



BANCO CENTRAL DE CHILE

# Annual Report 2000



# 75<sup>th</sup> Annual Report 2000







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# Authorities of the Central Bank of Chile

As of 31 December 2000

As of 31 December 2000

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Governor

JORGE MARSHALL RIVERA  
Vice-Governor

JORGE DESORMEAUX JIMÉNEZ  
Board Member

MARÍA ELENA OVALLE MOLINA  
Board Member

PABLO PIÑERA ECHENIQUE  
Board Member

## General Manager

CAMILO CARRASCO ALFONSO

## General Counsel

MIGUEL ÁNGEL NACRUR GAZALI

## Division Managers

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Financial Policy

ESTEBAN JÁDRESIC MARINOVIC  
International Affairs

FELIPE MORANDÉ LAVÍN  
Research

CARLOS PEREIRA ALBORNOZ  
Management and Development

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Financial Analysis

HERNÁN CAMPOS BASCUR  
Information Systems

JORGE CARRASCO VÁSQUEZ  
Chief Counsel

FRANCISCO GARCÍA LETELIER  
Accounting and Administration

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Macroeconomic Analysis

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International Analysis and Operations

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Economic Research

MARIO ULLOA LÓPEZ  
General Auditor

RICARDO VICUÑA POBLETE  
Statistical Information and Research





**BANCO CENTRAL DE CHILE**  
**P R E S I D E N C I A**

Santiago, 9 April 2001

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 hereby submit the Annual Report of this Institution for the year 2000.

Yours sincerely,

Carlos Massad A.  
Governor







**BANCO CENTRAL DE CHILE**  
**P R E S I D E N C I A**

Santiago, 9 April 2001

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 hereby submit to the Senate the Annual Report of this Institution for the year 2000.

Yours sincerely,

Carlos Massad A.  
Governor



# I. Main Economic and Financial Developments in 2000





# I. Main Economic and Financial Developments in 2000

## A. Overview

The year 2000 brought important changes in both the domestic and the external spheres. From mid-1999 to the second quarter of 2000, the Chilean economy entered a phase of rapid recovery in activity, as the factors triggering the international financial crisis in South-East Asia that began in mid-1997 began to fade. This strength was the result of a favorable global economic context, in which the application of expansive macroeconomic policies in 1999 and the recovery of confidence levels played a fundamental role.

In early 2000, general optimism reigned regarding consolidation of recovery in Europe, Japan and emerging Asia, combined with expectations that Latin American economies would enter an expansion phase, accompanied by gentle and controlled growth of the United States (USA). At the same time as the world economy enjoyed more vigorous growth, commodity prices rose considerably, in particular oil prices, bringing with it a significant threat that international inflation could accelerate. Throughout the year, international interest rates rose, due to corrections to monetary policy by the main industrialized economies.

Chile's monetary policy had assumed an expansive stance early in the second quarter of 1999. The prompt recovery in activity and domestic expenditure, however, along with improvements in the prospects for the world economy, greater inflationary pressure abroad and the impact on

domestic inflation of some specific price increases were considered factors threatening compliance with Chile's inflation target over the medium term. Because of this, during the first quarter of the year, the Board members of the Central Bank of Chile considered it necessary to signal the need for moderation. Thus, the monetary policy rate (*tasa de interés de política monetaria, TPM*) rose from UF + 5.0% to UF + 5.5%.

Despite satisfactory trends in world economic activity and good prospects for the terms of trade, international financing conditions remained tight throughout 2000 for Chile and all emerging economies. Greater financial volatility abroad, specific episodes of incipient balance of payments crises in important emerging economies and, in general, greater caution on the part of international investors were decisive factors in maintaining high levels of premiums paid on most emerging economies' foreign debt throughout almost all of 2000. Chile was no exception, although it continued to enjoy large differences in its favor compared to the other countries of Latin America.

At the fiscal policy level, after experiencing a more expansive orientation from 1997 to 1999, in 2000 policy became contractive. This was in line with the limit on growth in public expenditure set by the Budget Law approved for that year, which reflected the government's intentions of achieving a structural fiscal surplus of 1% of Gross Domestic Product (GDP) toward the end of 2001.



During the first half of the year, the recovery in domestic demand was led by private consumption and inventory restocking, both components strongly affected in previous years. Increased growth of domestic demand during this period occurred at the same time as increasingly vigorous external demand. Similarly, in early 2000, the unemployment rate declined significantly, suggesting a general recovery in economic activity after the recession experienced in 1999. Clearly this was a period governed by recovery and growth, with low inflation, as a result of the limited transfer of the impacts of fuel price increases to other prices and the fact that retail margins remained depressed. All this was reinforced by an external environment favorable to trade, steadily improving confidence among consumers, and monetary conditions that stimulated the economy.

Toward the middle of the third quarter, the world economy seemed to be overcoming previous periods of uncertainty and turbulence. The risk of sudden increases in interest rates within the US economy subsided and international financial conditions improved slightly. Despite all this, conditions of low international liquidity for emerging economies persisted, due to high demand for financial resources in the US. Similarly, at mid-year the oil price rose significantly on international markets, accompanied by a sharp increase in production costs and loss of real income for the Chilean economy.

At the domestic level, starting with figures from the second quarter, information began to reflect shifting trends in economic activity and less robust growth in both output and employment creation. That is, the scenario began to change from that of late 1999 and early 2000, setting off a warning light for economic authorities. The most permanent components of domestic demand, consumption and investment, slowed, all in a climate of drastically

declining consumer confidence. The pessimism regarding the country's economic future was significantly influenced by the prevailing high unemployment rates.

As a result of this analysis, in late August, the Board of the Central Bank concluded that the accumulated evidence was enough to justify reducing the monetary policy rate by 50 basis points, to UF + 5%. Should the country have continued with the previous reference rate, the sluggish domestic demand expected for the coming quarters would have endangered meeting the inflation target. This is coherent with the inflation target defined by the Central Bank, which is symmetrical. That is, the Bank must respond equally decisively whether the threat of inflation affects the upper limit or there is significant risk that it will break through the lower limit of the band, which is set at between 2% and 4%.

The inflation targeting system, implemented once the Central Bank achieved autonomy in the early nineties, has brought important successes for the Chilean economy, which today is experiencing inflation rates similar to those of the world's main industrialized economies. In its current form, this system, combined with the floating exchange rate, allows for the more flexible management of monetary policy when internal or external shocks occur. Similarly, the gradual liberalization of the capital account and the more flexible approach to financial regulations have increased Chile's integration into international financial markets, while the development of products and markets for covering exchange risk has helped the private sector to absorb risk.

Annual inflation during 2000 reached 4.5%, due mainly to significant increases in the exchange rate and fuel prices during the year. High unemployment, along with the slow growth in consumption and sales, limited both the transfer of exchange rate increases

to inflation and second order effects of fuel price increases. Overall, 2000 was a landmark year for inflation, given that for the first time since price statistics have been kept and, with the exception of the years of the Great Depression in the 1930s, the Chilean economy posted inflation rates below 5% for three years running, with stable projections for the future.

From the perspective of the labor market, undoubtedly unemployment and employment during 2000 behaved atypically. Traditionally, unemployment follows cyclical movements in activity with a lag, but this occurred only during the second half of 1999. After that, throughout 2000, seasonally adjusted employment stagnated in absolute terms, in spite of the fact that overall activity expanded.

Factors that may explain this phenomenon can be associated with imperfections in factor markets that prevent rapid changes in the assignment of labor and capital within the economy. These factors include the downward inflexibility of nominal and real wages in most sectors in the past two years, which is mainly associated with automatic indexation clauses based on past inflation. Moreover, high increases in the minimum wage implemented just over two years ago, unfortunately coincided with a decline in the demand for labor and the depreciation of the real exchange rate between 1998 and 2000. In any case, the increase in public sector wages for 2001, based on expected inflation, should contribute to reducing national unemployment. With regard to capital markets there are also imperfections associated with the poor liquidity of the stock market and segmentation of companies' access to the credit market. These rigidities are particularly strong today, given that significant idle capacity in the housing market

indicates that construction employment will rise only gradually throughout 2001 and 2002. An important increase in average labor productivity, above all in the industrial sector, reveals that economic growth has not been very labor intensive, particularly when it comes to unskilled workers.

In terms of activity, in 2000 the Chilean economy grew steadily, with Gross Domestic Product (GDP) rising 5.4%, according to preliminary estimates. Annual trends confirm that output grew quickly during the second half of 1999, then slowed during 2000. Domestic demand followed a similar path and then, after growing at two-digit rates during the first half of the year as a result of significant stock building, slowed during the following period, to end the year with average growth estimated at 6.6%. Among the components of domestic demand, consumption behaved moderately throughout the year. This can be associated with several factors, among which the most important was households' perception that permanent disposable income would be lower and the fact that there was greater uncertainty about the future, in particular regarding job security. By the second quarter of the year, investment consolidated its expansion, mainly in the machinery and equipment and, to a lesser degree, the building of non-residential structures.

The balance of trade achieved an estimated US\$1.436 billion surplus during 2000. This result was affected by larger outflows of other components from the current account, mainly due to profits on foreign investment associated with the recovery in prices of sectors receiving investment, particularly major copper mines. Thus, the deficit in the current account of the balance of payments reached 1.4% of GDP.

## B. Inflation and Wages

### B.1 INFLATION

In 2000, inflation rose over levels observed toward the end of the previous year. In effect, after rising 2% per annum in 1999, in 2000 annual CPI inflation, had exceeded the upper level of the 2%-4% target range. Inflation results for 2000 were particularly affected by the price of oil on international markets. In fact, it is estimated that almost 70% of the inflation accumulated during the year came directly or indirectly from this item.

Thus, through December 2000, core inflation, an indicator that excludes changes in perishable and fuel prices (CPIX), reached 3.4% for the same period. The 1.1 percentage point gap between both indicators responded to the direct effect of increases in the fuel prices included in the CPI (Figure 1).

These direct effects included constant increases in domestic fuel prices. The exhaustion of the Oil Price Stabilization Fund (*Fondo de Estabilización del Precio del Petróleo, FEPP*), along with changes in how it operates toward mid-year, made domestic fuel prices more volatile. The effect of the higher oil price also affected public transportation fares, which rose almost 30% during the year. More indirectly, indexing mechanisms for other public services, such as electricity and fixed telephones, which include prices linked to oil in the calculation of their charges, also rose significantly during the year.

Annual prices for non-tradables (CPIN) rose the most, reaching 6.2% for the year. The corrected indicator for this group (CPINX) rose even more, 7.1%. Within this set of products, those related to transportation rose almost 25% in the year and regulated services included therein also rose, 12.1%, after falling by 1.2% in 1999 (Figure 2).

Prices for tradables (CPIT) rose 2.7% during 2000, with the corrected indicator for this sub-group (CPITX) down by 0.9%. Among its components, fuel, at over 25% for the year, rose the most, while durable goods prices fell 1.4% (Figure 3).

It is important to note that most durable goods prices included in the CPI have dropped noticeably over the past two years. This appears to reflect a process involving tighter retail margins, the result of structural changes in conditions in the retail and wholesale trade. The latter include recent investment made and the increased competitiveness of the sector. Simple observations of wholesale and retail prices for some durable goods do not indicate whether these tighter margins will revert in the short term.

The performance of CPI components was directly linked to the behavior of fuel prices and regulated services. In effect, sectors affected by these products, particularly *housing and transport*, rose 9.9% and 19.5% per annum, respectively, the largest increases among sectors. At the same time, higher inflation affected the price of personal services, due to indexation. This led *health and education and recreation* to rise at rates similar to or higher than inflation. Thus, *health* rose 5.1% for the year, while *education and recreation* rose 4.3%. In contrast, the depressed level of durable goods prices pushed prices downward, on average, as was apparent in the prices of *clothing and household furnishings*. In the case of the former, prices for *clothing* have been falling for years, but in 2000 they fell twice as much, -8.3%, over the previous year. In terms of *household furnishings*, prices fell 2.6%. At the same time, lower average interest rates in 2000 were reflected in the item *other* where prices fell 3.6% during the year. Finally, *food* performed rather neutrally with regard

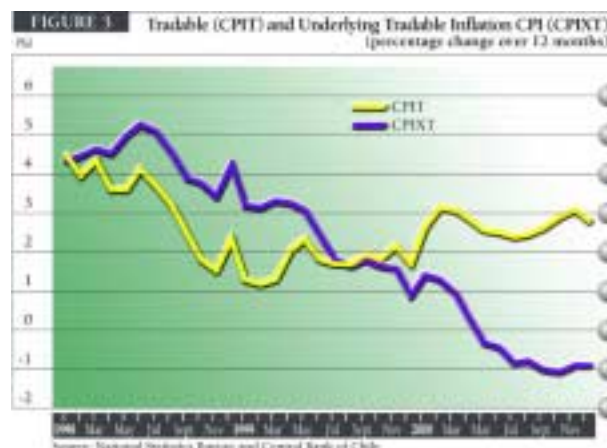
to inflation, with prices down 0.1% for the year. Perishable prices showed no extraordinary alterations, aside from the usual seasonal fluctuations, thus contributing to low inflation for the food component.

Wholesale prices for the year reflected the high price of oil and nominal peso depreciation. The Wholesale Price Index (WPI), at 7.9% per annum over 1999, had risen far more than the consumer price index by December 2000. This, in turn, was the result of an 8.2% change in the WPI for *domestic products* and 7.0% in *imported goods*. It is important to note that although wholesale prices rose far more than the CPI, the degree of inflationary transfer from one to another is really quite limited, aside from factors affecting both. For example, peso depreciation is completely validated in the WPI through *imported goods*, something that does not occur with consumer prices, where the transfer coefficient is significantly lower and shows a longer delay. Moreover, analysis of the makeup of the CPI and WPI baskets shows that some 50% of products are included in both. WPI products with direct equivalents in the CPI showed, as of December 2000, annual growth rates similar to the CPIX (Figure 4, Tables 1 and 2).

## B.2 WAGES

Nominal wages, as measured by the *Hourly Wage Index* and the *Labor Cost Index*, rose 5.3% and 4.6% respectively, in 2000. This growth represented a change over the previous year. On one hand, *Hourly Wages* rose more than in 1999, probably influenced by the higher inflation occurring throughout the year, a situation that led to higher increases in wages indexed to past inflation. Meanwhile, *Labor Costs* rose slightly less than last year. This would indicate that non-wage benefits (bonuses and such) to labor rose less during 2000.

Real wages during 2000 rose significantly less than in 1999, the result of higher inflation during the year. Thus *Real Hourly Wages* ended 2000 with





0.7% annual growth, while *Real Labor Costs* rose 0.1%. Both figures are below productivity increases for the year, as reflected by the behavior of nominal unit labor costs. It is important to underline that from the point of view of inflation, salary increases do not constitute an element of latent pressure for now. It should be specified, however, that these must prove flexible enough to avoid becoming a barrier to the creation of new jobs.

In the same area, information on real initial increases agreed upon during collective bargaining provided by the Labor Bureau during 2000 shows that these tended to rise more than in 1999. Thus, from quarter to quarter, the agreed upon pay increases were 1.7% in the first quarter, 1.1% in the second, 0.6% in the third, and 1.1% in the fourth (Tables 3, 4 and 5).



## C. World Economy: Recent Developments

### C.1 WORLD ECONOMIC GROWTH

During 2000, the world economy grew 4.9%, up significantly from 3.6% in 1999 (Table 1). In this context, the external outlook looked favorable for Chilean exports. In fact, the estimated growth for trading partners, weighted by their share of Chilean exports, rose from 2.3% in 1999 to 3.9% in 2000.

TABLE 1: WORLD GROWTH (%)

|                      | Average   |          |          |
|----------------------|-----------|----------|----------|
|                      | 1990-1998 | 1999 (e) | 2000 (f) |
| World (1)            | 3.2       | 3.6      | 4.9      |
| United States        | 2.9       | 4.2      | 5.1      |
| Europe               | 2.0       | 2.4      | 3.2      |
| Japan                | 1.8       | 0.8      | 1.9      |
| Rest of Asia (2)     | 8.0       | 6.3      | 7.5      |
| Latin America (3)    | 3.1       | 0.0      | 4.0      |
| Trading Partners (4) | 3.1       | 2.3      | 3.9      |

(1) Regional growth weighted according to share of World GDP as measured in 1999 Purchasing Power Parity (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.

(e) Estimates.

(f) Projections.

Sources: IMF

Consensus Forecasts

Central Bank of Chile.

In disaggregate terms, the performance of the US economy stands out. In effect, in 2000, US GDP rose 5.1%, driven by domestic demand, particularly gross fixed capital formation. Even when growth was

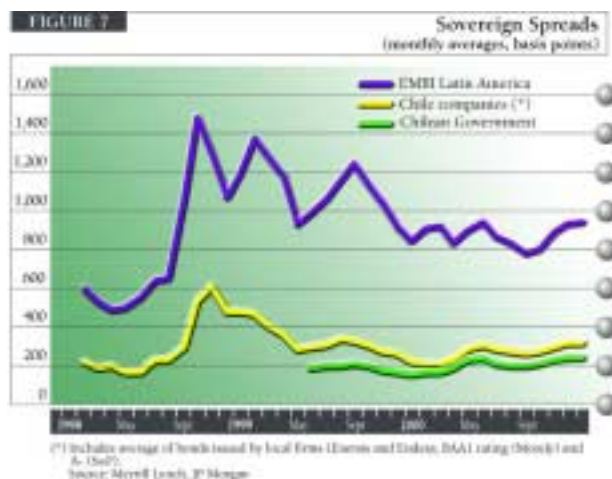
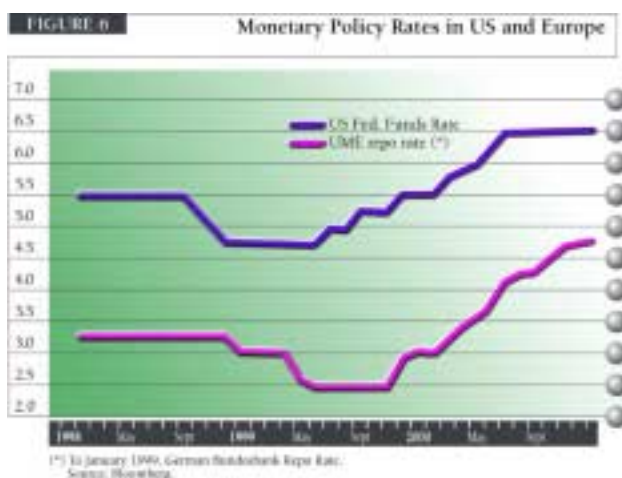
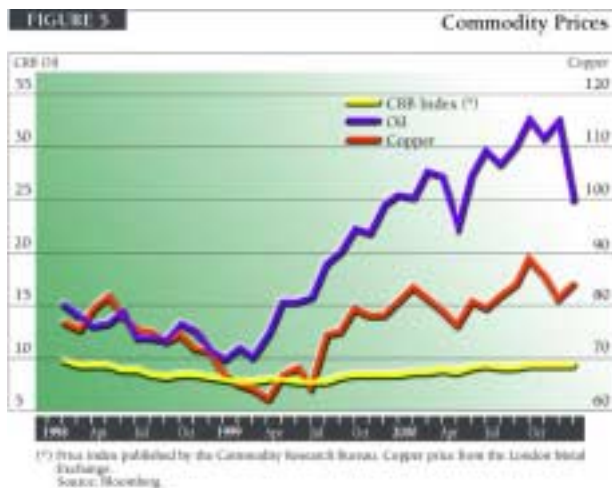
accompanied by a strong rise in productivity, private demand rose even faster, leading the Federal Reserve (Fed) to take preventive action in the area of monetary policy, because inflationary risk was rising. Thus, the Fed opted for increasing the policy rate on three occasions (February, March and May), bringing the total increase to 100 basis points in 2000. These measures slowed growth starting in the third quarter. Thus, after a 12-month rise of 6.1% in the second quarter, GDP rose only 5.2% in the third quarter and 3.5% in the fourth quarter.

The Japanese economy, meanwhile, was more dynamic than in previous years, with estimated growth for 2000 reaching 1.9%, after rising 0.8% in 1999. This turnaround was driven by the performance of exports and private investment in machinery and equipment. Exports' recovery was mainly due to strong foreign demand, especially from the US and the rest of Asia. This strength contributed to a recovery in private investment, which was also favored by restructuring measures taken by companies to reduce costs and increase the efficiency of their productive processes. Unlike exports and private investment, private consumption remained weak throughout the year in light of a climate of job insecurity.

Estimated growth for Europe in 2000 is 3.2% per annum, up from the 2.4% registered in 1999. This growth was led by net exports, favored by euro depreciation, while domestic demand grew at levels similar to the previous year. Activity slowed during the second half of the year, due to higher interest rates (up 175 basis points for the year) and the contractive impact of oil price increases.

The emerging economies of Latin America and Asia saw activity recover somewhat. Latin America's





recovery stands out, with growth estimated at 4.0% in 2000, after 0 growth the previous year. Mexico, Chile and Brazil led the region's growth, while Argentina is believed to have seen a decline in overall activity. Estimated growth for Asia's emerging economies was 7.5% in 2000, which was particularly outstanding given that in 1999 their growth averaged 6.3%. Among Asian economies, China's strong performance stands out: after growing 7.1% in 1999, it is believed to have grown 8.0% in 2000.

## C.2 INTERNATIONAL PRICES

The vigor of world economic activity in 2000 was reflected in greater demand for commodities and an increase in their prices. Thus, the commodity price index developed by the *Commodity Research Bureau* registered an average 13% increase in 2000, after a 20% decline over the previous two years.

In 2000, the price of copper averaged 82.3 cents per pound (London Metal Exchange, LME), compared to 71.5 cents per pound in 1999. This increase occurred because global demand for this metal picked up, leading to a steady decline in stocks. Thus, by December 2000, average inventories stood at 343,282 metric tons, down from 794,456 metric tons in January of the same year.

The price of oil, on the other hand, rose noticeably in late 1999, a trend that continued throughout most of 2000. In January, prices were averaging US\$25.40 per barrel, rising to an average US\$32.50 in November, despite the fact that members of the oil cartel increased production quotas on three occasions and the US agreed to free up its strategic reserves in September. Factors behind the higher prices included the Organization of Petroleum Exporting Countries' lack of clarity about price and production policies, the possibility of a harsher than expected winter in the northern

hemisphere, and low inventories. Nonetheless, this tendency turned around in December, with the barrel of crude oil averaging US\$25.10, closing the year at US\$22. This occurred because in December stocks rose slightly in the US, while perceptions of world growth in 2001 were somewhat lower than originally forecast. This was helped along by milder weather than originally expected in the northern hemisphere and the resumption of Iraq's crude oil exports (Figure 5).

The rise in commodity prices pushed international inflation up, especially in the developed economies. In the United States, average inflation rose from 2.2% in 1999 to 3.4% in 2000. Inflation in Europe behaved similarly, rising from 1.4% in 1999 to 2.3% in 2000. The exception among advanced economies was Japan, where deflationary pressures held due to weak private consumption. There, the average CPI fell to 0.7% in 2000, after falling to 0.3% in 1999.

### C.3 FOREIGN CAPITAL MARKETS

During 2000, policy interest rates rose in both the US and the European Monetary Union. In the case of the US, the Fed raised interest three times, by

a total of 100 basis points, while the European Central Bank chose to increase its reference rate on five occasions, accumulating a 175 basis point increase during the year. This behavior was the result of strong economic activity and the need to prevent the resurgence of inflationary pressure.

The premium on credit to emerging economies, as measured by sovereign spreads, rose, reverting the improvement apparent early in the year. This was the result of more volatility on world financial markets throughout most of 2000, along with political and economic instability in Latin America. In this last case, the EMBI index registered a rise in sovereign spread from an average of 770 basis points in January 2000 to 786 basis points in December of the same year, with it peaking at 882 basis points in May, when international financial volatility was at its peak. Within the region, the largest increase in sovereign spread affected Argentina, with a rise from 710 basis points in January to 1021 basis points in November, ending the year with an average of 932 basis points. This decline was possible to the degree that approval of the International Monetary Fund aid package contributed to calming conditions in that economy, and in Latin America in General (Figures 6 and 7).

## D. Financial Developments

### D.1 TRENDS IN INTEREST RATES

The Central Bank of Chile implements its monetary policy through a target level for the daily interbank interest rate. This target corresponds to the monetary policy rate, or *tasa de interés de política monetaria (TPM)*, and is achieved through provisions in accordance with the monetary reserves in the interbank market. Therefore, under normal liquidity conditions, the interbank market interest rate should remain in line with the TPM.

