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## KEY ECONOMIC INDICATORS: CHILE, DEC. 1, 1968

## Part I (Whole Year)

	1965	1966	1967	Percent Change	
				over 1965	over 1966
GNP at current prices (millions of escudos)	17,547	24,312	31,419	+38.0	+29.2
GNP at constant 1965 prices (millions of escudos)	17,547	19,158	19,376	+5.2	+1.1
Per capita GNP, constant 1965 prices (escudos)	2,015	2,150	2,124	+0.7	-1.2
Gross fixed investment as % of GNP	16.3	15.1	15.2	-7.4	+0.7
Saving as % of GNP	17.2	16.3	14.2	-5.2	-12.9
Private money supply (annual average) (millions of escudos)	1,475.3	2,188.5	2,795.7	+48.3	+27.7
Domestic credit outstanding (annual average) (millions of escudos)	1,761.3	2,279.3	3,271.2	+49.1	+43.5
Interest rate, current bankers, annual average (%)	18.36	19	19	+3.5	--
External debt outstanding (millions of dollars):					
Public	1,000	1,000	2,300	+100	+100
Private	407	418	500	+25	+25
External debt service ratio $\frac{1}{2}$	38.2	32.9	28.1	-33.9	-21.0
Gold and Foreign exchange assets (millions of dollars)	158.1	216.3	171.3	+36.4	-20.3
Balance of payments surplus (+) or deficit (-) (millions of dollars)	95.3	-121.3	-85.2	-100.7	-120.9

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	1965	1966	1967	1967 over 1965	1967 over 1966
Production major mining items:					
Copper (thousands metric tons)	585.3	636.7	660.8	+ 75.5	+ 24.1
Iron Ore (millions metric tons)	12.7	12.2	10.8	- 1.9	- 1.4
Electric Power production (millions KWH)	6,041	6,600	6,793	+ 75.3	+ 19.3
Construction starts (thousand square meters)	3,320	2,116	2,786	+ 46.6	+ 67.0
Unemployment rate (%) 2/	5.45	5.35	6.10	+ 0.65	+ 0.75
Indexes:					
Consumer price annual average (1958 = 100)	514.7	632.4	747.2	+ 22.5	+ 18.1
Wholesale price annual average (1958 = 100)	429.5	527.3	629.2	+ 22.9	+ 19.3
Industrial production (1960 = 100) 2/	150.3	164.2	166.3	+ 9.0	+ 1.3
Index of basic wages April of each year (April 1959 = 100)	422.6	574.5	617.2	+ 35.6	+ 42.7
Foreign Trade					
Total exports, FOB (millions \$)	678.4	866.3	913.1	+ 27.8	+ 5.4
Exports to USA (millions \$)	213.2	219.7	169.0	+ 6.5	- 50.7
Total imports, CIF (millions \$)	620.9	763.2	726.8	+ 24.9	- 36.4
Imports from USA (millions \$)	237.4	297.9	257.9	+ 20.5	- 40.0

	1965	1966	1967	Percent over 1965	Percent over 1966
Imports other main sources					
West Germany (millions \$)	63.6	99.4	91.0 <sup>1/</sup>	+36.3	- 8.5
Argentina (millions \$)	51.2	64.4	77.1 <sup>2/</sup>	+25.8	+29.7
United Kingdom (millions \$)	38.4	41.4	48.7 <sup>3/</sup>	+7.8	+27.6
Exchange Rates - Escudos per US\$					
Bankers Spot Market (buying rate)	3.127	3.955	5.031	+26.5	+27.2
Bankers Futures Market (buying rate)	3.310	4.001	5.031	+20.4	+25.7
Brokers Market (buying rate)	3.739	4.044	5.097	+24.2	+22.7

<sup>1/</sup> Ratio of amortization and interest on public and known private debt to merchandise export earnings.

<sup>2/</sup> For greater Santiago only.

<sup>3/</sup> Sociedad de Fomento Fabril index.

<sup>4/</sup> Data subject to further revision.

Source: Central Bank, CORFO, Ministry of Finance, Dirección de Estadística y Censos, Customs, ENDESA.

