



# Economic Observatory

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## IADB puts stop to loans

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- In September 2008 the BID stopped giving out loans to the Chilean Government, which the multilateral agency's representative in Chile confirmed today.
- To reverse the measure, the Government must reimburse US\$ 288 million used to fund the capital city's new public transport system, Transantiago.
- The measure was adopted after the decrees passed by the Ministry of Finance and the Ministry of Transport were declared unconstitutional. These decrees authorized the Transantiago Financial Manager to sign the loan agreement with the multilateral agency.
- It is a temporary measure and will not have an impact on the feasibility of sectoral projects in the country. In fact, four projects have been approved since September 2008 and there are two more in the pipeline.

The representative of the Inter-American Development Bank in Chile confirmed today that it was temporarily stopping the approval of new loans or technical cooperation funds related to the Chilean Government until the US\$ 288 million used to fund the capital city's new transport system, Transantiago, have been reimbursed.

This is not a measure first taken today. It has been in effect since September 2008, when the decrees passed by the Ministry of Finance and the Ministry of Transport were declared unconstitutional. These decrees authorized the Transantiago Financial Manager to sign the loan agreement with the multilateral agency.

The IDB declared that the almost 100 projects that are already underway, with agreed amounts of approximately US\$ 850 million, will not be affected. Neither will private sector investment projects be brought to a standstill. Indeed, since September 2008 four private company projects have been approved and there are another two awaiting approval.

As for the possible stopping of public projects that do not yet have funding, it should be pointed out that for the most part these are financed by domestic funds. In addition, the Budget Manager stated that, if necessary, 2009 could see the early allocation of national funds.

The Chilean Government is in the middle of negotiations to refund the US\$ 288 million used. However, under normal circumstances this requires a law to be passed, because the funds proposed under the Budget Law were rejected in Parliament. This matter is part of the negotiations between the Government and the Opposition and covers other subjects such as price adjustments, public transport subsidies, etc. We think that the publication of this news, which coincides with the International Financial Community annual meeting in Washington, should be an important incentive to speed up these negotiations and solve the issue.