

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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CONFIDENTIAL

August 27, 1982

To: Members of the Executive Board
From: The Secretary
Subject: Chile - Exchange Arrangements

The attached paper on Chile's exchange arrangements is circulated for the information of the Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

Chile--Exchange Arrangements

Prepared by the Western Hemisphere Department and
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by Edison Zayas and Manuel Guitian

August 27, 1982

In the attached communication the President of the Central Bank of Chile informed the Fund of the announcement on August 5, 1982, that the exchange rate for the Chilean peso will be determined freely by market forces. Previous to this announcement an exchange rate for the Chilean peso was determined on the basis of a basket of five currencies, and this exchange rate was depreciated on a daily basis at a rate of 0.8 per cent per month.

Under the new exchange rate system, the Central Bank intends to buy and sell foreign exchange regularly in the market through a process of open bids to reduce excessive exchange rate fluctuations. The foreign exchange sales and purchases of the major public sector enterprises will be conducted through the Central Bank by the same procedure.

The Fund has also been informed that, for the purpose of establishing the Chilean peso value of import duties and other government revenues expressed in foreign currencies, the Central Bank will publish daily the exchange rate of the peso with respect to the U.S. dollar on the basis of the exchange transactions undertaken by the banking system on the preceding banking day. The value of the peso relative to other currencies will be established on the basis of the exchange quotation of the U.S. dollar with respect to these currencies in foreign markets.

The staff has been in close contact with the Chilean authorities since the initiation of the floating exchange rate system. Chile's exchange rate policy will be analyzed in the documentation for the forthcoming 1982 Article IV consultation discussions with Chile. No action by the Executive Board is required.

Attachment

TRANSLATION

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MR. JUAN CARLOS IAREZZA

INTERFUND WASHINGTON U.S.A.

8/13/82

THIS IS TO INFORM YOU OF THE MODIFICATION OF THE CHILEAN EXCHANGE SYSTEM ADOPTED ON AUGUST 5, 1982. WITH EFFECT FROM THAT DATE IT WAS DECIDED TO ADOPT A FREE-EXCHANGE-RATE POLICY WHERE FOREIGN CURRENCIES WILL BE FREELY BOUGHT AND SOLD AT THE PRICE DETERMINED BY THE MARKET. TO MINIMIZE EXCESSIVE FLUCTUATIONS, THE CENTRAL BANK WILL REGULARLY PARTICIPATE AS BUYER OR SELLER OF FOREIGN CURRENCIES IN THE MARKET. IN IMPLEMENTING THIS POLICY, THE CENTRAL BANK TAKES BIDS FOR THE PURCHASE OR SALE OF FOREIGN CURRENCY FROM OR TO FINANCIAL INSTITUTIONS. AT THE SAME TIME, FOREIGN CURRENCY TRANSACTIONS CARRIED OUT BY THE MAJOR PUBLIC ENTERPRISES SUCH AS CODELCO AND ENAP WILL BE CHANNELED THROUGH THE CENTRAL BANK, WITH A PROCEDURE SIMILAR TO THAT FOR ITS OWN OPERATIONS.

IN ORDER TO ESTABLISH THE PESO AMOUNT PAYABLE IN RESPECT OF CUSTOMS DUTIES AND OTHER LEVIES OR TAXES THAT ARE PAYABLE IN RELATION TO THE VALUE OF FOREIGN CURRENCIES, THE CENTRAL BANK WILL PUBLISH DAILY, IN LIGHT OF THE TRANSACTIONS EFFECTED BY BANKING INSTITUTIONS ON THE PRECEDING BANKING DAY, THE EXCHANGE RATE FOR THE UNITED STATES DOLLAR, AND, BASED ON THE TRANSACTIONS RECORDED IN FOREIGN MARKETS, THE EQUIVALENCE OF SAID DOLLAR VIS-A-VIS OTHER FOREIGN CURRENCIES.

REGARDS

MIGUEL KAST

PRESIDENT

CENTRAL BANK OF CHILE

Received in Cable Room
August 14, 1982