0404

October 5, 1989

To: Members of the Executive Board

From: The Acting Secretary

Subject: Final Minutes of Executive Board Meeting 89/17

The following corrections have been made in the final minutes of EBM/89/17 (2/15/89):

Page 1, item 2: for "Chile - Review...System...Page 41"
read "Chile - Review...System...Page 42"

Page 3, item 1, line 1 of heading:
for "INTERIM COMMITTEE - DRAFT PROVISIONAL AGENDA"
read "INTERIM COMMITTEE - PROVISIONAL AGENDA"

Page 41, para. 2, line 7 - for "pension review, the Secretary noted."
read "pension review."

line 9: for "management had very much taken"
read "management had taken"

line 19: for "office space, the Secretary went on."
read "office space."

Insert decision following para. 3:
"The Executive Board...
Adopted February 15, 1989"

Pages 42 through 63: Reissued to include overflow of paragaphs.

Corrected pages are attached.

Att: (27)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/17

3:00 p.m., February 15, 1989

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
F. Cassell	C. Enoch
Dai Q.	
	C. S. Warner
	J. Prader
	H. S. Binay, Temporary
E. T. El Kogali	
E. V. Feldman	
	M. A. Fernández Ordóñez
R. Filosa	S. Appetiti, Temporary
M. Finaish	A. M. Othman
M. R. Ghasimi	O. Kabbaj
	B. Goos
	S. P. Shrestha, Temporary
B. Jalan	L. E. N. Fernando
A. Kafka	
M. Massé	
	C. V. Santos
	B. A. Sarr, Temporary
	I. A. Al-Assaf
	M. Fogelholm
	G. Pineau, Temporary
G. A. Posthumus	G. P. J. Hogeweg
	C.-Y. Lim
	M. J. Shaffrey, Temporary
K. Yamazaki	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

Corrected: 10/5/89

Also Present

IBRD: W. G. Tyler, Latin America and the Caribbean Regional Office. Administration Department: H. J. O. Struckmeyer, Deputy Director; D. S. Cutler, H. Wiesner. European Department: M. Russo, Director; M. Guitián, Deputy Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; H. B. Junz, Deputy Director; E. Brau, R. G. Kincaid, M. H. Rodlauer, B. C. Stuart. External Relations Department: A. F. Mohammed, Director; P. E. Gleason, H. O. Hartmann, H. P. Puentes. IMF Institute: O. B. Makalou. Legal Department: W. E. Holder, Deputy General Counsel, J. V. Surr. Research Department: J. A. Frenkel, Economic Counsellor and Director; A. D. Crockett, Deputy Director; M. Goldstein, Deputy Director; J. M. Boughton, E. Hernández-Catá, M. Khan, F. Larsen, P. Wickham. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; R. S. Franklin, B. R. Hughes. Treasurer's Department: T. Leddy, Deputy Director; D. Williams, Deputy Director; A. J. Tweedie. Western Hemisphere Department: S. T. Beza, Director; J. Ferrán, Deputy Director; L. H. Duran-Downing, M. E. Hardy, L. U. Figluoli, R. K. Renhack. Personal Assistant to the Managing Director: H. G. O. Simpson. Special Advisor to the Deputy Managing Director: W. A. Beveridge. Advisors to Executive Directors: P. E. Archibong, P. Péterfalvy, M. A. Tareen, A. Vasudevan, R. Wenzel, J. E. Zeas. Assistants to Executive Directors: B. A. Christiansen, E. C. Demaestri, Di W., M. A. Hammoudi, M. Hepp, J. Heywood, V. K. Malhotra, R. Marino, G. Montiel, N. Morshed, L. M. Piantini, J.-P. Schoder, C. C. A. van den Berg, Yang J.

1. INTERIM COMMITTEE - PROVISIONAL AGENDA; AND WORK PROGRAM - PRIORITIES

The Executive Directors considered the draft provisional agenda for the Thirty-Second Meeting of the Interim Committee (EBD/89/40, 2/10/89), and a tentative schedule of Executive Board meetings (Secretary's Circular No. 89/19, 2/15/89).

The Managing Director made the following statement on work priorities after the spring 1989 meeting of the Interim Committee:

> At the discussion on the current work program last November, it was agreed that when the Executive Board considered the provisional agenda for the Interim Committee meeting in the spring of 1989, we would also review the work program and have a preliminary exchange of views on work priorities after the April meetings. Most of our policy work for the period until the April meetings is already scheduled, except for the issues paper on Bank-Fund collaboration and for the Executive Board reports to the Interim Committee on the Ninth General Review of Quotas and on overdue financial obligations to the Fund. In considering the thrust of our work following the April meetings, we should keep in mind the recent Board discussion on the budgetary outlook for FY 1990 when we agreed to give priority to improving services to member countries and to maintain an overall work program at a level that would be manageable for the staff, management, the Executive Board, and the authorities in the capitals. This proposed exchange of views on priorities is designed to be complementary to the detailed programming of the work of the staff and the Executive Board which will, as usual, be prepared immediately following the April meetings.
>
> I am mindful of the Board's desire for an even flow of work and to avoid "bunching" of meetings in the period preceding ministerial meetings. The staff will make every effort to minimize the trough which tends to occur in the weeks immediately following ministerial meetings and as many policy and country papers as feasible will be brought to the Board's agenda before the informal summer recess. Let me recall that we have agreed that the period of the informal recess will be from Monday, July 31 to Friday, August 11, 1989.
>
> 1. Ninth General Review of Quotas
>
> The work of the Committee of the Whole on the Ninth General Review of Quotas is proceeding broadly as scheduled. In light of the outcome of our sessions on the role of the Fund, on the size and the distribution of an increase in quotas, on payment for the increased subscription, on the position of very small quotas, and on shares of developing countries in the Fund, we should agree on how to proceed with the remaining work on the

Quota Review, with a view to meeting the deadline of April 30, 1989. In that connection, let me note that the Interim Committee has asked for a report from the Executive Board at its forthcoming meeting and that the Board's report to the Board of Governors must be submitted by April 30, 1989.

2. Overdue financial obligations to the Fund

We are making every effort to implement the intensified collaborative approach to resolving the problem of arrears to the Fund. One support group for a member in arrears has been established. Efforts to resolve other individual cases of overdue obligations will continue to be pressed; and progress reports will be submitted to the Executive Board. In light of experience so far, the staff has prepared a paper that raises some issues regarding the modalities of the implementation of the cooperative approach and discusses preventive and remedial measures; Board consideration has been scheduled on February 17. The Interim Committee has asked for a report from the Executive Board on the matter of overdue financial obligations to the Fund and a draft of the report is planned to be circulated for consideration by the Board in March. In light of the Board discussions and the Interim Committee meeting, further work will be undertaken to improve the effectiveness of the collaborative approach. A staff paper on the issue of suspension of membership is planned to be circulated by May/June.

