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THE CENTRAL BANK OF CHILE

EVOLUTION, ORGANIZATION AND ACTIVITIES

*WORK PREPARED BY THE INFORMATION, STATISTICS AND
PUBLICATIONS DEPARTMENT OF THE CENTRAL BANK OF CHILE*

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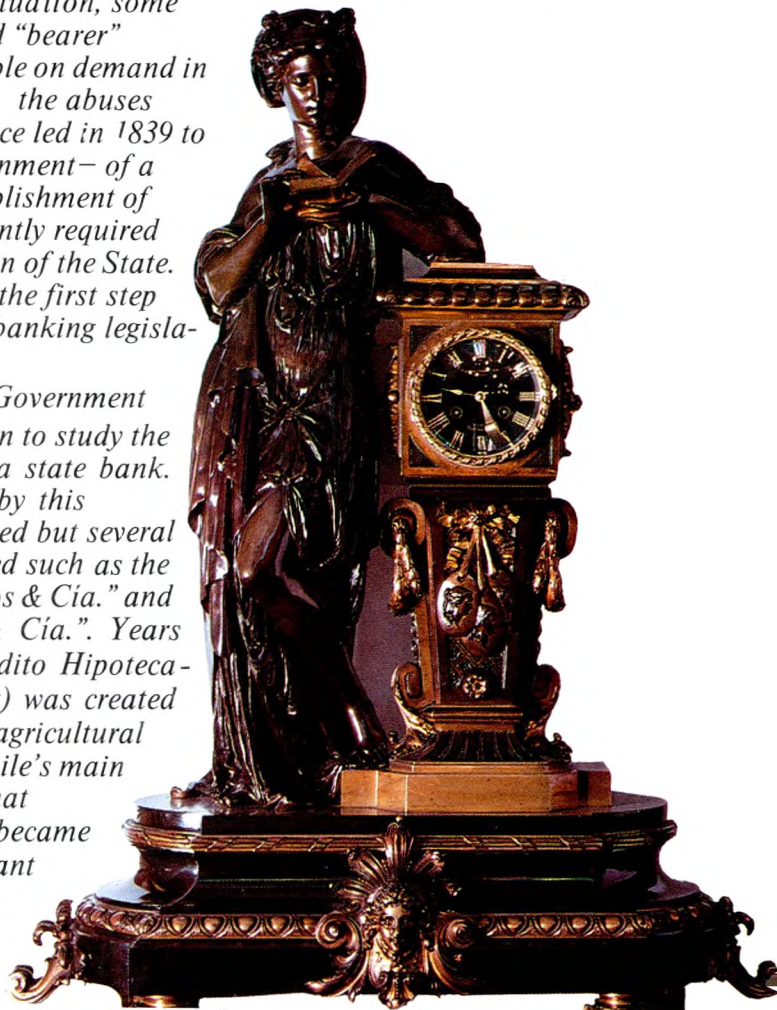
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1. HISTORICAL BACKGROUND

Since the first years of the Independence of Chile, there existed the intention of establishing an organization which would give more flexibility to the handling of currency. The confusion derived from the liberating action and the process of institutional organization of the Republic seriously damaged the general economic activity and the mining activity in particular, all of which directly affected the minting of coins. A characteristic of those times was the shortage of currency. In order to alleviate this situation, some commercial firms issued "bearer" promissory notes, payable on demand in local currency. However, the abuses originated by this practice led in 1839 to the issue –by the Government– of a decree whereby the establishment of issuing banks subsequently required the express authorization of the State. This decree constituted the first step towards monetary and banking legislation in Chile.

In 1845 the Government appointed a Commission to study the possibility of creating a state bank. The project (presented by this Commission) was rejected but several other Banks were created such as the "Banco de Chile de Arcos & Cía." and "Bezanilla, Mac Clure & Cía.". Years later the "Caja de Crédito Hipotecario" (a mortgage Bank) was created intended to encourage agricultural development, one of Chile's main economic resources of that period; this institution became one of the most important mortgage banks of the country.



A new Banking Law was issued on July 23, 1860, granting issuing faculties to private credit institutions. This law changed the spirit of the decree issued in 1839 by granting a broader scope of action to the private banking system. Jean Gustave Courcelle Seneuil, a French economist, hired as advisor to the Ministry of Finance and as professor of economics at the University of Chile, was the main author of the law of 1860 –inspired by the liberal principles of the classic school– which excluded the need of a central bank regulating the financial system. According to his economic conception the financial system was to be balanced automatically. This conception could have been successful in an environment detached from wars or strong political tensions, but this was not the case of Chile at that time. As a result of the monetary





instability during the last decades of the 19th century, of the notion of replacing the paper currency regime by a gold standard regulatory system, and of the evolution in the field of financial institutions in the more developed countries, the idea of creating a Central Bank began to take form at the beginning of this century.

During the early part of the 20th century, the country was affected by the problems of stabilization of its exchange rate and by the gravitation of a monetary system which was too rigid and did not meet the requirements of those times. Within this context, Chile began gradually to free itself from the agrarian economic structure, towards an industrial development. This situation was appropriate to support the belief of the convenience of establishing a central bank. The first legal proposal toward the establishment of a central institution with exchange rate policies and lending powers was made in August, 1918. On that occasion Mr. Luis Claro Solar presented a project to the Chamber of Deputies proposing the creation of a central bank. However, due to disagreements, mainly with respect to the exchange rate policy, the project was left in abeyance.

