

FOR
AGENDA

EBS/83/134

CONFIDENTIAL

June 28, 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

Attached for consideration by the Executive Directors is a paper on a waiver and modification of performance criteria under the stand-by arrangement for Chile and approval of certain exchange measures. Proposed decisions appear on pages 10 and 11. This subject has been tentatively scheduled for discussion on Wednesday, July 27, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Van Houten, ext. 74971.

Att: (1)

INTERNATIONAL MONETARY FUND

CHILE

Waiver and Modification of Performance Criteria under Stand-By Arrangement, and Approval of Certain Exchange Measures

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

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitian

June 24, 1983

I. Introduction

On January 10, 1983, the Executive Board approved a two-year stand-by arrangement for Chile in an amount equivalent to SDR 500 million (EBS/82/227, Sup. 2, 1/11/83). In January Chile purchased SDR 122 million. Since then no purchases have been made.

There were departures from the program shortly after it started as a result of a domestic banking crisis and the subsequent cessation of foreign bank lending to Chile. Since that time the Chilean authorities have been engaged in stabilizing the domestic banking system and pursuing fiscal and credit policies to bring the Chilean economy to the path of the stand-by program by September 30, 1983. A necessary condition to this end is that foreign banks provide Chile with the net capital inflow projected under the stand-by program.

In the attached communication to the Managing Director, the Minister of Finance and the President of the Central Bank of Chile describe the policy measures which Chile has implemented in order to return to the path of the stand-by program. On this basis they request that the Fund (i) waive the deviation from the net international reserve target applicable to June 30, 1983; (ii) modify the ceiling on the net domestic assets of the Central Bank applicable for the period July 1-September 20, 1983; (iii) modify the ceiling on the contracting and guaranteeing of foreign debt by the nonfinancial public sector; and (iv) approve certain changes in the Chilean exchange and trade system. This paper concludes with proposed decisions with regard to these requests.

II. Recent Developments

Chile's stand-by program faced difficulties almost from the start. On January 13, 1983 the authorities declared a bank holiday and intervened and liquidated a number of privately owned financial institutions. The authorities initially declined to guarantee payment of the foreign bank debt of the three liquidated financial institutions (totaling US\$400 million) and as a result foreign banks stopped all lending to Chile. The cutoff of foreign bank loans was followed by a very rapid expansion of Central Bank credit and a substantial loss of international reserves (Table 1). Capital flight and net repayment of foreign debt led to a reserve loss of about US\$600 million in January 1983. On January 31, the authorities, by agreement with the Advisory Committee of Chile's foreign bank creditors, announced a 90-day moratorium on amortization of foreign loans pending renegotiation of Chile's external debt.^{1/} Payments on short-term trade credits were maintained on a regular basis and principal payments on foreign bank loans by the private corporate sector were also continued at the option of the private corporate borrower.

The loss of net international reserves continued to be large in February and March, averaging about US\$200 million per month, as the Central Bank's credit policy financed not only the shortfall of bank capital inflow but also a reduction in the private sector's net foreign indebtedness, in part through changes in the leads and lags of trade-related payments. Since then, as a result of a substantial tightening of credit policy and an extension of the moratorium in April to cover principal payments by private corporate debtors, the reserve loss has been reduced to less than US\$100 million a month, notwithstanding the absence of capital inflows to Chile.

At the time of the bank intervention in January 1983, the authorities took a number of measures to help contain the potential drain of bank deposits. A marginal legal reserve requirement of 95 per cent on bank deposits was established to strengthen the Central Bank's hand in dealing with interbank deposit shifts. At the same time, the authorities guaranteed for a period of one year the deposits in the financial system existing prior to the January 13 declaration of a bank holiday as long as these deposits remained at the same institution. In late May 1983, when a measure of stability in respect of deposit holdings was achieved, the authorities announced a schedule of progressive reductions in the marginal reserve requirement to be implemented over a period of two months.

The marginal reserve requirement together with official intervention in a number of financial institutions gave the Central Bank direct control over a major share of financial intermediation in Chile and considerable influence over interest rates. In April, the Central Bank

^{1/} On April 29, 1983 the moratorium was renewed for 90 days.

resumed the practice of suggesting maximum interest rates on term deposits for all locally owned commercial banks.^{1/} The objective was to avoid a rapid escalation of nominal interest rates because of unstable market conditions. In subsequent months, the maximum interest rates have been kept under review. Both nominal and real interest rates declined moderately during the first five months of 1983 compared with the last quarter of 1982 (Table 2). In practice, the state bank and the foreign owned commercial banks have been obtaining financial resources at interest rates below the maximum rates, while the intervened banks generally have been paying rates of return on term deposits equal to the maximum rates.

The stand-by program had anticipated that recovery from the recession of 1982 would be modest because of weak economic growth in the industrial world, protectionist tendencies in a number of foreign markets, and the sharp rise in the debt service burden of the private sector. The January 1983 financial crisis in Chile reduced confidence in the ability of the authorities to manage the economy and contributed to delay the expected economic recovery in Chile. Preliminary data indicate that real GDP in the first quarter of 1983 was virtually unchanged from that of the last quarter of 1982, and was 9 per cent below the first quarter 1982 level (Table 3). An upturn was observed in non-copper exports beginning in the fourth quarter of 1982 and industrial production picked up in the March-April 1983 period, but these developments were offset by a decline in shipments of copper, Chile's principal export product, and recession in the construction, commerce, and service sectors. The unemployment rate in the first months of 1983 receded somewhat from the August-October 1982 peak level of 25 per cent to about 20 per cent mainly because of the implementation of special public employment programs. The large degree of slack in the economy contributed to a rapid abatement of inflation following the 34 per cent depreciation of the peso in the June-August 1982 period and the subsequent adoption of a flexible exchange rate policy. The rate of inflation, which was at an annual rate of 44 per cent in the second half of 1982, declined to approximately 20 per cent in the January-May period of 1983.

