ANNUAL REPORT

1999

BANCO CENTRAL DE CHILE

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74TH ANNUAL REPORT 1999

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As of December 31st, 1999

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General Auditor

RICARDO VICUÑA POBLETE
Foreign Trade and Trade Policy

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 10th, 2000

Mr. Nicolás Eyzaguirre G.
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 1999.

Yours sincerely,

Carlos Massad A.
Governor

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 10th, 2000

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 1999.

Yours sincerely,

Carlos Massad A.
Governor

I. MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 1999

MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 1999

A. OVERVIEW

Major developments in the Chilean economy in the past two years have been clearly marked by increased spending during the second half of 1997 and the international financial crisis, which was strongest from mid-1998 to mid-1999. Most emerging economies, particularly those of Latin America, experienced the worst of the crisis during 1999 in the form of plunging terms of trade, reduced foreign demand for their products, greater restrictions on foreign credit and enormous outflows of capital from the region.

These factors, combined with a drought during the early months that led to electrical rationing, contributed to a sharp decline in output, significantly higher unemployment and a substantially lower current account deficit that went beyond initial estimates. Similarly, at 2.3% in December, inflation reached its lowest point in the past 60 years, below the target set for the year.

In practical terms, the policy options applied focused on dealing with the extreme emergency triggered by the Asian crisis. In the first place, economic authorities sought to chill spending, which had been growing apace since late 1997, and was clearly unsustainable given the scenario of reduced earnings taking shape in early 1998. Secondly, policies focused on maintaining financial stability. To do so, there was a mild attempt at defending the peso, by holding the line in terms of inflationary expectations (maintaining the nominal anchor), and allowing a gentle, gradual correction to the exchange rate, without risking advances in terms of financial stability and inflation achieved over the past decade. In short, the fundamentals of policy options applied to absorb the effects of the crisis centered on the latent risk of losing the nominal anchor if there were a sudden, significant depreciation in the national currency, along with the potential loss of credibility regarding the Central Bank's policy commitments to macroeconomic stability, in an environmental of global uncertainty.

Once the critical situation of world financial markets was overcome, foreign risk factors gradually decreased throughout 1999, but they continued to dampen world economic activity during this turbulent period. Overall, the world's economy was headed for less growth, in spite of the dynamic performance of the United States (US) and the unexpected recovery of Asian economies, with depressed commodity prices and a Latin America sunk in recession.

Domestically speaking, once the main factors disturbing market stability were brought under control, the Central Bank policies adopted an openly expansionary stance, involving successive reductions throughout the year in the monetary policy rate, which by June 1999 reached its lowest point in the decade. Similarly, the greater stability of domestic and foreign financial markets, improved possibilities for portfolio diversification, and the existence of more and better mechanisms for covering exchange rate risk and controlling inflation created the conditions necessary to gradually relax controls limiting exchange rate fluctuations. Finally, in early September, the Central Bank suspended its formal commitment to participating in the foreign exchange market to defend the exchange rate bands.

Policies applied by the monetary authority during the year, combined with a more expansionary stance on the part of government expressed in its offering special employment programs, tax incentives to encourage home buying and acceptance of a larger deficit, were all intended to strengthen recovery and consolidate economic growth while keeping inflation down and balancing external accounts.

In terms of results, throughout the year the outlook for the economy improved steadily: as the international scenario began to recover the terms of trade gradually improved, stimulating activity. In fact, by year's end international prices for Chile's main products had risen well above levels expected in late 1998. This improvement beyond expectations in conditions abroad was the result of the limited impact of the devaluation of the Brazilian real on other economies in the region in early 1999 combined with the recovery expected in the Asian economies. This all contributed to greater than expected growth in the world economy, which reached 3.3% during 1999. This in turn led to faster growth in foreign demand for Chilean exports, a significant decline in the premium on Chile's sovereign debt on international financial markets and the gradual return of foreign capital to the region. Similarly, in 1999, Chile's risk rating held steady at A- (Standard & Poor's), as it had throughout the international financial crisis, which meant that Chile continued to be the top-rated country in Latin America during this period. This, along with the solidity and stability of the domestic financial system, have ensured that the Chilean economy enjoys a privileged position in the world financial scenario.

Changing conditions abroad and the impact of domestic policies moved the Chilean economy into a recovery phase during the second half of 1999. Similarly, inflation fell significantly during the year, the direct result of the recession that affected the Chilean economy from the last quarter of 1998 on and lower inflation observed on foreign markets during the same period. As a result, underlying inflation, which excludes the direct impact of perishables and fuel prices, reached 2.1% as of December.

1999 figures for inflation indicate that, like the world's main industrialized economies, Chile can look forward to low, stable inflation in the future. This means that the Central Bank's inflation containment program, applied during its years of autonomy, will now move into a new phase. In effect, when the Central Bank made its report to the Senate in September, it underlined the need to advance toward consolidating a new approach to inflation targeting over a longer horizon than one year, combined with adopting a range within which inflation should move starting at the end of 2000 (2-4%, centering on 3%).

The purpose of this significant change in approach is, firstly, to underline the Central Bank's permanent commitment to price stability. Secondly, this shift in the inflation targeting approach will allow authorities more flexibility in responding to domestic or foreign events, which are highly likely to occur and which affect short-term inflation, but don't influence medium- and long-term trends. Thirdly, a longer horizon also makes it easier to allow for the typical delays in monetary policy impacts on price trends and moderate their impacts on activity. Finally, this new inflation targeting approach is consistent with a more flexible approach to foreign exchange.

In terms of economic activity in 1999, Gross Domestic Product (GDP) was down by 1.1%, while the Monthly Index of Economic Activity (IMACEC), calculated at factor cost, rose slightly (0.5%). Toward the end of the second quarter activity recovered slowly, ending the year with expansion during the fourth quarter. Meanwhile, domestic demand for the year fell 9.9%, although it tended to recover as the year progressed, but more slowly than GDP. Among the components most affected by the fall in domestic demand were gross fixed capital formation and private consumption, while exports of goods and services were the only factor stimulating activity, driven by copper exports. In contrast, imports remained pretty depressed throughout the year, with this tendency shifting only during the last month.

Economic slowdown also brought higher unemployment, which peaked in August and then fell slowly as recovery grew stronger, to end the year with national unemployment at 8.9%.

Regarding external accounts, the current account deficit in the balance of payments fell significantly during the year, mainly due to the turnaround in the trade balance, the result of the sustained fall in imports and an increase in export volumes. Overall, the current account deficit in 1999 fell to 0.1% of GDP, down from 5.7% the previous year.

In 1999, local capital and financial markets continued to integrate with markets worldwide. In this area, the Central Bank took the measures necessary to make it easier to diversify banks' and institutional investors' investment portfolios. It also increased the range of banking operations that can be carried out abroad and raised limits on private pension fund administrators' and insurance companies' investment abroad, within the limited defined by law.

B. INFLATION AND WAGES

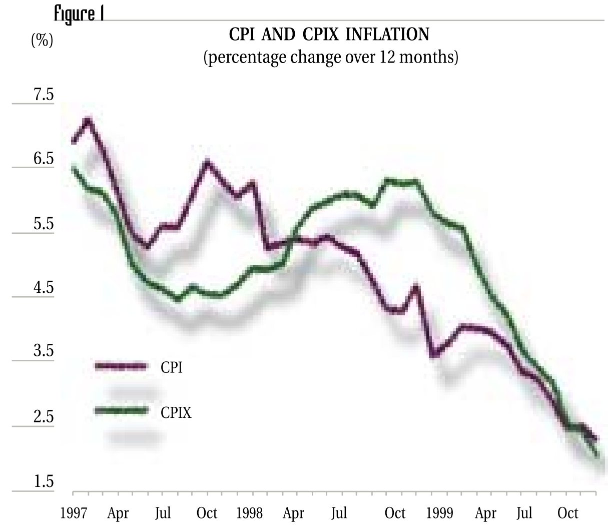
B.1 Inflation

Throughout 1999, inflation fell steadily, ending the year below the target established in September 1998, although it was in line with the revised estimate announced in September 1999. Below-target inflation was due primarily to the slow-down in the growth of *non-tradable* prices. The performance of *tradable* goods also contributed, as prices rose more slowly during the year, in spite of nominal depreciation of the peso and shocks from the rising international price of oil. The behavior of both *tradables* and *non-tradables* was primarily the result of prevailing economic conditions.

Depressed domestic demand was a particularly significant factor and was apparent throughout the year in falling consumption, which only showed signs of recovery during the fourth quarter. This

Figure 1

CPI AND CPIX INFLATION
(percentage change over 12 months)



Source: National Statistics Bureau.

significantly affected the prices of *non-tradable* goods and services, as well as helping to limit the transfer of exchange-rate depreciation to *tradable* prices. Lower import prices also contributed to the latter, particularly those for durable consumer goods, which reflected economic conditions prevailing abroad throughout the year. In contrast, rising oil prices on foreign markets pressure domestic prices upward. On the domestic market, fuel prices rose steadily during the first half, although the Oil Price Stabilization Fund compensated for this somewhat during the second half. Perishable prices, which in previous years had pressured inflation, had a more or less neutral effect on prices in 1999.

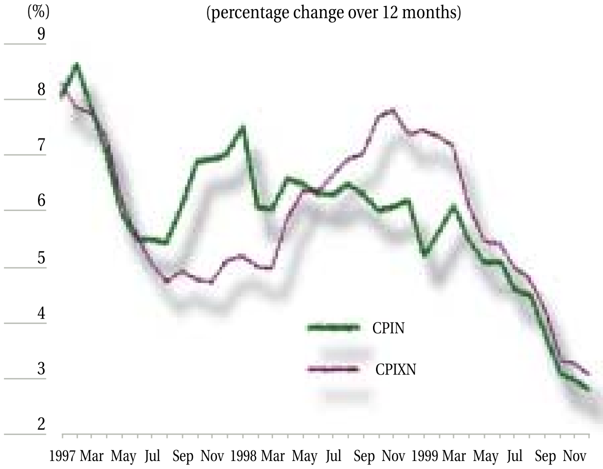
Thus, by December 1999 inflation as measured by the Consumer Price Index (CPI) had risen 2.3% for the year, while underlying inflation, which excludes the direct impact of fruit, vegetable and fuel prices on CPI, rose 2.1% for the year. This closed the gap between the CPI and underlying inflation, which was 1.6% at the end of 1998 (Figure 1).

Lower underlying inflation was apparent in both non-tradable goods and services and importable goods prices. By year's end, the non-tradable component of inflation had risen 2.8% for the year, over four percentage points less than in December 1998 (Figure 2). Similarly, the tradable index, which excludes similar product categories, closed the year up 0.9%, over three percentage points less than at the end of 1998 (Figure 3).

Another significant factor contributing to the lower inflation was the slowdown in the price of services in 1999. This trend was particularly marked in the professional services sector, although the trend toward lower inflation was shared by *health*, *education*, *recreation* and *housing.* Lower inflation for tradable goods was particularly influenced by lower prices for durables, particularly *clothing* and *electronic appliances*. This contrasted with pressure from the higher costs of imported goods due to peso depreciation, which was cushioned by the drop in dollar prices for same, particularly those from Asia,

Figure 2

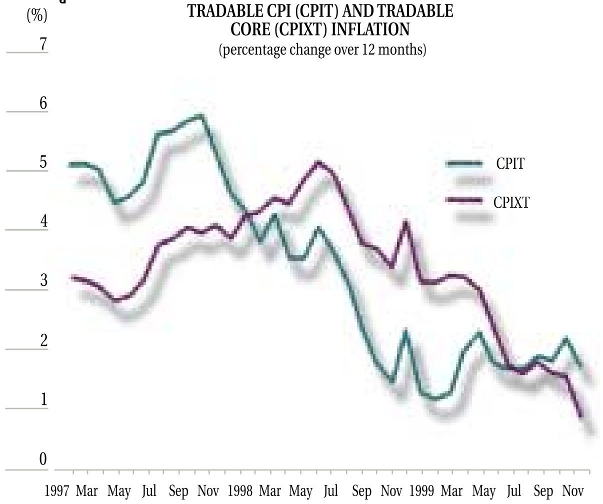
NON-TRADABLE CPI (CPIN) AND NON -TRADABLE CORE (CPIXN) INFLATION
(percentage change over 12 months)



Source: National Statistics Bureau and Central Bank of Chile.

Figure 3

TRADABLE CPI (CPIT) AND TRADABLE CORE (CPIXT) INFLATION
(percentage change over 12 months)



Source: National Statistics Bureau and Central Bank of Chile.

and slower growth in sales margins, the result, in part, of lower domestic demand. In addition, the durable consumer goods and food markets became more competitive, as significant investment in commerce saw new chains start up in conditions unfavorable to retail sales. Overall, shrinking domestic demand was the main reason for the pronounced decline in inflation during 1999.

Unlike the CPI, Wholesale Price Index (WPI) growth accelerated significantly in 1999, increasing 13.5%, far more than 1998, when it rose 0.3%. This behavior affected the WPI for both *domestic products* and *imports*, which rose 11.4% and 20.4% respectively by year's end. Prices increased the most in the *mining* sector, particularly copper and oil (Figure 4, Tables 1 and 2).

Figure 4

CPI AND WHOLSALE PRICE INDEX (WPI)
(percentage change over 12 months)

Source: National Statistics Bureau.

B.2 Wages

In 1999, nominal wages as measured by the *Hourly Wage Index* and the *Labor Cost Index* rose 4.7% by year's end as they adjusted to slower growth. This was considerably less than in 1998, when both reached almost 8%, with the higher availability of labor and below-target inflation being the main contributing factors.

Real wages rose more than productivity in 1999. According to available data, both CPI-deflated hourly wages and labor costs rose 2.4% for the year, somewhat less than in 1998. Data from reports to the Labor Bureau on real increases resulting from collective bargaining indicate that during 1999 both indicators performed similarly, as did quarterly increases throughout the year, except for the last quarter, rising an average of 0.6% by the end of 1999 (Tables 3, 4 and 5).

C. WORLD ECONOMY: RECENT DEVELOPMENTS

C.1 Growth in the World's Economy

The world's economy grew 3.4% in 1999, up from slightly over 2% in 1998. Stronger growth was led by recovery in Japan and the emerging Asian countries and sustained growth in the US. Latin America grew slightly during the year, while the European economy slowed.

Table A: WORLD GROWTH (%)

	Average 1990-1998	1998	1999 (f)
World (1)	3.4	2.3	3.4
United States	2.5	3.9	4.1
Europe	1.9	2.6	2.1
Japan	1.8	-2.8	0.3
Rest of Asia (2)	8.2	2.2	6.0
Latin America (3)	3.1	1.9	0.1
Trading Partners (4)	3.0	1.8	2.2

(1) Regional growth weighted according to share of World GDP as measured in 1998 Purchasing Power Parities (PPP).
(2) China, Indonesia, Malaysia, Thailand, Singapore, Korea, Philippines, Taiwan and Hong Kong.
(3) Brazil, Argentina, Mexico, Colombia, Uruguay, Venezuela, Ecuador, Paraguay, Bolivia and Peru.
(4) Growth of Chile's main trading partners weighted according to share of total exports.
(f) Estimates.
Sources: IMF.
Consensus Forecasts.
Central Bank of Chile.

The demand for Chilean exports improved over the previous year, while demand among Chile's main trading partners, weighted according to their share of Chilean exports, rose from 1.8% to an estimated 2.2% in 1999.

In the United States, GDP grew 4.1%, led by domestic demand, which compensated for the decline in net exports. The Federal Reserve's ongoing cuts to the policy interest rate during the fourth quarter of 1998, designed to counteract the negative impacts of the Asian crisis on financial markets and collapse in Russia, worked as hoped. With the recovery in Asia, in 1999 the Fed reversed these cuts, bringing its policy rate back up to pre-crisis levels. However, higher interest rates haven't slowed economic activity.

Japan's economy recovered slightly in 1999, with GDP rising from –2.8% in 1998 to 0.3% in 1999. This recovery was mainly the result of a hefty increase in public investment and moderate growth in private consumption, with private investment remaining weak. The net external sector was affected by other Asian economies during the first half of 1999 and the increasingly strong Yen, which had a negative impact on growth.

Euro area countries began to recover during the third quarter. After growing less than 2% during the first half, the result of the external sector's poor performance, by the third quarter annual GDP had reached 2.3%. Gross investment led recovery, helped along by growing exports.

Southeast Asian economies enjoyed stable foreign exchange and financial markets, reflected in the value of their currency and low interest rates. Exports performed well too, aided by competitive exchange rates and the economic recovery of their main trading partners. These results were primarily the result of the timely application of adjustment measures to shore up weak financial systems and reduce the current account deficits that appeared in late 1997. As markets stabilized, expansive monetary policies were applied to stimulate depressed economies.

Latin America showed virtually zero growth during the year, due to cuts to capital inflows and falling international prices for commodities, a trend that began in the second half of 1998 and deepened in early 1999 with the devaluation of the Brazilian real.

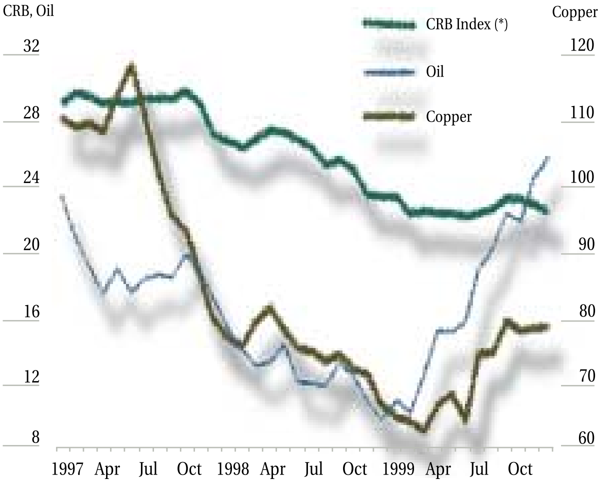
However, from the second half onward, the outlook for the region's economies and finances began to improve, a shift that was reflected in stable exchange rates, lower interest and the gradual return of capital to the region.

C.2 International Prices

Renewed growth in the world's economy helped to push commodity prices up in 1999. From mid-year onward, the price of copper in real terms slowly recovered, after reaching its lowest level (63.8 cents/pound) since the Depression during the first quarter. Toward year's end, the price reached almost 80 cents per pound, bringing the annual average to 71 cents per pound (Figure 5).

Figure 5

COMMODITY PRICES



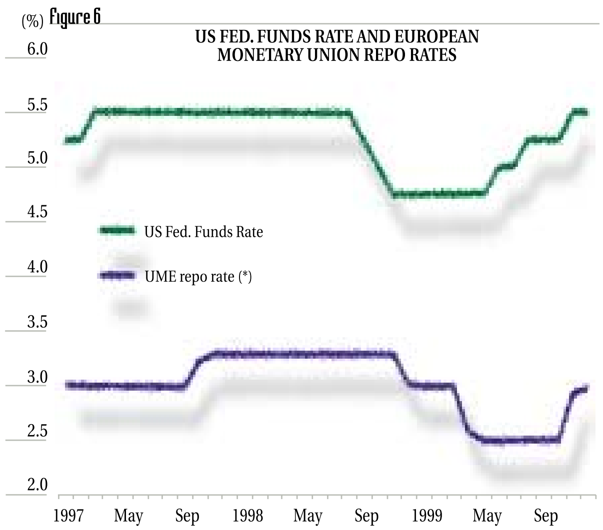
(*) Price index published by the Commodity Research Bureau. Copper price for the london metal Exchange.
Source: Bloomberg..

The price of oil also rose significantly during 1999, after dropping steadily in 1998. Thus in December Brent oil was averaging US$25/barrel, compared to just US$10/barrel one year earlier. This increase confirmed the success of production cuts adopted by Oil Producing and Exporting Countries (OPEC), aimed precisely at reversing the low prices of previous years.

World inflation as measured in local currencies fell from an average 5% in 1998 to 3.3% in 1999, primarily because of lower prices in Japan and stabilization of exchange markets in the rest of Asia, which was reflected in appreciation of the region's currencies.

Figure 6

US FED. FUNDS RATE AND EUROPEAN MONETARY UNION REPO RATES



(*) To January 1999, German Bundesbank Repo Rate
Source: Bloomberg..

C.3 Foreign Capital Markets

Greater financial stability and improved domestic conditions in the United States led monetary authorities to revert their policy of reducing interest, begun in late 1998. Thus, the Fed increased the reference rate in June, August and November by 25 basis points respectively, with the rate returning to 5.5% in the midst of growth and rising prices as the year drew to a close.

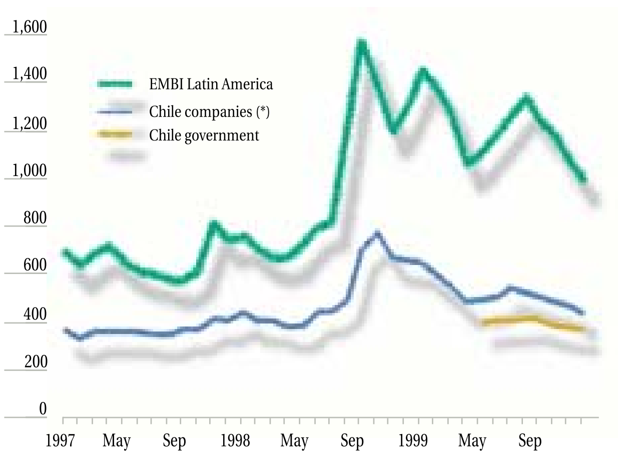
Euro zone countries grew little during the first half of the year, although this began to change during the second half. Given these conditions, the European Central Bank reduced the policy rate from 3% to 2.5% in April 1999, a policy that was completely reversed in November, given better forecasts for the economy and rising interest rates in the world's main countries (Figure 6).

In Japan, monetary authorities reduced the policy rate to nearly 0% in early 1999, in response to deflationary pressures, fragile investment and shrinking private consumption.

Credit cost trends for emerging countries as reflected in sovereign *spreads* peaked in early 1999 in response to the devaluation of the Brazilian real and its impact on other emerging economies. Nonetheless, the overall *spread* for Latin American debt (JP Morgan's, EMBI Latino) as well as Chile's sovereign *spread* fell gradually to levels similar to those before the Russian debt moratorium (Figure 7).

Figure 7

SOVEREIGN SPREAD
(basis points)



(*) Includes bonds issued by local firms (Enersis and Endesa, BAA1 rating (Moody) and A-(S&P).

Source: Merrill Lynch, JP Morgan.

D. FINANCIAL DEVELOPMENTS

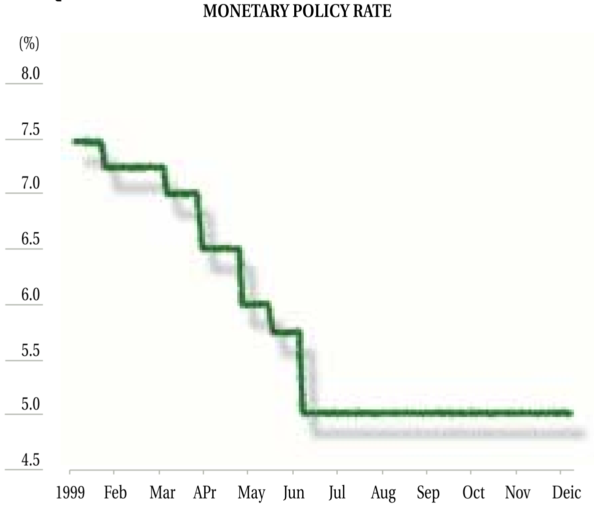
D.1 Trends in Interest Rates

Central Bank monetary policy is based on a target interest rate for the overnight interbank market, called the monetary policy rate (*tasa de instancia monetaria*). The Central Bank applies this policy by generating market liquidity conditions favorable to the target rate. The policy rate's influence over market rates affects inflation and other macroeconomic variables through several transmission channels: the capital market and the cost of domestic financing; monetary aggregates and credit; the exchange rate; inflationary expectations; and asset prices.

All year, monetary policy moved systematically toward a more expansionary stance, seeking to create financial conditions favorable to a gradual recovery in domestic demand and growth. This approach was

Figure 8

MONETARY POLICY RATE



Source: Central Bank of Chile.

