

Chile Outlook: Encouraging recovery with challenges ahead

March 2021

Scotiabank Chile

Jorge Selaive, Head Economist - Chile
+56.2.2619.5435 (Chile)

jorge.selaive@scotiabank.cl

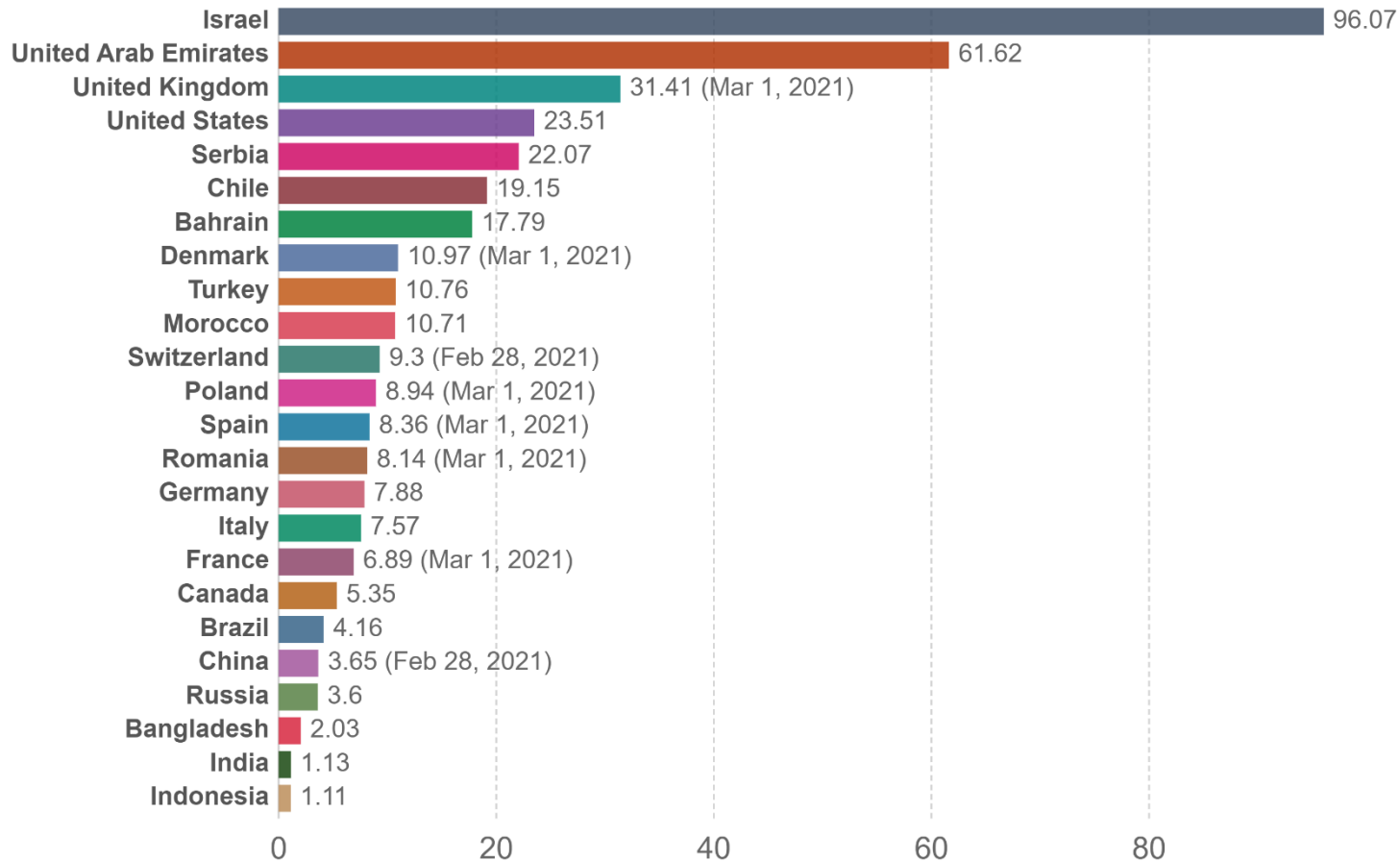


World: 270mn doses have been administered. Chile in the top 6.

COVID-19 vaccine doses administered per 100 people, Mar 2, 2021

Total number of vaccination doses administered per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World
in Data



Source: Official data collated by Our World in Data – Last updated 3 March, 10:10 (London time)

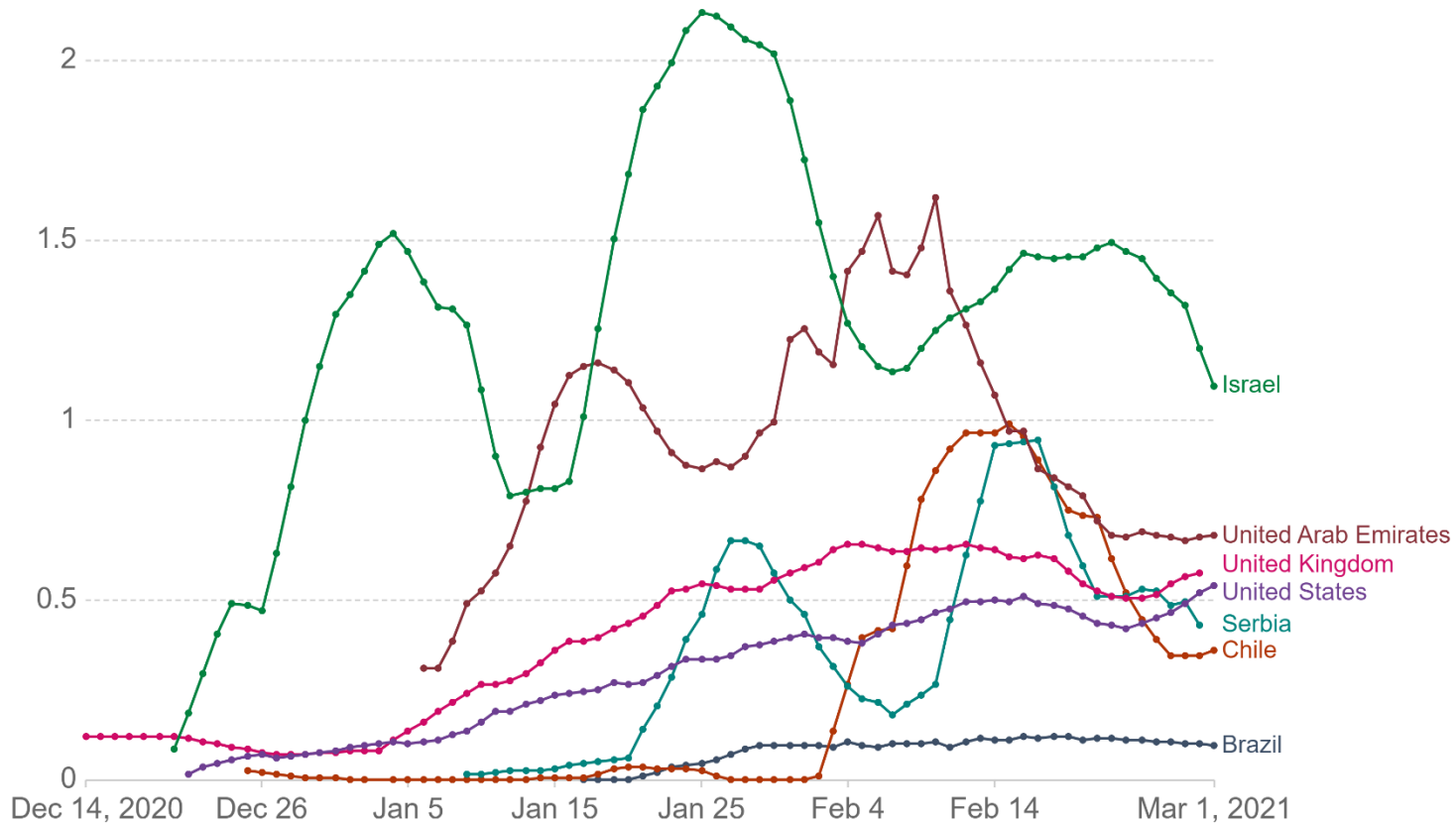
OurWorldInData.org/coronavirus • CC BY

Chile continues with formidable pace of vaccination, albeit decelerating in the margin due to the vaccination of lagged groups.

