

**Chile: Financial Sector Assessment Program—Detailed Assessment of
Observance of the IMF Code of Good Practices on Transparency
in Monetary and Financial Policies**

This Detailed Assessment of Observance of the IMF Code of Good Practices on Transparency in Monetary and Financial Policies on **Chile** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in **October 2004**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Chile** or the Executive Board of the IMF.

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FINANCIAL SECTOR ASSESSMENT PROGRAM

DETAILED ASSESSMENT OF OBSERVANCE OF THE IMF CODE OF GOOD PRACTICES ON TRANSPARENCY IN MONETARY AND FINANCIAL POLICIES

CHILE
OCTOBER 2004

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I. DETAILED ASSESSMENT OF OBSERVANCE OF THE IMF CODE OF GOOD PRACTICES ON TRANSPARENCY IN MONETARY AND FINANCIAL POLICIES—MONETARY POLICY

A. General

- 1. This assessment examines the observance by the Central Bank of Chile (BCCCh) of the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code)* for monetary policy.** It was conducted as part of the joint IMF/World Bank Financial Sector Assessment Program (FSAP). The assessment was based on a pre-mission work; a review of relevant laws, regulations, and policies; documentation provided on the BCCCh website and in a variety of official BCCCh publications; and on discussions with the BCCCh and market participants¹. The assessment was based on the *MFP Transparency Code*, and has taken into account the implementation issues mentioned in the *Supporting Document* to the *MFP Transparency Code*.
- 2. The Chilean authorities cooperated fully with the assessment and provided all of the necessary information and documentation requested by the mission.**

B. Main Findings—Summary

Clarity of roles, responsibilities, and objectives of the central bank for monetary policy

- 3. The assessment reveals a high degree of compliance with the Transparency Code, including in the objectives and responsibilities of the central bank.** The target and instrument autonomy of the Central Bank of Chile is very strong by virtue of being enshrined in the Constitution. Nevertheless, to ensure that there are no conflicts between price and exchange rate stability in the current inflation targeting regime, further clarification could be useful in two areas. First, there is an element of uncertainty in the interpretation of the statutory definition of the monetary policy objective, since currency stability may refer to internal (price) or external (exchange rate) stability. While this could be viewed as a strength on account of the greater flexibility it provides to the central bank in adjusting its policies, it may also be viewed as a weakness to the extent that it does not explicitly support the current inflation targeting regime. Second, the institutional responsibilities of the central bank in determining the exchange rate regime could be more explicitly spelled out.

Open process for formulating and reporting monetary policy decisions

- 4. The process for monetary policy formulation, implementation and communication is highly transparent.** The framework for monetary policy, its targets, instruments and procedures are discussed in non-technical notes, as well as in more detailed studies, and numerous publications available on the web-site. Resolutions are published in

¹ The missions took place in December 2003 and March 2004, at which time the assessment was carried out by Marie-Thérèse Camilleri Gilson (IMF).

the Official Gazette and any changes in the setting of monetary policy instruments are explained in the Monetary Policy Report and immediately communicated to market participants. Practices of transparency and public disclosure are also upheld through the publication of Board meetings minutes (including individual votes of members present, their arguments and opinions expressed) within a month and a half of the meetings. The regulatory framework and operating guidelines for the central bank's counterparts in the financial sector are publicly available on the web-site.

Public availability of information on monetary policy

5. **An extensive set of publications is available on the web-site, including the Monetary Policy Report, Economic Policy Papers, the Economic and Financial report, the Monthly Bulletin and the Annual Report.** The public availability of two additional documents is particularly helpful in enhancing understanding of monetary policy issues, namely "Monetary Policy of the Central Bank of Chile: Objectives and Transmission" and "The Central Bank of Chile and the Economy." The latter introduces the central bank's purpose, functions, and main regulations as well as the principal macroeconomic time series since 1986. The proceedings of annual conferences, representing an important platform where economic issues are debated, are also available on the web-site, together with the text of public addresses of central bank officials.

Accountability and assurances of integrity by the central bank

6. **Accountability for the conduct of monetary policy is ensured by virtue of the fact that the Bank is to inform the President of the Republic and the Senate in the performance of its duties, its policies and any regulations having general applicability.** Although *de jure* the BCCh is only required to provide information on its policies, in practice it also provides extensive explanations, thereby justifying the appropriateness of its policy decisions. The central bank is required to consider the general orientation of the Government's economic policies when passing a resolution through the Board and may obtain any necessary information from other public institutions in the conduct of monetary policy. The institutional relationship is thus one of coordination, subject to the primacy of the central bank objectives. The sharing of information between the monetary and the fiscal authority is facilitated by the presence of the Finance Minister in Board meetings. The Minister of Finance attends Board meetings (including monetary policy meetings) with veto rights subject to detailed procedures and limitations as set out in the law. A number of internal governance provisions will shortly be published on the BCCh web-site, significantly enhancing operational transparency and market perceptions of integrity.

C. Principle-by-Principle Assessment

7. **The assessment of observance with each practice of the MFP Transparency Code is made qualitatively, based on existing laws, regulations, and practices.** A five-part assessment system is used: **observed**, implying full observance or with insignificant shortcomings; **broadly observed**, where minor weaknesses exist and these are not seen as

being of a significant nature so as to raise serious doubts about the BCCh’s ability to achieve the objective of that practice; **partly observed**, where shortcomings are sufficient to raise doubts about the BCCh’s ability to achieve observance and could affect the operational process and effectiveness of monetary policy; **not observed**, where the practice is not being observed and no substantive progress has been recorded toward achieving the objectives of the practice; and **not applicable**, where, due to the institutional and legal framework, the transparency practice is not relevant.

Table 1. Detailed Assessment of Observance of IMF’s MFP Transparency Code—Monetary Policy

I. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS FOR MONETARY POLICY	
1.1	The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.
Description	<p>Legal basis: Article 97, Chapter XII of the current Constitution of Chile granted the central bank a constitutional rank, defining it as an autonomous body with its own equity, of a technical nature, whose composition, organization, functions and attributes are determined through a basic constitutional law of its own. The relevant legal basis is thus Law 18,840, entitled “Basic Constitutional Act of the Central Bank of Chile” (hereinafter referred to as the central bank law), amended as of May 31, 2002. Any amendments require a strong quorum of two thirds of the Senate, thereby conferring a constitutional status to the BCCh statute.</p> <p>Monetary policy objectives: The legal basis for the ultimate objectives of monetary policy is set out in section 3 of the central bank statute which states that “the Bank shall have as its purposes to provide for the stability of the currency system and the due payment of both internal and foreign debts.” In Spanish this is worded as “la estabilidad de la moneda y el normal funcionamiento de los pagos internos y externos.” Further to the discussions, the English translation of section 3 is being revised in full, to reflect more appropriately the meaning of the Spanish official version. The reference made has been changed (preliminarily) to “the Bank shall have as its purposes to provide for the stability of the currency and the normal functioning of external and internal payments.” This translation, like the existing one, will not however be an official rendering of the law.</p> <p>The most recent change in the institutional framework dates to 1999 when the central bank issued a communiqué announcing the suspension of the exchange rate band http://www.bcentral.cl/esp/prensa/comunicados/pdf/02091999.pdf and the adoption of an explicit inflation targeting framework. Another communiqué subsequently announced http://www.bcentral.cl/esp/prensa/comunicados/pdf/22022000b.pdf the publication of monetary policy reports and a detailed regulation for the functioning of the Board.</p>
Assessment	Observed
Comments	The target and instrument autonomy of the Central Bank of Chile are very strong by virtue of being enshrined in the Constitution. Moreover, the central bank law provides adequate safeguards for accountability that complement the provisions on autonomy. Although the current legal definition of the monetary policy objective provides some flexibility in its interpretation (it could support full fledged inflation targeting as much as a fixed exchange rate regime), that same flexibility could also be viewed as a weakness to the extent that it opens the door to issues of interpretation. The latter part of the objective “to provide for the normal functioning of external and internal payments,” combined with the possibility for interpreting currency stability as exchange rate stability rather than price stability, could

