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EXTERNAL DEBT OF CHILE

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Economic Department  
Prepared by: James J. Lynch

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## SUMMARY

During the 19th century Chile issued sterling bonds equivalent to about \$300 million in the London market. From 1915 to 1930, Chile borrowed about the same amount in the New York market. By December 31, 1929 Chile's long-term external direct debt was \$278 million, of which \$153 million was outstanding in sterling and the balance in U.S. dollars. In addition, guaranteed issues totalling \$130 million were outstanding, \$4.8 million in sterling, \$2.8 million in Swiss francs and \$122 million in U.S. dollars. Thus the total direct and guaranteed external debt outstanding amounted to \$408 million. It is estimated that less than 10% was held internally; the rest was held mainly in the United States, the United Kingdom and Switzerland.

Chile met its external obligations consistently from about 1834 until 1931, when the drastic decline in Chile's two main exports, copper and nitrates, with their crippling impact on foreign exchange reserves and on domestic finance, led the Government to order a two-year moratorium on all foreign debt.

A debt readjustment plan was announced in 1935, providing that as from January 1, 1935 receipts to the Chilean Government from its participation in the profits (25% of gross profit) of the Chilean Nitrate and Iodine Sales Corporation, from income taxes on the copper companies and, later, from duties on petroleum imports for the nitrate and copper industries, would be set aside for the service of bonds of the external public debt of the Republic and the municipalities. Fifty per cent of such receipts were to be used for interest payments and the balance, less expenses, for the retirement of bonds by direct purchase.

Under the 1935 debt adjustment plan, which continued in operation through 1948, on each \$1,000 bond (which under the old contract would have called for interest payments of around \$.60 per year) about \$13 per year was paid for interest. The payments ranged from \$4.74 in 1935 to a high of \$20.93 in 1938. From the inception of this plan through February 1, 1949, the total receipts used in servicing the external debt amounted to about \$105 million, of which \$50 million was paid in interest and approximately \$25 million in retiring an estimated \$168.7 million par amount of bonds.

In July 1948 a permanent debt adjustment plan was offered to the bondholders calling for a par for par exchange of the old bonds for new bonds maturing on January 1, 1994 with interest beginning January 1, 1948 at 1-1/2%, rising gradually to 3% for 1954 and thereafter. Through 1953 an annual sinking fund of \$2.5 million (1%) would be applied proportionally among dollar, sterling and Swiss franc issues.

It is estimated that in 1949 the outstanding external long-term debt of Chile will be \$310 million. Total service payments will amount to about \$21.3 million in that year, declining gradually to \$8 million in 1971. In 1973 payments drop sharply to \$1.3 million. The major portion, \$16 million, of these service payments is on the external dollar debt, the balance being payable mainly on sterling and Swiss franc bonds.

## I. Historical Review of External Borrowing

1. The first external loan of Chile, amounting to £1 million, was floated in the London market in 1822. From that date to 1895, a total of £12 million principal amount was borrowed abroad. During 1885 and 1886 all outstanding balances were refunded into a 4-1/2% obligation. From that time to 1912 other loans totalling over £50 million were contracted. After 1912 foreign borrowing was halted and was not resumed until 1921.

2. Prior to the adoption of the Constitution in 1833, interest on the first loan remained unpaid for a time due to internal strife but later this loan was funded and discharged. From that time through 1930, with the exception of the period following the 1879-1883 War of the Pacific, when amortization charges were temporarily suspended with the consent of the bondholders, all external borrowing was punctually serviced.

3. From 1920 on, financing by Chile was mainly done in the New York market by issuing dollar bonds. It is estimated that from 1915 to 1930 dollar bonds totalling over \$300 million were issued. National issues of Chile accounted for over \$185 million, with coupons between 6% and 7%; municipal issues, with 7% coupons, accounted for over \$21 million, and corporate issues, government guaranteed with coupons between 6% and 6-3/4%, were issued in the amount of over \$90 million.

4. The national and municipal loans were reported to be partly for the purpose of refunding short-term loans, credits, and Treasury notes, but principally for public works and improvements, including construction of roads and highways, sanitary works and water supplies, port facilities, harbor improvements, equipment for state railways and irrigation. The corporate issues of the mortgage banks were for making mortgage loans.