Daily COVID-19 vaccine doses administered per 100 people

Shown is the rolling 7-day average per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World
in Data



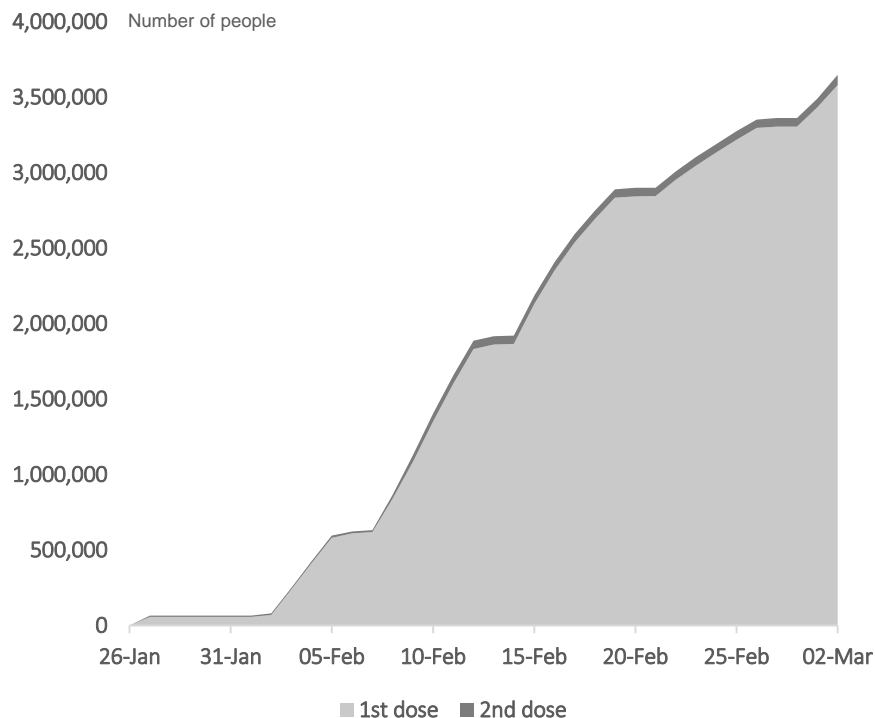
Source: Official data collated by Our World in Data – Last updated 2 March, 11:40 (London time)

OurWorldInData.org/coronavirus • CC BY

More than 3.6 mn doses have been administered in Chile (Pfizer & Sinovac). Johnson & Johnson vaccine (also purchased by Chile) has shown promising results in the US.

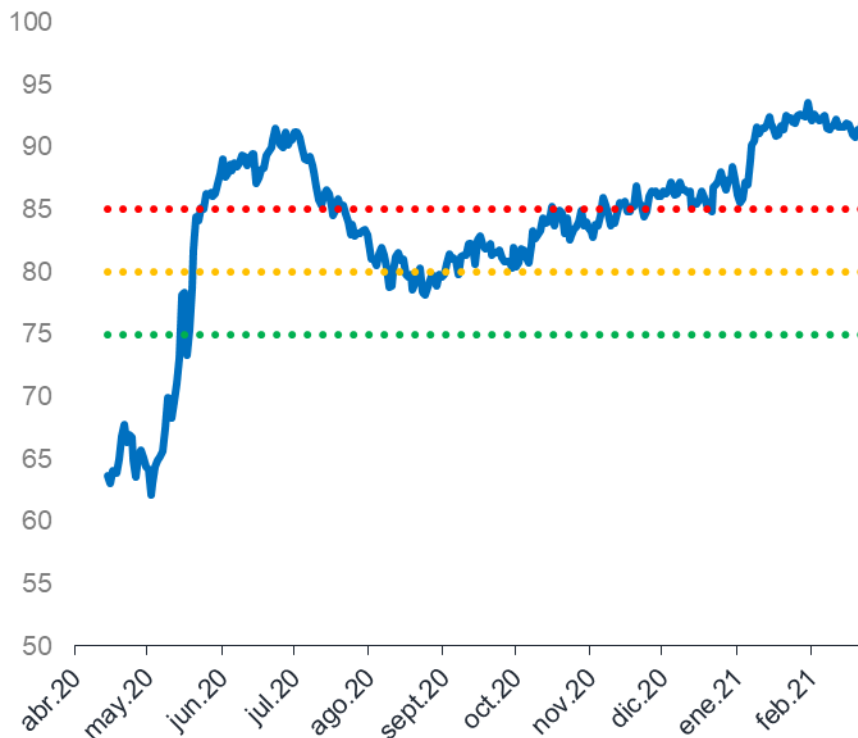
Confirmed vaccinations administered

(total number of 1st and 2nd doses administered)



ICU-bed occupation

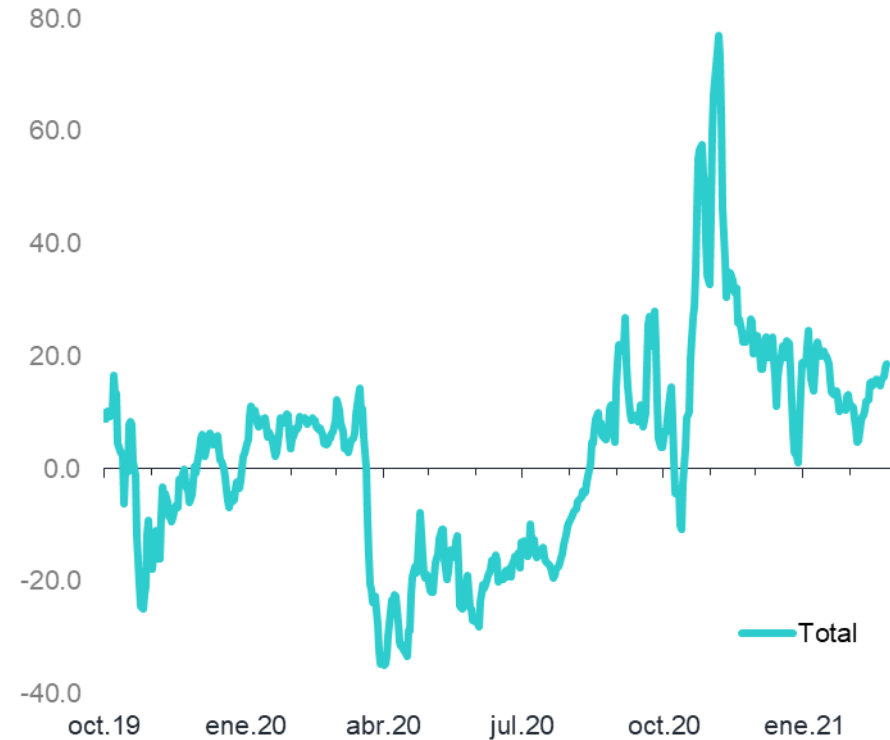
(% of total beds available)



Strong injections of liquidity from pension funds and middle-class bonus continue to support private consumption. The level of purchases remains at highs after the second round of pension asset withdrawals.

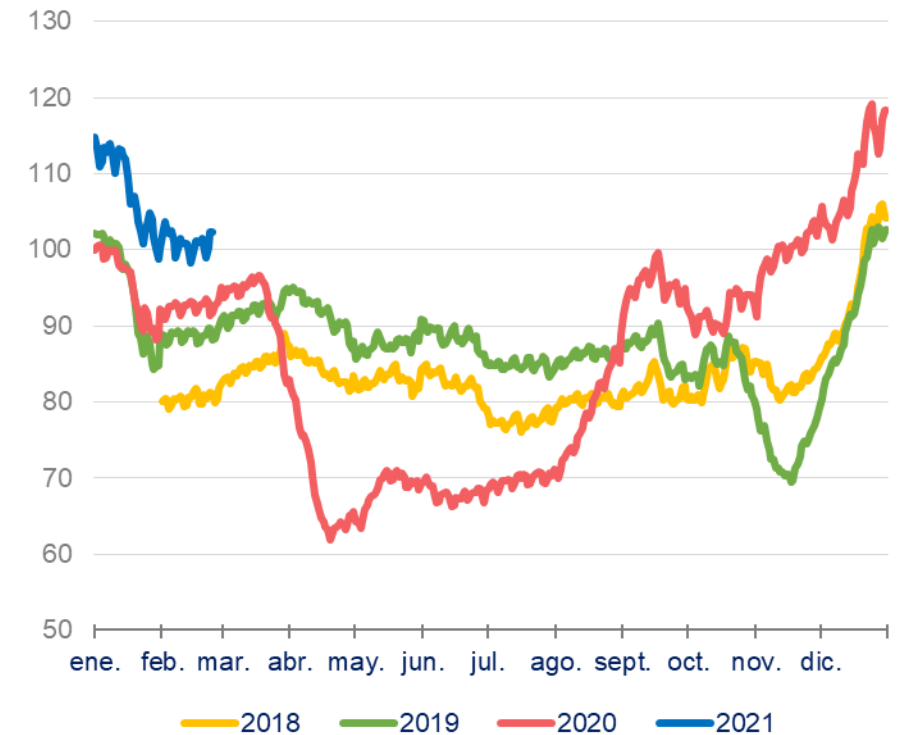
Annual growth of purchases with credit & debit cards: supported by pension funds*

(percentage, annual growth, 7-day moving average, up to Feb. 25)



Level of purchases (debit & credit) remain at highs*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 25)

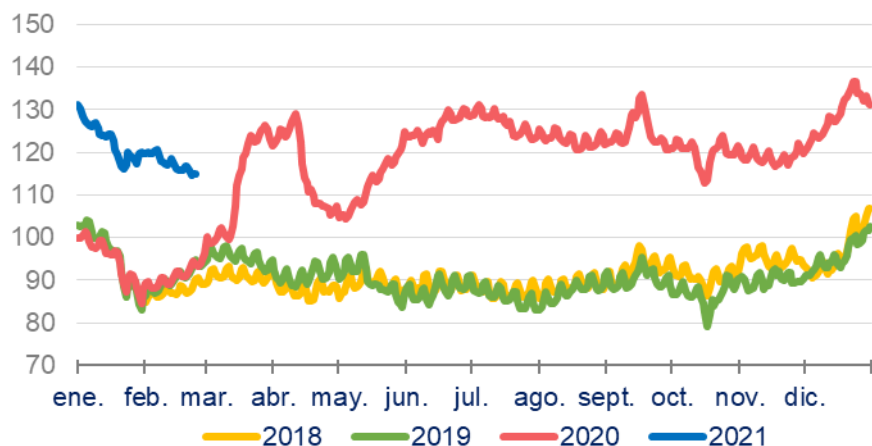


* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index.
Source: Scotiabank Economics.