	<p>also create some uncertainty, and would thus gain from further clarification. These potential problems are mitigated however in practice by the extensive public disclosure (notably through Board communiqués) regarding the inflation targeting regime.</p> <p>In addition, it would be advisable to finalize the official English translation of “estabilidad de la moneda” so as to replace “stability of the currency system” by “currency stability.”</p>
1.1.1	The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.
Description	<p>Apart from being specified in the legislation, the objectives of monetary policy, as well as exchange rate policy, are disclosed and explained in a brief write-up published on the web-site at http://www.bcentral.cl/eng/funorg/functions/05.htm wherein it is stated that the central bank’s monetary policy must protect the value of the country’s currency, the peso, seeking to keep inflation low and stable. A more specific statement of both the objectives and the transmission mechanism of monetary policy in the current inflation targeting framework is found at http://www.bcentral.cl/eng/stdpub/publications/policies/polit03.htm</p> <p>Other means of public disclosure and explanation, including the publications program, concluding statements of the Monetary Policy meetings and seminars given by Bank officials are discussed below (see for instance practice 2.1 and 3.3).</p>
Assessment	Observed
Comments	
1.1.2	The responsibilities of the central bank should be specified in legislation.
Description	The central bank law (in Section 3) refers to the following as being responsibilities of the Central Bank of Chile: regulating credit and currency in circulation as well as the performance of credit transactions and foreign exchange. The law refers to the Bank’s issuance of regulations on monetary, credit, financing and foreign exchange matters.
Assessment	Observed
Comments	
1.1.3	The legislation establishing the central bank should specify that the central bank has the authority to utilize monetary policy instruments to attain the policy objective(s).
Description	The legislation endows the Bank with authority to use the instruments at its disposal for the pursuance of its policy objectives. This is done in Section 34 on the regulation of the stock of money in circulation and credit, in Section 35 on financial sector and capital market regulation, and in Section 36 on the maintenance of financial sector stability.
Assessment	Observed
Comments	
1.1.4	Institutional responsibility for foreign exchange policy should be publicly disclosed.
Description	<p>Institutional responsibility: The responsibilities of the BCCh in the conduct of foreign exchange policy are clearly and publicly disclosed. In particular, the regulation of foreign exchange matters is referred to in Section 3 and transactions are elaborated in Subtitle 8. However, the BCCh statute does not explicitly refer to the institutional responsibility for the choice of the exchange rate regime.</p> <p>Operational issues: General concepts surrounding exchange rate policy are set out in a brief write-up published on the web-site at http://www.bcentral.cl/eng/funorg/functions/05.htm According to the latter, since the shift to a free-floating regime has been in September 1999, the central bank is committed to maintain inflation within the target range, while the</p>

	<p>market determines the value of the currency. It is stated that “foreign exchange flexibility [...] does not mean that the Central Bank of Chile cannot intervene in the market under exceptional circumstances, if it considers that the currency is moving too far away from its equilibrium value, and costly reversions could lie in the future. These interventions, however, take the form of transparent, well-founded measures, which include explicit definitions of the periods and amounts involved, as well as the clear explanation of the reasons behind these exceptional actions.”</p> <p>A more specific assessment of the rationale behind exceptional interventions in the foreign exchange market can be found in a box in January 2003 Monetary Policy Report (http://www.bcentral.cl/eng/stdpub/publications/policies/pdf/mpr012003.pdf)</p>
Assessment	Observed
Comments	<p>While the Central Bank’s Charter gives the BCCh clear responsibility for performing and regulating foreign exchange transactions, it does not explicitly refer to the institutional allocation of responsibility over the choice of the exchange rate regime. However, the central bank has exerted clear responsibility for setting the exchange rate regime, as demonstrated by numerous Board resolutions, including the decision in 1999 to suspend the exchange rate band and announce an explicit inflation target. (The communiqué announcing the suspension of the exchange rate band was referred to above http://www.bcentral.cl/esp/prensa/comunicados/pdf/02091999.pdf). Moreover, the presence of the Minister of Finance (with right of veto) on the Board is an implicit assurance of agreement between the BCCh and the government. Nonetheless, the central bank’s responsibility for setting the exchange rate regime could be more clearly spelled out.</p>
1.1.5	The broad modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.
Description	<p>Reporting requirements: Accountability for the conduct of monetary policy is ensured by virtue of the fact that, according to Section 4 of the law, the Bank is to inform the President of the Republic and the Senate in the performance of its duties, with regard to its policies and the regulations it issues with general applicability.</p> <p>The law provides in Section 66 a possibility for “Decisions, regulations, resolutions, orders or instructions issued by the Bank pursuant to its authority under Sections 34, 35, 36, 58, and 61 and in Subtitle Eight of Title III which are claimed to be illegal, may be appealed by the interested party to the Court of Appeals of Santiago.”</p>
Assessment	Observed
Comments	<p>The legislation sets out the broad modalities of accountability, however one should bear in mind that with stronger forms of autonomy comes the need for greater safeguards for accountability. A distinction can be drawn between different variants of central bank autonomy, bearing in mind that the BCCh statute provides for central bank autonomy in the interpretation of the primary objective of currency stability, and in the selection of the target for achieving this objective. Goal and target autonomy are stronger than instrument autonomy (which is essentially implementing monetary policy within pre-determined targets to reach the government’s objectives). The type of central bank autonomy has implications on the nature of accountability. Central banks such as the BCCh, which may be especially prone to accusations of having a democratic deficit, should direct their accountability provisions to the choice of the primary goal and target, while in the case of central banks with instrument autonomy the focus of accountability would be on implementation issues. Although <i>de jure</i> the BCCh is only required to provide information on its policies, in practice it also provides extensive explanations, thereby justifying the appropriateness of its policy decisions.</p>

