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AGENDA**

EBS/83/134
Correction 1

CONFIDENTIAL

July 13, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Chile - Waiver and Modification of Performance Criteria
Under Stand-By Arrangement, and Approval of Certain
Exchange Measures

The following corrections have been made in EBS/83/134 (6/28/83):

Page 10, Item 2, line 1: for "dated ---, 1983" read "dated July 8, 1983"

line 6: for "of ---," read "of July 8,"

Item 3, line 4: for "of ---, 1983" read "of July 8, 1983,"

last line: for "letter ---, 1983." read "letter July 8,
1983."

Page 11, Item 4, line 1: for "dated ---, 1983" read "dated July 8, 1983"

Page 12, line 2: for "---, 1983" read "July 8, 1983"

Corrected pages are attached.

Att: (3)

The rescheduling of principal payments by the private financial system falling due in 1983 and 1984 and the refinancing of short-term working capital owed by the private financial system have been given a government guarantee; no official guarantee has been given to the foreign debt of the nonfinancial private sector. In order to bring the ceiling of the contracting and guaranteeing of foreign debt by the nonfinancial public sector (a performance criterion in the stand-by program) in line with the outcome of the foreign debt renegotiation concluded by the Chilean authorities, the staff does not object to the request to raise the ceiling accordingly.

The staff notes the changes that have occurred in Chile's exchange and trade system and which were adopted to cope with a particularly difficult situation. The spread between the official exchange rate and the parallel market rate constitutes a multiple currency practice. However, the spread has been declining in recent months and with a successful implementation of the financial program it should become progressively smaller. The exchange tax imposed on the sale of foreign exchange for payment of goods imported under import licenses issued prior to March 23, 1983, also constitutes a multiple currency practice, but it will cease to exist on March 24, 1984 at the latest.

The imposition of a deferment period on import payments constitutes a restriction on the making of payments for current international transactions. The action is an extension of a similar measure adopted with regard to limitations on foreign exchange sales for a number of invisible transactions for which Fund approval has been granted until December 31, 1983. The authorities continue to regard these restrictions as temporary and intend to take advantage of the review of the exchange and trade system to be undertaken in the context of the Article IV consultation with Chile scheduled for October 1983 to determine a schedule for their elimination.

IV. Proposed Decisions

A. Stand-By Arrangement

1. Chile has consulted the Fund in accordance with paragraph 6 of the letter dated December 13, 1982 from the Minister of Finance and Economy and the President of the Central Bank of Chile attached to the stand-by arrangement for Chile (EBS/83/227, Sup. 2) and paragraph 4 of the stand-by arrangement.
2. The letter dated July 8, 1983 from the Minister of Finance and the President of the Central Bank of Chile shall be attached to the stand-by arrangement for Chile, and the letter from the Minister of Finance and Economy and the President of the Central Bank of Chile dated December 13, 1982 attached to the stand-by arrangement, shall be read as modified by the letter of July 8, 1983.
3. Accordingly, the limit on the contracting and guaranteeing of external debt by the public sector described in table 3 of the memorandum annexed to the letter of December 13, 1982 shall be US\$5,500 million as referred to in the letter of July 8, 1983, and the limit on the net domestic assets of the Central Bank of Chile for the period July 1-September 20, 1983 described in table 4 of the memorandum annexed to the letter of December 13, 1982 shall be Ch\$95.5 billion for the period July 1-August 15, 1983, and Ch\$57.0 billion for the period August 16-September 20, 1983, as referred to in the letter July 8, 1983.

4. The Fund finds that in light of the letter dated July 8, 1983 no additional understandings are necessary concerning the non-observance of the performance criterion on the net international reserve target of the Central Bank for June 30, 1983 and that Chile may make purchases under the extended arrangement, notwithstanding the multiple currency practices and exchange restrictions introduced by Chile as described in EBS/83/134.

B. Exchange Measures

The excessive spread between the official exchange rate and the parallel market rate, and the 12 per cent exchange tax applicable to the purchase of foreign exchange for certain import payments constitute multiple currency practices. Chile has also imposed a 120 days' deferment period for all import payments. This measure represents the introduction of an exchange restriction. In view of the temporary nature of these measures the Fund grants approval for their retention until December 31, 1983.

Santiago, Chile
July 8, 1983

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosiere:

On January 10, 1983 the Executive Board of the Fund approved our request for a two-year stand-by arrangement. As we have informed you, since then a number of developments have taken place which have caused a substantial deviation from the stand-by program. A domestic banking crisis and the subsequent interruption of foreign bank lending to Chile in January 1983, led to a sharp expansion of Central Bank credit in support of the financial system and to a major loss in net international reserves.

As we remain committed to the objectives communicated to you in our letter of December 31, 1982 and attached memorandum on economic policies, 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 original path of the stand-by program. We have taken appropriate monetary measures and implemented new fiscal measures equivalent to 2 per cent of GDP. These measures will permit the provision of domestic debt relief by financing the cash flow gap of the financial system without raising inflationary pressures. In addition, we have entered into negotiations to refinance the repayment of principal of the public and private financial system debt to foreign banks for 1983 and 1984, and obtain net new financing as contemplated in our original financial program for 1983.

We have followed closely the course set out under our emergency plan. As a result, since March 1983 the expansion of the net domestic assets of the Central Bank has been brought under control and the net international reserve losses have been reduced to manageable size. We intend to continue on this course and are confident that Chile will return to the path of the stand-by program by September 30, 1983, as by that time banks will have disbursed new resources equivalent to the shortfall from the net bank capital inflow projected in the stand-by program. In fact, as of June 30, 1983, the remaining deviation of the net domestic assets of the Central Bank from the ceiling in the stand-by program and of the net international reserves of the Central Bank from the target in the stand-by program is expected to be due almost entirely to the temporary interruption of net lending to Chile by the foreign banking community.