IMF Country Reports 21/092

# Chile: Review Under the Flexible Credit Line Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Chile

INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/92

# CHILE

May 2021

## REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHILE

In the context of the Review Under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 14, 2021, following discussions with the officials of Chile on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on April 30, 2021.
- A **Statement by the Executive Director** for Chile.

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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR21/132

# IMF Executive Board Concludes Review of Chile's Performance Under the Flexible Credit Line Arrangement

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **May 14, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded on May 14, 2021 its review of Chile's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Chile's continued qualification to access FCL resources.

The current two-year FCL arrangement for Chile was approved by the IMF's Executive Board on May 29, 2020 (see Press Release No. 20/227), in the amount of SDR 17.443 billion (1000 percent of quota, around US$23.93 billion). The Chilean authorities stated their intention to continue to treat the FCL as precautionary and maintain their intention to exit as soon as the 24-month period is completed, conditional on developments and risks.

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (one or two years), and subject to a mid-term review in two-year FCL arrangements. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This large, upfront access with no ongoing conditions is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

Following the Executive Board's discussion on Chile, Mr. Mitsuhiro Furusawa, Deputy Managing Director, made the following statement:

"The COVID-19 pandemic hit the Chilean economy hard as it was recovering from the 2019 social unrest. Swift policy action and fast progress in vaccination have mitigated its impact. Chile's very strong economic fundamentals and institutional policy frameworks are anchored in the inflation-targeting framework, the structural fiscal balance rule, the free-floating exchange rate, and the sound financial system.

"The Chilean economy remains exposed to external risks tied to the evolution and impact of the pandemic, such as adverse global demand and financial conditions. The new surge in COVID cases and the need to ensure an inclusive recovery continue to pose domestic policy challenges. Continued strong policy actions, rapid vaccination progress, and well-anchored inflation expectations will remain critical in ensuring continued market confidence and bringing the economy on a firm path to recovery.

"The Flexible Credit Line (FCL) will continue to play an important role in supporting the authorities' macroeconomic strategy, by providing a valuable buffer and boosting market confidence. The authorities continue to show strong commitment to maintain very strong policies and institutional policy frameworks. They intend to continue to treat the arrangement as precautionary and to exit the FCL arrangement at the end of the 24-month period, conditional on developments and risks."

INTERNATIONAL MONETARY FUND

# CHILE

## REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

April 30, 2021

## EXECUTIVE SUMMARY


**Context:** The pandemic hit the Chilean economy while it was recovering from the 2019 social unrest. The authorities' swift and strong economic policy efforts and Chile's very strong institutional frameworks helped buffer the economic and social consequences. The ongoing economic recovery continues to be supported by ample policy stimulus, a rapid vaccination process, well-anchored inflation expectations, a resilient export base, and continued market confidence.

**Risks:** External risks remain tied to the evolution and the impact of the pandemic, while domestic ones relate particularly to the uncertain outcome of a New Constitution process. The rise in copper prices and the fast pace of the vaccination program domestically will likely be offsetting factors, and more generally the country presents significant resilience in the face of these risks, owing to the demonstrated sound record of policy reaction, the very strong institutional policy frameworks, and the remaining fiscal space.

**Flexible Credit Line (FCL):** The FCL has provided a valuable buffer and has helped boost market confidence during the COVID-19 pandemic, by supporting Chile's policy and institutional strength. Chile's 24-month FCL arrangement was approved on May 29, 2020, in the amount of SDR 17.443 billion (1000 percent of quota, around US$23.93 billion). The authorities expect to continue to treat the FCL as precautionary, and maintain their intention to exit as soon as the 24-month period is completed, conditional on developments and risks.

**Qualification:** In staff's view, Chile continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff recommends that the Board completes this review that would allow Chile to make purchases, if needed, until the expiration of the FCL arrangement on May 28, 2022.

Approved By
**Patricia Alonso-Gamo (WHD) and Gavin Gray (SPR)**

The report was prepared by a team comprising Luca Antonio Ricci (head), Metodij Hadzi-Vaskov, Karim Youssef, José Torres, Samuel Pienknagura, Christopher Evans, Chiara Fratto (all WHD), Shakill Hassan (SPR), Junghwan Mok (MCM), and Roberto Schatan (FAD) with support from Ivan Burgara and Adriana Veras (both WHD).

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**ANNEX**

# CONTEXT

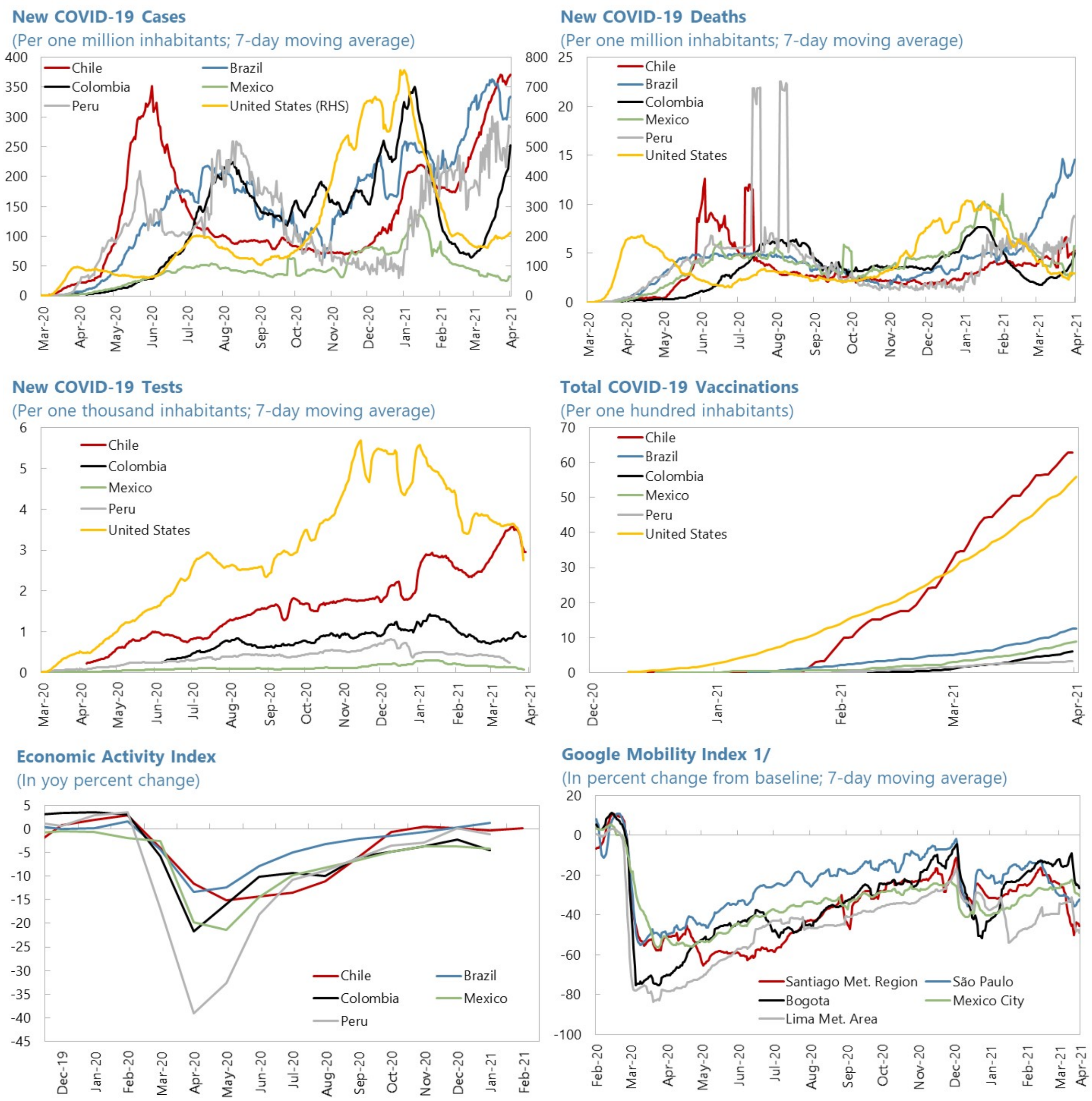
1. **Chile maintains very strong economic fundamentals and institutional policy frameworks, with a sustained track record of policy implementation, even during the pandemic.** Monetary policy has remained anchored in an inflation-targeting framework with a longstanding free-floating exchange rate regime. This has kept inflation low and stable, and has anchored inflation expectations. Fiscal policy has been guided by the cyclically-adjusted fiscal balance rule since 2001. This contributed to asset accumulation in the SWF and to low debt by international standards. Chile has consistently shown one of the highest levels of policy credibility and quality of the regulatory framework among emerging economies. All of this has allowed Chile's economy to remain resilient to shocks, including the 2019 social unrest and the still unfolding pandemic.

2. **The FCL arrangement is serving the country well, and providing an important buffer against tail risks.** The FCL was designed to provide a credit line with large and upfront financing to members with very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and a commitment to maintaining such policies in the future. As access to the FCL arrangement is available only to members that meet strict qualification criteria, drawings under such an arrangement are not tied to ex-post conditionality.[1] Chile's open economy was exposed to substantial external risks as a result of the ongoing COVID-19 outbreak. While the authorities have continued to retain market access at low borrowing costs and to treat access under the FCL arrangement as precautionary, the FCL arrangement (granted to Chile in light of its very strong fundamentals and policy settings) provides a substantial buffer which can readily supplement its foreign reserves in case of tail risk. In addition, together with the authorities' significant policy efforts and credibility in the face of the COVID-19 pandemic, access to FCL resources has been supporting market confidence.

3. **The mid-term review is taking place against a back-drop of a continuing pandemic, an improved global outlook, and a world-leading vaccination effort.** The pandemic hit Chile while it was recovering from the impact of social unrest in October 2019. The COVID-19 outbreak induced a large decline in growth, prompting the authorities' commendable policy response (see IMF Country Report No. 21/83). Most recent data point to an ongoing recovery, with the support of an improved global growth outlook and a surge in copper prices. Chile's world-leading vaccination effort began in December 2020 and about 8 million having received their first dose as of end-April, with plans to vaccinate most of the adult population (about 15 million people) during 2021H1. As of end-April, Chile confirmed 1.2 million cases of COVID-19 and 26,000 deaths, in a population over 19 million. In response to the increasing number of new cases of COVID-19 in March 2021, the government tightened mobility restrictions but expanded existing fiscal measures to mitigate their impact.

[1] Past reviews indicate that access to FCL helped lower currency volatility and sovereign bond spreads, pointing to lower probability of crisis. IMF (2014), "Review of Flexible Credit Line, the Precautionary and Liquidity Line, and The Rapid Financing Instrument", IMF Policy Paper; and IMF (2017), "Republic of Poland: Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement", IMF Country Report 17-18.

## Figure 1. Chile: COVID-19 Developments

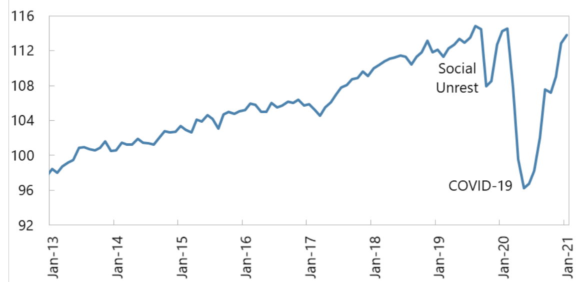



Sources: Our World in Data COVID-19 dataset, Haver, Google Community Mobility Reports, national authorities, and IMF staff calculations.
1/ Baseline is the median value, for the corresponding day of the week, during the 5-week period of January 3- February 6, 2020.

# RECENT DEVELOPMENTS

**4. Following a sharp growth decline in 2020, economic activity has been recovering.** Economic activity declined by 5.8 percent in 2020. Supported by ample policy stimulus, the economy gradually recovered in 2020H2, while copper production remained mostly steady despite the pandemic. Monthly economic activity in both January and February 2021 was only 2 percent below the levels prevailing a year before.

Chile: IMACEC 1/
(2013=100, SA)

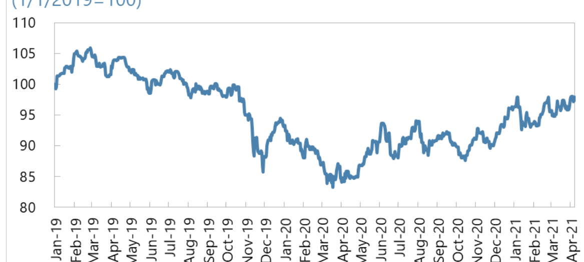



Source: Haver and Central Bank of Chile.
1/ IMACEC is a monthly economic activity indicator.

**5. The authorities' wide-ranging set of fiscal, monetary, and financial policy responses to the pandemic have been swift and effective.** The government's multi-year fiscal package has helped to safeguard health, protect incomes and jobs, support credit, and buttress the recovery. Meanwhile, the Central Bank of Chile undertook monetary stimulus and unconventional measures which have supported liquidity, while financial sector policies have been adjusted to facilitate the flow of credit, especially to households and SMEs. International reserves were about US$3 billion higher at end-2020 than at the time of the FCL approval, and in January 2021 the BCCh also initiated a program to gradually increase FX reserves by US$12 billion over 15 months.

**6. The exchange rate has continued its strong adjustment role.** The exchange rate adjusted substantially in 2020, acting as a shock absorber. Relative to its average value in the first three quarters of 2019, the NEER depreciated by over 7 percent in 2019Q4, and by an additional 7 percent until end-April 2020. It then strengthened, resulting in an overall appreciation of 2 percent during 2020, supported also by the increase in copper prices. The REER (CPI-based) appreciated by 3.5 percent in 2020 (yoy December), reversing some of the 10 percent drop in 2019. The exchange rate appreciation continued until April 2021, with copper prices above historical averages. The Central Bank let the exchange rate adjust without intervention in 2020 despite the increase in market volatility, allowing it to respond to changes in economic fundamentals and play its role of shock absorber.

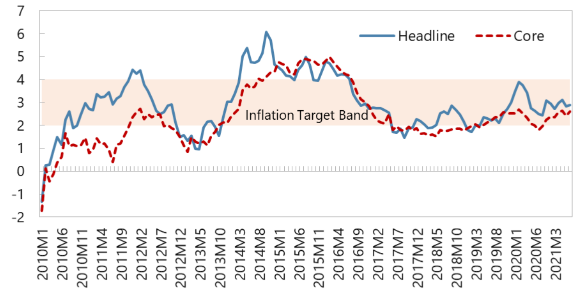
Chile: NEER 1/
(1/1/2019=100)




Sources: Haver, GEE, and IMF staff calculations.
1/ Constructed using the trade weighted average of the CLP exchange rate with China, United States, Euro Area, Japan, South Korea, Brazil, Peru and India.

**7. Headline inflation is hovering around the policy target, while core inflation remains subdued and inflation expectations remain well anchored.** After peaking at close to 4 percent in early-2020, as a result of the pass-through from the exchange rate depreciation onto domestic prices, the headline inflation rate moderated in mid-2020 amid the decline in economic activity. During the second half of the year, rising prices of food and beverages pushed headline-inflation close to the BCCh's policy target of 3 percent. However, core inflation remained subdued at 2.6 percent in February 2021—below target. Two-year ahead inflation expectations remain well anchored.

**Chile: Headline and Core Inflation**
(In percent, yoy)

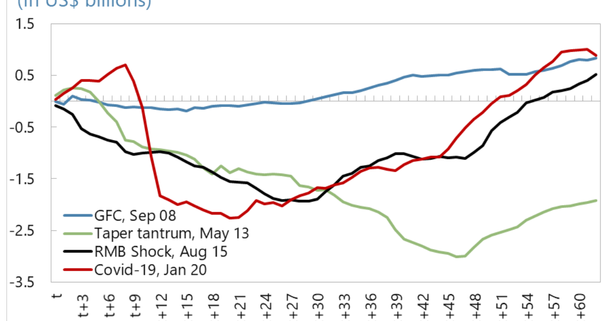



Sources: INE, Haver, and IMF staff calculations.

**8. The financial sector appears to be sound despite lower profitability.** As reported in October 2020, banks have capital above the regulatory minimum (capital adequacy ratio is 14.3 percent) and exhibit low non-performing loan ratios (1.6 percent of total loans) in February 2021. However, due to higher provisions, return on equity dropped below 8 percent (from 16.2 percent in 2019Q4). Credit growth slowed down in 2020 despite the government support via FOGAPE guarantees. Despite some heterogeneity across borrowers, the leverage of non-financial corporations and households, measured by credit-to-GDP ratios, is in line with the one observed in countries of a similar level of development. The credit to non-financial corporates relative to GDP is high compared to regional peers, but is largely FDI-related (which reduces roll-over risk) and hedged against exchange rate risk. House prices and rental investment properties should continue being monitored, but long-term maturity, low and fixed interest rates, and limited leverage mitigate risks from the housing market.

**9. Chile's strong financial market resilience was confirmed during the ongoing COVID-19 turbulence, as in previous episodes.** In line with the general trend for EMs, non-resident portfolio outflows exceeded those from past episodes but have recovered since (see text chart). Compared to LA5 and other EMs, Chile recently experienced a smaller increase in spreads and yields on domestic sovereign bonds (Figure 2). Consistent with its role as a shock absorber, the exchange rate depreciation was substantial, but not among the highest. This performance is similar to what Chile experienced versus other LA countries in other episodes of financial turmoil over the past decade (see Figure 3).

**Chile: Cumulative Total Portfolio Flows in Weeks**
(In US$ billions)

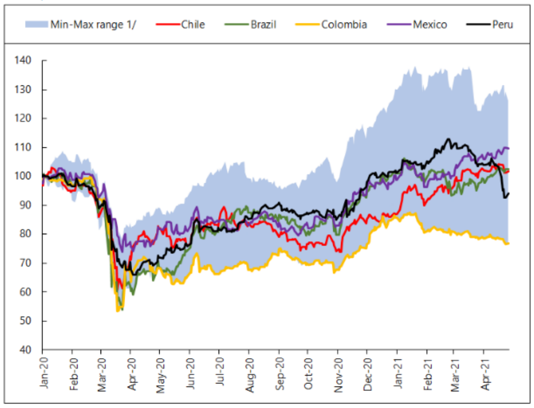



Source: EPFR, Haver, and IMF staff calculations.

## Figure 2. Chile: Financial Comparison with LA5 and Other EMEs 1/

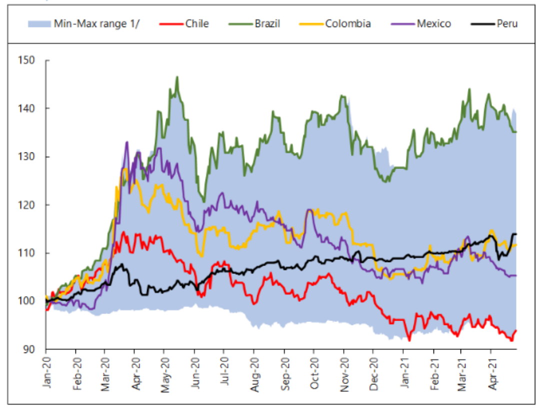
### Domestic Equity Indices 2/

Jan 03, 2020 = 100



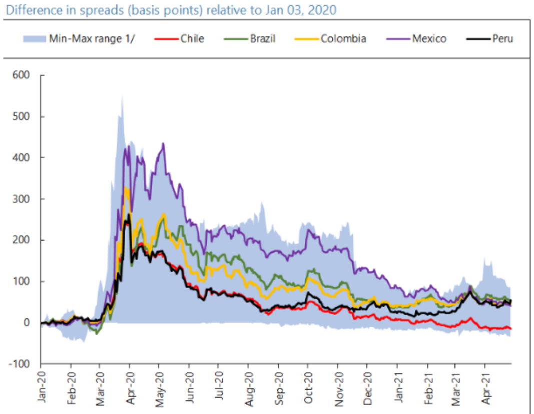

### Local Currency per US Dollar Indices 3/

Jan 03, 2020 = 100



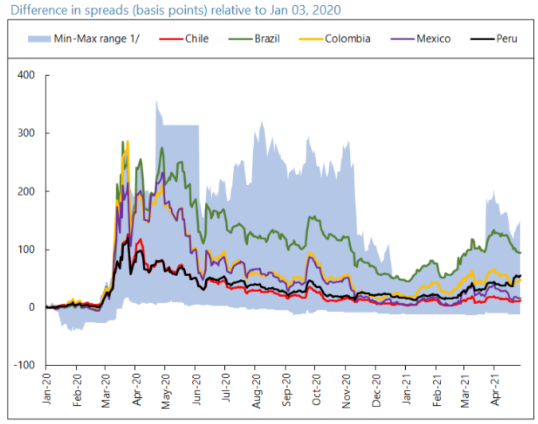

### EMBIG Spreads 4/

Difference in spreads (basis points) relative to Jan 03, 2020



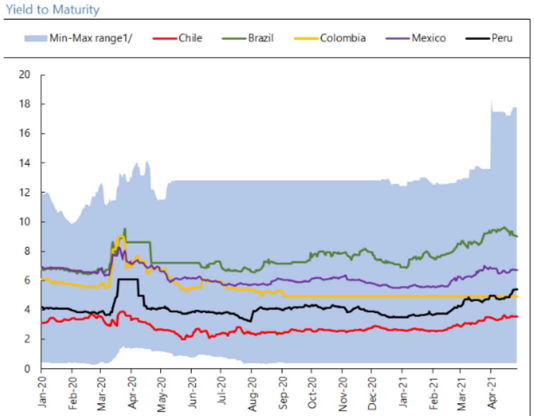

### CDS Spreads

Difference in spreads (basis points) relative to Jan 03, 2020



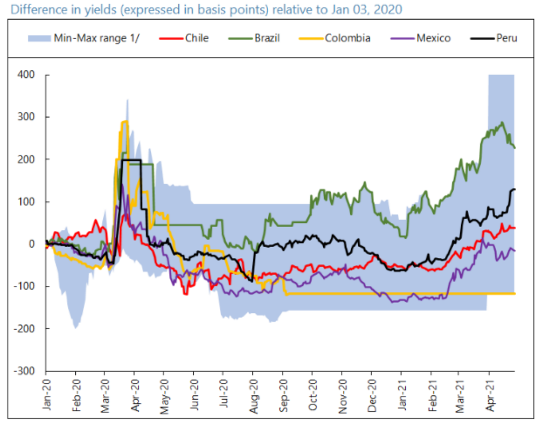

### Domestic Currency Sovereign Bond Yields 5/

Yield to Maturity




### Domestic Currency Sovereign Bond Yields 5/

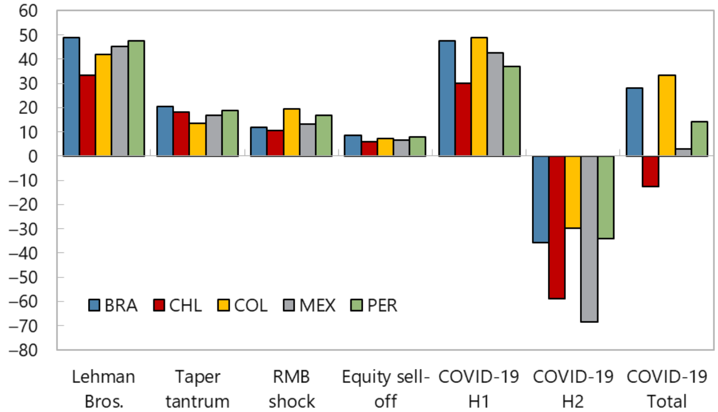
Difference in yields (expressed in basis points) relative to Jan 03, 2020



