CONTEXT

1. **Chile maintains very strong economic fundamentals and institutional policy frameworks, with a sustained track record of implementing very strong policies.** Monetary policy is anchored in a highly credible inflation-targeting framework, accompanied by a free-floating exchange rate regime. The financial system is resilient and functions well within a sound regulatory framework. Fiscal policy has been guided by a structural fiscal balance rule since 2001, which allowed Chile to build ample fiscal space during commodity price booms. Chile has remained resilient even on the face of very large shocks, such as the 2019 social unrest and the Covid-19 pandemic. After taking office in March, President Boric's administration is embarking on a far-reaching reform agenda to tackle inequality, improve social services, and foster a green economy, while committing to preserving macroeconomic stability and fiscal sustainability.

2. **An SLL arrangement would complement the authorities' strategy to exit the FCL and support external resilience.** The 2020 FCL arrangement served the country well by providing an important buffer against tail risks. Since its approval, the authorities were explicit in their intention to treat the arrangement as precautionary and exit after two years, conditional on economic and financial developments. The economic recovery is firmly established, and risks and uncertainty, while still elevated, have diminished since the onset of the pandemic. Moreover, the authorities have built adequate reserve buffers and secured access to FX liquidity lines. An SLL arrangement would complement the authorities' plans to exit the FCL and support external resilience by providing predictable liquidity support to address potential, moderate, short-term balance of payment needs stemming from pressures on the capital account.

3. **Staff conducted a fact-finding mission in March to assess qualification.** The most recent Article IV consultation was concluded in April 2021, when the Executive Board provided a very positive assessment of Chile's policies.[1] The 2022 Article IV is tentatively planned for the fall, following the conclusion of the constitutional reform process.

RECENT DEVELOPMENTS

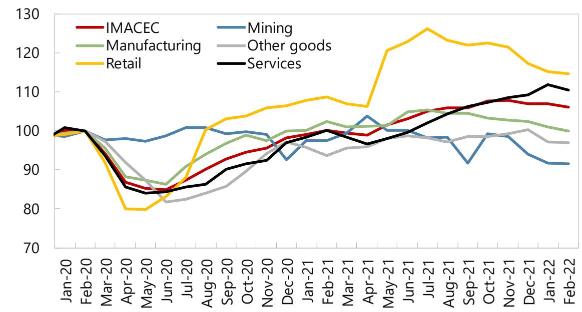
4. **Chile implemented an impressive Covid-19 vaccination campaign, helping limit the health toll from the pandemic.** As of end-March, 91 percent of the population had received two doses of the Covid-19 vaccine, and 77 percent of the population had received a booster shot (with a second booster available for the elderly since February). Covid-19 cases peaked in mid-February with the emergence of the Omicron variant, but have fallen quickly since then, while the use of ICU beds remains well below past peaks. Compared with mid-2021, when the country was in strict lockdown, mobility restrictions have significantly eased.

5. **The economic recovery is firmly established.** Following a decline of 6.1 percent in 2020, GDP rebounded by 11.7 percent in 2021, buoyed by a large, effective, and well-coordinated policy

[1] See Chile – 2021 Article IV Consultation – IMF Country Report 21/83.

response (Box 1), widespread vaccination, and high copper prices. Economic activity surpassed the pre-pandemic and pre-social unrest levels by mid-2021, and staff estimates that the output gap moved into positive territory in 2021. The recovery in the labor market is proceeding but at a slower pace, with employment about 4 percent below its pre-pandemic level in February.

Chile: IMACEC by Sector
(February 2020=100, SA)

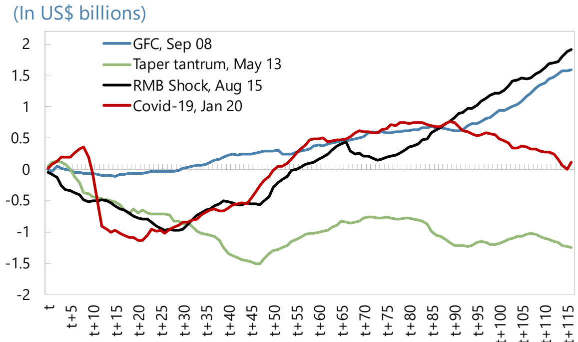


Source: Haver and Central Bank of Chile.

6. The current account deficit widened alongside the sizable pandemic response. The current account deficit widened from 1.9 percent of GDP in 2020 to 6.7 percent in 2021.[2] The large 2021 current account deficit reflected the surge in the consumption of imported durable goods following the Covid-19 stimulus measures, in particular the exceptional pension fund withdrawals and large fiscal transfers. The continued fall in tourism revenues due to travel restrictions contributed as well. The income balance also worsened in recent years on the back of large repatriation of dividends from mining companies amid high copper prices.

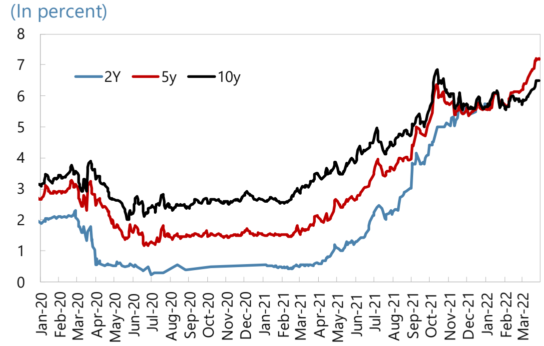
7. Chile's financial sector remained resilient amid domestic uncertainty. In line with trends in other emerging market economies (EMs), non-resident portfolio outflows were substantial at the onset of the Covid-19 shock, exceeding those during past episodes of stress. However, flows have swiftly recovered since mid-2020. Compared to other EMs and LA5 countries,[3] Chile experienced a larger increase in longer-term yields in peso-denominated sovereign bonds during 2021, linked to domestic uncertainty. With the conclusion of the elections at end-2021, uncertainty subsided, the stock market recovered, spreads compressed, and long-term yields declined. In recent months, the peso yield curve has inverted, as markets expect lower policy rates once inflation returns to target.

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



Source: EPFR, Haver, and IMF staff calculations.

Chile: Peso Government Bond Yields
(In percent)



Sources: Haver and Central Bank of Chile.

[2] Newly released external (and national) accounts resulted in substantial revisions to the current account deficit in recent years, reflecting new sources of information, methodological updates, and rebasing to 2018.

[3] The LA5 group comprises Brazil, Chile, Colombia, Mexico, and Peru.

Box 1. Stimulus Measures in Response to COVID-19

To mitigate the fallout from the pandemic, the authorities deployed a broad set of fiscal, monetary, and financial stimulus measures.[1] The measures helped to safeguard health, protected incomes and jobs, and supported credit to the economy. They demonstrated strong coordination between the Chilean Ministry of Finance (MoF), the Central Bank of Chile (BCCh), and the Financial Market Regulator (CMF). In addition, congress approved three rounds of pension withdrawals, for a cumulative of about 20 percent of 2020 GDP, which boosted consumption and supported the recovery. However, pension withdrawals were poorly targeted and weakened the pension system.

- The MoF implemented a multi-year fiscal package of about 18 percent of GDP, including 7.9 percent of GDP in transfers to the most vulnerable.
- The BCCh cut the policy rate to 0.5 percent in March 2020, conducted unconventional monetary policy via asset purchases, and expanded its liquidity facilities.
- The CMF implemented policies to facilitate the flow of credit to businesses and households and the issuance and placement of securities.

These measures were temporary, and the authorities are successfully removing them in light of the strong recovery, while continuing to target support to the most vulnerable.

Chile: Fiscal Measures in Response to COVID-19
(In percent of GDP)

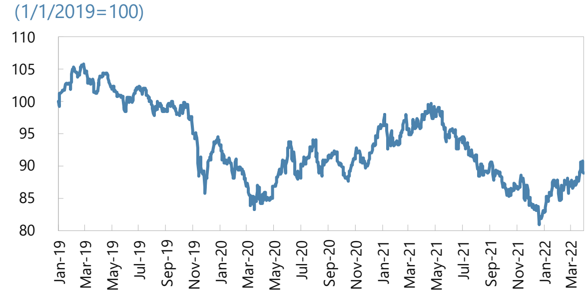
	2020	2021	2022
Total size of the stimulus package	4.4	11.5	2.2
1. On budget	3.7	9.9	1.9
Revenue	1.2	0.0	0.7
Spending	2.5	9.9	1.2
of which: transfers to most vulnerable (IFE)	1.3	6.6	0.0
2. Off budget	0.7	1.6	0.3

Source: Ministry of Finance and IMF staff calculations.

[1] For further details, see Chile – 2021 Article IV Consultation – IMF Country Report 21/83.

8. **The free-floating exchange rate continued to play its role as a shock absorber.** The BCCh has allowed the exchange rate to adjust without discretionary intervention since 2002, except for temporary and small FX interventions during the 2019 social unrest (US$2.5 billion in the spot market and US$4.5 billion in the forwards market) to prevent disorderly market conditions. The NEER appreciated by 12 percent from the onset of the pandemic until 2021Q1, but the trend reversed by end-2021. In early 2022, the NEER appreciated again as uncertainty declined after the elections.

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

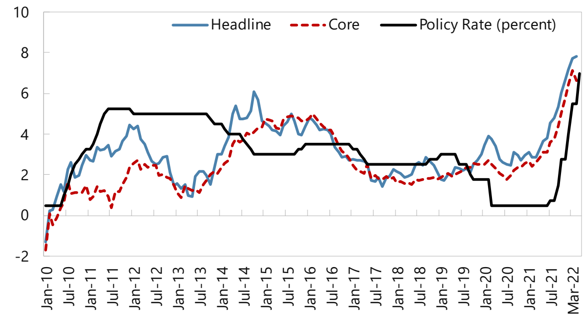


Sources: Haver, GEE, and IMF staff calculations.
1/ Constructed using the trade weighted average of the CLP exchange rate with China, United States, Euro Area, Japan, South Korea, Brazil, Peru and India.

POLICIES, OUTLOOK, AND RISKS

9. **In response to inflationary pressures, the BCCh appropriately tightened monetary policy consistent with the firmly established inflation targeting framework.** Buoyant domestic demand, pandemic-related supply constraints and currency depreciation, resulted in the build-up of significant inflationary pressures. Headline (core) inflation reached 9.4 (7.4) percent in March. Two-year ahead inflation expectations edged up to 3.7 percent, but inflation expectations over longer horizons remain firmly anchored at the 3 percent target. Since the start of the war in Ukraine, the rise in global food and fuel prices are adding to prevailing inflationary pressures. The BCCh was a first mover globally in the tightening cycle, quickly raising the policy rate from a low of 0.5 percent in July 2021 to 7 percent in March (substantially above the estimated neutral rate of 3.5 percent).[4] The BCCh has communicated its intention to continue tightening as needed to ensure inflation returns to the 3 percent target. In line with its long-standing policy, the BCCh remains committed to a free-floating exchange rate, resorting to intervention only to prevent disorderly market conditions.

Chile: Inflation and Monetary Policy Rate
(In percent, yoy)



Sources: INE, Haver, and IMF staff calculations.

10. **The BCCh built adequate international reserve buffers, complemented with FX liquidity lines.** In January 2021, the BCCh announced a program to gradually accumulate US$12 billion over 15 months. In October 2021, the program was suspended in light of financial market developments and the level of reserves already achieved, which was deemed sufficient by the BCCh. Cumulative purchases totaled US$7.4 billion, while the SDR general allocation further boosted reserves by about US$1.8 billion.[5] Reserves stood at US$48.3 billion in March. A bilateral swap facility with the PBOC (US$7.9 billion) and a liquidity line with FLAR (US$1.25 billion) complement reserve buffers.[6] The BCCH is also a subscriber of the FED's FIMA repo facility, which allows the temporary exchange of U.S. Treasury securities held with the FED for U.S. dollars.[7]

11. **The authorities are closely monitoring financial sector vulnerabilities, while further strengthening the already sound regulatory framework.** Banks' capital adequacy ratio stood at 14.9 percent at end-2021, above the regulatory minimum, and non-performing loan (NPL) ratios

[4] The BCCh is also smoothly unwinding the unconventional liquidity measures. The stock of acquired assets has been gradually decreasing since June 2021 upon their expiration.

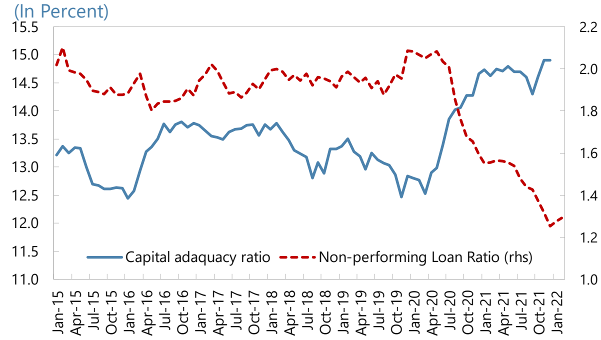
[5] SDRs allocated to Chile amounted to US$2.4 billion, of which US$0.6 billion were used as a capital contribution to the Latin American Reserve Fund (FLAR) and the remainder was kept in international reserves.

[6] For additional details on the PBOC swap facility, see IMF Country Report No. 21/92.

[7] This facility provides, at a backstop rate, an alternative temporary source of U.S. dollars for foreign official holders of Treasury securities other than open market sales of securities.

were low at 1.3 percent in February.[8] Stress tests by the CMF show that provisions would be sufficient to cover potential losses, including from Covid-19 related government-guaranteed loans (FOGAPE). Banks' return on equity recovered to 20.4 percent at end-2021, and credit growth has also picked up. The restructuring of CMF, which put the supervision of insurance, securities, and banks under the same umbrella, has further strengthened financial sector supervision. In addition, the implementation of Basel III standards that began in December 2021 will improve banks' capital buffers and enhance financial sector resilience.

Chile: Capital Adequacy Ratio and NPL Ratio
(In Percent)



Source: CMF, CEIC, and IMF staff calculations.

12. Following a sizable Covid-19 response, the government is embarking on needed structural fiscal consolidation guided by the fiscal rule. The new government has committed to upholding the fiscal consolidation in the 2022 budget, which targets a reduction in the structural fiscal deficit to 3.9 percent of GDP in 2022 (from 11.4 percent in 2021), underpinned by the expiration of the Covid-19 stimulus measures. Within the budget envelope, the authorities are continuing to target support to the most vulnerable (Box 2). Gross debt reached 36.3 percent of GDP by end-2021, which remains low by international standards. Medium-term fiscal consolidation plans, guided by the fiscal rule, will gradually reduce the structural deficit to below 1 percent of GDP and stabilize gross public debt below 45 percent of GDP, while replenishing the sovereign wealth fund.[9]

13. The new administration envisions far-reaching reforms to improve the lives of Chileans within a sustainable macroeconomic framework. The new government aspires to improve social services, tackle inequality, and transition to a green economy. A forthcoming ambitious tax reform, centered on streamlining exemptions; fostering compliance; and raising mining royalties, the carbon tax, and the progressivity of direct personal taxation (including through a new wealth tax); aims to mobilize permanent revenues to finance social spending needs.[10] Reforms of social protection systems would complement the recent approval of a universal basic pension, enhance the role of public service provision, and improve quality and access. Advancing the climate agenda, deepening capital markets, and boosting productivity are also key priorities.

[8] The decline benefited from the use of pension withdrawals by households to cancel debt, as regulatory forbearance expired in mid-2021.

