BANCO CENTRAL DE CHILE

annual report 1998

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ANNUAL REPORT 1998

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BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 7th, 1999

Mr. Eduardo Aninat U.
Minister of Finance
Santiago

Pursuant to Articles 78 and 79 of the Basic Constitutional Law of the Central Bank of Chile *(Ley Orgánica Constitucional del Banco Central de Chile),* contained in Article 1 of Law N° 18,840, I hearby submit the Annual Report of this Institution for the year 1998.

Yours sincerely,

Carlos Massad A.
Governor

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 7th, 1999

Mr. Andrés Zaldívar L.
President of the Senate
Santiago

Pursuant to Articles 78 and 79 of the Basic Constitutional Law of the Central Bank of Chile *(Ley Orgánica Constitucional del Banco Central de Chile),* contained in Article 1 of Law N° 18,840, I hearby submit to the Senate the Annual Report of this Institution for the year 1998.

Yours sincerely,

Carlos Massad A.
Governor

I. MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS OF 1998

MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 1998

A. GENERAL OVERVIEW

The Chilean economy faced difficult external conditions throughout 1998. The Asian crisis and its impact on financial and commodity markets had a negative effect on the country's foreign accounts. The crisis also started at a time when domestic demand was rapidly expanding. To avoid higher costs, economic authorities felt compelled to apply more restrictive policies, particularly with regard to domestic demand.

Given adverse conditions during 1998, overall the Chilean economy performed well. Annual inflation, as measured through December 1998 by the Consumer Price Index (CPI), was 4.7%, in line with the inflation target announced by the Central Bank and more than one percentage point below that recorded through December 1997. The current account deficit in the balance of payments rose to US$4.548 billion, 6.3% of the Gross Domestic Product (GDP). This was higher than in previous years, due to the drastic decline in the terms of trade. Finally, in response to poor conditions abroad and adjustment policies implemented within the country, economic growth slowed to 3.4% for the year. Employment rose on average 1.8% in 1998, while the average national unemployment rate rose 0.1 percentage point over the 1997 average.

The most outstanding feature of 1998 was the marked and continued deterioration of world economic conditions. The effects of the crisis in East Asia, which started in the third quarter of 1997, began to spread through other emerging economies. Other factors included the recession in Japan, a general drop in world commodity prices, the crisis in Russia and constant threats of a currency crisis in Brazil, which culminated in the devaluation of the real in mid-January 1999. By December, world growth was estimated at 2.2% for 1998, compared to 3.7% average annual growth for the previous five years; basic commodity prices had fallen by 11%; and private capital flows to emerging countries had fallen by 70%.

This chain of events had a significant impact on trade and financial flows between the Chilean economy and the world. First, the drop in commodity prices, particularly for copper, led to a 12% fall in the terms of trade, at an estimated cost to the country of US$2.2 billion, about 3% of GDP. Second, turbulence in world financial markets and the increased uneasiness that spilled into local markets led to a significant drop in net inflows of foreign capital during the year, falling from US$7.4 billion in 1997 to US$2.5 billion in 1998.

Aside from international conditions, several domestic factors also contributed significantly to the economic results in 1998. On one hand, at the end of 1997, domestic demand in Chile was accelerating strongly. This reflected strong import growth and the corresponding increase in current account liabilities, and slower progress toward further reducing inflation. The weather, particularly the Niño phenomenon and a severe drought, also had significant negative effects on some sectors, among them fishing, agriculture, industrial production of fishmeal, and hydroelectric power generation.

In this context, throughout the year, official policies focused on maintaining macroeconomic balance and ensuring sustainable growth in the medium term. Economic policies, particularly those linked to the Central Bank, aimed to keep domestic demand in line with potential output of the economy and healthy external financing, as well as ensuring the smooth operation of financial markets, reducing the risk of loss of confidence and overreaction.

With regard to monetary policy, the Bank sought higher market interest rates during 1998. This policy was considered the most appropriate and efficient, within a context of strong spending growth and significant turbulence in world financial markets. By using the interest rate, the Bank gave priority to policies that would slow credit expansion, along with those reinforcing confidence in the domestic currency, to avoid abrupt devaluation and to act quickly to correct the current account deficit.

With regard to the exchange rate, the Central Bank focused on allowing it to adjust gradually to permanent trends in the real exchange rate, which by the end of 1998 had depreciated 2.7% in annual terms. The Bank also sought to avoid eroding currency credibility and growing speculation against the peso. In fact, during 1998 the Central Bank participated more actively in the foreign currency market, selling in net terms about US$3.4 billion of its foreign exchange reserves and issuing close to US$1.3 billion in medium-term peso securities indexed to the dollar. When faced with exceptional episodes of foreign currency speculation, the Central Bank allowed for more flexibility in short-term interest rates, so that these could absorb some of the pressure against the peso. It also reduced the cost of bringing foreign capital into the country by reducing the encaje, an unremunerated reserve requirement on foreign capital inflows, from 30% to 0%, to offset the increase in foreign financing costs and the decline in its relative availability.

Finally, fiscal policy was also more restrictive than originally anticipated. The Government cut public spending in the budget approved for 1998. Real government spending grew 6.2% and a slight government surplus was recorded at 0.4% of GDP, in spite of a strong reduction in government revenue.

Altogether, this set of policies ensured the country was able to meet both its current account and inflation objectives.

Actual 1998 inflation was consistent with the annual inflation target, a significant achievement given the demand pressures experienced in early 1998 and the cost pressure associated with exchange-rate depreciation. The inflation target and policy consistency with this objective were fundamental to achieving this result. However, trend inflation was harder to tame. Nominal wages and non-traded goods prices showed no significant progress in line with those of other prices.

GDP grew by 3.4% in 1998, while domestic expenditure grew 1.5% below GDP, partially offsetting the impact of lower export prices on the balance of trade. The reduction in domestic demand was led by declining inventories and lower fixed investment during the second half of 1998. Gross fixed capital formation rose to 31.7% of GDP, as measured in 1986 currency, while national saving, measured at current prices, represented 20.2% of GDP.

Exports of goods and services grew at 5.9%, mostly in the area of non-traditional products, although the overall value of exports fell due to lower prices. Imports of goods and services grew by only 2.1% for the year as a whole, slowing significantly in the second half of 1998, due to more restrictive domestic policies and the depreciation of the real exchange rate.

Declining terms of trade raised the current account deficit significantly to US$4.548 billion, or 6.3% of GDP for the year, in spite of lower domestic demand. Nonetheless, by the second half the deficit started to fall. For the year, the trade deficit rose by US$1.2 billion, but this was partly offset by improvements in the balance of financial services, due to smaller profit remittances to investors abroad.

The current account deficit was financed by net foreign capital inflows of about US$2.5 billion in 1998, with the remainder drawn from the Central Bank's foreign exchange reserves. Medium- and long-term capital inflows from foreign investment and borrowing remained similar to previous years. However, flows from portfolio investment, American Depository Receipts (ADRs), and bond issues dropped. Reflecting portfolio diversification, outflows due to residents' investments abroad grew more strongly in 1998 than in previous years, a situation which had a decisive impact on the capital account.

The Central Bank balance sheet in 1998 reflected economic performance and the policy framework adopted. On one hand, annual losses of US$828 million largely reflected the fact that interest rates on Central Bank debt were higher than interest paid on assets. On the other hand, the share of net foreign currency holdings fell due to sales of foreign exchange reserves and the auctioning of medium-term promissory notes indexed to the dollar. Overall, the Central Bank's cash deficit, that is the book result, excluding monetary correction and accrued non-cash interest payments, reached 1% of GDP, similar to previous years.

B. WORLD ECONOMY

B.1 GLOBAL SLOWDOWN AND FINANCIAL TURBULENCE

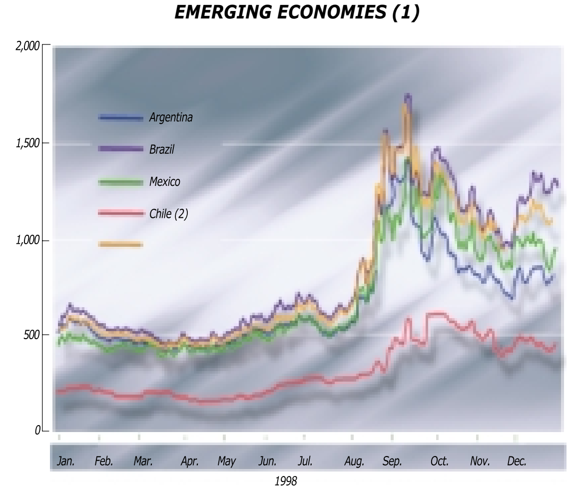
Trends in the world economy during 1998 were marked by the expansion and deepening of the real and financial effects of the crisis that started in mid-1997 in East Asia. Due to the high degree of integration of financial markets, the effects of the crisis spread quickly to other emerging economies both within and outside Asia, as well as to industrialized economies.

The world economy grew 2.2% according to the International Monetary Fund (IMF), down from initial estimates of about 4.3%, with the main slowdown occurring in Asia and emerging economies, but with the US and Europe also experiencing some turbulence (Table 1).

Net private capital flows to emerging markets also fell significantly. Initially, the effects of financial contagion appeared to be relatively under control, but then events in Russia (devaluation of the ruble and forced restructuring of domestic governmental debt in mid-August) and the rescue of Long-Term Capital Management, an American investment fund, triggered a dramatic change in risk perception of emerging market financial instruments. For emerging economies, including those in Latin America, this led to higher premiums paid on debt, which peaked toward mid-September, sharply reducing net private capital flows to most of these economies. According to the IMF, net flows of private capital to emerging and developing economies fell from over US$200 billion in early 1997, to around US$70 billion by late 1998. Risk tolerance also dropped in more developed markets, the result of inter-related risks that generated worldwide uncertainty, a shift reflected in share price performance in both developed and emerging economies (Graphs 1 and 2).

Graph 1

SOVEREIGN SPREADS IN LATIN AMERICA AND EMERGING ECONOMIES (1)

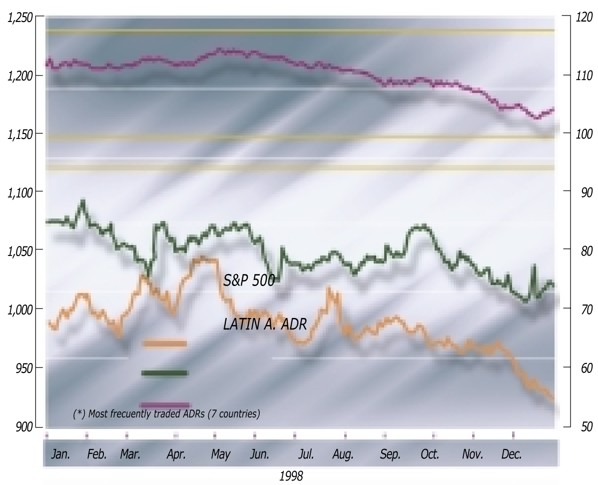


(1) This is the difference in basis points between the corresponding Sovereing Bond an the US Treasury Bond.
(2) For Chile, this is an average between bonds issued by Enersis and Endesa.
(3) The EMBI index (JP Morgan) consists of a weighted average of sovereing bonds from a list of emerging economies, including Argentina, Brazil, Ecuador, Mexico, Panama, Peru, Venezuela, Russia, Poland, Bulgaria, and Nigeria.

Declining world demand due to the Asian crisis pushed commodity prices down throughout 1998. The Commodity Research Bureau's commodities price index fell by an average of 11% in 1998, and the price of copper, in particular, dropped 27% on the London Metals Exchange. The crisis deepened in the third quarter of 1998, with prices falling even further throughout the second half (Graph 3), fueling pressure in favor of financial restrictions in most emerging countries.

Graph 2

STANDARD AND POOR'S - 500 AND LATIN AMERICAN ADRS (*)



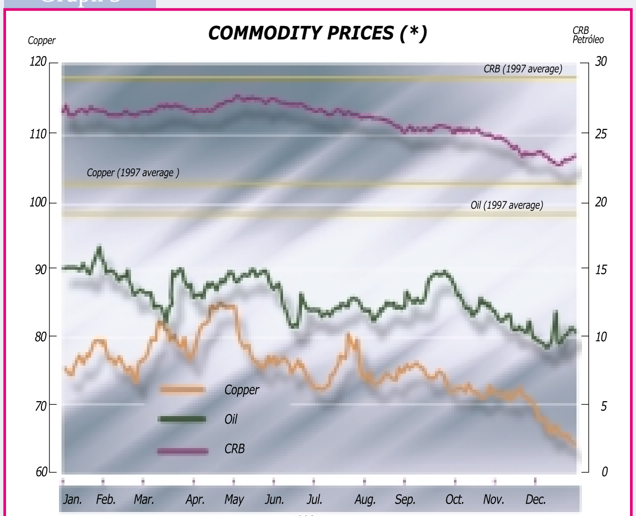
Sluggish international demand and lower commodity prices notwithstanding, the main industrialized countries kept inflation at bay, and were thus able to apply more expansive monetary policies (Graph 4). These policy actions gradually restored some stability to financial markets, allowing stock prices to recover worldwide and emerging market spreads to normalize, but the latter remained considerably higher than before the Russian crisis. This recovery was interrupted in early January 1999, when the Brazilian government gave up its defense of the real, by allowing it to devaluate and prompting a new round of adjustments in international financial markets.

B.2 IMPACT ON THE CHILEAN ECONOMY

Turbulence in the world economy strongly affected Chile. The first channel of transmission of crisis came through foreign trade, with Chile's terms of trade falling 12% in 1998. This added to the impact of contracting Asian markets on exports shipped mainly to that region. The crisis also affected the capital account, with 1998 seeing a significant drop in portfolio investment inflows, and rising demand for assets abroad from resident investors as they sought better risk balance in their portfolios. The decline in resource inflows coincided with the rising cost of foreign credit.

Graph 3

COMMODITY PRICES (*)



(*) CRB stands for the commodity price index published by the Commodity Research Bureau (USA). The copper price is from the London Metals Exchange and the price of oil refers to Brent.

C. DEVELOPMENT OF FINANCIAL MARKETS

C.1 MONETARY POLICY AND INTEREST RATE TRENDS

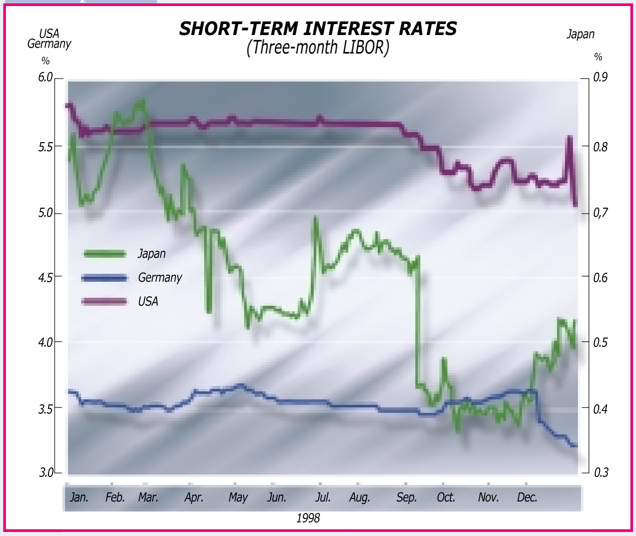
In 1998, the Central Bank's monetary and exchange rate policy focused on both cooling domestic demand and maintaining financial market confidence in the face of uncertainty and changing relative prices.

Central Bank focuses its monetary policy on a target daily interbank interest rate, which in turn influences the structure of interest rates throughout the financial system. The monetary policy rate (tasa de instancia monetaria) was raised three times between January and September 1998, and then fell gradually during the last quarter. Specifically, in early January, the Central Bank raised the rate by 50 basis points, over the rate of change of the Unidad de Fomento (UF, Chile's inflation-indexed unit of account) from 6.5% to 7%. In February, the Central Bank increased it again, to UF + 8.5%, where it remained until September, when it rose to UF 14%. In October, it fell to 12%; in November to 10%, then 8.5%; reaching 7.8% in December (Graph 5).

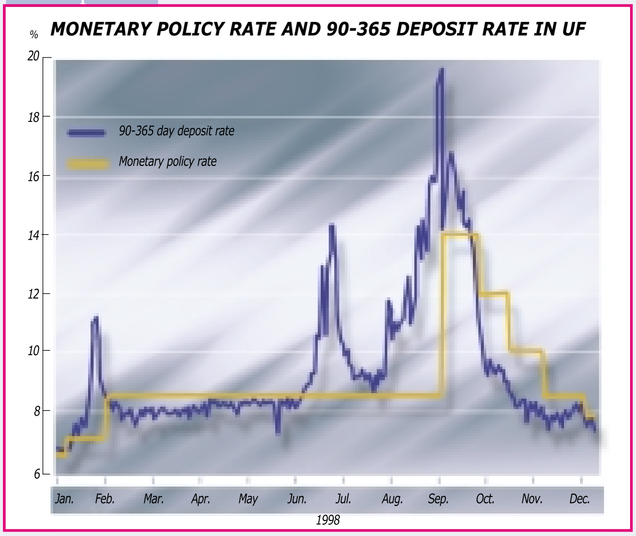
During periods of exceptional turbulence, the Central Bank allowed for more flexibility regarding the daily interbank interest rate, in order to ease portfolio adjustment. In late January and June, and in mid-September, short-term interest rates increased sharply for short periods to offset expectations of a sudden devaluation of the peso.

The interest rate on Central Bank 90-Day Indexed Promissory Notes (known as PRBC-90) showed a pattern similar to the behavior of the daily interbank rate. In effect, in January and February, interest on PRBC-90s reached 8.5%, 180 basis points higher than at the end of 1997. In March and June, it fell slightly to 8.28%, then rose to over 9.0% in late June and July. The rate peaked in September (at 17.63%), then fell sharply to an average 8.0% by December, the year's lowest level (Graph 6 and Table 2).

Graph 4

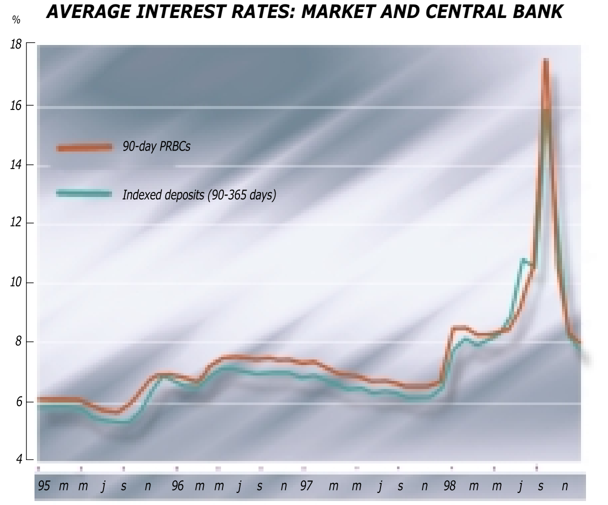


Graph 5



Graph 6

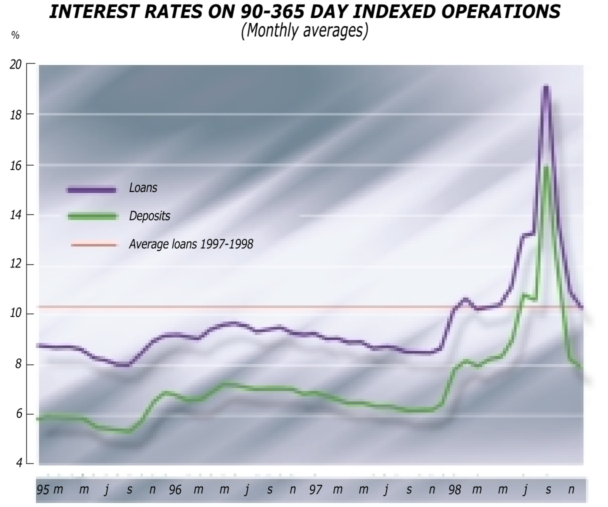
AVERAGE INTEREST RATES: MARKET AND CENTRAL BANK



(*) Central Bank instruments calculated on a 360-day basis, while market rates are calculated on a 365-day basis.

Graph 7

INTEREST RATES ON 90-365 DAY INDEXED OPERATIONS
(Monthly averages)



Interest on 90 to 365-day UF-indexed loans behaved similarly, with the annual average reaching 9.53%, 300 basis points higher than in 1997. Interest paid on loans behaved similarly, with the spread between lending and deposit rates averaging 2.4%, up slightly from 1997 (Table 3 and Graph 7). For long-term instruments, the average yield on eight-year Indexed Promissory Notes Payable in Coupons (PRC) was about 90 basis points more, while the average yield on twenty-year PRCs increased by 80 basis points.

In 1998, Central Bank policy on debt issues shifted somewhat. In July, for the first time, the Board of the Central Bank issued Promissory Notes Indexed to Dollars (PRDs), with a three-year maturity. For those issued in August and thereafter, maturity is four years. This was to provide medium- and long-term exchange-rate coverage at a time when the private sector was readjusting its portfolios. The Central Bank set the total volume at UF300,000 per auction for PRC-8 (eight-year) and PRC-10 (ten-year) promissory notes, and UF200,000 for auctions of PRC-12, PRC-14, and PRC-20 notes. In September 1998, the Central Bank reduced the number of auctions, as the need to sterilize the monetary impact of foreign exchange operations declined.

C.2 TRENDS IN MONETARY AGGREGATES AND CREDIT

Given current monetary policy, monetary aggregates responded mainly to changes in aggregate activity and market interest rates.

Moderate economic growth and high interest rates slowed the growth of real money, and led to a similar slowdown in nominal money growth.

Through December 1998, M1A fell -8.2%, the equivalent in real terms over the previous twelve months of -12.3% (Table 4 and Graph 8). This primarily reflected slower growth toward year's end and high interest rates throughout the second half. With regard to M1A components, to a large extent demand deposits determined the evolution of M1A. In fact, money in circulation shrank 3.1% over 12 months, while current accounts and other private sector demand deposits shrank 10.3% (Table 5 and Graph 9). M2A and M7 rose, but systematically less than in 1997.

With regard to monetary emission, growth slowed to 3.6% for the twelve-month period through December 1998, due primarily to increased domestic credit to the private sector through the repurchase of Central Bank promissory notes. This contributed to sterilize foreign exchange operations, which tended to shrink as the year progressed, reaching a total of US$1.5 billion.

Credit expansion by the financial sector also slowed significantly in 1998, with growth in total loans falling from 12.7% through December 1997 to 5.9% through December 1998. Housing and foreign currency loans slowed the most, as they grew just 2.3% and 1.9% respectively through December. Thus aggregate financial system loans reached over 60% of GDP in 1998.

