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GRAY/21/1000

April 15, 2021

**Statement by Mr. Ronicle and Mr. Chrimes on Chile  
(Preliminary)  
Executive Board Meeting  
April 19, 2021**

We thank staff for the helpful report and Mr. Herrera for his thoughtful and informative buff statement.

**While the region has been hit hard by the pandemic, the speed and scope of the Chilean authorities' response softened the impact and has given the economy a good chance of a reasonably swift recovery, though uncertainty remains very high.** Staff observe that plans have “constantly evolved” and highlight the benefits of good coordination between the finance ministry, the central bank and the Financial Markets Commission. The strength of Chile’s macroeconomic and macro-financial frameworks, the country’s long-standing sound policy track record, and buffers have all enabled the authorities to deploy much-needed accommodative fiscal and monetary policies effectively. Staff suggest further enhancements, such as an autonomous fiscal council, but overall, the framework seems to have worked well: inflation expectations are anchored, domestic and external financing remains accessible on favorable terms, and the financial system appears sound.

**Chile’s rapid vaccination rollout so far has also been impressive.** We share Mr. Herrera’s well-caveated optimism that a successful vaccination rollout should hopefully help reduce health pressures and facilitate a broader reopening of the economy later in the year, though of course vaccines alone are not a panacea. We note some recent media commentary drawing parallels with other countries’ vaccination progress and reopening efforts, but caution against overly simplistic comparisons. Recent data suggests that new infections have fallen sharply among the vaccinated population, who are in general more vulnerable; this is encouraging. *Staff views on any emerging lessons that might be drawn from Chile’s experience on vaccinations and reopening so far would be welcome.*

**Mr. Herrera highlights the authorities’ suite of measures to strengthen Chile’s external liquidity position:** the early decision to seek a precautionary Flexible Credit Line

arrangement, the expanded swap line with the People’s Bank of China, and – not referenced in the staff report – access to New York Federal Reserve’s temporary FIMA facility. *What is staff’s view on the impact of these two bilateral arrangements?* We note that the authorities hope, if conditions are favorable, to exit the FCL arrangement in 2022, and have a plan to support reserves accumulation to this end. We look forward to staff views at the upcoming mid-term review on how communications might help deliver a smooth exit from the FCL. We welcome the authorities’ continued commitment to exchange rate flexibility (with staff noting that interventions have been limited to preventing disorderly market conditions) and to promoting fair trade.

**The papers’ topical attention to issues around the pensions system is helpful.** We understand that a third pensions withdrawal as a tool for pandemic-related support is currently under discussion. Staff caution against this, noting that the two 2020 withdrawals were poorly targeted, regressive, and weakened the pensions system, which already faced some significant challenges, as set out in the selected issues paper, despite some positive efforts by the authorities. *Could staff comment on developments around a third withdrawal? What, if anything, do staff recommend instead of a third withdrawal?*

**Chile entered the pandemic with strong economic institutions but against a backdrop of important discussions over constitutional change following social unrest.** Staff advocate an ambitious and important set of short- and medium-term social reforms. Measures requiring higher public expenditure would need to be supported by higher revenues. However, the staff report also acknowledges that the New Constitution process will shape the policy agenda. We accept that constitutional issues largely sit beyond the Fund’s remit and expertise, but we nevertheless note that there are potential interactions, and that appropriately sequencing social and economic structural reforms – and the fiscal measures needed to sustainably deliver these – will be crucial. Substantive progress on many socio-economic policy issues may be challenging in the absence of a sustainable, broadly-supported constitutional solution.