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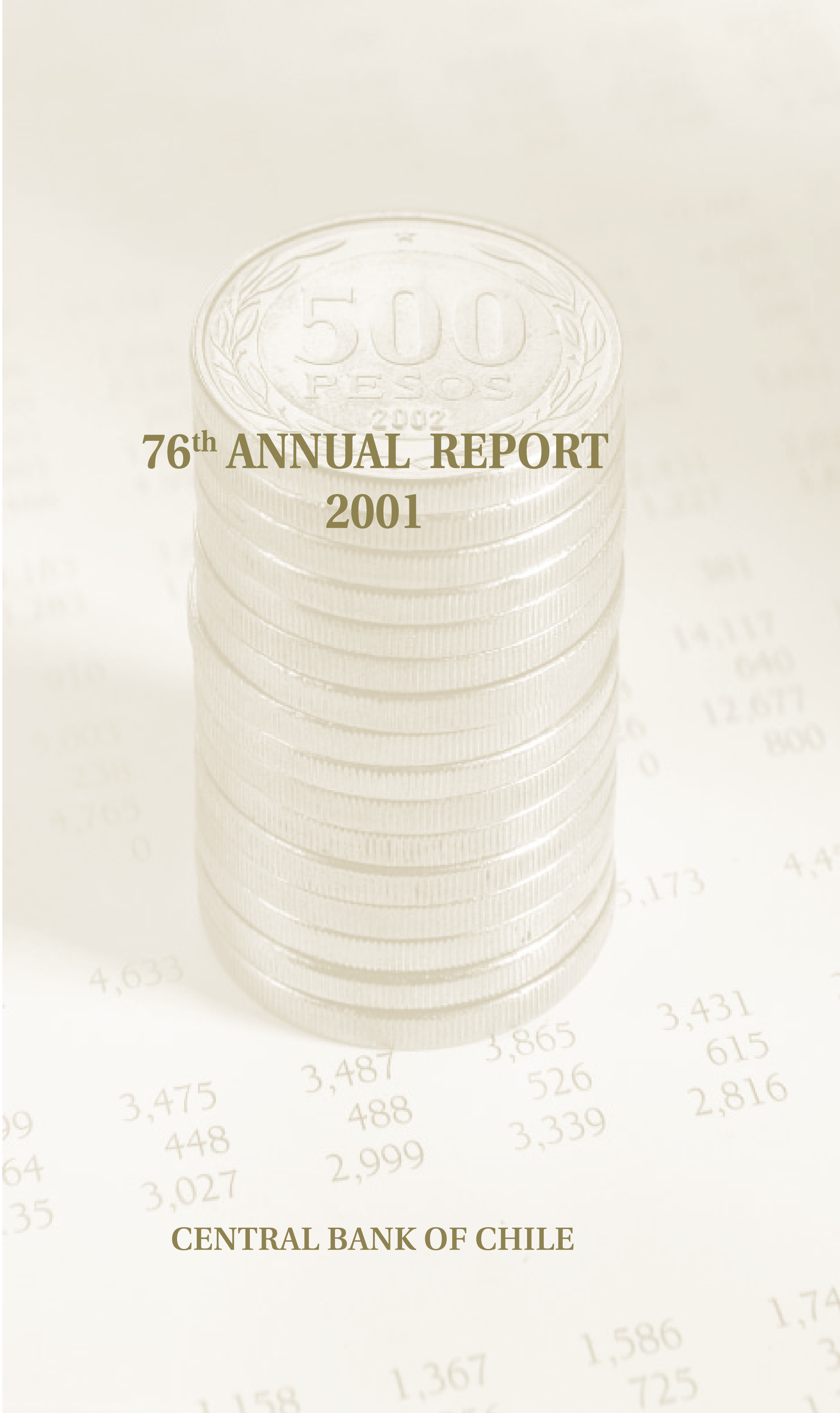
2001

BANCO CENTRAL DE CHILE



76th ANNUAL REPORT 2001

CENTRAL BANK OF CHILE

BOARD MEMBERS OF THE CENTRAL BANK OF CHILE

From left to right, JORGE DESORMEAUX J., MARÍA ELENA OVALLE M., CARLOS MASSAD A., JORGE MARSHALL R. y JOSÉ DE GREGORIO R.

CARLOS MASSAD ABUD
Governor

JORGE MARSHALL RIVERA
Vice-Governor

JOSÉ DE GREGORIO REBECO
Board Member

JORGE DESORMEAUX JIMÉNEZ
Board Member

MARÍA ELENA OVALLE MOLINA
Board Member

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As of 31 December 2001

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CARLOS MASSAD ABUD
Governor

JORGE MARSHALL RIVERA
Vice-Governor

JOSÉ DE GREGORIO REBECO
Board Member

JORGE DESORMEAUX JIMÉNEZ
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MARÍA ELENA OVALLE MOLINA
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RICARDO VICUÑA POBLETE
Statistical Information and Research

BANCO CENTRAL DE CHILE

PRESIDENCIA

Santiago, 8 April 2002

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 2001.

Yours sincerely,

Carlos Massad A.
Governor

BANCO CENTRAL DE CHILE

PRESIDENCIA

Santiago, 8 April 2002

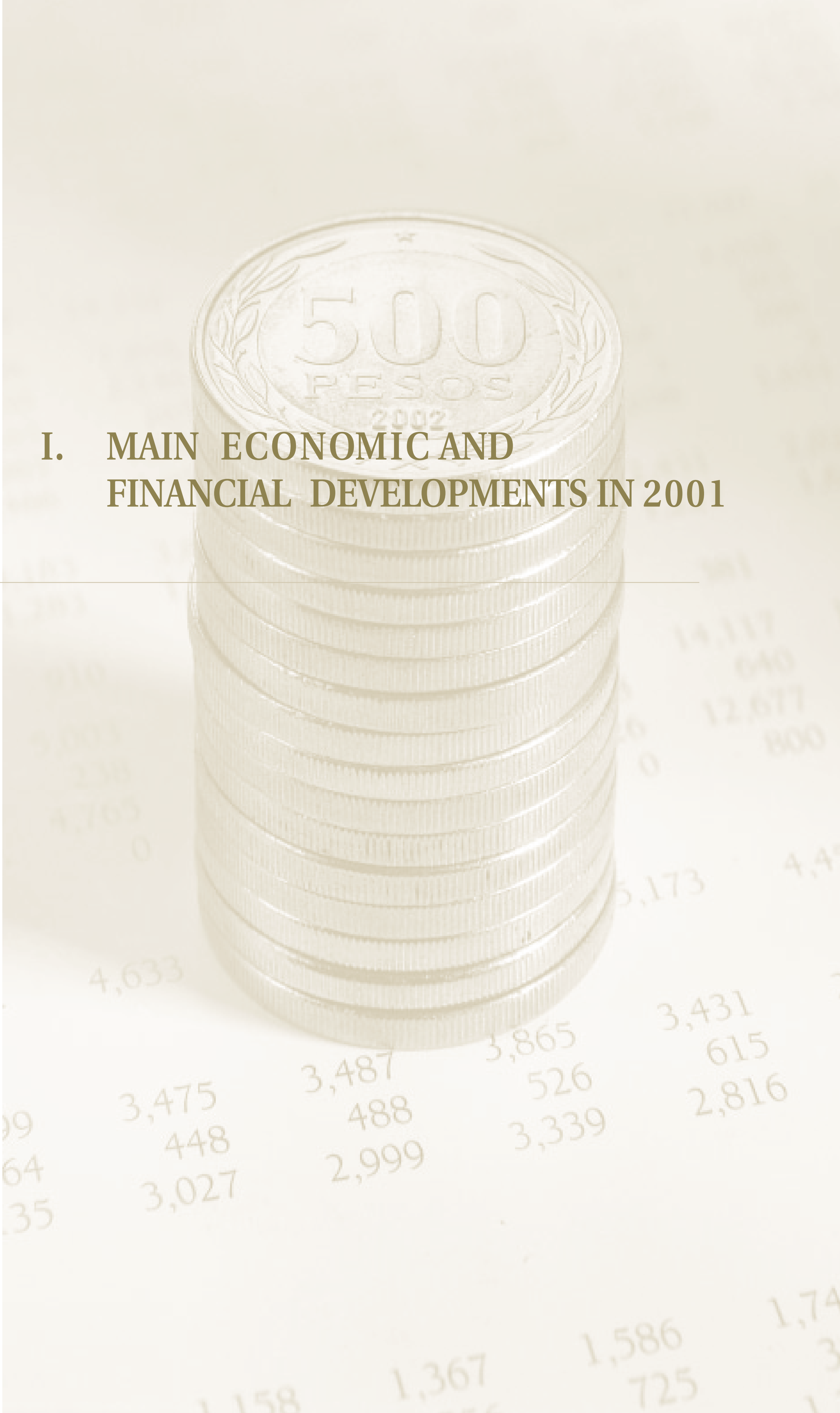
Mr. Andrés Zaldívar L.
President of the Senate
Valparaíso

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 2001.

Yours sincerely,

Carlos Massad A.
Governor

I. MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 2001



I. MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 2001

A. OVERVIEW

During 2001, the Chilean economy's development was significantly influenced by unusually negative trends on international markets, which contributed to sluggish domestic demand, fluctuating inflation throughout the year, and a strong contraction in the terms of trade.

Toward the end of 2000, there was some perception that the Chilean economy would soon resume trend growth rates, based on a gradual rise in both consumption and employment. The early and notorious slowdown in the United States' economy, however, hit financial asset and commodity prices very hard. This occurred at a time when capital flows into emerging markets remained depressed, a situation that was reflected in sovereign spreads remaining higher than in 2000. The magnitude of this decline in the world economy was at first hard to fully grasp, with the export sector paying the highest cost, only partly offset by the reduced cost of external financing, due to lower interest rates on international markets.

The rapid slowdown in inflation during the early months of the year, as it fell from an annual rate of 4.7% in January to 3.5% in April, made it possible to steadily reduce the monetary policy rate during the first half of 2001, by a total of 150 basis points. Another reason behind the expansive nature of monetary policy during the first half was the increasingly strong sign of a slowdown in domestic demand during this period. These conditions suggested that there would be a significant reduction in medium-term inflation pressures, despite sizable peso depreciation that occurred at the same time. Also at the same time the prospects for world growth worsened substantially and there was considerable financial turbulence among the region's countries.

The worsening conditions prevailing in the world's economy throughout the year were directly linked to events in the US, where the economy slowed more than expected early in 2001, affecting the performance of other regions. In Japan, domestic demand remained stagnant. This depressed scenario caused a sharp fall in the prices of Chile's main export goods throughout the year, along with a slight decline in the volumes of mining products shipped abroad during the early months, although these picked up in the following quarters.

In response to this gloomy external panorama, the monetary policy of the world's main economies responded with significant cuts to policy interest rates, which offered some relief to emerging economies in terms of servicing their foreign debt. Nonetheless, the volatility prevailing on international financial markets worsened as the year progressed, strongly influenced by uncertainty about the future of the world's economy, and particularly the US.

After the terrorist attacks in the US, expectations regarding the future of the world's economy suffered a major setback. Projections for US and world economic growth were again corrected downward, strongly affecting stock markets in the developed world and increasing global financial uncertainty. In response to these events, the main central banks further relaxed monetary policy, to minimize the impact of this somber international outlook. Toward mid-year, economic activity in the US and Japan in the area of the job market and household confidence worsened yet again, making further downward corrections to growth projections look inevitable. Nonetheless, the combination of expansive fiscal and monetary policy in the US started to show positive results in the last quarter of 2001, with that economy posting growth rates considerably higher than expected. In Chile's case, greater uncertainty was reinforced by turbulence in Argentina and its impact on domestic financial markets.

Regional instability was particularly marked in 2001 by the situation in Argentina, with uncertainty passed on mainly to the neighboring economies. In this sense, trends in Argentina's sovereign spread and nominal exchange rates in Chile and Brazil revealed this link, moving in tandem for most of the year, a tendency that only changed toward year's end. In any case, analysts abroad clearly differentiated between the Chilean economy and others in the region, with its investment grade rating holding steady and its sovereign spread falling throughout the year. Significantly, Chile successfully placed a new sovereign bond in October, providing solid evidence of financial markets' positive view of the Chilean economy, despite market difficulties at the time. The bond was worth US$650 million, with demand almost doubling the amount offered.

Net capital inflows in 2001 remained scarce, as in 2000, reflecting the fact that interest in loaning to residents of emerging countries has dwindled substantially in the past three or four years. Moreover, in Chile's case, a significant variable explaining low growth in net external indebtedness in recent periods has been the sluggish performance of domestic demand and local investors' marked preference for domestic financing.

Initially, the slowdown in economic activity toward the end of 2000 was treated as temporary. Little by little, this assumption wore thin, as new information about different sectors, consumer goods imports, and employment's slow recovery became available. Moreover, after growing significantly throughout 2000, gross capital formation slowed in 2001, as did the machinery and equipment component and construction. Under these conditions, domestic expenditure growth led to a slight current account deficit (1.4% of GDP), despite the fall in the terms of trade during the year, which reached about 7%. This situation brought with it a persistently depreciated real exchange rate, moderate growth in real wages, and more compressed than normal retail margins. Persistent slack in the economy's capacity and the possibilities offered by the flexible exchange rate regime kept depreciation's passthrough to inflation modest.

Cuts to interest rates that started in late August 2000 affected some components of private expenditure, mainly the housing market during the early months of 2001. Similarly, the reduced cost of domestic financing led companies to issue more bonds on the domestic market throughout the year. At the same time, the strong performance of non-main exports revealed that the depreciation in the real exchange rate was having a positive effect on external markets. Growth in consumption, in contrast, remained limited by the greater prudence arising from high unemployment for the second year running and personal indebtedness that built up during most of the 1990s. In 2001, the country's unemployment rate peaked during the third quarter, ending the last moving quarter with a downward trend (7.9%), a decline that primarily reflected seasonal factors favoring employment at that time of year and the maintenance of government employment programs.

The decline in conditions favorable to world growth throughout the year was a crucial factor in the slowdown in expenditure and activity in Chile in 2001. The outlook for the world's main economies in late 2001 revealed a positive synchrony in its position within the cycle as never before.

This scenario was associated with a poorer performance in activity and lower inflationary risk worldwide, with the logical consequences for the Chilean economy. Nonetheless, in late 2001 the uncertainty dominant in previous months began to fade. Thus, based on an evaluation prior to the terrorist attacks in the US, which saw some inflationary risk, the Chilean economy followed a trajectory that brought 2.6% inflation in December and a clear tendency toward the lower end of the target 2-4% annual rate, due to the weakness of medium-term inflationary pressures. This caused the Central Bank to reduce its policy rate three times during the first quarter of 2002.

The inflationary process in general can be analyzed as the response of prices to demand and cost pressures associated with both the workforce and components imported into productive processes. The compression of margins in 2001 was caused by the unexpected depreciation in the exchange rate, which should tend to recover gradually. But the speed of this decompression process will depend on the foreseeable performance of costs, along with demand conditions in final goods markets. On this first point, the peso's significant appreciation in the last two months of the year provided some relief to those sectors that had experienced significantly reduced margins. Contrary to expectations, the increasingly grave nature of problems in Argentina led to only a moderate contagion from markets and economic uncertainty in that country. Thus, despite several increases to Argentina's sovereign spread during the last quarter of the year, the Chilean peso appreciated over and above its peak level in late October and early November. It is worth noting that for most of 2001 there was a direct relationship between Argentina's sovereign spread and the value of the dollar in Brazil and Chile, thus confirming references to contagion from the former toward these neighboring economies.

The weak performance of the world's economy, which reduced external demand, also brought a significant decline in export prices; nonetheless, volumes of non-traditional products traded performed well (14.6% annually), contributing significantly to overall growth during the year. This revealed Chile's noteworthy ability to find new destination markets and the fact that the real depreciation in the exchange rate since 1999 has improved the competitiveness of Chile's export sector. Thus, the balance of trade posted a surplus of US$1.563 billion, with exports reaching US$17.440 billion and imports worth US$15.877 billion. The current account of the balance of payments, meanwhile, posted a deficit of 1.4% of GDP, similar to last year's.

Overall, activity reached 2.8%, after falling throughout the year. A significant portion of the slowdown in 2001 was due to trends in domestic demand, which fell 0.7% over 2000. This primarily affected the most volatile components and those most sensitive to the exchange rate, such as investment in machinery and inventories, which explain this poor performance. This indicates that uncertainty in the region, the continual worsening of the world economic outlook during the year, and turbulence in exchange markets, sounded a warning when it came to investment decisions.

Despite the modest performance of general investment, 2001 stood out for the important increase in foreign investment (48.7%), mainly led by communications, electricity and mining, thus demonstrating the confidence that world markets feel about the Chilean economy. While actual investment was mainly the result of the purchase of existing companies, rather than investment in new projects, this will help companies to globalize and introduce state-of-the-art technology in the country. From now on, foreign capital invested in Chile is expected to perform strongly, further enhanced by the possible signing of free trade agreements with the US and the European Union. It is also worth noting the initiatives developed by both public and private sectors to develop new opportunities for investment and employment growth in the country. This combined effort on the part of government and business sector seeks to focus on increasing competitiveness through technology and access to project financing, mainly for small and medium-sized firms incorporating more productive practices.

Throughout 2001, the most permanent components of domestic expenditure posted steady, although modest, growth. Private consumption rose by a real 1.4%, mostly concentrated in non-durable goods consumption produced domestically. This trend held due to the modest recovery in employment mid-year, higher wages, and the stability of consumer loans, which finally stopped a decline that began early in 2000. Similarly, investment in construction was driven by favorable credit conditions, offsetting in part the weak performance of investment in machinery.

The financial market experienced a general decline in interest rates on Central Bank instruments during 2001, consistent with the monetary policy rate, expectations regarding growth, and international interest rates. Lower interest rates caused the most liquid monetary aggregates to rise during 2001, a result that also reflects the low standard for comparison from the previous year.

In mid-April 2001, the Board of the Central Bank decided not to renew exchange rate restrictions in effect until then, thus culminating a process of gradually deregulating the foreign exchange market, which advanced along with domestic financial and economic conditions. These modifications allow individuals and companies to have more fluid and efficient access to the benefits of Chile's trade and financial integration into the rest of the world, which should strengthen the potential for economic growth and permit greater diversification of risk.

In terms of monetary policy implementation, starting in August the Board of the Central Bank established that the monetary policy rate would be set in nominal terms, that is as a percentage over a peso value, and not in UFs (the inflation-indexed accounting unit), used until then. Thus, the monetary policy rate in effect from the beginning of August, which was UF + 3.5%, became a nominal 6.5%, an amount that assumes implicit annual inflation of 3%, that is, set at the center of the target range established by the Central Bank. This measure forms part of a coherent process of policy modernization within the Central Bank, which also includes the inflation targeting scheme adopted during the nineties, the floating exchange rate that came into effect in September 1999, elimination of restrictions on capital flows in April 2001, and the gradual issue of peso-denominated promissory notes in financial markets starting in June.

In 2001, Chile's foreign exchange market was strongly influenced by the economic situation in Argentina, which caused the Central Bank to intervene, starting late in the third quarter. In effect, the complex financial situation in some of the region's economies and declining prospects for the world's economy produced enormous instability in financial markets, particularly those involving foreign exchange. Given that the floating exchange regime had worked efficiently, the Board of the Central Bank adopted the necessary measures to provide the market with more instruments for hedging exchange rate risk and liquidity in foreign currency in mid-August, in order to keep the country's financial markets more stable.

In terms of amounts, the nominal exchange rate closed 2001 at an average for the year of 635 pesos per dollar, representing depreciation of some 18% over the previous year. In real terms, depreciation was actually around 13%. Despite the peso's declining value during most of the year, in November the exchange rate began to show the first signs of dissociation from events in Argentina and the peso started to rise significantly. Since then, this trend has consolidated, although with the volatility typical of a flexible exchange market in an environment of obvious regional instability. This important appreciation of the peso toward the end of 2001, combined with low inflation during the fourth quarter, caused the market to expect a further reduction in the Central Bank's reference rate, which was applied early in 2002.

Annual inflation for 2001 closed the year at 2.6%, almost one point lower than projections from the start of the year. Underlying inflation (CPIX), which excludes perishable and fuel prices, ended the year at 3.2%, higher than the CPI, although in line with forecasts one year earlier.

During the early months of the year, inflation was marked by the declining prices of perishable goods and fuels, which confirmed that the increase in inflation through January 2001 was a temporary phenomenon that did not affect underlying price trends. Consequently, early in the year inflation once again fell within the target range defined by the Central Bank, reaching an annual rate of 3.2% in July. Later, toward the end of the third quarter the annual rate started to rise, reaching 3.9% in September, the highest point in the year, except January. This inflationary tendency was mainly due to increases in fuel prices and regulated services associated with the strong expansion in the exchange rate that began in July. Regulated prices and fares showed the most impact from the passthrough from depreciation to inflation, although in general the coefficient remained low throughout 2001, thanks to the influence of the current exchange rate regime.

In the last months of 2001, a series of unexpected factors combined to push inflation downward. The first was the drastic fall in the oil price on international markets after the attacks on the US and confirmation of expectations of a world recession. Domestically this translated into a significant decline in fuel prices, which caused inflation to drop toward year's end. A second factor affecting inflation, but this time pushing it upward, was the performance of the exchange rate. After measures announced by the Central Bank in mid-August, the nominal exchange rate fell from 691 to 662 pesos per dollar, before rising to almost 720 pesos per dollar after the events in September and the uncertainty unleashed by the performance of neighboring economies. Finally, the summer season proved to be unusual in that perishable goods prices did not rise as they normally do.

Throughout the year, wages remained in line with inflation and productivity, although with some lag, thus indicating the absence of inflationary pressures, providing a breather to those sectors that saw their margins contract significantly during 2001. Nominal unit labor costs posted a slight tendency to rise from mid-2001 onward, because an increase in employment during the early months of the year occurred with no equivalent rise in productivity, as had occurred in previous years.

B. MAIN CENTRAL BANK POLICIES

Throughout 2001, the Central Bank developed and implemented a series of measures covering monetary policy, financial regulations, foreign currency and foreign trade, which are detailed in Appendices 3 and 4. The next section will only describe the reasons behind the main policies adopted, their contents and consequences.

B.1 MONETARY POLICY

During the first half of 2001, conditions tended to confirm the initial analysis that any inflationary pressures from peso depreciation toward the end of the 2000 had been offset by low growth in domestic demand and the oil price, which continued to fall toward the end of 2000. Thus, in the early months of 2001 inflation was expected to continue to decline, tending toward the center of the target range proposed for the horizon assumed for monetary policy. Meanwhile, the national economy continued to show gaps between potential and actual levels of output and employment, a situation that along with a series of partial activity indicators suggested that domestic expenditure would be lower than expected, and would not turn around on its own in the short term.

At the international level, throughout 2001 figures continued to arrive indicating that the slowdown in the world economy and particularly the US was deepening, and had gone beyond forecasts made in late 2000. While this slowdown appeared rather sharp, there was expectation of a relatively quick recovery in the medium term. Lower world growth expected for 2001 became an even more negative factor when combined with the slow recovery in domestic demand within the Chilean economy, particularly given the less than strong performance by exports, which had been an important pillar for growth in 2000.

Moderate economic activity around the world signaled less inflationary pressure in international markets and in Chile. Within this increasingly dark international panorama, one element favoring economies like Chile's was the continual reduction in interest rates by the main economies around the globe, although this only partially offset lower world growth.

Coherently with the slow recovery in domestic demand, the Board of the Central Bank considered it necessary to apply more expansive monetary policies, which it did by reducing the monetary policy rate five times during the first half of 2001. Thus, the reference rate went from UF+ 5% in January to UF+3.5% in June, which remained in effect until January 2002, although the formula for its calculation was changed with nominalization of monetary policy.

As a result of these reductions in the policy interest rate, in addition to those applied in late 2000, analysts started to predict stronger growth in economic activity by mid-year, as well as expecting employment to gradually recover and inflationary pressures to remain under control, within the target range. The worsening of political and economic conditions in Argentina, however, continued throughout the year and was compounded by the worsening conditions prevalent in the world economy toward mid-2001. Then, after the terrorist attacks in the US, a recession in that country and the world's main powers became a real possibility. Moreover, instability prevailing in world financial markets due to possible contagion from Argentina generated significant depreciations in local exchange rates, which, upon being passed on partially to prices through regulated fees brought more inflation during the third quarter of the year, both for the total indicator and the underlying inflation index, which excludes perishables and fuels. This set of circumstances called for a more moderate approach to monetary policy during the last quarter of 2001 as compared to previous periods, in the hopes of more clarity about the future behavior of prices and the world economy, particularly the Argentine situation and its implications for the Chilean foreign exchange market.

B.2 FINANCIAL POLICY

In general terms, the measures adopted in 2001 in the financial sphere were applied in the context of an effort by the Central Bank to deepen capital markets and integrate them into the rest of the world. The reason behind these changes had to do with the objective of providing financial agents with more flexibility in their decisions in a more volatile environment. Because of this, the Central Bank increased the supply of promissory notes in dollars (PRD), which also helped to ensure a better balance in the composition of currencies held by financial institutions. In another sphere, but inspired by the same principle of deepening the capital market, several restrictions on pension fund operations were eliminated, as part of changes introduced by Law 19,705 (the law governing public offerings for shares). This made the definition of investment funds more flexible and raised the investment limits applied to several eligible instruments. Similarly, it empowered savings and credit cooperatives, supervised by the Superintendent of Banks and Financial Institutions, to open and maintain savings and time deposits for purchasing housing. Regulations governing savings accounts were also changed. Both initiatives were to provide small-scale economic agents with more opportunities for saving, by expanding the supply of products and encouraging competition among the different intermediaries.

Similarly, to reduce the delay in cashing out-of-town checks, the Superintendent of Banks and Financial Institutions was empowered to permit that these and other out-of-town documents be processed along with local checks and other documents from the same town.

The policy on indebtedness also shifted, in order to reduce the impact of dollar-denominated bonds issued during the second half of 2001 with two- to four-year maturities on the availability of short-term peso-denominated promissory notes: a program for buying back long-term promissory notes ahead of time was begun.

Moreover, to complement instruments for monetary policy implementation, in October foreign exchange swaps were added, thus expanding the battery of monetary instruments available to administer liquidity.

As part of efforts to modernize the payments system, a section was added to the Compendium of Financial Regulations *(Compendio de Normas Financieras, CNF)* regarding clearing centers for checks and other local currency documents, for interbank operations in domestic currency and operations carried out via automatic banking machines. These changes form part of a broader program for modernizing payments systems throughout the economy. In this sense, in the medium term, the operation of the payments system will be comparable to that of the most developed economies, guaranteeing quick, secure processing of domestic payments. Thus, in early November, auctions of promissory notes began using the new Open Market Operations System *(Sistema de Operaciones de Mercado Abierto, SOMA)*, whose main characteristic is that it operates across an Internet platform. Financial institutions make their offers in real time through direct communication with the Central Bank and then receive information on the results of this process by using the options available for this purpose within the system.