1.1.6	If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.
Description	<p>Section 19 of the central bank law authorizes the Minister of Finance (or a deputy) to attend Board meetings, including monetary policy meetings, with the right to be heard. The procedures for ministerial suspension of central bank decisions and the limitations on the former's veto rights are set out in more detail in the regulations pertaining to the organization of ordinary Board meetings. The regulation for ordinary Board meetings is found at http://www.bcentral.cl/eng/funorg/boardregulations/norms01.htm, while rules specific to monetary policy meetings of the Board are found in http://www.bcentral.cl/eng/funorg/boardregulations/norms02.htm</p> <p>In any of these meetings, the Finance Minister may suspend the application of any Board motion or resolution for up to 15 days, provided the totality of the Board members insist on its implementation, in which case the suspension is overruled. During the suspension, if so requested by the Minister, the Governor may not refuse to call a meeting to discuss the matter and has up to three working days to do so. If this relates to existing rules that expire during the period of the suspension, then such a rule will be extended until the suspension period has ended and this is publicly disclosed by the Secretary in the Official Gazette.</p> <p>As discussed below, the President of the Republic could theoretically dismiss the governor if he/she did not fulfill its obligations or Board decisions, at the reasoned request of at least three Board members, requiring then a simple majority approval by the Senate. The President of the Republic can also remove any or all Board members, under circumstances in which these Board members have voted in favour of measures that go against the central bank's objectives and create a direct and clear damage to the national economy. This is also subject to majority approval by the Senate.</p>
Assessment	Observed
Comments	<p>A number of central bank laws contain explicit procedures for conflict resolution in the event of disagreement in the conduct of fiscal, monetary or exchange rate policy between the central bank and the ministry of finance. While the participation of the latter in the BCCh Board discussions facilitates monetary and exchange rate coordination, disagreement may still arise on the conduct of fiscal policy. Consideration could be given to stipulate that in this event, once the central bank's recommendations have been made public, both parties should publish statements explaining their views. In this way, the central bank will have the possibility to state that it cannot temporarily be accountable for price stability due to factors outside its control. While such a provision may never be used, it does provide the central bank with additional leverage to deal with disagreements. In Chile, such risks are offset by a history of fiscal discipline (with the adoption of an informal fiscal rule since March 2000) and the ability of the BCCh to take monetary policy decisions accordingly and effectively communicate them to the market. The lack of an explicit reference to a strict inflation target in Section 3 of the statute is also beneficial in this respect.</p>
1.1.7	The procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation.
Description	<p>Appointment and terms of office: Members of the Board are appointed for staggered renewable terms of ten years (according to Sections 7 and 8 of the central bank law) by the President of the Republic, with the prior approval of the Senate, by means of an executive decree issued through the Ministry of Finance. The Governor of the Bank is appointed by the President of the Republic from among Members to chair the Board for a five year renewable term (or until the expiration of his term in office as member of the Board,</p>

	<p>whichever comes first). The Board elects its vice-governor, who remains in this position for the duration of her/his appointment to the Board. Members are precluded from undertaking any other activity, remunerated or otherwise, in the private or public sectors, except for teaching or academia.</p> <p>Dismissal: According to Section 16, the President of the Republic may dismiss the member acting as Chairman of the Board and Governor of the Bank upon a justified request of at least three of its members on the grounds of non-compliance with the policies adopted or the regulations issued by the Board. In so doing, the President of the Republic requires the prior approval of the Senate, sought within thirty days of the members' request for dismissal. The person thus dismissed may nevertheless be reappointed provided that ten years have lapsed.</p> <p>In addition, Section 17 allows the President of the Republic (here too subject to "justified reason" and prior approval of the Senate) to remove any or all of the Board Members on the grounds of the latter's vote in favour of resolutions representing a "material and clear breach of the purposes of the Bank" provided that this has been the main and direct cause of a material damage to the economy. Any Board members thus removed from office have the right of a hearing before the Senate and cannot be reappointed for a period of ten years. Board members can also be removed through accusation to the Court of Appeals of Santiago. Arguments for such dismissal include: voting on resolutions influencing credit operations, investments or other business in the face of a proprietary interest; conduct that involves abuse of the position on the Board to obtain (or grant to third parties) any direct or indirect benefits.</p>
Assessment	Observed
Comments	<p>Best practice suggests that Board member's terms of office should exceed the electoral cycle of the body responsible for their appointment process. Although the last four Governors have been appointed half-way through the six-year electoral cycle, until the bill discussed by Congress to increase the frequency of elections to four years, there is the possibility for the Governor's term to fall within the electoral cycle. Moreover, the Governor is appointed from amongst the Board members, whose term, once renewed, can reach twenty years. This could be detrimental to the independence of the BCCh, as it creates an incentive for partisan behavior to secure re-appointment.</p> <p>The BCCh statute contains no restrictions on subsequent service for central bank officials. Consideration might be given to introducing such provisions in the central bank law so as to guard against conflict of interests. In particular, employment in fields such as financial services, when directly related to the officials' former area of responsibility, should be subject to a cooling-off period. It is noteworthy, however, that Article 54 of the Constitution precludes members of the BCCh Board, from running for election in either the Senate or the Congress.</p>
1.2	The institutional relationship between monetary and fiscal operations should be clearly defined.
Description	<p>The central bank is required by Section 6 of the law to consider the general orientation of the Government's economic policies when passing a resolution through the Board. The institutional relationship is one of coordination, subject to the primacy of the central bank objectives set out in Section 3. The Bank reports to the Senate, and can obtain information necessary from public institutions for the conduct of monetary policy. The legal basis for the Bank's authority to request information from the government is in Section 53 of the law. This allows it to "obtain from the various agencies and departments of the Civil Service Administration, decentralized entities, and generally the public sector, any information it may deem necessary." The Bank also advises the President of the Republic,</p>

