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Economic Adjustment Programs - Chile

Chile

CHILE

SELECTED ANALYTICAL VARIABLES FOR ECONOMISTS AND MANAGERS

ATLAS PER CAPITA GNP (CUR) (1983) =1,870
POPULATION IN MILLIONS (1983) =11.682
LT DEBT OUTSTANDING AND DISBURSED IN MILLIONS (CUR)(1983) =14,952.18
BALANCE ON CURRENT ACCOUNT IN MILLIONS (1983) =-1,073

	HISTORIC DATA		REFERENCE YEAR	RECENT DATA		EST. DATA		PROJ.DATA	
	1960-1973	1973-1980	1980	1981	1982	1983	1984	1985	1986
GROWTH OF GDP AGGREGATES (CONST)					GROWTH RATES				
1.GDP	3.94	3.75	27,571	5.72	-14.33	-2.03	7.70	2.15	3.02
2. AGRICULTURE	1.38	4.83	1,992	5.30	-2.30	-1.28	5.86	7.20	4.28
3. INDUSTRY	3.86	1.89	10,286	6.34	-16.15	-1.43	11.40	4.34	4.12
4.GDP OUTPUT DEFLATOR	40.31	146.04	100	13.38	11.28	29.41	12.86	35.44	29.72
5.IMPORTS GNFS (NAT. ACCTS.)	6.06	7.33	7,438	14.70	-32.91	-14.12	10.23	-12.57	1.61
6.EXPORTS GNFS (NAT. ACCTS.)	2.13	15.50	6,292	-5.29	10.92	3.31	-5.60	6.48	7.53
7.MERCHANDISE EXPORTS (1)	-0.16	13.17	4,584	1.20	5.04	-7.62	14.05	..	..
8.DOMESTIC ABSORPTION	4.51	2.80	28,717	10.86	-23.49	-6.62	11.71	-2.53	1.20
9.INVESTMENT	5.52	7.21	5,785	5.71	-65.43	-13.21	92.99	-8.30	14.02
10.PER CAP TOTAL CONSUMPTION	2.22	0.42	2,065	10.27	-14.97	-7.56	2.83	-3.24	-2.39
11.POPULATION (MIL)	2.05	1.68	11	1.71	1.71	1.70	1.70	1.70	1.70
TRADE PRICE INDICATORS (1980=100)					INDICES				
12.TERMS OF TRADE OF AGR/IND	96.44	102.83	100.00	92.93	81.66	118.23	..	..	..
13.TERMS OF TRADE	171.66	108.71	100.00	90.11	80.38	81.17	80.54	78.15	77.06
14.TERMS OF TRADE (UNCTAD)	201.76	136.45	100.00	78.97	74.85	90.28	..	..	..
15.NOMINAL EFFECTIVE EXCHANGE RATE(2)	..	97.44	100.00	122.07	123.03	98.93	106.29	93.39	..
16.REAL EFFECTIVE EXCHANGE RATE(2)	..	93.19	100.00	119.34	109.28	89.51	86.99	75.37	..
INVESTMENT AND SAVINGS					RATIOS				
17.INVESTMENT/GDP (CURRENT)	10.3	18.4	21.0	20.7	9.9	8.4	13.6	13.7	16.0
18.INVESTMENT/GDP (CONSTANT)	16.3	15.9	21.0	21.0	8.5	7.5	13.4	12.1	13.4
19.DOMESTIC SAVINGS/GDP (CURRENT)	8.8	15.4	16.8	10.7	8.2	11.1	12.6	17.1	21.2
20.DOMESTIC SAVINGS/GDY (CONSTANT)	14.1	13.8	16.8	9.9	6.0	9.8	12.8	15.3	17.9
21.GROSS NAT. SAVINGS/GDP (CURRENT)	7.5	12.8	13.9	6.7	0.1	2.0	..	..	..
22.RESOURCE BALANCE/GDP (CONSTANT)	-8.9	-3.4	-4.2	-8.8	3.5	7.8	3.9	7.9	9.3
23.MARG PROPENSITY TO SAVE (CONSTANT)	5.8	76.2	51.2	-182.4	28.9	-168.3	50.0	209.5	125.4
24.TERMS OF TRADE ADJ./GDP (CONSTANT)	7.6	1.9	0.0	-2.0	-5.2	-5.3	-4.8	-5.6	-6.1
25.ICOR (CONSTANT)	5.8	3.8	1.9	2.9	-1.3	-6.5	1.6	..	..

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	HISTORIC DATA 1960-1973	HISTORIC DATA 1973-1980	REFERENCE YEAR 1980	RECENT DATA 1981	RECENT DATA 1982	EST. DATA 1983	EST. DATA 1984	PROJ.DATA 1985	PROJ.DATA 1986
TRADE AND BALANCE OF PAYMENTS						RATIOS			
26.SHARE OF MANUF IN EXPORTS (CUR)(1)	4.2	8.7	9.7	8.0	7.5	7.2	8.1	8.0	7.0
27.IMPORT GDP ELASTICITY	1.5	2.0	2.4	2.6	2.3	6.9	1.3	-5.9	0.5
28.CUR ACCT BALANCE/GDP (CURRENT)(3)	-1.8	-4.9	-7.1	-14.3	-9.5	-5.4	-10.7	-7.2	-5.8
29.RESERVES IN MONTHS OF IMPORTS OF GOODS AND SERVICES(3)	2.3	4.0	5.9	4.5	4.1	5.3	4.8	6.2	6.3
DEBT INDICATORS (4)									
30.LT DEBT SERVICE TO EXPORTS RATIO	22.8	36.1	37.9	57.4	62.2	48.0	54.7	49.5	48.6
31.LT INT. SERVICE TO EXPORTS RATIO	6.7	11.2	14.6	25.3	37.8	28.9	38.1	36.8	36.1
32.LT DEBT SERVICE TO GNP RATIO	2.8	7.9	8.9	10.2	14.5	12.9	14.8	14.7	15.4
33.DOD. LT PUB DEBT AT VIR/ DOD. TOTAL LT PUB DEBT	5.0	26.3	51.5	56.5	66.6	72.0	..	..	..
34.NET TRANSFERS/TOTAL DISB	26.9	24.6	33.3	37.9	-20.2	-12.8	-59.8	-33.1	-60.8
35.WORLD BANK DEBT/TOTAL LT DEBT	5.0	3.0	2.0	1.6	1.6	1.5	1.5	2.4	2.7
MONETARY INDICATORS (CURRENT)									
36.CHG IN CLMS GOV/GOV BUDGET BAL	..	..	..	..	..	..	..	..	..
37.CLMS GOV/CLMS PRIV SECT(6)	584.6	43.7	12.0	2.4	8.2	10.3	18.5	..	..
38.MONEY SUPPLY/GDP(7)	35.4	19.4	21.5	24.1	31.9	26.4	29.4	..	..
GOVERNMENT ACCT (CURRENT)									
39.DIRECT TAXES/GDP(5)	10.6	10.1	11.4	9.2	8.3	7.8	..	..	..
40.TOTAL REVENUE/GDP(5)	28.7	32.0	32.8	31.5	34.4	29.8	28.0	29.4	..
41.GOV. BUDGET BALANCE/GDP(5)	-8.3	3.3	5.4	2.6	-1.0	-2.6	-2.8	-3.3	..
42.PUBLIC/TOTAL CONSUMPTION	14.7	16.1	15.0	14.2	16.2	15.9	16.5	16.5	16.6

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NOTE: ALL REFERENCE YEAR VALUE DATA IN US$ 1980 MILLIONS, EXCEPT PER CAP TOTAL CONSUMPTION WHICH IS IN US$.
LEGEND: .. INDICATES NOT AVAILABLE
M INDICATES DATA IN MILLIONS

FOOTNOTES:
(1) SERIES STARTS IN 1962.
(2) US$/LOCAL CURRENCY. SERIES STARTS IN 1979. INCREASES INDICATE APPRECIATION; DECREASES INDICATE DEPRECIATION.
(3) SERIES STARTS IN 1966.
(4) SERIES STARTS IN 1970; STOCK AND DEBT SERVICE PAYMENTS ARE BASED ON PROJECTED CONTRACTUAL OBLIGATIONS AT END 1983 PLUS ESTIMATED NEW COMMITMENTS IN 1984-86. FLOWS ARE NET OF RE-SCHEDULING TRANSACTIONS.
(5) SERIES STARTS IN 1972.
(6) SERIES STARTS IN 1969.
(7) SERIES STARTS IN 1964.

Table
Major Features of Structural Adjustment Programs

	Bolivia	Chile	Ivory Coast		Philippines		Yugoslavia
			I	II	I	II	
I. TRADE POLICY							
Tariff reform and import liberalization		X			X	X	X
Export incentives and improved institutional support		X	X	X	X	X	X
II. RESOURCE MOBILIZATION							
Budget Policy							X
Domestic Savings Policy		X					X
Strengthening of institutional capacity to manage external borrowing	X		X				X
Public enterprise financial performance	X			X			X
III. EFFICIENT USE OF RESOURCES							
Public investment program revision and review of structural priorities	X	X	X	X			X
Pricing Policy:							
- Agriculture	X	X	X	X			X
- Energy	X					X	X
Incentive System:							
- Industry				X	X	X	X
Energy conservation measures						X	X
Energy - Development of indigenous sources		X					
IV. INSTITUTIONAL REFORMS							
Strengthening of institutional capacity to formulate and implement public investment program		X	X	X			
Instutional efficiency of public sector enterprises	X	X	X	X			
Improved institutional support in agriculture (marketing, etc.)		X	X	X			
Institutional improvements in industry and sub-sector programs				X	X	X	

Sources: World Bank, 'Progress Report on Structural Adjustment Lending', 5-23-84, &, various SAL Reports.

rces of Data in the Statistical Profile:

Organization of American States. *América en Cifras, 1972—Situación Demográfica: Estado Movimiento de la Población.*

ation:
The information for the following items was furnished to the IDB by the Banco Central do Brasil, March 1984:
- Birth Rate (per one thousand inhabitants)
- General Mortality Rate (per one thousand inhabitants)
- Infant Mortality Rate (per one thousand live births)
- Years of Life Expectancy
- Literacy Rate

Total: IDB estimate based on information furnished by Instituto Brasileiro de Geografia e Estatística, March 1984.

r Force:
Information furnished to the IDB by the Banco Central do Brasil, March 1984.

