INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/183

CHILE

May 2020

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 29, 2020, following discussions that ended on April 20, 2020, with the officials of Chile on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on May 21, 2020.
- A **Staff Supplement**: Assessment of the Impact of the Proposed Arrangement Under the Flexible Credit Line on the Fund's Finances and Liquidity Position.

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

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PRESS RELEASE

PR20/227

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

FOR IMMEDIATE RELEASE

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

WASHINGTON, DC – May 29, 2020

The Executive Board of the International Monetary Fund (IMF) approved today a two-year arrangement for Chile under the Flexible Credit Line (FCL) in an amount equivalent to SDR 17.443 billion (about US$ 23.93 billion, equivalent to 1,000 percent of quota).

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

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

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

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

700 19th Street NW
Washington, DC 20431
USA

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

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

INTERNATIONAL MONETARY FUND

CHILE

May 21, 2020

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

CONTENTS

ANNEXES

APPENDIX