

**LAPSE OF
TIME**

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Supplement 1

December 3, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Chile—Financial System Stability Assessment—Draft Press Release**

Board Action: Executive Directors' **consideration** on a lapse of time basis

Deadline to Request Board Meeting: **Tuesday, December 7, 2021
12:00 (noon)**

Publication: Yes*

Questions to: Mr. Cohen, MCM (ext. 34062)
Mr. Visconti, MCM (ext. 34228)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**



IMF Executive Board Concludes Financial System Stability Assessment with Chile

FOR IMMEDIATE RELEASE

WASHINGTON, DC – [December 8, 2021] The Executive Board of the International Monetary Fund (IMF) concluded the Financial Sector Assessment Program (FSAP)¹ with Chile on December 3, 2021 without a meeting.² The Financial Sector Stability Assessment (FSSA) report was completed on November 17, 2021. The report is based on the work of joint IMF/World Bank FSAP remote missions to Chile during March-April and July-August 2021.

The FSSA concluded that the financial system in Chile functions well overall within a sound regulatory framework. The report found that the twin shocks of social unrest in late 2019 and COVID-19 were adeptly managed, thanks to massive and well-coordinated supervisory and fiscal policy responses as well as unprecedented liquidity support from the Central Bank of Chile (BCCh).

Mutual and pension fund redemptions and subsequent BCCh crisis measures that were used to relieve the impact of the shocks highlighted existing wholesale funding and systemic liquidity risks. Accordingly, the FSSA recommended a strengthening of the liquidity management framework for mutual funds, the development of the interbank repo market, and a strengthening of central bank risk management practices.

The funded pension system that has been instrumental in market deepening is under threat due in part to a series of withdrawals. The FSSA recommended that further pension withdrawals and life annuity liquidations be halted. In addition, pension fund regulation and investment options should be improved to promote long-term investment and minimize excessive portfolio switching.

The important reorganization of the financial regulatory authorities has been finalized, and Basel III will be implemented starting in December 2021. The banking supervisory framework was found to be robust but needs further improvements in some areas, including consolidated supervision and credit risk.

Banks have remained profitable through the crisis, partially supported by central bank financing and government-guaranteed SME lending. The FSAP found that the banking sector

¹ The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth assessment of a country's financial sector. FSAPs provide input for Article IV consultations and thus enhance Fund surveillance. FSAPs are mandatory for the 47 jurisdictions with systemically important financial sectors and otherwise conducted upon request from member countries. The key findings of an FSAP are summarized in a Financial System Stability Assessment (FSSA).

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

is sufficiently capitalized overall and recommended that banks should ensure continued resilience by transitioning to Basel III-compliant capital structures and completing announced capital raises. Pandemic-related measures should be carefully withdrawn when appropriate. A bank resolution mechanism and deposit insurance should be introduced, and a risk-based capital framework is needed for insurers.

Washington, DC – December 8, 2021