Later on, between the years 1919 and 1924, various other projects in connection with the establishment of a central bank were presented to the Government authorities and to Congress, the main ones

being those presented by Mr. Guillermo Subercaseaux and by a Committee of the Senate. None of them received final approval due to the difference of criteria prevailing at that time. In July, 1925, during the Presidency of Mr. Arturo Alessandri Palma, professor of economics at the University of Princeton, Mr. Edwin Walter Kemmerer, and a team of his assistants were hired to evaluate and lay the foundation of the financial organization of the country. This group of experts presented four schemes on different inter-related aspects which laid the foundations for an improved organization of the Chilean financial system. These schemes referred to a monetary law, intended to stabilize the paper currency, to the establishment of the gold standard as the basis of the monetary unit of the country, to the project of creating the Central Bank of Chile, to the general banking regulations and to the establishing of an organic law of the budget.

The monetary and banking legislation elaborated by the Kemmerer mission, contemplated the objectives of a central bank, which would regulate the currency in order to maintain it in harmony with the legitimate requirements of the economy tending to the stability of the currency, i.e., a fixed relation between exchange rate and gold.

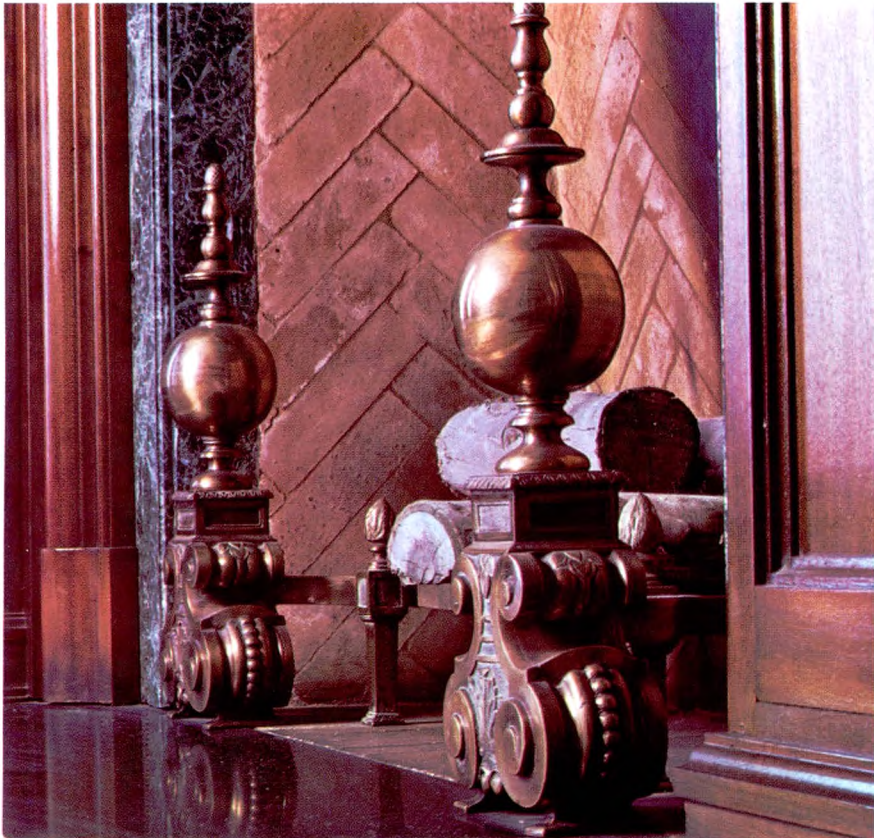
The Central Bank of Chile was founded on August 21, 1925, by Decree Law N° 486, which approved its first Organic Law. This institution initiated its activities on January 11, 1926. The regulation of the currency operated almost automatically by means of the purchase and sale of gold and foreign exchange, and by means of rediscounting of internal credit instruments, according to certain fixed norms.

After the world crisis of the years "30", which severely affected the economy and finances of the country, the Central Bank of Chile, as well as other foreign similar institutions, had to abandon the idea of automatic principles of regulation —which failed due to the economic recession— and developed varied instruments of monetary policy.

During the following three decades, the Central Bank gained experience from the evolution of our economy and from the study of the international economic events. Among the internal events which may be mentioned, are for example, the problems which our economy had to face during the second world war (1939-1945), its participation in the economic development, the process of acute inflation experienced during the "50's", and the different stabilization programs which were adopted in the country. With regard to the external experience, the

cyclic movements of the world economy, the evolution of foreign financial institutions, the relationship with those institutions and the Latin American monetary cooperation, may be mentioned.

The evolution with regard to the original objectives of the Bank has derived from the experience of historic or institutional situations or from different economic theories. This has been reflected in multiple reforms introduced in the organics by-laws, in the increased functions which have been assigned to the Bank, and in the evolution of operational practices. However, a detailed analysis of the modifications which somehow altered the original objectives of the Bank, shows that some of these changes were not often the most appropriate and that others only settled emergency situations. The first Organic Law of the





Bank was more consequent with the monetary equilibrium than those which followed, because theoretically it linked the issue of money to the requirements of the market and not to Central Government needs, or to those of public enterprises. Later the Organic Law approved in June, 1975, again emphasizes on stabilizing elements.

The legislation enacted in 1925 had a central and predominant objective: monetary and financial regulations. Subsequent evolution gradually added more objectives, until broader functions related to economic development, fiscal financing and social reforms were taken up by the Central Bank.

The inflation generated within the setting of this pseudo-social

critterium brought about price controls, fixed interest and exchange rates, continuous readjustments of salaries, indirect subsidies and indiscriminated statism, all of which led to a reallocation of resources opposed to the required criteria of efficiency. This brought about a slow growth of the economy, a loss in the welfare and opportunities of the whole population.