During the first quarter of the year, the TPM rose on two occasions. In late January, the monetary authorities increased the policy rate by 25 basis points, from UF + 5.0% to UF + 5.25%, announcing a further 25 basis point increase in mid-March. These increases in the policy rate were based on the need to avoid inflationary pressure from costs and to push growth in aggregate demand toward convergence with growth in potential output. Conditions prevailing on the international fuel market were evaluated, along with foreseeable corrections to domestic prices and preventive action was considered appropriate. The Central Bank considered these cost pressures to be transitory in nature, but early and opportune action would help to avoid the risk of propagation affecting inflationary expectations and other prices. This way, the country could continue to enjoy an atmosphere of low, stable inflation, along with a process of vigorous and sustained growth, thus reducing the likelihood of larger corrections further down the road. The market anticipated these shifts in the TPM.

Later, as indicators of economic activity, domestic demand and employment declined, indicating the risk that inflation could fall below the

target within the 24-month horizon, the Central Bank decided to reduce the target interest rate by 50 basis points, bringing it to UF + 5.0% at the end of August. This sought to create financial conditions suitable to consolidating growth in domestic demand and activity consistent with the inflation target (Figure 8).

Interest on the Central Bank's indexed securities also showed a tendency to rise throughout the first half of the year, similar to that of the TPM. By the second half of the year, however, this tendency reverted. Thus, Central Bank 90-day indexed promissory notes (PRBC-90s) started the year at rates of almost 5.3%, which peaked at 5.81% in May, then started to fall, following TPM trends, ending the year at an average rate of 4.94%. Interest on long-term securities (PRC-8), meanwhile, despite their volatility during the first half of the year, reached 6.7% in June and then clearly tended to fall, ending up at 5.89% in December. Something similar occurred with interest on longer-term papers, particularly PRC-20, which began the year with a return of 6.66% and ended it at an average interest rate of 5.99% (Table 6 and Figure 9).

Given the relevance of long-term domestic interest rates for financing investment, it is worth examining some of the factors behind this behavior. On one hand, we find expectations about shifts in the TPM, in terms of it both rising and falling. On the other, international arbitrage and the level of interest rates abroad played a role, along with institutional factors that could affect supply and/or demand for this type of instrument.

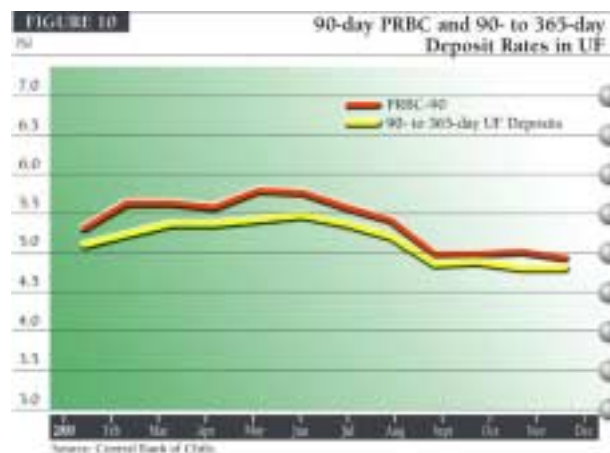
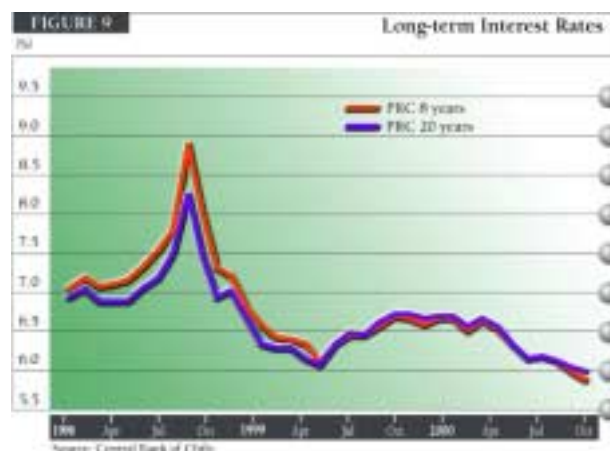
One of the more relevant international factors was the fact that conditions remained unfavorable throughout most of the year, as a result of volatile

sovereign risk spread and the relatively gradual decline in the real long-term external interest rate. The former moved from 156 basis points on average in January to 225 basis points in December, after peaking in November (232 basis points). Meanwhile, the real interest rate on a ten-year US Treasury bond fell from 4.4% in January to 3.5% in December.

Among domestic factors, the approximately US\$290 million average decline in investment by private pension fund managers (*Administradoras de Fondos de Pensiones, AFP*) in domestic securities throughout 2000 was particularly relevant. At the same time, financial investment in Chile rose US\$2.285 billion. Another factor important to interest rate trends was the government's behavior. The prospects for a return to a surplus implied less public sector demand for financing sources, thus helping to reduce pressure on domestic interest rates and increasing the flexibility of monetary policy. These effects were more robust to the degree that the market perceived that trends in public expenditure were coherent with the government's announcements and that the commitment to achieving a structural surplus remained firm. Finally, regulatory changes, applied in March, affecting interest rate, maturity and currency matches within the banking system may have contributed to a drop in long-term security prices during the transition toward compliance with new banking regulations.

For their part, interest rates prevailing in the financial system behaved similarly to interest rates on Central Bank securities, although in the short term the differential between them showed some significant fluctuations. Thus, deposit rates for 90 days to one year remained persistently below the rate of interest on PRBCs throughout the year, mainly due to the cost of funds (Table 7 and Figure 10).

Interest rates on long-term fixed yield securities issued by the private sector (mortgages and corporate





bonds) showed a clear tendency to drop from May onward, a trend that proved even stronger than for long-term Central Bank instruments. Notwithstanding, by year's end bond interest rates were higher than the equivalent TPM. This was partly due to supply factors. Indeed, the balance of private, domestically placed bonds has increased steadily since 1998, reaching UF132 million in December 2000. This shows that the private sector has tended to resort to domestic sources of financing, thus replacing the foreign sources so prevalent in the years before the Asian crisis.

Nominal short-term interest rates, meanwhile, were volatile, as a result of arbitrage with changes in the UF. Thus, they rose strongly during the first quarter of the year after the increase in the Consumer Price Index. From April on, expectations of lower inflation helped to lower these rates, which by September and October had reverted completely, due to rising fuel and transport prices. Toward year's end, however, nominal yields dropped, along with real interest rates and lower inflation indices. This can be seen in the trends affecting the interest rate on auctions of the Central Bank's 90-day discountable promissory notes (PDBC-90). Nominal rates on the longest maturity serve as a reference for inflation expectations over a one-year horizon. Thus, the differential between the PDBC-360 and the zero coupon indexed bond maturing in one year averaged 4.2% in 2000, a figure in line with those provided by Central Bank surveys of expectations, although this differential also includes a risk premium.

During the first quarter of 2000, the Central Bank's policy for managing monetary reserves focused on picking up excess liquidity resulting from the third quarter of 1999 and preparation for Y2K. This took the form of offering larger quotas of short-term indexed promissory notes during auctions, and maintaining the amounts of PRCs, set at UF300,000 per auction for eight- and ten-year promissory notes,

and UF200,000 per auction for 12-, 14- and 20-year promissory notes.

## D.2 TRENDS IN MONETARY AGGREGATES AND CREDIT

A look at trends in monetary aggregates is useful to evaluate economic performance and the impact of monetary policy thereon, even though the Central Bank has no explicit or implicit targets for the behavior of these aggregates.

Trends affecting the most liquid monetary aggregates - bills, coin and checking and demand account deposits - reflect consumers' and companies' operating needs. The level of real balances of money dropped in the first quarter of 2000, both in the case of currency and in the base of private money (M1A), thus reflecting normalization after Y2K. For the rest of the year, currency showed certain signs of recovery, although not very robust ones. For its part, M1A's checking and demand deposit component resumed real, and increasingly strong, growth, consistent with a more expansive monetary policy stance. In any case, monthly figures reveal rather volatile behavior throughout the year (Figure 11).

Historically speaking, real M1A has shown a very high correlation with activity. Recently, however, it has performed below GDP trends and more in line with the behavior of domestic expenditure. In particular, a breakdown of M1A checking account and demand deposit balances reveals that companies have performed more dynamically than individuals. This tendency is coherent with retail sales and other end purchase indicators that have shown a slow recovery in private consumption in 2000 (Figure 12).

The growth tendency for broader monetary aggregates, M2A and M7, also looked stronger during the second quarter of the year. If one looks

at estimates for those private sector financial assets most closely related to spending within the economy, obtained by excluding AFPs' share from these aggregates (AFPs represent about 25% of M2A and 38% of M7), M2A behaved somewhat negatively from the second quarter of 2000 on, then expanded significantly in December. Meanwhile, M7, after accelerating strongly from September to November slowed somewhat during December (Table 8).

If currency and Central Bank securities are subtracted from total M7 and the public sector's time and demand deposits are added, one obtains an indicator reflecting the supply of domestic financing within the banking system (M7B). The ratio between total loans and M7B has traditionally approached one, with a high level of correlation between their growth rates. From 1999-2000, however, the ratio between total loans and M7B fell below its historical average, remaining at around 0.9, which could also reflect the larger supply of bonds for financing companies.

The performance of total credit has been governed by the behavior of credit to companies, the result of Chilean firms making greater use of domestic financing. With regard to trends in personal credit, mortgages have risen, due to the systematic decline in interest rates associated with this type of loan, while the slow development of consumer loans contrasts with their strong performance in previous years. This is due in part to more lasting phenomena, among them the maturity of this market, which in previous years had grown systematically more than the population's income, and in part to other more temporary factors, among them continuing high unemployment and consumers' deteriorating expectations. Furthermore, recent regulatory changes negatively affected the supply of consumer credit for small amounts. Total credit to the private sector, however, has performed with the typical lag compared to general economic activity (Table 9 and Figure 13).

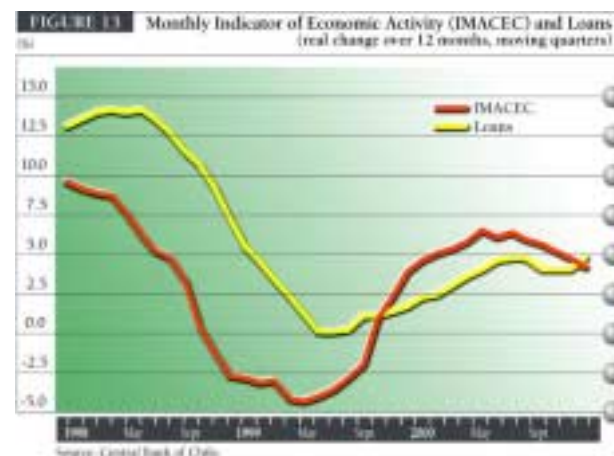
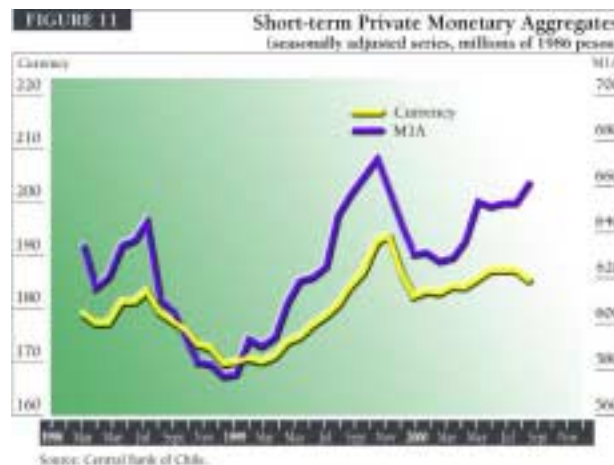




FIGURE 14 Real (TCR) and Multilateral\* (TCM) Exchange Rates

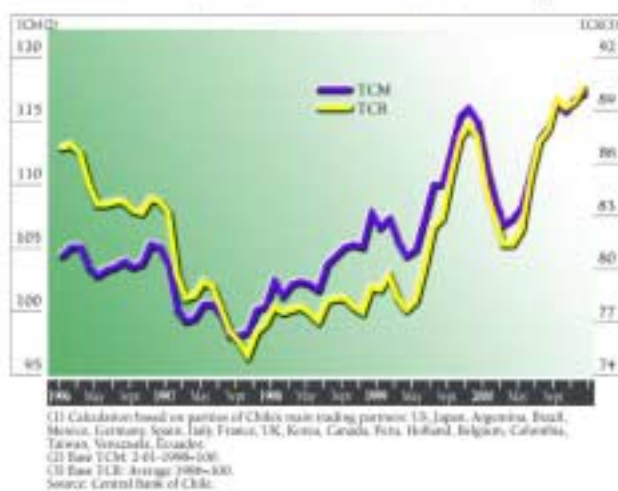
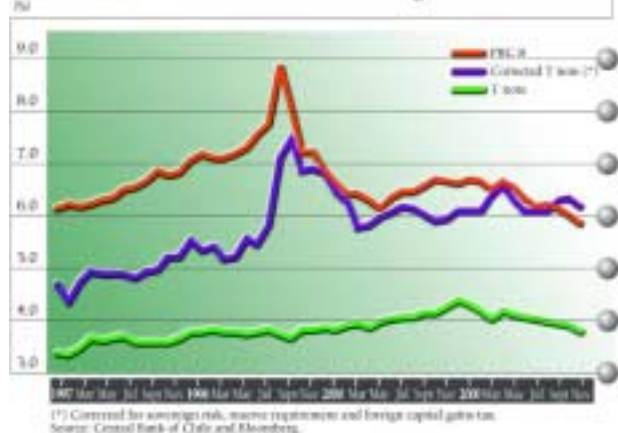


FIGURE 15 Differential between Long-Term Interest Rates



### D.3 EXCHANGE RATE POLICY AND REGULATIONS

Since September 1999, Chile has had a free-floating exchange rate regime. Although the Central Bank still has the authority to intervene in exceptional circumstances, these interventions must be publicly announced and justified. To date, the Bank has not made use of this faculty.

In this context, between the fourth quarter of 2000 and the average for 1999, the peso depreciated by just over 6% against the broad set of currencies measured by the multilateral exchange rate (*tipo de cambio multilateral*, TCM)<sup>(1)</sup>. The TCM depreciated less than the observed exchange rate (Chilean pesos per US dollar), which reached 12.5% for the same period. This was due mainly to the fact that peso depreciation against the yen and some Latin American currencies (the real and the Mexican peso) was offset by a significant appreciation of the Chilean peso against the euro and other regional currencies. Similarly, the Brazilian real rose 8.5% during the same period (Figure 14 and Tables 10 and 11).

In any case, the exchange rate tended to appreciate during the first half of 2000, then depreciated during the second half. Thus, in terms of TCM, the fourth quarter of 2000 performed similarly to the fourth quarter of 1999.

The premium between PRC8 and US 10-year indexed treasury bonds (corrected for taxes and sovereign premium) allows to calculate the differential between real interest rates, thus serving as an indicator of expected changes in the real exchange rate. This differential was positive, reaching about 60 basis points during the first

<sup>(1)</sup>The countries making up this broad currency basket are the same as those used for calculating the real exchange rate and are Chile's main trading partners.

quarter of 2000, then falling until it became negative during the fourth quarter of 2000. As a positive value for this variable can be interpreted as expectations of depreciation (and vice versa), the performance of this differential during the year helps to explain at least qualitatively movements observed in the real exchange rate (Figure 15).

#### D.4 TRENDS IN THE DOMESTIC FINANCIAL SYSTEM

During 2000, the financial system recovered compared to 1999. In effect, in 2000 banking activity as measured by growth in loans<sup>(2)</sup> rose 4.5% in real terms, up from 2.9% in 1999.

Another sign of financial system recovery can be seen in banks' profitability, as measured over capital and reserves (base capital), which reached 12.7% in 2000, up from 9.4% in 1999. Improved profitability was mainly due to the establishment of lower provisions, thanks to improvements in loan portfolios. Nonetheless,

average bank profitability was down from levels achieved during most of the nineties, mainly because of a trend toward lower intermediation margins due to greater competitiveness within this sector.

The system's overall capital levels did not change significantly. Base capital over total assets fell from 5.8% in 1999 to 5.3% in 2000. Something similar occurred with the Basel Capital Accord indicator, which measures the ratio of actual equity (capital and reserves, plus voluntary provisions and subordinate bonds issued for up to 50% of capital, minus contributions from companies and branches abroad) over risk-weighted assets, which fell very slightly from 13.5% in December 1999 to 13.3% in December 2000. These capital levels are well above the legal minimum of 8%. Other indicators showing no significant changes over the previous year were those indicating liquidity. Funds available compared to demand and time deposits rose from 15.5% to 17.6%. If we include Central Bank instruments with a secondary market, the liquidity ratio rose from 28.2% in 1999 to 29.8% in 2000.

<sup>(2)</sup>This corresponds to total loans.

## E. Economic Activity, Expenditure, Employment and the Government

### E.1 TRENDS IN ECONOMIC ACTIVITY AND EXPENDITURE

#### E.1.1 ECONOMIC ACTIVITY

Preliminary estimates indicate that in 2000 overall activity grew steadily, averaging 5.4%. Trends affecting annual rates of change throughout 2000 show that after growing rapidly in the second half of 1999, quarterly activity slowed (Figures 16 and 17 and Table 12). Similarly, domestic demand rose 6.6% on average during 2000. As a result, the gap between domestic expenditure and output growth became positive during the first half of 2000, then fell to practically zero toward year's end (Figures 18 and 19).

Within domestic demand, expenditure growth was mainly due to the intense accumulation of inventories during the first half of the year, with moderate growth in consumption throughout the year. During the third quarter, foreign demand resumed the dynamic growth that had been briefly interrupted during the second quarter of 2000. Thus, despite quarterly volatility, foreign demand was one of the components that drove economic growth during the year.

#### E.1.2 DOMESTIC DEMAND

The rest of domestic demand, which brings together total consumption and changes in inventories, showed annual growth of 7.5%. During the second half of 2000, this component grew 3.6%, less than during the previous six months, due to stagnating consumption and slower inventory accumulation.

This weaker performance of consumption suggests private agents' perceptions that disposable income will be lower. This is also linked to families'

uncertainties about the future, particularly job security and the economy's capacity for potential growth. Another factor affecting disposable income and, as a result, private consumption, has been lower government transfers to families. Similarly, reduced inventory accumulation is consistent with less dynamic consumption. Thus, inventory accumulation during the first half of 2000 apparently produced only a temporary impact on domestic demand.

Gross fixed capital formation recovered toward year's end, rising 9.9% during the second half, after falling during the first half of 2000. Growth achieved toward year's end, however, remained insufficient to recover the rate of investment over output observed one year earlier. Fixed investment (as a percentage of real GDP) is currently somewhere between 26% and 27%, well below the 30% plus levels observed during 1997 and 1998. The recovery observed in investment was driven by strong growth in the machinery and equipment component and, to a lesser degree, the construction of non-residential buildings (Figure 20).

#### E.1.3 FOREIGN DEMAND

The quarterly performance of goods and service exports during 2000 remained, on average, very strong, except for the second quarter, which was affected by a temporary decline in copper volumes. For the year as a whole, exports by value rose 20.4% over the previous year, favored by the strong world economy, which helped to improve both demand for volumes and prices. Overall exports by volume rose 7.5%, by price 12.1%. The latter increase was the result of a higher copper price and higher prices for traditional exports like *wood pulp* and *methanol* (Figure 21).

In 2000, imports rose 24.2% by value, 10.1% by volume and 12.8% by price, continuing a rising trend that began in mid-1999. The higher oil price on international markets, along with increased economic activity, were decisive factors in these results. Inventory accumulation particularly affected imports of consumer goods, which rose by 21.4% for the year, followed by intermediate goods (7.7%) and capital goods (6.7%).

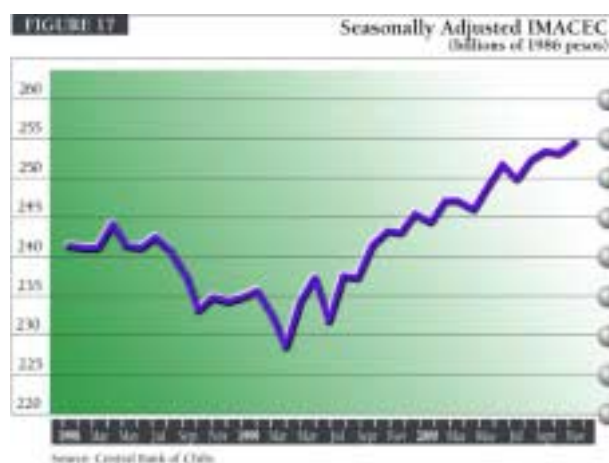
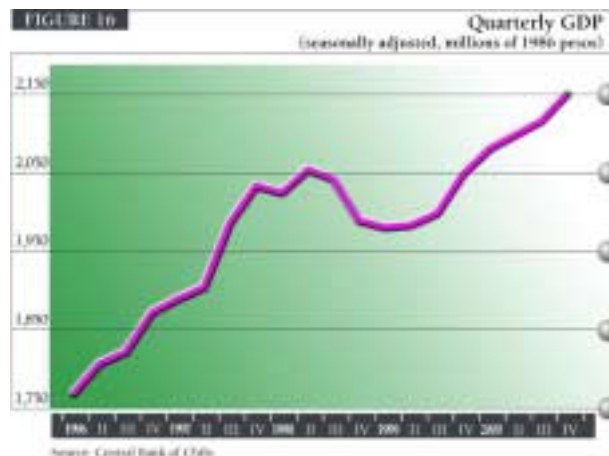
### E.1.4 PRODUCTIVE SECTORS

Supply factors played a particularly important role in sector performance during the year. Thus, for example, normalization of hydroelectric supply brought 17.3% growth to the *electricity, gas and water* sector. This situation made a positive contribution to output growth during the first three quarters of 2000, which dissipated during the last quarter. Altogether, this factor contributed about 0.4% to GDP. Normalization of the water supply also contributed to *agriculture*, which grew by 5.2% in 2000 (Table 13).

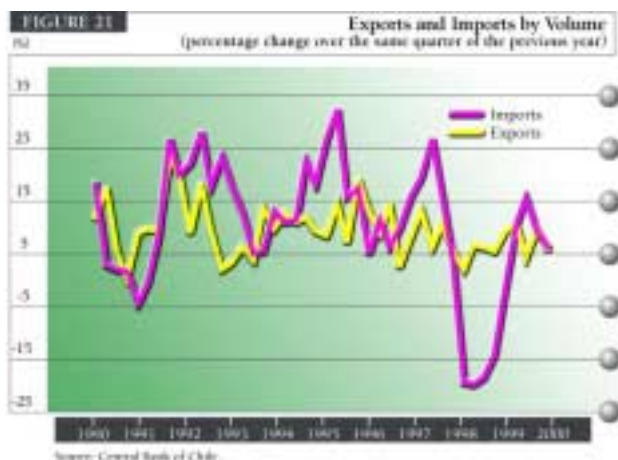
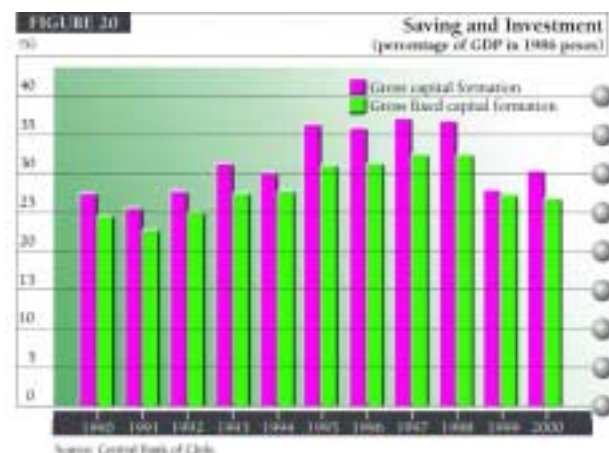
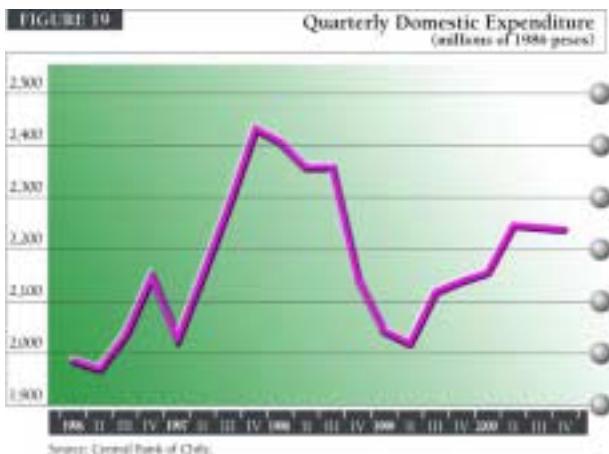
In contrast, *mining* contributed less to aggregate activity compared to the previous five-year period, during which a series of large new copper projects started up. Compared to 1999, *mining* rose 4.0%, thus ceasing to contribute about one percentage point to GDP growth during 2000.

