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EBS/85/122
Supplement 1

CONFIDENTIAL

July 12, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Chile - Staff Report for the 1985 Article IV Consultation and Request for an Extended Arrangement

The attached supplement to the staff report for the 1985 Article IV consultation with Chile and its request for an extended arrangement has been prepared on the basis of additional information. Revised draft decisions appear on pages 11 and 12.

This subject, together with Chile's request for a purchase under the compensatory financing facility (EBS/85/124, 5/13/85 and Supplement 1, 7/12/85) has been scheduled for discussion on Monday, July 15, 1985.

Mr. van Houten (ext. 8624) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

CHILE

Staff Report for the 1985 Article IV Consultation and Request for an Extended Arrangement--Additional Information

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

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and Manuel Guitian

July 12, 1985

Since the circulation of the Staff Report and Request for an Extended Arrangement (EBS/85/122, 5/13/85), the staff has visited Santiago on two occasions.1/ This supplement presents the mission's findings regarding economic developments in Chile during the first five months of 1985, and describes the measures taken at the end of June to strengthen the trade balance. It also presents the elements of the balance of payments financing package for 1985 and 1986 worked out in principle with Chile's external creditors. The financing package differs from the one assumed in the economic program in a number of aspects, including timing of disbursements, source of financing, and credit terms. These changes in the timing of the flows of financing made it necessary to introduce technical revisions to the quantitative performance criteria for the period July 1-December 31, 1985 presented in EBS/85/122 that do not affect the thrust of adjustment effort of the economic program. The text of the extended arrangement and the letter from the Chilean authorities with its annexed economic policy memorandum incorporating these changes as well as a number of other revisions explained in this Supplement are attached (Attachments I and II). The proposed draft decisions on the 1985 Article IV consultation and on the request for an extended arrangement have also been revised.

1. Economic indicators

Performance under the economic program, in support of which the authorities have requested an extended arrangement, was mixed during the first five months of 1985. The current account of the balance of

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1/ The first visit took place May 26-June 7, 1985. The staff representatives were Mr. Muniz (WHD), Ms. Brenner (WHD), Mr. Petersen (ETR), and Mrs. Silva de Berta (Secretary-WHD). Mr. van Houten (WHD) visited Santiago June 27-July 2, 1985 to coordinate the quantitative performance criteria for 1985 with the external financing package negotiated by Chile with its external creditors.

payments is estimated to have improved less than expected, but other economic aims generally were achieved. Table 1 presents the performance under the indicative economic program through June 30, 1985.

Real GDP in the first quarter of 1985 is estimated to have increased by 1 percent from the last quarter of 1984 and by 3 percent from the first quarter of 1984 (Tables 2 and 3). These rates of growth are somewhat faster than had been anticipated. The national unemployment rate has hovered around 13 percent since November 1984, but the number of employed workers, not including those enrolled in special work programs of the Government, increased by 1 percent during the first quarter of 1985 over the first quarter of 1984 (Table 4). Preliminary data for the second quarter of 1985 point to a weakening of economic activity relative to the first quarter of the year. The rate of inflation for the first semester of 1985 was 17 percent compared with 13 percent projected for that period (Table 5).

The stock of real financial assets held by the private sector increased by 3.7 percent during the first quarter of 1985, a rate equal to the one experienced in the first quarter of 1984 (Table 6), but substantially higher than the projected rate of 0.4 percent. This rapid rate of growth may have been related to the faster than expected economic growth and to higher real interest rates than had been projected. The increase was particularly pronounced with regard to real holdings of quasi-money as real money balances declined by 3 percent. Data for April and May indicate that the rate of growth of holdings of real private financial assets has begun to slow down.

Real interest rates have declined from the very high levels of December 1984 and January 1985 but still remain higher than projected under the program. The real annual interest rate paid on 90-day deposits (calculated by adjusting interest rates for inflation over the same period) averaged 12.7 percent in December and January, declined to 7.8 percent in February and March, but increased to 9.6 percent in April and May.

2. Monetary policy

Central Bank credit policy in the first half of 1985 was somewhat tighter than projected as indicated by the margin available under the indicative net domestic assets ceiling and by the higher than projected real rates of interest in the domestic financial market. The Central Bank cut back its selective credit programs and limited its domestic debt refinancing programs to commitments outstanding at the beginning of the year. At the same time, the authorities made further progress in enhancing the role of market forces in the determination of interest rates.

In accordance with the authorities intentions described in paragraph 28 of the economic policy memorandum (Attachment II), in late May 1985, the Central Bank reduced the interest rate subsidy on swap operations related to foreign credits from 4.6 percent a year to 4.0 percent. In early July the authorities lowered the subsidy to 3.4 percent and modified substantially the system of foreign currency swaps. Outstanding swaps of dollars derived from the repayment of foreign currency loans by domestic residents to local banks were converted into long-term foreign currency deposits at the Central Bank. In turn, each bank received a medium-term line of credit denominated in pesos adjusted for inflation. The rate of return on dollar deposits at the Central Bank was set a LIBOR (six months) plus 3.4 percent. The premium is to be reduced each month by 0.2 percentage points until eliminated. Swaps of dollars derived from new external borrowing by the private sector are to continue unchanged; however, the remaining subsidy of 3.4 percent will be eliminated over time but without a preannounced schedule. These measures are expected to strengthen the role of market forces in determining interest rates and help ensure that external private capital flows reflect autonomous decisions by the private sector.

The above described change in the system of swaps and the lowering of subsidy payments are expected to lower the operational losses of the Central Bank. To reduce these losses further, the authorities have announced that as of July 1, 1985, the preferential dollar subsidy on the service of certain foreign currency denominated debts, will be gradually phased out on debt equal to or in excess of US$50,000, according to an announced schedule which will eliminate the subsidy by the end of 1986, well ahead of its envisaged elimination during the period. This subsidy in the meantime will be paid with central bank promissory notes which will be adjusted for inflation, will pay 3 percent interest semiannually and will have a maturity of eight to ten years. The subsidy for eligible debt of less than US$50,000 will remain unchanged and will be paid with central bank promissory notes adjusted for inflation and paying 3 percent interest semiannually with a maturity of six years. Eligible debt amounting to less than US$50,000 represent approximately 5 percent of the total debt previously eligible for the subsidy.

The reduction in the subsidy on the foreign debt payments, together with the reduction in the interest rate on swap operations mentioned above, are estimated to reduce the operational losses of the Central Bank from a projected level of 3.5 percent of GDP in 1985 to about 3.0 percent, and to about 1.5 percent of GDP in 1986.

3. Fiscal policy

The deficit of the nonfinancial public sector was reduced from more than 2 percent of GDP in the last quarter of 1984 to about 1 percent in the first quarter of 1985 (Table 7). Preliminary data indicate that the deficit in relation to GDP was reduced further in the second quarter of 1985.

General government current revenue in the first quarter was about Ch$5 billion lower than expected because of shortfalls in transfers from the enterprises and in import tariff revenues, as well as higher value added tax rebates than projected. Net capital revenue was about Ch$10 billion less than projected. Tariff revenues ran below projections, notwithstanding higher than projected imports, because of the drop in the general tariff from 35 to 30 percent in late February.1/ The lower transfers from the enterprises was attributable to the disruption experienced by certain public utility corporations following the March earthquake.

Most categories of general government expenditures were held below program levels during the first quarter, more than offsetting the revenue shortfall. Only interest payments on the public debt ran ahead of the program projection, mainly due to higher than projected inflation.

In May 1985, the authorities implemented several fiscal measures to offset a likely shortfall in net income tax collections related to higher than expected income tax credits. The most important measure was a suspension of the cost of living adjustment for social security recipients that was to have taken place in June 1985, which is expected to reduce expenditures by Ch$11.2 billion during 1985. Other measures, including a modification of the unemployment subsidy system and increased luxury taxes, are projected to provide fiscal relief equivalent to Ch$3.4 billion in the remainder of 1985.

At the end of June the authorities announced a number of measures which, although aimed primarily at strengthening the foreign trade position, are likely to have a negative impact on public finances, estimated at the equivalent of 0.5 percent of GDP in the second semester. This impact is projected to be compensated by lower than programmed transfers to the private sector in the second half of the year, a better than programmed performance by CODELCO (the Chilean Copper Company) and an improvement in tax collections as a result of a tightening of tax administration.

With respect to the contingency spending plan for the second semester of 1985 described in paragraph 23 of the economic policy memorandum (Attachment II), the authorities are in agreement with the staff that the contingency clause cannot be activated on the basis of the performance of the noncopper trade balance in view of the shortfall in the first five months of 1985. However, that same paragraph also provides for the activation of the contingency clause if long-term external financing not contemplated in the economic program is obtained for repairing the damage caused by the March 1985 earthquake.

In this regard, the authorities have informed the staff that Chile has obtained additional financing for earthquake reconstruction in the second semester of 1985, in an amount of US$43 million (equivalent to

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1/ The reduction had not been anticipated until June 1985.

approximately 0.25 percent of GDP), because of larger disbursements on a number of existing loans from the Inter-American Development Bank and the World Bank. The staff is satisfied that the increased disbursements are directly related to the reconstruction effort and that the higher disbursement level will be maintained through 1986. Hence, it would appear that the contingency plan can be activated in an amount of US$43 million, or 0.25 percent of GDP. Accordingly, the limit on the net indebtedness of the nonfinancial public sector applicable to September 30, 1985 as contained in Table 1 of the economic policy memorandum (Attachment II) may be raised by Ch$3.2 billion and that for December 31, 1985 by Ch$6.7 billion. Loan disbursements will be monitored to ensure that this program criteria is met.

