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May 12, 2021

Statement by Ms. Levonian, Mr. O'Brolchain, and Mr. Weil on Chile
(Preliminary)
Executive Board Meeting
May 14, 2021

Thanks to staff for their insightful report and to Mr. Herrera for his thoughtful Buff statement in which he underscored how the FCL has contributed to bolster market confidence in Chile and provided additional policy space in a period of extraordinary uncertainty.

We support staff's conclusion that Chile continues to meet the qualification criteria for the FCL. Chile has enjoyed a long track record of very strong economic fundamentals and institutional policy frameworks that have served it well through the ongoing COVID-19 crisis. While the economy is recovering, supported by a world class vaccination campaign, the pandemic persists and continues to demand exceptional policy support in the near-term. External risks have lessened since FCL approval, but we agree with staff that the external environment remains fragile. In particular, Chile remains vulnerable to a sudden spike in global risk aversion. A drop in copper prices is a potential risk and source of external pressure that staff have appropriately captured in the ESI, but we are currently seeing an unprecedented recovery in copper prices which are now at record levels given strong demand and still tight supply. We see strong copper demand (and lagging supply) as an important upside risk into the medium-term.

We welcome the authorities' commitment to fiscal prudence and plans for a gradual structural consolidation over the medium-term. In the near-term, the recent spike in COVID-19 cases serves as an important reminder of the risks of a premature withdrawal of policy support. Congress' recent approval of a third round of pension withdrawals makes questionable intertemporal tradeoffs, particularly as the staff report seems to suggest that such a measure was unnecessary, inefficient, and regressive. We urge the authorities to support vulnerable households through targeted cash transfers rather than by further straining the pension system. We see improved targeting of fiscal support as needed in the baseline rather than to be implemented "if necessary". We support staff's view that an improved fiscal framework, including a medium-term debt anchor, would help strengthen fiscal policy credibility.

Reserve levels are comfortable but well below the level recommended for emerging markets. We agree that high levels of useable liquid external assets in the sovereign wealth fund, banks' liquid foreign assets, as well as a large swap line with the People's Bank of China are important mitigating factors when assessing Chile's reserve adequacy. However, it remains important for Chile to build its external buffers, including as part of a strategy to exit the FCL as planned after the 24-month period. We therefore welcome the BCCh's plan to make $12 billion in reserve purchases over the next 15 months. *Could staff discuss how the impending general SDR allocation will interact with the BCCh's planned reserve purchases and how the allocation will support reserve adequacy more generally?*

We encourage the authorities to revisit delayed financial sector reforms, including the implementation of the new Basel III standard. We look forward to the conclusion of the forthcoming update of the FSAP.