The moderate strength of domestic demand affected mainly sectors producing non-tradable goods. *Construction* did not grow in 2000, while *wholesale and retail trade* rose by 4.7% and *personal services* rose 2.3%. At 9.5%, only *transportation and telecommunications* rose at a rate similar to previous years.

Moreover, the partial recovery of aggregate demand had an important impact on industrial production during the year: it rose 4.3%, after two consecutive years of negative growth (Figure 22).







## E.1.5 INCOME AND SAVING

The 5.4% increase in output led to a 4.7% increase in real, disposable gross national income. Higher factor outflows (profit remittances and interest payments) during this period meant that the change in real disposable gross national income was less than GDP.

The fact that private consumption, measured at current prices, grew less than output meant that gross national saving as a percentage of nominal GDP rose over the previous year, to 21.9%. Gross capital formation rose more than gross national saving, which generated greater demand for foreign financing, reflected in external saving reaching 1.6% of GDP, measured at current prices<sup>(3)</sup>.

## E.2 EMPLOYMENT AND UNEMPLOYMENT

Employment performed poorly during 2000. The number of those employed rose by just 1% and, if government employment programs are excluded, 0.7%. This brought unemployment for the year to an average of 9.2%. Despite weaker job creation, unemployment was lower than in 1999, because the labor force grew less, rising by just 0.5% in 2000, compared to 1.8% in 1999 (Figure 23 and Table 14).

Employment's slow growth was associated with the *manufacturing, retail and municipal social service and personal* sectors. In effect, employment in these sectors stagnated, then fell from March onward. In contrast, *construction and financial services* grew during 2000.

The economy's weak ability to create jobs was due mainly to imperfections that make it harder to reassign productive resources. In the first place, wage rigidity exists in the private sector, where nominal

<sup>(3)</sup>Note that, due to methodological differences, this figures is not exactly the same as the current account deficit.

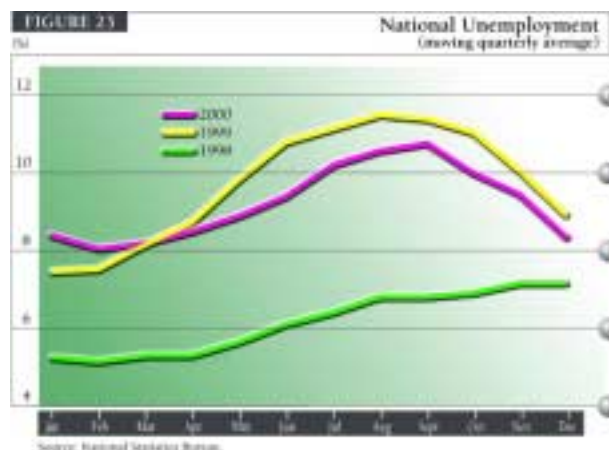
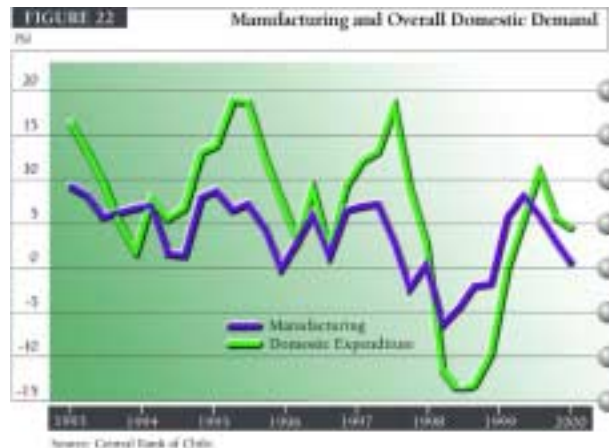
wages continue to be corrected according to past inflation. Similarly, the strong increase in the minimum wage in recent years has been a major reason behind limited job creation. *Construction*, one of the most important components of total employment, has grown only moderately due to lower investment in this sector. Imperfections in the labor market have complemented the above and been compounded by problems in capital markets, where less foreign credit and companies' high debtloads have rationed credit, affecting investment, particularly in industry, leading to an increase in activities that have little impact on job creation, especially for less skilled labor.

### E.3 THE PUBLIC SECTOR

In 2000, the central government managed to balance the national budget, achieving a surplus of 0.1% of GDP, thus turning around results for 1999 (-1.5% of GDP). This return to a balanced budget in 2000 was thanks to higher than expected (9.8%) tax income and extraordinary income due to privatizations carried out during the first part of the year on one hand, and a very moderate increase in public spending on the other. In effect, public expenditure with macroeconomic impact rose just 3.1%, well below the amount provided for by the national budget for 2000 (3.3%). All this generated a scenario of fiscal austerity and better coordination with monetary policy.

In 2000, the current fiscal surplus reached 3.7% of GDP, up US\$919 million over 1999. This change was due mainly to US\$890 million in unexpected tax revenue.

During the year, the equivalent of 0.6% of GDP was withdrawn from the copper price stabilization fund (*Fondo de Estabilización del Precio del Cobre*); this amount takes into account changes in the real copper price compared to its reference price, but also withdrawals during the year for assignment to the oil price stabilization fund (*Fondo de Estabilización del Precio del Petróleo*).





## F. Balance of Payments and Foreign Indicators

As of 31 December 2000, the surplus in the balance of payments was US\$198 million, the result of a US\$988 million deficit in the current account, a surplus of US\$1.198 billion in the capital account and negative errors and omissions of US\$12 million (Table 15).

### F.1 CURRENT ACCOUNT

The current account of the balance of payments posted a US\$988 million deficit for 2000, 1.4% of GDP, up from 0.1% in 1999 (Figure 24). This difference was mainly the result of lower income from the balance of trade (imports rose more than exports) and higher outflows under other components (services and profits). The increase in imports was largely the result of the higher oil price. Non-financial services rose due to increases in transport rental, insurance and port services, caused by more imports of goods. Financial services, referring to profit on investment, rose as a result of profits on foreign investment and interest on foreign debt.

The balance of trade posted a surplus of US\$1.436 billion for the year, with exports reaching US\$18.158 billion (up 16.3% over 1999), and imports reaching US\$16.722 billion (up 19.9% over 1999). Because imports rose more than exports, the balance of trade was down from 1999, at US\$228 million (Table 16).

The increase in exports reflected a 9.8% rise in prices and a 5.9% rise in volumes. Copper played a major role in the former, with its fob price rising 19% during 2000. Prices on the London Metal Exchange averaged 82.3 cents per pound, up from 71.3 cents per pound in 1999. The 4.8% rise in copper export

volumes also contributed to boosting total amounts exported (Table 17).

The value of non-copper exports rose 11.2%, with prices up 4.3% and volumes up 6.5%. Traditional products contributed to this result, rising 12.7% due to better prices, while non-traditional goods rose 10.1%, mainly due to amounts exported. Growth in non-copper exports rose mainly thanks to wood pulp (48.7%), due to its price recovery, followed by methanol (up 108.7%), mainly due to higher world demand for this product. These goods, along with iron, gold bullion and lumber, contributed to the group's positive results and helped to cushion the decline in other products from this sector, such as fishmeal, silver and planed wood.

The 9.4% increase in the amount of non-traditional products exported reflected the performance of chemical sector products (potassium nitrate, tires and inner tubes, fertilizers, plastics, perfumes), along with some goods from the food and drink sector (salmon, trout, wine), and other products from the base metals industries and the sub-sector transportation materials.

Geographically speaking, Chile's exports to the Asian economies (mainly Japan and China) were up the most, 23% over 1999, while exports to Latin America (mainly Brazil and Mexico) rose 17%, sales to the US rose 7%, and to Europe 12%.

Imports rose 19.5% (cif) for the year, over 1999, with volumes rising by 8.9% and prices by 9.7%. The 76.5% rise in the price of oil stood out. Other, non-oil prices rose 4.7% for the year.

In terms of the breakdown of imports accumulated through December 2000, the amounts imported rose

for every sector over the year. Intermediate fuel goods rose most (60.6%, due to the oil price), followed by consumer goods (19.3%). Non-fuel intermediate goods and capital goods increased their purchases abroad by 12.6% and 12.3% respectively.

Services and transfers posted a US\$2.424 billion deficit, up US\$681 million over 1999, mainly due to a US\$244 million drop in net outflows for non-financial services, and US\$523 million for financial services. The latter was the result of increased outflows of both net interest and net profits.

Net outflows due to profits and dividends on foreign investment, both direct and portfolio, rose as a result of higher profits paid out, the result of better earnings on foreign direct investment in Chile, particularly in copper mining, thanks to the recovery in the export price. Although profit inflows also rose significantly (up 84% over 1999) as a result of investment abroad during previous years, this wasn't enough to offset the impact of profits paid out abroad (Table 18).

During 2000, net outflows due to interest reached US\$948 million, up from 1999, mainly due to more interest to be paid on medium- and long-term debt, which offset the significant decline in interest paid on short-term debt and was not offset by more interest received on foreign currency reserves. The increase in the international interest rate applicable to different financial assets and liabilities, combined with increased foreign medium- and long-term debts incurred in 1999 and the first half of 2000 led to larger outflows for this item.

Non-financial services posted a loss of US\$558 million in 2000, representing a significant deterioration over the previous year. Larger outflows due to port shipments and services, the result of increased imports, were particularly important. The travel account was slightly higher than in 1999; however, levels of both income and outflows were lower than those of the previous year (Table 19).

## F.2 CAPITAL ACCOUNT

During 2000, the capital account posted a net surplus of US\$1.198 billion, representing an increase in net capital inflows into the country of around US\$2 billion more than in 1999. This surplus in the capital account was due to increased short-term capital inflows, and offset net outflows of medium-term capital, concretely those related to both direct and portfolio net foreign investment (Table 20).

Net inflows of short-term capital represented a turnaround over 1999, particularly for financial system assets. That year, significant currency outflows resulted from the sale of companies, a situation that was not repeated in 2000, thus causing this capital to return to the country. As well, during the last quarter of the year there was a strong increase in short-term credit lines used to provide temporary financing for medium-term investment, which could mean that in 2001, medium-term financing will increase thus replacing these credits.

Foreign direct investment during 2000 was negative, the result of a significant fall in investment from outside the country, while Chilean investment abroad remained at levels similar to those registered in 1999. In 1999, a significant amount (some US\$6 billion) of foreign investment entered the country as part of purchases of companies, a situation that did not repeat itself in 2000, when foreign investment for this purpose reached just US\$600 million. Companies linked to foreign capital have changed their sources of financing, showing a preference for medium- and long-term financial credits, in addition to short-term credit. This was reflected in the drop in credits associated with DL 600.

Portfolio investment from abroad was negative as a result of buy backs of ADRs and investment funds, combined with few bond issues, in contrast to 1999. Likewise, Chilean portfolio investment abroad was well down from the previous year. In effect, after strong investment abroad by AFPs during 1999, in

2000 these institutions repatriated capital, leading to net income of US\$123 million. This income was partly offset by mutual funds and insurance companies' growing investment abroad, as they have started to increase their presence in international markets.

### F.3 FOREIGN SOLVENCY AND LIQUIDITY

Foreign solvency and liquidity indicators for the Chilean economy demonstrate the country's solid financial position. During 2000, the stock of foreign currency reserves represented almost half of M2. Similarly, foreign debt represented 53% of GDP, and net of foreign currency reserves, represented just 32%, thus revealing the country's low exposure to foreign commitments and a solvent position abroad (Table 21).

Despite the Chilean economy's positive solvency and liquidity indicators, highly volatile international markets and the unstable economic policies of some Latin American countries have made it difficult to reduce the premium paid on Chile's sovereign bond. In effect, in Chile's case this premium tended to rise during the year, averaging around 200 basis points, similar to that of 1999. This amount compares favorably to the rest of Latin America, whose average spread was around 800 basis points in 2000. Similarly, Chile's good external indicators are reflected in the maintenance of its Standard & Poor's A- risk rating, the best of the region's economies.

### F.4 TRENDS IN FOREIGN CURRENCY RESERVES

As of December 2000, foreign currency reserves reached US\$14.741 billion, up US\$31 million over 31 December 1999. This was the product of a balance of payments surplus of US\$198 million, and US\$167 million in negative account revaluation, mainly the result of changes in currency parities against the dollar (Table 22).

### F.5 FOREIGN DEBT

Chile's total foreign debt as of 31 December 2000 reached US\$36.837 billion, up by US\$2.67 billion over December 1999. The private sector accounts for 85% of total debt, while the public sector is responsible for the remaining 15% (Table 23).

Gross disbursements of medium- and long-term foreign credits during 2000 reached US\$4.867 billion, down 20% over the previous year (US\$6.098 billion in 1999). The private sector, with US\$4.497 billion (92% of the total), was the main recipient of these resources, with the main economic sectors being financial services (32%), electricity (19%) and mining (18%).

As to sources of foreign financing during 2000, foreign financial institutions contributed 60% of medium- and long-term resources entering Chile, suppliers and companies involved in foreign investment 22%, bond issues 14%, and multilateral and governmental bodies 4%.

During the year, amortization of medium- and long-term foreign credits reached US\$3.808 billion. Of the total, US\$736 billion represented public sector amortizations and US\$3.072 billion private sector payments. 65% of total amortizations went to foreign financial institutions, 23% to companies and suppliers involved in foreign investment, 6% to multilateral bodies, and the remaining 6% to government bodies.

Foreign debt coming due within twelve months according to residual maturities reached US\$7.895 billion as of 31 December 2000, representing 21% of total debt. This was up US\$3.95 billion over December 1999, due to a US\$1.36 billion increase in net inflows of foreign credits with an original maturity of up to one year and US\$2.59 billion in scheduled amortizations of medium- and long-term foreign debt (Table 24).

## G. Developments in the Balance of the Central Bank of Chile

### G.1 BALANCE STRUCTURE

The composition of the Central Bank's assets and liabilities reflect the most important features of macroeconomic management and performance over the past two decades. The considerable volume of investment and obligations compared to the monetary base, prevents this structure from being significantly affected in the short term by the operations channel (Table 25).

The net withdrawal of fiscal funds, the drop in bank deposits in foreign currencies, the turnaround in international interest rates, and peso devaluation against the US dollar were the main elements affecting the composition of this balance during 2000.

The net use of funds by the State was reflected mainly in a drop in the Central Bank's foreign currency obligations to the government. About half of these withdrawals, however, took the form of local currency, after sale of the corresponding foreign exchange to the Central Bank itself. These last operations, the result of the resources required by the Oil Price Stabilization Fund, led to an expansion of the monetary base that was neutralized by issuing securities.

Foreign currency reserves' share of total assets remained stable at 54.3%, offsetting the decline caused by bank and state withdrawals of foreign currency, including interest and the relevant nominal indexation. The increase in the relative weight of fiscal promissory notes from 25.3% to 26% was due to accrued interest and indexing, factors that were partially offset by the government's regular servicing of this debt. Other government-related assets' share

fell from 3.7% to 3.3%, mainly because they remained practically unchanged in the context of a general increase in the total nominal value of assets. This also explained the drop in the relative weight of deferred losses (activated) from 5.4% to 5.2%. The fall from 8.7% to 8.0% in the relative share of subordinate debt-related assets was partly due to the scale factor referred to above, but also to servicing outstanding credits.

In terms of liabilities, promissory notes continued to account for most financing, rising from 71.3% to 74.6%, thus reflecting the need to sterilize local currency withdrawals by the government. Next in importance were public sector deposits, whose total share of liabilities fell from 10.3% to 8.6%, the result of withdrawals from the Oil Price Stabilization Fund and servicing fiscal promissory notes. Emission's share fell from 11.8% to 10.5%, thus partially reverting the abnormal growth it experienced in 1999.

### G.2 ASSET YIELDS, LIABILITY COSTS AND EQUITY TRENDS

International interest rates are the main factor determining the average interest yields on assets, while the relevant indexing generally depends on the nominal exchange rate. In 2000, the average weighted indexing factor applied to assets was 7.4%, the result of an 8.5% annual increase in the observed exchange rate, which was partially offset by the devaluation of other foreign exchange against the US dollar and the 4.5% rate of domestic inflation, which affected indexation of other assets. Higher foreign interest rates for the year meant that the average weighted yield in interest on assets rose from 4.5% in 1999 to 5.3% in 2000.

The average weighted cost of interest paid on liabilities, mainly promissory notes, rose to 6.1%, up from 5.8% in 1999, due to the higher cost of foreign currency liabilities. The average indexation of liabilities, including those in foreign currency and the monetary base, was 4.7% in 2000, up from 4.4% in 1999. This increase was mainly due to liabilities in Chilean currency, because although they were affected by high indexation, this was still less for liabilities in foreign currency than the previous year. The

difference between asset yields and liability costs due to interest was 0.8%, less than the 1.3% posted in 1999. Interest losses were more than offset by a 2.7% increase in asset indexation over liabilities. Thus, financial profits reached 205 billion Chilean pesos, the result of 331 billion pesos in profits due to indexation, 40 billion in profits due to devaluation of the equity deficit, and 167 billion in losses due to interest. Once non-financial losses are subtracted, the final net profit was 180 billion pesos.



# Appendix 1

## 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 the simplification of some functions and the different steps toward modernization taken by the Central Bank, operating expenditures have fallen 37% in real terms, from 31.989 billion pesos in 1991 to 20.106 billion pesos in 2000 (expressed in 2000 pesos) (Table 26).

Personnel expenditures fell 8% in real terms over the past five years, going from 15.16 billion in 1996 to 13.899 billion in 2000, the result of a gradual reduction in staff, along with the growing professionalization of this institution. In effect, total staff of the Central Bank has fallen by 10%, from 675 staff members in 1996 to 590 in 2000. Similarly, the structure has evolved to include a larger proportion of professionals, while the percentage of executives and directors has dropped, as has the percentage of administrative, secretarial and service positions.

Administrative costs for the period 1996-2000 fell by 11% in real terms, going from 4.812 billion pesos in 1996 to 4.282 billion pesos in 2000. This was mainly due to policies established to make procedures more efficient and a suitably controlled spending level. Administration expenditures include basic services; general services; maintenance of fixed asset goods; consulting; surveys; studies and seminars; and spending on computers.

Depreciation, amortization and write-offs also fell, by 15% in real terms, between 1996-2000, going from 1.724 billion pesos in 1996 to 1.47 billion pesos in 2000. These amounts correspond to depreciation of fixed asset goods.

Finally, taxes, contributions and payments for 1996-2000 increased just 2% in real terms, going from 445 billion pesos in 1996 to 455 billion pesos in 2000, the result of changes in the dollar exchange rate, which affected disbursements in this currency.



# Appendix 2

## Press Releases Following

### Monthly Meetings on Monetary Policy During 2000

#### PRESS RELEASE: 27 JANUARY

The Board of the Central Bank held its monthly meeting on monetary policy today, during which it analyzed economic performance in recent weeks and prospects for the next 24 months.

The Board considered the strength of domestic economic recovery, the improved situation abroad, the rising pressure from international inflation, and the impact on domestic inflation of the prices of specific goods and services (fuel and transport), some of which have been announced, while others can be predicted.

These factors led the Board to conclude that inflation would probably rise during 2000, mainly as a result of specific price increases. It considered the possibility that inflation could even rise above the level announced last September, if the oil price remains at the levels of the last two months.

For 2001 inflation prospects were seen as more favorable than in 2000, and inflation would probably fall, once the full effects of specific price rises had been absorbed. Rising costs and the trend towards economic recovery, however, have increased the risk that inflation could remain above the medium-term target level.

Economic recovery in recent months and future prospects make it necessary to cool monetary conditions apparent since June 1999. The Board thus felt that a minor correction to monetary policy was

appropriate, and it raised the monetary policy rate by 25 basis points, from UF + 5.0% to UF + 5.25%. The tranches of the liquidity line of credit were raised by 25 basis points.

#### PRESS RELEASE: 24 FEBRUARY

At its monthly meeting on monetary policy today, the Board of the Central Bank decided to maintain the monetary policy rate at its current level of UF + 5.25%.

During today's meeting, the Board analyzed economic developments in recent weeks and prospects for the next 24 months.

The data that has come available since the January meeting underlined the impact that pressures from rising domestic fuel prices will have at the price level. Similarly, the impact of increases that have already occurred, and of other, potential increases on public transport fares and general transport costs, could exceed earlier estimates, depending on the outcome of ongoing negotiations and whether international fuel prices remain at current levels.

Overall, although such cost pressures, among others, suggest higher price levels for this year, these pressures appear to be temporary, a condition further enhanced by domestic demand, which so far has remained within the predicted limits, and by moderate inflation expectations, following the January rise in the monetary policy rate.

The Board thus decided to hold the monetary policy rate at its current level of UF + 5.25%. The tranches of the liquidity line of credit also remained unaltered. However, the Board felt it appropriate to warn that higher price levels resulting from cost pressures will be accompanied by stricter monetary policy should these pressures, or others, put at risk the medium-term inflation target. It will rigorously monitor the way in which specific increases in inflation are incorporated into market expectations and regulated prices' correction mechanisms.

The Central Bank will remain alert to domestic demand prospects and to developments in exchange and financial markets, both in Chile and abroad, given that monetary policy is still in an expansive phase.

#### PRESS RELEASE: 16 MARCH

The Board of the Central Bank held its monthly meeting on monetary policy today, during which it analyzed economic performance in recent weeks and prospects for the next eight quarters.

In light of new data available since February, the Board incorporated into its analysis conditions now prevailing in the international oil market, and the possibility that prices may not fall as fast or as significantly as it had previously thought. Aside from the direct impact, there is a risk that this factor could feed into domestic inflation, particularly in the current year, although the pressure should by its nature be temporary.

The well-defined profile of domestic demand growth is important in the forecast of lower inflation next year, despite the pressures from temporary costs mentioned above. These pressures pose a risk, however, for the medium-term inflation target if they feed expectations of higher inflation. The Central Bank must be careful not to validate such expectations.

The Board, wishing to preempt an unnecessarily prolonged effect on inflation from cost pressures, decided on a small increase in the monetary policy rate of 25 basis points, from UF + 5.25% to UF +

5.5%. The tranches of the liquidity line of credit were raised by the same amount.

The Board wishes to indicate that this small adjustment brings the reference rate significantly closer to a neutral position, in line with the recovery anticipated in domestic demand over the coming quarters. Thus the stimulus from monetary policy should not contribute further to existing cost pressures.

The Board wishes to stress the importance of the announcement of an austere fiscal policy. This will be essential to allow adequate recovery in investment and private consumption, as a result of a better combination of monetary policy and fiscal policy in the future. In this context, the Board indicates that it sees no reason to raise the monetary policy rate again at present.

#### PRESS RELEASE: 11 APRIL

The Board of the Central Bank held its monthly meeting on monetary policy today, during which it analyzed recent developments in the economy and the prospects for the next 24 months.

It concluded that, following the rise in the monetary policy rate of 16 March, the risks of accelerating inflation had modified. In particular, international fuel prices recently fell significantly, making new upward corrections to the respective domestic prices less likely. This factor, taken together with exchange rate trends, should help to hold down increases in other regulated prices.

This factor, along with the market's favorable response to the government's commitment to greater fiscal austerity and the preventive measures on monetary policy taken in February and March, have kept inflation expectations in line with the Central Bank's medium-term target.

Domestic demand continues its modest recovery, along with overall economic activity. Based on the

available data, forecasts for these variables suggest that the gap between actual and potential output will gradually close. Inflation over 12 to 24 months is forecast to remain within the 2%-4% range, centering on the 3% per annum defined as the target.

On this basis, the Board decided to maintain the monetary policy rate at its current level of UF + 5.5%. The tranches of the liquidity line of credit also remained unchanged.

#### PRESS RELEASE: 9 MAY

At its monthly meeting on monetary policy held today, the Board of the Central Bank decided to maintain the monetary policy rate at its current level of UF + 5.5%. The tranches of the liquidity lines of credit also remained unchanged.

During the meeting, the Board analyzed recent economic performance and prospects for the next 24 months, in light of available data.

Assuming a growth scenario of around 6% for the next two years, the Board believes conditions favor a stable inflation rate centered on a mid-point 3% in the target range of 2% to 4%, over the next 12 to 24 months.

Although short-term inflation could exceed the upper limit of the range, underlying inflation remains within the target range. Some variability is expected over the next 24 months, but the Board considers risks balanced over the relevant time span.

Monetary policy will maintain the necessary flexibility to confront such risks opportunely.

#### PRESS RELEASE: 8 JUNE

At its monthly meeting on monetary policy today, the Board of the Central Bank decided to maintain the monetary policy rate at its current level of UF + 5.5%. The tranches of the liquidity lines of credit also remained unchanged.