4. Balance of payments developments

The improvement in the current account of the balance of payments in the first quarter of 1985 was smaller than envisaged in the program (Table 8). The current account deficit was US$130 million larger than expected, principally because the trade surplus fell short of the projection by US$150 million. Net medium- and long-term capital inflows were in line with the projection, and the larger than programmed current account deficit was financed by short-term commercial credits and a reduction of private assets held abroad. The net international reserve target was met with an ample margin.

The smaller than programmed trade surplus was due, about equally, to lower noncopper export prices and a smaller decline in imports in relation to projections. The value, price, and volume of copper exports were in line with the program estimates. Shortfalls in export prices affected particularly exports of silver, gold, fishmeal, woodpulp, and wood. The volume of noncopper exports increased by close to 8 percent, however, as had been projected. Imports declined less rapidly in the first quarter of 1985 than expected primarily on account of substantially larger imports of capital goods and spare parts.

Taking into account recent trends in exports and imports and the decline in world interest rates from the levels envisaged in the program projections, and allowing for US$170 million in once and for all interest "deferrals" in the second semester of 1985 as agreed with Chile's foreign bank creditors,1/ the staff has projected that under present policies the external current account deficit for 1985 as a whole will be smaller than had been programmed by about US$80 million (0.4 percent of projected GDP).

1/ The interest "deferrals" are achieved by changing the interest payments schedule for certain loans from a three month basis to a six month basis thus effectively eliminating interest payments on these loans for the first quarter; the change in the schedule will have no impact on payments in 1986.

This projection assumes a trade surplus of some US$335 million less than programmed. Copper exports are expected to be in line with the program estimate, but noncopper exports are now expected to be some US$200 million lower than originally projected because of an 8 percent drop in prices (the program had assumed for the year as a whole no change in prices). The volume of noncopper exports is projected to increase by 7 percent, or close to the rate of growth that had been envisaged. The value of imports is expected to exceed the amount originally projected by about US$115 million (US$80 million of which was accounted for in the first quarter); on this basis imports would be some 11 percent less than in 1984, whereas the program had assumed a decline of 15 percent.

The lower than anticipated trade surplus is expected to be more than offset by an improved services account. Net interest payments abroad would be about US$300 million less than programmed on the basis of lower prime and LIBOR rates in relation to program estimates (US$130 million and once and for all interest deferrals (equivalent to US$170 million). In addition, net payments on nonfactor services are likely to be some US$110 million less than anticipated mainly because of insurance payments to Chile resulting from the March earthquake.

In reviewing the situation with the staff the authorities were of the opinion that the demand pressures observed so far in 1985 represented the lagged effects of the easing of demand management in late 1984. They noted that demand policies had been tightened since the beginning of the year and that the value of imports has been declining recently to a monthly rate consistent with the program for the remainder of the year. Nonetheless, they agreed that the noncopper export performance needed strengthening if the economic program was to succeed. Hence, in late June, the authorities announced an extensive package of measures aimed at improving export performance and economic efficiency over the medium term.

The general tariff level was reduced from a uniform 30 percent to a uniform 20 percent, which went well beyond the intentions of the authorities contained in paragraph 18 of the economic policy memorandum (Attachment II).1/ To create confidence in the stability of the newly established tariff level, the authorities intend to enact a law requiring that any future tariff change be subject to legislation rather than effected through decree.

To provide a further direct stimulus to exports and compensate for the reduction in the tariff, the peso was devalued on June 29, 1985 by

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1/ The general tariff level excludes countervailing duties imposed on a number of items, broadly in line with GATT procedures, to offset subsidies in the major exporting countries. Also the variable levy on imports of a few selected agricultural products remained unchanged in terms of pesos.

7.8 percent against the dollar to a level of Ch$168.9 per U.S. dollar. Simultaneously, it was announced that the peso would be adjusted on a daily basis through August 1985 at a rate equal to 1.7 percent per month, after which the system of daily adjustment at a rate equal to the previous month's rate of inflation less an estimate for international inflation would be resumed. At the same time, the intervention points of the Central Bank were raised from 0.5 percent on either side of the daily rate to 2 percent.

A number of modifications to the tax system also was introduced as a means of providing additional incentives for exports. Thus, the stamp tax on export credits which ranged up to 2.4 percent per annum was eliminated and a stamp tax of similar magnitude was introduced on the value on import credit transactions. Also, it was announced that the scheme providing tariff rebates for imports of raw materials used as inputs for the production of exports will be extended to producers of goods exported indirectly. Also, for individual categories of exported products, the sale of which did not exceed US$2.5 million in 1984, exporters will be given the option of a subsidy equal to 10 percent of the net export value from their sales until such sales reach US$7.5 million in lieu of the above mentioned import duty drawback scheme.

For exported goods held in free zones outside Chile, the maximum period for requiring sale to the Central Bank of the foreign exchange proceeds obtained from the sale of such goods, will be lengthened. To improve exporters access to credit, the limit on Chilean banks' export credit without guarantees will be increased from 5 to 15 percent of capital and reserves and the limit on amounts with guarantees will be increased from 25 to 30 percent of capital and reserves.

5. External financing for 1985-86

In late June 1985, the Chilean authorities reached agreement in principle for external financing equal to US$1,955 million to fill the remaining financing gap in the balance of payments for 1985-86 (Table 9). Of this total, US$1,385 million is to come from international commercial banks, US$400 million from successive structural adjustment loans subject to approval by the Executive Board of the World Bank, and US$170 million in restructuring of principal payments due official bilateral creditors.1/

The international bank portion of the financing, as agreed with the Advisory Committee of Banks, consists of US$785 million in new money, US$300 million in cofinancing with the IBRD (half of which will receive the latter's guarantee), and US$300 million in improved terms on existing credits and refinancing of bank credits not previously contemplated. The new foreign commercial bank resources will be

1/ Official creditors have agreed to meet on July 17, 1985 to discuss the Chilean request for restructuring in this amount.

provided for a term of twelve years, with five years grace, and a spread of 1 5/8 percent over LIBOR or 1 1/4 percent over prime. A reduction in the interest spread on credits previously restructured in 1983-84 and on the new money provided in 1984 will provide relief totaling US$55 million in 1985-86 and US$200 million during the period 1985-91.1/ A change in the timing of interest payments on these revised contracts from a three month to a six month basis will reduce interest payments in 1985 by US$170 million but will have no impact on 1986.

In addition, the Chilean authorities have reached agreement with the Advisory Committee of Banks to restructure US$4,469 million in amortization due during 1985-87 on public and financial sector credits outstanding on January 30, 1983 and US$1,463 million in 1985-87 amortization due on private corporate sector credits outstanding as of the same date. The public sector amortization payments are to be restructured for a period of twelve years, with six years grace, at a spread over LIBOR of 1 3/8 percent with no front end fee, and will receive a state guarantee. The private financial sector amortization payments can be individually restructured under mutually acceptable terms or restructured with state guarantee at a spread of 1 3/8 percent over LIBOR; for such restructured debt to receive the state guarantee, creditor banks will have to pay a commission to the Chilean Government of 1/2 percent in 1987, 3/4 percent in 1990, and 7/8 percent in 1994. In addition, the Chilean government reserves the right to charge a guarantee fee of Chilean banks receiving a guarantee under this scheme.

Amortization of private corporate sector debt outstanding on January 31, 1985 and coming due during 1985-87 may be restructured through mutual agreement between individual debtor and creditor; or, alternatively, the debtor may deposit the equivalent peso amount of the foreign exchange due with the Central Bank, which will in turn restructure these amounts under the same terms and conditions as those that apply to the restructuring of public sector debt. No public guarantee would be provided on the restructured debt of the private corporate sector.

The existing short-term trade facility of US$1,700 million will be renewed through 1987 but to maintain the government guarantee on these lines, creditor banks will be limited to charging a maximum spread of 1 1/8 percent over prime or 1 3/4 percent over LIBOR. The participation fee for this facility has been reduced from 1/4 percent to 1/8 percent per year.

The financing package described above incorporates the option of a state guarantee on private sector debt only in the case of the

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1/ In the case of the debts restructured in 1983-84 the spread over LIBOR was reduced from 2 1/8 percent to 1 3/8 percent a year, and the prime rate was eliminated as a reference interest rate. For the new money provided in 1984 the spread over LIBOR was reduced from 2 1/4 to 1 3/4 a year, and the spread over prime from 2 1/8 to 1 1/2 a year.

restructuring of private financial system debt due in the period 1985-87. As mentioned, the exercise of the option by foreign banks entails the payment of a guarantee fee. The staff is satisfied that these provisions adequately limit the contingent liability of the Government and are consistent with the statement with respect to the extension of a public guarantee contained in paragraph 32 of the economic policy memorandum (Attachment II).

Until this financing package is formalized with the commercial banks, they have agreed to extend through December 31, 1985 all amortization due on credits outstanding as of January 31, 1983. The interest spread to be charged on these extensions will be equal to the agreed spreads for the restructuring of amortization due during 1985-87 described above.

6. Effects of the refinancing package on the economic program and performance criteria for 1985

The above described financing arrangements negotiated by Chile with its foreign creditors differ in a number of aspects from the financing package assumed in the economic program. The principal differences relate to the timing of disbursements and to the sources and terms of financing. The schedule of disbursements has been shifted toward the second semester of 1985 and into 1986. Hence the recuperation of the net international reserves of the Central Bank is now programmed to be slower than originally contemplated and the net international reserve gain of US$80 million which had been envisioned for 1985 is now programmed for 1986. These changes, which do not affect the adjustment effort envisaged under the economic program, have been incorporated in the revised quantitative performance criteria for the second semester of 1985 (Table 10).