## KEY ECONOMIC INDICATORS: CHILE, DEC. 1, 1968

## Part II (Past Year)

		1966	1967	1968	Percent Change	
					over 1966	over 1967
Private money supply (millions of E*)	average, Jan.-Oct.	2,350	2,883	3,827	+22.7	+33.4
Interest rate, current bankers (%)	average, Jan.-Dec.	19	18	19.03	—	+4.9
External debt service ratio	est. year end	32.9	28.1	43.7	-12.6	+44.8
Gold and foreign exchange assets	Oct. 31 each year	161.9	117.2	196.9	+27.6	+68.0
Balance of payments surplus (+) or deficit (-) (millions of \$)	est. year end	121.8	-25.5	+55.0	—	—
Unemployment rate (%)	average, September	5.3	5.8	6.7	+9.4	+15.5
<b>Indexes:</b>						
Consumer price (1958 = 100)	average, October	674.0	754.6	1,010.2	+17.9	+27.1
Wholesale price (1958 = 100)	average, September	549.9	652.0	874.5	+18.7	+34.0
Industrial production (1960 = 100)	average, August	170.0	172.6	175.9	+1.0	+1.9
Basic wages (April 1959 = 100)	average, April	574.5	817.2	984.8	+42.2	+20.5
<b>Foreign Trade:</b>						
Total exports, FOB (millions \$)	annual data	880.7	913.0	—	+3.7	—
Exports to USA, FOB (millions \$)	annual data	219.7	188.4	—	-23.1	—
Total imports, CIF (millions \$)	annual data	783.2	725.0	—	—	—
Imports from USA, CIF (millions \$)	annual data	297.9	257.6	—	—	—
<b>Exchange Rates: Escudos per US\$</b>						
Bankers market (buying rate)	as of end of Oct.	4.24	5.55	7.38	+30.9	+33.0
Bankers futures market (buying rate)	as of end of Oct.	4.25	5.55	7.38	+30.6	+33.0
Brokers market (buying rate)	as of end of Oct.	4.26	6.31	8.42	+29.8	+33.4

Sources: Central Bank, CORFO, Ministry of Finance, Statistical Office, Customs, ENDESA, SOFOFA.

KYI ECONOMIC INDICATORS

PART III

GROWTH - SECTORS OF ECONOMY - CHANGE IN GROSS DOMESTIC PRODUCT BY SECTORS

	Percent Change			Composition of GDP by sectors in 1967 (Percent)
	1965 1964	1966 1965	1967 1966	
1. Agriculture	- 2.4	+ 8.1	+ 3.6	10.2
2. Mining	+ 0.1	+ 8.9	- 0.6	9.6
3. Industry	+ 6.4	+ 8.6	+ 2.5	25.9
4. Construction	+ 1.5	- 4.0	- 6.6	4.6
5. Electricity, gas, water, sanitation	+ 8.2	+ 6.2	+10.7	1.7
6. Transportation and communication	+13.9	+ 2.7	- 0.1	4.3
7. Commerce - wholesale and retail	+ 6.4	+ 9.2	+ 3.5	21.6
8. Finance - banking and insurance	+14.8	+14.6	+24.5	3.0
9. Housing	+ 2.9	+ 3.4	+ 0.3	3.4
10. Public administration and defense	+ 5.3	+ 5.3	+ 2.2	5.0
11. Services	+ 7.8	+ 4.7	- 2.4	10.4
TOTAL = Gross Domestic Product	+ 5.0	+ 7.0	+ 2.0	100.0 *

\* Parts do not sum due to rounding.  
 Source: ODEPLAN.

SUMMARY

1. The lower rate of economic growth for 1967 is now confirmed. While indicators for 1968 do not suggest rapid recovery, there are indications that the 1967 slump is nearly over.
2. But, lack of normal winter moisture has produced serious drought conditions. Agricultural production is sagging and shortfalls exist for some foodstuffs. Imports of foodstuffs and fuels will undoubtedly increase in 1969. Consumption of electric power is now rationed.
3. The rate of inflation moved up in 1968 from an annual rate of 22 percent (for 1967) to an annual rate of 27 percent (to end of October 1968).
4. The price of copper continued throughout 1968 at relatively high levels. Chile's international reserve position also improved during the course of 1968. Imports have been running somewhat ahead of 1967 levels.



