INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/41

CHILE

February 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHILE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Chile, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 5, 2024, consideration of the staff report that concluded the Article IV consultation with Chile.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 5, 2024, following discussions that ended on November 20, 2023, with the officials of Chile on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 17, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Chile.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Chile

FOR IMMEDIATE RELEASE

Washington, DC – **February 6, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded on February 5, 2024, the Article IV consultation[1] with Chile.

Macroeconomic imbalances built during the pandemic have been largely resolved, supported by tighter macroeconomic policies deployed during late 2021-22. As domestic demand normalized, economic activity stabilized in the second half of 2023, yielding an estimated zero percent real GDP growth for the year. Inflation and current account deficits have significantly declined in 2023. The financial sector remains resilient despite the economic slowdown and tight financial conditions.

Growth is expected to pick up to close to 2 percent in 2024 and 2-2.5 percent in the medium term. Inflation is projected to converge to the 3-percent target in 2024. Key external risks are the uncertainties around the potentially higher-for-longer interest rates in advanced economies, a growth slowdown in major trading partners, and the intensification of regional conflicts in the world. Domestically, political polarization and fragmentation could lead to continued reform gridlock. Social discontent over inequality and the security situation remains prevalent. Uncertainty related to the solvency of private health insurance companies is also a concern. On the upside, the closure of the constitutional reform process is set to reduce near- and medium-term domestic uncertainty. Moreover, Chile can benefit from the global green transition given its rich endowment with copper, lithium, and renewable energy for which demand is set to rise.

Policies have supported macroeconomic stability. In the context of disinflation acceleration, the Central Bank of Chile lowered the monetary policy rate by 400 basis points since July 2023. The headline fiscal balance is estimated to decline to about -2.5 percent of GDP in 2023 due to weaker tax revenues amid an economic slowdown, lower copper prices, and other transitory factors. The 2024 budget envisions a moderate deficit reduction within a medium-term fiscal plan to a broadly balanced fiscal position by 2026. The ongoing implementation of the countercyclical capital buffer will strengthen financial resilience in periods of stress.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors expressed condolences about the tragic loss of life and devastation caused by the massive forest fires. Directors welcomed the authorities' very strong policies and policy frameworks, supported by the precautionary FCL arrangement, which were instrumental in resolving imbalances and steering the economy toward potential growth and targeted inflation in a challenging external environment. They commended the authorities' reform plans to raise investment and productivity, increase fiscal revenues for priority spending, reduce inequality, improve pension adequacy, and transition to a greener economy.

Directors welcomed the authorities' commitment to reach a broadly balanced fiscal position by 2026 and keep debt below the prudent debt ceiling of 45 percent of GDP. They welcomed the proposed reforms to strengthen tax compliance and enhance spending efficiency, and stressed that additional measures will be needed to achieve the authorities' medium-term fiscal plan and finance social needs and security priorities. Directors noted the improved pension adequacy for low-income pensioners following the higher minimum pension and emphasized that raising pension contribution rates is critical to ensure the adequacy of self-financed pensions and the sustainability of the pension system. They also encouraged the authorities to continue to refine further their already strong fiscal framework.

Directors commended the central bank's robust policies that led to a decisive decline in inflation toward its target, emphasizing that the pace of further monetary easing should remain data dependent. They stressed that the flexible exchange rate remains paramount for absorbing shocks and called for resuming the international reserve accumulation, when market conditions are conducive, and developing a long-term reserve strategy to further strengthen resilience against external shocks, while a few called for an earlier resumption of the accumulation strategy.

Directors agreed that the financial sector remains resilient. They welcomed the ongoing implementation of Basel III capital and liquidity requirements, the activation of the countercyclical buffer, and efforts to establish an industry-funded deposit insurance and a new bank resolution framework, while calling for continued monitoring of the vulnerabilities in construction and real estate sectors. Directors stressed the importance of continuing to adapt financial regulation and supervision to the changing financial sector landscape.

Directors supported the authorities' reform plans for a more dynamic, greener, and inclusive economy. They underscored the need to foster investment and welcomed the efforts to streamline permitting processes. Directors commended Chile's progress and ambitions in developing renewable energy. They noted that the higher global demand for lithium and other critical minerals offers new economic opportunities for Chile and stressed the importance of swiftly implementing a clear and balanced institutional framework. Directors welcomed the improvements in gender equality and encouraged additional efforts to further narrow labor market gender gaps.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Chile: Selected Economic Indicators, 2022-26

GDP (2022), in billions of pesos	263	Quota	
GDP (2022), in billions of U.S. dollars	301	in millions of SDRs	1,744
Per capita (2022), U.S. dollars	15,166	in % of total	0.37
Population (2022), in millions	19.8		
Main products and exports	Copper		
Key export markets	China, Euro area, U.S.		

		Proj.			
	2022	2023	2024	2025	2026
Output		(Annual percentage change)			
Real GDP	2.4	0.0	1.9	2.5	2.4
Output gap (in percent)	2.7	0.2	-0.3	-0.1	0.0
Employment		(In percent)			
Unemployment rate (annual average)	7.9	8.8	8.9	8.4	7.7
Prices		(Annual percentage change)			
GDP deflator	6.6	6.5	3.9	3.6	3.4
Change of CPI (end of period)	12.8	3.9	3.0	3.0	3.0
Change of CPI (period average)	11.6	7.6	3.3	3.0	3.0
Public Sector Finances		(In percent of GDP)			
Central government revenue	26.1	23.1	23.8	24.0	24.0
Central government expenditure	25.0	25.6	25.9	25.4	24.5
Central government fiscal balance	1.1	-2.5	-2.1	-1.4	-0.5
Central government gross debt	38.0	39.2	40.5	40.7	41.1
Public sector gross debt 1/	67.3	68.5	69.8	70.0	70.4
Money and Credit		(Annual percentage change)			
M2	4.0	5.3	4.8	6.2	5.8
Credit to the private sector	10.0	2.8	5.0	7.1	6.7
Balance of Payments		(In percent of GDP)			
Current account balance (% of GDP) 2/	-9.0	-3.2	-3.4	-3.3	-3.2
Foreign direct investment net flows (% of GDP) 2/	-2.7	-1.8	-2.2	-2.2	-2.1
Gross external debt (% of GDP) 3/	77.6	73.1	74.4	74.1	74.2

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

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

2/ Calculated as a share of US$ GDP.

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

INTERNATIONAL MONETARY FUND

CHILE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

January 17, 2024

KEY ISSUES

Context. Macroeconomic imbalances built during the pandemic have been largely resolved, supported by strong policy responses. Inequality has declined somewhat but remains high. Weak investment and potential growth are constraining income convergence to advanced economies. Policy priorities have shifted toward making the economy more dynamic, inclusive, and greener, but the government is struggling to pass reforms in a fragmented parliament. The December referendum which rejected the draft constitution has reduced lingering uncertainty by bringing the process to a close for the coming years.

Outlook and risks. The economy is transitioning to trend growth and targeted inflation. However, the outlook is clouded with risks. Key external risks are uncertainties around the potentially higher-for-longer interest rates in advanced economies, a growth slowdown in major trading partners, and the intensification of regional conflicts in the world. Domestically, political polarization and fragmentation could lead to continued reform gridlock. Social discontent over inequality and security remains prevalent. Moreover, uncertainty related to the solvency of private health insurance companies is a concern. On the upside, Chile can benefit from the global green transition given its rich endowment with copper, lithium, and renewable energy for which demand is set to rise.

Key policy recommendations.

Monetary and exchange rate policy. Following the start of the easing cycle in the context of disinflation acceleration, the pace of further monetary easing should continue to be data-dependent and real rates will likely need to remain above their neutral levels for the near future. The central bank should resume the accumulation of international reserves, when market conditions are conducive, to strengthen external buffers and develop a longer-term international reserve strategy.

Fiscal policy. While Chile has some fiscal space to support the reactivation of the economy and social needs, a bit more frontloading of the deficit reduction would facilitate meeting its medium-term fiscal target. Permanent spending measures should be conditioned on structural revenue performance to preserve fiscal sustainability.

Refinements to Chile’s already strong fiscal framework would enhance the resilience of fiscal policy, including in the context of proposed gradual decentralization.

Financial sector policies. The financial system remains resilient, but vulnerabilities in some sectors warrant continued close monitoring as does banks’ implementation of Basel III requirements and their preparation for the unwinding of pandemic liquidity measures. Calibrating the neutral level of the countercyclical capital buffer swiftly is important to provide banks with planning certainty. Progress with the implementation of key 2021 FSAP recommendations as well as keeping pace with financial regulation and supervision related to the digitalization of the financial sector will enhance resilience.

Structural reforms. Promoting investment is a priority and ongoing efforts to tackle long permitting processes are critical. Developing renewable energy and lithium industries, in the context of clear and balanced institutional frameworks, will allow Chile to benefit from new growth opportunities during the global green transition. Tax reforms are needed to sustainably finance social needs, security priorities, and green infrastructure. Raising pension contribution rates remains critical to ensure adequate self-financed pensions and the sustainability of the pension system.

Approved By
Patricia Alonso-Gamo (WHD) and Bergljot Barkbu (SPR)

Discussions took place in Santiago during November 7–20, 2023. The team comprised Andrea Schaechter (Head), Luiza Antoun de Almeida and Si Guo (all WHD), Eduardo Camero Godinez (FAD), Martina Hengge (SPR), and Tatsushi Okuda (MCM). Luis Oscar Herrera and Andrea Mostajo (OED) also participated in the discussions. The mission met with Central Bank of Chile President Rosanna Costa, Minister of Finance Mario Marcel, Minister of Economy, Development and Tourism Nicolás Grau, Minister of Labor and Social Security Jeannette Jara, Minister of Social Development and Family Javiera Toro, Minister of Education Nicolás Cataldo, Chairs of regulatory and supervisory bodies and other senior officials, private sector representatives, industry, labor organizations, think tanks, academics, and parliamentarians. Natalia Martinez-Camelo and Nomuun Tuvaan (both WHD) provided research and administrative support.

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ANNEXES

CONTEXT

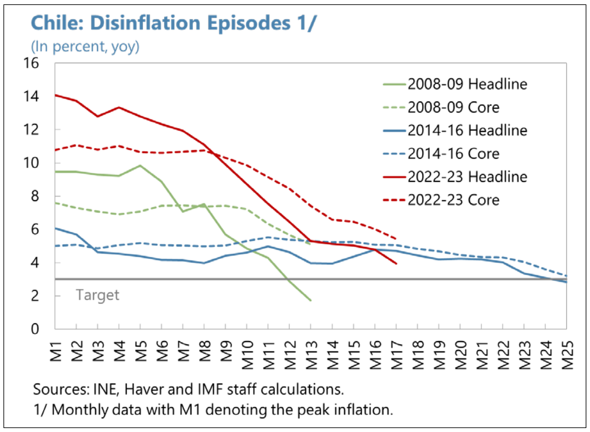
1. **Policy priorities have shifted toward making the economy more dynamic, inclusive, and greener, as the economy is approaching the end of its adjustment cycle.** Macroeconomic imbalances built during the pandemic have been largely resolved, supported by tightened macroeconomic policies since 2022, consistent with past Fund advice (Annex I). The two-year Flexible Credit Line (FCL) arrangement approved in August 2022 has substantially augmented precautionary buffers and provided insurance against tail risks. Weak investment and timid potential growth are constraining income convergence to advanced economies. Inequality has declined but remains high. Facing strong resistance in a polarized Congress, the government is taking a more pragmatic approach to its ambitious policy agenda for more equity and inclusion by advancing initiatives for investment, anti-tax evasion, spending efficiency, climate change and financial system resilience that could garner broad-based support.

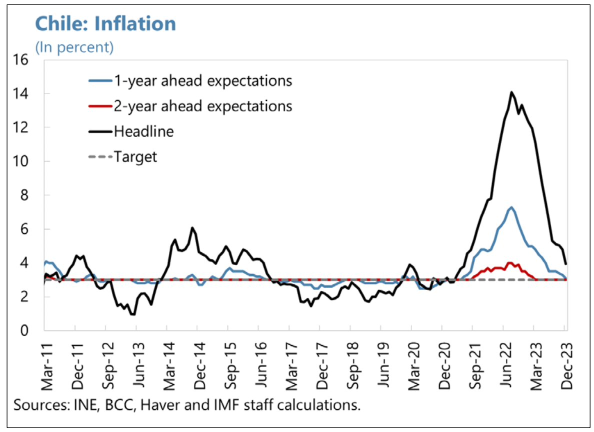
2. **The closure of the constitutional process is set to reduce near- and medium-term uncertainty.** In December 2023, over 55.7 percent of voters rejected a new draft constitution. Given widespread fatigue about the long constitutional reform process that was launched in response to the 2019 social protests and included two referendums, all political parties announced to put the process on hold for several years. However, proposals for amendments may resurface in the longer term.

RECENT ECONOMIC DEVELOPMENTS

3. **Economic activity stabilized in 2023H2.** Three consecutive quarters of negative growth (yoy) since 2022Q4, amid tightened monetary and fiscal policy in 2022, have largely corrected the imbalances from an overheated economy in 2021. GDP growth decelerated to 2.4 percent (yoy) in 2022 and -0.7 percent (yoy) in 2023H1, led by the normalization of private consumption and investment (Figure 1). Economic activity resumed expansion in 2023Q3 by 0.6 percent (yoy), led by mining and utility sectors. Annual growth in 2023 is expected to be around zero percent. The 3-month average unemployment rate (seasonally adjusted) edged higher to 9.0 percent in November from 8.2 percent a year ago, with the employment rate still about 2.5 percentage points below its pre-pandemic level.

4. **Inflation is falling rapidly and the BCCh started its easing cycle in July.** Disinflation accelerated since April with headline inflation declining to 3.9 percent (yoy) in December 2023, from a peak of 14.1 percent in August 2022, led by food, energy, and other goods items. Core inflation (excluding volatile items) has come down more slowly to 5.4 percent (yoy). The slower convergence of core inflation is comparable to previous disinflation episodes (text chart). It can be largely attributed to service price indexation and the catching-up of real wages to compensate for the decline in the labor share during the high-inflation episode (Figure 3). The BCCh lowered its monetary policy rate from 11.25 percent to 8.25 percent between July and December, in line with the decline in inflation expectations (text chart).





5. High inequality, one of the main driving forces behind the 2019 social unrest, has come down slightly but not on all fronts. The poverty rate fell significantly on the heels of household subsidies and the new minimum guaranteed pension (PGU) (Annex VII). However, income inequality, measured by the Gini coefficients, remains substantially higher than the OECD average (text table). While education spending has increased, public satisfaction with education services declined. Gender gaps in employment and representation in parliament have narrowed, the share of female senior executives in the public sector has increased from 30 to 41 percent over the past two years and gender inequality targets are included in the sovereign sustainability-linked bonds while a sizeable gender pay gap persists (Annex VI).

Chile: Inequality and Inclusiveness Indicators

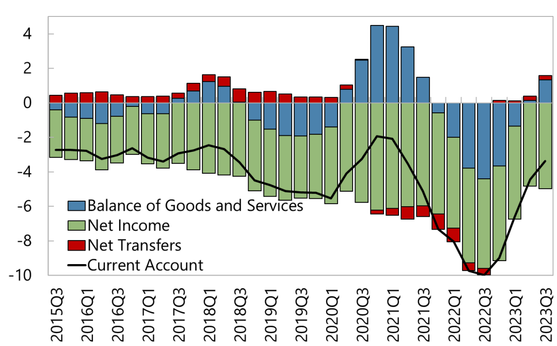
	2006	2017	2022	OECD Average (2022)
Income inequality and poverty				
Gini coefficient (income before tax and subsidy)	0.509	0.495	0.48	0.47 2/
Gini coefficient (income after tax and subsidy)	0.498	0.484	0.47	0.31 2/
Poverty rate (%, based on national poverty line)	28.7	8.5	6.5	-
Gender inequality				
Gender unemployment rate gap (%)	4.3	0.9	1.0	0.7
Gender labor force participation rate gap (%)	32.0	20.5	18.6	10.4
Proportion of parlimament seats held by female (%)	15.0	15.8	35.5	-
Youth well-being				
Youth (aged 15-24) unemployment rate (%)	22.1	16.8	17.8	13.8
Youth (aged 15-29) not in education, employment or training (%)	23.6 3/	18.4	- 4/	12.7
Health and education				
Public education spending as share of total education spending (%)	50.4 5/	60.8	63.6	82.5 2/
Health spending financed by voluntary scheme or out-of-pocket payment (% GDP)	2.8	3.6	3.4	2.2
Perception of public services 1/				
Citizens satisfaction with healthcare system (%)	-	43	48 6/	68
Citizens satisfaction with education system (%)	-	61	50 6/	67
Citizens satisfaction with the judicial system (%)	-	20	23 6/	56

Sources: OECD, CASEN 2022 and UNSDG.
1/ The accuracy of perception-based indicators could be biased by respondents' views rather than facts.
2/ Data refers to 2019.
3/ Data refers to 2009.
4/ Latest available data from the OECD for Chile is 2020 (23.4 percent) with the increase likely reflecting the pandemic impact. The Labor Force Statistics dataset compiled by the International Labour Organization (ILO) shows that Chile's youth NEET (aged 15-24) changed from 17.5 percent in 2016 to 19.2 percent in 2020 and 14.4 percent in 2022.
5/ Data refers to 2005.
6/ Data refers to 2021

6. The headline fiscal balance is expected to deteriorate to a deficit of 2.5 percent of GDP in 2023, slightly better than the 2.7 percent of GDP targeted in the budget. The sharp turnaround from a surplus of 1.1 percent of GDP in 2022 mainly reflects weaker tax revenues amid the economic slowdown, lower copper prices, and the fading of one-off effects. Higher spending related to health care, forest fires and floods, as well as the Pan American Games also contributed at the margin.

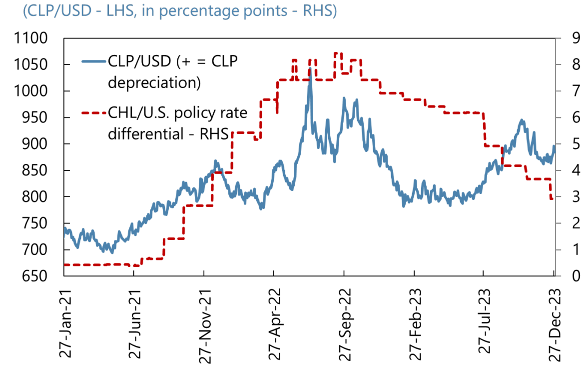
7. The current account deficit narrowed sharply in 2023 and the BCCh accumulated international reserves between June and October. After temporarily widening to 9 percent of GDP in 2022, the four-quarter moving average current account deficit narrowed to 3.4 percent of GDP in 2023Q3 (text chart), driven by a broad-based decline of goods imports in line with the adjustment of domestic demand (Figure 2). On an annual basis, the current account deficit is expected to have reverted to 3.2 percent of GDP. The Chilean peso (CLP) weakened by about 10 percent against the U.S. dollar between July and December 2023 amid the narrowing interest differential with the U.S. and uncertainty surrounding the outlook for key trading partners, including China (text chart).[1] The behavior of the CLP was characterized by heightened sensitivity to news and greater volatility. In April, the BCCh began to gradually unwind the FX forward operations from the 2022 intervention program (Annex IV), and in June, started a twelve-month reserve accumulation program that aimed at increasing its FX reserves by US$10 billion. Both programs were suspended in October in the context of heightened tensions in global financial markets. Reserves accumulated during June-October totaled US$3.7 billion. Chile's external position in 2023 is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies. The average real effective exchange rate (REER) was close to its equilibrium level in 2023 (Annex III).

Chile: Current Account Decomposition
(In percent of GDP, 4-quarter moving average)



Sources: Haver and IMF staff calculations.

Chile: FX Rates and Interest Differential
(CLP/USD - LHS, in percentage points - RHS)

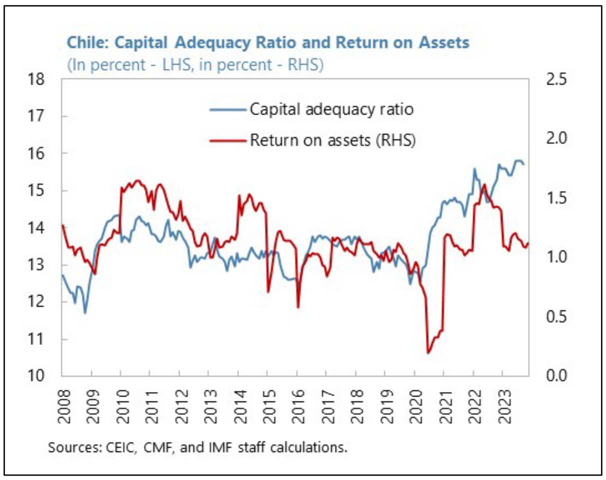


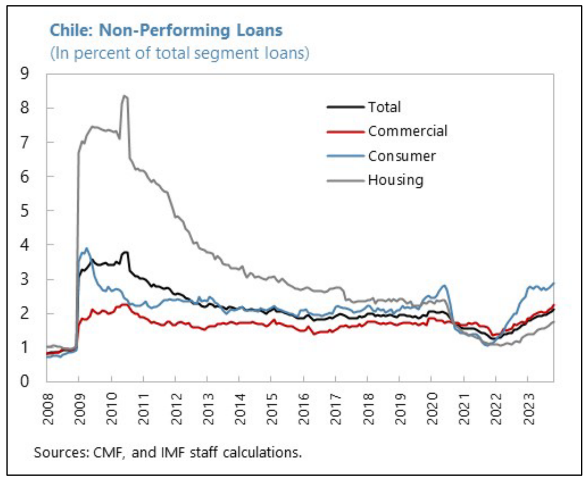
Sources: Central Bank of Chile, Federal Reserve Economic Data and IMF staff calculations.

8. Chile's financial sector remains resilient amid tight global financial conditions. The episode of rising long-term U.S. interest rates (June to October) spilled into higher long-term rates in Chile, in particular mortgage rates. The narrowing short-term interest rate differential to the U.S., in the context of the BCCh monetary policy rate cuts, contributed to a sharp temporary depreciation (text chart and Figure 4). However, under the tight financial conditions, financial stability risks appear contained. Banks' capital adequacy and liquidity ratios stand comfortably above regulatory

[1] The exchange rates in regional peer countries (Brazil, Colombia, Mexico, and Peru) appreciated by 1.7 percent against the U.S. dollar, on average, over the same period.

requirements,[2] and profitability is around pre-pandemic levels (text chart). The financial health of households and corporates continues to be overall robust, while vulnerabilities persist in the construction and real estate sectors, smaller firms with government-guaranteed loans (FOGAPE-Covid and FOGAPE-Reactiva), and low-income indebted households, amid the economic slowdown and tight financial conditions.[3] Non-performing loan (NPL) ratios increased to 2.1 percent as of November 2023, but remained around their pre-pandemic levels and were backed by adequate provision coverages.[4] Nominal credit growth has slowed to 2.6 percent (yoy) in December 2023, in line with macroeconomic conditions, reflecting weaker demand and higher borrowing costs (Figure 5).





Authorities' Views

9. While the authorities broadly concurred with the assessment of the external position, they highlighted some factors that underestimate the position's strength. The authorities pointed out that transportation costs in 2023 remained above their pre-pandemic levels, contributing to the current account deficit. Moreover, unlike staff, they assessed current copper prices to be broadly in line with long-term prices, potentially resulting in an underestimate of the Fund's cyclically-adjusted current account balance. They also noted that foreign direct investment has historically financed a large fraction of the current account deficit which reduces risks of abrupt capital outflows.

[2] As of September 2023, the Liquidity Coverage Ratio for the Chilean banking system was approximately 250 percent, comfortably exceeding the regulatory requirement of 100 percent facilitated by legacy of temporary liquidity measures introduced during the pandemic (Facility of Credit Conditional on Lending, FCIC) which will expire in 2024.

[3] The financial sector's exposure to cybersecurity risk is increasing as the sector becomes more digitalized. While banks appear resilient to solvency and liquidity risks driven by cyberattacks, and the regulatory framework seems relatively comprehensive, ensuring adequate human resources for effective supervision is warranted (see Selected Issues Paper).

[4] While specific provisions are around pre-pandemic levels, banks have accumulated additional provisions since 2021.

OUTLOOK AND RISKS

10. The economy is transitioning to trend growth and targeted inflation. Quarterly growth is projected to return to its potential pace (2-2.5 percent annualized) in 2024. In annual terms this implies a growth pick-up to close to 2 percent in 2024 considering the carryover from 2023, supported by the recovery of consumption and mining exports. Real credit growth is projected to rebound modestly in 2024 as demand nudges up and financial conditions loosen gradually. Inflation is projected to converge to the 3 percent target in 2024H2. The current account deficit is set to reach around 3½ percent of GDP in 2024, and to converge to 3 percent of GDP in the medium term.

11. External risks continue to be significant, while domestic risks have largely subsided (Annex II). The main external risk is the uncertainty around the potentially higher-for-longer interest rate environment in the U.S., which could raise Chile's borrowing costs, reduce capital inflows, and increase financial market volatility. Other external risks comprise the slowdown in China and other key trading partners and the intensification of regional conflicts in the world, both of which could lead to lower commodity export (such as copper and lithium) prices and/or higher oil prices. As regards domestic risks, political polarization and fragmentation could lead to continued reform gridlock. Moreover, social discontent over inequality and the security situation remains prevalent. Uncertainty related to the solvency of private health insurance companies is also a concern. On the upside, as the world transitions to greener technologies, the expected increase in the global demand for copper, lithium, and renewable energy represents new economic opportunities, given Chile's rich endowment in these resources.

12. Chile has the policy space to respond to adverse shocks. The exchange rate should continue to play its role as a shock absorber, including in response to changes in the interest rate differential with the U.S. In case of an abrupt global slowdown, monetary policy could loosen faster within the inflation-targeting framework. The existing fiscal space could be temporarily utilized, both through automatic stabilizers and discretionary targeted reliefs. Domestic reforms anchored on broad political support should be advanced to tackle social demands and reduce the likelihood of social discontent and polarization.

Authorities' Views

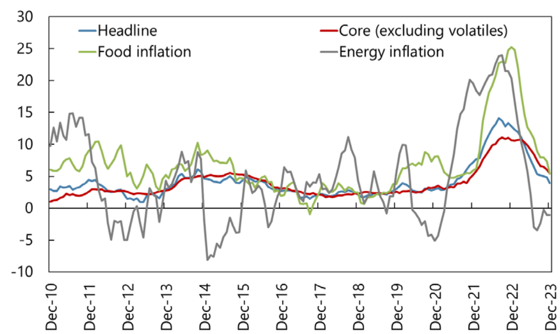
13. The authorities broadly shared staff's outlook and risk assessment. The BCCh's growth outlook for 2024 (1¼-2¼ percent) is similar to staff's projections, while the Ministry of Finance predicts somewhat higher growth (2.5 percent) this year based on a broader recovery of domestic demand. On inflation, the BCCh agreed that inflation should return to its 3 percent target in 2024, remaining cautious of risks arising from fluctuations in oil prices and the exchange rate. The authorities stressed that the main uncertainties to the growth and inflation outlook are economic developments and associated interest rate movements in the U.S.

POLICY DISCUSSIONS

A. Bringing Inflation Back to Target

14. While monetary easing should continue as inflation pressure subdues, real rates will likely need to remain above neutral levels to bring inflation back to target. The reduction of the monetary policy rate (MPR) in 2023 by 300 basis points was consistent with the inflation-targeting framework. Significant external fluctuations and uncertainties complicated monetary policy given their expected impact on Chile's inflation outlook. The pace of future easing should continue to be data-dependent. Considering the still-high core inflation and the passthrough of CLP depreciation since July, a contractionary monetary policy stance is still needed in the near term. Moreover, high interest rates in advanced economies would imply an upward shift in Chile's neutral rate.[5] The pace of policy easing could be faster, however, if projected disinflation accelerates as a result of, for example, further intensification of labor market slack, persistently lower oil prices, or a strong exchange rate appreciation.

Chile: Inflation
(In percent, yoy)



Sources: INE, Haver, and IMF staff calculations.

15. Rebuilding foreign reserve buffers is important to enhance resilience. Gross international reserves stood at 86.2 percent of the Fund's reserve adequacy (ARA) metric at end-December 2023, below recommended thresholds. However, there are several mitigating factors (Annex III). In particular, the government's usable liquid FX assets amounted to US$6.2 billion as of November (equivalent to an improvement in reserve coverage of up to 11.5 percentage points). While the flexible exchange rate plays its role as a shock absorber, international reserves can provide a shield against disorderly market conditions. Resuming the BCCh's suspended reserve accumulation program, when market conditions are conducive, would importantly strengthen its external buffers. In addition, consideration should be given to how the BCCh's international reserve strategy can adjust to new risks, including from rising external exposures as Chile's open economy and financial markets continue to integrate globally, with a view to ensuring long-term adequacy of reserve buffers.

Authorities' Views

16. The BCCh stressed that the future monetary policy easing path will depend on macroeconomic developments, including external factors. They agreed that in the current context, further policy rate cuts are likely, but the real rates will probably remain above neutral levels

[5] Indeed, the BCCh recently moved up its estimate of the neutral rate to 0.6-1.5 percent (BCCh 2023) from 0.5-1.1 percent in 2022 (BCCh 2022).

in the immediate future. The BCCh also emphasized that the monetary policy stance should consider the impact that escalating tensions in global financial markets could have on monetary policy transmission and ultimately inflation.

17. The BCCh remains strongly committed to the flexible exchange rate. It views the exchange rate flexibility as a critical shock absorber. It reaffirmed the intention to resume the reserve accumulation to replenish buffers when market conditions are conducive and develop a flexible strategy that updates reserve adequacy and the process to maintain it over time. The BCCh intends to treat the FCL as precautionary.

