

Chile On a Stable Growth Path

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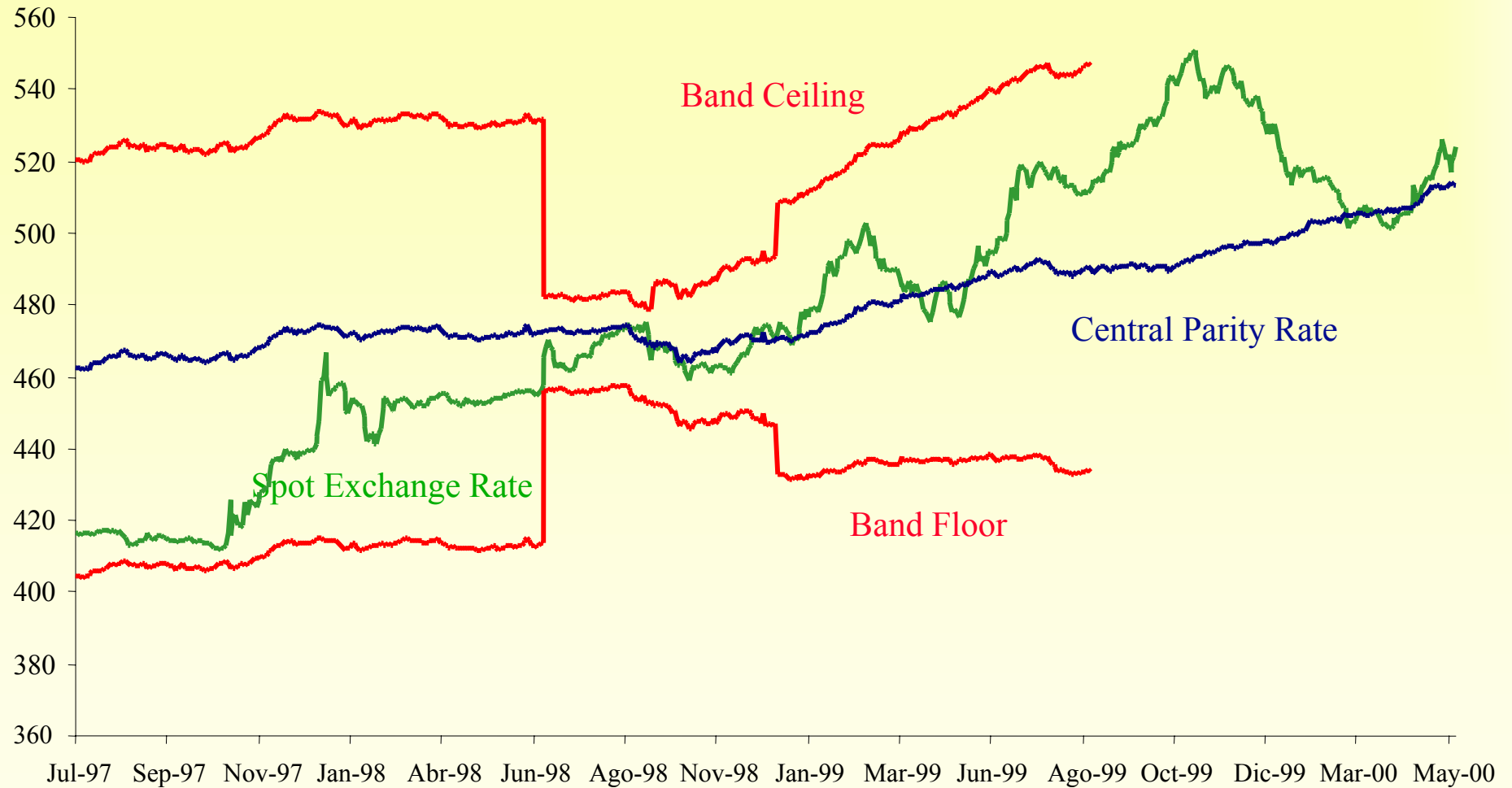
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Salomon Smith Barney - London

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CLP/USD Exchange Rate

\$/US\$



Source: Central Bank of Chile

Recent Economic Policy Definitions

- To improve the way the private sector deals with exchange rate risk, strict requirements on currency and interest risk exposure, as well as liquidity standards were introduced into the banking system. In addition, the forward foreign exchange market was developed.
- The exchange rate was liberalized last year, and Central Bank intervention in the foreign exchange market is reserved only for extreme circumstances.
- Meeting these and other required conditions, the Central Bank has continued to liberalize the capital account, by eliminating the key restrictions to capital inflows.
- In addition, transparency and disclosure rules were adopted in key policy areas and the government has set up a medium term target for fiscal policy: Attaining, beginning in 2001, a 1% structural surplus in the Central Government accounts.

Liberalizing the Capital Account

- The one year withholding requirement for foreign investments has been eliminated, and the unremunerated reserve requirement on foreign loans and investment has been reduced from 30% to 0%.
- Chilean companies were authorized to issue bonds denominated in Chilean pesos or in indexed units (UF) abroad. The minimum amount stipulated for bond issues abroad was eliminated and the international risk classifications required were reduced.
- The limits on institutional investment abroad have been gradually eased. Pension funds (AFP) can invest abroad 16% of the fund, and foreign equity investments can represent up to 10% of the fund. Non life insurance companies can invest abroad up to 20% of their asset portfolio and life insurance companies up to 15%.

Transparency and Accountability

☐ Transparency is essential for an autonomous Central Bank to have legitimacy and for assuming the responsibility for its policies.

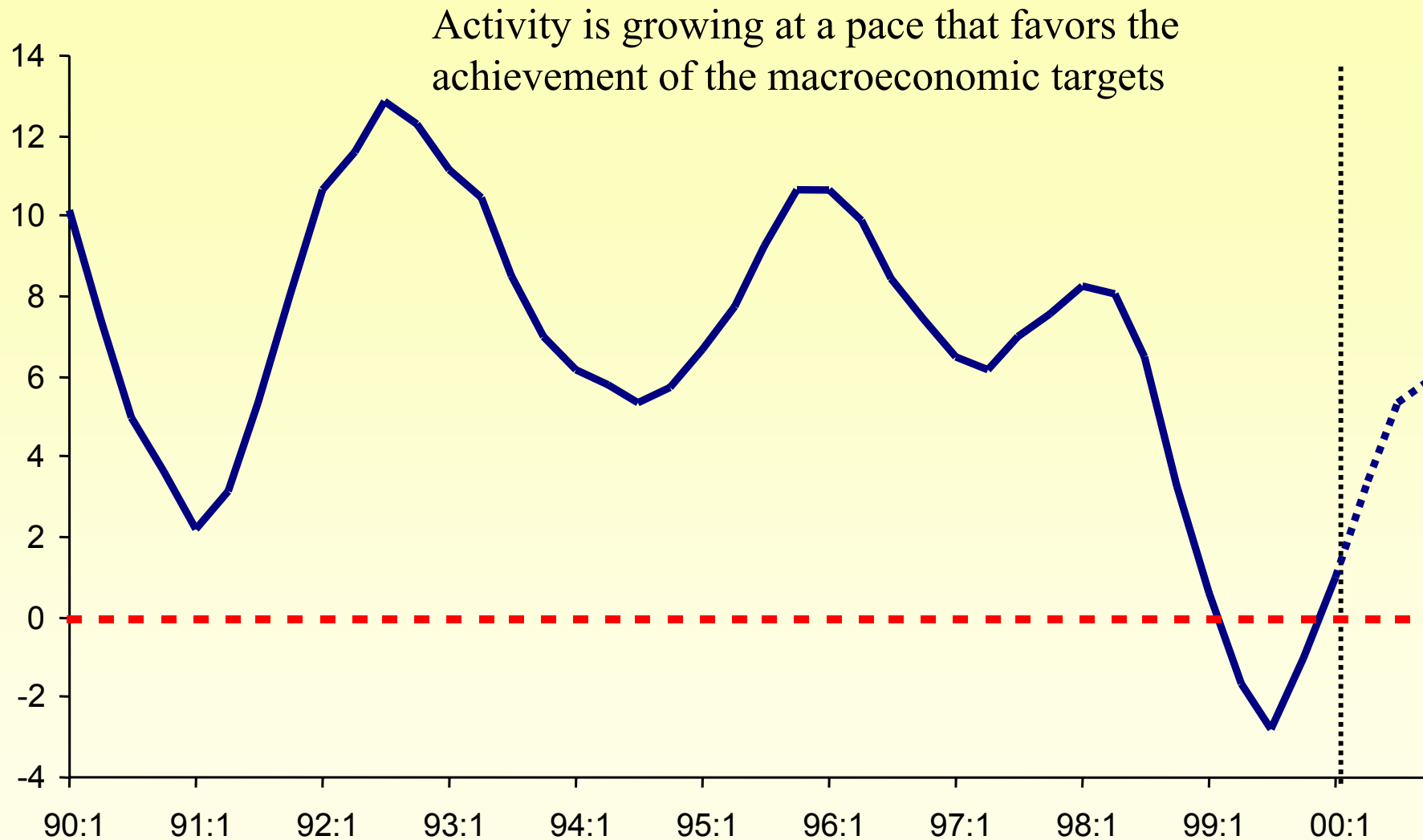
☐ The Minutes of the Monetary Policy Meetings and the Schedule of these Meetings are Public.

