# Annual Report

# 2002

# THE CENTRAL BANK OF CHILE

# 77TH ANNUAL REPORT 2002

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**As of 31 December 2002**

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Vice-Governor

JOSÉ DE GREGORIO REBECO
Board Member

JORGE DESORMEAUX JIMÉNEZ
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## MANAGERS

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General Auditor

RICARDO VICUÑA POBLETE
Statistical Information and Research

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, 11 April 2003

Mr. Nicolás Eyzaguirre G.
Minister of Finance
Santiago

Pursuant to Articles 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile (*Ley Orgánica Constitucional del Banco Central de Chile*), contained in Article 1 of Law 18,840, I hereby submit the Annual Report of this Institution for the year 2002.

Yours sincerely,

CARLOS MASSAD A.
Governor

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, 11 April 2003

Mr. Andrés Zaldívar L.
President of the Senate
Santiago

Pursuant to Articles 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile (*Ley Orgánica Constitucional del Banco Central de Chile*), contained in Article 1 of Law 18,840, I hereby submit to the Senate the Annual Report of this Institution for the year 2002.

Yours sincerely,

CARLOS MASSAD A.
Governor

# I. Main Economic and Financial Developments in 2002

# I. MAIN ECONOMIC AND FINANCIAL DEVELOPMENTS IN 2002

## A. OVERVIEW

The monetary policy implemented by the Central Bank of Chile throughout 2002 consisted of consecutive cuts to the policy interest rate in response to forecasts indicating that inflation was under control and that price pressures were likely to relax further. Lower growth in domestic activity for this period, which increased idle capacity, kept inflationary pressures well under control, despite a rise in the exchange rate. This was also influenced by international conditions, which worsened as the year progressed, from the perspective of both the region and the United States, all in a context of scarce capital flows.

The monetary policy rate was reduced from 6.5% in January 2002 to 4% in May 2002. These policy initiatives were based on a substantial decline in medium-term inflation prospects, combined with the fact that actual inflation – both headline and core – was lower than forecast at the start of the year. Along with the decline in oil prices that occurred in late 2001, other factors contributing to trends in inflation during the early months of 2002 included the stable foreign exchange market, which reduced pressure on retail margins, and the slow recovery of domestic spending. Uncertainty arising from the deteriorated conditions in some of the region's countries and the effects of the terrorist attacks in September 2001 in the US was key to the behavior of this aggregate early in the year, particularly its more volatile components, such as inventories, durable goods purchases, and investment in machinery and equipment.

In the early months of 2002, several sources of the uncertainty that appeared during the second half of 2001 were resolved, particularly those involving trends in the US economy, although concern persisted about economic conditions in Latin America. The fiscal policy and monetary measures applied in the United States in a highly flexible economic environment seem to have prevented further damage to private expectations, and this, combined with the favorable prospects for future productivity trends, sustained the confidence of households and private consumption. Despite this more stable outlook for the world's largest economy, the negative effects of general conditions prevalent in 2001 continued during most of 2002, particularly the widespread decline in manufacturing output and international trade flows that hurt the prices of some Chilean exports. For example, during the early months of 2002, projections for the average copper price ranged from US$0.72 to US$0.73 per pound (LME), which turned out to be higher than the actual price of US$0.71 cents per pound.

Difficult conditions in this region affected the weighted growth of Chile's trading partners in 2002, a situation that while it had evened out by the end of the previous year, with less risk of financial contagion from Argentina, nonetheless adversely affected the trade environment. At first, this effect was considered to be under control, and it was thought that the sharp plunge in exports during the early months of 2002, because of the regional crisis, would be offset by redirecting most shipments to other countries. Thus, for the year as a whole, exports were expected to perform similarly to previous years, particularly non-traditional ones. However, as the year progressed, it was clear that this shift in destination was not very significant, possibly due to lower economic growth worldwide.

During the second quarter of the year, some degree of uncertainty was apparent due to the difficult conditions affecting major economies in the region. However, the expansionary monetary policy stance and the countercyclical effect of fiscal policy were key to encouraging growth in domestic activity and ensuring the recovery of spending's more volatile components. Expectations that the international economy would gradually return to normal contributed to this. Likewise, the completion of several important free trade agreements during 2002 was expected to significantly encourage investment.

Toward mid-year, however, the prospects for the world economy and the growth of Chile's main trading partners fell sharply and substantially, reducing the prospects for domestic growth. This increased the persistency of idle capacity and limited medium-term inflationary pressures. Based on this information, and on clear signs of reduced inflationary impulse, in July and August the Central Bank continued to cut the monetary policy rate, until by August it stood at 3.0% per annum, where it remained until year's end.

This shift in world economic trends arose mainly from recovery in the US, which took shape differently from analysts' expectations during the early months of 2002. Instead of a relatively rapid recovery in investment, greater uncertainty prevailed, fueled by accounting frauds and financial troubles besetting important companies in that country. This again affected consumer confidence, with a labor market already weak in terms of job creation. This worse scenario for the US economy negatively affected other countries' potential for growth, thus reducing projections for world growth. Complex financial and political conditions in major Latin American economies in 2002 also influenced this outlook.

According to estimates available, capital flows into the region during 2002 were particularly low, comparable to those following the Asian and Russian crises in 1998-1999, reflecting regional instability in a context where the US has continued to be a major demander of international resources to finance its current account deficit. Moreover, foreign direct investment flows were much lower than in previous years, a trend apparent in most emerging countries. Initiatives such as the completion of trade negotiations with the European Union, the US, and South Korea, however, favor future investment in Chile and help to consolidate this economy's position in international financial markets.

Similarly, part of the persistently weak performance of activity, expenditure and job creation in recent years has reflected factor markets' difficulties in reallocating resources efficiently, in the presence of considerable external shocks. In this sense, elements such as the ability of credit and labor to adjust to new conditions are tremendously relevant to the direction taken by the economic cycle.

In the financial sphere, throughout the year the transmission of policy rate cuts to market interest rates occurred gradually, at a pace consistent with experience in other countries. It should be noted that the "nominalization" of monetary policy, implemented in mid-2001, has made it possible for the policy rate to reach its current levels, encouraging, moreover, the hoped-for portfolio changes, away from indexed and toward peso-denominated operations. The Central Bank's issue of new, longer-term debt securities in pesos has played an important role in deepening this process of portfolio adjustment. It should also be noted that the changes to asset prices and interest rates have taken place within a solid financial system, as the industry's indicators for solvency, risk and profitability all demonstrate. Similarly, the different agents have absorbed the exchange rate depreciation of recent years with no major problems, thus revealing that the floating exchange system is firmly established, with a reasonably deep market for risk hedging.

However, in mid-October, after a further decline in the region's financial conditions and a rise in risk for the global economy, the Central Bank of Chile considered it prudent to increase the supply of instruments for covering foreign exchange and ensuring liquidity in foreign currency, to facilitate market operation and thus limit the possible occurrence of more extreme foreign exchange scenarios. This decision was based on the fact that part of the depreciation apparent at the time was to some degree an overreaction to scarce liquidity and high market volatility. Thus, the Central Bank decided to increase the supply of dollar-indexed bonds (BCD) to US$2 billion for the next four months and set aside another US$2 billion of foreign currency reserves for sales operations in the foreign exchange market during the same period. This preannounced policy of intervention in the foreign exchange market took the form of a gross placement of about 72% of the BCD originally foreseen, without it becoming necessary to participate directly in the market using foreign exchange reserves.

In the second quarter of the year, nominal growth rates for the more liquid components of monetary aggregates –currency and M1A– bounced back to over 10%, in line with activity levels and the ongoing cuts to domestic interest rates. As a result of the latter, the preference for time deposits faded and demand deposit balances rose, as confirmed by the less active performance of broader monetary aggregates. Moreover, the pension fund managers (AFPs) played a major role in the latter's performance, as from mid-2002 on they substantially expanded their position in time deposits at the cost of Central Bank documents and letters of credit, thus affecting private sector demand for M2 and M7.

Toward the fourth quarter of 2002, domestic spending became significantly stronger, thanks to the passthrough of policy interest rate cuts, gradual improvements to labor market conditions, and the return to greater normalcy of the region's financial situation.

Thus, domestic demand improved slowly but surely throughout the year, with consumption playing an important role toward year's end, a tendency that was partly offset by lower inventory accumulation. Investment, meanwhile, turned in a flat performance for the year, in line with excess idle capacity in some sectors, the weak outlook for international capital inflows, and lower average business returns than in the late 1990s. Sectors associated with export activities posted the highest profitability, reflecting trends in the real exchange rate in recent years.

Annual change in private consumption showed a slight tendency to rise, while the growth rate for public consumption held steady among quarters, in line with the year's budget. An important factor influencing consumption, especially of durable goods during the second half of the year, was monetary policy rate cuts' passthrough to market interest rates. Thus, although private disposable income showed no significant change, given the negative performance of the terms of trade and slow GDP growth, households' perceptions about their current and future conditions improved significantly toward the end of 2002.

These improved prospects for household consumption were reinforced by trends in loans and employment throughout the year. The former accelerated significantly from mid-2002 onward, particularly with the rise in peso-denominated loans, which reflected the strong performance of credits for consumption and housing mortgages. Driven by favorable credit conditions, consumer loans closed the year at levels only comparable to those of late 1998. In contrast, credit to companies slowed notoriously as the year progressed, in part because the corporate sector preferred less costly financing alternatives, such as bond issues.

In 2002, fiscal policy continued to play a countercyclical role as it had since 1999, with the deficit reaching 0.8% of GDP for the year. This was the result of annual growth of 3.3% in spending and 0.9% in total revenues. Similarly, the structural surplus for the year was 0.9% of GDP.

Spending with macroeconomic effects posted real annual growth of 4.6% (versus the 4.9% assumed during debate of the National Budget for 2002 and its respective law). Similarly, investment posted a real annual increase of 6.7%, which, like spending, was lower that budgeted (11%).

Employment in 2002 ended the year on a more encouraging note than the year before, despite a weaker performance from production. An expansionary monetary policy stance played an important role in this behavior as the year progressed, particularly private employment's recovery, as it spurred activity in sectors more closely linked to domestic demand. Although government programs rose toward mid-year, they held steady from then on. Better economic prospects for households, meanwhile, improved even further toward year's end, bringing with them an increase and subsequent stabilization of the labor participation rate, which had been dropping steadily since August 2001. In 2002 the average unemployment rate remained practically unchanged (9.0%), then fell, in December, to its lowest point since 1999 (7.8%).

By December 2002, annual inflation measured by the Consumer Price Index (CPI) was 2.8%, slightly higher than the previous year, but consistent with the middle of the 2% to 4% target range that guides Central Bank monetary policy. The average change in 2002, meanwhile, was 2.5%.

A series of factors influenced inflation's behavior during the year, particularly the oil price, which averaged about US$25 per barrel, pushing prices for fuels and some regulated services upward. The exchange rate, with some fluctuations, also affected regulated service rates and fuel prices, causing inflation to become somewhat volatile in the short term. As with previous years, in 2002 there was little passthrough of peso devaluation to domestic prices, an element which, combined with idle capacity delaying margin normalization, could also be behind the further plunge in dollar prices on imported consumption goods, detariffication, and substitution with goods from markets of origin with more favorable prices.

To this promising situation in terms of world prices can be added the weak thrust of unit labor costs during 2002, the result of moderate trends in nominal wages and higher mean labor productivity. In this sense, the 3% rise agreed upon for public sector wages in 2003, which is lower than that of the previous year, will affect wage increases in social, personal and community services, which account for about 30% of total wages.

Altogether, the above confirmed the existence of lower inflationary pressure from costs, apparent in core inflation (CPIX, which excludes the prices of fresh fruit and vegetables, and fuels), which by year's end had reached an annual rate of 1.8%, almost one and one half points lower than at the end of 2001. In terms of the annual average, in 2002 underlying inflation rose at a rate similar to the CPI, to reach 2.6%.

In 2002, economic activity posted slow growth, picking up toward year's end. In effect, GDP grew at an annual rate of 2.1%, and ranged from an annual rate of 1.3% during the first quarter to 3.2% during the fourth. Likewise, domestic demand tended to rise, although more quickly than GDP, starting 2002 with an annual decline of 2.1% in the first quarter, to end the year with an annual increase of 4.1% during the fourth quarter of 2002. It should be noted that the total annual figure for GDP was US$66.425 billion and domestic demand US$64.902 billion.

Information on growth by economic sector indicates that the sectors most reliant on natural resources were those that most influenced quarterly GDP fluctuations. The sector posting the highest rate of GDP growth was manufacturing, followed by wholesale and retail trade, personal services, the financial sector and construction. Similarly, the sectors directly associated with natural resources –mining, fishery, and electricity, gas and water– together contributed negatively to total GDP growth. This was mainly influenced by mining, which contracted in 2002, due to production cuts applied voluntarily by Codelco and other companies to stabilize international prices for this metal. In terms of its impact on total output growth, lower mining production in 2002 accounted for a 0.2% reduction in GDP, in contrast to its positive contribution of 0.3% of GDP the previous year.

Overall, in 2002, monetary policy continued to play a countercyclical role, with regard to worsening economic conditions worldwide as the year progressed, the ever more likely war in the Middle East, the permanent absence of significant capital flows and lethargic domestic demand. These factors limited domestic growth at the same time as they contained inflationary pressures. Given this reduced cost forecast, the Central Bank cut the monetary policy rate by 25 basis points at the start of 2003.