B. Creating Room for New Spending Needs While Preserving Fiscal Sustainability

18. While Chile has some fiscal space to support economic reactivation and social needs, frontloading a bit more the deficit reduction would facilitate meeting its medium-term fiscal target. The 2024 budget foresees a headline deficit of 1.9 percent of GDP, while staff projects a slightly higher deficit of 2.1 percent of GDP due to more conservative revenue projections.[6] Real spending is expected to grow in 2024 by about 3.5 percent with a focus on health care, housing, education, and security, and to be partly financed by higher revenues from the new mining royalty. To achieve the authorities' medium-term fiscal plan of a broadly balanced fiscal position by 2026, a fiscal deficit reduction of about 1½ percentage points of GDP in 2025–26 is needed. While the authorities have a track record of meeting targets, the medium-term plan could imply significant spending restraint in outer years unless there is political support for new tax measures or the government redirects part of the expected new revenue mobilization, primarily from better tax compliance and growth policies (Box 1), to deficit reduction

Chile: Authorities' and Staff's Fiscal Projections
(Percent of GDP)

	2024	2025	2026	2027	2028
Authorities (compatible with structural fiscal target path)					
Headline fiscal balance	-1.9	-1.2	-0.4	-0.2	-0.1
Total revenues	24.0	24.6	24.7	24.4	24.4
Non-mining tax revenues	18.7	19.2	19.4	19.0	19.1
Mining tax revenues	1.0	1.3	1.2	1.3	1.3
Total expenditures	25.9	25.8	25.1	24.6	24.5
Real spending growth	3.7	1.7	-0.2	0.3	1.5
Staff					
Headline fiscal balance	-2.1	-1.4	-0.5	-0.3	-0.2
Total revenues	23.8	24.0	24.0	24.0	24.0
Non-mining tax revenues	18.3	18.5	18.5	18.5	18.5
Mining tax revenues	1.0	1.3	1.3	1.3	1.3
Total expenditures	25.9	25.4	24.5	24.3	24.2
Unspecified measures	0.0	-0.5	-1.6	-1.8	-1.9
Real spending growth	3.7	1.2	-1.1	1.7	2.0

Sources: Informe de Finanzas Publicas October 2023, and IMF staff estimations.

[6] The increase in non-mining taxes in 2024 relative to 2023 (in the authorities' and staff projections) is driven by the economic recovery, elimination of the 100 percent instantaneous depreciation introduced during COVID (about 0.5 percent of GDP), and removal of tax exemptions introduced to finance the PGU (about 0.1 percent of GDP).

rather than to finance new spending plans.[7] In this context, a somewhat more front-loaded deficit reduction and smoother spending profile would provide greater flexibility to react to new shocks.

Box 1. Pact for Economic Growth, Social Progress and Fiscal Responsibility
("Fiscal Pact")

The government is committed to condition permanent spending measures on structural revenue increases to preserve fiscal sustainability. The fiscal pact proposes to link priority spending on higher minimum guaranteed pensions, the health system, the national system of care and childcare, and security (totaling about 2.7 percent of GDP) to tax reforms as well as measures to boost growth and investment, modernize the state, and increase spending efficiency.

The key financing source for the fiscal pact are anti-tax evasion measures, other tax reforms, dividends from pro-growth measures, and higher spending efficiency. Efforts to enhance tax compliance and lower tax avoidance make up the bulk of the planned additional revenue (cumulatively 1.5 percent of GDP by 2028). While the pact also includes 28 pro-growth measures, an expert committee could only quantify the fiscal impact of a subset. They include the improvements in permit processes, a CIT rate cut from 27 to 25 percent combined with the introduction of a 2 percent development tax on profits which can be offset with spending on productivity-enhancing investments, the introduction of semi-instantaneous depreciation, and incentives for the lithium and green hydrogen industries. The expert committee estimates these pro-growth measures to potentially raise fiscal revenues by 0.5 percent of GDP by 2028. Moreover, an OECD report shows that the government could gain 0.1 percent of GDP by increasing spending efficiency, including by lowering operational costs. Should these measures be fully implemented and reap the envisaged extra revenues and savings, additional average financing needs of 0.6 percent of GDP would still remain in 2025-28, which the government aims to fill with a revised tax reform proposal, expected to be announced in March 2024.

Chile: Cumulative Yields from Measures Under the Fiscal Pact

(Percent of GDP)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Priority Spending Financing Need	1.3	1.7	2.3	2.4	2.6	2.6	2.7	2.7	2.7	2.7
Total Financing Available (A=B+C)	1.3	1.7	2.3	2.4	2.6	2.6	2.7	2.7	2.7	2.7
Fiscal Buffers under the Baseline (B) 1/	-0.01	-0.20	-0.20	-0.09	0.24	0.42	0.58	0.66	0.77	0.90
Financing from Fiscal Pact (C=D+E+F+G)	1.31	1.94	2.51	2.53	2.32	2.20	2.12	2.04	1.93	1.80
Remaining financing needed (D) (incl. tax reforms)	0.69	0.60	0.71	0.41	0.13	-0.23	-0.37	-0.51	-0.68	-0.86
Tax evasion measures (E)	0.75	1.13	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Spending efficiency (F)	0.04	0.07	0.11	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Growth dividends (G)	-0.17	0.14	0.19	0.49	0.55	0.80	0.86	0.92	0.98	1.04
Higher lithium production	0	0	0	0.26	0.27	0.28	0.29	0.30	0.31	0.32
Lower CIT tax rate	-0.14	-0.13	-0.12	-0.11	-0.10	-0.09	-0.08	-0.07	-0.06	-0.05
Semi-instantenous depreciation	-0.06	-0.06	-0.05	-0.05	-0.04	-0.04	-0.03	-0.03	-0.02	-0.02
Reduction in permit processes	0.04	0.33	0.36	0.39	0.43	0.46	0.50	0.53	0.57	0.60
Green hydrogen	0	0	0	0	0	0.18	0.18	0.18	0.18	0.18

Sources: Ministry of Finance, Report of the Expert Committee on Fiscal Space and Potential Growth from November 2023, 2023 OECD Report on Selective Spending Review in Chile, and IMF staff calculations.

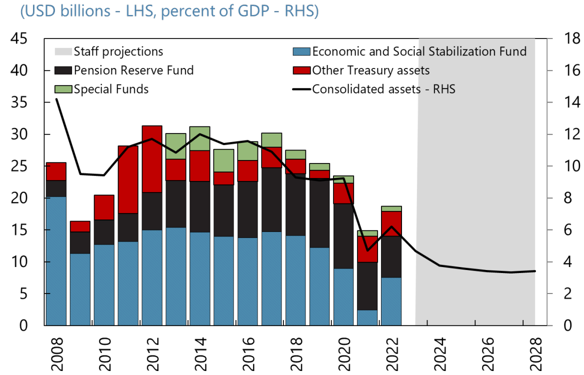
1/ Scenario B in the Report of the Expert Committee on Fiscal Space and Potential Growth from November 2023, which considers that some fiscal expenditures are adjusted by labor productivity increases.

[7] The fiscal pact is not included in the baseline.

19. Permanent spending measures should be conditioned on structural revenue performance to preserve fiscal sustainability. The proposed fiscal pact (Box 1) links higher social and security spending with revenue measures and pro-growth initiatives, but caution is warranted against relying too heavily on the expected yields from tax evasion measures until there is strong evidence that they can materialize. Moreover, to fill the remaining financing need in the fiscal pact, the government should consider lowering the (currently very high) exemption threshold for personal income tax (PIT) and increasing the tax rates for low- and middle-income tax brackets in a way compatible with higher progressivity.[8] In addition to the fiscal pact, the upcoming government proposal to adjust corrective taxes (including carbon taxes) could yield another 0.4 percent of GDP revenue.

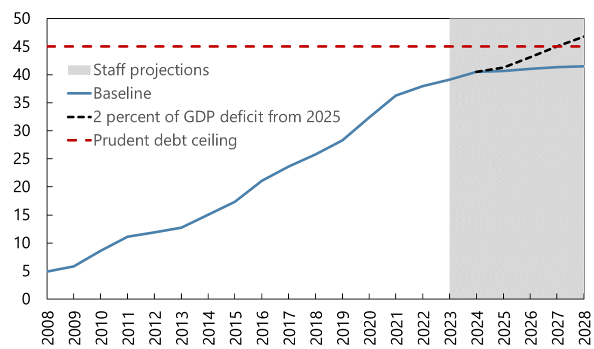
20. Chile's public debt is relatively low and assessed to be sustainable with high probability, but fiscal buffers have significantly diminished since 2008. Central government debt ratcheted up from 4 to 38 percent of GDP during 2008-22, while Treasury assets declined from 14 to 6 percent of GDP over the same period (text chart, see also paragraph 21). Under the baseline, central government debt is projected to remain below the authorities' prudent debt ceiling of 45 percent of GDP (Annex VIII). However, under broadly unchanged fiscal policies, i.e., a headline fiscal deficit of 2 percent of GDP and below-the-line operations of about 2 percent of GDP (as in the baseline), debt would continue to rise and could breach the prudent debt ceiling by 2027 (text chart).

Chile: Treasury Assets
(USD billions - LHS, percent of GDP - RHS)



Sources: Dipres and IMF staff calculations and projections.

Chile: Central Government Gross Debt
(Percent of GDP)



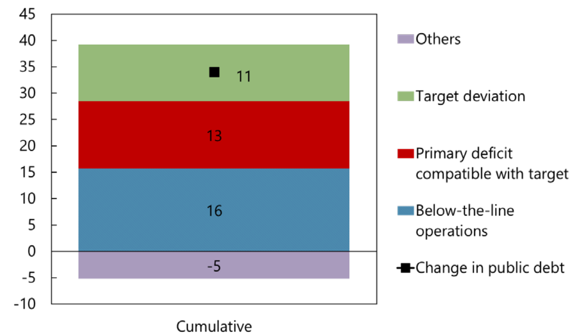
Sources: Ministry of Finance, and IMF staff calculations and projections.

21. Refinements to Chile's already very strong fiscal framework would enhance the resilience of fiscal policy. Overall, compliance with past fiscal targets was strong (10 out of 15 years between 2008–22) but debt increased significantly during that period (text chart), mainly due to large deviations during crisis periods but also due to below-the-line operations (e.g., capitalization of SOEs), relaxation of fiscal targets in the context of pressing social demands and declining copper revenues, and one-sided cyclical adjustments to output. Therefore, the adoption of a prudent debt ceiling in 2022, the introduction of annual fiscal targets along the medium-term path starting in 2024, and the proposed escape clause, under consideration in Congress, have importantly

[8] Currently 74 percent of the eligible population is below the PIT exemption threshold and 17 percent are subject to a 4-percent PIT rate. Only about 2 percent of the eligible population is subject to a PIT rate that is higher than 20 percent. A lower exemption threshold and a modest increase in the tax rates for low- and middle-income brackets can still lead to higher tax progressivity.

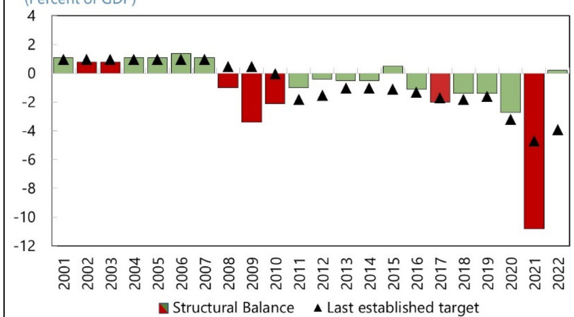
strengthened the fiscal framework (Box 2). The new simplified formula for determining structural lithium revenue is another welcome recent framework upgrade that could be refined over time, for example by including the contribution of lithium to general income taxes and reassessing the structural nature of lithium revenue as the industry evolves. Moreover, securing more resources for the influential Autonomous Fiscal Council (CFA) would allow the further broadening of its role, including to evaluate sub-national fiscal rules in the context of greater subnational fiscal powers.

Chile: Gross Debt Drivers, 2008-22
(Percent of GDP)



Sources: Chilean Ministry of Finance and IMF staff assumptions and calculations.

Chile: Ex-post Compliance with Fiscal Rule
(Percent of GDP)



Sources: Dipres, Valdivieso et al. (2022), and IMF staff calculations.
Footnote: Last established targets are taken from the budget for a specific year, which are published in the October IFP from the previous year. A green bar means compliance and a red non-compliance.

Finally, it will be important to link the planned gradual advancement in fiscal decentralization with accompanying initiatives to strengthen regional public investment management capacity, enforce control of governance risks, and enhance regional fiscal transparency and accountability.

Authorities' Views

22. The authorities emphasized their strong track record and resolute commitment to the medium-term fiscal consolidation plan. They argued that the fiscal adjustment is evenly distributed based on their estimate of the structural fiscal balance and that the recent setting of annual fiscal targets will ensure that the adjustment will not be backloaded. They agreed that permanent spending measures should be conditioned on structural revenue performance to preserve fiscal sustainability. They underscored their commitment to reach a political agreement to approve the fiscal pact and were encouraged by the approval of the mining royalty in 2023.

C. Strengthening Financial Sector Resilience

23. The authorities are closely monitoring and proactively responding to financial vulnerabilities. Although banks have accumulated capital and provisions to prepare for future increases in credit costs, banks' ability to support economic activity could weaken if loan quality further deteriorates in vulnerable sectors, in particular construction and real estate. The sector, representing 30 percent of banks' commercial loans and a relatively large exposure for insurance companies, is currently undergoing an adjustment process (Figure 6).[9] In this context, the

[9] In the residential real estate sector, home sales have declined, house prices have been stagnant, and concerns about excess supply of new houses persist. In the commercial real estate sector, office vacancy rates have increased since the pandemic while there are recent signs of leveling out.

0.5 percentage point increase in the countercyclical capital buffer (CCyB) to take effect in May 2024 serves as a precautionary measure. Going forward, calibrating the neutral level swiftly is important to provide banks with planning certainty. Moreover, continued monitoring of banks' preparedness for unwinding the extraordinary pandemic liquidity measures (FCIC) is warranted,[10] particularly in the context of lower liquidity in local capital markets after the pension withdrawals during the pandemic (Figure 5).

Box 2. Selected Recent Enhancements to Chile's Fiscal Framework, 2019-23

Fiscal Rule

- **Introduction of a *dual* fiscal target (2022).** The adoption of a prudent debt ceiling alongside a structural fiscal balance path links the annual budget operations to debt sustainability and considers the impact of below-the-line operations.
- **Setting of *annual* structural fiscal targets (2023).** The setting of annual structural fiscal targets will increase the transparency and accountability of the fiscal rule and ensure that fiscal consolidation is not postponed to the last years of an administration.
- **Introduction of an escape clause (under consideration by Congress since 2022).** The proposal to adopt escape clauses from 2026 would provide transparent flexibility for target deviations in exceptional circumstances and a mechanism for corrective actions.
- **Introduction of a lithium cyclical adjustment (2023).** The lithium cyclical adjustment ensures that transitory revenue windfalls from lithium rental contracts are saved. The cyclical adjustment does, however, not consider the contribution of lithium to general income taxes.
- **The use of a multivariate filter to estimate output gaps (2023).** This approach aims to enhance the accuracy of output gap estimations by using a broader set of information, addressing the limitations and biases of simpler versions. Earlier methods consistently estimated *negative* output gaps, which permitted for higher spending ceteris paribus.

Fiscal Transparency and Risk Management

- **The creation of an Autonomous Fiscal Council (2019).** The CFA has played a decisive role in ensuring the accountability of Chile's fiscal framework since its creation, as well as providing recommendations that have led to methodological changes.
- **Publication of Quarterly Public Finance Reports (2019).** The quarterly IFPs update 5-year fiscal projections, explain methodological changes, and cover relevant topics, increasing the transparency of fiscal policy.
- **Risk analysis of fiscal forecasts (2021).** The authorities, following the 2021 IMF Transparency Evaluation, started to analyze the sensitivity of fiscal forecasts by publishing downside and upside scenarios. Incorporating additional recommendations, such as the quantitative assessment of other macro risks (e.g., natural disasters) and integrating asset-liability management, could further enhance transparency and risk management.

[10] As the FCIC will expire in March and July 2024 (corresponding to 5 and 3 percent of total bank liabilities, respectively), the BCCh rolled out a collateral substitution program from November 2022. It allows banks to replace illiquid loan collateral by high-quality liquid assets. In September 2023, the BCCh also announced the issuance of liquidity deposits to facilitate repayment.

24. Completing the remarkable progress in implementing the 2021 FSAP recommendations is important to enhance resilience (Annex IX). The Financial Market Commission (CMF) and the BCCh have been smoothly implementing the Basel III framework. The Financial Market Resilience Law approved in October 2023 would facilitate the development of the interbank repo market, enhance the BCCh's ability to respond to financial distress situations, and strengthen the mutual fund liquidity management framework. Moreover, the authorities are drafting a new bill on bank resolution and deposit insurance, building on the white paper published in January 2023, and have also issued a policy paper on the new consolidated supervision of financial conglomerates. The 2021 Mutual Evaluation Report notes that Chile has made significant efforts in the identification and assessment of money laundering and terrorism financing risks. In line with past Fund advice, the implementation of the updated AML/CFT regulations for banks, cooperatives, and payment card issuers as well as the proposed new AML/CFT framework for insurance companies will enhance AML/CFT risk-based supervision of banks and virtual assets service providers and strengthen compliance through upgraded preventive measures (e.g., customer due diligence and beneficial ownership).

25. Financial regulation and supervision should continue to keep pace with the digitalization of the financial sector while embracing its benefits. The Fintech Law aims at promoting innovation in financial services as well as enhancing financial inclusion (see Selected Issues Paper) and financial integrity. At the same time, the authorities should actively assess and mitigate risks from cyberattacks, in particular by continuing to prioritize the recruitment of cybersecurity experts and adopting new supervisory exercises, for example bottom-up cybersecurity stress tests and creating cyber maps of financial networks and third-party dependencies (see Selected Issues Paper). Moreover, following the publication of its first evaluation report in May 2022, the BCCh's thorough exploration of the benefits and costs of a retail Central Bank Digital Currency (CBDC) is welcome.

Authorities' Views

26. The authorities find the financial system to remain resilient and underscored their proactiveness in adopting FSAP recommendations and keeping up with digitalization. The BCCh's latest stress tests show that the banking sector can withstand a range of shocks. The authorities concurred that the vulnerabilities in some sectors should be monitored closely. They reaffirmed their plans to offer more detailed communication regarding the neutral CCyB level following progress on their ongoing internal analysis. The authorities appreciated the Fund's technical assistance in support of their efforts to strengthen the regulatory and supervisory framework and reiterated their commitment to implement the FSAP recommendations, in particular Basel III implementation, a new bank resolution and deposit insurance scheme, and consolidated supervision of financial conglomerates. They also underscored their dedication to implement the Fintech and Market Resilience Laws as well as to strengthen the financial sector's preparedness for cybersecurity risks. As regards digital payments, the BCCh is working on a comprehensive agenda and plans to publish a follow-up CBDC report in 2024.

D. Policies for a More Dynamic, Inclusive, and Greener Economy

27. The authorities continue advancing structural reforms to achieve a more dynamic, inclusive, and greener economy. Chile continues to face timid potential growth (text table) and gaps in social equality. The authorities' strategy to boost growth includes removing obstacles to investment and developing green industries, such as lithium and green hydrogen. Chile has also been active in negotiating multilateral and bilateral trade agreements (e.g., the Comprehensive and Progressive Agreement for Trans-Pacific Partnership starting February 2023). Continuing its proactive engagement to facilitate free trade, guided by WTO rules, will provide further benefits for Chile and global trade partners, in particular given Chile's rich endowment with critical minerals and green energy. More can also be done to lift labor productivity by expanding access to high-quality education and workforce training while also addressing labor market informality. For more inclusiveness, the authorities have already substantially increased basic pensions and minimum wages and intend to further increase social spending (see ¶18) and reform the pension system.

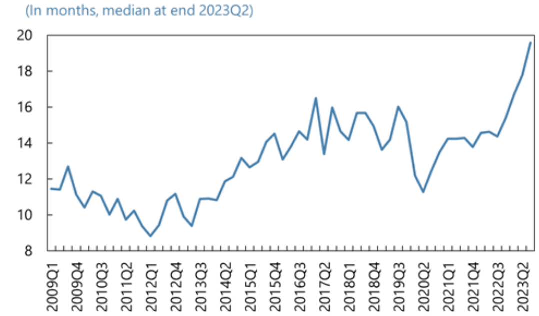
Selected Economies: Growth Rate of Real GDP Per Capita
(In percent)

	Chile	Countries with Similar Income Level 1/	U.S.	Income Per Capita Relative to U.S., PPP Adjusted	Memo item: Chile TFP Growth
1981-1989	1.6 2/	2.3	2.5	0.21	-0.7
1990-1999	4.8	1.4	2.1	0.25	1.2
2000-2009	2.9	3.5	0.9	0.28	-0.3
2010-2019	2.1	2.0	1.6	0.40	-0.5
2010-2014	3.6	2.5	1.3	0.41	-0.3
2015-2019	0.7	1.6	1.8	0.38	-0.7

Sources: Penn World Table 10.01 and IMF staff calculations.
1/ Countries with similar income per capita relative to the U.S. (PPP adjusted) in the range of 0.2 to 0.5. During the period of 2015-19, 52 countries in the sample fell into this group.
2/ The low growth in the 1980s is mainly attributed to the recession in 1982 when real GDP declined by about 14 percent.

28. Tackling the long business permitting processes is critical to accelerate investment. There is a broad consensus that investment approvals have become more complicated, uncertain, and lengthier over the years (text chart), largely reflecting more complex safeguards for the environment, health, national security, and social concerns. The government has identified a set of "bottleneck" permit requirements and is working toward streamlining the permit system with a view to creating a risk-based profile of applications that will reduce the processing time and provide greater certainty about evaluation criteria through legislative and regulatory changes.

Chile: Investment Approval Times
(In months, median at end 2023Q2)



Sources: Chilean Construction Chamber based on the Environmental Impact Assessment System and Fund Staff calculations.

29. Increased global demand for lithium provides a growth opportunity for the economy if supported by a clear and balanced institutional framework. Chile is the second-largest lithium producer in the world, but its lithium industry has only a few market players, and production concentrates on extraction of raw minerals with limited spillover to downstream industries. The authorities announced a National Lithium Strategy in April 2023 that includes greater state participation in the industry with a view to reaching the government's objectives of environmentally and socially sustainably increasing production, facilitating research and technological development, raising fiscal revenue, and developing related industries along the value chain[11] (Annex V). The recently agreed Memorandum of Understanding with the largest lithium producer in Chile foresees the creation of a public-private partnership with 50 percent plus one share state-ownership and an increase in lithium production. Staff's analysis shows that Chile's current fiscal regime on lithium, comprising corporate income tax, dividend tax, and contractual payments, has served the country well in terms of revenue. An institutional framework that balances the state's strategic objectives and private investors' interests and that can be swiftly implemented as global demand ramps up will be an important factor to develop the industry.

Chile: The Role of Lithium and Copper in the Economy
(In percent)

	2020	2021	2022
Copper			
Exports as share in total goods exports	52.0	55.7	45.3
Exports as share in GDP	15.1	16.7	14.8
Fiscal revenue to GDP	1.2	3.0	2.3
Lithium			
Exports as share in total goods exports	0.8	1.3	8.2
Exports as share in GDP	0.2	0.4	2.7
Fiscal revenue to GDP (rental income)	0.0	0.0	1.0
Mining and quarrying			
Employment share	2.6	2.7	3.1

Sources: Haver, Chilean Ministry of Finance and IMF staff calculations.

30. Chile's endowment in solar and wind gives it a comparative advantage in renewable energy production. Costs of electricity generation are lower for solar and wind than fossil fuels thanks to the high solar radiation in the north and strong winds in the south. Electricity generated from solar, and wind has increased from 1 to 20 percent of total electricity supply during 2010–21 (text table). The authorities are committed to decommissioning coal-fired power plants by 2040 and achieving carbon neutrality by 2050. Staff estimates suggest that replacing coal with renewable energy could lift the GDP level by at least 1 percentage point over the long term as it would imply a nearly 30 percent positive productivity shock in electricity generation, besides the benefits of less carbon emission and air pollution. It would also significantly strengthen the economy's resilience against coal and fuel price shocks. Development of the green hydrogen industry could offer additional growth prospects conditional on technological progress. The main bottleneck for greater use of renewable energy is the geographic mismatch between power generation and consumption, which could be resolved by upgrading the transmission network. Staff analysis suggests that state support for electricity transmission could create aggregate net economic benefits (see Selected Issue Paper).

[11] Policies that foster the development of lithium's downstream industries already existed before the rollout of the National Lithium Strategy. For example, the state's contracts with mining companies (SQM and Albemarle) reserve a limited portion of lithium production for sale to downstream companies that establish operations in Chile. Two foreign battery producers have been awarded part of the reserved portion of lithium and are expected to start their production of battery materials in Chile in 2025.

Chile: Share of Electricity Supply by Energy Source (In percent)							
	Coal	Oil	Natural Gas	Biofuels	Hydro	Wind	Solar PV
2005	14	6	26	3	50	0	0
2010	28	14	18	4	36	1	0
2015	37	4	15	7	32	3	2
2020	31	2	18	6	26	7	9
2021	30	5	18	7	19	8	12

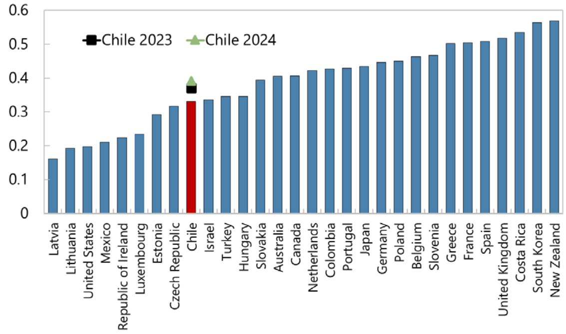
Sources: IEA and IMF staff calculations.

31. Staff welcomes the ongoing expansion of the carbon tax base. Chile is the first Latin American country to implement a carbon tax (US$5 per ton of CO_2) in 2017, mainly applied to the power sector. This tax will be expanded in 2024 to additional sectors, such as cement and glass manufacturing. Staff simulations suggest that an increase in the carbon tax to US$60 and its extension to more sectors (e.g., transportation), coupled with complementary measures, will be needed to reach Nationally Determined Contributions goals. Chile is also a global leader in ESG bonds, with one-third of its debt labeled ESG and having pioneered many international transactions, such as the first worldwide sovereign issuance of a sustainability-linked bond linked to the fulfillment of greenhouse gas emission and corporate board gender quota targets.

32. Policy efforts to address income and gender inequality as well as labor market formalization should continue. Household subsidies almost doubled in real terms during 2017-22, but the planned consolidation of the fragmented social programs and the creation of a one-stop window are needed to increase efficacy and facilitate access. Moreover, social programs could focus more on families with children, which currently observe higher poverty rates (see Annex VII). The real minimum wage surge since 2019 was from a low base and the new level is not out of line with other countries.[12] Going forward however, caution is warranted against excessive reliance on increases in real minimum wages (text chart), beyond current plans, as they could have unintended adverse consequences on formal employment that could partially offset the gains for low-wage earners. Consideration should be given to adopting a minimum wage setting mechanism that is delinked from the government cycle, or conditioning minimum wage announcements, for example, on the unemployment rate. Fostering more inclusive growth and lowering income gaps also requires continued progress in raising the still low female labor force participation rate (text chart), including by ensuring sufficient childcare and flexible work arrangements, as well as lifting labor productivity by expanding access to high-quality education and workforce training that also keeps pace with new digital requirements.

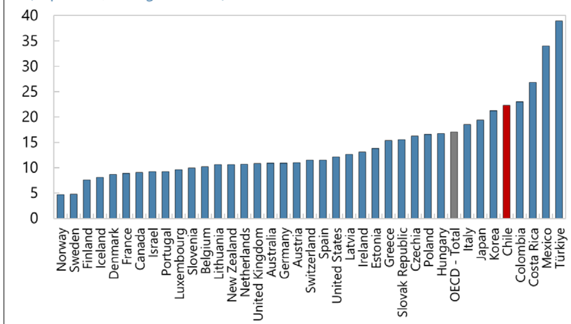
[12] The real minimum wage increased by about 15 percent from early 2019 to end-2023 and another 8.7 percent nominal rise was announced until July 2024. Minimum wages are determined by the government, often at the start of the new executive's cycle.

Chile: Nominal Minimum Wage Divided by GDP Per Capita
(2022)



Sources: OECD and IMF staff calculations.

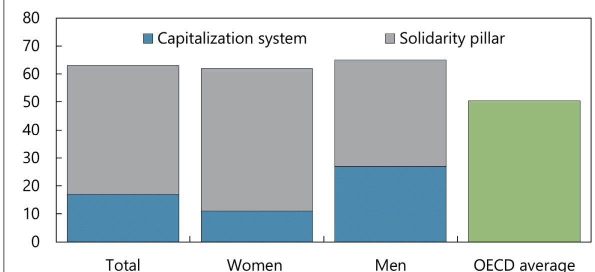
OECD Countries: Gender Gap in Labor Force Participation
(In percent, average 2015-19)



Sources: OECD and IMF staff calculations.

33. Increasing contribution rates remains critical to ensure adequate self-financed pensions and reduce fiscal costs. Chile's full-capitalization pension system has low replacement rates due to a combination of low contribution rates and density, declining returns, and rising life expectancy. The situation aggravated with the pension withdrawals over 2020–21. The government's proposed hike in the contribution rate by 6 percentage points would be essential for lifting replacement rates of the contributory system, but political disagreement on what share to be assigned to the solidarity pension has stalled a pension reform for over a decade. To address old-age poverty risks, the coverage and amount of solidarity pensions were increased with the introduction of the minimum pension (PGU) in 2022, which lifted the average 19 percent gross pension replacement rate of the capitalization system to above 60 percent (compared to an OECD average of about 50 percent) and largely closed the pension gender gap (text chart). However, since the PGU represents a sizable net fiscal cost and costs with solidarity pensions could double to 4 percent of GDP between 2023 and 2050 due to population aging, sustainable increases in financing and/or adjustments to the PGU going forward are needed (Annex VII).[13]

Chile: Gross Pension Replacement Rates, 2022
(In percent)



Sources: Superintendencia de Pensiones, OECD, and IMF staff calculations. Chilean data are the median replacement rate of pensioners during 2015-22, alive in 2022, estimated by the Superintendencia de Pensiones, while OECD data use a representative individual. OECD average is for male and female average wages.

