INTERNATIONAL MONETARY FUND

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CHILE

May 2020

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE—PRESS RELEASE; STAFF REPORT; AND STAFF SUPPLEMENT

In the context of the Request for an Arrangement Under the Flexible Credit Line, 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 May 29, 2020, following discussions that ended on April 20, 2020, 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 May 21, 2020.
- A **Staff Supplement**: Assessment of the Impact of the Proposed Arrangement Under the Flexible Credit Line on the Fund's Finances and Liquidity Position.

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

PR20/227

IMF Executive Board Approves Two-Year US$23.93 Billion Flexible Credit Line Arrangement for Chile

FOR IMMEDIATE RELEASE

- The IMF approved today a two-year arrangement for Chile under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$23.93 billion.
- Chile qualifies for the FCL by virtue of its very strong fundamentals, institutional policy frameworks, track record of economic performance and policy implementation and commitment to maintain such policies in the future.
- The arrangement should boost confidence, and combined with the comfortable level of international reserves, provide insurance against downside risks. The authorities intend to treat the arrangement as precautionary financing.

WASHINGTON, DC – May 29, 2020

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 equivalent to SDR 17.443 billion (about US$ 23.93 billion, equivalent to 1,000 percent of quota).

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.

Following the Executive Board's discussion on Chile, Mrs. Kristalina Georgieva, Managing Director and Chair, issued the following statement:

"Chile's very strong fundamentals, institutional policy frameworks, and track record of implementing prudent macroeconomic policies have been instrumental in absorbing the impact of a series of recent shocks. The strong policy frameworks are anchored in the structural fiscal balance rule, the credible inflation-targeting framework with the free-floating exchange rate, and a sound financial system supported by effective regulation and supervision. The authorities continue to show strong commitment to maintaining very strong policies and institutional policy frameworks going forward.

"Notwithstanding its very strong fundamentals and policy settings, Chile's open economy is exposed to substantial external risks as a result of the ongoing Covid-19 outbreak, including a significant deterioration in global demand for Chilean exports, a sharp decline or reversal of capital inflows toward emerging markets, and an abrupt tightening of global financial conditions.

"Chile meets all the qualification criteria for an arrangement under the Flexible Credit Line (FCL). The FCL arrangement will help boost market confidence amid the elevated uncertainty and volatility in global financial markets as a result of the Covid-19 outbreak, by enhancing Chile's external buffers and providing valuable insurance against tail risks.

"The authorities intend to treat the FCL arrangement as precautionary and temporary, and to exit the arrangement as soon as the 24-month period is completed, conditional on a reduction of risks at the time of the mid-term review."

INTERNATIONAL MONETARY FUND

CHILE

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE

May 21, 2020

EXECUTIVE SUMMARY

Context: Chile's very strong fundamentals, policy frameworks, and macroeconomic track record have been instrumental in helping the economy absorb the impact of recent shocks, including the social unrest in late 2019. Over the past three decades, Chile has been enjoying a very solid macroeconomic performance. The robust growth has resulted in one of the largest reductions in poverty and highest incomes per capita in the region. Owing to the fiscal rule and the long record of prudent fiscal policy, public debt is low by international standards and the country enjoys steady sovereign access to capital markets at favorable terms. The credible inflation-targeting framework has delivered low and stable inflation with well-anchored inflation expectations. The sound financial system is supported by an effective regulatory and supervisory framework. International reserves are at a comfortable level. The authorities remain fully committed to maintaining very strong policies and policy frameworks. Despite showing one of the highest levels of resilience among emerging market economies, Chile's open economy remains exposed to substantial external risks, such as those stemming from a prolonged Covid-19 outbreak.

Risks: Uncertainty about the near-term global trade and financial flows is exceptionally high. The effects of a prolonged Covid-19 outbreak on trading partner growth would limit exports and foreign direct investment. Persistently high global risk aversion and tight global financing conditions could curtail or even reverse capital inflows. Given the large stock of domestic securities held by non-residents, a prolonged period of flight to safety, especially if coupled with loss of confidence in emerging market economies, could lead to large pressures on the balance of payments.

Flexible Credit Line (FCL): The authorities are requesting a 24-month arrangement under the FCL in the amount of SDR 17.443 billion (1,000 percent of quota). They intend to treat the arrangement as precautionary and temporary, exiting as soon as the 24-month period is completed, conditional on favorable developments in risks scenarios. They consider that an FCL arrangement will help boost market confidence amid the elevated uncertainty and volatility in global financial markets as a result of the

Covid-19 outbreak. In staff's assessment, Chile meets the qualification criteria for the FCL arrangement, and staff supports the authorities' request.

Fund liquidity: The proposed commitment of SDR 17.443 billion would have a significant but manageable impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible FCL arrangement for Chile was held on May 12, 2020.

Approved By
Patricia Alonso-Gamo (WHD) and Ashvin Ahuja (SPR)

The report was prepared by a team comprising Luca Antonio Ricci (head), Metodij Hadzi-Vaskov, José Torres (all WHD), Shakill Hassan (SPR), and Romain Veyrune (MCM), with support from Ivan Burgara and Adriana Veras (both WHD).

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CONTEXT

1. **Chile's very strong fundamentals, institutional policy frameworks, and macroeconomic track record have been instrumental in absorbing the impact of a series of recent shocks.** Over the past three decades, Chile has maintained very strong fundamentals and institutional policy frameworks, with a sustained track record of implementing very strong policies, and shown clear commitment to upholding such policies. Monetary policy has followed an inflation-targeting framework with a free-floating exchange rate regime since 1999, which contributed to keeping inflation low and stable as well as to anchoring inflation expectations. Fiscal policy has been guided by the cyclically-adjusted fiscal balance rule since 2001, which contributed to saving assets in the SWFs and keeping debt low by international comparisons. Chile has consistently shown one of the highest levels of both policy credibility and quality of the regulatory framework among emerging economies (Annex I). Such features have allowed Chile to achieve a strong macroeconomic resilience to shocks by implementing adequate policy responses during the 2008–2009 global financial crisis (see Annex II) and the 2019 social unrest.

2. **An incipient recovery following the social unrest was underway before the start of the Covid-19 pandemic.** Notwithstanding a robust growth performance over the past decades, which resulted in one of the largest reductions in poverty and highest incomes per capita in the region, the remaining high level of inequality sparked a wave of social discontent in late 2019. After the decline registered in 2019Q4, economic activity gained momentum in early 2020, supported by a set of accommodating policies, including higher social spending and liquidity provision measures.

3. **Notwithstanding its very strong fundamentals and policy settings, Chile's open economy is exposed to substantial external risks as a result of the ongoing Covid-19 outbreak.** The initial impact of the pandemic materialized through weaker external trade and capital outflows, and since the beginning of March (with the first confirmed cases of Covid-19) it has been compounded by the need to impose social distancing measures. Despite its very strong fundamentals and policy frameworks with a sustained track record of implementing very strong policies, as a globally and regionally integrated economy, Chile remains exposed through both trade and financial linkages to the massive global economic and financial shocks associated with the pandemic (Box 1). In this context, the authorities have requested an arrangement under the FCL to provide insurance against a wide range of adverse external shocks and boost investor confidence.

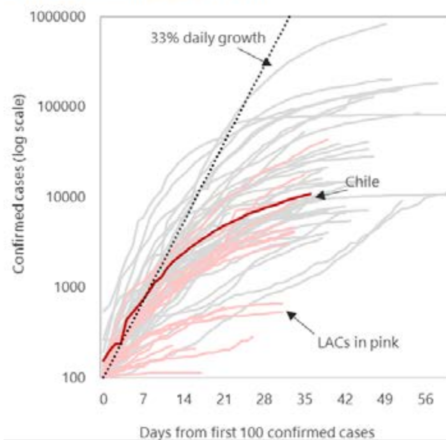
4. **Staff conducted a virtual fact-finding staff visit in April to assess FCL qualification.** The last Article IV consultation with Chile was concluded on November 7, 2018. The 2019 consultation was planned for late 2019 and was not completed due to the rapidly changing economic and policy environment. Staff held extensive meetings with a broad set of counterparts during a January 2020 visit to prepare the ground to conclude the Article IV consultation in spring 2020, which has been put on hold with the Covid-19 outbreak. Hence, staff held an additional virtual visit in April and was able to assess qualification in a sufficient manner and staff's assessment is a continuing very positive assessment as in the 2018 Article IV consultation.[1]

[1] The staff visit was conducted in line with paragraph 3 of the *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018: "If the latest available Article IV consultation report is more than a year old, or if circumstances warrant, a fact-finding staff visit may be needed to assess FCL qualification."

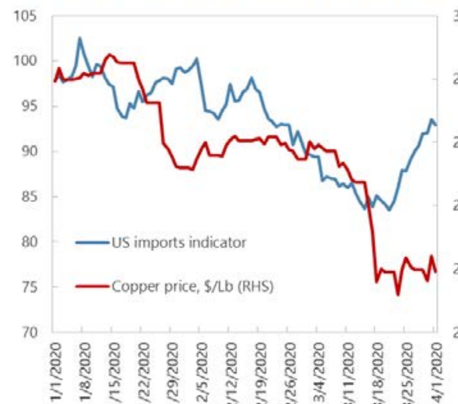
Box 1. Global Backdrop: The Covid-19 Pandemic, Global Trade and Markets

The contraction in economic activity due to the Covid-19 pandemic and associated containment measures is unprecedented. Output per head in 2020 is expected to shrink in nine-of-ten countries, by 4.2 percent on average; as a comparison, in 2009 it fell in six-of-ten countries and by 1.6 percent on average, due to the global financial crisis. 33 million people filed for unemployment claims in the US between mid-March (when lockdowns began) and May 1, 2020, dwarfing any other six-week period in recent history and exceeding the estimated net loss of jobs between 2007 and 2009. Global trade and commodity prices collapsed, while risk aversion spiked triggering a severe flow of capital out of emerging markets. Infections in most countries, including Chile, continue to rise.

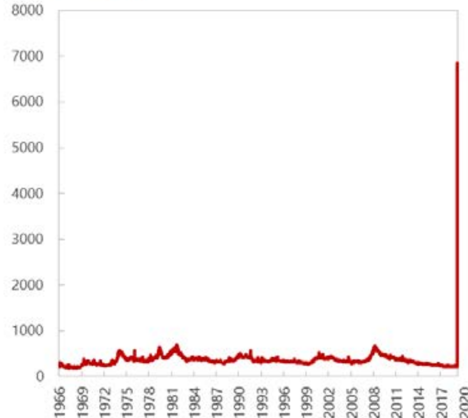
Covid 19 Confirmed Cases in EMs



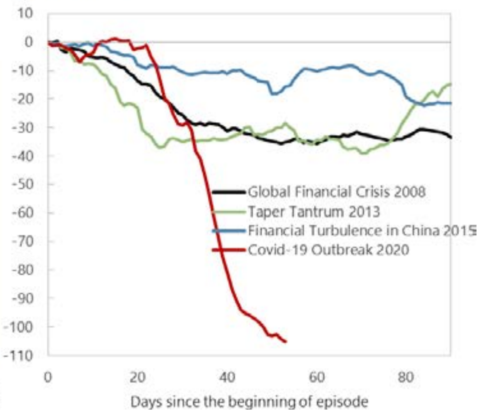
High-Frequency Indicator of Trade and Copper Price 1/
(Imported metric tons of cargo, relative to 2017-2019 avg)



U.S.: Weekly Unemployment Insurance Claims
(In thousands, SA)



Cumulative Change in Portfolio Flows to EMs 2/
(In US$ billions)



Source: Johns Hopkins CSSE Covid-19 Data Repository, Haver, U.S. Department of Labor, IIF, Wall Street Journal, and IMF staff calculations.
1/ From radio signals emitted by global vessel fleet for navigational purposes, in Cerdeiro, D., A. Komaromi, Y. Liu and M. Saeed, *World Seaborne Trade in Real Time*, IMF, forthcoming.
2/ The start dates used for the shock events are September 15, 2008 (Global Financial Crisis); May 22, 2013 (Taper Tantrum); July 25, 2015 (Financial Turbulence in China); and January 21, 2020 (Covid-19 Outbreak).

RECENT DEVELOPMENTS

5. Following a sharp decline in 2019Q4, economic activity in Chile started to recover in early 2020. After a robust growth performance in 2018 (3.9 percent), global trade tensions, weak performance of regional economies, and weak business confidence weighed on the Chilean economic activity in 2019, which decelerated to 2.2 percent (yoy) in the first three quarters of 2019. Following a contraction of 2.1 percent (yoy) in 2019Q4 owing to social unrest, which implied an overall growth rate of 1.1 percent in 2019, economic activity expanded by 1.3 percent in January and 3.3 percent in February (yoy) supported by a set of accommodating policies in response to social demands. Notwithstanding the substantial reduction in poverty and improvement in income distribution (Figure 8), the remaining level of high income inequality sparked unprecedented protests and demonstration of social discontent, which led the authorities to place social demands at the top of the policy agenda, emphasizing higher social spending and improved access, including on pensions, healthcare, and various public services.

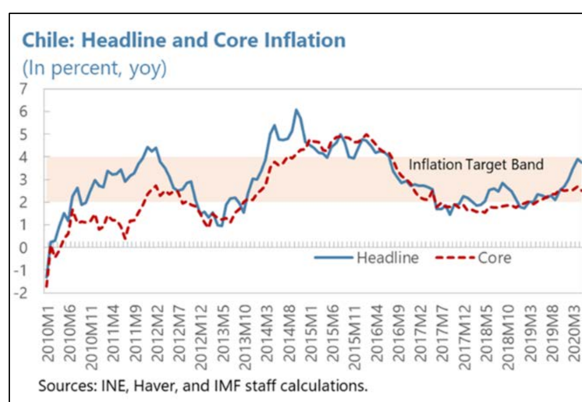
6. The authorities unveiled a broad set of measures in response to the social unrest. The policy package of about 2.1 percent of GDP announced in December 2019 included higher social pensions (by 50 percent), the introduction of a minimum guaranteed income, expanded healthcare coverage, a broadened net of subsidies for the most vulnerable, support for financing of SMEs by increasing the capital of the state-owned bank and the development agency, higher top bracket for marginal personal income tax, and higher infrastructure spending. The Central Bank of Chile (BCCh) increased liquidity through FX swaps and repo operations, suspending issuance and initiating buyback of BCCh securities, and expanding the assets eligible to be used as collateral. At end-November, the BCCh started spot and forward FX interventions (in the maximum amount of US$10 billion in each market) in a context of extreme volatility (on November 12, intra-day volatility reached 5 percent, pointing at impaired market conditions). The design of the intervention, i.e., preannounced fixed amounts, reveals the authorities' intention to lower volatility without targeting an exchange rate level. As the market stabilized, the spot intervention was paused in early January (the actual spot intervention amounted to US$ 2.55 billion in total), while the forward intervention through non-deliverable forwards settled in domestic currency was limited to renewing maturing contracts (in the total amount of US$ 4.55 billion). This was the first FX intervention involving FX sales since 2002. There was no recourse to capital flow management measures.

7. The exchange rate has continued its strong adjustment role, amid external pressures. The exchange rate has been adjusting substantially in recent months, exercising its role as a shock absorber. Relative to its average value in the first three quarters of 2019, the NEER depreciated by over 7 percent in 2019Q4, and by an additional 7 percent until end-April 2020. The Central Bank let the exchange rate adjust without intervention in 2020, despite the increase in market volatility, letting it respond to changes in economic fundamentals and play its role of shock absorber.

Chile: NEER 1/
(1/1/2019=100)

Sources: Haver, GEE, and IMF staff calculations.
1/ Constructed using the weighted average of the CLP exchange rate with China, United States, Euro Area, Japan, South Korea, Brazil, Peru and India.

8. Headline inflation picked up recently, while core inflation remains subdued. After remaining close to the lower bound of the target range (2–4 percent) for most of 2019, headline inflation picked up in late 2019 as a result of the pass-through from the recent exchange rate depreciation onto domestic prices. In April 2020, headline annual inflation was 3.4 percent, above the 3 percent mid-point of the BCCh's target range, but still within the range. Core inflation remains stable at 2.3 percent. Inflation expectations over the two-year policy horizon continue to be well anchored to the target.



Sources: INE, Haver, and IMF staff calculations.

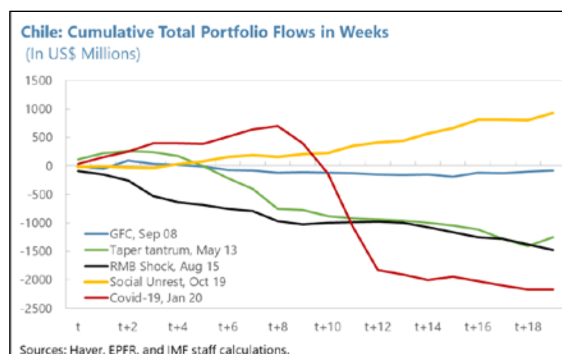
9. The financial sector appears to be sound. As reported in December 2019, banks have capital above the regulatory minimum (capital adequacy ratio is 12.8 percent), are profitable (return on equity is 11.9 percent), exhibit low non-performing loan ratios (2 percent of total loans), and meet the prudential liquidity requirement.[2] Credit to the private sector has been growing in line with economic activity for the last 10 years with no significant credit gap emerging. While there is some heterogeneity across borrowers, the leverage of non-financial corporations and households is on average in line with countries of similar level of development. Non-financial corporation external debt is large compared to peers, but is largely FDI-related (which reduces roll-over risk) and hedged against exchange rate risk. House prices and rental investment properties should continue being monitored, but long-term maturity, low and fixed interest rates, and limited leverage mitigate the risks arising from the housing market.

10. Several important steps were taken in 2019 to reinforce financial sector regulation and supervision. While the regulation is currently anchored to Basel I, the banking law adopted in 2019 provides for aligning the regulatory framework to Basel III, which, as of end-2019, would require private banks to increase their capital for an amount corresponding to about 0.5 percent of GDP and the authorities to add about US$3.2 billion in capital to the state-owned bank. In addition, steps were taken to enhance consolidated supervision, including via the integration of the supervisors for bank, insurance, and securities in 2019.

11. Chile's strong financial market resilience compared to other countries was confirmed during the ongoing Covid-19 turbulence, as in other crisis episodes (Figures 1 and 2). In line with the general trend for EMEs, non-residents' portfolio outflows exceeded those in past episodes, but have started to stabilize lately (see text chart). FDI-inflows reached a historical high in January-February 2020, supported by the recovery of investor confidence after the social unrest (see Figure 5). Meanwhile, the FX reserves remained quite stable (about US$37 billion in April), just below their average since 2012 (about US$ 40 billion). Compared to LA5 and other EMEs, Chile recently experienced a smaller increase in spreads and yields on domestic sovereign bonds; in light with its

[2] Liquidity is monitored based on the standard Basel liquidity coverage ratio.

role as a shock absorber, the exchange rate depreciation was substantial, but not among the highest (see Figure 2). This performance is similar to what Chile experienced versus other LA countries in other episodes of financial turmoil over the past decade. (see Figure 1).



Sources: Haver, EPFR, and IMF staff calculations.

OUTLOOK, RISKS, AND POLICIES

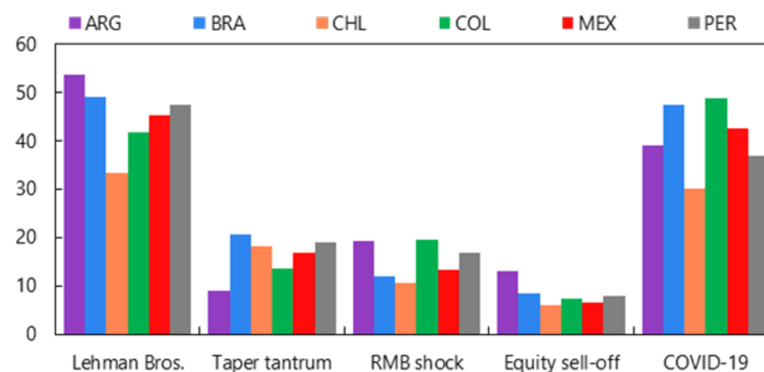
12. Staff projects a significant GDP decline in 2020Q2 due to the Covid-19 outbreak, followed by a rebound. Growth for 2020 and 2021 was revised from 0.9 percent and 2.7 percent (respectively) in the January WEO to -4.5 percent and 5.3 percent (respectively). Preliminary figures for March economic activity indicate a 3.1 percent decline (yoy), which is smaller than expected. A growth acceleration in 2021 was already incorporated in staff's pre-Covid-19 projections, and is now compounded by the recovery from the pandemic. Inflation is projected to moderate as a result of the decline in economic activity, moving from 3.7 percent in March to 2.5 percent by end-2020. In line with the expected widening of the (negative) output gap, unemployment is projected to rise to about 10 percent (from 7.8 percent in February) in 2020, before moving onto a downward trend with the projected recovery in economic activity.

13. The current account deficit is expected to narrow considerably in 2020. The trade balance is projected to improve, as the decline in imports due to the significant peso depreciation and impaired domestic demand is projected to dominate the decline of exports due to the fall in trading partners' external demand. Similarly, the net income balance is expected to improve with the projected decline in corporate profitability.

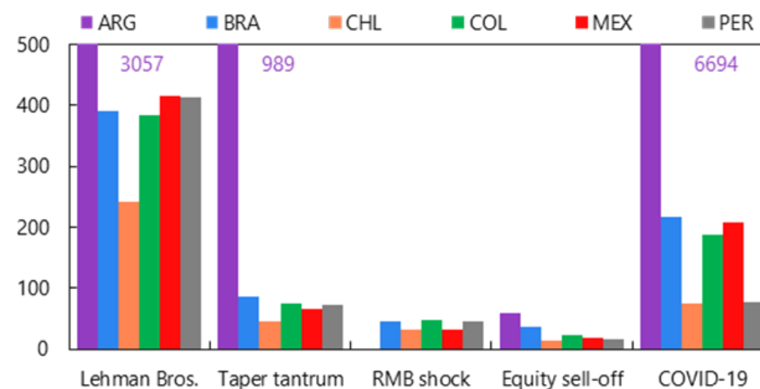
14. Risks from a prolonged Covid-19 outbreak are high, but other domestic risks have decreased. The main risk is a prolonged Covid-19 outbreak, as the associated mitigation measures and high uncertainties would continue to negatively affect both economic activity and confidence, and may impair productive capacities while placing further strain on the balance sheets of Chilean companies. Lower growth in China and the U.S., and a further slump in copper prices, would reduce export growth and may deter FDI. A Covid-19-related lower risk appetite could lead to significantly and persistently tighter financial conditions and capital outflows. The key additional domestic risks—a reemergence of social protests and uncertainties stemming from the process towards a New Constitution which is now expected to be finalized by June 2022—have subsided. While non-financial corporate debt remains high, leverage is largely related either to obligations to parent companies or hedged against foreign exchange risk.

Figure 1. Chile's Resilience to External Financial Shocks

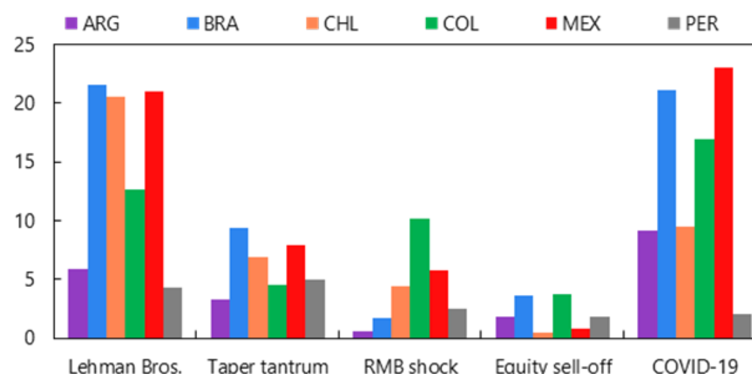
Fall in Equity Prices
(Percent change; US dollars)



Increase in Sovereign CDS Spreads
(Basis points change)

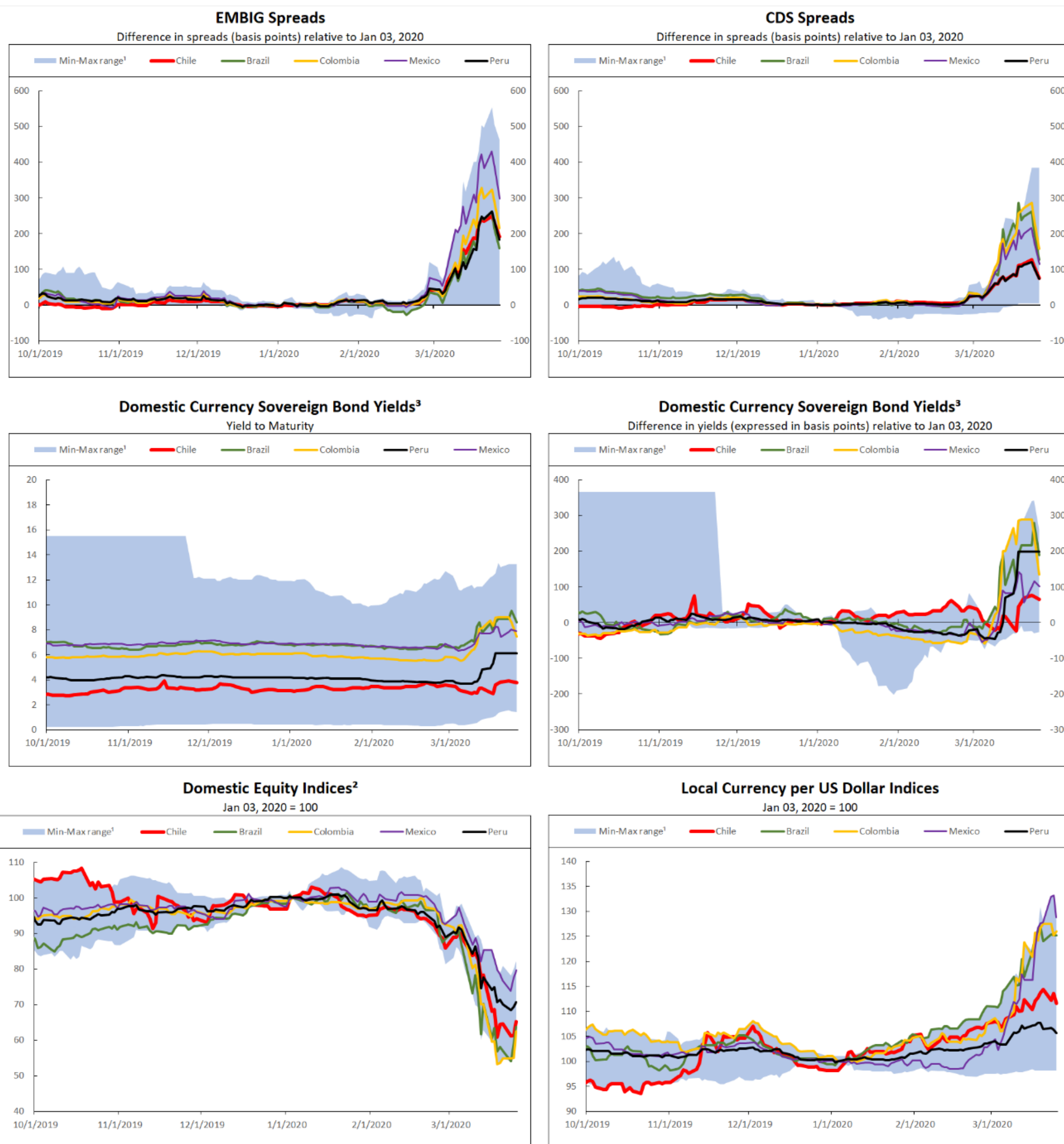


Exchange Rate Depreciation
(Percent change; US$/NC)



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Lehman Bros. (9/15–10/24/2008); Taper tantrum (5/2–6/25/2013); RMB shock (8/10–8/24/2015); Equity sell off (1/31–2/9/2018); COVID-19(1/23–4/21/2020).

