

MASTER FILES
ROOM C-525

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EBD/92/16

January 28, 1992

To: Members of the Executive Board
From: The Secretary
Subject: Chile - Changes in Foreign Exchange Policy

The Secretary has received the following memorandum dated January 27, 1992 from Mr. Végh:

This is to ask you to inform the Executive Board of the recent policy changes implemented by the Council of the Central Bank of Chile, effective January 22, 1992:

- a. A 5 percent appreciation of the Chilean peso. Notwithstanding this appreciation, the central exchange rate will continuously be adjusted on a daily basis by considering the spread between domestic and external inflation rates.
- b. A widening of the flotation band of the foreign exchange rate to allow it a maximum variation of ± 10 percent with respect to the central rate set for the dollar by the Central Bank.
- c. A gradual extension of the 20 percent reserve requirement already applied to external loans to foreign currency-denominated deposits held by commercial banks.

These policy actions take into account, in the first place, the sustained favorable evolution of the external sector, basically reflected in the expansion of exports, foreign direct investment, and international reserves, and the significant reduction of foreign debt. Secondly, the convenience of moving toward convergence of the domestic and foreign interest rates and thus discouraging speculative capital inflows. Thirdly, the main policy objective of deepening the commercial and financial integration of Chile into the world economy.

Other Distribution:
Department Heads