Among the measures adopted during this exercise, one of the most important was the nominalization of monetary policy, applied in August. This involved setting the monetary policy rate on a nominal rather than an indexed basis. Nominalization of the policy rate was based on the need to adjust the functioning of monetary policy to a real situation in which inflation is low and stable, as has occurred in the recent past. In particular, this system should achieve the following objectives:

- Reduce the volatility of nominal interest rates.
- Reduce the volatility of nominal variables, such as the exchange rate and demand for money.
- Facilitate matching financing of unindexed loans, ensuring these operations are more transparent.
- Encourage nominalization of short-term contracts.
- Increase international financial integration, facilitating comparisons among different types of interest.

Nominalization of monetary policy should encourage a change in the composition of asset and liability operations within the financial system away from UFs and toward pesos. In response, in the final months of 2001 a significant number of UF-indexed deposits were moved into peso deposits, which produced no serious upset in the financial system. To be on the prudent side, the Central Bank temporarily increased matching limits that regulate short-term operations. In terms of results, trends in market interest rates should provide the hoped-for response to this policy measure in the medium term.

B.3 FOREIGN EXCHANGE REGULATION

During the nineties, the Central Bank of Chile gradually liberalized trade and financial policy, a process that culminated in a new Compendium of Foreign Exchange Regulations *(Compendio de Normas de Cambios Internacionales, CNCI)* that came into effect on 19 April

2001, replacing the previous regulation. This liberalization process was consistent with meeting the Central Bank's goals and the development of markets at both the domestic and the international level. In fact, for several years trade was progressively liberalized by removing quantitative barriers to trade, unilaterally reducing customs tariffs, and by signing a series of trade agreements. Consolidation of this trade liberalization process helped Chile's exports to grow quickly and to diversify, as well as expanding its markets, favoring the efficient allocation of resources.

Financial liberalization, on the other hand, advanced more slowly, because the conditions for carrying it out completely did not permit a faster deregulation process. Nonetheless, today Chile has successfully developed exchange rate hedging markets, it has improved the regulation of banking risk, and applied a floating exchange rate regime, combined with inflation targeting.

If we add to this the solvency of Chile's government accounts, positive evaluations from international risk rating agencies and the appropriate level of foreign currency reserves, it is clear that the Chilean economy is based on solid fundamentals that reduce risk and allow the country to deal with contagion and volatility, whether domestic or foreign, most effectively. These are precisely the conditions that have allowed the Central Bank to complete this liberalization process in a most satisfactory manner.

In practice, the new regulation eliminated restrictions on foreign exchange, which until then affected financing and investment decisions, fully applying the principle of freedom of exchange enshrined in the Basic Constitutional Law of the Central Bank of Chile *(Ley Orgánica Constitucional del Banco Central de Chile)* to foreign exchange operations. These reforms eliminated:

1. The requirement for prior authorization applied to foreign credits obtained directly or via bond issues placed abroad, and deposits from abroad, and the requirement to liquidate foreign exchange from abroad, entering the country as investment or capital contributions.

2. The accreditation and monitoring system for the right to access the formal exchange market provided by the Central Bank, in exchange for compliance with the required prior authorization or the compulsory liquidation referred to above, as the case may be, to comply with the payment of or send abroad foreign exchange in the form of a capital increase, interest, indexing, or benefits obtained through credit, deposit, capital contribution or investment operations from abroad.

3. Requirements affecting individuals resident in the country wishing to remit foreign exchange in order to invest, subscribe a capital increase, acquire credits or deposits.

4. Conditions that had to be met to register and authorize special clauses likely, when obtaining credit abroad, which required payment or remittances abroad other than those expressly covered by the relevant regulations and which, once approved, would generate the corresponding right to access the formal exchange market these situations arising, permitting compliance with the respective obligation to pay or remit funds.

5. Restrictions on risk ratings and minimum weighted maturities for bond issues.

6. Limits on the currency in which external debt can be issued or contracted for.

7. The regulation applicable to the celebration of agreements covered by Article 47 of the Basic Constitutional Law regarding the entry of foreign currency into Chile, in order to establish the foreign exchange regime applicable to the purchase of shares in open companies or investment fund quotas covered by Law 18,815, via security issues serving as a proxy of same for transactions in official foreign stock markets or other modes. Thus, these operations are now treated as investment from abroad and are covered by the ordinary statute applicable to same.

8. The reserve requirement on capital from abroad (until then, it had been set at zero).

It is well known, however, that maintaining the right information systems is vital if economic agents are to be able to make decisions based on an accurate evaluation of risks and possibilities, given that greater deregulation requires more responsibility when it comes to suitably hedging one's risks. Similarly, information systems are very useful to the Central Bank in its task of watching over the stability of Chile's currency and the normal functioning of external payments.

Keeping in mind this need for information, the Central Bank decided to maintain the requirement that agents operate through the formal exchange market for specific operations. The exception is foreign trade operations, which can now be completely carried out through the informal exchange market, in which case these operations must be reported directly to the Central Bank. The information requirements are specified in the Manual of Procedures and Information Forms (*Manual de Procedimientos y Formularios de Información*), which must be used along with the new Compendium of Foreign Exchange Regulations.

Clearly, once these changes have been completely internalized, transactions costs should drop considerably, allowing individuals and companies easier and more efficient access to the benefits of Chile's financial and commercial integration with the rest of the world. In fact, the new regulations should bring with them more flexible policies regarding indebtedness and personal and company investment strategies, reducing the gap between financing conditions at home and abroad and, at the same time, making foreign trade easier, thus allowing the country to grow and diversify risk more.

C. WORLD ECONOMY: RECENT DEVELOPMENTS

C.1 WORLD GROWTH

In 2001, economic growth worldwide slowed significantly, reaching 2.3%, well below growth achieved in 2000 and historic averages (table 1). In this context, undoubtedly the panorama abroad looked unfavorable for Chile's exports. In effect, estimated growth for the country's main trading partners, weighted according to their share of exports, fell significantly over the previous year, reaching 1.0% in 2001, which meant, moreover, it was almost two percentage points lower than forecasts at the start of the year.

The global economy was negatively affected by the slowdown in the US, which ended the year with growth of 1.1%, well down from the 4.1% posted the previous year. This decline in activity was led by a sharp drop in the technological sector, which caused the prices of that industry to collapse, and plunging investment and exports. This situation spread to manufacturing and thus to imports and exports.

TABLE 1: WORLD GROWTH (%)

	Average 1990-1999	2000	2001 (5)
World (1)	3.3	4.6	2.3
United States	3.0	4.1	1.1
Europe	2.0	3.3	1.6
Japan	1.7	2.4	-0.5
Rest of Asia (2)	7.9	7.4	5.1
Latin America (3)	2.8	4.0	0.5
Trading partners (4)	3.0	3.7	1.0

(1) Regional growth weighted according to share of World GDP as measured in 2000 Purchasing Power Parity (PPP).
(2) China, Indonesia, Malaysia, Thailand, Singapore, South 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.
(5) Estimates.

Sources: IMF.
Consensus Forecasts.
Central Bank of Chile.

The direct and indirect effects of the terrorist attacks on the US economy in September substantially reduced growth projections for the year, which had already begun to deteriorate. In fact, the slowdown that had already been registered since early 2001 proved to be deeper than originally believed and, as a result, these events worsened it further. Moreover, figures for the US workforce showed a drastic decline in employment, which directly affected private consumption, the variable that had sustained growth during the first part of the year. Nonetheless, the Federal Reserve acted decisively, cutting the policy rate four times – for a total of 175 basis points – to reach 1.75%. This, along with expansive fiscal policy, which involved both the tax cut approved during the first half of 2001 and aid packages approved after 11 September, constituted two important forces within the economy. It should be noted that this aggressive monetary policy response avoided the collapse of stock markets, which by November had risen to levels above those prior to the attacks.

Similarly, the Japanese economy experienced even more severe conditions, given that world slowdown strongly affected its export sector, which is very closely linked to manufacturing. Unemployment figures hit record levels since the post-war period, ending the year at 5.5%. This reflected severe belt-tightening in the private sector, which saw both activity levels and profits hard hit. The domestic demand components that were hurt the most were investment by the public sector and private residents, which meant that starting in the second quarter the Japanese economy entered its third recession in the past ten years, closing 2001 with a 0.5% drop in output.

In this scenario, despite yen depreciation, prices have not recovered. The Central Bank of Japan applied expansive policies throughout the year, injecting liquidity using different schemes ranging from the purchase of government bonds to increasing the amounts available in liquidity credit lines. Despite these efforts and maintaining interest rates at almost zero, inflation ended up at –1.1%, completing three straight years of deflation.

Europe, on the other hand, posted 1.6% growth in 2001, less than the previous year and its average during the nineties. In contrast to the previous year and in line with world economic conditions described above, the slowdown started with exports, which despite euro depreciation could not offset the decline in external demand. In this sense, the German economy, which accounts for almost one-third of the euro zone economy, was seriously affected, posting annual growth of 0.6%, 2.4 percentage points less than in 2000. Europe's weakness, particularly that of euro zone countries, gradually deepened, with some disparities in the performance of member countries, which combined with inflationary pressure that lasted through May, did not allow the European Central Bank to adopt more aggressive monetary policies. This situation led the member countries most affected to apply more expansive fiscal policies to reinforce social spending to deal with higher unemployment.

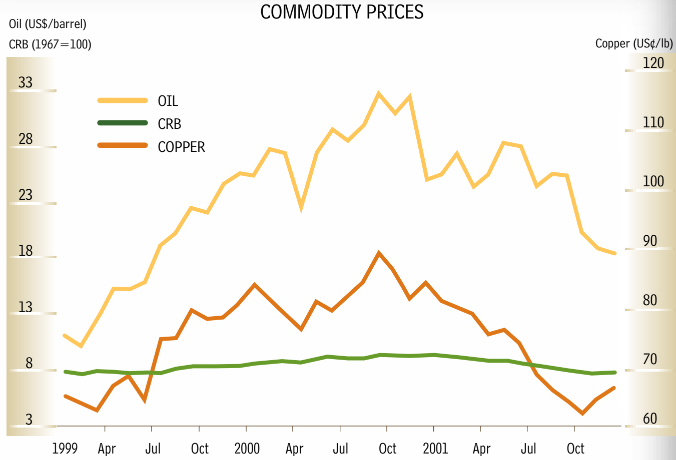
Latin America could not distance itself from the synchronized slowdown experienced worldwide in 2001. In fact its growth was more affected because the depressed world economy combined with local factors that also played an important role. In particular, the case of Argentina must be mentioned, given that financial and economic instability led the government to suspend payments on its foreign debt, freeze deposits and end the convertibility system. Government cutbacks, which sought to achieve a zero deficit, and restrictions on withdrawing deposits and cash became strongly contractive factors. In the case of Brazil, international financial turbulence brought with it depreciation in the Brazilian real, causing the Central Bank to increase interest rates, which ended the year at 19%. Mexico, given its close trading ties with the United States, saw its GDP drop by 0.3%, a sorry state compared to 6.9% growth in 2000. The result of all this was that regional economic activity weighted by purchasing power rose just 0.5% in 2001, 3.5 percentage points less than it rose in 2000.

C.2 INTERNATIONAL PRICES

The slowdown in world economic activity in 2001 was reflected in lower demand for commodities, which was reflected in lower prices. Thus, the commodity price index prepared by the Commodity Research Bureau (CRB) posted a fall of 17% for 2001 compared to December 2000, when it rose by about 13%. Chile's export prices were also affected. In fact, in 2001 the average copper price (LME) reached 72 US cents per pound, compared to 82.3 US cents per pound in 2000. This decline was due to reduced global demand for copper, which led to a steady increase in inventories, pushing prices down as low as 60 cents in November. Thus, major mining companies (including

FIGURE 1

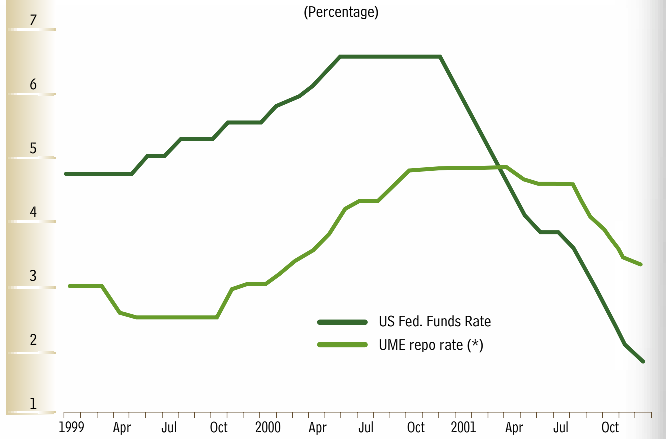
COMMODITY PRICES



CRB price index published by the Commodity Research Bureau.
Copper price from the London Metal Exchange (LME).
Source: Bloomberg.

FIGURE 2

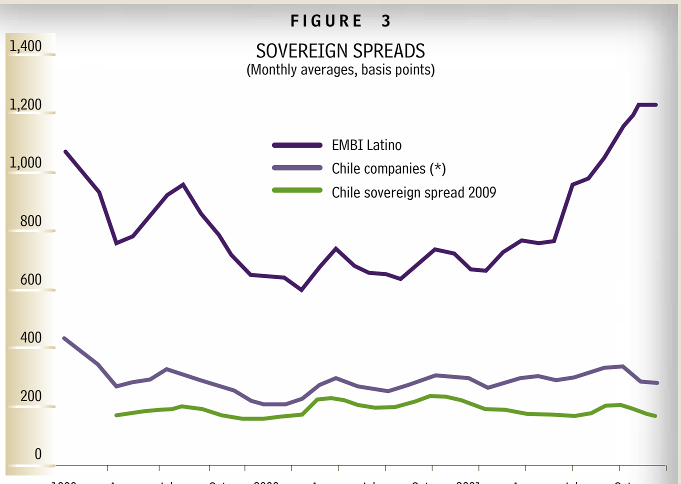
MONETARY POLICY RATES IN US AND EUROPE
(Percentage)



(*) To January 1999, German Bundesbank repo rate.
Source: Bloomberg.

FIGURE 3

SOVEREIGN SPREADS
(Monthly averages, basis points)



(*) Includes average of bonds issued by local firms (Enersis and Endesa Baa1 rating (Moody) and A-(S&P).
Sources: Merrill Lynch and JP Morgan.

Codelco) announced cutbacks in production of about 500,000 metric tons.

The price of oil, on the other hand, posted an average value of US$24.50 per barrel in 2001, down from the average the previous year (US$28.30 per barrel). Thus, the price approached the average price band set by OPEC. Notwithstanding, the depressed level of international activity forecast after the terrorist attacks in the US, along with increased production from OPEC countries brought a reduction in the per barrel price of crude oil after September 2001, which ended the year below the band at US$19.50 per barrel (figure 1).

Similarly, wood pulp averaged US$540 per ton, a 21% decline compared to the average price in 2000, while the price of fishmeal continued to rise during the year (19%), due mainly to the 15% drop in world production.

C.3 INTERNATIONAL FINANCIAL MARKETS

During the year, monetary authorities from virtually every country found themselves facing a strongly contractive scenario, which caused them to respond by applying more expansive monetary policies almost everywhere in the world, a process that began early in 2001 in the United States, and continued in Japan. In the case of Europe, inflationary pressures associated with the increase in fuel prices and euro depreciation during the first half, delayed monetary relaxation until mid-year and reduced its intensity. Cuts to interest rates deepened after the terrorist attacks in the United States, which led to coordinated intervention in financial markets in the main developed countries.

Thus, policy rates plunged in the US and the European Monetary Union, among others. In the US, the Federal Reserve cut interest on 12 occasions during the year, reducing it from 6.5% in December 2000 to 1.75% in late 2001. The European Central Bank reduced the monetary policy rate from 4.75% in late 2000 to 3.25% in December 2001 (figure 2).

C.4 EMERGING FINANCIAL MARKETS

The surcharge on credit costs to emerging economies as measured by sovereign spreads rose during most of the year. This trend was due to the more volatile conditions in international financial markets for most of the year and economic and political instability in Latin America. In the latter's case, the EMBI+ saw its premium rise from an average 667 basis points in January 2001 to an average 892 points in December and peaked at 1233 basis points in November.

The heightened perception of international risk triggered by September's events in the US and the start of the war against terrorism pushed up not only the sovereign spreads of all emerging economies but also those of US firms with A- ratings. Gradually the turbulence subsided and spreads began to reflect risk specific to each economy.

In Latin America, Argentina's sovereign spread hit historic highs, reflecting the complex political, economic and social scenario it was facing. Thus, it rose from 704 basis points in January to 4120 basis points in December. In this case, the Argentine government applied a series of measures in an attempt at improving the country's financial and fiscal situation. First, the government tried, with limited success, to reduce the fiscal deficit to zero after its announcement in mid-year, and it began a debt swap process in early November that the market interpreted as a moratorium in disguise. The first stage of this program affected local investors and involved swapping US$50 billion in general and provincial public debt, which reduced interest and amortizations by more than US$6 billion in 2002. In late November, the Central Bank imposed a ceiling on deposit interest rates, causing scarce liquidity and a deposit flight, then half-froze and dollarized deposits and loans, along with imposing restrictions on capital outflows. Nonetheless, these measured failed to firm up confidence in markets and the IMF, which did not disburse the resources due in December. Explosive social conditions and political turbulence culminated in the resignation of both minister Cavallo and President De la Rua toward year's end, leaving the opposition in the presidency. The new government confirmed the debt moratorium and finally announced the devaluation of the peso.

Although turbulence in Argentina generated signs of contagion in neighboring economies, in the last months of the year these faded. Brazil started to show more autonomy from Argentine risk, as its sovereign spread declined, its currency appreciated (by about 15%, nominally, in the last two months of 2001), and stock markets tended to rise toward year's end. In Chile's case, signs of differentiation measured mainly by sovereign spread had already appeared early in the third quarter, deepening in the later months when the exchange rate began to appreciate significantly (figure 3).

As a reflection of how clearly investors evaluate the Chilean economy on its own merits and its favorable access to international financial markets, the successful issue of a Republic of Chile sovereign bond in October 2001 should be noted. The total issue was for US$650 million and, despite the uncertainty prevailing at the time, the demand for the bond practically doubled the amount placed. The Chilean bond issue was the first issue from an emerging economy, after September's events in the US.

D. FINANCIAL DEVELOPMENTS

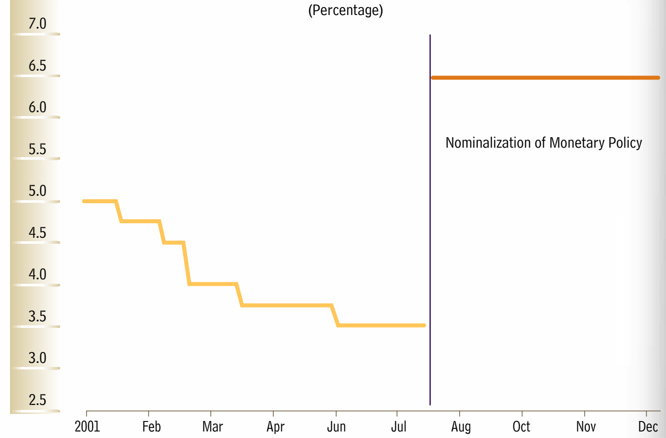
D.1 INTEREST RATE TRENDS

During the first half of the year, the monetary policy rate was repeatedly cut for a total reduction of 150 basis points. In fact, in early January, the policy rate stood at UF + 5% and in mid-June, after five cuts, it stood at the lowest point since the late eighties, UF + 3.5%. These reductions in the policy interest rate were based on the consolidation of a scenario offering less inflationary pressure in the medium term, slow recovery in domestic demand, and slower than forecast economic growth.

On 9 August, the Board of the Central Bank changed the way the monetary policy rate was calculated, from the previous system of setting it as the UF plus a percentage, to a nominal figure. This modification will reduce the variations in peso-denominated financial asset prices and returns, encouraging better functioning of markets and facilitating Chile's integration into international markets. Under this new form of expressing the monetary policy rate, it was set at 6.5% per annum (figure 4).

FIGURE 4

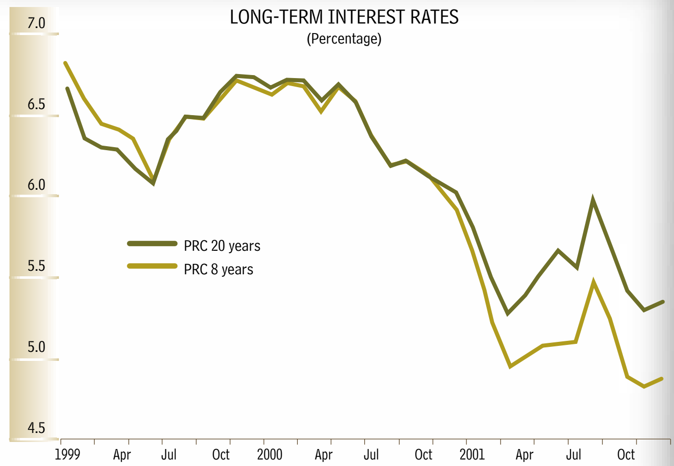
MONETARY POLICY RATE
(Percentage)



Source: Central Bank of Chile.

FIGURE 5

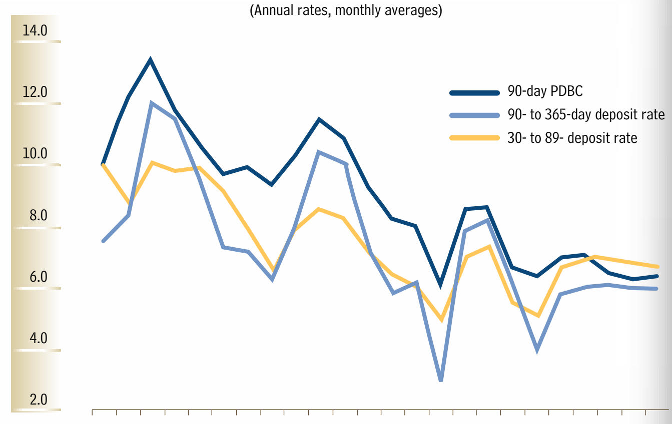
LONG-TERM INTEREST RATES
(Percentage)



Source: Central Bank of Chile.

FIGURE 6

90-DAY PDBC AND UNINDEXED DEPOSIT INTEREST RATES
(Annual rates, monthly averages)



Source: Central Bank of Chile.

To implement nominalization of monetary policy, the Central Bank added new nominal 30- to 60-day securities to the existing 90-day and 1-year papers already available. At the same time, it changed maturities for indexed promissory notes, suspending issues of PRBC-90 and PRCs maturing in 10,12 and 14 years, replacing them with auctions of 1-year PRBCs and increasing the amount of 8- and 20-year PRCs to be auctioned. It also introduced a new procedure for buying back its own promissory notes.

After ending 2000 with an average under UF + 6% for 8- and 20-year PRCs, the rates on long-term indexed papers fell somewhat through August, in line with cuts to the monetary policy rate. In this last month, due to problems in Argentina and implementation of the new nominal monetary policy rate, which brought regulatory changes affecting matching of interest rates, maturities and currencies in the banking system, the maximum rates reached UF + 5.6% and UF + 6.1%, for PRC-8 and PRC-20, respectively. Foreign exchange measures adopted by the Central Bank to deal with the external crisis, however, along with the downward trend affecting interest on US treasury bonds and reduced prospects for growth and inflation at both local and world levels, combined to push the rates on long-term notes down as well. Thus, by year's end rates were the lowest they had ever been, since the Central Bank started issuing this kind of note (figure 5).

Similarly, although interest rates on nominal promissory notes proved more volatile than indexed notes, reflecting short-term expectations for inflation and the monetary policy rate, on average they tended to fall, somewhat more in the case of nominal papers (table 1).

Generally speaking, the decline in rates on Central Bank notes during 2001 also influenced the interest rates that the banking system applies to operatio ns with the general public. Thus, early figures suggest that market interest rates are behaving as expected since nominalization of monetary policy. In fact, during the first half of the year, rates on nominal operations were highly volatile, moving in line with inflation, which assumed an implicit indexed rate that was constantly shrinking. In contrast, from August on, nominal interest rates became substantially less volatile, particularly for short-term (30- to 89-day) deposits. Thus, short-term spreads in pesos fell, making credit operations more transparent (figure 6).

At the same time, after the new monetary policy system was announced, interest on indexed operations, for which rates had been dropping noticeably in line with the reference rate, started to climb. This coincided with a period of enormous volatility abroad and negative movements in prices. From then on, and as a result of arbitrage between nominal rates and actual inflation, indexed operations maturing in up to one year became more volatile, increasing spreads for this type of operation, despite the constant reduction in real interest on longer-term documents (table 2).

The impact of nominalization on interest rates generated a change in the composition of operations with different maturities, with nominal operations gradually replacing indexed ones.

In terms of private sector debt issues, interest rates on long-term fixed income instruments (mortgage bills and company bonds) tended to fall during most of the year, although they fell less than long-term papers issued by the Central Bank. Overall, the lowest level reached by mortgage bills (6.4%) was even lower than during periods of great strength in the real estate market. In the case of company bonds, declines were less than those for PRCs due to the steady increase in the balance of bonds outstanding for the year, which by December had reached UF 248 million, a 90% increase for the year.

D.2 TRENDS IN MONETARY AGGREGATES AND CREDIT

Trends in short-term nominal interest rates in the financial system affect demand for the most liquid monetary aggregates. This also provides information useful to evaluating economic trends and the impact of monetary policy, although the Central Bank has no explicit or implicit objectives regarding money's behavior.

Trends affecting the most liquid monetary aggregates –bills, coins, checking and demand accounts– are especially influenced by consumers' and companies' transaction needs. During the first two months of 2001, trends in liquid balances reflected more normal conditions than those apparent in December 2000. For the rest of the year, demand for liquid money recovered somewhat, with considerable portfolio changes (transfers of funds from time to demand deposits and currency), in response to lower interest rates and inflation. Moreover, during the year large companies tended to use demand accounts to make payments (figure 7). At the same time, the depressed basis for comparison from the previous year yielded high annual growth rates, which averaged 15% for M1A and 7% for currency. In any case, monthly growth in money followed traditional seasonal patterns, the general rate of activity and the lower nominal interest rates (figure 8).

