Statement by the delegation of Chile

1. The Chilean Government's efforts to combat adverse factors with the view to placing the national economy on a sound footing, facilitating trade, stabilizing the currency, balancing the country's payments position and its budget and raising the level of living of its population, are advancing successfully in some respects and encountering difficulties in others.

2. In the respects which are more directly in its control, the Government's persistent efforts have produced satisfactory results or have accomplished enough to hold out reasonable hopes of success in the not too distant future.

3. After having introduced the so-called "variable free exchange" in 1956 and having observed that the rate under that system remained higher than the dollar rate quoted on the stock exchange and therefore was not realistic, the Government decided in January 1959 to peg the currency at a level corresponding to its actual purchasing power and to discontinue the double exchange rate. Since then the rate of 1,050 pesos to the dollar has continued without fluctuations and without need for support.

4. This operation, which was coupled to an elaborate system of regulatory measures in the financial, economic, fiscal, commercial and other fields, can be better appreciated if it is considered that the constant growth of the monetary inflation had created an atmosphere which had led Chileans of every class to

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1 At the fifteenth session the CONTRACTING PARTIES agreed to invite Chile to enter into consultation under the unrevised provisions of paragraph 4(b) of Article XII in 1960. At its first session the Council agreed that at the meetings of the Committee on Balance-of-Payments Restrictions to be held in October-November 1960, the delegation of Chile should be invited to make a statement opening the consultation which should be completed at the next meeting of the Committee in 1961. For this purpose the delegation of Chile has supplied the present statement.
speculate against the peso, thereby involving all prices in the inflationary process, with the result that the public lost faith in the currency and feared what the future might bring. In January 1959 the atmosphere promptly changed, and the people felt that for the first time in years they were on firm ground and that prices reflected true values.

5. At the same time, the Government changed the law which required the Central Bank to grant loans to institutions in the public sector; it was laid down that such loans would need the approval of the President of the Republic and the Director of the Bank. It also decided that it would on no account resort to currency issue for the purpose of financing the budget. As a consequence, it had to levy new taxes on the taxpayers, who were already heavily burdened, thereby risking a rise in prices which would seriously endanger the stabilization plan.

6. In conjunction with the abolition of the double foreign exchange rate, the Government adopted a realistic policy of decontrolled foreign trade. As is known, the list of prohibited goods was replaced by a list of permitted goods which includes practically all imported products. Certificates of necessity were dispensed with. The prior bank deposits, previously the only indirect restriction on imports, were abolished for a large number of goods, and these goods became liable to surcharges in conformity with the waiver granted by the CONTRACTING PARTIES on 27 May 1959. According to a study made by the Foreign Trade Department of the Central Bank of Chile, the prior deposit requirement was abolished and the surcharge was introduced for 1,060 items on the list of Chilean imports - almost three-fifths of the total.

7. Where deposits were still required, the amount was reduced. The maximum, which had been 5,000 per cent is now 1,500 per cent. The deposit requirements still in effect and the surcharges will be abolished when the new Customs tariff comes into effect.

8. An analysis comparing the restrictions not yet removed with those which existed barely two years ago will convey an idea of the progress made and of the magnitude of the accomplishment. As I have already informed the CONTRACTING PARTIES, the results of this effort were reflected, in the first half of 1960, in an increase of some 43 per cent in imports above those of the same period in 1959.

9. In addition, the introduction of a stringent bank credit policy contributed greatly towards stabilizing the currency. The Central Bank adopted a series of measures dictated by experience and based on the principle that the bank rediscount should be used only as an emergency measure in the event of sudden large-scale withdrawals of deposits, and that the rediscount should be discarded as a normal method of financing. The first step in this direction was the reduction and later the discontinuance of rediscounting by the Central Bank for commercial banks; the amount first dropped from 21,700,000 to 14,400,000 escudos and, by the end of September 1959, to 1 million escudos.
10. These drastic measures were not, however, sufficient to cope with the complexity of the problem. The inflow of dollars consequential on the Government's liberal policy caused the supply of foreign exchange to exceed the demand, with the result that the Central Bank had to increase its foreign currency reserves and, consequently, to issue more currency for circulation, thereby creating a new and unexpected source of inflation. To counter this situation, the monetary authorities decided in April 1959 to order bank reserves on new deposits to be raised by 50 per cent. In September the reserve percentage on all deposits, including dollar deposits, was raised to 75 per cent. In the first quarter of 1960 the salutary effects of these measures had already begun to be felt.