III. Emergency Plan

In March 1983 the authorities formulated an emergency plan designed to regain control of the financial situation, stem the loss of international reserves, and return to the path of the stand-by program within six months. A principal element of the plan was the re-establishment of a sound financial system. Detailed bank data collected and classified by the authorities, indicated that fully one-half of the loan portfolio

^{1/} A system for suggesting maximum interest rates was started in December 1982, but by mid-January 1983 it was made applicable only to intervened banks and the state commercial bank.

of the financial system was either a loss or temporarily nonperforming.^{1/} On this basis, it was estimated that the recapitalization and the re-establishment of an adequate stream of earnings to the financial system will require substantial public support for a number of years.

The authorities considered two basic options to finance the losses of the financial system: (i) a combination of inflation and currency depreciation with the objective of reducing the real value of the domestic liabilities of the financial system; and (ii) a transparent non-inflationary transfer of resources to the financial system. The authorities chose to implement the second option and have taken adequate and appropriate monetary and fiscal measures for this purpose.

1. Monetary measures

The Central Bank net credit expansion under the emergency plan converges with that of the stand-by program by September 30, 1983. In the period prior to that date, the emergency plan is designed to permit an additional net credit expansion equal to the shortfall of net bank capital inflow from the program level. Similarly, the net international reserve target under the emergency plan converges with that of the original program by September 30, 1983, and in the period prior to that date the net international reserves are expected to be below the programmed level because of the shortfall of net bank capital inflow.

Satisfactory performance under the emergency plan will permit Chile to bring the stand-by program fully on track by September 30, 1983, as by that time foreign banks will have disbursed to Chile new medium-term financing totaling US\$1,070 million, an amount equivalent to the net foreign bank financing projected in the original stand-by program for the first nine months of 1983. A first disbursement of US\$500 million is linked to Executive Board approval of the decision provided at the end of this paper. A second disbursement of US\$570 million is to be triggered by Chile's purchase from the Fund of the full cumulative amount to which Chile is entitled under the stand-by arrangement after August 15, 1983. Accordingly, the net domestic asset ceiling of the Central Bank under the emergency plan has been lowered progressively during the July 1-September 30 period so as to converge with the stand-by program ceiling by September 30.^{2/} The ceiling on the net domestic

^{1/} The severity of the recession in Chile in 1982 (GDP declined by 14.3 per cent) and the sharp increase in the debt burden of the private sector as a result of the large depreciation of the peso that same year, were important factors contributing to the acute financial problems of the private sector in Chile.

^{2/} The new medium-term bank financing of US\$1.3 billion to the Central Bank is treated as a negative item under the net domestic assets of the Central Bank. This treatment ensures that the medium-term financing offsets the expansion in central bank credit which took place in the January-September 1983 period on account of the shortfall in projected foreign bank financing.

assets of the Central Bank has been set at Ch\$95.5 billion for the period July 1-August 15, 1983, Ch\$57.0 billion for the period August 16-September 20, 1983, and Ch\$13.35 billion (the original stand-by program ceiling) for the period September 21-30, 1983. (The relationship between the original stand-by program and the emergency plan is presented in Tables 4 and 5, and Charts 1 and 2.)

Since the implementation of the emergency plan, the authorities have slowed markedly the rate of Central Bank credit expansion. In the first three months of 1983, the net domestic assets of the Central Bank expanded by Ch\$78 billion (equivalent to US\$1.05 billion). In April and May, the expansion was reduced to about Ch\$2 billion (US\$27 million) per month, well within the path laid out in the emergency plan. Reflecting the sharp deceleration in credit, the net international reserve losses, which totaled more than US\$1 billion in the first quarter of 1983 were reduced to US\$117 million in the April-May period. The latest information indicates that Chile has been performing in accordance with the emergency plan (Table 6), indeed substantially overperforming in relation to net domestic assets for April and May.

2. Fiscal measures

Chile was in compliance with the March 31, 1983 limit on total indebtedness of the nonfinancial public sector and the latest information indicates that the fiscal performance continues to be in accordance with the stand-by program. Virtually the entire deficit so far this year has been financed through domestic borrowing as foreign bank financing has been unavailable.

A number of changes have taken place in the projection for 1983 of revenues and expenditures of the nonfinancial public sector since the stand-by program went into effect (Table 7). The general government deficit has been raised upward substantially, notwithstanding the fiscal measures described below, due primarily to additional expenditures on employment and health programs and expenditures for support of the financial system.^{1/}

In March 1983, fiscal measures equivalent to approximately 2 per cent of GDP for the remainder of 1983 were taken. Wage adjustments and nonwage expenditures provided in the original fiscal program were reduced by an amount equal to 0.4 per cent of GDP. In addition a flat import surcharge of 10 percentage points was imposed, raising the effective

^{1/} These measures will provide funds for several subsidized refinancing programs to provide relief for domestic debtors and for the construction industry. Separate programs have been established for (1) debtors to the domestic financial system (on an average of 30 per cent of the debt outstanding on March 31, 1983); (2) buyers of existing unsold housing units; (3) homebuyers with existing mortgages; and (4) the transportation sector (on an average of 30 per cent of their direct debt to importers).

tariff to a uniform 20 per cent and yielding revenues of about 1.5 per cent of GDP (including higher receipts from the related value added tax on imported goods). The surcharge will remain at 10 per cent until October 1984 and is scheduled to decline to zero by December 1985. Another revenue measure linked the value added tax reimbursement for exporters to exchange surrender, effectively delaying reimbursement of the tax by an estimated average of two months (0.1 per cent of GDP). Without these additional revenue measures, tax receipts would have declined substantially from the programmed level due primarily to the continued lack of economic growth projected for 1983 compared with a programmed 4 per cent rate of growth of GDP.

The larger deficit of the general government has been partly compensated by cuts in planned fixed capital expenditures by the public enterprises and some improvement in the operations of CODELCO, the state copper company. The revised overall deficit of the nonfinancial public sector of Ch\$38 billion for 1983 is higher than the deficit contained in the original program. Nevertheless, the revised program is still fully consistent with the limits on the total indebtedness of the nonfinancial public sector of the stand-by program as the deficit in 1982 turned out to have been significantly smaller than had been anticipated at the time the limits of the indebtedness of the nonfinancial public sector for 1983 were set.