GDP:[1]
1982–83: Information furnished to the IDB by Instituto Brasileiro de Economia, Centro de Contas Nacionais, November 1984.
1984: Fundação Getulio Vargas, *Conjuntura Econômica*, January 1985.

ral Public Sector:
1982–1983: Information furnished to the IDB by the Banco Central do Brasil.
1984: Banco Central do Brasil, *Informativo Mensual*, January 1985.

ey and Prices:
Information furnished to the IDB by the Banco Central do Brasil, January 1985.

hange Rate:
International Monetary Fund, *International Financial Statistics*, March 1985.

nce of Payments:[1]
1982–84: Banco Central do Brasil, *Brazil Economic Program-Internal and External Adjustment*, March and November 1984 and information furnished by the Banco Central do Brasil, May 1985.

rnal Public and Private Debt:
The following information has been furnished to the IDB by the Banco Central do Brasil, *Brazil Economic Program—Internal and External Adjustment*, March and November 1984 (includes the unregistered external debt):
- Disbursed debt
- Debt-service (interest and amortization)
  - Debt-service ratio
  - Debt-interest ratio
- Debt-service (interest and amortization) as percentage of exports of good and non-factor services.
- Interest as percentage of exports of goods and non-factor exports.

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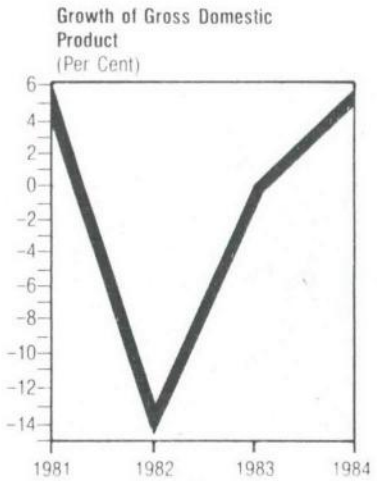
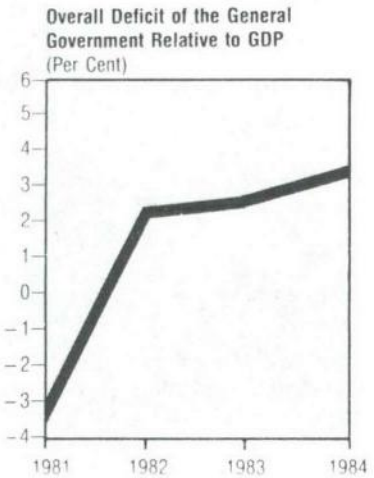
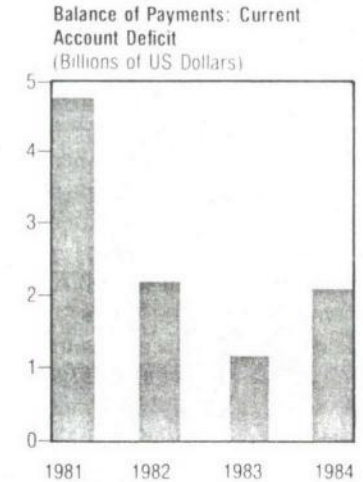
[1] The statistical data used for Brazil might not coincide with the data used in the first part of this report which was provisional.

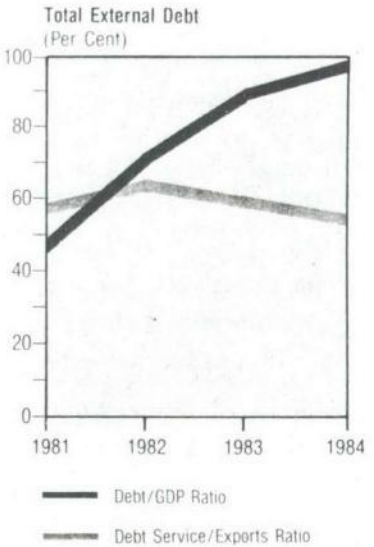
Chile

Economic Indicators









Statistical Profile*

Area (Km²)	*756,629*		
Population: Total 1984 (83.1% urban)	*11,878,000*		
Annual growth rate 1970–84	*1.7*		
Birth rate (1983)	*22.3*		
General mortality (1983)	*6.4*		
Infant mortality (1983)	*21.9*		
Life expectancy (1980–85)	*67.0*		
Literacy (1983)	*95.6*		
Labor force by sector (1983)	(Percentages)		
Agriculture	*14.3*		
Mining	*1.9*		
Manufacturing	*12.6*		
Construction	*2.6*		
Others	*68.6*		
	1982	**1983**	**1984****
Real production	(Growth rates)		
Total GDP (market prices)	−14.3	−0.6	5.9
Agricultural sector	−2.3	−2.8	7.3
Mining sector	5.7	−2.2	3.9
Manufacturing sector	−21.6	3.9	10.3
Construction sector	−29.0	2.0	5.0
Central government	(Percentages of GDP)		
Current revenues	29.9	27.5	27.6
Current expenditures	31.9	29.7	29.1
Current savings	−2.0	−2.2	−1.5
Capital expenditures	7.8	4.5	4.8
Deficit or surplus	−2.3	−2.6	−3.4
Domestic Financing	2.6	2.6	2.9
Money and prices	(Growth rates)		
Consumer prices	20.7	23.1	23.0
Money supply	−9.1	26.8	10.6
Domestic credit	58.5	18.1	25.1
Public	89.3	34.7	59.0
Private	54.1	15.6	19.0
Exchange rate, average (units of national currency per dollar)	50.9	78.8	98.7
Balance of payments	(Millions of dollars)		
Merchandise exports (FOB)	3,491	3,827	3,636
Merchandise imports (FOB)	3,432	2,818	3,354
Merchandise balance	59	1,009	282
Net services	−2,326	−2,174	−2,434
Current account balance	−2,173	−1,073	−2,052
Official capital	514	818	1,391
Private capital	396	−286	678
Change in net reserves (− increase)	1,263	541	−17
Total external debt	(Millions of dollars)		
Total	17,152	17,432	18,928
Debt service (interest and amortization)	3,188	2,713	2,612
	(Percentages)		
Debt service coefficient	63.6	59.0	58.3
Interest coefficient	47.2	39.4	47.4

* Where necessary, the items of information presented in this table are defined in the list of sources appearing on page 224. Any clarification or interpretation of the data should be referred directly to the pertinent source.
** Preliminary estimate.

Chile

Recent Economic Trends

After the 1982–83 recession, when the gross domestic product (GDP) fell by almost 15 per cent from the 1981 level, the Chilean economy again began to grow in the third quarter of 1983 only to slow down in the second half of 1984. The increase in the competitiveness of exportable production, resulting from the real devaluation that took place in June 1982 and the more active role of the Government, accelerated the recovery of production and produced a real GDP growth of 5.9 per cent in 1984.

However, in that year the internal adjustments the authorities had been making since 1982 lost strength. The expansion of aggregate demand in the first half of the year led to an increase in the volume of imports that proved incompatible with the availability of external resources. This import growth was basically due to growing expectations of an acceleration in the rate of devaluation of the peso and of tariff increases; and, to a lesser extent, to the demand for intermediate inputs for fueling the industrial reactivation and satisfying the need of the private sector to rebuild stocks. The result was a substantial recovery in gross investment, concentrated in the build-up of stocks rather than in fixed capital formation. External demand was again weak in 1984 for most products, except non-traditional exports, and therefore the volume of exports rose only modestly. Total consumption grew at a slower rate than that of the population, primarily because of the drop in real wages and the existence of a high level of unemployment and underemployment.

In the face of mounting difficulties in increasing the supply of foreign exchange, the Government took steps to reduce expenditure in mid-September. For that purpose, it devalued the peso and reduced monetary liquidity (M_1). Although these measures lowered the demand for imports in the final quarter of the year, the deficit on current account of the balance of payments was almost twice that of the preceding year, substantially higher than the level initially programmed.

Conditions in the external sector, which served as a basis for designing the 1984 Economic Program, deteriorated considerably. The reference interest rate (LIBOR) rose to an average of 11.2 per cent in 1984 compared with 9.9 per cent in the preceding year, and the price of copper stayed below the average level of 75 cents a pound projected for the year. The mounting expectations of devaluation increased pressures on the peso. These pressures led in mid-June to an increase in the exchange rate in the parallel market to a

level 30 per cent above that of the official rate. To halt the drain of international reserves and keep the growth of inflation under control, the Government restricted the expansion of the money supply by placing promissory notes on the open market. This measure temporarily increased the short-term bank interest rates (30 days), since the restriction of the money supply was not accompanied by a fall in demand for funds by the private sector.

The expansion of production in the first half of the year was led by agriculture, fisheries, manufacturing, and construction. The greater availability of credit, and the existence of guaranteed prices, boosted the expansion of grain cultivation. The rise in grain output increased the agricultural value added by 6.7 per cent in 1984. Fisheries expanded by 12 per cent as a result of more abundant catches of species used for the manufacture of fish meal and oils. Manufacturing grew by 10 per cent, compared with 4 per cent in the preceding year, in response to higher demand for national construction and industrial inputs caused by the recovery of activities favored by the increase in tariff protection. In addition, an improvement in the internal indebtedness of enterprises and expectations of changes in trade and exchange policies encouraged businessmen to increase their stocks. Construction continued the recovery that began in the final months of 1983 and grew by about 5 per cent in 1984.

Employment increased in 1984. Although the open unemployment rate continued at a high level, the Government succeeded in reducing it from 22.5 per cent of the labor force in September 1983 to 18.5 per cent in the same month of 1984 by accelerating the economic recovery and executing public works programs. The number of persons in productive employment—excluding the beneficiaries of the Minimum Employment Program (PEM) and the Employment Program for Heads of Households (POGH)—increased 6 per cent in that period, while the number of participants in those special programs fell from 13.8 to 9 per cent of the labor force.

The 1984 financial performance was marked by (a) a 7 per cent rise in net domestic credit in real terms, in contrast to a 7 percent fall in the previous year. The public sector received three times more resources than the private sector; (b) a decrease in the real value of money of the private sector, followed by sharp but short-lived fluctuations in interest rates, which, however, continued on the downward trend that began in 1982; and (c) an increase in the overdue portfolio of banking institutions relative to the total lending of the system. This deterioration was more marked in the banks the Government had taken over.

