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GRAY/21/1207

May 12, 2021

**Joint Statement by Ms. Grant, Mr. Mochtar, Mr. Bautista, and Mr. Yoo on Chile
(Preliminary)
Executive Board Meeting
May 14, 2021**

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

Chile's economic recovery that has been aided by flexible and swift policy actions illustrates its continuing resilience. The sustainable external position and public debt, strong institutional frameworks, and a proven track record of implementing strong macroeconomic policies enabled Chile to continue to meet the qualification criteria for access to the Flexible Credit Line (FCL) arrangement. We welcome both staff and the authorities' assessment that the FCL arrangement is effective in providing insurance against tail risks and maintaining confidence in the economy. **We support the completion of this review, noting that the authorities are not requesting a change in access and are intending to continue to treat the FCL as precautionary and exit from the arrangement in May 2022.** Access to the FCL will continue to provide an important buffer against external tail risks that could persist unexpectedly and will sustain the needed boost to market confidence to fasten its recovery.

We take note of the authorities' strong adherence to sound macroeconomic policies. We support authorities' strategy to pursue a broad set of fiscal measures to mitigate the negative effects of the pandemic through targeted measures to protect health, income, and jobs, especially for the most vulnerable. Monetary policy will be conducted to maintain a credible inflation targeting framework with a free-floating exchange rate. The commitment to a structural consolidation over the medium term will be continued to rebuild buffers and preserve debt stability.

We see merit to carefully plan and manage a timely and safe exit strategy to avoid financial instability and strengthen further the economic resilience to shocks. We are of the view that the exit from precautionary arrangements should be state-contingent, reflecting risks, rather than being time-contingent. An access to the Short-Term Liquidity Line may be a good option to explore as part of an exit strategy. The relevant risks should be carefully assessed and that there are sufficient policy efforts and prospective policy responses that

would address the current and future risks. Given the still significant global risks and volatility in asset prices, authorities are encouraged to continue to closely monitor financial vulnerabilities by identifying early signs of stress especially in credit, and to continue strengthening further the financial sector regulatory and supervisory framework.

Maintaining external buffer would be beneficial to safeguard the exit strategy. We note that Chile's reserves currently fall below the ARA and while the intention to accumulate further will improve it, it is still at the lower end of the ARA threshold. *In this context and as Chile indicated a timeline for its intent to exit, staff comments are sought on the sufficiency of policy measures that would lead to a safe exit. Staff comments are also welcome on the adequacy of the buffer after the exit from FCL considering the external uncertainties and significant downside risks, exploration of other sources of precautionary financing, and its consequent effect on market confidence.*