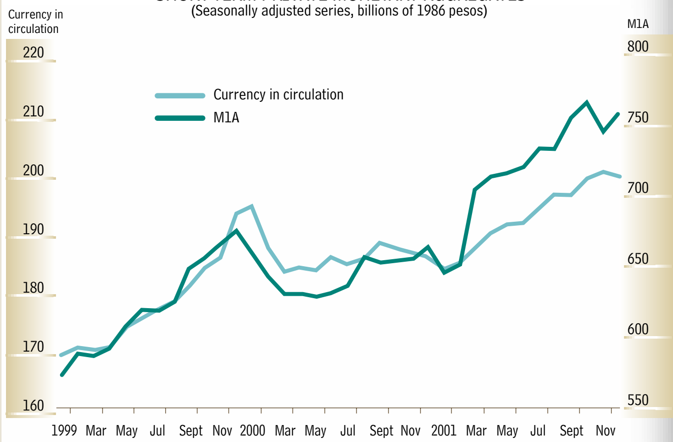
The broader monetary aggregates, M2 and M7, grew more moderately than money in its more restricted sense. This was due to resources being redirected into investment other than those instruments usually included in traditional definitions of monetary aggregates. These were the result of the increase in corporate bond issues at rates offering premiums over PRCs, and, to a lesser degree, due to institutional investors sending resources abroad. Moreover, there was more demand for this kind of papers from financial institutions, mainly to comply with their technical reserve requirement. This was due to the reduction in offerings of Central Bank papers, the result of sterilization of foreign exchange operations carried out after announcements of foreign exchange intervention in August. Moreover, due to the changes in the exchange rate, for most of the second half deposits in foreign currency rose significantly every month. The AFPs performed similarly to other economic agents in terms of their investments, except for increasing their positions in foreign corporate bonds after changes in the regulation governing pension fund investment in foreign instruments, which came into effect in April (table 3).

If currency and Central Bank papers are subtracted from M7 and the public sector's time and demand deposits added in, one obtains an indicator reflecting the supply of domestic financing in the banking system (M7B). The ratio resulting from total lending over M7B remained at almost 0.9 during 2001, below its traditional average (1.0), reflecting financial institutions' persistent capacity to increase the supply of funds.

Total credit in 2001 continued to grow, achieving higher average monthly rates during the second half of the year. All components contributed to this growth, which could be associated with trends in both interest rates and the foreign exchange rate. In disaggregate terms, total growth in credit to the private sector continued to be driven primarily by trends in loans to companies, particularly operations involving large amounts. Credits for housing, meanwhile, grew at stable rates during the first half, then

FIGURE 7

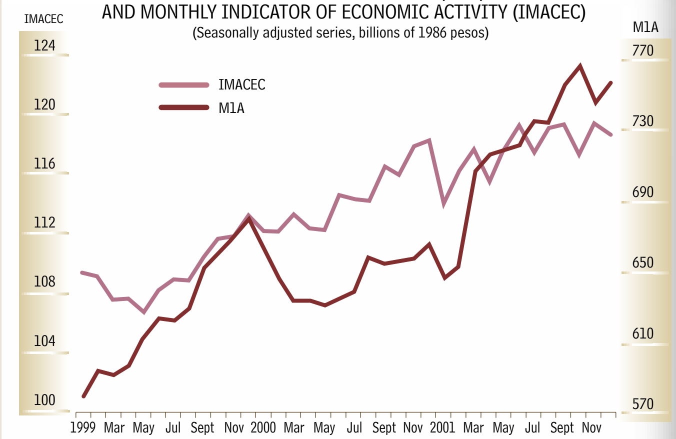
SHORT-TERM PRIVATE MONETARY AGGREGATES
(Seasonally adjusted series, billions of 1986 pesos)



Source: Central Bank of Chile.

FIGURE 8

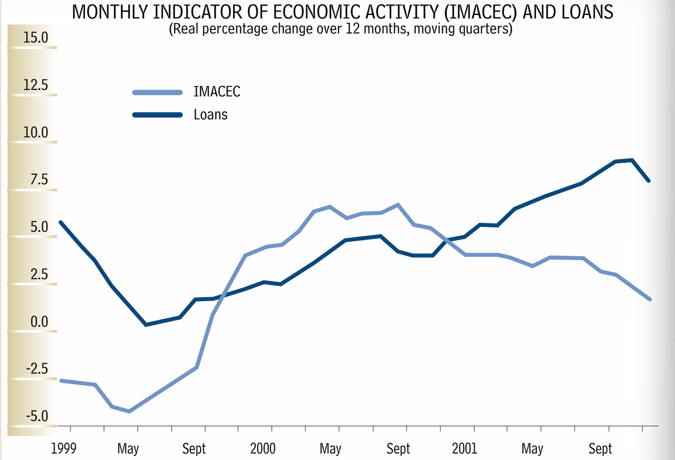
REAL BROAD PRIVATE MONEY (M1A)
AND MONTHLY INDICATOR OF ECONOMIC ACTIVITY (IMACEC)
(Seasonally adjusted series, billions of 1986 pesos)



Source: Central Bank of Chile.

FIGURE 9

MONTHLY INDICATOR OF ECONOMIC ACTIVITY (IMACEC) AND LOANS
(Real percentage change over 12 months, moving quarters)



Source: Central Bank of Chile.

deteriorated in August and September, the result of higher mortgage rates during this period. In later months, however, these loans again reached the growth rates achieved at mid-year. Similarly, after falling consistently from May 2001 on, consumer credits turned around in October thanks to the decline in the unemployment rate and market interest rates (table 4).

Figures reveal that until the end of 2000, there was a strong positive correlation, with a six-month lag, between the performance of loans and economic activity. Since late 2000, however, these variables have tended to behave more independently. In fact, in 2001, loans tended to grow, while annual growth in the Imacec (the indicator measuring monthly rates of economic activity) continued to decline, as it had since the middle of 2000 (figure 9). One hypothesis for this differentiation stems from the fact that foreign debt has increasingly been replaced by larger commitments on the domestic market. Since mid-2000, in fact, short-term private foreign debt has fallen significantly, thus affecting debt in the local financial system. Better conditions on the domestic financial market, given current interest rates and the financial system's tendency to favor those agents with less risk and more solid guarantees have encouraged this trend. This is confirmed by analyzing commercial debt portfolios by tranche and debtor, a process that reveals that a very high percentage of loans (45% of total commercial debt) is located in the tranche involving over UF 500,000.

D.3 EXCHANGE RATE POLICY, REGULATIONS AND TRENDS

In 2001, the peso depreciated by a nominal 16.4% through December, the largest depreciation since the free-floating regime was applied in September 1999. This performance reflected events abroad throughout the year, which were marked by economic instability in the region, terrorist attacks in the US, and a drastic decline in the terms of trade.

In the first half of 2001, expectations about the sustainability of the Argentine economy pointed to the probable failure of the fixed parity system maintained there. Prior to this, financial markets predicted the crisis, with risk indicators on the rise. At the time, there was talk of possible contagion affecting neighboring economies, mainly Brazil and Chile, which led to a strong depreciation and enormous volatility in the neighboring currencies. In this case, the transmission mechanism moves from the sovereign spread to the exchange rate, referred to as the nominal "anchor".[1]

These events, combined with the steady drop in the copper price, strongly affected the peso during the first half of 2001, troubling financial markets. This led the Board of the Central Bank to send out signals of stability to markets by announcing (6 July) the auction of US$1 billion more in the Central Bank's promissory notes in dollars (PRD) during the second half, thus increasing the supplying of foreign exchange hedging instruments. Moreover, and according to the relevant regulation governing market intervention, in mid-August new measures were announced for the rest of the year, increasing auctions of two- to four-year PRD auctions by US$2 billion and directly intervening in the market for up to US$2 billion more.

The impact of these measures and market perceptions kept the exchange rate under the resistance level of 700 pesos per dollar and very sensitive to events next door. Terrorist attacks in the US, however, caused agents to take cover in dollars, pressuring the market and pushing the price over 700 pesos. Once these conditions settled down again somewhat, the source of volatility and peso depreciation was determined solely by the Argentine situation, which peaked in late October. From then on, the pressure on the domestic foreign exchange market eased, allowing for significant peso appreciation toward year's end (figure 10).

Using broad currency baskets, one can see that both the aggregate index (the multilateral exchange rate, *Tipo de Cambio Multilateral* or *TCM*, calculated over all main trading partners) and the indicator based on the five main economies (*TCM5*), show less depreciation than the observed exchange rate, reflecting the dollar's strength again other currencies (figure 11 and tables 5 and 6).

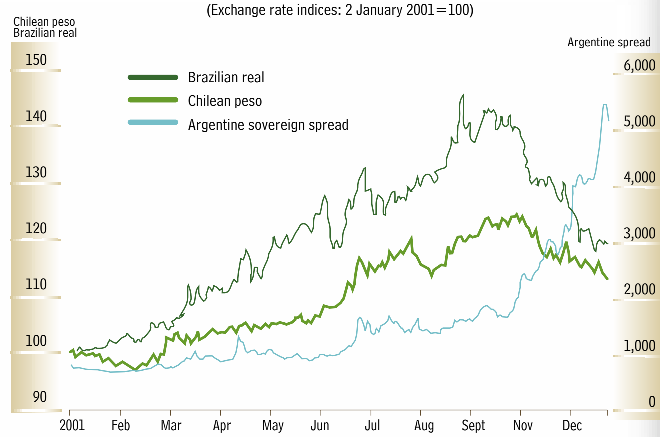
The spread between domestic interest rates (PRC-8) and the relevant rate abroad (US indexed bond, corrected for taxes and sovereign premium) can be interpreted as indicating expectations that the real exchange rate was going to change. During the first quarter of 2001, the positive spread decreased until by mid-year it turned

(1) See Monetary Policy Report, January 2002.

FIGURE 10

CHILEAN PESO, BRAZILIAN REAL AND ARGENTINE SOVEREIGN SPREAD

(Exchange rate indices: 2 January 2001=100)

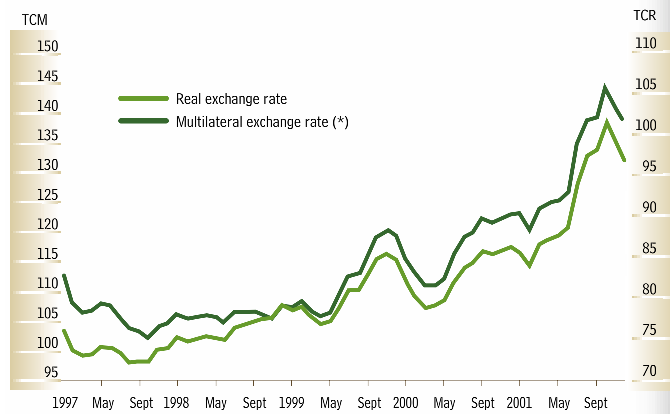


Sources: Bloomberg and Central Bank of Chile.

FIGURE 11

REAL (TCR) AND MULTILATERAL (TCM) EXCHANGE RATES (*)

(Exchange rate indices: TCM 02 January 1998= 100 and TCR 1986=100)

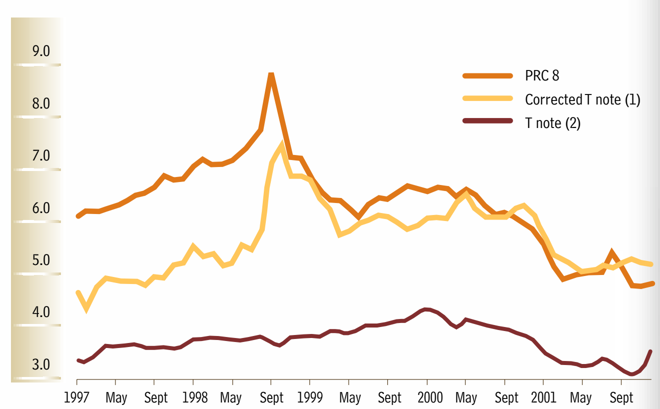


(*) Calculation based on parities of Chile's main trading partners (ordered by relative weight): US, Japan, Argentina, Brazil, Mexico, Germany, Spain, Italy, France, UK, South Korea, Canada, Peru, Holland, Belgium, Colombia, Taiwan, Venezuela and Ecuador.
Source: Central Bank of Chile.

FIGURE 12

DIFERENTIAL BETWEEN REAL LONG-TERM INTEREST RATES

(Percentage)

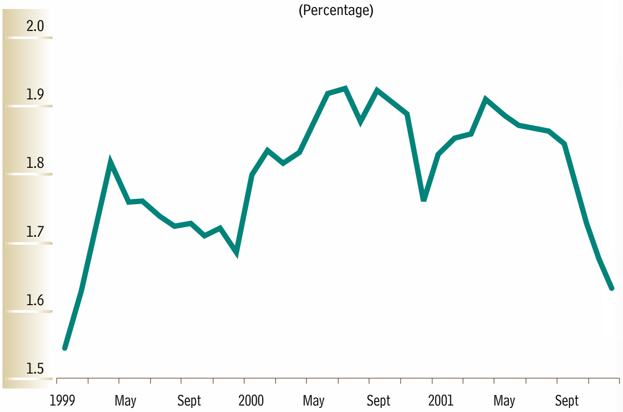


(1) Corrected indexed rate for the US 10-year Treasury bond. Corrected for sovereign spread, reserve requirement and tax on foreign capital profits.
(2) Indexed rate for the US 10-year Treasury bond.
Sources: Bloomberg and Central Bank of Chile.

FIGURE 13

NON-PERFORMING LOANS OVER TOTAL LOANS MATURING EACH YEAR

(Percentage)

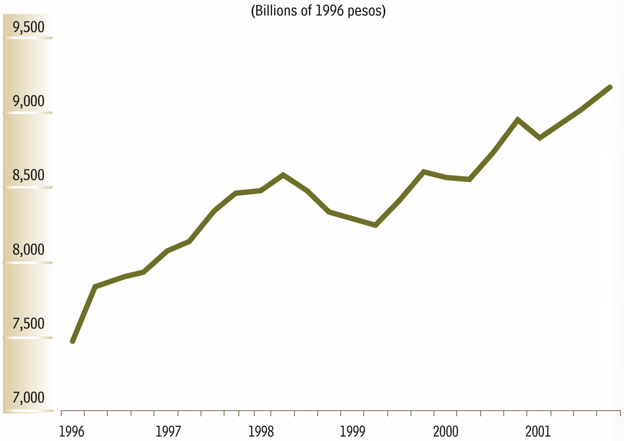


Source: Central Bank of Chile.

FIGURE 14

SEASONALLY ADJUSTED GROSS DOMESTIC PRODUCT

(Billions of 1996 pesos)

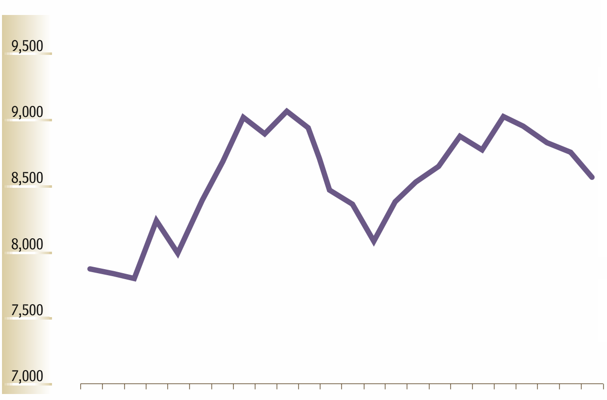


Source: Central Bank of Chile.

FIGURE 15

SEASONALLY ADJUSTED QUARTERLY DOMESTIC DEMAND

(Billions of 1996 pesos)



Source: Central Bank of Chile.

negative, a trend that continued through year's end (figure 12). In aggregate terms, consistently with the expectations that can be deduced from this indicator, the real exchange rate depreciated throughout the year.

D.4 TRENDS IN THE DOMESTIC FINANCIAL SYSTEM

During 2001, credit risk indicators for the financial system improved over the previous year. The bank's non-performing debt fell 2.4% during the year, so that the index for its non-performing portfolio[2] fell from 1.73% in December 2000 to 1.62% one year later, a level comparable to early 1999 (figure 13). The same conclusion can be reached from examining trends in the risk index[3] published by the Superintendent of Banks and Financial Institutions, which in late 2000 stood at 2.08%, compared to 1.9% by last October. As a result of the decline in non-performing loans, excess provisions for this purpose reached a ratio of almost 1.7 times by December, thus offering additional backup in case of future deterioration in the debt portfolio.

Financial system profits in 2001 (US$866 million) represented a 17.7% profit over capital, well up from the previous year (12.7%) and the average for the previous ten years (15.7%). Higher income generated in 2001 was due mainly to higher net corrections and interest and, to a lesser degree, higher commissions and larger price differences. Moreover, the improved quality of the banks' debt portfolio allowed them to reduce spending on provisions by 13% during the year.

The equity solvency indicator for the financial system, known as the Basel index (defined as actual equity over risk-weighted assets) remained at 13%, reflecting a suitable level of solvency, since this indicator is well above the minimum (8%) required by the General Banking Law. It is worth underlining that no bank has posted a solvency index below 10%.

Laws 19,768 and 19,769, published 7 November 2001, represented an important landmark in 2001, because they contain major changes to liberalize and improve domestic capital markets. The set of measures adopted, which deal

(2) Non-performing loans over total loans.
(3) This index estimates losses expected for the lending portfolio as a function of its different risk categories.

with tax and institutional matters, contribute significantly to the further development of these markets by aiding their participation abroad, increasing their liquidity, and providing new financing alternatives. This will primarily benefit investors, be they Chilean or foreign, and companies, which will have more options for accessing capital markets, thus favoring greater integration into world financial systems and the increased diversification of the domestic financial system. The main reforms that came into effect provide exemptions to capital gains taxes; reduce tax on interest for foreign investors; eliminate the capital gains tax for investment in emerging companies; adjust the stamp tax on trade bills; and provide tax incentives favorable to voluntary saving, among others.

E. ECONOMIC ACTIVITY, EXPENDITURE, EMPLOYMENT AND GOVERNMENT

E.1 TRENDS IN ECONOMIC ACTIVITY AND EXPENDITURE

E.1.1 Economic Activity

Increasingly strong economic growth in 2000 faded as 2001 progressed. GDP growth fell from 3.4% during the first half to just 2.2% during the second half of the year, averaging 2.8% altogether (table 7 and figure 14). Domestic demand contracted 0.7% during this period, and continued to decline throughout the year, except for a recovery posted during the third quarter over the previous quarter (table 8 and figure 15). Thus, the gap between domestic expenditure growth and output was slightly positive during the first quarter of 2001 only, and then became increasingly negative throughout the rest of the year (figure 16).

Unlike in 2000, the decline in expenditure was primarily due to a contraction in investment and inventory, while consumption grew moderately throughout the year. External demand, despite volatile financial conditions abroad and worsening prospects for world growth, was the component that drove economic growth throughout the year.

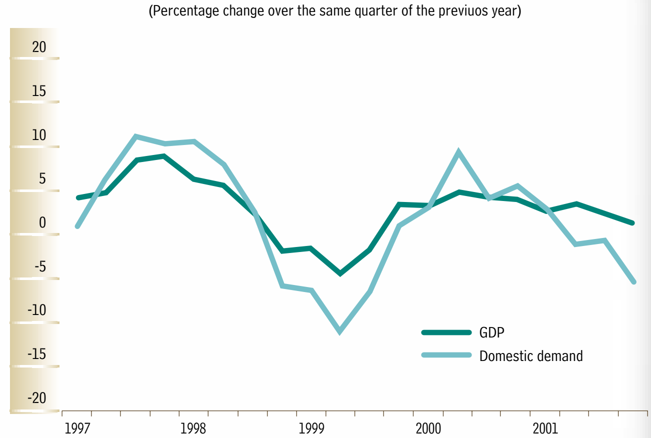
E.1.2 Domestic Expenditure

Gross fixed capital formation posted strong growth, 8.4%, during the first quarter of the year, only to fade to 3.4% and 3.7% during the second and third quarters respectively, before ending the year with a strong contraction of 6.2%, partly due to the high level of

FIGURE 16

GROSS DOMESTIC PRODUCT AND DOMESTIC DEMAND (*)

(Percentage change over the same quarter of the previuos year)



(*) Provisional figures calculated in 1996 pesos.
Source: Central Bank of Chile.

FIGURE 17

COMPOSITION OF GROSS FIXED CAPITAL FORMATION (*)

(Billions of 1996 pesos)

(*) Seasonally adjusted.
Source: Central Bank of Chile.

comparison from late 2000. Accumulated growth reached 2%, which is not enough to recover the rate of investment over output registered in the years prior to the Asian crisis. To date, this rate stands at 22.9% of GDP, close to that of 2000, but well below the more than 27% posted in 1997 and 1998. This tendency for investment to fall is mainly due to the decline over the previous year in the machinery and equipment component, which fell 0.9% during the year (figure 17). Because a significant part of this component of demand comes from abroad, significant peso depreciation in recent years negatively affected this variable.

The component "other" of domestic expenditure, which includes total consumption and inventory changes, grew during the first quarter of the year only, then averaged a –1.5% decline for the rest of 2001. This, despite private consumption, especially linked to regularly consumed goods, which rose in line with GDP, indicating that the decline in this indicator was to a large extent due to waning inventories during this period, particularly during the fourth quarter.

E.1.3 Productive Sectors

The sectors that contributed the most to GDP growth during the year were transport and communication, with 0.4 percentage points, followed by mining, construction, trade and financial services, which each contributed 0.3 points of GDP. Fishing, electricity, gas and water, and the agriculture, livestock and forestry sectors performed well, but their low weight over the total makes them less relevant, with each sector's contribution averaging 0.2 percentage points. Manufacturing made no contribution, given that its growth for the year was –0.3% (table 9 and figure 18).

Manufacturing was the only productive sector that shrank, posting positive results for the second quarter only. This poor performance was especially apparent in the case of durable consumer goods and intermediate goods. The production of capital goods rose strongly, although these weigh less within total manufacturing and therefore proved unable to turn around the poor results posted by other components.

With the exception of manufacturing, the fourth quarter posted the worst results in most sectors, particularly mining, which rose 3.6% for the year; electricity, gas and water, with 7.3% growth; construction, which grew 3.8% over the previous year; transport and communication, which rose 5.9%; and financial services, which rose by 2.6% (table 9).

Other sectors performed more evenly throughout the year. this was the case of agriculture, livestock and forestry, which rose 4.7%; fishing, which performed well for the second year running, growing by 12.2%; and trade, which rose by 3%.

Despite the low relative weight of each of these components, other sectors contributed 0.6 percentage points to GDP in 2001. This was mainly due to the fact that as an aggregate they weighed more heavily on the total, thanks to their steady, if moderate strength, with the exception of import duties, which fell by –1.0%.

E.1.4 Income and Saving

The 2.8% increase in output brought with it a change in real, disposable gross national income of 0.5%, due to net outflows of factor payments (profit remittances and interest payments) and the impact of the decline in the terms of trade that occurred during this period.

Similarly, the fact that private consumption, measured at current prices, rose by 4.2% made it possible for gross national saving to reach 19.6% of nominal GDP, still down from the previous year. Gross capital formation fell by 4.0%, with external saving thus reaching 1.1% of GDP (calculated at current prices), less than the 1.8% of GDP posted the previous year.

E.2 EMPLOYMENT AND UNEMPLOYMENT

Consistently with the Chilean economy's limited growth and the decline in the world economy, employment did not perform well during most of 2001. The number of those occupied rose 0.3% over the previous year, mainly due to government employment programs. In fact, if these are excluded, employment tended to decline throughout the year. Despite weak job creation, and as a result of the decline in growth of the work force, unemployment (9.1%) was down slightly for the year. The year's unemployment rate bottomed out in the fourth quarter, reaching 7.9%, which was also its lowest level since February 1999, due mainly to seasonal factors (figure 19 and table 10).

Employment trends were associated with a strong decline in Agriculture, hunting and fishing (-4.4%), which accounts for 14% of total employment. Thus employment in this sector fell on average for the year and rose in the fourth quarter only, thanks to positive seasonal effects. In contrast, manufacturing and trade, which played an important role in job creation in 2000, stagnated from mid-2001 onward. Construction, one of the main components of total employment, rose only slightly, due to the pace of investment in the sector, associated with better financing conditions.

E.3 GOVERNMENT SPENDING

In 2001, the government's accounts posted a deficit of –0.3% of annual GDP, close to the deficit projected by the 2001 national budget (0.1% of GDP), which had been officially estimated during the year (0.5% of GDP). In contrast, the structural surplus reached its objective of 1% of GDP, doing better than previously expected (0.9% of GDP). Public expenditure with macroeconomic impact for the year rose 5.2% in real terms, representing the spending of 99.8% of the budget approved for 2001.

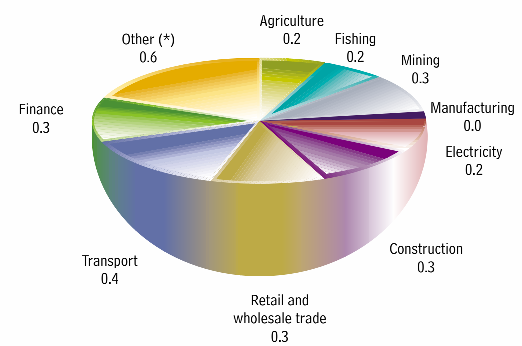
Better fiscal results were due to a significant increase in revenue, particularly from taxes, the result of less evasion and differences in trends affecting tax base deflators and the CPI, as well as those from copper. Moreover, the higher exchange rate used to convert to pesos had a positive net effect on public finance, because the central government has a surplus in dollars. Higher income due to transfers and other revenue went to financing a prepayment of interest on debt with the Central Bank, thus leaving the 2002 budget totally financed.

Overall, public finances played a counter-cyclical role in 2001, thus serving to cushion the impact of unfavorable conditions abroad and weak private expenditure on the Chilean economy.

FIGURE 18

PRODUCTIVE SECTORS' CONTRIBUTION TO GDP GROWTH IN 2001 (BASE 1996)

(Percentage of total growth)

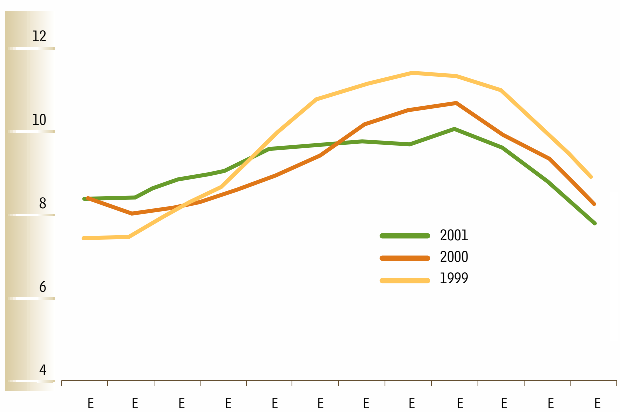


(*) Other: Home ownership, personal services, public administration, bank charges, VAT and import duties.
Source: Central Bank of Chile.

FIGURE 19

NATIONAL UNEMPLOYMENT RATE

(Moving quarterly average)



Source: National Statistics Bureau.

F. BALANCE OF PAYMENTS, INTERNATIONAL RESERVES AND FOREIGN DEBT

As of 31 December 2001 there was a deficit of US$407 million in the balance of payments. This was the result of a US$903 million deficit in the current account, a surplus of US$720 million (excluding reserves) in the capital account, and negative errors and omissions of US$224 million (table 11).

F.1 CURRENT ACCOUNT

The current account for the year showed a US$903 million deficit, 1.4% of GDP, similar to the previous year's figure. There was a surplus in the trade account, which was up by 8.8% over the year, with 34% growth in the services account compared with 2000. Returns in the financial services account (investment revenues) were lower, because net income on foreign investment was only partially offset by external investment income, which was lower than the previous year. The account was also affected to a lesser extent by an increase in net interest paid, because of lower interest on international reserves due to lower rates during the year.