3. World economic outlook, surveillance, and international monetary system

We have the next informal session on exchange rate developments scheduled for March 17, and we should continue these periodic sessions in mid-May, early July, and late August.

The usual papers on the world economic outlook focusing both on short- and medium-term prospects and policy issues will be prepared for consideration in early September.

Regarding Fund surveillance and consultations with members under Article IV, a paper reviewing experience with the bicyclic consultation procedure and focusing on issues related to the work load stemming from Article IV consultations will be issued for consideration by the Executive Board on May 3.

In the work program discussion last November, Directors emphasized the importance of continuing analytical work within the institution on issues concerning the functioning of the system. Our recent discussion on the European Monetary System and the integration of European financial markets stimulated a great deal of interest. Directors will have further opportunity to reflect on some basic issues on March 1 when papers on "Key

After a further broad discussion on the timing of a number of papers for Board consideration, the Secretary said that the dates that had been agreed would be incorporated in the next tentative schedule of Executive Board meetings.

The paper on the review of technical assistance was in process of preparation, the Secretary commented. The review was complex, and would require thoughtful inputs from staff of most departments. The management hoped that the paper would be ready for a Board discussion in May. One Director had expressed some disappointment concerning the timing as outlined in the Managing Director's statement on work priorities of the pension review. The review of the Staff Retirement Plan was also a complex matter, about which some caution was needed. The management had taken into account the comments Mr. Cassell had made during the last discussion of the Joint Compensation Committee on the need for appropriate linkages between the pension scheme and compensation. If it was at all possible to bring forward the paper on the proposed revisions to the Staff Retirement Plan, the management would do so; at the least, it was hoped that a sensible outline of those proposals could be presented to the Board in time for the discussion on compensation, so that the necessary linkages between those issues could be made clear, even though the details would be lacking. He had taken note of the comments of Mr. Cassell and Mr. Warner regarding rental of additional office space. Mr. Warner had stressed the need to identify alternatives, and Mr. Cassell had expressed the desire to have in hand the paper on various categories of staff in connection with any proposal for the rental of additional space.

On a matter that had not been discussed but had been raised before, the Secretary concluded, Directors may have recalled that they had expressed some concern about the need for the staff to do its utmost to maintain the confidentiality of information in the papers on the world economic outlook. There had been some leaks of information in previous world economic outlook papers. In that connection, the number of copies of those papers requested by Executive Directors was quite large--larger, in fact, than for any policy paper. It was of course encouraging that the demand for early copies of the papers was so great, but that should perhaps be tempered by the realization that the same papers came out in a published version about two months afterward. In that respect, he would appreciate the cooperation of Directors in attempting to keep to the minimum the number of extra copies they required. He had proposed that the number of copies to be made available to the staff be greatly restricted as well.

The Executive Board then took the following decision:

> The Executive Board agrees to transmit the provisional agenda for the Thirty-Second Meeting of the Interim Committee set out in EBD/89/40 (2/10/89), as amended in the light of the discussion, to the Chairman of the Interim Committee.

Adopted February 15, 1989

2. CHILE - REVIEW UNDER EXTENDED ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff paper on the review under the extended arrangement for Chile that entered into effect August 15, 1985, and was lengthened for a period of one year to August 15, 1989 (EBS/89/8, 1/27/89).

Mr. Feldman made the following statement:

Chile is now in its fourth year of an extended arrangement with the Fund. During this period, significant progress has been made in the implementation of a comprehensive economic program. A prudent management of macroeconomic policies has been complemented by a wide range of structural reforms, resulting in high rates of economic growth and a significant improvement in the external situation.

However, despite these achievements, the external debt burden remains heavy, and present levels of real per capita consumption remain below those that prevailed in the early 1980s. The medium- and long-term projections indicate that the recovery of those consumption levels in the early or mid-1990s will require the continued implementation of sound economic policies, coupled with the support of the international financial community--the only way to achieve a sustainable path of strong economic growth. This clearly indicates that much remains to be done.

My authorities wish to express their appreciation for the valuable assistance and support that has been received from the Fund's staff and management during all these years.

The year 1988 has been a good one for the Chilean economy. In fact, there has been strong real growth, lower inflation, and a sizable increase in international reserves. Preliminary information indicates that real GDP rose by 6.8 percent in 1988, raising per capita GDP to a level slightly above its previous peak of 1981. The rate of unemployment was reduced from 7.9 percent in the last quarter of 1987 to 6.3 percent at the end of 1988. This implies an increase of 6.4 percent in employment, equivalent to the creation of 255,000 new positions. Furthermore, the annual rate of inflation was 12.7 percent at the end of 1988, compared with 21.5 percent in 1987.

The performance of the public sector was highly satisfactory during 1988, and a similar result can be expected for 1989, even after taking into account the reduction in the value-added tax rate adopted in mid-1988.

In the monetary field, an acceleration in the growth rate of narrow money (M1) could be observed in the second half of

1988, coincident with important political developments in the country. These events might have induced a shift in investors' portfolio preference in favor of larger holdings of liquid assets. Preliminary estimates for seasonally adjusted monetary aggregates would indicate an important deceleration in the rate of increase of narrow money in January 1989. This would indicate that the measures that were adopted recently--raising on two occasions the real interest rate for central bank index-linked instruments--are working properly, and that the economy is gradually absorbing the uncertainties associated with the initial stages of a period of political transition. Furthermore, the available data also show a significant decline in the rate of inflation in January, as well as a narrowing in the gap between the parallel and official exchange rates.

The more favorable outcome in the external sector was the result both of improved external conditions and the continued implementation of policies aimed at preserving Chile's external competitiveness. Available preliminary figures indicate that exports exceeded US$7 billion in 1988, a 35 percent increase from 1987, while noncopper exports rose by 14 percent (70 percent during the program period 1985-88), and imports rose by 21 percent, resulting in a trade surplus of US$2.2 billion. It is worth stressing that a significant proportion of the windfall gains associated with the high copper price were accumulated as reserves under the mechanism of the Copper Stabilization Fund. Aside from this reserve accumulation, Chile's external debt declined in absolute terms for the second consecutive year, helped by the continuation of debt conversions and by a direct buy-back operation involving official debt, carried out during 1988.

