

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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The International Bank for Reconstruction and Development announced that the Board of Executive Directors approved today two loans to Chile totaling \$16 million.

The first is a loan of \$13.5 million for hydro-electric development in Chile to Corporacion de Fomento de la Produccion (Fomento), an instrumentality of the Chilean Government created to promote Chilean economic development, and Empresa Nacional de Electricidad, S.A. (Endesa), a subsidiary of the Fomento organization. The second is a loan of \$2.5 million to the Fomento organization for the purchase of agricultural machinery.

Both loans are to be guaranteed by the Government of Chile.

The loans are the first which the Bank has approved in the development field and are in accord with one of the main objectives of the Bank's policies--namely, to assist in the development of territories of members by facilitating the investment of capital for productive purposes, including the encouragement of development of productive facilities and resources in less developed countries.

The \$13.5 million loan to Fomento and Endesa is for a term of twenty years; amortization payments will begin in the sixth year and are calculated to retire the loan by maturity. This loan carries an interest rate of 3 1/2%. The \$2.5 million loan to Fomento is for a term of six and one-half years; amortization payments will begin in the third year and are calculated to retire the loan by maturity. This loan carries an interest rate of 2 3/4%. In accordance with its Articles of Agreement, the Bank will also charge a commission of 1% annually

on both loans to be set aside in the Bank's special reserve fund.

The purpose of the \$13.5 million loan is to provide foreign exchange for the purchase and importation into Chile of equipment and supplies which are required for the development of electrical power and water facilities and resources in Chile.

The purpose of the \$2.5 million loan is to provide foreign exchange for the purchase of agricultural machinery in order to increase the productivity of Chilean agriculture.

In accordance with Bank policy, the loan agreements provide that the Bank shall be furnished with full information showing that the funds to be disbursed will be used for the purposes specified in the agreements, and that representatives of the Bank shall have full opportunity to check the end use to which all purchases are put.

The two loan contracts were signed on March 25, 1948 by R.L. Garner, Vice President, on behalf of the International Bank for Reconstruction and Development; and by Roberto Vergara, New York representative of the Corporacion de Fomento de la Produccion on behalf of the borrowers.

Supplemental Statement on the Chilean Loans

Need for a Changed Economic Structure

The Chilean economy has in the past been heavily dependent upon exports of copper and nitrate for its well-being. During the world depression of the 1930's, Chile was affected more drastically than most other nations. At that time, copper and nitrate were about 80% of total exports and their foreign markets were very considerably narrowed down, with a consequent fall in prices. Copper exports fell from \$197 million in 1929 to \$28.9 million in 1932; nitrate exports decreased from \$199.1 million in 1929 to \$12 million in 1932. Total exports of Chile diminished in 1932 to 11% of their 1929 values. Although the recovery of foreign trade after the crisis was satisfactory, the levels attained could not meet the demands of a growing population, and the inherent instability of Chile's economic structure had not been corrected.

This combination of circumstances led Chile to foster domestic agricultural and industrial production in order to reduce dependence upon exports of minerals. A comprehensive economic recovery movement was undertaken with the aid of foreign exchange and trade controls, tariff protection and direct encouragement to small industries. By 1939, considerable progress had been achieved. In that year, however, Chile was shaken by an earthquake which destroyed several cities and occasioned great material damage and loss of life over an extensive region in the central and southern part of the country, where most of the population and agricultural and industrial activities were concentrated. The consequent disruption of economic life had serious repercussions on the internal and external financial situation, and the Government was obliged to adopt far-reaching remedial measures. One of the steps taken was to establish a development organization (Corporacion de Fomento de la Produccion) with the

purpose of furthering industrialization and modernization, decreasing the need for imports and diversifying exports, in order to raise the standard of living and reduce Chile's dependence on world markets.

Wartime Developments and Postwar Trends

After a period of preparatory work during which financial assistance was given to established industries and a wide variety of small enterprises was promoted, Fomento undertook the first steps of a larger industrialization program providing, among other things, for the construction of hydroelectric power plants, cement plants, a steel mill, petroleum exploration and development, steps toward the mechanization of agriculture, a copper manufacturing plant, and improvements in municipal transportation. Initial foreign financing was provided by the Export-Import Bank of Washington and credit from private U.S. suppliers. Fomento in turn helped finance local construction costs and expansion in textiles and other enterprises.

All this development was facilitated by the recovery of foreign trade under the wartime stimulus, which greatly improved Chile's foreign exchange position. But, on the other hand, shortages of industrial equipment and even of raw materials slowed down the program. The net result is that between 1940 and 1945, on the basis of available data, Chile was able to make only small progress in improving the average standard of living of its population.