The time required to negotiate the external financial package has led to a delay in the start of the extended arrangement. To maintain the degree of monitoring of the economic program that had been envisaged, the midyear review with the Fund has now been set for January 31, 1986. Before that date understandings are to be reached with the Chilean authorities on the performance criteria applicable to the period January 1-June 30, 1986. The delay in the initiation of the extended arrangement also has led to a shift of the schedule of purchases under the arrangement by one quarter. The schedule of purchases for calendar year 1985 has been reduced from three purchases totaling SDR 187.5 million to two purchases totaling SDR 125 million. Scheduled purchases for 1986 and 1987 remain unchanged at SDR 250 million a year, and the scheduled purchases in 1988 have been increased from SDR 62.5 million to SDR 125 million. A revised projection of the Fund's position with respect to Chile is presented in Table 11. These changes have been incorporated in the revised extended arrangement (Attachment I) and the revised letter and its annexed memorandum on economic policies (Attachment II).

7. Medium-term scenario

The staff has prepared a revised medium-term scenario in light of the changed outlook for commodity prices and international interest rates (Table 12). Assuming an average increase in total export volume of 6 percent and in unit value of 3.5 percent over the 1985-87 period, export revenues are projected to be somewhat lower than originally envisaged. The export shortfall, however, is projected to be offset by the effects of the reduction in interest rates. Hence, with unchanged current account targets, import levels are projected at levels broadly similar to those originally envisaged. Taking into account the effects of the recent depreciations and the continuing diversification of the economy, the expected growth of imports should be consistent with the projected average growth rate of the economy of 3 percent in real terms. For 1988-90 the deviations from the original projections also are relatively minor.

8. Proposed decisions

It is expected that by July 15, 1985, the scheduled date of the Executive Board discussion of Chile's request for an extended arrangement, management will not have received sufficient assurances from Chile's external creditors on their commitment with respect to the balance of payments financing package for the period of 1985-86. Hence, the draft decision on Chile's request for an extended arrangement proposed for adoption by the Executive Board has been redrafted to make the decision conditional on the receipt within a period of 30 days of written assurances that the required financing will be forthcoming.

Chile maintains multiple currency practices arising from the subsidy on certain foreign interest payments and principal repayments by the private sector on foreign debt contracted before August 6, 1982 and the size of the spread between the exchange rates in the official and parallel markets in which a number of current invisible transactions take place. Chile also maintains exchange restrictions arising from the limitations placed on the sale of foreign exchange for tourism and from a 120 day deferment period on import payments. In view of the steps the authorities have taken toward phasing out the subsidy on debt repayments and their intention to liberalize the exchange restrictions, the staff proposes that the Executive Board grant temporary approval for the multiple currency practices and exchange restrictions through July 14, 1986, or the next Article IV consultation with Chile, whichever is the earlier.

Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

I. 1985 Consultation

1. The Fund takes this decision relating to Chile's exchange measures subject to Article VIII, Section 2 and 3, in the light of the 1985 Article IV consultation with Chile concluded under Decision 5392 (77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Chile maintains multiple currency practices and exchange restrictions as described in EBS/85/122, Supplement 1. In view of the authorities' intentions to reduce their reliance on these multiple currency practices and exchange restrictions, the Fund grants approval for their retention through July 14, 1986, or until the next Article IV consultation with Chile, whichever is the earlier.

II. Extended Arrangement

1. The Government of Chile has requested an extended arrangement for a period of three years for an amount equivalent to SDR 750 million.

2. The Fund approves the extended arrangement set forth in EBS/85/122, supp. 1, subject to paragraph 3 below, and waives the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement.

3. The extended arrangement shall become effective, not later than August 15, 1985, on the date on which the Fund finds

that satisfactory arrangements have been made for the financing of the expected balance of payments deficit until July 14, 1986.

Table 1. Chile: Performance under the Indicative Limits of the Economic Program for 1985 1/

	Mar. 31	April 30	May 31	June 30
(In billions of Chilean pesos)				
Net domestic assets of the Central Bank				
Limit	326.5	374.0	374.0	374.0
Actual	315.3	350.6	351.4	367.8
Margin	11.2	23.4	22.6	6.2
Outstanding indebtedness of the nonfinancial public sector				
Limit	926.1	987.7	987.7	987.7
Actual	924.0	975.4	978.0	...
Margin	2.1	12.3	9.7	...
(In millions of U.S. dollars)				
Net international reserves of the Central Bank				
Target	690	477	477	477
Actual	797	623	622	516
Deviation	107	146	145	39
Stock of short-term external debt owed by the nonfinancial public sector and the Banco del Estado				
Limit	910	910	910	910
Actual	899	864	891	873
Margin	11	46	19	37
Contracting and guaranteeing of foreign debt by the public sector				
A. With maturity 1-10 years				
Ceiling	650	650	650	650
Actual	41	46	48	...
Margin	609	604	602	...
B. With maturity 1-5 years				
Subceiling	250	250	250	250
Actual	9	10	13	...
Margin	241	240	237	...
C. Refinancing and rescheduling operations				
Ceiling	1,970	1,970	1,970	1,970
Actual	280	354	452	...
Margin	1,690	1,616	1,518	...

1/ Foreign currency is converted at Ch$130 = US$1 for the period January-March, and at Ch$138 = US$1 for the period April-June.

Table 2. Chile: Indices of Industrial Production and Sales

(Percentage change)

	1984				1985
	I	II	III	IV	I
Production					
Over same quarter of previous year	12.6	9.9	7.3	4.5	-1.2
Over previous quarter	-2.6	11.2	-2.1	-1.5	-7.9
Sales					
Over same quarter of previous year	6.6	9.4	4.5	4.7	2.4
Over previous quarter	-1.5	7.1	-1.8	1.1	-3.6

Source: Chilean Association of Manufacturers (SOFOFA).

Table 3. Chile: Real GDP 1984-85

(Percentage change)

	1984				1985
	I	II	III	IV	I
Over same quarter of previous year	6.4	7.9	6.8	4.3	3.0
Over previous quarter	2.3	6.1	-4.2	0.3	1.0

Source: Central Bank of Chile.

Table 4. Chile: Unemployment 1/

(Percent of the labor force)

	1984	1985
January-March	15.5	13.0
February-April	15.9	13.0
March-May	15.8	
April-June	16.2	
May-July	16.0	
June-August	16.1	
July-September	15.7	
August-October	15.3	
September-November	15.9	
October-December	14.0	
November-January	13.0	
December-February	12.8	

Source: National Institute of Statistics.

1/ Three-month moving average.

Table 5. Chile: Consumer Price Index

(Percentage change)

	Over Previous Month	Over Dec. 1984	Over Same Month of 1984
1985			
January	3.1	3.1	26.8
February	2.0	5.2	29.6
March	2.8	8.2	29.9
April	2.3	10.6	30.9
May	2.0	12.9	32.0
June	3.7	17.1	35.1

Source: National Institute of Statistics.

Table 6. Chile: Change in M-7 Over Previous Quarter

(*In percent*)

	1984				1985
	I	II	III	IV	I
M-7	8.3	2.4	6.8	11.0	14.4
Money	12.5	-3.5	1.8	1.3	5.2
Other liabilities 1/	7.3	3.8	7.9	13.1	16.2
Memorandum items					
Inflation rate (CPI)	2.4	4.0	4.2	11.0	8.2
Change in exchange rate (pesos per U.S. dollar)	0.8	3.7	25.7	11.1	14.8

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

1/ Includes time and savings deposits, mortgage bonds, and Central Bank bonds.

Table 7. Chile: Quarterly Operations of the Consolidated Nonfina
Public Sector 1984-85

(In percent of GDP)

	1984				
	I	II	III	IV	P
General government current revenue	6.5	6.7	7.0	7.6	
Taxes on income and property	1.1	0.8	1.0	1.4	
Taxes on goods and services	3.2	3.5	3.5	4.0	
Taxes on international trade	0.6	0.8	0.8	0.8	
Social security tax	0.7	0.7	0.7	0.7	
Other tax (net of IVA rebate)	-0.3	-0.3	-0.3	-0.3	
Nontax revenue	1.1	1.2	1.1	1.0	
Operational surplus of the public enterprises	2.3	2.8	2.7	3.3	
Of which: CODELCO	0.7	0.9	0.7	1.2	
ENAP	1.1	1.1	1.4	1.3	
Net transfers to general government	-1.7	-2.0	-1.9	-2.5	
General government current expenditure	6.8	7.2	7.4	8.9	
Wages and salaries	1.5	1.6	1.6	1.7	
Goods and services	0.6	0.8	0.9	1.0	
Social security payments to private recipients	2.3	2.4	2.5	2.8	
Transfer and subsidy payments to private sector	1.9	1.9	1.9	2.4	
Interest on public debt	0.3	0.5	0.5	1.0	
Other	0.2	--	--	--	
Current account surplus of the public sector	0.4	0.2	0.4	-0.4	
Net capital revenue	0.1	0.6	0.3	0.4	
Revenue	0.6	0.8	0.7	0.8	
Less: financial investment	-0.5	-0.3	-0.4	-0.4	
Capital formation	1.2	1.6	1.6	2.3	
General government	0.6	0.6	0.6	1.0	
Public enterprises	0.6	1.0	0.9	1.3	
Overall surplus or deficit (-)	-0.7	-0.8	-0.9	-2.4	1
Financing	0.7	0.8	0.9	2.4	
External	0.1	1.2	0.9	0.7	
Internal	0.6	-0.4	0.1	1.7	
Memorandum items					
Programmed deficit (-)	-1.5	-1.5	-0.8	-0.7	
Nominal GDP	1,893	1,893	1,893	1,893	

Sources: Ministry of Finance; and Fund staff estimates.