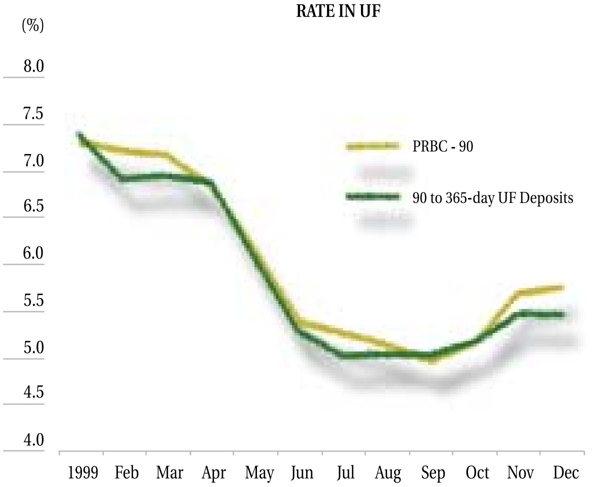
based on improved conditions abroad and correction of the main macroeconomic imbalances apparent in the Chilean economy in late 1997 and in 1998. From October 1998 on, the Central Bank started to reduce its target interest rate gradually, given uncertainty still prevailing in international markets and particularly in Latin America, the result of Brazil's fragile economy. By early January, the policy rate had reached *unidad de fomento (UF* – an inflation-indexed accounting unit) plus 7.8%. However, during the first half six gradual reductions brought the monetary policy rate to UF + 5% by the end of June, which remained in effect through to year's end (Figure 8).

During the first months of 1999, interest on indexed promissory notes auctioned by the Central Bank fell steadily, in line with the policy rate. Nonetheless, toward year's end this tendency began to turn around (Table 6). Thus, 90-day indexed promissory notes (PRBC90) began the year at an average UF + 7.3%, but from August to October had fallen almost to the monetary policy rate (UF + 5%), and by December average interest was 5.73%, in a curve very similar to market interest rates for the same period (Table 7 and Figure 9). Long-term indexed notes (PRC) behaved similarly, but with less noticeable fluctuations. The eight-year PRC began the year at an average rate of 6.81% (over UF), reaching its lowest point in June (UF + 6.11%), then ending in December at UF + 6.66%. Interest on longer-term notes (PRC20) followed a similar path, although their rates moved less than PRC8 (Figure 10).

Interest rates' tendency to rise during the final months of 1999, apparent in the increasing yield curve, can be explained by several events occurring on both domestic and foreign markets. For one thing, interest on long-term promissory notes in the US rose from an average 5.8% in August to 6.25% in December 1999 (10-year Treasury bonds). At the same time, Chile's sovereign spread fell almost 50 basis points, somewhat offsetting the pressure of higher foreign rates on long-term rates in the domestic market. Nonetheless, by year's end the sovereign spread remained well above the levels prevailing before the Asian crisis, a condition associated with reduced

Figure 9

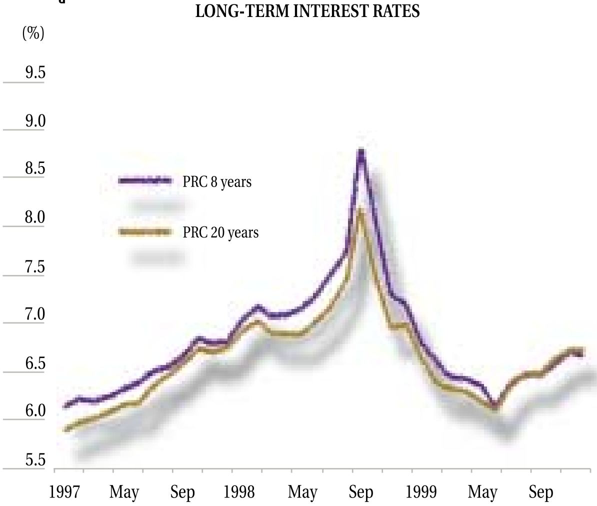
90-DAY PRBC AND 90 TO 365-DAY DEPOSIT RATE IN UF



Source: Central Bank of Chile.

Figure 10

LONG-TERM INTEREST RATES

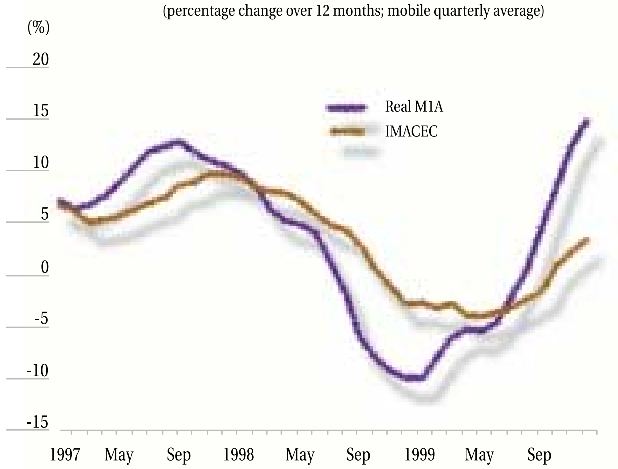


Source: Central Bank of Chile.

Figure 11

BROAD PRIVATE MONEY (M1A) AND MONTHLY INDICATOR OF ECONOMIC ACTIVITY (IMACEC)

(percentage change over 12 months; mobile quarterly average)



Source: Central Bank of Chile.

capital flows into the region. As well, the elimination of the exchange rate band in early September increased exchange-rate risk, which would be reflected in interest rate trends.

Another factor was the fact that during 1999 there was more competition for domestic financial saving, due to company bond issues on the local market and reduced availability of institutional financial saving, the result of the AFPs' interest in investing abroad. The latter increased assets held in foreign instruments by almost US$2.5 billion between 1998 and 1999, with this kind of instrument's share of their portfolios rising from 3.5% to 10.5%.

Higher short-term interest rates at year's end were the result of increased private sector demand for more liquid instruments, given the risks associated with Y2K and its potential impact on financial system services. Once this was overcome, PRBC90 rates fell back to August's levels, that is about 5.25% (over UF), similar to indexed market rates for the same period.

As of June, auctions of Indexed Promissory Notes in Dollars (PRD) were suspended, given that the exchange hedging mechanism they favored, through reorganizing of private sector asset and liability portfolios, had come into effect. Quotas of PRCs, meanwhile, held steady at UF300,000 per auction (PRC-8 and PRC-10) and UF200,000 per auction for PRCs maturing in 12, 14 and 20 years.

D.2 Trends in Monetary Aggregates and Credit

Given the current monetary policy stance, the shortest-term monetary aggregates respond mainly to changes in economic activity and market interest rates. Their behavior throughout the year was consistent with more expansionary monetary policies, particularly given that by mid-1999 both GDP and domestic demand were expected to continue their recovery through to year's end. Thus, the more liquid monetary aggregates improved steadily from April 1999 on, more quickly during the last quarter. History indicates that at least in the short term, there's a high statistical correlation between the accumulation of broad private money (M1A) and domestic product (Figure 11). Money tends to lead by one or two quarters, predicting behavioral needs of transactions between consumers and companies. However, its behavior can also be affected by other factors, whether systemic (for example, the opportunity cost of holding balances in the current account or currency) or non-systemic (for example, specific liquidity needs). The recovery of liquid money toward year's end was also favored by this kind of factor: a marked drop in nominal interest rates and greater demand for liquid resources in response to Y2K. Thus, from July on, monthly M1A was higher than 12 months' previously, rising a nominal 20% for the year as a whole, equivalent to 17.2% real growth. Among M1A components, currency behaved similarly, ending the period up a nominal 16.9% (Figure 12).

Broad money aggregates expanded in both nominal and real terms throughout the year, although more slowly than in previous years. In effect, total financial saving reflected both a drop in the supply of domestic private saving and investors' greater interest in diversifying abroad and holding currencies in their investment portfolio (Table 8).

Monetary emission rose more swiftly as the year progressed for final annual growth of 11.4% through December, the result of greater liquidity during the final months of the year. An increase in domestic credit to the private sector through buy backs of Central Bank notes, reinforced by total net foreign exchange transactions, which expanded, determined net monetary emission performance for 1999.

From mid-1998 on, growth in the total stock of financial system loans to the private sector slowed noticeably, a trend that deepened until well into 1999, with negative real year-to-year changes for the months of June and October (Table 9). This slowdown was apparent for both company and personal loans and, among the latter, consumer loans, which had tended to rise very quickly in previous years, fell 13% in real terms in June. Despite this initial drop in total loans stock during 1999, August saw the first signs of recovery, with the system showing a 1.1% real annual increase in total credit by year's end. Empirical evidence indicates that these aggregates correlate positively with economic activity overall, although there's a delay of one or two quarters with regard to output (Figure 13). Thus, starting in the second half of the year, trends in credit shifted, with consumer loans in particular stabilizing instead of falling as in previous months. Growth in the total stock of mortgages was very strong and commercial credit, which accounts for a large share of total loans, started to pick up toward the end of 1999.

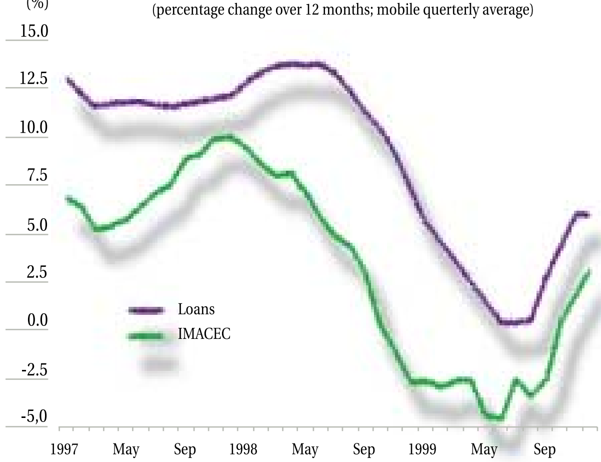
D.3 Exchange Rate Policy and Regulations

As measured against the multilateral exchange rate (MER)[1], a broad basket of currencies, the peso

Figure 12
SHORT-TERM PRIVATE MONETARY AGGREGATES
(nominal percentage change over 12 months)

Source: Central Bank of Chile.

Figure 13
MONTHLY INDICATOR OF ECONOMIC ACIVITY (IMACEC) AND LOANS
(percentage change over 12 months; mobile querterly average)



Source: Central Bank of Chile.

[1] The countries included in this broad currency basket are the same ones used to calculate the real exchange rate and consist of Chile´s main trading partners.

depreciated by almost 11.4% between the 1998 average and the fourth quarter of 1999. MER depreciation was less than that for the observed exchange rate (pesos per US dollar), which reached 17.3% for the same period. This is because the peso depreciated less against the euro and it appreciated significantly against the Brazilian real. In contrast, the Japanese yen's significant appreciation against the dollar and even more so against the Chilean peso favored the latter's depreciation as measured by the MER (Table 10).

In early 1999, foreign exchange policy maintained the floating band system, allowing the floor and ceiling of the exchange-rate band to move the daily equivalent of 5% annually. However, in early September, and after careful preparation, the band was suspended indefinitely and the Chilean economy thus moved to a free-floating system. In preparation, the Central Bank had encouraged the development of new exchange-rate hedging instruments (dollar-indexed promissory notes, known as *Pagarés Reajustables en Dólares* or *PRDs*), as well as developing new regulations covering derivatives, particularly future trading in pesos and other currencies, and commercial bank transactions requiring the matching of foreign currencies.

Under the new system it was decided that although the Central Bank retains the right to intervene in exceptional circumstances, these interventions will require public justification.

Experience with exchange-rate systems has shown that their volatility shows a direct correlation with the system's degree of flexibility. Based on this evidence, the move from dirty float within a band to a more flexible floating system could bring more short-term volatility to the value of the Chilean peso against the dollar. The very nature of financial markets means that currency values tend to be very volatile. Thus, for example, between September and December 1999, some currencies fluctuated as much as 5% to 13% annually against the US dollar.

Table B: **VOLATILITY OF THE CHILEAN PESO AND OTHER CURRENCIES AGAINST THE US DOLLAR**

(Percents)

	June 95 - June 97 (1)	Sept. 99 - Dec. 99 (1)	Options to Dec. 99 (2)
Chilean peso	4.8	5.1	9.3
Yen	10.6	13.1	14.2
Euro (3)	8.6	10.0	11.2
Mexican peso	10.0	6.5	9.7
Brazilian real	1.9	9.0	13.9
Australian dollar	7.0	7.8	
New Zealand dollar	5.8	10.8	

(1) Calculated as annualized standard deviation of a daily percentage change.
(2) Volatility implicit in currency options over three months, annualized percentage.
(3) Includes change in the Mark for the period prior to 1999.

Source: Bloomberg and Central Bank of Chile.

Exchange rate volatility depends not only on the institutional nature of the float system, but also real variables (spending, productivity and terms of trade) and financial variables, like changes in monetary liquidity and financial prices. Recognition of exchange-rate risk is an important part of decision-making by economic players, which is why it is so important to develop a financial instrument market that permits hedging.

Overall, the nominal exchange rate tended to depreciate throughout the year, while volatility increased. In fact, after noticeable depreciation by the fourth quarter of 1999, this trend turned around somewhat in early 2000. The real exchange rate depreciated slightly more than the multilateral exchange rate over the same period, given lower foreign inflation as measured in dollars among Chile's main trading partners, compared to domestic inflation (Figure 14 and Table 11).

Among the factors directly responsible for peso depreciation was the shrinking difference between domestic and foreign interest rates, especially for short-term transactions. This can be seen in the nominal differential between the US treasury rate over one year and the PDBC rate over 360 days (Figure 15). Other factors contributing to depreciation included trends in the terms of trade, more restrictive conditions on world financial markets, and institutional investors' (mainly AFPs) tendency to increase the share of their portfolios invested abroad. At the same time, the lower current account deficit worked in the peso's favor.

To conclude, while higher medium- and long-term interest rates during late 1999 tended to dampen monetary policy's effect on growth in domestic demand, real exchange rate depreciation worked in the opposite sense, stimulating net exports.

D.4 Trends in the Domestic Financial System

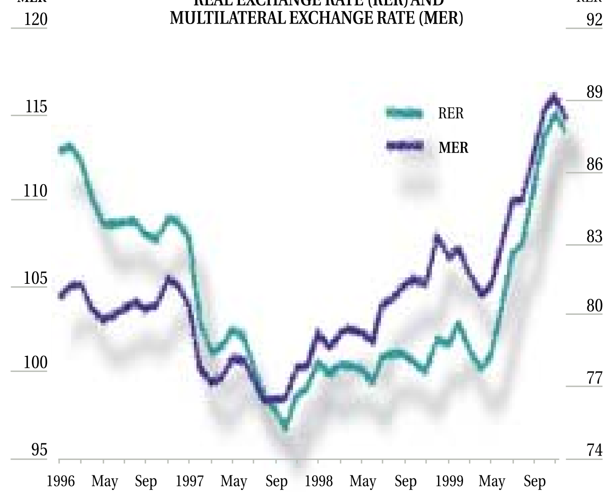
For the second year in a row, the performance of the financial system in 1999 was strongly influenced by the general slowdown in the Chilean economy, measured by trends in the stock of loans. In fact, loans grew very little compared to previous periods and provide, along with profitability indices, the main sign of tightening in the banking system (Table 9).

Profitability of the banking system, measured over base capital, reached 9.4% in 1999, down from 11.5% the year before and well down from annual results for most of the nineties. This trend reflected more than the contracting economy: intermediation margins have been falling due to more intense competition within the sector. Although profitability was lower than in previous years, it remained reasonable, given the magnitude of the drop in loans stock mentioned above.

Capital levels within the system did not deteriorate significantly. Base capital over total assets dropped from 6.1% in 1998 to 5.8% in 1999. The Basel Capital indicator, which measures the relationship between effective equity (capital and reserves plus voluntary provisions and subordinate bonds issued for up to 50% of capital) and risk-weighted assets, held

Figure 14

REAL EXCHANGE RATE (RER) AND MULTILATERAL EXCHANGE RATE (MER)



(*) Calculation based on parities of Chile´s main trading partners: US, Japan, Argentina, Brazil, Mexico, Germany, Spain, Italy, France, UK, Korea, Canada, Peru, Holland, Belgium, Colombia, Taiwan, Venezuela, Ecuador.
Source: Central Bank of Chile.

Figure 15

INTERNAL VS. EXTERNAL INTEREST RATE DIFFERENTIAL
(US 1-year treasury bond vs. 360-day PDBC)

Source: Bloomberg and Central Bank of Chile.

steady at their 1998 level of 12.5%, well above the minimum of 8% required by regulations. Other indicators holding steady as compared to the previous year were those reflecting liquidity. Available funds over demand and time deposits remained at 16%. If financial investments were added, the ratio remained stable, rising to 28%.

Loan quality, as measured by non-performing loans over total loans, continued the previous year's tendency to deteriorate through April 1999, when it peaked at 1.78%, and then gradually fell to 1.67% by the end of the fiscal year. To counteract the increase in bad loans, banks increased provisions over questionable loans, in order to safeguard their equity. Provisions over loans reached 2.4% in December 1999, well above the share of non-performing loans. In spite of the increase in the financial system's bad loans, it was low relative to other countries in the region, as more recently released 1999 figures indicate.

Table C: **NON-PERFORMING LOANS OVER TOTAL LOANS (%)**

	1997	1998	1999 (1)
Argentina	9.5	9.3	8.1
Brazil	7.0	7.8	8.8
Chile	1.0	1.4	1.7
Colombia	6.3	8.7	13.2
Mexico	11.0	10.7	15.7
Peru	5.3	6.2	8.9

(1) Most recently released information.
Sources: SG Cowen and Salomon Brothers.

E. ECONOMIC ACTIVITY, EXPENDITURE AND EMPLOYMENT

E.1 Trends in Economic Activity and Expenditure

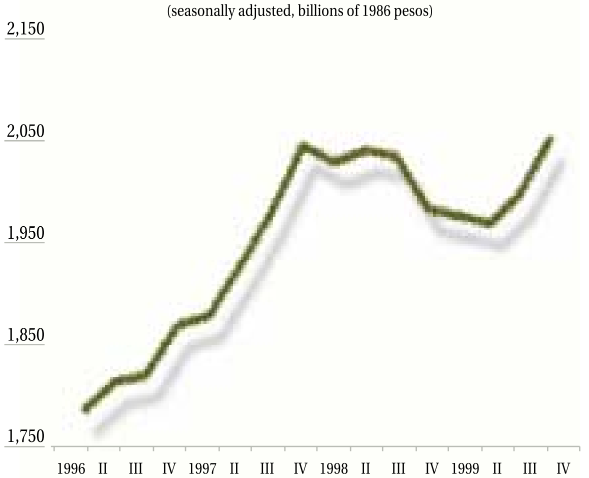
E.1.1. Economic Activity

In 1999, economic activity dropped 1.1% compared to the previous year (Figure 16). It picked up toward the end of the second quarter and consolidated in the next quarter, experiencing a slow recovery throughout the rest of the year (Figure 18). In the fourth quarter, output rose for the first time in 12 months, after falling during the previous four quarters. Domestic demand fell even more, -9.9% in 1999, and remained slightly negative at year's end. Thus, the gap between domestic expenditure and output growth reached -8.8% (Table 12).

Within domestic demand, *gross fixed capital formation* fell the most (-17.1%), particularly *machinery and equipment*, although *construction and*

Figure 16

QUARTERLY GDP
(seasonally adjusted, billions of 1986 pesos)



Source: Central Bank of Chile.

other works also dropped significantly. *Private consumption* also fell, in line with the rest of the economy. The export of goods and services was the most dynamic sector, rising 6.9% by volume, with copper performing especially well. Imports fell sharply (-14.3%), showing no sign of recovery until December (Figure 17).

The latter had a strong impact on the period as it affected trade, transport and above all led to a sharp fall in import duty revenues. As a result, a 1.1% drop in the Central Bank's Monthly Economic Indicator (Imacec) was less significant than the 0.5% growth in the factor cost indicator.

By sector, tradable goods rose 4.3% in 1999, led by mining. Non-tradable goods were hard hit by reduced domestic demand, particularly the construction sector.

E.1.2. Expenditure

The economy went through several phases during the year. During the first phase, which covered the first half of the year, average expenditure fell sharply. In the third quarter, this tendency slowed until, by the last quarter, expenditure went into a recovery phase (Figure 19).

Of expenditure components, *gross fixed capital formation* was the most affected during the year, falling even in the fourth quarter. *Machinery and equipment* were particularly hard hit, while *construction and other works* also fell, although less severely (Figure 20).

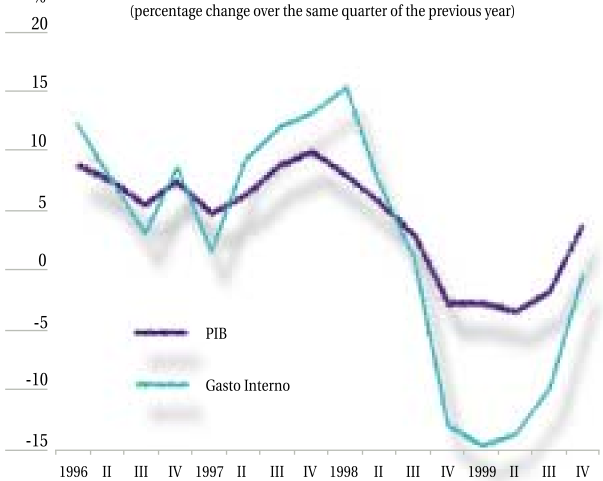
Other components of domestic demand performed similarly to the overall tendency within the economy, dropping sharply (-12.9%) during the first half, then rising 5.4% in the last quarter. Foreign demand proved more stable, growing at a similar rate during the first and second half of the year.

Imports of *goods and services* were the most volatile, with depressed domestic expenditure leading to an average fall of 14.3% in 1999, then tending to return to normal (-1.6%) toward the fourth quarter, as domestic demand stabilized (Figure 21).

Figure 17

GDP AND DOMESTIC EXPENDITURE

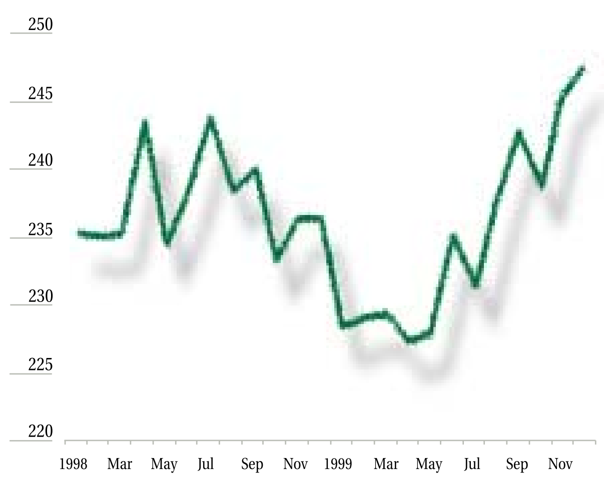
(percentage change over the same quarter of the previous year)



Source: Central Bank of Chile.

Figure 18

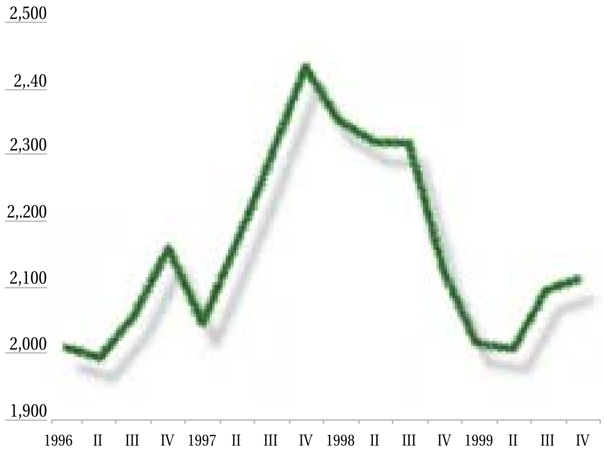
SEASONALLY-ADJUSTED IMACEC



Source: Central Bank of Chile.

Figure 19

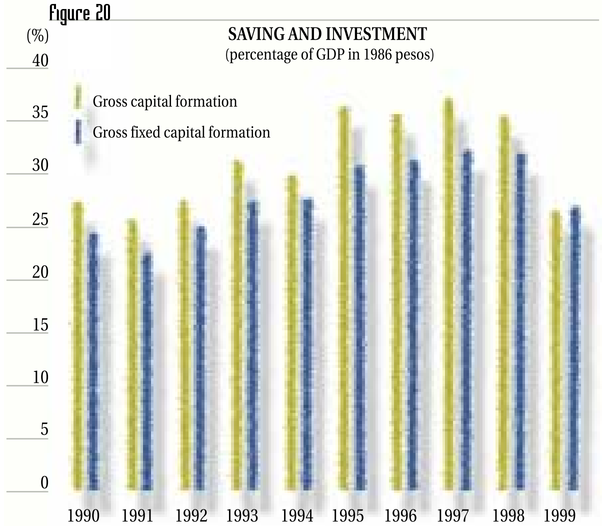
QUARTERLY DOMESTIC EXPENDITURE
(millions of 1986 pesos)



Source: Central Bank of Chile.

Figure 20

SAVING AND INVESTMENT
(percentage of GDP in 1986 pesos)



Source: Central Bank of Chile.