Since the end of the war there has been some improvement as supplies of equipment have been more plentiful and some of the projects undertaken during the war have come into operation. Both agricultural and industrial production have been increased significantly. Mining output has been maintained at high levels and export prices have been favorable.

Chile's foreign trade during the war underwent substantial changes. Before the war, the U.S. took about 16% of Chile's exports, European countries took over 50%, and the rest was distributed among Latin America and other areas. In 1944, a typical wartime year, over 70% of the exports were taken by the U.S. In the first postwar year, 1946, the U.S. share of Chilean exports had fallen to

39%. On the import side, the U. S. supplied 28% of Chile's imports in 1938, while Europe supplied nearly 50%. During the war and at present the European countries' share in Chile's imports has been less than 20% and that of the U. S. has been over 40%, while an increasing proportion of imports has been provided by Latin American countries, especially Peru and Argentina.

Due to the wartime backlog of imports, Chile's foreign exchange resources declined in 1946 and 1947, and the Government undertook a readjustment in its import control policy in order to conserve its foreign exchange. This, and the increases in domestic production mentioned before and certain developments in copper and nitrate production should enable Chile to continue having, as up to now, a favorable trade balance, although not as large as during the war.

During the war the total money supply (currency and sight deposits) increased about $2\frac{1}{2}$ times -- partly as a result of the wartime foreign trade surplus, but also as a consequence of budget deficits financed through borrowings from the banks. These deficits persisted through 1946 at an increasing rate. In 1947, however, a change in monetary and financial policy brought about the adoption of measures whereby the budget was almost balanced by the end of the year. The 1948 budget which, among other things, consolidates and improves the sources of revenue and the lines of expenditure, is expected to be covered by taxes. The money supply has remained practically stable during the last six months and prices have increased to a very small extent. All these are increasing indications that an adequate policy is being pursued and that stable economic conditions will be achieved. Such conditions might strengthen the foreign exchange position and Chile has expressed the hope that private capital be directed towards investment in industrial and agricultural development.

As regards Chile's existing foreign indebtedness, in the depression of the 1930's, Chile, along with many other countries was unable to continue

service payments on its outstanding foreign bonds. Over a period of years, various unilateral steps were taken, looking to a restoration of its former international credit standing. For the past several months, Chile has been conducting negotiations with foreign bondholders groups in the U. S., Great Britain, and Switzerland. These negotiations culminated in the public announcement on March 24, 1948, by the Chilean government of the basis of an offer of a new debt readjustment plan. The Foreign Bondholders Protective Council, Inc. of the United States have stated that this plan, when approved by the Chilean congress, will be recommended to bondholders. It is understood that similar arrangements have been made with the Council of Foreign Bondholders of Great Britain and the Association Suisse des Banquiers.

Projects Financed by the International Bank

As its first step in assisting Chile's development program, the International Bank will finance two projects submitted by the Corporacion de Fomento, namely, an electric power project and an agricultural machinery project. Their importance is brought out by the fact that these projects are essential elements in the further development of industry and agriculture and the improvement of the domestic markets.

The greater part of the hydroelectric development to be financed is in the central part of Chile. The supply of power today is insufficient to cover present and prospective needs. Total installed capacity in 1946 was about 450,000 Kilowatts, of which 1/3 was water-generated. Production in that year was 986,000,000 Kilowatt-hours. Chile possesses potential hydroelectric resources estimated at 6,000,000 KW, a large proportion of which it will eventually be profitable to develop in view of the high cost and relative insufficiency of coal and liquid fuels,

The program undertaken by Fomento through its subsidiary Endesa has already added 128,000 KW to the installed capacity in the last five years. By

1955 close to 200,000 KW more are expected to be added. Of these, the loan from the International Bank will finance about 81,200 KW--namely, a 54,000 KW plant to serve the major area of population, industry and agriculture in and around Santiago; a 16,000 KW plant to serve the north central part of Chile; a 10,800 KW unit in the south central part of the country; and a smaller unit in the north. All this development is connected with mechanical irrigation projects, and the secondary distribution of electricity.

Under the agricultural machinery program to be financed by the International Bank, the main achievements will be a decrease in cost of production resulting from the replacement of oxen by tractors, an increase in the surface under cultivation through the opening-up of new areas at present covered by forests and the turning of pasture land into crop land, and a saving in the time required for harvesting in certain areas.

Fomento will import necessary agricultural machinery--such as threshers, harvesters, trucks, tractors, seeding machines, land-clearing and irrigation equipment--and distribute it through two of its branches, the Service of Mechanized Agricultural Equipment and the Agricultural Machinery Section. The latter puts at the disposal of owners of large properties a system of cash installment sales of appropriate equipment. Small holders are able to rent equipment from the first of the above-mentioned branch organizations. Both organizations pay special attention to the improvement of technique and to the necessary education which enable full advantage to be taken of modern equipment.