

LOAN COMMITTEE

LC/M/86/-26

August 12, 1986

Minutes of Loan Committee Meeting to Consider
CHILE - Second Structural Adjustment Loan
held on August 7, 1986 in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman:	W. Wapenhans
Finance:	S. Asanuma
Legal:	H. Scott
ERS:	A. Krueger
OPS:	S. Husain
Region:	R. B. Steckhan

Others:

G. Pffefermann (LCNVP)
R. Clements (SVPOP)
P. Donovan (SVPOP)
J. Edelman (CPDDR)
S. El Serafy (CPDDR)
L. Fox (CPDDR)
G. Schultz (LCPI2)
L. E. Derbez (LC1PA)
C. Jones-Carroll (LC1PA)
R. Krishna (LEGSA)
N. De Souza (LEGLC)
N. Roger (VPERS)

B. Issues

1. The meeting was called to discuss the proposals in Mr. Steckhan's memorandum of July 31, 1986 for a Structural Adjustment Loan to Chile. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of August 5, 1986.

C. Discussion

Chile's Financing Plan for 1987-1988

2. The meeting reviewed Chile's needs for new money during 1987-88. The Region noted that, while commercial banks have informally indicated that new funds were likely to be made available to Chile in due time, they are unlikely to be able to focus on formalizing this until issues relating to Mexico's debt are resolved. Such a formal acknowledgement is a Board presentation condition of the proposed SAL II, and a firm financing plan for Chile's 1987 needs is a second tranche condition.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
 Senior Vice President, Finance
 Vice President & General Counsel
 Vice President, Operations Policy
 Regional Vice President concerned*
 Vice President, Energy & Industry (for lending
 in these sectors and SALs)
 Vice President, Economics and Research (for non-
 project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

Financial Rehabilitation

3. The meeting discussed the specific timebound program for rehabilitation of the financial sector. The Region indicated that schedules have been established for phasing out the preferential exchange rate by January 31, 1987 and the interest rate subsidies by April 1987, in time to permit release of the second tranche. The Government is on target so far on both items. The Region then detailed the costs of the banking system rehabilitation program, which were estimated at around \$3 billion arising from purchase of commercial banks' bad portfolios and a bank recapitalization program. Annual service costs of these rescue operations were estimated at about two percent of GDP at this time and will be financed from the Chilean Central Bank's operations. The Region will monitor this annual cost and further fiscal actions will be taken if required. The sharing of the cost of recapitalization (around \$250 million) is about 50 percent by the old shareholders, 25 percent by new shareholders and 25 percent by the Government.

4. With regard to the reduction of the debt-to-equity ratios for the financial sector, the Region indicated that the Government had agreed to a 15:1 ratio for intervened banks. Banks which do not reach this would not be permitted deposit insurance without a program to recapitalize so as to achieve the 15:1 ratio. The Region would monitor this by examining commercial bank statements at year end. The meeting agreed that this was a reasonable target.

Other Actions

5. The meeting agreed with the Region's proposal to monitor noncopper export growth and only specify further action needed (e.g., further possible devaluation) for second tranche release if the growth rate fell below the assumed six percent.

6. With regard to studies, the Region stated that terms of reference for the health and employment sector studies would be agreed during negotiations and the studies would get under way shortly thereafter.

7. The Region agreed to include a list of second tranche conditions in the President's Report, as well as more information on the medium-term framework and on the indications from commercial banks regarding the 1987-1988 financing plan.

D. Conclusion

8. The Committee authorized the Region to invite Chile to negotiate the proposed second SAL along the lines set out in the package.