5. The public debt of Chile, which at the end of 1926 amounted to \$323 million, including debts guaranteed by the Government, increased to \$456 million by the end of 1929. The greatest increase was in the external debt, which rose from \$194 million to \$279 million, about 44%. The internal debt and guaranteed debt also increased, 90% and 28% respectively. Total public debt outstanding at the end of 1926 and 1929 was as follows:

Table I

Public Debt  
(in dollars)

	<u>Dec. 31, 1926</u>	<u>Dec. 31, 1929</u>
<u>External</u>		
Sterling	129,442,432	153,418,757
Dollars	<u>64,492,335</u>	<u>125,193,950</u>
Total external	193,934,767	278,612,707
<u>Internal (pesos 6 pence)</u>		
	<u>21,021,147</u>	<u>39,417,818</u>
	214,955,914	318,030,525
<u>Guaranties:</u>		
Sterling	31,062,407	4,851,971
Dollars	70,752,915	122,393,996
Swiss francs		2,789,912
Pesos (6 pence)	<u>6,024,637</u>	<u>7,831,091</u>
Total guaranties	107,839,959	137,866,970
<u>Total direct and guaranteed debt</u>		
	<u>322,795,873</u>	<u>455,897,495</u>

6. As can be seen from the table above, a shift took place from British sterling issues to American dollar loans. In 1926 the sterling obligations of Chile represented 50% of the total, including guarantees, and dollar obligations 42% of the total; in 1929 the percentages were 35% and 54%, respectively.

7. The proportion of the total debt held internally had also increased during this period, from 6.5% to around 10%.

8. In 1930 a further increase took place in the external dollar obligations of Chile and its municipalities amounting to around \$27 million.

II. Default and Its Causes

1. After having met external obligations consistently from about 1834, except for a period following the 1879-1883 War of the Pacific, when amortization charges were temporarily suspended with the consent of the bondholders, a partial moratorium on all foreign debt payments was declared on July 30, 1931, and on August 13, 1931, the government ordered a complete moratorium on all foreign debts.

2. Chile is primarily a mineral-producing country and the economic welfare of the nation depends to a large extent upon the output, exports and prices of copper and nitrates. Consequently, the severe depression which set

in after the collapse of the copper and nitrate markets in 1930 profoundly affected Chile's capacity to meet her foreign obligations.

3. Between 1929 and 1932 total Chilean exports fell in volume from 5,885,000 metric tons to 845,000 metric tons. Their value in 1929, when copper and nitrates together were 91% of the total, was \$277 million, while by 1932 it had declined to \$22 million. Nitrate exports dropped from 2.9 million metric tons to 243,000 metric tons (from \$127 million to \$7 million) between 1929 and 1932. Copper exports fell during the same period from 414,000 metric tons to 126,000 metric tons (\$123 million to \$15 million). At the same time, the inflow of foreign capital, which had reached a total of \$232 million in 1929-30, dropped to \$16 million in the following two years and vanished completely in 1933.

4. The impact of the decline in exports on the economy was even more serious than the figures indicate, in spite of the fact that imports were correspondingly reduced. This was because, although Chile had (except in 1930) a favorable trade balance, substantial portions of the export proceeds of the foreign copper and nitrate companies are not normally available to finance imports or to meet debt interest and amortization payments as well as other external financial obligations, since they are used to meet various requirements of the companies.

5. As a result of the collapse of foreign trade, the gold and foreign exchange reserves of the Central Bank of Chile were heavily reduced, from 445 million gold pesos in 1929 to 77 million gold pesos in 1932, and commercial payments fell into arrears.

6. The impact on domestic finance was just as serious. In 1929 customs receipts accounted for over 50% of government revenues. By 1932 revenues from export duties had practically disappeared and import duties were only 40% of the 1929 level; total government tax revenues dropped from 1,234 million pesos in 1929 to 515 million in 1932. Budget deficits mounted and between 1929 and 1933 the domestic debt of Chile increased almost four times, from 323 million pesos to 1,256 million pesos.

### III. Course of Default

1. Upon default in 1931, Chile declared a two-year moratorium on all foreign debt payments. This was subsequently extended until superseded by the Debt Adjustment Plan of 1935.