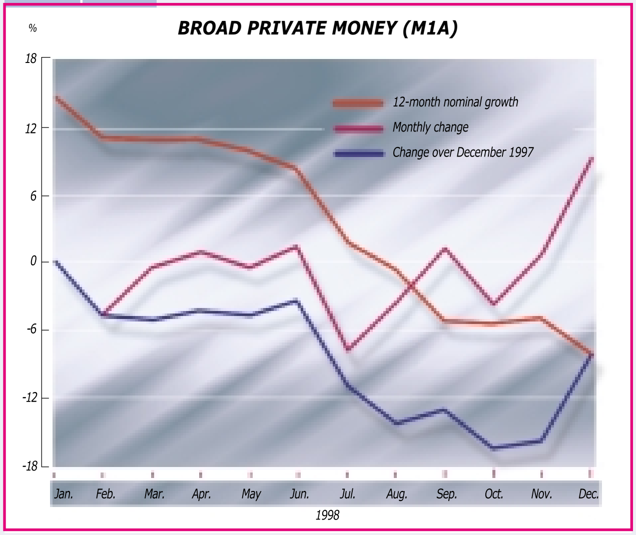
C.3 TRENDS IN THE CHILEAN FINANCIAL SYSTEM

In spite of significant restriction and price corrections observed in financial markets during 1998, and the obvious decline in output toward the end of the year, the banking system's financial position was stable overall. In fact, the return on capital reached 11.5%, down from the 13.7% achieved in 1997, but still significant given the general economic situation. Similarly, real growth in loans slowed to 5.9% in December, although it averaged 12% in 1998.

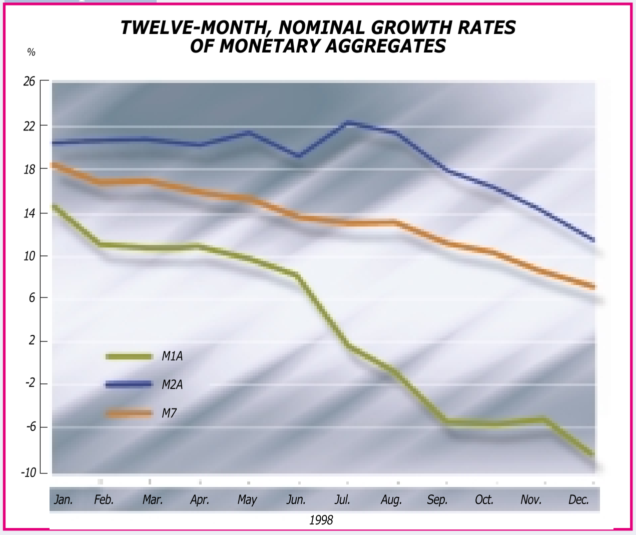
Loan portfolio quality declined somewhat during the year, a standard result of economic slowdown. Non-performing loans reached 1.4% of total loans, up from 0.9% in December 1997. In spite of some decline in portfolio quality, 1998 risk ratios for Chilean banks remained among the lowest in Latin America.

The decline in growth and portfolio quality of loans contrasted with higher capitalization of the banking system, which, in line with Basel indicators, reached 12.5% in December 1998, one hundred basis points higher than in December 1997. Basic capital over total assets was slightly higher than the previous year (6.1%), suggesting that the

Graph 8



Graph 9

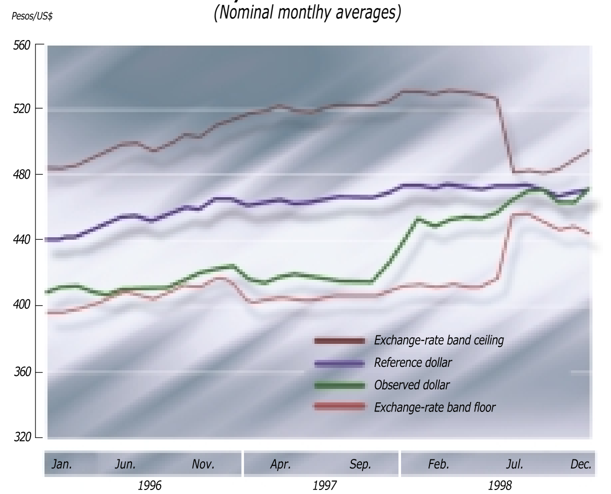


rise in Basel compliance reflects not only portfolio reallocation toward lower-risk assets, but also preservation of a solid capital base.

Banks also kept their expenses for core bank activity to 2.5% of total assets. To offset the growth of non-performing loans, banks raised provisions relative to loans, as a way of protecting their capital. Provisions thus reached 1.8% in December 1998, excluding credits covered by collateral.

Graph 10

CHILEAN PESO/US DOLLAR EXCHANGE RATES
(Nominal montlhy averages)



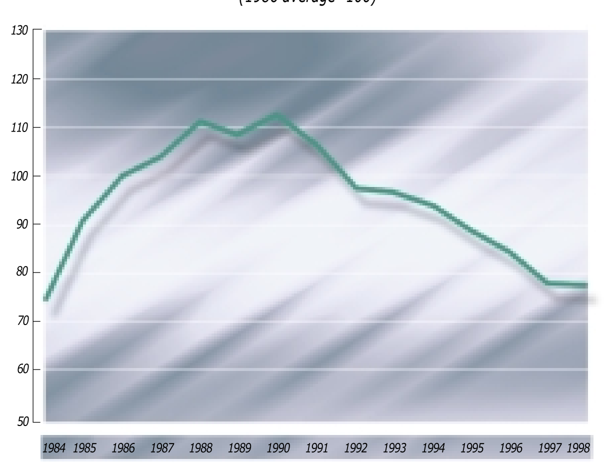
C.4 FOREIGN EXCHANGE POLICY AND REGULATIONS

Throughout the decade, the Central Bank has aimed to achieve a current account deficit to ensure that external financing complements domestic investment, striving to reach a sustainable level of medium-term indebtedness. Exchange rate policy has evolved to reflect that objective (Table 6 and Graph 10).

As for the observed exchange rate *(dólar observado),* the deterioration in the world economy that unfolded throughout 1998 led to a sharp turnaround in the peso's real appreciation against the dollar, which had been going on for several years. The real exchange rate fell by 2.7% in 1998, consistent with nominal depreciation for the year of 7.8% (Table 7 and Graph 11).

Graph 11

REAL EXCHANGE-RATE INDEX (*)
(1986 average=100)



(*) Real exchange rate index: This is defined as the nominal observed exchange rate multiplied by the quotient formed by relevant foreign inflation and the CPI. Foreign inflation is calculated using the Wholsale Price Indexes (WPI) of Chile´s main trading partners, expressed in dollars, weighted according to their relative importance of imports and exports expressed in dollars, (excluding oil and copper) that Chile trades with them (about 70% of Chile´s global trade in 1997, excluding oil and copper). Both the WPIs and the exchange rates for the countries are included as a monthly variation.

The Central Bank's foreign exchange policy during 1998 took into account long-term trends, but also aimed to avoid excessive short-term volatility. The deteriorating world economy and a temporary increase in the current account deficit led to higher perceptions of peso-associated risk, strongly pressuring the real exchange rate. The Central Bank responded by intervening more actively in the foreign exchange market to avoid short-term overreaction of the exchange rate and maintain confidence in the peso.

In June 1998, faced with growing market pressures, the Central Bank adjusted the exchange-rate band, to both let the peso depreciate and avoid excessive volatility. To do this, it narrowed the band at 2% above and 3.5% below reference of the exchange rate band *(dólar acuerdo),* and eliminated a 2% fixed annual downward adjustment normally applied to the reference parity to keep it in line with the medium-term real exchange rate. The Bank also issued PRDs, with three- and four-year maturities, to help cover exchange risk and thus reduce pressure on the foreign currency spot market. A complementary, temporary measure was the purchase of dollars with a repurchase clause over 180 to 360-day periods. In September, as the market regained confidence in the peso and in monetary policy generally, the Central Bank increased the band to 3.5% above and below the reference exchange rate, and allowed for the gradual relaxation of these limits. It also reduced annual foreign inflation estimates, used to calculate the reference exchange rate, from 2.4% to 0%, and decided to use the annual inflation target as the relevant factor for indexing the reference exchange rate. In December, the Central Bank again widened the exchange-rate band, this time to 8% above or below the reference exchange rate, with further relaxation possible.

Altogether, these measures allowed for a gradual depreciation of the peso as it moved toward a new level in response to lower aggregate demand, at the same time as they smoothed fluctuations, ensuring consistency with Chile's economic fundamentals and other macroeconomic policies.

In 1998 the Bank continued to gradually open up the capital account, further relaxing conditions for bond and ADR issues, and easing infrastructure bond issues, among other measures. By far the most important measure came in mid-September, when it reduced the *encaje,* an unremunerated reserve requirement on foreign capital inflows, from 30% to 0%.

D. ECONOMIC ACTIVITY, EXPENDITURE, AND EMPLOYMENT

D.1 TRENDS IN ECONOMIC ACTIVITY AND EXPENDITURE

D.1.1 Economic Activity

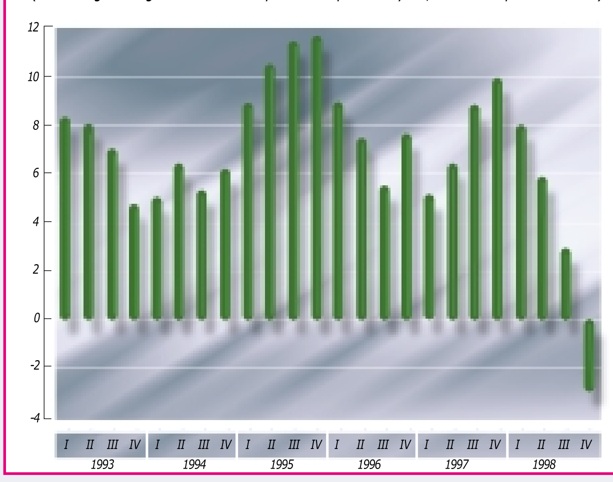
In 1998, economic activity rose 3.4% over the previous year, while domestic demand rose 1.9%. A closer look reveals that the economy slowed significantly in the second half. Output declined in the last quarter, while domestic demand dropped sharply (Table 8 and Graph 12). This helped to ensure that the gap between domestic spending and output was negative (-1.5%) for the first time since 1991, in line with requirements for restoring external balance.

Within domestic demand, private consumption rose 3.5%, mostly during the first half of 1998 (Table 9). Gross fixed capital formation increased just 2.1% over the previous year. Exports of goods and services rose 5.9%, in spite of more difficult external conditions. Import growth, measured in 1986 pesos, slowed sharply, rising only 2.1% over the previous year.

Graph 12

QUARTERLY GDP GROWTH

(Percentage change over the same period the previous year, in Chilean pesos of 1986)



By sector, in 1998 non-traded goods grew 4.7%, well ahead of traded goods, which grew just 1.1%. Among non-traded goods, transportation and communication (11.2%) led growth, while among traded goods, manufacturing turned in the worst performance, falling 1.5% (Table 10).

D.1.2 Domestic Expenditure

General economic trends experienced a sharp turnaround in mid-year. While spending rose 11.3% in the first half, in the second it fell 6.4%, particularly in the last quarter (Graph 13).

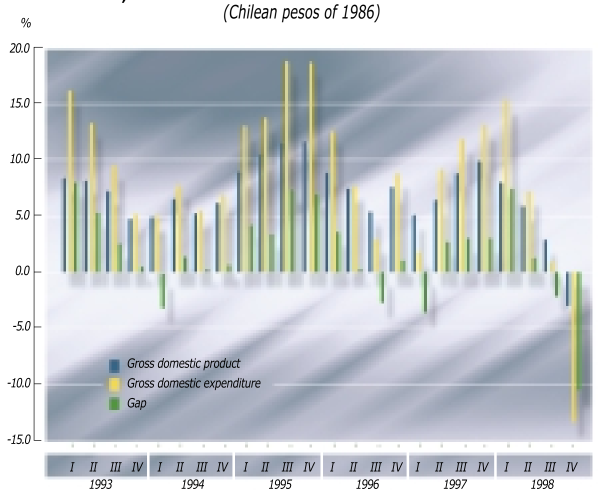
Most affected was gross fixed capital formation, which rose 13.1% in the first half, then dropped 7.3% in the second. The machinery and equipment component was particularly hard hit, while construction underwent a similar but less intense change.

Other domestic expenditure rose 10.6% during the first half, only to drop 5.9% in the second, while foreign demand was more restrained, rising 8.1% in the first half, and 3.5% in the second (Graph 15).

The clearest indicator of trends in domestic expenditure was imports of goods and services, which rose 17.5% during the first half, only to fall 11.2% in the second.

Graph 13

GDP, GROSS DOMESTIC EXPENDITURE AND GAP
(Chilean pesos of 1986)



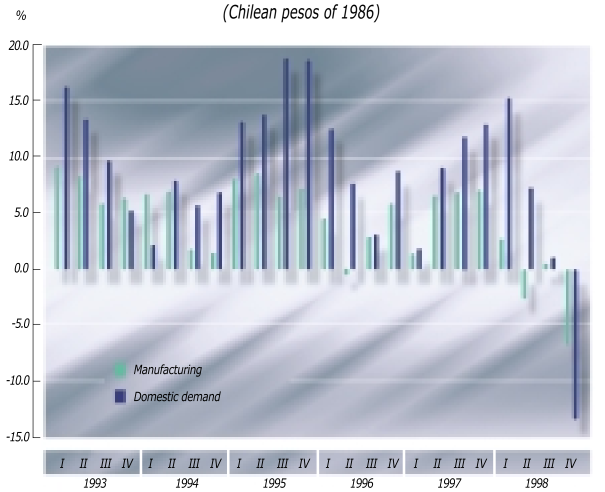
D.1.3 Productive Sectors

In 1998, transportation and communication led growth, while manufacturing performed the most poorly (Table 10 and Graph 14).

One outstanding aspect throughout the year was the slowdown of some sectors, which was reflected in overall output performance. Import duties in particular reflected this decline during the year. Similarly, electricity, gas and water grew 23.6% during the first half, and shrunk 10.4% in the second, due primarily to the growing scarcity of water resources available for electricity generation.

Graph 14

MANUFACTURING AND GENERAL DOMESTIC DEMAND
(Chilean pesos of 1986)



Farming, forestry, fishing, construction, and industry experienced similar trends, but to a lesser degree.

The slowdown evident in both production and domestic demand reflected deteriorating international conditions, especially poorer terms of trade, slow growth of foreign markets, and reduced availability of foreign credit. The economy was also slowed down by the application of domestic policies to restrain demand, reinforced by other factors that decelerated growth.

Extreme weather conditions hit two sectors particularly hard. Energy generation was affected by the drought, which severely reduced hydro-electric resources, while the Niño reduced fishing stocks, hurting large-scale and offshore fishing, as well as manufacturing.

Above all, the Asian crisis had a significant impact on industrial output, reducing demand for wood in particular, which affected timber and wood-processing sectors generally. Also, the crisis depressed commodity prices, especially the price of copper, reducing the competitiveness of small-scale producers and triggering shutdowns and production cutbacks.

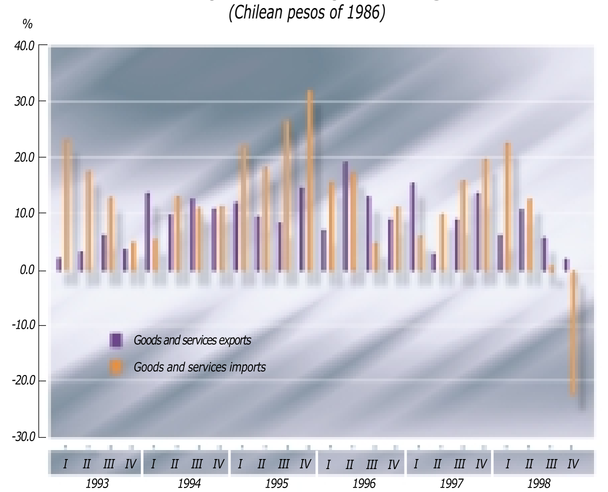
These conditions hit some sectors, already experiencing difficulties, particularly hard. In fact, some industries faced a further loss of competitiveness after the devaluation of Asian currencies. This, in turn, reduced production.

Throughout the year, specific factors also affected sector performance. Mid-size copper mines suffered from technical difficulties and falling ore grades at some deposits, which reduced the strong performance anticipated from this sector. In other areas, some producers (particularly chemical firms) became mere distributors, while others (particularly capital goods producers) moved operations to markets that were once their main export destinations, thus contributing to manufacturing's uneven performance.

Nonetheless, some sectors grew strongly, partially offsetting problems in foreign markets.

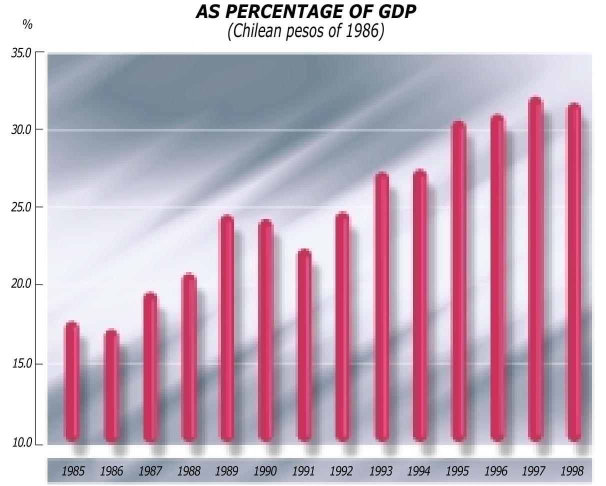
Graph 15

EXPORT AND IMPORT TRENDS
(Chilean pesos of 1986)

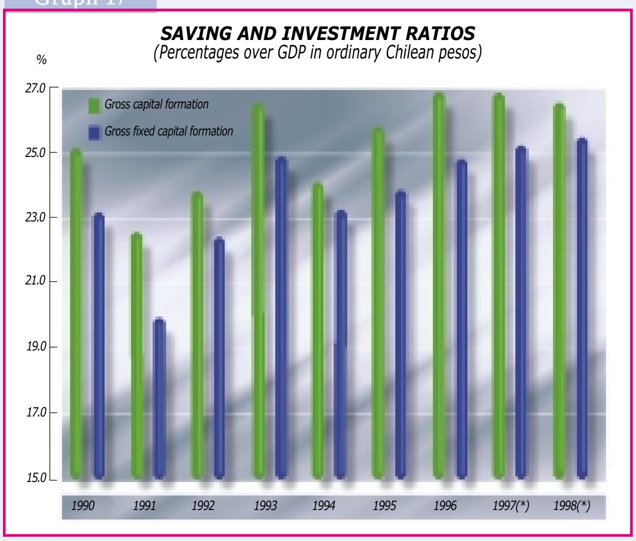


Graph 16

GROSS FIXED CAPITAL FORMATION AS PERCENTAGE OF GDP
(Chilean pesos of 1986)

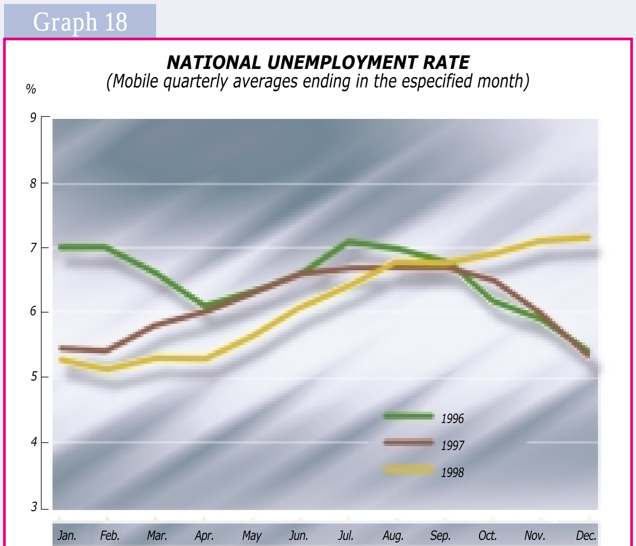


Graph 17



(*) Provisional data.

Graph 18



Communications, in particular, grew significantly in response to strong investment inflows that boosted modernization. Previous years' investment in large-scale mining boosted 1998 production, more than offsetting the less than positive performance of other mining efforts. The introduction of natural gas brought a significant increase in that area of energy production, reducing energy costs associated with fossil fuels, which were particularly in demand in 1998 because of the drought.

Finally, some branches of manufacturing were particularly dynamic, due to higher international demand and favorable prices abroad (eg. the wine industry); higher demand for containers (eg. the plastic industry); higher consumption associated with growth in the number of cars and transport activities (eg. oil refining) and the opening of a new sulfuric acid plant (eg. the basic chemicals industry).

D.1.4 Income and Saving

The sharp drop in export prices was reflected in less favorable terms of trade, partially offset by lower import prices. This led to a drop in real gross national disposable income of 0.2%.

As is standard during periods of poorer terms of trade, gross national saving, at 20.2% of GDP measured at current prices, dropped slightly compared to the previous year. Gross investment (26.5%), however, showed no significant change, generating a gap covered by a higher current account deficit compared to the previous year. Thus, in 1998 the current account deficit reached 6.3% of GDP (Graphs 16 and 17 and Table 11).

D. 2 EMPLOYMENT TRENDS

Nationally, employment grew more slowly in 1998, averaging 1.8%, that is, 0.3% less than in 1997 (Table 12). The crunch came during the second half, when economic activity slowed the most. The work force grew by 1.8%, similar to 1997.

In 1998, annual unemployment rose by 8,700 people over 1997. This, in turn, brought a moderate increase in average unemployment, from 6.1% in 1997 to 6.2% in 1998 (Graph 18).

Average growth in the number of jobs (94,000 new jobs) for the year proved unable to match average growth in the labor force, which reached 104,000.

E. INFLATION AND WAGES

E.1 INFLATIONARY TRENDS

Inflationary results in 1998 fell within policy targets, a significant achievement given adverse conditions. In fact, during the first half of 1998, inflationary policy faced two main sources of pressure: excessive growth in demand, and exchange rate depreciation. Negative foreign inflation, combined with falling prices for perishable goods, gasoline and oil-derivative prices, all helped. As expected, unusual price increases that had affected some perishable goods from late 1997 to early 1998 were reversed starting in the second quarter, and by year's end they were below historical averages. Although the devaluation of the peso pressured fuel prices, lower international oil prices cushioned the impact of fuel prices on consumers.

For the eighth year in a row inflation fell in 1998, with the annual CPI reaching 4.7%, down 1.3% from 1997, the lowest since 1938 (Table 13 and Graph 19).

Core inflation indicators show that inflation trends improved little compared to the previous year. For example, by December the National Bureau of Statistics' (INE) seasonally-adjusted CPI for eleven agricultural products had risen 5.2%, compared to 5.4% in 1997. In contrast, other core inflation indicators excluding perishables and energy-related costs rose more than the previous year, in response to demand and cost pressures mentioned above. With regard to CPI, food led progress, rising just 0.6% for the year through December, well below the 9.2% increase of the previous year, with perishables playing a decisive role. Housing prices performed similarly, rising 4.2% in 1998, 0.5 percentage points less than the previous year.

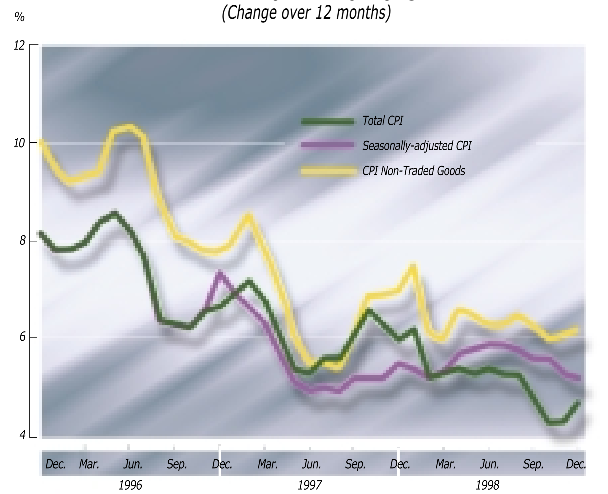
In contrast, miscellaneous, transportation and communication, and clothing all rose more than in 1997, with clothing rising the most due to the peso's depreciation. As of December, transportation and communication prices had risen 7.4%, five percentage points more than in 1997, led mainly by transportation. Finally, miscellaneous prices, including education, health, recreation and others, rose 11% by December, two percentage points more than in 1997 (Table 14).

