The financial situation and the situation of the monetary reserves in Chile have on various occasions been the cause of great concern to our delegation and have caused us to seek from the CONTRACTING PARTIES the prolongation of the waiver so that we might be able perhaps to meet the very serious critical situation and try to earn the income which would aid us to overcome this financial difficulty and to put some brake on the threatening forces of inflation. Almost all developing countries face a similar situation and I think that the underlying causes are well known to the CONTRACTING PARTIES. It is hardly necessary for me to repeat them here; however I should like to remark on some of the numerous efforts which point to the various resources which we have mobilized in order to put a stop to our difficulties. As the representative of Chile said a little over a year ago, as long ago as 1956 our Government simplified its system of foreign trade, doing away with a very large number of quantitative restrictions which unfortunately had to be re-established to a large extent in 1957/58, when a very definite decline in the price of copper gave rise to a critical situation. The outlook however, was such that with the help of the International Monetary Fund the Government decided to make a very serious effort to follow a new foreign trade policy the main principles of which were summarized by the delegate of Chile as follows:

(a) the establishment of a single exchange market with a realistic exchange rate;

(b) elimination of the prohibitions and other restrictions of imports; since the elimination of these more recent restrictions could not take place all at once because of the large disturbance in foreign trade which this would entail, gradual substitution was envisaged to replace these restrictions by surcharges which would not exceed a maximum of 200 per cent. In order to accomplish this task, the delegate of Chile obtained from the CONTRACTING PARTIES in 1959 a suitable waiver to cover this situation;

(c) the additional taxes were to remain in force until Chile found itself out of its difficult situation; this did not occur however; instead other new factors of a different nature led to the great exchange crisis of 1961 and prevented Chile from following this policy of liberalization.
Between 1959/60 the exchange measures for Chile moved toward definitive reduction and elimination of the restrictions. However, from the various reasons which I have outlined, it proved impossible to re-establish equilibrium in the balance of payments and in December 1961 there was a crisis with a new serious deficit in the balance of payments. The policy of liberation and exchange could not be carried out as promptly as we wanted. There was a great monetary expansion which was intended to finance the various projects of reconstruction of the economic foundations of the country which had been devastated in 1960, in a disaster, the effects of which had been felt even further than was originally foreseen; monetary expansion was also necessary to finance the international development plan which is leading to an accelerated increase of foreign trade but delays took place in the transfer of foreign credits which were intended for reconstruction and development within the country. Of course we had to make use of draconian methods. Some of the methods the nation adopted originally had to be abandoned. The exchange parity was abandoned at 1.05 per dollar and a fluctuating exchange rate was instead adopted; temporarily certain additional taxes were increased. The solutions adopted yielded some results, and by the end of 1963 the Government was able to feel that within not too long a period of time they could again initiate negotiations with the CONTRACTING PARTIES which would make it possible to put an end to this régime of additional taxes.

This was what they thought at that time, but unfortunately due to the coincidence of a very great number of factors of a commercial as well as of a political nature, things did not work out in this way. The new Government has not been able to achieve what it wanted because it was impossible to get a stable majority in Parliament which would have been sufficient strength. Although financial policy did show some improvement from time to time it has nevertheless continued to follow the same general lines of the serious situation which characterized it in the past. Here are a few rapid examples: in 1963 the increase in national debt, calculated in foreign currency, amounted to $133 million, bringing it to a total of $1,125 million, and a large part of this debt was incurred after the earthquake of 1960 which represented an expenditure of more than $422 million. Thus, any surpluses which we had available had to be used to try to compensate for the effects of the national disaster, which of course meant that our planned national development had to mark time.

Almost all the exchange policy of the country since 1962 has been directed towards rectification of the disequilibrium arising out of the earthquake. We have achieved something even though we have not been able to overcome all the difficulties, but the prolonged effects are still to be felt. In 1961/62 we had a number of debts still holding over, we deferred the others in the amount of some $178 million.
The limitation on imports imposed by this situation and the reforms arising out of the crisis of 1962 have led towards a temporary reduction of the disequilibrium of the balance of payments to which I referred. Thus our imports, which in each of the first three quarters of 1962 amounted to $120 million, fell off in the last quarter; $90 million was the amount in the first quarter of the subsequent year. In 1963, due to the severity of the measures adopted, the deficit in the balance of payments was reduced to $42 million. This improvement was due, as I said, to a very rigorous policy of limitation and selection of imports which are required to fit into the possibilities of payment.

Imports which amounted to $553 million in 1962 fell to $473 million in 1963. This trend continued in the first quarter of 1964 during which time imports did not reach the figure of $85 million. It is only natural that in a country without much foreign exchange this would have a very far-reaching effect on the general economy; in 1963 the country earned only $382 million by its exports.