34. A swift resolution of the private health insurers' (Isapres) crisis would provide stability for the health system and clarity for potential fiscal costs. Chile's Supreme Court ruled in November 2022 that Isapres should return discriminatory excess charges to patients, but there is uncertainty regarding the amount of the debt due and implementation of the ruling has been postponed several times. The ruling threatens the solvency of many Isapres, which in turn could strain the operations of health-care providers and the public health system (Fonasa), as the latter has

[13] This projection, broadly shared by staff and the authorities, assumes that solidarity pensions increase in real terms in line with real GDP growth. Assuming that the real value of solidarity pensions stays constant, as per current law, the authorities estimate fiscal costs to increase instead to 3.0 percent of GDP by 2052.

experienced a massive migration of affiliates over the last year. The absorption of new members by the public health system and the government's plans for reducing waiting times are likely to increase fiscal costs, which could require an increase in the health contribution rates, especially considering that health costs are expected to increase over the long term due to aging (Annex VIII).

Authorities' Views

35. The authorities see structural reforms as priorities in their agenda to foster growth and inclusion. They expect that streamlining the permitting process, along with other measures in the fiscal pact, could yield a material growth dividend and additional fiscal revenues to be used for higher social spending. The authorities underscored that the National Lithium Strategy should help lifting and diversifying growth while preserving environmental and social goals. Moreover, they concurred on the potential of the renewable energy sector and the importance of electricity transmission. They suggested that the timeline for raising the carbon price should be aligned with the development and broad availability of renewable energy options. They stressed the importance of approving a pension reform to improve the replacement rates of the contributory pension system and foster solidarity, while sharing the view that the PGU costs are likely to increase due to population aging. The authorities acknowledged the importance of addressing the private health insurance crisis to ensure the uninterrupted delivery of health services to the public. The authorities also clarified that beyond the scheduled July 2024 increase, no further real minimum wage hikes are planned in the remainder of their administration. Improving gender equality is a key element of the government's agenda, and the authorities stressed the importance of raising female labor participation and their goal to achieve, by 2031, 40 percent female representation on the boards of directors at companies supervised by the CMF.

STAFF APPRAISAL

36. Chile's economy is approaching the end of its adjustment cycle towards trend growth and targeted inflation. The macroeconomic imbalances built during the pandemic have been largely resolved, and real GDP growth is expected to pick up in 2024, led by private consumption and mining exports. Inflation has come down significantly and is expected to return to the 3 percent target in 2024. The current account deficit narrowed in 2023, and the external position is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies. Achieving a broadly balanced structural fiscal position alongside exchange rate flexibility should support the required external rebalancing over the medium term.

37. Risks to the economy remain elevated, but very strong fundamentals and institutional frameworks should support Chile's resilience. The Chilean economy remains exposed to elevated external risks tied to tighter global financial conditions and a possible abrupt global slowdown, which could lead to volatile capital inflows and commodity export prices. However, Chile's very strong fundamentals, including a relatively low public debt ratio, a sustainable external position, a well-capitalized financial sector, anchored by the inflation-targeting monetary policy framework, a flexible exchange rate, effective financial regulation and supervision, and the fiscal rule will support its resilience to these risks. The conclusion of the constitutional referendum will further reduce domestic uncertainty.

38. **Increasing long-term growth is a priority, in conjunction with goals for more inclusion and equity, as the global green transition provides new opportunities for Chile's economy.** Strengthening investment is critical and the government's ongoing efforts to streamline permitting processes could bring meaningful growth dividends. Higher global demand for lithium offers prospects to expand lithium production—while balancing social and environmental objectives—and related industries along the value chain. Providing a clear institutional framework that balances the state's strategic objectives and private investors' interests will be an important factor to develop the industry. Moreover, Chile's endowment in solar and wind gives it a comparative advantage in renewable energy production. Continued efforts to address the geographic mismatch between power generation and consumption, such as by improving the transmission network, are critical to reap the payoffs.

39. **Monetary policy is on track to bring inflation back to the 3 percent target.** Inflation rates have fallen substantially since late 2022 in the context of tight policy, and inflation expectations are well anchored. The pace of further monetary easing should continue to be data-dependent. In the current context, real rates will likely need to remain above the estimated neutral levels in the near term, considering the still high core inflation and higher global interest rates.

40. **Rebuilding international reserve buffers is important to enhance resilience to external shocks.** While the flexible exchange rate plays its role as a shock absorber, international reserves can provide a shield against potential risks in a shock-prone global economy that could result in disorderly market conditions. Therefore, resuming international reserve accumulation, when market conditions are conducive, and developing a longer-term reserve strategy would importantly strengthen external buffers.

41. **Fiscal policy needs to create room for new spending needs while preserving sustainability.** The proposed 2024 budget is a welcome step toward lowering the deficit but implies significant spending restraint in outer years in the absence of political support for new tax measures or without partial redirection of the expected new revenue mobilization. A somewhat more front-loaded deficit reduction and smoother spending profile could facilitate meeting the government's medium-term fiscal target while providing greater flexibility to react to new shocks.

42. **Permanent spending measures should be conditioned on structural revenue performance to preserve fiscal sustainability.** The proposed fiscal pact can be an important contribution toward a more equitable and dynamic economy. Caution is warranted, however, against relying too heavily on expected yields of the envisaged measures against tax evasion until there is strong evidence that they can materialize. Additional revenue options could be considered, such as adjustments to corrective taxes (including carbon taxes) and personal income taxes.

43. **Refinements to Chile's already very strong fiscal framework would enhance the resilience of fiscal policy.** The adoption of a prudent debt ceiling in 2022, the introduction of

annual fiscal targets along the medium-term path starting in 2024, and the proposed escape clause, under consideration in Congress, have importantly strengthened the fiscal framework. The new simplified formula for determining structural lithium revenue is another welcome recent framework upgrade that could be refined over time. Moreover, securing more resources to the Autonomous Fiscal Council (CFA) would allow further broadening its role.

44. Social policy reforms to increase the inclusiveness of the economy are important. Although the higher minimum pension (PGU) has already greatly improved the replacement rates for lower-income pensioners, it comes at a significant fiscal cost which is likely to rise further with population aging. The proposed pension contribution hike would significantly improve the sustainability of the system. Meanwhile, despite the impressive rise in female labor participation rates in the past three decades, gender gaps in wages and employment rates remain significant. Ensuring sufficient childcare and more flexible work arrangements would help narrow the gender gap in labor market outcomes.

45. The financial system remains resilient, but vulnerabilities in some sectors persist. Banks' capital adequacy and liquidity ratios stand comfortably above regulatory requirements and profitability is around pre-pandemic levels. Vulnerabilities persist in the construction and real estate sectors, smaller firms with government-guaranteed loans, and low-income indebted households. These risks call for continued close monitoring as does banks' preparation for the unwinding of pandemic liquidity measures.

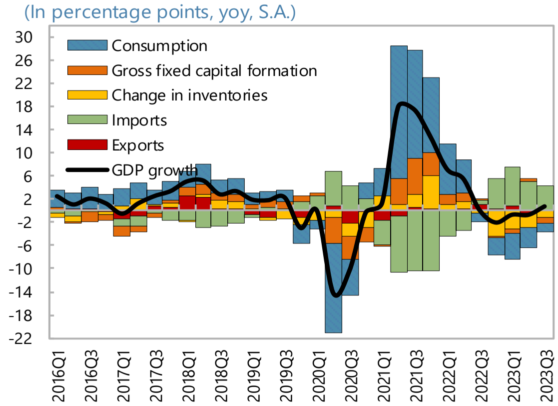
46. Financial regulation and supervision should continue to keep pace with the changing landscape. The ongoing implementation of Basel III capital and liquidity requirements and the activated countercyclical capital buffer (CCyB) will bolster the banking system against shocks. Swiftly calibrating the neutral level of the CCyB is important to provide banks with planning certainty. The authorities should also actively assess and mitigate risks from cyberattacks, strengthening capabilities and preparedness. Continued progress with implementing key 2021 FSAP recommendations would further enhance financial sector resilience.

47. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Chile: Economic Activity

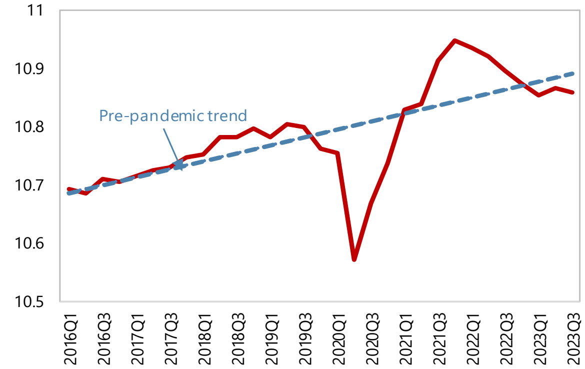
After three consecutive quarters of negative (y/y) growth, the economy has shown signs of stabilization.

Contributions to Real GDP Growth
(In percentage points, yoy, S.A.)



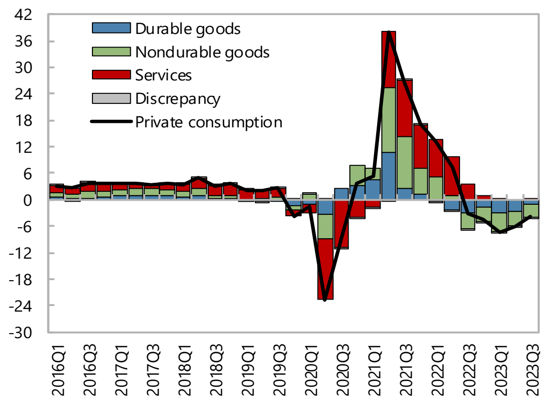
The level of private consumption and investment has come down significantly, closer to its historical trend.

Log Real Domestic Demand, S.A.



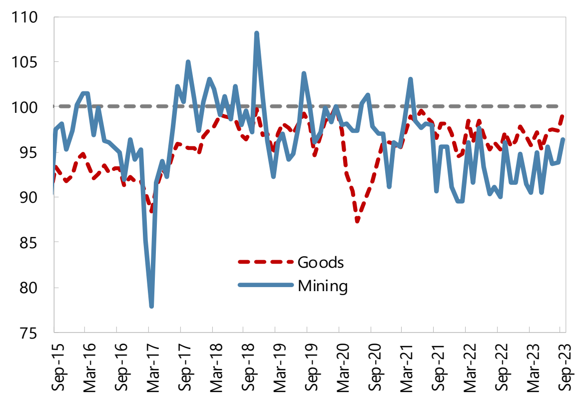
The adjustment of consumption has been more pronounced for goods sectors.

Contributions to Private Consumption Growth
(In percentage points, yoy, S.A.)



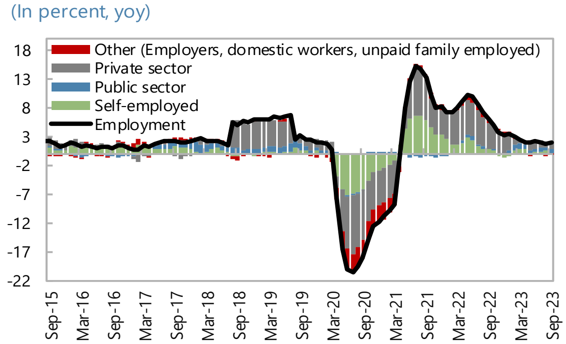
The mining sector continues to operate below its 2019 level, due to production capacity constraints.

Monthly Economic Activity Index (IMACEC) 1/
(February 2020=100, S.A.)



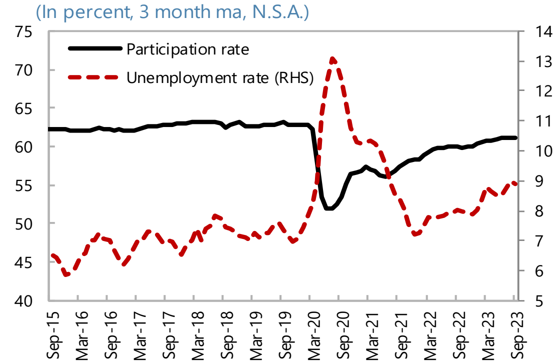
Employment growth has moderated...

Contributions to Employment Growth
(In percent, yoy)



... and the unemployment rate has edged up.

Labor Market
(In percent, 3 month ma, N.S.A.)

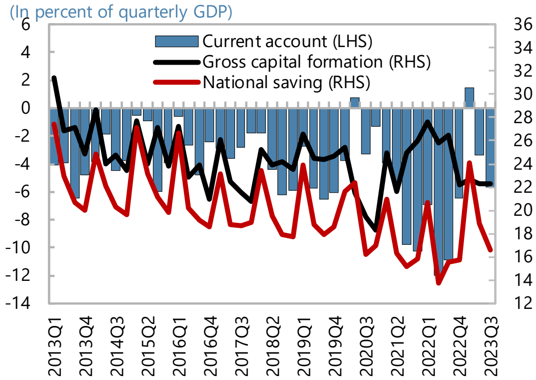


Sources: Central Bank of Chile, Ministry of Finance, INE, Haver Analytics, and IMF staff calculations.
1/ IMACEC is a monthly economic activity indicator compiled by BCCh that can be used as a proxy for real output levels.

Figure 2. Chile: External Sector

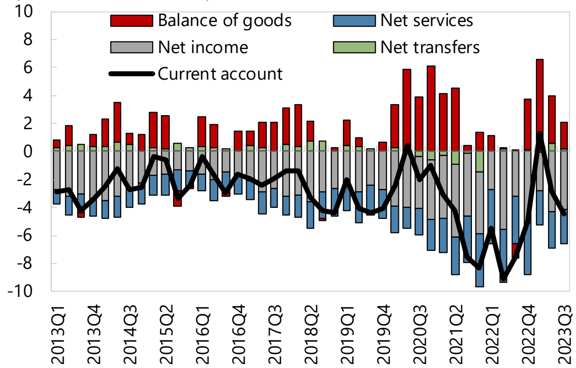
The current accout deficit narrowed in 2023...

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



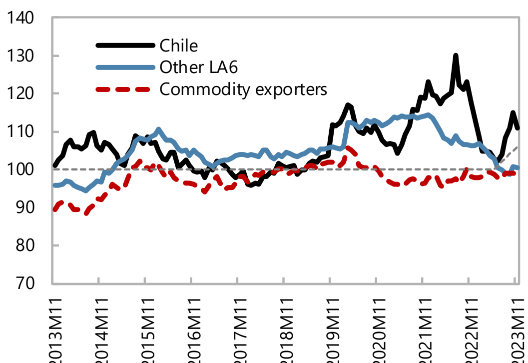
...largely owing to an increase in the balance of goods amid a broad-based import compression.

Current Account Decomposition
(In billions of U.S. dollars)



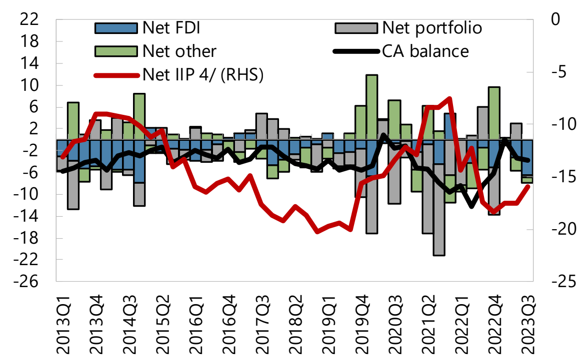
The REER's prolonged period of appreciation has reversed in 2023 amid a narrowing interest rate differential with the U.S. and global uncertainty.

Real Effective Exchange Rate 1/
(Index avg. 1996-2019=100)



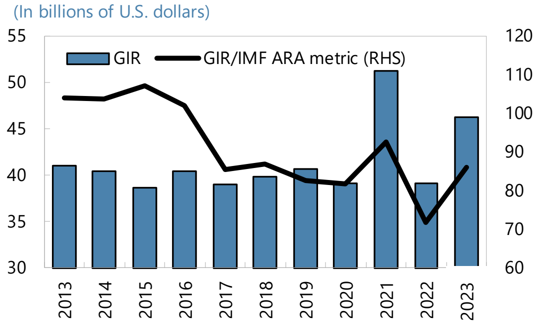
The net IIP has increased since end-2022, registering -15.9 percent of GDP in 2023Q3.

Balance of Payments and IIP 2/
(In percent of quarterly GDP)



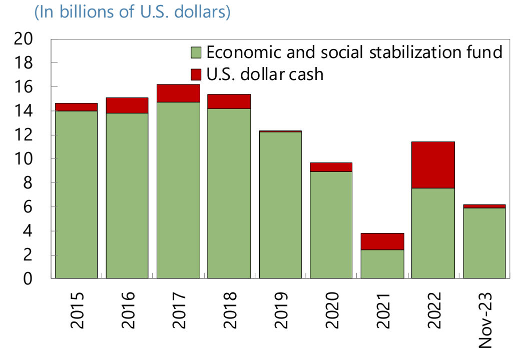
Gross international reserves increased in 2023..

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



...while additional FX buffers have declined but remain sizeable.

Government Liquid FX Assets
(In billions of U.S. dollars)

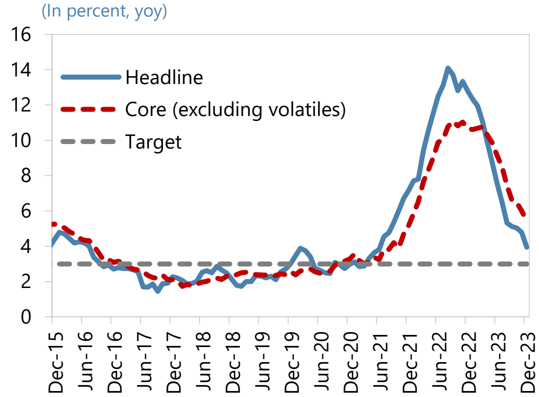


Sources: Central Bank of Chile, DIPRES, Haver Analytics, and IMF staff calculations.
1/ LA6 includes Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. Commodity exporters include Canada, New Zealand, and Australia.
2/ As percent of four-quarter rolling GDP.
3/ As percent of the IMF reserve adequacy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

Figure 3. Chile: Inflation and Monetary Policy

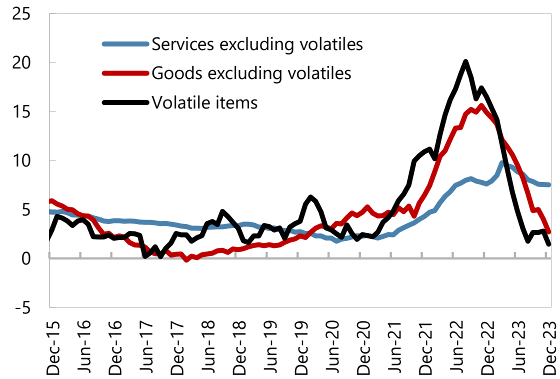
Inflation rates have been rapidly falling.

Headline and Core Inflation
(In percent, yoy)



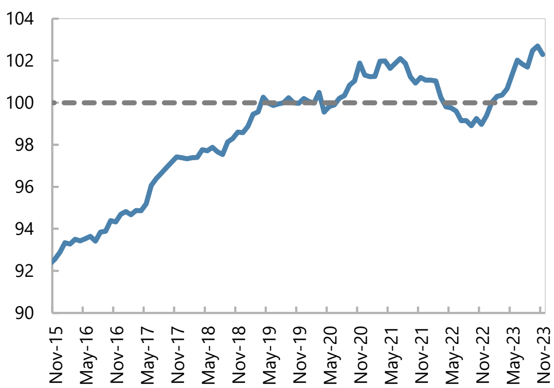
The disinflation has been more pronounced for volatile and goods items due to the lower import prices...

Inflation
(In percent, yoy - N.S.A., 2018=100)



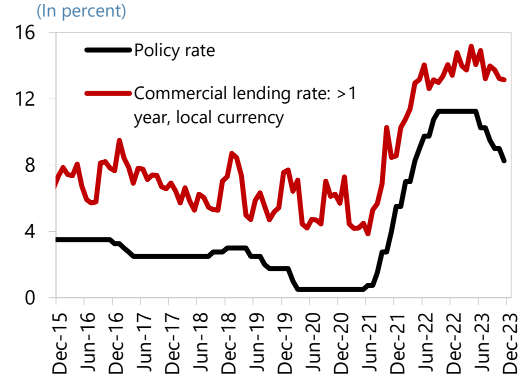
...while the disinflation for service items is slower, due to service price indexation and wage increases.

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



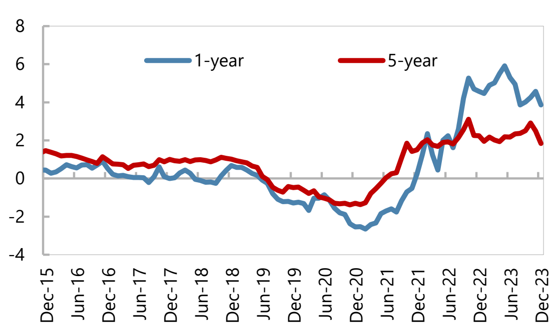
The BCCh has cut its policy rate, and banks' lending rates have started to fall.

Monetary Policy Rate
(In percent)



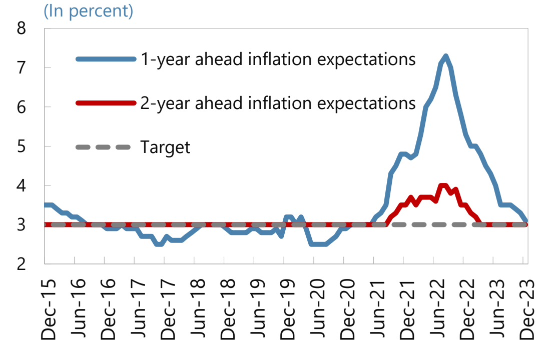
Monetary policy is still tight as measured by real interest rates.

Real Interbank Swap Lending Rate



Inflation expectations from surveys have been converging to BCCh's inflation target.

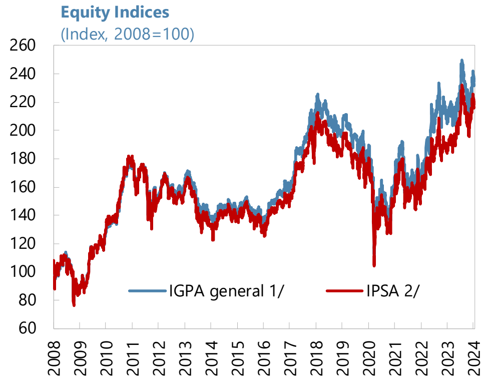
Inflation Expectations at 1 and 2 Years
(In percent)



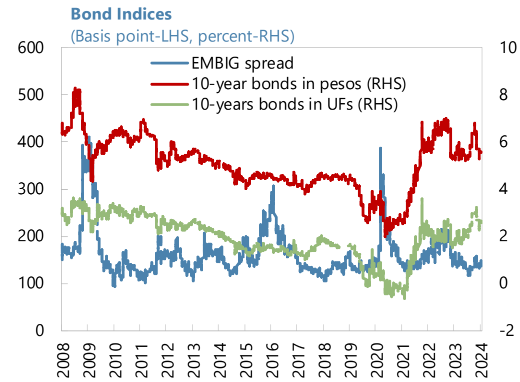
Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations.

Figure 4. Chile: Financial Markets

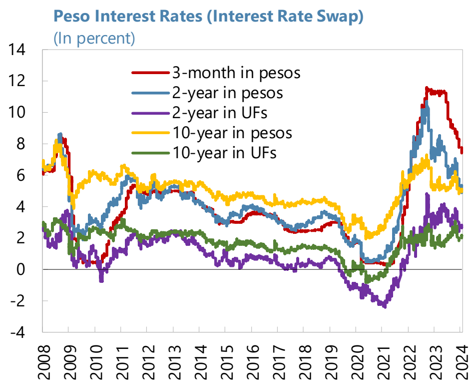
After strong performance in 2021-22, equity indices were volatile in 2023.



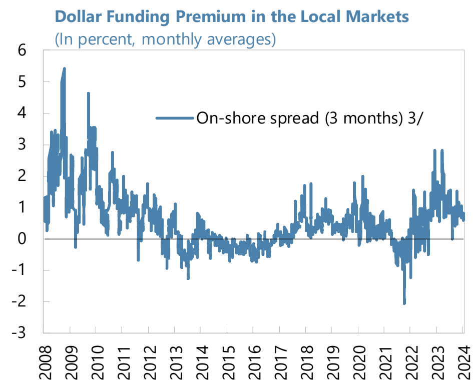
The surge of long-term rates during the summer of 2023 has reversed, and spreads are close to historical levels.



Short-term Peso funding costs have declined with recent interest rate cuts, while long-term costs are little changed.

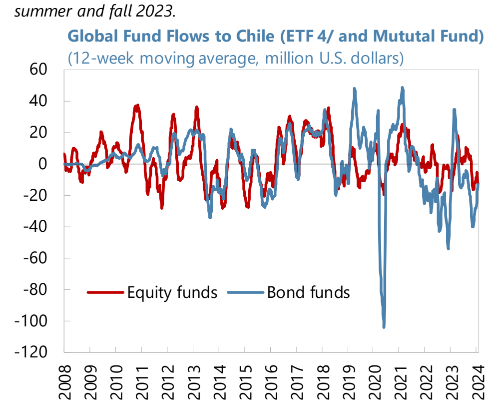


The dollar funding premium has declined in 2023.



The CLP depreciated by about 10 percent against the USD between July and end-December 2023.

Equity and bond funds experienced capital outflows during the summer and fall 2023.

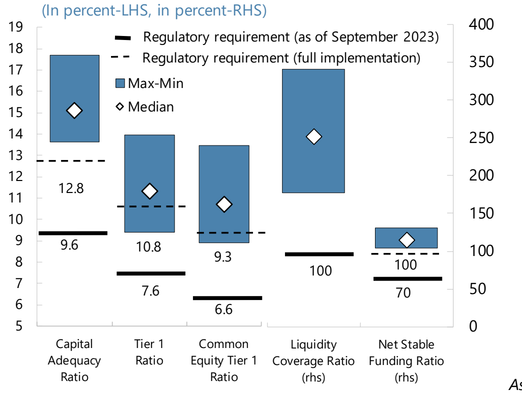


Sources: CEIC, Central Bank of Chile, EPFR Global, JP Morgan, S&P Global, and IMF staff calculations.
1/ The index measures the performance of Chile domiciled stocks listed on the Santiago Exchange that meet certain liquidity criteria and is designed to serve as a broad benchmark for the Chile equities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

Figure 5. Chile: Financial Sector

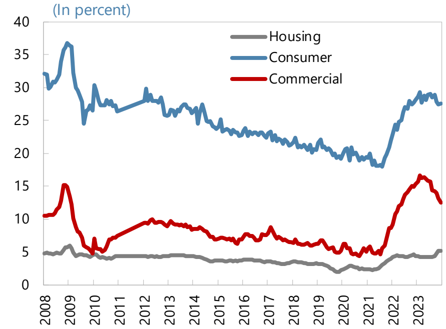
Major banks' capital ratios and liquidity ratios are comfortably above the current regulatory requirement.

Basel III Capital and Liquidity Ratios of D-SIBs 1/
(In percent-LHS, in percent-RHS)



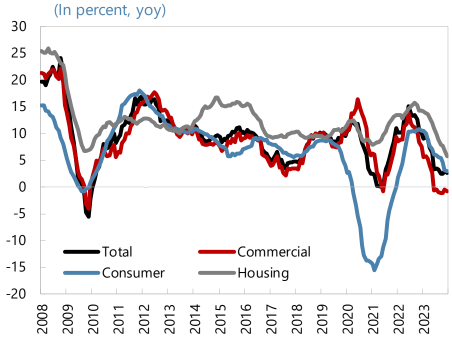
Lending rates rose along with monetary tightening and only commercial and consumer loan rates have started to fall.

Interest Rates by Economic Sector
(In percent)



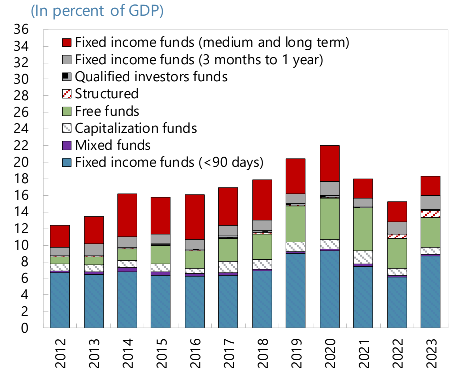
Nominal credit growth has moderated, with a growth rate of 2.6 percent in December 2023.

Credit Growth Contributions by Economic Sector
(In percent, yoy)



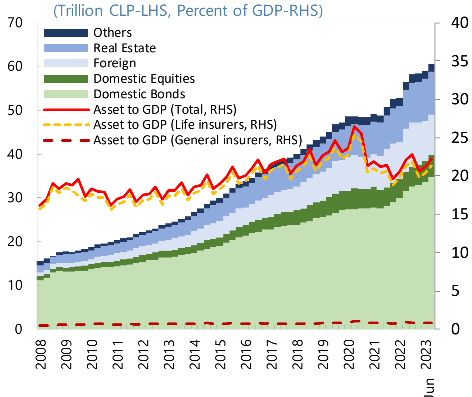
Assets of money market funds have rebounded since 2022 whereas those of longer-term fixed income funds remain unchanged.

Structure of Mutual Funds
(In percent of GDP)



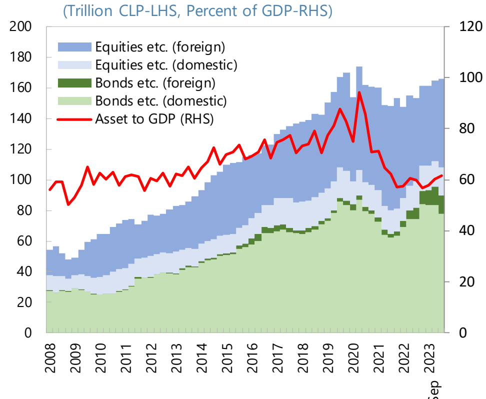
Insurers have continuted to increase their assets.

