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GRAY/23/3414

January 10, 2023

**Statement by Mr. Sylla and Mr. Carvalho da Silveira on Chile
(Preliminary)
Executive Board Meeting
January 12, 2023**

We thank staff for the well-written set of reports and Mr. Herrera and Ms. Mostajo Soto for their helpful Buff statement.

Strong institutions and a solid macroeconomic framework have been instrumental in supporting Chile's resilience. Thanks to the authorities' efforts, the economy recovered swiftly from the Covid-19 pandemic with double-digit growth in 2021 and is expected to continue to grow in 2022, albeit at a slower pace. We acknowledge the indication that the authorities continue to treat the FCL arrangement as precautionary and as an insurance against tail risk. We however agree that uncertainty remains high and risks to the outlook skewed to the downside. These stem notably from the war in Ukraine, a global slowdown, a sharp tightening of financial conditions, persistent inflation, rising social discontent, amongst others. The ongoing Constitutional reform also add to the risks. Going forward, as the economy transition towards sustainable growth, key focus should be on preserving macroeconomic stability and advancing reforms to improve social protection and inclusion, while balancing the trade-offs between growth and inflation.

We broadly agree with the thrust of staff's appraisal and would like to add the following points.

The authorities' unwavering commitment to their medium-term fiscal strategy is praiseworthy. After a large deficit in 2021, we are pleased to note the strong fiscal performance recorded in 2022 with the first fiscal surplus in over 10 years and staff's indication that the 2023 budget is consistent with the fiscal path and prudent debt ceiling of

45 percent of GDP. We also welcome the steps taken to alleviate the impact of rising food and energy prices on the most vulnerable people. Notwithstanding, given that the 2023 budget projects higher mandated spending on universal guaranteed pensions (PGU) and public investments, remaining on the adopted fiscal consolidation path will require forceful institutional and policy measures. In this respect, we encourage the authorities to continue to make strides on the ambitious tax reform plan, including on pension reforms, while ensuring spending are conditional on revenue collection. This will help preserve fiscal sustainability.

We welcome the Central Bank of Chile’s monetary policy stance and the steps already taken to abate inflationary pressures, while pursuing reforms to enhance financial sector resilience. It is also reassuring to note the central bank’s intention to keep the policy rate unchanged as long as necessary to bring inflation back to the target. Further, the exchange rate continues to act as a shock absorber, limiting FX interventions to address disorderly market conditions. Financial sector remains broadly well capitalized and resilient with low levels of NPLs. Considering the tight monetary policy stance, we share the view that pockets of vulnerabilities can emerge, including through a rise in NPLs as the repayment capacity of vulnerable households and firms weakens. Continued steps are necessary to enhance supervision and monitoring of banks’ balance sheet together with stress testing to ensure that capital and provisions are adequate if risks come to materialize. In this regard, efforts to advance the implementation of 2021 FSAP recommendations and strengthen AML/CFT framework will be critical to enhance financial sector resilience. We commend the authorities for the approval of the new Fintech Law which will be key to provide a solid framework for the healthy development in the country of innovative fintech activities and crypto assets, including CBDCs but also promote financial inclusion. *We wonder if this new Fintech Law has benefited from Fund technical assistance and whether it is consistent with the “9 Elements for effective Policies for Crypto Assets” currently being developed by the Fund. Comments are welcome.*

Maintaining the momentum on key reforms will be essential to address longstanding structural challenges to reduce inequality, increase tax progressivity, deepen capital markets and promote strong, sustainable, and inclusive long-term growth. The planned tax reforms represent important steps in the right direction to enhance the revenue capacity and progressivity of the Chilean tax system, thus helping to meet demand for higher social protection and better public services. *Could staff elaborate on the scope of the envisaged wealth tax (i.e., based on a new marginal tax rate on income and or assets held)? Comments would also be appreciated on the reasons staff consider this new tax to be difficult realize.* In the same vein, we encourage continued efforts to advance pension reforms given its importance in improving redistribution towards women and other pensioners with below average income. Ensuring the sustainability of the pension system is equally critical. We

welcome the recently approved Framework Law on Climate Change and encourage continued efforts to achieve Nationally Defined Contribution (NDC) and net-zero climate goals by 2050, including the decommissioning of coal-fired power plants by 2040. We welcome the authorities' view that climate goals can be achieved with a combination of tools beyond carbon pricing.

With these remarks, we wish the authorities and people of Chile every success in their future endeavors.