## B. MAIN CENTRAL BANK POLICIES

During the year the Central Bank developed and implemented a series of measures affecting monetary, financial, foreign exchange and foreign trade areas, as detailed in Appendices 3 and 4, along with administrative management measures. The main policies applied and their consequences will now be analyzed from the perspective of their rationale and contents.

### B.1 MONETARY POLICY

Monetary policy responded above all to the prospects of lower inflation, consistent with the slow pace of growth, the less strong performances delivered by trading partners and instability in international financial markets. In particular, the US economy did not recover as expected. This all occurred in a climate where capacity gaps were not closing as forecast, thus leading to very limited inflation levels. In this context, monetary policy became increasingly expansionary, with the cuts to the monetary policy interest rate totaling 350 basis points for the year, as it fell from 6.5% in January to 3.0% in December.

At the international level, the outlook in early 2002 was rather more optimistic, because there was less uncertainty than in the recent past, with expectations that the world economy was poised for recovery. Moreover, the region's countries seemed to have absorbed the effects of the Argentine crisis, and there were clear signs of recovery in both Chile and the US. By mid-year, however, economic conditions in Latin America were starting to weaken and the oil price was on the rise, due to the situation in the Middle East, which lasted until year's end. Turbulence in the region's stock markets, which grew increasingly significant, was compounded by a clear decline in the growth prospects of Chile's main trading partners, especially the US, along with a decline in the copper price, a tendency that continued in the following months. The year ended with a very volatile oil price and latent risks to the international economy's recovery.

Inflationary pressures tended to be rather low throughout the year, converging toward the middle of the target range within the projection horizon. The combination of domestic demand that was not yet very robust, an unstable oil price, and negative gaps in output and employment compared to their potential levels, confirmed the mild effects of inflationary pressures during the early months of 2002. As a result of the expansionary policy stance, domestic demand started to show signs of recovery that were, however, offset by oil price shocks that continued until December. During the second half, the domestic panorama did not change significantly. The year ended, however, showing incipient signs of a better performance for domestic private consumption, supported by more favorable credit conditions and better prospects for the labor market.

In line with forecasts of limited inflationary pressures, the result of the slow pace of domestic demand, the Board of the Central Bank considered it necessary to apply a more expansionary monetary policy, which took the form of five cuts to the monetary policy interest rate during the first eight months of 2002. Thus, the reference rate fell from 6.5% in January to 3% in August, where it remained until December.

As a result of these cuts to the policy interest rate, economic activity began to pick up, while prospects for the gradual recovery of employment and inflationary pressures remained within the target range. The slow recovery of the world economic situation and increased uncertainty due to the unstable oil price, however, somewhat weakened these results, raising the question of risk relevant to inflation's tendencies for the two-year period, 2003-2004.

### B.2 FINANCIAL POLICY

Financial policy decisions adopted by the Central Bank in 2002 reaffirmed the objectives of deepening and modernizing capital markets and improving the Chilean economy's integration with its main trading partners. In this sense, one outstanding feature was the reform to debt policy adopted by the Central Bank, in the sense of changing the design and maturities of instruments issued.

The changes introduced into the profile of these instruments sought to increase the average duration of Central Bank debt and generate a market for medium-term, fixed income documents in pesos, to bring the debt market into line with the nominalization of monetary policy, as well as reducing the cost of Central Bank debt; making debt instruments more like those traded in more developed markets, to facilitate the local market's integration into foreign markets; and to encourage the placement of benchmark or reference securities. This was implemented using reopenings, repurchases and swaps that make it easier for private agents to evaluate debt instruments with similar maturities, thus contributing to better primary issues and improved transactions on secondary markets. It is hoped that the benefits that will come with these reforms will make monetary policy easier to manage. The rising volume of intermediation of instruments generated by this reform made it possible to create new hedging operations for specific risks, thus enhancing the development of the capital market.

Finally, financial regulations were changed to make purchasing promissory notes issued by the Central Bank easier and thus encouraging the replacement of existing notes with the new bonds offered to the market as of September 2002. These auctions of Central Bank indexed promissory notes payable in coupons (PRCs) and zero coupon indexed bonds (CERO in UF), began in late October 2002, and have sped up the process of replacing old promissory notes with the new bonds via the market place, thus making it easier to create benchmarks for the new debt securities issued by the Central Bank.

As part of modernizing the capital market, early in 2002 the Central Bank authorized the payment of interest on bank checking accounts and demand deposits in pesos, held in banking firms and financial institutions. The banks' solid equity position and results, along with the low, stable interest rate, made it appropriate to authorize the payment of interest on checking accounts, which had been banned since the early 1980s. With this new product, banks will have a more direct and transparent tool at their disposal to develop their competitive strategies; this should contribute to increasing the volume of intermediate funds, without negatively affecting banks' equity position, because in many cases this should replace other forms of financing used by this sector. Nor should this measure hamper the process of bringing additional sectors into the banked sector of the economy, because this is more related to the participation of new intermediation technologies. Similarly, authorizing interest payments on checking accounts should not increase the banking sector's systemic risk, because there are regulations to minimize the different kinds of risk assumed by banks as part of their daily activities, which are permanently enforced by the Superintendence of Banks and Financial Institutions.

Continuing with the process of flexibilizing pension fund regulations, as per Law 19,795, 28 February 2001 and the faculties granted it, the Central Bank changed several of the regulations governing these institutions' activities. In this sphere, and as per Law 19,728, the Central Bank drafted the financial regulations applicable to the companies managing unemployment funds (*Sociedad Administradora de Fondos de Cesantía*). These regulations cover investment limits, by instrument and issuer, on unemployment funds and solidarity-based unemployment funds, which will govern these during the first 12 months of operation, from the day that management company operations begin, notwithstanding that after this period the company will be governed by the rules applicable to the E[(1)] Fund (*Fondo E*) in terms of investment limits by instrument and issuer.

In 2002, the Central Bank continued to analyze and interact with the financial system to modernize the national payments system, developing a draft real time gross settlement system for operations involving payments in Chilean pesos, which will allow banks to pay large amounts in real time and offer this service to their clients as well.

This important modernization of the country's financial infrastructure to bring it up to international standards will reduce the risks that the Central Bank faces in this area and, at the same time, boost the efficiency of financial markets and the effectiveness of monetary policy.

(1) Pension funds vary according to the percentage of resources invested in variable income financial securities. These last are those with the highest risk and the highest expected yield. Type A Funds have the largest proportion of their investments in variable income, and this percentage declines progressively for B, C and D Funds. Meanwhile, the E Type Fund only allows investment in fixed income instruments, which are subject to lower relative risks and expected yields.

## B.3 FOREIGN EXCHANGE POLICY

### B.3.1 Policy on Interventions

Since the beginning of September 1999, Chile's exchange rate has been free floating. In the framework of inflation targeting policies, fiscal rule and integration with economies abroad, the floating exchange rate makes it possible to face with flexibility, and thus attenuate, some of the shocks that reach the economy. Nonetheless, the Central Bank of Chile reserves the right to intervene in the foreign exchange market and, in exceptional circumstances, participate. This is done using foreign exchange operations and/or the provision of instruments that can be used for foreign exchange hedging. These are the two necessary conditions on which this position is based: that the exchange rate is experiencing an overreaction and that this could adversely affect the economy.

Knowing how to recognize when the foreign exchange rate is overreacting beyond any doubt is extremely hard. However, theoretical analysis and empirical observation have made it possible to identify factors associated with shifts in the exchange rate that are rather more transitory. Movements are more likely to be excessive when the exchange rate is moving brusquely at a time when its essential fundamentals have not substantially changed. To measure overreaction it is therefore useful to observe the difference between the indicators for the "equilibrium real exchange rate" and the observed exchange rate, as well as that existing between the actual exchange rate and the rate the market analysts consider it will reach in coming months. In situations of financial noise and contagion, an overreacting exchange rate can be recognized by the increase in the correlation between domestic financial indicators and those of other countries, in the first case, and by the abnormally high volatility – actual and implicit – in the exchange rate, along with a reduction in the market's operating liquidity, in the second case.

The Central Bank's job, in the context of foreign exchange intervention, is to use its instruments to minimize the eventual, negative consequences of an overreacting exchange rate, not by attempting to defend specific values, but rather by providing liquidity and coverage to limit the possibilities of an excessive reaction, but without ruling out the possibilities of an efficient price adjustment.

As a result of the above, on 10 October 2002, given the deteriorating financial conditions facing some Latin American economies and the rise in risks to the global economy, the Board of the Central Bank considered it prudent to provide, on an exceptional basis, a larger supply of foreign exchange and liquidity instruments in foreign currencies. Part of the depreciation that occurred at that time was thought to reflect movements in a market operating with scarce liquidity and high volatility, thus revealing some degree of overreaction, expressed in pressures on the currencies of some countries and other asset prices.

Concretely, the measures adopted consisted of increasing the supply of dollar-indexed bonds (BCD) for the next four months, to reach up to US$2 billion in total. This issue was carried out by placing two- to five-year BCDs through auctions that were included among quotas regularly offered by the Central Bank. On a complementary basis, up to a further US$2 billion of foreign exchange reserves were provided to cover the foreign currency sales operations that the Central Bank could carry out on the foreign exchange market during the same period. By the time the period was over, almost 72% (US$1.440 billion from October 2002 and January 2003) of the gross issue of hedging instruments (BCD) had been placed and the Central Bank had not intervened using international reserves on the foreign exchange market.

### B.3.2 Management of Foreign Exchange Reserves

In compliance with its mission of ensuring the peso's stability and the normal functioning of domestic and foreign payments, and with its general policy framework, in 2002, the Bank held sufficient foreign exchange reserves to deal with potential, exceptional needs for liquidity in foreign currency. As of 31 December, foreign exchange reserves stood at US$15.351 billion, 1.8 times the foreign debt payments and amortizations scheduled to come due in the next 12 months (Table 1).

During the year, foreign exchange reserves fluctuated between US$14.060 billion (8 February) and US$15.913 billion (17 May). These swings resulted from payments and deposits by domestic banks and public institutions that maintain dollar accounts with the Central Bank, along with the effect of movements in international prices and parities, accumulated interest, and changes in the Central Bank's position with foreign creditors. In 2002, the Central Bank did not buy or sell dollars on the domestic foreign exchange market.

To ensure sufficient liquidity of investments in foreign currency that make up foreign exchange reserves, the Central Bank continued to manage a portfolio consisting essentially of short-term deposits in international commercial banks, with varying maturities, and other fixed income instruments trading on highly liquid secondary markets. As of 31 December 2002, within the foreign investment portfolio, time deposits represented 46% of foreign exchange reserves, while other fixed income securities accounted for 47% of same. Other foreign exchange reserves were held independently, with US dollar resources used to handle any immediate liquidity needs, and the Bank maintained a reserve position in the International Monetary Fund and in gold.

The preservation of invested capital was based on management policies for controlling credit, market and operative risk. Credit risk was limited by choosing only sovereign, supranational, and first-class international bank issuers and by diversifying the amounts so invested. In 2002, the eligible institutions and countries were those bodies with long-term risk-ratings ranging from “AAA” to “A-”, according to the main international risk rating agencies. Market risk was controlled by diversifying investment currencies, instruments and maturities, and quantified in terms of the duration of the portfolio maintained and the Values at Risk (VaR). In late December 2002, the total duration of reserves was 19.86 months and the absolute VaR stood at 0.26%. Operative risk, for its part, was controlled by separating functions, responsibilities and application of internal and external controls.

### B.3.3 Foreign Exchange Regulations

Since the process of gradually eliminating restrictions on foreign exchange, begun in previous years, was completed in 2001, the corresponding regulations have been oriented to making the relevant information on operations involving foreign currencies readily available, given the needs of both the Central Bank and the public itself to have timely, dependable information on the economy's performance. The Central Bank seeks to obtain and process the necessary information as efficiently as possible, minimizing the associated costs, both public and private.

Along with the goal of increasing the efficiency of gathering and processing the relevant information on foreign exchange, in March 2002 the old Compendium of Foreign Exchange Regulations (*Compendio de Normas de Cambios Internacionales, CNCI*) and its corresponding procedural and form manual (*Manual de Procedimientos y Formularios de Información*), were replaced by new, completely revised editions. The new regulations simplify the requirements for information about foreign exchange operations requested from economic agents and take full advantage of the information technology tools currently available. In particular, the new *CNCI* and its manual eliminate requirements for information that is no longer used, make it easy to provide information over the Internet, include revised texts and forms to make them easier to understand, eliminate unnecessary limitations, and improve the coverage of the information requested.

In March 2002, the requirement that Formal Exchange Market (*Mercado Cambiario Formal, MCF*) bodies, supervised by the Superintendence of Banks and Financial Institutions or that of Securities and Insurance, maintain a foreign exchange balance equal to or greater than zero was also eliminated. This was in a context in which there are already prudent rules in effect that make it possible to limit bank institutions' foreign exchange risk. Similarly, *MCF* bodies that are not banking firms can make purchases, sales and transfers of any kind. Along with the other modifications in the *CNCI* and its manual, these measures boost the efficiency with which the different agents participating in the foreign exchange market can function, at the same time as they reduce the costs associated with the process of providing information.

### B.4 Administrative Management Measures

In the past five years, significant measures have been applied to improve the Central Bank's internal functioning. Some of the highlights are presented here.