Assets of Insurers 2/
(Trillion CLP-LHS, Percent of GDP-RHS)



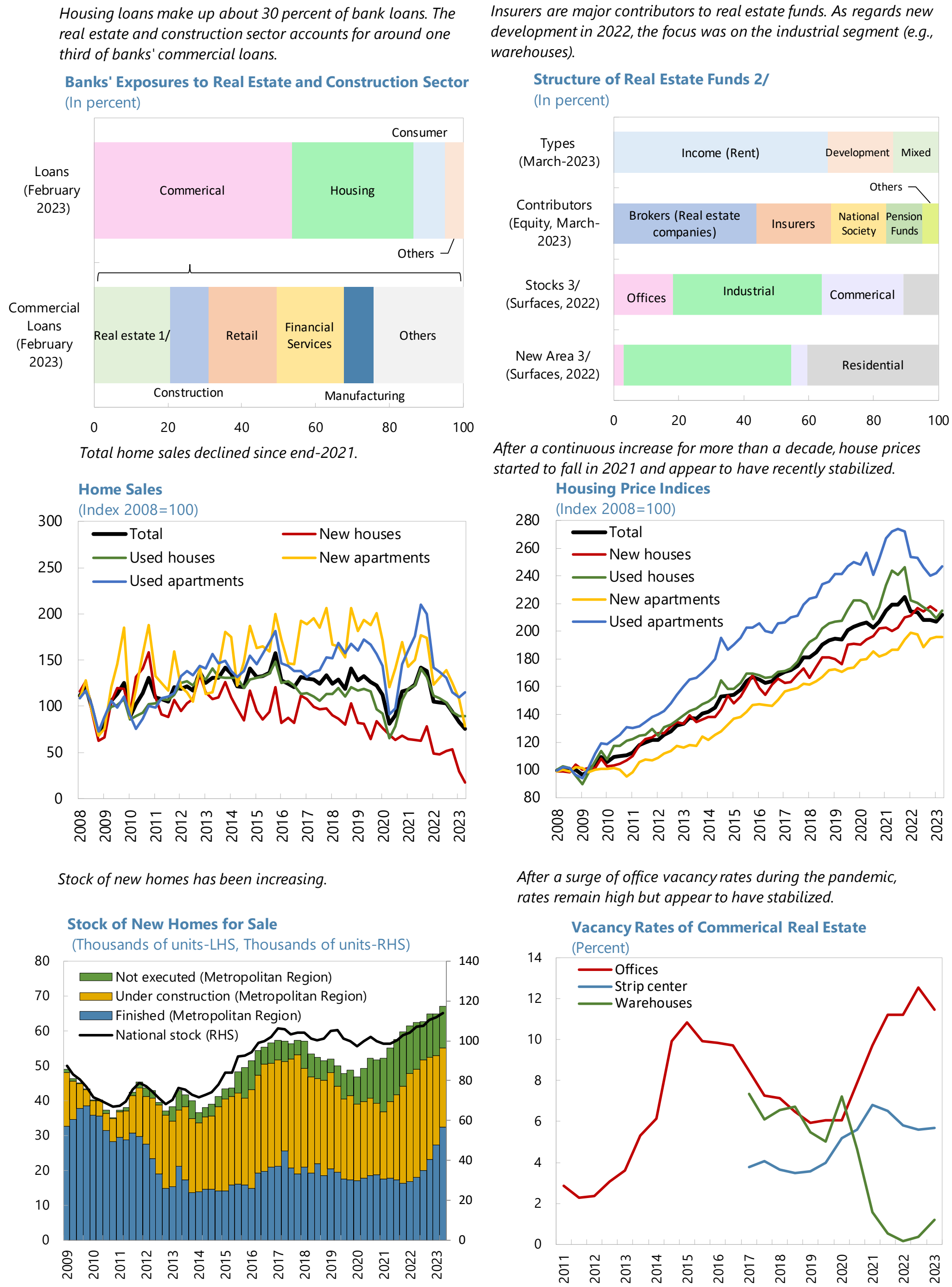
Pension funds have recovered their asset size while the asset to GDP ratio remains below the pre-pandemic level.

Assets of Pension Funds
(Trillion CLP-LHS, Percent of GDP-RHS)



Sources: Banks' disclosures, CEIC, Central Bank of Chile, CMF, Haver Analytics, and IMF staff calculations.
1/ As of September 2023. D-SIBs are Banco de Chile, Banco de Crédito e Inversiones, Banco del Estado de Chile, Banco Santander-Chile, Banco Itaú Chile, and Scotiabank Chile. "Regulatory requirement" of Common Equity Tier 1 Ratio includes 4.5 percent requirement, the conservation buffer (1.25 percent as of September 2023 and 2.5 percent under full implementation), CCyB (0 and 0.5 percent) and the maximum of the D-SIB buffers (0.875 and 1.75 percent). "Regulatory requirement" of Tier 1 Ratio is that of Common Equity Tier 1 Ratio plus AT1 (1.0 and 1.5 percent), and "Regulatory requirement" of Capital Adequacy Ratio is that of Tier 1 Ratio plus Tier2 (2.0 and 2.0 percent).
2/ The sum of life insurers and general insurers.

Figure 6. Chile: Real Estate Sector



Sources: ACAFI, CBRE, Central Bank of Chile, Colliers, Chilean Construction Chamber, GPS, Internal Revenue Service, and IMF staff calculations.

1/ Around two-thirds of banks’ loan exposures to the real estate sector are in residential real estate, and one-third is in commercial real estate.

2/ The sample funds are those surveyed in "Reporte Inmobiliario 2022-23" published by ACAFI and CBRE (As of March 2023, total assets are 155.6 million UF).

3/ The sample funds constitute approximately 70 percent of the assets of the total surveyed funds (income and mixed funds).

Table 1. Chile: Selected Social and Economic Indicators

GDP (2022), in billions of pesos	263	Quota	
GDP (2022), in billions of U.S. dollars	301	in millions of SDRs	1,744
Per capita (2022), U.S. dollars	15,166	in % of total	0.37
Population (2022), in millions	19.8	Poverty rate (2022) 1/	6.5
Main products and exports	Copper	Gini coefficient (2022) 1/	47.0
Key export markets	China, Euro area, U.S.	Literacy rate (2021)	97.0

						Proj.				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Output	(Annual percentage change, unless otherwise specified)									
Real GDP	0.7	-6.1	11.7	2.4	0.0	1.9	2.5	2.4	2.3	2.3
Consumption	0.7	-6.6	19.3	3.1	-3.6	1.8	2.1	2.1	2.4	2.3
Investment 2/	1.7	-18.0	30.1	-0.5	-8.0	3.3	3.9	4.5	4.0	3.4
Exports of goods and services	-2.5	-0.9	-1.4	1.4	1.3	4.4	3.5	2.3	1.6	1.7
Imports of goods and services	-1.7	-12.3	31.8	0.9	-11.7	3.4	3.4	3.1	3.2	2.7
Output gap (in percent)	-0.1	-5.6	2.8	2.7	0.2	-0.3	-0.1	0.0	0.0	0.0
Employment										
Unemployment rate (annual average)	7.2	10.8	8.9	7.9	8.8	8.9	8.4	7.7	7.5	7.5
Prices										
GDP deflator	2.6	9.6	6.8	6.6	6.5	3.9	3.6	3.4	3.3	3.0
Change of CPI (end of period)	3.0	3.0	7.2	12.8	3.9	3.0	3.0	3.0	3.0	3.0
Change of CPI (period average)	2.3	3.0	4.5	11.6	7.6	3.3	3.0	3.0	3.0	3.0
Public Sector Finances	(In percent of GDP, unless otherwise specified)									
Central government revenue	21.7	19.9	24.1	26.1	23.1	23.8	24.0	24.0	24.0	24.0
Central government expenditure	24.6	27.2	31.8	25.0	25.6	25.9	25.4	24.5	24.3	24.2
Central government fiscal balance	-2.9	-7.3	-7.7	1.1	-2.5	-2.1	-1.4	-0.5	-0.3	-0.2
Central government structural fiscal balance 3/	-1.7	-1.7	-11.4	-1.2	-3.7	-2.4	-1.7	-0.7	-0.6	-0.4
Structural non-mining primary balance (% of GDP)	-3.0	-2.6	-12.0	-2.5	-4.4	-3.4	-2.9	-2.0	-1.8	-1.7
Central government gross debt	28.3	32.4	36.3	38.0	39.2	40.5	40.7	41.1	41.4	41.5
of which, FX-denominated debt	5.8	7.5	12.8	13.5	14.2	13.6	13.5	13.8	13.3	13.1
Central government debt net of treasury assets	18.6	24.1	31.0	31.9	34.5	36.8	37.1	37.6	38.0	38.1
Public sector gross debt 4/	49.2	57.4	67.9	67.3	68.5	69.8	70.0	70.4	70.7	70.8
of which, central government FX-denominated debt	5.8	7.5	12.8	13.5	14.2	13.6	13.5	13.8	13.3	13.1
Money and Credit	(Annual percentage change, unless otherwise specified)									
M2	9.4	6.1	10.7	4.0	5.3	4.8	6.2	5.8	5.7	5.4
Credit to the private sector	9.7	3.2	10.1	10.0	2.8	5.0	7.1	6.7	6.7	6.5
Balance of Payments										
Current account (% of GDP) 5/	-5.2	-1.9	-7.3	-9.0	-3.2	-3.4	-3.3	-3.2	-3.1	-3.0
Current account (in bn of USD)	-14.5	-5.0	-23.2	-27.1	-10.6	-11.5	-11.9	-12.0	-12.2	-12.6
Foreign direct investment net flows (% of GDP) 5/	-1.2	-2.0	-0.6	-2.7	-1.8	-2.2	-2.2	-2.1	-2.2	-2.2
Gross international reserves (in bn of USD)	40.7	39.2	51.3	39.2	46.3	46.3	46.3	46.3	46.3	46.3
Gross reserves (% of gross financing needs)	56.5	53.3	74.0	42.8	71.3	64.9	61.8	59.4	56.2	62.8
Gross external debt (% of GDP) 6/	66.7	76.9	72.0	77.6	73.1	74.4	74.1	74.2	73.4	72.9
Public	6.2	8.9	12.6	15.0	14.7	15.4	15.6	16.0	15.5	15.2
Private	60.5	68.0	59.5	62.5	58.4	59.0	58.5	58.2	58.0	57.8

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

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

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

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

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

5/ Calculated as a share of US$ GDP.

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

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

					Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues	**21.7**	**19.9**	**24.1**	**26.1**	**23.1**	**23.8**	**24.0**	**24.0**	**24.0**	**24.0**
Taxes	17.7	16.0	18.8	21.1	18.2	19.3	19.8	19.8	19.8	19.8
Private mining companies	1.0	0.7	1.2	1.5	1.0	1.0	1.3	1.3	1.3	1.3
Other tax revenues, non-mining	16.7	15.4	17.6	19.6	17.2	18.3	18.5	18.5	18.5	18.5
Social contributions	1.5	1.5	1.2	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Grants	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Other revenue	2.4	2.3	4.0	4.0	3.7	3.3	3.0	3.0	3.0	3.0
Codelco revenues	0.4	0.5	1.8	0.7	0.4	0.5	0.5	0.5	0.5	0.5
Income on assets	0.6	0.4	0.2	0.5	0.6	0.5	0.4	0.4	0.4	0.4
Lithium (rental income) 1/	…	…	…	1.0	1.0	0.7	0.6	0.6	0.6	0.6
Operating income	0.5	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Other income	1.0	1.0	1.4	1.3	1.2	1.1	1.0	1.0	1.0	1.0
Expenditures	**24.6**	**27.2**	**31.8**	**25.0**	**25.6**	**25.9**	**25.4**	**24.5**	**24.3**	**24.2**
Expense	22.5	25.4	30.0	23.5	24.1	24.5	24.5	24.7	24.6	24.6
Compensation of employees	5.0	5.3	4.9	4.7	4.8	4.9	4.9	4.9	4.9	4.8
Purchases of goods and services	2.0	2.2	2.0	2.0	2.0	1.9	1.8	1.7	1.7	1.7
Interest payments	0.9	1.0	0.9	1.0	1.2	1.4	1.3	1.3	1.3	1.3
Subsidies and grants	8.8	11.0	16.8	9.4	9.1	9.0	9.0	9.0	9.0	9.0
Social benefits	4.0	4.4	3.9	4.3	4.8	5.1	5.1	5.3	5.3	5.4
Other expense	1.8	1.7	1.6	2.2	2.2	2.2	2.4	2.4	2.4	2.4
Unspecified measures	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-1.6	-1.8	-1.9
Net acquistion of nonfinancial assets	2.1	1.8	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Investment	2.1	1.8	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Net Lending/Borrowing	**-2.9**	**-7.3**	**-7.7**	**1.1**	**-2.5**	**-2.1**	**-1.4**	**-0.5**	**-0.3**	**-0.2**
Non-mining overall balance	-4.2	-8.4	-10.7	-2.1	-5.0	-4.3	-3.9	-2.9	-2.7	-2.6
Net Financial Transactions	**-2.9**	**-7.3**	**-7.7**	**1.1**	**-2.5**	**-2.1**	**-1.4**	**-0.5**	**-0.3**	**-0.2**
Net acquistion of financial assets	-0.6	-3.2	-1.6	3.5	0.0	1.3	0.5	1.6	1.7	1.6
Net incurrence of liabilities	2.2	4.1	6.0	2.4	2.5	3.4	1.9	2.1	2.0	1.8
Domestic	2.0	2.5	1.3	0.7	1.5	3.0	1.5	1.2	1.9	1.4
External	0.5	1.8	4.8	1.8	1.2	0.5	0.5	0.9	0.1	0.4
Recognition bonds	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Memorandum Items										
Primary balance	-2.5	-6.7	-7.1	1.6	-2.0	-1.3	-0.5	0.4	0.6	0.8
Structural fiscal balance 2/	-1.7	-1.7	-11.4	-1.2	-3.7	-2.4	-1.7	-0.7	-0.6	-0.4
Structural revenue	22.9	25.5	20.4	23.8	21.9	23.5	23.8	23.8	23.6	23.8
Structural non-mining primary balance (% of GDP)	-3.0	-2.6	-12.0	-2.5	-4.4	-3.4	-2.9	-2.0	-1.8	-1.7
Fiscal impulse 3/	0.6	-0.3	9.3	-9.4	1.9	-1.0	-0.5	-0.9	-1.1	-0.3
Expenditure growth (in real terms; annual percent change)	4.2	10.4	33.4	-23.0	1.4	3.7	1.2	-1.1	1.7	2.0
Central government debt net of treasury assets	18.6	24.1	31.0	31.9	34.5	36.8	37.1	37.6	38.0	38.1
Central government gross debt	28.3	32.4	36.3	38.0	39.2	40.5	40.7	41.1	41.4	41.5
Public sector gross debt 4/	49.2	57.4	67.9	67.3	68.5	69.8	70.0	70.4	70.7	70.8
Public sector debt net of treasury assets 4/	39.6	49.1	62.6	61.2	63.8	66.1	66.4	67.0	67.3	67.4
General government fiscal balance 5/	-2.7	-7.1	-7.5	1.4	-3.3	-2.6	-1.8	-0.8	0.0	0.0
Nominal GDP (trillions of pesos)	196	201	240	263	280	296	314	333	352	370

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

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

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

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

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

5/ Includes the central government and municipality governments.

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

	2019	2020	2021	2022	Proj. 2023	2024	2025	2026	2027	2028
Current Account	**-14.5**	**-5.0**	**-23.2**	**-27.1**	**-10.6**	**-11.5**	**-11.9**	**-12.0**	**-12.2**	**-12.6**
Trade balance	3.0	18.9	10.5	3.8	15.5	15.6	17.9	19.2	19.8	20.3
Exports	68.8	74.0	94.8	98.5	94.9	100.4	107.1	112.7	117.8	121.8
Copper	32.6	38.5	52.7	44.7	43.4	46.5	50.8	52.9	55.0	56.8
Non-copper	36.2	35.6	42.0	53.9	51.5	53.9	56.3	59.8	62.8	65.1
Imports	65.8	55.1	84.3	94.7	79.4	84.8	89.2	93.5	98.0	101.5
Net services	-8.1	-7.5	-12.3	-14.8	-10.6	-10.2	-10.8	-11.4	-11.8	-12.5
Net income	-10.4	-15.9	-18.5	-16.5	-15.9	-17.6	-19.7	-20.5	-21.1	-21.2
Net transfers	1.0	-0.5	-2.8	0.4	0.4	0.7	0.7	0.8	0.9	0.8
Capital account balance	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account Balance	**-10.7**	**-4.8**	**-37.0**	**-16.2**	**-17.7**	**-11.5**	**-11.9**	**-12.0**	**-12.2**	**-12.6**
Foreign direct investment	-3.2	-5.0	-2.0	-8.1	-5.9	-7.7	-8.0	-8.1	-8.6	-9.3
Abroad by Chilean residents	10.3	6.4	13.9	12.8	8.0	10.9	11.1	12.0	11.6	11.3
In Chile by foreign residents	13.6	11.4	15.9	20.9	13.9	18.6	19.0	20.1	20.2	20.6
Of which, debt instruments	1.8	0.9	0.4	1.2	4.7	2.2	2.2	2.5	2.8	3.2
Portfolio investment	-10.6	-13.6	-33.8	-8.4	-1.1	-7.3	-7.6	-8.1	-8.9	-9.5
Abroad by Chilean residents	0.8	-6.4	-1.4	5.9	5.4	1.9	1.1	0.9	0.7	0.6
In Chile by foreign residents	11.4	7.2	32.4	14.3	6.5	9.2	8.8	9.1	9.6	10.1
Of which, equities	3.0	0.2	2.4	7.8	-1.2	1.4	1.5	2.2	1.1	1.7
Of which, debt	8.5	7.0	30.0	6.5	7.6	7.8	7.3	6.8	8.5	8.4
Financial derivatives	1.5	2.5	0.0	0.6	-1.2	0.7	0.7	0.7	0.7	0.7
Other investments	1.7	11.3	-1.2	-0.3	-9.7	2.7	3.0	3.5	4.5	5.4
Abroad by Chilean residents	3.1	9.5	10.3	8.2	2.7	5.5	5.5	5.5	5.5	5.5
In Chile by foreign residents	1.4	-1.8	11.4	8.5	12.4	2.8	2.5	2.0	1.0	0.1
Change in Reserves Assets	**-0.2**	**-2.9**	**12.2**	**-9.2**	**7.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	2.6	-2.8	-1.6	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (in billions of USD)	40.7	39.2	51.3	39.2	46.3	46.3	46.3	46.3	46.3	46.3
					(In percent of GDP)					
Current Account 1/	**-5.2**	**-1.9**	**-7.3**	**-9.0**	**-3.2**	**-3.4**	**-3.3**	**-3.2**	**-3.1**	**-3.0**
Trade balance of Goods	1.1	7.4	3.3	1.3	4.7	4.6	5.0	5.1	5.0	4.9
Exports	24.7	29.1	29.9	32.8	28.5	29.3	29.6	29.8	29.7	29.4
Copper	11.7	15.1	16.7	14.9	13.0	13.6	14.1	14.0	13.9	13.7
Non-copper	13.0	14.0	13.3	17.9	15.5	15.7	15.6	15.8	15.9	15.7
Imports	23.6	21.7	26.6	31.5	23.9	24.8	24.7	24.7	24.7	24.5
Net services	-2.9	-2.9	-3.9	-4.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0
Net income	-3.7	-6.2	-5.8	-5.5	-4.8	-5.2	-5.5	-5.4	-5.3	-5.1
Net transfers	0.3	-0.2	-0.9	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Financial Account Balance 2/	**-3.8**	**-1.9**	**-11.7**	**-5.4**	**-5.3**	**-3.4**	**-3.3**	**-3.2**	**-3.1**	**-3.0**
					(Annual change in percent)					
Goods export volume	-2.2	2.8	-0.8	-1.5	0.3	4.1	3.6	2.3	1.7	1.7
Goods import volume	-2.2	-9.8	35.4	-1.5	-13.2	3.4	3.4	3.1	3.2	2.7
Terms of trade 3/	-1.9	11.7	12.2	-8.4	-1.0	-1.7	1.3	1.2	1.2	0.9
Goods export prices 3/	-6.0	4.8	29.0	5.5	-3.9	1.6	3.1	2.9	2.9	1.8
Goods import prices 3/	-4.2	-6.2	14.9	15.3	-3.0	3.4	1.8	1.8	1.7	0.8
Memorandum Items										
Copper price (WEO; U.S. cents per pound)	273	280	423	401	380	387	397	405	413	422
Copper price (WEO; annual change in percent)	-8.0	2.7	50.9	-5.2	-5.1	1.9	2.6	2.0	2.0	2.0
Volume of copper exports (2004=100)	104	105	102	96	97	103	109	111	114	115

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

1/ Calculated as a share of US$ GDP.

2/ Excluding change in reserves.

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

Table 4. Chile: Monetary Survey

(In billions of pesos, unless otherwise specified)

	2018	2019	2020	2021	2022
Central Bank					
Net foreign assets	27,043	29,547	27,222	40,891	31,476
Net international reserves	27,731	30,274	27,881	43,643	33,653
Net international reserves (in millions of US$)	39,861	40,657	39,200	51,330	39,154
Other foreign assets, net	-688	-727	-659	-2,752	-2,177
Domestic assets	-1,862	-3,326	24,086	23,405	24,229
Net credit to general government	-553	-392	327	356	322
Net claims on banks and financial corporations	-5,163	-4,599	21,873	26,894	23,342
Credit to the private sector	47	-33	-31	-38	-33
Other items (net)	3,808	1,699	1,917	-3,807	599
Monetary liabilities	25181	26221	51308	64297	55,705
Monetary base	11,296	12,335	30,256	21,456	17,641
Currency	6,740	7,576	12,180	15,210	11,608
Currency reserves	4,556	4,760	18,077	6,247	6,033
Others	13,885	13,886	21,052	42,840	38,064
Other Depository Institutions					
Net foreign assets	-10,199	-9,700	-1,678	-4,608	-7,158
Net foreign assets (in millions of US$)	-14,660	-13,027	-2,359	-5,420	-8,328
Domestic assets	156,577	174,810	166,208	186,314	202,600
Credit to general government	3,463	4,615	12,538	17,607	16,945
Credit to the private sector	158,792	174,225	179,836	197,943	217,695
Other items (net)	-5,678	-4,030	-26,166	-29,236	-32,040
Liabilities to the private sector	146,379	165,109	164,528	181,706	195,443
Demand deposits	30,116	36,058	56,393	64,091	47,687
Quasi-money	116,263	129,051	108,135	117,615	147,756
Banking System					
Net foreign assets	16,844	19,846	25,544	36,283	24,318
Domestic assets	142,030	156,183	160,617	177,327	196,243
Net credit to general government	2,910	4,223	12,865	17,963	17,267
Credit to the private sector	158,839	174,192	179,805	197,905	217,662
Other items (net)	-19,715	-22,232	-32,053	-38,541	-38,686
Money and private quasi-money	158,874	176,029	186,161	213,610	220,561
Money	36,856	43,633	68,573	79,301	59,295
Quasi-money	122,018	132,396	117,588	134,309	161,266
Memorandum Items					
	(Annual percentage change)				
Monetary base	1.7	9.2	145.3	-29.1	-17.8
Banking system' credit to the private sector	10.1	9.7	3.2	10.1	10.0
	(In percent of GDP)				
Monetary base	6.0	6.3	15.0	8.9	6.7
Banking system's credit to the private sector	83.8	89.0	89.3	82.3	82.9

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

Table 5. Chile: Medium-Term Macroeconomic Framework

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
National Accounts	(Annual percentage change, unless otherwise specified)									
Real GDP	0.7	-6.1	11.7	2.4	0.0	1.9	2.5	2.4	2.3	2.3
Total domestic demand	0.9	-9.4	21.7	2.3	-4.6	2.1	2.5	2.6	2.8	2.6
Consumption	0.7	-6.6	19.3	3.1	-3.6	1.8	2.1	2.1	2.4	2.3
Private	0.7	-7.4	20.8	2.9	-5.2	1.6	2.2	2.4	2.4	2.4
Public	0.6	-3.5	13.8	4.1	3.2	2.0	1.5	0.8	2.4	2.3
Investment 1/	1.7	-18.0	30.1	-0.5	-8.0	3.3	3.9	4.5	4.0	3.4
Fixed	4.5	-10.8	15.7	2.8	-1.9	1.8	3.0	3.1	3.2	2.9
Private	5.1	-10.3	16.0	4.9	-2.2	1.7	3.0	3.2	3.2	2.9
Public	-1.2	-15.5	12.9	-18.9	1.6	3.5	3.1	2.7	2.7	2.5
Inventories 2/	-0.6	-1.8	2.8	-0.8	-1.5	0.3	0.2	0.3	0.2	0.1
Net exports 2/	-0.2	3.3	-9.0	0.1	4.0	0.2	0.0	-0.3	-0.5	-0.3
Exports of goods and services	-2.5	-0.9	-1.4	1.4	1.3	4.4	3.5	2.3	1.6	1.7
Imports of goods and services	-1.7	-12.3	31.8	0.9	-11.7	3.4	3.4	3.1	3.2	2.7
GDP Deflator	2.6	9.6	6.8	6.6	6.5	3.9	3.6	3.4	3.3	3.0
Change of CPI, end of period	3.0	3.0	7.2	12.8	3.9	3.0	3.0	3.0	3.0	3.0
Change of CPI, period average	2.2	3.0	4.5	11.6	7.6	3.3	3.0	3.0	3.0	3.0
Output gap (percent of potential GDP)	-0.1	-5.6	2.8	2.7	0.2	-0.3	-0.1	0.0	0.0	0.0
Balance of Payments	(In percent of GDP)									
Current account 3/	-5.2	-1.9	-7.3	-9.0	-3.2	-3.4	-3.3	-3.2	-3.1	-3.0
Trade balance 3/	1.1	7.4	3.3	1.3	4.7	4.6	5.0	5.1	5.0	4.9
Financial account balance 3/	-3.8	-1.9	-11.7	-5.4	-5.3	-3.4	-3.3	-3.2	-3.1	-3.0
Of which, foreign direct investment (net) 3/	-1.2	-2.0	-0.6	-2.7	-1.8	-2.2	-2.2	-2.1	-2.2	-2.2
Change in reserves assets 3/	-0.1	-1.1	3.9	-3.1	2.2	0.0	0.0	0.0	0.0	0.0
Errors and omissions 3/	1.0	-1.1	-0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0
	(Annual percentage change)									
Goods export volume	-2.2	2.8	-0.8	-1.5	0.3	4.1	3.6	2.3	1.7	1.7
Of which, copper export volume	-1.2	1.3	-3.2	-5.6	0.3	6.4	5.8	2.5	1.8	1.3
Goods import volume	-2.2	-9.8	35.4	-1.5	-13.2	3.4	3.4	3.1	3.2	2.7
Terms of trade 4/	-1.9	11.7	12.2	-8.4	-1.0	-1.7	1.3	1.2	1.2	0.9
Goods export price 4/	-6.0	4.8	29.0	5.5	-3.9	1.6	3.1	2.9	2.9	1.8
Goods import price 4/	-4.2	-6.2	14.9	15.3	-3.0	3.4	1.8	1.8	1.7	0.8
External Debt	(In percent of GDP)									
Gross external debt 5/	66.7	76.9	72.0	77.6	73.1	74.4	74.1	74.2	73.4	72.9
Public	6.2	8.9	12.6	15.0	14.7	15.4	15.6	16.0	15.5	15.2
Private	60.5	68.0	59.5	62.5	58.4	59.0	58.5	58.2	58.0	57.8
Gross int. reserves (in billions of U.S. dollars)	40.7	39.2	51.3	39.2	46.3	46.3	46.3	46.3	46.3	46.3
Savings and Investment										
Gross domestic investment	25.0	21.1	24.4	25.4	22.6	22.8	23.1	23.5	23.8	24.1
Public	2.3	2.0	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Private	22.7	19.1	22.4	23.7	20.9	21.1	21.4	21.8	22.1	22.4
National saving	19.8	19.2	17.0	16.4	19.4	19.4	19.8	20.3	20.7	21.0
Public	-0.4	-5.1	-5.5	3.0	-1.6	-0.9	-0.1	0.8	1.0	1.1
Private	20.2	24.3	22.5	13.4	21.0	20.4	19.9	19.5	19.7	19.9
Operations of the Central Government										
Central government gross debt	28.3	32.4	36.3	38.0	39.2	40.5	40.7	41.1	41.4	41.5
Central government debt net of treasury assets	18.6	24.1	31.0	31.9	34.5	36.8	37.1	37.6	38.0	38.1
Central government balance	-2.9	-7.3	-7.7	1.1	-2.5	-2.1	-1.4	-0.5	-0.3	-0.2
Total revenue	21.7	19.9	24.1	26.1	23.1	23.8	24.0	24.0	24.0	24.0
Total expenditure	24.6	27.2	31.8	25.0	25.6	25.9	25.4	24.5	24.3	24.2
Central government structural balance	-1.7	-1.7	-11.4	-1.2	-3.7	-2.4	-1.7	-0.7	-0.6	-0.4
Employment										
	(Annual percentage change, unless otherwise specified)									
Working age population	2.2	2.0	1.4	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Unemployment rate (in percent)	7.2	10.7	8.8	7.9	8.8	8.9	8.4	7.7	7.5	7.5

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

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

2/ Contribution to growth.

3/ Calculated as a share of US$ GDP.

4/ Calculated based on a simple average of quarterly price indexes measured in US$.