Figure 2. Chile: Comparison with LA5 and Other EMEs 1/



Sources: Haver Analytics and Bloomberg LLP.
¹Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.
² Naitonal benchmark share price indices.
³ 10 year government bond or closest available maturity.

15. The Chilean authorities swiftly deployed a set of monetary, fiscal, and financial sector measures to contain the impact from the pandemic. With these actions the authorities aimed to mitigate the impact on the economy, after they declared a state of catastrophe on March 18, introduced travel restrictions, closed schools, and imposed curfews and bans on public gatherings.

Chile: Fiscal Measures in Response to Covid-19
(In percent of GDP)

Total size of the stimulus package	**7.0**
Off-Budget (below the line)	**2.3**
a. Injection to the UI Solidarity Fund	**0.8**
b. Banco Estado capitalization	**0.2**
c. Public loan guarantees	**1.2**
d. Injection to UI Fund for independent workers	**0.1**
On Budget	**4.7**
a. Measures without effect on year-end deficit	**1.6**
i. Defered taxes	0.8
VAT	0.3
CIT for SMEs	0.2
Property taxes	0.3
ii. Accelerated pay of liabilities (not even temporarily affect the accrual deficit)	0.7
Early CIT refunds for SMEs	0.4
Accelerated pay of public procurement obligations	0.4
b. Measures with effect on year-end deficit	**3.1**
i. Revenues	1.5
Suspension of corporate tax payments	1.0
VAT delay	0.3
Reduction of the Stamp & Seals Tax	0.2
ii. Spending	1.6
Additional Fiscal Resources for health expenditures	0.7
Cash transfer for most vulnerable	0.9

Sources: Ministry of Finance and IMF staff calculations.

- *The government presented two packages of fiscal measures of up to about US$17 billion (or about 7 percent of GDP) to safeguard health, protect incomes and jobs, and inject liquidity into the economy.* The set of measures includes: (i) higher healthcare spending; (ii) enhanced subsidies and unemployment benefits; (iii) a set of tax deferrals; (iv) liquidity provision to SMEs, including through the state-owned *Banco del Estado*; (v) accelerated disbursements for public procurement contracts; (vi) support for the most vulnerable and independent workers; and (vii) a credit-guarantee scheme to support borrowers. These swiftly undertaken measures are adequately focusing on containing the human and economic impact of the pandemic, but additional or enhanced measures might be needed in case downside risks materialize.

- *The Central Bank of Chile loosened monetary policy and implemented measures to provide liquidity and preserve financial stability.* The policy rate was lowered by 125 basis points in March to 0.5 percent, which is considered by the BCCh as the "effective lower bound". The monetary policy stance is appropriately accommodative as the policy rate is about 350 basis points below the BCCh's estimates of the neutral nominal interest rate range (3.75 to 4.35 percent). In addition, the BCCh provided support to FX and local currency funding markets, by: (i) offering FX swaps; (ii) introducing funding-for-lending programs; (iii) expanding its collateral framework (including corporate bonds and the above credit guarantee scheme);

Chile: BCCh Measures in the Context of Covid-19
(In US$ billions)

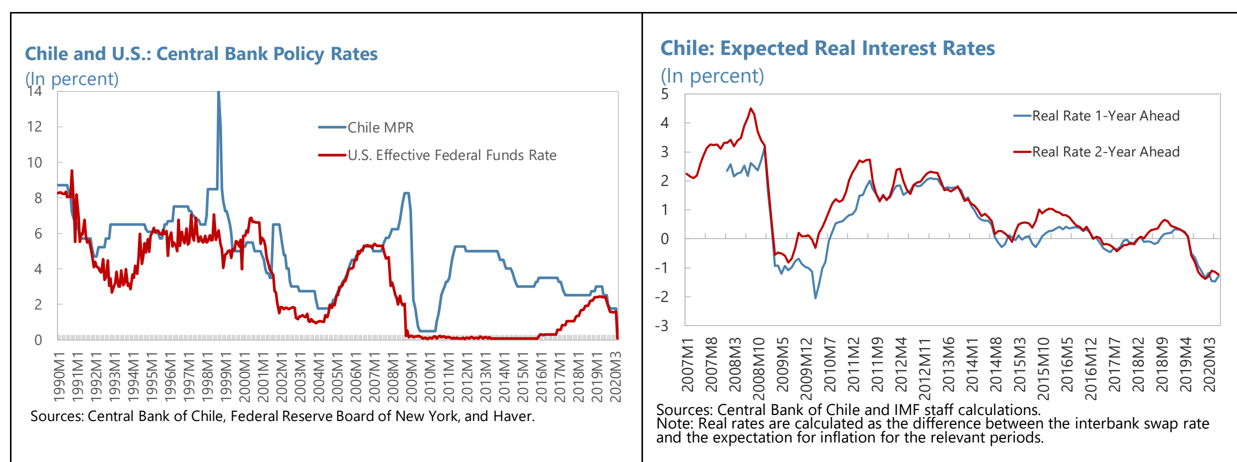
	Announced Amounts	As of May 12th, 2020
Foreign Exchange Market		
NDF (stock)	10.0	4.5
FX Liquidity Support		
Swap 1/	4.0	0.0
Peso Liquidity Support		
Short-term loans		1.1
Outright purchases		
o/w BCCh securities 2/	8.5	5.5
o/w Bank bonds	8.0	3.3
Funding for Lending		
Loans	24.0	13.9

Source: Central Bank of Chile.
1/ BCCh lends US$ to local banks against peso collateral.
2/ Since November 2019. About US$ 2.2 billion were purchased in March and April 2020.

(iv) introducing a bank-bonds purchase program; and (v) relaxing the liquidity coverage ratio (the ratio remains unchanged but temporary deviations could be tolerated on a case-by-case basis). The BCCh authorities are also negotiating access to the Foreign and International Monetary Authorities Repo Facility.[3]

- *The Financial Market Commission (CMF) unveiled measures to facilitate the flow of credit to businesses and households.* They include: (i) a special treatment in the establishment of provisions for deferred loans (while credit quality exposures remain carefully monitored); (ii) use of mortgage guarantees to safeguard loans for SMEs; (iii) adjustments in the treatment of assets received as payment and margins in derivative transactions; and (iv) delay by one year of the start of the implementation agenda for Basel III standards.[4]

- *Strong coordination.* The combination of the BCCh funding-for-lending program and the Ministry of Finance credit-guarantee scheme shows strong coordination of the Ministry of Finance, the BCCh, and the CMF in their proactive response to avoid that liquidity problems could become more complicated and significantly affect the financial sector as well as households and firms.



16. The authorities have reaffirmed their commitment to fiscal prudence, but additional measures are needed to stabilize the debt ratio. For 2020, the structural deficit is expected to reach 3.5 percent of GDP, slightly above the target of 3.2 percent of GDP (revised in February 2020 from the original 2020 target of 1.4 percent of GDP planned before the social unrest). The headline fiscal deficit is expected to increase to 8.0 percent of GDP owing to the policy responses to the social unrest and the Covid-19 pandemic, and the large cyclical adjustments to revenues.[5] The deficit

[3] This facility will allow the BCCh to temporarily exchange U.S. Treasury securities with the Federal Reserve for U.S. dollars, eliminating the need to sell the securities in the open market. If the facility were to be used, the level of gross reserves would be unchanged, as the securities would be subtracted from reserve assets, while deposits in BCCh's reserve assets would go up by the corresponding amount.

[4] Implementation of regulation related to risk weighted assets and conservation buffer will now start in Dec 2021, while the one on systemic charge and capital discounts in Dec 2022.

[5] Since 2001, Chile's fiscal framework has been guided by a structural balance target for the central government. See more details in IMF Country Reports No. 18/311 (particularly Annex III) and 18/312. Modifications to the target do

will be financed by debt for about 4½ percent of GDP, bringing gross debt to about 33½ percent of GDP by end-2020, and by a net asset drawdown of about 3½ percent of GDP. In January, Congress approved a long-delayed tax reform which is expected to permanently increase annual revenue by 0.8 percent of GDP by 2024 (the largest gains are expected from electronic invoicing, a reduction of tax benefits for the financial system and corporates, and a higher PIT bracket). The authorities remain committed to their plans for structural consolidation and debt stability over the medium term (lowering the structural deficit to 2.5 percent of GDP in 2021 and then by 0.5 percent of GDP in subsequent years, to reach a structural deficit target of 1 percent of GDP by 2024). In the short term the priority is to address the economic and social impact of the pandemic, including by protecting health, income, and jobs, especially for the most vulnerable segments of the population. Over the medium term, it will be essential to help the country restore its productive capacity and continue to reduce inequality and address social issues, while ensuring macroeconomic and debt stability. Staff estimates that in order to stabilize the debt ratio at about 42 percent of GDP by 2024 additional measures of about ½ percent of GDP are needed (as the authorities' committed spending is about ½ percent of GDP higher than the level that would be consistent with their 2024 target). Such a debt level would still be low by international standards.

17. The authorities have started working on plans to increase revenue and improve spending efficiency in the medium term. They have asked an independent advisory committee to work on a proposal to improve the tax structure, focusing on increasing revenue while enhancing productivity and incentivizing investments. They have also requested a joint TA from the OECD and the IMF to recommend ways to review tax expenditures and Pigouvian taxes. Ongoing efforts in institutionalizing a spending review framework, with TA support from the IMF Fiscal Affairs Department, will help improve spending efficiency. The authorities consider that past fiscal prudence has been a cornerstone of their ability to timely and aggressively respond to crises, and going forward they underscore the need for responsible policies to restore buffers and strengthen the fiscal rule framework (possibly by establishing formal escape clauses and explicit debt targets).

18. The authorities reiterated their strong commitment to maintaining the inflation targeting framework with a free-floating exchange rate, as signaled in their updated policy framework document. The appropriately accommodative monetary stance—with the policy rate at the effective lower bound—is consistent with achieving the inflation target at the 2-year policy horizon.[6] In this context, the BCCh kept the policy rate unchanged in its May monetary policy meeting, reaffirming the need for maintaining the expansionary monetary stance over a longer period. Should the economic downturn and deflationary pressures exceed expectations, the BCCh could provide additional monetary policy easing via stronger forward guidance, asset purchase programs, and loans facilitated by the recent extension of the collateral framework (while risk mitigation measures should be introduced as market conditions stabilize). Currently, there is a public discussion about the possibility of allowing the BCCh to purchase government securities on

not require Congress approval. General government data offers a similar picture as the central government data because municipalities are not allowed to borrow.

[6] While the technical lower bound may be lower than 0.5 percent, staff consider that the policy rate reached its effective lower bound as the benefits of a lower rate would be offset by its negative impact on money market funds.

the secondary market for financial stability objectives, which would expand the BCCh firepower further.[7] In line with its long-standing policy, the BCCh intends to continue to allow the peso to fluctuate freely, with intervention only limited to address exceptional volatility that could endanger market functioning. The BCCh is considering revisiting their desired level of reserves taking into account recent developments, and does not envisage the need for any capital flow management measures (CFMs).

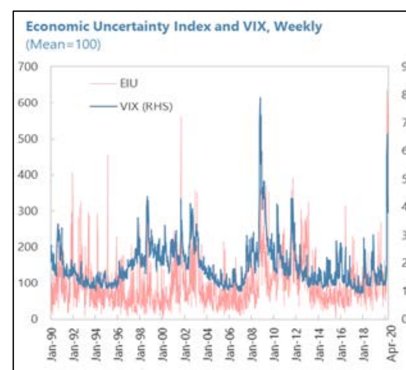
19. The authorities remain committed to further strengthening the financial sector regulatory and supervisory framework. The implementation of Basel III requirements would improve the resilience of the financial sector by requiring banks to maintain larger capital buffers than the current ones. Since March 2020, corporations and households have been experiencing cash-flow impairment due to the business disruptions related to Covid-19. The authorities acted promptly, introducing liquidity support measures (see paragraph 15) that contributed to prevent the cash flow impairments from translating into defaults, and the financial sector remains stable. According to a recent BCCh stress-test, asset quality is expected to deteriorate, possibly resulting by end-2021 in a decline in regulatory capital from 12.7 percent to 10.8 percent in the BCCh baseline scenario (which is slightly more favorable than staff's baseline) with no bank declining below the 8 percent minimum regulatory requirement, and to 9.7 percent in their stress scenario (which assumes a GDP growth path of -6.6 and about 0 percent in 2020 and 2021, respectively).[8]

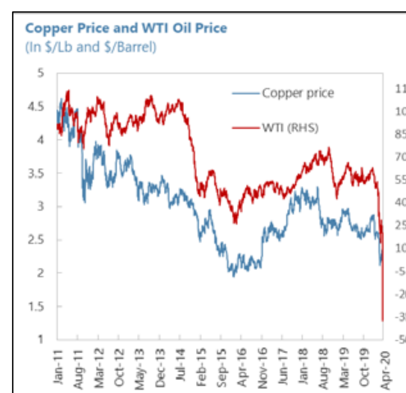
[7] The current discussion envisages strict criteria for approval of such purchases, including high majority threshold.

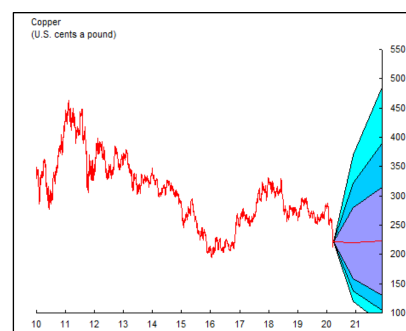
[8] Central Bank of Chile, Financial Stability Report, May 2020.

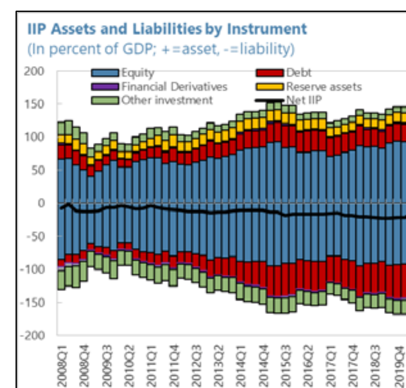
THE FLEXIBLE CREDIT LINE, ACCESS CONSIDERATIONS AND REVIEW OF QUALIFICATION

A. Evolution of Risks and Exposures









20. Uncertainty about near-term global growth and financial market prices is exceptionally high. The baseline forecast in the April 2020 World Economic Outlook envisages a global growth recovery in 2021 of 5.8 percent, following an expected contraction of 3 percent in 2020. However, the range of estimates from conceivable variations in how the pandemic may evolve is wide: global growth in 2021 could be nearly 8 percentage points lower than in the baseline. Indeed, longer containment and uncertainties about the intensity and the duration of the outbreak would disrupt global value chains, lowering external demand. Moreover, financial market indicators (such as the VIX) imply extremely high uncertainty among investors. Such an uncertainty about global future growth and the cost of capital will weigh on the balance of trade between Chile and the world, and on the movement of capital to and from Chile.

21. Low global growth due to a prolonged Covid-19 outbreak would keep Chile's exports and FDI down. The effects from a prolonged Covid-19 outbreak on the growth of Chile's main export markets would limit both exports and foreign direct investment. Chile is the world's leading exporter of copper, which accounts for nearly half of Chile's merchandise exports and about 12 percent of GDP. While copper export volumes tend to adjust slowly, copper prices fell by about 25 percent in the first three months of 2020 and are currently expected to remain low, thereby putting downward pressure on export revenues. The effect on the current account will however be mitigated by three factors. First, by the effect of low oil prices on the import bill. Second, by the decline in imports as a result of weaker domestic demand and the accompanying exchange rate adjustment. And third, by the lower net income outflows resulting from two opposing factors: the (positive) effect of lower dividends paid to foreign investors, which is expected to exceed the (negative) effect of lower repatriation of profits by Chilean entities with investments abroad. While the current account balance will deteriorate, the pressure on the financial account is likely to be considerably larger.

22. Persistently high global risk aversion would curtail net capital inflows, particularly portfolio inflows. Given the large stock of externally held domestic securities and other investments, a prolonged period of net sales by non-residents would lead to large pressures on the financial account. At the same time, in a situation of a global flight to safety, large outflows by residents would also significantly heighten the pressure on the balance of payments.

23. The external economic stress index (ESI) for Chile indicates a high level of stress (Box 2). The index reflects movements in four key indicators of risk for Chile's current and financial account balances: copper prices, trading partners' growth, emerging markets volatility, and U.S. Treasury yields. The Covid-19 crisis has pushed the ESI for Chile to its worst level since the mid-1990s. A downside scenario in which the effects of the pandemic are prolonged could keep Chile under a level of external stress comparable to the one experienced during the 2008 GFC (which Chile navigated well), but the much longer persistence would have drastic effects on the economy and the balance of payments. Against this backdrop, the authorities requested an arrangement under the FCL. [9]

B. Access Considerations Under an Adverse Scenario

24. Staff 's assessment is that the requested access of 1,000 percent of quota would provide adequate coverage against the envisaged adverse scenario (Box 3). The adverse scenario envisages a persistent negative effect from the pandemic rather than a speedy recovery in 2020Q3, which would have dramatic implications with respect to the baseline, notably in terms of investor confidence and large adverse capital flows.

25. The net effect on the current account is likely to be moderate. A further deterioration in global prospects—with respect to the baseline—would reduce trading partners' demand for Chilean exports, including for copper that represents close to half of Chile's goods exports, and lower overall exports by over US$11 billion. This would lead to a worsening of the trade balance by about US$5½ billion, after accounting for the offsetting decline of imports of about US$6 billion that would result from

Chile: Current Account Changes Under the Adverse Scenario
(US$ billions)

Current account	**-2.4**
Trade balance	-5.4
Exports	-11.2
Mining	-8.0
Non-mining	-3.2
Imports	-5.9
Oil	-0.6
Non-oil	-5.3
Net income	3.0
Inflows	-0.4
Outflows	-3.4

Sources: Central Bank and IMF staff calculations.

[9] The instrument was designed to provide a credit line with large and upfront financing to members with very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and a commitment to maintaining such policies in the future. As access to the FCL is available only to members that meet strict qualification criteria, drawings under it are not tied to ex-post conditionality. Past reviews indicate that access to FCL helped lower currency volatility and sovereign bond spreads, pointing to lower probability of crisis. IMF (2014), "Review of Flexible Credit Line, the Precautionary and Liquidity Line, and The Rapid Financing Instrument", IMF Policy Paper; and IMF (2017), "Republic of Poland: Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement", IMF Country Report 17-18.

weaker domestic demand and the accompanying exchange rate adjustment. At the same time, such a shock would likely narrow the negative income balance by about US$3 billion, as the larger FDI-related income outflows would likely decline more than FDI-related income inflows (text table). Hence, the overall current account balance would likely worsen by about US$2½ billion (or about 1 percent of GDP).

26. More importantly, the external shock envisaged in the adverse scenario would change investors' perceptions towards emerging markets, including Chile, and result in sharp declines or reversals of capital flows. Overall, the financial account balance would deteriorate by about US$29 billion (about 12 percent of GDP) under the adverse scenario, which is larger than the reversal in the financial account of about 8 percent of GDP that Chile experienced during the Global Financial Crisis. In particular, new inflows and outflows of portfolio and other investment flows will worsen by about US$17 billion, while net FDI by an additional US$2 billion. In turn, a further tightening of global financial conditions would likely put strain on external debt servicing. In line with adverse scenarios for other FCL arrangements, the adverse scenario assumes 80 percent rollover of private external debt, which would result in an additional financing gap of about US$10 billion (Box 3). The difficult international environment will also affect public sector access to international capital, but given the limited public external short-term financing needs compared to the large size of public liquid assets, staff assume full rollover of public sector external debt, and no threats to public debt sustainability.

27. The adverse scenario results in a financing gap of US$23.8 billion. The financing needs summarized above add up to a total of US$31.4 billion (about 13 percent of GDP), stemming from a widening current account deficit of US$2.4 billion and a worsening in the financial account balance of US$29 billion. Chile would be expected to rely on drawdown of reserves of US$5.7 billion (which would bring the reserves to about 80 percent of the ARA metric) and of its sovereign wealth fund (the economic and social stabilization fund) in the amount of US$1.9 billion (or about 20 percent of the expected fund value for end-2020), while most of the other liquid assets of the Treasury—after the expected net asset financing to the deficit in 2020 of about 3½ percent of GDP—relate to the pension fund which is not meant for economic stabilization purposes. Overall, the resulting financing gap is US$23.8 billion, mainly driven by movements in the financial account, which is not surprising in light of Chile's very large gross international investment positions (see text chart in paragraph 21).

Box 2. External Economic Stress Index

Chile faces its highest level of external stress since the mid-1990s. An adverse scenario where the global effects of Covid-19 are prolonged would keep such external stress at a high level throughout most of 2021.

The external economic stress index (ESI) is a compact measure of the external pressure faced by a specific economy. It is constructed in three steps: (i) identify the key external risks on the basis of the structure of the economy; (ii) choose proxies to capture these risks; and (iii) weigh them. The index is a weighted sum of standardized deviations of each proxy from its mean.[1]

Low growth in trading partners, low copper prices, and tight financing conditions are the main external risks for Chile. Risks to exports are proxied by output growth in the U.S. and China, while risks to the copper industry, including inward FDI, are proxied by international copper prices. The open financial account, coupled with large stocks of debt and portfolio investment liabilities, expose Chile to changes in global financial conditions (although this exposure is partly mitigated by domestic institutional investors' large holdings of foreign assets), which are proxied by the emerging markets volatility index (VXEEM) and the yield on ten-year U.S. Treasuries (detrended). The choice of the weights draws on the balance of payments and international investment position data, expressed in shares of GDP and normalized. The weight on growth in the U.S. and China (0.15) reflects the main export markets;[2] the weight on the price of copper (0.35) reflects copper exports and FDI liabilities (adjusted to reflect the likelihood that copper and oil prices move in the same direction); the weights on the VXEEM (0.25) and the U.S. long-term yield (0.25) represent the relevance of stocks of portfolio and debt-like liabilities.

The level of external stress suggested by the index is now slightly deeper than in any previous stress event since the mid-1990s. The box figure shows the evolution of the ESI for Chile. Its negative values capture episodes of high external stress: the Latin American crises in 1995 and 2002, the East Asian and Russian crises in 1997-1998, the dot-com crash in 2001, US financial crisis in 2007-2008, the Euro Area debt crisis in 2011, the taper tantrum in 2013, the Chinese stock market crash in 2015, and—the nadir thus far—Covid-19 in 2020. The baseline forecast reflects WEO projections for U.S. and Chinese growth, copper prices, and the U.S. 10-year bond yield. The VXEEM is assumed to return to its average level.

Chile: External Stress Index
(Negative if high)

Source: IMF staff calculations.

The adverse scenario envisages longer Covid-19 effects in 2020 and a new outbreak in 2021. This is the downside scenario in the April 2020 WEO, in which U.S. growth is lower by 1.9 and 4.9 percentage points in 2020 and 2021, respectively, relative to the baseline, while growth in China is lower by 2.2 and 2.9 percentage points. Copper prices are assumed to fall towards about $3,200 per ton, equivalent to about 160 cents per pound (one standard deviation below the pre-crisis level, and close to its lowest level during the GFC). Persistent stress in financial markets is assumed to keep the volatility index VXEEM at current levels (more than two standard deviations above average). In this scenario, Chile would be under a comparable level of external stress to what it experienced briefly during the 2008 GFC, which Chile navigated successfully, but such pressure would persist for a much longer period, i.e. through 2021.

[1] The methodology is explained in *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018.
[2] China and the U.S. account (directly) for 32 and 14 percent, respectively, of Chile's total exports in 2019.

Box 3. Description of the Adverse Scenario

Amid an environment of exceptionally high external risks, access of US$23.8 billion (about 1,000 percent of quota) can be justified under a plausible, albeit somewhat conservative, adverse scenario. Key assumptions on commodity price movements, exports and imports, FDI, and external debt rollover are comparable to recent FCL arrangements, notably the 2018 Colombia and the 2019 Mexico FCL arrangements, while portfolio and other flows are more conservative.

Current account. The overall shock to the current account is the result of adverse external shocks as well as offsetting factors. The value of mining exports (in U.S. dollars) is assumed to drop by 27 percent, which corresponds to a one-standard deviation copper price shock, bringing the copper price to a similar level as during the GFC. Such a shock is of comparable magnitude to the oil price shock assumed in the recent Colombia FCL arrangement (one standard deviation). In addition, reflecting weaker global prospects under this downside scenario, global demand for Chilean non-mining exports is assumed to drop by 10 percent (about one standard deviation), comparable to scenarios in other recent FCL arrangements. The impact of weaker exports on the current account is largely offset by two key countervailing factors: (i) oil imports are assumed to decline by 27 percent, similarly to the copper price decline, and non-oil imports are assumed to decline by 10 percent due to expected exchange rate depreciation and weaker domestic demand; (ii) the net income balance would improve following a 27-percent drop in FDI-related income outflows (proportional to copper exports decline) that dominates a 10-percent drop in FDI-related income inflows from Chilean-owned companies abroad. Overall, the current account deficit widens.

Foreign Direct Investment. FDI inflows decline by 27 percent relative to the baseline, but remain above the average of the previous three years. This decline is smaller than in recent FCL arrangements (20-40 percent) and is additionally offset by the assumed decline by 10 percent of outward FDI by Chilean residents.

Portfolio flows and other investments. In the adverse scenario, portfolio and other investment net inflows by both non-residents and residents worsen by about 1 standard deviation (to be more precise—1.03 standard deviation—the amount corresponding to a 15 percent probability of a one-sided event in a standardized normal distribution). All of these shocks are smaller than assumed in the Mexico 2019 FCL arrangement (1.6 standard deviations). Nonetheless, given the relatively large size of these flows for Chile, the shocks result in large financing gaps.

External debt. Rollover rates of 80 percent are assumed for amortization of private sector external debt (both for short-term debt at original maturity and for medium- and long-term debt coming due). This is near the 25th percentile of past crisis episodes and in line with most other FCL arrangements. We assume full rollover of public sector external debt (both short-term and medium- and long-term), given the limited public external short-term financing needs compared to the large size of public liquid assets, while additional fiscal financing needs associated with the accompanying deterioration in the fiscal deficit in the adverse scenario would be covered via domestic financing or a drawdown in public assets.

