INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/37

CHILE

February 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2024 Article IV consultation with Chile, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on November 22, 2024, 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 16, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.

The documents listed below have been or will be separately released.

- Selected Issues.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/027

IMF Executive Board Concludes 2024 Article IV Consultation with Chile

FOR IMMEDIATE RELEASE

Washington, DC – February 5, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Chile on February 3, 2025 and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

The economy's imbalances have been largely resolved. Real GDP is expected to expand by 2.2 percent in 2024, close to its potential pace, driven by the strong mining and service exports, and 2-2.5 percent in 2025, related to an expected recovery in domestic demand. However, the recovery has been uneven across industries, with the construction sector lagging and the unemployment rate remaining high. Inflation is set to return to the 3-percent target in early 2026, after the impact of the significant increase in electricity tariffs between June 2024 and early 2025 subsides. The current account deficit has continued to narrow and is projected to reach around 2½ percent of GDP in 2024 and 2025.

External risks and uncertainty remain elevated. The commodity price volatility linked to the economic outlook of Chile's main trading partners and the pace of the global green transition is a key external risk. Moreover, the uncertainty surrounding monetary and fiscal policies in advanced economies could lead to tight financial conditions for longer periods of time and higher financial volatility. Domestically, concerns about crime, migration, and inequality persist; and political polarization is hindering the structural reform progress.

Policies have supported macroeconomic stability. The Central Bank of Chile lowered the monetary policy rate by 325 basis points since January 2024 to 5 percent in December 2024. The headline fiscal deficit is projected to reach 2.7 percent of GDP in 2024 due to a notable revenue underperformance and despite significant spending restraint compared to the budget. The 2025 budget envisions a notable deficit reduction within a medium-term fiscal plan toward a broadly balanced fiscal position by 2027. By setting the neutral level of the countercyclical capital buffer at 1 percent of risk-weighted assets with a gradual and state-contingent implementation path from the current level of 0.5 percent, the Central Bank of Chile has provided banks with planning certainty for strengthening financial resilience.

[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

700 19th Street NW
Washington, DC 20431
USA

Executive Board Assessment

The economy is broadly balanced but external risks are elevated. Chile's macroeconomic position is sound due to its very strong fundamentals, policies, and policy frameworks. Real GDP is growing around its potential and inflation is expected to reach the 3-percent target in early 2026. The current account deficit has continued to narrow, and the 2024 external position is assessed as moderately weaker than implied by medium-term fundamentals. Public debt is still relatively low and sustainable with high probability. However, the external environment is unstable and uncertain, which calls for policies that further strengthen economic buffers to provide additional policy space for future shocks.

Lifting Chile's growth potential is a must to raise living standards and tackle social and fiscal pressures. Taking a consultative approach, the government is advancing several growth initiatives, including: (i) expediting investment permit applications and environmental evaluations to encourage investment, (ii) fostering the development of emerging industries, particularly those related to renewable energy to maximize the benefits from the global green transition, and (iii) facilitating R&D. Swift and consistent implementation of these initiatives is crucial, especially in rationalizing the regulatory burden and improving essential infrastructure. Additionally, better integrating women into the labor market could partially offset the unfavorable demographic trends. The proposed new development bank requires a targeted mandate, sound risk management practices, and robust corporate governance.

The goal of a broadly balanced fiscal position by 2027 remains appropriate but has become more challenging. The authorities' commitment to fiscal restraint by adjusting spending plans in 2024 and 2025 is welcome. To achieve a balanced fiscal position over the next three years, a gap of at least 1 percent of GDP needs to be filled. This could be achieved largely from the important tax compliance law if its implementation yields the planned additional revenue and is not used for new spending initiatives. It is therefore crucial to carefully monitor developments in tax compliance and remain flexible to adjust current spending in case revenue mobilization falls short of plans, while aiming to preserve public investment outlays in support of medium-term growth. Ensuring that any structural spending increases align with higher structural revenues is vital for fiscal sustainability, while unifying fragmented social programs could enhance access and effectiveness for the most vulnerable.

Continuous enhancements to Chile's already very strong fiscal framework would foster fiscal policy formulation and transparency. For instance, providing more details on debt-creating flows outside the fiscal deficit ("below-the-line" items) would strengthen the monitoring of fiscal pressures. Updating fiscal forecasting methods, in line with the government's plans, could improve revenue projections in the context of economic and policy shifts. Adopting a medium-term strategy to rebuild the size of the Economic and Social Stabilization Fund (ESSF) would help provide resources to respond to future shocks. Finally, simplifying the presentation of the fiscal targets and budget execution in the Public Finance Report could deepen the understanding of the fiscal balance rule framework.

A pension reform is essential to ensure adequate pensions and address the fiscal costs of population aging. Raising contribution rates and the number of contribution periods is vital for sustainably self-financing old-age pensions. The minimum guaranteed pension (PGU) has strengthened the system's solidarity, increased replacement ratios, and reduced old-age poverty, but it also incurs high fiscal costs. With the ratio of pensioners to the working-age population set to nearly double in two decades, it is crucial to manage public spending pressures while maintaining a solid safety net. Targeting the PGU to the most vulnerable elderly, linking the retirement age to life expectancy, and implementing the proposed unemployment insurance for pension contributions could further strengthen the system.

A cautious data dependent approach to the pace of monetary policy easing is warranted. The BCCh's monetary policy adjustments have been in line with its inflation-targeting framework. The real monetary policy rate is close to its estimated neutral range. With near-term inflation risks tilted to the upside, future cuts to the policy rate should remain contingent on evidence that inflation is heading decisively back to its target.

Rebuilding international reserve buffers is important for enhancing resilience. While the flexible exchange rate plays a critical role as a shock absorber, the Central Bank of Chile's access to international liquidity can provide an additional shield against potential external shocks. This underscores the importance of incorporating a comprehensive international liquidity framework into the central bank's longer-term financial stability strategy. The strategy and operational design should continue to follow high transparency standards, be persistent and robust to changes in external risks, and minimize distortions in the foreign exchange market.

The financial system remains resilient despite rising vulnerabilities related to the real estate sector and lower financial market depth. The real estate sector is expected to recover modestly as long-term interest rates gradually decline, and there are several mitigants to credit risk associated with lending to this sector. Nevertheless, supervisors need to carefully monitor banks and insurers' portfolio quality and buffers, including by closing commercial real estate data gaps and enhancing stress test models. Rebuilding the depth of local financial markets by increasing pension contributions, which would increase the pool of investable savings, is important to help reduce market volatility and sensitivity to shocks.

Financial sector policies need to continue reinforcing resilience. The recent adoption of a positive neutral level of the counter-cyclical capital buffer with a gradual and state-contingent implementation provides banks with planning certainty. The ongoing implementation of Basel III capital and liquidity requirements needs to be completed. Prompt implementation of the Financial Market Resilience Law would enhance the BCCh's ability to respond to financial distress situations. Other priorities continue to include adopting an industry-funded deposit insurance and a bank resolution framework, providing budget independence to the CMF, further enhancing bank corporate governance, and implementing the Consolidated Debt Registry.

Table 1. Chile: Selected Economic Indicators, 2023-27

GDP (2023), in trillions of pesos	282	Quota	
GDP (2023), in billions of U.S. dollars	336	in millions of SDRs	1,744
Per capita (2023), U.S. dollars	16,815	in % of total	0.37
Population (2023), in millions	19.96		
Main products and exports	Copper		
Key export markets	China, U.S., Euro area		

		Proj.			
	2023	2024	2025	2026	2027
Output	(Annual percentage change, unless otherwise specified)				
Real GDP	0.2	2.2	2.2	2.3	2.3
Total domestic demand	-4.2	1.0	2.4	2.3	2.3
Consumption	-3.9	1.6	1.9	2.2	2.1
Fixed capital formation	-1.1	-1.0	4.3	3.4	3.7
Exports of goods and services	-0.3	5.5	4.3	4.7	3.9
Imports of goods and services	-12.0	1.2	4.4	4.3	3.2
Output gap (in percent)	0.0	-0.1	-0.1	0.0	0.0
Employment					
Unemployment rate (in percent, annual average)	8.7	8.5	8.2	8.0	7.8
Prices					
GDP deflator	6.6	6.0	4.1	2.9	2.7
Change of CPI (end of period)	3.9	4.5	3.5	3.0	3.0
Change of CPI (period average)	7.6	3.9	4.2	3.1	3.0
Public Sector Finances	(In percent of GDP, unless otherwise specified)				
Central government revenue	22.9	22.1	23.0	23.8	23.9
Central government expenditure	25.3	24.8	24.8	24.7	24.3
Central government fiscal balance	-2.4	-2.7	-1.8	-0.8	-0.4
Central government structural fiscal balance 1/	-3.4	-3.1	-2.1	-1.2	-0.5
Central government gross debt	39.4	42.7	43.7	44.1	43.5
Public sector gross debt 2/	70.2	73.5	74.5	74.9	74.4
Balance of Payments					
Current account balance (% of GDP) 3/	-3.5	-2.3	-2.5	-2.5	-2.7
Foreign direct investment net flows (% of GDP) 3/	-4.6	-4.0	-2.6	-2.9	-2.9
Gross external debt (% of GDP) 4/	71.1	77.5	76.5	76.6	75.7

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

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

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

3/ Calculated as a share of US$ GDP.

4/ 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 2024 ARTICLE IV CONSULTATION

January 16, 2025

KEY ISSUES

Context. The economy is broadly balanced but modest potential growth has constrained increases in living standards and makes it difficult to address fiscal and social needs. Policy priorities are therefore mainly of structural nature. They include boosting productivity and employment as well as strengthening fiscal, external, and financial sector buffers—particularly in the context of a challenging global environment.

Outlook and risks. Real GDP is expected to expand by 2-2.5 percent in 2025, in line with its potential. Inflation is projected to return to the 3-percent target in early 2026, after the impact of the significant electricity tariff hikes between June 2024 and early 2025 subsides. External risks remain elevated. They include copper price volatility and prolonged high long-term interest rates in the U.S., both of which could weaken economic activity, weigh on fiscal revenues, and trigger financial market volatility. Domestically, concerns over crime, immigration, and inequality persist, while political polarization may further impede progress on much-needed reforms.

Key policy recommendations:

Fiscal policy. Fiscal efforts are needed to achieve the government's medium-term target of a broadly balanced fiscal position and rebuild fiscal buffers. The approved tax compliance measures could fill part of that gap, but current expenditure needs to remain nimble and adjust in case revenue mobilization falls short of plans. Any new spending initiatives require higher structural revenues. The pension reform remains critical to ensure adequate self-financed pensions and to contain the high fiscal costs of the minimum guaranteed pension. Unifying the fragmented social programs could improve their access, coverage, and efficacy. The very strong fiscal framework can be further enhanced while revenue forecasting methods and processes should be reviewed and stay up to date with economic and policy shifts.

Monetary and exchange rate policies. A cautious data dependent approach to the pace of future monetary policy rate cuts is warranted. While the flexible exchange rate plays a critical role as a shock absorber, the central bank should also resume reserve accumulation and continuously build international reserves in the context of a longer-term financial stability strategy.

Financial sector policies. Higher risks related to the real estate sector require continued careful monitoring and closing of data gaps. Continuing to implement the Financial Resilience Law, Basel III capital and liquidity requirements, and key recommendations from the 2021 FSAP, including the adoption of an industry-funded deposit insurance and a bank resolution framework, will bolster resilience. Giving budget independence to the Financial Market Commission (CMF) would help ensure adequate resources commensurate with expanding responsibilities. Higher pension contribution rates would accelerate rebuilding the depth of capital markets and lower market sensitivity to external shocks.

Structural reforms. Expediting investment permit applications and environmental evaluations, fostering an environment for the development of new industries, facilitating R&D, and increasing female labor participation are vital for boosting potential growth. A more interconnected economy could better propagate the benefits of technological progress and enhance productivity growth. To be effective, the proposed new development bank requires a targeted mandate, sound risk management practices, and robust corporate governance. In the AI era, promoting technology diffusion, addressing skills gaps, and supporting workers' transitions would mitigate replacement risks, ensuring that AI adoption will benefit the economy more broadly and equitably.

Approved By
Nigel Chalk (WHD) and Bergljot Barkbu (SPR)

Discussions took place in Santiago during November 7–22, 2024. The team comprised Andrea Schaechter (Head), Si Guo, Belen Sbrancia, Dmitry Vasilyev (all WHD), Jocelyn Boussard (SPR), and Tatsushi Okuda (MCM). Rodrigo Alfaro (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 Energy Diego Pardow, Minister of Mining Aurora Williams, Chairs of regulatory and supervisory bodies and other senior officials, private sector representatives, industry, labor organizations, and academics. Natalia Martinez-Camelo and Nomuuntugs Tuvaan (both WHD) provided research and administrative support.

CONTENTS

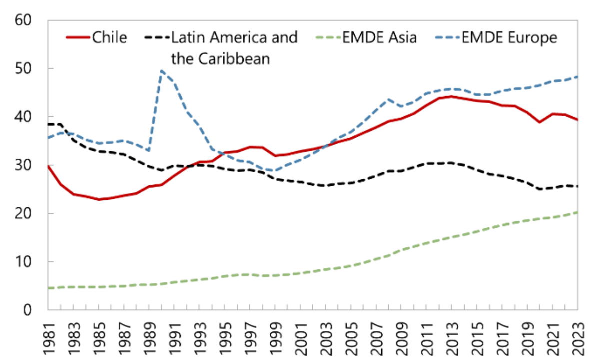
TABLES

ANNEXES

CONTEXT

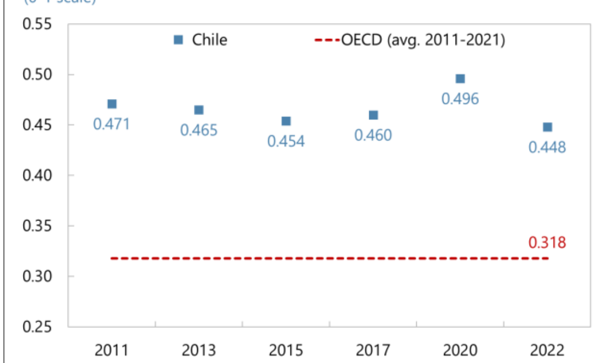
1. Policy priorities are mainly of structural nature. With the economy broadly balanced, the focus is on boosting medium-term growth, improving inclusion, and strengthening financial and fiscal resilience. In this context, the two-year Flexible Credit Line (FCL) arrangement approved on August 27, 2024, has substantially strengthened the resilience against external shocks. However, Chile's income convergence has stalled over the past decade (left text chart), which risks exacerbating inequality concerns despite recent moderate advancements (right text chart) and limits the fiscal capacity to address social and other pressures.

Chile & Selected Economies: Gross Domestic Product per Capita
(In percent of U.S. GDP per capita, PPP adjusted)



Sources: WEO and IMF staff calculations.

Chile & Selected Economies: Disposable Income Gini
(0-1 scale)



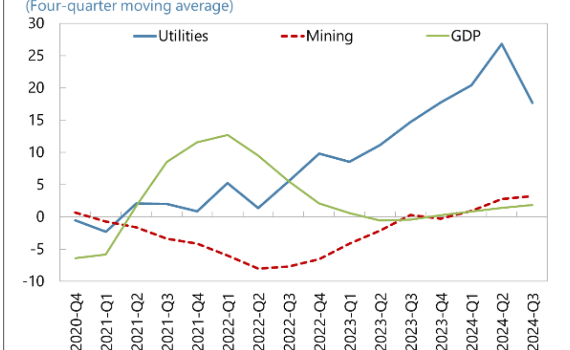
Sources: OECD Statistics and IMF staff calculations.

2. Facing a polarized Congress, the government is taking a pragmatic approach to its equity and growth agenda. While it passed tax compliance reforms, increased mining revenues, raised universal pensions, and progressed in fostering industries related to the global green transition, its reform plans for the contributory pensions, income tax, and student loan debt have encountered political resistance. With elections in November 2025, the government is prioritizing reforms with broader support, such as streamlining the investment application process and promoting research and development (R&D), while continuing to seek agreement on the long-overdue pension reform.

RECENT ECONOMIC DEVELOPMENTS

3. Economic activity has shown greater dynamism in 2024, despite sectoral differences. After a mild expansion of 0.2 percent in 2023, real GDP growth is expected to accelerate to 2.2 percent in 2024. Growth has been uneven. The mining and utilities sectors (representing 16 percent of GDP) expanded strongly in the first three quarters (text chart), due to resolved supply-side constraints in mining and the expansion of renewable energy. Other sectors (in particular,

Chile: Real GDP Growth Rate
(Four-quarter moving average)



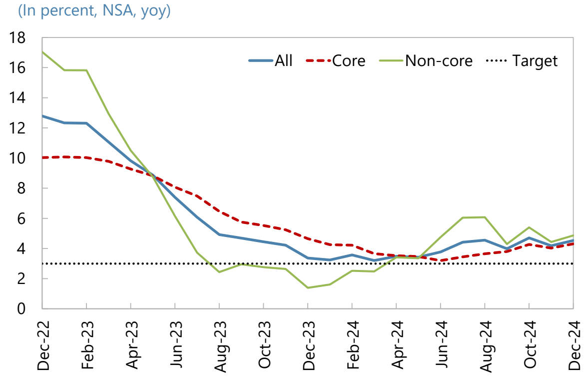
Sources: Haver and IMF staff calculations.

construction), however, grew more moderately, reflecting ongoing cyclical adjustments and the modest potential growth for non-mining sectors. On the expenditure side, activity was mainly driven by net exports, while consumption and investment growth remained sluggish (Figure 1).

4. **The labor market remains weaker than pre-pandemic.** As employment growth slowed in 2024, the labor participation and unemployment rates have not yet returned to their 2019 levels (Figure 2). In addition to the cyclical weakness in labor-intensive sectors, such as construction, other factors played a role. These include the significant rise in real minimum wages, the decline in labor force participation of seniors and youths (Annex V), and, to a lesser extent, new labor regulations, such as the gradual reduction of work hours from 45 to 40 hours per week. Overall, real wages increased by 4.1 percent (yoy) as of November 2024.

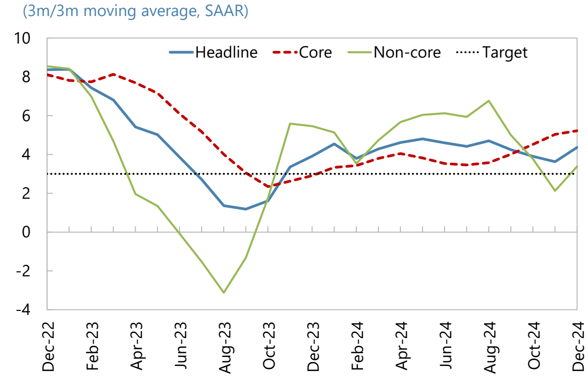
5. **Inflation increased following a sharp drop in 2023.** Headline inflation rose from 3.4 percent (yoy, 2023 basket) in December 2023 to 4.5 percent in December 2024. On a year-to-year basis, non-core inflation largely drove this increase (left text chart), due to a 43 percent hike in regulated household electricity prices (which make up 2.2 percent of the CPI basket) in June-October, following the freeze during 2019-23. An additional 10 percent increase in electricity prices is expected for early 2025. Moreover, on a quarter-to-quarter basis, core inflation (3m/3m, seasonally adjusted) rebounded in 2024H2 (right text chart), driven by sticky service inflation and the rebound in goods inflation due to the exchange rate passthrough and high shipping costs.

Chile: Inflation
(In percent, NSA, yoy)



Sources: Haver and IMF staff calculations.

Chile: Inflation
(3m/3m moving average, SAAR)



Sources: Haver and IMF staff calculations.

6. **The BCCh continued to ease monetary policy.** It lowered its policy rate from 8.25 percent at end-2023 to 5.0 percent in December 2024, with a slower pace since June. Long-term rates remain elevated, amid the still-high long-term rates in the U.S. (Figure 8).

7. **A headline fiscal deficit of 2.7 percent of GDP is projected for 2024, about 0.8 percent of GDP higher than budgeted.** Revenue underperformed notably in 2024, reflecting primarily weaker-than-expected corporate income tax (CIT) collection, possibly due to post-pandemic structural shifts, and less buoyant value-added tax (VAT) due to a more sluggish domestic demand recovery. Lithium revenues were also lower than budgeted driven by a sharp price drop. In response, the government significantly under-executed its spending plan (primarily in Q4-2024) and sought

additional revenue as it strove to comply with its structural deficit target of 2.3 percent of GDP.[1] Despite the expected slight widening of the headline deficit in 2024, the structural non-mining primary balance is estimated to improve somewhat, reflecting primarily lower spending in 2024 (Table 2).

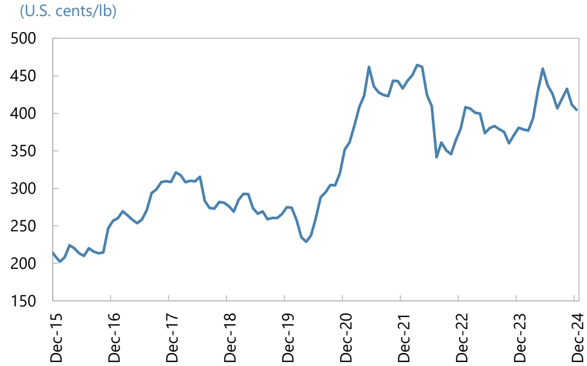
Chile: 2024 Budget, Authorities' and Staff's Fiscal Projections
(In percent of GDP)

	Budget	Authorities' projections in 2024Q3	Staff's projections
Structural fiscal balance	-1.9	-2.3	-3.1
Headline fiscal balance	-1.9	-2.0	-2.7
Total revenues	24.0	22.8	22.1
Non-mining tax revenues	18.7	17.6	17.0
Private mining tax revenues	1.0	1.0	1.0
Total expenditures	25.9	24.8	24.8

Sources: Informe de Finanzas Publicas (IFP) October 2023, IFP October 2024, and IMF staff projections.

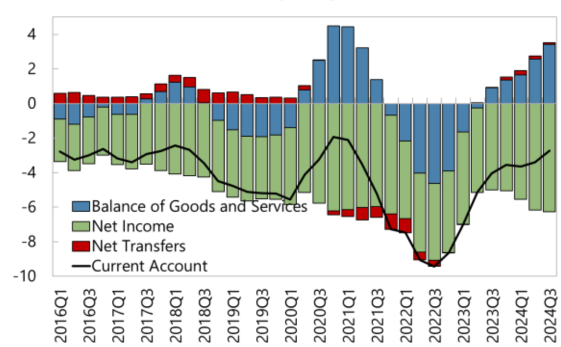
8. **The current account deficit narrowed, in line with the economic rebalancing and the recent copper price rally.** The current account deficit declined to 3.5 percent of GDP in 2023 (from 8.7 percent in 2022), and further to 2.7 percent of GDP in 2024Q3 (four-quarter moving average; right text chart). This improvement has been driven by continued weak growth in imports, lower (US$-denominated) import prices, and the annual average increase in copper prices (left text chart), with the latter reflecting expectations of tighter global supply and increasing demand from the green transition.

Chile: Copper Price
(U.S. cents/lb)



Sources: Haver and IMF staff calculations.

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



Sources: Haver and IMF staff calculations.

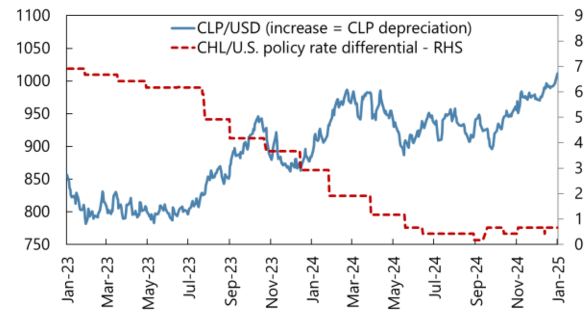
9. **The peso was volatile and depreciated in 2024 amid narrowing interest rate differentials.** With the Chile-U.S. interest rate gap decreasing and falling below 1 percent from May, the peso depreciated against the dollar by about 12 percent on average in 2024 (text chart). After a temporary appreciation during April and May, largely driven by higher copper prices, the peso started depreciating again, particularly in the run-up to the U.S. presidential election. Chile's current

[1] The measures are as follows. First, ISFUT is a tax benefit that resolves arrears on income accumulated up to end-2016. Second, the new tax compliance law includes a temporary capital repatriation program. The combined effect of these measures was 0.3 percent of GDP in 2024, in line with the authorities' total projection.

account deficit narrowed in 2024 but the external position continues to be assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex III).

Chile: FX Rates and Interest Differential

(CLP/USD - LHS, in percentage points - RHS)

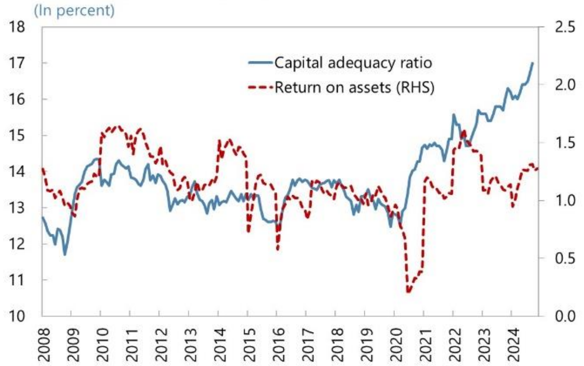


Sources: Central Bank of Chile, Federal Reserve Economic Data and IMF staff calculations.

10. The financial sector remains resilient, despite greater risks related to the real estate sector. Banks' capital adequacy, liquidity, and profitability are at or above pre-pandemic levels (left text chart and Figure 6). Although non-performing loan (NPL) ratios slightly exceed pre-pandemic levels, provisions remain adequate, supported by strong collateral coverage (right text chart). Nominal credit growth continued to be slow at 3.7 percent (yoy) in November 2024, mainly due to weak credit demand and tight lending standards, amid still elevated long-term interest rates and increased credit risk (Figures 7 and 8). Banks met the counter-cyclical capital buffer (CCyB) of 0.5 percent in May 2024 and fully repaid the pandemic-related liquidity measures (FCIC) smoothly by July 2024.

Chile: Capital Adequacy Ratio and Return on Assets

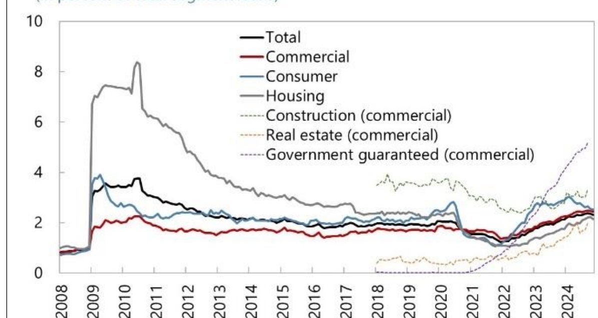
(In percent)



Sources: CEIC, CMF, and IMF staff calculations.

Chile: Non-Performing Loans

(In percent of total segment loans)



Sources: BCCh, CMF, and IMF staff calculations.

Note: "Government guaranteed" refers to Fogape loans, which account for one-fourth of all commercial loans.

Authorities' Views

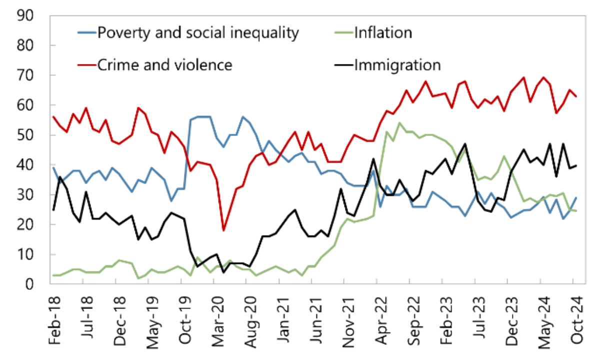
11. While the authorities broadly agreed with the assessment of the external position, they noted several technical factors that could suggest a stronger external position. They stressed that transportation costs in 2024 remained above pre-pandemic levels and that the rise in copper prices was driven by a long-term trend of increasing demand for copper rather than by cyclical factors, which would result in a lower current account deficit gap than staff's estimate. Moreover, the authorities pointed out that foreign direct investment, particularly in the mining sector, has historically and in the most recent period financed a substantial portion of the current account deficit, thereby reducing the risks associated with abrupt capital outflows.

OUTLOOK AND RISK

12. The economy is projected to remain broadly balanced in the near term. Real GDP is expected to grow around the potential growth rate of 2-2.5 percent in 2025 and the medium term, supported by the recovery of domestic demand and continued growth of mining exports. Inflation is expected to return to the 3-percent target in early 2026, after the effect of the electricity tariff hikes subsides and service inflation comes down further. The government aims to narrow the fiscal deficit to 1.1 percent of GDP in 2025 and 0.5 percent of GDP in 2026, but staff considers these targets difficult to reach without additional measures. The current account deficit is projected to widen somewhat in 2025-26, driven by the impact of the recovery in domestic demand on imports.

13. External risks remain elevated. The external environment is unstable and uncertain. The commodity price volatility linked to the economic outlook of Chile's main trading partners and the pace of the global green transition represents a key external risk. Copper and lithium prices directly impact Chile's fiscal revenues and can have spillover effects on non-mining sector activities. Moreover, there is a risk of prolonged high long-term interest rates in the U.S., possibly resulting from changes to the monetary or fiscal policy outlook, which could lead to tight financial conditions for longer periods of time and greater financial volatility in Chile. Climate change also poses risks as Chile is prone to storms, wildfires, and floods, while the global green transition could boost the demand for Chile's copper, lithium, and renewable energy. Domestically, social discontent over crime, immigration, and inequality persists (text chart), and political polarization may further hinder progress on much-needed structural reforms. Building buffers and resilience are essential to mitigate the impact of potential adverse shocks and deploy policy space when needed (Annex II).