For 1989, Chile's financial program continues to be framed within the medium-term objectives of achieving high and sustained growth, gradually reducing inflation, and easing the external debt burden.

The program has an annual growth target of 4-5 percent for the coming years. If, on the one hand, as it is projected in the staff paper, external conditions deteriorate significantly in the near future (i.e., copper prices return by 1990 to their estimated long-term trend levels), the lower bound of the range seems the most likely result. On the other hand, under external conditions as favorable as those prevailing now, and if the domestic environment continues to be conducive to economic growth, economic policies will aim at a growth rate around the upper bound of the range, similar to the one observed on average during the four previous years.

Inflation dropped substantially in 1988. For 1989 the program envisages, essentially, a consolidation of those gains. Further progress in reducing inflation is expected in the following years.

The above targets are consistent with a continuation of the favorable trend observed in Chile's external account and a gradual improvement in foreign debt ratios. In fact, according to the latest projections, Chile may achieve a sound foreign debt position by the early 1990s, which might allow it to begin receiving voluntary untied lending.

For the first year since 1982, no new money from commercial banks, or any other similar financing device--such as the retiming of interest applied for in 1987-88--will be requested in 1989. In addition to higher revenues from copper exports, the program envisages significant inflows of foreign investment and private project-financing loans, as well as continued support from multilateral agencies. In this connection, it is important to mention that at the end of 1988, Chile received from the Eximbank of Japan a yen-equivalent loan of US$200 million in a cofinancing arrangement with the World Bank's structural adjustment lending program.

For the following years, much depends on the behavior of the terms of trade--copper prices, in particular--and international interest rates. As shown in the staff paper, projections for the medium term based on quite cautious external assumptions demonstrate that the anticipated external financing gaps appear to be manageable, provided that new lending or refinancing covers the amortizations and the reversion of the retiming of interest of 1988, which will come due from 1988 on, when the grace period under the current rescheduling agreement ends.

The medium- and long-term prospects for the Chilean economy are still quite dependent on the terms of trade--copper prices--and interest rates. Continued strong support from the international financial community will be needed to help Chile make further progress in the diversification of its export base and in the reduction of its external debt burden.

In this connection, it is important to recognize that Chile's efforts have been supported recently by the international community through assistance and loans from the World Bank, from which a complete sequence of three structural adjustment loans has been totally disbursed, and from the Inter-American Development Bank and the Eximbank of Japan.

While the Chilean authorities feel that effective and timely support from the international financial community is crucial to achieving a sustained path of economic growth, they remain committed to the continued implementation of prudent demand management policies and the consolidation of the deep structural reforms implemented in recent years.

Mrs. Filardo made the following statement:

The economic results obtained by Chile under the extended arrangement with the Fund, and under the structural adjustment loan from the World Bank, are very impressive, and the authorities should be commended for implementing the sound economic policies that permitted those results. That notwithstanding, as Mr. Feldman has emphasized, the debt burden remains heavy, and the present levels of real per capita consumption remain below those that prevailed in the early 1980s. We agree with him that Chile will need the support of the international community in order to maintain strong economic growth, low inflation, and balance of payments viability.

We agree in general with the staff's assessment of the economic results for 1988 and the suggestions for the 1989 economic program. However, I have a few questions. On the monetary front, I noticed that the growth of narrow money accelerated from 25 percent in 1987 to 58 percent in October 1988. In the staff's view, the growth of the demand for money may have reflected the preference for liquidity in response to political developments, as Mr. Feldman also notes. We note from the staff paper that the authorities have been implementing a debt conversion program since 1985, and that the amount estimated for 1988 seems to be larger than was planned. We would like to hear from the staff whether the debt conversion scheme would not have had monetary implications, and whether, coupled with accelerated economic growth, it could have contributed to inaccurate conclusions--giving the impression that there were other reasons for the increase in the demand for money and that the economy had overheated. In that connection, it is also noted that, during 1987, the amounts involved in debt conversion were larger than expected, and that the inflation rate increased substantially. Thus, we wonder whether the issue of the debt conversion program deserves special consideration, to allow us to recommend to the authorities the right policy orientation.

My second point is related to the debt strategy envisaged by the authorities. One of the main elements of the strategy is to shift financing from foreign bank loans to credits from multilateral institutions and official resources. From the staff's projections of Chile's debt pattern up to 1994, it is clear that there will be an important increase in Chilean indebtedness to international organizations and a marginal increase in debt to private institutions. While we endorse the authorities' wishes to continue with an arrangement with the

Fund because of the excellent results that have been obtained so far, we would like to hear comments from the staff or from Mr. Feldman about those projections. I would also like to ask whether the authorities, under the present agreement with the commercial banks, will be able to carry out debt buy-backs in larger amounts using resources from the Copper Stabilization Fund (CSF). They may thus have the opportunity to reduce their debt burden, and perhaps their financing demands on multilateral institutions as well.

We endorse the proposed decision, and encourage the Chilean authorities to continue their efforts.

Mr. Kafka made the following statement:

Chile has observed all quantitative performance criteria under the extended arrangement. It is only by looking at the entire period, however, that we realize the progress the Chilean economy has made in recent years. Between 1985 and 1988, there was impressive real growth in GDP, export volume, gross domestic saving, and investment. Expansion of domestic credit was sharply reduced, inflation and unemployment rates plummeted, the public sector borrowing requirement was converted from a deficit to a respectable surplus, and the external current account deficit fell sharply, as did the spread between the official and parallel exchange rates. The debt service ratio, after rescheduling, dropped almost 50 percent, to 30 percent of exports. We would like to caution the authorities about one aspect of the debt profile, namely, the doubling in the share of short-term debt vis-à-vis total debt, to 14 percent since 1985.

We strongly support the proposed decision. The 1989 economic program is consistent with the objectives of controlling economic growth and restraining inflationary pressures to prevent any overheating of the economy, and to consolidate the growth and adjustment process.

The authorities will continue to reduce the share of the public sector in the economy by cutting current expenditure and transferring public enterprises to the private sector. Nonfinancial public sector savings will be kept unchanged, notwithstanding the negative effects on revenue of cutting back taxes and of the privatization of profitable public enterprises that was undertaken in 1988. In this context, we welcome the authorities' decision to postpone some fiscal expenditures early in 1989. All these measures, combined with the decision to encourage private sector investments in basic infrastructural projects, would release resources to enhance productivity, and foster growth in the long term by improving resource allocation.

