FOR AGENDA

EBS/84/179

CONFIDENTIAL

August 20, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Chile - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the review under the stand-by arrangement for Chile. A draft decision appears on page 20.

It is understood that the Executive Director elected by Chile will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Monday, September 10, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Ms. Brenner (ext. (5)8625).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

CHILE

Review Under Stand-By Arrangement

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 E. Wiesner and Manuel Guitian

August 20, 1984

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I. Introduction

On May 14, 1984, at the time of concluding the 1983 Article IV Consultation with Chile the Executive Board completed the consultation under the stand-by arrangement approved on January 10, 1983.1/ That consultation had as its primary objective the reaching of understandings on the policies and performance criteria relating to calendar 1984. These understandings are contained in a letter and attached economic policy memorandum dated March 12, 1984 from the Minister of Finance and the President of the Central Bank. Paragraph 6 of that letter states that the government of Chile will consult midway through 1984 on the policies affecting demand management and relative prices. In addition, paragraph 12 of the economic policy memorandum attached to the letter of March 12, 1984 states that the implementation of a contingency investment expenditure plan equivalent to 0.8 percent of GDP for the second semester of 1984 would be determined in the course of the mid-year review. The discussions which form the basis of this review were held in Santiago during July 2-18, 1984.2/ Purchases by Chile under the stand-by arrangement after June 30, 1984 are contingent upon the successful completion of this review, in addition to meeting the performance criteria of the program.

As of July 31, 1984, the Fund's holdings of Chilean pesos amounted to 256 percent of Chile's quota of SDR 440.5 million, of which 25 percentage points corresponded to use of the reserve tranche, and 67 percentage points to purchases under the compensatory financing facility. Full use of the remaining resources (SDR 108 million) under the stand-by arrangement would raise the Fund's holdings of pesos to 280.5 percent of quota by the end of the stand-by period (Table 1). Further information on Chile's relations with the Fund is presented in Appendix I.

II. Background and Performance Under the Stand-by Arrangement

1. Developments in 1983

Near the end of 1982, the Chilean authorities adopted a medium-term adjustment program that was supported by a two-year stand-by arrangement approved on January 10, 1983. The objective of the program was to lay the basis for economic recovery in the context of an improved balance of payments performance and a reduction in the rate of inflation.

The program encountered difficulties at the start. On January 13, 1983, in response to severe pressures on the financial system, the authorities declared a bank holiday and either placed under state

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1/ EBS/84/50 (3/7/9/84), Supplement 1 (3/30/84), and Supplement 2, (5/10/84).

2/ Staff representatives in the discussions were J. van Houten (Head), P. Brenner, J. Leimone (all WHD), P. Molajoni (ETR) and P. Rodriguez (Secretary - WHD). The mission was assisted by Carlos Muniz, resident representative in Santiago.

Table 1. Chile: Projected Fund Position
Through December 31, 1984

	Operations During Second Year of Program		
	Outstanding	1984	
	June 30, 1984	July-Sept.	Oct.-Dec.
	(In millions of SDRs)		
Transactions under tranche policies (net) 1/		54	54
Purchases		54	54
Ordinary resources		(27)	(27)
Enlarged access resources		(27)	(27)
Repurchases		--	--
Ordinary resources		(--)	(--)
Enlarged access resources		(--)	(--)
Transactions under special facilities (net) 2/		--	--
Purchases		--	--
Repurchases		--	--
Total Fund credit outstanding (end of period)	687.00	741.00	795.00
Under tranche policies 1/	392.00	446.00	500.00
Special facilities 2/	295.00	295.00	295.00
	(As percent of quota)		
Total Fund credit outstanding (end of period)	155.96	168.22	180.48
Under tranche policies 1/	88.99	101.25	113.51
Special facilities 2/	66.97	66.97	66.97

Source: Fund staff estimates.

1/ Ordinary and enlarged access resources.
2/ Compensatory financing facility.

intervention or liquidated a number of privately owned financial institutions. Foreign banks reacted by halting lending to Chile and the Central Bank extended substantial amounts of emergency credits to banking institutions in difficulty. As a result, the limit on net domestic assets of the Central Bank for the first quarter of 1983 was exceeded and the target for net international reserves of the Central Bank for March 31, 1984 was not met.

In March 1983 the authorities formulated an emergency plan to stabilize the financial system, stop the loss of international reserves, and return to the path of the program. This emergency program was successfully implemented. Accordingly, in July the Executive Board granted Chile a waiver and approved some minor modifications to the program (EBS/83/134 and Sup. 1). In addition, negotiations were completed with foreign banks to refinance principal payments falling due in 1983 and 1984 and to obtain the financing initially contemplated in the 1983 program.

In the second half of 1983, Chile made progress toward financial stabilization and resumption of economic growth and was able to meet all performance criteria of the stand-by arrangement on September 30, 1983. At the end of 1983, Chile was in compliance with all the performance criteria except the limit on the indebtedness of the nonfinancial public sector.

Economic activity, which had remained stagnant during the first half of 1983, registered a strong recovery later in the year. Real GDP in the last quarter of 1983 was 5.6 percent above the corresponding quarter of 1982, while industrial production was 15.6 percent higher. Nevertheless, real GDP in 1983 dropped slightly (0.8 percent) in relation to 1982, whereas the program had envisaged a 4 percent increase. A comparison between the economic outturn in 1983 and the program for that year is presented in Appendix III.

2. Performance under the 1984 program

The economic program for 1984 envisaged the implementation of policies aimed at fostering economic recovery while consolidating the progress made in 1983 in re-establishing financial stability and strengthening the financial system. Demand management policies were designed to be consistent with economic growth of 4 percent in a framework characterized by overall balance of payments equilibrium and a reduction of inflation to less than 20 percent from 23 percent in 1983. The principal elements of the economic program for 1984 are presented in Appendix III and Appendix Table 6.

All the performance criteria of the program for June 30, 1984 were observed (Table 2). The net domestic assets of the Central Bank were below the program ceiling and the net international reserves of the Central Bank were US$225 million above the midyear target level. The outstanding indebtedness of the nonfinancial public sector and the

Table 2. Chile: Performance Under the Stand-By Program, 1984 1/

	1984	
	Mar. 31	June 30
(In billions of Chilean pesos)		
Net domestic assets of the Central Bank		
Limit	140	160
Actual	137	150
Margin	3	10
Outstanding indebtedness of the nonfinancial public sector		
Limit 2/	590 3/	632
Actual	582	603
Margin	8	29
Outstanding domestic indebtedness of the nonfinancial public sector		
Limit 2/	138 3/	149
Actual	142	133
Margin	-4	16
(In millions of U.S. dollars)		
Net international reserves of the Central Bank		
Target	1,000	1,115
Actual	1,084	1,340
Deviation	84	225
Contracting and guaranteeing of external debt by the nonfinancial public sector		
Limit on debt with maturity of 1 to 10 years	3,850	3,850
Actual	1,555	2,603
Margin	2,295	1,247
Limit on debt with maturity of 1 to 5 years	125	125
Actual	75	75
Margin	50	50

Source: Central Bank of Chile.

1/ Foreign currency is converted at Ch$89 per U.S. dollar for the period January-March, and at Ch$91 per U.S. dollar for the period April-June.

2/ The limit and sublimit have been adjusted to reflect revisions in the base data for December 31, 1983 in accordance with the provision of Table 1 of the Memorandum on the Economic Policies of Chile.

3/ Indicative limit, not a performance criterion for this date.

level of external debt contracting were below their respective limits, and the nonquantitative performance criteria were observed. The domestic indebtedness of the nonfinancial public sector, which had exceeded the indicative sublimit on March 31, 1984 owing to a shortfall of foreign loan disbursements, was brought below the sublimit on June 30, 1984 as foreign loan disbursements returned to the program path during the second quarter.

3. Recent developments

The economic expansion which began in mid-1983 was maintained through the first semester of 1984 with strong growth in manufacturing, agriculture, fishing, and construction. GDP in the second quarter is estimated at 5.5 percent above the level in the comparable period of 1983 and employment rose strongly. Inflation in the first semester declined to an annual rate of 13 percent from 23 percent in 1983.

The deficit of the nonfinancial public sector in the first semester was 0.8 percent of GDP lower than programmed, principally because of a combination of higher than expected operational surpluses of public enterprises, lower general government spending, and lower capital outlays by public enterprises (Table 3). Gross general government current revenue exceeded projections by 4.2 percent or Ch$9 billion. However, tax rebates were Ch$13 billion higher than had been envisaged because, contrary to expectations, the authorities decided not to postpone part of the regularly scheduled second quarter income tax rebates to the second semester. In addition, the total of rebates for the year as a whole is now projected to be larger than originally expected.