The Wholesale Price Index rose 0.3% by December, well down from the 1.9% increase in 1997. This reflected a zero increase in prices for domestic goods and a 1.3% increase in import prices.

Graph 19

INFLATION INDICATORS

(Change over 12 months)



E.2 WAGES

The INE reported that the Hourly Wage Index and the Labor Cost Index rose 7.7% and 7.8%, respectively, in 1998. Thus, from mid-1997 to the end of 1998 wages rose at virtually the same pace.

As per last year's Annual Report, accelerating economic activity from mid-1997 on and inflationary trends could explain steady wage increases, with these same elements probably continuing to influence indicators in early 1998. However, in 1997 wage increases were consistent with productivity and inflation targets, while in 1998, a continued 8% wage hike was not compatible with inflation targets and the general slowdown.

In 1998, these factors pushed real salary growth beyond productivity estimates. As of December 1998, hourly wages, deflated using the CPI, had risen 2.9%, over one percentage point more than the increase up to December 1997. Similarly, real labor costs had risen 3.0% as of December 1998, up from 1.4% the previous year (Tables 15 and 16).

Finally, the Department of Labor *(Dirección del Trabajo)* reported that real wage increases from collective bargaining grew most during the first quarter of 1998, then more slowly during the rest of the year, becoming more consistent with the general slowdown. On the whole, average increases in 1998 were slightly lower than in 1997, in spite of higher increases registered during the first quarter of 1998 (Table 17).

F. BALANCE OF PAYMENTS AND FOREIGN DEBT

As of December 31st, 1998, the balance of payments was -US$2.066 billion, the result of a US$4.548 billion current account deficit, a capital account balance of US$3.193 billion, and negative errors and omissions worth another US$711 million (Table 18).

F.1 CURRENT ACCOUNT

The current account of the balance of payments reached -US$4.548 billion in 1998, US$491 million more than the US$4.057 billion deficit in 1997, mainly reflecting a growing trade deficit during the first nine months of the year that was partially offset by the lower deficit of the fourth quarter.

The trade deficit for the year reached US$2.496 billion, with exports of US$14.895 billion and imports of US$17.391 billion. This was well above the US$1.295 deficit posted in 1997 and reflected lower prices' impact on overall export income (down 17.1%). Imports slowed from mid-year onwards, falling 4.5% in 1998 compared to 1997, also due mainly to lower prices (Table 19).

In the case of copper, a 28.3% drop in price was partially offset by a 6.4% increase in volume exported, reflecting the start-up of new mines, among them Codelco's Radomiro Tomic and, in the private sector, Collahuasi and Lomas Bayas, along with higher production from deposits like La Candelaria, Zaldivar and Cerro Colorado.

Non-copper exports also experienced lower prices (-8.9%) somewhat offset by higher volumes (6.1%). «Other» or «non-traditional» exports led this trend, with volumes rising 12.1%. Exports of traditional, non-copper products experienced significantly lower prices (-10.7%) and volumes (-1.7%), this last due to a drop by almost half in the volume of exported fishmeal, among other factors (Table 20).

Products registering lower prices included, in the mining sector, molybdenum, gold, lithium carbonate, metallic silver, and sodium nitrate, along with fruit, some wood (lumber, planed wood, pulplogs and sawlogs) and methanol. Fishmeal enjoyed the only significant price increase (17.5%), the result of scarcity worldwide.

The 1.7% drop in volumes for the traditional, non-copper export group was influenced mostly by products including: metallic gold and doré (98% silver, 2% gold bullion), gold ore, lumber, pulpwood, and fishmeal (-46.5%). Nonetheless, other export volumes increased, led by pulp (10.3%), and followed by fruit (8%), especially apples and kiwis, reflecting technological improvements and good weather, and some mining sector products, among them, molybdenum, iodine and iron.

Non-traditional exports grew 3.6% over the previous year as a result of lower prices (-7.6%) and higher volumes (12.1%). Overall price performance reflected mainly lower prices for key seafood products (excluding fishmeal), among them salmon, trout, sea bass and canned seafood, and processed foods, as well as iron and steel derivatives; while export volumes rose for corn seed, salmon, trout and bottled wine, along with transportation sector exports.

Export destinations shifted away from Asia toward the rest of the world, especially Europe, Latin America and the US. In 1997, Asia received 35% of total exports by value, compared to 29% in 1998. By volume, exports to Asia fell 10.5%, due to lower volumes of copper (-11.1%), and other products (-9.9%). Exports to the rest of the world, in contrast, rose 17.6% by volume (27.7% copper and 12.5% the rest).

For imports, CIF prices in dollars dropped 5.8% in 1998, falling in every category, especially fuel (-27.4%), while volumes rose by 1.7%.

All the large import categories saw a decrease, especially intermediate goods like fuel, which was affected by the sharp drop in oil prices (-32.1%). Other import prices fell by 3.2% over the twelve-month period, particularly capital goods (-4.7%), and consumer goods (-3.7%), while non-fuel intermediate products fell by 2.1%.

Within the 1.7% increase in the volume of imports, a 3.2% rise in consumer goods and a 6.7% rise in intermediate fuel-related goods stood out, while other intermediate goods rose only 1.2% in the year. Capital goods, meanwhile, remained at practically the same import level as in 1997.

Services and transfers posted a US$2.052 billion deficit, US$710 million less than in 1997. This reflected lower net outflows of US$767 million in financial services due to a significant drop in net profits.

Net outflows resulting from foreign direct and portfolio investment earnings and dividends fell by US$868 million, compared to 1997, because the profitability of foreign investment, especially mining, dropped in 1998, given the very low prices. Remittances of profits and dividends also fell compared to 1997, although this was partly offset by an increase in revenue from external investments made in previous years. Foreign investors reinvested US$458 million less in 1998, while domestic investors invested US$62 million abroad. This had a significant impact on net foreign investment flows into the capital account (Table 21).

F.2 CAPITAL ACCOUNT

Between January and December 1998, the capital account, excluding reserves, stood at US$3.193 billion, slightly less than half the net inflow of the previous year. Foreign portfolio investment (US$3.097 billion) was the main reason, as it fell the most, reflecting lower net foreign investment inflows and higher outflows. Gross foreign direct investment inflows (US$4.792 billion) remained virtually identical to previous years. However, in aggregate terms, this investment brought lower net inflows than in 1997, due to lower reinvestment of profits and higher outflows of Chilean capital to cover investment abroad. Other capital, related to short-, medium-, and long-term foreign debt, showed higher positive flows than in 1997, particularly short-term foreign trade flows, bank credit lines and direct commercial credits, reversing the previous year's trends to show positive inflows in 1998 (Table 18).

Although capital account levels were lower in 1998 than in 1997, its general structure did not change much. Medium- and long-term capital continued to dominate, as opposed to more volatile short-term flows. In fact, of total capital entering the country in 1998, medium- and long-term capital accounted for US$5.525 billion, considering both foreign credits and foreign investment of a more permanent nature. In contrast, net withdrawals of short-term capital reached US$2.332 billion, including net inflows from secondary ADRs and investment funds. The overall share of this kind of capital (considered more volatile) within the flow of capital account financing fell, reflecting a sharp drop in portfolio investment from abroad, particularly ADRs, and an increase in portfolio investment held abroad, especially by the pension funds. Foreign assets rose noticeably in the first half as private individuals bought dollars as much to cover risk as to take positions in that currency. Bank credit lines and export and import-related credits, which in 1997 showed significant negative flows due to changes in commercial bank portfolio maturity structures, reversed this trend in mid-1998, showing positive flows from the third quarter on.

91.5% of medium- and long-term capital flows involved private sector companies, with a higher share of credits over net foreign investment. 9% corresponded to the public sector, while the banking sector showed equivalent outflows of 0.5%.

Although positive in 1998, total net foreign investment inflows (both direct and portfolio investment) fell by US$4.570 billion compared to 1997. Foreign direct investment fell slightly, by 11.5%, the result of less reinvestment of profits, while Chileans' direct investment abroad rose 44%. Portfolio investment, meanwhile, fell by US$3.097 billion, due to both a drop in foreign investment in ADRs and bonds and an increase in pension fund investment abroad (Table 23).

Companies from the US and Spain were Chile's largest foreign investors in 1998. Chilean investment abroad flowed primarily through the formal exchange market to other Latin American countries (Argentina, Peru and Uruguay), Central America (Cayman Islands) and the US.

Medium- and long-term, non-investment capital flows, mostly foreign credits, reached US$3.349 billion in 1998, making this the capital account's main source of funding. Inflows for this item were similar to those of 1997. Thus the net flow of foreign credits resulted from US$5.997 billion in disbursements and US$2.286 billion in amortizations. Of total net foreign credit inflows, about 80% went to finance productive investments in mining, telecommunications, services and manufacturing. Total capital outflows for medium- and long-term assets abroad rose in this period, reaching US$339 million.

Short-term capital, excluding secondary ADRs and investment funds, showed a negative cash flow of US$1.423 billion, mainly due to a US$2.48 billion increase in assets abroad.

F.3 FOREIGN DEBT AND FOREIGN EXCHANGE RESERVES

F.3.1 Foreign Debt Trends

As of December 31st, 1998, Chile's total foreign debt reached US$31.546 billion, up US$4.845 billion from December 1997 (Table 24). This was the result of net medium- and long-term foreign credit inflows of US$4.435 billion, including US$650 million in bonds issued by Chilean companies' agencies abroad. These are considered non-resident for the purpose of the balance of payments. Short-term foreign credits rose US$313 million, reaching US$1.6 billion for the year.

With regard to medium- and long-term foreign debt by sector, private and public sector company debt rose by US$3.976 billion and US$620 million respectively. Private financial sector debt fell by US$64 million.

International financial institutions and banks were the main sources of medium- and short-term financing, accounting for 56% of net resources entering the country; suppliers and others, 28%; bond issues by resident companies and agencies abroad, 16%; governmental organizations, 5%. Multinational organizations were net receivers of resources (5%).

Thus, permanent capital continued to account for most foreign debt in 1998, with medium- and long-term debt representing 95% of the total by year's end.

F.3.2 Foreign Exchange Reserves

As of December 31st, 1998, foreign exchange reserves had reached US$15.992 billion, down US$1.849 billion from December 31st, 1997. This was the result of a US$2.066 billion deficit in the balance of payments and a net capital gain from accounting revaluation of U$217 million, mainly due to the exchange rate depreciation. Thus in 1998, as in previous years, the stock in foreign exchange continued at a level consistent with financing almost one year of imports (Tables 25 and 26).

G. DEVELOPMENTS IN THE BALANCE OF THE CENTRAL BANK OF CHILE

G.1 BALANCE STRUCTURE

The Central Bank asset and liability structure reflects the most significant factors in macroeconomic management and performance over the past two decades (Table 27). At the end of the eighties, the financial crisis led to isuing fiscal notes and subordinated debt. Later, the impact of efforts to sterilize the surpluses in the balance of payments and exchange rate, that is, policy controls mentioned above to avoid excessive currency appreciation, led to a healthy accumulation of foreign exchange reserves. Finally, fiscal and monetary policies focusing on a steady reduction of inflation led to non-inflationary expansion of the monetary base, using Central Bank promissory notes and government deposits as priority funding sources.

In 1998, harsher economic conditions abroad ended 12 years of constant growth in foreign exchange reserves. The Central Bank's intervention in the foreign exchange market to avoid volatility led to a US$3.4 billion drop in foreign exchange reserves, although some funds were recovered by repurchasing promissory notes. In terms of Central Bank equity, this shift was favorable, because the returns on foreign currency holdings are less than the cost of financing them by issuing notes on the domestic market. Nonetheless, given the considerable accumulated volume of investment and obligations (10 times the monetary base), these operations brought only minor changes to the balance's overall structure.

Foreign exchange reserves remained the Central Bank's main asset, although their share fell slightly from 56.1% to 54.4%. Government securities, the second most important asset type, rose from 24.2% to 24.6%, including US$444 billion spent to service these documents, and year-end interest prepayments. Among remaining assets, an increase in deferred losses stands out, as the share of total assets rose from 5.3% to 6.6%.

Promissory notes continued to be the main liability, with their share of total liabilities dropping slightly from 67.7% to 67.3%. Public sector deposits, the second most important liability, fell from 15.3% to 14.6%, reflecting the lower government surplus and the interest prepayment mentioned above. Monetary emission rose from 8.9% to 9.4%. Finally, there was a sharp drop in banks' required reserves and current accounts in foreign currency (from 3.5% to 1.2%), offset by an increase in other non-monetary emission liabilities (from 4.6% to 7.5%), reflecting banks' shifting funds into overnight deposits toward year's end.

G.2. ASSET PROFITABILITY, LIABILITY COSTS AND EQUITY TRENDS

International interest rates are the main factor in determining average profitability of assets from interest, while the relevant conversion factor generally depends on the nominal exchange rate. Year-end accounts, however, did not completely reflect the shifting exchange rate, because the calculation method changed, with the observed exchange rate replacing the nominal exchange rate, which had been set at 10% above the observed exchange rate in December 1997. Keeping in mind the difference between the reference exchange rate at the end of 1997 and the observed exchange rate in 1998, the average weighted book indexing factor applied to assets was 1.7% in 1998, up from 0.7% in 1997. Average LIBOR did not change significantly between 117 and 1998. However, average weighted profitability of assets (in interest) rose from 4.4% to 4.9%.

The average cost of interest paid on liabilities, mainly promissory notes, from 5.7% in 1997 to 6,1% in 1998, reflecting the higher domestic interest rates resulting from more restrictive policies applied in 1998. The average liability revaluation, including both foreign and domestic currency, fell from 4.6% in 1997 to 2.9% in 1998, reflecting lower inflation as well as lower indexation of liabilities mentioned above.

In 1998, profit-cost differentials for assets and liabilities remained similar to 1997 in the case of interest (the gap fell from -1.2% to -1.1%), and lower in the case of indexing (the gap fell from -3.9% to -1.2%)*/. Thus, financial losses in interest reached US$220 billion in 1998, up from US$200 billion in 1997, while indexation losses dropped to US$198 billion in 1998, from US$573 billion in 1997. These losses, partially offset by non-financing profits of US$13 billion, caused a nominal decline in equity of US$407 billion. Thus, year-end book equity declined from -US$558 billion in 1997, to -US$965 billion in 1998, a real deficit of US$383 billion, slightly over half the previous year's deficit.

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* / If, in 1977, the book exchange rate had been the observed rate, as in 1998, the improvement in results due to indexing would have been noticeable. The use of the observed exchange rate, while giving a more appropriate value to assets and liabilities, makes book results more volatile, unless some provisions are made to avoid this.

APPENDIX 1

SUMMARY OF QUARTERLY MEETINGS ON MONETARY POLICY

Sessions usually begin with a report from the Research Division on recent economic developments and immediate prospects, the main conclusions of which are presented in Section I. Then, Board members and other participants study the information provided, analyzing the implications for Central Bank economic policy, as reported in Section II. Finally, the Board reaches its conclusions, adopting resolutions as indicated in Section III.

MEETING JANUARY 8TH

I. RECENT ECONOMIC TRENDS AND PROSPECTS

During the fourth quarter of 1997, real inflation began to rise in contrast with the steadier performance of other inflationary measures. In effect, from the third quarter on, inflation as measured by the CPI tended to rise, reaching 6% by the end of 1997. Core inflation, however, was significantly lower, suggesting that this return to higher annual inflation was temporary. Annual inflation minus perishables and fuels reached 4.5%, while the INE reported that seasonally-adjusted inflation had reached 5.5%. For this period, core inflation for both traded and non-traded goods remained relatively stable. Finally, nominal growth of wages reached about 8%, for real growth of 3%-3.5%, in line with productivity. Given the data, the Board concluded that neither prices nor wages were showing a significant tendency to rise, but inflation was coming down more slowly.

Figures for economic activity and aggregate demand indicated that the economy grew more than predicted during the second half of 1997, with significant recovery in manufacturing and non-traded goods, including construction and commerce.

Domestic spending estimates for 1997 put it at almost two points more than GDP growth, with a similar gap occurring for economic growth in general. Consumption led the strong increase in demand, as was apparent primarily in the strong increase in consumer good imports during the second half of 1997. Investment remained dynamic throughout the year.

With regard to monetary policy indicators, long-term rates increased substantially during the last quarter of 1997, thus restricting spending decisions. However, monetary indicators like M1A grew significantly toward year's end, reflecting dynamic growth during the last quarter of 1997, which was expected to continue into early 1998. Toward year's end, growth in financial sector loans to the private sector tended to stabilize, as did the broader monetary aggregates. Stock indicators also showed a drop in prices and in price-earnings ratios.

The depreciation of the peso in the weeks prior to the meeting posed a significant inflationary risk given how quickly the economy was growing. This left little room to maneuver. Nonetheless, at least some risk was offset by: (a) favorable projections for foreign inflation relevant to Chile, the result of the dollar's appreciation on foreign markets and especially in relation to most Asian currencies, and (b) favorable commodity prices.

With regard to employment, during the second half many new jobs were created, but this had no significant impact on unemployment, because the workforce grew at almost the same rate. In any case, during 1997 unemployment hovered around 6%, less than the historic average, leaving little lee-way to further slow down nominal wage growth.

The Asian crisis' main impact was expected to be less favorable terms of trade and a larger current account deficit in 1998 than originally predicted. Growth too was expected to slow more than anticipated in mid-1997, due to new factors, among them, the impact of less favorable terms of trade on national income, as a result of lower copper and other commodity prices. Also, in late 1997, long-term interest rates had topped annual averages, suggesting they would soften domestic demand. Finally, greater turbulence on world markets was expected to reduce the financing available in 1998, compared to previous years.

Given the new international scenario, the Board concluded that poorer terms of trade alone would not reduce domestic spending enough to restrict economic activity to the degree desired.

II. ANALYSIS AND CONSEQUENCES OF THE DATA PRESENTED

Those present at the meeting agreed that, in general, 1997 was a successful year for the country's economic policies. Current account results, the balance of payments and accumulated foreign exchange reserve levels were considered appropriate given higher than anticipated growth. Inflation, especially core inflation, was on target, although half a point higher than the target set the previous year. Both employment and investment, which reached record heights, performed well.

In spite of this favorable evaluation, those present agreed with the Research Division's risk-evaluation for 1998. Current account deficit estimates for 1998, due to both increased spending and the Asian crisis, were anticipated to be higher than estimated in mid-1997. Inflationary risks were also higher. Given shifting conditions abroad in previous months, the Board thought it important to take measures to avoid overreaction to temporary events on local financial markets. Otherwise, these could have a lasting impact on economic performance and policy decisions.

Given this context, the Board agreed it was important to set a moderate, cautious example and thus encourage other agents to control their spending.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Given the Central Bank's inflationary target, the Board set the interbank interest rate at UF + 7% annually, a 0.5% (50 basis point) increase over the previous rate.

2. The Board of the Central Bank would monitor economic, financial and monetary developments in order to adjust monetary instruments to keep them in line with its objectives. Future changes to monetary policy were possible depending on the degree to which the main macroeconomic indicators, among them, inflation and wages, public and private spending, and trends in external accounts, remained consistent with the macroeconomic objectives proposed for 1998.

MEETING APRIL 7TH

I. RECENT ECONOMIC TRENDS AND PROSPECTS

During the first quarter of 1998, there was some correction of the temporary distortions evident in inflation in late 1997, in particular with regard to food and fuel. Between December and March, total inflation dropped from 6% to under 5.5%. In contrast, core inflation remained steady or increased slightly from mid-1997 on. For this period, the exchange rate put no inflationary pressure on the price index for traded goods, except in March, when the first sign of pressure appeared in the item clothing. Empirical evidence suggested that exchange rate impact on prices was lagging, depending to a large degree on the competitive pressures and prospects present in markets. Wages, during the first quarter of 1998, were behaving similarly to other price indexes, that is, enjoying nominal growth of about 8%, for real growth of 2.5% to 3%, consistent with productivity. In the short term therefore, wages were not expected to generate pressures for growth beyond inflation, but nor did the labor market offer a lot of room to maneuver.

With regard to monetary policy, during the first quarter of 1998, market rates lined up with the new monetary policy rate set the previous February (UF + 8.5%), maintaining spreads considered standard for Central Bank documents. The fixed income market reflected some relaxation in restrictive monetary policies in late 1998, which continued into 1999. In the first quarter, monetary aggregates grew more slowly than in late 1997, in line with estimates. Loans also evolved in line with growth.

In late February, the exchange rate stood at 450 to 455 pesos per dollar, with a relatively low spread between buying and selling prices and occasional intervention in the market by monetary authorities. The foreign exchange market remained fairly uneasy, given international events, particularly in Japan, as well as domestic developments affecting the balance of trade. The Central Bank gave high priority to both limiting exchange-rate volatility and correcting any imbalance between spending and GDP, so that eventual increases in the exchange rate would not trigger price increases.

Figures for fiscal performance in 1997 indicated that public sector behavior had a moderating effect on aggregate demand, to the degree that it grew less than GDP. However, tax revenues performed less favorably, the result of leftovers associated with the cycle, a situation that was expected to revert during the year. Based on different predictions for fiscal performance in 1998, the Board concluded that to achieve levels consistent with GDP, an extra effort to further reduce demand was required.

The first signs of an economic slowdown were apparent, as all indicators but demand were lower than originally predicted. Analysis of preliminary figures indicated that consumption was still high, although it had slowed, while the gross formation of capital had dropped and stocks were still accumulating quickly. The buildup was associated with recent trends in the trade balance, characterized by falling exports and increasing imports, reflecting the sharp drop in the exchange rate and low dollar prices for products from Asian countries.

Growth in employment still showed no sign of slowing, remaining at 1.5% to 2.5% in the previous months. National unemployment was still below the historic average throughout the first quarter of 1998, thus offering little room to maneuver in terms of further slowing the pace of nominal wage increases.

Current account estimates had been reviewed, in anticipation of a 1998 deficit of about 6% of GDP, higher than anticipated in late 1997, but still fundable, given Chile's solvency. This unfavorable trend in external accounts was due to low copper prices, poor export performance generally during the first quarter, particularly exports bound for Asian markets, and the high level of imports.

II. ANALYSIS AND CONSEQUENCES OF THE FIGURES PRESENTED

Members of the Board agreed with the Research Division's analysis of economic progress during the first quarter of 1998. Price trends for the first quarter, considered favorable, generated some optimism that inflation would remain within target levels for the year. Similarly, slower growth for the first quarter, which was below estimates, was to be expected given the restrictive context. Nonetheless, there was concern about domestic spending, which had not slowed as much as anticipated.

With regard to external accounts, the Board agreed that considerable uncertainty remained as to the final impact of the Asian crisis on the Chilean economy in terms of both prices and trade. Given this situation, Board members agreed on the risks to external accounts, whether due to the sluggish response to attempts to reduce spending or to the spreading of the Asian crisis itself. They also noted that an increase in the exchange rate during the year would threaten inflationary targets.