3. Measures affecting the exchange and trade system

In conjunction with the emergency plan put into effect in March 1983, a number of measures affecting the exchange and trade system were taken with the objective of protecting the level of official international reserves. The changes affect Chile's exchange arrangements and regulations governing import taxes and tariffs, invisible payments, and export proceeds, and have been reported to the Executive Board (EBS/83/86, 4/27/83).

The uncertainties generated by the banking crisis resulted in the development of a sizable spread between the official exchange rate and that prevailing in the parallel exchange market. The parallel market rate rose as high as Ch\$120 per U.S. dollar, but declined following the initiation of the emergency plan. By June 1983 the parallel market rate was about Ch\$90 per U.S. dollar compared with an official exchange rate of Ch\$76 per U.S. dollar. The authorities anticipate that the spread will continue to be reduced over time as the policy is to depreciate the official exchange rate in accordance with domestic inflation. The size of the spread between the two market rates gives rise to a multiple currency practice subject to approval under Article VIII, section 3. Another multiple currency practice arises from the 12 per cent tax applied to purchases of foreign exchange for imports for which import licenses had been obtained before March 23, 1983.^{1/} As the maximum life of an import license is 12 months, this multiple currency practice will cease to exist at the latest by March 23, 1984.

^{1/} Imports made under licenses obtained before March 23, 1983 are not subject to the 10 per cent tariff surcharge and related value added tax.

The introduction, on March 23, 1983 of a 120-day deferment period applicable to all import payments gave rise to an exchange restriction subject to approval under Article VIII, section 2. Importers are required to place a deposit at the Central Bank in anticipation of payment if they purchase foreign exchange prior to the earliest remittance date. The authorities in the attached letter state their intention to relax and abolish this requirement as the pressure on foreign exchange resources eases.

In the decision concluding the Article IV consultation with Chile on January 10, 1983, the Fund granted approval until December 31, 1983 of a multiple currency practice arising from the maintenance of a preferential exchange rate for debt service payments for debt contracted before August 6, 1982, and of an exchange restriction arising from the limitations placed on the sale of foreign exchange for foreign travel and a number of other invisible transactions. The Chilean authorities have now requested approval until December 31, 1983 of the multiple currency practices and exchange restriction described in the previous paragraphs.

4. External debt operations

An integral part of Chile's strategy to return to the path of the stand-by program is the disbursement by banks of financing equal to that which had been projected in the stand-by program. Accordingly, the authorities have negotiated (i) a refinancing arrangement of principal payments falling due in 1983 and 1984 by the public sector and the financial system to foreign banks totaling US\$2.1 billion;^{1/} (ii) new medium-term bank financing totaling US\$1.3 billion for 1983; (iii) the maintenance of short-term trade credits outstanding as of January 31, 1983, for a period of 18 months (US\$1.2 billion); and (iv) the refinancing of short-term working capital credits to the financial system outstanding on January 31, 1983 into a medium-term loan (US\$1.3 billion). The impact of the refinancing operation on Chile's debt service over the medium-term is presented in Tables 8 and 9.

In anticipation of the disbursement of new bank financing, Chile obtained bridge financing from foreign banks and the Bank for International Settlement in an amount totaling US\$450 million. The bridge financing will be absorbed by the new medium-term loan of US\$1.3 billion which is to be disbursed in three tranches: the first disbursement of US\$500 million would be linked to Executive Board approval of the decision proposed in this paper; a second and third tranche of US\$570 million and US\$230 million, respectively, will be disbursed following Chile's scheduled purchases from the Fund in late August and late November 1983. The new medium-term bank financing is to be channelled to the Central Bank and will have a government guarantee, as will all of the refinanced principal payments, short-term financial

^{1/} Principal payments by the private corporate sector are to be renegotiated on an individual basis.

credits, and trade credits of the public sector and financial system. As the refinancing operation and the related guarantees had not been foreseen in the design of the ceiling on the contracting and guaranteeing of foreign debt by the nonfinancial public sector (a performance criterion of the stand-by arrangement), the authorities have requested that the ceiling be raised to US\$5,500 million to reflect the guarantees given as part of the refinancing arrangement.

III. Staff Appraisal

A domestic banking crisis and the subsequent interruption of foreign bank lending to Chile in January 1983 provoked a sharp expansion of Central Bank credit and a substantial loss in international reserves. As a result, economic performance deviated significantly from the financial program supported by a two-year stand-by arrangement approved by the Executive Board on January 10, 1983. In March 1983 the authorities began to implement an emergency plan to stabilize the financial system, stem the loss of international reserves, and return to the path of the stand-by program by September 30, 1983. Central Bank credit was tightened, fiscal measures were taken to help finance the cost of the losses of the financial system, and negotiations with foreign banks were undertaken to refinance principal payments and obtain the new financing contemplated in the stand-by program.

Chile's economic performance so far has conformed to the emergency plan. On this basis, it is expected that Chile will be able to return to the path of the stand-by program by September 30, 1983, as by that time foreign banks will have disbursed new financing equivalent to the net bank capital inflow contemplated in the stand-by program.

The record of the past three months demonstrates the determination of the Chilean authorities to achieve the objectives of the stand-by program. The remaining deviation of the net domestic assets of the Central Bank and the net international reserves of the Central Bank from the respective ceiling and target of the stand-by program is due principally to the interruption of net lending to Chile by foreign banks. Prior to the Executive Board discussion of the Chilean request, notification is expected from Chile's foreign bank creditors that the required new financing will be forthcoming as planned. The financing that is the subject of this notification should ensure that the deviations that occurred in the arrangement, although significant in magnitude, are transitory and will be eliminated by September 30, 1983. On the basis of Chile's performance in recent months and of the temporariness of the deviations, and given the need to facilitate the re-establishment of external financing flows, the staff recommends approval of the authorities' request for a waiver of the deviation from the June 30, 1983 target of the net international reserves of the Central Bank and a related modification of the July 1-September 20, 1983 ceiling on the net domestic assets of the Central Bank.

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 -----, 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 -----, 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 -----, 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 -----, 1983.

4. The Fund finds that in light of the letter dated ----- --, 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
, 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.

