

2021 budget reduces fiscal impulse, but maintains high spending

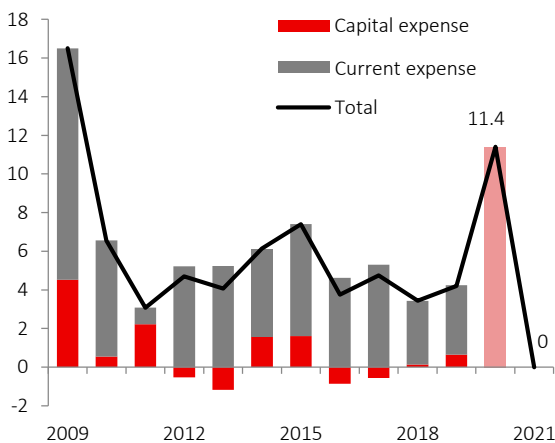
The budget is part of the political agreement signed in June and contemplates zero growth in spending, but with a greater emphasis on investment. With this, the fiscal deficit will decline from 8.2% of GDP in 2020 to 4.3% in 2021.

The Government entered the 2021 Budget Law project in National Congress, which contemplates an expenditure of US \$ 73.3 billion. This corresponds to a real increase of 0% compared to the execution projection for this year. About 7% of the proposed expenditure (US \$ 5,225 million) corresponds to the so-called Transitory Emergency Fund, which is part of the agreement reached between the Executive and the opposition last June with the purpose of having extraordinary resources to face the crisis economic derived from Covid-19. There is also an emphasis on public investment, which would have an expansion of more than 14%, after contracting almost 10% in 2020.

With this, the public deficit would fall to 4.3% of GDP, while the gross debt would rise to more than 36% of GDP (the highest figure since 1991). Part of the reduction in the deficit would be due to the reversal of a series of measures to support the liquidity of companies, which have meant a temporary decline in tax revenues this year. All in all, the assumption of 18% growth in revenue for next year looks somewhat optimistic.

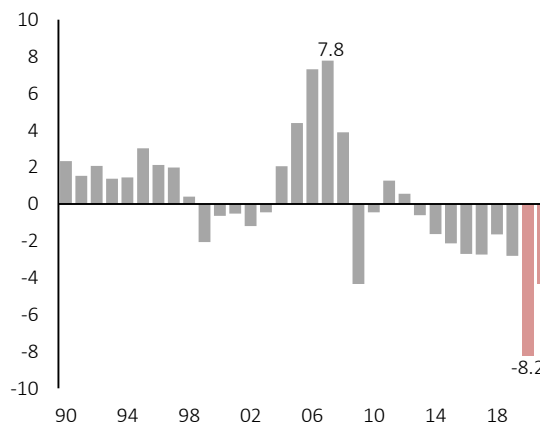
So far this year, spending has been accelerating driven by support measures for the health emergency. Until the second quarter, spending had grown moderately, with a significant under-execution of capital spending in the context of confinement. However, in July and August there has been a strong acceleration of current spending, with the Subsidies and Donations component growing at very high figures, with disbursements of close to US \$ 3.4 billion in the July-August two-month period. In this way, we estimate that at the end of the year government spending will have a real increase of close to 11% compared to the previous year.

Proposed Budget implies maintaining a constant expense in 2020



Source: INE and Santander

Income recovery implies partial reduction in 2021 deficit



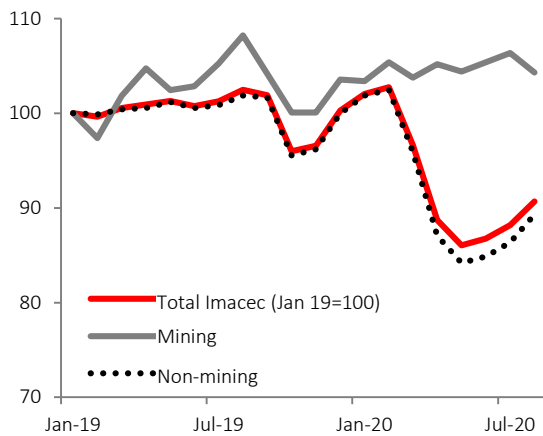
Source: INE and Santander

Recovery of the economy continued in August, but weaker than expected

The Imacec for the eighth month of the year once again showed a recovery compared to the previous record (2.8%), but less intense than was assumed. As a result, the annual variation in activity fell to -11.3%. Behind the surprise were deteriorations in mining, construction and some services and slow progress in manufacturing. The strong rise in retail trade stood out in the month, which, according to INE data, grew 2.8% compared to the previous year (more than 30% compared to July). This was influenced by the greater liquidity of households thanks to the materialization of the Emergency Family Income and the withdrawal of pension funds.