2. Partial payments were made in 1931 and 1932. No debt payments at all were made in 1933 and 1934. In 1935, as shown in Table II, payments were resumed at an overall rate of about one-tenth of the original contractual basis.

3. In that year, under Law No. 5580, the Public Debt Amortization Institute, which had been set up in 1932 for the purpose of servicing the internal debt, consolidating and establishing the service of the short-term external debt and reestablishing the service of the consolidated external debt, was authorized to renew the service of the bonds of the external public debt, direct and indirect, of the Republic of Chile and of the municipalities. The readjustment plan provided that, beginning January 1, 1935, receipts to the Chilean Government from its participation in the profits of the Chilean Nitrate and Iodine Sales Corporation (25% of gross profits), from

income taxes on the copper companies, and, later, from duties on petroleum imported for the nitrate and copper industries, would be set aside for the service of bonds of the external public debt, direct and indirect, of the states and the municipalities; 50% of such receipts were to be used for interest payments and the balance, less expenses, for the retirement of bonds by direct purchase below par in the market or by drawing at par if the bonds were quoted at par or above.

4. The net effect of carrying out the 1935 debt adjustment plan, which continued in operation from 1935 through 1948, was that for each \$1,000 external publicly issued bond, which under the old contracts would have called for interest payments of around \$60 per year, about \$13 per year was paid for interest. The amounts ranged from \$4.75 in 1935 to a high in 1938 of \$20.93, gradually declining to \$11.26 in 1944, rising to \$14.15 in 1946 and declining again to around \$10.30 for 1947 and \$11.09 for 1948. The latest interest payment, in 1949, of \$11.09 under the 1935 plan provided a return of only 1.04% of par. During the past 10 years interest payments averaged 1.5% annually. Total service, including the amounts actually spent for bond re-purchases, averaged 1.90%.

5. Had all assigned funds been used to retire bonds, total service would have been 2.9%. From the inception of the debt adjustment plan on January 31, 1935, through February 1, 1949, total receipts for use in servicing amounted to around \$105 million, of which \$50 million was paid in interest. Approximately \$25 million was used to retire bonds in the following estimated original principal amounts: U.S. issues \$139 million, sterling issues \$26.5 million, Swiss franc issues \$3.2 million, equivalent to approximately \$168.7 million retired for an expenditure of \$25 million.

6. Interest on the external debt has been paid in accordance with the terms of the 1935 debt adjustment plan. Regular amortization, however, was interrupted in the year 1939, when a government decree provided for temporary assignment of amortization funds for reconstruction of the zone devastated by the earthquake of January 1939. Through 1945, \$23.6 million were thus diverted from the debt service. A number of new taxes which were imposed in addition to the taxes on copper existing at the time of the 1935 debt agreement were not applied to debt service, despite the objections of the bondholders that this did not conform to the 1935 agreement. An analysis of the additional taxes indicates the likelihood that the bondholders could rightfully object only to those provisions of Law No. 7160 of January 20, 1942, whereby a ceiling was in effect established on income taxable under the provisions of the Law 5580. Profits above the ceiling were split between the copper companies and the Government. The Council of Foreign Bondholders, London, made representations to the Government to the effect that Chile should alter the new law or compensate the bondholders by adding to the assigned revenues an amount equal to the reduction in revenues caused by the new law.

7. On March 7, 1946 a decree was issued to apply again all receipts assigned to amortization to the retiring of bonds as provided under the 1935 debt adjustment plan. Initial restitution of diverted funds was also provided by this decree and has been partially carried out.

Table II

External Debt Payments of Chile  
(excluding inter-governmental loans)

(U.S.\$ million)

<u>Year</u>	<u>Estimated Original Contractual Basis</u>	<u>Actual Amounts Paid</u>
1929	38.0	38.0
1930	38.0	38.0
1931	39.0	28.0
1932	40.0	18.0
1933	40.5	0
1934	41.3	0
1935	41.0	4.1 *
1936	40.0	4.9 *
1937	39.0	6.1 *
1938	38.0	14.1 *
1939	37.0	5.9 *
1940	36.0	5.7 *
1941	35.0	5.2 *
1942	34.0	5.6 *
1943	33.0	4.8 *
1944	32.0	4.5 *
1945	31.0	5.0 *
1946	30.0	‡ 7.3 *
1947	29.0	‡ 5.1 *
1948	28.0	‡ 5.2 *

\* Based on payment under the 1935 debt adjustment plan.

