

The contents of this document are preliminary and subject to change.

GRAY/23/3401

January 10, 2023

**Statement by Mr. Loszewski and Mr. Umrzakov on Chile  
(Preliminary)  
Executive Board Meeting  
January 12, 2023**

**Chile's macroeconomic fundamentals and resilience remain strong, notwithstanding a challenging near-term outlook in a difficult external environment.** We commend the authorities for the high-quality macroeconomic policy frameworks and for the strong track record on policy implementation, including in response to the Covid-19 pandemic and to a subsequent build-up of imbalances. However, in the context of exceptional external risks, the authorities need to strike an appropriate balance between correcting imbalances that have built up and sustaining growth.

**Preserving the strength of macroeconomic policies and institutional policy frameworks is critical.** Maintaining the effective implementation of fiscal and monetary policies is essential to preserve stability and stimulate sustainable growth. We welcome the authorities' continued intention to treat the FCL arrangement as precautionary and to exit the arrangement at its expiry, conditional on favorable developments in risk scenarios. With respect to the quality of Chile's institutional frameworks, we take good note of the decreased uncertainty over possible outcomes of the ongoing constitutional reform process.

**Preserving fiscal sustainability by achieving a balanced structural fiscal position and keeping gross public debt below a prudent ceiling of 45 percent of GDP is essential.** To accomplish this aim, and to better align the fiscal stance with the contractionary monetary stance, we encourage the authorities to save any stronger-than-projected revenues. Therefore, effective implementation of the medium-term fiscal consolidation plan remains vital. While we welcome the comprehensive tax reform to boost revenues, we call for prudence regarding plans for higher public spending. Advancing new spending plans should be conditional on adequate revenue performance and in line with medium-term fiscal consolidation goals. Further fiscal structural reforms are needed to continue to contain fiscal risks and ensure fiscal sustainability in the medium-term. In this context, we broadly agree with staff's recommendation on pension reform and their call to avoid new pension withdrawals.

**The central bank should maintain an appropriately tight monetary stance to durably tame price pressures and keep inflation expectations well-anchored.** We share staff's assessment that inflation seems to have peaked, albeit it remains well above the target band. Here, we positively note the consistency of the monetary policy response to rising inflation with the inflation targeting framework. We also welcome the timely exit from the temporary foreign exchange intervention phase to stabilize the exchange rate volatility experienced between July and September. However, given the heightened uncertainty, we call on the authorities to stay vigilant and be flexible to address disorderly market conditions.

**We stress the need for a balanced approach to digital finance.** While we note the evolving policy approach on the CBDC and digital assets, we encourage the authorities to be mindful of possible unintended consequences for financial stability and integrity as well as credit transmission. Here, we highlight the importance for staff to be mindful of providing a prudent view on the potential benefits of CBDCs and digital assets.

**Achieving strong, inclusive, and green growth requires acceleration of structural reforms that are aimed at stimulating investment and confidence.** We agree that the authorities are rightly focusing on boosting productivity, advancing their climate agenda, and deepening capital markets. Here, we commend the authorities for their climate agenda and their commitment to achieve carbon neutrality by 2050.