

June 22<sup>nd</sup>, 2020

## Ministry of Finance introduces bills that allow the Central Bank of Chile to purchase Treasury bonds in the secondary market, under exceptional circumstances

**Santiago, June 22, 2020.** The Ministry of Finance recently introduced bills that allow the Central Bank of Chile to purchase securities issued by the Government in the secondary market, under exceptional circumstances, in order to preserve the normal functioning of internal and external payments.

Current legislation forbids the Central Bank in any case to acquire securities issued by the Government, its agencies or corporations, as well as to finance public expenditures through direct or indirect credits. This prohibition has been fundamental in the stability of the currency and the autonomy of the Bank, regarding financing needs of the fiscal budget.

Notwithstanding, the prohibition to acquire these securities limits the available tools to face exceptional situations, impeding the Central Bank to execute certain operations that could contribute to mitigate risks to financial stability.

Most Central Banks in advanced economies are allowed to perform transactions of Government Bonds in the secondary market. This policy tool, commonly referred to as an unconventional monetary policy instrument, has been used, for instance, to influence long-term interest rates.

To give the Central Bank the faculty to exceptionally implement the measures described, subject to the necessary safeguards to protect its autonomy, is viewed as necessary to be better prepared to face difficulties, such as those that the world is currently experimenting due to the coronavirus pandemic.

This reform will broaden the Central Bank's policy tools, in order to meet its objective for ensuring the normal functioning of internal and external payments, through the eventual provision of liquidity

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through the purchase of Treasury debt securities in the open secondary market, not to finance the State. Thus, in no case, debt securities issued by the Treasury, agencies or State companies may be acquired in the primary market.

Likewise, the eventual use of this exceptional policy option requires the approval of at least four of the five Board members of the Central Bank.

Finally, once the extraordinary circumstances have been overcome, the instruments will be disposed of by the Central Bank in the open market, in the opportunity, terms and conditions determined by its Board.

In sum, the bills introduced to Congress will provide the Central Bank exceptional policy instruments to face usual and exigent circumstances.