INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/275

CHILE

August 2024

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHILE

In the context of the Request for an Arrangement under the Flexible Credit Line and Cancellation of the Current Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 27, 2024, following discussions with the officials of Chile on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on July 18, 2024.
- A **Staff Supplement** on the assessment of the impact of the proposed arrangement under the Flexible Credit Line on the Fund's finances and liquidity position.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Chile.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR24/309

IMF Executive Board Approves New Two-Year Flexible Credit Line Arrangement with Chile

FOR IMMEDIATE RELEASE

- The IMF approved today, a successor two-year arrangement for Chile under the Flexible Credit Line (FCL), for an amount of about US$13.8 billion (equivalent to 600 percent of quota).
- Chile qualifies for the FCL by virtue of its very strong economic fundamentals and institutional policy frameworks, and sustained track record of very strong macroeconomic policies.
- In the context of the still elevated external risks and a stronger near-term baseline outlook, the authorities have requested a reduction in access. They are committed to gradually lowering access depending on external risk developments and intend to continue treating the arrangement as precautionary.

Washington, DC – August 27, 2024: The Executive Board of the International Monetary Fund (IMF) approved today, a two-year arrangement for Chile under the Flexible Credit Line (FCL) in an amount of SDR 10.4658 billion (about US$13.8 billion),[1] equivalent to 600 percent of quota and noted the cancelation of Chile's previous arrangement.[2] The Chilean authorities stated their intention to treat the new arrangement as precautionary and continue to gradually lower access, conditional on external risk developments.

This is Chile's third FCL arrangement since 2020 with access having been gradually lowered. The first FCL arrangement was approved on May 29, 2020 in an amount of SDR 17.443 billion (equivalent to 1,000 percent of quota) (see Press Release No. 20/227). The second arrangement, approved on August 29, 2022 (see Press Release No. 22/294), was for an amount of SDR 13.954 billion (equivalent to 800 percent of quota).

Following the Executive Board's discussion on Chile, Mr. Bo Li, Deputy Managing Director, made the following statement:

"The near-term outlook has improved, supported by a pickup in mining exports and a recovery in consumption. Yet, the Chilean economy remains exposed to elevated external risks tied to

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[1] US$ amounts have been calculated using the exchange rate as of June 27th, 2024 (1 SDR = US$1.315010), consistent with the Staff Report for the FCL request.

[2] The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (one or two years), and subject to a mid-term review in two-year FCL arrangements. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This large, upfront access with no ongoing conditions is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

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the uncertainty around the potentially higher-for-longer interest rate environment in the U.S., a slowdown in China and other key trading partners, and an intensification of regional conflicts in the world.

"Against this backdrop, the authorities have continued to implement very strong policies which have largely resolved macroeconomic imbalances built during the pandemic. The government's reform ambitions aim at adding dynamism to the economy, while making it more inclusive and greener. In particular, key efforts seek to expedite investment permits, capitalize on Chile's opportunities from the global green transition, continue to raise revenues—mainly by enhancing tax compliance—and strengthen social security.

"Chile's very strong institutional policy frameworks support the economy's resilience and capacity to respond to shocks. They include a credible inflation-targeting framework with a flexible exchange rate, a debt anchor and structural fiscal balance rule, and effective financial sector regulation and supervision.

"In this context, the Flexible Credit Line (FCL) arrangement will continue to provide a valuable buffer against tail risks and a signal of Chile's policy and institutional strengths. The authorities remain committed to treating the FCL arrangement as precautionary and gradually reducing access, in the context of their exit strategy, conditional on external risk developments."

INTERNATIONAL MONETARY FUND

CHILE

July 18, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context: The imbalances built during the pandemic have been largely resolved shifting priorities to supporting stronger, more inclusive and greener medium-term growth. The near-term outlook has improved, primarily due to higher copper prices and prospects for increased lithium production. In this context, policies are focused on creating conditions to add dynamism to the economy such as expediting investment permits while continuing with reforms to increase tax revenue and reduce inequality. The authorities remain fully committed to maintaining very strong policies and policy frameworks.

Risks: External risks remain elevated. A key external risk is the uncertainty around the potentially higher-for-longer interest rate environment in the U.S. which could affect capital flows and increase financial and exchange rate volatility. The decline in capital market depth following the pension funds withdrawals may exacerbate the impact of external shocks. Other relevant risks include a larger-than-expected slowdown in China and other key trading partners, and a possible intensification of geopolitical tensions which could negatively affect the outlook for cooper and lithium and/or lead to higher oil prices.

Flexible Credit Line (FCL): The authorities are requesting a two-year FCL arrangement for SDR 10.4658 billion (600 percent of quota) and the cancellation of the current arrangement approved on August 29, 2022 (SDR 13.954 billion, 800 percent of quota). The authorities intend to treat the new arrangement as precautionary and see it as an additional buffer against external tail risks. The lower access reflects the authorities' commitment for a gradual reduction of access conditional on the evolution of external risks. In staff's assessment, Chile continues to meet the qualification criteria for an FCL arrangement, and staff supports the authorities' request.

Fund liquidity: The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Approved By
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CONTEXT

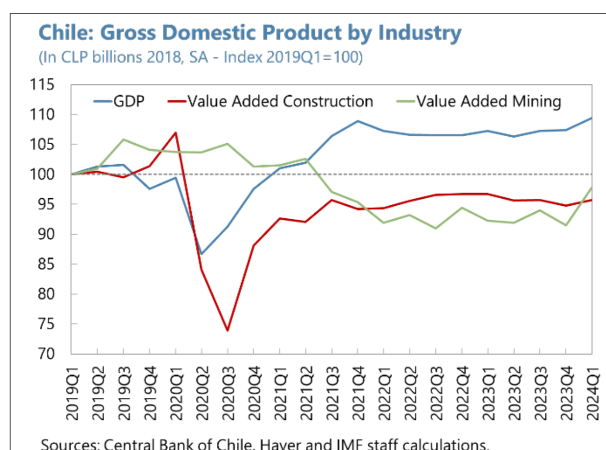
1. Sustaining higher growth has become an overarching theme for the government's agenda to underpin efforts for more inclusion. Having left behind the uncertainties related to the constitutional reform attempts, the political landscape remains split limiting the government's ability to pass the proposed pension and tax reforms in their current form. As a result, it is prioritizing reforms that enjoy multipartisan support. These include the tax compliance bill and the streamlining of investment permitting processes which would enhance revenue mobilization and create a more favorable environment for investment, respectively. While continuing to seek tenable options for the flagship reform proposals, President Boric has made greater security a priority and also proposed to reform the fragmented political system to make policymaking more agile.

2. The global economic environment remains uncertain and prone to shocks. Chile is particularly exposed to the potentially higher-for-longer interest rate environment in the U.S. and has experienced in the past bouts of unusual exchange rate volatility. Given the significance of its commodity exports, other major external risks for Chile include a slowdown in China and other key trading partners as well as a possible intensification of geopolitical tensions.

3. The authorities are requesting a successor two-year FCL arrangement with reduced access. In the context of strengthened near-term economic prospects, the authorities are requesting access of 600 percent of quota commensurate with their assessment of external risks. They view the FCL as a valuable additional buffer against tail risks and a strong and valuable signal to markets about the strength of their policy frameworks. The Executive Board provided a very positive assessment of Chile's policies and institutional framework at the Article IV consultation in February 2024, and staff conducted a visit in June to assess qualification. Staff supports the authorities' request.

RECENT DEVELOPMENTS

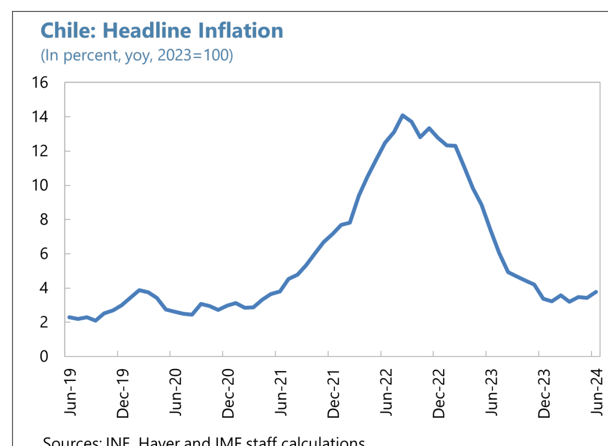
4. Economic activity is showing more dynamism, although some sectors are lagging. After a mild expansion of 0.2 percent in 2023, GDP growth picked up strongly in the first quarter of 2024 (1.9 percent qoq, seasonally adjusted). The acceleration has been uneven across sectors: mining activities expanded strongly, while the recovery of the construction sector remained slow, reflecting weak housing demand. On the expenditure side, the main contributions came from higher mining exports and the pickup of consumption while investment remained sluggish. The labor market has been gradually improving. The 3-month moving average unemployment rate (seasonally adjusted) declined from a peak of 8.9 percent in November



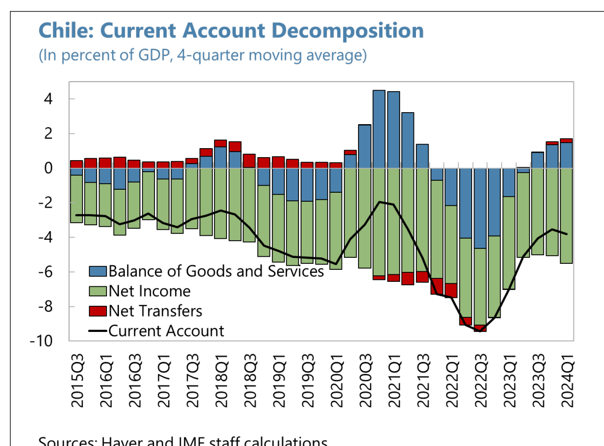
Sources: Central Bank of Chile, Haver and IMF staff calculations.

2023 to 8.2 percent in May 2024 (Figure 1). Real wages increased by 2.0 percent (yoy) as of May 2024.

5. Inflation has continued to decelerate but its convergence to target may be slower than anticipated due to one-off factors. In line with the correction of macroeconomic imbalances and the softening of import price growth, inflation came down sharply towards the 3 percent target, from the peak of 14.1 percent (yoy) in August 2022 to 3.8 percent (yoy) in June 2024. However, the legislated increase in regulated electricity tariffs (by about 60 percent cumulatively in three adjustments through 2025Q1), which were frozen since 2019, could lead to a temporary increase in inflation before its expected convergence to the target in the first half of 2026. Two-year ahead inflation expectations, which is the central bank's policy horizon, have remained well-anchored (Figure 3).



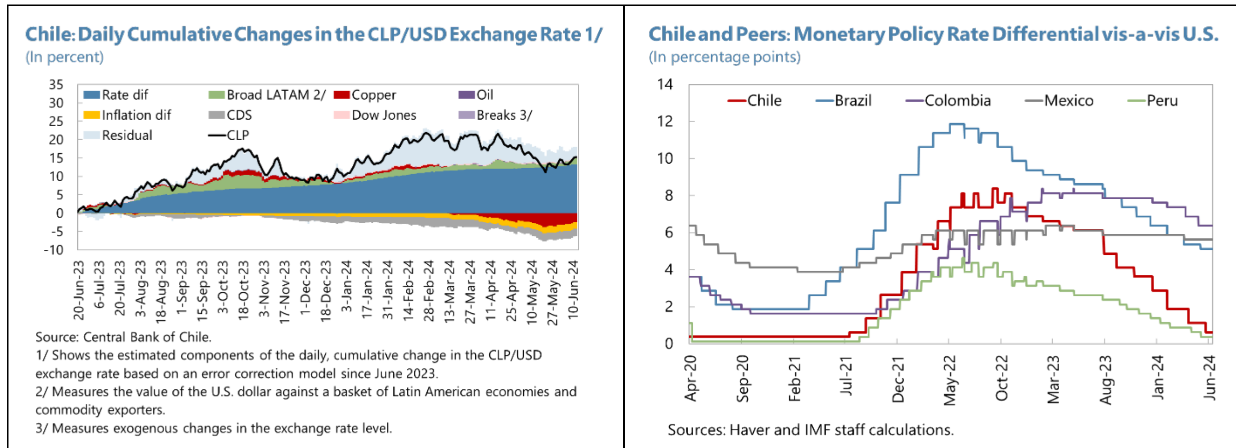
6. The current account deficit narrowed substantially in line with the swift rebalancing of the economy and the recent copper price rally. Driven by a broad-based decline of goods imports, the current account deficit reverted to 3.5 percent of GDP in 2023 (from 9 percent of GDP in 2022; Figure 2). The four-quarter moving average current account deficit is estimated to have declined to about 3 percent of GDP in 2024Q2—the lowest level in over three years. The improvement in the current account balance in 2024 is driven by the surge in copper prices of around 20 percent between March and end-May (Figure 1), reflecting expectations of tight global supply and increasing demand from the green transition and new technologies.



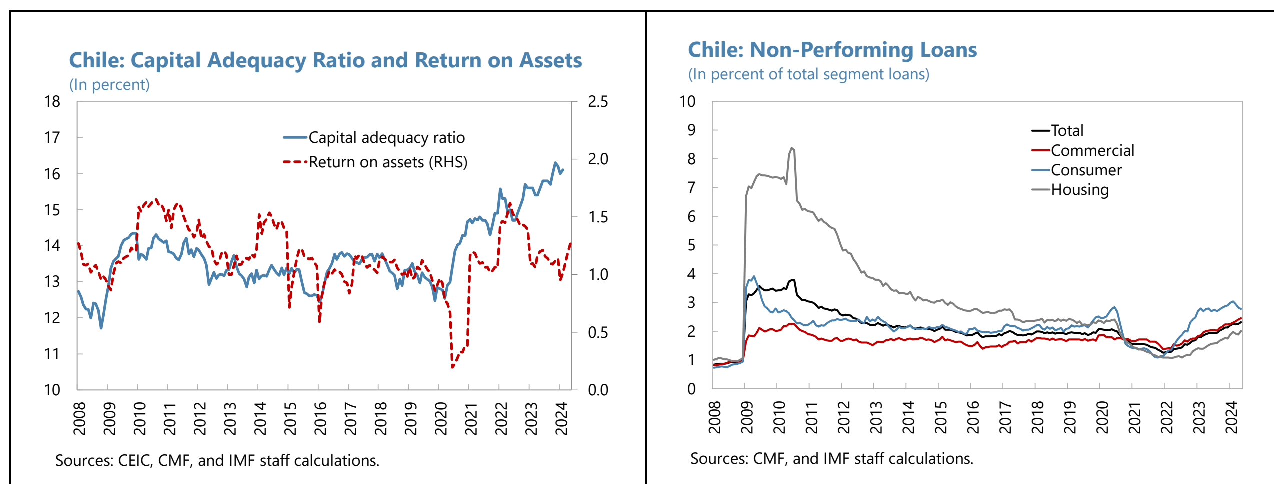
7. The exchange rate has gained ground following a prolonged period of depreciation. The CLP depreciated by over 20 percent against the U.S. dollar between June 2023 and March 2024, reflecting the narrowing interest differential with the United States, the global strength of the U.S. dollar, and subdued copper prices (text chart and Figure 6). The CLP also underperformed vis-à-vis regional peers.[1] Between April and end-May, the CLP gained 7 percent against the U.S. dollar along with stronger copper prices (which increased from US$3.9 per pound in March 2024 to US$4.6 per

[1] The exchange rates in regional peer countries (Brazil, Colombia, Mexico, and Peru) appreciated by about 1 percent against the U.S. dollar, on average, over the same period. Except for Peru, regional peers had higher interest rate differentials to the U.S. than Chile.

pound at end-May 2024), despite expectations that the interest rate remains higher for longer in the United States.



8. The financial sector remains resilient. Banks' capital adequacy and liquidity ratios stand comfortably above regulatory requirements and banks' profitability (return on assets) is at around pre-pandemic levels (text chart and Figure 5). The unwinding of the extraordinary liquidity measures (FCIC), deployed by the BCCh during the pandemic, was completed smoothly in recent months. The financial health of households and corporates is also overall sound, but vulnerabilities persist in the construction and real estate sectors, smaller firms with government-guaranteed loans, and low-income indebted households. Non-performing loan (NPL) ratios have trended up and were at 2.3 percent in May 2024 for total loans, slightly above the pre-pandemic level but are adequately covered by provisions.[2] Nominal growth in commercial loans saw a modest rebound, whereas the growth of housing loans continued to fall amidst persistent high long-term interest rates (Figure 6).



[2] The total provision-to-NPLs ratio remains at pre-pandemic levels due to the pickup in non-specific provisions.

OUTLOOK

9. The outlook for the near term has improved relative to the 2023 Article IV consultation. Real GDP growth is projected to accelerate to 2.6 percent in 2024 and 2.4 percent in 2025. The main drivers are (i) the pickup in mining export growth as production capacity constraints are being resolved, (ii) buoyancy of the higher copper prices that start spilling over into mining and non-mining investment, and (iii) the recovery of domestic demand supported by the improved labor market and lower monetary policy rates. These positive factors could more than offset the drag on consumption and growth from the electricity price hikes. Inflation is projected to temporarily pick up to 4 percent (yoy) by end-2024 due to the electricity tariff adjustment but stay around 3 percent within the 2-year inflation target horizon. The fiscal deficit is expected to narrow marginally to 2.2 percent of GDP in 2024 and 1.3 percent in 2025, in line with the authorities' medium-term commitment of achieving a broadly balanced fiscal position by 2026. The current account deficit is projected to reach 2.4 percent of GDP in 2024 driven by higher copper exports before increasing in 2025/26 amid a pickup in investment. Over the medium term, the current account deficit is set to converge to 3 percent of GDP, supported by the ongoing structural fiscal consolidation and the flexible exchange rate.

10. External uncertainty and risks continue to be high. The external economic stress index (ESI) points to lingering downside risks (Box 2). A key external risk is the uncertainty around the potentially higher-for-longer interest rate environment in the U.S., which could raise Chile's borrowing costs, affect capital flows, and increase financial and exchange rate volatility. The decline in capital market depth following the pension funds withdrawals may excacerbate financial market and exchange rate volatility amid external shocks. Other external risks include a slowdown in China and other key trading partners and an intensification of regional conflicts in the world, both of which could lead to lower commodity export (such as copper and lithium) prices and/or higher oil prices. On the upside, as the world transitions to greener technologies, the expected increase in the global demand for copper, lithium, and renewable energy represents new economic opportunities, given Chile's rich endowment in these resources. In particular, the recent rise in copper prices, if it persists, could further lift growth via higher investment and consumption demand beyond the already stronger baseline.

11. Domestic risks are more contained. The closure of the constitutional reform process has allowed medium-term uncertainty to come down, and a new bill has lowered the uncertainty related to the solvency of private health insurance companies. However, concerns over the security situation and inequality remain prevalent. Moreover, political polarization and fragmentation could lead to continued reform gridlock. In addition, extreme climate events, such as excessive rainfalls and wildfires, could cause loss of human lives, infrastructure, and supply disruptions.

POLICIES

12. Chile's policy responses delivered macroeconomic rebalancing amidst a series of shocks in recent years. Fiscal and monetary policy responded in a decisive manner to the pandemic and the imbalances that followed, which has allowed the economy to return to a sustainable growth path, inflation to decelerate, and the current account deficit to narrow substantially. Financial supervision and regulation have been effective at monitoring and limiting risks while also smoothly unwinding temporary liquidity support.

13. With inflation close to the target, monetary policy should continue to be data-dependent. In the context of declining inflation in 2023, the BCCh lowered its policy rate from 11.25 percent in July 2023 to 5.75 percent in June 2024. Although there is still room to reduce the policy rate, which remains above its estimated neutral level (0.5-1.5 percent in real terms), the pace of further easing will have to consider the impact on the inflation outlook over the target horizon from the exchange rate passthrough, the uncertainty around the estimate of the neutral rate, and sizable electricity tariff adjustments. The BCCh is committed to adjusting the monetary policy rate based on the evolution of the macroeconomic scenario and the implications for the inflation trajectory.

14. Reaching the fiscal target for 2024 will require additional efforts, while more fiscal space could emerge from 2025. The government is committed to meeting its fiscal target of 1.9 percent of GDP in 2024, with measures of about 0.3 percent of GDP needed.[3] Higher copper revenues are expected to increase mining taxes. Yet, total revenues are lower than budgeted given shortfalls in non-mining tax and lithium revenues. The government has a track record of curtailing spending to reach its deficit target, but it will be challenging as spending pressures persist particularly in health, security, and education, and the government is committed to reverse the notable under execution of public investment observed since the pandemic. From 2025, there would be more space to adhere to the medium-term fiscal path if the independent copper price commission were to raise its long-term price projections in next year's budget as expected. Debt is forecast to stabilize below the authorities' prudent debt ceiling of 45 percent of GDP.

15. The government is pragmatically advancing its reform agenda for "economic growth, social progress and fiscal responsibility" ("Fiscal Pact").[4] Work is underway to reach congressional approval on tax compliance measures—expected to provide the bulk of financing under the fiscal pact (1.5 percent of GDP).[5] On the spending side, the government submitted bills to

[3] The authorities seek to close the gap with three initiatives. First, they introduced a new Substitutive Tax for Final Taxes ("ISFUT"), which provides an optional temporary window for firms to pay a lower tax rate on their accumulated retained dividends prior to 2017 and is estimated to generate 0.1 percent of GDP (included in staff's baseline). Second, they identified potential expenditure savings of about 0.2 percent of GDP. And third, they aim for a swift implementation of the tax compliance bill in Congress, with potential yield of 0.2 percent in 2024.

[4] See IMF Country Report No. 24/41 for more details, in particular Box 1.

[5] Caution is warranted against relying too heavily on the expected yields from tax evasion measures until there is strong evidence that they can materialize.

strengthen security and the national system of care, as well as to provide universal childcare. Any new structural spending should continue to be conditioned on new structural revenue, in particular by proceeding gradually as expected yields materialize. While there is still a lack of broad political support for the pension and tax reforms in their current form, the government is actively seeking tenable options which are critical to ensure adequate self-financed pensions, the sustainability of the pension system, and funding for spending priority needs.

16. Important efforts are under way for a more dynamic and greener economy. Key initiatives to boost investment and enhance growth include streamlining the permit process and modernizing the environmental evaluation system. The ongoing implementation of the National Lithium Strategy should lead to a significant increase in lithium production (estimated by the authorities up to about three-quarters through end-2030), the broadening of Chile's participation in the value chain of lithium production, and the adoption of more advanced extraction technology over the next 10 years. Chile's goal is to achieve carbon neutrality by 2050. With the fast increase in installed capacity of renewable power generation and the planned additions to the electricity transmission network and storage capacity, Chile could meet its commitment to decommission coal-fired power plants ahead of the 2040 schedule. More can also be done to lift labor productivity by expanding access to high-quality education and workforce training while also addressing labor market informality.

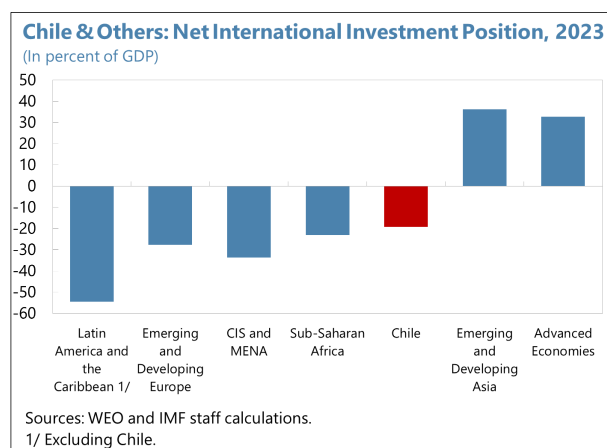
17. The authorities are proactively updating the strong financial sector regulatory framework, supervisory efforts, and macroprudential policies. The smooth implementation of Basel III requirements has improved the resilience of the financial sector by enhancing banks' solvency and liquidity. In May 2024, the counter-cyclical buffer (CCyB) of 0.5 percent of risk-weighted assets was enforced. This year, the BCCh plans to define the neutral level. The BCCh's latest stress tests indicate that the banking sector can withstand a range of shocks. The Financial Market Resilience Law, approved in October 2023, is set to facilitate the development of the interbank repo market, enhance the BCCh's ability to respond to financial distress situations, and strengthen the mutual fund liquidity management framework. The Fintech Law, currently in the implementation process, places fintech activities within the regulatory perimeter. Moreover, the planned introduction of an industry-funded deposit insurance and bank resolution framework, and the strengthening of consolidated supervision of financial conglomerates would further improve financial sector resilience. In parallel, the authorities are enhancing the implementation of anti-money laundering /combatting the financing of the terrorism (AML/CFT) preventive measures.

QUALIFICATION

18. In staff's assessment, Chile continues to meet the qualification criteria for an arrangement under the FCL. As described in the 2023 Article IV consultation staff report and endorsed by the Executive Board, Chile's policies continue to be very strong, based on robust fundamentals and institutional policy frameworks, along with a sustained track record of implementing strong policies. The external position is sustainable, the sovereign has access to international capital markets at favorable rates, and official reserves are adequate due to several

mitigating factors. Public debt is sustainable and supported by a strong fiscal framework. The BCCh demonstrated its credibility during the inflationary shock over the past years as inflation expectations remained well-anchored. The financial sector is sound and effectively supervised. Moreover, the authorities remain committed to maintaining Chile's track record of very strong policies going forward. Staff assesses that Chile meets all the FCL qualification criteria (Text Table 1) and does not see substantive changes in qualification since the mid-year review in August 2023, nor since the approval of the 2022 FCL arrangement.

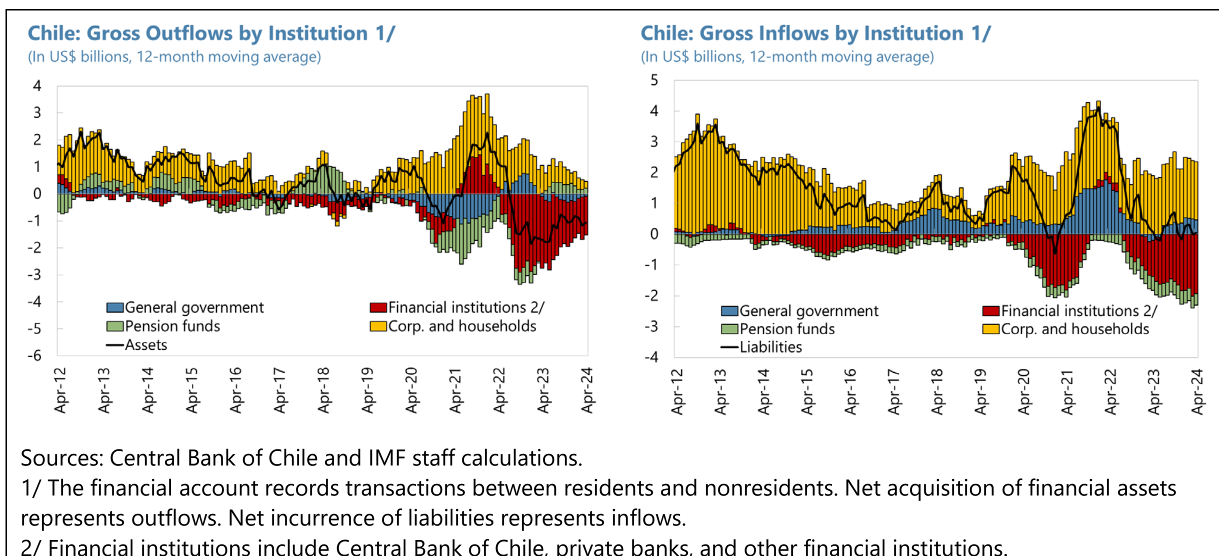
19. Sustainable external position. The 2023 Article IV consultation assessed the external position in 2023 as moderately weaker than implied by medium-term fundamentals and desirable policies. Staff continues to assess the external position as resilient and sustainable. The current account deficit narrowed swiftly in 2023 to 3.5 percent of GDP (from 8.7 percent of GDP in 2022) amid a broad-based decline in imports supported by strong policies. The current account deficit is projected to narrow further to 2.4 percent of GDP in 2024 amid the surge in copper prices and to converge to around 3 percent of GDP in the medium term, alongside continued very strong macroeconomic policies, exchange rate flexibility, and ongoing fiscal consolidation. The real effective exchange rate began to depreciate in 2023Q3, along with the weakening of the CLP, but has started to reverse in 2024Q2. As of May 2024, it was about 5 percent more depreciated than its long-run (2014-23) average. Moreover, at -19 percent of GDP at end-2023, Chile's net international investment position compares favorably to most emerging markets. External debt declined to 71.1 percent of GDP in 2023 and is robust to standard shocks (Annex I).