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

Table 6. Chile: Financial Soundness Indicators 1/

(In percent, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	
Assets									
Total assets (In billions of Chilean pesos)	207,144	215,432	232,963	264,803	323,610	335,326	382,768	397,815	5/
Percent of GDP	122.7	120.1	123.0	135.3	160.7	139.5	145.8	145.4	6/
Total loans (In billions of Chilean pesos) 2/	152,932	159,249	180,957	197,834	204,342	225,485	248,093	253,257	5/
Percent of GDP	90.6	88.8	95.5	101.1	101.4	93.8	94.5	92.6	6/
Capital Adequacy									
Regulatory capital to risk-weighted assets	13.8	13.8	13.3	12.8	14.7	14.8	15.6	15.4	7/
Regulatory tier 1 capital to risk-weighted assets	10.9	11.0	10.7	10.3	10.7	10.6	11.9	11.7	7/
Regulatory tier 1 capital to assets	8.2	8.3	8.2	7.3	6.6	6.7	7.3	7.4	7/
Capital to assets	8.2	8.4	8.2	8.1	6.9	6.9	6.8	7.2	5/
Credit Risk									
Provisions to NPLs	134.8	128.9	128.4	123.7	171.4	190.6	146.0	130.4	5/
NPLs to gross loans	1.8	1.9	1.9	2.1	1.6	1.2	1.7	1.9	5/
NPLs net of provisions to capital	-4.4	-3.8	-3.8	-3.6	-7.7	-7.5	-5.0	-4.0	7/
Profitability									
Return on assets (before tax)	1.2	1.3	1.4	1.3	0.5	1.5	1.7	1.5	5/
Return on assets (after tax)	0.9	1.0	1.0	1.0	0.4	1.1	1.4	1.1	5/
Return on equity (before tax)	14.4	15.9	16.8	16.6	7.7	21.8	24.7	21.3	5/
Return on equity (after tax)	11.5	12.4	12.5	12.4	5.6	16.6	21.0	15.8	5/
Financial leverage 3/	12.2	11.9	12.1	12.4	14.5	14.5	14.6	13.9	5/
Interest margin to gross income	66.6	66.2	67.1	66.9	69.4	69.5	74.4	69.0	5/
Noninterest expenses to gross income	52.0	50.4	48.9	46.7	54.9	43.6	39.3	40.7	5/
Personnel expenses to noninterest expenses	49.1	48.5	49.0	48.3	40.9	47.3	47.8	48.9	5/
Trading income to gross income	10.1	8.4	8.6	9.6	8.4	8.2	5.9	9.0	5/
Non-interest expenses to gross income	52.0	50.4	48.9	46.7	54.9	43.6	39.3	40.7	5/
Liquidity									
Liquid assets to total assets	14.7	15.3	14.2	15.3	22.2	20.1	17.1	17.5	5/
FX and Derivative Risk									
FX loans to total loans 2/	18.2	16.6	18.4	18.9	16.1	18.3	18.7	19.4	5/
Gross asset position in financial derivatives to capital	38.4	42.3	46.5	98.3	103.2	102.1	105.5	95.6	7/
Gross liability position in financial derivatives to capital	37.1	42.6	43.1	95.4	106.1	103.2	116.1	106.7	7/
Memorandum Items									
Real loans (total, yoy)	2.9	2.4	7.3	6.3	-0.5	3.6	-2.5	-0.9	
Real commercial loans (yoy)	2.1	1.1	7.2	6.6	2.8	2.1	-4.6	-4.1	
Real mortgage loans (yoy)	6.7	7.7	6.7	8.0	5.0	5.9	1.4	3.3	
Real consumer loans (yoy)	5.3	3.3	6.0	1.0	-16.6	-6.7	-2.0	-0.1	
General residential property price (index, 2008=100)	165	175	188	198	205	220	211	212	8/
New Residential Property Price (index, 2008=100)	153	163	171	178	188	195	203	209	8/
Used Residential Property Price (index, 2008=100)	179	188	208	223	227	250	228	225	8/
Loan to home value ratio (simple average)	78	77	78	78	79	78	76	77	8/
Term of mortgage loans for housing (simple average, month)	263	257	264	263	265	276	285	297	9/
Household debt to GDP 4/	44.9	46.4	48.6	51.1	50.7	47.2	49.2	48.8	10/
Household mortgage debt to GDP 4/	23.6	24.5	25.3	27.3	28.6	27.3	28.5	28.5	10/
Household gross saving to GDP 4/	7.3	6.1	6.1	8.1	7.6	4.9	-0.7	4.3	10/
Household net financial assets to GDP 4/	131.8	133.0	132.8	146.2	147.7	130.0	119.7	116.8	10/
Non-financial corporate debt to GDP	103.4	97.4	101.7	109.0	112.5	107.0	102.4	98.7	10/
Money market fund assets to GDP	9.0	8.8	9.2	11.8	13.3	10.6	9.6	12.1	6/ 10/
Other investment fund assets to GDP	16.4	18.6	20.3	22.6	23.2	23.0	19.9	20.2	6/ 10/
Insurance company assets to GDP	23.1	23.4	24.6	26.7	26.7	22.3	23.2	22.8	6/ 10/
Pension fund asset to GDP	72.8	76.2	75.2	86.7	79.8	63.8	61.5	60.5	6/ 10/

Sources: IMF Financial Soundness Indicators (for memorandum items, Central Bank of Chile), and IMF staff calculations.

1/ These indicators correspond to depository corporations.

2/ Gross loans including interbank loans.

3/ Assets to capital.

4/ Households and nonprofit organizations.

5/ As of August 2023.

6/ Annualized GDP of the first to third quarters in 2023.

7/ As of April 2023.

8/ As of the second quarter in 2023.

9/ As of November 2023.

10/ As of the third quarter in 2023.

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

	2015	2016	2017	2018	2019	2020	2021	2022
Financial Indicators								
M3 (percent change)	12.4	8.7	4.8	11.0	10.9	3.1	14.7	3.3
Less pension funds' deposits (annual percentage change)	13.5	10.1	5.0	12.3	9.7	7.0	18.8	3.5
Private sector credit to GDP	82.5	81.6	80.4	83.8	89.0	89.3	82.3	82.9
90-day central bank promissory note (nominal) interest rate (avg.)	2.7	3.5	2.6	2.8	3.3	3.4	3.5	3.6
Share of foreign currency deposits in total deposits	15.4	15.2	13.0	12.8	14.9	14.8	18.8	17.5
Share of foreign currency loans in total credit	13.9	13.0	11.4	11.0	11.8	11.8	9.9	11.8
External Indicators								
Exports of goods, U.S. dollars (annual percentage change)	-17.5	-2.2	13.4	8.6	-8.1	7.6	28.0	4.0
Imports of goods, U.S. dollars (annual percentage change)	-14.7	-4.7	10.0	14.7	-6.6	-16.2	53.0	12.4
Terms of trade (annual percentage change) 1/	-2.8	4.1	10.0	-2.6	-1.9	11.7	12.2	-8.4
REER (annual percent change, period average)	-0.9	-2.9	-2.6	-1.3	4.7	8.2	0.2	7.4
Exchange rate (pesos per U.S. dollar, period average)	654.1	676.9	648.9	641.2	703.3	792.2	759.1	873.2
Current account balance (percent of GDP) 2/	-2.7	-2.6	-2.8	-4.5	-5.2	-1.9	-7.3	-9.0
Financial account less reserves accumulation (percent of GDP) 2/	-1.7	-2.4	-1.2	-4.3	-3.8	-1.9	-11.7	-5.4
Gross official reserves (in billions of U.S. dollars) 3/	38.6	40.5	39.0	39.9	40.7	39.2	51.3	39.2
Gross official reserves to M3	14.9	13.5	11.5	11.9	11.7	10.5	14.3	10.7
Gross official reserves to short-term external debt 4/	96.2	82.2	73.2	69.3	59.2	85.0	79.6	72.0
Gross official reserves (percent of GDP)	15.9	16.2	14.1	13.5	14.6	15.4	16.2	13.0
Gross official reserves (percent of ARA metric) 5/	107.1	102.1	85.5	86.8	82.8	81.7	92.5	71.8
Government liquid FX assets (US$ billions) 6/	14.6	15.1	16.2	15.4	12.3	9.6	3.8	11.4
Total external debt (percent of GDP) 7/	65.4	65.6	62.5	59.4	66.7	76.9	72.0	77.6
Of which: External public sector debt	3.2	4.0	4.6	4.9	5.7	8.3	11.4	13.7
Total external debt to exports of goods and services	224.5	235.9	221.1	208.6	240.4	245.7	226.5	217.9
External interest payments to exports of goods and services	7.1	6.4	6.5	5.8	6.8	6.7	4.8	5.8
External amortization payments to exports of goods and services	63.8	57.9	63.1	63.4	74.4	86.2	45.8	60.2
Financial Market Indicators								
Stock market index (in U.S. dollars; period average) 8/	1465	1409	1731	1869	1512	1037	1182	1128
Sovereign long-term foreign currency debt rating (end of period)								
Moody's	Aa3	Aa3	Aa3	A1	A1	A1	A1	A2
S&P	AA-	AA-	A+	A+	A+	A+	A	A
Fitch ratings	A+	A+	A	A	A	A-	A-	A-

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

Annex I. Recommendations of 2022 Article IV Consultation and Authorities' Actions

Fund Recommendation	Policy Action
Monetary Policy	
A tight monetary stance should prevail until price pressures and inflation expectations are on a firm downward trend.	The BCCh started to lower the monetary policy rate in July 2023, in the context of disinflation acceleration and the return of two-year-ahead inflation expectations to target.
A reserve accumulation program is desirable to replenish buffers when conditions are conducive.	The authorities started a twelve-month reserve accumulation program in June 2023 and suspended it in October 2023 due to escalating tensions in global financial markets.
Fiscal Policy	
To continue supporting the contractionary monetary stance, and the convergence of inflation and the current account, it would be advisable to save any stronger than projected revenues and wait to disburse unallocated funds, aiming to achieve a broadly neutral fiscal stance, while continuing to target support for vulnerable households.	The fiscal stance in 2023 is estimated to be expansionary as the budget focuses on social spending, including higher mandated spending on minimum pensions.
Tax and social spending reforms should be sequenced conditional on revenue performance to preserve fiscal sustainability.	The authorities have remained strongly committed to fiscal sustainability by conditioning spending reforms on revenue performance. The authorities are negotiating a fiscal pact that would link revenue reforms with plans for higher social and security spending.
Structural Reforms	
Pension reform remains a priority to deliver on better pensions and redistribution goals. New pension withdrawals should be avoided.	The authorities' proposed pension reform, which envisages an increase in pension contributions and a revamp of the pension system's industrial organization, is currently being discussed by Congress. A proposal for a new pension withdrawal was rejected in Congress.
Financial Sector	
Continuing to monitor closely pockets of vulnerability is critical to safeguard financial stability and prevent disorderly consequences.	The authorities have closely monitored financial sector vulnerabilities while reinforcing an already sound regulatory framework, including by addressing FSAP recommendations (see Annex IX), updating AML/CFT regulation, and introducing new initiatives (Financial Market Resilience Law and Fintech Law).

Annex II. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact	Impact on Chile	Policy Advice
External Risk				
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	High	The impact on Chile would be mainly through weaker copper and lithium demand.	In a global recession scenario, use existing policy space to support the economy and protect the most vulnerable, consistent with the inflation targeting framework and fiscal sustainability. The strength and mix of the monetary and fiscal response would depend on Chile's cyclical position and the impact of shocks. Allow the exchange rate to play its role as a shock absorber.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations cause recurrent commodity price volatility.	High	High	Chile would benefit from higher copper and lithium prices but would be negatively impacted from higher oil prices.	Allow the exchange rate to play its role as a shock absorber. In response to negative shocks to Chile (e.g., higher oil prices), provide targeted fiscal support to vulnerable groups and continue to advance reforms to address social demands. In the event of positive shocks to Chile (e.g., higher lithium prices), stronger than projected fiscal revenues should be saved.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	Medium	Chile could experience capital outflows, exchange rate fluctuations, and higher financing costs.	Closely monitor emerging vulnerabilities and early signs of stress. Continue to strengthen the legal and regulatory framework and operational capacity to increase the resilience of the financial system.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the outlook (both the current policies and staff's proposal scenarios). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the scenarios projections ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks	Likelihood	Impact	Impact on Chile	Policy Advice
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) can trigger financial and economic instability.	Medium	Medium	The financial sector's exposure to cybersecurity risk is increasing in Chile as the sector becomes more digitalized.	Actively assess and mitigate risks from cyberattacks, in particular by continuing to prioritize the recruitment of cybersecurity experts and adopting new supervisory exercises.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium	Depending on the specific scenarios and the consequential distortions to commodity trade patterns, Chile's export prices of copper and lithium could be lower if the geoeconomic fragmentation deepens.	Continue the progress on reducing trade and investment barriers. Diversify trade markets and supply chains. Advance structural reforms to boost productivity growth.
Domestic Risk				
Social discontent. High inflation in past years, high inequality, and a worsening security situation can trigger social protests followed by populist policy responses and/or policy gridlock. These can further trigger market repricing and deteriorate the growth outlook.	Medium	Medium	Social unrest could negatively affect business confidence and investment, dampening potential growth.	Advance reforms to tackle social demands, anchored on broad political support. Continue with policies to achieve the inflation target and maintain fiscal sustainability, while providing targeted support to the most vulnerable.

Annex III. External Sector Assessment

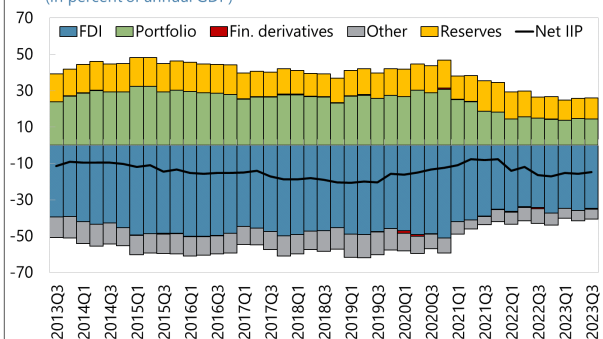
Overall Assessment: *Chile's estimated external position in 2023 was moderately weaker than the level implied by fundamentals and desirable policy settings, based on the IMF's EBA current account (CA) model.[1] The CA deficit narrowed swiftly in 2023 driven by a reduction of private sector imbalances amid a broad-based decline in imports. The net international investment position improved in 2023.*

Potential Policy Responses: *Macroeconomic imbalances built during the pandemic have been largely resolved, supported by very strong policies. Achieving a broadly balanced structural fiscal position, including through a somewhat more front-loaded deficit reduction and a smoother spending profile, alongside exchange rate flexibility should support the required external rebalancing over the medium term. The authorities have started to rebuild international reserve buffers. Continuing the accumulation of international reserves, when market conditions are conducive, and developing a longer-term reserve strategy are key to further strengthen Chile's external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. After declining to -18.4 percent of GDP in 2022 (from -11.8 percent on average over 2019–21) amid a large current account deficit, Chile's net international investment position (NIIP) increased in 2023, registering -15.9 percent of GDP[2] in 2023Q3. The improvement in the NIIP over 2023Q1–Q3 is mainly driven by valuation effects of assets—reflecting the strong performance of international stock markets and the impact of international exchange rate dynamics—which compensated for the increase in liabilities due to the appreciation of the Chilean peso vis-à-vis the U.S. dollar at the beginning of the year. From a sectoral perspective, the increase was primarily driven by an increase in the NIIP of non-financial corporations (NFCs) and banks by 2.9 and 1 percent of GDP respectively relative to 2022Q4. External debt stood at 70.4 percent of GDP as of 2023Q3, of which 29.6 percent of GDP was owed by NFCs, 15.9 percent of GDP was in the form of FDI, and 13.1 percent of GDP was owed by the general government.

Chile: Net IIP
(In percent of annual GDP)



Sources: Central Bank and IMF staff calculations.

Assessment. Chile has large gross external liabilities, but these are largely offset by gross foreign assets. Moreover, the weight of FDI in gross liabilities is significant, and most sectors (public sector, pension funds, and other non-bank financial institutions) have positive net positions. While banks and NFCs have negative net positions of 10.2 and 35.7 percent of GDP, respectively, over two thirds of NFCs' liabilities are FDI. FDI is comfortably the largest type of liability by instrument, representing 55.5 percent of gross liabilities as of 2023Q3. Another mitigating factor relates to banks' short FX positions due in thirty days which cannot exceed long positions by more than banks' capital by regulation. In sum, external vulnerabilities due to the negative NIIP remain limited.

2023 (Q3) (% GDP)	NIIP: -15.9	Gross Assets: 139.3	Reserve Assets: 12.6	Gross Liab.: 155.2	Debt Liab.: 70.4

Current Account

Background. After the CA deficit widened sharply to 9 percent of GDP in 2022 due to higher transportation costs, terms of trade shocks, supply disruptions, and ample policy stimulus and exceptional pension withdrawals (over 2020–21), it corrected swiftly in 2023. The four-quarter moving average CA deficit reverted to 3.4 percent of GDP in 2023Q3 and is expected to have narrowed to 3.2 percent at the end of the year, driven by a broad-based decline in imports. Transportation costs started to decline but have not yet fully normalized to pre-pandemic levels. From a savings-investment perspective, the CA correction in 2023 was driven by a reduction of private sector imbalances, while the public sector balance deteriorated. Over the medium term, IMF staff projects that the CA deficit will converge to about 3 percent of GDP, supported by the ongoing structural fiscal consolidation and the flexible exchange rate.

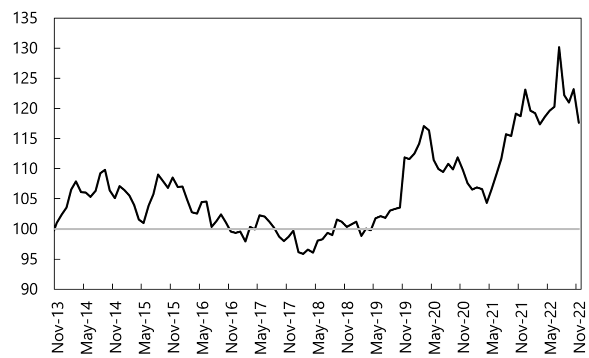
Assessment. The EBA model estimates a CA norm of -0.9 percent of GDP, compared to a cyclically-adjusted CA of -4.1 percent of GDP. IMF staff estimates CA adjustments of 1.8 percent of GDP to account for measurement biases due to inflation and portfolio equity retained earnings.[3] The resulting adjusted EBA model CA gap is -1.4 percent of GDP. On this basis, Chile's 2023 external position was moderately weaker than the level implied by medium-term fundamentals and desirable policy settings.

2023 (% of GDP)	Actual CA (E): -3.2	Cycl.-Adj. CA (E): -4.1	EBA CA Norm: -0.9	EBA CA gap: -3.2	Adjustors: 1.8	Adj. CA gap: -1.4

Real Exchange Rate

Background. Following a period of appreciation over 2022Q4–2023Q2, the REER began to depreciate in 2023Q3 but remains around its long-run (2013–22) average. The depreciation was among other factors driven by the weaking of the Chilean peso (CLP) amid the narrowing interest differential with the U.S. and uncertainty surrounding the outlook for key trading partners, including China, and consequently copper prices. The behavior of the CLP during this period was characterized by heightened sensitivity to news and greater volatility.

Chile: Real Effective Exchange Rate
(Index avg. 1996-2019=100, - = appreciation)



Sources: BCE and IMF staff calculations.

Assessment. The EBA REER index and level models suggest a REER undervaluation of 5 and 13.9 percent, respectively. In contrast, the EBA CA model implies an overvaluation of 5.6 percent (applying an estimated elasticity of 0.25). Considering the recent depreciation of the REER, leading to a REER which was in the first eleven months of 2023 on average close to its long-term average (1.1 percent weaker), staff estimates that the REER gap is between -5 and 5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Portfolio flows and FDI accounted for the bulk of net inflows to Chile in 2022 (both around 3 percent of GDP). In the first three quarters of 2023, Chile experienced net capital inflows of US$6.7 billion, led by net FDI inflows (US$10 billion) which more than offset net portfolio outflows (US$1.5 billion) and the increase in international reserves (US$2.3 billion). Non-residents were net sellers of Chilean assets (gross inflows totaled minus US$0.8 billion) while residents were net sellers of foreign assets (gross outflows totaled minus US$7.5 billion).

Assessment. Chile has demonstrated ample capacity to absorb short-term capital flow volatility. Chile's government has a sizeable stock of usable liquid FX assets that limit financial market risks.

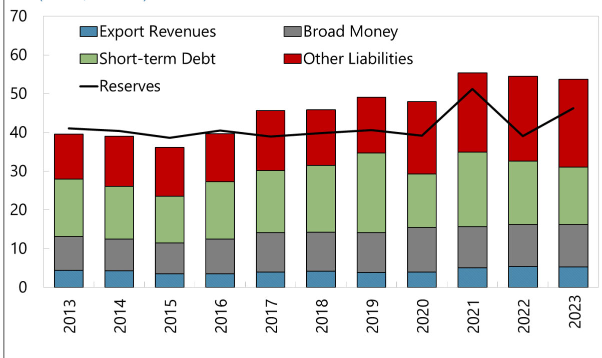
FX Intervention and Reserves Level

Background. The peso is floating, and FX interventions have been limited to preventing disorderly market conditions. In April 2023, the BCCh began to gradually unwind the FX forward operations from the 2022 intervention program and in June, to rebuild buffers through a reserve accumulation program which involved the purchase of US$3.7 billion in reserve assets over June–October 2023. Both programs were suspended on October 26 amid heightened CLP volatility and sensitivity to global financial markets. At end-December, gross international reserves stood at US$46.3 billion.

Assessment. Gross international reserves amounted to 83.5 percent of the IMF's reserve adequacy metric (ARA) on average over 2021–23 and 86.2 percent at end-December 2023. Staff assesses reserves to be adequate due to several mitigating factors:

Chile: ARA Metric Decomposition and Reserves

(In US$ billions)



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

- The government has usable liquid FX assets (US$6.2 billion as of November), including US$5.9 billion in the economic and social stabilization fund (FEES) and US$0.3 billion cash (equivalent to an improvement in reserve coverage of up to 11.5 percentage points). Buffers remain sizeable despite the decline in usable liquid FX assets since 2019 primarily reflecting withdrawals from the FEES over 2020-21 to help finance pandemic-related spending.[4]
- More than one-fifth of short-term debt represents intercompany loans for foreign direct investors to local firms. These loans are a very stable source of funding with a low probability to result in FX funding needs.
- 77 percent of banks' short-term external debt (US$18.5 billion at end-2023Q3)[5] is covered by banks' liquid foreign assets (US$14.3 billion at end-2023Q3) which significantly reduces banks' potential short-term FX funding needs.
- Reserves are complemented with two FX liquidity lines totaling US$8.5 billion: a credit line with FLAR (US$1.3 billion) and a bilateral swap facility with the PBOC (US$7.2 billion). The BCCh is also a subscriber of the Fed's FIMA repo facility, which allows for the temporary exchange of U.S. Treasury securities held with the Fed for U.S. dollars (US$26 billion).
- The authorities remain strongly committed to a flexible exchange rate.

[1] The external sector assessment is based on staff's estimates for the 2023 current account.

[2] Calculated as a share of the four-quarter moving sum of quarterly GDP.

[3] Chile's net portfolio equity position is positive due to the pension funds' investment abroad and net FDI position is negative due to foreign investment in the mining sector. This adjustor accounts for the fact that retained earnings on portfolio equity are not recorded in the income balance (while they are for FDI), and higher nominal interest rate due to inflation are recorded as a negative income stream for net debtor countries. Chile's NIIP valuation changes tend to be positive, which means that the NIIP does not deteriorate as much as implied by the CA deficits which reflect large mining investment financed by FDI. This is a further indication of a negative measurement bias, understating the CA balance.

[4] The government partially replenished the FEES following the pandemic-related withdrawals over 2020-21. Chile also has a pension reserve fund which complements the funding of fiscal obligations from the Universal Guaranteed Pension and the disability solidarity pillar. Since 2022, withdrawals from the pension reserve fund shall not exceed 0.1 percent of previous year GDP. As of November 2023, the balance of the pension reserve fund stood at US$8.6 billion.

[5] Includes banks' short-term external debt stock of US$11.0 billion at end-2023Q3 and US$7.5 billion of banks' long-term debt due in the next twelve months.

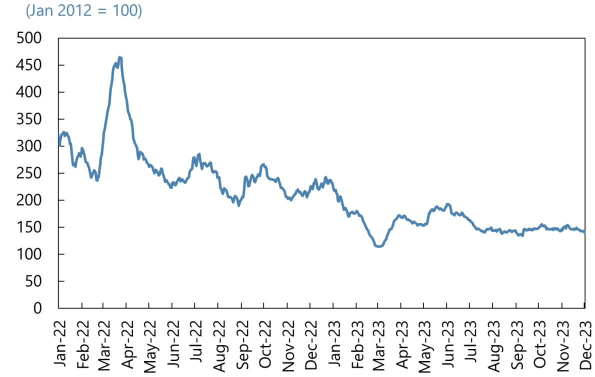
Annex IV. 2022 FX Intervention: Role of the NDF Market[1]

1. In the last two FX selling intervention episodes, the BCCh complemented its spot sales with NDF sales. Since the adoption of the flexible exchange rate regime in 1999, the BCCh intervened to sell FX on only four occasions (2001, 2002, 2019, and 2022). Most recently, in November 2019 and July 2022, the BCCh announced[2] on each occasion an FX intervention program that included sales of up to US$10 billion in the non-deliverable forwards (NDF) market and sales of up to US$10 billion in the spot market. These measures were implemented to reestablish the proper price formation process in the FX market and mitigate possible contagion effects to other segments of the financial market.

2. In normal times, Chile's NDF trading is characterized by a liquid, two-way market. Unlike traditional forwards, NDFs settle in Chilean pesos (CLP) at maturity. Market participants with short dollar positions (mainly non-resident agents like foreign corporations and investors seeking to profit from carry trade operations) tend to purchase NDFs to hedge their currency exposure while those with long dollar positions (mainly Chilean pensions funds) tend to sell NDFs. Historically, NDF flows from pension funds have served as a counterbalance to the non-resident sector, maintaining the economy's FX position relatively balanced.

3. Due to a combination of domestic and international events, the NDF market became severely imbalanced, triggering disorderly market conditions, in July 2022. Domestically, 2022 was a year of particularly high uncertainty. Following three private pension fund withdrawals during 2020-21, discussions about potential additional withdrawals resurfaced in 2022, putting into question the future of the capitalized pension system. Moreover, political sentiment shifted in 2022 when the proposed new constitution was rejected by a large majority. Internationally, higher-than-expected inflation, especially in the U.S. and Europe, and a worse-than-anticipated slowdown in China prompted tighter financial conditions and fears of a global recession. This was followed by a large drop in commodity prices, including copper, mainly due to the expected impact of China's extended lockdown. These events triggered a risk-off episode with a sudden increase in demand for NDFs by non-residents to offset long CLP positions. During this period, pension funds were less active in the market mainly due to their lower investment coverage needs resulting from the pension withdrawals. The market struggled to absorb the sharp movements triggered by non-residents, and the price formation in the Chilean FX market weakened, resulting in unusually high volatility and high bid-ask spreads. The abrupt deterioration in the

Chile: Daily Economic Uncertainty Index
(Jan 2012 = 100)



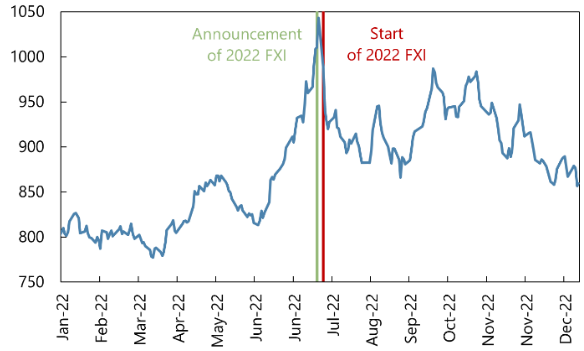
Sources: Central Bank of Chile and IMF staff calculations.

[1] Prepared by Martina Hengge. The author would like to thank BCCh staff for very useful discussions and comments.

[2] The 2019 program started on December 2nd. The 2022 program started on July 18th.

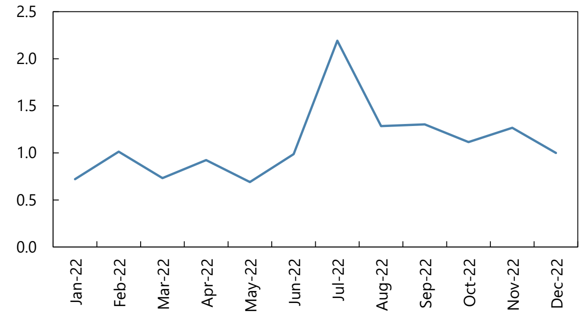
functioning of the FX market also increased financial stability risks through contagion to other market segments, including sovereign and corporate bond markets which experienced a sharp increase in spreads over U.S. Treasuries.

Chile: CLP/USD Exchange Rate



Sources: Central Bank of Chile and IMF staff calculations.

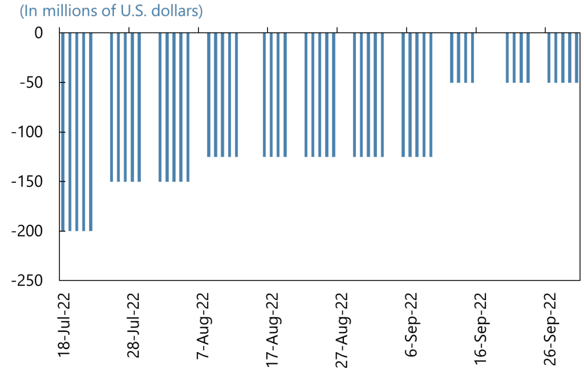
Chile: Monthly Volatilty of CLP/USD Daily Returns 1/



Sources: Central Bank of Chile and IMF staff calculations.
1/ Volatility is calculated as the standard deviation of daily CLP/USD returns within a month.

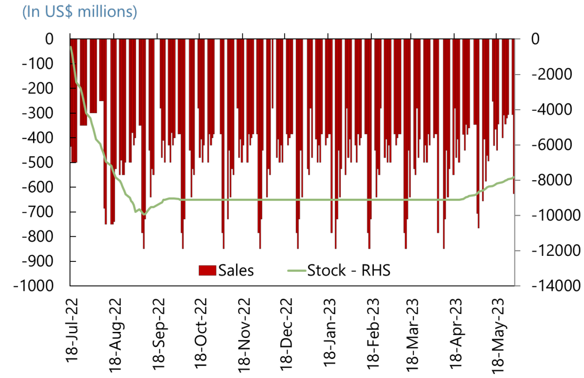
4. The BCCh's intervention aimed at addressing disorderly market conditions by rebalancing NDF and spot markets. On Wednesday, July 14th, 2022, the BCCh announced the decision to intervene in the FX market. Subsequently, the BCCh published each Friday operational details for the intervention in the coming week. FX spot and NDF sales began on July 18th, 2022. At the beginning, BCCh FX sales represented a non-negligible share of daily flows (on average, 8 percent of NDF market sales and 15 percent of spot market sales in July). Sales in the spot market were gradually reduced from US$200 million daily in mid-July to US$50 million daily by end-September 2022. Total spot transactions amounted to US$6.15 billion, representing about 60 percent of BCCh's announced cap. NDF sales reached a stock of US$9.95 billion in early September 2022. These sales were set for a 30-day term and were rolled over upon maturity. In April 2023, the BCCh announced the gradual unwinding of its existing NDF position as of that date, with an average daily reduction of US$50 million over ten months.