E.1.3. Productive Sectors

Mining was the most dynamic sector in 1999, while construction performed the most poorly (Table 13).

Supply factors were particularly relevant to sector performance throughout the year, both because of availability as well as their general impact on production. For example, electricity, gas and water fell 14.9% during the first half, then rose 20.7% in the second, reflecting a water shortage that led to rationing of electricity in July and August, followed by recovery later in the year. Similarly, farming and forestry experienced adverse weather conditions during the 1998/99 period and particularly in the first half of 1999, which reduced areas sown, annual crop yields and fruit harvests, causing this sector to shrink 1.2% for the year. Fishing industry performance was also very volatile, due to supply problems at breeding centers (the result of investment decisions based on expectations of less demand for salmon than actually occurred) combined with fluctuations in prices and the species available to the fishmeal industry.

Mining, in contrast, enjoyed the strongest growth for the year, boosted by previous years' investments coming on stream. In spite of low international copper prices, both production and exports rose.

Shrinking domestic demand hit non-tradables the hardest, with *construction* falling 10.0% during 1999, *wholesale and retail trade* down 3.5%, and personal services down 0.3%. *Transportation and communications* also suffered, growing significantly less than in previous years.

Lower domestic demand also hurt manufacturing, which dropped 0.7% for the year. Sectors already experiencing structural difficulties (import substitutes) were particularly hurt, as competitive disadvantages deepened. Similarly, construction-related manufacturing also suffered a slump, due to the obvious drop in that sector's activity (Figure 22).

In contrast, relatively normal foreign markets, particularly in Asia, helped the related manufacturing sectors to grow, which partly offset difficulties on the domestic market.

Manufacturing of seafood products was driven by a combination of growing foreign demand and increased availability of supplies.

E.1.4. Income and Saving

The fact that prices for exports of goods and services fell more than those for imports caused the terms of trade to fall. This situation, combined with lower output, caused real disposable gross domestic income to drop 1.5%.

Also, because private consumption measured at current prices grew less than output, gross domestic saving expressed as a percentage of nominal GDP rose over the previous year, reaching 20.9%. This, combined with a significant drop in gross capital investment, relieved pressure on foreign financing and significantly reduced the current account deficit in absolute terms. This reached just 0.2% of GDP as measured in current pesos (Figure 23).

E.2 Employment and Unemployment

Unemployment continued to rise as it had throughout 1998, peaking (11.5%) for the mobile quarter ending in August 1999 and then falling gradually to end the year at 8.9% (Figure 24 and Table 14).

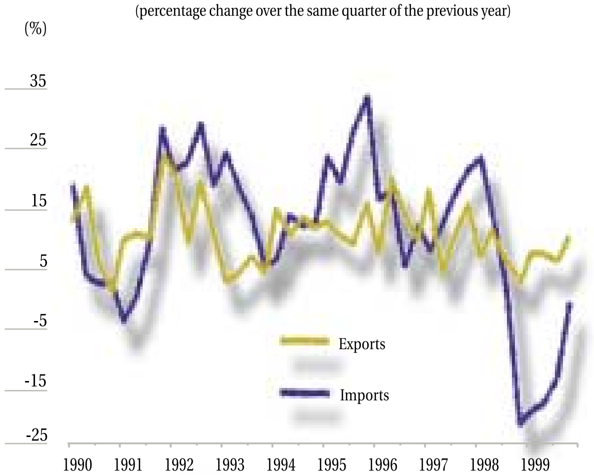
Falling unemployment toward year's end reflected output's starting to recover and the subsequent response in sector employment levels, enhanced by special public sector employment programs.

By the end of December 1999, employment had reached levels similar to the start of the year. The availability of more jobs would have reduced unemployment more if not for the high growth in the labor force. As in 1998, the work force grew significantly during the second half of 1999.

Figure 21

EXPORTS AND IMPORTS BY VOLUME

(percentage change over the same quarter of the previous year)

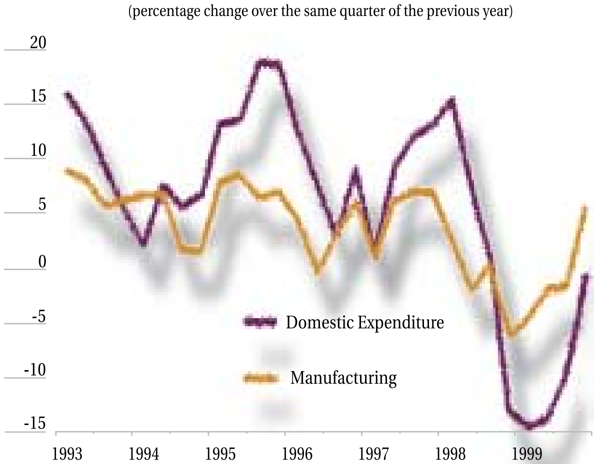


Source: Central Bank of Chile.

Figure 22

MANUFACTURING AND GENERAL DOMESTIC DEMAND

(percentage change over the same quarter of the previous year)



Source: Central Bank of Chile.

E.3 The Public Sector

In 1999, the national budget showed a deficit for the first time in 14 years, the result of ongoing, significant spending in spite of reduced economic activity and the sharp drop in tax revenues (-5.6%) that entailed. In fact, public expenditure affecting macroeconomic factors rose at an annual rate of 5.7% in 1999, far more than output, thus confirming the government's expansionary stance.

In 1999, current expenditure rose 5.3%, far more than capital expenditure (2.4%).

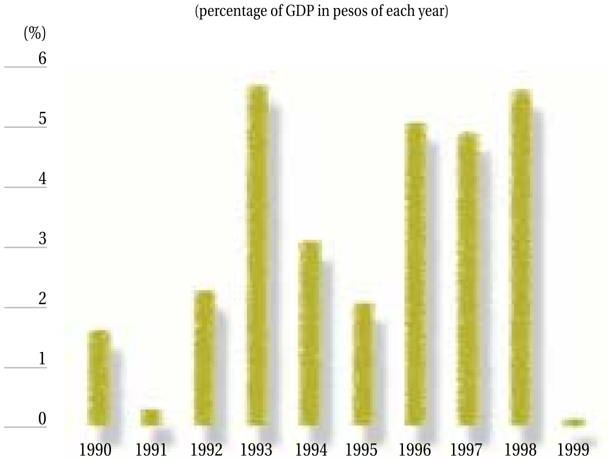
The current fiscal surplus reached 2.4% of GDP in 1999, down US$1.388 billion from 1998. At the same time, the national government's overall deficit rose some US$1.326 billion over the previous year, due mainly to a US$1.55 billion drop in tax revenue.

The low price of copper for most of 1999 led the government to withdraw the equivalent of about 0.7% of GDP from the Copper Price Stabilization Fund.

Figure 23

CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS

(percentage of GDP in pesos of each year)

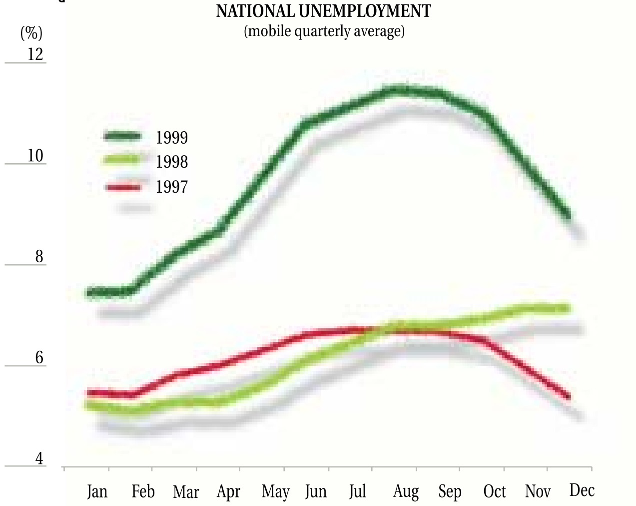


Source: Central Bank of Chile.

Figure 24

NATIONAL UNEMPLOYMENT

(mobile quarterly average)



Source: National Statistics Bureau.

F. BALANCE OF PAYMENTS AND FOREIGN INDICATORS

As of 31 December 1999, the balance of payments showed a deficit of -US$683 million, mainly due to a US$764 million deficit in the capital account and a current account deficit of US$78 million. These were partially offset by positive omissions and errors worth US$159 million (Table 15).

F.1. Current Account

In 1999, the current account of the balance of payments showed a deficit of US$78 million, US$4.065 billion less than the US$4.143 billion deficit recorded the previous year. Accordingly, the current account deficit fell from 5.7% to 0.1% of GDP. This stemmed mainly from the turnaround in the trade balance, which went from a US$2.517 billion deficit to a US$1.664 billion surplus (with exports at US$15.616 billion and FOB imports at US$13.951 billion), due to fewer imports and higher export volumes. The sharp 19.6% decline in FOB imports was the result of shrinking domestic demand. Exports, on the other hand, rose 5.3% in value, thanks to an 8.1% increase in volumes exported. In spite of recovery during the second half, prices for exported goods fell 2.6% on average during the year.

Copper prices, however, performed better during the second half, rising from an average 65 cents per pound during the first half to 77.6 cents per pound in the second on the London Metal Exchange. This caused 12-month accumulated FOB prices to rise from -13.3% in June to -2.9% by December. The volume of copper exported (up 13.7%) more than offset falling prices, pushing copper exports by value up 10.4% over 1998.

Prices for other, non-copper exports fell an average of 2.4% during the year, while volumes rose 4.9%. Traditional product volumes contributed, rising 5.9%, while prices fell 6.2% (leading the total value to drop 0.6% compared to 1998). Non-traditional products rose 4.4% in value (US$253 million), the result of a 4.2% increase in volume and a 0.2% increase in prices.

Lower prices for non-copper goods particularly hurt significant traditional exports like molybdenum, methanol, fishmeal and, to a lesser extent, iodine, silver and fruit, a drop that was partially offset by higher per-unit prices for non-traditional exports like salmon, trout, sea bass, canned fish, tomato sauce and juices and, to a lesser extent, some forestry sector products. Gold ore, lithium carbonate, fishmeal, lumber and methanol led higher export volumes. The 4.2% growth in the volumes of non-traditional exports was led by some farming products (onions and garlic), seafoods and some farm produce (hake, fish oil, frozen and tinned fruit and juice, tomato sauce and juice), along with some forestry products (boards) and steel and iron manufacturing, among others.

In geographic terms, during the year increased sales (up 18.2%) to the United States in particular helped boost exports. This largely offset smaller shipments to Latin America (-3.8%, mainly due to Brazil and Ecuador) and Europe (-0.4%). Exports to Asia rose a noticeable 11.7% for the year.

Imports CIF fell 19.4% for the year, due mainly to a 16.4% drop in volume, led by capital goods (-35.5%), then consumer goods and non-fuel intermediate products. Fuel imports by volume rose 8.3%, led by oil derivatives (liquefied gas, natural gas, anthracite, heavy oils), while oil imports fell slightly (-0.7%) for the year.

A 3.5% drop in dollar prices affected virtually all categories of imports, particularly consumer goods and non-fuel intermediate goods, enhancing the impact of falling import volumes (Tables 16 and 17).

Services and transfers posted a US$1.743 billion deficit, US$116 more than the year before, mainly due to a US$200 million reduction in net outflows for non-financial services, while financial services improved thanks to a significant drop in net profits.

Net outflows of profits and dividends from foreign direct investment and portfolios fell US$225 million compared to 1998, the result of higher profits on investments abroad in previous years and falling profitability of foreign investment due to lower prices and reduced economic activity (Table 18).

Net outflows of interest were US$131 million more than in 1998, due mainly to the fact that foreign currency reserves have grown smaller in the past two years and thus earn less interest.

Non-financial services showed a net deficit of US$315 million in 1999, significantly more than last year. Travel in particular attracted fewer inflows and more outflows, as did other private sector income areas, associated mainly with lower imports (Table 19).

F.2 Capital Account

In 1999, the capital account's net balance showed a US$764 million deficit, with net capital inflows down US$4 billion compared to 1998. This primarily reflected lower disbursements for medium- and long-term credits, which fell from US$6.077 billion in 1998 to US$4.106 billion in 1999, and higher net outflows of short-term capital, which reached US$5.325 billion in 1999, US$4.254 billion more than 1998. Another factor was the sharp increase in Chileans' direct investment and holdings abroad, which reached US$7.221 billion in 1999, around US$3 billion more than the previous year.

The net outflow of short-term capital and higher Chilean investment abroad reflect the increased weight of foreign investment in local agents' portfolios, driven by a search for more diversification, better coverage of exchange-rate risk, and lower differentials between domestic and foreign interest rates. Commercial banks, in particular, accumulated assets to cover futures contracts involving net sales of foreign exchange. Income from the sale of Chilean companies to foreign investors went primarily to increasing Chilean investment abroad, as part of efforts to diversify portfolios.

Foreign direct investment flowing into Chile rose to US$9.221 billion, almost double 1998. This was primarily due to investment under Law 600 (the main foreign investment statute) that went to purchasing companies in the energy, sanitary and financial sectors. Because foreign investment in new projects, which comes in primarily as medium- and long-term loans from abroad, was down from previous years, it is not surprising that this kind of credit was also down (Table 20).

Portfolio investment from abroad rose to US$2.496 billion in 1999, almost five times the amount registered the previous year. This was primarily the result of bonds issued abroad by large, private Chilean companies, a US$500 million Sovereign Bond issue, and a US$300 million bond issue by Codelco, the state-owned copper corporation. These inflows were virtually offset by a sharp increase in portfolio investment abroad, particularly that of Pension Fund Administrators (AFPs).

The fall in the capital account balance for 1999 occurred primarily during the first quarter, the result of instability in Brazil and shockwaves from the Russian crisis. From the second quarter on, direct investment led a modest recovery.

Lower net inflows of foreign capital into Chile should be analyzed in the context of a global reduction in capital flows toward emerging countries, which in 1999 fell to half the levels of 1997, according to figures from the International Monetary Fund.

F.3 Foreign Solvency and Liquidity

Foreign solvency and liquidity indicators for the Chilean economy have improved, revealing a solid financial position. In 1999, the stock of foreign currency reserves had reached almost half of M2, reflecting the exchange-rate regime's low vulnerability in the face of any potential speculative attack on the domestic currency. Foreign debt had reached 50% of GDP; net of foreign currency reserves, 29%; revealing limited exposure to foreign commitments and a solid external position (Table 21).

Solvency and liquidity indicators have led to the low spread enjoyed by Chile's foreign debt (around 200 basis points on average in 1999), well below the average for Latin America (about 1,000 basis points). The country's strong foreign indicators are also reflected in an A- risk rating from Standard & Poor's, the best in the region.

F.4 Trends in Foreign Currency Reserves

As of 31 December 1999, foreign currency reserves had reached US$14.710 billion, down US$1.282 billion from 31 December 1998. This was the result of a US$683 million deficit in the balance of payments and a US$599 million net capital gain from accounting revaluation, mainly due to changes in parities against the US dollar (Table 22).

F.5 Foreign Debt

As of 31 December 1999, Chile's total foreign debt had reached US$33.984 billion, up US$2.293 billion from one year earlier. This was the result of net medium- and long-term foreign credit inflows of US$2.585 billion, including US$160 million in bonds issued by Chilean companies' agencies abroad. These are considered non-resident for the purpose of the balance of payments. Short-term (under 12 months) credits fell to US$1.171 billion at year's end, down US$439 million from 1998 (Table 24).

Regarding foreign debt by sector, private and public sector debt rose US$2.965 billion and US$113 million respectively, while private financial sector debt fell by US$785 million.

The main sources of medium- and long-term financing were bonds issued by resident companies and offices abroad (72% of net inflows), particularly banks and international financial institutions (36%) and governmental organizations (6%). Multinational organizations were net receivers of resources (4%), while suppliers and others received 10% (Table 23).

As of July 1999, the criteria for rating short-term foreign debt, in which short-term liabilities referred solely to contracts for full payment of principle on loans maturing in 365 days or less, was expended to include contracts with residual maturities. Under this new definition, payments on medium- and long-term loans coming due over the next 12 months are also included as short-term foreign debt.

As a result, foreign debt due within the year had reached US$3.903 billion by year's end, down US$58 million from December 1998, due to US$439 million less in net income from foreign loans originally due within 12 months, and a US$381 million increase in payments on medium- and long-term foreign debt scheduled for the next 12 months.

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

6.1 Balance Structure

The Central Bank's asset and liability structure reflects the most significant factors in macroeconomic management and performance over the past two last decades. Because of the substantial volume of investments and liabilities compared to the monetary base, in the short term this structure is not significantly affected by transactions realized (Table 25).

In 1999, the Central Bank concluded that conditions were ripe for it to suspend intervention in the foreign exchange market, a decision that will improve the long-term evolution of its balance, as it will lead to slower growth in foreign currency reserve investment. This will be enhanced by the gradual amortization of treasury notes, in turn reducing promissory note financing and thus the financial costs of Central Bank debt.

As treasury and bank foreign currency deposits fell and the Central Bank adopted a moderate approach to purchasing foreign exchange during the first half, foreign currency reserves declined in 1999. However, their share of total assets held steady, as it was offset by a rise in the exchange rate, which in turn led to a notable drop in the book value of the equity shortfall.

Foreign currency reserves, the main component of assets, held almost steady, with their share of total assets slipping from 54.4% to 54.2%. Investment in treasury notes, the second most important component, increased its share from 24.6% to 25.3%, in spite of 330 billion pesos destined to service these papers due to the higher exchange rate. Among other assets, deferred losses' share of total assets fell from 6.6% to 5.4%. The recovery of the Banco Santiago share price explains the increased importance of subordinated debt (from 7.7% to 8.7%) within total assets.

Regarding liabilities, promissory notes continued to be the main source of financing, as their share rose from 67.3% to 71.3%. The second most important component, public sector deposits' share dropped from 14.6% to 10.3%, impacting on the 1999 fiscal deficit. Monetary emission's share, meanwhile, rose from 9.4% to 11.8%. Finally, banks' foreign currency reserves and current accounts' share of liabilities dropped from 1.2% to 0.4%, while other liabilities dropped from 7.5% to 6.2%.

6.2 Asset Yields, Liability Costs and Equity Trends

International interest rates are the main factor determining the average interest yield on assets, while the relevant conversion factor generally depends on the nominal exchange rate. In 1999, the mean weighted indexing factor applied to assets was 7.2%, due to a 13.2% increase in the observed exchange rate that was partially offset by the depreciation of other foreign currencies against the US dollar and lower domestic inflation, which affected the indexing of other assets. Lower international interest rates for the year meant the mean weighted yield on assets (in interest) fell from 4.9% to 4.5%.

The mean weighted cost of interest paid on liabilities, mainly promissory notes, reached 5.8% in 1999, down from 6.1% in 1998, reflecting lower domestic financing costs, the result of reactivation policies implemented in 1999. The average liability adjustment, including both foreign and monetary

base liabilities, rose from 2.9% in 1998 to 4.4% in 1999. This increase was essentially the result of foreign currency liabilities, given that liabilities in domestic currency were subject to a declining readjustment. The difference between asset yields and liability costs in interest was 1.3%, slightly above the previous year (1.1%). Interest losses were more than offset by a 2.8% increase in revalued assets versus liabilities. For the year as a whole, financial profits rose to 155 billion pesos, the result of 351 billion pesos in profits from indexing, 25 billion pesos due to devaluation of the equity deficit, and 221 billion pesos in interest losses. Once non-financing losses of 22 billion pesos are subtracted, the final net profit is 133 billion pesos. Non-financial earnings included 4 billion pesos of extraordinary profits from IMF compensations.

APPENDIX I

OPERATING EXPENDITURES

Operating expenditures are broken down as follows in the Financial Statements: i) Personnel Expenditures, ii) Administrative Expenditures, iii) Depreciation, amortization and write-offs, and iv) Taxes, benefits and others.

As a result of ongoing modernization and professionalization implemented by the Central Bank of Chile from 1990-1999, operating expenditures have dropped 31% in real terms, from 27.771 billion pesos in 1990 to 19.244 billion pesos in 1999 (in 1999 pesos) (Table 26).

Personnel expenditures during this period fell 23% in real terms, from 17.303 billion pesos in 1990 to 13.290 billion pesos in 1999, thanks to staff cutbacks and structural changes coherent with the institution's professionalization.

The number of staff fell 48% from 1,169 people in 1990 to 612 people in 1999. Structure has evolved toward a higher proportion of professionals, maintaining the proportion of executives and directors, as the share of administrative, secretarial and service positions has dropped. In effect, while professionals represented 14% of total staff in 1990, they now represent 32%. Executives and directors have remained at close to 12% of total staff, while the number of administrative, secretarial and service staff has fallen from 74% of total staff in 1999 to 55% in 1999.

Figure D: **CENTRAL BANK OF CHILE**
Personnel

	Dec. 1990		Dec. 1999	
	Staff	%	Staff	%
Executives and Directors	134	12	78	13
Professionals	169	14	198	32
Administrative, secretarial and service staff	866	74	336	55
Total	1,169		612	

Administrative expenditures dropped 35% in real terms from 6.463 billion pesos in 1990 to 4.225 billion pesos in 1999. The most important reductions included basic services, which fell 67%, maintenance of fixed assets (57%), and general services (51%), thanks to policies aiming to maintain adequate spending levels. Among administrative expenses for the same period, computer costs rose 78% in real terms, the result of the need to keep technology up to date and to deal with Y2K issues. Similarly, real expenses for consultants, polls, studies and seminars also rose, as a result of deepening the institution's main functions. This increase, along with computers, was more than offset by the drastic cuts to other administrative costs.

Depreciation, amortization and write-offs fell 57% in real terms from 2.944 billion pesos in 1990 to 1.252 billion pesos in 1999. These amounts correspond to depreciation in fixed assets, which dropped thanks to the sale of buildings, due to the closing of offices in the provinces.

Taxes, contributions and payments fell 55% in real terms from 1.061 billion pesos in 1990 to 477 million pesos in 1999, due mainly to a 64% drop in payments to Central Bank pensioners, the result of a reduction in beneficiaries, and a real 44% drop in contributions to Cemla and Sicap Aladi.

APPENDIX 2

SUMMARY OF QUARTERLY MEETINGS ON MONETARY POLICY IN 1999

SUMMARY OF MEETING ON MONETARY POLICY HELD ON 12 JANUARY 1999

The session began with a report from the Research Division on recent economic developments during the fourth quarter of 1998 and the outlook for 1999. The main aspects of this report are included in Section I. Then, Board members, the Finance Minister and other participants studied the information provided, analyzing their implications for Central Bank policy, as reported in Section II. Finally, the Board reached its conclusions and resolutions as indicated in Section III.

I. RECENT ECONOMIC TRENDS AND PROSPECTS

The year 1998 was characterized by a steady decline in expectations for world growth, confirmed by the virtual stagnation of the global recovery expected for 1999, leading to growth projections very similar to the previous year's. In spite of this worst-case external scenario for the year hat had just began, potential risk factors were being brought under control and world financial markets were showing more confidence than they had during the previous quarter. This meant normalization of international sovereign risk spreads, due to less contagion between countries on one hand, and the recovery of exchanges and falling interest rates in emerging countries on the other.

Lower growth in 1998 and poor prospects for 1999 were also reflected in lower commodity prices, particularly the price of copper, all of which led to lower world inflation and interest rates in developed countries, thus bringing risk of a future global recession under control. In spite of these developments, the possibility of a traumatic recession in Brazil remained latent as did risk associated with a more sudden than expected slowdown in the US economy, along with asset price corrections for that economy. Both events could touch off a new round of instability on world financial markets.

During the fourth quarter of 1998 the domestic market tended to return to normal, with credit costs falling as compared to the period covered by the previous report. Significantly, expectations of a sudden violent devaluation of the exchange rate disappeared, with falling interest rates generating no apparent movement in the exchange rate. The interbank rate followed the trend set by the Central Bank, as did other market rates, with long-term rates similar to those of the first quarter of 1998. Regarding the foreign exchange market, during the last quarter of 1998, both the multilateral and real exchange rates depreciated due to dollar depreciation on international markets. Capital inflows were also picking up, as compared to mid-year.

Information on fiscal policy up to the third quarter of 1998, including annual projections for fiscal spending, concluded that during the fourth quarter public absorption growth was almost zero. For 1999, the budget, corrected according to historic implementation rates, included a commitment to a neutral fiscal policy in terms of its macroeconomic impact.

Regarding activity and aggregate demand, the main characteristic of this period was the notable slowdown in domestic expenditure and output, which went beyond expectations. Three factors influenced this trend: 1) greater depth to monetary adjustment during the second half of 1998; 2) concentration of fiscal restraint to occur during the fourth quarter of 1998; and 3) an additional drop in commodity prices during the second half, reducing exports of major items and domestic income. As well, to date, partial indicators including financial aggregates, production and industrial sales indexes, sales or import indicators, showed no signs of a shift in the general trend toward deceleration.