Ample resources should be channeled to strengthen human capital so as to guarantee a widening of development options.

We have confidence that the authorities will act prudently to deal with any re-emergence of inflationary pressures, as they did in 1988, when the rate on open market instruments was increased twice, and the auction of debt conversion rights was suspended in order to restrain liquidity. Regarding exchange rate policies, holding a moderate appreciation in reserve may be appropriate both from the monetary and balance of payments points of view, but the reduction of import tariffs in 1988 and the elimination of import deposit requirements in 1989 could put pressure on the external sector. The authorities should also be aware that the copper price cycle is likely to have passed its peak.

For the medium-term outlook, the staff has projected an annual average increase of GDP of 4 percent for the next six years, and a strong growth of export volume of 8 percent. However, to 1994, net factor payments will represent 25 percent of merchandise exports, and will absorb from domestic savings 8 percentage points of GDP, as in 1988.

The growth and adjustment process has been successful in restoring internal balance, fostering growth and domestic savings, and diversifying exports, but the case of Chile is a good example of the fact that the present so-called debt strategy is not working adequately. Despite Chile's notable economic performance and its debt conversion scheme, the debt burden hangs over Chile like the sword of Damocles. The debt service ratio, after rescheduling, is expected to be 32 percent of exports in 1994, and the interest service ratio will be 16 percent--still above or close to the present levels of problem debtors. The Fund must, of course, continue to support Chile in its efforts to restore external viability in the medium term.

My remarks were not addressed to any weakness on the part of the Chilean authorities; I have nothing but admiration for their efforts. My remarks were addressed to the failure of the debt strategy as such. I congratulate the Chilean authorities for their outstanding performance, and wish them well.

Mr. Templeman made the following statement:

We are very pleased to see that Chile continues to make admirable progress in alleviating its debt problem in the context of good economic growth, while introducing major structural reforms. Last year, good performance could be seen in substantial economic growth in real terms, a fall in the unemployment rate, lower inflation, a smaller current account deficit, a decline in outstanding debt, and reduced debt and debt service ratios. Furthermore, the staff paper indicates that all performance criteria for which data were available when the paper was issued were met. But we wonder whether end-year data are now available concerning the ceilings on the fiscal deficit and on external debt.

We would like to raise once again the issue of the practice of carrying forward rather large margins that were created by better than expected performance early in the four-year program, even if the newly set performance criteria have been rebased, as occurred most recently as of September 1988. This does not seem to be the standard practice in most Fund-supported programs, and it raises some question about the establishment of de facto performance criteria ranges, and of the substitution of a consultation procedure for the usual waiver requirement, in the event that the basic performance criteria are breached. We need not discuss this matter in depth today, but we would like to suggest that this practice be examined by the staff and the Board on the next appropriate occasion when we consider the Fund's program monitoring procedures.

Even though economic performance was generally good last year, we are quite concerned about the resurgence of inflation which took place late in 1988, when the annualized inflation rate rose to about 20 percent. Even recognizing the good progress on the inflation front that Chile has made in recent years, given the unhappy history of inflation in Chile the authorities should clearly err on the side of caution in dealing with it, as it remains a potentially serious problem. In fact, evidence of overheating seems quite widespread--in money growth rates, rising real wages of 7 percent last year, rapid increases in industrial production late in 1988, and evidence of tightening in the labor markets. While recent upward adjustments in real interest rates and the planned postponement until later this year of some public expenditures may help, it is not yet clear that these actions will prove sufficient to restrain inflation. We urge the authorities to move promptly if the preliminary evidence of a downturn in inflation in January is not confirmed.

Additional anti-inflation actions may need to be concentrated mainly in the monetary area, but fiscal action may also have to be considered. In fact, good progress has been made in bringing down Chile's fiscal deficit; of course, the copper price windfall has made a major contribution. But it is encouraging that the underlying deficit has been reduced as well. We welcome the authorities' basic approach with respect to the copper price windfall, both as it affects fiscal revenues and foreign exchange income. The diversion of excess fiscal revenues into public deposits has helped to contain inflationary pressures, and may need to be used on a larger scale in the event the price of copper this year is higher than expected.

We also welcome progress toward structural reforms in the fiscal area, notably the gradual reduction in the size of government, as shown by the decline in both the revenue and expenditure ratios. Last year's cuts in the value-added tax rate and in the uniform tariff rate made useful contributions to this goal, as did the privatization of five public enterprises.

The copper price windfall has also helped in the external sector, by facilitating the reduction in Chile's external current account deficit, its outstanding debt, and its debt and debt service ratios. At a copper price of US$1.03 per pound in 1989, Chile may be able virtually to eliminate its current account deficit, to achieve an overall payments surplus of around US$900 million, and accumulate foreign reserves worth about 7 months of imports. While forecasting copper prices is notoriously difficult, there seems to be a fairly good probability of a price in 1989 higher than the US$1.03 per pound price built into this year's program. In such an event, the authorities need to be prepared to react promptly to the immediate impact on the economy. Such a favorable development could also strengthen Chile's financial base for the early 1990s.

In that connection, I would commend the Chilean authorities for the innovative way in which they have been managing their external debt problem, including resort to debt buy-backs, debt conversions, private hedging and, in general, by taking advantage of a wide range of menu options, all within the framework of a cooperative approach to dealing with Chile's external creditors. The estimate of cumulative debt conversions of nearly US$7 billion by end-1989, or about one third of the end-1985 stock of medium- and long-term debt, is particularly impressive.

We welcome the clear and explicit assessment of Chile's capacity to repay the Fund which is contained in the staff paper. We agree that the prospects for repayment seem reassuring.

In fact, the medium-term outlook for debt and the balance of payments is encouraging, in general, even assuming a copper price of US$0.71 per pound. By 1994, with a growth rate of at least 4 percent, it appears possible for Chile to limit its current account deficit ratio to about 60 percent and 32 percent, respectively. I do not suggest that this outcome is a foregone conclusion, or that ratios of this magnitude do not pose some danger. But it appears that the debt situation should be manageable, particularly if commercial banks are willing to refinance maturities which fall due beginning in 1991, when the grace period under the multiyear rescheduling arrangement ends.

This leads me to the subject of the appropriate relationship between Chile and the Fund in the coming years. We note that the authorities may wish to follow the present program, which ends in August, with a further arrangement from the Fund involving some use of resources. When we agreed somewhat reluctantly last August to an extension of the extended arrangement to four years, we suggested that the authorities consider as well such techniques as enhanced surveillance, or, perhaps, a classical stand-by arrangement. Also, it appears to us that the Chilean authorities' main concern over the medium term will be the uncertainty about the price of copper. That may suggest that a classical stand-by arrangement, with a contingency feature under the compensatory and contingency financing facility, might be worth investigating.

