

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 and a flexible exchange rate. 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 in the face of very large shocks, such as the 2019 social unrest, the Covid-19 pandemic, and the recent deterioration in external conditions. The government is embarking on a far-reaching reform agenda to tackle inequality, improve social services, and foster a green economy, while preserving macroeconomic stability and fiscal sustainability.

2. An FCL arrangement would augment precautionary reserve buffers and provide insurance against a broad range of risks. In May, the authorities exited the FCL arrangement that was about to expire and transitioned to an SLL arrangement, against the backdrop of a rapid economic recovery, lower risks and uncertainty compared to the onset of the pandemic, and the buildup of foreign exchange (FX) liquidity buffers. Since then, the Chilean economy has been hit by large external shocks, including a tightening of global financial conditions and a substantial drop in Chile's terms of trade. External risks and global uncertainty have markedly increased, including risks of an abrupt global slowdown or recession and an associated spike in global risk premia and commodity price volatility. Other key external risks include a possible 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. A new FCL arrangement would provide a substantial buffer against a broad range of risks on a temporary basis, supporting the authorities' strategy and external resilience. The authorities intend to treat this new FCL arrangement as precautionary and exit after two years, conditional on developments and risks. Given that the FCL can address all types of balance of payment needs, the authorities notified the Fund of their decision to cancel the SLL arrangement, an approach that is in line with current Fund policy.

3. Staff conducted virtual meetings in July to assess qualification. FCL qualification criteria are identical to those for the SLL, and staff had a very positive assessment at the time of the SLL *offer* in May. 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 planned for the fall, following the national referendum on the constitutional reform proposal (Box 1).

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

Box 1. Chile: Constitutional Reform¹

On July 4, the Constitutional Convention proposed a new draft constitution. The proposal will need approval by simple majority in a national referendum with mandatory voting on September 4.

The draft proposes changes to the form of government and emphasizes social and other rights. It defines Chile as a pluri-national state; introduces a regional chamber in lieu of the Senate; and grants regions political, administrative, and financial autonomy. The draft constitution also emphasizes social, indigenous, and water rights; gender parity in government; and the protection of the environment. It establishes state domain over mines and minerals.

With respect to macroeconomic policy frameworks, key highlights include:

- *Central Bank of Chile (BCCh) autonomy maintained.* The BCCh's core mandate remains price stability and the normal functioning of the payments system. In fulfilling its core mandate, the BCCh is called to take into consideration financial stability, FX volatility, employment, the environment, and natural wealth.
- *New provision on fiscal sustainability and responsibility.* This new constitutional clause would apply at all levels of government.
- *Shared prerogative on fiscal proposals.* Compared to the current exclusive presidential prerogative, the lower house would also be able to initiate fiscal proposals, but only with concurrence from the president. Constitutional provisions on the budget process remain broadly unchanged.

If approved, implementing the new constitution would require legislative changes that would unfold slowly over time, avoiding abrupt changes to Chile's policy frameworks. The draft constitution states principles at a high level, while follow-up legislation will need to lay out their implementation, including during a transition period.

¹ For additional details on the reform process, see IMF Country Report 2022/148.

RECENT DEVELOPMENTS AND POLICIES

4. The external environment facing Chile has deteriorated considerably in recent months.

Global inflationary pressures have proven more persistent than anticipated, including due to spillovers from the war in Ukraine and continued pandemic-related supply constraints. This has prompted sizable increases in monetary policy rates by major central banks,² a significant tightening of global financial conditions, and an appreciation of the U.S. dollar. More recently, fears of a global slowdown have led to a correction and volatility in commodity prices, including a sharp and fast drop of about 30 percent in the price of copper between early June and mid-July, with a significant impact on Chile's terms of trade.³

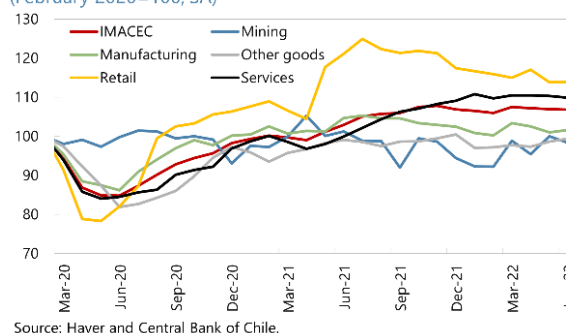
² Since the entry into effectiveness of the SLL in May, the 1-year U.S. treasury rate has increased from 2 percent to 3.1 percent.

³ Between mid-July and mid-August, copper prices recovered somewhat, but remain about 20 percent below their level from early June.

5. Following a remarkable recovery from the pandemic, Chile's economy is undergoing a necessary transition towards lower growth.

GDP rebounded by 11.7 percent in 2021, buoyed by a large, effective, and well-coordinated Covid-19 policy response, widespread vaccination, and high copper prices.⁴ Against a positive output gap, the authorities are adequately tightening macroeconomic policies (see below), and economic activity is cooling down. Growth in the monthly activity indicator (IMACEC) has slowed to 4 percent y/y in June, from a peak of 21 percent in mid-2021. Amid policy tightening, the slowdown is being driven by weak investment while consumption has been more resilient, aided by lingering support from the Covid-19 exceptional pension fund withdrawals. Job creation plateaued in June, with employment still about 3.5 percent below its pre-pandemic level.

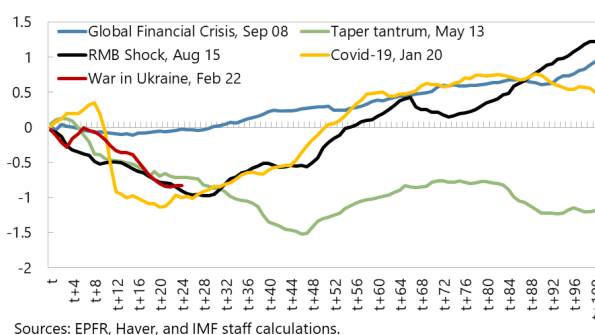
Chile: IMACEC by Sector
(February 2020=100, SA)



6. Notwithstanding the ongoing adjustment of domestic demand, negative terms of trade shocks have kept the current account deficit elevated. The current account deficit increased to 6.7 percent in 2021, from 1.7 percent of GDP in 2020, due to a surge of imported durable goods following large Covid-19 stimulus measures, in particular the exceptional pension fund withdrawals and large fiscal transfers. The fall in tourism revenues due to travel restrictions, and a worsening of the income balance on the back of large repatriation of dividends from mining companies also contributed. Alongside the adjustment of domestic demand, the current account deficit has started to decline in 2022 (to 8 percent of GDP in the first quarter from 8.6 percent of GDP in the last quarter of 2021) but remains elevated given weak terms of trade.

7. Chile's financial markets have proven resilient among Emerging Markets (EMs). Since the onset of the war in Ukraine, Chile has faced portfolio outflows and a tightening of financial conditions comparable to past episodes of stress. Chilean longer-term yields in peso-denominated sovereign bonds have remained relatively stable, while the decline in equity indices has been less pronounced than in other LA5 economies.⁵

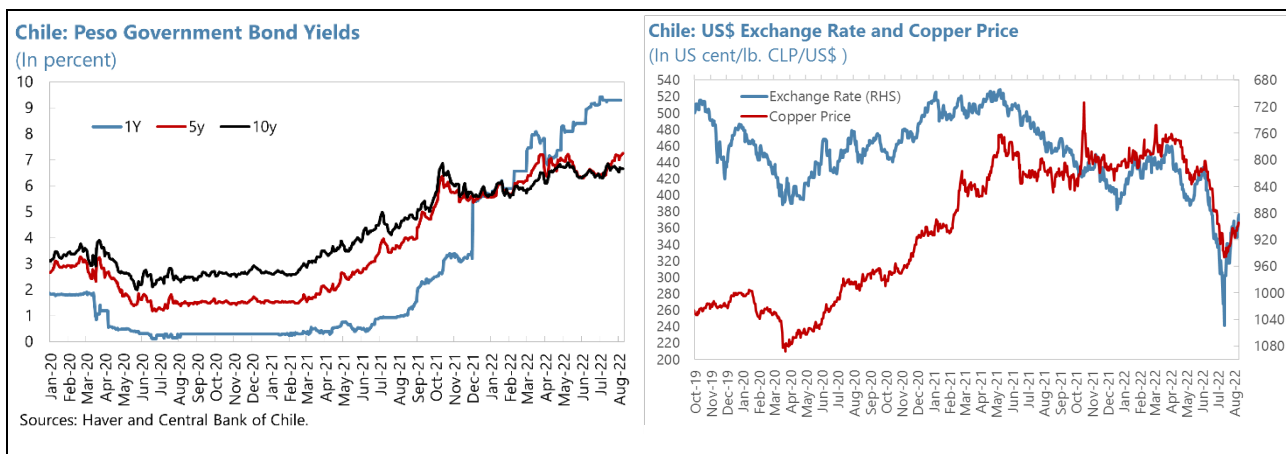
Chile: Cumulative Total Portfolio Flows in Weeks
(In US\$ billions)



⁴ For further details, see IMF Country Report 2022/148.

⁵ The LA5 group comprises Brazil, Chile, Colombia, Mexico, and Peru.

8. The exchange rate has continued to play its role as a shock absorber amid high volatility. After relatively calm FX market conditions in the first five months of 2022, the sharp fall in copper prices since June (to levels still higher than at the onset of the pandemic) triggered a fast and large depreciation, alongside unusually high volatility. The BCCh assessed that, if these conditions persisted, there could be negative spillovers to the proper functioning of financial markets.



9. On July 14th, the BCCh launched an FX intervention program to address disorderly market conditions. Consistent with a very well-established inflation-targeting framework and a flexible exchange rate, the program responds to disorderly market conditions, aiming to facilitate the economy's adjustment to uncertain and changing circumstances. Auction plans and results are being transparently communicated, and FX sales are being duly sterilized to ensure full consistency with the monetary policy rate.⁶ Following the announcement of the program in mid-July, FX markets stabilized, and the exchange rate has appreciated by about 9 percent. The program will run until September 30, comprising auctions of up to US\$10 billion in the spot market and US\$10 billion in the forwards market, and up to US\$5 billion in liquidity swaps. By mid-August, the BCCh had sold US\$3.6 billion in the spot market and US\$7.9 billion in the forwards' market.

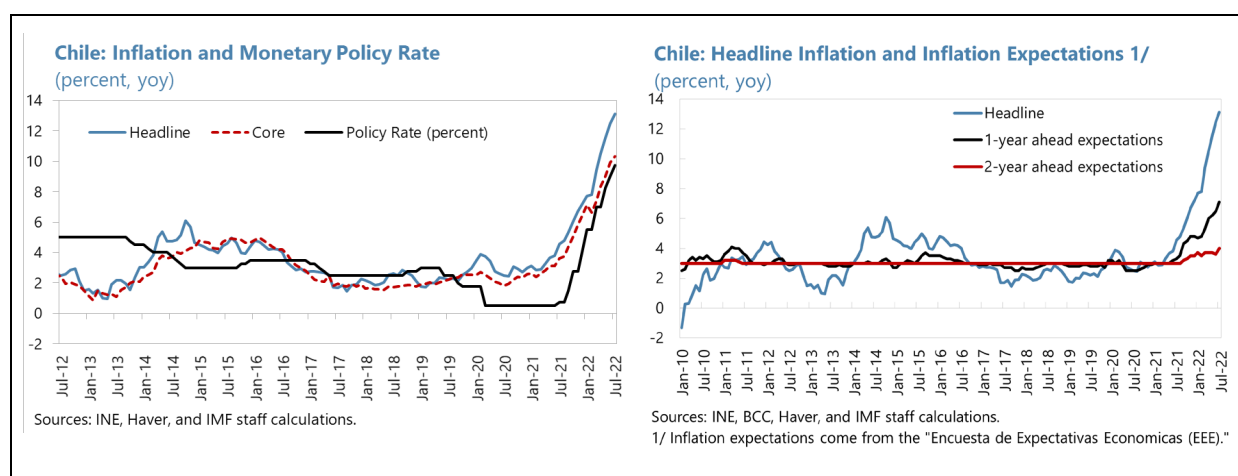
10. The BCCh continued to broaden its FX liquidity management tools. Between January and October 2021, the BCCh purchased US\$7.4 billion as part of its reserve accumulation program, while the 2021 general SDR allocation further boosted reserves by about US\$1.8 billion.⁷ Reserves stood at US\$44.7 billion in July, down from US\$51.3 at end-2021, mostly driven by lower

⁶ 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. At the time, the BCCh announced an FX intervention program of up to US\$20 billion, but actual intervention amounted to only US\$2.5 billion in the spot market and US\$4.5 billion in the forwards market over six weeks between the end of 2019 and early 2020.

⁷ 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.

banks' deposits at the BCCh and valuation effects.⁸ The BCCh secured a new liquidity line with the BIS (about US\$3.7 billion, the precise amount to be confirmed upon effectiveness in 2023), adding to the existing bilateral swap facility with the PBOC (US\$8 billion) and the liquidity line with FLAR (US\$1.25 billion).⁹ In addition, the SLL provided until now a revolving FX liquidity backstop of about US\$3.3 billion. Overall, the BCCh's FX liquidity buffers, including reserves and liquidity lines, amounted to about US\$61 billion in July, or nearly 20 percent of 2021 GDP.¹⁰ 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.¹¹

11. In response to inflationary pressures, the BCCh has continued to appropriately tighten monetary policy consistent with the firmly established inflation targeting framework. As in other economies, inflationary pressures in Chile have proven more persistent than anticipated, with headline (core) inflation reaching 13.1 (10.3) percent in July. Two-year ahead inflation expectations edged up to 4 percent, while inflation expectations over longer horizons remain firmly anchored at the 3 percent target. The BCCh has quickly raised the policy rate from a low of 0.5 percent in July 2021 to 9.75 percent in July this year (substantially above the neutral rate).¹² The BCCh has also clearly communicated its intention to continue tightening as needed to ensure inflation returns to the 3 percent target.



⁸ The fall in reserves since end-2021 is explained by: (i) lower FX deposits from commercial banks and state-owned enterprises at the BCCh (US\$2.5 billion); (ii) valuation effects due to higher interest rates and exchange rate depreciation (US\$1.8 billion); (iii) affiliation to FLAR (US\$0.6 billion); and (iv) FX intervention in the spot (US\$1.6 billion) and forward (US\$0.2 billion) markets.

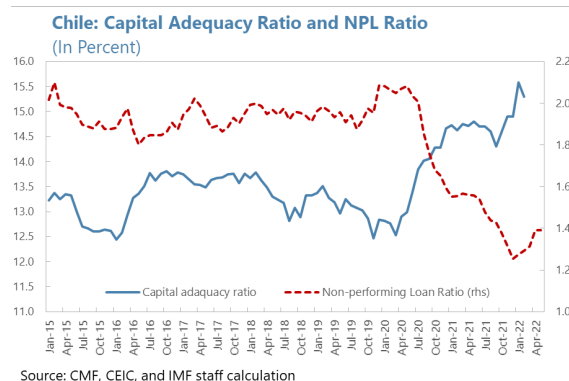
⁹ For additional details on the PBOC swap facility, see IMF Country Report No. 21/92.

¹⁰ In addition, the government's total liquid assets amounted to US\$30 billion in June, of which US\$20 billion are in FX.

¹¹ 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.

¹² 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.