1. A strategic planning system has been implemented that makes it possible to define long-term institutional goals, to identify

quantitative objectives and goals for units, to develop strategies and plans to achieve these objectives, and to assign the resources necessary for their implementation.

2. A wide range of actions have been taken to improve the efficiency of internal management, including the application of technologies to facilitate the interaction of different units, improve the development and updating of administrative procedures in the different units and plans for operational continuity, to ensure the continuity of the institution's essential functions in all contingencies.

3. Personnel profiles have been continually adjusted toward a larger percentage of professionals, which along with executives and upper management, represented 43% of total employees in 1999, rising to 49% in 2002. This has occurred at the same time as total staff has fallen gradually from 638 in 1998 to 555 workers in 2002. Similarly, the policy of training in general has been reinforced, particularly in terms of post-graduates.

4. An agreement was reached with the national customs service (*Servicio Nacional de Aduanas*) to transfer to this body the function of reviewing the prices of merchandise declared in import and export declarations, including the personnel that the Central Bank had assigned to this task, to strengthen this body's performance of its own tasks and to facilitate the tasks carried out by agents working in the area of foreign trade.

5. The most up-to-date computer technology has been incorporated, optimizing applications and providing personnel with higher capacity equipment and productivity, econometric and other specific software.

6. Technologies associated with Internet have been developed to increase the transparency of Central Bank objectives and functions, improving the delivery of information to different bodies in Chile and abroad via the web site, along with communication and information within the Bank, via an intranet.

7. To improve the efficiency in the use of the components of currency, the structure of denominations was changed to include 2000 and 20,000 peso bills, which today account for 8.4% and 5.9% of all bills, respectively. This new structure, 1:2:5:10:20 is more efficient for users, because they are required to handle fewer elements.

8. In line with the progress made in computers, in this period there has been a tendency to eliminate the printed versions of Central Bank securities, so that today printed documents represent about 0.3% of those issued.

9. To make promissory note auctions go more smoothly, a system was developed that allows these processes to be carried out in real time, allowing financial institutions to acquire these promissory notes in on-line offers.

10. The policy of hiring operational support services from external suppliers, to increase the productivity of these services and focus internal resources on essential Central Bank functions, has continued.

11. A significant effort has been made to improve the physical infrastructure in which staff work, along with developing complementary and recreational activities. Among the main innovations: i) the renovation of sanitary facilities and heating and cooling systems in the Agustinas building and the elevators in both buildings, ii) implementation of work stations in shared offices, iii) modernization and expansion of electric support and backup systems, and iv) construction of a new building for the Bank's Country Club.

12. A project for integrating security systems was also developed, acquiring and implementing modern hard- and software elements and integrating the systems of alarms, closed circuit television, and controls over access to restricted areas, which has made operations more efficient, secure and reliable, along with reducing risk to Central Bank facilities and objects of value.

# C. WORLD ECONOMY: RECENT DEVELOPMENTS

## C.1 WORLD ECONOMIC GROWTH

In 2002, the world economy improved slightly over 2001, with (preliminary) growth reaching 2.7%, 0.6% more than growth in 2001, but still below the average for the past decade. The international context was marked by a climate of enormous uncertainty, due both to geopolitical and financial factors. This affected the pace of recovery in the main economies, particularly the US and Europe. This scenario was undoubtedly unfriendly to Chile's exports. In fact, the estimated growth of Chile's main trading partners, weighted for their share of exports, rose just 0.3% over the previous year, to reach 1.1% in 2002, which, although in line with projections at the beginning of the year, is significantly down from the 3.1% achieved during the 1990s (Table 1).

Table 1
GROWTH OF REAL WORLD GROSS DOMESTIC PRODUCT
(Annual change)

| | Average 1990-2000 | 2000 | 2001 | 2002 (5) | 2003 (5) |
|---|---|---|---|---|---|
| World (1) | 3.4 | 4.7 | 2.1 | 2.7 | 3.0 |
| United States | 3.1 | 4.1 | 0.3 | 2.4 | 2.5 |
| Europe | 2.2 | 3.3 | 1.6 | 1.0 | 1.5 |
| Japan | 1.8 | 2.2 | 0.4 | 0.3 | 0.7 |
| Rest of Asia (2) | 7.9 | 7.5 | 5.2 | 6.6 | 6.3 |
| Latin America (3) | 2.9 | 3.9 | 0.3 | -0.9 | 1.2 |
| Trading partners (4) | 3.1 | 3.7 | 0.9 | 1.1 | 2.1 |

(1) Regional growth weighted according to share of world GDP as measured in Purchasing Power Parity (PPP). The countries included represented 85% of world GDP in 1999.
(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. Excludes Chile.
(4) Growth of Chile's main trading partners weighted according to share of total exports in 1998. The countries included represent 94% of total exports.
(5) Projections.

Sources: Consensus Forecasts.
Central Bank of Chile.

The global economy was marked by a slower than originally expected pace of recovery, with the exception of some countries in emerging Asia. The main reasons included the financial scandals that affected the US economy, the climate of uncertainty that surrounded the conflict in Iraq, and turbulence on financial markets that arose due to these circumstances. In effect, in the US the accounting frauds and bankruptcies of important international conglomerates during the first half of 2002 exercised a powerful impact on the main stock markets' share indices, generating an atmosphere of mistrust among agents and consumers, which led directly to less growth in the US. This climate of mistrust expanded to practically all the world's financial centers, touching off declines in other financial centers. Moreover, the Iraq conflict and political conditions in Venezuela significantly affected the oil price, which also increased the risks perceived by the international community. Finally, both the critical situation that affected Argentina from early in the year and the turbulence arising from the electoral process in Brazil – given the complex panorama of public debt that that country faces – increased the mistrust of international investors, once again pushing down investment flows into the region.

In these conditions, the US economy ended the year with growth of 2.4%, above the 0.7% assumed in January predictions but below the 3.1% typical of the 1990-2000 period. In 2002, growth in activity was driven by consumption, particularly in residential investment, which was favored by low interest rates and tax reductions applied by the government, which brought an important wave of refinancing of mortgages. Similarly, these low interest rates made it easier to finance consumption, and, combined with offers of direct financing from some sectors, helped to offset the climate of mistrust prevalent during the first half.

In Japan, economic activity was better than analysts expected and experienced some growth (preliminary figures), posting an increase of 0.3% compared to 0.4% in 2001. The main reason behind this was the positive performance of exports to Asia, thanks particularly to greater external demand from China, some emerging Asian countries, and the US. In contrast, company cutbacks brought the unemployment rate to a record 5.5% by late December, affecting people's income and hampering the recovery of consumption. Similarly, private investment, although it managed to break its fall as company profits began to improve, was unable to turn around completely, due to uncertainty about the recovery of other economies. At the governmental level, efforts focused on implementing measures to resolve the problems of the financial system's indebtedness and capitalization. To do so, measures were applied limiting bank investments in shares, to reduce their exposure to risk resulting from stock market movements that were the source of significant losses in recent years. In this same direction, new criteria were implemented to evaluate the worth of credit portfolios and a new program for reducing the level of non-performing debt was also applied.

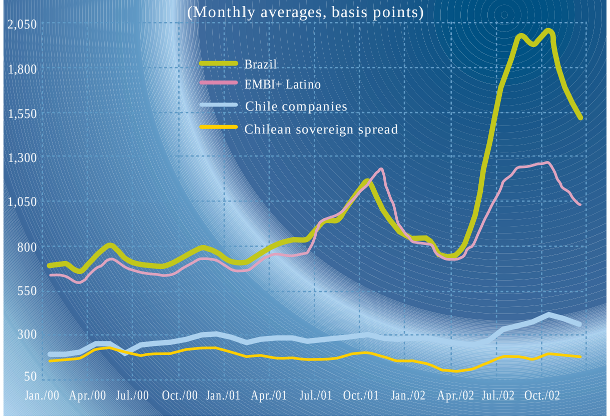
Europe, in line with the international scenario described here, posted 1.0% growth in 2002, less than the previous year's 1.6% and the average for the 1990s. The reasons behind this performance included mainly demand factors associated with the region's economies. In this sense, the economies of Germany, France and Italy, which account for almost 72% of the euro zone, were seriously affected by rising unemployment and companies' efforts to cut back. In Germany, unemployment ended the year at 9.4%, while private consumption fell 0.5%, fixed investment fell 6.4%, and overall annual growth reached just 0.2%, down 0.4 percentage points from growth in 2001. Europe's weakness grew gradually, with member countries posting wide-ranging performances, which combined with over-target inflation to prevent the European Central Bank from adopting a more aggressive monetary stance until December, at which point it cut interest rates by 50 basis points, to 2.75%. In this context, the member countries most affected adopted more expansionary fiscal policies to reinforce social spending and deal with the rise in unemployment. This situation reached such high levels in the three largest euro zone economies that the European Commission had to postpone the deadline for these countries' compliance with the Stability and Growth Pact from 2004 to 2006.

Latin America could not remain aloof from the turbulence worldwide in 2002. Its pace of growth was even more affected, as local factors further compounded the international climate of uncertainty. Thus, the region posted a decline in its Purchasing Power Parity (PPP) of 0.9%, almost 1% lower than projections early in the year.

The case of Brazil stood out in particular, because of enormous uncertainty about the new political scenario and the future of the economy, especially its ability to pay its debt. In this sense, the depreciation that affected the real increased investors' perception of risk, because over 50% of the debt is indexed to the dollar. Despite this, once the elections were over and as the new government's first measures became known, the situation stabilized and risk indicators improved relatively speaking, ending the period with an average country risk premium of 1500 basis points, down 500 points from its peak for the year (Figure 1).

In Argentina, the domestic crisis, augmented by the moratorium applied at the start of the year, caused the economy to shrink 11.2%, with high unemployment indices and the financial system practically collapsing for most of the year. In this scenario, the government also stopped paying amortizations on its foreign debt with international bodies and was on the verge of stopping interest payments too. This was avoided thanks to intense negotiations with the IMF, which, once it established that some progress had been made to bring the payment system back to normal, came to a new agreement with Argentina to refinance debt maturing at year's end and committing aid once the new political authorities assumed in 2003.

Figure 1
**SOVEREIGN SPREADS**
(Monthly averages, basis points)




Sources: Merrill Lynch and JP Morgan-Chase.

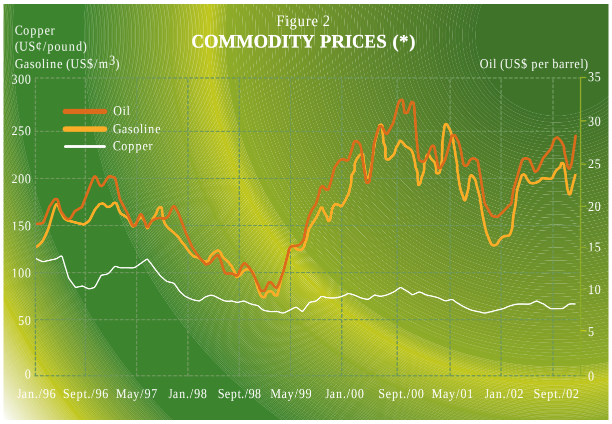
Mexico, meanwhile, given its close trading relationship with the US economy, posted a slow recovery, with its manufacturing sector remaining very depressed. This ended up affecting currency parity, which had depreciated by 11.7% toward year's end. Thus, in 2002, GDP rose 0.9%, up from -0.3% in 2001, which, as with the above cases, was less than expected at the beginning of the period.

## C.2 INTERNATIONAL PRICES

The slower pace of world economic activity in 2002, combined with greater uncertainty, was reflected in the main commodity prices. Chile's exports were also affected by these conditions. In effect, in 2002 the copper price averaged 70.8 cents per pound (LME), down from 71.8 cents per pound in 2001. After averaging 72 cents per pound until July, the price plunged to 65 cents per pound for the next three months, before starting to rise again in the last quarter.

The price of oil, meanwhile, averaged US$24.96 per barrel in 2002, slightly above the average for the previous year (US$24.45 per barrel). Thus, the price remained around the center of the average value in the band established by OPEC. It should be noted that during the first half of the year, the average price was less than US$20 per barrel, but as the conflict in the Middle East heated up, prices rose steadily. Moreover, strikes in Venezuelan plants in December, which practically halted oil production in that country, brought the end-of-the-year price to almost US$31 per barrel (Figure 2).

Figure 2
**COMMODITY PRICES (*)**




(*) Copper price (London Metal Exchange). Oil price per barrel (Brent).
Source: Bloomberg.

Finally, wood pulp averaged US$462.7 per ton, down 14% from its average price in 2001, which had already fallen 21% compared to 2000. In the case of fishmeal, its price continued its rising trend in 2002 (20%), mainly due to a drop in production in Peru and the closed season on anchovy in the main producing countries (Chile and Peru).

## C.3 International Financial Markets

In 2002, monetary authorities from virtually every country faced a scenario characterized by deep uncertainty about the future of economic activity and very volatile financial markets, which led them to prolong an essentially cautious but expansionary monetary policy stance. This was particularly noticeable in the euro zone, where inflation levels and higher fiscal spending by the main economies postponed a rate cut until almost year's end. Only after the greater impact of euro appreciation and its effect on inflation was widely recognized did the repo rate get cut by 50 basis points, to 2.75%. In the United States, market volatility was felt the most, because the accounting frauds that appeared during the first half and the lack of more robust indicators for the progress of economic recovery during the year combined with fears about war with Iraq and the threat of new terrorist attacks. This all created a scenario of falling stock markets, reduced bond yields and dollar depreciation against the other main currencies. Given this situation, in early November, the Federal Reserve cut the interest rate to 1.25% (50 basis points). In Japan, the financial system's stock indices slumped, generating significant losses to banks, which hold substantial investments in that country's companies. In terms of interest rates, the Bank of Japan applied a policy of injecting liquidity by buying government bonds and operating on markets, which held the interest rate to almost zero throughout the year (Figure 3 and Table 2).