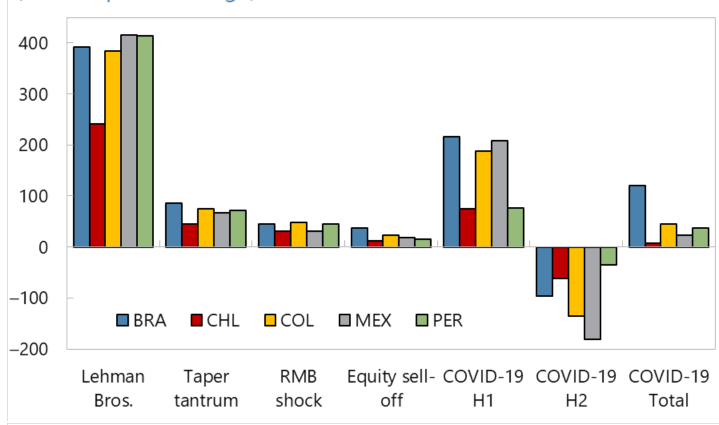

Sources: Haver Analytics and Bloomberg LLP.
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.
2/ National benchmark share price indices.
3/ To better compare LA5's Exchange rate movements in one chart, this index sets each country's exchange rate (local currency/USD) in the first business day of 2020 as 100. This chart does not directly show the USD/local currency depreciation. For example, from Jan 3 (18.9 MXP/USD) to March 24 (25.1 MXP/USD, high point), Mexican peso depreciates 24.7% against US dollars. In the chart, instead, it shows US dollar appreciate 32.8% against Mexican peso.
4/ Mexico's EMBIG includes Sovereign and Quasi.
5/ 10 year government bond or closest available maturity.

## Figure 3. Chile: Resilience to External Financial Shocks

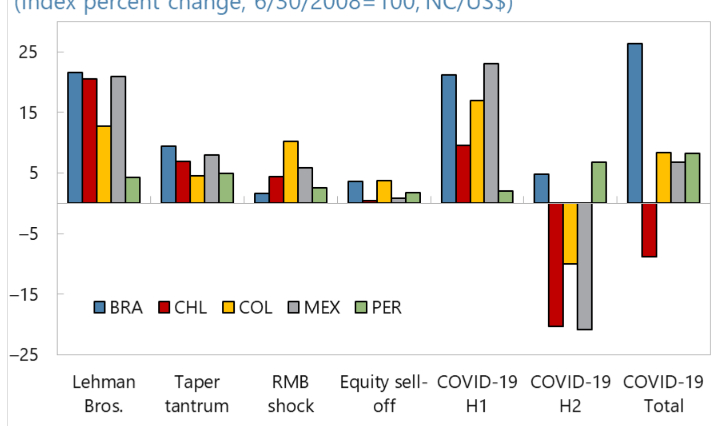
**LA6: Fall in Equity Prices**
(Percent change of US$ prices, +=fall in equity prices)




**LA6: Sovereign CDS Spreads, Change**
(In basis points change)




**LA6: Exchange Rate Depreciation**
(Index percent change; 6/30/2008=100; NC/US$)




Sources: Thomson Reuters Datastream and IMF staff calculations.
Note: Lehman Bros. (9/15/08–10/24/08); Taper tantrum (5/2/13–6/25/13); RMB shock (8/10/15–8/24/15); Equity sell off (1/31/18–2/9/18); COVID-19 H1 (1/23/20–4/21/20); COVID-19 H2 (4/22/20–4/12/2021): COVID-19 Total (1/23/20–4/12/2021).

# OUTLOOK AND POLICIES

**10. Economic activity is expected to rebound in 2021, on the back of ample policy support and an impressive vaccination program.** Economic activity is expected to grow at 6.5 percent in 2021, as the vaccination process proceeds fast while the economy continues to get support from accommodative policies, so that mobility restrictions are expected to be relaxed and the fallout from the pandemic to gradually recede. The outlook benefits also from an uplift in copper prices and improved global growth expectations, particularly for major trading partners such as the United States and China. Over the medium term, we expect growth to gradually converge to its potential of 2½ percent.

**11. Temporary factors that pushed the current account into surplus in 2020 are expected to dissipate, leaving the current account balance close to zero in 2021.** Import compression, induced by the COVID-19 shock, coupled with a strong demand for copper, Chile's main export, produced the first current account surplus in a decade. As the economy recovers from the pandemic, imports of durable and semi-durable consumer goods—which were affected by restrictions on mobility and elevated uncertainty—are expected to rebound, bringing the current account close to zero in 2021 and towards a small deficit over the medium term.

**12. To lessen the effects of the pandemic the authorities unveiled a broad set of fiscal measures.** The government is implementing a multi-year fiscal package of about US$34 billion (13 percent of 2020 GDP, after an additional 2 percent of GDP was announced in March 2021 to counter the effects of tighter mobility restrictions) to safeguard health, protect incomes and jobs, keep funding costs low, support credit, and buttress the recovery (see IMF Country Report No. 21/83, Annex I). The main elements of the stimulus package includes: (i) higher healthcare spending; (ii) enhanced subsidies and unemployment benefits; (iii) a set of tax deferrals; (iv) credit provision for SMEs, via Banco Estado (a publicly owned bank); (v) transfers for the most vulnerable and the middle-class; (vi) a credit-guarantee scheme for firms (via the public credit-guarantee fund FOGAPE) and for the households; and (vii) enhanced public investment.

**13. These measures were accompanied by large withdrawals from the private pension funds.** Congress allowed in July and December 2020 two rounds of withdrawals and a third round was approved in April 2021. By early-April 2021, about 10.5 million people have used the first withdrawal and 8 million the second one, corresponding to a total of about US$37 billion (or about 15 percent of 2020 GDP, or 19 percent of June 2020 pension assets). The withdrawals overcompensated the loss of income due to the pandemic for people in all income quintiles, but are expected to lower pension replacement rates while raising public pension costs (staff estimated the net present value cost from the first two withdrawals at about of 3½ percent of 2020 GDP). The withdrawals also often contributed more to an increase in savings than in spending, and the first one was regressive (as it was tax-exempt for all). Notably, after the first two withdrawals, about 3 million people (or ¼ of pension system participants) have exhausted their pension funds. The impact from the first two rounds of withdrawals on the liquidity needs of financial markets was muted, as it was cushioned by the quick and strong reaction by the BCCh (which included a facility with cumulative

purchases of US$8.5 billion). For the third round—which notably also allows access for pensioners with lifetime annuities—US$18 billion in withdrawals are expected, which would exhaust the accounts of a further 2 million people (bringing the total to about 5 million).

**Text Table 1. Chile: Fiscal Measures in Response to COVID-19**
(In percent of GDP)

| | Announced [1/] | Revised [2/] | Cumulative [3/] | 2020 | 2021 | 2022-2025 |
|---|---|---|---|---|---|---|
| **Total size of the stimulus package (percent GDP):** | 11.3 | 13.3 | 12.5 | 6.1 | 4.2 | 2.1 |
| **1. On Budget:** | 8.7 | 10.8 | 10.0 | 5.0 | 2.9 | 2.0 |
| **a. Temporary (no effect on end-year deficit):** | 1.3 | 1.3 | 1.3 | 1.3 | | |
| i. Defered taxes: | **0.5** | **0.5** | **0.5** | **0.5** | | |
| CIT for SMEs | 0.2 | 0.2 | 0.2 | 0.2 | | |
| Property taxes | 0.3 | 0.3 | 0.3 | 0.3 | | |
| ii. Accelerated pay of liabilities (no affect on the accrual def | **0.8** | **0.8** | **0.8** | **0.8** | | |
| Early CIT refunds for SMEs | 0.4 | 0.4 | 0.4 | 0.4 | | |
| Accelerated pay of public procurement obligations | 0.4 | 0.4 | 0.4 | 0.4 | | |
| **b. Permanent:** | 7.4 | 9.5 | 8.7 | 3.7 | 2.9 | 2.0 |
| i. Revenues | **2.5** | **1.6** | **0.8** | **1.2** | **-0.4** | **0.0** |
| Suspension of CIT payments | 1.0 | 0.9 | 0.3 | 0.9 | -0.5 | -0.1 |
| VAT delay | 0.6 | 0.2 | 0.0 | 0.2 | -0.2 | |
| Reduction of the stamp & seals tax | 0.2 | 0.2 | 0.2 | 0.2 | | |
| Reduction CIT rate to 12.5% | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Instantatenous 100% depreciation | 0.4 | 0.4 | 0.4 | 0.0 | 0.3 | 0.1 |
| ii. Spending | **4.9** | **7.9** | **7.9** | **2.5** | **3.3** | **2.0** |
| Additional Fiscal Resources for health expenditures | 0.9 | 0.6 | 0.6 | 0.5 | 0.1 | 0.0 |
| Other spending | 0.0 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 |
| Transfers for most vulnerable | 1.8 | 2.9 | 2.9 | 1.5 | 1.3 | 0.0 |
| Middle-class bonus | 0.4 | 0.9 | 0.9 | 0.4 | 0.5 | 0.0 |
| Public investment | 1.2 | 1.2 | 1.2 | 0.0 | 0.4 | 0.8 |
| Employment subsidies | 0.6 | 1.0 | 1.0 | 0.0 | 0.7 | 0.3 |
| Unallocated | 0.0 | 1.1 | 1.1 | 0.0 | 0.2 | 0.9 |
| **2. Off-Budget (below the line):** | 2.6 | 2.5 | 2.5 | 1.1 | 1.3 | 0.1 |
| Injection to the UI Solidarity Fund | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Banco Estado capitalization | 0.2 | 0.3 | 0.3 | 0.1 | 0.2 | 0.0 |
| Public loan guarantees (FOGAPE), including Fogape Reactiva | 1.2 | 0.8 | 0.8 | 0.4 | 0.3 | 0.1 |
| Solidarity loan for middle class | 0.4 | 1.2 | 1.2 | 0.6 | 0.6 | 0.0 |
| Unallocated | 0.0 | 0.2 | 0.2 | 0.0 | 0.2 | 0.0 |

1/ Annouced as of June 2020.
2/ Revised in March 2021 with outturns for 2020.
3/ Nets out the effect of tax deferrals.

14. **The Central Bank of Chile loosened monetary policy and implemented a wide range of measures to provide liquidity and preserve financial stability.** The policy rate was lowered by 125 basis points in March 2020 to 0.5 percent, which is considered by the BCCh as the "effective lower bound". The monetary policy stance is appropriately accommodative as the policy rate is about 350 basis points below the BCCh's estimates of the neutral nominal interest rate range (3.75 to 4.35 percent). In addition, the BCCh provided support to FX and local currency funding markets, by: (i) offering FX swaps; (ii) introducing funding-for-lending programs (up to US$40 billion); (iii) expanding its collateral framework (including corporate bonds and the above credit guarantee scheme); (iv) introducing a bank-bonds purchase program; and (v) relaxing the liquidity coverage ratio (the ratio remains unchanged but temporary deviations could be tolerated on a case-by-case basis). The BCCh also negotiated access to the Foreign and International Monetary Authorities Repo Facility.[2]

[2] This facility allows the BCCh to temporarily exchange U.S. Treasury securities with the Federal Reserve for U.S. dollars, eliminating the need to sell the securities in the open market. Use of the facility does not affect the level of gross international reserves, as the securities are subtracted from reserve assets, while deposits in BCCh's reserve assets increase by the corresponding amount.

## Text Table 2. Chile: BCCh Extraordinary Measures
(In US$ millions)

| Measures | | Amount of the Program | Cumulative Usage Since Announcement 1/ | |
|---|---|---|---|---|
| Domestic Currency Liquidity | BCCh Debt Buyback 2/ (Start date November 9th, 2019) | **8,514** Outstanding Amount of BCP/BCU/PRC/CERO at the start of the program | BCP | 5,595 |
| | | | BCU | 983 |
| | | | Others | 83 |
| | | | **Cumulative Buybacks** | **6,662** |
| | Bank Bonds Purchase Program (Start date March 20th, 2020) | **8,000** | Inflation Linked Bank Bonds | 3,621 |
| | | | CLP Denominated Bank Bonds | 240 |
| | | | **Cumulative Purchases** | **3,861** |
| | Special Assets Purchase Program (Start date June 22th, 2020) | **8,000** | **Total Bought (Whole Program)** | **4,785** |
| | | | BCP | 628 |
| | | | BCU | 187 |
| | | | Cumulative Buybacks (BCP and BCU) | 815 |
| | | | Inflation Linked Bank Bonds | 3,940 |
| | | | CLP Denominated Bank Bonds | 30 |
| | | | Cumulative Purchases | 3,970 |
| | Purchase of Bank Securities (August 3rd, 2020) | 10,000 | Cumulative Purchases | 8,455 |
| | | | Outstanding Amount | 2,777 |
| | Purchase of Bank Term Deposits (August 7th, 2020) | 8,000 | Cumulative Purchases | 521 |
| Domestic Currency Liquidity-With-Credit Expansion Incentives | FCIC 1-LCL March 30th, 2020-March 30th, 2024) | **24,000** | **Current Usage** | **25,240** |
| | Initial Line 3% | 4,800 | FCIC Usage | 2,140 |
| | | | LCL Usage | 3,150 |
| | | | Total Usage, Initial Line | 5,290 |
| | Additional Line 12% | 19,200 | FCIC Usage | 16,163 |
| | | | LCL Usage | 3,786 |
| | | | Total Usage, Initial Line | 19,949 |
| | FCIC 2 3/ (July 9th, 2020- July 1st, 2024) | **16,000** | **Current Usage** | **5,428** |

Source: Central Bank of Chile.

1/ Last Updated on March 1, 2021.

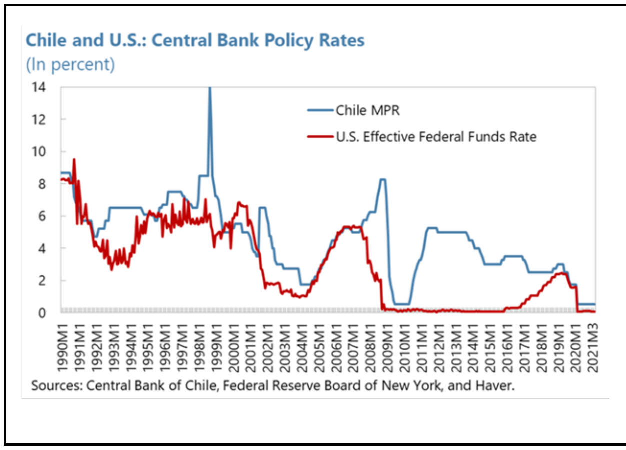
2/ Bond buybacks are reported with one day of delay; amounts correspond to the total liquidity injection related to the buyback of bonds.

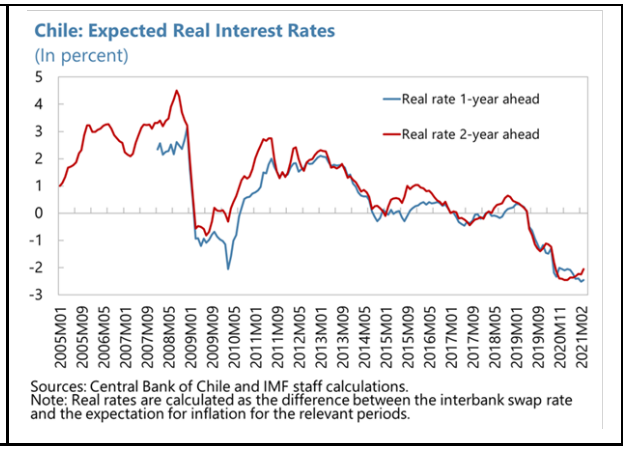
3/ Amount of the program dollarized using the average exchange rate of February, while the usage is dollarized using the last observed exchange rate.

15. **The Financial Market Commission (CMF) unveiled measures to facilitate the flow of credit to businesses and households**. They include: (i) a special treatment in the establishment of provisions for deferred loans (while credit quality exposures remain carefully monitored); (ii) use of mortgage guarantees to safeguard loans for SMEs; (iii) adjustments in the treatment of assets received as payment and margins in derivative transactions; and (iv) delay by one year of the implementation of Basel III standards.[3]

16. **The overall policy response demonstrates strong policy coordination**. The combination of the BCCh funding-for-lending program, the Ministry of Finance credit-guarantee scheme, and the regulatory requirements from the CMF shows strong coordination of the Ministry of Finance, the BCCh, and the CMF in their proactive response to containing liquidity problems that could otherwise become more complicated and significantly affect the financial sector as well as households and firms.

[3] Implementation of regulation related to risk weighted assets and conservation buffer will start in Dec 2021, while the one on systemic charge and capital discounts in Dec 2022.




**17. The authorities maintain their commitment to fiscal prudence and envisage a gradual structural consolidation to stabilize the debt ratio, though additional fiscal measures may be needed in the medium term.** In January 2020, a tax reform was adopted which is expected to gradually raise tax revenues by about 1 ppt of GDP in the medium term. The headline fiscal deficit is expected to decline to 4.1 percent of GDP in 2021 from 7.3 percent in 2020, while the structural balance deficit is expected to worsen from 2.6 to 6.0 percent of GDP. In 2021, the structural balance would deteriorate while the fiscal deficit would improve with respect to 2020, as the output gap would be much smaller, copper prices are above the long-term price, and the 2020 tax deferrals expire.[4] If necessary, fiscal measures can be much better targeted than additional pension withdrawals, which affect pension replacement rates and increase the fiscal cost of providing adequate pensions. Gross debt is expected to increase to 34.6 percent of GDP by end-2021, which remains low by international standards. The authorities remain committed to a structural consolidation, reducing the structural deficit by about 2 percent of GDP in 2022 and then 1 percent of GDP per year starting in 2023, to reach a structural deficit target of 0.9 percent of GDP by 2025, which they estimate would stabilize the gross debt at about 40 percent of GDP. In the short term the priority is to continue to implement targeted measures to protect health, income, and jobs, especially for the most vulnerable segments of the population. Over the medium term, permanent revenue and spending measures would be needed to finance possible additional spending to address social needs, face fiscal contingencies, and rebuild buffers, while preserving debt stability. In this respect, the government is considering the recommendations from a Commission of Experts called by the Minister of Finance (which are aligned with the recommendations from a recent IMF/OECD joint report) for gradually reducing tax exemptions, deductions, and special regimes. Additional measures may include for example broadening direct taxation, raising green taxes towards international standards, and rationalizing expenditures (see IMF Country Report No. 21/83).

**18. At the same time, enhancing the fiscal framework would further strengthen policy credibility.** It is essential to complement the current rule with a medium-term debt anchor (ideally encompassing a debt ceiling and buffer zone), a formal escape clause that envisages temporary

[4] Since 2001, Chile's fiscal framework has been guided by a structural balance target for the central government. See more details in IMF Country Reports No. 18/311 (particularly Annex III) and 18/312. Modifications to the target do not require Congress approval. General government data offers a similar picture as the central government data because municipalities are not allowed to borrow.

relaxation or suspension of the structural balance target, and an adjustment mechanism that can offset temporary deviations from targets. In this respect, the Autonomous Fiscal Council recently issued valuable recommendations.[5]

**19. The authorities reiterated their strong commitment to maintaining the inflation targeting framework with a free-floating exchange rate.** The appropriately accommodative monetary stance—with the policy rate at the effective lower bound—is consistent with achieving the inflation target at the 2-year policy horizon. In this context, the BCCh kept the policy rate unchanged in its March 2021 monetary policy meeting, reaffirming the need for maintaining the expansionary monetary stance until the recovery of the economy takes hold and spreads to the more lagging components of expenditure, which is likely to take several quarters. The BCCh also continues to operate the unconventional liquidity and credit support measures, complementing the expansionary monetary policy stance. In line with its long-standing policy, the BCCh intends to continue to allow the peso to fluctuate freely, with intervention only limited to address exceptional volatility that could endanger market functioning. The BCCh does not envisage the need for any capital flow management measures (CFMs). Unwinding the extraordinary policy measures should be carefully managed to avoid creating instability particularly as banks transition back to traditional funding sources.

