

EBS/84/50
Supplement 1

CONFIDENTIAL

March 30, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Chile - Staff Report for the 1983 Article IV Consultation
and Consultation Under Stand-By Arrangement

The attached supplement contains additional information on the economic and financial developments in Chile. It also contains the proposed decision on the 1983 Article IV consultation with Chile, and a revised proposed decision on the consultation under the stand-by arrangement.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. van Houten (ext. (5)8624).

Att: (1)

INTERNATIONAL MONETARY FUND

CHILE

Staff Report for the 1983 Article IV Consultation and Consultation
Under Stand-By Arrangement--Supplementary Information
and Revised Proposed Decision

Prepared by the Western Hemisphere and the Exchange
and Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by S. T. Beza and Manuel Guitian

March 30, 1984

I. Supplementary Information

Since the circulation of the staff report and request for stand-by arrangement (EBS/84/50, 3/9/84), new information has become available on economic and financial developments.

1. A summary of the central bank accounts for March 23, 1984 is given in Table 1. It indicates that the net domestic assets of the Central Bank are well below the ceiling applicable for the period January 1-March 31, 1984 and that net international reserves of the Central Bank exceed the target programmed for March 31, 1984 by US\$176 million.

2. Preliminary data as of February 29, 1984 indicate that the fiscal program is on track. At the end of February, total indebtedness of the nonfinancial public sector was Ch\$18 billion below the March 31 limit and domestic indebtedness of the nonfinancial public sector was Ch\$9 billion below the sublimit.

3. The rate of inflation, measured by changes in the consumer price index for the quarter ended March 1984, is estimated to have been at an 8 percent annual rate, well below the rate of 20 percent projected for the year.

4. The latest indicators of industrial production and sales have continued to show improvement over the comparable period of the previous year. The January 1984 index production rose 16 percent from January 1983 and the index of industrial sales for January 1984 was 7.1 percent above the January 1983 level.

5. The national unemployment rate for the November 1983-January 1984 period was 14.7 percent, virtually unchanged from the October-December 1983 figure. Unemployment in the Santiago metropolitan area was 17.1 percent in the period November 1983-January 1984, up slightly from 16.5 percent during October-December 1983.

6. Nominal interest rates have fallen continuously since the beginning of 1983. Real interest rates have risen during the first two months of 1984 as inflation was much lower than anticipated.

Table 1. Summary Accounts of the Central Bank

(In billions of Chilean pesos)^{1/}

	1983 Dec. 31	1984			
		Jan. 31	Feb. 29	Mar. 23	Prog. Mar. 31
<u>Net international</u>					
<u>reserves</u>	<u>106.09</u>	<u>110.66</u>	<u>107.96</u>	<u>104.69</u>	<u>89.0</u>
(in millions of U.S. dollars)	(1,192)	(1,243)	(1,213)	(1,176)	(1,000)
<u>Net domestic assets</u>	<u>123.22</u>	<u>115.85</u>	<u>122.03</u>	<u>126.21</u>	<u>140.0</u> ^{2/}
<u>Medium- and long-term</u>					
<u>foreign liabilities</u>	<u>169.37</u>	<u>169.33</u>	<u>169.07</u>	<u>169.00</u>	<u>169.0</u>
<u>Liabilities to the pri-</u>					
<u>vate sector</u>	<u>59.94</u>	<u>57.18</u>	<u>60.92</u>	<u>61.90</u>	<u>60.0</u>
Of which: currency issue	51.54	49.89	53.91	54.95	51.6

Source: Central Bank of Chile.

^{1/} At Ch\$89 per U.S. dollar.

^{2/} Ceiling applicable for January 1-March 31 period.

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II. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

1983 Consultation

1. The Fund takes this decision relating to Chile's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1983 Article IV consultation with Chile concluded under Decision 5392 (77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Chile maintains a multiple currency practice arising from a subsidy on certain foreign interest payments and principal repayments by the private sector on foreign debt contracted before August 6, 1982. The size of the spread between the exchange rates in the official market and the parallel market in which a number of current invisible transactions take place also gives rise to a multiple currency practice. Chile maintains exchange restrictions arising from the limitations placed on the sale of foreign exchange for tourism and from a 120-day deferment period on import payments. In view of the temporary nature of these multiple currency practices and exchange restrictions, the Fund grants approval for their retention through December 31, 1984.

Stand-By Arrangement

1. Chile has consulted with the Fund in accordance with paragraph 6 of the letter of December 13, 1982 attached to the stand-by arrangement for Chile (EBS/82/227, Supplement 2) as modified by the letter dated July 8, 1983 (EBS/83/134), and paragraph 4 of the stand-by arrangement, in order to reach understandings with the Fund regarding the policies and measures that Chile will pursue during the second year of the arrangement.

2. The letter dated March 12, 1984 from the Minister of Finance and the President of the Central Bank, together with the annexed Memorandum on Economic Policy of Chile for the second year of the stand-by arrangement shall be attached to the stand-by arrangement for Chile (EBS/83/227, Supplement 2) and the letter dated December 13, 1982, together with the annexed Memorandum on the Economic Policies of Chile, as modified by the letter dated July 8, 1983 (EBS/83/134), shall be read as supplemented and modified by the letter dated March 12, 1984, together with the annexed Memorandum on Economic Policy.

3. Accordingly, Chile will not make purchases under this stand-by arrangement:

a. During any period in which

(i) the data at the end of the preceding period indicate that the limit on the total indebtedness of the nonfinancial public sector or the sublimit on domestic indebtedness of the nonfinancial public sector described in Table 1 of the memorandum annexed to the attached letter has not been observed, or

(ii) the limit on the net domestic assets of the Central Bank described in Table 2 of the memorandum annexed to the attached letter is not observed, or

(iii) the data at the end of the preceding period indicate that the net international reserve target described in Table 3 of the memorandum annexed to the attached letter has not been observed, or

(iv) the limit or sublimit on the contracting and guaranteeing of external debt by the public sector described in Table 4 of the memorandum annexed to the attached letter is not observed, or

b. After June 30, 1984, until the review contemplated in paragraph 6 of the attached letter has been completed.

4. The Fund finds that in light of the letter dated March 12, 1984, Chile may make purchases under the stand-by arrangement, notwithstanding that the exchange system has not been unified and notwithstanding the retention of the existing restrictions on payments for travel and other invisible transactions, as described in paragraph 4(b) of the stand-by arrangement.

5. Notwithstanding paragraphs 1 to 4 above, Chile shall not make any purchases under the stand-by arrangement until the date, which cannot be later than May 15, 1984, on which the Fund finds that satisfactory arrangements have been made with respect to financing from foreign commercial banks for 1984.