Supermarkets and retailers are the big winners.

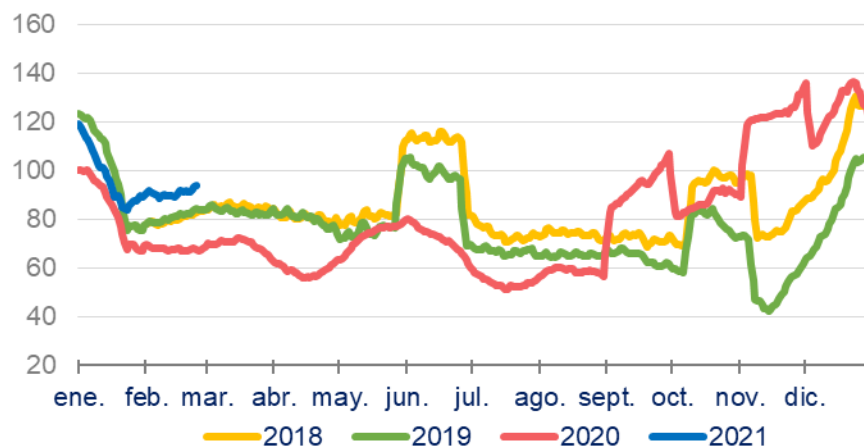
Supermarkets*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 25)



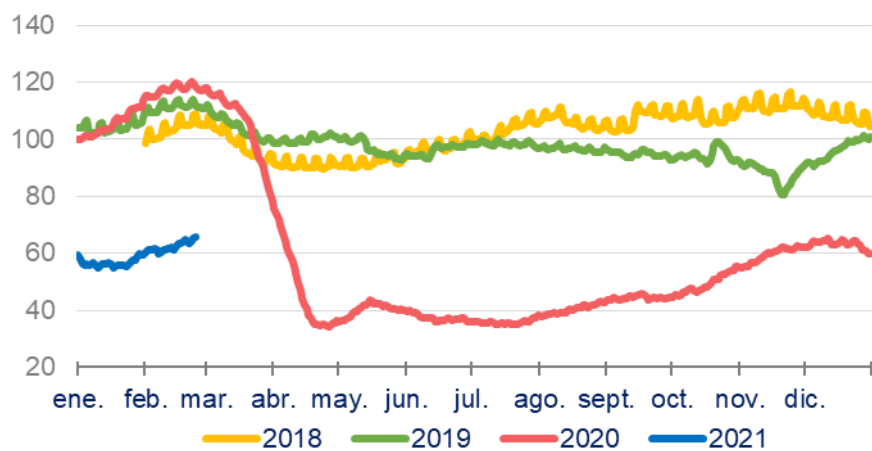
Department stores*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 25)



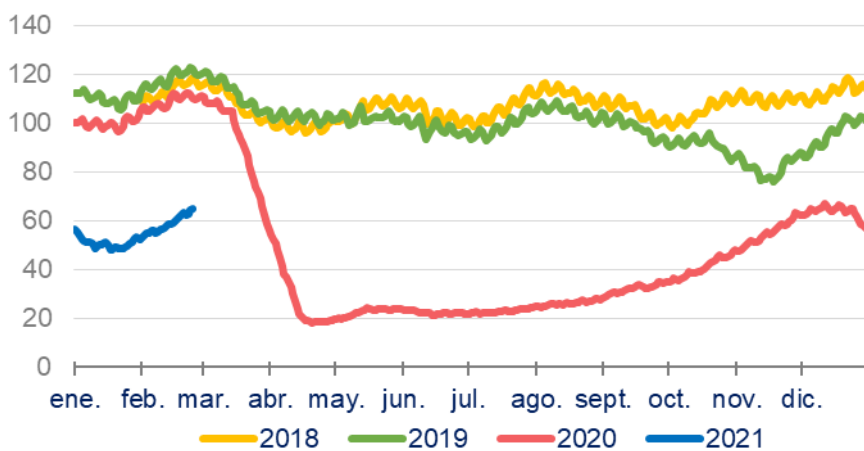
Fuels*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 25)



Restaurants*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 25)

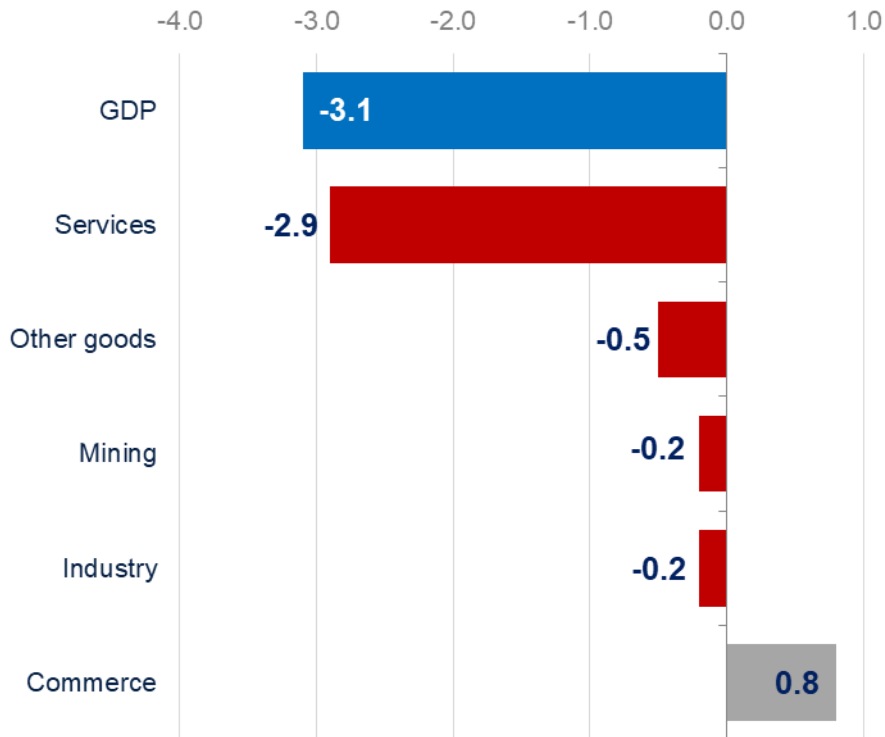


* Data show purchases with Scotiabank Chile's credit and debit cards. The level of purchases is shown as an inflation-adjusted index.
Source: Scotiabank Economics.

January GDP grew 1.3% m/m, with a fall of -3.1% y/y explained by fewer business days in Jan-21 vs Jan-20. Economic recovery continues, supported by services.

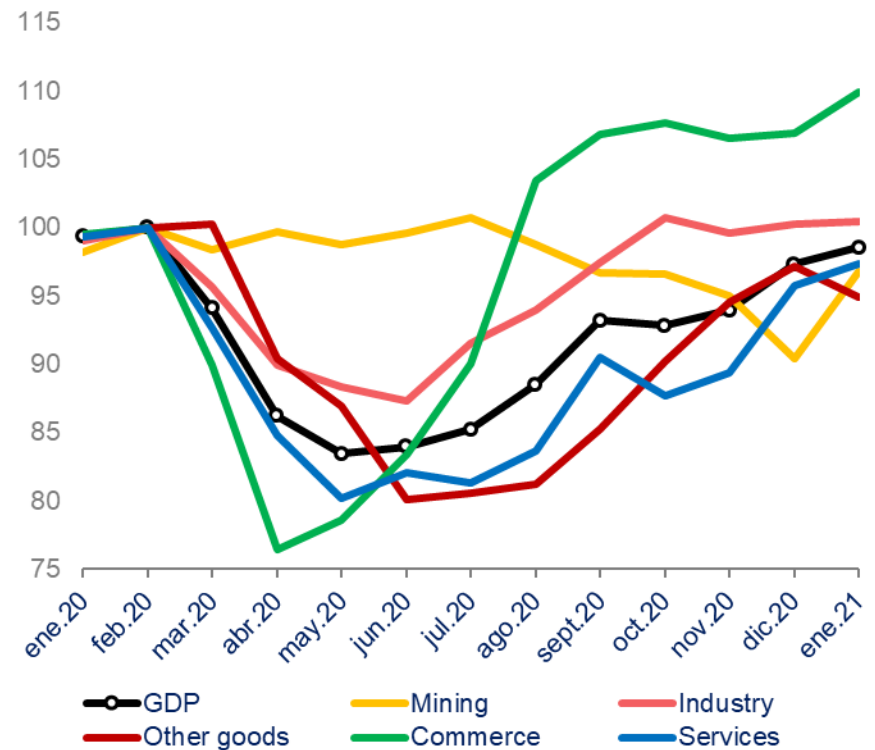
Contribution to annual growth rate in Jan.2021