**20. The authorities are monitoring financial sector vulnerabilities and remain committed to further strengthening the financial sector regulatory and supervisory framework.** The emergency measures are facilitating the flow of credit and supporting income, thus preventing a deterioration in credit quality. Stress tests performed by the authorities indicate that financial stability appears well guarded at this juncture.[6] It remains essential to continue monitoring developments closely, stand ready to intervene to avoid disorderly conditions, and encourage financial institutions to continue assessing credit quality carefully and maintain both prudential lending standards and adequate reporting. The implementation of Basel III requirements would improve the resilience of the financial sector by requiring banks to maintain larger capital buffers than the current ones. As time permits, authorities should devote further attention to pending deficiencies in the current regulatory framework, including in relation to bank resolution, deposit-insurance, insurance companies, financial conglomerates, and FinTech activities (the authorities are already working on most of these initiatives). The upcoming 2021 Financial Sector Assessment Program (FSAP) will conduct a detailed analysis of financial stability policies and risks.

# EVOLUTION OF RISKS AND REVIEW OF QUALIFICATION

## A. Evolution of Risks and Exposures

**21. Uncertainty about near-term global growth and asset prices have subsided since the FCL request but remain significant.** Risks persist in relation to developments of the pandemic, movements in the price of copper, or uncertainty stemming from the outcome of the New

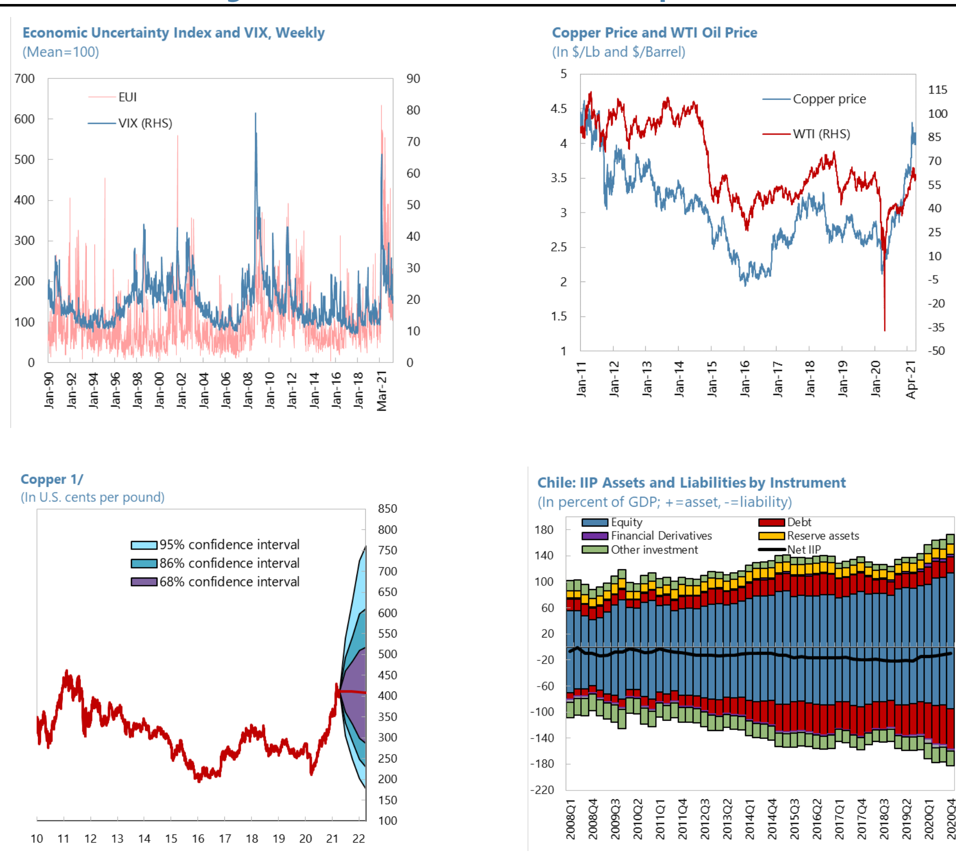
[5] The policy discussion of the fiscal rule draws on the discussion illustrated in International Monetary Fund, *Enhancing Chile's Fiscal Framework*, 2019.

[6] Central Bank of Chile, Financial Stability Report, November 2020.

Constitution process (although the latter is not expected to affect the institutional capacity to undertake key reforms). Financial market indicators (such as the VIX) no longer imply such extreme uncertainty among investors as seen earlier in 2020. Nonetheless, longer containment and lingering uncertainties about the duration of the outbreak—e.g., if COVID-19 proves hard to eradicate due to new strains or low vaccine effectiveness—and more generally resumed uncertainty about global growth and the cost of capital would weigh on the balance of trade between Chile and the world, and on capital flows.

**22. Low global growth due to a prolonged COVID-19 outbreak would lower Chile's exports and FDI.** Chile's exports held steady through 2020, partly due to the fast recovery in China and the associated surge in the price of copper. Copper prices fell by about 25 percent in the first three months of 2020 but then recovered vigorously, in contrast to staff's earlier expectations (Chile is the world's leading exporter of copper, which accounts for about half of its merchandise exports and about 12 percent of the country's GDP). If external demand were to drop unexpectedly, the effect on the current account would be mitigated by three factors: (i) the effect of low oil prices on the import bill; (ii) low imports due to weak domestic demand; and (iii) lower net income outflows (resulting from two opposing factors, the (positive) effect of lower dividends paid to foreign investors, which is expected to exceed the (negative) effect of lower repatriation of profits by Chilean entities with investments abroad). However, the pressure on the financial account could be considerably larger.

**Figure 4. Chile: Global Risks and Exposures**




Sources: WSJ, EIA, Blomberg, Central Bank of Chile, Haver, and IMF staff calculations.
1/ Derived from prices of futures options on April 8, 2021.

**23. A renewed spike in global risk aversion would curtail net capital inflows, particularly portfolio inflows.** A sudden stop in gross inflows following the COVID-19 outbreak (in the second quarter of 2020) carried over to the third quarter, when non-residents were net sellers of Chilean assets. However, the effect on the balance of payments was offset by significant sales of foreign assets by resident entities, including the general government and pension funds. Given the large stock of externally held domestic securities and other investments, a prolonged period of net sales by non-residents would lead to large pressures on the financial account.

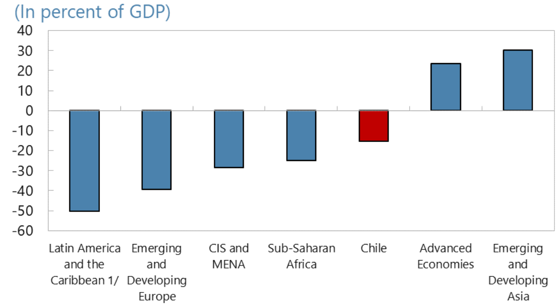
**24. The external economic stress index (ESI) for Chile indicates a level of stress which, although lower than at the time of the FCL request, remains significant (Box 1).** The index reflects movements in four key indicators of risk for Chile's current and financial account balances: copper prices, trading partners' growth, emerging markets volatility, and U.S. Treasury yields. The COVID-19 outbreak had pushed the ESI for Chile to one of its lowest levels (meaning high external stress) since the mid-1990s. It has since recovered, but the external environment remains fragile. A downside scenario, in which the effects of the pandemic are prolonged, could keep Chile under high external stress for longer than previously experienced, which could have severe effects on the economy and the balance of payments.

## B. Review of Qualification

**25. In staff's assessment, Chile continues to meet the qualification criteria for the FCL.** The external position remains sustainable, the sovereign continues to access international markets at favorable rates, and official reserve assets are at comfortable level. Although public debt has risen, it remains sustainable, and supported by a strong fiscal framework. Inflation is low and stable, supported by a credible inflation targeting framework. The financial sector is sound and effectively supervised.

**26. Sustainable external position.** The external position of Chile strengthened in 2020. It is assessed as moderately stronger than implied by medium-term fundamentals and desirable policies (see IMF Country Report No. 21/83), with a staff assessed current account gap—the difference between the cyclically adjusted current account balance and the estimated norm—of 1.7 percent of GDP. The 2020 current account was in surplus (1.4 percent of GDP), as imports contracted due to the effect of the COVID-19 outbreak on domestic demand, while exports held steady, strengthening the external position since the time of the FCL approval. The net international investment position (IIP) had narrowed considerably to -14 percent of GDP at end-2019, and improved further to -10 percent of GDP during 2020, mainly due to an increase in the value of foreign assets. It compares favorably by most emerging market standards (apart from Asia, see text chart).

**Net International Investment Position, 2020**
(In percent of GDP)



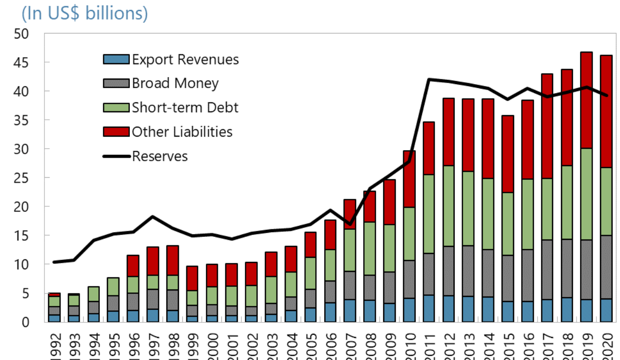

Sources: WEO and IMF staff calculations.
1/ Excluding Chile.

**27. Capital account position dominated by private flows.** Capital flows to Chile are predominantly private. More than four-fifths of foreign assets (86 percent) and 92 percent of external liabilities are private—as of end-2020, when gross foreign assets and liabilities were US$431.7 billion and US$456.7 billion, respectively. Over the preceding three years, private flows accounted for about 82 percent of total asset flows (FDI, portfolio, and other) and 72 percent of total liability flows (FDI, portfolio, and other). Over the same period, the private sector accounted on average for about 83 percent of total assets and about 94 percent of total IIP liabilities; and private sector holdings accounted for about 95 percent of Chile's external debt. In 2020, the absolute value of general government plus central bank asset flows accounted for nearly 30 percent of total, an unusually large weight for Chile—but comfortably below half of asset flows—, due to large repatriation of foreign assets to meet pandemic related needs discussed in the 2021 Article IV report (see IMF Country Report No. 21/83). The absolute value of general government plus central bank liability flows was less than 10 percent of total liability flows in 2020.

**28. Track record of steady sovereign access to international capital markets on favorable terms.** Chile has been enjoying uninterrupted access to international capital markets on favorable terms for several decades. It maintains investment grade status according to the three major rating agencies and is consistently among the highest-rated emerging market countries.[7] Sovereign bond spreads deteriorated at the onset of the pandemic but are back to the median over the past five years (EMBIG and five-year CDS spreads stood at 128 and 59 bps as of March 25, 2021), and compare favorably with peers. The central government has issued external debt in each of the past five years (latest bonds were issued in March and January 2021 for US$1.5 and US$4.3 billion, respectively, and previously in May 2020 for US$2 billion and in January 2020 for US$3.3 billion), with a cumulative amount over that period equivalent to about 580 percent of Chile's quota at the Fund.

**29. Relatively comfortable international reserve position.** Gross international reserves remain adequate. The ratio of reserves to the Fund's reserve adequacy metric (ARA) is below the 100 percent recommended for emerging markets—85 percent at end-2020; 90 percent on average over the preceding three years.[8] Generally, reserves have traced the ARA metric well over time (text chart), falling short of the metric on average over the past four years, while remaining above the 80 percent threshold in any year. In staff's view, reserves remain adequate due to several mitigating factors. First, in mature market economies,[9] reserves may need to act mainly as a second line of defense against potential

**Chile: ARA Metric Decomposition and Reserves**
(In US$ billions)




Sources: Central Bank of Chile, Ministry of Finance, IMF ESA, and IMF staff calculations.

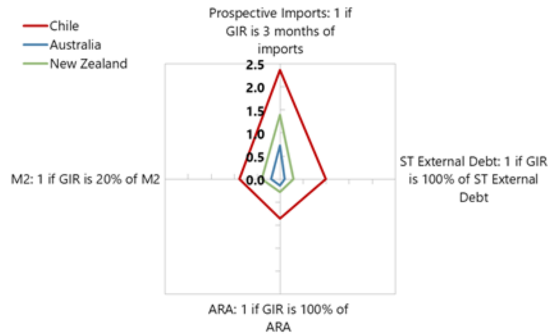
[7] Its foreign-currency ratings are A1 for Moody's, A for S&P, and A- for Fitch.

[8] Adding an additional buffer for Chile's exposure to copper price volatility gives a ratio of reserves to commodity-augmented ARA metric of 74 percent.

[9] Chile is classified as a mature market economy for reserve assessment purposes in IMF (2015), "Assessing Reserve Adequacy—Specific Proposals" and IMF (2016), "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations".

foreign exchange funding needs of the financial sector.[10] Banks' external debt was US$23.8 billion (at end-2020), a significant part of which is covered by the liquid segment of banks' US$25.8 billion in foreign assets. Furthermore, by regulation, banks' short foreign exchange positions due in thirty days cannot exceed long positions by more than the bank's capital. Hence, international reserves amply cover estimated potential short-term net FX funding needs of banks.[11] Second, on top of international reserves, the central government holds about US$22 billion in usable liquid external assets, including US$8.7 billion in the sovereign wealth fund for economic stabilization at end-February 2021 which, if counted as reserves, correspond to approximately 20 percent of the ARA metric. Third, standard benchmarks show that Chile compares favorably to other commodity-intensive mature market economies (e.g., Australia and New Zealand, see text chart; comparisons to other EMs are shown in Figure 9). Reserve coverage of prospective imports is more than twice the standard benchmark, at 7 months, while coverage of broad money and short-term external debt (remaining maturity) is close to benchmarks at 18 and 99 percent respectively. Fourth, the authorities are strongly committed to the free-floating exchange rate regime (with a solid track record of no FX spot intervention in support of the currency since 2002 except for a brief period during the recent social unrest, and of publication of intervention data), which reduces further the need for reserves.

**Chile: Reserves Relative to Standard Benchmarks**
(Commodity intensive mature markets)




Sources: National authorities, WEO, and IMF staff calculations.

**30. Reserve accumulation and other sources of external liquidity.** In January 2021, anticipating the authorities' planned exit from the FCL when it expires in mid-2022, the central bank announced and began a program of gradual reserve accumulation. The pre-announced purchases, to be evenly executed over a fifteen-month period, will lift reserves by US$12 billion (approximately one quarter of the ARA metric), through daily purchases of US$40 million, toward a level in the vicinity of 18 percent of GDP. By mid-April 2021, the central bank had added approximately US$2.8 billion to reserves, through sterilized purchases. Furthermore, the authorities remain open to continue exploring other sources of precautionary financing. In July 2020, the size of a bilateral RMB-CLP currency swap facility between the BCCh and the People's Bank of China was increased, from RMB22 billion to RMB50 billion (about US$7 billion); and its scope was expanded so that it is no longer limited to the support of bilateral trade transactions.[12]

**31. Sustainable public debt position and sound public finances.** Fiscal policy remains prudent, guided by the fiscal rule, and operationalized via annual structural deficit targets. The authorities

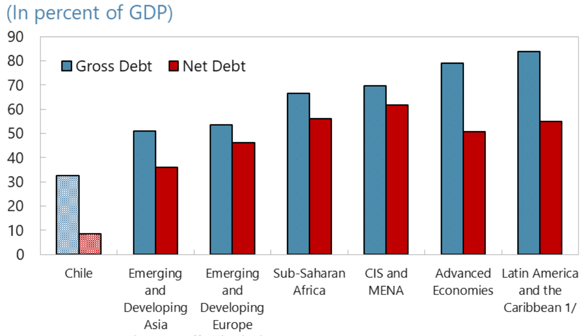
[10] Adequate supervision and prudential regulation form the first pillar—see IMF (2016).

[11] In the non-bank part of the financial system, institutional investors (i.e. pension funds) have a positive net foreign asset position.

[12] The agreement was originally signed in 2015, creating a line of up to RMB 22 billion (about US$3 billion), to facilitate direct settlement of trade between Chile and China in case of disruptions in the RMB market. The agreement has never been drawn upon and the resources are not included in Chile's international reserves.

maintain their commitment to debt stability in the medium term, if necessary, by undertaking additional revenue and expenditure measures to bring the structural deficit to 0.9 percent of GDP by 2025. In staff calculations, the authorities' envisaged medium-term fiscal consolidation would stabilize the debt ratio at about 42 percent of GDP. A debt sustainability analysis (Annex I) shows that the debt trajectory is robust to standard shocks (to growth, the exchange rate, and interest rates). Chile's debt is sustainable with a high probability, due to low debt levels, adequate reserves, significant buffers, sound macro-fundamentals and strong policy track record. Despite adverse global financial conditions, liquidity risks are mitigated by the large domestic banking sector, which has ample room to absorb issuance in the case of external financing disruptions, and sizable assets. A strong fiscal framework, a relatively low level of debt by international standards (both in gross and net terms), and substantial fiscal buffers (including a sovereign wealth fund and other assets) are expected to help Chile undertake countercyclical policies.

**Gross and Net Debt, 2020**
(In percent of GDP)



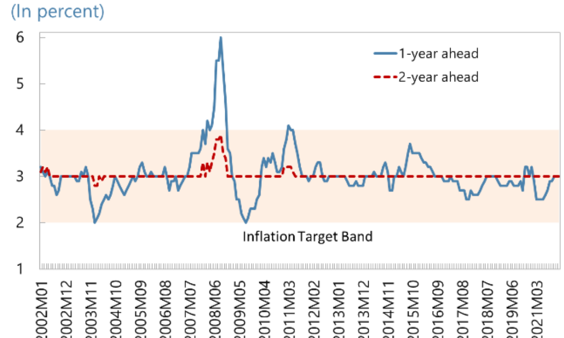

Sources: WEO and IMF staff calculations.
1/ Excluding Chile.

**Liquid Assets of the Treasury**
(In US$ billions)

| | Feb-21 |
|---|---|
| **Usable Liquid External Assets** | **21.8** |
| Economic and Social Stabilization Fund | 8.7 |
| Pension Reservation Fund | 10.1 |
| FX-denominated Assets of the Public Treasury | 3.0 |
| **Other Liquid Assets** | **3.8** |
| Peso-denominated Assets of the Public Treasury | 2.5 |
| Education Fund | 0.2 |
| Regional Support Fund | 0.7 |
| Fund for High-Cost Diseases | 0.4 |
| **Total** | **25.7** |

Sources: Ministry of Finance and IMF staff calculations.

**Chile: Inflation Expectations at 1 and 2 Years 1/**
(In percent)




Source: Central Bank of Chile and IMF staff calculations.
1/ Inflation expectations come from the "Encuesta de Expectativas Economicas (EEE)."

32. **Low and stable inflation in the context of a sound monetary and exchange rate policy framework.** Chile maintains a free-floating exchange rate system and the BCCh has been successful in maintaining inflation around the 3 percent target since the introduction of the inflation-targeting regime in 1999 (with an average of 3.2 percent). Inflation expectations at the 12-month horizon have been firmly anchored to the target over the past 10 years. Due to the high credibility of its monetary policy, the exchange rate pass-through to domestic prices is among the lowest in the region. The BCCh has had a small and negative equity for a long time, which has not compromised policy solvency and does not require immediate recapitalization. Its independence is well-established. For the sake of accountability, the BCCh has voluntarily undergone an independent external evaluation of the conduct of its monetary and financial policy: the expert panel highlighted high standards of policy analysis, conduct, and independence. The BCCh is undergoing a pilot review of its transparency system in light of the new IMF Central Bank

Transparency Code, while its monetary policy transparency has been ranked high among inflation-targeting regimes.[13]

**33. Sound financial system and the absence of solvency problems that may threaten systemic stability.** The financial sector appears to be sound overall (see recent developments). The implementation of the new Basel III standard, delayed by one year to confront the pandemic, could result in a temporary decline in the capital adequacy ratio, but this will not represent a meaningful deterioration in banking sector solvency.[14] Stress tests performed by the authorities indicate that financial stability appears well guarded at this juncture, although it will be essential to continue monitoring the situation to identify early signs of stress in the system and to stand ready to intervene to avoid disorderly conditions. Systemic risk arising from non-financial sector external debt is low—as about half is FDI-related and the rest is generally hedged against exchange rate risk—but should continue to be monitored, together with SME portfolio health. Pension funds are well-supervised and soundly managed.

**34. Effective financial sector supervision.** The 2011 FSAP concluded that Chile's financial regulatory and supervisory system is robust and the 2021 Article IV Consultation report (see IMF Country Report No. 21/83) did not find substantial concerns regarding the supervisory framework. An update of the FSAP is underway—after being delayed to 2021 due to the COVID-19 pandemic—and it will focus on financial institutions and interlinkages, the reorganization of supervisory arrangements, crisis management, bank resolution arrangements, and the need for deposit insurance. Restructuring the supervisory framework is expected to reduce opportunities for regulatory arbitrage that could result from the prevailing conglomerate structure in the financial sector. Basel III alignment and the new supervisory structure are expected to close many of the gaps identified in an otherwise strong supervisory system. Progress remains to be made, however, in terms of early intervention and bank resolution regime. Chile is undergoing an assessment against the Financial Action Task Force (FATF) anti-money laundering/combating the financing of terrorism (AML/CFT) standard by GAFILAT (FATF Latin America regional body), which was subject to delays due to the COVID-19 outbreak and will include a set of recommendations to further strengthen the AML/CFT framework.

**35. Data transparency and integrity.** Since March 2020, Chile is an adherent to the Fund's Special Data Dissemination Standard (SDDS) Plus—the highest tier of the IMF's Data Standards Initiatives.

**36. Track record and institutional strength.** Chile continues to have a sustained track record of implementing very strong policies, including in response to the unprecedented COVID-19 pandemic, owing to its very strong fiscal and monetary institutional frameworks which have helped create buffers. According to staff's assessment, all relevant core indicators were met in each of the five most

[13] Dincer, N., B. Eichengreen, and P. Geraats (2019), Transparency of Monetary Policy in the Post-Crisis World, in D.G. Mayes, P.L. Siklos, and J.-E. Sturm (Editors), *The Oxford Handbook of the Economics of Central Banking*, Oxford University Press.