Chile: Top Concerns from Public Opinion Survey
(In percent of respondents)



Source: Ipsos, What Worries the World Survey, Feb 2018-Oct 2024.

Authorities' Views

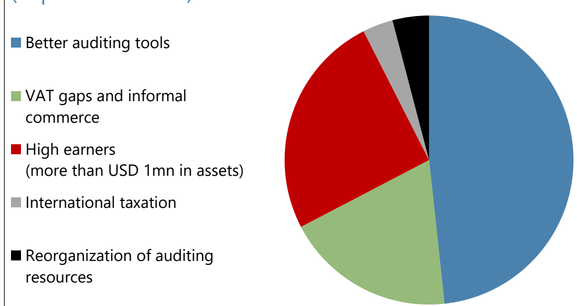
14. The authorities broadly shared staff's near-term outlook and considered external risks to have risen. For 2025, the BCCh's growth projections (1.5-2.5 percent) are similar to those by staff, while the Ministry of Finance's outlook is somewhat stronger (2.7 percent), assuming a more solid domestic demand recovery. On inflation, the BCCh expects it to return to the 3 percent target in early 2026. The authorities see risks to the economy stemming mainly from the external environment, including the trajectory of global long-term interest rates, geopolitical tensions, and changes in U.S. economic and trade policies.

POLICY DISCUSSIONS

A. Fiscal Policy: Ensuring Fiscal Sustainability While Addressing Social Priorities

15. Achieving the budgeted fiscal deficit of 1 percent of GDP in 2025 will be challenging. Staff's higher headline deficit projection of 1.8 percent of GDP reflects primarily a less optimistic outlook on the revenue improvement than in the budget, including due to somewhat lower real GDP growth, last year's revenue underperformance, and a slightly more cautious forecast on yields from the new tax compliance law (text table). Overall, staff estimates total tax revenues to rise by about 1 percent of GDP in 2025, driven by the new mining royalty tax, higher copper prices and production, a recovery in consumption and import taxes, and better tax compliance. On the spending side, staff projections assume some spending under-execution, building on the 2024 experience. Nevertheless, fiscal policy needs to remain nimble and possibly adjust spending plans further in case revenue mobilization disappoints. In those circumstances, preserving public investment projects would be important to support economic growth.

Chile: Tax Compliance Law, Main Sources of Improvements
(In percent of total)



Sources: Ministry of Finance, EmergingMarketWatch, and IMF staff calculations.
Note: The authorities expect these measures to increase fiscal revenue by 1.5 percent of GDP.

Chile: Authorities' and Staff's Fiscal Projections

	2024	2025	2026	2027	2028	2029
Authorities						
Structural fiscal balance	-2.3	-1.1	-0.5	-0.5	-0.25	0.0
Headline fiscal balance	-2.0	-1.0	-0.3	-0.3	0.0	0.3
Total revenues	22.8	24.1	24.6	24.8	25.0	24.9
Non-mining tax revenues	17.6	18.2	18.9	19.4	19.8	20.0
Private mining tax revenues	1.0	1.6	1.5	1.3	1.2	1.2
Total expenditures	24.8	25.1	24.9	25.1	25.0	24.6
Public debt	41.2	41.3	41.4	40.9	40.4	38.9
Staff						
Structural fiscal balance	-3.1	-2.1	-1.2	-0.5	-0.6	-0.7
Headline fiscal balance	-2.7	-1.8	-0.8	-0.4	-0.4	-0.4
Total revenues	22.1	23.0	23.8	23.9	24.0	24.0
Non-mining tax revenues	17.0	17.5	18.1	18.3	18.3	18.3
Private mining tax revenues	1.0	1.5	1.5	1.5	1.5	1.5
Total expenditures	24.8	24.8	24.7	24.4	24.4	24.4
Unspecified measures		-0.1	-0.5	-1.0	-0.8	-0.8
Public debt	42.7	43.7	44.1	43.5	43.5	43.6

Sources: Informe de Finanzas Publicas October 2024, and IMF staff projections.
Note: Non-mining tax revenues include a one-off effect of 0.2 percent of GDP in 2024 and a permanent effect of 0.3 percent of GDP from 2025 onward. Additional potential impacts from the tax compliance law are not included.

16. Meeting the government's target of a broadly balanced fiscal position by 2027 remains appropriate but requires additional efforts. As the expected revenue recovery in 2025 continues, staff estimates that additional cumulative measures of at least 1 percent of GDP are needed in 2026-2027. Revenue mobilization associated with the approved tax compliance law could largely fill this gap, provided that the yields materialize as anticipated and are not allocated to new spending priorities. In staff's baseline projections, they are not yet included beyond 2025, given the large uncertainty that calls for a stock-taking by year end. In this context, it is also crucial to ensure that the proposed CIT reform, which aims to reduce the CIT rate while increasing taxes on dividends, is revenue-neutral and supports stronger private investment. For new spending initiatives and to maintain fiscal sustainability, including those under the fiscal pact,[2] additional revenue mobilization will be needed. In the context of financing the electricity subsidy for vulnerable households, the government has also proposed to increase the carbon emission tax on the power generation sector from US$5 to US$10 per ton of CO_2 for three years.

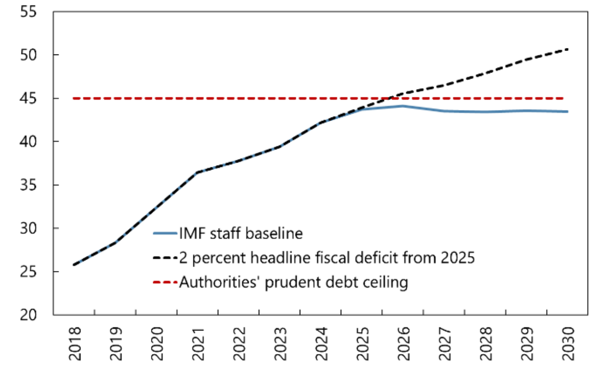
17. The long-overdue pension reform is critical to ensure adequate self-financed pensions and reduce future fiscal costs. There is a broad agreement to add a 6-percentage points (pps) employer contribution to raise replacement rates, while views diverge on how to split the additional contribution between individual and redistribution accounts. The latest proposal (as of end-November 2024), aimed at bridging political views, would allocate 3 pps to individual savings and 3 pps to a social insurance fund. Of the latter, 1 pp would address the life expectancy pension gap for women, while 2 pps would form a reimbursable contribution with interest, returned to individuals after retirement over 20 years (see Annex VI). The reimbursable contribution and the minimum guaranteed pension (PGU) would create substantial fiscal costs as the population ages, which necessitates measures to ensure the fiscal sustainability of the pension system, while maintaining a robust safety net for the elderly. In addition to limiting PGU increases to inflation only, consideration should be given to making the PGU more targeted to the most vulnerable elderly. The individual pension savings scheme could be further strengthened by gradually aligning women's retirement age with that of men, linking the retirement age to life expectancy, adopting the proposed insurance for pension contributions during unemployment, further incentivizing labor market formalization, and introducing mechanisms to reduce fees and improve competition among pension funds.

18. Ongoing efforts to improve spending efficiency and efficacy are welcome. This includes the plans to create a one-stop service window and combine the fragmented social programs which could improve their access, coverage, and efficacy (see Annex VII, of IMF 2023). The procurement system reform (ChileCompra), effective December 2024, aims to enhance competition, by promoting participation of small and medium-sized enterprises and raising transparency, including through the expansion to all branches of government.

[2] The fiscal pact is a set of policy initiatives that aims to increase spending on certain priority areas, such as higher minimum guaranteed pensions, the health system, childcare, and security, financed by tax reforms as well as measures to boost growth and investment, modernize the state, and increase spending efficiency. See Box 1 of the 2023 Article IV Staff Report for more details.

19. Chile's public debt is assessed to be sustainable with high probability but is at risk of breaching the authorities' prudent debt ceiling. Under the baseline scenario, central government debt will remain below, but very close to, 45 percent of GDP during 2025-30. However, if fiscal consolidation efforts were consistently smaller than planned (e.g., the overall deficit remained at 2 percent of GDP; close to staff's projection for 2025) and debt-creating "below-the-line" operations stayed at about 1 percent of GDP per year, the debt-to-GDP ratio would exceed 45 percent in 2026 (text chart). In addition, demographic changes and rising healthcare costs are projected to increase annual fiscal spending on PGU and healthcare over the long term by a magnitude of 4 percent of GDP, presenting a significant fiscal challenge (Annex IV).

Chile: Central Government Debt
(In percent of GDP)



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

20. The Fiscal Responsibility Law adopted in July 2024 has further strengthened fiscal governance and resilience. The law formalizes the debt anchor introduced in 2022, requires annual structural fiscal targets for the duration of the administration, adds an escape clause, and requires the government to outline corrective actions in case of deviations. The Fiscal Council's role is expanded to assess the fiscal targets, evaluate compliance, and propose mitigation measures for deviations. Areas for further improvement include enhancing transparency around "below-the-line items" (e.g., capitalization of SOEs) that have contributed to about two-fifths of the total debt increase over the past 15 years; reviewing revenue forecasting methods in the context of economic and policy shifts, data use, and internal processes; and rebuilding the Economic and Social Stabilization Fund (ESSF) in the context of a medium-term strategy, including by saving windfall revenues to strengthen fiscal buffers. Moreover, clarifying the presentation of fiscal targets and budget execution in the Public Finance Report could enhance the understanding of the fiscal balance rule framework and fiscal outcomes.

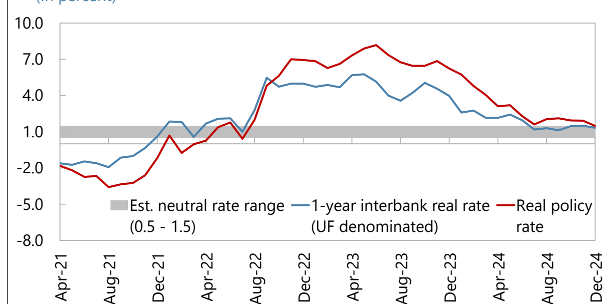
Authorities' Views

21. The authorities reaffirmed their strong commitment to the medium-term fiscal consolidation path. They assessed the revenue underperformance in 2024 relative to the budget as being primarily the result of lower lithium prices and weaknesses in corporate income tax collection in the context of structural economic shifts. They highlighted their significant efforts to curb expenditure in 2024 and stressed the need for spending discipline going forward. To strengthen their revenue projections, the authorities requested technical assistance from the IMF to review and update their projection models and processes. For 2025-26, the authorities anticipate a significant increase in revenue from the full implementation of the new mining royalties and the recently approved tax compliance law that will contribute to the targeted deficit reduction. Nevertheless, they agreed with the necessity to preserve spending flexibility and prioritize the fiscal deficit target over new spending initiatives, unless additional revenue mobilization is approved. They emphasized their determination to reach a political agreement on the pension reform in early 2025 and revenue-neutral changes to the CIT and dividend taxation to foster investment.

B. Monetary Policy: Converging to the Neutral Rate and Rebuilding International Reserve Buffers

22. A cautious data dependent approach to the pace of future monetary policy rate cuts is recommended. The BCCh's monetary policy adjustments have been in line with its inflation-targeting framework. The rise in inflation since June was primarily driven by the hikes in electricity tariffs, and to a less extent, the rise in core inflation that can be attributed to external factors and higher real wages rather than domestic demand. While the real monetary policy rate—calculated as the difference between the nominal rate (5.0 percent) and near-term inflation expectations—is close to the upper bound of the estimated neutral range of 0.5-1.5 percent (text chart), long-term interest rates remain elevated. This is due to the spillover effects from long-term interest rate developments in the U.S. and the reduced depth of the domestic capital market following pension withdrawals during the pandemic. Overall, monetary and financial conditions remain somewhat tight, supporting inflation to converge towards the target. Staff expects inflation to gradually return to the 3-percent target by early 2026, based on the technical assumption that the nominal policy rate would remain between 4.5 and 5 percent throughout 2025 and the baseline economic scenario materializes. Risks to inflation are skewed to the upside. On the one hand, the peso depreciation, due to a strong dollar or lower-than-expected copper prices, as well as the potentially stronger-than-expected second-round effects of wage and electricity price increases, could further heighten inflation pressures. On the other hand, a slower-than-expected recovery in domestic demand, possibly related to a continued sluggish construction sector and weak employment growth, could somewhat alleviate inflation pressures.

Chile: Real Monetary Policy Rate 1/
(In percent)



Sources: Haver and IMF staff calculations.
1/ Real policy rate is calculated as nominal policy rate minus 1-year inflation expectation, with the latter calculated using the difference between 1-year peso- and UF- denominated (inflation indexed) interbank rates.

23. Rebuilding international reserve buffers is essential for enhancing resilience. Gross international reserves (GIR) declined slightly in 2024 in U.S. dollar terms, mainly due to lower FX deposits related to reserve requirements of commercial banks and the depreciation of other reserve currencies against the dollar. GIR stood at US$44.4 billion at-end December 2024, or 79.0 percent of the Fund's ARA metric, below the recommended range of 100-150 percent. While there are several mitigating factors (Annex III), including the government's usable liquid FX assets that amounted to US$4.6 billion as of November (equivalent to 8.1 percent of the ARA metric), and the flexible exchange rate acts as a shock absorber, international reserves provide a shield against disorderly market conditions. This implies making it a priority to integrate reserve accumulation into the BCCh's longer-term financial stability strategy. One option would be to allow reserve accumulation to be more gradual and continuous over the longer term as it would curtail the risk of unintended spillovers on the foreign exchange market in the context of a volatile external environment. The strategy and operational design should continue to follow high transparency standards, be persistent and robust to changes in external risks, and minimize distortions in the foreign exchange market.

24. Staff has completed the safeguards procedures as part of Chile's Flexible Credit Line arrangement. No significant issues were noted from staff's review of the 2023 audit results or in discussions with the BCCh and the external auditor, EY Chile. The BCCh's external audit mechanism and financial reporting framework continue to adhere to leading practices and international standards. EY Chile issued an unmodified (clean) audit opinion on the BCCh's 2023 financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) and are publicly available.

Authorities' Views

25. The BCCh stressed that the pace of future monetary policy easing will continue to depend on macroeconomic developments. With long-term U.S. interest rates continuing to be high and contributing to tight financial conditions in Chile, the appropriate monetary policy stance will consider the outlook for medium-term inflation. Current inflation remains above target and is being affected by different types of cost factors, whose implications for inflation persistence will be taken into account.

26. The BCCh remains strongly committed to the flexible exchange rate. It views exchange rate flexibility as a critical shock absorber. When market conditions are conducive, the BCCh aims to start adjusting the current composition of international reserves and other external liquidity buffers by resuming the reserve accumulation program.

C. Financial Sector Policies: Reinforcing Resilience

27. The financial system is overall sound and resilient, with risks mainly related to the real estate sector. Banks are well-capitalized and maintain sufficient liquidity, with loans adequately provisioned and collateralized to withstand shocks. The financial health of households and corporates is overall sound. However, risks related to the real estate sector have become more pronounced, especially given banks and life insurers' significant exposure (Figure 9). Staff analysis (Selected Issues Paper) suggests a modest recovery of the residential real estate sector in the baseline, as past policy rate cuts gradually transmit to lower long-term rates. In the commercial real estate sector, office vacancy rates are still elevated compared to pre-pandemic levels but have stabilized and started to decline modestly. Strong underwriting standards and a low book-to-market ratio of real estate collateral and investments, due to past real estate price increases, will also help reduce credit and market risks. Nonetheless, in a risk scenario with higher-for-longer long-term interest rates or slower economic growth, the real estate sector could stagnate and increase losses for banks and life insurers. Thus, it is important to monitor the quality of banks and insurers' portfolios, address data gaps in commercial real estate price indices, and continue to improve stress tests to assess real estate sector risks effectively.

28. Continued implementation of the 2021 FSAP recommendations and other resilience-enhancing measures is important. Many efforts are underway (Annex X). The Financial Market Commission (CMF) and the BCCh have successfully deployed the Basel III framework. The BCCh updated its CCyB framework, set a neutral level at 1 percent of risk-weighted assets, and established a gradual, state-contingent implementation plan for private banks (Annex VII). The ongoing implementation of the Financial Market Resilience Law will help develop the interbank repo market, enhance the BCCh's ability to respond to financial distress, and strengthen mutual fund liquidity management. Moreover, the authorities are finalizing a bill on an industry-funded deposit insurance and a new bank resolution framework, building on the white paper published in January 2023. They are also working on a Consolidated Debt Registry (to begin in 2026), which will strengthen credit risk management, enhance supervision, and support better monitoring of indebtedness for financial stability. The planned regulations on banks' corporate governance and risk management will enhance governance in financial sector oversight.[3] Granting budgetary independence to the CMF would help ensure that its budget remains adequate, aligning with its expanding responsibilities in areas such as fintech and cybersecurity (text table).

Chile: Recently Approved Financial Sector Laws and Initiatives in Digitalization

	Relevant Law or Initiative	Description
Fintech	Fintech Law in implementation	The CMF issued regulations on fintech activities in February 2024 (with supervision starting in February 2025) and on an open finance system in July 2024 (with gradual implementation between 2026 and 2029).
Cybersecurity	Law on Cybersecurity and Critical Information Infrastructures in implmentation	The law creates a new National Agency on Cybersecurity, with regulatory and supervisory powers, and the CMF will coordinate with the new entity for the financial sector.
Payment System	Amendments to the Payment Fraud Law in implementation	The amendments aim to reduce banks' losses from external fraud by addressing the Law's loopholes previously exploited for fraudulent refunds.
Central Bank Digital Currency	Publication of the second evaluation report	In March 2024, the BCCh released its second evaluation report on the retail Central Bank Digital Currency, announcing its decision to move the CBDC exploration process into a more applied phase, while clarifying that this decision does not imply a commitment to issuing a CBDC in the future.

Sources: BCCh and CMF.

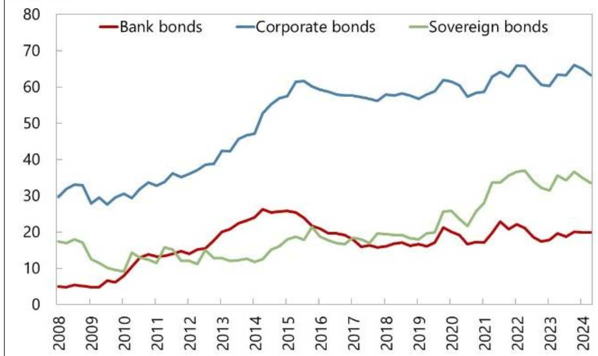
29. Progress was made to strengthen AML/CFT. The implementation of the updated AML/CFT regulations for banks, cooperatives, and payment card issuers as well as the new AML/CFT framework for insurers will strengthen the AML/CFT supervision. These measures, coupled with the execution of 2023-2027 National AML/CFT Strategy, aim to address deficiencies identified in the 2021 AML/CFT Mutual Evaluation Report (Annex IX).

30. Pension fund withdrawals and rising public debt have reshaped local financial markets since the pandemic. Staff's analysis (Selected Issues Paper) highlights two major effects (Figure 10). First, the lower size of pension funds has reduced capital market depth and weakened the

[3] For governance weaknesses in financial sector oversight, identified in the 2021 FSAP, see Appendix VI in the FSSA.

cushioning mechanism in the forex market,[4] making these markets more sensitive to external financial stress. Second, in the context of reduced demand for local bonds and higher public debt issuance, non-financial corporations and the government relied more on offshore markets for issuance during the pandemic (text chart). Although these changes do not pose immediate risks, raising the pension contribution rate would increase the pool of investable savings and further deepen local capital markets. Implementing the Financial Market Resilience Law and other resilience measures will also be beneficial.

Chile: Share of Offshore Markets in Stock of Debt Securities
(In percent)



Sources: BCCh and IMF staff calculations.

Authorities' Views

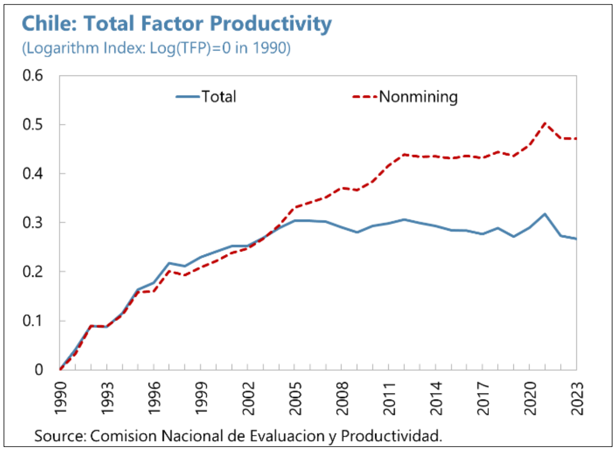
31. The authorities shared the assessment that the external scenario continues to be the main source of risks to the resilient financial system. Vulnerabilities related to the sectors lagging behind are carefully monitored, and they emphasized their broad-based resilience-building efforts. The authorities acknowledged the need to closely monitor the vulnerabilities in the real estate sector and the changes to the depth of the local financial markets. The BCCh's latest stress tests indicate that the banking sector can withstand a range of shocks. They noted that the updated CCyB framework will strengthen the resilience. The authorities reiterated their efforts to implement the FSAP recommendations, particularly in areas such as Basel III capital requirements, bank resolution framework and evaluation of an industry-funded deposit insurance, and the enhancement of bank corporate governance. They also underscored their dedication to implementing the Financial Market Resilience, the Consolidated Debt Registry, and Fintech Laws and advance in the digital payment agenda, including CBDC. Regarding AML/CFT risk, they committed to continue to address the shortcomings identified in the 2021 AML/CFT Mutual Evaluation Report.

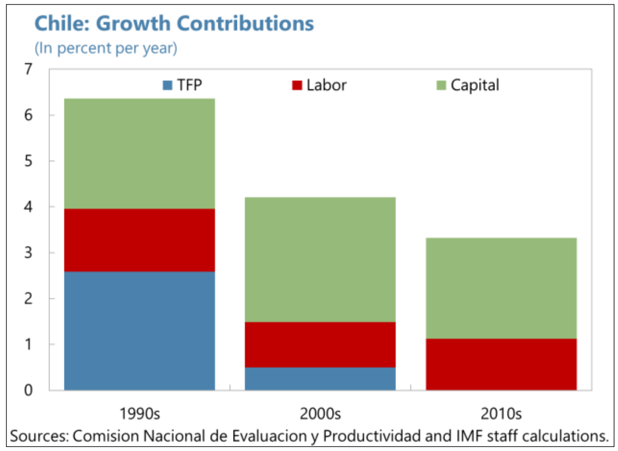
D. Structural Reforms: Fostering Stronger and More Inclusive Medium-Term Growth

32. Trend growth has decelerated, mainly due to stalled productivity growth across both the mining and non-mining sectors. For the entire economy, total factor productivity (TFP) contributed about 2.5 percentage points to annual GDP growth in the 1990s but was close to zero in the pre-pandemic decade (right text chart). In contrast, the contributions of labor and capital remained relatively steady across the three decades. Labor added a bit more to growth in the last decade, reflecting migrant inflows and higher female labor force participation (Annex V). At the

[4] Pension fund investment rules impose strict limits on foreign investment, requiring pension funds to rebalance their portfolios in response to exchange rate movements. When the peso depreciates, the share of dollar assets in total assets (valued in pesos) rises. The portfolio rebalancing (by selling dollars) helps cushion the peso depreciation (IMF 2023).

same time, capital's contribution to growth nudged down, likely due to slower productivity growth which dampened investment.[5]



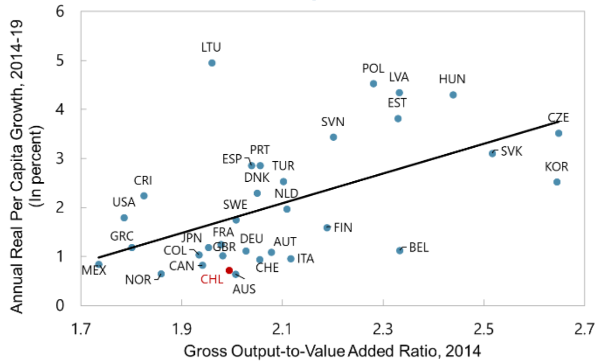


33. The timid productivity growth can be partially attributed to Chile's economic structure. Studies indicate a positive relationship between long-term productivity growth and the interconnectedness of producers,[6] as stronger interconnectedness can amplify the impact of technological progress. Staff analysis (Selected Issues Paper) indicates that Chilean producers use intermediate inputs less intensively (i.e., are less connected) than OECD peers, such as the Czech Republic and Korea (left text chart). This is primarily because of the smaller presence of the manufacturing sector in the Chilean economy, which has stronger linkages to other sectors compared to mining. Moreover, the interconnectedness declined over time. The growth implications could be important: for example, the gap in intermediate input use between Chile and Korea is associated with a difference of up to a 1.5 percentage points in annual real GDP growth. Although Chile's endowment in copper and lithium naturally entails a sizable mining sector, increasing the interconnectedness of the production network could raise long-term aggregate productivity growth for non-mining sectors. This could be achieved in various ways, including by diversifying exports away from raw mining products (potentially through easing the regulatory burden on investment and fostering standardization and certificates), reducing trade costs through trade agreements and regulatory changes to maritime concessions and coastal shipping, and improving contract enforcements.

[5] The growth decomposition of the non-mining sectors exhibits a pattern similar to that of the overall economy.

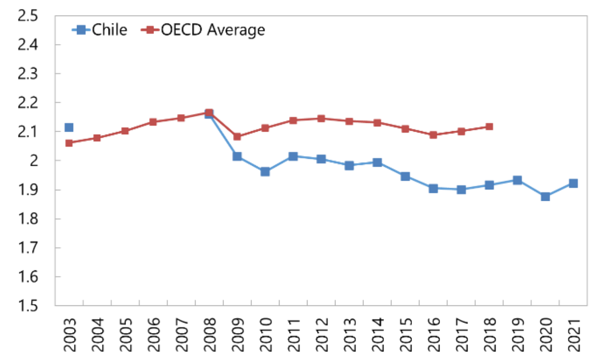
[6] The interconnectedness considered here is the strength of input-output relationship. At the aggregate level, it be measured by intermediate input use as share of gross output.

Chile & Selected Economies: Cross-Country Per Capita Real GDP Growth and Gross Output-to-Value Added Ratio



Sources: OECD and IMF staff calculations.

Chile: Gross Output-to-Value Added Ratio



Sources: BCCh, OECD Statistics, and IMF staff calculations.

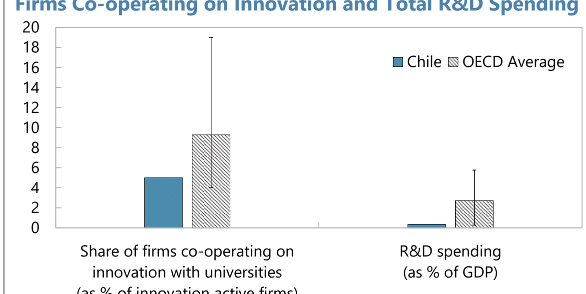
34. The government's growth strategy mainly includes modernizing the regulatory environment, developing emerging industries, and boosting R&D.

- *Regulatory environment.* Bills to expedite sectoral investment permit applications and environmental evaluations are under discussion in Congress. For sectoral permits, the proposed change includes a more risk-based approach, which is expected to reduce the processing time and provide greater certainty about evaluation criteria. Regarding environmental evaluations, potential changes include granting more discretion to a centralized agency to better coordinate the evaluation process and prioritizing strategic projects.

- *Emerging industries.* To benefit from and contribute to the global green transition, the government aims to develop emerging industries such as lithium, green hydrogen and data centers, building on the achievements in renewable energy (see 2023 Article IV Staff Report). In particular, the state-owned mining company Codelco and the largest lithium producer SQM reached an agreement in May 2024 to form a public-private-partnership (PPP), which is expected to increase production and fiscal revenues, and more importantly, to pave the way for PPP negotiations in other salt flats. The authorities project the annual lithium production to increase by about 70 percent by 2030.

- *R&D.* The government is advancing a bill that would ease restrictions on university researchers, better enabling them to create or participate in technology companies and claim proceeds from research outcomes, such as patents or trade secrets. This initiative would provide university researchers with stronger incentives to engage in innovation and address the relatively low collaboration between firms and universities on R&D in Chile compared to other OECD countries (text chart).

Chile & OECD Countries: Firms Co-operating on Innovation and Total R&D Spending



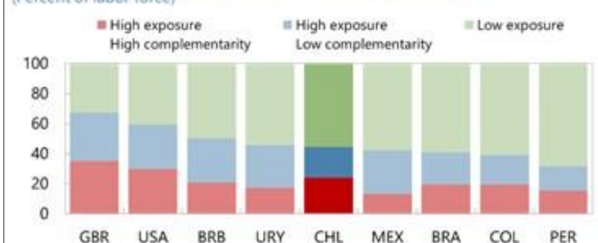
Sources: OECD and IMF staff calculations.
Note: R&D spending includes private and public spending. Whiskers indicate the maximum and minimum value of each variable for OECD countries.

35. A swift and consistent implementation of these growth-enhancing measures is key. In particular, a more efficient regulatory environment is urgently needed, as it cuts across all sectors. Moreover, enhancing a supportive infrastructure is important to foster the development of emerging industries, such as electricity transmission lines for renewable energy (see 2023 Article IV Staff Report).