[9] On May 3 the new administration published its first quarterly fiscal report, which affirmed its intention to pursue a fiscal consolidation that would stabilize the gross public debt ratio below 45 percent of GDP. Staff's baseline projections currently assume that debt stabilizes below that level with some margin, pending further information on the government's expenditure and tax reform plans.

[10] The government plans to submit the tax reform to congress by mid-year, aiming to gradually raise about 4 percent of GDP over the next few years. Potential revenue gains are not included in the projections.

Box 2. 2022 Inclusive Recovery Plan

The government's Inclusive Recovery Plan targets support to the most vulnerable within the 2022 budget envelope. The 2022 budget returns real spending to its pre-pandemic level. The Plan allocates about 1.3 percent of GDP of reserve funds already included in the budget. The funds are roughly equally split among three main areas:[1]

- **Employment sectors of the economy still affected by the pandemic**. The Plan extends employment subsidies for formal employment introduced during the pandemic (IFE Laboral) until September and increases access to childcare and subsidies for working mothers with small children. It also includes measures to support tourism, culture, and entertainment sectors, whose recovery is lagging.
- **Households affected by high energy prices and new lockdowns.** The Plan aims to mitigate the impact of high energy prices on households, including by smoothing energy price increases for fuel and gas (through the MEPCO mechanism) and freezing public transport tariffs for the rest of the year. The Plan also increases the aid for students and the coverage of centers for the elderly, and intends to institutionalize the activation of universal cash transfers (IFE) in case of new lockdowns.
- **Medium and small-sized enterprises (SMEs).** The Plan considers temporary subsidies for SMEs to alleviate the impact of the planned increase of 14.3 percent in the minimum wage, and measures to facilitate the flow of credit through FOGAPE, the economic development agency (CORFO), and the startup accelerator (SERCOTEC).

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- [1] Some measures require legislative changes.

14. With the necessary removal of macroeconomic stimulus, growth is expected to decelerate in 2022 and over the medium term. GDP growth is projected to decline to 1.5 percent in 2022 and 0.5 percent in 2023 —closing the output gap from above— and then converge to its potential rate of 2.5 percent over the medium term. The labor market is envisaged to continue healing, with employment reaching its pre-pandemic level in the near term. Inflation is expected to peak by mid-2022 and converge to target in 2024. The current account deficit is projected to narrow with the unwinding of the extraordinary stimulus and the softening of domestic demand, returning to values consistent with its historical average by the end of the forecast period.

15. Risks and uncertainty have declined since the onset of the pandemic but remain elevated. External risks relate to a possible escalation of sanctions and ensuing deglobalization resulting from the war in Ukraine. While Chile would benefit from high copper prices, rising global food and energy prices, or further supply chain disruptions would add to inflationary pressures. Risks also stem from the possible de-anchoring of inflation expectations in advanced economies leading to an abrupt tightening of global financial conditions, selloffs of risky assets, and capital outflows; or the possible appearance of more lethal and highly contagious Covid-19 variants, which could result in subpar and volatile growth. Domestic risks include social discontent over high food and energy prices, the pace and content of reforms, or the still uncertain outcome of the ongoing constitutional reform (Box 3).

Box 3. Constitutional Reform Process

Following the social unrest of October 2019, Chile embarked on a constitutional reform to address social demands. A referendum to reform the constitution was approved in October 2020, and members of the Constitutional Convention were elected in May 2021. Deliberations began in July 2021.

The Constitutional Convention is due to present a new draft constitution by July. Commissions are currently voting on individual proposals to be submitted to the plenary, where reforms will need to be approved by a 2/3 majority, followed by a comprehensive process of harmonization.

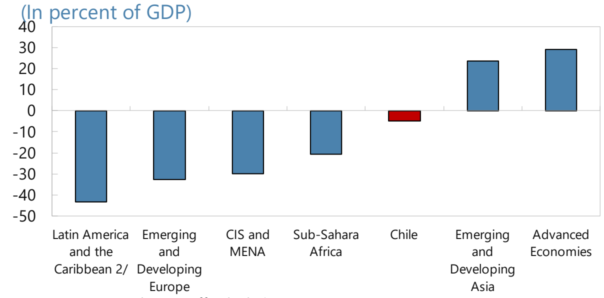
The new constitution will need approval by a single-majority national referendum in September. Voting will be mandatory. It is expected that new constitution will require follow-up legislative changes that will unfold over time, without any abrupt disruption to Chile's policy frameworks.

QUALIFICATION

16. **In staff's assessment, Chile meets the qualification criteria for an SLL.** The external position is sustainable, the sovereign has access to international markets at favorable rates, and official reserves are adequate. The BCCh remains highly credible and, since July 2021, has embarked in a rapid tightening cycle to ensure the convergence of inflation to target. As evidenced by the 2021 FSAP, the financial sector functions well overall, banks are sufficiently capitalized, and the regulatory framework is sound. Public debt is sustainable and anchored by a strong fiscal framework guided by a structural fiscal balance rule.

17. **Sustainable external position**. In the 2021 Article IV Consultation, Chile's external position was assessed as moderately stronger than implied by medium-term fundamentals and desirable policies.[11] Staff continues to assess the external position as sustainable. The 2021 current account deficit increased mainly due to the transitory Covid-19 stimulus measures but is projected to decline to its historical average with the ongoing tightening of macroeconomic policies. Moreover, Chile's net international investment position compares favorably to most EMs and improved considerably from -12 percent of GDP in 2020 to -4.9 percent of GDP in 2021.[12] External debt decreased to 72 percent of GDP in 2021 and is robust to standard shocks (Annex 1). On average, the real effective exchange rate appreciated by about 3 percent in 2021. However, these

Chile: Net International Investment Position, 2021 1/
(In percent of GDP)



Sources: WEO and IMF staff calculations.
1/ IMF staff estimates for 2021 if official data has not been released.
2/ Excluding Chile.

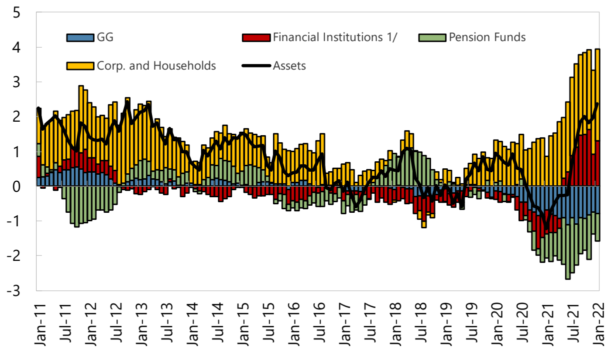
[11] See IMF Country Report No. 21/83. Per the 2018 FCL Operational Guidance Note, the core indicator for staff's assessment of external sustainability requires the member's external position to have been assessed, in the most recent Board document (Article IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies.

[12] Chile's external position improved, notwithstanding the liquidation of external assets from pension funds to enable the pension withdrawals, due to valuation effects and new inflows into the pension system.

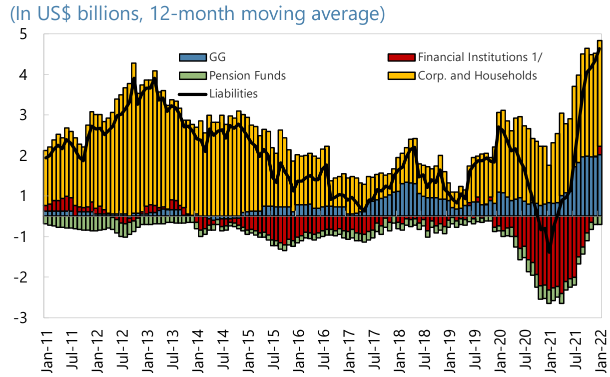
masks a sharp depreciation of about 12 percent since April 2021 until end-2021, driven by domestic uncertainty.

18. Capital account position dominated by private flows. Capital flows to Chile are predominantly private and nearly 90 percent of Chile's external debt is owed to private creditors. Private flows continue to account for the bulk of total (FDI, portfolio, and other) flows (74 percent of asset flows and 89 percent of liability flows on average over the last three years).[13] The absolute value of general government plus central bank liability flows reached 36 percent of the total in 2021, which is unusually high but explained by the large repatriation of foreign assets to meet pandemic-related needs.[14]

Chile: Gross Outflows by Institution
(In US$ billions, 12-month moving average)



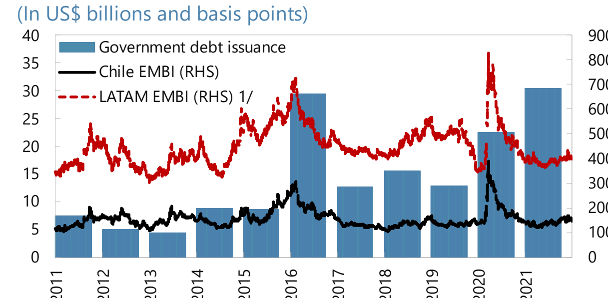
Chile: Gross Inflows by Institution
(In US$ billions, 12-month moving average)



Sources: Central Bank ofChile and IMF staff calculations.
1/ Financial institutions includes: Central Bank of Chile, private banks, and other financial institutions.

19. Track record of steady sovereign access to international capital markets at favorable terms. Chile has enjoyed uninterrupted access to international capital markets for several decades. It maintains investment grade status according to the three major rating agencies and is consistently among the highest-rated EMs.[15] Sovereign bond spreads remained relatively stable over the past 18 months, after correcting from a sharp deterioration at the onset of the pandemic, and are consistently below those from other EMs (EMBIG and five-year CDS spreads stood at 157 and 70 bps

Chile: Government Debt and EMBI Spreads
(In US$ billions and basis points)



Sources: Bloomberg, Ministry of finance, and IMF staff calculations
1/ 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.

[13] For this particular indicator, the 2018 FCL Operational Guidance Note states that public flows should account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years. In addition to the composition of recent capital flows, an assessment of the international investment position is also relevant.

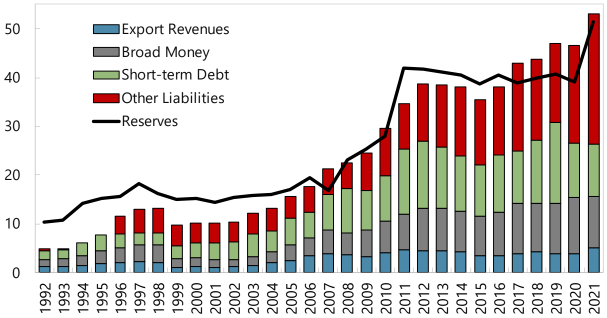
[14] See IMF Country Report No. 21/83 for further details.

[15] Its foreign-currency ratings are A1 for Moody's, A for S&P, and A- for Fitch, after downgrades from S&P in April 2020, and from Fitch in March 2020.

at end-March, respectively). The central government issued external debt in each of the past five years, with a cumulative amount equivalent to about 1,500 percent of Chile's Fund quota (well above the 50 percent of quota requirement).

20. Relatively comfortable international reserve position. Gross international reserves are adequate, at about 91 percent of the Fund's reserve adequacy metric (ARA) at end-2021. Although somewhat below the recommended 100 percent ARA metric, staff assesses reserves are adequate due to several mitigating factors. First, in mature market economies,[16] reserves act mainly as a second line of defense against potential FX funding needs of the financial sector, and Chile's reserves amply cover estimated potential short-term banks' needs.[17] Second, if counted as reserves, the central government's usable liquid external assets (about US$20 billion in February, including US$6.4 billion in the sovereign wealth fund), would correspond to approximately 28 percent of the ARA metric. Third, standard benchmarks show that Chile compares favorably to other commodity-intensive mature market economies.[18] Fourth, the authorities are strongly committed to the free-floating exchange rate regime, further reducing the need for reserves. Finally, reserves are complemented with several FX liquidity lines, as described in paragraph 10.

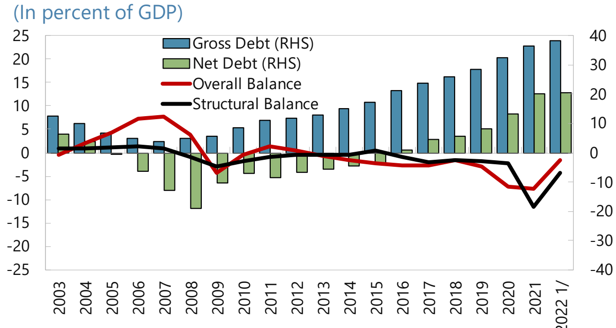
Chile: ARA Metric Decomposition and Reserves
(In US$ billions)



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

21. Sustainable public debt position and sound public finances. The authorities remain firmly committed to debt sustainability and fiscal responsibility. Gradual fiscal consolidation guided by the fiscal rule is expected to rebuild buffers and stabilize gross public debt below 45 percent of GDP, which is low by international standards. Public debt is mostly denominated in domestic currency, with an average maturity above ten years. Liquidity risks are mitigated by the sovereign wealth fund and the large

Chile: Fiscal Balances, Gross Debt, and Net Debt
(In percent of GDP)



Sources: Ministry of Finance of Chile, Central Bank of Chile, and IMF staff calculations.
1/ IMF staff forecasts.

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[16] 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."

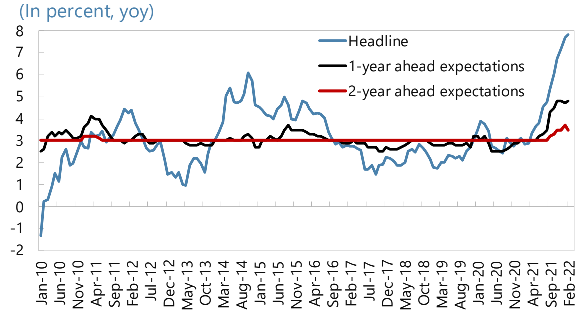
[17] Although banks' external debt was US$29.7 billion at end-2021, a sizable portion is covered by the liquid segment of banks' US$30.1 billion in foreign assets. By regulation, banks' short FX positions due in thirty days cannot exceed long positions by more than the bank's capital. In the non-bank part of the financial system, institutional investors (i.e., pension funds) have a positive net foreign asset position.

[18] Reserve coverage of prospective imports is more than twice the standard benchmark at six months, while coverage of broad money and short-term external debt (remaining maturity) exceed benchmarks at 24.2 and 143 percent, respectively.

domestic banking sector, with abundant room to absorb sovereign issuances in case of an abrupt tightening of global financial conditions. Staff assesses Chile's public debt to be sustainable with high probability, and a public debt sustainability analysis shows the debt trajectory is robust to standard shocks (Annex 2). The government's intent to introduce a debt anchor and provide more predictability to medium-term fiscal paths will further enhance the strong fiscal framework. The 2021 Fiscal Transparency Evaluation concluded that Chile has strong fiscal institutions and sound fiscal transparency practices.[19]

22. Low and stable inflation in the context of a sound monetary and exchange rate policy framework. Chile maintains a highly credible inflation-targeting regime with a free-floating exchange rate system. In the past five years, monthly (y/y) inflation averaged 3 percent. Medium-term inflation expectations have remained anchored over the past decade, reflecting a well-functioning framework with adequate policy guidance. In response to the recent spike in inflation, the BCCh demonstrated resolve to quickly tighten monetary policy and tackle inflationary pressures. The BCCh maintains a small negative equity, which does not compromise policy solvency nor require immediate recapitalization. The 2021 Transparency Review underscored BCCh's high standards of policy analysis, conduct, and independence.[20]

Chile: Headline Inflation and Inflation Expectations 1/
(In percent, yoy)



Sources: INE, BCC, Haver, and IMF staff calculations.
1/ Inflation expectations come from the "Encuesta de Expectativas Economicas (EEE)."