Use of reserves and of the sovereign wealth fund. A drawdown of FX reserves in the amount of US$5.7 billion is assumed in the adverse scenario. This corresponds to the maximum drawdown subject to keeping reserves above 80 percent of the ARA metric. It is also assumed that US$1.9 billion will be drawn from the sovereign wealth fund, corresponding to about 20 percent of the expected value of the fund for end-2020. After the expected net asset financing to the deficit of about 3½ percent of GDP in 2020, most of the other liquid assets of the Treasury relate to the pension fund which is not meant for economic stabilization purposes.

The box charts "Illustrative Adverse Scenario" show that the shocks employed are in line with those used in previous arrangements.

Box 3. Description of the Adverse Scenario (Continued)

Chile: External Financing Requirements and Sources
(in billions of U.S. dollars)

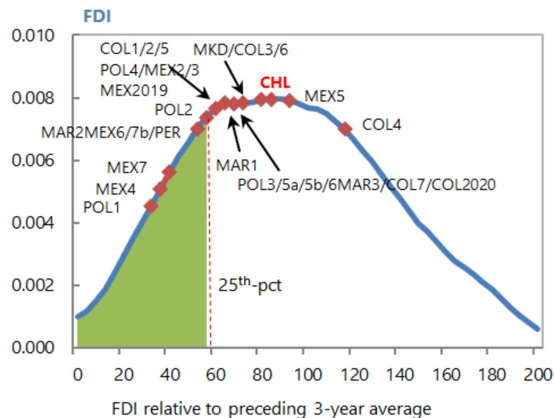
	2018	2019	2020	2021	Adverse 2020	**Contribution to Gap**	Adverse 2021	**Contribution to Gap**
			Proj.					
Gross external financing requirements	**59.8**	**59.6**	**55.9**	**65.5**	**58.3**	**2.4**	**67.5**	**2.0**
Current account deficit	-10.7	-10.8	-1.7	-7.1	-4.1	2.4	-9.1	2.0
Amortization of Bonds and Loans	49.1	48.7	54.2	58.5	54.2		58.5	
Public sector MLT coming due	0.1	0.1	1.4	2.2	1.4		2.2	
FX denominated bonds								
Local currency bonds								
FX Bank Financing								
Private sector MLT amortization	28.7	26.6	30.8	32.9	30.8		32.9	
FX denominated bonds								
Bank Financing								
Short term debt coming due	20.3	22.0	22.0	23.3	22.0		23.3	
Public sector	4.2	1.7	2.7	2.7	2.7		2.7	
FX denominated								
Local Currency								
Private sector	16.1	20.3	19.3	20.6	19.3		20.6	
Trade credit								
Available external financing	**59.8**	**59.8**	**55.9**	**65.5**	**19.4**	**21.4**	**41.8**	**22.4**
Net FDI inflows	6.7	3.5	2.6	5.1	0.6	2.0	2.7	2.3
Net Portfolio Inflows	1.5	8.4	1.5	2.2	-9.2	10.7	-8.6	10.7
Financing through Bonds and Loans	49.1	48.7	54.2	58.5	44.2		47.8	
Public sector MLT financing	0.1	0.1	1.4	2.2	1.4		2.2	
FX denominated bonds								
Local currency bonds								
FX Bank Financing								
Private sector MLT financing	28.7	26.6	30.8	32.9	24.6	6.2	26.4	6.6
FX denominated bonds								
FX Bank Financing								
Short-term financing	20.3	22.0	22.0	23.3	18.1		19.2	
Public sector	4.2	1.7	2.7	2.7	2.7		2.7	
FX denominated								
Local Currency								
Private sector	16.1	20.3	19.3	20.6	15.4	3.9	16.5	4.1
Trade credit								
Net other flows	3.8	-1.0	-2.4	-0.2	-8.6		-0.2	
Other investment	4.2	-1.9	-0.8	1.4	-7.1	6.3	-4.8	6.2
Derivatives	-0.9	-1.5	-1.5	-1.5	-1.5		-1.5	
Other	0.5	2.5	0.0	0.0	0.0		0.0	
Change in international reserves	1.4	-0.2	0.0	0.0	5.7	-5.7	5.7	-5.7
Additional change in SWF assets	0.0	0.0	0.0	0.0	1.9	-1.9	1.9	-1.9
Financing Gap (USD billions)						**23.8**		**24.4**
SDR (0.73328 USD/SDR, May 12, 2020)						17.4		17.9
Percent of quota						1000.2		1025.0
Memorandum items								
Reserves (in billions of U.S. dollars)	39.9	40.7	40.7	40.7				

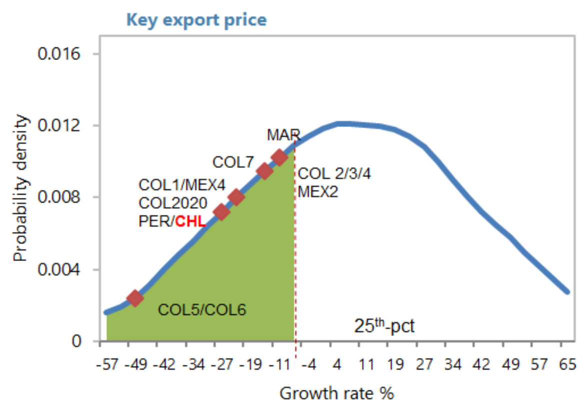
Sources: Chilean authorities and IMF staff estimates.

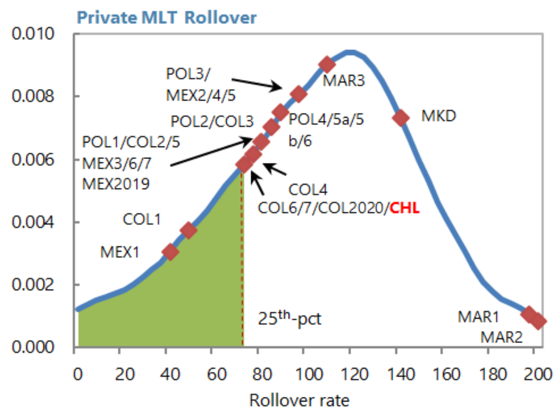
Box 3. Description of the Adverse Scenario 1/ (Concluded)

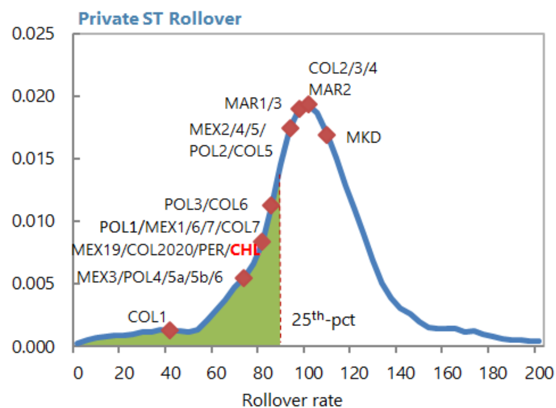
Illustrative Adverse Scenario

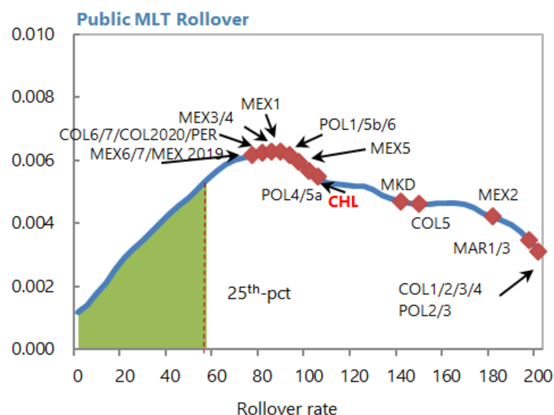
(Probability density)

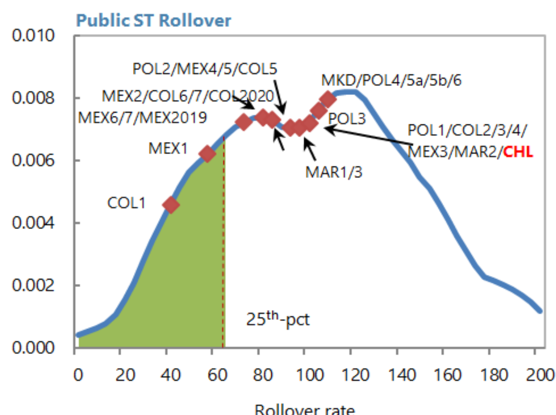












Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2019 is the current FCL arrangement for Mexico. COL2020 refers to the latest arrangement for Colombia. CHL is the proposed arrangement for Chile.

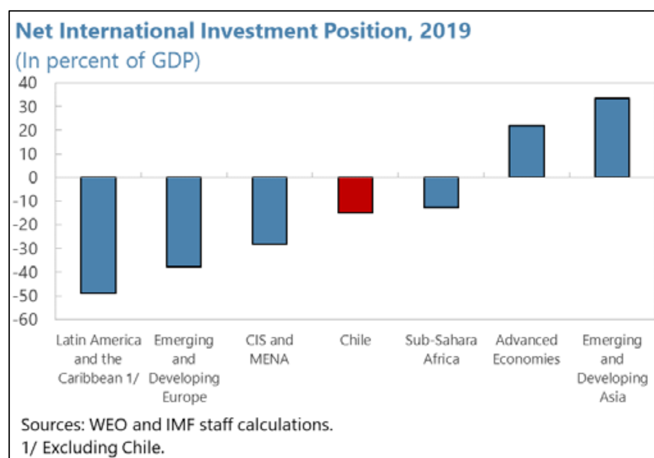
C. Review of Qualification

28. Sustainable external position. The external position was assessed as being broadly consistent with fundamentals and desirable policies in the 2018 Article IV consultation. Staff assessment remains unchanged for 2019, as the average current account gap based on EBA models for 2019 was about -0.6 percent of GDP (text table), implying an external position broadly in line with fundamentals. The real effective exchange rate gap based on the REER-index EBA model points to the absence of a misalignment. The current account deficit widened to 3.9 percent of GDP in 2019, which is higher than the corresponding EBA current account and ES norms of about 1 percent of GDP, but that was largely due to strong investment in mining reflecting a rebound in business confidence and the one-off purchase of airplanes (with one-off contributions respectively of 1½ and ¼ percent of GDP, totaling about 1.7 percent of GDP) and the effect of policy gaps was less than ¼ percent of GDP in 2019. A preliminary assessment for 2020 based on recent developments and expectations points to a somewhat stronger external position, still in line with fundamentals. Compared to the average for 2019, the exchange rate depreciated by about 13 percent (in real effective terms) until end-March 2020, following the copper price decline and a deteriorating environment. In 2020, the current account deficit is expected to narrow substantially to less than 1 percent of GDP as a result of the sizeable depreciation of the exchange rate and the decline in domestic demand.[10] The external DSA points to a sustainable external debt, even under adverse scenarios (see Annex III). The net international investment position (IIP) has narrowed considerably to -15 percent of GDP at end-2019, and compares favorably by most emerging market standards (apart from Asia, see text chart).

Chile: Current Account and REER Gaps in 2019
(In percent)

	Actual CA	CA adjusted for one-off factors	Cyclically-Adjusted CA Norm	CA gap 1/	Semi-Elasticity	REER gap 2/ 3/
EBA CA	-3.9	-2.2	-0.8	-1.4	-0.28	5.0
REER Level						-18.4
REER Index				0.6	-0.28	-2.2
ES	-3.9	-2.2	-1.2	-1.0	-0.28	3.6
Average gap				-0.6		2.1

Sources: IMF staff calculations.
1/ Calculated as the difference between adjusted CA and cyclically-adjusted CA norm.
2/ Positive values indicate overvaluation.
3/ REER Level is not used as its fitted value do not adequately capture Chile's dynamics.



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

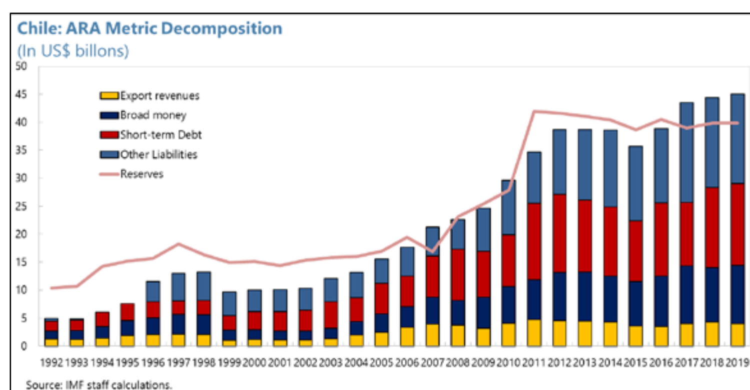
29. Capital account position dominated by private flows. Private flows have accounted for 81.7 percent of total asset flows (FDI, portfolio, and other) and 72 percent of total liability flows (FDI, portfolio, and other) over the past three years. In addition, over the same horizon, the private sector has accounted on average for about 83 percent of total assets and about 94 percent of total

[10] In the March Monetary Policy Report, the Central Bank expects the 2020 current account balance at 0.3 percent of GDP.

IIP liabilities. Also, over the past three years, FDI and portfolio inflows have represented on average 59 percent of total inflows, and private sector holdings accounted for about 95 percent of Chile's external debt, while public sector institutions (multilateral and governmental) have held on average about 5 percent.

30. Track record of steady sovereign access to international capital markets at favorable terms. Chile has been enjoying 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.[11] Although its sovereign bond spreads have deteriorated during the ongoing turmoil (EMBIG and five-year CDS spreads stood at 271 and 114 bps as of May 14, 2020), they are only somewhat higher than the median over the past five years (190 and 90 bps, respectively), and compare favorably with peers (see Figure 2).[12] The central government has issued external debt in each of the past five years (latest bonds were issued in January 2020 for US$3.3 billion and in May 2020 for US$2 billion), with a cumulative amount over that period equivalent to 515 percent of Chile's quota at the Fund.

31. Relatively comfortable international reserve position. Reserves are relatively comfortable, by both emerging market and mature economy criteria.[13] The ratio of reserves to the Fund's reserve adequacy metric (ARA) is below but reasonably close to the 100 percent recommended for emerging markets—88 percent at end-2019, 90 percent on average over the last three years.[14] Generally, reserves have traced the ARA metric well over time (see text chart) and fell short of the unadjusted ARA metric on average over the past three years, while remaining above the 80 percent threshold in any year. In staff's view, reserves are adequate due to several mitigating factors. First, in mature market economies, reserves may need to act mainly as a second line of defense against potential foreign exchange funding needs of the financial sector.[15] In Chile, slightly more than half of non-FDI short term external debt are banks' debts (US$22 billion), more than half of which is covered by liquid



Source: IMF staff calculations.

[11] Its foreign-currency ratings are A1 for Moody's, A+ for S&P and A for Fitch.

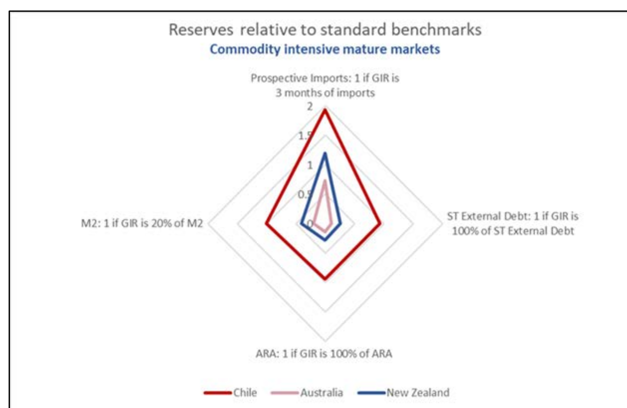
[12] Spreads in the January issuance were about 50-100 basis points and in the May issuance were about 150-180 basis points above the respective reference rates. The yields in May were 1.165 percent on the 5-year bonds in euros and 2.454 percent on the 11-year bonds in US$.

[13] Chile is classified as a mature market economy for reserve assessment purposes in IMF (2015), "Assessing Reserve Adequacy—Specific Proposals" and IMF (2016), "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations".

[14] Adding an additional buffer for Chile's exposure to copper price volatility gives a ratio of reserves to commodity-augmented ARA metric of 74 percent.

[15] Adequate supervision and prudential regulation form the first pillar—see IMF (2016).

foreign exchange assets, reflecting banks' prudent FX liquidity management underpinned by the strong regulatory system; hence, reserves at end-2019 are more than three times estimated potential net FX liquidity needs of banks.[16] Second, on top of international reserves, the central government holds approximately US$25 billion in usable liquid external assets, including US$12 billion in the sovereign wealth fund for economic stabilization at end-2019 which, if counted as reserves would raise these to 111 percent of ARA. These are substantially above the government's short-term external financing needs, and can be drawn in response to external shocks. Third, standard benchmarks show that Chile compares favorably to other commodity-intensive mature market economies (e.g., Australia and New Zealand, see text chart; comparisons to other EMs are shown in Figure 3). Reserve coverage of prospective imports is more than twice the standard benchmark at 7 months, while coverage of broad money and short-term external debt is close to benchmarks at 20 and 92 percent respectively (see Figure 3). Fourth, the authorities are strongly committed to the free-floating exchange rate regime (with a solid track record of no FX spot intervention in support of the currency since 2002 except for a brief period during the recent social unrest, and of publication of intervention data), which reduces further the need for reserves; nonetheless, the authorities plan to revisit the reserve accumulation policy over the coming months. Furthermore, the authorities remain open to continue exploring other sources of precautionary financing. The BCCh is discussing with the People's Bank of China about the possibility of enhancing a bilateral RMB/CLP currency swap agreement related to trade transactions.[17]



32. Sustainable public debt position and sound public finances. Fiscal policy remains prudent, guided by the fiscal rule operationalized via structural deficit targets. The authorities expressed their commitment to debt stability in the medium term, if necessary by undertaking additional revenue and expenditure measures beyond those that will bring the structural deficit to the 2024 target of 1 percent of GDP. In staff calculation, a medium-term fiscal consolidation that lowers the structural deficit to 0.5 percent of GDP by 2025 would stabilize the debt ratio at about 42 percent of GDP. A debt sustainability analysis (Annex IV) shows that the debt trajectory is robust to standard shocks (to growth, the exchange rate, interest rates). Chile's debt is sustainable with a high probability, due to low debt levels, adequate reserves, significant buffers, sound macro-fundamentals and strong policy track record. Despite adverse global financial conditions, liquidity risks are mitigated by the large domestic banking sector, which has ample room to absorb

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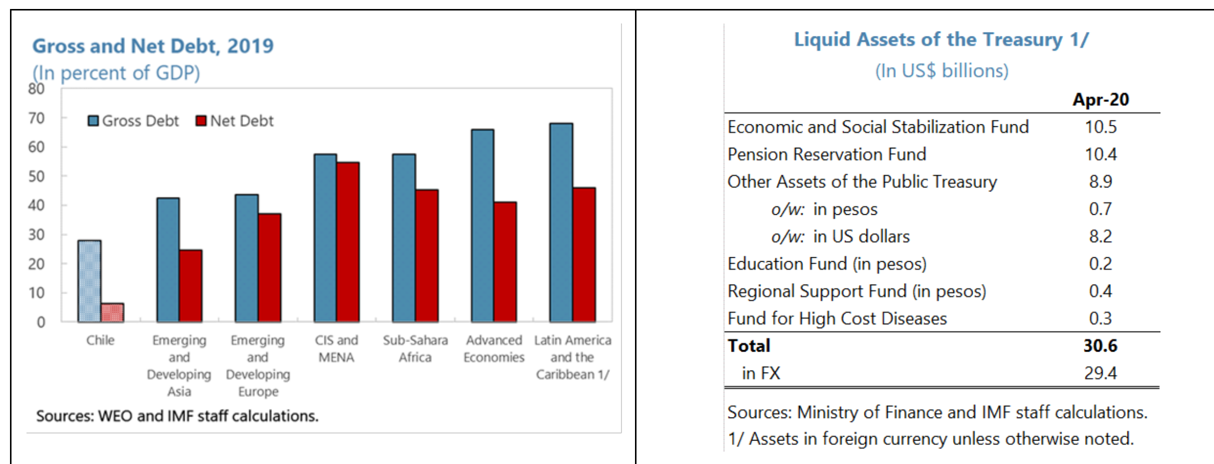
[16] In the non-bank part of the financial system, institutional investors (i.e. pension funds) have a positive net foreign asset position.

[17] The agreement was signed in 2015, creating a line of up to RMB 22 billion (about $3 billion), to facilitate direct settlement of trade between Chile and China in case of disruptions in the RMB market. The agreement may not be suitable for addressing broader balance of payment support, has never been drawn upon, and the resources are not included in Chile's international reserves.

issuance in the case of external financing disruptions, and sizable assets. A strong fiscal framework, its relatively low debt level by international standards (both in gross and net terms) and substantial fiscal buffers (including a sovereign wealth fund and other assets) are expected to help Chile undertake countercyclical policies.



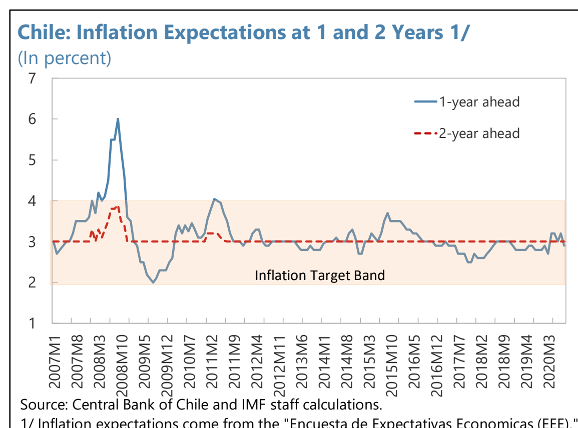
Sources: WEO and IMF staff calculations.

Liquid Assets of the Treasury 1/
(In US$ billions)

	Apr-20
Economic and Social Stabilization Fund	10.5
Pension Reservation Fund	10.4
Other Assets of the Public Treasury	8.9
o/w: in pesos	0.7
o/w: in US dollars	8.2
Education Fund (in pesos)	0.2
Regional Support Fund (in pesos)	0.4
Fund for High Cost Diseases	0.3
Total	**30.6**
in FX	29.4

Sources: Ministry of Finance and IMF staff calculations.
1/ Assets in foreign currency unless otherwise noted.

33. Low and stable inflation in the context of a sound monetary and exchange rate policy framework. Chile maintains a free-floating exchange rate system and the BCCh has been successful in maintaining inflation around 3 percent (the mid-point of the target range) since the introduction of the inflation-targeting regime in 1999 (with an average of 3.2 percent). Inflation expectations at the 12-month horizon have been firmly anchored to the target over the past 10 years. Due to the high credibility of its monetary policy, the exchange rate pass-through to domestic prices is among the lowest in the region. The BCCh has had a small and negative equity for a long time, which has not compromised policy solvency and does not require immediate recapitalization. Its independence is well-established. For the sake of accountability, the BCCh has voluntarily undergone an independent external evaluation of the conduct of its monetary and financial policy: the expert panel highlighted high standards of policy analysis, conduct, and independence. The BCCh monetary policy transparency has been ranked high among inflation-targeting regimes.[18]



Source: Central Bank of Chile and IMF staff calculations.
1/ Inflation expectations come from the "Encuesta de Expectativas Economicas (EEE)."

34. Sound financial system and the absence of solvency problems that may threaten systemic stability. The financial sector appears to be sound overall (see recent developments) and

[18] Dincer, N., B. Eichengreen, and P. Geraats (2019), Transparency of Monetary Policy in the Postcrisis World, in D.G. Mayes, P.L. Siklos, and J.-E. Sturm (Editors), *The Oxford Handbook of the Economics of Central Banking*, Oxford University Press.

capital buffers will be reinforced starting in 2021. At end-2019, estimated capital needs to meet the Basel III regulatory requirements by 2024, which include capital conservation buffer and capital discounts, are estimated at 1.6 percent of GDP for both private and public banks.[19] Large banks, which are currently sound, should continue to be closely monitored because of their systemic nature (the sector is relatively concentrated) and in light of potential resolution challenges for systemic institutions in a downside scenario. Systemic risk arising from non-financial sector external debt is low—as about half is FDI-related and the rest is generally hedged against exchange rate risk—but should continue to be monitored, together with SME portfolio health. Pension funds are well-supervised and soundly managed.

35. Effective financial sector supervision. The 2011 FSAP concluded that Chile's financial regulatory and supervisory system is robust and the 2018 Article IV staff report and the recent staff visits did not find substantial concerns regarding the supervisory framework. An update of the FSAP is underway but was delayed to November 2020 due to the Covid-19 pandemic. The supervisory authorities are committed to align the regulatory framework with Basel III, with a one-year postponement of the start of the implementation process justified by the circumstances surrounding the Covid-19 crisis, striking the right balance between temporary regulatory needs and medium-term stability concerns (banks are expected to catch up in 2021 and 2022 on Basel III capital and liquidity requirements). Restructuring the supervisory framework is expected to reduce opportunities for regulatory arbitrage that could result from the prevailing conglomerate structure in the financial sector. Basel III alignment and the new supervisory structure are expected to close many of the gaps identified in an otherwise strong supervisory system. Progress remains to be made, however, in terms of early intervention and bank resolution regime. Chile is undergoing an assessment against the Financial Action Task Force (FATF) anti-money laundering/combating the financing of terrorism (AML/CFT) standard by GAFILAT (FATF Latin America regional body), which is currently delayed due to the Covid-19 outbreak and will include a set of recommendations to further strengthen the AML/CFT framework.

36. Data quality and integrity. On March 20, 2020, Chile adhered to the Fund's Special Data Dissemination Standard (SDDS) Plus—the highest tier of the IMF's Data Standards Initiatives.

37. Track record. Chile continues to have a sustained track record of implementing very strong policies, including in response to previous significant shock episodes, owing to its very strong fiscal and monetary institutional frameworks. According to staff's assessment, all relevant core indicators were met in each of the five most recent years.

38. Institutional strength. Chile's very strong fiscal and monetary institutional frameworks, coupled with one of the highest levels of policy credibility and regulatory quality among emerging markets (Annex I), allowed an effective adjustment to shocks, including during the Global Financial Crisis. In particular, fiscal and monetary policies show very strong countercyclical responses, while at the same time the country has been relying on the shock absorbing power of the free-floating

[19] *Banco del Estado* received 0.2 percent of GDP in capital under the stimulus plan to support lending to SMEs. The recapitalization figure mentioned in this paragraph reflects the capital need to meet the Basel III requirement at the 2024 horizon.

exchange rate regime, and on maintaining open capital accounts, resulting in one of the best responses to the crisis episode among emerging markets (Annex II). Chile continues to lead the regional average for all six indicators presented in the 2018 Worldwide Governance Indicators report; in particular, regulatory quality, control of corruption, and government effectiveness rank above the 80th percentile among all countries.[20]

D. Exit Strategy

39. The authorities intend to exit the FCL arrangement at the end of the 24-month period, conditional on a reduction of the risks considered at the time of the mid-term review. The authorities underscore that the FCL arrangement is requested under the current extraordinary circumstances and will not form part of a permanent strategy for medium term resilience, which remains anchored in very strong macroeconomic policies and in further strengthening the regulatory environment and buffers. The exit strategy will take into consideration the evolution of the ongoing risks at the time of the mid-term review, and, if favorable, intend to start preparations for the exit well in advance.