The Board conducted its regular analysis of economic developments and prospects for the next 24 months, taking the Monetary Policy Report for May as its point of reference.

Data gathered over recent months indicates that domestic demand, economic activity and employment continue to grow at a moderate rate, representing no significant risk to price stability. The favorable performance of the indicators for underlying inflation confirms this situation.

On the external front, international financial markets remain highly volatile, but news in recent weeks has tended to confirm the “soft landing” scenario for the US economy, and the prospect of a limited rise in international interest rates.

The most relevant change since the beginning of May has been the increase in the international fuel price, which has not been reflected in domestic prices. Should the international price be maintained, an increase in domestic prices is more probable.

Taking into account all these factors, the Board decided to maintain the monetary policy rate unaltered. It takes this opportunity to reiterate its commitment to price stability, with inflation centered at 3% within a range of 2% to 4% per annum. This will require the necessary flexibility in monetary policy to confront any risks, from any direction whatsoever, which might endanger this objective.

#### PRESS RELEASE: 11 JULY

In the monthly monetary policy meeting held today the Board of the Central Bank decided to maintain the monetary policy rate at its current level of UF + 5.0%. The tranches of the liquidity lines of credit also remained unchanged.

In the meeting the Board analyzed recent developments in the economy and the prospects for the next 24 months, taking as its point of reference the Monetary Policy Report for May.



The data indicated that domestic demand, economic activity and employment are growing at a moderate rate, with no significant risk to price stability, and in line with the forecasts for economic growth of around 6% over the next two years, as indicated in the May report.

Measurements of underlying inflation, which is stable, confirm this situation. Meanwhile, monetary conditions have become somewhat more expansive with recent trends in market interest rates and the exchange rate.

On the external front, international financial markets have become less volatile, and the most recent data is coherent with the “soft landing” scenario for the US economy and the prospect of a limited rise in international interest rates.

Finally, international fuel prices remain high; well above domestic prices, posing the risk of further domestic oil price rises.

Taking into account all these factors, the Board has decided to maintain the monetary policy rate unaltered. On this occasion, it would like to underline yet again its commitment to price stability, with inflation centered at 3% within a range of 2% to 4% per annum. This will require the necessary flexibility in monetary policy to deal with any risks, from any direction whatsoever, which might endanger this objective.

#### PRESS RELEASE: 10 AUGUST

At its monthly meeting on monetary policy, held today, the Board of the Central Bank decided to maintain the monetary policy rate at UF + 5.5%. The tranches of the liquidity lines of credit also remain unchanged.

The Board carried out its regular analysis of recent economic performance and the prospects for the next 24 months, taking as its point of reference last May's Monetary Policy Report.

The data available indicates that economic activity has continued along the growth curve forecast in May, and is being driven by external demand. Growth in domestic demand and employment have been more moderate in recent months, and underlying inflation has been very stable.

World economic growth has continued to strengthen, and a “hard landing” for the US economy looks less likely. International financial markets continue to suffer from a lack of liquidity and world oil prices remain volatile.

The past 30 days have seen the consolidation of a series of more expansive monetary measures, as noted in the previous meeting. Medium- and long-term interest rates have continued to fall, and the peso has further depreciated.

All this suggests that domestic demand and employment will resume faster growth over the projection horizon (two years). The Board does not perceive any real risk of inflationary pressures, however, given levels of both idle installed capacity and unemployed labor.

#### PRESS RELEASE: 28 AUGUST

Last week, the Finance Ministry made recent relevant data on national production, sales and employment available to the Central Bank. In light of this and other information on which the medium-term inflation forecast is based, the Board of the Central Bank moved its regular monetary policy meeting, scheduled for Wednesday 6 September, forward to today.

The meeting analyzed recent economic performance and prospects for the next 24 months. The data available indicated that although economic activity continued to grow, domestic sales and employment had been expanding more slowly in recent months, while underlying inflation remained stable. Continuing high unemployment and the

resulting decline in economic expectations point to more modest growth in domestic demand, despite more expansive monetary conditions in recent months. This means that, despite the visible effects of fuel prices increases, the medium-term inflation rate could move toward levels below the 3% mid-point over the projection horizon.

On this basis, and taking into account idle capacity within the economy, the Board of the Central Bank decided to cut the monetary policy rate by 50 basis points, to UF + 5%. The tranches of liquidity lines of credit were also reduced by 50 basis points.

This decision was taken in the context of the government's commitment to keep growth in fiscal spending, as it affects the macroeconomy, to 3.3% this year, and to achieve a structural surplus of 1% of GDP by the end of 2001. The Minister of Finance underlined its commitment to these fiscal targets during the meeting.

The Central Bank will continue to use monetary policy with all necessary flexibility in order to confront the risks, from any source whatsoever, which could affect the course of medium-term inflation in relation to the target rate.

#### PRESS RELEASE: 10 OCTOBER

In its monthly meeting on monetary policy today, the Board of the Central Bank decided to maintain the monetary policy rate at UF + 5.0%. The tranches of the liquidity lines of credit also remain unchanged.

The Board made its customary analysis of recent economic performance and prospects for the next 24 months, using the September Monetary Policy Report as its point of reference.

As expected, the 12-month inflation rate registered last month (4.2%) was above the upper limit of the target range of 4% per annum. This is a

temporary phenomenon, in line with inflation forecasts included in the September Monetary Policy Report. The bulk of the inflation increase in the current year is the result of the performance of the international oil price and its impact on domestic prices, and bears no direct relationship to domestic demand. Trends in underlying inflation, which remained within the target range, illustrate this. A more normal oil price and a stable exchange rate, as contemplated in the central scenario of the September Monetary Policy Report, support a forecast of lower inflation from the first half of next year.

The most recent data supports the set of forecasts in the above-mentioned Report, particularly the view that inflation will converge at 3% within the projection period and that economic activity will recover without generating inflationary pressures. However, the risks considered last month still persist: among these, volatile fuel prices, the slow-down in the US economy, and domestic demand, which continues to grow only modestly.

The Central Bank will continue to use monetary policy with the appropriate flexibility in order to confront any risks, from any source whatsoever, which could be seen as endangering the course of medium-term inflation.

#### PRESS RELEASE: 14 NOVEMBER

The Board of the Central Bank decided today during its monthly monetary policy meeting to keep the monetary policy rate at UF + 5.0%. The tranches of the liquidity lines of credit also remained unchanged.

The Board made its customary analysis of recent economic developments and prospects for the next 24 months, using the September Monetary Policy Report as its reference.

As forecast, the 12-month inflation rate registered in October (4.5%) was above the upper

limit of the target range of 4%. The decisive factor in this development was the increase in the international oil price since mid-1999. If it does not cause any further pressures, then inflation is likely to start to fall during the first quarter of next year, which would bring it back into the target range by mid-2001, approaching 3% for the projection horizon as a whole.

Underlying inflation remains under control within the target range, as a result of the behavior of domestic demand, and is coherent with the forecasts for growth in economic activity and domestic demand and the performance of the exchange rate in the September Monetary Policy Report.

The external outlook is less encouraging. Fuel prices remain high, and should this situation continue it will probably generate slower growth worldwide than forecast some months ago. Financial markets have become more cautious toward emerging economies, mainly because of concerns over financial conditions in parts of Asia and Latin America. These factors, and the scenario of slower growth in domestic demand, require caution and flexibility in monetary policy. The Central Bank will remain alert to all risks that could endanger the inflation target.

## PRESS RELEASE: 12 DECEMBER

In its monthly monetary policy meeting held today, the Board of the Central Bank decided to hold the monetary policy rate at UF + 5.0%. The tranches of the liquidity lines of credit also remain unaltered.

The Board made its customary analysis of recent economic developments and the prospects for the next 24 months.

As expected, the 12-month inflation rate registered in November (4.7%) was above the upper limit of the target range of 4% per annum, while the indicators for underlying inflation showed it had held steady, close to the mid-point of the range (3%). The disparity was due to the direct effects of the high international oil price on total inflation.

As long as the oil price does not bring additional pressures, inflation can be expected to fall in the first quarter of next year, allowing a return to the target range by mid-2001 and a convergence on 3% over the projection horizon, in a climate of moderate but sustained growth in domestic demand and economic activity.

The Central Bank will continue to use monetary policy with all due flexibility to deal with any possible deviation from the projected inflation target.

# Appendix 3

## Main Monetary and

### Credit-Related Measures in 2000

#### JANUARY

13 Acting under articles 45, 47 and 49 of Decree Law 3,500 (Pension Funds), modified by Law 19,641, and by Article 3 of the Transitory Provisions of the above Law, the Central Bank determined:

- The investment limits for Type 2 Pension Funds, by type of instrument and for total investment in specific financial instruments;

- The amount of the single multiple to be used to set the limits for investments by Type 2 Pension Funds in certain groups of instruments, and the totals invested with the resources of both Type 1 and Type funds.

- That during the first nine months in operation of the modifications introduced under Law 19,641, the total resources of a new Type 2 Pension Fund may be invested in state securities, in securities guaranteed by financial institutions, in term deposits, or in securities backed by deposits, issued by financial institutions. During the same period, total investments in the securities of a single financial entity may not exceed 30% of the value of the corresponding Fund.

- The investment limits on instruments not listed above, for total investments in specific instruments and by issuer, to which Type 2

Pension Funds will be subject for the first three years in operation of Law 19,641; and

- That the maximum weighted average term for investments by Type 2 Pension Funds in debt instruments will be four years.

27 The monetary policy rate was raised by 25 basis points, from UF + 5.0% to UF + 5.25% per annum. Interest on the tranches of the liquidity lines of credit was also raised, with the first tranche set at the target rate, and the second and third tranches at UF + 7.25% and UF + 9.25% respectively. The rate on the liquidity deposit was set at UF + 4.25%.

#### MARCH

16 With the necessary computer systems and procedures now in place, the Central Bank implemented the CERO promissory notes (Zero-Option Indexed Monetary Emission Coupons, *Cupones de Emisión Reajustables Opcionales*), created in July 1999. These promissory notes make it possible to split coupons on PRC and PRD (Indexed Promissory Notes with Payment Coupons, *Pagarés Reajustables con Pago en Cupones*, PRC, and Dollar-Indexed Promissory Notes (*Pagarés Reajustables en Dólares*, PRD). CERO bonds in UFs and dollars are issued only against PRCs or PRDs offered by their holders for substitution or exchange.

The Board decided to raise the monetary policy rate by 25 basis points, to UF + 5.5%. The tranches on the liquidity lines of credit were raised to UF + 5.5%, UF + 7.5%, and UF + 9.5%, and liquidity deposit rate rose to UF + 4.5%.

- 30 As part of its policy to modernize the regulation of banks and financial institutions, the Central Bank agreed to a technical correction to the measurement of mismatch in operations in domestic currency maturing in less than 30 days. As of today, financial institutions can include surplus asset flows in foreign currency over liability flows in the same currency, whose residual maturity is also under 30 days, in their calculations of margins in local currency.

This regulatory correction recognizes that, given the depth of local financial markets, financial institutions' foreign currency liquidity would allow them to meet their local currency commitments, should the need arise.

- 31 The April 1999 agreement on maturity matches in both domestic and foreign currency for financial institutions came into effect on this date.

## MAY

- 25 Savings and loans cooperatives supervised by the Superintendent of Banks and Financial Institutions (*Superintendencia de Bancos e Instituciones Financieras, SBIF*) were given the option of adopting the Basel criteria on capital requirements as an alternative to meeting the requirement based on the maximum ratio for current liabilities over paid-in capital and reserves. Cooperatives wishing to take advantage of this new option must comply with the following: i) hold legal reserves of no less than 400,000 UF; ii) hold equity and reserves of no less than 10% of risk-weighted assets and no

less than 5% of total assets; iii) comply with the Central Bank's regulations governing maturity matches; have the authorization of the SBIF, which will be forthcoming, provided the cooperative meets the above requirements and the SBIF believes it fulfils general conditions of management quality and technical competence.

Cooperatives that have opted for the Basel criteria, meet the above requirements, put up the necessary technical reserves, and have Central Bank authorization, are allowed to issue and operate credit cards.

## AUGUST

- 3 Modifications to regulations governing the Clearing House for checks and other securities in domestic currency, operative from 13 September, will reduce by one day the procedures for the exchange of checks from other geographical locations. The funds will thus be available to users on the fourth day after the check is deposited.
- 3 Banks are authorized to offer unindexed, foreign currency checking accounts, without accrued interest.
- 10 In the interest of lower issuing and transaction costs for bills of credit and to support the trend towards dematerialization for all kinds of financial instrument issues, the Central Bank authorized banks and financial companies to issue bills in dematerialized form (as permitted under Law 18,876, Constitution and Operation of Private Deposit Bodies and Securities Custody). For mortgage loans, should the dematerialization occur before the bills are in circulation, provisional documents must be issued in physical form and refer to the bills which would have been issued.



The 30 UF limit per client on checking account overdrafts offered by banks was eliminated. The limit applied to banks whose loan portfolios were not classified in Category I one or more times consecutively by the SBIF, and while they remained in other categories.

- 28 The Board reduced the monetary policy rate by 50 basis points, from UF + 5.5% to UF + 5.0%. The tranches of the liquidity lines of credit were adjusted by the same amount, the first tranche at the target rate, and the second and third at UF + 7.0% and UF + 9.0% respectively. The liquidity deposit rate was set at UF + 4.0%.

## SEPTEMBER

- 14 In order to help develop the financial market and complement other markets, the Board of the Central Bank made the following changes to Compendium of Financial Regulations (CNF) provisions governing savings, deposits and intermediation and financial control:

- Banks and financial companies were authorized to debit the corresponding amounts to term, demand and other savings deposits for the purpose of making life and/or disability insurance payments, upon request from the main holder of the account and where the account holder has a policy with an insurance company. These debits are not treated as withdrawals for the purposes of determining the holder's rights to corrected amounts resulting from indexing.

- Banks and financial companies in Chile will be allowed to sell short to others living in or resident in Chile; this refers specifically to buying or selling securities with a repurchasing obligation, and establishes, furthermore, that the securities subject to being sold short are those issued by the Central Bank of Chile for this purpose, and bonds and

bills of credit issued by banks and other financial institutions and payable in local currency.

- It was established that the commitments thus made by banks and financial companies when selling Central Bank instruments short as described above are not subject to the monetary reserve requirement.

- Regulations for interest rate matches were made more flexible, allowing financial institutions to apply their asset positions in financial investments that do not form part of their permanent portfolio (trading investments) to the corresponding liabilities.

- Banks and financial companies were authorized to operate with derivatives of fixed income instruments issued by the Central Bank in open market trading and of bonds and bills of credit issued by banks and financial companies in Chile, payable in domestic currency.

- 14 In addition to the assets in their loan portfolios or other investments already authorized, banks and financial companies may sell or assign to securitizing companies and securitized loan investment funds, the following:

- Non-endorsable mortgage loans, issued by themselves or other financial institutions, but excluding mortgage loans made via the issuing of bills of credit, referred to in Chapter XIII of the Banking Law; Section XIII;

- Credits from their commercial loans portfolio;

- Residual funds from the sale of properties received in payment for unpaid debts or bought through judicial auctions for the same purpose (under article 84 No.5 of the Banking Law);

As with investments in Central Bank documents, sale or assignment of the commercial loans and

residual funds mentioned above are not subject to an annual minimum.

25 As part of its policy of actively encouraging a more modern payments system, the Board adopted a plan of action to bring the system up to the highest international standards. The plan approved consists of the following elements:

- A working schedule to stimulate rapid modernization of payments. For this purpose, the Central Bank will create and coordinate with one or more working groups composed of representatives from the Superintendent of Banks and Financial Institutions, other official bodies, the Association of Banks and Financial Institutions.

- With the advice of the working groups so constituted, the Central Bank will define the minimum conditions of security, transparency, competition, risk management and other characteristics to be met by high-value payment mechanisms, and ensure these systems meet the standards of the BIS (Bank for International Settlements) Committee on Payment and Settlement Systems.

- A commitment to set up a system of electronic auctions for promissory notes and other open market operations in the Central Bank, as of March 2001;

- A commitment to modify, in the short-term, the regulations of the Clearing House for checks and other securities in national currency, to make procedures faster and allow results to be known on the same day the Central Bank makes final settlement.

- A commitment to move ahead in the short term on the structuring of financial institutions current accounts with the Central Bank, to provide direct access to settlement details during banking hours.

- Agreement for the future to adopt measures, actions and regulations which will lead to an on-line, real-time system of interbank payments, known internationally as RTGS (Real-Time Gross Settlement System), so that payments into Central Bank current accounts can be cleared gross and in real time.

## OCTOBER

5 The Central Bank reported favorably on the SBIF's proposed regulations that would modify existing norms for the banks' foreign or cross-border investments and credit operations, to make it easier for banks to expand abroad:

- For the purpose of calculating country risk on credit guarantees, the risk-rating requirement for the guarantor bank is reduced from first-category risk to investment grade. All types of guarantors and issuers of stand-by credit bills are incorporated as loan guarantors. The same ruling applies to operations covered by insurance, or loan derivatives.

- Securities traded on official stock markets in countries classified in at least a BB- or equivalent rating are not required to make country-risk provisions. The previous requirement was for at least an AA rating.

- Country-risk provisions are not necessary for credits to banks with a residual maturity of 180 days or less, nor for operations which meet specific definitions, provided that the Board of the relevant financial institution has agreed on the types or groups of specific operations and the countries in which they will operate.

- Foreign currency loans to companies that trade on local stock markets in countries with a country risk rating of at least BB- or equivalent are subject to the 70% limit on real equity.

These operations are exempted from the 20%-30% margin on real equity.

- Unrated short-term investment instruments can be rated in the same category as long-term instruments issued by the same entity, with some additional safeguards.

- Required ratings for short-term investment instruments are reduced by one degree to make the risk compatible with that of long-term instruments.

- Financial investments with neither short- nor long-term risk ratings, whose issuers are located in countries rated in Category 4 or better (according to SBIF regulations) are authorized alternatives. Banks whose Basel indicator is below 10% may invest up to 10%

of actual equity, while those with higher Basel indicators may invest up to 15%.

- Securities issued or guaranteed by international organizations recognized by the Chilean state are authorized for investment.

- Financial investments in unclassified securities issued or guaranteed by states or central banks are classified according to the country risk of the state of the issuing entity.

- Financial investments in structured notes must be issued by investment banks with an international risk rating no lower than AA-, whose yield is linked to a fixed-income, sovereign or corporate instrument, with a rating no lower than BB-.



# Appendix 4

## Main Foreign Exchange and

## Trade Measures in 2000

### APRIL

- 18 The Central Bank broadened the range of Chapter XXVI of the Compendium of Foreign-Exchange Regulations. The main change allowed companies to issue securities other than ADRs on the New York stock market, while investment funds, specifically business development and real estate funds, may issue quotas abroad.

### MAY

- 4 Banks were authorized to extend their operations in financing foreign trade between third countries through the use of guarantees. Under the new regulations, commitments with guarantees cannot be made in favor or chargeable to other financial institutions in the country, and the debtor financial institution cannot be a subsidiary or a branch of any other financial institution in the country, or linked to the ownership of any such firm.

Capital contributions and investment made under Chapter XIV of the Compendium of Foreign-Exchange Regulations are no longer subject to a minimum one-year “lock-in” period.

Banks and third parties may deal with counterparts abroad in foreign exchange forward contracts involving the Chilean peso or the UF.

Banks may use credit derivatives to cover credit risks in their portfolio of fixed income instruments and commercial loans to residents for operations in either local or foreign currencies. These derivatives cover the risk of debtor non-payment. The new authorization allows this insurance to be contracted for abroad, providing issuers hold at least an A- credit risk rating.

Peso- or UF-denominated bonds issued abroad can be accepted as commitments payable in foreign currency. Interest paid by such bonds will carry the same rate, 4%, as traditional bonds denominated in foreign currency.

Securities traders and stockbrokers were incorporated into the formal exchange market (MCF).

### JUNE

- 1 ADR companies do not require a capital increase before their securities may be traded and quoted on stock markets other than that on which they were issued.

### OCTOBER

- 12 In order to help banks develop financial intermediation in foreign currency with people domiciled or resident in Chile, the Central Bank



modified and complemented the regulations on borrowing and lending in foreign currency, as set out in various chapters of the Compendium of Financial Regulations and the Compendium of Foreign-Exchange Regulations. It thus took a significant step toward liberalizing foreign exchange regulations as they affect banks in Chile.

The Board believes that in an open economy such as Chile's financial intermediation in foreign currency offers several advantages. First, small- and medium-sized businesses in the tradable sector, with limited access to foreign financing but with foreign currency-linked earnings, can finance themselves in the same currency, and thus eliminate exchange-rate risk. Second, the participation of local banks, with better knowledge of local companies than foreign lenders, could help reduce margins on these operations. Finally, it is also possible that the development of a local credit market in foreign currency could improve the depth and liquidity of local financial markets, particularly the foreign exchange spot and forward markets, which would help reduce the volatility of the exchange rate.

The key to an advance in this area is that banks should take into account the foreign exchange mismatches of their clients as part of credit risk, under the terms set by the SBIF (Superintendent of Banks and Financial Institutions). The experience of more than a year of a floating exchange rate has given banks a better understanding of the effects of exchange rate instability on their clients' solvency and their overall financial positions.

As a result of the modifications to the regulations, banks can also now carry out the following operations in foreign currency:

1. Receive foreign currency deposits in any of the forms authorized by current regulations, including demand or time savings accounts, with unrestricted or limited withdrawal facilities.

2. Provide credits associated with checking accounts and accept overdrafts on same, in foreign currency.

3. Make commercial and mortgage loans in foreign currency by issuing general-purpose bills of credit to people domiciled and resident in Chile.

4. Take part in syndicated loans in foreign currency to people domiciled and resident in Chile, but not to banking companies established in Chile, as well as acquire such loans in full or in part.

5. Acquire loans made abroad to people domiciled and resident in Chile, including foreign trade loans, except those made to banking companies in Chile.

6. Acquire foreign currency bonds issued by people domiciled and resident in Chile, including investing in bonds issued by the State or its institutions, but in the latter case only for the purpose of intermediation.

7. Issue deposit certificates, promissory notes and bonds in foreign currency, as well as in national currency indexed to the UF, for placing abroad and trading in Chile and/or abroad.

8. Sell or assign defined foreign currency portfolio assets to other banking companies or people domiciled or resident in Chile.

The Board authorized banks to carry out these new operations in foreign currency provided that their boards established policies on exchange-rate risk evaluation for their debtors, and informed the SBIF of same in advance.

The Board also lowered the risk classification requirement for banking companies issuing bonds, convertible bonds, subordinate bonds and ADRs abroad, as part of the overall aim of the resolution.

TABLE 1

## PRICE INDEXES

|              | CPI excluding<br>(December 1998 = 100) |                   |          | CPI excluding<br>Perishables and fuel (1)<br>(December 1998 = 100) |                   |          | WPI<br>(June 1992 = 100) |                   |          |
|--------------|--|-------------------|----------|--|-------------------|----------|--------------------------|-------------------|----------|
|              | Index                                  | Percentage change |          | Index  | Percentage change |          | Index                    | Percentage change |          |
|              |  | Month             | 12-month |  | Month             | 12-month |                          | Month             | 12-month |
| 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)  | 148.0                    | -                 | 13.5 (2) |
| 2000 average | 104.9                                  | -                 | 4.5 (2)  | 104.1  | -                 | 3.4 (2)  | 164.8                    | -                 | 7.9 (2)  |
| <b>1999</b>  |  |                   |          |  |                   |          |                          |                   |          |
| 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     |
| <b>2000</b>  |  |                   |          |  |                   |          |                          |                   |          |
| January      | 102.5                                  | 0.2               | 2.8      | 102.2  | 0.1               | 2.2      | 158.2                    | -0.7              | 13.1     |
| February     | 103.1                                  | 0.6               | 3.3      | 102.9  | 0.7               | 2.7      | 158.3                    | 0.1               | 13.1     |
| March        | 103.8                                  | 0.7               | 3.4      | 103.7  | 0.8               | 2.8      | 158.6                    | 0.2               | 12.4     |
| April        | 104.3                                  | 0.5               | 3.5      | 103.9  | 0.2               | 2.8      | 157.4                    | -0.8              | 9.9      |
| May          | 104.5                                  | 0.2               | 3.6      | 104.0  | 0.1               | 2.7      | 159.5                    | 1.3               | 11.7     |
| June         | 104.8                                  | 0.2               | 3.7      | 104.2  | 0.2               | 2.7      | 162.8                    | 2.1               | 13.1     |
| July         | 104.9                                  | 0.1               | 3.8      | 104.1  | -0.1              | 2.6      | 165.9                    | 1.9               | 12.5     |
| August       | 105.2                                  | 0.3               | 3.9      | 104.2  | 0.1               | 2.8      | 166.6                    | 0.4               | 11.0     |
| September    | 105.8                                  | 0.6               | 4.2      | 104.6  | 0.4               | 3.0      | 171.8                    | 3.1               | 12.1     |
| October      | 106.5                                  | 0.6               | 4.5      | 104.9  | 0.3               | 3.1      | 172.8                    | 0.6               | 10.5     |
| November     | 106.8                                  | 0.3               | 4.7      | 105.2  | 0.3               | 3.3      | 174.1                    | 0.8               | 10.1     |
| December     | 106.9                                  | 0.1               | 4.5      | 105.6  | 0.4               | 3.4      | 172.0                    | -1.2              | 7.9      |

(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 sweet cucumber.