12. The authorities are closely monitoring financial sector vulnerabilities, while reinforcing an already sound regulatory framework. Banks' capital adequacy ratio stood at 15.3 percent in February, comfortably above the regulatory minimum, and non-performing loan (NPL) ratios remained low at 1.4 percent in May.¹³ Banks' return on equity was 16.6 percent at end-2021, and credit growth has resumed at a healthy pace. The restructuring of the Financial Market Commission (CMF) has further strengthened financial sector supervision by placing under the same umbrella the supervision of insurance, securities, and banks. Moreover, the ongoing implementation of Basel III standards will further improve banks' capital buffers and enhance financial sector resilience.



13. The government's structural fiscal consolidation, guided by the fiscal rule, is advancing significantly faster than anticipated, while protecting the most vulnerable. Staff projects that the structural fiscal deficit will decline to 2 percent of GDP in 2022. This is consistent with a headline fiscal deficit of 0 percent of GDP, and well below the structural deficit target in the 2022 budget of 3.9 percent of GDP and the structural deficit outturn of 11.2 percent of GDP in 2021. This impressive consolidation is underpinned by the expiration of the Covid-19 stimulus measures coupled with revenue overperformance, including due to higher yields from the tax reform enacted in January 2020. Within the budget envelope, the government reallocated spending to support the most vulnerable, including: (i) measures to mitigate the impact of high energy and food prices; (ii) employment subsidies in lagging sectors; and (iii) targeted transfers to households.¹⁴ The government is also replenishing the sovereign wealth fund, with deposits of US\$6 billion in the first quarter of 2022. Over the medium term, the authorities plan to further reduce the structural fiscal deficit to less than 0.5 percent of GDP and stabilize public debt below 45 percent of GDP, which remains low by international standards.

14. The new administration envisions far-reaching reforms to improve the lives of Chileans within a sustainable macroeconomic framework. The government aspires to improve social services, tackle inequality, and transition to a green economy. An ambitious tax reform unveiled at end-June aims to permanently raise revenues to finance additional social spending and make the tax system more progressive (Box 2). Potential revenue gains are not yet included in staff's baseline scenario, due to uncertainty about the timing and final content of the reform but present an upside risk to staff's revenue projections. Forthcoming reforms of social protection systems would complement the universal basic pension approved earlier this year, 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 government priorities.

¹³ This has been supported by household debt repayments financed with proceeds from pension withdrawals. Regulatory forbearance expired in mid-2021.

¹⁴ For further details, see IMF Country Report 2022/148.

Box 2. Chile: Tax Reform Plan

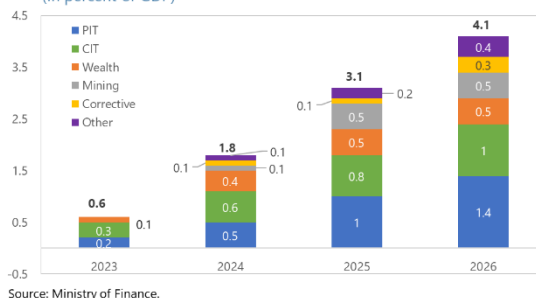
The government unveiled a comprehensive tax reform plan in June 2022. The reform aims to increase the progressivity of the tax system; simplify and lower compliance costs; reduce incentives for aggressive tax planning; and raise revenues to fund an expansion of social services.

The government estimates that the reform would gradually raise revenues by 4.1 percent of GDP by 2026. About 1.4 percent of GDP would be raised from personal income taxes (PIT), one percent of GDP from corporate income taxes (CIT), 0.5 percent of GDP from a new wealth tax, 0.5 percent of GDP from mining royalties, and 0.7 percent from “corrective” taxes, including carbon taxes.

- *PIT.* The number of tax brackets would increase from 8 to 10, with higher marginal tax rates at higher incomes levels.
- *New wealth tax.* A rate of one percent would apply to global net wealth (including real estate, investment funds, and other financial assets) in excess of US\$5 million, increasing to 1.8 percent for net wealth in excess of US\$15 million.
- *CIT.* Changes include a new tax for retained profits in non-operating companies (with more than 50 percent of revenues coming from passive sources), and stronger anti-evasion and avoidance rules. In addition, a new 2 percent “development tax” on earnings could be paid with investments in R&D or productivity enhancing measures. Finally, the CIT rate would be reduced from 27 to 25 percent.
- *Higher taxes on capital gains and dividends.* The rate would increase from 10 to 22 percent. Individuals in income brackets with a tax rate below 22 percent could use the excess tax as a credit.
- *Adjustments to mining royalties.* An additional levy for large-scale copper producers would apply, combining an ad valorem tax (which varies with output) with a tax on operational results.
- *Carbon tax.* A higher carbon tax and other green taxes will be introduced.
- *Other measures.* A new register of final beneficiaries will be created.

Reforms will be submitted to congress in three packages: (i) measures related to PIT, CIT, and the wealth tax were presented to congress in July; (ii) changes to mining royalties will proceed as amendments to a bill already before congress; and (iii) “corrective taxes” will be presented by end-2022.

Chile: Estimated Revenue Yields from Proposed Changes
(In percent of GDP)



OUTLOOK AND RISKS

15. Against weaker external conditions, the near-term outlook is challenging but very strong fundamentals and policies continue to support Chile's resilience. GDP growth is projected to decline to 1.8 percent in 2022 and drop slightly below 0 percent in 2023, before returning to its potential rate estimated at 2.5 percent over the medium term. Inflation is expected to peak by the third quarter of 2022 and converge to target by end-2024, in light of the BCC's pro-active tightening of monetary policy, consistent with the inflation-targeting framework. The structural fiscal deficit is projected to decline from about 11.2 percent of GDP in 2021 to 2 percent of GDP in 2022 and under 0.5 percent of GDP over the medium term. Alongside the adjustment of domestic demand, the 2022 current account deficit is projected to continue declining from the peak at end-2021 but remain elevated at 7.7 percent of GDP (due to the deterioration in the terms of trade). The current account deficit is then projected to gradually revert to historical averages on the basis of continued very strong macroeconomic policies, including structural fiscal adjustment guided by the fiscal rule and a flexible exchange rate. Despite the more difficult near-term outlook compared to that prevailing in May when the SLL became effective, Chile's medium-term resilience remains anchored in very strong fundamentals and policy frameworks.

Chile: Summary Comparison of Near-term Outlook, SLL and FCL					
	2021	2022		2023	
		SLL	FCL	SLL	FCL
GDP growth (percent)	11.7	1.5	1.8	0.5	-0.3
Inflation (eop)	7.1	6.0	11.2	3.9	5.7
Structural fiscal balance (percent of GDP)	-11.2	-4.4	-2.0	-2.2	-2.0
Central government gross debt (percent of GDP)	36.3	38.3	37.3	38.4	38.3
Terms of trade (annual change)	12.0	-5.7	-9.5	0.9	-7.2
Current account (percent of GDP)	-6.7	-4.5	-7.7	-3.4	-4.9

Source: Fund staff estimates.

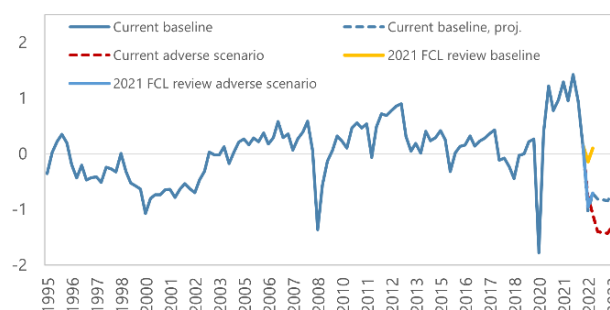
16. External risks and global uncertainty have markedly increased. Notably, as indicated in the July 2022 WEO Update (titled "Gloomy and More Uncertain"), risks of an abrupt global slowdown or recession and an associated spike in global risk premia and commodity price volatility have increased. Other key external risks include a possible de-anchoring of inflation expectations alongside a further tightening of global financial conditions; additional commodity price shocks; or an intensification of spillovers from Russia's war in Ukraine. On the domestic front, risks continue to relate to social discontent over high food and energy prices, unmet social demands, or the uncertain outcome of the constitutional reform.

17. In an adverse scenario, Chile's economic external stress index (ESI) could worsen to levels not seen since the onset of the pandemic.¹⁵ At the onset of the Covid-19 crisis, the ESI deteriorated to unprecedented levels, due to low trading partner growth, a drop in copper prices, and elevated market volatility. The ESI improved rapidly thereafter, alongside coordinated global

¹⁵ Chile's ESI is computed using the same methodology employed in the 2020 FCL request. The index is constructed as the weighted sum of four variables that summarize Chile's external risks: (i) output growth in the U.S. and China (0.15) to proxy risks to exports; (ii) copper prices (0.35) to proxy risks to the copper industry; (iii) the VXEM index (0.25); and (iv) U.S. long-term yield (0.25). The latter two variables proxy changes in global financial conditions.

Covid-related stimulus and higher copper prices. Due to the impact of the war in Ukraine, Chile's ESI experienced a steep fall in the first quarter of 2022, given low trading partner growth and tighter global financial conditions. Under the current baseline scenario, which is in line with the July 2022 WEO projections, external pressures are expected to be significantly higher than assumed under the baseline scenario of the 2021 FCL mid-term review. In an adverse scenario (Box 3), assuming (i) lower trading partner growth and faster monetary tightening in the U.S. in line with the July 2022 WEO adverse scenario, (ii) a 15 percent decline in copper prices relative to the baseline, and (iii) higher financial market volatility by two standard deviations, the ESI could approach levels comparable to those at the onset of the pandemic.

Chile: External Stress Index
(negative if high)



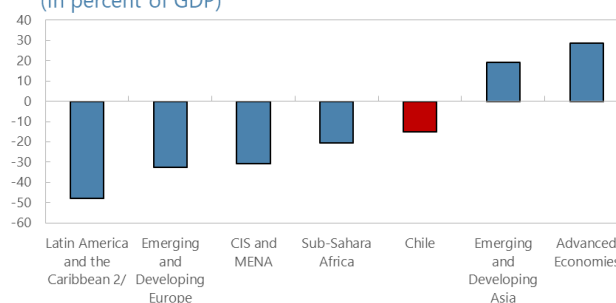
Source: WEO and IMF staff calculations.

QUALIFICATION

18. In staff's assessment, Chile continues to meet the qualification criteria for an arrangement under the FCL. These criteria are identical to those for the SLL, on which there was a very positive assessment in May. The external position is sustainable, the sovereign has access to international markets at favorable rates, and official reserves are adequate. The BCCh is highly credible. Fiscal policy is grounded on a very strong framework and guided by the structural balance rule. Banks are sufficiently capitalized, and the regulatory framework is sound.

19. 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. Staff continues to assess the external position as sustainable. The 2021 current account deficit increased mainly due to the transitory Covid-19 stimulus measures, including the exceptional pension withdrawals and sizable fiscal transfers. The current account is expected to remain elevated in 2022 due to the negative terms of trade shock but is then projected to decline to its historical average alongside continued very strong macroeconomic policies, including ongoing structural fiscal consolidation and exchange rate flexibility. 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

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



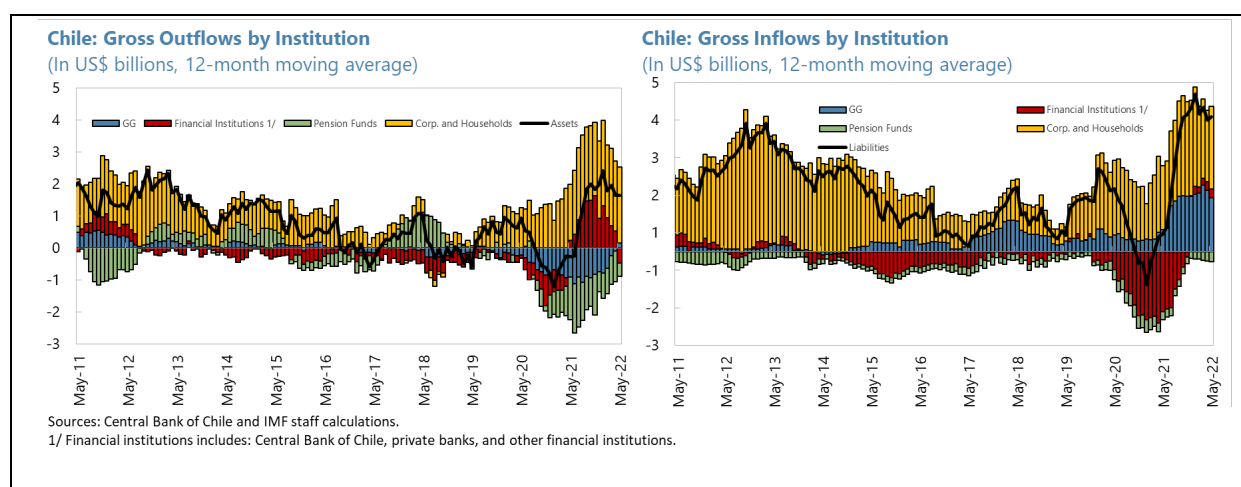
Sources: WEO and IMF staff calculations.

1/ IMF staff estimates for 2021 if official data has not been released.

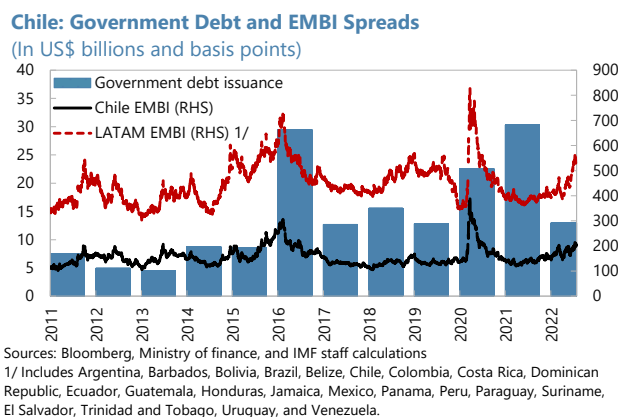
2/ Excluding Chile.

2021.¹⁶ External debt decreased to 72 percent of GDP in 2021 and is robust to standard shocks (Annex 1). In the first half of 2022, the real effective exchange rate was about 10 percent more depreciated than its 20-year historical average and 3 percent more depreciated than its 2021 average.

20. 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 (75 percent of asset flows and 81 percent of liability flows on average over the last three years).¹⁷ 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.¹⁸



21. Long 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.¹⁹ Sovereign bond spreads have remained relatively stable



¹⁶ 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.

¹⁷ 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.

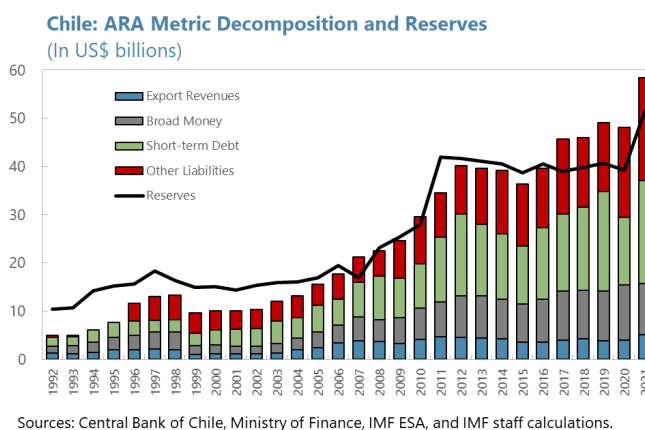
¹⁸ See IMF Country Report No. 21/83 for further details.