[14] The CMF's estimation shows that, based on the information as of December 31, 2019, the effective equity of the banking system will decrease by USD 2.3 billion, or 6.5 percent of the stock, and the risk-weighted assets will decrease by 9 percent, which is equivalent to capital saving US$1.43 billion.

recent years. Chile's very strong fiscal and monetary institutional frameworks, coupled with one of the highest levels of policy credibility and regulatory quality among emerging markets, allowed an effective adjustment to shocks, including during the Global Financial Crisis as well as the ongoing pandemic. Fiscal and monetary policies show very strong countercyclical responses, while at the same time the country has been relying on the shock absorbing power of the free-floating exchange rate regime, and on maintaining open capital accounts.

### C. Exit Strategy

**37. The authorities remain intent on exiting the FCL arrangement at the end of the 24-month period (May 28, 2022), conditional on interim developments.** The authorities' permanent strategy for medium term resilience remains anchored in very strong macroeconomic policies and in further strengthening the regulatory environment and buffers. In the near term, the Chilean authorities indicated their intention to exit from FCL support in May 2022, conditional on economic and financial developments. In preparation, they have already commenced increasing reserves through intervention purchases of FX.

## SAFEGUARDS

**38. Staff has completed the safeguards procedures for Chile's FCL arrangement**. The Banco Central de Chile's (BCCh) external audit and financial reporting reflect leading practices. KPMG Chile issued an unmodified (clean) audit opinion on the BCCh financial statements for 2019, which are prepared and audited in accordance with international standards. The financial statements include comprehensive disclosures and are published on a timely basis. Staff reviewed the 2019 audit results and held discussions with the BCCh and KPMG Chile. No significant issues emerged from the conduct of these procedures.

## STAFF APPRAISAL

**39. Chile's FCL arrangement has supported the authorities' deep and effective policy efforts amid a very uncertain environment.** The FCL arrangement has contributed to the country's resilience in the face of the pandemic, complementing the large policy response in the context of strong policy and institutional frameworks, as witnessed by the low level of public debt by international standards, well anchored inflation expectations, and a sound financial system. The authorities are not requesting a change in access, and have indicated their intent to continue treating the FCL as precautionary and exit from the FCL arrangement in May 2022.

**40. Staff's assessment is that Chile continues to meet the qualification criteria for access to FCL resources.** As recognized in the 2021 Article IV consultation report (IMF Country Report No. 21/83), Chile has very strong economic fundamentals and institutional policy frameworks, along with a sustained track record of implementing very strong macroeconomic policies that have helped the country safeguard lives and livelihoods in the face of an unprecedented global shock. The authorities remain committed to maintaining prudent policies in the future. Thus, staff recommends completion of the review under the FCL arrangement for Chile.

## Box 1. External Economic Stress Index

*The level of external economic stress faced by Chile eased significantly after the first quarter of 2020. An adverse scenario with a prolonged pandemic, lower copper prices and another spike in global risk aversion would increase external pressure again, easing gradually in 2022.*

**The external economic stress index (ESI) is a compact measure of the external pressure faced by a specific economy.** It is constructed in three steps: (i) identify the key external risks on the basis of the structure of the economy; (ii) choose proxies to capture these risks; and (iii) weigh them. The index is a weighted sum of standardized deviations of each proxy from its mean.[1]

**Low growth in trading partners, low copper prices, and tight financing conditions are the main external risks for Chile.** Risks to exports are proxied by output growth in the U.S. and China, while risks to the copper industry, including inward FDI, are proxied by international copper prices. The open financial account, coupled with large stocks of debt and portfolio investment liabilities, expose Chile to changes in global financial conditions (although this exposure is partly mitigated by domestic institutional investors' large holdings of foreign assets), which are proxied by the emerging markets volatility index (VXEEM) and the yield on 10-year U.S. Treasuries (detrended). The choice of the weights draws on the balance of payments and international investment position data, expressed in shares of GDP and normalized. The weight on growth in the U.S. and China (0.15) reflects the main export markets;[2] the weight on the price of copper (0.35) reflects copper exports and FDI liabilities (adjusted to reflect the likelihood that copper and oil prices move in the same direction); the weights on the VXEEM (0.25) and the U.S. long-term yield (0.25) represent the relevance of stocks of portfolio and debt-like liabilities.

**The index shows a fast improvement in external conditions, after the precipitous fall during the COVID-19 outbreak, but the external environment remains delicate.** The box figure shows the evolution of the ESI for Chile. Its negative values capture episodes of high external stress: the Latin American crises in 1995 and 2002, the East Asian and Russian crises in 1997–98, the dot-com crash in 2001, U.S. financial crisis in 2007–08, the Euro Area debt crisis in 2011, the taper tantrum in 2013, the Chinese stock market crash in 2015, and COVID-19 in 2020. The baseline forecast reflects WEO projections for U.S. and Chinese growth, copper prices, and the U.S. 10-year bond yield. The VXEEM is assumed to return to its average level.


**The adverse scenario envisages a prolonged pandemic and another spike in global risk aversion.** The downside scenario assumes lower growth in Chile's main export markets relative to baseline, in 2021 and 2022, in magnitudes consistent with the April 2021 WEO. Copper prices are assumed to fall towards approximately $3,200 per ton, equivalent to about 160 cents per pound (close to its lowest level during the GFC). Renewed stress in financial markets is assumed to move the volatility index VXEEM up by two standard deviations. In this scenario, Chile would remain under a significant level of external stress through 2021, with the pressure abating gradually in 2022.

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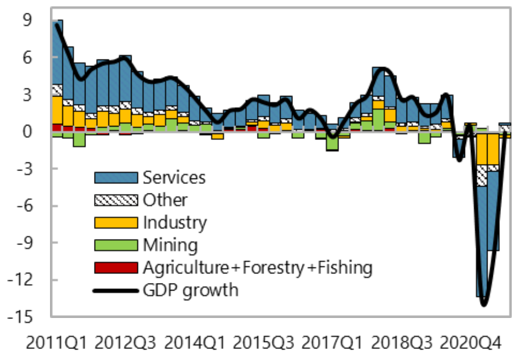
[1] The methodology is explained in *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018.
[2] China and the U.S. account (directly) for 32 and 14 percent, respectively, of Chile's total exports in 2019.

## Figure 5. Chile: Economic Activity

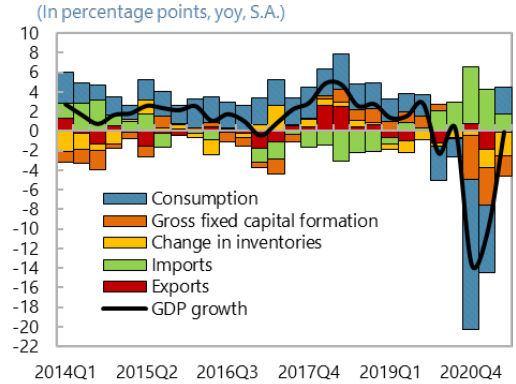
*Economic activity started recovering after a sharp drop in 2020Q2, growing -0.1% yoy S.A. in 2020Q4...*

**Contributions to Real GDP Growth**
(In percentage points, yoy, S.A.)



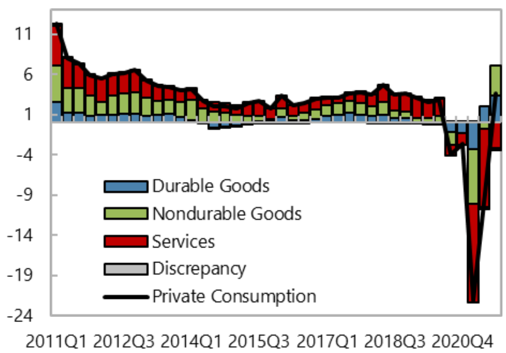

*...with an increase in consumption counteracting the fall in investment...*

**Contributions to Real GDP Growth**
(In percentage points, yoy, S.A.)



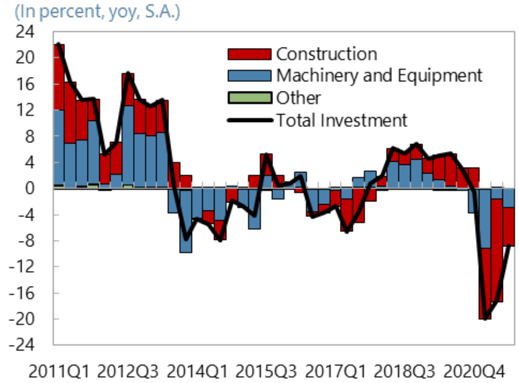

*...while growth in durable and nondurable goods outweighed the fall in services consumption...*

**Contributions to Private Consumption Growth**
(In percentage points, yoy, S.A)



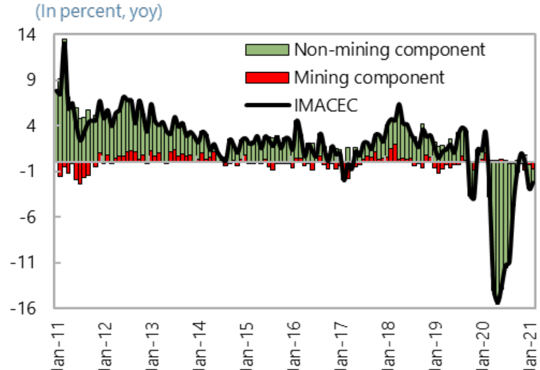

*...and investment continued to contract, mainly reflecting the construction segment.*

**Contributions to Real Investment Growth**
(In percent, yoy, S.A.)



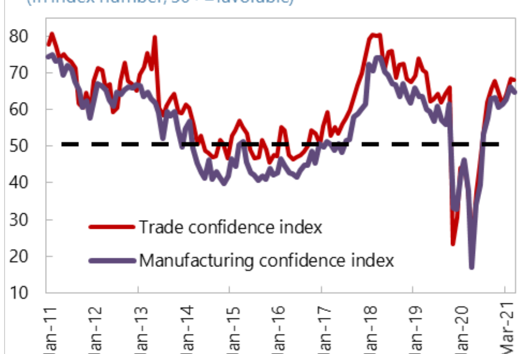

*IMACEC in February fell -2.2%, reversing gains seen up to November...*

**Contributions to IMACEC Growth 1/**
(In percent, yoy)




*...but business confidence has robustly recovered from the decline experienced in 2019Q4 and 2020H1.*

**Business Confidence**
(In index number, 50+=favorable)

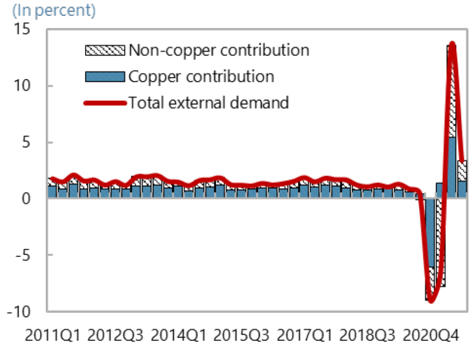



Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations.
1/ IMACEC is a monthly economic activity indicator.

## Figure 6. Chile: External Sector

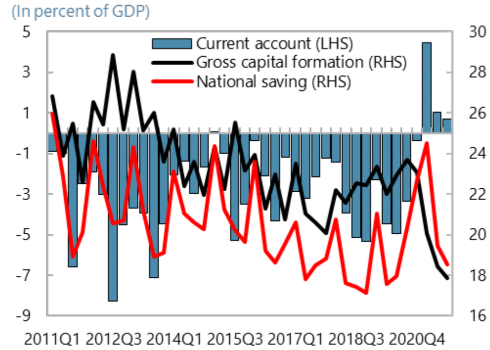
*External demand fell to 3.4% in 2020Q4 after a sharp recovery in 2020Q3...*

**External Demand Growth from Trading Partners 1/**
(In percent)



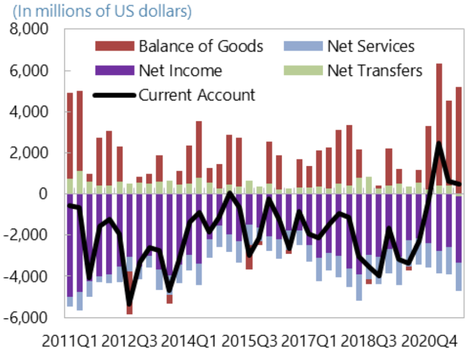

*...while the current account remained positive at 0.7% of GDP...*

**Savings, Investment, and the Current Account**
(In percent of GDP)



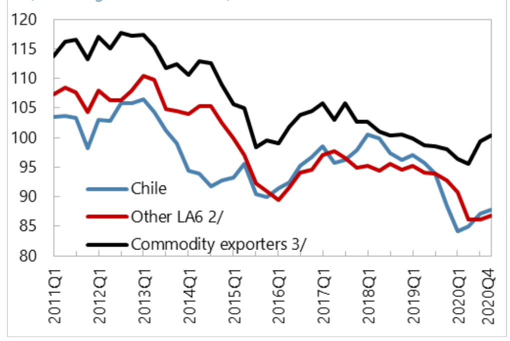

*... largely owing to a larger goods trade surplus.*

**Current Account Decomposition**
(In millions of US dollars)



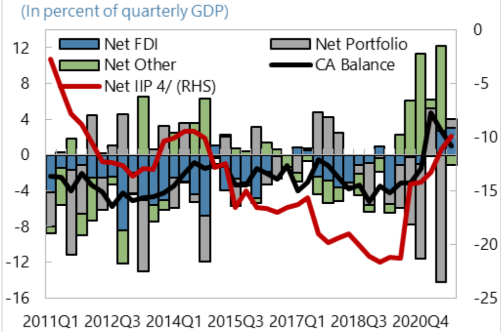

*The peso depreciated more than the currencies of other commodity exporters, but strengthened lately.*

**Real Effective Exchange Rate**
(Index avg. 1996-2018=100)



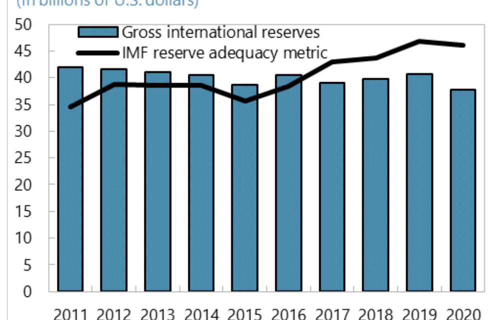

*Net IIP continues on an increasing trend, reaching -9.9% of annual GDP in 2020Q4...*

**Balance of Payments and IIP**
(In percent of quarterly GDP)



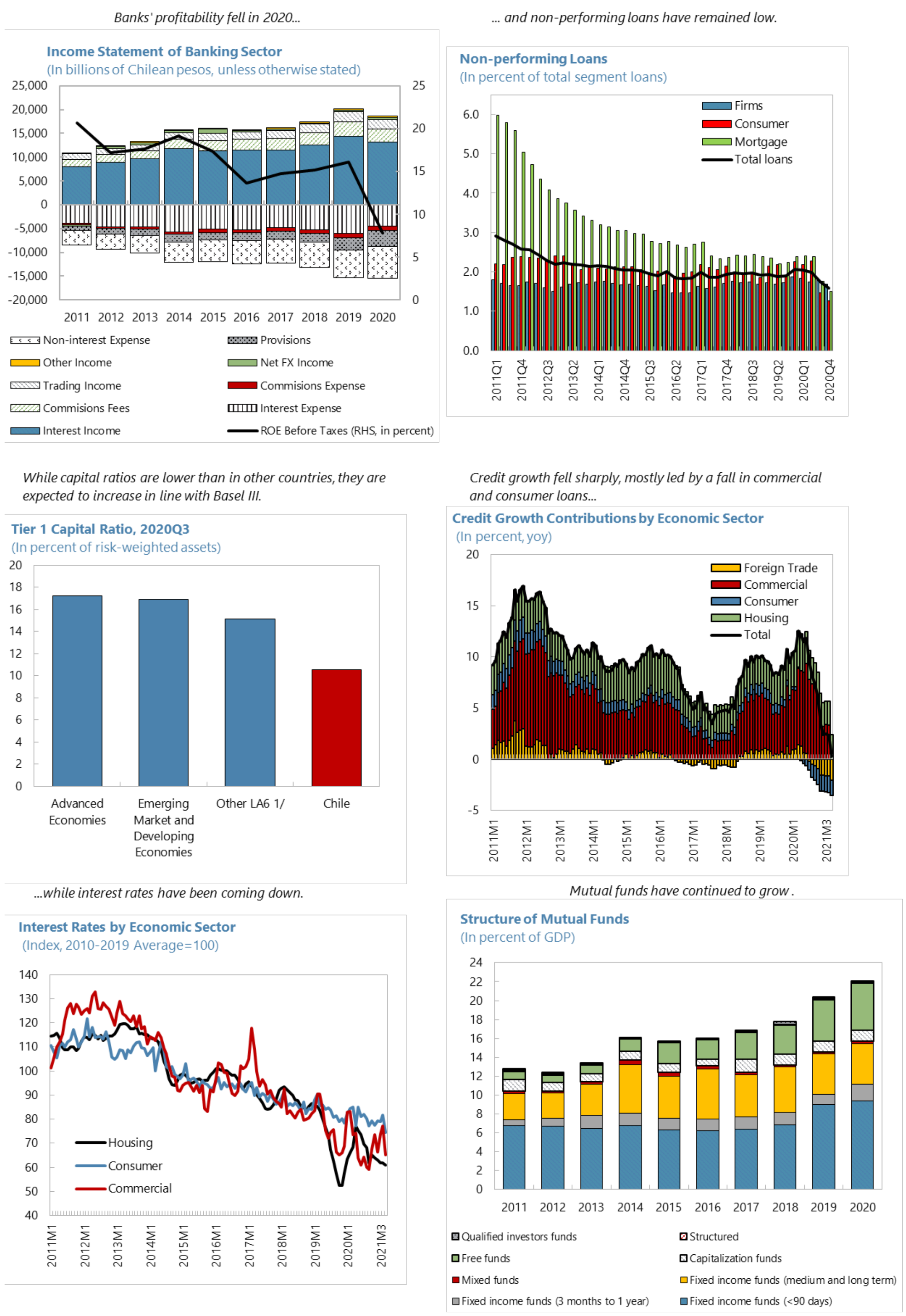

*...while gross international reserves remain close to the ARA metric.*

**Gross Reserves and Reserve Adequacy Metric 5/**
(In billions of U.S. dollars)



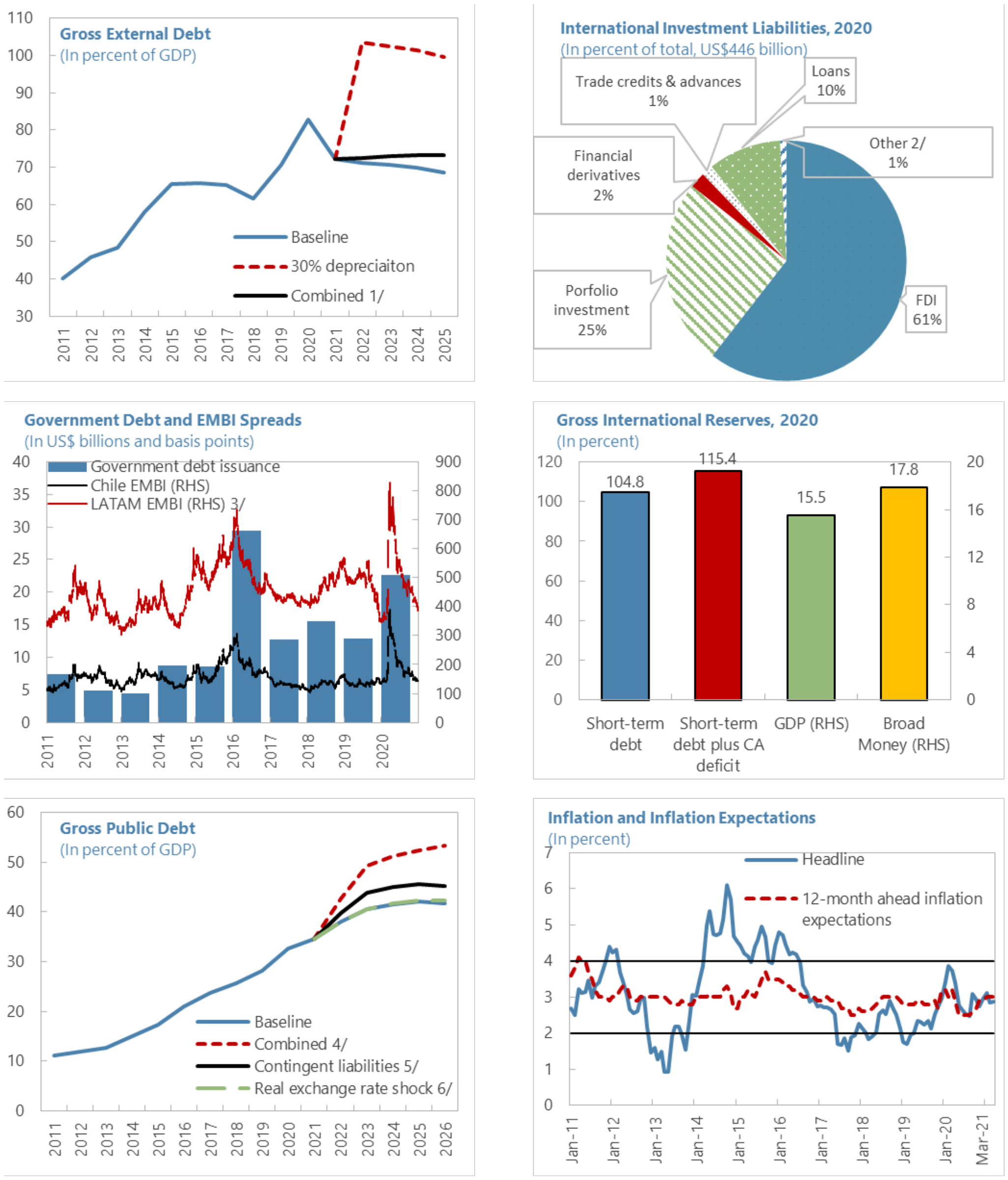

Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations.
1/ Calculated as average real GDP growth of trading partners, weighted by their respective share in Chilean exports.
2/ LA6 includes Brazil, Chile, Colombia, Mexico, Peru and Uruguay.
3/ Commodity exporters includes Canada, New Zealand, and Australia.
4/ As a percent of annual GDP.
5/ *Assessing Reserve Adequacy*, IMF.

