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January 10, 2023

**Statement by Ms. Medearis and Ms. Styczynski on Chile
(Preliminary)
Executive Board Meeting
January 12, 2023**

We thank staff for the informative reports and Mr. Herrera and Ms. Mostajo Soto for their helpful Buff statement. Chile's GDP is likely to contract in 2023 and risks to the outlook are tilted to the downside. However, Chile continues to maintain its long tradition of institutional strength and robust macroeconomic policies, which supports the country's ability to navigate heightened global risks and uncertain domestic factors. We note positively that Chile continues to respond to its citizens' desire for constitutional reform, however difficult that path may be. **We broadly agree with staff's appraisal and offer the following additional comments for emphasis.**

Fund staff project a fiscal surplus in 2022, and the authorities' budget for 2023 remains aligned with their medium-term fiscal consolidation plan. **We agree with staff calls for the authorities to prudently manage any stronger-than-projected revenues.** Expenditures to support the most vulnerable should remain a priority, but we concur with staff that the authorities should carefully consider and possibly avoid disbursing unallocated funds to support convergence of inflation and the current account to desired levels.

We commend the authorities for their continued commitment to structural reforms, evidenced by recent tax proposals. Chileans have voted for a larger role for the State, and in this context the goals of the tax reforms are sensible as they would help raise revenues for enhanced social spending, improve tax administration, and support Chile's transition to a green economy. The gross yield from this reform is estimated to be around 3.8 percent of GDP by 2026, which staff flagged as quite ambitious relative to a cross-country assessment. Thus, we urge the authorities to condition spending plans on actual revenue performance and consistency with medium-term fiscal consolidation goals. We urge the authorities to carefully design and effectively implement proposed reforms to the pension system to safeguard sustainability of the pension fund and strengthen incentives for labor formalization and savings. We concur with staff that the significant pension withdrawals that were authorized

during the pandemic undermine pension funding, fiscal sustainability, and the functioning of capital markets and thus should be avoided.

We acknowledge that inflationary pressures are showing signs of peaking, but inflation remains elevated. We encourage the authorities to maintain a tight policy stance until there are clear signs inflation is on a downward trajectory. We thank staff for including an annex in the report on Chile's experience with discretionary foreign exchange (FX) intervention programs. The annex clearly indicates that the authorities have made limited use of FX intervention in exceptional situations, with the latest FX intervention in July 2022 to address disorderly market conditions. We reiterate the importance of maintaining a flexible exchange rate policy.

We positively note that the bank sector remains strong but agree with staff that monitoring for vulnerabilities remains key. Bank capital adequacy ratios are above regulatory requirements and non-performing loan ratios are low. Staff note that pockets of vulnerabilities are emerging that warrant closer monitoring among low-income indebted households, smaller firms, and certain sectors. We support staff calls for the authorities to monitor loans to real-estate developers and construction. In addition, the authorities should encourage banks to closely assess the quality of credit exposures and maintain prudential lending standards. We appreciate that the authorities have indicated their firm commitment to unwinding temporary funding-for-lending facilities and welcome their work to help banks prepare for the transition. We welcome the authorities' significant progress on implementing 2021 FSAP recommendations and encourage them to maintain execution momentum.

Chile has taken some important steps to rationalize the rapidly evolving, and often volatile, fintech sector, including the approval of a law to bring fintech activities into the domestic regulatory perimeter and the commencement of an effort to examine the pros and cons of issuing a central bank digital currency in Chile. Chile should utilize standards set out by international standard setting bodies in its efforts so that domestic policies are properly aligned. Moreover, Chile's experience to date on these topics can help inform international discussions, and we encourage the authorities to actively participate in international fora on these topics.

We note that Annex VII provides a sanguine perspective on the adoption of new financial technologies and the cost-benefit analysis of central bank digital currencies is somewhat sparse. **We encourage staff to take a more balanced approach when discussing the adoption of digital assets in country reports to ensure both potential benefits and risks are addressed appropriately.** In addition, we stress the importance of providing caveats to potential benefits, particularly if they remain untested.