## C.4 EMERGING FINANCIAL MARKETS

In Latin America, the impact of conditions in Argentina, combined with political uncertainty in Brazil, as measured by the premium on credit for emerging economies, evolved negatively during most of the year. Thus, the difference between rates for Latin

America and the US, measured using the EMBI+ index, averaged 974 basis points, up from an average of 880 basis points in 2001. The Chilean economy's sovereign spread was not completely exempt from conditions elsewhere in the region. Thus, although during the first half of the year it remained relatively stable, in line with the spread for A- rated firms in the US and the spread on bonds issued by the region's main economies, mainly Mexico (See Box in the *Monetary Policy Report*, May 2001), toward the second half the spread on Chile's sovereign bonds grew more volatile, reflecting in part financial market movements and particularly those associated with events in the region. It should be noted that as uncertainty about Brazilian politics cleared, the spread on the bond maturing in 2009 fell, returning to around 110 points toward year's end, an indication that the Chilean economy's own characteristics distinguish it from other emerging markets. The successful issue of two new sovereign Republic of Chile bonds, in April 2002, and the reissue of the bond maturing in 2009 in September reflect this differentiation. The April issues totaled US$600 million and 300 million euros, respectively, while the bond reopened in September was for US$100 million. It should be noted that in both cases the demand was much higher than the amount finally placed, at a historically low cost and with a spread in line with market indications as expressed in the price on other Chilean bonds. Nonetheless, while it has fallen, Chile's corporate spread, which tends to be correlate closely to sovereign spread, has not recovered to early 2002 levels, due to the exposure of companies linked to the energy sector in Argentina and Brazil.

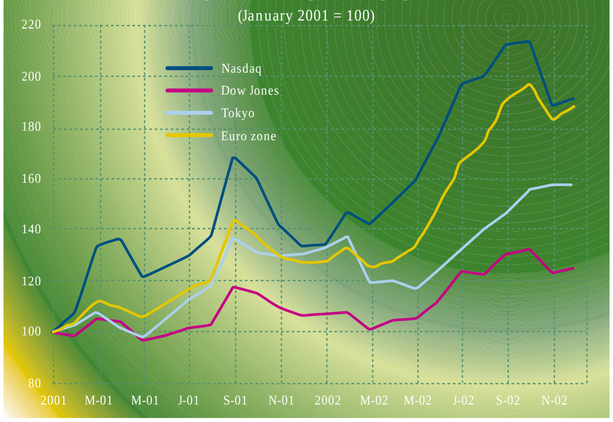
Table 2
WORLD INFLATION
(Average change in local currency)

| | Average 1990-2000 | 2000 | 2001 | 2002 (3) |
|---|---|---|---|---|
| United States | 3.0 | 3.4 | 2.8 | 1.6 |
| Europe | 3.0 | 2.3 | 2.6 | 2.2 |
| Japan | 1.0 | -0.7 | -0.7 | -0.9 |
| Rest of Asia (1) | 7.0 | 1.1 | 2.1 | 0.9 |
| Latin America (2) | 352.7 | 8.2 | 5.8 | 14.6 |

(1) China, Indonesia, Malaysia, Thailand, Singapore, South Korea, Philippines, Taiwan and Hong Kong.
(2) Brazil, Argentina, Mexico, Colombia, Uruguay, Venezuela, Ecuador, Paraguay, Bolivia and Peru.
(3) Projections.

Sources: Consensus Forecasts (December 2002 and January 2003), corrected using projections from a sample of investment banks. World Economic Outlook (WEO), IMF, April 2002. Central Bank of Chile.

Figure 3
SHARE PRICE INDICES
(January 2001 = 100)




Source: Bloomberg.

## D. FINANCIAL DEVELOPMENTS

### D.1 TRENDS IN INTEREST RATES

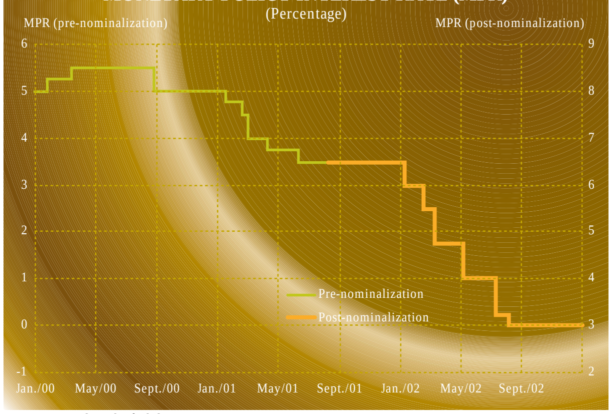
For most of 2002, although there was significant turbulence on international financial markets due to the uncertain external outlook, domestic financial markets adjusted with sufficient flexibility in an atmosphere of controlled financial risk and stability.

Thus, between January and August 2002, the Board of the Central Bank reduced the monetary policy rate (MPR) on six occasions, for a total cut of 350 basis points. In effect, during the first days of the year the policy rate stood at 6.5% and by mid-August had reached 3.0%, a figure that clearly represents an expansionary monetary policy stance, as well as an all time low. These cuts to the MPR reflected a scenario of reduced inflationary pressure and a slow pace of expansion in activity, both domestic and foreign, that was lower than forecast at the beginning of the year (Figure 4).

The nominalization of monetary policy in August 2001 also contributed to flexibilizing markets, by bringing Chile's policy into line with that of most of the world's countries. This monetary policy approach was enhanced by measures to modernize the way the Central Bank manages its debt, agreed upon early in September 2002, to increase liquidity in Chile's domestic fixed income market. Thus, the Board decided to issue new debt securities, called Central Bank bonds in pesos (*Bonos del Banco Central en pesos, BCP*), indexed to the UF (BCU) and indexed to dollars (BCD), to replace, respectively, the (2-year) PDBC, PRC and PRD. The main characteristics of these instruments lie in their structure, because they are bullet type. Moreover, the Board decided to strengthen the placement of reference or benchmark series, whose minimum size per bond will be about US$300 million.

In line with trends in the MPR and medium-term inflationary expectations, interest rates on short-term, nominal document (PDBC) auctions moved downward by about 300 basis points between January and September, at which point they became relatively stable around the MPR (3%). Similarly, interest rates in peso markets with longer maturities – Central Bank Bonds (BCP) – fell due to both lower inflation expectations and the decline in real interest rates. Thus

Figure 4
**MONETARY POLICY INTEREST RATE (MPR)**
(Percentage)




Source: Central Bank of Chile.

two- to five-year BCP interest rates had fallen by more than 80 basis points by year's end, compared to the ceiling reached in mid-October (4.63 and 6.41%, respectively) (Table 2).

Since mid-2000, both lower monetary policy rates and those on Central Bank documents have directly influenced the interest rates that the financial system applies to its operations with the public. As usual, deposit rates reacted most swiftly to trends in the reference rate. Lending rates, meanwhile, responded more slowly to cuts to the MPR, following the pattern of historic lags typical of monetary policy passthrough. In Chile and abroad, this ranges from one to two quarters and depends, moreover, on the specific characters of each credit (Table 3).

The evidence indicates that the passthrough occurred most thoroughly in segments associated with credits involving larger amounts (mainly loans to medium and large firms). Although interest rates on amounts under UF1,000 (mainly consumer credits) fell somewhat less, it should be kept in mind that this involves a large proportion (almost half) of those who borrow using credit cards. These transactions involved interest rates that remained at about 30%. Nonetheless, consumer credits in specific months (March and December) enjoyed lower interest rates because of special offers that banks made for this type of loan.

Generally speaking in 2002 interest rates on indexed Central Bank documents fell significantly. In effect, rates on the Central Bank's indexed promissory notes (PRC/BCU) ended 2001 averaging about UF + 4.9% to 8 years and UF + 5.3% to 20 years, posting rates considered all-time lows (2.1% and 3.2%, respectively) in September. This sharp plunge in long-term interest rates responded to several factors, particularly domestic activity's sluggish recovery, expectations regarding inflationary pressures after the turnaround in the exchange rate, trends in the relevant external rate, and the climate of persistent uncertainty throughout the region that fed local investors' appetite for more secure assets. In the last quarter of the year, trends in long-term interest rates reversed, reflecting the financial effect of near-zero inflation during the last months of the year, which later became more linked to rises in the oil price and the exchange rate (Figure 5).

Rates on private sector fixed income instruments, corporate bonds and bills of credit performed similarly to those on indexed Central Bank instruments. In effect, the average rate of return (*Tasa Interna de Retorno Media, TIRM*) on this type of instrument, obtained for transactions in the stock market reached historical lows in October 2002: 5.3% for bonds and bills of credit. Although the interest rate surcharge on corporate bonds over the PRC rose on average compared to 2001, this was due to the combined effect of some firms' exposure to risks elsewhere in the region and the inclusion of new companies in this market. It should be noted that corporate bond registration and placements in the domestic market rose more during the second half of 2002, ending the year with the stock of bonds outstanding worth over UF300 million.

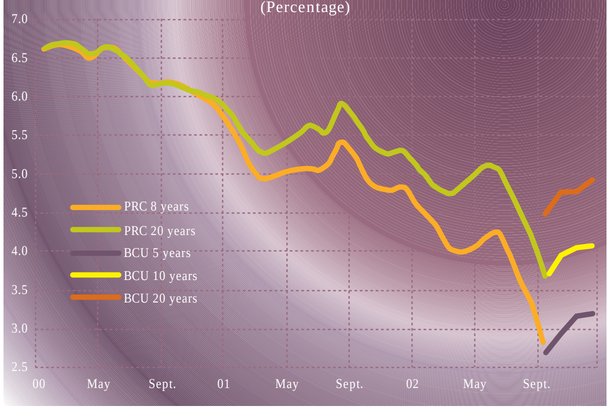
Moreover, financial system interest rates have been favored by new banks' entry into the financial system, along with new products (including mortgage credits and peso-denominated, time savings accounts) and the authorization provided to new players to enter the consumer credit market (insurance companies), all elements that constitute yet another sign that financial markets are functioning normally and monetary policy enjoys great credibility.

## D.2 TRENDS IN MONETARY AGGREGATES AND CREDIT

Twelve-month nominal growth rates for the most liquid monetary aggregates – currency and M1A – returned to over 10% in the second quarter of 2002. This tendency does not represent a monetary imbalance, because it remained in line with activity levels and particularly the decline in interest rates throughout the economy. The growing passthrough of MPR cuts to deposit interest rates throughout 2002 brought with it a reduced preference for time deposits and an increase in demand balances, a situation that is confirmed by looking at the less active performance of broader monetary aggregates (Figure 6).

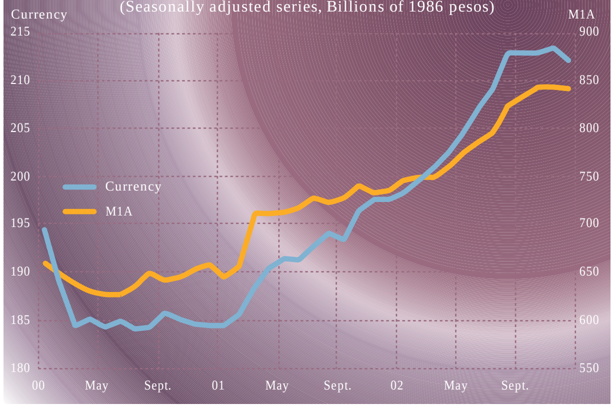
Aside from cuts to interest rates, among other factors influencing the broader aggregates the AFPs' behavior played a major role. From mid-2002 on, these expanded their time deposits at the cost of Central Bank documents and bills of credit, thus affecting private sector demand for M2 and M7. Institutional investors' preference for more liquid assets reflected a

Gráfico 5
LONG-TERM INTEREST RATES
(Percentage)




Source: Central Bank of Chile.

Figure 6
SHORT-TERM PRIVATE MONETARY AGGREGATES
(Seasonally adjusted series, Billions of 1986 pesos)

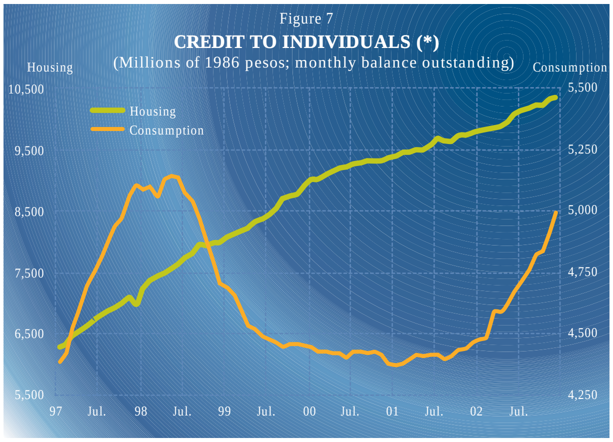



Source: Central Bank of Chile.

decision to change their portfolio in favor of corporate bond purchases, investments in foreign currency, and variable income assets, once the multi-funds came into effect in the last quarter of the year. Other private investors, meanwhile, behaved similarly to the AFPs until the third quarter, at which point they opted for a portfolio consisting mainly of fixed income assets; that is, Central Bank documents and bills of credit. Overall, the average annual nominal expansion of M2A was 7.8%, while for M7 it reached 4.7% (Table 4).

