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EBS/84/50  
Correction 1

CONFIDENTIAL

March 27, 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 following corrections have been made in EBS/84/50 (3/9/84):

Page ii, page numbers: for "31, 34, 36, 40, 41, 42, 43, and 45"  
read "32, 35, 37, 41, 42, 43, 44, and 46"

Page 19, footnote 2, line 2: for "(SM/84/ )" read "(SM/84/66, 3/20/84)"

Page 30, para. no. 2, lines 1 and 8: for "March \_\_, 1984"  
read "March 12, 1984"

Page 31, para. no. 4, line 1: for "March \_\_, 1984" read "March 12, 1984"

Page 36, column 4, penultimate line: for "-1,231.0 4/" read "-813.9 4/"

Page 44, line 2: for "February 9, 1984" read "March 12, 1984"

Page 53, last line: for "Ch\$155 billion" read "Ch\$15.5 billion"

Corrected pages are attached.

Att: (7)



INTERNATIONAL MONETARY FUND

CHILE

Staff Report for the 1983 Article IV Consultation  
and Consultation 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

March 9, 1984

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Central Bank by circumstances, but that their policy was to reduce the Central Bank's discretionary role by phasing out special short-term credit facilities not related to past emergency support of the financial system, and by relying increasingly on open-market operations to re-channel resources to the rest of the financial system.

The monetary program for 1984 assumes a 4 percent growth in real GDP, no further decline in the real demand for financial assets, and disbursements of medium-term foreign bank loans in an amount of US\$780 million. The program is consistent with a deceleration of inflation to below 20 percent and maintenance of the level of net official international reserves. The monetary program incorporates certain medium-term credit lines that were established in 1983 to assist the private sector.<sup>1/</sup> These include a subsidy on debt service payments on dollar-indexed loans outstanding on August 6, 1982, a medium-term rescheduling of approximately 30 percent of the domestic bank debt owned by the productive sectors of the economy, and credit facilities for the housing industry.<sup>2/</sup> The financial program establishes ceilings on the net domestic assets of the Central Bank consistent with the balance of payments and price objectives of the program.

In 1984, the net domestic credit expansion of the consolidated banking system is financed by a 25 percent growth in liabilities to the private sector and by the medium-term foreign borrowing by the Central Bank mentioned earlier (Table 8). Net foreign borrowing by the rest of the banking system is expected to be small. Bank credit to the private sector is expected to account for 70 percent of the net bank credit expansion.

A major aim of financial management in 1984 will be to achieve further progress toward re-establishing a sound financial system, an objective which is crucial for the full restoration of confidence. After the financial crisis in January 1983 the authorities adopted a number of measures to stabilize the system and to recapitalize financial institutions. To preserve the liquidity of the banking system, all private bank deposits existing at the time of the banking crisis received a government guarantee until December 31, 1983, provided they remained at the same institution. The guarantee was later extended to December 31, 1984 while the authorities develop a new system of deposit insurance with technical assistance from the Fund.

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<sup>1/</sup> The central bank program does not contain any provision for central bank credit operations with the nonfinancial public sector as the Central Bank is constitutionally prohibited from providing credit to the public sector. Public sector financing requirements are met by the sale of paper on the open market.

<sup>2/</sup> These programs are explained in detail in the report on recent economic developments (SM/84/66, 3/20/84).