Given less favorable international conditions, the Board agreed it should send suitable signals to markets to ensure behavior in line with the main macroeconomic objectives set for the year.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Within the context of the Central Bank's target of steadily reduced inflation, the Board considered it appropriate to maintain the current monetary policy rate of UF + 8.5% per annum.

2. The Board of the Central Bank decided to monitor economic, financial and monetary developments in order to adjust instruments to ensure its objectives were met. Future changes to monetary policy were possible depending on the degree to which the main macroeconomic indicators, among them, inflation and wages, public and private spending, and trends in external accounts remained consistent with the macroeconomic objectives proposed for 1998.

MEETING JULY 9TH

I. RECENT ECONOMIC TRENDS AND PROSPECTS

During the second quarter of 1998, inflation held steady (at about 5.5%), although core inflation showed a slight tendency to go on rising, first detected in late 1997. Higher transportation fares, along with a slight drop over previous years' clothing prices, influenced this trend. A breakdown of inflation, adjusted for perishables and fuels, showed a similar rise, which was more pronounced for non-traded goods, given that public transport fares are included within this item. Wages held steady as in previous months, growing at a nominal 8% per year. How prices would be affected by cost pressures observed in the economy, wages and the depreciation of the peso would depend to a large degree on what happened to sales. These had tended to slow, allowing for their absorption in sales margins. Even so, and as indicated in previous reports, price and wage figures suggested some degree of pressure on core inflation.

With regard to money market conditions, in late June the Central Bank's more restrictive handling of liquidity led to a general interest increase, particularly short-term interest and long-term fixed income rates. These measures significantly increased the cost of credit compared to the previous quarter. As a result, monetary aggregates grew more slowly during the second quarter, coming more into line with expected GDP. Credit, meanwhile, remained at levels similar to late 1997, with the lion's share composed of outstanding loans to companies (commercial and foreign trade loans), rather than individuals, particularly mortgages and consumer loans.

Throughout the second quarter, the exchange rate held steady. However, country-risk premiums rose throughout the region. Finally, on June 25th, both foreign exchange policy and capital account regulations changed to reduce limits on foreign exchange operations and to reduce the reserve required on foreign capital entering the country. One immediate consequence of these measures was that market interest dropped, especially short-term rates.

Figures available for fiscal performance during the first quarter of 1998 indicated that public sector expenditure grew more than GDP. However, taking into consideration the announcement of spending cutbacks made in January and June and historic performance rates for the budget, it was estimated that for the year as a whole public sector spending would line up with GDP growth.

With regard to activity and aggregate demand, although GDP grew 7% during the first quarter, in line with expectations, spending remained high, due mainly to a significant inventory buildup. This was considered temporary, given figures available for the second quarter. In effect, for the rest of the year, economic growth was expected to slow, especially spending, and particularly imports. The cyclical nature of the economy and its impact on the purchase of capital and durable consumer goods, as well as depreciation of the real exchange rate, were expected to significantly slow import growth during the second half of 1998 and particularly in 1999.

The labor market continued to show strong growth in job creation, the result of building projects begun in previous years heading for completion. To the degree that new projects were delayed, employment was expected to drop and unemployment to rise, although this last remained below historic levels.

In the foreign sector, 1998 estimates were reviewed in light of figures for the first half of the year. These pointed to a larger, US$3.1 billion deficit in the trade balance, with some relief coming from lower financial service charges, for a current account deficit of over US$5 billion.

II. ANALYSIS AND CONSEQUENCES OF THE DATA PRESENTED

Board members agreed with the Research Division's evaluation regarding economic progress for the first half of 1998. Although there was some pressure on core inflation, they expected improvement in coming months and expected to meet this year's target. Similarly, restriction of domestic demand was considered sufficient given the monetary policy rate.

Those present at the meeting were also aware that the global situation had grown more uncertain and its outcome depended primarily on external factors. Given the measures implemented on June 25th, the wisest approach was to await their effects on the market, with Central Bank policy being more flexible regarding short-term rates.

Faced with an even less favorable international situation, the Board considered it important to coordinate economic authorities' actions in order to maintain credibility throughout the economy and send out the appropriate signals to encourage agents to behave coherently with macroeconomic objectives set for 1998 and 1999.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Given the Central Bank's inflationary target, the Board set the monetary policy rate at UF + 8.5% per annum. This could rise further if conditions in financial markets should so require.

2. The Board of the Central Bank decided to monitor economic, financial and monetary developments in order to adjust monetary instruments to ensure its objectives were met. Future monetary policy adjustments were possible to keep the main macroeconomic indicators, among them, inflation and wages, public and private spending, and trends in external accounts consistent with macroeconomic objectives for 1998 and 1999.

MEETING ON OCTOBER 13TH

I. RECENT ECONOMIC TRENDS AND PROSPECTS

During the third quarter of 1998, inflationary trends shifted, with all relevant indictors dropping, particularly in September. The drop in total CPI was expected, given some price trends, but core inflation also dropped, although it remained over 5%. A breakdown of the factors responsible revealed that the most influential was the perishable goods category, which in September dropped to levels considered standard, making it difficult to expect further progress. Fuel's role in the drop in inflation was neutral, while non-traded goods and wages remained constant at 6% and 8% respectively, for the previous twelve months. Traded goods prices moved favorably during this quarter, in spite of an increase in import costs.

During the third quarter, financial markets saw interest rates of every kind rise, under pressure from the foreign exchange market, which increased in early September. However, once measures were applied on the 16th, this tended to revert, with marginal rates moving closer to the monetary policy rate set on that date. Monetary aggregates for this period were consistent with the general economic slowdown, anticipating a greater slowdown in the rest of the year. In contrast with the first half, during the third quarter real growth of loans to companies slowed, reflecting less demand for investment.

With regard to foreign exchange, throughout this quarter the exchange rate fluctuated within the limits established on June 25th, in spite of upward pressures associated with turbulence in international financial markets after the Russian bond crisis.

During the first half of 1998, public spending grew faster than GDP, although less than total spending. In 1998, the public sector was expected to grow 5.5%, dropping to 2.8% in 1999.

Information available for activity and aggregate demand during the third quarter indicated the growing impact of restrictive monetary policy on the economy, particularly imports. Spending for the third quarter was expected to fall below GDP, thus slightly improving the balance of trade as measured in constant prices. Reduced pressure on spending reflected a slowdown in durable imports, which also led to a noticeable slowdown in the gross fixed capital formation during the same period.

Workforce growth slowed to about 1%, which could decrease further, although it was expected to remain positive.

With regard to trade, the estimates made in the Senate Report remain valid, with downward adjustments to imports and exports in 1998 and 1999. In 1998, the current account deficit held steady, due to some (downward) compensation on the export side, while for 1999 improvement is expected in response to reduced imports and higher export volumes.

For inflation, more pressure was expected from imports, given the rapid evolution of the exchange rate and the recovery of foreign inflation. Domestic inflation should, however, help, reflecting the prospect of slower economic growth. Thus, price projections for late 1998 remained within the original target area of ± 4.5%.

II. ANALYSIS AND CONSEQUENCES OF THE DATA PRESENTED

Those present at the meeting agreed with the Research Division's report with regard to economic progress thus far in 1998, given that the main macroeconomic indicators reflect the effectiveness of the more restrictive policies applied. These were considered essential, given the external imbalances affecting the economy from previous periods. One outstanding achievement was the drop in inflation, the first in several quarterly periods, with 1998 and 1999 prices expected to line up with targets set by authorities.

Consensus existed that the year's macroeconomic results reflected the policy decisions made during this fiscal period, within a context of highly uncertain global markets, which also affected the local financial market.

The Board agreed that the relative improvement in the current account deficit would help Chile face further changes abroad successfully, allowing for lower domestic interest rates, although it was clear that the international crisis was not over completely.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Given the Central Bank's target of a steady decrease in inflation and balanced external accounts, it reduced the monetary policy rate from the equivalent of UF + 14% to UF + 12% per annum. The new reference rate and monetary policy in general would continue to be administered flexibly, as foreign and domestic conditions dictated.

2. The Board of the Central Bank would monitor economic, financial and monetary developments in order to adjust monetary instruments to ensure its objectives were met. Future monetary policy adjustments were possible to keep the main macroeconomic indicators, among them, inflation and wages, public and private spending, and trends in external accounts, consistent with macroeconomic objectives for 1998 and 1999.

APPENDIX 2

MAIN MONETARY AND CREDIT-RELATED MEASURES IN 1998

JANUARY

8 Due to the impact of the new international situation, the Central Bank applied measures to increase the average daily interbank rate by half a real percentage point per year. This brought the rate up from Unidad de Fomento (Chile's indexed unit of account, known as the UF) + 6.5% to UF + 7.0%, locating it within the second tranche of the Liquidity Line of Credit. This measure sought to dampen aggregate demand and thus reduce its impact on the current account and inflation.

29 The Board granted the General Manager of the Central Bank the authority to apply the following interest rates to those banks and other financial institutions incurring a deficit in their current accounts in foreign or domestic currency, deposited with the Central Bank of Chile:

Current accounts in domestic currency: daily interest at the financial system's average interbank rate, as published in the Central Bank's daily report, *"Informativo Diario"* on the day of the deficit, plus 50%, or the maximum conventional interest rate for non-indexed operations *(tasa de interés máxima convencional)* maturing in less than 90 days, whichever is higher on the date of the deficit.

Current accounts in foreign currency: daily interest at the maximum conventional interest rate for operations in US dollars, plus 50%, for the day in which the deficit occurred.

Similarly, the General Manager was authorized to temporarily suspend liquidity lines of credit to banks and other financial institutions incurring a deficit in their current accounts in domestic or foreign currency deposited in the Central Bank, whichever the case may be.

FEBRUARY

3 To further restrict domestic spending within the macroeconomic scenario of bringing inflation down to the target rate set for 1998 and ensuring a prudent current account deficit, the Board of the Central Bank decided to raise the monetary policy rate to at least UF + 8.5% per annum. Nonetheless, the Board also agreed to be more flexible about the short-term behavior of the interbank interest rate, with reference to market conditions. This represented a 150 basis point increase in the monetary policy rate over its previous level. Accordingly, the rates applied to the three tranches of the liquidity line of credit rose to UF + 8.5%, 8.8% and 9.3% respectively per annum.

MARCH

9 As of this date, the Bank began to issue nominal one-year promissory notes (PDBC-360) as a way of gradually introducing nominal papers into financial markets.

26 To contribute to the modernization and efficiency of domestic payment systems, the Central Bank introduced changes to the Compendium of Financial

Regulations of the Central Bank of Chile *(Compendio de Normas Financieras del* Central Bank of Chile) Chapter III.J.3, which regulates the issue and operation of Cash Cards with Provision of Funds by banks and finance companies. These changes allow this card to be used to pay for commercial transactions and register them in the electronic device included on each card.

APRIL

2 As of April 9th, provided that the "Amount Deductible from the Reserve Requirement Base" *(Monto Deducible a la Base del Encaje),* consisting of balances in foreign currency remaining from financial investment abroad, commercial loans held abroad and foreign trade credits, is higher than the "Basic Reserve Requirement" *(Monto Base de Encaje),* for demand and time deposits and loans in foreign currency, the resulting difference may be deduced from specific financial obligations abroad affected by the reserve requirement, for up to but no more than the balance of same.

23 The General Manager of the Central Bank of Chile was authorized to increase the daily amount of the liquidity line of credit in domestic currency where special situations warranted, upon presenting a report to the Board. It was also established that, for the purpose of calculating the average amount in use in liquidity lines of credit, the days on which there had been an increase in said maximum would not be considered.

JUNE

18 Financial institutions received authorization to open and maintain "Higher Education Term Savings Accounts", *(Cuentas de ahorro a plazo para la Educación Superior),* for which purpose these were included in Chapter III.E.5 of the Compendium of Financial Regulations.

25 Due to the reduction of the reserve requirement on foreign credits from 30% to 10%, it was established that 2/3 of the reserve required or the balance held in the secondary account "Remunerated Tranche of the Foreign Currency Reserve Requirement" of the Central Bank would be remunerated. The interest rate was to be fixed daily and be the same as that paid on overnight and weekend deposits. This regulation went into effect on July 9th.

26 To help develop mechanisms for medium- and long-term foreign exchange coverage and to favor the reorganization of the private sector's asset and liability portfolios by currency, the Central Bank approved the issue and offering of Promissory Notes Indexed to Dollars *(Pagarés Reajustables en Dólares,* known as PRD). These documents are offered either at auctions on dates announced by the Central Bank the evening before a new reserve period or through discount window sales. Notes mature in a minimum of three years, with both the amount and the maturity determined when issued. All flows associated with these papers are calculated in US dollars, but are payable in domestic currency at the exchange rate for that date.

To complement the above and reaffirm the Bank's commitment to the exchange-rate band ceiling based on the reference exchange rate, it also began to offer to buy US dollars from banks with a repurchase right included *(Compra de Dólares con Derecho a Recomprar,* known as CPR). The repurchase period was established at the moment of the offer and ranged from 180 to 360 days. The purchase price was determined by the observed exchange rate on the day of the transaction, minus a discount fixed the same day. In the case of a repurchase on the date indicated by the contract, the reference exchange rate was calculated using the same methodology and weighting as the Referential Currency Basket on the date of signing, + 2%.

AUGUST

27 Chapter III.B.2 of the Compendium of Financial

Regulations, covering the relationship between asset and liability operations in foreign currency by banks and finance companies, was also modified, to limit not only the risks of operations in US dollars, but also in all foreign currencies and in gold. In consequence, Chapter III.B.5 of the Compendium was also changed, to permit cross-border operations in any foreign currency.

SEPTEMBER

3 It was agreed that as of September 9th, banks must, as a secondary objective, maintain within each "monthly period" an average reserve deposit equivalent to no less than 90% of the reserve required for the period between the 9th and 23rd of each month. Thus, banks were encouraged to meet their deposit reserve requirements gradually throughout the 30(1) days covered by the reserve period.

16 The Board of the Central Bank decided to raise the monetary policy rate from UF + 8.5% to UF + 14% per annum, to reduce the excessive volatility of the interbank interest rate in previous weeks. Thus, the three tranches of the liquidity line of credit rose to UF + 14%, UF + 16% and UF +18% per annum, respectively. Similarly, the interest rate on one-day deposits in domestic currency in the Central Bank rose to UF + 9% per annum.

The Board also agreed to reduce the reserve requirement for deposits and loans in foreign currency as of December 9th, 1998, from 30% to 19% for demand deposits and loans, and from 30% to 13.6% for term deposits and loans. This drop in reserve requirements on foreign currency was phased in gradually from the start of the reserve period, on October 9th.

Also, from the start of the reserve period, it was established that 10% of the foreign currency reserve would be remunerated.

OCTOBER

13 Consolidation of economic restraints led the Board to reduce the monetary policy rate from UF + 14% to UF + 12% per annum. Similarly, it fixed the rates for the three tranches of the liquidity credit line to UF + 12%, UF + 14% and UF + 16% per annum, respectively and the rate on the liquidity deposit to UF + 7% per annum.

NOVEMBER

2 The Board agreed to reduce the monetary policy rate from UF + 12% per annum to UF + 10%. Similarly, it adjusted the tranches of the liquidity lines of credit by 200 basis points each, so that the new monetary policy rate was applied to the first tranche, while the second and third were set at 12% and 14%, respectively. Similarly, the rate on liquidity deposits was reduced by 100 basis points, to reach UF + 6% per annum.

24 For the second time in the month, the Board of the Central Bank reduced the monetary policy rate, this time from UF + 10% per annum to UF + 8.5% per annum. Similarly, interest rates applied to the three tranches of the liquidity lines of credit were reduced by 150 basis points. The interest rate on liquidity deposits remained at UF + 6% per annum.

DECEMBER

22 Again, the Board of the Central Bank decided to reduce the monetary policy rate, this time by 70 basis points, going from UF + 8.5% to UF + 7.8%. Similarly, it adjusted the tranches of the liquidity credit lines, reducing them to UF + 7.8%, UF + 9.8% and UF + 11.8% per annum respectively. This reflected compliance with Central Bank objectives for both inflation and reduction of the current account deficit established for 1998, along with reasonable prospects for doing the same in 1999.

APPENDIX 3

THE MAIN FOREIGN EXCHANGE AND TRADE MEASURES IN 1998

MARCH

20 To ensure that the reserve requirement had no effect on the cost of bank funds when dealing with cross-border credits or investments, and that it be fully applied when funds obtained abroad were to be used to carry out internal credit operations, the Central Bank agreed to modify regulations to reduce the reserve on cross-border credit operations or investment abroad.

-Chapter XIII of Title I of the Compendium of Foreign Exchange Regulations *(Compendio de Normas de Cambios Internacionales, CNCI)* was altered to allow banks to contract, on their own responsibility, financial credits to cover cross-border operations or any of the transactions authorized by Chapter XIII. The balance covering cross-border credit operations and investments abroad to be maintained by the banks was to be deducted from the reserve base.

-The Central Bank stopped reducing the discount on the reserve required of Chapter XIV (of the CNCI) credits, where these were for periods of over one year, allowing them to be used freely for domestic and foreign credit operations, within the margins allowed.

-Banks were to be allowed to obtain financial credits via Chapter XIV, subject to reserve requirements, to be used in domestic or cross-border operations. However, the reduction in the latter case would only be possible to the degree that banks maintained foreign obligations subject to the reserve requirements.

-To make the use of credits contracted by banks more flexible, with prior authorization from the Central Bank, they were allowed to transfer financial credits contracted under Chapter XIV to Chapter XIII, but the reserve requirement already paid in was not be refundable and the transfer remained subject to the monetary reserve requirement. Similarly, credits contracted under Chapter XIII could be transferred to Chapter XIV, but had to meet the exchange reserve requirement upon completion of the transaction.

APRIL

15 Consistent with a policy of liberalizing the exchange market and gradually opening up the capital account, and with macroeconomic and financial objectives, the Central Bank agreed to make the terms for public issues of securities abroad more flexible, by:

-Eliminating the minimum amounts required for bond and ADR issues abroad.

-Reducing international risk classification requirements for issuing companies. The minimum risk classification was reduced to BB for companies issuing either bonds or ADRs. For banks, this was reduced to BBB- in the case of ADRs and subordinate bonds and A/B in the case of other bonds.

-Reducing the average weighted period for subordinated bond issues carried out by banks from ten to five years, to bring this regulation into line with changes to the General Bank Law *(Ley General de Bancos).*

-Given the need to broaden financing alternatives and permit more flexible handling of exchange imbalances (given foreign exchange volatility) that affect companies issuing bonds in dollars, the Bank authorized the issue, abroad, of bonds in Chilean pesos or UF payable in foreign currency. Said debts, which cannot be bought or sold in the country, to be disbursable and payable in foreign currency and to meet requirements of Chapter XIV of Title I of the CNCI.

The Central Bank agreed to renew foreign exchange restrictions established by the Compendium of Foreign Exchange Regulations (CNCI) for the period of one year.

June

10 The Central Bank equalized foreign investment alternatives abroad for Chilean residents using foreign currency not acquired on the formal exchange market (Chapter XII, Letter B, of Title I, of the CNCI), with those investment alternatives permitted using currency purchased on the formal exchange market (Letter A of the same Chapter).

Foreign currency not acquired on the formal exchange market may now be used as follows: to acquire ownership, rights, use, or mere possession of tangibles or intangibles, furnishing or real estate, including investment in real estate securities, commercial papers and any other kind of titles or securities; to provide credit to persons residing abroad or to make deposits abroad; to participate in contracts to explore or exploit natural resources.

In addition, the Bank established that investment abroad using foreign currency not acquired on the formal market would be subject to the same regulations affecting investment with currency acquired on the formal market, contained in Letter A of the above-mentioned Chapter XII.

18 It was established that banking firms which, under Chapter XIII of Title I of the Compendium of Foreign Exchange Regulations, contract credits abroad through bond issues must meet each and every one of the requirements listed in Section I of Chapter XIV of the CNCI.

- Use of foreign currency generated by a bond issue under Chapter XIV of Title I of the CNCI was extended to permit its application to payment (when due) of foreign credits that were duly authorized and registered with the Central Bank, including the original obligation to which they are associated.

The purpose of this measure was to permit issues of the so-called Infrastructure Bonds, allowing part of the foreign currency thus generated to be left abroad, as a fund for servicing the debt during the period covered by the infrastructure project.

25 The reserve rate for investment, capital contributions and foreign credits covered by Chapter XIV was reduced from 30% to 10% for the first year in the country, thus reducing the cost of foreign financing. In the case of short-term liabilities of the bank system (lines of credit and deposits by the general public) the reserve rate of 30% was maintained, with 2/3 of the required reserve to be held in a secondary account "Remunerated Tranche Reserve Requirement in Foreign Currency" to receive remuneration from the Central Bank. The interest rate was to be fixed daily and would be the same as that for overnight or weekend deposits. This regulation went into effect for the reserve period beginning on July 9th.

The Central Bank also ratified its policy of maintaining the exchange rate band, centered on the reference exchange rate, narrowing its lower and upper limits to no more than 3.5% under and no more than 2% above the reference exchange rate. Also, the Bank eliminated the 2% per annum fixed index for increase in productivity of the traded goods sector over the non-traded goods sector, which had been used to calculate the reference exchange rate.

JULY

2 To improve mechanisms for short- and long-term exchange coverage, it was established that banks holding Promissory Notes Indexed to Dollars (PRD) of the Central Bank of Chile may carry out operations covering foreign interest rates, without applying for prior authorization for this purpose, up to amounts equivalent to those held in dollars in the above-mentioned notes. Nonetheless, they must provide a global breakdown of these interest rate operations at the end of the month in which any of these operations were agreed upon.

AUGUST

11 Local banks were authorized to purchase bonds issued by Chilean companies and corporations abroad. The bonds must be issued and payable in foreign currency, as per Section I of Chapter XIV of the CNCI. The purpose of this measure is to create a new form of financing for Chilean firms.

27 To facilitate capital flows, the reserve requirement on capital entering the country to carry out arbitrage of ADRs on the secondary market was eliminated. This measure complemented those applied on June 25th and sought to recover the liquidity of Chilean ADRs, along with providing more market stability.

SEPTEMBER

16 The exchange rate band moved to ± 3.5% above and below the reference exchange rate. In addition, between September 17th and December 31st, this was to increase gradually daily 1.5% in each direction. Thus, the band ended the year at ± 5% of the reference exchange rate, where it remained.

International inflation estimates used to calculate the reference exchange rate were also updated, from 2.4% to 0% per annum for the rest of the year, and the Central Bank decided that the domestic inflation rate used to calculate the reference exchange rate would be the target and not past inflation.

The Bank also reduced the reserve required on foreign exchange to zero for all capital inflows except credits contracted by banks for up to one year, which remained subject to the monetary reserve requirement. It also suspended the offer to buy dollars with repurchase (CPR) indefinitely.

DECEMBER

22 As of December 23rd, the Bank agreed to widen the exchange rate band to ± 8%. It also decided to allow the range to expand at a rate of 0.013575% per day.

TABLE 1 TRENDS IN WORLD GROWTH PROJECTIONS

	1997		1998		
Period	October	December	May	October	December
1998	4.3%	3.5%	3.1%	2.0%	2.2%
1999	4.4%	4.1%	3.7%	2.5%	2.2%

Source: World Economic Outlook (IMF).