‡ Excluding \$3,000,871 applied to redemption from accumulated amortization funds in 1946 and \$475,000 in 1947; 1948 figures are not available.

Source: Foreign Commerce Yearbook, 1939.

IV. Final Adjustment of External Debt

1. A new external debt service agreement, ratified by the Chilean Congress in July 1948, calls for the outstanding external publicly-issued securities to be exchanged for an equal principal amount of new bonds maturing January 1, 1954, with interest accruing from January 1, 1948 at 1-1/2% for the first year, 2% for 1949-50, 2-1/2% for 1951-53 and 3% for 1954 and thereafter. Through 1953 an annual sinking fund of \$2,531,000 (1%) would be applied proportionally among the dollar, sterling and Swiss franc issues. Owners who did not assent to the plan of 1935, or who assented late, are to be issued non-interest bearing certificates to the extent of payments made under the 1935 plan. (For further details see Appendix III) The general reaction of the various bondholders' protective groups and investment advisory services has been favorable, the feeling being that the 1948 plan provided a more equitable basis of payment than the 1935 plan.

2. Under the new 1948 debt adjustment plan the average annual rate of interest during the life of the bonds will work out to 2.83%. This, plus sinking fund payments beginning January 1, 1954, will make the total fixed service 4% of the outstanding principal amount of new dollar bonds. Therefore, total yearly payments under the new debt adjustment plan should amount to around \$8 million.

3. As direct obligations of the government, the new external bonds will be backed by all public revenues, which will include the extraordinary property tax that has in recent years been diverted for internal purposes.

#### V. Outstanding Long-term External Debt and Service Charges

1. It is estimated that in 1949 the outstanding external long-term debt of Chile will be in the amount of \$310 million. Amortization payments will amount to around \$10 million and interest payments to \$11.3 million, a total of \$21.3 million. Total service payments are expected to decline gradually from that level starting in 1952, when they amount to \$18.1 million, to 1972, when total service payments are estimated to amount to \$8 million. In 1973 these payments drop sharply to \$1.3 million.

2. The major portion of the service payments is due to interest and amortization on the outstanding dollar debt of \$191 million. An estimated \$15.8 million is due in 1949, external publicly-issued dollar bonds account for \$7 million of this total. The remainder consists of payments due on the Export-Import Bank (\$8.1 million) and IERD loans (\$700,000).

3. Service payments other than in dollars are mainly called for in pounds sterling. Chile's external publicly-issued sterling bonds amount to the equivalent of US \$95 million. A payment of US \$4.4 million is estimated for 1949. The remaining debt is represented by outstanding publicly-issued Swiss franc bonds equivalent to US \$24.8 million, on which service payments of US \$1.1 million are called for in 1949.

4. Shown below in Table III are the estimated amounts of debt outstanding and the interest and amortization payments required. Table IV shows the annual requirements by currencies. (For details on the individual debt, see Appendices II and III).

Table III

Chile's Total Long-term External Debt, Interest and  
Amortization Payments \*

(US\$ Thousands)

Year	Principal Outstanding	Principal Payments	Interest Payments	Total Payments
1949	310,448	9,953	11,337	21,290
1950	320,056	12,408	9,299	21,707
1951	314,966	11,706	9,974	21,680
1952	297,609	9,188	8,941	18,129
1953	282,775	8,648	8,482	17,130
1954	268,480	8,077	8,992	17,069
1955	257,306	6,932	8,604	15,536
1956	247,449	6,914	8,246	15,160
1957	237,185	7,178	7,880	15,058
1958	226,401	7,056	7,497	14,553
1959	215,477	7,198	7,117	14,315
1960	204,115	7,280	6,717	13,997
1961	192,356	7,609	6,311	13,920
1962	179,929	7,965	5,877	13,842
1963	166,792	8,343	5,423	13,766
1964	152,883	8,746	4,942	13,688
1965	138,154	9,179	4,432	13,611
1966	112,912	9,638	3,895	13,533
1967	106,001	10,126	3,329	13,455
1968	88,446	10,640	2,730	13,370
1969	69,798	7,423	2,122	9,545
1970	53,804	7,005	1,622	8,627
1971	37,567	6,615	1,128	7,743
1972	21,027	7,112	631	7,743
1973	3,249	1,299	97	1,396