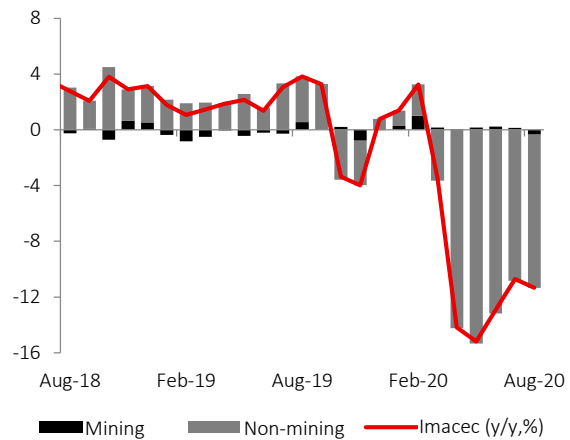
In this context, the labor market showed a first advance, after several months of job destruction. Thus, in the moving quarter ended in August, 119 thousand net jobs were created, somewhat less than we expected. For its part, the labor force also recovered (121 thousand people), with which the unemployment rate had a slight decline, from 13.1% to 12.9%.

Activity continues to recover in August, but slower than expected



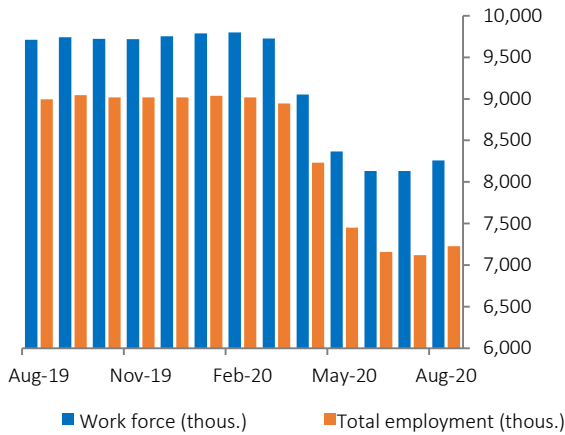
Source: BCCh and Santander

Annual variation of the Imacec recedes due to a stronger comparison bas

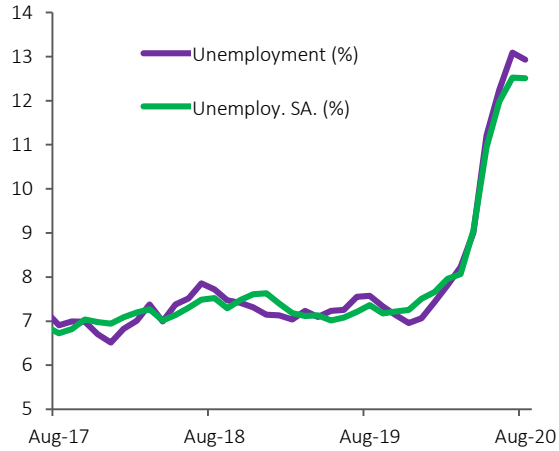


Seasonally adjusted series
Source: BCCh and Santander

Slight recovery in employment and labor force

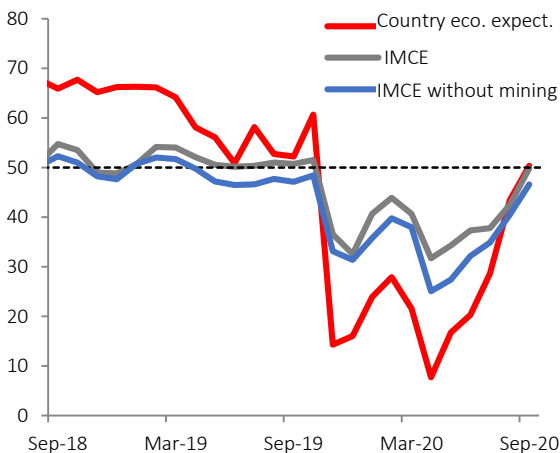


Unemployment stabilizes around 13%



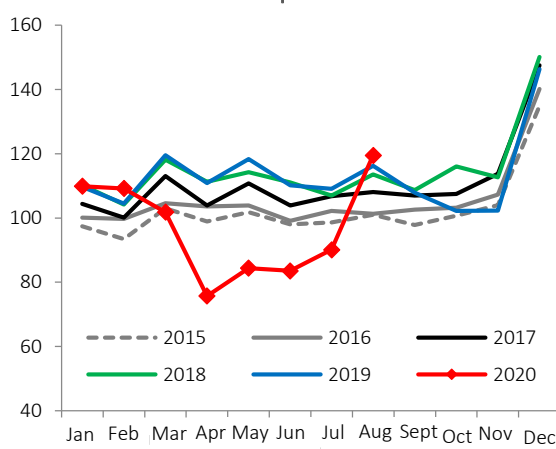
In the next records, we should continue to observe improvements in activity due to progress in the process of deconfinement and lagged effects of the liquidity shock received in households. For September, several indicators point to a somewhat stronger recovery than in August. Electricity generation grew by 0.5% y / y (-1.5% in August), exports expanded at high rates (11.8% y / y accumulated to the third week of the month) and Imports had a less intense contraction (-7.7% y / y accumulated to the third week). Expectations also show a recovery: the IMCE without mining reached 46.59, its highest level since October last year, while the perception of the country's situation is for the first time so far this year in an optimistic zone (50 , 37). Thus, we estimate that the economy will have an advance of around 5% m / m (-6% y / y) in September.

Expectations are better for September



Source: Icare-UAI and Santander

Retail sales surprise with the first growth since the start of the pandemic



