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Washington, D.C.

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McNamara Papers

ECOSOC M  
1972 (Oct

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ECOSOC Meeting / Chile - Meetings 02

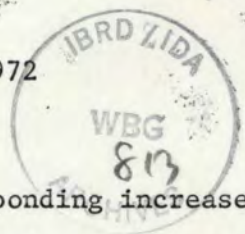
Folder 2 of 3

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WBG Archives



813/5/15

October 13, 1972



and 25-30% in 1972

Substantial increases in wages (53% in 1971) without corresponding increases in tax rates or tax revenue has led to an enormous increase in private consumption with little change in savings. The increase in food consumption has been met almost entirely from imports (imports of consumer goods will have increased from \$173 million to \$442 million from 1970 to 1972; capital goods imports have declined) while growth of agricultural production has slowed down

(stationary 65-70, grew 6% in 71, 1.2% in 72)

The government expected to meet inflationary pressures from increased consumption by utilizing excess industrial capacity, but in fact industrial production growth has slowed down as well (13% in 1971, 9% in 1972). Copper production has remained stagnant and fallen far below the targets set by the government.

Increasing budgetary deficits have accelerated (overall deficits \$° 3.0 B in 1970, \$° 12.8 B in 1971, and projected at about \$° 17.5 B in 1972)

and deficits on current accounts have occurred in 1971 (\$° 3.0 B \$246 m) and will occur in 1972 (about \$° 3.8 B \$241 m). Investment has been largely financed through credit expansion (113% in 1970, 125% in 1971), adding to inflationary pressures.

has stagnated (15% of GDP in 1970 and 14% of GDP in 71) and

The cost of living is increasing at an accelerating pace (\$21% in 1971, 96% from December 1971 to September 1972) and devaluation came too late (29% in December 1971, 50% in August 1972) to avert a critical balance of payments situation (deficit was \$305 million in 1971 and is expected to be about \$370 million in 1972, with foreign exchange reserves of \$38 million in June 1972 as opposed to \$100 million agreed as a condition in the Paris debt rescheduling agreement).

Economic growth is stagnating (5.6% in 1972 as compared/ 8.5% in 1971 and

~~2.7% in 1970, 5.5% in 69, 5.5% in 68, 1.2% in 67,~~

INTERNATIONAL BANK FOR  
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INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

OFFICE OF THE PRESIDENT

Jadr

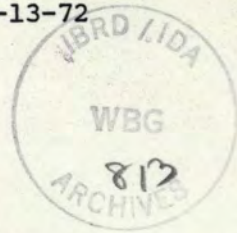
This is a possible main  
line of argument. Can  
you make it sound good?  
I will have the missing figures  
soon.

Jadus



813/5/14

DRAFT: RMcN/JLM  
10-13-72



Reply to Chilean Criticism of the Bank

The statement of the Chilean representative is the fourth such attack on the Bank within the past three weeks: on September 28 at the Annual Meeting of the World Bank Group in Washington; on September 29 before the Second Committee of the General Assembly here at the UN; on October 4 in the Plenary Session of the General Assembly; and now here today in this Council. Although the charges are false, I have been reluctant to reply to them because to do so could conceivably offend a people who need the world's understanding. However, the continuing repetition of falsehoods now requires a response.

It is the height of irresponsibility for a government -- by a calculated campaign of untruths -- to attempt to weaken an institution which committed \$3.1 billion to more than 60 developing countries in FY72, an institution which has loaned Chile more than \$234 million in the past, and which has repeatedly stated its desire to resume lending for the future.

(1) The Chilean representative stated the Bank is a tool of the private interests of one of the great powers and withholds loans from developing countries when requested to do so by that power. The facts demonstrate precisely the opposite. On three occasions in the recent past (in connection with loans to Bolivia, Guyana and Iraq) the Board of Directors of the Bank, upon my recommendation, approved projects over the objection of one or more of the great powers.



(2) The Chilean representative stated the Bank is not lending to Chile because the U.S. Government directed that there be no loans to Chile following the nationalization of the property of certain U.S. nationals. This is not the case and the representative knows it. For a quarter of a century, the Bank has followed a reasonable and consistent policy relating to the nationalization of property -- a policy which has been determined by all its member governments, and which is founded on accepted principles of international law. Whether or not Chile has acted in accordance with such a policy has not been determined. That question has not yet arisen because the primary condition for Bank lending -- a soundly managed economy with a clear potential for utilizing additional external funds efficiently -- has not been met. The Chilean economy is in a state of disorder. Inflation has severely eroded past gains. Prices rose by 33% from January to July of this year -- the largest seven-month increase recorded since 1955. In the month of August alone, the cost of living increased by 22%, and by an additional 20% in September. In 1971, net international reserves fell by over \$300 million -- compared with surpluses of \$9 million in 1970, and \$214 million in 1969. The reserve loss has continued in 1972, and the government itself now projects its balance of payments deficit at \$370 million for this year. Appropriate tax measures have not been instituted, domestic output -- agricultural as well as industrial -- has fallen far below targets, and the wage-price ratio is now so unstable as to require readjustments every four months. In this situation it is clear that internal measures to reestablish reasonable economic stability are required -- and no amount of external financial assistance can substitute for them. As matters stand -- in the absence of such fundamental economic stability -- it is simply impossible to imagine



how Bank funds could be productively used for the benefit of the Chilean people, and with the reasonable probability of repayment which the Bank's Articles of Agreement require.

(3) The Chilean representative neglected to state what he and his government know: Immediately following the election of President Allende I sent personal messages to the President indicating the desire of the Bank to continue to support Chile's development program. These messages were conveyed by Mr. Galo Plaza and Mr. Felipe Herrera. Further, at the time of the CIAP review of the Chilean development program in February 1971 -- three months after the new Administration took office -- Mr. Vuscovic, then Minister of Economy, was again informed by the Bank of its willingness to assist in Chile's development efforts.



813/5/16



10-13-72

Sir:

Here is your original dictated material, and my suggested amendments penciled in so that you can see the actual proposed changes. In addition I enclose a clean copy, incorporating the same suggestions. William has a copy of each.