For 1999, GDP was expected to rise 3%, accompanied by depressed domestic expenditure, particularly for total investment, due to less accumulation of inventories and reduced fixed investment. Net foreign demand was expected to be the main factor contributing to product growth during the year, an estimate based on the recovery of major exports and stagnation of imports. Toward the end of 1998, the trade balance improved significantly as did the current account, due to the significant decline in imports for the period. Exports also grew less than expected during the fourth quarter, affected by lower prices abroad. Some recovery was expected in the volumes of some major products and the startup of new projects. Overall, they expected a current account deficit of about US$ 3.7 billion, and a trade balance deficit of US$2 billion.

Regarding prices and salaries, from the second half of 1998 total inflation dropped, ending the year close to the target (4.7%). In contrast, indicators for underlying inflation remained above 5%, revealing perishables' contribution to the total drop in inflation. Higher non-tradable inflation in late 1997 and early 1998 and wage pressures were the main factors keeping this indicator over 5% during the year. Economic slowdown was expected to cause price and wage increases to slow more significantly during 1999. Tradable inflation, in contrast, held steady throughout the previous year.

Recent inflation trends and the factors involved were considered consistent with meeting a target of 4.3%. However, this would require lower non-tradable and wage inflation, and the signals in this regard were still very incipient. Significant additional contributions from perishables and fuels were not expected. As a result, analysts concluded that the economic cycle itself and its impact on margins, wages and costs would be the decisive factor in reducing inflation.

II. ANALYSIS AND CONSEQUENCES OF THE FIGURES PRESENTED

Board members and others present at the meeting agreed with the Research Division's report on 1998 achievements and prospects for 1999. They emphasized that the external shocks that had affected the Chilean economy during 1998 and 1999 had been the heaviest in a long time, with the real price of copper as low as during the years of the Great Depression. All this occurred together with adverse weather that severely affected important areas of production. The negative events of 1998 are summarized by a US$2 billion drop in the terms of trade and some US$5 billion less in inflows into the capital account. At any other time in Chile's history, a shock of this magnitude would probably have brought a balance of payments crisis and runaway inflation.

In the face of such adversity, strengths built into the economy ensured that during 1998 and probably during 1999 Chile would enjoy higher GDP growth than the world average. Skilled monetary management, in particular, using the interest rate as the most suitable and efficient instrument, along with an exchange rate and fiscal policies in line with prevailing conditions, provided expected results in 1998.

This positive evaluation of 1998 achievements and prospects for 1999 strengthened the Board's resolve to continue to actively fight macroeconomic imbalances, so as to get the most out of Chile's advantages to keep the economy on the path to growth it had followed in recent years.

Those present also agreed on the inherent risks to meeting goals for 1999, particularly given Brazil's vulnerability to changing market expectations regarding its adjustment program and its potential impact on other economies, among them Chile's.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Within the context of the Central Bank's target of a steady decrease in inflation and balanced external accounts, the Board considered it appropriate to maintain the current monetary policy rate, within a band centered on UF + 7.8% annually. Monetary policy 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 expenditure, and trends in external accounts consistent with macroeconomic objectives for 1999.

SUMMARY OF MEETING ON MONETARY POLICY HELD ON 6 APRIL 1999

The session began with a report from the Research Division on the evolution of the economy during the first quarter of 1999 and the outlook for the year as a whole, the main conclusions of which are presented in Section I. Then, Board members, the Finance Minister and those present at the meeting studied the information provided, analyzing the implications for the Central Bank's policy decisions, as reported in Section II. Finally, the Board reached its conclusions, adopting resolutions as indicated in Section III.

I. RECENT ECONOMIC TRENDS AND PROSPECTS

During the first months of the year, projections for world growth remained similar to those available at the end of the previous year, with expectations of modest recovery in 2000. These projections were based on a more optimistic assessment of the US economy, contrasting to some extent with the more pessimistic outlook for Europe and Latin America. Overall, the world economy was expected to evolve during 1999 and 2000 in a context of more controlled risk than prior to the last quarter of 1998.

No significant improvements were apparent in commodity prices, with some falling compared to the end of 1998, as was the case of copper. The exception in the commodities market was the increase in the price of oil, as of March. World inflation had followed a more negative trajectory than expected, in line with a tendency for long-term interest rates to remain stable or fall in most developed economies, except the United States, where higher growth pushed up long-term rates to deal with potential inflationary pressures. During the first quarter, the dollar appreciated against European currencies, and especially Latin American currencies, while remaining stable against the yen, a consequence of monetary conditions abroad. Renewed confidence on international financial markets improved prices for emerging countries' ADRs and helped to normalize sovereign risk spreads, which rose after the Brazilian real was devalued at the start of the year, then returned to their original levels, indicating that the "Brazilian effect" was more limited than expected. Despite this positive financial outlook, some risk still persisted abroad, associated with potential inflationary pressures in the US economy, which could mean a drastic shift in that country's monetary policies.

Since October, both market rates and the monetary policy rate on the local money market had fallen significantly, reaching conditions similar to those prevailing from 1994-97. In April, short-term interest recovered slightly, due to some activity on the stock exchange (public offerings to buy), but longer-term rates held steady. In early 1999, the peso depreciated significantly against the US dollar, but less against a broader basket of currencies, given the dollar's appreciation on international markets.

By the end of 1998, public absorption had risen 6.2%. Overall, including payments from the Copper Stabilization Fund and public company earnings, during 1998 fiscal performance was negative (1.2%) for the third year in a row.

The information available for activity and aggregate demand in the first quarter showed that the slowdown begun in 1998 had not deepened, but there was no clear evidence of a recovery either. Analysts emphasized that while existing monetary conditions were similar to the historical average, the foundations of this aggregate demand were well below average. This factor, combined with lower terms of trade for the first quarter and lower overall growth in Latin America, associated with the "Brazil effect", led to lower forecasts for annual growth of the Chilean economy in 1999.

During the first quarter, exports performed according to initial projections, with "Other exports" and copper exports by volume being particularly encouraging. Imports were lower than first quarter estimates, reflecting the fact that recovery was slower than expected. Together, these conditions provided more stability in 1999 and brought the current account deficit under control.

During the early months of 1999, wage and price increases held steady with the Consumer Price Index (CPI) for the previous twelve months remaining around 4%, and corrected CPI showing a slight downward tendency, maintaining a positive gap between the two, which was expected to close during the second quarter. More recent figures showed a clear drop in the domestic components of inflation, that is, in salaries and non-tradables. The tradable component remained stable, despite exchange-rate depreciation to lower levels of foreign inflation and lower sales margins on this type of goods.

Recent trends in inflation and relevant factors remained coherent with the 4.3% target for the year. Prospects for reducing inflationary pressures in 1999 had improved thanks to a wider output gap, which tended to stabilize the domestic components of inflation, and falling estimates for foreign inflation, as a result of dollar appreciation on international markets.

II. ANALYSIS AND CONSEQUENCES OF THE FIGURES PRESENTED

The members of the Board and other participants in the meeting agreed with the Research Division's analysis of the results for the first quarter of 1999 and the likely prospects for the rest of the year. Participants emphasized that tighter monetary policy in 1998 had achieved its aim, laying the foundations for more stable and lasting growth. While results for the first months of the year were slightly less favorable than expected, this was because the impact of external factors was stronger than initially foreseen.

Participants agreed that the worst turbulence on world markets was over and noted that Latin America's financial stability had become clear as the real impact of the Brazilian crisis emerged. The recovery in ADR prices and lower sovereign bond spreads were also noted. The Board concluded that the external sector of the Chilean economy was less favorably situated in real terms, due to slower growth of its main trading partners, particularly in Europe and Latin America, but more favorably in financial terms, given above average stability compared to the rest of the world. Faced with these conditions abroad, Chile's foreign accounts were expected to grow stronger over the next twelve months, particularly the balance of trade and the current account. Participants also emphasized that higher export volumes reflected this sector's strong competitive base, allowing it to cope with more difficult market conditions abroad.

During this same period, foreign financial markets have responded more calmly than expected, and threats perceived earlier in the year had dissipated. The risk of a massive flight of capital from emerging countries now looked unlikely.

The Board emphasized that in spite of the extent of the international crisis, Chile was still expected to grow in 1999. Members suggested the national budget should be examined in light of overall trends and not the specific conditions of a particular year, given that government revenues had fallen sharply due to lower copper prices, reduced production and domestic spending.

III. RESOLUTIONS

The Board of the Central Bank decided to reduce the monetary policy rate by 50 basis points, from UF + 7.0% to UF + 6.5% annually. As a complementary measure, the tranches of the liquidity line of credit were reduced by the same amount, while the Liquidity Deposit Rate was set at UF + 5.25%.

The Board decided to issue a news release on the subject, stating that this decision was in line with earlier cuts to the monetary policy rate and was consistent with a monetary policy stance that responded cautiously but swiftly to the conditions forecast for the year. These conditions were restrictive, in face of world economic conditions, and took into account expectations of controlled inflation within established targets, a carefully controlled current account deficit, and annual growth of 2% to 3%, slightly below earlier projections.

The Central Bank insisted that no significant obstacles stood in the way of moderate economic recovery in the coming months, in a context of low inflation and a current account deficit that the country could cope with, as a result of adjustment policies applied the year before.

Finally, the Board noted that the Central Bank would continue to manage monetary policy with the flexibility and prudence necessary to stimulate economic recovery.

SUMMARY OF THE MONETARY POLICY MEETING HELD ON 15 JULY 1999

The session began with a report from the Research Division on the evolution of the economy during the first half of 1999 and the outlook for the rest of the year and 2000, the main conclusions of which are presented in Section I. Then, Board members and others present studied the information provided, analyzing the implications for the Central Bank's policy decisions, as reported in Section II. Finally, the Board reached its conclusions, adopting resolutions as indicated in Section III.

I. RECENT ECONOMIC TRENDS AND PERSPECTIVES

Forecasts for world growth had not varied much from the information available in March, with slim growth expected in 1999, the result of more optimism regarding the US, and moderate recovery in 2000. By the following year, it was expected that more recovery worldwide, however slight, and growth in Japan and Europe would offset slower growth in the US. Overall, the expected turnaround should be fueled by more growth in emerging economies, less recession in Latin America and recovery in Asia. There were no major changes to inflation estimates either, with limited price variations expected in the main regions of the world. However, inflation as measured in dollars was expected to rise in 2000.

Interest rates tended to rise, an indication of optimism in the case of the North American economy, combined with concern about inflation.

Commodity prices had remained relatively stable in the previous quarter, except for oil. Copper prices showed a slight tendency to rise in recent weeks. Asset prices in the US and Latin America also remained stable, at levels similar to those before the Russian crisis. Similarly, emerging countries' financial markets remained stable, with no change in the premiums on sovereign and company debt, except in Argentina in recent weeks.

During the second quarter, local money and foreign exchange markets continued to benefit from lower short-term interest rates, the result of a more growth-oriented policy applied by authorities, although this trend was less apparent for long-term loans, causing the yield curve to rise. In contrast, monetary aggregates rose, while credit held steady. Domestic-foreign interest spreads decreased, as did yield differentials between the UF and the dollar. This led to depreciation of the peso against the dollar in both nominal and real terms.

During the first quarter of 1999, fiscal policy also became more expansive, with public absorption rising 7.2%, in the context of a sharp fall in state revenue (-7%), the result of a significant drop in items affected by imports and consumption generally.

Regarding activity and employment, activity was expected to drop more in the second quarter than originally forecast. However, partial indicators for May, such as the increase in retail sales, industrial production and apartment sales suggested a tendency to recover. GDP growth estimates for the year reached about 0.5%, with forecasts for 2000 putting growth close to 5.5%. Employment had fallen more than expected, because of sharp cuts to hiring in the manufacturing and construction sectors, the latter being heavily labor intensive. In addition, the work force grew more than usual in recent months, the opposite response to previous recessions, when changes in the workforce tended to be similar to employment trends. The sharp fall in employment amidst growth of the work force caused unemployment to rise significantly. Although the recession had been deeper and longer than expected, on the strength of key performance indicators, this situation was expected to resolve itself the next year.

The consequences of tightening abroad were also more severe than anticipated, with exports growing slowly and depressed imports lagging at 1995 levels. Estimates for the 1999 current account deficit were also reduced, assuming some recovery in imports during the second half. The deficit should rise moderately in 2000, but remain financially feasible. This estimate assumed normalization of imports and reasonable growth in exports, basically copper, with higher prices expected for this metal in coming months.

By the end of the first semester, inflation on price and wage indicators fell, largely as a result of the cyclic stance and its impact on aggregate demand and employment. Price reductions were more pronounced for domestic components, particularly nominal wages, rising at an annual rate of 6%, down from 8% for most of 1998 when wage increases held steady in spite of lower inflation. This factor may have led to more severe adjustments in employment and output, when compared with previous cycles. Tradable prices fell more moderately, mainly due to the significant increase in fuel prices, which was held in check by using the Oil Stabilization Fund (*Fondo de Establización del Petróleo*). Perishable prices, in contrast, performed more moderately than in previous years.

To conclude, prices fell during the year, with some risk they may rise in 2000, depending on the exchange rate and a possible increase in foreign inflation over the coming months.

II. ANALYSIS AND CONSEQUENCES OF THE DATA PRESENTED

Board members and others present agreed with the Research Division's analysis of the results achieved in the first half of 1999 and future prospects, expressing some degree of concern about short-term changes in certain variables. In effect, in spite of some positive advance indicators, after ongoing drops to interest rates from last September on, there was still

no definitive sign of recovery. Members were aware that the only clear signs were in the monetary sphere and even there some doubts had recently arisen. This made it necessary to monitor the situation very carefully, because decisions should be based on the most realistic evaluation possible of existing conditions.

The Board also agreed that the Research Division's scenario for 2000 seemed reasonable and very positive, forecasting a slight improvement in terms of trade, 5.5% growth, lower inflation, and a current account deficit just over 4%. Members viewed this as a relatively reassuring scenario, to be achieved by applying different combinations of macroeconomic policies.

Participants were also concerned about potential difficulties arising as expenditure and activity recovered in an economy as highly indexed as Chile's. Some argued that it was impossible to ignore the possibility that an expansive phase of the cycle, as expected for the coming year, could bring with it stronger price pressures, the result of the recovery of sales margins and wages' behavior throughout the cycle. Although the economy was pretty well into the cycle at the time, there had been no sign of restraint in real wages, which undoubtedly would have helped to reduce current levels of unemployment.

III. RESOLUTIONS

In light of the above, the Board concluded that:

1. Given the evidence that the present cycle of recession had been deeper and longer than expected, and considering that the monetary policy interest rate was low, with the result that monetary policy was clearly expansive, the Board of the Central Bank considered it appropriate to maintain the current monetary policy rate of UF + 5% per annum.

2. The Board of the Central Bank would continue to monitor both domestic and external economic 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 1999 and 2000.

SUMMARY OF THE MONETARY POLICY MEETING HELD ON 14 OCTOBER 1999

The session began with a presentation of the report by Research Division management on the evolution of the economy during 1999, prospects for the rest of the year and for 2000. The main aspects of this report are summarized in Section I. Then, Board members and others present analyzed the data presented and assessed the consequences of this information for the Central Bank's policy decisions, as described in Section II. Finally, the Board reached its conclusions and adopted the resolutions indicated in Section III.

I. RECENT ECONOMIC TRENDS AND PERSPECTIVES

The presentation started with a detailed analysis of the evolution of wages and prices. Recent figures confirmed that inflation continued to fall, despite the rise in recent months in the exchange rate and fuel prices. An analysis of recent inflation revealed the consolidation of existing trends, for both total and underlying inflation. A breakdown revealed that tradable goods prices had remained stable in recent months, with most change occurring in the non-tradable price index.

Fuel prices had pushed the prices of the latter upward, the result of higher international prices and a higher exchange rate. However, in spite of the higher exchange rate, prices of durable goods, most of which are imported, were down.

Analysts therefore concluded that one factor to consider when evaluating the future behavior of inflation was that prices had not followed the trajectory of the currency.

The price index for non-tradables fell more sharply, mainly the result of drops in prices for housing (especially rent), education and health services. One factor in non-tradable prices was the behavior of transportation, where the main prices are regulated, which was particularly influenced by oil prices rather than higher equipment replacement costs.

Fuel prices rose, reflecting higher parity prices measured in pesos. The subsidy provided by the Oil Stabilization Fund was in full operation, preventing increases in the dollar import costs from being passed on to domestic prices, which rose due to increases in the exchange rate only.

The other more variable component of inflation is perishable goods prices, which behaved reasonably well as compared to previous years.

Finally, pressure on the exchange rate was mentioned as a factor in recent months that could eventually influence domestic inflation. The most recent information, through September, indicated the higher exchange rate had not affected the tradable goods price index, which remained stable, but the Wholesale Price Index rose significantly. Nevertheless, evidence suggested that the relationship between the Wholesale Price Index (WPI) and the tradable goods price index was fairly weak, partly because final prices contained a significant domestic component, which gave greater weight to domestic demand factors. While this was something to watch, the Board concluded that the recent increase in the WPI would not immediately affect inflation.

Developments in the world economy in recent months were positive and September 1999 projections for growth were more optimistic than those made in July. Estimates for both 1999 and for 2000 were more favorable, particularly for Chile's main trading partners. Thus, the ongoing estimate for world growth in 1999 reached 2.4%, with estimates for the following year rising too. This forecast was based on slower growth in North America, and more growth in Europe, the rest of Asia and the main emerging economies.

It was suggested that foreign inflation forecasts had remained steady because there was no change in either of the major blocs. Only Europe and the US showed signs of higher inflation, and they were slight, generating expectations of more restrictive monetary policies in the major world economies. US interest rates rose over the past year, particularly longer term rates. During the past quarter, interest remained at around 6%, where it was at the end of the previous quarter, and short-term interest rose in line with higher Federal Reserve rates. The United States was expected to further increase interest in response to warning signs of future inflation.

In Europe, interest rate trends were similar to those observed in the US, with a more pronounced and sustained increase in long-term rates, reflecting optimism and the likelihood of higher inflation, which nevertheless remained below the target established by the European Central Bank.

In terms of parities, Japan's currency appreciated the most against the dollar, while European currencies were more stable. Generally speaking, the dollar had depreciated sharply over the past three months against the main world currencies.

Commodity price indexes rose throughout the previous quarter, consistently with improved forecasts for the world economy, although fluctuations could still occur, as reflected in the relevant prices for Chile. Indeed, prices of copper, pulp and fishmeal rose throughout the last quarter, and this upswing was also reflected in imported goods prices, such as oil.

Regarding asset prices, the US stock exchange had dropped in recent weeks with Latin American ADRs falling, parallel to the slump in the market as a whole. In spite of this, the higher sovereign spreads predicted at the start of the previous quarter did not materialize and these fell close to levels at the beginning of the quarter.

The Board concluded that the prospects for higher foreign demand had improved over a few months earlier. In spite of better terms of trade, conditions for international credit were slightly more restrictive, because of the rise in foreign interest rates in a context in which there was no change in the conditions or perception of risk related to emerging markets.

Regarding local financial market interest rates, the report indicated that interest on 90-day PRBCs had lined up with the monetary policy rate (UF + 5%) and that long-term interest rates had stabilized at around 6.5%. Market interest on deposits was virtually the same as the monetary policy rate, while loan rates were almost 7% at the limit and about 7.25% on average, their lowest levels in the nineties.

It was noted that the forward curve was rising more sharply, in spite of the Y2K effect. Overall, in the short term monetary policy was expected to remain expansive, while in the long term, the policy rate was expected to rise.

Regarding international arbitrage, long-term differentials remained practically the same, while short-term differentials fell during the month, becoming negative.

This affected domestic financial markets, also concerned about potential Y2K problems, pushing the exchange rate up toward the end of the quarter, as occurred with the multilateral exchange rate (the nominal value of the peso against a basket of currencies). The result was a significant depreciation over the previous two months in the real exchange rate, which rose above 1997 levels.

The report showed short-term monetary aggregates rising steadily, according to indicators for September and October. Similarly, although to a lesser degree, financial system loans and broader monetary aggregates also grew.

Public absorption rose 3.7% in the second quarter to total 5.4% for the year to date. For its part, the effect of fiscal impulse on output, calculated for its impact on both income and expenditure, was positive, due mainly to reduced tax revenues. The available information indicated that for the first half of the year, a counter-cycle effect occurred leading to positive fiscal impulse.

Regarding activity, demand and employment, output fell 2.9% during the first half. Indicators for the third quarter still pointed to a drop, mainly in July, but this was expected to improve in August and become positive by September. In this case, third quarter growth would continue to be negative, but recovery would begin. Among output components, consumption should continue with only moderate progress.

In recent months, manufacturing sales, and production tended to recover, particularly in August. There was a strong upswing in apartment sales, the result of tax incentives introduced in June. Similarly, imports showed signs of recovery, reflected mainly in inventory recovery.

In summary, growth for 1999 was expected to be slightly negative. Data analyzed indicated that trends in monetary conditions and factors abroad suggested resumed growth of around 5% in 2000, basically led by a recovery in domestic expenditure.

Employment figures revealed a somewhat more delayed response compared to other variables. The national employment survey carried out by the National Bureau of Statistics included marginal data indicating some stabilization in employment, which rose about 0.1% month by month. Marginal data suggested that employment had flattened out and further reductions in unemployment would be more gradual, because of the lag between this variable and a recovery in activity.

In the external sector, the balance of trade deficit continued to shrink, the result of falling imports. Recent figures for the previous 12 months indicated a surplus, while figures for 1999 as a whole indicated the trade deficit would reach about US$1 billion. As a result, the current account deficit would represent about 1% of Gross Domestic Product (GDP), with a recovery in imports and domestic demand in 2000 expected to bring the current account deficit to about 3.3% of GDP.

For inflation, the key factors influencing its evolution over the next fifteen months were the maintenance of the unemployment gap and an absolute, negative expenditure-output gap that would favor continued price reductions. To date, unemployment and surplus installed capacity had impacted strongly on non-tradable inflation, pushing it down from about 7% to around 3%. The continuation of these conditions, even if they gradually returned to normal by 2000, would continue to influence prices, as average price comparisons would still be based on past figures. This effect could be offset mainly by pressure from imported inflation, both through the depreciation of the peso against the dollar and foreign inflation.

The impact of these variables would depend on how inflationary pressures were distributed over time in the coming months. In any case, inflation was expected to pickup, triggered mainly by a higher exchange rate, fuel prices and higher prices for some regulated products.

In general, these factors were expected to pressure inflation for tradable goods, becoming more apparent as economic activity recovered. According to the available information, these impacts mean that total CPI inflation would average around 3% in the last quarter of 2000.

Most market analysts were forecasting inflation would be under 3% in 1999, reaching 3-3.6% in 2000.

II. ANALYSIS AND CONSEQUENCES OF THE DATA PRESENTED

After the presentation, Board members and others participating in the meeting agreed with the Research Division's analysis of the results achieved during 1999 and future prospects, sharing the concern expressed in the report regarding long-term interest rates. Participants observed that these had been rising for several months, because of expectations of an increase in the monetary policy rate in Chile or the US, the effects of matching regulations, or because institutional investors were finding better investment opportunities abroad. Whatever the reasons, participants were concerned, as key sectors of the economy still suffering the effects of recession on employment and economic activity would be affected

On this subject, it was suggested that it might be interesting to study what policy measures the Central Bank could take to minimize the negative effects of higher interest rates. One likely measure could be to eliminate the one-year stay requirement affecting the purchase of medium- and long-term papers. This would help by both forcing down long-term domestic interest rates and encouraging foreign capital inflows to correct the present lack of capital and moderate short-term variations in the exchange rate. The Board was conscious of the risks inherent in this kind of measure, but considered them minimal given that the current lack of capital inflows was expected to continue for several more months.

Participants pointed out that some Chilean assets, ADRs and company bonds already traded abroad were not subject to the restrictions mentioned. As a result, there wouldn't be a dramatic change in investments by foreign institutional investors in Chile, since these investors had already taken positions in Chilean assets traded abroad. There was a difference, however, between the returns on assets traded abroad

and in Chile because of the one-year requirement, and this difference could be eliminated. There might not be a significant change in capital flows, but there could be an impact on the price of assets subject to the one-year restriction versus Chilean assets already traded freely abroad.

The Board asked what positive forecasts for the September Imacec (economic activity rate) were based on, when the twelve-month change in imports fell slightly that month. Analysts argued that in September, imports' negative effect on trade margins would fall, electricity generation would rise thus increasing added value, mining was expected to grow more and manufacturing was also expected to perform well. This information provided the basis for predicting a positive 12-month Imacec through September, combined with the fact that September 1999 included one more working day than September 1998.