TABLE 2 INTEREST RATES ON CENTRAL BANK INSTRUMENTS (1)

Date	PDBC			PRBC (2)	PRC (2)					PRD (3)	
	42-Day (4)	90-Day (5)	360-Day (5)	90-Day	8-Year (6)	10-Year (6)	12-Year (7)	14-Year (7)	20-Year (7)	3-Year	4-Year
1996											
December	-	-	-	7.29	6.08	6.09	6.05	6.01	5.85	-	-
1997											
January	-	-	-	7.34	6.11	6.13	6.11	6.05	5.86	-	-
February	-	-	-	7.14	6.19	6.22	6.21	6.16	5.95	-	-
March	-	-	-	6.94	6.18	6.19	6.17	6.16	5.98	-	-
April	-	-	-	6.88	6.22	6.23	6.22	6.20	6.05	-	-
May	-	-	-	6.85	6.30	6.30	6.30	6.29	6.14	-	-
June	-	-	-	6.72	6.36	6.35	6.34	6.34	6.16	-	-
July	0.87	12.54	-	6.70	6.49	6.50	6.49	6.49	6.34	-	-
August	1.07	13.77	-	6.64	6.54	6.56	6.55	6.54	6.45	-	-
September	1.00	13.47	-	6.51	6.66	6.66	6.66	6.65	6.58	-	-
October	1.42	14.82	-	6.52	6.86	6.86	6.85	6.84	6.74	-	-
November	1.28	13.04	-	6.52	6.80	6.80	6.79	6.78	6.70	-	-
December	0.66	10.63	-	6.71	6.82	6.83	6.82	6.82	6.75	-	-
1998											
January	1.27	19.17	-	8.50	7.05	7.06	7.06	7.06	6.94	-	-
February	1.32	18.23	-	8.50	7.19	7.19	7.18	7.17	7.04	-	-
March	0.83	14.36	13.62	8.27	7.09	7.07	7.03	7.02	6.89	-	-
April	1.12	15.72	14.25	8.26	7.10	7.07	7.04	7.00	6.89	-	-
May	1.08	14.75	14.32	8.33	7.17	7.15	7.11	7.05	6.90	-	-
June	1.07	14.86	14.19	8.45	7.33	7.31	7.25	7.24	7.04	-	-
July	1.33	16.48	15.37	9.29	7.53	7.55	7.46	7.45	7.20	6.64	-
August	1.41	18.65	15.84	10.66	7.78	7.77	7.76	7.71	7.50	6.81	7.89
September	-	-	-	17.63	8.89	8.86	8.83	8.78	8.26	8.06	7.99
October	-	18.78	-	10.60	8.04	7.97	7.89	7.87	7.49	8.10	8.10
November	-	14.89	-	8.34	7.32	7.33	7.27	7.25	6.95	6.91	6.85
December	-	13.49	-	8.00	7.22	7.19	7.16	7.10	7.01	7.01	6.85

(1) This is the average weighted rate for the month, on promissory notes sold at auction (360-day base).
(2) Annualized rate over UF (indexed unit of account).
(3) Annualized rate over observed exchange rate.
(4) Nominal monthly rate.
(5) Nominal yearly rate.
(6) As of July 28th, 1992, the Central Bank must offer UF300,000 at every auction.
(7) As of February 16th, 1993, the Central Bank must offer UF200,000 at every auction.

Source: Central Bank of Chile.

TABLE 3

INTEREST RATES ON 90 TO 365-DAY UF-INDEXED INSTRUMENTS
(Montly averages of the financial system)

Date	Deposits	Loans	Spread
1990 Average	9.46	13.28	3.82
1991 Average	5.43	8.48	3.05
1992 Average	5.25	8.14	2.89
1993 Average	6.41	9.23	2.82
1994 Average	6.38	9.27	2.89
1995 Average	5.85	8.53	2.68
1996 Average	6.94	9.34	2.40
1997 Average	6.45	8.77	2.32
1998 Average	9.53	11.93	2.40
1996			
Quarter I	6.65	9.10	2.45
Quarter II	7.11	9.54	2.43
Quarter III	7.04	9.41	2.37
Quarter IV	6.97	9.29	2.32
1997			
Quarter I	6.77	9.09	2.32
Quarter II	6.43	8.82	2.39
Quarter III	6.30	8.63	2.33
Quarter IV	6.28	8.55	2.27
1998			
January	7.83	10.17	2.34
February	8.18	10.63	2.45
March	7.99	10.19	2.20
April	8.22	10.24	2.02
May	8.31	10.36	2.05
June	8.97	11.13	2.16
July	10.82	13.16	2.34
August	10.64	13.24	2.60
September	15.67	19.09	3.42
October	11.62	13.69	2.07
November	8.25	10.94	2.69
December	7.88	10.28	2.40

Source: Central Bank of Chile.

TABLE 4

MAIN MONETARY AGGREGATES
(Percentage Change)

Date	Month				Year				12-Month			
	E	M1A	M2A	M7	E	M1A	M2A	M7	E	M1A	M2A	M7
1996												
January	2.7	3.9	5.2	2.0	2.7	3.9	5.2	2.0	21.8	20.0	29.1	22.3
February	0.7	-1.9	1.8	1.4	3.4	2.0	7.1	3.4	19.4	17.3	29.7	22.0
March	-2.9	-0.7	0.8	1.8	0.4	1.2	8.0	5.3	19.0	16.6	26.8	22.1
April	2.4	0.4	1.8	0.8	2.8	1.6	9.9	6.2	17.5	17.4	27.0	21.8
May	1.0	-0.5	1.6	0.7	3.8	1.1	11.6	6.9	18.7	14.7	27.2	20.5
June	-0.9	1.3	2.8	3.0	2.9	2.4	14.8	10.1	20.6	15.0	27.7	22.0
July	1.4	-3.2	1.5	2.3	4.4	-0.9	16.4	12.7	20.3	15.2	28.1	23.5
August	-5.3	0.3	0.6	1.9	-1.2	-0.6	17.1	14.8	14.4	17.1	27.2	24.1
September	8.4	4.0	0.9	0.9	7.1	3.3	18.2	15.9	20.3	16.9	25.2	22.6
October	-3.8	-1.5	1.7	1.1	3.1	1.7	20.2	17.2	11.3	15.6	25.7	22.9
November	2.6	2.7	1.1	1.2	5.8	4.5	21.5	18.6	16.5	16.9	26.6	20.5
December	9.5	8.1	3.0	1.9	15.8	13.0	25.2	20.8	15.8	13.0	25.2	20.8
1997												
January	0.7	4.7	3.6	2.3	0.7	4.7	3.6	2.3	13.6	13.8	23.3	21.1
February	2.9	-1.6	0.7	1.4	3.6	3.0	4.3	3.7	16.1	14.1	21.9	21.1
March	-4.0	-0.1	0.8	1.3	-0.6	2.8	5.2	5.0	14.7	14.7	21.9	20.4
April	1.3	0.8	1.1	1.8	0.6	3.6	6.4	6.9	13.5	15.2	21.1	21.6
May	0.8	0.5	0.9	1.1	1.5	4.1	7.3	8.0	13.2	16.3	20.4	22.1
June	1.6	2.9	2.9	2.5	3.1	7.1	10.4	10.7	16.0	18.2	20.4	21.5
July	0.4	-1.9	0.1	1.1	3.4	5.1	10.5	11.9	14.8	19.7	18.8	20.1
August	-2.7	-1.3	0.7	0.5	0.6	3.7	11.3	12.5	17.9	17.9	18.9	18.4
September	8.2	6.2	2.7	2.0	8.9	10.1	14.2	14.8	17.8	20.4	21.0	19.7
October	-5.8	-3.6	1.9	1.5	2.5	6.1	16.4	16.5	15.2	17.8	21.3	20.2
November	4.4	0.2	2.0	2.2	7.1	6.4	18.8	19.1	17.3	15.0	22.3	21.4
December	11.1	12.8	2.9	2.1	18.9	20.0	22.2	21.5	18.9	20.0	22.2	21.5
1998												
January	-1.0	0.0	2.1	-0.4	-1.0	0.0	2.1	-0.4	17.0	14.7	20.5	18.4
February	3.0	-4.7	1.0	0.0	2.1	-4.7	3.1	-0.4	17.2	11.1	20.8	16.8
March	-3.4	-0.4	0.9	1.4	-1.4	-5.1	4.0	1.0	18.0	10.8	20.9	17.0
April	4.0	0.8	0.7	0.9	2.5	-4.3	4.7	2.0	21.1	10.9	20.4	16.0
May	-2.0	-0.5	1.9	0.5	0.4	-4.7	6.7	2.5	17.7	9.8	21.6	15.3
June	-1.6	1.4	1.0	1.1	-1.2	-3.4	7.8	3.6	14.0	8.2	19.4	13.7
July	0.2	-7.8	2.7	0.6	-1.0	-11.0	10.8	4.2	13.8	1.7	22.5	13.1
August	-4.3	-3.6	-0.1	0.5	-5.3	-14.2	10.7	4.7	12.0	-0.7	21.6	13.1
September	7.5	1.3	-0.2	0.4	1.8	-13.1	10.4	5.1	11.2	-5.3	18.2	11.3
October	-8.5	-3.9	0.4	0.7	-6.9	-16.5	10.9	5.8	8.0	-5.5	16.5	10.3
November	3.7	0.8	0.1	0.7	-3.4	-15.8	11.0	6.5	7.3	-5.0	14.3	8.7
December (*)	7.2	9.0	0.6	0.7	3.6	-8.2	11.7	7.3	3.6	-8.2	11.7	7.3

E : Monetary emission.
M1A : Money in circulation + non-financial sector current account deposits net of float + demand deposits (excluding checking accounts) and demand savings deposits.
M2A : M1A + private sector term deposits.
M7 : M2A + term savings deposits including those for housing + Central Bank promissory notes held by the public (non-financial private sector) + Treasury promissory notes held by the public (non-financial private sector) + bills of credit held by the public (non-financial private sector) + private sector deposits in foreign currency.
(*) Provisional data.

Source: Central Bank of Chile.

TABLE 5

COMPOSITION OF PRIVATE MONETARY AGGREGATES
MONTHLY AVERAGES (Billions of Chilean pesos)

Date	C	D1A	Dp	Ahp	Central Bank Instruments	Treasury Promissory Notes	Credit Bills	Private-Sector Foreign-Currency Deposits
1997								
January	738.45	1,971.91	8,249.93	1,694.61	6,931.72	0.00	3,215.91	578.58
February	753.52	1,912.43	8,373.08	1,707.38	7,057.42	0.00	3,287.70	614.86
March	746.69	1,915.82	8,468.70	1,722.39	7,149.96	0.00	3,402.00	597.93
April	740.99	1,941.99	8,573.12	1,743.81	7,393.51	0.00	3,451.56	589.17
May	748.16	1,947.28	8,663.40	1,759.28	7,453.24	0.00	3,546.73	586.00
June	765.94	2,006.84	8,911.12	1,792.01	7,589.75	0.00	3,631.69	613.81
July	758.10	1,961.89	8,975.62	1,812.77	7,852.79	0.00	3,643.36	588.81
August	749.26	1,935.79	9,089.10	1,823.27	7,863.15	0.00	3,724.13	533.15
September	793.08	2,058.41	9,238.07	1,836.90	7,949.89	0.00	3,834.52	533.06
October	766.29	1,981.70	9,574.92	1,850.68	8,072.97	0.00	3,855.01	537.17
November	778.87	1,975.42	9,816.83	1,866.41	8,236.99	0.00	4,012.99	543.67
December	880.03	2,227.84	9,828.55	1,875.43	8,335.72	0.00	4,089.22	553.35
1998								
January	847.08	2,261.18	10,095.88	1,883.42	7,934.19	0.00	4,048.86	615.62
February	853.72	2,107.18	10,370.90	1,880.95	7,694.57	0.00	4,097.45	677.02
March	843.55	2,106.46	10,505.62	1,888.21	7,885.17	0.00	4,168.07	683.19
April	846.28	2,128.74	10,575.37	1,898.96	8,063.85	0.00	4,129.35	701.31
May	836.06	2,124.62	10,847.55	1,913.48	7,863.28	0.00	4,193.27	705.29
June	852.87	2,148.64	10,947.39	1,941.59	7,909.56	0.00	4,212.42	770.76
July	816.90	1,950.43	11,563.18	1,936.21	7,650.15	0.00	4,177.50	861.72
August	783.08	1,884.02	11,647.69	1,922.98	7,714.89	0.00	4,229.55	911.41
September	813.27	1,888.10	11,586.65	1,906.79	7,701.57	0.00	4,274.36	1,028.09
October	775.22	1,821.01	11,755.29	1,887.87	7,816.86	0.00	4,233.79	1,101.26
November	775.36	1,840.72	11,747.32	1,875.31	8,005.03	0.00	4,267.02	1,076.11
December (*)	852.90	1,998.85	11,596.77	1,859.04	8,132.96	0.00	4,225.16	1,141.94

KEY:
C : Currency (held by the public).
D1A : Checking accounts + other, non-financial private sector demand deposits net of float, minus documents deposited with the Treasury *(cuenta única fiscal)* + demand savings deposits.
Dp : Private sector term deposits.
Ahp : Term savings deposits including those for housing.

RATIOS:
M1 = C + D1 (D1: Private, non-financial sector checking account deposits net of float).
M1A = M1 + Dv (Dv: demand deposits other than checking accounts) + Ahv (Ahv: demand savings accounts).
M2A = M1A + Dp (Dp: private sector term deposits).
M3 = M2A + Ahp (Ahp: Term savings deposits including those for housing).
M4 = M3 + Central Bank instruments held by the public (private non-financial sector).
M5 = M4 + Treasury promissory notes held by the public (private non-financial sector).
M6 = M5 + bills of credit held by the public (private non-financial sector).
M7 = M6 + private sector deposits in foreign currency.
(*) Provisional data.

Source: Central Bank of Chile.

TABLE 6

AVERAGE NOMINAL EXCHANGE RATE
(Chilean pesos per US dollar)

Date	Observed	Reference	Gap Observed/Reference -1 (%)
1994 Average	420.2	454.8	-7.6
1995 Average	396.8	413.1	-3.9
1996 Average	412.3	450.9	-8.6
1997 Average	419.3	464.7	-9.8
1998 Average	460.3	471.3	-2.3
1997			
January	423.8	464.9	-8.8
February	416.2	460.0	-9.5
March	414.1	461.7	-10.3
April	417.6	464.2	-10.0
May	418.6	462.5	-9.5
June	417.4	462.1	-9.7
July	416.6	463.9	-10.2
August	414.9	465.9	-11.0
September	414.9	465.5	-10.9
October	414.4	465.2	-10.9
November	425.0	467.7	-9.1
December	438.3	472.6	-7.3
1998			
January	453.4	473.1	-4.2
February	448.5	471.8	-4.9
March	452.5	473.3	-4.4
April	453.7	471.9	-3.9
May	453.4	471.1	-3.7
June	456.2	472.4	-3.4
July	464.6	472.6	-1.7
August	471.3	473.5	-0.5
September	470.5	469.6	0.2
October	463.6	466.2	-0.6
November	463.3	469.6	-1.4
December	472.4	470.2	0.5

Source: Central Bank of Chile.

TABLE 7

REAL EXCHANGE RATE
(Average 1986 = 100)

Date	OVERALL INDEX (1)			INDEX WITHOUT LATIN AMERICA (2)		
	Index	Monthly Change		Index	Monthly Change	
		Month	12-Month		Month	12-Month
1994 Average	94.3	-	-2.7 (3)	83.0	-	-4.4 (3)
1995 Average	88.9	-	-5.7 (3)	77.6	-	-6.6 (3)
1996 Average (4)	84.7	-	-4.7 (3)	73.6	-	-5.1 (3)
1997 Average (4)	78.2	-	-7.8 (3)	67.2	-	-8.7 (3)
1998 Average (4)	78.2	-	0.0 (3)	66.8	-	-0.6 (3)
1997 (4)						
January	83.3	-1.0	-4.2	72.2	-1.1	-4.7
February	79.7	-4.4	-8.5	68.7	-4.8	-9.5
March	78.5	-1.5	-9.4	67.4	-1.9	-10.7
April	78.7	0.3	-7.4	67.6	0.3	-8.4
May	79.4	1.0	-5.3	68.3	1.1	-6.1
June	79.1	-0.4	-5.7	68.1	-0.3	-6.3
July	77.8	-1.7	-7.5	66.9	-1.8	-8.1
August	76.5	-1.6	-9.0	65.6	-1.9	-10.2
September	76.1	-0.6	-9.0	65.3	-0.5	-9.9
October	75.3	-1.1	-9.7	64.7	-0.9	-10.4
November	76.6	1.8	-9.0	65.8	1.7	-10.1
December	77.0	0.5	-8.5	65.5	-0.4	-10.1
1998 (4)						
January	78.0	1.4	-6.3	66.1	0.9	-8.4
February	77.6	-0.6	-2.6	65.9	-0.3	-4.0
March	77.8	0.3	-0.8	66.1	0.3	-1.8
April	78.1	0.4	-0.7	66.2	0.2	-2.0
May	77.9	-0.3	-2.0	66.0	-0.3	-3.3
June	77.4	-0.6	-2.1	65.6	-0.6	-3.7
July	78.6	1.6	1.1	66.7	1.6	-0.3
August	78.8	0.2	2.9	66.9	0.3	1.9
September	78.8	0.0	3.6	67.9	1.4	3.9
October	78.4	-0.5	4.1	68.1	0.4	5.3
November	77.8	-0.7	1.5	67.4	-1.0	2.5
December	79.0	1.6	2.7	68.4	1.4	4.3

(1) Real observed exchange-rate index: This is defined as the nominal observed exchange rate multiplied by the quotient formed by relevant foreign inflation and the CPI. Foreign inflation is calculated using the Wholesale Price Indexes (WPI) of Chile's main trading partners, expressed in US dollars, weighted by their relative importance to imports and exports (excluding oil and copper) that Chile trades with them (about 70% of Chile's global trade in 1997, excluding oil and copper). Both the WPIs and countries' exchange rates included as monthly variations.
(2) Uses the same definition as (1), excluding trading partners in Latin America.
(3) Mean annual change.
(4) Provisional data.

Source: Central Bank of Chile.

TABLE 8

QUARTERLY GDP
(Percentage change relative to the same period of the previous year) (1)

Period	QUARTER				YEAR
	I	II	III	IV	
1987	9.9	5.8	6.0	4.9	6.6
1988	7.5	4.9	8.2	8.7	7.3
1989	10.6	14.5	10.2	7.2	10.6
1990	8.8	3.2	0.6	2.1	3.7
1991	2.8	7.0	9.6	12.9	8.0
1992	13.0	10.8	14.8	10.7	12.3
1993	8.3	8.0	7.0	4.7	7.0
1994	5.0	6.4	5.3	6.2	5.7
1995	8.9	10.5	11.5	11.7	10.6
1996	8.9	7.5	5.5	7.7	7.4
1997 (2)	5.1	6.4	8.9	9.9	7.6
1998 (2)	8.0	5.9	2.9	-2.8	3.4

(1) Calculated using figures expressed in constant 1986 Chilean pesos.
(2) Provisional data.

Source: Central Bank of Chile.

TABLE 9 COMPOSITION OF AGGREGATE DEMAND

Component	PERCENTAGE CHANGE (1)							PERCENTAGE OF GDP (1)						
	1992	1993	1994	1995	1996	1997 (2)	1998 (2)	1992	1993	1994	1995	1996	1997 (2)	1998 (2)
CONSUMPTION	12.7	7.0	7.4	9.2	8.8	8.0	3.5	75.0	75.1	76.3	75.3	76.3	76.6	76.7
Private	13.8	7.4	8.2	9.8	9.4	8.3	3.5	65.9	66.2	67.7	67.2	68.5	68.9	69.0
Government	5.6	4.3	1.9	4.2	4.0	5.1	3.9	9.1	8.9	8.6	8.1	7.8	7.7	7.7
INVESTMENT	26.0	12.5	1.0	19.0	5.9	11.5	-1.4	27.5	31.1	29.7	36.1	35.5	36.8	35.1
Gross fixed capital formation	24.0	18.0	6.2	23.5	8.9	11.6	2.1	24.7	27.2	27.4	30.6	31.0	32.1	31.7
Changes in inventory	-	-	-	-	-	-	-	2.8	3.9	2.3	5.5	4.5	4.6	3.4
DOMESTIC DEMAND	15.0	10.8	5.5	16.2	7.9	9.1	1.9	102.6	106.2	106.0	111.3	111.8	113.4	111.8
EXPORT	13.9	3.5	11.6	11.0	11.8	10.1	5.9	35.2	34.1	36.0	36.1	37.6	38.4	39.4
IMPORTS	21.8	14.2	10.1	25.0	11.8	12.9	2.1	37.8	40.3	42.0	47.4	49.4	51.8	51.2
TOTAL GDP	12.3	7.0	5.7	10.6	7.4	7.6	3.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Calculated using figures expressed in constant 1986 pesos.
(2) Provisional data.

Source: Central Bank of Chile.

TABLE 10

GDP BY SECTOR (1)
(Annual percentage change)

Sector	1992	1993	1994	1995	1996	1997 (3)	1998 (3)
Agriculture, livestock and forestry	11.2	2.7	6.0	5.2	1.3	-4.2	3.0
Fishing	16.6	5.6	16.3	15.9	9.7	8.6	3.2
Mining	-1.4	-0.2	8.9	9.3	15.8	9.8	4.1
Manufacturing	11.4	7.3	4.1	7.5	3.2	5.4	-1.5
Electricity, gas and water	27.6	4.8	6.2	7.6	-3.8	10.5	4.8
Construction	13.6	23.5	-1.1	9.9	8.6	7.8	-0.4
Trade, hotels and catering	17.6	7.3	5.1	14.2	9.5	9.5	5.3
Transport and communications	17.3	5.8	5.4	14.7	10.2	13.9	11.2
Financial services	11.3	6.9	7.1	9.8	6.8	7.5	3.5
Home ownership	1.8	3.1	3.1	2.9	3.1	3.7	3.2
Personal services (2)	6.8	3.6	3.9	3.2	5.8	3.4	3.2
Public administration	2.9	1.9	1.1	1.4	1.4	1.4	1.4
Subtotal	11.1	6.2	5.1	9.2	6.8	7.0	3.5
Less: Bank charges	10.1	6.3	4.5	8.5	7.4	7.1	3.0
Plus: Collected net VAT	14.8	8.9	7.3	10.6	9.8	9.5	4.2
Plus: Import duties	27.3	15.6	10.6	28.5	11.5	11.6	1.8
Total GDP	12.3	7.0	5.7	10.6	7.4	7.6	3.4

(1) Calculated using figures expressed in constant 1986 pesos.
(2) Includes public and private education and health.
(3) Provisional data.

Source: Central Bank of Chile.