5. The above debt statements include all long-term debt outstanding as of December 31, 1948 and also all credits granted to Chile but still unutilized. In computing the service charges, it has been assumed that these funds will be drawn down in the near future. Also, it is assumed that present bondholders will assent to the 1948 debt adjustment plan and that sinking fund operations on the publicly-issued bonds will be carried on by purchases in the open market at prices ranging from 20, 30 and 40 on dollar bonds and 35, 45 and 50 on sterling and Swiss franc issues.

\* Excludes service charges on debt to Argentina.

Table IV

Debt Service Requirements of Chile  
in Various Currencies

(US\$ thousands)

Year	Total Pay- ments All Currencies	Payments in U.S. Dollars	Payments in Sterling	Payments in Swedish Kroner
1949	21,290	15,784	4,390	1,116
1950	21,707	18,060	2,928	719
1951	21,680	17,628	3,246	806
1952	18,129	14,174	3,170	785
1953	17,130	13,272	3,093	765
1954	17,069	13,073	3,202	794
1955	15,536	11,540	3,202	794
1956	15,160	11,164	3,202	794
1957	15,058	11,062	3,202	794
1958	14,553	10,557	3,202	794
1959	14,315	10,319	3,202	794
1960	13,997	10,001	3,202	794
1961	13,920	9,924	3,202	794
1962	13,842	9,846	3,202	794
1963	13,766	9,770	3,202	794
1964	13,688	9,692	3,202	794
1965	13,611	9,615	3,202	794
1966	13,533	9,537	3,202	794
1967	13,455	9,459	3,202	794
1968	13,370	9,383	3,193	794
1969	9,545	5,823	2,928	794
1970	8,627	4,905	2,928	794
1971	7,743	4,021	2,928	794
1972	7,743	4,021	2,928	794
1973	1,396	726	527	143

Note: Excludes service charges on debt to Argentina.



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(Expressed in thousands of U.S. dollars)

Year	I.B.R.D. Loans <sup>2/</sup>				Total Dollar Debt				Sterling Bonds				Swiss Franc Bonds			
	Prin- cipal Out- standing	Prin- cipal Pay- ments	Inte- rest Pay- ments	Total Pay- ments												
1949	16,000	-	702	702	190,731	8,686	7,098	15,784	94,908	1,019	3,371	4,390	24,809	248	868	1,116
1950	16,000	235	702	937	206,260	11,137	6,923	18,060	90,228	1,023	1,905	2,928	23,568	248	471	719
1951	15,765	479	688	1,167	207,095	10,431	7,197	17,628	85,544	1,027	2,219	3,246	22,327	248	558	806
1952	15,286	493	670	1,163	193,731	7,905	6,269	14,174	82,378	1,035	2,135	3,170	21,500	248	537	785
1953	14,793	839	652	1,491	182,893	7,361	5,911	13,272	79,209	1,039	2,054	3,093	20,673	248	517	765
1954	13,954	1,200	610	1,810	172,599	7,013	6,060	13,073	76,035	866	2,336	3,202	19,846	198	596	794
1955	12,554	971	559	1,530	163,878	5,797	5,743	11,540	74,078	922	2,280	3,202	19,350	213	581	794
1956	11,783	730	522	1,252	156,661	5,694	5,470	11,164	71,971	991	2,211	3,202	18,817	229	565	794
1957	11,053	756	489	1,245	149,225	5,868	5,194	11,062	69,716	1,063	2,139	3,202	18,244	247	547	794
1958	10,297	783	455	1,238	141,485	5,651	4,906	10,557	67,287	1,140	2,062	3,202	17,629	265	529	794
1959	9,514	809	419	1,228	133,821	5,693	4,626	10,319	64,690	1,220	1,982	3,202	16,966	285	509	794
1960	8,705	839	383	1,222	125,965	5,665	4,336	10,001	61,895	1,309	1,893	3,202	16,255	306	488	794
1961	7,866	868	344	1,212	117,973	5,882	4,042	9,924	58,894	1,398	1,804	3,202	15,489	329	465	794
1962	6,998	898	304	1,202	109,590	6,113	3,733	9,846	55,672	1,498	1,704	3,202	14,667	354	440	794
1963	6,100	930	264	1,194	100,789	6,356	3,414	9,770	52,221	1,607	1,595	3,202	13,782	380	414	794
1964	5,170	963	222	1,185	91,544	6,617	3,075	9,692	48,507	1,720	1,482	3,202	12,832	409	385	794
1965	4,207	997	179	1,176	81,820	6,891	2,724	9,615	44,524	1,849	1,353	3,202	11,810	439	355	794
1966	3,210	1,033	133	1,166	71,590	7,184	2,353	9,537	40,251	1,982	1,220	3,202	10,711	472	322	794
1967	2,177	1,069	86	1,155	60,816	7,496	1,963	9,459	35,655	2,122	1,080	3,202	9,530	508	286	794
1968	1,108	1,108	38	1,146	49,460	7,827	1,556	9,383	30,726	2,267	926	3,193	8,260	546	248	794
1969					37,484	4,673	1,150	5,823	25,438	2,163	765	2,928	6,876	587	207	794
1970					28,351	4,046	859	4,905	20,025	2,328	600	2,928	5,428	631	163	794
1971					19,511	3,436	585	4,021	14,205	2,501	427	2,928	3,851	678	116	794
1972					10,921	3,693	328	4,021	7,950	2,690	238	2,928	2,156	729	65	794
1973					1,688	675	51	726	1,228	491	36	527	333	133	10	143