In the external area, it was pointed out that during 1999 there was a significant change in the ownership of major companies, with an increase in foreign participation. As a result, the profits generated by these companies would begin to appear as outflows from the current account of the balance of payments. In response to the Board's concern, it was argued that given the nature of the companies involved, these figures could eventually become quite significant, a situation allowed for in balance of payments forecasts, as these were calculated using detailed company information obtained from surveys.

Analysts argued furthermore that the net impact on foreign investment of foreign firms owning a larger share of local companies shouldn't be very important, because while significant, investors have also made new investments abroad, particularly private Pension Funds Administrators (AFPs) in 1999. As a result, AFPs would receive income from foreign investments and these would appear as credits in the balance of payments. The only real difference would be in the case of recently privatized public companies, given that fiscal income from these processes would not necessarily go to investments abroad, nor would it necessarily be used to prepay foreign debt.

Regarding prices, the Research Division made the important point that in spite of the peso's devaluation against the dollar, prospects for inflation this year and the next had held steady, in line with proposed targets. On this subject, it was clarified that estimates assumed slightly higher inflation in 2000. In fact, the target had been set at 3.5%, whereas inflation by year's end might be under 3% this year.

This phenomenon was not unique to Chile. In fact, forecasts for the following year assumed a higher level of inflation in all the world's regions compared to this year, which was also linked to international parities.

In this context, participants underlined that market conditions would determine the exchange rate and the Central Bank would not participate in currency markets, except under exceptional circumstances. The Bank's approach was considered healthy, as this is one of the most flexible instruments available for responding to domestic and foreign instability, particularly when activity is relatively depressed and therefore the potential for intervening using interest rates is limited.

Participants agreed that the Central Bank should stress that inflation targets would determine its actions. Board members felt this was the only way to achieve its goals in a context of overall macroeconomic stability and making the best use of the policy instruments available.

Board members also noted that real wages had continued to rise, despite relatively high unemployment and that the number of jobs continued to fall. This was making the economy less flexible and slowing the process of absorbing unemployment. Members felt that it was a good moment to try to introduce greater flexibility in as many fields as possible, in order to absorb unemployment throughout the country more quickly. This would also affect real wage levels.

Finally, the Board analyzed the policy options and recommendations arising from the report.

Earlier trends regarding inflation, the current account and slow recovery were confirmed. Nonetheless, recent weeks had provided some grounds for more optimism about reactivation.

During the previous month, while long-term interest rates had stayed high and stable, domestic monetary conditions had continued to move toward favoring growth, mainly due to peso depreciation.

Furthermore, the most liquid monetary aggregates also showed signs of resumed growth in September and early October, after losing ground somewhat in August. Bank credit also showed signs of a slight recovery.

Finally, and significantly, the forecast for the August Imacec indicated it would rise to 0%, up from -4.7% in July, and might become positive in September for the first time in months.

The above conditions suggested that the alternative of further relaxing the monetary policy rate even slightly would be much less advisable than it might have seemed a month earlier. On the contrary, the alternative of maintaining the present monetary policy rate or even increasing it a little, gained force. However, this still seemed premature given inflation forecasts for the following year. Thus, the Board concluded that it would be wiser to maintain the existing rate for the time being, keeping in mind the existence of some significant risk factors, among them the chance that long-term interest rates would rise even more as a result of pressure from abroad, if rates continued to rise in the US. There were also some domestic pressures to consider, arising from the fact that prime companies, which usually issued debt abroad, had started to offer medium- and long-term debt on local markets. This would suggest the prudence of reconsidering the remaining restrictions on inflows of capital from abroad.

III. RESOLUTIONS

The Board agreed unanimously to maintain the present monetary policy rate at UF + 5%, and to issue the following press release:

“At its quarterly meeting on monetary policy today, the Board of the Central Bank made a detailed analysis of the country’s economic situation. The meeting reviewed recent figures for inflation, foreign and fiscal accounts, financial markets, economic activity and employment, as well as the international context in which the Chilean economy is operating at present. The Board also analyzed relevant forecasts for the coming year, compliance with inflationary targets, the trade balance, and the risks developing for the future.

“The Board’s analysis confirms the main tendencies observed in inflation in earlier months, in terms of significant advances achieved and forecast for this indicator, the current account, and the rather sluggish economic recovery.

“However, some signs observed in recent weeks encourage a more optimism regarding this last variable (reactivation), compared to one month ago.

“Domestic monetary conditions have continued to favor growth (the result of recent currency depreciation), with the more liquid monetary aggregates also beginning to rise after slowing in August, and there are some signs that credit is recovering.

“Meanwhile, estimates for the August and September Imacec suggest some recovery in economic activity that would line up with 5% growth for next year.

“When both foreign and domestic risks were examined, it was felt that these would not affect either the pace of economic recovery observed so far or next year’s prospects.

“Probable inflation, expected to be under 3% at the end of 1999, remained consistent with the target established for next year and within a medium-term range of 2 - 4%, centering around 3%.”

APPENDIX 3

MAIN MONETARY AND CREDIT-RELATED MEASURES IN 1999

January

26 The Central Bank lowered the monetary policy rate by fifty five basis points, from Unidad de Fomento (Chile's indexed unit of account, known as the UF) + 7.8% to UF + 7.25% per year. It also lowered the rates of the Liquidity Line of Credit tranches, setting the first tranche at the target interest rate and the second and third at UF + 9.25% and UF + 11.25%, respectively.

28 The Bank eliminated terms allowing banks and finance companies to loan and deposit funds through convertible bearer bonds.

March

9 The Board lowered the monetary policy rate by 25 basis points to UF + 7.0%, and lowered the Liquidity Line of Credit tranches to UF + 7.0%, UF + 9.0% and UF + 11.0%, respectively. It also fixed the Liquidity Deposit rate at UF + 5.75%.

April

6 The Bank lowered the monetary policy rate fifty basis points from UF + 7.0% to UF + 6.5%, while rates of the Liquidity Line of Credit tranches went to UF + 6.5%; UF + 8.5% and UF + 10.5%, respectively. The Liquidity Deposit also dropped from UF + 5.75% to UF + 5.25%.

22 Once the European Monetary Union was established, transactions were carried out in euros, rather than in the currencies of each of the EU's 11 member countries, as was done until December 1998. The Bank reviewed norms applied to asset and liability operations in foreign currencies to take this into account.

27 In order to bound risk faced by the banking industry, the Bank amended regulations concerning maturity matches applicable to banks and finance companies and created regulations covering interest rate matches. In calculating maturity matches, new guidelines establish the relationship that must exist between asset and liability operations whose residual term matures in less than 30 days and those maturing in less than 90 days. In the case of the former, transactions in domestic currency must be carried out separately from transactions in foreign currency, whereas in the case of the latter the transactions must be carried out together.

The required interest rate matches limit exposure of asset and liability operations in both foreign and domestic currencies subject to interest rate fluctuations. In this case, the Board determined that the mismatch involved in these transactions could not total more than 8% of the bank or finance company's base capital.

Since these new interest rate match regulations limit risk involved in derivative transactions, the Board considered it prudent to expand the range of derivatives financial institutions can trade on the local market among themselves or with third parties, in Chile or abroad. Thus, it authorized futures, forwards, swaps and combinations thereof in foreign or domestic currency (only in banks), local and foreign interest rates (banks only) and in authorized inflation-indexed units. The Board also ruled that financial institutions are no longer required to have prior authorization to trade interest rate derivatives with third parties abroad.

The Board also eliminated restrictions on bank or finance company foreign debt maturing in less than one year, contained in Chapter V.A.1 of the Compendium of Financial Regulations of the Central Bank of Chile, given that the new regulations on asset and liability transactions duly limit the risks of this kind of indebtedness.

May

6 The Board reduced the monetary policy rate by 50 basis points from UF + 6.5% to UF + 6.0%. Thus, the three tranches of the liquidity line of credit dropped to UF + 6.0%, UF + 8.0% and UF + 10.0% per annum, respectively, and the rate on the Liquidity Deposit dropped from UF + 5.25% to UF + 5.0%.

20 The Board ruled that people holding a Term Savings Account for Purchasing Homes (*Cuenta de Ahorro a Plazo para la Vivienda*) could take out life insurance on the respective account, with the policy, in the event of death, covering the full amount of a home in the housing category covered by the savings plan, as per Article 3 of DS No 44 of the Ministry of Housing and Urbanism in 1988.

27 The Board ruled that banks could invest up to an additional 70% of their respective equity in short- or long-term financial instruments with a risk rating of at least A1 + or AA- or the equivalent. The Central Bank determined that the additional margin would not be subject to the single required provision of 100%.

The Board also decided that financial investment only in term deposits in established foreign banks with at least an A1 + or AA- risk classification will be subject to an individual limit of up to 30% of the given bank's effective equity.

June

1 The Central Bank lowered the monetary policy rate by 25 basis points, from UF + 6.0% to UF + 5.75%. Similarly, the three tranches of the Liquidity Line of Credit fell to UF + 5.75%, UF + 7.75% and UF + 9.75% per annum, respectively. The Liquidity Deposit Rate dropped from UF + 5.0% to UF + 4.75%.

10 Financial institutions were authorized to sell or trade in partial Indexed Promissory Notes with Payment Coupons (*Pagarés Reajustables con Pago en Cupones*, known as PRC) and Dollar-Indexed Promissory Notes (*Pagarés Reajustables en Dólares*), using a coupon or a document covering the rights to it.

To create a more liquid foreign exchange market, the Bank relaxed regulations governing repurchase operations using expressed, indexed or foreign currency-denominated instruments, between financial institutions. These can be carried out in foreign currency and from one business day.

The Board decided to eliminate the additional margin applicable to financial institutions' purchase of their own bills of credit, to bring regulations up-to-date with current market conditions.

21 The Central Bank lowered the monetary policy rate by 75 basis points, from UF + 5.75% to UF + 5.0% per annum. Similarly, the three tranches of the liquidity line of credit dropped to UF + 5.0%, UF + 7.0% and UF + 9.0% per annum, respectively. The Liquidity Deposit rate fell to UF + 4.0%.

24 Regulations governing interbank debt transactions were changed to allow banks to exceed debt limits to the degree that Central Bank notes or the State covers this amount and related bodies, excluding publicly-owned companies. The Bank also ruled that demand deposits, loans and other payables would be excluded when calculating interbank limits.

July

27 The Bank authorized new promissory notes called Zero-Option Indexed Monetary Emission Coupons (*Cupones de Emisión Reajustable Opcional*, CERO) in UF and dollars, to replace PRCs and PRDs that are traded in. This measure is designed to facilitate the sale of portions of promissory note coupons. Any financial institution wishing to sell or trade in portions of promissory note coupons should substitute or exchange the notes with all outstanding coupons in exchange for CERO notes.

In line with the above, financial institutions can trade these new notes and sell them with resale clauses to other banks, institutions and individuals.

These new notes will not come into effect until the corresponding regulations are approved.

September

14 The limit on unindexed mismatch in Chilean currency for banks and finance companies was extended from two to four times the base capital of the respective financial institution.

15 To encourage the long-term financing of financial institutions, the single multiple applied to the limits on AFP investment in banks or finance companies was increased from 0.7 to 1.0, with the limit thus rising from 70% to 100% of the equity of the issuing financial institution.

December

9 The Board raised the limit on Chilean banks' financial investment abroad from 5% to 50% of their effective equity. Securities must be low risk, issued or guaranteed by the governments or Central Banks of foreign countries.

Banks are also allowed to buy credits in foreign currencies and participate in syndicated loans abroad.

Banks can also use credit derivatives purchased abroad to cover risk associated with bad debt or fixed income instruments in foreign currencies.

16 The range of loans and investments that banks and financial institutions can sell or assign to securitizing companies or securitized loan investment funds, to include credits from their consumer loan portfolios, securities issued by the Central Bank (PDBC, PRBC, PRC, PTF, PRD, CERO in UF and dollars), bank and company bonds, subordinate bonds and other bonds.

APPENDIX 4

MAIN FOREIGN EXCHANGE AND TRADE MEASURES IN 1999

January

18 The Central Bank replaced the German Mark with the euro in calculating the reference dollar exchange rate. Thus, the American dollar accounts for 80%, the euro 15% and the Japanese Yen 5% of the reference dollar exchange rate.

At the same time, holders of deposits for reserve requirements on foreign loans were allowed to apply for their release under the reserve requirement substitute mechanism covered by the terms and conditions in the respective Appendix of Chapter XIV, Title I, of the Compendium of Regulations Governing Foreign Exchange (CNCI). This will be applied to the time remaining to fulfill the one-year requirement, in 30-day periods, and can not exceed nine months.

19 Regulations were established to cover productive investment abroad with Chapter XIV foreign loans to the degree that these are brought in and converted to domestic currency and the investment plan is similar to the loan disbursement plan.

28 To improve portfolio diversification for Pension Fund Administrators (AFPs) and thus optimize their risk-return ratios, the overall limit on AFP investment abroad rose from 12% to 16% of the respective Fund, while the limit on investment in fixed income instruments abroad rose from 6% to 8% of the Fund.

Similarly, the limit on risk coverage transactions rose from 12% to 20% of the pension Fund.

February

3 The limit on insurance companies' investments abroad rose. For general insurance companies, it went from 15% to 20% of technical reserves and risk equity, while for life insurance companies it rose from 10% to 15% of same.

Similarly, companies with ADRs were allowed to issue shares in series other than those already included in the system.

April

15 In response to a recommendation from the AFP Superintendent, the limit on AFP investment abroad in variable income instruments rose from 8% to 10% of the funds they administer.

Chapter XIII and XIV rules in the Compendium of Regulations Governing Foreign Exchange (CNCI) were replaced with new ones that move toward liberalizing foreign exchange and opening up the capital account, as well as a drastic simplification of the administrative requirements. These changes came into effect on June 1st.

The main changes to Chapter XIV included:

- Chapter XIII, rather than this Chapter, now deals with banks' foreign debt.

- Debtors other than banks can now issue bonds maturing in less than four years and the requirements for establishing risk ratings for longer-term issues were reduced.

- If certain basic requirements are met, the debtor no longer has to apply to the Central Bank for prior authorization.

- Holders of foreign loans are no longer required to convert them to domestic currency on the formal exchange market.

- Investors and contributors of capital can dispose of the foreign currency or the equivalent when converted to domestic currency in Chile. This payment should be made at any time prior to capital remittance abroad.

- Banks can process applications for capital inflows resulting from loans, investments or capital contributions whenever the regulatory requirements are met, without prior application to the Central Bank.

Similarly, Chapter XIII includes the following modifications:

- Banks' financial debt is now included.

- Prior authorization from the Central Bank is no longer required for financial loans or credit lines, remaining necessary only for bond issues.

- It is no longer compulsory to convert currency from transactions covered by this Chapter to domestic currency.

As of April 19th, foreign exchange restrictions established in the Compendium of Regulations Governing Foreign Exchange (CNCI) were renewed for another year.

May

27 Chapter XXIX was added to Title 1 of the Compendium of Regulations Governing Foreign Exchange (CNCI). This contains regulations for foreign security trading or Security Deposit Certificates (*Certificados de Depósito de Valores, CDV*) on the offshore exchange. The main aspects follow:

i) Capital returns, profits, dividends or benefits received by domestic investors, be they individuals or institutions, arising from foreign securities or CDVs will be treated as returns on investment abroad.

ii) Any investment, deposit or loan based on these foreign securities or CDVs will be treated as if made abroad.

iii) Investors based and living abroad should use foreign capital to carry out transactions on the offshore exchange, while those based and living in Chile may use either foreign or domestic currency purchased on the Formal Exchange Market.

Foreign currency arising from foreign securities or CDVs will be delivered directly to holders abroad. To import said currencies, Chilean residents are subject to Chapters XII or XXVIII of Title 1 of the CNCI, whichever applies.

June

30 The conversion requirement on foreign currency loans among banks established in Chile was lifted, to allow interbank loans in foreign currency.

July

8 Exporters' were allowed to convert income from foreign credits for exports on the formal or informal exchange markets, whenever they so decide.

In addition, procedures for obtaining these credits were simplified, with the sole requirement that payment be made using currency resulting from exports.

Prior authorization from the Central Bank for remittance abroad of foreign currency is no longer required for a variety of payments, among them, non-wage benefits, royalties, technical assistance, work contracts in foreign currency, rentals, export promotion expenses, cultural and recreational activities, etc.

September

2 The Central Bank suspended its formal commitment to the exchange rate band. Similarly, it decided to participate in the exchange market only under exceptional circumstances and will inform of these decisions. Nonetheless, the Bank will continue to calculate and publish the reference exchange rate established by regulation, to provide information to the market and for its use in existing contracts based on this rate.

November

4 Money Exchanges belonging to the formal exchange market may buy and sell foreign currency resulting from exports and import coverage transactions.

25 Trading in foreign securities and CDVs shall be carried out on exchanges established in Chile; transactions involving primary loans and the redemption of shares in open or closed foreign funds may be traded elsewhere; these transactions must be handled by a stock broker belonging to the respective exchange, in dollars or euros.

Similarly, Chapter XII of the Compendium of Regulations Governing Foreign Exchange was changed to include regulations covering the remittance of currencies or use of funds of over US$10,000 or their equivalent in other currencies. In addition, the kind of transaction covered by this chapter was changed, to establish that Letter A covers investment, deposits or credits abroad involving currency handled by the formal exchange market, whether acquired on this market or any other. Letter B covers investment, deposits and credits abroad involving currencies disposed of directly abroad. Letter C continues to regulate commercial loans and investment carried out by banks or finance companies abroad.

December

9 Banks can sell currency resulting from time deposits in foreign currency in order to deepen the local spot and forwards markets.

Similarly, banks can document foreign currency denominated credits payable in pesos in a currency other than the original, given that their exchange risk is regulated under the foreign currency match rules.

Commercial banks can also contract loan derivatives to hedge their fixed income portfolios and risky commercial loans. The counterpart providing the loan derivative must be based abroad and enjoy a minimum AA- risk rating.

The margin allowed on lower-risk financial investment that banks can make abroad, both in time deposits in banks established abroad and in securities issued or guaranteed by foreign States or Central Banks, was extended; the individual limit per issuer rose to 30% and 50% respectively of the effective equity of the Chilean bank making the investment.

The period for obtaining currency on the Formal Exchange Market for import payments rose from 90 to 360 days.

28 The daily correction factor used to calculate the Reference Currency Basket (*Canasta Referencial de Monedas, CRM*) was changed to make it consistent with the 3.5% inflation target for 2000.

Table 1

PRICE INDEXES

Period	CPI (December 1998 = 100)			CPI EXCLUDING PERISHABLES AND FUEL (1) (December 1998 = 100)			WPI (June 1992 = 100)		
	Index	**Percentage Change**		**Index**	**Percentage Change**		**Index**	**Percentage Change**	
		Month	12-month		Month	12-month		Month	12-month
1995 average	81.6	-	8.2 (2)	-	-	- (2)	127.8	-	8.2 (2)
1996 average	87.7	-	6.6 (2)	-	-	- (2)	135.8	-	3.1 (2)
1997 average	93.0	-	6.0 (2)	92.1	-	- (2)	138.0	-	1.9 (2)
1998 average	97.8	-	4.7 (2)	97.4	-	6.2 (2)	140.6	-	0.3 (2)
1999 average	101.0	-	2.3 (2)	101.3	-	2.1 (2)	147.9	-	13.5 (2)
1998									
January	96.2	0.7	6.2	94.5	0.4	4.9	140.0	0.1	1.3
February	96.1	-0.1	5.2	94.8	0.3	4.9	140.1	0.1	1.7
March	96.5	0.4	5.3	95.6	0.8	5.0	139.9	-0.2	2.:
April	96.8	0.4	5.4	96.4	0.9	5.6	140.5	0.4	3.3
May	97.0	0.2	5.3	96.9	0.6	5.9	140.2	-0.2	2.6
June	97.4	0.3	5.4	97.4	0.5	6.0	139.8	-0.3	1.2
July	97.8	0.4	5.3	97.8	0.5	6.0	141.3	1.1	2.7
August	98.1	0.3	5.2	98.1	0.3	6.1	140.8	-0.3	2.8
September	98.6	0.5	4.8	98.5	0.4	5.9	141.4	0.4	1.7
October	99.4	0.8	4.3	99.2	0.8	6.3	142.1	0.5	1.5
November	99.5	0.1	4.3	99.4	0.1	6.2	141.1	-0.7	0.8
December	100.0	0.5	4.7	100.0	0.6	6.3	140.4	-0.5	0.3
1999									
January	99.7	-0.3	3.6	100.0	0.0	5.8	139.8	-0.4	-0.1
February	99.7	0.1	3.8	100.2	0.2	5.6	139.9	0.1	-0.2
March	100.4	0.6	4.1	100.9	0.7	5.5	141.2	0.9	0.9
April	100.8	0.4	4.0	101.1	0.3	4.9	143.1	1.4	1.9
May	100.9	0.1	4.0	101.3	0.2	4.5	142.8	-0.3	1.8
June	101.0	0.1	3.8	101.5	0.2	4.2	143.9	0.8	3.0
July	101.1	0.1	3.4	101.4	-0.0	3.7	147.5	2.5	4.4
August	101.3	0.2	3.2	101.4	-0.0	3.4	150.1	1.7	6.6
September	101.5	0.2	2.9	101.6	0.2	3.2	153.2	2.1	8.4
October	101.9	0.4	2.5	101.8	0.1	2.6	156.4	2.1	10.1
November	102.0	0.2	2.6	101.8	0.0	2.5	158.1	1.1	12.0
December	102.3	0.3	2.3	102.1	0.3	2.1	159.4	0.8	13.5

(1) Perishables: fresh fruit and vegetables described as follows:
Fresh fruit: peach, apple, melon, orange, pear, banana, watermelon, grape, strawberry, cherries, kiwi, chirimoya, prickly pear, plum and pear melon.
Fresh vegetables: avocado, tomato, lettuce, cabbage, cauliflower, chard, squash, fresh corn, zucchini, pepper, pea, green bean, pinto bean, potato, onion, carrot, beetroot, lemon, garlic, herbs, mushrooms, celery, cucumber and artichoke.
Fuel: unleaded gasoline, leaded gasoline, city gas, liquefied gas and kerosene.
(2) December to December change.

Source : National Bureau of Statistics (INE).