*Fresh vegetables:* avocado, tomato, lettuce, cabbage, cauliflower, chard, squash, fresh corn, zucchini, pepper, fresh 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 Statistics Bureau (INE)

TABLE 2

# CONSUMER PRICE INDEX

(December 1998 = 100)

| Period        | GENERAL INDEX |                 | FOOD  |                 | HOUSING |                 | FURNISHING |                 | CLOTHING |                 | TRANSPORT |                 | HEALTH |                 | EDUCATION & RECREATION |                 | OTHER |                 |
|---------------|---------------|-----------------|-------|-----------------|---------|-----------------|------------|-----------------|----------|-----------------|-----------|-----------------|--------|-----------------|------------------------|-----------------|-------|-----------------|
|               | Index         | % Chg. 12-month | Index | % Chg. 12-month | Index   | % Chg. 12-month | Index      | % Chg. 12-month | Index    | % Chg. 12-month | Index     | % Chg. 12-month | Index  | % Chg. 12-month | Index                  | % Chg. 12-month | Index | % Chg. 12-month |
| 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   | 9.5             | 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             |
| 2000 December | 106.9         | 4.5             | 100.9 | -0.1            | 111.6   | 9.9             | 96.4       | -2.6            | 88.0     | -8.3            | 131.2     | 19.5            | 110.2  | 5.1             | 108.8                  | 4.3             | 97.0  | -3.6            |
| <b>1999</b>   |               |                 |       |                 |         |                 |            |                 |          |                 |           |                 |        |                 |                        |                 |       |                 |
| 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             |
| <b>2000</b>   |               |                 |       |                 |         |                 |            |                 |          |                 |           |                 |        |                 |                        |                 |       |                 |
| January       | 102.5         | 2.8             | 101.4 | 2.7             | 101.8   | 1.9             | 98.9       | -1.0            | 93.1     | -3.1            | 111.5     | 10.4            | 105.3  | 4.6             | 104.3                  | 4.2             | 99.6  | -3.5            |
| February      | 103.1         | 3.3             | 100.0 | 1.8             | 103.0   | 2.8             | 98.4       | -1.5            | 92.3     | -3.1            | 117.5     | 14.7            | 106.4  | 4.7             | 104.5                  | 4.4             | 98.9  | -3.6            |
| March         | 103.8         | 3.4             | 99.9  | 1.5             | 104.0   | 3.5             | 97.9       | -2.0            | 92.7     | -4.4            | 118.9     | 16.0            | 107.0  | 4.7             | 108.1                  | 4.3             | 98.5  | -3.1            |
| April         | 104.3         | 3.5             | 99.9  | 1.6             | 105.5   | 4.5             | 97.2       | -2.8            | 92.9     | -6.2            | 120.2     | 16.0            | 107.7  | 4.9             | 108.3                  | 4.5             | 97.7  | -2.5            |
| May           | 104.5         | 3.6             | 100.2 | 1.8             | 106.1   | 5.8             | 97.0       | -2.7            | 92.2     | -7.7            | 120.6     | 15.1            | 108.1  | 5.1             | 108.2                  | 4.4             | 98.0  | -2.1            |
| June          | 104.8         | 3.7             | 100.3 | 1.8             | 106.8   | 6.1             | 97.0       | -2.6            | 91.8     | -8.5            | 121.1     | 15.7            | 108.2  | 4.9             | 108.3                  | 4.5             | 95.5  | -4.7            |
| July          | 104.9         | 3.8             | 100.4 | 2.0             | 107.4   | 6.5             | 96.9       | -2.6            | 89.8     | -8.8            | 122.6     | 15.4            | 108.5  | 4.9             | 108.1                  | 4.3             | 97.8  | -2.3            |
| August        | 105.2         | 3.9             | 100.5 | 1.4             | 107.9   | 6.4             | 96.6       | -2.8            | 89.3     | -6.7            | 124.3     | 15.4            | 108.7  | 4.9             | 108.2                  | 4.6             | 97.5  | -2.0            |
| September     | 105.8         | 4.2             | 100.6 | 1.1             | 108.6   | 7.8             | 96.6       | -2.7            | 89.3     | -7.7            | 127.4     | 17.3            | 109.0  | 4.8             | 108.3                  | 4.7             | 98.1  | -1.4            |
| October       | 106.5         | 4.5             | 101.5 | 0.9             | 109.9   | 9.1             | 96.5       | -2.7            | 89.3     | -7.9            | 128.9     | 18.6            | 109.4  | 5.1             | 108.3                  | 4.3             | 96.6  | -3.4            |
| November      | 106.8         | 4.7             | 101.5 | 0.6             | 110.8   | 9.5             | 96.4       | -2.6            | 88.4     | -8.0            | 130.9     | 20.2            | 109.9  | 5.1             | 108.4                  | 4.4             | 95.8  | -4.6            |
| December      | 106.9         | 4.5             | 100.9 | -0.1            | 111.6   | 9.9             | 96.4       | -2.6            | 88.0     | -8.3            | 131.2     | 19.5            | 110.2  | 5.1             | 108.8                  | 4.3             | 97.0  | -3.6            |

TABLE 3

## HOURLY WAGE INDEX (April 1993 = 100)

| Period        | NOMINAL |                   |          | REAL (*) |                   |          |
|---------------|---------|-------------------|----------|----------|-------------------|----------|
|               | Index   | Percentage change |          | Index    | Percentage change |          |
|               |         | Month             | 12-month |          | Month             | 12-month |
| 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      |
| 2000 December | 209.5   | -                 | 5.3      | 128.3    | -                 | 0.7      |
| <b>2000</b>   |         |                   |          |          |                   |          |
| January       | 199.7   | -4.7              | 4.7      | 127.6    | -0.5              | 1.8      |
| February      | 200.5   | 0.4               | 4.9      | 127.4    | -0.1              | 1.6      |
| March         | 201.7   | 0.6               | 5.3      | 127.3    | -0.1              | 1.9      |
| April         | 202.4   | 0.4               | 5.2      | 127.1    | -0.1              | 1.6      |
| May           | 202.7   | 0.1               | 5.1      | 127.0    | -0.1              | 1.4      |
| June          | 203.6   | 0.5               | 4.8      | 127.3    | 0.2               | 1.0      |
| July          | 204.4   | 0.4               | 5.0      | 127.6    | 0.3               | 1.2      |
| August        | 205.5   | 0.5               | 5.6      | 128.0    | 0.2               | 1.7      |
| September     | 206.4   | 0.4               | 5.5      | 127.7    | -0.2              | 1.2      |
| October       | 207.1   | 0.4               | 5.9      | 127.4    | -0.3              | 1.3      |
| November      | 207.7   | 0.3               | 6.1      | 127.4    | 0.0               | 1.3      |
| December      | 209.5   | 0.8               | 5.3      | 128.3    | 0.7               | 0.7      |

(\*) Deflated using CPI.

Source: National Statistics Bureau (INE)

TABLE 4

# LABOR COST INDEX (April 1993 = 100)

| Period        | NOMINAL |                   |          | REAL (*) |                   |          |
|---------------|---------|-------------------|----------|----------|-------------------|----------|
|               | Index   | Percentage change |          | Index    | Percentage change |          |
|               |         | Month             | 12-month |          | Month             | 12-month |
| 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      |
| 2000 December | 199.6   | -                 | 4.6      | 122.2    | -                 | 0.1      |
| <b>2000</b>   |         |                   |          |          |                   |          |
| January       | 190.5   | -4.5              | 4.7      | 121.7    | -0.4              | 1.8      |
| February      | 190.7   | 0.1               | 4.6      | 121.2    | -0.4              | 1.2      |
| March         | 192.9   | 1.1               | 5.1      | 121.7    | 0.4               | 1.6      |
| April         | 193.5   | 0.3               | 4.8      | 121.5    | -0.1              | 1.2      |
| May           | 194.5   | 0.5               | 4.9      | 121.9    | 0.3               | 1.3      |
| June          | 194.6   | 0.1               | 4.3      | 121.7    | -0.2              | 0.5      |
| July          | 195.3   | 0.3               | 4.3      | 121.9    | 0.2               | 0.5      |
| August        | 196.2   | 0.5               | 4.8      | 122.2    | 0.2               | 0.9      |
| September     | 196.9   | 0.4               | 4.6      | 121.9    | -0.2              | 0.4      |
| October       | 197.2   | 0.2               | 4.8      | 121.3    | -0.4              | 0.3      |
| November      | 197.7   | 0.2               | 4.8      | 121.2    | -0.1              | 0.1      |
| December      | 199.6   | 1.0               | 4.6      | 122.2    | 0.8               | 0.1      |

(\*) Deflated using CPI

Source: National Statistics Bureau (INE)



TABLE 5

REAL WAGE INCREASE RESULTING FROM  
COLLECTIVE BARGAINING (Percentages)

| Period               | UNIONS | OTHER GROUPS | TOTAL |
|----------------------|--------|--------------|-------|
| <b>1998</b>          |        |              |       |
| 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   |
| <b>1999</b>          |        |              |       |
| 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   |
| <b>2000</b>          |        |              |       |
| January-March        | 2.1    | 0.5          | 1.7   |
| April-June           | 0.8    | 1.6          | 1.1   |
| July-September (1)   | 0.6    | 0.5          | 0.6   |
| October-December (2) | 1.2    | 0.9          | 1.1   |

(1) Provisional data.  
(2) Estimate.

Source: Labor Bureau

TABLE 6

## INTEREST RATES ON CENTRAL BANK INSTRUMENTS (1)

| Period      | PDBC (2) |         | PRBC (3) | PRC (3)       |                |                |                |                |
|-------------|----------|---------|----------|---------------|----------------|----------------|----------------|----------------|
|             | 90-day   | 360-day | 90-day   | 8-year<br>(4) | 10-year<br>(4) | 12-year<br>(5) | 14-year<br>(5) | 20-year<br>(5) |
| <b>1998</b> |          |         |          |               |                |                |                |                |
| December    | 13.49    | -       | 8.00     | 7.22          | 7.19           | 7.16           | 7.10           | 7.01           |
| <b>1999</b> |          |         |          |               |                |                |                |                |
| January     | 12.75    | 12.60   | 7.30     | 6.81          | 6.80           | 6.79           | 6.80           | 6.66           |
| February    | 10.04    | 11.75   | 7.20     | 6.59          | 6.61           | 6.58           | 6.60           | 6.36           |
| March       | 11.09    | 11.90   | 7.16     | -             | -              | -              | -              | -              |
| April       | 13.59    | 12.13   | 6.86     | 6.41          | 6.41           | 6.40           | 6.36           | 6.28           |
| May         | 11.71    | 11.30   | 6.14     | 6.34          | 6.34           | 6.34           | 6.30           | 6.17           |
| 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           |
| <b>2000</b> |          |         |          |               |                |                |                |                |
| January     | 10.05    | 10.84   | 5.33     | 6.61          | 6.64           | 6.64           | 6.68           | 6.66           |
| February    | 12.17    | 11.16   | 5.65     | 6.68          | 6.72           | 6.71           | 6.72           | 6.70           |
| March       | 13.43    | 11.12   | 5.64     | 6.66          | 6.69           | 6.70           | 6.70           | 6.69           |
| April       | 11.76    | 10.69   | 5.59     | 6.51          | 6.54           | 6.55           | 6.58           | 6.57           |
| May         | 10.67    | 10.76   | 5.81     | 6.65          | 6.67           | 6.67           | 6.68           | 6.67           |
| June        | 9.72     | 10.86   | 5.78     | 6.55          | 6.57           | 6.58           | 6.59           | 6.58           |
| July        | 9.90     | 10.47   | 5.60     | 6.34          | 6.35           | 6.35           | 6.35           | 6.35           |
| August      | 9.37     | 10.19   | 5.44     | 6.17          | 6.18           | 6.18           | 6.18           | 6.17           |
| September   | 10.32    | 10.26   | 5.00     | 6.20          | 6.21           | 6.20           | 6.21           | 6.20           |
| October     | 11.50    | 10.71   | 4.99     | 6.13          | 6.14           | 6.14           | 6.16           | 6.13           |
| November    | 10.90    | 10.56   | 5.04     | 6.01          | 6.02           | 6.03           | 6.05           | 6.06           |
| December    | 9.30     | 10.00   | 4.94     | 5.89          | 5.94           | 5.96           | 5.99           | 5.99           |

(1) Mean weighted rate for the month on promissory notes sold at auction (360-day base).

(2) Nominal monthly rate.

(3) Annualized rate over UF (indexed unit of account).

(4) As of July 28th, 1992, the Central Bank must offer UF300,000 at every auction.

(5) As of February 16th, 1993, the Central Bank must offer UF200,000 at every auction.

TABLE 7

# INTEREST RATES ON 90- TO 365-DAY UF-INDEXED INSTRUMENTS (\*) (Financial system monthly averages)

| Period       | Deposit | Loan  | Spread |
|--------------|---------|-------|--------|
| 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   |
| 2000 average | 5.17    | 7.48  | 2.31   |
| <b>1999</b>  |         |       |        |
| 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   |
| <b>2000</b>  |         |       |        |
| January      | 5.10    | 7.26  | 2.16   |
| February     | 5.24    | 7.56  | 2.32   |
| March        | 5.39    | 7.86  | 2.47   |
| April        | 5.39    | 7.60  | 2.21   |
| May          | 5.44    | 7.73  | 2.29   |
| June         | 5.50    | 7.63  | 2.13   |
| July         | 5.39    | 7.52  | 2.13   |
| August       | 5.23    | 7.40  | 2.17   |
| September    | 4.88    | 7.63  | 2.75   |
| October      | 4.89    | 7.36  | 2.47   |
| November     | 4.82    | 7.20  | 2.38   |
| December     | 4.81    | 6.97  | 2.16   |

(\*) 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   |
| <b>1998</b>  |       |      |      |      |      |      |       |       |      |      |           |      |      |      |      |
| 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  |
| <b>1999</b>  |       |      |      |      |      |      |       |       |      |      |           |      |      |      |      |
| 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 | 11.1 | 0.8  | 0.9  | 11.4 | 16.9  | 20.2  | 10.6 | 10.2 | 11.4      | 16.9 | 20.2 | 10.6 | 10.2 |
| <b>2000</b>  |       |      |      |      |      |      |       |       |      |      |           |      |      |      |      |
| January      | 0.2   | -1.8 | 0.3  | 1.5  | -0.1 | 0.2  | -1.8  | 0.3   | 1.5  | -0.1 | 14.3      | 17.8 | 17.7 | 11.7 | 9.5  |
| February     | -3.4  | -1.9 | -2.3 | -1.9 | 0.1  | -3.1 | -3.6  | -2.0  | -0.4 | 0.0  | 8.3       | 13.0 | 14.0 | 9.9  | 9.1  |
| March        | -1.7  | -3.2 | -4.4 | -0.4 | 0.4  | -4.8 | -6.7  | -6.3  | -0.8 | 0.4  | 8.5       | 10.9 | 10.5 | 9.3  | 9.8  |
| April        | -2.8  | -1.2 | -1.1 | 1.4  | 1.1  | -7.5 | -7.8  | -7.4  | 0.5  | 1.5  | 5.6       | 11.2 | 10.1 | 9.8  | 10.3 |
| May          | 2.1   | -1.3 | -1.2 | 1.3  | 0.6  | -5.5 | -9.0  | -8.6  | 1.8  | 2.1  | 5.2       | 9.4  | 6.9  | 8.0  | 8.4  |
| June         | -1.1  | 1.9  | 0.7  | 0.9  | 1.3  | -6.6 | -7.3  | -7.9  | 2.7  | 3.4  | 4.6       | 9.7  | 5.6  | 5.8  | 7.0  |
| July         | 0.6   | -2.5 | -1.6 | 0.8  | 1.0  | -6.0 | -9.6  | -9.4  | 3.5  | 4.5  | 6.2       | 8.2  | 6.7  | 7.3  | 8.3  |
| August       | -3.6  | -2.3 | 0.0  | -1.0 | 0.5  | -9.5 | -11.7 | -9.4  | 2.5  | 5.0  | 5.2       | 8.1  | 9.0  | 6.9  | 9.4  |
| September    | 6.2   | 6.1  | 3.0  | -0.2 | -0.1 | -3.9 | -6.3  | -6.7  | 2.3  | 4.9  | 6.0       | 8.4  | 5.0  | 4.8  | 7.8  |
| October      | -2.3  | -3.3 | -1.7 | 1.1  | 0.7  | -6.1 | -9.3  | -8.3  | 3.5  | 5.6  | 6.4       | 6.5  | 4.2  | 5.6  | 8.0  |
| November     | -0.4  | 0.6  | 1.1  | 1.3  | 1.5  | -6.5 | -8.8  | -7.3  | 4.8  | 7.3  | 1.5       | 5.2  | 3.0  | 5.6  | 8.2  |
| December (*) | 8.9   | 10.1 | 10.9 | 2.7  | 2.2  | 1.8  | 0.4   | 2.8   | 7.7  | 9.6  | 1.8       | 0.4  | 2.8  | 7.7  | 9.6  |

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.

TABLE 9

## FINANCIAL SYSTEM LOANS

| Period      | DOMESTIC CURRENCY (1)<br>(billions of pesos) |      |                   |      |      |           |      |                   |      |      | FOREIGN CURRENCY<br>(US\$ million) |      |                   |       |       |        | TOTAL (3)<br>(billions of pesos) |      |                   |      |
|-------------|--|------|-------------------|------|------|-----------|------|-------------------|------|------|------------------------------------|------|-------------------|-------|-------|--------|----------------------------------|------|-------------------|------|
|             | EFFECTIVE (2)                                |      |                   |      |      | MORTGAGES |      |                   |      |      | EFFECTIVE                          |      |                   |       |       |        |                                  |      |                   |      |
|             | Amt.   |      | Percentage change |      |      | Amt.      |      | Percentage change |      |      | Amt.                               |      | Percentage change |       |       |        | Amt.                             |      | Percentage change |      |
|             |  |      | Nominal           |      | Real |           |      | Nominal           |      | Real |                                    |      | US\$              | Pesos | Real  |        | Nominal                          |      | Real              |      |
|             | Month  | 12-m | Month             | 12-m |      | Month     | 12-m | Month             | 12-m |      | Month                              | 12-m | Month             | Month | 12-m  | 12-m   | Month                            | 12-m | Month             | 12-m |
| <b>1999</b> |  |      |                   |      |      |           |      |                   |      |      |                                    |      |                   |       |       |        |                                  |      |                   |      |
| 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    | 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  |
| <b>2000</b> |  |      |                   |      |      |           |      |                   |      |      |                                    |      |                   |       |       |        |                                  |      |                   |      |
| January     | 15,032                                       | 0.4  | 2.8               | 0.2  | 0.2  | 5,150     | 0.8  | 7.6               | 0.6  | 4.9  | 3,989                              | 4.1  | 0.7               | 6.2   | 3.6   | 22,286 | 0.5                              | 4.2  | 0.3               | 1.6  |
| February    | 15,074                                       | 0.3  | 2.9               | 0.0  | 0.3  | 5,174     | 0.5  | 7.6               | 0.2  | 4.9  | 4,012                              | 0.6  | -1.3              | 3.5   | 0.9   | 22,326 | 0.2                              | 4.0  | -0.1              | 1.4  |
| March       | 15,089                                       | 0.1  | 2.6               | -0.2 | -0.5 | 5,196     | 0.4  | 8.1               | 0.1  | 4.9  | 4,043                              | 0.8  | -1.9              | 0.1   | -2.9  | 22,323 | 0.0                              | 3.6  | -0.3              | 0.5  |
| April       | 15,217                                       | 0.8  | 4.3               | 0.2  | 0.8  | 5,230     | 0.7  | 7.7               | 0.1  | 4.1  | 3,876                              | -4.1 | -4.6              | 4.7   | 1.2   | 22,390 | 0.3                              | 5.1  | -0.3              | 1.6  |
| May         | 15,319                                       | 0.7  | 4.2               | 0.0  | 0.6  | 5,277     | 0.9  | 8.6               | 0.2  | 4.8  | 4,030                              | 4.0  | 6.9               | 14.6  | 10.6  | 22,673 | 1.3                              | 6.0  | 0.6               | 2.4  |
| June        | 15,296                                       | -0.1 | 4.8               | -0.6 | 1.1  | 5,309     | 0.6  | 8.5               | 0.2  | 4.6  | 4,092                              | 1.6  | 3.4               | 18.3  | 14.1  | 22,752 | 0.4                              | 6.8  | -0.1              | 3.0  |
| July        | 15,305                                       | 0.1  | 6.1               | -0.2 | 2.2  | 5,332     | 0.4  | 8.6               | 0.2  | 4.7  | 4,306                              | 5.2  | 8.0               | 20.3  | 15.9  | 22,956 | 0.9                              | 8.0  | 0.7               | 4.0  |
| August      | 15,296                                       | -0.1 | 5.8               | -0.2 | 1.8  | 5,355     | 0.4  | 8.4               | 0.3  | 4.4  | 4,172                              | -3.1 | 0.1               | 22.3  | 17.7  | 22,972 | 0.1                              | 7.8  | -0.1              | 3.8  |
| September   | 15,439                                       | 0.9  | 6.2               | 0.8  | 2.2  | 5,371     | 0.3  | 8.0               | 0.1  | 3.9  | 4,197                              | 0.6  | 1.7               | 17.7  | 13.3  | 23,170 | 0.9                              | 7.7  | 0.7               | 3.7  |
| October     | 15,621                                       | 1.2  | 6.8               | 0.8  | 2.6  | 5,400     | 0.5  | 7.7               | 0.2  | 3.5  | 4,154                              | -1.0 | -0.5              | 19.4  | 14.7  | 23,370 | 0.9                              | 8.1  | 0.5               | 3.9  |
| November    | 15,791                                       | 1.1  | 6.6               | 0.5  | 2.1  | 5,432     | 0.6  | 7.4               | 0.0  | 2.9  | 4,288                              | 3.2  | 4.4               | 17.3  | 12.3  | 23,676 | 1.3                              | 7.8  | 0.7               | 3.2  |
| December    | 16,234                                       | 2.8  | 8.4               | 2.3  | 3.7  | 5,501     | 1.3  | 7.7               | 0.7  | 3.0  | 4,120                              | -3.9 | -2.5              | 14.4  | 9.4   | 24,126 | 1.9                              | 8.8  | 1.4               | 4.0  |

(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 Superintendency 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 (TCM) INDEX (1) (2 January 1998 = 100)

|              | TOTAL TCM |                   |          |                  | TCM 5 (2) |                   |          |                  | OBSERVED<br>DOLLAR INDEX |
|--------------|-----------|-------------------|----------|------------------|-----------|-------------------|----------|------------------|--------------------------|
| Period       | Index     | Percentage change |          |                  | Index     | Percentage change |          |                  |                          |
|              |           | Month             | 12-month | Over<br>December |           | Month             | 12-month | Over<br>December |                          |
| 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                    |
| 2000 average | 112.4     | -                 | 2.5 (3)  | 1.8 (4)          | 119.9     | -                 | 2.4 (3)  | 1.3 (4)          | 122.8                    |
| 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                    |
| 2000         |           |                   |          |                  |           |                   |          |                  |                          |
| January      | 111.3     | -3.3              | 4.3      | -3.3             | 120.1     | -3.1              | 6.8      | -3.1             | 118.5                    |
| February     | 108.8     | -2.2              | 1.4      | -5.4             | 116.4     | -3.1              | 1.3      | -6.1             | 116.8                    |
| March        | 107.1     | -1.6              | 1.3      | -6.9             | 114.2     | -1.9              | 1.0      | -7.8             | 114.8                    |
| April        | 107.5     | 0.3               | 2.9      | -6.6             | 114.6     | 0.4               | 4.1      | -7.5             | 115.7                    |
| May          | 108.3     | 0.8               | 3.3      | -5.9             | 115.2     | 0.5               | 4.5      | -7.0             | 118.8                    |
| June         | 111.1     | 2.5               | 3.5      | -3.5             | 119.0     | 3.3               | 5.0      | -3.9             | 120.6                    |
| July         | 113.7     | 2.3               | 3.3      | -1.2             | 121.3     | 1.9               | 4.0      | -2.0             | 123.6                    |
| August       | 114.5     | 0.7               | 4.0      | -0.5             | 121.7     | 0.3               | 3.3      | -1.8             | 125.5                    |
| September    | 116.6     | 1.8               | 3.4      | 1.3              | 123.7     | 1.6               | 2.0      | -0.2             | 128.9                    |
| October      | 116.0     | -0.5              | 0.5      | 0.8              | 123.1     | -0.5              | -2.0     | -0.6             | 129.3                    |
| November     | 116.7     | 0.6               | 0.5      | 1.4              | 124.1     | 0.9               | -1.2     | 0.2              | 130.8                    |
| December     | 117.2     | 0.4               | 1.8      | 1.8              | 125.5     | 1.1               | 1.3      | 1.3              | 130.8                    |

(1) The Multilateral Exchange Rate (TCM) Index represents a nominal value for the peso against a broad basket of foreign currencies.

