

August 13th, 2020

Congress approves laws that allow the Central Bank to purchase Treasury Bonds in the secondary market

Santiago, August 13th, 2020. Yesterday Congress approved a law that allows the Central Bank of Chile to purchase debt instruments issued by the Treasury in the secondary market, under exceptional and transitory situations, with the objective of contributing towards the normal functioning of internal and external payments. The approval of this bill is in addition to the approval of the Constitutional reform that took place last week. Providing the Central Bank the ability to exceptionally implement the purchase of Treasury bonds in the secondary market is a necessary policy instrument for the economy to be better prepared to withstand possible episodes of exceptional financial volatility.

This initiative expands the Central Bank's tools to ensure the normal functioning of internal and external payments, through the provision of liquidity by means of the purchase of Treasury debt securities only in the secondary market. If the Bank wishes to implement this exceptional tool, at least four of its five Board members must agree to do so. Once the extraordinary circumstances have been overcome, the instruments must be sold by the Central Bank in the open market, at the time, terms, and conditions determined by its Board.

Before the publication of the recently approved law, the current legal system prohibited the Central Bank from acquiring debt instruments issued by the State, its agencies or companies in any way, except in a situation of external war, as well as financing public spending through credits directly or indirectly. Notwithstanding the above, the prohibition on acquiring Treasury debt securities in the secondary market restricted the tools available to face critical exceptional situations and prevented the Bank from carrying out certain operations that could help mitigate risks to the stability of the financial system.

It should be noted that most of the central banks in advanced economies are allowed to implement this policy tool. This ability has been used, for example, to influence long-term interest rates through unconventional policies. The Central Bank of Chile has also carried out actions in this direction by buying securities of its own issuance, but their current availability is very limited, so it is deemed necessary that it may also purchase government bonds with the aforementioned safeguards in exceptional and transitory situations.

In short, the initiative provides the Central Bank with exceptional policy instruments to face demanding and extraordinary financial situations.

The laws will be published in the Official Gazette in the next few days.