Jack



October 11, 1972

Reply to Chilean Criticism of the Bank

The statement of the Chilean ~~Ambassador~~ <sup>representative</sup> is the ~~third~~ <sup>fourth</sup> such attack on the Bank within the past three weeks: ~~(list dates and places of attacks)~~ <sup>on September 28 at the Annual Meeting of the World Bank Group in Washington; on September 24 before the Second Committee of the U.S. House of Representatives; and on October 4 in the General Assembly of the United Nations.</sup> Although the charges are false, I have been reluctant to reply to them because to do so ~~could conceivably offend~~ <sup>might only hurt</sup> a people who need the world's ~~help~~ <sup>understanding</sup>. However, the ~~continued~~ <sup>continuing</sup> repetition of falsehoods ~~demand~~ <sup>now requires</sup> a response.

It is the height of irresponsibility for a government, ~~by~~ <sup>and</sup> a calculated campaign of untruths, ~~to~~ <sup>more than</sup> attempt to weaken an institution which committed \$3.1 billion to ~~60~~ <sup>more than 60</sup> developing countries in FY72, an institution which has loaned ~~Chile \$X~~ <sup>more than \$234 million</sup> in the past, and which has repeatedly stated its desire to resume lending for the future.

(1) The ~~Ambassador~~ <sup>Chilean representative</sup> stated the Bank ~~was~~ <sup>is</sup> a tool of the private interests of one of the great powers and withholds loans from developing countries when requested to do so by that power. The facts ~~show~~ <sup>demonstrate precisely</sup> the opposite. On three occasions in the recent past (in connection with loans to Bolivia, Guyana and Iraq) the Board of Directors of the Bank, upon my recommendation, approved projects over the objection of one or more of the great powers.

(2) The ~~Ambassador~~ <sup>Chilean representative</sup> stated the Bank ~~was~~ <sup>is</sup> not lending to Chile because the U.S. Government directed that there be no loans to Chile following the nationalization of the property of certain U.S. nationals. ~~Such~~ <sup>This</sup> is not the case and the ~~Ambassador~~ <sup>representative</sup> knows it. For a quarter of a century, the Bank has followed a ~~policy~~ <sup>reasonable and consistent</sup> relating to ~~the~~ <sup>nationalization</sup> of property, ~~which~~ <sup>-- a policy</sup> has been determined by ~~its~~ <sup>all</sup> member governments, and which is founded on accepted principles of international law. Whether or not Chile has acted in



accordance with such a policy has not been determined. <sup>That</sup> The question has not yet arisen because the primary condition for Bank lending/ a soundly managed economy with a potential for utilizing <sup>clear</sup> ~~efficiently~~ additional external funds <sup>efficiently --</sup> has not been met.

The Chilean economy is in such a state of disorder (refer to the high rate of inflation, the loss of reserves, etc., etc.) that it is impossible to conceive of how Bank funds could be utilized productively to the benefit of the Chilean people and with a reasonable probability of repayment.

Suggest  
Insert (A)  
(overleaf)  
for this  
passage

(3) The ~~Ambassador~~ <sup>Chilean representative</sup> neglected to state what he and his government know: Immediately following the election of President Allende I sent personal messages to the President indicating the desire of the Bank to continue to support Chile's development program. These messages were conveyed by Mr. Galo Plaza and Mr. Felipe Herrera. Further, at the time of the CIAP review of the Chilean development program in February 1971, three months after the new Administration took office <sup>informed</sup> ~~Mr.~~ Mr. Vuscovic, then Minister of Economy, was again ~~told~~ by the Bank of its willingness to assist in Chile's development efforts.



INSERT (A)

The Chilean economy is in a state of disorder. Inflation has severely eroded past gains. Prices rose by 33% from January to July of this year -- the largest seven-month increase recorded since 1955. In August alone, the cost of living increased by 22%, and by an additional 20% in September. In 1971, net international reserves fell by over \$300 million -- compared with surpluses of \$9 million in 1970, and \$214 million in 1969. The reserve loss has continued in 1972, and the government itself now projects its balance of payments deficit at \$370 million for this year. Appropriate tax measures have not been instituted, domestic output -- agriculture as well as industrial -- has fallen far below targets, and the price-wage ratio is now so unstable as to require readjustments every four months. In this situation it is clear that internal measures to reestablish reasonable economic stability are required -- and no amount of external financial assistance can substitute for them. As matters stand -- in the absence of such fundamental economic stability -- it is simply impossible to imagine how Bank funds could be productively used for the benefit of the Chilean people, and with the reasonable probability of repayment which the Bank's Article of Agreement require.

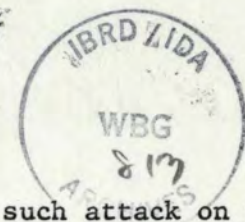
[continue with II (3), overleaf]



813/5/13

October 11, 1972

Reply to Chilean Criticism of the Bank



The statement of the Chilean Ambassador is the third such attack on the Bank within the past three weeks: (list dates and places of attacks). Although the charges are false, I have been reluctant to reply to them because to do so may only hurt a people who need the world's help. However, the continued repetition of falsehoods demands a response.

It is the height of irresponsibility for a government, by a calculated campaign of untruths, to attempt to weaken an institution which committed \$3.1 billion to 60+ developing countries in FY72, an institution which has loaned Chile \$X in the past, and which has repeatedly stated its desire to resume lending for the future:

(1) The Ambassador stated the Bank was a tool of the private interests of one of the great powers and withholds loans from developing countries when requested to do so by that power. The facts show the opposite. On three occasions in the recent past (in connection with loans to Bolivia, Guyana and Iraq) the Board of Directors of the Bank, upon my recommendation, approved projects over the objection of one or more of the great powers.

(2) The Ambassador stated the Bank was not lending to Chile because the U.S. Government directed that there be no loans to Chile following the nationalization of the property of certain U.S. nationals. Such is not the case and the Ambassador knows it. For a quarter of a century, the Bank has followed a policy relating to nationalization of property which has been determined by its member governments and which is founded on accepted principles of international law. Whether or not Chile has acted in



accordance with such a policy has not been determined. The question has not yet arisen because the primary condition for Bank lending: a soundly managed economy with a potential for utilizing efficiently additional external funds has not been met. The Chilean economy is in such a state of disorder (refer to the high rate of inflation, the loss of reserves, etc., etc.) that it is impossible to conceive of how Bank funds could be utilized productively to the benefit of the Chilean people and with a reasonable probability of repayment.