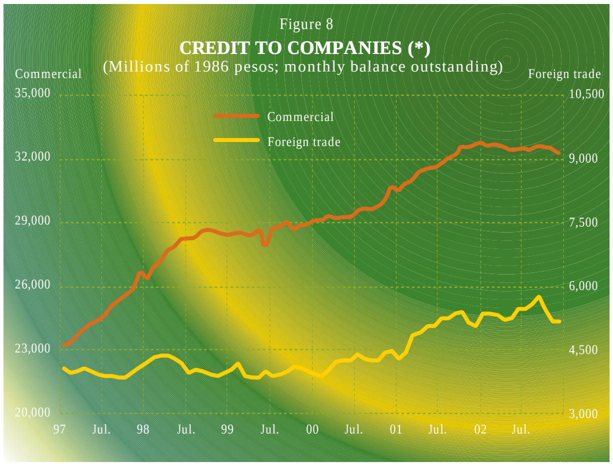
On average, total loans in 2002 performed less strongly than the previous year, with loans in Chilean pesos rising in the second half. This was mainly due to the acceleration in consumer loans that ended the year at levels only comparable to those at the end of 1998, driven by favorable credit conditions. Credits for new housing (mostly the UF600 to UF2000 segment) performed better. In contrast, peso-denominated credits from the financial system to companies slumped in 2002, partly due to the corporate sector's preference for cheaper financing alternatives, such as bond issues to refinance liabilities and finance new investment. Foreign trade loans performed with volatility in 2002, due to the peso's sharp movements against the dollar (Figures 7 and 8, Table 5).

Figure 7
**CREDIT TO INDIVIDUALS (*)**
(Millions of 1986 pesos; monthly balance outstanding)



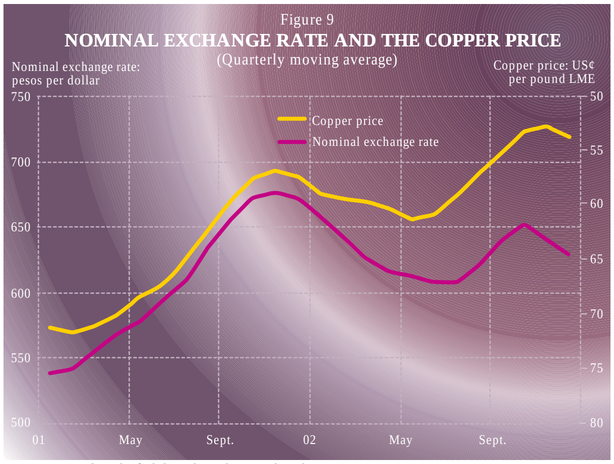

(*) Real, seasonally adjusted series.
Source: Superintendence of Banks and Financial Institutions.

Figure 8
**CREDIT TO COMPANIES (*)**
(Millions of 1986 pesos; monthly balance outstanding)




(*) Real, seasonally adjusted series.
Source: Superintendence of Banks and Financial Institutions.

Figure 9
**NOMINAL EXCHANGE RATE AND THE COPPER PRICE**
(Quarterly moving average)




Sources: Central Bank of Chile and London Metal Exchange (LME).

## D.3 FOREIGN EXCHANGE INSTITUTIONS AND CHANGES IN THE EXCHANGE RATE

In 2002, accumulated nominal annual peso depreciation reached 4.9% in a climate of considerable volatility throughout the region. One of the main factors behind this tendency was the terms of trade, because the peso followed trends in the copper price for most of the year. A second factor that influenced the price of the peso was the situation affecting the region's main economies, Argentina and Brazil. Although this element was less influential than in 2001, it does explain some of the fluctuations apparent in the peso. Overall, and as during the previous year, the Central Bank monitored foreign currency markets, providing the tools necessary to avoid excessive movements in the exchange rate that could have negatively affected the economy (Figure 9).

Initially the peso tended to depreciate, placing it at more than 680 pesos per dollar in early February, at which point it began to appreciate, reaching almost 640 pesos per dollar in mid-April. This trend was primarily determined by financial events in Argentina. In January 2002, that government opted for giving up the one-to-one parity between its currency and the dollar, using gradual devaluations that reached 200%. With this measure, the Argentine authorities gave in to the speculative attack on the Argentine peso and cleared up a major source of uncertainty within the region.

However, the Chilean peso did not completely dissociate itself with regional conditions, and especially shifts in the Brazilian real. In effect, in mid-year, a new situation began to feed uncertainty in the region. This was the Brazilian election, which had investors thinking that the new authorities could renege on the commitments made by their predecessors with international financial bodies. This concern triggered a sharp plunge in the value of Brazilian bonds and generated an increase in the surcharges on documents issued by other countries, as well as their currencies. In this scenario, the peso rose to over 750 pesos per dollar in late September (Figure 10).

From mid-October to mid-December the peso appreciated, thanks not only to the improved terms of trade and greater tranquility regionwide, but also the completion of negotiations for a Free Trade Agreement with the US. Market operations were also based on the Central Bank's announcement (10 October) that it would intervene in the foreign exchange market. This intervention was in response to a foreign exchange market suffering from scarce liquidity and enormous volatility. Overall, toward the end of 2002 the exchange rate reached almost 710 pesos per dollar, in the face of pervasive uncertainty in international financial markets, the result of a possible war with Iraq.

Regarding the broader currency baskets, the aggregate index (multilateral exchange rate, calculated over all of Chile's main trading partners) posted a sizeable appreciation in the peso against other currencies in the region. Moreover, the strengthening of other hard currencies against the dollar produced more depreciation of the Chilean peso against these currencies (Tables 6 and 7).

Likewise, the real exchange rate (RER) had depreciated about 2% over 12 months, by December 2002, while against the five main currencies (RER5) – which include the US, Japan, Canada, the euro zone and the United Kingdom– it had risen to 10% in the same period. Both figures reflected nominal peso depreciation against the US dollar and the latter's depreciation against the currencies of major economies, such as the euro and the pound sterling. The margin between the domestic rate (8-year PRC) and the relevant external rate (Indexed US Treasury Bond, corrected for taxes and sovereign premium) has been consistent in the context of the floating exchange regime and its differential can be interpreted as a measure of expectations concerning the medium-term RER (Figure 11).

## D.4 TRENDS IN THE DOMESTIC FINANCIAL SYSTEM

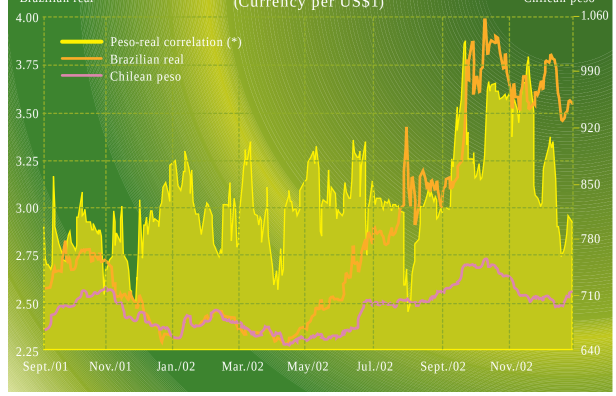
In 2002, the Chilean financial system showed levels of solvency, risk and profitability similar to previous years, well above the minimum standards recommended internationally. This situation made possible the normal development of both the supply of bank credit and deposits and interest rates, despite the deteriorating international scenario.

Despite lower growth in banking activity and its unfavorable impact on credit risk, the financial

Figure 10

CHILEAN PESO AND BRAZILIAN REAL

(Currency per US$1)

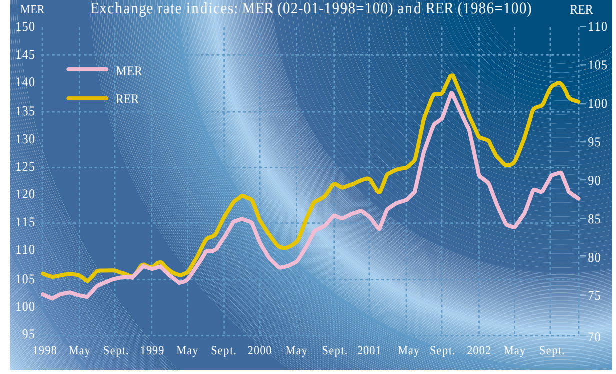



(*) For the purposes of measuring peso-real correlation, the breadth of the right axis equals one.
Source: Central Bank of Chile.

Figure 11

REAL (RER) AND MULTILATERAL (MER) EXCHANGE RATES (*)

Exchange rate indices: MER (02-01-1998=100) and RER (1986=100)

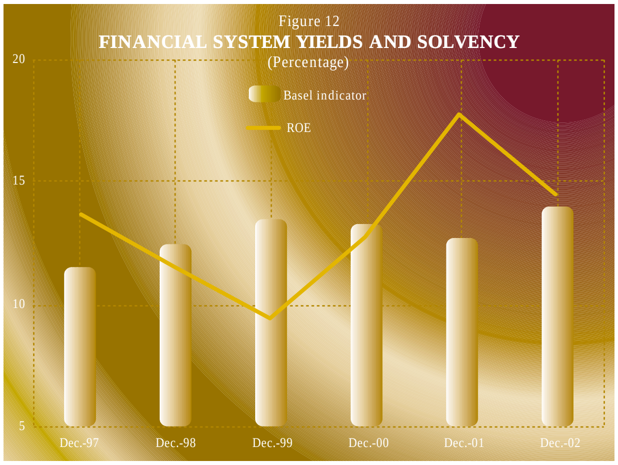



(*) Calculation based on parities of Chile's main trading partners: US, Japan, Argentina, Brazil, Mexico, Germany, Spain, Italy, France, UK, South Korea, Canada, Peru, The Netherlands, Belgium, Colombia, Taiwan, Venezuela, and Ecuador.
Source: Central Bank of Chile.

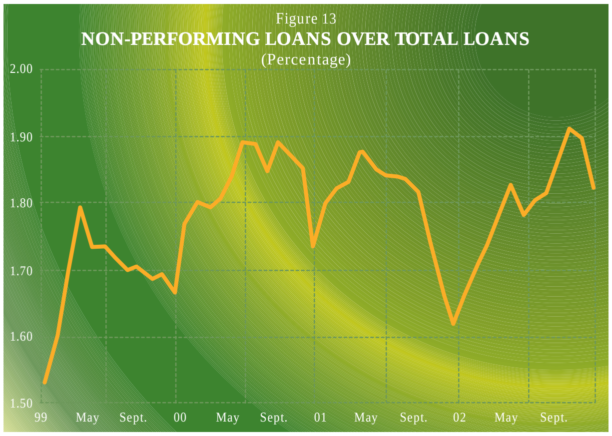
system posted sufficient capitalization levels. Bank solvency, as measured by the Basel index (defined as actual equity over risk-weighted assets), remained at more than 13%. It should be noted that all financial institutions posted capital levels above 10%, which is well above the minimum required (8%).

Financial system profits in 2002 (US$718 million) represented a 14.4% return on capital, slightly less than the average in the past 10 years (15.5%) and that of 2001 (17.7%). Lower surpluses in the past year were mainly due to non-operating results, particularly larger provisions, the result of bank mergers during the period (Figure 12).

In 2002, the quality of the financial system loans portfolio was affected by lower economic growth, mainly in those institutions exposed to other countries in the region, with the resulting rise in expenditure on provisions. In line with this worsening




Source: Superintendece of Banks and Financial Institutions.




Source: Superintendence of Banks and Financial Institutions.

scenario, credit risk indicators for the financial system posted a slight increase during the year. In effect, non-performing loans rose 14% annually, so the non-performing loans index(2) rose from 1.62% in December 2001 to almost 1.8% in late 2002 (Figure 13). Similarly, the risk index(3) published by the Superintendent of Banks and Financial Institutions, also showed some deterioration in the year, especially in June when it reached about 2%. Nonetheless, the financial system continues to show sufficient coverage levels, which are reflected in provisions over non-performing loans, which as of December 2002 stood at about 1.4 times.

Regarding financial risk, during the year most financial institutions were complying appropriately with the regulations for matching maturities of under 30 and 90 days, which suggests that any potential risk of liquidity shocks is well under control. Similarly, interest rate risk remained stable and within the margins established by regulations, so the system is well protected from future changes in interest rates. In terms of foreign currency risk, banking companies' mismatch is well below the permitted maximum (20% of base capital).

## E. ECONOMIC ACTIVITY, SPENDING, EMPLOYMENT AND GOVERNMENT

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

#### E.1.1 Economic Activity

Contrary to the previous year, in 2002 economic growth gradually picked up. The GDP growth rate for the year was 2.1%, with quarterly increases of 1.3% in the first quarter, 1.7% in the second, 2.4% in the third and 3.2% in the fourth (Table 8 and Figure 14).

Meanwhile, domestic demand rose 1.9% during the year, tending to rising from a contraction of 1.9% in the first quarter to growth of 4.1% in the final quarter (Table 9 and Figure 14). Thus, the gap between domestic spending growth and output shrank as the year progressed, becoming positive from the third quarter on.