IMPACT ON FUND FINANCES, RISKS AND SAFEGUARDS

40. The proposed arrangement for Chile under the FCL (SDR 17.443 billion, or 1,000 percent of quota) would have a significant but manageable impact on the Fund's liquidity. The Fund's Forward Commitment Capacity (FCC) would decline by over 9 percent from its current level of SDR 190 billion to around SDR 173 billion (Table 8). If Chile were to draw under the FCL arrangement it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC, which is currently only based on quota resources, would decline by another SDR 1.4 billion.[21]

41. If the resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Chile would be the Fund's second largest.

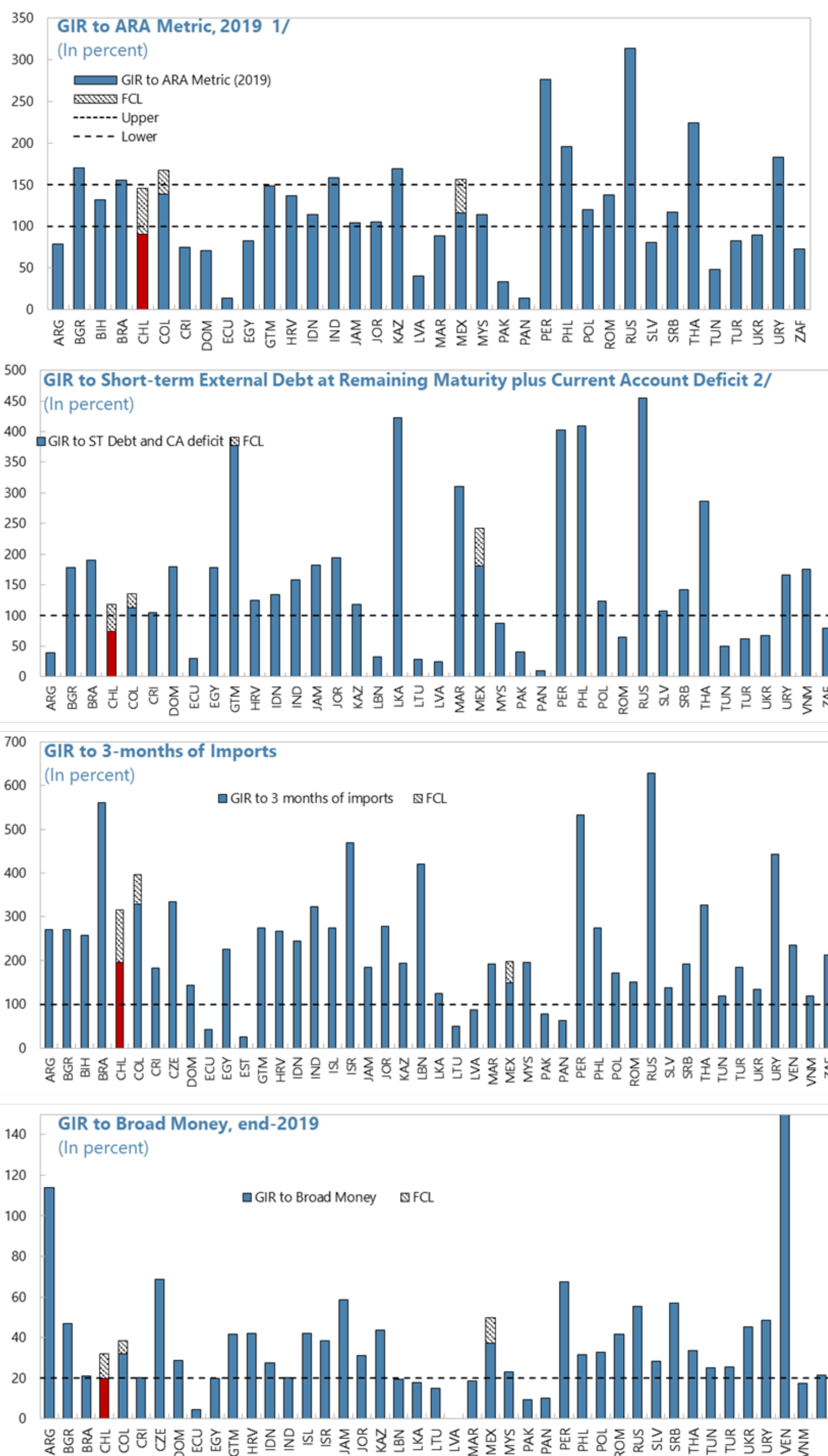
- Fund credit to Chile would represent 19.8 percent of total GRA credit outstanding as of May 15, 2020, and 16.6 percent of GRA credit outstanding including Chile's purchase. Chile would be the second largest Fund exposure after Argentina (SDR 31.9 billion) and before Egypt (SDR 10.6 billion). The concentration of Fund credit among the top five users of GRA resources would increase marginally to about 68.5 percent, up from 67.1 percent, as of May 15, 2020.

- Fund credit to Chile would be over 104 percent of the Fund's precautionary balances as of end-FY2020.

[20] The other indicators are political stability, rule of law, and voice and accountability.

[21] Taking into account resources held as prudential balances, the decline in the FCC would be equal to 80 percent of Chile's quota. See *Financial Transactions Plan for the Period October 2019 – April 2020.*

Figure 3. Chile: Reserve Coverage in an International Perspective



Sources: World Economic Outlook; IFS; and IMF staff estimates.

1/ The upper and lower lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.

2/ The current account is set to zero if it is in surplus.

42. Nonetheless, staff judges risks to the Fund's credit exposures from Chile's FCL request to be manageable, with several mitigating factors:

- If Chile were to draw all the resources available under the new FCL arrangement under the adverse drawing scenario outlined in Section B, GRA credit exposure to Chile would be the Fund's second largest (after Argentina) and Chile's total external debt would rise to 93 percent of GDP at the end of this year before falling gradually but steadily over the medium term. Moreover, some of Chile's capacity to repay indicators, assuming full drawing of 1,000 percent of quota under an adverse drawing scenario, would indicate relatively large credit exposure when compared with recent exceptional access programs. For example, the stock of outstanding Fund credit as a share of exports of goods and services, or of gross official reserves, would be in the top quintile for exceptional access SBAs approved since 2008, as would be peak Fund obligations (amortization and debt service) as a share of exports of goods and services. Other indicators of Chile's capacity to repay are in a moderate range.

- At the same time, the Chilean authorities intend to treat the arrangement as precautionary. Assuming domestic political risks remain contained, Chile would continue to be able to rely on robust institutions with a very strong policy implementation record. Moreover, Chile has a track record of uninterrupted access to international capital markets at favorable terms for several decades and maintains investment grade status. Notably, it has also consistently been among the highest-rated emerging market countries.

43. FCL safeguards procedures are in progress. The authorities have provided authorization for the external auditors of the BCCh to hold discussions with staff. In addition, staff has obtained copies of the central bank's audited financial statements and the management letter for FY2019. Once completed, the results of the procedures will be included in the next staff report for Chile.

STAFF APPRAISAL

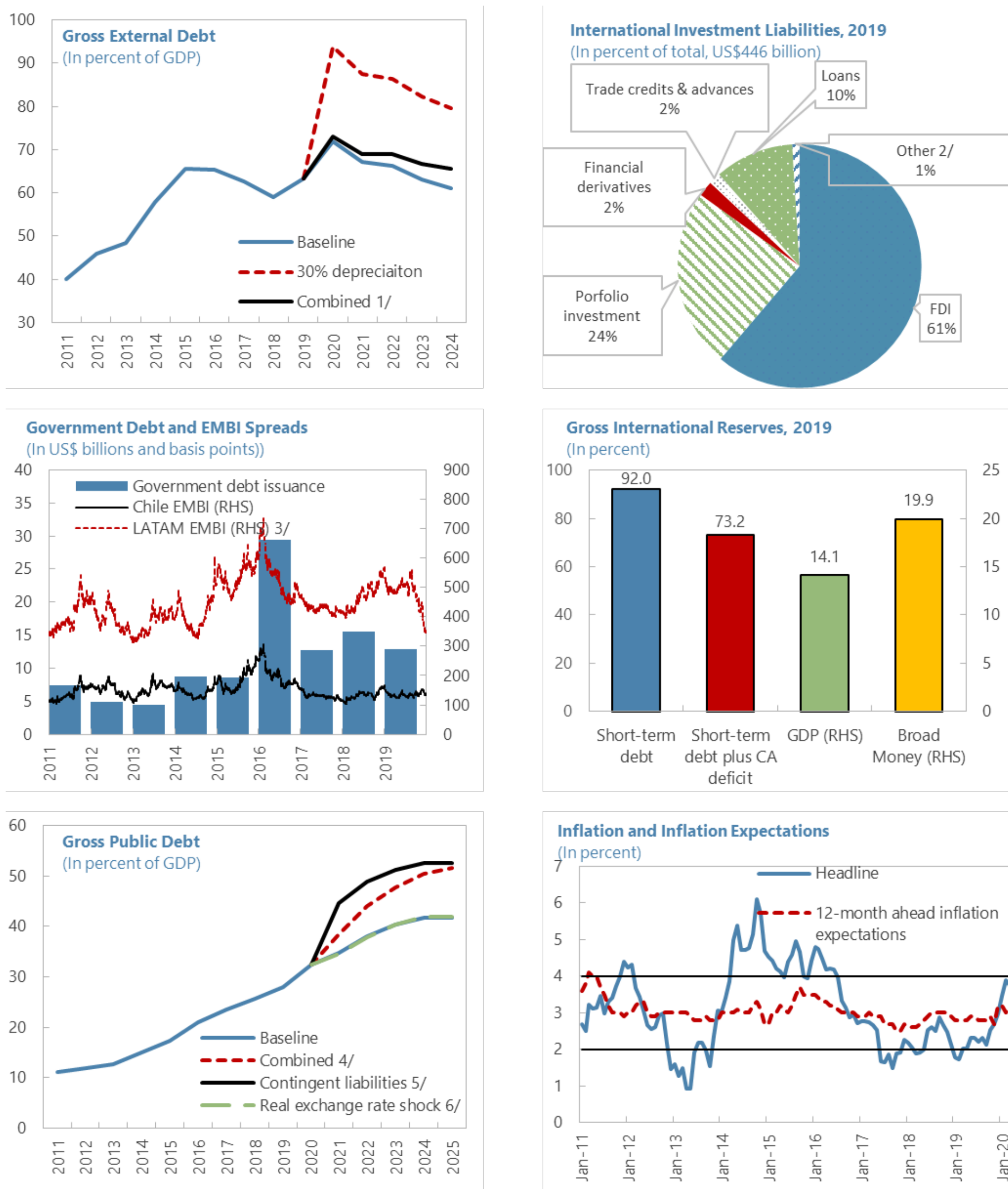
44. Staff's assessment is that Chile meets the qualification criteria for access to FCL resources. Chile has very strong economic fundamentals and institutional policy frameworks, a sustained track record of implementing very strong macroeconomic policies that have helped the country build resilience and navigate through a series of recent shocks, and remains committed to maintaining such prudent policies in the future. Chile meets all qualification criteria. Given all these factors, staff assess that Chile will respond appropriately to the balance-of-payment difficulties that it is encountering or could encounter. Staff's assessment is in line with the very positive assessment of the member's policies by the Executive Board in the context of the 2018 Article IV consultation. Notwithstanding its very strong fundamentals and policy settings, Chile's open economy is exposed to substantial external risks as a result of the ongoing Covid-19 outbreak. In light of this, the FCL arrangement would provide valuable insurance against external tail risks.

45. Staff recommends approval of the authorities' request for an FCL arrangement for Chile and considers that access at 1,000 percent of quota is appropriate given the extraordinary downside risks currently weighing on the global outlook. Uncertainties

surrounding the global outlook are extremely high, and Chile's economy remains highly exposed. Such risks include a significant deterioration in global demand for Chilean exports, a sharp decline or reversal of capital inflows toward emerging markets, and an abrupt tightening of global financial conditions. In this context, an FCL arrangement will help boost market confidence amid the elevated uncertainty and volatility in global financial markets, by enhancing Chile's external buffers and providing insurance against tail risks. The authorities intend to exit the FCL at the end of the 24-month period, conditional on a reduction of the risks considered at the time of the mid-term review.

46. Staff considers the risks to the Fund from the proposed FCL arrangement to be significant but manageable. If fully drawn, GRA credit exposure to Chile would be the Fund's second largest, but risks would be contained by several mitigating factors. The authorities intend to treat the FCL arrangement as precautionary. In addition, the authorities have a long and excellent track record of very strong macroeconomic performance and firm commitment to maintaining prudent policies in the future. In light of this, risks to the Fund are contained even in the case of drawing.

Figure 4. Chile: FCL Qualification



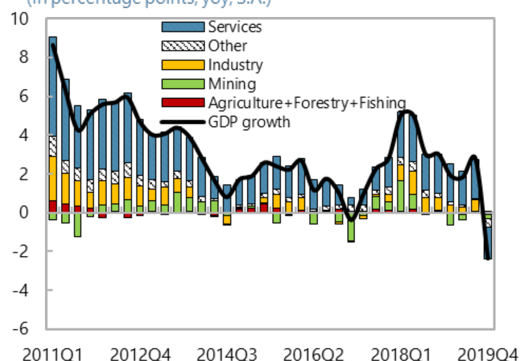
Source: Central Bank of Chile, Bloomberg, Ministry of Finance, and IMF staff calculations.
1/ Combination of permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
2/ Includes currency and deposits, other accounts payable, and SDR's.
3/ Includes 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.
4/ 2% GDP shock, 0.25% inflation shock, 10% expenditure shock, and an interest rate shock of 25bps.
5/ Shock equivalent to 10% of banking-sector assets.
6/ REER depreciation of 22%.

Figure 5. Chile: Economic Activity

Economic activity declined sharply in late 2019...

Contributions to Real GDP Growth

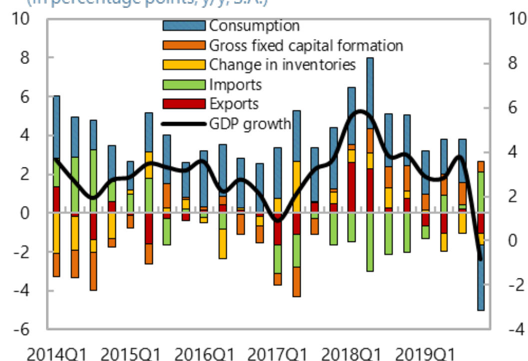
(In percentage points, yoy, S.A.)



...reflecting primarily a sharp slump in consumption...

Contributions to Real GDP Growth

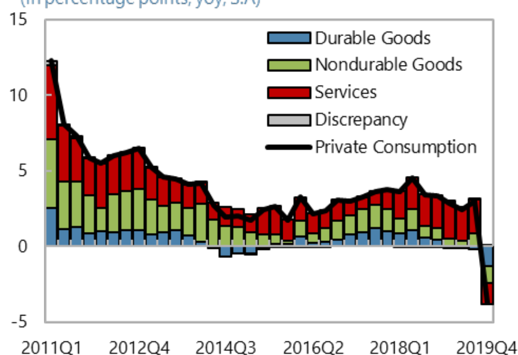
(In percentage points, y/y, S.A.)



...which reflected declines in all consumption categories...

Contributions to Private Consumption Growth

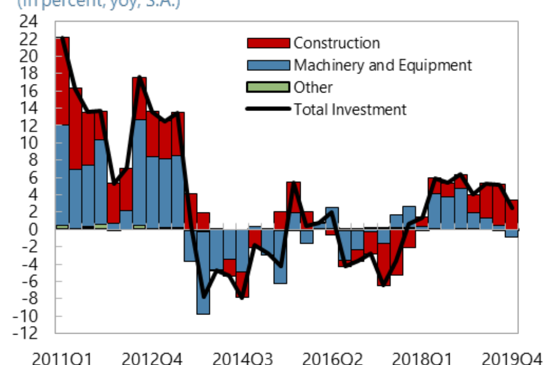
(In percentage points, yoy, S.A)



...while buoyant construction offset the adverse impact of sluggish machinery and equipment on investment.

Contributions to Real Investment Growth

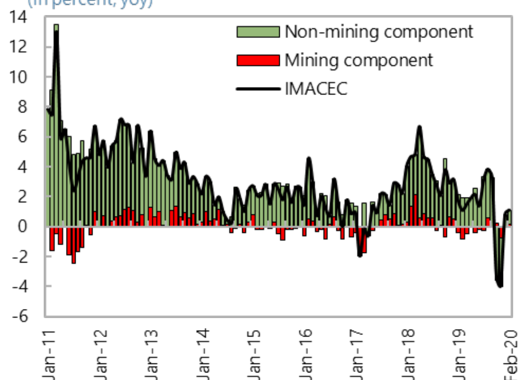
(In percent, yoy, S.A.)



IMACEC showed some signs of recovery after a sharp fall in Q4...

Contributions to IMACEC Growth 1/

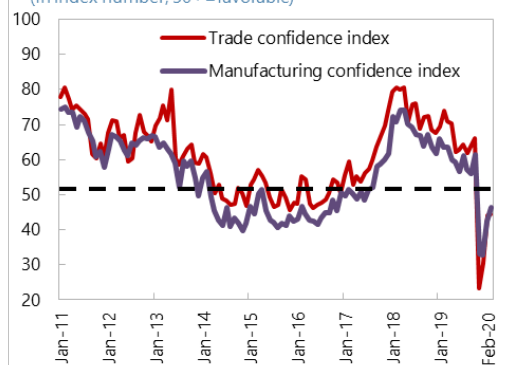
(In percent, yoy)



...as business confidence was starting to recover, while remaining in negative territory.

Business Confidence

(In index number, 50+ =favorable)



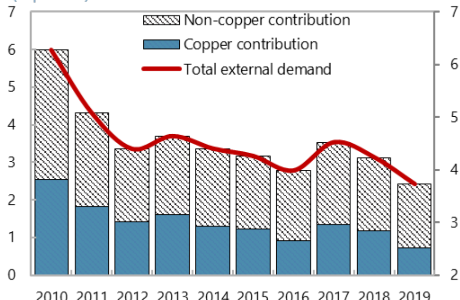
Sources: Central Bank of Chile, Ministry of Finance, Haver Analytics, and IMF staff calculations.

1/ IMACEC is a monthly economic activity indicator.

Figure 6. Chile: External Sector

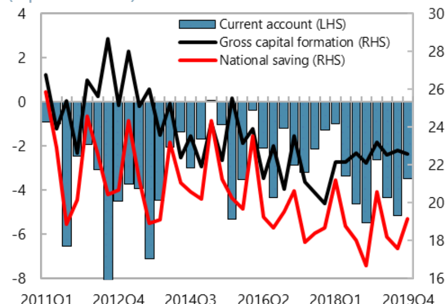
External demand, especially for copper, has moderated...

External Demand Growth from Trading Partners 1/
(In percent)



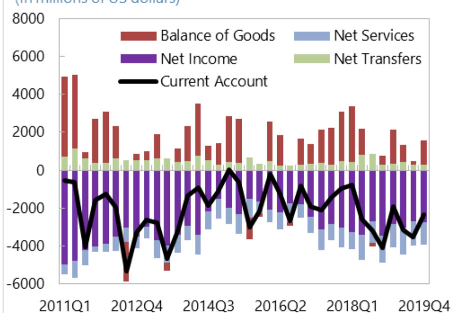
... and the current account deficit has widened somewhat amid resilient investment...

Savings, Investment, and the Current Account
(In percent of GDP)



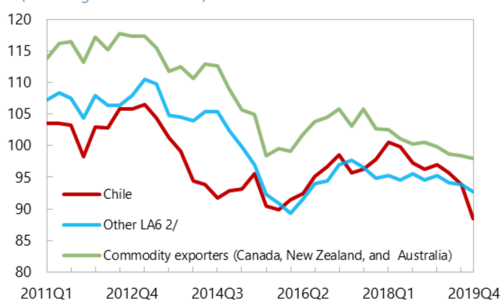
... largely owing to a lower goods trade surplus.

Current Account Decomposition
(In millions of US dollars)



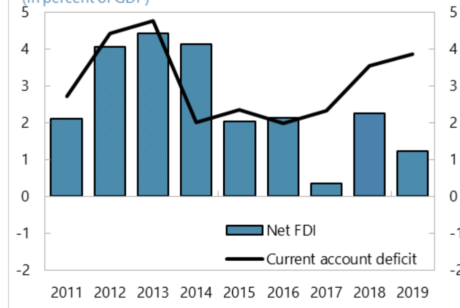
The peso depreciated considerably more than the currencies of LA6 economies and other commodity exporters.

Real Effective Exchange Rate
(Index avg. 1996-2018=100)



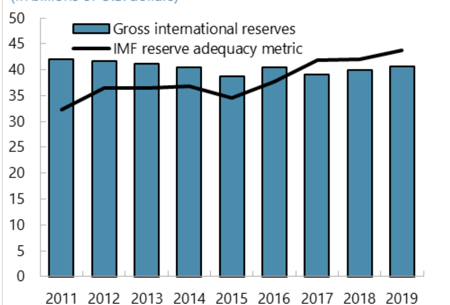
The current account deficit has exceeded net FDI inflows since 2017...

Balance of Payments and Foreign Direct Investment
(In percent of GDP)



...while gross international reserves remain close to the ARA metric.

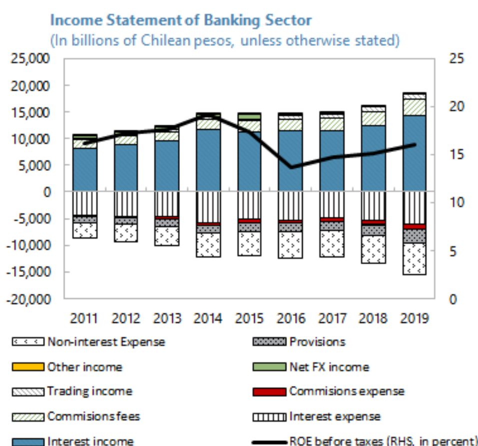
Gross Reserves and Reserve Adequacy Metric 3/
(In billions of U.S. dollars)



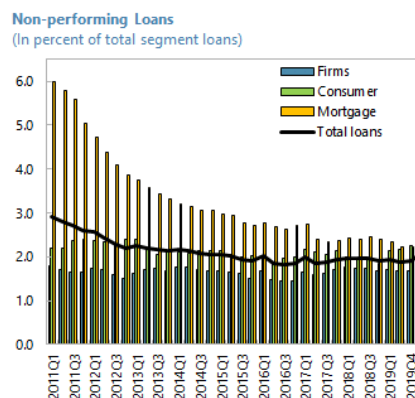
Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations.
1/ Calculated as average real GDP growth of trading partners, weighted by their respective share in Chilean exports.
2/ LA6 includes Brazil, Chile, Colombia, Mexico, Peru and Uruguay.
3/ *Assessing Reserve Adequacy*, IMF.

Figure 7. Chile: Financial Sector

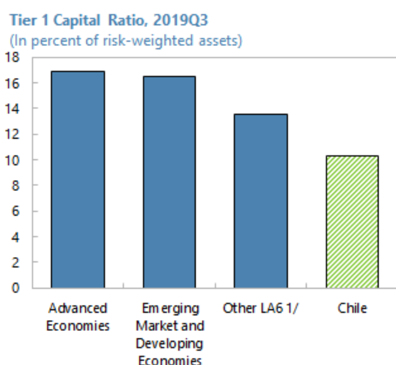
Banks' profitability has improved…



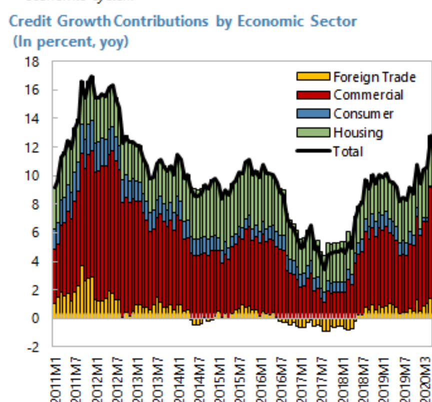
… and non-performing loans remained low.



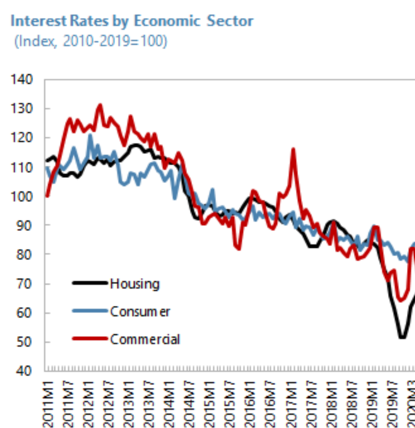
While capital ratios are lower than in other countries, they are expected to increase in line with Basel III.



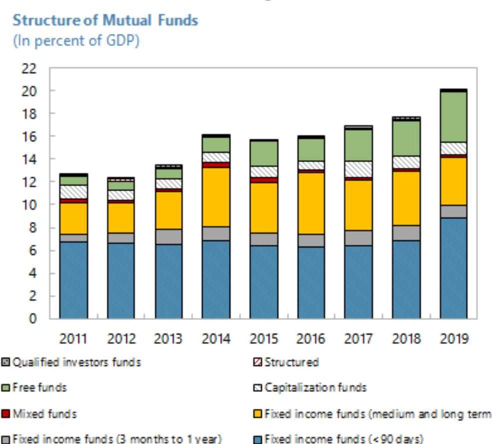
Credit growth remains broad-based and in line with the economic cycle…



…while interest rates have been coming down.



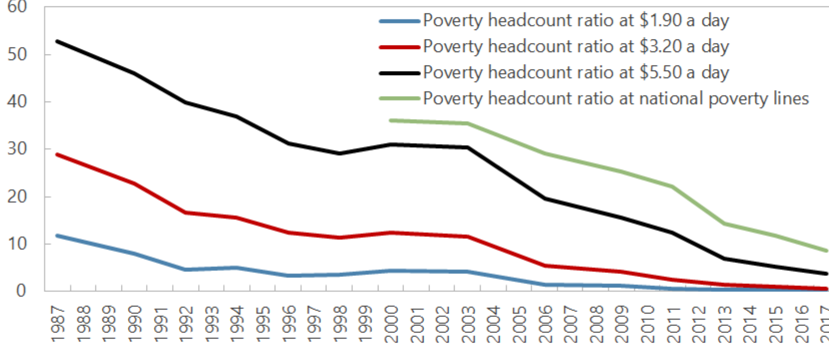
Mutual funds have continued to grow.