(percentage points, annual contribution in January 2021)



GDP level by sector

(level, index February 2020=100, monthly data)

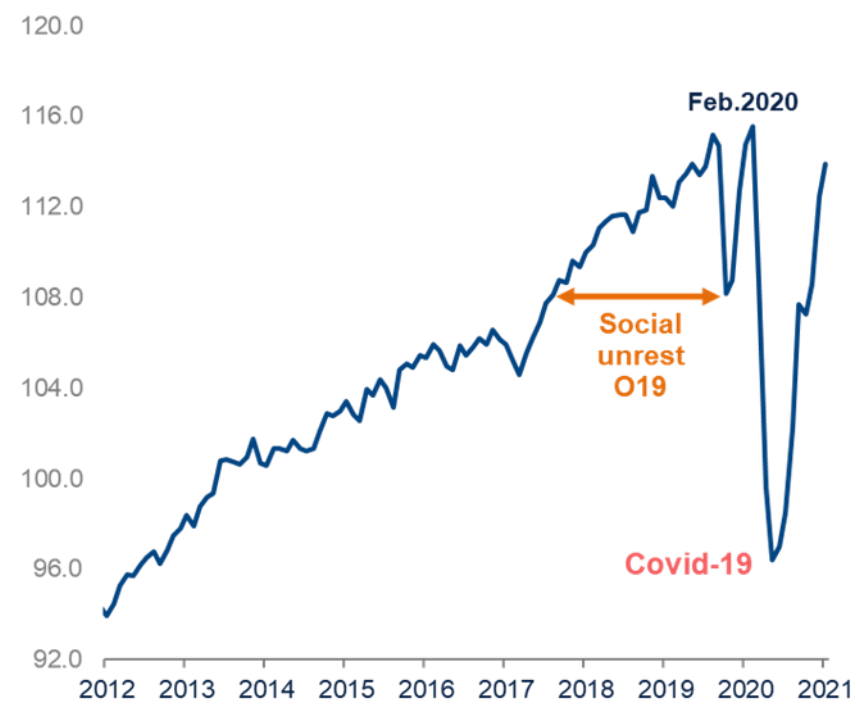


* Construction, agricultural-forestry, fishing, EGA and waste management.
Sources: Central bank, Scotiabank Economics.

Slow and heterogeneous recovery. We still see downside risks, especially in private investment, associated with a persistent domestic political uncertainty and deep weakness in the labour market. **We project 6% y/y growth as a lower bound in 2021.**

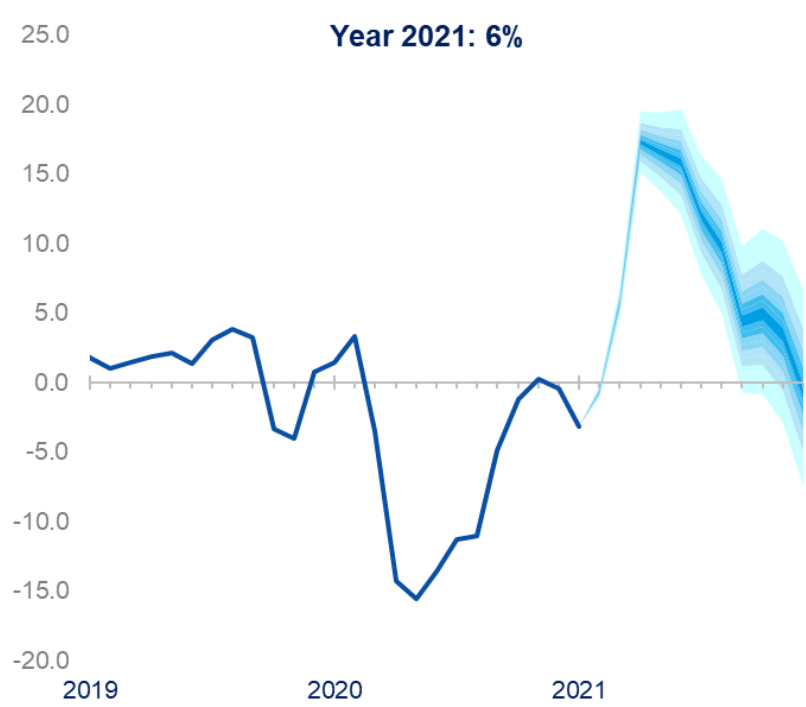
GDP level

(level, 2013=100, seasonally adjusted, monthly data)



GDP growth in 2021

(percentage, projected annual growth, monthly data)



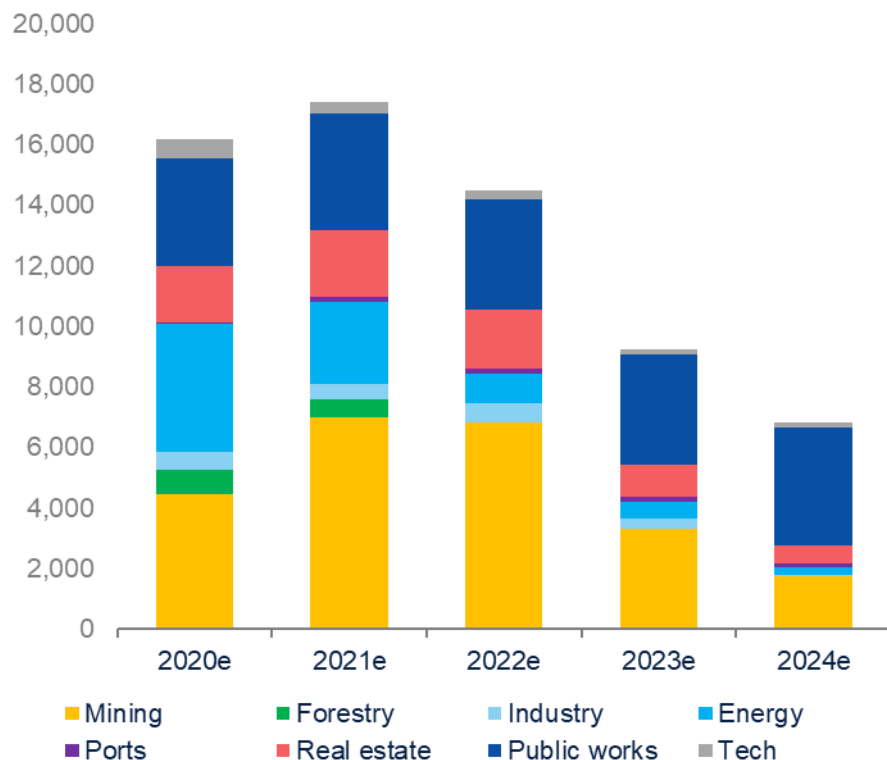
| Short run forecasts: growth of monthly GDP | December-20 | January-21 | February-21 (f) |
|---|-------------|------------|-----------------|
| Imacec (% y/y) | -0.4% | -3.1% | -1 to 0% |

Sources: Central bank, Scotiabank Economics.

As of December, the investment projects in the pipeline for the period 2020–24 reached a value of USD 64,172 mn. For 2021–24, investment was adjusted upward by USD 3,300 mn (7.4%), mainly in mining (Codelco) and public works.

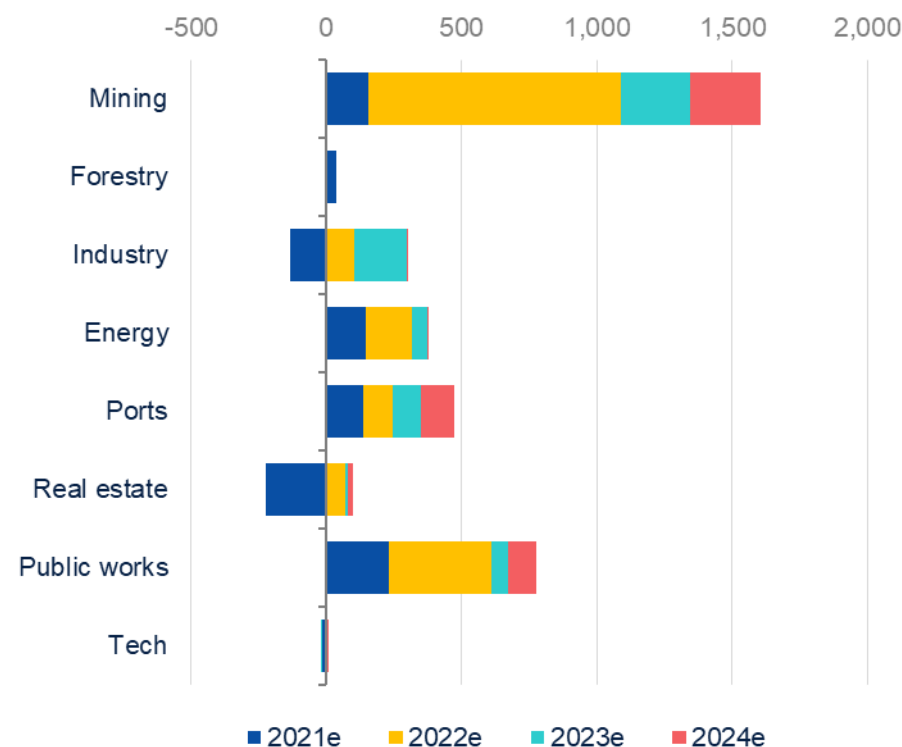
Total investments to materialize by sector

