Opening Statement by Representative of Chile

First of all I should like to express my appreciation to the secretariat for its valuable co-operation in the preparation of the basic document for this consultation with Chile pursuant to Article XVIII:B, and to the representative of the International Monetary Fund (IMF) for the comprehensive account that he has just given us of my country's economic and financial situation, and for preparing the useful document that is before the members of this Committee.

The statement by the IMF representative and the contents of the document that I have referred to make it unnecessary for me to try the patience of the members of this Committee by repeating figures and background information with which they are already familiar. On the other hand, I should like to stress certain aspects that I think may assist the Committee in appreciating Chile's economic situation.

My Government is striving towards three fundamental objectives in the field of the national economy: a high rate of growth, a reasonable degree of stability and an equitable distribution of national income. In order to attain these objectives an overall, co-ordinated and far-reaching policy has been made effective with a view to overcoming the obstacles that in the past have resulted in our economy being characterized by a low rate of development, a high degree of instability and an inequitable distribution of income.

Within this policy the external sector is a matter for fundamental concern, because the implementation of this ambitious development programme upon which the country has embarked depends on vigorous expansion of exports and on adequate equilibrium in trade. So far as exports are concerned, a central short-term target has been set which is to double production and exports of copper (from 600,000 tons annually to 1,200,000 tons, in round figures), and another longer-term target, which is to achieve greater diversification of exports, with special emphasis on manufactures.
The doubling of copper production is no unrealistic target: the relevant agreements have already been signed, and the major projects are being commenced in order to make possible this tremendous production increase within a short period. So far as export diversification is concerned, an export promotion law has been enacted and within the Central Bank a special department has been established to deal exclusively with external sales promotion. In addition, measures have been introduced providing for tax rebates and for pre- and post-loading credits, export formalities have been simplified, and various other measures have been taken to ensure the success of this policy. In this connexion, special mention should be made of the efforts made to adjust the exchange rate to realistic levels; this implies a departure from an over-valuation process that has been virtually chronic in Chile, with the result that for many years it was more profitable in my country to import than to export.

On the import side, we are trying to ensure the best possible use of foreign exchange availabilities so as to meet production requirements and domestic consumption requirements, under a system of strict priorities. The situation in the external sector has been favourable in the past two years, and consequently the country has been able to move towards simplification of import regulations and towards relative trade liberalization, to the extent compatible with import capacity.

Thus, a new customs tariff has been introduced, based on the Brussels Tariff Nomenclature and this incorporates all the various taxes and charges formerly levied through the customs; a new list of permitted imports has been issued, grouping products according to the BTN headings; the number of categories requiring prior deposits has been reduced, and the levels of these deposits have also been lowered; there have been tariff reductions on certain headings or categories of products; the time-limit for covering imports has been shortened, and is now sixty days; and since the beginning of 1960 no use has been made of the possibility of rejecting import registers as provided for in Law No. 16,101.

In this way, it may be seen that within the framework of the list of permitted imports, foreign goods can now enter Chile subject only to the duties provided for in the customs tariff and to the corresponding prior deposits, which at the present time affect only 20 per cent of imports. In addition, in the majority of cases the prior deposits are lower than those required until a year or two ago and, to a less degree, the customs duties have been reduced as compared with those applicable a few months ago.
Naturally, these measures have resulted in a substantial increase in imports: as compared with US$625 million in 1965, they are expected this year to be in the vicinity of US$900 million, in other words to reach a level never before recorded in Chile.

While emphasizing these results, however, it must be recognized that these have been made possible largely as a result of the more satisfactory prices for copper in the international market, particularly in the past two years. It is easy to understand that the basic measures envisaged by my Government cannot yield results immediately, and that accordingly the level of external trade will continue in the near future to depend on Chile's principal export product. Because of this fact it will be necessary to continue to resort to measures for regulating foreign trade, in order to be able to effectively and promptly to adjust foreign purchases to the true import capacity of our country at any particular moment or time. Experience shows that the crises caused by the absence of such regulations are of benefit to no-one.

With your permission, I should like at this point in my statement to depart somewhat from the traditions of this Committee and to refer in very general terms to certain political aspects of the Chilean scene which, I believe, may contribute to a better appreciation both of the information that I have supplied and of the background information contained in the IMF document.

