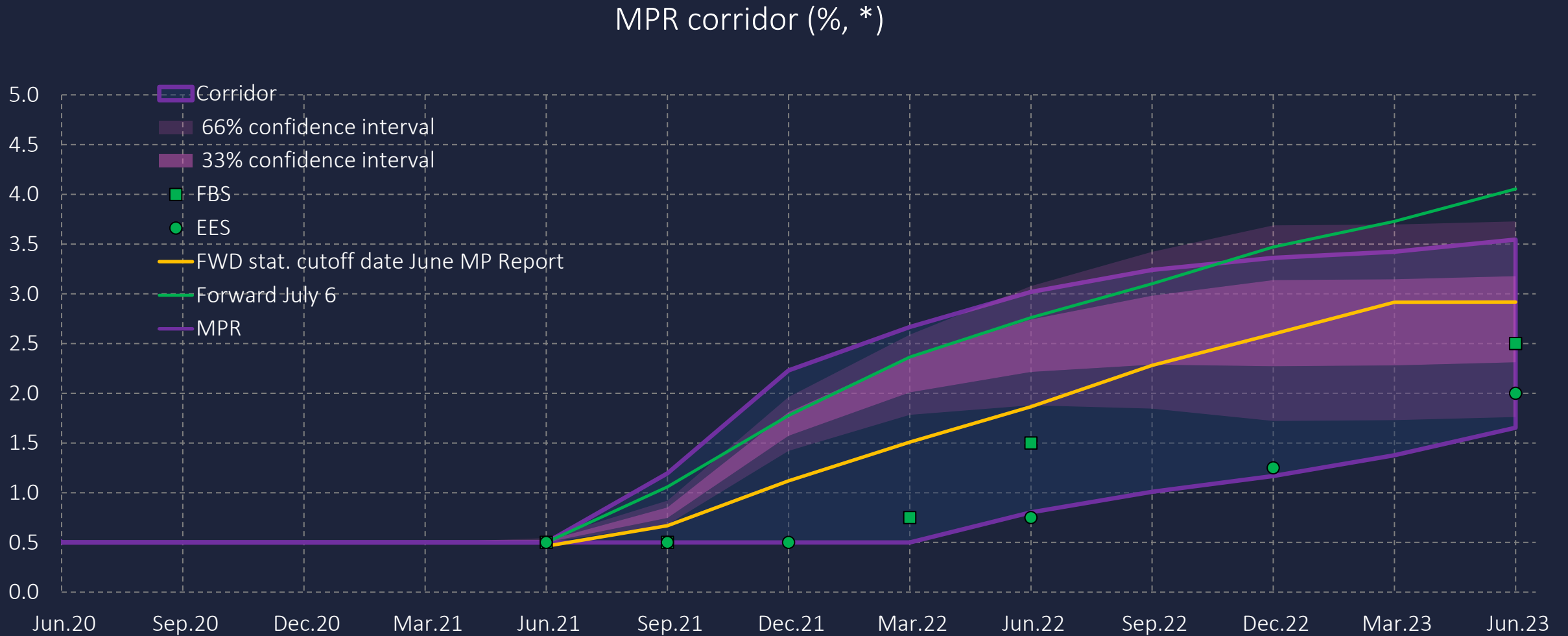


Inflation has increased close to 4%, in line with projections. We expect a temporary pickup due to strong demand and international costs (shipping rates; commodities). Monetary policy normalization, as well as dwindling fiscal support after 2022, should bring inflation towards the target at the 2-year horizon.



(1) Inflation contracts updated until June 8, 2021.
Source: Central Bank of Chile and National Statistics Institute.

MPR corridor: MP communication reflects key changes to the outlook, bringing forward date of normalization. Corridor borders constructed under alternative scenarios reflecting stronger or weaker growth/inflation prospects. Confidence intervals constructed around *Taylor Rule*.