TABLE 11 SAVING AND INVESTMENT RATIOS

Component	PERCENTAGE CHANGE (1)							PERCENTAGE OF GDP (1)						
	1992	1993	1994	1995	1996	1997 (2)	1998 (2)	1992	1993	1994	1995	1996	1997 (2)	1998 (2)
TOTAL SAVING	32.5	31.8	8.2	29.4	13.9	12.2	4.5	23.8	26.5	24.1	25.8	26.9	26.8	26.5
Gross domestic saving	21.4	15.1	19.6	36.8	-2.0	14.6	-2.0	21.5	20.9	21.1	23.8	21.4	21.8	20.2
Foreign saving	-	-	-	-	-	-	-	2.3	5.6	3.0	2.0	5.5	5.0	6.3
TOTAL INVESTMENT	32.5	31.8	8.2	29.4	13.9	12.2	4.5	23.8	26.5	24.1	25.8	26.9	26.8	26.5
Fixed capital investment	41.2	31.6	11.2	24.0	14.0	14.4	6.2	22.4	24.9	23.3	23.9	24.9	25.3	25.5
Changes in inventories	-	-	-	-	-	-	-	1.4	1.6	0.8	1.9	2.0	1.5	1.1

(1) Calculated on the basis of figures expressed in Chilean pesos of each year.
(2) Provisional data.

Note: The sum of partial results will not necessarily coincide with totals, given that decimals have been rounded off.

Source: Central Bank of Chile.

TABLE 12

NATIONAL EMPLOYMENT AND UNEMPLOYMENT (1) (2)
Mobile quarterly averages ending in the specified month (Thousands of people)

Date	WORK FORCE		EMPLOYED		UNEMPLOYED		UNEMPLOYMENT RATE
	Total	% Change respect to the preceding period	Total	% Change respect to the preceding period	Total	% Change respect to the preceding period	
1994 Average	5,459	2.6	5,034	1.1	425	22.9	7.8
1995 Average	5,497	0.7	5,092	1.2	405	-4.7	7.4
1996 Average	5,522	0.4	5,164	1.4	358	-11.7	6.5
1997 Average	5,618	1.7	5,275	2.1	344	-3.9	6.1
1998 Average	5,722	1.8	5,369	1.8	353	2.5	6.2
1997							
January	5,608	0.1	5,303	0.1	305	1.0	5.4
February	5,597	-0.2	5,292	-0.2	304	-0.1	5.4
March	5,577	-0.3	5,252	-0.8	325	6.9	5.8
April	5,590	0.2	5,258	0.1	333	2.3	6.0
May	5,579	-0.2	5,226	-0.6	354	6.2	6.3
June	5,562	-0.3	5,195	-0.6	367	3.8	6.6
July	5,591	0.5	5,217	0.4	374	2.0	6.7
August	5,643	0.9	5,266	0.9	377	0.6	6.7
September	5,678	0.6	5,298	0.6	380	0.9	6.7
October	5,655	-0.4	5,291	-0.1	365	-4.1	6.4
November	5,655	0.0	5,317	0.5	337	-7.5	6.0
December	5,684	0.5	5,380	1.2	304	-10.0	5.3
1998							
January	5,697	0.2	5,398	0.3	299	-1.5	5.2
February	5,668	-0.5	5,377	-0.4	290	-2.9	5.1
March	5,682	0.3	5,382	0.1	301	3.6	5.3
April	5,682	0.0	5,382	0.0	300	-0.1	5.3
May	5,691	0.2	5,370	-0.2	321	6.8	5.6
June	5,684	-0.1	5,338	-0.6	346	8.0	6.1
July	5,676	-0.1	5,312	-0.5	364	5.2	6.4
August	5,712	0.6	5,325	0.2	387	6.3	6.8
September	5,736	0.4	5,347	0.4	388	0.3	6.8
October	5,766	0.5	5,367	0.4	399	2.7	6.9
November	5,816	0.9	5,401	0.6	415	4.0	7.1
December	5,852	0.6	5,432	0.6	419	1.0	7.2

(1) Population 15 years old and over.
(2) From the new National Employment Survey, based on the Population and Housing Census of 1992.

Source: National Bureau of Statistics (INE).

TABLE 13 PRICE INDEXES

Date	CONSUMER PRICE INDEX (CPI) (April 1989 = 100)						WHOLESALE PRICE INDEX (WPI) (June 1992 = 100)		
	Total	Percentage Change		Seasonally-Adjusted Index (1)	Percentage Change		Index	Percentage Change	
		Month	12-Month		Month	12-Month		Month	12-Month
1994 Average	234.2	-	8.9 (2)	232.4	-	9.5 (2)	118.8	-	7.8 (2)
1995 Average	253.5	-	8.2 (2)	249.8	-	7.5 (2)	127.8	-	8.2 (2)
1996 Average	272.2	-	6.6 (2)	269.9	-	7.4 (2)	135.8	-	3.1 (2)
1997 Average	288.9	-	6.0 (2)	284.4	-	5.4 (2)	138.0	-	1.9 (2)
1998 Average	303.6	-	4.7 (2)	300.7	-	5.2 (2)	140.6	-	0.3 (2)
1997									
January	281.2	0.5	6.9	278.0	0.4	6.9	138.3	0.7	3.7
February	283.5	0.8	7.2	279.4	0.5	6.6	137.7	-0.4	3.8
March	284.4	0.3	6.8	280.9	0.5	6.3	135.8	-1.4	1.2
April	285.4	0.3	6.1	282.1	0.4	5.7	136.0	0.2	0.1
May	286.0	0.2	5.4	283.1	0.4	5.1	136.6	0.4	0.7
June	286.7	0.2	5.3	284.0	0.3	4.9	138.1	1.1	1.5
July	288.4	0.6	5.6	285.1	0.4	5.0	137.5	-0.4	1.5
August	289.6	0.4	5.6	285.9	0.3	4.9	137.1	-0.3	0.8
September	292.3	0.9	6.0	287.7	0.6	5.2	139.0	1.4	1.5
October	295.9	1.2	6.6	289.4	0.6	5.2	140.0	0.7	1.5
November	296.3	0.1	6.3	290.2	0.3	5.2	140.1	0.1	1.6
December	296.7	0.1	6.0	292.0	0.6	5.4	140.0	-0.1	1.9
1998									
January	298.7	0.7	6.2	293.1	0.4	5.4	140.0	0.1	1.3
February	298.4	-0.1	5.2	294.0	0.3	5.2	140.1	0.1	1.7
March	299.5	0.4	5.3	295.9	0.7	5.3	139.9	-0.2	3.0
April	300.7	0.4	5.4	298.0	0.7	5.7	140.5	0.4	3.3
May	301.3	0.2	5.3	299.4	0.5	5.8	140.2	-0.2	2.6
June	302.3	0.3	5.4	300.7	0.4	5.9	139.8	-0.3	1.2
July	303.6	0.4	5.3	301.9	0.4	5.9	141.3	1.1	2.7
August	304.6	0.3	5.2	302.6	0.2	5.8	140.8	-0.3	2.8
September	306.2	0.5	4.8	303.8	0.4	5.6	141.4	0.4	1.7
October	308.6	0.8	4.3	305.6	0.6	5.6	142.1	0.5	1.5
November	308.9	0.1	4.3	305.7	0.0	5.3	141.1	-0.7	0.8
December	310.5	0.5	4.7	307.1	0.5	5.2	140.4	-0.5	0.3

(1) Seasonally-adjusted index of 11 agricultural products.
(2) December to December change.

Source: National Bureau of Statistics (INE).

TABLE 14

CONSUMER PRICE INDEX
(April 1989 = 100)

Date	OVERALL INDEX		FOOD		HOUSING		CLOTHING		TRANS. & COMM.		OTHERS	
	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change
1994 December	242.5	8.9	252.5	7.0	237.2	8.9	182.6	3.7	226.2	9.6	278.9	14.2
1995 December	262.4	8.2	275.3	9.0	254.1	7.1	172.5	-5.5	252.1	11.4	306.8	10.0
1996 December	279.8	6.6	286.5	4.1	274.6	8.1	164.5	-4.7	275.1	9.2	339.2	10.5
1997 December	296.7	6.0	313.0	9.2	287.5	4.7	150.6	-8.4	281.8	2.4	369.7	9.0
1998 December	310.5	4.7	315.0	0.6	299.7	4.2	150.5	-0.1	302.6	7.4	410.3	11.0
1997												
January	281.2	6.9	288.4	5.8	276.3	8.4	161.4	-4.5	277.8	7.5	340.3	9.5
February	283.5	7.2	292.8	7.9	278.2	7.6	159.3	-5.5	279.4	6.3	342.2	9.7
March	284.4	6.8	291.6	6.9	278.1	7.2	158.7	-4.0	280.0	7.1	350.0	8.7
April	285.4	6.1	292.8	6.3	279.0	6.5	163.5	-3.1	277.6	5.0	352.0	8.5
May	286.0	5.4	292.8	4.9	281.3	6.2	162.8	-2.9	277.6	4.6	352.7	8.4
June	286.7	5.3	293.5	4.2	282.3	6.3	161.4	-2.7	277.3	4.8	355.1	8.2
July	288.4	5.6	298.3	5.7	281.4	5.5	159.9	-2.4	277.6	5.0	357.9	8.1
August	289.6	5.6	301.3	6.1	282.6	5.0	156.6	-3.7	278.0	5.0	358.5	8.1
September	292.3	6.0	307.4	7.8	283.3	4.8	153.2	-5.2	280.3	5.3	360.9	8.0
October	295.9	6.6	316.3	10.4	285.4	4.6	152.6	-6.6	279.6	3.5	362.7	8.2
November	296.3	6.3	316.8	10.3	286.7	4.8	151.5	-7.7	279.5	2.4	362.6	8.2
December	296.7	6.0	313.0	9.2	287.5	4.7	150.6	-8.4	281.8	2.4	369.7	9.0
1998												
January	298.7	6.2	316.5	9.7	288.4	4.4	149.8	-7.2	283.3	2.0	372.9	9.6
February	298.4	5.2	312.6	6.8	290.0	4.2	148.3	-6.9	284.6	1.8	375.3	9.7
March	299.5	5.3	310.7	6.6	291.2	4.7	148.7	-6.3	283.7	1.3	385.2	10.0
April	300.7	5.4	307.5	5.0	291.9	4.6	155.3	-5.1	291.4	5.0	386.4	9.8
May	301.3	5.3	305.7	4.4	293.2	4.2	158.1	-2.9	293.8	5.8	387.6	9.9
June	302.3	5.4	306.6	4.5	294.6	4.4	156.4	-3.1	295.2	6.4	389.3	9.6
July	303.6	5.3	308.1	3.3	295.3	4.9	154.5	-3.4	297.0	7.0	392.3	9.6
August	304.6	5.2	310.1	2.9	296.7	5.0	147.6	-5.7	298.5	7.4	394.3	10.0
September	306.2	4.8	313.0	1.8	297.2	4.9	146.9	-4.1	300.3	7.1	396.0	9.7
October	308.6	4.3	316.9	0.2	298.0	4.4	148.8	-2.5	299.9	7.2	401.3	10.7
November	308.9	4.3	315.9	-0.3	299.1	4.3	150.3	-0.8	300.6	7.5	402.0	10.9
December	310.5	4.7	315.0	0.6	299.7	4.2	150.5	-0.1	302.6	7.4	410.3	11.0

Source: National Bureau of Statistics (INE).

TABLE 15

HOURLY WAGE INDEX
(April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-Month		Month	12-Month
1994 December	131.88	-	14.6	110.61	-	5.2
1995 December	149.98	-	13.7	116.26	-	5.1
1996 December	164.23	-	9.5	119.39	-	2.7
1997 December	176.40	-	7.4	120.93	-	1.3
1998 December	190.00	-	7.7	124.45	-	2.9
1998						
January	178.46	1.2	7.9	121.49	0.5	1.5
February	179.21	0.4	7.7	122.16	0.6	1.7
March	180.13	0.5	7.8	122.31	0.1	2.1
April	181.16	0.6	8.1	122.52	0.2	2.4
May	181.95	0.4	8.2	122.83	0.3	2.5
June	183.19	0.7	8.4	123.25	0.3	2.7
July	183.84	0.4	8.1	123.16	-0.1	2.8
August	184.24	0.2	7.9	123.01	-0.1	2.7
September	185.31	0.6	7.8	123.08	0.1	2.7
October	185.79	0.3	7.9	122.43	-0.5	2.9
November	186.35	0.3	7.5	122.68	0.2	3.1
December	190.00	2.0	7.7	124.45	1.4	2.9

(*) Deflated using CPI.

Source: National Bureau of Statistics (INE).

TABLE 16

LABOR COST INDEX
(April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-Month		Month	12-Month
1994 December	128.16	-	14.6	107.50	-	5.2
1995 December	143.79	-	12.2	111.46	-	3.7
1996 December	157.21	-	9.3	114.29	-	2.5
1997 December	169.10	-	7.6	115.93	-	1.4
1998 December	182.24	-	7.8	119.36	-	3.0
1998						
January	170.70	0.9	8.6	116.21	0.2	2.2
February	171.03	0.2	8.3	116.59	0.3	2.9
March	171.63	0.4	7.7	116.54	0.0	2.2
April	173.03	0.8	8.0	117.03	0.4	2.5
May	173.58	0.3	8.1	117.18	0.1	2.6
June	174.46	0.5	7.7	117.38	0.2	2.2
July	175.24	0.4	7.8	117.40	0.0	2.4
August	176.14	0.5	8.6	117.60	0.2	3.2
September	177.50	0.8	8.7	117.90	0.2	3.8
October	177.52	0.0	7.4	116.98	-0.8	3.0
November	178.12	0.3	7.1	117.26	0.2	2.7
December	182.24	2.3	7.8	119.36	1.8	3.0

(*) Deflated using CPI.

Source: National Bureau of Statistics (INE).

TABLE 17

WAGE ADJUSTMENT FROM COLLECTIVE BARGAINING
(Percentages)

Period	UNIONS	OTHER GROUPS	TOTAL
1996			
January - March	1.7	1.2	1.5
April - June	2.1	0.9	1.7
July - September	0.8	1.6	1.0
October - December	1.1	0.9	1.0
1997			
January - March	1.6	1.7	1.6
April - June	2.0	2.0	2.0
July - September	0.8	0.4	0.7
October - December	1.3	0.6	1.2
1998			
January - March	2.2	1.1	1.9
April - June	0.8	0.6	0.8
July - September	0.9	0.9	0.9
October - December (*)	0.5	0.2	0.4

(*) Provisional data.

Source: Division of Labour, Ministry of Labour and Social Security.

TABLE 18

BALANCE OF PAYMENTS
(Millions of US dollars)

Item	1996 (1)	1997 (1)	1998 (1)	Percentage Change (2)	
				1997	1998
I. CURRENT ACCOUNT	-3,742	-4,057	-4,548	8.4	12.1
A. Trade balance	-1,095	-1,295	-2,496	18.3	92.7
Exports fob	15,405	16,923	14,895	9.9	-12.0
Imports fob	16,500	18,218	17,391	10.4	-4.5
B. Non-financial services	-352	-316	-325	-10.2	2.8
Credits	3,366	3,685	3,860	9.5	4.7
Debits	3,718	4,001	4,185	7.6	4.6
C. Financial services	-2,795	-2,974	-2,207	6.4	-25.8
Net interest	-645	-535	-634	-17.1	18.5
Net profits (3)	-2,150	-2,439	-1,573	13.4	-35.5
Net remittance	-1,525	-1,461	-1,115	-4.2	-23.7
Net reinvestment	-625	-978	-458	56.5	-53.2
D. Transfers	500	528	480	5.6	-9.1
II. CAPITAL ACCOUNT	5,457	7,430	3,193	36.1	-57.0
A. Medium- and long-term capital	5,165	9,113	4,616	76.4	-49.3
Foreign investment (4)	4,659	5,837	1,267	25.3	-78.3
Direct	3,561	3,467	1,994	-2.6	-42.5
- From abroad	4,724	5,417	4,792	14.7	-11.5
Direct contribution	4,022	4,342	4,175	8.0	-3.8
Profit reinvestment	702	1,075	617	53.1	-42.6
- Abroad	1,163	1,950	2,798	67.7	43.5
Direct contribution	1.086	1.853	2.639	70.6	42.4
Profit reinvestment	77	97	159	26.0	63.9
Portfolio	1,098	2,370	-727	115.8	
- From abroad	1,230	2,605	692	111.8	-73.4
- Abroad	132	235	1,419	78.0	503.8
DL 600 credit disbursements	881	1,405	1,661	59.5	18.2
Other disbursements	4,413	4,768	4,336	8.0	-9.1
Loans repayments	4,756	2,811	2,286	-40.9	-18.7
Foreign-debt conversions	-5	0	-23		
Other (5)	-27	-86	-339	218.5	294.2
B. Short-term capital	292	-1,683	-1,423		-15.4
Credit lines	-744	-1,355	343	82.1	
Other (6)	1,036	-328	-1,766		438.4
III. ERRORS AND OMISSIONS	-534	-164	-711	-69.3	333.5
IV. BALANCE OF PAYMENTS	1,181	3,209	-2,066	171.7	
Memo: Current account excluding reinvestment of earnings	-3.117	-3.079	-4.090	-1,2	32,8

(1) Provisional data.
(2) Change of sign (- or +) for the item not indicated.
(3) From 1990 on, "profits" refer to profits remitted and reinvested. The counterpart is shown in the capital account.
(4) Includes direct investment via DL 600, capital contributions via Chapter XIV, ADRs, investmen funds, bonds, Chapter XIX, capitalization of credits and investments abroad.
(5) Includes reversion of retiming payments, financing via leasimg and changes in foreign assets.
(6) Includes counterpart for repayment of foreign debt, trade flows and other foreign asset flows.

Source: Central Bank of Chile.

TABLE 19

TRADE BALANCE
(Millions of US dollars)

Item	1996 (1)	1997 (1)	1998 (1)	Percentage Change (2)	
				1997	1998
BALANCE OF TRADE	-1,095	-1,295	-2,496	18.3	92.7
Total exports (fob)	15,405	16,923	14,895	9.9	-12.0
Copper	6,029	7,156	5,461	18.7	-23.7
Non-copper	9,376	9,767	9,434	4.2	-3.4
Other main (3)	4,267	4,307	3,777	0.9	-12.3
Non-traditional	5,109	5,460	5,657	6.9	3.6
Total imports (fob)	16,500	18,218	17,391	10.4	-4.5
Total imports (cif)	17,827	19,660	18,828	10.3	-4.2
Consumer goods	3,173	3,603	3,583	13.6	-0.6
Intermediate goods	9,918	10,746	10,205	8.3	-5.0
Fuels	1,907	2,054	1,589	7.7	-22.6
Other	8,011	8,692	8,616	8.5	-0.9
Capital goods	4,736	5,311	5,040	12.1	-5.1

(1) Provisional data.
(2) Change of sign (- or +) for the item not indicated.
(3) Includes iron, nitrate, iodine, silver, gold ore, fruit, fishmeal, sawlogs, lumber, pulp, methanol, lithium carbonate, oxide and ferro-molybdenum, metallic gold and metal doré (98% silver, 2% gold bullion).

Source: Central Bank of Chile.

TABLE 20 FOREIGN TRADE INDICATORS

Item	1996	1997	1998
Price of copper BML (US$/lb)	1.039	1.026	0.751
Price of oil (US$/barrel fob)	19.0	18.0	11.9
Libor US$ 180-day (nominal)	5.6%	5.8%	5.5%
Total foreign inflation	-1.5%	-3.6%	-4.1%
Index of terms of trade (1988 = 1.00)			
Total goods	0.00	0.94	0.83
Total noncopper and nonoil goods	1.00	1.05	0.99
Total exports			
Change by amount	-3.9%	9.9%	-12.0%
Change by price (fob)	-15.2%	-0.8%	-17.1%
Change by volume	13.4%	10.7%	6.2%
Copper exports			
Change by amount	-7.1%	18.7%	-23.7%
Change by price (fob)	-24.1%	-0.5%	-28.3%
Change by volume	22.4%	19.3%	6.4%
Traditional, non-copper exports			
Change by amount	-12.0%	0.9%	-12.3%
Change by price (fob)	-12.7%	-1.5%	-10.7%
Change by volume	0.7%	2.5%	-1.7%
Non-traditional exports			
Change by amount	9.0%	6.9%	3.6%
Change by price (fob)	-4.5%	-0.7%	-7.6%
Change by volume	14.1%	7.6%	12.1%
Imports of goods			
Change by amount	12.0%	10.3%	-4.2%
Change by price (fob)	0.3%	-4.5%	-5.8%
Change by volume	11.6%	15.5%	1.7%

Source: Central Bank of Chile.

TABLE 21

FINANCIAL SERVICES
(Millions of US dollars)

Item	1996 (1)	1997 (1)	1998 (1)	Percentage Change (2) 1997	Percentage Change (2) 1998
INTEREST PAID (3)	1,307	1,379	1,504	5.5	9.1
Medium and long term	1,098	1,221	1,361	11.2	11.5
Short term	209	158	143	-24.4	-9.5
INTEREST RECEIVED	662	844	870	27.5	3.1
EARNINGS AND DIVIDENDS	-2,150	-2,439	-1,573	13.4	-35.5
Received	91	181	262	98.9	44.8
Profits remitted	14	84	103	500.0	22.6
Profits reinvestment	77	97	159	26.0	63.9
Paid	2,241	2,620	1,835	16.9	-30.0
Profit sent (4)	1,539	1,545	1,218	0.4	-21.2
Profits reinvestment	702	1,075	617	53.1	-42.6
LEASING SERVICES	0	0	0		
TOTAL FINANCIAL SERVICES	-2,795	-2,974	-2,207	6.4	-25.8
Credits	753	1,025	1,132	36.1	10.4
Debits	3,548	3,999	3,339	12.7	-16.5

(1) Provisional data.
(2) Change of sign (- or +) for the item not indicated.
(3) Includes interest paid on foreign debt and other liabilities not included therein.
(4) Gross earnings (before additional tax).

Source: Central Bank of Chile.

TABLE 22

NON-FINANCIAL SERVICES
(Millions of US dollars)

Item	1996 (1)	1997 (1)	1998 (1)	Percentage Change (2) 1997	Percentage Change (2) 1998
EXPORT SHIPMENTS	-224	-284	-330	26.8	16.2
Credits	699	731	715	4.6	-2.2
Debits	923	1,015	1,045	10.0	3.0
OTHER TRANSPORT	-350	-311	-287	-11.1	-7.7
Passengers services	72	79	34	9.7	-57.0
Credits	355	366	358	3.1	-2.2
Debits	283	287	324	1.4	12.9
Port services	-422	-390	-321	-7.6	-17.7
Credits	310	356	355	14.8	-0.3
Debits	732	746	676	1.9	-9.4
TRAVEL	142	176	215	23.9	22.2
Credits	900	1,039	1,158	15.4	11.5
Debits	758	863	943	13.9	9.3
OTHER GOODS, SERVICES AND INCOME	80	103	77	28.8	-25.2
Credits	1,102	1,193	1,274	8.3	6.8
Debits	1,022	1,090	1,197	6.7	9.8
TOTAL NON FINANCIAL SERVICES	-352	-316	-325	-10.2	2.8
Credits	3,366	3,685	3,860	9.5	4.7
Debits	3,718	4,001	4,185	7.6	4.6

(1) Provisional data.
(2) Change of sign (- or +) for the item not indicated

Source: Central Bank of Chile.