36. The proposed new development bank requires a targeted mandate, sound risk management practices, and robust corporate governance. The authorities plan to create AFIDE (Agencia de Financiamiento e Inversión para el Desarrollo) with the goal to enhance financing access to new and higher-risk industries that have positive economic externalities but have difficulties to obtain traditional bank loans or venture capital. AFIDE's initial capital would be provided by the Chilean Economic Development Agency (CORFO), the Ministry of Finance, and possibly international financial institutions. It will be important that AFIDE's operations effectively address market failures, take place within strong governance structures, and limit fiscal contingent liabilities. In this vein, the preliminary proposal envisages AFIDE to be supervised by the CMF and follow OECD corporate governance principles. The creation of a financially sustainable development bank could in principle advance the current development financing system that relies on CORFO, which itself is managed and financed by the government.

37. The advent of digital technologies and artificial intelligence (AI) offers an opportunity to enhance productivity, though negative impacts on the labor market must be addressed. Staff analysis shows that Chile is among the most exposed to AI in Latin America because of its larger formal sector and could benefit significantly from its adoption (Annex VIII). Despite relatively low informality by regional standards, Chile's labor force remains more informal than in the U.S. and United Kingdom, explaining its intermediate level of AI exposure. The productivity gain is particularly promising in the private and public service sectors, which has historically low productivity but a high potential for AI-driven improvements. However, certain segments of the labor market (in particular, individuals with secondary school education and an undergraduate degree) face displacement risks. Policies should focus on promoting technology diffusion, such as by addressing the skill gaps, and facilitating workers' transition into more productive sectors, ensuring that AI adoption benefits the economy broadly and equitably.

Chile & Selected Economies: Labor Force Complementarity and Exposure to AI
(Percent of labor force)

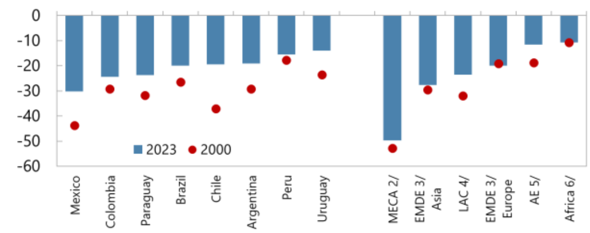


Sources: Bakker and others, forthcoming.
Note: Data is available for one Caribbean country and six LA7 countries. AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

38. Continuing to boost female labor participation can enhance growth and gender equality. Labor's contribution to GDP growth is expected to decline due to demographic changes, unless labor participation and skill levels can improve further. Female participation in the labor market increased by 15 percentage points since 2000, while male participation remained broadly unchanged (Annex V). Closing the remaining labor participation gender gap (about 20-percentage points) by further integrating women into the labor force will be crucial to mitigate the negative demographic effects. Analysis shows a sharp drop in women's labor participation around motherhood and, when women return to employment, many enter the informal labor market, despite their higher average education attainment than men. Therefore, improving the access to quality childcare and replacing the distortionary size-dependent childcare policy with a more universal program that is sufficiently financed is crucial for raising female labor participation, boosting potential growth, and reducing gender inequality.

Chile & Selected Economies: LFPR Gender Gap 1/

(In percentage points)

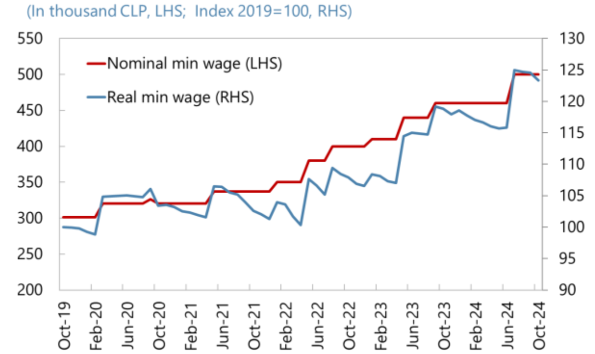


Sources: ILOSTAT, IMF Gender Data Hub and IMF staff calculations.
Note: Aggregates are simple averages based on modeled ILO estimates. The gender gap corresponds to female minus male values.
1/ LFPR: Labor force participation rate.
2/ Middle East and Central Asia.
3/ Emerging market and developing economies.
4/ Latin America and the Caribbean.
5/ Advanced economies.
6/ Sub-Saharan Africa.

39. **Recent labor market weakness calls for caution on further increases in the real minimum wage.** Between January 2023 and July 2024, real minimum wages rose by approximately 15 percent (left text chart), while the unemployment rate remained above pre-pandemic levels. At the same time, employment growth was slowest in those industries that paid wages close to the minimum wage level (right text chart), a trend not seen before the pandemic. The rapid increase in the real minimum wage amid a still-weak labor market may have had unintended negative effects on employment. Nevertheless, it is difficult to determine and internationally compare Chile's current minimum wage-to-median wage ratio, for example, due to complications in accurately measuring median wage levels (De Gregorio and Taboada, 2023). Creating a minimum wage setting mechanism would allow to insulate future decisions from the political cycle and ensure that they are aligned with economic developments.

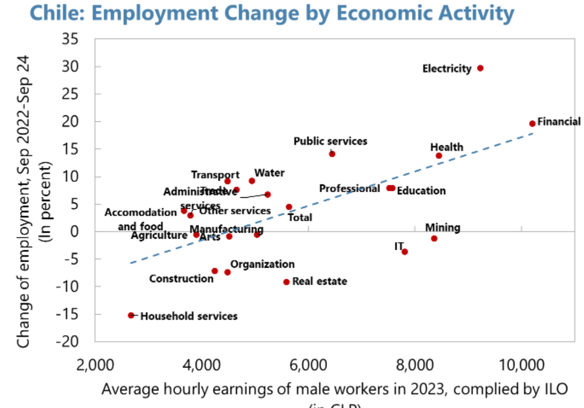
Chile: Nominal and Real Minimum Wage

(In thousand CLP, LHS; Index 2019=100, RHS)



Sources: Haver and IMF staff calculations.
Note: Real minimum wage is calculated as nominal minimum wage discounted by CPI.

Chile: Employment Change by Economic Activity



Sources: INE, ILO, and IMF staff calculations.

Authorities' Views

40. **The authorities view growth-promoting efforts as critical for lifting Chileans' incomes and fostering inclusion.** They are prioritizing the legislative initiatives to streamline the permitting and environmental approval processes, have stepped up coordination efforts across agencies, and are preparing the related secondary regulations in advance. They also stressed their efforts to

actively facilitate the development of emerging industries. In this context, they view the creation of AFIDE as filling a financing gap and are committed to follow sound corporate governance and risk management practices. The expected growth dividends and additional fiscal revenues could help reach fiscal targets and address social spending needs. There is a consensus on the importance of boosting research and development activity (R&D) in Chile. Moreover, the authorities see AI as an opportunity for raising service sector productivity and emphasized their achievements on the AI ethics framework as well as ongoing efforts to establish Chile as a data center hub. While they also saw merit, in principle, in enhancing the interconnectedness of Chilean producers to raise productivity growth, they stressed growth opportunities from greater dynamism and trade in the region. Improving gender equality remains a key element of the government's agenda. While the authorities acknowledge that the current size-dependent childcare policy may distort labor demand for female workers, they also recognize that achieving broader political consensus is essential for moving forward with a universal childcare system financed by higher payroll taxes.

STAFF APPRAISAL

41. The economy is broadly balanced but external risks are elevated. Chile's macroeconomic position is sound due to its very strong fundamentals, policies, and policy frameworks. Real GDP is growing around its potential and inflation is expected to reach the 3-percent target in early 2026. The current account deficit has continued to narrow, and the 2024 external position is assessed as moderately weaker than implied by medium-term fundamentals. Public debt is still relatively low and sustainable with high probability. However, the external environment is unstable and uncertain, which calls for policies that further strengthen economic buffers to provide additional policy space for future shocks.

42. Lifting Chile's growth potential is a must to raise living standards and tackle social and fiscal pressures. Taking a consultative approach, the government is advancing several growth initiatives, including: (i) expediting investment permit applications and environmental evaluations to encourage investment, (ii) fostering the development of emerging industries, particularly those related to renewable energy to maximize the benefits from the global green transition, and (iii) facilitating R&D. Swift and consistent implementation of these initiatives is crucial, especially in rationalizing the regulatory burden and improving essential infrastructure. Additionally, better integrating women into the labor market could partially offset the unfavorable demographic trends. The proposed new development bank requires a targeted mandate, sound risk management practices, and robust corporate governance.

43. The goal of a broadly balanced fiscal position by 2027 remains appropriate but has become more challenging. The authorities' commitment to fiscal restraint by adjusting spending plans in 2024 and 2025 is welcome. To achieve a balanced fiscal position over the next three years, a gap of at least 1 percent of GDP needs to be filled. This could be achieved largely from the important tax compliance law if its implementation yields the planned additional revenue and is not used for new spending initiatives. It is therefore crucial to carefully monitor developments in tax compliance and remain flexible to adjust current spending in case revenue mobilization falls short of plans, while aiming to preserve public investment outlays in support of medium-term growth. Ensuring that any structural spending increases align with higher structural revenues is vital for fiscal sustainability, while unifying fragmented social programs could enhance access and effectiveness for the most vulnerable.

44. Continuous enhancements to Chile's already very strong fiscal framework would foster fiscal policy formulation and transparency. For instance, providing more details on debt-creating flows outside the fiscal deficit ("below-the-line" items) would strengthen the monitoring of fiscal pressures. Updating fiscal forecasting methods, in line with the government's plans, could improve revenue projections in the context of economic and policy shifts. Adopting a medium-term strategy to rebuild the size of the Economic and Social Stabilization Fund (ESSF) would help provide resources to respond to future shocks. Finally, simplifying the presentation of the fiscal targets and budget execution in the Public Finance Report could deepen the understanding of the fiscal balance rule framework.

45. A pension reform is essential to ensure adequate pensions and address the fiscal costs of population aging. Raising contribution rates and the number of contribution periods is vital for sustainably self-financing old-age pensions. The minimum guaranteed pension (PGU) has strengthened the system's solidarity, increased replacement ratios, and reduced old-age poverty, but it also incurs high fiscal costs. With the ratio of pensioners to the working-age population set to nearly double in two decades, it is crucial to manage public spending pressures while maintaining a solid safety net. Targeting the PGU to the most vulnerable elderly, linking the retirement age to life expectancy, and implementing the proposed unemployment insurance for pension contributions could further strengthen the system.

46. A cautious data dependent approach to the pace of monetary policy easing is warranted. The BCCh's monetary policy adjustments have been in line with its inflation-targeting framework. The real monetary policy rate is close to its estimated neutral range. With near-term inflation risks tilted to the upside, future cuts to the policy rate should remain contingent on evidence that inflation is heading decisively back to its target.

47. Rebuilding international reserve buffers is important for enhancing resilience. While the flexible exchange rate plays a critical role as a shock absorber, the Central Bank of Chile's access to international liquidity can provide an additional shield against potential external shocks. This underscores the importance of incorporating a comprehensive international liquidity framework into the central bank's longer-term financial stability strategy. The strategy and operational design should continue to follow high transparency standards, be persistent and robust to changes in external risks, and minimize distortions in the foreign exchange market.

48. The financial system remains resilient despite rising vulnerabilities related to the real estate sector and lower financial market depth. The real estate sector is expected to recover modestly as long-term interest rates gradually decline, and there are several mitigants to credit risk associated with lending to this sector. Nevertheless, supervisors need to carefully monitor banks and insurers' portfolio quality and buffers, including by closing commercial real estate data gaps and enhancing stress test models. Rebuilding the depth of local financial markets by increasing pension contributions, which would increase the pool of investable savings, is important to help reduce market volatility and sensitivity to shocks.

49. Financial sector policies need to continue reinforcing resilience. The recent adoption of a positive neutral level of the counter-cyclical capital buffer with a gradual and state-contingent implementation provides banks with planning certainty. The ongoing implementation of Basel III capital and liquidity requirements needs to be completed. Prompt implementation of the Financial Market Resilience Law would enhance the BCCh's ability to respond to financial distress situations. Other priorities continue to include adopting an industry-funded deposit insurance and a bank resolution framework, providing budget independence to the CMF, further enhancing bank corporate governance, and implementing the Consolidated Debt Registry.

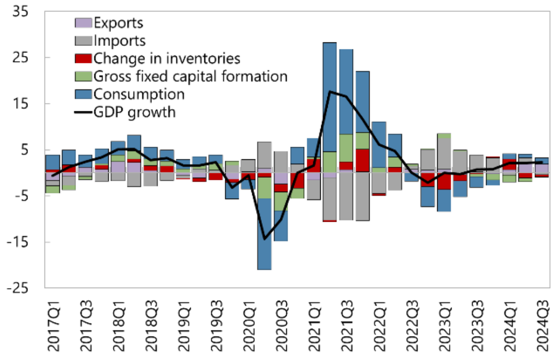
50. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Chile: Economic Activity

Growth picked up in 2024.

Contributions to Real GDP Growth

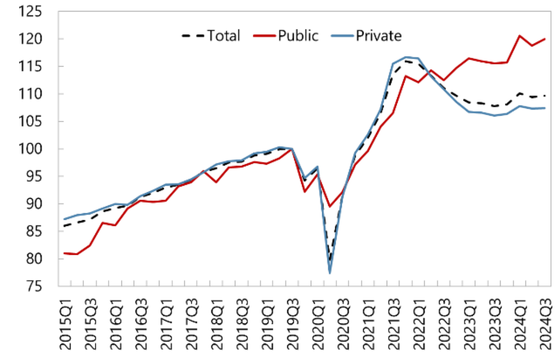
(In percentage points, yoy, S.A.)



Most of the growth contributions came from net exports, while private consumption growth remained moderate.

Real Domestic Consumption

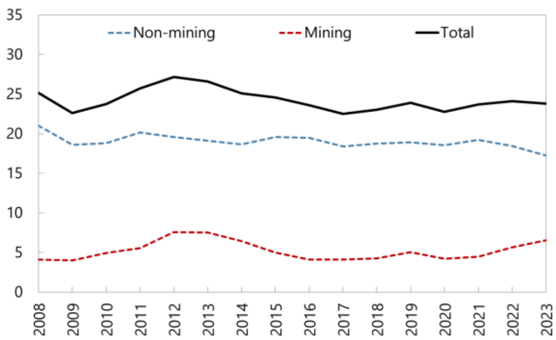
(S.A. - 2019Q3=100)



Despite the trend recovery of mining investment, total investment remained weak.

GFCF: Mining and Other Sectors

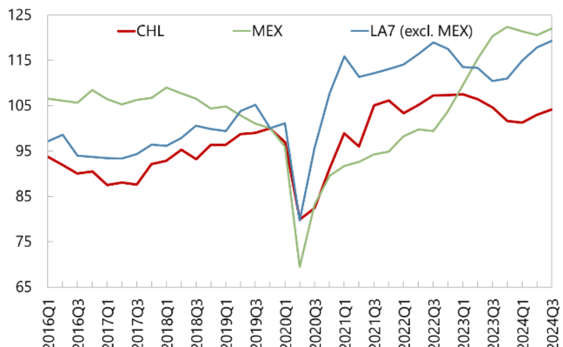
(In percent of GDP, real series)



The weak investment growth appears to be a regional phenomenon except in Mexico.

Real Gross Fixed Capital Formation

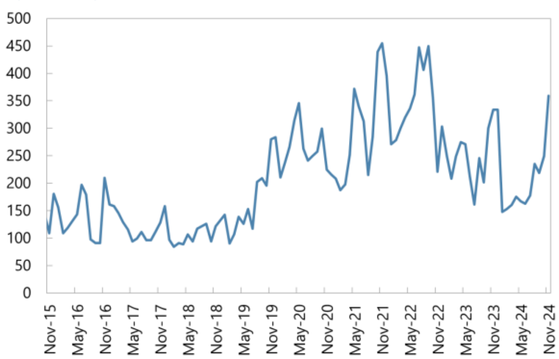
(Index, 2019Q4 = 100)



Economic uncertainty has declined from its peak during 2021-22 but has remained volatile.

Economic Uncertainty

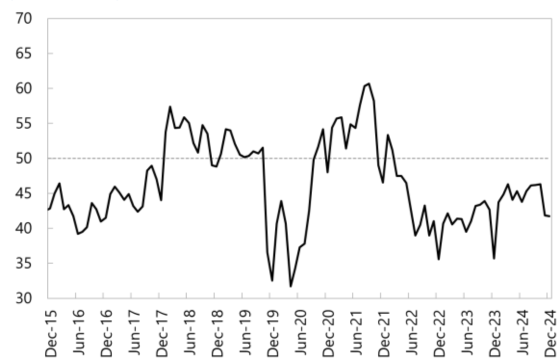
(Index, NSA)



Business confidence remains weak but is on a moderate upward trend.

Monthly Business Confidence (IMCE)

(50+=Favorable)



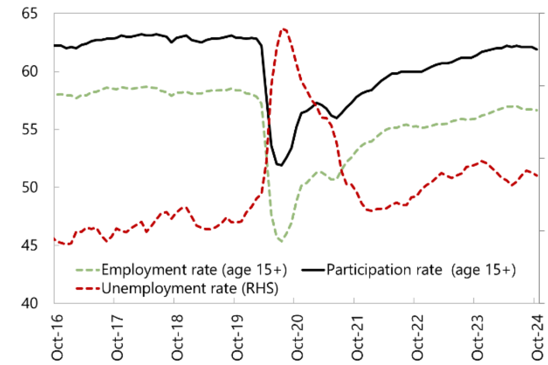
Sources: Central Bank of Chile, Ministry of Finance, INE, Haver Analytics, and IMF staff calculations.

Figure 2. Chile: Labor Market

The employment rate has not yet returned to its pre-pandemic level, and the recovery has leveled off in 2024.

Labor Market

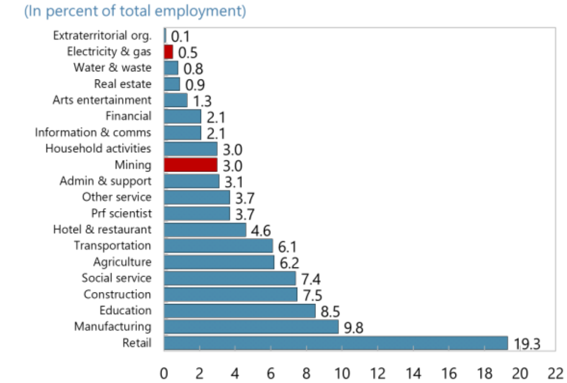
(In percent, 3 month ma, S.A.)



Mining and utilities, the leading sectors for GDP growth in 2024, have limited impact on total employment growth.

Employment by Industry, 2023

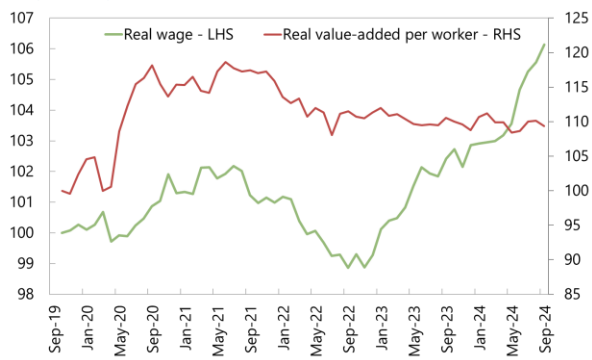
(In percent of total employment)



Real wages continued to rise, outpacing labor productivity growth, possibly explained by higher minimum wages.

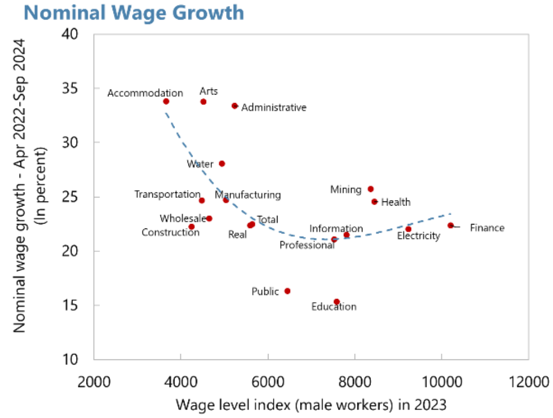
Real Wage Index and Real Value-Added per Worker

(2019=100)



Low-wage industries experienced faster wage growth in 2022-24 than higher-wage industries.

Nominal Wage Growth

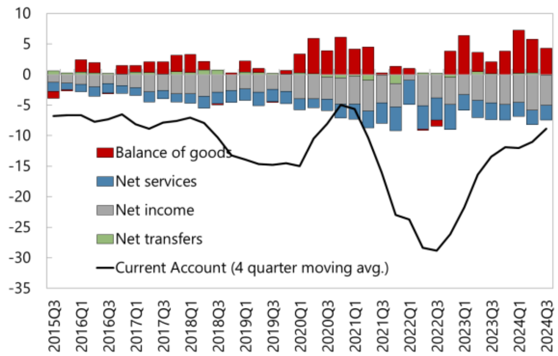


Sources: Central Bank of Chile, INE, Haver Analytics, and IMF staff calculations.

Figure 3. Chile: External Sector

The current account deficit continued to narrow in 2024,

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

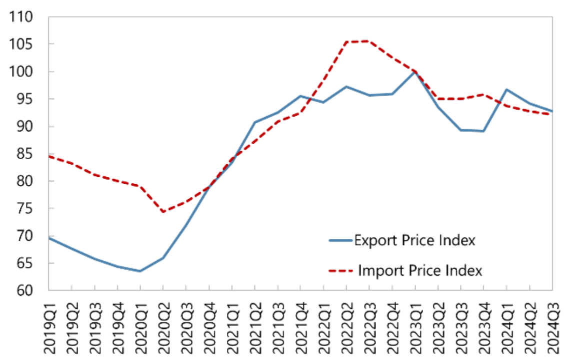


...largely owing to sluggish imports, consistent with the normalization of consumption from 2021-22 ...

Private Consumption and Real Imports
(Index, 2023Q1=100)

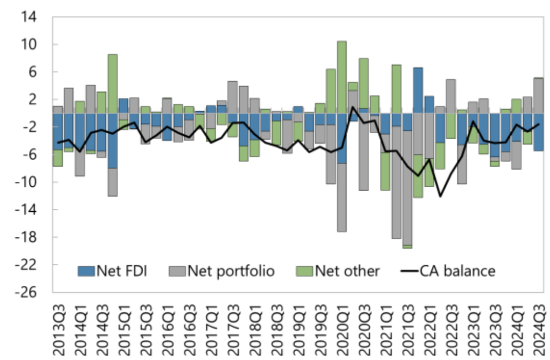
... and slightly more favorable terms-of-trade.

Prices of Goods Exports and Goods Imports
(USD price index, 2023Q1=100)



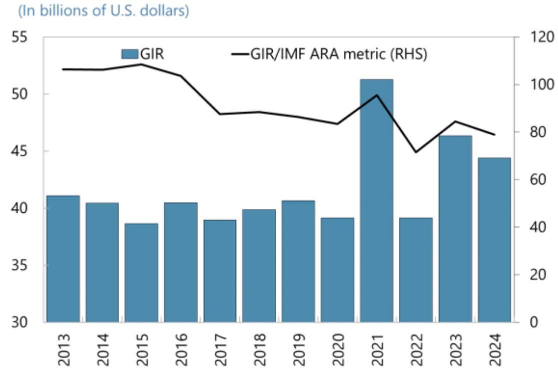
Volatility of non-FDI capital flows has normalized to pre-2020 levels.

Balance of Payments
(In percent of quarterly GDP)



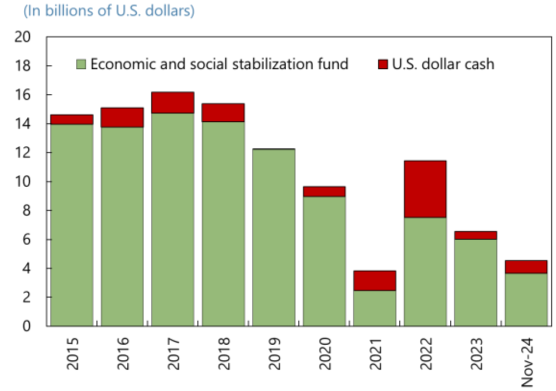
The size of gross international reserves is higher than the trough in 2022 but is still below 100% of the ARA metric.

Gross Reserves and Reserve Adequacy Metric 1/
(In billions of U.S. dollars)



FX buffers held by the government (not counted as international reserves) have declined.

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



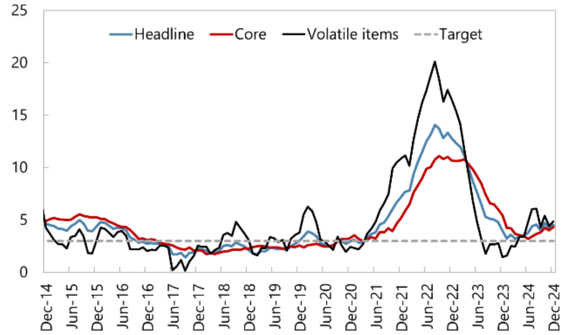
Sources: Central Bank of Chile, DIPRES, Haver Analytics, and IMF staff calculations.
1/ As percent of the IMF reserve adequacy metric. See Assessing Reserve Adequacy, IMF.

Figure 4. Chile: Inflation and Monetary Policy

After the sharp decline in 2023, headline inflation picked up in 2024H2 largely due to the rise in non-core inflation.

Headline and Core Inflation 1/

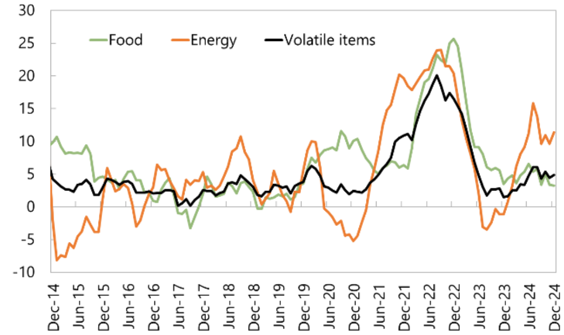
(In percent, yoy)



Non-core inflation was driven by regulated electricity tariff hikes.

Inflation 1/

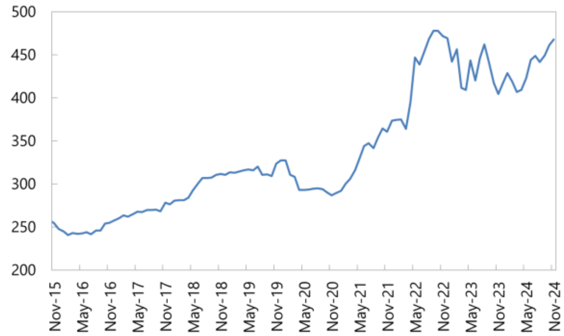
(In percent, yoy - N.S.A.)



Core inflation rebounded in H2, driven by sticky service inflation, exchange rate passthrough and shipping costs.

U.S. Deep Sea Transportation Price

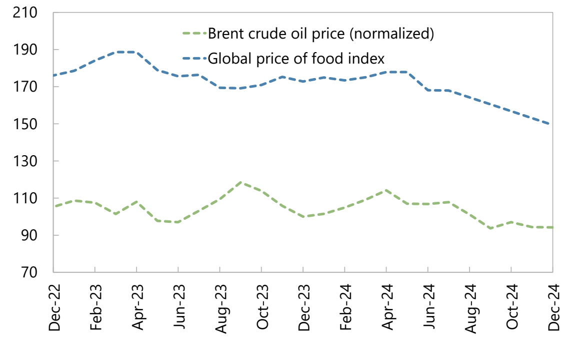
(Index Jun 1988=100, NSA)



On the other hand, recent trends of commodity prices were favorable to Chile's inflation convergence.

Brent Oil and International Food Price

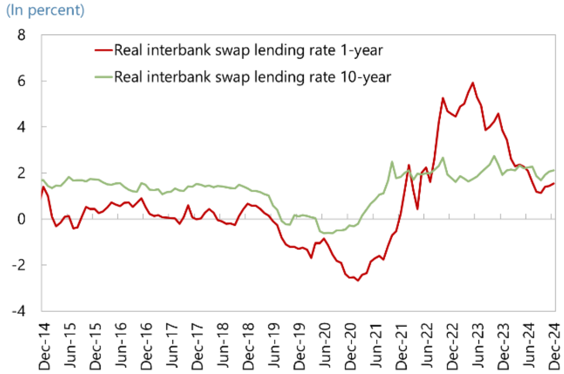
(Index, Dec 2023=100)



The short-term real rates fell as the policy rate eased, while long-term real rates remained elevated.

Real Interbank Swap Lending Rate

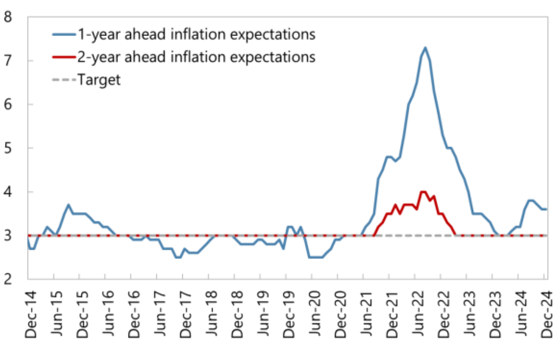
(In percent)



One-year inflation expectations rose due to the electricity price adjustment, but two-year inflation expectations remain close to the inflation target.