¹⁹ 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.

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 about 200 and 140 bps at end-July, 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).

22. Relatively comfortable international reserve position. Reserves remain at relatively

comfortable levels. Gross international reserves stood at about 82 percent of the Fund's reserve adequacy metric (ARA) on average over three years, and about 76.5 percent in July, below recommended thresholds. At the same time, reserve adequacy metrics based on imports, short-term debt, and monetary base vastly exceed thresholds. Staff assesses reserves to be adequate due to several mitigating factors. First, in mature market economies,²⁰ reserves act mainly as a second line of



defense against potential FX funding needs of the financial sector, and Chile's reserves more than amply cover estimated potential short-term banks' needs. In May, the liquid segment of banks' foreign assets amounted to US\$30.1 billion, compared with banks' external debt of US\$30.5 billion.²¹ Second, if counted as reserves, the central government's usable liquid FX assets (about US\$20 billion in June, including US\$7.6 billion in the sovereign wealth fund and US\$6.8 billion in the pension reserve fund) would correspond to approximately 35 percent of the ARA metric. Third, reserves are complemented with several FX liquidity lines, bringing overall FX liquidity buffers to about US\$61 billion, or nearly 20 percent of GDP (as described in paragraph 10). Fourth, the authorities remain strongly committed to a flexible exchange rate, while the BCCh is open to considering a reserve accumulation program to replenish buffers when market conditions are conducive, as done on past occasions.

23. Sustainable public debt position and sound public finances.

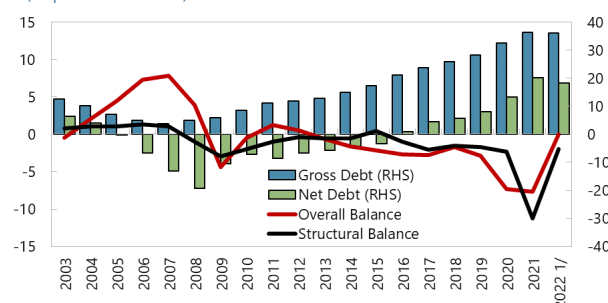
The authorities remain firmly committed to debt sustainability and fiscal responsibility. Gradual fiscal consolidation guided by the fiscal rule is expected to rebuild buffers and stabilize gross public debt below 45 percent of GDP (considered by the authorities as a prudent debt level), which is low by international standards. Public debt is mostly denominated in domestic currency, with average maturity for external debt above ten years. Liquidity risks are mitigated by assets in the sovereign wealth and pension reserve

²⁰ 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."

²¹ 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.

funds, and a large 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 2021 Fiscal Transparency Evaluation concluded that Chile has strong fiscal institutions and sound fiscal transparency practices.²²

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.

24. Low and stable inflation in the context of a sound monetary and exchange rate policy framework. Chile maintains a highly credible inflation-targeting regime and a flexible exchange rate. In the past five years, monthly (y/y) inflation averaged 3.8 percent. Medium-term inflation expectations have remained anchored over the past decade, reflecting a well-functioning framework with clear 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.²³

25. Sound financial system and absence of solvency problems that might 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 of 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.

26. 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.

27. 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.

²² See IMF Country Report No. 21/241 for further details.

²³ See IMF Country Report No. 21/113 for further details.

28. 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 flexible exchange rate has been allowed to work as a shock absorber, and FX interventions have been temporary and infrequent, geared to prevent disorderly market conditions. The authorities' response to the pandemic was effective and well-coordinated, making adequate use of Chile's hard-won policy space. The ongoing policy tightening is appropriate to contain inflationary pressures, rebuild buffers, and mitigate risks, while maintaining support to the most vulnerable. The government is committed to maintaining very strong macroeconomic policies.

ACCESS CONSIDERATIONS

29. Authorities' request. To meet their potential balance of payment needs, the authorities are requesting an FCL arrangement with access to the equivalent of SDR 13.954 billion (800 percent of quota, about US\$18.5 billion) to increase their precautionary buffers and insure against a broad range of risks on a temporary basis.

30. Staff considers that the proposed FCL access level of 800 percent of quota would be appropriate to provide sufficient insurance against a plausible adverse scenario (Box 3). The adverse scenario assumes that risks surrounding the war in Ukraine and the degree of monetary tightening in advanced economies would further depress global growth and commodity prices, leading to further capital outflows from EMs. The net effect on the current account would likely be moderate (around US\$0.5 billion), as the effect of weaker exports, including copper, would be partly offset by a reduction in imports driven by exchange rate depreciation and lower domestic demand, as well as lower repatriation of copper profits. The reduction in capital inflows, in particular portfolio inflows, would contribute to the bulk of the additional financing needs under the adverse scenario (around US\$27 billion). Chile is assumed to contribute to the financing by drawing on reserves and the sovereign wealth fund (by about US\$8.3–9.5 billion). The residual financing gap would be adequately covered by the proposed FCL. In a disbursing scenario, the FCL resources would not be used for budget financing, in line with Chile's institutional framework.

31. The authorities intend to exit the FCL arrangement at the end of the 24-month period, conditional on favorable developments on risk scenarios. The authorities underscore that the FCL arrangement is requested under the current extraordinary circumstances as a temporary supplement to their existing buffers, while their medium-term resilience remains anchored in very strong macroeconomic policies and fundamentals. The exit strategy will take into consideration the evolution of external risks at the time of the mid-term review. The authorities intend to start preparations for exiting well in advance, as they did with the 2020 FCL.

Box 3. Chile: Illustrative Adverse Scenario

An illustrative adverse scenario shows that a new FCL with access of 800 percent of quota (about US\$18.5 billion), would provide sufficient insurance against a broad range of risks in an adverse scenario. Such scenario assumes that risks surrounding the war in Ukraine and monetary tightening in advanced economies further depress global growth and commodity prices, leading to capital outflows from EMs. The calibration of shocks is comparable to Chile's 2020 FCL request and other FCL arrangements.

Current account. Mining exports are assumed to fall by 15 percent due to weaker global demand. This is comparable to shocks applied to key export prices in other FCL arrangements and within the 25th percentile of past EM crisis episodes. Compared to Chile's 2020 FCL request, the size of the shock is somewhat smaller, given that the baseline already incorporates the significant drop in copper prices between April and July 2022. On the back of weaker global prospects, Chile's non-mining exports would also fall by 10 percent (about one standard deviation). The impact of weaker exports on the current account is largely offset by: (i) a decline of 15 percent in oil imports (similar to the copper price decline) and a 10 percent fall in non-oil imports driven by exchange rate depreciation and weaker domestic demand; and (ii) an improvement in net income, driven by a 15-percent drop in FDI-related income outflows (proportional to copper exports decline), which more than offsets a 10-percent drop in FDI-related income inflows (from Chilean companies abroad).

Foreign Direct Investment. FDI inflows decline by 15 percent relative to the baseline, reaching a level 34 percent below the average of the past three years, in line with assumptions in other FCL arrangements. The reduction in FDI inflows is partly offset by a 10 percent decline in outward FDI by Chileans.

Portfolio flows and other investments. In the adverse scenario, portfolio, and other investment net inflows, by both non-residents and residents, worsen by about 1 standard deviation. Given the importance of capital flows to Chile, both shocks add around US\$17.5 billion to external financing needs per year.

External debt. The adverse scenario assumes rollover rates of 80 percent for amortization of short-term and long-term private sector external debt. This is near the 25th percentile of past crisis episodes and in line with other FCL arrangements. The scenario assumes full rollover of public sector external debt, given relatively low public external short-term financing needs compared to public liquid assets. Additional fiscal financing needs in the adverse scenario could be covered by domestic financing or a drawdown of public assets.

Use of reserves and sovereign wealth fund. Additional external financing needs under the adverse scenario would be partly financed by a drawdown of (i) reserves above 80 percent of the ARA metric, and (ii) the sovereign wealth fund. The drawdown from reserves would be smaller than assumed in Chile's 2020 FCL request, while the drawdown from the sovereign wealth fund larger, in line with withdrawals during 2020-21 to finance Covid-19 stimulus measures. The remaining financing gap of about US\$18.5 billion would be covered by the FCL.

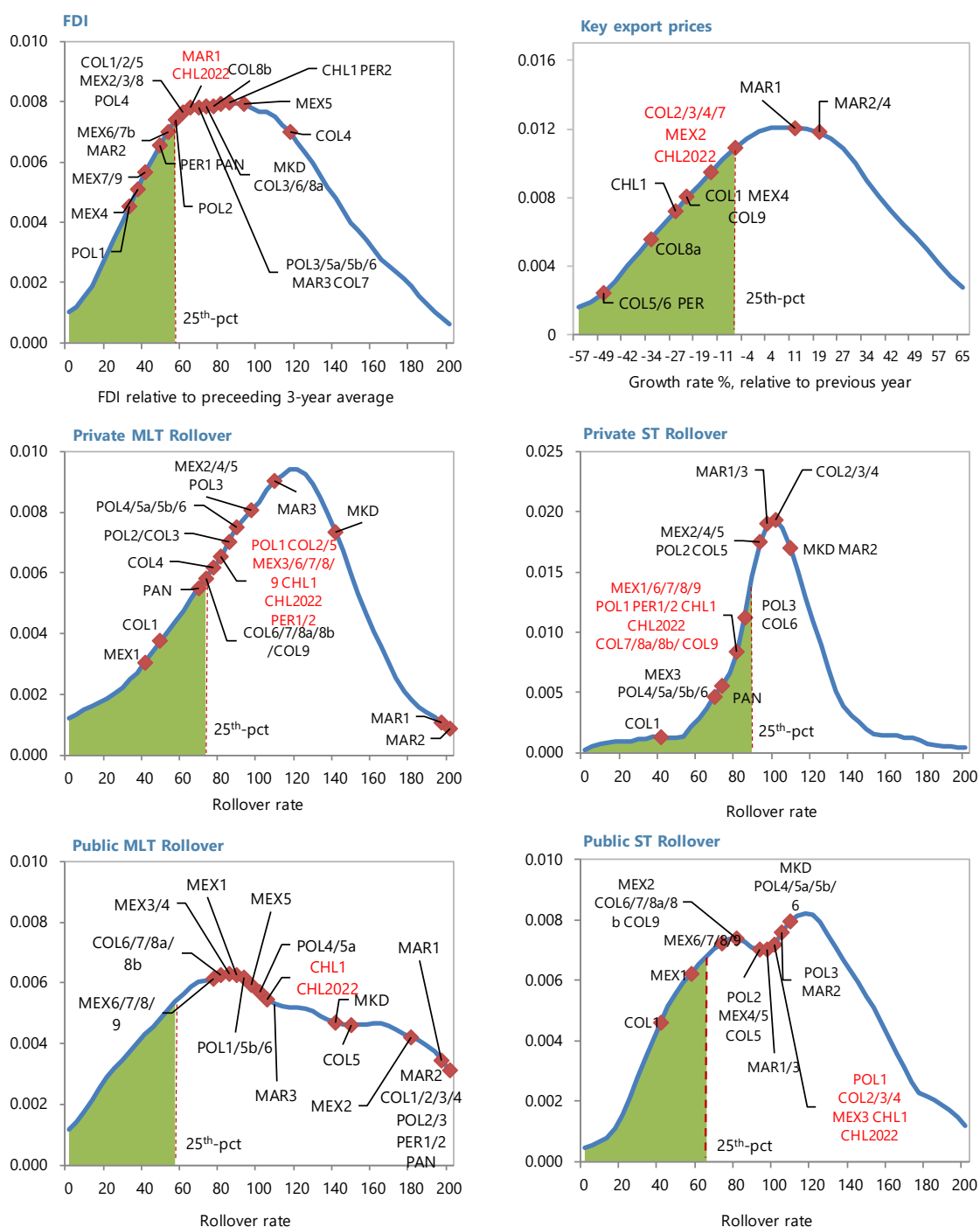
Assumptions Underlying the Illustrative Adverse Scenario (in percent change vis-à-vis baseline, unless otherwise indicated)		
	2022 FCL	2020 FCL
Current account		
<i>Trade balance</i>		
<i>Exports</i>		
Copper price decline	15	27
Decline in non-mining exports	10	10
<i>Imports</i>		
Oil price decline	15	27
Decline in non-oil imports	10	10
<i>Net Income</i>		
Decline in FDI income inflows	10	10
Decline in FDI income outflows	15	27
Financial account		
<i>FDI</i>		
Decline in FDI inflows	15	27
Decline in FDI outflows	10	10
<i>MLT private sector rollover</i>	80	80
<i>ST private sector rollover</i>	80	80
<i>Other portfolio flows decline</i>	1 std	1 std
<i>Other investment decline</i>	1 std	1 std

Box 3. Chile: Illustrative Adverse Scenario (Continued)

Chile: External Financing Requirements and Sources (in billions of U.S. dollars)									
	2019	2020	2021	2022	2023	Adverse 2022	Contribution to Gap	Adverse 2023	Contribution to Gap
	proj.								
Gross external financing requirements	57.4	59.9	62.1	76.5	64.8	77.0	0.5	65.2	0.4
Current account deficit	-14.4	-4.3	-21.2	-23.7	-16.6	-24.1	0.5	-17.0	0.4
Amortization of Bonds and Loans	42.9	55.7	40.9	52.9	48.2	52.9		48.2	
Public sector MLT coming due	3.2	4.9	3.4	0.5	0.7	0.5		0.7	
FX denominated bonds									
Local currency bonds									
FX Bank Financing									
Private sector MLT amortization	17.4	31.2	12.2	25.9	20.1	25.9		20.1	
FX denominated bonds									
Bank Financing									
Short term debt coming due	22.2	19.5	25.4	26.5	27.4	26.5		27.4	
Public sector	5.8	9.4	13.8	6.7	8.4	6.7		8.4	
FX denominated									
Local Currency									
Private sector	16.4	10.1	11.6	19.8	19.0	19.8		19.0	
Trade credit									
Available external financing	57.4	59.9	62.1	76.5	64.8	58.5	18.0	46.8	18.0
Net FDI inflows	3.2	2.5	0.8	2.7	4.3	2.0	0.8	3.3	1.1
Net Portfolio Inflows	10.6	13.2	30.6	15.6	18.7	4.4	11.3	7.4	11.3
Financing through Bonds and Loans	42.9	55.7	40.9	52.9	48.2	43.7		40.4	
Public sector MLT financing	3.2	4.9	3.4	0.5	0.7	0.5		0.7	
FX denominated bonds									
Local currency bonds									
FX Bank Financing									
Private sector MLT financing	17.4	31.2	12.2	25.9	20.1	20.7	5.2	16.1	4.0
FX denominated bonds									
FX Bank Financing									
Short-term financing	22.2	19.5	25.4	26.5	27.4	22.5		23.6	
Public sector	5.8	9.4	13.8	6.7	8.4	6.7		8.4	
FX denominated									
Local Currency									
Private sector	16.4	10.1	11.6	19.8	19.0	15.8	4.0	15.2	3.8
Trade credit									
Net other flows	0.4	-14.3	2.0	5.3	-6.4	-1.0		-12.6	
Other investment	-1.7	-10.0	3.2	5.3	-6.4	-1.1	6.3	-12.7	6.2
Derivatives	-1.5	-2.5	0.0	0.0	0.0	0.0		0.0	
Other	3.6	-1.7	-1.2	0.0	0.0	0.0		0.0	
Change in international reserves	-0.2	-2.9	12.2	0.0	0.0	-1.9	-1.9	0.0	0.0
Additional change in SWF assets	0.0	0.0	0.0	0.0	0.0	-7.6	-7.6	-8.3	-8.3
Financing Gap (USD billions)							18.5		18.5
SDR (0.755229 USD/SDR, August 2, 2022)							14.0		14.0
Percent of quota							800.0		800.0
Memorandum items									
Reserves (in billions of U.S. dollars)	40.7	39.2	51.3	51.3	51.3				

Sources: Chilean authorities and IMF staff estimates.