Mr. Yoshikuni made the following statement:

Following the extension of the extended arrangement, the Chilean authorities have been successful in keeping the program on track. I welcome the fact that all the performance criteria have been observed so far, with a considerable margin for most of the quantitative limits and targets. Under these circumstances, we have no difficulty in supporting the proposed decision regarding the last stage of the extended arrangement.

The Chilean economy is on the verge of overheating, and the utmost care should be taken to prevent a rekindling of inflation. The high level of liquidity is particularly worrisome, as evidenced by the increase in narrow money. Such a high level for the money supply, if left unchecked, would undermine price stability in the not too distant future. Chile's stock of external debt is still very large, casting a shadow on its economy. Only with the continuation of good economic performance can the confidence of external creditors be maintained. A resurgence of inflation is the single most important factor that would undermine that confidence, thereby spoiling all the benefits that have been gained hitherto by the adjustment policies. In that case, the expected financing gap after 1991--which it is assumed will be filled without difficulty under the medium-term scenario--will become a serious obstacle for the Chilean economy.

In sum, it is of paramount importance that the Chilean authorities come to grips with the inflation problem before it gets out of hand. In this connection, it is very encouraging that, according to Mr. Feldman, the authorities have already begun to tackle the problem, with some positive signs since the beginning of the year.

The other caveat is the possible change in the price of copper. As I see it, most of the unexpected gains from the program implementation are due to the higher copper price. Conversely, a decline in copper prices would have a large adverse impact on the external balance. In this connection, I would appreciate it if the staff could give us their estimation as to how far the copper price can decline without changing the basic course of the medium-term scenario, taking account of the current level of the Copper Stabilization Fund.

Finally, in light of these considerations, I strongly endorse the authorities' intention to enter into a new Fund arrangement after the expiration of the current extended arrangement. Like Mr. Templeman, I think that a stand-by arrangement with contingency financing would be an appropriate approach.

Mr. Pineau made the following statement:

Chile is displaying an enviable performance in terms of growth, financial stability and external adjustment. However, it is becoming increasingly difficult for the authorities to isolate the economy from the effects of the very favorable developments in Chile's terms of trade.

Signs of overheating, already visible at the time of the previous reviews, are now difficult to ignore. In a longer-term perspective, the persistence of exceptionally high copper prices is likely to make the need for diversification of the economy less pressing. A very prudent macroeconomic stance is therefore warranted, in order to promote the necessary structural changes in the economy.

On the fiscal side, the authorities are maintaining an adequately tight approach. Even excluding the copper price windfall, public finances are almost in equilibrium. Of course, the buoyancy of the economy has created favorable conditions on the revenue side. However, part of the positive revenue outturn has been used to reduce taxes, as current outlays have been kept under close control.

The only aspect of the current fiscal policy which may raise a question is the relative stability of the public sector's capital expenditure in the context of a comprehensive privatization program. Is this apparent inconsistency attributable to a concentration of state-owned industries in capital-intensive activities? Or could the persistent weakness of private sector capital formation provide an explanation?

The continued low level of private savings associated with the rather subdued response of investment to the current strong economic upswing leads me to touch on monetary policy. At the present juncture, the tightening of monetary conditions initiated by the authorities seems justified not only to check mounting inflationary pressures, but also to foster greater savings on the part of households. Those dual objectives should induce the authorities to keep real interest rates at a rather high level.

Signs of overheating are reflected not only in recent increases in the monetary aggregates, but also in the sharp pay raises recorded in 1988. The staff paper does not include much detail about this worrying development. It would therefore be interesting to know whether the authorities intend to take measures to moderate wage settlements in the private sector.

The robust growth registered last year also generated some strain on the external side. Of course, a substantial portion of the exceptional increase in copper proceeds was used to build up international reserves. At the same time, however, the underlying current account deficit widened in relation to 1987. A strong import upsurge is to be blamed for this outcome. This is all the more disquieting because the import surge was not accompanied by a parallel increase in capital formation--unlike in 1987.

As the staff notes, the growth rate retained in the medium-term outlook for the next five years represents a significant revision. The new growth rate should help create more settled financial conditions, thus facilitating the adoption of the restrictive policies that will be needed should a downswing in copper prices occur.

The authorities are to be commended for their active debt management, which, coupled with a steady macroeconomic policy, allows them to benefit from favorable terms from their creditors. However, despite a significant debt conversion program, the alleviation of debt service obligations will be very gradual over the medium term--actually, reduced interest payments will be offset by increased remittances. This protracted tight external payments position is a reminder of the task still lying ahead for Chile after several years of remarkable adjustment efforts.

The Chairman commented that although he agreed that the debt strategy needed to be improved, he continued to be impressed with the good results it had achieved in the case of Chile. The debt service had declined from 48 percent of export earnings in 1984 to 22 percent in 1988, with a projection of 15.6 percent in 1994--a reduction of about two thirds. The total stock of external debt outstanding had also been reduced by about the same factor. In his view, such a reduction was remarkable and commendable. He recognized that on a current basis, the cost of dividend payments and remittances would tend to offset the benefits garnered from the debt conversion scheme, but the burden of debt on the economy would still be less in 1994 than it was at present.

Mr. Enoch made the following statement:

> Chile's performance under the current arrangement has been impressive. The economy has benefited from consistent growth, while inflation has been brought back under control, and there have been some improvements in the external position. Chile has also been able to reduce the size of its external debt by an imaginative program of debt conversions and limited debt buy-backs, and the authorities have undertaken a highly successful privatization program. The good performance over the last year has been at least partly due to windfall gains from high world copper prices, but it also reflects skillful management of the economy.
>
> The authorities have had particular success in fiscal policy, with the share of GDP allocated to current government expenditure exhibiting a steady downward trend. The authorities' success in controlling spending enabled them to cut taxes last year, and the fiscal outlook for the future is also quite good. The authorities will need to keep an eye on public spending, and especially public sector wages, but the goals embodied in the program look to be both adequate and achievable.
>
> The success of the authorities' performance on monetary policy is a little more patchy, and toward the end of last year--as in 1987--there was a significant growth in narrow money. There must be a danger that this, combined with the growth in wages and imports, signifies that the economy is overheating, and is therefore vulnerable to an acceleration of inflation. For this reason, I welcome the authorities' recent moves to raise interest rates, and I note the indications made by Mr. Feldman that this policy appears to be working, as evidenced by a significant decline in the rate of inflation in January, and a narrowing of the gap between the parallel and official exchange rates.
>
> The continued underlying external imbalances must still give some cause for concern, nevertheless. Imports have risen significantly over the last year, in part funded by the windfall

gains from copper exports. Of the windfall gains of almost US$1 billion in 1988, only some US$600 million has been transferred to the Copper Stabilization Fund, although some of the rest has also gone into reserves. As Chile will remain highly vulnerable to a fall in the price of copper over the next few years, there must be a question as to whether contributions to the Copper Stabilization Fund are large enough. Perhaps the price bands around the trend price, which determines the level of contributions, could now be narrowed. I would welcome the staff's comments on this.