Inflation Expectations at 1 and 2 Years

(In percent)



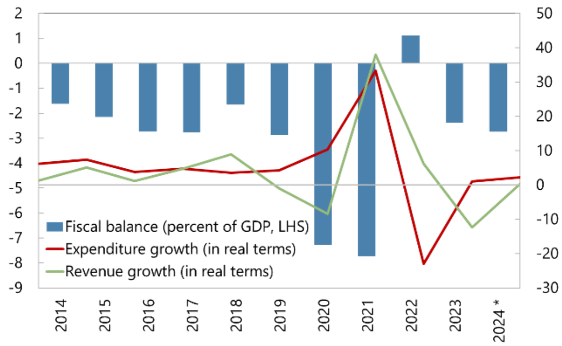
Sources: Central Bank of Chile, Haver Analytics, U.S. Bureau of Labor Statistics, and IMF staff calculations.

1/ Inflation rates during 2014-2023 are calculated based on the 2018 CPI basket. Inflation rates after January 2024 are calculated based on the 2023 CPI basket.

Figure 5. Chile: Public Finances

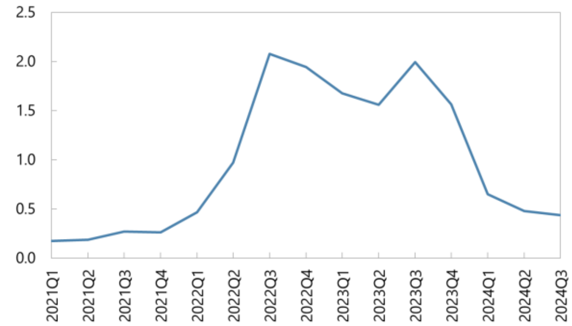
The fiscal deficit is expected to widen a bit in 2024 mainly due to a weaker-than-expected revenue performance.

Fiscal Balance, Expenditure and Revenue
(In percent, yoy)



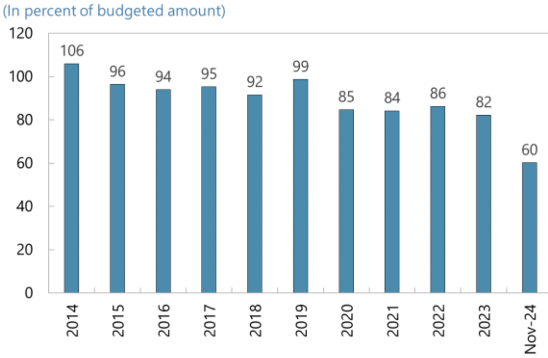
The fall in lithium prices translated into lower revenues.

Property Income (Including Lithium)
(In percent of GDP)



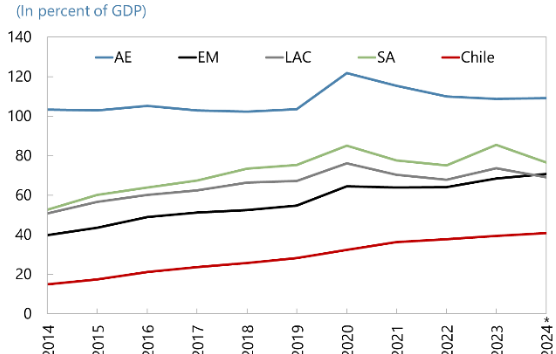
Part of the revenue shortfall is likely to be offset by continued low capital spending execution.

Capital Spending Execution
(In percent of budgeted amount)



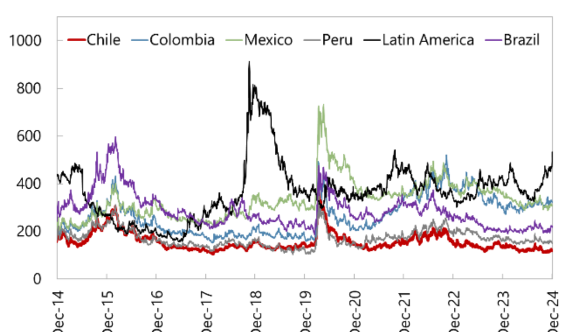
Chile's gross debt-to-GDP ratio remains relatively low by international standards, and...

General Government Gross Debt 1/
(In percent of GDP)



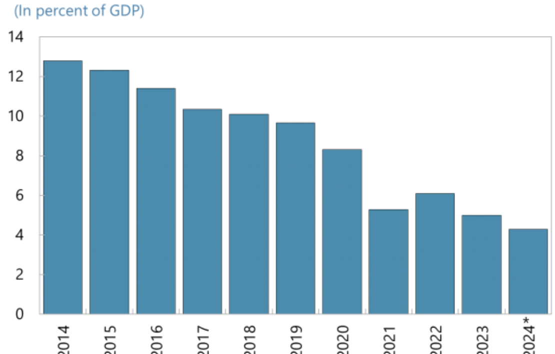
...the government continues to borrow at favorable rates,

EMBI Spreads
(Basis points)



... while Treasury assets have fallen.

Treasury Assets
(In percent of GDP)

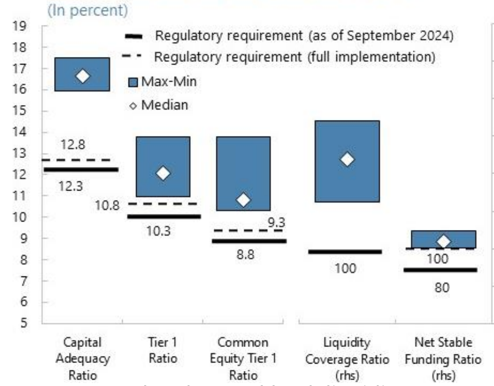


Sources: Ministry of Finance, Dipres, Central Bank of Chile, Bloomberg, and IMF staff calculations and projections.
1/ AE = Advance Economies; EM = Emerging and Developing Economies; LAC = Latin America and the Caribbean, excluding Venezuela; SA = South America, excluding Venezuela.
*2024 IMF staff projections.

Figure 6. Chile: Financial Sector

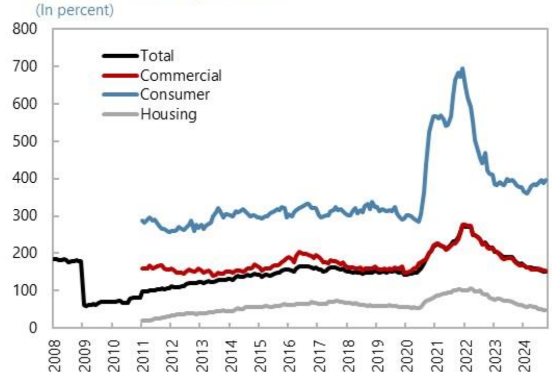
Major banks' capital ratios and liquidity ratios are comfortably above regulatory requirement.

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



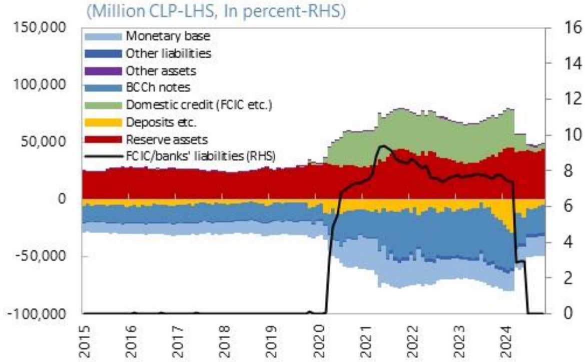
The NPL provision coverage ratio is around the pre-pandemic level.

NPL Provision Coverage Ratio 2/
(In percent)



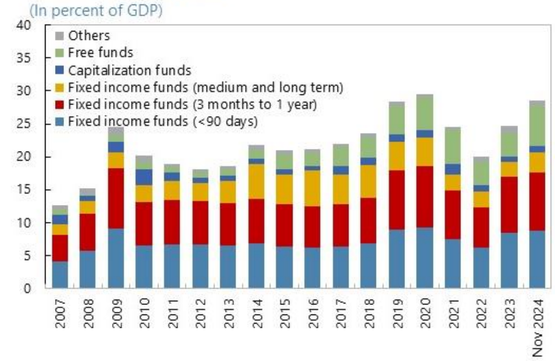
FCIC (COVID-related central bank liquidity program) withdrawal was completed in April and July 2024.

FCIC and the BCCh's Balance Sheet 3/
(Million CLP-LHS, In percent-RHS)



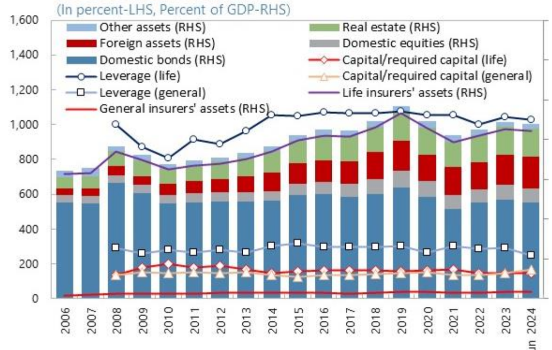
Assets of money market funds have rebounded since 2022, driven by fixed income funds.

Structure of Mutual Funds
(In percent of GDP)



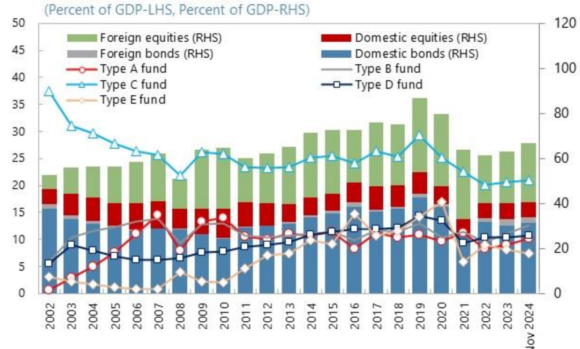
Insurers' solvency ratios have been stable, and asset to GDP ratios have almost recovered to pre-pandemic levels.

Structures of Insurers 4/
(In percent-LHS, Percent of GDP-RHS)



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

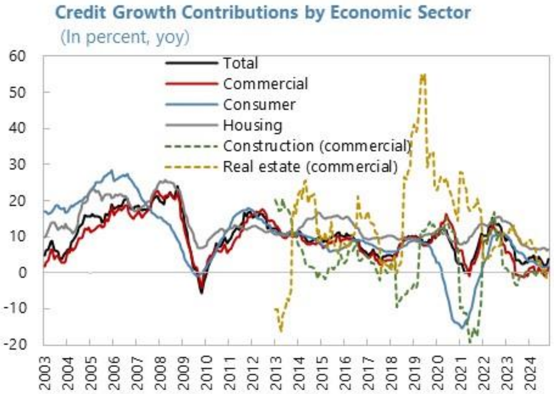
Structures of Pension Funds 5/
(Percent of GDP-LHS, Percent of GDP-RHS)



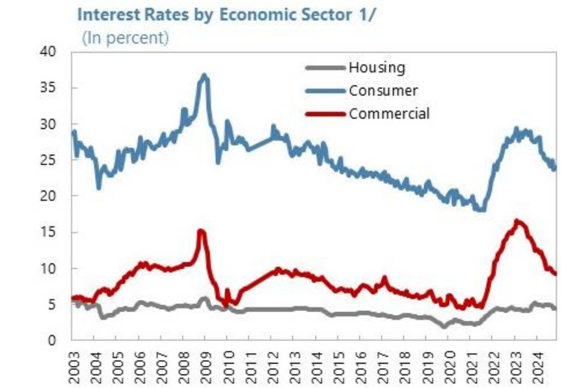
Sources: Banks' disclosures, CMF, CEIC, BCCh, Haver Analytics, Superintendencia de Pensiones, and IMF staff calculations.
1/ As of September 2024. D-SIBs are Banco de Chile, Banco de Crédito e Inversiones, Banco del Estado de Chile, Banco Santander-Chile, Banco Itaú Chile, and Scotiabank Chile. "Regulatory requirement" of Common Equity Tier 1 Ratio includes 4.5 percent requirement, the conservation buffer (2.5 percent as of September 2024 and 2.5 percent under full implementation), CCyB (0.5 percent) and the maximum of the D-SIB buffers (1.3125 and 1.75 percent). "Regulatory requirement" of Tier 1 Ratio is that of Common Equity Tier 1 Ratio plus AT1 (1.5 and 1.5 percent), and "Regulatory requirement" of Capital Adequacy Ratio is that of Tier 1 Ratio plus Tier2 (2.0 and 2.0 percent). Additional capital requirements under Pillar 2 are not considered.
2/ The ratio of the sum of specific and additional provisions to non-performing loans.
3/ "FCIC/bank's liabilities" is calculated as Chilean banks' liabilities owed to the BCCh divided by their total liabilities. Central bank assets (liabilities) are shown as positive (negative) values.
4/ Regulatory requirements on leverages for life and general insurers are, respectively, 20, and 5.
5/ Among the five funds, Fund A (mostly in investing in global equities) is supposed to be the riskiest, and Fund E (investing in local bonds) is supposed to be the most conservative. The fund portfolio data for 2024 is as of September 2024.

Figure 7. Chile: Bank Lending

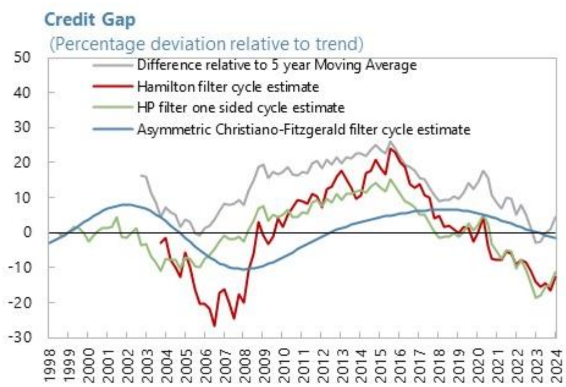
Credit growth has moderated, with a growth rate of 3.7 percent in November 2024.



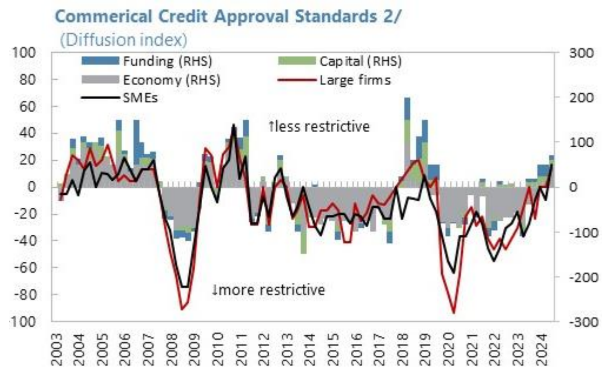
Commercial and consumer loan rates continued to fall while housing loan rates remained broadly unchanged.



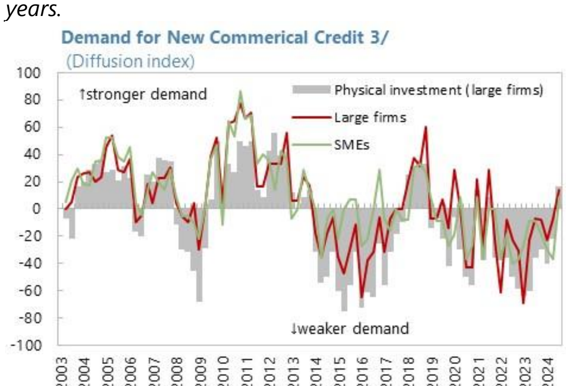
The credit gap is estimated to have turned negative.



Banks' commercial lending standard tightened when the macroeconomic environment weakened.



Demand for bank commercial loans was weak for several years.



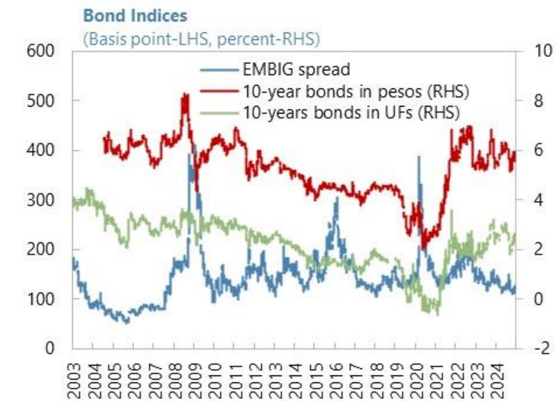
Real estate and construction firms continue to face tight lending standards, while also exhibiting weak loan demand.

Sources: BCCh, CMF, CEIC, Haver Analytics, and IMF staff calculations.
1/ Interest rates for commercial and consumer loans are nominal rates (CLP-based), while the interest rate for housing loans is a real rate (UF-based).
2/ Based on "Banking Credit Survey." "Economy," "Capital," and "Funding," represent "Economic environment or its prospects," "Your bank's current or expected capital position," and "Your bank's funding conditions," respectively. The bars represent the net share of banks that assess these factors as important for changes in their credit approval standards ("+" and "–" indicate contributions to less and more restrictive standards, respectively), ranging from -100 to 100. Each bank can choose more than one factor.
3/ Based on "Banking Credit Survey." "Physical investment" represents "Investment in clients' physical fixed assets (plants and equipment)." The bar represents the net share of banks that assess this factor as important for explaining changes in demand for large companies ("+" and "–" indicate contributions to stronger and weaker demand, respectively), ranging from -100 to 100.
4/ Based on "Banking Credit Survey."

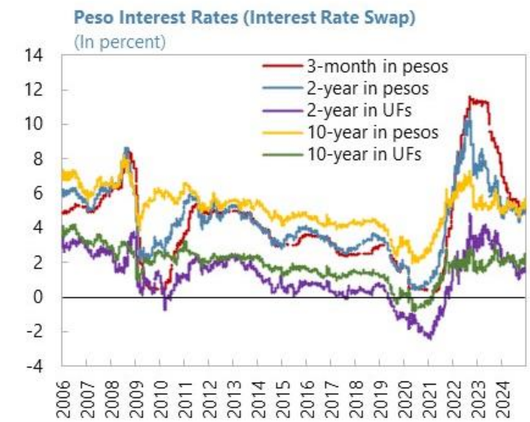
Figure 8. Chile: Financial Markets

Equity indices have risen to historical levels in 2024, despite experiencing fluctuations along the way.

Long-term rates remain elevated compared to pre-pandemic levels, while the sovereign spread has stayed low.

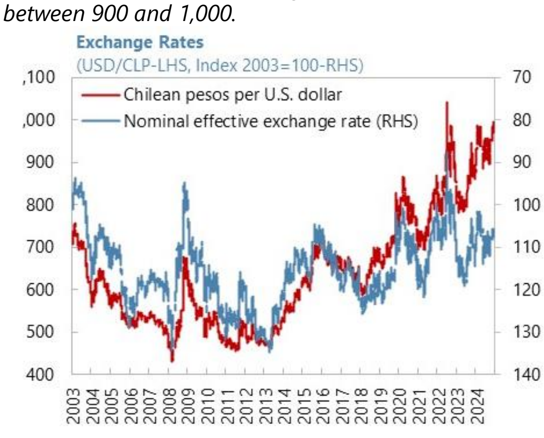


Short-term peso funding costs have declined following the monetary policy rate cuts, while long-term costs are largely unchanged.

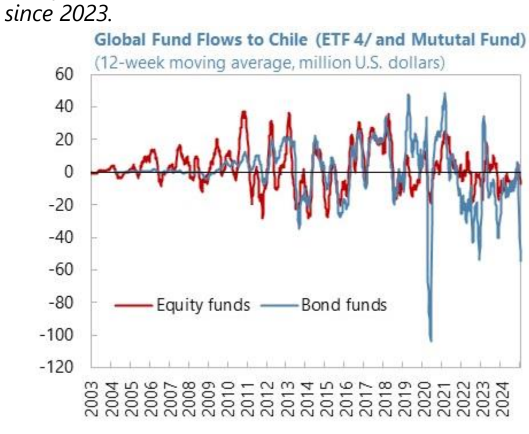


The dollar funding premium has continued to decline.

In 2024, the USD/CLP exchange rate has fluctuated between 900 and 1,000.



Equity and bond funds have experienced capital outflows since 2023.

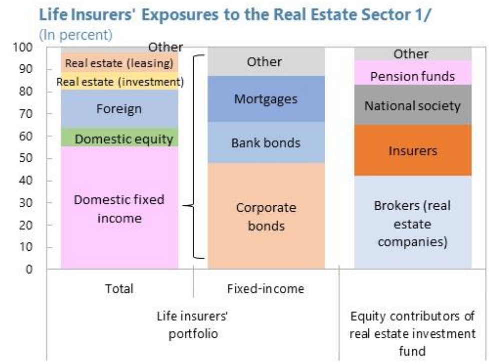


Sources: BCCh, CEIC, EPFR Global, JP Morgan, S&P Global, and IMF staff calculations.
1/ The index measures the performance of Chile domiciled stocks listed on the Santiago Exchange that meet certain liquidity criteria and is designed to serve as a broad benchmark for the Chile equities market.
2/ The 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.

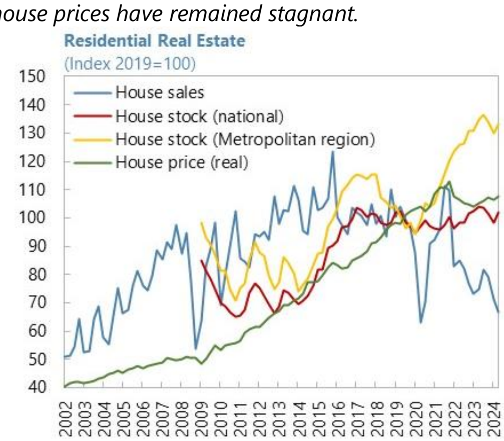
Figure 9. Chile: Real Estate Sector

Banks have significant exposures to the residential real estate sector.

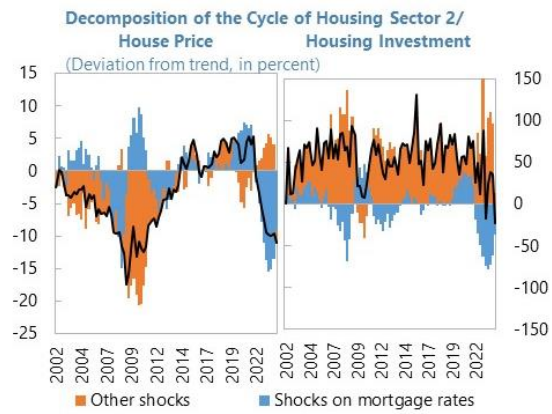
Life insurers have substantial exposures to both residential and commercial the real estate sector.



With declining sales (demand) and increasing supply, house prices have remained stagnant.



The recent decline in house prices and investment appears to align with past shocks on mortgage rates.



After a surge in office vacancy rates during the pandemic, the rates remain high but appear to have stabilized.

Bank loans, particularly those to SMEs and housing, are mostly collateralized with real estate properties.

Sources: ACAFI, Banco de Chile's IR, BCCh, CBRE, CEIC, Colliers, Chilean Construction Chamber, CMF, GPS, Haver, Internal Revenue Service, and IMF staff calculations.

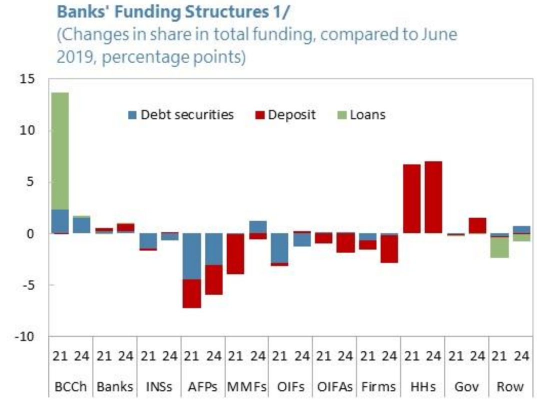
1/ As of December 2023, except for "Real estate fund" (March 2024). The decomposition of commercial loans is for locally funded firms that do not report to the CMF.

2/ "Shocks on mortgage rates" represents the contributions of the deviations of (nominal) mortgage rates from the estimated Taylor rule for the rates, and "Other shocks" indicate the net contributions of the other shocks. Housing investment is proxied by the number of building permits (total new housing). For details of the model and estimations, see Selected Issues Paper.

3/ Loan profiles of Banco de Chile as of March 2024 (CLP basis).

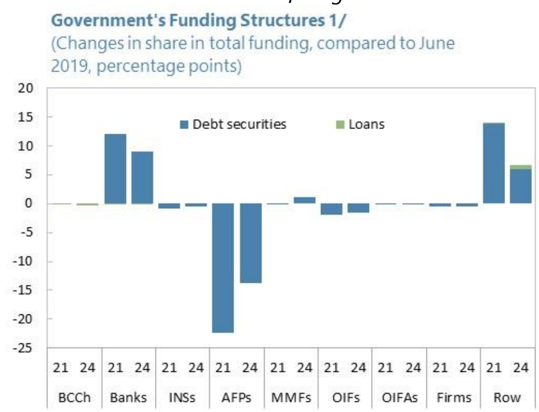
Figure 10. Chile: Changes in Local Financial Markets

On a stock basis, banks rely less on pension funds and MMFs and more on retail deposits.

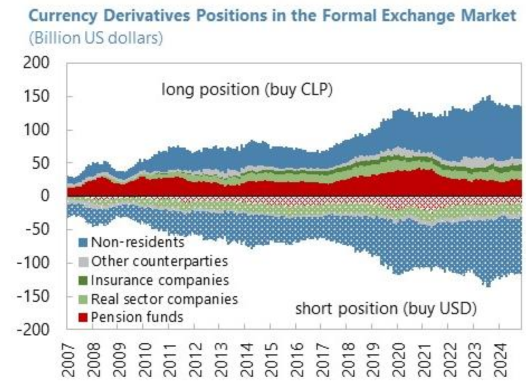


On a stock basis, non-financial firms rely less on banks, insurers, and pension funds, and more on foreign investors.

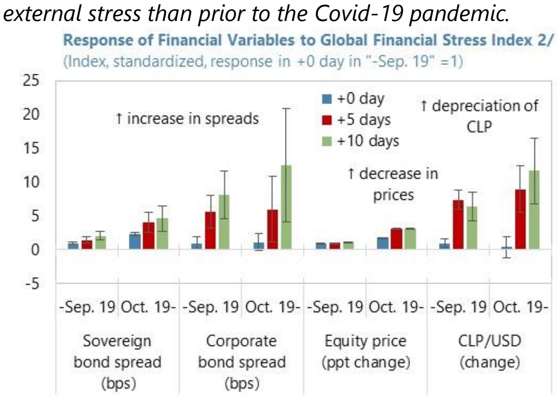
On a stock basis, the government relies less on pension funds and more on banks and foreign investors.



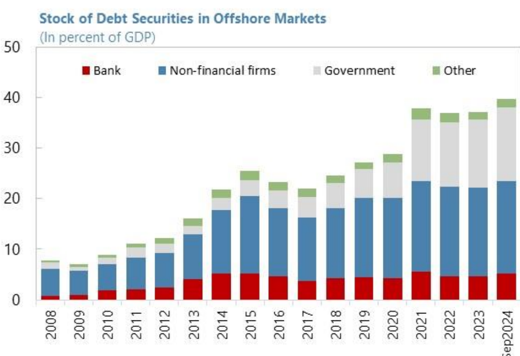
Since the pension withdrawals, the presence of pension funds in the forex derivative market declined.



The Chilean financial markets appear to be more sensitive to external stress than prior to the Covid-19 pandemic.



Non-financial firms and the government relied more on offshore markets for debt issuances during the pandemic.



Sources: CEIC, BCCh, JP Morgan, S&P Global, OFR, and IMF staff calculations.

1/ Based on "Flow of Funds." "INSs"=Insurers, "AFPs"=Pension funds, "OIFs"=Other investment funds, "OIFAs"=Other intermediaries and financial auxiliaries, "Firms"=Non-financial corporations, "HHs"=Households and NPISHs, "Gov"=General government, and "Row"=Rest of the world (foreign investors). "21" and "24" represent September 2021 and September 2024, respectively.

2/ Based on daily local projection models in which cumulative changes in these variables are regressed on the OFR Financial Stress Index (a daily market-based snapshot of stress in global financial markets), its one-period lag, and the one-period lag of the dependent variables. The bars and whiskers represent estimates and 10-90 percentiles, respectively, with standard errors based on HAC estimators. The sample periods are January 2000 to July 2024, except for the corporate bond spread (January 2008 to May 2023 due to data limitations). "Sovereign bond spread" refers to EMBI, "Corporate bond spread" is the simple average of AA and A bank and corporate bond spreads, and "Equity price" represents the IGPA general index. For details, see Selected Issues Paper.