In view of the progress made in returning to the stand-by path and to facilitate the re-establishment of the foreign financing of the program, we request a waiver of the deviation from the June 30, 1983 target of the net international reserves of the Central Bank and a modification of the ceiling on the net domestic assets of the Central Bank from Ch\$13.25 billion that was applicable to the third quarter of 1983, to Ch\$95.5 billion for the period July 1-August 15, 1983 period, and to Ch\$57.0 billion for the period August 16-September 20, 1983.

The refinancing over the medium term of repayment of principal by the private financial system falling due in 1983 and 1984 and of the short-term working capital owed by the private financial system is being arranged on satisfactory terms. The government of Chile has extended a guarantee to these refinanced amounts but has not provided such a guarantee to the foreign debt of the nonfinancial private sector. As neither the refinancing nor the guarantees had been contemplated when the ceiling on the contracting and guaranteeing of foreign debt by the nonfinancial public sector was established for the stand-by program, we also request that the ceiling be raised from US\$2,050 million to US\$5,500 million, in accordance with the provisions of the bank refinancing agreement.

In the context of our strategy to stem the loss of net international reserves, in March 1983 we took a number of measures affecting the exchange and trade system. We consider these measures to be temporary and not inconsistent with the objectives of the program supported by the Fund. They are, however, subject to approval by the Fund. These measures are described below.

On March 23, 1983, a 120-day deferment period applicable to all import payments was introduced. This measure was taken to maximize the use of available credit lines and was not intended to restrict imports. We intend to relax and abolish this requirement as the pressure on our foreign exchange resources eases.

The uncertainties generated by the banking crisis earlier this year resulted in a sizable spread between the official and parallel market exchange rate. Following the implementation of the emergency measures, the spread has been substantially reduced. We expect that with a return to normal financial market conditions and the maintenance of a flexible exchange rate in the official market, the spread will diminish.

On March 23, 1983, as part of the fiscal measures of the emergency plan, we imposed a temporary tariff surcharge of 10 percentage points. As import registrations existing prior to that date could not legally be made subject to the tariff surcharge, an equivalent tax of 12 per cent

was applied to foreign exchange sold for payment of these imports. The foreign exchange tax will disappear when the import registrations outstanding on March 23, 1983 have been utilized or have lapsed.

In view of the foregoing, we request Fund approval of these measures until December 31, 1983.

Sincerely yours,

Hernan Felipe Errazuriz
President
Central Bank of Chile

Carlos Caceres
Minister of Finance

Table 1. Chile: Performance Under the Stand-By Program,
January-May, 1983

	Jan. 31	Feb. 28	March 31	April 29	May 31
<u>(In billions of Chilean pesos)</u>					
Net domestic assets at the Central Bank <u>1/</u>					
Limit	-6.0	-6.0	-6.0	4.1	4.1
Actual	17.6	34.1	51.4	52.8	55.1
Margin	-23.6	-40.1	-56.4	-56.9	-59.2
Outstanding indebtedness of the nonfinancial public sector <u>2/</u>					
Limit	--	--	437	--	--
Actual	--	--	416	--	--
Margin	--	--	21	--	--
<u>(In millions of U.S. dollars)</u>					
Net international reserves of the Central Bank					
Target	1,307 <u>3/</u>	1,307 <u>3/</u>	1,307	1,177 <u>4/</u>	1,177 <u>4/</u>
Actual	1,089	878	641	623	524
Deviation	-218	-429	-666	-684	-783
Contracting and guaranteeing of external debt by the nonfinancial public sector					
Limit	2,050	2,050	2,050	2,050	2,050
Actual	390	390	390	390	390
Margin	1,660	1,660	1,660	1,660	1,660

Source: Central Bank of Chile.

1/ For purposes of calculating net domestic assets through June 30, 1983 all foreign currency entries are valued at an accounting rate of Ch\$74 per U.S. dollar.

2/ For purposes of calculating these limits, all foreign currency entries are valued at an accounting rate of Ch\$77 per U.S. dollar.

3/ Target applies to March 31, 1983.

4/ Target applies to June 30, 1983.

Table 2 . Chile: Interest Rates on 30-89 Day Operations

(In per cent)

	Nominal		Real 1/	
	Loans	Deposits	Loans	Deposits
1980 annual average	47.0	37.4	11.9	4.8
1981 annual average	52.0	40.8	38.7	28.6
1982 annual average	63.1	47.8	35.1	22.5
<u>1982</u>				
January	4.1	3.2	3.4	2.5
February	3.8	2.8	4.6	3.6
March	3.3	2.4	2.9	2.0
April	3.1	2.1	3.2	2.2
May	3.3	2.4	3.9	3.0
June	3.4	2.5	2.7	1.8
July	4.3	3.5	2.3	1.5
August	4.0	3.2	0.8	--
September	4.3	3.6	--	-0.7
October	5.0	4.5	0.2	-0.3
November	5.8	5.0	2.5	1.7
December	5.3	4.6	4.2	3.4
<u>1983</u>				
January	4.0	2.9	2.2	1.0
February	3.2	2.2	3.1	2.1
March	3.1	2.2	1.2	0.3
April	3.1	2.1 <u>2/</u>	0.1	-0.9
May	3.2	2.3 <u>2/</u>	1.8	0.8

Source: Central Bank of Chile.

1/ The nominal rate less variation in the CPI during the month.

2/ Suggested maximum nominal deposit rate for domestically owned banks:

As of April 7, 1983	2.1
As of April 20, 1983	2.3
As of June 7, 1983	2.1

Table 3. Chile: Selected Economic Indicators
(Percentage changes)

