1. The Government of Chile has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The Chilean Government has made considerable progress in its stabilization program in 1959 and the first months of 1960. The cost of living has been stable since September 1959, production has increased, gold and exchange reserves have risen to record levels, and the exchange rate has been stabilized. The budget deficit, while it has continued large, has been financed without direct recourse to the Central Bank.

3. In May 1960 Chile suffered one of the most devastating earthquakes in its history. But the Chilean Government is determined to continue with its stabilization program despite the new burden arising from the earthquake damage. Measures have been taken, including proposals for substantial increases in taxes, to insure that the Treasury will have no recourse to Central Bank financing. Strict limitations on bank credit to the private sector will be continued through the virtual elimination of normal rediscounts and the maintenance of high marginal reserve requirements. Through firm government action on wage rates, the wage increase in 1960 is expected to be compatible with continued price stability. Consequently, the authorities expect the continuance of stability in the exchange market together with some reduction in the advance import deposit requirements.

4. The Fund notes the substantial progress made by Chile since the last consultations in establishing stability, and welcomes the determination of the authorities to continue its stabilization program. The success of the program depends upon progress in reducing substantially the budget deficit, in addition to the maintenance of firm monetary and wage policies.

5. The Fund welcomes the further elimination of restrictions and the assurances of the Chilean Government that it plans to terminate its bilateral payments arrangements and urges early action on these plans.

6. In concluding the 1960 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Chile.