Sources: WEO and IMF staff calculations.
1/ Excluding Chile.

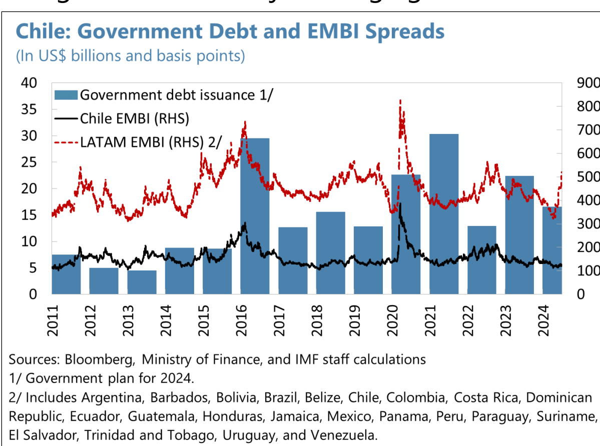
20. Capital account dominated by private flows. Over 2021-23, private flows accounted for 72.1 percent of total (foreign direct investment, portfolio, and other) asset flows and 81.3 percent of total liability flows.[6] In 2023, private flows accounted for over 90 percent of total liability flows. Chile's international investment position (IIP) liabilities are dominated by FDI and averaged 156 percent of GDP over 2021-23. Over the same period, the private sector accounted, on average, for about 86 percent of total IIP assets and about 90 percent of total IIP liabilities. About 93 percent of Chile's external debt is owed to private creditors.

[6] The 2018 FCL Operational Guidance Note states that public flows should account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years. In addition to the composition of recent capital flows, an assessment of the international investment position is also relevant.



Sources: Central Bank of Chile and IMF staff calculations.
1/ The financial account records transactions between residents and nonresidents. Net acquisition of financial assets represents outflows. Net incurrence of liabilities represents inflows.
2/ Financial institutions include Central Bank of Chile, private banks, and other financial institutions.

21. Long track record of steady sovereign access to international capital markets at favorable terms. Chile has enjoyed uninterrupted access to international capital markets for several decades. It maintains investment grade status according to the three major rating agencies and is consistently among the highest-rated emerging markets. Sovereign bond spreads are consistently below those from other emerging markets (EMBIG and 5-year CDS spreads averaged about 128 and 59 basis points in January-June 2024, respectively). The central government issued external debt in each of the past five years, with a cumulative amount equivalent to about 1,500 percent of Chile's quota in the IMF (well above the 50 percent of quota requirement).



Sources: Bloomberg, Ministry of Finance, and IMF staff calculations
1/ Government plan for 2024.
2/ Includes Argentina, Barbados, Bolivia, Brazil, Belize, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Panama, Peru, Paraguay, Suriname, El Salvador, Trinidad and Tobago, Uruguay, and Venezuela.

22. Relatively comfortable international reserve position. Gross international reserves stood at 82.6 percent of the Fund's reserve adequacy metric (ARA) on average over 2021-23 and 81.9 percent in May 2024, below recommended thresholds. The drop since end-2021 primarily reflects US$6.2 billion foreign reserve sales during disorderly market conditions in the summer of 2022 (numerator effect) and the continuous expansion of external liabilities given Chile's open and integrated financial accounts (denominator effect). In April 2023, the BCCh began to gradually unwind the FX forward operations from the 2022 intervention program and in June 2023, to rebuild buffers through a reserve accumulation program which involved the purchase of US$3.7 billion in reserve assets over June-October 2023. Both programs were suspended in October 2023 amid heightened CLP volatility and sensitivity to global financial markets. Staff assesses reserves to be adequate due to several mitigating factors:

- The government has usable liquid FX assets (US$5.5 billion as of April), including US$5.1 billion in the economic and social stabilization fund (FEES) and US$0.4 billion cash (equivalent to an

improvement in reserve coverage of up to 9.8 percentage points). Buffers remain sizeable despite the decline in usable liquid FX assets relative to 2019 primarily reflecting withdrawals from the FEES over 2020-21 to help finance pandemic-related spending.[7]

- Around one quarter of short-term external debt represents intercompany loans from foreign direct investors to local firms (US$13.7 billion as of 2024Q1).[8] These loans are a very stable source of funding with a low probability to result in FX funding needs.

- More than 70 percent of banks' short-term external debt (US$17.3 billion as of 2024Q1)[9] is covered by banks' liquid foreign assets (US$13 billion as of 2024Q41)[10] which significantly reduces banks' potential short-term FX funding needs.

- Reserves are complemented with two FX liquidity lines totaling US$8.5 billion: a credit line with FLAR (US$1.3 billion) and a bilateral swap facility with the PBOC (US$7.2 billion). The BCCh is also a subscriber of the Fed's FIMA repo facility, which allows for the temporary exchange of U.S. Treasury securities held with the Fed for U.S. dollars (US$26 billion).

- The authorities remain strongly committed to a flexible exchange rate.

23. Sustainable public debt position and sound public finances. The authorities remain firmly committed to debt sustainability and fiscal responsibility. Gradual fiscal consolidation, guided by the fiscal rule, is expected to stabilize gross public debt below the authorities' prudent debt ceiling of 45 percent of GDP. Public debt is mostly denominated in domestic currency, with average external debt maturity above ten years. Liquidity risks are mitigated by assets in the sovereign wealth and pension reserve funds, and large domestic banking and pension fund sectors, with abundant room to absorb sovereign issuances in case of an abrupt tightening of global financial conditions. Staff assesses Chile's public debt to be sustainable with high probability, and a public debt sustainability analysis shows the debt trajectory is robust to standard shocks (Annex II). The 2021 Fiscal Transparency Evaluation concluded that Chile has strong fiscal institutions and sound fiscal transparency practices.[11] Moreover, the authorities have continuously strengthened the already strong fiscal framework in recent years, including through the introduction of a debt anchor and

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[7] The FEES was established in 2006 to finance eventual fiscal deficits and public debt amortization in the event of adverse economic cycles. In this context, the authorities have heavily drawn on these funds to support the economy during severe crises, such as the global financial crisis and COVID-19 pandemic, and partially replenished them afterwards. Chile also has a pension reserve fund which is not counted towards the government's usable liquid FX assets. As of April 2024, the balance of the pension reserve fund stood at US$8.5 billion.

[8] Includes foreign direct investors' short-term external debt stock of US$4.5 billion as of 2024Q1 and US$9.2 billion of foreign direct investors' long-term debt due in the next twelve months.

[9] Includes banks' short-term external debt stock of US$8.6 billion as of 2024Q1 and US$8.7 billion of banks' long-term debt due in the next twelve months.

[10] By regulation, banks' short FX positions due in thirty days cannot exceed long positions by more than banks' capital. In the non-bank part of the financial system, institutional investors (i.e., pensions funds) have a positive net foreign asset position.

[11] See IMF Country Report No. 21/241 for further details.

binding annual fiscal targets, as well as the increase in the resources of the Autonomous Fiscal Council.

Text Table 1. Chile: Summary of Qualification Assessments

	2024 FCL Request	2023 Mid-Year Review[1/]	2022 FCL Request[1/]
1. A sustainable external position (EBA assessment at least "moderately weaker").	Moderately weaker.	Moderately weaker.	Moderately stronger.
2. A capital account dominated by private flows (share of private flows in total capital flows>50 percent, on average over the last three years).	72 percent of asset flows and 81 percent of liability flows.	72 percent of asset flows and 82 percent of liability flows.	75 percent of asset flows and 81 percent of liability flows.
3. A track record of steady sovereign access to sovereign markets at favorable terms (public sector bonds issued or loans disbursed in international markets in at least 3 of the last 5 years; cumulative amount during the last 5 years>50 percent of the country's quota at the Fund).	1,500 percent of quota.	1,400 percent of quota.	1,500 percent of quota.
4. A comfortable reserve position (reserves>100 percent of ARA metric, on average over three (the current and the two previous years).[2/]	83 percent.	82 percent.	83 percent.
5. Sound public finances (debt sustainable with high probability).	Debt is sustainable with high probability.	Debt is sustainable with high probability.	Debt is sustainable with high probability.
6. Low and stable inflation (inflation in single digits in the last 5 years preceding qualification).	5.8 percent.	5.4 percent.	3.8 percent.
7. Sound financial system (the average capital adequacy ratio for the banking sector regulatory thresholds; no significant solvency risks or recapitalization needs).	Banks' capital adequacy ratio stood at 16.1 percent in Feb. 2024, comfortably above the regulatory minimum. No significant solvency risks or recapitalization needs.	Banks' capital adequacy ratio stood at 15.4 percent in April. 2023, comfortably above the regulatory minimum. No significant solvency risks or recapitalization needs.	Banks' capital adequacy ratio stood at 15.3 percent in Feb. 2022, comfortably above the regulatory minimum. No significant solvency risks or recapitalization needs.
8. Effective financial sector supervision (no substantial concerns regarding the supervisory framework.).	No substantial concern in supervisory framework.	No substantial concern in supervisory framework.	No substantial concern in supervisory framework.
9. Data transparency and integrity (an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements).	SDDS Plus subscriber.	SDDS Plus subscriber.	SDDS Plus subscriber.

1/ Reported indicators are those available at the time of the request and review, respectively.
2/ Staff assesses reserves to be adequate due to several mitigating factors: (i) sizable usable FX assets (US$5.5 billion as of April), (ii) around one quarter of short-term debt is in the form of intercompany loans which are a stable source of funding, (iii) more than 70 percent of bank's short-term external debt is covered by bank's liquid FX assets, (iv) Chile has access to FX liquidity lines totaling US$8.5 billion, (v) the authorities remain strongly committed to a flexible exchange rate.

24. Low and stable inflation in the context of a sound monetary and exchange rate policy framework. Chile maintains a credible inflation-targeting regime with flexible exchange rates. During 2019-2023, inflation (yoy) averaged 5.8 percent. The inflation spike into double digits (from April 2022 to March 2023) was temporary and partially driven by higher global inflation and peso depreciation, compounded by a very strong cyclical position. The BCCh decisively raised monetary policy rates by 1,075 basis points between July 2021 and October 2022 (Figure 3), and the longer-term inflation expectations remained firmly anchored through that period. The episode reflects a well-functioning framework with clear policy guidance. The BCCh maintains a small negative equity, which does not compromise policy solvency nor requires immediate recapitalization. The 2021 Transparency Review underscored BCCh's high standards of policy analysis, conduct, and independence.

25. Sound financial system and the absence of solvency problems that may threaten systemic stability. The financial sector appears to be sound overall while the vulnerabilities in some sectors warrant attention. Banks' capital adequacy and liquidity ratios stand comfortably above regulatory requirements. The 2021 FSAP and 2023 Article IV consultation concluded that the banking sector is sufficiently capitalized, and solvency risks are low. More recent stress tests performed by the authorities also indicate that financial stability appears well guarded. The smooth progress in the implementation of Basel III requirements have strengthened buffers in the banking sector.

26. Effective financial sector supervision. The 2021 FSAP assessed the banking supervisory framework as robust and the CMF to be capably staffed with expertise in monitoring individual risks. The 2023 Article IV staff report did not find substantial concerns regarding the supervisory framework but stressed the importance of keeping pace with digitalization of the financial sector, for example prioritizing recruitment of cybersecurity experts and adopting new supervisory exercises. The authorities are intensively working on implementing the recommendations from the 2021 FSAP with significant progress achieved. The 2023 Article IV consultation did not raise concerns regarding the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) supervisory framework of the financial sector. Nevertheless, it highlighted that the implementation of the updated AML/CFT regulations for banks, cooperatives, and payment card issuers[12] as well as new AML/CFT regulation for insurers will enhance the identification of ultimate beneficiaries and customer due diligence as well as strengthen measures for preventing and detecting terrorist financing. Moreover, the implementation of the new Fintech Law will further enhance financial integrity.

27. The quality of Chile's institutions relevant to FCL qualification is very strong. Chile scores well in the control of corruption, rule of law, and regulatory framework. Moreover, the 2021 Fiscal Transparency Evaluation assessed positively its fiscal forecasting, budgeting and reporting practices. Notwithstanding the assessment that Chile's supervisory framework is robust, the 2021

[12] These regulations intend to strengthen the standards related to the 40 FATF recommendations and addresses the recommendations from the 2021 AML/CFT Mutual Evaluation Report (MER) recommendations.

FSAP suggests that securing a more independent budget for the financial supervisor CMF would ensure that it continues to be well resourced in the future. Also, continuous efforts will contribute to managing AML/CFT risks. These areas for improvement, however, do not hamper Chile's ability to respond to shocks.

28. Data transparency and integrity. Since March 2020, Chile is an adherent to the Fund's Special Data Dissemination Standard (SDDS) Plus—the highest tier of the IMF's Data Standards Initiatives. Data provision is adequate for surveillance.

29. Track record and institutional strength. Chile has a sustained track record of implementing very strong policies, very strong institutional frameworks and scores well in terms of corruption vulnerabilities and in governance strength. Staff assesses that all qualification criteria have been met since the first FCL request in 2020. In response to the 2019 social unrest and the pandemic, the authorities acted swiftly to address these shocks. Since then, inflation has come down, the fiscal deficit has been reduced and the current account deficit has narrowed. Going forward, the government is committed to maintaining very strong macroeconomic policies and institutional frameworks.

ACCESS CONSIDERATIONS

30. The authorities have requested an FCL arrangement in the amount of 600 percent of quota (SDR10.4658 billion). The Central Bank of Chile reiterated that the FCL has provided a strong and valuable signal to markets about the strength of their policy frameworks. As such, they would like to maintain the FCL as part of their buffers against tail risks while they continue to rebuild their own policy buffers in an environment of still elevated external risks.

31. Staff considers that the proposed FCL access level of 600 percent of quota would be appropriate to provide sufficient insurance under a plausible tail risk scenario (Box 1). The scenario assumes the materialization of external risks that would tighten financial conditions and depress global growth and commodity prices, leading to capital outflows from emerging markets. These risks could arise due to a combination of shocks stemming, for example, from higher-for-longer interest rates in the United States, an escalation of geopolitical tensions, and larger-than-expected economy-wide slack in China. The net effect on the current account would likely be moderate (around US$2¼-2½ billion), as the effect of weaker exports, including copper, would be partly offset by a reduction in imports driven by exchange rate depreciation and lower domestic demand, as well as lower repatriation of copper profits. The reduction in capital inflows, in particular financing through bonds and loans, would contribute to the bulk of the additional financing needs under the adverse scenario (around US$17-18 billion). Chile is assumed to contribute to the financing by drawing on reserves and the sovereign wealth fund (around US$5½-6½ billion). The residual financing gap would be adequately covered by the proposed FCL. In a disbursing scenario, the FCL resources would not be used for budget financing, in line with Chile's institutional framework.

Box 1. Chile: Illustrative Adverse Scenario

A new FCL with access of 600 percent of quota (about US$13.8 billion) would provide sufficient insurance against a broad range of risks in an adverse scenario. The scenario assumes the materialization of external risks that would tighten financial conditions and depress global growth and commodity prices, leading to capital outflows from emerging markets. The calibration of shocks is comparable to Chile's 2022 FCL request and other FCL arrangements.

Current account. Mining exports are assumed to fall by 15 percent due to weaker global demand. This is comparable to shocks applied to key export prices in other FCL arrangements, including Chile's 2022 FCL request, and within the 25th percentile of past emerging market crisis episodes. On the back of weaker global prospects, Chile's non-mining exports would also fall by 10 percent. The impact of weaker exports on the current account is largely offset by (i) a decline of 15 percent in oil imports (similar to the copper price decline) and a 10 percent fall in non-oil imports driven by exchange rate depreciation and weaker domestic demand; and (ii) an improvement in net income, driven by a 15 percent drop in FDI-related income outflows (proportional to the copper exports decline), which more than offsets the 10 percent drop in FDI-related income inflows (from Chilean companies abroad).

Assumptions Underlying the Illustrative Adverse Scenario
(in percent change vis-à-vis the baseline, unless otherwise indicated)

	2024 FCL	2022 FCL	2020 FCL
Current account			
Exports			
Copper price decline	15	15	27
Decline in non-mining exports	10	10	10
Imports			
Oil price decline	15	15	27
Decline in non-oil imports	10	10	10
Net income			
Decline in FDI income inflows	10	10	10
Decline in FDI income outflows	15	15	15
Financial account			
FDI			
Decline in FDI inflows	15	15	27
Decline in FDI outflows	10	10	10
MLT private sector rollover	80	80	80
ST private sector rollover	80	80	80
Portolio flows decline	0.5 std	1 std	1 std
Other investment flows decline	0.5 std	1 std	1 std

Foreign direct investment. FDI inflows decline by 15 percent relative to the baseline, reaching a level of 85 percent of the average of the past three years, in line with assumptions in other FCL arrangements. The reduction in FDI inflows is partly offset by a 10 percent decline in outward FDI by Chileans.

Portfolio and other investment flows. Portfolio flows worsen by 0.5 standard deviations, reaching a level of around 25 percent of the average of the past three years. Likewise, other investment flows deteriorate by 0.5 standard deviations. Given the importance of capital flows to Chile, this shock adds more than US$5 billion to external financing needs per year.

External debt. The adverse scenario assumes rollover rates of 80 percent for amortization of short-term and long-term private sector external debt. This is near the 25th percentile of past crisis episodes for long-term private sector external debt and within the 25th percentile of past emerging market crisis episodes for short-term private sector external debt, and in line with other FCL arrangements. The scenario assumes full rollover of public sector external debt, given relatively low public external short-term financing needs compared with public liquid assets.

Use of reserves and the sovereign wealth fund. Additional external financing needs under the adverse scenario would be partly financed by (i) reserves above 80 percent of the ARA metric in 2024 and somewhat below in 2025 and (ii) the sovereign wealth fund. The drawdown of reserves would be smaller than assumed in Chile's 2022 FCL request. The remaining financing gap of around US$13.8 billion would be covered by the FCL.

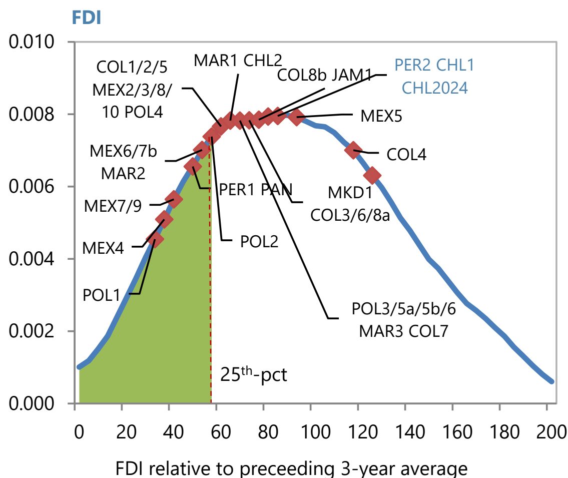
Box 1. Chile: Illustrative Adverse Scenario (continued)

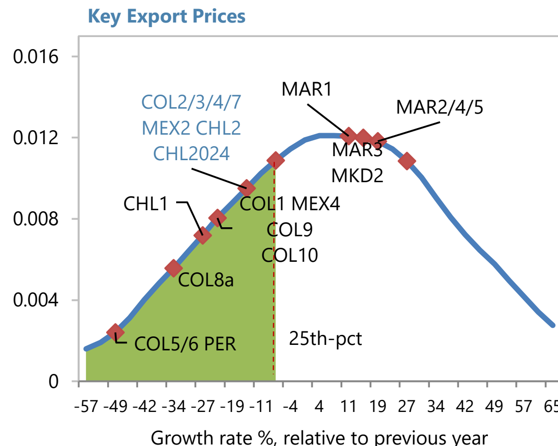
	2023	2024 proj.	2025 proj.	Adverse 2024	**Contribution to Gap**	Adverse 2025	**Contribution to Gap**
Gross External Financing Requirements	**71.2**	**59.9**	**68.5**	**62.2**	**2.2**	**71.0**	**2.5**
Current Account Deficit	-11.9	-8.1	-10.5	-10.3	2.2	-12.9	2.5
Amortization of Bonds and Loans	59.3	51.8	58.1	51.8		58.1	
Public sector MLT amortization	4.7	0.3	2.8	0.3		2.8	
Private sector MLT amortization	27.3	27.1	28.9	27.1		28.9	
Short term debt amortization	27.3	24.5	26.4	24.5		26.4	
Public sector	0.6	0.2	0.2	0.2		0.2	
Private sector	26.7	24.2	26.1	24.2		26.1	
Available External Financing	**71.2**	**59.9**	**68.5**	**48.4**	**11.5**	**57.2**	**11.3**
Net FDI Inflows	15.5	7.3	8.9	5.7	1.6	7.0	1.9
Net Portfolio Inflows	-1.8	5.8	6.9	2.9	2.9	4.0	2.9
Financing through Bonds and Loans	59.3	51.8	58.1	41.6		47.1	
Public sector MLT financing	4.7	0.3	2.8	0.3		2.8	
Private sector MLT financing	27.3	27.1	28.9	21.7	5.4	23.1	5.8
Short-term financing	27.3	24.5	26.4	19.6		21.1	
Public sector	0.6	0.2	0.2	0.2		0.2	
Private sector	26.7	24.2	26.1	19.4	4.8	20.9	5.2
Net Other Flows	5.0	-5.0	-5.3	-7.3		-7.5	
Other investment	1.5	-4.5	-4.8	-6.8	2.2	-7.0	2.2
Derivatives	2.0	-0.5	-0.5	-0.5		-0.5	
Other	1.6	0.0	0.0	0.0		0.0	
Change in International Reserves	6.8	0.0	0.0	-1.1	-1.1	-1.1	-1.1
Additional Change in SWF Assets	0.0	0.0	0.0	-4.4	-4.4	-5.5	-5.5
Financing Gap (USD billions)					**13.8**		**13.8**
SDR (1.31501 USD/SDR, June 27, 2024)					10.5		10.5
Percent of quota					600.0		600.0
Memorandum items							
Reserves (in billions of U.S. dollars)	46.4	46.4	46.4				

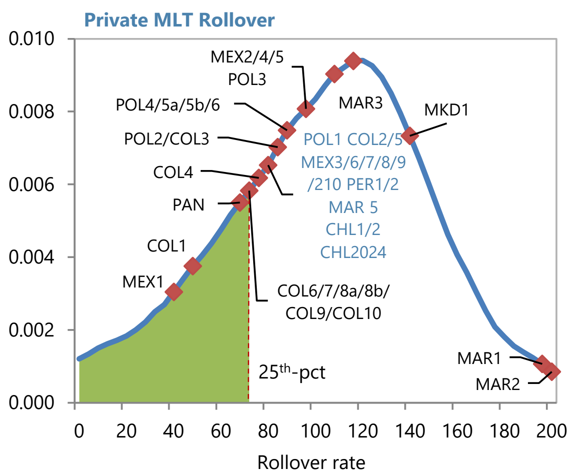
Sources: Chilean authorities and IMF staff estimates.

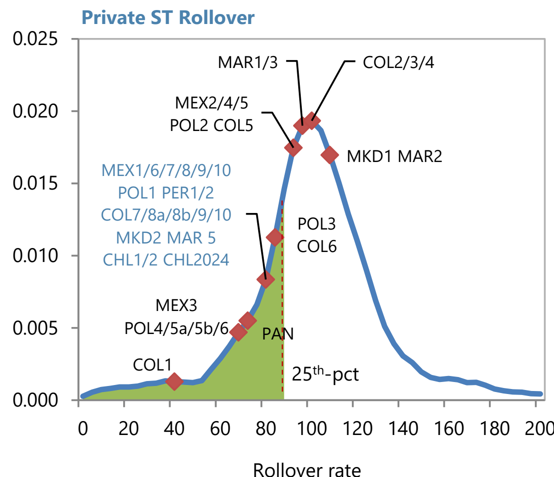
Box 1. Chile: Illustrative Adverse Scenario 1/ (concluded)

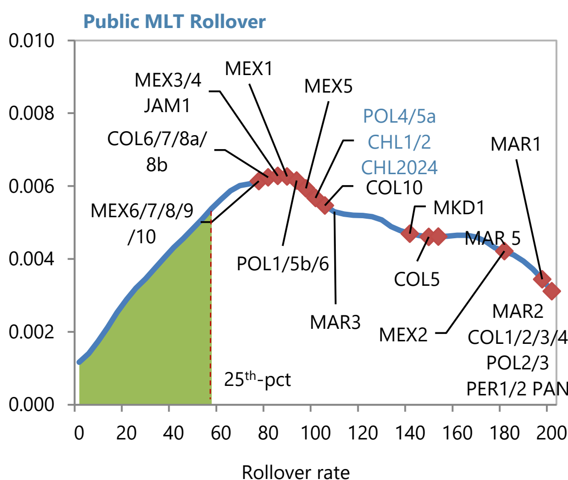
(Probability Density)

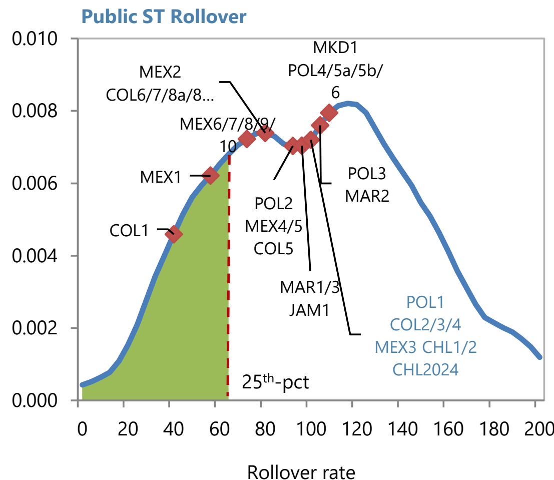












Source: IMF staff calculations.
1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. CHL2024 is the proposed arrangement for Chile.

