1. As instructed and in accordance with its terms of reference, the Committee on Balance-of-Payments Restrictions has carried out the consultation under Article XVIII:12(a) with Chile, initiated by the Council in May 1962 following a substantial intensification of its import restrictions. The Committee had before it: (a) a statement made by the representative of Chile at the Council meeting of 30 May 1962 (BOP/9), (b) a basic document supplied by Chilean authorities (BOP/18/Rev.1), (c) a list of permitted and prohibited imports into Chile (BOP/20 and Corr.1) and (d) documents provided by the International Monetary Fund as mentioned in paragraph 3 below.

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES. It also examined the balance-of-payments aspects of the request of Chile for a further extension of the waiver Decision of 27 May 1959 authorizing the use of certain import surcharges. The consultation was completed on 17 June 1963. The present report summarizes the main points of discussion on the quantitative restrictions of Chile. The views of the Committee relating to the requested waiver extension are set out in a separate report (C/33).

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Chile. In accordance with the agreed procedures, the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of Chile. The statement made by the representative of the Fund was as follows:

Since the initiation of the consultation in May by the Council, Chile has signed the Protocol amending the Preamble and Parts II and III of the General Agreement on Tariffs and Trade. The consultation was, therefore, deemed to have been instituted under the provisions of paragraph 12(a) of Article XVIII (revised).
"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision taken at the conclusion of its last Article XIV consultation with Chile, and a paper dated May 17, 1963 giving background information on recent developments in that country.

"It will be noted in that paper that, with two exceptions, the import surcharges levied by Chile have reverted to rates no higher than those existing prior to October 4, 1962. It will also be noted that late in 1962 the Chilean authorities proceeded to formulate a broad stabilization program for 1963 designed to contain the inflationary pressures then in operation and to permit full implementation of Chile's Ten-Year Development Program without jeopardy to internal and external financial equilibrium. In support of this stabilization program, Chile entered on January 15, 1963 into a new one-year stand-by arrangement with the Fund for an amount of $40 million. The Chilean authorities expect that, for 1963 as a whole a significant improvement in the balance of payments will be achieved. Present prospects do not, however, indicate that net international reserves, which have been negative for several years, will rise. At best, it may be expected that there will be a sufficient improvement to allow the backlog of import payments to be reduced, but it is not likely that this backlog can be completely eliminated, or that the compulsory deferral for import payments can be significantly shortened. The paper indicates that during 1963 a budget deficit of 280 million escudos, to be covered mainly by foreign borrowing, is projected.

"The general level of the various restrictions and import surcharge measures currently applied by Chile does not go beyond the extent necessary at the present time to achieve a reasonable rate of increase in its foreign exchange reserves. The revenue to be derived from import charges is not expected to prevent a substantial budget deficit in 1963.

"With respect to alternative corrective measures which may be available the Fund draws attention to the Executive Board decision of January 14, 1963, taken at the conclusion of its last consultation with Chile. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Chile

4. The representative of Chile opened the discussion with a detailed statement, describing developments in the Chilean economy in the last five years, the various problems with which the country had been and was confronted, and the measures which had been taken or were being considered in order to cope with these problems. The statement also outlined the present position and future prospects of the balance of payments of Chile, movements in the various sectors, the implications of the Ten-Year Development Plan for the country's external payments, and the reasons and circumstances necessitating the continued maintenance of the present system of prohibitions and prior deposits on imports. It was the view of the Chilean representative that, as a result of the stabilization..."
programme and the exchange reform and other measures recently undertaken, the Chilean economy should, in the not too distant future, regain equilibrium, so as to permit the removal of the present impediments to trade. For the time being, restrictions would have to be retained so that the country's foreign exchange reserves could be reasonably augmented. The complete text of the statement of the Chilean representative is annexed to the present report and should be deemed an integral part of the documentation on this consultation.

Balance-of-payments position and prospects

5. Members of the Committee thanked the representative of Chile for his very informative and comprehensive statement. They expressed understanding and sympathy for the many problems with which Chile was confronted, and appreciation for the efforts which Chile had been making to cope with these difficult problems. They expressed the hope that the measures already adopted and those to be taken by the Chilean Government would be effective and would provide a solid base for long-run economic progress.