	1981	1982	1982				1983
			I	II	III	IV	I
Real GDP <u>1/</u> Relative to previous quarter	5.7	-14.3	-9.1 -9.2	-12.5 -1.8	-18.4 -3.8	-17.2 -3.5	-9.2 -0.5
Industrial production <u>1/</u> Relative to previous quarter	-12.4 <u>2/</u>	-15.1 <u>2/</u>	-13.5 -16.2	-18.7 5.3	-19.5 -0.1	-18.1 -6.3	-4.0 -1.8
Consumer prices <u>1/</u> Relative to previous quarter	9.5 <u>2/</u>	20.7 <u>2/</u>	7.6 0.7	4.5 -0.2	8.3 6.0	19.0 11.7	23.3 4.4
Unemployment rate <u>1/</u> Relative to previous quarter	8.9 <u>2/</u>	200.0 <u>2/</u>	180.7 36.4	227.4 27.3	295.1 25.1	199.1 -8.4	144.7 -0.1
Exports <u>1/</u> Copper <u>1/</u> Relative to previous quarter	-14.3 (-20.4)	-3.2 (1.1)	-1.7 (1.6) (-6.1)	-0.4 (9.4) (-0.5)	-4.0 (10.6) (11.9)	-6.7 (-15.7) (-19.3)	-6.8 (-19.4) (-10.3)
Non-copper <u>1/</u> Relative to previous quarter	(-8.7)	(-6.6)	(-4.2) (4.8)	(-7.3) (-3.5)	(-15.7) (-12.8)	(1.2) (14.7)	(3.3) (7.1)
Imports <u>1/</u> Relative to previous quarter	19.1	-45.0	-27.1 -27.1	-42.5 -17.4	-55.8 -15.7	-53.3 -8.0	-47.4 -17.9

Source: Central Bank of Chile.

1/ Relative to the same period of the previous year.

2/ Index: end-year over end-year.

Table 4. Chile: Central Bank Stand-By Program 1983

(Stocks, in billions of Chilean pesos)

	Dec. 31, 1982		1983				
	Prog. Est.	Actual	Mar. 31	June 30	June 30	Sept. 30	Dec. 31
	US\$1 = Ch\$74		US\$1 = US\$77				
Net international reserves ^{1/} (In millions of U.S. dollars)	113.7 (1,537.0)	122.8 (1,659.0)	96.7 (1,307.0)	87.1 (1,177.0)	90.5 (1,177.0)	80.9 (1,052.0)	80.9 (1,052.0)
Of which: cumulative net bank capital inflow	/--/	/--/	/170.0/	/344.0/	/344.0/	/642.0/	/922.0/
Net domestic assets	-20.7	-26.6	-6.0	4.1	2.4	13.2	23.9
Medium- and long-term foreign liabilities	45.6	46.0	45.6	45.6	47.5	47.5	47.5
Private sector liabilities	47.3	50.2	45.0	45.5	45.5	46.7	57.4
<u>Memoranda items</u>							
Net international reserves ^{1/} without net bank capital inflow (in millions of U.S. dollars)	1,537.0	1,659.0	1,137.0	833.0	833.0	410.0	129.0
Net domestic assets without net bank capital inflow	-20.7	-26.6	6.6	39.6	28.9	62.6	94.9

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

^{1/} Net of US\$550 million of special balance of payments support deposits programed to have been obtained in 1982.

Table 5. Chile: Central Bank Emergency Plan 1983

(Stocks, in billions of Chilean pesos)

	1982			1983		
	Dec. 31	1/ Mar. 31	June 30	June 30	Sept. 30	Dec. 31
	US\$1 = Ch\$74			US\$1 = US\$77		
Net international reserves <u>2/</u> (In millions of U.S. dollars)	122.8 (1,659.0)	46.4 (628.0)	23.6 (320.0)	24.6 (320.0)	83.5 (1,086.0)	82.9 (1,077.0)
Of which: cumulative net bank capital inflow (outflow -)	/--/	/-498.0/	/-473.0/	/-473.0/	/620.0/	/948.0/
Net domestic assets	-26.6	51.1	74.6	75.5	13.2	19.8
Medium- and long-term foreign liabilities	46.0	45.4	44.8	46.6	45.7	45.2
Private sector liabilities	50.2	52.2	53.5	53.5	51.1	57.5
<u>Memoranda items:</u>						
Net international reserves without net bank capital inflow (in millions of U.S. dollars)	1,659.0	1,126.0	793.0	793.0	466.0	129.0
Net domestic assets without net bank capital inflow	-26.6	14.3	39.5	39.1	60.9	94.6

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

1/ Actual data.

2/ Net of US\$137 million of special balance of payments support deposits obtained in 1982.

Table 6. Chile: Performance Under the Emergency Plan,
March-May, 1983

	March 31	April 29	May 31
<u>(In billions of Chilean pesos)</u>			
Net domestic assets of the Central Bank <u>1/</u>			
Limit	51.1	74.6	74.6
Actual	51.4	52.8	55.1
Margin	-0.3	21.8	19.5
Outstanding indebtedness of the nonfinancial public sector <u>2/</u>			
Limit	437	--	--
Actual	416	--	--
Margin	21	--	--
<u>(In millions of U.S. dollars)</u>			
Net international reserves of the Central Bank			
Limit	628	320 <u>3/</u>	320 <u>3/</u>
Actual	641	623	524
Deviation	13	303	204
Contracting and guaranteeing of external debt by the nonfinancial public sector			
Limit	2,050	2,050	2,050
Actual	390	390	390
Margin	1,660	1,660	1,660

Source: Central Bank of Chile.

1/ For purposes of calculating net domestic assets through June 30, 1983 all foreign currency entries are valued at an accounting rate of Ch\$74 per U.S. dollar.

2/ For purposes of calculating these limits, all foreign currency entries are valued at an accounting rate of Ch\$77 per U.S. dollar.

3/ Target applies to June 30, 1983.

Table 5. Chile: Central Bank Emergency Plan 1983

(Stocks, in billions of Chilean pesos)

	1982			1983		
	Dec. 31	1/ Mar. 31	June 30	June 30	Sept. 30	Dec. 31
	US\$1 = Ch\$74			US\$1 = US\$77		
Net international reserves ^{2/} (In millions of U.S. dollars)	122.8 (1,659.0)	46.4 (628.0)	23.6 (320.0)	24.6 (320.0)	83.5 (1,086.0)	82.9 (1,077.0)
Of which: cumulative net bank capital inflow (outflow -)	/--/	/-498.0/	/-473.0/	/-473.0/	/620.0/	/948.0/
Net domestic assets	-26.6	51.1	74.6	75.5	13.2	19.8
Medium- and long-term foreign liabilities	46.0	45.4	44.8	46.6	45.7	45.2
Private sector liabilities	50.2	52.2	53.5	53.5	51.1	57.5
<u>Memoranda items:</u>						
Net international reserves without net bank capital inflow (in millions of U.S. dollars)	1,659.0	1,126.0	793.0	793.0	466.0	129.0
Net domestic assets without net bank capital inflow	-26.6	14.3	39.5	39.1	60.9	94.6

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

^{1/} Actual data.