General government current expenditure in the first semester was 0.5 percent of GDP less than programmed, reflecting reduced spending on public minimum employment schemes and lower transfers to the private sector and domestic interest payments.

The operational surpluses of the enterprises, before transfers to the Government, exceeded the amounts envisaged in the program for the first semester by the equivalent of 0.5 percent of GDP. The improvement was almost entirely the result of a better than projected performance of the state copper company (CODELCO). Current spending by CODELCO was below projections and revenue was boosted by an unexpected rise in the mineral content of the ore at CODELCO'S main open-pit mine, which resulted in output exceeding the programmed level by 8 percent. The increase in production more than offset the effect on exports of lower than projected copper prices in the second quarter. Capital outlays by the nonfinancial public sector were 0.4 percent of GDP less than programmed principally because of lower investment spending by public enterprises. The execution of the Colbun-Machicura hydroelectric plant encountered delays and some of the capital spending plans of CODELCO were postponed to the second semester.

Table 3. Chile: Operations of the Consolidated Nonfinancial Public Sector

(In percent of GDP)

	1981	1982	Est. 1983	1984 Jan.-June Prog.1/	1984 Jan.-June Est.1/	1984 Year Prog.	1984 Year Proj.
General government current revenue	31.7	30.2	27.8	13.0	12.7	27.3	26.9
Taxes on income and property	5.7	5.8	5.0	2.2	1.9	4.1	3.9
Taxes on goods and services	13.0	13.6	13.6	6.4	6.5	13.9	13.8
Taxes on international trade	2.2	1.5	2.4	1.3	1.3	2.9	2.9
Social security tax	4.7	3.3	2.8	1.3	1.4	2.8	2.8
Other tax (net of IVA rebate)	-0.7	-1.2	-1.1	-0.6	-0.6	-1.2	-1.2
Nontax revenue	6.8	7.2	5.3	2.3	2.2	4.8	4.6
Operating surplus of the public enterprises	5.6	8.3	11.5	4.3	4.8	10.2	9.8
Of which: CODELCO	1.9	2.5	4.3	1.0	1.4	3.3	2.8
Net transfers to general government	-5.5	-7.1	-8.7	-3.5	-3.6	-7.5	-7.3
General government current expenditure	26.3	32.2	30.7	14.2	13.7	29.3	29.1
Wages and salaries	7.7	7.9	6.7	3.1	3.1	6.2	6.3
Goods and services	2.9	3.4	3.2	1.3	1.3	3.0	3.0
Social security payments to private recipients	8.1	10.9	9.8	4.9	4.6	10.0	9.8
Transfer and subsidy payments to private sector	6.8	9.1	8.9	3.9	3.7	7.7	7.7
Interest on public debt	0.4	0.6	1.8	0.9	0.7	2.1	2.0
Other	0.4	0.4	0.3	0.2	0.3	0.2	0.3
Current account surplus of the nonfinancial public sector	5.5	-0.8	--	-0.4	0.2	0.8	0.3
Net capital revenues	0.4	2.1	1.9	0.7	0.6	1.5	1.4
Revenue	3.2	7.9	3.9	1.4	1.3	3.2	3.1
Financial investment	-2.7	-5.7	-2.0	-0.7	-0.7	-1.7	-1.7
Capital formation	5.1	4.7	4.9	3.4	3.0	6.8	7.1
General government	2.5	2.1	2.1	1.2	1.3	2.7	3.1
Public enterprises	2.6	2.6	2.8	2.2	1.7	4.1	4.0
New measures	--	--	--	--	--	--	0.9 2/
Overall surplus or deficit (-)	0.8	-3.4	-3.0	-3.0	-2.2	-4.5	-4.5
Financing	-0.8	3.4	3.0	3.0	2.2	4.5	4.5
External	2.7	1.1	-1.0	1.6	1.3	2.2	2.2
Internal	-3.5	2.3	4.0	1.4	0.9	2.3	2.3
Memorandum item							
Nominal GDP (Ch$ billion)	1,289	1,229	1,550	...	...	1,941	1,941

Sources: Ministry of Finance; and Fund staff estimates.

1/ Ratios are taken in relation to full year GDP estimate.
2/ A number of measures to close this gap are discussed in Section III of this report.

Notwithstanding the better than programmed fiscal performance, the deficit of the current account of the balance of payments in the first semester of 1984 was 0.3 percent of GDP larger than expected as a result of strong import demand by the private sector, which may have been caused in part by fears of an imminent increase in import duties (Table 4). The value of exports was in line with program projections, as the effects of lower than anticipated prices for both copper and non-copper exports were offset by larger than programmed copper shipments. Capital inflows exceeded projections by a sizable amount, offsetting the higher current account deficit and permitting a larger than expected net international reserve accumulation by midyear. Medium-term capital inflows were in line with expectations as the first two disbursements of new money from foreign banks (for a total amount of US$390 million) were made on schedule. However, net short-term inflows were US$320 million larger than projected. In part this was accounted for by an unexpectedly large reduction of foreign assets by both the financial and corporate private sector. Commercial banks alone reduced their gross foreign asset position by US$140 million (Appendix Table 7). Errors and omissions during the first semester of 1984, which were negative by US$47 million, may have reflected an unrecorded source of capital outflow.

Monetary developments in the first semester of 1984 were characterized by an unseasonally rapid expansion of financial assets by the private sector in the initial months of the year followed by a deceleration in the second quarter. The deceleration coincided broadly with the upward shift in foreign interest rates and a weakening in copper prices abroad. The broadest aggregate of financial assets, including holdings by the nonfinancial private sector of Treasury paper and Central Bank promissory notes, rose by 7 percent during the first quarter of 1984, and subsequently slowed to 3 percent (Table 5). The change of pace in the trend of narrow money balances was particularly noteworthy; from a 12.6 percent increase during the first quarter, money balances declined by 4.6 percent in the second quarter. Quasi-money balances generally continued to expand in nominal terms throughout the first half of 1984, but at a markedly slower pace during the second quarter.

Net credit expansion of the financial system reflected closely the trend of financial asset holdings, increasing rapidly during the first quarter and slowing during the second quarter. As the slowdown coincided with a somewhat higher rate of inflation, credit to the private sector in real terms declined by 1 percent during the second quarter, following an increase of 4.5 percent during the first three months of 1984.

The net domestic assets of the Central Bank expanded at an approximately even pace during the first semester of 1984 at a rate well within that envisaged in the program. During the second quarter the central bank net credit expansion was financed principally by foreign

Table 4. Chile: Balance of Payments

(In millions of U.S. dollars)

	1981	1982	1983	1984 Jan.-June Prog.	1984 Jan.-June Est.	1984 Year Prog.	1984 Year Proj.
Current account	-4,733	-2,304	-1,073	-610	-673	-1,250	-1,576
Trade balance	-2,677	-63	1,009	541	416	995	800
Exports	(3,836)	(3,706)	(3,827)	(2,008)	(2,012)	(4,100)	(3,849)
Copper	[1,738]	[1,685]	[1,871]	[813]	[855]	[1,867]	[1,716]
Other	[2,098]	[2,011]	[1,956]	[1,195]	[1,156]	[2,233]	[2,133]
Imports	(-6,513)	(-3,643)	(-2,818)	(-1,467)	(-1,596)	(-3,105)	(-3,049)
Nonfinancial services	-701	-555	-471	-294	-297	-498	-488
Financial services	-1,463	-1,921	-1703	-935	-858	-1,848	-1,977
Transfers	108	109	92	77	66	100	89
Capital account	4,698	1,015	388	532	831	1,250	1,585
Direct investment	362	384	148	50	41	160	121
Scheduled amortization	-1,106	-1,206	-1,814	-782	-778	-1,551	-1,551
Special amortization	-686 1/	-42 1/	-236 2/	--	--	--	--
Medium- and long-term gross disbursements	5,095	2,619	3,096	1,217	1,207	2,673	2,622
From agreement with foreign banks	(--)	(--)	(2,450)	(829)	(920)	(1,803)	(1,849)
Refinancing	[--]	[--]	[1,150]	[529]	[530]	[1,019]	[1,019]
New loans	[--]	[--]	[1,300]	[300]	[390]	[784]	[830]
Other disbursements	(5,095)	(2,619)	(646)	(388)	(287)	(870)	(773)
Nonfinancial public sector	[790]	[1,025]	[293]	[308]	[221]	[613]	[556]
Private sector 3/	[4,305]	[1,594]	[353]	[80]	[66]	[257]	[217]
Change in medium- and long-term assets of private sector	-37	9	17	--	-6	--	-6
Short-term financial credits	1,102	144	-719	185	471	52	520
Nonfinancial public sector	(716)	(-19)	(-231)	(136)	(146)	(39)	(...)
Private sector 3/	(386)	(163)	(-488)	(49)	(324)	(13)	(...)
Commercial credits	-31	-894	-103	-138	-104	-84	-122
Errors and omissions	105	-76	45	--	-47	--	-47
SDR allocations	28	--	--	--	--	--	--
Overall balance of payments	98	-1,365	-641	-78	111	--	37
Valuation adjustment of official reserves	-93	-28	38	--	37	--	37
Changes in official reserves (increase -)	-5	1,393	603	78	-148	--	--

Source: Data provided by the Central Bank of Chile.