6. A member of the Committee noted that the estimated balance of payments for 1963, as given in the IMF document, showed a net outflow of $19.6 million on short-term private capital account which appeared to be in contrast with the persistent inflow of such capital in all previous years and enquired about the reasons for this development. The representative of Chile stated that the estimated net outflow of short-term private capital reflected the expectation that more repayment of short-term debts would be made in 1963 than in previous years, resulting in a reduction in the backlog of import payments.

7. A member of the Committee noted that in order to bring about a substantial improvement in the country's balance of payments, Chile needed increased loans from abroad especially on government account, and enquired whether in the view of the Chilean authorities these would be forthcoming in 1963. The representative of Chile explained that his country expected to receive long-term capital of about $110 million during the year 1963 from loans already negotiated. Most of these loans were of a very long-term nature, running up to forty years and free of servicing for the first ten years. In the first quarter of 1963, $23 million had already been received on this account and it was hoped that the target figure of $110 million would be achieved during the current year. Apart from this, there also existed possibilities of further expansion of long-term credits; negotiations with some of the European countries and the United States were at present in progress.

8. A member of the Committee expressed appreciation of the efforts made by the Government of Chile in diversifying the economy, with a view to redressing the balance-of-payments disequilibrium. In the light of achievement so far in the field of infrastructure, in building activities, and in restraining wage increases, it would appear that the implementation of the Ten-Year Plan had so far met with considerable success. The CONTRACTING PARTIES might find it profitable to examine the experiences of Chile in the implementation of this
Plan in another context of their activities. In the context of the present consultation, the Chilean Government might be urged constantly to examine the effectiveness of the measures in producing the desired results on which the future balance-of-payments situation of Chile so much depended.

9. In reply to questions concerning the Development Plan, particularly the weight given in it to the expansion of new lines of export production, as against traditional exports, the representative of Chile stated that the main purpose of the economic development programme was to strengthen certain industries which would contribute to the expansion of the country's export trade. The programme aimed at raising export income from the 1962 level of $540 million to $672 million by 1967 (excluding exports resulting from new investments in the large mining companies). The Government had entered into negotiations with the mining companies with a view to bringing about an increase in copper production by about 40 per cent from the present level. Present export earnings from copper were estimated at $300 million a year and with the expansion of production and exports, Chile could reasonably expect to increase its export earnings by another $120 million per annum. Exports of iron ore which amount to $47 million were expected to reach about $94 million by 1967. Exports of fishery products and newsprint were expected to reach $65 million as compared with the 1962 figure of $22 million. These were the chief export items but Chile had the potential to develop a whole set of minor industries which, when taken together, became important to the economy. They required large capital investment and new techniques of marketing and trade promotion and the Government intended to concentrate on these questions as soon as conditions permitted.

Alternative measures to restore equilibrium

10. During this part of the consultation the attention of the Committee was principally devoted to the Chilean request for a further extension of the waiver relating to the Chilean import surcharges which, according to the Chilean authorities, were maintained for the purpose of producing revenue and formed part of the measures applied under the stabilization programme aimed at restoring internal and external equilibrium. The Committee's views on the waiver extension request have been forwarded to the Council in a separate report.

System and methods of restriction

11. The Committee discussed with the Chilean representative the various changes which had been made in the Chilean import control system in the last two years as described in the "basic document" prepared by the Chilean authorities. The Chilean representative drew attention to the progress which had been made
before January 1962 when prior deposit requirements had been removed from all but some fifteen import items; the replacement of this restrictive measure by surcharges had thus been virtually completed. In January 1962, however, the Government was compelled by the pressures on the balance of payments to reintroduce prohibition on some 700 items and this was followed shortly by a reform of the foreign exchange system. The deposit requirement was not reintroduced until June 1962, and the rates had since been modified several times, resulting in the eight categories described in the "basic document".

