Committee on Balance-of-Payments Restrictions

1965 CONSULTATIONS WITH

C H I L E

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation with Chile on 6 January 1965

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. Chile's total output of goods and services was estimated to have expanded by about 4 per cent in 1964, but as little progress was made in curbing the wage-price spiral, domestic prices and costs increased by an estimated 40 per cent.

3. Government finances were strengthened in 1964 by an improvement in tax administration and by the implementation of a tax reform which mainly involved higher taxation on income and real estate. The Government's current account surplus increased and, with the complement of external loans and reduced reliance on deficit financing, financed a higher level of public investment.

4. Chile's balance of payments position on current account improved only slightly in 1964, mainly as a result of rising prices for copper; but an increased availability of external economic assistance and some reduction in the outflow of private capital led to the emergence of a small over-all surplus. Exchange rate policy was an important factor in checking the loss of reserves, but there was a further accumulation of arrears during the first ten months although efforts were being made to reduce this increase in the final two months of the year. The demand for imports continued to be restricted by various controls on imports, import surcharges, a compulsory deferment period for the remittance of import payments, and a system of advance deposits for imports.

5. The Fund welcomes the greater emphasis in Chile's economic development and financial policies on the expansion of agriculture and the export base of the economy. The program for a gradual control of inflation over a three-to four-year period, by means of a coordinated set of monetary, pricing and income policies, will require persistent efforts by the authorities. The Fund emphasizes the critical importance of pursuing restrained credit and wage policies, and of taking measures to strengthen further the budget position, particularly by reducing the deficit of State enterprises, and to increase domestic savings so as to help in avoiding an undue accumulation of foreign indebtedness.
6. The Fund notes Chile's policy of maintaining a flexible exchange rate, and stresses the importance of making strenuous efforts to improve the balance of payments, pay off import arrears, reduce the compulsory deferment period for import payments and simplify the complex system of restrictions on trade and payments. The present efforts of the Chilean authorities to renegotiate Chile's foreign indebtedness, together with adequate controls on the contracting of new foreign debt, including suppliers' credits, will be important in avoiding a continuation of the present excessive debt service burden in future years. The Fund does not object to the maintenance on a temporary basis of the exchange system now in effect.

7. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Chile.