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May 12, 2021

**Statement by Ms. Shortino and Mr. Sturm on Chile
(Preliminary)
Executive Board Meeting
May 14, 2021**

We thank staff for the report and Mr. Herrera for his helpful Buff statement. Chile's continued strong economic fundamentals and policy frameworks as well as its flexible exchange rate have helped the country to weather the COVID-19 pandemic shock. In addition, the authorities' response to the pandemic was robust and swift, including a multi-year fiscal package complemented by a robust monetary stimulus and unconventional measures. **We support this review and agree that Chile remains eligible for the FCL arrangement.** Notably, Chile boasts strong institutions, a low level of public debt, well-anchored inflation expectations, and a resilient financial system.

We agree with staff's assessment that the FCL arrangement remains an important buffer against future external risks. Despite easing of the external stress index, the uncertain course of the pandemic alongside continued uncertainty around the country's constitutional reform process pose substantial risks for the country in the coming year. We welcome that the authorities intend to exit from the FCL when it expires in May 2022 and support their decision to treat access under the FCL arrangement as precautionary.

We strongly support the authorities' commitment to its freely floating exchange rate regime and reiterate that the exchange rate has served the country well as a shock absorber. We agree that under IMF metrics gross international reserves are broadly adequate. At the same time, we note that the central government holds substantial liquid external assets and that Chile has access to FX liquidity through swap facilities. We underscore the importance of the rules-based, transparent nature of the reserve accumulation plan. *How does staff view a potential general SDR allocation interacting with the central bank's pre-announced purchases and will the SDR allocation change staff's assessment of reserve adequacy?*

We reemphasize the importance of reforms to the pension system. The recent approval of a third withdrawal from the pension system further weakens the pension system and raises future fiscal costs. We note that the announcement, and perhaps speculation over a fourth withdrawal, has contributed to some domestic financial market volatility. Further, as staff note, withdrawals through three rounds may leave 5 million people, one third of the adult population, out of the system. We strongly encourage the authorities to explore more targeted household liquidity assistance programs in lieu of additional early pension withdrawals.

Could staff provide an update on the estimated fiscal costs of this third withdrawal as well as the implications for the sustainability of the pension system?