(millions of dollars, projects in pipeline as of Dec-20)



Adjustment in investments in 2021-2024

(millions of dollars, projects added between Dec-20 and Sep-20)

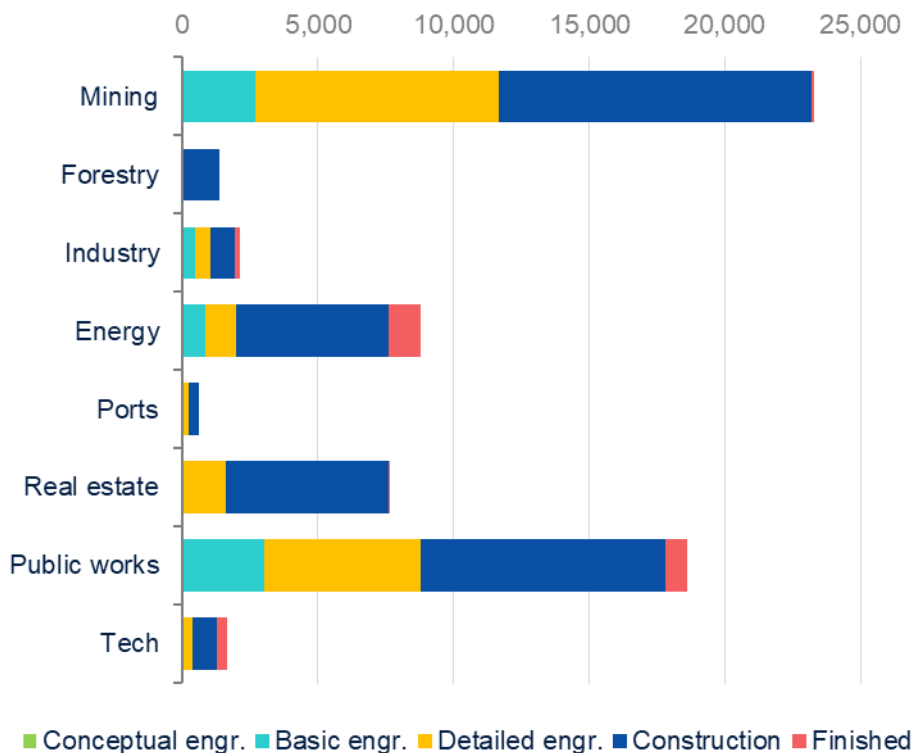


Sources: CBC, Scotiabank Economics.

About 56% of the projects are in the construction stage. Investment decisions exposed to high uncertainty and low demand.

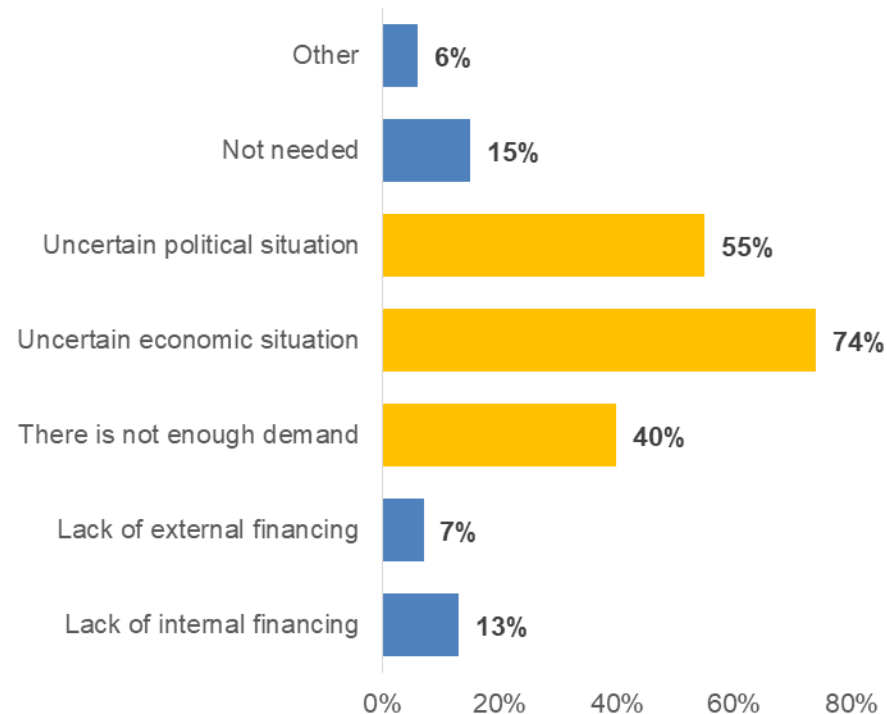
Total investments to materialize by stage

(millions of dollars, projects in pipeline as of Dec-20)



Business perception report Nov. 2020: Why will your company not invest in 2021?

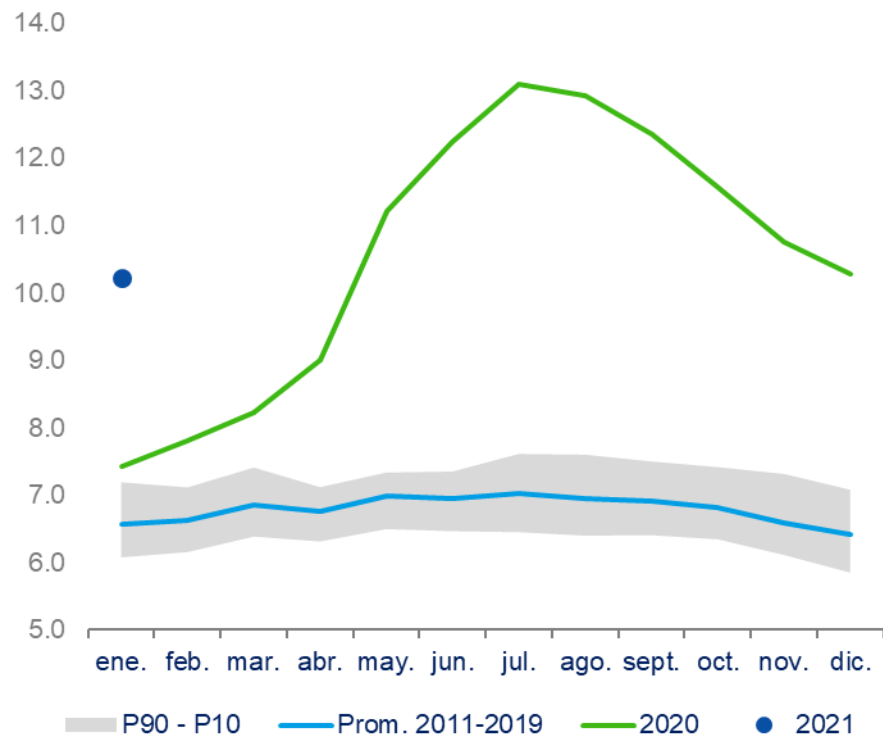
(percentage, Nov.20, more than one alternative can be marked)



The unemployment rate decreased to 10.2% in January 2021 (not a good labour market thermometer). The workforce is increasing more rapidly than employment, as is to be expected as mobility restrictions are lifted and more active searches for employment begins.

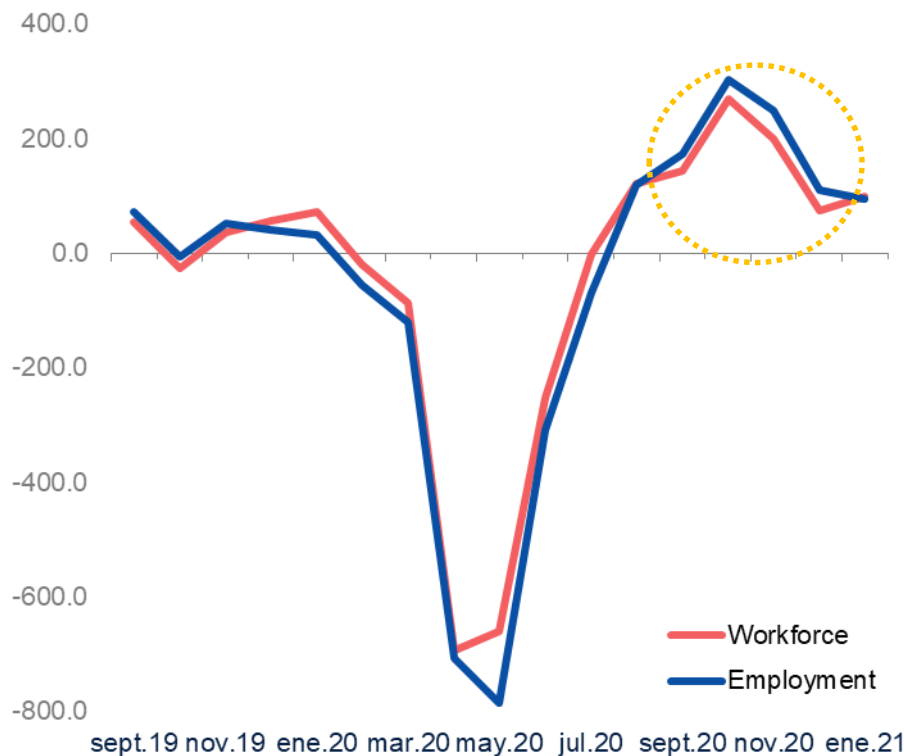
Unemployment rate

(percentage)