^{2/} Net of US\$137 million of special balance of payments support deposits obtained in 1982.

Table 6. Chile: Performance Under the Emergency Plan,
March-May, 1983

	March 31	April 29	May 31
<u>(In billions of Chilean pesos)</u>			
Net domestic assets of the Central Bank <u>1/</u>			
Limit	51.1	74.6	74.6
Actual	51.4	52.8	55.1
Margin	-0.3	21.8	19.5
Outstanding indebtedness of the nonfinancial public sector <u>2/</u>			
Limit	437	--	--
Actual	416	--	--
Margin	21	--	--
<u>(In millions of U.S. dollars)</u>			
Net international reserves of the Central Bank			
Limit	628	320 <u>3/</u>	320 <u>3/</u>
Actual	641	623	524
Deviation	13	303	204
Contracting and guaranteeing of external debt by the nonfinancial public sector			
Limit	2,050	2,050	2,050
Actual	390	390	390
Margin	1,660	1,660	1,660

Source: Central Bank of Chile.

1/ For purposes of calculating net domestic assets through June 30, 1983 all foreign currency entries are valued at an accounting rate of Ch\$74 per U.S. dollar.

2/ For purposes of calculating these limits, all foreign currency entries are valued at an accounting rate of Ch\$77 per U.S. dollar.

3/ Target applies to June 30, 1983.

Table 7. Chile: Operations of the Consolidated Nonfinancial Public Sector

(In billions of Chilean pesos)

	1979	1980	1981	1982	1983	
					Prog.	Rev.
<u>General government current revenue</u>	<u>250.9</u>	<u>353.8</u>	<u>409.1</u>	<u>420.1</u>	<u>453.5</u>	<u>452.3</u>
Taxes on income and property	55.3	78.8	73.2	83.8	80.7	76.8
Taxes on goods and services	88.9	132.1	167.9	162.2	234.4	224.4
Taxes on international trade	15.6	21.1	28.9	17.9	26.2	43.4
Social security tax	40.7	59.7	60.1	39.3	38.2	42.7
Other tax, net of IVA rebate	-1.7	-8.8	-9.0	-13.9	-18.7	-16.4
Nontax revenue	52.1	70.8	87.9	82.5	92.7	81.3
<u>Operational surplus of the public enterprises</u>	<u>75.3</u>	<u>106.8</u>	<u>71.9</u>	<u>108.3</u>	<u>162.5</u>	<u>172.2</u>
<u>Net transfers to general government</u>	<u>-65.6</u>	<u>-83.2</u>	<u>-71.3</u>	<u>-89.7</u>	<u>-133.0</u>	<u>-129.0</u>
<u>General government current expenditure</u>	<u>191.3</u>	<u>263.3</u>	<u>338.9</u>	<u>387.2</u>	<u>441.2</u>	<u>479.4</u>
Wages and salaries	70.6	94.4	99.0	95.7	108.0	102.5
Goods and services	23.5	33.5	37.4	38.7	45.9	48.4
Social security payments to private recipients	54.0	76.0	104.4	120.0	151.5	152.0
Transfer and subsidy payments to private sector	29.6	44.5	88.0	120.9	117.6	131.0
Interest on public debt	9.5	9.1	5.4	7.0	14.4	15.4
Other	4.1	5.8	4.7	4.9	3.9	4.5
Transfer for support of the financial system	--	--	--	--	--	25.5
<u>Current account surplus of the public sector</u>	<u>36.7</u>	<u>59.6</u>	<u>13.7</u>	<u>-33.6</u>	<u>41.8</u>	<u>16.1</u>
<u>Capital revenues</u>	<u>18.9</u>	<u>24.1</u>	<u>45.6</u>	<u>51.5</u>	<u>33.3</u>	<u>57.8</u>
<u>Capital expenditures</u>	<u>51.5</u>	<u>78.1</u>	<u>101.2</u>	<u>88.0</u>	<u>105.6</u>	<u>111.6</u>
Fixed capital	40.3	58.2	66.0	57.4	89.9	81.1
Financial investment	11.2	19.9	35.2	30.6	15.6	30.5
<u>Overall surplus or deficit (-)</u>	<u>36.7</u>	<u>59.6</u>	<u>13.7</u>	<u>-33.6</u>	<u>-30.4</u>	<u>-37.7</u>
General government	39.9	59.0	37.1	-24.9	-7.4	-33.7
Public enterprises	-3.2	0.6	-23.4	-8.7	-23.0	-4.0
<u>Financing</u>	<u>-36.7</u>	<u>-59.6</u>	<u>-13.7</u>	<u>33.6</u>	<u>30.4</u>	<u>37.7</u> ^{1/}
External	-0.2	-1.4	34.9	32.9	30.4	-8.9
Internal	-36.5	-58.2	-48.6	0.7	--	46.6

Sources: Ministry of Finance; and Fund staff estimates.

1/ This deficit is consistent with the limits on the total indebtedness of the nonfinancial public sector of the stand-by program as the 1982 deficit was smaller than had been anticipated at the time the limits on indebtedness were set.

Table 8. Chile: Relief from Rescheduling Operation
(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
1. <u>Relief</u>	<u>2,400</u>	<u>1,000</u>	==	==	==	==	==	==	==
Rescheduling of medium- and long-term debt	1,100	1,000	--	--	--	--	--	--	--
Consolidation of short- term debt	1,300	--	--	--	--	--	--	--	--
2. <u>Additional interest payments 1/</u>	<u>180 2/</u>	<u>321</u>	<u>375</u>	<u>375</u>	<u>375</u>	<u>320</u>	<u>203</u>	<u>87</u>	<u>15</u>
3. <u>Amortization payments on relief loans</u>	==	==	==	==	==	<u>1,046</u>	<u>1,046</u>	<u>1,046</u>	<u>262</u>
Rescheduling of medium- and long-term debt	--	--	--	--	--	646	646	646	162
Consolidation of short- term debt	--	--	--	--	--	400	400	400	100
4. <u>Net relief (1-2-3)</u>	<u>2,220</u>	<u>680</u>	<u>-375</u>	<u>-375</u>	<u>-375</u>	<u>-1,366</u>	<u>-1,249</u>	<u>-1,133</u>	<u>-277</u>

Source: Fund staff estimates.