(2) TCM 5 includes the currencies of the USA, Japan, UK, Canada and Europe.

(3) Annual mean change.

(4) December to December change.

TABLE 11

# REAL OBSERVED EXCHANGE RATE (TCR) INDEX (1986 = 100)

| Period           | TOTAL TCR (1) |                   |          |                  | TCR 5 (2) |                   |          |                  |
|------------------|---------------|-------------------|----------|------------------|-----------|-------------------|----------|------------------|
|                  | Index         | Percentage change |          |                  | Index     | Percentage change |          |                  |
|                  |               | Month             | 12-month | Over<br>December |           | Month             | 12-month | Over<br>December |
| 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     | 78.0          | -                 | -0.2 (3) | 2.8 (4)          | 68.0      | -                 | 1.0 (3)  | 3.6 (4)          |
| 1999 average (5) | 82.3          | -                 | 5.5 (3)  | 10.7 (4)         | 73.4      | -                 | 7.9 (3)  | 11.6 (4)         |
| 2000 average (5) | 85.9          | -                 | 4.4 (3)  | 2.8 (4)          | 74.7      | -                 | 1.8 (3)  | 0.7 (4)          |
| <b>1999 (5)</b>  |               |                   |          |                  |           |                   |          |                  |
| 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      | -0.8             | 70.4      | -2.0              | 4.2      | 1.2              |
| April            | 77.8          | -0.9              | -0.2     | -1.7             | 68.7      | -2.4              | 2.0      | -1.3             |
| May              | 78.2          | 0.6               | 0.7      | -1.1             | 69.0      | 0.4               | 2.4      | -0.9             |
| June             | 80.2          | 2.5               | 4.0      | 1.4              | 71.0      | 3.0               | 6.6      | 2.1              |
| July             | 82.5          | 2.9               | 5.4      | 4.3              | 73.1      | 3.0               | 8.5      | 5.2              |
| August           | 83.0          | 0.5               | 5.8      | 4.9              | 74.1      | 1.3               | 9.5      | 6.6              |
| September        | 85.3          | 2.8               | 8.8      | 7.9              | 76.4      | 3.1               | 10.8     | 9.8              |
| October          | 87.5          | 2.5               | 12.1     | 10.6             | 78.9      | 3.3               | 14.0     | 13.5             |
| November         | 88.3          | 0.9               | 13.8     | 11.6             | 79.0      | 0.0               | 15.5     | 13.5             |
| December         | 87.6          | -0.8              | 10.7     | 10.7             | 77.6      | -1.7              | 11.6     | 11.6             |
| <b>2000 (5)</b>  |               |                   |          |                  |           |                   |          |                  |
| January          | 84.8          | -3.2              | 7.6      | -3.2             | 75.0      | -3.4              | 6.5      | -3.4             |
| February         | 83.0          | -2.1              | 4.2      | -5.2             | 72.8      | -2.9              | 1.4      | -6.2             |
| March            | 81.5          | -1.7              | 3.9      | -6.9             | 71.2      | -2.2              | 1.3      | -8.2             |
| April            | 81.4          | -0.2              | 4.7      | -7.0             | 71.1      | -0.2              | 3.6      | -8.4             |
| May              | 82.0          | 0.7               | 4.8      | -6.3             | 71.4      | 0.4               | 3.5      | -8.0             |
| June             | 85.1          | 3.7               | 6.1      | -2.9             | 74.5      | 4.4               | 5.0      | -4.0             |
| July             | 87.3          | 2.6               | 5.8      | -0.3             | 76.0      | 1.9               | 3.9      | -2.1             |
| August           | 87.9          | 0.7               | 5.9      | 0.4              | 75.9      | -0.2              | 2.3      | -2.2             |
| September        | 89.5          | 1.9               | 4.9      | 2.2              | 77.1      | 1.6               | 0.9      | -0.7             |
| October          | 88.8          | -0.8              | 1.5      | 1.4              | 76.5      | -0.8              | -3.1     | -1.4             |
| November         | 89.1          | 0.4               | 1.0      | 1.8              | 76.9      | 0.6               | -2.6     | -0.9             |
| December         | 90.1          | 1.0               | 2.8      | 2.8              | 78.1      | 1.6               | 0.7      | 0.7              |

(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 the Euro-area countries. (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   |      |
| <b>1989</b>     | 10.6    | 14.5 | 10.2 | 7.2  | 10.6 |
| <b>1990</b>     | 8.8     | 3.2  | 0.6  | 2.1  | 3.7  |
| <b>1991</b>     | 2.8     | 7.0  | 9.6  | 12.9 | 8.0  |
| <b>1992</b>     | 13.0    | 10.8 | 14.8 | 10.7 | 12.3 |
| <b>1993</b>     | 8.3     | 8.0  | 7.0  | 4.7  | 7.0  |
| <b>1994</b>     | 5.0     | 6.4  | 5.3  | 6.2  | 5.7  |
| <b>1995</b>     | 8.9     | 10.5 | 11.5 | 11.7 | 10.6 |
| <b>1996</b>     | 8.9     | 7.5  | 5.5  | 7.7  | 7.4  |
| <b>1997</b>     | 5.0     | 6.1  | 8.7  | 9.8  | 7.4  |
| <b>1998</b>     | 8.8     | 6.3  | 3.4  | -2.5 | 3.9  |
| <b>1999 (2)</b> | -2.8    | -3.7 | -1.8 | 4.0  | -1.1 |
| <b>2000 (2)</b> | 5.5     | 6.0  | 5.6  | 4.5  | 5.4  |

(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                              | 1994       | 1995        | 1996       | 1997       | 1998       | 1999 (3)    | 2000 (3)   |
|-------------------------------------|------------|-------------|------------|------------|------------|-------------|------------|
| Agriculture, livestock and forestry | 6.0        | 5.2         | 1.3        | -3.9       | 6.5        | -1.3        | 5.2        |
| Fishing                             | 16.3       | 15.9        | 9.7        | 9.3        | 2.4        | 1.7         | 16.9       |
| Mining                              | 8.9        | 9.3         | 15.8       | 7.9        | 7.4        | 16.2        | 4.0        |
| Manufacturing                       | 4.1        | 7.5         | 3.2        | 5.6        | -1.5       | -0.7        | 4.3        |
| Electricity, gas and water          | 6.2        | 7.6         | -3.8       | 10.5       | 4.4        | 1.7         | 17.3       |
| Construction                        | -1.1       | 9.9         | 8.6        | 7.8        | 0.7        | -10.0       | 0.0        |
| Trade, hotels and catering          | 5.1        | 14.2        | 9.5        | 9.3        | 4.1        | -3.5        | 4.7        |
| Transport and communications        | 5.4        | 14.7        | 10.2       | 12.9       | 9.2        | 2.7         | 9.5        |
| Financial services                  | 7.1        | 9.8         | 6.8        | 7.8        | 5.6        | -1.0        | 4.8        |
| Home ownership                      | 3.1        | 2.9         | 3.1        | 3.7        | 3.4        | 2.9         | 1.8        |
| Personal services (2)               | 3.9        | 3.2         | 5.8        | 3.4        | 2.7        | -0.4        | 2.3        |
| Public administration               | 1.1        | 1.4         | 1.4        | 1.4        | 1.4        | 1.4         | 1.4        |
| <b>Subtotal</b>                     | <b>5.1</b> | <b>9.2</b>  | <b>6.8</b> | <b>6.8</b> | <b>3.9</b> | <b>0.4</b>  | <b>5.0</b> |
| Less: Bank charges                  | 4.5        | 8.5         | 7.4        | 7.1        | 3.4        | -1.9        | 5.1        |
| Plus: Collected net VAT             | 7.3        | 10.6        | 9.8        | 9.6        | 4.5        | -3.1        | 4.7        |
| Plus: Import duties                 | 10.6       | 28.5        | 11.5       | 11.6       | 3.1        | -16.3       | 10.6       |
| <b>Total GDP</b>                    | <b>5.7</b> | <b>10.6</b> | <b>7.4</b> | <b>7.4</b> | <b>3.9</b> | <b>-1.1</b> | <b>5.4</b> |

(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)

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

| Period       | WORKFORCE |  | EMPLOYED |  | UNEMPLOYED |  | UNEMPLOYMENT RATE |
|--------------|-----------|--|----------|--|------------|--|-------------------|
|              | Total     | Percentage change over previous period | Total    | Percentage change over previous period | Total      | Percentage change over previous period |                   |
| 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               |
| 2000 average | 5,851     | 0.5                                    | 5,312    | 1.0                                    | 539        | -4.5                                   | 9.2               |
| <b>1999</b>  |           |  |          |  |            |  |                   |
| 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               |
| <b>2000</b>  |           |  |          |  |            |  |                   |
| January      | 5,922     | 1.3                                    | 5,425    | 0.3                                    | 497        | 14.3                                   | 8.4               |
| February     | 5,883     | 1.5                                    | 5,410    | 0.9                                    | 474        | 9.0                                    | 8.0               |
| March        | 5,858     | 1.2                                    | 5,379    | 1.1                                    | 480        | 1.5                                    | 8.2               |
| April        | 5,836     | 0.5                                    | 5,341    | 0.8                                    | 495        | -2.1                                   | 8.5               |
| May          | 5,862     | 1.2                                    | 5,340    | 2.2                                    | 521        | -8.2                                   | 8.9               |
| June         | 5,823     | 1.1                                    | 5,276    | 2.7                                    | 547        | -12.0                                  | 9.4               |
| July         | 5,817     | 0.9                                    | 5,225    | 2.0                                    | 592        | -7.8                                   | 10.2              |
| August       | 5,814     | 0.3                                    | 5,200    | 1.4                                    | 614        | -7.7                                   | 10.6              |
| September    | 5,835     | 0.2                                    | 5,208    | 1.0                                    | 627        | -5.6                                   | 10.7              |
| October      | 5,849     | -0.1                                   | 5,264    | 1.1                                    | 585        | -9.3                                   | 10.0              |
| November     | 5,845     | -1.0                                   | 5,294    | -0.4                                   | 552        | -6.8                                   | 9.4               |
| December     | 5,871     | -1.1                                   | 5,381    | -0.4                                   | 489        | -7.5                                   | 8.3               |

(1) Population 15 years and over.

(2) From the new National Employment Survey, based on the Population and Housing Census of 1992.

Source: National Statistics Bureau (INE)



TABLE 15

# BALANCE OF PAYMENTS (1) (US\$ million)

| Item                             | 1998          | 1999        | 2000         | Percentage change (2) |                |
|----------------------------------|---------------|-------------|--------------|-----------------------|----------------|
|                                  |               |             |              | 1999                  | 2000           |
| <b>I. CURRENT ACCOUNT</b>        | <b>-4,143</b> | <b>-78</b>  | <b>-988</b>  | <b>-98.1</b>          | <b>1,160.0</b> |
| A. Trade balance                 | -2,517        | 1,664       | 1,436        |                       | -13.7          |
| Exports fob                      | 14,830        | 15,616      | 18,158       | 5.3                   | 16.3           |
| Imports fob                      | 17,346        | 13,951      | 16,722       | -19.6                 | 19.9           |
| B. Non-financial services        | -115          | -315        | -558         | 174.4                 | 77.1           |
| Credits                          | 4,119         | 3,785       | 3,929        | -8.1                  | 3.8            |
| Debits                           | 4,234         | 4,100       | 4,487        | -3.2                  | 9.4            |
| C. Financial services            | -1,975        | -1,881      | -2,404       | -4.8                  | 27.8           |
| Net interest                     | -637          | -768        | -948         | 20.6                  | 23.4           |
| Net profits (3)                  | -1,338        | -1,113      | -1,456       | -16.8                 | 30.8           |
| Net remittance                   | -1,013        | -985        | -988         | -2.8                  | 0.3            |
| Net reinvestment                 | -325          | -128        | -468         | -60.6                 | 265.6          |
| D. Transfers                     | 463           | 453         | 538          | -2.1                  | 18.6           |
| <b>II. CAPITAL ACCOUNT</b>       | <b>3,253</b>  | <b>-764</b> | <b>1,198</b> |                       |                |
| A. Medium- and long-term capital | 4,324         | 4,561       | -1,124       | 5.5                   |                |
| Foreign investment (4)           | 1,012         | 4,496       | -1,365       | 344.4                 |                |
| Direct                           | 1,841         | 4,366       | -1,104       | 137.2                 |                |
| - From abroad                    | 4,638         | 9,221       | 3,674        | 98.8                  | -60.2          |
| Direct contribution              | 4,154         | 8,907       | 2,903        | 114.4                 | -67.4          |
| Profit reinvestment              | 484           | 314         | 771          | -35.1                 | 145.5          |
| - Abroad                         | 2,797         | 4,855       | 4,778        | 73.6                  | -1.6           |
| Direct contribution              | 2,638         | 4,669       | 4,475        | 77.0                  | -4.2           |
| Profit reinvestment              | 159           | 186         | 303          | 17.0                  | 62.9           |
| Portfolio                        | -829          | 130         | -261         |                       |                |
| - From abroad                    | 590           | 2,496       | -113         | 323.1                 |                |
| - Abroad                         | 1,419         | 2,366       | 148          | 66.7                  | -93.7          |
| DL 600 credit disbursements      | 1,703         | 573         | 183          | -66.4                 | -68.1          |
| Other disbursements              | 4,374         | 3,532       | 4,013        | -19.2                 | 13.6           |
| Loan repayments                  | 2,402         | 3,384       | 3,826        | 40.9                  | 13.1           |
| Foreign debt conversion          | -23           | 0           | -4           |                       |                |
| Other (5)                        | -340          | -656        | -125         | 93.2                  | -80.9          |
| B. Short-term capital            | -1,071        | -5,325      | 2,322        | 397.2                 |                |
| Credit lines                     | 343           | -384        | 2,080        |                       |                |
| Other (6)                        | -1,414        | -4,941      | 242          | 249.4                 |                |
| <b>III. ERRORS AND OMISSIONS</b> | <b>-1,176</b> | <b>159</b>  | <b>-12</b>   |                       |                |
| <b>IV. BALANCE OF PAYMENTS</b>   | <b>-2,066</b> | <b>-683</b> | <b>198</b>   | <b>-66.9</b>          |                |

Note: Current account excl. reinvestment of earnings. -3,818 50 -520

(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

**BALANCE OF TRADE (1)**  
(US\$ million)

| Item                       | 1998          | 1999          | 2000          | Percentage change (2) |              |
|----------------------------|---------------|---------------|---------------|-----------------------|--------------|
|                            |               |               |               | 1999                  | 2000         |
| <b>BALANCE OF TRADE</b>    | <b>-2,517</b> | <b>1,664</b>  | <b>1,436</b>  |                       | <b>-13.7</b> |
| <b>Total exports (fob)</b> | <b>14,830</b> | <b>15,616</b> | <b>18,158</b> | <b>5.3</b>            | <b>16.3</b>  |
| Copper                     | 5,332         | 5,889         | 7,347         | 10.4                  | 24.8         |
| Non-copper                 | 9,498         | 9,727         | 10,811        | 2.4                   | 11.1         |
| Other main (3)             | 3,801         | 3,777         | 4,257         | -0.6                  | 12.7         |
| Non-traditional            | 5,697         | 5,950         | 6,554         | 4.5                   | 10.1         |
| <b>Total imports (fob)</b> | <b>17,346</b> | <b>13,951</b> | <b>16,722</b> | <b>-19.6</b>          | <b>19.9</b>  |
| <b>Total imports (cif)</b> | <b>18,779</b> | <b>15,137</b> | <b>18,089</b> | <b>-19.4</b>          | <b>19.5</b>  |
| Consumer goods             | 3,463         | 2,833         | 3,381         | -18.2                 | 19.3         |
| Intermediate goods         | 10,205        | 9,008         | 11,007        | -11.7                 | 22.2         |
| Fuel                       | 1,492         | 1,799         | 2,890         | 20.6                  | 60.6         |
| Other                      | 8,713         | 7,209         | 8,118         | -17.3                 | 12.6         |
| Capital goods              | 5,112         | 3,297         | 3,702         | -35.5                 | 12.3         |

(1) Provisional data.

(2) Sign changes not indicated.

(3) Includes iron, nitrate 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                                 | 1998   | 1999   | 2000  |
|--------------------------------------|--------|--------|-------|
| Copper price LME (US\$/lb)           | 0.750  | 0.713  | 0.823 |
| Oil price (US\$ /barrel fob)         | 11.9   | 14.9   | 27.0  |
| Libor US\$ over 180 days (nominal)   | 4.3%   | 5.5%   | 6.7%  |
| Total foreign inflation              | -4.3%  | -1.4%  | 2.4%  |
| Terms of trade index (1988=1.0)      |        |        |       |
| Total goods                          | 0.81   | 0.82   | 0.82  |
| Total non-copper and non-oil         | 0.96   | 0.99   | 0.99  |
| Total exports                        |        |        |       |
| Change by value                      | -11.0% | 5.3%   | 16.3% |
| Change by price (fob)                | -17.1% | -2.6%  | 9.8%  |
| Change by volume                     | 7.4%   | 8.1%   | 5.9%  |
| Copper exports                       |        |        |       |
| Change by value                      | -22.1% | 10.4%  | 24.8% |
| Change by price (fob)                | -27.3% | -2.9%  | 19.0% |
| Change by volume                     | 7.2%   | 13.7%  | 4.8%  |
| Traditional exports excluding copper |        |        |       |
| Change by value                      | -12.7% | -0.6%  | 12.7% |
| Change by price (fob)                | -11.4% | -6.2%  | 10.7% |
| Change by volume                     | -1.4%  | 5.9%   | 1.8%  |
| Non-traditional exports              |        |        |       |
| Change by value                      | 4.2%   | 4.5%   | 10.1% |
| Change by price (fob)                | -9.0%  | 0.2%   | 0.7%  |
| Change by volume                     | 14.5%  | 4.2%   | 9.4%  |
| Imports of goods                     |        |        |       |
| Change by value                      | -4.5%  | -19.4% | 19.5% |
| Change by price (cif)                | -5.2%  | -3.5%  | 9.7%  |
| Change by volume                     | 0.7%   | -16.5% | 8.9%  |

(\*) Provisional data.

Source: Central Bank of Chile

TABLE 18

**FINANCIAL SERVICES (1)**  
 (US\$ million)

| Item                            | 1998          | 1999          | 2000          | Percentage change (2) |             |
|---------------------------------|---------------|---------------|---------------|-----------------------|-------------|
|                                 |               |               |               | 1999                  | 2000        |
| <b>INTEREST PAID (3)</b>        | <b>1,507</b>  | <b>1,506</b>  | <b>1,894</b>  | <b>-0.1</b>           | <b>25.8</b> |
| Medium- and long-term           | 1,364         | 1,416         | 1,838         | 3.8                   | 29.8        |
| Short-term                      | 143           | 90            | 56            | -37.1                 | -37.8       |
| <b>INTEREST RECEIVED</b>        | <b>870</b>    | <b>738</b>    | <b>946</b>    | <b>-15.2</b>          | <b>28.2</b> |
| <b>EARNINGS AND DIVIDENDS</b>   | <b>-1,338</b> | <b>-1,113</b> | <b>-1,456</b> | <b>-16.8</b>          | <b>30.8</b> |
| Received                        | 262           | 363           | 666           | 38.5                  | 83.5        |
| Profits remitted                | 103           | 177           | 363           | 71.8                  | 105.1       |
| Profits reinvested              | 159           | 186           | 303           | 17.0                  | 62.9        |
| Paid                            | 1,600         | 1,476         | 2,122         | -7.8                  | 43.8        |
| Profits sent (4)                | 1,116         | 1,162         | 1,351         | 4.1                   | 16.3        |
| Profits reinvested              | 484           | 314           | 771           | -35.1                 | 145.5       |
| <b>LEASING SERVICES</b>         | <b>0</b>      | <b>0</b>      | <b>0</b>      |                       |             |
| <b>TOTAL FINANCIAL SERVICES</b> | <b>-1,975</b> | <b>-1,881</b> | <b>-2,404</b> | <b>-4.8</b>           | <b>27.8</b> |
| Credits                         | 1,132         | 1,101         | 1,612         | -2.7                  | 46.4        |
| Debits                          | 3,107         | 2,982         | 4,016         | -4.0                  | 34.7        |

(1) Provisional data.

(2) Change of sign not indicated.

(3) Includes interest paid on foreign debt and other liabilities not included therein.

(4) Gross earnings (before additional tax).

TABLE 19

# NON-FINANCIAL SERVICES (1) (US\$ million)

| Item  | 1998        | 1999        | 2000        | Percentage change (2) |             |
|---|-------------|-------------|-------------|-----------------------|-------------|
|   |             |             |             | 1999                  | 2000        |
| <b>EXPORT SHIPMENTS</b>                     | <b>47</b>   | <b>53</b>   | <b>-81</b>  | <b>12.8</b>           |             |
| Credits                                     | 929         | 882         | 941         | -5.1                  | 6.7         |
| Debits                                      | 882         | 829         | 1,022       | -6.0                  | 23.3        |
| <b>OTHER TRANSPORT</b>                      | <b>-591</b> | <b>-538</b> | <b>-669</b> | <b>-9.0</b>           | <b>24.3</b> |
| Passenger service                           | 47          | 79          | 73          | 68.1                  | -7.6        |
| Credits                                     | 369         | 353         | 385         | -4.3                  | 9.1         |
| Debits                                      | 322         | 274         | 312         | -14.9                 | 13.9        |
| Port services                               | -638        | -617        | -742        | -3.3                  | 20.3        |
| Credits                                     | 381         | 358         | 407         | -6.0                  | 13.7        |
| Debits                                      | 1,019       | 975         | 1,149       | -4.3                  | 17.8        |
| <b>TRAVEL</b>                               | <b>215</b>  | <b>93</b>   | <b>112</b>  | <b>-56.7</b>          | <b>20.4</b> |
| Credits                                     | 1,158       | 1,052       | 952         | -9.2                  | -9.5        |
| Debits                                      | 943         | 959         | 840         | 1.7                   | -12.4       |
| <b>OTHER GOODS, SERVICES<br/>AND INCOME</b> | <b>214</b>  | <b>77</b>   | <b>80</b>   | <b>-64.1</b>          | <b>3.9</b>  |
| Credits                                     | 1,282       | 1,140       | 1,244       | -11.1                 | 9.1         |
| Debits                                      | 1,068       | 1,063       | 1,164       | -0.4                  | 9.5         |
| <b>TOTAL NON-FINANCIAL<br/>SERVICES</b>     | <b>-115</b> | <b>-315</b> | <b>-558</b> | <b>174.4</b>          | <b>77.1</b> |
| Credits                                     | 4,119       | 3,785       | 3,929       | -8.1                  | 3.8         |
| Debits                                      | 4,234       | 4,100       | 4,487       | -3.2                  | 9.4         |

(1) Provisional data.

(2) Change of sign not indicated.