Box 3. Chile: Illustrative Adverse Scenario 1/ (Concluded) (Probability Density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. CHL2022 is the proposed arrangement for Chile.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS²⁴

32. The proposed arrangement for Chile under the FCL (SDR 13.954 billion, 800 percent of quota) would have a significant but manageable impact on the Fund's liquidity. The Fund's Forward Commitment Capacity (FCC) would decline by slightly less than 7 percent from its current level of SDR 168.6 billion to SDR 157.1 billion. This decline reflects the combined impact of the proposed FCL and the cancellation of the SLL, with the latter having a positive impact on the FCC. If Chile were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP). As a result, the FCC, which is currently only based on quota resources, would decline by another SDR 1.4 billion.²⁵ Nevertheless, the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement.

33. If the resources available under the proposed FCL arrangement were fully drawn, the GRA credit exposure to Chile would be the Fund's second largest. Chile would be eligible to draw in full on the proposed FCL arrangement of 800 percent of quota to address the materialization of an adverse scenario, as described in Box 3.

- Fund credit to Chile would represent 13.1 percent of total GRA credit outstanding as of August 12, 2022. Chile would represent the second largest Fund exposure after Argentina (SDR 32.7 billion) and just ahead of Egypt (SDR 13.6 billion). The concentration of Fund credit among the top five users of GRA resources would slightly decline to 68.5 percent (from 69.3 percent).
- Fund credit to Chile would be at almost 67 percent of the Fund's precautionary balances as of end FY2022.

34. Nonetheless, staff judges that risks to the Fund's credit exposures from Chile's FCL request to be moderate, with several mitigating factors.

- If Chile were to draw all the resources available under the proposed FCL arrangement, GRA credit exposure to Chile would be the Fund's second largest (after Argentina), and Chile's total external debt would rise to 88.4 percent of GDP at the end of this year before falling gradually over the medium term. Moreover, some of Chile's capacity to repay indicators, assuming full drawing of 800 percent of quota under an adverse scenario, would indicate relatively moderate credit exposure when compared with recent exceptional access arrangements and FCLs. The peak of the stock of outstanding Fund credit both as a share of GDP and external debt would be relatively moderate, and its share in reserves would be slightly

²⁴ For more details see: *Chile: Assessment of the Impact of the Proposed Arrangement under the Flexible Credit Line on the Fund's Finances and Liquidity Position*.

²⁵ Considering resources held as prudential balance, the decline in the FCC would equal 80 percent of Chile's quota.

below the median for these arrangements approved since 2008.²⁶ The peak of the total debt service to the Fund as a percent of exports of goods and services would however exceed the median of these arrangements.

- At the same time, the Chilean authorities intend to treat the arrangement as precautionary. Moreover, Chile continues to rely on robust institutions with a very strong policy implementation record. The country has a track record of uninterrupted access to international capital markets at favorable terms for several decades and maintains investment grade status. Notably, Chile has also consistently been among the highest-rated EMs.

35. Staff has completed the safeguards procedures for Chile's SLL arrangement. The BCCh external audit and financial reporting continue to reflect leading practices and adhere to international standards. The external auditors, EY Chile, issued an unmodified (clean) audit opinion on the BCCh's 2021 financial statements, which include comprehensive disclosures and are published on a timely basis. Staff reviewed the audit results for 2021 and held discussions with the BCCh and EY Chile. No significant issues emerged from the conduct of these procedures.

STAFF APPRAISAL

36. Staff's assessment is that Chile continues to meet the qualification criteria for an arrangement under the FCL. 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 takes note of the authorities' decision to cancel the SLL and considers that Chile continues to meet all the qualification criteria for an FCL (which are identical to those of the SLL).

37. Staff recommends approval of the authorities' request for an FCL arrangement and considers that the proposed access of SDR 13.954 billion (800 percent of quota) is appropriate given the extraordinary downside external risks that have intensified since the entry into effect of the SLL in May and are currently weighing on the global economy. The Chilean economy is confronting an acute deterioration of the external environment. Risks have increased markedly, including from a possible abrupt global slowdown or recession and an associated increase in global risk premia and commodity price volatility. Other key risks include 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. Against the backdrop of elevated uncertainty and volatility in global financial markets, an FCL arrangement will enhance Chile's external buffers and provide insurance against a broad range of risks on a temporary basis. The authorities intend to exit the FCL at the end of the 24-month period, conditional on developments.

²⁶ If the assets of the sovereign wealth fund are counted as reserves, this ratio would drop even further.

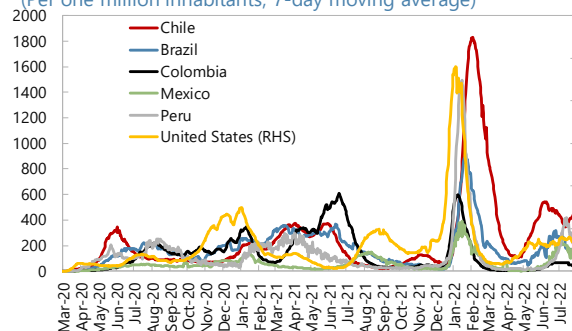
38. Staff considers the impact on Fund finances from the proposed FCL arrangement to be manageable. If fully drawn, GRA credit exposure to Chile would be considerable, but risks would be contained by many mitigating factors. The authorities continue to demonstrate a firm commitment to maintaining prudent policies, including by the adequate increase of the monetary policy rate and the sizeable fiscal overperformance expected for this year. They intend to treat this FCL arrangement as precautionary.

Figure 1. Chile: Covid-19 Developments

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

New COVID-19 Cases

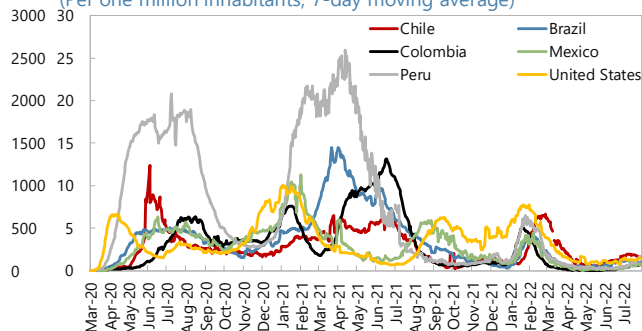
(Per one million inhabitants; 7-day moving average)



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

New COVID-19 Deaths

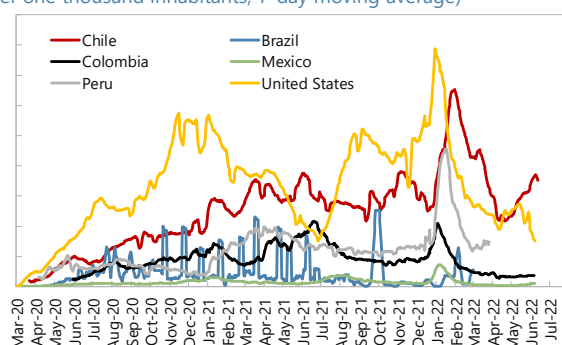
(Per one million inhabitants; 7-day moving average)



Chile remains a regional leader in testing...

New COVID-19 Tests

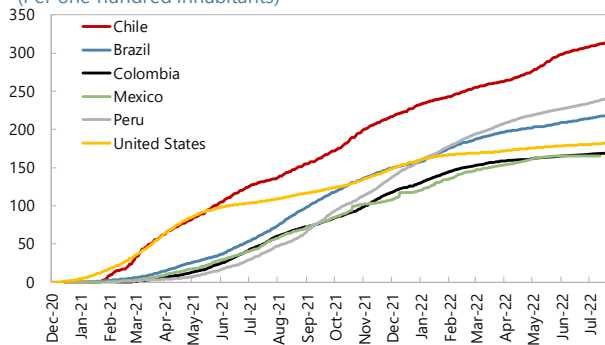
(Per one thousand inhabitants; 7-day moving average)



...as well as in vaccinations.

Total COVID-19 Vaccinations

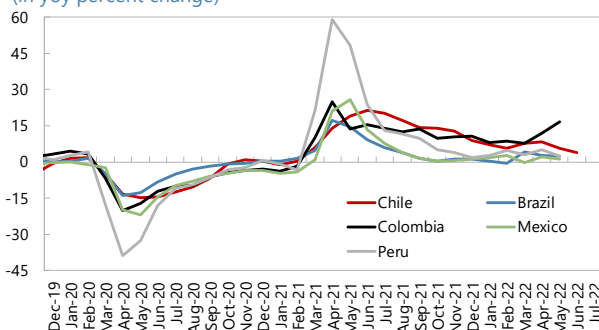
(Per one hundred inhabitants)



Economic activity has recovered past its pre-pandemic levels...

Economic Activity Index

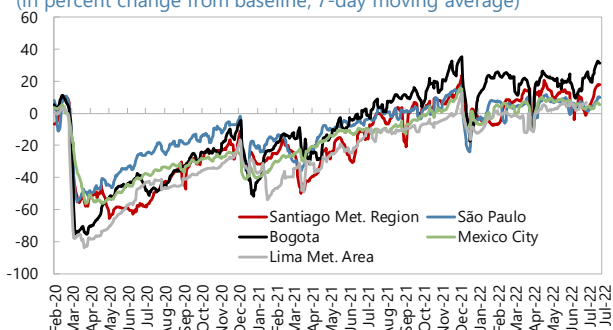
(In yoy percent change)



...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.

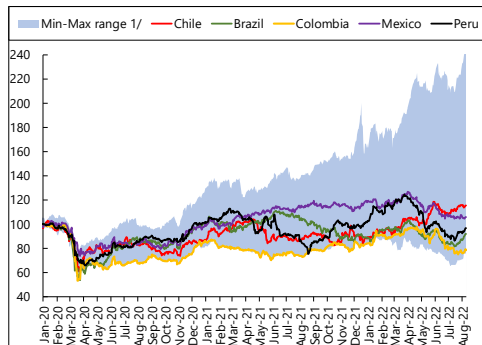
Figure 2. Chile: Financial Comparison with LA5 and Other EMEs 1/

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

...and the peso has recently underperformed peer currencies.

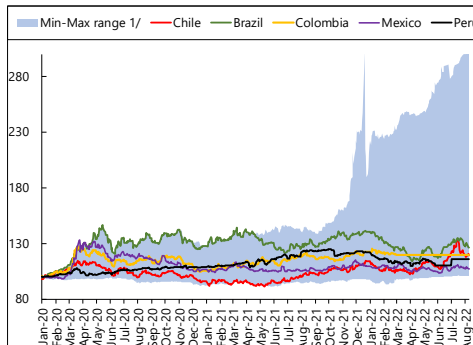
Domestic Equity Indices 2/

Jan 03, 2020 = 100



Local Currency per US Dollar Indices 3/

Jan 03, 2020 = 100

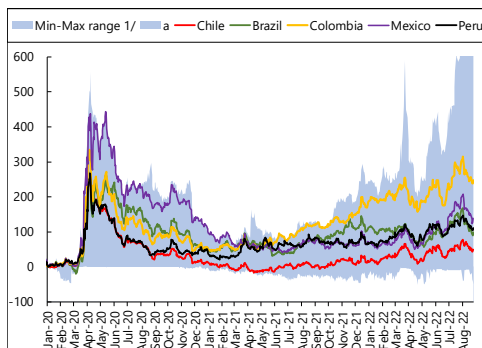


After increasing acutely in early 2020, EMBI spreads have stabilized at levels somewhat above those seen pre-pandemic...

...as have CDS spreads.

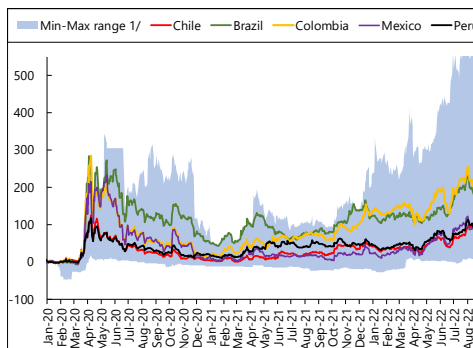
EMBIG Spreads 4/

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



CDS Spreads

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

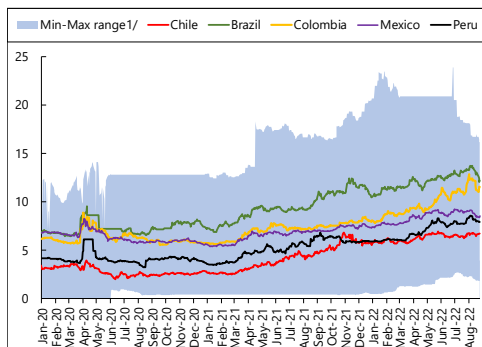


Domestic currency bond yields are still below the average of emerging market peers...

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

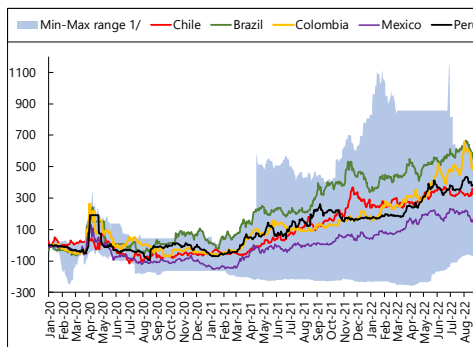
Domestic Currency Sovereign Bond Yields 5/

Yield to Maturity



Domestic Currency Sovereign Bond Yields 5/

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



Sources: Haver Analytics and Bloomberg LLP.

1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, 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.

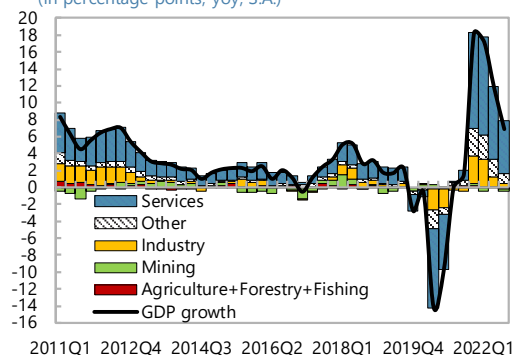
4/ Mexico's EMBIG includes Sovereign and Quasi.

5/ 10 year government bond or closest available maturity.

Figure 3. Chile: Economic Activity

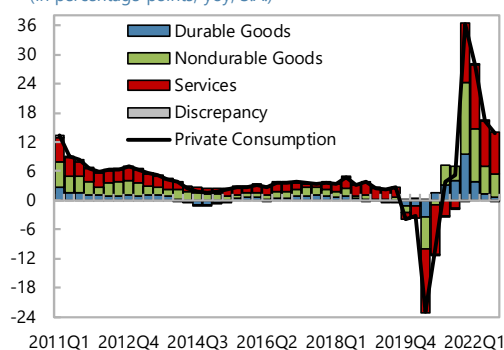
After a strong recovery, the economy is slowing down in 2022...