The bulk of this set of functions, which are alien to those of a Central Bank, came about between 1940 and 1953, year in which its Organic Law was reformed, consolidating all these activities and transforming the Bank into a mechanism that could generate inflation.

Some of the innovations of this reform improved and speeded the monetary regulation, but on the other hand did not compensate the burden of the inflationary potential which was being generated.

Another innovation of doubtful efficiency introduced in the decade of the "40's", and which was instituted by the law of 1953, was the designation of four parliamentary counselors.

These parliamentary counselors often hampered and delayed important decisions on monetary or exchange rate policies. In view of this unsatisfactory experience, the parliamentary counselors were eliminated in the reform of the organic law of 1960.

The political practices involved in the process of approval of the fiscal budget and of the initiatives for the approval of expenditures or the reduction of revenue, introduced chronic and growing deficits in the public treasury. These deficits were financed, by means of laws approved by Parliament with money issued by the Central Bank which exceeded the requirements of said monetary assets, consequently generating inflation.

This situation was carried to an extreme during the first three years of the decade of the "70's", and the Central Bank was transformed into the main financial instrument in the conversion of the economy towards government control, and in the sharp change experienced by the economic system. This led to an unbalanced monetary condition of such magnitude, that it culminated in an inflation estimated at an annual rate of 1.000% during the third quarter of 1973.



PRESENT SITUATION

The present nature, role, activities and policies of the Central Bank of Chile are established in its Organic Law.⁽¹⁾

By it a Monetary Council was created, the function of which is to determine the monetary, credit and foreign exchange policies in accordance with the guidelines set forth by the Government.

This Council, chaired by the Minister of Finance, is integrated by three ministers of the economic area, by the President of the Central Bank of Chile and by a representative of the President of the Republic. This entity determines the general characteristics of the before mentioned policies. Through the Executive Committee of the Central Bank,

(1) This legal body denominated Organic Law of the Monetary Council and of the Central Bank of Chile (L.O.B.C.) was published in the Official Gazette of June 28, 1975, as Decree Law N° 1.078. The text considered here it includes all modifications subsequently introduced through January 27, 1982.

its guidelines are channelled specifically to each and every body or executive level required by each particular policy.

The specific powers of the Central Bank, according to the current legislation, may be divided into two categories: one which is clearly regulatory and another of intervention in the financial markets.

The main regulatory powers are: execution and control of international exchange operations, the setting of limits for the relation between the assets and liabilities of all financial entities, the time limits



for the issue of financial instruments and the determination of the legal and technical reserves to which the financial institutions are subject. All general norms with respect to the juridical-institutional context within which these entities are inserted, are also included in this category.

The powers of the Central Bank which could eventually allow its intervention in the financial market, are to be found in a second category. This intervention could be generated through the fixing, by the Bank, of price or quantity restrictions in the credit market, or by its intervention in this market, as an additional agent. An example of the former is constituted by the power to “regulate quantitatively and qualitatively the loans which the financial institutions grant and the transactions which they effect”.⁽²⁾ The possibility of authorizing these entities to charge commissions and expenses for certain transactions, may also be mentioned⁽³⁾, as well as fixing the maximum amounts of these charges.⁽⁴⁾

On the other hand there exist others examples of the powers for direct action of the Central Bank in the financial market: granting of short term loans to financial entities “in case of emergency”⁽⁵⁾, possibility of opening lines of credit, power to grant refinancings, discounting and re-discounting of bills of exchange and other documents.

(2) Organic Law of the Monetary Council and of the Central Bank of Chile (L.O.B.C.) Title IV, article 18, paragraph 1.

(3) L.O.B.C. Title IV, article 18, paragraph 5.

(4) L.O.B.C. Title IV, article 18, paragraph 6.

(5) L.O.B.C. Title IV, article 19, paragraph 1.



Notwithstanding the aforementioned, the policy followed by the monetary authorities has been that of non-intervention and non-discrimination between instruments and financial institutions of the same nature. The basic principle has been to fix clear and permanent policies for the financial agents.



1.1 MAIN AUTHORITIES OF THE CENTRAL BANK OF CHILE, SINCE ITS ESTABLISHMENT.

1.1.1

PRESIDENTS

<i>1926 - 1929</i>	<i>Ismael Tocornal Tocornal</i>
<i>1929 - 1931</i>	<i>Emiliano Figueroa Larrain</i>
<i>1931 - 1932</i>	<i>Francisco Garcés Gana</i>
<i>1932 - 1933</i>	<i>Armando Jaramillo Valderrama</i>
<i>1933 - 1939</i>	<i>Guillermo Subercaseaux Pérez</i>
<i>1939 - 1940</i>	<i>Marcial Mora Miranda</i>
<i>1940 - 1946</i>	<i>Enrique Oyarzún Mondaca</i>
<i>1946 - 1951</i>	<i>Manuel Trucco Franzani</i>
<i>1953 - 1959</i>	<i>Arturo Maschke Tornero</i>
<i>1959 - 1961</i>	<i>Eduardo Figueroa Geisse</i>
<i>1962 - 1964</i>	<i>Luis Mackenna Shiell</i>
<i>1964 - 1967</i>	<i>Sergio Molina Silva</i>
<i>1967 - 1970</i>	<i>Carlos Massad Abud</i>
<i>1970 - 1973</i>	<i>Alfonso Inostroza Cuevas</i>
<i>1973 - 1973</i>	<i>Carlos Matus Romo ⁽¹⁾</i>
<i>1973 - 1975</i>	<i>Eduardo Cano Quijada</i>
<i>1975 - 1976</i>	<i>Pablo Baraona Urzúa</i>
<i>1977 - 1981</i>	<i>Alvaro Bardón Muñoz</i>
<i>1981 - 1982</i>	<i>Sergio De la Cuadra Fabres</i>
<i>1982 -</i>	<i>Miguel Kast Rist ⁽²⁾</i>

(1) From June 2, 1973 to September 10, 1973.