The trade surplus totaled US$1.563 billion, with exports reaching US$17.440 billion and imports US$15.877 billion. The surplus was US$127 million higher than in 2000, while exports were down 4% and imports down 5.1%. A decisive factor was the 11.6% drop in export prices, due to the depressed performance in the world economy. However this was largely offset by 8.6% growth in export volume. Imports were affected by slow growth in domestic demand and fell by US$845 million over the year, performing particularly poorly in the final quarter (table 12).

The significant depreciation of the real exchange rate in recent years strongly boosted volume growth of non-traditional exports, which rose by 14.6% in 2001, whereas traditional non-copper exports grew by about 7%. Prices in both groups fell, however, by around 12% over the year. Copper prices showed a similar fall, and revenues were down by 8.2%, although volume rose by 4.3%. Among non-traditional export goods, there was strong growth in shipments of food products such as salmon, trout, wine, dried vegetables and fruit, fruit juice, tomato paste and juice; and in industrial goods such as wood chips and boards, boric acid, potassium nitrate and copper wire (table 13).

In terms of markets, sales to Asia were down by US$1.008 billion because of lower exports to Japan, South Korea and Taiwan, but this was partly offset by higher shipments to the United States (up US$213 million over 2000), and Europe (up US$81 million, due to higher sales to the UK, Holland and Germany). Sales to Latin America remained stable; major falls in exports to Brazil and Argentina were partly offset by increased sales to Ecuador and Venezuela.

Import spending (cif) to December was down by 4.7% over 12 months, with lower imports of all types of products but particularly consumer (down by 7.0%) and intermediate goods (down by 4.9%), the latter due mainly to lower oil prices. The other groups fell less sharply; intermediate non-fuel products were down by 2.9%, and capital goods by 2.1%. Overall, foreign purchases dropped by an average 3.9%, with fuel products falling by 10.6%. In terms of volume only capital goods imports increased, slightly (0.5%), while consumer goods dropped by a solid 3.6%.

Current account items other than goods (services, revenues and transfers) registered net outflows of US$2.466 billion in 2001. The service account posted a deficit of US$369 million, a US$189 million improvement over 2000, mainly due to higher income from trade in goods and tourism. Spending on the latter was down nonetheless, due to the higher cost of the dollar (table 14).

Net financial services (investment revenues) registered a higher deficit (US$145 million) than the previous year, due to higher net outflows on interest payments and, more significantly, higher profit repatriations. Net income on foreign investment rose slightly, while net income from investment abroad fell, producing a net deficit. Better performance this year in the electricity and financial sectors was the main reason for these results; these offset lower profits in mining due to lower copper prices. Net income from investment abroad in 2001 fell by 15% as a result of the weaker world economy and particularly in Argentina.

Net interest payments remained stable at 2000 levels. The benefit of lower external debt payments, with a fall of 1.6 percentage points on the relevant rates, was wiped out by the lower interest paid on international reserves, due to lower world rates (table 15).

F.2 CAPITAL ACCOUNT

The capital account, excluding reserves, showed positive net inflows of US$720 million, mainly the result of capital flows of US$493 million in the third quarter. Unlike the movements in 2000, most financing was medium- and long-term — direct foreign investment, bond issues and bank assets — while short-term capital inflows, particularly net portfolio investments (excluding bonds), credit lines and private sector assets, were negative (table 11).

Net direct investment was negative in 2000, but this trend was reversed in first-half 2001, mainly due to substantial foreign capital inflows, through DL 600, in the first quarter, to purchase local companies (table 16). Outflows for direct investment abroad were down from 2000, plunging in the second quarter to recover somewhat in the third and fourth quarters. Unlike previous years, net investment flows to Argentina were negative (minus US$121 million).

Net portfolio investment was positive, and levels of investment both to and from outside markets were substantially higher than in 2000. Major bond issues in international markets in the second, third and fourth quarters had an impact on net inflows in this category. The Government of Chile placed a sovereign bond issue internationally during the fourth quarter. Portfolio investments abroad were substantially higher than in 2000, following asset sales by national companies, which made adjustments possible in the investment portfolios of pension funds and other institutions. These shifted toward larger investments abroad, producing a significant outflow in the first quarter.

Net flows of other capital, excluding direct and portfolio investment, were positive (US$84 million), thanks to net inflows in the fourth quarter of both medium- and short-term investments, which balanced the negative flows in the first nine months of 2001.

Inflows of medium- and long-term capital associated with foreign credits were negative (-US$415 million), due to substantial amortization payments, specifically pre-payments, in the second and third quarter. Credit disbursements were lower than in 2000 and thus did not counter-balance these outflows.

Net inflows of short-term capital, although positive over the year, varied by component. Thus trade-related inflows were positive, particularly in the third and fourth quarters, with substantial export revenues, but credit line and asset flows were negative. While the banking sector increased its use of credit lines significantly, the rest of the private sector reduced its borrowing considerably, each thus returning to more customary financing levels.

Short-term assets generated capital outflows of US$178 million, the product of financial system revenues, particularly in the first half of the year, and outflows from the rest of the private sector. From 2000 onward the banks began to reverse the major negative outflows that occurred in 1999, due to their increased foreign asset positions following significant inflows of currency generated by the sale of companies in Chile. The short-term assets of the rest of the private non-financial sector increased over the period, reflecting greater interest in investment abroad.

F.3 INTERNATIONAL RESERVES

International reserves totaled US$14.226 billion as of 31 December 2001, down from US$515 million compared to the same period in 2000. The figures reflect the US$407 million deficit in the balance of payments, and a negative accounting revaluation of US$108 million, mainly due to foreign currency fluctuations against the dollar (table 17).

To maintain adequate liquidity in the investments that make up the international reserves, the Central Bank of Chile manages a portfolio consisting mainly of fixed income securities with a broad secondary market, and short-term bank deposits with a spread of maturities. As of 31 December 2001 fixed income securities represented 47% of the reserves, and term deposits 48.7%. The remainder is managed in a separate account with US dollar resources for immediate needs, a reserve position in the IMF, and gold.

Maintenance of the capital invested is based on management policies for credit risk, markets and operation. Credit risk is limited by the choice of issuers, which are exclusively sovereign, supra-national and top-flight international banks, and also by diversifying the amounts invested. In 2001 only countries and institutions with long-term risk ratings from the main international risk classification agencies of between "AAA" and "AA-" and "AAA" and "A-" were considered. Market risk is limited by diversifying currencies, securities and maturities, and is evaluated in terms of portfolio duration and the values at risk (VaR). At end December 2001 total duration of the reserves was 18.5 months and the absolute VaR was 0.3%. Operating risk is reduced by a proper separation of functions and responsibilities, and by internal monitoring.

F.4 FOREIGN DEBT

Foreign debt totaled US$37.790 billion as of 31 December 2001, up US$941 million from December 2000. Private sector debt accounted for 85% of the total, and the public sector for the remaining 15% (table 18).

Gross disbursements of medium- and long-term credits totaled US$5.666 billion in 2001, an increase of 15% compared with the same period in 2000 (US$4.942 billion), table 19. The bulk, US$4.378 billion, 77% of the total, went to the private sector. The main recipients, by economic sector, were electricity (24%), mining (17%) and wood manufacturing (13%).

Main sources of foreign finance in 2001 were international financial institutions, which lent 43% of the medium- and long-term resources. Bond issues represented another 34%, companies associated with foreign investment and suppliers, 15%, and multilateral and governmental organizations, 8%.

Amortizations of medium- and long-term foreign credits over 2001 totaled US$4.555 billion, of which US$836 million represented public sector, and US$3.719 billion, private sector repayments. Of the total, 65% were made to international financial institutions, 19% to companies associated with foreign investments and suppliers, 9% to bond redemptions, 4% to multilateral organizations, and 3% to governmental organizations.

Foreign debt with a 12-month residual maturity totaled US$6.463 billion as of 31 December 2001, accounting for 17% of total debt. This was an increase of US$61 million compared with December 2000, and is due to net amortizations for US$469 million in foreign credits with an original term of up to one year, and to a US$530 million increase in the programmed maturities of medium- and long- term debt.

G INFLATION AND WAGES

G.1 INFLATION

In 2001, the CPI rose over the year through December by 2.6%, just below the mid-point of the Central Bank's target range. Lower inflation, compared with 2000, was due to several factors. International oil prices were lower than the previous year, despite some specific increases, and there was thus less pressure on domestic fuel prices and transport. Continuing weak domestic demand meant further cuts in sales margins, which helped ensure potential cost pressures due to the peso depreciation were not passed on, to any major degree, in prices (tables 20 and 21).

Underlying inflation, (CPIX), which excludes the effect of prices of perishable goods and fuel, rose by 3.2% in 2001, just below the figure for end-2000. This indicator shows up the weakness of demand particularly in the first half of the year, when it stood at less than 3%. As the peso weakened further in the second half of the year core inflation rose, although remaining at levels consistent with the Central Bank target (figure 20).

Significantly, the major depreciation of the peso over the past two years has not translated into substantially higher inflation. This may be because inflation expectations have held steady around the target, so the impact of the higher dollar on costs has not pushed prices upward to produce a persistent impact on overall inflation. It may also be that tougher competition in distribution markets has squeezed trading margins, which have also been affected by weak domestic demand. More competition has also conditioned access to relatively cheaper markets (China or Brazil), which has brought down import costs. Further, as apparently occurs in other economies with similar economic models, the transfer coefficient is substantially lower compared with what might be expected were there not a credible inflation targeting scheme.

Inflation in non-tradables (CPIN) rose most over the year, by 3.8% (figure 21), driven by regulated services, which registered the impact of the higher exchange rate. Tradables (CPIT) rose by 1.4% over the year (figure 22). Although this was below the increases in 2000, due to lower fuel prices, the corrected indicator (CPITX) shows an increase from -0.9% in 2000 to 2.2% in 2001. Peso depreciation had less impact on this indicator, and in fact prices of products with a higher import component (durables and clothing) fell rather than rose, although to a lesser extent than in previous years (figure 23).

Although there were difficulties over the year, wholesale prices rose by only 3.1% for the year, considerably below their performance of the previous year. Imported goods again accounted for much of the increase, rising by 10.2% over the year, as the higher exchange rate is passed on almost completely, in a proportion of one to one. Domestic goods included in the Wholesale Price Index (WPI) rose by only 0.8%, influenced in part by lower oil refining prices. (The Oil Stabilization Fund band does not reduce the impact of this factor.) An indicator of wholesale prices of goods and services included in the CPIX (47% of the original WPI basket) shows annual rates of growth below the level of the aggregate index, and a slight downward tendency in relation to consumer prices.

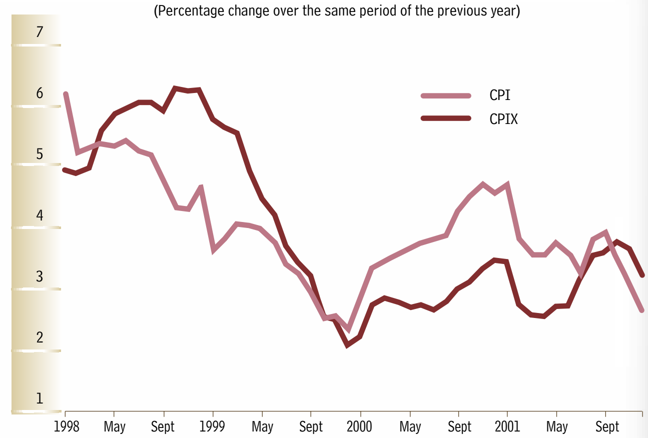
G.2 WAGES

Nominal wages measured by the hourly wage index and the labor cost index showed a nominal rise of 5.3% in both cases toward the end of 2001, which is generally in line with inflation and with the higher productivity registered over the year. Labor costs, which include bonuses and other non-wage benefits, grew more than in the previous year, which suggests non-wage components increased this year.

FIGURE 20

CPI AND CPIX INFLATION

(Percentage change over the same period of the previous year)

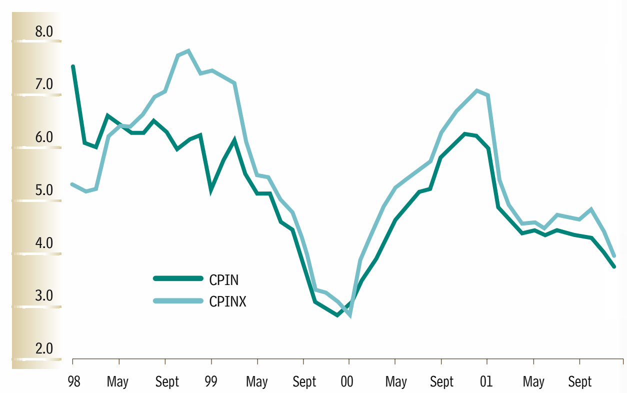


Source: National Statistics Bureau.

FIGURE 21

NON-TRADABLE CPI (CPIN) AND UNDERLYING NON-TRADABLE CPI (CPINX)

(Percentage change over the same period of the previous year)

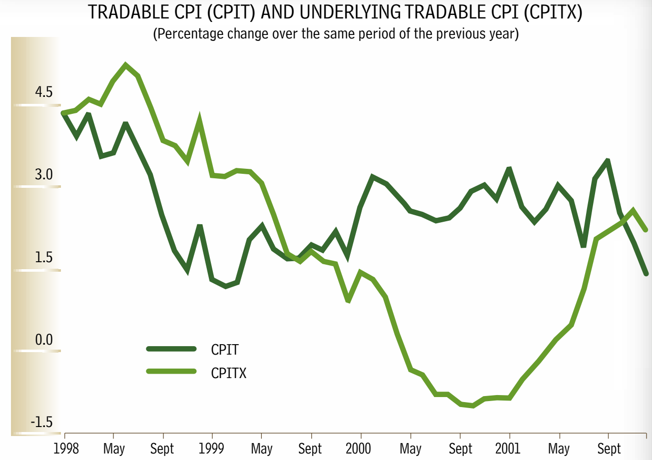


Sources: National Statistics Bureau and Central Bank of Chile.

FIGURE 22

TRADABLE CPI (CPIT) AND UNDERLYING TRADABLE CPI (CPITX)

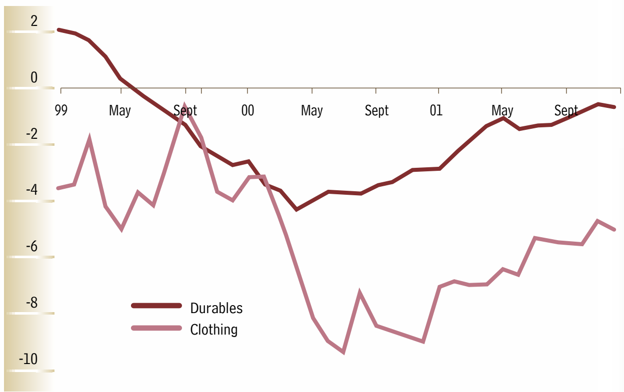
(Percentage change over the same period of the previous year)



Sources: National Statistics Bureau and Central Bank of Chile.

FIGURE 23

PRICE OF DURABLE GOODS AND CLOTHING INCLUDED IN THE CPITX
(Percentage change over the same period of the previous year)



Source: Central Bank of Chile.

Lower inflation during the year meant real wage growth, at 2.6%, was considerably higher than in 2000, but this 12-month rise was entirely absorbed by higher labor productivity and posed no major threat of inflation. Nominal unit labor costs showed an upward trend from mid-2001 onward, as job growth in the first months of 2001 was not balanced by the productivity increases of previous years.

Information from the Labor Bureau on initial real increases in collective bargaining agreements in 2001 shows a lower growth curve than in 2000, except in the case of the second quarter. Wage agreements averaged 0.75% in the first quarter, 1.04% in the second, 0.42% in the third and 0.52% in the fourth (tables 22, 23 and 24).

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

H.1 BALANCE STRUCTURE

The composition of the Central Bank's assets and liabilities reflect the main features of macroeconomic performance and management over the past two decades. The financial crisis at the beginning of the eighties produced assets in fiscal promissory notes, subordinated debt and deferred losses. The stronger balance of payments following the exchange rate movements in this period, combined with a policy of trying to hold back peso appreciation during the nineties, produced substantial international reserves. To provide non-inflationary financing for these assets the Central Bank issued promissory notes, which make up the bulk of its liabilities (table 25).

Now, with an institutional framework that supports consistently balanced fiscal accounts in the medium- and long-term, with prudent regulations and modernized capital markets, and with a floating exchange rate regime, the balance structure should change radically, to show relatively lower international assets, and domestic credit financed mainly by a non-inflationary expansion of the monetary base, and with equity. However, given the high volume of past investments and liabilities, which represent approximately ten times the balance of the monetary base, this structural change could take several decades.

Renewed pressure on the exchange rate in the second half of 2001 reflected the impact on the Chilean economy of an imminent default in Argentina. The Central Bank opted to replace approximately US$3 billion of PRBCs (short-term debt of up to one year indexed against domestic inflation) with PRDs (two- to three-year debt indexed to the exchange rate). In September and October, when the dollar rose above 700 pesos, suggesting a market overreaction, the Central Bank intervened more actively, selling off some US$750 million of its foreign currency reserves. During the year it also made net withdrawals of approximately US$400 million of public funds in foreign currency, which was partially offset by a surplus in its other foreign currency operations. These included interest earnings on foreign currency reserves and dollar-denominated fiscal promissory notes, which jointly totaled close to US$1 billion. The year closed, finally, with a US$3.1 billion reduction in the mismatch in foreign currency (from US$17.3 billion to US$14.2 billion). The mismatch, and the 14.6% rise in nominal exchange rates over the year to December, had a major impact on the equity balance sheet, which finished the year in surplus by 250 billion pesos, compared with the deficit of more than 715 billion pesos at the beginning of the year.

Foreign currency reserves over total assets fell from 54.3% to 53.8%, thus partly offsetting the fall in dollar terms due to corrections for the higher exchange rate. The percentage of fiscal promissory notes remained stable at 26% of assets, due to accrued interest and indexing factors, but these were partially offset by the government's regular servicing of this debt. Other government-related assets fell as a percentage of assets from 3.3% to 3.1%, mainly because they remained practically unchanged in the context of a general increase in the nominal values of total assets. The relative weight of subordinated debt assets fell slightly, from 8.0% to 7.9%. The fall as a result of current debt servicing was offset by the higher market value of Banco de Santiago shares held by the Central Bank, which are included in this item.

The drop in the relative weight of deferred losses (activated) from 5.2% to 3.2% was due to a write-off, covered by 2001 profits of 132 billion pesos, and by a charge of 106 billion pesos against the price increase of Banco de Santiago shares held by the Central Bank, noted above. The substantial rise in credit liquidity operations and repos, from 0.2% to 3.8% of total assets, resulted from the monetary policy implemented during the year.

In terms of liabilities, promissory notes remain predominant, rising from 74.6% to 76.2% of the total last year, reflecting a partial sterilization of expanding short-term credit. The public sector deposit share fell from 8.6% to 6.9%, partially due to the servicing of fiscal promissory notes and withdrawals from the Copper Compensation Fund. Emission's share rose from 10.5% to 11.1%.

H.2 ASSET YIELDS, LIABILITY COSTS AND EQUITY TRENDS

International interest rates are the main factor in average asset yields, while the relevant indexing generally depends on the movement of the nominal exchange rate. In 2001 the average weighted indexing factor on assets was 10.6%, as a result of the following factors: the 14.6% nominal annual rise in the observed rate for the dollar, which was partly offset by the devaluation of other currencies against the dollar; the 132 billion peso amortization of deferred losses, noted above; and the rate of domestic inflation (2.6%), which affected indexation of most peso assets. Basically, lower international interest rates meant average weighted asset yields from interest payments fell by 5.3% in 2000 to 4.5% in 2001.

The average weighted cost of interest paid on liabilities, which consist mainly of promissory notes, was 5.7%, down from 6.1% in 2000, reflecting mainly the general fall in both domestic and foreign interest rates. The average indexation of liabilities, including those in foreign currency and the monetary base, was 3.1%, as against 4.7% in 2000. The fall was due to lower inflation, and also to the higher proportion of non-indexed debt. The difference between liability costs and asset yields due to interest was 1.2%, compared with 0.8% in the previous year. Interest losses were more than offset by a 7.5% increase in asset indexation over liabilities.

Financial earnings posted in 2001 thus rose to 1,009 billion Chilean pesos, made up as follows: 1,171 billion pesos in net income from indexation and other price variations; 22 billion pesos in net income from the devaluation of the equity deficit; and 184 billion pesos in net losses on interest payments. Other results showed net losses of 21 billion pesos (3 billion earnings in currency operations, and 24 billion in other net costs and losses). The annual result was a net gain of 988 billion pesos, reversing the loss of 715 billion in 2000, and producing a final surplus of 250 billion pesos by December 2001. Deferred losses worth 558 billion pesos remain to be amortized.

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 47% in real terms, from 38.372 billion pesos in 1992 to 20.330 billion pesos in 2001, expressed in 2001 pesos (table 26).

Personnel expenditures fell 5.2% in real terms over the past five years, going from 14.15 billion in 1997 to 13.415 billion in 2001, the result of a gradual reduction in staff, along with the growing professionalization of the Bank. In fact, total staff of the Central Bank fell by 14.5% from 1997 to 2001, going from 650 staff members in 1997 to 556 in 2001. 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 1997-2001 fell by 4.1% in real terms, going from 5.288 billion pesos in 1997 to 5.069 billion pesos in 2001. This was mainly due to policies established to make procedures more efficient and a suitably controlled spending level.

The real increase in 2001 over 2000 was due to the need to keep technology suitably up-to-date and to improve upon some of the Bank's essential services. Administration expenditures include basic services; general services; information services; maintenance of fixed asset goods; consulting; surveys; studies and seminars; and spending on computers.

Depreciation, amortization and write-offs also fell, by 24.8% in real terms, between 1997-2001, going from 1.810 billion pesos in 1997 to 1.362 billion pesos in 2001. These amounts correspond to depreciation of fixed asset goods.

Finally, taxes, contributions and payments for 1997-2001 fell by 5.6% in real terms, going from 512 million pesos in 1997 to 483 million pesos in 2000, the result of changes in the dollar exchange rate, which affected disbursements in this currency.

APPENDIX 2

PRESS RELEASES FOLLOWING MONETARY POLICY MEETINGS IN 2001

18 JANUARY

At its regular monthly meeting on monetary policy, held today, the Board of the Central Bank reduced the monetary policy interest rate by 25 basis points, from UF + 5.0% to UF + 4.75%. The tranches of the liquidity credit line were also cut by 25 basis points.

As usual, at the meeting the Board analyzed recent trends in the economy and prospects for the next 24 months.

The information examined suggested that the world economy is facing a more pronounced slowdown than originally forecast. This has generated a less favorable climate for Chile's economic growth and less inflationary pressure in the country. These effects are only partly offset by a probable reduction in external financing costs.

Domestically speaking, forecasts for growth in private consumption have been corrected downward and there are no signs of a quicker recovery in employment, while consumer confidence remains depressed. Despite a better performance from investment, altogether these conditions point to more moderate domestic expenditure and as a result less inflationary pressure.

These factors led the Board to cut the monetary policy rate by 25 basis points. This decision is consistent with inflation projections, which gradually converge on the center of the target range within the horizon projection.

The Central Bank will continue to apply monetary policy with the flexibility that current circumstances demand, to deal satisfactorily with any movement in inflation away from the established target.

20 FEBRUARY

At its monthly meeting on monetary policy today, the Board of the Central Bank decided to reduce the monetary policy interest rate by 25 basis points, from UF + 4.75% to UF + 4.5%. The tranches of the liquidity credit line were also cut by 25 basis points.

As usual, at the meeting the Board analyzed recent trends in the economy and prospects for the next 24 months.

In recent weeks, this year's projections for world economic growth have been corrected downward, so lower interest rates are expected in the relevant markets. This probable reduction in external financial costs has been further supported by a decline in the country's sovereign spread. Recent peso appreciation is associated with this information.

Domestically speaking, economic activity has grown at a stable rate, compatible with projections for this year, despite the volatility of monthly indicators. Inflation, on the other hand, is expected to reverse the rising trend apparent since last year and, starting in the third quarter, move back into the target range.

Consequently, a scenario with less inflationary pressure is likely for Chile. Financial markets have a similar reading, so interest rates for every maturity have fallen compared to last January.

This information was behind the decision to reduce the monetary policy rate by 25 basis points. This decision is completely consistent with inflation projections indicating that inflation should gradually move toward the center of the target range, within the projection horizon.

The Central Bank will continue to apply monetary policy with flexibility to deal satisfactorily with any movement in inflation away from the established target.

2 MARCH

At a special session held today, the Board of the Central Bank decided to reduce the policy interest rate by 50 basis points, from UF + 4.5% to UF + 4.0%. The tranches of the liquidity credit line were also cut by 50 basis points.

The Board has concluded that the latest figures for inflation, economic activity and employment confirm the likelihood of a scenario characterized by less inflationary pressure, as projected by the Monetary Policy Report last January.

The Central Bank will continue to apply monetary policy with flexibility to deal satisfactorily with any movement in inflation away from the established target.

15 MARCH

At its monthly monetary policy meeting today, the Board of the Central Bank decided to maintain the policy interest rate at UF + 4%. The tranches of the liquidity credit line also remained the same.

The Board, as usual, analyzed recent trends in the economy and prospects for the next 24 months.

Economic information for the past two weeks since the special 2 March meeting has confirmed the diagnosis realized at that time. Thus, the current rate is consistent with keeping inflation within the target range and its moving toward 3% per year over the policy horizon (12 to 24 months).

The Central Bank will continue to apply monetary policy with flexibility to deal satisfactorily with any movement in inflation away from the established target.

10 APRIL

At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 4% to UF + 3.75%. The tranches of the liquidity credit line were also cut by 25 basis points.

The Board has decided that the consolidation of a scenario characterized by slow growth in domestic expenditure and deceleration of the world economy will continue to compress inflationary pressure. In this context, a lower monetary policy rate like this one is consistent with inflation moving toward 3% per year over the 12- to 24-month horizon usually applied.

Given greater uncertainty apparent at international and regional levels, as well as developments in the domestic economy, the Central Bank will apply monetary policy with the flexibility necessary to deal with any movement in inflation away from the established target.

10 MAY

At its monthly monetary policy meeting today, after analyzing recent trends in the economy and prospects for the next 24 months, the Board of the Central Bank decided to maintain the policy interest rate at UF + 3.75%. The tranches of the liquidity credit line will also remain the same.

Medium-term inflationary pressures remain contained. Despite short-term fluctuations, inflation is expected to remain near the center of the target range (3% per annum) over the usual horizon, assuming that the current monetary policy rate is maintained. This is the result of a more moderate than expected trend in domestic expenditure than originally forecast, but remains consistent with stronger growth in economic activity from the second half of the year onward.

After considering the risks involved, both externally and domestically, the Central Bank will continue to apply monetary policy with the flexibility necessary to deal with any movement in inflation away from the established target.