Source: Central Bank of Chile

TABLE 20

# NET FOREIGN INVESTMENT FLOWS INTO CHILE

(US\$ million)

| Item                               | 1990         | 1991         | 1992         | 1993         | 1994         | 1995<br>(1)  | 1996<br>(1)  | 1997<br>(1)  | 1998<br>(1)  | 1999<br>(1)  | 2000<br>(1)   |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>I. TOTAL FOREIGN INVESTMENT</b> | <b>1,015</b> | <b>885</b>   | <b>996</b>   | <b>1,330</b> | <b>2,580</b> | <b>2,241</b> | <b>4,545</b> | <b>5,718</b> | <b>1,012</b> | <b>4,496</b> | <b>-1,365</b> |
| <b>A. DIRECT INVESTMENT</b>        | <b>654</b>   | <b>697</b>   | <b>538</b>   | <b>600</b>   | <b>1,672</b> | <b>2,205</b> | <b>3,445</b> | <b>3,353</b> | <b>1,841</b> | <b>4,366</b> | <b>-1,104</b> |
| From abroad                        | 661          | 822          | 935          | 1,034        | 2,583        | 2,956        | 4,633        | 5,219        | 4,638        | 9,221        | 3,674         |
| Law 600                            | 208          | 455          | 512          | 660          | 1,466        | 1,488        | 3,710        | 3,457        | 4,255        | 8,296        | 2,246         |
| Chap. XIV capital contribution     | 35           | 96           | 157          | 203          | 400          | 406          | 411          | 900          | 215          | 641          | 657           |
| Chap. XIX (2)                      | 339          | -40          | -32          | -55          | -104         | -214         | -82          | -24          | -316         | -30          | 0             |
| Profit reinvestment (3)            | 79           | 311          | 298          | 226          | 821          | 1,276        | 594          | 886          | 484          | 314          | 771           |
| Abroad                             | 7            | 125          | 397          | 434          | 911          | 751          | 1,188        | 1,866        | 2,797        | 4,855        | 4,778         |
| Direct contribution                | 7            | 125          | 376          | 433          | 926          | 696          | 1,071        | 1,738        | 2,638        | 4,669        | 4,475         |
| Profit reinvestment (3)            | n/d          | n/d          | 21           | 1            | -15          | 55           | 117          | 128          | 159          | 186          | 303           |
| <b>B. PORTFOLIO INVESTMENT</b>     | <b>361</b>   | <b>188</b>   | <b>458</b>   | <b>730</b>   | <b>908</b>   | <b>36</b>    | <b>1,100</b> | <b>2,365</b> | <b>-829</b>  | <b>130</b>   | <b>-261</b>   |
| From abroad                        | 361          | 188          | 458          | 820          | 1,259        | 49           | 1,230        | 2,602        | 590          | 2,496        | -113          |
| ADR Chap. XXVI                     | 105          | -31          | 281          | 790          | 1,273        | 32           | 863          | 1,796        | 692          | 465          | -318          |
| Investment funds                   | 262          | 55           | 57           | 26           | -14          | -280         | -202         | -88          | -164         | -23          | -95           |
| Bonds                              | -6           | 164          | 120          | 4            | 0            | 297          | 569          | 894          | 62           | 2,054        | 300           |
| Abroad                             | 0            | 0            | 0            | 90           | 351          | 13           | 130          | 237          | 1,419        | 2,366        | 148           |
| <b>II. ASSOCIATED CREDITS</b>      | <b>610</b>   | <b>198</b>   | <b>34</b>    | <b>616</b>   | <b>837</b>   | <b>965</b>   | <b>608</b>   | <b>1,006</b> | <b>1,036</b> | <b>-292</b>  | <b>-526</b>   |
| Credit disbursement                | 749          | 372          | 311          | 845          | 1,001        | 1,343        | 900          | 1,438        | 1,703        | 573          | 183           |
| Credit amortization                | 139          | 174          | 277          | 229          | 164          | 378          | 292          | 432          | 667          | 865          | 709           |
| <b>TOTAL (I + II)</b>              | <b>1,625</b> | <b>1,083</b> | <b>1,030</b> | <b>1,946</b> | <b>3,417</b> | <b>3,206</b> | <b>5,153</b> | <b>6,724</b> | <b>2,048</b> | <b>4,204</b> | <b>-1,891</b> |

(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 investment from abroad. From 1992 on, this includes the same concept for direct investment abroad.



TABLE 21

## FOREIGN DEBT (1)

| Item   | 1990   | 1991   | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999 (2) | 2000 (2) |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| <i>(US\$million)</i>   |        |        |        |        |        |        |        |        |        |          |          |
| Total foreign debt   | 17,425 | 16,364 | 18,242 | 19,186 | 21,478 | 21,736 | 22,979 | 26,701 | 31,691 | 34,167   | 36,837   |
| Medium- and long-term debt service                                     | 2,086  | 2,197  | 2,229  | 2,378  | 2,351  | 4,141  | 5,793  | 4,140  | 3,977  | 5,030    | 5,788    |
| Interest on total foreign debt   | 1,558  | 1,417  | 1,240  | 1,089  | 1,121  | 1,308  | 1,218  | 1,350  | 1,483  | 1,750    | 2,007    |
| Current account deficit  | -485   | -99    | -958   | -2,553 | -1,585 | -1,345 | -3,512 | -3,728 | -4,143 | -78      | -988     |
| Foreign exchange reserves  | 6,509  | 7,596  | 9,731  | 10,237 | 13,757 | 14,805 | 15,474 | 17,841 | 15,992 | 14,710   | 14,741   |
| Trade balance  | 1,284  | 1,485  | 722    | -990   | 732    | 1,382  | -1,091 | -1,557 | -2,517 | 1,664    | 1,436    |
| Exports of goods and services  | 10,222 | 11,069 | 12,365 | 11,711 | 14,444 | 19,359 | 19,066 | 20,773 | 18,949 | 19,401   | 22,087   |
| Imports of goods (fob)   | 7,089  | 7,456  | 9,285  | 10,189 | 10,872 | 14,643 | 16,496 | 18,220 | 17,346 | 13,951   | 16,722   |
| <i>(Percentages)</i>   |        |        |        |        |        |        |        |        |        |          |          |
| Total foreign debt /Exports of goods and services                      | 170.5  | 147.8  | 147.5  | 163.8  | 148.7  | 112.3  | 120.5  | 128.5  | 167.2  | 176.1    | 166.8    |
| Medium- and long-term foreign debt service/Exports of goods & services | 20.4   | 19.8   | 18.0   | 20.3   | 16.3   | 21.4   | 30.4   | 19.9   | 21.0   | 25.9     | 26.2     |
| Interest/Exports of goods and services                                 | 15.2   | 12.8   | 10.0   | 9.3    | 7.8    | 6.8    | 6.4    | 6.5    | 7.8    | 9.0      | 9.1      |
| Current account deficit/ Exports of goods and services                 | -4.7   | -0.9   | -7.7   | -21.8  | -11.0  | -6.9   | -18.4  | -17.9  | -21.9  | -0.4     | -4.5     |
| Trade balance/Exports of goods and services                            | 12.6   | 13.4   | 5.8    | -8.5   | 5.1    | 7.1    | -5.7   | -7.5   | -13.3  | 8.6      | 6.5      |
| Current account deficit/GDP  | -1.6   | -0.3   | -2.3   | -5.7   | -3.1   | -2.1   | -5.1   | -5.0   | -5.7   | -0.1     | -1.4     |
| Total foreign debt / GDP   | 57.5   | 47.2   | 43.6   | 43.1   | 42.2   | 33.3   | 33.5   | 35.5   | 43.5   | 50.6     | 52.7     |
| <i>(Number of months)</i>  |        |        |        |        |        |        |        |        |        |          |          |
| Net foreign exchange reserves/Imports of goods (fob)                   | 11     | 12     | 13     | 12     | 15     | 12     | 11     | 12     | 11     | 13       | 11       |

(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\$ million)

| Item                              | 1990  | 1991  | 1992  | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999   | 2000   |
|-----------------------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1. Gold                           | 642   | 597   | 574   | 612    | 652    | 643    | 637    | 533    | 322    | 317    | 18     |
| (Troy ounces)                     | 1,858 | 1,863 | 1,867 | 1,865  | 1,864  | 1,861  | 1,859  | 1,858  | 1,222  | 1,220  | 74     |
| 2. SDR                            | 1     | 1     | 1     | 1      | 1      | 3      | 2      | 1      | 8      | 19     | 25     |
| 3. Reserve position in IMF        | 0     | 0     | 0     | 0      | 0      | 0      | 50     | 313    | 602    | 402    | 318    |
| 4. Foreign currency assets        | 6,068 | 7,041 | 9,167 | 9,639  | 13,087 | 14,137 | 14,781 | 16,992 | 15,049 | 13,977 | 14,380 |
| 5. Other international assets     | -202  | -43   | -11   | -15    | 17     | 22     | 4      | 2      | 11     | -5     | 0      |
| 6. IMF credit used                | 1,151 | 955   | 722   | 479    | 290    | 0      | 0      | 0      | 0      | 0      | 0      |
| 7. Short-term credit              | 10    | 1     | 1     | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| I. FOREIGN EXCHANGE<br>ASSETS (2) | 6,509 | 7,596 | 9,731 | 10,237 | 13,757 | 14,805 | 15,474 | 17,841 | 15,992 | 14,710 | 14,741 |
| II. GROSS RESERVES (3)            | 5,358 | 6,641 | 9,009 | 9,758  | 13,467 | 14,805 | 15,474 | 17,841 | 15,992 | 14,710 | 14,741 |
| III. NET RESERVES (4)             | 5,348 | 6,640 | 9,008 | 9,758  | 13,467 | 14,805 | 15,474 | 17,841 | 15,992 | 14,710 | 14,741 |

(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).

TABLE 23

CHILE'S FOREIGN DEBT AT THE END OF EACH PERIOD  
BY RESIDUAL MATURITY (US\$ million)

| Item   | 1990          | 1991          | 1992          | 1993          | 1994          | 1995          | 1996          | 1997          | 1998          | 1999          | 2000 (1)      |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>I. FOREIGN DEBT (II+III)</b>                                      | <b>17,425</b> | <b>16,364</b> | <b>18,242</b> | <b>19,186</b> | <b>21,478</b> | <b>21,736</b> | <b>22,979</b> | <b>26,701</b> | <b>31,691</b> | <b>34,167</b> | <b>36,837</b> |
| <b>PUBLIC SECTOR</b>   | <b>11,792</b> | <b>10,554</b> | <b>9,623</b>  | <b>9,020</b>  | <b>9,135</b>  | <b>7,501</b>  | <b>5,163</b>  | <b>5,088</b>  | <b>5,714</b>  | <b>5,827</b>  | <b>5,520</b>  |
| Financial  | 2,982         | 2,560         | 2,385         | 2,353         | 2,355         | 1,893         | 387           | 421           | 283           | 273           | 224           |
| Banco del Estado   | 787           | 433           | 388           | 441           | 415           | 401           | 384           | 418           | 280           | 271           | 222           |
| Central Bank of Chile  | 2,195         | 2,127         | 1,997         | 1,912         | 1,940         | 1,492         | 3             | 3             | 3             | 2             | 2             |
| Non-financial  | 6,743         | 6,201         | 6,295         | 5,756         | 5,834         | 4,849         | 4,326         | 4,543         | 5,324         | 5,439         | 5,204         |
| General Treasury of the Republic                                     | 3,979         | 4,279         | 4,542         | 4,196         | 4,230         | 3,211         | 2,653         | 2,269         | 2,169         | 2,583         | 2,410         |
| Other  | 2,764         | 1,922         | 1,753         | 1,560         | 1,604         | 1,638         | 1,673         | 2,274         | 3,155         | 2,856         | 2,794         |
| Private sector with public guarantee                                 | 2,067         | 1,793         | 943           | 911           | 946           | 759           | 450           | 124           | 107           | 115           | 92            |
| <b>PRIVATE SECTOR</b>  | <b>5,633</b>  | <b>5,810</b>  | <b>8,619</b>  | <b>10,166</b> | <b>12,343</b> | <b>14,235</b> | <b>17,816</b> | <b>21,613</b> | <b>25,977</b> | <b>28,340</b> | <b>31,317</b> |
| Financial  | 524           | 529           | 2,842         | 3,022         | 3,400         | 3,126         | 2,940         | 2,222         | 2,592         | 1,807         | 1,483         |
| Non-financial  | 5,109         | 5,281         | 5,777         | 7,144         | 8,943         | 11,109        | 14,076        | 17,691        | 21,035        | 24,373        | 27,298        |
| Agencies abroad  | 0             | 0             | 0             | 0             | 0             | 0             | 800           | 1,700         | 2,350         | 2,160         | 2,536         |
| <b>II. MEDIUM- AND LONG-TERM FOREIGN DEBT</b>                        | <b>13,079</b> | <b>13,062</b> | <b>13,609</b> | <b>14,332</b> | <b>16,027</b> | <b>16,563</b> | <b>18,527</b> | <b>23,107</b> | <b>27,539</b> | <b>30,222</b> | <b>28,942</b> |
| <b>PUBLIC SECTOR</b>   | <b>9,223</b>  | <b>8,905</b>  | <b>8,606</b>  | <b>7,976</b>  | <b>7,884</b>  | <b>6,499</b>  | <b>4,410</b>  | <b>4,018</b>  | <b>4,708</b>  | <b>4,984</b>  | <b>3,913</b>  |
| Financial  | 2,839         | 2,486         | 2,230         | 2,146         | 2,060         | 1,855         | 371           | 263           | 273           | 223           | 61            |
| Banco del Estado (2)   | 689           | 395           | 265           | 265           | 371           | 363           | 368           | 260           | 270           | 221           | 59            |
| Central Bank of Chile  | 2,150         | 2,091         | 1,965         | 1,881         | 1,689         | 1,492         | 3             | 3             | 3             | 2             | 2             |
| Non-financial  | 5,361         | 5,432         | 5,466         | 4,958         | 4,918         | 3,914         | 3,658         | 3,651         | 4,349         | 4,669         | 3,779         |
| General Treasury of the Republic                                     | 3,671         | 3,961         | 4,183         | 3,891         | 3,905         | 3,005         | 2,431         | 2,028         | 1,933         | 2,329         | 2,151         |
| Other  | 1,690         | 1,471         | 1,283         | 1,067         | 1,013         | 909           | 1,227         | 1,623         | 2,416         | 2,340         | 1,628         |
| Private sector with public guarantee                                 | 1,023         | 987           | 910           | 872           | 906           | 730           | 381           | 104           | 86            | 92            | 73            |
| <b>PRIVATE SECTOR</b>  | <b>3,856</b>  | <b>4,157</b>  | <b>5,003</b>  | <b>6,356</b>  | <b>8,143</b>  | <b>10,064</b> | <b>14,117</b> | <b>19,089</b> | <b>22,831</b> | <b>25,238</b> | <b>25,029</b> |
| Financial (2)  | 91            | 68            | 238           | 375           | 408           | 438           | 640           | 1,486         | 1,744         | 1,375         | 994           |
| Non-financial  | 3,765         | 4,089         | 4,765         | 5,981         | 7,735         | 9,626         | 12,677        | 15,903        | 18,737        | 21,703        | 21,499        |
| Agencies abroad  | 0             | 0             | 0             | 0             | 0             | 0             | 800           | 1,700         | 2,350         | 2,160         | 2,536         |
| <b>III. SHORT-TERM FOREIGN DEBT</b>                                  | <b>4,346</b>  | <b>3,302</b>  | <b>4,633</b>  | <b>4,854</b>  | <b>5,451</b>  | <b>5,173</b>  | <b>4,452</b>  | <b>3,594</b>  | <b>4,152</b>  | <b>3,945</b>  | <b>7,895</b>  |
| <b>CREDIT DUE WITHIN ONE YEAR</b>                                    | <b>3,382</b>  | <b>2,199</b>  | <b>3,475</b>  | <b>3,487</b>  | <b>3,865</b>  | <b>3,431</b>  | <b>2,635</b>  | <b>1,287</b>  | <b>1,610</b>  | <b>1,171</b>  | <b>2,531</b>  |
| Public sector  | 1,984         | 1,064         | 448           | 488           | 526           | 615           | 350           | 609           | 598           | 260           | 378           |
| Private sector (3)   | 1,398         | 1,135         | 3,027         | 2,999         | 3,339         | 2,816         | 2,285         | 678           | 1,012         | 911           | 2,153         |
| <b>AMORTIZATIONS OF MEDIUM- AND LONG-TERM CREDIT DUE WITHIN YEAR</b> | <b>964</b>    | <b>1,103</b>  | <b>1,158</b>  | <b>1,367</b>  | <b>1,586</b>  | <b>1,742</b>  | <b>1,817</b>  | <b>2,307</b>  | <b>2,542</b>  | <b>2,774</b>  | <b>5,364</b>  |
| Public sector  | 585           | 585           | 569           | 556           | 725           | 387           | 403           | 461           | 408           | 583           | 1,229         |
| Private sector   | 379           | 518           | 589           | 811           | 861           | 1,355         | 1,414         | 1,846         | 2,134         | 2,191         | 4,135         |
| <b>IV. CENTRAL BANK WITH IMF</b>                                     | <b>1,151</b>  | <b>955</b>    | <b>722</b>    | <b>479</b>    | <b>290</b>    | <b>290</b>    | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |

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

Source: Central Bank of Chile

TABLE 24

**MEDIUM- AND LONG-TERM FOREIGN DEBT  
FLOWS JANUARY - DECEMBER 2000 AND BALANCES  
AS OF DECEMBER 31ST 2000 (1) (2) (US\$ million)**

| Debtor                                  | DISBURSEMENT   | AMORTI-<br>ZATION | INTEREST       | BALANCE<br>31/12/2000<br>(3) (4) (5) |
|---|----------------|-------------------|----------------|--------------------------------------|
| <b>PUBLIC SECTOR (I + II + III)</b>     | <b>370.0</b>   | <b>736.0</b>      | <b>367.0</b>   | <b>5,142.0</b>                       |
| I. Financial                            | 0.0            | 49.0              | 18.0           | 223.0                                |
| II. Non-financial                       | 370.0          | 666.0             | 340.0          | 4,827.0                              |
| III. Publicly-guaranteed private sector | -              | 21.0              | 9.0            | 92.0                                 |
| <b>PRIVATE SECTOR (I + II + III)</b>    | <b>4,497.0</b> | <b>3,072.0</b>    | <b>1,613.0</b> | <b>29,164.0</b>                      |
| I. Financial                            | 8.0            | 387.0             | 173.0          | 1,219.0                              |
| II. Companies and persons               | 4,117.0        | 2,685.0           | 1,255.0        | 25,409.0                             |
| III. Agencies abroad                    | 372.0          | 0.0               | 185.0          | 2,536.0                              |
| <b>TOTAL MEDIUM- AND LONG-TERM</b>      | <b>4,867.0</b> | <b>3,808.0</b>    | <b>1,980.0</b> | <b>34,306.0</b>                      |

(1) Provisional figures.

(2) Exchange rate for the month flow occurred. Balance exchange rate as of 31 December 2000. Contract specifies timeframe.

(3) Balance for 31 December 2000 is US\$73 million less than one year earlier, due to exchange rate.

(4) Balance rises US\$330 million due to transfer of credit from short- to medium-term.

(5) Balance fall US\$6 million due to statistical adjustments.

TABLE 25

# BALANCE SHEET OF THE CENTRAL BANK OF CHILE

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

| Item                                      | 1999          | 2000          | Structure of assets and liabilities (%) |              |
|---|---------------|---------------|---|--------------|
|   |               |               | 1999                                    | 2000         |
| <b>ASSETS</b>                             | <b>14,286</b> | <b>15,559</b> | <b>100.0</b>                            | <b>100.0</b> |
| Net foreign exchange reserves             | 7,762         | 8,442         | 54.3                                    | 54.3         |
| Treasury promissory notes                 | 3,620         | 4,039         | 25.3                                    | 26.0         |
| Other public sector assets                | 535           | 510           | 3.7                                     | 3.3          |
| Subordinated debt (shares & credit)       | 1,240         | 1,251         | 8.7                                     | 8.0          |
| Deferred losses                           | 769           | 808           | 5.4                                     | 5.2          |
| Liquidity line of credit and repos        | 36            | 0.2           |   |              |
| Other assets                              | 360           | 474           | 2.5                                     | 3.0          |
| <b>LIABILITIES</b>                        | <b>15,141</b> | <b>16,275</b> | <b>100.0</b>                            | <b>100.0</b> |
| Monetary policy promissory notes          | 10,534        | 11,920        | 69.6                                    | 73.2         |
| Other notes with secondary market         | 259           | 231           | 1.7                                     | 1.4          |
| Current accounts and float                | 55            | 67            | 0.4                                     | 0.4          |
| Treasury and other public sector deposits | 1,563         | 1,394         | 10.3                                    | 8.6          |
| Other non-monetary emission liabilities   | 942           | 949           | 6.2                                     | 5.8          |
| Monetary emission                         | 1,787         | 1,713         | 11.8                                    | 10.5         |
| <b>CAPITAL AND RESERVES</b>               | <b>-855</b>   | <b>-715</b>   |   |              |
| <b>Revalued initial capital</b>           | <b>-989</b>   | <b>-896</b>   |   |              |
| Nominal initial capital                   | -964          | -855          |   |              |
| Revalued own capital                      | -25           | -40           |   |              |
| <b>Net results</b>                        | <b>133</b>    | <b>181</b>    |   |              |
| Non-financial results                     | -22           | -24           |   |              |
| Net interest (1)                          | -221          | -167          |   |              |
| Net indexing and other variations (2)     | 351           | 331           |   |              |
| Less: revaluation own capital             | 25            | 40            |   |              |

(1) Foreign currency interest converted to pesos using average exchange rates.

(2) 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                                      | 1996            | 1997            | 1998            | 1999            | 2000            |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>OPERATING EXPENDITURES (1)</b>         |                 |                 |                 |                 |                 |
| Personnel                                 | 12,664.8        | 12,114.7        | 12,853.6        | 13,290.4        | 13,898.9        |
| Administration                            | 4,020.0         | 4,527.0         | 3,897.5         | 4,225.2         | 4,282.3         |
| Depreciation, amortization and write-offs | 1,439.9         | 1,549.8         | 1,232.4         | 1,251.5         | 1,469.6         |
| Taxes, contributions and payments         | 371.9           | 438.1           | 382.0           | 476.9           | 455.2           |
| <b>TOTAL</b>                              | <b>18,496.6</b> | <b>18,629.6</b> | <b>18,365.5</b> | <b>19,244.0</b> | <b>20,106.0</b> |
| <b>OPERATING EXPENDITURES (2)</b>         |                 |                 |                 |                 |                 |
| Personnel                                 | 15,159.8        | 13,665.4        | 13,791.9        | 13,795.4        | 13,898.9        |
| Administration                            | 4,811.9         | 5,106.5         | 4,182.0         | 4,385.8         | 4,282.3         |
| Depreciation, amortization and write-offs | 1,723.6         | 1,748.2         | 1,322.4         | 1,299.1         | 1,469.6         |
| Taxes, benefits and payments              | 445.2           | 494.2           | 409.9           | 495.1           | 455.2           |
| <b>TOTAL</b>                              | <b>22,140.4</b> | <b>21,014.2</b> | <b>19,706.2</b> | <b>19,975.3</b> | <b>20,106.0</b> |

(1) Millions of each year's pesos.

(2) Millions of 1999 pesos.