23. Sound financial system and the absence of solvency problems that may threaten systemic stability. The solvency stress tests from the 2021 FSAP concluded that the banking sector is sufficiently capitalized, and solvency risks are low. Although a few individual banks would fall below the requirement under the adverse scenario, the implementation Basel III will strengthen banks' capital positions. The banking system appears resilient to both sizeable funding risks and climate-related risks. Systemic risk arising from non-financial sector external debt is low. Stress tests in fixed income mutual funds suggest the need for enhancing liquidity management practices, while pension funds are equipped with sound liquidity management.

24. Effective financial sector supervision. The 2021 FSAP assessed the banking supervisory framework as robust and the CMF to be capably staffed with expertise in monitoring individual risks. In parallel, a regional peer assessment against the Financial Action Task Force (FATF) anti-money laundering/combating the financing of terrorism (AML/CFT) standard by GAFILAT (FATF Latin America's regional body) highlighted strengths and considerable progress in the implementation of AMT/CFT prevention systems.

[19] See IMF Country Report No. 21/241 for further details.

[20] See IMF Country Report No. 21/113 for further details.

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

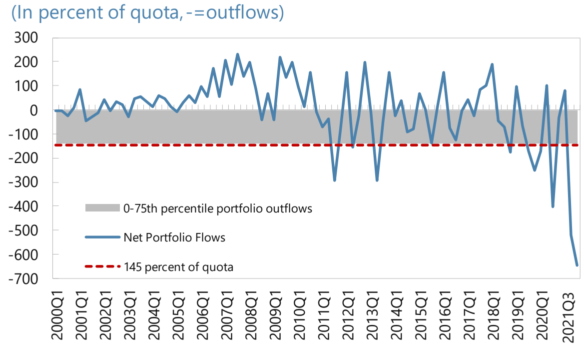
26. Institutional strength and track record of strong policies. Chile has a sustained track record of implementing very strong policies. Fiscal and monetary policies have been strongly countercyclical, anchored in very strong institutional frameworks. The free-floating exchange rate regime has been allowed to work as a shock absorber. In the recent period, the authorities' response to the pandemic was effective and well-coordinated, making appropriate use of Chile's hard-won policy space. The ongoing removal of macroeconomic stimulus, while targeting support to the most vulnerable, will help contain inflationary pressures, rebuild buffers, and mitigate risks. The new administration is committed to maintaining very strong macroeconomic policies.

RATIONALE FOR SLL PROPOSAL AND ACCESS CONSIDERATIONS

27. An SLL arrangement would appropriately support Chile's external resilience. Against the speedy recovery, the ongoing removal of the extraordinary Covid-19 stimulus, and the build-up of adequate FX liquidity buffers, the authorities wish to exit the FCL. Although risks and uncertainty have diminished since the onset of the pandemic, Chile continues to be exposed to shocks, including volatility in international capital markets that could potentially inflict pressure on the capital account. An SLL would complement existing buffers, make available predictable FX liquidity support on advantageous terms, and provide a confidence signal on Chile's very strong fundamentals and institutional policy frameworks.

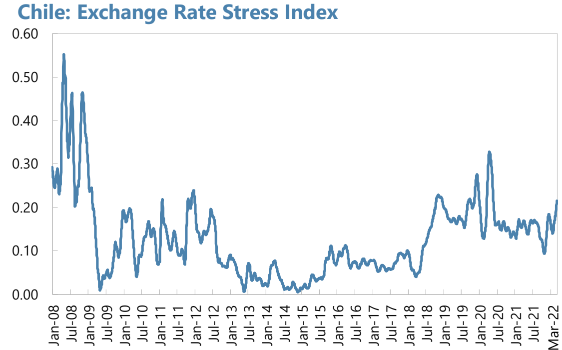
28. An SLL arrangement with revolving access of 145 percent of quota (SDR 2.529 billion; about US$3.5 billion) would cover most moderate, potential, short-term balance of payment needs.[21] Access of 145 percent of quota would cover balance of payment needs resulting from capital outflow shocks up to the 75th percentile of past outflow episodes. Given the build-up of FX liquidity buffers and the effective role of the flexible exchange rate as a shock absorber, the BCCh foresees drawing on the SLL only under exceptional circumstances.

Chile: Net Portfolio Flows
(In percent of quota, -=outflows)



Sources: STA BOP database, national authorities, and IMF staff calculations.

Chile: Exchange Rate Stress Index



Source: Central Bank of Chile.

[21] For a full explanation of this special balance of payment need, see Policy Paper No. 20/025.

SAFEGUARDS

29. Chile's capacity to repay the Fund remains strong. As envisaged under the SLL policy, the authorities plan to treat the proposed SLL arrangement as precautionary. Even if Chile were to draw all the resources available under the proposed SLL, its capacity to repay the Fund would remain manageable. In the event of a full purchase of the SLL resources, total external debt would increase moderately to 70 percent of GDP in 2023 and then decrease over the medium term. The peak stock of Fund credit in percent of GDP (1 percent), gross international reserves (6.9 percent), total external debt stock (1.5 percent), as well as peak debt service to the Fund in percent of GDP (1 percent) and exports of goods and services (2.9 percent) are all below typical exceptional access cases. Moreover, Chile has a good track record of meeting its obligations to the Fund. Several factors further mitigate risks to the Fund, including Chile's adequate buffers, very strong policies and policy frameworks, and proven resilience.

30. SLL safeguards procedures are underway. In preparation for the proposed SLL arrangement, the BCCh has provided the authorization for an update of the safeguards procedures to be conducted by Fund staff in relation to the proposed arrangement. Safeguards procedures will be conducted based on a review of the most recently completed external audit of BCCh annual financial statements. A similar procedure was carried out for Chile's FCL arrangement based on staff's review of the 2019 audit results and discussions with the BCCh and its external auditors. No significant issues emerged.

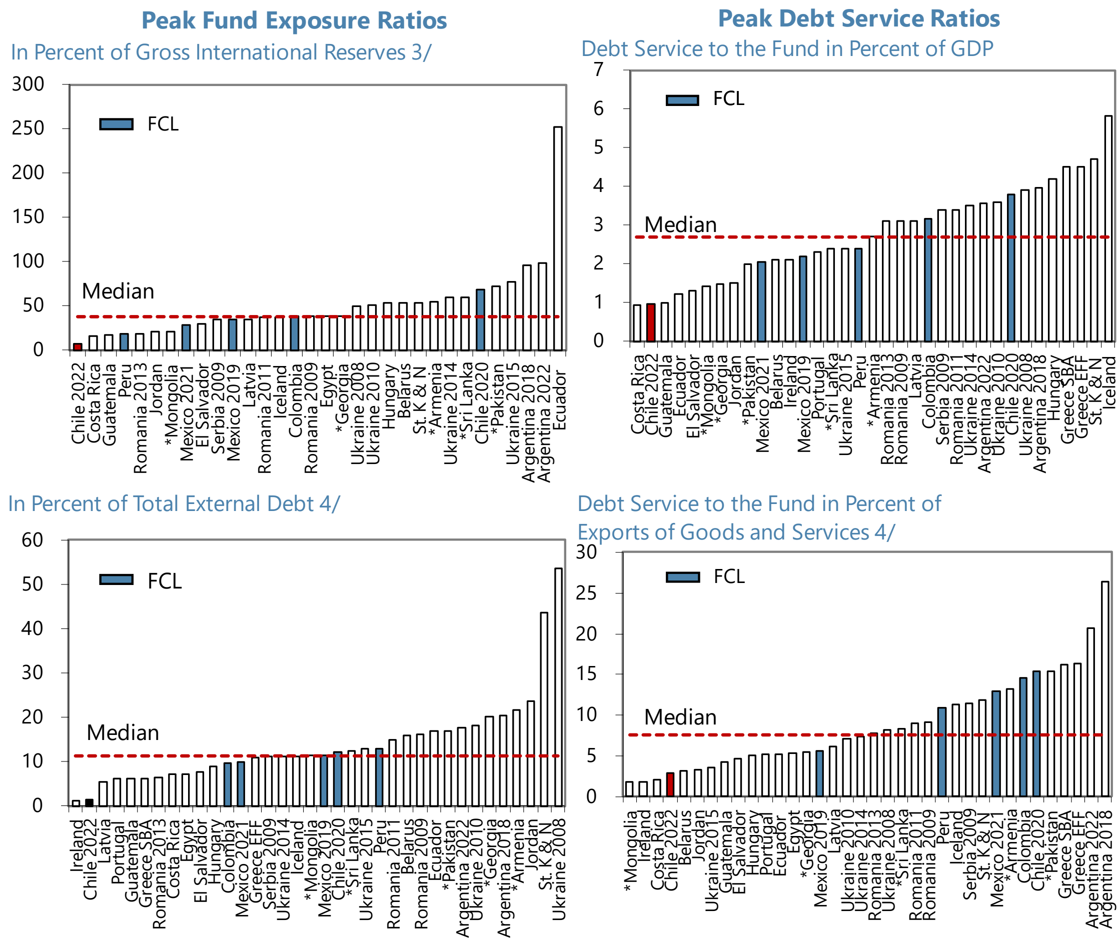
STAFF APPRAISAL

31. Staff considers that Chile meets the qualification criteria for access to SLL resources. Chile has very strong fundamentals and policy frameworks, and a sustained track record of implementing very strong policies that have supported the country's resilience in the face of large shocks. The authorities remain committed to maintaining very strong policies in the future. Staff considers that Chile meets all the qualification criteria for an SLL (which are identical to the FCL).

32. Staff recommends that the Board extends an SLL "offer" to Chile for 145 percent of quota (SDR 2.529 billion). Although risks and uncertainty have declined since the onset of the pandemic, they remain elevated. The SLL would complement the authorities' strategy to exit the FCL and support external resilience. An SLL is an appropriate instrument, as it would provide access to FX liquidity to counter potential, moderate, short-term balance of payment needs related to capital account pressures. If the Executive Board approves the SLL arrangement, such approval will be contingent on receiving written communication from the authorities stating that they wish to avail themselves of the SLL arrangement, and upon notification to the Fund by the authorities of the cancelation of the existing FCL arrangement. Funds from the new SLL arrangement could be accessed at any point during the next 12 months following effectiveness of the SLL.

Figure 1. Chile: Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases 1/ 2/

(Exceptional Access cases since September 2008)



Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019 and 2021), Colombia (2020), Peru (2020), and Chile (2020).

2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

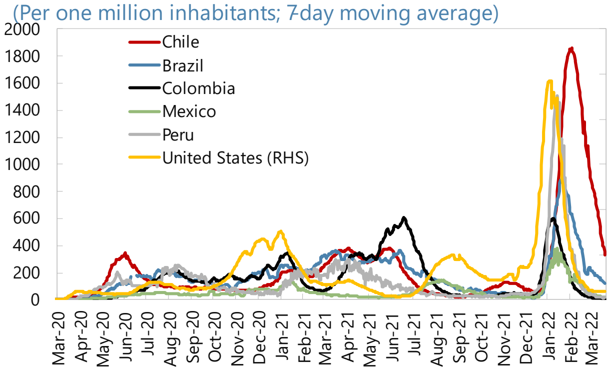
4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

Figure 2. Chile: COVID-19 Developments

COVID-19 cases fell sharply after surging in February...

New COVID-19 Cases

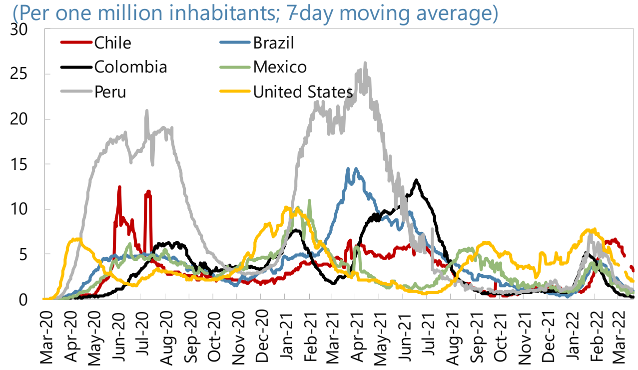
(Per one million inhabitants; 7-day moving average)



...though COVID-19 related deaths also fell, they remain above the levels seen in peer countries.

New COVID-19 Deaths

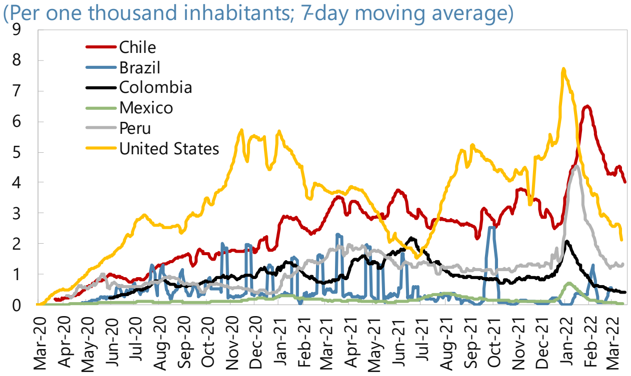
(Per one million inhabitants; 7-day moving average)



Chile remains a regional leader in testing...

New COVID-19 Tests

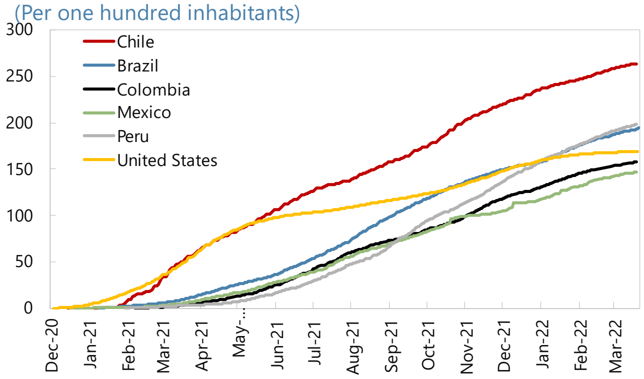
(Per one thousand inhabitants; 7-day moving average)



...as well as in vaccinations.

Total COVID-19 Vaccinations

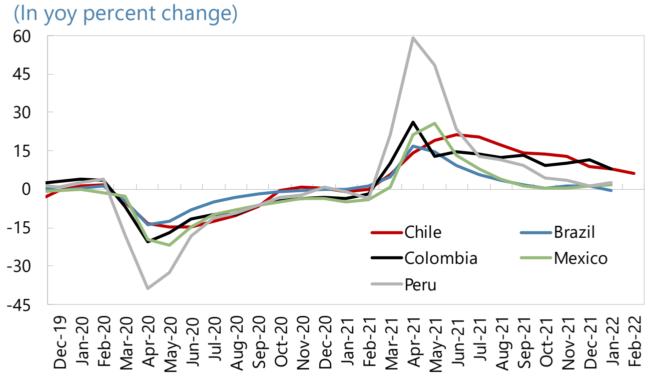
(Per one hundred inhabitants)



Economic activity has recovered past it'spre-pandemic levels...

Economic Activity Index

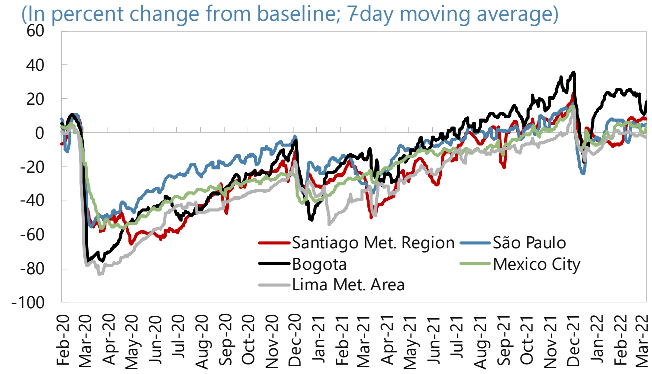
(In yoy percent change)



...in part aided by the easing of mobility restrictions.