Source: INE and Santander

Markets remain expectant about a possible new fiscal stimulus plan in the US.

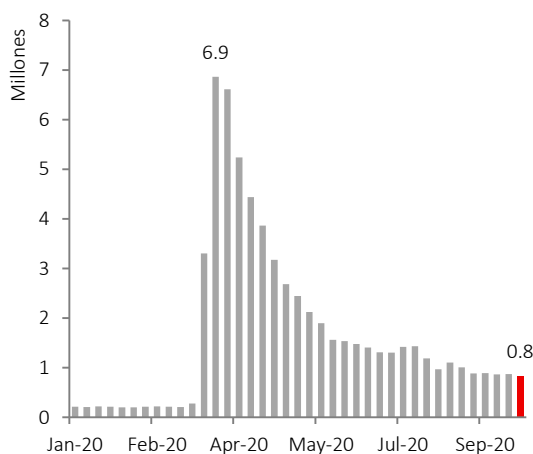
After last week the Fed chairman insisted on the need for new fiscal stimulus to prop up the economy, to which was added a lower-than-expected increase in non-farm payrolls (661 thousand vs. 850 thousand est. And 1.5 million in August), a slower decline in weekly jobless claims and announcements of massive layoffs at Disney and some airlines, the positions between Democrats and Republicans have moved closer. The Lower House approved a new program for US \$ 2.2 billion. The negotiations now move to the Senate, where the Republicans are proposing \$ 1.5 billion. Although the initial optimism has given way a bit, the negotiations are not closed.

However, the news dominating the closing of the week is the contagion of coronavirus from the US president just four weeks before the elections. Markets reacted negatively to the news, but are far from erasing the S&P 500 advance for the week.

There are some signs that the recovery in the Chinese economy could be weakening. The manufacturing PMI had a slight decline in September (53.0 vs. 53.1 in August). However, this does not seem to be a sufficient basis for the strong liquidation of speculative positions in the copper market that has collapsed its price to US \$ 2.93 a pound (-1.4%) in recent days. Nor is it enough with the recent increase in inventories on the London Stock Exchange, which, although higher, come from the lows recorded a month ago.

It is the uncertainty surrounding the second wave of infections that is instilling the greatest fear in investors. This has affected crude, which has fallen by almost 7.5% in the week, has increased the price of gold 2.4% and has kept volatility high (VIX: 28.5%).