☐ A Monetary Policy Report is published three times per year presenting the Central Bank's view on Monetary Policy and the future of inflation for the following 24 months

2000-2001 Macroeconomic Forecasts

	1998	1999	2000	2001
	Forecast			
	<i>(Percentage change)</i>			
1. Gross Domestic Product	3,4	-1,1	5,9	6,2
2. Consumer Price-Index	4,7	2,3	4,2	3,0
3. Current Account Deficit (% GDP)	5,7	0,1	2,0	<3,0
	<i>(US\$ bn)</i>			
4. Current Account Balance	-4,1	-0,1	-1,3	-2,1
	<i>(US\$ cts. /lb)</i>			
5. Copper Price	75,0	71,4	81,0	85,0

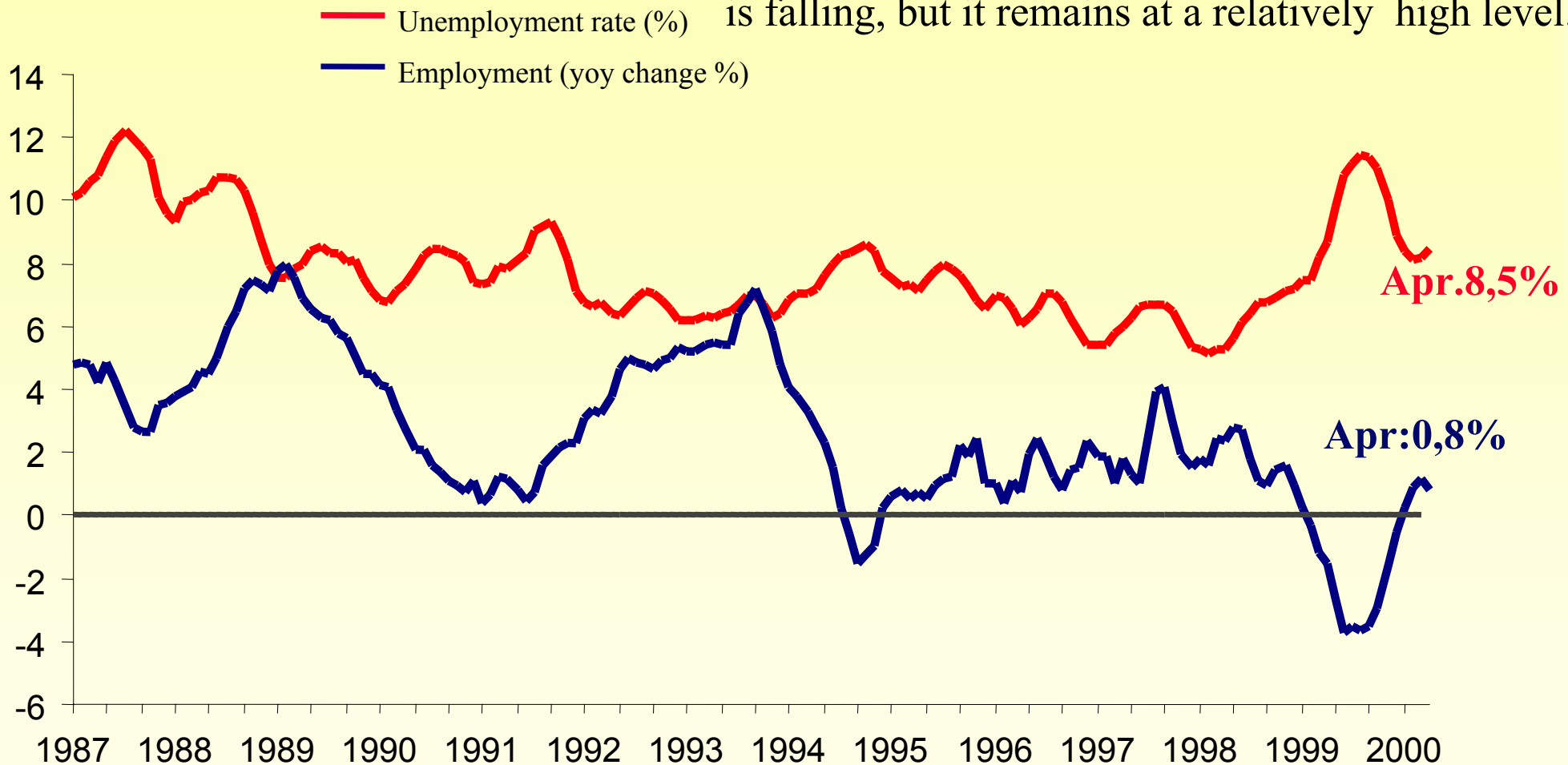
GDP Growth (annual moving average)



Source: Central Bank of Chile

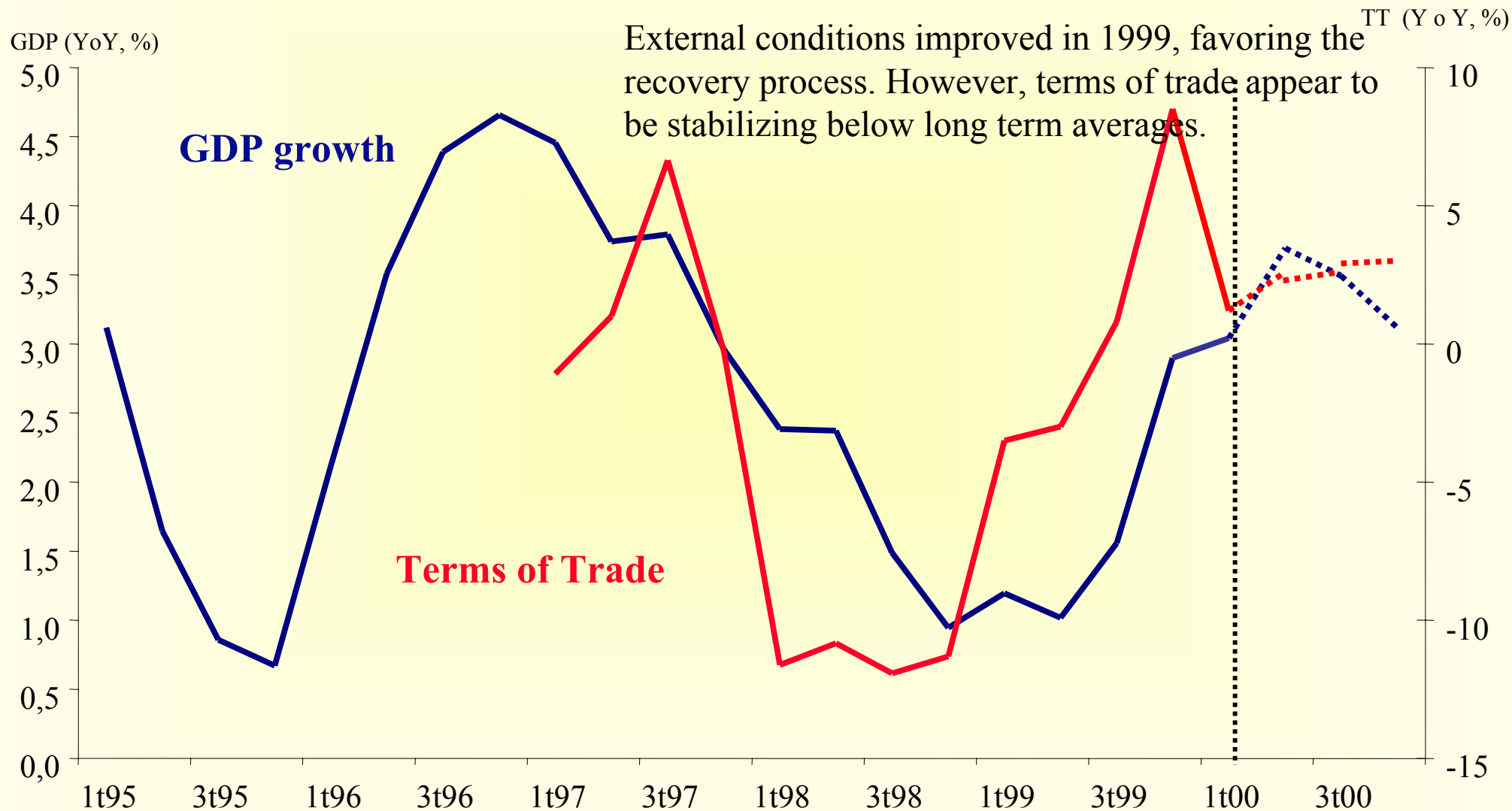
Unemployment Rate and Employment Growth

Employment is expanding and unemployment is falling, but it remains at a relatively high level.

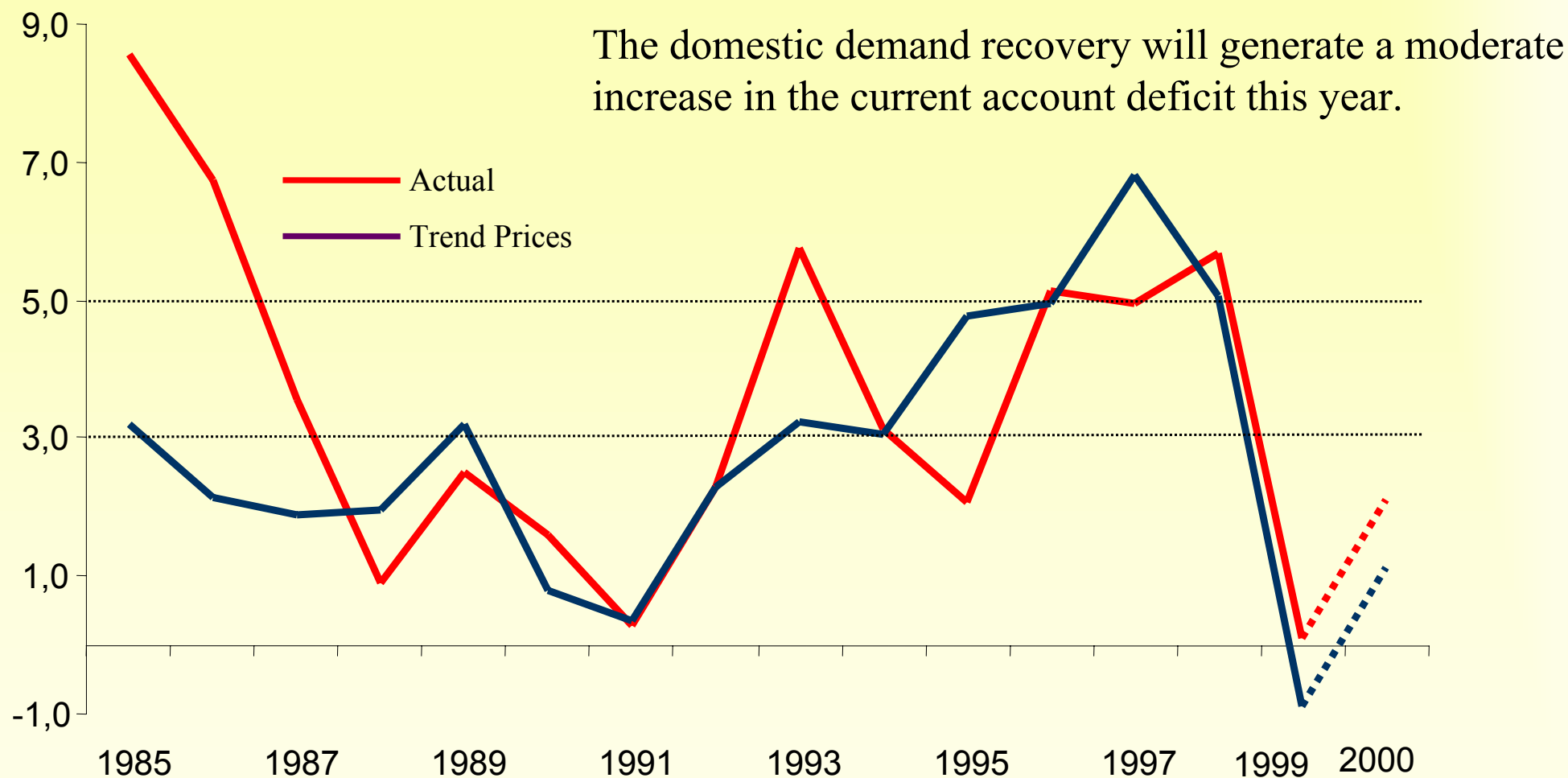


GDP Growth of Main Trading Partners and Terms of Trade

USA, Japan, UK, Germany, Argentina and Brazil.