1/ Prepayments of debt.
2/ Corresponds to transfer of assets of Banco Andino de Panama to Chilean banks against their deposits in that institution.
3/ Includes Banco del Estado.

Table 5. Chile: Monetary Indicators 1/

	1983					1984			
	Mar.- Dec. 1982	June- Mar.	Sept.- June	Dec.- Sept.	Dec. 1983 Dec. 1982	Mar.- Dec. 1983	June- Mar.	Proj. Dec.- June	Proj. Dec. 1984- Dec. 1983
A. Central Bank									
(Change in millions of U.S. dollars)									
International reserves	-1,002	-188	749	-161	-602	-108	256	-148	--
Medium- and long-term foreign liabilities	-6	-11	1,076	225	1,284	-5	392	415	802
(Percentage change) 2/									
Net domestic assets	149.9	17.8	58.1	82.8	313.0	23.7	22.3	103.6	158.2
Liabilities to the private sector 3/	6.5	-6.3	4.3	14.9	19.5	7.7	-1.1	5.2	12.1
B. Financial System									
(Change in millions of U.S. dollars)									
International reserves	-700	-273	830	-47	-190	-268	226	-201	-243
Medium- and long-term foreign liabilities	-43	-89	1,042	497	1,407	-8	373	445	810
(Percentage change) 2/									
Net domestic assets	12.7	13.5	15.4	19.1	65.6	11.6	8.7	26.0	49.5
Credit to the public sector (net)	4.8	6.7	2.0	19.1	36.0	4.4	--	9.8	15.3
Credit to the private sector	--	8.7	11.2	16.0	46.2	5.4	15.0	15.1	38.1
Liabilities to the private sector	3.0	5.7	6.6	5.0	22.0	7.0	3.0	8.0	18.9
Memorandum items									
Inflation rate (CPI)	3.8	6.0	7.1	4.4	23.1	2.4	4.0	8.0	15.0
Exchange rate (pesos per U.S. dollar)	--	5.8	6.3	6.3	19.0	0.8	3.8	8.0	13.0

Sources: Central Bank of Chile; and Fund staff estimates.

1/ Changes based on end-of-period data; foreign currency components are valued at end-of-period exchange rates.
2/ As percent of liabilities to the private sector at the beginning of the period.
3/ Does not include central bank promissory notes in the hands of the private sector.

bank disbursements, as the currency issue contracted. The increase in foreign borrowing was large enough to result in a buildup of net international reserves during this period.

III. Review of Policies and Economic Prospects

The review with the Chilean authorities of the progress made in implementing the policies and achieving the objectives of the economic program took place against the background of substantial changes in the external environment since the program was framed in late 1983. Interest rates in U.S. dollar-denominated assets have risen sharply and the average LIBOR for the second semester of 1984 is not likely to be less than 12 percent compared with an estimate of 10 percent in the program. At the same time, copper prices have fallen as low as US$0.60 a pound on the London Metal Exchange. Consequently, the estimated average copper price for the second semester of 1984, which had been set at an average of US$0.825 a pound, has been revised downward to US$0.67 a pound.

The authorities calculated that the increase in interest rates would add 0.6 percent of GDP to service payments in 1984, and that lower copper prices would reduce export earnings by another 0.6 percent of GDP, after taking into account a 9 percent increase of shipments over the programmed level. In addition, lower than expected prices for non-copper exports are projected to reduce export earnings by 0.4 percent of GDP. The impact of these adverse external factors is expected to fall almost entirely in the second semester of 1984.

Discussions on the appropriate policy response to the changed external environment took place in the context of Chile's medium-term prospects and took into account Chile's existing high level of external indebtedness. The authorities and the staff came to essentially similar conclusions about the difficult balance of payments outlook for the immediate future and also for 1985-86, on the basis of the changes in prospects for copper prices and foreign interest rates that have occurred. On the assumption that copper prices would rise to US$0.90 a pound and LIBOR would decline to about 10 percent by 1987, the staff estimated that in the absence of policy adjustments, the deficit in the current account of the balance of payments would average somewhat more than 8 percent of GDP in 1985-86. The staff concluded that a major adjustment would be required to reduce Chile's external financing requirements to close to 5 percent of GDP by 1986 and to 3 percent by 1988,1/ and recommended that the adjustment be initiated in the second half of 1984.

The authorities noted that the suddenness and magnitude of the adverse external developments placed a very heavy burden of adjustment on Chile in the second semester of 1984. In addition, the country was

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1/ A medium-term scenario as well as corresponding projections of debt service ratios are presented in Appendix Tables 12 and 13.

faced with the cost of repairing the damage caused by unusually severe winter storms during the month of July. Notwithstanding these adverse factors, however, the authorities reiterated their commitment to adhere to the economic program for 1984 underlying the stand-by arrangement.

1. Contingency clause

A specific issue which was dealt with in the course of the consultation was an assessment of the appropriateness of activating the contingency provision in the program. This provision would have permitted, under certain conditions, an increase of up to 0.8 percent of GDP in the deficit of the nonfinancial public sector in the second half of 1984. Examination of current account balance of payment developments in the first half of the year and of the outlook projected for the second half of the year led to the conclusion that the conditions for activating the contingency clause were not present. Specifically, the trade surplus in the first half of the year was smaller than programmed, and the near-term outlook for the balance of payments had worsened.

2. Fiscal policy

During the second semester of 1984, the finances of the nonfinancial public sector are expected to be adversely affected by lower than anticipated copper prices in an amount equivalent to 0.5 percent of GDP 1/ and higher than programmed foreign interest rates in an amount equivalent to 0.3 percent of GDP. At the same time the cost of repairing damages caused by the severe winter are projected at approximately 0.1 percent of GDP in the remainder of 1983.

To help close the gap of approximately 0.9 percent of GDP, the Minister of Finance already has issued instructions to all general government entities to reduce by 10 percent their spending on goods and nonwage services; full compliance with this instruction would reduce spending in the second semester by about 0.1 percent of GDP. The Finance Minister also proposed a special consumption tax on luxury goods, but it was rejected by the Government. As a substitute, a 15 percent import surcharge on such goods was implemented in late July and is estimated to yield additional revenue in 1984 equivalent to another 0.1 percent of GDP. The authorities defended the surcharge as a fiscal revenue measure and minimized its impact as a protective device.2/ In addition, with the objective of increasing revenue through the collection of unpaid taxes and public utility bills, the Government recently announced a program which provides for cancellation of a part of outstanding arrears upon payment of some of the unpaid bills. The program also provides for the renegotiation of certain private sector debts with public sector entities providing credit to agriculture

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1/ After taking into account higher than programmed copper shipments.

2/ Details on the scope of the import surcharge are presented in a subsequent section of this report.

(CORA), housing (SERVIU), and small-scale mining (ENAMI). Little net revenue gain for the second semester of 1984 is expected from these programs.

A number of other fiscal measures were discussed with the authorities to hold the financing requirements of the nonfinancial public sector to within the program limits. One possibility was to impose a 10 percent excise tax on diesel fuel, a measure which had been proposed earlier in 1984; this tax would yield the equivalent of 0.1 percent of GDP on an annual basis. Consideration was given to slowing the growth of general government capital outlays; these outlays are budgeted to increase by 31 percent (or the equivalent of 0.4 percent of GDP) from the first to the second half of the year, and it would appear that there is considerable scope for cutbacks. Another measure which had been proposed earlier, but not adopted, was the postponement of cost of living adjustments for pensioners until inflation cumulated to 20 percent instead of 15 percent as at present. This measure would delay the next pension adjustment to 1985 and would reduce pension payments in 1984 by the equivalent of about 0.3 percent of GDP. A review of public sector prices and rates indicated that they are generally at realistic levels, an appraisal which is shared by the staff of the World Bank.

Although wage pressures in the public sector have become stronger in recent months, the Minister of Finance has publicly rejected any further wage increases for 1984. (A 15 percent increase became effective in January 1984, and health sector workers were granted a small additional wage increase in May.)

The authorities are expected to communicate to the Fund before the Board discussion a set of fiscal measures which they intend to implement to bring the borrowing requirements of the public sector down to the program level.

3. Monetary policy

The principal objectives of monetary policy for 1984 are to hold inflation to below 20 percent and maintain the level of net international reserves at the end-1983 level. As has been mentioned, these objectives were attained during the first semester. The staff discussed with the authorities a monetary plan for the second semester consistent with continuing adherence to the program's objectives. A review of prospects indicated that the achievement of the net international reserve target and maintenance of the net domestic assets of the Central Bank within the program limits would entail a substantial tightening of domestic credit conditions and would require an increase of domestic interest rates from present levels.