Table 2

CONSUMER PRICE INDEX

(December 1998 = 100)

Period	GENERAL INDEX Index	GENERAL INDEX Chg.% 12-month	FOOD Index	FOOD Chg.% 12-month	HOUSING Index	HOUSING Chg.% 12-month	FURNISHINGS Index	FURNISHINGS Chg.% 12-month	CLOTHING Index	CLOTHING Chg.% 12-month	TRANSPORT Index	TRANSPORT Chg.% 12-month	HEALTH Index	HEALTH Chg.% 12-month	EDUCN & RECREATION Index	EDUCN & RECREATION Chg.% 12-month	OTHER Index	OTHER Chg.% 12-month
1995 December	84.5	8.2	87.4	9.0	84.3	7.1	87.8	7.1	114.6	-5.5	82.8	11.4	77.7	11.4	72.7	11.4	75.2	10.0
1996 December	90.1	6.6	91.0	4.1	91.6	8.6	91.8	4.6	109.3	-4.7	90.8	9.6	85.0	9.6	82.3	13.1	80.6	7.2
1997 December	95.5	6.0	99.4	9.2	95.8	4.6	96.2	4.7	100.1	-8.4	92.9	2.3	92.5	8.8	92.8	12.8	82.1	1.9
1998 December	100.0	4.7	100.0	0.6	100.0	4.4	100.0	4.0	100.0	-0.1	100.0	7.7	100.0	8.1	100.0	7.8	100.0	21.8
1999 December	102.3	2.3	101.0	1.0	101.5	1.5	99.0	-1.1	96.0	-4.0	109.8	9.8	104.9	4.9	104.3	4.3	100.6	0.6
1998																		
January	96.2	6.2	100.5	9.7	96.0	4.0	97.1	5.3	99.5	-7.2	93.4	1.9	93.9	9.2	92.4	12.8	84.3	3.9
February	96.1	5.2	99.2	6.8	96.7	4.0	97.2	5.3	98.5	-6.9	93.6	1.6	94.3	8.6	93.2	13.2	84.8	4.3
March	96.5	5.3	98.6	6.6	97.2	4.6	97.4	5.3	98.8	-6.3	93.3	0.9	94.7	9.0	97.6	13.2	85.7	4.9
April	96.8	5.4	97.6	5.1	97.4	4.6	97.8	5.2	103.2	-5.1	96.1	4.9	95.5	8.0	97.8	13.5	85.6	4.6
May	97.0	5.3	97.1	4.4	97.8	4.2	98.1	4.8	105.0	-2.9	96.9	5.8	96.0	7.9	98.0	13.4	85.8	5.3
June	97.4	5.4	97.4	4.5	98.2	4.3	98.6	4.9	103.9	-3.1	97.4	6.6	96.6	8.3	98.1	12.0	86.7	6.5
July	97.8	5.3	97.8	3.3	98.5	5.0	98.8	4.7	102.7	-3.4	98.1	7.2	98.3	8.3	98.2	11.5	87.4	7.4
August	98.1	5.2	98.5	2.9	99.0	5.3	99.0	4.1	98.1	-5.7	98.5	7.5	98.8	8.5	98.3	11.5	88.6	8.9
September	98.6	4.8	99.4	1.8	99.2	5.3	99.2	4.0	97.6	-4.1	99.1	7.2	99.0	8.4	98.9	10.8	88.9	9.2
October	99.4	4.3	100.6	0.2	99.5	4.7	99.5	4.0	98.9	-2.5	98.9	7.3	99.7	8.1	98.9	10.4	93.4	14.6
November	99.5	4.3	100.3	-0.3	99.8	4.5	99.8	4.0	99.9	-0.8	99.2	7.7	99.7	8.1	99.0	10.8	94.0	14.8
December	100.0	4.7	100.0	0.6	100.0	4.4	100.0	4.0	100.0	-0.1	100.0	7.7	100.0	8.1	100.0	7.8	100.0	21.8
1999																		
January	99.7	3.6	98.8	-1.7	100.0	4.2	99.9	2.9	96.1	-3.4	101.0	8.1	100.7	7.2	100.1	8.3	103.2	22.4
February	99.7	3.8	98.3	-1.0	100.2	3.5	100.0	2.8	95.3	-3.3	102.5	9.5	101.6	7.8	100.1	7.3	102.6	21.0
March	100.4	4.1	98.3	-0.3	100.4	3.4	99.9	2.5	97.0	-1.8	102.5	9.9	102.3	8.0	103.7	6.2	101.7	18.6
April	100.8	4.0	98.3	0.7	100.9	3.7	99.9	2.2	99.0	-4.0	103.7	7.9	102.7	7.5	103.6	5.9	100.3	17.1
May	100.9	4.0	98.4	1.4	100.3	2.6	99.7	1.6	99.9	-4.8	104.8	8.1	102.9	7.1	103.6	5.8	100.0	16.5
June	101.0	3.8	98.5	1.2	100.7	2.5	99.6	1.0	100.2	-3.5	104.7	7.4	103.2	6.8	103.7	5.7	100.2	15.6
July	101.1	3.4	98.4	0.6	100.9	2.4	99.5	0.6	98.5	-4.1	106.3	8.4	103.4	5.2	103.7	5.6	100.1	14.6
August	101.3	3.2	99.1	0.7	101.3	2.3	99.4	0.4	95.6	-2.5	107.8	9.4	103.6	4.8	103.4	5.2	99.6	12.4
September	101.5	2.9	99.6	0.2	100.8	1.5	99.3	0.1	96.7	-0.9	108.6	9.6	104.0	5.1	103.4	4.6	99.5	11.9
October	101.9	2.5	100.6	0.0	100.7	1.3	99.1	-0.4	97.0	-1.9	108.7	9.8	104.1	4.4	103.9	5.0	100.0	7.0
November	102.0	2.6	100.9	0.6	101.2	1.3	98.9	-0.8	96.2	-3.7	108.9	9.8	104.5	4.8	103.9	4.9	100.5	6.9
December	102.3	2.3	101.0	1.0	101.5	1.5	99.0	-1.1	96.0	-4.0	109.8	9.8	104.9	4.9	104.3	4.3	100.6	0.6

Source : National Bureau of Statistics (INE).

Table
3

HOURLY WAGE INDEX

(April 1993 = 100)

Period	NOMINAL			REAL (*)		
	Index	**Percentage Change**		**Index**	**Percentage Change**	
		Month	12-month		Month	12-month
1995 December	150.0	-	13.7	116.3	-	5.1
1996 December	164.2	-	9.5	119.4	-	2.7
1997 December	176.4	-	7.4	120.9	-	1.3
1998 December	190.0	-	7.7	124.5	-	2.9
1999 December	199.0	-	4.7	127.4	-	2.4
1999						
January	190.8	0.4	6.9	125.4	0.7	3.2
February	191.1	0.2	6.6	125.5	0.1	2.7
March	191.4	0.2	6.3	124.9	-0.4	2.1
April	192.3	0.5	6.2	125.0	0.1	2.1
May	192.8	0.2	6.0	125.2	0.1	1.9
June	194.4	0.8	6.1	126.0	0.7	2.3
July	194.7	0.2	5.9	126.1	0.1	2.4
August	194.6	0.0	5.6	125.9	-0.2	2.3
September	195.6	0.5	5.6	126.2	0.3	2.5
October	195.6	0.0	5.3	125.8	-0.4	2.7
November	195.9	0.1	5.1	125.7	0.0	2.5
December	199.0	1.6	4.7	127.4	1.3	2.4

(*) Deflated using CPI.

Source: National Bureau of Statistics (INE).

Table 4

LABOR COST INDEX

(April 1993 = 100)

Period	NOMINAL			REAL (*)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-month		Month	12-month
1995 December	143.8	-	12.2	111.5	-	3.7
1996 December	157.2	-	9.3	114.3	-	2.5
1997 December	169.1	-	7.6	115.9	-	1.4
1998 December	182.2	-	7.8	119.4	-	3.0
1999 December	190.8	-	4.7	122.2	-	2.3
1999						
January	182.0	-0.1	6.6	119.6	0.2	2.9
February	182.4	0.2	6.6	119.8	0.1	2.7
March	183.5	0.6	6.9	119.7	0.0	2.7
April	184.6	0.6	6.7	120.0	0.2	2.5
May	185.4	0.4	6.8	120.4	0.3	2.7
June	186.7	0.7	7.0	121.0	0.6	3.1
July	187.2	0.3	6.8	121.3	0.2	3.3
August	187.3	0.1	6.3	121.1	-0.1	3.0
September	188.2	0.5	6.1	121.5	0.3	3.0
October	188.2	0.0	6.0	121.0	-0.4	3.4
November	188.7	0.3	5.9	121.1	0.1	3.3
December	190.8	1.1	4.7	122.2	0.9	2.3

(*) Deflated using CPI.

Source: National Bureau of Statistics (INE).

Table 5

REAL WAGE INCREASE RESULTING FROM COLLECTIVE BARGAINING

(Percentages)

Period	UNIONS	OTHER GROUPS	TOTAL
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
1999			
January - March	0.8	0.1	0.6
April - June	0.5	0.5	0.5
July - September	0.5	0.4	0.4
October - December (*)	1.1	0.8	1.0

(*) Provisional data.

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

Table 6

INTEREST RATES ON CENTRAL BANK INSTRUMENTS (1)

Period	PDBC			PRBC (2)	PRD (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
1997											
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
1999											
January	-	12.75	12.60	7.30	6.81	6.80	6.79	6.80	6.66	7.24	7.06
February	-	10.04	11.75	7.20	6.59	6.61	6.58	6.60	6.36	-	-
March	-	11.09	11.90	7.16	-	-	-	-	-	6.82	6.72
April	-	13.59	12.13	6.86	6.41	6.41	6.40	6.36	6.28	6.68	6.60
May	-	11.71	11.30	6.14	6.34	6.34	6.34	6.30	6.17	6.21	6.41
June	-	9.28	10.62	5.37	6.11	6.11	6.12	6.11	6.07	-	-
July	-	9.76	10.63	5.23	6.36	6.39	6.39	6.41	6.34	-	-
August	-	9.93	10.62	5.12	6.47	6.51	6.54	6.54	6.48	-	-
September	-	9.91	10.27	4.95	6.45	6.51	6.52	6.53	6.47	-	-
October	-	10.68	10.52	5.14	6.58	6.63	6.63	6.64	6.62	-	-
November	-	11.63	11.37	5.67	6.70	6.73	6.73	6.75	6.73	-	-
December	-	11.09	11.19	5.73	6.66	6.73	6.72	6.74	6.72	-	-

(1) Mean 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 annual 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
7

INTEREST RATES ON 90- TO 365-DAY UF-INDEXED INSTRUMENTS (*)

(Financial system monthly averages)

Period	DEPOSIT	LOAN	SPREAD
1995 average	5.85	8.53	2.68
1996 average	6.94	9.34	2.39
1997 average	6.45	8.77	2.33
1998 average	9.53	11.93	2.40
1999 average	5.87	8.19	2.32
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
1999			
January	7.39	9.80	2.41
February	6.90	9.29	2.39
March	6.94	9.17	2.23
April	6.87	9.23	2.36
May	6.05	8.19	2.14
June	5.26	7.82	2.56
July	4.98	7.24	2.26
August	5.01	7.29	2.28
September	5.00	7.48	2.48
October	5.14	7.29	2.15
November	5.44	7.67	2.23
December	5.46	7.86	2.40

(*) Annual equivalent rates (360 days).

Source: Central Bank of Chile.

Table 8

MAIN MONETARY AGGREGATES

(Percentage change)

Period	MONTH					YEAR					12 MONTHS				
	E	**C**	**M1A**	**M2A**	**M7**	**E**	**C**	**M1A**	**M2A**	**M7**	**E**	**C**	**M1A**	**M2A**	**M7**
1997															
January	0.7	-1.3	4.7	3.6	2.3	0.7	-1.3	4.7	3.6	2.3	13.6	12.6	13.8	23.3	21.1
February	2.9	2.0	-1.6	0.7	1.4	3.6	0.7	3.0	4.3	3.7	16.1	11.8	14.1	21.9	21.1
March	-4.0	-0.9	-0.1	0.8	1.3	-0.6	-0.2	2.8	5.2	5.0	14.7	11.9	14.7	21.9	20.4
April	1.3	-0.8	0.8	1.1	1.8	0.6	-1.0	3.6	6.4	6.9	13.5	11.8	15.2	21.1	21.6
May	0.8	1.0	0.5	0.9	1.1	1.5	0.0	4.1	7.3	8.0	13.2	12.6	16.3	20.4	22.1
June	1.6	2.4	2.9	2.9	2.5	3.1	2.4	7.1	10.4	10.7	16.0	14.5	18.2	20.4	21.5
July	0.4	-1.0	-1.9	0.1	1.1	3.4	1.3	5.1	10.5	11.9	14.8	16.0	19.7	18.8	20.1
August	-2.7	-1.2	-1.3	0.7	0.5	0.6	0.1	3.7	11.3	12.5	17.9	16.0	17.9	18.9	18.4
September	8.2	5.8	6.2	2.7	2.0	8.9	6.0	10.1	14.2	14.8	17.8	15.6	20.4	21.0	19.7
October	-5.8	-3.4	-3.6	1.9	1.5	2.5	2.4	6.1	16.4	16.5	15.2	14.9	17.8	21.3	20.2
November	4.4	1.6	0.2	2.0	2.2	7.1	4.1	6.4	18.8	19.1	17.3	16.1	15.0	22.3	21.4
December	11.1	13.0	12.8	2.9	2.1	18.9	17.6	20.0	22.2	21.5	18.9	17.6	20.0	22.2	21.5
1998															
January	-1.0	-3.7	0.0	2.1	-0.4	-1.0	-3.7	0.0	2.1	-0.4	17.0	14.7	14.7	20.5	18.4
February	3.0	0.8	-4.7	1.0	0.0	2.1	-3.0	-4.7	3.1	-0.4	17.2	13.3	11.1	20.8	16.8
March	-3.4	-1.2	-0.4	0.9	1.4	-1.4	-4.1	-5.1	4.0	1.0	18.0	13.0	10.8	20.9	17.0
April	4.0	0.3	0.8	0.7	0.9	2.5	-3.8	-4.3	4.7	2.0	21.1	14.2	10.9	20.4	16.0
May	-2.0	-1.2	-0.5	1.9	0.5	0.4	-5.0	-4.7	6.7	2.5	17.7	11.7	9.8	21.6	15.3
June	-1.6	2.0	1.4	1.0	1.1	-1.2	-3.1	-3.4	7.8	3.6	14.0	11.3	8.2	19.4	13.7
July	0.2	-4.2	-7.8	2.7	0.6	-1.0	-7.2	-11.0	10.8	4.2	13.8	7.8	1.7	22.5	13.1
August	-4.3	-4.1	-3.6	-0.1	0.5	-5.3	-11.0	-14.2	10.7	4.7	12.0	4.5	-0.7	21.6	13.1
September	7.5	3.9	1.3	-0.2	0.4	1.8	-7.6	-13.1	10.4	5.1	11.2	2.5	-5.3	18.2	11.3
October	-8.5	-4.7	-3.9	0.4	0.7	-6.9	-11.9	-16.5	10.9	5.8	8.0	1.2	-5.5	16.5	10.3
November	3.7	0.0	0.8	0.1	0.7	-3.4	-11.9	-15.8	11.0	6.5	7.3	-0.5	-5.0	14.3	8.7
December	7.2	10.0	9.0	1.0	1.0	3.6	-3.1	-8.3	12.1	7.5	3.6	-3.1	-8.3	12.1	7.5
1999															
January	-2.3	-2.5	2.4	0.4	0.5	-2.3	-2.5	2.4	0.4	0.5	2.2	-1.8	-6.1	10.3	8.5
February	2.0	2.2	0.9	-0.3	0.5	-0.3	-0.3	3.3	0.1	1.1	1.2	-0.4	-0.5	8.9	9.1
March	-2.0	-1.3	-1.4	0.2	-0.2	-2.3	-1.7	1.8	0.3	0.8	2.7	-0.6	-1.6	8.1	7.3
April	-0.1	-1.4	-0.7	0.9	0.6	-2.4	-3.1	1.1	1.2	1.4	-1.3	-2.3	-3.1	8.3	6.9
May	2.5	0.3	1.7	3.0	2.4	0.0	-2.7	2.8	4.2	3.9	3.2	-0.8	-1.0	9.5	9.0
June	-0.5	1.6	2.0	2.9	2.6	-0.5	-1.2	4.9	7.3	6.6	4.3	-1.2	-0.4	11.5	10.7
July	-0.9	-1.2	-2.7	-0.5	-0.3	-1.4	-2.3	2.0	6.7	6.3	3.1	2.0	5.1	8.0	9.7
August	-2.7	-2.2	-2.1	-0.6	-0.4	-4.1	-4.5	-0.1	6.0	5.8	4.9	4.0	6.8	7.4	8.7
September	5.4	5.8	7.0	1.7	1.4	1.0	1.0	6.8	7.9	7.3	2.8	6.0	12.7	9.5	9.8
October	-2.7	-1.5	-0.9	0.4	0.5	-1.7	-0.5	5.8	8.3	7.8	9.3	9.5	16.2	9.4	9.6
November	4.4	1.8	2.2	1.3	1.4	2.6	1.3	8.2	9.7	9.3	10.0	11.5	17.9	10.7	10.4
December (*)	8.6	15.4	10.9	0.7	0.7	11.4	16.9	19.9	10.5	10.0	11.4	16.9	19.9	10.5	10.0

E: Monetary emission.
C: Currency.
M1A: Broad private money: currency + non-financial private sector checking accounts net of float + demand deposits other than checking accounts + demand savings deposits.
M2A: M1A + private sector time 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 foreign currency deposits.
(*) Provisional data.

Source: Central Bank of Chile.

Table 9

FINANCIAL SYSTEM LOANS

Period	DOMESTIC CURRENCY (1) (Billions of pesos)										FOREIGN CURRENCY (US$ million)					TOTAL (3) (Billions of pesos)				
	EFFECTIVE (2)					MORTGAGES					EFFECTIVE									
	Amount	Percentage Change				Amount	Percentage Change				Amount	Percentage Change				Amount	Percentage Change			
		Nominal		Real			Nominal		Real			US$	Pesos		Real		Nominal		Real	
		Month	12-month	Month	12-month		Month	12-month	Month	12-month		Month	Month	12-month	12-month		Month	12-month	Month	12-month
1998																				
January	13,224	1.5	22.5	1.4	15.5	4,513	0.8	23.3	0.7	16.4	4,480	-0.3	0.7	9.3	3.1	19,707	1.3	21.2	1.2	14.4
February	13,303	0.6	20.8	0.4	14.2	4,531	0.4	20.2	0.2	13.6	4,597	2.6	5.4	16.7	10.3	19,910	1.0	20.2	0.8	13.7
March	13,444	1.1	21.2	0.6	14.6	4,562	0.7	18.4	0.2	12.0	4,586	-0.2	0.0	20.3	13.8	20,082	0.9	20.4	0.4	13.9
April	13,640	1.5	21.3	1.4	15.4	4,593	0.7	16.8	0.6	11.2	4,516	-1.5	-1.2	20.1	14.3	20,284	1.0	20.1	0.9	14.3
May	13,899	1.9	21.1	1.5	15.2	4,629	0.8	16.0	0.4	10.3	4,505	-0.2	-0.5	18.3	12.5	20,568	1.4	19.7	1.0	13.8
June	14,034	1.0	21.7	0.6	15.7	4,648	0.4	14.7	0.1	9.0	4,240	-5.9	-5.5	12.4	6.9	20,610	0.2	19.2	-0.1	13.3
July	14,074	0.3	21.1	0.0	15.1	4,674	0.6	13.4	0.3	7.8	4,112	-3.0	-0.8	12.4	6.8	20,661	0.2	18.4	0.0	12.5
August	14,238	1.2	20.5	0.8	14.5	4,711	0.8	12.5	0.5	6.8	3,925	-4.6	-4.6	5.5	0.3	20,775	0.6	17.1	0.2	11.3
September	14,339	0.7	19.2	0.3	13.4	4,724	0.3	11.1	-0.1	5.7	4,241	8.1	10.2	15.4	9.8	21,074	1.4	16.9	1.1	11.2
October	14,450	0.8	17.9	0.4	12.4	4,729	0.1	9.4	-0.2	4.3	4,317	1.8	0.1	13.0	7.7	21,192	0.6	15.4	0.2	10.1
November	14,559	0.8	15.8	0.2	10.8	4,740	0.2	7.9	-0.3	3.3	4,404	2.0	1.2	8.0	3.3	21,336	0.7	13.2	0.1	8.3
December	14,663	0.7	12.6	0.1	8.1	4,770	0.6	6.6	0.0	2.3	4,244	-3.6	-2.9	1.1	-2.9	21,413	0.4	10.1	-0.2	5.6
1999																				
January	14,624	-0.3	10.6	-0.5	6.0	4,787	0.4	6.1	0.1	1.7	4,182	-1.5	0.1	0.5	-3.6	21,392	-0.1	8.6	-0.3	4.1
February	14,648	0.2	10.1	-0.1	5.6	4,809	0.4	6.1	0.2	1.7	4,153	-0.7	1.3	-3.4	-7.4	21,464	0.3	7.8	0.1	3.3
March	14,713	0.4	9.4	0.6	5.6	4,808	0.0	5.4	0.2	1.7	4,083	-1.7	1.5	-1.9	-5.4	21,558	0.4	7.3	0.6	3.6
April	14,595	-0.8	7.0	-1.0	3.1	4,857	1.0	5.7	0.8	1.9	3,838	-6.0	-8.8	-9.5	-12.8	21,309	-1.2	5.0	-1.4	1.2
May	14,707	0.8	5.8	0.2	1.8	4,859	0.0	5.0	-0.5	1.0	3,728	-2.9	-2.4	-11.1	-14.5	21,379	0.3	3.9	-0.2	0.0
June	14,593	-0.8	4.0	-1.1	0.0	4,894	0.7	5.3	0.4	1.3	3,681	-1.3	0.1	-5.8	-9.4	21,303	-0.4	3.4	-0.7	-0.6
July	14,424	-1.2	2.5	-1.3	-1.3	4,908	0.3	5.0	0.2	1.1	3,716	0.9	6.2	0.8	-2.9	21,260	-0.2	2.9	-0.3	-0.9
August	14,463	0.3	1.6	0.2	-1.9	4,940	0.6	4.8	0.5	1.2	3,680	-1.0	-1.5	4.0	0.4	21,301	0.2	2.5	0.1	-1.0
September	14,534	0.5	1.4	0.4	-1.9	4,974	0.7	5.3	0.6	1.9	3,879	5.4	5.6	-0.3	-3.5	21,513	1.0	2.1	0.9	-1.2
October	14,633	0.7	1.3	0.5	-1.8	5,014	0.8	6.0	0.6	2.8	3,705	-4.5	-1.9	-2.3	-5.3	21,614	0.5	2.0	0.3	-1.1
November	14,814	1.2	1.8	1.0	-1.1	5,058	0.9	6.7	0.6	3.8	3,819	3.1	6.3	2.7	-0.2	21,964	1.6	2.9	1.4	0.1
December (4)	14,972	1.1	2.1	0.7	-0.5	5,108	1.0	7.1	0.6	4.4	3,830	0.3	-0.1	5.6	2.9	22,168	0.9	3.5	0.6	0.9

(1) Real change deflated using average UF for the period.
(2) Net, effective interbank loans. Includes only private and public sectors. Does not include notes purchased from institutions on sale nor contingency loans.
(3) Foreign currency loans are converted to pesos using accounting exchange rate published by the Superintency of Banks and Finance Companies (SBIF), that is the rate observed on the last day of the preceding month.
(4) Provisional data.

Source: Central Bank of Chile.

Table 10

MULTILATERAL EXCHANGE RATE (MER) INDEX (1)

(2 January 1998 = 100)

Period	TOTAL MER Index	TOTAL MER Percentage Change Month	TOTAL MER Percentage Change 12-month	TOTAL MER Percentage Change Over Dec.	MER 5 (2) Index	MER 5 (2) Percentage Change Month	MER 5 (2) Percentage Change 12-month	MER 5 (2) Percentage Change Over Dec.	OBSERVED DOLLAR INDEX (Base: 2 January 1998 = 100)
1995 average	104.2	-	-8.2 (3)	1.4 (4)	101.5	-	-1.4 (3)	3.4 (4)	90.3
1996 average	104.2	-	0.0 (3)	-0.2 (4)	101.4	-	-0.1 (3)	-0.1 (4)	93.9
1997 average	100.0	-	-4.0 (3)	-4.5 (4)	97.6	-	-3.7 (3)	-2.6 (4)	95.5
1998 average	103.7	-	3.7 (3)	7.5 (4)	105.1	-	7.7 (3)	11.3 (4)	104.8
1999 average	109.7	-	5.7 (3)	6.6 (4)	117.1	-	11.4 (3)	11.2 (4)	115.8
1998									
January	102.4	2.0	-1.5	2.0	102.7	2.6	1.4	2.6	103.2
February	101.5	-0.8	1.2	1.1	102.2	-0.5	5.0	2.1	102.1
March	102.3	0.8	2.9	1.9	102.6	0.4	6.4	2.5	103.0
April	102.6	0.3	2.9	2.1	102.7	0.1	6.2	2.6	103.3
May	102.3	-0.3	1.6	1.8	102.7	0.0	4.7	2.6	103.2
June	101.8	-0.4	1.1	1.4	102.3	-0.4	4.1	2.2	103.9
July	103.8	2.0	4.1	3.4	104.0	1.7	7.1	3.9	105.8
August	104.5	0.7	6.4	4.1	105.0	1.0	10.1	4.9	107.3
September	105.1	0.5	6.8	4.6	107.9	2.7	12.7	7.8	107.1
October	105.5	0.4	7.1	5.0	109.4	1.4	13.8	9.3	105.6
November	105.1	-0.3	4.9	4.7	108.5	-0.8	10.2	8.4	105.5
December	107.9	2.7	7.5	7.5	111.4	2.7	11.3	11.3	107.6
1999									
January	106.7	-1.1	4.2	-1.1	112.5	1.0	9.5	1.0	108.3
February	107.3	0.5	5.7	-0.6	114.8	2.1	12.3	3.1	112.4
March	105.7	-1.5	3.3	-2.1	113.0	-1.6	10.1	1.5	112.1
April	104.5	-1.2	1.8	-3.2	110.1	-2.5	7.2	-1.1	109.8
May	104.9	0.4	2.5	-2.8	110.2	0.1	7.4	-1.0	110.4
June	107.3	2.3	5.4	-0.6	113.4	2.9	10.9	1.8	114.3
July	110.1	2.5	6.0	2.0	116.6	2.9	12.1	4.8	117.7
August	110.1	0.0	5.3	2.0	117.8	1.0	12.2	5.8	116.8
September	112.7	2.4	7.3	4.4	121.2	2.9	12.4	8.9	119.4
October	115.4	2.4	9.5	6.9	125.5	3.5	14.8	12.7	122.5
November	116.1	0.6	10.4	7.5	125.6	0.1	15.9	12.8	123.8
December	115.1	-0.9	6.6	6.6	123.9	-1.4	11.2	11.2	122.6

(1) The Multilateral Exchange Rate (MER) Index represents a nominal value for the peso against a broad basket of foreign currencies.
(2) MER5 includes the currencies of the USA, Japan, UK, Canada and Euro area (Germany, France, Spain, Italy, Holland, and Belgium).
(3) Annual mean change.
(4) December to December change.