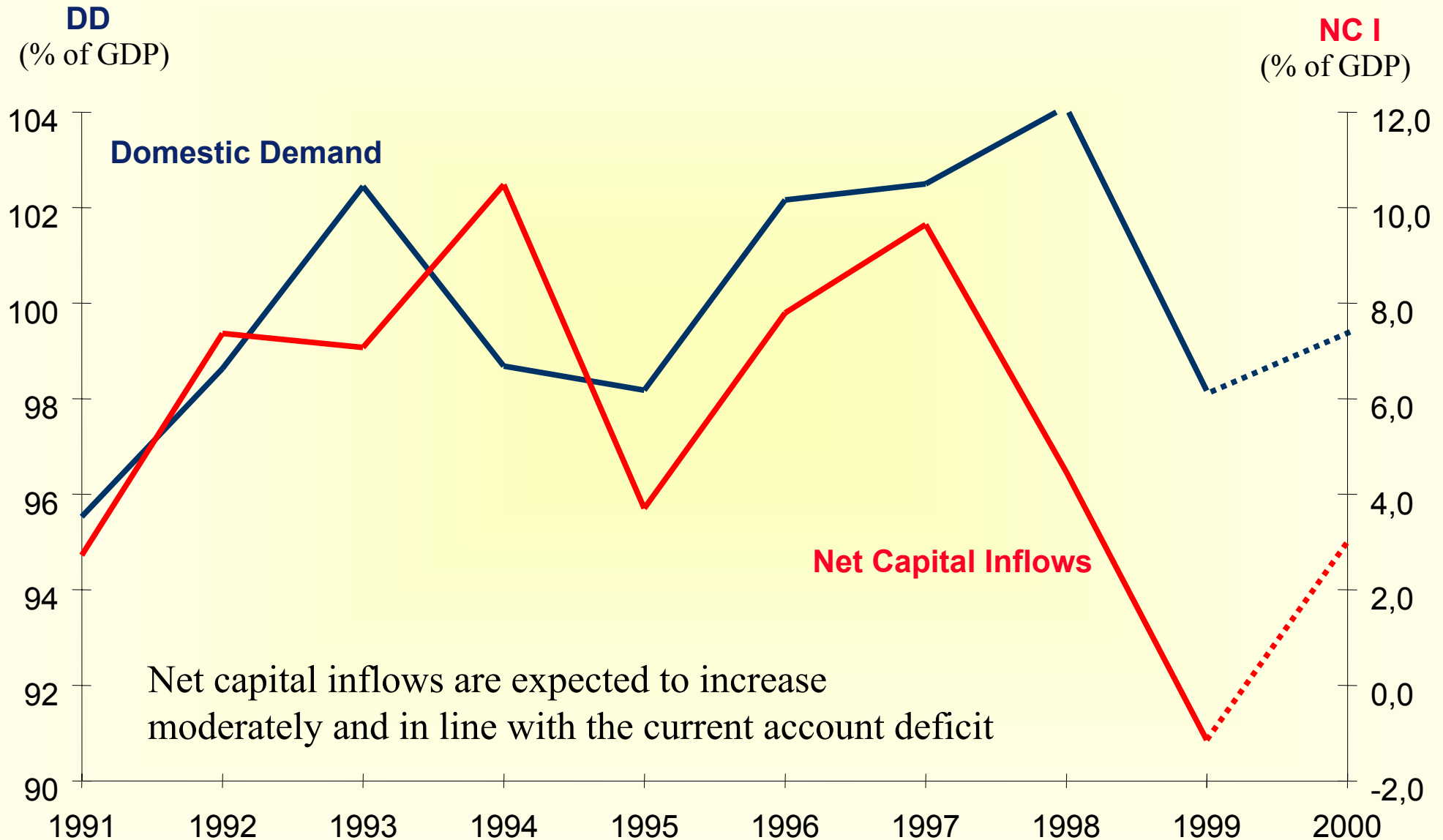


Current Account Deficit (% GDP)



Source: Central Bank of Chile

Chile: Net Capital Flows and Domestic Demand



Financial and External Sector Indicators (2000)

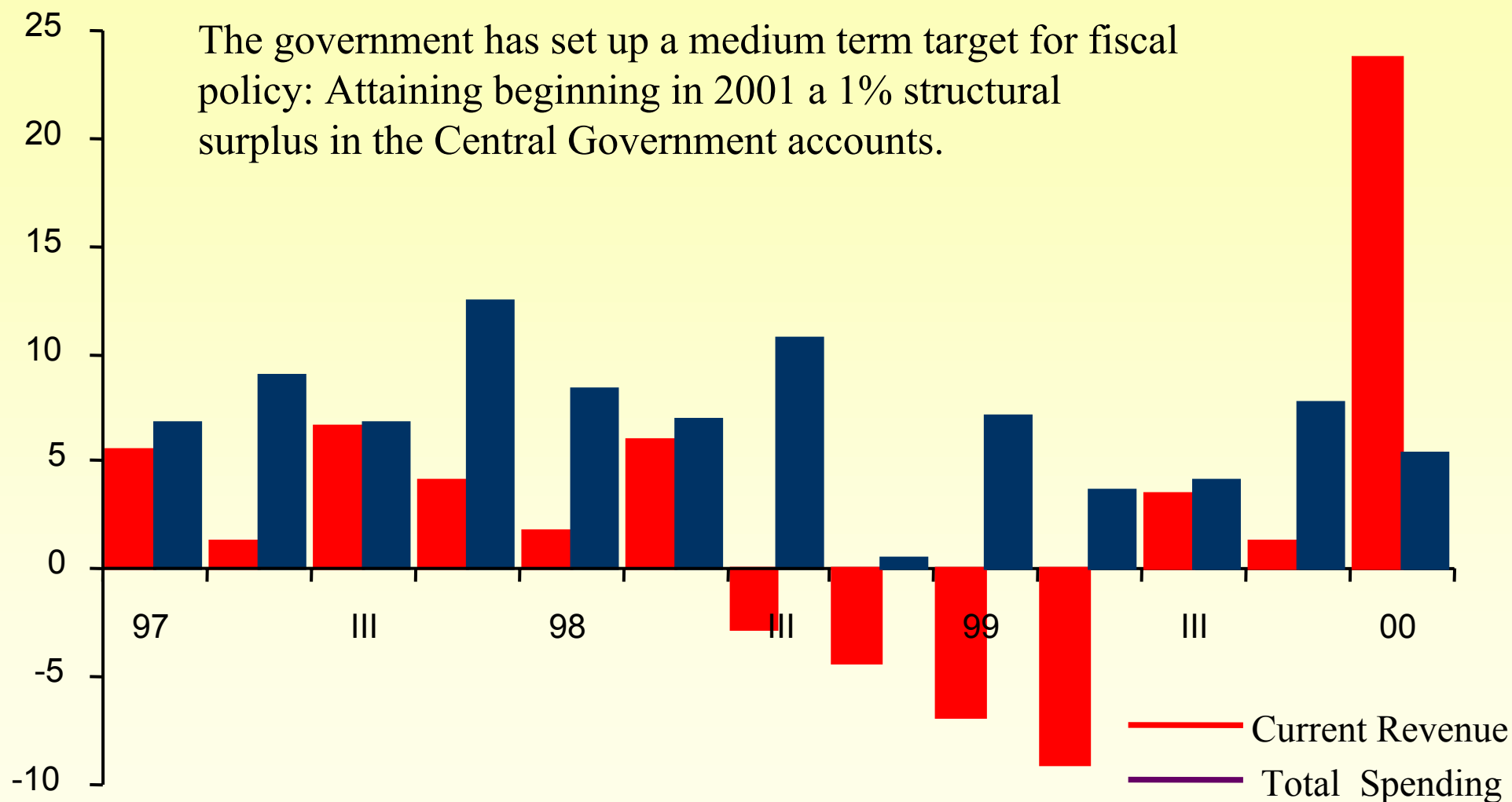
	Non-Performing Loans (*)	External debt	Short Term External Financing Requirements	Net Internat. Reserves
	(% of Total Loans)	(% of Exports)	(% of N. I. Reserves)	(% of M2)
Latin America				
Argentina	14,7	391	99	61,7
Brazil	8,5	337	176	18,1
Chile	1,7	152	34	42,4
Mexico	8,9	91	153	14,9
Asia				
Korea	12,5	69	95	26,0
Philippines	14,5	103	100	30,0
Malaysia	13,0	32	38	37,0
Thailand	47,5	95	61	24,8