In the first semester domestic interest rates were guided by the Central Bank through the setting of suggested rates on 30-day deposits. The authorities contended that this policy had resulted in broadly adequate interest rates on both deposits and loans. In the first semester, 30- to 89-day time deposits on average had yielded a positive annual real rate of return of 3 percent (Appendix Table 11). The nominal spread between loan and deposit rates continued to be high (0.8 percentage points per month on average) but the authorities expected this spread to decline over time as the problems of the intervened banks were resolved. The authorities delayed revising their interest rate policy in the light of the increases in foreign interest rates as they believed that higher domestic loan rates would be detrimental to the economic recovery.

Instead of raising domestic interest rates the Chilean authorities have been relying on subsidies on swap operations and on dollar deposits at the Central Bank to induce private and public enterprises and financial institutions to draw on foreign short-term credit lines and to place their foreign liquid assets on deposit at the Central Bank. The Central Bank has been paying a subsidy of 5.6 percent per annum on the amount swapped for a period of up to six months and has raised the yield on dollar deposits at the Central Bank from 14 percent per annum in March, to 14.5 in April and to 15 percent in May. The subsidies not only have been costly for the Central Bank, but they also increase the foreign exchange risk of the Bank, and have contributed to expanding the scope of the Central Bank in the financial intermediation process, a development which runs counter to the intent of the program.

Because of the swap operations and dollar deposits, the Central Bank captured larger than expected resources in the first semester of 1984. These resources were rechanneled to the rest of the financial system mainly through open-market operations, as gross central bank credit flows relating to specific credit programs were broadly as provided for in the program. However, in June additional relief for domestic debtors was granted, raising the earmarked central bank gross credit flows for the second semester and reducing the volume of resources rechanneled to the financial system through the open-market mechanism.

The newly announced relief for domestic debtors covers consumer debts, which had not previously been eligible, and increases the relief available for mortgage holders and debtors in the productive sector. The authorities estimated that this program will require Ch$13 billion in central bank resources in the second semester of 1984, raising the gross resources required for all central bank debt relief programs to Ch$44 billion (2.2 percent of GDP) in that period. To cover these needs, the authorities are relying on expected scheduled disbursements from foreign banks (US$400 billion), repayments from outstanding central bank credits, and base money growth. The authorities did not share the staff's concern that the new central bank credit programs further expanded the preponderant role of that institution in financial intermediation, nor were they overly concerned that the future costs of the debt relief and other subsidy programs undertaken by the Central Bank would unduly restrict the flexibility of monetary management.

As is the case for fiscal policy, the authorities are expected to communicate to the Fund before the Board discussion a monetary plan and interest rate policy for the second semester of 1984 that would conform to the the economic program of the stand-by arrangement. It is expected that as the result of an increase in domestic interest rates, the Central Bank will be able to begin reducing subsidies on swaps and dollar deposits.

The authorities said that the present imperfections in the financial markets in Chile were the consequence of the financial crisis of early 1983. They noted that progress had been made toward re-establishing a solvent domestic financial system, and that recapitalization of the domestic banks was well under way. In May 1984 the Central Bank began purchasing the bad loan portfolios of nonintervened banks up to 250 percent of capital and reserves of each institution. Payment is made by cancelling previously granted central bank emergency credits and by issuing medium-term central bank notes for any remaining amount. Repurchase of the bad loan portfolio would fall fully on the holders of the currently outstanding stock issue of the banks, as all their future dividends will be earmarked toward repurchases of the bad loans from the Central Bank.1/

The authorities plan to apply a similar scheme to intervened banks in the near future. However, as the bad loan situation in these banks is more severe, legislation has been prepared which would permit the Government to recapitalize intervened banks directly up to a maximum of 49 percent of capital and reserves of each bank. The Government would be obliged to sell its capital participation to the private sector within a certain time period.

The authorities were in the process of reviewing banking legislation with the objective of introducing modifications to strengthen bank supervision. The introduction of a deposit insurance scheme is also under consideration but would not be implemented until the banking system had become solvent.

4. Policies affecting the exchange and trade system

Since December 1983 the authorities have been applying a flexible exchange rate policy aimed at maintaining the real effective exchange rate of the peso (Chart 1). On the tenth day of each month the daily exchange rate of the peso is announced for the next 30 days on the basis of the domestic inflation of the previous month less external inflation, which is estimated for this purpose at no more than 0.4 percent per month. The authorities asserted that this policy so far has been adequate to sustain economic growth in the context of balance of payments stability. However, recent adverse changes in interest rates and copper prices have put pressure on the parallel market exchange rate,

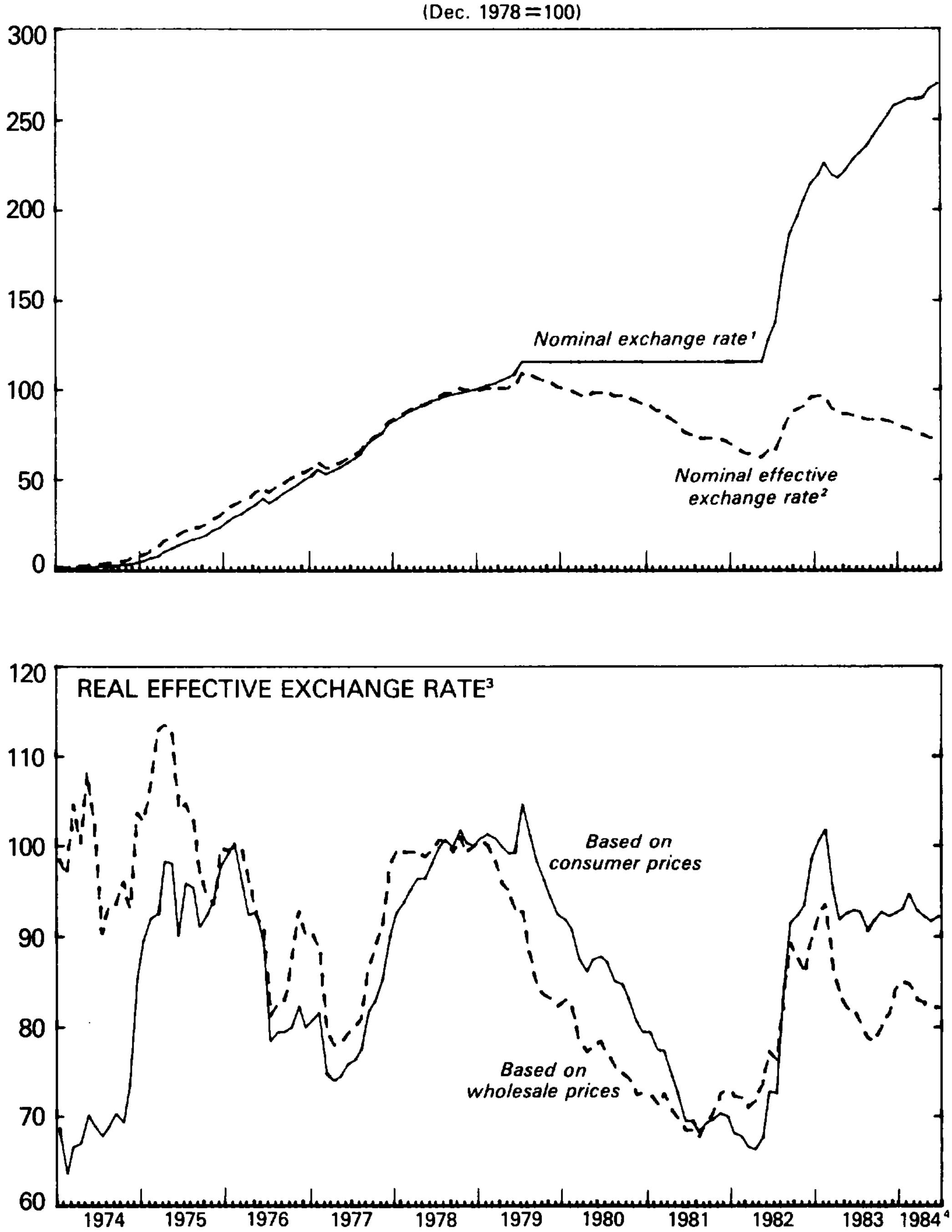
1/ The nominal value of the outstanding bad loan portfolio held by the Central Bank will be increased annually at a positive real rate.