32. The authorities remain committed to treat the FCL arrangement as precautionary and to gradually lower access conditional on external risk developments. While medium-term resilience will continue to be anchored in very strong policies, the authorities intend to strengthen their own external buffers as an additional step of their exit strategy. In particular, the authorities plan to resume their reserve accumulation when market conditions are conducive, considering the dynamics associated with monetary policy in Chile and abroad, and CLP volatility. In line with previous reserve accumulation programs, any new program will follow high transparency standards, be robust to changes in external risks, and avoid significant distortions in the FX market. Moreover, the authorities are implementing the Financial Market Resilience Law, which will, among other measures, allow for central bank liquidity provision to non-bank financial institutions and facilitate the development of repo markets, which should reduce systemic risks and enhance policy responses in scenarios of financial distress.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

33. The lower access level of the proposed successor FCL arrangement compared to the current one would have a net positive impact on Fund liquidity. The approval of the proposed arrangement of 600 percent of quota (SDR10.4658 billion) and cancellation of the current one (SDR13.95 billion; 800 percent of quota) would increase the Fund's liquidity as measured by the Forward Commitment Capacity (FCC) by SDR3.49 billion. If Chile were to draw the full amount as a single drawing, its impact on the Fund's finances would be significant but manageable: it would represent the second largest Fund GRA credit exposure after Argentina (SDR31.59 billion). Fund credit to Chile would represent 10.4 percent of total GRA credit outstanding as of June 27, 2024.[13]

34. Chile's capacity to repay the Fund remains adequate. The authorities have indicated their intention to treat the proposed arrangement—like all its predecessors—as precautionary. If a full drawing under the arrangement were to be made in 2024, as described in Box 1 under the illustrative adverse scenario, total external debt would temporarily climb to a peak of 79.7 percent of GDP in 2024 before declining over the medium term to 67.1 percent of GDP in 2029 (Table 8). In this context, risk mitigating factors are that most of Chile's external debt is private, while public external debt and Fund credit are expected to remain low, peaking at 20.3 and 4.4 percent of GDP, respectively. Debt service to the Fund would peak at about SDR5.7 billion (about 1.8 percent of GDP) in 2028. Given the lower proposed access level under the new FCL, these peak values are smaller than projected at the time of the approval of Chile's 2020 and 2022 FCL arrangements.[14] In addition, several factors would mitigate risks to the

[13] If Chile were to draw under the FCL, it would automatically be excluded from the list of members in the Financial Transactions Plan (FTP), the Fund's financing mechanism, which would then reduce the liquidity as measured by the FCC. For further details, see *Chile: Assessment of the Impact of the Proposed Arrangement under the Flexible Credit Line on the Fund's Finances and Liquidity Position*.

[14] Total Fund credit and debt service to the Fund were projected to peak under the drawing scenario, respectively, at 6.3 and 2.6 percent of GDP at the approval of the 2022 FCL (800 percent of quota), and at 11.4 and 3.8 percent of GDP at the approval of the 2020 FCL (1,000 percent of quota).

capacity to repay, including Chile's adequate buffers (¶22) as well as very strong macroeconomic policies and institutional policy frameworks.

35. FCL safeguards procedures are underway. In preparation for the requested FCL arrangement, the BCCh has provided the required authorization for an update of the safeguards procedures to be conducted by Fund staff in relation to the requested arrangement. These procedures are being conducted based on a review of the BCCh's FY2023 audited annual financial statements. As part of the mid-term review of the 2022 FCL arrangement, staff reviewed the 2022 audit results and did not identify any significant issues from the conduct of the safeguards procedures.

36. Enterprise risks are mitigated by Chile's strong macroeconomic policies and institutional policy frameworks, and commitment to treating the arrangement as precautionary. The main financial risks to the Fund would be the adequacy of liquidity resources and credit risk. Under the proposed arrangement, liquidity risks to the Fund would decline with its approval, since requested access is lower than that of the current arrangement and would therefore improve the Fund's Forward Commitment Capacity (FCC). Credit risks to the Fund would also decline with the approval of the current arrangement owing to reduced exposure. At the same time, credit risk is mitigated by (i) the fact that the authorities intend to treat the arrangement as precautionary; (ii) the strength of the Chilean economy and plans to further strengthen its adequate buffers within a reserve purchase strategy (¶32); and (iii) Chile's very strong policies and the authorities' commitments to maintaining policies as such (¶18). Going forward, both financial risks are expected to decline as the authorities intend to gradually reduce access conditional on external risks. A counterbalance to the identified financial risks would be the reputational risk to the Fund if it did not provide sufficient support to a qualifying member facing significant and persistent external shocks with potential economic and financial stability implications.

STAFF APPRAISAL

37. Chile's FCL arrangement has supported the authorities' policy efforts amid an uncertain external environment. The FCL has provided a valuable signal about the strength of Chile's policy and institutional frameworks as well as their commitment to maintaining these in the future. The requested lower access level is consistent with a stronger baseline outlook but still elevated external risks and with the authorities' gradual exit strategy conditional on external developments. In this context, it will be important for the BCCh to resume the accumulation of international reserves, when market conditions are conducive, to strengthen external buffers.

38. Chile continues to meet all the qualification criteria for an FCL arrangement. Chile has very strong fundamentals and policy frameworks, and a sustained track record of implementing very strong policies that have supported the country's resilience in the face of large shocks. This assessment was shared by the Executive Board in February 2024 in the context of the 2023 Article IV consultation with Chile.

39. Staff recommends approval of the authorities' request for an FCL arrangement and considers that the proposed access of SDR 10.4658 billion (600 percent of quota) is appropriate. External risks remain elevated while the near-term baseline outlook has improved. The possibility of higher-for-longer U.S. rates, in a context of already narrow interest-rate differentials, could reduce capital inflows and increase financial and exchange rate volatility. Also, a possible intensification of geopolitical conflicts or a larger-than-expected slowdown in China and other key trading partners could lower the price of exports (copper and lithium) and/or lead to higher oil prices. Staff supports the authorities' request as it would provide adequate insurance in a plausible tail risk scenario.

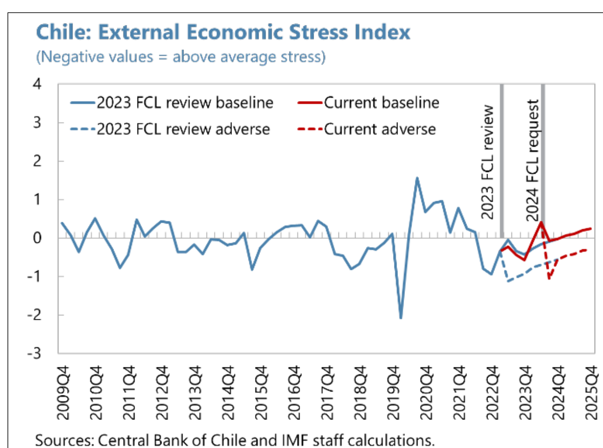
40. Staff considers the impact on Fund finances from the proposed FCL arrangement to be manageable. The Fund's credit exposure would remain moderate even with a possible drawing under the new arrangement. There are also several mitigating factors. First, the authorities intend to treat the FCL arrangement as precautionary. Second, most capacity to repay indicators suggest moderate credit risk to the Fund in terms of Chile's capacity to repay. Moreover, Chile has a sustained track record of accessing to international capital markets at favorable terms for several decades. The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Box 2. Chile: External Economic Stress Index

The External Economic Stress Index (ESI) summarizes Chile's exposure to external shocks. The ESI is based on four variables—standardized around their mean—which capture Chile's external risks: U.S. and China real GDP growth to proxy for risks to exports, the change in the copper price to proxy for risks to the copper industry including inward FDI, and the emerging market volatility index (VXEEM) as well as the (detrended) 10-year U.S. Treasury yield to proxy for changes to global financial conditions. Lower values indicate higher stress.[1]

External stress, as measured by the ESI, increased in the second half of 2023 followed by a decline recently. As projected at the time of the 2023 FCL Review, external stress peaked in 2023Q4 in line with a decline in the copper price, a bout of volatility in emerging markets, and an increase in U.S. yields. The main drivers of the decline in external stress observed in the first half of 2024 were the increase in the copper price and, to a lesser degree, lower emerging market volatility.

Under the current baseline, external stress is expected to remain around average historical levels in the near term. External stress is projected to remain around average levels for the remainder of 2024, reflecting the stable copper price outlook under the April 2024 WEO baseline. From 2025Q1 onward, external stress is expected to gradually fall below average levels due to a better growth outlook in China and the U.S. and an expected loosening of financial conditions. Projected external stress is highly sensitive to fluctuations in the copper price. Had the expected baseline copper price remained at the level observed at the beginning of the year, external stress would be expected to be above average levels in the second half of 2024.



Sources: Central Bank of Chile and IMF staff calculations.

An adverse scenario shows that Chile continues to face elevated external risks. This scenario factors in a decline in U.S. and China growth in 2024 and 2025, and a decline in the U.S. yield in 2024 followed by an increase in 2025 in line with the April 2024 WEO downside scenarios. It also assumes a decline in the price of copper and an increase in emerging market volatility as in the illustrative adverse scenario (Box 1).[2] The ESI suggests that Chile faces above-average external risks which are similar to the level observed at the time of the 2023 FCL review.

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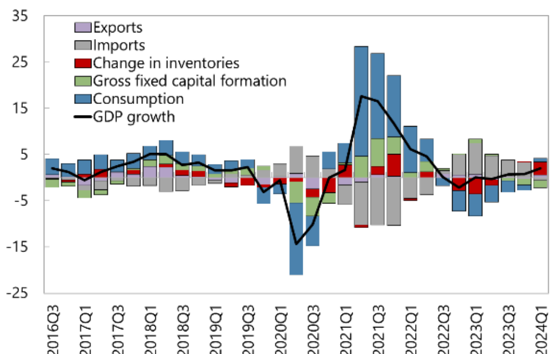
[1] Chile's ESI is computed using the following unchanged weights: (i) output growth in the U.S. and China (0.15); (ii) copper price change (0.35); (iii) the VXEEM index (0.25); and (iv) U.S. long-term yield (0.25). The U.S. long-term yield is detrended. The choice of the weights draws on the balance of payments and international investment position data, expressed as a share of GDP, and normalized.

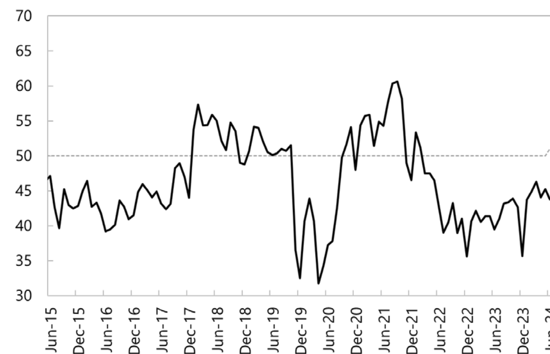
[2] The adverse scenario makes the following assumptions: (i) a decline of 0.3 percentage points in 2024 and of 0.4 percentage points in 2025 in U.S. growth relative to the baseline as well as a decline of 1.8 percentage points in 2024 and of 0.7 percentage points in 2025 in China's growth relative to the baseline (all in annual terms); (ii) a 15 percent decline in the copper price relative to the baseline; (iii) a two standard deviation increase in the VXEEM index relative to the baseline; and (iv) a decrease in U.S. yields by 0.01 percentage points in 2024 and an increase of 0.08 percentage points in 2025 relative to the baseline (in annual terms). Assumptions (i) and (iv) are in line with the April 2024 WEO downside scenarios on deflation in China and higher geopolitical risks.

Figure 1. Chile: Economic Activity and Labor Market

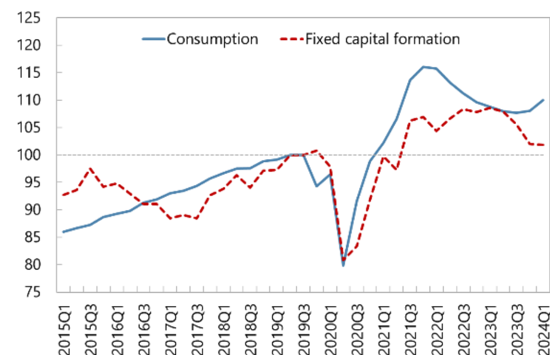
Growth is on track for a firm recovery.



Accompanied with improved business confidence.

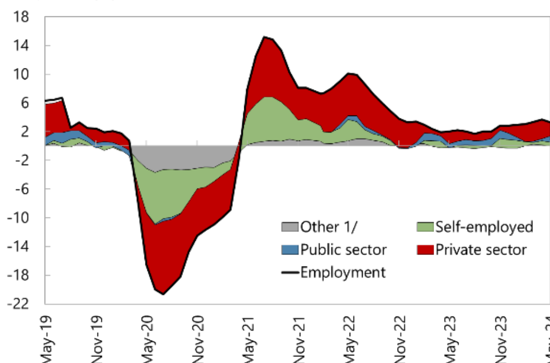


Consumption growth turned positive in 2023Q4, while fixed capital formation growth remained weak.

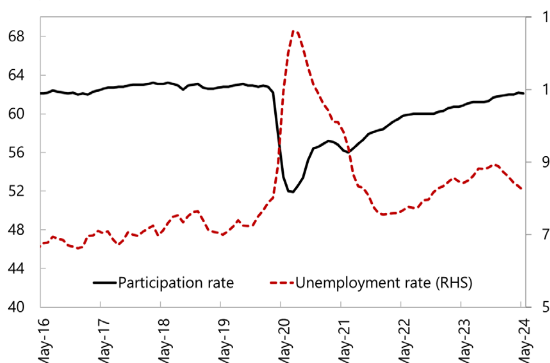


The rise in copper prices so far in 2024 has brightened the economic outlook.

Employment growth continued to pick up in 2024.



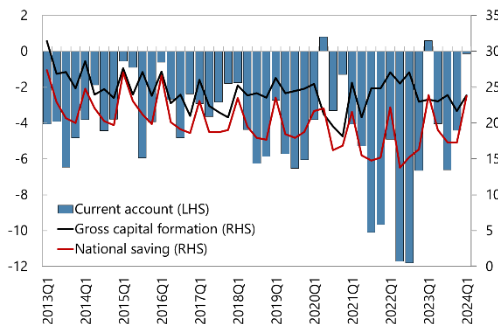
The labor force participation rate continued to increase, while the unemployment rate decline further.



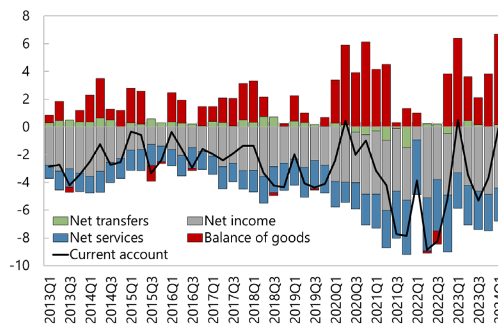
Sources: Central Bank of Chile, Ministry of Finance, INE, SONAMI, Haver Analytics, and IMF staff calculations.
1/ Employers, domestic workers, unpaid family employed.

Figure 2. Chile: External Sector

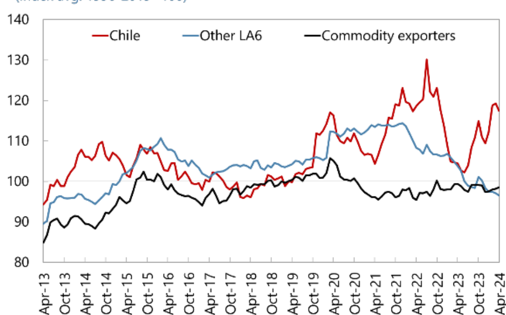
The current account deficit narrowed sharply in 2023 and early 2024…



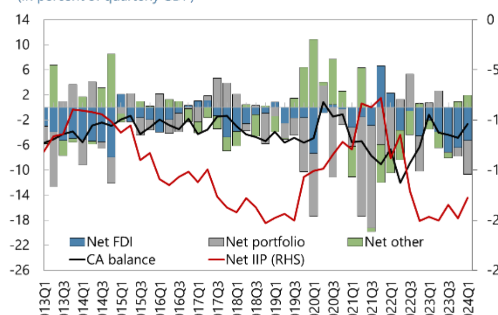
…largely owing to an increase in the balance of goods amid a broad-based import compression and recently stronger copper exports.



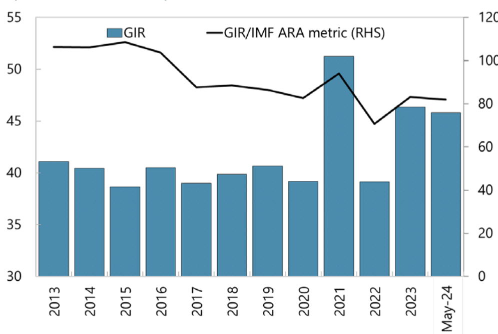
The REER experienced high volatility over the past two years in the context of high global uncertainty.



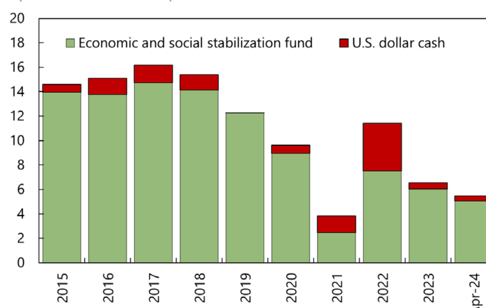
The net IIP has increased since end-2022, registering -17.7 percent of GDP in 2024Q1.



Gross international reserves increased since 2022…



…while additional FX buffers have declined but remain sizeable.

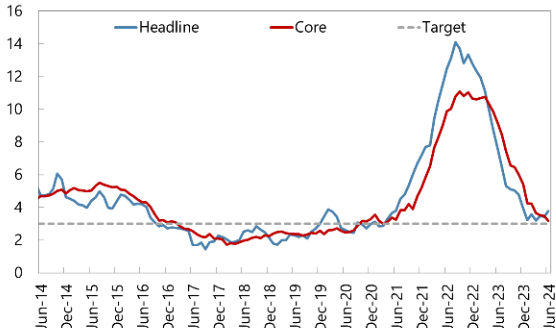


Sources: Central Bank of Chile, DIPRES, Haver Analytics, and IMF staff calculations.
1/ LA6 includes Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. Commodity exporters include Canada, New Zealand, and Australia.
2/ As percent of four-quarter rolling GDP.
3/ As percent of the IMF reserve adequacy metric. See Assessing Reserve Adequacy, IMF.

Figure 3. Chile: Inflation and Monetary Policy

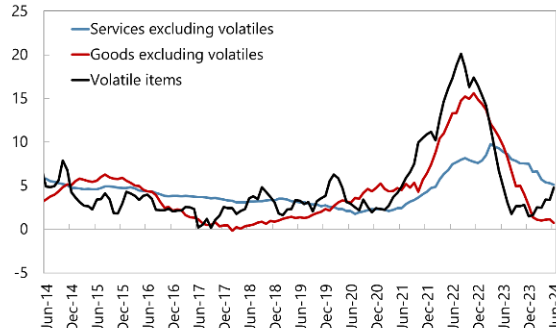
Inflation rates were close to the 3-percent target in 2024H1.

Headline and Core Inflation 1/
(In percent, yoy)



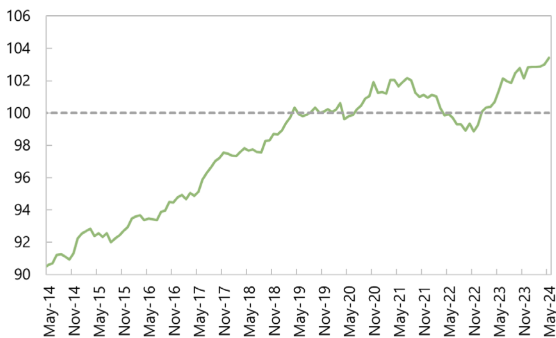
The disinflation was more pronounced for goods items, partly due to the lower import prices since 2023…

Inflation 1/
(In percent, yoy - N.S.A.)



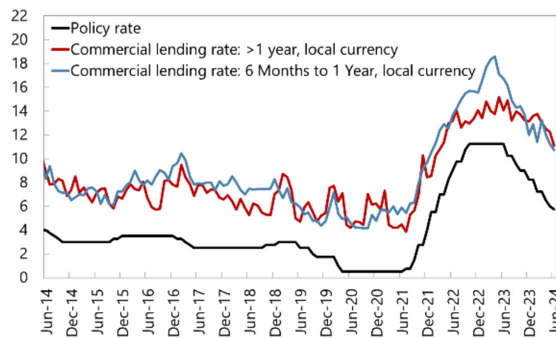
…while the disinflation for service items was slower, due to service price indexation and wage increases.

Real Wage Index
(Hourly Remuneration Index - S.A., Oct 2019=100)



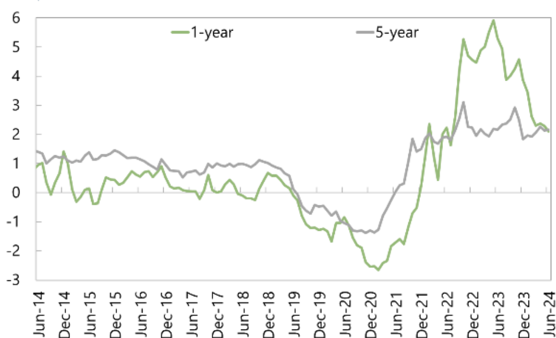
The BCCh sharply cut its policy rate, while banks' longer-term lending rates have only fallen gradually.

Monetary Policy Rate
(In percent)



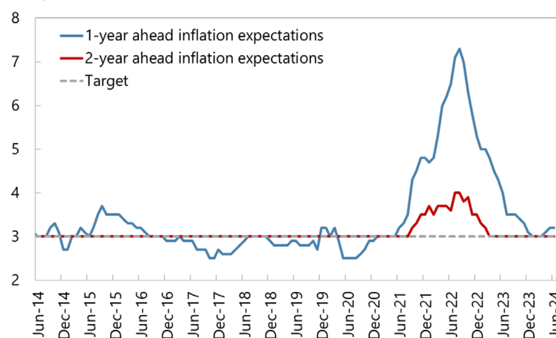
Real interest rates remain higher than pre-pandemic levels.

Real Interbank Swap Lending Rate
(In percent, UF-Inflation Indexed)



Inflation expectations from surveys are close to the central bank's inflation target.

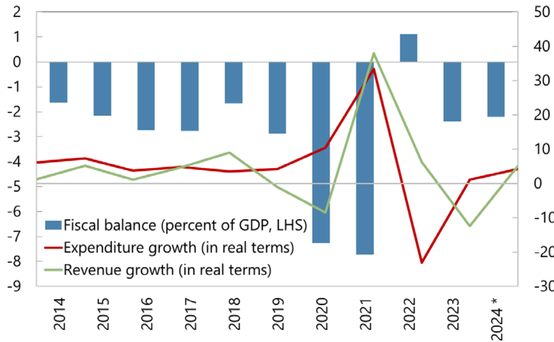
Inflation Expectations at 1 and 2 Years
(In percent)



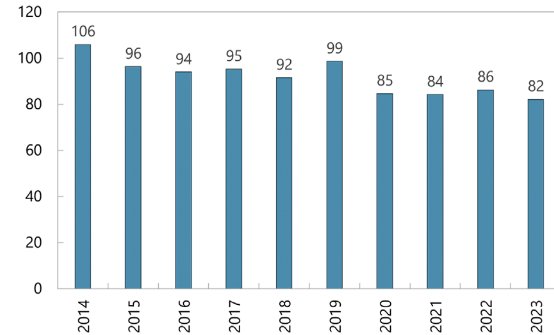
Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations.
1/ Inflation rates during 2014-2023 are calculated based on the 2018 CPI basket. Inflation rates after January 2024 are calculated based on the 2023 CPI basket.

Figure 4. Chile: Public Finances

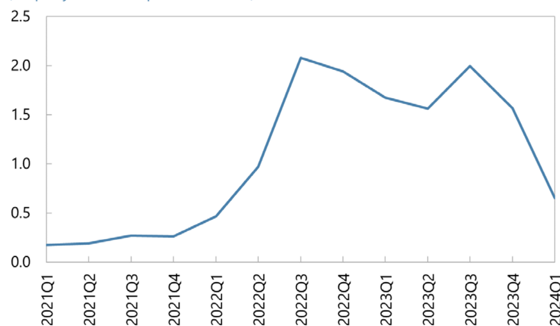
The fiscal balance deteriorated in 2023 mainly due to a weak revenue performance.



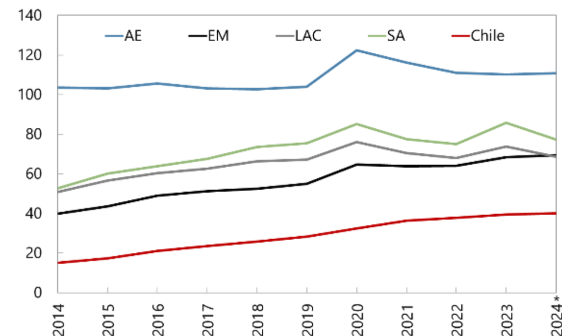
Capital expenditure was considerably under-executed since 2020.



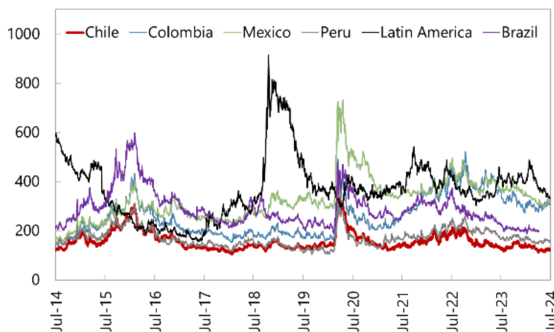
The fall in lithium prices has started to translate into lower revenues.



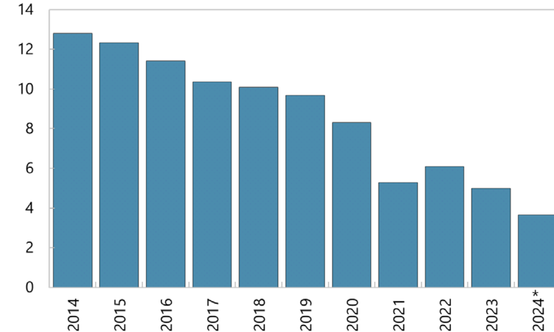
Chile's gross debt-to-GDP ratio remains relatively low by international standards, and…



…the government continues to borrow at favorable rates,



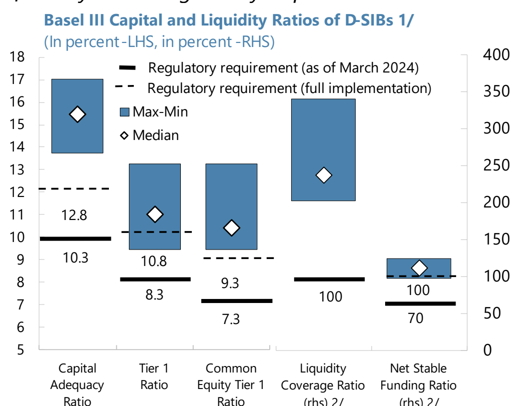
… while Treasury assets have fallen.