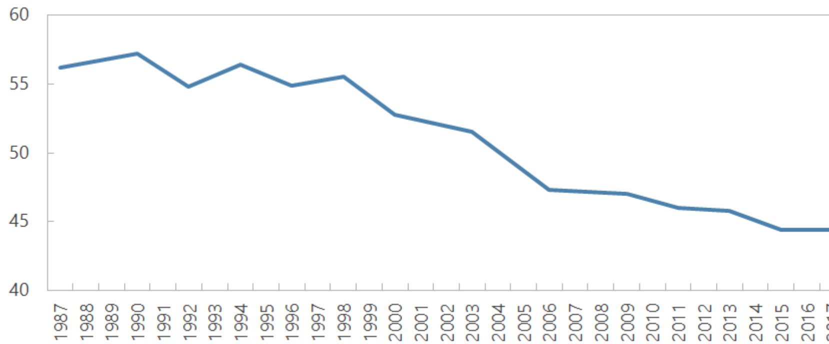
Sources: Superintendiencia Valores y Seguros (SVS), Superintendencia de Bancos e Instituciones Financieras (SBIF), Central Bank of Chile, IMF Financial Soundness Indicators 2015, and IMF staff calculations.
1/ Includes Argentina, Brazil, Colombia, Mexico, and Peru.

Figure 8. Chile: Poverty and Income Distribution

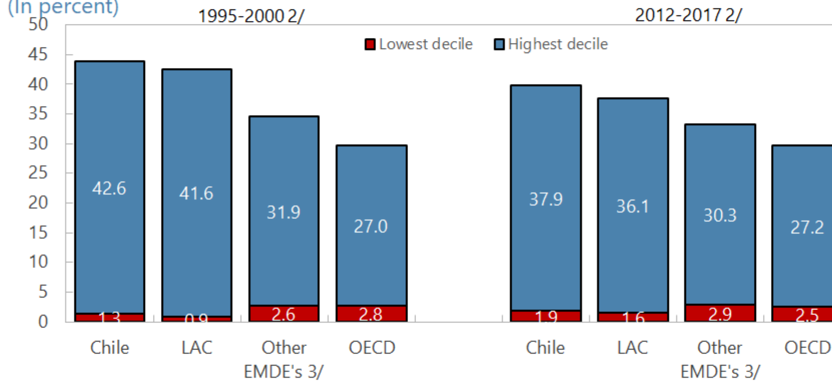
Poverty has declined substantially...



...and income distribution has improved...



...though inequality remains high when compared to other countries.



Sources: World Bank World Development Indicators and IMF staff calculations.
1/ Average by region.
2/ Latest available data from the time period was used.
3/ Other EMDE's: Other emerging markets and developing countries.

Table 1. Chile: Selected Social and Economic Indicators 1/

GDP (2019), in billions of pesos	198,507	Quota	
GDP (2019), in billions of U.S. dollars	282.3	in millions of SDRs	1,744
Per capita (2019), U.S. dollars	14,779	in % of total	0.37
Population (2019), in millions	19.1	Poverty rate (2017)	8.60
Main products and exports	Copper	Gini coefficient (2017)	46.60
Key export markets	China, Euro area, U.S.	Literacy rate (2015)	99.2

						Proj.	
	2015	2016	2017	2018	2019	2020	2021
	(Annual percentage change, unless otherwise specified)						
Output							
Real GDP	2.3	1.7	1.2	3.9	1.1	-4.5	5.3
Total domestic demand	2.5	1.9	3.2	4.7	1.0	-6.8	6.5
Consumption	2.6	3.5	3.6	3.8	0.9	-5.6	5.8
Private	2.1	2.7	3.4	3.7	1.1	-6.6	7.6
Public	4.7	7.1	4.6	4.3	0.0	-0.5	-2.2
Investment 2/	2.4	-3.6	1.5	8.1	1.3	-11.1	9.4
Fixed	-0.4	-1.2	-3.3	4.8	4.3	-13.7	9.7
Private	-1.1	-0.8	-3.6	5.7	4.9	-14.7	9.6
Public	5.9	-4.5	-1.1	-2.6	-0.9	-5.1	10.4
Inventories 3/	0.6	-0.5	1.0	0.7	-0.6	0.5	0.0
Net exports 3/	-0.2	-0.1	-1.8	-0.9	0.0	2.3	-1.2
Employment							
Unemployment rate (annual average)	6.3	6.7	7.0	7.4	7.3	9.7	8.9
Consumer prices							
Inflation (End of period, %)	4.4	2.7	2.3	2.1	3.0	2.5	3.0
Inflation (average, %)	4.3	3.8	2.2	2.3	2.3	3.4	2.9
	(In percent of GDP, unless otherwise specified)						
Public sector finances							
Central government revenue	21.0	20.8	21.0	22.0	21.3	18.9	21.9
Central government expenditure	23.2	23.5	23.7	23.6	24.1	27.0	24.3
Central government fiscal balance	-2.1	-2.7	-2.8	-1.6	-2.8	-8.0	-2.4
Structural Fiscal Balance	0.5	-1.0	-2.0	-1.5	-2.8	-3.5	-2.5
Public sector gross debt 4/	40.1	42.7	42.7	44.7	47.0	51.1	54.2
Of which, Central Government Gross Debt	17.3	21.0	23.6	25.6	27.9	33.3	36.4
Central Government Net Debt	-3.4	0.9	4.4	5.7	7.9	13.7	15.9
	(Annual percentage change, unless otherwise specified)						
Money and credit							
Broad money	12.0	7.0	5.1	11.2	9.4	-0.8	7.3
Balance of payments							
Current account (% of GDP)	-2.4	-2.0	-2.3	-3.6	-3.9	-0.7	-2.6
Current account (in billions of U.S. dollars)	-5.8	-5.0	-6.5	-10.7	-10.8	-1.7	-7.1
Foreign direct investment net flows (% of GDP)	-2.0	-2.1	-0.4	-2.3	-1.2	-1.1	-1.9
Gross international reserves (in billions of U.S. dollars)	38.6	40.5	39.0	39.9	40.7	40.7	40.7
Gross Reserves (Months of next year import)	6.8	6.5	5.5	6.0	7.2	6.6	6.4
Gross external debt (% of GDP)	65.6	65.3	62.5	58.9	65.7	76.0	70.9
Public	3.9	4.7	5.3	5.4	6.1	8.9	8.3
Private	61.7	60.5	57.3	53.6	59.6	67.2	62.6
	(Annual percentage change)						
Relative prices							
Real effective exchange rate (real appreciation +)	-1.0	1.8	3.4	1.4	-4.8	n.a.	n.a.
Terms of trade	-3.0	4.1	10.2	-2.3	-0.8	-4.0	-2.6
Memorandum items							
Nominal GDP (in billions of pesos)	159,543	169,497	179,740	191,234	198,507	196,928	211,260
(percentage change)	7.4	6.2	6.0	6.4	3.8	-0.8	7.3
Nominal GDP (in billions of USD)	243.9	250.4	277.0	298.2	282.3	240.7	272.0
(percentage change)	-6.4	2.7	10.6	7.7	-5.4	-14.7	13.0

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

1/ The annual numbers occasionally show a small discrepancy with the authorities' published figures, as they are calculated as the sum of the quarterly series.

2/ Investment is defined as: gross fixed capital formation + changes in inventories.

3/ Contribution to growth.

4/ Include liabilities of the central government, the Central Bank of Chile and public enterprises. Excludes recognition bonds.

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

						Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues	**20.6**	**21.0**	**20.8**	**21.0**	**22.0**	**21.3**	**18.9**	**21.9**	**21.4**	**21.8**	**21.7**	**21.6**
Taxes	16.5	17.3	17.1	17.1	17.9	17.4	15.2	18.2	17.7	18.1	18.0	17.9
Private mining companies	1.0	0.8	0.0	0.5	0.8	1.0	0.9	0.7	0.6	0.6	0.5	0.5
Other tax revenues, non-mining	15.5	16.5	17.1	16.7	17.1	16.5	14.3	17.5	17.1	17.5	17.4	17.4
Social contributions	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Grants	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	2.6	2.2	2.2	2.3	2.5	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Codelco revenues	0.9	0.4	0.4	0.5	0.6	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Income on assets	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5
Operating income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other income	0.8	0.8	0.8	0.9	1.0	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Expenditures	**22.2**	**23.2**	**23.5**	**23.7**	**23.6**	**24.1**	**27.0**	**24.3**	**24.2**	**23.6**	**22.8**	**22.7**
Expense	19.9	20.8	21.3	21.6	21.6	22.1	25.0	22.1	22.1	21.6	20.9	20.8
Compensation of employees	4.4	4.5	4.7	4.8	4.8	4.9	5.3	4.9	4.9	4.9	4.9	4.9
Purchases of goods and services	1.8	1.9	1.9	2.0	1.9	1.9	2.0	1.8	1.7	1.6	1.5	1.5
Interest payments	0.6	0.7	0.7	0.8	0.8	0.9	1.1	0.8	0.9	1.1	1.0	1.0
Subsidies and grants	7.2	7.6	8.1	8.3	8.4	8.7	10.7	9.1	9.0	8.4	7.9	7.8
Social benefits	4.1	4.1	4.0	4.0	4.0	3.8	4.0	3.8	3.8	3.8	3.8	3.8
Other expense	1.8	1.9	1.8	1.7	1.7	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Capital transfers	1.8	1.9	1.8	1.6	1.6	1.7	1.9	1.7	1.7	1.7	1.7	1.7
Net acquistion of nonfinancial assets	2.3	2.4	2.2	2.1	2.0	2.0	2.0	2.1	2.1	2.0	1.9	1.8
Investment	2.3	2.4	2.2	2.2	2.0	2.0	2.0	2.1	2.1	2.0	1.9	1.8
Sale of physical assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	0.7	0.3	-0.5	-0.6	0.4	-0.8	-6.0	-0.2	-0.7	0.2	0.7	0.8
Net lending/borrowing	**-1.6**	**-2.1**	**-2.7**	**-2.8**	**-1.6**	**-2.8**	**-8.0**	**-2.4**	**-2.8**	**-1.8**	**-1.1**	**-1.1**
Non-mining overall balance	-3.5	-3.4	-3.1	-3.7	-3.0	-4.1	-9.3	-3.4	-3.7	-2.6	-1.9	-1.8
Net financial transactions	**-1.6**	**-2.1**	**-2.7**	**-2.8**	**-1.6**	**-2.8**	**-8.0**	**-2.4**	**-2.8**	**-1.8**	**-1.1**	**-1.1**
Net acquistion of financial assets	0.2	-0.2	0.6	0.4	0.0	-0.6	-3.6	2.7	1.9	1.4	1.4	0.4
Currency and deposits	-0.9	0.1	-0.2	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	1.1	-0.4	0.9	0.4	0.2	-0.6	-3.6	2.7	1.9	1.4	1.4	0.4
Loans	-0.1	0.0	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.8	1.9	3.3	3.1	1.7	2.2	4.4	5.1	4.7	3.1	2.5	1.5
Domestic	1.7	1.8	2.9	2.7	1.3	1.9	2.9	4.8	1.9	3.2	2.1	0.3
Securities other than shares	2.5	2.9	10.6	3.6	4.2	3.7	2.9	7.1	2.0	4.9	2.2	0.4
Amortization	0.8	1.1	7.7	1.0	2.9	1.7	0.0	2.3	0.1	1.7	0.1	0.1
External	0.6	0.5	0.8	0.8	0.6	0.5	1.7	0.4	3.0	0.0	0.5	1.2
Securities other than shares	0.9	0.6	1.1	0.9	1.0	0.9	2.2	0.6	3.1	0.1	0.5	1.8
Amortization	0.3	0.1	0.3	0.2	0.3	0.4	0.5	0.2	0.2	0.0	0.0	0.6
Recognition bonds	-0.5	-0.5	-0.4	-0.4	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0
Memorandum items												
Primary balance	-1.5	-1.9	-2.4	-2.4	-1.3	-2.5	-7.4	-2.0	-2.3	-1.1	-0.6	-0.5
Structural Fiscal Balance 1/	-0.5	0.5	-1.0	-2.0	-1.5	-2.8	-3.5	-2.5	-2.0	-1.5	-1.0	-1.0
Structural Revenue 1/	21.7	23.7	22.5	21.7	22.1	21.3	23.5	21.8	22.2	22.1	21.8	21.7
Fiscal Impulse 2/	0.2	-0.4	0.0	0.3	0.0	1.4	1.6	-1.3	-1.1	-1.0	-0.6	-0.1
Expenditure growth (in real terms; annual percent change)	6.2	7.4	3.8	4.8	3.6	3.6	7.3	-6.2	2.7	-0.4	-1.1	1.7
Central Government Net Debt	-4.4	-3.4	0.9	4.4	5.7	7.9	13.7	15.9	18.4	19.7	20.0	20.5
Gross debt	15.0	17.3	21.0	23.6	25.6	27.9	33.3	36.4	39.4	41.0	41.9	41.7
Peso-denominated assets	6.2	6.8	7.2	7.3	7.6	7.9	6.5	7.1	7.5	7.6	7.8	7.6
Foreign currency-denominated assets	13.1	14.0	12.8	11.9	12.3	12.2	13.1	13.4	13.5	13.6	14.1	13.6
Central Government Net Debt (Excl Pension Reservation Fund)	-1.1	0.2	4.4	7.8	9.2	11.9	18.3	20.1	22.4	23.7	24.0	24.4
Public Sector Gross Debt 3/	37.6	40.1	42.7	42.7	44.7	47.0	51.1	54.2	57.2	58.7	59.6	59.4
o/w Public Enterprises	9.0	10.1	9.3	8.5	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Public Sector Net Debt 3/	0.5	1.0	6.0	9.0	9.0	9.6	17.2	19.4	21.8	23.2	23.5	24.0
o/w Public Enterprises	8.0	8.9	8.7	7.6	7.4	7.4	8.1	8.1	8.1	8.1	8.1	8.1
Nominal GDP (trillions of pesos)	148.6	159.5	169.5	179.7	191.2	198.5	196.9	211.3	224.0	235.9	248.6	262.0
General Government Fiscal Balance 4/	-1.5	-2.1	-2.6	-2.6	-1.5	-2.6	-7.9	-2.2	-2.6	-1.6	-1.0	-0.9

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

1/ The output gap used for the structural adjustment calculation is measured as the difference between staff's real GDP and the potential GDP of the committee of experts for years for which it is available and binding. Beyond those years, the output gap is progressively closed over time taking into account staff's assessment of the state of the economy.

2/ The Fiscal Impulse is defined as the negative of the annual change of the structural non-mining primary balance.

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

4/ Includes the central government and municipality governments.

Table 3. Chile: Balance of Payments 1/

(In millions of USD; unless otherwise specified)

						Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account	-5,310	-5,816	-4,994	-6,474	-10,654	-10,889	-1,732	-7,064	-5,665	-5,208	-4,870	-4,133
Trade balance of Goods	6,380	3,344	4,844	7,319	4,593	4,060	6,802	2,926	3,868	3,769	3,503	3,348
Exports	75,080	62,002	60,678	68,788	75,166	69,852	61,904	63,101	66,084	68,688	71,552	74,388
Copper	37,376	30,033	27,844	33,737	36,079	33,607	26,909	27,449	29,092	30,540	31,982	33,388
Non-copper	37,704	31,969	32,834	35,050	39,086	36,284	34,995	35,652	36,992	38,149	39,570	40,999
Imports	68,700	58,658	55,834	61,468	70,573	65,792	55,102	60,175	62,216	64,919	68,049	71,040
Net services	-3,729	-3,574	-3,314	-3,822	-4,764	-5,097	-2,338	-3,396	-3,541	-3,885	-4,188	-4,413
Net income	-10,078	-7,406	-7,806	-11,452	-12,839	-11,354	-7,518	-7,707	-7,198	-6,332	-5,453	-4,370
Net transfers	2,117	1,820	1,282	1,481	2,356	1,352	1,322	1,113	1,206	1,239	1,268	1,302
Capital account balance	11	674	8	88	43	1,077	0	0	0	0	0	0
Financial account balance	-6,540	-5,251	-4,856	-1,971	-11,530	-8,434	-1,732	-7,064	-5,665	-5,208	-4,870	-4,133
Foreign direct investment	-10,758	-4,948	-5,334	-993	-6,743	-3,500	-2,580	-5,069	-4,661	-5,254	-4,916	-5,142
Abroad by Chilean residents	12,800	15,931	6,994	5,135	580	8,429	7,414	5,710	5,453	5,517	6,505	6,120
In Chile by foreign residents	23,558	20,879	12,329	6,128	7,323	11,928	9,993	10,779	10,114	10,772	11,420	11,262
Of which, debt instruments	8,806	10,633	2,654	-516	-162	1,386	2,387	1,299	963	1,262	1,555	1,584
Portfolio investment	-3,842	-1,211	358	3,398	-1,510	-8,393	-1,517	-2,152	-3,598	-4,125	-3,001	-3,392
Abroad by Chilean residents	8,966	1,467	2,556	13,288	4,114	3,343	5,750	7,106	5,383	5,685	6,302	6,449
In Chile by foreign residents	12,809	2,676	2,197	9,889	5,625	11,738	7,267	9,258	8,981	9,810	9,302	9,841
Of which, equities	2,185	-6	1,306	449	-1,557	2,876	1,780	2,268	2,200	2,403	2,279	2,411
Of which, debt	10,623	2,683	892	9,440	7,181	8,861	5,487	6,990	6,781	7,407	7,023	7,430
Financial derivatives	1,610	722	690	65	883	1,519	1,519	1,519	1,519	1,519	1,519	1,519
Other investments	6,449	186	-569	-4,441	-4,161	1,939	846	-1,362	1,074	2,653	1,527	2,883
Abroad by Chilean residents	3,754	-3,222	615	-527	-113	2,521	2,520	2,520	2,520	2,520	2,520	2,520
In Chile by foreign residents	-2,694	-3,407	1,184	3,914	4,049	582	1,674	3,883	1,446	-133	993	-362
Change in reserves assets	1,057	211	1,805	-2,750	1,397	-153	0	0	0	0	0	0
Errors and omissions	-184	102	1,936	1,665	477	1,185	0	0	0	0	0	0
Gross official international reserves (In months of imports of goods and services)	6.8	6.8	6.5	5.5	6.0	7.2	6.6	6.4	6.2	5.9	5.6	5.6
			(In percent of GDP)									
Current account	-2.0	-2.4	-2.0	-2.3	-3.6	-3.9	-0.7	-2.6	-1.9	-1.6	-1.4	-1.1
Trade balance of Goods	2.4	1.4	1.9	2.6	1.5	1.5	2.8	1.1	1.3	1.2	1.0	0.9
Exports	28.8	25.4	24.2	24.8	25.2	24.8	25.7	23.2	22.2	21.5	21.0	20.6
Copper	14.3	12.3	11.1	12.2	12.1	11.9	11.2	10.1	9.8	9.5	9.4	9.2
Non-copper	14.5	13.1	13.1	12.7	13.1	12.9	14.5	13.1	12.4	11.9	11.6	11.3
Imports	26.4	24.0	22.3	22.2	23.7	23.3	22.9	22.1	20.9	20.3	19.9	19.6
Net services	-1.4	-1.5	-1.3	-1.4	-1.6	-1.8	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2
Net income	-3.9	-3.0	-3.1	-4.1	-4.3	-4.0	-3.1	-2.8	-2.4	-2.0	-1.6	-1.2
Net transfers	0.8	0.7	0.5	0.5	0.8	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Financial account balance 2/	-2.5	-2.2	-1.9	-0.7	-3.9	-3.0	-0.7	-2.6	-1.9	-1.6	-1.4	-1.1
			(Annual change in percent)									
Total export volume	1.6	-1.3	0.2	-2.0	6.0	-2.3	-1.5	3.4	3.7	2.9	2.8	2.8
Total import volume	-6.5	-0.7	1.1	4.9	8.4	-2.6	-8.5	7.6	1.6	2.7	2.7	2.6
Terms of trade	-2.1	-3.0	4.1	10.2	-2.3	-0.8	-4.0	-2.6	-0.5	-0.3	-0.7	-0.6
Total export prices	-3.8	-16.3	-2.3	15.5	3.2	-4.8	-10.5	-1.4	1.0	1.0	1.3	1.1
Copper export prices	-8.3	-19.2	-4.2	25.2	1.8	-5.9	-16.2	-2.9	1.3	1.3	1.2	0.9
Total import price	-1.8	-13.8	-6.1	4.8	5.7	-4.0	-6.8	1.1	1.5	1.4	2.0	1.7
Memorandum items												
Copper price (WEO; U.S. cents per pound)	311	250	221	280	296	273	228	221	224	227	230	232
Volume of copper exports (2004=100)	108	107	104	100	105	104	99	104	109	113	117	121

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

1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.

2/ Excluding change in reserves.

Table 4. Chile: Monetary Survey
(In billions of pesos; unless otherwise specified)

	2014	2015	2016	2017	2018
Central bank					
Net foreign assets	23,937	26,645	26,391	23,332	27,043
Net international reserves	24,567	27,333	27,021	23,983	27,731
Net international reserves (in millions of US$)	40,447	38,643	40,494	38,983	39,861
Other foreign assets, net	-630	-688	-630	-651	-688
Net domestic assets	-15,754	-17,493	-16,049	-12,226	-15,747
Net credit to general government	-1,102	-124	-476	-9	-553
Net claims on banks and financial corporations	-5,854	-6,306	-5,028	-3,403	-5,163
Credit to the private sector	518	406	319	189	47
Other items (net)	-9,317	-11,469	-10,863	-9,003	-10,077
Monetary base	8,183	9,152	10,343	11,106	11,296
Currency	5,371	5,858	6,275	6,528	6,740
Required reserves	2,812	3,294	4,068	4,577	4,556
Other depository institutions					
Net foreign assets	-5,085	-6,120	-5,394	-7,237	-10,199
Net foreign assets (in millions of US$)	-8,372	-8,652	-8,083	-11,763	-14,660
Net domestic assets	112,450	126,310	132,992	139,488	156,578
Net credit to general government	890	-532	-256	2,965	3,463
Credit to the private sector	117,658	130,465	137,324	144,061	158,792
Other items (net)	-6,098	-3,623	-4,076	-7,538	-5,677
Liabilities to the private sector	107,365	120,190	127,598	132,251	146,379
Demand deposits	20,453	23,562	24,044	27,038	30,116
Quasi-money	86,912	96,628	103,554	105,213	116,263
Banking system					
Net foreign assets	18,852	20,526	20,997	16,053	16,844
Net domestic assets	102,556	113,683	120,876	129,294	142,030
Net credit to general government	-212	-656	-732	2,956	2,910
Credit to the private sector	118,176	130,871	137,643	144,250	158,839
Other items (net)	-15,408	-16,531	-16,035	-17,912	-19,718
Liabilities to the private sector	121,408	134,209	141,873	145,347	158,874
Money	25,824	29,420	30,319	33,566	36,856
Quasi-money	95,584	104,789	111,554	111,781	122,018
Memorandum items					
	(Annual percentage change)				
Monetary base	-6.5	11.8	13.0	7.4	1.7
Liabilities to the private sector	9.9	10.5	5.7	2.4	9.3
Credit to the private sector (banking system)	10.2	10.7	5.2	4.8	10.1
	(In percent of GDP)				
Monetary base	5.5	5.7	6.1	6.2	5.9
Liabilities to the private sector	81.7	84.1	83.7	80.9	83.1
Credit to the private sector (banking system)	79.5	82.0	81.2	80.3	83.1

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

Table 5. Chile: Medium-Term Macroeconomic Framework 1/

						Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
National accounts	(Annual percentage change, unless otherwise specified)											
Real GDP	1.8	2.3	1.7	1.2	3.9	1.1	-4.5	5.3	3.2	2.5	2.5	2.5
Total domestic demand	-0.5	2.5	1.9	3.2	4.7	1.0	-6.8	6.5	2.6	2.5	2.5	2.4
Consumption	2.9	2.6	3.5	3.6	3.8	0.9	-5.6	5.8	2.8	2.6	2.6	2.4
Private	2.7	2.1	2.7	3.4	3.7	1.1	-6.6	7.6	2.8	2.9	2.8	2.7
Public	3.8	4.7	7.1	4.6	4.3	0.0	-0.5	-2.2	2.7	1.2	1.5	0.8
Investment 2/	-10.5	2.4	-3.6	1.5	8.1	1.3	-11.1	9.4	2.1	1.9	2.2	2.6
Fixed	-5.0	-0.4	-1.2	-3.3	4.8	4.3	-13.7	9.7	2.7	2.1	2.3	2.4
Private	-5.8	-1.1	-0.8	-3.6	5.7	4.9	-14.7	9.6	2.8	2.8	2.9	2.9
Public	2.7	5.9	-4.5	-1.1	-2.6	-0.9	-5.1	10.4	1.9	-3.9	-2.9	-1.7
Inventories 3/	-1.4	0.6	-0.5	1.0	0.7	-0.6	0.5	0.0	-0.1	0.0	0.0	0.0
Net exports 3/	2.2	-0.2	-0.1	-1.8	-0.9	0.0	2.3	-1.2	0.6	0.1	0.1	0.1
Exports	0.3	-1.7	0.5	-1.5	5.0	-2.3	-1.7	3.4	3.7	2.9	2.8	2.8
Imports	-6.5	-1.2	0.9	4.6	7.9	-2.3	-9.5	7.6	1.6	2.7	2.7	2.6
Consumer prices												
End of period	4.6	4.4	2.7	2.3	2.1	3.0	2.5	3.0	3.0	3.0	3.0	3.0
Consumer prices (average)	4.7	4.3	3.8	2.2	2.3	2.3	3.4	2.9	3.0	3.0	3.0	3.0
Output gap	-0.7	-0.6	-1.0	-1.8	-0.5	-0.9	-5.3	-1.8	-0.5	-0.1	-0.1	0.0
Potential growth	3.2	2.2	2.1	2.0	2.6	1.6	0.0	1.5	1.9	2.2	2.4	2.5
Nominal GDP	7.8	7.4	6.2	6.0	6.4	3.8	-0.8	7.3	6.0	5.4	5.4	5.4
Balance of payments	(In percent of GDP)											
Current account	-2.0	-2.4	-2.0	-2.3	-3.6	-3.9	-0.7	-2.6	-1.9	-1.6	-1.4	-1.1
Trade balance	2.4	1.4	1.9	2.6	1.5	1.5	2.8	1.1	1.3	1.2	1.0	0.9
Financial account balance	-2.5	-2.2	-1.9	-0.7	-3.9	-3.0	-0.7	-2.6	-1.9	-1.6	-1.4	-1.1
Of which, foreign direct investment (net)	-4.1	-2.0	-2.1	-0.4	-2.3	-1.2	-1.1	-1.9	-1.6	-1.6	-1.4	-1.4
Change in reserves assets	0.4	0.1	0.7	-1.0	0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.1	0.0	0.8	0.6	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
REER (in percent y/y, +=appreciation)	-9.3	-1.0	1.8	3.4	1.4	-4.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	(Annual percentage change)											
Total export volume	1.6	-1.3	0.2	-2.0	6.0	-2.3	-1.5	3.4	3.7	2.9	2.8	2.8
Of which, copper export volume	1.8	-0.6	-3.0	-3.8	5.4	-1.0	-4.6	5.0	4.6	3.6	3.5	3.5
Total import volume	-6.5	-0.7	1.1	4.9	8.4	-2.6	-8.5	7.6	1.6	2.7	2.7	2.6
Terms of trade	-2.1	-3.0	4.1	10.2	-2.3	-0.8	-4.0	-2.6	-0.5	-0.3	-0.7	-0.6
Total export prices	-3.8	-16.3	-2.3	15.5	3.2	-4.8	-10.5	-1.4	1.0	1.0	1.3	1.1
Copper export price index	-8.3	-19.2	-4.2	25.2	1.8	-5.9	-16.2	-2.9	1.3	1.3	1.2	0.9
Total import price	-1.8	-13.8	-6.1	4.8	5.7	-4.0	-6.8	1.1	1.5	1.4	2.0	1.7
External debt	(In percent of GDP)											
Gross external debt	57.9	65.6	65.3	62.5	58.9	65.7	76.0	70.9	69.7	66.4	64.3	62.8
Public	3.3	3.9	4.7	5.3	5.4	6.1	8.9	8.3	10.5	9.8	9.7	9.9
Private	54.6	61.7	60.5	57.3	53.6	59.6	67.2	62.6	59.1	56.6	54.6	52.9
Gross int. reserves (in billions of U.S. dollars)	40.4	38.6	40.5	39.0	39.9	40.7	40.7	40.7	40.7	40.7	40.7	40.7
Savings and investment												
Gross domestic investment	23.3	23.8	22.3	21.3	22.2	22.7	21.1	22.2	22.0	22.0	21.9	22.0
Public	2.6	2.7	2.6	2.4	2.3	2.3	2.2	2.4	2.4	2.2	2.1	2.1
Private	20.7	21.0	19.7	18.8	19.9	20.5	18.9	19.8	19.7	19.7	19.8	19.9
National saving	21.2	21.3	20.3	18.9	18.6	18.9	20.5	19.6	20.1	20.3	20.5	20.8
Public	1.1	0.6	-0.1	-0.2	0.8	-0.4	-5.6	0.2	-0.3	0.6	1.1	1.2
Private	20.2	20.7	20.4	19.2	17.8	19.3	26.1	19.4	20.4	19.7	19.4	19.7
Public sector finance												
Central government gross debt	15.0	17.3	21.0	23.6	25.6	27.9	33.3	36.4	39.4	41.0	41.9	41.7
Central government net debt	-4.4	-3.4	0.9	4.4	5.7	7.9	13.7	15.9	18.4	19.7	20.0	20.5
Central government balance	-1.6	-2.1	-2.7	-2.8	-1.6	-2.8	-8.0	-2.4	-2.8	-1.8	-1.1	-1.1
Total revenue	20.6	21.0	20.8	21.0	22.0	21.3	18.9	21.9	21.4	21.8	21.7	21.6
Total expenditure	22.2	23.2	23.5	23.7	23.6	24.1	27.0	24.3	24.2	23.6	22.8	22.7
Central government structural balance 4/	-0.5	0.5	-1.0	-2.0	-1.5	-2.8	-3.5	-2.5	-2.0	-1.5	-1.0	-1.0
Employment	(Annual percentage change, unless otherwise specified)											
Working age population	1.4	1.3	1.4	1.8	2.2	2.2	2.1	1.6	1.3	1.2	1.2	1.2
Labor force	1.9	1.5	1.6	2.7	2.6	2.2	4.7	0.6	0.5	0.8	0.9	1.0
Employment	1.4	1.7	1.2	2.4	2.2	2.2	2.0	1.5	1.3	1.3	1.2	1.2
Unemployment rate (in percent)	6.5	6.3	6.7	7.0	7.4	7.3	9.7	8.9	8.1	7.6	7.3	7.1

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

1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.