Table 8. Chile: Monetary Indicators <sup>1/</sup>

	December		1983				Dec. 1983	Projected
	1981- 1980	1982- 1981	Mar.- Dec. 1982	June- Mar.	Sept.- June	Dec.- Sept.	Dec. 1982	Dec. 1984- Dec. 1983
<b>A. Central Bank</b>								
	(Change in millions of U.S. dollars)							
International reserves	5	1,395	1,002	-188	749	-161	-602	--
Medium- and long-term foreign liabilities	-400	93	-6	-11	1,076	225	1,284	756
	(Percentage change) <sup>2/</sup>							
Net domestic assets	-20.1	33.2	149.9	17.8	58.1	82.8	313.0	159.9
Liabilities to the private sector <sup>3/</sup>	15.0	-3.1	6.5	-6.3	4.3	14.9	19.5	21.4
<b>B. Banking System</b>								
	(Change in millions of U.S. dollars)							
International reserves	-247	-1,464	-673	-288	829	-26	-158	-166
Medium- and long-term foreign liabilities	2,050	345	-44	-109	1,102	301	1,250	770
	(Percentage change) <sup>2/</sup>							
Net domestic assets	55.7	82.6	7.3	3.5	19.5	21.6	56.1	48.0
Credit to the public sector (net)	-10.2	9.6	3.9	-1.1	1.3	16.6	-23.1	8.7
Credit to the private sector	53.2	80.5	-3.9	4.8	4.4	11.9	19.3	33.8
Liabilities to the private sector	32.2	23.8	5.4	-1.4	10.6	11.5	28.1	24.8
<b>Memorandum item</b>								
Inflation rate (CPI)	9.5	20.7	3.8	6.0	7.1	4.4	23.1	20.0
Exchange rate Ch\$ per US\$	--	88.6	--	5.8	6.3	6.3	19.0	13.1

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

<sup>1/</sup> Changes based on end-of-period data; foreign currency components are valued at end-of-period exchange rates.

<sup>2/</sup> As percent of liabilities to the private sector at the beginning of the period.

<sup>3/</sup> Does not include central bank notes (pagares) in the hands of the private sector.

## VI. 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
    - (1) 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.

Chile - Fund Relations  
(As of February 1984)

I. Membership Status

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

II. General Department

- (a) Quota: SDR 440.5 million.  
(b) Total Fund holding  
of Chilean pesos: 1,019.5 millions of SDRs and 231.4 percent  
of quota as of January 31, 1984.

Of which:	Millions of SDRs	Percent of Quota
Under CFF	295.0	67.0
SBA: general resources	155.0	35.2
EAR	129.0	29.3

- (c) Fund credit to Chile amounts to SDR 579.0 million or 131.5 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 284 million  
(iv) Undrawn balance: SDRs 216 million

- (b) Previous stand-by arrangements since 1974.

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

- (c) Compensatory financing facility:

<u>Date of approval</u>	<u>Amount</u>
January 10, 1983	SDR 295 million

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 (1982)

SDR 1,901

<u>Origin of GDP</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Prel. 1983</u>
		(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
<u>Ratios to GDP</u>				
Exports of goods and services	22.8	17.1	21.8	26.5
Imports of goods and services	27.0	27.1	23.5	23.8
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 <sup>1/</sup>
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	34.8
<u>Annual changes in selected economic indicators</u>				
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	27.3
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 bank assets <sup>2/</sup>	79.5	63.4	66.5	54.9
Credit to nonfinancial public sector (net)	(-27.6)	(-11.9)	(13.0)	(9.7)
Credit to private sector	(110.7)	(83.0)	(63.2)	(41.9)
Merchandise exports (f.o.b., in U.S. dollars)	22.7	-18.4	-3.4	3.9
Merchandise imports (f.o.b., in U.S. dollars)	30.5	19.1	-44.1	-22.1

APPENDIX II

<u>General government finances</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Prel. 1983</u>
	<u>(billions of Chilean pesos)</u>			
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
<u>Balance of payments</u>	<u>(millions of U.S. dollars)</u>			
Merchandise exports (f.o.b.)	4,705	3,836	3,706	3,851
Merchandise imports (f.o.b.)	-5,469	-6,513	-3,643	-2,837
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	-1,068
Official capital (net) <sup>3/</sup>	43	542	823	1,283
Private capital (net)	3,142	4,157	192	-873
Errors and omissions	30	105	-76	18
Allocation of SDRs	30	28	--	--
Valuation adjustment	-30	-92	-28	40
Change in net official reserves (increase -)	-1,244	-7	1,393	600
<u>International reserve position <sup>3/</sup></u>	<u>December 31</u>	<u>December 31</u>	<u>December 31</u>	<u>Oct. 31</u>
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	<u>(millions of U.S. dollars)</u>			
Central Bank (gross)	3,220.1	3,189.5	1,993.9	1,987.1
Central Bank (net)	3,182.2	3,189.5	1,794.0	1,231.0
Rest of banking system (net)	-900.2	-1,151.9	-1,220.3	-813.9 <sup>4/</sup>

<sup>1/</sup> Changes in net domestic assets as percent of liabilities to the private sector at the beginning of the period.