	upon the latter's request, in all matters within the scope of its duties, according to Section 4 of the law. The sharing of information between the monetary and the fiscal authority is facilitated by the presence of the Finance Minister in Board meetings, as referred to above. Section 19 gives the Minister of Finance the right to attend Board meetings, including monetary policy meetings, and the right to be heard. The Minister is to be informed in advance and in writing of all meetings convened and their agenda. During the meeting, the Minister may suggest to the Board either orally or in writing, the adoption of specific resolutions for the Board to include on the agenda of the following meeting.
Assessment	Observed
Comments	It is important to note that in Section 6, the BCCh Council is required to "consider [in Spanish "tener presente"] the general orientation of the Government's economic policies" when passing its resolutions. The permanent representation of the finance ministry on the Board, the exchange of information between the two parties and regular reporting and disclosure requirements support an interpretation of this provision along the lines of coordination.
1.2.1	If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.
Description	The Central Bank of Chile is not permitted to extend any advances to the government, as per Section 27, which states that "No public expenditure or credit of whatsoever nature may be financed either directly or indirectly with loans granted by the Bank." The only exception would be foreign war or threat of foreign war, and this would have to be qualified by the Council on National Security by means of a secret resolution.
Assessment	Observed
Comments	It must also be noted that the prohibition of direct or indirect credit to government (except for public financial institutions) is enshrined in the Constitution's Article 98.
1.2.2	The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed.
Description	The amounts of such facilities are disclosed in the central bank balance sheet and annual report. As regards their terms, two sections of the central bank law are of relevance. Section 37 allows the BCCh to charge a fee for the services it carries out on behalf of the government. The fees charged by the central bank are established on a cost recovery basis. Section 34 refers to the possibility for the Bank to set up deposit accounts on behalf the Treasury or State enterprises. With respect to the remuneration of government's foreign currency deposits held at the central bank, interest rates are market-related rate (discounting for lower risk).
Assessment	Observed
Comments	
1.2.3	The procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.
Description	The Central Bank of Chile is precluded from direct central bank participation in the markets for government securities. Under no circumstances, according to Section 27, shall the Bank acquire securities issued by the state, its agencies or enterprises. The wording of this article of the law suggests that it applies to primary and secondary markets, since open market operations take place essentially through regular auctions of promissory notes issued by the central bank.

Assessment	Observed
Comments	
1.2.4	Central bank involvement in the rest of the economy (e.g., through equity ownership, membership on governing boards, procurement, or provision of services for fee) should be conducted in an open and public manner on the basis of clear principles and procedures.
Description	<p>Equity ownership: Participation of the central bank is limited to the financial sector. As a consequence of the bailing out of banks involved in the 1983 crisis, the central bank's balance sheet reflected and still reflects an involvement in the rest of the economy. This situation has been dealt with the promulgation of a number of banking laws. These include: Acuerdo N° 1450-06-820712 of BCCh which established rules about purchase of non performing loans held by commercial banks which banks had to repurchase within a 10-year period; Acuerdo N° 1555-07-840209 and its modifications which established new mechanisms for sales of non performing loans and payments forms; Law N° 18.401 (26.01.85), modified by law N° 18.818 (01.08.89) which replaces obligations derived from sales of non performing loans by subordinated obligation; Law N° 19.396 which established a new treatment of the subordinated obligations held by some commercial banks against the BCCh; Acuerdo N° 476-02-960118 which set out the central bank's rules for the application of law N° 19.396.</p> <p>Membership on governing boards: Amongst the bodies in which the BCCh is represented are the copper commission Cochilco, the secretariat against trade distortions and the foreign investment committee.</p> <p>Procurement: If the contracts involved are sizable, the call for offers would be published in the Official Gazette and would be regulated by the Ley sobre Contratos Administrativos No.19.911 available on www.bcn.cl. The procedures are set out by the Board in the Compendio de Normas Administrativas Internas, while more specific issues are dealt with in the Procedimientos Administrativos de la Gerencia de Administración y de Contabilidad.</p> <p>Provision of services for a fee: The only fees that may be charged by the central bank relate to its role as fiscal agent (in Section 37) and services other than banking provided to financial institutions (Section 54).</p>
Assessment	Broadly Observed
Comments	<p>Although the internal audit provisions referred to in Section 26 of the law are not yet publicly disclosed, Chapter V of the internal norm codes, regarding acquisitions and the modalities for procurement, will shortly be published on the BCCh web-site. This is a significant improvement in operational transparency, as the BCCh clearly stands to gain from a more active disclosure of the procedures set out in various internal documents upholding its operational integrity.</p> <p>A further development in the disclosure of internal governance procedures is the planned publication of a brief note drawn from various BCCh addresses at the annual meeting of the Centro de Estudios Monetarios de Latin America on this subject.</p>
1.2.5	The manner in which central bank profits are allocated and how capital is maintained should be publicly disclosed.
Description	<p>Capital: Section 5 of the central bank law specifies that the initial capital of the Bank amounts to \$500 billion and that it may be increased by decision of the majority of Board Members, through capitalization of reserves and adjusted by means of monetary correction. By a justified decision of the majority of the Board Members, the Bank is entitled to request the Minister of Finance to increase its capital or make specific contributions to its</p>

	<p>assets on account of funds to be appropriated under the Nation's Budget Act.</p> <p>Profit allocation: According to Section 77, up to 10 percent of any surplus is to be allocated to constitute reserves, if the Board so decides. The resulting balance would then be transferred to fiscal revenue, unless the whole or part is applied by law to increase the capital of the Bank or its reserves. Any deficit from any fiscal year is to be offset against existing reserves.</p>
Assessment	Observed
Comments	A clearly defined limit on allocation of profits to general reserves until they reach a specified threshold may be included, often defined as a multiple of the authorities' capital. A certain percentage of monetary liabilities, in the range of 5 to 10 percent, could be a better proxy for the risk such reserves are expected to cover.
1.3	Agency roles performed by the central bank on behalf of the government should be clearly defined.
Description	According to Section 37, the Minister of Finance may request the central bank to take part in any transaction (compatible with its objectives) on behalf of the State by issuing an executive decree. These are discussed below.
Assessment	Observed
Comments	
1.3.1	Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves; (ii) as banker to the government; (iii) as fiscal agent of the government; and (iv) as advisor on economic and financial policies and in the field of international cooperation, should be publicly disclosed.
Description	<p>(i) Management of domestic and external public debt and foreign exchange reserves: The permissible transactions referred to above include repayment and servicing of public debt, as well as its conversion and renegotiation. The law specifies that the Treasury will have previously provided the necessary funds to the Bank and that the latter is entitled to charge a fee agreed upon with the State in performing its role as fiscal agent. As regards the management of foreign exchange reserves, while foreign trade policies fall under the responsibilities of the President of the Republic and are implemented through the different ministries and the national customs service, the Bank is required to maintain information systems on foreign trade operations with regard to their foreign exchange implications (returns and export liquidation, import coverage). Standards and procedures for reserve management are drawn up by the Board and implemented by the International Division in conjunction with foreign investment banks of high calibre.</p> <p>(ii) Banker to the government: Section 55 allows the Bank to open checking accounts to the Treasury and other state entities, agencies or enterprises. The issuance of the general conditions applicable to such checking accounts is a matter determined by Board majority. This in practice is reflected in the Copper Stabilization Fund, Oil Price Stabilization Fund, and foreign exchange deposits. All these are accounted for in the balance sheet of the central bank.</p> <p>(iii) Fiscal agent of the government: In addition to the management of domestic and external public debt, the central bank may be called upon to participate and operate with foreign or international financial bodies; contract credits abroad; issue securities and place them on international markets; grant credits to international or foreign states, central banks, banks and financial institutions, when the purpose of these credits is to meet its objectives; and maintain, manage and dispose of its foreign currency reserves in the country or abroad. The authority of the bank regarding international transactions is the subject of Section 38.</p>