12. A member of the Committee considered that the advance deposit system by its very nature, could not but have a discriminatory effect on imports from distant countries, particularly those which had no regular shipping service link with Chilean ports, since in such cases the deposit would remain immobilized for longer periods. He was of the view that while the reasons for controlling the level of imports were understandable, it would be preferable if some other form of restrictive system could be evolved for the purpose.

13. The Chilean representative further affirmed that the deposit requirement was being retained principally to maintain a market for dollar securities which otherwise would have to be redeemed. There was, of course, no intention of maintaining this restriction beyond the extent justifiable under the relevant provisions of Article XVIII:B of the General Agreement.

14. Some members of the Committee observed that the exemption from prior deposit requirement of certain imports from other IAFTA countries and the practice of permitting certain imports from those countries which were prohibited from other sources constitute an element of discrimination against third countries. The representative of Chile explained that these exemptions were given in accordance with Chile's obligations under the Montevideo Treaty. In the view of the Chilean authorities this was permissible under the General Agreement. The attention of the Committee was called to past discussions in the CONTRACTING PARTIES on this aspect of discrimination in relation to the provisions of Article XXIV of the Agreement. Some members of the Committee stated that they did not agree that such discrimination was permissible under the General Agreement. In any event they were of the opinion that such discrimination adversely affected the trade interests of other contracting parties and was detrimental to the long-term economic interests of Chile itself. They urged that the discrimination be eliminated.

15. In reply to questions, the Chilean representative explained that under the present system, payments for imports were not made until 120 days after shipment. This delay in payments was necessary in order to lessen the burden on the exchange holdings of the banking authorities and on the exchange rate.
16. In the opinion of the Chilean representative, contrary to the views of certain members of the Committee, Chilean system of import control involved no complicated procedures unnecessarily adding to the difficulties of importers or foreign exporters; decisions to change the regulations rested with the Executive Committee of the Central Bank which consisted of three persons, and any necessary decrees could be promptly issued by the authorities on its advice. Goods not on the prohibited list could be imported freely provided the deposit requirement was met and such transactions were completed through commercial banks.

17. A member of the Committee, noting that imports effected through ECA in conformity with agreements for the sale of agricultural surpluses concluded with the Government of the United States of America were exempt from prior deposit requirements, enquired whether the Chilean authorities intended to make all their purchases of the products in question through this channel or whether there were provision for commercial imports. The representative of Chile stated that this exemption was applied mainly to imports of wheat under PL.480 of the United States of America. Such imports were arranged after taking account of domestic production and normal imports from other sources. As trade in wheat was regulated by the State and prices of wheat, flour and bread were fixed by the Government, the exemption from deposit requirements afforded no price advantage to PL.480 wheat in Chile.

Effects of the restrictions

18. Members of the Committee stressed the long-term disadvantages of permitting uneconomic industries to develop under the incidental protection of restrictive measures administered for balance-of-payments reasons. They expressed the hope that in formulating their import policies and applying the restrictive measures, the authorities of Chile would keep this problem in view. The representative of Chile stated that his Government had this problem under constant scrutiny.

General

19. The Committee thanked the representatives of Chile for the frank and cooperative manner in which they had engaged in the consultation and expressed understanding and sympathy for the many problems with which Chile was faced. They welcomed the noteworthy steps which Chile was taking to deal with its balance-of-payments problems, and to promote the development of the economy. The Committee noted the statement quoted in paragraph 2 above that "the general level of the various restrictions and import surcharge measures currently applied by Chile does not go beyond the extent necessary at the present time to achieve a reasonable rate of increase in its foreign exchange reserves". Members expressed the hope that improvements in the balance of payments would soon enable Chile to relax its import restrictions, and urged that in administering the import controls designed to safeguard the balance of payments, and particularly the advance deposits, the Chilean authorities would always seek to avoid discrimination.

20. The representative of Chile thanked the Committee for the understanding and sympathy with which the consultation had been conducted. He stated that he would bring the views and suggestions made by the members of the Committee during the consultation to the attention of his Government.
In view of the variations which the Chilean economic and financial situation has undergone since the end of 1961, it would appear to be useful to make an analysis of the main elements underlying these variations and of the policy which my Government has followed in order to tackle the difficulties confronting it.