#### A. CURRENT ECONOMIC SITUATION AND TRENDS

1. Growth: Two Years High (1965-1966) and One Year Low (1967). Chile's national accounts data for 1967 have just been made available. They confirm even lower growth in 1967 than partial and incomplete data suggested (see Current Economic Situation and Trends June 1, 1968). Gross Domestic Product grew by 3.9 percent in 1967 as compared with 5.0 percent in 1965 and 7.0 percent in 1966 (all data are deflated and adjusted for changes in Chile's terms of trade with the rest of the world). In 1967 output of the basic goods-producing sectors of the economy increased 1.6 percent. National accounts data indicate growth in output of 3.9 percent for agriculture, 2.5 percent for industry, and 7.5 percent for public utilities and decreases of 0.6 percent for mining and 6.6 percent for construction. In comparison with past years, sectors with poor performance were industry, mining, and construction. Performance of agriculture was notably better than in past years. The poor performance of industrial production arises from a number of factors: (1) using up of installed capacity in some industries, (2) insufficient demand for industries supplying construction materials, (3) labor conflicts in particular sectors of industry and mining.

2. Growth: Impetus for some Improvement in 1968. Industrial production through August of 1968 was running about 1.9 percent ahead of August 1967. Minerals production in 1968 is running ahead of 1967, notably in iron ore, petroleum, and coal; output of the large copper mines will be about the same as 1967. In agriculture, production for the 1968-1969 crop year is being adversely affected by the drought. The 1967-1968 crop year was good due mainly to increased area under cultivation. Construction activity in 1968 is ahead of 1967 but the major impact on employment and supply industries has not yet been felt.

3. Specter of the Drought. Moisture conditions are much below normal in 1968. Substantial losses have already occurred. The major effects to date are (1) a decrease in agricultural output, (2) reduced generation of electrical energy, (3) higher public expenditures. The government has formed a National Drought Commission to coordinate measures to alleviate the situation. Of course, little can be done to overcome absence of water for irrigation and the supply of certain types of agricultural products, e.g., fruit, vegetables, and corn. Fortunately the spring has been cooler and more moist than usual. Nevertheless, this does not overcome the major effects:

(1) loss of income for thousands of small farmers and part-time (summer) workers in agriculture, and the resulting lessened demand for goods (consumer and industrial);

(2) the increased imports of agricultural products and the drain on foreign exchange to make up supplies of products lost to the drought.

4. Government Policies: Achievements and Shortfalls. Chile's Finance Minister, Andres Zaldivar, in his Budget Message to Congress on October 29, noted the achievements and shortfalls of the Frei government. Among the achievements are educational reform, agrarian reform, and a more equal distribution of income. In the last four years the government has created places for 500,000 students through the construction of 2,300 schools--1,300 of which are in rural areas. For rural areas, new labor legislation has doubled the number of labor unions and permitted the organization of more than 80,000 rural workers. In addition, the agrarian reform law has given access to ownership of farm property to thousands of farm families. According to Zaldivar, the major obstacles to fulfillment of the government's program have been the "redistributive race, the lack of saving, and the growth of public expenditure." <sup>1/</sup> In the first budget message of the Frei administration (November 1964) the five basic objectives of government were to defeat inflation, to break out of economic stagnation, to improve the distribution of income and wealth, to organize the people, and to perfect national economic sovereignty.

1/ Exposición sobre el Estado de la Hacienda Pública (Octubre de 1968) p. 3

5. A Wages Policy - Outcome Unknown. Minister Zaldivar noted that the government has warned repeatedly of the inflationary consequences of wage increases which exceeded the growth in supply of goods and services. He noted the enormous waste of effort made by labor, businessmen and government in negotiating new wages contracts. The Minister included funds for the public sector wage readjustment in the regular budget law for 1969. The average wage readjustment, i.e. increase for the public sector, is 28.5 percent. It is not known at this time whether there will be legislation controlling the amount of the wage increases for the private sector.