	(iv) Advisor on economic and financial policies and in the field of international cooperation: As referred to above, the Bank also advises the President of the Republic, upon the latter's request, in all matters within the scope of its duties, according to Section 4 of the law, and organizes seminars relating to matters of interest at the request of the Senate Financing Commission.
Assessment	Observed
Comments	
1.3.2	The allocation of responsibilities among the central bank, the MoF, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.
Description	The BCCh as fiscal agent, represents the Treasury in the placement and administration of payment services of bonds issued by the Treasury in UF in the domestic market. This is outlined in the dispositions of the Ministry of Hacienda (Decree No.855 published in the Official Newspaper of Oct.10, 2003, according to BCCh Board Agreement No.1088E-01-031010 and its Operating Regulation, published in the Official Newspaper of Oct.11, 2003). The BCCh places issued BTU without physical imprint in the primary market, delivering to the buyers in the Empresa de Depósito de Valores. The institutions allowed to operate in the BCCh primary market are: Banks, financial institutions, insurance companies, pension fund managers, mutual fund managers. Other institutions can purchase these debt titles in the secondary market. The division of responsibilities between the BCCh and the Treasury are defined and published in the above dispositions. The Treasury assumes overall responsibility for bond redemptions, interest payment, commissions, fees and other expenses. The BCCh carries out bond redemptions or services the BTU, in the name of the Treasury, thereby deducting the relevant charge from the funds deposited at the BCCh.
Assessment	Observed
Comments	
II. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS	
2.1	The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.
Description	<p>The framework for monetary policy, its targets, instruments and procedures are discussed briefly in a non-technical note in http://www.bcentral.cl/eng/funorg/functions/05.htm, and more extensively in http://www.bcentral.cl/eng/stdpub/publications/policies/polit03.htm. Numerous studies, publications and articles, particularly in the field of economic research, are featured in http://www.bcentral.cl/eng/stdpub/ which also contains proceedings of the Central Bank of Chile's annual conferences, an important platform where economic issues are debated.</p> <p>Targets: The inflation target is defined as a symmetrical range of from 2 to 4 percent, centered on 3 percent, which must be met permanently over a medium-term horizon of two years. Although the medium-term operating target is defined in terms of changes in the consumer price index (CPI), due to its high month-to-month volatility, the central bank focuses its short term assessment of inflationary pressures on a number of underlying inflation measures, including the one registered officially by the National Statistics Bureau. Macroeconomic models and judgment are used to forecast inflation over a medium-term horizon of 12 to 24 months. The nominal interbank interest rate, or monetary policy rate is</p>

	<p>an intermediate target.</p> <p>Instruments: The central bank targets the nominal interbank interest rate, or monetary policy rate (tasa de política monetaria), by regulating financial system liquidity (or reserves), through the use of several instruments: open market operations, purchases and sales of short-term promissory notes, and liquidity deposits and lines of credits (expanded facilities). Reserve requirements tend not to be used as an active monetary policy instrument.</p>
Assessment	Observed
Comments	See below for further details on the publications program, in particular the planned disclosure of the model underlying the forecasts for inflation.
2.1.1	The procedures and practices governing monetary policy instruments and operations should be publicly disclosed and explained.
Description	<p>As referred to above, monetary policy operations are described in http://www.bcentral.cl/eng/funorg/functions/05.htm</p> <p>Open market operations take place through regular Dutch auctions (for financial institutions, pension fund managers, insurance companies and mutual funds) of central bank promissory notes, not government securities. In the event of a liquidity shortage the central bank purchases promissory notes using an overnight repurchasing agreement, and, conversely, it mops up excess liquidity by selling short-term notes in the form of dematerialized documents.</p> <p>Liquidity management is based on a cash flow program covering the period that the reserve requirement is measured that forecasts supply of and demand for banking reserves. Demand is of a derivative nature depending on reserve rates and trends foreseen for demand and time deposits, while the supply of banking reserves depends on velocity, sources of emission, including expiry dates for promissory notes auctioned off during previous periods and other sources of monetary expansion, including the Treasury's financial operations. The auctions calendar is provided to the public the day before a new reserve period begins. Day-to-day liquidity management involves fine-tuning the projections through repurchase operations or special sales of short-term promissory notes.</p> <p>Through the liquidity credit line, financial institutions can benefit from with one-day unsecured loans for limited amounts and by interest rate tranche, while the liquidity deposit allows them to deposit temporary liquidity surpluses at the central bank for a minimal return.</p> <p>Exceptional interventions in the foreign exchange market are reported biweekly in the Economic and Financial Report (http://www.bcentral.cl/eng/stdpub/publications/economy/econ01.htm), as announced when the suspension of the band was put into place (see http://www.bcentral.cl/esp/prensa/comunicados/pdf/02091999.pdf)</p>
Assessment	Observed
Comments	
2.1.2	The rules and procedures for the central bank's relationships and transactions with counter parties in its monetary operations and in the markets where it operates should be publicly disclosed.
Description	The web-site includes the regulatory framework and operating guidelines for the central bank's counterparts in the financial sector (cf. compendio de normas financieras relativas a

	<p>sistemas de financiamiento; operación, intermediación y control del sistema financiero y mercado de capitales; operaciones del banco central de Chile con instrumentos financieros; y operaciones de empresas bancarias y sociedades financieras en moneda extranjera) and the foreign exchange market, in, respectively http://www.bcentral.cl/esp/normativa/financieras/ and Compendium of Foreign Exchange Regulations; Procedures Manual and Information Forms. In addition, circulars to banks and other correspondence regarding changes in the settings of monetary policy instruments are set out in http://www.bcentral.cl/esp/normativa/circulares/</p>
Assessment	Observed
Comments	
2.2	Where a permanent monetary policy making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.
Description	<p>An organizational chart, including the Board members, General Manager, General Counsel, and Division Managers is published on the web-site (including their respective curricula vitae) at http://www.bcentral.cl/eng/funorg/authorities/. The functions of the Board are set out in Section 18 of the central bank law. The Board is to (i) establish the general policies, issue regulations of general applicability for central bank transactions, and exercise the supervision and control of the latter; (ii) approve internal staff regulations, determine administrative and personnel structures, set staff compensation and allowances; (iii) appoint, accept resignations and terminate the contracts of the General Manager, the General Counsel and the General Auditor (and substitutes in their absence) as well as lawyers or signatories; (iv) open or close domestic and foreign agencies, offices or branches; (v) determine (publishing in the Official Gazette) working days and business hours to the public; (vi) approve or reject annual financial statements and decide on write-offs and reserves; and (vii) delegate certain administrative and operational authority upon Board members, or grant special powers to third parties, establishing the latter's compensation.</p> <p>The specific regulations stating the functioning of and attendance to the monetary policy meetings are presented in http://www.bcentral.cl/eng/funorg/boardregulations/norms02.htm. Moreover, the minutes of Board meetings, which include individual votes of board members present, along with arguments and opinions expressed, are published forty five days after the relevant meeting, and are available at http://www.bcentral.cl/esp/politicas/reunionespolitica/index.htm.</p>
Assessment	Observed
Comments	<p>For sound governance and the resolution of conflict of interest, alternative Board structures or composition could also be considered. The presence of non-executive directors, ideally the majority, and the creation of a separate supervisory board would help depoliticize the decision-making process of a unitary board structure. Otherwise, on a day-to-day basis the board is basically overseeing itself (even though there is the possibility for recourse by the Senate or the President of the Republic through the dismissal procedures discussed above).</p> <p>The functions of governing bodies typically consist of decision-making, policy implementation, and monitoring of the performance and financial condition of the central bank. A two-tier Board structure separates the decision-making from the monitoring functions. The nature of the Board will have implications on its chairmanship as well as its composition. While in boards with policy authority, the chairman tends to be the Governor, boards with supervisory responsibilities, which are supposed to oversee the Governor, will have to be chaired by a different person. Membership of a Board that is responsible for making policy decisions is typically a full-time position, with restrictions on other activities</p>