Source: JP Morgan, April 14, 2000

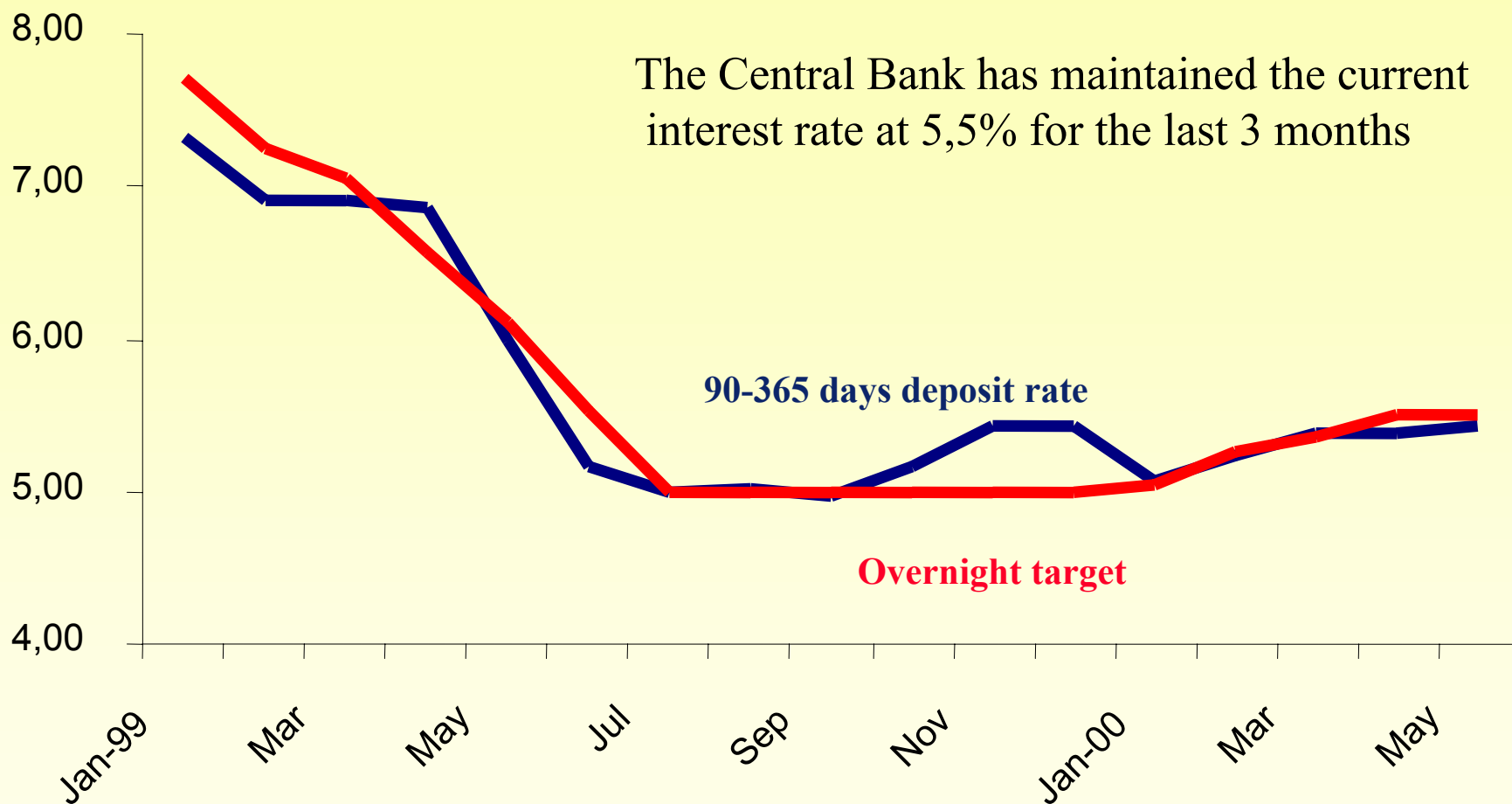
* Not strictly comparable

Fiscal Accounts

(% change yoy)

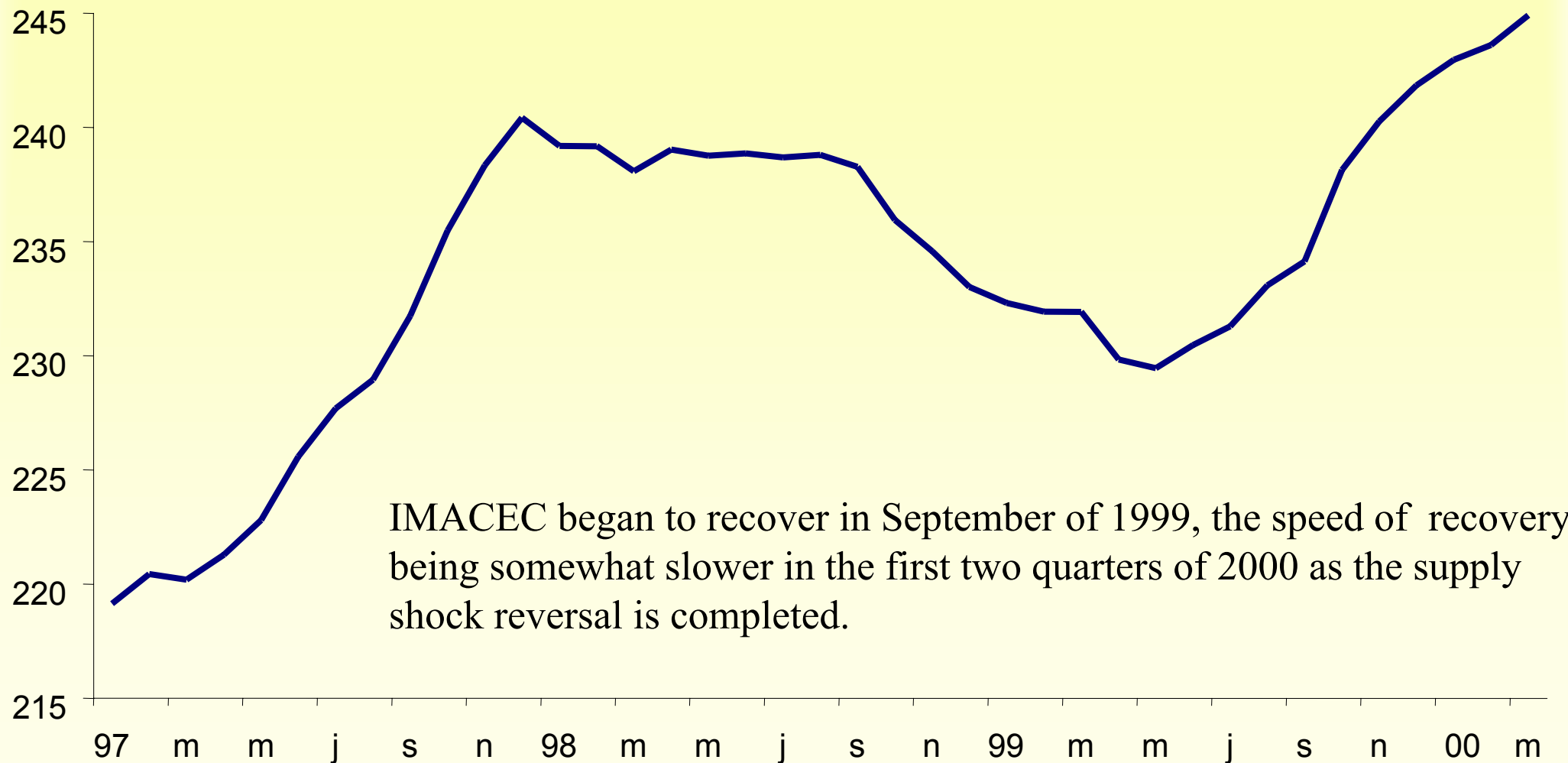


Real Interest Rates, Overnight policy target and 90 - 365 days Deposit Rates (%)



Monthly Economic Activity Index: IMACEC

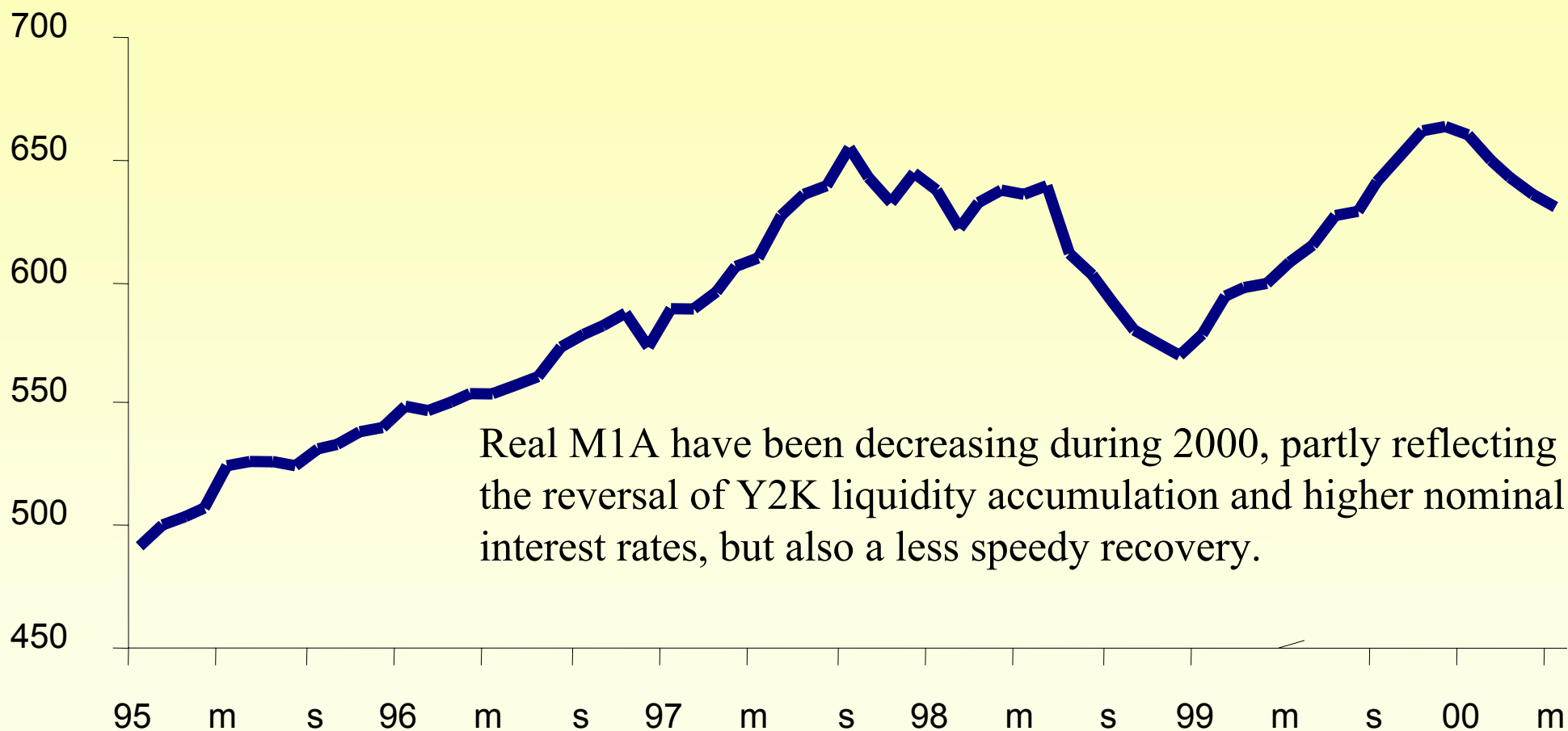
Index 1986=100, quarterly moving average, seasonally adjusted



IMACEC began to recover in September of 1999, the speed of recovery being somewhat slower in the first two quarters of 2000 as the supply shock reversal is completed.