TABLE 23

NET FOREIGN INVESTMENT FLOWS INTO CHILE
(Millions of US dollars)

Item	1988	1989	1990	1991	1992	1993	1994	1995 (1)	1996 (1)	1997 (1)	1998 (1)
I. TOTAL FOREIGN INVESTMENT	944	1,360	1,015	885	996	1,330	2,580	2,256	4,659	5,837	1,267
A. DIRECT INVESTMENT	952	1,277	654	697	538	600	1,672	2,220	3,561	3,467	1,994
From abroad	968	1,284	661	822	935	1,034	2,583	2,977	4,724	5,417	4,792
Decree Law 600 (2)	163	169	208	455	512	660	1,466	1,488	3,692	3,443	4,273
Chapter XIV capital contribution	13	11	35	96	157	203	400	406	411	900	216
Chapter XIX (3)	792	1,104	339	-40	-32	-55	-104	-214	-81	-1	-314
Reinvestment of earnings (4)	n/d	n/d	79	311	298	226	821	1,297	702	1,075	617
Abroad	-16	7	7	125	397	434	911	757	1,163	1,950	2,798
Direct contribution	-16	7	7	125	376	433	926	697	1,086	1,853	2,639
Reinvestment of earnings (4)	n/d	n/d	n/d	n/d	21	1	-15	60	77	97	159
B. PORTFOLIO INVESTMENT	-8	83	361	188	458	730	908	36	1,098	2,370	-727
From abroad	-8	83	361	188	458	820	1,259	49	1,230	2,605	692
ADRs, Chapter XXVI	0	0	105	-31	281	790	1,273	32	863	1,797	692
Investment funds	0	90	262	55	57	26	-14	-280	-202	-86	-62
Bonds	-8	-7	-6	164	120	4	0	297	569	894	62
Abroad	0	0	0	0	0	90	351	13	132	235	1,419
II. ASSOCIATED CREDITS	385	311	610	198	34	616	837	965	574	973	1,006
Credit disbursements	521	437	749	372	311	845	1,001	1,343	881	1,405	1,661
Credit amortizations	136	126	139	174	277	229	164	378	307	432	655
TOTAL (I + II)	1,329	1,671	1,625	1,083	1,030	1,946	3,417	3,221	5,233	6,810	2,273

(1) Provisional data.
(2) Includes capitalization of credits.
(3) The amount considered is the cost of reconversion. From 1991 on, it includes repatriation of capital.
(4) From 1990 on, this includes reinvestment of profits for direct investment from abroad. From 1992 on, this includes the same concept for investment abroad.

Source: Central Bank of Chile.

TABLE 24

FOREIGN DEBT (1)
(Millions of US dollars)

Item	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (4)
I. TOTAL FOREIGN DEBT (II+III) (2)	17,638	16,252	17,425	16,364	18,242	19,186	21,478	21,736	22,979	26,701	31,546
Public sector	14,709	12,251	11,792	10,554	9,623	9,020	9,135	7,501	5,163	5,088	5,697
Private sector with government guarantee (3)	2,829	2,120	2,067	1,793	943	911	946	759	450	124	107
Private sector	2,929	4,001	5,633	5,810	8,619	10,166	12,343	14,235	17,816	21,613	25,849
II. MEDIUM- AND LONG-TERM FOREIGN DEBT	15,452	13,279	14,043	14,165	14,767	15,699	17,613	18,305	20,344	25,414	29,946
Public sector	13,108	10,350	9,808	9,490	9,175	8,532	8,609	6,886	4,813	4,479	5,099
Private sector with government guarantee (3)	2,069	1,291	1,041	1,014	943	911	946	759	450	124	107
Private sector	2,344	2,929	4,235	4,675	5,592	7,167	9,004	11,419	15,531	20,935	24,847
III. SHORT-TERM FOREIGN DEBT	2,186	2,973	3,382	2,199	3,475	3,487	3,865	3,431	2,635	1,287	1,600
Public sector	1,601	1,901	1,984	1,064	448	488	526	615	350	609	598
Private sector with government guarantee (3)	760	829	1,026	779	0	0	0	0	0	0	0
Private sector	585	1,072	1,398	1,135	3,027	2,999	3,339	2,816	2,285	678	1,002
IV. INTERNATIONAL MONETARY FUND	1,322	1,268	1,151	955	722	479	290	0	0	0	0

(1) Includes debt in bonds, considered as portfolio investment in the balance of payments. Within this, debt in bonds issued by agents representing Chilean firms abroad is included, but is not registered in Chile's balance of payments.
(2) Balances as of December 31st of each year, referring to net disbursements. These figures exclude debt with the IMF and direct, short-term commercial debt associated with foreign trade (export down payments and import charges).
(3) From 1990 on, debt with the IDB and the IBRD, corresponding to privatized firms (Endesa, Chilectra, Pehuenche) has been included as private sector debt guaranteed by the public sector.
(4) Provisional data.

Source: Central Bank of Chile.

TABLE 25 FOREIGN DEBT FLOW INDICATORS (*)

Item	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
						(Millions of US dollars)					
Total foreign debt	17,638	16,252	17,425	16,364	18,242	19,186	21,478	21,736	22,979	26,701	31,546
Medium- and long-term debt service	1,676	2,139	2,086	2,197	2,229	2,378	2,351	4,141	5,793	4,140	3,837
Interest on total foreign debt	1,214	1,559	1,558	1,417	1,240	1,089	1,121	1,308	1,218	1,350	1,474
Current account deficit	-231	-690	-485	-99	-958	-2,553	-1,585	-1,398	-3,742	-4,057	-4,548
International reserves	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841	15,992
Trade balance	2,210	1,483	1,284	1,485	722	-990	732	1,369	-1,095	-1,295	-2,496
Exports of goods and services	8,144	9,614	10,222	11,069	12,365	11,711	14,444	19,234	18,771	20,608	18,755
Imports of goods (fob)	4,844	6,595	7,089	7,456	9,285	10,189	10,872	14,655	16,500	18,218	17,391
						(Percentages)					
Total foreign debt / Exports of goods and services	216.6	169.0	170.5	147.8	147.5	163.8	148.7	113.0	122.4	129.6	168.2
Medium-and long-term foreign-debt service /Exports of goods and services	20.6	22.2	20.4	19.8	18.0	20.3	16.3	21.5	30.9	20.1	20.5
Interest / Exports of goods and services	14.9	16.2	15.2	12.8	10.0	9.3	7.8	6.8	6.5	6.6	7.9
Current account deficit / Exports of goods and services	-2.8	-7.2	-4.7	-0.9	-7.7	-21.8	-11.0	-7.3	-19.9	-19.7	-24.2
Trade balance / Exports of goods and services	27.1	15.4	12.6	13.4	5.8	-8.5	5.1	7.1	-5.8	-6.3	-13.3
Current account deficit / GDP	-1.0	-2.5	-1.6	-0.3	-2.3	-5.7	-3.1	-2.1	-5.5	-5.4	-6.2
						(Months)					
Net international reserves / Imports of goods (fob)	6	5	9	11	12	11	15	12	11	12	11

(*) From 1989 on, there were methodological changes in calculating the figures for the balance of payments and national accounts.

Source: Central Bank of Chile.

TABLE 26

FOREIGN EXCHANGE RESERVES OF THE CENTRAL BANK OF CHILE (1)
(Millions of US dollars)

Item	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1. Gold	680	592	642	597	574	612	652	643	637	533	322
(Troy ounces)	1,824	1,752	1,858	1,863	1,867	1,865	1,864	1,861	1,859	1,858	1,222
2. SDRs	44	24	1	1	1	1	1	3	2	1	8
3. Reserve position in the IMF	0	0	0	0	0	0	0	0	50	313	602
4. Foreign-currency holdings	3,116	3,604	6,068	7,041	9,167	9,639	13,087	14,137	14,781	16,992	15,049
5. Other international assets	32	-5	-202	-43	-11	-15	17	22	4	2	11
6. Use of IMF credit	1,322	1,268	1,151	955	722	479	290	0	0	0	0
7. Short-term credit	0	5	10	1	1	0	0	0	0	0	0
I. FOREIGN ASSETS (2)	3,872	4,215	6,509	7,596	9,731	10,237	13,757	14,805	15,474	17,841	15,992
II. GROSS RESERVES (3)	2,550	2,947	5,358	6,641	9,009	9,758	13,467	14,805	15,474	17,841	15,992
III. NET RESERVES (4)	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841	15,992

(1) This is calculated using the current rates for currencies and gold at the end of each period.
(2) Corresponds to (1 + 2 + 3 + 4 + 5).
(3) Corresponds to (I - 6).
(4) Corresponds to (II - 7).

Source: Central Bank of Chile.

TABLE 27

BALANCE SHEET OF THE CENTRAL BANK OF CHILE
(Balance as of December 31st of each year in billions of Chilean pesos)

Item	1997	1998	STRUCTURE OF ASSETS AND LIABILITIES (%) 1997	1998	Average (1)
ASSETS	15,032	13,923	100.0	100.0	100.0
Net foreign exchange reserves	8,438	7,577	56.1	54.4	53.4
Treasury promissory notes	3,642	3,427	24.2	24.6	25.8
Other public sector assets	504	523	3.4	3.8	3.6
Subordinated debt	1,151	1,074	7.7	7.7	7.7
Deferred losses	796	913	5.3	6.6	6.0
Liquidity line of credit and repo operations	68	37	0.5	0.3	0.7
Other assets	433	373	2.9	2.7	2.8
LIABILITIES	15,590	14,887	100.0	100.0	100.0
Monetary policy promissory notes	10,018	9,503	64.3	63.8	62.0
Other notes with secondary market	526	516	3.4	3.5	3.5
Foreign currency current accounts and cash reserves	543	174	3.5	1.2	2.7
Treasury and other public sector deposits	2,383	2,174	15.3	14.6	17.1
Other non-monetary emission liabilities	724	1,123	4.6	7.5	5.6
Monetary emission	1,395	1,397	8.9	9.4	9.2
EQUITY	-558	-964			
Initial Capital and Revaluation of Capital	198	-582			
Initial capital	187	-558			
Own revalued capital	12	-24			
Net Results	-757	-381			
Non-financing results	28	13			
Net interest (2)	-200	-220			
Net results from indexing and other variations in amounts (3)	-573	-198			
Minus: Revaluation of own capital	-12	24			

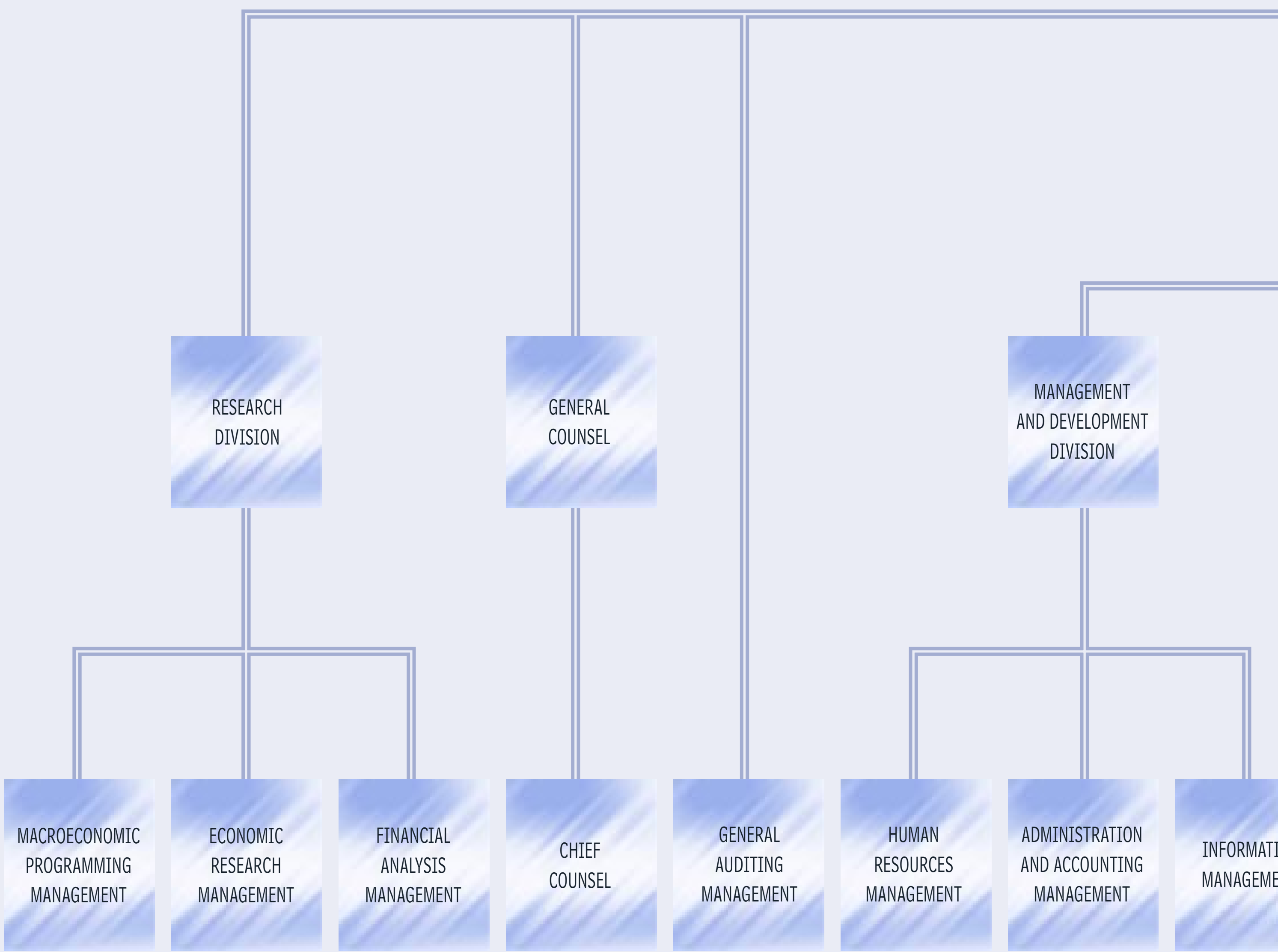
(1) Average monthly balances from December 1997 to December 1998, inclusive.
(2) Interest in foreign currency is converted to Chilean pesos using average exchange rates.
(3) Includes net exchange rate earnings derived from changes in values of foreign currency holdings and liabilities.

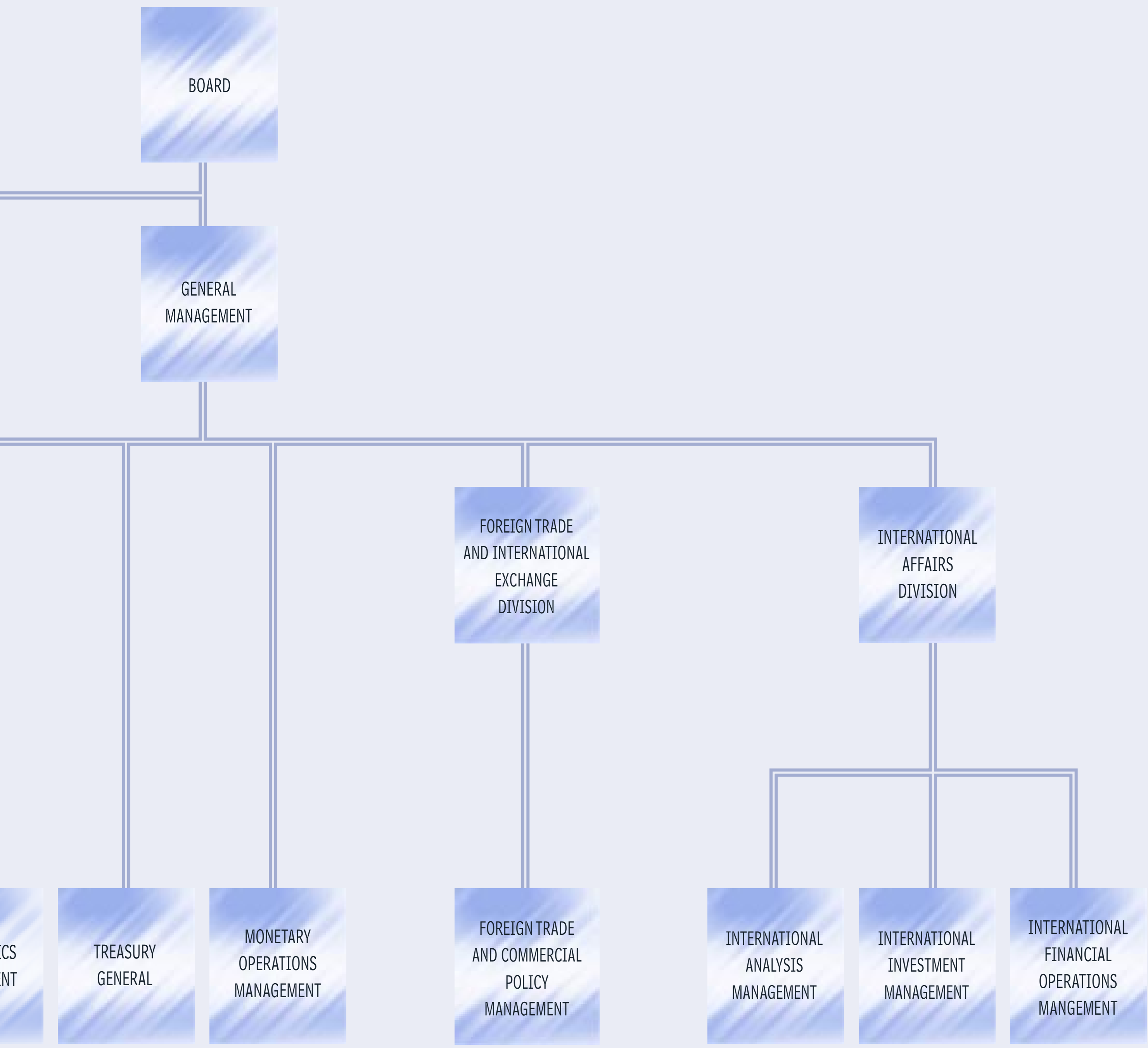
Source: Central Bank of Chile.

II. ORGANIZATIONAL STRUCTURE OF THE CENTRAL BANK OF CHILE

AS OF DECEMBER 31, 1998

ORGANIZATION CHART
CENTRAL BANK OF CHILE




BOARD
GENERAL MANAGEMENT
FOREIGN TRADE AND INTERNATIONAL EXCHANGE DIVISION
INTERNATIONAL AFFAIRS DIVISION
TREASURY GENERAL
MONETARY OPERATIONS MANAGEMENT
FOREIGN TRADE AND COMMERCIAL POLICY MANAGEMENT
INTERNATIONAL ANALYSIS MANAGEMENT
INTERNATIONAL INVESTMENT MANAGEMENT
INTERNATIONAL FINANCIAL OPERATIONS MANGEMENT

III. FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE

INCOME STATEMENTS

for the years ended December 31,

(Millions of Chilean pesos)

ASSETS	**1998**	**1997**
OVERSEAS ASSETS	8,228,371.7	9,519,158.2
RESERVE	8,041,417.2	9,294,979.3
Gold	152,499.7	262,924.9
Demand deposits and accounts	20,036.0	5,020.7
Deposits and securities	7,113,827.8	8,377,240.6
Mutual loan agreements	47,189.0	81,030.4
Loans	295,691.8	154,565.9
FMI subscription	412,172.9	414,196.8
OTHER OVERSEAS ASSETS	186,954.5	224,178.9
Shares and contributions to the Interamerican Development Bank	86,819.0	90,887.1
Interest receivable	100,132.4	133,287.8
Silver and other securities	3.1	4.0
DOMESTIC ASSETS	4,978,242.6	5,459,417.1
DOMESTIC LOANS	4,978,242.6	5,459,417.1
Loans to state-owned companies	39,154.3	51,497.4
Loans to Banco del Estado de Chile	65,165.6	105,675.8
Loans to comercial banks	199,535.9	258,455.1
Loans to other institutions	284,945.3	272,249.2
Treasury transfers (Laws 18.267, 18.401 and 18.768)	3,582,872.8	3,956,430.5
Financial institution subordinated obligations (Law 18.401)	806,568.7	815,109.1
OTHER ASSETS	1,287,950.6	1,185,740.9
Fixed Assets	15,400.0	15,207.7
Purchase of US currency under resale agreement	119,390.0	0.0
Other securities	1,153,160.6	1,170,533.2
TOTAL ASSETS	14,494,564.9	16,164,316.2

The accompanying notes 1 to 12 form an integral part of these financial statements

LIABILITIES	1998	1997
OVERSEAS LIABILITIES	683,689.2	721,644.3
RESERVE LIABILITIES	464,971.1	494,303.5
Mutual loan agreements	42,128.6	80,123.5
FMI deposits	422,842.5	414,180.0
OTHER OVERSEAS LIABILITIES	218,718.1	227,340.8
Loans	1,296.4	1,508.6
Accounts with other international organizations	134,857.1	142,619.5
Allocations of Special Drawing Rights	81,261.1	81,229.9
Interest payable	1,303.5	1,982.8
DOMESTIC LIABILITIES	14,612,104.5	16,008,992.2
CURRENCY ISSUANCE AND DEPOSITS	1,396,782.7	1,455,149.2
Bills and coins in circulation	1,253,291,7	1,295,417.5
Deposits from financial institutions (domestic currency)	143,491.0	159,731.7
DEPOSITS AND OBLIGATIONS	2,689,067.5	3,120,535.4
Deposits and obligations with the Treasury	2,077,736.8	2,482,033.9
Other deposits and obligations	611,330.7	638,501.5
NOTES ISSUED BY THE CHILEAN CENTRAL BANK	10,526,254.3	11,433,307.6
Indexed promissory notes payable in coupons (PRC)	6,967,995.9	6,879,139.0
Central Bank indexed promissory notes (PRBC)	1,171,681.2	3,043,541.3
Discountable promissory notes from the Central Bank (PDBC)	729,800.0	428,673.0
Central Bank promissory notes in US Dollars (PRD)	620,830.9	0.0
Promissory notes stated in indexed units (UF)(Resolution 1836) arising from US dollar certificates	444,395.5	439,274.1
Securities issued on rescheduling of foreing debt (Ch. XIX of the Compendium of Foreign Exchange Regulations)	297,438.5	332,944.4
Commercial notes from redomination of Foreign exchange securities	217,941.8	215,832.4
Floating interest rate promissory notes (PTF)	71,633.4	88,619.4
Deposits certificates stated in US$, Resolution 1649	4,449.6	5,140.5
Promissory notes issued for exchange-rate differential	87.5	143.5
OTHER LIABILITIES	162,418.8	15,941.0
Provisions	7,282.0	7,470.2
Temporary liabilities	32,641.7	8,448.1
US currency purchases under resale agreement	119,390.0	0.0
Other securities	3,105.1	22.7
CAPITAL AND RESERVES	(963,647.6)	(582,261.3)
Capital	(582,261.3)	206,831.0
Deficit during the period	(381,386.3)	(789,092.3)
TOTAL LIABILITIES	14,494,564.9	16,164,316.2

INCOME STATEMENTS

for the years ended December 31,
(Millions of Chilean pesos)

OPERATING RESULTS	1998	1997
OPERATING INCOME	1,024,125.0	1,206,943.6
Interest earned and accrued	737,831.1	774,772.6
Indexation earned and accrued	84,513.8	137,788.0
Income on price differences	44,411.9	59,998.5
Exchange earnings	157,274.3	233,714.3
Others operating income	93.9	670.2
OPERATING EXPENSES	(1,459,393.3)	(2,020,789.3)
Interest paid and accrued	909,496.9	886,399.5
Indexation paid and accrued	389,383.0	629,523.3
Comissions paid and accrued	755.1	943.6
Loss due to price differences	19,131.8	18,678.5
Exchange losses	132,293.0	474,148.8
Other operating expenses	8,333.5	11,095.6
Gross margin	(435,268.3)	(813,845.7)
OTHER OPERATING EXPENSES	(18,365.5)	(19,430.6)
Personnel expenses	12,853.6	12,635.6
Administrative expenses	3,897.5	4,721.7
Depreciation, amortization and write-offs	1,232.4	1,616.4
Tax, rates and contributions	382.0	456.9
Income before provisions and write-offs	(453,633.8)	(833,276.3)
Provisions and write-offs from risky assets	(64.1)	0.0
Net margin (total operating loss)	(453,697.9)	(833,276.3)
NON-OPERATING INCOME AND EXPENSES	204.1	743.5
Non-operating income	435.3	774.4
Non-operating expenses	(231.2)	(30.9)
Loss before price-level restatement	(453,493.8)	(832,532.8)
Price-level restatement	(72,107.5)	43,440.5
Deficit during the year	(381,386.3)	(789,092.3)

The accompanying notes 1 to 12 form an integral part of these financial statements.