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



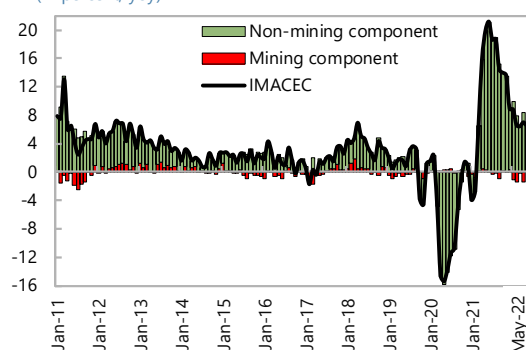
... while services and nondurable goods continue the recovery...

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



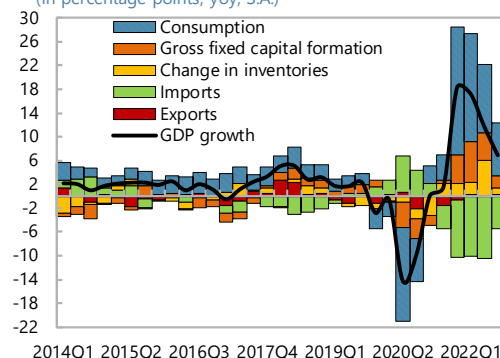
Non-mining IMACEC grew 6.3% in May, as mining IMACEC showed no change

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



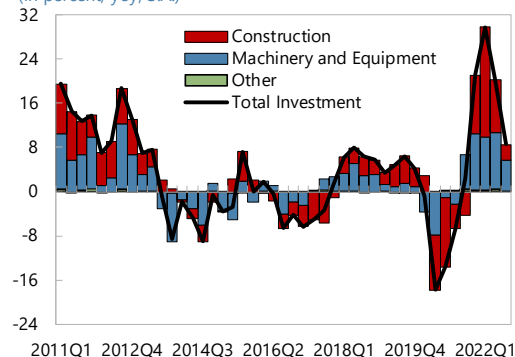
...driven by weak investment while consumption has been more resilient...

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



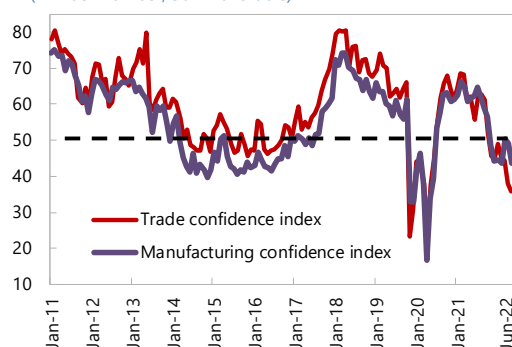
... and investment slows down in all sectors.

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



...while business confidence deteriorated in 2022Q2.

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



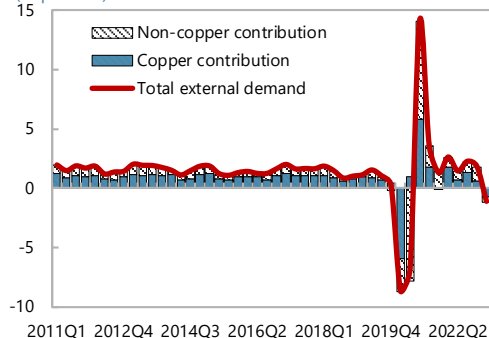
Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations.
1/ IMACEC is a monthly economic activity indicator.

Figure 4. Chile: External Sector

External demand growth fell 1.1% in 2022Q2 after a sharp recovery in 2020Q3...

External Demand Growth from Trading Partners 1/

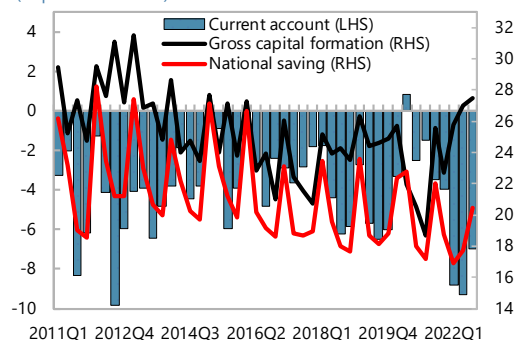
(In percent)



...while the current account in 2022Q1 remained negative at -7.0 % of GDP...

Savings, Investment, and the Current Account

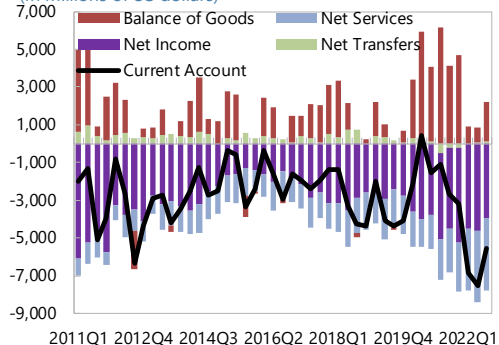
(In percent of GDP)



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

Current Account Decomposition

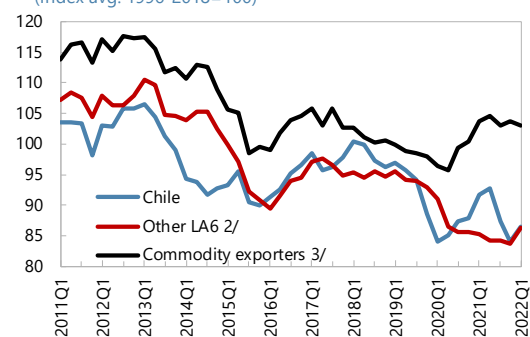
(In millions of US dollars)



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

Real Effective Exchange Rate

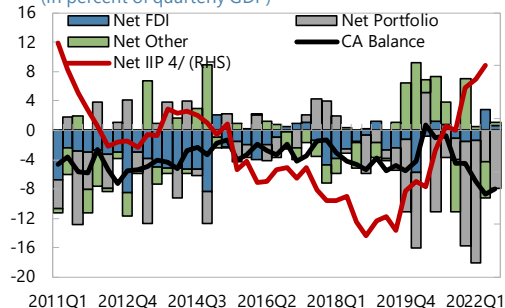
(Index avg. 1996-2018=100)



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

Balance of Payments and IIP

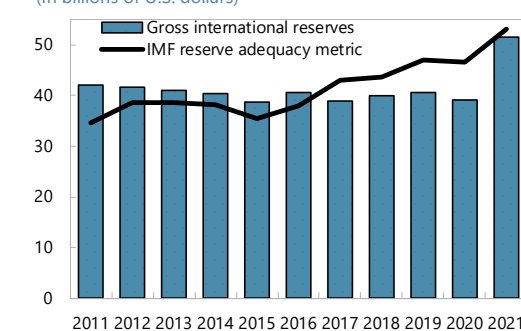
(In percent of quarterly GDP)



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

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.

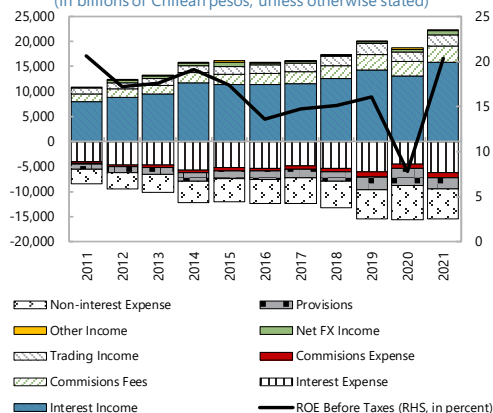
5/ Assessing Reserve Adequacy, IMF.

Figure 5. Chile: Financial Sector

Banks' profitability stood at 20.4% in December

Income Statement of Banking Sector

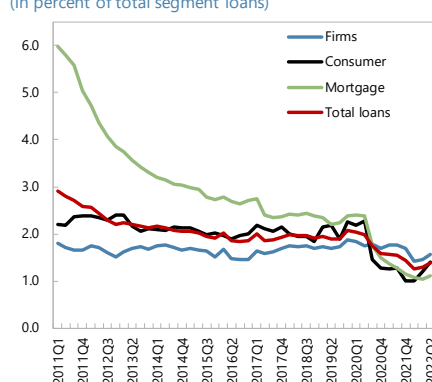
(In billions of Chilean pesos, unless otherwise stated)



... and non-performing loans have remained low.

Non-performing Loans

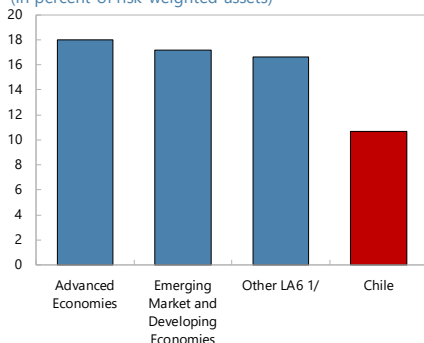
(In percent of total segment loans)



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

Tier 1 Capital Ratio, Latest Available Value

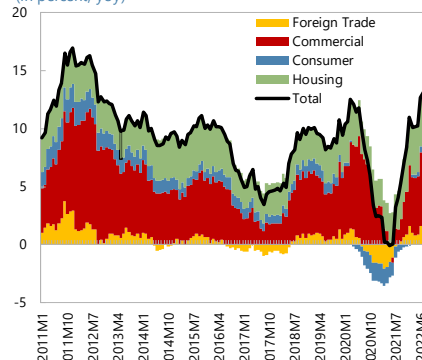
(In percent of risk-weighted assets)



Credit growth has recovered from the sharp drop in 2021H1, reaching a growth rate of 15.0% in June...

Credit Growth Contributions by Economic Sector

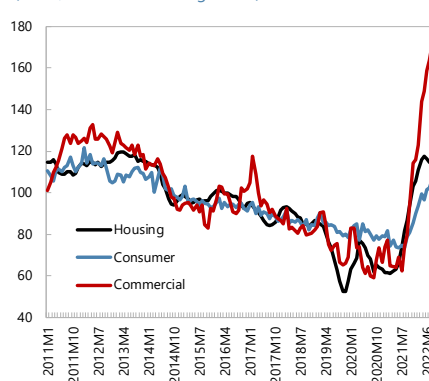
(In percent, yoy)



...while interest rates increased in line with monetary tightening.

Interest Rates by Economic Sector

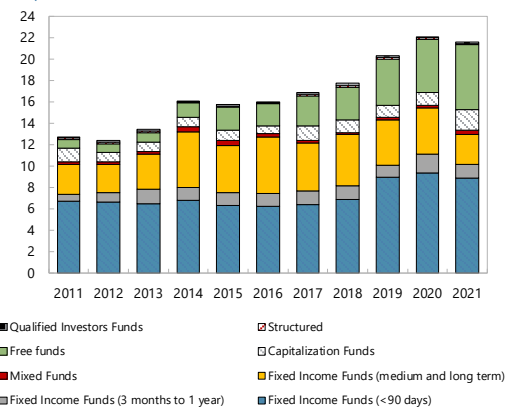
(Index, 2010-2019 Average=100)



Total mutual funds assets fell in 2021, led by medium and long term fixed income funds.

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.

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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.

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

	2019	2020	2021	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	21.7	20.1	24.1	23.9	22.2	22.6	23.0	22.9	23.0
Taxes	17.7	16.2	18.8	19.6	18.4	19.1	19.2	19.2	19.3
Private mining companies	1.0	0.7	1.2	1.4	0.9	0.7	0.7	0.8	0.8
Other tax revenues, non-mining	16.7	15.5	17.6	18.2	17.5	18.4	18.5	18.5	18.5
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	4.0	3.0	2.6	2.3	2.5	2.4	2.4
Codelco revenues	0.4	0.5	1.8	0.8	0.7	0.5	0.6	0.5	0.6
Income on assets	0.6	0.4	0.2	0.7	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	1.4	1.1	1.0	0.9	0.9	0.9	0.9
Expenditures	24.6	27.4	31.8	23.9	23.9	23.8	23.6	23.3	23.4
Expense	22.5	25.6	30.0	22.5	22.5	22.5	22.2	21.9	22.0
Compensation of employees	5.0	5.3	4.8	5.0	5.0	5.0	5.0	5.0	5.0
Purchases of goods and services	2.0	2.2	2.0	1.8	1.8	1.8	1.8	1.7	1.7
Interest payments	0.9	1.0	0.9	0.9	1.1	1.2	1.3	1.4	1.4
Subsidies and grants	8.8	11.1	16.8	8.9	8.8	8.7	8.4	8.0	8.1
Social benefits	4.0	4.4	3.9	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 acquisition of nonfinancial assets	2.1	1.8	1.8	1.4	1.4	1.4	1.4	1.4	1.4
Investment	2.1	1.8	1.8	1.4	1.4	1.4	1.4	1.4	1.4
Net Lending/Borrowing	-2.9	-7.3	-7.7	0.0	-1.7	-1.2	-0.7	-0.4	-0.4
Non-mining overall balance	-4.2	-8.5	-10.7	-2.2	-3.3	-2.3	-2.0	-1.7	-1.8
Net Financial Transactions	-2.9	-7.3	-7.7	0.0	-1.7	-1.2	-0.7	-0.4	-0.4
Net acquisition of financial assets	-0.6	-3.2	-1.6	3.1	1.0	1.3	1.5	1.5	0.8
Net incurrence of liabilities	2.2	4.1	6.0	3.1	2.6	2.5	2.1	1.9	1.2
Domestic	2.0	2.5	1.3	1.4	0.9	1.7	1.6	1.2	1.5
External	0.5	1.8	4.8	1.8	1.8	0.9	0.6	0.8	-0.3
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	0.2	-1.0	-0.4	0.2	0.5	0.5
Structural Fiscal Balance	-1.7	-2.3	-11.2	-2.0	-2.0	-1.4	-0.9	-0.3	-0.3
Structural Revenue	22.9	25.1	20.5	21.9	21.9	22.5	22.7	23.0	23.1
Fiscal Impulse 1/	0.5	0.3	8.5	-9.4	0.1	-1.0	-0.3	-0.4	0.1
Expenditure growth (in real terms; annual percent change)	4.2	10.4	33.4	-26.5	-0.9	1.9	1.4	0.9	2.8
Central Government debt net of treasury assets	18.6	24.2	31.0	30.9	32.8	34.0	34.9	35.5	35.0
Central Government gross debt	28.3	32.6	36.3	37.3	38.3	39.1	39.8	40.1	39.7
Public Sector Gross Debt 2/	49.2	57.8	67.4	68.3	69.4	70.2	70.8	71.2	70.8
Public Sector debt net of treasury assets 2/	39.5	49.4	62.1	62.0	63.9	65.1	66.0	66.6	66.1
General Government Fiscal Balance 3/	-2.7	-7.1	-7.5	0.2	-1.4	-1.0	-0.4	-0.2	0.0
Nominal GDP (trillions of pesos)	195.8	200.0	240.5	261.6	279.0	296.3	312.3	329.3	347.5