12 JUNE

At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 3.75% to UF + 3.5%. The tranches of the liquidity credit line were also cut by 25 basis points.

The economy is growing somewhat more slowly than forecast in the May Monetary Policy Report; inflation remains under control and is tending to fall; unemployment has risen slightly; while import figures remain weak.

Financial and monetary indicators show signs of an increase that suggests some recovery in expenditure and economic activity toward the second half. Nonetheless, inflation should fall below 3% over the projection horizon, thus forming the basis for the decision to reduce the monetary policy rate.

The Central Bank will continue to apply monetary policy with the flexibility necessary to deal with any movement in inflation away from the established target.

12 JULY

At its monthly monetary policy meeting today, the Board of the Central Bank decided to maintain the policy interest rate at UF + 3.5%. The tranches of the liquidity credit line also remained the same. This decision was the result of an analysis of recent trends in the economy and prospects for the next 24 months.

In essence, the domestic macroeconomic scenario has not changed significantly from that of last month, despite the poorer conditions for world growth and the terms of trade. In this context, demand is expected to pick up during the second half, but inflationary pressures remain under control, within the target range. The Central Bank will remain alert to respond to any movement in inflation away from the established target.

In recent weeks, turbulence in emerging countries' financial markets has grown, having an unusual impact on the country's foreign exchange market. The Board has concluded that given the solid fundamentals supporting the Chilean economy, these effects are essentially temporary. Nonetheless, the Central Bank will follow events in financial and foreign exchange markets closely, in order to apply its policy instruments with flexibility, as per its objectives.

9 AUGUST

At its monthly monetary policy meeting today, the Board of the Central Bank decided to maintain the monetary policy rate at 6.5% per annum. The tranches of the liquidity credit line will also remain the same, at levels announced last 26 July. It should be noted that this nominal rate represents the same monetary policy level as the previous rate of UF + 3.5% per annum.

Inflation is likely to remain within the target range. Similarly, the likelihood of more growth in economic activity during this half of the year compared to the first half has consolidated, with solid external accounts. This, despite the fact that the terms of trade have fallen even further than some months back, the result of a world economy that is growing at less than forecast, with less promising medium-term prospects than some time back.

Persistent financial turbulence in several Latin American countries has contributed to pressure on our foreign exchange market, although an important part of recent peso depreciation responds to conditions in the world's economy and the to date weak performance of domestic expenditure.

The Central Bank will follow events in foreign exchange and financial markets closely, along with developments affecting other macroeconomic variables, in order to apply its policy instruments flexibly to deal with any fluctuations in inflation projections with regard to the established target in a timely fashion.

6 SEPTEMBER

The Board of the Central Bank decided to maintain the monetary policy rate at 6.5% per annum during its monthly monetary policy meeting, held today. The tranches of the liquidity credit line also remained the same, at levels set by the previous meeting.

The prospects for inflation over the next 12 to 24 months remain within the target range, although there will be some tendency for it to rise over the next two or three quarters, before falling toward 3% during the second quarter of 2003. Similarly, there are some signs that suggest greater economic growth toward the fourth quarter of this year, compared to the first half, despite an unfavorable external environment. External accounts look solid this year and next, despite a significant drop in our terms of trade.

Strong peso depreciation in recent months, due to both the difficult financial situation affecting neighboring countries and the deteriorating world economy, will help to control any tendency for prices to rise. This will temporarily affect inflation, which in any case will remain within the target range. What is more, it is very likely that this effect will fade and inflation will move toward 3% in less than 18 months. Nonetheless, it is essential to closely watch inflation in the coming months, so that the market's medium-term expectations in this regard remain within this range and anchored to the center of the target range.

The Central Bank will follow events in all relevant markets closely, in order to apply its policy instruments with flexibility to ensure the stability of prices.

9 OCTOBER

At its monthly monetary policy meeting today, the Board of the Central Bank decided to maintain the monetary policy rate at 6.5% per annum. The tranches of the liquidity credit line will also remain the same, at levels set by the previous meeting.

After September's events, a recession in the US became even more likely. This combined with greater uncertainty about how quickly and when the opportunity would arise for the world's economy to return to trend growth rates, with the available projections ranging widely. Consensus projections suggest that Chile's trading partners will growth around one percentage point less toward the end of 2002.

The impact of this new reality on the Chilean economy can be seen in lower demand for the country's exports and a decline in the terms of trade that is greater than forecast in the September Monetary Policy Report. Although lower international rates are also expected, their favorable effect on the credit costs that Chile faces will only partially offset the negative impact of lower world growth. For these reasons, the Board decided that the Chilean economy will grow somewhat less this year and particularly in 2002, reaching around 3% to 4%, before resuming higher growth rates in 2003.

This worsening scenario for the world's economy has been joined in recent weeks by a return to financial vulnerability in neighboring economies. This has put more pressure on the Chilean peso, whose value had already declined given the new international outlook. If the peso depreciation experienced in the past 30 days persists, it could represent the threat of higher prices and inflation, particularly next year. This risk, however, will be offset by lower growth projected for domestic expenditure and a lower oil price. Thus, inflation is projected to remain similar to the trajectory forecast in the September Monetary Policy Report. This would keep inflation at around the center of the target range, 3%, as expected, over an eight-quarter horizon.

The Board reaffirms its commitment to stable prices and, consequently, to the target of maintaining inflation at 2% to 4%, centering on 3%. To do so, it will continue to apply its monetary instruments in a timely fashion and with the flexibility necessary to control inflation risks that threaten to push it outside the target range over the normal policy horizon.

Finally, the Board will continue to intervene in the foreign exchange market and to issue promissory notes indexed to the dollar, as it announced on 16 August, to facilitate liquidity in foreign currency and provide the instruments necessary to hedge foreign exchange risk.

8 NOVEMBER

The Board of the Central Bank decided today to keep the monetary policy rate at 6.5% per annum. The tranches of the liquidity credit line will also remain the same, at levels set by the previous meeting.

The latest information confirms the diagnosis that there has been a significant deterioration in world economic conditions.

Domestically, inflation is expected to follow the pattern forecast by the September Monetary Policy Report. Pressures from accumulated peso depreciation have been offset by low projected growth in domestic expenditure and an oil price that remains at very low levels compared to forecasts two months ago. Thus, inflation is expected to perform as forecast, remaining at around the center of the target range, at 3%, over the eight-quarter horizon.

The Board repeats its commitment to stable prices and, consequently, to the target of keeping inflation within the 2% to 4% target range, centering on 3%. To do so, it will continue to apply its monetary policy instruments with flexibility.

13 DECEMBER

The Board of the Central Bank decided today to keep the monetary policy rate at 6.5% per annum. The tranches of the liquidity credit line will also remain unchanged, at levels set by the previous meeting.

The latest figures confirm low growth for the world economy in recent months. Domestically speaking, the likelihood of low inflationary pressure due to peso depreciation since late 2000 being offset by low growth in domestic expenditure and an oil price much lower than originally forecast has consolidated. Inflation has remained low, within the target range, over the policy horizon.

The Board repeats its commitment to stable prices and consequently with the inflation target. To do so, it will continue to apply its monetary policy instruments with flexibility.

APPENDIX 3

MAIN MONETARY AND CREDIT-RELATED MEASURES IN 2001

JANUARY

18 At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 5.0% to UF + 4.75%. The tranches of the liquidity credit line were also reduced by 25 basis points, to stand at UF + 4.75%, UF + 6.75% and UF + 8.75%. Similarly, the liquidity deposit rate was reduced to UF + 3.75%.

18 Law 19,705 —known as the OPA law— changed Decree Law 3,500 governing pension funds, making it necessary to bring Central Bank regulations into line with the current legislation. The main changes were: allowing AFPs to invest up to 5% of their type one funds in mutual fund quotas; eliminating distinctions between different kinds of investment fund quotas, allowing AFPs to invest up to 25% of type 1 funds in investment fund quotes and mutual fund quotas; increasing the limit on type 1 fund investment from 37% to 40% in the shares of openly traded private firms and from 10% to 40% in the case of open real estate companies.

31 As part of modernizing the payments system, the Compendium of Financial Regulations (*Compendio de Normas Financieras, CNF*) was changed to include regulations covering clearing houses for checks and other documents in Chilean currency within the country, interbank operations in Chilean currency and operations effected in automatic banking machines in the country. These regulations, which came into effect on 9 April 2001, regulate swaps, check payments and receipts, and other documents that are charged to banks and finance companies in Chile.

FEBRUARY

12 Banks and other financial institutions were authorized to freely transfer, by signing over, indexed promissory notes from the General Treasury of the Republic issued as per Law 19,568 and regulations contained in D.S. 946, of the finance ministry, published in the official gazette *(Diario Oficial)* on 28 September 2000, all this to permit intermediation among financial institutions using this kind of document.

20 Institutions with current account deficits as defined by N° 8 of Title II of Chapter III.H.2 of the Compendium of Financial Regulations, before 5:10 pm on any given day, may request interbank loans and funds from the *Gerencia de Operaciones Monetarias* (monetary operations management unit), from 4:50 pm to 17:10 pm, solely to cover said deficit. This extra financing facility will be charged to the liquidity credit line at the same rate as the third tranche. Or applicants can apply to the same management unit in the same time period to purchase Central Bank of Chile promissory notes over the counter with a repurchasing clause, at the same interest rate as the second tranche. These measures fall within the gradual process for establishing a real time gross settlement system *(Sistema de Pagos Brutos en Tiempo Real,* RTGS).

At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 4.75% to UF + 4.5%. The tranches of the liquidity credit line were also reduced by 25 basis points, to stand at UF + 4.5%, UF + 6.5% and UF + 8.5%. Similarly, the liquidity deposit rate was reduced to UF + 3.5%.

MARCH

02 At a special meeting, the Board of the Central Bank decided to reduce the policy interest rate by 50 basis points, from UF + 4.5% to UF + 4.0%. The tranches of the liquidity credit line were also cut by 50 basis points, to stand at UF + 4.0%, UF + 6.0% and UF +

8.0%. Similarly, the liquidity deposit rate was reduced to UF + 3.0%.

09 Until 9 October 2001, and as an exception, the first meeting for exchanging checks and other documents from outside the receiving bank's licensed location, can take place at the beginning of the next banking day, without this permitting the delay of the corresponding second meeting of the clearing house, which must occur on the second banking day after receipt of documents for their cashing. The purpose of this measure was to facilitate the exchange of out-of-town documents, without affecting the maximum deadline set by the Central Bank for this procedure.

20 Savings and credit cooperatives supervised by the Superintendent of Banks and Financial Institutions were empowered to open and maintain savings accounts for housing, provided they meet the following requirements: actual equity of no less than 10% of risk-weighted assets and no less than 5% of total assets; legal reserves of more than UF400,000; compliance with matching regulations; authorization from the Superintendent of Banks and Financial Institutions.

APRIL

10 At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 4,0% to UF + 3.75%. The tranches of the liquidity credit line were also reduced by 25 basis points, to stand at UF + 3.75%, UF + 5.75% and UF + 7.75%. Similarly, the liquidity deposit rate was reduced to UF + 2.75%.

MAY

19 The Superintendent of Banks and Financial Institutions was empowered to permit, in specific locations or groups of locations, the cashing of out-of-town checks and other documents not belonging to the same group to take place along with checks and other documents from the same location or group of locations, as provided for in point 6.1 of Chapter III.H.1 of the Compendium of Financial Regulations. The purpose of this measure is to reduce the period for cashing out-of-town checks, integrating them into the regime established for checks from the same location, which would make funds available within 24 hours of presentation of the respective document by depositing it in another bank.

JUNE

12 At its monthly monetary policy meeting today, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from UF + 3.75% to UF + 3.5%. The tranches of the liquidity credit line were also reduced by 25 basis points, to stand at UF + 3.5%, UF + 5.5% and UF + 7.5%. Similarly, the liquidity deposit rate was cut to UF + 2.5%.

13 The requirement that credits from operations involving the sale with repurchasing clauses of instruments expressed in, indexed to or payable in foreign currency, carried out between banking companies established in the country must have the same denomination as the agreed-upon instrument was eliminated. The purpose of this measure was to expand this kind of operation without increasing risk, which remains covered by matching regulations.

JULY

06 Due to the auction of an additional US$1 billion in PRDs, the Board of the Central Bank ruled that in the case of long-term (PRC) instruments, the auctions for notes maturing in 10, 12 and 14 years would be suspended, maintaining only auctions of notes maturing in eight and 20 years.

26 The Board of the Central Bank decided that starting with the reserve period beginning on 9 August 2001, the monetary policy rate would be defined in nominal terms, that is, as a percentage over a peso and not an UF-denominated value. The same will be true of rates on liquidity lines of credit and deposits. The rate was set at 6.5% per annum, the equivalent of the previous monetary policy rate of UF + 3.5% per annum. This amount assumes the objective is a real interest rate of 3.5% and expected inflation of 3%, the center of the inflation target range.

AUGUST

09 The Board of the Central Bank of Chile agreed to include in its Compendium of Financial Regulations a Chapter IV.C.I entitled *"Licitación de Compra de Pagarés del Banco Central de Chile"* (auctions of Central Bank of Chile promissory notes) to regulate open market operations involving the purchase of its own issues, before their maturity dates, carried out by the Central Bank as part of monetary regulation.

13 To facilitate the financial system's transition toward the use of the new nominal monetary policy rate, the Board of the Central Bank agreed to temporarily increase to 270 days the limits on maturity mismatches between asset and liability operations in Chilean currency.

25 The periodicity for changing annual interest rates paid out on indexed capital held in *Cuentas de Ahorro a Plazo* (time savings deposits) and *Cuentas de Ahorro a Plazo con Giros Diferidos* (time savings deposits that permit withdrawals) was changed from once a quarter to monthly, reducing the period required for prior advisement of the change in rate from ten to five days. This greater flexibility has been applied to adjust these savings products to the new monetary policy implemented by the Central Bank of Chile, allowing financial institutions to better face the increased volatility of rates on deposit instruments originally established in UF, as a result of the need to balance them against nominal interest rates that fluctuate according to the reference rate.

SEPTEMBER

01 The Central Bank of Chile joined the *Mercado Secundario Formal Nacional* (national formal secondary market) for transactions involving pension fund securities, for those occasions when it offers to buy securities through a system whereby those offering participate simultaneously in determining security prices that will be traded, provided that these operations are regulated by general regulations and publicized in a timely fashion both in terms of the date on which the purchase of securities will be made, along with the volume and price of transactions carried out.

07 The interest rate accruing to deposits held by banking and financial institutions in the *Cuenta Depósito Reserva Técnica* (technical reserve deposit account) was changed, specifying that it would equal the interest rate on the first tranche of the liquidity credit line, minus 200 basis points.

10 The regulation governing the payment of indexed amounts on *Cuentas de Ahorro a Plazo* (time savings deposits) and *Cuentas de Ahorro a Plazo con Giros Diferidos* (time savings deposits that permit withdrawals) was tightened, to establish that deposits must have been held for at least 90 days in order to be entitled to indexing, and that to calculate and pay same withdrawals must be charged in the opposite order to their time in the system. This restriction will apply only to deposits made after the date of publication of this measure and financial institutions were allowed the option of continuing to apply the regulation in effect on this item to date for the next 12 months. The purpose of this change was to adjust these savings products to the new monetary policy applied by the Central Bank of Chile, restricting the possibility of using these accounts for arbitrage.

Similarly, the period in which financial institutions can modify the interest rate to be paid on balances maintained in these savings accounts was extended to ten days, so they could correct it using the change in the CPI for the previous month.

OCTOBER

13 It was agreed to carry out foreign exchange swaps with banking and financial institutions. This adds a new instrument for monetary regulation as it allows banks to buy or sell foreign exchange on the spot market and simultaneously close the inverse operation on the forward market and thus add or subtract resources in Chilean pesos for the period covered by the operation.

13 In the case of loans provided through the issuing of bills of credit to be used to buy or build housing whose appraisal value is UF3000 or less, the person allowed to be the guarantor or co-guarantor was expanded. Thus, from this date on, not only the spouse of the borrower can become the guarantor or co-guarantor

but also a third party. The purpose of this measure is to increase the number of mortgage operations carried out by financial institutions by increasing the universe of people that qualify as guarantors, without affecting the risks assumed by these institutions when they grant this kind of credit.

25 As of 9 November 2001, it was ruled that checks from the same and other locations should be processed through the same clearing house. This means that from this date on, checking account deposits made with checks and documents are subject to a single location and retention of one day, except where the bank affected has no presence in this location, in which case the Superintendent will allow funds to be retained for more days.

31 The Regulations for over-the-counter sales of PDBCs was included. The following were changed: Regulations governing PDBC auctions; regulations for the over-the-counter sale and auctions of PRBCs; regulations governing operations with PDBCs and PRBCs; regulations governing PTF, PRC and PRD (OMA) auctions.

NOVEMBER

06 Chapter IV.B.6.1, entitled *"Reglamento sobre Ventas por Ventanilla de Pagarés Descontables del Banco Central de Chile"* (PDBC) (regulation governing over-the-counter sales of Central Bank of Chile discount promissory notes) was added to the Compendium of Financial Regulations.

06 Due to the startup of the *Sistema de Operaciones de Mercado Abierto* (open market operating system, SOMA), which permits the receipt of offers to purchase securities electronically, rules on over-the-counter sales and auctions for all promissory notes issued by the Central Bank of Chile for monetary regulation were altered, to adjust their texts to this new kind of transaction, ending the receipt of offers on special forms.

APPENDIX 4

MAIN FOREIGN EXCHANGE AND TRADE MEASURES IN 2001

APRIL

19 During the 1990s, the Central Bank of Chile carried out a gradual process of liberalizing foreign exchange. This culminated on 19 April with the elimination of the remaining restrictions on foreign exchange and the application of the new Compendium of Foreign Exchange Regulations.

This liberalization process was carried out by gradually meeting a series of requirements. Today, our country has achieved a suitable level of development of its finance system and the relevant hedging instruments. Moreover, the regulatory framework governing banking has been improved and by applying an inflation targeting scheme inflation has been kept low. These conditions have been joined by a floating exchange rate, the solvency of the government's accounts, the positive evaluation by international risk rating agencies of Chile's economy, and an appropriate level of foreign currency reserves. These are the solid fundamentals on which the Chilean economy is based and which have allowed the Central Bank to relax exchange rate restrictions.

As mentioned, the new regulations eliminated restrictions on foreign exchange that hitherto affected investment and financing decisions, fully applying the principle of free exchange enshrined in the Central Bank of Chile's Basic Constitutional Law for carrying out operations involving foreign exchange. Among the most important changes:

1. The requirement for prior authorization applied to foreign credits obtained directly or via bond issues placed abroad, and deposits from abroad, and the requirement to liquidate foreign exchange from abroad, entering the country as investment or capital contributions.

2. The accreditation and monitoring system for the right to access the formal exchange market provided by the Central Bank, in exchange for compliance with the required prior authorization or the compulsory liquidation referred to above, as the case may be, to comply with the payment of or send abroad foreign exchange in the form of a capital increase, interest, indexing, or benefits obtained through credit, deposit, capital contribution or investment operations from abroad.

3. Requirements affecting individuals resident in the country wishing to remit foreign exchange in order to invest, subscribe a capital increase, acquire credits or deposits. Regulations governing the return of foreign currency associated with said operations involving capital, interest, indexing or benefits obtained were also changed.

4. Conditions that had to be met to register and authorize special clauses likely to be required when obtaining credit abroad, which required payment or remittances abroad other than those expressly covered by the relevant regulations and which, once approved, would generate the corresponding right to access the formal exchange market should these situations arise.

5. Restrictions on risk ratings and minimum weighted maturities for bond issues.

6. Limits on the currency in which foreign debt can be issued or contracted for.

7. The regulation applicable to the celebration of agreements covered by Article 47 of the Basic Constitutional Law regarding the entry of foreign currency into Chile, in order to establish the foreign exchange regime applicable to the purchase of shares in open companies or investment fund quotas covered by Law 18,815, via security issues serving as a proxy of same for transactions in official foreign stock markets or other modes. Thus, these operations are now treated as investment from abroad and are covered by the ordinary statute applicable to same.

8. The reserve requirement on capital from abroad (until then, it had been set at zero).

   It is well known, however, that maintaining the right information systems is vital if economic agents are to be able to make decisions based on an accurate evaluation of risks and possibilities. Similarly, information systems are very useful to the Central Bank in its task of watching over the stability of Chile's currency and the normal functioning of external payments. Keeping in mind this need for information, the Central Bank decided to maintain the requirement that agents operate through the Formal Exchange Market for specific operations. The exception is foreign trade operations, which can now be completely carried out through the informal exchange market, in which case these operations must be reported directly to the Central Bank. The information requirements are specified in the Manual of Procedures and Information Forms, which must be used along with the new Compendium of Foreign Exchange Regulations.

   Clearly, in this new regulatory framework applying a controlled risk approach, transaction costs should drop considerably, allowing individuals and companies easier and more efficient access to the benefits of Chile's financial and commercial integration with the rest of the world.

JULY

06 Faced with the growing instability of international financial markets, which has made the value of the Chilean peso and other currencies in the region more volatile, triggering more demand for foreign exchange hedging instruments, during the second half of the year the Central Bank of Chile decided to increase the issue of dollar-denominated promissory notes (PRDs) to satisfy this greater demand, announcing an auction for an extra US$1 billion, approximately. Also during the second half, the Central Bank decided to offer an option for advance swapping of those papers nearing maturity.

AUGUST

16 To provide more stability to the country's financial markets in the face of persistently negative conditions abroad, the Board of the Central Bank adopted the following measures:

1. It increased the supply of promissory notes in dollars (PRD) for what remained of the year by a total of up to US$2 billion more than previously announced.

2. It decided to apply up to US$2 billion of its international reserves to finance foreign exchange sales that could be carried out on the foreign exchange market.

TABLE 1

INTEREST RATES ON CENTRAL BANK OF CHILE INSTRUMENTS (1)

Period	PDBC (2)				PRBC (3)		PRC (3)					PRD (3)		
	30 days (4)	60 days	90 days	360 days	90 days	360 days	8 years (5)	10 years (5)	12 years (6)	14 years (6)	20 years (6)	2 years	3 years	4 years
1998														
December	-	-	13.49	-	8.00	-	7.22	7.19	7.16	7.10	7.01	-	7.01	6.85
1999														
December	0.74	-	11.09	11.19	5.73	-	6.66	6.73	6.72	6.74	6.72	-	-	-
2000														
January	0.73	-	10.05	10.84	5.33	-	6.61	6.64	6.64	6.68	6.66	-	-	-
February	0.79	-	12.17	11.16	5.65	-	6.68	6.72	6.71	6.72	6.70	-	-	-
March	1.00	-	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	0.87	-	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	-	-	-
2001														
January	-	-	8.30	9.02	4.71	-	5.60	5.62	5.67	5.73	5.78	-	-	-
February	-	-	8.06	8.37	4.42	-	5.21	5.29	5.36	5.43	5.48	-	-	-
March	-	-	6.14	7.54	3.84	-	4.93	5.01	4.09	5.15	5.26	-	-	-
April	0.83	-	8.62	7.85	3.72	-	5.00	5.11	5.22	5.31	5.37	-	-	-
May	0.77	-	8.69	8.01	3.60	-	5.06	5.19	5.33	5.42	5.51	-	-	-
June	-	-	6.74	7.79	3.57	-	5.08	5.31	5.49	5.60	5.64	-	5.49	-
July	-	-	6.44	7.44	3.72	-	5.08	5.30	5.50	5.57	5.54	-	5.59	-
August	6.66	6.86	7.07	7.86	8.00	4.82	5.45	-	-	-	5.95	-	5.99	-
September	6.86	7.23	7.18	8.17	-	3.70	5.20	-	-	-	5.68	4.45	5.74	5.53
October	6.44	-	6.61	7.66	-	3.68	4.85	-	-	-	5.39	4.28	-	5.45
November	6.38	-	6.44	7.25	-	4.21	4.80	-	-	-	5.27	4.56	-	5.55
December	6.35	6.52	6.51	7.03	-	4.46	4.85	-	-	-	5.32	4.85	-	6.01

(1) This is the monthly weighted average for promissory notes sold at auction (360-day base).
(2) Nominal rate with annual base.
(3) Annualized rate over UF.
(4) Nominal rate with monthly base.
(5) As of 28 July 1992, the Central Bank committed itself to place UF300,000 at every auction.
(6) As of 16 February 1993, the Central Bank committed itself to place UF200,000 at every auction.

Source: Central Bank of Chile.

TABLE 2

MARKET INTEREST RATES (*)

(Monthly averages in the financial system)

	UNINDEXED OPERATIONS						UF-INDEXED OPERATIONS		
	30 to 89 days			90 to 365 days			90 to 365 days		
Period	Deposit	Lending	Spread	Deposit	Lending	Spread	Deposit	Lending	Spread
1997 Average	11.37	14.62	3.25	12.69	20.21	7.52	6.45	8.77	2.33
1998 Average	13.92	18.41	4.49	16.30	27.34	11.05	9.53	11.93	2.40
1999 Average	8.22	11.93	3.71	8.88	17.62	8.75	5.87	8.19	2.32
2000 Average	8.82	13.91	5.09	8.69	18.68	9.99	5.17	7.48	2.31
2001 Average	6.01	11.28	5.27	6.48	16.69	10.21	3.73	6.32	2.59
2000									
January	7.56	11.76	4.20	9.96	15.72	5.76	5.10	7.26	2.16
February	8.40	12.48	4.08	8.76	16.56	7.80	5.24	7.56	2.32
March	12.00	15.36	3.36	10.08	18.84	8.76	5.39	7.86	2.47
April	11.52	15.84	4.32	9.84	20.64	10.80	5.39	7.60	2.21
May	9.60	14.04	4.44	9.96	21.24	11.28	5.44	7.73	2.29
June	7.32	12.84	5.52	9.12	19.32	10.20	5.50	7.63	2.13
July	7.20	12.72	5.52	7.92	17.40	9.48	5.39	7.52	2.13
August	6.36	12.12	5.76	6.60	17.16	10.56	5.23	7.40	2.17
September	8.04	13.92	5.88	7.92	17.52	9.60	4.88	7.63	2.75
October	10.44	16.32	5.88	8.64	20.04	11.40	4.89	7.36	2.47
November	10.08	15.48	5.40	8.28	20.88	12.60	4.82	7.20	2.38
December	7.32	14.04	6.72	7.20	18.84	11.64	4.81	6.97	2.16
2001									
January	5.88	12.84	6.96	6.48	17.04	10.56	4.50	6.85	2.35
February	6.24	12.48	6.24	6.12	17.88	11.76	4.24	6.77	2.53
March	2.88	10.08	7.20	5.04	14.16	9.12	3.97	6.18	2.21
April	7.92	13.08	5.16	7.08	16.32	9.24	3.77	5.94	2.17
May	8.28	13.56	5.28	7.44	19.08	11.64	3.60	5.98	2.38
June	6.36	11.76	5.40	5.64	18.60	12.96	3.54	5.83	2.29
July	4.08	9.60	5.52	5.16	17.52	12.36	3.66	5.96	2.30
August	5.88	10.08	4.20	6.72	15.24	8.52	4.41	7.07	2.66
September	6.12	11.28	5.16	7.20	16.20	9.00	0.82	5.23	4.41
October	6.24	10.32	4.08	7.08	16.32	9.24	2.40	5.29	2.89
November	6.12	9.96	3.84	6.96	16.20	9.24	4.67	7.28	2.61
December	6.12	10.32	4.20	6.84	15.72	8.88	5.24	7.53	2.29

(*) These are rates with an annual equivalent (360 days).