Source: Central Bank of Chile.

Table 11

REAL OBSERVED EXCHANGE RATE (ROER) INDEX

(1986 = 100)

Period	TOTAL ROER (1)				ROER 5 (2)			
	Index	**Percentage Change**			**Index**	**Percentage Change**		
		Month	12-Month	Over Dec.		Month	12-Month	Over Dec.
1995 average	88.9	-	-5.7 (3)	-3.3 (4)	77.5	-	-6.7 (3)	-2.4 (4)
1996 average	84.7	-	-4.8 (3)	-4.2 (4)	73.4	-	-5.3 (3)	-4.7 (4)
1997 average	78.2	-	-7.7 (3)	-8.4 (4)	67.3	-	-8.3 (3)	-7.8 (4)
1998 average (5)	78.0	-	-0.2 (3)	2.8 (4)	68.0	-	1.0 (3)	3.6 (4)
1999 average (5)	82.3	-	5.6 (3)	10.9 (4)	73.4	-	8.0 (3)	11.9 (4)
1998 (5)								
January	78.0	1.4	-6.3	1.4	68.1	1.4	-5.5	1.4
February	77.6	-0.6	-2.7	0.8	67.6	-0.7	-1.4	0.6
March	77.9	0.4	-0.7	1.2	67.5	-0.1	0.2	0.5
April	77.9	0.1	-0.9	1.2	67.3	-0.3	-0.3	0.3
May	77.7	-0.3	-2.1	1.0	67.3	0.0	-1.5	0.3
June	77.1	-0.8	-2.6	0.2	66.6	-1.1	-2.2	-0.8
July	78.3	1.6	0.7	1.8	67.4	1.3	0.9	0.4
August	78.4	0.2	2.5	1.9	67.7	0.4	3.3	0.8
September	78.4	-0.1	3.1	1.9	68.9	1.8	5.6	2.7
October	78.0	-0.5	3.7	1.4	69.2	0.4	6.9	3.1
November	77.6	-0.5	1.3	0.8	68.4	-1.2	3.2	1.9
December	79.1	1.9	2.8	2.8	69.6	1.7	3.6	3.6
1999 (5)								
January	78.9	-0.3	1.1	-0.3	70.4	1.3	3.5	1.3
February	79.7	1.0	2.7	0.7	71.8	1.9	6.3	3.2
March	78.5	-1.5	0.8	-0.7	70.4	-2.0	4.2	1.2
April	77.8	-0.9	-0.1	-1.6	68.7	-2.4	2.0	-1.3
May	78.3	0.6	0.7	-1.0	69.0	0.4	2.4	-0.9
June	80.2	2.5	4.1	1.4	71.0	3.0	6.6	2.1
July	82.6	2.9	5.5	4.4	73.1	3.0	8.5	5.2
August	83.0	0.5	5.9	5.0	74.1	1.3	9.5	6.6
September	85.4	2.8	8.9	7.9	76.4	3.1	10.8	9.8
October	87.6	2.5	12.2	10.7	78.9	3.3	14.0	13.5
November	88.4	1.0	13.9	11.7	79.0	0.0	15.5	13.5
December	87.8	-0.7	10.9	10.9	77.8	-1.5	11.9	11.9

(1) Observed nominal exchange rate multiplied by (relevant foreign inflation over CPI). Foreign inflation calculated using WPI of Chile's main trading partners, expressed in dollars, weighted by their relative importance to imports and exports (excluding oil and copper) that Chile trades with them. Monthly change used for both WPI and countries' exchange rates.
(2) Uses the same definition as (1) for USA, Japan, UK, Canada and Euro area (Germany, France, Spain, Italy, Holland, and Belgium).
(3) Annual mean change.
(4) December to December change.
(5) Provisional data.

Source: Central Bank of Chile.

Table 12

QUARTERLY GROSS DOMESTIC PRODUCT (1)

(Percentage change over same period previous year)

Period	QUARTER				YEAR
	I	II	III	IV	
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	4.7	6.3	8.9	9.9	7.4
1998 (2)	7.9	5.8	2.9	-2.8	3.4
1999 (2)	-2.7	-3.6	-1.7	3.9	-1.1

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

Source: Central Bank of Chile.

Table 13

GROSS DOMESTIC PRODUCT BY SECTOR (1)

(Annual percentage change)

Sector	1993	1994	1995	1996	1997	1998 (3)	1999 (3)
Agriculture, livestock and forestry	2.7	6.0	5.2	1.3	-5.1	3.0	-1.2
Fishing	5.6	16.3	15.9	9.7	9.5	3.2	1.7
Mining	-0.2	8.9	9.3	15.8	10.6	4.1	16.9
Manufacturing	7.3	4.1	7.5	3.2	5.3	-1.5	-0.7
Electricity, gas and water	4.8	6.2	7.6	-3.8	5.1	4.8	1.8
Construction	23.5	-1.1	9.9	8.6	7.3	-0.4	-10.0
Trade, hotels and catering	7.3	5.1	14.2	9.5	9.5	5.1	-3.5
Transport and communications	5.8	5.4	14.7	10.2	12.5	11.2	2.7
Financial services	6.9	7.1	9.8	6.8	7.4	3.5	-1.0
Home ownership	3.1	3.1	2.9	3.1	3.7	3.2	2.9
Personal services (2)	3.6	3.9	3.2	5.8	5.1	3.2	-0.3
Public administration	1.9	1.1	1.4	1.4	1.4	1.4	1.4
Subtotal	**6.2**	**5.1**	**9.2**	**6.8**	**6.8**	**3.4**	**0.4**
Less: Bank charges	6.3	4.5	8.5	7.4	2.8	3.0	-1.9
Plus: Collected net VAT	8.9	7.3	10.6	9.8	10.3	4.2	-3.0
Plus: Import duties	15.6	10.6	28.5	11.5	11.6	1.8	-16.3
Total GDP	**7.0**	**5.7**	**10.6**	**7.4**	**7.4**	**3.4**	**-1.1**

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

Source: Central Bank of Chile.

Table 14

NATIONAL EMPLOYMENT AND UNEMPLOYMENT (1) (2)

Mobile quarterly average ending in specified month (Thousands of people)

Period	WORK FORCE Total	WORK FORCE Percentage change over previous period	EMPLOYED Total	EMPLOYED Percentage change over previous period	UNEMPLOYED Total	UNEMPLOYED Percentage change over previous period	UNEMPLOYMENT RATE
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
1999 average	5,823	1.8	5,258	-2.1	565	59.9	9.9
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
1999							
January	5,846	2.6	5,410	0.2	435	45.6	7.4
February	5,796	2.3	5,361	-0.3	434	49.7	7.5
March	5,791	1.9	5,318	-1.2	473	57.3	8.2
April	5,806	2.2	5,300	-1.5	505	68.2	8.7
May	5,794	1.8	5,227	-2.7	568	77.0	9.8
June	5,761	1.4	5,140	-3.7	622	79.5	10.8
July	5,767	1.6	5,124	-3.5	643	76.4	11.1
August	5,795	1.5	5,130	-3.7	665	71.7	11.5
September	5,822	1.5	5,159	-3.5	664	70.9	11.4
October	5,854	1.5	5,208	-2.9	646	61.8	11.0
November	5,907	1.6	5,315	-1.6	592	42.6	10.0
December	5,934	1.4	5,404	-0.5	529	26.2	8.9

(1) Population 15 years 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 15

BALANCE OF PAYMENTS (1)

(US$ millions)

Item	1997	1998	1999	Percentage Change (2)	
				1998	1999
I, CURRENT ACCOUNT	**-3,728**	**-4,143**	**-78**	**11.1**	**-98.1**
A. Trade balance	-1,557	-2,517	1,664	61.6	
Exports fob	16,663	14,830	15,616	-11.0	5.3
Imports fob	18,220	17,346	13,951	-4.8	-19.6
B. Non-financial services	48	-115	-315		174.4
Credits	4,110	4,119	3,790	0.2	-8.0
Debits	4,062	4,234	4,105	4.2	-3.0
C. Financial services	-2,738	-1,975	-1,881	-27.9	-4.8
Net interest	-574	-637	-768	11.0	20.6
Net profits (3)	-2,164	-1,338	-1,113	-38.2	-16.8
Net remittance	-1,406	-1,013	-985	-28.0	-2.8
Net reinvestment	-758	-325	-128	-57.1	-60.6
D. Transfers	519	463	453	-10.7	-2.1
II. CAPITAL ACCOUNT	**7,381**	**3,253**	**-764**	**-55.9**	
A. Medium- and long-term capital	8,965	4,324	4,561	-51.8	5.5
Foreign investment (4)	5,718	1,012	4,496	-82.3	344.4
Direct	3,353	1,841	4,366	-45.1	137.2
– From abroad	5,219	4,638	9,221	-11.1	98.8
Direct contribution	4,333	4,154	8,907	-4.1	114.4
Profit reinvestment	886	484	314	-45.4	-35.1
– Abroad	1,866	2,797	4,855	49.9	73.6
Direct contribution	1,738	2,638	4,669	51.8	77.0
Profit reinvestment	128	159	186	24.2	17.0
Portfolio	2,365	-829	130		
– From abroad	2,602	590	2,496	-77.3	323.1
– Abroad	237	1,419	2,366	498.7	66.7
DL 600 credit disbursements	1,438	1,703	537	18.4	-68.5
Other disbursements	4,797	4,374	3,569	-8.8	-18.4
Loan repayments	2,903	2,402	3,384	-17.3	40.9
Foreign debt conversion	0	-23	0		
Other (5)	-86	-340	-656	296.5	93.2
B. Short-term capital	-1,584	-1,071	-5,325	-32.4	397.2
Credit lines	-1,355	343	-384		
Others (6)	-229	-1,414	-4,941	517.2	249.4
III. ERRORS AND OMISSIONS	**-444**	**-1,176**	**159**	**164.8**	
IV. BALANCE OF PAYMENTS	**3,209**	**-2,066**	**-683**		**-66.9**
Note: Current account excluding reinvestment of earnings	-2,970	-3,818	50	28.6	

(1) Provisional data.
(2) Change of sign (- or +) not indicated.
(3) From 1990 on, "profits" refer to profits remitted and reinvested. The counterpart appears in the capital account.
(4) Includes direct investment via DL 600, capital contributions via Chapter XI, ADRs, investment funds, bonds, Chapter XIX, and investments abroad.
(5) Includes financing via leasing 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 16

TRADE BALANCE (1)

(US$ millions)

Item	1997	1998	1999	Percentage Change (2) 1998	Percentage Change (2) 1999
TRADE BALANCE	**-1,557**	**-2,517**	**1,664**	**61.6**	
Total exports (fob)	**16,663**	**14,830**	**15,616**	**-11.0**	**5.3**
Copper	6,841	5,332	5,889	-22.1	10.4
Non-copper	9,822	9,498	9,727	-3.3	2.4
Other main (3)	4,353	3,801	3,777	-12.7	-0.6
Non-traditional	5,470	5,697	5,950	4.2	4.4
Total imports (fob)	**18,220**	**17,346**	**13,951**	**-4.8**	**-19.6**
Total imports (cif)	**19,662**	**18,779**	**15,137**	**-4.5**	**-19.4**
Consumer goods	3,616	3,463	2,833	-4.2	-18.2
Intermediate goods	10,557	10,205	9,008	-3.3	-11.7
Fuel	1,892	1,492	1,799	-21.2	20.6
Other	8,665	8,713	7,209	0.6	-17.3
Capital goods	5,490	5,112	3,297	-6.9	-35.5

(1) Provisional data.
(2) Sign changes not indicated.
(3) Includes iron, nitrates and iodine, silver, gold ore, fruit, fishmeal, lumber, sawlogs, pulp, methanol, lithium carbonate, oxide and ferro-molybdenum, metallic gold and metal doré (98% silver, 2% gold bullion).

Source: Central Bank of Chile.

Table 17

FOREIGN TRADE INDICATORS (*)

Item	1997	1998	1999
Copper price LME (US$/lb)	1.026	0.750	0.713
Oil price (US$/barrel fob)	18.0	11.9	14.9
Libor US$ over 180 days (nominal)	5.8%	4.3%	5.5%
Total foreign inflation	-3.7%	-4.3%	-1.4%
Terms of trade index (1988=1.0)			
Total goods	0.92	0.81	0.82
Total non-copper and non-oil goods	1.03	0.96	0.99
Total exports			
Change by amount	8.2%	-11.0%	5.3%
Change by price (fob)	-2.0%	-17.1%	-2.6%
Change by volume	10.4%	7.4%	8.1%
Copper exports			
Change by amount	13.5%	-22.1%	10.4%
Change by price (fob)	-4.8%	-27.3%	-2.9%
Change by volume	19.2%	7.2%	13.7%
Traditional exports excluding copper			
Change by amount	2.0%	-12.7%	-0.6%
Change by price (fob)	-0.4%	-11.4%	-6.2%
Change by volume	2.4%	-1.4%	5.9%
Non-traditional exports			
Change by amount	7.1%	4.2%	4.4%
Change by price (fob)	0.4%	-9.0%	0.2%
Change by volume	6.6%	14.5%	4.2%
Imports of goods			
Change by value	10.3%	-4.5%	-19.4%
Change by price (cif)	-4.5%	-5.2%	-3.5%
Change by volume	15.5%	0.7%	-16.4%

(*) Provisional data.

Source: Central Bank of Chile.

Table 18

FINANCIAL SERVICES (1)

(US$ millions)

Item	1997	1998	1999	Percentage Change (2) 1998	Percentage Change (2) 1999
INTEREST PAID (3)	**1,418**	**1,507**	**1,506**	**6.3**	**-0.1**
Medium- and long-term	1,250	1,364	1,416	9.1	3.8
Short-term	168	143	90	-14.9	-37.1
INTEREST RECEIVED	**844**	**870**	**738**	**3.1**	**-15.2**
EARNINGS AND DIVIDENDS	**-2,164**	**-1,338**	**-1,113**	**-38.2**	**-16.8**
Received	240	262	363	9.2	38.5
Profits remitted	112	103	177	-8.0	71.8
Profits reinvested	128	159	186	24.2	17.0
Paid	2,404	1,600	1,476	-33.4	-7.8
Profits remitted (4)	1,518	1,116	1,162	-26.5	4.1
Profits reinvested	886	484	314	-45.4	-35.1
LEASING SERVICES	**0**	**0**	**0**		
TOTAL FINANCIAL SERVICES	**-2,738**	**-1,975**	**-1,881**	**-27.9**	**-4.8**
Credits	1,084	1,132	1,101	4.4	-2.7
Debits	3,822	3,107	2,982	-18.7	-4.0

(1) Provisional data.
(2) Change of sign not indicated.
(3) Includes interest paid on foreign debt and other liabiilities not included therein.
(4) Gross earnings (before additional tax).

Source: Central Bank of Chile.

Table
19

NON-FINANCIAL SERVICES (1)

(US$ millions)

Item	1997	1998	1999	Percentage Change (2) 1998	Percentage Change (2) 1999
EXPORT SHIPMENTS	**111**	**47**	**57**	**-57.7**	**21.3**
Credits	969	929	887	-4.1	-4.5
Debits	858	882	830	2.8	-5.9
OTHER TRANSPORT	**-579**	**-591**	**-542**	**2.1**	**-8.3**
Passenger service	59	47	75	-20.3	59.6
Credits	356	369	353	3.7	-4.3
Debits	297	322	278	8.4	-13.7
Port services	-638	-638	-617	0.0	-3.3
Credits	387	381	358	-1.6	-6.0
Debits	1,025	1,019	975	-0.6	-4.3
TRAVEL	**264**	**215**	**93**	**-18.6**	**-56.7**
Credits	1,103	1,158	1,052	5.0	-9.2
Debits	839	943	959	12.4	1.7
OTHER GOODS, SERVICES AND INCOME	**252**	**214**	**77**	**-15.0**	**-64.1**
Credits	1,295	1,282	1,140	-1.0	-11.1
Debits	1,043	1,068	1,063	2.4	-0.4
TOTAL NON-FINANCIAL SERVICES	**48**	**-115**	**-315**		**174.4**
Credits	4,110	4,119	3,790	0.2	-8.0
Debits	4,062	4,234	4,105	4.2	-3.0

(1) Provisional data.
(2) Change of sign not indicated.

Source: Central Bank of Chile.

Table 20

NET FOREIGN INVESTMENT FLOWS INTO CHILE

(US$ millions)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997 (1)	1998 (1)	1999 (1)
I. TOTAL FOREIGN INVESTMENT	**1,360**	**1,015**	**885**	**996**	**1,330**	**2,580**	**2,241**	**4,545**	**5,718**	**1,012**	**4,496**
A. DIRECT INVESTMENT	1,277	654	697	538	600	1,672	2,205	3,445	3,353	1,841	4,366
From abroad	1,284	661	822	935	1,034	2,583	2,956	4,633	5,219	4,638	9,221
Decree Law 600	169	208	455	512	660	1,466	1,488	3,710	3,457	4,255	8,296
Chapter XIV capital contribution	11	35	96	157	203	400	406	411	900	215	641
Chapter XIX (2)	1,104	339	-40	-32	-55	-104	-214	-82	-24	-316	-30
Profit reinvestment (3)	n/d	79	311	298	226	821	1,276	594	886	484	314
Abroad	7	7	125	397	434	911	751	1,188	1,866	2,797	4,855
Direct contribution	7	7	125	376	433	926	696	1,071	1,738	2,638	4,669
Profit reinvestment	n/d	n/d	n/d	21	1	-15	55	117	128	159	186
B. PORTFOLIO INVESTMENT	83	361	188	458	730	908	36	1,100	2,365	-829	130
From abroad	83	361	188	458	820	1,259	49	1,230	2,602	590	2,496
ADR Chapter XXVI	0	105	-31	281	790	1,273	32	863	1,796	692	465
Investment funds	90	262	55	57	26	-14	-280	-202	-88	-164	-23
Bonds	-7	-6	164	120	4	0	297	569	894	62	2,054
Abroad	0	0	0	0	90	351	13	130	237	1,419	2,366
II. ASSOCIATED CREDITS	**311**	**610**	**198**	**34**	**616**	**837**	**965**	**608**	**1,006**	**1,036**	**-261**
Credit disbursement	437	749	372	311	845	1,001	1,343	900	1,438	1,703	536
Credit amortization	126	139	174	277	229	164	378	292	432	667	797
TOTAL (I + II)	**1,671**	**1,625**	**1,083**	**1,030**	**1,946**	**3,417**	**3,206**	**5,153**	**6,724**	**2,048**	**4,235**

(1) Provisional data.
(2) Reconversion cost used. From 1991 on, includes repatriation of capital.
(3) From 1990 on, this includes reinvestment of profits for direct reinvestment from abroad. From 1992 on, this includes the same concept for direct investment abroad.

Source: Central Bank of Chile.

Table 21

FOREIGN DEBT INDICATORS (1)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 (2)
						(Millions of US dollars)					
Total foreign debt	16,252	17,425	16,364	18,242	19,186	21,478	21,736	22,979	26,701	31,691	33,984
Medium- and long-term debt service	2,139	2,086	2,197	2,229	2,378	2,351	4,141	5,793	4,140	3,977	4,877
Interest on total foreign debt	1,559	1,558	1,417	1,240	1,089	1,121	1,308	1,218	1,350	1,483	1,582
Current account deficit	-690	-485	-99	-958	-2,553	-1,585	-1,345	-3,512	-3,728	-4,143	-78
Foreign exchange reserves	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841	15,992	14,710
Trade balance	1,483	1,284	1,485	722	-990	732	1,382	-1,091	-1,557	-2,517	1,664
Exports of goods and services	9,614	10,222	11,069	12,365	11,711	14,444	19,359	19,066	20,773	18,949	19,406
Imports of goods (fob)	6,595	7,089	7,456	9,285	10,189	10,872	14,643	16,496	18,220	17,346	13,951
						(Percentages)					
Total foreign debt /Exports of goods and services	169.0	170.5	147.8	147.5	163.8	148.7	112.3	120.5	128.5	167.2	175.1
Medium- and long-term foreign debt service/Exports of goods and services	22.2	20.4	19.8	18.0	20.3	16.3	21.4	30.4	19.9	21.0	25.1
Interest/Exports of goods and services	16.2	15.2	12.8	10.0	9.3	7.8	6.8	6.4	6.5	7.8	8.2
Current account deficit/ Exports of goods and services	-7.2	-4.7	-0.9	-7.7	-21.8	-11.0	-6.9	-18.4	-17.9	-21.9	-0.4
Trade balance/ Exports of goods and services	15.4	12.6	13.4	5.8	-8.5	5.1	7.1	-5.7	-7.5	-13.3	8.6
Current account deficit/GDP	-2.5	-1.6	-0.3	-2.3	-5.7	-3.1	-2.1	-5.1	-5.0	-5.7	-0.1
Total foreign debt / GDP	59.0	57.5	47.2	43.6	43.1	42.2	33.3	33.5	35.5	43.5	50.4
						(Number of months)					
Net foreign exchange reserves/ Imports of goods (fob)	5	9	11	12	11	15	12	11	12	11	13

(1) From 1989 on, there were methodological changes in calculating balance of payments and national accounts.
(2) Provisional data.

Source: Central Bank of Chile.

Table 22

FOREIGN EXCHANGE RESERVES OF THE CENTRAL BANK OF CHILE (1)

(US$ millions)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1. Gold	592	642	597	574	612	652	643	637	533	322	317
(Troy ounces)	1,752	1,858	1,863	1,867	1,865	1,864	1,861	1,859	1,858	1,222	1,220
2. SDRs	24	1	1	1	1	1	3	2	1	8	19
3. Reserve position in IMF	0	0	0	0	0	0	0	50	313	602	402
4. Foreign currency assets	3,604	6,068	7,041	9,167	9,639	13,087	14,137	14,781	16,992	15,049	13,977
5. Other international assets	-5	-202	-43	-11	-15	17	22	4	2	11	-5
6. IMF credit used	1,268	1,151	955	722	479	290	0	0	0	0	0
7. Short-term credit	5	10	1	1	0	0	0	0	0	0	0
I. FOREIGN EXCHANGE ASSETS (2)	4,215	6,509	7,596	9,731	10,237	13,757	14,805	15,474	17,841	15,992	14,710
II. GROSS RESERVES (3)	2,947	5,358	6,641	9,009	9,758	13,467	14,805	15,474	17,841	15,992	14,710
III. NET RESERVES (4)	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841	15,992	14,710

(1) Calculated using current rates for currencies and gold at each period's end.
(2) The result of (1 + 2 + 3 + 4 + 5).
(3) The result of (I - 6).
(4) The result of (II - 7).

Source: Central Bank of Chile.

Table 23

MEDIUM - AND LONG-TERM FOREIGN DEBT FLOWS JANUARY-DECEMBER 1999 AND BALANCES AS OF DECEMBER 31st 1999 (1)

(US$ millions)

Debtor	DISBURSEMENT	AMORTI-ZATION	INTEREST	BALANCE 31/12/2000 (2) (3) (4)
PUBLIC SECTOR (I + II + III)	**990.9**	**479.7**	**308.7**	**5,567.0**
I. Financial	0.0	3.1	23.2	272.0
II. Non-financial	990.9	453.3	276.5	5,180.4
III. Publicly-guaranteed private sector	-	23.3	9.0	114.6
PRIVATE SECTOR (I + II + III)	**4,940.1**	**2,866.6**	**1,222.5**	**27,245.9**
I. Financial	30.8	286.4	112.4	1,574.8
II. Companies and persons	4,749.3	2,580.2	944.9	23,511.1
III. Agencies abroad	160.0	0.0	165.2	2,160.0
TOTAL MEDIUM- AND LONG-TERM	**5,931.0**	**3,346.3**	**1,531.2**	**32,812.9**

(1) Exchange rate for the month flow occurred. Balance exchange rate as of 31 December 1999. Contract specifies timeframe.
(2) Balance for 31 December 1999 is US$12.3 million less than one year earlier, due to exchange rate.
(3) Balance rises US$135.4 million due to transfer of credit from short- to medium-term.
(4) Balance rises US$ 24.3 million due to statistical adjustments.

Source: Central Bank of Chile.

