



CHILE

2011 ARTICLE IV CONSULTATION

August 2011

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Chile, the following documents have been released and are included in this package:

- **Staff report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 8, 2011, with the officials of Chile on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 9, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Public Information Notice (PIN)** summarizing the views of the Executive Board.

The document listed below has been or will be separately released.

Selected Issues Paper
Financial System Stability Assessment

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CHILE

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

August 9, 2011

KEY ISSUES

Context. The economy has recovered rapidly from the global financial crisis and the February 2010 earthquake and the output gap has closed. The unemployment rate is at historically low levels and the external current account surplus has narrowed despite favorable terms of trade. Headline inflation moved above the 3 percent target in the first half of 2011, although core inflation remained contained. Strong economic growth is expected to continue through 2012.

Normalization of policies. The central bank appropriately accelerated the pace of policy normalization in early 2011, helping bring inflation expectations closer to the target. A more ambitious withdrawal of fiscal stimulus is also warranted as it would help reduce domestic demand pressures and improve the macroeconomic policy mix. Staff recommended aiming for a positive structural fiscal balance over the medium term, and frontloading the consolidation.

Mitigating risks to financial stability. Continued monitoring is warranted to prevent a buildup of leverage in the corporate and household sectors. In the context of heightened risks of a resurgence of global financial stress, it also would be prudent to continue to maintain high levels of liquidity in the banking system. In case concerns arise about the speed of credit or asset price growth, it would be advisable to strengthen prudential measures to maintain stability. As discussed in the companion FSSA report, efforts to improve the regulatory and supervisory framework are welcome.

Structural challenges. The government has launched several initiatives aimed at boosting productivity, including reducing the cost of doing business, increasing competition, and supporting innovation. Improving labor market efficiency and raising labor force participation should remain on the structural reform agenda going forward.

Approved By
**Miguel Savastano and
Tamim Bayoumi**

This report is based on discussions conducted in Chile during June 28-July 8, 2011. The team comprised Dora Iakova (head), Jorge Chan-Lau, Nicolas Magud, Jiri Podpiera, and Yi Wu (WHD). Miguel Savastano (WHD), Marina Moretti (MCM), and Pablo Garcia (OED) participated in the concluding meetings.

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