

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments
Restrictions

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INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION WITH CHILE ON 19 MARCH 1975

1. This decision is taken by the Executive Directors in concluding the 1974 consultation with Chile pursuant to Article XIV, Section 4, of the Articles of Agreement.
2. After two years of serious economic and financial imbalances, the Chilean economy showed a recovery in response to the corrective measures implemented over the past 15 months. Following a major slump in 1973, GDP in real terms is estimated to have increased by 5 per cent in 1974 on the strength of a marked upsurge in agriculture and mining output. Aggregate demand continued to expand rapidly bringing heavy pressures to bear on the price level and the balance of payments. However, the pursuit of a flexible exchange rate policy, high copper prices during most of the year, and substantial debt relief contributed to limit the decline in Chile's net foreign reserves despite the higher oil import bill and the continued need to import large amounts of foodstuffs.
3. In 1975 real GDP is projected to grow at about the same rate as in 1974. Agricultural output is likely to continue to expand in response to adequate price policies and the restoration of confidence following the consolidation of the land reform. On the other hand, growth in mining and manufacturing will probably remain sluggish. A sharp reduction in the rate of inflation is essential if economic recovery is to continue. The attainment of this goal will call for a considerably greater degree of austerity in domestic policies, all the more so if copper prices remain around their present levels. In these circumstances, the balance of payments is expected to continue under severe strain.
4. The authorities had great difficulty in implementing in 1974 an incomes policy which would have allowed a greater deceleration of inflation while protecting real purchasing power. There is need to pursue cautious wage policies if inflation is to be brought under control.

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5. The Fund welcomes the reintroduction of the price mechanism as a means of achieving better resource allocation and the rapid improvement in the public enterprises' financial position brought about by the adjustment of public tariffs and prices to realistic levels. However, the public finances need to be greatly strengthened. The authorities should make great efforts to ensure that the slippages between the formulation and the implementation of fiscal policy which developed in 1974 are not repeated in 1975. Therefore, the Fund welcomes Chile's decision to introduce a major program of tax reform and new revenue measures. It hopes that these will be implemented vigorously and that the utmost austerity in government spending will be pursued.

6. Monetary developments will continue to be dominated in 1975 by the public sector's financing requirements. However, with the recovery in private sector activity, improved control over bank lending will be of great importance. In particular, the base period for the calculation of legal reserve requirements should be moved as often as required, and these requirements should be strictly enforced.

7. Chile will continue to face heavy debt service payments in the years ahead. The introduction of new machinery to control public sector indebtedness achieved a noticeable reduction in the rate of new foreign borrowing in 1974. The Fund wishes to emphasize the importance of continuing to follow a prudent policy with regard to the incurrence of new borrowing in order to safeguard Chile's balance of payments in future years.

8. The pursuit of a flexible exchange rate policy has greatly helped protect the balance of payments from the effect of domestic inflation. The Fund encourages Chile to continue this policy until restoration of internal and external equilibrium is achieved. It views with approval the major relaxation of exchange and trade restrictions in 1974 and welcomes the authorities' intention not to retrogress on any progress achieved so far despite the unfavorable prospects for Chile's terms of trade in 1975. In view of Chile's circumstances, the Fund grants approval for the maintenance of the multiple currency practices and restrictions on payments for current international transactions as described in SM/75/47 until May 31, 1976.