(3) The Ambassador neglected to state what he and his government know: Immediately following the election of President Allende I sent personal messages to the President indicating the desire of the Bank to continue to support Chile's development program. These messages were conveyed by Mr. Galo Plaza and Mr. Felipe Herrera. Further, at the time of the CIAP review of the Chilean development program in February 1971, three months after the new Administration took office, Mr. Vuscovic, then Minister of Economy, was again told by the Bank of its willingness to assist in Chile's development efforts.



813/5/110



Statement on Expropriation

The objective of the World Bank Group is to help the development of its poorer members, largely by loans which must be repaid in the course of time (Bank loans are repaid over a period of about 20 years, I.D.A. loans, or credits, are repaid over a period of 50 years and without interest). These repayments are then used again in the lending process for development.

The Bank/I.D.A. have therefore a direct interest in the capacity and willingness of countries to repay their debts to the Bank and to other creditors - in their so called "credit-worthiness." In considering whether to make a loan to a country whose credit is in doubt because of a failure to repay some foreign debt, or failure to compensate the foreign owners for their property which has been expropriated, the Bank/I.D.A. must be satisfied that the member government is making a serious effort to reach a fair settlement and that there are good prospects that the matter will be cleared up satisfactorily.

The Bank's policy of insisting on reasonable prospects for a settlement of such issues before making a loan was stated as early as its Annual Report for the year 1949-1950 in respect of defaults on external debts:

"The mere existence of a default will not deter the Bank from granting a loan if the Bank insists that there are no reasonable grounds for regarding the debtor's attitude as unsatisfactory. On the other hand the Bank does consider it important that the countries concerned should give evidence of their willingness to reach a fair and equitable settlement of their debts."

When satisfactory progress towards the resolution of a debt or expropriation dispute is not being made, the Bank makes its own determination with respect to lending and its other activities in the country involved -- seeking always to make a response suitable to the character and the seriousness of the issues involved and to act in the interests of the development of that country and its position as a responsible participant in the world economy.

There have been a number of occasions on which this policy has been invoked during the past twenty years. In many instances the Bank has found that circumstances were such as to justify lending to proceed contemporaneously with efforts to settle a debt or expropriation dispute.



## OFFICE MEMORANDUM

Ecosol  
10712 To Mr. Maddux

8/13/5/11

TO: John Maddux

DATE: October 10, 1972

FROM: C. S. Swaminathan

SUBJECT: The Bergston Comparison

According to the data which has been compiled for the 1972 World Bank Atlas, the GNP per capita figures for 1970, for the USA and for India will be as follows:

	GNP per capita (\$)	Rate of Growth (%)
USA	4760	3.2
INDIA	110	1.2

per capita

This means that the US adds \$152.32/in a year. For India's per capita to add \$152, at the current rate of increase, it will take 73 years.

The figure for the US (above) is a revision from the one shown in the August 9, 1972, memorandum of Mr. Hayes (copy attached). Even if we use the original figure, namely per capita GNP of \$4850 and ~~the~~ rate of increase of 3.3%, the period will be just 75 years.

Therefore, we could at best make the statement that "the GNP per capita in the US rises more in a single year than it will in India in 75 years."

\* \* \* \* \*

In the passage "In constant prices, it is projected to grow to at least \$3000 billion by 1980" -- the word "constant" is correct.

CSS:dcc





9/28 TO Mr. Maddux

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

OFFICE OF THE PRESIDENT

"US GDP per capita rises  
more in 1 year than GDP  
per capita in India in  
✓ centuries" by Bengtson  
reference for speech

↓  
for file & use in  
speech  
L. M.



... per Bergston (of the White House,  
Peg and Muriel say), Fred Bergston.

(Princeton)

/dcc



813/5/9

ANNEX I

ECOSOC MEMBERSHIP, 1972



President Ambassador Szarka (Hungary). He handled ECOSOC's summer session quite well, although he was occasionally criticized for letting things get slightly out of hand. He is a genial person and is generally well liked. He follows the USSR line. At the summer session his delegation attacked the Bank on the "decolonization" issue.

Vice President Ambassador Frazao (Brazil). Well known at the UN and one of the more active leaders of the LDCs. His speeches are usually thoroughly prepared and listened to. He is very intelligent and a very able parliamentarian. Two years ago he made a couple of speeches criticizing the Bank (population and environment). He is also chairman of ECOSOC's Economic Committee.

Vice President Ambassador Scott (New Zealand). He is able and very sensible. Chairman of the Council's Coordination Committee which he handled very ably during the summer session. He is very well disposed to the Bank.

Vice President Ambassador Lim (Malaysia). Miss Lim is a relatively new member of the Council. Chairman of the Social Committee. She intervenes in the debates quite often, mostly to emphasize the social aspects of development. She is well disposed to the Bank.

Bolivia Ambassador Guevara Arze. Rarely intervenes in the Council's debates.

Burundi Ambassador Terence. Not an active delegate.

Chile Ambassador Santa Cruz. A very strong delegate with a great deal of experience at the UN. He is one of the principal leaders of the Group of 77. Seldom misses an opportunity to speak and does it effectively. He takes very nationalistic lines. As you know, the day after the Governor for Chile made his speech attacking the Bank at the Annual Meeting, Ambassador Santa Cruz made a similar statement at the General Assembly's Second Committee. He added that he proposed to go more deeply into this question on October 18. There is a possibility that Ambassador Santa Cruz will not attend the meeting. In his absence, it is likely that Ambassador Diaz Casamueva will attend. A few days he made a statement at the Plenary of the General Assembly along the same lines as Ambassador Santa Cruz' statement in the Second Committee.



China

Ambassador Huang. He is the head of the delegation but we don't know who will attend the meeting. The Chinese delegates at ECOSOC have not spoken much. Their interventions have been brief and general. During the summer session they gave the impression that they were not ready to go into the substance of the issues being discussed. They compete with the USSR to be known as the champions of the LDCs. The Chinese delegates have not raised the question of the representation of China in the Bank in public gatherings at the UN. As you know, however, they have discussed the matter with the UN Secretariat and, on other occasions, have criticized the Bank for not having expelled the Taiwan representatives.

Finland

Mr. Jaakko Iloniemi. Not a very active delegate.