11. However, although the currency had been stabilized, although the issuing power of the Central Bank had not been used to finance the budget and although we had succeeded in checking the excessive expansion of bank credit and means of payment, the risk of one of the most dangerous forms of inflation persisted - the price-wage spiral. This phenomenon, over the past twelve years, had taken the form of an average yearly increase of some 30 per cent in the cost of living. In 1959 the upward trend had continued at a similar rate, largely as a result of such factors as the correction of the price of the dollar, the elimination of artificial situations (e.g. raises of lagging wages) and readjustments of wages and salaries which for various reasons were higher than those proposed by the Executive. As the experts have had to recognize, however, from October to last May - when the earthquakes in the south introduced a new unknown factor - the cost of living rose by only 1.3 per cent. By the end of October 1960 it had risen to 3.7 per cent over the figure for the same month in 1959, as compared with an increase of 42.8 per cent for the same period in the years 1958-1959.

12. This price stability - achieved for the first time in years in Chile - was due mainly to the Government's policy of holding wage readjustments in 1960 to a certain limit, without prejudice to any agreements concluded between workers and employers, which were subject to the proviso that any wage increases so obtained should not affect prices. At the same time, notwithstanding the Government's policy of free competition, provisions were enacted to check the movement of certain prices, particularly those based on monopoly practices or susceptible to speculation.

13. As the experts of the Monetary Fund have said, it is a remarkable achievement to have succeeded in stabilizing prices and wages after years of inflation. It is still more difficult to maintain this stabilization, as can be seen from the resistance shown to Government measures - a resistance which has in some cases taken the form of strikes in various parts of the country. Nevertheless, the Government considers that its policy, severe though it is for the time being, is in the interest of the working classes because it forestalls a recurrence of the inflationary cycle and therefore introduces an era in which wages will no longer have a merely illusory value and a stable currency will provide a foundation for a genuine improvement in the workers' living conditions. The Government believes that stabilization will lead to an improvement in production and to a lowering of production costs and, consequently, to a betterment of wages which, by contrast with the past, will not be accompanied by a parallel increase in prices.
14. There are other equally difficult problems, however, which have so far defied solution. Perhaps foremost among these at present is the budget deficit which the Government has inherited as a consequence of the long periods of inflation to which I have referred. Despite the energy with which the Government has attacked this problem, realizing that a persisting deficit would threaten the stability of the currency and of prices, the situation is still dangerous. According to the annual report of the Central Bank, the 1959 financial statement shows a debit balance of 40 million escudos (roughly $40 million) which may increase considerably in 1960, particularly in view of the earthquakes last May.

15. After being adverse for years, by the end of 1959 the balance of payments, according to the Central Bank, showed a credit of 27 million escudos, despite the rising volume of imports. This result was due mainly to a considerable rise in copper sales and copper prices and to an important inflow of public and private foreign capital, stimulated by the Government's sound and liberal policy.

16. This development was reflected in the monetary reserve position; these reserves, according to the Central Bank's report, rose from less than $12.5 million in 1958 to a net-total of more than $14.1 million in 1959. This upward trend did not continue in 1960, and by April the reserves had dropped to $10.4 million.

17. The outlook is less promising since the earthquakes last May. Even before that disaster, the Chilean authorities had foreseen a possible deficit in the balance of payments owing to the heavy disbursements required to service the foreign debt and, more particularly, to a probable deterioration in the copper situation as a result of disequilibrium between supply and demand on the world market. The true deficit will probably be greater than expected, for not only did the ravages of the disaster in May cause output and exports to decline, but also higher imports will be necessary for the purposes of reconstruction. As a result, the reserves, which were already at a very low level, will be subject to further severe strain.

18. This, in broad outline, is our position. It has an important positive side, for which the credit is due in large part to the energy and resolution of the Government, and an uncertain side, which is attributable chiefly to the presence of factors inherited from the past and incapable of being cured overnight and to the destruction wrought by forces of nature that we could neither foresee nor control.