In 1984 the overall deficit of the non-financial public sector rose to 4.5 per cent of GDP compared with 3 per cent in the previous year. The general government accounted for three-quarters of that deficit and public enterprises, for the remainder. The larger deficit was due to the growth of capital spending for reactivating the economy and reducing unemployment. Lower income tax receipts and the reduction in revenue from copper exports caused by the fall in the international price of that mineral, were offset by the growth of receipts from import taxes. Current expenditure fell slightly relative to GDP, despite higher interest payments on the external debt. Two-thirds of the deficit of the public sector was financed out of external resources borrowed primarily by public enterprises.

The consumer price index rose by 20 per cent in 1984 while the wholesale price index grew by 24.3 per cent in the same period, compared with 27.3 and 45.5 per cent, respectively, in 1983.

In 1984 the imbalance of the external accounts became more pronounced. The reduction of the trade surplus to $282 million, almost one-fourth of the surplus initially projected by the authorities, and larger payments of interest on the external debt, were the principal causes of the increase in the current account deficit to a level equivalent to 10.6 per cent of GDP, twice that of 1983. Merchandise imports grew by 19 per cent in 1984. Intermediate and capital goods grew most. Export value decreased by 5 per cent because of the sharp fall in the prices of the principal minerals, of fish meal, and of wood products. Although in the final months of the year the Government used about $480 million in short-term credit lines, income from direct investment, and other capital, were not sufficient to finance the current deficit; for that purpose it was necessary to draw down international reserves—as defined by the International Monetary Fund (IMF)—by $82 million. At the end of December 1984, reserves stood at a level equivalent to three months of imports of goods and non-factor services.

Because of the difficulties in obtaining additional resources from the commercial banks, the total external debt of Chile increased by 8.6 per cent in nominal terms in 1984, to $19 billion. The ratio between the debt service and exports held to a level roughly similar to that of the previous year, namely 58 per cent.

Economic Policies

The objectives of the 1984 economic program, which received credit support from the IMF, were as follows: to increase exportable production and production for substituting imports; to absorb part of the prevailing unemployment; and to stabilize the operations of the financial system. In view of the limited availability of external resources and the need to keep inflation under control and hold international reserves at the December 1983 level, the authorities initially planned to pursue conservative policies on aggregate demand. Three months after the program was launched, the Government replaced the economic team and changed the economic policy instruments for achieving the planned objectives.

The new authorities proposed to accelerate the economic reactivation within the framework of the financial program agreed upon at the beginning of the year with the IMF and with the Steering Committee of the creditor banks; accelerate the reduction in unemployment and find solutions to the problem of the internal indebtedness of enterprises and individuals, including that of the

banks the Government had taken over and the economic groups of which they formed part.

To achieve its objectives, the Government approved the Three-Year Program for 1984–86. As a result, a start was made on coordinating the activities of the private and Government sectors for making up the losses of production that had occurred in the 1982–83 recession. In addition, initially public expenditure and monetary liquidity were expanded; reprogramming all the debts of broad sectors of the population with the banks at longer maturities and lower interest rates was encouraged; and a law was enacted whereby efforts would be made to normalize the operations of the banks taken over by the Government in 1983 by recapitalizing them.

In 1984 the authorities continued their efforts to improve the liquidity situation of the private sector. They maintained the credit lines opened in 1983 for paying the dollar debt service, renegotiating debts in national currency with the banks, and purchasing housing. In addition, to promote private savings they reduced the tax burden of enterprises and individuals and encouraged enterprises to plough back their profits. The interest rates of the financial market were freely determined except that for 30 day deposits, which was fixed by the Central Bank in an effort to keep it positive in real terms and compatible with international rates.

Achievement of the goal of absorbing a substantial part of unemployment and of introducing greater austerity in public expenditure led the authorities in January to order a 15 per cent increase in the wages and salaries of public sector employees; there were no subsequent adjustments. In the private sector, wages continued to be determined by collective bargaining or individual agreements, but no system of indexing for inflation was used as had been in the past. As a result, between December 1983 and December 1984 real wages fell by 4 per cent, on top of the drop, also of 4 per cent, that occurred in the same period of the previous year.

To keep exportable production competitive in the medium term, the Government planned in 1984 to adjust the value of the dollar each month to changes in domestic prices, after deduction of the estimated international inflation. Although for a few months the exchange adjustment was higher than that price differential, there were periods in which it was lower, which fueled expectations of a peso devaluation. Together with the unfavorable performance of copper prices and external interest rates, and the appreciation of the dollar, that situation led the Government to increase import duties and devalue the peso in mid-September. Although these measures reduced the demand for imported goods in the last quarter of 1984, they accelerated inflation; the result was an improvement in the competitiveness of exportable production and a further fall in real wages. To reduce the inflationary impact of the exchange measures, the authorities: (a) modified in October the system of fixing the exchange rate each month by devaluating the peso, on one occasion only, by half the rate of growth of inflation in the preceding month; (b) ceased to temporarily "suggest" to the banks the interest rate on deposits; and (c) restricted the money supply.

Outlook

Changes in the price of copper and international interest rates, as well as additional loans from commercial banks and other sources, are the external factors that will determine the economic recovery of Chile in the years ahead. The present instability in the commodity and financial markets, and the high level of external indebtedness already contracted, will adversely influence the availability of resources for financing future economic growth. Consequently, an increase in domestic savings and in the capacity to produce exportable goods and substitute imports are the domestic aspects that will require priority attention by the authorities.

In accordance with the budget approved for the public sector, in 1985 economic activities will expand moderately, inflation will grow at a similar rate to that of 1984, and the deficits of the public sector and of the current account of the balance of payments will be significantly reduced. As a result of the lower availability of external credit, and of the uncertainty about the possible inflow of direct investment, further efforts should be made to achieve a substantially higher trade balance than in 1984 in order to finance the interest payments on the external debt, which, in 1985, will represent more than half the value of exports. In March 1985 the Government reached an agreement in principle with the IMF on a three-year (1985–87) credit from the Extended Facility that would underpin a new program of economic stabilization. This agreement will enable Chile not only to use the resources of that institution but also to reschedule the maturities of the external debt for that period with the commercial banks.

The economic growth strategy for 1985–87 is based on the expansion of the activities of the export and import-substitution sectors. Consequently, it is planned to continue a flexible exchange policy and to reduce customs duties across the board. A moderate income policy is another important condition that would improve the competitivenes of national production abroad. The program also provides for the elimination of the public sector deficit and a sharp reduction in the deficit of the current account of the balance of payments by the end of 1987. To stimulate private sector savings, efforts will be made to ensure that there are no significant increases in the tax burden and that bank interest rates remain positive.

Sources of Data in the Statistical Profile:

Area:

Organization of American States, *América en Cifras 1972—Situación Demográfica: Estado y Movimiento de la Población*.

Population:

The information for the following items was furnished to the IDB by the Instituto Nacional de Estadística y Censos (INDEC), March 1985:

- Total
- Birth Rate (per one thousand inhabitants)
- General Mortality Rate (per one thousand inhabitants)
- Infant Mortality Rate (per one thousand live births)
- Years of Life Expectancy
- Literacy Rate

Labor Force:
Information furnished to the IDB by the Instituto Nacional de Estadística (INE), November 1983.

Real GDP:
Information furnished to the IDB by the Banco Central de Chile, January 1985.

Central Government:
Information furnished to the IDB by the Ministerio de Hacienda, Dirección de Presupuestos, January 1985.

Money and Prices:
Banco Central de Chile, *Informe Económico y Financiero*, December 1984.

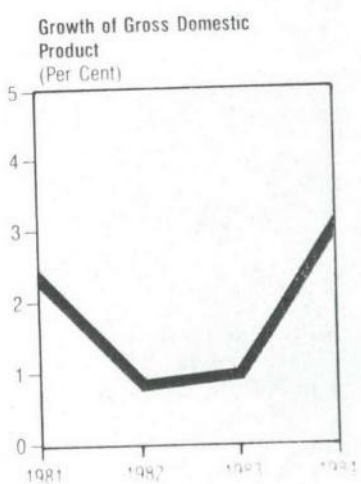
Exchange Rate:
International Monetary Fund, *Estadísticas Financieras Internacionales*, March 1985.

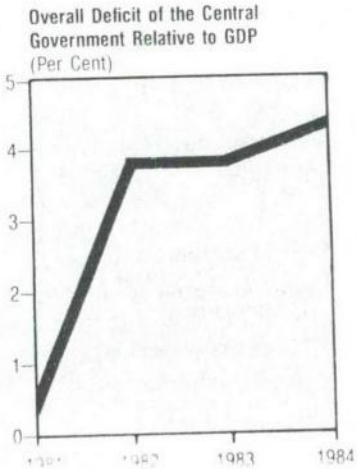
Balance of Payments:
1982–83: International Monetary Fund, *Balance of Payments Statistics*, (magnetic tapes).
1984: Information furnished to the IDB by the Banco Central de Chile, January 1985.

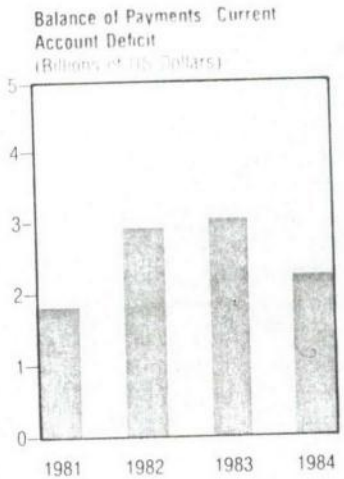
Total External Debt:
The information for the following items was furnished to the IDB by the Government of Chile, January 1985:
- Total
- Debt-service (interest and amortization)
  - Debt-service ratio
  - Debt-interest ratio
- Debt-service (interest and amortization) as percentage of exports of good and non-factor services.
- Interest as percentage of exports of goods and non-factor services.