2/ Investment is defined as: gross fixed capital formation + changes in inventories.

3/ Contribution to growth.

4/ The output gap used for the structural adjustment calculation is measured as the difference between staff's real GDP and the potential GDP of the committee of experts for years for which it is available and binding. Beyond those years, the output gap is progressively closed over time taking into account staff's assessment of the state of the economy.

Table 6. Chile: Indicators of External Vulnerabilities 1/

(In percent; unless otherwise specified)

	2014	2015	2016	2017	2018	2019
Financial indicators						
M3 (percent change)	11.1	12.4	8.7	4.8	11.0	10.9
Less pension funds' deposits (annual percentage change)	9.1	13.5	10.1	5.0	12.3	10.1
Private sector credit to GDP	79.5	82.0	81.2	80.3	83.1	87.8
90-day central bank promissory note (nominal) interest rate (avg.)	4.0	2.7	3.5	2.6	2.8	3.3
Share of foreign currency deposits in total deposits	16.6	15.4	15.2	13.0	12.8	14.9
Share of foreign currency loans in total credit	13.7	13.9	13.0	11.4	11.0	11.8
External indicators						
Exports of goods, U.S. dollars (annual percentage change)	-2.2	-17.4	-2.1	13.4	9.3	-7.0
Imports of goods, U.S. dollars (annual percentage change)	-8.2	-14.6	-4.8	10.1	14.8	-6.8
Terms of trade (annual percentage change)	-2.1	-3.0	4.1	10.2	-2.3	-0.8
REER (annual percent change, period average)	-9.3	-1.0	1.8	3.4	1.4	-4.8
Exchange rate (pesos per U.S. dollar, period average)	570.4	654.1	676.9	648.9	641.2	703.3
Current account balance (percent of GDP)	-2.0	-2.4	-2.0	-2.3	-3.6	-3.8
Financial account less reserves accumulation (percent of GDP)	-2.5	-2.2	-1.9	-0.7	-3.9	-3.0
Gross official reserves (in billions of U.S. dollars) 2/	40.4	38.6	40.5	39.0	39.9	40.7
Gross official reserves, months of imports of goods and services	6.8	6.8	6.5	5.5	6.0	7.2
Gross official reserves to M3	15.0	14.9	13.5	11.5	11.9	11.7
Gross official reserves to short-term external debt 3/	92.9	110.4	107.9	89.1	109.4	91.7
Gross official reserves (percent of GDP)	15.5	15.8	16.2	14.1	13.4	14.4
IMF reserve adequacy metric (percent of GDP) 4/	14.8	14.7	15.5	15.6	14.9	15.6
Total external debt (percent of GDP)	57.9	65.6	65.3	62.5	58.9	65.7
Of which: External public sector debt	2.5	3.2	4.0	4.6	4.9	5.6
Total external debt to exports of goods and services	175.9	223.7	232.8	220.5	206.8	233.9
External interest payments to exports of goods and services	3.9	6.1	5.4	7.1	5.7	5.8
External amortization payments to exports of goods and services	49.9	57.4	51.8	52.0	42.2	53.7
Financial market indicators						
Stock market index (in U.S. dollars; period average) 5/	1726	1465	1409	1731	1869	1512
Sovereign long-term foreign currency debt rating (end of period)						
Moody's	Aa3	Aa3	Aa3	Aa3	A1	A1
S&P	AA-	AA-	AA-	A+	A+	A+
Fitch ratings	A+	A+	A+	A	A	A

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

1/ The annual numbers occasionally show a small discrepancy with the authorities published figures, as they are calculated as the sum of the quarterly series seasonally-adjusted by staff.

2/ Gold valued at end-period market prices.

3/ Includes amortization of medium/long-term debt due during the following year.

4/ Assessing Reserve Adequacy (IMF, 2011 Policy Paper).

5/ Morgan-Stangley Capital International Index (Dec/1987 = 100).

Table 7. Chile: Financial Soundness Indicators
(In percent; unless otherwise specified)

	2014	2015	2016	2017	2018	2019 1/
Total Assets						
Total assets 2/	180,846	203,609	211,687	220,365	246,266	279,041
Percent of GDP	121.7	127.6	124.9	122.6	128.8	140.6
Capital Adequacy						
Regulatory Capital to Risk-Weighted Assets	13.4	12.6	13.8	13.8	13.3	12.9
Regulatory Tier 1 Capital to Risk-Weighted Assets	10.0	9.4	10.9	11.0	10.7	10.2
Capital to Assets	8.0	7.6	8.4	8.4	8.4	7.8
Credit Risk						
NPLs Net of Provisions to Capital	-2.1	-3.3	-5.2	-4.6	-4.5	-4.7
NPLs to Gross Loans	2.1	1.9	1.8	1.9	1.9	1.9
Profitability						
Return on Assets	1.5	1.3	1.2	1.3	1.3	1.3
Return on Equity	19.3	17.7	13.8	15.4	15.5	16.5
Interest Margin to Gross Income	67.8	66.6	66.8	67.1	67.6	67.1
Trading Income to Gross Income	10.8	10.6	10.1	8.5	8.7	9.2
Non-interest Expenses to Gross Income	47.4	48.6	52.1	51.1	49.3	47.0
Liquidity						
Liquid Assets to Total Assets	13.6	13.8	14.7	15.3	14.2	13.6
FX and Derivative Risk						
FX Loans to Total Loans	18.4	20.0	18.2	16.6	18.4	19.3
FX Liabilities to Total Liabilities	25.5	27.1	25.8	24.0	25.5	27.2

Sources: IMF Financial Soundness Indicators, Moody's Investor Service and IMF staff calculations.
1/ As of October, 2019.
2/ In billions of Chilean pesos.

Table 8. Chile: FCL Arrangement for Chile—Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 5/15/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	190,000
FCC on approval 2/	172,557
Change in percent	-9.2
Prudential measures, assuming full FCL drawing	
Fund credit to Chile	
In percent of total GRA credit outstanding 3/	16.6
In percent of current precautionary balances	104.4
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	67.5
In percent of total GRA credit outstanding including Chile's assumed full drawing 3/	68.5
Memorandum items	
Fund's precautionary balances (end-FY2020)	16,700
Total FCL commitments, including proposed FCL	62,007
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.7

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 resources from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.

2/ Current FCC minus access under the proposed arrangement.

3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

Table 9. Chile: Indicators of Fund Credit, 2019–2025 1/

		Projections					
	2019	2020	2021	2022	2023	2024	2025
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	17,443	17,443	17,443	13,082	4,361	0
In percent of quota	0	1,000.0	1,000.0	1,000.0	750.0	250.0	0.0
In percent of GDP	0	11.4	9.5	8.3	5.8	1.8	0.0
In percent of exports of goods and services	0	39.7	33.2	31.9	23.1	7.4	0.0
In percent of gross reserves	0	68.9	65.6	62.6	44.9	15.0	0.0
Flows from prospective drawings							
Amortization (SDR millions)	0	0	0	0	4,361	8,722	4,361
Charges (SDR millions)	0	283	467	467	511	328	38
Debt Service due on GRA credit (SDR millions)	0	283	467	467	4,872	9,049	4,399
In percent of quota	0.0	16.2	26.7	26.8	279.3	518.8	252.2
In percent of GDP	0.0	0.2	0.3	0.2	2.2	3.8	1.7
In percent of exports of goods and services	0.0	0.6	0.9	0.9	8.6	15.4	7.2
In percent of gross official reserves	0.0	1.1	1.8	1.7	16.7	31.2	15.2
Memorandum Item:							
Total External Debt (percent of GDP)	65.7	92.8	81.6	76.0	70.3	64.3	61.2
Total External Debt Service (percent of GDP)	16.7	23.4	16.8	12.5	13.9	15.0	12.7

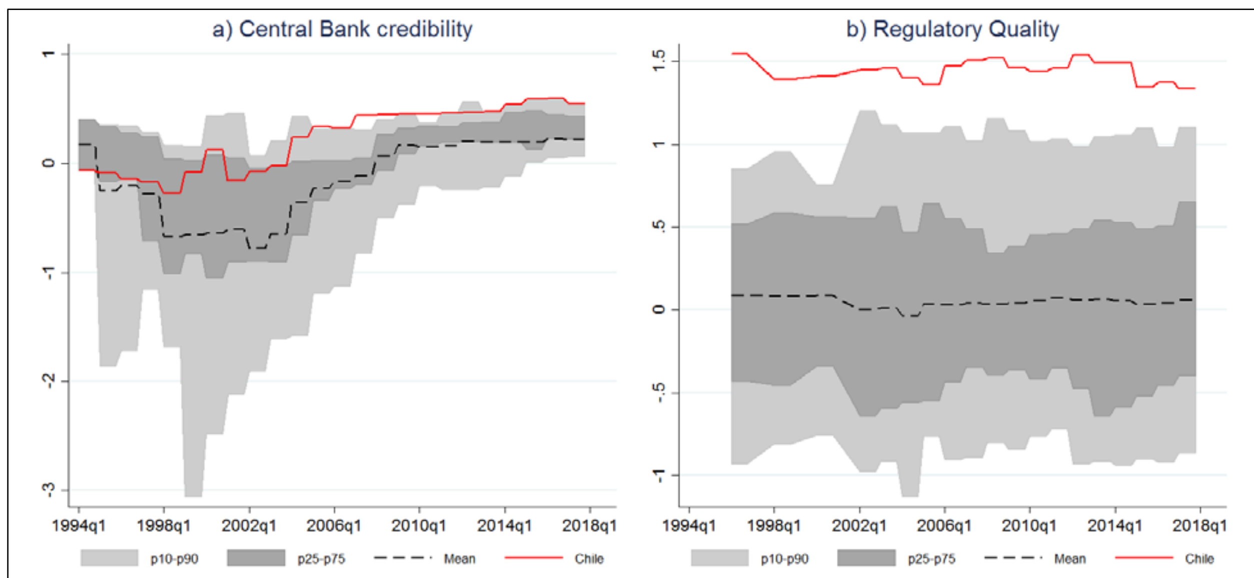
Sources: IMF Finance Department; Chilean authorities, and Fund staff estimates.

1/ Assumes full drawings under the FCL upon approval of the review and materialization of an adverse scenario. The Chilean authorities have expressed their intention to treat the arrangement as precautionary.

2/ Stocks as of end of period.

Annex I. Chile's Record on Policy Credibility and Institutional Settings

The credibility of the Central Bank of Chile, measured by the degree of anchoring inflation expectations, has been consistently one of the highest among EMEs…	…and Chile has been an outperformer among EMEs in terms of the quality of the regulatory framework.

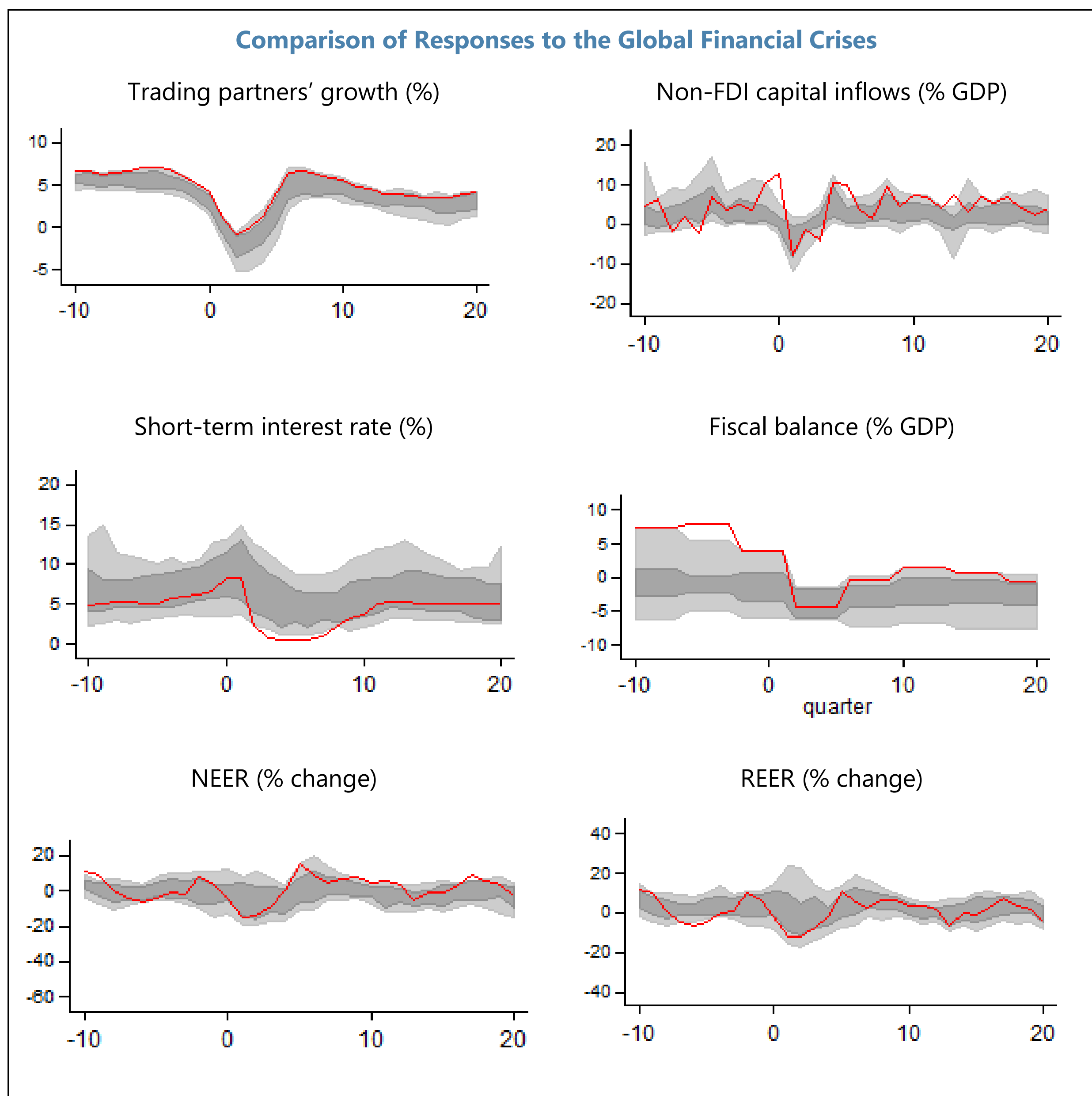


Note: Dark gray columns denote the 25th and 75th percentiles, light gray columns denote the 10th and 90th percentiles, and red solid line denotes Chile.
Source: World Bank' World Governance Indicators, and Bems et al. (2018).

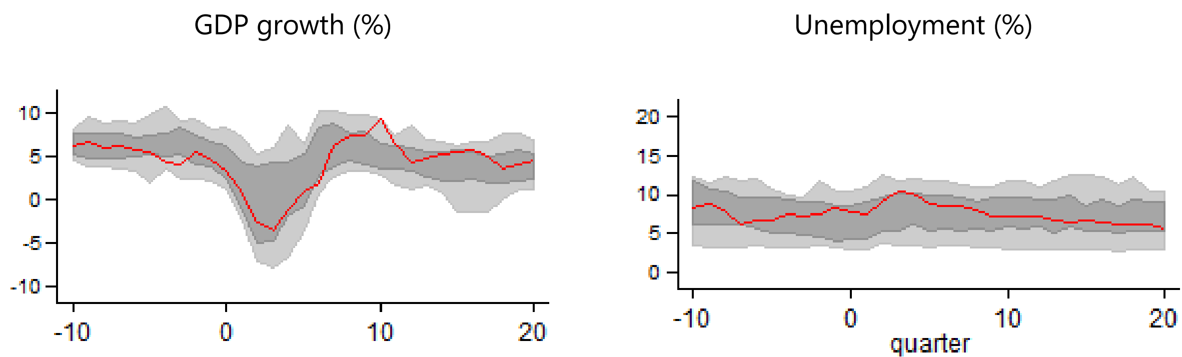
Annex II. Chile vs. EMEs: Comparison of Responses to the Global Financial Crisis

Chile's macroeconomic performance following the 2008-09 Global Financial Crisis has been one of the best among the set of 25 largest EMEs, anchored in the continued strengthening of its institutional policy frameworks, including the inflation-targeting framework with free-floating exchange rate as well as the fiscal policy guided by the structural fiscal balance rule.

Comparison of Responses to the Global Financial Crises



Comparison of Responses to the Global Financial Crises (Concluded)



Note: Dark gray areas denote the 25th and 75th percentiles, light gray areas denote the 10th and 90th percentiles, and red solid line denotes Chile. A value of zero in the horizontal axis marks the start of the crisis. The horizontal axis denotes the number of quarters before and after the start of the crisis.

Sources: IMF World Economic Outlook database, International Financial Statistics, INS, Haver, Bloomberg and authors' calculations.

Annex III. External Debt Sustainability Analysis

Table 1. Chile: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	65.6	65.3	62.5	58.9	65.7			**76.0**	**70.9**	**69.7**	**66.4**	**64.3**	**62.8**	**-2.2**
2 Change in external debt	7.7	-0.3	-2.7	-3.6	6.8			10.3	-5.1	-1.2	-3.3	-2.1	-1.5	
3 Identified external debt-creating flows (4+8+9)	3.5	0.7	-3.4	2.0	6.5			3.5	-0.4	0.3	0.5	0.2	-0.1	
4 Current account deficit, excluding interest payments	0.6	0.5	0.3	1.9	2.2			-2.0	0.8	0.6	0.4	0.2	0.0	
5 Deficit in balance of goods and services	-0.1	0.6	1.3	-0.1	-0.4			1.9	-0.2	0.1	0.0	-0.2	-0.3	
6 Exports	29.3	28.0	28.4	28.5	28.1			29.9	26.9	25.6	24.7	24.2	23.7	
7 Imports	-29.4	-27.4	-27.1	-28.6	-28.5			-28.0	-27.0	-25.5	-24.8	-24.4	-24.0	
8 Net non-debt creating capital inflows (negative)	-2.3	0.5	0.4	2.8	-0.3			-0.7	0.6	0.5	0.5	0.3	0.3	
9 Automatic debt dynamics 1/	5.3	-0.3	-4.2	-2.8	4.5			6.1	-1.8	-0.7	-0.4	-0.4	-0.4	
10 Contribution from nominal interest rate	1.8	1.5	2.0	1.6	1.6			2.7	1.8	1.3	1.3	1.2	1.1	
11 Contribution from real GDP growth	-1.4	-1.1	-0.7	-2.3	-0.7			3.4	-3.6	-2.1	-1.6	-1.6	-1.5	
12 Contribution from price and exchange rate changes 2/	4.9	-0.7	-5.5	-2.1	3.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	4.2	-1.1	0.7	-5.6	0.3			6.8	-4.7	-1.6	-3.8	-2.3	-1.4	
External debt-to-exports ratio (in percent)	223.7	232.8	220.5	206.8	233.9			254.6	264.0	272.3	268.8	266.0	265.4	
Gross external financing need (in billions of US dollars) 4/	46.8	41.3	47.3	46.5	53.4			**54.6**	**46.7**	**39.5**	**40.1**	**40.9**	**41.3**	
in percent of GDP	19.2	16.5	17.1	15.6	18.9	10-Year	10-Year	22.7	17.2	13.2	12.5	12.0	11.4	
Scenario with key variables at their historical averages 5/								**76.0**	**75.6**	**77.6**	**76.1**	**75.4**	**75.4**	**-2.1**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	2.3	1.7	1.2	3.9	1.1	3.3	2.0	-4.5	5.3	3.2	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	-8.5	0.9	9.3	3.6	-6.4	2.0	8.8	-10.7	7.3	6.2	4.8	3.9	3.5	
Nominal external interest rate (in percent)	2.9	2.4	3.4	2.8	2.6	2.7	0.3	3.5	2.6	2.1	1.9	1.9	1.8	
Growth of exports (US dollar terms, in percent)	-16.6	-1.8	11.9	8.2	-6.7	2.9	12.9	-9.4	1.7	4.4	3.8	4.2	3.9	
Growth of imports (US dollar terms, in percent)	-13.7	-4.3	9.3	13.4	-5.7	5.8	15.7	-16.1	9.1	3.2	4.4	4.9	4.3	
Current account balance, excluding interest payments	-0.6	-0.5	-0.3	-1.9	-2.2	-1.3	1.7	2.0	-0.8	-0.6	-0.4	-0.2	0.0	
Net non-debt creating capital inflows	2.3	-0.5	-0.4	-2.8	0.3	0.2	1.5	0.7	-0.6	-0.5	-0.5	-0.3	-0.3	

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.

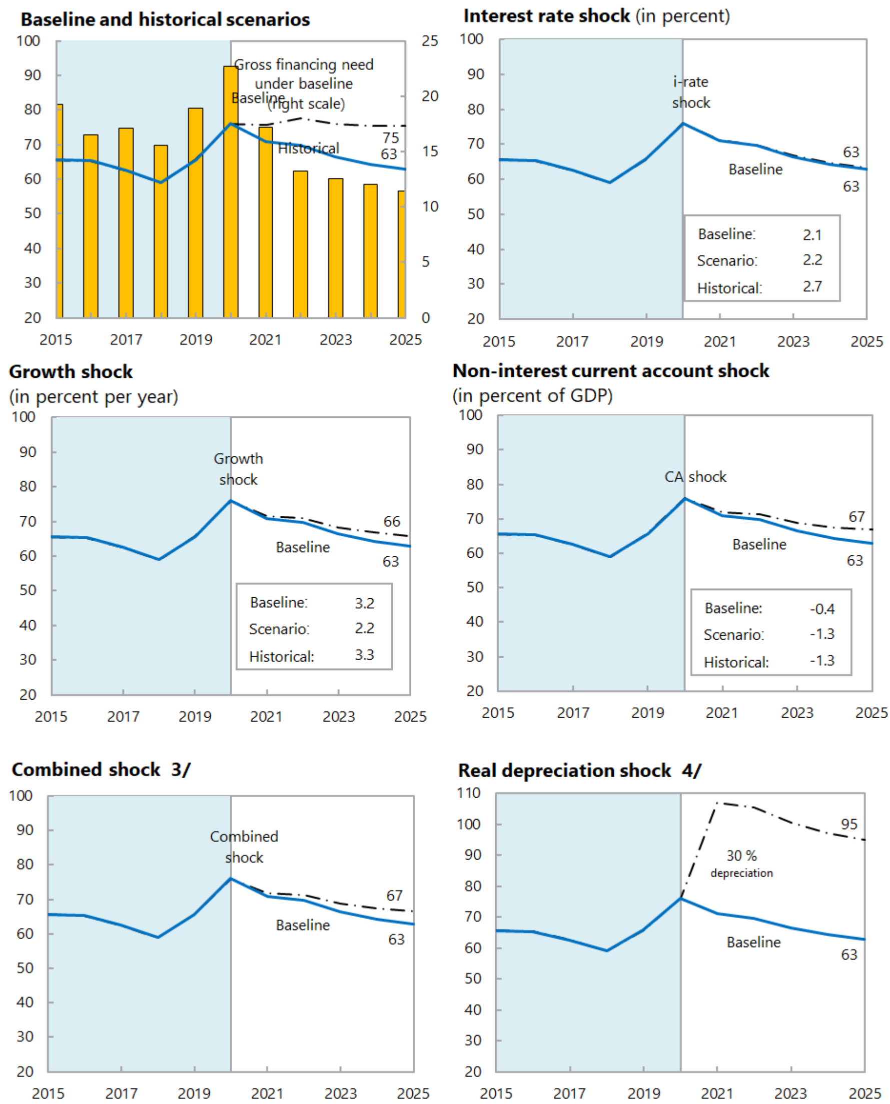
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 2018.