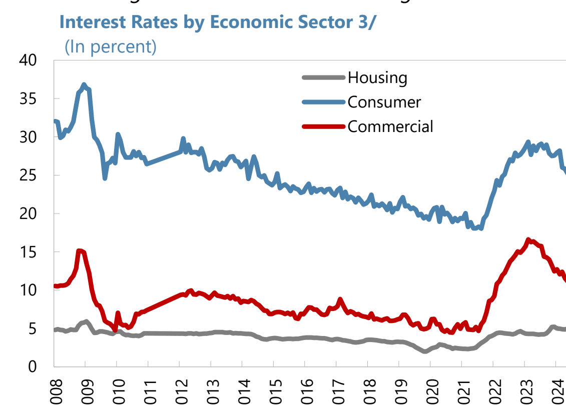
Sources: Ministry of Finance, Dipres, Central Bank of Chile, Bloomberg, and IMF staff calculations and projections.
1/ AE = Advance Economies; EM = Emerging and Developing Economies; LAC = Latin America and the Caribbean, excluding Venezuela; SA = South America, excluding Venezuela.
*2024 IMF staff projections.

Figure 5. Chile: Financial Sector

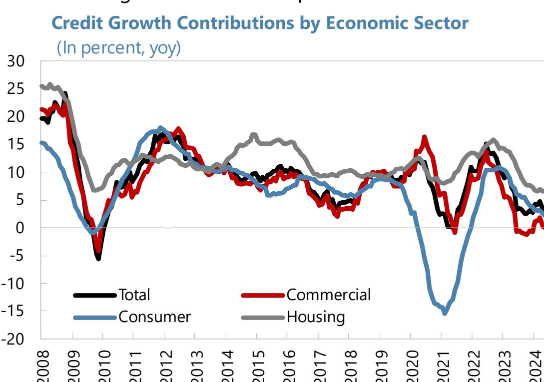
Major banks' capital ratios and liquidity ratios are comfortably above regulatory requirement.



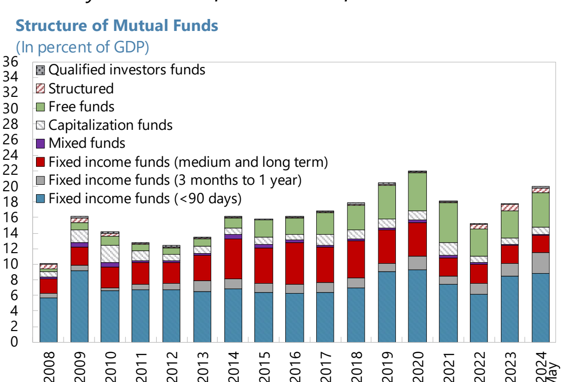
Commercial and consumer loan rates have started to fall while housing loan rates remain unchanged.



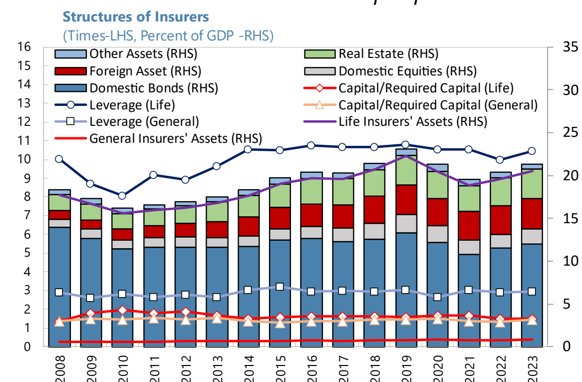
Despite a modest rebound to 2.9 percent in May 2024, nominal credit growth remains tepid.



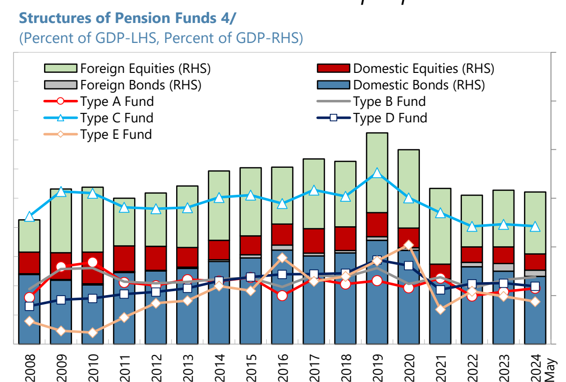
Assets of money market funds have rebounded since 2022, driven by short-term fixed income funds.



Insurers' solvency ratios have been stable and asset to GDP ratios have almost recovered to pre-pandemic levels.



Since the pension fund withdrawals, the total funds' asset-to-GDP ratio remains well below its pre-pandemic level.



Sources: Banks' disclosures, CMF, CEIC, BCCh, Haver Analytics, Superintendencia de Pensiones, and IMF staff calculations.

1/ As of March 2024. D-SIBs are Banco de Chile, Banco de Crédito e Inversiones, Banco del Estado de Chile, Banco Santander-Chile, Banco Itaú Chile, and Scotiabank Chile. "Regulatory requirement" of Common Equity Tier 1 Ratio includes 4.5 percent requirement, the conservation buffer (1.875 percent as of March 2024 and 2.5 percent under full implementation), CCyB (0.5 percent) and the maximum of the D-SIB buffers (0.875 and 1.75 percent). "Regulatory requirement" of Tier 1 Ratio is that of Common Equity Tier 1 Ratio plus AT1 (1.0 and 1.5 percent), and "Regulatory requirement" of Capital Adequacy Ratio is that of Tier 1 Ratio plus Tier2 (2.0 and 2.0 percent). Additional capital requirements under Pillar 2 are not considered.

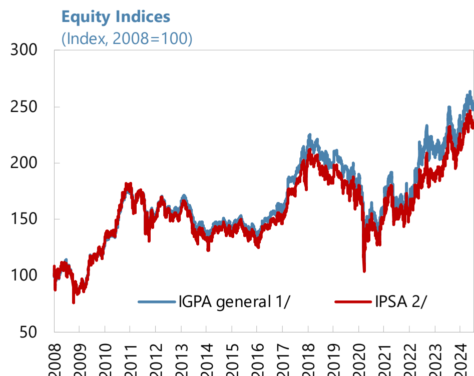
2/ As of end-April, Liquidity Coverage Ratio and Net Stable Funding Ratio of the financial system are above 200 and 100 percent.

3/ Interest rates for commercial and consumer loans are nominal rates (CLP-based), while the interest rate for housing loans is a real rate (UF-based).

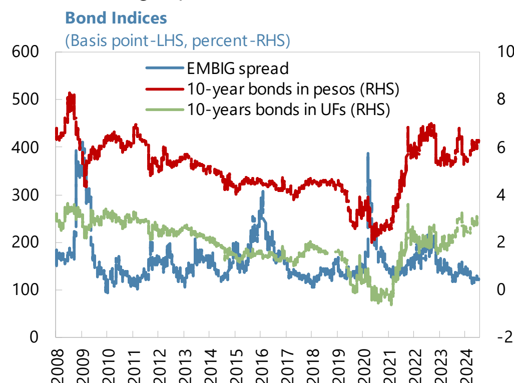
4/ Among the five funds, Fund A is supposed to be the riskiest, and Fund E is supposed to be the most conservative.

Figure 6. Chile: Financial Markets

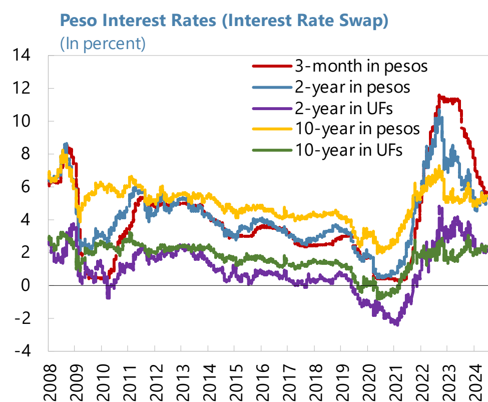
Equity indices have increased to historical levels in 2024.



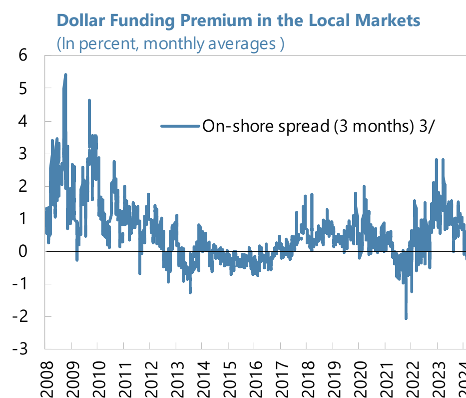
Long-term rates are still higher than pre-pandemic levels, while the sovereign spread has remained low.



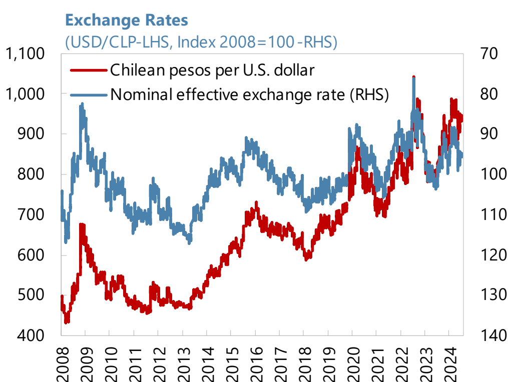
Short-term peso funding costs have declined with the monetary policy rate cuts, while long-term costs are largely unchanged.



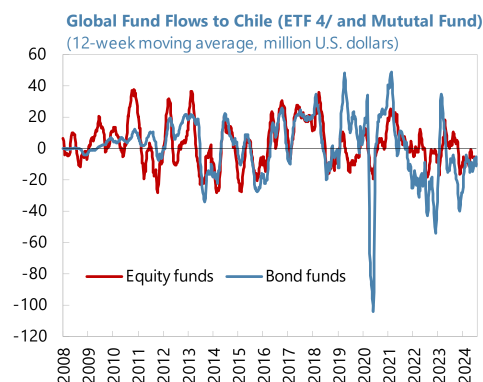
The dollar funding premium has declined.



Following, a 20 percent depreciation between June 2023 and March 2024, the CLP appreciated by about 3 percent against the USD between April and June 2024.



Equity and bond funds have experienced capital outflows since 2023.



Sources: CEIC, BCCh, EPFR Global, JP Morgan, S&P Global, and IMF staff calculations.
1/ The index measures the performance of Chile domiciled stocks listed on the Santiago Exchange that meet certain liquidity criteria and is designed to serve as a broad benchmark for the Chile equities market.
2/ The index measures the performance of some of the largest and most liquid stocks listed on the Santiago Stock Exchange.
3/ The difference between the onshore rate (the prime deposit rate, i.e., the rate offered by banks to institutional investors) and the Libor (the term SOFR since August 2022), providing a proxy of the cost of financing in U.S. dollars in the national market vis-à-vis the international market.
4/ Exchange traded funds.

Table 1. Chile: Selected Social and Economic Indicators

GDP (2023), in billions of pesos	282	Quota	
GDP (2023), in billions of U.S. dollars	336	in millions of SDRs	1,744
Per capita (2023), U.S. dollars	16,824	in % of total	0.37
Population (2023), in millions	19.96	Poverty rate (2022) 1/	6.5
Main products and exports	Copper	Gini coefficient (2022) 1/	47.0
Key export markets	China, Euro area, U.S.	Literacy rate (2022)	97.2

				Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output	(Annual percentage change, unless otherwise specified)								
Real GDP	11.3	2.1	0.2	2.6	2.4	2.5	2.4	2.3	2.3
Consumption	19.5	2.6	-3.9	2.8	2.1	1.9	2.0	1.9	2.0
Investment 2/	27.9	1.4	-5.4	0.9	8.1	4.2	3.1	2.3	2.2
Exports of goods and services	-1.5	0.8	-0.3	4.9	5.7	5.0	3.3	4.0	3.9
Imports of goods and services	31.9	1.5	-12.0	3.9	9.2	4.4	2.7	2.8	2.8
Output gap (in percent)	2.4	2.1	0.0	0.1	0.1	0.2	0.1	0.0	0.0
Employment									
Unemployment rate (in percent, annual average)	8.9	7.9	8.7	8.3	7.7	7.5	7.5	7.5	7.5
Prices									
GDP deflator	6.9	7.9	6.6	5.1	4.3	2.7	2.8	2.9	2.7
Change of CPI (end of period)	7.2	12.8	3.9	4.0	3.5	3.0	3.0	3.0	3.0
Change of CPI (period average)	4.5	11.6	7.6	3.6	4.2	3.1	3.0	3.0	3.0
Public Sector Finances	(In percent of GDP, unless otherwise specified)								
Central government revenue	24.2	26.0	22.9	23.2	23.8	24.0	24.1	24.0	24.0
Central government expenditure	31.9	24.9	25.3	25.4	25.1	24.5	24.3	24.2	24.2
Central government fiscal balance	-7.7	1.1	-2.4	-2.2	-1.3	-0.5	-0.2	-0.2	-0.2
Central government structural fiscal balance 3/	-11.3	-1.6	-3.4	-2.8	-2.1	-0.7	-0.4	-0.4	-0.5
Structural non-mining primary balance	-12.0	-2.2	-4.2	-3.6	-3.2	-2.4	-1.9	-1.9	-1.9
Central government gross debt	36.4	37.8	39.4	40.7	40.3	40.6	40.7	40.7	40.6
of which, FX-denominated debt	12.8	13.4	14.0	13.1	12.3	12.5	12.0	11.8	11.4
Central government debt net of treasury assets	31.1	31.7	34.4	37.1	36.9	37.3	37.5	37.3	37.4
Public sector gross debt 4/	68.1	67.0	70.2	71.5	71.1	71.5	71.6	71.5	71.4
Money and Credit	(Annual percentage change, unless otherwise specified)								
M2	10.7	4.0	5.9	7.2	6.8	5.3	5.2	5.3	5.1
Credit to the private sector	10.1	10.0	2.6	4.5	6.6	6.7	6.6	6.4	6.4
Balance of Payments									
Current account (% of GDP) 5/	-7.3	-8.7	-3.5	-2.4	-2.8	-3.2	-3.2	-3.1	-3.0
Current account (in bn of USD)	-23.0	-26.2	-11.9	-8.1	-10.5	-12.6	-13.1	-13.2	-13.5
Gross international reserves (in bn of USD)	51.3	39.2	46.4	46.4	46.4	46.4	46.4	46.4	46.4
Gross external debt (% of GDP) 6/	71.6	76.1	71.1	75.3	69.1	69.1	68.4	68.0	67.1
Public	12.6	15.0	14.5	15.1	13.3	13.5	12.9	12.7	12.3
Private	59.0	61.1	56.6	60.2	55.8	55.7	55.5	55.3	54.8

Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations and projections.

1/ Poverty and Gini coefficient data are from CASEN (2022). Poverty rate is calculated based on national poverty line. Gini coefficient is calculated household income after taxes and transfers.

2/ Investment is calculated as the sum of gross fixed capital formation and changes in inventories.

3/ The structural fiscal balance includes adjustments for output, copper prices, and lithium revenues based on IMF calculations.

4/ Includes liabilities of the central government, the Central Bank of Chile and public enterprises. Excludes Recognition Bonds.

5/ Calculated as a share of US$ GDP.

6/ Data from Dipres for the government and from BCCh for all other sectors. Calculated as a share of US$ GDP.

Table 2. Chile: Summary Operations of the Central Government
(In percent of GDP, unless otherwise specified)

	2020	2021	2022	2023	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Revenues	**19.9**	**24.2**	**26.0**	**22.9**	**23.2**	**23.8**	**24.0**	**24.1**	**24.0**	**24.0**
Taxes	16.1	18.9	21.0	17.6	19.1	19.7	19.7	19.9	19.9	19.9
Private mining companies	0.7	1.2	1.5	0.8	1.3	1.5	1.4	1.4	1.4	1.4
Other tax revenues, non-mining	15.4	17.7	19.5	16.8	17.8	18.2	18.3	18.5	18.5	18.5
Social contributions	1.5	1.2	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Grants	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Other revenue	2.3	4.0	4.0	4.1	2.9	2.9	3.1	3.0	3.0	3.0
Codelco revenues	0.5	1.8	0.7	0.4	0.5	0.5	0.7	0.6	0.6	0.6
Income on assets	0.4	0.2	0.5	0.7	0.5	0.4	0.4	0.4	0.4	0.4
Lithium (rental income) 1/	...	...	0.9	1.0	0.3	0.5	0.5	0.5	0.5	0.5
Operating income	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other income	1.0	1.4	1.3	1.5	1.1	1.0	1.0	1.0	1.0	1.0
Expenditures	**27.2**	**31.9**	**24.9**	**25.3**	**25.4**	**25.1**	**24.5**	**24.3**	**24.2**	**24.2**
Expense	25.4	30.1	23.4	23.8	23.8	23.7	23.8	23.9	23.8	23.9
Compensation of employees	5.3	4.9	4.7	4.9	4.9	4.9	4.9	4.9	4.8	4.8
Purchases of goods and services	2.2	2.0	2.0	1.9	1.8	1.8	1.7	1.7	1.7	1.7
Interest payments	1.0	0.9	1.0	1.1	1.2	1.1	1.1	1.2	1.2	1.2
Subsidies and grants	11.0	16.9	9.3	8.9	8.6	8.6	8.6	8.6	8.6	8.6
Social benefits	4.4	3.9	4.3	5.0	5.2	5.2	5.3	5.3	5.3	5.3
Other expense	1.7	1.6	2.1	2.1	2.0	2.2	2.2	2.2	2.2	2.2
Unspecified measures	0.0	0.0	0.0	0.0	0.0	-0.2	-0.9	-1.3	-1.2	-1.2
Net acquistion of nonfinancial assets	1.8	1.8	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Investment	1.8	1.8	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Net Lending/Borrowing	**-7.3**	**-7.7**	**1.1**	**-2.4**	**-2.2**	**-1.3**	**-0.5**	**-0.2**	**-0.2**	**-0.2**
Non-mining overall balance	-8.4	-10.8	-2.1	-4.7	-4.3	-3.8	-3.1	-2.7	-2.7	-2.7
Net Financial Transactions	**-7.3**	**-7.7**	**1.1**	**-2.4**	**-2.2**	**-1.3**	**-0.5**	**-0.2**	**-0.2**	**-0.2**
Net acquisition of financial assets	-3.2	-1.7	3.5	-0.7	1.0	0.2	1.3	1.4	1.3	1.3
Net incurrence of liabilities	4.1	6.1	2.4	1.7	3.2	1.5	1.8	1.6	1.5	1.5
Domestic	2.5	1.3	0.7	0.8	2.9	1.7	1.1	1.6	1.1	1.4
External	1.8	4.9	1.8	1.0	0.4	-0.1	0.7	0.0	0.3	0.1
Recognition bonds	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Memorandum Items										
Primary balance	-6.7	-7.1	1.6	-2.0	-1.5	-0.6	0.2	0.6	0.6	0.6
Structural fiscal balance 2/	-1.6	-11.3	-1.6	-3.4	-2.8	-2.1	-0.7	-0.4	-0.4	-0.5
Structural revenue	25.6	20.6	23.3	22.0	22.5	23.0	23.7	23.9	23.8	23.7
Structural non-mining primary balance (% of GDP)	-2.6	-12.0	-2.2	-4.2	-3.6	-3.2	-2.4	-1.9	-1.9	-1.9
Fiscal impulse 3/	-0.4	9.4	-9.8	2.0	-0.6	-0.4	-0.8	-1.3	-0.5	0.0
Expenditure growth (in real terms; annual percent change)	10.4	33.4	-23.0	1.1	4.2	1.5	-0.4	1.3	2.0	2.1
Central government debt net of treasury assets	24.1	31.1	31.7	34.4	37.1	36.9	37.3	37.5	37.3	37.4
Central government gross debt	32.4	36.4	37.8	39.4	40.7	40.3	40.6	40.7	40.7	40.6
Public sector gross debt 4/	57.4	68.1	67.0	70.2	71.5	71.1	71.5	71.6	71.5	71.4
Public sector debt net of treasury assets 4/	49.1	62.8	60.9	65.2	67.9	67.7	68.2	68.3	68.2	68.2
General government fiscal balance 5/	-7.1	-7.5	1.4	-2.3	-2.1	-1.2	-0.4	0.0	0.0	0.0
Nominal GDP (trillions of pesos)	201	240	264	282	304	324	342	360	379	398

Sources: Ministry of Finance and IMF staff calculations and projections.

1/ The rental income from lithium is included in income on assets prior to 2022.

2/ The structural fiscal balance includes adjustments for output, copper prices, and lithium revenues based on IMF calculations. The lithium adjustment starts in 2022.

3/ The fiscal impulse is defined as the negative of the annual change of the structural non-mining primary balance.

4/ Includes liabilities of the central government, the cental bank of Chile and non-financial public enterprises. Excludes Recognition Bonds.

5/ Includes the central government and municipality governments.

Table 3. Chile: Balance of Payments
(In US$ billions, unless otherwise specified)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
Current Account	**-5.0**	**-23.0**	**-26.2**	**-11.9**	**-8.1**	**-10.5**	**-12.6**	**-13.1**	**-13.2**	**-13.5**
Trade balance	18.9	10.3	3.7	15.3	20.7	22.1	22.1	21.9	22.9	23.8
Exports	74.0	94.6	98.6	94.6	103.4	115.7	121.2	124.8	129.6	134.9
Copper	38.5	52.5	43.9	43.3	52.1	58.1	61.1	62.0	63.4	64.9
Non-copper	35.6	42.1	54.7	51.2	51.3	57.6	60.1	62.7	66.2	70.1
Imports	55.1	84.3	94.8	79.2	82.6	93.6	99.1	102.9	106.7	111.1
Net services	-7.5	-12.5	-15.6	-10.8	-10.1	-11.7	-12.3	-12.8	-13.4	-14.0
Net income	-15.9	-17.9	-14.2	-17.0	-19.1	-21.4	-22.6	-22.6	-23.0	-23.6
Net transfers	-0.5	-2.8	-0.1	0.6	0.4	0.6	0.2	0.4	0.3	0.3
Capital account balance	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account Balance	**-4.8**	**-37.4**	**-18.7**	**-17.1**	**-8.1**	**-10.5**	**-12.6**	**-13.1**	**-13.2**	**-13.5**
Foreign direct investment	-5.0	-0.6	-5.0	-15.5	-7.3	-8.9	-9.2	-9.1	-9.5	-10.0
Abroad by Chilean residents	6.4	14.6	13.2	6.3	11.0	11.0	11.8	11.2	10.8	11.7
In Chile by foreign residents	11.4	15.2	18.2	21.7	18.3	19.9	21.0	20.3	20.3	21.7
Of which, debt instruments	0.9	-1.0	0.2	2.2	1.0	0.8	0.7	1.0	1.1	1.0
Portfolio investment	-13.1	-32.6	-5.3	1.8	-5.8	-6.9	-8.0	-8.2	-8.5	-9.1
Abroad by Chilean residents	-5.9	0.2	7.8	5.9	2.5	2.7	3.4	3.9	3.9	3.4
In Chile by foreign residents	7.2	32.8	13.1	4.1	8.3	9.6	11.4	12.1	12.4	12.5
Of which, equities	0.2	2.6	7.7	-1.4	1.3	1.7	3.0	1.7	2.3	3.9
Of which, debt	7.0	30.2	5.3	5.5	7.0	7.9	8.4	10.4	10.1	8.6
Financial derivatives	2.5	0.0	0.0	-2.0	0.5	0.5	0.5	0.5	0.5	0.5
Other investments	10.8	-4.1	-8.4	-1.5	4.5	4.8	4.1	3.6	4.4	5.1
Abroad by Chilean residents	9.0	6.6	0.2	-0.5	2.9	2.9	2.9	2.9	2.9	2.9
In Chile by foreign residents	-1.8	10.8	8.6	1.0	-1.6	-1.9	-1.2	-0.7	-1.5	-2.1
Change in Reserves Assets	**-2.9**	**12.2**	**-9.2**	**6.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	-2.8	-2.2	-1.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (in billions of USD)	39.2	51.3	39.2	46.4	46.4	46.4	46.4	46.4	46.4	46.4
				(In percent of GDP)						
Current Account 1/	**-1.9**	**-7.3**	**-8.7**	**-3.5**	**-2.4**	**-2.8**	**-3.2**	**-3.2**	**-3.1**	**-3.0**
Trade balance of Goods	7.4	3.3	1.2	4.6	6.2	5.9	5.6	5.4	5.4	5.3
Exports	29.1	30.0	32.6	28.2	31.1	30.8	30.9	30.5	30.4	30.2
Copper	15.1	16.6	14.5	12.9	15.7	15.5	15.6	15.2	14.9	14.5
Non-copper	14.0	13.3	18.1	15.3	15.4	15.3	15.3	15.4	15.5	15.7
Imports	21.7	26.7	31.4	23.6	24.9	24.9	25.3	25.2	25.0	24.9
Net services	-2.9	-4.0	-5.2	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Net income	-6.2	-5.7	-4.7	-5.1	-5.8	-5.7	-5.8	-5.5	-5.4	-5.3
Net transfers	-0.2	-0.9	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Financial Account Balance 2/	**-1.9**	**-11.9**	**-6.2**	**-5.1**	**-2.4**	**-2.8**	**-3.2**	**-3.2**	**-3.1**	**-3.0**
				(Annual change in percent)						
Goods export volume	2.8	-1.1	-1.6	-1.2	4.5	6.0	5.1	3.4	4.0	3.8
Goods import volume	-9.8	35.5	-2.2	-12.9	2.9	9.0	4.5	2.7	2.8	2.8
Terms of trade 3/	11.7	12.4	-8.8	0.7	3.4	1.8	-1.8	-1.5	-1.0	-1.0
Goods export prices 3/	4.8	29.2	5.8	-2.9	4.9	6.0	-0.3	-0.4	-0.2	0.4
Goods import prices 3/	-6.2	14.9	16.1	-3.6	1.4	4.2	1.5	1.1	0.8	1.4
Memorandum Items										
Copper price (WEO; U.S. cents per pound)	280	423	401	385	444	469	464	455	445	438
Copper price (WEO; annual change in percent)	2.7	50.9	-5.2	-3.8	15.2	5.6	-1.0	-1.9	-2.2	-1.5
Volume of copper exports (2004=100)	105	102	96	95	100	106	112	116	121	126

Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations and projections.

1/ Calculated as a share of US$ GDP.

2/ Excluding change in reserves.

3/ Based on a simple average of quarterly price indexes measured in US$.