(2) From April 23, 1982.

1.1.2

VICE-PRESIDENTS

1926 - 1931	<i>Francisco Garcés Gana</i>
1931 - 1932	<i>Luis Matte Larrain</i>
1932 - 1958	<i>Luis Schmidt Quezada</i>
1958 - 1960	<i>Vicente Izquierdo Phillips</i>
1960 - 1962	<i>Fernando Illanes Benítez</i>
1962 - 1964	<i>Félix Ruiz Cristi</i>
1964 - 1967	<i>Carlos Massad Abud</i>
1967 - 1970	<i>Jorge Cauas Lama</i>
1970 - 1973	<i>Hugo Fazio Rigazzi</i>
1973 - 1974	<i>Carlos Vío Valdivieso</i>
1974 - 1974	<i>Jorge Cauas Lama ⁽¹⁾</i>
1974 - 1975	<i>Pablo Baraona Urzúa</i>
1975 - 1976	<i>Alvaro Bardón Muñoz</i>
1977 - 1981	<i>Sergio De la Cuadra Fabres</i>
1981 - 1981	<i>Hernán Felipe Errázuriz Correa ⁽²⁾</i>
1981 -	<i>Iván De la Barra Valle ⁽³⁾</i>

(1) From May 1st, 1974 to July 17, 1974.

(2) From April 30, 1981 to December 3, 1981.

(3) From December 31, 1981.

1.1.3

GENERAL MANAGERS

<i>1926 - 1932</i>	<i>Aurelio Burr Sánchez</i>
<i>1932 - 1943</i>	<i>Otto Meyerholz Gallardo</i>
<i>1943 - 1953</i>	<i>Arturo Maschke Tornero</i>
<i>1953 - 1958</i>	<i>Felipe Herrera Lane</i>
<i>1958 - 1962</i>	<i>Luis Mackenna Shiell</i>
<i>1962 - 1970</i>	<i>Francisco Ibáñez Barceló</i>
<i>1970 - 1973</i>	<i>Jaime Barrios Meza</i>
<i>1973 - 1973</i>	<i>Humberto Trucco León ⁽¹⁾</i>
<i>1973 -</i>	<i>Carlos Molina Orrego</i>

(1) From June 2, 1973 to September 10, 1973.



2. LEGAL PROVISIONS

There have been three basic legal texts related with the Central Bank of Chile, prior to the one in force: Decree Law N° 486 of August 21, 1925, which was the first organic law of the Bank; Decree Law N° 106 of June 6, 1953 and Decree Law N° 247 of March 30, 1960.

2.1 First Organic Law

Decree Law N° 486 was promulgated on August 21, 1925 and published in the Official Gazette of August 22, 1925.

With the purpose of putting an end to the abnormal monetary situation prevailing in the economy of the country since 1860, when the first banking law was issued, the Government entrusted a commission of financial counselors chaired by the Northamerican economist Edwin Walter Kemmerer, to draw up the first Organic Law of the Central Bank of Chile, which was established by Decree Law N° 486 of August 21, 1925.

The Bank was constituted as a juridical person under public law, its capital being divided into four types of shares, to last for 50 years and of markedly classic characteristics, emphasizing its banking nature and its basic functions of being the bank of banks. It was established that its main functions were those of issuing money and effecting rediscount operations, setting forth the limitations and prohibitions applicable to loans, discount and other advances of money.

2.2 Second Organic Law

Decree Law N° 106 which set the new text of the Organic Law of the Central Bank of Chile was drawn up on June 6, 1953 and published in the Official Gazette of July 28, 1953. This Organic Law established that the Central Bank would be an autonomous institution, of indefinite duration and set as its fundamental objective that of “tending to achieve the orderly and progressive development of the national economy through a monetary and credit policy which, endeavouring to avoid inflationary or depressive tendencies, might permit the most adequate utilization of the productive resources of the country”. From this sole statement it is inferred that the purpose of the legislator was that of granting the Bank farther reaching responsibilities and of a more active nature, within the national economy, than those established by the previous organic law, a spirit which has been maintained in the present law.



Decree Law N° 106, without overlooking any of the objectives and functions inherent to banking, enabled the application of economic policy measures which had a decisive influence on the economic development of the country.

2.3 Third Organic Law

Decree Law N° 247 of March 30, 1960, published in the Official Gazette of April 4 of the same year, approved the third Organic Law of the Bank.

The main modifications introduced to the former Organic Law may be summarized as follows:

- 1) Changes in the composition and election of the Board of Directors;*
- 2) Creation of the Executive Committee, its role being to materialize the resolutions of the Board of Directors and to administer the Institution;*
- 3) Extension of the powers of the Bank with regard to the distribution*

of loans per zones and to determining the legal reserve and its courses of action, and

- 4) *The Bank was authorized to purchase class "D" shares, formerly in the hands of the public.*

Pursuant to Decree Law N° 250 of March 30, 1960, published in the Official Gazette of April 6, 1960, the Central Bank of Chile and the Commission of International Exchange were merged, commissioning the Executive Committee of the Central Bank with the power to dictate the general norms applicable to the export and import trade and to international exchange operations.