CHART 1

CHILE

EXCHANGE RATE INDICES

(Dec. 1978=100)



Sources: Central Bank of Chile; *International Financial Statistics;* and Fund staff estimates.
[1]Pesos per U.S. dollar at end of period.
[2]Nominal exchange rate index adjusted by a weighted index of exchange rate movements of major trading partners.
[3]Real exchange rate index adjusted by weighted indices of prices and exchange rate movements of major trading partners.
[4]Partly estimated.

and have raised concerns about the continued appropriateness of Chile's exchange rate policy. The authorities assured the staff that, if necessary, they were prepared to take appropriate action in the context of a medium-term economic program to safeguard Chile's balance of payments.

In reviewing developments in the parallel exchange market, the authorities noted that the spread between the official and parallel market exchange rates had widened sharply during the banking crisis in early 1983. However, with the return to appropriate monetary management and the pursuit of a flexible exchange rate policy, the spread had narrowed to below 10 percent later in the year. The authorities had expected the spread to narrow further in 1984 as the economic upturn continued and confidence strengthened. However, in the second quarter of 1984 the spread widened sharply; in July it was approximately 25 percent. The existence of the two markets in which the spread was substantially greater than 2 percent constitutes a multiple currency practice.

In discussing the competitiveness of the Chilean economy at the present real effective exchange rate of the peso, attention was focused on the increasing level of protection given to domestic producers since late 1982, and on the existence of exchange restrictions and multiple currency practices. However, the trade system of Chile remains free of quantitative import restrictions.

In March 1983 the uniform import duty rate of 10 percent was raised to 20 percent. Initially the increase was to be temporary and a schedule was published which would have reduced the import duty to 10 percent by the end of 1985. Nevertheless, in December 1983 it was announced that the 20 percent tariff would be permanent.

In July 1984 the authorities imposed a 15 percent tariff surcharge on 248 eight-digit tariff code items reportedly of a luxury nature. According to the authorities, the intention was to provide additional government revenue and not as a protective measure. However, the list of items subject to the surcharge covers a wide array of items produced domestically, including alcoholic beverages, toilet paper, sheets and towels, shoes with rubber or plastic soles, apparel items and a long list of household appliances. In the case of 35 items, the new surcharge replaces existing temporary 15 percent surcharges.

In the past 12 months reference prices have been established for purposes of applying ad valorem duties on powdered milk, butter, cheese, sugar and wheat products. The authorities explained that these actions were ncessary to provide a measure of protection for domestic producers against foreign dumping practices that distorted relative prices.

In reviewing restrictions which apply to the sale of foreign exchange, the authorities explained that because of the difficult balance of payments situation no progress had been possible in the first semester of 1984 in reducing the few remaining restrictions. The restrictions on the sale of foreign exchange for travel and for certain other invisible transactions as described in EBS/84/50 (3/9/84) and the 120-day deferment period applicable to import payments continue in effect. The Central Bank has established maximum allowances for tourism and business travel. All bona fide requests for foreign exchange requiring central bank authorization, except those for tourism, are approved without delay.

Since late August 1982, the Central Bank has subsidized debt service payments with respect to debt outstanding as of August 6, 1982. The subsidy, which is provided in the form of an interest-bearing central bank promissory note with a value equivalent to the difference between the official exchange rate and a reference rate, adjusted automatically in line with the rate of inflation, is presently about 20 percent. The subsidy scheme involves a multiple currency practice. In accordance with the authorities' intention to reduce the subsidy involved in this practice during the first semester of 1984, they have reduced the real interest rate paid on the central bank notes from 7 percent to 3 percent, and have lengthened the maturity from a range of three to five years to a range of six to ten years.

5. External debt policy

The economic program for 1984 involved an increase in the external debt of US$1.1 billion from the US$17.4 billion outstanding at the end of 1983. All of the increase in debt was expected to be at medium term; the short-term capital account was projected to be approximately in balance. Net borrowing from official sources was projected at US$480 million and from banks at US$780 million, while foreign suppliers were expected to be repaid on a net basis.

The authorities said that net medium term disbursements in 1984 would be slightly below programmed levels; net borrowing from official sources was expected to fall short by US$100 million, while net disbursements from foreign banks would be higher by about US$50 million. However, net short-term capital inflows would be substantially larger than had been planned; already in the first semester net short-term capital inflows were US$320 million higher than expected, reflecting in part the Central Bank's policy of subsidizing swap operations and paying a premium on dollar deposits. As a result, the authorities were able to finance the larger than programmed import level in the first semester while building up net international reserves significantly beyond the target level. In reply to the staff's observation that the large net short-term capital inflows were not in accordance with the program's foreign indebtedness strategy, the authorities observed that the additional net borrowing was necessary to cushion somewhat the economic adjustment which Chile will have to undergo on account of external developments outside of their control and which had not been contemplated in the program either.

IV. Staff Appraisal

Economic growth in the first semester of 1984 in Chile was somewhat stronger than had been expected. Private sector activity expanded vigorously while inflation was reduced to an annual rate below 15 percent. Fiscal policy was implemented with prudence as the financing needs of the nonfinancial public sector were held below the program ceiling by the equivalent of 0.8 percent of annual GDP.

Even though the fiscal performance was better than programmed, the deficit of the current account of the balance of payments was 0.3 percent of GDP greater than projected, because of strong import demand by the private sector. A shortfall in copper prices from the projected level was offset by a higher volume of exports. Net medium-term capital inflows were in line with expectations, but net short-term inflows were substantially larger than anticipated in part because of Central Bank subsidies on such inflows. As a result, the net international reserve target for June 30, 1984 was met with ample margin. All the other performance criteria for that date also were met.

Prospects for the second half of 1984 and subsequent years are not encouraging owing to unfavorable external factors that are expected to place pressure on the balance of payments. Foreign interest rates have risen substantially more than had been expected and, contrary to expectations, copper prices have weakened considerably. In these circumstances and after taking into account the larger than programmed deficit in the current account of the balance of payments in the first semester, the staff is of the view that it would be inappropriate to activate the contingency investment spending provision of the program that, under certain specified conditions, would have permitted an increase in the deficit of the nonfinancial public sector of up to 0.8 percent of GDP in the second half of 1984.

The Chilean authorities have reiterated that they will continue to adhere to the economic program agreed with the Fund even though external factors beyond their control are exerting serious adverse pressures on the balance of payments. The staff welcomes the authorities' decision, which represents a realistic assessment of Chile's external financing possibilities and its existing very high external indebtedness. The staff would note that to keep the program on track, a number of policy adjustments will be necessary. It is expected that, before the review is discussed by the Executive Board, the authorities will indicate to the Fund the measures they are prepared to take to meet the criteria of the program.

A significant part of the negative impact caused by adverse external factors in the second semester of 1984 is expected to fall on the public sector and compensating public revenue and expenditure measures need to be implemented to stay within the program limits on the indebtedness of the nonfinancial public sector. So far the measures taken have fallen short of requirements, and the staff would urge the authorities to take additional fiscal action without delay. The staff notes the authorities' determination to adhere to an austere public sector wage policy as an important element in keeping public spending in check and in providing a guide to private sector wage negotiations.

A tightening of monetary management will be essential to ensure compliance with the program. Domestic interest rates will need to be raised to protect the balance of payments, foster domestic financial saving, and reduce the high cost of interest subsidies to the Central Bank. The recent increase in the scope of domestic debt relief has heightened staff concern that the proliferation of special credit programs has substantially reduced the flexibility of monetary management. The staff welcomes the efforts of the authorities to strengthen the financial system through the recapitalization of domestic banks and the reform of financial legislation.

A key objective of the economic program for 1984--and indeed of Chile's strategy for the medium term--is to safeguard Chile's balance of payments position in the context of an adequate growth performance. The staff notes that developments in respect of a number of external variables, including foreign interest rates and world copper prices, must be kept under close scrutiny, and the authorities should stand ready to take adjustment measures, including exchange rate action, so as to reconcile the balance of payments and growth objectives over the medium term.

During the first semester of 1984, progress in reducing the restrictiveness of the exchange system and the scope of the multiple currency practices has been limited. At the same time, the level of protection to domestic industry has been increased. The staff would remind the authorities that these developments are not in accordance with the policy undertakings underlying the stand-by arrangement.

The heavy reliance by Chile on net short-term foreign borrowing in the first semester of 1984 is a serious concern in view of the existing heavy external indebtedness. The staff notes that the Central Bank subsidies on swaps and dollar deposits have tended to encourage such inflows, and would remind the authorities of their commitment under the program to gradually eliminate these subsidies in the March 1984-March 1985 period. In view of the projected heavy principal payments in 1985 and subsequent years, the staff would encourage the authorities to continue seeking understandings with Chile's main foreign creditors toward an orderly refinancing of future debt service payments.