Monthly dynamism of employment & FT

(thousands of people, monthly change)

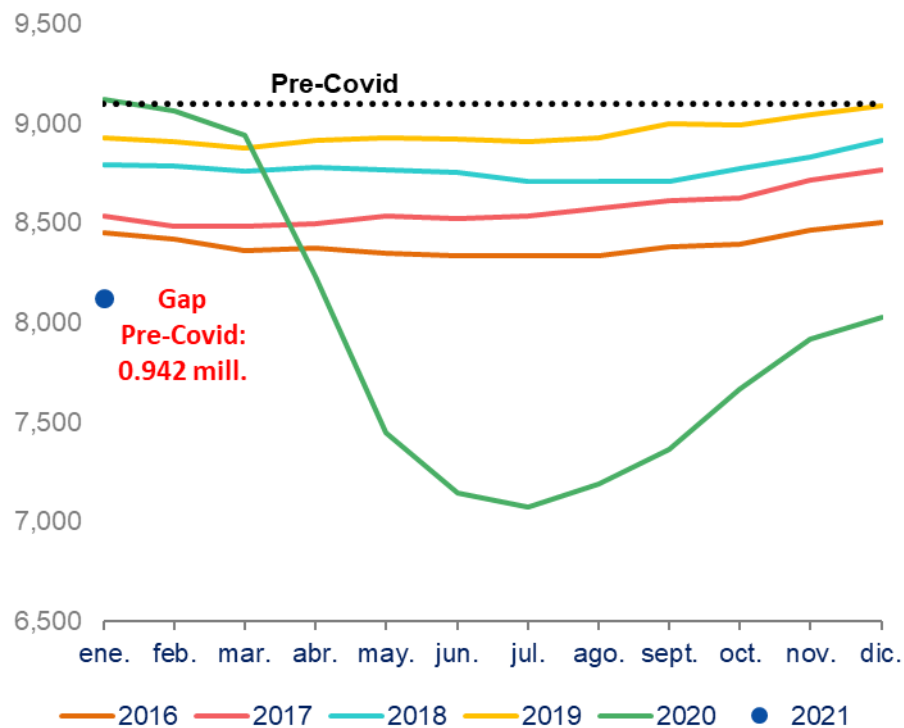


Sources: National Bureau of Statistics (INE), Scotiabank Economics.

Job creation continued to slow down in January, increasing by only 95k jobs compared to the previous month, and **about 1 mn jobs lost due to the pandemic still need to be recovered.**

Level of employment

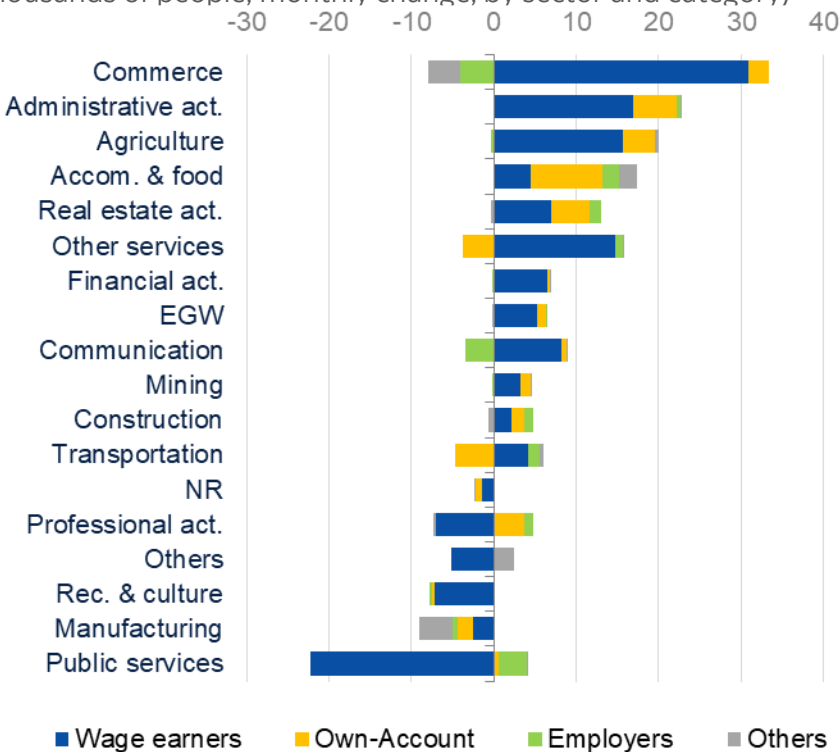
(thousands of people per month)



Sources: National Bureau of Statistics (INE), Scotiabank Economics.

Monthly job creation by sector in January 2021

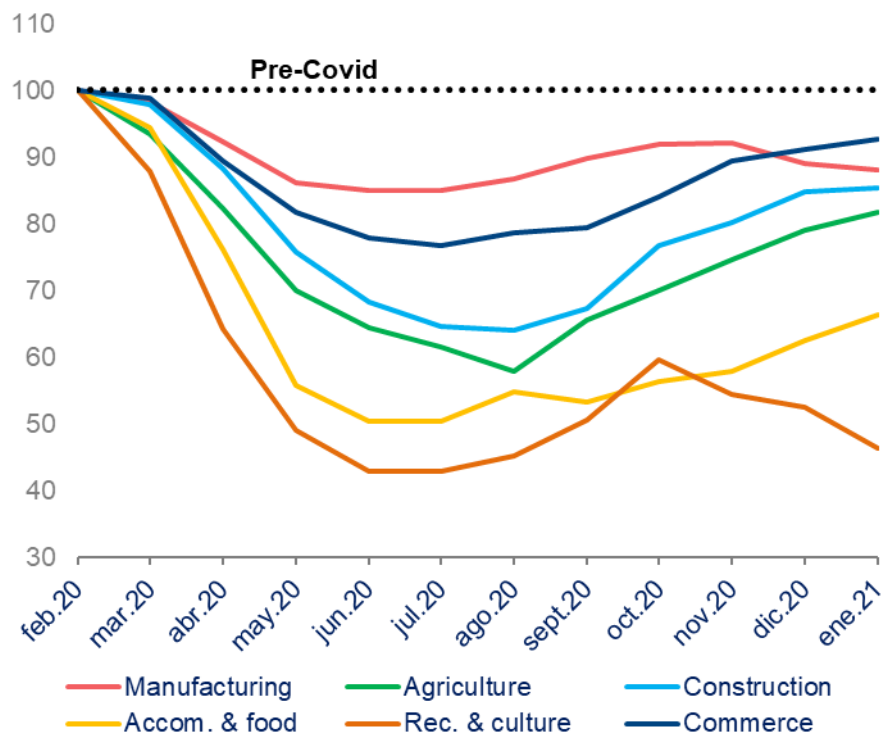
(thousands of people, monthly change, by sector and category)



Service sectors with the greatest physical interaction continue to lag the farthest behind in terms of job recovery. Commerce continues to recover jobs.

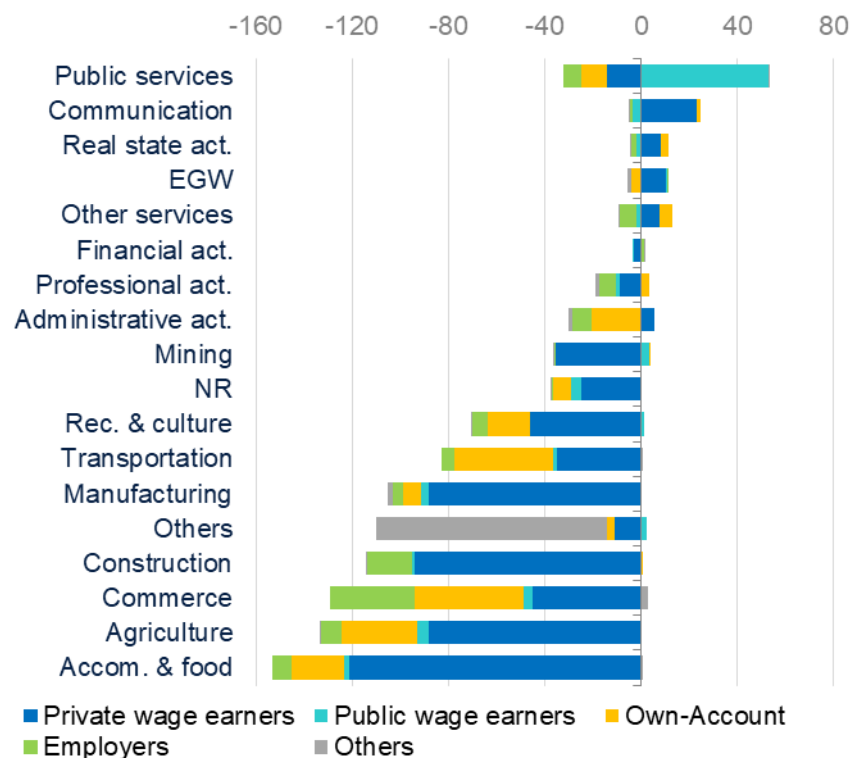
Level of employment in selected sectors

(index, level pre-COVID of Feb.2020=100)



