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May 12, 2021

Statement by Mr. Palei and Mr. Shestakov on Chile
(Preliminary)
Executive Board Meeting
May 14, 2021

We thank staff for the concise report and Mr. Herrera for his informative Buff statement. Chile has a track record of implementing sound economic policies and maintaining strong and rules-based institutional frameworks, which allowed the authorities to reduce the adverse impact of the COVID-19 pandemic that hit Chile in the wake of the 2019 social unrest. The FCL arrangement with the Fund created an additional buffer to support market confidence. **We agree with the staff appraisal that Chile continues to meet the qualification criteria for access under the FCL and support the completion of the review.** We would like to emphasize the following points.

The FCL has provided a necessary support for the authorities' policy efforts in an uncertain environment. Multi-year fiscal stimulus helped to protect lives and jobs, while monetary accommodation supported liquidity. A freely floating exchange rate continued to play its important shock absorbing role against commodity prices volatility. Due to timely vaccination efforts Chile is expected to achieve herd immunity in the second half of 2021, which would allow for uplifting most of the containment measures and restrictions and create a strong boost for economic activity.

Chile remains vulnerable to downside external risks of volatile commodity prices and a sudden change in investors' sentiments. According to staff's economic stress assessment, external environment for Chile, while less stressful than in 2020, remains fragile. The extended impact of the pandemic both within the country and in its key trading partners is another risk that might prolong the need for economic stimulus and suppress the emerging recovery. Yet, continuing disagreements between the administration and Congress on the withdrawals of funds from pension accounts represent another important risk for post-pandemic policy frameworks.

We support the authorities' decision to treat the FCL as precautionary and their plan to exit the FCL arrangement in May 2022 conditional on external developments. We believe that plans for fiscal consolidation would be sufficient to safeguard debt sustainability, but remaining fiscal space allows the Chilean authorities to remain data-driven in their decisions to withdraw or preserve stimulus over the medium term. The authorities also have plans to increase reserves through purchases of FX. *How large, according to staff, should these purchases be to provide a proper buffer against the projected external stress?* We also welcome the authorities' interest in other precautionary sources of international liquidity.

With these remarks, we wish the Chilean authorities every success in their policy endeavors.