Successful implementation of the economic program underlying the stand-by arrangement in coming months will require a number of policy adjustments. In this period there will be a need for close contact with the Fund, in accordance with the provisions for consultation with the Fund under the stand-by arrangement. There is considerable uncertainty about the course of external factors and the consequent possible need for additional measures. Consequently, the authorities have agreed to another review of policies that would ensure the successful implementation of the economic program before final purchase under the stand-by arrangement can be made.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Chile has consulted with the Fund in accordance with paragraph 6 of the letter of March 12, 1984 (EBS/84/50) which modified the letter of December 13, 1982 attached to the stand-by arrangement for Chile (EBS/82/227, Sup. 2) and paragraph 3(b) of the Executive Board decision completing the consultation under the stand-by arrangement (EBS/84/50, Sup. 2).

2. Chile will not make purchases under this stand-by arrangement after November 14, 1984 that would raise the Fund's holdings of Chile's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12 1/2 percent of quota until a review of the policies that would ensure the successful implementation of the economic program has been completed.

Chile - Fund Relations
(As of July 31, 1984)

I. Membership Status

(a) Date of memberhip: December 31, 1945
(b) Status: Article VIII

II. General Department

(a) Quota: SDR 440.5 million.
(b) Total Fund holding of Chilean pesos: SDR 1,127.5 million or 256.0 percent of quota as of July 31, 1984.

Of which:	Millions of SDRs	Percent of Quota
Under CFF	295.0	67.0
SBA: general resources	209.0	47.4
EAR	183.0	41.5

(c) Fund credit to Chile amounts to SDR 687 million or 156 percent of quota.

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by:
- (i) Duration: From January 10, 1983 to January 9, 1985
- (ii) Amount: SDRs 500 million
- (iii) Utilization: SDRs 392 million
- (iv) Undrawn balance: SDRs 108 million

(b) Previous stand-by arrangements since 1974.

Date of Approval	Duration	Amount	Amount Actually Drawn
January 1974	1 year	SDR 70 million	SDR 70 million
March 1975	1 year	SDR 79 million	SDR 20 million

(c) Compensatory financing facility:

Date of approval	Amount
January 10, 1983	SDR 295 million

IV. SDR Department

SDR position:	As of July 31, 1984	Millions of SDRs	Percent of Net Cumulative Allocation
	Net cumulative allocation	121.9	100.0
	Holdings	(12.2)	(10.0)

V. Gold Distribution and Distribution of Profits from Sales of Gold

Gold distribution: Chile has received four distributions totaling 135,220.043 troy ounces of fine gold

Distribution of profits from gold sales: Chile received a total of US$25.1 million.

B. Nonfinancial Relations

VI. Exchange Rate Arrangement: The Chilean peso is pegged to the U.S. dollar. The official rate is adjusted daily on the basis of the Chilean rate of inflation during the previous month less the world rate of inflation, assumed for this purpose to be no more than 0.5 percent per month. The official rate on July 31, 1984 was Ch$92.28 per U.S. dollar.

Chile maintains a multiple currency practice arising from a subsidy of approximately 20 percent on certain foreign debt service payments 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 constitutes 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.

VII. Last Consultation: The 1983 Article IV consultation discussion was completed, and performance criteria for the second year of the stand-by arrangement were approved by the Executive Board on May 14, 1984 (EBS/84/50). The consultation is under the standard 12-month cycle.

VIII. Technical Assistance: The Central Banking Department provided a consultant on bank supervision, concerning the system for classification of doubtful and problem loans. The consultant visited Santiago from July 1 to August 23, 1982. Another Central Banking Department consultant visited Santiago during March 1984 to review legislation on a national deposit insurance scheme.

The Bureau of Statistics provided a technical assistance mission to Chile on January 16-28, 1983. The mission assisted the Central Bank in converting its monetary data system to the new Fund data system. During the first week of August 1983, a representative of the Bureau of Statistics presented a seminar on improving the methodology for producing government finance statistics.

IX. Resident Representative: Mr. Carlos Muniz was assigned to Chile for a one-year appointment beginning November 1982. In November 1983 his assignment was extended for six months. Mr. Muniz was replaced by Mr. John Leimone beginning in late July 1984 for an initial appointment of one year.

Chile--Basic Data

Area and population	
Area	756,626 sq. kilometers
Population (1983 Prel.)	11.6 million
Annual rate of population increase (1978-83)	1.7 percent
Unemployment rate (Oct.-Dec. 1983--Greater Santiago)	16.5 percent
GDP (1983)	SDR 18,467 million
	US$19,748 million
	Ch$1,550,200 million
GDP per capita (1983)	SDR 1,592

Origin of GDP	1980	1981	1982	Prel. 1983
		(percent)		
Agriculture, forestry, and fishing	8	8	9	9
Mining and quarrying	7	7	9	9
Manufacturing	22	21	19	20
Construction	5	6	5	5
Commerce	18	18	18	17
Other	40	40	40	40
Ratios to GDP				
Exports of goods and services	22.8	17.1	21.8	23.4
Imports of goods and services	27.0	27.1	23.5	20.6
Current account of the balance of payments	-7.1	-14.3	-9.6	-5.4
General government revenues	32.8	31.8	31.9	29.9
General government expenditures	27.3	28.9	34.2	32.9
Public sector savings	10.6	5.5	-0.8	--
Public sector overall surplus or deficit (-)	5.5	0.8	-3.4	-3.0
External public debt (end of year)	17.2	13.4	21.4	43.6 1/
Gross national savings	13.8	6.4	0.3	5.0
Gross domestic investment	21.0	20.7	9.9	10.3
Money and quasi-money (end of year)	30.0	33.8	38.6	38.5
Annual changes in selected economic indicators				
Real GDP per capita	6.0	3.9	-15.3	-2.5
Real GDP	7.8	5.7	-14.3	-0.8
GDP at current prices	39.3	19.9	-4.7	26.2
Domestic expenditures (at current prices)	41.1	26.7	-11.9	20.8
Investment	(64.2)	(18.4)	(-54.4)	(31.7)
Consumption	(36.2)	(28.7)	(-2.1)	(19.6)
GDP deflator	29.2	13.4	11.3	27.0
Consumer prices (annual averages)	35.1	19.7	9.9	27.3
General government revenues	37.1	16.2	-4.2	18.0
General government expenditures	35.1	26.9	13.2	21.1
Money and quasi-money	68.9	35.6	9.1	13.6
Money	(56.4)	(-4.6)	(6.3)	(27.7)
Quasi-money	(73.5)	(48.8)	(9.5)	(10.7)
Net domestic assets of the of the financial system 2/	79.5	63.4	66.5	65.6
Credit to nonfinancial public sector (net)	(-27.6)	(-11.9)	(13.0)	(36.0)
Credit to private sector	(110.7)	(83.0)	(63.2)	(46.2)
Merchandise exports (f.o.b., in U.S. dollars)	22.7	-18.4	-3.4	3.3
Merchandise imports (f.o.b., in U.S. dollars)	30.5	19.1	-44.1	-22.6

General government finances	1980	1981	1982	Prel. 1983
	(billions of Chilean pesos)			
Revenues	352.3	409.3	392.0	462.7
Expenditures	293.2	372.2	421.3	510.1
Current account surplus or deficit (-)	90.4	70.2	-24.3	-44.2
Overall surplus or deficit (-)	59.0	37.1	-28.4	-47.4
External financing (net)	-8.1	-6.7	-4.2	-1.8
Internal financing (net)	-50.9	-30.4	32.6	49.2
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	4,705	3,836	3,706	3,827
Merchandise imports (f.o.b.)	-5,469	-6,513	-3,643	-2,818
Investment income (net)	-930	-1,463	-1,921	-1,703
Other services and transfers (net)	-277	-593	-446	-379
Balance on current and transfers accounts	-1,971	-4,733	-2,304	-1,073
Official capital (net) 3/	43	542	823	1,260
Private capital (net)	3,142	4,157	192	-873
Errors and omissions	30	105	-76	45
Allocation of SDRs	30	28	--	--
Valuation adjustment	-30	-92	-28	38
Change in net official reserves (increase -)	-1,244	-7	1,393	603

International reserve position 4/	Dec. 31 1980	1981	1982	1983 5/
	(millions of U.S. dollars)			
Central Bank (gross)	3,220.1	3,186.8	1,993.9	2,130.1
Central Bank (net)	3,182.2	3,186.8	1,794.0	1,223.1
Rest of banking system (net)	-900.2	-1,151.9	-1,220.3	-763.3 6/

1/ Includes US$1.2 billion of short-term debt which was consolidated in early 1984.

2/ Changes in net domestic assets as percent of liabilities to the private sector at the beginning of the period.

3/ Includes Banco del Estado.

4/ Gold valued at US$42.22 per ounce.

5/ SDRs are valued at end-of-period rates with respect to the U.S. dollar. In the balance of payments, the change in net international reserves is based on stocks in which the SDR components are valued at the exchange rate of the base period.