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

GDP (2023), in trillions of pesos	282	Quota	
GDP (2023), in billions of U.S. dollars	336	in millions of SDRs	1,744
Per capita (2023), U.S. dollars	16,815	in % of total	0.37
Population (2023), in millions	19.96	Poverty rate (2022) 1/	6.5
Main products and exports	Copper	Gini coefficient (2022) 1/	0.448
Key export markets	China, U.S., Euro Area	Literacy rate (2022)	97.2

				Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output	(Annual percentage change, unless otherwise specified)								
Real GDP	11.3	2.1	0.2	2.2	2.2	2.3	2.3	2.3	2.3
Consumption	19.5	2.6	-3.9	1.6	1.9	2.2	2.1	2.1	2.0
Private	21.0	1.6	-5.2	1.4	1.6	2.1	2.2	2.1	2.0
Public	14.1	6.5	1.7	2.9	2.1	2.5	2.0	2.0	2.2
Investment 2/	27.8	1.4	-5.3	-1.2	4.0	2.6	2.7	2.7	2.7
Fixed capital formation	16.0	3.9	-1.1	-1.0	4.3	3.4	3.7	2.8	2.9
Exports of goods and services	-1.5	0.8	-0.3	5.5	4.3	4.7	3.9	3.7	3.3
Imports of goods and services	31.9	1.5	-12.0	1.2	4.4	4.3	3.2	3.2	2.8
Output gap (in percent)	2.4	2.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Employment									
Unemployment rate (in percent, annual average)	8.9	7.9	8.7	8.5	8.2	8.0	7.8	7.7	7.5
Prices									
GDP deflator	6.9	7.9	6.6	6.0	4.1	2.9	2.7	2.8	2.9
Change of CPI (end of period)	7.2	12.8	3.9	4.5	3.5	3.0	3.0	3.0	3.0
Change of CPI (period average)	4.5	11.6	7.6	3.9	4.2	3.1	3.0	3.0	3.0
Public Sector Finances	(In percent of GDP, unless otherwise specified)								
Central government revenue	24.2	26.0	22.9	22.1	23.0	23.8	23.9	24.0	24.0
Central government expenditure	31.9	24.9	25.3	24.8	24.8	24.7	24.3	24.4	24.4
Central government fiscal balance	-7.7	1.1	-2.4	-2.7	-1.8	-0.8	-0.4	-0.4	-0.4
Central government structural fiscal balance 3/	-11.3	-1.6	-3.4	-3.1	-2.1	-1.2	-0.5	-0.6	-0.7
Structural non-mining primary balance	-12.0	-2.2	-4.2	-3.8	-3.5	-2.7	-2.1	-2.1	-2.2
Central government gross debt	36.4	37.8	39.4	42.7	43.7	44.1	43.5	43.5	43.6
of which, FX-denominated debt	12.8	13.4	14.0	15.1	13.8	14.2	13.5	13.3	13.0
Central government debt net of treasury assets	31.1	31.7	34.4	38.3	39.5	39.7	39.2	39.2	39.4
Public sector gross debt 4/	68.1	67.0	70.2	73.5	74.5	74.9	74.4	74.3	74.4
Money and Credit	(Annual percentage change, unless otherwise specified)								
M2	7.3	5.9	2.7	6.2	5.4	5.3	5.1	5.1	5.2
Credit to the private sector	10.1	10.0	3.3	4.3	5.0	6.4	6.2	6.1	6.1
Balance of Payments									
Current account (% of GDP) 5/	-7.3	-8.7	-3.5	-2.3	-2.5	-2.5	-2.7	-2.9	-3.0
Current account (in bn of USD)	-23.0	-26.2	-11.9	-7.6	-8.4	-9.0	-10.1	-11.2	-11.9
Gross international reserves (in bn of USD) 6/	51.3	39.2	46.4	44.4	46.1	47.4	48.7	50.1	51.5
Gross external debt (% of GDP) 7/	71.6	76.1	71.1	77.5	76.5	76.6	75.7	75.4	74.8
Memorandum Items									
Nominal GDP (trillions of pesos)	240	264	282	306	325	342	360	378	398

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

1/ Poverty rate is from CASEN (2022) and is calculated based on national poverty line. Gini coefficient (of disposable income) is from OECD Income Distribution database.

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/ Includes earned interest on reserve assets.

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

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
Revenues	**19.9**	**24.2**	**26.0**	**22.9**	**22.1**	**23.0**	**23.8**	**23.9**	**24.0**	**24.0**
Taxes	16.1	18.9	21.0	17.6	18.0	19.0	19.6	19.8	19.8	19.8
Private mining companies	0.7	1.2	1.5	0.8	1.0	1.5	1.5	1.5	1.5	1.5
Other tax revenues, non-mining	15.4	17.7	19.5	16.8	17.0	17.5	18.1	18.3	18.3	18.3
Social contributions	1.5	1.2	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Grants	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Other revenue	2.3	4.0	4.0	4.1	2.9	2.9	3.1	3.0	3.0	3.0
Codelco revenues	0.5	1.8	0.7	0.4	0.5	0.5	0.7	0.6	0.6	0.6
Income on assets	0.4	0.2	0.5	0.7	0.5	0.4	0.4	0.4	0.4	0.4
Lithium (rental income) 1/	…	…	0.9	1.0	0.3	0.5	0.5	0.5	0.5	0.5
Operating income	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other income	1.0	1.4	1.3	1.5	1.1	1.0	1.0	1.0	1.0	1.0
Expenditures	**27.2**	**31.9**	**24.9**	**25.3**	**24.8**	**24.8**	**24.7**	**24.3**	**24.4**	**24.4**
Expense	25.4	30.1	23.4	23.8	23.4	23.4	23.6	23.7	23.6	23.6
Compensation of employees	5.3	4.9	4.7	4.9	4.9	4.9	4.9	4.9	4.8	4.8
Purchases of goods and services	2.2	2.0	2.0	1.9	1.6	1.7	1.7	1.7	1.7	1.7
Interest payments	1.0	0.9	1.0	1.1	1.2	1.1	1.2	1.3	1.3	1.3
Subsidies and grants	11.0	16.9	9.3	8.9	8.4	8.4	8.4	8.4	8.4	8.4
Social benefits	4.4	3.9	4.3	5.0	5.2	5.2	5.3	5.3	5.3	5.3
Other expense	1.7	1.6	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.1
Unspecified measures	0.0	0.0	0.0	0.0	0.0	-0.1	-0.5	-1.0	-0.8	-0.8
Net acquistion of nonfinancial assets	1.8	1.8	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Investment	1.8	1.8	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Net Lending/Borrowing	**-7.3**	**-7.7**	**1.1**	**-2.4**	**-2.7**	**-1.8**	**-0.8**	**-0.4**	**-0.4**	**-0.4**
Non-mining overall balance	-8.4	-10.8	-2.1	-4.7	-4.5	-4.3	-3.5	-3.0	-3.0	-3.1
Net Financial Transactions	**-7.3**	**-7.7**	**1.1**	**-2.4**	**-2.7**	**-1.8**	**-0.8**	**-0.4**	**-0.4**	**-0.4**
Net acquistion of financial assets	-3.2	-1.7	3.5	-0.7	1.6	1.6	1.2	0.6	1.1	1.3
Net incurrence of liabilities	4.1	6.1	2.4	1.7	4.4	3.4	2.0	1.0	1.5	1.8
Domestic	2.5	1.3	0.7	0.8	3.9	3.4	1.2	1.1	1.1	1.6
External	1.8	4.9	1.8	1.0	0.6	0.1	0.9	-0.1	0.4	0.2
Recognition bonds	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Memorandum Items										
Primary balance	-6.7	-7.1	1.6	-2.0	-2.0	-1.1	0.0	0.5	0.5	0.5
Structural fiscal balance 2/	-1.6	-11.3	-1.6	-3.4	-3.1	-2.1	-1.2	-0.5	-0.6	-0.7
Structural revenue	25.6	20.6	23.3	22.0	21.8	22.7	23.5	23.8	23.8	23.8
Structural non-mining primary balance (% of GDP)	-2.6	-12.0	-2.2	-4.2	-3.8	-3.5	-2.7	-2.1	-2.1	-2.2
Fiscal impulse 3/	-0.4	9.4	-9.8	2.0	-0.4	-0.3	-0.8	-1.5	-0.6	0.1
Expenditure growth (in real terms; annual percent change)	10.4	33.4	-23.0	1.1	2.2	2.0	1.5	0.8	2.1	2.4
Central government debt net of treasury assets	24.1	31.1	31.7	34.4	38.3	39.5	39.7	39.2	39.2	39.4
Central government gross debt	32.4	36.4	37.8	39.4	42.7	43.7	44.1	43.5	43.5	43.6
Public sector gross debt 4/	57.4	68.1	67.0	70.2	73.5	74.5	74.9	74.4	74.3	74.4
Public sector debt net of treasury assets 4/	49.1	62.8	60.9	65.2	69.1	70.3	70.6	70.0	70.0	70.2
General government fiscal balance 5/	-7.1	-7.5	1.4	-2.3	-2.6	-1.7	-0.7	0.0	0.0	0.0
Nominal GDP (trillions of pesos)	201	240	264	282	306	325	342	360	378	398

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

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

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

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

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

5/ Includes the central government and municipality governments.

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

					Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current Account	**-5.0**	**-23.0**	**-26.2**	**-11.9**	**-7.6**	**-8.4**	**-9.0**	**-10.1**	**-11.2**	**-11.9**
Trade balance	18.9	10.3	3.7	15.3	22.1	21.8	22.3	23.1	23.3	24.1
Exports	74.0	94.6	98.6	94.6	100.2	104.2	110.9	116.4	121.5	126.1
Copper	38.5	52.5	43.9	43.3	51.4	52.4	56.8	59.3	62.1	63.8
Non-copper	35.6	42.1	54.7	51.2	48.8	51.8	54.1	57.1	59.4	62.3
Imports	55.1	84.3	94.8	79.2	78.0	82.4	88.6	93.3	98.2	102.1
Net services	-7.5	-12.5	-15.6	-10.8	-9.7	-10.0	-10.9	-12.0	-12.3	-12.7
Net income	-15.9	-17.9	-14.2	-17.0	-20.2	-20.3	-20.7	-21.6	-22.5	-23.5
Net transfers	-0.5	-2.8	-0.1	0.6	0.1	0.1	0.3	0.4	0.3	0.3
Capital account balance	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account Balance	**-4.8**	**-37.4**	**-18.7**	**-17.1**	**-5.3**	**-8.4**	**-9.0**	**-10.1**	**-11.2**	**-11.9**
Foreign direct investment	-5.0	-0.6	-5.0	-15.5	-13.1	-8.8	-10.4	-10.5	-11.3	-12.0
Abroad by Chilean residents	6.4	14.6	13.2	6.3	3.6	9.4	9.9	8.9	8.0	8.4
In Chile by foreign residents	11.4	15.2	18.2	21.7	16.7	18.2	20.3	19.4	19.3	20.4
Of which, debt instruments	0.9	-1.0	0.2	2.2	1.4	0.8	0.8	1.1	1.3	1.2
Portfolio investment	-13.1	-32.6	-5.3	1.8	3.2	-4.9	-5.7	-5.4	-5.1	-5.0
Abroad by Chilean residents	-5.9	0.2	7.8	5.9	8.5	4.0	4.9	5.7	6.1	6.2
In Chile by foreign residents	7.2	32.8	13.1	4.1	5.3	8.9	10.6	11.1	11.2	11.1
Of which, equities	0.2	2.6	7.7	-1.4	-0.9	1.3	2.3	0.5	1.0	2.8
Of which, debt	7.0	30.2	5.3	5.5	6.2	7.6	8.4	10.7	10.2	8.3
Financial derivatives	2.5	0.0	0.0	-2.0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other investments	10.8	-4.1	-8.4	-1.5	5.0	5.7	7.5	6.2	5.6	5.4
Abroad by Chilean residents	9.0	6.6	0.2	-0.5	3.9	3.9	3.9	3.9	3.9	3.9
In Chile by foreign residents	-1.8	10.8	8.6	1.0	-1.2	-1.9	-3.6	-2.4	-1.7	-1.6
Change in Reserves Assets	**-2.9**	**12.2**	**-9.2**	**6.8**	**-2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	-2.8	-2.2	-1.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (in billions of USD) 1/	39.2	51.3	39.2	46.4	44.4	46.1	47.4	48.7	50.1	51.5
					(In percent of GDP)					
Current Account 2/	**-1.9**	**-7.3**	**-8.7**	**-3.5**	**-2.3**	**-2.5**	**-2.5**	**-2.7**	**-2.9**	**-3.0**
Trade balance of Goods	7.4	3.3	1.2	4.6	6.8	6.4	6.3	6.3	6.1	6.0
Exports	29.1	30.0	32.6	28.2	30.9	30.7	31.3	31.6	31.6	31.5
Copper	15.1	16.6	14.5	12.9	15.9	15.4	16.0	16.1	16.2	15.9
Non-copper	14.0	13.3	18.1	15.3	15.1	15.3	15.3	15.5	15.5	15.6
Imports	21.7	26.7	31.4	23.6	24.1	24.2	25.0	25.3	25.6	25.5
Net services	-2.9	-4.0	-5.2	-3.2	-3.0	-2.9	-3.1	-3.3	-3.2	-3.2
Net income	-6.2	-5.7	-4.7	-5.1	-6.2	-6.0	-5.8	-5.8	-5.8	-5.9
Net transfers	-0.2	-0.9	0.0	0.2	0.0	0.0	0.1	0.1	0.1	0.1
Financial Account Balance 3/	**-1.9**	**-11.9**	**-6.2**	**-5.1**	**-1.6**	**-2.5**	**-2.5**	**-2.7**	**-2.9**	**-3.0**
					(Annual change in percent)					
Goods export volume	2.8	-1.1	-1.6	-1.2	4.3	4.4	4.8	3.9	3.7	3.2
Goods import volume	-9.8	35.5	-2.2	-12.9	1.0	4.2	4.3	3.3	3.3	2.8
Terms of trade 4/	11.7	12.4	-8.8	0.7	4.1	-1.8	-1.6	-1.0	-1.3	-0.6
Goods export prices 4/	4.8	29.2	5.8	-2.9	1.6	-0.3	1.6	1.0	0.6	0.6
Goods import prices 4/	-6.2	14.9	16.1	-3.6	-2.5	1.4	3.2	2.0	2.0	1.2
Memorandum Items										
Copper price (WEO; U.S. cents per pound)	280	423	401	385	415	418	427	431	431	432
Copper price (WEO; annual change in percent)	2.7	50.9	-5.2	-3.8	7.7	0.7	2.2	0.9	0.2	0.0
Volume of copper exports (2004=100)	105	102	96	95	100	104	110	114	119	122

Sources: Central Bank of Chile, Haver Analytics, and IMF staff calculations and projections.
1/ Includes earned interest on reserve assets.
2/ Calculated as a share of US$ GDP.
3/ Excluding change in reserves.
4/ Based on a simple average of quarterly price indexes measured in US$.

Table 4. Chile: Monetary Survey

(In billions of pesos, unless otherwise specified)

	2018	2019	2020	2021	2022	2023
Central Bank						
Net foreign assets	27,043	29,547	27,222	40,891	31,476	38,756
International reserves	27,731	30,274	27,881	43,643	33,653	41,003
Other foreign assets, net	-688	-727	-659	-2,752	-2,177	-2,247
Domestic assets	-1,862	-3,326	24,086	23,405	24,229	18,885
Net credit to general government	-553	-392	327	356	322	311
Net claims on banks and financial corporations	-5,163	-4,599	21,873	26,894	23,342	15,845
Credit to the private sector	47	-33	-31	-38	-33	-28
Other items (net)	3,808	1,699	1,917	-3,807	599	2,756
Monetary liabilities	25181	26221	51308	64297	55,705	57,641
Monetary base	11,296	12,335	30,256	21,456	17,641	16,791
Currency	6,740	7,576	12,180	15,210	11,608	10,524
Currency reserves	4,556	4,760	18,077	6,247	6,033	6,268
Others	13,885	13,886	21,052	42,840	38,064	40,850
Other Depository Institutions						
Net foreign assets	-10,199	-9,700	-1,678	-4,608	-7,158	-7,998
Net foreign assets (in millions of US$)	-14,660	-13,027	-2,359	-5,420	-8,328	-9,041
Domestic assets	156,578	174,809	166,335	186,430	202,050	207,819
Credit to general government	3,463	4,615	12,538	17,607	16,945	16,944
Credit to the private sector	158,792	174,225	179,836	197,943	217,695	224,836
Other items (net)	-5,677	-4,031	-26,038	-29,120	-32,590	-33,960
Liabilities to the private sector	146,379	165,109	164,658	181,821	194,891	199,820
Demand deposits	30,116	36,058	56,393	64,091	47,687	47,482
Quasi-money	116,263	129,051	108,264	117,730	147,205	152,338
Banking System						
Net foreign assets	16,844	19,846	25,544	36,283	24,318	30,757
Domestic assets	142,030	156,183	160,746	177,442	195,691	198,472
Net credit to general government	2,910	4,223	12,865	17,963	17,267	17,255
Credit to the private sector	158,836	174,192	179,805	197,905	217,662	224,808
Other items (net)	-19,715	-22,232	-31,924	-38,426	-39,237	-43,591
Money and private quasi-money	158,874	176,029	186,290	213,725	220,009	229,230
Money	36,856	43,633	68,573	79,301	59,295	58,005
Quasi-money	122,018	132,396	117,717	134,424	160,715	171,225
Memorandum Items			(Annual percentage change)			
Monetary base	1.7	9.2	145.3	-29.1	-17.8	-4.8
Banking system' credit to the private sector	10.1	9.7	3.2	10.1	10.0	3.3
			(In percent of GDP)			
Monetary base	6.0	6.3	15.0	9.0	6.7	6.0
Banking system's credit to the private sector	83.8	89.1	89.3	82.6	82.5	79.8

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

Table 5. Chile: Medium-Term Macroeconomic Framework

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
National Accounts	(Annual percentage change, unless otherwise specified)									
Real GDP	-6.1	11.3	2.1	0.2	2.2	2.2	2.3	2.3	2.3	2.3
Total domestic demand	-9.4	21.3	2.3	-4.2	1.0	2.4	2.3	2.3	2.2	2.2
Consumption	-6.6	19.5	2.6	-3.9	1.6	1.9	2.2	2.1	2.1	2.0
Private	-7.4	21.0	1.6	-5.2	1.4	1.6	2.1	2.2	2.1	2.0
Public	-3.5	14.1	6.5	1.7	2.9	2.1	2.5	2.0	2.0	2.2
Investment 1/	-17.8	27.8	1.4	-5.3	-1.2	4.0	2.6	2.7	2.7	2.7
Fixed	-10.8	16.0	3.9	-1.1	-1.0	4.3	3.4	3.7	2.8	2.9
Inventories 2/	-1.8	2.2	-0.6	-1.1	-0.1	-0.1	-0.2	-0.3	-0.1	-0.1
Exports of goods and services	-0.9	-1.5	0.8	-0.3	5.5	4.3	4.7	3.9	3.7	3.3
Imports of goods and services	-12.3	31.9	1.5	-12.0	1.2	4.4	4.3	3.2	3.2	2.8
GDP Deflator	9.7	6.9	7.9	6.6	6.0	4.1	2.9	2.7	2.8	2.9
Change of CPI, end of period	3.0	7.2	12.8	3.9	4.5	3.5	3.0	3.0	3.0	3.0
Change of CPI, period average	3.0	4.5	11.6	7.6	3.9	4.2	3.1	3.0	3.0	3.0
Output gap (percent of potential GDP)	-5.7	2.4	2.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Balance of Payments	(In percent of GDP, unless otherwise specified)									
Current account 3/	-1.9	-7.3	-8.7	-3.5	-2.3	-2.5	-2.5	-2.7	-2.9	-3.0
Trade balance 3/	7.4	3.3	1.2	4.6	6.8	6.4	6.3	6.3	6.1	6.0
Financial account balance 3/	-1.9	-11.9	-6.2	-5.1	-1.6	-2.5	-2.5	-2.7	-2.9	-3.0
Of which, foreign direct investment (net) 3/	-2.0	-0.2	-1.7	-4.6	-4.0	-2.6	-2.9	-2.9	-2.9	-3.0
Change in reserves assets 3/	-1.1	3.9	-3.0	2.0	-0.7	0.0	0.0	0.0	0.0	0.0
Errors and omissions 3/	-1.1	-0.7	-0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Gross int. reserves (in billions of U.S. dollars)	39.2	51.3	39.2	46.4	44.4	46.1	47.4	48.7	50.1	51.5
Savings and Investment										
Gross domestic investment	21.1	24.1	25.6	23.0	22.3	23.0	23.1	23.2	23.4	23.5
Public	2.0	2.0	1.7	1.7	1.7	1.8	1.8	1.9	1.9	1.9
Private	19.0	22.1	23.9	21.2	20.6	21.2	21.3	21.4	21.5	21.6
National saving	19.1	16.6	16.9	19.4	20.0	20.5	20.5	20.5	20.5	20.5
Public	-5.1	-5.5	3.0	-0.5	-0.9	0.1	1.1	1.6	1.6	1.5
Private	24.2	22.2	13.8	19.9	20.9	20.4	19.4	19.0	18.9	19.0
Operations of the Central Government										
Central government gross debt	32.4	36.4	37.8	39.4	42.7	43.7	44.1	43.5	43.5	43.6
Central government debt net of treasury assets	24.1	31.1	31.7	34.4	38.3	39.5	39.7	39.2	39.2	39.4
Central government balance	-7.3	-7.7	1.1	-2.4	-2.7	-1.8	-0.8	-0.4	-0.4	-0.4
Total revenue	19.9	24.2	26.0	22.9	22.1	23.0	23.8	23.9	24.0	24.0
Total expenditure	27.2	31.9	24.9	25.3	24.8	24.8	24.7	24.3	24.4	24.4
Central government structural balance	-1.6	-11.3	-1.6	-3.4	-3.1	-2.1	-1.2	-0.5	-0.6	-0.7
Employment										
Unemployment rate (in percent, annual average)	10.7	8.8	7.9	8.7	8.5	8.2	8.0	7.8	7.7	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.

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

	2017	2018	2019	2020	2021	2022	2023	2024	6/
Assets									
Total assets (In billions of Chilean pesos)	215,432	232,963	264,803	323,610	335,326	382,768	399,046	406,232	
Percent of GDP	120.1	123.0	135.4	160.8	140.0	145.1	141.6	133.3	7/
Total loans (In billions of Chilean pesos) 2/	159,249	180,957	197,834	204,342	225,485	248,093	258,101	262,489	
Percent of GDP	88.8	95.5	101.2	101.5	94.1	94.0	91.6	86.1	7/
Capital Adequacy									
Regulatory capital to risk-weighted assets	13.8	13.3	12.8	14.7	14.8	15.6	16.2	16.4	
Regulatory tier 1 capital to risk-weighted assets	11.0	10.7	10.3	10.7	10.6	11.9	12.1	12.5	
Regulatory tier 1 capital to assets	8.3	8.2	7.3	6.6	6.7	7.3	7.8	8.4	
Capital to assets	8.4	8.2	8.1	6.9	6.9	6.8	7.5	7.8	
Credit Risk									
Provisions to NPLs 3/	128.9	128.4	123.7	171.4	190.6	146.0	120.4	111.8	
NPLs to gross loans	1.9	1.9	2.1	1.6	1.2	1.7	2.1	2.3	
NPLs net of provisions to capital	-3.8	-3.8	-3.6	-7.7	-7.5	-5.0	-2.7	-1.6	
Profitability									
Return on assets (before tax)	1.3	1.4	1.3	0.5	1.5	1.7	1.5	1.7	
Return on assets (after tax)	1.0	1.0	1.0	0.4	1.1	1.4	1.1	1.2	
Return on equity (before tax)	15.9	16.8	16.6	7.7	21.8	24.7	20.2	21.4	
Return on equity (after tax)	12.4	12.5	12.4	5.6	16.6	21.0	15.4	15.9	
Financial leverage 4/	11.9	12.1	12.4	14.5	14.5	14.6	13.4	12.8	
Interest margin to gross income	66.2	67.1	66.9	69.4	69.5	74.4	69.6	70.1	
Noninterest expenses to gross income	50.4	48.9	46.7	54.9	43.6	39.3	42.1	42.3	
Personnel expenses to noninterest expenses	48.5	49.0	48.3	40.9	47.3	47.8	47.7	45.0	
Trading income to gross income	8.4	8.6	9.6	8.4	8.2	5.9	9.0	8.5	
Non-interest expenses to gross income	50.4	48.9	46.7	54.9	43.6	39.3	42.1	42.3	
Liquidity									
Liquid assets to total assets	15.3	14.2	15.3	22.2	20.1	17.1	16.0	13.4	
FX and Derivative Risk									
FX loans to total loans 2/	16.6	18.4	18.9	16.1	18.3	18.7	19.0	20.3	
Gross asset position in financial derivatives to capital	42.3	46.5	98.3	103.2	102.1	105.5	81.7	83.6	
Gross liability position in financial derivatives to capital	42.6	43.1	95.4	106.1	103.2	116.1	86.5	86.7	
Memorandum Items									
Real Loan Growth									
Total (yoy)	2.5	9.9	7.1	-0.4	4.1	-2.9	-0.8	0.0	8/
Commercial loans (yoy)	4.2	16.9	3.9	-16.1	0.6	-0.8	-2.1	-1.7	8/
Mortgage loans (yoy)	7.9	8.3	8.3	4.6	7.1	1.3	2.7	1.9	8/
Consumer loans (yoy)	4.2	16.9	3.9	-16.1	0.6	-0.8	-2.1	-1.7	8/
Real Estate Sector indicators									
General residential property price (index, 2008=100)	175	188	198	205	220	210	209	212	
New residential property price (index, 2008=100)	163	171	178	188	195	201	200	204	
Used residential property price (index, 2008=100)	188	208	223	227	250	228	227	229	
Number of home sales (index, 2008=100)	129	128	128	100	131	104	97	88	
Stock of new homes for sale (national, thousands of units)	104	101	100	100	103	104	104	105	
Loan to home value ratio (simple average)	77	78	78	79	78	76	77	78	
Term of mortgage loans for housing (simple average, month)	257	264	263	265	276	285	297	293	9/
Vacancy rate (offices)	7.3	6.5	6.0	7.9	11.2	12.6	11.6	11.0	10/
Vacancy rate (strip center)	4.1	3.5	4.0	5.6	6.5	5.6	5.7	5.5	
Vacancy rate (warehouses)	6.1	6.7	5.0	4.6	0.5	0.4	2.5	6.4	
Private Sector Debt Indicators									
Household debt to GDP 5/	46.4	48.6	51.2	50.7	47.4	49.0	48.8	48.1	10/
Household mortgage debt to GDP 5/	24.5	25.3	27.3	28.7	27.3	28.4	28.5	28.0	10/
Household gross saving to GDP 5/	6.0	6.1	8.1	7.6	5.1	-0.6	4.7	5.1	10/
Household net financial assets to GDP 5/	133.0	132.8	146.3	147.8	130.5	119.9	120.1	123.5	10/
Non-financial corporate debt to GDP	97.4	101.7	109.1	112.6	106.5	100.7	98.0	99.8	10/
Non-Bank Financial Institutions Indicators									
Money market fund assets to GDP	8.8	9.2	11.8	13.3	10.7	9.6	12.1	14.0	7/ 10/
Other investment fund assets to GDP	18.6	20.3	22.7	23.2	23.1	19.9	19.9	22.7	7/ 10/
Insurance company assets to GDP	23.4	24.6	26.7	26.7	22.2	22.9	22.7	22.5	7/ 10/
Pension fund assets to GDP	72.2	70.9	82.0	75.5	60.6	57.4	59.2	63.5	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/ Specific provision only while total provision in Chile consists of specific and additional provision.

4/ Assets to capital.

5/ Households and nonprofit organizations.

6/ As of June 2024, unless otherwise specified.

7/ Seasonally adjusted annualized GDP of the first to third quarters in 2024.

8/ As of November 2024.

9/ As of October 2024.

10/ As of September 2024.

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

	2018	2019	2020	2021	2022	2023
Financial Indicators						
M3 (percent change)	11.0	10.9	4.2	13.4	3.0	6.4
Private sector credit to GDP	83.8	89.1	89.3	82.6	82.5	79.8
Share of foreign currency deposits in total deposits	12.7	14.6	14.6	18.7	17.3	16.5
Share of foreign currency loans in total credit	13.5	13.4	10.5	12.6	12.9	12.6
External Indicators						
Exports of goods, U.S. dollars (annual percentage change)	8.6	-8.1	7.6	27.8	4.2	-4.1
Imports of goods, U.S. dollars (annual percentage change)	14.7	-6.6	-16.2	53.0	12.5	-16.4
Terms of trade (annual percentage change) 1/	-2.6	-1.9	11.7	12.4	-8.8	3.6
REER (annual percent change, period average)	-1.3	4.7	8.2	0.2	7.3	-10.8
Exchange rate (pesos per U.S. dollar, period average)	641.2	703.3	792.2	759.1	873.2	839.8
Current account balance (percent of GDP) 2/	-4.5	-5.2	-1.9	-7.3	-8.7	-3.5
Financial account less reserves accumulation (percent of GDP) 2/	-4.3	-3.8	-1.9	-11.9	-6.2	-5.1
Gross official reserves (in billions of U.S. dollars) 3/	39.9	40.7	39.2	51.3	39.2	46.4
Gross official reserves to M3	11.9	11.7	10.4	14.3	10.7	12.3
Gross official reserves to short-term external debt 4/	77.3	74.4	92.1	89.6	66.0	89.5
Gross official reserves (percent of GDP)	13.5	14.6	15.4	16.3	13.0	13.8
Gross official reserves (percent of ARA metric) 5/	88.5	86.5	83.5	95.5	71.5	84.5
Government liquid FX assets (US$ billions) 6/	15.4	12.3	9.6	3.8	11.4	6.6
Total external debt (percent of GDP) 7/	59.4	66.8	77.0	71.6	76.1	71.1
Total external debt to exports of goods and services	208.6	240.4	245.7	224.8	214.7	228.8
External interest payments to exports of goods and services	5.8	6.8	6.7	5.2	6.2	8.0
External amortization payments to exports of goods and services	54.5	66.7	68.7	42.4	53.5	56.9
Financial Market Indicators						
Stock market index (in U.S. dollars; period average) 8/	1869	1512	1037	1182	1128	1111
Sovereign long-term foreign currency debt rating (end of period)						
Moody's	A1	A1	A1	A1	A2	A2
S&P	A+	A+	A+	A	A	A
Fitch ratings	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/ Calculated as the sum of the government's 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 the 2023 Article IV Consultation and Authorities' Actions

Fund Recommendation	**Policy Action**
Monetary Policy	
The pace of further monetary easing should continue to be data-dependent.	In line with declining inflation in 2023, the BCCh lowered its policy rate from 11.25 percent in July 2023 to 5.0 percent in December 2024.
The exchange rate should continue to play its role as a shock absorber.	Chile has maintained the floating exchange rate regime.
Resume the accumulation of international reserves to strengthen external buffers when market conditions are conducive.	The BCCh reiterated its commitment to resume reserve accumulation when market conditions are conducive but has yet to announce a new strategy following the suspension of the reserve accumulation program in October 2023.
Fiscal Policy	
Continue with the multi-year fiscal consolidation with a somewhat more frontloaded deficit reduction that could facilitate meeting the government's medium-term fiscal target.	In the context of revenue underperformance, the authorities committed to fiscal restraint by cutting spending in 2024 (compared to the budget) and adjusting spending plans in 2025. The government remains committed to reaching the medium-term objective of a broadly balanced fiscal position by 2027. The structural primary non-mining balance is projected to narrow somewhat in 2024.
Permanent spending measures should be conditioned on structural revenue performance to preserve fiscal sustainability.	The authorities remain committed to fiscal sustainability and condition new spending on revenue performance.
Refine the already strong fiscal framework to enhance the resilience of fiscal policy.	Congress legislated enhancements to the Fiscal Responsibility Law, including the introduction of multi-year structural fiscal targets, a debt anchor, an escape clause, and new monitoring requirements. The law also revised the withdrawal rules of the Pension Reserve Fund aiming to establish greater predictability.
Structural Reforms	
Raising pension contribution rates remains critical to ensure adequate self-financed pensions and the sustainability of the pension system.	The authorities' proposed pension reform, which envisages an increase in pension contributions and adjustments to the pension system's industrial organization, is being discussed by Congress.

