IMF Country Reports 22/283

Chile: Request for an Arrangement Under the Flexible Credit Line and Cancellation of the Arrangement Under the Short-term Liquidity Line-Press Release; Staff Report; Staff Supplement and Statement by the Executive Director for Chile

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 22/283

CHILE

August 2022

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE ARRANGEMENT UNDER THE SHORT-TERM LIQUIDITY LINE—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHILE

In the context of the Request for an Arrangement under the Flexible Credit Line and Cancellation of the Arrangement under the Short-term Liquidity Line, 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 August 29, 2022, following discussions that ended on August 22, 2022, 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 August 24, 2022.
- A **Staff Supplement** on the assessment of the impact of the proposed Flexible Credit Line arrangement on the Fund's finances and liquidity position.
- A **Statement by the Executive Director** for Chile.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/294

IMF Executive Board Approves Two-Year US$18.5 Billion Flexible Credit Line for Chile

FOR IMMEDIATE RELEASE

- *The IMF approved today a two-year Flexible Credit Line (FCL) arrangement for Chile of about US$18.5 billion to augment buffers and provide insurance against adverse scenarios. The FCL will be treated as precautionary.*
- *After an impressive recovery from the fallout of the Covid-19 pandemic, the Chilean economy is confronting marked increase in global risks.*
- *Chile qualifies for the FCL by virtue of its very strong economic fundamentals and policies, which continue to support the country's resilience and capacity to respond to shocks.*

Washington, DC – **August 29, 2022:** The Executive Board of the International Monetary Fund (IMF) approved today a two-year arrangement for Chile under the Flexible Credit Line (FCL) in the amount of SDR 13.954 billion (about US$18.5 billion[1]; 800 percent of quota). The Chilean authorities intend to treat the FCL as precautionary. Given that the FCL can address all types of balance of payment needs, the Chilean authorities also notified the Fund of their decision to cancel the existing Short-term Liquidity Line (SLL) of SDR 2.529 billion (about US$3.3 billion; 145 percent of quota), an approach that is consistent with current Fund policies.

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 allows its recipients to draw on the credit line at any time and is designed to flexibly address both actual and potential balance of payments needs. Drawings under the FCL are not phased nor tied to ex-post conditionality as in regular IMF-supported programs.

The FCL will augment Chile's precautionary reserve buffers on a temporary basis and provide substantial insurance against a broad range of risks, including from a possible abrupt global slowdown; commodity price shocks; spillovers from Russia's war in Ukraine; or a sharp tightening of global financial conditions.

Chile qualifies for the FCL given its very strong economic fundamentals and institutional policy frameworks, a sustained track record of implementing very strong policies, and the authorities' continued commitment to maintaining very strong policies in the future. Qualification criteria for an arrangement under the FCL are the same as for the SLL.

[1] US$ amounts have been calculated using the exchange rate as of August 2, 2022 (SDR 0.755229/US$), consistent with the Staff Report.

700 19th Street NW
Washington, DC 20431
USA

Following the Executive Board's discussion on Chile, Ms. Kristalina Georgieva, Managing Director, issued the following statement:

"After an impressive recovery from the fallout of the Covid-19 pandemic, Chile is facing a marked increase in global risks.

"Against the backdrop of a challenging external environment, the authorities have continued to implement very strong policies to mitigate risks, preserve macroeconomic stability, and support vulnerable groups, while advancing ambitious reforms. The FCL with access of 800 percent of quota will provide a substantial precautionary buffer against a broad range of risks. The authorities intend to treat the arrangement as precautionary and exit the arrangement when external conditions allow.

"Chile has very strong fundamentals and a sustained track record of implementing very strong policies, anchored in a long-standing structural fiscal balance rule, credible inflation targeting with a flexible exchange rate, and a sound financial system supported by effective regulation and supervision. These very strong fundamentals and policy frameworks continue to support the country's resilience and capacity to respond to shocks."

INTERNATIONAL MONETARY FUND

CHILE

August 24, 2022

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE ARRANGEMENT UNDER THE SHORT-TERM LIQUIDITY LINE

EXECUTIVE SUMMARY

Context: After an impressive recovery from the fallout of the Covid-19 pandemic, the Chilean economy is confronting an acute deterioration of the external environment. Downside risks have materialized, including a tightening of global financial conditions, a slowdown in global growth, and a substantial drop in Chile's terms of trade. Domestic economic policies are appropriately being recalibrated to mitigate risks and preserve macroeconomic stability, while supporting vulnerable groups. The authorities will continue leveraging on Chile's very strong fundamentals and policy frameworks to implement an ambitious reform agenda in a challenging external environment.

Risks: External risks and global uncertainty have markedly increased since the entry into effect of the Short-term Liquidity Line (SLL) in May. External risks relate to a possible abrupt global slowdown or recession and an associated increase in global risk premia and commodity price volatility; a de-anchoring of inflation expectations alongside further tightening of global financial conditions; additional commodity price shocks; or an intensification of spillovers from Russia's war in Ukraine. Domestic risks continue to stem from social discontent about high energy and food prices, unmet social demands, or the uncertain outcome of the constitutional reform. However, low public indebtedness, a sustained track record of very strong policies, and very strong institutional policy frameworks continue to support Chile's resilience and capacity to respond to shocks.

Flexible Credit Line (FCL): Considering the worsening of external conditions and the marked increase in risks, the authorities wish to augment their precautionary reserve buffers on a temporary basis. To this end, they are requesting a two-year precautionary FCL arrangement in an amount equivalent to SDR 13.954 billion (800 percent of quota, about US$18.5 billion) to cover against a broad range of risks and the cancellation of the current SLL arrangement with access equivalent to SDR 2.529 billion (145 percent of quota, around US$3.3 billion), which became effective on May 20, 2022. The authorities intend to treat the FCL arrangement as precautionary, exiting as soon as the 24-month period is completed, conditional on favorable developments in risks scenarios. In staff's view, Chile continues to meet the qualification criteria for an arrangement under the

FCL (which are identical to the SLL criteria), and staff supports the authorities' request. The last Article IV consultation was concluded in April 2021. The 2022 Article IV is planned for the fall, after the referendum on the new constitution.

Fund liquidity: This proposal would increase the Fund's total commitment to Chile to SDR 13.954 billion. It would have a significant but manageable impact on the Fund's liquidity position, which is expected to remain adequate after the approval of the proposed FCL arrangement.

Process: An informal meeting to consult with the Executive Board on a possible FCL arrangement for Chile was held on August 23, 2022.

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

The report was prepared by a team comprising Ana Corbacho (head), Jose Torres, Chiara Fratto, Antonio Gabriel (all WHD), Luiza Antoun de Almeida (SPR), Eduardo Camero (FAD), and Junghwan Mok (MCM), with support from Natalia Martinez-Camelo, Gabriel Moura Queiroz, and Adriana Veras (all WHD).

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