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 central 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	2021	2022	2023	Proj.			
				2024	2025	2026	2027		
Current Account	-14.4	-4.3	-21.2	-23.7	-16.6	-12.5	-10.7	-10.5	-10.0
Trade balance	2.9	19.0	10.7	1.9	3.4	6.7	8.7	8.8	9.1
Exports	68.8	74.0	94.7	92.7	86.3	89.3	92.5	95.8	99.1
Copper	32.7	38.3	53.3	45.6	39.7	41.1	42.6	44.2	45.9
Non-copper	36.1	35.8	41.4	47.1	46.5	48.2	49.9	51.5	53.2
Imports	65.9	55.0	84.0	90.7	82.9	82.6	83.8	86.9	89.9
Net services	-8.1	-7.4	-12.0	-13.2	-8.5	-7.7	-7.5	-7.9	-8.2
Net income	-10.4	-15.9	-19.6	-13.8	-13.3	-13.7	-14.2	-13.8	-13.4
Net transfers	1.0	0.0	-0.4	1.5	1.9	2.1	2.3	2.3	2.4
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	-23.7	-16.6	-12.5	-10.7	-10.5	-10.0
Foreign direct investment	-3.2	-2.5	-0.8	-2.7	-4.3	-3.2	-3.2	-3.4	-3.9
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	9.9	12.4	12.6	12.4	13.0	12.6
Of which, debt instruments	1.8	0.3	1.1	0.3	0.6	0.8	0.6	0.7	0.6
Portfolio investment	-10.6	-13.2	-30.6	-15.6	-18.7	-20.7	-22.6	-20.5	-21.7
Abroad by Chilean residents	0.8	-5.9	1.6	-0.2	-1.0	-1.5	-0.3	-0.8	-1.0
In Chile by foreign residents	11.4	7.2	32.2	15.4	17.7	19.2	22.3	19.7	20.8
Of which, equities	3.0	0.2	2.4	1.2	1.3	1.4	1.7	1.5	1.6
Of which, debt	8.5	7.0	29.8	14.3	16.3	17.8	20.6	18.2	19.2
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	-5.3	6.4	11.4	15.0	13.4	15.7
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	13.3	1.6	-3.4	-7.0	-5.3	-7.6
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	-1.7	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (in billions of USD)	40.7	39.2	51.3	51.3	51.3	51.3	51.3	51.3	51.3
				(In percent of GDP)					
Current Account	-5.2	-1.7	-6.7	-7.7	-4.9	-3.5	-2.9	-2.7	-2.5
Trade balance of Goods	1.1	7.5	3.4	0.6	1.0	1.9	2.4	2.3	2.3
Exports	24.7	29.3	29.9	30.2	25.3	25.2	25.0	24.8	24.6
Copper	11.7	15.2	16.8	14.9	11.7	11.6	11.5	11.5	11.4
Non-copper	13.0	14.2	13.1	15.3	13.7	13.6	13.5	13.4	13.2
Imports	23.7	21.8	26.5	29.6	24.3	23.3	22.7	22.5	22.3
Net services	-2.9	-2.9	-3.8	-4.3	-2.5	-2.2	-2.0	-2.0	-2.0
Net income	-3.7	-6.3	-6.2	-4.5	-3.9	-3.8	-3.8	-3.6	-3.3
Net transfers	0.3	0.0	-0.1	0.5	0.5	0.6	0.6	0.6	0.6
Financial Account Balance 2/	-3.8	-1.2	-10.9	-7.7	-4.9	-3.5	-2.9	-2.7	-2.5
				(Annual change in percent)					
Total export volume	-2.1	2.6	-0.9	-2.3	-0.1	2.6	2.6	2.6	2.5
Total import volume	-2.1	-10.2	34.8	-1.1	-9.4	-1.2	0.8	2.6	2.4
Terms of trade	-1.8	11.6	12.0	-9.5	-7.2	0.2	0.3	-0.1	-0.1
Export prices	-5.9	5.0	29.0	-0.5	-6.8	0.9	0.9	0.9	0.9
Copper export price	-7.4	16.0	43.4	-11.8	-15.5	0.2	0.5	0.6	0.7
Import prices	-4.3	-5.9	15.1	10.1	0.3	0.7	0.6	1.0	1.0
Memorandum Items									
Copper price (WEO; U.S. cents per pound)	273	280	423	386	326	327	328	330	333
Volume of copper exports (2004=100)	104	106	102	100	103	107	110	114	117

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	2021	Proj.					
				2022	2023	2024	2025	2026	2027
National Accounts									
(Annual percentage change, unless otherwise specified)									
Real GDP	0.9	-6.1	11.7	1.8	-0.3	1.9	2.2	2.4	2.5
Total domestic demand	0.9	-9.5	21.7	1.7	-3.4	0.9	1.7	2.4	2.5
Consumption	0.8	-7.4	18.3	2.6	-2.9	1.2	1.9	2.3	2.4
Private	0.9	-8.2	20.4	3.5	-3.5	1.0	1.8	2.7	2.5
Public	0.8	-4.0	9.8	-0.6	-1.2	2.2	2.3	0.3	1.9
Investment 2/	1.4	-16.1	33.3	-1.1	-4.8	-0.1	1.3	3.0	2.6
Fixed	4.7	-9.5	17.7	-4.8	-3.8	1.1	1.5	3.0	2.8
Private	5.4	-8.9	18.2	-3.1	-3.9	1.1	1.4	3.4	2.8
Public	-1.3	-15.2	12.6	-23.4	-2.2	2.0	2.4	-1.9	2.5
Inventories 3/	-0.7	-1.7	3.2	0.9	-0.4	-0.3	0.0	0.0	0.0
Net exports 3/	-0.2	3.4	-8.8	-0.1	2.9	1.0	0.4	0.0	0.0
Exports	-2.5	-1.2	-1.5	-1.2	-0.1	2.6	2.6	2.6	2.5
Imports	-1.7	-12.8	31.2	-0.5	-9.4	-1.2	0.8	2.6	2.4
Consumer prices									
End of period	3.0	3.0	7.2	11.2	5.7	3.0	3.0	3.0	3.0
Consumer prices (average)	2.3	3.0	4.5	11.2	7.8	4.0	3.0	3.0	3.0
Nominal GDP growth	3.4	2.1	20.3	8.8	6.7	6.2	5.4	5.4	5.5
Potential growth	2.1	-1.0	3.4	3.0	1.4	1.7	2.0	2.4	2.5
Output gap (percent)	0.0	-5.1	2.5	1.3	-0.4	-0.2	0.0	0.0	0.0
Balance of Payments									
(In percent of GDP)									
Current account	-5.2	-1.7	-6.7	-7.7	-4.9	-3.5	-2.9	-2.7	-2.5
Trade balance	1.1	7.5	3.4	0.6	1.0	1.9	2.4	2.3	2.3
Financial account balance	-3.8	-1.2	-10.9	-7.7	-4.9	-3.5	-2.9	-2.7	-2.5
Of which, foreign direct investment (net)	-1.2	-1.0	-0.3	-0.9	-1.3	-0.9	-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	-0.7	-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	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
(Annual percentage change)									
Total export volume	-2.1	2.6	-0.9	-2.3	-0.1	2.6	2.6	2.6	2.5
Of which, copper export volume	-1.1	1.4	-3.2	-1.9	3.0	3.2	3.3	3.2	3.1
Total import volume	-2.1	-10.2	34.8	-1.1	-9.4	-1.2	0.8	2.6	2.4
Terms of trade	-1.8	11.6	12.0	-9.5	-7.2	0.2	0.3	-0.1	-0.1
Export prices	-5.9	5.0	29.0	-0.5	-6.8	0.9	0.9	0.9	0.9
Copper export price	-7.4	16.0	43.4	-11.8	-15.5	0.2	0.5	0.6	0.7
Import prices	-4.3	-5.9	15.1	10.1	0.3	0.7	0.6	1.0	1.0
External Debt									
(In percent of GDP)									
Gross external debt	66.7	77.9	72.4	77.9	72.0	71.3	70.4	69.8	68.0
Public	6.2	8.9	12.5	14.8	15.1	15.4	15.3	15.5	14.6
Private	60.5	69.0	59.9	63.2	56.9	56.0	55.1	54.3	53.4
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	25.9	25.2	24.7	24.4	24.6	24.6
Public	2.3	2.0	2.0	1.6	1.6	1.6	1.6	1.6	1.6
Private	22.7	19.6	23.3	24.2	23.6	23.1	22.8	23.0	23.0
National saving	19.8	19.9	18.7	18.3	20.4	21.1	21.5	21.9	22.1
Public	-0.4	-5.1	-5.5	1.8	0.1	0.6	1.1	1.4	1.4
Private	20.3	25.1	24.2	16.5	20.2	20.5	20.4	20.4	20.7
Operations of the Central Government									
Central government gross debt	28.3	32.6	36.3	37.3	38.3	39.1	39.8	40.1	39.7
Central government debt net of treasury assets	18.6	24.2	31.0	30.9	32.8	34.0	34.9	35.5	35.0
Central government balance	-2.9	-7.3	-7.7	0.0	-1.7	-1.2	-0.7	-0.4	-0.4
Total revenue	21.7	20.1	24.1	23.9	22.2	22.6	23.0	22.9	23.0
Total expenditure	24.6	27.4	31.8	23.9	23.9	23.8	23.6	23.3	23.4
Central government structural balance	-1.7	-2.3	-11.2	-2.0	-2.0	-1.4	-0.9	-0.3	-0.3
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	1.6	0.3	1.1	1.5	1.4	1.2
Unemployment rate (in percent)	7.2	10.7	8.8	7.8	8.2	8.0	7.6	7.2	7.0

Sources: Central Bank of Chile, Ministry of Finance, National Statistics Institute, Haver Analytics, and IMF staff 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	9.9
External Indicators							
Exports of goods, U.S. dollars (annual percentage change)	-17.6	-2.2	13.4	8.6	-8.0	7.6	27.9
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	12.0
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	-4.5	-5.2	-1.7	-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/	94.2	100.7	71.7	73.9	68.5	59.6	97.9
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/	15.0	14.7	16.5	15.6	16.5	19.0	18.5
Total external debt (percent of GDP)	65.4	65.7	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	224.6	235.9	221.1	208.7	240.4	246.8	227.9
External interest payments to exports of goods and services	7.1	6.4	6.5	5.8	6.8	7.0	4.6
External amortization payments to exports of goods and services	63.9	57.9	63.1	63.4	74.4	86.0	46.3
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

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
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	161.6	146.3
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	12.6	13.8	13.8	13.3	12.8	14.7	14.9
Regulatory Tier 1 Capital to Risk-Weighted Assets	9.4	10.9	11.0	10.7	10.3	10.7	10.7
Capital to Assets	7.4	8.2	8.3	8.2	7.3	6.6	6.7
Credit Risk							
NPLs Net of Provisions to Capital	-4.5	-4.4	-3.8	-3.8	-3.6	-7.7	-7.5
NPLs to Gross Loans	1.7	1.8	1.9	1.9	2.1	1.6	1.2
Profitability							
Return on Assets	1.5	1.2	1.3	1.4	1.3	0.5	1.5
Return on Equity	14.7	11.5	12.4	12.5	12.4	5.6	16.6
Interest Margin to Gross Income	66.4	66.6	66.2	67.1	66.9	69.4	69.5
Trading Income to Gross Income	10.5	10.1	8.4	8.6	9.6	8.4	8.2
Non-interest Expenses to Gross Income	48.5	52.0	50.4	48.9	46.7	54.9	43.6
Liquidity							
Liquid Assets to Total Assets	13.8	14.7	15.3	14.2	15.3	22.2	20.1
FX and Derivative Risk							
FX Loans to Total Loans	20.0	18.2	16.6	18.4	18.9	16.1	18.3
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.

Table 8. Chile: Capacity to Repay Indicators 1/

	2021	2022	2023	2024	2025	2026	2027
Exposure and Repayments (In SDR millions)							
GRA credit to Chile	--	13,954.0	13,954.0	13,954.0	12,209.8	5,232.8	0.0
(In percent of quota)	--	800.0	800.0	800.0	700.0	300.0	0.0
Charges due on GRA credit 2/	0.2	169.3	563.1	563.4	581.6	458.1	102.3
Debt service due on GRA credit 2/	0.2	169.3	563.1	563.4	2,325.9	7,435.1	5,335.0
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	72.4	88.4	83.3	79.8	76.4	71.6	68.0
Public external debt	12.5	21.9	22.1	21.5	20.2	17.3	14.6
GRA credit to Chile	--	6.3	5.9	5.5	4.5	1.8	--
In percent of Gross International Reserves							
Total external debt	447.0	520.8	534.5	529.7	539.4	538.4	534.3
Public external debt	77.4	129.0	141.8	142.8	142.5	130.3	114.5
GRA credit to Chile	--	37.4	37.6	36.5	32.1	13.8	--
In percent of Exports of Goods and Services							
Total external debt service	50.9	87.3	84.4	78.1	80.0	86.8	84.6
Public external debt service	0.9	1.9	2.3	2.2	7.0	13.0	10.8
Debt service due on GRA credit	0.0	0.3	0.9	0.8	3.0	9.3	6.5
In percent of Total External Debt							
GRA credit to Chile	--	7.2	7.0	6.9	5.9	2.6	--
In percent of Public External Debt							
GRA credit to Chile	--	29.0	26.5	25.5	22.5	10.6	--
Memo Items:							
U. S. dollars per SDR (period average)	1.42	1.35	1.33	1.34	1.35	1.35	1.36
U. S. dollars per SDR (end of period)	1.40	1.32	1.33	1.34	1.35	1.36	1.37
Oil Price (WEO APSP, US\$ per barrel)	69.4	99.9	83.5	77.8	74.1	71.8	70.3

Sources: Chilean authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawing under the proposed FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.

2/ Projections based on the rate of charge as of August 18, 2022. Includes GRA basic rate of charge, surcharges, service fees, and SDR charges. For 2022 also SLL commitment fee minus time-based refund.

3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which full FCL drawing is assumed.