In the medium term, Chile's prospects look quite good, although this fairly promising outlook is still far from secure. The biggest imponderable relates to the price of copper over the next few years. In this regard, Chile's vulnerability to price changes seems actually to be increasing, with large new investments in copper over the last couple of years, and planned for the next few years. This places a particular premium on the careful management of the Copper Stabilization Fund. However, even this will not insulate Chile completely from the effect of a fall in copper prices, as there is now significant private sector production which contributes both to exports and, through taxes, to the Government's revenue. Meanwhile, in common with other debtor countries, Chile remains vulnerable to changes in interest rates and oil prices, as the staff's medium-term projection brings out clearly. The projected financing gap from 1991 looks manageable overall, but clearly would become increasingly more difficult to fill if the actual outturn were to be larger.

Overall, Chile's vulnerability increases the authorities' need to show considerable prudence in the management of the external economic position. The authorities need to keep the exchange rate under close observation. Chile has in recent years sought to maintain its competitiveness by depreciating its currency, while this year a 4 percent real appreciation is envisaged, to help bring inflation under control. There is a clear balance of risks here, and the authorities should be ready to respond if the higher exchange rate is seen to have a seriously adverse effect on trade performance. In addition, the authorities need to consider whether to take further measures to stimulate national savings. It is disappointing that national savings did not improve as programmed, despite the copper price windfall, and this was no doubt a contributing factor to the surge in imports. The recently introduced higher interest rates should certainly be helpful in this regard, but there may need to be further action in this area.

As Mr. Templeman has already noted, the performance criteria for net international reserves and net domestic assets of the Central Bank, and the limit on short-term external debt of the public sector, have been adjusted to reflect outcomes for 1988, but the margins that were incorporated into the program in 1987 have been retained. I can understand the authorities' desire to keep these margins, and I think that in the context of Chile's exemplary performance under the program the retention is acceptable in this case. However, the Fund should be cautious in general if the accumulation of margins in this way is envisaged in a program in the future. I could certainly go along with Mr. Templeman's suggestion that this question be addressed in the next review of conditionality.

I would like to ask the staff whether it has had any indications yet on what kind of relationship with the Fund the Chileans will seek after the expiration of the extended arrangement. With the four-year extended arrangement successfully behind them, it might then seem appropriate for the authorities to seek enhanced surveillance if this is necessary to maintain the confidence of the banks, or, as Mr. Templeman has suggested, a stand-by arrangement and a contingency arrangement under the compensatory and contingency financing facility.

Mr. Fernando made the following statement:

The Chilean authorities deserve our high commendation for the sustained discipline they have shown in strengthening the Chilean economy. While substantial improvements in the balance of payments and on the inflation front are the product of painful choices within the adjustment strategy, the achievement of a high growth rate--for the third year running--is a very welcome development. We note that the improvement in the external balance is due in part to exogenous factors, but, at the same time, the authorities have practiced self-denial in the face of the windfall gains from the increase in world copper prices.

With respect to the recent upturn in inflation, we recognize the need to desist from excessive fine-tuning of monetary policy. Speculative factors related to political perceptions are at play, and reactions should not be hasty. In a similar vein, the authorities' intention to allow a slight appreciation of the exchange rate is justified. However, given Chile's long-term balance of payments prospects, high level of external debt, and vulnerability to copper price developments--recognizing as well the nonrenewable nature of copper deposits--the authorities can ill afford to damage competitiveness. Chile should make steady progress toward export diversification. Hence, over-reliance on the exchange rate to dampen cost pressures should be avoided. A policy of firm restraint on wages, too, could play a complementary role in addressing the inflation issue, as real wages are likely to increase on account of the proposed tax reduction.

The policy elements just mentioned should also be seen in a wider social context. After sustained adjustment--which still involves continuing sacrifices--the continued support of the public can be secured and strengthened if the perceptions are created that some benefits of adjustment are accruing to the public at the same time that creditors are appeased.
Mr. Feldman points out that present levels of real per capita consumption remain below the levels of the early 1980s. In this context, the balance of payments projections through 1994 draw attention to the financing gaps from 1991 onward--which hang like the sword of Damocles. We should bear in mind, however, that these outer years catch up on earlier rescheduling arrangements and show large amortization values, while no new inflows are shown from private commercial sources. Given Chile's track record of adjustment and its management capability, and on the basis of further progress in debt reduction schemes, there is every prospect that those financing gaps will not materialize. Consequently, we feel that the authorities' latitude for policy action is somewhat greater than is suggested by the statistical picture.

We note that the authorities' growth rate projections not only represent a downward revision from previous forecasts, but a markedly lower revision from the actual rate of the last three years. We have some difficulty in satisfying ourselves about the consistency of the downward bias, after taking note of the steadily rising level of investment from 1986, the efficiency gains associated with several years of structural reform, including the transfer of ownership and control of many public enterprises to the private sector, and the expectation of higher levels of foreign direct investment. Does this scaling back reflect either certain production bottlenecks due to inadequate infrastructure or policy shortcomings? To what extent does it reflect optimum levels of capacity utilization either having been reached or likely to be reached? A further clarification on this point would be useful.

We have noted the desire of the Chilean authorities for a continued relationship with the Fund of such a nature as to facilitate debt rescheduling. Given Chile's good performance, the country deserves our fullest support. We support the proposed decision, and wish the authorities well.

Mr. Al-Assaf made the following statement:

It is heartening indeed to be able to review again Chile's progress under the extended arrangement, without having to retract one's previous positive assessment of that progress. Last August, this chair commended Chile's achievements, and, as Mr. Feldman proves, progress has been further enhanced, and the 1989 program points to a further consolidation of past achievements. Hence, I need not repeat the statistics cited by the staff, but I would like to take note of the most important achievements, such as the revival of real economic growth, the reining-in of inflation and unemployment, the rationalization of government budgetary operations, the revitalization of national savings, the attainment of a reasonably satisfactory balance of payments position, and the commendable management of the debt burden.