	to reduce the risk for conflict of interests, while that of a supervisory Board could be part-time.
2.2.1	If the policy making body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, the advance meeting schedule should be publicly disclosed.
Description	There are two types of Board meetings, ordinary and monetary policy meetings. Policy decisions are made at the latter, held on a monthly basis and publicly announced six months in advance (in http://www.bcentral.cl/esp/politicas/reunionespolitica/index.htm). The ordinary meetings are regularly scheduled, “once a week, preferably on Thursdays,” as disclosed in the Board Regulations on the web-site. It is stated therein that notice of meetings, including agenda, draft motions and any relevant background information, is to be sent to all Board members and to the Finance Minister via the Board secretariat with 48 hours’ notice (in http://www.bcentral.cl/esp/fuyorg/reglamento/normas01.htm)
Assessment	Observed
Comments	
2.3	Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.
Description	Decisions pursuant to the deliberations of the monetary policy meetings of the Board come into effect with the publication of the relevant resolution in the Official Gazette. In addition to such announcements, changes in the setting of monetary policy instruments are explained in the Monetary Policy Report as discussed below, and communicated immediately (in Spanish and English) after the closing of the monetary policy meeting. Official statements are publicly available on the web-site at http://www.bcentral.cl/esp/prensa/comunicados/politicamonetaria/index.htm .
Assessment	Observed
Comments	
2.3.1	The central bank should publicly disclose, with a pre-announced maximum delay, the main considerations underlying its monetary policy decisions.
Description	At the end of each monetary policy meeting, the Board approves its official statement for external distribution, thereby notifying the public of any decisions taken (see 2.2 above). The summary of monetary policy meetings is approved at the following ordinary meeting and is made public six weeks after that meeting was held. The Bank publishes the Monetary Policy Report three times a year. This report analyses economic and financial conditions, the basis of policies applied, and the most important prospects in the short and medium term.
Assessment	Observed
Comments	
2.4	The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.
Description	As required by Sections 78 to 80, the Bank is to prepare a report on its previous year's activities providing information on the execution of policies and programs, including the financial statements with their respective notes and opinion. The report is available to the public at the offices of the Bank and is also submitted to the ministry of finance and the

	<p>Senate prior to April 30 of each year. In addition, prior to September 30 of each year, the Board submits an evaluation of progress made regarding the policies and programs for the current year to the ministry of finance and the Senate, together with a report on proposed policies and programs for the next calendar year, outlining economic projections on which this information is based and possible effects on major items of the financial statement.</p> <p>As referred to above, the Central Bank of Chile regularly publishes a monetary policy report three times a year which presents an evaluation of past trends in inflation, a baseline scenario with explicit forecasts for future inflation (and growth) and a declaration of the risks that the Board of the central bank perceives could affect the baseline scenario over the next 12 to 24 months. The main objectives of this Report are: (i) to inform and explain to the general public the Board's view of recent and expected inflation trends and their consequences for the conduction of monetary policy; (ii) to publicly explain the medium-term framework used by the Board of the central bank to formulate monetary policy; and (iii) to provide information that is useful in the formulation of economic agents' expectations regarding future inflation and output trends. The current issue may be purchased at a cost of US\$20 while all previous issues are available for downloading from the web-site while all previous issues (in Spanish and English) are available for downloading from the web-site, at http://www.bcentral.cl/esp/estpub/publicaciones/politicas/polit02.htm.</p>
Assessment	Observed
Comments	The publication of a monetary policy report helps to focus attention on inflation projections which, in turn, eventually become an intermediate goal. Since these forecasts incorporate market expectations, it is stated in the description of policies that credibility depends on whether the BCCh will react in time and appropriately to a change in inflation forecasts, rather than if it reaches a specific number on a given date. For results of this survey of economic expectations see http://www.bcentral.cl/esp/infoeconomica/informes/expectativas/
2.4.1	The central bank should periodically present its monetary policy objectives to the public, specifying, inter alia, their rationale, quantitative targets and instruments where applicable, and the key underlying assumptions.
Description	as above
Assessment	Observed
Comments	
2.4.2	The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and their implications for its monetary policy objective(s).
Description	as above
Assessment	Observed
Comments	
2.5	For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favour of public consultations, within an appropriate period.
Description	The BCCh gathers comments from commercial banks in the course of meetings and through its web page. Moreover, in two recent instances a more systematic and web-based public consultation was performed. One, related to the transition to a payment system based on RTGS (July 2003), the second, on regulations regarding maturity mismatch (April 2003). The relevant information was placed on the web-site of the central bank and the general

	public and financial system at large were invited to submit comments, over a period of one month. In the case of RTGS, this was backed by a series of seminars and press statements to raise the level of awareness.
Assessment	Observed
Comments	
2.6	The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.
Description	Financial regulations with information on data reporting requirements are found on the web-site at http://www.bcentral.cl/esp/normativa/financieras/ Circulars and letters to financial institutions are published at http://www.bcentral.cl/esp/normativa/cartascirculares/index.htm
Assessment	Observed
Comments	
III. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY	
3.1	Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.
Description	Section 53 requires the central bank to compile and publish macroeconomic statistics, including those of a monetary and foreign exchange character, balance of payments and national accounts, and social accounting systems. The Board establishes the nature, contents and periodicity of the information it discloses by means of a resolution published in the Official Gazette. The central bank web-site provides series for the principal financial and macro-economic variables, as established by the IMF's Special Data Dissemination Standard (SDDS) to which Chile subscribed in 1997. A 2001 ROSC report had concluded that Chile meets SDDS specifications for timeliness, coverage and periodicity of all data categories and the dissemination of advance release calendars. National Summary Data Page (NSDP) Advanced Release Calendar Economic Data Base http://si2.bcentral.cl/basededatoseconomicos/900base.asp?usuIdioma=I
Assessment	Observed
Comments	
3.2	The central bank should publicly disclose its balance sheet on a pre-announced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.
Description	Balance sheet: As stated in Section 75, further to a favourable report from the Superintendence of Banks and Financial Institutions, the Board issues regulations for requirements and general conditions to which its annual financial statements shall conform. They are published, together with auditors notes and opinions, in the Official Gazette and in a newspaper of national circulation before April 30 of each year. The Financial Statements are found at http://www.bcentral.cl/eng/funorg/financialstatements/ Selected information on aggregate market transactions is disclosed on an annual and a monthly basis in the central bank publications.
Assessment	Observed
Comments	