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 to about 68 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						Debt-stabilizing non-interest current account 6/ -1.0
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Baseline: External debt	62.5	59.4	66.7	77.9	72.4	77.9	72.0	71.3	70.4	69.7	68.0	
Change in external debt	-3.1	-3.1	7.3	11.2	-5.5	5.5	-5.9	-0.7	-0.9	-0.6	-1.8	
Identified external debt-creating flows (4+8+9)	-2.4	3.4	8.0	9.0	-9.7	6.8	5.8	2.5	1.6	1.4	1.2	
Current account deficit, excluding interest payments	0.9	2.9	3.3	-0.5	5.2	5.7	3.3	2.0	1.2	1.1	0.9	
Balance of goods and services	0.7	-1.0	-1.9	4.6	-0.4	-3.7	-1.5	-0.3	0.3	0.3	0.2	
Exports	28.3	28.5	27.8	31.6	31.8	32.9	28.3	28.4	28.3	28.0	27.8	
Imports	-27.6	-29.5	-29.6	-27.0	-32.2	-36.6	-29.8	-28.7	-28.0	-27.8	-27.5	
Net non-debt creating capital inflows (negative)	1.2	2.9	-0.6	0.8	-0.8	0.4	0.7	0.3	0.2	0.3	0.4	
Automatic debt dynamics 1/	-4.4	-2.3	5.2	8.7	-14.1	0.7	1.8	0.3	0.2	0.0	0.0	
Contribution from nominal interest rate	1.8	1.7	1.9	2.2	1.5	2.0	1.6	1.6	1.7	1.7	1.6	
Contribution from real GDP growth	-0.8	-2.3	-0.5	4.5	-7.3	-1.3	0.2	-1.3	-1.5	-1.6	-1.7	
Contribution from price and exchange rate changes 2/	-5.5	-1.7	3.9	2.0	-8.3	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-6.5	-0.7	2.2	4.2	-1.4	-11.6	-3.2	-2.6	-2.0	-3.0	
External debt-to-exports ratio (in percent)	221.1	208.7	240.4	246.8	227.9	236.5	254.1	250.9	249.0	248.7	244.9	
Gross external financing need (in billions of US dollars) 4/	56.9	66.6	71.9	72.8	67.8	95.2	82.9	80.8	85.0	87.9	91.0	
in percent of GDP	20.6	22.6	25.8	28.8	21.4	31.0	24.3	22.7	23.0	22.8	22.5	
Scenario with key variables at their historical averages 5/						77.9	76.3	76.8	77.8	79.3	79.7	0.0
Key Macroeconomic Assumptions Underlying Baseline												
						Historical Average	Standard Deviation					
Real GDP growth (in percent)	1.3	3.9	0.9	-6.1	11.7	2.7	4.5	1.8	-0.3	1.9	2.2	2.5
GDP deflator in US dollars (change in percent)	9.4	2.8	-6.5	-3.5	12.2	0.0	7.0	-4.8	11.5	2.2	1.9	2.0
Nominal external interest rate (in percent)	3.1	2.8	3.0	3.0	2.4	2.9	0.3	2.7	2.3	2.3	2.5	2.4
Growth of exports (US dollar terms, in percent)	12.6	7.6	-8.1	3.1	26.3	1.3	12.0	0.4	-4.3	4.4	3.6	3.5
Growth of imports (US dollar terms, in percent)	9.1	14.2	-5.3	-17.4	49.8	3.0	19.1	10.2	-9.4	0.1	1.5	3.7
Current account balance, excluding interest payments	-0.9	-2.9	-3.3	0.5	-5.2	-2.3	1.8	-5.7	-3.3	-2.0	-1.2	-1.1
Net non-debt creating capital inflows	-1.2	-2.9	0.6	-0.8	0.8	0.1	1.8	-0.4	-0.7	-0.3	-0.2	-0.4

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).

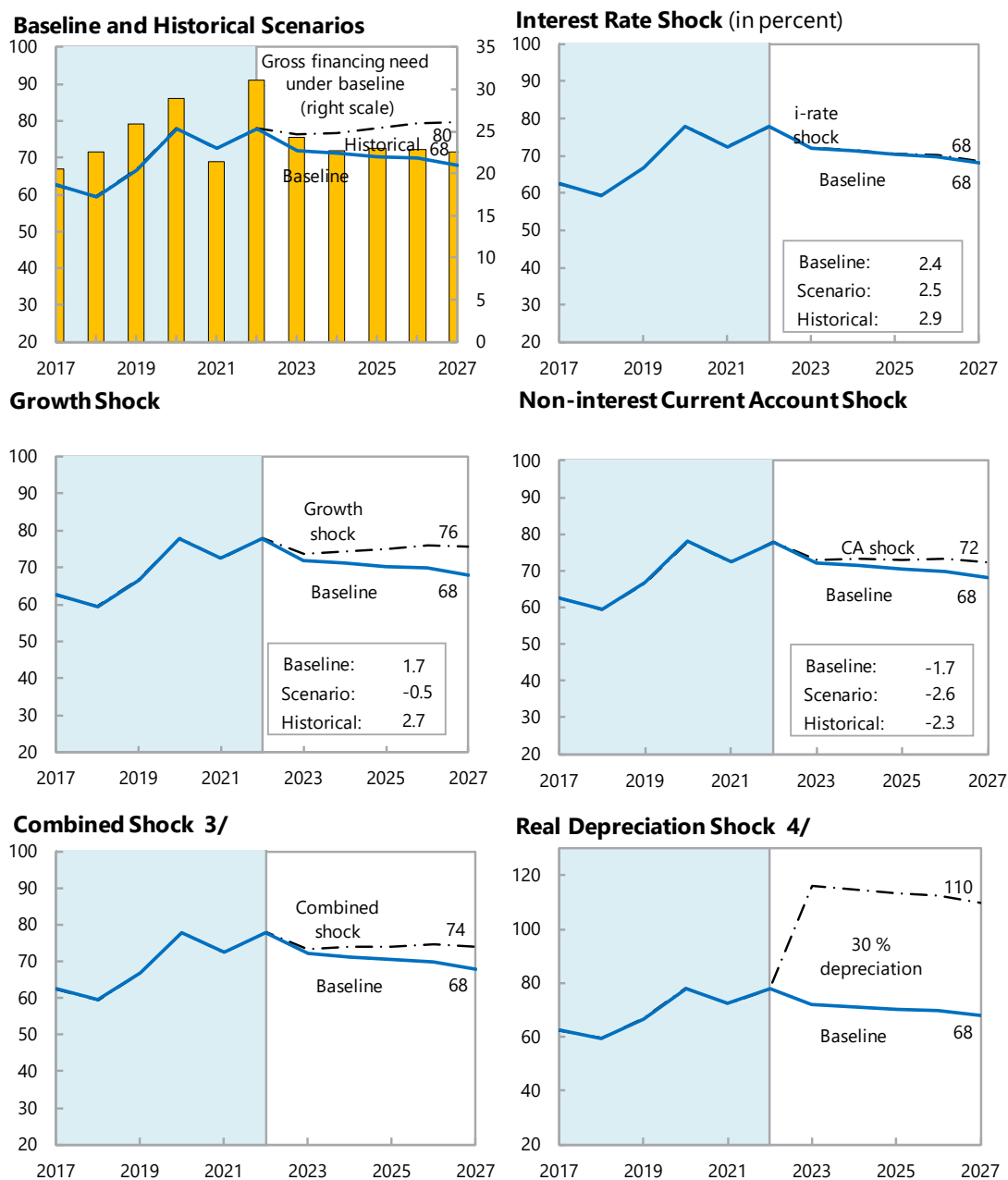
3/ For projection, line includes the impact of price and exchange rate changes.

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.

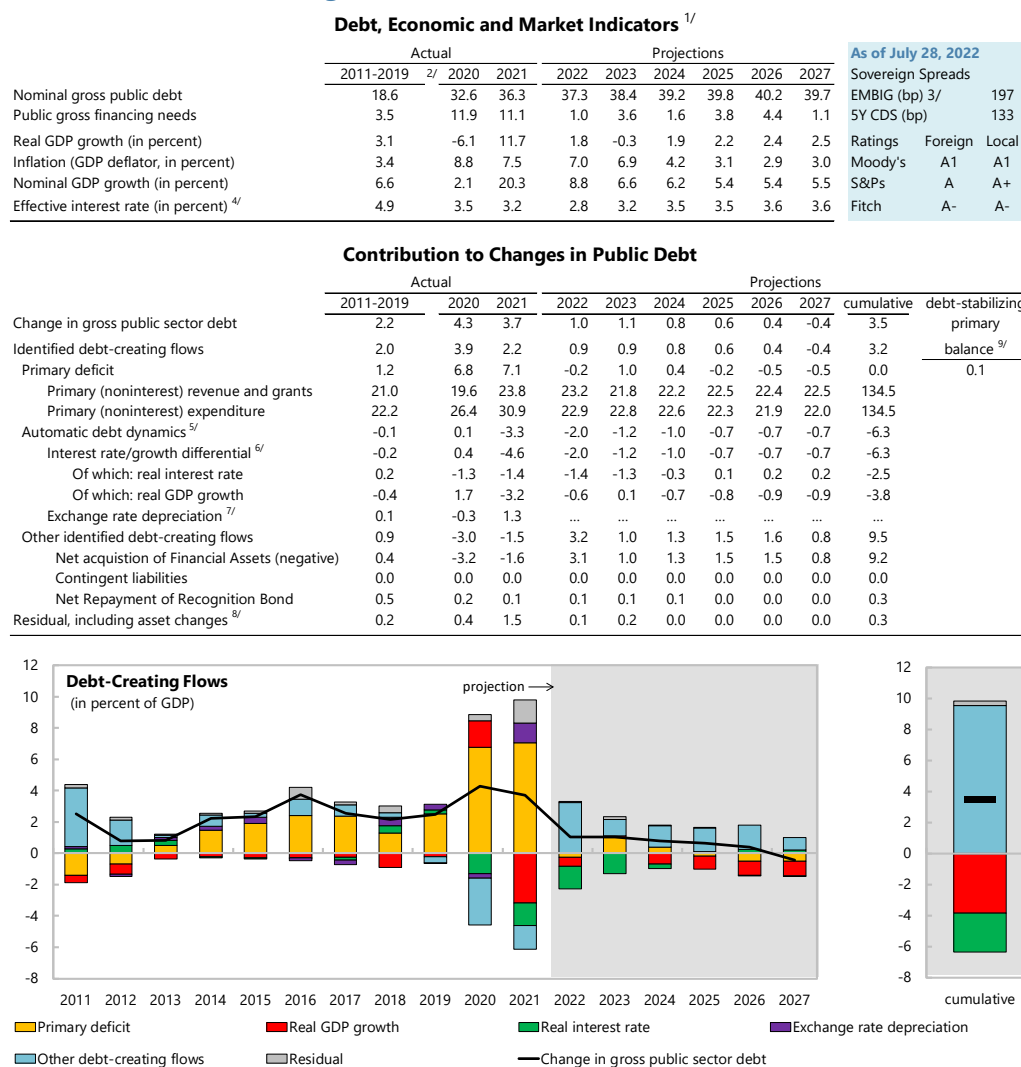
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Annex II. Public Sector Debt Sustainability Analysis

Public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios and with high probability, with low medium-term sovereign and financing risks (Annex Box 1).

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



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 $[(r - \pi(1+g)) - g + ae(1+r)] / (1+g+\pi+gr)$ 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 $r - \pi(1+g)$ 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