In 1963 tax receipts were less than in the previous year, due partly to the fact that there had been a delay in the promulgation of the Reform Law and partly because the tax system could not, because of lack of flexibility, collect a part of the rise of prices as it should have done.

The total of expenditures rose to 1,353 million escudos.

There are very good reasons to believe that the Tax Law which has now been promulgated and the means which are now being adopted and applied by the new Government will make it possible, although with difficulty, to achieve a better equilibrium between income and outgo. At the same time we hope it will be possible to achieve a better distribution of income, thanks to direct taxes, and to eliminate various legal loopholes and gaps which have existed, so as to get a better tax income. This will make it possible to make expenditure on investments which will develop and strengthen the economy of the country. We hope to strengthen the tax system by the unification of a number of taxes and to facilitate a more rational administration of taxes. We plan administrative re-organization with new and modern methods and techniques for the whole system of taxation, and we hope to adopt a national programme of development which will create incentives to investment and do away with the successive surcharges.

For the time being, until these new provisions can go into effect, the inflationary trends which have raised the index to 48 per cent in 1964 are being felt in all quarters and in all fields. It is not therefore surprising that in comparison, consumers' prices rose by 44.8 per cent. The first half of 1964 showed, apart from some small improvements, indications that inflation was more or less continuing. In the first months of the year the deficit increased by 16 per cent, or 169 million escudos. On the other hand the expenditures on public investment were 21 per cent higher than the year before. Wages rose by 58 per cent whereas the index of consumers' prices reached 48.1 per cent. Wholesale prices rose from June 1963 by 53 per cent while the index of consumers' prices rose in the same period by 48 per cent.
The Minister of the Interior made detailed forecasts before the Economics Committee of the Parliament, and I shall mention only a few of the very precise points which were made at that time, which I hope will give you some idea of the gravity of our situation. In the field of foreign trade, the Minister said, the new Government came into office inheriting total debts amounting to over $3 billion. Next year, 1965, we shall have available $800 million odd; so we shall need $1,200 million odd in order to pay our existing obligations and the necessary indispensable imports for consumers' goods. Fifty-four per cent of the value of our imports will have to be used for the amortization of foreign debt.

From the point of view of budgets the expenses which we cannot escape for 1965 will amount to 3,530 million escudos, while the normal income will be 2,530 million; that is a considerable deficit.

In this situation, without discounting foreign aid which we hope to get, the country will have to increase its exports, which we hope will reach 1,142 million in 1965.

We count on an increase in production and export of copper which we shall endeavour to refine in the country by industrializing to a greater extent; we count also on a rise in the export of iron to 10 million tons; we hope to quadruple our industrial exports in the next six years. We have worked out some arrangements in co-operation with the State and private undertakings and we hope to increase the fisheries income of the State. We can mention also the following industries: paper, cellulose, the chemical industry, electrical power and other kinds of power and so on. All of this will of course require very great investment; in connexion with these objectives we hope to carry out a basic reform giving priority to the decrease of charges on foreign trade. Quality standards will be introduced, productivity will be increased and export credit facilities introduced.

For all of this, - the increased building of housing, the creation of new industries, the increase of dollar earnings, the improvement in the standards of living, - the basic factor is of course the struggle against inflation. The Government has named inflation as Public Enemy No. 1 for Chile.

The Minister of the Interior, after having declared that the increase in prices in the first ten months of 1964 was 35 per cent and that probably this would reach 40 per cent by the end of the year, stated that the Government was making every effort to reduce this to 25 per cent for the next year in order to reach the figure of 15 or 10 per cent in the years 1966 and 1967 respectively. Once these objectives had been reached, and bearing in mind the favourable consequences which such action would have, he said that among other important objectives of the Government he would propose the elimination of inflation and all its terrible consequences. In order to carry out this gigantic task, the results of which may have far-reaching and decisive effects on the whole of Latin America, we need first and foremost, to help ourselves. Without sparing any sacrifice, we hope to set to work and help ourselves. A bill has been put before
Parliament which would introduce a progressive land tax of 5 per cent, but we will also need the help of others. Any help from any quarter will be welcomed and any help that we will receive will bear fruit. One indispensable part of the planned mechanism is the extension of the waiver and we are seeking this of the CONTRACTING PARTIES; a waiver which will make it possible for us to continue to apply surcharges and so obtain a part of our tax revenue. We consider that two years is a reasonable period of time considering the very far-reaching programme of development undertaken by the Government. This concession should be a relatively easy one for the CONTRACTING PARTIES to give us now, since the Group which prepared the new Chapter of GATT on Trade and Development recommended for approval the proposals of Australia and the United States which would authorize developing countries to use surcharges in place of, or in addition to, other sources for the safeguarding of their balance of payments and their monetary reserves.

We do not doubt that the CONTRACTING PARTIES will understand our situation. We are quite sure of this, and that they will accord the waiver in the spirit which has inspired all their recent action.