

# INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved the use of Fund resources by the Government of Chile totaling the equivalent of SDR 820.6 million. Of this amount, SDR 750 million, or 170.3 percent of Chile's quota in the Fund, may be drawn over the next three years under an extended arrangement in support of the Government's economic program; the first drawing of SDR 62.5 million may be made at once. Another SDR 70.6 million is also available immediately under the compensatory financing facility. Drawings under the extended arrangement will be financed in equal parts from the Fund's ordinary resources and from resources borrowed by the Fund. Chile's quota in the Fund is SDR 440.5 million and its outstanding financial obligations to the Fund resulting from past operations and transactions total the equivalent of SDR 795 million.

The drawing of SDR 70.6 million\* under the compensatory financing facility is in respect of a much larger export shortfall of SDR 236 million experienced by Chile in the 12 months ended March 1985. Copper, the leading export, sustained a large shortfall as a consequence of a drop in export volume as well as in export unit values. A shortfall in non-copper exports amounting to approximately SDR 80 million was almost entirely related to lower prices.

The Chilean economy underwent a substantial adjustment during 1982-83. There was a steep decline in economic activity that was accompanied by a sharp curtailment of the deficit on current account of the balance of payments. The recovery in economic activity, which began in mid-1983, continued in 1984 and inflation was kept under control, but the external current account deficit rose again as copper prices declined, foreign interest rates increased, and imports expanded. The deterioration in Chile's external environment during 1984, the modest prospects for improvement in the country's terms of trade over the medium term, and the country's heavy external debt service burden led the authorities to undertake a renewed adjustment effort in order to reduce external imbalances to a sustainable level.

Chile's economic program for 1985-87, which the present extended arrangement supports, aims at a lasting reduction in the current account deficit of the balance of payments, moderate economic growth, and a slowing of inflation. Attainment of these objectives will require an expansion of exports, improvement of the domestic savings performance, and restrained demand management policies.

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\* This figure is corrected from SDR 70.6 billion.

Under the program, the external current account deficit is projected to decline from about 10.5 percent of gross domestic product (GDP) in 1984 to 4.5 percent of GDP in 1987. Attainment of the growth of the trade surplus will depend critically on the pursuit of a flexible exchange rate policy. In support of export-oriented growth and efficient import substitution, the authorities have cut import tariffs from 35 percent to 20 percent.

The programmed reduction in Chile's external current account deficit will need to be accompanied by a substantial improvement in the domestic savings performance if the projected rate of investment and economic growth is to be achieved. Private sector savings are expected to be strengthened by the implementation of an income tax reform, the maintenance of positive real domestic interest rates, and the re-establishment of a sound domestic private financial system. Public sector savings are projected to increase through curbs on current expenditure growth and the pricing of goods and services sold by the public sector to reflect their opportunity costs or higher if needed to help finance investment. The overall public sector deficit, which stood at 4.8 percent of GDP in 1984, will be virtually eliminated by 1987. Demand management will also involve the pursuit of a prudent monetary policy, consistent with the balance of payments objectives of the program and the gradual reduction of the annual rate of inflation from 34 percent in the second half of 1984 to about 15 percent in 1987.

To cover Chile's financing needs, the authorities have requested and obtained the support of multilateral development institutions, governments, and commercial banks. Agreement has been reached with commercial banks to provide during 1985-86 a new money facility of US\$785 million and to co-finance US\$300 million with the World Bank (half of which is to be guaranteed by the World Bank). Chile's interest obligations to foreign commercial banks are also to be reduced by US\$225 million through repricing of some obligations and the change in the timing of certain interest payments from a quarterly to a bi-annual basis. Agreement also has been reached with commercial banks on the rescheduling of amortizations due in 1985-87 corresponding to public and financial sector debt (US\$4.5 billion) and to private corporate debt (US\$1.4 billion) outstanding on January 31, 1983. Agreement has been reached on the rescheduling of US\$170 million of principal payments on public sector debt due to certain official creditors in 1985-86.