

## Chile's IMF deal helps stabilise the peso

Chile's agreement with the IMF for an \$18.5bn Flexible Credit Line should offer some much-needed comfort to investors concerned about significant FX intervention and the fall in international reserves this year. A widening current account deficit and domestic political uncertainty present risks despite the nation's overall strong credit profile



The IMF's headquarters in Washington

### Chile turns to the IMF

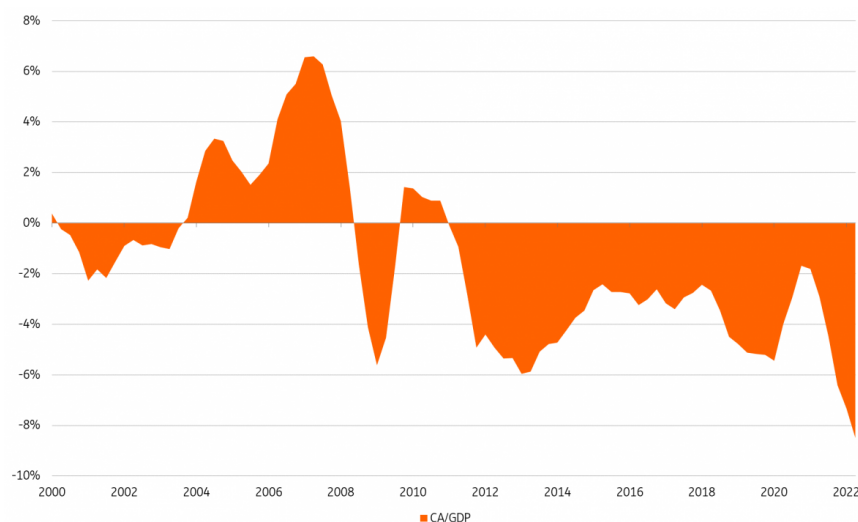
Chile has reached an agreement with the International Monetary Fund for a two-year Flexible Credit Line (FCL) arrangement, worth \$18.5bn. The FCL differs from normal IMF programmes in that once agreed, there are no conditions for use and generally, they are seen as “precautionary” measures. Additionally, they are reserved for countries described by the IMF as having “*very strong policy frameworks and track records in economic performance.*” Chile, Colombia, Mexico, Peru and Poland have had FCL arrangements since their inception in 2009, while only Colombia has actually drawn on these resources.

The move looks significant for Chile, given the volatility seen in the peso this year and July's announcement of a \$25bn intervention programme by the central bank. International reserves at the central bank have fallen to \$44.4bn from a peak of \$55bn in October 2021, so the size of the

FCL should provide a welcome but necessary extra buffer and offer some comfort to foreign investors who may have been concerned about the scale of FX interventions planned. The central bank only intends to draw on the FCL in an emergency, but if tapped it would augment the nation's existing FX reserves.

Chile has been struggling this year with a widening current account deficit of over 8% of GDP on a rolling annual basis as of the second quarter of this year, driven by weakening terms of trade. Copper prices, a key export, have come off the boil after rallying through to April while surging energy prices have driven imports higher. Against this backdrop, the nation remains one of the stronger hard currency sovereign credits in the EM space, with A1/A/A- ratings, but has performed weaker than its rating peers this year, with dollar bond spreads around 50bp wider on average YTD. Overall this latest agreement with the IMF signals an acceptance that the external backdrop is difficult for Chile, but should be seen as a marginal positive.

### Chile's current account deficit at 8% of GDP is severe



Source: Macrobond, ING

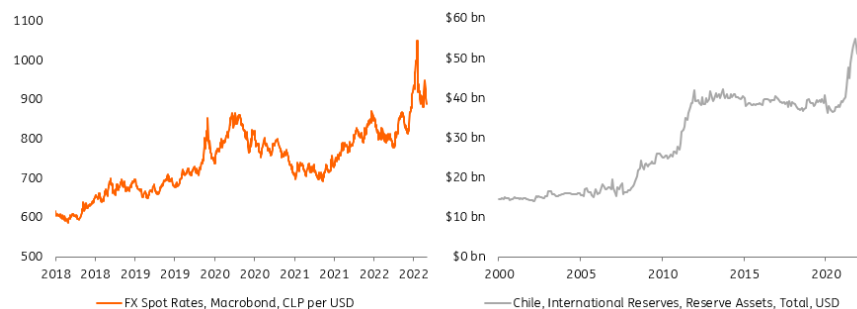
### Peso rallies but remains vulnerable

As we noted in the August edition of [FX talking](#), we had felt that Chile committing nearly half of its FX reserves to a peso support programme was a dangerous move. Looking back on this, perhaps local officials at the time of the intervention announcement (late July) had some confidence that IMF support would be forthcoming.

The news of IMF support has been welcomed by the peso - but we would be surprised if it drives the currency substantially stronger. As we've noted, Chile's staggering current account deficit of 8% of GDP leaves the peso heavily reliant on foreign capital inflows. Chile's well-respected central bank and 10%+ implied yield through the 3-month non-deliverable forwards are peso supportive. Yet the very strong dollar story (something we expect to continue for most of the second half of the year), and the uncertain environment for industrial metals given the Chinese slowdown, suggest Chile's peso is not out of the woods yet. The most immediate event risk is probably a referendum on Chile's new constitution which takes place on Sunday.

We continue to favour USD/CLP trading back above 900 for the remainder of the year.

## Pressure on Chile's peso has depleted FX reserves - prompting IMF support



Source: Macrobond, ING

### Authors

#### James Wilson

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.