France

Mr. Michel Rouge, Minister Counsellor of the Permanent Mission in New York. He was appointed to his present position last summer. He is considered a very able delegate. Has not yet had an opportunity to participate often in the debates but when he has done so he has done it well. If he follows his predecessor's line he will show a guarded enthusiasm about the Bank. He may call for additional Bank assistance to Africa. He may also refer to the role of the Bank in price stabilization schemes, including support for the relevant UNCTAD III resolution.

Ghana

Ambassador Boaten. At the summer session, the Ghanaian delegation proposed a resolution strongly condemning the Bank (and the Fund) on the question of "decolonization." It was not successful, however, and subsequently, after being approached by Bank representatives the delegation did not intervene at the Committee of 24 on that same issue.

Greece

Ambassador Caranicas. With the Greek Embassy in Washington. He has just been reappointed Alternate Director in the Fund, a position he has held for many years. Ambassador Caranicas has been at the UN for a long time. He usually takes a conservative line. He knows the Bank well and is reasonably well disposed to us.

Haiti

Ambassador Coradin. Seldom intervenes in debates.

Italy

Alberto Cavaglieri, Minister Plenipotentiary. Not very active.



Japan                    Ambassador Ogiso.    The Japanese delegation is well disposed to the Bank.

Kenya                    Ambassador Odero-Jowi.    A very impressive man with experience at the UN and highly respected by everyone. He is one of the outstanding African delegates.

Lebanon                  Ambassador Ghorra.    Not active.

Madagascar            Ambassador Rabetafika.    Seldom intervenes in debates.

Niger                    Mr. Joseph Amina.    Not active.

Peru                    Ambassador Perez de Cuellar.    Not active.

Poland                  Ambassador Kulaga.    Not very active.    Usually follows the USSR line.

Sri Lanka                Ambassador Amerasinghe.    Has been Ceylon's representative to the UN for a long time.    He knows the Bank well and is friendly to us.

Tunisia                  Ambassador Driss.    Has been at the UN for some time. Was President of ECOSOC last year.    He is well respected and carries weight with other delegations.    Seems to be well disposed towards the Bank.

USSR                    Minister Makeev.    A very strong delegate.    His interventions are usually tough and aggressive.    You will recall that last year in the discussion of your report he was critical of the Bank's activities in the population field.    He follows the usual Soviet line linking the Bank and the Fund with western capitalism, neo-colonialism, etc.

United Kingdom        Mr. D.J. McCarthy.    A very effective delegate.    An excellent speaker.    Well liked all around.    Well disposed to the Bank.

U.S.A.                  Ambassador Zagorin.    You know him.    Was an Alternate Director in the Bank.    Not an outstanding speaker but gets his points across.    He is very helpful to us when necessary.    Defended the Bank on September 29 against the attack by Ambassador Santa Cruz of Chile (see Chile, above).

Zaire                    (We don't know who will attend.)    This delegation seldom intervenes in the debates.



The members of the ECONOMIC COMMITTEE are the members of ECOSOC listed above plus the following:

<u>Argentina</u>	<u>Eduardo Bradley</u> . Very able delegate. Although he has criticized the Bank in the past on the population question (his Government's line) he is personally well disposed to us.
<u>Austria</u>	<u>Mr. Gregor Woschnagg</u> . Not active.
<u>Barbados</u>	<u>Ambassador Waldron Ramsey</u> . Not active.
<u>Botswana</u>	<u>Ambassador Mogami</u> . Not active.
<u>Bulgaria</u>	<u>Mr. Stefan Todorov</u> . He usually intervenes in the debates. The Bulgarian delegation has for some years been the principal advocate of positive action by the UN and the specialized agencies to implement the Assembly's resolutions on "decolonization." Mr. Todorov has been critical of the Bank on this issue.
<u>Cameroon</u>	<u>Mr. Paul Bamela Engo</u> . Not active.
<u>Canada</u>	<u>Mr. Bruce Rankin</u> . Mr. Rankin is the Chairman of the Assembly's Second Committee (Economic). He is a pragmatist, no-nonsense type of individual. He is often critical of the UN bureaucratic ways. He follows his Government's "development" line which he combines with a touch of conservatism. He is well disposed to the Bank.
<u>Congo</u>	(We don't know who will attend.) Not active.
<u>Denmark</u>	<u>Mr. William Thune Andersen</u> . This delegation usually supports the LDCs.
<u>Egypt</u>	<u>Mr. Mokhless M. Gobba</u> . Not active.
<u>India</u>	<u>Ambassador Sen</u> . Ambassador Sen is a well known figure at the UN. Chairman of the Committee for Program and Coordination. He is a distinguished, sophisticated man. He speaks very well. He is well disposed to the Bank. He helped us last year on the decolonization issue after one of his staff criticized the Bank.
<u>Indonesia</u>	(We don't know who will attend.) Not active.



813/1518

ANNEX II

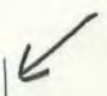
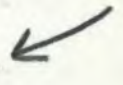
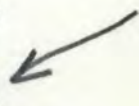
Question 1. What action has the Bank taken to implement the General Assembly resolutions on decolonization?

[The General Assembly resolutions deal, principally, with the discontinuance of collaboration with and the withholding of financial, economic, technical and other assistance to Southern Rhodesia, Portugal and South Africa; assistance to refugees; and assistance to national liberation movements. The Bank's position on all these matters has been explained in various communications I have sent to the Secretary-General and by the Bank's representatives on several occasions at meetings of this Council, the Committee for Program and Coordination, the Committee of 24 and the Fourth Committee of the General Assembly.]



*check by you  
disburse  
report to  
submit*

I will, therefore, simply reiterate here that South Africa, by virtue of its strong economic position, is not eligible for Bank financing and that we have made no loans <sup>any those countries</sup> to that country since 1966. [Also, we have made no loans to Portugal since that year, and we maintain no relations with the present regime in Southern Rhodesia.] I discussed this <sup>subject</sup> in some detail with a delegation of the Organization of African Unity, headed by the President of Mauritania, which visited me in September last year. As I understood it, the delegation was satisfied that the Bank's record [of operations] was entirely consistent with the position taken by the OAU.



With respect to refugees, I should note that the Bank and IDA can only make loans or credits to governments, or to legal entities within the territories of a member country, with that government's guarantee. Direct assistance to refugees can only be provided, therefore, as part of our development assistance to a country if the government where the project is located is ready to lend its support. We have not received requests for such assistance.



However, developmental projects financed by the Bank or IDA which have benefits widely distributed within a country <sup>do</sup> ~~might well~~ benefit refugees.