6/ Excludes position of banks liquidated as of January 1983.

Chile: Economic Indicators

	1981	1982	1983 Program	1983 Est.	1984 Program	1984 Proj.
Real economy (rates of growth)						
Real GDP	5.7	-14.3	4.0	-0.8	4.0	4.5
Nominal GDP	19.9	-4.7	41.6	26.1	25.2	25.2
Consumer prices						
Average	19.7	9.9	28.3	27.3	21.5	17.8
End of year	9.5	20.7	25.0	23.1	20.0	15.0
Nonfinancial public sector (ratios to GDP)						
Overall surplus or deficit (-)	0.8	-3.4	-1.7	-3.0	-4.5	-4.5
External financing (net)	2.7	1.1	1.7	-1.0	2.2	2.2
Internal financing (net)	-3.5	2.3	--	4.0	2.3	2.3
Money and credit (percent changes)						
Money	-4.6	6.3	...	27.7	...	...
Money and quasi-money	35.6	9.1	30.0	13.6	24.8	18.9
Real money and quasi-money 1/	23.8	-9.6	4.0	-7.7	4.0	3.4
Balance of payments						
(a) Ratios to GDP						
Current account	-14.3	-9.6	-7.2	-5.4	-6.0	-7.5
Trade balance, f.o.b.	-8.1	0.3	4.5	5.1	4.8	3.8
Exports, f.o.b.	11.6	15.5	20.0	19.5	19.6	18.4
Imports, f.o.b.	-19.7	-15.1	-15.5	-14.4	-14.9	-14.6
Net factor payments	-4.4	-8.0	-9.2	-8.6	-8.8	-9.5
Other (net)	-1.8	-1.9	-2.5	-1.9	-1.9	-1.9
(b) Millions of U.S. dollars						
Current account	-4,733	-2,304	-1,602	-1,073	-1,250	-1,576
Trade balance, f.o.b.	-2,677	63	1,000	1,009	995	800
Exports, f.o.b.	3,836	3,706	4,450	3,827	4,100	3,849
Imports, f.o.b.	-6,513	-3,643	-3,450	-2,818	-3,105	-3,049
Nonfinancial services	-701	-555	-648	-471	-498	-488
Financial services	-1,463	-1,921	-2,054	-1,703	-1,848	-1,977
Transfers	108	109	100	92	100	89
Capital account	4,698	1,015	1,117	388	1,250	1,585
Direct investment	362	384	450	148	160	121
Medium- and long-term capital	3,132	1,371	591	1,063 2/	980	1,065
Short-term	1,205	-740	76	-822	110	398
Other	42	-104	--	85	--	-10
Change in net international reserves (increase -)	-7	1,393	485	603	--	--
Renegotiation of external debt	--	--	...	1,100	1,000	1,019
External debt (millions U.S. dollars)3/	12,553	13,815	...	16,133 4/	...	17,064
Total public and publicly guaranteed	4,415	5,157	...	8,588 4/	...	10,570
Total private	8,138	8,658	...	7,545	...	6,494
External debt (percent of GDP)	38.1	57.3	...	81.9	...	81.6
Debt service (percent of exports of goods and services)	58.0	72.0	72.1	51.6 5/	53.9 5/	55.9 5/
Exchange rate (total currency per U.S. dollar)						
Official rate						
End of period	39.0	72.4	...	87.2	100.0	99.0
Average	39.0	50.9	...	78.5	93.0	93.0
Parallel rate (end of period)	...	...	...	95.0	...	...

1/ Deflated by the consumer price index.
2/ Does not include the consolidation of US$1.2 billion of short-term debt.
3/ Medium- and long-term public and publicly guaranteed debt.
4/ Includes US$1.2 billion of short-term debt which was consolidated to a medium-term loan in early 1984.
5/ Includes relief from rescheduling operations.

Table 6. Chile: Macroeconomic Flows

(As percent of GDP)

	1981	1982	Est. 1983	1984 Prog.	1984 Proj.
I. Balance of Payments					
Current account surplus or deficit (-)	-14.3	-9.6	-5.4	-6.0	-7.5
Trade balance	-8.1	0.3	5.1	4.8	3.8
Exports	(11.6)	(15.5)	(19.5)	(19.6)	(18.4)
Imports	(-19.7)	(-15.1)	(-14.4)	(-14.9)	(-14.6)
Net factor payments	-4.4	-8.0	-8.6	-8.8	-9.5
Other services and transfers	-1.8	-1.9	-1.9	-1.9	-1.9
Capital account	14.2	4.2	2.6	6.0	7.5
Private capital	12.7	2.7	-2.9	0.2	...
Financial public sector	-1.2	0.4	6.5 1/	3.6 1/	...
Nonfinancial public sector and other	2.7	1.1	-1.0	2.2	...
Net official international reserves (increase -)	--	5.8	2.8	--	--
II. Public Sector					
Savings 2/	5.5	-0.8	--	0.8	0.8
Net capital revenue	0.4	2.1	1.9	1.5	1.4
Capital expenditure	5.1	4.7	4.9	6.8	6.7
Overall surplus or deficit (-)	0.8	-3.4	-3.0	-4.5	-4.5
Net foreign financing	2.7	1.1	-1.0	2.2	2.2
Net domestic financing	-3.5	2.3	4.0	2.3	2.3
III. Saving and Investment					
Gross domestic investment	20.7	9.9	10.3	12.5	13.2
Public sector	5.1	4.7	4.9	6.8	6.7
Private sector	15.6	5.2	5.4	5.7	6.5
Investment = savings	20.7	9.9	10.3	12.5	13.2
External savings	14.3	9.6	5.4	6.0	7.5
Gross national savings	6.4	0.3	5.0	6.5	5.7
Public sector	(5.5)	(-0.8)	(--)	(0.8)	(0.8)
Private sector	(0.9)	(1.1)	(5.0)	(5.7)	(4.9)
Memorandum items					
Annual growth rate of real GDP	5.7	-14.3	-0.8	4.0	4.5
GDP (in billions of Chilean pesos)	1,289.0	1,229.0	1,550.0	1,941.0	1,941.0
GDP (in billions of U.S. dollars)	33.0	24.1	19.7	20.9	20.9
Exchange rate (pesos per U.S. dollar)	39.0	50.9	78.5	93.0	93.0

Sources: Central Bank of Chile; and Fund staff estimates.

1/ Foreign medium-term bank disbursements are channeled to the financial public sector.

2/ Includes as a current expenditure the full inflation correction of outstanding domestic indexed public debt.

Table 7. Chile: Net International Reserves of the Banking System

(In millions of U.S. dollars)

	December 31				June 30
	1980	1981	1982	1983	1984
Central Bank	3,182.2	3,186.8	1,793.9	1,223.2	1,362.6
Assets	3,220.1	3,186.8	1,993.9	2,130.1	2,361.0
Gold 1/	(71.9)	(71.9)	(72.3)	(67.1)	(70.2)
SDRs 2/	(3.8)	(19.1)	(19.5)	(5.4)	(8.1)
Foreign exchange	(3,037.5)	(3,119.4)	(1,717.7)	(2,030.9)	(2,301.0)
Payments agreements (net)	(106.9)	(-51.5)	(112.8)	(19.4)	(-18.2)
Other	(--)	(1.8)	(--)	(7.2)	(--)
IMF reserve position	(--)	(26.1)	(71.6)	(--)	(--)
Liabilities	-37.9	--	-200.0	-906.9	-998.4
Short-term liabilities	(--)	(--)	(-200.0)	(-300.0)	(-290.0)
Liabilities to IMF	(-37.9)	(--)	(--)	(-606.9)	(-708.4)
Commercial banks 3/	-900.2	-1,151.9	-1,220.3	-763.3 4/	-824.7 4/5/
Assets	437.5	797.3	782.7	658.0	516.7
Gold 1/	(5.5)	(5.6)	(5.6)	(5.6)	(5.6)
Foreign exchange	(432.0)	(791.7)	(777.1)	(652.4)	(511.1)
Liabilities	-1,337.7	-1,949.2	-2,003.0	-1,421.3	-1,341.4
Short-term loans	(-1,332.7)	(-1,942.9)	(-2,000.3)	(-1,418.6)	(-1,338.5)
Foreign banks deposits	(-5.0)	(-6.3)	(-2.7)	(-2.7)	(-2.9)
Banking system	2,282.0	2,034.9	573.6	459.9	537.9
Assets	3,657.6	3,984.1	2,776.6	2,788.1	2,877.7
Liabilities	-1,375.6	-1,949.2	-2,203.0	-2,328.2	-2,339.8

Source: Data provided by the Central Bank of Chile.