In previous statements made by the Chilean delegation to GATT it has been recalled that one of the most serious and pressing problems which the present Government had to tackle was that concerning the difficult reserves position and the none less difficult fiscal and budgetary situation of the country. Recurrent disequilibrium in the balance of payments in 1957 and 1958 amounted to a total of about US$100 million, as a result of which the Central Bank's liquid assets and availabilities in foreign exchange dropped to a level which was incompatible with the maintenance of the existing exchange system. In order to cover this deficit it became necessary to use short-term foreign credits. The Government rectified the exchange policy by recognizing the devaluation which had in fact occurred as a result of the persistent internal inflationary pressures, and set a rate of exchange which, at that time, was a realistic one.

It was thus that in January 1959 the dual exchange rate system was eliminated and a single purchasing rate was fixed at 1.050 pesos per dollar - a quotation which was maintained until the end of 1961. In order to meet the fiscal situation exceptional measures were resorted to, such as the issue of domestic dollar bonds, which enabled the Government to use private internal credit, something which had not occurred in Chile for many years.

In 1959 the situation varied substantially. In point of fact the actual inflows and outflows of foreign exchanges and the variations in the level of international reserves recorded in that year, made it possible to record a surplus of approximately US$24 million in the balance of payments. Foreign exchange receipts from visible and invisible foreign trade rose in 1959 by US$85.5 million over 1958. The foreign exchange position was also strengthened with the repatriation of national capital, and the investment of fresh foreign private capital. At the end of 1959 the liquid assets and availabilities in gold and foreign currencies in the Central Bank and in the banking system, excluding agreement currencies, rose by US$79,100,000 and foreign obligations rose only by US$44,400,000.

In view of the lack of a market for the dollars due to the plentiful supply of this currency, the Government found itself compelled quite frequently to transform them into bank notes through the intermediary of the Central Bank,
which made it necessary to set up extraordinary cash funds to prevent monetary inflation due to an over-supply of money in circulation. This situation made it advisable to facilitate imports in order to use the dollars available to the Government.

As a result of this new policy the Government expanded the list of permitted imports to the extent of including practically all the items contained in the tariff, eliminated the certificates of need which affected the products manufactured in the country in sufficient volume to satisfy domestic demand, and undertook the gradual elimination of import restrictions or their replacement, with identical purposes in mind, by taxes and other measures.

It should be noted that the exchange reform of 1959, while it brought our monetary parity close to a true level, nonetheless left no room whatsoever for the rise in wages and salaries which followed the devaluation, a rise which the National Congress provided for, and which was reflected in an increase of more than 30 per cent in income and wages. Prices rose in the first eight months of 1959, and by August or September of that year the effect of the devaluation had practically disappeared.

In 1960, total outflows from visible and invisible trade and flows of capital, whether public or private, amounted to US$469,900,000 and total inflows to US$421,300,000, thereby producing balance-of-payments deficit of US$47,600,000. The rise in imports and the shift in the flows of short-term capital were decisive factors in this deficit. It should also be pointed out that the budgetary deficit, which was strongly influenced by the growth of governmental expenditures resulting from the devastating earthquakes in May, was the factor which provoked a high rate of monetary expansion and speeded up the loss of reserves in the second half of 1960. The foreign trade policy, which was designed to bring about the gradual elimination of trade restrictions, caused a substantial rise in imports, and the following figures were recorded:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>US$413 million</td>
</tr>
<tr>
<td>1960</td>
<td>US$500 million</td>
</tr>
<tr>
<td>1961</td>
<td>US$591 million</td>
</tr>
</tbody>
</table>

While the incentive given to imports was aimed preferably at essential items for Chile (industrial re-equipment of the country, renewal of means of transport and other capital goods), it also encouraged the importation of non-essential and luxury items through the special system of free ports which was in effect at that time, and which disturbed the normal development of international transactions and of the national economy. It is estimated that in 1960 and 1961 the value of goods entering the free ports was more than US$450 million and US$64 million respectively.