Annex IV. Debt Sustainability Analysis

Figure 1. Chile: Macro-Fiscal Stress Tests

(in percent of GDP unless otherwise indicated)

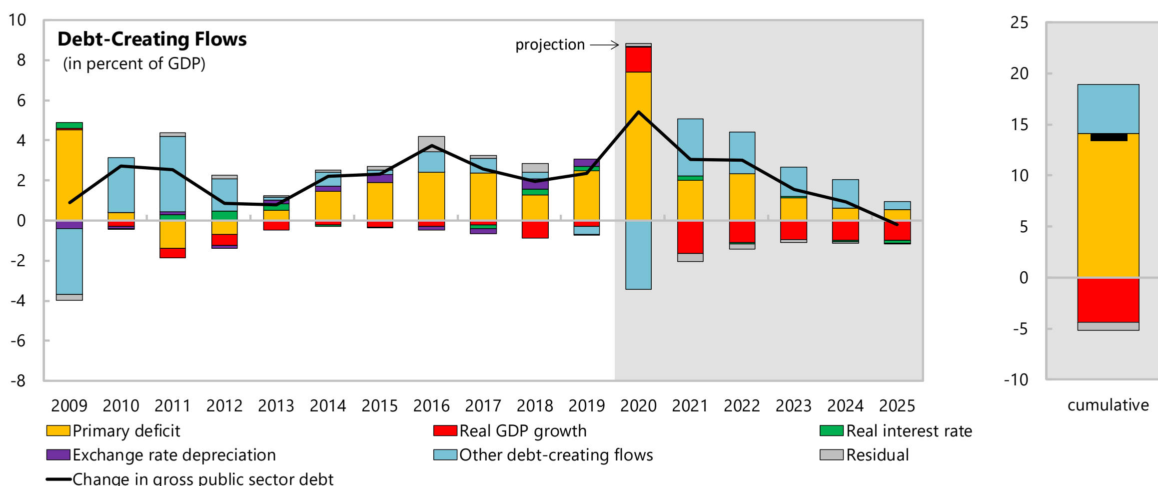
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	14.1	25.6	27.9	33.3	36.4	39.4	41.0	41.9	41.7
Public gross financing needs	3.0	4.9	4.9	8.5	4.8	3.0	3.5	1.2	1.8
Real GDP growth (in percent)	3.0	3.9	1.1	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	4.4	2.4	2.7	3.9	1.9	2.7	2.8	2.8	2.8
Nominal GDP growth (in percent)	7.5	6.4	3.8	-0.8	7.3	6.0	5.4	5.4	5.4
Effective interest rate (in percent) [4/]	6.3	3.8	3.7	3.8	2.6	2.6	3.0	2.6	2.5

As of May 14, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		271
5Y CDS (bp)		114
Ratings	Foreign	Local
Moody's	A1	A1
S&Ps	A+	AA-
Fitch	A	A+

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.1	2.0	2.3	5.4	3.1	3.0	1.6	0.9	-0.2	13.7	
Identified debt-creating flows	1.9	1.5	2.4	5.3	3.4	3.2	1.7	1.0	-0.2	14.5	
Primary deficit	1.3	1.3	2.5	7.4	2.0	2.3	1.1	0.6	0.5	14.1	-0.7
Primary (noninterest) revenue and grants	20.6	21.5	20.7	18.5	21.5	21.0	21.3	21.2	21.1	124.5	
Primary (noninterest) expenditure	21.8	22.8	23.2	25.9	23.5	23.3	22.5	21.8	21.7	138.6	
Automatic debt dynamics [5/]	-0.2	0.0	0.3	1.3	-1.4	-1.2	-0.9	-1.1	-1.1	-4.4	
Interest rate/growth differential [6/]	-0.2	-0.6	0.0	1.3	-1.4	-1.2	-0.9	-1.1	-1.1	-4.4	
Of which: real interest rate	0.1	0.3	0.2	0.0	0.2	-0.1	0.0	-0.1	-0.1	0.0	
Of which: real GDP growth	-0.3	-0.9	-0.3	1.3	-1.6	-1.1	-0.9	-1.0	-1.0	-4.4	
Exchange rate depreciation [7/]	0.0	0.5	0.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.9	0.3	-0.4	-3.4	2.9	2.1	1.5	1.4	0.4	4.8	
Net acquistion of Financial Assets (negative)	0.3	0.0	-0.6	-3.6	2.7	1.9	1.4	1.4	0.4	4.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Repayment of Recognition Bond	0.6	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.7	
Residual, including asset changes [8/]	0.1	0.4	0.0	0.1	-0.4	-0.2	-0.2	-0.1	0.0	-0.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

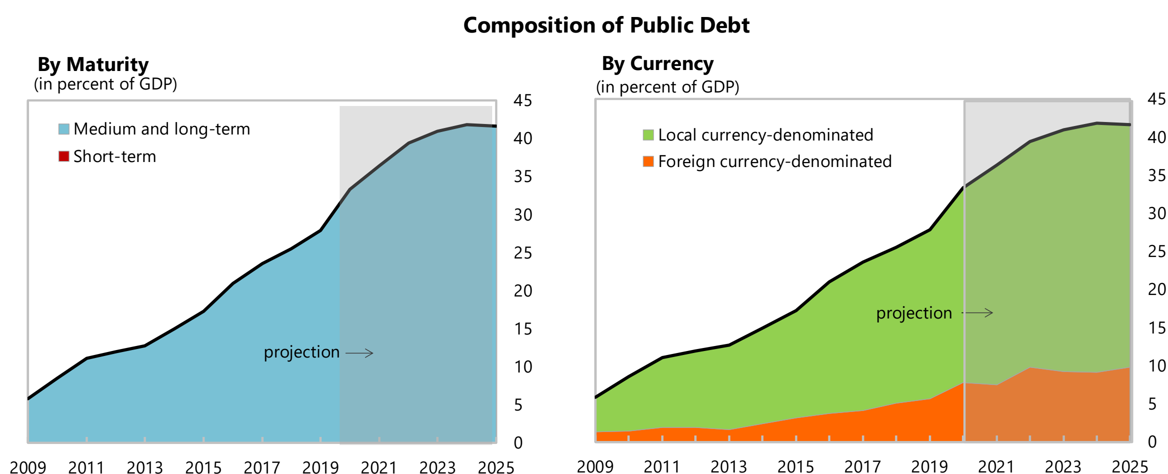
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

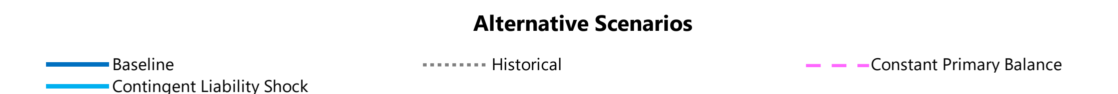
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

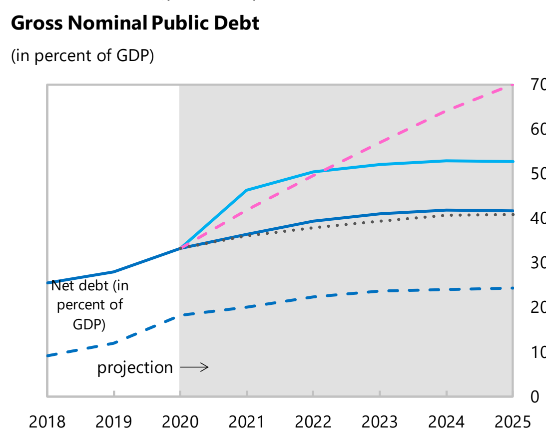
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

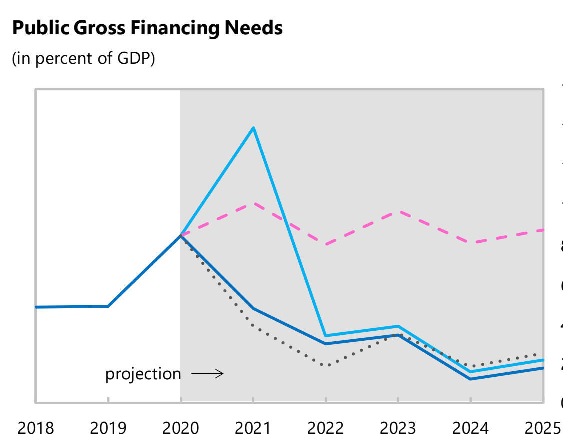
Figure 2. Chile: Composition of Public Debt and Alternative Scenarios



Alternative Scenarios







Underlying Assumptions

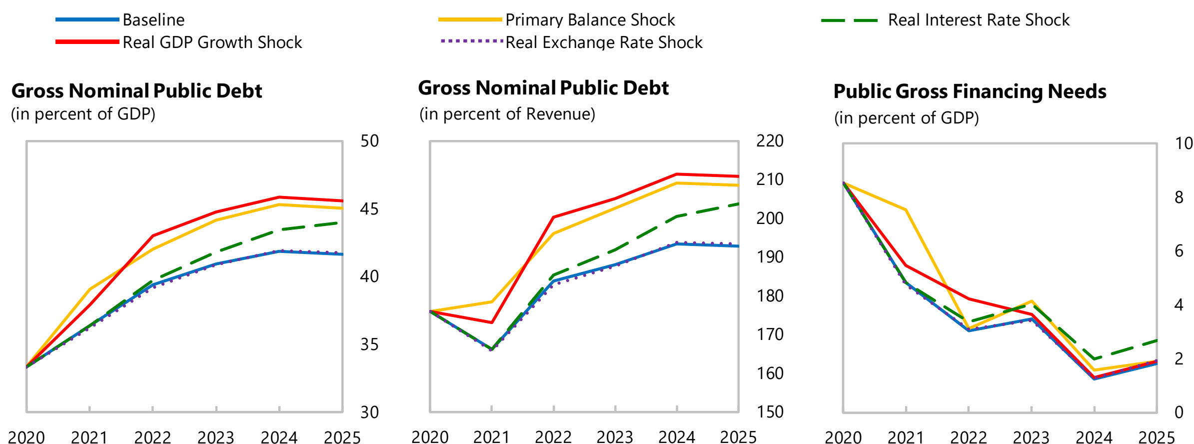
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation	3.9	1.9	2.7	2.8	2.8	2.8
Primary Balance	-7.4	-2.0	-2.3	-1.1	-0.6	-0.5
Effective interest rate	3.8	2.6	2.6	3.0	2.6	2.5
Constant Primary Balance Scenario						
Real GDP growth	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation	3.9	1.9	2.7	2.8	2.8	2.8
Primary Balance	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4
Effective interest rate	3.8	2.6	2.2	2.5	2.1	1.9

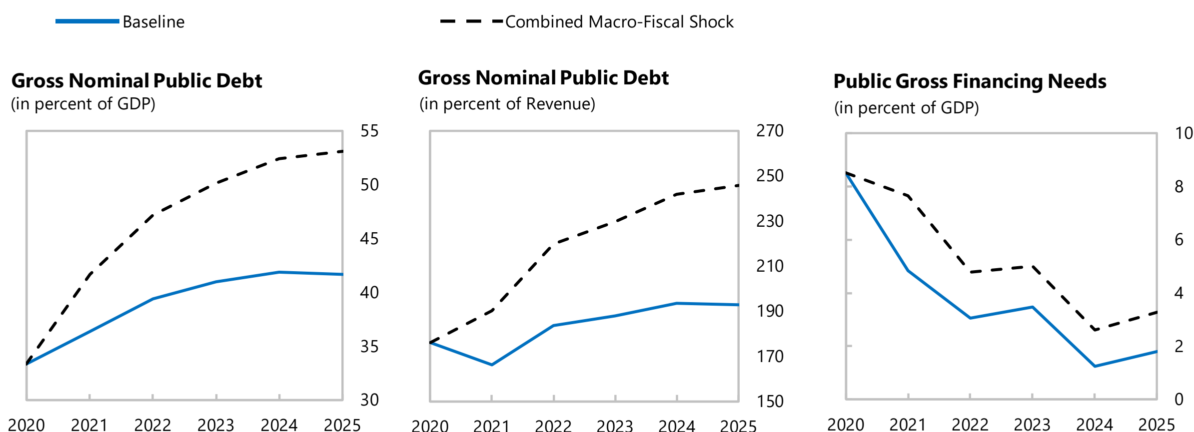
Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.5	3.3	3.3	3.3	3.3	3.3
Inflation	3.9	1.9	2.7	2.8	2.8	2.8
Primary Balance	-7.4	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	3.8	2.6	2.9	3.5	3.2	3.1
Contingent Liability Shock						
Real GDP growth	-4.5	3.3	1.3	2.5	2.5	2.5
Inflation	3.9	1.4	2.2	2.8	2.8	2.8
Primary Balance	-7.4	-11.0	-2.3	-1.1	-0.6	-0.5
Effective interest rate	3.8	3.0	2.9	3.2	2.8	2.7

Source: IMF staff.

Figure 3. Chile: Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation	3.9	1.9	2.7	2.8	2.8	2.8
Primary balance	-7.4	-4.7	-2.3	-1.7	-0.9	-0.6
Effective interest rate	3.8	2.6	2.6	2.9	2.6	2.5
Real Interest Rate Shock						
Real GDP growth	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation	3.9	1.9	2.7	2.8	2.8	2.8
Primary balance	-7.4	-2.0	-2.3	-1.1	-0.6	-0.5
Effective interest rate	3.8	2.6	3.5	4.4	4.5	4.5
Combined Shock						
Real GDP growth	-4.5	3.3	1.3	2.5	2.5	2.5
Inflation	3.9	1.4	2.2	2.8	2.8	2.8
Primary balance	-7.4	-4.7	-3.5	-1.7	-0.9	-0.6
Effective interest rate	3.8	2.8	3.6	4.4	4.5	4.6

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.5	3.3	1.3	2.5	2.5	2.5
Inflation	3.9	1.4	2.2	2.8	2.8	2.8
Primary balance	-7.4	-2.6	-3.5	-1.1	-0.6	-0.5
Effective interest rate	3.8	2.6	2.6	3.0	2.6	2.5
Real Exchange Rate Shock						
Real GDP growth	-4.5	5.3	3.2	2.5	2.5	2.5
Inflation	3.9	7.3	2.7	2.8	2.8	2.8
Primary balance	-7.4	-2.0	-2.3	-1.1	-0.6	-0.5
Effective interest rate	3.8	2.8	2.6	3.0	2.7	2.5

Source: IMF staff.

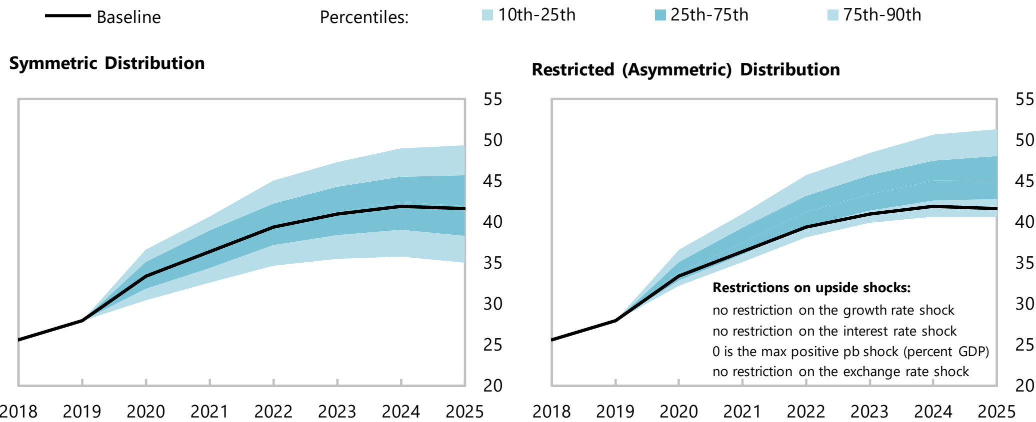
Figure 4. Chile: Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

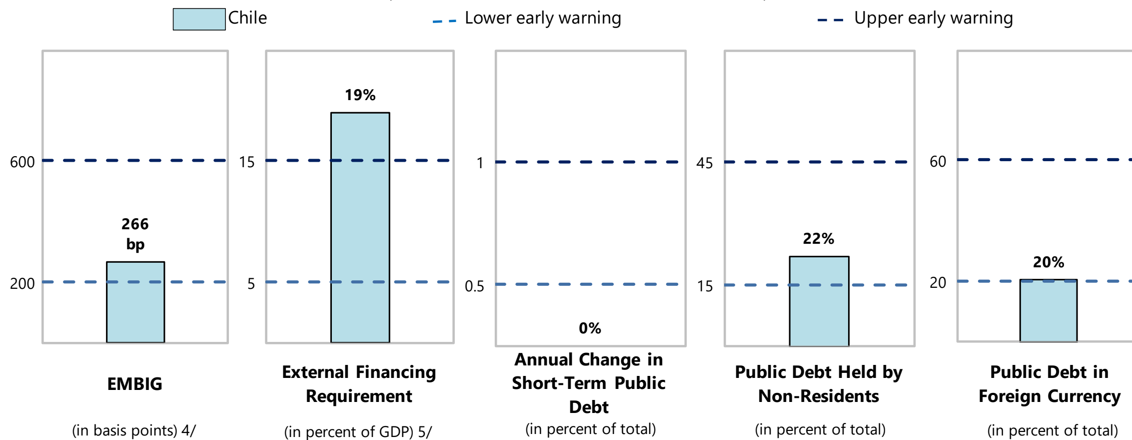
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 14-Feb-20 through 14-May-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix I. Written Communication

Santiago, May 21, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Ms. Georgieva:

The COVID-19 Pandemic could cause a significant impact on Chile's economy, as the propagation of the virus in other countries suggests, affecting businesses' sales and cash flows, and potentially resulting in a material negative outcome. The liquidity stress, if long enough, could turn into a solvency problem in the corporate sector, particularly for small and medium enterprises.

The immediate negative consequences of the pandemic already justified a considerable revision of the economic growth outlook for the year. The repercussions on activity, the labor market and the financial sector could be deeper, but the very solid track record of Chile's policy frameworks, and the swift implementation of bold monetary and fiscal measures are expected to mitigate the impact of the crisis. This allows Chile to be one of the economies in the region with the fastest expected recovery in 2021. The credible and rule-based fiscal and monetary frameworks, the adequate level of sovereign buffers and central bank international reserves, amidst a sound and adequately capitalized financial system, allowed for this sizable response.

Chile is a small open economy, dependent on commodity exports, with a comfortable external position. The current account is financed mainly by private creditors. Capital outflows, as of now, have not been as massive as in other emerging economies, due to confidence of foreign investors and the weight of domestic institutional investors. In fact, Chile's very strong policies and institutional frameworks have facilitated continued access to international capital markets at favorable terms, for the government and the private sector. The flexible exchange rate regime has been instrumental in dealing with external shocks, acting as a shock absorber. The corporate sector is well hedged against exchange rate volatility, and therefore balance-sheet effects are contained.

Prior to the COVID-19 shock, the country was on a clear path of recovery after the social turmoil depressed activity in October and November of 2019. The Constitutional process launched in response to the more fundamental triggers of these events has been postponed, while the value of institutions and cooperation has resurfaced. This process is now expected to begin in the last quarter of 2020 and, if all steps are accomplished without delay, could take two years to complete.

Still, the uncertainty about how the global economy will cope with the pandemic and its economic aftershock, including external demand and international financial markets, are downside risks for Chile's economic outlook. The country is still under a targeted and progressive lockdown whose full impact on the economy is yet to be seen.

Against this backdrop, and following the Central Bank's initial expression of interest, Chile has requested an arrangement from the International Monetary Fund under the Flexible Credit Line (FCL) in the amount of SDR 17.443 billion, equivalent to 1000 percent of our quota, covering a period of 24 months. The amount of access is justified by the need to provide a strong signal to reinforce market confidence amid unprecedented uncertainty and volatility in global financial markets, in case of balance of payments difficulties that Chile might encounter. We intend to treat the arrangement as precautionary, strengthening this signal and underscoring the insurance component of the FCL. If approved, the Central Bank will also be responsible for managing financial operations associated with the FCL arrangement.

Chile has a very high degree of regional and global integration in financial markets, explaining large asset and liabilities' international investment positions, exceeding 150 percent of GDP. A prolonged COVID-19 outbreak may lead to a sudden shift in investors' confidence in emerging markets, affecting also Chile. The experience during the Global Financial Crisis, when the impact on the financial account was sizable, justifies the concern, as the current juncture may lead to an even larger shock. In fact, a material decrease in net inflows together with larger outflows of portfolio and other investments, could explain 70 percent of the estimated financing gap under a severe adverse scenario. In addition, past episodes warn about the likelihood of significant strains in private debt servicing. Likewise, the high degree of openness and its position as the world's leading copper exporter, expose Chile to a current account deterioration if the negative impact from lower global demand coincides with a sharp drop in copper prices. The current account deficit widening is not expected to be as large as the financial account reversal, and it is expected to be covered by the drawdowns of international reserves and sovereign wealth fund assets. Overall, amid an environment of exceptionally high external risks, the financing gap would amount to US$23.8 billion.

The policy response against possible shocks is multilayered, including low policy interest rates, amplification of non-conventional monetary measures, possible intervention in the foreign exchange market in case of excess volatility of the real exchange rate, and combined measures to stimulate credit. This also includes an accommodative fiscal policy through automatic stabilizers, funded by debt and drawdowns of the sovereign wealth fund, to name a few.

These exceptional circumstances are expected to be temporary, and hence Chile intends to maintain the FCL arrangement on a temporary basis. At the time of the mid-term review, we will reassess the external conditions and access. Conditional on a reduction of the risks, we intend to fully exit as soon as the 24-month period is completed, while starting the exit preparations well in advance, including through an adequate communication strategy.

Chile's very strong institutions ensure preparedness to withstand adverse shocks, and a commitment to maintaining very strong policies in the future. Chile has benefited from its long and excellent track record of very strong macroeconomic performance, based on prudent policies, which we are firmly committed to maintain in the future. Such policies include: (a) an inflation targeting monetary policy framework with a free-floating exchange rate; (b) a responsible fiscal policy, based on a structural budget measure, aimed at stabilizing debt in the medium term, and (c) a deep and solid financial system, further strengthened by the recent General Banking Law, which strengthens the

financial sector regulatory and supervisory framework and adopts the Basel III standards. In light of the challenges posed by the Covid-19 crisis we intend to further gain policy space by revisiting the reserve accumulation policy, as well as revenue and spending policies in the medium term, as needed.

We fully share the objectives of the FCL arrangement and stand ready to cooperate with Fund staff in monitoring its implementation in Chile.

The relationship of Chile with the Fund is longstanding, not only as a member, but as a creditor, with a current position of SDR 691 million in the NAB and a bilateral agreement that amounts to SDR 960 million, both committed in response to the Fund's call for financial support after the Global Financial Crisis. Chile is committed to supporting the Fund to fulfil its core mandate. It plans to complete in the next few months all necessary procedures for its continuing provision of credit under the Fund's amended New Arrangements to Borrow and new bilateral borrowing agreements.

Sincerely yours,

/s/	/s/
Mario Marcel Cullell	Ignacio Briones Rojas
Governor	Minister
Central Bank of Chile	Ministry of Finance of Chile

INTERNATIONAL MONETARY FUND

CHILE

May 22, 2020

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

Approved By
Andrew Tweedie (FIN) and Ashvin Ahuja (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments (in consultation with other departments). The main contributors included Rina Bhattacharya and Zhibo Tan (FIN), and Jongsoon Shin (SPR).

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INTRODUCTION

1. This note assesses the impact of the proposed 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 an access level amounting to SDR 17,443 million (1,000 percent of quota). The Chilean authorities see the FCL as a complement to existing buffers, providing insurance against elevated external risks—including those that would arise from a prolonged outbreak of the COVID-19 pandemic. They intend to treat the arrangement as precautionary and temporary, exiting as soon as the 24-month period is completed, conditional on favorable developments in external risks.

BACKGROUND

2. Chile has an exemplary track record of meeting its obligations to the Fund under past arrangements. Chile had several Fund arrangements during the 1950s to 1980s. Since 1980, Chile has had three arrangements with the Fund, an Extended Fund Facility (EFF) arrangement from August 1985 to August 1989 (SDR 825 million, 187 percent of its quota at approval) and two Stand-By Arrangements (SBAs), from January 1983 to January 1985 (SDR 500 million, 154 percent of quota at approval) and from November 1989 to November 1990 (SDR 64 million, 14.5 percent of quota at approval). Chile has no outstanding credit with the Fund (Annex 1).

3. Chile has established very strong policy and institutional frameworks.[2] Over the past two decades growth averaged about 4 percent, consistently above the average for the region. Since the introduction of the inflation targeting regime in 1999, inflation has remained around the central bank's target range (3 +/- 1 percent), supported by a strong monetary policy institutional framework and well-anchored inflation expectations. A strong fiscal framework anchored on a fiscal rule and structural deficit targets, a relatively low level of public debt by international standards (both in gross and net terms), and substantial fiscal buffers (including a sovereign wealth fund and other assets) are expected to provide ample room for Chile to undertake countercyclical fiscal policies in the wake of the current COVID-19 global pandemic. Chile's financial regulatory and supervisory system is robust. The recently approved general banking law will further bolster the resilience of the banking sector by closing the gap with Basel III minimum solvency requirements, enhancing stabilization tools, and improving corporate governance.

4. Notwithstanding its very strong fundamentals and policy settings, Chile's open economy is exposed to substantial external risks from the ongoing COVID-19 outbreak. The initial impact of the pandemic materialized through weaker external trade and capital outflows, and since the beginning of March (with the first confirmed cases of COVID-19) it has been compounded by the need to impose social distancing measures. Chile remains exposed through both trade and

[1] See "Flexible Credit Line – Operational Guidance Note", SM/18/198, 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.

[2] Chile - 2018 - Staff Report for the Article IV Consultation (Country Report No. 18/311).

financial linkages to the massive global economic and financial shocks associated with the pandemic. Taking all this into account staff has revised down growth projections for 2020 and 2021, from 0.9 percent and 2.7 percent (respectively) in the January 2020 WEO to -4.5 percent and 5.3 percent (respectively) in its latest forecast.