Fund Recommendation	Policy Action
Streamline the investment permit process.	Two bills were submitted to Congress to streamline the sectoral permit applications and modernize the environmental evaluation process.
Develop renewable energy and lithium industries in the context of clear and balanced institutional frameworks to benefit from the global green transition.	The government made progress in clarifying the elements of the National Lithium Strategy, including the strategic and non-strategic salt flats. The PPP agreement of an existing lithium extraction operation was concluded, paving the way for PPPs in other lithium mining sites. The government also completed the "expression of interest" process for private investment in 26 salt flats.
Financial Sector	
Continue to closely monitor financial system risks, banks' implementation of Basel III requirements and their preparation for the unwinding of pandemic liquidity measures.	The authorities have continued to closely monitor financial sector vulnerabilities, with a heightened focus on risks from the real estate sector. The unwinding of the pandemic liquidity facility was completed smoothly in July 2024.
Calibrate the neutral level of the countercyclical capital buffer swiftly to provide banks with planning certainty.	The BCCh updated the CCyB framework. It set the neutral level at 1 percent of risk-weighted assets to be implemented gradually and state-contingent.
Continue 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 to enhance resilience.	The Basel III framework has been deployed. The authorities are implementing the Financial Market Resilience Law and the Fintech Law. The work on a bill for an industry-funded deposit insurance and a new bank resolution framework is ongoing.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact	Impact on Chile	Policy Advice
External Risk				
(+/-) Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	HIGH	HIGH	Chile would benefit from higher copper and lithium prices but would be negatively impacted by higher oil prices.	Allow the exchange rate to play its role as a shock absorber. In response to negative shocks, provide targeted fiscal support to vulnerable groups. In the event of positive shocks, save stronger-than-projected fiscal revenues.
(-) Monetary policy calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital flow and exchange rate volatility in EMDEs.	MEDIUM	MEDIUM	In the event of major central banks' monetary policy stances being too tight or staying tighter longer than warranted, 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. Resume FX reserve accumulation when market conditions are conducive.
(-/+) Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	MEDIUM	MEDIUM	Chile is highly exposed to climate risks such as floods, storms, and wildfires. On the positive side, the global green transition may increase the demand for copper, lithium, and renewable energy of which Chile has an abundant endowment.	Continue the adaptation and mitigation measures in response to climate change. Continue to build fiscal buffers to cope with the spending needs related to sudden climate shocks.

[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
(-) **Deepening geoeconomic fragmentation.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of the international monetary system, and lower 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				
(-) Political polarization fragmentation	HIGH	MEDIUM	Political polarization and fragmentation could lead to continued reform gridlock.	Continue the dialogue and explore opportunities for reforms built on broad-based support with a pragmatic approach.
(-) Social discontent. High inflation in past years, recent electricity tariff hikes, high inequality, and a worsening security situation could trigger social protests followed by populist policy responses and/or policy gridlock.	LOW	MEDIUM	Social unrest could negatively affect business confidence and investment, dampening potential growth.	Advance reforms to tackle social needs, anchored on broad political support. Continue with policies to achieve the inflation target and maintain fiscal sustainability, while providing support to the most vulnerable.

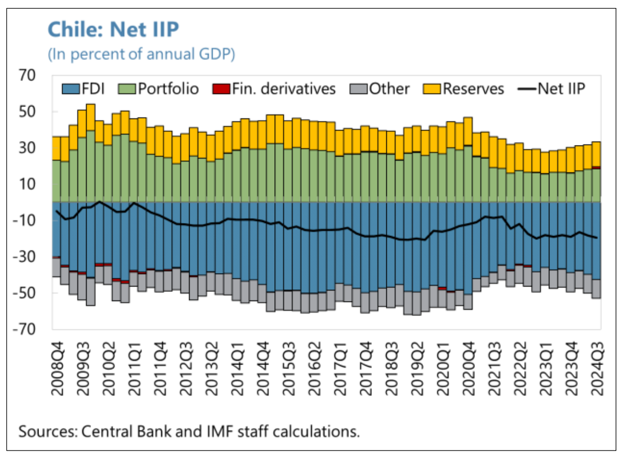
Annex III. External Sector Assessment

Overall Assessment: *The estimated external position of Chile in 2024 was moderately weaker than the level implied by fundamentals and desirable policies. The current account (CA) deficit continued to narrow in 2024 driven by continued weak growth in imports and improved terms of trade. The net international investment position improved further in 2024.*

Potential Policy Responses: *Macroeconomic imbalances built during the pandemic have been largely resolved, supported by very strong policies. The authorities responded appropriately to inflation developments, have committed to rebuild international reserve buffers, and remain committed to achieving a broadly balanced structural fiscal position over the medium term and raise national savings, including through the planned pension reform. These policies, alongside exchange rate flexibility, are projected to support the required external rebalancing over the medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. After rebounding to -16.4 percent of GDP at end-2024Q1 (from -20 percent at end-2022) Chile's net international investment position (NIIP) decreased in 2024, registering -19.9 percent of GDP[1] at end 2024Q3. The improvement in the NIIP until the first quarter of the year reflects, among other factors, the strong performance of international stock markets and the depreciation of the Chilean peso vis-à-vis the U.S. dollar, while an increase in FDI inflows led to a decrease of the NIIP over the remainder of 2024. From a sectoral perspective, the NIIP of pension funds increased by 6.3 percent of GDP relative to its low point in 2022Q4, offset by a decrease in the NIIP of the public, non-financial corporations (NFCs), and household sectors. External debt stood at 78.7 percent of GDP as of 2024Q3, of which 33.3 percent of GDP was owed by NFCs, 17.5 percent of GDP was in the form of FDI, and 15.8 percent of GDP was owed by the general government.



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 (consolidated public sector, pension funds, and other non-bank financial institutions) have positive net positions. While banks and NFCs have negative net positions of 11 and 45.4 percent of GDP, respectively, over two thirds of NFCs' liabilities are FDI. FDI is comfortably the largest type of liability by instrument, representing 54.8 percent of gross liabilities as of 2024Q3. 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.

2024 (Q3) (% GDP)	NIIP: -19.9	Gross Assets: 147.3	Reserve Assets: 14.1	Gross Liab.: 167.2	Debt Liab.: 78.7

Current Account

Background. After a sharp decline in 2023 to 3.5 percent of GDP (after 8.7 percent of GDP in 2022), due to improved terms of trade and a broad-based decline in imports, the CA deficit continued to narrow in 2024. The four-quarter moving average CA deficit stood at 2.7 percent of GDP in 2024Q3 and is projected to narrow to 2.3 percent of GDP at the end of the year, driven by continued weak growth in imports and improved terms of trade. From a savings-investment perspective, the CA improvement in 2024 has been driven by an improvement of the private sector balance, while the public sector balance remained broadly constant. 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 -0.4 percent of GDP, compared to a cyclically adjusted CA of -3.3 percent of GDP. IMF staff estimates CA adjustments of 1.7 percent of GDP to account for measurement biases due to inflation and portfolio equity retained earnings.[2] The resulting adjusted EBA model CA gap is -1.2 percent of GDP. On this basis, Chile's 2024 external position was moderately weaker than the level implied by medium-term fundamentals and desirable policy settings.

2024 (% of GDP)	Actual CA (E): - 2.3	Cycl.-Adj. CA (E): - 3.3	EBA CA Norm: - 0.4	EBA CA gap: - 2.9	Adjustors: 1.7	Adj. CA gap: - 1.2

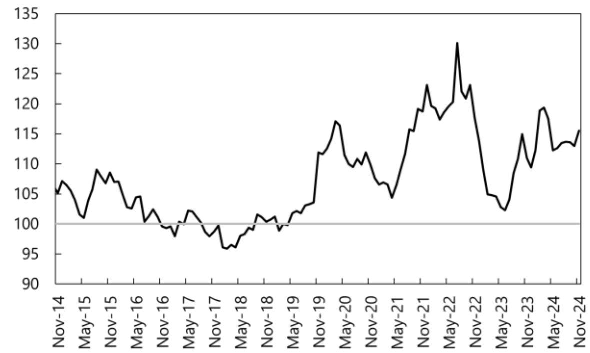
Real Exchange Rate

Background. Following a period of appreciation over 2022Q4–2023Q2, the REER began to depreciate in 2023Q3 until 2024Q1. It sharply appreciated again during 2024Q2 when international copper prices rallied, but as of November 2024 it remains weaker than its long-term (2019–23) average. The depreciation was primarily driven by the weaking of the Chilean peso amid the narrowing interest differential with the U.S. and uncertainty surrounding the outlook for key trading partners, including China, and consequently copper prices.

Assessment. The EBA REER index and level models suggest a REER undervaluation of 18.8 and 27.3 percent, respectively. In contrast, the EBA CA model implies an overvaluation of 6.4 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 2024 on average 4 percent weaker than its long-term average (2019-23) as well as model uncertainties, staff estimates that the REER gap is more likely positive than not and between -4 and +6 percent.

Chile: Real Effective Exchange Rate

(Index avg. 1996-2019=100, - = appreciation)



Sources: BCE and IMF staff calculations.

Capital and Financial Accounts: Flows and Policy Measures

Background. FDI accounted for the bulk of net inflows to Chile in 2023 (around 4.6 percent of GDP) and in the first three quarters of 2024 (4.9 percent of GDP). In 2024, Chile experienced net portfolio outflows (around 1.1 percent of GDP), primarily driven by pension funds purchases of foreign portfolio assets.

Assessment. Chile has demonstrated ample capacity to absorb short-term capital flow volatility. There are many mitigating factors, including usable liquid FX assets by the government, that limit financial market risks (see below).

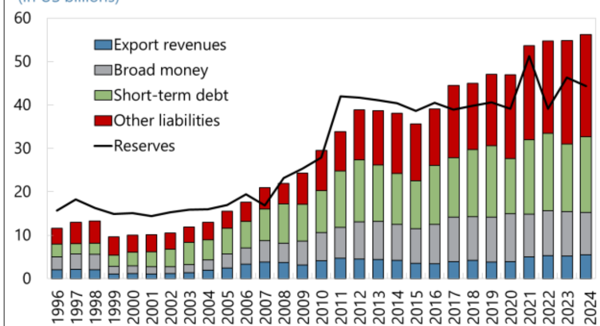
FX Intervention and Reserves Level

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 (with a daily reduction of US$50 million intended over ten months), and in June, to rebuild buffers through a reserve accumulation program (with daily purchases of US$40 million intended over twelve months) which were targeted to lift reserves by US$10 billion to about 14 percent of GDP by 2024 (approximately 80 percent of the ARA metric). Both programs were suspended on October 26, 2023. The BCCh communicated its intention to resume reserve accumulation when market conditions are conducive. At the end of December 2024, gross international reserves stood at US$44.4 billion.

Assessment. Gross international reserves amounted to 83.7 percent of the IMF's reserve adequacy metric (ARA) on average over 2020–23 and 79.0 percent in December 2024, below the recommended range of 100-150 percent. Nevertheless, Staff assesses reserves to be adequate due to several mitigating factors:

- The government has usable liquid FX assets (US$4.5 billion as of end-November) even though they decreased by 30 percent since 2023, including US$3.7 billion in the economic and social stabilization fund, and US$0.9 billion cash (equivalent to an improvement in reserve coverage of up to 8.1 percentage points).
- Around a quarter of short-term debt represents intercompany loans for foreign direct investors to local firms (US$13.8 billion as of 2024Q3). These loans are a very stable source of funding with a low probability to result in FX funding needs.
- Close to 80 percent of banks' short-term external debt (US$17.7 billion at end-2024Q3)[3] is covered by banks' liquid foreign assets (US$13.9 billion at end-2024Q3) which significantly reduces banks' potential short-term FX funding needs.
- Reserves are complemented with two FX liquidity lines totaling US$8.05 billion: a credit line with FLAR (US$1.25 billion) and a bilateral 5-year, renewable period swap facility with the PBOC (US$6.8 billion) without restrictions on the use of the RMBs. 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.

Chile: ARA Metric Decomposition and Reserves 1/
(In US billions)



Sources: Central Bank of Chile, Ministry of Finance, IMF ESA, and IMF staff calculations.
1/ The ARA metric is a weighted sum of export revenues (5 percent), broad money (5 percent), short-term debt (30 percent), and other liabilties (15 percent).

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

[2] 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.

[3] Includes banks' short-term external debt stock of US$8.2 billion at end-2024Q3 and US$9.5 billion of banks' long-term debt due in the next twelve months.

Annex IV. Sovereign Risk and Public Debt Sustainability Analysis

Table 1. Chile: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability, including in the medium- and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low, reflecting the strength of the fiscal framework in guiding fiscal policy and rebuilding buffers.
Fanchart	Low	...	
GFN	Low	...	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	Low	The overall long-run risk indicator is assessed as low. Under the baseline, debt stabilizes below 45 percent of GDP, reflecting a primary balance broadly in line with the debt-stabilizing one under the government's medium-term fiscal commitment. Aging-related expenditure linked to health and pension are expected to be largely paired to higher revenues, with costs related to solidarity pensions potentially doubling by 2050. Copper production and revenues are not expected to fall dramatically over the next decades compared to its 2023 level, which was low by historical standards.
Sustainability assessment 2/		Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels. Therefore, debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios and with high probability, with low medium-term sovereign and financing risks. Medium-term structural fiscal consolidation plans, guided by the structural fiscal balance rule and the prudent debt ceiling, are fully consistent with fiscal sustainability.

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

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:						
Subsectors captured in the baseline					Inclusion	
1 Budgetary central government					Yes	
2 Extra budgetary funds (EBFs)					No	Not applicable
3 Social security funds (SSFs)					No	Not applicable
4 State governments					No	Debt issuance not allowed
5 Local governments					No	Debt issuance not allowed
6 Public nonfinancial corporations					No	
7 Central bank					No	
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		

Rows 1–3 are grouped as CG; rows 1–5 as GG: expected; rows 1–6 as NFPS; rows 1–8 as CPS.

Color code: chosen coverage (green) | Missing from recommended coverage (red) | Not applicable (grey)

Reporting on Intra-Government Debt Holdings

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

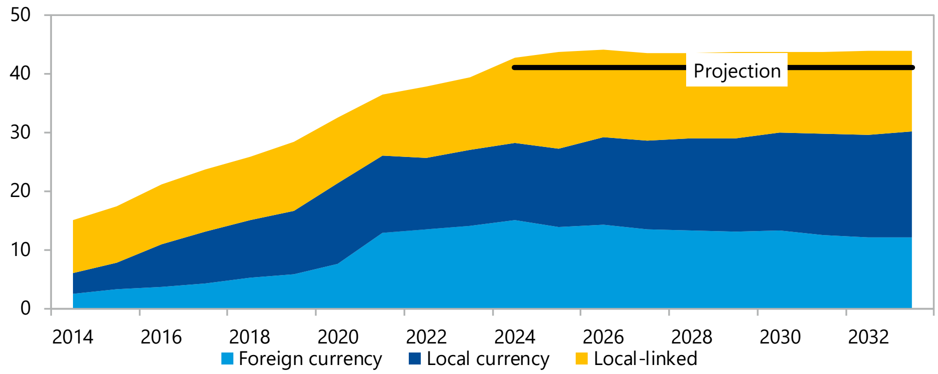
Rows 1–3 are grouped as CG; rows 1–5 as GG: expected; rows 1–6 as NFPS; rows 1–8 as CPS.

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

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

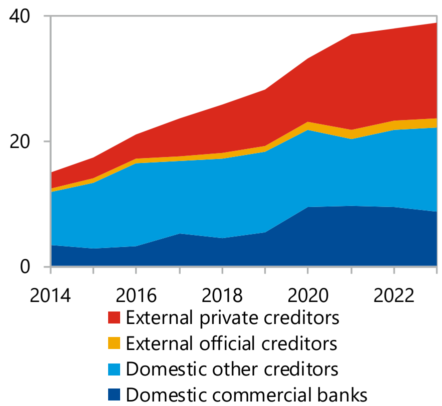
Table 3. Chile: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



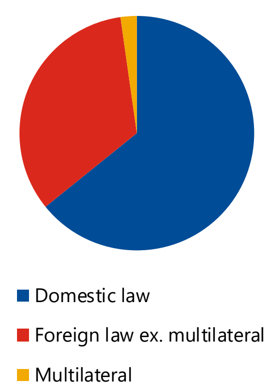
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



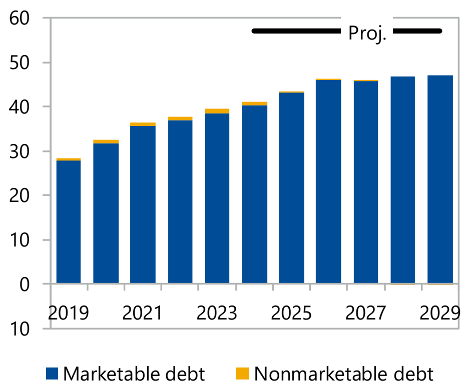
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)



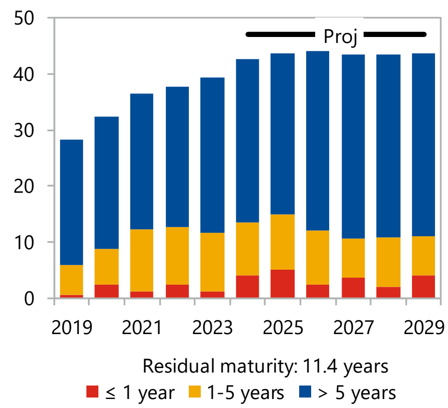
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

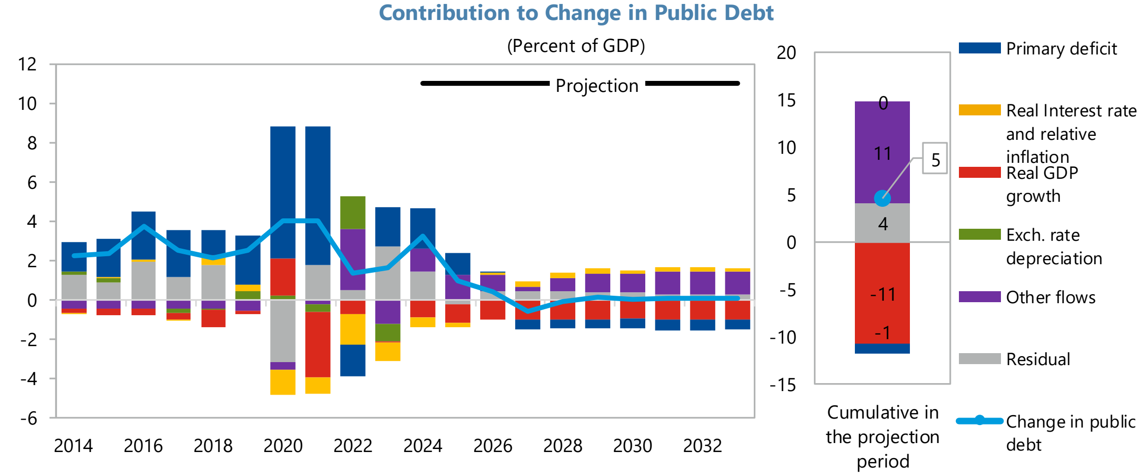
Commentary: Chile has a well-diversified investor base with a large presence of domestic creditors. The share of foreign currency debt increased in 2021 due to the pension withdrawals but is still relatively small and expected to return to historical levels. The residual maturity of debt is above 10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

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

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	39.4	42.7	43.7	44.1	43.5	43.5	43.6	43.7	43.8	43.9	43.9
Change in public debt	1.6	3.3	1.0	0.4	-0.6	-0.1	0.1	0.1	0.1	0.1	0.1
Contribution of identified flows	-1.1	1.8	1.2	0.0	-1.0	-0.5	-0.3	-0.4	-0.2	-0.2	-0.2
Primary deficit	2.0	2.0	1.1	0.0	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.5
Noninterest revenues	22.3	21.6	22.6	23.4	23.5	23.6	23.6	23.6	23.8	23.7	23.6
Noninterest expenditures	24.3	23.6	23.7	23.5	23.0	23.1	23.1	23.1	23.2	23.2	23.1
Automatic debt dynamics	-1.9	-1.4	-1.1	-0.9	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Real interest rate and relative inflatio	-0.9	-0.5	-0.2	0.1	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Real interest rate	-1.3	-1.0	-0.5	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Relative inflation	0.4	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.1	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Real exchange rate	-0.8	…	…	…	…	…	…	…	…	…	…
Other identified flows	-1.2	1.2	1.3	0.8	0.2	0.7	0.9	0.9	1.2	1.2	1.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.7	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other transactions 1 /	-0.6	1.7	1.7	1.2	0.6	1.1	1.3	1.3	1.6	1.6	1.6
Contribution of residual	2.7	1.4	-0.2	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Gross financing needs	7.2	4.0	5.7	5.7	2.7	3.8	2.3	4.3	2.4	1.5	3.7
of which: debt service	5.9	2.5	5.0	6.1	3.6	4.7	3.2	5.2	3.3	2.5	4.6
Local currency	4.8	1.6	2.8	2.1	1.5	2.1	1.5	2.3	1.5	1.3	2.1
Foreign currency	0.8	0.6	1.2	1.0	1.3	1.1	1.1	0.9	1.4	0.8	1.0
Memo:											
Real GDP growth (percent)	0.2	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.3
Inflation (GDP deflator; percent)	6.6	6.0	4.1	2.9	2.7	2.8	2.9	2.9	3.0	3.0	3.0
Nominal GDP growth (percent)	6.8	8.4	6.4	5.3	5.1	5.1	5.2	5.2	5.4	5.4	5.4
Effective interest rate (percent)	3.0	3.3	2.7	2.9	3.1	3.1	3.2	3.0	3.2	3.2	3.1

Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Public debt is expected to stabilize below 45 percent of GDP under the assumption that the government adheres to its medium-term target of a broadly balanced fiscal position.

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

Table 5. Chile: Realism of Baseline Assumptions

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

Comparator Group:

Emerging Markets, Commodity Exporter, Program

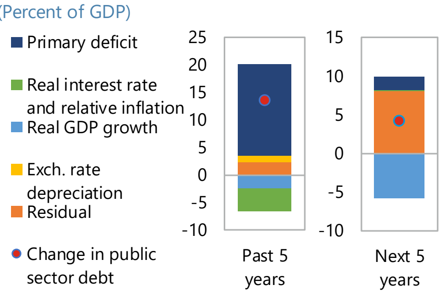
Color Code:

Optimistic
- > 75th percentile
- 50-75th percentile

Pessimistic
- 25-50th percentile
- < 25th percentile

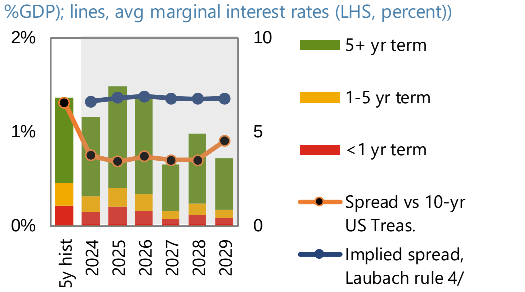
Public Debt Creating Flows

(Percent of GDP)



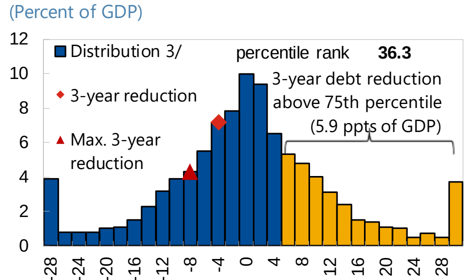
Bond Issuances

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



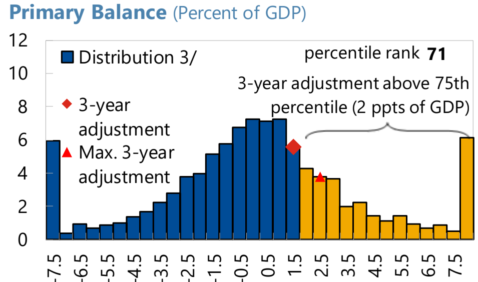
3-Year Debt Reduction

(Percent of GDP)



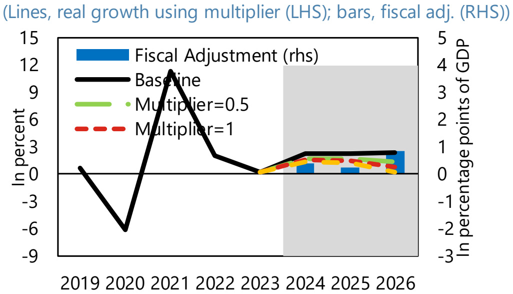
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



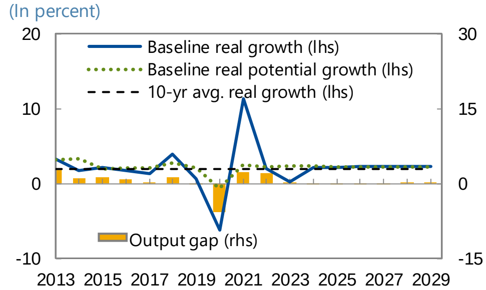
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Commentary: The realism analysis does not point to major concerns, and the forecast track record does not reveal any systematic bias. The projected fiscal consolidation is reasonable, when considering Chile's history and other country experiences. The residual contribution to the projected debt ratio comes from 'other flows,' including below-the-line operations like SOE recapitalization and payments on government-guaranteed student loans.

Source : IMF Staff.

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

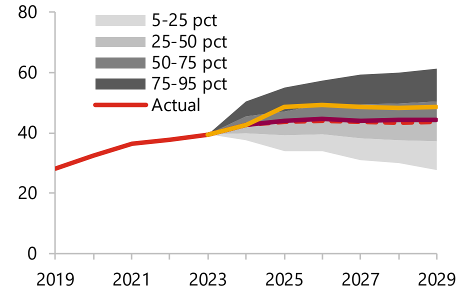
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

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

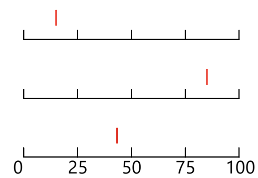
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 6. Chile: Medium-Term Risk Analysis

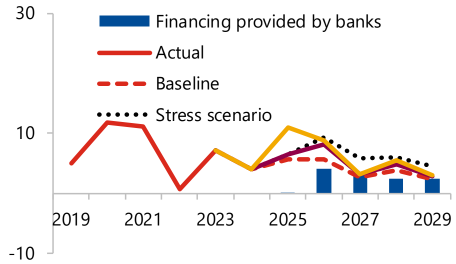
Final Fanchart (Percent of GDP)



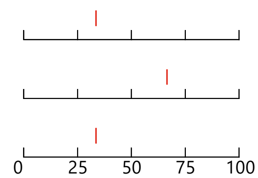
Debt fanchart module	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	33.7	0.5	
Probability of debt non-stabilizaiton *(percent)*	19.3	0.2	
Terminal debt-to-GDP x institutions index	17.1	0.4	
Debt fanchart index (DFI)		1.0	
Risk signal: 3/		Low	



Gross Financing Needs (Percent of GDP)



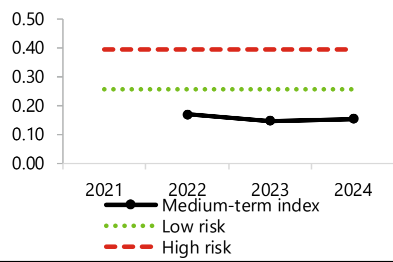
Gross financing needs (GFN) module	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	4.0	1.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	6.6	2.1	
Chg. In banks' claims in stress *(pct banks' assets)*	2.0	0.7	
GFN financeability index (GFI)		4.2	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

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

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.0	0.2	0.5	0.1
GFN finaceability index	4.2	0.1	0.5	0.0
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 68.2 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. Under broadly unchanged fiscal policies, i.e. an overall deficit of 2 percent of GDP, the debt-to-GDP ratio is projected to exceed 45 percent in 2026.