3.2.1	Summary central bank balance sheets should be publicly disclosed on a frequent and pre-announced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented accounting standards should be publicly disclosed at least annually by the central bank.
Description	In addition to the annual disclosure of audited financial statements, the Bank is required by law to publish a monthly financial statement, which it does in the Economic Financial Indicators. (from January 2004 this publication has been superceded by a new, up to date Monthly Bulletin. See http://www.bcentral.cl/esp/estpub/publicaciones/economiageneral/ecogen01.htm)
Assessment	Observed
Comments	
3.2.2	Information on the central bank's monetary operations, including aggregate amounts and terms of refinance or other facilities (subject to the maintenance of commercial confidentiality) should be publicly disclosed on a pre-announced schedule.
Description	The Economic and Financial Report (from January 2004 this publication has been superceded by a new, more timely Monthly Bulletin http://www.bcentral.cl/esp/estpub/publicaciones/economiageneral/ecogen01.htm) includes the origin of variations in the monetary base.
Assessment	Observed
Comments	
3.2.3	Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by the central bank should be publicly disclosed through an appropriate central bank statement when such disclosure will not be disruptive to financial stability.
Description	The central bank is the economy's lender of last resort and as such provides liquidity to institutions that face temporary cash flow difficulties. Aggregate information on domestic loans to banks, financial companies and other institutions is provided in the financial statements: http://www.bcentral.cl/eng/funorg/financialstatements/
Assessment	Observed
Comments	
3.2.4	Information about the country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities should be publicly disclosed on a pre-announced schedule, consistent with the International Monetary Fund's Special Data Dissemination Standards.
Description	The data published on the web-site include the international liquidity statement and foreign currency position; information on Chile's annual investment abroad and an economic statistics calendar. International Liquidity Statement International Investment Position
Assessment	Observed
Comments	As mentioned above, the BCCh subscribes to the SDDS.
3.3	The central bank should establish and maintain public information services.
Description	The information services established and maintained by the Central Bank of Chile include public disclosure of decisions as and when they occur and regular publications on central bank operations and monetary policy. Resolutions or decisions adopted by the Board which require public knowledge are published in the Official Gazette (as required by the central

	<p>bank law, in Section 67). Board resolutions or decisions of a private nature are notified to the public by means of their inclusion in summary form on a notice to be affixed (within five working days following its adoption) for at least three working days inside the Bank's main office in Santiago and its branches, where the general public has access.</p> <p>The main publications of the central bank are discussed below.</p>
Assessment	Observed
Comments	A detailed document discussing proposed changes to the publications program was submitted by the authorities to indicate the manner in which they intend to streamline the series of documents and data submissions, while enhancing their timeliness. Many of the changes will be implemented in the course of 2004. In the course of the FSAP discussions, BCCh officials enquired as to the possibility of assistance for devising a communications strategy. A draft document outlining the main features of the public information services in a selection of countries with inflation targeting regimes was submitted for their guidance.
3.3.1	The central bank should have a publications program, including an Annual Report.
Description	<p>An extensive set of publications is available on the web-site and include the following: Monetary Policy Report; Economic Policy Papers; Monetary Policy of the Central Bank of Chile: Objectives and Transmission; the Economic and Financial report (Full document PDF) and Annual Report http://www.bcentral.cl/eng/stdpub/publications/bcch/bcch01.htm</p> <p>A quarterly publication entitled "The Central Bank of Chile and the Economy" introduces the central bank's purpose, functions, and main regulations and includes macroeconomic time series since 1986 ( January 2003). A new, up to date Monthly Bulletin is the main publication containing relevant data as of January 2004. http://www.bcentral.cl/esp/estpub/publicaciones/economiageneral/ecogen01.htm</p>
Assessment	Observed
Comments	
3.3.2	Senior central bank officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favour of releasing the text of their statements to the public.
Description	<p>The text of statements and PowerPoint presentations made by Board and staff members is available on the web-site in the language of the original presentation. The English documents are posted on the web at http://www.bcentral.cl/eng/policies/speeches/boardmembers/2003.htm for the Board members and http://www.bcentral.cl/eng/policies/speeches/executives/2003.htm for staff.</p>
Assessment	Observed
Comments	Subsequent to the Governor's report at the Senate, a series of presentations are held with entrepreneurs, analysts and academics, both within Santiago and in the provinces.
3.4	Texts of regulations issued by the central bank should be readily available to the public.
Description	Regulations are available on the web-site at http://www.bcentral.cl/esp/normativa/ and are published in the Official Gazette.
Assessment	Observed
Comments	

IV. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK	
4.1	Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.
Description	Section 4 is the principal reference to accountability in the central bank law. It states that “the Bank shall inform the President of the Republic and the Senate with regard to the policies and regulations of general applicability issued by the Bank in the performance of its duties. Likewise, it shall advise the President of the Republic, upon his request, in all matters within the scope of its duties.” This is also referred to in the section of the law pertaining to the responsibilities of the Governor. Speeches of central bank officials explaining monetary policy objectives and performance to the general public are also on the web-site at http://www.bcentral.cl/esp/politicas/exposiciones/miembroconsejo/
Assessment	Observed
Comments	
4.2	The central bank should publicly disclose audited financial statements of its operations on a pre-announced schedule.
Description	The balance sheets, financial statements, reports on financial statements and balances are listed in chronological order (the latest being those pertaining to 2001) in the following section of the web-site: http://www.bcentral.cl/eng/funorg/financialstatements/
Assessment	Observed
Comments	
4.2.1	The financial statements should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.
Description	The financial statements, submitted by the General Manager to the Board’s decision within one month of the end of the fiscal year, are prepared by external auditors appointed by the Board from among those registered with the Superintendence of Banks and Financial Institutions. The financial statements contain a summary of significant accounting principles and notes from the auditors.
Assessment	Observed
Comments	
4.2.2	Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.
Description	Although the internal audit provisions referred to in Section 26 of the law are not yet publicly disclosed, Chapter V of the internal norm codes, regarding acquisitions and the modalities for procurement, will shortly be published on the BCCh web-site. This is a significant improvement in operational transparency, as the BCCh clearly stands to gain from a more active disclosure of the procedures set out in various internal documents upholding its operational integrity. A further development in the disclosure of internal governance procedures is the planned publication of a brief note drawn from various BCCh addresses at the annual meeting of the Centro de Estudios Monetarios de Latin America on this subject.
Assessment	Broadly Observed