In 2002, GDP growth was driven by sectors not linked to natural resources. Cuts to copper production, due to the declining price for most of the year, were to a large degree behind the sector's decline in production. Similarly, during the third quarter, the industrial fisheries subsector saw production fall significantly, affecting the fishing sector as a whole.

(2) Non-performing loans over total loans.
(3) This index estimates the losses expected from the loans portfolio in terms of different categories of risk.

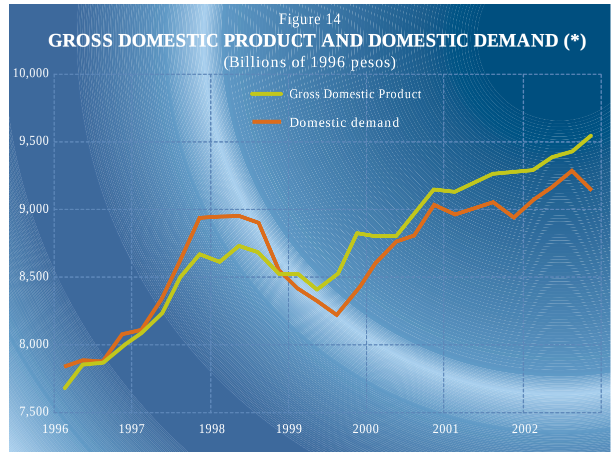
The external sector, meanwhile, saw exports of goods by volume expand 1.4%, while copper exports fell 3.0% and the non-copper exports item saw its main components rise 5.7% and its other components rise 3.6%.

### E.1.2 Domestic Demand

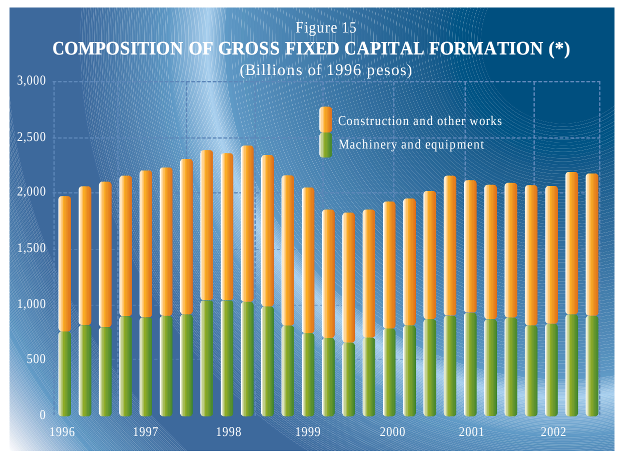
During the year the composition of domestic spending changed, specifically during the third and fourth quarters. The most persistent part of demand performed strongly, particularly habitual and durable consumption, which, within aggregate spending was offset by reduced inventory accumulation. Investment, meanwhile, performed flatly as forecast at the beginning of the year.

Fixed capital formation continued to perform flatly, at 22.7% of GDP, a figure consistent with the potential GDP growth rate – from 3.5% to 4.0% — the Chilean economy's current rate. This trend in investment is consistent with the idle capacity apparent in some sectors, the weak outlook for external capital flows, and business that is less profitable than it was at the end of the nineties. In this sense, information included in the FECU forms fills out by private companies indicates that in the third quarter of 2002 profitability was lower than during the first half of the year, although always above the minimums experienced in 1999. At the sectoral level, those linked to export activities posted the highest relative profitability, reflecting trends in the real exchange rate in recent years. Overall, it is worth noting that the new business opportunities that will arise from the free trade agreement with the US, combined with those already signed with the European Union and South Korea, and their impact on investors' spirits should favor some recovery in the investment growth rate (Figure 15).

During the year, private and governmental consumption rose 1.7% and 2.4%, respectively. As with other components, 12-month private consumption accelerated as the year progressed, while growth in public consumption held steady between quarters. An important part of trends in consumption, especially durable goods, was supported by cuts in the policy rate passing through to market interest rates and the effect this has had on loans, particularly for consumption. Similarly, and although private




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




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

disposable income posted no significant changes given shifts in the terms of trade, families' perceptions about their present and future situations had improved over their mid-year level by the end of 2002. This was apparent in *Adimark's* December survey of expectations (IPEC), in which confidence about future economic conditions had returned to levels not seen since the beginning of 2000.

### E.1.3 Productive Sectors

The sectors of the Chilean economy that performed the strongest in 2002 were fishing and electricity, gas and water, while those performing less robustly included mining, the public administration and the financial sector. Manufacturing, with 0.5

percentage points, contributed the most to GDP growth, followed by the financial sector, the wholesale and retail trade, personal services, agriculture, transportation and construction, with each contributing another 0.2% approximately. Individually, the sectors directly involved in natural resources, mainly mining, performed more modestly and altogether contributed negatively to output. This was because mining contracted during the year, as low international prices forced companies, especially copper mining firms, to cut back on production (Figure 16).

Manufacturing grew 2.8%, with capital goods and durable consumption goods production lower than the previous year. As with other sectors, this sector started the year with negative growth during the first quarter, then gradually picked up to peak in the third quarter. Seasonally adjusted, there was a strong recovery in the last quarter of 2001, which held relatively steady in the following periods.

Except for natural resource sectors, the highest growth rates occurred during the second half, in part due to the basis for comparison, but also to a recovery in level, with the tendency remaining positive (Table 10).

The minor components rose 1.8% altogether, contributing 0.5 percentage points to GDP in 2002. This was mainly due to the fact that they performed positively although moderately: at the aggregate level, these sectors weigh heavily on the total.

Figure 16
GDP GROWTH BY ORIGIN
(Percentage, impact on annual growth)


Source: Central Bank of Chile.

### E.1.4 Income – Savings

The annual 2.1% rise in output brought a change in real disposable gross domestic income of 3.1%, due to the decline in net factor payment flows abroad compared to the previous year (remitted profits and interest payments) and the positive effect of the rise in the terms of trade that occurred during this period.

Similarly, the fact that private consumption, measured at current prices, experienced 2.5% growth, made it possible for the gross domestic saving rate as a percentage of nominal GDP to reach 21.1%, slightly less than the previous year. Gross capital formation rose 3.4% at current prices, which meant that external saving reached 1.0% of GDP (current prices), substantially less than the previous year.

## E.2 EMPLOYMENT AND UNEMPLOYMENT

Despite the lower growth rate of the Chilean economy in 2002, employment offered a more encouraging panorama than in 2001. In fact, according to data from the National Statistics Bureau (INE), the number of those employed rose 1.1% over the previous year, thanks to the recovery in private employment and the maintenance of fiscal programs during the second half (Table 11). This improved performance is also apparent in information from other sources, such as the Chilean health and safety association (Figure 17). The sectors driving this turnaround were the wholesale and retail trade, construction and community, social and personal services, according to INE.

The greater generation of employment also positively affected household expectations during the last months of the year, which was apparent in the fact that the labor participation rate rose and then stabilized, after falling steadily since August 2001. Thus, data from both the INE and the University of Chile indicate that the unemployment rate remained, on average, essentially flat through 2002, then fell in December to its lowest point reported since 1999 (Table 11 and Figure 18).

## E.3 FISCAL SECTOR

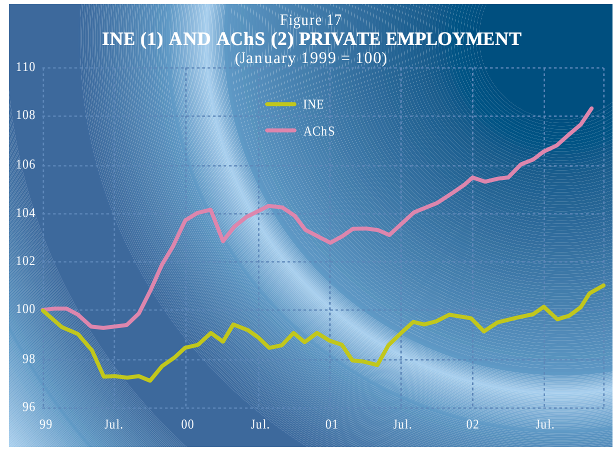
In 2002, fiscal accounts continued their expansionary effect, apparent since 1999, mainly in the first half of the year, a situation that turned around in the second half, bringing the year's deficit to 0.8%. This low deficit resulted from the turnaround in the falling current revenues during the first half and from the adjustment of public spending in the fourth quarter, due to the unexpected decline in inflation. Similarly, the structural deficit for the year reached 0.9% of GDP.

The above was partly the result of 4.6% annual growth in spending with macroeconomic impact versus the 4.9% assumed during the 2002 budget debate. The trend in public investment[4] is behind the performance of spending with macroeconomic impact during the year, as it occurred mostly in the first half, then plunged in the last quarter, bringing the real annual increase in investment in 2002 to 6.7%, which, as with spending, was lower than budgeted (11%).

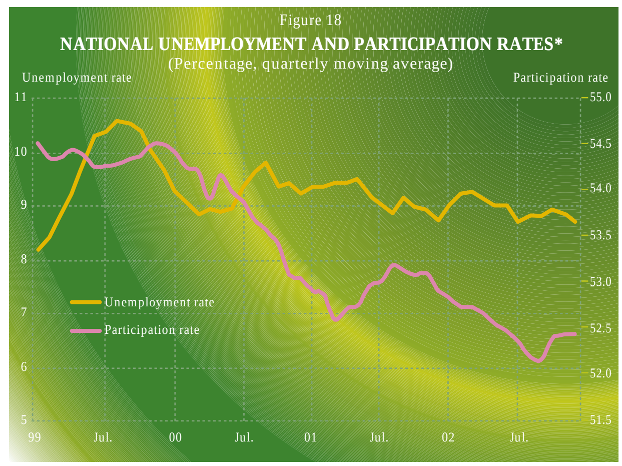
It is important to note that the reduction to fiscal spending compared to the budget was in part due to the decline in interest on public debt, because interest prepayments were not made to the Central Bank.

Finally, total revenues rose in real annual terms just 0.9% during the year. The behavior of revenues from taxes and social service deductions offset the virtually zero growth in copper revenues and the decline in other current revenues, affected by lower income from infrastructure concessions, sanitary companies and privatizations, because some projects were postponed to 2003. Real tax revenues, which rose 3.4% during the year, were considerably more than GDP growth and domestic demand.

(4) Includes real investment items plus the regional amount of sectoral investment and capital transfers.




(1) Excludes direct government employment programs.
(2) Quarterly moving average, seasonally adjusted series.
Sources: National Statistics Bureau (INE) and *Asociación Chilena de Seguridad (AChS).*




(*) Quarterly moving average, seasonally adjusted series.
Sources: National Statistics Bureau (INE) and Central Bank of Chile.

# F. BALANCE OF PAYMENTS, FOREIGN CURRENCY RESERVES AND FOREIGN DEBT

According to preliminary figures, in 2002 the balance of payments posted a deficit in the current account of US$553 million, down from US$1.192 billion in 2001. This included net financial account flows, excluding reserves, of US$998 million, down US$762 million from 2001. These results, including negative omissions or errors of US$246 million, led to an overall accumulated surplus for the year of US$199 million (Table 12).

## F.1 CURRENT ACCOUNT

The current account fell US$639 million from the previous year, the result of a larger, US$459 million surplus in the goods account and a more favorable balance of US$221 million in the income account, which were partly offset by higher net outflows in services (US$39 million) and transfers (US$2 million). Measured against GDP, the year's deficit reached 0.8% compared to 1.7% in 2001 (Tables 12 and 13).

The balance of trade posted a surplus of US$2.513 billion, with exports reaching US$18.340 billion and imports US$15.827 billion. This was up US$457 million from 2001, the result of a 0.7% decline in exports and 3.6 % in imports fob (Table 14).

The 2.1% decline in the price of goods was behind exports' performance, affected by the world economy's depressed performance. However, 1.4% growth in volumes helped to cushion this.

Regarding imports, slow growth in domestic demand was reflected in import goods volumes that remained very similar to those of the previous year (0.2%). Imports' poor performance during the first quarter stood out, affected by their particularly low level in February (Table 14).

The decline in the value of goods exports was mostly due to copper, as its exports by value fell 7.1% during the year, because of both lower prices (-4.2%) and lower volumes (-3.0%). Exports of non-copper products, meanwhile, rose 3.0% by value, with a 0.9% fall in prices offset by a 4.0% increase in volumes, which reached 5.7% for traditional products and 3.6% for non-traditional non-copper products. The latter continued a trend apparent the previous year and represent the exports most sensitive to peso depreciation. Within this group, the growth in volume of salmon (10.3%) and wine (11.5%) are particularly noteworthy. Among traditional, non-copper products, rises in volumes shipped of planed wood (28.0%) and grapes (20.6%) stand out. In the case of prices, the recovery in fishmeal (21.4%), molybdenum (69.1%), lumber (17.0%) and gold (11.6%) prices is particularly noteworthy (Table 14).

Regarding export destinations, the difficult conditions prevailing throughout the region meant that dispatches to Latin America, measured using customs export declarations, fell 10.5% in 12 months (-US$416 million), heavily influenced by plunging sales to Argentina and Brazil. Likewise, exports to Europe fell 6.7% over 12 months (-US$328 million), particularly due to reduced shipments to the United Kingdom and Germany. Exports to Asia rose 11.3% (US$523 million), mainly thanks to significant increases in shipments to China, Taiwan and South Korea, which more than offset a falloff in exports to Japan. Sales to the US rose 6.6% (US$226 million) during this period.