2.4 Organic Law of the Monetary Council and of the Central Bank of Chile (legislation currently in force)

At present the Central Bank is governed by the resolutions established by its Organic Law and its modifications, approved by Decree Law N° 1.078 of June 25, 1975, published in the Official Gazette of June 28, 1975.





3. NATURE, OBJECTIVES, INSPECTION AND SUPERVISION FUNCTIONS OF THE CENTRAL BANK

3.1 Juridical Nature

The Central Bank is an autonomous juridical person, of indefinite duration, domiciled in Santiago.

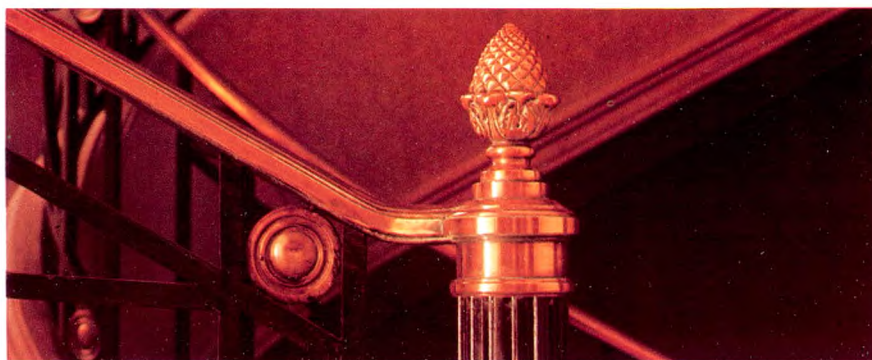
The relationship between the Bank and the Government is maintained through the Ministry of Finance.

For the effects of determining the scope of its powers, the Central Bank's nature is that of an institution governed by public law. However, by express resolution of its Organic Law, the Central Bank is not considered to be a constituent of the State administration, nor are the general or special norms corresponding to the public sector applicable to it. Therefore, the Bank as well as its personnel are governed by the norms of the private sector.

3.2 Inspection and Supervision

The surveillance of the Central Bank is in the hands of the Superintendence of Banks and Financial Institutions, to whom it must submit an Annual Report and additional reports and statements which said entity may request.

There exists a close relationship between the Central Bank and the Superintendence of Banks with regard to the study and application of norms governing the activities of the banking system. With respect to some matters which are expressly mentioned in the Organic Law, the Central Bank must consult with the Superintendence of Banks or request data from said entity, prior to the issuing or application of certain norms.





4. *BANK POWERS AND OPERATIONS*

The objective of the Bank is to tend to the orderly and progressive development of the national economy, through monetary, credit, capital market, foreign trade and exchange policies as well as those on savings and others which may be entrusted to the Bank by law.

In order to fulfill its objectives, the Organic Law has given the Bank certain powers in order to carry out specific operations, and these may be classified into five main categories:

International Financial Activities

External Financial Functions in Foreign Exchange and Trade

Fiscal Role

Money Issuing

Administration

Other Functions

4.1 International Financial Activities

In this category are included all the powers and operations which the Central Bank may exercise or effect as a result of monetary, credit, capital market and savings policies.

The internal financial activities may be subdivided into normative functions and credit and financial functions.

4.1.1 Normative Functions

Are those which the Central Bank exercises with respect to the financial system through the issuing of norms applicable to banks and other financial entities. According to these activities the Bank may:

- a) Dictate norms and conditions for the attraction of funds from the public.*
- b) Quantitatively and qualitatively regulate the credits, and other operations carried out by financial entities, by private persons and enterprises normally engaged in the attraction and placement of money in the market.*
- c) Set the legal and technical monetary reserves.*
- d) Set the interest rates which may be credited to banking current accounts and authorize the collection of commissions.*

-
- e) *Determine the maximum amounts which may be collected as commissions and expenses.*
 - f) *Set the rules and regulations for financial organizations with regard to collaterals and guarantees, and*
 - g) *Establish the relationship between asset and liability operations of financial organizations.*

4.1.2 Credit and Financial Functions

Are those intended to finance credit entities and those which the Central Bank exercises on its own for monetary regulation purposes or to fulfill the general objective of the Bank. In this type of activities, the following may be included:

- a) *Open lines of credit and formalize the corresponding contracts.*
- b) *Grant emergency loans at a term not exceeding 90 days.*
- c) *Refinance, discount and re-discount drafts, promissory notes and other negotiable documents in local or foreign currency.*
- d) *Authorize the creation and regulate the operation of the clearing houses of checks and other securities.*



-
- e) *Receive deposits in local and foreign currency coming from other banks and financial institutions.*
 - f) *Surrender documents of its “loans and discounts” portfolio or from its investments portfolio, to the financial entities of the country which are authorized by law to place and receive financial resources.*
 - g) *Issue and place in the market, documents for its own account.*
 - h) *Redeem these documents by means of amortizations or by drawing lots, or purchasing them in the market.*
 - i) *Purchase and sell in the market, bonds or debentures or other fixed income instruments.*
 - j) *Purchase or sell gold without restriction, except for the Sales and Services Tax.*
 - k) *Receive securities or goods (assets) as a guarantee.*
 - l) *Set the interest rates applicable to the operations effected by the Central Bank.*

The attributions indicated in points a, b, c, e and f, may only be exercised by the Central Bank with respect to Banks and intermediate Financial Institutions.

