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November 10, 1982

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

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

Att: (1)

Other Distribution:
Department Heads

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 S.T. Beza and W.A. Beveridge

November 9, 1982

In a communication received October 15, 1982, the President of the Central Bank of Chile has informed the Fund of measures modifying Chile's exchange arrangement.^{1/}

1. With effect from September 3, 1982 the Central Bank has been selling foreign exchange at a preferential exchange rate for (a) the servicing of domestic debt owed to Chilean banks or financial companies denominated or guaranteed in foreign currencies, (b) the servicing of foreign debt which has not benefited from the preferential exchange rate under the provisions of (a) above. The preferential exchange rate, which applies only to the servicing of debt contracted before August 6, 1982, was fixed at Ch\$49.623=US\$1 on August 6, 1982 and is adjusted daily on the basis of the average rate of change of the consumer price index in the preceding month. The maintenance of the dual market arrangement gives rise to a multiple currency practice subject to Fund approval under Article VIII, Section 3.
2. With effect from September 29, 1982 and for the following 120 days, a reference rate of exchange of Ch\$66=US\$1 has been established to replace the previous market-determined exchange rate. The reference rate is adjusted daily by the difference between the average rate of change of the consumer price index in the preceding month and equivalent world inflation rate which is estimated at 1 per cent per month for the purposes of the 120-day period. The Central Bank has been prepared to intervene in the market to maintain the exchange rate within margins of 2 per cent about the reference rate.

The staff is in close contact with the Chilean authorities and will report further to the Executive Board in connection with the forthcoming Article IV consultation. In the meantime, no action by the Executive Board is proposed.

^{1/} For a description of the former exchange arrangements by which the exchange rate of the Chilean peso was determined freely by market forces, see "Chile--Exchange Arrangements" (EBS/82/154, 8/27/82).