1/ Valued at US$42.22 per ounce.
2/ SDRs are valued at end-of-period rates with respect to the U.S. dollar. In the balance of payments, the change in net official international reserves is based on stocks in which the SDR components are valued at the exchange rate of the base period.
3/ Includes Banco del Estado.
4/ Excludes position of banks liquidated as of January 1983. Net amounts excluded are US$-39.5 million on December 31, 1983 and US$-22.3 million on June 30, 1984.
5/ Preliminary figures.

Table 8. Chile: Composition of Imports, c.i.f.

	1980	1981	1982	1983	January-June 1983	January-June 1984 1/
(In millions of U.S. dollars)						
Total imports	6,145	7,318	4,094	3,160	1,492	1,787
Foodstuffs	799	823	591	525	229	217
Other consumer goods	1,271	1,904	894	494	242	244
Raw materials and intermediate goods	2,801	3,144	1,913	1,747	823	1,038
Of which: fuels	(963)	(956)	(632)	(582)	(301)	(310)
Capital goods	1,274	1,447	697	393	198	288
(In percent)						
Total imports	100.0	100.0	100.0	100.0	100.0	100.0
Foodstuffs	13.0	11.2	14.5	16.6	15.3	12.1
Other consumer goods	20.7	26.0	21.8	15.6	16.2	13.7
Raw materials and intermediate goods	45.6	43.0	46.7	55.3	55.2	58.1
Of which: fuels	(15.7)	(13.1)	(15.4)	(18.4)	(20.2)	(17.3)
Capital goods	20.7	19.8	17.0	12.4	13.3	16.1
(In percent of GDP)						
Total imports	22.3	22.2	17.0	16.0	...	...
Foodstuffs	2.9	2.5	2.5	2.7	...	...
Other consumer goods	4.6	5.8	3.7	2.5	...	...
Raw materials and intermediate goods	10.2	9.6	7.9	8.8	...	...
Of which: fuels	(3.5)	(2.9)	(2.6)	(2.9)	(...)	(...)
Capital goods	4.6	4.3	2.9	2.0	...	...
Memoranda items:						
Capital goods imports as percent of gross fixed investment	23.6	30.6	20.9	18.0	...	...
Consumer and intermediate goods as percent of total consumption	19.9	21.3	15.3	16.4	...	...

Source: Data provided by the Central Bank of Chile.

1/ Preliminary.

Table 9. Chile: Composition of Exports, f.o.b.

	1980	1981	1982	1983	January-June 1983	January-June 1984 1/
			(In millions of U.S. dollars)			
Total	4,705	3,837	3,706	3,826	1,979	2,011
Mining products	2,998	2,456	2,383	2,566	1,291	1,189
Copper	(2,125)	(1,738)	(1,685)	(1,871)	(911)	(855)
Other	(873)	(720)	(698)	(695)	(380)	(334)
Agricultural and fishery products	340	365	375	327	253	328
Industrial products	1,367	1,016	948	933	435	494
			(In percent)			
Total	100.0	100.0	100.0	100.0	100.0	100.0
Mining products	63.7	64.0	64.3	67.1	65.2	59.1
Copper	(45.2)	(45.3)	(45.5)	(48.9)	(46.0)	(42.5)
Other	(18.5)	(18.7)	(18.8)	(18.2)	(19.2)	(16.6)
Agricultural and fishery products	7.2	9.5	10.1	8.5	12.8	16.3
Industrial products	29.1	26.5	25.6	24.4	22.0	24.6
			(In percent of GDP)			
Total	17.1	11.7	15.3	19.4	...	...
Mining products	10.9	7.5	9.8	13.0	...	...
Agricultural and fishery products	1.2	1.1	1.6	1.7	...	...
Industrial products	5.0	3.1	3.9	4.7	...	...

Source: Data provided by the Central Bank of Chile.

1/ Preliminary.

Table 10. Chile: Export and Import Values, Volumes and Prices, and Terms of Trade

(Indices: January-June 1980 = 100)

	January-June				
	1980	1981	1982	1983	1984 1/
Export values	100	83.0	82.5	81.8	80.6
Volumes	100	95.5	109.6	113.9	119.2
Prices	100	87.0	75.3	71.8	67.6
Import values	100	138.5	89.9	57.5	61.5
Volumes	100	133.1	92.5	68.6	72.6
Prices	100	104.1	97.2	83.7	84.6
Terms of trade	100	83.6	77.5	85.8	79.9
Yearly change (in percent)	...	-16.4	-7.3	10.7	-6.9

Sources: Data provided by the Central Bank of Chile; and Fund staff estimates.

1/ Preliminary figures.

Table 11. Chile: Interest Rates on 30-89 Day Operations

(In percent per month)1/

	Nominal		Real 2/	
	Loans	Deposits	Loans	Deposits
1981 annual average	52.0	40.8	38.7	28.6
1982 annual average	63.1	47.8	35.1	22.4
1983 annual average	42.7	27.9	15.9	3.9
1982				
March	3.3	2.4	2.9	2.0
June	3.4	2.5	2.7	1.8
September	4.3	3.6	--	-0.7
December	5.3	4.6	4.2	3.4
1983				
March	3.1	2.2	1.2	0.3
June	3.0	2.1	1.4	0.4
September	2.8	1.9	0.5	-.4
December	2.6	1.8	2.0	1.2
1984				
January	2.3	1.6	2.2	1.5
February	2.1	1.2	2.3	1.4
March	1.7	0.9	-.8	-1.5
April	2.2	1.3	0.7	-0.2
May	2.2	1.4	1.0	0.2
June	2.1	1.4	0.8	0.1

Source: Central Bank of Chile.

1/ Weighted average of the rates in all operations during the month.
2/ The nominal rate less variation in the CPI during the month.
3/ Suggested maximum nominal deposit rate for 30-day deposits:

As of April 7, 1983	2.1	As of January 11, 1984	1.5
As of April 20, 1983	2.3	As of February 6, 1984	1.1
As of June 7, 1983	2.1	As of March 7, 1984	0.9
As of June 27, 1983	1.9	As of April 9, 1984	1.4
As of December 21, 1983	1.7	As of June 9, 1984	1.5

Table 12. Chile: Balance of Payments Medium-Term Projections, 1984-89

	1984	1985	1986	1987	1988	1989
	(In millions of U.S. dollars)					
Trade balance	0.7	1.2	1.5	1.6	2.0	2.3
Exports	(3.8)	(4.4)	(5.0)	(5.7)	(6.6)	(7.5)
Imports	(-3.1)	(-3.2)	(-3.5)	(-4.1)	(-4.6)	(-5.2)
Nonfactor services	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9
Factor services	-2.0	-2.2	-2.3	-2.3	-2.3	-2.1
Transfers	0.1	0.1	0.1	0.1	0.1	0.1
Balance on current account	-1.6	-1.5	-1.3	-1.3	-1.0	-0.6
Direct investment	0.1	0.1	0.1	0.1	0.2	0.2
Amortization	-1.7	-2.3	-2.8	-2.6	-3.4	-3.0
Of which: to commercial banks	(-1.0)	(-1.6)	(-2.0)	(-2.0)	(-2.7)	(-2.2)
Medium-term capital inflows	2.6	3.5	3.8	3.6	4.0	3.2
Short-term capital inflows	0.4	0.2	0.2	0.2	0.2	0.2
Overall balance	--	--	--	--	--	--
Memoranda items						
Interest rate (prime, in percent)	11.7	12.0	11.0	10.0	9.0	8.0
Copper volume ('000 mt)	1,245	1,301	1,364	1,460	1,660	1,750
Copper price (London Metal Market, U.S. cents per pound)	66	75	82	90	96	104
Real GDP growth (percent per year)	4.5	1.0	2.5	4.0	5.5	5.5

Sources: Central Bank of Chile; and Fund staff estimates.

Table 13. Chile: Projection of Debt Service and Current Account Ratios, 1984-89

	1984	1985	1986	1987	1988	1989
Current account deficit as percent of GDP	7.8	6.7	5.4	5.0	3.1	1.9
Debt service as percent of GDP	18.7	21.5	22.2	19.5	20.1	16.3
Amortization 1/	8.2	10.3	11.7	9.9	11.8	9.4
Interest	10.5	11.2	10.5	9.6	8.3	6.9
Debt service as percent of exports of goods and nonfactor services	81.2 1/	89.0	88.3	73.9	72.5	57.8
Amortization	35.4	42.7	46.6	37.7	42.5	33.4
Interest	45.8	46.3	41.7	36.2	30.0	24.4
Memorandum items:						
GDP (in billions of US$)	20.9	22.3	23.9	26.1	28.9	32.0
Exports of goods and nonfactor services (in billions of US$)	4.8	5.4	6.0	6.9	8.0	9.0

Sources: Fund staff projections based on Appendix Table 12.

1/ Includes all scheduled amortization; after rescheduling the debt service for 1984 is projected at 55.9 percent of exports goods and nonfactor services.