4.2 External Financial Functions, Foreign Exchange and Trade.

These powers and operations were given mainly by the Organic Law of the Central Bank, from the International Exchange Law and by Decree Law N° 1,444. These provisions authorize the Bank to dictate norms which are applicable in Chile; or to act abroad as a consequence of the commercial and financial relationship of the natural or juridical persons participating in trade, foreign exchange and external credit. In this area the Central Bank may:

- a) *Participate, in representation of the Government, in those international organizations determined by law.*
- b) *Apply the international treaties formalized by the Government related to the activities and objectives of the Bank.*
- c) *Contract abroad all types of external credits and assign or transfer them to banking institutions and other financial intermediates.*
- d) *Exercise the powers and attributions which the International Exchange Law and other laws grant to the Bank in matters relating to*

- foreign trade and international exchange.*
- e) Carry out international exchange transactions.*
 - f) Authorize international exchange transactions to banks, financial institutions or private persons.*
 - g) Export or import gold, unrestrictedly.*
 - h) Grant loans in local or foreign currency to foreign States, to central banks or to foreign or international banking and financial institutions.*
 - i) Receive deposits in local or foreign currency from central banks or from foreign or international banking and financial institutions.*
 - j) Maintain the reserve fund in gold and in foreign currency deposited at the Bank itself or with banks abroad of good repute.*
 - k) Participate in activities related to the service of the country's external debt.*
 - l) Represent the State and debtor corporations in the discussions and renegotiation of the external public debt, and*
 - m) Centralize and process all statistical data on external debt and do research work and supply official information.*



- n) *According to Finance Ministry Decree N° 742 of October 15, 1981 it should act as legal authority to initiate, carry-out and conclude the investigations referred to on the “Agreement related to the interpretation and application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (GATT)”.*

4.3 Fiscal Role

The operations the Central Bank performs in its capacity of Government financial agent as well as other functions specially assigned by Law are included in this area. In this role the Central Bank may or must do:

- a) *Act as Fiscal Agent in the contracting of external and internal loans and in those operations entrusted by the Central Government in accordance with the objectives of the Bank.*
- b) *Amortization or payment of the commitments of the Government in favour of the Central Bank, with the proceeds of the valuation of the Reserve Fund composed of gold and Foreign Currency.*

4.4 Money Issuing

The exclusive authority of the Central Bank of Chile to issue bank notes and to mint coins is stipulated and regulated by articles 17





and 45 - 49 of the Organic Law. Pursuant to said stipulations, the Central Bank may or must:

- a) Issue bank notes and mint coins as the sole payment means with legal tender and unlimited circulation.*
- b) Contract the issue of bank notes and the minting of coins locally or abroad.*

-
- c) *Establish the characteristics of the bank notes and of the coins.*
 - d) *Withdraw from circulation damaged bank notes and pay their nominal value or part of said value, as the case may be, and*
 - e) *Destroy the bank notes which have been definitively withdrawn from circulation, in the manner determined by the Executive Committee.*

4.5 Administrative Functions

In this group are included all those matters related with the direction and internal administration of the Bank and of its personnel. Pursuant to this, the Executive Committee may or must:

- a) *Exercise the general administration of the Bank.*
- b) *Hire personnel according to its requirements and set their salaries, duties and responsibilities.*
- c) *Delegate administrative, operational and representative powers on certain executive members or officers of the Bank.*
- d) *Purchase and maintain real estate required for the functioning of the Bank, and*
- e) *Acquire real estate transferred to it in payment of loans, and sell such real estate.*

4.6 Other Functions

Aside from the already indicated functions, Article 1st letter a) of Law Nº 18,104 of January 27, 1982 entrusted the Central Bank with the responsibility to prepare the national accounts as well as to outline other procedures of social and economic accounting.



5. LOCAL CURRENCY, GOLD AND FOREIGN CURRENCY

5.1 Local Currency

The "peso" was established in 1925 as the monetary unit of Chile, containing 0.183057 grams of fine gold. The "peso" was divided into one hundred cents; ten "pesos" constituted a "condor".

Inflation rendered the fractional coins worthless, and in 1955, a legal provision stipulated that commitments had to be paid in whole "peso" figures.

As a result of the promulgation of Law N° 13,305 of 1959, which changed the monetary unit from "pesos" to "escudos" as of January 1, 1960, (E° 1 = \$ 1,000); the Organic Law of March 30, 1960 stated in its article 51 that bank notes should express their value in "escudos", "centésimos", and half "centésimos" and that they should exhibit the national coat-of-arms. In 1973, a new legal resolution, Decree Law 231 of December 31, 1973, eliminated the fractions of the "escudo" in accounting operations and from documents issued in local currency.

In 1975 the "peso" was reestablished as the monetary unit. Pursuant to Decree Law N° 1,123, published in the Official Gazette of August 4, 1975, as of September 29 of that year, the "peso" is the monetary unit of Chile, the value and legal tender of which is equal to one thousand "escudos".

The Bank has the exclusive right to issue bank notes and to mint coins. Although the Law authorizes the Central Bank to contract the printing of bank notes and the minting of coins within the country or abroad, they are totally made in Chile, at the workshops of the "Casa de Moneda". The characteristics of the bank notes and their security marks (water-mark and national coat-of-arms), as well as those of coins, are established by resolution of the Executive Committee, published in the Official Gazette.

These bank notes and coins are the only means of payment with legal tender and unlimited circulation in the whole territory of the Republic, and must be received at their face value.