[Also, if a government asked the Bank to finance a project which would benefit refugees, we would consider it on its merits and the fact that it would assist refugees would certainly be taken into consideration. It should be clear from what I have just said that the Bank's ability to be of assistance in these cases depends in large measure on the initiative of the governments concerned that may wish to choose projects for Bank financing that will assist refugees.]

We recognize the leading role of the High Commissioner in matters relating to refugees and have had contacts with his office to explore the possibilities of cooperation between our institutions. Arrangements have been made so that the High Commissioner's office benefits from the Group's knowledge of the areas where refugees are being settled. We are providing to them country economic reports on those countries that host refugees, and where there is a possibility of cooperation on specific projects, the Bank will be ready to make its appraisal reports on Bank and IDA projects available to the High Commissioner.\*

---

\*(For your information, we have talked a few times with representatives of the High Commissioner to explore possibilities of cooperation but have not been very successful. In the fall of last year, at the High Commissioner's request, we agreed to assist in the establishment of a vocational school in Tanzania that would be of particular benefit to refugees. The High Commissioner is organizing an inter-agency mission to the Lower Zaire to assess the needs of that region which have become a matter of urgency because substantial numbers of refugees from Angola are being settled there. We have instructed the Bank's representative in Kinshasa to be in close contact with that mission.)



[As to liberation movements, the institutions in the Bank Group are required by their charters to provide financial assistance for purposes of economic development. The activities of liberation movements fall outside the field of responsibilities of our institutions.

I might add that the resolutions on decolonization have been systematically transmitted to the Bank's Executive Directors together with an account of the discussions leading to those resolutions in the General Assembly, in this Council and in other intergovernmental organs of the United Nations.]



Question 2. Why has the Bank taken no action to implement the General Assembly resolution on China?<sup>\*</sup>

① This is a question to be decided by the Bank's member governments, and ~~it is for those governments to determine when they wish to consider the matter.~~

② <sup>I can tell you that</sup> Promptly after the General Assembly adopted the resolution concerning the representation of China, I brought that resolution to the attention of <sup>governments,</sup> the ~~Executive Directors~~ and on October 26, 1971 I so advised the Secretary-General, adding that I would keep him informed of any actions which the Bank might take ~~on the matter.~~

As of today no Executive Director has asked that there be a discussion on the matter of the representation of China by the Executive Directors and, therefore, no discussion has been held.

③ I should add that <sup>of the Bank</sup> at the Annual Meeting of the Board of Governors, held a <sup>one of the Finance Ministers, representing the</sup> few weeks ago in Washington, no Governor raised the issue of Chinese representation. <sup>141 nations which are members of the Bank raised the issue of Chinese representation.</sup>

\* This same issue may come up in different forms including, e.g., a statement by the Peoples' Republic of China that the Bank was somehow in default because China was 'unlawfully' represented in the Bank Group of institutions. If such a contingency were to arise, the aforesaid statement would still be applicable. In other words, it is for the member governments of the Bank to act by adopting the necessary resolution. A summary of the relevant resolutions passed by all the other organizations within the United Nations system is attached herewith.



Question 3. What is the impact of the monetary situation on the Bank's operations? What is the Bank's position vis-a-vis the link?

The Bank is concerned about the impact of the currency realignments on the export earnings of its developing member countries, and we have a special concern for the impact on their debt, debt service, reserves and import capacities. As far as export earnings are concerned, it is too early to draw any significant conclusions. For many of the important exports of the developing countries, particularly petroleum and coffee, factors other than exchange rates seem to have exerted a dominant influence on price trends.

So far as external debt is concerned, our statistics were revised as soon as the schedule of new rates was established. Briefly, these show that the nominal value of total external debt in terms of U.S. dollars has not changed as sharply as might have been expected - an increase of only 3.6% for the developing countries as a whole. This, of course, is because almost half the total debt outstanding at the end of 1970 was repayable in U.S. dollars, a currency which was devalued, while only about 15% was repayable in currencies which appreciated relative to the dollar. The figures for the increase in dollar value of outstanding debt by region are as follows:

Africa	-	5.0%
Asia and Pacific	-	4.6%
Southern Europe	-	4.2%
Middle East	-	2.8%
Western Hemisphere	-	1.7%

These differences reflect the relatively greater proportion of dollar debt from the Western Hemisphere and vice versa in Africa, Asia and Southern Europe.



At the recent meeting of the Boards of Governors of the Bank and the Fund, it was clear that almost without exception the developing member countries regard a system of stable exchange rates between the major world currencies as an essential element in the restructured international monetary system. They consider that instability on the part of the major currencies adversely affects their trade, their prospects for development assistance, and the flow of private investment to their countries.

With respect to the link between SDRs and development finance, as I said at Santiago, the substantial increases which are necessary in the flow of official development assistance would be easier to achieve if some form of link were created between future issues of special drawing rights and development finance. I was glad to note in the recent meeting of our Governors a growing support among the developed countries for some form of link and I feel confident that this matter will be actively and sympathetically pursued in the deliberations now getting under way on the restructuring of the international monetary system.



Question 4. How does the Bank view the problems of the increasing burden of debt of the LDCs as related to its operations?

The debt problem must be seen in conjunction with the deficit in official development assistance. If ODA flows level off at substantially less than the current .7% of GNP target for the Second Development Decade -- and it is now clear that the target will not be reached and indeed as I noted in my address today, for the second half of the decade it is unlikely that ODA will exceed .37% -- mounting debt problems for the developing countries are inevitable. Publicly-guaranteed debt of those countries currently stands at about \$75 billion, and annual debt service is approximately \$7 billion. Debt service payments rose by 18% in 1970 and by 20% in 1971, twice the average rate of increase over the 1960s. This resulted from a gradual hardening of the terms of debt as the proportion of aid on concessionary terms within the total flow of external resources declined. The rate of increase foreshadows serious debt difficulties unless it is accompanied by a rapid increase in export earnings, a larger flow of ODA on much easier average terms, or both. Given this situation, it is clear that the Bank Group must try to expand its operations and to shift an increasing proportion of its commitments to IDA credits.



Question 5. What does the Bank expect to do as a result of the decisions taken at the Stockholm Conference on the Human Environment?