Comments	As indicated above, disclosing BCCh internal governance procedures would serve to further enhance the public perception of the Bank's high standards of integrity. In this respect, the initiative taken by the Bank to publish a set of internal norms is a welcome addition to other aspects of its operational transparency.
4.3	Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.
Description	The income statement is presented within the financial statements attached to the annual report and published on the web-site, as discussed above. They also include personnel and administrative expenses.
Assessment	Observed
Comments	
4.4	Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.
Description	Further to Section 13 of the central bank law, Board members are precluded from intervening or voting on resolutions in which they may have a commercial interest. Board membership is incompatible with service in the private sector, state-owned institutions, agencies, banking enterprises and financial companies but participation in non-profit institutions and academia is permitted. Prior to taking office, Board members are required to declare their interests under oath, filed with a notaries office and held by the vice-governor.
Assessment	Broadly Observed
Comments	Although at present there is no disclosure of standards for the conduct of staff members' personal affairs, a short synthesis of the internal rules regarding the personal financial affairs of the staff will shortly be published on the web-site. The code of conduct and provisions against conflict of interest currently lies within internal documents referred to in Section 81 of the BCCh law. This article notes that what is not covered by internal rules (namely the Reglamento del Personal, the Manual de Principios Eticos Acuerdo No 1052E-01-030331 – Circular Interna No.422 and the Contrato de Trabajo) falls within the scope of the Labour Code.
4.4.1	Information about legal protections for officials and staff of the central bank in the conduct of their official duties should be publicly disclosed.
Description	According to Section 21 of the central bank law, Board members are under no obligation to appear in court, except as provided for in the codes of civil and criminal procedures.
Assessment	Not Applicable
Comments	

Table 2. Summary Observance of IMF’s MFP Transparency Code—Monetary Policy

Assessment Grade	Practices Grouped by Assessment Grade	
	Count	List
Observed	42	1.1; 1.1.1; 1.1.2; 1.1.3; 1.1.4; 1.1.5; 1.1.6; 1.1.7; 1.2; 1.2.1; 1.2.2; 1.2.3; 1.2.5; 1.3. 1.3.1; 1.3.2; 2.1; 2.1.1; 2.1.2; 2.2; 2.2.1; 2.3; 2.3.1; 2.4; 2.4.1; 2.4.2; 2.5; 2.6; 3.1; 3.2; 3.2.1; 3.2.2; 3.2.3; 3.2.4; 3.3; 3.3.1; 3.3.2; 3.4; 4.1; 4.2; 4.2.1; 4.3;
Broadly observed	3	1.2.4; 4.2.2; 4.4;
Partly observed	0	
Not observed	0	
Not applicable	1	4.4.1

D. Recommended Action Plan and Authorities’ Response to the Assessment

Recommended action plan

Table 3. Recommended Plan of Actions to Improve Observance of IMF’s MFP Transparency Code Practices—Monetary Policy

Reference Practice	Recommended Action
Practices 1.2.4 and 4.2.2	Pursue publication of internal norms regarding acquisitions and procurement on the BCCh web-site together with a brief note on internal governance.
Practice 4.4	Pursue the web-site publication of a note on internal rules regarding the personal financial affairs of the staff.

Authorities’ response

8. **In the Chilean authorities’ view, there is no need for clarifying the institutional responsibility for foreign exchange rate policy, as the law clearly establishes this responsibility.** They indicated that the BCCh is a public law (*derecho público*) institution, which is autonomous and of a technical nature. As established by its Constitutional Organic Act (COA), the BCCh must “provide for the stability of the currency and the normal functioning of external and internal payments.” In that regard, the BCCh receives ample public authorization to regulate the amount of currency and credit in circulation, to perform credit and foreign exchange transactions, and to exclusively issue regulatory provisions regarding monetary, credit, financing and foreign exchange matters. The exclusiveness to issue foreign exchange regulations derives from the fact that before the COA’s enactment, such authority pertained to the Monetary Council, and was later transferred to the BCCh, in accordance with the constitutional autonomy granted to it by the 1980 Constitutional Act of

Chile (CA). Furthermore, the BCCh has always been empowered to perform and regulate foreign exchange transactions aimed at accomplishing its institutional role.

9. **Based on the foregoing, and on several judicial pronouncements**² (i) the BCCh is independent from the State of Chile in the fulfillment of the public duty conferred to it by the law; (ii) it is subordinated not to a public authority, but to the 1980 CA and the COA that provide for its composition, organization, duties, and authorities; and (iii) it is the exclusive entity empowered to issue, among others, regulatory provisions regarding foreign exchange matters.

10. **Pursuant to the prevailing Chilean legal institutional framework, the President of the Republic lacks the authority to regulate those matters, which the law confers exclusively to the BCCh.** Such provision, enshrined in sections 6 and 7 of the 1980 CA, penalizes its infringement with the nullity of the corresponding act without prejudice of administrative liabilities. The foregoing explains that, regarding the relationship between the BCCh and the Executive power, the COA sets forth specific provisions on the BCCh's public duty. These include: (i) to perform in accordance with the general orientation of the government's economic policy; (ii) to inform the President of the Republic and the Senate as provided for in the law; and (iii) to include the Minister of Finance at Board meetings with the right to be heard and the power to suspend the enforceability of any decision or resolution passed by the Board within a period not to exceed 15 days, plus the right to veto the enforceability of foreign exchange restrictions, in which event the respective restriction may be adopted only with the favorable vote of all the Board members.

11. **In addition, the Chilean legal framework grants the BCCh the authority to directly engage in and regulate foreign exchange transactions.** The BCCh may, for example, purchase and sell foreign currency; issue notes payable in US dollars or denominated in foreign currency; enter into derivative transactions and hedge agreements. Likewise, it may regulate foreign exchange transactions by setting limitations and restrictions seeking to fulfill its above-described legal purpose.

12. **Therefore, the Chilean authorities do not share the view implicit in the comments in Principle 1.1.4 that "... the BCCh statute does not explicitly refer to the institutional responsibility for the choice of the exchange of the exchange rate regime."** As the assessment reports, the BCCh modified the foreign exchange policy in use of its exclusive and clear legal authority. In that regard, there are several examples confirming said legal exercise, both prior to the COA and after its enactment, that demonstrate the exclusive exercise of its authority to establish and amend the foreign exchange regime's components in effect in Chile. Those resolutions were adopted within the prevailing legal framework, with the participation of the Executive Power acting through the Ministry of Finance as provided

² The latest being a decision granted by the Court of Appeals of Santiago dated September 26, 2003, and confirmed by the Supreme Constitutional Court.

for in the COA, duly informed to the public when published in the Official Gazette, and reported to the Senate in the form and channels set forth in the referred COA.

13. **With respect to principles 1.2.4, 4.2.2 and 4.4, steps are being taken to increase the transparency in each of the issues.** In the short term, this will be reflected in the publication of procurement procedures and a set of norms governing the ethical and personal conduct of the staff. A more detailed description of the functioning of the internal audit unit will be made public as soon as it becomes available.