It is the duty of the Central Bank to withdraw from circulation the deteriorated bank notes. The exchange of these bank notes is effected in accordance with the following norms:

- a) The deteriorated bank notes which retain, at least three fifths of their total surface shall be exchanged for their face value, as long as said three fifths form one piece.

b) Bank notes, with less than three fifths deteriorated and with more than the remaining two fifths in good condition, will be exchanged for half their nominal value, as long as their serial number and number may be verified, and as long as these two fifths form one piece.



5.2 Gold, Foreign Currency Reserves and Special Drawing Rights (SDR).

The Bank maintains a Reserve Fund in gold, foreign currency and SDRs. This reserve bears no relation with the bank notes in circulation or with deposits received in compliance with Law. This Reserve Fund may be constituted by:

- a) Gold coins or gold bars or foreign currency as cash on hand, available at the Bank itself.*
- b) Gold coins or gold bars or foreign currency deposited in Banks abroad, of good repute, to be determined by the Executive Committee.*
- c) Special Drawing Rights (SDR) allocated from time to time by the IMF to its member countries.*

The Bank is authorized to purchase or sell gold, to export and import it without restriction, contribution or fiscal charge whatsoever, except for the Sales and Services Tax applied to purchases.

The proceeds in local currency resulting from the valuation of the gold or foreign currency reserve, due to modifications in the official parity, must be allotted, in the proportion determined by the Executive Committee, to:

- a) Amortization or payment of commitments of the Government with the Central Bank, and*
- b) Reserve Fund Increase.*

The minting of gold coins may be entrusted to the “Casa de Moneda de Chile” without limitations as to quantity, pursuant to the respective tariff, and said Institution shall give the Bank preferential attention with respect to other entities or private persons.



6. CENTRAL BANK ORGANIZATION

6.1 Executive Committee

The maximum authority of the Bank is the Executive Committee which is in charge of the management and administration of the Central Bank, and of exercising all the powers and attributions which the Organic Law and other laws entrust to the Bank.

6.1.1 Composition and Operation

The Executive Committee is composed of the President, the Vicepresident and the General Manager of the Bank, appointed by the President of the country by Supreme Decree of the Ministry of Finance.

A quorum shall be the majority of its members, and its decisions will be adopted by the majority of those attending. The Chairman shall cast the deciding vote in the event of a tie.

6.1.2 Incompatibilities

The Members of the Executive Committee are subject to diverse incompatibilities such as being unable to accept positions which are compensated with government or municipal funds. Likewise, they may not participate in the ownership or in the management of financial institutions, nor render services of any nature to enterprises related with foreign trade or with international exchange operations.

6.1.3 Representation, Surrogation and Delegation of Powers

The Executive Committee will represent the Bank judicially and it may delegate its powers of administration, operation and representation upon the members of the Committee or upon the officers of the Bank.

The President of the Bank has the extrajudicial representation of the Institution and, in case of absence, vacancy or inability to discharge his duties, he is surrogated by the Vicepresident.

The General Manager has the judicial representation of the Bank according to article 8 of the Code of Civil Procedure and with the powers conferred and instructions imparted by the Executive Committee.

The General Manager is surrogated by the officer of the Bank who is next in line, according to the order laid down by the Executive Committee.

6.2 Administrative Units

The functions of the Bank are mainly exercised in a decentralized form, according to their nature, and in order to perform them, there are administrative units which are dependent of the Executive Committee and of the General Manager.

The following units are dependent on the Executive Committee:

Legal Department, General Auditing Department, Office of the Secretary General.

The Administrative Directorate, the Operations Directorate, the International Directorate, the Financial Policy Directorate and the Branches of the provinces, are dependent of the General Manager's Office.

"Alameda de las Delicias"

Alberto Orrego Luco

(1891)

37.5 x 61 cms.

*CENTRAL BANK
OF CHILE PINACOTHECA*



6.2.1 The legal Department

The Legal Department is directed by a lawyer, ranking above a director, who is legal adviser to the Bank, performing similar duties for the Monetary Council. Under him is the Head Lawyer, who, with the rank of Director, is directly in charge of the Legal Adviser's Office of the Bank.

The Legal Adviser's Office performs the following main functions:

- 1) See to the legality of all the agreements, acts and contracts of the Bank.*

Detail



- 2) *Exercise the juridical representation of the Bank at the Courts of Justice.*
- 3) *Prepare general reports with respect to legal provisions and also, juridical reports on specific matters which may be submitted to their knowledge.*
- 4) *Draw up and/or revise contracts or agreements of which the Bank may be a party, and inform as to the legal background of the institutions with which it is operating.*
- 5) *In general, advise the Executive Committee and other units of the Bank with respect to legal matters.*
- 6) *Inform, analyze and, in some cases, propose modifications to contracts and documents in general, related to the external loans obtained by public institutions.*

"Combate de Angamos"
Thomas Somerscales
(1913)
53 x 81 cms.

