

The contents of this document are preliminary and subject to change.

GRAY/21/1234

May 12, 2021

**Statement by Mr. Azal, Mr. Just, and Mr. Meizer on Chile  
(Preliminary)  
Executive Board Meeting  
May 14, 2021**

We thank staff for the concise report and Mr. Herrera for his informative Buff statement.

Owing to the authorities' decisive measures, strong institutional framework, and supported by the Flexible Credit Line (FCL), Chile's recovery is on a firmer footing after the dual shocks of the 2019 social unrest and the COVID-19 pandemic. We share staff's view that the FCL has served Chile well. **In view of staff's appraisal that Chile continues to meet the strict qualification criteria for access to FCL resources, we support the completion of the mid-term review. We continue to encourage the authorities to take advantage of the room for maneuver provided by the FCL and take further steps to strengthen their macroeconomic policy framework.**

**We welcome the authorities' swift and sound policy response, which have helped cushion the pandemic shock and ensure that the Chilean economy rebounds in 2021.** The authorities' wide range of measures to safeguard health, lessen the effects of the pandemic, provide liquidity, and preserve macro-financial stability have proven effective. Given that the withdrawals from the private pension funds have played a key role in strengthening the liquidity position of households, *could staff further elaborate on the implications of the new round of withdrawals on the capital market, as well as the expected impact on household saving and consumption behavior?* Considering that the sharp rise in inflation rates has caused concerns globally in recent weeks, *we would also like to know staff's view on the anticipated inflationary pressures in the Chilean economy, even if the inflation expectations are considered to be well-anchored.*

**Although the uncertainty around the pandemic remains elevated globally, the risks are no longer just tilted to downside in Chile.** As a result of the fast pace of the vaccination campaign and the booming copper price, Chile has a good opportunity to rebuild its economy and lay the foundation for a resilient recovery. However, the path of the pandemic continues to remain a decisive factor, not least because of Chile's openness to international trade and

financial markets. The authorities should also be mindful of the results of the external economic stress index, which still shows a high stress level, despite having eased since mid-2020. While the financial system seems sound even after the delay of the implementation of the Basel III standards, we share staff's view, and encourage the authorities to continue to closely monitor financial stability risks and remain ready to step in, if needed. We also encourage the authorities to use the New Constitution process to mitigate the risks of high inequality and strengthen social cohesion.

**The FCL has not only provided a substantial buffer for the Chilean economy, but has also helped boost market confidence amidst a challenging environment.** However, in order for the FCL to continue to fulfill its intended role, the authorities need to maintain their strong policy and institutional framework. We also welcome that no significant issues emerged from the conduct of safeguard procedures.

**We welcome that that authorities continue to treat the FCL as precautionary and maintain their intention to exit this facility once the 24-month period is completed, depending on the evolution of risks and macrofinancial developments.** In this context, we take positive note that the Central Bank of Chile has launched several programs to strengthen its external liquidity position through swap facilities, and has started lifting its international reserves by pre-announced purchases. *Could staff provide further details on the effectiveness and capital-market effects of daily FX purchases so far? We would also appreciate if staff could elaborate on the authorities' potential intention to access the Short-Term Liquidity Line.* Close engagement with the authorities and careful communication continues to be key to properly prepare for the exit, which should continue to be state-dependent.

**We encourage the authorities to use the additional policy space provided by the FCL in the next twelve months to pursue structural reforms.** We welcome the authorities' firm commitment to maintain sound and prudent policies, as well as plan a gradual fiscal consolidation going forward. We also positively note that the authorities are considering additional enhancements to Chile's fiscal rules.