As a result of all these factors, the balance-of-payments deficit for 1961 reached the figure of US$147 million. Legislative authority was finally obtained for the application of restrictive measures designed to remedy the abusive use of the free ports, only when the depreciation of foreign exchange reserves reached such a point that on 27 December 1961 foreign exchange transactions had to be suspended temporarily.
It should be noted that in order to establish effective import limitation in order to meet these foreign exchange difficulties; it was necessary first to change the Arica system, failing which prohibited imports would enter through that port, with major losses in fiscal resources.

The financing of the 1961 balance-of-payments deficit was reflected in a drop of US$40 million in the liquid assets of the Central Bank, and in a net foreign indebtedness of the entire banking system of US$93 million. Besides these factors, it should be added that the resulting backlog in the collection of various substantial long-term credits for reconstruction of the devastated areas and the economic development of the country compelled the Government to use Central Bank credit and to continue to resort to foreign short-term financing, which served to accentuate the weakness of the balance of payments.

The serious crisis which occurred at the end of 1961 made it necessary to institute a double exchange area. Legislation was enacted which changed the legal status of the free ports; a tax was levied on foreign travel; a substantial number of non-essential and luxury items were removed from the list of permitted imports; the covering period was extended to ninety days (subsequently to 120 days) after shipment, and a set of rules was laid down for operations in the foreign exchange market. Moreover, the system of dollar bond deposits was resumed for many imports, by using those from previous issues which had not been amortized and paid, and of which there today remains in circulation about $48.5 million. Transfers in the banking market remained subject to various restrictions and in order to operate in the brokers' market, business firms had to obtain the approval and authorization of the Central Bank.

These emergency measures could not appreciably alleviate the international payment situation, mainly because of the excessively high level of imports and substantial outflows of capital.

This appeared to be an intolerable situation for the country to maintain a rate of imports similar to that of 1961 since exports were more or less stabilized and in 1961 there was a deficit of about US$150 million. It was therefore urgent to reduce very considerably the level of imports, and for this purpose new import prohibitions, surcharges and prior deposits were established. The effects of these measures were slight because the increase in imports of permitted articles exceeded the restrictions laid down in the form of prohibitions and new charges. These problems derive from the policy of maintaining for a long time an artificially low rate of exchange, and this was due to the prevailing political pressures, which in a country with deep democratic roots have a great influence on the consideration of our problems.

The Government did not feel it advisable to add to the serious consequences of the crisis which it was facing, the equally serious consequences of a political crisis, and therefore, before taking drastic decisions, it wished to exhaust all possible ways in order to try and remedy the existing situation without creating other difficulties of a political nature.
The resistance of certain political sectors resulted from the fear that a further substantial rise in the cost of living caused by the devaluation could provoke at that time, strong social unrest.

The balance-of-payments deficit which, as has already been pointed out, amounted to US$147,200,000 in 1961, in 1962 theoretically reached US$79 million to which there should be added US$99 million for unpaid foreign commitments. In other words, the deficit in this past year amounted to about US$178 million. This shows that the system of a double area introduced at the beginning of 1962 plus all the other successive measures which were applied from October of that year in order to reduce the drain on foreign exchange and put a brake on imports, were not effective.

Furthermore, it became more and more necessary to give an incentive to exports, which were faced with the difficult problems of stable income, while their costs were gradually going up as a result of rises in wages, salaries, taxes and so on. The situation was particularly serious if one compares the prices of Chilean products with those which prevailed in other countries of the Latin American Free Trade Association, as our producers found themselves in an impossible competitive situation.

It was therefore necessary to bring about a more radical exchange reform. The Executive Board of the Central Bank agreed to change the prevailing system from 15 October of last year, by setting up a fluctuating free rate in the banking market, and by abandoning the parity of 1.05 escudos per dollar. Authorized banks operate in that market by buying foreign exchange derived from export earnings and receipts from invisible foreign trade, and by selling foreign exchange in order to cover imports and invisible transfers which have met the requirements laid down by the Executive Board of the Central Bank. The fundamental purpose of the exchange reform is to ensure that, in practice, the rate of exchange is not set by action by the Central Bank, but rather by market trends. The changes in the exchange system naturally brought about a rise in the price of the dollar and other foreign currencies. The policy of successive rectifications followed during 1962 produced results after the change in the exchange rate in order to restrain demand for foreign goods and payments for imports decreased. The total amount of ordinary registered imports in 1962 was 11.7 per cent less than in 1961. In analysing this figure, it should be recalled that the effects of the devaluation became felt in 1962 only in a period of two and a half months, as the measures in question were adopted in the middle of October of that mentioned year.