Table 4. Chile: Monetary Survey

(In billions of pesos, unless otherwise specified)

	2018	2019	2020	2021	2022	2023
Central Bank						
Net foreign assets	27,043	29,547	27,222	40,891	31,476	38,756
Net international reserves	27,731	30,274	27,881	43,643	33,653	41,003
Net international reserves (in millions of US$)	39,861	40,657	39,200	51,330	39,154	46,353
Other foreign assets, net	-688	-727	-659	-2,752	-2,177	-2,247
Domestic assets	-1,862	-3,326	24,086	23,405	24,229	18,885
Net credit to general government	-553	-392	327	356	322	311
Net claims on banks and financial corporations	-5,163	-4,599	21,873	26,894	23,342	15,845
Credit to the private sector	47	-33	-31	-38	-33	-28
Other items (net)	3,808	1,699	1,917	-3,807	599	2,756
Monetary liabilities	25181	26221	51308	64297	55,705	57,641
Monetary base	11,296	12,335	30,256	21,456	17,641	16,791
Currency	6,740	7,576	12,180	15,210	11,608	10,524
Currency reserves	4,556	4,760	18,077	6,247	6,033	6,268
Others	13,885	13,886	21,052	42,840	38,064	40,850
Other Depository Institutions						
Net foreign assets	-10,199	-9,700	-1,678	-4,608	-7,158	-7,999
Net foreign assets (in millions of US$)	-14,660	-13,027	-2,359	-5,420	-8,328	-9,043
Domestic assets	156,577	174,810	166,208	186,314	202,600	209,074
Credit to general government	3,463	4,615	12,538	17,607	16,945	16,944
Credit to the private sector	158,792	174,225	179,836	197,943	217,695	223,364
Other items (net)	-5,678	-4,030	-26,166	-29,236	-32,040	-31,234
Liabilities to the private sector	146,379	165,109	164,528	181,706	195,443	201,073
Demand deposits	30,116	36,058	56,393	64,091	47,687	47,482
Quasi-money	116,263	129,051	108,135	117,615	147,756	153,591
Banking System						
Net foreign assets	16,844	19,846	25,544	36,283	24,318	29,285
Domestic assets	142,030	156,183	160,617	177,327	196,243	201,198
Net credit to general government	2,910	4,223	12,865	17,963	17,267	17,255
Credit to the private sector	158,839	174,192	179,805	197,905	217,662	223,336
Other items (net)	-19,715	-22,232	-32,053	-38,541	-38,686	-40,865
Money and private quasi-money	158,874	176,029	186,161	213,610	220,561	230,483
Money	36,856	43,633	68,573	79,301	59,295	58,005
Quasi-money	122,018	132,396	117,588	134,309	161,266	172,478
Memorandum Items						
	(Annual percentage change)					
Monetary base	1.7	9.2	145.3	-29.1	-17.8	-4.8
Banking system' credit to the private sector	10.1	9.7	3.2	10.1	10.0	2.6
	(In percent of GDP)					
Monetary base	6.0	6.3	15.0	9.0	6.7	6.0
Banking system's credit to the private sector	83.8	89.1	89.3	82.6	82.5	79.2

Sources: Central Bank of Chile, Haver, and IMF staff calculations.

Table 5. Chile: Medium-Term Macroeconomic Framework

	2020	2021	2022	2023	Proj. 2024	2025	2026	2027	2028	2029
National Accounts	(Annual percentage change, unless otherwise specified)									
Real GDP	-6.1	11.3	2.1	0.2	2.6	2.4	2.5	2.4	2.3	2.3
Total domestic demand	-9.4	21.3	2.3	-4.2	2.3	3.4	2.5	2.3	2.0	2.1
Consumption	-6.6	19.5	2.6	-3.9	2.8	2.1	1.9	2.0	1.9	2.0
Private	-7.4	21.0	1.6	-5.2	2.8	2.4	2.2	2.0	1.9	1.9
Public	-3.5	14.1	6.5	1.7	2.0	1.0	0.8	2.3	2.3	2.3
Investment 1/	-18.0	27.9	1.4	-5.4	0.9	8.1	4.2	3.1	2.3	2.2
Fixed	-10.8	16.0	3.9	-1.1	-0.6	7.0	4.6	3.5	2.8	2.9
Inventories 2/	-1.8	2.3	-0.6	-1.0	0.4	0.2	-0.1	-0.1	-0.1	-0.2
Net exports 2/	3.3	-9.1	-0.3	3.7	0.2	-1.1	0.0	0.1	0.2	0.2
Exports of goods and services	-0.9	-1.5	0.8	-0.3	4.9	5.7	5.0	3.3	4.0	3.9
Imports of goods and services	-12.3	31.9	1.5	-12.0	3.9	9.2	4.4	2.7	2.8	2.8
GDP Deflator	9.7	6.9	7.9	6.6	5.1	4.3	2.7	2.8	2.9	2.7
Change of CPI, end of period	3.0	7.2	12.8	3.9	4.0	3.5	3.0	3.0	3.0	3.0
Change of CPI, period average	3.0	4.5	11.6	7.6	3.6	4.2	3.1	3.0	3.0	3.0
Output gap (percent of potential GDP)	-5.7	2.4	2.1	0.0	0.1	0.1	0.2	0.1	0.0	0.0
Balance of Payments	(In percent of GDP)									
Current account 3/	-1.9	-7.3	-8.7	-3.5	-2.4	-2.8	-3.2	-3.2	-3.1	-3.0
Trade balance 3/	7.4	3.3	1.2	4.6	6.2	5.9	5.6	5.4	5.4	5.3
Financial account balance 3/	-1.9	-11.9	-6.2	-5.1	-2.4	-2.8	-3.2	-3.2	-3.1	-3.0
Of which, foreign direct investment (net) 3/	-2.0	-0.2	-1.7	-4.6	-2.2	-2.4	-2.4	-2.2	-2.2	-2.2
Change in reserves assets 3/	-1.1	3.9	-3.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions 3/	-1.1	-0.7	-0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0
	(Annual percentage change)									
Goods export volume	2.8	-1.1	-1.6	-1.2	4.5	6.0	5.1	3.4	4.0	3.8
Of which, copper export volume	1.3	-3.6	-5.2	-1.3	5.0	6.0	6.1	3.5	4.4	3.9
Goods import volume	-9.8	35.5	-2.2	-12.9	2.9	9.0	4.5	2.7	2.8	2.8
Terms of trade 4/	11.7	12.4	-8.8	0.7	3.4	1.8	-1.8	-1.5	-1.0	-1.0
Goods export price 4/	4.8	29.2	5.8	-2.9	4.9	6.0	-0.3	-0.4	-0.2	0.4
Goods import price 4/	-6.2	14.9	16.1	-3.6	1.4	4.2	1.5	1.1	0.8	1.4
External Debt	(In percent of GDP)									
Gross external debt 5/	77.0	71.6	76.1	71.1	75.3	69.1	69.1	68.4	68.0	67.1
Public	8.9	12.6	15.0	14.5	15.1	13.3	13.5	12.9	12.7	12.3
Private	68.1	59.0	61.1	56.6	60.2	55.8	55.7	55.5	55.3	54.8
Gross int. reserves (in billions of U.S. dollars)	39.2	51.3	39.2	46.4	46.4	46.4	46.4	46.4	46.4	46.4
Savings and Investment										
Gross domestic investment	21.1	24.1	25.6	23.0	22.4	23.7	24.2	24.4	24.5	24.5
Public	2.0	2.0	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.8
Private	19.0	22.1	23.9	21.2	20.6	21.9	22.4	22.6	22.6	22.7
National saving	19.1	16.6	16.9	19.4	20.1	20.9	21.0	21.2	21.4	21.5
Public	-5.1	-5.5	3.0	-0.5	-0.3	0.6	1.4	1.8	1.8	1.7
Private	24.2	22.2	13.8	19.9	20.3	20.3	19.5	19.4	19.6	19.8
Operations of the Central Government										
Central government gross debt	32.4	36.4	37.8	39.4	40.7	40.3	40.6	40.7	40.7	40.6
Central government debt net of treasury assets	24.1	31.1	31.7	34.4	37.1	36.9	37.3	37.5	37.3	37.4
Central government balance	-7.3	-7.7	1.1	-2.4	-2.2	-1.3	-0.5	-0.2	-0.2	-0.2
Total revenue	19.9	24.2	26.0	22.9	23.2	23.8	24.0	24.1	24.0	24.0
Total expenditure	27.2	31.9	24.9	25.3	25.4	25.1	24.5	24.3	24.2	24.2
Central government structural balance	-1.6	-11.3	-1.6	-3.4	-2.8	-2.1	-0.7	-0.4	-0.4	-0.5
Employment	(Annual percentage change, unless otherwise specified)									
Unemployment rate (in percent, annual average)	10.7	8.8	7.9	8.7	8.3	7.7	7.5	7.5	7.5	7.5

Sources: Central Bank of Chile, Ministry of Finance, National Statistics Institute, Haver Analytics, and IMF staff projections.
1/ Investment is defined as: gross fixed capital formation + changes in inventories.
2/ Contribution to growth.
3/ Calculated as a share of US$ GDP.
4/ Calculated based on a simple average of quarterly price indexes measured in US$.
5/ Data from Dipres for the government and from BCCh for all other sectors. Calculated as a share of US$ GDP.

Table 6. Chile: Financial Soundness Indicators 1/
(In percent, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023
Assets								
Total assets (In billions of Chilean pesos)	207,144	215,432	232,963	264,803	323,610	335,326	382,768	399,046
Percent of GDP	122.7	120.1	123.0	135.4	160.8	140.0	145.1	141.6
Total loans (In billions of Chilean pesos) 2/	152,932	159,249	180,957	197,834	204,342	225,485	248,093	258,101
Percent of GDP	90.6	88.8	95.5	101.2	101.5	94.1	94.0	91.6
Capital Adequacy								
Regulatory capital to risk-weighted assets	13.8	13.8	13.3	12.8	14.7	14.8	15.6	16.2
Regulatory tier 1 capital to risk-weighted assets	10.9	11.0	10.7	10.3	10.7	10.6	11.9	12.1
Regulatory tier 1 capital to assets	8.2	8.3	8.2	7.3	6.6	6.7	7.3	7.8
Capital to assets	8.2	8.4	8.2	8.1	6.9	6.9	6.8	7.5
Credit Risk								
Provisions to NPLs 3/	134.8	128.9	128.4	123.7	171.4	190.6	146.0	120.4
NPLs to gross loans	1.8	1.9	1.9	2.1	1.6	1.2	1.7	2.1
NPLs net of provisions to capital	-4.4	-3.8	-3.8	-3.6	-7.7	-7.5	-5.0	-2.7
Profitability								
Return on assets (before tax)	1.2	1.3	1.4	1.3	0.5	1.5	1.7	1.5
Return on assets (after tax)	0.9	1.0	1.0	1.0	0.4	1.1	1.4	1.1
Return on equity (before tax)	14.4	15.9	16.8	16.6	7.7	21.8	24.7	20.2
Return on equity (after tax)	11.5	12.4	12.5	12.4	5.6	16.6	21.0	15.4
Financial leverage 4/	12.2	11.9	12.1	12.4	14.5	14.5	14.6	13.4
Interest margin to gross income	66.6	66.2	67.1	66.9	69.4	69.5	74.4	69.6
Noninterest expenses to gross income	52.0	50.4	48.9	46.7	54.9	43.6	39.3	42.1
Personnel expenses to noninterest expenses	49.1	48.5	49.0	48.3	40.9	47.3	47.8	47.7
Trading income to gross income	10.1	8.4	8.6	9.6	8.4	8.2	5.9	9.0
Non-interest expenses to gross income	52.0	50.4	48.9	46.7	54.9	43.6	39.3	42.1
Liquidity								
Liquid assets to total assets	14.7	15.3	14.2	15.3	22.2	20.1	17.1	16.0
FX and Derivative Risk								
FX loans to total loans 2/	18.2	16.6	18.4	18.9	16.1	18.3	18.7	19.0
Gross asset position in financial derivatives to capital	38.4	42.3	46.5	98.3	103.2	102.1	105.5	81.7
Gross liability position in financial derivatives to capital	37.1	42.6	43.1	95.4	106.1	103.2	116.1	86.5
Memorandum Items								
Real Loans								
Total (yoy)	2.9	2.4	7.3	6.3	-0.5	3.6	-2.5	-0.9
Commercial loans (yoy)	2.1	1.1	7.2	6.6	2.8	2.1	-4.6	-4.1
Mortgage loans (yoy)	6.7	7.7	6.7	8.0	5.0	5.9	1.4	3.3
Consumer loans (yoy)	5.3	3.3	6.0	1.0	-16.6	-6.7	-2.0	-0.1
Real Estate Sector indicators 5/								
General residential property price (index, 2008=100)	165	175	188	198	205	220	211	212
New residential property price (index, 2008=100)	153	163	171	178	188	195	202	205
Used residential property price (index, 2008=100)	179	188	208	223	227	250	228	227
Number of home sales (index, 2008=100)	126	129	128	128	100	130	103	86
Stock of new homes for sale (national, thousands of units)	102	104	101	100	100	103	108	113
Loan to home value ratio (simple average)	78	77	78	78	79	78	76	77
Term of mortgage loans for housing (simple average, month)	263	257	264	263	265	276	285	297
Vacancy rate (offices)	9.7	7.3	6.5	6.0	7.9	11.2	12.6	11.6
Vacancy rate (strip center)	-	4.1	3.5	4.0	5.6	6.5	5.6	5.7
Vacancy rate (warehouses)	-	6.1	6.7	5.0	4.6	0.5	0.4	2.5
Private Sector Debt Indicators								
Household debt to GDP 6/	44.9	46.4	48.6	51.2	50.7	47.4	49.0	48.8
Household mortgage debt to GDP 6/ 7/	23.6	24.5	25.3	27.3	28.7	27.3	28.4	28.5
Household gross saving to GDP 6/	7.3	6.0	6.1	8.1	7.6	5.1	-0.6	4.7
Household net financial assets to GDP 6/	131.8	133.0	132.8	146.3	147.8	130.5	119.9	120.1
Non-financial corporate debt to GDP	103.4	97.4	101.7	109.1	112.6	106.5	100.7	98.0
Non-Bank Financial Institutions Indicators								
Money market fund assets to GDP	9.0	8.8	9.2	11.8	13.3	10.7	9.6	12.1
Other investment fund assets to GDP	16.4	18.6	20.3	22.7	23.2	23.1	19.9	19.9
Insurance company assets to GDP	23.1	23.4	24.6	26.7	26.7	22.2	22.9	22.7
Pension fund asset to GDP	72.8	76.2	75.2	86.8	79.9	64.0	61.2	63.3

Sources: IMF Financial Soundness Indicators (for memorandum items, Central Bank of Chile), and IMF staff calculations.
1/ These indicators correspond to depository corporations.
2/ Gross loans including interbank loans.
3/ Specific provision only while total provision in Chile consists of specific and additional provision.
4/ Assets to capital.
5/ Real estate and the construction sector represents about 31 percent of Chilean banks' commercial loans and 16 percent of insurers' portfolios.
6/ Households and nonprofit organizations.
7/ Mortgage loans make up about 30 percent of bank loans.

Table 7. Chile: Indicators of External Vulnerabilities
(In percent, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Financial Indicators									
M3 (percent change)	12.4	8.7	4.8	11.0	10.9	3.1	14.7	3.3	5.9
Private sector credit to GDP	82.5	81.6	80.4	83.8	89.1	89.3	82.6	82.5	79.2
Share of foreign currency deposits in total deposits	15.4	15.2	13.0	12.8	14.9	14.8	18.8	17.5	16.6
Share of foreign currency loans in total credit (period average)	13.9	13.0	11.4	11.0	11.8	11.8	9.9	11.8	11.6
External Indicators									
Exports of goods, U.S. dollars (annual percentage change)	-17.5	-2.2	13.4	8.6	-8.1	7.6	27.8	4.2	-4.1
Imports of goods, U.S. dollars (annual percentage change)	-14.7	-4.7	10.0	14.7	-6.6	-16.2	53.0	12.5	-16.4
Terms of trade (annual percentage change) 1/	-2.8	4.1	10.0	-2.6	-1.9	11.7	12.4	-8.8	3.6
REER (annual percent change, period average)	-0.9	-2.9	-2.6	-1.3	4.7	8.2	0.2	7.3	-6.5
Exchange rate (pesos per U.S. dollar, period average)	654.1	676.9	648.9	641.2	703.3	792.2	759.1	873.2	839.8
Current account balance (percent of GDP) 2/	-2.7	-2.6	-2.8	-4.5	-5.2	-1.9	-7.3	-8.7	-3.5
Financial account less reserves accumulation (percent of GDP) 2/	-1.7	-2.4	-1.2	-4.3	-3.8	-1.9	-11.9	-6.2	-5.1
Gross official reserves (in billions of U.S. dollars) 3/	38.6	40.5	39.0	39.9	40.7	39.2	51.3	39.2	46.4
Gross official reserves to M3	14.9	13.5	11.5	11.9	11.7	10.5	14.3	10.7	12.3
Gross official reserves to short-term external debt 4/	104.3	89.3	85.1	77.3	74.4	92.1	89.6	66.0	89.5
Gross official reserves (percent of GDP)	15.9	16.2	14.1	13.5	14.6	15.4	16.3	13.0	13.8
Gross official reserves (percent of ARA metric) 5/	108.5	103.6	87.6	88.5	86.5	82.6	94.1	70.7	83.1
Government liquid FX assets (US$ billions) 6/	14.6	15.1	16.2	15.4	12.3	9.6	3.8	11.4	17.9
Total external debt (percent of GDP) 7/	65.4	65.6	62.5	59.4	66.8	77.0	71.6	76.1	71.1
Of which: External public sector debt	3.9	4.8	5.3	5.4	6.2	8.9	12.6	15.0	14.5
Total external debt to exports of goods and services	224.5	235.9	221.1	208.6	240.4	245.7	224.8	214.7	228.8
External interest payments to exports of goods and services	7.1	6.4	6.5	5.8	6.8	6.7	5.2	6.2	8.0
External amortization payments to exports of goods and services	55.3	53.4	58.0	54.5	66.7	68.7	42.4	53.5	56.9
Financial Market Indicators									
Stock market index (in U.S. dollars; period average) 8/	1465	1409	1731	1869	1512	1037	1182	1128	1111
Sovereign long-term foreign currency debt rating (end of period)									
Moody's	Aa3	Aa3	Aa3	A1	A1	A1	A1	A2	A2
S&P	AA-	AA-	A+	A+	A+	A+	A	A	A
Fitch ratings	A+	A+	A	A	A	A-	A-	A-	A-

Sources: Central Bank of Chile, Haver Analytics, WEO, and IMF staff calculations.

1/ Based on a simple average of quarterly price indexes.
2/ Calculated as a share of US$ GDP.
3/ Gold valued at end-period market prices.
4/ Includes amortization of medium/long-term debt due during the following year.
5/ Assessing Reserve Adequacy (IMF, 2011 Policy Paper).
6/ Adds the the government's liquid FX assets from the economic and social stabilization fund and U.S. dollar cash.
7/ Data from Dipres for the government and from BCCh for all other
8/ Morgan Stanley Capital International Index (Dec1987 = 100).

Table 8. Chile: Capacity to Repay the Fund 1/

	2023	2024	2025	2026	2027	2028	2029
Exposure and Repayments (In SDR millions)							
GRA credit to Chile	--	10,465.8	10,465.8	10,465.8	9,157.6	3,924.7	--
(In percent of quota)	--	600.0	600.0	600.0	525.0	225.0	--
Charges due on GRA credit 2/	1.2	172.9	668.4	668.7	681.7	506.6	125.5
Debt service due on GRA credit 2/	1.2	172.9	668.4	668.7	1,989.9	5,739.5	4,050.2
Debt and Debt Service Ratios							
In percent of GDP							
Total external debt	71.1	79.7	76.7	75.7	72.9	69.2	67.1
Public external debt	14.5	20.3	18.2	17.7	16.2	13.9	12.3
GRA credit to Chile	--	4.4	4.0	3.7	3.1	1.2	--
Total external debt service	20.2	18.1	18.3	17.9	17.9	18.9	18.3
Public external debt service	1.8	0.7	1.4	1.3	1.5	2.7	2.1
Debt service due on GRA credit	0.0	0.1	0.3	0.2	0.7	1.8	1.2
In percent of Gross International Reserves							
Total external debt	515.0	556.4	591.8	614.3	629.3	636.7	646.5
Public external debt	104.9	141.4	140.8	143.7	140.3	128.2	118.3
GRA credit to Chile	--	30.7	30.8	30.1	26.4	11.3	--
In percent of Exports of Goods and Services							
Total external debt service	64.9	57.8	57.3	54.2	52.6	56.9	55.6
Public external debt service	5.7	2.3	4.5	3.9	4.4	8.1	6.2
Debt service due on GRA credit	0.0	0.2	0.8	0.7	1.9	5.4	3.7
In percent of Total External Debt							
GRA credit to Chile	--	5.5	5.2	4.9	4.2	1.8	--
In percent of Public External Debt							
GRA credit to Chile	--	21.7	21.8	20.9	18.8	8.8	--

Sources: Chilean authorities, IMF Finance Department, World Economic Outlook, and IMF staff estimates.
1/ Assumes full drawing under the FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.
2/ Projections based on the rate of charge as of June 27th, 2024. Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Annex I. External Debt Sustainability Analysis

External debt declined to 71.1 percent of GDP in 2023, mainly due to the appreciation of the peso. Likewise, external debt dynamics over 2024-25 are primarily driven by the exchange rate. Over the medium term, external debt is projected to decline to about 67 percent of GDP by 2029. Despite sensitivity to the exchange rate, external debt remains sustainable under a wide range of shocks. The non-financial corporate sector appears highly leveraged, but a large share of its debt is FDI-related (i.e., intercompany loans) and has foreign exchange hedging or long maturity.

Table 1. Chile: External Debt Sustainability Framework

(In percent of GDP, otherwise indicated)

	Actual							Projections						
	2019	2020	2021	2022	2023			2024	2025	2026	2027	2028	2029	Debt-stabilizing non-interest current account 6/
Baseline: External debt	66.8	77.0	71.6	76.1	71.1			**75.3**	**69.1**	**69.1**	**68.4**	**68.0**	**67.1**	**0.5**
Change in external debt	7.4	10.2	-5.4	4.5	-5.0			4.1	-6.2	0.0	-0.7	-0.4	-0.9	
Identified external debt-creating flows (4+8+9)	8.1	9.5	-7.9	10.5	0.5			2.1	2.9	2.9	3.2	3.0	2.7	
Current account deficit, excluding interest payments	3.3	-0.2	5.6	6.5	1.1			-0.2	0.4	0.8	0.8	0.7	0.6	
Balance of goods and services	-1.8	4.5	-0.7	-3.9	1.4			3.2	2.8	2.5	2.2	2.2	2.2	
Exports	27.8	31.3	31.8	35.4	31.1			34.1	33.7	33.8	33.4	33.3	33.0	
Imports	-29.6	-26.8	-32.5	-39.4	-29.7			-31.0	-31.0	-31.3	-31.2	-31.0	-30.8	
Net non-debt creating capital inflows (negative)	-0.6	1.5	-0.3	-1.0	4.4			1.5	1.7	1.4	1.6	1.4	1.1	
Automatic debt dynamics 1/	5.3	8.1	-13.2	5.0	-5.0			0.8	0.8	0.7	0.9	0.9	0.9	
Contribution from nominal interest rate	1.9	2.1	1.7	2.2	2.5			2.7	2.4	2.4	2.4	2.4	2.4	
Contribution from real GDP growth	-0.4	4.5	-7.0	-1.5	-0.1			-1.9	-1.6	-1.7	-1.6	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	3.8	1.5	-7.9	4.3	-7.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.6	0.7	2.5	-6.0	-5.4			2.0	-9.1	-2.9	-3.9	-3.4	-3.5	
External debt-to-exports ratio (in percent)	240.4	245.7	224.8	214.7	228.8			220.5	204.8	204.7	204.9	204.4	203.2	
Gross external financing need (in billions of US dollars) 4/	66.0	59.6	65.5	83.4	71.2			**59.9**	**68.5**	**73.8**	**76.7**	**80.5**	**84.0**	
in percent of GDP	23.8	23.5	20.8	27.6	21.2	10-Year	10-Year	18.0	18.3	18.8	18.8	18.9	18.8	
Scenario with key variables at their historical averages 5/								**75.3**	**76.5**	**78.0**	**78.5**	**79.5**	**80.7**	**1.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.6	-6.1	11.3	2.1	0.2	1.9	4.3	2.6	2.4	2.5	2.4	2.3	2.3	
GDP deflator in US dollars (change in percent)	-6.5	-2.7	11.5	-6.1	10.9	0.4	8.0	-3.4	10.3	1.8	1.9	2.0	2.4	
Nominal external interest rate (in percent)	3.0	2.9	2.7	2.9	3.6	3.0	0.3	3.7	3.6	3.6	3.7	3.7	3.7	
Growth of exports (US dollar terms, in percent)	-8.1	3.0	26.2	6.6	-2.5	2.3	11.9	8.8	11.6	4.5	3.1	4.0	4.0	
Growth of imports (US dollar terms, in percent)	-5.4	-17.2	50.6	15.9	-16.1	2.6	20.7	3.1	13.0	5.4	3.9	3.9	4.1	
Current account balance, excluding interest payments	-3.3	0.2	-5.6	-6.5	-1.1	-2.4	2.2	0.2	-0.4	-0.8	-0.8	-0.7	-0.6	
Net non-debt creating capital inflows	0.6	-1.5	0.3	1.0	-4.4	-0.6	2.1	-1.5	-1.7	-1.4	-1.6	-1.4	-1.1	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

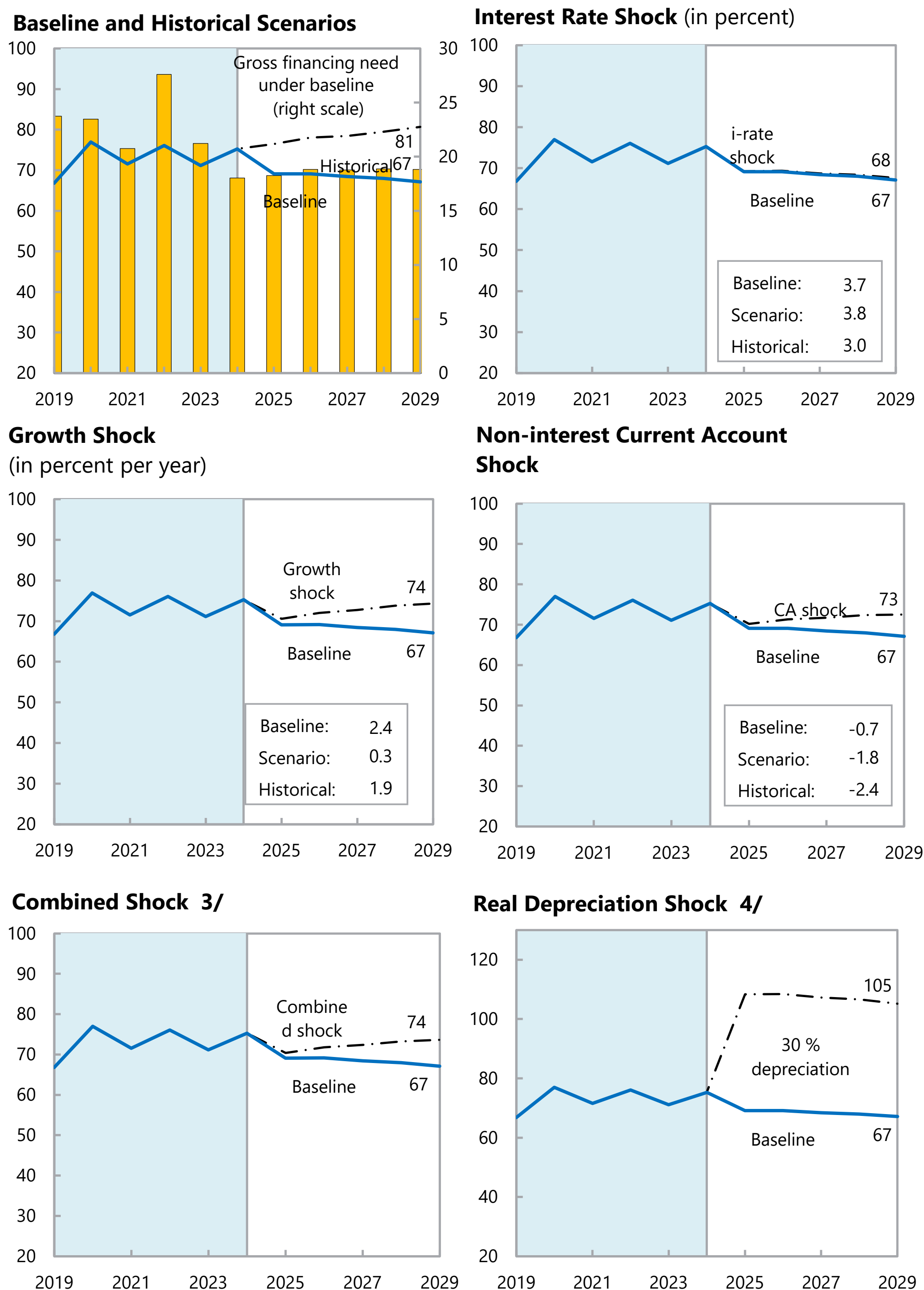
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Chile: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2024.

