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Chile: Autonomous Central Bank To Begin Operations In December

by John Neagle
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Under a law to take effect Dec. 11, a five-member governing council will be established to manage an autonomous central bank, only three days before presidential elections. Jose Pablo Arellano, executive director of CIEPLAN, an economic research organization, said that the law is one of several indications that the military regime, "while planning to hand over the government, is trying to hand over as little power as possible." Arellano said he and others on Patricio Aylwin's economic team have pointed out that creation of an autonomous central bank was not necessary as a means of preventing deficit financing because the 1980 Constitution specifies that the central bank cannot print new money to cover a fiscal deficit. Next, Arellano said that the best example of excessive autonomy was its control over foreign exchange policy, which sets the future Chilean central bank apart from the Federal Reserve. Among other things, the president will not be able to influence the access of foreign companies to foreign exchange for profit remittance. Aylwin's economic team has also complained that President Augusto Pinochet will be able to name the first five members of the bank's governing council. Alfonso Serrano, vice president of the current central bank, and member of a panel that drafted the new legislation, said the principal models of regulations examined by the panel were the US Federal Reserve and the West German Bundesbank. He said, "Everybody the opposition and the government agrees on the need to maintain our macroeconomic equilibria. But something in the political process in Latin America has always made that difficult to do. Having an institution on the margin of the political situation would help guarantee stability." Serrano was cited by the New York Times as follows: "I don't think there is anyone in Chile who doesn't remember the sense of well-being in 1971, the first year of the government of Salvador Allende, with the relatively low inflation and high incomes. But an autonomous central bank would have seen that the expansion of spending would bring problems." Serrano stated that by September 1973, when Allende was overthrown, the fiscal deficit was running 25% of gross national product, and inflation at an annual rate of 1,000%. (Basic data from New York Times, 10/23/89)