Source: Central Bank of Chile

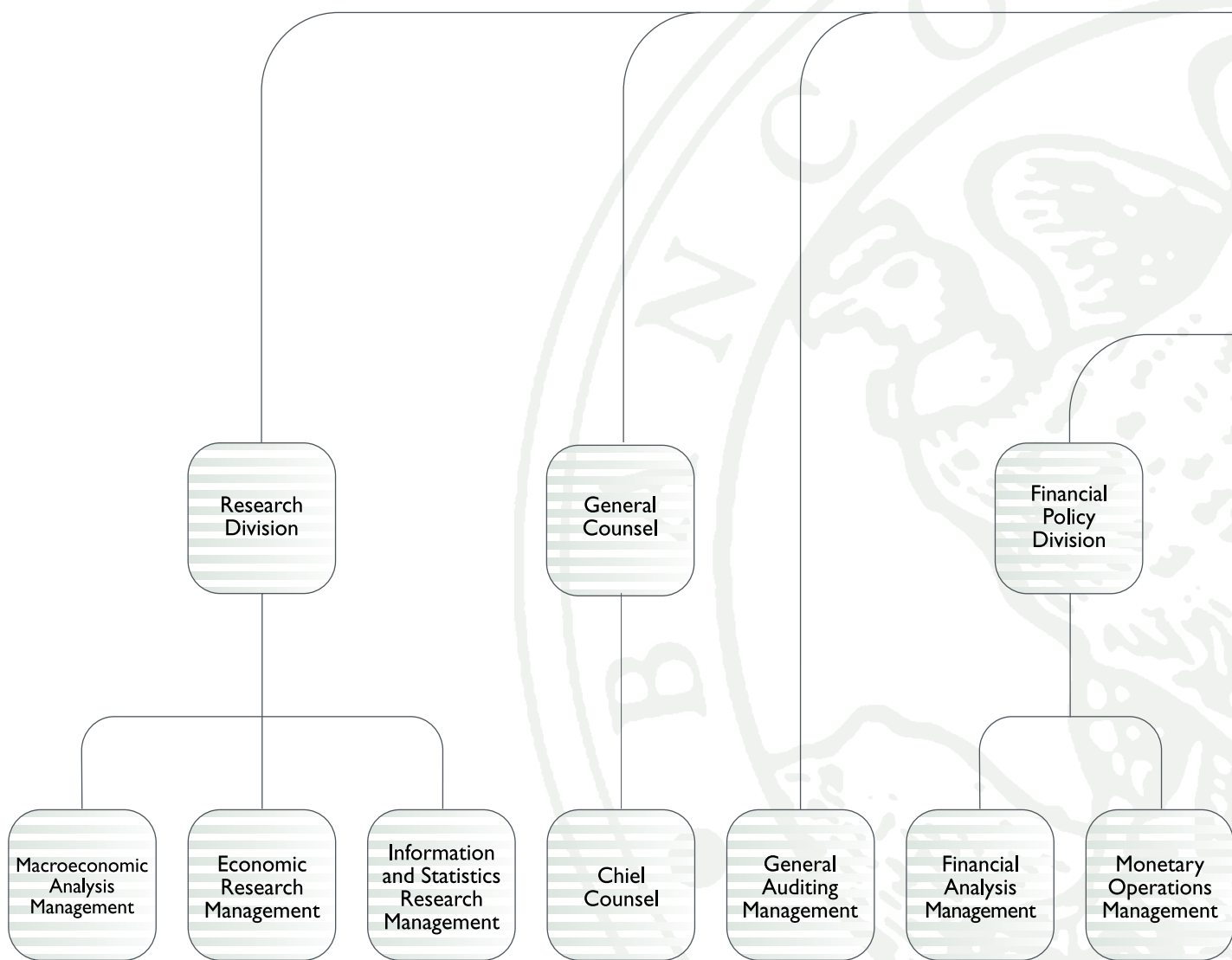


## II. Organizational Structure of the Central Bank Of Chile

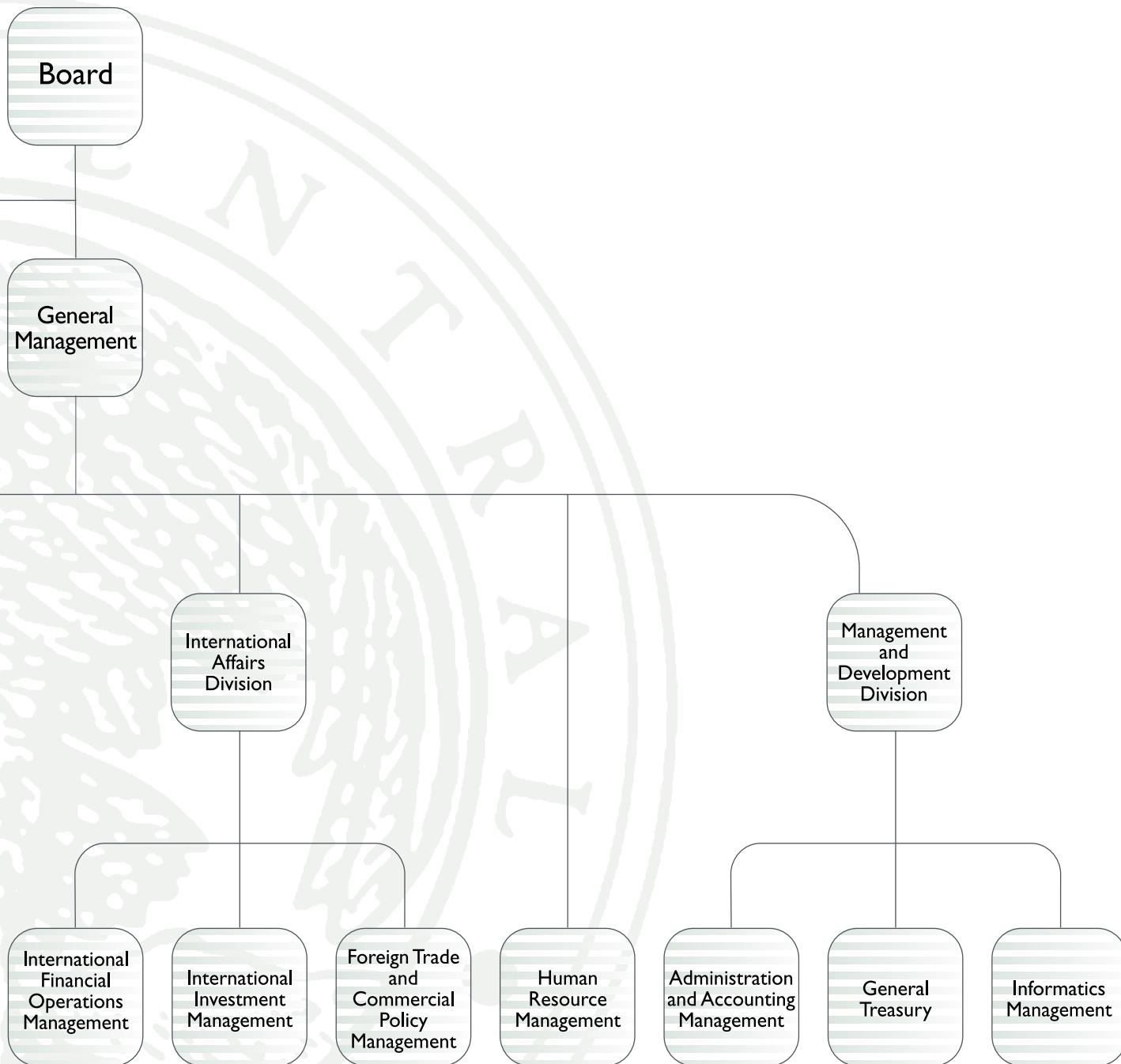
As of December 31, 2000

As of 31 December 2000





Organizational Structure of the Central Bank Of Chile



Central Bank of Chile





### III. Financial Statements of the Central Bank of Chile



# Balance Sheet

As of December 31st. 2000 and 1999.

(Millions of Chilean pesos)

(Millions of Chilean pesos)

| ASSETS   | 2000         | 1999         |
|--|--------------|--------------|
| Overseas assets  | 9,492,086.9  | 9,089,462.9  |
| Reserve  | 9,216,936.6  | 8,874,920.5  |
| Gold   | 10,233.5     | 175,092.9    |
| Demand deposits and accounts   | 20,274.0     | 25,678.5     |
| Deposits and securities  | 8,229,255.0  | 7,707,011.5  |
| Mutual loan agreements   | 34,464.3     | 10,369.6     |
| Loans  | 325,900.9    | 336,357.8    |
| IMF subscription   | 596,808.9    | 620,410.2    |
| Other overseas assets  | 275,150.3    | 214,524.4    |
| Shares and contributions to the Interamerican Development Bank           | 98,318.0     | 97,227.0     |
| Interest receivable  | 176,830.9    | 117,313.9    |
| Silver and other securities  | 1.4          | 1.5          |
| Domestic assets  | 5,616,515.5  | 5,381,735.2  |
| Domestic loans   | 5,616,515.5  | 5,381,735.2  |
| Loans to state-owned companies   | 16,980.9     | 29,168.6     |
| Loans to Banco del Estado de Chile                                       | 35,598.0     | 31,909.2     |
| Loans to commercial banks  | 147,589.2    | 161,975.3    |
| Loans to other institutions  | 337,637.0    | 321,467.8    |
| Treasury transfers (Laws 18,267, 18,401 and 18,768)                      | 4,214,351.6  | 3,960,821.2  |
| Loans for subordinated obligation of financial institutions (Law 18,401) | 864,358.8    | 876,393.1    |
| Other assets   | 1,609,155.7  | 1,219,335.2  |
| Fixed assets   | 16,023.5     | 16,645.3     |
| Temporary assets   | 396,286.7    | 0.0          |
| Other securities   | 1,196,845.5  | 1,202,689.9  |
| Total assets   | 16,717,758.1 | 15,690,533.3 |



| LIABILITIES  | 2000         | 1999          |
|--|--------------|---------------|
| Overseas liabilities   | 997,136.5    | 979,976.4     |
| Reserve liabilities  | 774,854.1    | 747,509.7     |
| Mutual loan agreements   | 34,416.8     | 13,132.9      |
| IMF deposits   | 740,437.3    | 734,376.8     |
| Other overseas liabilities   | 222,282.4    | 232,466.7     |
| Loans  | 1,198.3      | 1,334.0       |
| Accounts with other international organizations  | 128,623.2    | 137,846.0     |
| Allocations of Special Drawing Rights  | 90,973.6     | 92,351.6      |
| Interest payable   | 1,487.3      | 935.1         |
| Domestic liabilities   | 16,415,177.2 | 15,577,137.0  |
| Currency issuance and deposits   | 1,713,357.0  | 1,870,924.3   |
| Bank notes and coins in circulation  | 1,499,635.2  | 1,691,979.0   |
| Deposits from financial institutions (Local Currency)  | 213,721.8    | 178,945.3     |
| Deposits and obligations   | 1,615,678.5  | 1,890,449.5   |
| Deposits and obligations with the Treasury   | 1,324,968.9  | 1,565,429.4   |
| Other deposits and obligations   | 290,709.6    | 325,020.1     |
| Notes issued by the Central Bank   | 13,086,141.7 | 11,815,763.2  |
| Indexed promissory notes payable in coupons (PRC)  | 6,069,038.9  | 6,966,152.3   |
| Central Bank indexed promissory notes (PRBC)   | 2,528,919.6  | 1,411,872.0   |
| Central Bank discountable promissory notes (PDBC)  | 1,607,500.0  | 1,808,378.4   |
| Indexed coupons (CERO) in indexed units UF   | 1,280,120.8  | 0.0           |
| Central Bank indexed promissory notes in dollars (PRD)   | 854,053.0    | 827,895.5     |
| Promissory notes stated in indexed units UF (Resolution 1836) arising from US dollar certificates                  | 469,208.7    | 468,809.2     |
| Commercial notes from redenomination of foreign exchange securities  | 230,869.8    | 230,851.3     |
| Floating interest rate promissory notes (PTF)  | 37,711.6     | 56,647.9      |
| Indexed coupons (CERO) in dollars  | 4,482.8      | 0.0           |
| Deposit certificates stated in dollars, Resolution 1649  | 4,208.1      | 4,605.6       |
| Promissory notes issued for exchange-rate differential   | 28.4         | 46.4          |
| Securities issued on rescheduling of foreign debt, Chapter, XIX, of the Compendium of Foreign-Exchange Regulations | 0.0          | 40,504.6      |
| Other liabilities  | 20,914.7     | 29,050.3      |
| Provisions   | 8,242.5      | 8,356.0       |
| Temporary liabilities  | 0.0          | 20,649.5      |
| Other securities   | 12,672.2     | 44.8          |
| Capital and Reserves   | (715,470.3)  | (895,630.4)   |
| Capital  | (895,630.4)  | (1,035,171.4) |
| Surplus during the period  | 180,160.1    | 139,541.0     |
| Total liabilities  | 16,717,758.1 | 15,690,533.3  |

# Income Statements

As of December 31st. 2000 and 1999.  
(Millions of Chilean pesos)

|   | 2000          | 1999          |
|---|---------------|---------------|
| Operating income                            |               |               |
| Operating income                            | 1,666,431.0   | 1,904,376.5   |
| Interest earned and accrued                 | 914,744.2     | 705,353.5     |
| Indexation earned and accrued               | 83,312.9      | 53,041.4      |
| Income on price differences                 | 9,110.8       | 12,663.9      |
| Exchange earnings                           | 658,958.5     | 1,129,018.9   |
| Other operating income                      | 304.6         | 4,298.8       |
| Operating expenses                          | (1,619,457.2) | (1,805,262.1) |
| Interest paid and accrued                   | 899,557.8     | 1,001,633.4   |
| Indexation paid and accrued                 | 602,589.5     | 358,819.6     |
| Commissions paid and accrued                | 0.0           | 623.9         |
| Loss due to price differences               | 57,851.2      | 27,954.1      |
| Exchange losses                             | 51,439.2      | 406,600.8     |
| Other operating expenses                    | 8,019.5       | 9,630.3       |
| Gross margin                                | 46,973.8      | 99,114.4      |
| Other operating expenses                    | (20,106.0)    | (20,148.4)    |
| Personnel expenses                          | 13,898.9      | 13,915.0      |
| Administrative expenses                     | 4,282.2       | 4,423.8       |
| Depreciation, amortization and write-offs   | 1,469.6       | 1,310.3       |
| Taxes, rates and contributions              | 455.3         | 499.3         |
| Income before provisions and write-offs     | 26,867.8      | 78,966.0      |
| Provisions and write-offs from risky assets | 0.0           | 0.0           |
| Net margin (Total operating income)         | 26,867.8      | 78,966.0      |
| Non-operating income and expenses           | 246.7         | 232.4         |
| Non-operating income                        | 248.2         | 370.6         |
| Non-operating expenses                      | (1.5)         | (138.2)       |
| Income before price-level restatement       | 27,114.5      | 79,198.4      |
| Price-level restatement                     | 153,045.6     | 60,342.6      |
| Surplus during the year                     | 180,160.1     | 139,541.0     |

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) BASIS FOR PREPARING FINANCIAL STATEMENTS

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 comparative purposes, the figures for the 1999 period were restated according to changes in the Consumer Price Index for the period between

November 30, 1999 and November 30, 2000, amounting to 4.7%.

### 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:

|                              | 2000    | 1999    |
|------------------------------|---------|---------|
|                              | Ch\$    | Ch\$    |
| Minted Chilean gold coins    | 818.550 | 844.761 |
| US Dollar (Referential rate) | 523.910 | 521.532 |
| US Dollar (Observed rate)    | 572.680 | 552.502 |
| Pound Sterling               | 853.470 | 894.452 |
| Deutsche Mark                | 271.170 | 284.177 |
| Special Drawing Rights (SDR) | 746.150 | 757.452 |

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 November 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 in 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 commercial instrument purchases and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued adjustments as of the balance sheet date, and balances stated in foreign currency include related exchange adjustments.

Interest accrued at year-end on transactions with overseas residents are included under Other Overseas

Assets and Other Overseas Liabilities. Interest on transactions with domestic residents is included in Domestic Assets and Domestic Liabilities, accordingly.

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

F) SUBORDINATED OBLIGATIONS  
OF FINANCIAL INSTITUTIONS

The loan for the subordinated obligation included under Domestic Assets (Note 6) comprises restated balances as of 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\$807,797.1 million as of December 31, 2000 (Ch\$804,908.1 million in 1999) and are shown as "Other securities" under the caption "Other assets".

G) LOAN PROVISIONS

The Bank has not set up provisions in 2000 and 1999. The balance of provisions set up amounts to Ch\$9,646.6 million (Ch\$9,312.1 million in 1999) and is included by deducting 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\$6,933.3 million (Ch\$7,078.2 million in 1999).

#### 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\$537,805.1 million (Ch\$544,520.9 million in 1999), includes mainly the following transactions:

|   | (Millions of Ch\$) |                  |
|---|--------------------|------------------|
|   | 2000               | 1999             |
| Receivables from CORFO (Note 3)                                       | 9,156.9            | 19,792.0         |
| Credit lines on debt rescheduling                                     | 52,278.8           | 65,022.8         |
| Mortgage loan portfolio acquired                                      | 29,646.2           | 41,507.9         |
| Liquidity lines of credit   | 35,524.9           | 0.0              |
| Credit lines to finance the sale of mortgage portfolio of former ANAP | 48,445.4           | 55,015.6         |
| Credit lines for international organizations programs                 | 6,570.4            | 7,770.9          |
| Credit lines for deposits (Resolution 1686)                           | 3,462.0            | 4,867.9          |
| Former Caja Central de Ahorros y Préstamos and former ANAP (Note 4)   | 337,637.0          | 321,467.8        |
| Price balances (Law 19,396)   | 13,411.1           | 26,902.2         |
| Other   | 1,672.4            | 2,173.8          |
| <b>Total</b>  | <b>537,805.1</b>   | <b>544,520.9</b> |

### 3. Loans Receivable from Corporación de Fomento de la Producción

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, 2000 the balance of accounts receivable from CORFO amounts to Ch\$9,156.9

million (Ch\$19,792.0 million in 1999), 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 UF15 million, will be covered by the Treasury (Note 5) by future transfers, which as of December 31, 2000 amount to Ch\$178,078.5 million equivalent to UF 11.3 million (Ch\$175,409.7 million in 1999, equivalent to UF11.1 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

Law 18,900 dated January 16, 1990 terminated the legal existence of Caja Central de Ahorros y Préstamos and the authorization of existence of Asociación Nacional de Ahorro y Préstamo, and established the manner in which the respective assets would be liquidated. This 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, 2000, 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\$ 337,637.0 million (Ch\$321,467.8 million in 1999), 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\$) |             |
|--------------------------------------|--------------------|-------------|
|                                      | 2000               | 1999        |
| Treasury promissory notes Law 18,267 | 412,485.1          | 459,602.3   |
| Treasury promissory notes Law 18,768 | 3,623,788.0        | 3,325,809.2 |
| Treasury transfers Law 18,401        | 178,078.5          | 175,409.7   |
| Total                                | 4,214,351.6        | 3,960,821.2 |

### (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.

This year prepayment of interest was received in the amount of US\$127.8 million, shown in the caption "Other liabilities". Non-accrued interest amounts to US\$119.4 million.

### 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 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. In April 2000 the balance existing as of 1999 for uncovered differences was paid, corresponding to the annual installment for 1998 and 1999.

## 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, 2000, 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 indexed operations.

## 8. Deposits and obligations

The caption Other deposits and obligations includes the following items:

|   | (Millions of Ch\$) |           |
|---|--------------------|-----------|
|   | 2000               | 1999      |
| Foreign currency current accounts                       | 67,789.0           | 62,315.9  |
| Deposits in foreign currency, Resolutions 1657 and 1686 | 2,284.6            | 3,011.0   |
| Short-term deposits                                     | 220,636.0          | 259,693.2 |
| Total   | 290,709.6          | 325,020.1 |

## 9. Instruments Issued by Central Bank, as of December 31, 2000 and 1999 by Period Remaining to Maturity

| Type of document  | Up to 90 Days      | 91 to 180 Days   | 181 Days to 1 year | Over 1 año to 3 years | Over 3 years       | Total 2000          | Total 1999          |
|---|--------------------|------------------|--------------------|-----------------------|--------------------|---------------------|---------------------|
| Indexed promissory notes payable in coupons (PRC)   | 281,125.0          | 226,800.3        | 389,096.2          | 1,491,683.2           | 3,680,334.2        | 6,069,038.9         | 6,966,152.3         |
| Central Bank Indexed promissory notes (PRBC)  | 2,528,919.6        | -                | -                  | -                     | -                  | 2,528,919.6         | 1,411,872.0         |
| Central Bank discountable promissory notes (PDBC)   | 410,500.0          | 362,000.0        | 835,000.0          | -                     | -                  | 1,607,500.0         | 1,808,378.4         |
| Indexed coupons (CERO) in UF  | 34,498.7           | 38,003.8         | 71,666.5           | 263,166.3             | 872,785.5          | 1,280,120.8         | -                   |
| Central Bank indexed promissory notes in US\$ (PRD)   | 13,270.8           | 2,951.4          | 541,182.6          | 296,648.2             | -                  | 854,053.0           | 827,895.5           |
| Promissory notes stated in indexed units UF<br>(Resolution 1836) arising from US\$ certificates.                    | 11,535.9           | -                | -                  | 457,672.8             | -                  | 469,208.7           | 468,809.2           |
| Commercial notes from redenomination<br>of foreign exchange securities  | 46,140.5           | 6,668.6          | 32,269.8           | 63,943.3              | 81,847.6           | 230,869.8           | 230,851.3           |
| Floating interest rate promissory notes (PTF)   | 8,236.6            | 1,830.4          | 9,320.0            | 18,324.6              | -                  | 37,711.6            | 56,647.9            |
| Indexed coupons (CERO) in US\$  | 84.6               | 33.9             | 118.5              | 4,245.8               | -                  | 4,482.8             | -                   |
| Deposit certificates stated in US\$, (Resolution 1649)  | 144.1              | -                | 580.6              | 1,161.1               | 2,322.3            | 4,208.1             | 4,605.6             |
| Promissory notes issued for exchange-rate differential  | 28.4               | -                | -                  | -                     | -                  | 28.4                | 46.4                |
| Securities issued on rescheduling of foreign debt Chapter XIX,<br>of the Compendium of Foreign-Exchange Regulations | -                  | -                | -                  | -                     | -                  | -                   | 40,504.6            |
| <b>Total notes issued</b>   | <b>3,334,484.2</b> | <b>638,288.4</b> | <b>1,879,234.2</b> | <b>2,596,845.3</b>    | <b>4,637,289.6</b> | <b>13,086,141.7</b> |                     |
| <b>Total 1999</b>   | <b>3,447,151.7</b> | <b>340,150.9</b> | <b>571,196.4</b>   | <b>2,532,649.4</b>    | <b>4,924,614.8</b> |                     | <b>11,815,763.2</b> |

Balances include interest and accrued adjustments as of December 31, 2000 and 1999.

## 10. Capital and Reserves

Changes in capital and reserves during 2000 and 1999 were as follows:

|   | (Millions of Ch\$) |                                 |             |
|---|--------------------|---------------------------------|-------------|
|   | Capital            | Surplus (Deficit) in the period | Total       |
| Balances as of 01.01.1999   | (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 31.12.1999   | (988.702,4)        | 133.277,0                       | (855.425,4) |
| Balances as of December 31, 1999 Restated for comparison purposes | (1.035.171,4)      | 139.541,0                       | (895.630,4) |
| Balances as of 01.01.2000   | (988.702,4)        | 133.277,0                       | (855.425,4) |
| Distribution of 1999 surplus                                      | 133.277,0          | (133.277,0)                     | -           |
| Equity revaluation  | (40.205,0)         | -                               | (40.205,0)  |
| Surplus during the period   | -                  | 180.160,1                       | 180.160,1   |
| Balances as of 31.12.2000   | (895.630,4)        | 180.160,1                       | (715.470,3) |

Article 5 of the Constitutional Organic Law of Central Bank 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 the Constitutional Organic Law of Central Bank, 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, 2000, the Bank shows an equity deficit of Ch\$715,470.3 million (Ch\$ 895,630.4 million in 1999).

The 2000 surplus will be used to partially absorb the equity deficit.

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

## 11. Balances in Foreign Currency and Gold

Assets and liabilities denominated in foreign currency and included in the balance sheets as of December 31, 2000 and 1999 are as follows:

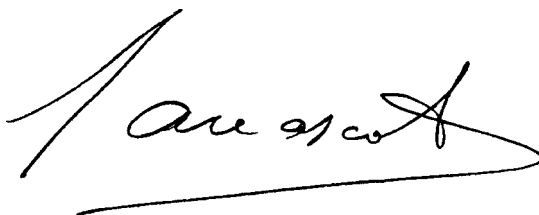
|                            | (Millions of dollars) |                 |
|----------------------------|-----------------------|-----------------|
|                            | 2000                  | 1999            |
| <b>Assets</b>              |                       |                 |
| Overseas assets            | 15,083.5              | 14,848.6        |
| Reserve                    | 14,738.0              | 14,599.6        |
| Other overseas assets      | 345.5                 | 249.0           |
| Domestic assets            | 6,330.0               | 6,022.5         |
| Domestic loan              | 6,330.0               | 6,022.5         |
| Other assets               | 5.1                   | 8.2             |
| <b>Total assets</b>        | <b>21,418.6</b>       | <b>20,879.3</b> |
| <b>Liabilities</b>         |                       |                 |
| Overseas liabilities       | 223.7                 | 195.1           |
| Reserve                    | 60.1                  | 23.8            |
| Other overseas liabilities | 4.7                   | 4.1             |
| SDR allocations            | 158.9                 | 167.2           |
| Domestic liabilities       | 2,309.6               | 3,213.9         |
| Deposits and obligations   | 2,309.6               | 3,213.9         |
| Other liability accounts   | 119.9                 | 121.6           |
| <b>Total liabilities</b>   | <b>2,653.2</b>        | <b>3,530.6</b>  |
| <b>Net assets</b>          | <b>18,765.4</b>       | <b>17,348.7</b> |

## 12. Contingencies and Commitments

Central Bank has pending lawsuits or claims, the final outcome of which (according to the Bank's Legal 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



# 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, 2000 and 1999 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, with prior approval of the 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\$807,797.1 million (Ch\$804,908.1 million in 1999), 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, 2000 and 1999, 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\$715,470.3 million (Ch\$895,630.4 million in 1999), 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 15, 2001







## BANCO CENTRAL DE CHILE

AGUSTINAS 1180 - SANTIAGO

P.O. BOX 967 - SANTIAGO

TELEPHONE: 56 - 2 - 670 2000

FAX: 56-2-698 4847

[www.bcentral.cl](http://www.bcentral.cl)

[bcch@bcentral.cl](mailto:bcch@bcentral.cl)