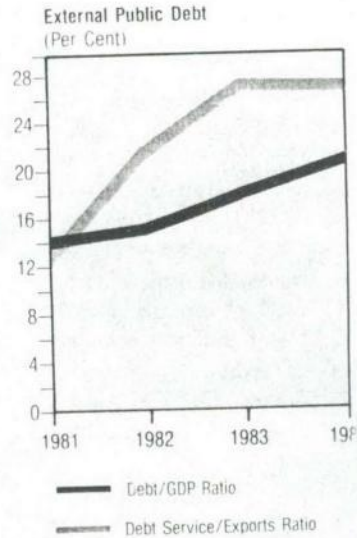
Colombia

Economic Indicators









THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

N623

→ Chile KB

DATE: February 10, 1986

TO: Mr. Cornelis Jansen, PBDCP

FROM: Paul M. Meo, Senior Economist, LCIDR

EXTENSION: 74624

SUBJECT: CHILE - Net Exposure Increases

During the discussion of the medium-term workout paper for Chile, it was agreed that the forthcoming CPP would be used for discussion by the Senior Management of the Chile program rather than a revised workout paper. Nevertheless, you had requested more details on the net lending expected in the projection so that you would have a series of statistics consistent with other workout projections. I undertook to provide the net lending expected in the projection for you and your staff. The attached table is not exactly consistent with the projection used in the workout paper, since its source is a new projection we propose to use in the CPP. I have been advised by Luis Derbez, now in Chile, that he has better information on 1986 (e.g. impact of oil price drops and some slight changes) however, so the final CPP will now have a slightly different projection. Nevertheless, the changes we are now making and propose to make are so trivial that I would prefer you have the information you requested immediately.

Attachment

cc: Messrs. Choksi
Eigen
Derbez (o/r)

CHILE - Projected Net Capital Flows, 1986-90

(US$ million)

Capital Source	Stock of Debt end-1985	Net Capital Flow 1986	1987	1988	1989	1990
Direct foreign Investment	n.a.	130	140	140	140	160
IMF	983	98	-31	-145	-157	-157
World Bank	391	362	370	336	243	137
IDB & Other Multi	929	330	350	307	250	210
Bilateral	861	50	50	100	100	100
Commercial Banks, Total	15,855	166	423	280	290	448
Guaranteed	11,548	230	433	1,599	1,032	615
Non-Guaranteed	2,782	-135	-94	-1,439	-868	-296
Short-Term	1,525	70	84	120	126	130
Suppliers, Total	2,017	350	356	372	374	376
Official	337	120	120	120	120	120
Private	1,151	200	200	200	200	200
Short-Term	529	30	36	52	54	56

Source: LACI; RMSM Run of Feb. 5, 1986

Mr. Choksi
N623

→ Chile BB.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 6, 1986

TO: Mr. Peter Eigen, Division Chief, LCIPA

FROM: Paul M. Meo, Senior Economist, LCIDR

EXTENSION: 74624

SUBJECT: CHILE - Discussion of the Baker Paper

On February 5, Armeane Choksi chaired a discussion of the Chile Baker Paper. Guy Pfeffermann, Andrew Vandendriessche and I represented the Region. There were other representatives from P&B, ERS, CPD, but not FPA. The latter had been invited, but did not attend.

Mr. Choksi noted that virtually all of the paper would be included in a forthcoming CPP, and both before and after the meeting, agreed that the paper need proceed no further in its processing, particularly since the Mananagement Committee will receive our CPP, and our dialogue with the country was being conducted through a series of SALs. On our part, I agreed to revise some key tables which interested P&B, but may not necessarily be included in our CPP.

The comments were as follows:

Jansen, P&B: the Chile base case is not "business as usual". They would like to have a base case with "normal" economic performance to compare it with other Baker Paper countries. P&B also was impressed with the high share of the IBRD and IDB in the incremental exposure in Chile and requested we put Table 6 on Page 11 in net lending terms so that they could make a more accurate estimate of the burden sharing.

McMullen, P&B: went into some specificty on our projection, stressing the domestic savings implications and questioning its realism. He also noted his rough estimates that the World Bank and IDB would be providing a quarter of the net capital flows required in the projection for the second half of the 1980s, while the IMF would be reducing its position. He wanted the commercial banks to accept a greater share of the new lending.

I agreed to revise Table 6 to a net basis and forward it to P&B and other interested parties. I also agreed that Mr. McMullen's rough estimates were consistent with our own projection, but pointed out that we had less degrees of freedom in the "burden sharing" formula since large sums for 1985/86 had already been signed and that our Senior Management had found it very difficult indeed to encourage net commercial funds beyond those we had projected. The base case, I pointed out, was based on a program now in place; a program which had shown very good export savings in 1985. I also agreed that if this excellent economic performance were not continued, Chile clearly would suffer a high risk of default; that "normal" economic management would be inconsistent with an orderly servicing of debt and political viability.

Barandiaran, ERS: questioned virtually every assumption in the paper; the copper price, the copper volume, the non-traditional export expansion, the investment requirements, the public savings, the private savings, the financial restructuring, the Central Bank position, foreign markets, employment generation, etc., etc.

In essence, Mr. Barandiaran does not believe the Chilean program is feasible. Some of his comments, however, could be specifically answered. Non-traditional exports are expanding rapidly; 9% in volume in 1985. We had used the IBRD copper model to estimate the consistency between the copper expansion program of Chile and the World copper price; the sensitivity was surprisingly low, a penny or two a pound between no expansion and the projected expansion. Public savings had grown substantially in 1985 and if they were put into a domestic savings framework (i.e., before interest payments) by 1987 or 1988 they would equal 9% to 10% of GDP. The Central Bank losses are high but are being reduced as subsidies end, mostly by the end of this calendar year. This in turn, will encourage a cleansing of balance sheets--if not ownership--of Chile's corporate system.

Guy Pfeffermann noted that Chile's savings is a function of the exports and consumption projection. Mr. Barandiaran had stressed the low wages; I pointed out they were expected to drop even further in 1986. The conclusion was that the savings targets would depend upon a continued extraordinarily severe austerity while exports expanded.

DeMelo, DRDPR: questioned whether or not the authorities should provide a specific export subsidy to counteract the 20% import tariff.

I said the authorities had decided not to, since it would violate GATT rules, given the high amount of resource-based exports and the difficulty of developing specific drawback systems.

Guy Pfeffermann, LAC: questioned the exchange rate, potential capital flight and the investment incentives. I pointed out that in 1985 reverse capital flight had occurred, the exchange rate was was more attractive than at any time since 1975, and that some investment was occurring, although the investment issue was indeed a big question at this stage.

I would try and accommodate as many of these comments in the CPP as feasible and prepare the tables--with Andrew's help--for P&B. What struck me, however, is the continuing discussion of revising or questioning of a program which I had thought had been approved more than six months ago, which the Chileans have been following fairly closely, and which we have already staked the Bank's (and Senior Management's) money and reputation.

cc: Messrs. Steckhan (o/r), Pfeffermann, Choksi, Derbez (o/r), Vandendriessche

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 28, 1986

CONFIDENTIAL

TO: Mr. Armeane Choksi, CPDTA

FROM: Peter Eigen, Division Chief, LC1PA

EXTENSION: 75791

SUBJECT: **CHILE - Medium-Term Growth Strategy Paper**

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MAY 3 1 2017
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1. Attached you will find the final draft prepared by Messrs. Derbez and Edelman of the above-mentioned paper. We have included its relevant aspects and conclusions in the text of the CPP of Chile set for OPS review during March 1986. But we thought it would be useful to present it to you as a self-contained work-out paper and would appreciate your comments.

2. Because Mr. Derbez will be on mission until February 20, we would appreciate your addressing any comments on the paper to Mr. Edelman.

cc: Messrs. Knox, LCNVP (1)
Steckhan, LC1DR (2)
Meo, LC1DR (3)
Edelman, CPDDR (4)

LEDerbez:ab

CONFIDENTIAL
1/24/86

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WBG ARCHIVES

CHILE: MEDIUM-TERM GROWTH STRATEGY

I. THE ECONOMIC RECORD

1. Although Chile experienced periodic debt servicing difficulties in the 1960s and early 1970s, the economic reform of the 1974-1979 period led to a dramatic expansion of exports and greatly strengthened the country's creditworthiness. In June 1979, however, the exchange rate was fixed; the steady real appreciation of the peso gradually eroded the export drive. Moreover, Chilean businessmen and bankers borrowed massively in dollars because of the large interest rate differential between the external and the high real peso rates. Powerful business groups which consolidated their holdings during the mid-1970s, used their ownership of banks to expand their foreign borrowings; the extent of their indebtedness often disguised through holding companies. Private external debt rose from US$2.0 billion at the beginning of 1979 to over US$10 billion by the end of 1981 and it accounted by end-1982 for over two-thirds of Chile's total medium- and long-term external debt.

2. As a consequence, for the past two years, Chile's interest payments on its external debt averaged over one-tenth of its GDP and half its merchandise exports. 1/ This debt burden, together with the residual effects of the overvalued exchange rate during 1980-1981 and a sharp drop in the copper price, were major factors in the country's deep recession during 1982-1983 that left much of Chile's private corporate and financial sectors bankrupted and raised unemployment to record heights.

3. In support of the Government's stabilization efforts, the IMF agreed in January 1983, to an SDR 795 million Stand-by cum Compensatory Financing Facility. One week later, massive banking insolvencies and a huge capital outflow forced the Government to take measures in the financial and monetary markets that violated the IMF program just approved. A "shadow program"--by which the original targets could be met by September--was then drawn up in March. By following severe deflationary policies, Chile complied with its IMF targets--a feat that reflects favorably on the Government's determination to meet its external obligations. External balance, however, was achieved at the cost of a strong decline in domestic expenditures. As 1983 ended, real GDP was down by about 15 percent from its 1981 level, and real private consumption was down nearly 25 percent. The open unemployment rate leveled off at 16 percent only because it excluded public emergency employment programs supported by the Government were expanded to cover 10 percent of the country's work force.

4. The depression bottomed out in late 1983. A growing public investment program and Central Bank financing for domestic debt reschedulings supported strong increases in demand and production in the first semester of 1984. A March agreement with its international creditors provided Chile

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1/ During late 1985, a major real devaluation to increase the economy's export incentive reduced the current dollar equivalent of Chile's GDP from US$22 billion in 1984 to US$16.2 billion in 1985.

with US$780 million in new medium-term loans and a major increase in short-term debt followed. In 1984, GDP grew 6.3 percent; industrial agricultural and fishing output grew even faster. Employment increased by 9.2 percent, allowing the Government to reduce its emergency work programs by 137,000 jobs. Open unemployment dropped by late 1984 to a 13 percent rate--its lowest since 1981. However, as a result of this expansion the current account deficit of the balance of payments reached 10 percent of GDP, an unsustainable level.