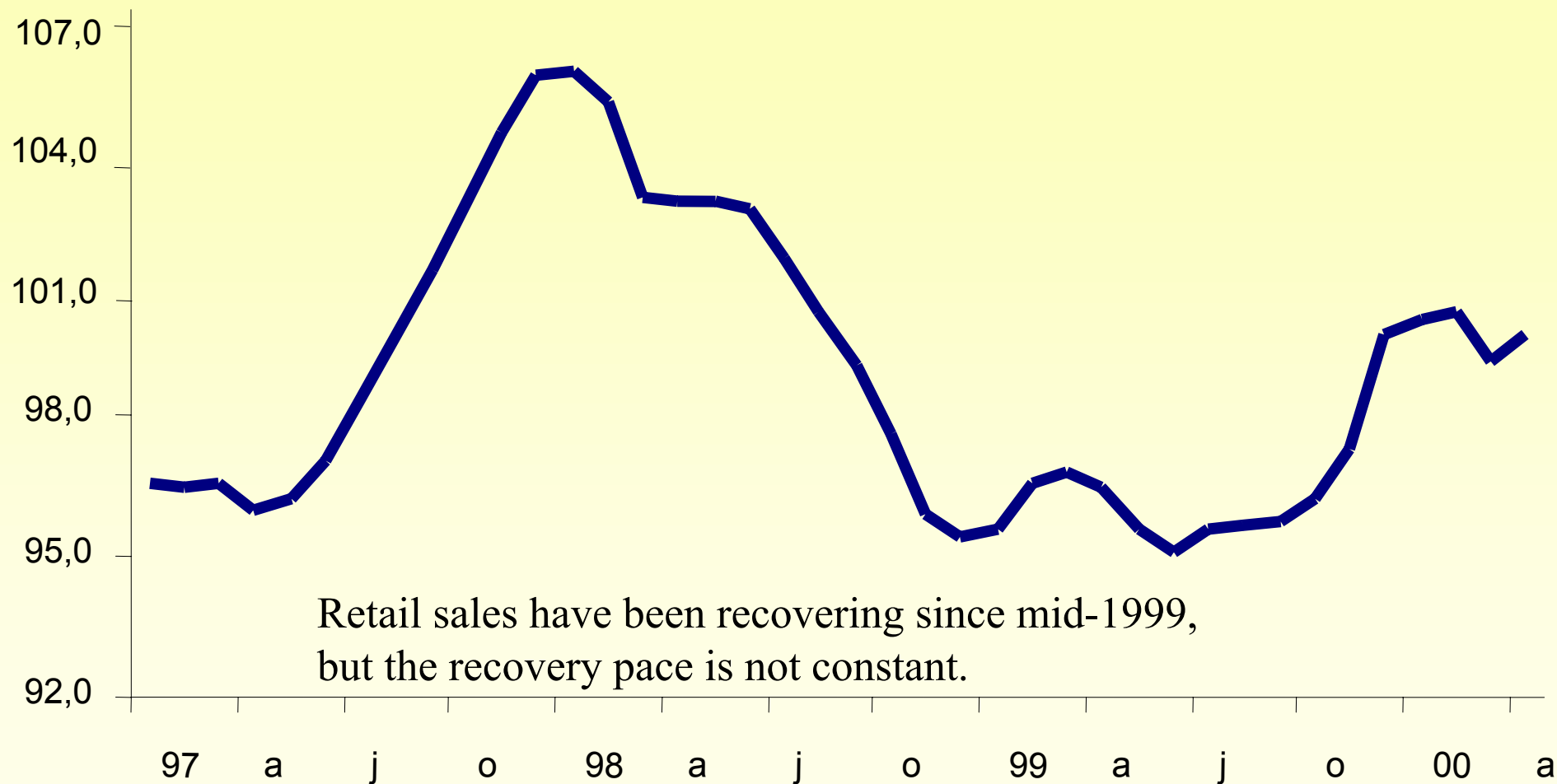
Real M1A

\$bn 1986, quarterly moving average, seasonally adjusted



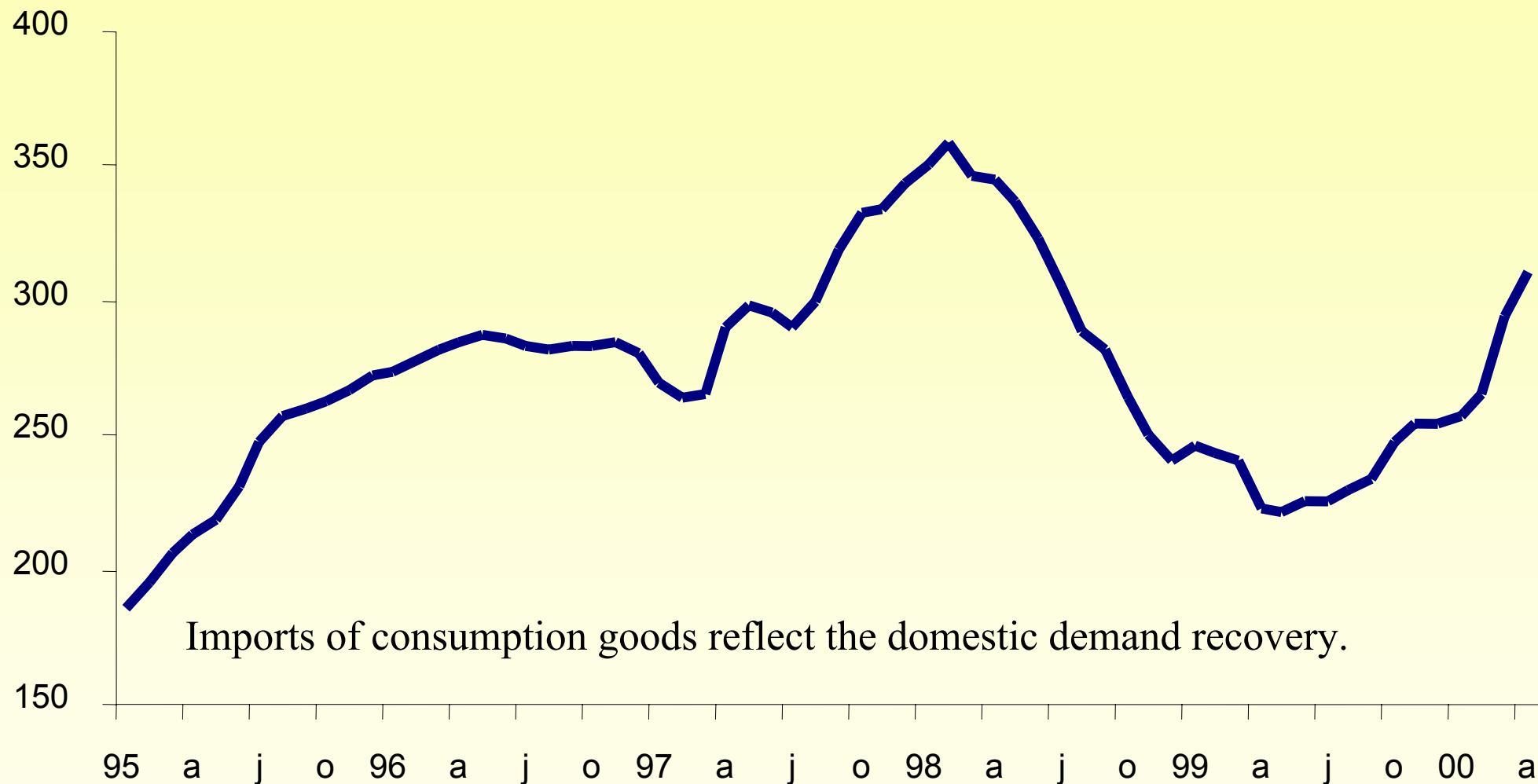
Retail Sales

quarterly moving average, seasonally adjusted



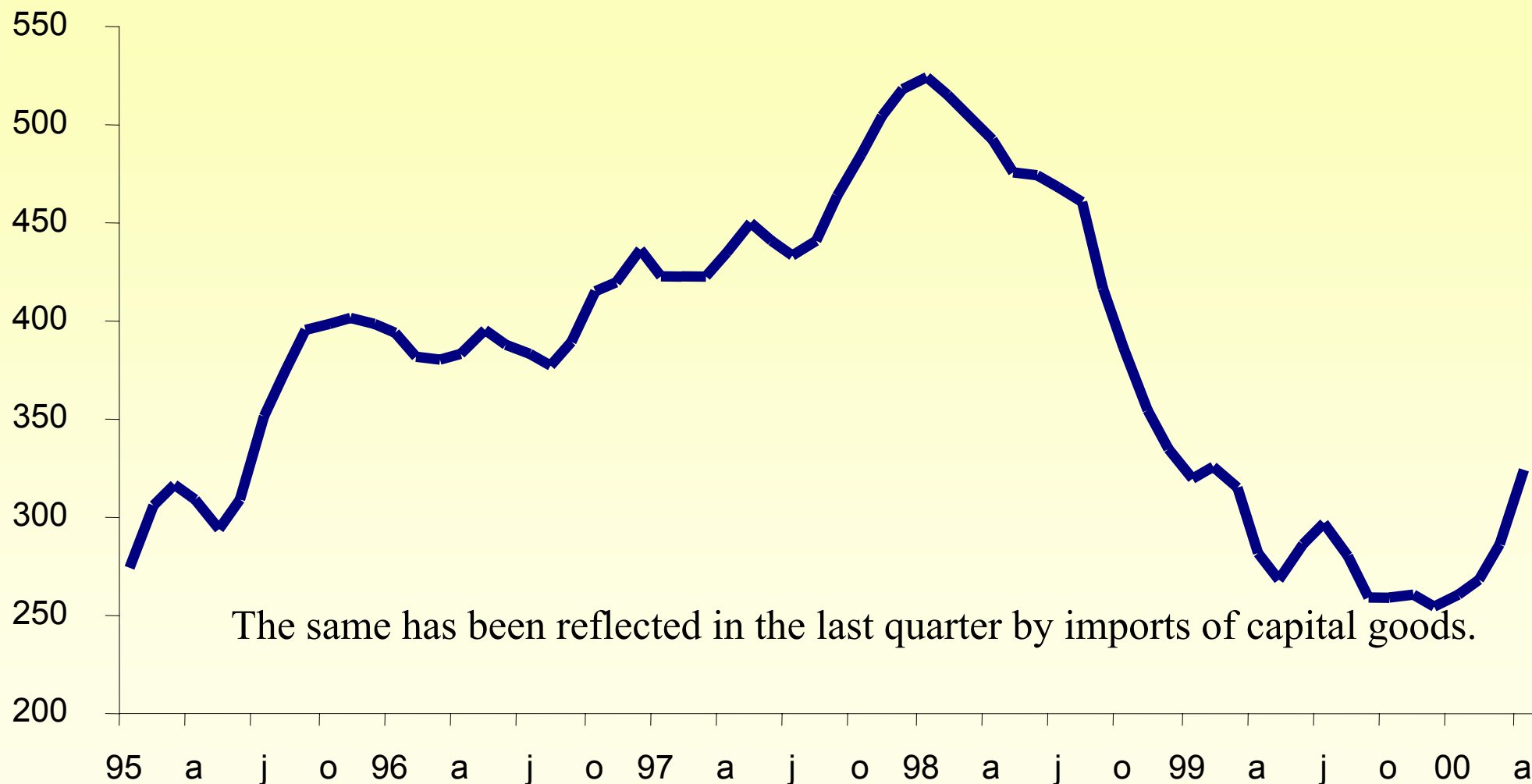
Imports of Consumption Goods

Millions US\$, quarterly moving average, seasonally adjusted



Imports of Capital Goods