6. Labor 1968: A Year of Strikes and Unemployment. The rash of strikes in the first half of 1968 was influenced by the long debate in Congress over wage increases. Some

strikes were of such duration that wage losses occasioned by the strikes may have eliminated the gains through increased wages. The number of man-days lost because of strikes in 1968 already exceeds 4 million as compared with slightly under 2 million for all of 1967. Unemployment rates moved up in 1967 and have inched higher in 1968. The average rate of unemployment in Santiago for the third quarter of 1968 was 6.7 percent of the labor force as compared with 5.8 percent for the same period of 1967 and 5.3 percent for the same period of 1966. The highest rates of unemployment are among workers in the construction industry. Santiago's labor force grew by 3.35 percent from the third quarter of 1967 to the third quarter of 1968 as compared with rates of 4.35 percent in 1966 and 4.69 percent in 1967 (for the same periods). Thus the growth in employment opportunities appears to have declined in 1968. With the certainty of a poor harvest caused by the drought, the rate of unemployment in rural areas can be expected to increase through the next few months.

7. Inflation. The pace of upward price movements stepped up in 1968. By October the Consumer Price Index (CPI) was up 27 percent over twelve months earlier and the wholesale price index was up 34 percent. These rates are higher than the rates of 1967. December-to-December increases of the CPI for the years 1962-1967 were 27.7 percent for 1962, 45.4 percent for 1963, 38.4 percent for 1964, 25.9 percent for 1965, 17.0 percent for 1966, and 21.9 percent for 1967. At present, the 1966 rate appears to be the low point attained during the stabilization program of the Frei government. The major question for next year is whether the annual rate of price increases will rove past the 30 percent mark to higher levels. Historical evidence suggests that Chileans become more disturbed at higher-than-normal rates of inflation when inflation per se becomes a political issue. The present economic situation poses a dilemma for policy makers. Considering the economic slump of 1967-1968, it is difficult to frame monetary and fiscal policies which yield simultaneously a satisfactory pace of economic growth, higher level of employment, and lower rates of inflation.

8. Agriculture - Decreased Production for 1958-1969 Crop Year Certain. While it is not possible to forecast the extent of the damage being wrought by the drought, broad outlines are available. Production of corn and rice - major water-using crops - will probably be down by 50 percent and 40 percent respectively. Losses in livestock are estimated at 400 to 500 thousand head of sheep and 300 to 400 thousand head of cattle - mostly baby lambs and calves. Potatoes, onions, lettuce and certain other

Vegetables are in short supply. The government has imposed temporary prohibitions on sales of potatoes in order to stretch supplies. The effects of the drought are not uniform throughout Chile; forage and pasture in the near south of Chile are good. Present indications are that fruit production this year will be less than last year, but of better quality. Moreover, the outlook for wheat harvest for 1969 compares favorably with the 1968 harvest.

Construction Activity - Outlook Favorable. There are favorable signs for the second half of 1968 and 1969 in construction activity. Registrations of planned construction in the first half of 1968 were up from the same period in 1967: a 31 percent increase for housing construction and 25 percent increase for all construction activity. An upsurge in construction activity will boost demand for industrial products--wood products, non-metallic minerals, and primary metals--which has been slack since 1966.

10. Business Outlook - Some Slack. Retailers complained that tight credit and delayed payment of salary readjustments were the cause of slow sales of clothing, footwear, appliances, household wares and most building materials. On the other hand, sales of staple foods, steel, automobiles, and heavy construction materials and equipment have risen. Pre-Christmas sales are off to a poor start, with end-of-year bonuses apparently scheduled at a level disappointing by comparison with late 1967.

11. Export Sector - Copper Continues Strong. Copper exports have constituted about 75 percent of Chile's merchandise export earnings. The average sale price of copper on the London Metal Market from January through October this year was between 53 and 54 cents per pound. Actual production of copper in Chile through the first seven months of 1968 was 321 thousand metric tons, which was almost identical with production for the same period last year. Thus, in spite of high levels of imports and substantial debt service, Chile's foreign exchange position in 1968 has improved. Net international reserves increased by \$64.3 million in the first ten months of 1968.