Table 7. Chile: Quarterly Operations of the Consolidated Nonfinancial Public Sector 1984-85

(In percent of GDP)

	1984				1985
	I	II	III	IV	Prel. I
General government current revenue	6.5	6.7	7.0	7.6	6.3
Taxes on income and property	1.1	0.8	1.0	1.4	0.8
Taxes on goods and services	3.2	3.5	3.5	4.0	3.5
Taxes on international trade	0.6	0.8	0.8	0.8	0.9
Social security tax	0.7	0.7	0.7	0.7	0.6
Other tax (net of IVA rebate)	-0.3	-0.3	-0.3	-0.3	-0.4
Nontax revenue	1.1	1.2	1.1	1.0	0.9
Operational surplus of the public enterprises	2.3	2.8	2.7	3.3	2.5
Of which: CODELCO	0.7	0.9	0.7	1.2	0.8
ENAP	1.1	1.1	1.4	1.3	1.3
Net transfers to general government	-1.7	-2.0	-1.9	-2.5	-1.8
General government current expenditure	6.8	7.2	7.4	8.9	6.6
Wages and salaries	1.5	1.6	1.6	1.7	1.4
Goods and services	0.6	0.8	0.9	1.0	0.5
Social security payments to private recipients	2.3	2.4	2.5	2.8	2.0
Transfer and subsidy payments to private sector	1.9	1.9	1.9	2.4	1.8
Interest on public debt	0.3	0.5	0.5	1.0	0.7
Other	0.2	--	--	--	0.1
Current account surplus of the public sector	0.4	0.2	0.4	-0.4	0.4
Net capital revenue	0.1	0.6	0.3	0.4	-0.1
Revenue	0.6	0.8	0.7	0.8	0.5
Less: financial investment	-0.5	-0.3	-0.4	-0.4	0.6
Capital formation	1.2	1.6	1.6	2.3	1.4
General government	0.6	0.6	0.6	1.0	0.6
Public enterprises	0.6	1.0	0.9	1.3	0.8
Overall surplus or deficit (-)	-0.7	-0.8	-0.9	-2.4 1/	-1.1 1/
Financing	0.7	0.8	0.9	2.4	1.1
External	0.1	1.2	0.9	0.7	0.7
Internal	0.6	-0.4	0.1	1.7	0.4
Memorandum items					
Programmed deficit (-)	-1.5	-1.5	-0.8	-0.7	-1.2
Nominal GDP	1,893	1,893	1,893	1,893	2,610

Sources: Ministry of Finance; and Fund staff estimates.

Table 8. Chile: Balance of Payments, 1984-85

(In millions of U.S. dollars)

	1984					1985		
	I	II	III	IV	Year	Prel. First Quarter	Rev. Proj. Year	Initial Proj. Year
Current account	-299	-469	-739	-554	-2,060	-439	-1,298	-1,380
Trade balance	227	164	-95	-4	293	175	754	1,088
Exports	(973)	(1,037)	(827)	(813)	(3,650)	(932)	(3,730)	(3,949)
Copper	/402/	/443/	/375/	/384/	/1,604/	/377/	/1,727/	/1,739/
Other	/571/	/594/	/452/	/430/	/2,046/	/555/	/2,003/	/2,210/
Imports	(-746)	(-873)	(-922)	(-817)	(-3,357)	(-757)	(-2,976)	(-2,861)
Nonfinancial services	-144	-184	-138	-31	-497	-89	-358 1/	-469
Financial services	-393	-508	-519	-534	-1,955	-535	-1,794 2/	-2,099
Transfers	11	59	14	15	99	10	100	100
Capital account	193	628	584	385	1,790	203	1,377	1,460
Direct investment	17	25	8	17	67	20	115	125
Scheduled amortization	-395	-388	-346	-377	-1,507	-381	-2,284	-2,293
Medium- and long-term gross disbursements	406	815	724	687	2,633	419	2,511	2,531
From foreign banks	(285)	(642)	(470)	(443)	(1,839)	(298)	(1,747)	(1,747)
Refinancing	/285/	/252/	/235/	/248/	/1,019/	/298/	/1,747/	/1,747/
New loans	/--/	/390/	/235/	/195/	/820/	/--/	/--/	/--/
Other disbursements	(121)	(174)	(254)	(244)	(729)	(122)	(764)	(784)
Nonfinancial public sector	/92/	/140/	/176/	/179/	/587/	/92/	/529/	/529/
Private sector 3/	/29/	/34/	/78/	/65/	/205/	/30/	/235/	/255/
Change in medium- and long-term assets	-4	8	1	4	9	10	10	--
Short-term capital	240	211	174	-29	596	126	147	1
Nonfinancial public sector	(-26)	(163)	(32)	(-40)	(129)	(62)	(40)	(40)
Private sector 3/4/	(266)	(48)	(142)	(11)	(464)	(64)	(107)	(-39)
Commercial credits	-71	-42	25	82	-6	9	-28	-60
Financing package							906 5/	1,156 6/
Errors and omissions	-9	67	116	-67	107	-52	-52	--
Overall balance of payments	-115	226	-38	-236	-163	-287	27	80
Valuation adjustment of official reserves	9	30	-3	45	81	-27	-27	--
Changes in official reserves (increase -)	106	-256	41	191	82	315	--	-80

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

1/ Including US$66 million in insurance payments on earthquake damage.
2/ Including interest savings of US$170 million from extension of payment period.
3/ Includes Banco del Estado.
4/ Includes repatriation of assets held abroad.
5/ Excluding US$170 million of interest savings which have been included in the current account.
6/ Includes US$100 million of SAL disbursements.

Table 9. Chile: External Financing Package 1985-86

(In millions of U.S. dollars)

	Rev. 1985	1986	Total
Financing requirements	1,076	879	1,955
Current account deficit	1,468 1/	1,250 2/	2,718
Previously identified financing	-392	-451	-843
Increase in net foreign reserves	--	80	80
Total financing package	1,076 3/	879 4/	1,955
World Bank structural adjustment loans	125	275	400
Refinancing of maturities of certain official credits	67	103	170
Foreign bank financing	884	501	1,385
World Bank cofinancing 5/	(194)	(106)	(300)
New credits	(520)	(265)	(785)
Change in interest payment dates	(170)	(--)	(170)
Repricing of certain foreign bank loans	(--)	(55)	(55)
Refinancing of foreign bank credits not previously contemplated 6/	(--)	(75)	(75)

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

1/ Prior to reduction of US$170 million on account of deferment of interest payments.
2/ Prior to reduction of US$55 million on account of repricing of certain foreign bank loans.
3/ Deferment of interest payment in an amount of US$170 million is treated as part of the financing package.
4/ Repricing of certain foreign bank loans is treated as part of the financing package.
5/ Half of which is to be guaranteed by the World Bank.
6/ These are additional to the refinancing of principal payments to foreign banks falling due in the period 1985-87.

Table 10. Chile: Quantitative Performance Criteria for Period Through March 31, 1986

	Limits and Targets			
	1985		1986 1/	
	July 1- Oct. 1	Sept. 30- Dec. 31	Jan. 1- Apr. 1	Mar. 31- Jun. 30
(In billions of Chilean pesos)				
Net domestic assets of the Central Bank 2/ 3/	421.7	463.6	...	...
Outstanding indebtedness of the nonfinancial public sector 3/ 4/	1,052.7 5/	1,125.9 5/	...	...
(In millions of U.S. dollars)				
Net international reserves of the Central Bank 3/ 4/	756	1,111	...	...
Contracting and guaranteeing of external debt by the public sector 6/	650	650	...	...
Of which: debt with maturity of more than one year and less than five years	250	250	...	...
Rescheduling of external debt	1,970	1,970	...	...
Stock of short-term external debt owed by the nonfinancial public sector and the Banco del Estado	910	910 7/	...	...

Source: Memorandum on the Economic Policies of Chile.

1/ These limits and targets will be fixed no later than January 31, 1986.
2/ Defined as the difference between (i) the sum of the Central Bank's liabilities to the private sector, its medium- and long-term foreign liabilities, and (ii) the net international reserves of the Central Bank.
3/ These limits will be adjusted for revision in the base data for December 31, 1984.
4/ The limits on the outstanding indebtedness of the financial public sector, the sublimits on the outstanding domestic indebtedness of the nonfinancial public sector, and the targets for the net international reserves of the Central Bank are tested at the end of each period.
5/ These limits shall be raised in accordance with the provisions of the contingency public spending program for the second semester of 1984.
6/ Refers to external debt with maturity of more than 12 months and less than 120 months.
7/ A lower limit of US$890 million is set for December 31, 1986.

Table 11. Chile: Projected Fund Position, June 30, 1985-July 31, 1988

	Outstanding June 30 1985	Operations During: First Year of Extended Fund Facility, 1985 Aug-Oct.	1986 Nov.-Jan	1986 Feb.-April	1986 May-July	Second Year Aug. 1986/ July 1987	Third Year Aug. 1986/ July 1988
		(In millions of SDRs)					
Transactions under tranche policies (net) 1/		62.50	62.50	52.33	47.25	163.57	96.46
Purchases		62.50	62.50	62.50	62.50	250.00	250.00
Ordinary resources		(31.25)	(31.25)	(31.25)	(31.25)	(125.00)	(125.00)
Enlarged access resources		(31.25)	(31.25)	(31.25)	(31.25)	(125.00)	(125.00)
Repurchases		--	--	10.17	19.25	86.43	153.54
Ordinary resources		(--)	(--)	10.17	(10.17)	(65.22)	(101.03)
Enlarged access resources		(--)	(--)	(--)	(5.08)	(21.21)	(52.51)
Transactions under special facilities (net) 2/		70.60	--	-36.88	-36.88	-147.50	-73.75
Purchases		(70.60)	(--)	(--)	(--)	(--)	(--)
Repurchases		(--)	(--)	(36.88)	(36.88)	(147.50)	(73.75)
Total Fund credit outstanding (end-of-period)	795.00	928.10	990.60	1,006.05	1,016.42	1,032.49	1,055.20
Under tranche policies 1/	500.00	562.50	625.00	677.33	724.58	888.15	984.61
Special facilities 2/	295.00	365.60	365.60	328.72	291.84	144.34	70.59
		(As percent of quota)					
Total Fund credit outstanding (end-of-period)	180.48	210.70	224.88	228.39	230.74	234.39	239.55
Under tranche policies 1/	113.51	127.70	141.88	153.76	164.49	201.62	223.52
Special facilities 2/	66.97	83.00	83.00	74.62	66.25	32.77	16.03

Source: Fund staff estimates.