Chile: 2022 FXI Daily Spot Sales
(In millions of U.S. dollars)



Sources: Central Bank of Chile and IMF staff calculations.

Chile: 2022 FXI Daily NDF Sales and Stock
(In US$ millions)



Sources: Central Bank of Chile and IMF staff calculations.

5. FX market conditions improved following the intervention announcement. CLP volatility and bid-ask spreads declined, and local bond spreads narrowed. Empirical evidence on the effectiveness of FXI in Chile[3] suggests that the 2022 intervention had a significant impact on lowering the level and volatility of the CLP exchange rate. The authors show that the impact of intervention announcements was larger than the impact of intervention sales. They do not find any evidence that the effect of the intervention in the NDF market was statistically different from the effect of the intervention in the spot market, a result which is left as an area for future research.

[3] See Arenas, J. and Griffith-Jones, S. (2023). *Effectiveness of Foreign Exchange Interventions: Evidence and Lessons from Chile*. BCCh Working Paper N. 983, June 2023.

Annex V. National Lithium Strategy

Chile's National Lithium Strategy aims to upgrade the lithium industry and lithium value chain in a socially and environmentally sustainable way while maximizing fiscal revenue. To achieve this goal the government seeks, as the strategy's key element, to increase production and development of new project through public-private partnerships, with a view to enhancing the sector's technological and organizational capacity.

A. Background

1. The increased demand for lithium arising from the global green transition provides a growth opportunity for Chile, the second-largest lithium exporter in the world. The green transition relies on the reduction of carbon emissions in the transportation and power sectors. Lithium, as a critical mineral for producing Li-ion batteries, is essential for the adoption of electric cars and smoothing the volatility of wind and solar-based power supply. Due to the higher prices of lithium, Chile's annual value of lithium exports has increased from an average of 0.3 percent of GDP during 2019–21 to 2.7 percent in 2022.

2. Chile's lithium industry currently has only a few market players and the production concentrates on extraction of raw minerals with limited spillover to downstream industries. The current institutional framework governing Chile's lithium industry stems from a law in 1979, which classifies lithium as a non-concessional strategic resource. Companies require a special government permit and must abide by specific production quotas. Owners of mining properties with lithium rights before 1979 can explore and exploit their resources directly, for example Corfo owns rights in Salar de Atacama, where current production comes from two companies (SQM and Albemarle) that started operations before 1979 through special leasing contracts with the government agency. Their contracts will expire in 2030 and 2043, respectively. Chile's participation in the battery value chain concentrates on upstream mineral extraction. It has some participation in refining and a small footprint in electrochemical and battery manufacturing.

B. Main Objectives and Elements of the Strategy

3. The government has formulated the following main objectives. First, the lithium production potential should be reached sustainably by creating conditions to increase existing production in the Salar de Atacama and start production in other salt flats. Second, standards and regulations will be updated to safeguard long-term environmental and social sustainability. Third, the strategy aims to promote the technological development of lithium and downstream industries (e.g., materials, battery production) to prevent the lithium industry from becoming an enclave economy. A fourth goal is to maximize the lithium revenue contributions for the state budget. Finally, the government aims to attract diverse industry participants to develop a competitive and more diverse sector, which would also enhance the economy's resilience and growth potential.

4. The strategy seeks to attract new investors throughout the lithium value chain through the creation of public-private partnerships. Chile's national lithium strategy hinges on sustainably increasing production. The government aims to encourage new entrants in the industry and support novel projects beyond the prominent Salar de Atacama salt flats. Key to this expansion is the creation of public-private partnerships, designed to ensure both sustainable lithium production and appropriate revenue for the state. In the Salar de Atacama salt flats and any salt flats defined as strategic, the strategy sets out that state would maintain a majority share in public-private partnerships with operational details on the state's role yet to be spelled out. The strategy also aims to promote lithium refining processes, developing battery precursor materials, and fostering the initial stages of the battery value chain. The goal is to stimulate the mining and metals sectors crucial for battery production and encouraging new uses of lithium.

5. Knowledge and capacity building is meant to strengthen the state's management of Chile's lithium resources. The strategy includes plans for the creation of a public technology and research institute to generate and internalize knowledge on salt flats, lithium, and lithium value chain, contributing to the technological development, regulation, and decision-making of the state (including contract negotiation).

6. Upgraded frameworks for environmentally and socially sustainable production are other important elements of the strategy. The framework (including regulations) for lithium and salt flats is set to be restructured to enable the development and growth of the industry with a minimum environmental impact while fully respecting and engaging with local communities and indigenous people.

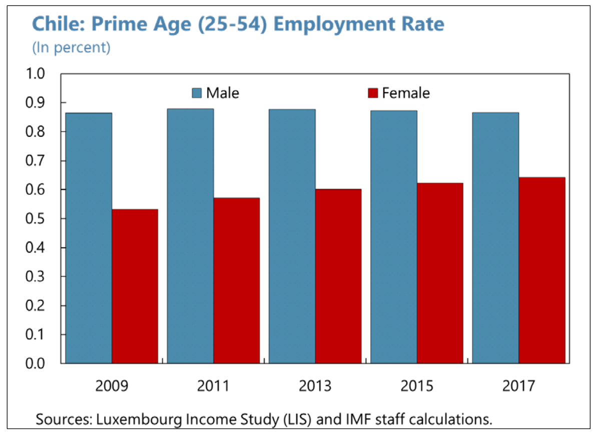
C. Timeline

7. The implementation of the strategy has started. Codelco, the state-owned copper company, agreed in December 2023 (on behalf of the government) with SQM, whose current contract expires in 2030, on a memorandum of understanding (MoU) about a public-private partnership. The MoU foresees the creation of a new company in 2025 jointly owned by Codelco (50 percent plus one share) and SQM (50 percent minus one share). The new company will operate the lithium production on the properties that SQM currently manages in Salar de Atacama. The MoU also plans for an increase in the lithium production quota to be authorized by the Chilean authorities. The engagement with other stakeholders to disseminate the strategy has also started. The rest of the strategy is expected to be implemented starting in 2024, including the auction for lithium production in salt flats and the creation of a protected group of salt flats. The government is committed to an open, transparent, and internationally competitive selection of new developers or partners.

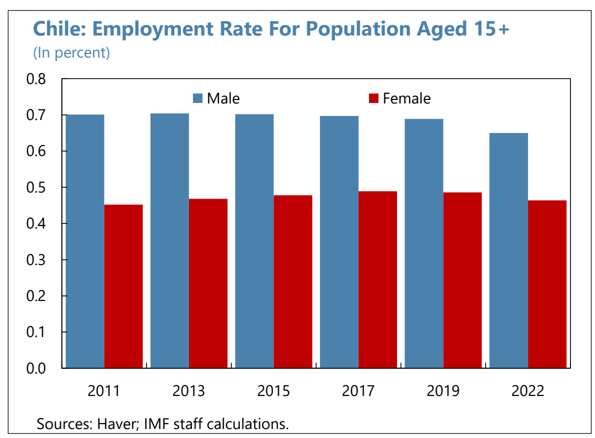
Annex VI. Gender Pay Gap[1]

While the employment rate of women in Chile remains relatively low, there has been a notable increase during the past two decades. However, the gender gap in labor earnings of employed workers has changed little. Women's mean labor earnings were 19 percent lower than men's in 2017 among full-time prime-age workers with permanent contracts. This aspect of labor market gender inequality had been persistent and cannot be explained by usual labor characteristics such as education attainment.

1. **The gender gap in Chile's employment rate[2] has narrowed substantially but remains high.** Around 64 percent of prime-age (25–54) women were employed in 2017 compared to 53 percent in 2009, narrowing the difference between the employment rates of women and men from 33 to 22 percentage points. For working age population (15 years and older), the difference between the employment rates of women and men declined from 25 percentage points in 2011 to 19 percentage points in 2022. While the gender gap in employment rates has narrowed, it is still higher than OECD average (15 percentage points for population aged 15 years and older in 2021).



2. **This Annex focuses on the gender gap in labor earnings where less progress has been made.**[3] We start by documenting the gender gap within prime-age (25–54) employees with full-time, permanent contract jobs, with a view to identifying the gap arising from age, education, occupation, and unobservable factors. By expanding the sample, we also estimate contributions to the gender gap from other type of contracts (part-time, temporary, and family workers), labor participation, and unemployment.



[1] Prepared by Si Guo.

[2] Employment rate for a certain age group is calculated as the size of employment (formal and informal) divided by the size of population (inside or outside the labor market) within that age group.

[3] The Annex uses the terms gender pay gap and gender labor earnings gap interchangeably. The term "labor earnings" is defined as the monthly earnings from employment (including self-employment) of a worker. Importantly, labor earnings might be zero for some labor market participants who are unemployed, performing unpaid works, or outside the labor market.

3. Depending on the specifics in the measurement of the gender pay gap, policy conclusions can differ. For example, OECD (2021) estimates that the median hourly gender pay gap in Chile, Colombia, Costa Rica, and Peru ranges between 4 to 17 percent, while ILO (2018) estimates that it ranges between 12–21 percent in these countries. The difference is mainly due to the exclusion (inclusion) of part-time workers in the OECD (ILO) estimates with women more likely to work part-time. These differences have policy implications: for a country with a 4 percent hourly gender pay gap for full-time workers but a 12 percent hourly pay gaps for all workers (full and part-time), helping women finding full-time jobs could have a bigger impact on improving women's labor market outcome than regulating gender pay equality within the same job category.

Box 1. Data and Methodology

Data are from the Luxemburg Income Study (LIS) Database, which is a cross-country micro-level dataset for household and individual income and expenditure. Data were retrieved during July-September 2023. For Chile, the data is compiled from Chile's National Socio-Economic Characterization Survey, covering over 200,000 participants in 2017. The variable for labor earnings (LIS code "pilabour") reports the monthly pre-tax nominal earnings in local currency.

We follow the Oaxaca-Blinder decomposition to separate the male-female differences in log labor earnings into a component explained by labor quality and an unexplained component. The latter is often interpreted as a measure of unequal pay for male and female workers with the same labor quality. Specifically, we first run separate Mincer regressions of the log earnings on labor characteristics by gender.

Chile: Summary Statistics
(2017)

	Male	Female	Total
Sample Size	112,916	103,315	216,231
Mean Age	35.7	38.5	37.2
Population with known labor status	82,131	92,741	174,872
Employed	53,386	38,829	92,215
Unemployed	4,506	4,165	8,671
Retired	9,856	14,339	24,195
In education	8,901	9,153	18,054
Others (not in labor force)	5,482	26,255	31,737
Population aged 0-24	37,757	36,424	74,181
Population aged 25-54	39,796	44,724	84,520
Population 55+	25,762	31,768	57,530
High education attainment	13,456	15,971	29,427
Share of population with high education attainment for workers aged 25-54 with full time, permanent contracts	33%	43%	38%

Source: Luxembourg Income Study (LIS) and IMF staff calculations.

For male: $Y^m(i) = A^m X(i) + u^m$

For female: $Y^f(i) = A^f X(i) + u^f$

Y(i) represents log labor earnings. X(i) represents a vector of labor characteristics, including age, education level, disability, rural/urban residency, and a constant term. A^m and A^f are the coefficients (premium rates) for these labor characteristics. u^m and u^f are constant and error terms. We can thus decompose the (log average) gender pay gap into:

$$Y^m - Y^f = A^m(X^m - X^f) + X^f(A^m - A^f)$$

The first term, $A^m(X^m-X^f)$, captures the gender pay gap arising from male and female workers' differences in labor characteristics. The second term, $X^f(A^m-A^f)$, captures the unequal pay for male and female workers with the same labor characteristics.

The role of age, education, occupation, and unobservable characteristics

4. For dependent employees aged 25–54 with full-time permanent contracts, women's mean (and log) labor earnings were 19 (and 17) percentage points lower than men's in 2017. This gap exists despite a higher education attainment by Chilean women than men, as 43 percent of full-time female workers with permanent contracts have a tertiary education, compared to 33 percent of male workers. Moreover, more women work in occupations with higher average earnings than men (such as professionals). Nevertheless, the Oaxaca-Blinder decomposition exercise (Box 1) shows, these females' advantages in education attainment and occupation distribution are more than offset by their lower return rates from age, education, and occupation (text table). Overall, the contribution of the differences in labor and job characteristics to the gender gap in (log) labor earnings is -7 percentage points, i.e., males' log earnings are predicted to be 7 percent lower than females due to males' less favorable labor characteristics in education attainment and occupation choices.[4] However, females' return rates from age, education, and occupation distribution are lower than males, contributing to 24 percentage points of the gender gap in (log) labor earnings. Because this gender pay gap is not explained by observable labor characteristics, it is often interpreted in the literature as the result of unequal pay after controlling for labor and job characteristics.[5]

Chile: Gender Pay Gap Decomposition

(In **log** percentage points, full-time workers with permanent contracts, age 25-54)

Total Gender pay gap (A+B)	**17**
A. Gap in labor characteristics, $A^m(X^m-X^f)$	**-7**
Age, education, rural/urban	-3
Occupation distribution	-7
Industry distribution	3
B. Gap in return rates from age, education, occupation and industry choices, $X^f(A^m-A^f)$	**24**
Return from age and education	11
Return from occupation	16
Return from industry choices	0
Others	-4

Source: Luxembourg Income Study (LIS) and IMF staff calculations.

The role of contract types and labor participation

5. The gender labor earnings gap increases when accounting for workers with other types of contracts. In Chile, 65 (72) percent of female (male) workers aged 25–54 work under formal, full-time, and permanent labor contracts in 2017. The rest of the workforce works in other types of jobs,, such as part-time, temporary, and informal jobs. When these workers under all types of jobs are included in the sample, women's mean labor earnings are 24 percent less than men's in 2017.

The role of employment

6. The fact that a large share of women is not employed further widens the gender gap in labor earnings across all populations. For workers aged 25–54, the relatively low employment rate by women (64 percent vs. 86 percent for men) in Chile reflects their low labor participation rate (70 percent vs. 93 percent for men) as well as higher unemployment rate (8.2 percent vs. 6.9 percent for men) in 2017, though the latter gap has narrowed compared to the early 2010s. Thus, when considering all populations aged 25–54 (including those who are not in the labor force), women's mean labor earnings are 44 percent lower than men. The gap is even larger at 49 percent among

[4] Within prime-age workers with full-time permanent contracts, women are more likely to work in a few high-pay occupations than men, such as professionals and technicians.

[5] Some of the unequal pay documented here could still be attributed to gender differences in labor characteristics that are not included as control variables in the decomposition exercise due to data availability. For example, using administrative data, Huneeus et al. (2021) show that women's lower enrollment in STEM majors compared to men plays an important role in explaining the gender pay gap in Chile.

those ages 25–70 due to the even larger employment discrepancy for the population aged 55–70, reflecting in part women's lower legal retirement age of 60 years (compared to 65 for men).

Chile: Gender Pay Gap
(2017)

	Gender Gap	Driving factors
A. Full-time, permanent contract, age 25-54	19%	Female workers have (i) more favorable labor and job characteristics (-7%) but (ii) lower return rates from age, education and occupations.
B. All workers, age 25-54	24%	Above + female workers are more likley to work in parti-time, temporary, or unpaid jobs.
C. All population, age 25-54	44%	Above + females have lower labor participation rates and higher unemployment rates
D. All population, age 25-70	49%	Above + lower employment rates for female age 55-70 possibly due to earlier retirement age

Source: Luxembourg Income Study (LIS) and IMF staff calculations.

Old-age gender income gap

7. **For the group aged 65–80, the gender labor earnings gap is even larger, while the gap in pension income is partially mitigated by the non-contributory pension.** The average labor earnings for men aged 65–80 is about four times as much as women, mainly explained by the much higher employment rates for men (37 percent vs. 14 percent for women). The gap in pension income, however, is somewhat smaller. This is because on average, women aged 65–80 receive more public non-contributory pension than men. Women's average income from public contributory pension (the biggest component of pension income) is 45 percent lower than men's, consistent with the gender labor earnings gap for prime age workers.

Chile: Mean Income for Population Aged 65-80
(1,000 pesos per month, 2017)

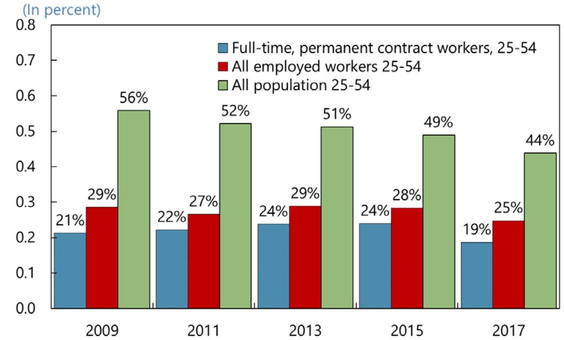
	Men	Women	Gap 1/
Labor Earnings	2,560	628	75%
Pension Income	2,541	1,753	31%
Public, non-contributory	499	638	-28%
Public, contributory	1,995	1,102	45%
Private pension	47	13	72%
Total	5,101	2,381	53%

Sources: Luxembourg Income Study (LIS) and IMF staff calculations.
1/ Defined as 1 - women's income/men's income.

Changes over time

8. **For employed prime-age workers, the gender gap in labor earnings only declined marginally.** During 2009–17, the gap edged down from 21 to 19 percent. For all employed prime-age workers, including workers with part-time, temporary, and/or informal jobs, the change in the gender pay gap was slightly larger as it decreased from 29 to 25 percent.

Chile: Gender Pay Gap by Groups 1/
(In percent)



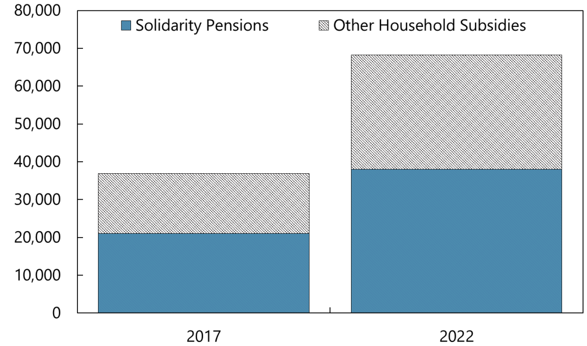
Sources: Luxembourg Income Study (LIS) and IMF staff calculations.
1/ The gap is calculated as 1 - women's labor earnings/men's labor earnings.

9. **When considering the labor earnings gap of the full population, much of the decline in the gender gap is associated with the increase in employment rates for women.** The gender gap in labor earnings for all prime-age workers (inside and outside of the labor force) dropped from 56 percent in 2009 to 44 percent in 2017 as the share of women employed increased from 53 to 64 percent during 2009–17.

Annex VII. The Impact of Increased Household Benefits on Poverty[1]

1. **Over the last five years social benefits substantially increased with the goal of reducing the persistent inequality in Chile.** Particularly, the 2019 social unrest and the COVID pandemic triggered the adoption of new measures, with COVID responses being timebound. Household subsidies (including solidarity pensions) almost doubled in real terms between 2017 and 2022 to an average of about US$78 per month. The increase in household subsidies can be broadly equally attributed to higher average solidarity pensions (including the guaranteed universal pension, PGU) as well as new and temporary household subsidies. The latter comprise targeted benefits to support food and living expenses of the poorest (such as *Aporte Canasta Basica de Alimentos*, *Bono Chile Apoya Inverno)* and incentivize labor (*IFE Laboral)* (for further information on each subsidy, see Table 1). This increase in household subsidies was a key driver of the reduction in the poverty rate from 8.5 to 6.5 percent during 2017-22, as autonomous income[2] remained broadly constant.

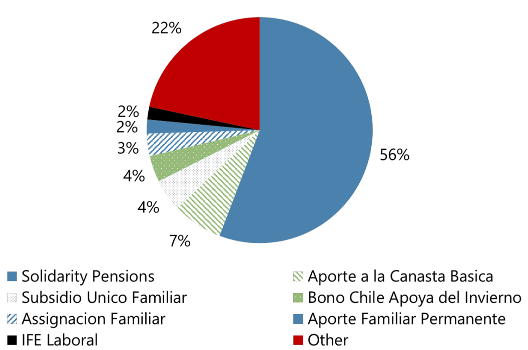
Chile: Average Household Subsidies
(In Chilean pesos, in real terms based on November 2022 price index)



Sources: 2017 and 2022 CASEN surveys, and IMF staff calculations.

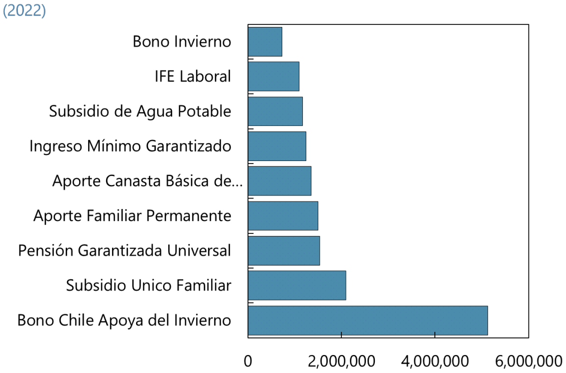
2. **A handful of programs account for the vast majority of social benefits while there is also a plethora of small social programs**. The solidarity pensions and the six largest non-pension subsidies represented about four fifths of household subsidies in 2022 in terms of monetary benefits (56 and 23 percent, respectively) (left text chart). The *Subsidio Unico Familiar* (SUF) and *Asignacion*

Chile: Composition of Average Household Subsidies
(In percent - 2022)



Sources: 2022 Casen Survey and IMF staff calculations.

Chile: Main Household Subsidies by Number of Beneficiaries
(2022)



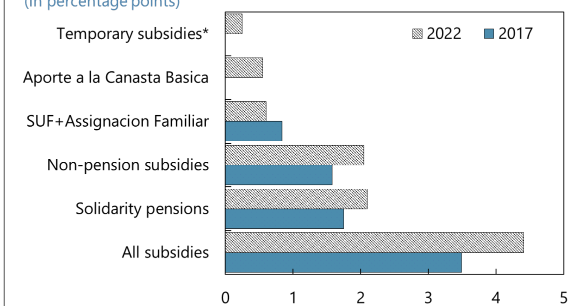
Sources: Ministry of Finance, and IMF staff calculations.

[1] Prepared by Luiza Antoun de Almeida. The author would like to thank Sebastián González and Professor Marcela Perticara for very useful discussions on the CASEN survey and social programs.

[2] Autonomous income includes income from wages and salaries, earnings from self-employment, self-provision of goods produced by the household, bonuses, gratuities, rents, interest, as well as retirements, pensions, and transfers between private individuals.

Familiar—a monthly subsidy of about CLP 20,300 to persons with no income belonging to the 60 percent poorest households and for persons with an income below CLP 1,229 thousand, respectively—are the most relevant permanent household subsidies in terms of average monthly payments across households. Given the reach and efficacy of the *Aporte Canasta Basica* (a monthly subsidy to beneficiaries of SUF and Asignacion Familiar for grocery purchases ranging CLP 7,342-14,061), its replacement (upon its expiration in April 2023) with a similar program, the *Bosillo Familiar Electronico*, at least until April 2024, will maintain the benefits for many poor families. In terms of numbers of beneficiaries, the largest household subsidies in 2022 were *Bono Chile Apoya del Invierno* (5.1 mn), *Subsidio Unico Familiar* (2.1 mn), the guaranteed universal pension PGU (1.5 mn), *Aporte Familiar Permanente* (1.5 mn), and *Aporte Canasta Basica de Alimentos* (1.4mn) (right text chart). The government also provides nearly 480 other social programs, many of which have a small budget and coverage (see paragraph 6).

Chile: Impact of Household Subsidies on Poverty Rate Reduction
(In percentage points)

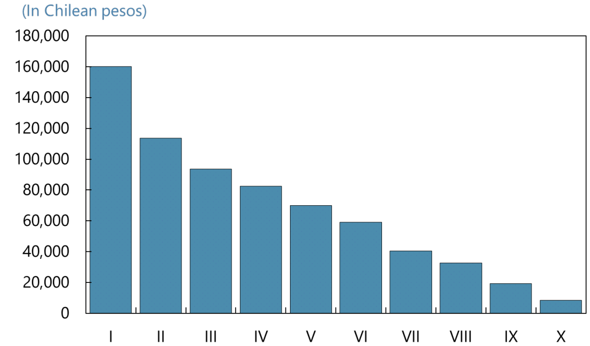


Sources: CASEN Survey 2022, and IMF staff calculations.
* Temporary subsidies include IFE Laboral and Bono Chile Invierno Apoya.

3. The impact of household subsidies on poverty reduction has increased between 2017 and 2022. While estimates suggest that social benefits are associated with 3.5 percentage points lower poverty rates in 2017, the estimated contribution rose to about 4.5 percentage points in 2022. Solidarity pensions and non-pensions subsidies each account for about 2 percentage points (text chart, see also Fernandez, Otth, and Rojas, 2022).

4. Subsidies are targeted at households at the bottom income deciles, but inequality remains high. Chile uses a detailed Social Household Registry (RSH) to determine eligible individuals and households for most household subsidies. In 2022, a household in the lowest income decile was receiving on average CLP 160,000 per month in subsidies, compared to about CLP 70,000 in the fifth income decile (text chart). When including subsidies, the household income ratio of the richest decile to the poorest decile falls by a factor of 2.7. The drop in the income ratio after subsidies between the richest decile and the fourth decile was much lower at 1.3. Nevertheless, since households at the middle of the distribution may be vulnerable to shocks that push them temporarily into/close to poverty, complementary policies, such as sufficient unemployment benefits, are an important part of a comprehensive social benefits package. In this context, while the CASEN survey shows that the poverty rate declined from 8.5 to 6.5 percent between 2017-22, inequality measured by the Gini coefficient only declined marginally from 0.484 to

Chile: Monthly Average Household Subsidies per Income Decile
(In Chilean pesos)

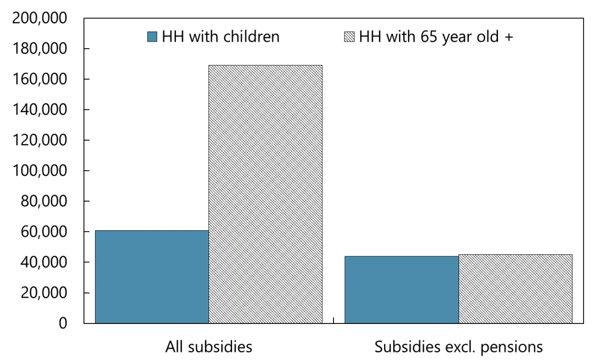


Sources: CASEN 2022, and IMF staff calculations.

0.470. Moreover, the difference in the Gini coefficient before and after subsidies is only 0.021 points, suggesting that household subsidies have little impact on inequality.

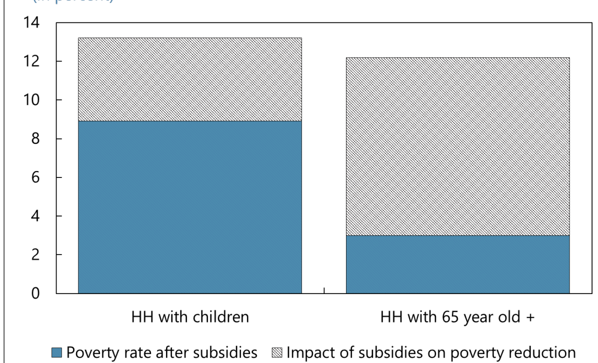
5. Due to solidarity pensions, households including persons 65 years or older experience relatively low poverty rates. Household with at least one person 65 years or older receive government subsidies almost three times as large as a household with a child younger than 18 years (left text chart, CLP 170,000 for the former compared to about CLP 60,000 for the latter). After subsidies, the poverty rate of households with a senior person is one third of those including at least one child (3 and 9 percent, respectively) (right text chart). Higher poverty rates among families with children call for revisiting household subsidies to better protect this vulnerable group.

Chile: Average Monthly Household Subsidies
(In Chilean pesos)



Sources: CASEN 2022, and IMF staff calculations.

Chile: Poverty Rate
(In percent)



Sources: CASEN 2022, and IMF staff calculations.

6. The government's plans to consolidate the fragmented social programs and create a one-stop window is aimed at facilitating access, broadening coverage, and enhancing efficacy. The government offered 484 social programs in 2022, which can be categorized along 10 different dimensions, including "education", "labor, income, and social security", specific groups, culture, "health and sports", and "cities and housing." [3] The 20 largest household subsidies featured in the socioeconomic 2022 CASEN survey usually belong to the "labor, income, and social security" or "specific groups" categories. The largest permanent household program in 2022, the SUF, costed only 0.1 percent of GDP.[4] Data on the 484 social programs show that only about 30 percent of the social programs costed more than CLP 10 bn (~USD 11 mn) in 2022. In this sense, in order to increase efficiency and facilitate public awareness, the government's plans to consolidate the fragmented social programs and create a one-stop window to access them is welcome.

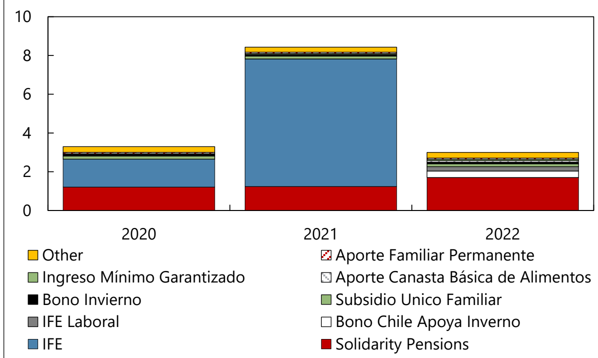
7. Households' subsidies have increased compared to pre-pandemic even though the COVID-19-related support measures were largely removed in 2022. With the broadening of the coverage and increase in solidarity pensions, related government spending more than doubled from 0.8 to 1.7 percent of GDP between 2018-22. Public pension outlays are set to continue increasing significantly over the long term given Chile's population aging. The government's main social

[3] See Publicación de Resultados de Monitoreo y Seguimiento de Programas Gubernamentales 2022, May 2023.