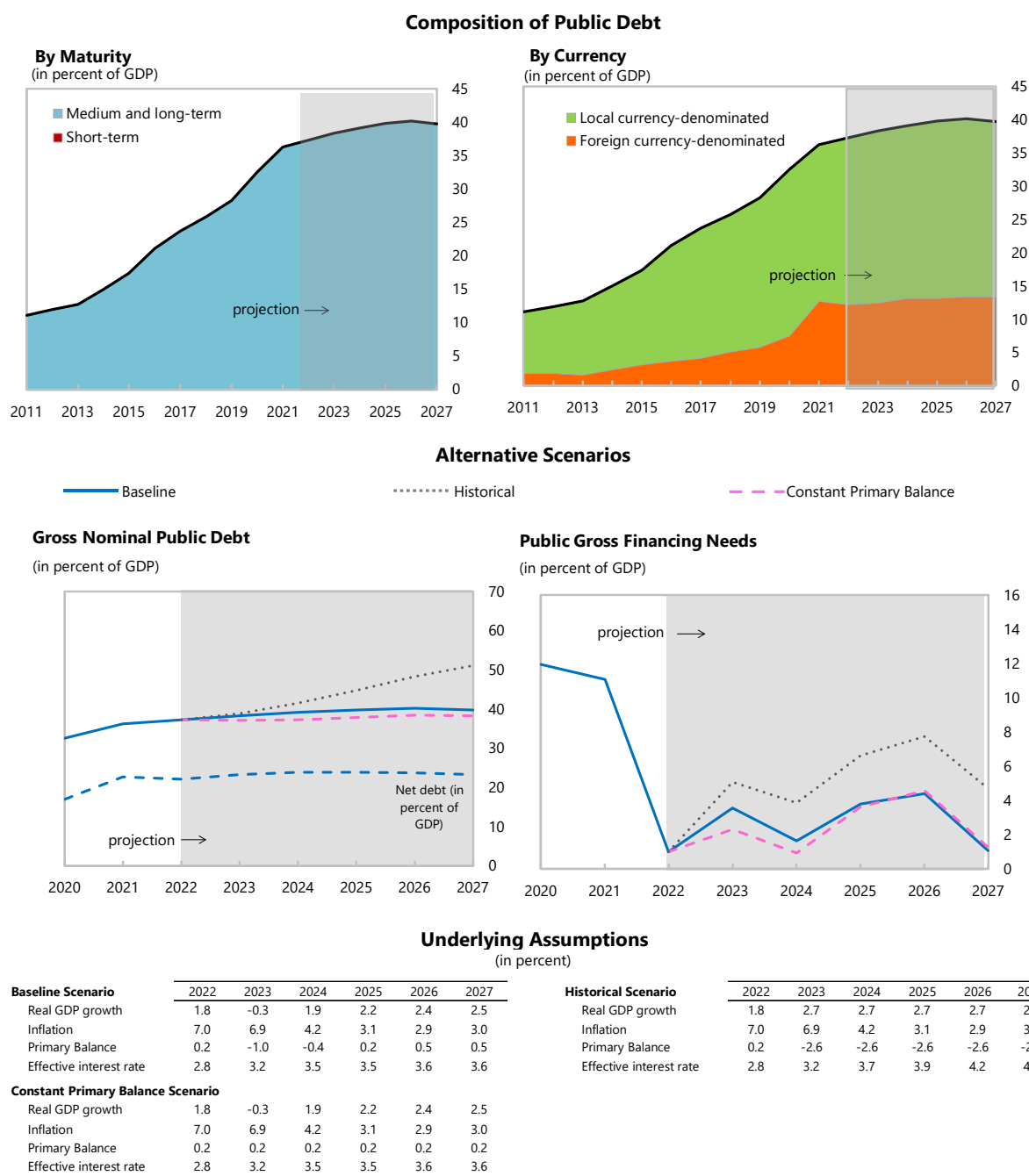


Figure 3. Chile: Macro-Fiscal Stress Tests

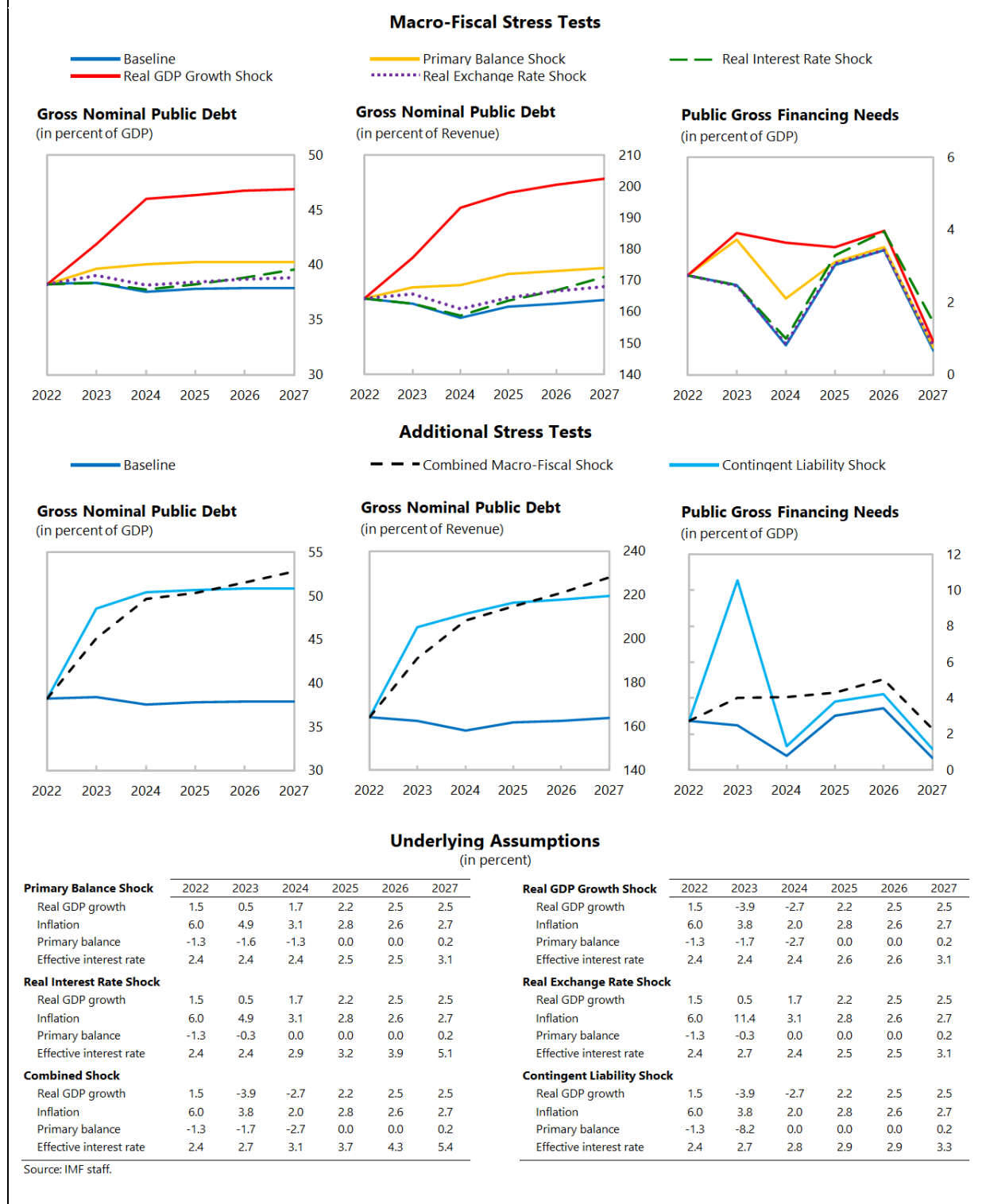
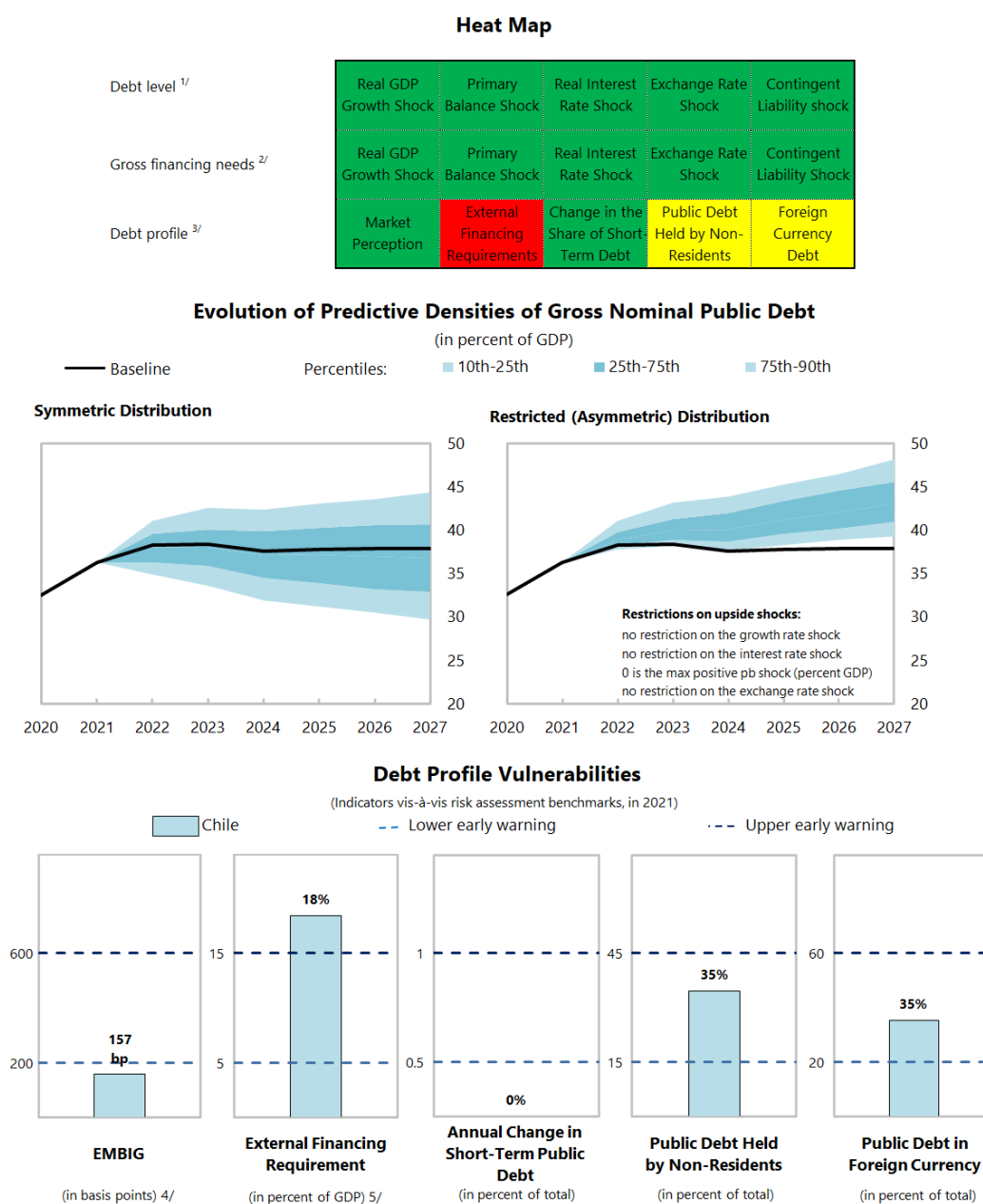


Figure 4. Chile: Risk Assessment



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.

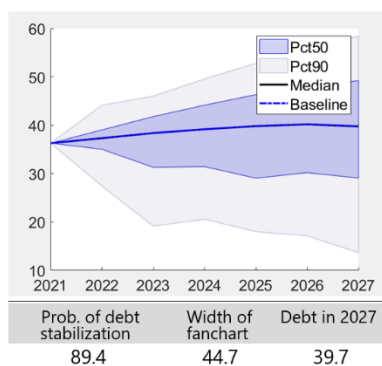
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Box 1. Chile: Application of Medium-Term Tools of the Sovereign Risk and Debt Sustainability Framework

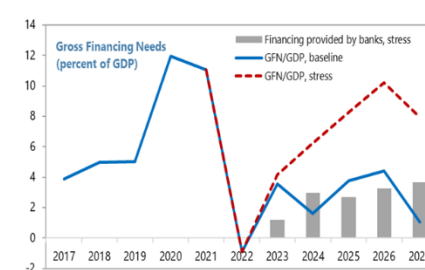
Debt is assessed to be sustainable with high probability. This assessment is based on results from: (i) the debt fanchart tool (used to assess medium-term solvency risks); and (ii) the GFN tool (used to assess medium-term financing risks).

- **The debt fanchart tool suggests that medium-term solvency risks are low**, based on three measures: the probability that debt stabilizes by 2027, the width of the fanchart between percentiles 5 and 95, and the debt level in 2027 interacted with a measure of institutional quality. In the case of Chile, the probability of debt stabilization is high, at 89 percent, while the debt level is projected to remain low (at 39.7 percent of GDP in 2027). The fanchart width (at 45 percentage points of GDP) is moderate.
- **The GFN tool suggests that medium-term financing risks are low**, based on the following three measures: the average public gross financing needs during the projection period, the initial level of domestic bank claims on the government in percent of bank assets (a higher ratio typically indicates less space available for additional bank financing to the government), and the increase in domestic bank claims that would be required if the domestic banks were to provide the additional financing needed in a shock scenario (the higher this measure, the higher are financing vulnerabilities). In the case of Chile, the three measures are relatively low.

Debt/GDP Projection



GFN/GDP Projection and Financing from Banks



Signal from the GFN module

Indicator	Value
Average GFN/GDP, baseline projections	2.3
Initial bank claims on government/assets	6.8
Change in bank claims on govt in stress	4.8
Signal	Low risk
Memo: Bank assets/GDP	137.8%

Appendix I. Written Communication

Santiago, August 23rd, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431, USA

Dear Ms. Georgieva,

In recent months, the global outlook has become bleaker and more uncertain. After more than two years of pandemic, new shocks have hit an already fragile international economy: the global rise in inflation, which has triggered tighter financial conditions; a significant slowdown in China; and the prolonged war in Ukraine leading to elevated prices and volatility in energy and food markets.

These adverse external shocks have already resulted in a downward revision of the international scenario facing the Chilean economy, including lower growth in our main trading partners, a significant reduction in our terms of trade, and more restrictive conditions in global financial markets. The immediate impact on Chile's inflation has been significant due to the high pass-through of international prices and exchange rate movements to retail prices, while the repercussions on activity and the labor market will be felt more gradually.

Faced with a more adverse external scenario, we have continued to recalibrate our policies to support medium-term macroeconomic resilience and maintain sustainability.

In response to rising inflation, the Central Bank of Chile (CBC) has raised the benchmark interest rate (now 9.75 percent) to well above the neutral level, triggering a tightening of domestic financial conditions. The exchange rate has flexibly adjusted to the fall in our terms of trade and the tightening of international financial conditions. The peso-dollar exchange rate has depreciated close to 20 percent in the last twelve months (ending in July), while the real exchange rate stands more than 25 percent below its average from 2010 to 2019.

Since mid-2021, the financial authority (CMF) has withdrawn the extraordinary prudential measures adopted during the pandemic and has resumed its agenda to implement Basel III standards and strengthen buffers in the financial system. In the wake of the pandemic crisis, the banking sector has shown resilience and maintains an adequate solvency and liquidity position. Loan delinquencies remain low and stable, and loans are well provisioned amid heightened uncertainty.

The government is implementing a multi-year fiscal consolidation plan to achieve close to a balanced structural fiscal position by 2026 (-0.3 percent of GDP) and keep public debt below 45 percent of GDP. The extraordinary support programs implemented during the pandemic have been wound down. Non-mining tax revenues have significantly increased due to strong growth in 2021 and the tax mobilization plan implemented in the last two years. The overall headline fiscal position is expected to close almost in balance in 2022 (-0.1 percent of GDP), while the structural fiscal deficit is expected to decline to 1.3 percent of GDP, from over 11 percent of GDP last year. Gross public debt is projected to reach 38 percent of GDP by the end of 2022.

Despite the timely and adequate rebalancing of domestic policies, the peso exchange rate has recently been subject to unusual bouts of volatility. In mid-July, the CBC announced an extraordinary and temporary program of foreign exchange intervention and preemptive provision of liquidity in dollars (FXI program) to prevent disorderly market conditions and facilitate the adjustment of the Chilean economy to the uncertain and changing economic conditions. The FXI program commenced on July 18, 2022, and will run until September 30, 2022, and considers sales of foreign exchange in the spot market (up to US\$10 billion), currency hedging operations (up to US\$10 billion), and currency swaps (up to US\$5 billion).

Chile is a small open economy, dependent on the export of commodities, with a sustainable external position. The current account deficit, temporarily high due to the lagged effect on personal consumption of the support programs implemented during the pandemic, is mainly financed by private creditors. By the end of July 2022, international reserves held by CBC stood at US\$44.7 billion, supplemented by precautionary liquidity lines of US\$9.25 billion. In addition, the government holds substantial international liquid buffers, including as part of their Sovereign Wealth Funds (US\$14.8 billion by the end of July 2022).

While the current level of international reserves is adequate considering Chile's mature flexible exchange rate system and fluid access to international financial markets, considering the heightened international uncertainty, the authorities would like to strengthen their access to precautionary liquidity in case of tail risk scenarios.

Against this background, and following the CBC's initial expression of interest, Chile has requested an arrangement under the Flexible Credit Line (FCL) in the amount of SDR 13.954 billion, equivalent to 800 percent of our quota, with a duration of 24 months, and notified the intention to cancel the Short-term liquidity line (SLL).

The amount of access is justified by the need to provide a strong signal to reinforce market confidence amid heightened uncertainty and volatility in global financial markets, in case of balance of payments difficulties that Chile might encounter. We intend to treat the arrangement as precautionary, underscoring the insurance component of the FCL. If approved, the CBC will also be responsible for managing financial operations associated with the FCL arrangement. If FCL resources were to be drawn, they would not be used for budget financing, consistent with our institutional framework.

Chile has a very high degree of regional and global integration in financial markets, explaining large levels of both assets and liabilities in the international investment position, 138 and 147 percent of GDP respectively (June 2022). A prolonged slowdown in the global economy combined with high uncertainty, a strong US dollar and tight international financial conditions may lead to a sudden shift in investors' confidence in emerging markets, also affecting Chile. A substantial decrease in capital inflows, together with higher portfolio outflows from institutional investors, would explain most of the financing needs in a severe adverse scenario. In addition, Chile's position as the world's leading copper exporter exposes it to a deterioration in its current account because of the sensitivity of commodity prices to global growth, partially offset by lower energy costs and lower income to foreign direct investment. The widening of the current account deficit would be less than that of a financial account reversal, and it is expected to be covered by a reduction in international reserves and the assets of the Sovereign Wealth Funds. Overall, amid an environment of exceptionally high external risks, the external financing gap could amount to about US\$18.5 billion.

The policy response to possible shocks has several levels, including exchange rate flexibility, adjustments to domestic monetary policy, and FXI operations in case of disorderly conditions in the foreign exchange market. This also includes a responsible fiscal policy implemented in accordance with the fiscal rule to maintain public debt sustainability and achieve a near balanced structural budget by 2026 and financed in a balanced way between external and internal sources.

The exceptional circumstances justifying this request are expected to be transitory, and hence Chile intends to maintain the FCL arrangement on a temporary basis. At the time of the mid-term review, we will reassess the external conditions and our access level. Conditional on a reduction in external risks, we intend to exit the FCL arrangement once the 24-month period is completed, while starting the exit preparations well in advance, including through an adequate communication strategy.

Chile's very strong institutions ensure preparedness to withstand adverse shocks, and a commitment to maintaining very strong policies in the future. Chile has benefited from its long and excellent track record of very strong macroeconomic performance, based on prudent policies, which we are firmly committed to maintain in the future. Such policies include: (a) an inflation targeting monetary policy framework with a flexible exchange rate; (b) a responsible fiscal policy, based on a structural budget rule, aimed at keeping debt below 45 percent of GDP in the medium term, and (c) a deep and solid financial system, further strengthened by the recent General Banking Law, which strengthens the financial sector regulatory and supervisory framework and adopts the Basel III standards.

We reiterate that the FCL would represent an important complement to our very strong institutional policy frameworks, and we will maintain a productive policy dialogue with the Fund.

CHILE

The relationship of Chile with the Fund is longstanding, not only as a member, but also as a creditor, with a current position of SDR9.24 million in the NAB, the NAB credit arrangement with the Fund in the total amount of SDR 1,381.94 million, and a commitment that amounts up to SDR 269 million under the bilateral borrowing agreement, as well as its active participation in the Fund's voluntary trading agreements of SDR.

Sincerely yours,

/s/

Rosanna Costa Costa
Governor
Banco Central de Chile

/s/

Mario Marcel Cullell
Minister
Ministry of Finance of Chile