1/ Ordinary and enlarged access resources.
2/ Compensatory financing facility.

Table 12. Chile: Balance of Payments, Medium-Term Projections, 1984-90

	1984	1985	1986	1987	1988	1989	1990
	(In billions of U.S. dollars)						
Trade balance	0.3	0.8	1.1	1.5	1.9	2.3	2.6
Exports	(3.7)	(3.7)	(4.2)	(4.8)	(5.5)	(6.4)	(7.3)
Imports	(-3.4)	(-3.0)	(-3.1)	(-3.3)	(-3.6)	(-4.1)	(-4.7)
Nonfactor services	-0.5	-0.4	-0.5	-0.6	-0.6	-0.7	-0.8
Factor services	-2.0	-1.8	-1.9	-2.0	-2.1	-2.2	-2.2
Transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance on current account	-2.1	-1.3	-1.2	-1.0	-0.7	-0.5	-0.3
Direct investment	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Scheduled amortization	-1.5	-2.4	-2.8	-2.7	-3.3	-2.9	-2.4
Of which: to commercial banks	(-1.1)	(-2.0)	(-2.4)	(-2.3)	(-2.8)	(-2.3)	(-1.7)
Capital inflows	3.4	3.5	4.0	3.6	3.8	3.2	2.5
Medium and long term	(2.7)	(3.5)	(4.0)	(...)	(...)	(...)	(...)
Short term	(0.7)	(--)	(--)	(...)	(...)	(...)	(...)
Overall balance	-0.1	--	0.1	--	--	--	--
	(As percent of GDP)1/						
Memorandum items							
Current account deficit	10.7	7.1	6.1	4.5	2.9	1.8	1.0
Interest payments on the external debt	11.2	10.3	10.3	9.9	9.3	8.5	7.7
Total external debt outstanding at year end	96.1	107.4	105.2	97.4	89.3	80.4	71.9
	(As percent of exports)2/						
Memorandum items							
Current account deficit	45.8	29.9	23.5	17.3	10.9	6.5	3.4
Total debt service payments or external debt 3/	81.6	96.4	94.1	80.5	82.6	66.7	53.6
Of which: interest payments	(48.8)	(43.6)	(39.2)	(36.3)	(33.0)	(29.4)	(26.1)
Total external debt outstanding at year end	410.1	460.1	415.8	378.7	340.6	300.7	266.2

Source: Fund staff estimates.

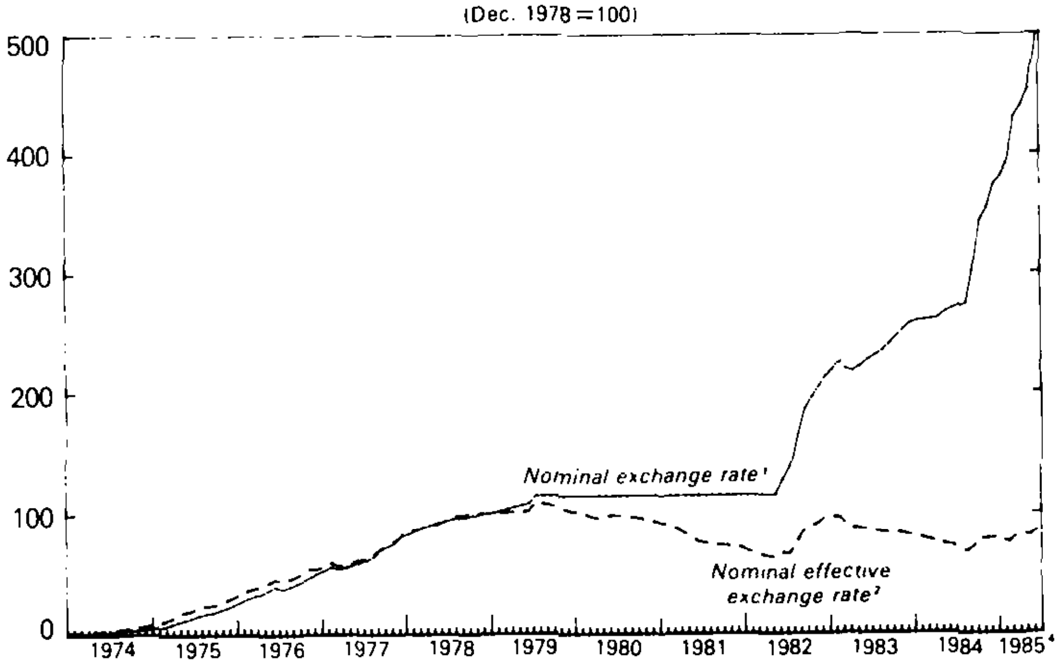
1/ As percent of GDP in U.S. dollars at average market exchange rates.
2/ Exports of goods and nonfactor services.
3/ Including refinanced amortization payments.

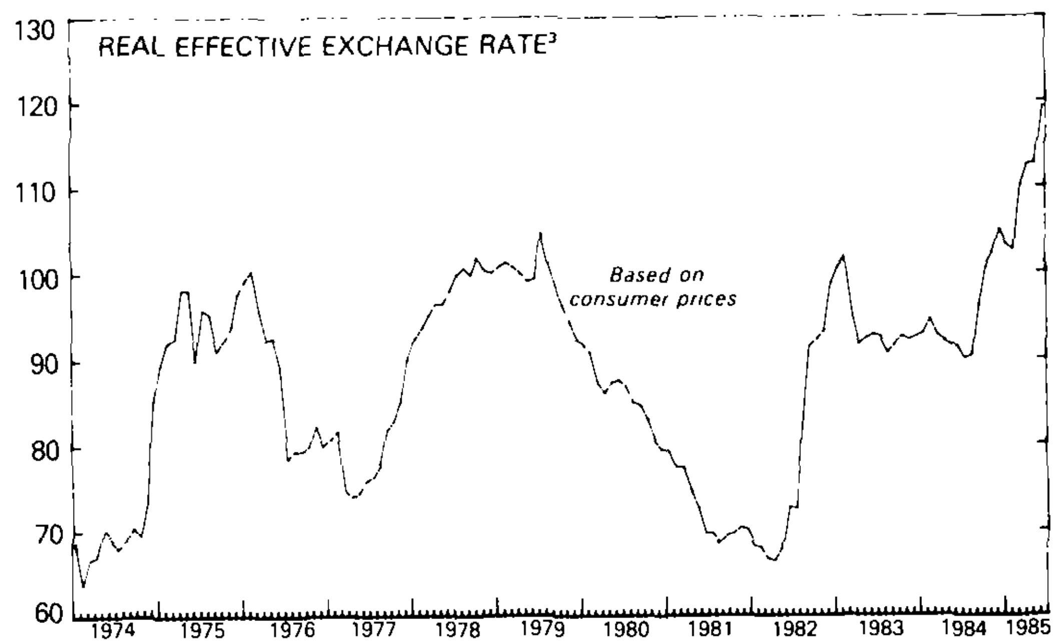
CHART 1

CHILE

EXCHANGE RATE INDICES

(Dec. 1978=100)





Sources: Central Bank of Chile; *International Financial Statistics*; and Fund staff estimates.

[1] Pesos per U.S. dollar at end of period. Thus an increase in the index represents a depreciation of the peso.

[2] Nominal exchange rate index adjusted by a weighted index of exchange rate movements of major trading partners.

[3] Nominal exchange rate index adjusted by weighted indices of prices and exchange rate movements of major trading partners.

[4] Partly estimated.

Chile: Extended Arrangement

Attached hereto is a letter, with attached memorandum, dated ________, 1985 from the Minister of Finance and the President of the Central Bank of Chile, requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of Chile intend to pursue for the period of this extended arrangement;

(b) certain policies and measures that the authorities of Chile intend to pursue until July 14, 1986; and

(c) understandings of Chile with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Chile will pursue throughout the period of this extended arrangement.

To support these objectives and policies, the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years beginning on the effective date of this extended arrangement, Chile will have the right to make purchases from the Fund in an amount equivalent to SDR 750 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Until July 14, 1986, purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 250 million, provided that purchases shall not exceed the equivalent of SDR 62.50 million until November 14, 1985, the equivalent of SDR 125 million until February 13, 1986, and SDR 187.50 million until May 14, 1986.

(b) Until July 14, 1987, purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 500 million.

(c) The right of Chile to make purchases after July 14, 1986 with respect to the second year and after July 14, 1987 with respect to the remaining period of this extended arrangement shall be subject to such phasing as shall be determined.