(*) The corridor is built following the methodology of Box V.1 of the March 2020 Report. It includes the FBS of June 3, the EES of May 11 and the quarter's mean smoothed forward curve with data of July 6. 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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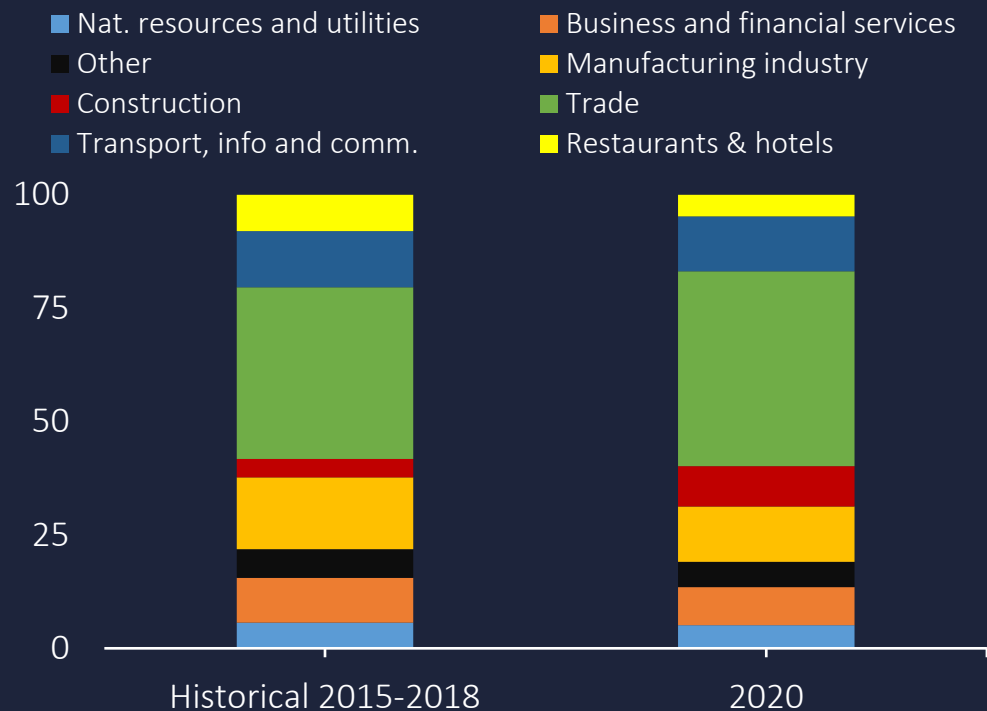


The data also allows to track several firm-specific characteristics. New entries during the pandemic do not seem to depart markedly from previous years, in both the industry and firm-size dimensions.

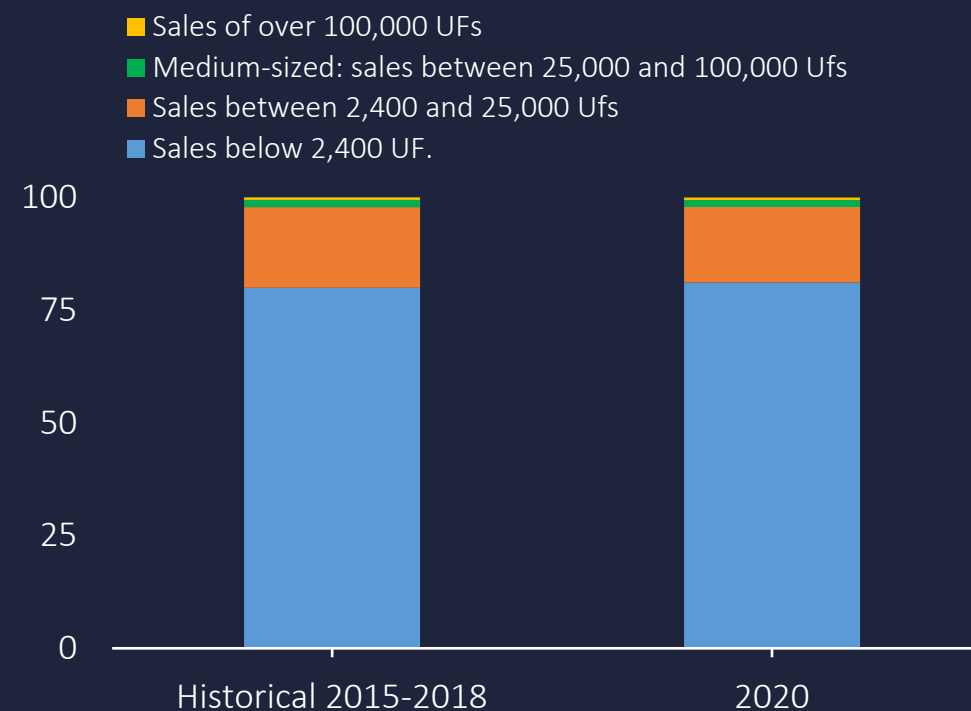
Characteristics of new firms (*)

(percent of total new firms)

(a) By economic sector



(b) By size



(*) Panel a: Percentage share of each sector in the distribution of entrant firms. Panel b: Percentage share of each stratum in the distribution of entrant firms. Source: Central Bank of Chile based on form F29 of the Internal Revenue Service (SII).