Among the advantages which the Government hopes to achieve through a realistic rate of exchange, the following should be mentioned in summary form:

- to create a motivation for the observance of greater internal discipline since deviations from this discipline will be immediately reflected in the foreign exchange quotation;

- the possibility of reducing budgetary and fiscal disequilibrium in 1963, and obtaining the necessary foreign funds for the Ten-Year Development Plan;
- fiscal and budgetary income will benefit from the improved yield in ordinary currency from taxes which are payable in foreign currency, and from the readjustment of customs duties;

- to stimulate exports.

Estimates made by the Central Bank concerning the movement of foreign currency during 1963 indicate a slight surplus of US$10 million. This result is based on the following considerations:

It is estimated that exports will rise to US$346 million, a cautious figure when compared with US$338 million for 1962 and US$336 million for 1961.

Foreign exchange payments for imports should rise to US$400 million. This amount cannot be considered as being slight, since in 1961, a record year for our imports, coverage amounted to US$421 million.

As regards official capital for reconstruction and development, the Central Bank estimates than an inflow of $110 million will be attained, as compared with $56 million for 1962 and $30 million for 1961. The estimates of the Central Bank for 1963 cannot be considered as exaggerated, since this figure includes only those credits which may be considered as being absolutely certain and some of those have already been received.

With respect to fiscal and budgetary policy, government investments, and the situation in regard to obligations, in view of the fact that the excellent report of the International Monetary Fund, with which the members of this Committee are familiar, provides ample information on this subject, I shall merely confine myself to pointing out two interesting facts to wit:

(a) current revenue of the Government in real terms (1960 currency) rose by 37.1 per cent between 1958 and 1962;

(b) net governmental investments intended to stimulate the economy, amounting to 127.3 million escudos in terms of 1960 purchasing power, have been rising annually and will amount to 298 million in 1963.

A quick look at the various sectors of economic activity makes it possible to formulate the following considerations.

Progress achieved in the field of transport has been quite substantial since investments made in 1962 show an increase of 21 per cent over the previous year and 230 per cent over 1958.

Reconstruction in the southern provinces has been proceeding at an increased rate through large investments made by the public and private sectors. Work already performed exceeds three fourths of the figure of 429 million escudos which was estimated by the Development Corporation.
Work carried out in 1962 on public works exceeds that for 1961. In the past four years investments in these activities amounted to 465,142,000 escudos, which is 90 per cent more than investments over the four preceding years, compared in terms of equal purchasing power.

With respect to agricultural and livestock production, the yield of the farm crops for 1962 in various important items did not show favourable results in comparison with the situation in 1961. Nonetheless there was a sizeable increase in the sugar beet crop and the wheat crop.

For the crop year 1961-62 the production of timber, expressed in inches, showed an increase of 12.4 per cent over the preceding year. It is hoped that purchases of unfelled timber will rise from more than 5 million escudos per year to more than 18 million in 1965.

Fishery production rose by 48.6 per cent over the preceding year. Likewise, exports of fishmeal reached 74,000 tons in 1962, or 73 per cent higher than the 1961 figure, and reached a value of US$7,400,000. It is expected that for this year these exports will amount to $16 million. The outlook for the future of Chile's fishing industry appears particularly favourable.

As regards the newsprint and cellulose industry it is now completing a new paper factory intended for export products which might bring receipts amounting to $10 million annually from 1964 on. The Laja cellulose factory will shortly expand its output by 140,000 tons annually, destined for export, which will bring $20 million annually into the country from 1965 on.