[4] Data from the Ministry of Social Development and Family, and Dipres.

program during COVID in 2020-21, the *IFE* (Emergency Family Income), covered 90 percent of households at a fiscal cost of 6.5 percent of GDP in 2021 and was removed in 2022. The fiscal costs of the new and temporary household subsidies (*Aporte Canasta Basica de Alimentos*, *Bono Chile Apoya Inverno*, and *IFE Laboral*) amounted to 0.6 percent of GDP in 2022. In total, the fiscal costs of the 20 largest household subsidies featured in the CASEN survey (including solidarity pensions) was about 3.0 percent of GDP in 2022. Total spending on the 484 social programs amounted to 10.6 percent of GDP in 2022, including education (4.3 percent of GDP), labor, income, and social security (3.7 percent of GDP), and cities, transportation, and housing (1.0 percent of GDP).[5]

Chile: Fiscal Costs with 20 Largest Household Subsidies
(In percent of GDP)



Sources: Ministry of Social Development and Family, Dipres, and IMF staff calculations.

[5] Data from the Ministry of Social Development and Family, and Dipres.

Table 1. Chile: Key Elements of Largest Household Subsidies Featured in the CASEN 2022 Survey

Subsidy	Eligibility	Monthly Amount (Unless otherwise indicated)	Number of Beneficiaries	Fiscal Costs (Percent of GDP)
Permanent Household Benefits				
Pension Garantizada Universal, PGU (Guaranteed Universal Pension)	- Persons 65 years old or older, belonging to the 90 percent poorest households according to the Social Household Registry (RSH), with a pension lower than CLP 1,114,446, and having lived in Chile for at least 20 years.	- CLP 206,173 until a pension up to CLP 702,101, at which point the benefit declines until a maximum pension of CLP 1,114,446.	1,544,840	1.3
Aporte Previsional Solidario de Vejez, APSV (Old-Age Solidarity Pension Contribution)	- APSV was replaced by the PGU but beneficiaries can still receive it if the subsidy calculation yields a higher amount than the PGU. - Persons with 65 years old or older, with a pension from the contributory system below CLP 573,079, belonging to the 90 percent poorest households according to the RSH, having lived in Chile for at least 20 years.	- depends on pension income, can be higher than the PGU	291,387	0.2
Pensión Basica Solidaria de Invalidez, PBSI (Basic Solidarity Disability Pension)	- Persons with 18-65 years old declared with a disability by a medical committee, who do not have any pension rights, and belonging to the 80 percent poorest households according to the RSH.	- CLP 206,173	184,116	0.2
Aporte Previsional Solidario de Invalidez, APSI (Disability Solidarity Pension Contribution)	- Persons with 18-65 years old declared with a disability by a medical committee, who receives already a pension for disability below the PGU level of CLP 206,173, and belonging to the 80 percent poorest household according to RSH.	- Brings existing pension to the PGU level of CLP 206,173	89,897	0.1
Subsidio Unico Familiar, SUF (*Single Family Subsidy*)	- Persons belonging to the 60 percent poorest households according to the RSH without income and social contributions.	-CLP 20,328 -CLP 40,656 for persons with disabilities	2,098,558	0.1
Asignacion Familiar (*Family Allowance*)	- Dependent and independent employees with monthly income below CLP 1,228,615.	-CLP 20,328 for monthly income below CLP 539,328. -CLP 12,475 for monthly income between CLP 539,329-787,746. - CLP 3,942 for monthly income between CLP 787,747-1,228,614.	192,700	0.0
Aporte Familiar Permanente (*Permanent Family Contribution*)	- Beneficiaries of SUF, Asignacion Familiar, or having belonged to Ingresso Etico Familiar or Chile Solidario.	- CLP $59,452 (per year)	1,497,848	0.1
Ingresso Minimo Garantizado (*Guaranteed Minimum Income*)	-Dependent employees with a monthly gross salary below CLP 497,272 and working 30-45 hours per week, and belonging to the 90 percent poorest households according to RSH.	- Up to CLP 78,965 depending on gross salary, the objective is to guarantee a net monthly salary of CLP 379,793.	1,243,228	0.1
Subsidio al Pago del Consumo de Agua Potable (*Drinking Water Subsidy*)	- Households spending more than 5 percent of monthly income on drinking water.	- 25-85 percent of the drinking water bill depending on the socioeconomic level of the household, or 100 percent in case of household beneficiaries of Chile Solidario and Chile Seguridades and Oportunidades	1,173,534	0.0
Bono Inverno (*Winter Bonus*)	- Persons 65 years old or older with a pension below the minimum old-age pension of about CLP 212,407.	- CLP 74,767 (per year)	727,976	0.1

Source: IMF staff summary based on data from the Ministry of Social Development and Family, and Dipres, as well as diverse official government's websites.

Table 1. Chile: Key Elements of Largest Household Subsidies Featured in the CASEN 2022 Survey (concluded)

Subsidy	Eligibility	Monthly Amount (Unless otherwise indicated)	Number of Beneficiaries	Fiscal Costs (Percent of GDP)
Temporary Household Benefits				
Aporte Canasta Básica de Alimentos (*Basic Food Basket Allowances*)	- Effective between May 2022-April 2023, was replaced by the Bosillo Familiar Electronico (Electronic Family Pocket) - Beneficiaries of Asignacion Familiar and SUF, as well as households belonging to Seguridades y Oportunidades and Chile Solidario	- Amount varies according to the cost of the basic food basket, but ranged between CLP 7,342-14,061 between May 2022 and April 2023.	1,350,768	0.1
Bono Chile Apoya del Invierno (*Chile Supports Winter Bonus*)	- A single extraordinary payment - Beneficiaries of Assignacion Familiar, Subsidio Familiar, Bono de Inverno, Subsidio de Discapacidad, APSI, PBSI, or users of the Subsystem Seguridades y Oportunidades who have a disability or are younger than 18 or older than 60, or with a disability.	- CLP 120,000 (per year)	5,129,181	0.3
Ingresso Familiar de Emergencia (IFE) Laboral (Labor Emergency Family Income)	- Effective between July 2022 and June 2023 - Having a new work contract - Having a monthly income below 3 minimum wages (CLP 1,320,000) - Having been unemployed during the whole month prior to the new contract	- 25 percent of gross monthly income with a cap of CLP 100,000 for men 24-55 years old. - 60 percent of gross monthly income with a cap of CLP 300,000 for women and persons 18-24 or above 55 years old.	1,092,708	0.2
Ingresso Familiar de Emergencia (IFE) (Emergency Family Income)	- Effective May 2020-November 2021 - Persons belonging to the 90 percent poorest households according to RSH and to the 80 percent most vulnerable households according to the Socioeconomic Index of Emergency (ISE)	- For households without formal income: CLP 100,000 per household member until 4 members, with the amount declining slightly after the 5th family member. - For households with income: the benefit complements the total income of the household.	16,737,359	0.2

Source: IMF staff summary based on data from the Ministry of Social Development and Family, and Dipres, as well as diverse official government's websites.

Annex VIII. Sovereign Risk and Public Debt Sustainability Analysis

Table 1. Chile: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability, including in the medium- and long-term horizons.
Near term 1/	...	...	...
Medium term	**Low**	**Low**	Medium-term risks are assessed as low, reflecting the strength of the fiscal framework in guiding fiscal policy and rebuilding buffers.
Fanchart	**Low**	...	
GFN	**Low**	...	
Stress test	...	...	
			The overall long-run risk indicator is assessed as low. Under the baseline, debt broadly stabilizes around 40 percent of GDP during 2028-50, reflecting a primary balance in line with the debt-stabilizing one. Aging-related expenditure linked to health and pension are expected to be largely paired to higher revenues, with costs related to solidarity pensions potentially doubling by 2050. Copper production and revenues are not expected to fall dramatically over the next decades compared to its 2023 level.
Sustainability assessment 2/	...	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels. Therefore, debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			No

DSA Summary Assessment

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

Source: Fund staff.

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

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

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

Table 2. Chile: Debt Coverage and Disclosures

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

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

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

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

Reporting on Intra-Government Debt Holdings

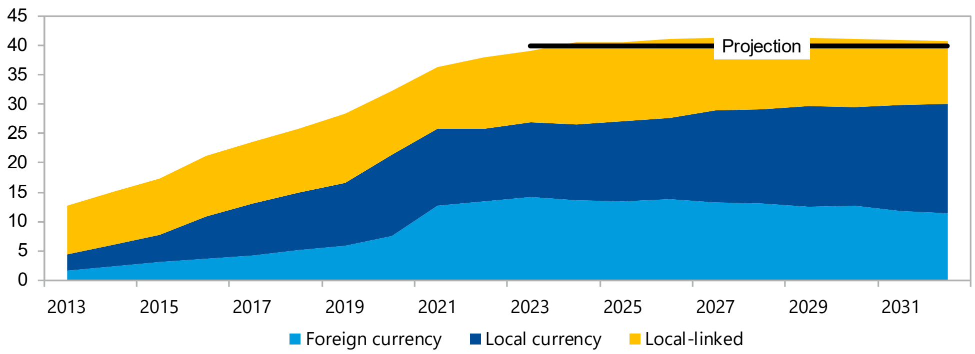
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

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

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

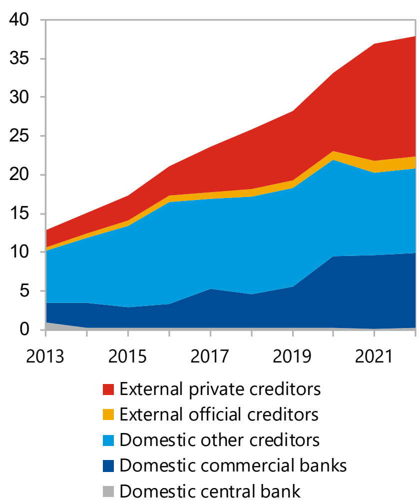
Table 3. Chile: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



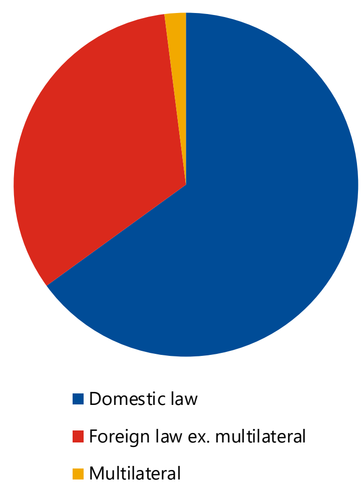
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



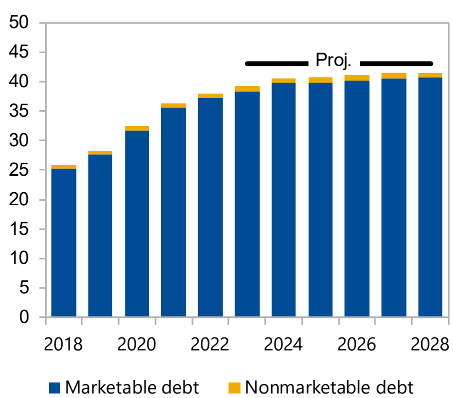
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2022 (percent)



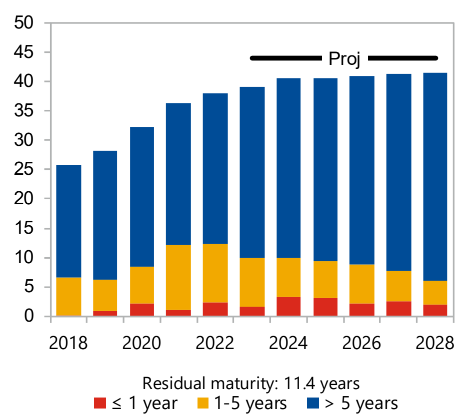
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



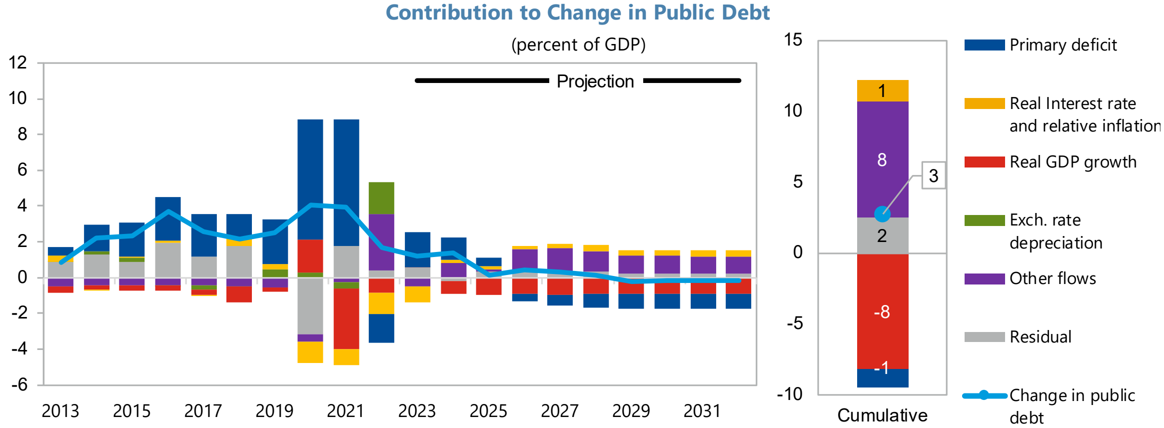
Note: The perimeter shown is central government.

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

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

	Actual	Medium-term Projection						Extended Projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	38.0	39.2	40.5	40.7	41.1	41.4	41.5	41.3	41.1	40.9	40.7
Change in public debt	1.7	1.2	1.4	0.1	0.4	0.3	0.1	-0.2	-0.2	-0.2	-0.2
Contribution of identified flows	1.3	0.6	1.5	-0.2	0.1	0.0	-0.2	-0.4	-0.4	-0.4	-0.4
Primary deficit 1/	-1.6	2.0	1.3	0.5	-0.4	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8
Noninterest revenues	25.6	22.5	23.3	23.6	23.6	23.6	23.6	23.6	23.7	23.7	23.7
Noninterest expenditures	24.0	24.5	24.6	24.1	23.2	23.0	22.9	22.8	22.8	22.9	22.9
Automatic debt dynamics	-0.2	-0.8	-0.6	-0.8	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6
Real interest rate and relative inflation	-1.2	-0.9	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Real interest rate	-1.1	-1.2	-0.1	-0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Relative inflation	0.0	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.9	0.0	-0.7	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real exchange rate	1.8	...	...	...	...	...	...	...	...	...	...
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.5	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other transactions 2/	3.6	0.1	1.3	0.6	1.6	1.7	1.6	1.4	1.4	1.4	1.4
Contribution of residual	0.4	0.6	-0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Gross financing needs	0.7	5.7	3.6	5.2	5.8	2.4	3.3	2.0	3.8	2.1	1.3
of which: debt service	2.9	4.4	2.9	5.1	6.6	3.5	4.5	3.2	5.0	3.3	2.5
Local currency	2.1	3.0	1.8	2.7	2.7	1.3	2.4	1.5	2.6	1.4	1.5
Foreign currency	0.5	0.6	0.7	1.2	1.1	1.3	1.2	1.1	0.9	1.4	0.8
Memo:											
Real GDP growth (percent)	2.4	0.0	1.9	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	6.7	6.6	3.8	3.6	3.4	3.3	3.0	3.0	3.0	3.0	3.0

Contribution to Change in Public Debt



Commentary: Public debt is expected to peak in 2028 and then gradually fall until 2032 under the assumption that the government adheres to its medium-term target of a broadly balanced fiscal position.

1/ Lithium income is no longer considered income on assets (interest income) and is thus no longer subtracted from the primary balance. This has caused an improvement in the primary balance relative to the 2023 FCL Review.

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

Table 5. Chile: Realism of Baseline Assumptions

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

Comparator Group:

Emerging Markets,
Commodity Exporter, Program

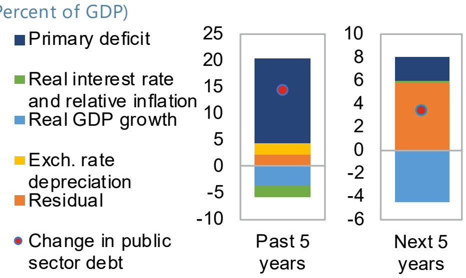
Color Code:

Optimistic: > 75th percentile; 50-75th percentile

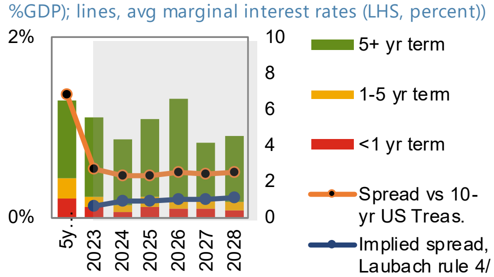
Pessimistic: 25-50th percentile; < 25th percentile

Public Debt Creating Flows

(Percent of GDP)

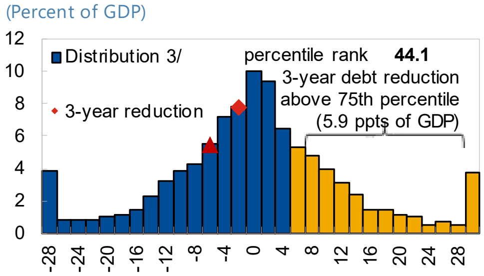


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

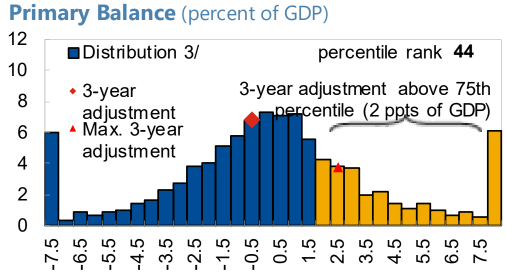


3-Year Debt Reduction

(Percent of GDP)

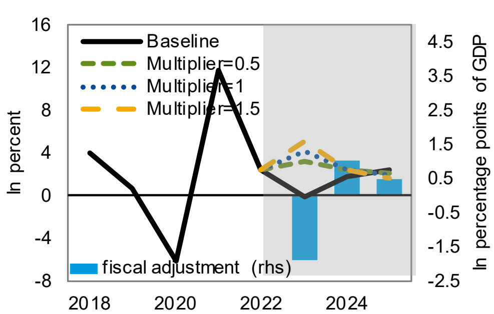


3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



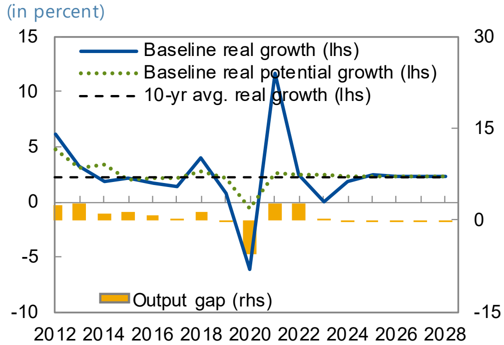
Fiscal Adjustment and Possible Growth Paths

(lines, real growth w. multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth

(in percent)



Commentary: The realism analysis does not point to major concerns, and the forecast track record does not reveal any systematic bias. The projected fiscal consolidation is reasonable, when considering Chile's history and other country experiences. Growth in 2023 is expected to be lower than implied by standard fiscal multipliers, as it is largely driven by the normalization of households' liquidity position after the exhaustion of the pension withdrawals.

Source : IMF Staff.

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

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

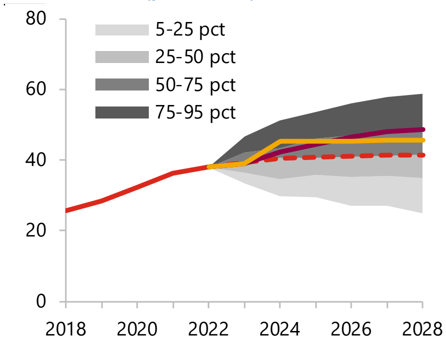
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical

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

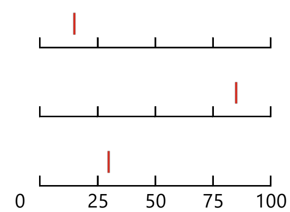
Table 6. Chile: Medium-Term Risk Analysis

	Value	Contrib 1/	Percentile in peer group 2/

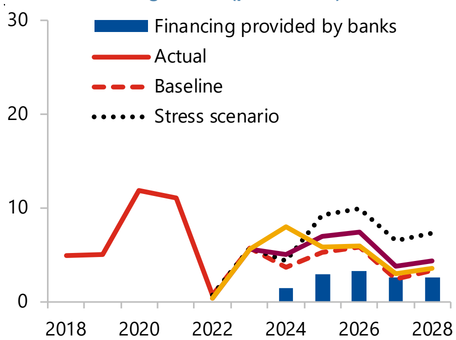
Final Fanchart (pct of GDP) — **Debt Fanchart Module**



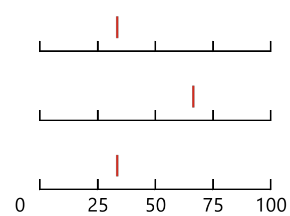
	Value	Contrib 1/
Fanchart width *(percent of GDP)*	33.8	0.5
Probability of debt non-stabilizaiton *(percent)*	15.1	0.1
Terminal debt-to-GDP x institutions index	16.0	0.3
Debt fanchart index (DFI)		1.0
Risk signal: 3/		Low



Gross Financing Needs (pct of GDP) — **Gross Financing Needs (GFN) Module**

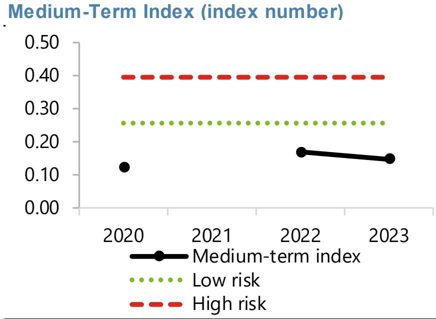


	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	4.4	1.5
Banks' claims on the gen govt *(pct bank assets)*	6.7	2.2
Chg. In banks' claims in stress *(pct banks' assets)*	1.6	0.5
GFN financeability index (GFI)		4.2
Risk signal: 4/		Low



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

Medium-Term Index (index number)



Medium-Term Risk Analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	0.97	0.21	0.50	0.11
GFN financeability index	4.19	0.08	0.50	0.04
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2023-2028, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 71.6 pct.

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

Source: IMF staff estimates and projections.

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

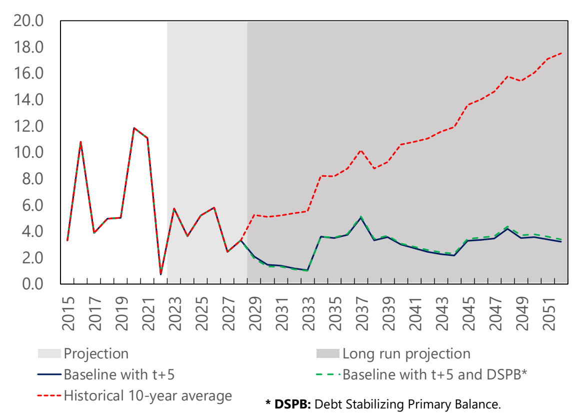
Table 7. Chile: Long-Term Risk Analysis I

Large Amortization Trigger

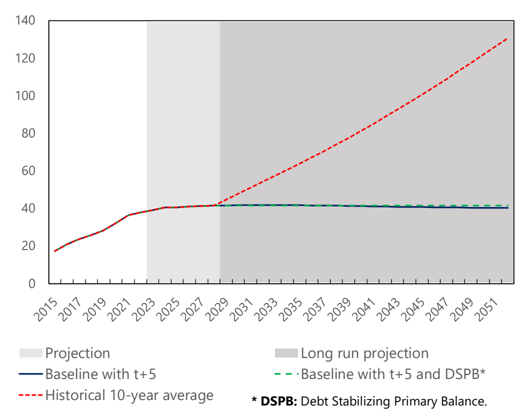
Projection	Variable	Risk Indication 1/
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The long-run amortization module does not trigger an overall risk indication. The overall long-run risk indicator is low. Under the baseline, debt stabilizes over the long term, reflecting a primary balance around the debt-stabilizing one. If historical 10-year averages are used, however, then debt could rise from around 40 percent to almost 130 percent of GDP by 2050. However, this simulation may not be representative as it reflects historically elevated gross financing needs, including the impact of the COVID-19 pandemic.

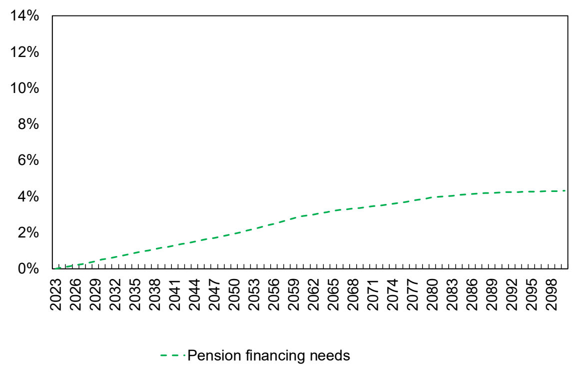
1/ Risk indicators are triggered if simulation values are higher than one standard deviation above 10-year historical averages.

Table 8. Chile: Long-Term Risk Analysis II

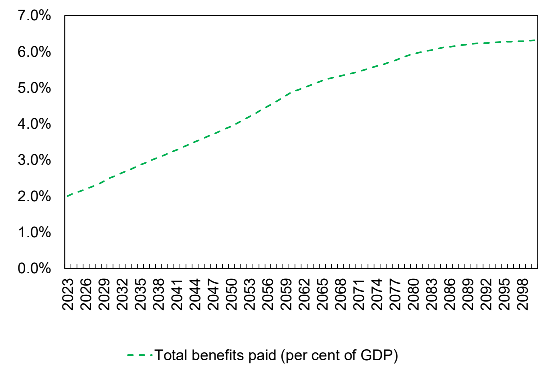
Demographics: Pension

(Percent of GDP)	2023	30 years	50 years	Until 2100
PGU costs	2.0%	4.1%	5.5%	6.3%
Pension financing needs	0.0%	2.1%	3.5%	4.3%

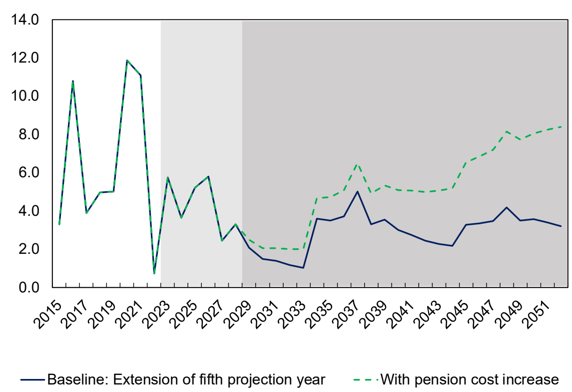
Additional Pension Financing Needs



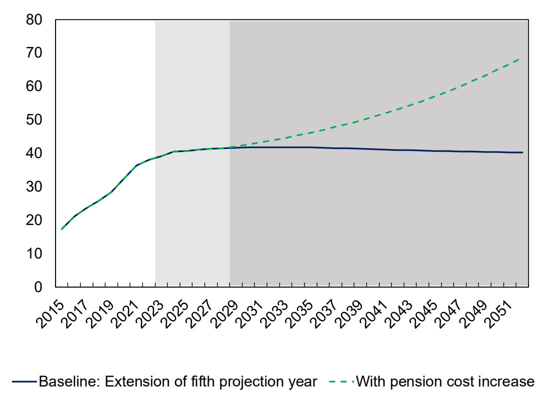
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

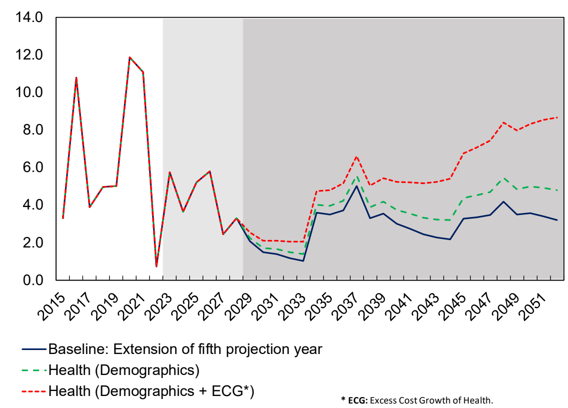


Commentary: Demographic dynamics would increase the fiscal costs of solidarity pensions (including mainly the PGU) from about 2 to 4 percent of GDP between 2023 and 2052, under the assumption that solidarity pensions increase in real terms in line with real GDP growth. Assuming that available financing through general taxes for solidarity pensions remains at 2 percent of GDP throughout the forecast period, this would imply an increase in debt to about 70 percent of GDP by 2050 (about 30 pp of GDP higher than in the baseline). The authorities also project the fiscal costs of solidarity pensions to increase to 4.1 percent of GDP in 30 years in the case that pensions are adjusted in real terms in line with real wage growth, and to 3.0 percent of GDP in case the value of solidarity pensions is kept constant in real terms, as foreseen by law.

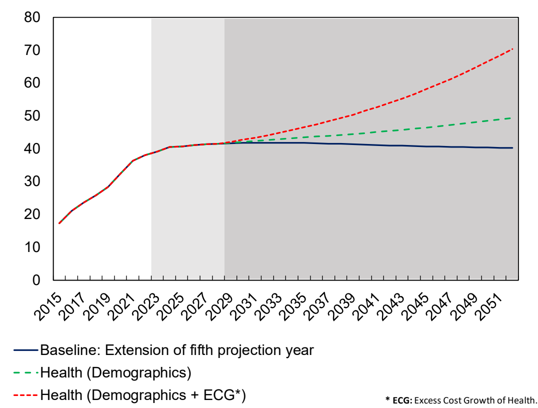
Table 9. Chile: Long-Term Risk Analysis III

Demographics: Health

GFN-to-GDP Ratio



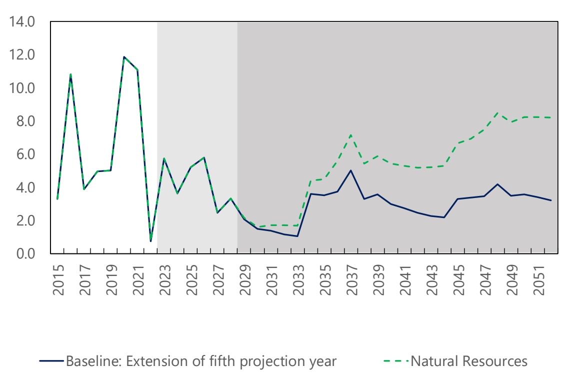
Total Public Debt-to-GDP Ratio



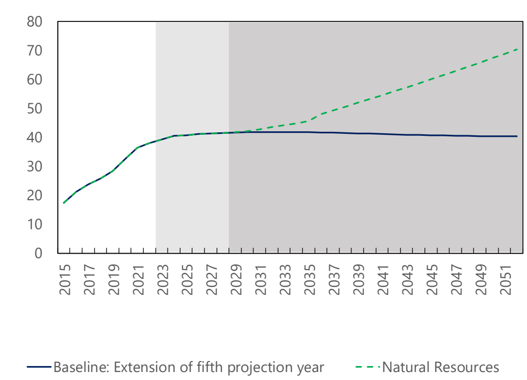
Commentary: Higher health costs due to demographics dynamics as well as excess cost growth of health (difference between health prices and aggregate CPI) would increase debt to about 70 percent of GDP by 2050.

Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: One source of risk is lower copper revenue due to lower production. In the authorities' central scenario, copper production should increase on average 1.5 percent annually between 2024-2035 and an annual production of 5 million tonnes is assumed thereafter. Copper revenues are expected to be around 1.5 percent of GDP in 2023. We assume copper prices to grow in line with US inflation at 2 percent, lower than Chile's GDP nominal growth. Taking changes in copper revenues into account, debt would be about 70 instead of 40 (baseline) percent of GDP by 2050, and the GFN-to-GDP ratio would be about 5 percentage points of GDP higher than under the baseline by 2050.

Annex IX. Implementation Status of 2021 FSAP Key Recommendation

	Recommendations	Time[1]	Status
A. Bank Solvency and Liquidity			
1	Ensure banks transition to Basel III-compliant capital structures and complete announced plans for capital raises in a timely manner.	NT	The Basel III solvency requirements have been adopted with full implementation to be completed by 2025. ■ From March 2021, the capital adequacy ratio considers credit, market, and operational risks with some of the standards for the calculation of credit and market risks still being developed. ■ Capital Conservation buffer, AT1 requirement, and capital discounts (e.g., goodwill, deferred tax assets) are being phased in from December 2021 to December 2025. ■ Since May 2022, the BCCh has held Financial Policy Meetings twice a year, to determine the need to activate the Counter Cyclical Buffer (CCyB), setting its level and deadline for compliance, in coordination with CMF. In May 2023, the BCCh activated the counter-cyclical capital buffer, setting the charge at 0.5% of risk-weighted assets, to be complied with within a year. BCCh announced a review and update of its CCyB framework, including the definition of the neutral level. ■ In March 2021, March 2022, and March 2023, the CMF identified and defined additional capital charges for systemically important banks (D-SIBs), which are gradually implemented until December 2025 (currently only 25 percent of the capital charge must be completed). In November 2023, the CMF published its proposal for improving the quality of information and lowering threshold scores for determining D-SIBs, which would be applied to the identification process in March 2024. ■ In April 2023, banks submitted the third Effective Equity Self-Assessment Report (IAPE), which is the first full assessment report for all risks, to the CMF as the process of Internal Capital Adequacy Assessment Process (ICAAP), which enables the CMF to assess the banks' specific risk profiles (e.g., banking book interest rate risk and loan concentration risk), and potentially define additional capital charges under the Pillar 2 of Basel III. In July 2023, the CMF published "Guidelines on Stress Testing in Banking Institutions" for IAPE. ■ In April 2023, information disclosure requirements for banks under the Pillar 3 of Basel III were introduced. In November 2023, the CMF published its proposal to clarify the requirements.

	Recommendations	Time[1]	Status
2	Improve the collateral valuation and reporting framework.	NT	■ In August 2022, the CMF published its proposal to apply a standard provision model for consumer loans for consultation. After receiving comments and holding some technical workshops with the industry in April 2023, a revised retail loan loss reserves standard model was published for consultation in October 2023. ■ In August 2023, the CMF published its proposal for a new reporting framework of foreclosures and liquidation cash flows and complementary instructions in case of early interventions. ■ The CMF's review of the collateral valuation is ongoing, and the first proposals have been shared internally for comments.
3	Define and communicate clear criteria regarding conditions for the future unwinding of extraordinary liquidity support measures (FCIC and LCL).	I	■ In November 2022, the BCCh established a plan to standardize eligible collateral, which replaces the current stock of pledged credit portfolio with eligible financial instruments in the Central Securities Depository. ■ In April 2023, banks submitted their plans for the expiration of FCIC/LCL to the CMF as the first Liquidity Self-Assessment Report (LSAR) of the Internal Liquidity Adequacy Assessment Process (ILAAP). ■ In September 2023, the BCCh started offering banks liquidity deposits aimed exclusively at guaranteeing and operationally supporting the payment of the FCIC.
4	Introduce liquidity stress tests for prudential and stability monitoring.	NT	■ In April 2023, the ILAAP became effective, and banks submitted their first LSAR to the CMF. ■ Starting in 2025, the liquidity regulation issued by the BCCh will allow the CMF to impose additional High Quality Liquid Assets (HQLA) requirements applicable to specific institutions, depending on the outcome of the ILAAP. Before that date, the LSAR will be based exclusively on funding plans carried out by banks for different economic scenarios provided by the CMF. For 2024, stress tests will be based on their own internal estimates. ■ In July 2023, the CMF published "Guidelines on Stress Testing in Banking Institutions" for LSAR.
B. Banking Supervision			
1	Ensure sufficient budget resources (of the CMF) to attract and retain specialized talent.	I	■ There are no changes towards CMF's budget independence. ■ Since 2019, CMF's budget has been continuously reduced with increments only to afford the new legal changes (e.g., Fintech Law implementation and to improve cybersecurity risk supervision).
2	Strengthen credit risk management and asset classification, including provisioning and treatment of restructured loans.	I, NT	■ In January 2023, the first proposal for asset classification and treatment of restructured loans was presented internally. It will be published for consultation early 2024.

	Recommendations	Time[1]	Status
3	Establish an integrated risk management framework and enhance corporate governance standards and supervision.	NT	■ An integrated risk review is considered in the Pillar 2 framework. ■ In August 2023, the CMF published regulatory proposals on corporate governance and integrated risk management requirements for securities market entities. ■ An internal proposal for regulatory/legal changes for banks was generated, which is under internal review.
4	Strengthen the legal framework for licensing to ensure banks' shareholders are fit, proper and financially strong.	NT	■ The CMF is drafting an internal proposal to address the necessary legal/regulatory changes.
5	Improve the corrective actions framework.	NT	■ In October 2023, a draft bill was circulated to the Joint working group for banking resolution (technical staff of the CMF, the BCCh, and the Ministry of Finance), which intends to finalize its work to present it to their authorities by first semester 2024.
6	Improve consolidated supervision by enhancing the legal framework, supervision practices and organizational arrangements.	NT	■ In August 2023, the CMF published "Guidelines for a Financial Conglomerates Act in Chile," which analyzes the relevance of including financial conglomerates as part of the institutions under the CMF's prudential supervision and presents a proposal for a supervisory legal framework.
C. Pension Funds			
1	Avoid further pension withdrawals and ensure that the pension system continues to support deep and liquid long-term capital markets.	I	■ No additional pension fund withdrawals have been approved since April 2021. ■ The CMF, the BCCh, and the CEF (Financial Stability Council) delivered several opinions and reports against this measure, including presentations in Congress hearings and Financial Stability Reports, among others. ■ Legal pension reform is under review in Congress. The CEF created an ad hoc task force to evaluate the effects of such reform on capital markets and financial stability.
2	Improve pension fund regulation and investment options to promote long-term investment and minimize excessive switching.	NT	■ Legal pension reform is under review in Congress. The CEF created an ad hoc task force to evaluate the effects of such reform on capital markets and financial stability.
D. Insurance			
1	Halt any further liquidations of life annuities.	I	■ No additional liquidations of life annuities since April 2021. ■ The CMF, the BCCh, and the CEF delivered several opinions and reports against this measure.

	Recommendations	Time[1]	Status
2	Implement a modern risk-based capital framework in insurance with due regard to the impact of introducing IFRS 17 and IFRS 9.	NT	■ The Ministry of Finance plans to reactivate the debate on adopting a risk-based capital requirements and supervision scheme for the insurance industry during 2024.
E. Mutual Funds			
1	Strengthen the mutual fund liquidity management framework.	NT	■ In January 2024, the "Financial Markets Resilience" law has been enacted. The law empowers the CMF to establish a minimum investment requirement for the fund in liquid assets, as well as the power to establish the definition of liquid assets.
F. Crisis Management and Bank Resolution			
1	Establish a statutory bank resolution authority with a comprehensive range of crisis management and resolution tools.	I	■ In January 2023, the CMF published a policy paper titled "Guidelines for a new bank resolution and deposit insurance framework in Chile", which describes the main legal and regulatory gaps in the resolution framework and bank liquidation, as well as developing a proposal for closing gaps to be addressed in future legal amendments. It also includes basic elements of the financial safety net, such as a deposit insurance mechanism and tools and powers of resolution authorities. ■ In August 2023, the CMF published its proposal on establishing complementary instructions on early regularization and compulsory liquidation, aiming at improving the current legal framework. Specifically, it defines the means and timeframe for banks to communicate the occurrence of financial or operational deterioration to the CMF and outlines the suitability and technical capacity requirements that individuals appointed as delegated inspectors, temporary administrators, and liquidators must fulfill. In November 2023, the CMF published the regulation based on the proposal. ■ In November 2023, the CMF had a closed meeting with the industry to address the comments sent in relation to the policy paper above. ■ A working group formed by technical staff of the CMF, the BCCh, and the MoF is drafting a new bill based on the white paper. A first consensus draft should be presented to the relevant authorities by first semester of 2024.
2	Establish and implement recovery and resolution planning and set a loss-absorbing capacity requirement for systemically important banks.	I	
3	Establish a new industry funded deposit protection scheme.	NT	
G. Systemic Liquidity			
1	Facilitate the development of the interbank repo market.	NT	■ In January 2023, a working group formed by technical staff of the CMF, the BCCh, Pensions Superintendence (SP), and the MoF held meetings with the repo market participants to observe frictions, if any, that could have been delaying the development of the repo market. In addition, CMF performed a survey to its supervised entities in order to understand the characteristics of the market as well as the opinion of surveyed entities regarding frictions and development opportunities.

	Recommendations	Time[1]	Status
			■ In October 2023, the "Financial Markets Resilience" bill has been approved by the Congress. The new law clarifies which repo transactions are eligible for special compensation mechanisms in the event of default by one of the parties. It also provides a framework under which the BCCh may exceptionally offer repos to market segments in case of financial distress.
2	Enhance the risk management function of the BCCh through higher haircuts and a stricter approach to unsecured bank bonds.	I	■ In 2021, the BCCh carried out a review and update of the margin and haircut scheme applied to liquidity provision operations. ■ Internal task force to review and update the BCCh collateral framework is ongoing. ■ In August 2023, the BCCh published its regulatory proposal that incorporates self-securitized instruments as a new collateral alternative for liquidity operations, with the objective of increasing the availability of instruments for financial institutions.
3	Finalize the Emergency Liquidity Assistance (ELA) framework.	NT	■ In August 2023, the BCCh and the CMF signed a Memorandum of Understanding (MoU) to enhance coordination and exchange of information, specifically regarding the liquidity situation and viability of a troubled financial institution, by the CMF to the BCCh, to properly evaluate a potential ELA. ■ In January 2024, the "Financial Markets Resilience" law has been enacted. It authorizes the BCCh, in exceptional circumstances, to extend ELA to banks that temporarily cease to comply with certain capital requirements, while they implement a recovery plan, based on a viability opinion granted by the CMF. The law also makes ELA possible for systemic credit unions and Central Counter Parties. ■ Development of a specific ELA framework is ongoing.
	H. Macro-prudential Framework and Tools		
1	Increasing CEF secretariat resources and consider annual publication of official CEF views on macroprudential risks.	NT	■ In 2023, the members of the CEF and the BCCh signed an interinstitutional MoU to enhance coordination, exchange of information, and to address communication issues regarding critical situations that may affect financial stability.
2	Enhance interagency coordination on the use of the macroprudential toolkit.	NT	■ Most of the interagency coordination is implemented at the CEF. ■ There is close coordination between the BCCh and the CMF related to the CCyB. ■ The CMF and the BCCh signed a MoU focused particularly on coordination in critical situations that may arise in the local banking and financial system.
3	Establish a consolidated and comprehensive public credit registry.	NT	■ In September 2023, the "Consolidated Debt Registry" bill has been approved by the congress. The congress also established a board of advisors to study the technical aspects and compile a list of indications on various topics. The bill proposes the consolidation of financial obligations in a common registry and a substantial increase in the coverage of positive and negative information including non-bank credit lenders in the consumer and mortgage segments.

	Recommendations	Time[1]	Status
I. AML/CFT			
1	Ensure a swift implementation of the 2021 AML/CFT Mutual Evaluation Report (MER) recommendations.	NT	■ In November 2022, the CMF issued an updated regulation on the prevention of money laundering, financing of terrorist activities, and non-proliferation of weapons of mass destruction, which applies to banks, saving and credit cooperatives, and payment card issuers and focuses on identification of final beneficiaries, customer due diligence determined under a risk-based approach, and prevention and detection of terrorist financing. It includes necessary adjustments to strengthen the definitions of standards related to the 40 FATF (Financial Action Task Force) recommendations, and also addresses some of the MER recommendations from the MER, approved in July 2021 by the Financial Action Task Force of Latin America (GAFILAT). ■ In August 2023, the CMF published a consultation document about a regulatory proposal for the risk management system for insurance companies to incorporate an assessment of the risks of money laundering, financing of terrorist activities, and proliferation of weapons of mass destruction to insurance companies' legal risks.

[1] I = Immediate (within one year); NT = Near Term (within 1 to 3 years).

INTERNATIONAL MONETARY FUND

CHILE

January 17, 2024

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2023)

Membership Status: Joined December 31, 1945; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	1,744.30	100.00
Fund holdings of currency	1,263.38	72.43
Reserve Tranche Position	480.92	27.57
Lending to the Fund		
New Arrangements to Borrow	1.41	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	2,488.72	100.00
Holdings	2,513.93	101.01

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	Aug 29, 2022	Aug 28, 2024	13,954.00	0.00
SLL	May 20, 2022	Aug 28, 2022	2,529.00	0.00
FCL	May 29, 2020	May 19, 2022	17,443.00	0.00
Stand-By	Nov 8, 1989	Nov 7, 1990	64.00	64.00
EFF	Aug 15, 1985	Aug 15, 1989	825.00	806.25
Stand-By	Jan 10, 1983	Jan 9, 1985	500.00	500.00

Projected Payments to Fund (SDR Million)

	Forthcoming				
	2024	**2025**	**2026**	**2027**	**2028**
Principal					
Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.03	0.03	0.03

Exchange Rate System

Chile's de jure exchange rate arrangement is free floating, and the de-facto exchange rate arrangement is floating. Chile has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Previous Article IV Consultation

The last Article IV consultation was concluded on January 20, 2022. Going forward, it is expected that the Article IV consultations will take place on the standard 12-month cycle.

Financial Sector Assessment Program (FSAP)

An FSAP mission was conducted remotely during March 15–April 9 and July 19–August 4, 2021. The FSAP mission assessed financial sector risks and vulnerabilities, the quality of supervisory oversight of banks, the provision of systemic liquidity, crisis management and bank resolution arrangements, and the functioning of the pension system. The Financial System Stability Assessment (FSSA) was published on December 9, 2021.

Technical Assistance:

Chile is an active user of the Fund's technical assistance. Technical assistance has centered on the Fund's core competencies, notably in the areas of fiscal policy and financial sector supervision. Since 2021, technical assistance has been provided on the following issues:

Fiscal Sector

- Strengthening Revenue Administration (August 2023)
- Managing Stabilization Funds (March 2023)
- Subnational Taxation (April 2023)
- International Corporate Tax Risks (April 2023)
- Fiscal Reporting (December 2022)
- Green Tax Policy (October 2022)
- Fiscal Transparency Evaluation (June 2021)
- Mining Tax Policy (March 2021).

Monetary and Financial Sectors

- Liquidity Stress Testing Training (November 2023)
- Liquidity Risk Supervision (November 2023)
- Interest Rate Risk Supervision (May 2023)
- Risk Heatmaps (September 2022)
- Deposit Insurance (May 2022)
- Conglomerate Supervision (April 2022)
- Internal Rating Based Approaches for Credit Risk (April 2021)
- Regulation and Supervision of Money Market Funds (January-February 2021).

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/chile

Intern-American Development Bank: IDB | Chile (iadb.org)

STATISTICAL ISSUES

(As of December 31, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance. The National Institute of Statistics (INE) regularly publishes a full range of economic and financial data. The Central Bank of Chile (BCCh) also publishes comprehensive macroeconomic and financial data. The Ministry of Finance publishes fiscal data. Key publicly accessible websites for macroeconomic data and analysis are: National Institute of Statistics: http://www.ine.cl/ Central Bank of Chile: http://www.bcentral.cl/ Ministry of Finance: http://www.minhda.cl/ **Real Sector:** Since January 2019, the INE compiles and publishes a new Consumer Price Index (CPI) 2018=100, which is based on the 2016/17 Household Budget Survey. **Monetary and Financial Sectors:** The BCCh uses the standardized report forms (SRFs) to report to STA monthly data for the central bank, other depository corporations (ODCs), other financial corporations (OFCs), and monetary aggregates. However, data for the ODCs exclude savings and credit cooperatives, and OFCs exclude financial auxiliaries. The BCCh reports most core and seven encouraged financial soundness indicators monthly. The BCCh reports data on several indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

II. Data Standards and Quality	
In March 2020, Chile completed the requirements for adherence to the IMF's Special Data Dissemination Standard (SDDS) Plus—the highest tier of the Data Standards Initiatives. This made Chile the second country in Latin America to adhere to the SDDS Plus.	A data ROSC was published September 17, 2007.

Chile: Table of Common Indicators Required for Surveillance
(As of January 10, 2024)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	1/2024	1/2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/2023	1/2024	M	M	M
Reserve/Base Money	12/2023	1/2024	D	D	D
Central Bank Balance Sheet	12/2023	1/2024	M	M	M
Consolidated Balance Sheet of the Banking System	10/2023	12/2023	M	M	M
Interest Rates[2]	1/2024	1/2024	D	D	D
Consumer Price Index	12/2023	1/2024	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3] – General Government[4]	2023: Q3	1/2024	Q	Q	Q
Revenue, Expenditure, Balance, and Composition of Financing[3] – Central Government	11/2023	1/2024	M	M	M
Stocks of Central Government and Central Government – Guaranteed Debt[5]	2023: Q3	1/2024	Q	Q	Q
External Current Account Balance	2023: Q3	11/2023	Q	Q	Q
Exports and Imports of Goods and Services	12/2023	1/2024	M	M	M
GDP/GNP	2023: Q3	11/2023	Q	Q	Q
Gross External Debt	11/2023	1/2024	M	M	M
International Investment Position[7]	2023: Q3	11/2023	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

CHILE

January 31, 2024

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By Western Hemisphere Department

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

1. **The Central Bank of Chile (BCCh) lowered its monetary policy rate by 100 basis points to 7.25 percent on January 31.** The BCCh cited the faster-than-expected convergence of inflation to the target as the main driver for the rate reduction and communicated that future policy rate cuts would consider the evolution of the macroeconomic scenario and its implications for the trajectory of inflation.

2. **The National Statistical Agency (INE) is in the process of completing its regular update of the CPI calculation methodology.** As part of the regular five-year CPI rebasing (from 2018=100 to 2023=100), the new CPI basket weights, based on the latest Household Budget Survey, will become effective when the January 2024 CPI data will be released on February 8. Market analysts expect the CPI inflation data under the new methodology to be moderately below those of the current CPI basket. Staff's inflation projections in the staff report do not reflect the ongoing update of the CPI methodology.

3. **The government advanced the pension and tax compliance draft reform bills.** On January 24, the Lower House approved the concept to legislate a pension reform but rejected some core articles of the reform proposal. Following the vote, the draft bill advanced to the Senate where negotiations on the reform details will be held. The government also unveiled more details of its tax compliance draft bill that is centered around seven pillars, including measures to control informality, modernize the tax administration, regularize tax obligations, and reduce tax crimes and aggressive tax planning. The authorities estimate the bill to result in additional revenues of 0.6 percent of GDP in 2024 and 1.5 percent by 2027.

Statement by Mr. Herrera, Executive Director for Chile
and Ms. Mostajo, Advisor to Executive Director
February 5, 2024

On behalf of the Chilean authorities, we would like to thank staff for the open and constructive discussions during the Article IV Consultation, as well as for the insightful report on Chile's economy. The Staff Report presents a fair assessment of the economy's challenges. Our authorities welcome staff's analysis and policy advice.

The Chilean economy is making progress towards sustainable growth despite external challenges. Coordinated monetary and fiscal policies have effectively narrowed the positive output gap, eased inflationary pressures, and reduced the current account deficit that escalated during the pandemic. Notably, the macroeconomic adjustment to reduce high inflation rates has been achieved with less social and economic costs compared to previous episodes, which can be attributed to swift monetary actions and the government's consolidation efforts, which included targeted support for the most vulnerable. As inflation aligns with its target, monetary policy is shifting to a less restrictive stance. Concurrently, the financial authorities are implementing Basel III and advancing the regulatory agenda to strengthen the financial system's resilience. The government is pursuing a multi-year fiscal consolidation path to rebuild buffers and maintain public debt below a prudent ceiling, along with a broader strategy to foster a more inclusive, dynamic, and greener economy, while maintaining macroeconomic stability and fiscal responsibility.

Economic Outlook

After contracting at the end of 2022 and early 2023, Chile's economy resumed positive quarterly growth rates in the second half of 2023. The positive output gap closed during last year and is expected to remain near zero in the near term. The Central Bank of Chile (BCCh) projects that the economy grew close to zero in 2023, with a return to positive growth in 2024, estimating GDP growth at 1.25-2.25 percent. By 2025, it is expected to reach its potential growth of 2-3 percent. Inflationary pressures are subsiding, with headline inflation projected to align with the 3 percent target in the latter half of 2024. Furthermore, the current account deficit, after reaching historically high levels, is expected to have moderated to 3.3 percent of GDP in 2023.

In 2023, domestic demand is estimated to have declined by 4.6 percent in 2023, in line with the normalization of private consumption and investment. However, it is projected to return to positive annual growth rates in 2024. Private consumption, which began to recover in 3Q2023, is expected to further improve in 2024, supported by an increase in disposable income due to the decline of inflation. Fixed investment is expected to recover more slowly, with a muted expansion in 2024 and more positive growth in 2025.

The authorities concur with staff that, although external risks remain elevated, domestic risks have subsided markedly. External developments are the primary source of uncertainty for growth and inflation. On domestic risks, recent indicators point to a reduction. The domestic economic uncertainty index (DEPUC) has notably declined. Furthermore, BCCh analysis of long-term domestic interest rate movements indicates a diminished influence of domestic factors, while the impact of external factors has increased.

Monetary Policy, Exchange Rate, and External Buffers

After timely and strong monetary policy actions since mid-2021, the BCCh started to ease its monetary stance from restrictive levels in July 2023. Currently, the monetary policy interest rate (MPR) has been reduced by 400 basis points (bp), bringing it to 7.25 percent, remaining above the neutral rate. The monetary authority considers that further MPR reductions will be needed to ensure inflation aligns with its target. The extent and timing of these reductions will depend on the evolution of the macroeconomic situation and its impact on the inflation path.

Inflation continued to decline in 2023 driven by the resolution of macroeconomic imbalances and the easing of recent cost shocks. By the end of 2023, headline inflation fell to 3.9 percent, a sharper decline than expected. Similarly, core inflation, led by a reduction in the other goods component, stood at 5.4 percent. Two-year inflation expectations remain stable at the 3 percent target, while the latest short-term expectations indicate a faster convergence than previously anticipated. In this context, the BCCh expects a sustained decline in both headline and core inflation over the coming quarters, converging to 3 percent within this year.

The authorities regard the flexible exchange rate system as a key shock absorber role in Chile's economy and remain firmly committed to maintain it. The Flexible Credit Line (FCL) remains a key safeguard for Chile's international liquidity, especially in the face of significant external uncertainty and risks. The authorities intend to treat the FCL as a precautionary tool and aim to gradually reduce their access as external conditions improve. They agree on the relevance of increasing international reserves to rebuild and sustain adequate buffers over time. They plan to resume reserve accumulation when market conditions are conducive, considering the dynamics associated with monetary policy in Chile and abroad, and the peso's volatility.

Fiscal Policy

Under the Fiscal Responsibility Law, the government is implementing a multi-year consolidation plan to achieve close to a structural balance by 2026 (-0.5 percent of GDP) and keep public debt below a prudent level of 45 percent of GDP. After implementing one of the largest international post-COVID19 fiscal consolidations in 2022, the overall fiscal position in 2023 is projected to have reached a deficit of 2.3 percent of GDP, while the structural budget is estimated at a deficit of 2.6 percent of GDP. Gross public debt is expected to rise moderately to 38.2 percent of GDP. The 2024 budget strikes a balance between the authorities' commitment to spending and their ongoing medium-term plan for fiscal consolidation, announced in 2022, which distributes the effort evenly throughout their term in office. It sets a structural fiscal deficit target at 1.9 percent of GDP, with a 3.5 percent increase in real expenditures compared to 2023. This additional spending will primarily be allocated to public security, health, education, housing, and emergency responses. The gross public debt is expected to reach 41.1 percent of GDP by the end of 2024, and it is projected to stabilize around this level.

The Chilean authorities are working to strengthen the country's well-established fiscal framework. They have implemented methodological changes to refine the calculations of the output gap and the government's structural revenues. This includes saving the temporary fiscal revenues linked to lithium exports. Moreover, starting in 2024, an annual structural fiscal target will be introduced to improve the transparency and accountability of the medium-term fiscal policy strategy. Additionally, a committee has been formed to discuss ways to bolster the Autonomous Fiscal Council and amendments to the Fiscal Responsibility Law were presented to Congress. These amendments include the introduction of formal escape clauses, enhanced accountability mechanisms, a prudent debt ceiling, and the creation of a special fund for natural disasters.

Financial Policies

The financial sector remains liquid, solvent, and well capitalized, supported by effective supervision and regulation. Despite tight financial conditions, the banking system is healthy and resilient to stress scenarios. The authorities are closely monitoring emerging vulnerabilities, particularly in the construction and real estate sectors and among loans to low-income households. The unwinding of extraordinary pandemic liquidity measures (FCIC) is proceeding as planned.

The authorities concur with staff on the importance of swiftly calibrating the counter-cyclical buffer (CCyB) to provide banks with planning certainty. In 2024, the BCCh will revisit its CCyB policy framework, including defining a neutral level. The review aims to align with international best practices, tailored to the characteristics of the Chilean economy and its financial system, and the ongoing implementation of Basel III.

Significant regulatory reforms, in line with the recommendations from the 2021 Financial Sector Assessment Program (FSAP) and the implementation of Basel III standards, have been adopted. The Financial Markets Resilience Law, which was recently passed, is designed to enhance policy responses in scenarios of financial distress. In parallel, the Fintech Law has been introduced to incorporate various activities and business models within the regulatory framework. This law is geared towards using fintech to foster innovation, competition, and inclusivity in the financial sector. The authorities are also vigilantly monitoring developments in this area, with a particular focus on cybersecurity risks. Furthermore, a bill to update the framework on risk-based capital and supervision for insurance companies will be sent to Congress in early 2024, and the authorities will work during the year on a draft of the bank resolution and deposit insurance bill.

Structural Policies

The authorities are committed to an ambitious agenda of structural reforms aimed at fostering inclusive, sustainable, and dynamic growth. They appreciate staff’s insightful analysis and recommendations. They have launched multiple initiatives, recognizing the importance of economic growth for sustainable well-being and inclusive, balanced development in Chile. These initiatives focus on simplifying and expediting the approval process for investment projects, boosting productivity, and deepening capital markets. Top priorities include the Pact for Growth, Social Progress, and Fiscal Responsibility, and the pension reform.

Under the Pact, the authorities have presented bills to Congress aimed at streamlining the permit process for investment projects and modernizing the environmental evaluation system. Legislative proposals focused on improving tax compliance and reducing tax evasion are slated for discussion in March. These initiatives are designed to increase revenue by 1.5 percent of GDP by 2027. Additionally, a more extensive discussion on comprehensive tax reform is anticipated to resume in March. The pension reform currently being discussed in Congress proposes several key changes. These include an increase in the contribution rate, enhancing the solidarity component of the system, and changes in the industry's structure to promote greater competition and efficiency.

The authorities share the importance of closing gender gaps in the labor market. The new law enabling flexible work schedules for those involved in unpaid caregiving, along with the establishment of a National Care System, aims to reduce barriers hindering women's entry into the labor force. Additionally, steps are being taken to boost women's representation in leadership roles.

Chile remains committed to climate action, with a strong track record of policies and an ambitious agenda ahead. Under the Climate Change Framework Law, the authorities continue to implement their long-term climate strategy and stay on track with their National Determined Contributions (NDC). The Law mandates the Ministry of Finance to develop a Financial Strategy that it is now being updated and revised to include biodiversity as well as other sustainability goals. The current strategy includes the implementation of a framework for measuring climate-related spending, the issuance of ESG bonds, the creation of a taxonomy for environmentally sustainable economic activities, the work of the natural capital committee to include biodiversity considerations in public policy, and fostering engagement with the financial sector through the Public-Private Green Finance Roundtable.

Chile's abundant mineral and renewable energy resources present significant opportunities for growth, supported by its open trade policy. The National Lithium Strategy aims to develop the lithium industry, increase fiscal revenues, and enhance its environmental and social sustainability. Concurrently, the National Hydrogen Action Plan 2023-2030 outlines a strategy for developing the hydrogen industry, balancing economic growth with environmental and social concerns. Additionally, a pioneering World Bank loan is set to support Chile's investment in green hydrogen, furthering its pledge to carbon neutrality by 2050.