Source: Central Bank of Chile.

TABLE 3

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
1999															
January	-2.3	-2.5	2.4	0.4	0.5	-2.3	-2.5	2.4	0.4	0.5	2.2	-1.8	-6.1	10.3	8.5
February	2.0	2.2	0.9	-0.3	0.5	-0.3	-0.3	3.3	0.1	1.1	1.2	-0.4	-0.5	8.9	9.1
March	-2.0	-1.3	-1.4	0.2	-0.2	-2.3	-1.7	1.8	0.3	0.8	2.7	-0.6	-1.6	8.1	7.3
April	-0.1	-1.4	-0.7	0.9	0.6	-2.4	-3.1	1.1	1.2	1.4	-1.3	-2.3	-3.1	8.3	6.9
May	2.5	0.3	1.7	3.0	2.4	0.0	-2.7	2.8	4.2	3.9	3.2	-0.8	-1.0	9.5	9.0
June	-0.5	1.6	2.0	2.9	2.6	-0.5	-1.2	4.9	7.3	6.6	4.3	-1.2	-0.4	11.5	10.7
July	-0.9	-1.2	-2.7	-0.5	-0.3	-1.4	-2.3	2.0	6.7	6.3	3.1	2.0	5.1	8.0	9.7
August	-2.7	-2.2	-2.1	-0.6	-0.4	-4.1	-4.5	-0.1	6.0	5.8	4.9	4.0	6.8	7.4	8.7
September	5.4	5.8	7.0	1.7	1.4	1.0	1.0	6.8	7.9	7.3	2.8	6.0	12.7	9.5	9.8
October	-2.7	-1.5	-0.9	0.4	0.5	-1.7	-0.5	5.8	8.3	7.8	9.3	9.5	16.2	9.4	9.6
November	4.4	1.8	2.2	1.3	1.4	2.6	1.3	8.2	9.7	9.3	10.0	11.5	17.9	10.7	10.4
December	8.6	15.4	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
2000															
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	10.7	3.4	2.2	1.8	0.4	2.7	8.4	9.6	1.8	0.4	2.7	8.4	9.6
2001															
January	-1.7	-3.4	-0.2	2.4	1.0	0.1	-3.0	2.4	11.0	10.7	-0.1	-1.3	2.1	9.4	10.8
February	1.1	1.4	-1.1	-1.5	-0.5	1.2	-1.6	1.3	9.3	10.1	4.5	2.1	3.4	9.8	10.2
March	2.6	0.0	6.6	-0.5	0.1	3.9	-1.6	8.0	8.8	10.2	9.1	5.5	15.3	9.8	9.8
April	-4.1	-0.2	0.1	2.2	1.0	-0.3	-1.9	8.1	11.2	11.3	7.7	6.5	16.8	10.7	9.7
May	1.7	0.0	-0.1	0.8	-0.2	1.3	-1.8	7.9	12.0	11.1	7.2	7.9	18.0	10.0	8.8
June	0.2	0.7	0.6	0.4	1.2	1.5	-1.1	8.6	12.5	12.4	8.7	6.6	17.9	9.5	8.7
July	-1.6	-0.9	-0.6	0.2	1.2	-0.1	-2.1	7.9	12.8	13.7	6.3	8.4	19.1	8.9	8.9
August	-0.4	-1.0	-2.8	-0.7	0.6	-0.6	-3.1	4.9	11.9	14.4	9.8	9.8	15.8	9.2	9.0
September	5.1	4.8	6.9	0.2	1.8	4.6	1.6	12.2	12.2	16.5	8.8	8.4	20.2	9.7	11.0
October	-4.1	-1.8	-1.0	1.3	1.1	0.2	-0.2	11.1	13.7	17.8	6.8	10.1	21.1	9.9	11.5
November	1.9	1.1	-2.3	0.6	0.2	2.1	0.9	8.5	14.4	18.0	9.2	10.6	17.1	9.1	10.1
December (*)	8.5	9.7	10.6	2.1	0.7	10.8	10.3	16.9	7.7	8.4	10.8	10.3	16.9	7.7	8.4

E : Monetary emission.
C : Currency in circulation.
M1A : Broad private money corrected and defined as: currency in circulation + 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 + time 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 figures.

Source: Central Bank of Chile.

TABLE 4

FINANCIAL SYSTEM LOANS

Period	DOMESTIC CURRENCY (1) (Billions of pesos)										FOREIGN CURRENCY (3) (US$ million)					TOTAL (4) (Billions of pesos)				
	ACTUAL (2)					**MORTGAGES**					**ACTUAL**									
	Amount	Percentage change				Amount	Percentage change				Amount	Percentage change				Amount	Percentage change			
		Nominal		**Real**			**Nominal**		**Real**			**US$**	**Pesos**		**Real**		**Nominal**		**Real**	
		Month	12 m	Month	12 m		Month	12 m	Month	12 m		Month	Month	12 m	12 m		Month	12 m	Month	12 m
2000																				
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	15,810	1.2	6.7	0.6	2.2	5,442	0.8	7.6	0.2	3.0	4,229	1.8	3.0	15.7	10.8	23,671	1.3	7.8	0.7	3.2
December	16,241	2.7	8.5	2.2	3.7	5,502	1.1	7.7	0.6	3.0	4,099	-3.1	-1.6	13.9	8.9	24,122	1.9	8.8	1.4	4.0
2001																				
January	16,413	1.1	9.2	0.8	4.4	5,523	0.4	7.2	0.1	2.5	4,170	1.7	0.4	13.4	8.4	24,324	0.8	9.1	0.6	4.3
February	16,434	0.1	9.0	0.0	4.3	5,544	0.4	7.2	0.2	2.5	4,267	2.3	0.7	15.7	10.7	24,382	0.2	9.2	0.1	4.5
March	16,399	-0.2	8.7	-0.3	4.2	5,569	0.5	7.2	0.3	2.7	4,354	2.0	2.7	21.2	16.1	24,437	0.2	9.5	0.1	4.9
April	16,370	-0.2	7.6	-0.1	3.8	5,585	0.3	6.8	0.4	3.0	4,455	2.3	7.0	35.9	31.1	24,597	0.7	9.9	0.7	6.0
May	16,626	1.6	8.5	1.1	4.9	5,622	0.7	6.5	0.2	3.0	4,540	1.9	3.1	31.1	26.7	24,971	1.5	10.1	1.0	6.5
June	16,478	-0.9	7.7	-1.3	4.1	5,707	1.5	7.5	1.0	3.9	4,593	1.2	3.0	30.6	26.2	24,990	0.1	9.8	-0.4	6.1
July	16,447	-0.2	7.5	-0.5	3.7	5,792	1.5	8.6	1.2	4.8	4,558	-0.8	1.8	23.1	18.8	25,095	0.4	9.3	0.1	5.5
August	16,520	0.4	8.0	0.4	4.4	5,847	0.9	9.2	0.9	5.5	4,764	4.5	10.8	36.3	31.8	25,533	1.7	11.1	1.7	7.4
September	16,718	1.2	8.3	1.1	4.7	5,903	1.0	9.9	0.9	6.3	4,853	1.9	1.3	35.8	31.4	25,827	1.2	11.5	1.1	7.8
October (5)	16,931	1.3	8.4	0.5	4.5	5,968	1.1	10.5	0.4	6.5	4,786	-1.4	3.9	41.9	36.7	26,231	1.6	12.2	0.8	8.2
November (5)	17,192	1.5	8.7	1.0	4.8	6,043	1.2	11.0	0.7	7.1	4,711	-1.6	1.3	39.6	34.6	26,611	1.4	12.4	0.9	8.4
December (5)	17,236	0.3	6.1	0.2	2.8	6,107	1.1	11.0	1.0	7.5	4,672	-0.8	-5.6	33.9	29.6	26,528	-0.3	10.0	-0.4	6.5

(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) Changes in dollar loans.
(4) Foreign currency loans are converted to pesos using accounting exchange rate published by the Superintendent of Banks and Finance Institutions (SBIF), that is the observed exchange rate on the last day of the preceding month.
(5) Provisional figures.

Source: Central Bank of Chile.

TABLE 5

MULTILATERAL EXCHANGE RATE (TCM) INDEX (1)
(2 January 1998 = 100)

Period	TOTAL TCM Index	TOTAL TCM Percentage change: Month	TOTAL TCM Percentage change: 12 months	TOTAL TCM Percentage change: Over December	TCM5 (2) Index	TCM5 (2) Percentage change: Month	TCM5 (2) Percentage change: 12 months	TCM5 (2) Percentage change: Over December	OBSERVED DOLLAR INDEX
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	109.6	-	5.7 (3)	6.6 (4)	117.0	-	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
2001 Average	125.4	-	11.6 (3)	7.0 (4)	136.5	-	13.8 (3)	13.8 (4)	144.6
2000									
January	111.4	-3.1	4.4	-3.1	120.0	-3.1	6.7	-3.1	118.5
February	108.8	-2.4	1.4	-5.5	116.3	-3.1	1.3	-6.0	116.8
March	107.1	-1.6	1.3	-6.9	114.1	-1.9	1.0	-7.8	114.8
April	107.4	0.3	2.8	-6.6	114.6	0.4	4.1	-7.5	115.7
May	108.3	0.8	3.3	-5.9	115.2	0.6	4.5	-6.9	118.8
June	111.1	2.5	3.5	-3.5	119.0	3.3	5.0	-3.9	120.6
July	113.6	2.3	3.3	-1.2	121.3	1.9	4.0	-2.0	123.6
August	114.5	0.8	4.0	-0.5	121.7	0.3	3.3	-1.7	125.5
September	116.5	1.8	3.4	1.3	123.6	1.6	2.0	-0.1	128.9
October	115.9	-0.5	0.5	0.8	123.0	-0.5	-2.0	-0.6	129.3
November	116.7	0.6	0.6	1.4	124.1	0.9	-1.2	0.3	130.8
December	117.2	0.4	1.8	1.8	125.4	1.1	1.3	1.3	130.8
2001									
January	116.2	-0.9	4.2	-0.9	125.6	0.1	4.6	0.1	130.0
February	114.0	-1.8	4.8	-2.7	123.2	-1.9	5.9	-1.8	128.2
March	117.6	3.2	9.9	0.4	127.0	3.1	11.3	1.3	133.8
April	118.6	0.8	10.4	1.2	128.2	0.9	11.9	2.2	136.3
May	119.3	0.6	10.1	1.8	129.1	0.7	12.0	2.9	137.6
June	120.6	1.1	8.6	2.9	130.6	1.1	9.7	4.1	140.3
July	128.0	6.1	12.6	9.2	138.9	6.4	14.5	10.7	149.5
August	132.6	3.6	15.8	13.2	145.0	4.4	19.1	15.6	153.4
September	133.7	0.8	14.7	14.1	147.7	1.9	19.4	17.7	155.1
October	138.3	3.5	19.3	18.0	152.8	3.5	24.2	21.8	161.2
November	134.8	-2.5	15.6	15.1	147.2	-3.6	18.6	17.4	157.0
December	131.5	-2.5	12.2	12.2	142.6	-3.1	13.7	13.7	152.4

(1) The Multilateral Exchange Rate (TCM) Index represents a nominal value for the peso against a broad basket of foreign currencies used to calculate the real exchange rate.
(2) TCM 5 includes the currencies of the United States, Japan, the United Kingdom, Canada and the Euro area.
(3) Average annual change.
(4) December to December change.

Source: Central Bank of Chile.

TABLE 6

REAL OBSERVED EXCHANGE RATE (TCR) INDEX

(1986 = 100)

Period	TOTAL TRC (1)				TCR 5 (2)			
	Index	Percentage change			Index	Percentage change		
		Month	12 months	Over December		Month	12 months	Over December
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	82.3	-	5.5 (3)	10.7 (4)	73.4	-	7.9 (3)	11.5 (4)
2000 Average (5)	86.0	-	4.5 (3)	3.0 (4)	74.9	-	2.2 (3)	1.1 (4)
2001 Average (5)	96.5	-	12.2 (3)	12.2 (4)	84.2	-	12.3 (3)	11.1 (4)
2000 (5)								
January	84.7	-3.2	7.5	-3.2	75.0	-3.3	6.5	-3.3
February	83.0	-2.1	4.2	-5.2	72.9	-2.8	1.5	-6.0
March	81.5	-1.8	3.9	-6.9	71.3	-2.1	1.3	-8.1
April	81.4	-0.1	4.7	-7.0	71.3	-0.1	3.8	-8.1
May	82.3	1.0	5.1	-6.0	71.6	0.5	3.8	-7.7
June	85.2	3.6	6.3	-2.6	74.8	4.5	5.4	-3.5
July	87.4	2.5	5.8	-0.1	76.3	1.9	4.2	-1.7
August	88.0	0.6	6.0	0.5	76.1	-0.2	2.6	-1.9
September	89.8	2.0	5.2	2.5	77.4	1.7	1.3	-0.2
October	89.2	-0.6	2.0	1.9	76.9	-0.6	-2.5	-0.8
November	89.6	0.4	1.5	2.3	77.4	0.6	-2.0	-0.3
December	90.1	0.6	3.0	3.0	78.4	1.4	1.1	1.1
2001 (5)								
January	90.3	0.2	6.6	0.2	79.3	1.2	5.8	1.2
February	88.3	-2.2	6.4	-2.0	77.5	-2.4	6.3	-1.2
March	90.9	2.9	11.5	0.8	79.3	2.3	11.1	1.1
April	91.5	0.8	12.4	1.6	79.8	0.7	12.0	1.7
May	91.9	0.4	11.7	1.9	80.2	0.5	12.0	2.3
June	93.0	1.3	9.1	3.2	80.8	0.8	8.0	3.1
July	98.8	6.2	13.0	9.6	85.6	5.9	12.2	9.1
August	101.6	2.9	15.5	12.7	88.5	3.4	16.3	12.9
September	102.0	0.3	13.6	13.1	89.6	1.2	15.8	14.3
October	105.6	3.6	18.4	17.2	92.7	3.5	20.5	18.2
November	103.2	-2.3	15.2	14.5	89.5	-3.5	15.7	14.1
December	101.1	-2.0	12.2	12.2	87.1	-2.7	11.1	11.1

(1) Observed nominal exchange rate multiplied by relevant foreign inflation over the 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 the United States, Japan, the United Kingdom, Canada and the Euro-area countries. (Germany, France, Spain, Italy, the Netherlands, and Belgium).
(3) Average annual change.
(4) December to December change.
(5) Provisional figures.

Source: Central Bank of Chile.

TABLE 7

QUARTERLY GROSS DOMESTIC PRODUCT
(Percentage change over the same period of the previous year (1) (2)

Period	QUARTER				YEAR
	I	II	III	IV	
1997	4.3	4.9	8.3	9.0	6.6
1998	6.4	5.7	2.8	-1.8	3.2
1999	-1.4	-4.4	-1.5	3.7	-1.0
2000	3.6	5.0	4.5	4.4	4.4
2001	3.0	3.8	2.7	1.7	2.8

(1) Provisional figures.
(2) Calculated using figures expressed in 1996 pesos.

Source: Central Bank of Chile.

TABLE 8

QUARTERLY DOMESTIC DEMAND
(Percentage change over the same period of the previous year (1) (2)

Period	QUARTER				YEAR
	I	II	III	IV	
1997	0.9	6.5	11.1	10.4	7.2
1998	10.6	8.1	3.0	-5.7	3.7
1999	-6.3	-10.9	-6.3	1.2	-5.7
2000	3.4	9.7	4.6	5.8	5.9
2001	3.4	-0.7	-0.2	-4.9	-0.7

(1) Provisional figures.
(2) Calculated using figures expressed in 1996 pesos.

Source: Central Bank of Chile.

TABLE 9

GROSS DOMESTIC PRODUCT BY SECTOR
(Annual percentage change) (1) (2)

Sector	1997	1998	1999	2000	2001
Agriculture, livestock and forestry	1.7	5.0	-1.8	5.0	4.7
Fishing	9.5	-6.2	6.4	12.5	12.2
Mining	11.3	8.3	11.1	5.2	3.6
Manufacturing	4.7	-2.3	-1.3	4.0	-0.3
Electricity, gas and water	8.3	4.4	-1.7	14.5	7.3
Construction	6.3	1.9	-10.0	0.2	3.8
Trade, hotels and catering	7.6	3.5	-5.0	3.0	3.0
Transport and communications	10.9	6.6	0.6	8.0	5.9
Financial services	7.1	6.0	-0.6	4.0	2.6
Home ownership	3.9	3.4	3.0	2.4	2.0
Personal services (3)	6.1	3.2	1.7	3.7	2.9
Public administration	1.5	1.5	1.5	1.5	1.5
Subtotal	**6.4**	**3.0**	**0.5**	**1.8**	**2.6**
Less: bank charges	7.4	3.8	1.5	4.7	2.3
Plus: Collected net VAT	7.8	4.9	-1.6	4.2	2.5
Plus: Import duties	12.8	7.1	-12.5	15.5	-1.0
Total GDP	**6.6**	**3.2**	**-1.0**	**4.4**	**2.8**

(1) Provisional figures.
(2) Calculated using figures expressed in 1996 pesos.
(3) Includes education and health care.

Source: Central Bank of Chile.

TABLE 10

NATIONAL EMPLOYMENT AND UNEMPLOYMENT (1) (2)

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

Period	LABOR FORCE		EMPLOYED		UNEMPLOYED		UNEMPLOYMENT RATE
	Total	% Change over the previous period	Total	% Change over the previous period	Total	% Change over the previous period	
1997 Average	5,625	1.7	5,281	1.9	344	-1.7	6.1
1998 Average	5,739	2.0	5,375	1.8	364	5.7	6.3
1999 Average	5,827	1.5	5,255	-2.2	572	57.3	9.8
2000 Average	5,847	0.3	5,311	1.1	536	-6.3	9.2
2001 Average	5,861	0.3	5,326	0.3	535	-0.1	9.1
2000							
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
2001							
January	5,857	-1.1	5,367	-1.1	490	-1.4	8.4
February	5,820	-1.1	5,332	-1.4	488	3.2	8.4
March	5,789	-1.2	5,278	-1.9	512	6.6	8.8
April	5,806	-0.5	5,280	-1.1	526	6.2	9.1
May	5,802	-1.0	5,247	-1.7	555	6.6	9.6
June	5,820	0.0	5,257	-0.4	563	3.0	9.7
July	5,830	0.2	5,261	0.7	570	-3.8	9.8
August	5,863	0.8	5,293	1.8	570	-7.1	9.7
September	5,887	0.9	5,291	1.6	596	-4.9	10.1
October	5,916	1.1	5,344	1.5	572	-2.3	9.7
November	5,950	1.8	5,421	2.4	528	-4.3	8.9
December	5,949	1.3	5,479	1.8	469	-4.1	7.9

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

Source: National Statistics Bureau.

TABLE 11

BALANCE OF PAYMENTS (1)

(US$ million)

Item	1999	2000	2001	PERCENTAGE CHANGE (2) 2000	2001
I. CURRENT ACCOUNT	**-78**	**-988**	**-903**	**1,160.0**	**-8.7**
A. Balance trade	1,664	1,436	1,563	-13.7	8.8
Exports fob	15,616	18,158	17,440	16.3	-4.0
Imports fob	13,951	16,722	15,877	19.9	-5.1
B. Non-financial services	-315	-558	-369	77.1	-33.9
Credits	3,785	3,929	4,015	3.8	2.2
Debits	4,100	4,487	4,384	9.4	-2.3
C. Financial services	-1,881	-2,404	-2,549	27.8	6.0
Net interest	-768	-948	-965	23.4	1.8
Net profit (3)	-1,113	-1,456	-1,584	30.8	8.8
Net remittance	-985	-988	-501	0.3	-49.3
Net reinvestment	-128	-468	-1,083	265.6	131.4
D. Transfers	453	538	453	18.6	-15.8
II. CAPITAL ACCOUNT	**-764**	**1,198**	**720**		**-39.9**
A. Medium- and long-term capital	4,561	-1,124	548		
Foreign investment (4)	4,496	-1,365	636		
Direct	4,366	-1,104	811		
- From abroad	9,221	3,674	4,602	-60.2	25.2
Direct contribution	8,907	2,903	3,455	-67.4	19.0
Profit reinvestment	314	771	1,147	145.5	48.8
- Abroad	4,855	4,778	3,791	-1.6	-20.7
Direct contribution	4,669	4,475	3,727	-4.2	-16.7
Profit reinvestment	186	303	64	62.9	-78.9
Portfolio	130	-261	-175		-33.0
- From abroad	2,496	-113	1,338		
- Abroad	2,366	148	1,513	-93.7	922.3
Credit disbursements DL 600	537	162	708	-69.8	337.0
Other disbursements	3,568	4,034	3,028	13.0	-24.9
Credit amortization	3,384	3,826	4,151	13,1	8.5
Foreign debt conversion	0	-4	0		
Other (5)	-656	-125	327	-80.9	
B. Short-term capital	-5,325	2,322	172		-92.6
Credit lines	-384	2,080	-165		
Other (6)	-4,941	242	337		39.5
III. ERRORS AND OMISSIONS	**159**	**-12**	**-224**		1,784.7
IV. BALANCE OF PAYMENTS	**-683**	**198**	**-407**		

(1) Provisional figures.
(2) Not indicated if the item changes from plus to minus or viceversa.
(3) From 1990 on, "profits", in the case of those from direct investment, include those remitted and reinvested. The counterpart appears in the capital account.
(4) Includes direct investment via DL 600, capital contributions via Chapter XIV, ADRs, investment funds, bonds, Chapter XIX, and investments abroad.
(5) Includes changes in foreign assets.
(6) Includes counterpart for redemption of foreign debt, trade flows and other foreign asset flows.

Source: Central Bank of Chile.

TABLE 12

BALANCE OF TRADE (1)
(US$ million)

Item	1999	2000	2001	PERCENTAGE CHANGE (2) 2000	2001
BALANCE OF TRADE	**1,664**	**1,436**	**1,563**	**-13.7**	**8.8**
Total exports (fob)	**15,616**	**18,158**	**17,440**	**16.3**	**-4.0**
Copper	5,889	7,347	6,746	24.8	-8.2
Non-copper	9,727	10,811	10,694	11.1	-1.1
Other main (3)	3,777	4,257	4,012	12.7	-5.8
Non-traditional	5,950	6,554	6,682	10.1	2.0
Total imports (fob)	**13,951**	**16,722**	**15,877**	**19.9**	**-5.1**
Total imports (cif)	**15,137**	**18,089**	**17,234**	**19.5**	**-4.7**
Consumer goods	2,833	3,381	3,145	19.3	-7.0
Intermediate goods	9,008	11,007	10,465	22.2	-4.9
Fuel	1,799	2,890	2,587	60.6	-10.5
Other	7,209	8,118	7,878	12.6	-2.9
Capital goods	3,297	3,702	3,624	12.3	-2.1

(1) Provisional figures.
(2) Not indicated if the item changes from plus to minus or viceversa.
(3) Includes iron, nitrate and iodine, silver, gold ore, fruit, fishmeal, lumber, logs, planed wood, pulp, methanol, lithium carbonate, molybdenum oxide and ferromolybdenum, metallic gold and doré (98% silver, 2% gold bullion).

Source: Central Bank of Chile.

TABLE 13

FOREIGN TRADE INDICATORS (1)

Item	1999	2000	2001
Copper price LME (US$/lb)	0.713	0.823	0.715 (2)
Oil price (US$/barrel fob)	14.9	27.0	22.7 (2)
LIBOR US$ over 180 days (nominal)	5.5%	6.7%	3.7%
Total foreign inflation	-1.4%	2.4%	-0.7%
Terms of trade index (1988 = 1.0)			
Total goods	0.82	0.82	0.75
Total non-copper and non-oil	0.99	0.99	0.90
Total exports			
Change by value	5.3%	16.3%	-4.0%
Change by price (fob)	-2.6%	9.6%	-11.6%
Change by volume	8.1%	6.1%	8.6%
Copper exports			
Change by value	10.4%	24.8%	-8.2%
Change by price (fob)	-2.9%	19.0%	-11.9%
Change by volume	13.7%	4.8%	4.3%
Traditional non-copper exports			
Change by value	-0.6%	12.7%	-5.8%
Change by price (fob)	-6.2%	9.6%	-11.9%
Change by volume	5.9%	2.8%	6.9%
Non-traditional exports			
Change by value	4.5%	10.1%	2.0%
Change by price (fob)	0.2%	0.6%	-11.0%
Change by volume	4.2%	9.5%	14.6%
Imports of goods			
Change by value	-19.4%	19.5%	-4.7%
Change by price (fob)	-3.5%	9.7%	-3.9%
Change by volume	-16.5%	8.9%	-0.8%

(1) Provisional figures.
(2) Yearly average.

Source: Central Bank of Chile.

TABLE 14

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

Item	1999	2000	2001	PERCENTAGE CHANGE (2) 2000	PERCENTAGE CHANGE (2) 2001
SHIPMENTS	**53**	**-81**	**-16**		**-80.2**
Credits	882	941	954	6.7	1.4
Debits	829	1,022	970	23.3	-5.1
OTHER TRANSPORT	**-538**	**-669**	**-579**	**24.3**	**-13.5**
Passenger services	79	73	136	-7.6	86.3
Credits	353	385	435	9.1	13.0
Debits	274	312	299	13.9	-4.2
Port services	-617	-742	-715	20.3	-3.6
Credits	358	407	412	13.7	1.2
Debits	975	1,149	1,127	17.8	-1.9
TRAVEL	**93**	**112**	**212**	**20.4**	**89.3**
Credits	1,052	952	992	-9.5	4.2
Debits	959	840	780	-12.4	-7.1
OTHER GOODS, SERVICES AND INCOME	**77**	**80**	**14**	**3.9**	**-82.5**
Credits	1,140	1,244	1,222	9.1	-1.8
Debits	1,063	1,164	1,208	9.5	3.8
TOTAL NON-FINANCIAL SERVICES	**-315**	**-558**	**-369**	**77.1**	**-33.9**
Credits	3,785	3,929	4,015	3.8	2.2
Debits	4,100	4,487	4,384	9.4	-2.3

(1) Provisional figures.
(2) Not indicated if the item changes from plus to minus or viceversa.

Source: Central Bank of Chile.