<sup>1/</sup> Does not include the following bonds of the Lautaro Nitrate Co.: \$12,300,000 - 4% - 1975; £390,395 - 4% - 1975; and £401,792 - Deb 4% - 1975. These bonds are considered as direct investments by the U.S. Department of Commerce. Does not include \$8,800,000 made available by the International Monetary Fund in 1948.

<sup>2/</sup> Undisbursed as of 12/31/48.

Appendix II

External Debt of Chile

December 31, 1948

(in thousands of U.S. dollars)

	<u>Outstanding</u>	<u>Undisbursed</u>
Bonds included in Debt Service Plan (Republic of Chile, Mortgage Bank of Chile, Chilean Consolidated Municipal loans, Santiago, Valparaiso, Vina del Mar, Chilean Transandine Ry., Concepcion, Antofagasta)		
Dollar Bonds	125,685	-
Sterling Bonds ( <del>122,723</del> )	91,517	-
Swiss Franc Bonds (Sw. Fcs. 106,677)	24,809	-
Non-guaranteed Corporate Bonds		
Chilean Nitrate & Iodine Sales Corporation 5 - 1968	<u>1/</u> 14,936	-
Chilean Nitrate & Iodine Sales Corporation 5 - 1968 Sterling Bonds ( <del>1842</del> )	<u>1/</u> 3,391	-
Tarapaca & Antofagasta Nitrate Co. 5 - 1968	<u>1/</u> 2,000	-
I.B.R.D. Loans	-	16,000
Export-Import Bank Loans		
No. 245a	4,800	-
245c	6,200	2,000
313	2,907	-
355	200	-
372	628	-
373	-	2,618
374	14,000	34,000
410	1,150	3,700
411	2,700	2,350
449	-	1,200
450	-	375
	<u>32,585</u>	<u>46,243</u>
Total Export-Import Bank		
	32,585	46,243
Total	<u>294,923</u>	<u>62,243</u>

1/ December 31, 1947.