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

Chile: Triggered Modules

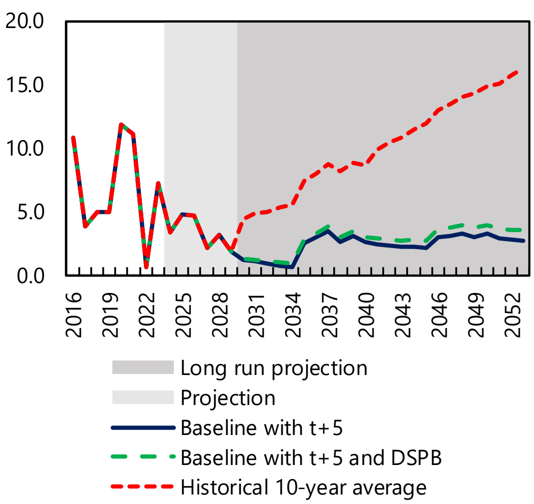
Large amortizations	**Pensions**	Climate change: Adaptation	**Natural Resources**
	Health	Climate change: Mitigation	

Chile: Long-Term Risk Assessment: Large Amortization

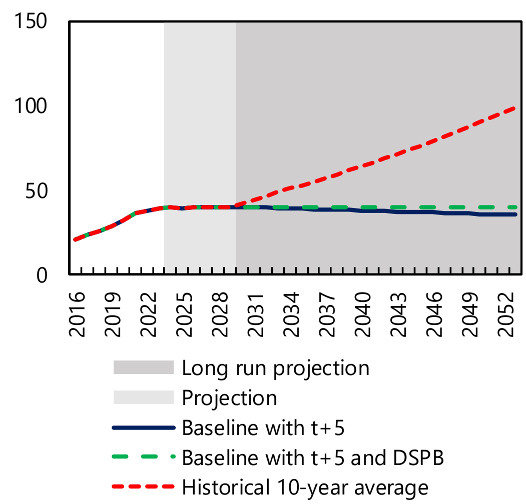
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP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

Variable	2029	2033 to 2037 average
Real GDP growth	2.3%	2.3%
Primary Balance-to-GDP ratio	0.5%	0.5%
Inflation (GDP deflator)	2.9%	3.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

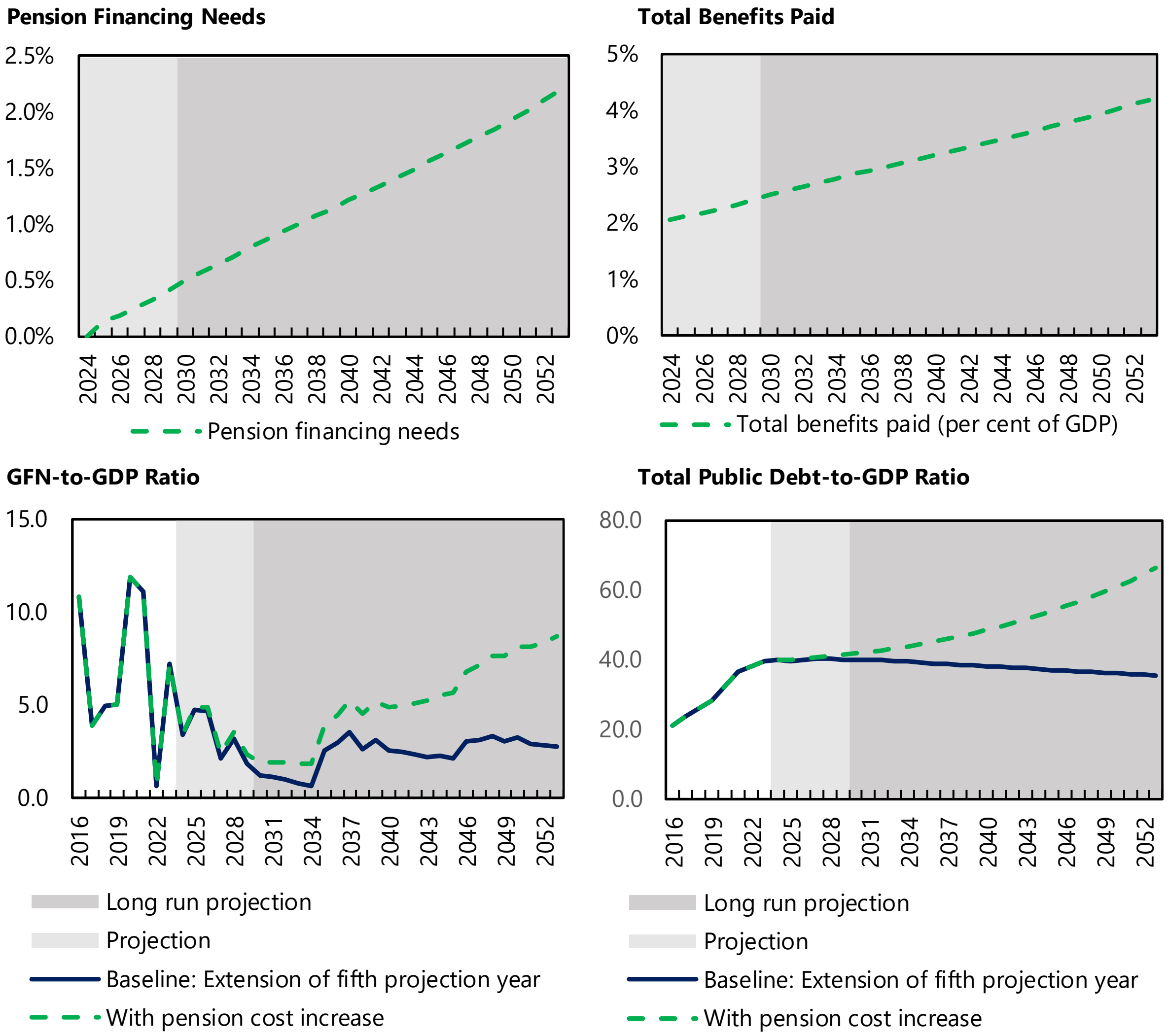


Commentary: The long-run amortization module does not trigger an overall risk indication. The overall long-run risk indicator is low. Under the baseline, debt stabilizes declines to around 32 percent of GDP in 2050, reflecting a primary balance around the debt-stabilizing one. If historical 10-year averages are used, however, then debt could rise from around 40 percent to almost 100 percent of GDP by 2050. However, this simulation may not be representative as it reflects historically elevated gross financing needs, including the impact of the COVID-19 pandemic.

Table 8. Chile: Long-Term Risk Analysis II

Chile: Demographics: Pensions

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

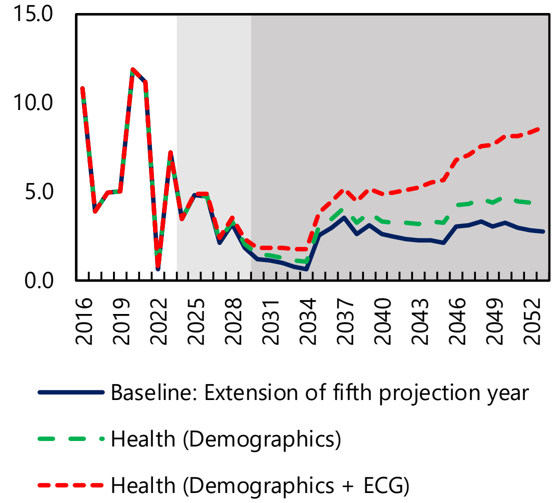


Commentary: Demographic dynamics would increase the fiscal costs of solidarity pensions (including mainly the PGU) from about 2 to 4 percent of GDP between 2024 and 2053, under the assumption that solidarity pensions increase in real terms in line with real GDP growth. Assuming that available financing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

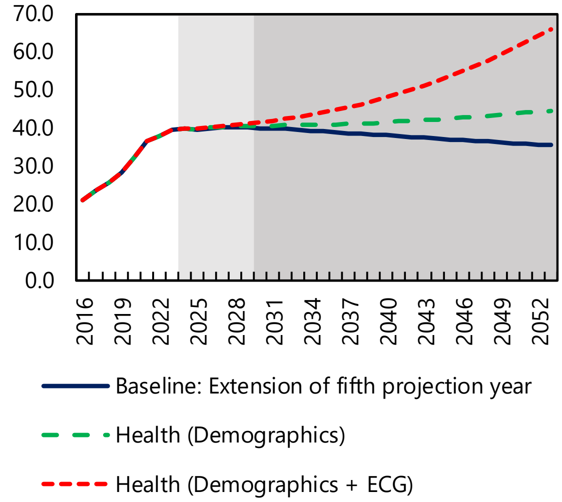
Table 9. Chile: Long-Term Risk Analysis III

Chile: Demographics: Health

GFN-to-GDP Ratio



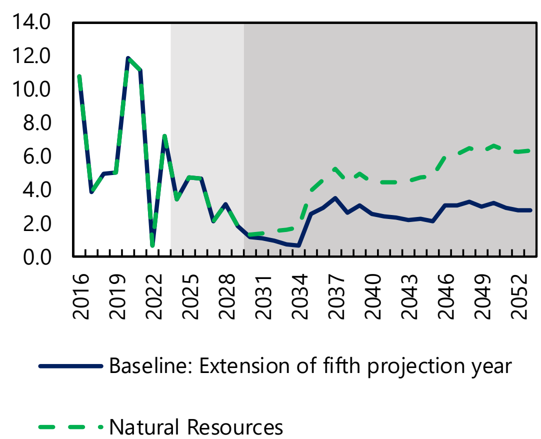
Total Public Debt-to-GDP Ratio



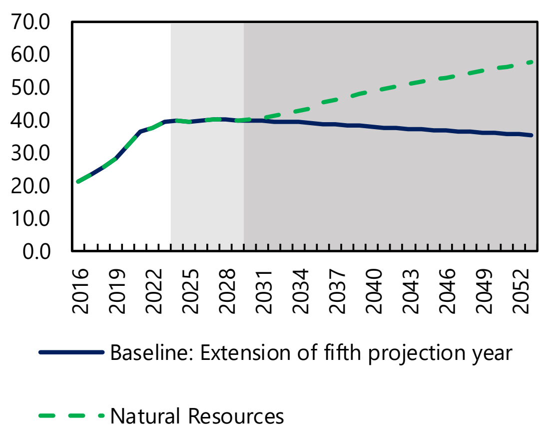
Commentary: Higher health costs due to demographics dynamics as well as excess cost growth of health (difference between health prices and aggregate CPI) would increase debt to about 65 percent of GDP by 2050.

Chile: Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



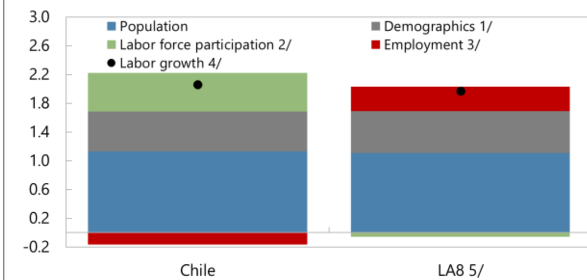
Commentary: One source of risk is lower copper revenue due to lower production. In the authorities' central scenario, copper production should increase on average 1.5 percent annually between 2024-2035 and an annual production of 5 million tonnes is assumed thereafter. Copper revenues were around 1.3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

Annex V. Trends in Female Labor Force Participation[1]

The increase in the labor force has been an important driver of Chile's and Latin America's economic growth over the past decades. However, demographic trends are turning, and an aging population could weigh on economic dynamism going forward (IMF 2024). Raising labor force participation to a greater extent, in particular by further integrating women into the labor force, will be crucial to mitigate the negative demographic effects.

1. **Demographic factors explain most of the labor growth between 2000 and 2019.**[2] Population growth has been the largest contributor, followed by a demographic shift that has led to a sustained increase in the share of the working-age population (upper text chart). However, in contrast with other countries in the region where labor market outcomes have played a more limited role, the increase in labor force participation has been a significant contributor to the growth of the Chilean labor force.

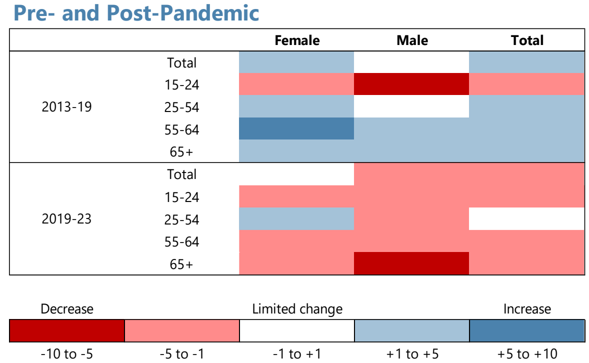
Chile & LA8: Contributions to Labor Growth, 2000-19
(In percentage points)



Sources: Penn World Table 10.0 database; 2024 UN Population Prospects, ILOSTAT and IMF staff calculations.
1/ Measures the growth in the share of working age population, defined as 15 and older.
2/ Rate of active people to working age population.
3/ Rate of employed to active people.
4/ Number of employed individuals.
5/ Purchasing-power-parity GDP- weighted average across Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay.

2. **The substantial increase in overall participation was driven by women joining the labor force.** While male participation remained roughly at 75 percent between 2000 and 2019, female participation increased by 15 percentage points to 53 percent in 2019 and was back to that level by the end of 2023. A more detailed decomposition of changes in participation rates by gender and age groups over the last 10 years (middle text chart) illustrates the divergent trends between men and women—female labor force participation continued to increase until 2019, while male labor force participation remained mostly flat and even decreased among young men. Since end-2019 and up to 2023, the labor market has been less dynamic and overall participation has decreased, with participation rates recovering from the disruptions generated by the pandemic and surpassing the levels observed at end-2019 only among prime working-age (25-54) women.

Chile: Changes in Labor Force Participation Rates Pre- and Post-Pandemic



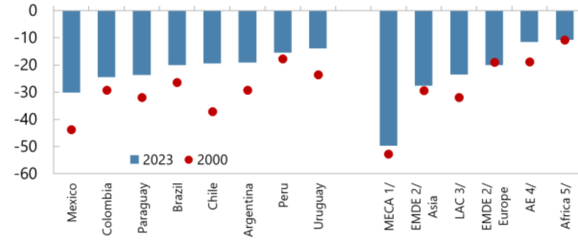
Sources: ILOSTAT and IMF staff calculations.

[1] Prepared by Camila Casas.

[2] For cross-country comparability purposes, the growth decomposition analysis uses data from the Penn World Table. The latest version, PWT 10.01, includes information up to 2019.

3. Despite significant gains made over the last decades, gender disparities in participation rates persist. In 2023, female labor force participation in Chile was 53 percent and the participation gender gap was around 20 percentage points, almost half as small as it was in 2000 (lower text chart). Although the reduction in the participation gap was the largest in the region and it is now in line with averages in emerging market and developing economies from other regions, it is still larger than in some neighbor countries and twice as large as the average gap across advanced economies.

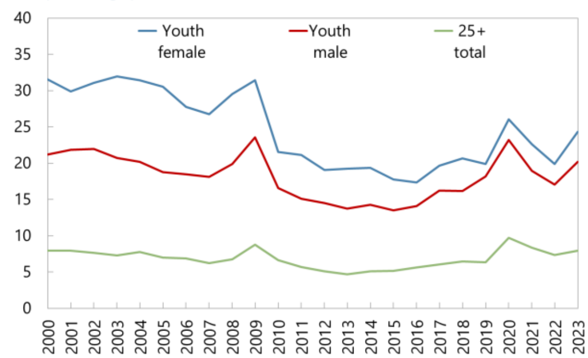
Chile & Selected Economies: LFPR Gender Gap
(In percentage points)



Sources: ILOSTAT, IMF Gender Data Hub and IMF staff calculations.
Note: Aggregates are simple averages based on modeled ILO estimates. The gender gap corresponds to female minus male values.
1/ Middle East and Central Asia.
2/ Emerging market and developing economies.
3/ Latin America and the Caribbean.
4/ Advanced economies.
5/ Sub-Saharan Africa.

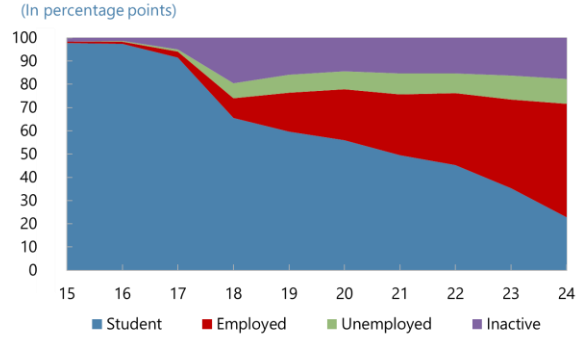
4. Gender gaps start appearing around the time when most people finish high school. In 2023, 17 percent of the youth (between ages 15 and 24) were neither employed, nor enrolled in education or training (the so-called NEETs). Although a high portion of the youngest remains in school, for those 18 and older inactivity and unemployment are an important concern. Inactivity rates increase substantially at that age, and they decrease with age for young men but not for women—as a result, participation gender gaps start showing and increasing from an early age. Moreover, unemployment rates for those 15-24 are around 3 times as large as the unemployment rate of adults 25 and older, and among the young rates are higher among women (although differences across genders have decreased over time).

Chile: Youth and 25+ Unemployment Rate
(In percentage points)



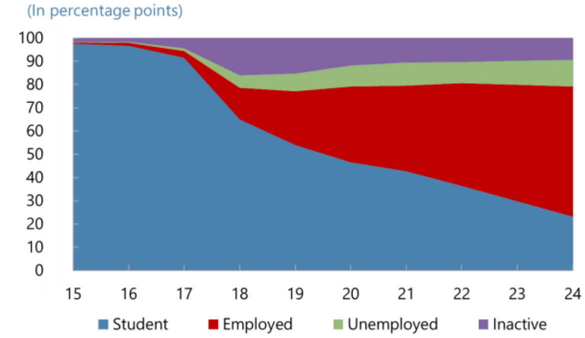
Sources: ILOSTAT and IMF staff calculations.

Chile: Youth (15-24) Main Activity by Age, Female, 2023
(In percentage points)



Sources: Encuesta Nacional de Empleo (INE) and IMF staff calculations.
Note: Individuals that are both students and active in the labor force are counted as employed or unemployed. NEETs (youth not in employment, education, or training) are the sum of unemployed and inactive.

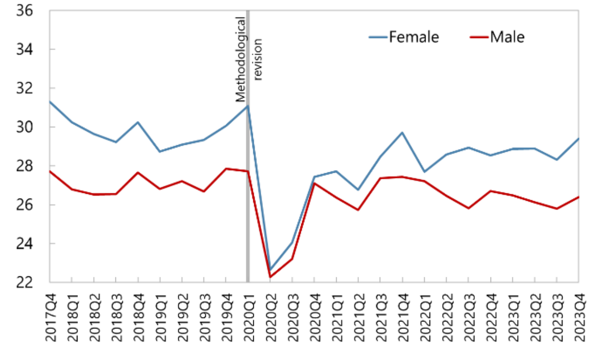
Chile: Youth (15-24) Main Activity by Age, Male, 2023
(In percentage points)



Sources: Encuesta Nacional de Empleo (INE) and IMF staff calculations.
Note: Individuals that are both students and active in the labor force are counted as employed or unemployed. NEETs (youth not in employment, education, or training) are the sum of unemployed and inactive.

5. Women also have higher rates of informality. The share of women with informal jobs has been systematically higher than that of men, and the difference has increased over the last two years. Job flexibility is an important feature for parents, especially for mothers, that is closely associated with informality—mothers are more likely to take informal jobs as they tend to allow for more flexible hours (Berniell and others 2021; Berniell and others 2023). However, informal jobs also imply less benefits such as parental leave or childcare.

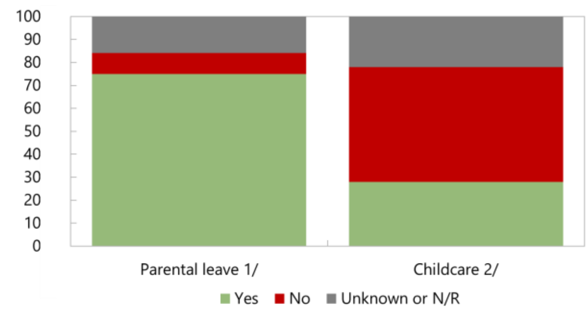
Chile: Informality Rate
(In percentage points)



Sources: ILOSTAT and IMF staff calculations.

6. Improving the availability and affordability of childcare and allowing for more flexible work arrangements that can adapt to family needs may reduce constraints for some women. The main obstacle cited by many inactive women impeding them to join the labor force is family responsibilities (IMF 2024)—although these include household chores and caring for other relatives, tending to children plays a crucial role (text chart). Hence, policies that relax these constraints will be crucial to keep increasing female participation. Chile has been a successful story within the region and the several policies enacted over the last decades have contributed to reduce the gender participation gap by 15 percentage points since 2000, the largest decrease among the LA8 countries in the sample. In order for the labor force to keep supporting economic growth going forward, further integrating women into the labor force will be key.

Chile: Access to Benefits, 2023
(In percentage points)



Sources: Sources: Encuesta Nacional de Empleo (INE) and IMF staff calculations.
Note: Only formal workers included in the sample . The figure shows the answers to the following questions:
1/ "En este trabajo, ¿tiene derecho, aunque no utilice, a permiso por maternidad o paternidad?'.
2/ "En este trabajo, ¿tiene derecho, aunque no utilice, a servicio de guardería infantil?".

Annex VI. Pension Reform: Key Elements of the Latest Proposal and Their Potential Fiscal Implications[1]

The key objective of the proposed pension reform is to increase contribution density and replacement rates by adding a 6-percentage points employer contribution and improving coverage for self-employed and unemployed workers. These changes are necessary to elevate pensions to appropriate levels and contain long-term fiscal costs of the minimum guaranteed pension (PGU). However, certain modalities of the latest reform proposal, such as a continued broad coverage of the PGU in the context of population aging and the reimbursable employer contribution, would create fiscal costs that need to be managed to ensure the reform's success and maintain the overall health of the pension system.

Increase in Contribution Rate

1. **The central proposed reform pillar is a 6-percentage points contribution rate increase (employer funded).** In combination with the existing 10 percent employee-funded rate, this would bring Chile’s contribution rate closer to the OECD average of 18.2 percent. In the government’s latest proposal, the additional 6 percentage points would be divided into 3 percentage points for individual accounts and 3 percentage points for the Social Insurance Fund (SIF). Notably, 1 percentage point of the employer contribution would be earmarked for closing the gender life expectancy gap; and 2 percentage points would fund current pensions and be a reimbursable contribution with interest, returned to individuals after retirement over 20 years. The increase in the contribution rate is estimated to boost the total replacement rate by approximately 10 percentage points, raising it above 70 percent for a median salary earner.

2. **The distribution of the higher contribution rate between individual accounts and the Social Insurance Fund (SIF) remains under debate.** Contributions to the SIF are aimed at addressing the pension gap from women’s longer life expectancy and improving replacement rates for current pensioners. Such an allocation of contributions would imply a transfer from current contributors to current pensioners, either directly by reducing their own pension savings or indirectly through fiscal costs.[2] This would be in the context of a PGU that has significantly strengthened the pension solidarity pillar and increased replacement rates for a substantial portion of the population. As regards the replacement ratio, simulations prepared by the authorities suggest that the distribution of the higher contribution rate has a significant impact only for current pensioners.[3]

---

[1] Prepared by Dmitry Vasilyev. The information is based on the pension reform proposal at end-November 2024. At that point, the proposal was in the public domain but had not yet been formally presented to Congress.

[2] Direct costs would arise from the financing needs for the reimbursement of 2 percentage points, which could be through taxes. Indirect costs would be associated with the opportunity costs for current contributors that could have invested in riskier assets than government securities.

[3] The authorities’ study on replacement rates in the Chilean pension system estimated that, with the PGU, the median replacement rate for individuals retiring in 2024 would be 73 percent if the 6-percent contribution goes to social

(continued)

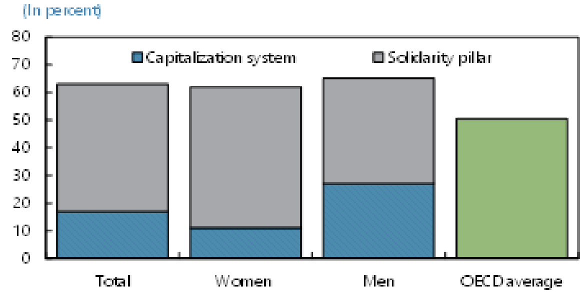
3. The labor market implications of the rate hike are unclear. The authorities estimate formal employment and per capita GDP to rise by 2 and 1.1 percentage points, respectively, in the long term.[4] Higher pension savings may promote growth through financial market deepening and incentivize workers to join formal firms.[5] However, the overall impact is ambiguous. While firms may find it challenging to reduce nominal wages for existing employees, they could offset higher employment costs by lowering nominal wages for new hires or moderating wage growth over the medium term. For instance, research by Saez et al. (2019; 2021) indicates that even with cost-cutting policy measures, such as payroll tax cuts, firms exposed to such changes often redistribute some of the effects to workers.

4. There are fiscal costs and risks associated with the current proposal. The first relates to the reimbursable contribution that employers would make on behalf of their employees. As these contributions are made, each employee would receive a bond with an interest rate linked to the historical average of Chile's domestic sovereign bonds yields, which would be repaid over 20 years following retirement. While these bonds would be liabilities of the SIF, they would create a contingent liability for the state. Furthermore, the government estimates fiscal costs could reach 0.8 percent of GDP in the medium term, driven by a reduced tax base (0.3 percent of GDP), increased public pension obligations (0.2 percent of GDP), and additional support to the SIF of 0.3 percent of GDP partly related to interest payments on reimbursable contributions.[6]

Minimum Guaranteed Pension (PGU)

5. The Pensión Garantizada Universal (PGU) has significantly enhanced social protection for vulnerable groups and current pensioners. Introduced in 2022, the PGU provides benefits to 90 percent of the population, with 96 percent of recipients receiving the full benefit equivalent to 46 percent of the average wage. The PGU has been instrumental in reducing poverty by 2 percentage points and boosting replacement

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.
Note: This chart is from the 2023 Article IV report.

insurance, 73 percent if split equally between individual accounts and social insurance, and 61 percent if entirely to individual accounts. By 2044, these rates would be 70, 69, and 65 percent, respectively. For 2070, the projected rates would be 62, 61, and 63 percent, respectively. The reduction of median replacement rates in the long term stems from the assumption that PGU indexation is linked to inflation.

[4] Presentation by the government to the Senate Labor Commission, August 14, 2024.

[5] According to the authorities' regulatory impact report (p.35), pension funds' domestic assets are projected to recover to pre-pandemic levels by 2040 under the reform scenario, compared to 2045 under the no-reform scenario.

[6] Presentation by the government to the Senate Labor Commission, September 11, 2024. The estimated amount of support to the SIF is based on the authorities' simulations and depends on assumptions regarding interest rates and the SIF's investment returns.

rates, contributing to a more robust safety net for retirees (see 2023 IMF Article IV Report-Annex VII).

6. The long-term sustainability of the PGU needs to be ensured. Due to the ageing population, the costs of the PGU are projected to rise from 2 percent of GDP to about 4 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 the solidarity pension is kept constant in real terms, as foreseen by law. The share of the population aged 65 and above is expected to rise from 14.4 percent in 2025 to 25.8 percent in 2050, adding significant pressure on public finances. Proposals to increase the PGU from CLP 214,000 to CLP 250,000 would immediately add annual fiscal costs of about 0.4-0.5 percent of GDP. Thus, in addition to linking PGU growth to inflation, consideration should be given to making the PGU more targeted to the most vulnerable elderly persons. Moreover, an analysis of the interaction of the PGU with other parts of the pension system is needed, particularly its impact on labor market formalization, incentive structures, and protection against longevity risks. This would allow to identify design options that minimize distortions.

Taxable Income Cap

7. The reform proposes a gradual increase in the taxable income cap over five years. It would rise from 84.3 UF (about CLP 3.2 million)[7] to 126.6 UF (about CLP 4.8 million). This change is expected to increase pension savings by high-income earners but would also lead to higher pension spending for public employees and lower tax revenues, given the reduction in taxable income. The government estimates the annual fiscal cost of this measure at about 0.1 percent of GDP.[8]

Improving Coverage for Self-Employed and Unemployed Workers

8. The reform also proposes to expand pension coverage for unemployed and self-employed workers, groups traditionally underrepresented in Chile's pension system.

- For *unemployed workers*, the improvement of the Pension Gap Insurance (Seguro de Lagunas) aims to extend pension contribution coverage to those currently excluded from the Solidarity Unemployment Fund (FCS). This measure is estimated to enhance pension contribution density, particularly for women by 2.9 percent and men by 3.2 percent, thereby improving retirement savings. However, the FCS is still recovering from the financial strain of the COVID-19 pandemic (financial assets of US$2.9 billion at end-2023 compared to US$4.3 billion at end-2019 in constant 2024 US$), and the proposed changes are expected to further slowdown this recovery.

- For *self-employed workers*, the reform seeks to address the low contributions by simplifying the payment process through automatic systems for annual declarations and monthly contributions. This automation is expected to increase participation and boost pension savings for this group,

[7] UF (Unidad de Fomento) is a unit of account that is linked to inflation.

[8] Presentation by the government to the Senate Labor Commission, September 11, 2024.

which currently faces significant administrative hurdles. Nonetheless, questions remain about the potential impact from the PGU that inhibit incentives to contribute to the pension fund.