At the same time, I share the staff's view that Chile's external position remains delicate owing to its dependence on copper prices and exports. Hence, diversification of the export base of the economy is indeed crucial for the long-term sustainability of Chile's economic growth and development. While on this point, I would like the staff to comment on the rationale behind the assumption that the volume of exports will increase by 12.5 percent in 1989--a rate twice the average of the preceding five years, and three times last year's growth rate. Although I understand that new copper mines will come on stream this year, I wonder whether this growth rate is not a bit too ambitious.

I am sure that the authorities are well aware of the dangers posed by the pressures of overheating and the overhang of liquidity. The staff indicated that during its discussions in Chile, the authorities preferred to wait for further confirmation of these pressures. I would therefore like the staff to brief the Board on developments since last December, and whether, in their view, further measures were deemed necessary.

I support the proposed decisions, and wish the Chilean authorities success in their commendable endeavors.

Mr. Posthumus said that he had no comments on the program or the review of the extended arrangement. However, he wished to raise the issue of the Chilean authorities' desire for a further arrangement from the Fund with some use of Fund resources following the expiration of the current arrangement. When the extended arrangement was last reviewed in August 1988 (EBM/88/124, 8/5/88), he had questioned the appropriateness of lengthening the arrangement further, because the overall balance of payments position was acceptable, the current account deficit was sustainable, and--essentially--it was not necessary for Chile to draw on the

Fund's resources. Unless Chile's situation worsened substantially, he believed that a new arrangement from the Fund was unnecessary. However, if the management wished to propose, when the current extended arrangement expired in August 1989, a program involving use of Fund resources, the staff should explain more clearly the basis for that program. The argument that had been made the preceding August had not been clear to him.

Mr. Engert said that he wished to join other speakers in commending the Chilean authorities for their outstanding performance under the extended arrangement. He endorsed the staff appraisal, but wished to raise a few additional points.

At the Board's discussion in August, Mr. Engert continued, his chair had encouraged the authorities to continue a cautious stance of fiscal and monetary policies, with a view to reaching the inflation target of 11 percent for 1988. His chair had believed that that would be a very welcome development if it were achieved, since the inflation front was one area in which the authorities had been somewhat less successful in meeting their objectives. In the event, inflation had decelerated considerably--to 12.7 percent in 1988--and the authorities hoped to consolidate that performance by holding inflation to 12 percent in 1989. While that performance had indeed been impressive, he shared the concerns about the risk of an overhang of liquidity, and in that connection, he welcomed the measures that had been taken recently to postpone some fiscal measures and to raise central bank real interest rates to help moderate inflationary pressures.

He welcomed the indications, as expressed by Mr. Feldman, that narrow money growth had decelerated, and that recent inflation statistics had shown a decline as well, Mr. Engert concluded. He wondered if the staff or Mr. Feldman could provide some additional detail about the most recent statistics. He would only encourage the authorities to stand ready to take additional measures, as needed, to moderate inflation, and to set more ambitious targets for inflation in the future. He supported the proposed decisions.

Mr. Wenzel said that he endorsed the staff's analysis and recommendations.

The staff representative from the Western Hemisphere Department stated that although it was true, as Mrs. Filardo had noted, that the volume of debt conversions in 1988 had been a complicating factor in monetary policy and partly explained the growth of liquidity, debt conversions themselves were not the basic problem. Although the volume of debt conversions had been large in 1988--USS2.9 billion, following upon almost US$2 billion in the preceding year--inflationary pressures had in fact been moderated substantially in 1988 because the Central Bank had taken a number of monetary policy measures to slow the growth of money.

In the debt conversions, the staff representative went on, the local creditor received long-term public bonds, which were not immediately transferable into liquidity, except through sale to other economic agents. The key point was the role of monetary policy in general in offsetting such actions. The Central Bank had believed that the increase in the demand for money could be attributed at least partly to the political uncertainties, and that it might settle down without much policy action. The authorities had ultimately come around to the staff's view, however, that interest rates needed to be raised to absorb some liquidity, and had thus raised interest rates at the end of 1988. That action appeared to have begun to have real impact on the demand for money. Thus, the effects of the debt conversion scheme could be managed without adverse influences on the domestic economy--the key was monetary policy in general. He believed that the Chilean debt conversion model remained a good one.

The staff's projections of medium- to long-term institutional lending to Chile did not take into account any Fund resources, the staff representative explained. However, they did take into account considerable lending by the World Bank and the Inter-American Development Bank, and the net exposure to Chile of those two institutions was expected to rise slightly. Even so, the main source of funds in the following few years was likely to be suppliers' credits, of which US$300-400 million a year for the following four years had already been arranged for the big Escondida copper project. There would not be large balance of payments support from commercial banks, and Chile would either reschedule large amounts of the principal that would fall due from commercial bank loans, or find other ways to compensate for them.

The latest available data showed that the ceiling on contracting external debt at the end of 1988 had not been reached, the staff representative went on. The ceiling was US$600 million, and the actual amount that had been contracted was US$126 million, leaving a very wide margin of 3US$474 million. Short-term debt contracted had amounted to only US$44 million, again with a very wide margin. The staff expected to have final fiscal data for the end of 1988 within the following few days, but the indications were that the fiscal sector would also overperform in terms of the program.

A number of speakers had drawn attention to the sensitivity of Chile's balance of payments to the international price of copper, the staff representative continued. In the staff's medium-term scenario, a fairly conservative assumption for the copper price of US$0.81 per pound for 1991 had been made; the current price was approximately US$1.40 per pound. A movement of US$0.5 cents per pound in the copper price affected the balance of payments by about US$150 million. It was true that if the cycle for copper turned out to be one with sharp variations and if the next trough proved to be a long one, a substantial problem might be created for the balance of payments, but given Chile's substantial reserves, the staff believed that its balance of payments scenario was reasonably solid.

Some Directors had observed that more restraint might be needed in wage policy, the staff representative recalled. In general, private sector wages in Chile were determined by free collective bargaining, and had not contributed greatly in the past to wage push pressures. As the labor market had begun to tighten and the rate of unemployment had fallen, real wages appeared to be growing more strongly. Although there was no formal indexation as such, in fixing wage contracts importance was attached to the rate of inflation in the intervening period. As a result, when inflation decelerated--as in 1988--wages tended to overshoot for a period, because wage contracts were being oriented to past inflation. In that respect, one of the arguments the authorities had made to the mission was that with inflation accelerating toward the end of 1988, real wages would not rise so fast, because of the historical bias in setting wage contracts, which acted as a kind of automatic stabilizer at present. The rate of growth of real wages toward the end of the year had in fact been much smaller than at the beginning. Wage policy in the public sector had been very conservative. Nevertheless, he agreed that real wage growth would need to be monitored.