5. The Government's immediate response to the 1982-1983 crisis was ad hoc and based on the expectation that the country was facing only short-term liquidity problems. The Government has strengthened this first effort. Policy measures designed to address specific structural problems are now being implemented (see Annex 1). These measures address three problems: the need to accelerate and diversify exports, the savings/investment disequilibrium, and the financial distress that pervades the economy. The Government also developed a 1985-1987 program that contains actions to stabilize the external sector accounts, provide an efficient public investment program, and generate the required public finances to complement an export-led recovery.

6. In 1985, the World Bank approved a US$250 million SAL to support the 1985-1987 adjustment program. The IMF is also providing support with a three-year, SDR 750 million Extended Fund Facility (EFF). The SAL program stresses a more efficient public sector, better budgetary and institutional controls, a free trade, export-oriented economy, and a revitalized financial sector. Besides specific fiscal, monetary and reserve targets for 1985, the EFF program stresses the phasing out of the preferential exchange rate and swap operations of the Central Bank, increased public savings and lower public deficit, and a major drop by 1987 in Chile's need for new commercial funds.

7. The SAL-EFF targets for 1985 were met. Export diversification grew at a strong pace (noncopper exports grew over 8 percent in real terms), but a further decline in export prices kept export earnings to about their 1984 level. A 12 percent real drop in imports together with lower-than-expected interest rates permitted a reduction on the current account deficit to US$1.3 billion. Yet interest payments continue to absorb about one-half of export earnings. Inflation is under control (25 percent) but open unemployment remains high (14 percent). Public savings were increased to 3.4 percent of GDP and the overall fiscal deficit of the consolidated public sector was reduced to 2.9 percent of GDP. GDP growth, however, slowed to an estimated 1.7 percent for the year.

Table 1: CHILE - MAJOR ECONOMIC INDICATORS, 1982-1985

	1982	1983	1984	1985 a/
M&LT External Debt (US$ Millions)	13,815	14,503	17,266	18,300
M&LT External Debt/EXPGNFS	2.7	3.1	3.8	4.1
Debt Service/EXPGNFS b/	59.0	49.1	55.2	53.1
Interest Payments/EXPGNFS	34.8	36.5	40.2	43.1
Interest Payments/GDP	7.8	7.1	11.1	12.6
Current Account Deficit/GDP	10.9	5.4	10.7	8.2
GDP Growth Rate	-14.3	-0.8	6.3	1.7
Consumption per Capita	-12.2	-6.5	-0.5	-2.9
Pub. Sector Deficit/GDP	3.8	2.8	3.8	2.9
Public Savings/GDP	-0.8	0.5	2.0	3.4
Real Devaluation	10.5	16.7	4.5	22.3
Inflation Rate (CPI) c/	20.7	23.3	23.0	25.0
Unemployment Rate d/	24.0	16.0	13.0	14.0
Real Copper Price (1977=100)	81.0	88.1	77.6	80.0
Real Export Growth Rate	0	5.5	-4.5	6.0
Copper	0	13.6	-13.9	2.0
Noncopper	0	-1.1	4.4	8.5

a/ Estimated.
b/ After negotiations.
c/ December-December.
d/ December.

8. Although a slight increase occurred in 1985, the copper price today is as low, in real terms, as during the Great Depression and the World Bank and mineral trade sources project only a slight medium-term improvement. In spite of the recent progress in export diversification, copper still produces about 40 percent of Chile's export earnings. Thus, export earnings are still highly dependent on one product and need to be further diversified. This will not be easy since much of Chile's private sector is insolvent. The large private foreign borrowings during 1979-1981, the depression of 1982-1983, and the real devaluations since mid-1982 have bankrupted many of Chile's industrial and agricultural companies, most of its mutual funds and financieras, and a good part of its banking system.

II. GROWTH OBJECTIVES AND PROSPECTS

9. Chile's potential to overcome the crisis lies in its substantial human and natural resources. This potential was demonstrated during the 1974-1979 export-led economic growth. It has again shown in the 1985 export expansion. When supported by export-oriented policies such as the ones currently in place, Chile's businessmen are capable to invest and diversify into nontraditional exports at an accelerated pace. The key to Chile's success in restoring its creditworthiness, therefore, is to maintain the export incentive policies to achieve the full export potential that exists in the agricultural, forestry, energy, and industrial sectors.

Adjustment Priorities

10. The SAL program initiated in 1985 has proven its potential for returning Chile to an export-led economic recovery. The first goal of the adjustment program is to accelerate exports, particularly noncopper exports. The second goal is to increase domestic savings massively. A reform of Chile's pension system, initiated by the Government in the late 1970s, has stimulated private savings through the creation of private pension funds. These funds currently marshal savings of about 4 percent of Chile's GDP. As employment is increased, these sources of household savings from the workers' pension funds could increase to close to 5 percent of GDP by 1990. The adjustment program must now stress corporate savings and public savings. Increased public savings will probably require new taxes as well as careful cuts in some recurrent programs. An increase incorporate profitability will depend both on export expansion and a resolution of Chile's internal debt crisis. A third, not less important goal for the program, is employment generation. The basic means to achieve these goals are clear; return to the proven policies of 1975-1979, which stimulated an export boom and improved Chile's creditworthiness rapidly. These policies must be supplemented by specific interventions to resolve fiscal, corporate and banking, and employment problems that are more difficult than in the early 1970s because of the large debt burden.

11. In view of the sharp drop in per capita consumption since 1981 and the high level of unemployment, at least a moderate increase in consumption and employment are essential to ensure the sustainability of Chile's adjustment program. Therefore, in defining the base scenario, these were two of the main objectives. In addition, the economic viability of the adjustment will depend overwhelmingly on export diversification and growth and a reduction in the external debt ratios. In the base scenario, a yearly real growth rate for noncopper exports of 8 percent projected between 1985 and 1990 will lead to a reduction in the share of copper exports to less than 40 percent of total GNFS while Chile's interest payments/export ratio would be reduced to 27 percent by 1990, almost half the present ratio. The need to generate the significant resource surplus to achieve these ratios restricts GDP growth during 1985-1990 to an average 3.5 percent. Indeed, during 1985-1986 it would average only slightly over 2 percent yearly, and per capita consumption would drop again. Even such a modest growth requires an increase of real copper prices 2/ and a strong savings effort; almost half of income increases should be destined to savings. Thus, in per capita terms, 1990 consumption levels, albeit above the 1985 level, would be below their 1970 level and unemployment would be only slowly reduced. It is evident that Chile will have to sacrifice output and consumption growth to pay interest to its external creditors unless the interest burden is substantially reduced. On the other hand, a slower GDP rate of growth or a lower level of foreign exchange earnings would result in an unfeasible scenario.

2/ In 1985, the copper price averaged US$0.65/lb., about the same as the very depressed 1983 level. We assume the real 1990 price levels would increase only by 10 percent.

1985 level, would be below their 1970 level and unemployment would be only slowly reduced. It is evident that Chile will have to sacrifice output and consumption growth to pay interest to its external creditors unless the interest burden is substantially reduced. On the other hand, a slower GDP rate of growth or a lower level of foreign exchange earnings would result in an unfeasible scenario.

12. Our base projections are summarized in the following table. The major assumptions are: (i) the real copper price will recover by only 10 percent by 1990; (ii) net capital flow from private banks will be restricted to 3 percent increase in exposure; (iii) the world economy will continue to grow at a moderate rate, and Chile's exports will not be subject to restrictive trade measures; and (iv) the export policies already adopted in 1985 will be maintained throughout the next five years.

Table 2: CHILE - RECENT PERFORMANCE AND GROWTH PROSPECTS

(% Annual Average Growth Rates, 1977 Prices)

	Actual 1980-1984	Projected 1985 - 1990 Base Case
GDP	-1.1	3.5
Consumption	-1.2	2.2
Investment	-11.3	8.9
Exports (GNFS)	3.0	5.9
Copper	3.9	3.5
Noncopper	3.9	7.9
Imports (GNFS)	-10.8	4.6
ICOR	neg.	4.6
Marginal Savings Rate	neg.	0.49

13. To attain the growth and export targets projected by the program, the ratio of investment to GDP would have to rise from 14 percent in 1985, to over 17 percent by 1990. The program would require an investment shift towards export-oriented and efficient import-substitution activities. Private projects in sectors where Chile's comparative advantages exist (mining, fruits, semi-processed fish, wood and pulp and paper) would be supported by public investments to increase exports and import substitution, either directly--through the State enterprises--or indirectly--by providing the required infrastructure.

III. ACTION PROGRAM

Export Promotion Policies

14. The Government reduced its even import tariff rate to 30 percent on March 1, and to 20 percent on July 1, 1985. To strengthen export incentives without further weakening the finances of the Government, new and moderate tariff reductions, if needed, would be recommended after 1988. The current real effective exchange rate is consistent with the growth and

how low?

05

balance of payments targets of the structural adjustment program. Acceleration of noncopper exports and new investment in export sectors requires low and even import tariffs and maintenance of the 1985 real exchange rate level. Export growth will also depend on better coordination between private and public investments in sectors with export potential, and a more assertive coordination and promotion of exports from small producers by the Government. These actions, therefore, should become the Government's priorities after 1986, for the program to attain the 8 percent projected annual rate of expansion in the volume of noncopper exports. Complementing this effort, by 1990 a 20 percent expansion of CODELCO's (Chile's Copper Company) exports should be realized. This latter effort would require annual investments of around US$400 million (a fourth of public sector investment) during the next several years.

15. Upward movements of volatile copper prices, if allowed to result in a real appreciation of the peso, could quickly suppress noncopper export-oriented investment. A pilot copper stabilization fund was created on January 1986, as a mechanism to ensure, through budget adjustments, that CODELCO's copper revenues from higher than budgeted copper prices will be sterilized in a reserve fund. The funds deposited would, in turn, be utilized to smooth out copper revenue short-falls if the copper price is lower than budgeted. The Government must make it now a strong priority to strengthen this initial effort. Once a two-year period permits a tuning of the fund's countercyclical action, and as experience is gained in its operation, the Government should institutionalize the fund.