The decline in imports by value affected every category: consumption (2.0%), capital (2.7%) and intermediate (4.0%), with the latter being influenced by a 10.6% decline in oil imports.

The decline in goods imports, by value, which reached 3.8% cif, was reflected in a 3.9% drop in prices and a 0.2% rise in volume. However, as the year progressed imports recovered, with volumes rising from -7.6% in the first quarter, to 3.2%, 1.9% and 3.8% in the second, third and fourth quarters, respectively (Table 14).

All geographic regions reflected the US$726 million decline in imports, measured using customs entry declarations: US (-US$367 million), Europe (-US$149 million), Canada (-US$101 million), Latin America (-US$62 million, affected by lower imports of oil from Argentina) and Asia (-US$54 million).

The other current account components, services, revenues and transfers registered a negative net flow of US$3.067 billion in 2002, which represented a US$180 million decline in the deficit over 12 months. This lower amount was largely due to the decline in income included under “other investment” (US$129 million) – consisting mainly of loans, currency and deposits, and commercial credits, and direct investment (US$92 million). The first primarily reflected the decline in international interest rates and the country’s net borrowing position. Similarly, the second reflects the decline in rates that affected interest on the debt that companies investing directly maintain with their foreign affiliates and, to a lesser degree, a slight increase in profits on Chilean investment abroad (Table 15).

The net result for services in 2002 was a US$957 million deficit, slightly higher than in 2001, which reflected a 3.5% drop in credits and a 2.1% decline in debits. The continued depressed level of incoming tourism also influenced these results, combined with a recovery in outgoing tourism as the year progressed, and a decline in export cargo fees charged by resident firms (Table 16).

### F.2. Financial and Capital Account

The financial and capital account, excluding reserve assets, posted positive results of US$998 million for the period from January to December 2002, which financed the current account deficit and made it possible to accumulate reserve assets on US$199 million in transactions. This positive result was due to net inflows associated with both direct investment and other investment, which more than offset net outflows due to portfolio investment (Table 17).

Direct investment posted positive net inflows. Compared to the previous year, there was an important decline in levels of both direct investment in Chile and Chilean-based investment abroad. In 2001, direct investment in Chile was particularly high during the first quarter, because foreign investors increased their shares or purchased companies, a situation which did not recur in 2002, when direct investment primarily took the form of profit reinvestment and, to a lesser degree, actual inflows of capital contributions from abroad. Important companies did not remit profits, thus financing their investments in Chile. In the case of direct investment abroad, unlike the previous year, significant sums flowed into Chile because of net repatriation of shares and other equity, which was slightly offset by outflows due to profit reinvestment and other capital, in the form of loans.

Portfolio investment, meanwhile, posted significant outflows, reversing the slightly positive flows of the previous year. This was due to the accumulation of negotiable foreign assets, particularly by pension funds and companies and individuals, although the latter fell in the second half of the year. The banking system, meanwhile, posted net inflows, as asset positions abroad declined. Portfolio investment liability flows were positive, but slightly less than in 2001, due to larger outflows going to equity securities (ADRs). Flows due to debt securities, which are bonds, remained at the same level as the previous year, and corresponded to three public sector bond issues. Two of these were sovereign bonds issued by the Republic of Chile, placed in the second and fourth quarters of the year.

Other investment, consisting of loans, commercial credits, currency and deposits, and others, posted inflows of US$1.858 billion for the period, with positive flows for both assets and liabilities, thus turning around the behavior of the previous year when both assets and liabilities posted negative flows. The positive sign on assets reflected financial system performance, as it reduced its loans abroad, recomposing its portfolio to give priority to activities at the national level. Liabilities, meanwhile, posted positive flows as a result of significant flows due to short-term private sector loans, again reversing the previous year’s performance. Medium- and long-term loans and liabilities posted negative flows, the result of significant debt prepayments and liability restructuring by the public sector (shifting debt to bonds), respectively (Table 17).

### F.3. FOREIGN DEBT

Chile’s total foreign debt as of 31 December 2002 reached US$40.395 billion, rising US$2.363 billion over December 2001. The private sector holds 82% of total debt, the public sector the remaining 18% (Table 18).

Medium- and long-term external credit disbursements in 2002 totaled US$6.857 billion (Table 19), up 9% over the same period the previous year

(US$6.304 billion in 2001). The private sector was the main receiver of these resources, with US$4.456 billion (65% of the total), with the main economic sectors involved being financial services, (71%), electricity, gas and water, (10%) and mining (8%).

Regarding external financing sources in 2002, financial institutions abroad contributed 49% of total medium- and long-term resources received in Chile; bond emissions accounted for 25%; affiliates with foreign investment and suppliers 20%; and multilateral and governmental bodies 6%.

Medium- and long-term credit amortizations abroad for January to December 2002 reached US$5.845 billion. Of the total, US$1.173 billion corresponded to public sector and US$4.672 billion to private sector amortizations. Fifty nine percent of total amortizations went to financial institutions abroad, 31% to companies affiliated with foreign investment and suppliers abroad, 9% to multilateral and governmental bodies; and the remaining 1% to bond redemptions.

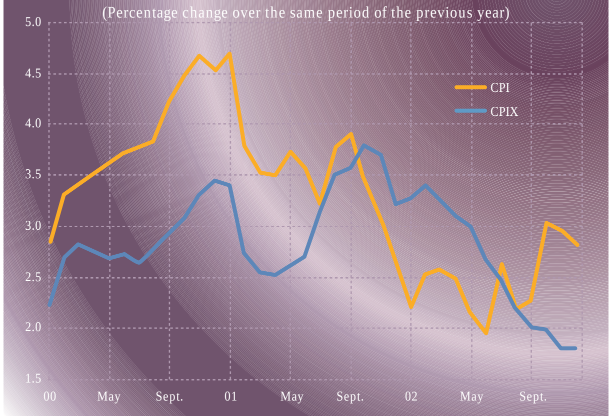
Foreign debt with a residual maturity falling due within 12 months reached US$8.524 billion as of 31 December 2002, 21% of total borrowing, up US$1.819 billion from December 2001, due to an increase in credits originally contracted for one year, worth US$273 million and payments of medium- and long-term debt falling due, worth US$1.546 billion (Table 18).

## G INFLATION AND WAGES

### G.1 INFLATION

The Consumer Price Index (CPI), which measures annual inflation, reached 2.8% in 2002, slightly higher than the previous year, but in line with the middle of the 2% to 4% target range that guides Central Bank monetary policy (Figure 19 and Tables 20 and 21).

Figure 19
**CPI AND CPIX INFLATION**
(Percentage change over the same period of the previous year)




Source: National Statistics Bureau (INE).

During 2002, several situations affected inflation. On one hand, the oil price remained at average levels of almost US$25 per barrel, pressuring fuel prices and bus fares upward. The exchange rate, although it fluctuated, rose again. This, as in previous episodes, affected primarily charges for regulated services (drinking water, telephones, electricity) and fuel prices, making inflation more volatile in the short term. The persistence of a limited passthrough from the exchange rate to inflation was reinforced by market expectations, which despite shifting with regard to changes in the exchange rate, remained the same for inflation (Figure 20).

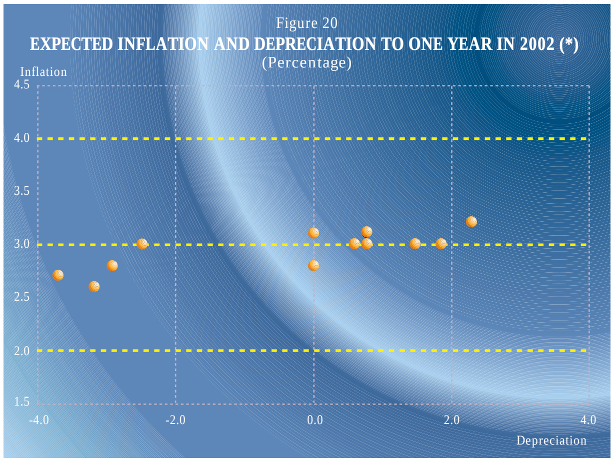
One element that contributed to the limited inflationary impact of peso depreciation were trends in dollar import prices. Throughout 2002, the unit value index (IVUM) for consumption goods imports saw prices fall even further, from negative rates of -4% at the beginning of the year to -7% in late 2002 (Figure 21). Initially, three factors seem to explain the decline in world prices: (1) supplier substitution toward more favorable markets of origin; (2) a lower dollar price on imported consumption goods, from each market of origin, for example due to improvements in quality or the increase in the bilateral value of the Chilean peso; and (3) the tariff reduction adopted by Chile in recent years. The weighting for each of these elements varies according to the product, but altogether they make up a scenario in which peso depreciation has been absorbed by a continuous, significant reduction in import prices, thus ruling out potential pressure from imported inflation. This is also consistent with trends in prices for several durable goods, clothing and electronic goods among others, within the CPI.

At the more aggregate price level, this trend was also apparent, mainly because of depreciation of the Argentine and Brazilian currencies, which nonetheless does not appear to have played a decisive role in import price performance. Overall, the Foreign Price Index (FPI), which includes prices abroad that affect Chilean trade, posted rates of annual change of about -4.5% in the last quarter of 2002. The importance of the effect of depreciation of neighboring countries' currencies is apparent in the trajectory of the FPI-5, which includes the dollar prices for the five main economies. In effect, this indicator showed a completely opposite panorama, accelerating toward years' end, with increases reaching almost 6% in the last quarter of 2002.

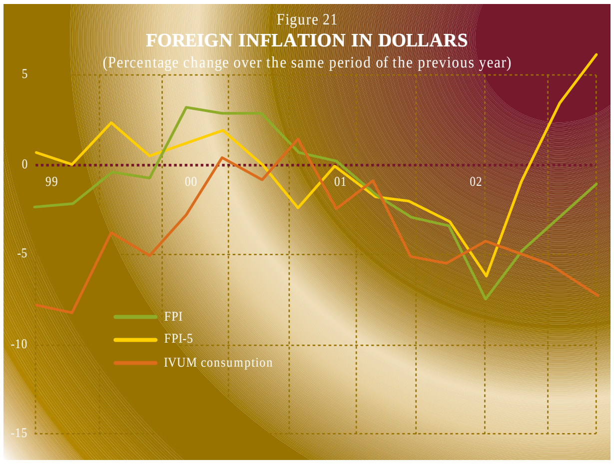
This outlook for imported inflation was enhanced by favorable trends in unit labor costs, the result of moderate growth in nominal wages and higher mean labor productivity. At the same time, the 3% wage increase agreed upon for public sector wages in 2003, which was lower than the previous year, affected wage increases in community, personal and social services, which account for about 30% of total wages. This tendency in wages helped to relieve compression on margins and with it inflationary pressures from this source (Figure 22).

Moreover, capacity gaps in the different markets also rose during the first half of 2002, but then remained virtually unchanged. For the future, the prospects for potential and actual growth suggest these gaps will gradually close.

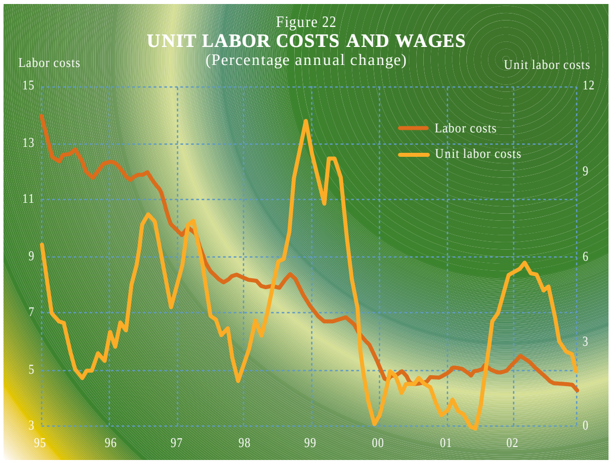
Altogether, these elements confirmed the likelihood of less inflationary pressure on the cost side, which, despite the continued presence of gaps, was apparent in a slight reduction in margin compression. Trends in underlying inflation reaffirmed this panorama. By late 2002, the CPIX, which excludes the prices of fresh fruit and vegetables and fuels, had risen 1.8% for the year, almost one and a half points less than at the end of 2001. Moreover, this opened a gap of one percentage point between inflation measured by the CPI and the CPIX (Table 20).




(*) The dotted lines indicate the inflation target range.
Source: Expectations survey, Central Bank of Chile.

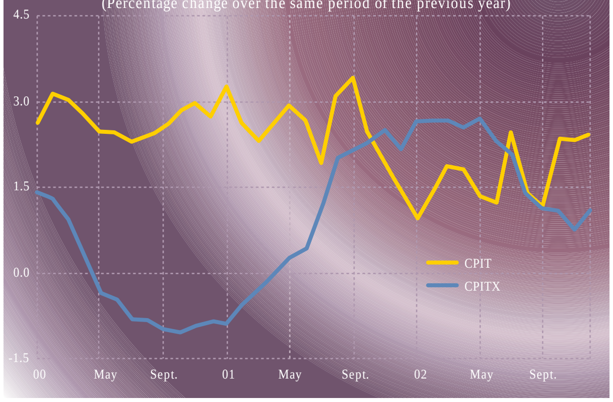



IVUM: Unit value index for consumption goods imports.
FPI: Foreign price index (world). FPI-5: Foreign price index (five main economies).
Source: Central Bank of Chile.