Google Mobility Index 1/

(In percent change from baseline; 7-day moving average)



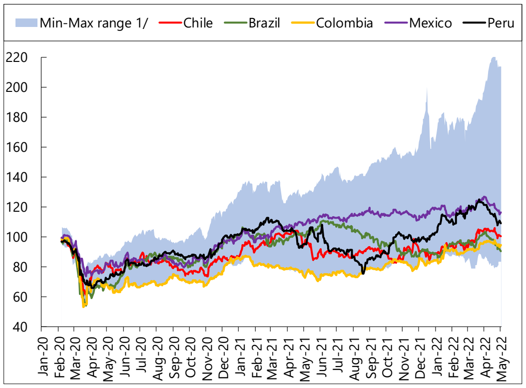
Sources: Our World in Data COVID-19 dataset, Haver, Google Community Mobility Reports, national authorities, and IMF staff calculations.
1/ Baseline is the median value, for the corresponding day of the week, during the 5-week period of January 3-February 6, 2020.

Figure 3. Chile: Financial Comparison with LA5 and Other EMEs 1/

Chile's equity index has only recently recovered to its pre-pandemic levels...

Domestic Equity Indices 2/

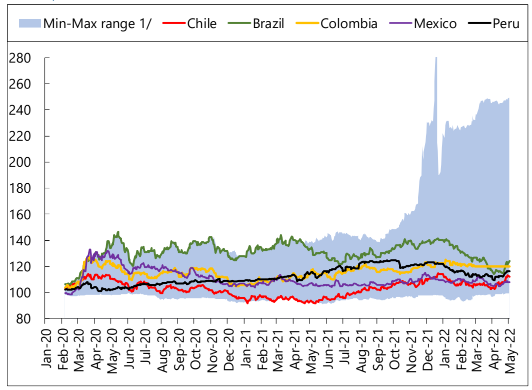
Jan 03, 2020 = 100



...while the peso outperformed peer currencies.

Local Currency per US Dollar Indices 3/

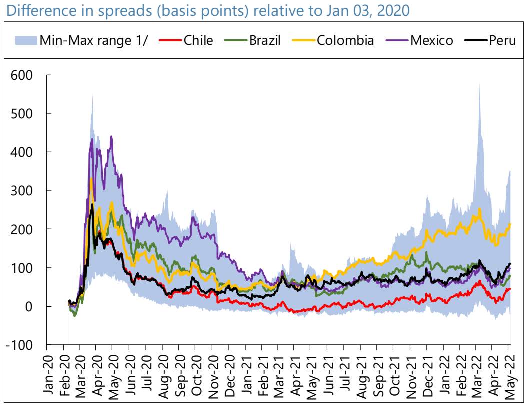
Jan 03, 2020 = 100



After increasing acutely in early 2020, EMBI spreads have stabilized at levels slightly above those seen pre-pandemic...

EMBIG Spreads 4/

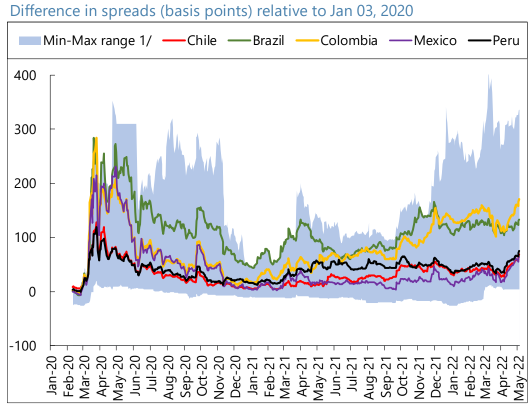
Difference in spreads (basis points) relative to Jan 03, 2020



...as have CDS spreads.

CDS Spreads

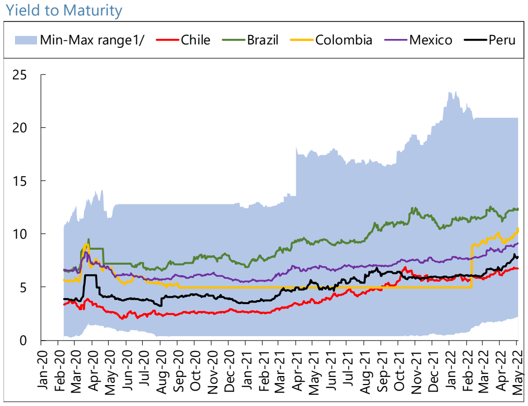
Difference in spreads (basis points) relative to Jan 03, 2020



Domestic currency bond yields are still below the average of emerging market peers...

Domestic Currency Sovereign Bond Yields 5/

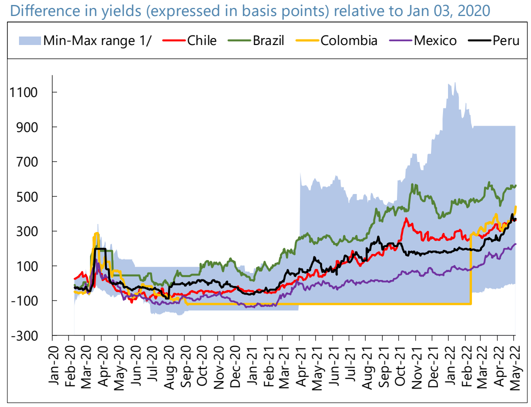
Yield to Maturity



...although they have rapidly increased since the the start of the pandemic.

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, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

2/ National benchmark share price indices.

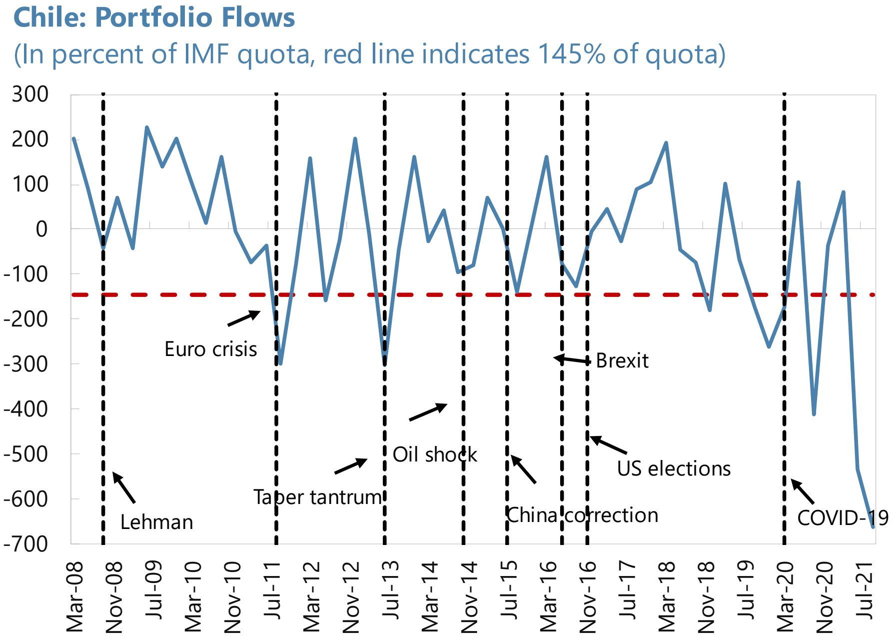
3/ Index is equal to 100 in the first business day of 2020. As a result, percentage changes in the index cannot be interpreted as percentage changes of the underlying exchange rate.

4/ Mexico's EMBIG includes Sovereign and Quasi.

5/ 10 year government bond or closest available maturity.

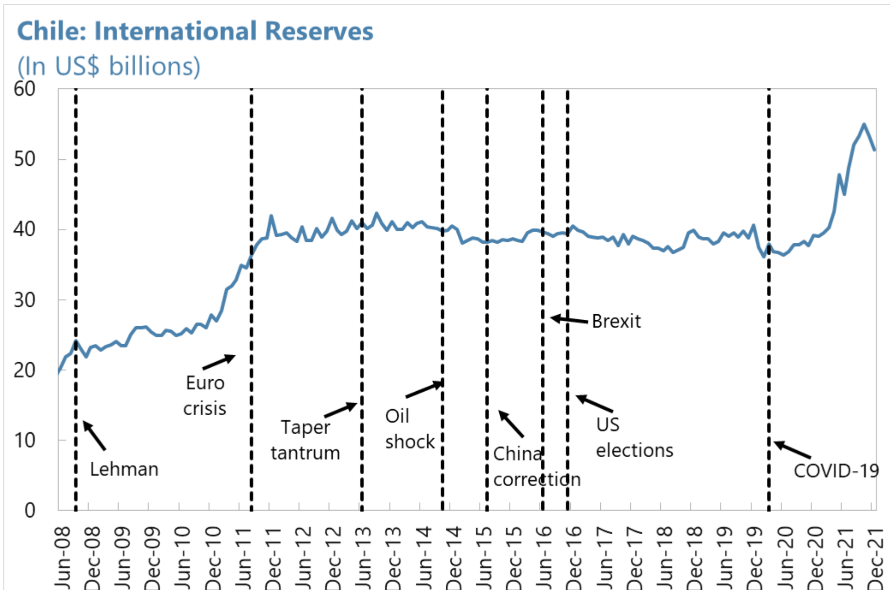
Figure 4. Chile: Portfolio Flows and International Reserves

Chile experienced portfolio outflows during past episodes of stress…



Sources: IMF BOP database and IMF staff calculations.

…while international reserves increased notably over the past 2 years.

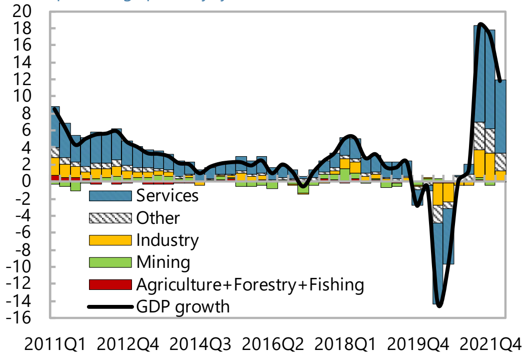


Sources: EPFR and IMF staff calculations.

Figure 5. Chile: Economic Activity

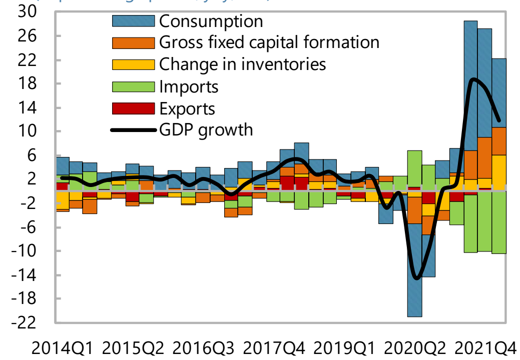
Economic activity grew 11.8% yoy S.A. in 2021Q4, led by growth in services...

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



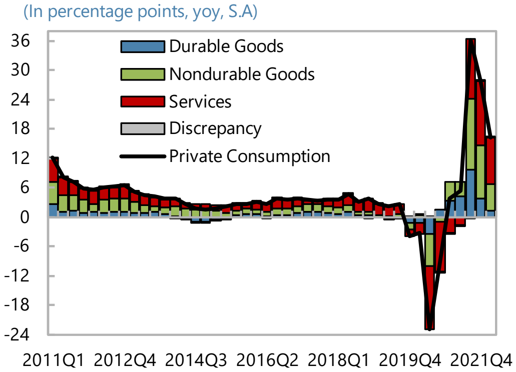
...while consumption and investment recovered from their sharp falls in 2020...

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



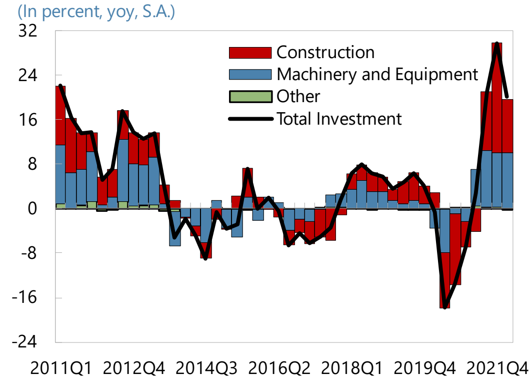
...with private consumption reflecting growth in services and nondurable goods...

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



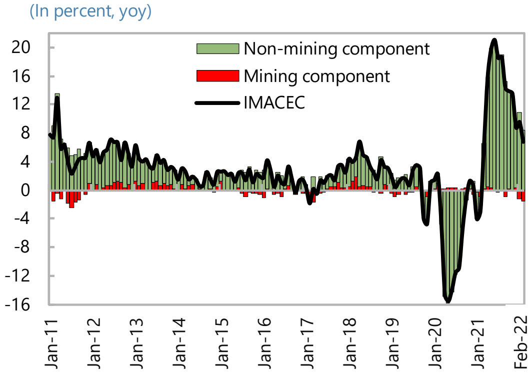
...and the construction sector driving overall investment.

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



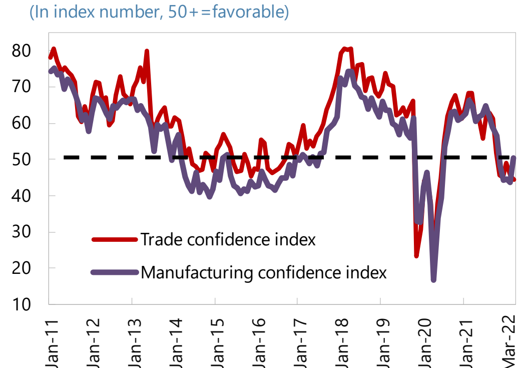
Non-mining IMACEC grew 8.3% in February, as mining IMACEC growth fell to -1.5%

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



...while business confidence began to recover in 2022Q1.

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

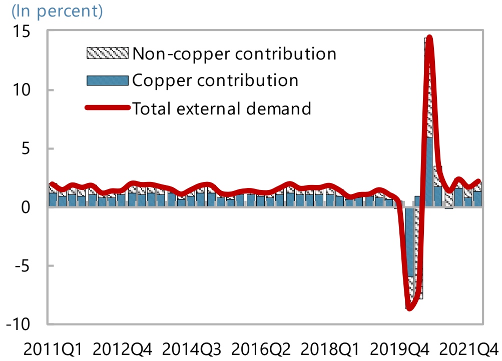


Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations.
1/ IMACEC is a monthly economic activity indicator.

Figure 6. Chile: External Sector

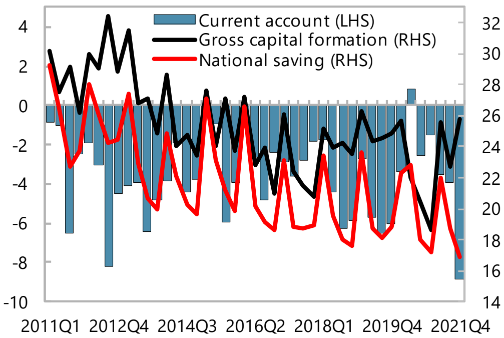
External demand grew 2.2% in 2021Q4 after a sharp recovery in 2020Q3..