16. Chile's export potential is impressive. In forestry, by the end of the century there will be sufficient pine stands to produce between four to six times present output levels, increasing by 1990 forestry-related exports to about US$720 million, up from US$334 in 1985. The investment in private processing plants and complementary public infrastructure to achieve this goal is estimated at US$3-4 billion over the next 15 years. A stable, supportive environment, and the availability of credit to the private sector are crucial elements in the program's strategy to attain the full forestry export potential of the country. In agriculture, major export increases will depend on the Government's ability to organize small producers and support the marketing of these products. PROCHILE, the Government's export promotion agency, must play a major role in the promotion and marketing of new agricultural exports. Chile's energy export potential lies in the full commercialization of its natural gas reserves. The Magellan Strait, the chief production area, has a limited petroleum future; energy exports must occur from development in the nearby Precordillera Region. Approval of new energy legislation enticing private investors to undertake the industrialization works required to export gas-related exports now requires incentives for more intensive private petroleum exploration. In 1986, therefore, the program should set as a priority the provision of fiscal and legislative support for private investment projects now under active development to export methanol and urea that would provide export earnings of about US$140 million by 1988.

Vague.

17. Finally, there is a longer-term potential in nontraditional manufactured exports. This category expanded rapidly from a very small base during 1973-1979, but it remains under US$100 million. Given the strong export incentives permitted by current policies, growth rates of 15 to 20 percent or more in these exports could be expected over the next five or

even ten years as this category is not subject to any significant market or domestic resource constraints. However, although no further policy actions are required at this time, because of its urban employment generation it should be a major focus for the Government's export promotion program after 1987.

What action prog?

18. The action program proposed should lead to a significant diversification of exports by 1990. The value of copper exports, notwithstanding a 20 percent volume increase and a 10 percent real price incentive, would be reduced from 46 percent of the total merchandise exports in 1980 to 42 percent by 1990. Agricultural exports--mainly fruits and wood-related products would increase their share along with nontraditional industrial exports (Annex 3). IBRD price projections of Chile's principal exports suggest that during the 1985-1990 period, Chile's presently depressed terms of trade would likely remain so, providing no income relief. The use of foreign savings would decline substantially as a share of GDP both because Chile must enhance its creditworthiness and will, in any case, face a restricted availability of external resources.

Table 3: CHILE - BALANCE OF PAYMENTS -- 1984 to 1990

(In Millions of US$)

	Actual	Est.		Projected	
	1984	1985	1986	1987	1990
Trade Balance	293	706	620	761	1,803
Exports	3,650	3,640	4,040	4,650	7,321
Imports	3,357	2,934	3,420	3,889	5,518
Nonfactor Services (Net)	-497	-267	-204	-349	-766
Resource Balance	-204	439	415	411	1,036
Factor Services (Net)	1,955	-1,820	-1,941	-1,978	-2,202
Transfers (Net)	99	59	100	100	150
Current Account	-2,060	-1,322	-1,426	-1,466	-1,016
Foreign Direct Investment	67	66	130	140	160
Other Net Capital Flows	1,830	1,256	1,296	1,326	856
Net Reserves (-= increase)	163	0	-15	-65	-100
Debt Service Ratio	55.2	53.1	50.0	45.2	55.1
Interest Payments to Total Exports and NFS	40.2	43.1	40.7	36.3	26.6

Savings Generation

Public Finances

19. Limitations on the growth of government current expenditures, care in following its investment program, and improvement in the cost effectiveness of public enterprises have been priorities of the Government's adjustment program. In 1985, a Bank mission evaluated the Government's 1985-1987 public investment program. As a result, the Government agreed to postpone indefinitely three major inefficient projects: the Line 3 of Santiago's Metro; a new port for Easter Island, and the acceleration of investment expenditures of Chile's Austral Road. The three-year public investment program was published. It will now be essential to make an annual evaluation of its execution and to agree on one-year adjustments keeping as priorities to maintain its export-support orientation and trim any low-return projects until 1990. Public savings in 1985 were over 3 percent of GDP. Yearly increases to reach a programmed increase to 5.5 percent by 1990 are an essential ingredient of the program if the domestic savings target envisaged is to be met. A growth path that leads to such a target must be agreed. Besides the specific fiscal actions, that will provide the savings target, a multi-year plan of action to improve the management and arrange the divestiture of a number of public enterprises should be prepared by 1987.

20. The Government has now guaranteed virtually all of the previously unguaranteed foreign debt of the banking system (about 40 percent of Chile's total debt before the crisis). This means the public sector will eventually have to service much of this debt at the same time that it must meet its other normal recurrent expenditures. The Government, therefore, must continue all along the five years its austere 1985 expenditure program. Salary adjustments for public employees must be kept at the inflation level during 1986-1988. It is, however, advisable to monitor the employment generation effects of the proposed adjustment program before further reductions in expenditures--beyond the measures already announced--are implemented, since double-digit unemployment rates are likely to continue until 1990 when the export-led recovery would be strong enough to provide productive jobs for those currently employed by the emergency employment programs. A summary of past and programmed public finance trends is given below:

Table 4: CHILE - FINANCES OF THE CONSOLIDATED PUBLIC SECTOR, 1981-1987

(As % of GDP)

	Actual		Est.	Programmed	
	1981	1984	1985	1986	1987
Current Expenditures	26.3	30.1	29.8	27.0	28.5
of which: Social Security	(7.9)	(9.5)	(8.3)	(9.2)	(10.0)
Social Expenditures	(6.6)	(8.6)	(8.4)	(8.0)	(8.0)
Current Revenues	31.8	30.7	33.1	31.4	33.3
Public Savings	5.5	0.6	3.3	4.4	4.8
Capital Expenditures	5.1	6.7	7.1	7.9	7.0
Capital Revenues	0.4	1.3	0.9	1.2	1.2
Surplus (Deficit)	0.8	-4.8	-2.9	-2.3	-1.0

Private Sector Resource Mobilization

21. If Chile is to increase corporate savings, it must first contain, and finally end, subsidies to private banks and firms. There are no easy solutions to the problems facing Chile's corporate and banking sectors. Until 1985, the Central Bank dealt with the joint crises of Chile's private firms and banks through general across-the-board debt rescheduling programs, a preferential exchange rate, and swap operations (which involve subsidized interest payments to those with past debts denominated in dollars). These rescue operations brought massive losses to the Central Bank from transfers and commitments to continue some transfers in the future. Since the losses from the financial crisis--the bad loans of the banking system based on foreign borrowings that will have to be repaid--now amount to at least US$3.5 billion, their distribution will have major macroeconomic repercussions in the future.

22. A successful program must have as its priorities both the encouragement to restructure and/or place in bankruptcy remaining insolvent firms (the banks' debtors) and the provision of measures to force private banks to regain a viable financial structure and interested ownership. A bank recapitalization program established by the Government in May 1985 should be followed in 1986 by measures to address directly the burden sharing of domestic bank losses. During 1985, the Government started a program to recapitalize the two largest intervened banks: Banco de Chile and Banco de Santiago. Although this program provided a slow solution for ownership concerns, it failed to address the operational problems that led most of the country's private banks to near bankruptcy: the doubtful value of many assets and excessive operational costs. The Authorities' 1985 commitment to end the provision of new general credit lines to refinance old debts partially addresses these concerns as it will imply the bankruptcy of many corporate debtors and cleansing of bank portfolios during 1986. This action, must be followed during 1986-1987 by mergers or liquidations of insolvent small- and medium-sized private banks through the sale of assets provided as guarantees and the obligation to commercial banks to create adequate provisions against potential losses. Of equal priority is the need to accelerate workouts in nonfinancial corporations. The institutionalization of these workouts would force the reduction not only of domestic debt, but also of the external debt of Chile's corporate sector. These steps would ease the current credit paralysis for new investments by cleaning the banks' portfolio, increasing corporate savings, and encouraging a market-oriented solution to the debt problems faced by many productive firms. 3/

23. Action must also be taken to resolve the legal paralysis affecting the reorganization of Chile's two largest corporate groups: Vial and Cruzat-Larrain. The Groups already are intervened. Such intervention should be ended through a speedy auctioning of the Groups' productive firms. The holding companies must be forced to take the corresponding losses and liberate those productive firms whose functioning is currently impaired by the huge debts of their holding companies. Foreign direct investment should be encouraged as a means to inject fresh capital and recover the creditworthiness of many of these firms.

3/ This is being addressed on a pilot basis by the Industrial Finance Restructuring Project (Ln. 2606-CH).

Employment

24. Studies, under the auspices of the Bank's Public Sector Management Technical Assistance Loan, will assess employment policies and programs. Specific cost-effectiveness reforms and a plan of action to reduce the size of the Government's emergency work programs (PEM and POJH) must be prepared by the Ministry of Labor and Social Welfare. A detailed study of the labor force composition to determine the work force characteristics and the effectiveness of possible interventions to enhance employment generation must follow up. The solution to Chile's unemployment, however, ultimately rests on the economy's capacity to generate stable growth and export-supported jobs.

IV. SOURCES OF FINANCING

25. Chile's recovery program will have to be financed primarily through improved investment efficiency and increased savings. This requires a dramatic increase in Chile's gross national savings, from 15 percent of GDP in 1985 to 22 percent in 1990. Public sector savings--after interest payments--would increase gradually from about 3.2 percent of GDP in 1985 to 5.5 percent by 1990, an effort which replicates the 1970's effort. Household savings could reach 5 percent of GDP by 1990 as the new private social security system complements the traditional banking role in attracting savings. The rest of the savings effort must come from the corporate sector, an effort that would need strong support from external savings in 1987 as the corporate sector would only generate sufficient profits once it overcomes its present financial disarray. This corporate savings target is feasible only if the current financial subsidy programs are ended and operationally profitable firms increase production and reinvest their profits in the highly profitable export-oriented sector after a consolidation lapse of two years during 1986-1987.