## Figure 7. Chile: Financial Sector



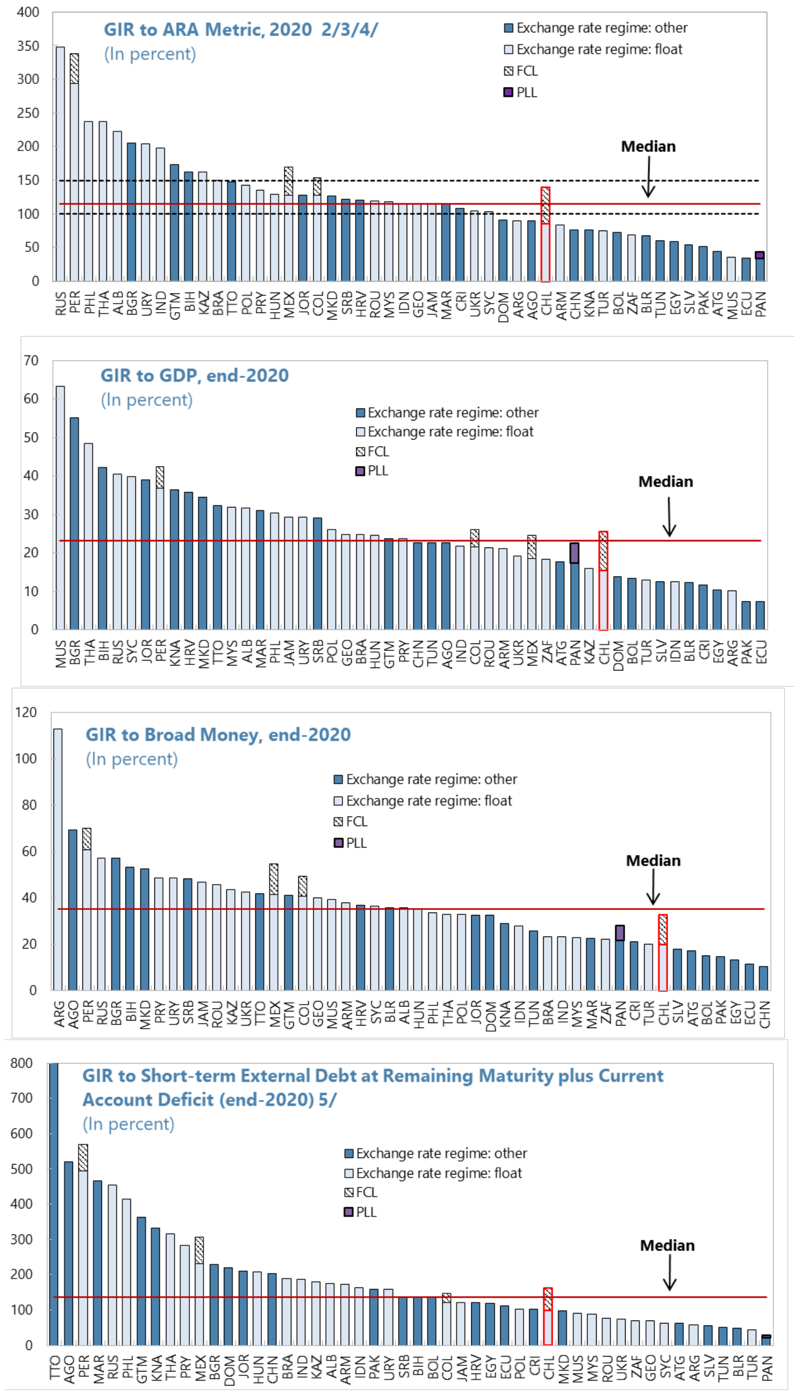

Sources: Comision Para el Mercado Financiero (CMF), Central Bank of Chile, IMF Financial Soundness Indicators 2015, and IMF staff calculations.
1/ Includes Argentina, Brazil, Colombia, Mexico, and Peru.

## Figure 8. Chile: FCL Qualification



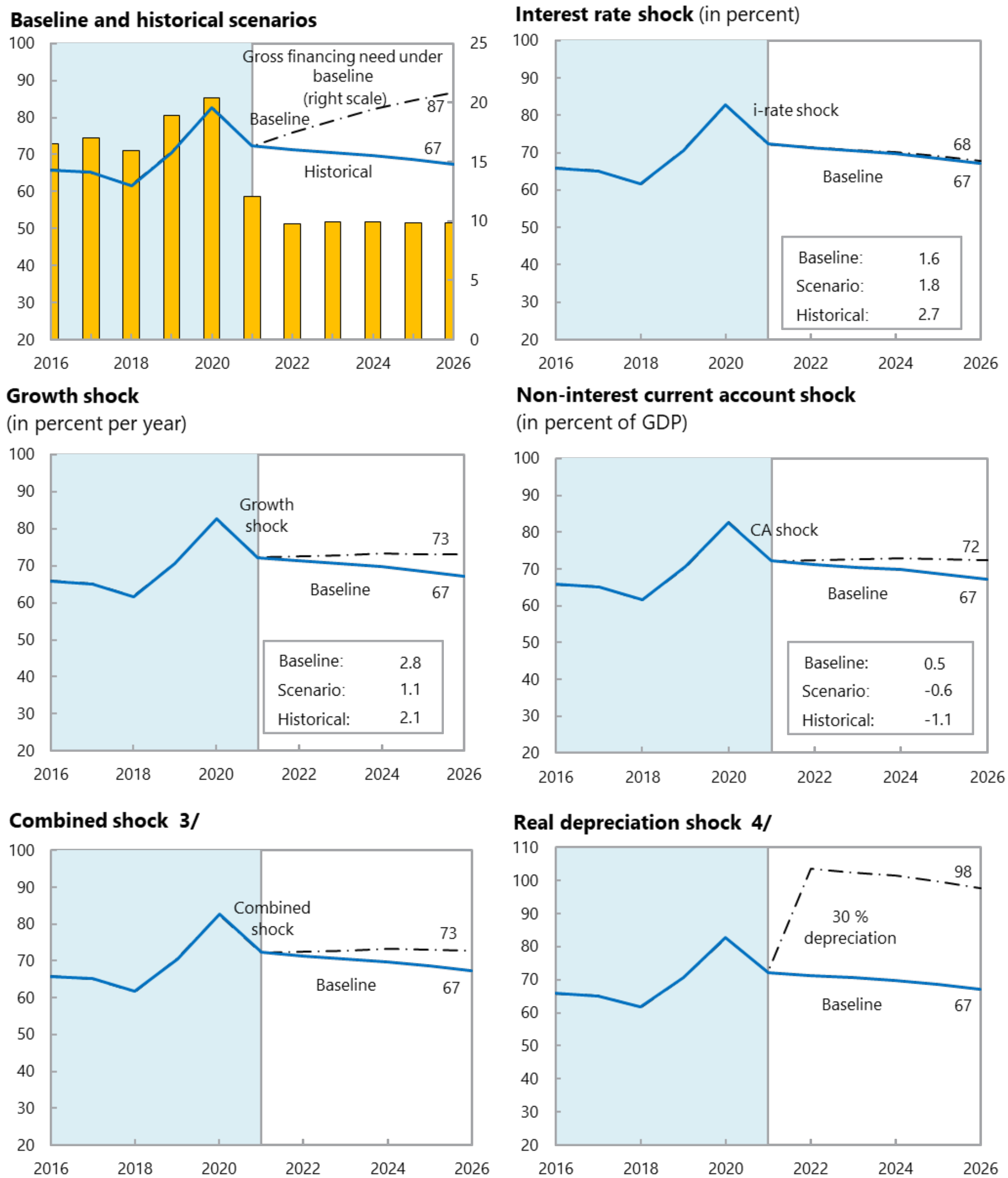

Source: Central Bank of Chile, Bloomberg, Ministry of Finance, and IMF staff calculations.
1/ Combination of permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
2/ Includes currency and deposits, other accounts payable, and SDR's.
3/ Includes Argentina, Barbados, Bolivia, Brazil, Belize, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Panama, Peru, Paraguay, Suriname, El Salvador, Trinidad and Tobago, Uruguay, and Venezuela.
4/ 2% GDP shock, 0.25% inflation shock, 10% expenditure shock, and an interest rate shock of 25bps.
5/ Shock equivalent to 10% of banking-sector assets.
6/ REER depreciation of 22%.

## Figure 9. Chile: Reserve Coverage and FCLs in an International Perspective 1/




Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample of countries included in these charts includes all EMEs for which data is available. For Colombia, FCL amount refers to remaining precautionary access.
2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016. For Colombia, includes a commodity buffer. Without the buffer, reserves coverage excluding the FCL is 145 percent.
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.
5/ The current account balance is set to zero if it is in surplus.

**Figure 10. Chile: External Debt Sustainability Bound Tests 1/ 2/**
(External debt in percent of GDP)

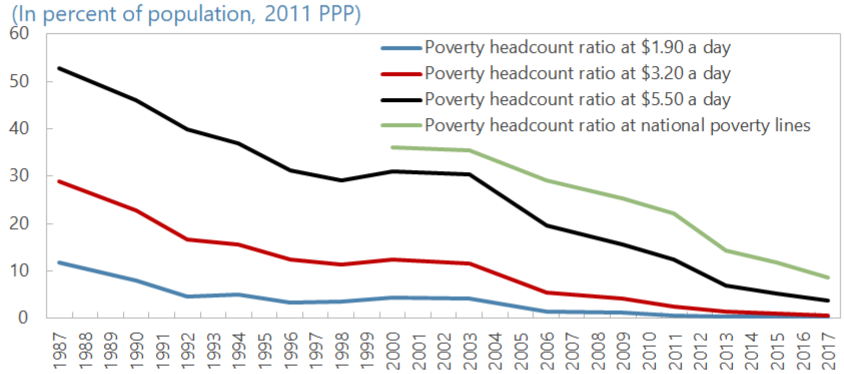



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

## Figure 11. Chile: Poverty and Income Distribution

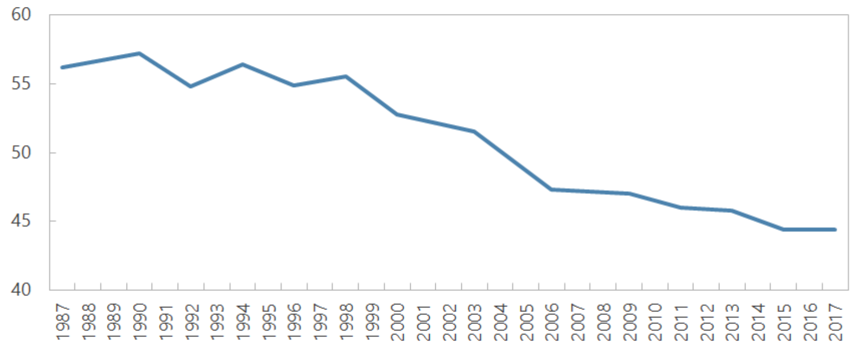
*Poverty has declined substantially...*

### Chile: Poverty Headcount Ratio
(In percent of population, 2011 PPP)



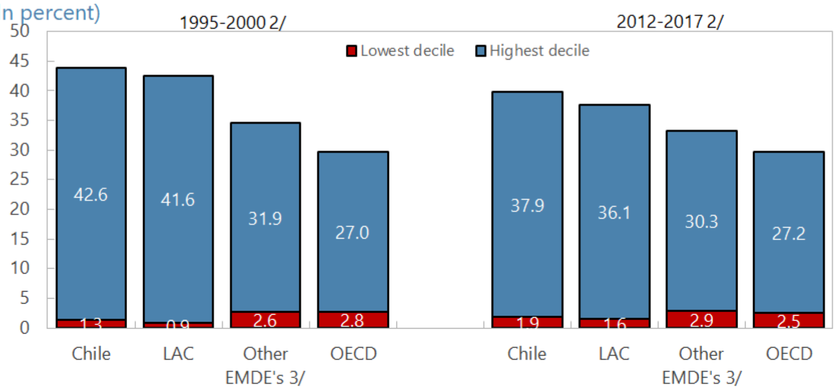

*...and income distribution has improved...*

### Chile: GINI
(Index)




*...though inequality remains high when compared to other countries.*

### Chile and ROW: Income Share by Percentile 1/
(In percent)




Sources: World Bank World Development Indicators and IMF staff calculations.
1/ Average by region.
2/ Latest available data from the time period was used.
3/ Other EMDE's: Other emerging markets and developing countries.

## Table 1. Chile: Selected Social and Economic Indicators 1/

| | | | |
|---|---|---|---|
| GDP (2019), in billions of pesos | 196,397 | Quota | |
| GDP (2019), in billions of U.S. dollars | 279.3 | in millions of SDRs | 1,744 |
| Per capita (2019), U.S. dollars | 14,621 | in % of total | 0.37 |
| Population (2019), in millions | 19.1 | Poverty rate (2017) | 8.60 |
| Main products and exports | Copper | Gini coefficient (2017) | 46.60 |
| Key export markets | China, Euro area, U.S. | Literacy rate (2015) | 99.2 |

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| **Output** | | | | | | | | | |
| Real GDP | 3.7 | 1.0 | -5.8 | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Total domestic demand | 4.5 | 0.9 | -9.3 | 8.7 | 3.8 | 2.8 | 2.5 | 2.5 | 2.4 |
| Consumption | 3.7 | 0.9 | -6.9 | 9.1 | 4.2 | 2.9 | 2.1 | 2.4 | 2.2 |
| Private | 3.8 | 1.1 | -7.7 | 10.0 | 4.9 | 3.2 | 2.3 | 2.7 | 2.6 |
| Public | 3.4 | 0.0 | -3.7 | 5.6 | 0.5 | 1.3 | 1.0 | 0.9 | -0.1 |
| Investment 2/ | 7.3 | 1.0 | -17.7 | 7.3 | 2.4 | 2.2 | 4.4 | 2.8 | 3.3 |
| Fixed | 5.1 | 4.5 | -11.5 | 7.4 | 4.0 | 3.5 | 4.3 | 1.9 | 1.4 |
| Private | 6.1 | 5.2 | -11.2 | 6.0 | 2.3 | 5.3 | 4.6 | 2.7 | 1.8 |
| Public | -2.5 | -1.2 | -14.3 | 20.2 | 17.8 | -9.5 | 2.0 | -5.6 | -2.6 |
| Inventories 3/ | 0.5 | -0.7 | -1.4 | -0.1 | -0.4 | -0.3 | -0.1 | 0.1 | 0.4 |
| Net exports 3/ | -0.9 | 0.0 | 3.5 | -1.9 | -0.1 | -0.1 | 0.0 | 0.0 | 0.1 |
| Exports | 5.3 | -2.6 | -1.1 | 1.9 | 4.6 | 3.2 | 2.8 | 2.7 | 2.7 |
| Imports | 8.1 | -2.3 | -12.8 | 8.7 | 5.1 | 3.5 | 2.7 | 2.6 | 2.3 |
| **Employment** | | | | | | | | | |
| Unemployment rate (annual average) | 7.4 | 7.2 | 10.8 | 8.9 | 8.2 | 7.7 | 7.4 | 7.2 | 7.2 |
| **Consumer prices** | | | | | | | | | |
| Inflation (End of period, %) | 2.1 | 3.0 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Inflation (average, %) | 2.3 | 2.3 | 3.0 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| | (In percent of GDP, unless otherwise specified) | | | | | | | | |
| **Public sector finances** | | | | | | | | | |
| Central government revenue | 22.0 | 21.7 | 19.9 | 23.3 | 22.8 | 22.7 | 23.1 | 23.1 | 23.1 |
| Central government expenditure | 23.7 | 24.5 | 27.2 | 27.4 | 25.9 | 24.9 | 24.6 | 24.0 | 24.0 |
| Central government fiscal balance | -1.7 | -2.9 | -7.3 | -4.1 | -3.1 | -2.2 | -1.5 | -0.9 | -0.9 |
| Structural Fiscal Balance | -1.5 | -1.7 | -2.6 | -6.0 | -3.9 | -2.9 | -1.9 | -0.9 | -0.9 |
| Structural Non-Mining Primary Balance (% of NGDP) | -2.4 | -3.0 | -3.6 | -6.2 | -4.7 | -3.7 | -2.5 | -1.8 | -1.7 |
| Central Government Gross Debt | 25.6 | 28.2 | 32.5 | 34.6 | 38.1 | 40.5 | 41.6 | 42.0 | 41.7 |
| of which, FX-denominated Debt | 5.1 | 5.8 | 7.3 | 8.5 | 9.2 | 9.8 | 10.5 | 10.5 | 10.5 |
| Central Government Net Debt | 5.7 | 8.2 | 10.9 | 14.3 | 17.0 | 18.8 | 19.9 | 20.3 | 20.6 |
| Public sector gross debt 4/ | 45.5 | 49.1 | 55.2 | 57.2 | 60.7 | 63.1 | 64.2 | 64.7 | 64.3 |
| Of which, share of FX-denominated Debt (in %) | 19.8 | 20.6 | 22.6 | 24.7 | 24.1 | 24.3 | 25.2 | 24.9 | 25.2 |
| | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| **Money and credit** | | | | | | | | | |
| Broad money | 11.2 | 9.4 | 1.9 | 11.1 | 6.4 | 5.1 | 4.9 | 5.0 | 5.2 |
| Credit to the private sector | 10.1 | 9.7 | 3.2 | ... | ... | ... | ... | ... | ... |
| **Balance of payments** | | | | | | | | | |
| Current account (% of GDP) | -3.9 | -3.7 | 1.4 | 0.0 | -0.3 | -0.5 | -0.7 | -0.8 | -0.9 |
| Current account (in billions of U.S. dollars) | -11.6 | -10.4 | 3.4 | 0.0 | -0.9 | -1.7 | -2.6 | -2.9 | -3.6 |
| Foreign direct investment net flows (% of GDP) | -2.2 | -1.2 | 1.3 | -1.5 | -1.0 | -1.0 | -0.8 | -0.7 | -1.0 |
| Gross international reserves (in billions of U.S. dollars) | 39.9 | 40.7 | 39.2 | 48.2 | 51.2 | 51.2 | 51.2 | 51.2 | 51.2 |
| Gross Reserves (Months of next year import) | 6.4 | 5.7 | 5.9 | 8.7 | 7.6 | 7.4 | 7.1 | 6.8 | 6.5 |
| Gross external debt (% of GDP) | 61.6 | 70.6 | 82.7 | 72.2 | 71.2 | 70.5 | 69.8 | 68.5 | 67.2 |
| Public | 8.3 | 10.7 | 13.8 | 12.8 | 13.2 | 13.7 | 14.1 | 14.0 | 13.8 |
| Private | 53.3 | 59.9 | 68.9 | 59.4 | 58.0 | 56.8 | 55.6 | 54.5 | 53.4 |
| | (Annual percentage change) | | | | | | | | |
| **Relative prices** | | | | | | | | | |
| Real effective exchange rate (real appreciation +) | 1.4 | -4.8 | -8.2 | ... | ... | ... | ... | ... | ... |
| Terms of trade | -2.8 | -1.7 | 10.1 | 12.5 | -0.1 | -1.2 | -2.0 | -1.8 | -1.0 |
| **Memorandum items** | | | | | | | | | |
| Nominal GDP (in billions of pesos) | 190,722 | 196,397 | 200,224 | 222,496 | 236,801 | 248,967 | 261,287 | 274,283 | 288,582 |
| (percentage change) | 6.2 | 3.0 | 1.9 | 11.1 | 6.4 | 5.1 | 4.9 | 5.0 | 5.2 |
| Nominal GDP (in billions of USD) | 297.4 | 279.3 | 252.8 | 312.1 | 331.9 | 349.0 | 366.3 | 384.2 | 403.6 |
| (percentage change) | 7.4 | -6.1 | -9.5 | 23.5 | 6.3 | 5.2 | 5.0 | 4.9 | 5.1 |

Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations and projections.

1/ The annual numbers occasionally show a small discrepancy with the authorities' published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.

2/ Investment is defined as: gross fixed capital formation + changes in inventories.

3/ Contribution to growth.

4/ Includes liabilities of the central government, the Central Bank of Chile and public enterprises. Excludes Recognition Bonds.