1/ Excludes fees.

2/ Includes estimated interest on unpaid maturities, rolled over until the rescheduling will be operational.

Table 9. Chile: Debt Service Payments 1981-91 ^{1/}

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
(In millions of U.S. dollars)											
1. Medium- and long-term debt ^{2/}	2,529 ^{3/}	3,187	2,389	2,347	4,097	4,611	4,412	5,414	5,559	6,078	5,788
Interest	1,422	1,950	1,732	1,827	1,895	1,958	2,017	2,079	2,104	2,230	2,327
Principal	1,107 ^{3/}	1,237	657	520	2,202	2,653	2,395	3,335	3,455	3,848	3,461
2. Debt to IMF ^{4/}	70	40	36	58	69	232	354	235	115	67	23
Charges	7	2	33	58	69	64	45	25	13	5	1
Repurchase	63	38	3	—	—	168	309	210	102	62	22
3. Interest on short-term debt ^{5/}	482	421	336	210	210	210	210	210	210	210	210
Total (1+2+3)	3,081	3,648	2,761	2,615	4,376	5,053	4,976	5,859	5,884	6,355	6,021
Interest	1,911	2,373	2,101	2,095	2,174	2,232	2,272	2,318	2,327	2,445	2,538
Principal	1,170	1,275	660	520	2,202	2,821	2,704	3,545	3,557	3,910	3,483
(In per cent)											
Debt service in relation to exports of goods and services											
Including IMF	58.1 ^{3/}	72.8	50.6	42.9	66.0	70.3	63.7	69.0	63.8	63.2	55.3
Excluding IMF	56.8	72.0	50.0	42.0	65.0	67.1	59.2	66.3	62.5	62.7	55.1
Ratio of interest payments to GDP	5.8	9.9	10.1	9.7	9.2	8.6	7.9	7.3	6.7	6.4	6.0
Ratio of medium- and long-term debt to GDP	38.3	57.7	76.9 ^{6/}	78.1	73.4	68.9	64.9	61.2	58.1	55.2	52.6

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

^{1/} Projections assume a LIBOR of 10.4 per cent in 1983, and 9 per cent in the following years. The average spread is assumed to be 1 per cent for the loans contracted before January 1, 1983, 2-1/8 per cent for the loans rescheduled in 1983 and 1984, and 2-1/4 per cent for new loans. The average interest rate on nonbank loans is assumed to be equal to the LIBOR. The interest rate on short-term debt is assumed to be 14 per cent in 1983 and 12 per cent the following years.

^{2/} Includes the consolidation into a medium-term loan of US\$1.3 billion of short-term debt. Assumes flows of capital each year sufficient to finance a current account deficit of the balance of payments equivalent to 4.3 per cent of GDP in 1984 and 3.2 per cent of GDP in the following years. Nominal GDP in U.S. dollar terms is assumed to grow at a rate of 10 per cent per year, from 1984 onward.

^{3/} Excluding prepayments.

^{4/} Assumes disbursement of SDR 162 million in 1983 and SDR 216 million in 1984.

^{5/} On amount outstanding at the end of January 1983, excluding US\$1.3 billion, which will be consolidated into a medium-term loan.

^{6/} Includes the consolidation of US\$1.3 billion of short-term debt.

Table 10. Chile: Balance of Payments

(In millions of U.S. dollars)

	1980	1981	1982	1983	
				Program	Revised
<u>Current account</u>	-1,971	-4,652	-2,382	-1,602	-1,263
<u>Trade balance</u>	-764	-2,598	218	1,000	1,287
<u>Exports</u>	(4,705)	(3,960)	(3,783)	(4,450)	(4,254)
Copper	/2,125/	/1,757/	/1,743/	/1,950/	/1,894/
Other	/2,580/	/2,203/	/2,040/	/2,500/	/2,360/
<u>Imports</u>	(-5,469)	(-6,558)	(-3,565)	(-3,450)	(-2,967)
<u>Nonfinancial services</u>	-390	-726	-650	-648	-500
<u>Financial services</u>	-930	-1,428	-2,050	-2,054	-2,150
<u>Transfers</u>	113	100	100	100	100
<u>Capital account</u>	3,165	4,669	1,104	1,117	681
<u>Direct investment</u>	170	376	365	450	200
<u>Medium- and long-term capital</u>	2,273	3,311	1,354	591	1,033
Public sector	(-87)	(-165)	(680)	(464)	(1,201)2/
Private sector 1/	(2,360)	(3,476)	(674)	(127)	(-168)
<u>Short term</u>	722	982	-615	76	-552
Public sector	(172)	(437)	(50)	(--)	(-19)
Private sector	(550)	(545)	(-665)	(76)	(-533)2/
<u>Errors and omissions</u>	50	50	-87	--	--
<u>SDR allocation</u>	30	28	--	--	--
<u>Overall balance</u>	1,274	95	-1,365	-485	-582
<u>Valuation adjustment</u>	-30	-90	-28	--	--
<u>Change in net international reserves</u>					
(increase -)	1,244	-5	1,393	485	582 3/

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

1/ Includes Banco del Estado.

2/ Does not include the consolidation of US\$1.3 billion of short-term debt.

3/ The revised deficit is consistent with the net international reserve target of the stand-by program as the deficit in 1982 was smaller than had been anticipated at the time the net international reserve target for 1983 was set.