<sup>2/</sup> Includes Banco del Estado.

<sup>3/</sup> Gold valued at US\$42.22 per ounce.

<sup>4/</sup> Excludes position of banks liquidated in January 1983.

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	1.0	1.3	1.6	1.8	1.9	2.0
Exports	(4.1)	(4.6)	(5.1)	(5.5)	(6.0)	(6.6)
Imports	(-3.1)	(-3.3)	(-3.5)	(-3.7)	(-4.1)	(-4.6)
Nonfactor services	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8
Factor services	-1.8	-2.0	-2.2	-2.2	-2.3	-2.3
Transfers	0.1	0.1	0.1	0.1	0.1	0.1
<u>Balance on current account</u>	<u>-1.3</u>	<u>-1.2</u>	<u>-1.0</u>	<u>-1.0</u>	<u>-1.0</u>	<u>-1.0</u>
Direct investment	0.2	0.2	0.2	0.3	0.3	0.3
Amortization	-1.7	-2.3	-2.7	-2.6	-3.5	-3.2
Of which: to commercial banks	(-1.0)	(-1.6)	(-2.0)	(-2.0)	(-2.7)	(-2.2)
Medium-term capital inflows	2.7	3.2	3.5	3.3	4.2	3.9
Short-term capital inflows	0.1	--	--	--	--	--
<u>Overall balance</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
(As percent of GDP)						
<u>Memoranda items</u>						
Current account	6.0	5.0	4.0	3.8	3.5	3.3
Interest payments on the external debt	9.6	9.5	9.3	9.0	8.5	7.8
Total external debt outstanding at year end	88.5	84.3	81.1	77.7	74.2	70.8

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

ATTACHMENT I

Santiago, Chile  
March 12, 1984

Mr. Jacques de Larosiere  
Managing Director  
International Monetary Fund  
700 - 19th Street, N.W.  
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. In December 1982 the Chilean authorities addressed to you a letter requesting your support in obtaining a two-year stand-by arrangement from the Fund in the amount of SDR 500 million. The economic policies which Chile intended to pursue in this period were described in the economic policy memorandum attached to that letter.
2. A weakening of the financial system beginning in 1981 led to a financial crisis early in 1983, causing serious difficulties in implementing our plans, and resulting in substantial deviations from the stand-by program. As we remained committed to the program objectives, in March 1983 we formulated and began to implement an emergency plan to stabilize the financial system, stem the loss of international reserves, and return to the program path. In July 1983, we communicated to you that the emergency plan was taking hold and that we were confident that Chile would return to the path of the stand-by program by September 30, 1983, under the assumption of timely disbursements of resources by Chile's foreign creditor banks.
3. We are now in a position to report to you that our short-term stabilization efforts have been successful. The loss of international reserves has been stemmed, inflation has been reduced, and economic recovery is under way.
4. Our policies for the second year of the stand-by arrangement are directed toward defending the stabilization already achieved, strengthening further the financial system and nurturing the moderate economic recovery currently under way. These policies are described in the attached Memorandum on Economic Policies.
5. In support of these objectives and policies, the Government of Chile requests that the remaining resources under the existing stand-by arrangement, equivalent to SDR 216 million, be made available to Chile in the course of 1984. In addition, the Government of Chile requests a waiver of the observance of the performance criteria relating to the unification of the exchange system and to the elimination of the restriction on payments for travel and other invisible transactions referred to in paragraph 4(b) of the stand-by arrangement.

ATTACHMENT II

Table 1. Chile: Limits on the Indebtedness of the  
Nonfinancial Public Sector

(In billions of pesos)

Date	Total limit	Sublimit on Domestic Indebtedness
March 31, 1984	586	137
June 30, 1984	628	148
September 30, 1984	660	160
December 31, 1984	700	174

The above limits shall be adjusted for revisions in the base data for December 31, 1983 and shall be raised in accordance with the provisions of the contingency public spending program for the second semester of 1984 in the course of the midyear review with the Fund. The increase in the limit for September 30, 1984 shall not exceed Ch\$6 billion, and that for December 31, 1984, Ch\$15.5 billion; the increase in the sublimit for September 30 shall not exceed Ch\$6 billion, and that for December 31, 1984, Ch\$15.5 billion.