Annex II. Sovereign Risk and Public Debt Sustainability Analysis

Table 1. Chile: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability, including in the medium- and long-term horizons.
Near term 1/	...	...	...
Medium term	**Low**	**Low**	Medium-term risks are assessed as low, reflecting the strength of the fiscal framework in guiding fiscal policy and rebuilding buffers.
Fanchart	**Low**	...	
GFN	**Low**	...	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	**Low**	The overall long-run risk indicator is assessed as low. Under the baseline, debt stabilizes at around 40 percent of GDP, reflecting a primary balance broadly in line with the debt-stabilizing one under the government's medium-term fiscal commitment. Aging-related expenditure linked to health and pension are expected to be largely paired to higher revenues, with costs related to solidarity pensions potentially doubling by 2050. Copper production and revenues are not expected to fall dramatically over the next decades compared to its 2023 level, which was low by historical standards.
Sustainability assessment 2/	...	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels. Therefore, debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios and with high probability, with low medium-term sovereign and financing risks. Medium-term structural fiscal consolidation plans, guided by the structural fiscal balance rule and the prudent debt ceiling, are fully consistent with fiscal sustainability. The authorities are aiming for an ambitious tax reform, not included in baseline scenario, to finance demands for higher social spending.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Chile: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG (chosen)	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					Yes	

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	Not applicable
CPS / NFPS / GG: expected	4	State governments	No	Debt issuance not allowed
CPS / NFPS / GG: expected	5	Local governments	No	Debt issuance not allowed
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Included	Included	Included	Included	Missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis (chosen)	Nominal value 5/	Face value 6/	Market value 7/ (chosen)

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	Chosen

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

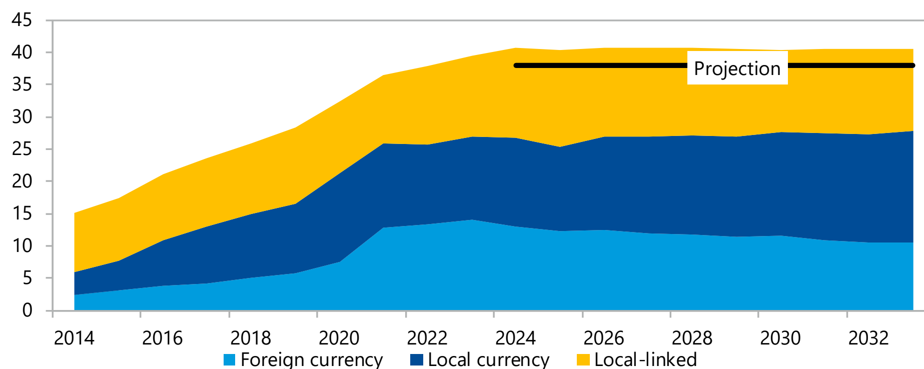
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The authorities continually manage state-contingent debts, which are clearly detailed in a published annual report. The provision of credit guarantees (FOGAPE and CAE) is only expected to result in modest fiscal costs in the medium term.

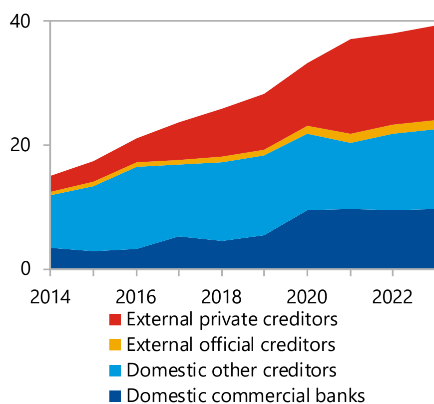
Table 3. Chile: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



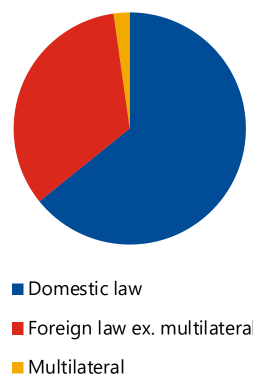
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)

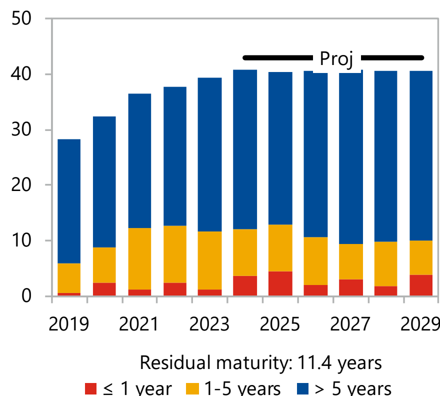


Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)

Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

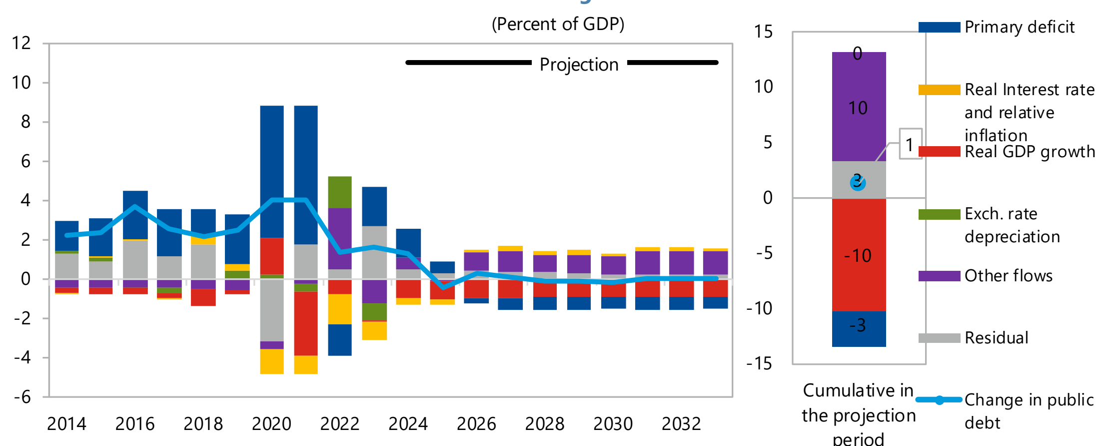
Commentary: Chile has a well-diversified investor base with a large presence of domestic creditors. The share of foreign currency debt increased in 2021 due to the pension withdrawals but is still relatively small and expected to return to historical levels. The residual maturity of debt is above 10 years, and most of its debt is traded on secondary markets.

Table 4. Chile: Baseline Scenario
(In percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	39.4	40.7	40.3	40.6	40.7	40.7	40.6	40.4	40.5	40.5	40.6
Change in public debt	1.6	1.3	-0.4	0.3	0.1	-0.1	-0.1	-0.2	0.1	0.1	0.1
Contribution of identified flows	-1.1	0.8	-0.7	-0.1	-0.3	-0.5	-0.4	-0.4	-0.2	-0.2	-0.2
Primary deficit	2.0	1.5	0.6	-0.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.6
Noninterest revenues	22.3	22.7	23.4	23.6	23.7	23.6	23.6	23.6	23.6	23.6	23.5
Noninterest expenditures	24.3	24.1	24.0	23.3	23.0	23.0	23.0	23.1	23.0	22.9	22.9
Automatic debt dynamics	-1.9	-1.3	-1.2	-0.8	-0.7	-0.7	-0.6	-0.8	-0.7	-0.7	-0.7
Real interest rate and relative inflation	-0.9	-0.3	-0.3	0.2	0.3	0.2	0.3	0.1	0.2	0.2	0.2
Real interest rate	-1.3	-0.6	-0.6	0.1	0.2	0.1	0.2	0.0	0.1	0.1	0.1
Relative inflation	0.4	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.1	-1.0	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real exchange rate	-0.8	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.2	0.6	-0.1	0.9	1.0	0.9	0.9	0.9	1.2	1.2	1.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.7	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other transactions 1 /	-0.6	1.1	0.3	1.3	1.4	1.3	1.3	1.3	1.6	1.6	1.6
Contribution of residual	2.7	0.5	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Gross financing needs	7.2	3.4	4.8	4.7	2.1	3.2	1.8	3.8	2.0	1.3	3.2
of which: debt service	5.9	2.5	4.5	5.3	3.2	4.2	2.9	4.8	3.1	2.3	4.2
Local currency	4.8	1.6	2.6	1.9	1.3	1.9	1.4	2.1	1.4	1.2	2.0
Foreign currency	0.8	0.6	1.1	0.9	1.2	1.0	1.0	0.8	1.2	0.7	0.8
Memo:											
Real GDP growth (percent)	0.2	2.6	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	6.6	5.1	4.3	2.8	2.8	2.9	2.7	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	6.8	7.8	6.8	5.3	5.2	5.3	5.1	5.4	5.4	5.4	5.4
Effective interest rate (percent)	3.0	3.4	2.8	2.9	3.2	3.1	3.2	3.1	3.2	3.3	3.2

Contribution to Change in Public Debt

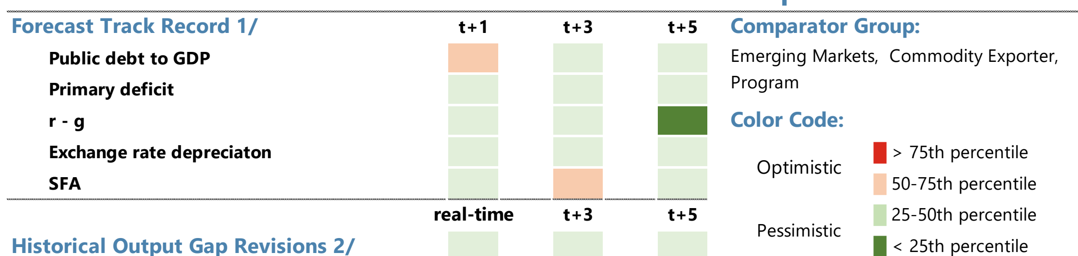
(Percent of GDP)



Commentary: Public debt is expected to stabilize at around 40 percent of GDP under the assumption that the government adheres to its medium-term target of a broadly balanced fiscal position.

1 / Other transactions include the use and accumulation of government financial assets, as well as other below-the-line operations.

Table 5. Chile: Realism of Baseline Assumptions

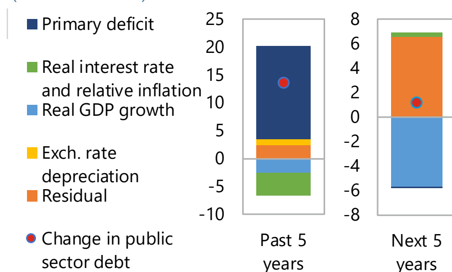


Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

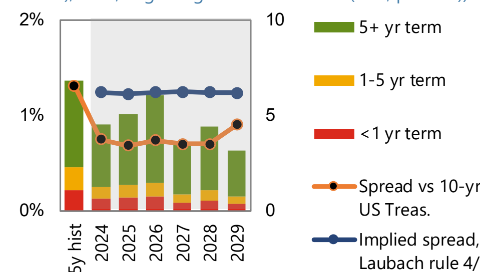
Comparator Group:
Emerging Markets, Commodity Exporter, Program

Color Code:
Optimistic: > 75th percentile; 50-75th percentile
Pessimistic: 25-50th percentile; < 25th percentile

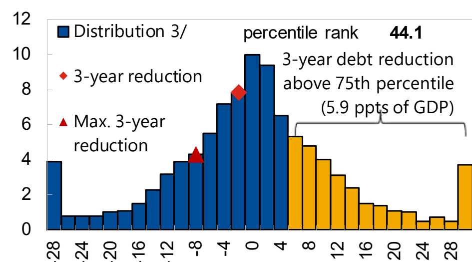
Public Debt Creating Flows
(Percent of GDP)



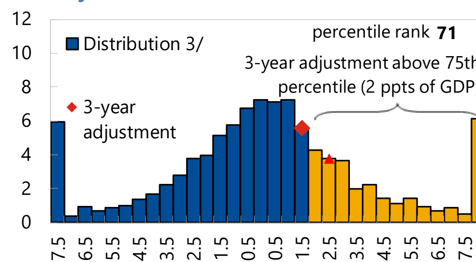
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



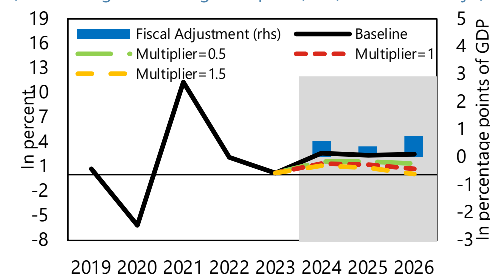
3-Year Debt Reduction
(Percent of GDP)



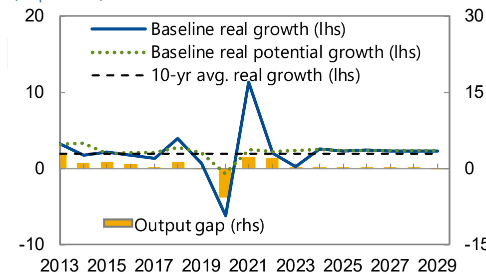
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: The realism analysis does not point to major concerns, and the forecast track record does not reveal any systematic bias. The projected fiscal consolidation is reasonable, when considering Chile's history and other country experiences.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 6. Chile: Medium-Term Risk Analysis

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	33.4	0.5	
Probability of debt non-stabilizaiton *(percent)*	14.9	0.1	
Terminal debt-to-GDP x institutions index	16.0	0.3	
Debt fanchart index (DFI)		1.0	
Risk signal: 3/		Low	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	3.3	1.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	6.6	2.1	
Chg. In banks' claims in stress *(pct banks' assets)*	2.1	0.7	
GFN financeability index (GFI)		4.0	
Risk signal: 4/		Low	

Final Fanchart (Percent of GDP)

5-25 pct
25-50 pct
50-75 pct
75-95 pct
Actual

Gross Financing Needs (Percent of GDP)

Financing provided by banks
Actual
Baseline
Stress scenario

Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)

Medium-term index
Low risk
High risk

Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.0	0.2	0.5	0.1
GFN finaceability index	4.0	0.1	0.5	0.0
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 72.7 pct.

Commentary: The debt fanchart and gross financing needs modules point to a low level of risk, underpinned by the government's commitment of keeping debt below a prudent ceiling of 45 percent of GDP, moderate gross financing needs, and the ability of the banking sector to act as a residual creditor under a stress scenario. The medium-term risk analysis also points to a low level of risk under a stress scenario of a natural disaster shock in the magnitude of 4.5 percent of GDP and a commodity price shock.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 7. Chile: Long-Term Risk Analysis I

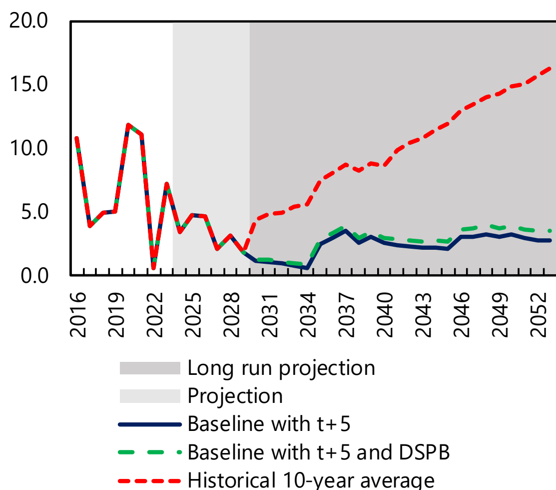
Chile: Triggered Modules

Large amortizations	**Pensions**	Climate change: Adaptation	**Natural Resources**
	Health	Climate change: Mitigation	

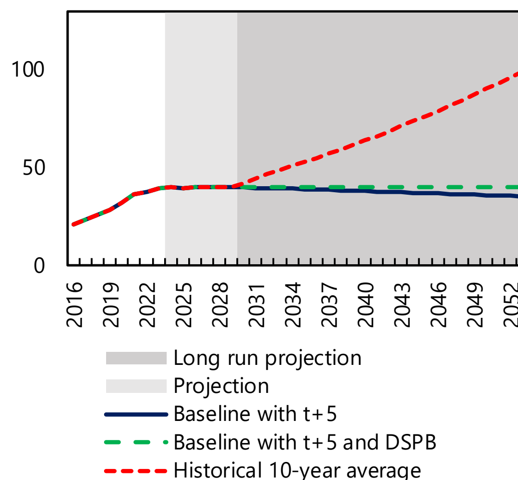
Chile: Long-Term Risk Assessment: Large Amortization

Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



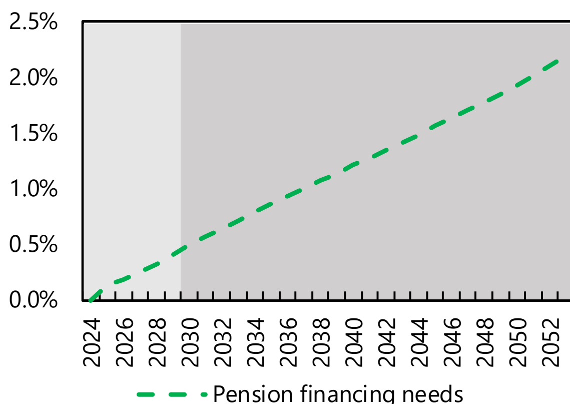
Commentary: The long-run amortization module does not trigger an overall risk indication. The overall long-run risk indicator is low. Under the baseline, debt stabilizes at around 40 percent of GDP in 2050, reflecting the government's commitment to a broadly balanced fiscal balance over the medium term. If historical 10-year averages are used, however, then debt could rise from around 40 percent to almost 100 percent of GDP by 2050. However, this simulation may not be representative as it reflects historically elevated gross financing needs, including the impact of the COVID-19 pandemic.

Table 8. Chile: Long-Term Risk Analysis II

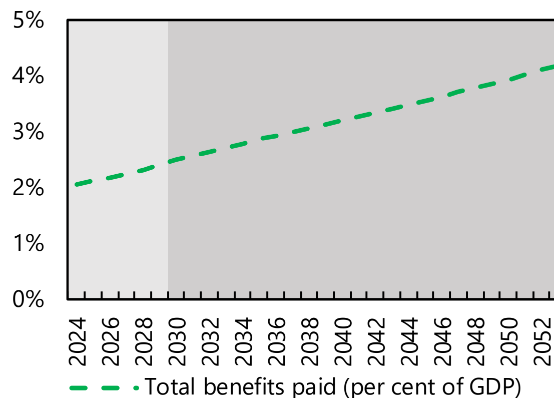
Chile: Demographics: Pensions

(Percent of GDP)	30 years	50 years	Until 2100
PGU Costs	4.2	5.5	6.3
Pension financing needs	2.2	3.5	4.3

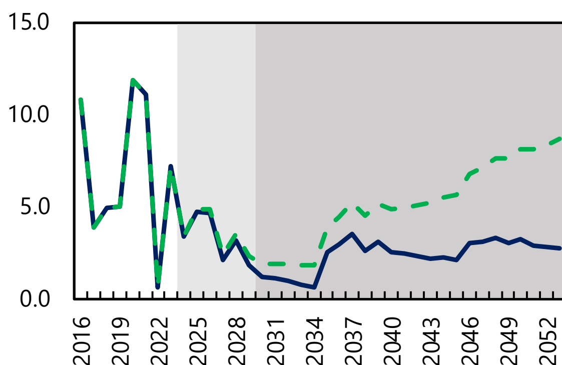
Pension Financing Needs



Total Benefits Paid

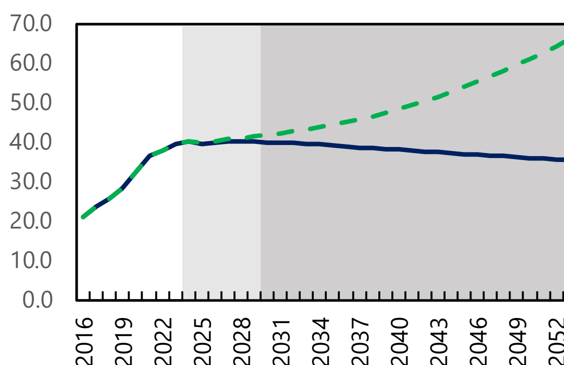


GFN-to-GDP Ratio



Long run projection
Projection
Baseline: Extension of fifth projection year
With pension cost increase

Total Public Debt-to-GDP Ratio



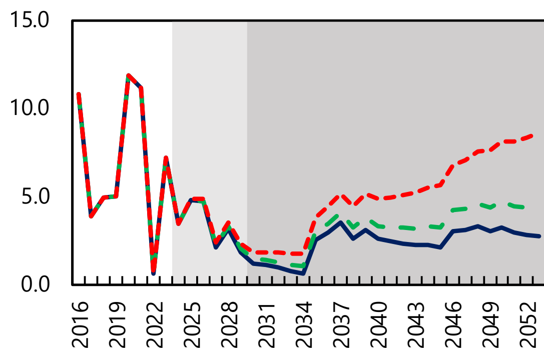
Long run projection
Projection
Baseline: Extension of fifth projection year
With pension cost increase

Commentary: Demographic dynamics would increase the fiscal costs of solidarity pensions (including mainly the PGU) from about 2 to 4 percent of GDP between 2024 and 2053, under the assumption that solidarity pensions increase in real terms in line with real GDP growth. Assuming that available financing through general taxes for solidarity pensions remains at 2 percent of GDP throughout the forecast period, this would imply an increase in debt to about 70 percent of GDP by 2050 (about 30 pp of GDP higher than in the baseline). The authorities also project the fiscal costs of solidarity pensions to increase to 4.1 percent of GDP in 30 years in the case that pensions are adjusted in real terms in line with real wage growth, and to 3.0 percent of GDP in case the value of solidarity pensions is kept constant in real terms, as foreseen by law.

Table 9. Chile: Long-Term Risk Analysis III

Chile: Demographics: Health

GFN-to-GDP Ratio

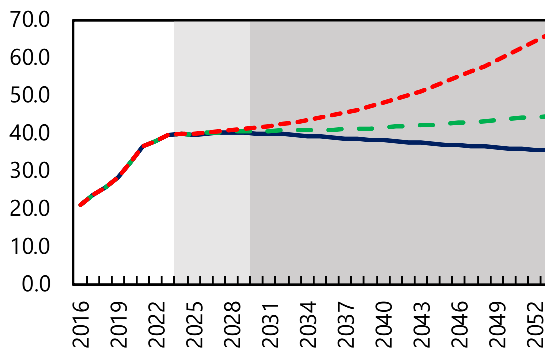


Baseline: Extension of fifth projection year

Health (Demographics)

Health (Demographics + ECG)

Total Public Debt-to-GDP Ratio



Baseline: Extension of fifth projection year

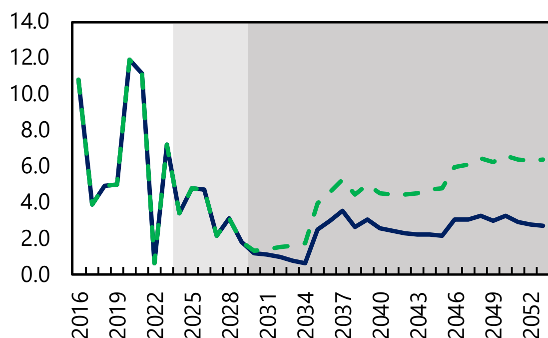
Health (Demographics)

Health (Demographics + ECG)

Commentary: Higher health costs due to demographics dynamics as well as excess cost growth of health (difference between health prices and aggregate CPI) would increase debt to about 65 percent of GDP by 2050.

Chile: Natural Resources

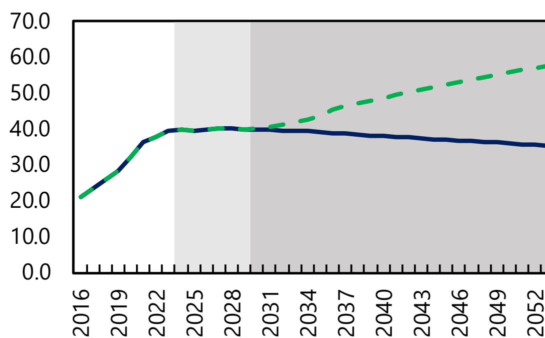
GFN-to-GDP Ratio



Baseline: Extension of fifth projection year

Natural Resources

Total Public Debt-to-GDP Ratio



Baseline: Extension of fifth projection year

Natural Resources

Commentary: One source of risk is lower copper revenue due to lower production. In the authorities' central scenario, copper production should increase on average 1.5 percent annually between 2024-2035 and an annual production of 5 million tonnes is assumed thereafter. Copper revenues were around 1.3 percent of GDP in 2023. We assume copper prices to grow in line with US inflation at 2 percent after 2029, lower than Chile's GDP nominal growth. Taking changes in copper revenues into account, debt would be about 60 percent of GDP by 2050, and the GFN-to-GDP ratio would be about 4 percentage points of GDP higher than under the baseline by 2050.

Appendix I. Written Communication

Santiago, July 17, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431, USA

Dear Ms. Georgieva,

The Chilean authorities are grateful for the IMF's continued support, especially during the pandemic and the following years, in the form of surveillance, technical assistance, and through the Flexible Credit Line (FCL) arrangement, which has complemented our very strong institutional frameworks by providing a valuable insurance against external tail risks.

Since the approval of the 2022 FCL request, significant domestic macroeconomic imbalances that emerged during the pandemic have been resolved as a result of strong policies. Annual headline inflation declined from a peak of 14.1 percent in August 2022 to 3.8 percent in June 2024 due to decisive monetary tightening, which allowed the Central Bank of Chile (BCCh) to be among the first central banks to start the easing cycle in July 2023. The pandemic fiscal stimulus was swiftly withdrawn in 2022 and the government remained committed to its well-established fiscal rule. The resulting rebalancing of domestic demand also led to a swift correction of the current account deficit from 8.7 percent of GDP in 2022 to 3.6 percent in 2023. After a necessary adjustment in 2023, the output gap is estimated to be broadly closed and growth has recovered in line with potential.