## Table 2. Chile: Summary Operations of the Central Government
(In percent of GDP; unless otherwise specified)

| | 2018 | 2019 | Est. 2020 | Proj. 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **22.0** | **21.7** | **19.9** | **23.3** | **22.8** | **22.7** | **23.1** | **23.1** | **23.1** |
| Taxes | 18.0 | 17.6 | 16.1 | 18.8 | 18.4 | 18.3 | 19.1 | 19.1 | 19.1 |
| Private mining companies | 0.8 | 1.0 | 0.7 | 1.2 | 1.2 | 1.0 | 1.0 | 0.9 | 0.9 |
| Other tax revenues, non-mining | 17.2 | 16.6 | 15.5 | 17.6 | 17.3 | 17.3 | 18.1 | 18.2 | 18.2 |
| Social contributions | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Grants | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 2.5 | 2.4 | 2.2 | 2.9 | 2.8 | 2.8 | 2.4 | 2.3 | 2.3 |
| Codelco revenues | 0.6 | 0.4 | 0.5 | 1.2 | 1.2 | 1.1 | 0.8 | 0.7 | 0.6 |
| Income on assets | 0.5 | 0.6 | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Operating income | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other income | 1.0 | 1.0 | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 |
| **Expenditures** | **23.7** | **24.5** | **27.2** | **27.4** | **25.9** | **24.9** | **24.6** | **24.0** | **24.0** |
| Expense | 21.7 | 22.5 | 25.4 | 25.4 | 23.5 | 22.8 | 22.6 | 22.1 | 22.1 |
| Compensation of employees | 4.8 | 5.0 | 5.3 | 5.2 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Purchases of goods and services | 1.9 | 2.0 | 2.2 | 2.1 | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 |
| Interest payments | 0.8 | 0.9 | 1.0 | 1.1 | 1.1 | 1.2 | 1.3 | 1.3 | 1.4 |
| Subsidies and grants | 8.4 | 8.8 | 11.0 | 11.2 | 9.6 | 8.9 | 8.6 | 8.2 | 8.2 |
| Social benefits | 4.0 | 4.0 | 4.3 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Other expense | 1.7 | 1.8 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Capital transfers | 1.6 | 1.7 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Net acquistion of nonfinancial assets | 2.0 | 2.0 | 1.8 | 2.0 | 2.3 | 2.0 | 2.0 | 1.9 | 1.9 |
| Investment | 2.0 | 2.1 | 1.8 | 2.0 | 2.3 | 2.1 | 2.1 | 1.9 | 1.9 |
| Sale of physical assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net lending/borrowing** | **-1.7** | **-2.9** | **-7.3** | **-4.1** | **-3.1** | **-2.2** | **-1.5** | **-0.9** | **-0.9** |
| Non-mining overall balance | -3.0 | -4.2 | -8.5 | -6.4 | -5.4 | -4.3 | -3.3 | -2.5 | -2.5 |
| **Net financial transactions** | **-1.7** | **-2.9** | **-7.3** | **-4.1** | **-3.1** | **-2.2** | **-1.5** | **-0.9** | **-0.9** |
| Net acquistion of financial assets | 0.0 | -0.6 | -3.2 | 0.7 | 2.1 | 1.6 | 1.1 | 1.1 | 0.4 |
| Net incurrence of liabilities | 1.7 | 2.2 | 4.1 | 4.8 | 5.1 | 3.8 | 2.5 | 2.0 | 1.3 |
| Domestic | 1.3 | 1.9 | 2.7 | 3.2 | 4.1 | 2.8 | 1.5 | 1.5 | 0.8 |
| External | 0.7 | 0.5 | 1.6 | 1.7 | 1.1 | 1.1 | 1.1 | 0.5 | 0.5 |
| Recognition bonds | -0.3 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| **Memorandum items** | | | | | | | | | |
| Primary balance | -1.3 | -2.5 | -6.8 | -3.5 | -2.5 | -1.6 | -0.8 | -0.2 | -0.1 |
| Structural Fiscal Balance 1/ | -1.5 | -1.7 | -2.6 | -6.0 | -3.9 | -2.9 | -1.9 | -0.9 | -0.9 |
| Structural Revenue 1/ | 22.2 | 22.8 | 24.6 | 21.4 | 22.0 | 22.0 | 22.7 | 23.1 | 23.1 |
| Fiscal Impulse 2/ | 0.1 | 0.6 | 0.7 | 2.6 | -1.5 | -1.0 | -1.2 | -0.8 | -0.1 |
| Expenditure growth (in real terms; annual percent change) | 3.6 | 4.2 | 9.9 | 8.5 | -2.4 | -1.8 | 0.8 | -0.8 | 2.1 |
| Central Government Net Debt | 5.7 | 8.2 | 10.9 | 14.3 | 17.0 | 18.8 | 19.9 | 20.3 | 20.6 |
| Gross debt | 25.6 | 28.2 | 32.5 | 34.6 | 38.1 | 40.5 | 41.6 | 42.0 | 41.7 |
| Peso-denominated assets | 7.6 | 8.0 | 8.2 | 7.6 | 7.9 | 8.2 | 8.2 | 8.2 | 8.0 |
| Foreign currency-denominated assets | 12.3 | 12.1 | 13.5 | 12.6 | 13.2 | 13.5 | 13.5 | 13.5 | 13.1 |
| Central Government Net Debt (Excl Pension Reservation Fund) | 9.2 | 12.3 | 14.5 | 17.7 | 20.4 | 22.3 | 23.3 | 23.8 | 24.1 |
| Public Sector Gross Debt 3/ | 45.5 | 49.1 | 55.2 | 57.2 | 60.7 | 63.1 | 64.2 | 64.7 | 64.3 |
| Public Sector Net Debt 3/ | 9.8 | 11.8 | 15.0 | 18.4 | 21.1 | 23.0 | 24.0 | 24.4 | 24.7 |
| Nominal GDP (trillions of pesos) | 190.7 | 196.4 | 200.2 | 222.5 | 236.8 | 249.0 | 261.3 | 274.3 | 288.6 |
| General Government Fiscal Balance 4/ | -1.5 | -2.7 | -7.2 | -3.9 | -2.9 | -2.1 | -1.3 | -0.7 | -0.7 |

Sources: Ministry of Finance and IMF staff calculations and projections.

1/ The output gap used for the structural adjustment calculation is measured as the difference between staff's real GDP and the potential GDP of the committee of experts for years for which it is available and binding. Beyond those years, the output gap is progressively closed over time taking into account staff's assessment of the state of the economy.

2/ The Fiscal Impulse is defined as the negative of the annual change of the structural non-mining primary balance.

3/ Includes liabilities of the central government, the cental bank of Chile and non-financial public enterprises. Excludes Recognition Bonds.

4/ Includes the central government and municipality governments.

## Table 3. Chile: Balance of Payments 1/
(In millions of US$; unless otherwise specified)

| | 2018 | 2019 | Est. 2020 | Proj. 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|
| **Current account** | -11,623 | -10,364 | 3,438 | -15 | -887 | -1,742 | -2,599 | -2,922 | -3,647 |
| Trade balance of Goods | 4,229 | 2,894 | 18,438 | 25,346 | 26,035 | 25,568 | 24,830 | 24,158 | 24,483 |
| Exports | 74,706 | 68,780 | 73,490 | 91,352 | 94,598 | 96,675 | 98,943 | 101,377 | 104,560 |
| Copper | 35,648 | 32,604 | 37,779 | 51,474 | 53,287 | 54,120 | 54,773 | 55,577 | 57,148 |
| Non-copper | 39,058 | 36,177 | 35,711 | 39,878 | 41,311 | 42,555 | 44,170 | 45,800 | 47,412 |
| Imports | 70,477 | 65,887 | 55,052 | 66,006 | 68,563 | 71,107 | 74,114 | 77,219 | 80,077 |
| Net services | -4,670 | -5,104 | -4,999 | -4,580 | -5,043 | -5,532 | -6,002 | -6,276 | -6,393 |
| Net income | -13,532 | -10,144 | -10,963 | -21,920 | -22,964 | -22,798 | -22,373 | -21,683 | -22,613 |
| Net transfers | 2,350 | 1,840 | 962 | 1,139 | 1,085 | 1,020 | 946 | 879 | 876 |
| Capital account balance | 43 | 672 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Financial account balance** | -12,748 | -9,047 | 3,890 | -9,015 | -3,887 | -1,742 | -2,599 | -2,922 | -3,647 |
| Foreign direct investment | -6,450 | -3,247 | 3,197 | -4,812 | -3,373 | -3,459 | -2,868 | -2,771 | -4,006 |
| Abroad by Chilean residents | 1,309 | 9,340 | 11,725 | 6,878 | 6,555 | 7,161 | 8,332 | 8,130 | 7,411 |
| In Chile by foreign residents | 7,760 | 12,587 | 8,528 | 11,690 | 9,928 | 10,620 | 11,200 | 10,902 | 11,418 |
| Of which, debt instruments | -616 | 1,997 | 924 | 1,098 | 614 | 845 | 1,150 | 971 | 983 |
| Portfolio investment | -2,536 | -9,517 | -12,304 | -5,472 | -7,937 | -9,260 | -9,175 | -8,357 | -9,135 |
| Abroad by Chilean residents | 2,396 | 1,667 | -5,377 | 3,844 | 673 | 212 | -170 | 1,197 | 503 |
| In Chile by foreign residents | 4,934 | 11,184 | 6,926 | 9,316 | 8,610 | 9,472 | 9,006 | 9,554 | 9,638 |
| Of which, equities | -1,557 | 2,968 | 204 | 274 | 253 | 278 | 265 | 281 | 283 |
| Of which, debt | 6,490 | 8,217 | 6,723 | 9,042 | 8,357 | 9,193 | 8,741 | 9,273 | 9,355 |
| Financial derivatives | 882 | 1,520 | 2,524 | 2,523 | 2,523 | 2,523 | 2,523 | 2,523 | 2,523 |
| Other investments | -4,643 | 2,198 | 10,474 | -1,254 | 4,900 | 8,453 | 6,922 | 5,683 | 6,971 |
| Abroad by Chilean residents | -712 | 2,974 | 7,845 | 7,845 | 7,845 | 7,845 | 7,845 | 7,845 | 7,845 |
| In Chile by foreign residents | 3,930 | 777 | -2,629 | 9,099 | 2,945 | -608 | 923 | 2,162 | 874 |
| **Change in reserves assets** | 1,397 | -153 | -2,895 | 9,000 | 3,000 | 0 | 0 | 0 | 0 |
| Errors and omissions | 230 | 493 | -2,443 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross official international reserves | 6.4 | 5.7 | 5.9 | 8.7 | 7.6 | 7.4 | 7.1 | 6.8 | 6.5 |
| (In months of imports of goods and services) | | | | | | | | | |
| | | | | (In percent of GDP) | | | | | |
| **Current account** | -3.9 | -3.7 | 1.4 | 0.0 | -0.3 | -0.5 | -0.7 | -0.8 | -0.9 |
| Trade balance of Goods | 1.4 | 1.0 | 7.3 | 8.1 | 7.8 | 7.3 | 6.8 | 6.3 | 6.1 |
| Exports | 25.1 | 24.6 | 29.1 | 29.3 | 28.5 | 27.7 | 27.0 | 26.4 | 25.9 |
| Copper | 12.0 | 11.7 | 14.9 | 16.5 | 16.1 | 15.5 | 15.0 | 14.5 | 14.2 |
| Non-copper | 13.1 | 13.0 | 14.1 | 12.8 | 12.4 | 12.2 | 12.1 | 11.9 | 11.7 |
| Imports | 23.7 | 23.6 | 21.8 | 21.1 | 20.7 | 20.4 | 20.2 | 20.1 | 19.8 |
| Net services | -1.6 | -1.8 | -2.0 | -1.5 | -1.5 | -1.6 | -1.6 | -1.6 | -1.6 |
| Net income | -4.5 | -3.6 | -4.3 | -7.0 | -6.9 | -6.5 | -6.1 | -5.6 | -5.6 |
| Net transfers | 0.8 | 0.7 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| **Financial account balance 2/** | -4.3 | -3.2 | 1.5 | -2.9 | -1.2 | -0.5 | -0.7 | -0.8 | -0.9 |
| | | | | (Annual change in percent) | | | | | |
| Total export volume | 6.1 | -2.4 | 3.0 | 3.5 | 4.6 | 3.2 | 2.8 | 2.7 | 2.7 |
| Total import volume | 8.5 | -2.5 | -10.4 | 10.3 | 5.1 | 3.5 | 2.7 | 2.6 | 2.3 |
| Terms of trade | -2.8 | -1.7 | 10.1 | 12.5 | -0.1 | -1.2 | -2.0 | -1.8 | -1.0 |
| Total export prices | 2.5 | -5.6 | 3.8 | 19.4 | -1.0 | -1.0 | -0.4 | -0.2 | 0.4 |
| Copper export prices | 0.5 | -7.3 | 15.0 | 33.9 | -1.5 | -2.2 | -2.1 | -1.8 | -0.5 |
| Total import price | 5.5 | -4.0 | -5.6 | 6.2 | -0.9 | 0.2 | 1.6 | 1.6 | 1.4 |
| **Memorandum items** | | | | | | | | | |
| Copper price (WEO; U.S. cents per pound) | 296 | 273 | 280 | 377 | 372 | 363 | 356 | 349 | 348 |
| Volume of copper exports (2004=100) | 105 | 104 | 105 | 106 | 111 | 115 | 119 | 123 | 127 |

Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations and projections.
1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.
2/ Excluding change in reserves.

## Table 4. Chile: Monetary Survey

(In billions of pesos; unless otherwise specified)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| **Central bank** | | | | | | | |
| Net foreign assets | 23,937 | 26,645 | 26,391 | 23,332 | 27,043 | 29,547 | 27,222 |
| Net international reserves | 24,567 | 27,333 | 27,021 | 23,983 | 27,731 | 30,274 | 27,881 |
| Net international reserves (in millions of US$) | 40,447 | 38,643 | 40,494 | 38,983 | 39,861 | 40,657 | 39,200 |
| Other foreign assets, net | -630 | -688 | -630 | -651 | -688 | -727 | -659 |
| Net domestic assets | -15,754 | -17,493 | -16,049 | -12,226 | -15,747 | -17,212 | 3,034 |
| Net credit to general government | -1,102 | -124 | -476 | -9 | -553 | -392 | 327 |
| Net claims on banks and financial corporations | -5,854 | -6,306 | -5,028 | -3,403 | -5,163 | -4,599 | 6,640 |
| Credit to the private sector | 518 | 406 | 319 | 189 | 47 | -33 | -31 |
| Other items (net) | -9,317 | -11,469 | -10,863 | -9,003 | -10,077 | -12,187 | -19,135 |
| Monetary base | 8,183 | 9,152 | 10,343 | 11,106 | 11,296 | 12,335 | 30,256 |
| Currency | 5,371 | 5,858 | 6,275 | 6,528 | 6,740 | 7,576 | 12,180 |
| Required reserves | 2,812 | 3,294 | 4,068 | 4,577 | 4,556 | 4,760 | 18,077 |
| **Other depository institutions** | | | | | | | |
| Net foreign assets | -5,085 | -6,120 | -5,394 | -7,237 | -10,199 | -6,048 | 1,798 |
| Net foreign assets (in millions of US$) | -8,372 | -8,652 | -8,083 | -11,763 | -14,660 | -8,122 | 2,528 |
| Net domestic assets | 112,450 | 126,310 | 132,992 | 139,488 | 156,578 | 171,157 | 163,806 |
| Net credit to general government | 890 | -532 | -256 | 2,965 | 3,463 | 4,629 | 12,541 |
| Credit to the private sector | 117,658 | 130,465 | 137,324 | 144,061 | 158,792 | 174,225 | 179,836 |
| Other items (net) | -6,098 | -3,623 | -4,076 | -7,538 | -5,677 | -7,697 | -28,571 |
| Liabilities to the private sector | 107,365 | 120,190 | 127,598 | 132,251 | 146,379 | 165,109 | 165,604 |
| Demand deposits | 20,453 | 23,562 | 24,044 | 27,038 | 30,116 | 36,058 | 56,384 |
| Quasi-money | 86,912 | 96,628 | 103,554 | 105,213 | 116,263 | 129,051 | 109,220 |
| **Banking system** | | | | | | | |
| Net foreign assets | 18,852 | 20,526 | 20,997 | 16,095 | 16,844 | 23,499 | 29,020 |
| Net domestic assets | 102,556 | 113,683 | 120,876 | 129,252 | 142,030 | 152,531 | 158,216 |
| Net credit to general government | -212 | -656 | -732 | 2,956 | 2,910 | 4,237 | 12,868 |
| Credit to the private sector | 118,176 | 130,871 | 137,643 | 144,250 | 158,839 | 174,192 | 179,805 |
| Other items (net) | -15,408 | -16,531 | -16,035 | -17,954 | -19,715 | -25,898 | -34,457 |
| Liabilities to the private sector | 121,408 | 134,209 | 141,873 | 145,347 | 158,874 | 176,030 | 187,236 |
| Money | 25,824 | 29,420 | 30,319 | 33,566 | 36,856 | 43,633 | 68,564 |
| Quasi-money | 95,584 | 104,789 | 111,554 | 111,781 | 122,018 | 132,397 | 118,672 |
| **Memorandum items** | | | | | | | |
| | (Annual percentage change) | | | | | | |
| Monetary base | -6.5 | 11.8 | 13.0 | 7.4 | 1.7 | 9.2 | 145.3 |
| Liabilities to the private sector | 9.9 | 10.5 | 5.7 | 2.4 | 9.3 | 10.8 | 6.4 |
| Credit to the private sector (banking system) | 10.2 | 10.7 | 5.2 | 4.8 | 10.1 | 9.7 | 3.2 |
| | (In percent of GDP) | | | | | | |
| Monetary base | 5.5 | 5.7 | 6.1 | 6.2 | 5.9 | 6.3 | 15.1 |
| Liabilities to the private sector | 81.7 | 84.1 | 83.7 | 80.9 | 83.3 | 89.6 | 93.5 |
| Credit to the private sector (banking system) | 79.5 | 82.0 | 81.2 | 80.3 | 83.3 | 88.7 | 89.8 |

Sources: Central Bank of Chile, Haver, and IMF staff calculations.

## Table 5. Chile: Medium-Term Macroeconomic Framework 1/

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **National accounts** | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| Real GDP | 3.7 | 1.0 | -5.8 | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Total domestic demand | 4.5 | 0.9 | -9.3 | 8.7 | 3.8 | 2.8 | 2.5 | 2.5 | 2.4 |
| Consumption | 3.7 | 0.9 | -6.9 | 9.1 | 4.2 | 2.9 | 2.1 | 2.4 | 2.2 |
| Private | 3.8 | 1.1 | -7.7 | 10.0 | 4.9 | 3.2 | 2.3 | 2.7 | 2.6 |
| Public | 3.4 | 0.0 | -3.7 | 5.6 | 0.5 | 1.3 | 1.0 | 0.9 | -0.1 |
| Investment 2/ | 7.3 | 1.0 | -17.7 | 7.3 | 2.4 | 2.2 | 4.4 | 2.8 | 3.3 |
| Fixed | 5.1 | 4.5 | -11.5 | 7.4 | 4.0 | 3.5 | 4.3 | 1.9 | 1.4 |
| Private | 6.1 | 5.2 | -11.2 | 6.0 | 2.3 | 5.3 | 4.6 | 2.7 | 1.8 |
| Public | -2.5 | -1.2 | -14.3 | 20.2 | 17.8 | -9.5 | 2.0 | -5.6 | -2.6 |
| Inventories 3/ | 0.5 | -0.7 | -1.4 | -0.1 | -0.4 | -0.3 | -0.1 | 0.1 | 0.4 |
| Net exports 3/ | -0.9 | 0.0 | 3.5 | -1.9 | -0.1 | -0.1 | 0.0 | 0.0 | 0.1 |
| Exports | 5.3 | -2.6 | -1.1 | 1.9 | 4.6 | 3.2 | 2.8 | 2.7 | 2.7 |
| Imports | 8.1 | -2.3 | -12.8 | 8.7 | 5.1 | 3.5 | 2.7 | 2.6 | 2.3 |
| Consumer prices | | | | | | | | | |
| End of period | 2.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Consumer prices (average) | 2.3 | 2.3 | 3.0 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Output gap | -0.7 | -1.3 | -5.6 | -1.4 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Potential growth | 2.6 | 1.6 | -1.5 | 1.9 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Nominal GDP | 6.2 | 3.0 | 1.9 | 11.1 | 6.4 | 5.1 | 4.9 | 5.0 | 5.2 |
| **Balance of payments** | (In percent of GDP) | | | | | | | | |
| Current account | -3.9 | -3.7 | 1.4 | 0.0 | -0.3 | -0.5 | -0.7 | -0.8 | -0.9 |
| Trade balance | 1.4 | 1.0 | 7.3 | 8.1 | 7.8 | 7.3 | 6.8 | 6.3 | 6.1 |
| Financial account balance | -4.3 | -3.2 | 1.5 | -2.9 | -1.2 | -0.5 | -0.7 | -0.8 | -0.9 |
| Of which, foreign direct investment (net) | -2.2 | -1.2 | 1.3 | -1.5 | -1.0 | -1.0 | -0.8 | -0.7 | -1.0 |
| Change in reserves assets | 0.5 | -0.1 | -1.1 | 2.9 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 0.1 | 0.2 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| REER (in percent y/y, + = appreciation) | 1.4 | -4.8 | -8.2 | ... | ... | ... | ... | ... | ... |
| | (Annual percentage change) | | | | | | | | |
| Total export volume | 6.1 | -2.4 | 3.0 | 3.5 | 4.6 | 3.2 | 2.8 | 2.7 | 2.7 |
| Of which, copper export volume | 5.4 | -1.3 | 1.2 | 0.7 | 5.1 | 3.8 | 3.4 | 3.3 | 3.3 |
| Total import volume | 8.5 | -2.5 | -10.4 | 10.3 | 5.1 | 3.5 | 2.7 | 2.6 | 2.3 |
| Terms of trade | -2.8 | -1.7 | 10.1 | 12.5 | -0.1 | -1.2 | -2.0 | -1.8 | -1.0 |
| Total export prices | 2.5 | -5.6 | 3.8 | 19.4 | -1.0 | -1.0 | -0.4 | -0.2 | 0.4 |
| Copper export price index | 0.5 | -7.3 | 15.0 | 33.9 | -1.5 | -2.2 | -2.1 | -1.8 | -0.5 |
| Total import price | 5.5 | -4.0 | -5.6 | 6.2 | -0.9 | 0.2 | 1.6 | 1.6 | 1.4 |
| **External debt** | (In percent of GDP) | | | | | | | | |
| Gross external debt | 61.6 | 70.6 | 82.7 | 72.2 | 71.2 | 70.5 | 69.8 | 68.5 | 67.2 |
| Public | 8.3 | 10.7 | 13.8 | 12.8 | 13.2 | 13.7 | 14.1 | 14.0 | 13.8 |
| Private | 53.3 | 59.9 | 68.9 | 59.4 | 58.0 | 56.8 | 55.6 | 54.5 | 53.4 |
| Gross int. reserves (in billions of U.S. dollars) | 39.9 | 40.7 | 39.2 | 48.2 | 51.2 | 51.2 | 51.2 | 51.2 | 51.2 |
| **Savings and investment** | | | | | | | | | |
| Gross domestic investment | 22.1 | 22.9 | 19.8 | 19.5 | 19.3 | 19.3 | 19.8 | 19.9 | 20.2 |
| Public | 2.3 | 2.3 | 2.0 | 2.3 | 2.6 | 2.3 | 2.3 | 2.1 | 2.1 |
| Private | 19.9 | 20.7 | 17.8 | 17.2 | 16.7 | 17.0 | 17.5 | 17.8 | 18.0 |
| National saving | 18.1 | 19.2 | 21.2 | 19.4 | 19.0 | 18.8 | 19.1 | 19.2 | 19.2 |
| Public | 0.8 | -0.4 | -5.1 | -1.7 | -0.3 | 0.2 | 0.9 | 1.4 | 1.4 |
| Private | 17.4 | 19.6 | 26.4 | 21.1 | 19.4 | 18.6 | 18.1 | 17.8 | 17.9 |
| **Public sector finance** | | | | | | | | | |
| Central government gross debt | 25.6 | 28.2 | 32.5 | 34.6 | 38.1 | 40.5 | 41.6 | 42.0 | 41.7 |
| Central government net debt | 5.7 | 8.2 | 10.9 | 14.3 | 17.0 | 18.8 | 19.9 | 20.3 | 20.6 |
| Central government balance | -1.7 | -2.9 | -7.3 | -4.1 | -3.1 | -2.2 | -1.5 | -0.9 | -0.9 |
| Total revenue | 22.0 | 21.7 | 19.9 | 23.3 | 22.8 | 22.7 | 23.1 | 23.1 | 23.1 |
| Total expenditure | 23.7 | 24.5 | 27.2 | 27.4 | 25.9 | 24.9 | 24.6 | 24.0 | 24.0 |
| Central government structural balance 4/ | -1.5 | -1.7 | -2.6 | -6.0 | -3.9 | -2.9 | -1.9 | -0.9 | -0.9 |
| **Employment** | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| Working age population | 2.2 | 2.2 | 2.0 | 1.6 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Labor force | 2.6 | 2.0 | -8.9 | 6.8 | 0.5 | 0.8 | 0.9 | 1.0 | 1.0 |
| Employment | 2.2 | 2.1 | -12.3 | 8.9 | 1.3 | 1.3 | 1.2 | 1.2 | 1.1 |
| Unemployment rate (in percent) | 7.4 | 7.2 | 10.7 | 8.9 | 8.2 | 7.7 | 7.4 | 7.2 | 7.2 |

Sources: Central Bank of Chile, Ministry of Finance, National Statistics Institute, Haver Analytics, and IMF staff calculations and projections.
1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.
2/ Investment is defined as: gross fixed capital formation + changes in inventories.
3/ Contribution to growth.
4/ The output gap used for the structural adjustment calculation is measured as the difference between staff's real GDP and the potential GDP of the committee of experts for years for which it is available and binding. Beyond those years, the output gap is progressively closed over time taking into account staff's assessment of the state of the economy.