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



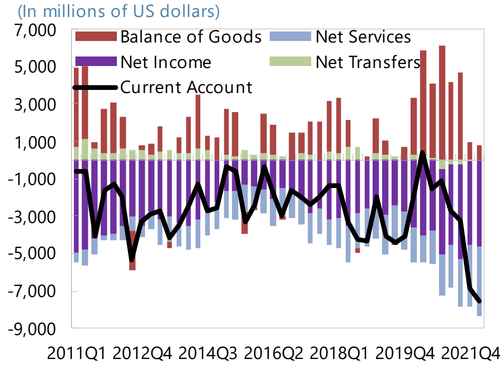
...while the current account in Q4 remained negative at -9.3 % of GDP..

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



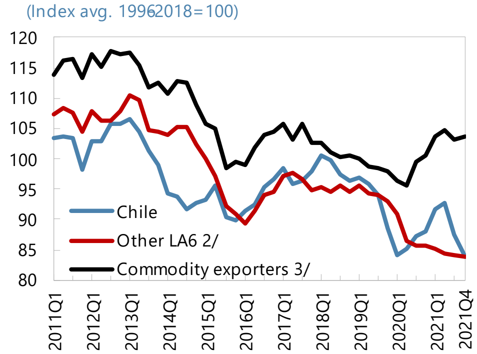
..as a fall in net income and services outweighed a small trade surplus.

Current Account Decomposition
(In millions of US dollars)



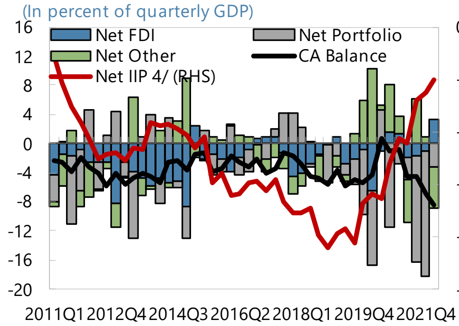
The peso depreciated more than the currencies of other commodity exporters, converging to the LA6 average.

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



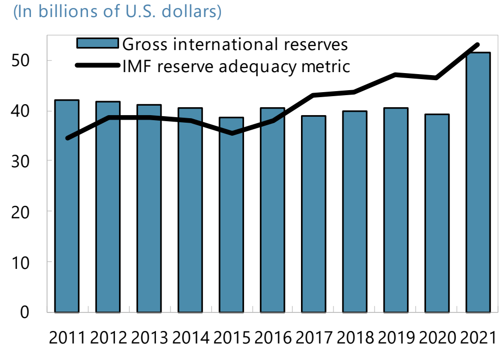
Net IIP continues on an increasing trend, reaching -5.0% of annualized GDP in 2021Q4...

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)

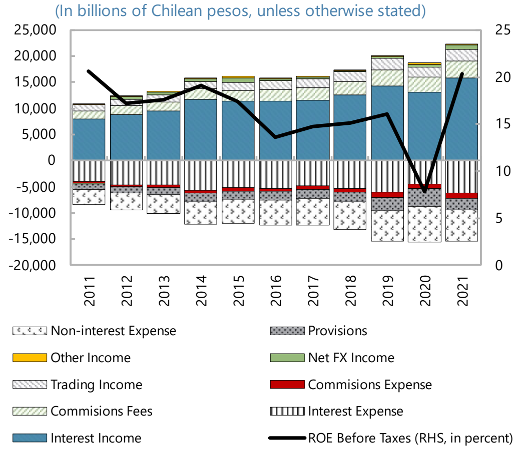


Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations.
1/ Calculated as average real GDP growth of trading partners, weighted by their respective share in Chilean exports.
2/ LA6 includes Brazil, Chile, Colombia, Mexico, Peru and Uruguay.
3/ Commodity exporters includes Canada,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

Figure 7. Chile: Financial Sector

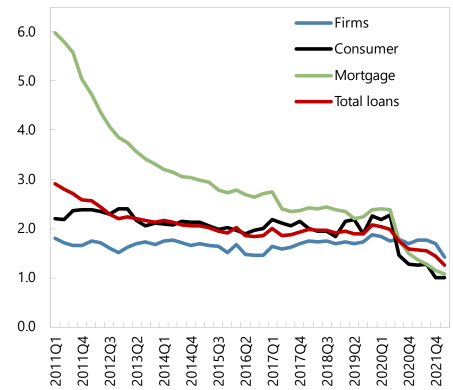
Banks' profitability stood at 20.4% in December 2021…

Income Statement of Banking Sector
(In billions of Chilean pesos, unless otherwise stated)



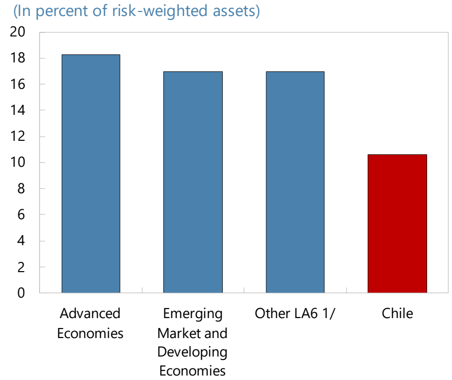
… and non-performing loans have remained low.

Non-performing Loans
(In percent of total segment loans)



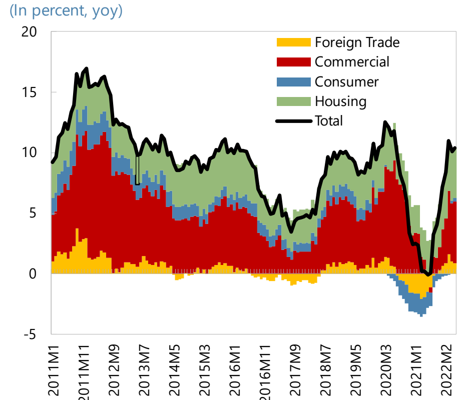
While capital ratios are lower than in other countries, they are expected to increase in line with Basel III.

Tier 1 Capital Ratio, 2021Q3
(In percent of risk-weighted assets)



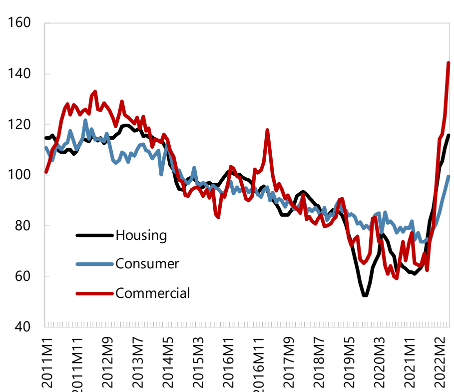
Credit growth mostly recovered from the sharp drop in 2021H1, reaching a growth rate of 8.4% in February…

Credit Growth Contributions by Economic Sector
(In percent, yoy)



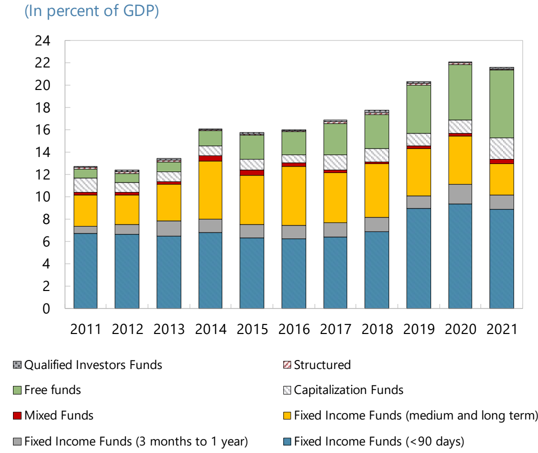
…while interest rates increased in line with monetary tightening.

Interest Rates by Economic Sector
(Index, 2010-2019 Average=100)



Total mutual funds assets fell as medium and long term fixed income funds decreased.

Structure of Mutual Funds
(In percent of GDP)



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.

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

GDP (2020), in billions of pesos	200,023	Quota	
GDP (2020), in billions of U.S. dollars	252.5	in millions of SDRs	1,744
Per capita (2020), U.S. dollars	13,209	in % of total	0.37
Population (2020), in millions	19.1	Poverty rate (2020)	10.80
Main products and exports	Copper	Gini coefficient (2017)	44.40
Key export markets	China, Euro area, U.S.	Literacy rate (2017)	96.4

			Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percentage change, unless otherwise specified)								
Output									
Real GDP	0.8	-6.1	11.7	1.5	0.5	1.7	2.2	2.5	2.5
Total domestic demand	0.9	-9.5	21.7	-0.1	-0.8	1.5	2.0	2.5	2.4
Consumption	0.8	-7.4	18.3	-1.6	-0.1	1.8	2.1	2.5	2.5
Private	0.9	-8.2	20.4	-1.8	-0.3	2.0	2.1	3.0	2.7
Public	0.8	-4.0	9.8	-0.8	1.0	1.1	2.2	0.0	2.0
Investment 2/	1.4	-16.1	33.6	4.4	-2.9	0.8	1.7	2.7	2.1
Fixed	4.7	-9.5	17.7	-3.8	0.2	1.5	1.8	2.5	2.2
Private	5.3	-8.9	18.1	-2.3	-0.3	1.6	1.7	3.0	2.4
Public	-1.3	-15.3	13.1	-20.4	7.3	0.6	2.3	-3.9	-0.6
Inventories 3/	-0.8	-1.7	3.3	2.1	-0.8	-0.1	0.0	0.1	0.0
Net exports 3/	-0.2	3.4	-8.8	1.2	1.3	0.1	0.2	-0.1	0.0
Exports	-2.5	-1.2	-1.5	4.1	3.4	2.9	2.6	2.6	2.5
Imports	-1.7	-12.8	31.2	-0.5	-1.4	2.4	1.8	2.7	2.4
Employment									
Unemployment rate (annual average)	7.2	10.8	8.9	7.0	6.9	6.8	6.8	6.8	6.8
Consumer Prices									
Inflation (End of period, %)	2.9	2.9	7.1	6.0	3.9	3.0	3.0	3.0	3.0
Inflation (average, %)	2.3	3.0	4.5	7.5	4.5	3.3	3.0	3.0	3.0
	(In percent of GDP, unless otherwise specified)								
Public Sector Finances									
Central government revenue	21.7	20.1	23.9	23.3	23.6	23.8	23.4	23.3	23.1
Central government expenditure	24.6	27.4	31.6	24.9	24.3	24.2	23.8	23.7	23.5
Central government fiscal balance	-2.9	-7.3	-7.7	-1.7	-0.7	-0.4	-0.4	-0.4	-0.4
Central government structural fiscal balance	-1.7	-2.4	-11.5	-4.4	-2.2	-1.2	-0.7	-0.4	-0.4
Structural non-mining primary balance (% of GDP)	-3.0	-3.3	-11.9	-5.6	-4.1	-3.0	-2.4	-2.2	-1.9
Central government gross debt	28.3	32.6	36.3	38.3	38.4	37.6	37.8	37.9	37.9
of which, FX-denominated debt	5.8	7.5	12.8	12.2	12.0	11.7	11.4	11.3	11.6
Central government debt net of treasury assets	18.6	24.2	31.0	31.8	33.3	32.9	33.5	33.9	33.8
Public sector gross debt 4/	49.2	59.4	63.2	65.1	65.3	64.4	64.7	64.7	64.8
of which, share of FX-denominated debt	5.8	7.5	12.8	12.2	12.0	11.7	11.4	11.3	11.6
	(Annual percentage change, unless otherwise specified)								
Money and Credit									
Broad money	9.4	6.1	10.7	7.5	5.5	4.8	5.1	5.2	5.3
Credit to the private sector	9.7	3.2	...	...	...	...	...	...	...
Balance of Payments									
Current account (% of GDP)	-5.2	-1.9	-6.7	-4.5	-3.4	-2.9	-2.7	-2.5	-2.5
Current account (in billions of U.S. dollars)	-14.5	-4.8	-21.2	-14.3	-12.0	-10.9	-10.8	-10.6	-11.5
Foreign direct investment net flows (% of GDP)	-1.2	-1.0	-0.3	-1.0	-1.2	-1.0	-0.9	-0.9	-1.0
Gross international reserves (in billions of U.S. dollars)	40.7	39.2	51.3	51.3	51.3	51.3	51.3	51.3	51.3
Gross reserves (months of next year imports)	5.6	5.7	9.1	6.0	5.3	5.4	5.3	5.2	5.0
Gross external debt (% of GDP)	66.7	77.9	72.4	74.6	68.8	65.3	62.7	60.9	59.7
Public	6.2	8.9	12.5	13.7	13.3	12.8	12.4	12.2	12.4
Private	60.5	69.0	59.9	60.9	55.6	52.5	50.3	48.7	47.3
	(Annual percentage change)								
Relative Prices									
Real effective exchange rate (real appreciation +)	-4.7	-8.2	3.3	...	...	...	...	...	...
Terms of trade	-1.8	11.6	12.1	-5.7	0.9	0.0	-0.3	-1.2	-0.7
Memorandum Items									
Nominal GDP (in billions of pesos)	195,809	200,023	240,521	258,531	272,635	285,737	300,391	315,864	332,472
(percentage change)	3.4	2.2	20.2	7.5	5.5	4.8	5.1	5.2	5.3
Nominal GDP (in billions of USD)	278.4	252.5	316.9	317.6	351.0	379.0	405.9	431.4	457.1
(percentage change)	-5.7	-9.3	25.5	0.2	10.5	8.0	7.1	6.3	6.0

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)

	2019	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
Revenues	**21.7**	**20.1**	**23.9**	**23.3**	**23.6**	**23.8**	**23.4**	**23.3**	**23.1**
Taxes	17.7	16.1	18.8	18.3	18.3	19.0	19.0	19.1	19.1
Private mining companies	1.0	0.7	1.2	1.9	1.6	1.3	1.2	1.2	1.2
Other tax revenues, non-mining	16.7	15.5	17.6	16.4	16.8	17.7	17.8	17.9	17.9
Social contributions	1.5	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Grants	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	2.4	2.3	3.8	3.8	4.1	3.6	3.1	2.9	2.8
Codelco revenues	0.4	0.5	1.8	1.9	2.2	1.7	1.2	1.0	0.9
Income on assets	0.6	0.4	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Operating income	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other income	1.0	1.0	1.2	0.9	0.9	0.9	0.9	0.9	0.9
Expenditures	**24.6**	**27.4**	**31.6**	**24.9**	**24.3**	**24.2**	**23.8**	**23.7**	**23.5**
Expense	22.5	25.6	29.8	23.6	22.9	22.7	22.3	22.3	22.1
Compensation of employees	5.0	5.3	4.8	4.9	5.0	5.0	5.0	5.0	5.0
Purchases of goods and services	2.0	2.2	2.0	1.8	1.7	1.7	1.7	1.7	1.7
Interest payments	0.9	1.0	0.9	0.8	0.9	0.9	0.9	0.9	1.1
Subsidies and grants	8.8	11.1	16.8	10.2	9.5	9.4	8.9	8.9	8.6
Social benefits	4.0	4.4	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Other expense	1.8	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Net acquistion of nonfinancial assets	2.1	1.8	1.8	1.4	1.5	1.5	1.5	1.4	1.4
Investment	2.1	1.8	1.8	1.4	1.5	1.5	1.5	1.4	1.4
Net Lending/Borrowing	**-2.9**	**-7.3**	**-7.7**	**-1.7**	**-0.7**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Non-mining overall balance	-4.2	-8.5	-10.7	-5.5	-4.5	-3.4	-2.8	-2.6	-2.5
Net Financial Transactions	**-2.9**	**-7.3**	**-7.7**	**-1.7**	**-0.7**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Net acquistion of financial assets	-0.6	-3.2	-1.6	3.0	1.3	0.4	1.5	1.2	1.2
Net incurrence of liabilities	2.2	4.1	6.0	4.6	2.0	0.8	1.8	1.6	1.6
Domestic	2.0	2.5	1.3	3.5	1.2	0.4	1.5	1.1	0.7
External	0.5	1.8	4.8	1.2	0.8	0.5	0.4	0.6	0.9
Recognition bonds	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Memorandum Items									
Primary balance	-2.5	-6.8	-7.1	-1.3	-0.3	0.0	0.0	0.0	0.2
Structural Fiscal Balance	-1.7	-2.4	-11.5	-4.4	-2.2	-1.2	-0.7	-0.4	-0.4
Structural Revenue	22.9	25.0	20.0	20.5	22.1	23.0	23.1	23.3	23.1
Fiscal Impulse 1/	0.5	0.4	8.5	-6.2	-1.5	-1.1	-0.6	-0.2	-0.3
Expenditure growth (in real terms; annual percent change)	4.2	10.4	32.5	-20.9	-1.6	0.9	0.3	1.9	1.4
Central Government debt net of treasury assets	18.6	24.2	31.0	31.8	33.3	32.9	33.5	33.9	33.8
Central Government gross debt	28.3	32.6	36.3	38.3	38.4	37.6	37.8	37.9	37.9
Public Sector Gross Debt 2/	49.2	59.4	63.2	65.1	65.3	64.4	64.7	64.7	64.8
Public Sector debt net of treasury assets 2/	39.5	51.1	57.9	58.7	60.2	59.8	60.3	60.7	60.7
General Government Fiscal Balance 3/	-2.7	-7.2	-7.5	-1.5	-0.6	-0.3	-0.2	-0.3	0.0
Nominal GDP (trillions of pesos)	195.8	200.0	240.5	258.5	272.6	285.7	300.4	315.9	332.5

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

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

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

3/ Includes the central government and municipality governments.