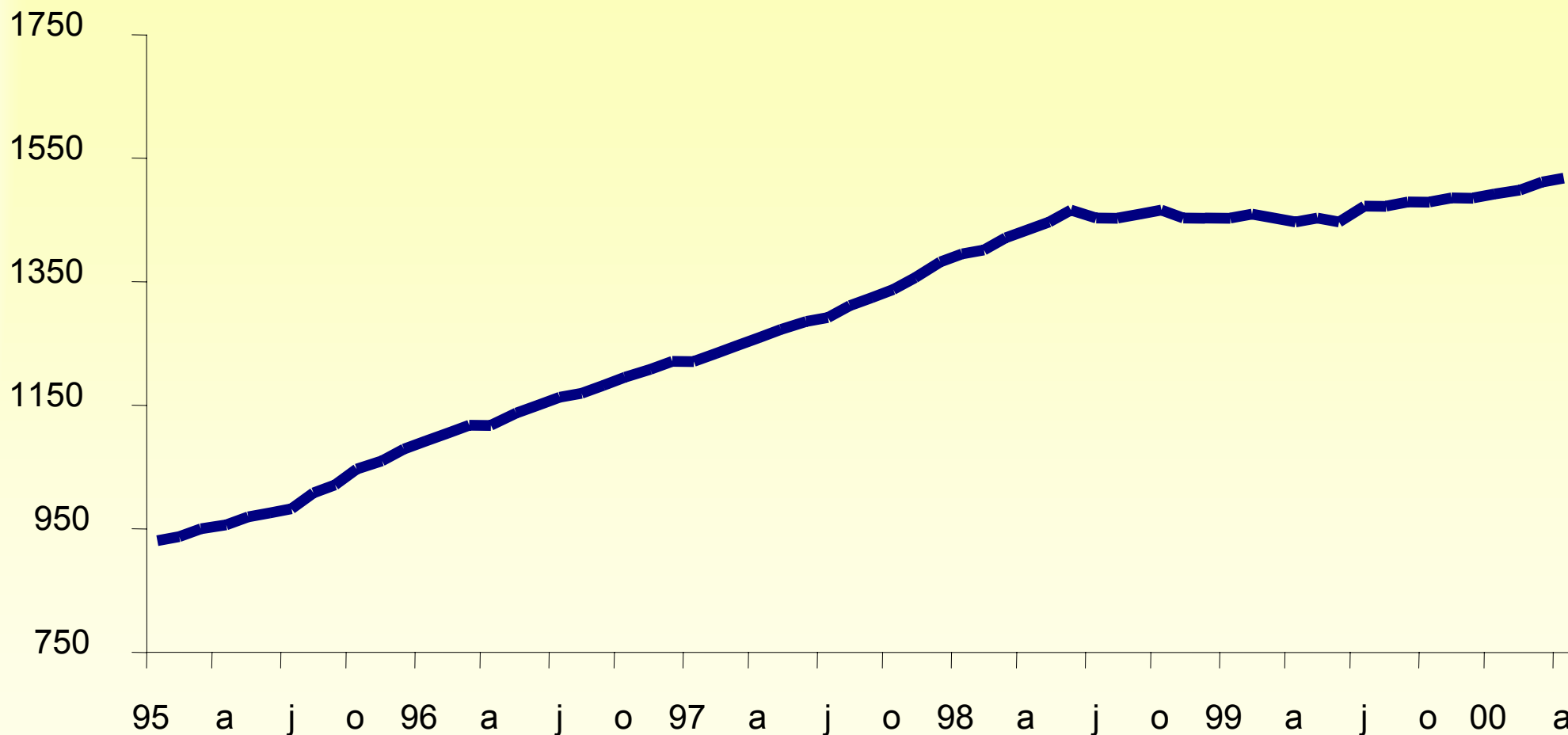
Millions US\$, quarterly moving average, seasonally adjusted



The same has been reflected in the last quarter by imports of capital goods.

Real Bank Loans

Billion of Ch\$ of 1986, quarterly moving average, seasonally adjusted

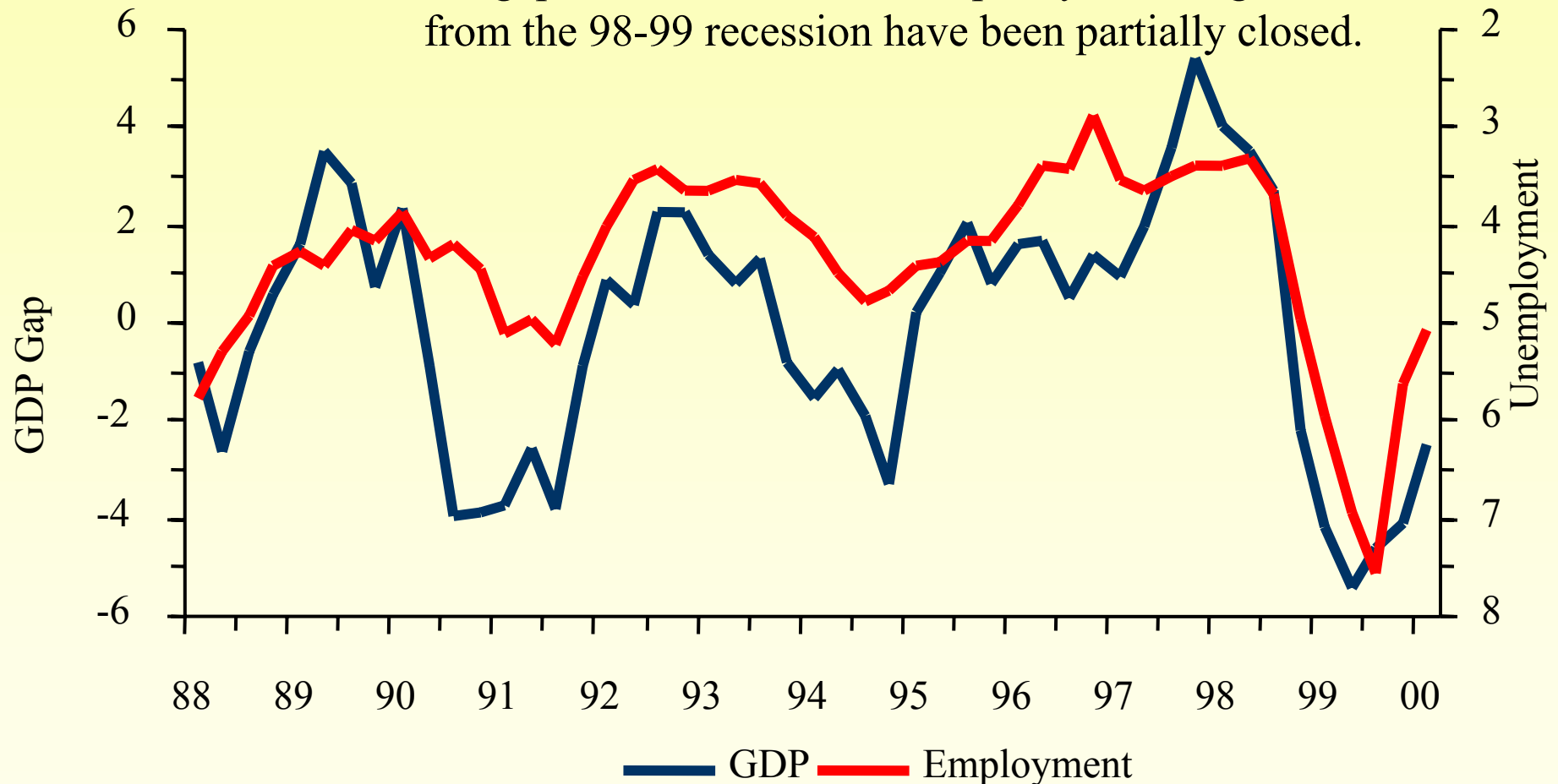


Source: Central Bank of Chile

GDP and Employment Gap

(%, seasonally adjusted)