Table 24

CHILE'S FOREIGN DEBT AT THE END OF EACH PERIOD BY RESIDUAL MATURITY

(US$ millions)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 (1)
I. FOREIGN DEBT (II+III)	**16,252**	**17,425**	**16,364**	**18,242**	**19,186**	**21,478**	**21,736**	**22,979**	**26,701**	**31,691**	**33,984**
PUBLIC SECTOR	**12,251**	**11,792**	**10,554**	**9,623**	**9,020**	**9,135**	**7,501**	**5,163**	**5,088**	**5,714**	**5,827**
Financial	3,384	2,982	2,560	2,385	2,353	2,355	1,893	387	421	283	273
State Bank	828	787	433	388	441	415	401	384	418	280	271
Central Bank of Chile	2,556	2,195	2,127	1,997	1,912	1,940	1,492	3	3	3	2
Non-financial	6,747	6,743	6,201	6,295	5,756	5,834	4,849	4,326	4,543	5,324	5,439
General Treasury of the Republic	3,610	3,979	4,279	4,542	4,196	4,230	3,211	2,653	2,269	2,169	2,583
Other	3,137	2,764	1,922	1,753	1,560	1,604	1,638	1,673	2,274	3,155	2,856
Private sector with public guarantee	2,120	2,067	1,793	943	911	946	759	450	124	107	115
PRIVATE SECTOR	**4,001**	**5,633**	**5,810**	**8,619**	**10,166**	**12,343**	**14,235**	**17,816**	**21,613**	**25,977**	**28,157**
Financial	630	524	529	2,842	3,022	3,400	3,126	2,940	2,222	2,592	1,807
Non-financial	3,371	5,109	5,281	5,777	7,144	8,943	11,109	14,076	17,691	21,035	24,190
Agencies abroad	0	0	0	0	0	0	0	800	1,700	2,350	2,160
II. MEDIUM- AND LONG-TERM FOREIGN DEBT	**12,535**	**13,131**	**13,062**	**13,582**	**14,332**	**16,047**	**16,563**	**18,527**	**23,107**	**27,730**	**30,081**
PUBLIC SECTOR	**9,878**	**9,223**	**8,905**	**8,606**	**7,976**	**7,884**	**6,499**	**4,410**	**4,018**	**4,708**	**4,963**
Financial	3,222	2,839	2,486	2,230	2,146	2,060	1,855	371	263	273	223
State Bank (2)	707	689	395	265	265	371	363	368	260	270	221
Central Bank of Chile	2,515	2,150	2,091	1,965	1,881	1,689	1,492	3	3	3	2
Non-financial	5,381	5,361	5,432	5,466	4,958	4,918	3,914	3,658	3,651	4,349	4,649
General Treasury of the Republic	3,391	3,671	3,961	4,183	3,891	3,905	3,005	2,431	2,028	1,933	2,332
Other	1,990	1,690	1,471	1,283	1,067	1,013	909	1,227	1,623	2,416	2,317
Private sector with public guarantee	1,275	1,023	987	910	872	906	730	381	104	86	91
PRIVATE SECTOR	**2,657**	**3,908**	**4,157**	**4,976**	**6,356**	**8,163**	**10,064**	**14,117**	**19,089**	**23,022**	**25,118**
Financial (2)	140	91	68	238	375	408	438	640	1,486	1,744	1,382
Non-financial	2,517	3,817	4,089	4,738	5,981	7,755	9,626	12,677	15,903	18,928	21,576
Agencies abroad	0	0	0	0	0	0	0	800	1,700	2,350	2,160
III. SHORT-TERM FOREIGN DEBT	**3,717**	**4,294**	**3,302**	**4,660**	**4,854**	**5,431**	**5,173**	**4,452**	**3,594**	**3,961**	**3,903**
CREDIT DUE WITHIN ONE YEAR	**2,973**	**3,382**	**2,199**	**3,475**	**3,487**	**3,865**	**3,431**	**2,635**	**1,287**	**1,610**	**1,171**
Public sector	1,901	1,984	1,064	448	488	526	615	350	609	598	260
Private sector (3)	1,072	1,398	1,135	3,027	2,999	3,339	2,816	2,285	678	1,012	911
AMORTIZATIONS OF MEDIUM- AND LONG-TERM CREDIT DUE WITHIN YEAR	**744**	**912**	**1,103**	**1,185**	**1,367**	**1,566**	**1,742**	**1,817**	**2,307**	**2,351**	**2,732**
Public sector	472	585	585	569	556	725	387	403	461	408	604
Private sector	272	327	518	616	811	841	1,355	1,414	1,846	1,943	2,128
IV. CENTRAL BANK WITH IMF	**1,268**	**1,151**	**955**	**722**	**479**	**290**	**290**	**0**	**0**	**0**	**0**

(1) Preliminary figures 31 December.
(2) Includes leasing companies.
(3) Excludes collection.

Source: Central Bank of Chile.

Table
25

BALANCE SHEET OF THE CENTRAL BANK OF CHILE

(Balance in billions of Chilean pesos as of December 31st. of each year)

Item	1998	1999	STRUCTURE OF ASSETS AND LIABILITIES (%) 1998	1999	Average (1)
ASSETS	**13,923**	**14,286**	**100.0**	**100.0**	**100.0**
Net foreign exchange reserves	7,577	7,762	54.4	54.3	54.2
Treasury promissory notes	3,427	3,620	24.6	25.3	25.2
Other public sector assets	523	535	3.8	3.7	3.7
Subordinated debt (shares and credit)	1,074	1,240	7.7	8.7	8.2
Deferred losses	913	769	6.6	5.4	5.7
Liquidity line of credit and repos	37	0.3	0.4		
Other assets	373	360	2.7	2.5	2.6
LIABILITIES	**14,887**	**15,141**	**100.0**	**100.0**	**100.0**
Monetary policy promissory notes	9,503	10,534	63.8	69.6	66.9
Other notes with secondary market	516	259	3.5	1.7	3.1
Current accounts and *encaje*	174	55	1.2	0.4	0.7
Treasury and other public sector deposits	2,174	1,563	14.6	10.3	13.5
Other non-monetary emission liabilities	1,123	942	7.5	6.2	6.2
Monetary emission	1,397	1,787	9.4	11.8	9.7
CAPITAL AND RESERVES	**-964**	**-855**			
Revalued initial capital	**-582**	**-989**			
Nominal initial capital	-558	-964			
Revalued own capital	-24	-25			
Net results	**-382**	**133**			
Non-financial results	13	-22			
Net interest (2)	-220	-221			
Net indexing and other variations (3)	-198	351			
Less: revaluation own capital	24	25			

(1) Average balances at month's end from December 1998 to December 1999, inclusive.
(2) Foreign currency interest converted to pesos using average exchange rates.
(3) Includes net exchange rate earnings resulting from changes in foreign currency assets and liabilities.

Source: Central Bank of Chile.

Table 26

OPERATING EXPENDITURES TO DECEMBER 31st. OF EACH YEAR

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
OPERATING EXPENDITURES (1)										
Personnel	7,313	10,487	16,079	10,345	10,177	11,100	12,665	12,115	12,854	13,290
Administration	2,732	3,414	3,267	2,969	3,219	3,782	4,020	4,527	3,898	4,225
Depreciation, amortization and write-offs	1,244	1,378	1,483	1,550	1,427	1,539	1,440	1,550	1,232	1,252
Taxes, contributions and payments	448	581	372	383	387	342	372	438	382	477
TOTAL	**11,738**	**15,860**	**21,200**	**15,246**	**15,210**	**16,763**	**18,497**	**18,630**	**18,366**	**19,244**
OPERATING EXPENDITURES (2)										
Personnel	17,303	20,366	27,060	15,445	13,637	13,742	14,603	13,157	13,278	13,290
Administration	6,463	6,629	5,498	4,433	4,314	4,682	4,635	4,916	4,026	4,225
Depreciation, amortization and write-offs	2,944	2,676	2,496	2,313	1,912	1,905	1,660	1,683	1,273	1,252
Taxes, benefits and payments	1,061	1,128	625	571	518	423	429	476	395	477
TOTAL	**27,771**	**30,799**	**35,679**	**22,762**	**20,382**	**20,752**	**21,327**	**20,232**	**18,972**	**19,244**

(1) Millions of each year's pesos.
(2) Millions of 1999 pesos.

Source: Central Bank of Chile.

II. ORGANIZATIONAL STRUCTURE OF THE CENTRAL BANK OF CHILE

As of December 31st, 1999

III. FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE

BALANCE SHEET
AS OF DECEMBER 31st. 1999 AND 1998
(MILLIONS OF CHILEAN PESOS)

ASSETS	**1999**	**1998**
OVERSEAS ASSETS	8,681,435.4	8,442,309.3
RESERVE	8,476,523.8	8,250,494.0
Gold	167,232.9	156,464.7
Demand deposits and accounts	24,525.8	20,556.9
Deposits and securities	7,361,042.5	7,298,787.3
Mutual loan agreements	9,904.1	48,415.9
Loans	321,258.6	303,379.8
IMF subscription	592,559.9	422,889.4
OTHER OVERSEAS ASSETS	204,911.6	191,815.3
Shares and contributions to the Interamerican Development Bank	92,862.5	89,076.3
Interest receivable	112,047.7	102,735.8
Silver and other securities	1.4	3.2
DOMESTIC ASSETS	5,140,148.2	5,107,676.9
DOMESTIC LOANS	5,140,148.2	5,107,676.9
Loans to state-owned companies	27,859.2	40,172.3
Loans to Banco del Estado de Chile	30,476.8	66,859.9
Loans to commercial banks	154,704.2	204,723.8
Loans to other institutions	307,037.0	292,353.9
Treasury transfers (Laws 18,267, 18,401 and 18,768)	3,783,019.3	3,676,027.5
Loans for subordinated obligations of financial institutions (Law 18,401)	837,051.7	827,539.5
OTHER ASSETS	1,164,599.1	1,321,437.3
Fixed assets	15,898.1	15,800.4
Purchase of US currency under resale agreement	0.0	122,494.1
Other securities	1,148,701.0	1,183,142.8
TOTAL ASSETS	14,986,182.7	14,871,423.5

The accompanying notes 1 to 13 form an integral part of these financial statements.

LIABILITIES	1999	1998
OVERSEAS LIABILITIES	935,985.1	701,465.1
RESERVE LIABILITIES	713,953.9	477,060.3
Mutual loan agreements	12,543.4	43,223.9
IMF deposits	701,410.5	433,836.4
OTHER OVERSEAS LIABILITIES	222,031.2	224,404.8
Loans	1,274.1	1,330.1
Accounts with other international organizations	131,658.1	138,363.4
Allocations of Special Drawing Rights	88,205.9	83,373.9
Interest payable	893.1	1,337.4
DOMESTIC LIABILITIES	14,877,876.8	14,992,019.2
CURRENCY ISSUANCE AND DEPOSITS	1,786,938.2	1,433,099.1
Bank notes and coins in circulation	1,616,025.8	1,285,877.3
Deposits from financial institutions (L/C)	170,912.4	147,221.8
DEPOSITS AND OBLIGATIONS	1,805,586.9	2,758,983.2
Deposits and obligations with the Treasury	1,495,157.0	2,131,757.9
Other deposits and obligations	310,429.9	627,225.3
NOTES ISSUED BY THE BANCO CENTRAL	11,285,351.7	10,799,936.9
Indexed promissory notes payable in coupons (PRC)	6,653,440.6	7,149,163.8
Discountable promissory notes from Central Bank (PDBC)	1,727,200.0	748,774.8
Central Bank indexed promissory notes (PRBC)	1,348,492.9	1,202,144.9
Central Bank indexed promissory notes in US Dollars (PRD)	790,731.1	636,972.5
Promissory notes stated in indexed units (UF) (Resolution 1836) arising from US dollar certificates	447,764.3	455,949.8
Commercial notes from redenomination of foreign Exchange securities	220,488.3	223,608.3
Floating interest rate promissory notes (PTF)	54,105.0	73,495.8
Securities issued on rescheduling of foreign debt (Ch. XIX of the Compendium of Foreign Exchange Regulations)	38,686.3	305,171.9
Deposit certificates stated in US$. Resolution 1649	4,398.9	4,565.3
Promissory notes issued for exchange-rate differential	44.3	89.8
OTHER LIABILITIES	27,746.2	166,641.6
Provisions	7,980.9	7,471.3
Temporary liabilities	19,722.5	33,490.4
US currency purchases under resale agreement	0.0	122,494.1
Other securities	42.8	3,185.8
CAPITAL AND RESERVES	(855,425.4)	(988,702.4)
Capital	(988,702.4)	(597,400.1)
Surplus (Deficit) during the period	133,277.0	(391,302.3)
TOTAL LIABILITIES	14,986,182.7	14,871,423.5

INCOME STATEMENTS
AS OF DECEMBER 31st. 1999 AND 1998
(MILLIONS OF CHILEAN PESOS)

	1999	1998
OPERATING RESULTS		
OPERATING INCOME	1,818,888.8	1,050,752.2
Interest earned and accrued	673,690.1	757,014.7
Indexation earned and accrued	50,660.4	86,711.2
Income from price differences	12,095.4	45,566.6
Exchange earnings	1,078,337.1	161,363.4
Other operating income	4,105.8	96.3
OPERATING EXPENSES	(1,724,223.6)	(1,497,337.5)
Interest paid and accrued	956,669.9	933,143.8
Indexation paid and accrued	342,712.1	399,507.0
Commissions paid and accrued	595.9	774.7
Loss due to price differences	26,699.3	19,629.2
Exchange losses	388,348.4	135,732.6
Other operating expenses	9,198.0	8,550.2
Gross margin	94,665.2	(446,585.3)
OTHER OPERATING EXPENSES	(19,244.0)	(18,843.0)
Personnel expenses	13,290.4	13,187.8
Administrative expenses	4,225.2	3,998.8
Depreciation, amortizations and write-offs	1,251.5	1,264.5
Taxes, rates and contributions	476.9	391.9
Income before provisions and write-offs	75,421.2	(465,428.3)
Provisions and write-offs from risky assets	0.0	(65.7)
Net margin (Total operating income)	75,421.2	(465,494.0)
NON-OPERATING INCOME AND EXPENSES	222.0	209.4
Non-operating income	354.0	446.6
Non-operating expenses	(132.0)	(237.2)
Loss before price-level restatement	75,643.2	(465,284.6)
Price-level restatement	57,633.8	73,982.3
Surplus (Deficit) during the year	133,277.0	(391,302.3)

The accompanying notes 1 to 13 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, contributes to the 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. Due to the above, and considering the particular operating features of Banco Central de Chile, the statement of cash flow is not presented.

For comparison purposes, the figures for 1998 were restated according to changes in the Consumer Price Index, for the period November 30, 1998 to November 30, 1999, amounting to 2.6%.

(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 N° 6, Chapter I in the "General Provisions" of Title I of the Compendium of Foreign Exchange Regulations"- *Compendio de Normas de Cambios Internacionales*. 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.

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

	1999 Ch$	1998 Ch$
Minted Chilean gold coins	806.84	734.36
US Dollar (Referential rate)	498.12	470.57
US Dollar (Observed rate)	527.70	473.77
Pound Sterling	854.30	798.26
Deutsche Mark	271.42	283.85
Special Drawing Rights (SDR)	723.45	666.49

(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. Shares and contributions to IDB and contributions to IMF are considered as investments in accordance with provisions established in DL 2,943 dated February 8, 1979.

As set forth by Law 19,603 dated January 15, 1999, Banco Central de Chile was authorized to subscribe an increase in the payment to the IMF from Chile. The latter corresponds to a contribution equivalent to 234,0 million Special Drawing Rights which was made on February 10, 1999.

(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 purchased commercial instruments 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.

Interests 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 are included in Domestic Assets and Domestic Liabilities, accordingly.

Interests paid and not accrued arising from obligations are recorded under Other Assets. Interests earned and not accrued arising from loans are 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 each year-end of such obligation, governed by Law 19,396 including 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".

Deferred losses amount to Ch$ 768,775.6 million as of December 31, 1999 (Ch$ 936,467.7 million in 1998), and are shown as "Other securities" under the caption "Other assets".

(G) LOAN PROVISIONS

The Bank has not set up provisions in 1999 (in 1998 it recorded provisions amounting to Ch$ 65.7 million). The balance of provisions set up amounts to Ch$ 8,894.1 million (Ch$ 8,199.7 million in 1998), 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$ 6,760.5 million (Ch$ 6,238.2 million in 1998).

(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$ 520,077.2 million (Ch$ 604,109.9 million in 1998), includes the following transactions:

	(Millions of Ch$)	
	1999	1998
Receivables from CORFO (Note 3)	18,903.5	29,642.5
Credit lines on debt rescheduling	62,103.9	78,041.7
Mortgage loan portfolio acquired	39,644.6	50,818.4
Liquidity credit lines	0.0	37,877.9
Credit lines to finance the sale of mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	52,545.9	58,452.6
Credit lines for international organizations programs	7,422.1	8,810.6
Credit lines for deposits (Resolution 1686)	4,649.4	5,901.7
Former Caja Central de Ahorro y Préstamo, and former ANAP (Note 4)	307,037.0	292,139.4
Price balances (Law 19,396)	25,694.6	39,722.7
Other	2,076.2	2,702.4
Total	520,077.2	604,109.9

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, 1999, the balance of accounts receivable from CORFO amounts to Ch$ 18,903.5 million (Ch$ 29,642.5 million in 1998), 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, 1999 amounts to Ch$ 167,535.5 million, equivalent to UF 11.1 million (Ch$ 164,767.2 million in 1998, equivalent to UF 10.9 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, 1999, 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$ 307,037.0 million (Ch$ 292,139.4 million in 1998), and is shown under "Loans to other institutions".

5. TREASURY TRANSFERS

The item Treasury transfers includes the following amounts under Domestic Loans:

	(Millions of Ch$)	
	1999	1998
Treasury promissory notes Law 18,267	438,970.7	482,924.1
Treasury promissory notes Law 18,768	3,176,513.1	3,028,336.2
Treasury transfers Law 18,401	167,535.5	164,767.2
Total	3,783,019.3	3,676,027.5

(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 in 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.

During 1998, 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 each year-end account for the subordinated obligation with Banco Central de Chile deriving from the agreement amending the payment terms for such obligation subscribed with Banco de Chile on November 8, 1996, in accordance with provisions in Law 19,396. On such date, the Sociedad Matriz del Banco de Chile, previously named Banco de Chile, agreed, based on paragraphs three and five of the above-mentioned law, the assignment of the contract to Sociedad Administradora de la Obligación Subordinada SAOS S.A. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments starting April 1997. The balance as of 1999 shows an uncovered difference corresponding to the annual installments for 1998 and 1999 years, which according to the existing agreements should be paid in April 2000.

7. SHARES RECEIVED IN PAYMENT

Pursuant to Law 19,396, Banco Central de Chile received from Banco de Santiago 35,090. 5 million series E shares, in payment, of which, as of December 31, 1999, it holds 35,067.8 million shares, valued at market price and included as "Other Securities" under the caption "Other assets". The accounting loss generated by the holding of these shares is included under deferred loss as indicated in Note 1 (f). In accordance with Law 19,396, there is no fixed term for these shares to be disposed of.

With respect to the above, it is worth-mentioning that on May 13, 1999, Banco Central de Chile subscribed an agreement with Banco Santander Central Hispano S.A., whereby, among other matters, Banco Central de Chile was granted the irrevocable option to sell to Banco Santander Central Hispano, starting May 15, 2000 until May 15, 2002, the total or a portion of the shares that the latter holds in Banco Santiago, at Ch$ 11.0 per share. This amount will be adjusted starting May 15, 2000, based on changes in Unidad de Fomento plus the deposit rate of readjustable transactions.

8. DEPOSITS AND OBLIGATIONS

The caption Other deposits and obligations includes the following items:

	(Millions of Ch$)	
	1999	1998
Foreign currency current accounts	59,518.5	60,463.0
Deposits in foreign currency, Resolutions 1657 and 1686	2,875.8	3,540.6
Mandatory deposits on overseas credits	0.0	120,131.4
Short-term deposits	248,035.6	443,090.3
Total	310,429.9	627,225.3

9. INSTRUMENTS ISSUED BY CENTRAL BANK OF CHILE AS OF DECEMBER 31st. 1999 AND 1998 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 1999	Total 1998
Indexed promissory notes payable in coupons (PRC)	350,469.3	253,312.3	397,051.6	1,532,916.4	4,119,691.0	6,653,440.6	7,149,163.8
Central Bank discountable promissory notes (PDBC)	1,535,200.0	54,000.0	138,000.0	0.0	0.0	1,727,200.0	748,774.8
Central Bank indexed promissory notes (PRBC)	1,348,492.9	0.0	0.0	0.0	0.0	1,348,492.9	1,202,144.9
Central Bank promissory notes in US$ (PRD)	12,279.8	2,732.3	0.0	733,503.0	42,216.0	790,731.1	636,972.5
Promissory notes stated in indexed units (UF), arising from certificates in US$ (Resolution 1836)	10,492.7	0.0	0.0	0.0	437,271.6	447,764.3	455,949.8
Commercial notes from redenomination of foreign exchange securities	2,163.5	477.9	0.0	117,124.0	100,722.9	220,488.3	223,608.3
Floating interest rate promissory notes (PTF)	8,121.8	1,761.8	8,904.6	34,345.1	971.7	54,105.0	73,495.8
Securities issued on rescheduling of foreign debt. Chapter XIX. Compendium of Foreign –Exchange Regulations	25,025.7	12,596.7	1,063.9	0.0	0.0	38,686.3	305,171.9
Deposit certificates stated in US$. Resolution 1649	119.2	0.0	535.0	1,069.9	2,674.8	4,398.9	4,565.3
Promissory notes issued for exchange-rate differential	43.6	0.5	0.2	0.0	0.0	44.3	89.8
Total documents issued	3,292,408.5	324,881.5	545,555.3	2,418,958.4	4,703,548.0	11,285,351.7	
Total 1998	1,995,025.1	568,953.9	798,672.6	2,197,339.6	5,239,945.7		10,799,936.9

Balances include interests and accrued adjustments as of December 31st. 1999 and 1998.

10. CAPITAL AND RESERVES

Changes in capital and reserves during 1999 and 1998 were as follows:

	(Millions of Ch$)		
	Capital	Surplus (Deficit) in the period	Total
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)
Balances as of December 31st, 1998 restated for comparison purposes	(597,400.1)	(391,302.3)	(988,702.4)
Balances as of 01.01.99	(582,261.3)	(381,386.3)	(963,647.6)
Absorption of 1998 deficit	(381,386.3)	381,386.3	-
Equity revaluation	(25,054.8)	-	(25,054.8)
Surplus during the period	-	133,277.0	133,277.0
Balances as of 12.31.99	(988,702.4)	133,277.0	(855,425.4)

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, 1999, Banco Central de Chile shows a deficit in equity of Ch$ 855,425.4 million (Ch$ 988,702.4 million in 1998).

The 1999 surplus will be used to partially absorb the equity deficit.

Even though in the near future the negative equity position is not foreseen 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, and this has been requested to the Ministry of Finance, in conformity with Article 5 of the Constitutional Organic Law.

11. BALANCES IN FOREIGN CURRENCY AND GOLD

Assets and liabilities denominated in foreign currency and included in the balance sheets as of December 31st, 1999 and 1998 are as follows:

	(Millions of Ch$)	
	1999	1998
ASSETS		
OVERSEAS ASSETS	14,848.6	15,919.9
Reserve	14,599.6	15,671.9
Other overseas assets	249.0	248.0
DOMESTIC ASSETS	6,022.5	6,234.1
Domestic loans	6,022.5	6,234.1
OTHER ASSETS	8.2	9.5
Total assets	20,879.3	22,163.5
LIABILITIES		
OVERSEAS LIABILITIES	195.1	265.9
Reserve	23.8	88.9
Other overseas liabilities	4.1	5.5
SDR allocations	167.2	171.5
DOMESTIC LIABILITIES	3,213.9	5,361.2
Deposits and obligations	3,213.9	5,361.2
OTHER LIABILITIES	121.6	200.0
Total liabilities	3,530.6	5,827.1
NET ASSETS	17,348.7	16,336.4

12. 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.

13. 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
General Auditor

ARTHUR ANDERSEN
LANGTON CLARKE

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying balance sheets of Banco Central de Chile as of December 31, 1999 and 1998 and the related statements of income for the years 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 audits.

2. We have conducted our audits 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 misstatements. 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 audits provide a reasonable basis for our opinion.

3. 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$ 768,775.6 millions (Ch$936,467.7 millions in 1998), arising from the amendments to subordinated obligation payment agreements of given banks, as set forth by Law 19,396 (Notes 1(f) and 7).

4. In our opinion, the above-mentioned financial statements present fairly, in all material respects, the financial position of Banco Central de Chile as of December 31, 1999 and 1998, and the results of its operations for the years then ended, in conformity with accounting policies as described in Note 1.

5. Banco Central de Chile shows an equity deficit of Ch$ 855,425.4 million (Ch$ 988,702.4 million in 1998), and is currently holding discussions with the Ministry of Finance to determine the manner in which such deficit shall be covered.

Alejandro Cerda G.

ARTHUR ANDERSEN
LANGTON CLARKE

Santiago, January 14, 2000

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