We in the Bank were pleased to see the decision of the Conference to set up an Environmental Secretariat in the UN which will serve, as we see it, as the focal point for action and coordination in the environmental field within the UN system. We are also pleased that an Environmental Coordinating Board was established under the auspices and within the framework of ACC. We will lend our full support to the work of these new bodies.

I have also noted, among the many recommendations adopted in Stockholm, the decision in favor of providing seed capital and technical assistance to help countries with solutions to their human settlement problems. As in the case of the recommendation on increased assistance in family planning and increased research in this same area, the Bank can only express its satisfaction since these decisions are likely to promote action and complement the Bank's own research interests in both these fields, to which we are giving increasing attention in our own operations and planning.

But even more importantly, we were glad that the Stockholm Conference recommended that all development assistance agencies broaden the criteria of development project analysis to incorporate environmental impact considerations. This recommendation again is entirely in line with Bank operational practice whereby projects are reviewed and evaluated to take account, among other things, of their potential effect on the environment.

The Stockholm Conference confirmed the appropriateness of the Bank's own procedures which we intend to continue, in the conviction that our practical concern for environmental issues is no handicap to our basic task of promoting development



Question 6. Why does the Bank, contrary to its normal policies, refuse to lend to Chile because of the nationalization of foreign-owned enterprises?

Before lending to a country, the Bank examines its economy and development performance, and discusses issues arising from this analysis with the government. In the case of Chile, we concluded that the country's economic difficulties, and particularly its balance of payments situation and prospects and its external debt position, made it for the time being inappropriate for the country to incur additional obligations to the Bank. On the other hand, Chile's per capita GNP is above the ceiling for IDA credits. These are the reasons why the World Bank Group has not extended loans to Chile in the past few years.

I would add that the Bank has no position on the desirability or undesirability of expropriation of foreign-owned properties by the developing countries. This is an issue that each country must settle for itself. However, since its inception, the Bank has taken an interest in the creation and maintenance of satisfactory relations between its member countries and their external creditors. Where the Bank is contemplating lending to a member country whose credit is impaired by the existence of a dispute over a default on its foreign debt or over compensation for foreign-owned property that has been expropriated, the Bank must first be satisfied that the government is making serious efforts to reach a fair and equitable settlement and that there are good prospects that the matter will be cleared up satisfactorily.



Question 7. What are the present plans for the Fourth Replenishment of IDA?

The third replenishment was ratified on September 22 last. It is our intention to launch negotiations leading to the fourth replenishment as quickly as possible so as to limit the risk of another period of uncertainty when we would be again without the necessary commitment authority.

Several governors in the recent Annual Meeting - including those for Canada, France, the Federal Republic of Germany, and the U.K. - stressed the importance of opening negotiations for the fourth replenishment promptly. I was much encouraged by those statements.

Accordingly, I proposed to the Governors that negotiations on this matter should begin in earnest before the end of the year, so that by the middle of 1973 the Executive Directors can consider a formal plan for submission to governments. One of the objectives in these negotiations, in our view, should be to increase the level of IDA replenishment above the present figure of \$800 million per annum so as to put the Association in a position better to meet the needs of the developing countries and more particularly of the least developed among them.



Question 8. What action is the Bank taking with regard to the UNCTAD resolution relating to the stabilization of commodity prices?

Since June, the Bank's Economics Program Department has been actively considering the various UNCTAD III resolutions which concern the Bank, in particular in the commodities field, including the resolution on the role of the Bank in connection with the stabilization of commodity prices. A preliminary report is now under review before being submitted to the Executive Directors for their consideration. At this time, it is too early to say specifically what further action the Bank might take in the light of that resolution.

However, I can indicate that the Bank fully intends, with the agreement of the governments concerned, to continue its support of diversification programs and to promote industrial investment where local processing of agricultural products and raw materials is viable. Among the considerations for assessing the economic priority of projects, the Bank will continue to stress such factors as the effect on export earnings and the terms of trade of the country concerned.

Concerning the financing of international agencies whose objective is to stabilize the prices of raw materials, I must point out, as did our delegation in Santiago, that this request raises difficult problems. We will be examining these matters in the coming months to see what type of assistance might be envisaged.

Finally, we have noted the recommendation that the Bank make price stabilization an objective of its loan policies. We are seeking a clarification as to just what is meant by that recommendation, but have so far been unable to obtain it.



Finally, may I say that in all these matters, we need to be reminded that many of the countries directly concerned with these particular problems are among the least developed. For them the availability of developmental financing on concession terms is already severely limited. Additional resources will have to be made available if new requests for financing such as those included in the resolution are to be met.



Question 10. What is the Bank doing in Nutrition?

In keeping with the increased recognition of the implications of malnutrition to national development, the World Bank in August established a small nutrition unit within the Projects Staff. Several kinds of possible Bank activities in the nutrition field are currently being explored in countries whose governments have expressed interest in attacking the malnutrition problem.

Attention is being directed both to the development of specific nutrition projects and to the possibility of adding nutrition components to Bank projects in related sectors, such as food processing, education, and family planning, where opportunities present themselves. An example of the former may be participation in the financing of large-scale production of a low-cost nutritious food for child feeding.

In addition to direct project involvement, it is hoped that by adding a nutrition dimension to the Bank work and taking cognisance of nutritional implications of projects in agriculture and other related fields, it will be possible to bring about a greater awareness of the importance of nutrition.



October 17, 1972

Bank Loans to Portugal, South Africa and Chile

(In millions of US dollars)

Country	Amount of Loans Outstanding <sup>1/</sup> June 30, 1972	Amount Undisbursed June 30, 1972	Projected Disbursement July-Dec. 1972	Debt Service July-Dec. 1972		
				Principal	Interest	Total
Portugal	48.7	--	--	0.7	1.4	2.1
South Africa	1.9	--	--	0.12	0.06	0.18
Chile	153.6	29.1	5.1	3.6	3.2	6.8

<sup>1/</sup> Including undisbursed.

dictated from Washington by Mr. Ljungh



813/5/7

MEMORANDUM FOR MR. McNAMARA

SUBJECT: Expropriation

As you requested, there are attached a statement made by the Chilean Delegate at the UN General Assembly on October 3, 1972, and the speech by the Chilean Governor at the Bank's Annual Meeting, 1972.



It seems that Chile managed to arouse a fair amount of support and acceptance for its two main charges against the Bank:

(1) that the Bank is an instrument of the U.S. interest in Chile, and

(2) that the Bank is inconsistent in its position in relation to your statement at the Annual Meeting regarding income distribution and economic growth.