Reforms to the Organization of the System

9. The reform aims to enhance competition among pension funds and reduce fees. It proposes to introduce a mechanism that, through a public auction mechanism, regularly assigns 10 percent of all members to the pension manager with the lowest fee, with an opt-out option for those who prefer to choose differently. This change would significantly broaden the scope of the existing system, where only new members are auctioned to the lowest-fee fund. However, the pension fund industry argues that the proposed assignment process could create liquidity pressures, as pension funds may need to liquidate some investment positions to accommodate the transfer of clients. To address these potential pressures, the authorities are considering appropriate policies, including temporarily relaxing portfolio composition requirements to provide flexibility during the transition, strengthening the regulation to facilitate the transfer of instruments between pension fund managers, reinforcing the use of custodians, and incorporating transfer clauses in bilateral contracts.

Annex VII. Counter-Cyclical Capital Buffer in Chile[1]

1. **The CCyB has been part of the BCCh's macroprudential toolkit since 2022.** The BCCh introduced a CCyB framework in the context of Basel III implementation to enhance the economy's resilience during severe stress scenarios arising from systemic risks. At the time, no neutral CCyB level was specified while the framework allowed for a maximum level of 2.5 percent of risk-weighted assets (RWAs). Starting in May 2022, the BCCh has held Financial Policy Meetings (RPFs) twice a year to assess the need to activate the CCyB, determine its level, and set a compliance deadline, in coordination with the CMF. In May 2023's RPF, in a context of heightened external stress and progress in the reduction of local macroeconomic and financial imbalances accumulated during the pandemic, the Board of the BCCh activated the CCyB at 0.5 percent RWAs, with compliance due by May 2024. In November 2023, the BCCh announced plans to update its CCyB framework, including the definition of the neutral level.

2. **The BCCh established the positive neutral level of the CCyB at 1 percent of RWAs in the context of the update of its CCyB framework in November 2024.** The calibration of the neutral CCyB conceptually aligns with the quantification of banks' capital losses during episodes of financial stress, which may impact the banks' ability to continue providing credit to household and firms. Specifically, the neutral level is calibrated from applying five methodologies. These include situations marked by (i) a slowdown in economic activity, (ii) a significant increase in the financing cost for banks and other economic agents, and (iii) an escalation in the losses incurred by banks due to an unexpected deterioration in the payment capacity of their debtors, based on historical global shocks (Asian Financial Crisis, Global Financial Crisis, and Covid-19 pandemic). Internationally, a 1 percent neutral CCyB is the most commonly used level among countries applying a positive neutral CCyB.

Selected Economies: Levels of Positive Neutral CCyB

Neutral level (percent)	Jurisdictions
2.0	Sweden, the Netherlands, Poland, United Kingdom
1.5	Armenia, Ireland, New Zealand
1.0	Australia, **Chile**, Czech Republic, Cyprus, Estonia, Georgia, Hong Kong SAR, Hungary, Latvia, Lithuania, Slovenia, South Africa, Spain
0.5	Greece

Source: BCCh (2024a) and BIS (2024).

Chile: Calibration Methods of the Positive Neutral CCyB Level

Analytical approach	CCyB calibration	
	Range	Average
Historical maximum losses of banks in periods of financial stress	0.2-1.6 percent	0.9 percent
Stress test results on banks' capital losses under a moderate stress scenario	1.0 percent	1.0 percent
Econometric estimates of the extreme lower tail of banks' loss distribution	0.4-0.6 percent	0.5 percent
Maximum bank provision spending in periods of financial stress	1.0-1.2 percent	1.1 percent
Results of simulations on welfare using the macro-financial model	1.5 percent	1.5 percent
Average and Median		1.0 percent

Source: BCCh (2024b).

[1] Prepared by Tatsushi Okuda.

3. The positive neutral CCyB will be implemented gradually and be state-contingent. The schedule will be determined once the implementation of the Basel III capital requirements is fully completed in December 2025. Specifically, the May 2026 RPF will assess the start and timeframe to move toward the 1 percent neutral CCyB, while considering macro-financial conditions, functioning of the credit markets, and other capital requirements. The minimum implementation period is one year. Once built, it is expected that the CCyB will remain at this positive neutral level while systemic risk is judged to be neither subdued nor highly elevated. By setting the positive neutral CCyB, the BCCh moves towards a more predictable and stable management of this requirement, relevant to banking capital management and planning.

4. The BCCh also clarified its criteria for decision-making, operating framework, and communication strategy. The CCyB level and implementation path will be determined based the economy's state, credit dynamics, and banks' ability to adjust to capital requirements with minimal impact on credit, in coordination with the CMF. Should the CCyB be released below its neutral level, it would remain at this level long enough for banks to internalize the additional slack for asset management and capital planning. After a period of not less than one year, the Board would assess whether the CCyB should be rebuilt back to its neutral level and would allow banks a minimum of one year to do so. In exceptional cases of significant systemic risk, the CCyB could be set above the neutral level. RPFs to decide on the CCyB, particularly regarding the release of the CCyB, can be held outside the semi-annual schedule. Decisions will be communicated through a statement after each RPF, along with the publication of the respective minutes and the analysis and risk assessment in the Financial Stability Report.

Annex VIII. Artificial Intelligence Exposure in Chile: Productivity Potential and Labor Market Implications[1]

Artificial intelligence (AI) could become a transformative force in Chile's economy, with the potential to enhance productivity and drive economic convergence with advanced economies. However, these gains come with potential drawbacks, including job displacement and increased labor market polarization. Compared to its regional peers, Chile shows relatively high exposure to AI, although less than advanced economies—a gap partially explained by the structure of its workforce, where informality, though lower than the Latin American average, remains higher than in most OECD countries. Our analysis identifies disparities in AI exposure across income, gender, and education, underscoring the uneven distribution of potential AI's impact. The findings highlight the importance of policy interventions that balance AI-driven productivity gains with protections for affected worker groups.

1. **Much like information technology (IT) in the latter half of the 20th century, AI presents potential for increasing productivity.** Companies, particularly those in service sectors like finance, government, trade, IT, education, healthcare, and real estate, have significant opportunities to adopt AI (Bakker et al., 2024). As with IT and earlier transformative technologies, the degree to which AI is adopted and utilized will be crucial in determining its impact on economic growth.

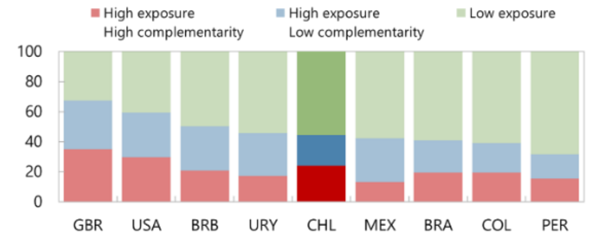
2. **The penetration of AI depends on the extent to which jobs are exposed to and complement AI.** Exposure measures the degree to which jobs are susceptible to changes as a result of AI (Felten et al., 2021). Complementarity refers to the likelihood of jobs benefiting from (high complementarity) or being at risk of replacement (low complementarity) by AI (Pizzineli et al., 2023). Compared to its regional peers, Chile shows relatively high exposure to AI (left text chart), although less than advanced economies—a gap partially explained by the structure of its workforce, where informality, though lower than the average for other Latin American countries from the chart (25.3 vs 51.1 percent of total employment), remains higher than in most OECD countries.[2] In the formal sector, AI exposure is higher than in the informal. In Chile, about 20 percent of workers are in the high exposure-low complementarity group, putting them at risk of displacement by AI (right text chart)[3].

[1] Prepared by Dmitry Vasilyev. This annex builds on Bakker et al. (2024). Please refer to it for a more detailed discussion of the methodology and analysis related to Latin America and the Caribbean.

[2] Informality data source: Elgin, C., M.A. Kose, F. Ohnsorge, and S. Yu. 2021. "Understanding Informality", CEPR Discussion Paper 16497, Centre for Economic Policy Research, London.

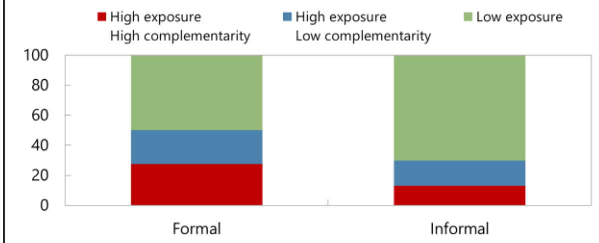
[3] The 2022 CASEN household survey data for Chile is used. AI exposure and complementarity are calculated by matching detailed occupational data with respective AI exposure and complementarity indexes. High (or low) exposure and complementarity indicate an index level above (or below) the average across all occupations.

Chile & Selected Economies: Labor Force Complementarity and Exposure to AI
(Percent of labor force)



Sources: Bakker and others, forthcoming.
Note: Data is available for one Caribbean country and six LA7 countries. AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

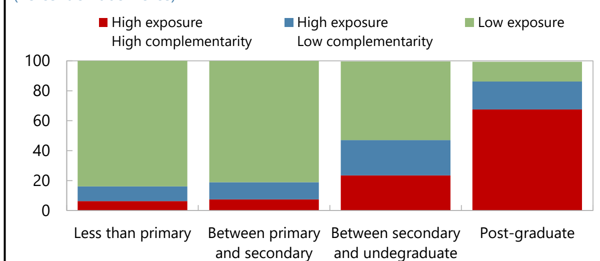
Chile: Labor Force Complementarity and Exposure to AI by Sectors
(Percent of labor force)



Sources: Casen and IMF staff calculation.
Note: AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

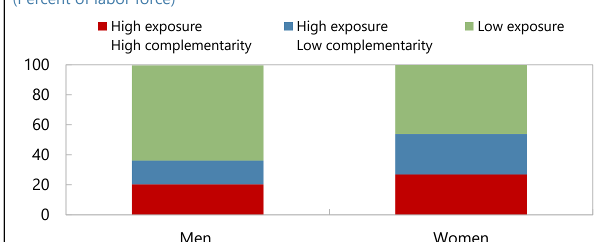
3. **The potential impact of AI on the Chilean labor market differs with workers' demographics.** Workers with less than a primary school education, comprising 10 percent of the workforce, fall into a low-exposure group and are not very susceptible to changes from AI (upper text chart). Those with postgraduate degrees, representing 5 percent of the labor force, hold a disproportionately high share of jobs in sectors with both high AI exposure and strong complementarity, i.e., they can benefit from AI the most. The largest share of workers with a high exposure and low complementarity is among the group of those with secondary education and an undergraduate degree. Thus, they are most at risk of displacement from AI. Gender disparities in AI exposure and complementarity are also evident (middle text chart). A larger share of women than men may gain certain benefits from AI adoption. Yet, at the same time, the share of women that face an elevated risk of job displacement is also higher than that of men. Additionally, job polarization risks are substantial, as AI exposure and complementarity are particularly high among top earners (lower text chart), potentially widening existing income inequalities and creating a more segmented labor market.

Chile: Labor Force Complementarity and Exposure to AI by Educational Attainment
(Percent of labor force)



Sources: Casen and IMF staff calculation.
Note: AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

Chile: Labor Force Complementarity and Exposure to AI by Sex
(Percent of labor force)

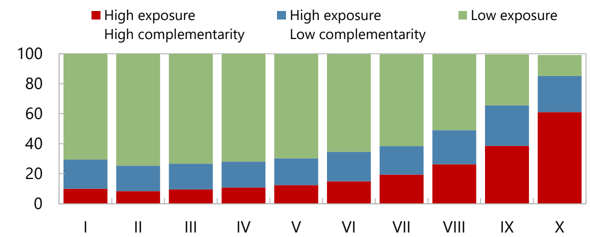


Sources: Casen and IMF staff calculation.
Note: AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

4. Fully capitalizing on the opportunities presented by AI, calls for strengthening Chile's technological infrastructure, fostering R&D, and ensuring equitable digital access. Proposed reforms to encourage R&D by easing restrictions on educational institutions and academics—allowing them to engage in technology ventures and secure intellectual property rights from publicly funded research—represent a vital step toward innovation. Despite leading Latin America in connectivity, Chile still requires efforts to close the digital divide and reach OECD standards, facilitating wider access and faster data speeds (Zaballos et at., 2022). Efforts to establish Chile as a data center hub, in line with the National Data Center Plan, highlight the country's commitment to building a robust digital ecosystem capable of supporting advanced AI applications.

Chile: Labor Force Complementarity and Exposure to AI by Income Deciles

(Percent of labor force)



Sources: Casen and IMF staff calculation.
Note: AI exposure refers to the degree to which AI technologies can perform tasks currently done by humans and increase overall productivity. AI complementarity assesses whether AI enhances human labor and increases labor productivity. Jobs with high exposure and complementarity have above-average index scores.

5. As in other countries, labor market reforms will be essential to harness AI's benefits while protecting workers from potential disruptions. Policies that allow workers to capitalize on AI advancements while cushioning the impacts of automation will be critical. Addressing the skills gap through targeted, AI-focused education and training programs could equip the workforce with relevant competencies and promote inclusive participation. Moreover, sufficient unemployment insurance schemes could mitigate AI-driven dislocations, helping displaced workers transition into roles that align with their skills and evolving labor market demand (Brollo et al., 2024).

6. Adopting a human-complementary approach to AI in Chile and globally could further position countries for sustainable growth. Policymakers should guide AI adoption to amplify human capabilities, as suggested by Acemoglu, Autor, and Johnson (2023). Although an AI tax could potentially stifle innovation and productivity, generally, reducing policy distortions that favor automation—such as the unequal tax treatment of human labor versus automated equipment—would create a more balanced competitive environment between workers and machines (Brollo et al., 2024). Governments should encourage research and development in AI that complements rather than replaces human roles, ensuring technology supports job sustainability.

Annex IX. Anti-Money Laundering and Countering the Financing of Terrorism[1]

1. Chile is in the process of addressing the gaps identified in the latest Financial Action Task Force of Latin America's (GAFILAT) Mutual Evaluation Report. The ongoing recommendations from September 2021 include enhancing supervisory capabilities, improving sanctions, and ensuring better access to beneficial ownership data. The Third Action Plan of the AML/CFT National Strategy was published in January 2024, laying the ground for the work until 2027.

2. Progress was made in supervising the financial sector and regulating some designated non-financial businesses and professions (DNFBPs), but efforts are not complete. The Financial Analysis Unit (UAF by its Spanish acronym) has been tasked with the supervision of precious metals and stone traders (PMS) along with other non-standard obligated entities. However, critical sectors are not yet included, including lawyers, accountants, and corporate service providers. These gatekeepers are integral to AML/CFT frameworks due to their obligations for client due diligence and reporting suspicious transactions, and their influence over financial transactions and advice. The sector has also shown reticence and concern on the grounds of client-attorney privilege and data confidentiality. The authorities should ensure that there are adequate legal obligations for these gatekeepers and ensure engaging the sectors through their regulators to ensure compliance with the AML/CFT/CPF requirements.

3. The recent addition of new obligated subjects as reporting entities beyond the FATF definitions may not fully respond to a risk-based approach. Examples of obligated reporting entities that are not usually part of the FATF definitions include vehicle sellers, fishing, hunting and shooting clubs, weapons manufacturers and armorers. As there are no specific risk studies to gauge the risk of misuse of those sectors by criminals, there are questions about the effective implementation of their supervision and compliance with AML/CFT requirements. The addition of these non-standard sectors could also cause resource constraints that may overburden and pressure the effective AML/CFT supervision of other more vulnerable sectors.

4. The increase in supervised sectors should be commensurate with higher resources. The added responsibilities would require the UAF and sectoral supervisors to secure and mobilize additional personnel and other resources to manage these new obligated subjects without jeopardizing its core functions of receipt of suspicious reports, analysis, and dissemination of intelligence reports related to money laundering and terrorism financing. Political commitment to strengthen these areas with adequate budget and technical and human resources is critical.

5. Reporting of suspicious operations from the financial sector has increased due to stronger coordination and supervisory efforts while the quality of reporting from DNFBPs should be enhanced. The authorities prepared and disseminated guidance on the quality and

[1] Prepared by Santiago Texidor Mora.

opportunity of suspicious activities and related training materials concerning the quality of suspicious activities reporting for banks, non-bank financial institutions, real estate management companies, notaries, and users of free-trade zones. Nevertheless, DNFBPs are still struggling with the filing of high-quality reporting, which would require further efforts going forward.

6. Although there are several initiatives to make the beneficial ownership of entities available, accurate, and accessible, sustained efforts are needed to achieve concrete results. The first critical step is the planned adoption of a law to create a national, free, and open data format beneficial ownership register that will be managed by the Internal Revenue Service (SII by its Spanish acronym). The draft law, which draws on other countries' experiences in this area, is at the Senate level, with the last legislative review session having taken place in October 2024. Once the law is adopted, the operationalization of the register will require sustained efforts and resources to verify the information and to impose dissuasive sanctions for failure to comply. Another ongoing legal initiative aims to create an economic intelligence subsystem to facilitate the monitoring and exchange of financial information by the UAF, the Internal Revenue Service, and other public institutions.

Annex X. Implementation Status of 2021 FSAP Key Recommendations

	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 under revision for potential inclusion of advanced internal ratings-based (IRB) method, fundamental review of the trading book (FRTB) and market risk internal models. ■ 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 CCyB, setting the charge at 0.5 percent of risk-weighted assets (RWA), which was completed in May 2024. In November 2023, BCCh announced a review and update of its CCyB framework, including the definition of the neutral level. In November 2024, the BCCh updated the CCyB framework, including the definition of a positive neutral CCyB level of 1 percent of RWA, with gradual and state-contingent implementation path after the full implementation of Basel III capital requirements. ■ In March 2021, March 2022, March 2023, and March 2024, the CMF identified and defined additional capital charges for systemically important banks (D-SIBs), which are gradually implemented until December 2025. In February 2024, the CMF lowered threshold scores for determining D-SIBs. ■ 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, and in January 2024, it published the final version. In October 2024, the CMF published proposals to amend regulations about Pillar 2 (e.g., banking book market risks and the determination of the internal capital target). ■ In April 2023, information disclosure requirements for banks under the Pillar 3 of Basel III were introduced. In February 2024, the CMF clarified the requirements.

	Recommendations	Time[1]	Status
			■ In January 2024, the CMF imposed additional capital requirements to individual banks, under the Pillar 2 framework of Basel III. Banks must constitute 25 percent of additional equity requirements as part of minimum regulatory requirements no later than June 30, 2024. The remaining percentages shall be built up annually as determined by the CMF in accordance with each year's ICAAP.
2	Improve the collateral valuation and reporting framework.	NT	■ 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. ■ In March 2024, the CMF issued a standard method for computing loan loss reserves for consumer loans, which came into force in January 2025. With this, a set of standard methodologies for retail, corporate and mortgage loans loan loss reserves is complete. ■ In January 2024, the CMF published a new information requirement to capture data on recoveries, expenses, and renegotiations of defaulted loans. This data will enable a more accurate characterization of losses in the event of loan payment default, aimed at improving regulatory parameters calibration and helping to prevent financial stress that could impact the banking system's resilience. First data reports are expected to be received in early 2025, containing information as of December 2024. ■ In January 2025, the CMF published its proposal for reviewing banks' collateral valuation regulations, including requirements for collateral accepted as credit risk mitigators, the valuation criteria, and an adequate collateral management process.
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. ■ In April and July 2024, the BCCh smoothly unwound the FCIC.
4	Introduce liquidity stress tests for prudential and stability monitoring.	NT	■ In April 2023, the ILAAP began the implementation process, and banks submitted their first LSAR to the CMF. ■ In April 2024, private banks submitted their second ILAAP, focusing on internal stress testing without including any CMF scenarios. ■ 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

	Recommendations	Time[1]	Status
			economic scenarios provided by the CMF. For 2024, stress tests are based on their own internal estimates. ■ In July 2023, the CMF published "Guidelines on Stress Testing in Banking Institutions" for LSAR, and in January 2024, it published the final version.
	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).
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. The targeted public consultation timeframe has shifted to early 2025 from 2024 due to the issuance of a standard method for loan loss reserves for consumer loans in March 2024 and its impact.
3	Establish an integrated risk management framework and enhance corporate governance standards and supervision.	NT	■ An internal proposal to establish an integrated risk management framework and enhance corporate governance standards and supervision for banks is under internal review. The target for a public consultation is early 2025. ■ In August 2023, the CMF published regulatory proposals on corporate governance and integrated risk management requirements for securities market entities, and in May 2024, the CMF issued the regulations. ■ In July 2024, the CMF published regulatory proposals on corporate governance, comprehensive risk management, and operational risk management requirements for securities intermediaries, commodities brokers, and in December 2024, the CMF issued the regulations. ■ In October 2024, the CMF published a regulatory proposal on the requirements for being considered an independent director in public firms, as well as the minimum content for general policies regarding the election of directors to be established and disclosed by the parent companies of subsidiaries supervised by the CMF.
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). ■ In November 2023, the CMF issued a new regulation that establishes complementary instructions applicable to early regularization and forced liquidation. ■ A draft of a regulation to request early recovering plans is still under review inside the CMF.

	Recommendations	Time[1]	Status
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. ■ The CMF has continued its meetings and presentations with various stakeholders in the financial market after analyzing the comments received during the public consultation process for "Guidelines for Financial Conglomerates Act in Chile."
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.
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. ■ In November 2024, the CMF published a regulatory proposal to amend the methodology to calculate exposure to counterparty credit risk in financial derivatives, migrating from a contract-sized (notional) approach to a risk-based approach that measures exposure through the credit equivalent.
E. Mutual Funds			
1	Strengthen the mutual fund liquidity management framework.	NT	■ In October 2023, the "Financial Markets Resilience" bill has been approved by the Congress. 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

	Recommendations	Time[1]	Status
2	Establish and implement recovery and resolution planning and set a loss-absorbing capacity requirement for systemically important banks.	I	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 on resolution framework, new resolution authority and deposit insurance scheme, based on the white paper. A first draft should be presented to the relevant authorities by the end of 2024 and to Congress in early 2025.
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, 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. ■ In October 2023, the "Financial Markets Resilience" bill has been approved by the Congress. The bill 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 stress. ■ At the request of the BCCh, the IMF Technical Assistance mission visited Santiago from May 23 to June 4, 2024, to assist the authorities in improving their systemic liquidity management across four areas: collateral policy, emergency liquidity assistance, system-wide measures to support market functioning, and repo market development. The TA concluded in July 2024, and the BCCh, CMF, and MoF are analyzing the findings. ■ The CMF is undergoing a regulatory review of the repo market's development. ■ In August 2024, the CMF created the Strategic Market Development Promotion Committee to work on a market development agenda, which includes the development of the interbank repo market.

	Recommendations	Time[1]	Status
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. This line of work draws upon the previously mentioned IMF Technical Assistance of May-June 2024. ■ In August 2023, the BCCh published its regulatory proposal for comments, which incorporates self-securitized instruments as a new collateral alternative for liquidity operations, with the objective of increasing the availability of instruments for financial institutions. ■ In July 2024, after reviewing public comments, the BCCh published the final regulation for self-securitized bonds, which may serve as collateral in operations with the BCCh and other 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 October 2023, the "Financial Markets Resilience" bill has been approved by the Congress. 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. ■ At the request of the BCCh, the IMF Technical Assistance mission visited Santiago from May 23 to June 4, 2024, to assist the authorities in improving their systemic liquidity management across four areas: collateral policy, emergency liquidity assistance, system-wide measures to support market functioning, and repo market development. The TA concluded in July 2024, and the BCCh, CMF, and MoF are analyzing the findings. ■ 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. Before each semi-annual financial policy meeting of the BCCh Board, staff of the BCCh and the CMF share views on financial stability risks. ■ 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.

	Recommendations	Time[1]	Status
3	Establish a consolidated and comprehensive public credit registry.	NT	■ In July 2024, the Law to establish a consolidated debt registry was published. It will be administered by the CMF and will allow reporting entities to access debtors' credit information for assessing commercial and credit risks. The general regulations for the registry must be issued by the CMF within 12 months after the publication of the Law, and the registry must be operational within 18 months.
			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, approved in July 2021 by the Financial Action Task Force of Latin America (GAFILAT). ■ In February 2024, the CMF issued regulations on the risk management system for insurance companies to incorporate an evaluation of the risk of Money Laundering, Financing of Terrorism and Proliferation of Weapons of Mass Destruction within the legal risk. ■ In February 2024, the CMF issued regulations for fintech sector requirements for corporate governance and risk management and obligations to disclose and deliver information. According to the 2023-2027 National AML/CFT Strategy, CMF and UAF will evaluate the incorporation of Money Laundering, Financing of Terrorism and Proliferation Finance prevention measures. ■ The CMF is preparing to revise the sanctioning framework for banks' AML/CFT violations to ensure greater consistency.

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

Annex XI. Data Issues

Table 1. Chile: Data Adequacy Assessment Rating 1/

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity 3/	A		A	A	A		
			A		B		
Consistency			B	A		A	
Frequency and Timeliness	A	A	A	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance. The two areas for improvement that were discuss during the mission were: (i) coverage and timeliness on the provision of FSIs and (ii) transparency and better reporting on below-the-line operations which drive the large residual in the DSA. The authorities are already taking action to improve on the provision of FSIs. They have also increased the detail on the below-the-line items and committed to undertake further improvements in coming Fiscal Policy Reports.

Changes since the last Article IV consultation. Chile has continued to make improvement in several statistics to further enhance the quality of data for surveillance. As an example, the statistical agency INE updated the base year of CPI to 2023 and made changes to its categories to better capture the pattern of consumption of Chilean households.

Corrective actions and capacity development priorities. The team discussed with the authorities ways to improve provision of financial sector statistics including identifying series that may be currently produced by the BCCh and not reported to the Fund. Efforts on this front are underway. On fiscal statistics, the team will be working with the authorities on best reporting practices for the Fiscal Policy Report including granularity on debt driver flows.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Data provision on emerging issues including climate, gender, digitalization have not represented limitations to conduct surveillance. However, lack of homegenous standards on these areas do not allow the team to assess whether the quality of the data provided is adequate or alternatively identify improvements that could be reasonably expected.

Table 2. Chile: Data Standards Initiatives

Chile adheres to the Special Data Dissemination Standard (SDDS) Plus since March 2020 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Chile: Table of Common Indicators Required for Surveillance
(As of January 10, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Chile[8]	Expected Timeliness[6,7]	Chile[8]
Exchange Rates	Jan-25	Jan-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-24	Jan-25	M	M	M	30	1W	30
Reserve/Base Money	Dec-24	Jan-25	D	D	M	30	2W	7
Broad Money	Dec-24	Jan-25	M	M	M	30	1M	21
Central Bank Balance Sheet	Dec-24	Jan-25	M	M	M	30	2W	7
Consolidated Balance Sheet of the Banking System	Oct-24	Dec-24	M	M	M	30	1M	21
Interest Rates[2]	Jan-25	Jan-25	D	D	D	...	...	...
Consumer Price Index	Dec-24	Jan-25	M	M	M	30	1M	5
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024:Q3	Dec-24	Q	Q	A/Q	90	2Q/12M	90
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Nov-24	Dec-24	M	M	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024:Q3	Jan-25	Q	Q	Q	90	1Q	90
External Current Account Balance	2024:Q3	Nov-24	Q	Q	Q	90	1Q	49
Exports and Imports of Goods and Services	Dec-24	Jan-25	M	M	M	30	8W	21
GDP/GNP	2024:Q3	Nov-24	Q	Q	Q	90	1Q	77
Gross External Debt	Nov-24	Jan-25	M	M	Q	90	1Q	35
International Investment Position	2024:Q3	Nov-24	Q	Q	Q	90	1Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

CHILE

January 16, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2024)

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	1,297.40	74.38
Reserve Tranche Position	446.90	25.62
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	2,604.86	104.67

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
FCL	Aug 27, 2024	Aug 26, 2026	10,465.80	0.00
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 Future Payments to Fund (SDR Million)

	Forthcoming				
	2025	**2026**	**2027**	**2028**	**2029**
Principal					
Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02	0.02

Exchange Rate Arrangement

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 of the IMF's Articles of Agreement, 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 February 5, 2024. 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

- Systemic Liquidity Management (May 2024)
- 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)

INTERNATIONAL MONETARY FUND

CHILE

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

January 29, 2025

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 pension reform bill was approved by the Senate, and the Congress is expected to vote on it by end-January.** The draft bill introduces several adjustments to the proposed pension contribution structure. In particular, it foresees a gradual increase in contribution rates by 7 percentage points, compared to 6 percentage points in the previous proposal (Annex VI of the staff report). Of the 7 percentage points, 4.5 percentage points would be directed to individual accounts, an increase from the originally proposed 3 percentage points. Meanwhile, 2.5 percentage points would be allocated to the Social Security Fund, down from 3 percentage points in the original proposal. Of these 2.5 percentage points, 1.5 percentage points (versus 2 percentage points in the original proposal) would be used to fund current pensions as a reimbursable contribution with interest, to be returned to individuals over time. Consistent with earlier plans, 1 percentage point would be dedicated to addressing the gender life expectancy gap. Overall, these changes raise somewhat the fiscal costs, mainly related to a higher contribution by the public sector on its wage bill and lower corporate income tax revenues. At the same time, future contingent liabilities would be lower in the latest proposal.

2. **The authorities also updated simulations on the long-term economic effects of the reform project.** They suggest a modest decline in formal employment by 0.7 percent, due to increased labor costs and an increase in the real GDP level by 1.4 percent attributed to higher investment levels and deeper financial markets fostered by the reform.

3. **At its monetary policy meeting on January 28, the Central Bank of Chile (BCCh) kept its policy rate unchanged at 5 percent.** The BCCh pointed to increased inflation risks and reaffirmed that the future adjustments of the policy rate would be based on the evolution of the macroeconomic scenario and its implications on the convergence of inflation to the target.