

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

EBD/84/264

ROOM C-120

01

October 9, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Chile - Exchange Arrangements

The attached paper on a change in the exchange rate of the Chilean peso is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

Chile--Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitián

October 5, 1984

In the attached communication dated September 17, 1984, the Minister of Finance of Chile has notified the Fund of a change in the exchange rate of the Chilean peso. Other measures affecting foreign trade taxation, wages, and public spending were also mentioned in the communication.

On September 18, 1984 the exchange rate for the Chilean peso was changed from Ch\$93 = US\$1 to Ch\$115 = US\$1, entailing a 19.1 percent depreciation of the Chilean peso with respect to the U.S. dollar. The exchange rate will continue to be modified monthly, at a rate equivalent to the previous month's inflation less an adjustment for external inflation estimated at no more than 0.4 percent per month. The preferential exchange rate system applicable to foreign debt payments will be maintained. 1/

Also with effect from September 18, 1984, import duties were increased from an average level of 21.4 percent to a uniform rate of 35 percent. In order to reduce the adverse impact of higher duties on export activities, the authorities will submit to the Executive Branch a draft law to establish a drawback system for exporters.

The above measures were accompanied by the announcement of a proposal to adjust wages of public sector employees and private sector workers not covered by collective bargaining agreements in January 1985 as compensation for the increase in the cost of living expected to result from the exchange rate change and the increase in import duties; the compensation would be in full for the lower salary levels and in part for the higher ones. In addition, the imposition of strict limits on nonwage budgetary appropriations of government entities will be continued in 1985, and the Minister will request the Executive Branch to postpone the implementation of the second phase of a tax reform aimed at reducing the tax burden of enterprises and individuals until 1986.

---

1/ No change was announced regarding the scope of the parallel foreign exchange market. Private parties may undertake transactions in foreign exchange in this market at freely negotiated exchange rates, provided that such transactions are occasional, noncustomary, and without publicity.

The staff is in close contact with the authorities concerning the impact of these actions on Chile's economic program. The staff regards the above-mentioned devaluation as crucial in providing a basis for a needed improvement of the balance of payments. The authorities have explained to the staff that the increase in import duties is necessary to finance the 1985 budget. The staff, however, is concerned about the direction of Chile's trade policy and growth strategy implied by the tariff increase. As regards wage policy, the staff notes the need to keep wages under control to ensure that the adjustment of the external account is indeed accomplished while avoiding an inflationary spiral in the light of the indexing of the exchange rate to prices. These matters will again be discussed with the authorities at the time of the next review under Chile's stand-by arrangement with the Fund, which is expected to take place in the second half of October 1984.

Attachment

INTERFUND,  
WASHINGTON, DC

SEPTEMBER 17, 1984

THIS IS TO INFORM YOU THAT TODAY I AM ANNOUNCING, UNDER INSTRUCTIONS FROM HIS EXCELLENCY, THE PRESIDENT OF THE REPUBLIC, THE FOLLOWING ECONOMIC MEASURES:

1. A DEVALUATION OF THE PESO, IN RELATION TO THE U.S. DOLLAR, WHICH WILL TAKE THE EXCHANGE RATE FROM 93 PESOS ON SEPTEMBER 17 TO 115 PESOS. THE NOMINAL EXCHANGE RATE WILL BE MODIFIED MONTHLY, IN THE SAME MANNER AS HAS BEEN DONE UP TO NOW. THE PREFERENTIAL RATE SYSTEM WILL BE MAINTAINED.
2. A GENERAL INCREASE IN IMPORT DUTIES TO A UNIFORM RATE OF 35 PERCENT.
3. A DRAFT LAW WILL BE SUBMITTED TO THE EXECUTIVE BRANCH IN ORDER TO ESTABLISH A GENERAL AND UNIFORM DRAW-BACK TO EXPORTERS.
4. IT WILL BE REQUESTED TO THE EXECUTIVE BRANCH THAT THE APPLICATION IN 1985 OF THE SECOND STAGE OF THE TAX REFORM BE POSTPONED TO 1986.
5. TO 10 PERCENT REDUCTION IN ALL GENERAL GOVERNMENT ENTITIES' SPENDING ON GOODS AND NONWAGE SERVICES, WHICH HAD BEEN INSTRUCTED TO TAKE EFFECT DURING THE SECOND SEMESTER OF 1984, WILL CONTINUE TO BE APPLIED IN 1985. PRACTICALLY ALL REQUESTS FROM GOVERNMENT ENTITIES TO INCREASE OPERATING EXPENDITURE WILL BE REJECTED.
6. FINALLY, IN JANUARY 1985 WE WILL PROPOSE INCOME IMPROVEMENTS FOR PUBLIC SECTOR WORKERS IN ORDER TO COMPENSATE THEM FOR THE INCREASE IN THE COST OF LIVING WHICH IS EXPECTED TO OCCUR AS A RESULT OF THESE MEASURES. THIS COMPENSATION WILL BE TOTAL IN THE CASE OF THE LOWER REMUNERATIONS AND PARTIAL IN THE CASE OF THE HIGHER ONES. THE SAME CRITERIA WILL BE APPLIED IN THE CASE OF THE PRIVATE SECTOR WORKERS WHICH DO NOT BARGAIN UNDER A COLLECTIVE AGREEMENT.

ALL THESE MEASURES ARE IN ADDITION TO THOSE SPECIFIED IN MY TELEX TO YOU ON SEPTEMBER 5, 1984, AND ARE BEING TAKEN TO ADJUST OUR ECONOMY TO THE ADVERSE EXTERNAL CONDITIONS, TOTALLY BEYOND OUR CONTROL.

VERY TRULY YOURS

LUIS ESCOBAR CERDA  
MINISTER OF FINANCE

Received in the Cable Room September 17, 1984