Table 5: CHILE - SAVINGS REQUIREMENTS, 1985-1990

(As Percent of GDP)

	1985	1986	1987	1990
Financing				
Foreign Savings	8.3	8.2	7.6	4.2
National Savings	17.0	17.7	18.0	22.1
of which				
Public Sector (after int.)	3.2	4.4	4.8	5.5
Private Sector	14.1	13.3	13.3	16.6

26. The modest economic recovery of the base scenario would require relatively high foreign levels of borrowing. The country would need net borrowings of about US$1.3 billion in 1987 and near US$1 billion annually in the 1988-1990 period. New reschedulings with commercial banks will also be necessary. It was estimated that Chile may obtain from official organizations (IBRD included) and suppliers between US$400-500 million per year net disbursements and that short-term credit could increase $120 million during 1987, thereafter increasing by US$140 million (3.4 percent of imports) per year. This assumes that the commercial banks could be persuaded to increase their short-term exposure by these amounts. The residual--about US$200 million yearly after 1987--is expected (indeed, must) to come from medium-term commercial bank credits to the public sector.

Table 6: CHILE - PROJECTED CAPITAL FLOWS, 1985-1990 a/

(Millions of US$)

	1985	1986	1987	1988	1989	1990
Gross Requirements	1,885	1,894	2,055	4,441	3,925	3,617
Financing:	1,885	1,894	2,055	4,441	3,925	3,617
IBRD	201	367	377	369	319	257
IDB b/	250	330	350	338	315	203
Other Official Organizations	161	165	141	147	120	205
Suppliers	310	320	320	320	320	320
Short-Term Credits	141	94	126	175	189	193
Foreign Investment	75	150	150	150	150	200
Commercial Banks c/	747	468	591	2,942	2,512	2,239
(of which net increase)	(714)	(371)	(497)	(110)	(100)	(95)

a/ Projections based on the 1985-86 restructuring package.
b/ Our estimations. Subject to final revision.
c/ It includes reduction on interest payments previously agreed, the World Bank Cofinancing Facility and new money.

27. Chile's medium- and long-term external debt would increase by an additional 18 percent between 1984 and 1987, to US$20 billion, and a further 16 percent between 1987 and 1990 to US$23 billion. The increase in net exposure of commercial banks would be sharp in 1987, but will then slow to about US$100 million per year, an optimistic but feasible scenario. M&LT debt as a percentage of GDP would decrease from 86 percent in 1985 (after the renegotiations) to 65 percent in 1990. Moreover, interest payments on Chile's external debt would decrease as a percentage of exports of goods and nonfactor services from 43 percent in 1985 to 37 percent in 1987 and 27 percent in 1990.

28. The policies that sustain the projections of the base case scenario follow the understandings reached between the Bank and the Chilean Authorities during the review of the 1985-1987 Government adjustment program. The actions proposed aim at continuing the major macroeconomic policies enforced during 1985, increasing and diversifying exports as rapidly as possible, and resolving the overriding savings/financial restrictions to reach the targeted 3.5 percent rate of GDP growth while steadily improving Chile's creditworthiness in the 1985-1990 period.

V. HIGHER GROWTH SCENARIO

29. It would be unwise to project higher export earnings than in the base case scenario. The volume growth now projected for noncopper exports in that scenario is certainly feasible given appropriate policies, but must be considered nevertheless somewhat ambitious (see Annex 3). It would be equally unwise to project any significant improvement in Chile's terms of trade during this period beyond that implied in the Bank's commodity price projections--higher GDP growth rates would, therefore, have to depend on the availability of larger external capital inflows than assumed in the base case. However, because of Chile's external debt levels, any substantial increase over that already assumed would lead to a deterioration of the country's creditworthiness, a result that goes against its own long-term interests. Thus, the only realistic way to finance a higher growth rate would be a reduction in Chile's interest burden.

30. As part of the final agreement reached in 1985 between Chile and its external creditors, the external debt of the corporate sector (about US$3 billion) remained without public guarantee. The guarantee extended by the Government on the external debt of the financial sector was subject to a fee. After 1987, however, foreign commercial banks must decide whether to retain this public guarantee, or decline it. Our high case scenario assumes that foreign exchange relief comes from a combination of a US$1.0 billion write down of the corporate external debt, and an increase in the guarantor's fee of 2 percentage points after 1987. These measures would provide the country with an additional US$1 to 1.1 billion financing for the 1986-1990 period. Chile's GDP could grow an additional 1.5 percent after 1987, making a major difference in the 1990 employment, consumption and creditworthiness levels as this extra financing would allow a dramatic change in the country's external debt ratios.

What happens if it rises?

Table 7: CHILE - HIGHER GROWTH SCENARIO

	Base Case		High Case	
	1987	1990	1987	1990
GDP Growth	3.4	4.0	3.4	5.5
Per Capita Consumption Growth	1.4	2.3	1.4	3.8
Interest Payments/GNFS Ratio	36.0	27.0	36.0	20.0
DS Ratio	41.0	52.0	38.0	42.0

VI. CONTINGENCY PLANNING

31. In 1985, the net lending provided by the commercial banks (thanks in large part to World Bank and IMF participation), the rapid increase in official lending, and the Government's excellent economic management, improved the country's short-term prospects and creditworthiness. However,

even in our base case scenario, continuous improvement of Chile's creditworthiness requires consistently superb economic management, World Bank lending of about US$400 million annually, complete rescheduling of amortization payments with its commercial creditors, and a strong increase in net exposure from international commercial banks in 1987.

32. When contractual interest payments form as large a fraction of export earnings as they do in Chile, there is inevitably a high risk of debt service difficulties. For this reason, Chile--and its creditors--need to do some planning for the possibility, indeed the probability, that the external environment may turn out differently than assumed in the scenario adopted here. The first line of defense in the event of an export shortfall (e.g. resulting from lower copper prices than projected) should be the country's reserves. This implies that reserves should be built up in periods when the external environment is better than expected. A policy of this sort has been adopted in the form of the copper stabilization fund, but the concept should be expanded to call for a reserve build up under other exceptionally favorable circumstances, e.g. lower interest rates, a reduction in debt burden resulting from write-offs of non-guaranteed debt, etc. This implies, for example, that if the assumptions on interest burden used in the high case scenario were to materialize, that it would be prudent for Chile to use part of that gain to increase reserves (or reduce debt) rather than use it all to increase growth.

33. Aside from reserves, there are the IMF's facilities--including compensatory finance and new credit. In Chile's case, the country is already near the limit of its net credit; new purchases would be available only to the extent that repurchases are made. The latter are, however, included in the projections used here; the former are not. Beyond this, the scope for action in the event of unfavorable external developments is limited to: (i) a reduction of imports, which would almost certainly mean reduced growth and consumption; (ii) additional capital inflows from the commercial banks or official sources; or (iii) delays in/or default on contractual interest payments. Since the latter would hurt Chile's creditworthiness, some combination of (i) and (ii) would probably be preferable. It would therefore seem important that Chile and its creditors consider, in advance, the scope for such actions and try to reach some agreement in principle on the measures each would adopt in order to avoid default on interest payments.

34. A sensitivity test was performed assuming that copper prices remained constant in real terms for the 1986-1987 period. Under this assumption, Chile's volume export performance would be affected by the terms of trade,reducing export earnings substantially and increasing the current account deficit by over US$200 million in 1987. Chilean imports would then have to drop an equal amount, a feat that would cause the country a GDP drop of between 1.0 and 1.5 percent. In this event, Chile would face a difficult choice, either to bring the country into a zero-growth path for

the 1987-1990 period, or reduce its interest payments in an amount equal to the projected base-case interest payments minus the required financing; an option that still would permit the country grow at an annual average of 3.5 percent and service its external obligations with official sources, but only partially with commercial banks. Thus, if Chile were unable to obtain new funds to match the export-earning shortfall, it might be forced to take a path of action similar to the one taken by some other countries in Latin America.

Table 7: CHILE: RISK SCENARIO: LOSS OF EXPORT EARNINGS

	Base Case		Low Export Earnings	
	1987	1990	1987	1990
Exports of GNFS	5,580	8,475	5,371	7,730
Imports of GNFS	5,169	7,439	5,169	7,439
Resource Balance	411	1,036	202	291
Net FSY	-1,978	-2,202	-1,978	-2,202
Current Account Balance	-1,466	-1,016	-1,776	-1,911
GDP Growth	3.4	4.0	-1.5	1.0

VI. WORLD BANK ROLE

35. The Bank has already played a major role in both the definition of the Government's medium-term economic program and its 1985/86 financing. It has done this in close collaboration with the IMF. Indeed, our $250 million Structural Adjustment Loan and a $150 guarantee of a $300 million B-Loan were decisive factors in the US$1.95 billion financial package put together to finance Chile's 1985/86 needs. The Bank also participated in presentations made by the Steering Committee of Chile's commercial creditors in Europe, Japan and North America aimed at gaining financial support for the 1985-1987 external debt program, and increased its FY85 commitments in projects alone by US$287 million.

36. The adjustment program mentioned earlier would imply an even larger role for the Bank, both in terms of lending and monitoring activities. IBRD lending in the base case was assumed to reach US$2.0 billion in the 1986-1990 years. Half of the loans would be policy-based operations that would extend the current SAL targets and would incorporate policy actions for the financial and corporate sectors. Our lending during 1986-1988 would include three new SALs addressing the major structural changes to be made in the banking, corporate and public sector to increase domestic savings. Two related industrial loans would complement measures to solve the corporate sector's financial disarray. Sector loans would improve export incentives in the forestry, agriculture and energy sectors. Thus, the Bank's initial 1985/86 financial support would be followed by lending to rehabilitate and improve the battered domestic banking and corporate sectors and to strengthen the trade regime currently in operation.

37. Notwithstanding our enhanced lending, by end-1986, the Government will have to make financial arrangements, at a global level, to ensure that in addition to orderly rescheduling of amortization payments, minimum growth and service of interest payments can be met in 1987 and 1988. The Bank, therefore, may have to play anew a major role in arranging a commercial package to support the country's financial requirements. Such a task would also imply a strong monitoring role of the Government's policy compliance, and a continuation of our present cross-reference provisions and dialogue with commercial banks during the 1986-1988 period.

38. To fulfill the enhanced role envisaged, the Bank will have to strengthen its capacity to monitor economic management and significantly expand its knowledge of key sectors of the economy. CESW would, therefore, concentrate on supporting our lending operations linking them to policy objectives, and in establishing clear performance indicators in the major policy actions needed in the trade regime, public finances and sanitizing of the financial system. Our CESW, therefore, emphasizes work to evaluate the public investment program, provide a detailed analysis of sectors with export potential, and improve our understanding of the financial disarray of the banking and corporate sectors.