Table 3. Chile: Balance of Payments 1/

(In US$ billions, unless otherwise specified)

	2019	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
Current Account	**-14.5**	**-4.8**	**-21.2**	**-14.3**	**-12.0**	**-10.9**	**-10.8**	**-10.6**	**-11.5**
Trade balance	2.9	18.5	10.8	14.2	19.6	20.4	21.3	20.5	20.4
Exports	68.8	73.5	94.8	107.5	111.1	114.0	116.8	119.6	123.0
Copper	32.6	37.8	53.4	58.9	60.9	62.1	63.1	64.3	66.0
Non-copper	36.2	35.7	41.3	48.5	50.2	51.8	53.6	55.3	57.0
Imports	65.9	55.0	84.0	93.3	91.5	93.6	95.5	99.1	102.5
Net services	-8.1	-7.4	-12.0	-12.8	-12.5	-13.0	-13.1	-13.6	-14.1
Net income	-10.4	-15.9	-19.6	-15.6	-19.3	-18.5	-19.3	-17.8	-18.0
Net transfers	1.0	0.0	-0.4	-0.1	0.2	0.3	0.3	0.2	0.2
Capital account balance	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account Balance	**-10.7**	**-3.1**	**-34.6**	**-14.3**	**-12.0**	**-10.9**	**-10.8**	**-10.6**	**-11.5**
Foreign direct investment	-3.2	-2.5	-0.8	-3.1	-4.3	-3.8	-3.8	-3.9	-4.5
Abroad by Chilean residents	10.3	6.7	14.5	7.2	8.1	9.4	9.2	9.7	8.7
In Chile by foreign residents	13.6	9.2	15.3	10.3	12.4	13.1	12.9	13.6	13.2
Of which, debt instruments	1.8	0.3	1.1	0.3	0.6	0.9	0.7	0.7	0.7
Portfolio investment	-10.6	-13.2	-30.6	-15.5	-18.4	-20.4	-22.3	-20.1	-21.4
Abroad by Chilean residents	0.8	-5.9	1.6	-0.2	-1.0	-1.5	-0.3	-0.8	-0.9
In Chile by foreign residents	11.4	7.2	32.2	15.3	17.4	18.9	22.0	19.3	20.4
Of which, equities	3.0	0.2	2.4	1.1	1.3	1.4	1.6	1.4	1.5
Of which, debt	8.5	7.0	29.8	14.1	16.1	17.5	20.4	17.9	18.9
Financial derivatives	1.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	1.7	10.0	-3.2	4.3	10.8	13.3	15.2	13.5	14.4
Abroad by Chilean residents	3.1	7.8	8.1	8.1	8.1	8.1	8.1	8.1	8.1
In Chile by foreign residents	1.4	-2.3	11.3	3.8	-2.7	-5.2	-7.2	-5.4	-6.3
Change in Reserves Assets	**-0.2**	**-2.9**	**12.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	2.6	-1.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	40.7	39.2	51.3	51.3	51.3	51.3	51.3	51.3	51.3
Gross reserves (months of next year imports)	5.6	5.7	9.1	6.0	5.3	5.4	5.3	5.2	5.0
				(In percent of GDP)					
Current Account	**-5.2**	**-1.9**	**-6.7**	**-4.5**	**-3.4**	**-2.9**	**-2.7**	**-2.5**	**-2.5**
Trade balance of Goods	1.0	7.3	3.4	4.5	5.6	5.4	5.2	4.7	4.5
Exports	24.7	29.1	29.9	33.8	31.6	30.1	28.8	27.7	26.9
Copper	11.7	15.0	16.9	18.6	17.3	16.4	15.6	14.9	14.4
Non-copper	13.0	14.1	13.0	15.3	14.3	13.7	13.2	12.8	12.5
Imports	23.7	21.8	26.5	29.4	26.1	24.7	23.5	23.0	22.4
Net services	-2.9	-2.9	-3.8	-4.0	-3.6	-3.4	-3.2	-3.1	-3.1
Net income	-3.7	-6.3	-6.2	-4.9	-5.5	-4.9	-4.8	-4.1	-3.9
Net transfers	0.3	0.0	-0.1	0.0	0.1	0.1	0.1	0.1	0.0
Financial Account Balance 2/	**-3.8**	**-1.2**	**-10.9**	**-4.5**	**-3.4**	**-2.9**	**-2.7**	**-2.5**	**-2.5**
				(Annual change in percent)					
Total export volume	-2.1	2.6	-0.9	3.5	3.4	2.9	2.6	2.6	2.5
Total import volume	-2.1	-10.2	34.8	-0.2	-1.4	2.4	1.8	2.7	2.4
Terms of trade	-1.8	11.6	12.1	-5.7	0.9	0.0	-0.3	-1.2	-0.7
Export prices	-5.9	5.0	29.0	7.2	0.0	-0.3	-0.2	-0.1	0.3
Copper export price	-7.5	16.0	43.4	5.6	-0.6	-1.4	-1.6	-1.3	-0.5
Import prices	-4.3	-5.9	15.2	13.8	-0.9	-0.2	0.1	1.0	1.0
Memorandum Items									
Copper price (WEO; U.S. cents per pound)	273	280	423	458	456	450	442	437	435
Volume of copper exports (2004=100)	104	106	102	105	109	113	117	120	124

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)

	2015	2016	2017	2018	2019	2020	2021
Central Bank							
Net foreign assets	26,645	26,391	23,332	27,043	29,547	27,222	40,891
Net international reserves	27,333	27,021	23,983	27,731	30,274	27,881	43,643
Net international reserves (in millions of US$)	38,643	40,494	38,983	39,861	40,657	39,200	51,330
Other foreign assets, net	-688	-630	-651	-688	-727	-659	-2,752
Net domestic assets	-17,493	-16,049	-12,226	-15,747	-17,212	3,034	-19,435
Net credit to general government	-124	-476	-9	-553	-392	327	356
Net claims on banks and financial corporations	-6,306	-5,028	-3,403	-5,163	-4,599	6,640	7,838
Credit to the private sector	406	319	189	47	-33	-31	-38
Other items (net)	-11,469	-10,863	-9,003	-10,077	-12,187	-19,135	-46,647
Monetary base	9,152	10,343	11,106	11,296	12,335	30,256	21,456
Currency	5,858	6,275	6,528	6,740	7,576	12,180	15,210
Required reserves	3,294	4,068	4,577	4,556	4,760	18,077	6,247
Other Depository Institutions							
Net foreign assets	-6,120	-5,394	-7,237	-10,199	-9,700	-1,678	-4,608
Net foreign assets (in millions of US$)	-8,652	-8,083	-11,763	-14,660	-13,027	-2,359	-5,420
Net domestic assets	126,310	132,992	139,488	156,578	174,809	166,206	186,314
Net credit to general government	-532	-256	2,965	3,463	4,615	12,538	17,607
Credit to the private sector	130,465	137,324	144,061	158,792	174,225	179,836	197,943
Other items (net)	-3,623	-4,076	-7,538	-5,677	-4,031	-26,168	-29,236
Liabilities to the private sector	120,190	127,598	132,251	146,379	165,109	164,528	181,706
Demand deposits	23,562	24,044	27,038	30,116	36,058	56,393	64,091
Quasi-money	96,628	103,554	105,213	116,263	129,051	108,135	117,615
Banking System							
Net foreign assets	20,526	20,997	16,095	16,844	19,846	25,544	36,283
Net domestic assets	113,683	120,876	129,252	142,030	156,183	160,617	177,327
Net credit to general government	-656	-732	2,956	2,910	4,223	12,865	17,963
Credit to the private sector	130,871	137,643	144,250	158,839	174,192	179,805	197,905
Other items (net)	-16,531	-16,035	-17,954	-19,715	-22,232	-32,053	-38,541
Liabilities to the private sector	134,209	141,873	145,347	158,874	176,029	186,161	213,610
Money	29,420	30,319	33,566	36,856	43,633	68,573	79,301
Quasi-money	104,789	111,554	111,781	122,018	132,396	117,588	134,309
Memorandum Items							
	(Annual percentage change)						
Monetary base	11.8	13.0	7.4	1.7	9.2	145.3	-29.1
Liabilities to the private sector	10.5	5.7	2.4	9.3	10.8	5.8	14.7
Credit to the private sector (banking system)	10.7	5.2	4.8	10.1	9.7	3.2	10.1
	(In percent of GDP)						
Monetary base	5.8	6.1	6.2	6.0	6.3	15.1	8.9
Liabilities to the private sector	84.6	84.1	81.1	83.9	89.9	93.1	88.8
Credit to the private sector (banking system)	82.5	81.6	80.5	83.9	89.0	89.9	82.3

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

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

	2019	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
National Accounts	(Annual percentage change, unless otherwise specified)								
Real GDP	0.8	-6.1	11.7	1.5	0.5	1.7	2.2	2.5	2.5
Total domestic demand	0.9	-9.5	21.7	-0.1	-0.8	1.5	2.0	2.5	2.4
Consumption	0.8	-7.4	18.3	-1.6	-0.1	1.8	2.1	2.5	2.5
Private	0.9	-8.2	20.4	-1.8	-0.3	2.0	2.1	3.0	2.7
Public	0.8	-4.0	9.8	-0.8	1.0	1.1	2.2	0.0	2.0
Investment 2/	1.4	-16.1	33.6	4.4	-2.9	0.8	1.7	2.7	2.1
Fixed	4.7	-9.5	17.7	-3.8	0.2	1.5	1.8	2.5	2.2
Private	5.3	-8.9	18.1	-2.3	-0.3	1.6	1.7	3.0	2.4
Public	-1.3	-15.3	13.1	-20.4	7.3	0.6	2.3	-3.9	-0.6
Inventories 3/	-0.8	-1.7	3.3	2.1	-0.8	-0.1	0.0	0.1	0.0
Net exports 3/	-0.2	3.4	-8.8	1.2	1.3	0.1	0.2	-0.1	0.0
Exports	-2.5	-1.2	-1.5	4.1	3.4	2.9	2.6	2.6	2.5
Imports	-1.7	-12.8	31.2	-0.5	-1.4	2.4	1.8	2.7	2.4
Consumer prices									
End of period	3.0	3.0	7.2	6.0	4.0	3.0	3.0	3.0	3.0
Consumer prices (average)	2.3	3.0	4.5	7.5	4.5	3.3	3.0	3.0	3.0
Nominal GDP growth	3.4	2.2	20.2	7.5	5.5	4.8	5.1	5.2	5.3
Potential growth	1.5	-1.8	2.7	2.2	2.0	2.1	2.3	2.4	2.5
Output gap (percent)	-1.3	-5.6	2.7	2.0	0.5	0.0	0.0	0.0	0.0
Balance of Payments	(In percent of GDP)								
Current account	-5.2	-1.9	-6.7	-4.5	-3.4	-2.9	-2.7	-2.5	-2.5
Trade balance	1.0	7.3	3.4	4.5	5.6	5.4	5.2	4.7	4.5
Financial account balance	-3.8	-1.2	-10.9	-4.5	-3.4	-2.9	-2.7	-2.5	-2.5
Of which, foreign direct investment (net)	-1.2	-1.0	-0.3	-1.0	-1.2	-1.0	-0.9	-0.9	-1.0
Change in reserves assets	-0.1	-1.1	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.9	-0.5	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
REER (in percent y/y, +=appreciation)	-4.7	-8.2	3.3	...	...	...	...	...	...
	(Annual percentage change)								
Total export volume	-2.1	2.6	-0.9	3.5	3.4	2.9	2.6	2.6	2.5
Of which, copper export volume	-1.1	1.4	-3.2	2.9	3.9	3.5	3.2	3.1	3.1
Total import volume	-2.1	-10.2	34.8	-0.2	-1.4	2.4	1.8	2.7	2.4
Terms of trade	-1.8	11.6	12.1	-5.7	0.9	0.0	-0.3	-1.2	-0.7
Export prices	-5.9	5.0	29.0	7.2	0.0	-0.3	-0.2	-0.1	0.3
Copper export price	-7.5	16.0	43.4	5.6	-0.6	-1.4	-1.6	-1.3	-0.5
Import prices	-4.3	-5.9	15.2	13.8	-0.9	-0.2	0.1	1.0	1.0
External Debt	(In percent of GDP)								
Gross external debt	66.7	77.9	72.4	74.6	68.8	65.3	62.7	60.9	59.7
Public	6.2	8.9	12.5	13.7	13.3	12.8	12.4	12.2	12.4
Private	60.5	69.0	59.9	60.9	55.6	52.5	50.3	48.7	47.3
Gross int. reserves (in billions of U.S. dollars)	40.7	39.2	51.3	51.3	51.3	51.3	51.3	51.3	51.3
Savings and Investment									
Gross domestic investment	25.0	21.6	25.3	26.7	25.8	25.6	25.5	25.7	25.6
Public	2.3	2.0	2.0	1.6	1.7	1.7	1.7	1.7	1.6
Private	22.7	19.6	23.3	25.1	24.1	23.9	23.8	24.0	24.0
National saving	19.8	19.9	18.7	22.2	22.4	22.7	22.8	23.2	23.1
Public	-0.4	-5.1	-5.5	0.1	1.1	1.4	1.5	1.4	1.4
Private	20.3	25.1	24.2	22.1	21.2	21.3	21.4	21.8	21.7
Operations of the Central Government									
Central government gross debt	28.3	32.6	36.3	38.3	38.4	37.6	37.8	37.9	37.9
Central government debt net of treasury assets	18.6	24.2	31.0	31.8	33.3	32.9	33.5	33.9	33.8
Central government balance	-2.9	-7.3	-7.7	-1.7	-0.7	-0.4	-0.4	-0.4	-0.4
Total revenue	21.7	20.1	23.9	23.3	23.6	23.8	23.4	23.3	23.1
Total expenditure	24.6	27.4	31.6	24.9	24.3	24.2	23.8	23.7	23.5
Central government structural balance	-1.7	-2.4	-11.5	-4.4	-2.2	-1.2	-0.7	-0.4	-0.4
Employment	(Annual percentage change, unless otherwise specified)								
Working age population	2.2	2.0	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Labor force	2.0	-8.9	3.4	0.5	0.8	0.9	1.0	1.0	1.0
Employment	2.1	-12.3	5.5	2.5	0.9	0.9	1.0	1.0	1.0
Unemployment rate (in percent)	7.2	10.7	8.8	7.0	6.9	6.8	6.8	6.8	6.8

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.