The staff might succeed in persuading the authorities to narrow the bands of the mechanism of the Copper Stabilization Fund, the staff representative went on, but the key question in moderating the effects of external flows on the domestic economy was really policy management and how the authorities dealt with total liquidity. The authorities believed that the Copper Stabilization Fund was useful in explaining to the public why windfall gains were not distributed immediately.

The authorities had indicated that they found a Fund-supported program useful for domestic reasons, and that if Chile had to accept so-called restrictions imposed by the Fund, then those programs should show a quid pro quo in the form of some Fund resources, the staff representative commented. The previous program did not refinance or cover all the maturities falling due to the Fund by any means; there had been a net repayment to the Fund. If there were to be a stand-by arrangement in the future, it would involve only nominal use of Fund resources, with substantial net repayments to the Fund. The staff would try to persuade the authorities to take up a largely precautionary stand-by arrangement without the use of any Fund resources.

The Chilean authorities had believed that the level of private investment that would be needed to sustain a growth rate higher than 4 percent might be substantial, with implications for constraints on consumption, the staff representative remarked. Therefore, it was perhaps prudent to project a growth rate slightly lower than 4 percent. Even though on the grounds of the efficiency of investment and past structural reforms, Chile might well do better than that.

The staff had projected a large growth in the volume of copper exports in 1989 because copper exports in 1988 had been reduced by approximately 100,000 tons owing to an accident in one of the mines. It was hoped that that would not recur.

Mr. Feldman said that he believed that there was an indirect relationship between monetary policy and debt conversions in Chile. Because the economic agents involved in debt conversions had no access to official exchange markets, they had been led to put pressure on the parallel exchange market, which had caused the gap between the official and parallel market rates to widen in 1988. Monetary policy had thus had to be called in to preserve the credibility of the authorities' economic management.

Although the Chilean authorities were aware of the danger of an overheating economy, Mr. Feldman remarked, they believed that the uncertainty of political developments had contributed greatly to the increased demand for liquidity that was, in large measure, responsible for it. Those were uncertainties now beginning to recede, and, given the action that had been taken on the interest rate front recently, it could be seen that the problems of liquidity were being addressed. For example, although the monetary aggregates were accelerating at the end of 1988, that acceleration appeared to have been reversed in January 1989. The amount of credit made available to the private sector, which had accelerated quite sharply in 1988, had also been tightened. The authorities were dealing prudently with the overheating problem.

In light of the large windfall gains from the increase in the price of copper, an increase in imports and stronger economic growth seemed appropriate, Mr. Feldman went on. Chile had shown on several occasions a strong commitment to adjustment. It was only fair that it should benefit at least partially from favorable external shocks.

In response to Mr. Engert's question about inflation, Mr. Feldman noted, the rate of inflation in November and December 1988 had been about 2 percent, whereas the rate for January 1989 had been about 1.1 percent.

Chile still faced a difficult situation on the external front, Mr. Feldman concluded. The debt burden remained very heavy, and economic growth would be crucial for overcoming it. Under the current program, Chile was making net repayments of resources to the Fund, and his authorities intended to continue with that policy--but more gradually. Chile merited a further arrangement with the Fund, especially because it did not seem appropriate for the Fund to chase away a country which represented one of its most successful cases. The Board's decision the previous August to extend the extended arrangement for another year had turned out to be a fortunate one. That decision reinforced the Fund's stated objective of revitalizing the extended Fund facility.

The Executive Directors then took the following decisions:

Extended Arrangement - Review

1. Chile has consulted with the Fund in accordance with paragraph 12 of the extended arrangement for Chile (EBS/85/122, Sup. 3) and paragraph 3 of the letter of July 12, 1988, from the

President of the Central Bank of Chile and the Minister of Finance, in order to review the implementation of the measures described in that letter and the attached memorandum.

2. The letter dated January 19, 1989 from the President of the Central Bank and the Minister of Finance, together with the annexed Memorandum on the Economic Policies of Chile, shall be attached to the extended arrangement, and the letters dated July 9, 1985, January 20, 1986, June 18, 1986, December 15, 1986, June 30, 1987, December 29, 1987, and July 12, 1988, together with the respective annexed Memoranda on the Economic Policies of Chile, shall be read as supplemented and modified by the letter dated January 19, 1989, together with its annexed Memorandum on the Economic Policies of Chile.

3. Chile will not make purchases under the extended arrangement:

(a) during any period after February 15, 1989, in which the data at the end of the preceding calendar quarter indicate that:

(i) the cumulative limit on the overall deficit of the nonfinancial public sector, as specified in paragraph 4 and Table 1 of the Memorandum annexed to the letter of January 19, 1989; or

(ii) the target on the international reserves of the Central Bank, as specified in paragraph 4 and Table 3 of the Memorandum annexed to the letter of January 19, 1989 are not observed; or

(b) during any period after February 15, 1989 in which:

(i) the ceiling on the net domestic assets of the Central Bank, as specified in paragraph 5 and Table 2 of the Memorandum annexed to the letter of January 19, 1989; or

(ii) the ceiling on the contracting, rescheduling, and guaranteeing of external debt by the public sector, as specified in paragraph 7 and Table 4 of the Memorandum annexed to the letter of January 19, 1989; or

(iii) the ceiling on the stock of short-term external debt owed by the nonfinancial public sector and the Banco del Estado, as specified in paragraph 7 and Table 5 of the Memorandum annexed to the letter of January 19, 1989 are not observed.

4. Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 787.50 million until May 15, 1989 and the equivalent of SDR 806.25 million until August 10, 1989.

Decision No. 9080-(89/17), adopted
February 15, 1989

Exchange System

1. Chile maintains multiple currency practices relating to the dual exchange market system, and exchange restrictions relating to import payment deferment requirements, as described in EBS/89/8, that are subject to approval under Article VIII, Sections 2(a) and 3. In view of the intention of the authorities to eliminate these measures, the Fund grants approval of them until August 15, 1989.

Decision No. 9081-(89/17), adopted
February 15, 1989

APPROVED: August 30, 1989

LEO VAN HOUTVEN
Secretary