## Table 6. Chile: Indicators of External Vulnerabilities 1/
(In percent; unless otherwise specified)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| **Financial indicators** | | | | | | | |
| M3 (percent change) | 11.1 | 12.4 | 8.7 | 4.8 | 11.0 | 10.9 | 3.1 |
| Less pension funds' deposits (annual percentage change) | 9.1 | 13.5 | 10.1 | 5.0 | 12.3 | 9.7 | 17.8 |
| Private sector credit to GDP | 79.5 | 82.0 | 81.2 | 80.3 | 83.3 | 88.7 | 89.8 |
| 90-day central bank promissory note (nominal) interest rate (avg.) | 4.0 | 2.7 | 3.5 | 2.6 | 2.8 | 3.3 | 3.4 |
| Share of foreign currency deposits in total deposits | 16.6 | 15.4 | 15.2 | 13.0 | 12.8 | 14.9 | 14.8 |
| Share of foreign currency loans in total credit | 13.7 | 13.9 | 13.0 | 11.4 | 11.0 | 11.8 | 11.8 |
| **External indicators** | | | | | | | |
| Exports of goods, U.S. dollars (annual percentage change) | -2.2 | -17.4 | -2.1 | 13.4 | 8.5 | -7.9 | 6.8 |
| Imports of goods, U.S. dollars (annual percentage change) | -8.2 | -14.6 | -4.8 | 10.1 | 14.7 | -6.5 | -16.4 |
| Terms of trade (annual percentage change) | -2.1 | -3.0 | 3.9 | 10.1 | -2.8 | -1.7 | 10.1 |
| REER (annual percent change, period average) | -9.3 | -1.0 | 1.8 | 3.4 | 1.4 | -4.8 | -8.2 |
| Exchange rate (pesos per U.S. dollar, period average) | 570.4 | 654.1 | 676.9 | 648.9 | 641.2 | 703.3 | 792.2 |
| Current account balance (percent of GDP) | -2.0 | -2.4 | -2.0 | -2.3 | -3.9 | -3.7 | 1.4 |
| Financial account less reserves accumulation (percent of GDP) | -2.5 | -2.2 | -1.9 | -0.7 | -4.3 | -3.2 | 1.5 |
| Gross official reserves (in billions of U.S. dollars) 2/ | 40.4 | 38.6 | 40.5 | 39.0 | 39.9 | 40.7 | 39.2 |
| Gross official reserves, months of imports of goods and services | 5.4 | 5.6 | 6.8 | 6.8 | 6.4 | 5.7 | 5.9 |
| Gross official reserves to M3 | 15.0 | 14.9 | 13.5 | 11.5 | 11.9 | 11.7 | 10.5 |
| Gross official reserves to short-term external debt 3/ | 92.9 | 110.4 | 107.9 | 89.1 | 109.5 | 91.5 | 74.3 |
| Gross official reserves (percent of GDP) | 15.5 | 15.8 | 16.2 | 14.1 | 13.4 | 14.6 | 15.5 |
| IMF reserve adequacy metric (percent of GDP) 4/ | 14.8 | 14.7 | 15.3 | 15.5 | 14.7 | 16.8 | 18.2 |
| Total external debt (percent of GDP) | 58.4 | 66.0 | 65.8 | 65.2 | 61.6 | 70.6 | 82.7 |
| *Of which: External public sector debt* | 2.5 | 3.2 | 4.0 | 4.6 | 4.9 | 5.7 | 8.4 |
| Total external debt to exports of goods and services | 177.4 | 224.9 | 234.7 | 229.5 | 216.6 | 252.7 | 261.9 |
| External interest payments to exports of goods and services | 3.9 | 6.1 | 5.4 | 7.1 | 5.7 | 5.9 | 8.1 |
| External amortization payments to exports of goods and services | 49.9 | 57.3 | 51.7 | 51.9 | 42.3 | 54.5 | 68.8 |
| **Financial market indicators** | | | | | | | |
| Stock market index (in U.S. dollars; period average) 5/ | 1726 | 1465 | 1409 | 1731 | 1869 | 1512 | 1037 |
| Sovereign long-term foreign currency debt rating (end of period) | | | | | | | |
| Moody's | Aa3 | Aa3 | Aa3 | Aa3 | A1 | A1 | A1 |
| S&P | AA- | AA- | AA- | A+ | A+ | A+ | A+ |
| Fitch ratings | A+ | A+ | A+ | A | A | A | A- |

Sources: Central Bank of Chile, Haver Analytics, WEO, and IMF staff calculations.

1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.

2/ Gold valued at end-period market prices.

3/ Includes amortization of medium/long-term debt due during the following year.

4/ Assessing Reserve Adequacy (IMF, 2011 Policy Paper).

5/ Morgan Stanley Capital International Index (Dec/1987 = 100).

## Table 7. Chile: Financial Soundness Indicators

(In percent; unless otherwise specified)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 1/ |
|---|---|---|---|---|---|---|---|
| **Total Assets** | | | | | | | |
| Total assets (In billions of Chilean pesos) | 180,846 | 203,609 | 211,687 | 220,365 | 246,266 | 290,500 | 319,546 |
| Percent of GDP | 121.7 | 127.6 | 124.9 | 122.7 | 129.1 | 147.9 | 159.6 |
| **Capital Adequacy** | | | | | | | |
| Regulatory Capital to Risk-Weighted Assets | 13.4 | 12.6 | 13.8 | 13.8 | 13.3 | 12.8 | 14.3 |
| Regulatory Tier 1 Capital to Risk-Weighted Assets | 10.0 | 9.4 | 10.9 | 11.0 | 10.7 | 10.3 | 10.6 |
| Capital to Assets | 8.0 | 7.6 | 8.4 | 8.4 | 8.4 | 7.5 | 6.9 |
| **Credit Risk** | | | | | | | |
| NPLs Net of Provisions to Capital | -2.1 | -3.3 | -5.2 | -4.6 | -4.5 | -4.3 | -9.0 |
| NPLs to Gross Loans | 2.1 | 1.9 | 1.8 | 1.9 | 1.9 | 2.1 | 1.6 |
| **Profitability** | | | | | | | |
| Return on Assets | 1.5 | 1.3 | 1.2 | 1.3 | 1.3 | 1.2 | 0.5 |
| Return on Equity | 19.3 | 17.7 | 13.8 | 15.4 | 15.5 | 16.2 | 7.3 |
| Interest Margin to Gross Income | 67.8 | 66.6 | 66.8 | 67.1 | 67.6 | 67.1 | 68.2 |
| Trading Income to Gross Income | 10.8 | 10.6 | 10.1 | 8.5 | 8.7 | 9.6 | 9.8 |
| Non-interest Expenses to Gross Income | 47.4 | 48.6 | 52.1 | 51.1 | 49.3 | 46.8 | 54.3 |
| **Liquidity** | | | | | | | |
| Liquid Assets to Total Assets | 13.6 | 13.8 | 14.7 | 15.3 | 14.2 | 15.3 | 19.8 |
| **FX and Derivative Risk** | | | | | | | |
| FX Loans to Total Loans | 18.4 | 20.0 | 18.2 | 16.6 | 18.4 | 18.9 | 17.5 |
| FX Liabilities to Total Liabilities | 25.5 | 27.1 | 25.8 | 24.0 | 25.5 | 26.7 | 25.1 |

Sources: IMF Financial Soundness Indicators, Moody's Investor Service and IMF staff calculations.

1/ As of October, 2020.

## Table 8. Chile: Capacity to Repay Indicators 1/

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **Exposure and Repayments (In SDR millions)** | | | | | | | |
| GRA credit to Chile | -- | 17,443 | 17,443 | 17,443 | 13,082 | 4,361 | -- |
| (In percent of quota) | -- | 1,000 | 1,000 | 1,000 | 750 | 250 | -- |
| Charges due on GRA credit 2/ | -- | 306 | 467 | 467 | 514 | 311 | 31 |
| Debt service due on GRA credit 2/ | -- | 306 | 467 | 467 | 4,875 | 9,033 | 4,392 |
| **Debt and Debt Service Ratios 3/** | | | | | | | |
| In percent of GDP | | | | | | | |
| Total external debt | 82.7 | 87.9 | 81.8 | 77.0 | 74.2 | 69.5 | 66.7 |
| Public external debt | 13.8 | 23.5 | 22.1 | 21.2 | 19.6 | 16.0 | 14.2 |
| GRA credit to Chile | -- | 9.3 | 8.3 | 7.6 | 5.4 | 1.7 | 0.0 |
| Total external debt service | 24.3 | 15.7 | 11.3 | 10.5 | 12.0 | 13.3 | 11.3 |
| Public external debt service | 1.4 | 1.2 | 0.6 | 0.6 | 2.2 | 3.7 | 1.9 |
| Debt service due on GRA credit | -- | 0.2 | 0.2 | 0.2 | 2.0 | 3.6 | 1.7 |
| In percent of Gross International Reserves | | | | | | | |
| Total external debt | 533.1 | 562.4 | 527.5 | 526.9 | 514.6 | 506.1 | 510.2 |
| Public external debt | 89.2 | 150.0 | 142.6 | 145.2 | 135.9 | 116.4 | 109.0 |
| GRA credit to Chile | -- | 59.3 | 53.6 | 51.8 | 37.5 | 12.6 | 0.0 |
| In percent of Exports of Goods and Services | | | | | | | |
| Total external debt service | 77.0 | 50.2 | 33.0 | 33.5 | 39.2 | 44.3 | 38.4 |
| Public external debt service | 4.5 | 3.9 | 1.9 | 1.8 | 7.3 | 12.2 | 6.3 |
| Debt service due on GRA credit | -- | 0.5 | 0.7 | 0.6 | 6.6 | 11.9 | 5.6 |
| In percent of Total External Debt | | | | | | | |
| GRA credit to Chile | -- | 10.5 | 10.2 | 9.8 | 7.3 | 2.5 | 0.0 |
| In percent of Public External Debt | | | | | | | |
| GRA credit to Chile | -- | 39.5 | 37.6 | 35.7 | 27.6 | 10.8 | 0.0 |
| Memo Items: | | | | | | | |
| U. S. dollars per SDR (period average) | 1.39 | 1.45 | 1.46 | 1.46 | 1.47 | 1.47 | 1.48 |
| U. S. dollars per SDR (end of period) | 1.44 | 1.45 | 1.46 | 1.47 | 1.47 | 1.48 | 1.48 |
| Oil Price (WEO APSP, US$ per barrel) | 41.29 | 58.52 | 54.83 | 52.54 | 51.31 | 50.73 | 50.55 |

Sources: Chilean authorities, Finance Department, World Economic Outlook, and IMF staff estimates.
1/ Assumes full drawing under the FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.
2/ Based on the rate of charge as of April 15, 2021. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

## Table 9. Chile: External Debt Sustainability Framework

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Debt-stabilizing non-interest current account 6/ |
| **Baseline: External debt** | 65.8 | 65.2 | 61.6 | 70.6 | 82.7 | | | **72.3** | **71.3** | **70.5** | **69.8** | **68.5** | **67.2** | **-1.6** |
| Change in external debt | -0.1 | -0.7 | -3.5 | 9.0 | 12.1 | | | -10.4 | -1.0 | -0.7 | -0.7 | -1.3 | -1.3 | |
| Identified external debt-creating flows (4+8+9) | 0.1 | -2.9 | 2.3 | 6.8 | 3.7 | | | -3.2 | -1.5 | -0.6 | -0.6 | -0.5 | 0.0 | |
| Current account deficit, excluding interest payments | 0.5 | 0.3 | 2.3 | 2.1 | -3.9 | | | -1.5 | -0.9 | -0.7 | -0.4 | -0.3 | -0.1 | |
| Balance of goods and services | 0.6 | 1.3 | -0.1 | -0.8 | 5.3 | | | 6.7 | 6.3 | 5.7 | 5.1 | 4.7 | 4.5 | |
| Exports | 28.1 | 28.4 | 28.5 | 27.9 | 31.6 | | | 32.5 | 31.5 | 30.6 | 29.8 | 29.1 | 28.7 | |
| Imports | -27.4 | -27.1 | -28.6 | -28.7 | -26.3 | | | -25.8 | -25.2 | -24.8 | -24.6 | -24.5 | -24.2 | |
| Net non-debt creating capital inflows (negative) | 0.0 | 1.0 | 2.9 | -0.6 | -1.7 | | | 1.1 | 0.8 | 0.7 | 0.4 | 0.4 | 0.7 | |
| Automatic debt dynamics 1/ | -0.3 | -4.2 | -2.8 | 5.4 | 9.3 | | | -2.8 | -1.3 | -0.7 | -0.6 | -0.6 | -0.6 | |
| Contribution from nominal interest rate | 1.5 | 2.0 | 1.6 | 1.6 | 2.6 | | | 1.5 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | |
| Contribution from real GDP growth | -1.1 | -0.7 | -2.3 | -0.7 | 4.6 | | | -4.3 | -2.5 | -1.8 | -1.7 | -1.7 | -1.6 | |
| Contribution from price and exchange rate changes 2/ | -0.7 | -5.5 | -2.2 | 4.4 | 2.2 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | -0.2 | 2.2 | -5.9 | 2.1 | 8.4 | | | -7.2 | 0.5 | -0.1 | -0.1 | -0.8 | -1.3 | |
| External debt-to-exports ratio (in percent) | 234.7 | 229.5 | 216.6 | 252.7 | 261.9 | | | 222.7 | 226.2 | 230.8 | 234.4 | 235.4 | 234.6 | |
| **Gross external financing need (in billions of US dollars) 4/** | 41.3 | 47.2 | 47.5 | 52.9 | 51.5 | | | **37.7** | **32.5** | **34.5** | **36.5** | **37.9** | **39.9** | |
| in percent of GDP | 16.5 | 17.1 | 16.0 | 18.9 | 20.4 | 10-Year | 10-Year | 12.1 | 9.8 | 9.9 | 10.0 | 9.9 | 9.9 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | **72.3** | **76.0** | **79.1** | **82.3** | **84.7** | **86.7** | **0.4** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | Historical Average | Standard Deviation | | | | | | | |
| Real GDP growth (in percent) | 1.7 | 1.2 | 3.7 | 1.0 | -5.8 | 2.1 | 3.3 | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 | |
| GDP deflator in US dollars (change in percent) | 0.9 | 9.3 | 3.6 | -7.0 | -3.8 | -0.4 | 6.5 | 15.9 | 2.6 | 2.4 | 2.3 | 2.3 | 2.5 | |
| Nominal external interest rate (in percent) | 2.3 | 3.4 | 2.7 | 2.5 | 3.3 | 2.7 | 0.4 | 2.3 | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | |
| Growth of exports (US dollar terms, in percent) | -1.8 | 12.0 | 7.7 | -7.8 | 2.3 | 0.1 | 9.5 | 26.8 | 3.2 | 2.0 | 2.3 | 2.5 | 3.4 | |
| Growth of imports (US dollar terms, in percent) | -4.3 | 9.3 | 13.4 | -5.7 | -17.3 | 0.6 | 13.4 | 21.2 | 3.8 | 3.7 | 4.2 | 4.1 | 3.9 | |
| Current account balance, excluding interest payments | -0.5 | -0.3 | -2.3 | -2.1 | 3.9 | -1.1 | 2.1 | 1.5 | 0.9 | 0.7 | 0.4 | 0.3 | 0.1 | |
| Net non-debt creating capital inflows | 0.0 | -1.0 | -2.9 | 0.6 | 1.7 | 0.5 | 1.6 | -1.1 | -0.8 | -0.7 | -0.4 | -0.4 | -0.7 | |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

# Annex I. Public Debt Sustainability Analysis

*Debt in Chile is sustainable with a high probability. The authorities remain committed to a medium-term structural fiscal consolidation, that would provide space for the necessary stimulus in the short run while stabilizing the debt ratio in the medium run. If the structural consolidation is implemented, the debt would still stabilize under plausible shock scenarios. The authorities continually manage state-contingent debts, which are clearly detailed in an annual report. Both the withdrawal of private pensions and the expansion of credit guarantees (FOGAPE) are expected to result in modest fiscal costs in the medium term.*

## Figure 1. Chile: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

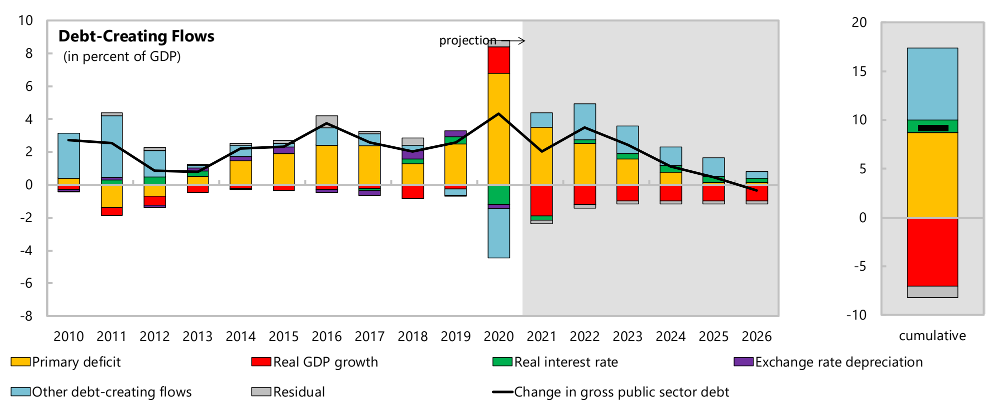
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 [2/] | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Nominal gross public debt | 16.3 | 28.2 | 32.5 | 34.6 | 38.1 | 40.5 | 41.6 | 42.0 | 41.7 |
| Public gross financing needs | 3.0 | 5.0 | 11.9 | 6.0 | 3.2 | 3.6 | 1.5 | 4.0 | 4.4 |
| Real GDP growth (in percent) | 3.6 | 1.0 | -5.8 | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation (GDP deflator, in percent) | 4.2 | 2.0 | 8.3 | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Nominal GDP growth (in percent) | 7.9 | 3.0 | 1.9 | 11.1 | 6.4 | 5.1 | 4.9 | 5.0 | 5.2 |
| Effective interest rate (in percent) [4/] | 5.5 | 3.7 | 3.5 | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |

| As of April 23, 2021 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 128 |
| 5Y CDS (bp) | | 52 |
| Ratings | Foreign | Local |
| Moody's | A1 | A1 |
| S&Ps | A | A+ |
| Fitch | A- | A- |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | 2.2 | 2.6 | 4.3 | 2.0 | 3.5 | 2.4 | 1.1 | 0.5 | -0.3 | 9.2 | |
| Identified debt-creating flows | 2.0 | 2.6 | 3.9 | 2.2 | 3.7 | 2.6 | 1.3 | 0.6 | -0.2 | 10.3 | |
| Primary deficit | 0.9 | 2.5 | 6.8 | 3.5 | 2.5 | 1.6 | 0.8 | 0.2 | 0.1 | 8.7 | -0.3 |
| Primary (noninterest) revenue and grants | 20.9 | 21.1 | 19.5 | 22.8 | 22.2 | 22.1 | 22.5 | 22.5 | 22.4 | 134.6 | |
| Primary (noninterest) expenditure | 21.9 | 23.6 | 26.3 | 26.3 | 24.7 | 23.7 | 23.3 | 22.6 | 22.6 | 143.2 | |
| Automatic debt dynamics [5/] | -0.2 | 0.5 | 0.2 | -2.2 | -1.0 | -0.6 | -0.6 | -0.6 | -0.7 | -5.7 | |
| Interest rate/growth differential [6/] | -0.3 | 0.2 | 0.4 | -2.2 | -1.0 | -0.6 | -0.6 | -0.6 | -0.7 | -5.7 | |
| Of which: real interest rate | 0.1 | 0.4 | -1.2 | -0.3 | 0.2 | 0.3 | 0.4 | 0.4 | 0.3 | 1.3 | |
| Of which: real GDP growth | -0.4 | -0.3 | 1.6 | -1.9 | -1.2 | -1.0 | -1.0 | -1.0 | -1.0 | -7.0 | |
| Exchange rate depreciation [7/] | 0.1 | 0.4 | -0.3 | ... | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 1.2 | -0.4 | -3.0 | 0.9 | 2.2 | 1.7 | 1.1 | 1.1 | 0.4 | 7.4 | |
| Net acquisition of Financial Assets (negative) | 0.7 | -0.6 | -3.2 | 0.7 | 2.1 | 1.6 | 1.1 | 1.1 | 0.4 | 6.9 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Net Repayment of Recognition Bond | 0.5 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.5 | |
| Residual, including asset changes [8/] | 0.2 | 0.0 | 0.4 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -1.2 | |




Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

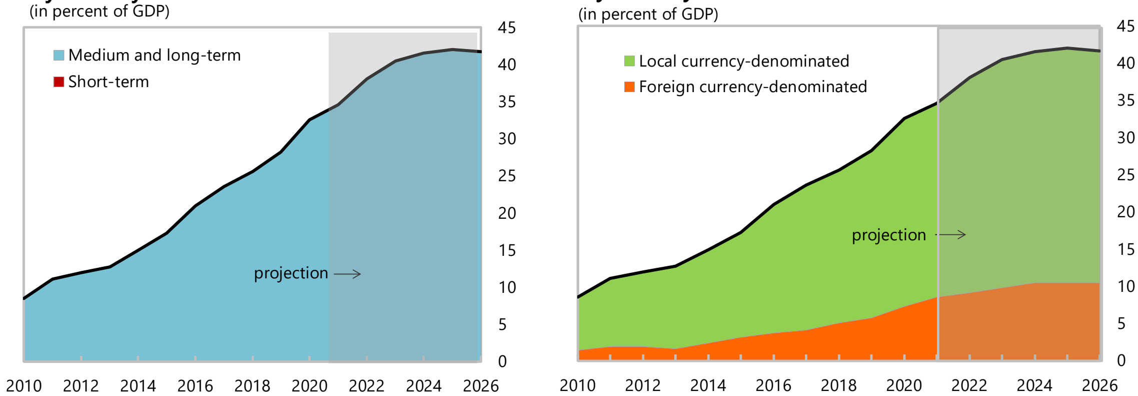
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## Figure 2. Chile: Composition of Public Debt and Alternative Scenarios

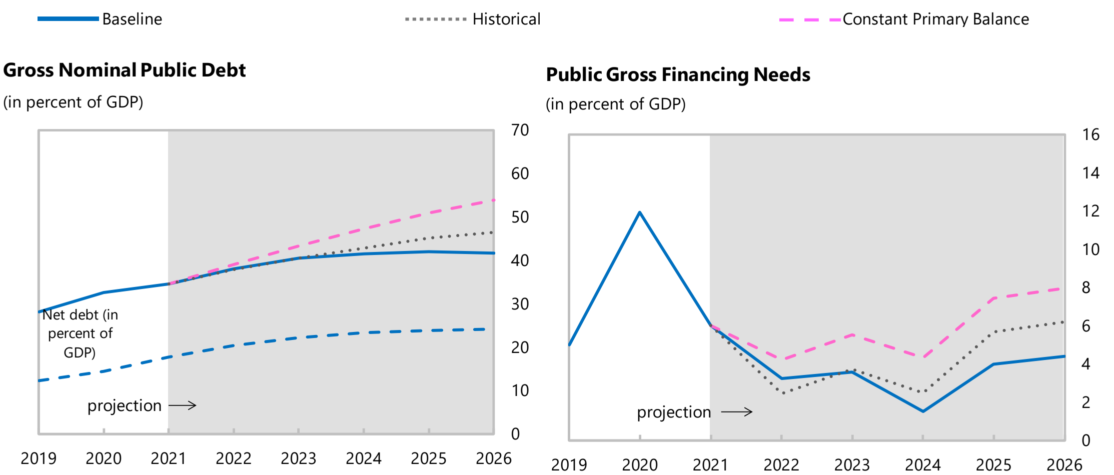
### Composition of Public Debt

**By Maturity** (in percent of GDP) | **By Currency** (in percent of GDP)




### Alternative Scenarios

**Gross Nominal Public Debt** (in percent of GDP) | **Public Gross Financing Needs** (in percent of GDP)




### Underlying Assumptions
(in percent)

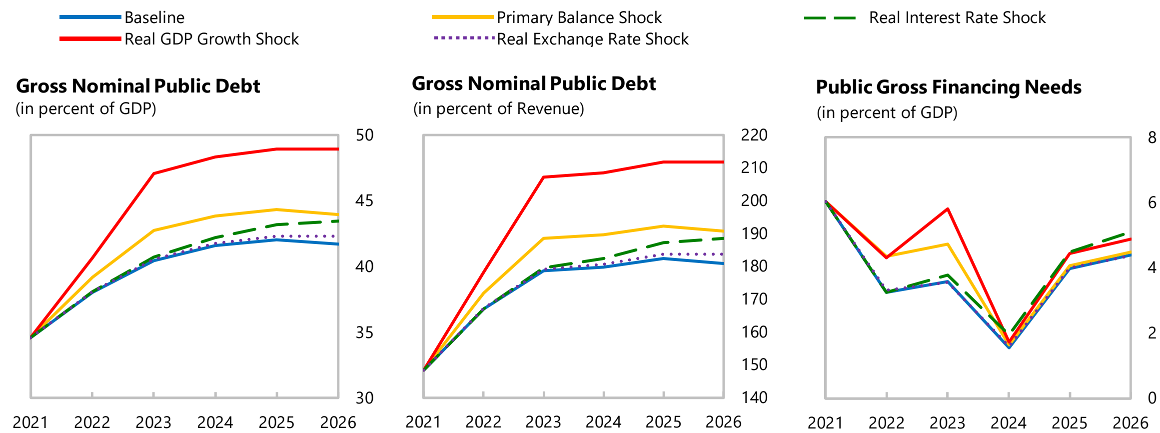
| Baseline Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary Balance | -3.5 | -2.5 | -1.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary Balance | -3.5 | -3.5 | -3.5 | -3.5 | -3.5 | -3.5 |
| Effective interest rate | 3.7 | 3.4 | 3.3 | 3.3 | 3.2 | 3.3 |

| Historical Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Inflation | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary Balance | -3.5 | -1.7 | -1.7 | -1.7 | -1.7 | -1.7 |
| Effective interest rate | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 |

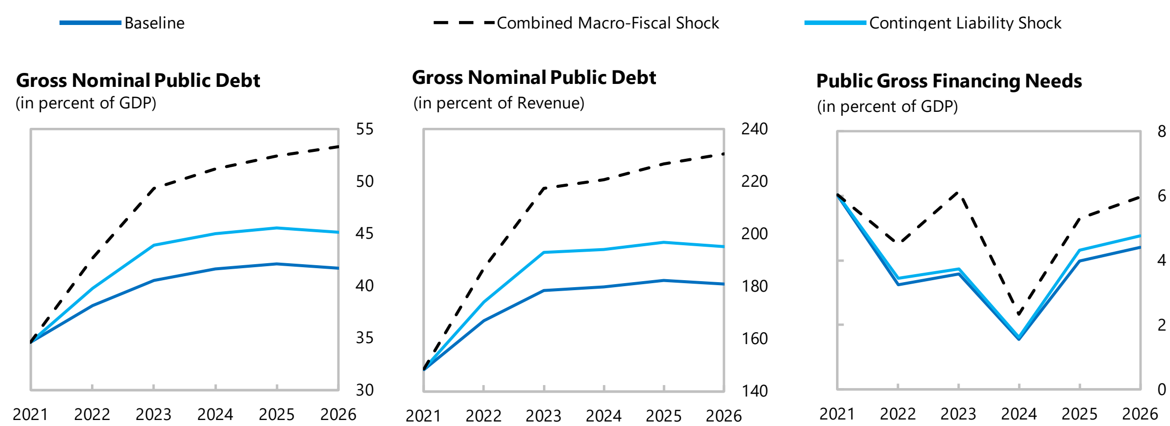
Source: IMF staff.

## Figure 3. Chile: Macro-Fiscal Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| **Primary Balance Shock** | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -3.6 | -2.7 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 2.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -2.5 | -1.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.4 | 3.9 | 4.4 | 4.6 | 5.0 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 6.5 | 0.3 | -0.6 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 1.9 | 1.6 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -3.6 | -3.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.7 | 4.0 | 4.5 | 4.7 | 5.1 |

| **Real GDP Growth Shock** | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 0.3 | -0.6 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 1.9 | 1.6 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -3.6 | -3.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 6.5 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 8.2 | 2.4 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -2.5 | -1.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.7 | 3.4 | 3.4 | 3.4 | 3.4 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 6.5 | 0.3 | -0.6 | 2.6 | 2.5 | 2.5 |
| Inflation | 4.3 | 1.9 | 1.6 | 2.3 | 2.4 | 2.6 |
| Primary balance | -3.5 | -2.5 | -1.6 | -0.8 | -0.2 | -0.1 |
| Effective interest rate | 3.7 | 3.9 | 3.4 | 3.4 | 3.4 | 3.4 |

Source: IMF staff.

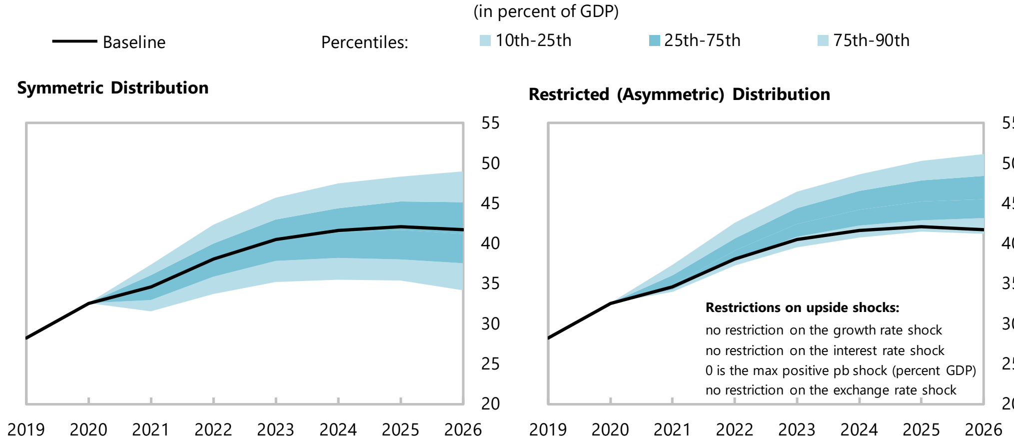
## Figure 4. Chile: Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level [1/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs [2/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile [3/] | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

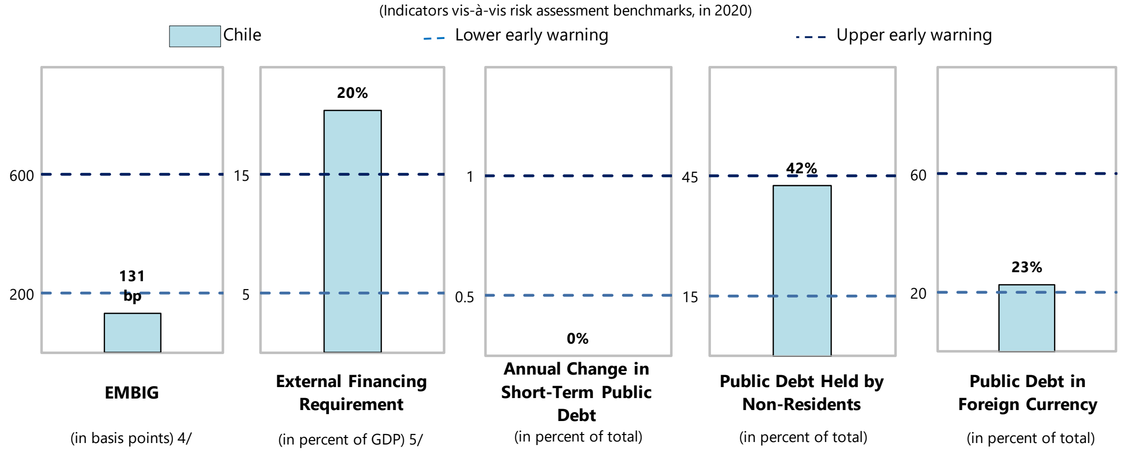
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 23-Jan-21 through 23-Apr-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Statement by Luis Oscar Herrera, Alternate Executive Director for Chile

May 14, 2021

On behalf of my Chilean authorities, I thank staff for the review of Chile's continued qualification for a Flexible Credit Line arrangement (FCL). Over the last year, the FCL arrangement has provided a valuable backstop against tail risks and, along with Chile's very strong policy and institutional framework, has contributed to bolster market confidence and provide additional policy space in a period of extraordinary uncertainty as the global pandemic. Access to the FCL in the next twelve months will continue to protect the Chilean economy against downside scenarios until the global risks abate.

**The Chilean economy is recovering from the COVID-19 shock.** After a sharp contraction of activity in mid-2020, a gradual recovery started in the second half of last year bolstered by supportive monetary and fiscal policies. The policy response to the pandemic has been swift and comprehensive. The outlook for 2021 and 2022 has improved in recent months, buttressed by the continuation of accommodative policies, a more favorable global environment, and rapid vaccine deployment. As of May 10, 56 percent of the adult population in Chile has received at least one dose of a COVID-19 vaccine and 47 percent has been fully vaccinated. Real GDP is projected to grow between 6 to 7 percent in 2021, and 3 to 4 percent in 2022, after contracting 5.8 percent in 2020. The recovery, however, remains uneven across sectors, with lags in contact-intensive activities, slowing down the pick-up in employment, and a temporary setback is likely in the second quarter amid the surge of infections observed last March and the reimposition of lockdowns. Meanwhile, the institutional process towards the New Constitution continues to advance in accordance with the procedures and safeguards envisaged in the constitutional amendment of November 2019 and is expected to culminate in mid-2022.

**Very strong policies and policy frameworks**

**Chile has a long track record of very strong economic fundamentals and institutional policy frameworks, which has been sustained during the pandemic.** In the face of the 2019 social unrest and the COVID-19 shock, the Chilean economy has demonstrated resilience owing to its very strong policies, including a credible inflation targeting framework, a mature flexible exchange rate regime, a prudent fiscal rule, and a well-regulated financial system. The authorities remain firmly committed to maintain sound and prudent policies going forward. Nevertheless, given the economy's high openness to international trade and financial flows, it remains exposed to elevated external downside risks, including those related to the path of the COVID-19 pandemic and global financial conditions.

**Low and stable inflation in the context of sound monetary and exchange rate policy.** Chile has maintained inflation around 3 percent for the last two decades. Since 1999, the Central Bank of Chile (CBC), an autonomous and accountable institution, conducts monetary policy through a fully-fledged inflation targeting and free-floating regime. In addition, Chile counts with a deep domestic financial system, where households and firms can access short- and long-term credit in local currency, and exposure to FX risk is limited. Over the last year, the CBC has implemented a broad set of measures aimed at boosting the monetary impulse, stimulating credit, and easing the adjustment of financial markets, while inflation has hovered around the policy target, and inflation expectations have remained well anchored.

**The peso is free floating, and the flexible exchange rate plays a useful role as shock absorber.** The exposure of local agents to FX risk is limited, and the pass-through of currency fluctuations to inflation expectations, in contrast to headline inflation, is low. FX interventions have been rare and limited to curb disorderly market conditions as those observed in late 2019 in the wake of the social unrest. Over the past year, the nominal (and real) exchange rate has flexibly adjusted to changes in global financial conditions and commodity prices. Despite increased volatility, the CBC did not intervene in 2020 allowing the exchange rate to act as a shock absorber.

**The authorities remain committed to fiscal prudence and plan a gradual consolidation of the structural deficit to stabilize the debt ratio.** Since the early 2000s, Chile's fiscal policy has been guided by a structural rule and complemented by a sovereign stabilization fund, underpinned by the *Fiscal Responsibility Law* and the *Autonomous Fiscal Council* (CFA). The consistent implementation of this design over time has contributed to restrain public debt and accumulate important liquidity buffers, as well as sustain favorable conditions in international capital markets, underpin macroeconomic stability, and a more effective countercyclical fiscal policy. During the pandemic crisis, the government of Chile has delivered an unprecedented multi-year fiscal package amounting to 13 ppt of GDP. The fiscal deficit reached 7.3 ppt of GDP in 2020, and gross debt increased to 32.5 ppt of GDP, while Treasury assets declined to 8.3 ppt of GDP. The headline deficit is expected to decline to 3.8 ppt of GDP in 2021, as revenues are bolstered by the growing economy, deferred taxes, and higher copper-related revenues, while the structural deficit will increase to 5.0 ppt of GDP reflecting the accommodative fiscal stance. Beyond 2021, the extraordinary measures will be phased out and the structural budget is planned to return to a gradual consolidation path to stabilize the gross debt around 40 ppt of GDP by 2025. At the same time, the authorities are considering enhancements to Chile's fiscal rule, including the adoption of dual targets on net public debt and the structural balance, formal escape clauses, and correction mechanisms.

**The financial sector in Chile remains liquid, solvent, and well capitalized, supported by effective supervision and regulation.** During the pandemic, the *Financial Market Commission* (CMF) and the CBC provided regulatory flexibility to lenders. Measures included an easing of the liquidity coverage ratio; a transitory regime for provisions on deferred loans; improvements on the capital treatment of public credit-guarantees; and a delay in phasing in additional capital requirements under Basel III. Even though the profitability of banks has declined through the last year, as interest margins have been compressed and prospective credit provisions have increased, the actual deterioration of bank portfolios has been limited. Stress tests carried out by the CBC show that the banking systems remains resilient and adequately capitalized. Going forward, the authorities have resumed the agenda of reforms to strengthen the financial system. Last December, the CMF finalized the issuing of all new Basel III regulations. The phasing-in process is scheduled to be completed in 2025. Other reforms include strengthening the bank resolution framework and the regulation of financial conglomerates, expanding the scope of the public credit registry, and implementing a risk based capital and enhanced supervision powers for the insurance sector.

**FCL access and exit strategy**

**Authorities agree with staff that the extraordinary global risks associated to the pandemic have abated, but they are still relevant.** Downside risks to global growth and financial stability continue elevated considering uncertainty about the pandemic and the pace of exit policies in systemic economies. Slow vaccine distribution in some regions and new virus strains could prolong the COVID-19 outbreak and the pattern of intermittent growth across the world, while policy space has become more limited. Also, in recent months, prospects of a brighter outlook in advanced economies have led financial markets to reprice inflation and the monetary policy path, despite reassurances by the Federal Reserve. While global markets stabilized and retraced some of the yield steepening in April, new bouts of volatility cannot be ruled out. Abrupt adjustments in financial conditions in some of the systemic economies could trigger negative spillovers into emerging market economies, resulting in new episodes of increased global risk aversion, capital flow volatility, and portfolio rebalancing away from emerging markets, as well as volatility in commodity prices.

**Chile remains exposed to downside external risks, including lower copper prices or a sudden spike of global risk aversion.** Chile's financial system is highly integrated to global markets. A sudden repricing of risk in international financial markets, such as the one experienced during the Global Financial Crisis or in April 2020, could create severe stress in the capital account. Likewise, Chile's position as the world's leading copper exporter exposes the economy to the sharp swings in commodity prices, which may coincide with bouts of volatility in international financial markets. As highlighted in the staff report, the external economic stress index (ESI) for Chile has eased since mid-2020 as global conditions improve and should continue easing along the baseline scenario. However, the ESI remains at negative levels (stress) and could suffer a relevant setback in a downside external scenario. Against this backdrop, the FCL continues to provide an important buffer of international liquidity for the Chilean economy.

**The authorities will maintain access unchanged at this midterm review but will continue treating the FCL as a precautionary and temporary arrangement.** Conditional on a reduction of global risks, the authorities intend to exit the FCL arrangement once the 24-month period is completed. As intended at the time of request, preparations have started well in advance to strengthen the external liquidity position of CBC, including participation in the FIMA Repo Facility of the NY Federal Reserve, a Bilateral Swap Agreement with the People's Bank of China for three years, and since last January, the implementation of a reserve accumulation program to lift these to approximately 18 percent of GDP. All these actions have been publicly announced along the intention of the CBC to exit the FCL in May 2022, conditional on external developments. The authorities remain open to explore other precautionary sources of international liquidity, including access to the Short-Term Liquidity Line (SLL).

The authorities greatly appreciate the support received from the IMF through the FCL arrangement, which has provided a strong signal of confidence in the strength of Chile's policy frameworks and fundamentals, as well as an important buffer and additional policy space amid unprecedented uncertainty and volatility in global financial markets.

The authorities are grateful to Mr. Luca Ricci, mission Chief, and his team for their continuing engagement with Chile's authorities and hard work to prepare the recent comprehensive Article IV consultation and this focused review.