TABLE 15

FINANCIAL SERVICES (1)
(US$ million)

Item	1999	2000	2001	PERCENTAGE CHANGE (2) 2000	2001
INTEREST PAID (3)	**1,506**	**1,894**	**1,734**	**25.8**	**-8.4**
Medium- and long-term	1,416	1,838	1,651	29.8	-10.2
Short-term	90	56	83	-37.8	48.2
INTEREST RECEIVED	**738**	**946**	**769**	**28.2**	**-18.7**
EARNINGS AND DIVIDENDS	**-1,113**	**-1,456**	**-1,584**	**30.8**	**8.8**
Received	363	666	565	83.5	-15.2
Profits remitted	177	363	501	105.1	38.0
Profits reinvested	186	303	64	62.9	-78.9
Paid	1,476	2,122	2,149	43.8	1.3
Profits remitted (4)	1,162	1,351	1,002	16.3	-25.8
Profits reinvested	314	771	1,147	145.5	48.8
LEASING SERVICES	**0**	**0**	**0**		
TOTAL FINANCIAL SERVICES	**-1,881**	**-2,404**	**-2,549**	**27.8**	**6.0**
Net credits	1,101	1,612	1,334	46.4	-17.2
Net debits	2,982	4,016	3,883	34.7	-3.3

(1) Provisional figures.
(2) Not indicated if the item changes from plus to minus or viceversa.
(3) Includes interest paid on foreign debt and other liabilities not included therein.
(4) Gross earnings (before additional tax).

Source: Central Bank of Chile.

TABLE 16

NET FOREIGN INVESTMENT FLOWS INTO CHILE
(US$ million)

Item	1990	1991	1992	1993	1994	1995 (1)	1996 (1)	1997 (1)	1998 (1)	1999 (1)	2000 (1)	2001 (1)
I. TOTAL FOREIGN INVESTMENT	**1,015**	**885**	**996**	**1,330**	**2,580**	**2,241**	**4,545**	**5,718**	**1,012**	**4,496**	**-1,365**	**636**
A. DIRECT INVESTMENT	654	697	538	600	1,672	2,205	3,445	3,353	1,841	4,366	-1,104	811
From abroad	661	822	935	1,034	2,583	2,956	4,633	5,219	4,638	9,221	3,674	4,602
Decree Law 600	208	455	512	660	1,466	1,488	3,710	3,457	4,255	8,296	2,246	3,129
Chap. XIV capital contribution	35	96	157	203	400	406	411	900	215	641	657	486
Chapter XIX (2)	339	-40	-32	-55	-104	-214	-82	-24	-316	-30	0	-160
Profit reinvestment (3)	79	311	298	226	821	1,276	594	886	484	314	771	1,147
Abroad	7	125	397	434	911	751	1,188	1,866	2,797	4,855	4,778	3,791
Direct contribution	7	125	376	433	926	696	1,071	1,738	2,638	4,669	4,475	3,727
Profit reinvestment (3)	n/d	n/d	21	1	-15	55	117	128	159	186	303	64
B. PORTFOLIO INVESTMENT	361	188	458	730	908	36	1,100	2,365	-829	130	-261	-175
From abroad	361	188	458	820	1,259	49	1,230	2,602	590	2,496	-113	1,338
ADR Chapter XXVI	105	-31	281	790	1,273	32	863	1,796	692	465	-318	-347
Investment funds	262	55	57	26	-14	-280	-202	-88	-164	-23	-95	36
Bonds	-6	164	120	4	0	297	569	894	62	2,054	300	1,649
Abroad	0	0	0	90	351	13	130	237	1,419	2,366	148	1,513
II. ASSOCIATED CREDITS	**610**	**198**	**34**	**616**	**837**	**965**	**608**	**1,006**	**1,036**	**-261**	**-547**	**3**
Credit disbursement	749	372	311	845	1,001	1,343	900	1,438	1,703	537	162	708
Credit amortization	139	174	277	229	164	378	292	432	667	798	709	705
TOTAL (I + II)	**1,625**	**1,083**	**1,030**	**1,946**	**3,417**	**3,206**	**5,153**	**6,724**	**2,048**	**4,235**	**-1,912**	**639**

(1) Provisional figures.
(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.

Source: Central Bank of Chile.

TABLE 17

CENTRAL BANK OF CHILE FOREIGN EXCHANGE RESERVES. (1)
(US$ million)

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. Gold	642	597	574	612	652	643	637	533	322	317	18	19
(Thousands of Troy ounces)	1,858	1,863	1,867	1,865	1,864	1,861	1,859	1,858	1,222	1,220	74	74
2. SDR	1	1	1	1	1	3	2	1	8	19	25	29
3. Reserve position in IMF	0	0	0	0	0	0	50	313	602	402	318	298
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	13,881
5. Other assets	-202	-43	-11	-15	17	22	4	2	11	-5	0	-1
6. IMF credit used	1,151	955	722	479	290	0	0	0	0	0	0	0
7. Short-term credits	10	1	1	0	0	0	0	0	0	0	0	0
I. FOREIGN EXCHANGE ASSETS (2)	6,509	7,596	9,731	10,237	13,757	14,805	15,474	17,841	15,992	14,710	14,741	14,226
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	14,226
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	14,226

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

Source: Central Bank of Chile.

TABLE 18

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	2001 (1)
I. FOREIGN DEBT (II+III)	**17,425**	**16,364**	**18,242**	**19,186**	**21,478**	**21,736**	**22,979**	**26,701**	**31,691**	**34,167**	**36,849**	**37,790**
PUBLIC SECTOR	**11,792**	**10,554**	**9,623**	**9,020**	**9,135**	**7,501**	**5,163**	**5,088**	**5,714**	**5,827**	**5,522**	**5,788**
Financial	2,982	2,560	2,385	2,353	2,355	1,893	387	421	283	273	224	57
Banco del Estado	787	433	388	441	415	401	384	418	280	271	222	55
Central Bank of Chile	2,195	2,127	1,997	1,912	1,940	1,492	3	3	3	2	2	2
Non-financial	6,743	6,201	6,295	5,756	5,834	4,849	4,326	4,543	5,324	5,439	5,206	5,659
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	2,884
Other	2,764	1,922	1,753	1,560	1,604	1,638	1,673	2,274	3,155	2,856	2,796	2,775
Private Sector with Public Guarantee	2,067	1,793	943	911	946	759	450	124	107	115	92	72
PRIVATE SECTOR	**5,633**	**5,810**	**8,619**	**10,166**	**12,343**	**14,235**	**17,816**	**21,613**	**25,977**	**28,340**	**31,327**	**32,002**
Financial	524	529	2,842	3,022	3,400	3,126	2,940	2,222	2,592	1,807	1,494	2,198
Non-financial	5,109	5,281	5,777	7,144	8,943	11,109	14,076	17,691	21,035	24,373	27,297	27,415
Agencies abroad	0	0	0	0	0	0	800	1,700	2,350	2,160	2,536	2,389
II. MEDIUM- AND LONG-TERM FOREIGN DEBT	**13,079**	**13,062**	**13,609**	**14,332**	**16,027**	**16,563**	**18,527**	**23,107**	**27,539**	**30,168**	**30,447**	**31,327**
PUBLIC SECTOR	**9,223**	**8,905**	**8,606**	**7,976**	**7,884**	**6,499**	**4,410**	**4,018**	**4,708**	**4,993**	**3,923**	**4,730**
Financial	2,839	2,486	2,230	2,146	2,060	1,855	371	263	273	223	61	4
Banco del Estado (2)	689	395	265	265	371	363	368	260	270	221	59	2
Central Bank of Chile	2,150	2,091	1,965	1,881	1,689	1,492	3	3	3	2	2	2
Non-financial	5,361	5,432	5,466	4,958	4,918	3,914	3,658	3,651	4,349	4,676	3,789	4,671
General Treasury of the Republic	3,671	3,961	4,183	3,891	3,905	3,005	2,431	2,028	1,933	2,337	2,149	2,632
Other	1,690	1,471	1,283	1,067	1,013	909	1,227	1,623	2,416	2,339	1,640	2,039
Private Sector with Public Guarantee	1,023	987	910	872	906	730	381	104	86	94	73	55
PRIVATE SECTOR	**3,856**	**4,157**	**5,003**	**6,356**	**8,143**	**10,064**	**14,117**	**19,089**	**22,831**	**25,175**	**26,524**	**26,597**
Financial (2)	91	68	238	375	408	438	640	1,486	1,744	1,425	1,028	908
Non-financial	3,765	4,089	4,765	5,981	7,735	9,626	12,677	15,903	18,737	21,590	22,960	23,300
Agencies abroad	0	0	0	0	0	0	800	1,700	2,350	2,160	2,536	2,389
III. SHORT-TERM FOREIGN DEBT	**4,346**	**3,302**	**4,633**	**4,854**	**5,451**	**5,173**	**4,452**	**3,594**	**4,152**	**3,999**	**6,402**	**6,463**
CREDIT DUE WITHIN ONE YEAR	**3,382**	**2,199**	**3,475**	**3,487**	**3,865**	**3,431**	**2,635**	**1,287**	**1,610**	**1,171**	**2,531**	**2,062**
Public sector	1,984	1,064	448	488	526	615	350	609	598	260	378	245
Private sector (3)	1,398	1,135	3,027	2,999	3,339	2,816	2,285	678	1,012	911	2,153	1,817
AMORTIZATIONS OF MEDIUM- AND LONG-TERM CREDIT DUE WITHIN YEAR	**964**	**1,103**	**1,158**	**1,367**	**1,586**	**1,742**	**1,817**	**2,307**	**2,542**	**2,828**	**3,871**	**4,401**
Public sector	585	585	569	556	725	387	403	461	408	574	1,221	813
Private sector	379	518	589	811	861	1,355	1,414	1,846	2,134	2,254	2,650	3,588
IV. CENTRAL BANK WITH IMF	**1,151**	**955**	**722**	**479**	**290**	**290**	**0**	**0**	**0**	**0**	**0**	**0**

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

Source Central Bank of Chile.

TABLE 19

MEDIUM- AND LONG-TERM FOREIGN DEBT FLOWS AND BALANCES AS OF 31 DECEMBER 2001 (1) (2)
(US$ million)

Debtor	DISBURSEMENT	AMORTIZATION (6)	INTEREST	BALANCE as of 31/12/2001 (3) (4) (5)
PUBLIC SECTOR (I + II + III)	**1,288**	**836**	**303**	**5,543**
I. Financial	0	166	14	56
II. Non-financial	1,288	650	284	5,415
III. Publicly guaranteed private sector	-	20	5	72
PRIVATE SECTOR (I + II + III)	**4,378**	**3,719**	**1,476**	**30,185**
I. Financial	102	139	72	1,150
II. Companies and persons	4,276	3,456	1,217	26,646
III. Agencies abroad	0	124	187	2,389
TOTAL MEDIUM- AND LONG-TERM	**5,666**	**4,555**	**1,779**	**35,728**

(1) Preliminary figures.
(2) Exchange rate for the month flow occurred. Balance exchange rate as of 31 December 2001. Contract specifies timeframe.
(3) Balance for 31 December 2001 is down US$75 million from one year earlier, due to exchange rate.
(4) Balance rises US$589 million due to transfer of credit from short- to medium-term.
(5) Balance falls US$215 million due to statistical adjustments.
(6) Purchase of resident company bonds via agencies abroad included as amortization.

Source: Central Bank of Chile.

TABLE 20

PRICE INDICES

Period	CPI (December 1998 = 100) Index	CPI Percentage change Month	CPI Percentage change 12 months	CPI MINUS PERISHABLES AND FUEL (1) (December 1998 = 100) Index	Percentage change Month	Percentage change 12 months	WPI (June 1992 = 100) Index	WPI Percentage change Month	WPI Percentage change 12 months
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)
2001 Average	108.7	-	2.6 (2)	107.4	-	3.2 (2)	177.7	-	3.1 (2)
2000									
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
Dicember	106.9	0.1	4.5	105.6	0.4	3.4	172.0	-1.2	7.9
2001									
January	107.3	0.3	4.7	105.7	0.1	3.4	171.3	-0.4	8.3
February	107.0	-0.3	3.8	105.7	0.0	2.7	171.1	-0.1	8.1
March	107.5	0.5	3.5	106.4	0.6	2.5	170.9	-0.1	7.7
April	108.0	0.5	3.5	106.6	0.2	2.5	174.2	1.9	10.7
May	108.4	0.4	3.7	106.8	0.2	2.7	176.8	1.5	10.9
June	108.5	0.1	3.6	107.1	0.3	2.7	176.7	-0.1	8.5
July	108.3	-0.2	3.2	107.4	0.3	3.1	178.2	0.9	7.4
August	109.2	0.8	3.8	107.9	0.5	3.5	183.0	2.7	9.9
September	110.0	0.7	3.9	108.4	0.4	3.6	185.6	1.4	8.0
October	110.1	0.1	3.4	108.8	0.4	3.7	184.9	-0.4	7.0
November	110.1	0.0	3.1	109.0	0.1	3.6	182.2	-1.4	4.6
December	109.8	-0.3	2.6	109.0	0.0	3.2	177.3	-2.7	3.1

(1) Perishables: fresh fruit and vegetables described as follows:
Fresh fruit: peach, apple, melon, orange, pear, banana, watermelon, grape, strawberry, cherries, kiwi, custard apple, prickly pear, plum and pear melon.
Fresh vegetables: avocado, tomato, lettuce, cabbage, cauliflower, chard, pumpkin, fresh corn, zucchini, sweet pepper, fresh pea, green bean, pinto bean, potato, onion, carrot, beetroot, lemon, garlic, parsley and coriander, 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 21

CONSUMER PRICE INDEX

(December 1998 = 100)

Period	GENERAL INDEX		FOOD		HOUSING		HOUSEHOLD GOODS		CLOTHING		TRANSPORT		HEALTH CARE		EDUCATION AND RECREATION		OTHER	
	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months	Index	Percentage change 12 months
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
2001 December	109.8	2.6	102.9	2.0	115.5	3.5	96.4	0.1	83.8	-4.8	136.9	4.4	115.6	4.9	114.1	4.9	96.9	0.0
2000																		
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
2001																		
January	107.3	4.7	100.0	-1.4	112.9	10.9	96.3	-2.6	87.1	-6.5	133.8	20.1	110.6	5.0	108.9	4.4	97.6	-2.1
February	107.0	3.8	99.2	-0.8	112.0	8.7	96.2	-2.3	86.5	-6.3	134.4	14.3	110.9	4.2	108.9	4.2	98.5	-0.4
March	107.5	3.5	100.0	0.2	111.6	7.4	96.2	-1.7	86.7	-6.5	133.3	12.1	111.1	3.8	112.9	4.4	99.0	0.5
April	108.0	3.5	100.2	0.3	112.0	6.2	96.2	-1.0	86.7	-6.6	135.8	12.9	111.7	3.7	112.9	4.3	98.8	1.1
May	108.4	3.7	100.4	0.2	112.7	6.2	96.4	-0.7	86.6	-6.1	138.0	14.4	112.0	3.7	113.0	4.5	98.2	0.3
June	108.5	3.6	101.0	0.7	112.9	5.7	96.2	-0.8	86.0	-6.3	136.7	12.9	112.5	4.0	113.0	4.4	98.4	3.0
July	108.3	3.2	101.0	0.6	112.9	5.1	96.0	-0.9	85.2	-5.1	135.3	10.3	113.3	4.4	113.0	4.6	97.7	-0.1
August	109.2	3.8	102.4	1.9	113.5	5.2	96.0	-0.6	84.6	-5.2	138.2	11.2	114.0	4.9	113.1	4.6	97.4	-0.1
September	110.0	3.9	102.8	2.2	114.5	5.4	96.1	-0.6	84.6	-5.2	141.7	11.2	114.5	5.0	113.3	4.6	97.1	-1.0
October	110.1	3.4	103.0	1.5	115.1	4.8	96.2	-0.2	84.6	-5.3	140.5	9.0	115.2	5.3	113.7	5.0	97.0	0.4
November	110.1	3.1	103.5	2.0	115.6	4.3	96.6	0.2	84.5	-4.5	138.4	5.8	115.5	5.1	113.7	4.9	96.7	0.8
December	109.8	2.6	102.9	2.0	115.5	3.5	96.4	0.1	83.8	-4.8	136.9	4.4	115.6	4.9	114.1	4.9	96.9	0.0

Source: National Statistics Bureau (INE).

TABLE 22

HOURLY WAGE INDEX
(April 1993 = 100)

Period	NOMINAL			REAL (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12 months		Month	12 months
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
2001 December	220.5		5.3	131.6		2.6
2001						
January	210.8	0.6	5.6	128.7	0.3	0.8
February	211.3	0.3	5.4	129.4	0.6	1.6
March	212.4	0.5	5.3	129.4	0.0	1.7
April	213.0	0.3	5.2	129.2	-0.2	1.7
May	213.6	0.3	5.4	129.0	-0.2	1.6
June	214.9	0.6	5.6	129.7	0.6	1.9
July	215.7	0.4	5.5	130.5	0.6	2.2
August	216.2	0.2	5.2	129.8	-0.6	1.4
September	216.9	0.3	5.1	129.2	-0.4	1.2
October	216.9	0.0	4.7	129.0	-0.1	1.3
November	217.5	0.3	4.7	129.4	0.3	1.6
December	220.5	1.4	5.3	131.6	1.7	2.6

(*) Deflated using the Consumer Price Index.

Source: National Statistics Bureau (INE).

TABLE 23

LABOR COST INDEX
(April 1993 = 100)

Period	NOMINAL			REAL (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12 months		Month	12 months
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
2001 December	210.3		5.3	125.5		2.6
2001						
January	200.5	0.5	5.2	122.4	0.1	0.5
February	200.9	0.2	5.3	123.0	0.5	1.5
March	202.2	0.6	4.8	123.2	0.1	1.3
April	202.9	0.4	4.9	123.1	-0.1	1.3
May	203.6	0.3	4.7	123.0	-0.1	0.9
June	204.9	0.6	5.3	123.7	0.6	1.7
July	205.3	0.2	5.2	124.2	0.4	1.9
August	206.2	0.4	5.1	123.7	-0.4	1.3
September	206.5	0.1	4.8	123.0	-0.6	0.9
October	206.8	0.1	4.8	123.0	0.0	1.4
November	207.7	0.4	5.0	123.5	0.4	1.9
December	210.3	1.3	5.3	125.5	1.6	2.6

(*) Deflated using the Consumer Price Index.

Source: National Statistics Bureau (INE).

TABLE 24

REAL WAGE INCREASE RESULTING FROM COLLECTIVE BARGAINING
(Percentage)

Period	UNIONS	OTHER GROUPS	TOTAL
1999			
January - March	0.82	0.08	0.63
April - June	0.38	0.45	0.40
July - September	0.43	0.43	0.43
October - December	0.82	0.65	0.78
2000			
January - March	1.96	1.00	1.70
April - June	0.90	0.95	0.91
July - September	0.52	0.63	0.55
October - December (1)	0.35	0.93	0.57
2001			
January - March	0.80	0.65	0.75
April - June (2)	1.21	0.58	1.04
July - September (2)	0.58	-0.04	0.42
October - December (2)	0.80	0.21	0.52

(1) Provisional figures.
(2) Estimates.

Source: Labor Bureau.

TABLE 25

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

Item	2000	2001	STRUCTURE OF ASSETS AND LIABILITIES (%)		
			2000	2001	Average (1)
ASSETS	**15,559**	**17,348**	**100.0**	**100.0**	**100.0**
Net foreign exchange reserves	8,442	9,335	54.3	53.8	54.4
Treasury promissory notes	4,039	4,515	26.0	26.0	26.7
Other public sector assets	510	534	3.3	3.1	3.1
Subordinated debt (shares and credit)	1,251	1,376	8.0	7.9	7.9
Deferred loss	808	558	5.2	3.2	4.2
Liquidity credit line and repos	36	651	0.2	3.8	1.1
Other assets	474	380	3.0	2.2	2.6
LIABILITIES	**16,275**	**17,098**	**100.0**	**100.0**	**100.0**
Monetary policy promissory notes	11,920	12,874	73.2	75.3	75.4
Other promissory notes with secondary market	231	151	1.4	0.9	1.1
Checking accounts and float in foreign currency	67	168	0.4	1.0	0.7
Treasury and other public sector deposits	1,394	1,174	8.6	6.9	8.1
Other non-monetary emission liabilities	949	837	5.8	4.9	4.8
Monetary emission	1,713	1,894	10.5	11.1	10.0
CAPITAL AND RESERVES	**-715**	**250**			
Revalued initial capital	**-896**	**-738**			
Nominal initial capital	-855	-715			
Revalued own capital	-40	-22			
Net results	**181**	**988**			
Net interest (2)	-167	-184			
Net indexing and other value changes (3)	331	1,171			
Less: revaluation own capital	40	22			
Other net results	-24	-21			

(1) Over average end-of-month balances from December 2000 to December 2001, both included.
(2) Foreign currency interest and other profits converted to pesos using average exchange rates.
(3) Includes indexing in domestic currency, the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency and, for 2001, (-)132 billion pesos in amortization of deferred losses.

Source: Central Bank of Chile.

TABLE 26

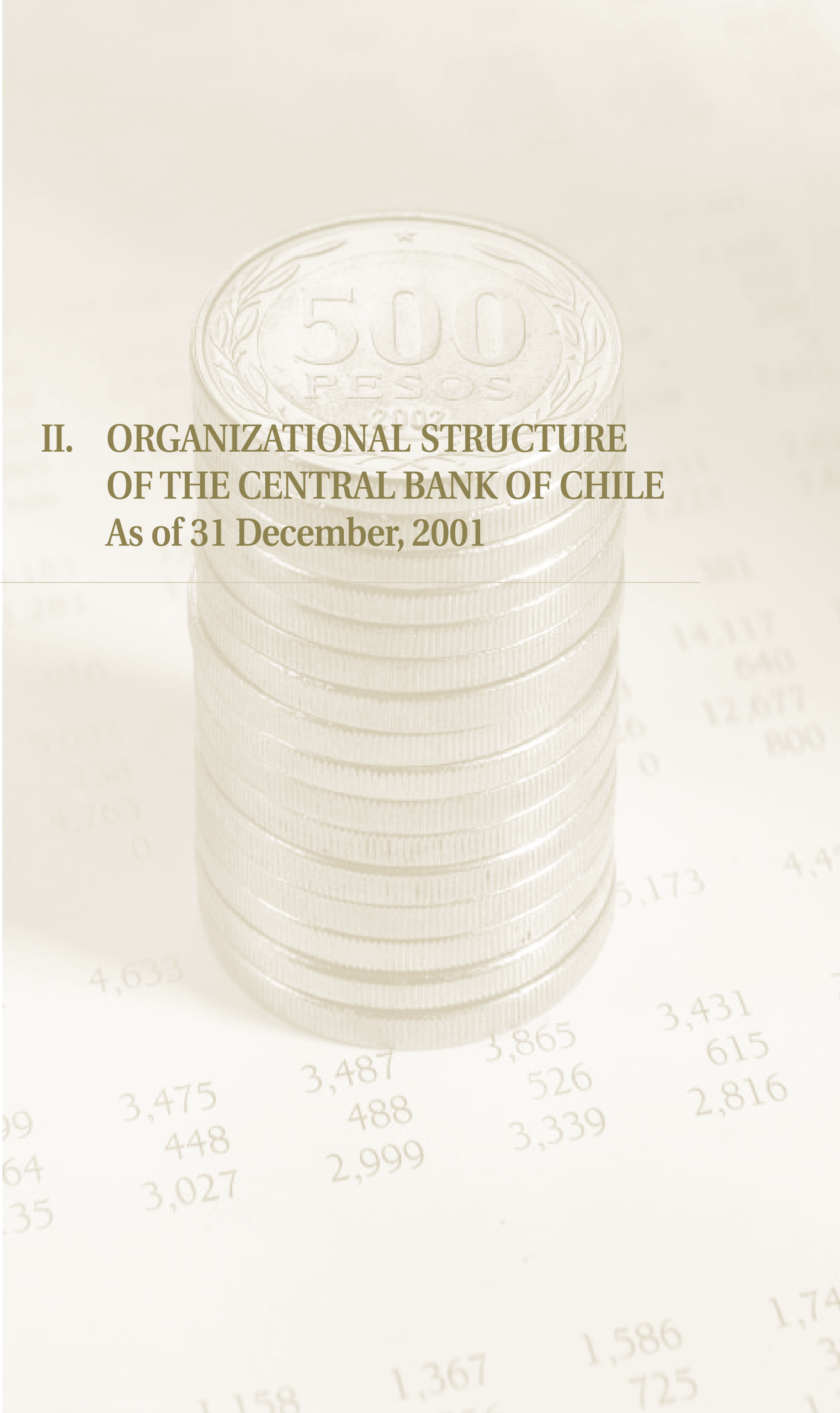
OPERATING EXPENDITURES TO 31 DECEMBER OF EACH YEAR

Item	1997	1998	1999	2000	2001
OPERATING EXPENDITURES (1)					
Personnel	12,114.7	12,853.6	13,290.4	13,898.9	13,415.3
Administration	4,527.0	3,897.5	4,225.2	4,282.3	5,069.2
Depreciation, amortization and write-offs	1,549.8	1,232.4	1,251.5	1,469.6	1,362.1
Taxes, contributions and payments	438.1	382.0	476.9	455.2	483.2
TOTAL	**18,629.6**	**18,365.5**	**19,244.0**	**20,106.0**	**20,329.8**
OPERATING EXPENDITURES (2)					
Personnel	14,150.0	14,280.3	14,300.4	14,399.3	13,415.3
Administration	5,287.6	4,330.1	4,546.4	4,436.5	5,069.2
Depreciation, amortization and write-offs	1,810.2	1,369.2	1,346.6	1,522.5	1,362.1
Taxes, contributions and payments	511.7	424.4	513.2	471.6	483.2
TOTAL	**21,759.5**	**20,404.0**	**20,706.6**	**20,829.9**	**20,329.8**

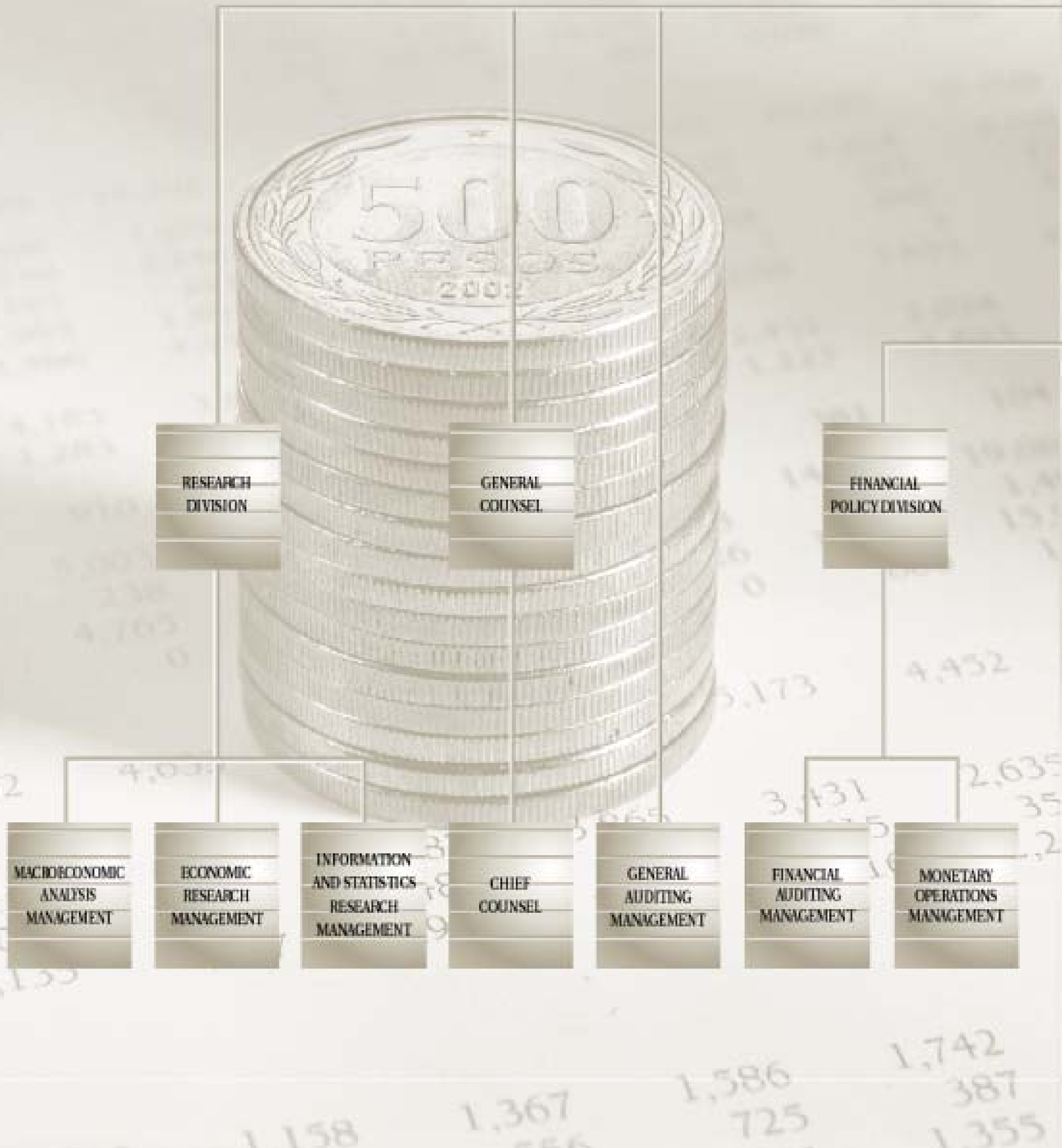
(1) Millions of each year's pesos.
(2) Millions of 2001 pesos. The average change in each year's CPI was used to update figures from previous years.