Employment gap by sector up to Jan.21

(thousands of people, difference wrt level pre-COVID of Feb.2020)

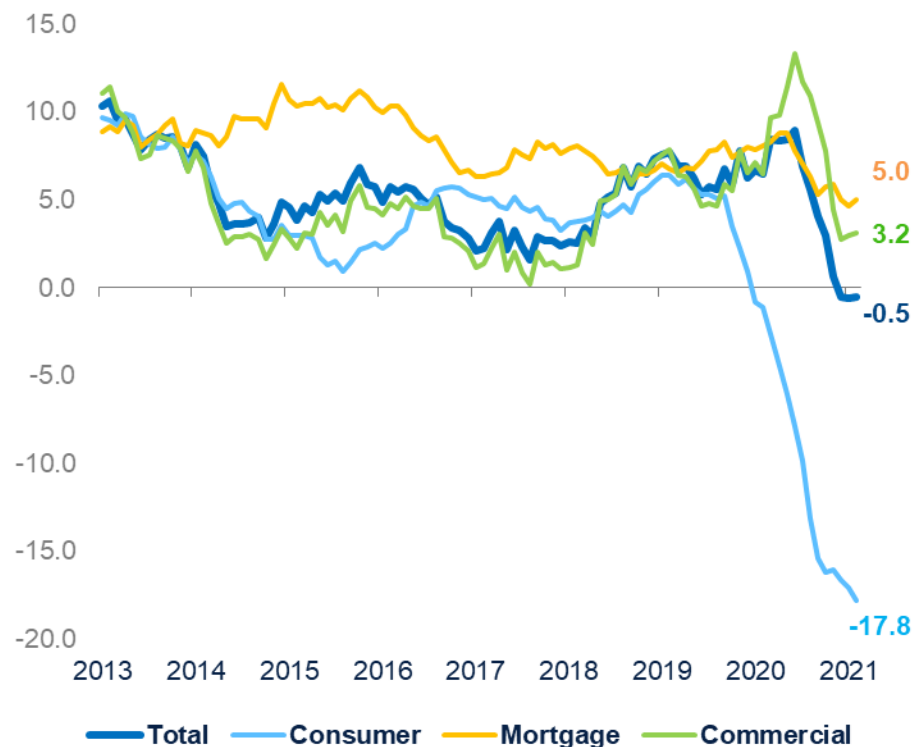


Sources: National Bureau of Statistics (INE), Scotiabank Economics.

Total loans have begun to contract (in real annual terms) led by the slowdown in commercial loans. Credit flowed counter-cyclically to firms for much of 2020, but at the end of February, the slowdown in commercial loans continued and the decline in consumer loans deepened. Mortgage loans have stabilized. Mortgage loans have stabilized.

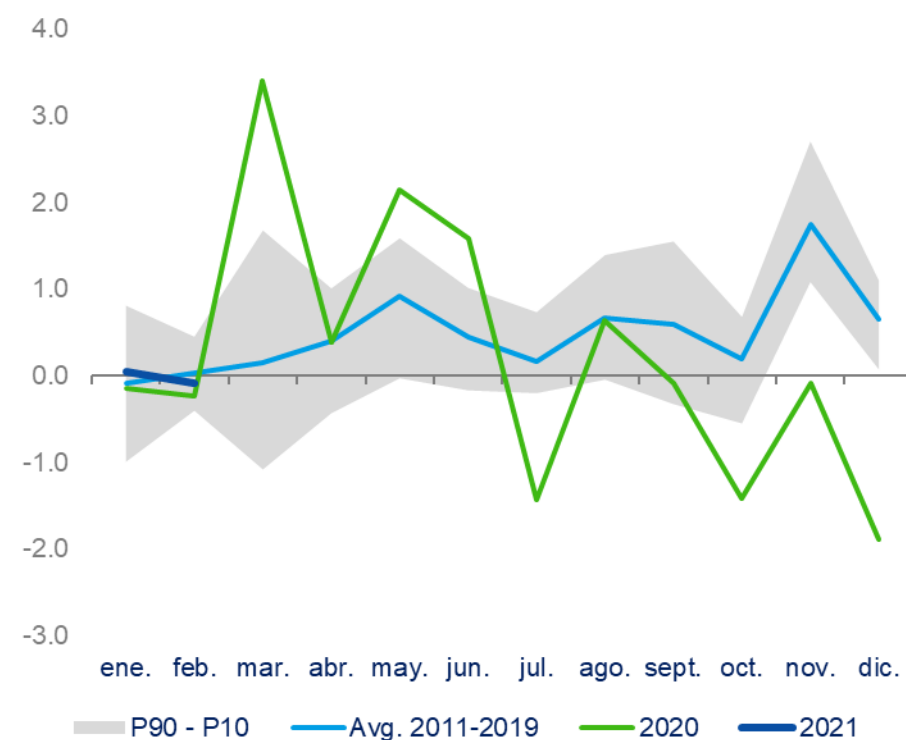
Loans by segment

(percentage, real annual growth)



Monthly dynamism of commercial loans

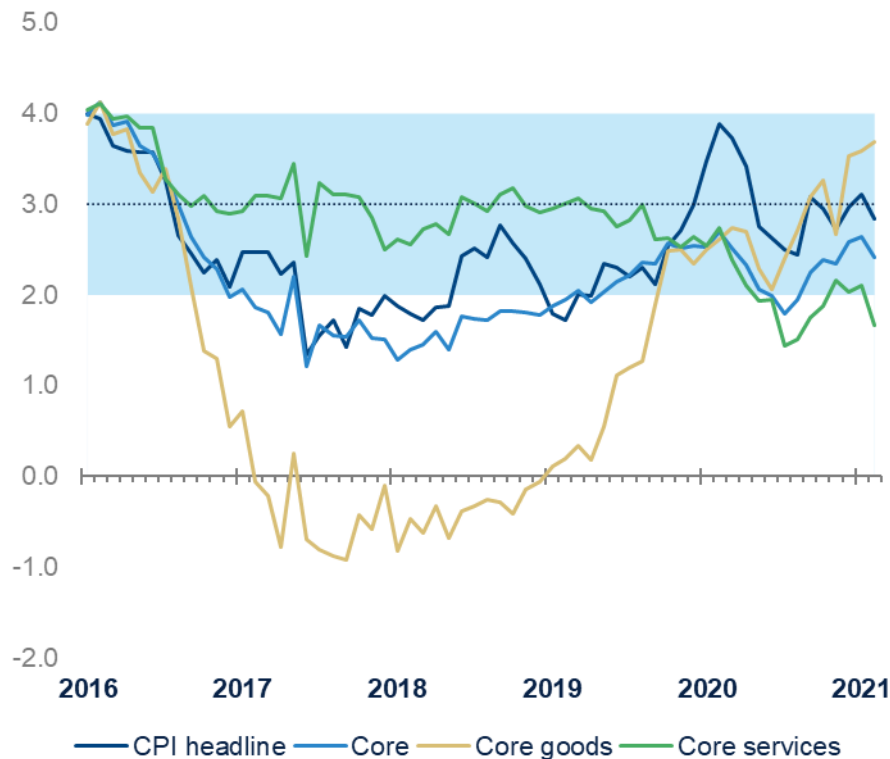
(percentage, real monthly growth)



February CPI stood at 0.2% m/m (2.8% y/y), slightly below expectations (0.3–0.4% m/m). Withdrawal of pension assets was felt strongly again in goods and fuel prices (gasoline) contributed strongly. For March, we estimate inflation of 0.4% m/m (3% y/y).

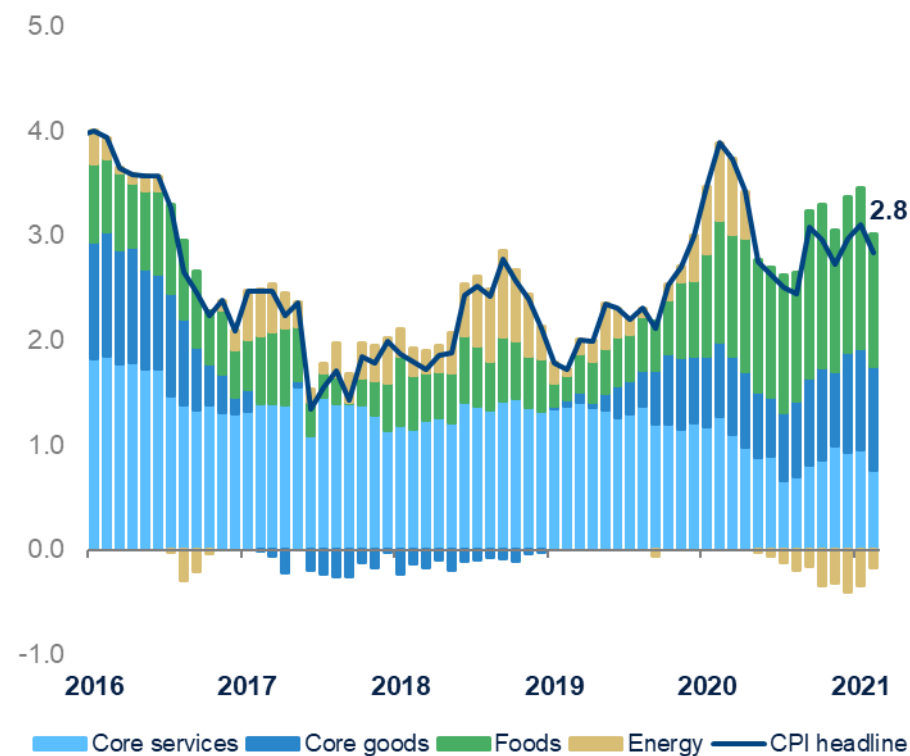
Headline and core CPI inflation*

(percentage, y/y)