REPORT ON THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES:

(A) GENERAL:

These financial statements have been prepared in conformity with generally accepted accounting principles in Chile and policies set forth by the Board of Banco Central de Chile, upon approval of the *Superintendencia de Bancos e Instituciones Financieras* (Superintendency of Banks and Financial Institutions in Chile), as established in Article 75 of Law 18,840 (Constitutional Organic Law of Banco Central de Chile). These policies are consistent with generally accepted accounting principles in Chile, except for the method used in recording losses on subordinated obligations, which is explained in letter (f) below.

The presentation of these balance sheets is within an economic and accounting framework which provides an understanding of the financial and accounting position of the Bank and, at the same time, is inclined to facilitate an economic analysis of Banco Central de Chile's operations by clearly identifying whether they are undertaken by domestic or foreign agents. Thus, we can observe the Chilean Central Bank's share in the domestic supply of monetary assets and credit and how this affects the Bank's creditor position abroad. For this reason, the economic concepts of international reserves and currency issuance are shown under the captions Reserve Assets and Liabilities and Currency Issuance, accordingly.

For comparison purposes, the figures for the 1997 period were restated according to changes in the Consumer Price Index, for the period between November 30, 1997 and November 30, 1998, amounting to 4.3%.

B) EXCHANGE RATES USED:

Assets and liabilities stated in foreign currency are translated into Chilean Pesos at the "Observed Dollar" exchange rate referred to under Nº 6, Chapter I in the "General Provisions" of Title I of the Compendium of Foreign Exchange Regulations"- *Compendio de Normas de Cambios Internacionales*- (in 1997 they were translated at the "Reference US Dollar", exchange rate as referred to in paragraph 1, Nº 7, Chapter I of the "General Provisions" under Title I of the Compendium of Foreign Exchange Regulations, hereinafter "the reference US Dollar). Excluded from this regulation are balances from transaction accounts which must be settled at a different exchange rate as duly specified in the respective regulations.

Assets and liabilities stated in minted Chilean gold coins are valued at the average London morning quotation "Gold Fixing" rate (US Dollars per ounce of fine troy), for all business days in the preceding quarter, less 10%.

Settlement of foreign currencies other than the US Dollar is made at the exchange rates published daily by Banco Central de Chile in the Official Gazette, however, always based upon the "Observed Dollar" rate ("Reference US Dollar in 1997).

On September 24, 1998, the Board of the Banco Central de Chile agreed at Meeting N° 706-04-980924 to replace the exchange rate used in reporting assets and liabilities denominated in foreign currency and in the settlement of the exchange rate position by changing from the "Reference US Dollar" exchange rate and adopting the "Observed Dollar" rate. This change, which is consistent with generally accepted accounting principles, generated an increased charge to income of Ch$ 41,356.2 million as of September 30, 1998, and an increased credit to income of Ch$48,543.8 million as of December 31, 1998.

The main rates used as of year-end are as follows:

	1998 Ch$	1997 Ch$
Minted Chilean gold coins	734.360	798.366
US Dollar (Reference rate)	470.570	472.950
US Dollar (Observed rate)	473.770	439.810
Sterling Pound	798.260	783.030
Deutsche Mark	283.850	264.144
Special Drawing Rights (SDR)	666.490	638.767

C) SHARES AND CONTRIBUTIONS TO THE INTERAMERICAN DEVELOPMENT BANK (IDB) AND CONTRIBUTIONS TO THE INTERNATIONAL MONETARY FUND (IMF):

Shares issued by and contributions to the Interamerican Development Bank, and contributions to the International Monetary Fund, on behalf of the Chilean Treasury, are valued at purchase or contribution cost, plus restatements, where applicable.

Shares and contributions to IDB are shown under Other Overseas Assets. Contributions to the IMF are recorded under Overseas Reserve Assets.

D) FINANCIAL INVESTMENTS:

Overseas financial investments are shown under Reserve Assets and basically include bonds and securities issued by government, foreign institutions and banks, and are valued at the lower of cost or market value. Interests receivable are shown under Other Overseas Assets.

E) LOANS RECEIVABLE AND OBLIGATIONS:

Non-indexed loans receivable and obligations are shown at original value or their latest renewal value, except for commercial instrument purchases and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued adjustments as of the balance sheet date, and balances stated in foreign currency include the related exchange adjustments.

Interest accrued at year-end on transactions with overseas residents are included under Other Overseas Assets and Other Overseas Liabilities. Interest on transactions with Domestic residents is included in Domestic Assets and Domestic Liabilities, accordingly.

Interest paid and not accrued arising from obligations is recorded under Other Assets. Interest earned and not accrued arising from loans is recorded under Other Liabilities.

F) SUBORDINATED OBLIGATIONS OF FINANCIAL INSTITUTIONS:

The loan for the subordinated obligation included under Domestic Assets (Note 6) comprises restated balances as of year-end of renewed repurchase obligations, governed by Laws 18,401 and 19,396 and their amendments, and include accumulated increases recorded and credited to income as accrued.

Accounting losses arising from changes in payment terms of the subordinated debt from the banks BHIF, Internacional, Concepción, and Santiago have been deferred in conformity with provisions under Article 19 of Law 19,396 which sets forth that: "... any losses incurred by the Banco Central de Chile in its capacity as creditor of a subordinated obligation may be deferred and absorbed by any surpluses generated in future periods. To this effect, Banco Central de Chile is entitled to allocate such surplus to set up provisions in order to absorb any such losses".

F) SUBORDINATED DEBT OF FINANCIAL INSTITUTIONS, CONTINUED:

Deferred losses amount to Ch$ 912,736.5 million as of December 31, 1998 (Ch$ 830,630.1 million in 1997), and are shown as "Other securities" under the caption "Other assets".

As a result of the contract entered into with Banco Santiago, Banco Central de Chile received 35,090.5 million E series shares in settlement of the subordinated debt outstanding. As of December 31, 1998, the Bank maintains 35,067.7 million shares, which are valued at market price. In conformity with Law 19,396, as amended by Law 19,459, there is no fixed term for the sale of such shares.

G) LOAN PROVISIONS:

The Bank has set up provisions in 1998 in the amount of Ch$ 64.1 million (in 1997 no provision was set up). The balance of provisions set up amounts to Ch$ 7,991.9 million (Ch$ 8,254.4 million in 1997), and is included by deducting the related assets.

H) FIXED ASSETS:

Fixed assets at year-end are shown at cost plus price-level restatements, net of accumulated depreciation under "Other Assets". Depreciation has been calculated using the straight-line method based on the estimated useful life of assets.

I) SEVERANCE INDEMNITIES:

Severance indemnities have been determined based upon the present value method (accrued cost of the benefit), considering an annual 8% interest rate. The total provision amount as of year-end is Ch$ 6,080.1 million (Ch$ 5,519.6 million in 1997).

J) VACATION PROVISION:

The annual cost of employee vacation provision is accounted for in the financial statements on an accrual basis.

K) PRICE-LEVEL RESTATEMENT:

Capital and reserves, fixed assets and given assets and liabilities have been price-level restated in accordance with changes in the Consumer Price Index. Income statement account balances in local currency, except for depreciation and price-level restatement, have not been price-level restated.

The effect of exchange differences on assets and liabilities in foreign currency, and indexation on loans and liabilities are included under Operating Income, independently of price-level restatement.

2. DOMESTIC LOANS TO BANKS, FINANCIAL COMPANIES AND OTHER INSTITUTIONS OR COMPANIES:

Total balance of these loans, amounting to Ch$ 588,801.1 million (Ch$ 687,877.5 million in 1997), includes the following transactions:

	(Millions of Ch$) 1998	1997
Receivables from CORFO (Note 3)	28,891.3	39,901.8
Credit lines on debt rescheduling	76,064.1	98,178.7
Mortgage loan portfolio acquired	49,530.6	61,145.8
Liquidity credit lines	36,918.0	71,171.0
Credit lines to finance the sale of mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	56,971.4	61,735.4
Credit lines for international organization programs	8,587.3	12,519.2
Credit lines for deposits, (Resolution 1686)	5,752.1	9,125.7
Former Caja Central de Ahorro y Préstamo, and former ANAP (Note 4)	284,736.3	271,294.2
Price balances (Law 19,396)	38,716.1	55,821.8
Other	2,633.9	6,983.9
Total	588,801.1	687,877.5

3. LOANS RECEIVABLE FROM CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN (CORFO):

The balance receivable from Corporación de Fomento de la Producción (CORFO) derives from the provisions in Law 18,401 dated 1985, as amended, and Law 18,577 dated 1986, by which Banco Central de Chile sold financial institution loans to CORFO in order to finance the purchase of shares of these financial institutions by third parties.

CORFO serves its debt by transferring the amounts collected from its shareholders for the transfer of shares of the related financial institutions. As of December 31, 1998, the balance of accounts receivable from CORFO amounts to Ch$ 28,891.3 million (Ch$ 39,901.8 million in 1997), and is included under "Loans to state-owned companies".

In accordance with Article 13 of Law 18,401, differences that are not recovered as a result of discounts granted to the shareholders, up to UF 15 million, will be covered by the Treasury (Note 5) by future transfers, which as of December 31, 1998 amounts to Ch$ 160,591.8 million, equivalent to UF 10.9 million (Ch$ 158,132.9 million in 1997, equivalent to UF 10.8 million). Based on available information, the legal maximum amount of transfer established by law is deemed adequate to absorb the discounts.

4. CAJA CENTRAL DE AHORROS Y PRÉSTAMOS AND ASOCIACIÓN NACIONAL DE AHORRO Y PRÉSTAMO:

Pursuant to Law 18,900 dated January 16, 1990, the legal existence of Caja Central de Ahorros y Préstamos and the authorization of existence of Asociación Nacional de Ahorro y Préstamo are terminated, and the liquidation of their respective net assets is initially authorized. The liquidation is currently in the process of final approval.

In accordance with Article 5 of this law, the liabilities of Caja Central de Ahorros and of Asociación Nacional de Ahorro y Préstamo which are not covered by the proceeds of their liquidations will be met by the Treasury by obtaining the necessary funds from the national budget, in conformity with provisions under Article 21 of Decree Law 1,263 dated 1975.

As of December 31, 1998, the amount payable to Banco Central de Chile arising from the liquidation of these institutions, including accrued interest as of such date, amounted to Ch$ 284,736.3 million (Ch$ 271,294.2 million in 1997), and is shown under "Loans to other institutions".

5. TREASURY TRANSFERS:

The following items are included under "Treasury transfers":

	(Millions of Ch$) 1998	1997
Treasury promissory notes Law 18,267	470,686.3	513,246.7
Treasury promissory notes Law 18,768	2,951,594.7	3,285,050.9
Treasury transfers Law 18,401	160,591.8	158,132.9
Total	3,582,872.8	3,956,430.5

A) TREASURY PROMISSORY NOTES (LAW 18,267)

In conformity with Law 18,267, the Treasury transferred Ch$ 100,000 million to Banco Central de Chile by issuing 40 Treasury promissory notes over a 25-year term, stated in indexed units (UF) and at a 1% annual interest rate, capitalized and amortized on a 6-monthly basis with a five-year grace period.

B) TREASURY PROMISSORY NOTES (LAW 18,768)

This item corresponds to promissory notes denominated and payable is US Dollars, accruing an annual LIBOR interest rate plus 0.5 points, of which 2% is payable half yearly and the balance is capitalized. The last installment matures on December 15, 2014.

This year, prepayments were received on capital amounting to US$ 546.7 million and on interest amounting to US$ 204.7 million, and were included as "Temporary Liabilities" under the caption "Other Liabilities", of which unaccrued interest amounted to US$ 202.0 million this year.

C) TREASURY TRANSFER LAW 18,401

The balance of this item corresponds to discounts granted to shareholders subject to the provisions under Law 18,401, amounting to a maximum of 15 million UF as stipulated in Article 13 of this law, and explained in Note 3.

In conformity with the above law, these Treasury transfers will be completed in a period not exceeding 30 years, with a ten-year grace period, effective from the date of the final determination of the total amount.

6. SUBORDINATED OBLIGATION:

The balances as of year-end, account for Banco de Chile's subordinated obligation with Banco Central de Chile, deriving from the application of Article 15 of Law 18,401, granting banks having sold their loan portfolios under repurchase agreements to Banco Central de Chile (Resolutions 1450 and 1555, as amended), the option of renewing all obligations arising from said loan portfolio purchase and sale agreements. On the basis of such law, debtor banks are entitled to allocate their surpluses to the payment of such obligation, which had no fixed maturity dated, until full payment is accomplished.

On July 29, 1995, Law 19,396 was published in the Official Gazette, and was amended by Law 19,459, establishing a new treatment for subordinated debts. The latter law sets forth that Banco Central de Chile and banks with outstanding subordinated debts may agree to modify the payment terms for such obligations, in conformity with such law and regulations set forth by Banco Central de Chile to this effect.

The above-mentioned law provides a range of options for the banks to modify the payment conditions for the subordinated obligations, depending on whether or not they are able to serve such debt within a 40 year-term. Those banks unable to repay their subordinated obligation within said term, which is the case of those banks that elected to benefit from this law, may agree with Banco Central de Chile, either to repay the subordinated obligation in 40 fixed, annual, consecutive and equal installments, or to adopt a scheme for bidding shares, plus the transfer of shares in settlement to Banco Central de Chile, in both cases. Similarly, the law empowers the banks to elect one of the forms of modifying the repayment terms of the referred subordinated obligation, to set up a new bank, a holding company of the latter, and a managing company for the subordinated obligation.

Banco Central de Chile entered into agreements for amending the terms of repayment of the subordinated obligation with the only five banks which at the date of enactment of Law 19,396, as amended by Law 19,459, manifested their intention of benefitting from Law 19,396, namely: BHIF, Banco Internacional, Banco Concepción, Banco de Santiago and Banco de Chile. The subordinated obligation amounted to Ch$ 806,568.7 million in 1998 (Ch$ 815,109.1 million in 1997).

7. DEPOSITS AND OBLIGATIONS:

This caption includes the following items:

	(Millions of Ch$)	
	1998	1997
Deposit reserves, Resolution 143	0.0	95,791.4
Deposits from Banco del Estado de Chile	0.0	23,623.8
Foreign currency current accounts	58,930.8	53,265.6
Deposits in foreign currency, Resolutions 1657 and 1686	3,450.9	5,734.7
Mandatory deposits on overseas credits	117,087.1	420,702.9
Liquidity deposits	0.0	31,296.1
Short-term deposits	431,861.9	8,087.0
Total	611,330.7	638,501.5

8. INSTRUMENTS ISSUED BY BANCO CENTRAL DE CHILE AS OF DECEMBER 31, 1998 AND 1997 BY PERIOD REMAINING TO MATURITY:

(Millions of Ch$)

Type of instrument	Up to 90 Days	91 to 180 Days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 1998	Total 1997
Indexed promissory notes payable in coupons (PRC)	354,459.6	254,012.5	449,034.8	1,546,319.7	4,364,169.3	6,967,995.9	6,879,139.0
Indexed promissory notes from Banco Central (PRBC)	1,171,681.2					1,171,681.2	3,043,541.3
Promissory notes stated in indexed unit (UF), arising from certificates in US$ (Resolution 1836)	18,197.8				426,197.7	444,395.5	439,274.1
Discountable promissory notes from Banco Central (PDBC)	373,800.0	258,000.0	98,000.0			729,800.0	428,673.0
Securities issued on debt rescheduling, Chapter XIX, Compendium of Foreign -Exchange Regulations	1,208.5	38,627.5	222,221.2	35,381.3		297,438.5	332,944.4
Commercial notes from redenomination of foreign debt	4,171.0	1,440.8		76,565.3	135,764.7	217,941.8	215,832.4
Indexed promissory notes with floating interest rate (PTF)	9,388.3	1,785.3	8,679.1	34,716.3	17,064.4	71,633.4	88,619.4
Indexed promissory notes in US$ from Banco Central (PRD)	11,366.5	669.9		447,712.7	161,081.8	620,830.9	
Certificates of deposit stated in US$, Resolution 1649	127.0		480.3	960.6	2,881.7	4,449.6	5,140.5
Promissory notes issued for exchange-rate differential	69.0		17.9	0.6		87.5	143.5
Total documents issued	1,944,468.9	554,536.0	778,433.3	2,141,656.5	5,107,159.6	10,526,254.3	
Total 1997	3,830,266.3	265,372.2	467,327.3	1,944,066.3	4,926,275.5		11,433,307.6

Balances include interest and accrued adjustments as of December 31, 1998 and 1997.

9. CAPITAL AND RESERVES:

Changes in capital and reserves during 1998 and 1997 were as follows:

(Millions of Ch$)

	Capital	Surplus (Deficit) In the Period	Total
Balances as of 01.01.97	314,734.6	(128,183.3)	186,551.3
Absorption of 1996 deficit	(128,183.3)	128,183.3	
Equity revaluation	11,752.7		11,752.7
Deficit during the period		(756,560.2)	(756,560.2)
Balances as of 12.31.97	198,304.0	(756,560.2)	(558,256.2)
Balances as of December 31, 1997 Restated for comparison purposes	206,831.0	(789,092.3)	(582,261.3)
Balances as of 01.01.98	198,304.0	(756.560,2)	(558,256.2)
Absorption of 1997 deficit	(756,560.2)	756,560,2	
Equity revaluation	(24,005.1)		(24,005.1)
Deficit during the period		(381,386.3)	(381,386.3)
Balances as of 12.31.98	(582.261,3)	(381,386.3)	(963,647.6)

Article 5 of Law 18,840 (Constitutional Organic Law of Banco Central de Chile) set start-up capital for the Bank at Ch$ 500,000 million to be paid according to Interim Article 2 of said law.

Pursuant to Article 77 of Law 18,840, deficit generated in any one year shall be absorbed by charging reserves. In the event that there are no reserves or if they are insufficient, the deficit incurred in any one year shall be absorbed by charging paid-in capital.

As of December 31, 1998, Banco Central de Chile shows a deficit in equity of Ch$ 963,647.6 million (Ch$ 582,261.3 million in 1997).

Even though the negative equity position is not foreseen in the near future as an obstacle that might prevent Banco Central de Chile from achieving its bank objectives, as further discussed in the Bank's report to the Senate, it appears appropriate from a medium-term perspective to improve and strengthen the Bank's equity, which has been requested to the Ministry of Finance, in conformity with Article 5 of the Constitutional Organic Law.

10. BALANCES IN FOREIGN CURRENCY AND GOLD:

Assets and liabilities denominated in foreign currency and included in the balance sheets as of December 31, 1998 and 1997 are as follows:

	(Millions of US$)	
	1998	**1997**
ASSETS		
OVERSEAS ASSETS	15,919.9	18,181.9
Reserve	15,671.9	17,875.0
Other overseas assets	248.0	306.9
DOMESTIC ASSETS	6,234.1	6,684.0
Domestic Loan	6,234.1	6,684.0
OTHER ASSETS	9.5	0.1
Total assets	22,163.5	24,866.0
LIABILITIES		
OVERSEAS LIABILITIES	265.9	334.2
Reserve	88.9	162.4
Other overseas liabilities	5.5	7.1
SDR Allocations	171.5	164.7
DOMESTIC LIABILITIES	5,361.2	5,901.3
Deposits and obligations	5,361.2	5,901.3
OTHER LIABILITIES	200.0	17.7
Total liabilities	5,827.1	6,253.2
NET ASSETS	**16,336.4**	**18,612.8**

11. CONTINGENCIES AND COMMITMENTS:

Banco Central de Chile has pending lawsuits or claims, the final outcomes of which (according to the Bank's Law Department) are not expected to have a material effect on capital and reserves.

12. INCOME TAX:

Pursuant to DL 3,345, dated April 24, 1980, Banco Central de Chile is exempt from Income Tax.

CAMILO CARRASCO ALFONSO
General Manager

FRANCISCO GARCÍA LETELIER
Accounting and Administration Manager

MARIO ULLOA LÓPEZ
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INDEPENDENT AUDITORS' REPORT

To the Chairman and Members
Of the Board of Banco Central de Chile:

We have audited the accompanying balance sheet of Banco Central de Chile as of December 31, 1998 and the related statement of income for the year then ended. The financial statements (and their notes) are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Banco Central de Chile for the year ended December 31, 1997 were audited by other auditors, whose report dated January 14, 1998 included a paragraph regarding differences between generally accepted accounting principles and accounting policies established by the Board of Banco Central de Chile, pursuant to the exchange rate used for accounting purposes, and deferral of accounting losses arising from amendments in payment agreements for subordinated debts of given banks. Additionally, the report contained two explanatory paragraphs with a description of: (i) existing agreements under Law 19,396 regarding subordinated obligation, and (ii) actions aimed at covering the equity deficit reported by Banco Central de Chile.

We have conducted our audit in accordance with generally accepted auditing standards in Chile. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material miestatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Banco Central de Chile prepares its financial statements in conformity with accounting policies established by the Board, upon prior approval of Superintendencia de Bancos e Instituciones Financieras (Law 18,840). These policies are in accordance with generally accepted accounting principles, except for the deferral of accounting losses, amounting to Ch$ 912,736.5 million, arising from the amendments to subordinated obligation payment agreements of given banks, as set forth by Law 19,396 (Notes 1(f) and 6).

In our opinion, the financial statements as of December 31, 1998 present fairly, in all material respects, the financial position of Banco Central de Chile as of December 31, 1998, and the results of its operations for the year then ended, in conformity with accounting policies as described in Note 1.

Banco Central de Chile shows an equity deficit of Ch$ 963,647.6 million (Ch$ 582,261.3 million in 1997), and is currently holding discussions with the Ministry of Finance to determine the manner in which such deficit shall be covered.

As explained in Note 1(b), in order to apply generally accepted accounting principles and for a better presentation of the Bank's operations, on September 24, 1998, the Board of Banco Central de Chile agreed to modify the exchange rate used in reporting assets and liabilities in foreign currency and to settle the exchange rate position by replacing the "Acuerdo Dollar " exchange rate with the "Observed Dollar" exchange rate.

Alejandro Cerda G.
Santiago, January 15, 1999

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