Source: Central Bank of Chile.

II. ORGANIZATIONAL STRUCTURE OF THE CENTRAL BANK OF CHILE
As of 31 December, 2001

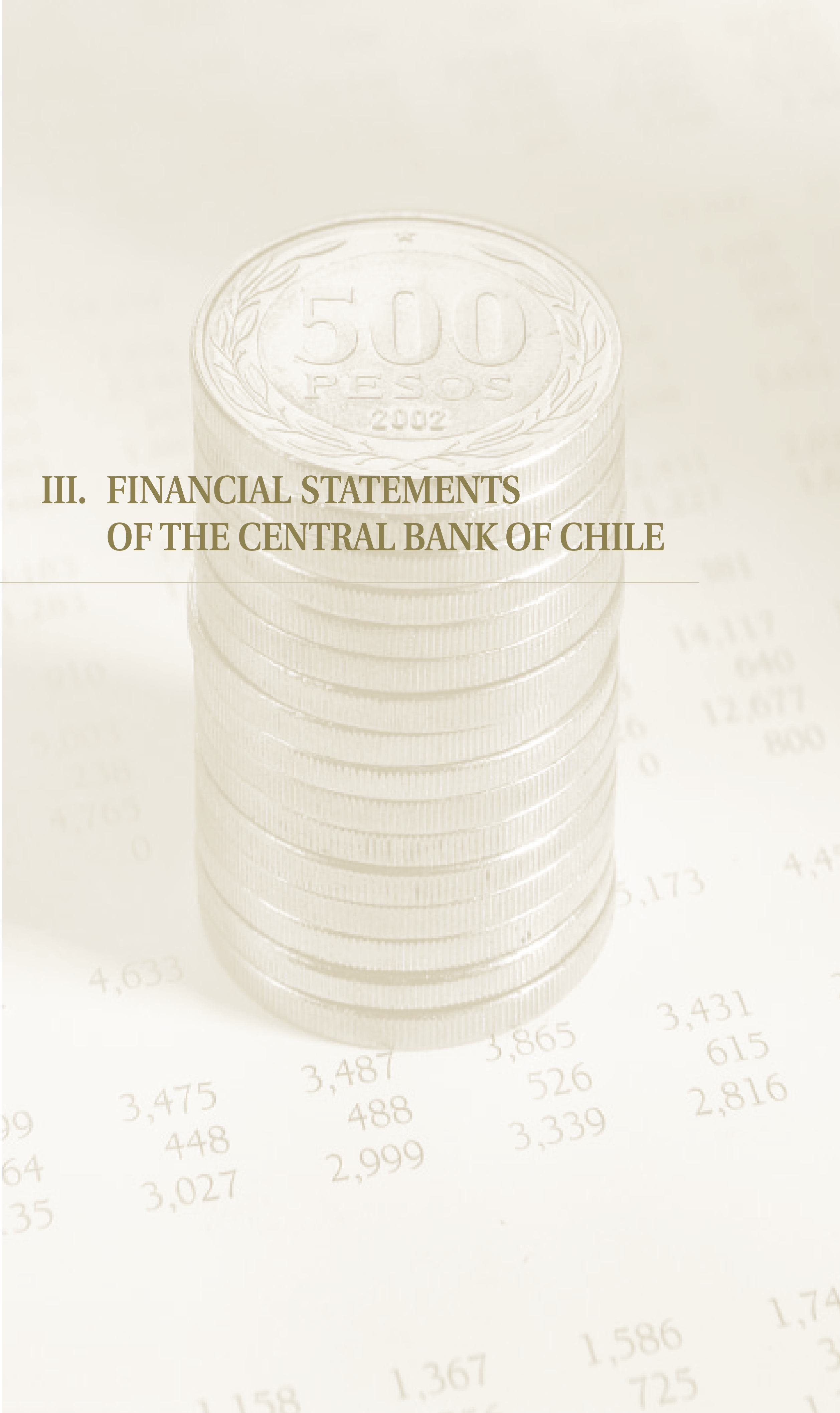


Organizational Structure of the Central Bank of Chile




BOARD
GENERAL MANAGEMENT
INTERNATIONAL AFFAIRS DIVISION
MANAGEMENT AND DEVELOPMENT DIVISION
INTERNATIONAL FINANCIAL OPERATIONS AND ANALYSIS MANAGEMENT
INTERNATIONAL INVESTMENT MANAGEMENT
FOREIGN TRADE AND COMMERCIAL POLICY MANAGEMENT
HUMAN RESOURCES MANAGEMENT
ADMINISTRATION AND ACCOUNTING MANAGEMENT
GENERAL TREASURY
INFORMATICS MANAGEMENT

III. FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE



BALANCE SHEETS

As of 31 December
(Millions of Chilean pesos)

ASSETS	2001	2000
OVERSEAS ASSETS	10,351,015.3	9,786,340.2
RESERVE	10,140,767.5	9,502,661.6
Gold	12,195.3	10,550.7
Demand deposits and accounts	89,098.5	20,902.5
Deposits and securities	9,039,034.2	8,484,361.9
Mutual loan agreements	7,855.1	35,532.7
Loans	378,016.1	336,003.8
IMF subscription	614,568.3	615,310.0
OTHER OVERSEAS ASSETS	210,247.8	283,678.6
Shares and contributions to the Interamerican Development Bank	104,745.7	101,365.9
Interest receivable	105,502.1	182,312.7
DOMESTIC ASSETS	6,711,394.8	5,790,627.5
DOMESTIC LOANS	6,711,394.8	5,790,627.5
Loans to state-owned companies	8,661.2	17,507.3
Loans to Banco del Estado de Chile	169,308.3	36,701.5
Loans to commercial banks	588,123.9	152,164.5
Loans to other institutions	365,825.6	348,103.8
Treasury transfers (Laws 18,267, 18,401, and 18,768)	4,699,342.1	4,344,996.5
Loans for subordinated obligation of financial institutions (Law 18,401)	880,133.7	891,153.9
OTHER ASSETS	1,505,978.3	1,659,040.9
Fixed assets	15,790.3	16,520.2
Temporary assets	426,642.5	408,571.6
Other securities	1,063,545.5	1,233,949.1
TOTAL ASSETS	18,568,388.4	17,236,008.6

The accompanying notes 1 to 14 form an integral part of these financial statements.

LIABILITIES	2001	2000
OVERSEAS LIABILITIES	1,029,742.0	1,028,047.7
RESERVE LIABILITIES	805,738.3	798,874.6
Mutual loan agreements	8,679.1	35,483.7
IMF deposits	797,059.2	763,390.9
OTHER OVERSEAS LIABILITIES	224,003.7	229,173.1
Loans	1,161.7	1,235.4
Accounts with other international organizations	121,573.8	132,610.5
Allocations of Special Drawing Rights	100,458.1	93,793.8
Interest payable	810.1	1,533.4
DOMESTIC LIABILITIES	17,280,258.8	16,924,047.7
CURRENCY ISSUANCE AND DEPOSITS	1,884,061.2	1,766,471.1
Bank notes and coins in circulation	1,689,024.2	1,546,123.9
Deposits from financial institutions (local currency)	195,037.0	220,347.2
DEPOSITS AND OBLIGATIONS	1,386,733.2	1,665,764.5
Deposits and obligations with the Treasury	1,097,620.5	1,366,042.9
Other deposits and obligations	289,112.7	299,721.6
NOTES ISSUED BY THE CENTRAL BANK	14,009,464.4	13,491,812.1
Indexed promissory notes payable in coupons (PRC)	5,568,907.1	6,257,179.1
Central Bank discountable promissory notes (PDBC)	2,772,000.0	1,657,332.5
Central Bank indexed promissory notes in US dollars (PRD)	2,548,247.0	880,528.6
Indexed coupons (CERO) in UF	1,595,319.2	1,319,804.5
Indexed coupons (CERO) in US dollars	578,627.5	4,621.8
Promissory notes stated in indexed units UF (Resolution 1836) arising from US dollar certificates	479,205.9	483,754.2
Central Bank indexed promissory notes (PRBC)	292,727.9	2,607,316.1
Commercial notes from redenomination of foreign exchange securities	151,181.7	238,026.8
Floating interest rate promissory notes (PTF)	19,159.3	38,880.7
Deposit certificates stated in US dollars, Resolution 1649	4,067.2	4,338.5
Promissory notes issued for exchange-rate differential	21.6	29.3
OTHER LIABILITIES	8,286.0	21,563.1
Provisions	8,152.4	8,498.0
Other securities	133.6	13,065.1
CAPITAL AND RESERVES	250,101.6	(737,649.9)
Capital	(737,649.9)	(923,395.0)
Surplus during the period	987,751.5	185,745.1
TOTAL LIABILITIES	18,568,388.4	17,236,008.6

STATEMENTS OF INCOME AS OF 31 DECEMBER

(Millions of Chilean pesos)

OPERATING RESULTS	2001	2000
OPERATING INCOME	2,705,490.8	1,718,090.4
Interest earned and accrued	885,234.5	943,101.3
Indexation earned and accrued	55,428.3	85,895.6
Income on price differences	59,216.0	9,393.2
Exchange earnings	1,704,781.3	679,386.2
Other operating income	830.7	314.1
OPERATING EXPENSES	(1,668,718.6)	(1,669,660.4)
Interest paid and accrued	854,584.7	927,444.1
Indexation paid and accrued	397,012.9	621,269.8
Loss due to price differences	180,643.2	59,644.6
Exchange losses	228,197.1	53,033.8
Other operating expenses	8,280.7	8,268.1
GROSS MARGIN	1,036,772.2	48,430.0
OTHER OPERATING EXPENSES	(20,329.8)	(20,729.3)
Personnel expenses	13,415.3	14,329.8
Administrative expenses	5,069.2	4,414.9
Depreciation, amortizations and write-offs	1,362.1	1,515.2
Taxes, rates and contributions	483.2	469.4
Income before provisions and write-offs	1,016,442.4	27,700.7
Provisions and write-offs from risky assets	(132,616.0)	-
NET MARGIN (TOTAL OPERATING INCOME)	883,826.4	27,700.7
NON-OPERATING INCOME AND EXPENSES	213.8	254.4
Non-operating income	248.0	255.9
Non-operating expenses	(34.2)	(1.5)
Income before price-level restatement	884,040.2	27,955.1
PRICE-LEVEL RESTATEMENT	103,711.3	157,790.0
SURPLUS DURING THE YEAR	987,751.5	185,745. 1

The accompanying notes 1 to 14 form an integral part of these financial statements.

NOTES TO 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 the Central Bank of 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 the Central Bank of 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 the Central Bank of 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 the Central Bank of Chile the statement of cash flow is not presented, instead a statement with the Variations in the Monetary Base and another with the Variations in International Reserves (Note 11) are presented.

For comparative purposes, the figures for the 2000 period were restated according to changes in the consumer price index for the period between 30 November 2000 and 30 November 2001, amounting to 3.1%.

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.*

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 the Central Bank of 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:

	2001 Ch$	2000 Ch$
Minted Chilean gold coins	975.47	818.55
US Dollar (observed rate)	656.20	572.68
Pound Sterling	953.92	853.47
Deutsche Mark	296.36	271.17
Euro	579.63	530.36
Special Drawing Rights (SDR)	823.94	746.15

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

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

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

D) FINANCIAL INVESTMENTS

Overseas financial investments are shown under Reserve Assets and basically include bonds and securities issued by governments, 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 at 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 Central Bank of 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, the Central Bank of Chile is entitled to allocate such surplus to set up provisions in order to absorb any such losses".

During 2001 a provision of Ch$132,616.0 million was booked and charged to income for the same year, which was applied to this deferred loss.

Deferred losses amount to Ch$557,510.1 million as of 31 December 2001 (Ch$832,838.8 million in 2000) and are shown as "Other securities" under the caption "Other assets".

G) LOAN PROVISIONS

The Bank has not set up provisions in 2001 and 2000. The balance of provisions set up amounts to Ch$11,035.1 million (Ch$9,945.6 million in 2000) and is included by deducting related assets. The increase corresponds to the variation in the exchange rate of foreign currency provisions.

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$6,944.5 million (Ch$7,148.2 million in 2000).

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 Results, 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$1,131,919.0 million (Ch$554,477.1 million in 2000), includes mainly the following operations:

	(Millions of Ch$)	
	2001	2000
Receivables from CORFO (Note 3)	2,059.5	9,440.8
Credit lines on debt rescheduling	42,497.7	53,899.4
Mortgage loan portfolio acquired	19,007.3	30,565.2
Liquidity lines of credit	39,327.8	36,626.2
Credit lines to finance the sale of mortgage portfolio of former ANAP	42,796.8	49,947.2
Credit lines for international organizations programs	5,536.1	6,774.1
Credit lines for deposits (Resolution 1686)	2,263.1	3,569.3
Former *Caja Central de Ahorros y Préstamos* and former ANAP (Note 4)	365,825.6	348,103.8
Price balances (Law 19,396)	0.0	13,826.8
Purchase of Central Bank of Chile promissory notes with resale agreement	611,244.8	0.0
Other	1,360.3	1,724.3
Total	1,131,919.0	554,477.1

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 the Central Bank of 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 31 December 2001, the balance of accounts receivable from CORFO amounts to Ch$2,059.5 million (Ch$9,440.8 million in 2000), 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 31 December 2001, amount to Ch$185,270.2 million equivalent to UF11.4 million (Ch$183,598.9 million in 2000, equivalent to UF11.3 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 16 January 1990, terminated the legal existence of *Caja Central de Ahorros y Préstamos* and the authorization of existence of *Asociación Nacional de Ahorro y Préstamo* (ANAP), 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 ANAP 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 31 December 2001, the amount payable to Central Bank of Chile arising from the liquidation of these institutions, including accrued interest as of such date, amounted to Ch$365,825.6 million (Ch$348,103.8 million in 2000), 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$)	
	2001	2000
Treasury promissory notes Law 18,267	375,923.8	425,272.1
Treasury promissory notes Law 18,768	4,138,148.1	3,736,125.5
Treasury transfers Law 18,401	185,270.2	183,598.9
Total	4,699,342.1	4,344,996.5

A) TREASURY PROMISSORY NOTES LAW (18,267)

In conformity with Law 18,267, the Treasury transferred Ch$100,000 million to the Central Bank of 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. The last unit matures on 15 December 2008.

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 15 December 2014.

This year prepayment of interest was received in the amount of US$123.8 million, (US$127.8 million in 2000) shown in the caption "Other liabilities". Non-accrued interest amounts to US$115.5 million (US$119.4 million in 2000).

Law 19,774 on Public Sector Budgets was published in the Official Gazette on 4 December 2001. Article 21 of this law states the following: "The President of the Republic is authorized to substitute the promissory notes issued in virtue of Article 75 of Law 18,768, through one or more supreme decrees from the Ministry of Finance, for other documents issued by the Treasury, in pesos common national currency, which will maintain the bi-annual maturity dates set for the former. The substitution procedure, interest rate, capitalization regime and other characteristics, conditions and types of those promissory notes, will be determined in the respective decree".

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 the Central Bank of Chile deriving from the agreement amending payment terms for such obligation subscribed with *Banco de Chile* on 8 November 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.

7. SHARES RECEIVED IN PAYMENT

Pursuant to Law 19,396, the Central Bank of Chile received from *Banco Santiago* 35,090.5 million series E shares, in payment, of which, as of 31 December 2001, 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 13 May 1999, the Central Bank subscribed an agreement with *Banco Santander Central Hispano S.A.*, whereby, among other matters, the Central Bank of Chile was granted the irrevocable option to sell to *Banco Santander Central Hispano*, starting 15 May 2000 until 15 May 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 15 May 2000, based on changes in UF plus the deposit rate of indexed operations.

8. DEPOSITS AND OBLIGATIONS

The caption Other deposits and obligations includes the following items:

	(Millions of Ch$)	
	2001	2000
Foreign currency current accounts	168,683.1	69,890.5
Deposits in foreign currency, Resolutions 1657 and 1686	1,745.8	2,355.4
Short-term deposits	108,678.8	227,475.7
Other deposits	10,005.0	-
Total	289,112.7	299,721.6

9. INSTRUMENTS ISSUED BY CENTRAL BANK, AS OF 31 DECEMBER 2001 AND 2000 BY PERIOD REMAINING TO MATURITY

(Millions of Ch$)

Type of document	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2001	Total 2000
Indexed promissory notes payable in coupons (PRC)	269,932.0	224,031.7	385,368.1	1,419,343.7	3,270,231.6	5,568,907.1	6,257,179.1
Central Bank discountable promissory notes (PDBC)	1,925,000.0	466,000.0	381,000.0	-	-	2,772,000.0	1,657,332.5
Central Bank indexed promissory notes in US dollars (PRD)	66,900.6	43,432.2	218,383.4	1,836,638.3	382,892.5	2,548,247.0	880,528.6
Indexed coupons (CERO) in UF	41,611.0	45,965.8	85,343.2	298,903.3	1,123,495.9	1,595,319.2	1,319,804.5
Indexed coupons (CERO) in US dollars	9,272.8	5,184.4	19,181.9	408,421.0	136,567.4	578,627.5	4,621.8
Promissory notes stated in indexed units UF (Resolution 1836) arising from US dollars certificates	7,232.8	-	-	471,973.1	-	479,205.9	483,754.2
Central Bank Indexed promissory notes (PRBC)	-	-	292,727.9	-	-	292,727.9	2,607,316.1
Commercial notes from redenomination of foreign exchange securities	26,900.0	10,593.7	4,971.8	33,573.1	75,143.1	151,181.7	238,026.8
Floating interest rate promissory notes (PTF)	8,004.7	1,868.6	8,236.9	1,049.1	-	19,159.3	38,880.7
Deposit certificates stated in US dollars (Resolution 1649)	75.8	-	665.3	1,330.7	1,995.4	4,067.2	4,338.5
Promissory notes issued for exchange-rate differential	21.6	-	-	-	-	21.6	29.3
Total notes issued	2,354,951.3	797,076.4	1,395,878.5	4,471,232.3	4,990,325.9	14,009,464.4	13,491,812.1
Total 2000	3,437,853.2	658,075.3	1,937,490.5	2,677,347.5	4,781,045.6	13,491,812.1	

Balances include interest and accrued adjustments as of 31 December 2001 and 2000.

10. CAPITAL AND RESERVES

Changes in capital and reserves during 2001 and 2000 were as follows:

	(Millions of Ch$)		
	Capital	Surplus (Deficit) in the period	Total
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)
Balances as of 31.12.2000 restated for comparison purposes	(923,395.0)	185,745.1	(737,649.9)
Balances as of 01.01.2001	(895,630.4)	180,160.1	(715,470.3)
Distribution of 2000 surplus	180,160.1	(180,160.1)	-
Equity revaluation	(22,179.6)	-	(22,179.6)
Surplus during the period	-	987,751,5	987,751.5
Balances as of 31.12.2001	(737,649.9)	987,751,5	250,101.6

Article 5 of the Constitutional Organic Law of the Central Bank set start-up capital for the Bank at Ch$500,000 million (Ch$1,502,251.6 million restated as of 31 December 2001) to be paid according to Interim Article 2 of said law.

The 2001 surplus will be used to absorb the equity deficit.

11. VARIATIONS IN MONETARY BASE AND INTERNATIONAL RESERVES

In conformity with Note 1 Letter a) and in consideration of the operating particularities of the Central Bank of Chile, as of 2001, instead of a Statement of Cash Flow, the Bank presents a Statement of Variation in Monetary Base and a Statement of Variations in International Reserves, understanding the following as Monetary Base and International Reserves:

Monetary Base: Central Bank of Chile liabilities that form part of the money, or otherwise contribute to the formation of monetary aggregates comprising bills, coins and checks issued by the Bank that are freely circulating, plus deposits made by the financial system in the Central Bank of Chile.

International Reserves: Those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and /or for other purposes.

VARIATIONS IN THE MONETARY BASE
(Millions of Ch$)

PRICE-LEVEL RESTATED BEGINNING BALANCE OF ISSUANCE (31.12.2000)		1,766,471.1
CURRENCY ISSUANCE INCREASES		
Operations with International Organizations	9,169.2	
Domestic Loans	591,790.1	
Interest and indexation paid for notes issued	1,502,100.2	
Other operating expenses	5,093.7	
Other expenses	17,387.1	
TOTAL INCREASES		2,125,540.3
CURRENCY ISSUANCE DECREASES		
Notes issued by the Central Bank of Chile	(1,125,969.5)	
Interest and indexation received for internal credit	(181,390.6)	
Net sale of foreign currency	(562,046.8)	
Deposits and obligations	(80,691.5)	
Other assets	(4,737.7)	
TOTAL DECREASES		(1,954,836.1)
Variations in currency issuance for the year		170,704.2
Effect of inflation on beginning balance of currency issuance		(53,114.1)
ENDING BALANCE OF CURRENCY ISSUANCE (31.12.2001)		1,884,061.2

NET VARIATION IN INTERNATIONAL RESERVES
(Millions of US dollars)

BEGINNING RESERVES BALANCE (31.12.2000)		14,741.4
RESERVES INCREASES		
Domestic Loans	0.5	
Other assets	0.1	
Other liabilities	0.2	
Interest received for deposits and other investment instruments abroad	1,329.7	
TOTAL INCREASES		1,330.5
RESERVES DECREASES		
Deposits and obligations	(740.2)	
Other liabilities abroad	(2.2)	
Other operating expenses	(10.7)	
Other expenses	(1.0)	
Net sale of foreign currency	(791.5)	
TOTAL DECREASES		(1,545.6)
Variation in reserves for the year		(215.1)
Exchange rate effect		(300.4)
FINAL RESERVES BALANCE (31.12.2001)		14,225.9

12. BALANCES IN FOREIGN CURRENCY AND GOLD

Assets and liabilities denominated in foreign currency and included in the balance sheets as of 31 December 2001 and 2000 are as follows:

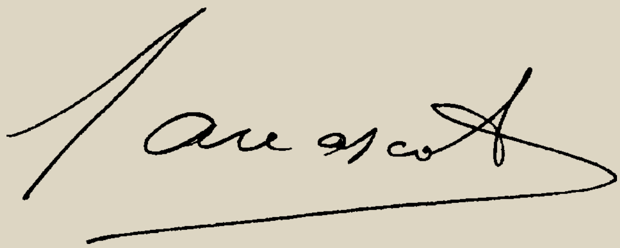
	(Millions of US dollars)	
	2001	2000
ASSETS		
OVERSEAS ASSETS	14,384.2	15,083.5
Reserve	14,186.7	14,738.0
Other overseas assets	197.5	345.5
DOMESTIC ASSETS	6,307.9	6,330.0
Domestic loan	6,307.9	6,330.0
OTHER ASSETS	1.4	5.1
Total assets	20,693.5	21,418.6
LIABILITIES		
OVERSEAS LIABILITIES	169.3	223.7
Reserve	13.2	60.1
Other overseas liabilities	3.0	4.7
SDR allocations	153.1	158.9
DOMESTIC LIABILITIES	1,549.6	2,309.6
Deposits and obligations	1,549.6	2,309.6
OTHER LIABILITY ACCOUNTS	115.9	119.9
Total liabilities	1,834.8	2,653.2
NET ASSETS	18,858.7	18,765.4

13. CONTINGENCIES AND COMMITMENTS

The 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.

14. INCOME TAX

Pursuant to DL 3345, dated 24 April 1980, the Central Bank of 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 Board Members of the Central Bank of Chile

1. We have audited the accompanying balance sheets of Central Bank of Chile as of 31 December 2001 and 2000 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 that 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. Central Bank of 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 accor dance with generally accepted accounting principles, except for the deferral of accounting losses, amounting to Ch$557,510.1 million (Ch$832,838.8 million in 2000), 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 in all material respects present fairly the financial position of the Central Bank of Chile as of 31 December 2001 and 2000, and the results of its operations for the years then ended, in conformity with accounting policies as described in Note 1.

5. As of 31 December 2001, Central Bank of Chile has shareholders' equity (Capital and Reserves) of Ch$250,101.6 million (shareholders' equity deficit of Ch$737,649.9 million as of 31 December 2000). The positive change in shareholders' equity as of 31 December 2001 in respect to the previous year, originates as a consequence of the surplus of Ch$987,751.5 million obtained as of that date, due to the higher exchange rate of the dollar and other foreign currencies in 2001, which favorably affected the foreign currency asset position maintained by the Bank, generating exchange net income of Ch$1,476,584.2 million.

6. As of 31 December 2001 and as explained in Note 1 f), the Bank's management decided to amortize, with a charge to income for the year, Ch$132,616 million corresponding to deferred losses originated by modification of payment conditions of certain banks' subordinated obligation.

Alejandro Cerda G.

ARTHUR ANDERSEN - LANGTON CLARKE

Santiago, 15 January 2002

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