Table 6. Chile: Indicators of External Vulnerabilities 1/

(In percent, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021
Financial Indicators							
M3 (percent change)	12.4	8.7	4.8	11.0	10.9	3.1	14.7
Less pension funds' deposits (annual percentage change)	13.5	10.1	5.0	12.3	9.7	7.0	18.8
Private sector credit to GDP	82.5	81.6	80.5	83.9	89.0	89.9	82.3
90-day central bank promissory note (nominal) interest rate (avg.)	2.7	3.5	2.6	2.8	3.3	3.4	3.5
Share of foreign currency deposits in total deposits	15.4	15.2	13.0	12.8	14.9	14.8	18.8
Share of foreign currency loans in total credit	13.9	13.0	11.4	11.0	11.8	11.8	10.3
External Indicators							
Exports of goods, U.S. dollars (annual percentage change)	-17.4	-2.1	13.4	8.5	-7.9	6.9	28.9
Imports of goods, U.S. dollars (annual percentage change)	-14.7	-4.8	10.1	14.7	-6.5	-16.4	52.6
Terms of trade (annual percentage change)	-2.8	4.1	10.0	-2.5	-1.8	11.6	12.1
REER (annual percent change, period average)	-1.0	1.8	3.4	1.4	-4.7	-8.2	3.3
Exchange rate (pesos per U.S. dollar, period average)	654.1	676.9	648.9	641.2	703.3	792.2	759.1
Current account balance (percent of GDP)	-2.8	-2.6	-2.8	-4.6	-5.2	-1.9	-6.7
Financial account less reserves accumulation (percent of GDP)	-1.7	-2.4	-1.2	-4.3	-3.8	-1.2	-10.9
Gross official reserves (in billions of U.S. dollars) 2/	38.6	40.5	39.0	39.9	40.7	39.2	51.3
Gross official reserves to M3	14.9	13.5	11.5	11.9	11.7	10.5	14.3
Gross official reserves to short-term external debt 3/	114.0	114.8	89.1	109.2	91.3	74.3	119.4
Gross official reserves (percent of GDP)	15.9	16.2	14.1	13.5	14.6	15.5	16.2
IMF reserve adequacy metric (percent of GDP) 4/	14.6	15.3	15.6	14.8	16.9	18.4	16.8
Total external debt (percent of GDP)	65.4	65.6	62.5	59.4	66.7	77.9	72.4
Of which: External public sector debt	3.2	4.0	4.6	4.9	5.7	8.4	11.4
Total external debt to exports of goods and services	224.8	236.1	221.2	208.9	240.4	248.4	227.8
External interest payments to exports of goods and services	6.2	5.4	7.1	5.8	6.0	8.2	4.7
External amortization payments to exports of goods and services	53.8	50.8	49.5	42.6	55.2	70.1	36.9
Financial Market Indicators							
Stock market index (in U.S. dollars; period average) 5/	1465	1409	1731	1869	1512	1037	1182
Sovereign long-term foreign currency debt rating (end of period)							
Moody's	Aa3	Aa3	Aa3	A1	A1	A1	A1
S&P	AA-	AA-	A+	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)

	2015	2016	2017	2018	2019	2020	2021 1/
Total Assets							
Total assets (In billions of Chilean pesos)	203,609	211,687	220,365	246,266	290,500	323,127	351,920
Percent of GDP	128.4	125.5	123.0	130.1	148.4	161.5	146.3
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	12.6	13.8	13.8	13.3	12.8	14.7	14.3
Regulatory Tier 1 Capital to Risk-Weighted Assets	9.4	10.9	11.0	10.7	10.3	10.7	10.4
Capital to Assets	7.6	8.4	8.4	8.4	7.5	6.9	6.6
Credit Risk							
NPLs Net of Provisions to Capital	-3.3	-5.2	-4.6	-4.5	-4.3	-9.6	-8.2
NPLs to Gross Loans	1.9	1.8	1.9	1.9	2.1	1.6	1.4
Profitability							
Return on Assets	1.3	1.2	1.3	1.3	1.2	0.5	1.4
Return on Equity	17.7	13.8	15.4	15.5	16.2	7.8	20.9
Interest Margin to Gross Income	66.6	66.8	67.1	67.6	67.1	69.4	68.7
Trading Income to Gross Income	10.6	10.1	8.5	8.7	9.6	8.4	8.5
Non-interest Expenses to Gross Income	48.6	52.1	51.1	49.3	46.8	54.9	44.8
Liquidity							
Liquid Assets to Total Assets	13.8	14.7	15.3	14.2	15.3	22.2	22.1
FX and Derivative Risk							
FX Loans to Total Loans	20.0	18.2	16.6	18.4	18.9	16.1	17.3
FX Liabilities to Total Liabilities	27.1	25.8	24.0	25.5	26.7	22.7	25.2

Sources: IMF Financial Soundness Indicators, Moody's Investor Service and IMF staff calculations.
1/ As of September 2021.

Annex I. External Debt Sustainability Analysis

External debt decreased to 72 percent of GDP in 2021, partly due to exchange rate valuation effects and higher growth, and is projected to further decline towards 60 percent of GDP by 2027. External debt remains sustainable under a wide range of adverse scenarios, including shocks to interest rates, growth, and the exchange rate. The non-financial corporate sector appears highly leveraged, but most debt is FDI-related (with parent companies) and has foreign exchange hedging or long maturity.

Table 1. Chile: External Debt Sustainability Framework

(in percent of GDP, otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	62.5	59.4	66.7	77.9	72.4			**74.5**	**68.8**	**65.3**	**62.7**	**60.9**	**59.6**	**-1.6**
2 Change in external debt	-3.1	-3.1	7.3	11.2	-5.5			2.1	-5.7	-3.5	-2.6	-1.8	-1.2	
3 Identified external debt-creating flows (4+8+9)	-2.3	3.4	8.0	9.2	-9.7			3.9	3.8	2.2	1.7	1.4	1.6	
4 Current account deficit, excluding interest payments	1.0	2.9	3.3	-0.3	5.2			2.6	2.0	1.5	1.0	1.0	1.2	
5 Balance of goods and services	0.7	-1.1	-1.9	4.4	-0.4			0.4	2.0	1.9	2.0	1.6	1.4	
6 Exports	28.3	28.4	27.7	31.4	31.8			36.9	34.3	32.5	31.1	30.0	29.2	
7 Imports	-27.6	-29.5	-29.6	-27.0	-32.2			-36.4	-32.3	-30.6	-29.0	-28.4	-27.8	
8 Net non-debt creating capital inflows (negative)	1.2	2.9	-0.6	0.8	-0.8			0.5	0.7	0.4	0.4	0.4	0.5	
9 Automatic debt dynamics 1/	-4.4	-2.3	5.3	8.7	-14.1			0.8	1.1	0.3	0.3	0.0	-0.1	
10 Contribution from nominal interest rate	1.8	1.7	1.9	2.2	1.5			1.9	1.4	1.4	1.6	1.4	1.3	
11 Contribution from real GDP growth	-0.8	-2.3	-0.5	4.5	-7.3			-1.1	-0.3	-1.1	-1.4	-1.5	-1.4	
12 Contribution from price and exchange rate changes 2/	-5.5	-1.7	3.9	2.0	-8.3			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-6.5	-0.7	2.0	4.3			-1.8	-9.5	-5.7	-4.3	-3.2	-2.8	
External debt-to-exports ratio (in percent)	221.2	208.9	240.4	248.4	227.8			202.2	200.4	200.7	201.8	202.8	204.5	
Gross external financing need (in billions of US dollars) 4/	37.3	66.7	71.9	53.8	67.8			**85.5**	**54.0**	**52.1**	**49.1**	**50.3**	**52.7**	
in percent of GDP	13.5	22.6	25.8	21.3	21.4	10-Year	10-Year	26.9	15.4	13.7	12.1	11.7	11.5	
Scenario with key variables at their historical averages 5/								**74.5**	**73.9**	**74.4**	**75.2**	**76.3**	**77.6**	**0.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	1.3	4.0	0.8	-6.1	11.7	2.6	4.4	1.5	0.5	1.7	2.2	2.5	2.5	
GDP deflator in US dollars (change in percent)	9.4	2.8	-6.5	-3.4	12.2	0.0	7.0	-1.2	10.0	6.2	4.8	3.7	3.4	
Nominal external interest rate (in percent)	3.1	2.8	3.0	3.0	2.4	2.9	0.3	2.6	2.1	2.1	2.7	2.4	2.2	
Growth of exports (US dollar terms, in percent)	12.6	7.6	-8.0	2.5	27.2	1.3	12.2	16.3	2.9	2.3	2.3	2.7	3.0	
Growth of imports (US dollar terms, in percent)	9.1	14.2	-5.3	-17.4	49.8	3.1	19.1	13.6	-2.0	2.2	1.7	4.0	3.6	
Current account balance, excluding interest payments	-1.0	-2.9	-3.3	0.3	-5.2	-2.3	1.7	-2.6	-2.0	-1.5	-1.0	-1.0	-1.2	
Net non-debt creating capital inflows	-1.2	-2.9	0.6	-0.8	0.8	0.2	1.8	-0.5	-0.7	-0.4	-0.4	-0.4	-0.5	

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.

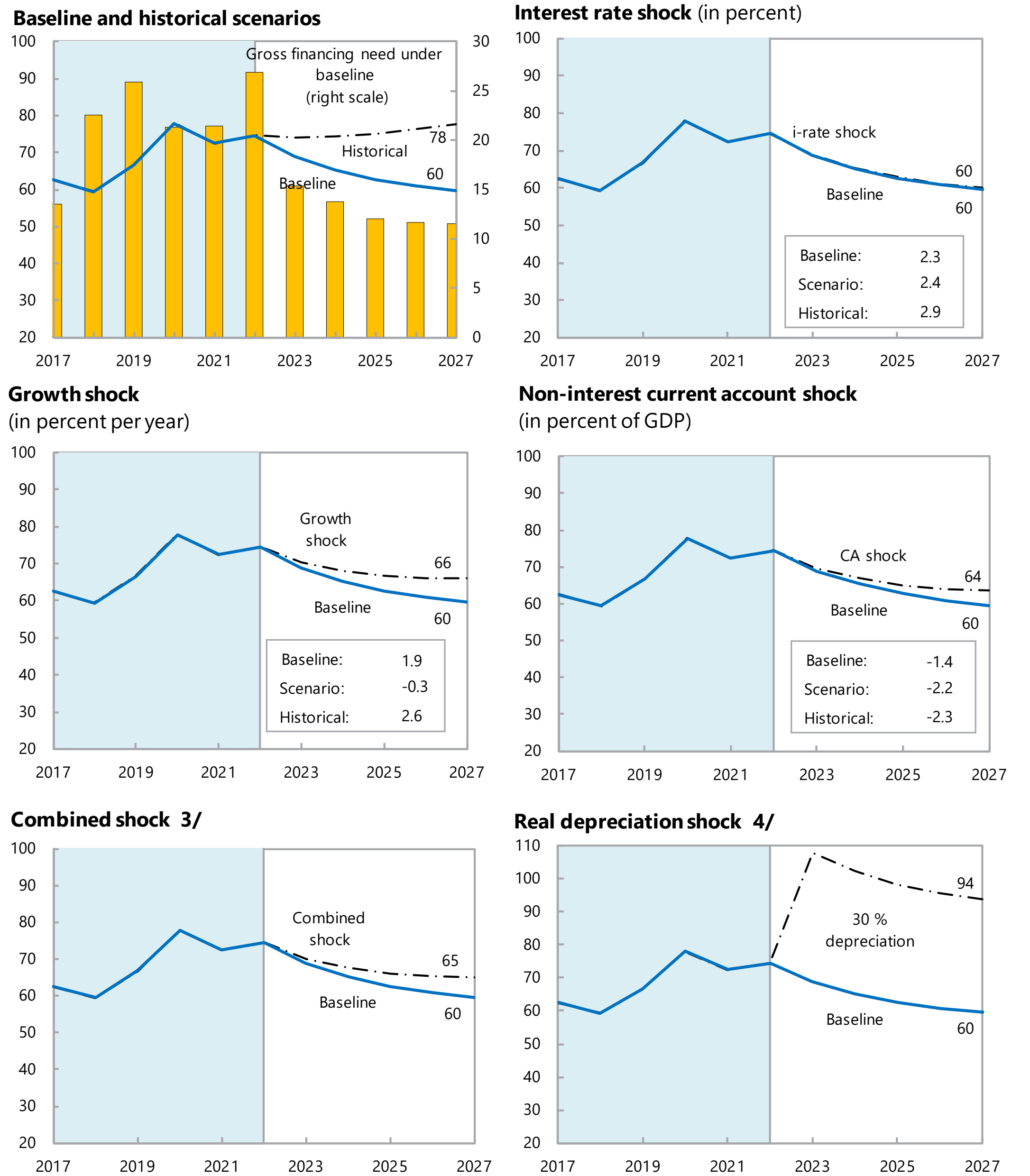
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 1. 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.

Annex II. Public Sector Debt Sustainability Analysis

Public sector debt is sustainable under a wide range of plausible shock scenarios. Medium-term structural fiscal consolidation plans, guided by the structural fiscal balance rule, are fully consistent with fiscal sustainability. The authorities are aiming for an ambitious tax reform, not included in baseline scenario, to finance demands for higher social spending.