International reserves have stayed relatively stable at around 14 percent of GDP (equivalent to about 80 percent of the ARA metric) since mid-2022 and have been complemented by additional liquid FX assets. In line with its commitment to rebuild international reserve buffers, the BCCh launched a transparent and well-communicated reserve accumulation program in June 2023, which was suspended in October amid heightened tensions in global financial markets. Finally, Chile's financial sector remained resilient and banks well-capitalized amid tight global financial conditions.

Despite the resolution of domestic imbalances and a more positive domestic economic outlook, the Chilean economy continues to be exposed to exceptional external risks. In particular, uncertainty around the onset and speed of the monetary tightening in the U.S. could reduce capital inflows and increase financial market and exchange rate volatility, as well as borrowing costs. Moreover, a possible slowdown in China and other key trading partners, as well as the intensification of geopolitical risks, could lead to lower and more volatile commodity prices.

Chile, as a small open economy dependent on the export of commodities and with a high degree of integration in global financial markets, is particularly susceptible to the risks described above. In the context of less deep capital markets since the pension fund withdrawals, the Chilean peso (CLP) has been subject to unusual bouts of volatility amid the narrowing interest rate differential with the U.S. As of June 2024, the CLP had depreciated by around 16 percent against the U.S. dollar relative to a year earlier, while the real effective exchange rate last May was 5 percent weaker than its 2014-23 average. More recently, the surge in copper prices since end-March to levels above US$4 per pound has partly reversed the peso weakness and strengthened the economic outlook for the near term, but it is still premature to infer that the global economic risks and volatility observed over the last two years have subsided.

While the current level of international reserves is adequate given Chile's mature flexible exchange rate system, fluid access to international financial markets, FX liquidity lines, and government's usable liquid FX assets, we would like to keep access to the FCL arrangement as part of our buffers in case of tail risk scenarios considering the heightened external uncertainty.

Against this background, and in line with our commitment to gradually reduce access conditional on external risk developments, we request a successor two-year FCL arrangement in the amount of SDR10.4658 billion, equivalent to 600 percent of our quota. This access level will provide an additional layer of insurance to our economy in a shock-prone world and is justified by the still elevated external risks, as well as the need to maintain adequate reserve levels under a plausible tail risk scenario. If approved, the BCCh will be responsible for managing financial operations associated with the FCL arrangement. If FCL resources were to be drawn, they would not be used for budget financing, consistent with our institutional framework. We hereby also notify you of our decision to cancel the current FCL arrangement. The cancellation shall solely become effective upon the IMF Executive Board's approval of the referred successor arrangement.

We intend to treat the new FCL arrangement as a precautionary support to our financial buffers, as we did with previous arrangements. Moreover, we reiterate our commitment to gradually reduce access under the FCL arrangement conditional on external conditions, in the context of our exit strategy, and will reassess our access level at the time of the mid-term review. Our gradual exit strategy will be supported by the buildup of international reserves, as well as ongoing initiatives to restore the depth of domestic capital markets, such as the Financial Market Resilience Law (N°21.641) which is expected to strengthen the infrastructure and functioning of financial markets and facilitate an increase in the participation of international investors in the domestic market.

We remain firmly committed to maintaining prudent policies to preserve macroeconomic and financial stability while strengthening external buffers.

- We are committed to complying with our fiscal rule and keeping public debt below its prudent ceiling of 45 percent of GDP. Under our medium-term fiscal path, we aim to reach a structural deficit of 0.5 percent of GDP by 2026. Moreover, we are committed to conditioning new spending on new revenue measures.

- In the context of a highly credible inflation-targeting regime, monetary policy decisions will continue to be data-dependent, with the objective of reaching the 3 percent inflation target over its two-year policy horizon. By doing so, the monetary policy stance will consider the impact that movements in global financial markets could have on monetary policy transmission and ultimately inflation.

- While we continue to regard the flexible exchange rate system as a key shock absorber in Chile's economy and remain firmly committed to maintain it, we also agree on the relevance of increasing international reserves to rebuild and sustain adequate buffers over time, which would also support a further reduction in access under the FCL arrangement. We plan to resume our reserve accumulation when market conditions are conducive, considering the dynamics associated with monetary policy in Chile and abroad, and CLP volatility. In line with previous reserve accumulation programs, any new program will follow high transparency standards, be robust to changes in external risks, and avoid significant distortions in the FX market.

- The financial sector remains sound, underpinned by a strong regulatory framework. Banks are profitable, well capitalized, liquid, and compliant with capital standards and liquidity requirements. The ongoing implementation of Basel III standards will further enhance financial sector resilience. We are closely monitoring vulnerable sectors (e.g., construction and real estate) and proactively responding to financial risks. The unwinding of the extraordinary pandemic liquidity measures has been completed smoothly. We are also appropriately responding to the 2021 FSAP recommendations by passing a Law that creates a Consolidated Credit Registry that will improve functioning of credit markets and monitoring indebtedness by firms and households, updating the regulation of insurance companies to move towards a risk-based capital and supervision framework, drafting a new bill on bank resolution and deposit insurance and issuing a policy paper on the new consolidated supervision of financial conglomerates. Moreover, the Financial Market Resilience Law will, among other measures, allow for central bank liquidity provision to non-bank financial institutions and facilitate the development of repo markets, which should enhance policy responses in scenarios of financial distress. The Resilience Law will also strengthen liquidity regulation for investment funds and confer power to the tax authority to clarify the reporting regime applicable to correspondent accounts in Chilean pesos, which will facilitate the settlement of pesos by non-residents, contributing to the internationalization of the CLP. Finally, we are making significant progress in identifying and addressing AML/CFT risks.

- We are advancing with our ambitious reform agenda to support a more dynamic, inclusive, and greener economy. The government has agreed on a fast track to speed up the approval of 21 key pro-growth and fiscal bills, including the tax compliance and the permits system bills, which could increase fiscal revenues to finance pressing social needs and add dynamism to investment, respectively. The pension reform bill intends to ensure adequate pensions. Finally, the implementation of the National Lithium Strategy is continuing as expected and should lead to a significant increase of lithium production over the medium and long term.

We reiterate that the FCL would represent an important complement to our very strong institutional policy frameworks, and we will maintain a productive policy dialogue with the Fund. We consent to the IMF's publication of this letter and the related staff report.

Sincerely yours,

/s/	/s/
Rosanna Costa Costa Governor Banco Central de Chile	Mario Marcel Cullell Minister Ministry of Finance Chile

INTERNATIONAL MONETARY FUND

CHILE

ASSESSMENT OF THE IMPACT OF THE PROPOSED ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE ON THE FUND'S FINANCES AND LIQUIDITY POSITION

July 22, 2024

Approved By
Zuzana Murgasova (FIN) and Bergljot Barkbu (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments (in consultation with other departments). The main contributors included Nicolas Magud and Eyno Rots (FIN) and Martina Hengge (SPR).

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ANNEX

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INTRODUCTION

1. This note assesses the impact of the proposed successor Flexible Credit Line (FCL) arrangement for Chile on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.[1] The proposed arrangement would cover a 24-month period, with access of SDR 10,465.8 million (600 percent of quota), lower than under the current FCL that is set to expire on August 28, 2024 (SDR 13,954 million, 800 percent of quota). The authorities consider the new FCL important for maintaining Chile's buffers against external shocks and providing insurance against a broad range of risks. The gradual access reduction occurs in the context of Chile's FCL exit strategy, conditional on the evolution of external risks. The authorities intend to treat the new FCL arrangement as precautionary.

BACKGROUND

2. Chile has been utilizing the Fund's precautionary arrangements to augment its reserves buffers against tail risks in recent years. Chile had several Fund arrangements during the 1950s to the 1980s (Annex 1). After that, for three decades (from 1990 to 2019), Chile had no new arrangements. Since 2020, Chile has had three precautionary arrangements with the Fund: two FCL arrangements, from May 2020 to May 2022 (SDR 17,443 million, 1,000 percent of quota) and from August 2022 to August 2024 (SDR 13,954 million, 800 percent of quota); and one Short-Term Liquidity Line (SLL) arrangement (SDR 2,529 million, 145 percent of quota), which was approved in May 2022 following the expiration of Chile's first FCL and canceled in August 2022 upon the approval of its second FCL. Chile has not made purchases under any of the previous FCL and SLL arrangements and does not have any outstanding credit with the Fund.

3. Chile has very strong economic fundamentals and institutional policy frameworks.[2] Chile's monetary policy is anchored in a highly credible inflation-targeting framework on the back of a flexible exchange rate regime. It has a sound and effectively supervised financial system. Fiscal policy has been guided by a structural fiscal balance rule since 2001. Public debt is relatively low by international standards, mostly denominated in domestic currency, and with an average external debt maturity above ten years. With these strong fundamentals and policy frameworks in place, the Chilean economy remained resilient when faced with large shocks, such as Chile's 2019 social unrest episode and the Covid-19 global pandemic.

4. Chile's open economy continues to face elevated external risks. The global environment remains uncertain and prone to shocks and Chile is particularly exposed to a potentially higher-for-

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[1] See *Flexible Credit Line—Operational Guidance Note* (Policy Paper, 08/06/2018), which documents the requirement for an assessment prepared by FIN/SPR on the impact of the proposed FCL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report. See *Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform* (Policy Paper No. 2023/039) for an update of procedures in case of requests for successor FCL arrangements.

[2] *Chile—2022—Request for an Arrangement Under the Flexible Credit Line and Cancellation of the Arrangement under the Short-Term Liquidity Line* (IMF Country Report No. 22/283); *Chile—2023—Staff Report for the Article IV Consultation* (IMF Country Report No. 24/41).

longer interest rate environment in the U.S. It has in the past experienced some bouts of unusual exchange rate and financial market volatility. Given the significance of its commodity exports, other major external risks for Chile include a slowdown in China and other key trading partners, as well as a possible intensification of geopolitical tensions.

5. **Public debt is sustainable with high probability and debt trajectories are robust to standard shocks.** Under staff's baseline scenario, external debt—largely private-sector debt—is projected to decline from 71.1 percent of GDP at end-2023 to around 67 percent of GDP over the medium term. Public debt is expected to stabilize below the authorities' prudent ceiling of 45 percent of GDP and is low by international standards, standing at 39.4 percent of GDP at end-2023. External public debt is projected at about 15 percent of GDP by end-2024. Liquidity risks continue to be mitigated by liquid assets held in the sovereign wealth fund and a large domestic banking sector.

Table 1. Chile: Total External Debt, 2018-2024

	2018	2019	2020	2021	2022	2023	2024 Proj. 1/
				(In millions of US Dollars)			
Total External Debt	175,385	185,734	195,543	225,842	229,867	238,723	250,260
Private	159,356	168,475	173,013	186,090	184,643	190,104	200,154
Public	16,029	17,259	22,530	39,752	45,224	48,619	50,106
Total External Debt Service	50,726	56,804	60,034	47,814	63,881	67,672	60,678
Private	48,527	53,377	54,835	44,604	59,432	61,768	58,652
Public	2,199	3,427	5,200	3,210	4,448	5,904	2,026
				(In percent of GDP)			
Total External Debt	59.4	66.8	77.0	71.6	76.1	71.1	75.3
Private	53.9	60.6	68.1	59.0	61.1	56.6	60.2
Public	5.4	6.2	8.9	12.6	15.0	14.5	15.1
Total External Debt Service	17.2	20.4	23.6	15.2	21.1	20.2	18.2
Private	16.4	19.2	21.6	14.1	19.7	18.4	17.6
Public	0.7	1.2	2.0	1.0	1.5	1.8	0.6

Sources: Chilean authorities and IMF staff estimates.
1/ Baseline scenario.

THE NEW FLEXIBLE CREDIT LINE ARRANGEMENT—IMPACT ON THE FUND'S FINANCES AND LIQUIDITY POSITION

6. Risks and the impact on Fund finances from Chile's FCL arrangement are assessed in the context of an adverse scenario, which assumes the materialization of tail risks. The adverse scenario[3] assumes the materialization of external risks that would tighten financial conditions and depress global growth and commodity prices, leading to capital outflows from emerging markets. These risks could arise due to a combination of shocks, stemming, for example, from higher-for-longer interest rates in the U.S., a slowdown in key trading partners, and intensification of regional conflicts in the world. Table 2 provides a comparison of the main macroeconomic assumptions underlying the baseline and adverse scenarios.

7. Chile's capacity to repay and the impact of the proposed FCL on the Fund's liquidity are assessed under the assumption that the authorities purchase the total amount available under the proposed FCL. Chile would be eligible to draw in full on the FCL arrangement of 600 percent of quota to address the effects of an adverse scenario, should it materialize.

8. If Chile were to purchase the full amount available under the proposed FCL arrangement, its capacity to repay the Fund would be adequate (Table 3):

- If Chile were to draw all the resources available under the FCL arrangement at the time of the approval, its total external debt would rise from 75.3 percent of GDP to 79.7 percent of GDP at the end of 2024. Most of Chile's external debt is private, however, while public external debt would rise from 15.1 percent of GDP to 20.3 percent of GDP. Private external debt and public external debt ratios would be, respectively, at the 72nd percentile and at the 22nd percentile of exceptional access arrangements and FCLs approved since 2008 (Figure 1). Chile's public external debt is the lowest among FCLs. Chile's Fund credit outstanding would initially reach 4.4 percent of GDP, 30.7 percent of gross international reserves, and 5.5 percent of total external debt at the end of 2024. The peak ratios of the stock of Fund credit outstanding relative to these measures would be moderate, below the medians for exceptional access arrangements and FCLs approved since 2008.[4]

[3] For further details see *Box 1. Chile: Illustrative Adverse Scenario* of the Staff Report on the request for an arrangement under the FCL (July 2024).

[4] In addition to official central bank reserves, the central government has usable liquid FX assets (about US$5.5 billion in April 2024, including US$5.1 billion in the economic and social stabilization fund and US$0.4 billion in cash). Chile also has a pension reserve fund which is not counted towards the government's usable liquid FX assets. As of April 2024, the balance of the pension reserve fund stood at US$8.5 billion.

Table 2. Chile: Comparison of Macroeconomic Assumptions Under Baseline and Adverse Scenarios

(In millions of US dollars)

	2023	2024	2025	2026	2027	2028	2029
Baseline scenario							
Real GDP growth (percent)	0.2	2.6	2.4	2.5	2.4	2.3	2.3
Nominal GDP	335,658	332,526	375,526	391,698	408,493	426,377	446,649
Gross international reserves	46,353	46,353	46,353	46,353	46,353	46,353	46,353
in months of next year's imports of goods and services	5.4	4.8	4.5	4.4	4.2	4.0	3.9
Exports of goods and services	104,348	113,511	126,641	132,282	136,386	141,794	147,466
Total external debt (in percent of GDP)	71.1	75.3	69.1	69.1	68.4	68.0	67.1
of which: public external debt (in percent of GDP)	14.5	15.1	13.3	13.5	12.9	12.7	12.3
Adverse scenario							
Real GDP growth (percent)	0.2	0.1	1.2	4.2	3.4	3.4	2.3
Nominal GDP	335,658	315,900	349,239	376,030	400,323	426,377	446,649
Gross international reserves	46,353	45,253	45,253	46,353	46,353	46,353	46,353
in months of next year's imports of goods and services	5.4	5.1	4.7	4.4	4.2	4.0	3.9
Exports of goods and services	104,348	99,056	111,774	124,346	136,386	141,794	147,466
Total external debt (in percent of GDP)	71.1	79.7	76.7	75.7	72.9	69.2	67.1
of which: public external debt (in percent of GDP)	14.5	20.3	18.2	17.7	16.2	13.9	12.3

Sources: Chilean authorities and IMF staff projections.

- External debt service would be 18.1 percent of GDP in 2024, and subsequently remain stable under staff's medium-term macroeconomic projections. Chile's debt service to the Fund would be 0.1-0.3 percent of GDP in 2024-2026 and peak at 1.8 percent of GDP in 2028, reflecting large repurchases. Chile's peak total external debt service as a share of exports of goods and services would be 57.8 percent, above the median of exceptional access arrangements and FCLs approved since September 2008, but peak debt service to the Fund of 5.4 percent would be below the median (Figure 2).

- While public external debt service ratios are moderate, private external debt obligations are projected at 17.4 percent of GDP in 2024 before falling to slightly more moderate levels. However, a large share of non-financial corporations' external debt is FDI-related (which reduces roll-over risks) and hedged against exchange rate risk.

9. The approval of the proposed FCL arrangement in place of the existing, larger arrangement would have a positive net impact on the Fund's liquidity as measured by the forward commitment capacity (FCC). As noted above (¶1), access under the proposed FCL arrangement would be lower by 200 percent of quota than under the existing arrangement. Commitments for the new arrangement would continue to be covered in full from quota resources, with the cancellation of the existing arrangement freeing up SDR 13,954 million, compared with SDR 10,465.8 million committed upon approval of the proposed arrangement. Accordingly, other things

5 INTERNATIONAL MONETARY FUND

equal, the FCC would increase by SDR 3.49 billion (2.1 percent of current liquidity) upon approval of the proposed FCL arrangement (Table 4).

10. A full drawing of the resources available under the proposed FCL arrangement would create a large GRA credit exposure to Chile and affect the Financial Transactions Plan (FTP), the Fund's financing mechanism:[5]

- Fund credit to Chile would represent 10.4 percent of total GRA credit outstanding as of June 27, 2024 (including Chile's purchases under the FCL). Chile would be the second largest Fund exposure after Argentina (SDR 31.59 billion). The concentration of Fund credit among the top five users of GRA resources would slightly decline to 67.1 percent, from 70.4 percent. Fund credit to Chile would be 42.6 percent of the Fund's precautionary balances as of January 2024.
- A single drawing by Chile for the full amount under the proposed FCL arrangement would represent a large funding requirement from participants in the Fund's FTP. If Chile were to draw under the FCL, it would automatically be excluded from the list of members in the FTP, which would then reduce the FCC and thus partially offset the initial increase in FCC due to the approval of the successor FCL arrangement with smaller access level.

11. The proposed FCL would have a moderate impact on the concentration of the Fund's lending portfolio, both in terms of regions and among Fund facilities (Figure 4):

- **Regional concentration to Latin America would decrease slightly**. Currently, the Western Hemisphere accounts for 57.4 percent of GRA credit and undrawn balances, including for precautionary arrangements. With the proposed FCL for Chile with smaller access level, that share would decrease to 56.5 percent. Therefore, the proposed FCL would help marginally alleviate the high exposure to the Western Hemisphere, which has been characteristic of the Fund's lending since before the COVID pandemic.

- **Among the Fund's different facilities, the share of FCL commitments would lower moderately**. Commitments under FCLs, which represent the bulk of precautionary arrangements, stood at around SDR 51 billion on June 27, 2024, or 42.4 percent of total current GRA commitments (Figure 4). With the proposed successor FCL for Chile with smaller access level, the share of commitments from FCL arrangements would decrease to 40.7 percent.

[5] There is an important distinction between *credit risk* and *credit exposure*. *Credit risk* in this assessment is a combined concept taking into account various factors that could affect the probability that a borrower country will fail to meet its financial obligations to the Fund on time, as reflected partially in Capacity to Repay indicators. *Credit exposure* by contrast is a concept linked more directly to the size of the Fund's commitment to a member country.

Table 3. Chile: Capacity to Repay Indicators 1/

	2023	2024	2025	2026	2027	2028	2029
Exposure and Repayments (In SDR millions)							
GRA credit to Chile	--	10,465.8	10,465.8	10,465.8	9,157.6	3,924.7	--
(In percent of quota)	--	600.0	600.0	600.0	525.0	225.0	--
Charges due on GRA credit 2/	1.2	172.9	668.4	668.7	681.7	506.6	125.5
Debt service due on GRA credit 2/	1.2	172.9	668.4	668.7	1,989.9	5,739.5	4,050.2
Debt and Debt Service Ratios							
In percent of GDP							
Total external debt	71.1	79.7	76.7	75.7	72.9	69.2	67.1
Public external debt	14.5	20.3	18.2	17.7	16.2	13.9	12.3
GRA credit to Chile	--	4.4	4.0	3.7	3.1	1.2	--
Total external debt service	20.2	18.1	18.3	17.9	17.9	18.9	18.3
Public external debt service	1.8	0.7	1.4	1.3	1.5	2.7	2.1
Debt service due on GRA credit	0.0	0.1	0.3	0.2	0.7	1.8	1.2
In percent of Gross International Reserves							
Total external debt	515.0	556.4	591.8	614.3	629.3	636.7	646.5
Public external debt	104.9	141.4	140.8	143.7	140.3	128.2	118.3
GRA credit to Chile	--	30.7	30.8	30.1	26.4	11.3	--
In percent of Exports of Goods and Services							
Total external debt service	64.9	57.8	57.3	54.2	52.6	56.9	55.6
Public external debt service	5.7	2.3	4.5	3.9	4.4	8.1	6.2
Debt service due on GRA credit	0.0	0.2	0.8	0.7	1.9	5.4	3.7
In percent of Total External Debt							
GRA credit to Chile	--	5.5	5.2	4.9	4.2	1.8	--
In percent of Public External Debt							
GRA credit to Chile	--	21.7	21.8	20.9	18.8	8.8	--

Sources: Chilean authorities, Finance Department, World Economic Outlook, and IMF staff estimates.
1/ Assumes full drawing under the proposed FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.
2/ Based on the rate of charge as of June 27, 2024. Includes GRA basic rate of charge, surcharges, service fee, and SDR charges.

Table 4. Chile: Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 6/27/24
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	170,104
FCC on approval 2/	173,592
Change in percent	2.1
Prudential measures, assuming full FCL drawing	
Fund credit to Chile	
In percent of total GRA credit outstanding 3/	10.4
In percent of current precautionary balances	42.6
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	70.4
In percent of total GRA credit outstanding including Chile's assumed full drawing 3/	67.1
Memorandum items	
Current precautionary balances (January 31st, 2024)	24,557
Total FCL commitments, including current FCL arrangement	50,552
Total FCL commitments, including proposed FCL arrangement	47,064
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.8

Source: Finance Department.
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include unactivated borrowed resources, which currently consist of the New Arrangements to Borrow and bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed FCL arrangement plus access under the current FCL.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

12. **The proposed successor FCL arrangement in place of the current one would have a net positive impact on the Fund’s liquidity position and reduce the Fund’s credit commitments**. On approval of the proposed successor arrangement with lower access level, the Fund's liquidity position would increase as the cancellation of Chile’s existing FCL arrangement would more than offset the liquidity effect from the proposed new arrangement. The Fund’s Forward Commitment Capacity (FCC) would increase by SDR 3.49 billion or 2.1 percent from its current level of SDR 170.1 billion to around SDR 173.6 billion (Table 4). Similarly, lower access under the proposed arrangement would lower the Fund’s credit commitments. The concentration of the Fund’s commitment portfolio to Latin America would decline slightly but remain elevated. The arrangement would cover a 24-month period with access in an amount of SDR 10,465.8 million (600

percent of quota). If Chile were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP), and the FCC would decline (by about SDR 0.9 billion) and thus partially offset the initial increase due to the approval of the successor FCL arrangement. Nevertheless, the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement.

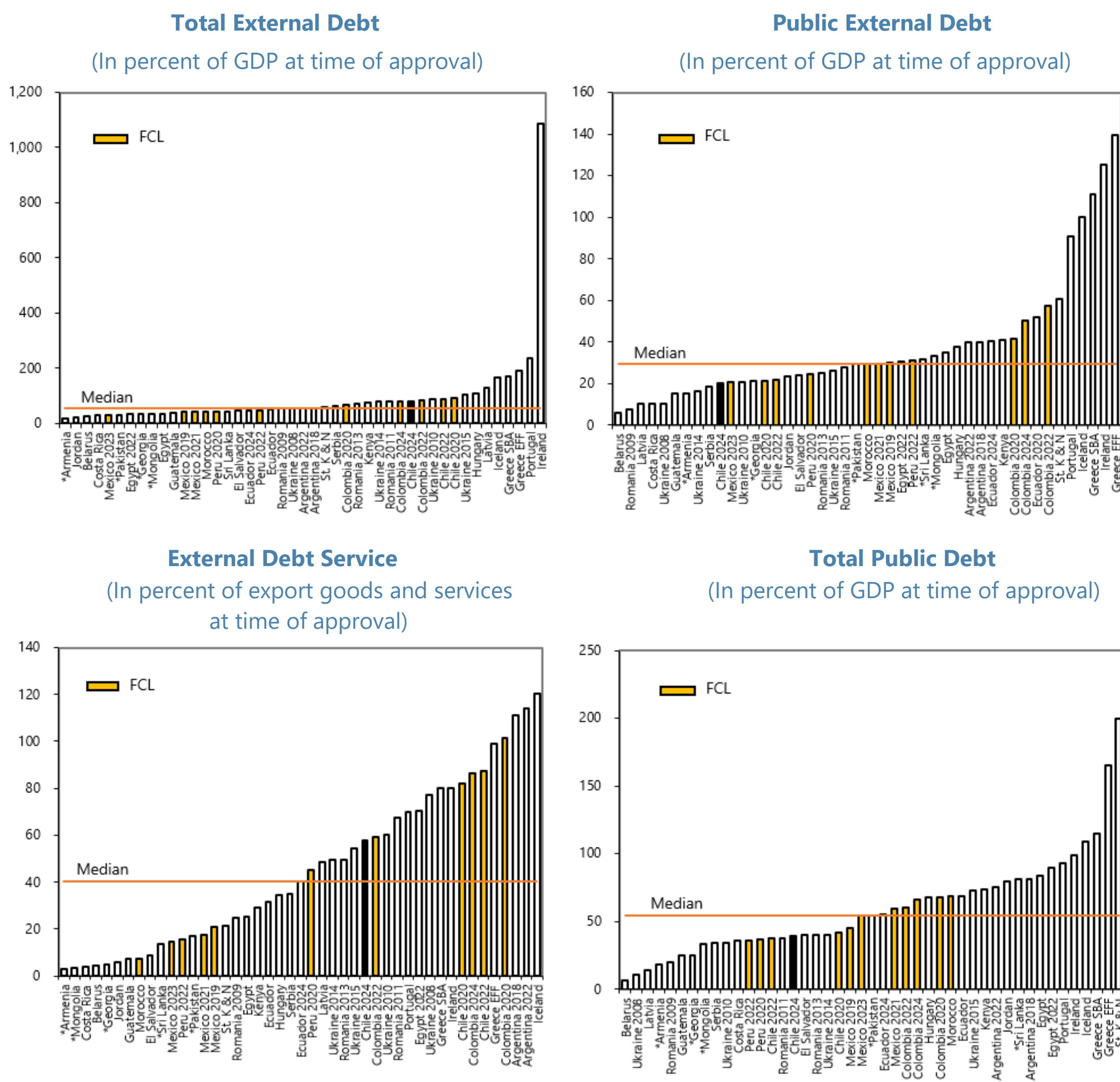
13. Moreover, financial enterprise risks are mitigated by several factors. Chile has a track record of meeting its obligations to the Fund and uninterrupted access to international capital markets at favorable terms for several decades. It maintains investment grade status according to the three major rating agencies, and is consistently among the highest-rated emerging market countries. Finally, the authorities intend for the FCL to be precautionary.