12. Foreign Trade - Data Uncertain. Official foreign trade data have not been wholly satisfactory since conversion to the Brussels nomenclature which occurred at the beginning of 1967. Highly preliminary Customs import statistics for 1967 reported a decline in commodity imports to \$725.6 million (\$257.9 million from the U.S.) from \$759.6 million (\$299.9 million from the U.S.) in 1966. Preliminary Central

Bank data on import licensing for January-November 1968, citing copper industry and capital equipment imports, reported a decline of 7 percent in imports over the comparable period of 1967, with licenses for imports from the U.S. dropping only one percent. On the other hand, capital equipment imports are sharply down, in part, to the copper expansion program, and total import licenses in 1968 are running slightly ahead of 1967. According to official data, exports have held up well, rising from 2880.8 million (\$219.7 million to the U.S.) in 1966 to 3911.1 million (\$168.4 million to the U.S.) in 1967. Central Bank export data for January-September 1968 (totaling 3631.8 million) suggests an annual rate of \$222.4 million.

13. Changes in Import Regulations. During the latter half of 1968 the Central Bank continued to make a few minor changes in the composition of Chile's permitted import list and in the prior deposit rates. Central Bank Circulars 1052 (August 30) and 1062 (September 11) put into effect a Positive list, limiting AID imports to items on the list and providing a series of incentives for the use of AID funds, including the waiving under AID of prior deposits on both capital and non-capital goods. Circular 1059 (September 12) authorized the use for the payment of import taxes and duties of prior deposits which had formerly been frozen for at least 90 days.

Because of a substantial increase in foreign exchange availabilities, the Central Bank authorized by Circular 1109 (November 28) a reduction from 60 to 30 days after shipment for the required waiting period for the remittance of foreign exchange in payment for authorized imports. At the same time the Bank reduced the waiting period for the maturing of foreign exchange futures contracts from 82 to 78 days. These contracts reportedly cover at present close to 70 percent of all normal import operations. Circular 1101 (November 22) announced the use as of January 1, 1969, of new sets of import license documents. In an apparent effort to direct imports into normal financing channels and to eliminate short term capital imports as a source of financing for commodity imports, the Bank issued Circular 1105 (December 4) forbidding the use of the authorized capital entry (aporte de capital) on less than a one year basis. Reportedly such capital entries will hereafter be subject to an automatic ten percent tax if they are remitted abroad within a twelve month period.

### ① POLICY ISSUES FOR THE UNITED STATES

1. The Drought - The Forms of Hardship. The drought is a serious problem for 1969. The decrease in agricultural production and electric power gives rise to decreased production of foodstuffs, decreased employment and income (mainly in agriculture), increased prices (mainly foodstuffs

and increased imports (mainly foodstuffs and fuels). Some of the supply deficiencies can be overcome through imports. Assistance from the United States for P. 480 assistance has been requested by Chile and is under consideration.

2. Inflation - How much Higher? While the rate of inflation in 1967 is difficult to predict, in the next few months the propellant will be increased wages. Judging from past history, wage bargains are likely to be struck around the full amount of the December 1967 to December 1968 increase in the Consumer Price Index. Therefore, average wage increases in 1969 are likely to exceed those of 1968. The important question is, of course, by how much? Given the slow performance of the economy of 1967 and 1968 and less employment of labor and plant, possibly the correct answer may be not much more. Increased costs cannot now be passed forward as easily as in the past. Employers can strike harder bargains with labor. Moreover, Chile's twice-a-month devaluations rule out need for or likelihood of a major step devaluation which could push the rate of inflation to much higher levels.

3. The March 1969 Election. Chile will renew the membership of its legislative branch in March 1969. All seats in the lower house (Chamber of Deputies) and 30 out of 50 seats in the upper house (Senate) will be renewed.

The contest is among five major parties-- Christian Democrats, Nationalists, Socialists, Communists, and Radicals.