1. This decision is taken by the Executive Directors in concluding the 1968 consultation with Chile pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. Under the impact of a severe drought, Chile's rate of economic growth slowed down in 1968. Despite a major tightening of fiscal and credit policies, the rate of inflation accelerated in response to excessive increases in costs. However, the balance of payments showed a major improvement in response to higher copper receipts, restrained domestic financial policies and a more satisfactory exchange rate policy.

3. The wage increases granted at the start of this year leave little hope for a reduction of inflation in 1969, but the pursuit of cautious fiscal and monetary policies should make possible a further strengthening of the country's international reserve position.

4. Mainly as a result of a renewed tax effort, the Government succeeded in refraining from Central Bank borrowing last year. Meanwhile, the rest of the public sector managed to produce a substantial cash surplus. The Government plans through the pursuit of careful expenditure policies to refrain from domestic bank borrowing in 1969. Inasmuch as revenue is expected to rise only moderately, the restraint of expenditures is essential if Chile is to effectively contain inflation and to provide an adequate basis for sound economic growth. Appropriate fiscal and investment policies also call for an improved rate of public savings which, in turn, requires a reduction of the operating deficits of some of the major decentralized state agencies.

5. The Central Bank applied a policy of credit restraint which was a major factor in keeping price inflation from getting out of hand and in producing an improvement in the foreign reserve position. Adherence to the monetary program for 1969 is greatly dependent on avoiding government recourse to the Central Bank so that the bulk of the credit resources will be available to the private sector, on a careful control of the credit operations of the Banco del Estado, and on a strict application of the recently strengthened credit guidelines. To effectively foster savings and to assure a better allocation of credit resources, there should also be continued improvement in the interest rate structure.
6. External public debt authorizations increased in 1968 and early 1969 to a level that cannot be reconciled with the Government's objective of avoiding the recurrence of an excessive debt service problem. The Fund would emphasize the critical importance of pursuing prudent debt management policies in order not to impair Chile's balance of payments in the longer run.

7. The Fund stresses the need to continue a flexible exchange rate policy until inflation is effectively controlled. It commends the authorities for their intention to continue liberalizing Chile's exchange policies and, in particular, their plan to eliminate the remaining delays on import payments. The Fund hopes that this policy will be complemented by a more aggressive removal of trade restrictions in the interest of mitigating inflationary pressures and promoting greater industrial efficiency. In the meantime, the Fund does not object to the maintenance on a temporary basis of Chile's multiple currency practices and restrictions on payments for current international transactions as described in SM/69/41.