3. Purchases under this extended arrangement shall be made from ordinary and borrowed resources in the ratio of one to one, provided that any modification by the Fund of the proportion of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Chile will not make purchases under this extended arrangement:

(a) (i) during any period in which the data at the end of the preceding calendar quarter indicate that the limit on the total indebtedness of the nonfinancial public sector, as specified in Table 1 of the memorandum annexed to the attached letter, has not been observed, or

(ii) during any period in which the continuous ceiling on the net domestic assets of the Central Bank of Chile, as specified in Table 2 of the memorandum annexed to the attached letter, is not observed, or

(iii) during any period in which the data at the end of the preceding calendar quarter indicate that the net international reserve target, as specified in Table 3 of the memorandum annexed to the attached letter, has not been met, or

(iv) during any period in which the continuous ceiling on the stock of short-term foreign debt owed by the nonfinancial public sector and the Banco del Estado, as specified in Table 4 of the memorandum annexed to the attached letter, is not observed, or

(v) during any period from January 1, 1986 to March 31, 1986, if the data at the end of 1985 indicate that the limit on the stock of short-term foreign debt owed by the nonfinancial public sector and the Banco del Estado established for December 1985, as specified in Table 4 of the memorandum annexed to the attached letter, has not been observed, or

(vi) during any period in which the continuous ceilings on the contracting and guaranteeing of medium- and long-term external debt by the public sector, on the rescheduling of external debt by the public sector and by the private sector with the guarantee of the public sector, or on the contracting and guaranteeing of medium-term external debt by the public sector, as specified in Table 5 of the memorandum annexed to the attached letter, are not observed, or

(vii) if the scheduled uniform tariff reductions, as specified in Table 6 of the memorandum annexed to the attached letter, are not implemented, or

(viii) if the intentions with regard to certain exchange restrictions and multiple currency practices that are specified in paragraph 34, fifth and seventh sentences, of the memorandum annexed to the attached letter, are not carried out, or

(ix) during any period after July 14, 1986, in which understandings have not been reached between Chile and the Fund regarding the elimination in the period covered by this extended arrangement of the multiple currency practice as contemplated in paragraph 35 of the memorandum annexed to the attached letter, or if such understandings, having been reached, are not being observed, or

(b) during any period after January 31, 1986, in which the midyear review contemplated in paragraph 4 of the attached letter, including the specification of quantitative performance criteria until June 30, 1986 as contemplated in tables 1 through 5 annexed to the attached letter, has not been completed, or while the understandings reached, including the above noted ceilings, are not being observed, or

(c) during any period after July 14, 1986 with respect to the second year, or after July 14, 1987 with respect to the remaining period of the arrangement in which suitable performance clauses have not been established, as contemplated in paragraph 4 of the attached letter, or while such clauses, having been established, are not being observed, or

(d) if Chile

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) except as contemplated in paragraphs 34 and 35 of the memorandum annexed to the attached letter, introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Chile is prevented from purchasing under this extended arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Chile and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Chile will not make purchases under this extended arrangement during any period of the arrangement in which Chile has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Chile's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Chile. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has

taken place between the Fund and Chile and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Chile, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this extended arrangement, involving borrowed resources, will be determined in accordance with rule G-4 (b) of the Fund's rules and regulations. Chile will consult the Fund on the timing of purchases involving borrowed resources in accordance with rule G-4 (d).

9. Chile shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

10. (a) Chile shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Chile's balance of payments and reserve position improves.

(b) Any reductions in Chile's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this extended arrangement, will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

11. During the period of the extended arrangement, Chile shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Chile or of representatives of Chile to the Fund. Chile shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Chile in achieving the objectives and policies set forth in the attached letter and memorandum.

12. In accordance with paragraph 4 of the attached letter, Chile will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria under paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the

extended arrangement and while Chile has outstanding purchases under this extended arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Chile's balance of payments policies.

Santiago, Chile
July , 1985

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20481

Dear Mr. de Larosiere:

1. During the past two years, the Chilean authorities have implemented an economic program which was supported by a two-year stand-by arrangement from the Fund in the amount of SDR 500 million. In this period, the emergence of unforeseen difficulties, including a domestic banking crisis, a sharp drop in the price of copper, and high foreign interest rates, led the Government to undertake substantial policy adjustments, including a major devaluation of the peso, to maintain the program on track and establish a sound basis for economic recovery. As a result, Chile was able to purchase from the Fund the full amount of the resources available under the stand-by arrangement.

2. Notwithstanding these adjustment efforts, the Chilean economy remains highly dependent on foreign sources of financing. Given Chile's very high external indebtedness, this dependence needs to be reduced substantially if sustained economic growth is to be achieved over the medium term.

3. Hence, we have framed a medium-term economic program designed to reduce Chile's reliance on external savings and achieve a moderate rate of economic growth with low inflation. The strategy of the Chilean Government is to promote balance of payments adjustment and economic growth by relying on market forces and price incentives as a principal guide to resource allocation in the economy. In support of this medium-term strategy and the policies that are described in the attached Memorandum on the Economic Policies of Chile, the Government of Chile wishes to request a three-year extended arrangement from the International Monetary Fund in an amount equivalent to SDR 750 million.

4. During the period of the extended arrangement, the authorities of Chile and the Fund will consult periodically, in accordance with the policies of the Fund on such consultations, about the progress being made in the implementation of the program described in the attached memorandum, and about the policy adaptations judged to be appropriate for the achievement of its objectives. With respect to the program for the first year, the Government and the Fund will consult before the end of January 1986 on the demand management and external sector policies of the program. Also, before July 14, 1986 and before July 14, 1987, the authorities will reach understandings with the Fund on the policies and

performance clauses relating, respectively, to the second and third year of the extended arrangement.

Yours truly,

Enrique Seguel
President
Central Bank of Chile

Hernan Buchi
Minister of Finance

Attachment

Memorandum on the Economic Policies of Chile

I. Background and Recent Developments

1. Following a period of rapid growth in economic activity and domestic spending, the Chilean economy experienced a large contraction in 1982. In that year, real GDP fell by 14 percent, real domestic expenditure was reduced by 25 percent, and unemployment rose to as high as 25 percent. This sharp drop in economic activity and demand reflected recession in the industrial countries, a decline in Chile's terms of trade, high interest rates abroad, a reduction in net capital inflows, and a weakening of Chile's competitiveness. These conditions also lowered confidence, triggered a high rate of business failure, and adversely affected the domestic financial system.

2. To redress the country's economic difficulties, the authorities in June 1982 improved Chile's competitiveness through a sizable depreciation of the peso and the abandonment of wage indexation, and in late 1982 adopted a medium-term financial program. The objectives of this program were to restore confidence and economic growth in a framework of an improved balance of payments performance and low inflation. To achieve these objectives, the program called for the implementation of a consistent and adequate set of basic price and demand management policies and included measures to support the financial and private sectors.

3. The financial program faced serious difficulties at the start. In January 1983, the weakening of the financial system led the Government to intervene and liquidate a number of privately owned financial institutions. Although necessary to begin restoring the soundness of the financial system, this action led to a decline in confidence. Foreign banks stopped lending to Chile and net international reserves declined sharply.

4. To stabilize the financial system, stop the loss of international reserves, and return to the path of the financial program, the authorities in March 1983 formulated and began to implement an emergency plan. Under this plan, the authorities applied disciplined credit and fiscal policies, continued to maintain the competitiveness of the peso, and obtained from foreign banks the refinancing of principal payments falling due in 1983 and 1984 as well as the new financing envisaged in the financial program.

5. The emergency plan was successfully implemented and Chile began to make progress toward financial stabilization and economic growth. Credit expansion and reserve losses were kept within the targets of the financial program, inflation declined, and economic activity and employment, which had remained stagnant during the first half of 1983, registered a recovery in the second half of the year. In turn, domestic savings and the trade surplus of the balance of payments

increased significantly with respect to 1982, and the current account deficit of the balance of payments declined sharply. Confidence strengthened as exchange rate policy continued to be credible and the situation of the financial system began to improve.

6. Economic activity continued to expand during the first semester of 1984. Real GDP increased by 7 percent in relation to the comparable period of 1983 and employment also rose strongly. The credit expansion of the Central Bank as well as the net borrowing requirements of the nonfinancial public sector were within the projected range and inflation declined to an annual rate of 13 percent.

7. By midyear, however, adverse external developments began to exert considerable pressure on the public finances and the balance of payments. Foreign interest rates rose substantially more than had been expected and, contrary to expectations, copper prices weakened considerably. These developments undermined confidence in the viability of the real exchange rate and import demand surged.

8. As these adverse external developments were expected to persist for some time, the Government took action to protect the balance of payments and strengthen the fiscal performance. On September 17, 1984, the authorities devalued the peso by 19 percent in relation to the U.S. dollar and raised import duties from an average of 21 percent to a uniform rate of 35 percent.

9. The decline in real income on account of the deterioration in the terms of trade, higher interest payments abroad, and the devaluation led to a deceleration in the rate of growth of economic activity during the second half of 1984. Even so, for 1984 as a whole real GDP is estimated to have increased by 6 percent. Inflation rose to an annual rate of 34 percent in the second semester of 1984 from 13 percent in the previous six-month period as the depreciation of the peso and the increase in tariffs resulted in a sharp rise in the price of tradable commodities. For the year as a whole, inflation amounted to 23 percent.

II. Macroeconomic Policies

10. One of the main impediments to sustained economic growth in Chile is a heavy debt service burden. Economic policy, therefore, aims at reducing substantially the external current account deficit and establishing the conditions for a sustainable rate of economic growth.

11. During 1982 and 1983 Chile made an important adjustment effort. The external current account deficit declined as the trade balance shifted from a deficit of over 8 percent of GDP in 1981 to surpluses averaging 2.7 percent of GDP in 1982-83. The bulk of the adjustment in the trade balance in 1982 and 1983 was associated with reduced domestic demand, high unemployment, and lower imports as the value of exports stagnated. In 1984, an expected further improvement in the current account did not materialize because of a deterioration of the

terms of trade and high import demand associated with a larger than projected rate of economic growth and the expectation of a major depreciation of the peso. Given these developments, the Government realized that a further reduction in the current account balance of payments deficit that would not impair medium-term growth could only be achieved through a change in relative prices that would lead to a stimulation of exports and fuller employment of resources.

12. Accordingly, the Government devalued the peso in September 1984 and has prepared a medium-term economic program covering the period 1985-87. This program rests on policies that would foster growth in exports and domestic savings while providing for moderate expansion in economic activity and low inflation.