Table 11. Chile: Macroeconomic Flows

(As per cent of GDP)

	1980	1981	1982	1983	
				Prog.	Rev.
I. Balance of Payments					
<u>Current account surplus or deficit (-)</u>	-7.1	-14.1	-9.9	-7.2	-6.0
Trade balance	-2.7	-7.9	0.9	4.5	6.2
Net factor payments	-3.4	-4.3	-8.5	-10.0	-10.3
Other services and transfers	-1.0	-1.9	-2.3	-1.7	-1.9
<u>Capital account</u>	11.5	14.4	4.2	5.0	3.2
Private capital and financial public sector	11.6	11.7	1.5	3.3	3.8
Nonfinancial public sector	-0.1	2.7	2.7	1.7	-0.6
<u>Net official international reserves (increase -)</u>	-4.5	—	5.8	2.2	2.8 ^{1/}
II. Public Sector					
<u>Public sector savings</u>	10.6	5.5	0.2	2.4	1.0 ^{2/}
<u>Capital revenue</u>	2.2	3.5	4.2	1.9	3.7
<u>Capital expenditure</u>	7.3	7.9	7.2	6.1	7.1
<u>Overall surplus or deficit (-)</u>	5.5	1.1	-2.7	-1.7	-2.4 ^{3/}
Net foreign financing	-0.1	2.7	2.7 ^{4/}	1.7	-0.6
Net domestic financing	-5.4	-3.8	—	—	3.0
III. Saving and Investment					
<u>Gross domestic investment</u>	20.6	20.7	12.6	15.5	13.4
Public sector	5.2	5.0	4.6	5.2	5.2
Private sector	15.4	15.7	8.0	10.3	8.2
<u>Investment = savings</u>	20.6	20.7	12.6	15.5	13.4
External savings	7.1	14.1	9.9	7.2	6.0
Gross national savings	13.5	6.6	2.8	8.3	7.4
Public sector	(10.6)	(5.5)	(0.2)	(2.4)	(1.0)
Private sector	(2.9)	(1.1)	(2.6)	(5.9)	(6.4)
Memoranda items					
Annual growth rate of real GDP	7.8	5.7	-14.3	4.0	—
GDP (in billions of Chilean pesos)	1,075.3	1,268.9	1,228.7	1,740.0	1,570.0

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

^{1/} In nominal terms, the deficit is consistent with the net international reserve target of the stand-by program.

^{2/} Support to the financial system is financed by tax measures.

^{3/} In nominal terms, the deficit is consistent with the ceiling on public sector indebtedness contained in the stand-by program.

^{4/} Excludes external loans obtained by the nonfinancial public sector to provide balance of payments support to the Central Bank. These are included in the private capital and financial public sector flows.

CHART 1 CHILE CENTRAL BANK NET DOMESTIC ASSETS

(In billions of Chilean pesos)

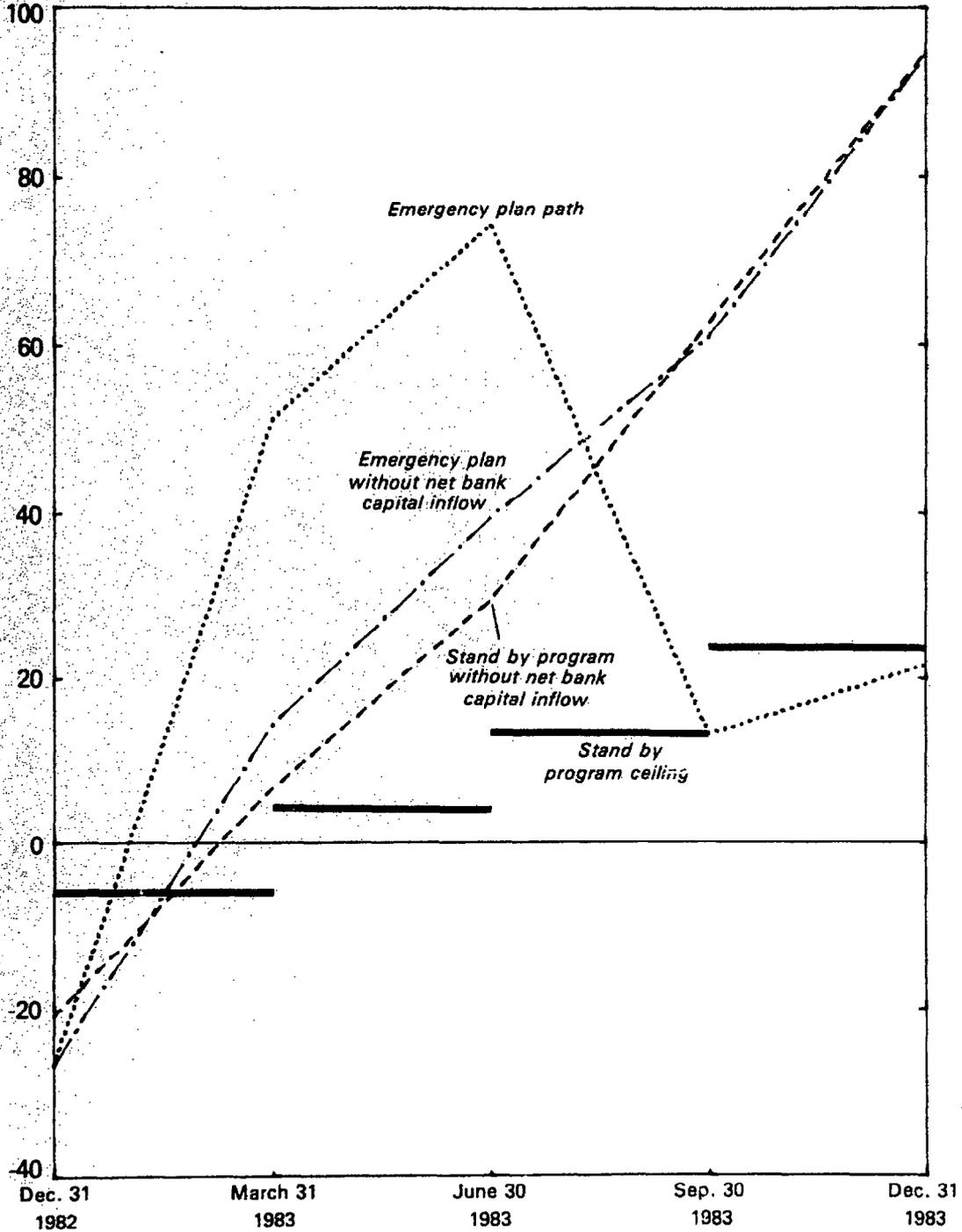


CHART 2
CHILE
CENTRAL BANK NET INTERNATIONAL RESERVES