39. During preparation of the EFF and the SAL, there was extremely close cooperation between the Fund and Bank staff to ensure consistency between stabilization and structural adjustment measures. The Bank's November SAL supervisory mission overlapped with the Fund mission which negotiated the 1986 EFF targets. Throughout, the Bank and Fund have been in agreement, both on matters of general approach and on many specific measures. Bank and Fund staff also worked together in supporting the Government's presentation to commercial banks for Chile's 1985-86 external debt negotiations. We will continue this close cooperation, especially during the supervision of the public budget and export action programs.

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CHILE: STRUCTURAL ADJUSTMENT PROGRAM - ISSUES AND SCOPE

Structural Issues	Measures Taken by Government	Measures to be Taken	Monitorable Policy Actions and Timing	Related IBRD Project Lending and IMF EFF
Export Promotion				
Need to diversify exports and to encourage development of efficient import substitution. Need to accelerate noncopper exports. Need to improve government support for nontraditional exporters.	Real devaluation of 70 percent between June 1982 and March 1985. Tariff reduction, from 35 percent to 20 percent, since February 1985. Appointment of Private/Public Forestry Commission. New legislation gives far greater flexibility to PROCHILE, export promotion agency. Regulations and procedures revised to permit more rapid return of VAT to exporters. Direct drawback of import tariff payments permitted to exporters. Elimination of stamp tax. Reduction of banks' reserve requirements in credits for exporters.	Exchange rate to be maintained at attractive level for nonmineral exporters. Development of public/private forestry program. PROCHILE to promote specific, selected exports. 20% expansion of CODELCO production capacity during 1986-90. Cereal and sugar support prices dropped with general tariff level; sugar price policy to be studied.	Approval of Copper Stabilization Fund by January 1, 1986. Development of joint Public/Private Forestry Program by March 1986. Review of noncopper export performance and incentives, based on agreed, prior target; November 1985 and March 1986. Review of progress of sugar study and cereal price band action; some reflection of Caribbean sugar prices passes on to beet farmers.	Maintenance of real exchange rate through 1985 (EFF). Tariff reductions (EFF). Support for small exporters (TAL). Coal project (IFC). Signal company expansion (IFC). Agricultural Services and Credit Project - Sugar Study.
Public Finances				
Need to increase public savings. Need to improve coherence and consistency of public sector management and investment. Need for governmental incentives to private savings.	Preparation and publication of 1985-87 development program. Deferral of some low-return transport projects. Reduction of public budget expenditures. Income tax reform to reward reinvestment of corporate profits. Social security reform to enhance family savings.	Coordination of public enterprise investment plans and government's macroeconomic policies. Implementation of studies to improve public sector management. Increase in public savings from reduction of some costly and inequitable public social programs and tax reforms to increase public revenues.	Review of 1985 public investments and 1986 projects (November 1985). Satisfactory progress on studies to improve public management (March 1986). Budgeted public sector savings of about 4.5 percent of GDP in 1986.	Public Sector Management Loan. Expenditure composition agreed in Highway Sector Loan. Public deficit targets (EFF).

Structural Issues	Measures Taken by Government	Measures to be Taken	Monitorable Policy Actions and Timing	Related IBRD Project Lending and IMF EFF
Financial Rehabilitation				
Need to improve corporate profitability through financial workouts and stronger savings incentives. Need to recapitalize prostrated financial system. Need to end indiscriminate subsidies to borrowers.	End to Central Bank-financed indiscriminate subsidies to borrowers. Passage of bank recapitalization law. Tougher bank supervision and accounting.	New banking law, including deposit insurance. New corporate legislation to improve transparency of controlling stockholders and reduce cross participation between firms. Program of corporate "workouts" for firms in financial distress.	No further Central Bank-financed general studies initiated for borrowers after July 1, 1985. Phasing our of preferential exchange rate subsidy for foreign debts beginning July 1, 1985. Satisfactory progress on bank recapitalization program.	Industrial Finance Restructuring Loan. EEF condition to reduce dual interest payments to dollar depositors and phase out preferential exchange rate.
High Unemployment				
Need to generate maximum productive employment with macroeconomic constraints. Need to improve productivity of public emergency employment programs.	Ending of wage indexation, real devaluation and reduced tariffs, promote generation of labor intensive production in tradeables. Phase down of inefficient PEM; initiation of nine new pilot emergency employment programs.	Labor market study to analyze policy interventions. Independent evaluation of emergency employment programs with the objective of improving their cost effectiveness.	Satisfactory progress on studies of labor market and emergency employment programs.	Highway Sector Loan. Public Sector Housing Loan.

CHILE - STRUCTURAL ECONOMIC PROGRAM - SUGGESTED MEASURES 1986-1990

Area	Objective	Measures to be Taken	Suggested Timing 1986	1987	1988	1989	1990	Monitoring Action World Bank	IMF
Trade Policy									
	- Stimulate private investment in export activities.	- Maintenance of 1985 real exchange rate level.	X	X	X	X	X	- Copper stabilization fund (1986-90).	- EFF Program 1986-87.
		- Reduction of import tariffs.			X			- Reduction in import tariff rate (1988).	
Export Policy									
	- Promote new exports.	- Strengthen Prochile	X	X	X	X	X	- Real increase of copper exports at 6% per year (1986-90).	
		- Organize small producers	X	X	X	X	X	- Implementation of measures strengthening PROCHILE's role (1987-90).	
		- Promote forestry, agriculture, and energy exports.	X	X	X	X	X	- Evaluation of export potential of small producers (1986). Implementation of fiscal or other measures (1987-90).	
								- Forestry program (1986). Implementation of public/private investment on sector (1987-90)	
								- Legislation to authorize private investors in oil and energy (1986). Fiscal measures to entice new exploration in oil and gas (1986-87). Energy exploitation program (1987).	
Public Finances									
	- Increase public savings with protection of employment and social programs.	- Public revenue and expenditure measures to reach public savings of 5.5% of GDP.	X	X	X	X	X	- Budget Agreement to reach public savings of 4.4% of GDP (1986), 4.8% (1987); 5.0 (1988) 5.3% (1989); 5.5% (1990)	- Monitoring of overall deficit.
	- Efficient Public Investment Program.	- Public investment program geared to break bottlenecks, generate productive employment, and support private investment in export oriented activities.	X	X	X	X	X	- Annual public investment reviews (1986-90). Implementation of 3-year rolling public investment program (1986-88).	
	- Divestiture of public enterprises.	- Reduction of non-financial public sector.	X	X	X			- Divestiture program for public enterprises (1986). Implementation of recommended divestiture program (1987-88).	
Monetary Policy									
	- Inflation control.	- Reduction of fiscal deficit.	X	X	X	X	X		- EFF targets
		- Limits to public indebtedness.	X	X	X	X	X		- EFF targets

CHILE - STRUCTURAL ECONOMIC PROGRAM - SUGGESTED MEASURES 1986-1990

Area	Objective	Measures to be Taken	Suggested Timing 1986	1987	1988	1989	1990	Monitoring Action World Bank	IMF
Private Sector Resource Mobilization	- Restore soundness of banking system.	- New banking legislation.	X					- New banking legislation (1986).	
	- Positive progress in commercial banks portfolio.	- Improvement of banks portfolio.	X	X	X	X	X	- Agreement on monitoring system (1986).	
		- Recapitalization program.	X	X	X	X	X	- Evaluation of progress (1986-90). Implementation of measures to improve portfolio quality and to merge or consolidate weak banks (1987-90).	
	- Resolve credit restoration for new private investment.	- End to preferential exchange rate and swap programs.	X					- Compliance of agreements.	
		- No new general Central Bank debt rescheduling.	X	X	X	X	X		
	- Stimulate new private sector investment.	- Corporate tax reform.	X	X	X			- Implementation of 1984 tax reform.	
		- Long-term capital market.	X	X	X			- Legislation authorizing investment from private pension funds (1986). - Measures to strengthen Santiago's capital market (1987-88).	
		- Corporate debt work-outs.	X	X	X	X	X	- Generalization of World Bank's industrial finance restructuring loans.	
	- Increase household domestic savings.	- Market-oriented interest rate.	X	X	X	X	X		- EFF program to eliminate market distribution.
		- Strengthening of private pension funds.	X	X	X	X	X	- Agreement on legislation regulations AFT's investments (1987). Agreement on measures to promote higher personal pension investments (1988).	
Employment	- Improve efficiency of emergency employment programs.	- Evaluate and implement measures to increase cost-efficiency and income-distribution.	X	X	X	X	X	- Study evaluating EEP's (1986). Implementation of measures (1987-90).	

ANNEX 3

Chile: Actual and Projected Merchandise Exports (F.O.B.)

	1973	1980	1984	1985	1990
A. Value: Million $					
Minerals					
Copper	1049	2153	1587	1655	3085
Other Minerals	133	619	396	349	560
Subtotal	1182	2772	1983	2004	3645
Agriculture & Fishing					
Fresh Fruit	20	169	290	348	676
Other	5	171	138	151	315
Subtotal	25	340	428	499	991
Manufactures					
Food & Beverage	11	164	144	140	255
Fishmeal	14	234	276	241	459
Wood Products	5	286	116	109	233
Pulp & Paper	30	297	259	225	487
Chemicals and POL Der.	5	163	124	115	458
Base Metals	28	279	244	214	451
All Other	10	136	83	93	329
Subtotal	103	1559	1247	1137	2672
Total Exports	1309	4671	3651	3640	7308
O/W Non-Copper	260	2518	2070	1985	4223
B. Volume Indices 1980=100					
Copper	65	100	116	119	142
Other Minerals	39	100	87	74	95
Agriculture	15	100	143	160	244
Manufactures	14	100	121	137	204
Total	66	100	116	122	165
O/W Non-Copper	20	100	116	125	183
C. Price Indices 1980=100					
Copper	81	100	64	65	102
Other Minerals	55	100	73	76	95
Agriculture	48	100	88	92	119
Manufactures	48	100	66	53	84
Total	69	100	67	64	95
O/W Non-Copper	48	100	71	63	92
Memorandum:					
M.U.V. Index	46	100	95	94	134