The efforts made by my Government to regulate foreign trade, and in particular the careful use of the exceptional export earnings that we have received in the past two years due to the increase in the price of copper; the realistic policy maintained in regard to the exchange rate; the tax reform; budget equilibrium - all these and others are different aspects which together add up to a policy of real austerity. As members of this Committee well know, the application of a policy of this kind, in a country in which the standard of living is far from being satisfactory, requires a high degree of resolve and fortitude on the part of the Government.

It is all the more difficult to apply this austerity policy in regard to the utilization of export earnings because of the fact that in Chile, within a strictly democratic framework, profound structural changes are taking place that in one way or another make it difficult to abide by a rigid economic pattern since, basically, the democratic system implies concessions that are not always in keeping with such patterns.
For example, as a consequence of the wages policy and tax reform, an important redistribution of income has occurred in Chile and this has fundamentally been to the advantage of the most under-privileged sectors of the population. As was to be hoped, this has brought about a substantial increase in demand for foodstuffs and durable consumer goods; so far as foodstuffs are concerned, Chile's agriculture is not at present able to meet the increased demand; with respect to the second category of products, the increase in demand can only be met by means of additional investments, since existing installed capacity is already fully utilized.

Within the framework of the policies applied in my country, it is difficult to restrict this demand directly, and recourse to indirect methods is subject to many limitations. Consequently this increase in demand has resulted in a reduction in the exportable surplus of agricultural products, and in increased imports in this sector. The additional pressure to import foodstuffs, combined with the equipment effort being made by industrial undertakings as a result of the favourable conditions prevailing in the domestic market, have led to a situation that is less satisfactory than might have been hoped for on the basis of our balance of payments, and this was realized by the IMF representatives in their report. The increase in demand for foodstuffs also partly accounts for the fact that the cost of living has risen more in the course of this year than had been foreseen.

In actual fact, however, the developments that are taking place in Chile can be attributed to a process of growth within an economic policy experiment that deserves closer examination, because it represents an effort to overcome a state of under-development in a climate of domestic peace and full observance of fundamental human rights.

These considerations place in their true perspective the figures contained in the IMF report and the background information set forth in document BOP/72, together with the additional information that I have given in this brief statement.

In conclusion, I should like to express my thanks to the members of this Committee for the interest in my country's problems that they are showing by their attendance at this consultation, and I should like to assure you that the Chilean delegation will be pleased to supply, to the fullest possible extent, any additional information that may be requested.
INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH CHILE ON 17 MARCH 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Chile pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Facilitated by favorable copper prices, Chile's economic growth accelerated appreciably in 1966. Price inflation was reduced significantly and a sizable balance of payments surplus was attained.

3. Government spending has risen at a substantial rate in recent years due to sharp wage increases and a rapidly expanding investment program. The larger expenditure was financed by considerable increases in government revenue, which resulted from the high copper prices and the very effective efforts of the authorities to reform the tax system and to improve the tax administration. As government revenue cannot be expected to continue to grow at the fast pace of the last two years, the Fund emphasizes the critical importance of pursuing more careful public expenditure policies if Chile is to make further substantial progress in the control of inflation and the establishment of an adequate basis for continued growth. The pursuit of sound fiscal policy also calls for an early reduction of the operating deficits of the decentralized state agencies. The Fund agrees with the Chilean authorities on the need for appropriate incomes policies.

4. The Central Bank applied a policy of credit restraint, which was instrumental in the deceleration of price inflation. As the gradual control of inflation involves increasingly tighter financial programs, it is essential for credit policy to be further strengthened in 1967. To achieve this without undue restriction of credit to the private sector, it is indispensable for the Government to continue to limit severely its borrowing from the Central Bank.

5. The Fund welcomes the flexible exchange rate policy pursued by Chile and stresses the importance of continuing such flexibility until inflation is controlled. The Fund also notes with approval the considerable liberalization of payments and trade restrictions in 1966, the intention of the authorities to eliminate the residual compulsory deferral period in the course of 1967, and the unification of the exchange rates in the banking market that has been achieved. In the meantime, the Fund does not object to the maintenance on a temporary basis of Chile's multiple currency practices and restrictions on payments for current international transactions as described in SM/67/21, Part II.