Contributions on annual inflation

(percentage points, annual contributions)



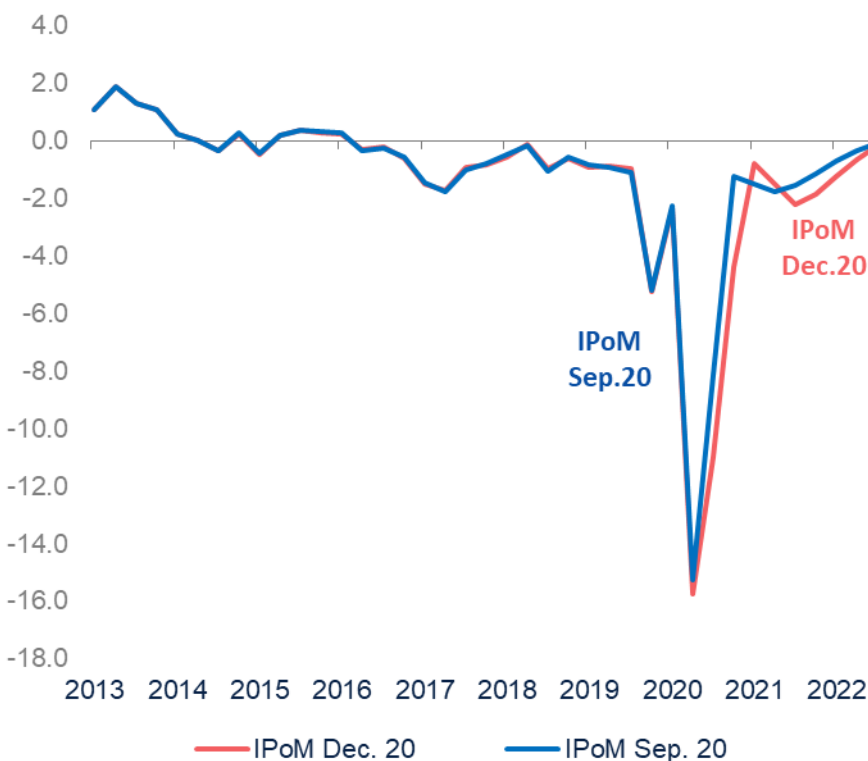
* Core CPI: excludes food and energy.

Sources: INE, Central bank, Scotiabank Economics.

In line with the gradual economic recovery with short-term inflationary pressures (second round of withdrawals from pension funds), the central bank indicated that the benchmark **rate would remain at its technical minimum (0.5%) “for a large part” of the monetary-policy horizon.**

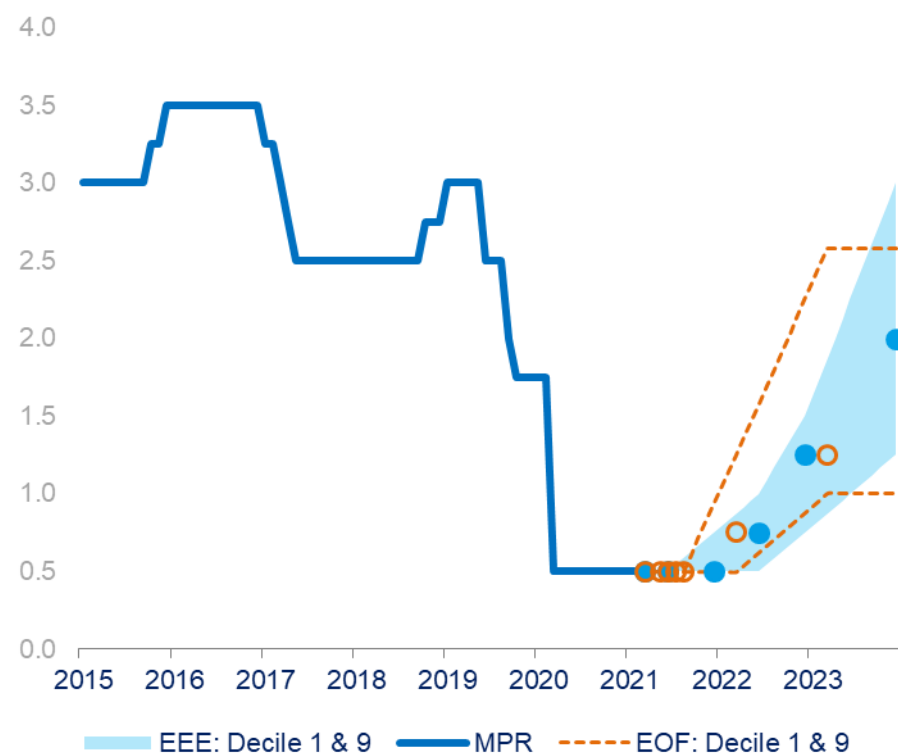
Output gap

(%, Central bank estimation)



Monetary-Policy Rate expectations

(percentage, nominal)



Source: Central bank, Scotiabank Economics.

Electoral timeline

| Election name | What's in the ballots? | Number of ballots | Date |
|------------------------------|---|-------------------|-------------------|
| General Election I | Governors Mayors Councillors Constituents | 4 | April 11, 2021 |
| Local second round | Governors | 1 | May 9, 2021 |
| National primaries | President Senators Deputies | 3 | July 4, 2021 |
| General Election II | President Senators Deputies Regional mayors | 4 | November 21, 2021 |
| National second round | Second round for president | 1 | December 19, 2021 |
| Exit Referendum | Referendum to ratify the new constitution | 1 | 1st Semester 2022 |

Sources: Servel, Scotiabank Economics.

Constitutional process starting 2021

Main issues to be discussed in the constitutional process:

1. **Guarantee of some social rights** such as health and education. Some constitutional space should be given for a greater role of the State in the provision of these services. **High probability.**
2. **Regarding pensions**, the discussion should focus on the role of the State and the eventual creation of a pay-as-you-go system. The intensity of this discussion will depend on whether a pension reform occurs before the constitutional process begins in May 2011 (after the election of the constitutional assembly members in April 2011). **Medium probability.**
3. **Independence and autonomy of the central bank** should not be in question, but there may be a move to include an article that would enshrine a process to remove Board members in case of breach of duties. **Low probability.**
4. **Property rights** are likely to be discussed, but with a focus on activities that are considered of impact or a social right. Water rights will most likely be discussed. **High probability.**
5. **Issues of indigenous minorities** would be discussed regarding parliamentary seats and recovery of their lands. **High probability.**
6. **System of government:** presidential versus parliamentary; prime minister versus president. This issue has already been identified as part of the discussion. Although there is little probability that the current system will be modified, some powers over public spending could be shifted between Congress and the Executive. **Medium probability.**
7. **Free-trade agreements** have not been directly mentioned in the constitutional discussions, although they could arise as an issue if they affect some social right or some minorities. **Low probability.**

The myth of the minimalist constitution

- The 2/3 majority requirement in the Constituent Assembly will not produce a minimalist constitution.
- The most likely equilibrium is that we will have an extensive new constitution. As everyone has incentives for a constitution to come out of the Constituent Assembly, the new text will have a little for everyone. Example: The independence of the central bank is preserved in exchange for an extensive chapter on social rights.
- Another example: the new constitution could establish that mining property belongs to the State, but that earlier agreements will be respected, while the environment and indigenous communities are protected. Thus, everything will be judicialized, but after the new constitution is approved.

Economic Outlook

| Forecast | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------------|------|------|--------------|-------------|-------------|
| GDP (% y/y) | 4.0 | 1.1 | -6.0 | 6.0 | 3.5 |
| Inflation (% y/y, eop) | 2.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Exchange rate (vs. USD, eop) | 695 | 753 | 711 | 720 | 700 |
| Monetary policy rate (% , eop) | 2.75 | 1.75 | 0.5 | 0.5 | 1.5 |
| Copper price (USD/lb, eop) | 2.7 | 2.8 | 3.5 | 3.4 | 2.9 |
| Private consumption (% y/y) | 3.7 | 1.1 | -9.2 | 9.3 | 3.7 |
| Public consumption (% y/y) | 4.3 | -0.3 | 6.0 | 4.0 | 3.5 |
| Investment (% y/y) | 4.8 | 4.2 | -12.0 | 10.0 | 4.5 |
| Fiscal balance (% GDP) | -1.7 | -2.8 | -7.5 | -4.0 | -3.5 |
| Current account (% GDP) | -3.1 | -3.9 | 1.0 | -1.0 | -2.0 |

Source: Scotiabank Economics.

Disclaimers

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.