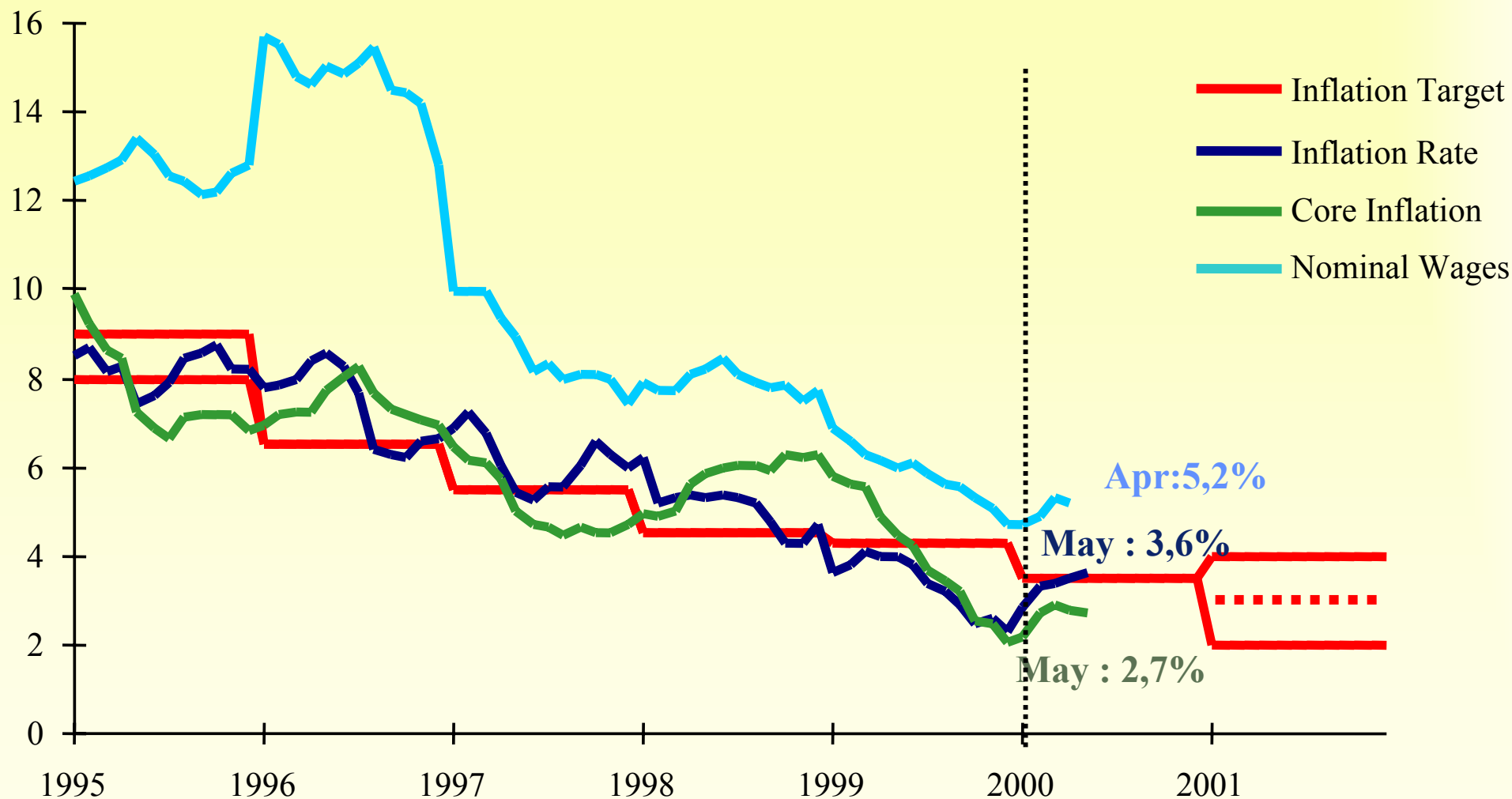
The gaps in terms of unused capacity resulting from the 98-99 recession have been partially closed.



Inflation and Nominal Wages

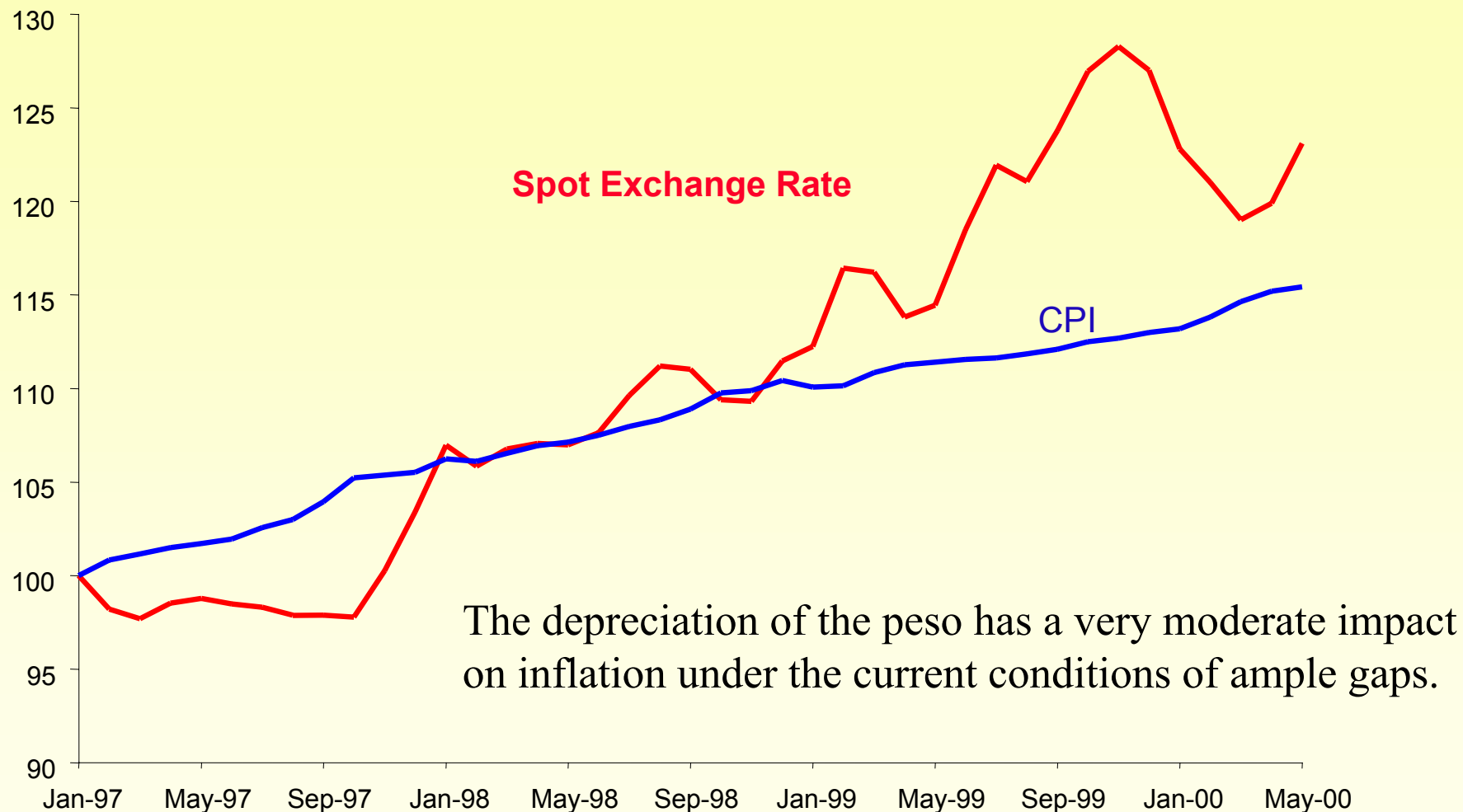
(Year on year change, %)

Inflation has moved to the target rate for 2000.



Pass - Through: Exchange Rate and CPI

(index, january 1997 = 100)



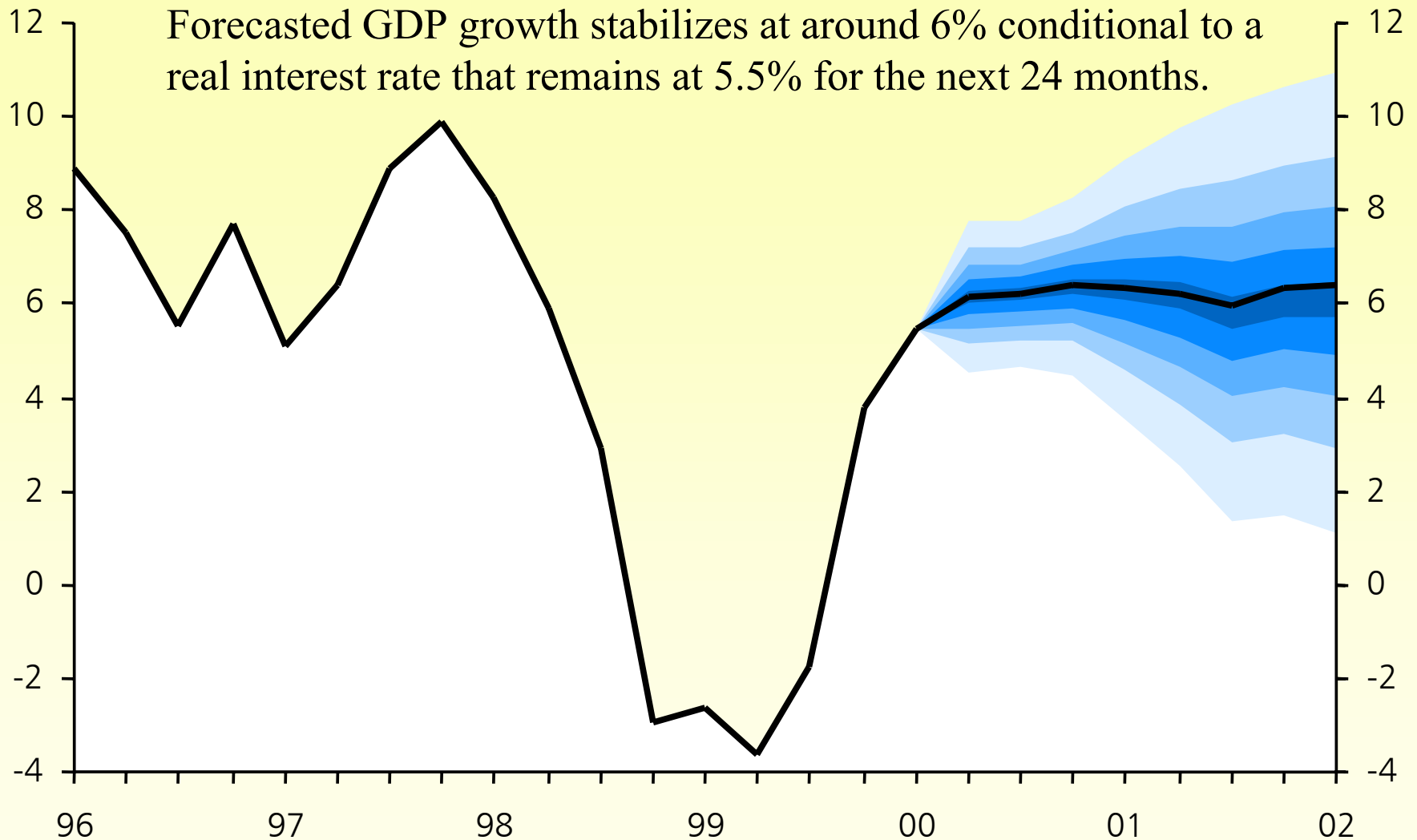
Source: Central Bank of Chile

Market Expectations on UF Interest Rates

June	Spot (15)	Dec.2000	Dec.2001
Overnight Policy Target	5,50	6,00	6,25
PRBC 90 days	5,75	6,10	6,30
PRC 8 years	6,57	6,70	6,60