CENTRAL BANK
OF CHILE PINACOTHECA

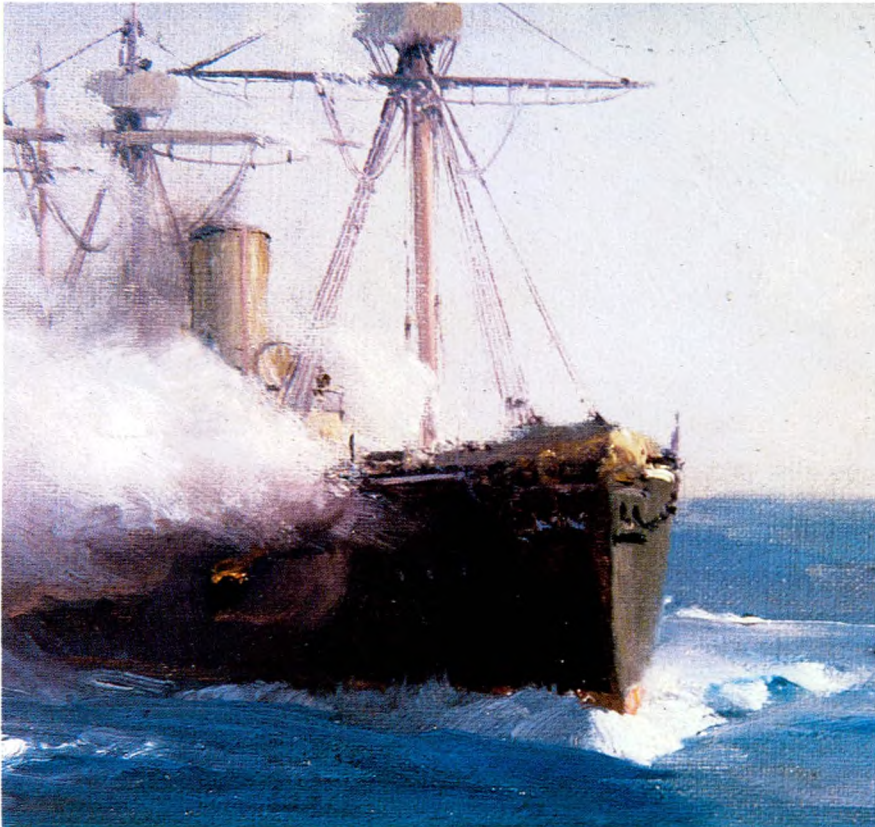


6.2.2 General Auditor's Department

The main functions are the following:

- 1) Control that the different Units of the Bank perform their functions in accordance with the legal or regulatory provisions, approved working systems and procedures, norms and instructions, whatever be the origin of same.*
- 2) Analyze and evaluate the prevailing internal control system in the different operative Units of the Institution.*

Detail



6.2.3 International Directorate

The following principal functions may be mentioned:

- 1) *Advise the Executive Committee and the Committee on Reserve Administration and External Financing Policy with respect to the formulation of policies on Reserve Administration and External Financing.*
- 2) *Plan, coordinate and control the operations of reserve administration within the frame of the policies set by the Committee on Reserve Administration and External Financing.*
- 3) *Programme, coordinate and control the execution of operations related with the investments portfolio and international reserves.*
- 4) *Do research work with respect to the foreign debt.*

"La Cosecha"
Rafael Correa M.
100,5 x 145,5 cms.

CENTRAL BANK
OF CHILE PINACOTHECA



6.2.4 Administrative Directorate

The main function are the following:

Plan, organize, direct, coordinate and control activities related with:

- 1) Establishment and operation of the accounting information system.*
- 2) Administration of the human resources of the institution.*
- 3) Administration of the real estate and property of the Bank according to the established norms and procedures.*
- 4) Support the process of decision making and the execution of functions which are distinctly operative.*

Detail



6.2.5 Financial Policy Directorate

The principal functions are the following:

- 1) Analyze, evaluate and project the monetary, credit and exchange developments of the capital market and of the balance of payments, and in general, the macroeconomic balance, gathering and elaborating the necessary information for the achievement of their objectives.*
- 2) Analyze, evaluate and propose to the Executive Committee agreements dealing with, among other matters:*
 - a. The norms and conditions to which Banks and Financial Institutions must follow in the attraction of funds from the market, as well as in the quantitative and qualitative regulation of the loans which they grant.*

*"Paisaje"
Onofre Jarpa
(1879)
98 x 140 cms.*

*CENTRAL BANK
OF CHILE PINACOTHECA*



-
- b. Legal and technical reserves which the Banks and Financial Institutions must maintain in proportion to their deposits and commitments.*
 - c. Norms concerning assets and liabilities and, in general concerning the financing and coordination of the banking and financial system.*
 - d. International Reserve and External Financing policies.*

Detail



6.2.6 Operations Directorate

The following are some of the main functions:

- 1) *Carry out and control the foreign trade and international exchange operations, in accordance with the prevailing legal provisions and the norms established by the Executive Committee of the Central Bank, and control the fulfillment of the normative provisions and propose the sanctions, fines, and reconsiderations in the case of infringements committed by persons and organizations authorized to operate in foreign trade and international exchange.*

"Casona de San Fernando"
Juan Francisco González
34 x 41,7 cms.

CENTRAL BANK
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- 2) *Verify the tariff classification, control the prices of imported and exported goods, prepare technical reports, research work per sectors of the economy and supply data and special advice on external trade and international exchange.*
- 3) *Effect and control the service of the external loans contracted by the Government of Chile, by the Central Bank and by enterprises of the Public Sector, in compliance with the instructions of the debtors.*

Detail



- 4) *Control and register the capital contributions in the form of credits or of investments, and authorize remittances of foreign exchange, when appropriate.*
- 5) *Operate the Reciprocal Credit Agreements, pursuant to the established norms.*
- 6) *Administrate and control the loans granted by agreements or by international organization, and likewise, take care service of the corresponding debt.*
- 7) *Administrate the custody of the representative securities of the investments of the Pension Fund Administrators.*

"Bahía de Quinteros"
Thomas Somerscales
(1903)
61 x 107 cms.

CENTRAL BANK
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8) *Receive the reporting of the instances of subsidies made to the export of goods to Chile, and carry out the investigation of same.*

Detail



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**ORGANIZATION CHART
CENTRAL BANK OF CHILE**

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