Mining production also presents favourable prospects. Copper production has maintained the rate of growth of the preceding years and in 1962 it rose by 7 per cent over the preceding year. The large mining companies have made new capital investments and a sizeable expansion in their activities is expected. Petroleum production is continuing its steady growth trend and in 1962 an increase of 26 per cent over the preceding year was recorded, which made it possible to supply 75 per cent of national consumption for that year.

Finally, iron, which has been increasing in importance steadily for the past few years, showed an increase of about 16 per cent over 1961.

Industrial output, for its part, recorded notable increases. In 1962 it increased by 9.6 per cent over 1961, and by 30.7 per cent in the four years from 1959 to 1962. Actual sales by industry indicate an increase of 15.4 per cent in 1962. These figures show that mass purchasing power has risen and that this is due to the increase of per capita income of employees and workers and to the rise in employment.

One of the fundamental concerns of the Government has been to bring about a greater development in building in both the public sector and the private sector. Private building has shown an increase between 1961 and 1962 of 73 per cent.
Moreover, employment indexes have continued to rise and according to research carried out by the Economic Institute of the University of Chile, unemployment has gradually declined and in December 1961 amounted to 5 per cent for Santiago and Concepcion, which may be considered as normal for a country having the characteristics of Chile. The purchasing power of employees and workers has been steadily rising, while salaries of Government employees have actually risen in real value between 1958 and 1962 by 27.45 per cent, and that of employees in private enterprise in the same period of time has increased by 16.07 per cent, and workers' wages by 9.57 per cent.

It is interesting to note that the figures given with respect to remuneration are corroborated by substantial rises in national savings.

Within this general picture of the economic and financial situation of Chile it is worth recalling briefly that the Government of Chile keeps striving to carry out its Ten-Year Development Plan and to bring about structural reforms, in keeping with the obligations set forth in the Agreements of Punta del Este and which constitute the basic principles or the Alliance for Progress. As is known, our national development plan received a broad measure of approval from the Ad Hoc Committee of the Alliance for Progress and was favourably considered some time ago by the World Bank. The goals of economic growth provided for in the Plan up to the present time are being satisfactorily attained. Concerning the external financing of the Plan, apart from the participation of the World Bank and the Government of the United States, we are endeavouring to obtain the participation of European countries and this is one of the purposes of the Chilean mission led by Minister Philippi which is visiting Europe at the present time.

With respect to structural reform it should be mentioned that important administrative reforms have been introduced and we have a plan of agrarian reform which has already been approved by Congress. The tax reform plan has already been sent to Congress and it is being discussed actively. This important plan is designed (a) to bring about a better distribution of the tax burden through the application of equitable direct taxes and to eliminate exemptions and legal loop holes which facilitate tax evasion; (b) to obtain greater fiscal income which will make it possible to carry out the public investments which are provided for under the Ten-Year Development Plan; (c) to simplify the tax system through the unification of various taxes in order to facilitate more rational administration; (d) to re-organize administratively the system of tax collection through modern techniques and methods; (e) to adapt the tax system to the national development programme by creating incentives for capitalization and by eliminating the application of successive charges on one and the same activity.

From the brief analysis which has been made of the situation of Chile with regard to balance-of-payments difficulties and prospects for its international reserves in the near future, it can be deduced that for the time being we have problems which oblige us to impose restrictions on foreign trade, but these restrictions do not go beyond what is necessary in order to obtain a reasonable
increase in our foreign exchange reserves. This point has been entirely corroborated in our conversations with the International Monetary Fund and we hope will also be recognized by the CONTRACTING PARTIES to GATT, in the present consultation as well as when consideration is given to our request for a further extension of the waiver.

On the other hand, we trust that the positive elements which have been described, especially with respect to economic activities, will allow us gradually to achieve greater stability and a reasonable level of reserves so that we can relax these restrictions. We consider that the exchange reforms which have been carried out in agreement with the International Monetary Fund will have a great influence towards the achievement of that objective, and that they will allow us to rely on a realistic rate of exchange as a regulator of trade. Another important factor is, that only a few days ago the Government sent to Congress a Bill containing a new customs tariff which when enacted will constitute another important instrument of our commercial policy.