The reduction in new requests for unemployment insurance has stabilized



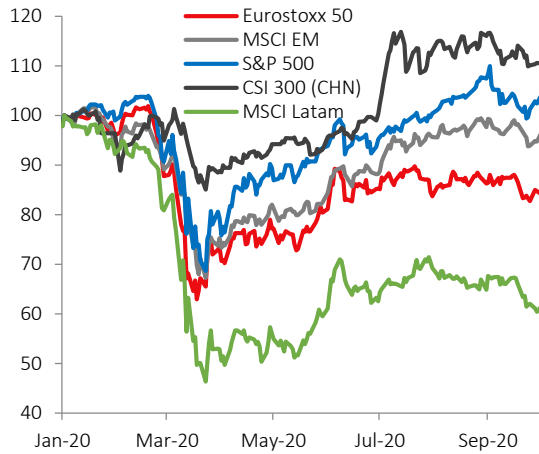
Source: Reuters and Santander

Persistent high volatility in the market has continued



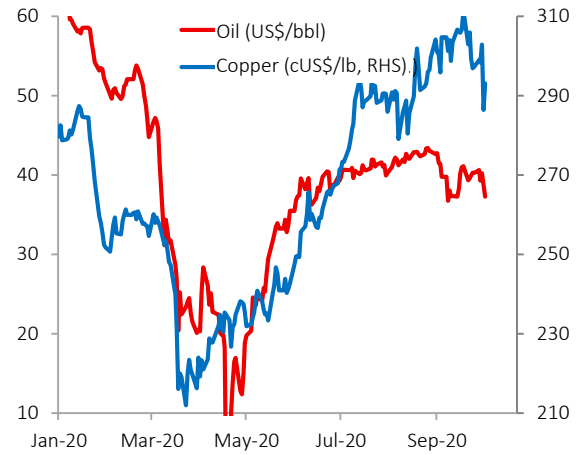
Source: Reuters and Santander

Rebound of North America markets does not manage to spread to the other



Source: Reuters and Santander

Strong fall in copper not justified by the market fundamentals

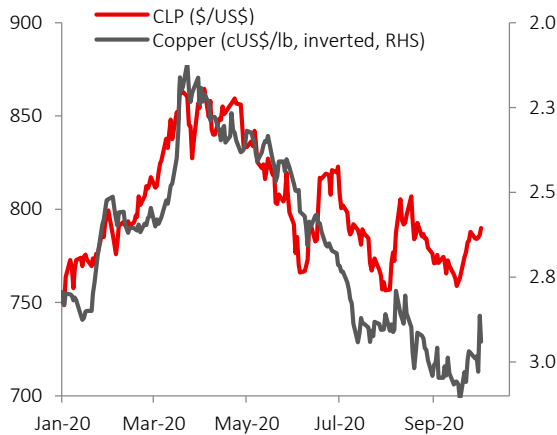


Source: Reuters and Santander

At the local level, the exchange rate had a stable week around \$ 785, although at the end of this report it rebounded and was trading above \$ 790. This movement at the end of the week is mainly explained by the substantial fall in copper, close to 5%, after knowing figures of higher inventories and the outbreaks of Covid-19 in advanced economies.

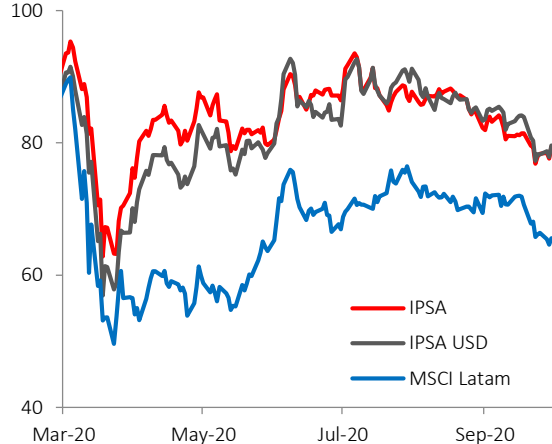
The IPSA has remained stable around 3,600 points during the week, after reaching its lowest level since mid-May on September 23. In contrast, fixed income had a downward trend in recent days, with long rates in UF increasing up to 20 bp.

Strong fall in copper pressure the Exchange rate to a high at the close of the week



Source: INE and Santander

The local stock Exchange remains stable, after falling in September



Source: INE and Santander

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