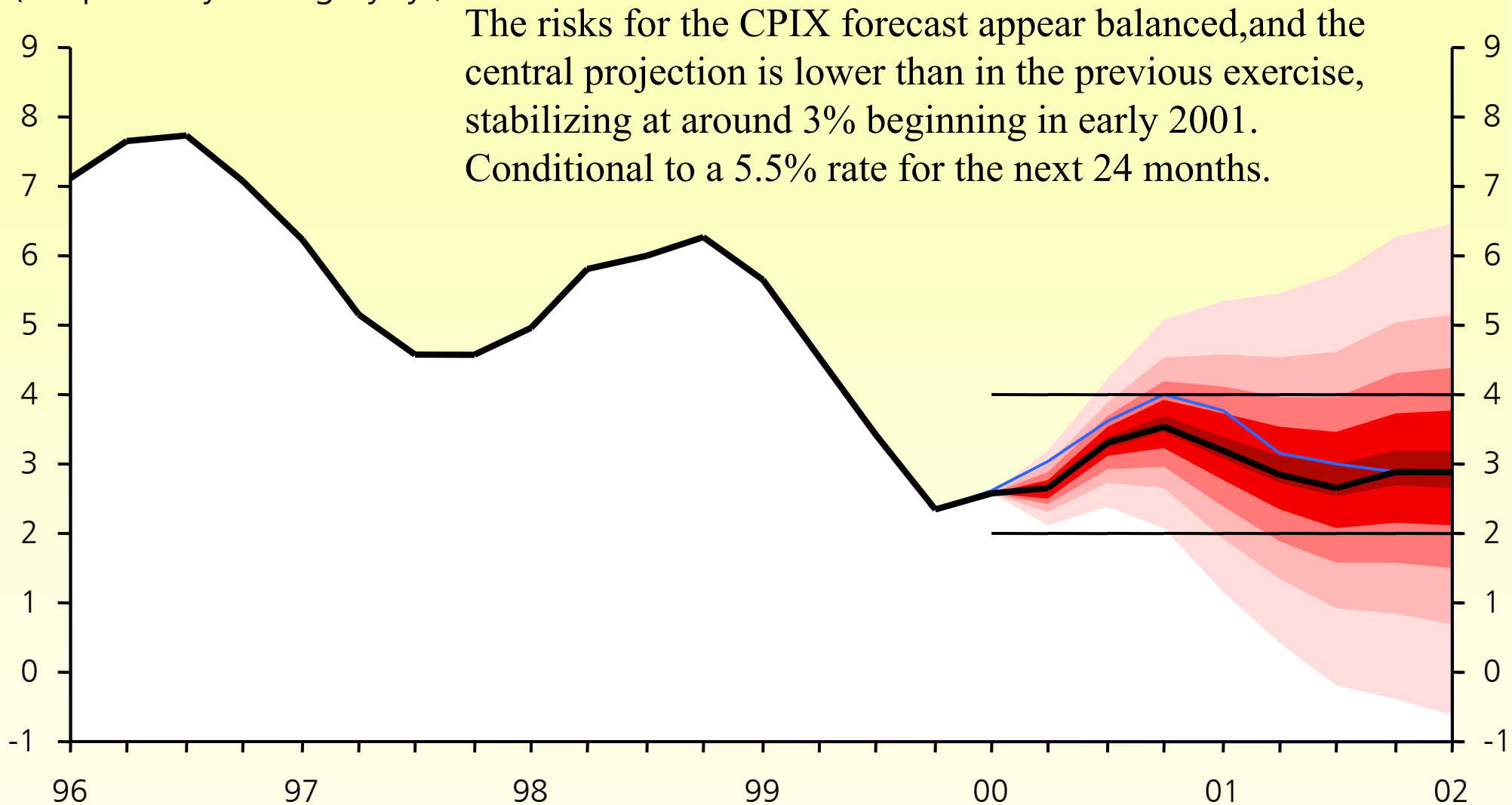
Quarterly GDP Growth Forecast

(% quarterly change yoy)



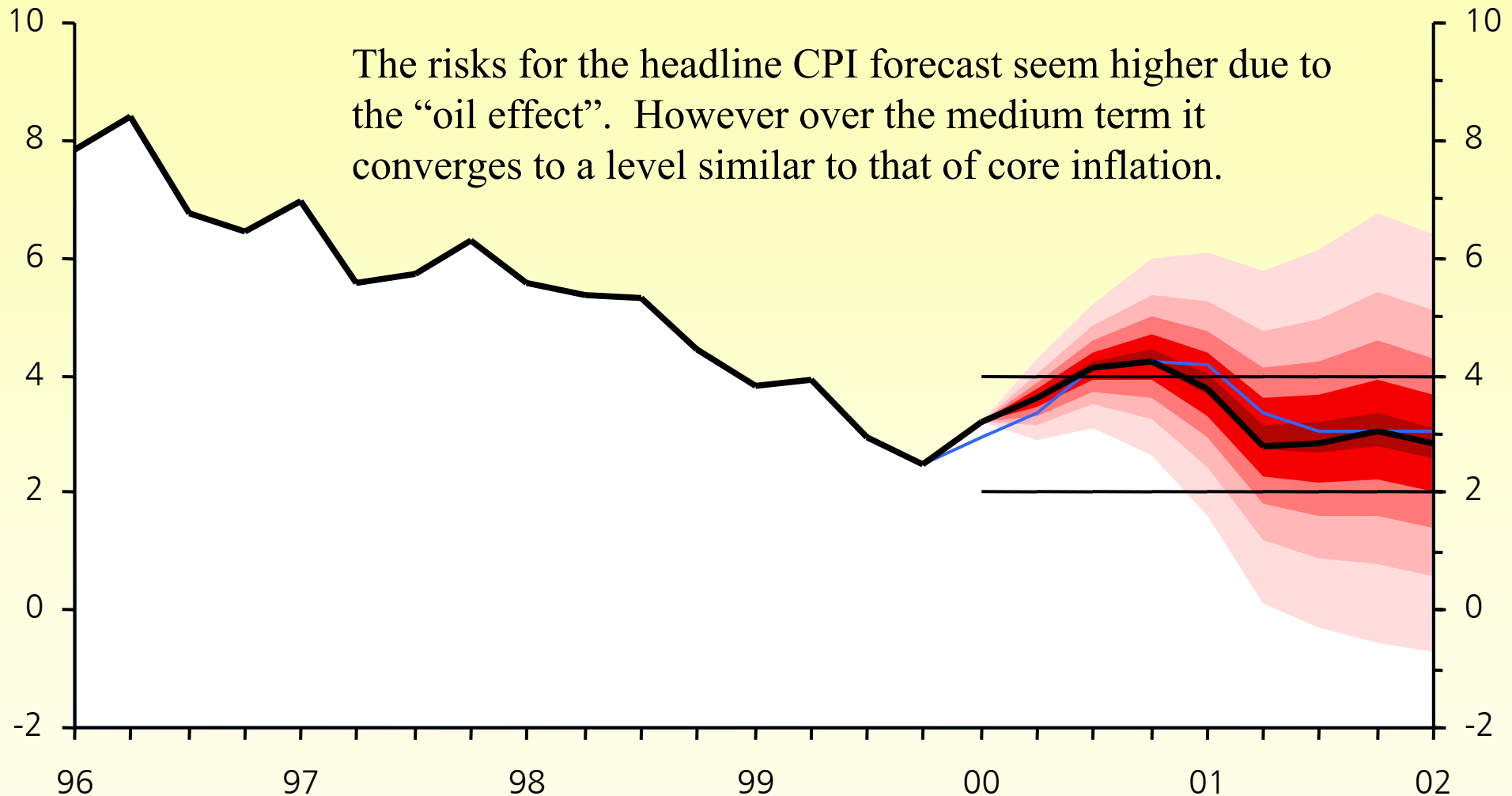
Core Inflation Forecast (CPIX)

(% quarterly change yoy)



Inflation Forecast (CPI)

(% quarterly change yoy)



Concluding Remarks

- Activity and Domestic Demand are growing at a pace that favors the achievement of macroeconomic targets.
- External conditions improved in late 1999, favoring the recovery process. However, terms of trade and capital flows appear to be stabilizing below the long term averages.
- The recovery in domestic demand will generate a moderate increase in the current account deficit this year. Net capital inflows are expected to increase moderately and in line with the current account deficit. In contrast to 1991-97, capital inflows seem to be demand determined these days.
- The gaps in terms of unused capacity and a reduced current account deficit, resulting from the recession, have not been closed.

Concluding Remarks

- A moderate and transitory increase of the headline inflation rate is expected for this year, mainly as a result of the oil shock, but core inflation is expected to remain close to the center of the medium term target (2-4% range) over the next 24 months.
- The depreciation of the peso has a very moderate impact on inflation under the current conditions of ample gaps. The gaps also limit the secondary impact of the higher price of oil on inflation.
- The Central Bank has maintained the current interest rate at 5,5% for the last 3 months, and sees balanced risks in terms of the inflation target for the future 24 months.

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