The first statement is difficult to refute since it would mean stating openly that Chile is on the brink of bankruptcy. The second point is a case of misrepresentation -- Chile has, in fact, placed itself at one extreme in the tradeoff between growth and distribution of income, claiming thereby to have solved the "paradox" between the two objectives.

Unfortunately, I think there are many Bank staff who, for reasons of political conviction, insufficient understanding of the Bank's policy, and inadequate factual information, believe that Chile, as well as Peru, and possibly Algeria, have good cases for requesting Bank loans.

Since it would seem very difficult at present to change our policy regarding expropriation or even the interpretation of that policy, the question arises as to what other measures can be taken. Other obvious difficulties are the danger that any statement by the Bank may seem defensive, that much of the information is confidential, and that the issues are very complex. However, there are perhaps some steps which can be taken:

(1) It is little known that the Bank has a record of independent action against the will of most of those countries which now press us in expropriation cases.

(2) It may be worth letting it be known that the U.S., France, and others are not satisfied with the Bank's independence and unwillingness to yield to their pressure.

(3) When placed under severe and unfair criticism, the Bank may have to point out the obvious inconsistencies in the policies followed by most governments, international agencies, and business corporations.

(4) It is vital that we need, for internal use, a clear statement on the Bank's current position on expropriation disputes in each country in question, with detailed documentation of the case and continuous updating as circumstances change. There should be clear responsibility for maintaining this information.



(5) The Bank staff immediately concerned with countries where expropriation disputes exist should be thoroughly familiar with the Bank's expropriation policy, and the facts of the case, and the Bank's position. Country Program Reviews would serve as an opportunity for discussion of the subject. I am certain that knowledge in this respect is inadequate among Bank staff and there are reliable secondhand indications that the Chilean Delegation was told during the Annual Meeting week that they should not expect Bank loans as long as Chile passes laws requiring foreign companies to pay back past excessive profits. If this is true, it completely undermines our position.

(6) Neither many Bank staff, nor several of its Executive Directors, nor the public in general appreciate the constraints imposed upon the actions of an international institution, regardless of whether member countries have equal or weighted votes.

(7) Although the argument for distributive justice will certainly be misused in the future, the risk will decrease as more becomes known about the complex relationships between overall growth and the distribution of income. However, to achieve acceptance of our objectives in all camps, we must refute obvious misuses of your arguments, as was the case in the recent Chilean statements.

AL

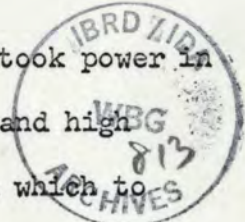
October 10, 1972



Present Economic Situation of Chile

Introduction

1. In November, 1970, the present Chilean Government took power in a situation of little economic growth, increasing inflation and high unemployment. At the same time, it inherited resources with which to improve the situation. These included ample foreign exchange reserves, expanded capacity in copper production, and substantial idle capacity in industry. The Government's basic long-term objectives were a fundamental change in the ownership of the means of production and the increase and better use of resources produced in Chile. The basic strategy underlying their short-term economic program was to (a) reactivate the economy through a substantial increase in aggregate demand, (b) redistribute income in favor of low income groups using wage and price policies which increased real income of those groups, and (c) to reduce unemployment directly through government programs in construction and public works.



2. In the beginning, the Government was highly successful in reactivating the economy, reducing unemployment, redistributing income, and containing inflation. In 1971, the economy grew at 8.5 percent, and unemployment fell from 8.3 percent (Dec.1970) to 3.8 percent (Dec.1971). Substantial increases in private and public consumption were the driving forces behind the recovery. The economy responded favorably to the rise in demand utilizing excess capacity and capacity to import -- given the high level of foreign reserves at the end of 1970 - which both existed. While consumption moved the economy investment declined. Public investment was stepped up appreciably but did not compensate for the virtual disappearance of private investment. Moreover, a major part of public investment did either not go into productive sectors or was merely financial. As a result, domestic capital formation



declined in 1971, by almost 16 percent in real terms.

3. The Government's wage policy allowed wages and salaries to increase by 53 percent in 1971. With prices held down during 1971 by strictly enforced controls and an exchange rate frozen at its mid-1970 level, real wages rose by an unprecedented 26 percent increasing the wage share in national income from 51 to 59 percent.

4. The Government believed that the economy would be able to absorb the bulk of salary increases without price rises. The increase in demand was to be satisfied by taking advantage of unutilized capacity and ample room was supposed to exist for a reduction in profit margins in most enterprises. Conflicts between production, income distribution and stabilization goals were to be resolved, it was argued, by direct Government intervention requiring an abrupt expansion of state ownership of economic factors. Therefore, and in line with long-term objectives, the Government program called for immediate structural changes. A substantial part of that program has been carried out. Big iron and copper mines have been nationalized; state control has been established <sup>over</sup> coal and nitrate production; the banking system and large monopolies in industry and commerce have been incorporated in the area of "social ownership"; the agrarian reform process has been accelerated and expanded; and state control of foreign trade has been established.

5. Monetary and fiscal policies were mainly used, in 1971, and in the beginning of 1972, to increase demand, both public and private; and it appears that a binding monetary program has never been adopted by the authorities. The Government stated, early in 1971, that specific measures would be required to avoid inflationary pressures from the expected increase in money supply. As it turned out, an increase in imports and the increased



willingness of large segments of the population to hold additional cash balances helped to attenuate inflationary pressures during a good part of 1971. Towards the end of the year the authorities faced increasing difficulties in balancing aggregate demand and supply, especially since they raised only marginally the controlled prices of a large number of commodities. Shortages developed and an incipient black market appeared. Thus, while overall domestic credit rose by 125 percent in relation to the stock of money and quasi money at the beginning of the year, the consumer price index increased by only 20 percent (as against 32.5 percent in 1970).

6. In view of their apparent success in 1971, the authorities continued with their strategy into 1972. Wage adjustments of 25-30 percent were granted; prices of goods and services produced by Government enterprises were increased by about 30 percent, and new exchange rates were introduced at the end of December 1971, resulting in a 29 percent depreciation of the Escudo for commercial transactions. Also, new tax measures were to yield E<sup>0</sup>8.5 billion or 36 percent of 1971 tax collections. The public sector deficit was to require internal financing of E<sup>0</sup>14.5 billion, less than in 1971; and credit expansion was expected to be limited to some 60 percent of the stock of money and quasi money at the beginning of the year, or about half the 1971 rate of expansion. At the same time, the authorities were rather optimistic in their balance of payments projection.