13. Economic events in Chile are highly conditioned by external factors. During the 1985-87 economic program the terms of trade are projected to improve moderately, and nominal foreign interest rates are projected to decline somewhat from the levels reached in 1984.

14. Under the assumptions noted above, the external current account deficit is projected to decline from 10.5 percent of GDP in 1984 to 4.5 percent of GDP in 1987, principally because of an increase in the trade surplus from about 1.5 percent of GDP to about 8 percent of GDP. The projected increase in the international trade of Chile calls for a strengthening of the official international reserve of the Central Bank. Hence, the program contemplates an increase in the net international reserve of US$80 million durign the three year period of the extended arrangement. The increase is projected to take place during 1986. Domestic savings, particularly that of the public sector, is projected to increase sharply over the program period if the projected rate of investment is to take place and GDP is to grow at a moderate pace. Inflation is targeted to decline from an annual rate of 34 percent in the second half of 1984 to an annual rate of 15 percent in 1987. In turn, the ratio of external debt to exports would decline from 5.0 in 1984 to 3.5 in 1987. The economic scenario for the years 1988-90 shows that if sound economic policies are continued in that period, Chile would make further progress toward growth in the context of a further substantial reduction in the size of the Chile's external indebtedness in relation to exports. The policies that will be pursued over the medium term to achieve the above-mentioned objectives are described below, together with the specific policies for 1985.

15. The success of an export-oriented economic growth strategy will be critically dependent on exchange rate policy. The September 1984 step devaluation of the peso improved Chile's competitiveness substantially. The authorities believe that Chile's present real effective exchange rate is consistent with the growth and balance of payments objectives of the economic program, taking into account Chile's future debt service payments, the continued availability of moderate foreign financing, and the level of tariffs. Nevertheless, the authorities will follow closely domestic and external developments, particularly the behavior of the

terms of trade and foreign interest rates, and will take appropriate exchange rate action to protect Chile's balance of payments and growth objectives.

16. During the first year of the economic program, the peso will be devalued daily on the basis of the difference between domestic inflation in the previous month and the external rate of inflation relevant for Chile, estimated at no more than 0.3 percent per month. This estimate of relevant external inflation will be reviewed quarterly and the exchange rate will be modified as appropriate to ensure Chile's competitiveness.

17. The uncertainties generated by the adverse external developments in mid-1984 resulted in a spread between the official and parallel market exchange rates that rose to as high as 25 percent. Since then, as a result of the depreciation of the peso and the tightening of monetary policy, the spread has narrowed to about 6 percent. The Government expects this spread to decline further as the economic program is implemented successfully.

18. A low uniform tariff level and the absence of trade restrictions were key elements of Chile's growth strategy in the late 1970s. The trade system of Chile remains virtually free of quantitative and other nontariff import restrictions, notwithstanding the imposition of a number of such barriers to Chile's exports by certain trading partners. The Government intends to continue to refrain from imposing such import restrictions, and also continues to believe that a low uniform tariff level is essential to achieve export-oriented growth and efficient import substitution. Since early 1983, for fiscal reasons the uniform tariff level has been raised in several stages from 10 percent to the present level of 35 percent. In accordance with its economic strategy, the Government has announced a schedule of uniform tariff reductions to a level of 25 percent to be completed no later than June 30, 1986. This schedule is shown in annexed Table 6. In the course of 1985, the Government will review the advantages of further progress in this regard, taking into account, among other factors, the impact on the fiscal situation.

19. The Government will follow a policy of wage restraint to strengthen external competitiveness, raise the level of employment, and keep inflation low. For 1985, the Government's wage policy is designed to help keep inflation to no more than 25 percent. Consequently, public sector wage increases will be limited to the adjustments already implemented in January 1985. As in the past, the Government will abstain from interfering with wage negotiations in the private sector and will maintain flexibility in the labor markets. Except for the minimum wage, wage settlements in the private sector will continue to be determined either by collective bargaining or individual agreement.

20. The pursuit of fiscal discipline has been and continues to be a key element in Chile's economic strategy which mainly relies on private initiative as the driving force for economic development. In the course of the economic program, as reliance on external savings is reduced, the nonfinancial public sector deficit will be reduced correspondingly to enable the private sector to finance the investment opportunities offered by the improved external competitiveness of the country.

21. Hence, the economic program envisages the virtual elimination of the overall deficit of the nonfinancial public sector in the course of the next three years from a deficit equivalent to 4.8 percent of GDP in 1984. Similarly, the net financing requirements of the nonfinancial public sector, defined as the sum of the overall deficit and net capital revenues, are projected to decline by an equivalent amount in terms of GDP from the 6 percent estimated for 1984. To assist in the country's efforts to increase domestic savings, public sector savings will need to increase strongly in the course of the economic program from the level of 0.5 percent of GDP estimated for 1984. The Government intends to achieve this fiscal adjustment mainly by restraining the growth of expenditures to avoid a significant increase in the tax burden, which could adversely affect private savings decisions. The Government is committed also to adjusting the prices of goods and services sold by public enterprises as necessary to reflect changes in their opportunity cost or help finance investment outlays.

22. The nonfinancial public sector program for 1985 entails an overall deficit of 3 percent of GDP and the total net financing requirements, as defined in the previous paragraph, are programmed at 4 percent of GDP. General government current revenue is projected to increase from 27.7 percent of GDP in 1984 to 29.3 percent of GDP in 1985. To achieve the programmed increase in revenue, the Government has raised the import tariff, tightened coverage of the value added tax and increased taxes on certain goods. The increase in the average effective import tariff is expected to raise revenue by 2 percent of GDP, more than offsetting the loss of revenue estimated at 0.6 percent of GDP associated with the implementation of second year of a tax reform designed to stimulate private saving and investment. In addition, the transfers from publicly owned entities to the General Government are expected to increase because of improved operating surpluses related mainly to higher copper prices, and increases in the domestic prices of petroleum products implemented in September 1984 and January 1985. General government spending in 1985 is projected at 33 percent of GDP, a rate virtually unchanged from the previous year. Investment outlays on housing and infrastructure are programmed to rise in relation to GDP while current spending, mainly on wages and salaries, is projected to be reduced in relation to GDP. Capital spending by the public enterprises in relation to GDP is also programmed to remain similar to that of 1984. As the Government's policy continues to be to restrain the growth of the nonfinancial public sector in relation to GDP, expenditures will be kept within the above described levels. The program establishes ceilings on the stock of debt of the nonfinancial public sector to all lenders. These ceilings are shown in annexed Table 1.

23. In addition to the fiscal policy for 1985 described above, the program contemplates a contingency spending plan equivalent to up to 0.5 percent of GDP for the second semester of 1985. The implementation of this plan is contingent upon the behavior of net saving by the private sector in the first semester and will be determined on the basis of a number of relevant factors, including the behavior and trend of the non-copper trade balance in the first semester in relation to the program projection, inflation, and domestic interest rates. Any part of the contingency spending plan not activated on the basis of the above mentioned criteria may be carried out provided that long-term external financing not currently contemplated in the economic program can be obtained for repairing the damage caused by the recent earthquake.

24. The Government's fiscal policy will be supported by a prudent monetary policy, consistent with the growth, inflation, and balance of payments objectives of the economic program. For 1985, monetary policy is designed to help keep inflation to no more than 25 percent and to achieve an overall balance of payments equilibrium. These demand management policies are consistent with a continuation of economic growth in 1985.

25. Central Bank operations became increasingly complex in 1983-84, as a result of the crisis of the financial system and adverse developments in world financial markets. In this period, the Central Bank obtained medium-term loans from foreign banks, extended emergency support to the financial system, and implemented a wide set of short- and medium-term credit programs to reduce the debt burden of the private sector, improve the liquidity of the financial system, and support economic activity. In addition, since late 1982 the Central Bank has engaged in swap operations and accepted foreign currency deposits to provide a foreign exchange hedge to banks with rescheduled foreign liabilities and induce net capital inflows. The above developments, which were considered unavoidable in view of the existing circumstances have reduced the flexibility of monetary management, affected credit allocation, and exposed the Central Bank to substantial capital and operational losses.

26. Since the access of Chile's private sector to international financial markets is likely to remain limited for some time, the Central Bank must continue to channel resources from abroad to the domestic financial system. At the same time, the Central Bank intends to reduce substantially its discretionary role and operating losses to alleviate the rigidities that are hampering monetary management. This policy will require a reduction in the scope of domestic debt refinancing programs and other programs involving subsidies. Accordingly, the Central Bank in 1985 intends to limit its debt refinancing programs to its commitments at the beginning of the year and to abstain from renewing existing special short-term credit operations or establishing new selective credit facilities These policies will permit the Central Bank to increase its reliance on nonselective operations at market rates to rechannel resources to the economy. The Central Government

will continue its policy of absorbing the losses of the monetary authority through recapitalization of the Central Bank, and will ensure that the costs of the recapitalization are adequately provided for in the financial plans of the Government. The authorities have under consideration a number of alternatives to cover these costs. In view of the complexity of the issues involved, these alternatives will continue to be the subject of discussion and review in the course of the economic program in order to ensure the long-term efficiency of resource allocation.

27. In Chile interest rates are determined mainly through market forces. However, the Central Bank exerts influence on interest rates through its large share of intermediation at predetermined rates, swap operations, and other subsidized operations. In addition, during 1983 and most of 1984, the Central Bank indicated to financial institutions the maximum nominal interest rate to be paid on 30-day deposits. The indicated rate is determined on the basis of expected domestic inflation plus a premium. This policy, which is intended to provide for positive real interest rates, has been useful in guiding interest rates during a period of difficult financial conditions, and has contributed to a shift toward longer-term deposits. As the Government's objective is to expand the role of market forces in the determination of interest rates, the Central Bank's objective is to eliminate the indicated rate as the domestic financial system regains its strength. Meanwhile, it will give much greater weight to the level of comparable foreign interest rates when setting the domestic indicated rate. Interest rates on the Central Bank's remaining selective credit operations will be set on the basis of the real cost of its external resources. The Government will abstain from changing the present basic indexation system for operations of the financial system (Unidades de Fomento) for existing credits.