Figure 1. Chile: Baseline Scenario

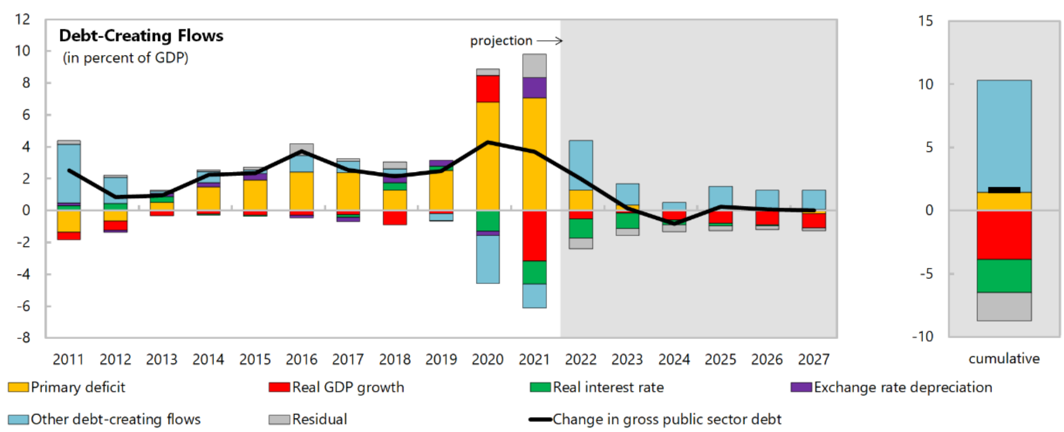
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	18.5	32.6	36.3	38.3	38.4	37.6	37.8	37.9	37.9
Public gross financing needs	3.5	11.9	11.1	2.7	2.5	0.8	3.0	3.4	0.7
Real GDP growth (in percent)	2.9	-6.1	11.7	1.5	0.5	1.7	2.2	2.5	2.5
Inflation (GDP deflator, in percent)	3.4	8.8	7.5	6.0	4.9	3.1	2.8	2.6	2.7
Nominal GDP growth (in percent)	6.4	2.2	20.2	7.5	5.5	4.8	5.1	5.2	5.3
Effective interest rate (in percent) [4/]	4.9	3.5	3.2	2.4	2.4	2.3	2.4	2.4	3.0

As of April 18, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		154
5Y CDS (bp)		91
Ratings	Foreign	Local
Moody's	A1	A1
S&Ps	A	A+
Fitch	A-	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.2	4.3	3.7	2.0	0.1	-0.8	0.2	0.1	0.0	1.6	
Identified debt-creating flows	2.0	3.9	2.2	2.6	0.6	-0.4	0.5	0.3	0.2	3.8	
Primary deficit	1.2	6.8	7.1	1.3	0.3	0.0	0.0	0.0	-0.2	1.5	0.4
Primary (noninterest) revenue and grants	21.0	19.6	23.6	22.8	23.1	23.3	22.9	22.8	22.7	137.6	
Primary (noninterest) expenditure	22.1	26.4	30.7	24.1	23.5	23.3	22.9	22.8	22.4	139.1	
Automatic debt dynamics [5/]	-0.1	0.1	-3.3	-1.7	-1.1	-0.9	-1.0	-1.0	-0.8	-6.5	
Interest rate/growth differential [6/]	-0.2	0.4	-4.6	-1.7	-1.1	-0.9	-1.0	-1.0	-0.8	-6.5	
Of which: real interest rate	0.2	-1.3	-1.4	-1.2	-0.9	-0.3	-0.2	-0.1	0.1	-2.6	
Of which: real GDP growth	-0.4	1.7	-3.2	-0.5	-0.2	-0.6	-0.8	-0.9	-0.9	-3.9	
Exchange rate depreciation [7/]	0.1	-0.3	1.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.9	-3.0	-1.5	3.1	1.3	0.5	1.5	1.2	1.2	8.8	
Net acquistion of Financial Assets (negative)	0.4	-3.2	-1.6	3.0	1.3	0.4	1.5	1.2	1.2	8.5	
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	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.3	
Residual, including asset changes [8/]	0.2	0.4	1.5	-0.7	-0.4	-0.4	-0.3	-0.2	-0.2	-2.2	



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.

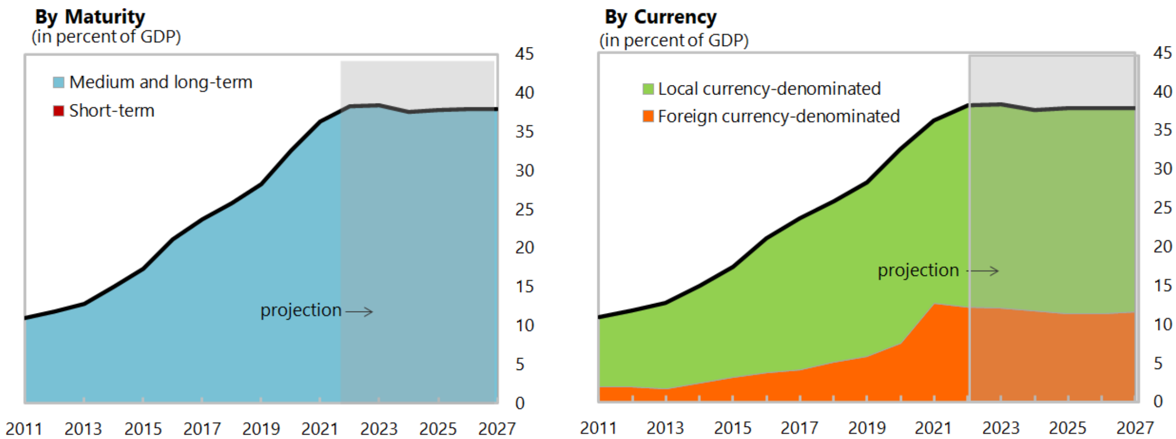
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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

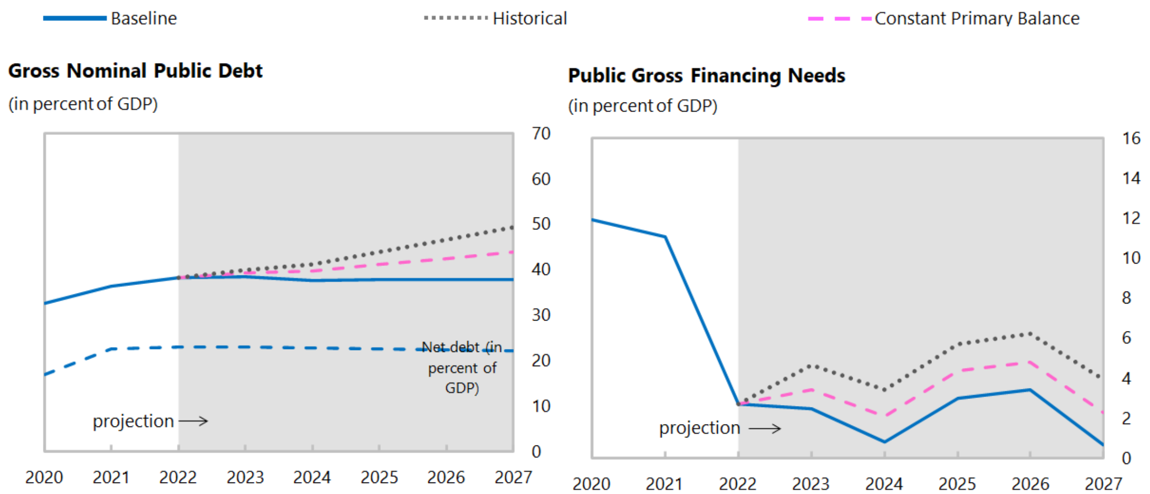
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

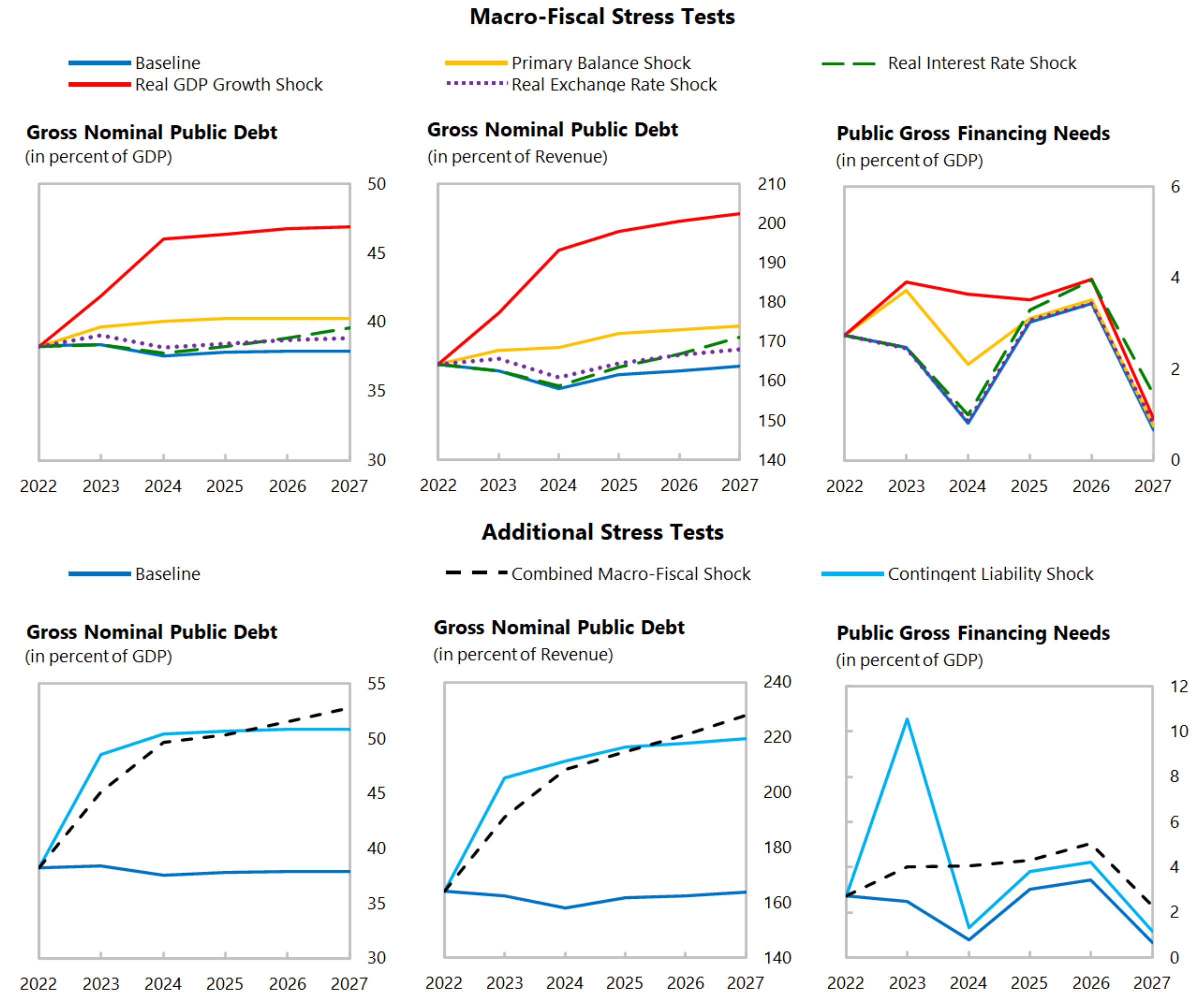
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	1.5	0.5	1.7	2.2	2.5	2.5
Inflation	6.0	4.9	3.1	2.8	2.6	2.7
Primary Balance	-1.3	-0.3	0.0	0.0	0.0	0.2
Effective interest rate	2.4	2.4	2.3	2.4	2.4	3.0
Constant Primary Balance Scenario						
Real GDP growth	1.5	0.5	1.7	2.2	2.5	2.5
Inflation	6.0	4.9	3.1	2.8	2.6	2.7
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	2.4	2.4	2.3	2.5	2.5	3.0

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	1.5	2.6	2.6	2.6	2.6	2.6
Inflation	6.0	4.9	3.1	2.8	2.6	2.7
Primary Balance	-1.3	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	2.4	2.4	2.5	2.8	3.0	3.5

Source: IMF staff.

Figure 3. Chile: Macro-Fiscal Stress Tests



Underlying Assumptions
(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	1.5	0.5	1.7	2.2	2.5	2.5
Inflation	6.0	4.9	3.1	2.8	2.6	2.7
Primary balance	-1.3	-1.6	-1.3	0.0	0.0	0.2
Effective interest rate	2.4	2.4	2.4	2.5	2.5	3.1
Real Interest Rate Shock						
Real GDP growth	1.5	0.5	1.7	2.2	2.5	2.5
Inflation	6.0	4.9	3.1	2.8	2.6	2.7
Primary balance	-1.3	-0.3	0.0	0.0	0.0	0.2
Effective interest rate	2.4	2.4	2.9	3.2	3.9	5.1
Combined Shock						
Real GDP growth	1.5	-3.9	-2.7	2.2	2.5	2.5
Inflation	6.0	3.8	2.0	2.8	2.6	2.7
Primary balance	-1.3	-1.7	-2.7	0.0	0.0	0.2
Effective interest rate	2.4	2.7	3.1	3.7	4.3	5.4

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	1.5	-3.9	-2.7	2.2	2.5	2.5
Inflation	6.0	3.8	2.0	2.8	2.6	2.7
Primary balance	-1.3	-1.7	-2.7	0.0	0.0	0.2
Effective interest rate	2.4	2.4	2.4	2.6	2.6	3.1
Real Exchange Rate Shock						
Real GDP growth	1.5	0.5	1.7	2.2	2.5	2.5
Inflation	6.0	11.4	3.1	2.8	2.6	2.7
Primary balance	-1.3	-0.3	0.0	0.0	0.0	0.2
Effective interest rate	2.4	2.7	2.4	2.5	2.5	3.1
Contingent Liability Shock						
Real GDP growth	1.5	-3.9	-2.7	2.2	2.5	2.5
Inflation	6.0	3.8	2.0	2.8	2.6	2.7
Primary balance	-1.3	-8.2	0.0	0.0	0.0	0.2
Effective interest rate	2.4	2.7	2.8	2.9	2.9	3.3

Source: IMF staff.

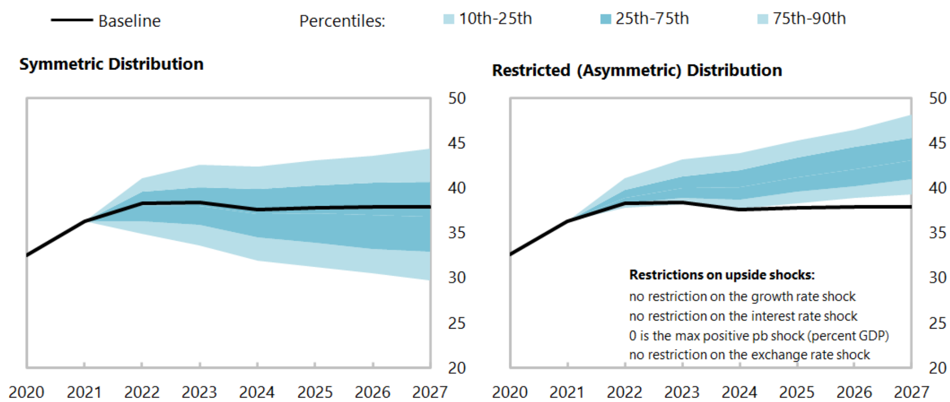
Figure 4. Chile: Risk Assessment

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

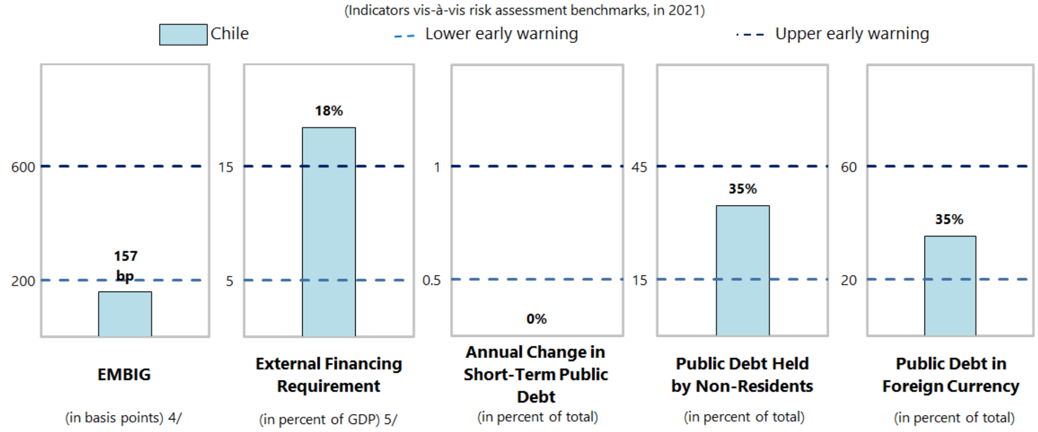
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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, 10-Nov-21 through 08-Feb-22.

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.