7. In the meantime, Chile's economic situation deteriorated sharply and the Government program's unrealistic basic assumptions became evident. Congress-- where the opposition has a majority--did not approve the tax package, public sector financing by the banking system reached the original December target already in June; prices increased much faster than expected; domestic production including copper is falling behind targets; shortages are growing; and



the balance of payments position is becoming very difficult.

#### Present Economic Situation

8. Prices rose by 33 percent during January-July this year, the largest seven-month increase recorded since 1955 caused by expansionary incomes policy, rapid monetary expansion, and huge budgetary deficits. In August, the Government decided it could no longer hold the line on controlled prices, and the prices of many items, including basic food-stuffs and publicly produced goods and services, were adjusted upwards sharply, i.e. by 100-200 percent in many cases. As a result, the cost of living increased by 22 percent in August and by another 20 percent in September, bringing the January-September increase to 96 percent as compared to 17 percent in 1971.. As of October 1, prices have been frozen again while a wage and salary adjustment became effective at the same date. The adjustment is to fully compensate for price increases of the January-September period, and the Government announced plans to adjust wages and salaries every four months from now on.

9. On August 4, the Escudo was sharply devalued by almost 50 percent and the multiple exchange rate system has become more complicated. The August devaluation was supposed to compensate for the overvaluation of the Chilean currency and, in addition, to leave a margin of about 20 percentage points for wage increases. That margin was used up by the August/September price increase, and therefore, the wage adjustment can be expected to result in renewed inflationary pressures.

10. While the financing of the wage and salary adjustment is still being debated in Congress, it is already clear that the fiscal deficit will further increase. Even if the Government's proposal including tax increases yielding E<sup>0</sup>15 billion were approved -- which seems unlikely-- the public sector would still need E<sup>0</sup>24 billion from the banking system for the second



semester of 1972 only, compared to the E<sup>0</sup>15 billion used during the first semester. In this relatively optimistic case, monetary expansion would reach more than twice the amount of total deposits in the banking system as of June, 1972.

Balance of Payments

11. For a number of rather specific reasons Chile's balance of payments suffered a sharp deterioration after the present Government came into power. And since the basic conditions responsible for the deterioration continue to exist the situation is becoming increasingly difficult. The Government's decision to nationalize foreign copper companies and the implementation of that decision resulted in (a) as yet unresolved difficulties to reach original production targets in the copper mines; (b) unfavorable reactions by foreign creditors who withdrew short-term credit lines; and (c) the drying up of major traditional sources of long-term financing. At the same time world copper prices returned to more normal levels so that the shortfall in production was not being offset by high prices. Since repayments of copper loans were scheduled according to projected increases in production, the failure to meet production targets affected foreign exchange earnings when debt service payments increased. In 1971, the net international reserves of the banking system declined by US\$305 million notwithstanding an US\$80 million default on external debt service payments falling due in November and December, 1971. If full servicing of the external debt had been maintained for the whole year, the balance of payments deficit would have amounted to US\$385 million, compared with surpluses of US\$9 million in 1970, and US\$214 million in 1969. The reserve loss continued in 1972, and, by June, Chile did not meet the reserve target negotiated in April at the Paris meeting on debt



rescheduling. At the end of June, Central Bank reserves stood at US\$38 million compared to the target figure of US\$100 million.

12. In the first half of 1972, Chile's balance of payments showed a deficit of about US\$70 million, and an additional loss of US\$200 million is expected by the authorities for the second semester. The projected overall deficit of US\$370 million results from an expected deficit of US\$490 million on current account, a US\$180 million deficit on capital account, a gain of US\$18 million from the allocation of SDRs and of US\$290 million from debt relief. The authorities count on additional financing of US\$43 million from the IMF under the compensatory finance scheme; a US\$20 million balance of payments loan from the USSR; US\$40 million of credits to be obtained from foreign banks; and US\$42 million in foreign credits to be obtained by Chile's Central Bank. If all plans materialize, about US\$75 million of the deficit will have to be financed from Central Bank foreign assets. As a result, Chile will probably have to incur commercial arrears early in 1973.

#### Foreign Debt

13. At the end of 1970 Chile's foreign debt (including undisbursed amounts) stood at US\$2.6 billion. Service payments due in 1971 amounted to US\$381 million, or 32 percent of total exports of goods and services, and were estimated at US\$390 million both in 1972 and in 1973, and at US\$370 million in 1974.

14. At the beginning of November, 1971, the Chilean authorities suspended services payments except to international organisations and requested refinancing of service payments falling due in 1972-74. In April, 1972, at a meeting in Paris the creditor countries agreed in principal to refinance 70 percent of the debt service for the period November 1971-December 1972.



It was left to each creditor country to decide how much within this total would apply to interest payments and how much to principal. The moratorium interest rate was also left to be decided by bilateral negotiation. The full consolidation period was set at eight years, including two years grace. Under the agreement, debt relief for 1972 is estimated to amount to US\$290 million. However, bilateral agreements with creditors required by the Paris agreement have so far not been reached with at least two important creditors, U.S. and Germany, and are unlikely to materialize before the end of 1972. Since Chile is not making payments, the lack of an agreement does not influence the reserve position. But it forms part of the generally unfavorable conditions for the upcoming new meeting between Chile and her creditors which is to take place in December, according to the Paris Agreement. At that meeting Chile's request to reschedule debt service payments due in 1973 is to be considered taking into account the economic and financial situation of Chile at that time. In addition, the fulfillment of all commitments contained in the Paris Agreement will be examined. These commitments were:

- (1) Chile would implement policies to ensure that quarterly reserve targets would be met;
- (2) Chile would not increase net foreign debt of one to eight years maturity;
- (3) Chile would prevent any arrears in renegotiated payments of capital and in current payments of capital and in current payments; and
- (4) Chile would maintain import payments on a prompt basis.

Chile is, in fact, only fulfilling commitments (2) and (4), and it could be argued whether Chile's own efforts or the inability to get new



loans account for good performance under (2) while as explained above, compliance with (4) will soon come to an end.