### Appendix III

#### 1948 Debt Adjustment Plan

On December 7, 1948, the Chilean Government by Law No. 8962 of July 20, 1948, following negotiations with the Foreign Bondholders Protective Council, Inc., offered a new plan of payments to holders of the outstanding dollar bonds (offers on substantially similar terms were to be made to holders of bonds of Chile outstanding in pounds sterling and Swiss francs). The new agreement replaced the readjustment plan of 1935 (prescribed by Law 5500) summarized below, and provided that direct and indirect obligations of the government issued in U.S. dollars be converted into new obligations for which the national government would constitute itself the sole and exclusive debtor. Obligations issuable under the plan would bear fixed rates of interest and be general credit obligations, whereas, under the plan of 1935, interest returns depended solely upon income from Chilean copper and nitrate industries. Until expiration of the new offer on June 30, 1951, income derived from copper and nitrates will continue to be allotted to external bond service. However, should more than two-thirds of the bonds outstanding, dollar, pounds sterling, and Swiss francs, fall within the new plan before the indicated date, such income will no longer be earmarked for its original purpose but will be turned over to the Treasury.

If bondholders receive payment under the 1935 plan for the calendar year 1948 (that is, the payment to be offered on Jan. 15, 1949), the first two coupons (dated June 30, 1948 and Dec. 31, 1949) on the new bonds will be detached upon acceptance of the offer. The same principle will apply in each subsequent year as long as the offer remains open; thus, bondholders may not receive payments both under the 1935 plan and under the new exchange offer for the same annual period.

Service of the external debt under the new plan, as under the Re-adjustment Plan of 1935, is entrusted to the Caja Autonoma de Amortizacion (Chilean Amortization Institute).

#### Essential Features of Plan

Exchange Terms - Holders of outstanding dollar bonds are entitled to exchange them for an equal principal amount of new dollar bonds maturing Jan. 1, 1954, which would be the direct obligations of the Republic. Interest on the new bonds will accrue from Jan. 1, 1948, and will be payable semi-annually on June 30 and December 31 at the following rates:

1948	-	1-1/2%
1949 and 1950	-	2%
1951, 1952 and 1953	-	2-1/2%
1954 and thereafter	-	3%

Amortization Features - During the years 1948 to 1953, inclusive, the new dollar bonds will share with other bonds of the external funded debt in all currencies in a general amortization fund for this total external funded debt in an annual amount in dollars of \$2,531,000, being an amount equal to 1% of the total of such debt outstanding at Dec. 31, 1947, converted at current exchange rates. Such fund is to be applied semi-annually to amortization of any bonds of external funded debt payable in any currency by purchase of bonds when quoted below par, otherwise by drawings at par;

provided that there would be applied to the amortization of bonds assented to the new plan at least a proportionate amount of amortization funds. Beginning Jan. 1, 1954 the Republic of Chile will pay total service in the amount of 4% of aggregate principal amount of new dollar bonds issued and outstanding at Dec. 31, 1953. If under an extension of the offer additional new bonds were issued under the plan, the amount of service would be increased in corresponding proportion. There would be provided for amortization of the new dollar bonds annually commencing Jan. 1, 1953, the difference between total service requirements on such basis and annual interest requirements on new dollar bonds at rate of 3% per annum. Such fund would be applied to purchase of new dollar bonds when quoted below par, otherwise by drawings at par. The Republic of Chile reserves the right to apply additional amounts to amortization of bonds.

Readjustment plans similar to the one proposed for dollar bonds have been agreed upon for external debt in pounds sterling and Swiss francs. As regards the Chilean external loans outstanding in pounds sterling and Swiss francs, it is provided that if the holders of any such loans or bonds exchanged therefor should be accorded at any time after Jan. 1, 1948, treatment more favorable than was offered through the new plan to the outstanding dollar bonds, either as to interest, amortization or otherwise, then the Republic of Chile would extend such treatment to all holders of new dollar bonds. Chile also agrees that if at any time after Jan. 1, 1948 any lien or other charge should be created on copper, iodine or nitrate revenues to secure any external debt, the new dollar bonds would ipso facto share in such lien or charge pari passu with any other creditors of the Republic.

Compensation for Interest Losses - the Republic of Chile offers to bondholders compensation in the form of non-interest bearing certificates for any loss of interest which they might have suffered owing to non-assent or late assent to Law 5580 under which external funded debt was serviced since 1935 - a total amount of \$164.58, of which \$10.29 will be in cash and the remainder in certificates, et cetera.

Source: Standard & Poor's, Dec.-Jan. 1948-49, p. 9301.