28. The authorities have an outstanding commitment to eliminate the practice of paying interest on swap operations and a premium on foreign currency and foreign currency related deposits. During 1984, the rate of interest paid on swaps was reduced from 5.6 percent to 4.6 percent. The Central Bank will continue to reduce gradually the remaining subsidies on capital inflows with the intention of eliminating them by the end of 1985. Progress in the area of monetary management will be reviewed with the Fund before the end of January 1986.

29. The policies described in paragraphs 26 to 28 above have been incorporated in a monetary program that establishes ceilings on the net domestic assets of the Central Bank. These ceilings are shown in the annexed Table 2. Also, as a guide to credit policy, targets have been established for the net international reserves of the Central Bank as shown in the annexed Table 3.

30. A major aim of financial management will be to re-establish a solvent private financial system. In May 1984, the Central Bank began purchasing the bad loan portfolios of nonintervened banks up to 250 percent of capital and reserves. During 1985, the Government expects to

apply a similar scheme to the intervened financial institutions. However, as these institutions have numerous substandard loans, their capital must be increased. As it is unlikely that the private sector will be able to recapitalize these institutions in full, in January 1985, legislation has passed that will permit the Government to recapitalize them directly up to a maximum of 49 percent of the capital of each bank. The legislation provides that state participation in the capital of the banks shall not exceed a period of 5 years, and that the shares shall be sold to the private sector at an annual rate no less than 20 percent of the initial state participation. The law also provides for a government transfer to the Central Bank to cover the potential losses arising from these operations.

31. The authorities are preparing a new general banking law which will provide for increased powers of supervision for the Superintendency of Banks and Financial Institutions, as well as for other measures aimed at strengthening the financial system. The legislation is expected to enter into effect by the end of 1985. In addition, draft legislation has been prepared which would permit the establishment of a deposit insurance scheme once the domestic financial market conditions have improved sufficiently. At the present time, and until December 31, 1985, all deposits of the financial system are guaranteed by the Government.

32. The basic price and demand management policies described above should help Chile reduce its reliance on external financing. Accordingly, the Government's economic program calls for a reduction in net external financing from US$2.0 billion in 1984 to US$1.0 billion in 1987. For 1985, the economic program contemplates net external financing of US$1.4 billion. The Government has approached its main foreign creditors and is confident that the required financing for 1985 will be obtained. In view of the heavy schedule of principal payments due during 1985-87, the Government will seek rescheduling of at least part of these payments. The public sector external debt, including guarantees on private external debt, has risen rapidly in the past two years. This has entailed a sharp rise in the future debt service burden of the public sector. In view of the need to reduce the rigidities confronted by monetary management, referred to in paragraph 26, and the substantial adjustment which will be required of the nonfinancial public sector, referred to in paragraph 21, the public sector is no longer in a position to extend a guarantee to newly contracted private sector external debt, nor to the rescheduling of principal payments by the private sector falling due in 1985 and in subsequent years.

33. To control the maturity structure of Chile's external debt and improve the path of future debt service payments, the program includes ceilings on the outstanding stock of short-term debt owed by the nonfinancial public sector and the Banco del Estado, as well as ceilings on the contracting and guaranteeing by the public sector of external debt, including rescheduling operations, with maturities of over one year but less than ten years. A subceiling on debt maturities of over one year

but less than five years has also been established. These ceilings are shown in the annexed Tables 4 and 5.

34. To help ease the pressure on the official reserves, a 120-day deferment period for import payments was established in 1983, and the regulations governing sale of exchange for a number of invisible transactions were temporarily tightened with the objective of impeding unauthorized capital outflows. At the present time, the Central Bank has established maximum travel allowances for tourism and business travel. All bona fide requests for foreign exchange requiring central bank authorization, except those for tourism, are approved without delay. As the effects of the September 1984 devaluation on the balance of payments are expected to take some time to be fully manifested, the liberalization of the exchange system will need to proceed in stages. Accordingly, the Central Bank will reduce the current restrictions on the sale of foreign exchange for tourism by raising the travel allowances from present levels up to the levels existing as of December 1, 1982 in three equal steps to be completed by September 1985, March 1986, and September 1986. The Government intends to make further progress in this regard in the course of 1987. The Central Bank will reduce the 120-day deferment period to 90 days by December 31, 1985 and will eliminate it by December 31, 1986. The economic program will take into account the effects of this measure on the external financing requirements of the economy.

35. Since late August 1982, the Central Bank has subsidized debt service payments with respect to foreign currency denominated debt outstanding as of August 6, 1982. The subsidy is determined by the difference between the official exchange rate and a referential exchange rate. The subsidy scheme gives rise to a multiple currency practice in the case of certain foreign debt service payments by the private nonexport corporate sector. The authorities intend to reduce the scope of the subsidy in the course of the economic program in accordance with their policy to reduce substantially the losses of the Central Bank, as described in paragraph 26. However, existing agreements with Chile's foreign bank creditors do not permit a reduction in the subsidy until March 1, 1986. Hence, the Government intends by May 15, 1986 to announce a schedule that would reduce the scope of the subsidy and eliminate the remaining multiple currency practice in the period covered by the extended arrangement.

36. Chile's exchange system is temporarily characterized by the existence of multiple currency practices and restrictions on payments and transfers for current international transactions. The Government of Chile will take measures that will permit the elimination of these restrictions and practices before the end of the period of the requested extended arrangement in accordance with the schedules established above or to be established in the course of the arrangement.

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

(In billions of pesos)

Date	Total Limit
December 31, 1984 (actual stock)	894.8
March 31, 1985	926.1
June 30, 1985	987.7
September 30, 1985	1,052.7
December 31, 1985	1,125.9
March 31, 1986	... 2/
June 30, 1986	... 2/

1/ The above limits shall be:

(1) adjusted for revisions in the base data for December 31, 1984;

(2) raised in accordance with the provisions of the contingency public spending program for the second semester of 1985. The increase in the limit for September 30, 1985 shall not exceed Ch\$6 billion, and that for December 31, 1985, Ch\$13 billion. The contingency spending plan may be activated either on the basis of the behavior of the non-copper trade balance and related factors in the first semester of 1985 or on the basis of the availability of long-term external financing for repair of damage caused by the earthquake of March 1985; and

(3) adjusted downward for any revenue in excess of Ch\$0.8 billion derived from the sale of stock by CORFO, its affiliates or other public enterprises, unless compensated by new credits to the private sector.

2/ These limits shall be fixed no later than January 31, 1986.

Table 2. Chile: Ceilings on the Net Domestic Assets of the Central Bank 1/

(In billions of pesos)

Period	Ceilings
January 1-March 31, 1985	326.5
April 1-June 30, 1985	374.0
July 1-September 30, 1985	421.7
October 1-December 31, 1985	463.6
January 1-March 31, 1986	...2/
April 1-June 30, 1986	...2/

1/ The above ceilings shall be adjusted for revisions in the base data for December 31, 1984.
2/ This ceiling shall be fixed no later than January 31, 1986.

Table 3. Chile: Targets of the Net International Reserves of the Central Bank 1/

(In millions of U.S. dollars)

Date	Targets
December 31, 1984 (actual stock)	1,111
March 31, 1985	690
June 30, 1985	477
September 30, 1985	756
December 31, 1985	1,111
March 31, 1986	...2/
June 30, 1986	...2/

1/ The targets shall be adjusted for revisions in the base data for December 31, 1984.

2/ This target shall be fixed no later than January 31, 1986.

Table 4. Chile: Limits on the Stock of Short-Term External Debt Owed by the Nonfinancial Public Sector and the Banco del Estado 1/

(In millions of U.S. dollars)

	Limits
January 1-December 31, 1985	910
December 31, 1985 stock	890
January 1-June 30, 1986	...2/

1/ Net of gross short-term foreign assets of the Banco del Estado. Limits shall be adjusted for revisions in the base data for December 31, 1984.

2/ This limit shall be fixed no later than January 31, 1986.

Table 5. Chile: Ceilings on the Contracting and Guaranteeing of Foreign Debt by the Public Sector

(In millions of U.S. dollars)

Period	Ceiling 1/	Subceiling 2/	Rescheduling Ceiling 3/
January 1-December 31, 1985	650	250	1,970
January 1-June 30, 1986	...4/	...4/	...4/

1/ Ceiling on the contracting and guaranteeing of foreign debt with maturity of over 12 months and below 120 months. Excludes refinancing and rescheduling operations.

2/ Subceiling on the contracting and guaranteeing of foreign debt with maturity of over 12 months and below 60 months. Excludes refinancing and rescheduling operations.

3/ Ceiling on refinancing and rescheduling operations. For this purpose any nonpayment of a scheduled debt service payment by the public sector will be treated as a rescheduling operation as it occurs. The same treatment will apply to the deposits made at the Central Bank by the public and private sectors on account of debt service payments.

4/ This ceiling shall be fixed no later than January 31, 1986.

Table 6. Chile: Schedule of Uniform Tariff Reductions

	The tariff on any item shall not be higher than:
After June 30, 1985	30 percent
After June 30, 1986	25 percent

For purpose of establishing compliance with the concept of uniformity of the tariff, tariff surcharges determined on the basis of technical procedures of the GATT, shall not be taken into account. The case for each surcharge is to be reviewed on a six-month basis.

The above schedule of uniform tariff reductions shall not apply to the following products: powder and condensed milk, butter, cheeses, wheat, sugar, and edible oils.