14. If the resources available under the proposed FCL arrangements were fully drawn, the GRA credit exposure to Chile would be at 10.4 percent of the Fund's outstanding credit and at almost 42.6 percent of the Fund's current precautionary balances, but staff judges the credit risk to be moderate. Chile's capacity-to-repay the Fund would remain adequate with key metrics related to public debt below or close to the median compared to other recent exceptional access arrangements and FCLs. Moreover, Chile has very strong policy and institutional frameworks, which would shelter the economy from the effects of the global shocks as well as to cope with domestic shocks.

15. The authorities remain committed to treat the FCL arrangement as precautionary and to gradually lower access conditional on external risk developments. The lower access under the current request underscores the authorities' commitment to gradually lower access in the context of their exit strategy from the FCL. While medium-term resilience will continue to be anchored in very strong policies and sound institutional frameworks, the authorities intend to strengthen their own external buffers as an additional step of their exit strategy with the timing dependent on the dynamics associated with monetary policy in Chile and abroad, and the peso's volatility.

Figure 1. Debt Ratios of Recent Exceptional Access Arrangements and FCLs[1/ 2/]

(EA cases since September 2008)



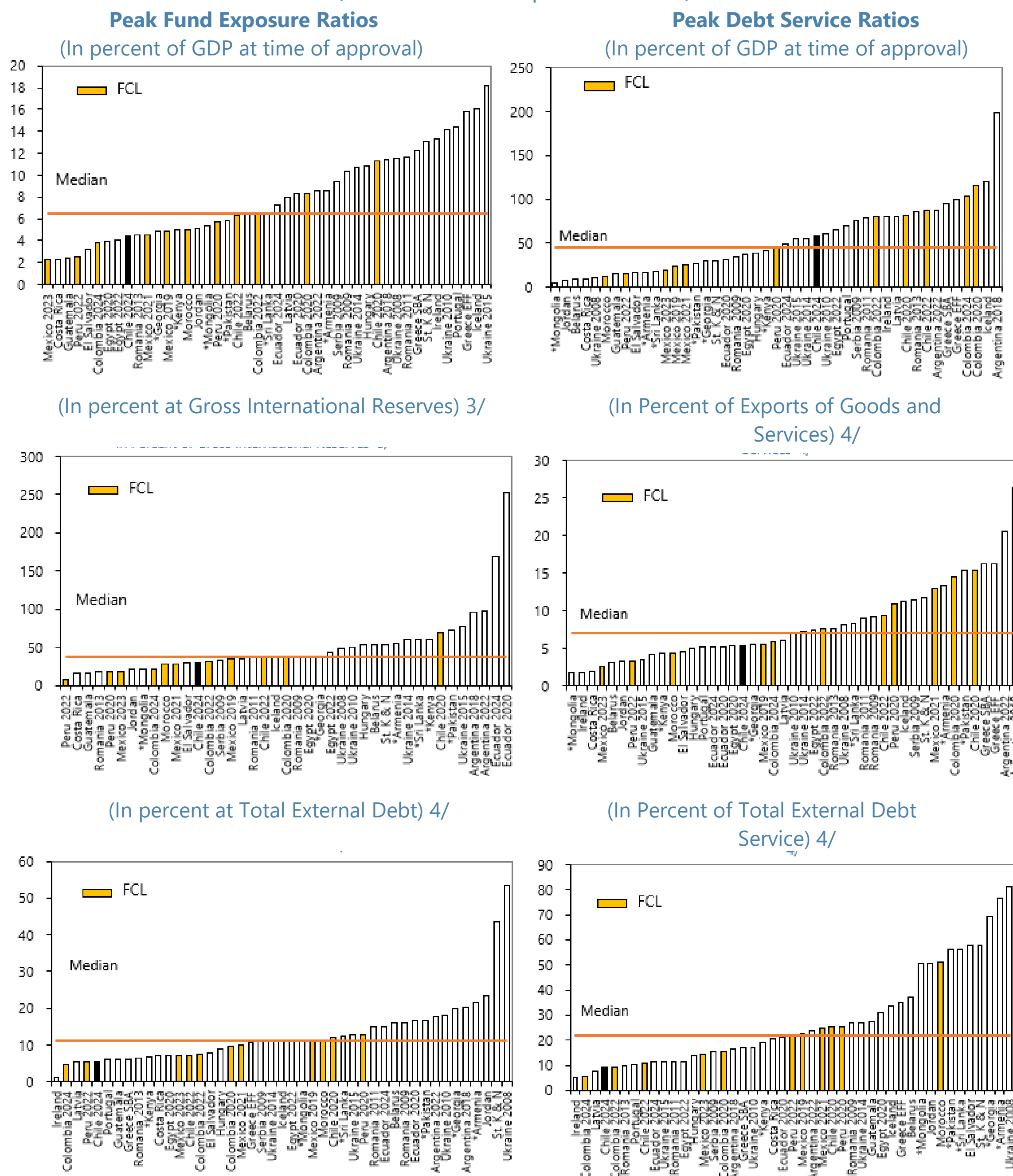
Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019, 2021, and 2023), Colombia (2020, 2022, and 2024), Peru (2020 and 2022), Chile (2020, 2022), and Morocco (2023).

2/ Asterisks indicate PRGT-eligible countries at the time of the program.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Arrangements and FCLs[1/ 2/]

(EA cases since September 2008)



Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019,2021, and 2023), Colombia (2020, 2022, and 2024), Peru (2020 and 2022), and Chile (2020, 2022, and 2024).

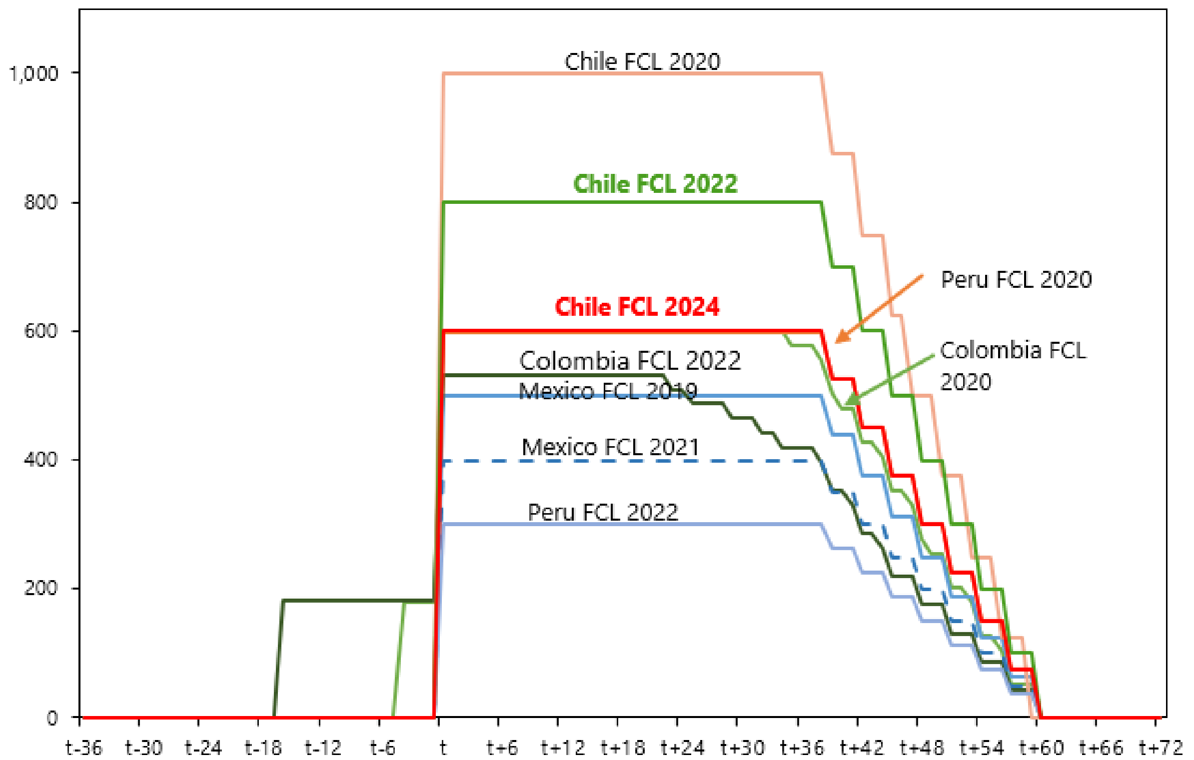
2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

Figure 3. Projected Fund Credit Outstanding Under Borrowing Scenarios of Recent FCL Requests[1/]

(In percent of quota)



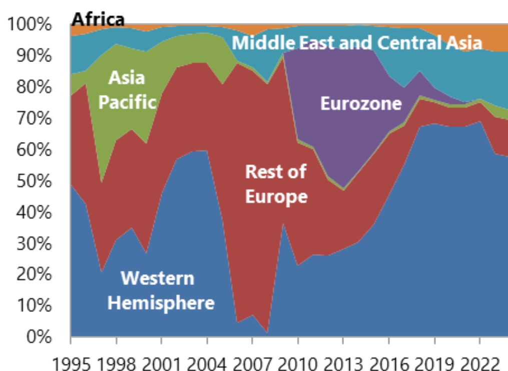
Sources: Finance Department and IMF staff estimates.

1/ t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months. For illustrative purposes it is assumed that all FCLs are fully drawn down at the time of Board approval.

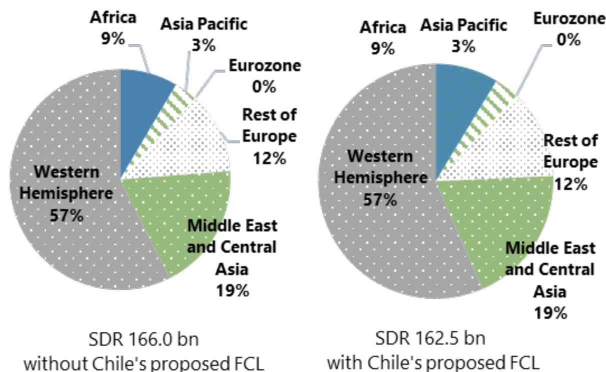
Figure 4. IMF Lending Concentration—By Region and by Lending Instrument

(In Percent, as of June 27, 2024)

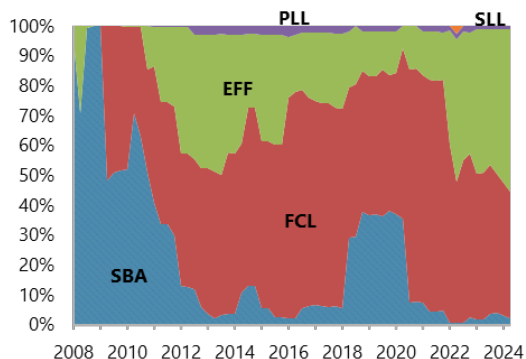
Regional Concentration of Credit and Precautionary Arrangements 1/ 2/



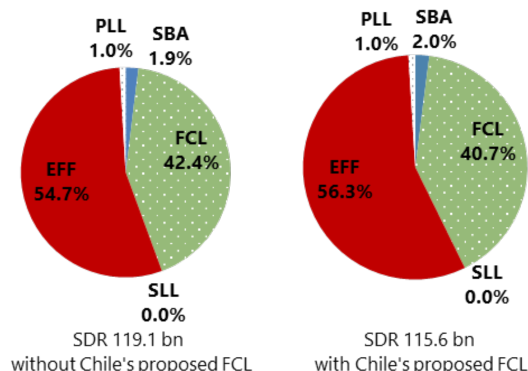
Regional Concentration of Credit and Precautionary Arrangements 1/



Commitments Under Current GRA Arrangements



Commitments Under Current GRA Arrangements



Source: IMF Finance Department.
1/ GRA credit outstanding plus undrawn balances by region as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.
2/ Chile's proposed FCL is included within the region of Western Hemisphere.

Annex I. History of Arrangements with the IMF

This annex provides a brief overview of Chile's Fund arrangements from 1983 to present.[1]

1. **Chile has an exemplary track record of meeting its obligations to the Fund under past purchasing arrangements**. Chile had three Fund arrangements in the 1980s and fully repaid its remaining outstanding credit in 1995 (Table I.1).

2. **From 1983 to 1989, Chile had two arrangements under the Stand-By Arrangement (SBA) and one Extended Fund Facility (EFF):**

- On January 10, 1983, the Fund approved an SBA equivalent to SDR 500 million (154 percent of quota) when Chile's financial problems following a banking crisis and a sudden stop of capital inflows were aggravated by the global economic slowdown and the price of copper, Chile's principal export product, collapsed. Under that arrangement, Chile made purchases totaling SDR 500 million, and its outstanding credit stood at SDR 795 million (245 percent of quota) at end of 1984. Chile made repurchases after 1986.

- On August 15, 1985, an EFF equivalent to SDR 825 million was approved to support the authorities' medium-term economic policy and reform program during the period 1985–89. Solid performance under the program supported by the EFF allowed Chile to fully repay all its outstanding obligations to the Fund.

- On November 8, 1989, a one-year Stand-By Arrangement equivalent to SDR 64 million was approved. Chile made full drawings and the obligations were fully repaid in 1995.

3. **More recently, Chile has had three precautionary arrangements with the Fund:**

- On May 29, 2020, the Executive Board approved a two-year Flexible Credit Line Arrangement with Chile for SDR 17,443 million (1,000 percent of quota) to support the authorities' macroeconomic strategy, by providing a valuable buffer and boosting market confidence as the economy remained exposed to external risks tied to the pandemic. The arrangement was canceled on May 19, 2022.

- On May 20, 2022, the Executive Board approved a Short-term Liquidity Line for Chile for SDR 2,529 million (145 percent of quota) to support Chile's economic resilience by providing a backstop for potential, moderate, short-term liquidity needs. The arrangement was set to expire in May 2023, but was cancelled in advance, in August 2022.

- On August 29, 2022, the Executive Board approved a two-year Flexible Credit Line Arrangement with Chile for SDR 13,954 million (800 percent of quota) given the still elevated external risks. The authorities are committed to gradually exit the arrangement conditional on the evolution of

[1] The first IMF-supported program for Chile was approved on April 1st, 1956. This appendix focuses on the most recent arrangements.

external risks. The previous SLL arrangement was canceled upon the approval of this FCL arrangement. This arrangement is set to expire on August 28, 2024.

Annex I. Table 1. Chile: IMF Financial Arrangements, 1983–2022
(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Amount Outstanding 1/
1983	Standby Arrangement	10-Jan-83	9-Jan-85	500	500	284	0.0	579
1984						216	0.0	795.0
1985	Extended Fund Facility	15-Aug-85	15-Aug-89	825	806	125	0.0	990.6
1986						250	41.7	1088.3
1987						225	133.4	1032.4
1988						150	154.1	982.6
1989	Standby Arrangement	8-Nov-89	7-Nov-90	64	64	120	119.8	966.5
1990						0	127.1	812.9
1991						0	143.5	669.4
1992						0	142.0	525.0
1993						0	169.2	346.5
1994						0	140.0	199.5
1995						0	199.5	0.0
...								
2020	Flexible Credit Line	29-May-20	19-May-22	17,443	-	0	0.0	0.0
2022	Short-term Liquidity Line	20-May-22	28-Aug-22	2,529	-	0	0.0	0.0
2022	Flexible Credit Line	29-Aug-22	28-Aug-24	13,954	-	0	0.0	0.0

Source: Finance Department.
1/ As of end-December. For 2022 FCL as of June 27, 2024.

INTERNATIONAL MONETARY FUND

CHILE

August 21, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT—SUPPLEMENTARY INFORMATION

Approved By
Patricia Alonso-Gamo (WHD)

Prepared by the Chile Team of the Western Hemisphere Department

The information below has become available following the issuance of the staff report. It does not alter the thrust of the staff report.

1. **The economy recovered in the first half of 2024.** Real GDP expanded by 2.0 percent in 2024H1 relative to the same period in 2023 and 1.6 percent in 2024Q2 relative to 2023Q2. Seasonally-adjusted real GDP declined by 0.6 percent in Q2 compared to the exceptionally strong first quarter, slightly weaker than staff's projections. From the demand side, net exports were the main growth driver in 2024, while investment remained sluggish. From the production side, the strong pickup of mining activities was partially offset by the mild expansion of manufacturing activities and the slow recovery of the construction sector. International copper price volatility, which was significant in July and August as prices fluctuated between US$3.95 to US$4.65 per pound, continues to represent a risk to the growth outlook in 2024–25. The three-month moving average of the unemployment rate (seasonally adjusted) inched up to 8.3 percent in June from 8.2 percent in May.

2. **In the context of rising short-term inflation pressure, the Central Bank of Chile (BCCh) kept its policy rate unchanged in its July policy meeting.** Headline inflation increased to 4.4 percent (yoy) in July, from 3.8 percent in June and 3.4 percent (yoy) on average in the first half of 2024, broadly in line with staff projections. The nearly 20 percent hike in electricity prices in June and July explains the bulk of the acceleration in headline inflation. After consecutive policy rate cuts from 11.25 to 5.25 percent between July 2023 and June 2024, the BCCh decided to pause at the July monetary policy meeting to leave more space for future monetary policy adjustments depending on the evolution of inflation dynamics. The BCCh communicated that future policy rate cuts will consider the evolution of the macroeconomic scenario and its implications on inflation.

3. The current account deficit continued to narrow in the second quarter, and gross international reserves (GIR) fell slightly since end-May. Driven by higher copper exports and a broad-based decline of imports, the current account deficit further reduced, with the 4-quarter moving average deficit declining to 3.2 percent of GDP in 2024Q2, from a peak of 9.4 percent in 2022Q3. As of end-July, GIR stood at US$45.5 billion, about US$0.3 billion lower than end-May, reflecting standard treasury and bank liquidity management operations.

4. Fiscal reform efforts have continued to proceed. Congress legislated enhancements to the Fiscal Responsibility Law, including the introduction of multi-year structural fiscal targets, a debt anchor, an escape clause, and new monitoring requirements. Moreover, the law revised the withdrawal rules of the Pension Reserve Fund aiming to establish greater predictability. On pension reforms, the government has presented a new proposal primarily focusing on how the envisaged 6 percentage point contribution rate increase would be split between individual accounts and a solidarity fund. Meanwhile, the Senate also approved the tax compliance reform in general and is proceeding with an article-by-article discussion.

Statement by Mr. Alfaro and Ms. Mostajo on Chile
Executive Board Meeting
August 27, 2024

On behalf of the Chilean authorities, we thank staff for the report and their assessment that Chile continues to meet its qualification criteria for the Flexible Credit Line (FCL) arrangement. The FCL has proven to be a valuable safeguard against risks and, combined with Chile's very strong policies and institutional framework, has significantly boosted market confidence. Transitioning to a successor arrangement with a reduced access level will safeguard the Chilean economy amid current global uncertainty. The authorities will continue to treat the FCL as a precautionary facility and are prepared for a gradual exit when external conditions permit.

Context and Outlook

The Chilean economy continues to make progress towards sustainable growth despite external challenges. Coordinated monetary and fiscal policies have effectively narrowed the positive output gap, eased inflationary pressures, and reduced the current account deficit which escalated during the pandemic. Notably, the macroeconomic adjustment to reduce persistent high inflation rates has been achieved with less social and economic costs compared to previous episodes, which can be attributed to swift monetary actions and the government's consolidation efforts, which included targeted support for the most vulnerable sector of the population. Currently, inflation is within the central bank's target range, and economic activity is converging towards a more sustainable trajectory following a necessary adjustment phase. Concurrently, the financial authorities are taking crucial steps to enhance the resilience of the financial system by implementing the last steps of Basel III and advancing on the financial regulatory agenda. The government is pursuing a multi-year fiscal consolidation path aimed at rebuilding buffers and maintaining public debt below a prudent ceiling, along with a broader strategy to foster a more inclusive, dynamic, and greener economy.

Since the last Article IV Consultation earlier this year, economic projections have been revised upward amid stronger domestic demand, higher copper prices, and a more positive investment outlook. This year GDP is expected to grow between 2.25-3.0 percent, and in 2025 it is expected to reach its potential growth of 1.5-2.5 percent. Headline inflation is projected to increase over the coming months driven by the electric tariff increase; however, the shock is expected to be a one-time and transitory event and should not affect the economy's ability to achieve the 3 percent target for inflation within the monetary policy horizon, converging to the 3 percent target in the first half of 2026.

Very Strong Policies and Policy Frameworks

The authorities remain firmly committed to fiscal responsibility and debt sustainability, supported by a very strong fiscal framework. Since 2001, Chile's fiscal policy has been guided by a structural rule, complemented by a sovereign stabilization fund, and backed by the Fiscal Responsibility Law and the Autonomous Fiscal Council. This framework has successfully restrained the growth of public debt, built significant liquidity buffers, and maintained favorable conditions in international capital markets while ensuring macroeconomic stability and effective countercyclical fiscal policy. With the aim of strengthening fiscal institutions and their regulatory framework, the government recently approved a law amending the Fiscal Responsibility, introducing a dual rule for Structural Balance and medium-term debt targets, control and correction mechanisms for Escape Clauses, new functions for the Autonomous Fiscal Council, and changes to sovereign funds,

including the modification of the extinction rule for the Pension Reserve Fund and the specification of the objectives of the Economic and Social Stabilization Fund.

The government is implementing a multi-year consolidation plan to achieve a structural equilibrium by 2026 (-0.5 percent of GDP) and keep public debt below 45 percent of GDP. The current administration remains firmly committed to complying with the fiscal policy target of a structural deficit of 1.9 percent of GDP this year, an overall deficit close to 1.5 percent, and public debt-to-GDP ratio of 40.3 percent. Within this framework, the government and Congress have agreed on a fast track to accelerate 21 bills under the Pact for Economic Growth, Social Protection and Fiscal Responsibility. These bills include reforms to the permit system, tax compliance, and the public sector. In the case of pensions, the discussion of the reform is still open, but there is consensus on both the urgency and the need for a self-sustainable system.

The country maintains a relatively comfortable international reserve position. In assessing international reserve adequacy, we appreciate that staff looks beyond simple benchmarks like the ARA metric. A thorough assessment of the international balance-sheet position must consider the contributions of sovereign wealth funds and the access to exchange rate (FX) liquidity lines, as well as the characteristics of short-term external debt, which is mostly private debt (93 percent), with a relevant component of FDI, and the exchange rate risk is partially mitigated through hedging instruments.

The Central Bank of Chile (BCCh) remains committed to achieving low and stable inflation through very strong monetary and exchange rate policies. Since 1999, the BCCh has followed a fully-fledged inflation targeting and a free-floating FX rate regime. This approach has maintained inflation around the 3 percent target for the past two decades, while allowing monetary policy to act in a counter-cyclical manner when needed. Since mid-2021, the monetary policy rate (MPR) has been adjusted to a restrictive level to address inflationary pressures. In July 2023, as the inflation convergence consolidated, the BCCh began a data dependent easing cycle. Moving forward, the monetary authorities anticipate the need for further MPR reductions; however, most of the expected adjustment for 2024 has already accumulated in the first half of the year. The extent and timing of these reductions will be contingent upon how the macroeconomic environment evolves and its subsequent impact on the inflation path.

The peso is a free-floating currency, serving as an external shock absorber for the economy. FX interventions (FXI) have been exceptional (8 times since 1999) and limited to addressing disorderly market conditions. On these occasions, the BCCh conducted a temporary and fully transparent sterilized FXI program. Announcements were published after the market was closed and financial conditions were explicitly included. The latest sell of FX was conducted in mid-2022 for 11 weeks and involved interventions in the spot and forward markets. Consistent with the exchange rate regime, the authorities remain committed to a flexible exchange rate, making interventions only in exceptional cases and maintaining high transparency standards.

The banking sector remains liquid, solvent, and well capitalized, supported by effective supervision and regulation. The implementation of Basel III is underway, strengthening financial buffers in the banking system, to be fully phased-in by the end of 2025. Despite the monetary tightening cycle and the withdrawal of support measures (all FCICs totalized USD 31.3 billion) introduced during the pandemic, the banking system remained resilient, healthy, and capable of withstanding severe stressed scenarios. Nevertheless, there are still pockets of vulnerabilities (e.g., small firms in the construction sector) which the authorities are monitoring carefully. As a precautionary measure amid external uncertainty in May 2023 the BCCh activated the counter-

cyclical buffer (CCyB), at a rate of 0.5 percent of RWA, which came into full effect one year later.

Significant steps have been taken to enhance the financial regulatory framework, following the 2021 FSAP recommendations. The Financial Market's Resilience Law is expected to strengthen the infrastructure and functioning of financial markets, and the introduction of the Fintech Law will support the development of fintech to foster innovation, competition, and inclusivity in the financial sector. Also, with the support of the IMF's Technical Assistance, the authorities are working on alternatives to improve the crisis management toolkit and bank resolution framework. They are confident that the ongoing financial regulation agenda will continue to bolster the resilience of the Chilean financial system.

FCL Access and Exit Strategy

The FCL continues to provide an important buffer of international liquidity for the Chilean economy, especially amidst high external uncertainty and risks. While external pressures have eased since the past FCL request, Chile still faces elevated external tail risks. For instance, an abrupt tightening of financial conditions in advanced economies could trigger negative spillovers into emerging market economies, resulting in new episodes of increased global risk aversion, capital flow volatility, and portfolio rebalancing away from emerging markets. Similarly, an increase in commodity price volatility could have further implications on the peso and activity.

Although local capital market depth indicators continue to recover, they remain below pre-pandemic levels. Following three private pension fund withdrawals in 2020-21, and after bottoming out in 2022, several market depth indicators continue to show some improvement in recent quarters, despite remaining below their pre-pandemic levels, which has reduced their capacity to withstand external shocks. Particularly, pension funds, a large NBFI in the Chilean market, whose assets stand at 62 percent of GDP compared to the level of 81 percent observed in the third quarter of 2019.

Against this backdrop, the authorities have requested a successor two-year FCL arrangement with a reduced access level of 600 percent. The FCL continues to play a vital role as an additional buffer to international reserves, mitigating the impact of potential tail risk scenarios in the financial system and the economy. As mentioned in the staff report, elevated external risks persist, and the country continues to meet the qualification criteria. Furthermore, in a disbursement scenario, the FCL resources would not be used for budget financing, in line with Chile's institutional framework.

The authorities are committed to treating the FCL as a precautionary arrangement and plan to gradually reduce the access when external conditions allow. They plan to reassess the access level during the midterm review. In their ongoing efforts to strengthen buffers and ensure resilience, the authorities are exploring strategies to enhance its external liquidity position. Any adopted approach would prioritize transparency standards, remain responsive to evolving external risks, and minimize market disruptions. Additionally, they have strengthened the resilience of the financial system through the implementation of the Financial Market Resilience Law. This law is expected to enhance policy responses in scenarios of financial stress and facilitate increased participation of international investors in the domestic market. These measures are expected to gradually reduce reliance on the FCL over time.

The authorities greatly appreciate the support received from the IMF through the FCL arrangement, which has provided a strong signal of confidence in the strength of Chile's policy frameworks, institutions, and fundamentals, as well as an important buffer amid unprecedented uncertainty and volatility in global financial markets.