5. Total external and public debt levels remain moderate and are expected to remain stable over the medium term under the baseline. Chile's total external debt has been broadly stable around 58–66 percent of GDP over the past 6 years (Table 1), remaining at around 70th percentile levels compared to other emerging markets. By contrast, much lower external public debt amounted to only about 6.1 percent of GDP at end-2019. Public sector gross debt stood between 17 and 28 percent of GDP in 2015-2019, of which about one fifth was denominated in foreign currency in 2019. Total public debt is projected to reach 36.4 percent of GDP in 2021, reflecting the fiscal impact of the government responses to last year's social unrest and to the COVID-19 outbreak. Debt sustainability analyses suggest that both external and public debt would remain sustainable with high probability.

Table 1. Chile: Total External Debt, 2014-2020 1/

	2014	2015	2016	2017	2018	2019	2020 Proj. 2/
				(In millions of US Dollars)			
Total External Debt	150,864	160,006	163,420	173,259	175,777	185,511	183,021
Private	142,182	150,498	151,546	158,595	159,748	168,252	161,673
Public	8,682	9,508	11,874	14,664	16,029	17,259	21,349
Total External Debt Service	46,150	45,405	40,111	46,402	40,693	47,169	59,338
Private	42,474	42,489	36,032	41,946	38,696	44,187	55,733
Public	3,677	2,916	4,079	4,456	1,997	2,982	3,605
				(In percent of GDP)			
Total External Debt	57.9	65.6	65.3	62.5	58.9	65.7	76.0
Private	54.6	61.7	60.5	57.3	53.6	59.6	67.2
Public	3.3	3.9	4.7	5.3	5.4	6.1	8.9
Total External Debt Service	17.7	18.6	16.0	16.8	13.6	16.7	24.6
Private	16.3	17.4	14.4	15.1	13.0	15.7	23.2
Public	1.4	1.2	1.6	1.6	0.7	1.1	1.5

Sources: Chilean authorities and IMF staff estimates.
1/ All data are for end-year.
2/ Baseline scenario.

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

6. Risks and impact on Fund finances from Chile's FCL arrangement are assessed in the context of a downside scenario. Consistent with the idea that the FCL serves as insurance in the face of the potential realization of downside risks, and that the authorities intend to treat the FCL arrangement as precautionary, any drawings on the FCL would be expected to take place only when macroeconomic conditions notably worsen vis-à-vis the baseline projections. Therefore, and consistent with the practice for other precautionary arrangements, risks and impact on Fund finances and liquidity are assessed in the context of a downside scenario. Table 2 provides a comparison of the main macroeconomic assumptions underlying the baseline and adverse scenarios. The shock is assumed to be temporary, concentrated in 2020 when it reduces the real GDP growth rate by 4 percentage points relative to the baseline. After a temporary drop, real GDP growth picks up in 2021 and 2022 somewhat faster than assumed under the baseline, by 2 and 1 percentage points, respectively. Exports of goods and services decrease by 15.5 percent in the adverse scenario in 2020 and remain lower than in the baseline scenario by a small margin during 2021–2024. Gross international reserves decrease by US$5.7 billion, US$3.8 billion and US$1.9 billion respectively, compared to the baseline scenario, during 2020–2022.

7. If Chile were to purchase the full amount available under the proposed FCL arrangement in a downside scenario, its capacity to repay to the Fund would remain adequate (Table 3).

- In the illustrative downside scenario described above, if Chile were to draw all the resources available under the new FCL arrangement this year, its external debt would rise to about 92.8 percent of GDP in 2020, and public external debt would rise to about 21.3 percent of GDP. These ratios would be just above or below the median of other exceptional access cases approved since 2008 (Figure 1). Chile's outstanding use of GRA resources would account for 12.2 percent of total external debt and about 53.3 percent of public external debt. Fund credit would initially reach 11.4 percent of GDP and nearly 68.9 percent of Chile's gross international reserves. Peak Fund exposure relative to GDP or total external debt would be close to the median of recent exceptional access arrangements, although its ratio to gross international reserves would be well above the median (Figure 2). Although projected outstanding Fund credit in percent of quota around the peak is above those expected in other recent FCL arrangements in the event of full drawdown, it would be below that of most exceptional access cases approved since September 2008 (Figure 3).

Table 2. Chile: Comparison of Macroeconomic Assumptions Under Baseline and Adverse Scenarios
(in millions of US dollars)

	2019	2020	2021	2022	2023	2024	2025
Baseline scenario							
Real GDP growth (percent)	1.1	-4.5	5.3	3.2	2.5	2.5	2.5
Nominal GDP	282,271	240,741	272,011	298,064	320,178	341,175	361,948
Gross international reserves	40,657	40,657	40,657	40,657	40,657	40,657	40,657
in months of next year's imports of goods and services	7.2	6.6	6.4	6.2	5.9	5.6	5.7
Exports of goods and services	79,309	71,875	73,082	76,265	79,126	82,444	85,661
Total external debt (in percent of GDP)	65.7	76.0	70.9	69.7	66.4	64.3	62.8
of which: public external debt (in percent of GDP)	6.1	8.9	8.3	10.5	9.8	9.7	9.9
Adverse scenario							
Real GDP growth (percent)	1.1	-8.5	7.3	4.2	2.5	2.5	2.5
Nominal GDP	282,271	212,124	253,479	291,392	313,656	334,631	355,311
Gross international reserves	40,657	34,987	36,877	38,767	40,657	40,657	40,657
in months of next year's imports of goods and services	7.9	5.8	6.0	6.0	6.0	5.8	5.6
Exports of goods and services	79,309	60,700	72,968	76,179	79,074	82,428	85,684
Total external debt (in percent of GDP)	65.7	92.8	81.6	76.0	70.3	64.3	61.2
of which: public external debt (in percent of GDP)	6.1	21.3	18.3	18.9	15.7	11.7	10.1

Sources: Chilean authorities and IMF staff projections.

- External debt service would be high in 2020, but subsequently decline and remain manageable under staff's medium-term macroeconomic projections. Chile's projected debt service to the Fund would only represent 0.2 to 0.3 percent of GDP in 2020-2022, peaking at about 3.8 percent of GDP in 2024, reflecting large repurchases.[3] Chile's peak total external debt service and peak debt service obligations to the Fund as a share of exports of goods and services would be in the top quintile for exceptional access SBAs approved since September 2008 (Figure 2). At 15.4 percent, the latter would also be significantly higher than recent FCL cases for Mexico (5.6 percent) and Colombia (5.7 percent).
- At the same time, there are several risk mitigating factors. Chile has very strong policy and institutional frameworks, which should serve to shelter the economy from the effects of the global COVID-19 pandemic. Most capacity to repay indicators suggest moderate credit risk to the Fund in terms of Chile's capacity to repay. Moreover, Chile has a track record of 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 and temporary.
- It is worth noting that, while public external debt service ratios are moderate, private external debt obligations are projected to rise to 21.5 percent of GDP in 2020 before falling to more moderate levels. On the other hand, while non-financial corporations' external debt is large compared to peers, it is largely FDI-related (which reduces roll-over risks) and hedged against exchange rate risk.

8. The proposed FCL arrangement with Chile under the FCL (SDR 17.443 billion, or 1,000 percent of quota) would have a significant but manageable impact on the Fund's overall liquidity position. The Fund's Forward Commitment Capacity (FCC) would decline by over 9 percent from its current level of some SDR 190 billion to around SDR 173 billion (Table 4). If Chile were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC, which is currently only based on quota resources, would decline by another SDR 1.4 billion.[4]

9. If the resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Chile would be the Fund's second largest and would exceed the Fund's current level of precautionary balances:[5]

[3] The projected figures on debt service used are calculated assuming that full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

[4] Taking into account resources held as prudential balances, the decline in the FCC would be equal to 80 percent of Chile's quota. See *Financial Transactions Plan for the Period October 2019–July 2020*.

[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.

- Fund credit to Chile would represent 19.8 percent of total GRA credit outstanding as of May 15, 2020, and 16.6 percent of GRA credit outstanding after taking into account Chile's FCL arrangement. Chile would be the second largest Fund exposure after Argentina (SDR 31.9 billion) and before Egypt (SDR 10.6 billion). The concentration of Fund credit among the top five users of GRA resources would increase marginally to about 68.5 percent, up from 67.5 percent as of May 15, 2020.

- Fund exposure to Chile after a full drawing on FCL resources would amount to 104.4 percent of the estimated level of precautionary balances (PBs) at end-FY2020.

10. 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 increase slightly**. Currently, the Western Hemisphere accounts for about 62 percent of GRA credit and undrawn balances, including for precautionary arrangements. With the proposed FCL for Chile, that share would rise to 66 percent. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when lending to Europe accounted for the bulk of the Fund's lending exposure.

- **Among the Fund's different facilities, the share of FCL commitments would rise moderately**. Commitments under FCLs, which represent the bulk of precautionary arrangements, stood at around SDR 52 billion in mid-May, 2020, or 49 percent of total GRA commitments (Figure 4). With the proposed FCL for Chile, the share of commitments from FCL arrangements would increase to 57 percent.

Table 3. Chile: Capacity to Repay Indicators 1/

	2019	2020	2021	2022	2023	2024	2025
Exposure and Repayments (In SDR millions)							
GRA credit to Chile	--	17,443.0	17,443.0	17,443.0	13,082.3	4,360.8	0.0
(In percent of quota)	--	1,000.0	1,000.0	1,000.0	750.0	250.0	0.0
Charges due on GRA credit 2/	--	282.6	466.5	466.8	511.4	327.9	38.2
Debt service due on GRA credit 2/	--	282.6	466.5	466.8	4,872.2	9,049.4	4398.9
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	65.7	92.8	81.6	76.0	70.3	64.3	61.2
Public external debt	6.1	21.3	18.3	18.9	15.7	11.7	10.1
GRA credit to Chile	--	11.4	9.5	8.3	5.8	1.8	0.0
Total external debt service	16.7	23.4	16.8	12.5	13.9	15.0	12.7
Public external debt service	1.1	1.9	1.4	0.7	2.5	4.1	2.1
Debt service due on GRA credit	--	0.2	0.3	0.2	2.2	3.8	1.7
In percent of Gross International Reserves							
Total external debt	456.3	562.7	560.6	571.3	542.4	529.4	534.6
Public external debt	42.4	129.1	125.6	142.4	121.4	95.9	88.2
GRA credit to Chile	--	68.9	65.6	62.6	44.9	15.0	0.0
In percent of Exports of Goods and Services							
Total external debt service 4/	59.5	81.9	58.2	47.7	55.0	61.0	52.6
Public external debt service 4/	3.8	6.6	5.0	2.5	10.1	16.6	8.5
Debt service due on GRA credit	--	0.6	0.9	0.9	8.6	15.4	7.2
In percent of Total External Debt							
GRA credit to Chile	--	12.2	11.7	11.0	8.3	2.8	0.0
In percent of Public External Debt							
GRA credit to Chile	--	53.3	52.2	44.0	37.0	15.7	0.0
Memo Items:							
U. S. dollars per SDR (period average)	1.38	1.38	1.39	1.39	1.40	1.40	1.4
U. S. dollars per SDR (end of period)	1.38	1.38	1.39	1.39	1.40	1.40	1.4
Oil Price (WEO APSP, US$ per barrel)	61.39	35.61	37.87	40.90	43.17	45.01	46.4

Sources: Chilean authorities, 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/ Based on the rate of charge as of April 23, 2020. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

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

	As of 5/15/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	190,000
FCC on approval 2/	172,557
Change in percent	-9.2
Prudential measures, assuming full FCL drawing	
Fund credit to Chile	19.8
In percent of total GRA credit outstanding 3/	16.6
In percent of current precautionary balances	104.4
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	67.5
In percent of total GRA credit outstanding including Chile's assumed full drawing 3/	68.5
Memorandum items	
Fund's precautionary balances (end-FY2020)	16,700
Total FCL commitments, including proposed FCL	62,007
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.7

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 resources from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed arrangement.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

11. The proposed FCL arrangement with Chile would have a significant but manageable impact on the Fund's finances. The arrangement would cover a 24-month period with access in an amount of SDR 17,443 million (1,000 percent of quota). The immediate impact would be a decline of about 9 percent in the Fund's lending capacity going forward. Nevertheless, the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement. At the same time, in view of highly elevated risks to global growth and financial stability at present, a close monitoring of the liquidity position is warranted. In particular, the scale of potential new demand for Fund resources in the aftermath of the global COVID-19 pandemic is subject to large uncertainty and could be unprecedented.

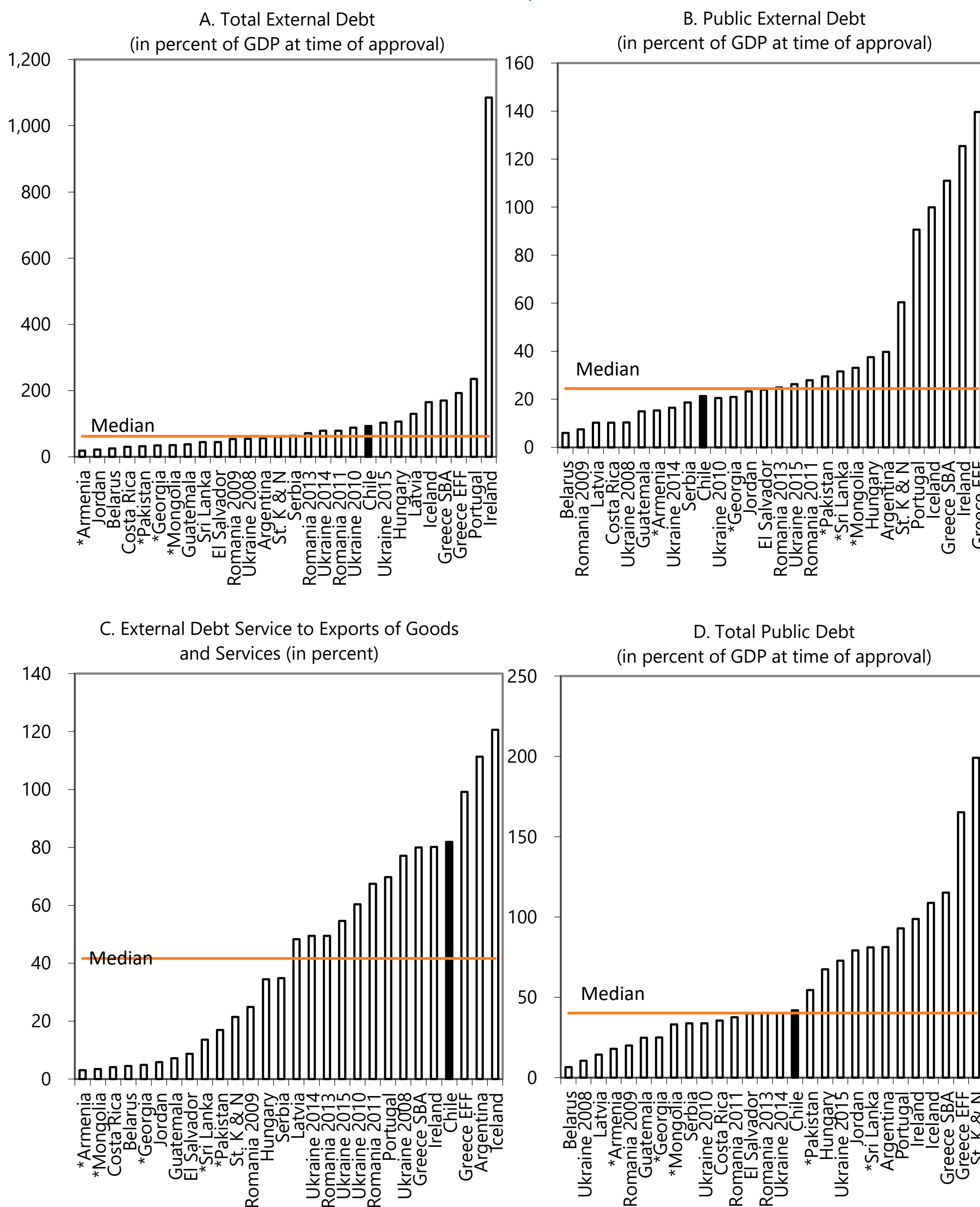
12. If the proposed arrangement were drawn in full, the GRA credit exposure to Chile would be almost 17 percent of the Fund's outstanding credit and over 100 percent of the Fund's current precautionary balances, but staff judges the credit risk to be moderate. Assuming full drawing of 1,000 percent of quota under an adverse drawing scenario, most capacity

to repay indicators suggest moderate credit risk to the Fund in terms of Chile's capacity to repay. Moreover, Chile has very strong policy and institutional frameworks, which should serve to shelter the economy from the effects of the global COVID-19 pandemic. Chile also has a track record of uninterrupted access to international capital markets at favorable terms for several decades. Finally, the authorities intend for the FCL to be precautionary and temporary.

13. The authorities consider access to the FCL to be temporary with exit dependent on the evolution of external risks. The requested level of access is meant to provide insurance against a wider range of adverse external shocks, preserve investor confidence, and support the authorities' macroeconomic strategy. The Chilean authorities intend to treat the arrangement as precautionary and temporary, exiting as soon as the 24-month period is completed, conditional on the evolution of external risks amid the uncertain global economic and financial environment. The authorities have indicated that they intend to reassess the external risk situation and the requested level of access at the time of the mid-term review.

Figure 1. Debt Ratios of Recent Exceptional Access Cases 1/ 2/

(EA cases since September 2008)



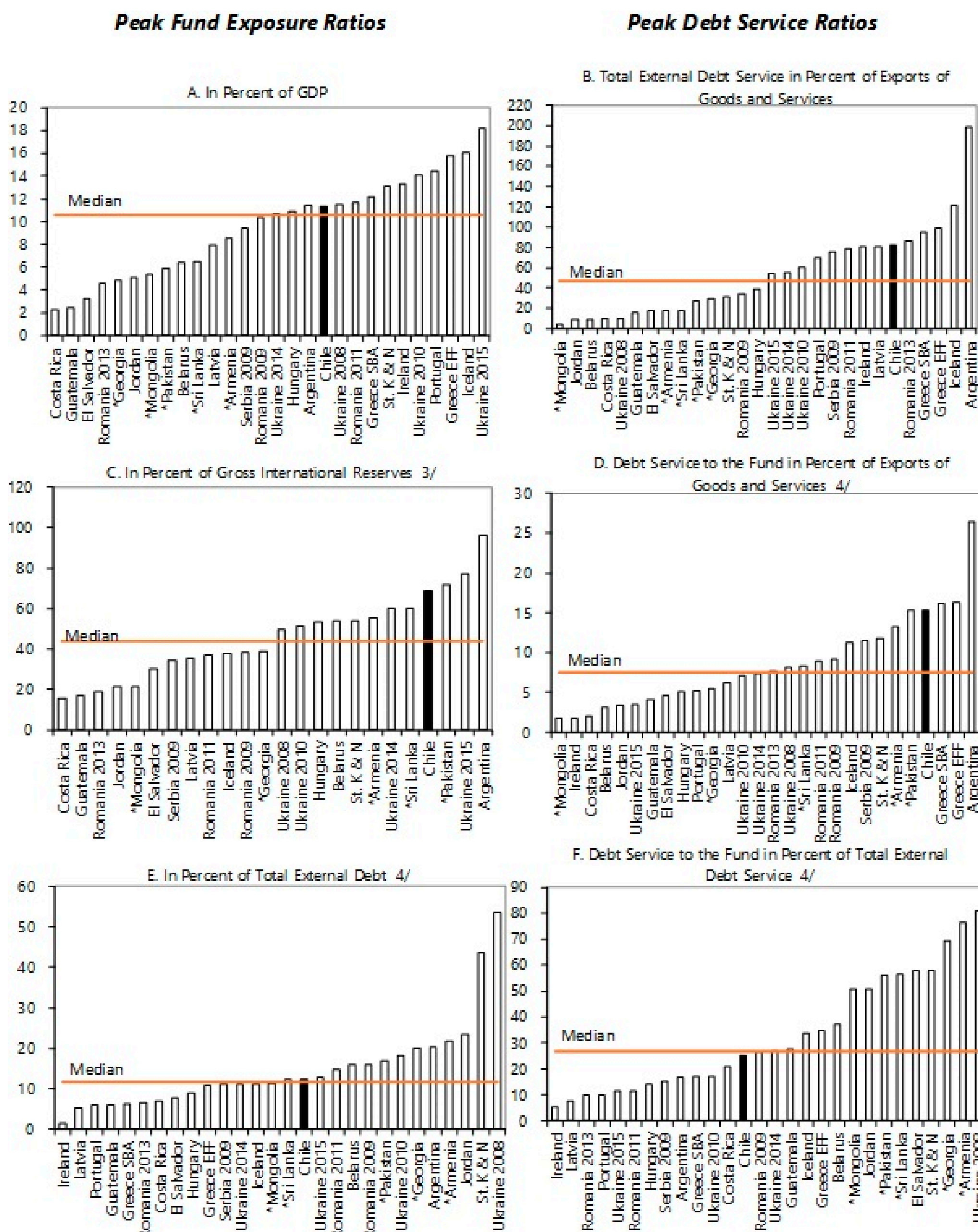
Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.

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 Cases 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.

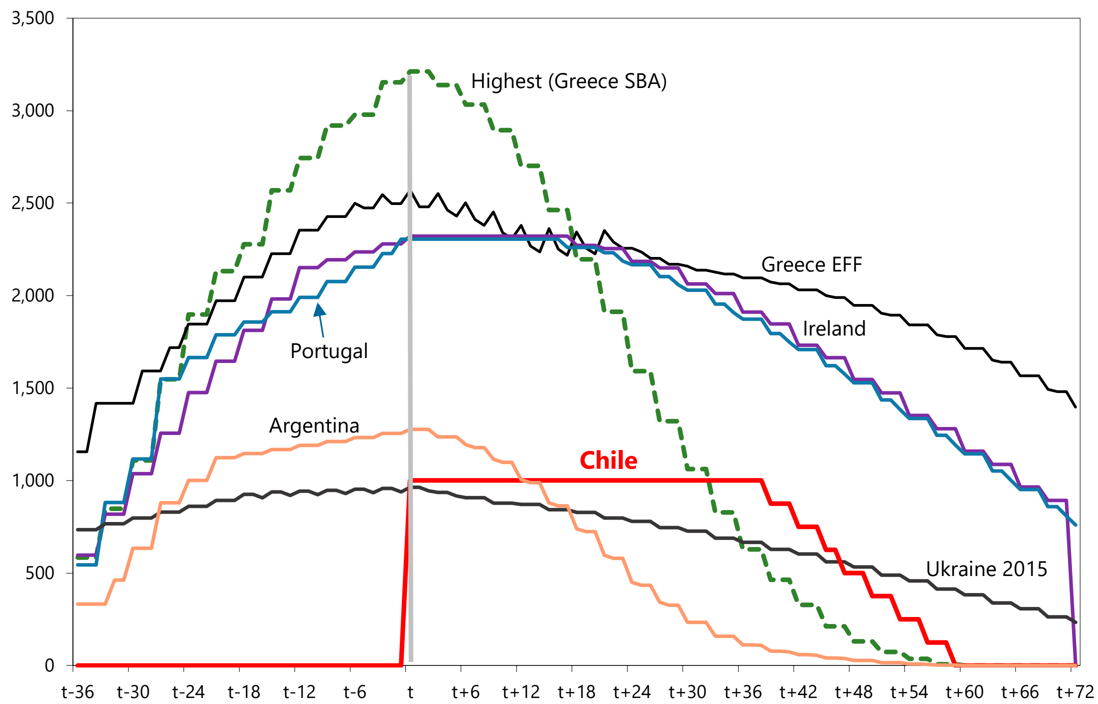
2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

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 in the GRA Around Peak Borrowing 1/

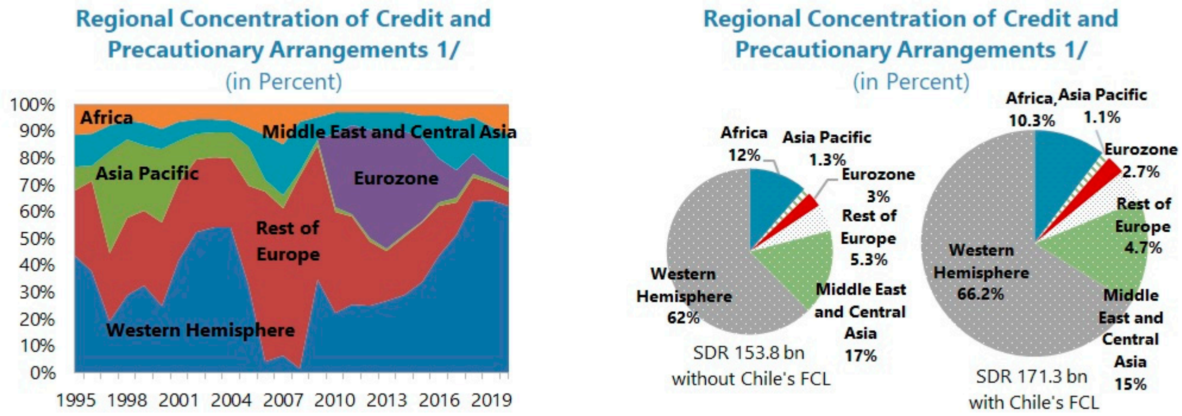
(In percent of quota)



Sources: Finance Department and IMF staff estimates.

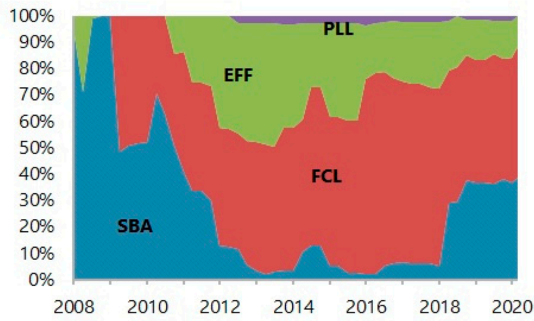
1/ t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months. For illustrative purposes it is assumed that Chile's FCL is fully drawn down at the time of Board approval.

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

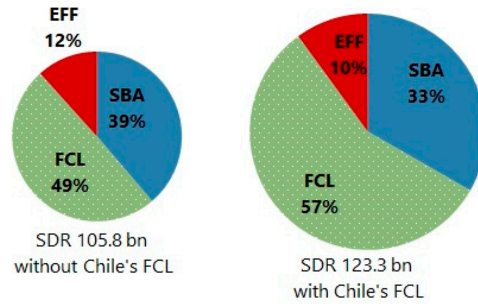


1/ GRA credit outstanding plus undrawn balances by region as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.

Commitments under current GRA arrangements
(in Percent, as of May 15, 2020)



Commitments under current GRA arrangements
(in Percent, as of May 15, 2020)



Source: IMF Finance Department.

Annex I. History of Arrangements with the IMF

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

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

- In January 10, 1983, the Fund approved an SBA equivalent to SDR 500 million (154 percent of quota) when Chile's financial problems were aggravated by the world economic slump and the prices 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.

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

- In 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.

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

Annex Table I.1. Chile: IMF Financial Arrangements, 1983–2020
(in millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchase	Repurchases	Credit 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
1996-2019						0	0.0	0.0

Source: Finance Department.
1/ As of end-December.