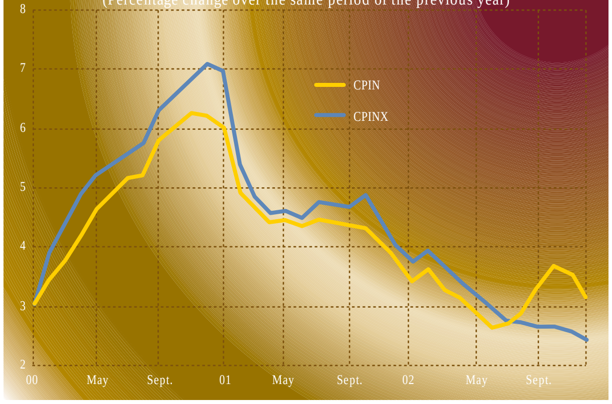

Sources: National Statistics Bureau (INE) and Central Bank of Chile.

Figure 23
TRADABLE CPI (CPIT) AND UNDERLYING TRADABLE CPI (CPITX)
(Percentage change over the same period of the previous year)



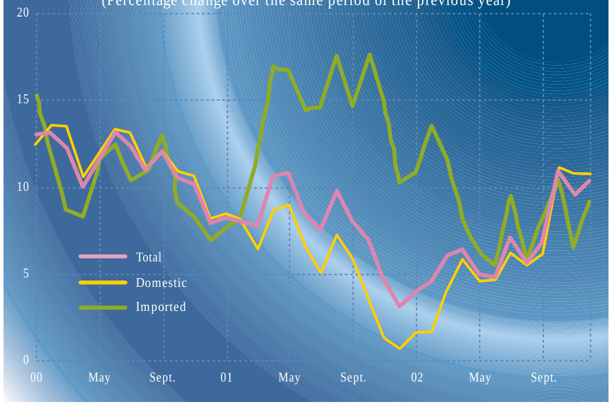

Sources: National Statistics Bureau (INE) and Central Bank of Chile.

Figure 24
NON-TRADABLE CPI (CPIN) AND UNDERLYING NON-TRADABLE CPI (CPINX)
(Percentage change over the same period of the previous year)




Sources: National Statistics Bureau (INE) and Central Bank of Chile.

Figure 25
TOTAL DOMESTIC AND IMPORTED WPI
(Percentage change over the same period of the previous year)




Source: National Statistics Bureau (INE).

In terms of inflation components, tradable products (CPIT) as a whole shifted in line with fuel prices and changes in the basis for comparison from the same months in 2001. Thus, 2002 ended with an annual rise somewhat less than double that posted the previous year (2.5% in 2002 versus 1.4% in 2001). In the case of the CPITX, which eliminates the relevant fuel, fresh fruit and vegetable prices, the impact of lower import costs, mentioned above, is particularly obvious. In effect, after ending 2001 with an annual rise of 2.2%, this indicator had fallen to 1.1% at the close of 2002 (Figure 23).

On the non-tradable side (CPIN), the main changes affected perishable product prices and regulated service charges, although the increase for 2002 was less than in 2001. The CPITX, which excludes the price of the pertinent perishable products for this group, fell significantly from 4% in December 2001 to 2.5% in December 2002 (Figure 24).

The Wholesale Price Index (WPI) rose significantly, in line with shifts in fuel prices (without considering the effect of the Oil Price Stabilization Fund, *Fondo de Estabilización del Precio del Petróleo*, FEPP), perishables and the exchange rate. Altogether, they brought an annual increase that rose from 3% in late 2001 to 10% in December 2002. This trend was apparent in the case of both the domestic goods and imported goods components (Figure 25). It should, however, be remembered that there is no direct passthrough of price increases registered in the WPI to the CPI. On one hand, the FEPP cushions the impact on consumers of the rise in wholesale fuel prices. On the other, even if the passthrough of the exchange rate to wholesale prices for imported products may be one on one, historical patterns for both indicators and the products that make up the basket of each do not suggest a direct relationship between changes in wholesale prices and consumer prices. Overall, the main passthrough effect of wholesale prices occurs via the indexing clauses applied to public utilities (drinking water and telephone).

## G.2 Wages

At the end of 2002, nominal wages as measured by the hourly wage index and the labor cost index posted 12-month rises of 4.0% and 4.1% respectively, both figures the lowest since these indices were created

(April 1993). Thus, these indicators closed the year with annual increases that were more than one percentage point less than the previous year, in line with the decline in underlying inflation in 2002. In real terms, both indices rose 1.2% (Tables 22 and 23).

Wage trends toward the end of 2002 also showed a marked deceleration in the case of public sector wages. Linked to the wage increase approved in December, the annual increase in service sector wages had fallen to 3.9% by the end of 2002, almost half their increase one year earlier, and less than the private sector for the first time since early 2001.

Real initial wage increases agreed upon in collective bargaining contracts registered by the Labor Bureau in 2002 showed these were rising less than in 2001, except for the first quarter. These wage increases reached 0.81% in the first quarter, 0.85% in the second, 0.33% in the third and 0.52% in the fourth (Table 24).

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

### H.1 BALANCE STRUCTURE

The volume of Central Bank investments and obligations, equivalent to nine times the balance of the monetary base, is substantial. With the floating exchange rate, developed financial markets and an autonomous Central Bank, it would be expected that Central Bank assets would not be significantly greater than the financing provided by the monetary base and controlled equity. These hefty operations occurred in past decades, in response to hyperinflationary episodes that triggered a process involving faults and crises, which established the foundations of today's financial institutions. The banking crisis in the early 1980s gave rise to assets in the form of fiscal promissory notes, subordinate debt and deferred losses. Similarly, strengthening the balance of payments, which followed on the adjustments to foreign exchange during those years, combined with a policy that attempted to cushion peso appreciation in the 1990s, led to a significant accumulation of foreign currency reserves. The non-inflationary financing of these assets required the issue of promissory notes that constitute the main component of liabilities (Table 25).

Fiscal equilibrium in the medium and long term, prudent regulations, capital market modernization, and the floating exchange rate regime that have finally emerged are all factors that work toward a balance structure in which the relative level of international assets will gradually become less significant, with domestic credit financed primarily by the non-inflationary monetary base and equity. However, given the high volume of past investments and obligations, this structural change could take several decades.

The two main components of the Central Bank balance sheet, foreign exchange reserves on the asset side and promissory notes with a secondary market on the liability side, rose significantly in 2002. In a context of relative stability for total assets and liabilities, foreign exchange reserves' share of total assets went from 54.4% to 61.6%, while promissory notes with a secondary market boosted their relative share from 76.2% to 80.1% (Table 25). These changes respond to factors that in the long term do not contradict a decline in the relative importance of foreign exchange reserves and promissory notes within the balance sheet. In fact, the Central Bank must reserve the equivalent of 200 billion pesos (approximately) in foreign exchange reserves (about US$300 million) to finance net outflows due to its other operations in foreign currency, mainly withdrawals from government deposits beyond those specifically to serve dollar debt in the bank itself. Similarly, as a result of other peso operations, the Central Bank was able to use 700 billion pesos to redeem promissory notes on the secondary market. Nonetheless, these negative flows were more than offset by accrued interest, readjustments and adjustments in the parity of these components, which meant increases of 1.7 billion pesos to foreign exchange reserves and 1.2 billion in the case of promissory notes. In the case of foreign exchange reserves, positive corrections in value (1.4 billion pesos, over and above 300 billion pesos in interest payments) not only were the result of a 9% depreciation in the value of the peso against the US dollar, but also reflect the appreciation of other currency included in reserves, along with corrections to investment in fixed income instruments. In the case of Central Bank promissory notes, replacing PRC with BCU and PRD with BCD documents, required including in the balance sheet provisions for the higher financial costs accruing in future to these securities, at an average rate of about 6.4%, along with 3.4% due to indexing. In future, the financial cost that will appear in the balance sheet for these instruments will be closer to the rates apparent today, since the inertia attributable to previous long-term loans at higher rates was absorbed once and for all in the swaps mentioned above.

Equity in foreign currency remained practically the same (rising from US$14.200 billion to US$14.300 billion), the result of almost no sales of foreign currency, US$1 billion in earnings from interest and changes in the US dollar, and US$900 million in net BCD placements. These last occurred primarily toward year's end, to neutralize erratic pressures on the exchange rate, arising from the deterioration of financial conditions affecting some of the region's economies. This mismatch, combined with peso depreciation, was key to the positive accounting result, which brought capital up from 250 billion at the beginning of the year to 877 billion at the year's close. It should be noted that this result is net of the 204 billion used to partly amortize the balance sheet pending in the differed loss item.

Fiscal promissory notes over total assets fell from 26.0% to 25.4%, due to the regular servicing of this debt by the government, which was partly offset by the corresponding accrued interest and indexing. Other government assets' share remained virtually unchanged. The relative weight of subordinate debt assets fell from 7.9% to 5.0%, thanks to the sale of Banco Santiago shares. The decline in the relative importance of (activated) deferred losses from 3.2% to 2.1% was thanks to the use of profits applied for this end. The decline in repo and liquidity credit operations from 3.7% to 1.2% of total assets reflects a partial turnaround in these operations, which rose considerably in late 2001. On the liability side, the decline in public sector deposits from 8.6% to 6.9% was partly due to servicing fiscal promissory notes and withdrawals from the copper price stabilization fund. Emission's share, in contrast, rose from 11.1% to 11.7%.

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

The average asset yield, due to interest, is mainly determined by international interest rates, while indexing generally depends on changes in the Nominal Exchange Rate. In 2002, the average weighted indexing factor on assets was 9.6%, as a result of an 8.6% nominal annual rise in the observed exchange rate, through December, and other currencies' devaluation against the US dollar. All this was partly offset by the use of 204 billion pesos to amortize deferred losses, as mentioned above, and the 2.8% domestic inflation rate that affected the indexing of most assets in domestic currency. Essentially, due to international interest rate cuts, the average weighted yield in interest on assets fell from 4.5% in 2001 to 2.9% in 2002.

The average weighted cost of interest paid on liabilities, consisting mainly of promissory notes minus indexing, reached 5.2%, down from 5.7% in 2001, reflecting mainly the general fall in both domestic and foreign interest rates, which was partly offset by the rise in financial costs due to the promissory note swaps mentioned above. The average indexation of liabilities, including those in foreign currency and the monetary base, was 3.5% in 2002, up from 3.1% in 2001. This behavior reflected stable inflation and the greater relative weight of BCDs indexed to the exchange rate.

The resulting difference between liability costs and asset yields from interest was 2.3%, up from last year's gap of 1.2%. Interest losses were more than offset by the 6.1% rise in indexed assets over liabilities. Thus financial earnings posted in 2002 reached 646 billion pesos; 1.007 billion pesos in net income from indexing and other price variations; 8 billion pesos in net income from the devaluation of the equity deficit; and 353 billion pesos in net losses on interest payments. Other results showed net losses of 27 billion pesos. Altogether, the annual result was a net gain of 619 billion pesos, which pushed the final accounting surplus up from 250 billion pesos at the end of 2001 to 877 billion pesos as of December 2002. It should be noted that at that time 379 billion pesos in deferred losses for amortization remained, which, combined with the hefty mismatch in foreign currency still present in the balance sheet (9.5 billion pesos through December), weakens the chances of an accounting equity surplus in the near future.

# APPENDIX 1

## OPERATING EXPENSES

Operating expenses are those involved in sustaining the ongoing management of the Central bank, such as personnel expenses, use and consumption of goods and services and other associated expenses necessary to carry out activities. In the Financial Statements these are broken down as follows: i) Personnel expenses, ii) Administrative expenses, iii) Depreciation, amortization and write-offs, and iv) Taxes, benefits and others (Table 26).

Figures for 1998-2002 reveal that personnel expenses fell 9.7% in real terms over the past five years, going from 14.640 billion pesos in 1998 to 13.224 billion pesos in 2002, 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 13%, going from 638 staff members in 1998 to 555 in 2002. 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 1998-2000 remained relatively constant in real terms. The 14.4% rise in 2001 over 2000 mainly reflected larger expenses on information services (301 million pesos) and technological development (209 million pesos). The 37.7% rise in 2002 over 2001 was mainly due to expenses involved in selling shares received in payment from the ex-Banco Santiago (1.654 billion) and expenses on technology upgrades (260 million pesos) to enhance the Bank's performance. Administration expenses include basic utilities; general services; information services; maintenance of fixed asset goods; consulting; surveys; studies and seminars; and spending on computers and technological development.

Depreciation, amortization and write-offs rose by a real 2.8% between 1998 and 2002, going from 1.404 billion pesos to 1.444 billion pesos in that period. These amounts correspond to depreciation of fixed asset goods.

Finally, taxes, contributions and payments in the past five years rose 9% in real terms, from 435 million in 1998 to 474 million pesos in 2002, the result of changes in the dollar exchange rate, which affected disbursements in this currency.

# APPENDIX 2

## PRESS RELEASES FROM MONETARY POLICY MEETINGS IN 2002

### 10 JANUARY

At its regular monthly meeting on monetary policy held today, the Board of the Central Bank of Chile reduced the monetary policy interest rate by 50 basis points, from 6.5% per annum to 6.0% per annum. The tranches of the liquidity credit line were also cut by 50 basis points.

Although international conditions suggest some weakness, there is less uncertainty than in the recent past, and the world economy is expected to start to recover in mid-year. The effects of the Argentine situation on the region and Chile by and large seem to have been absorbed, although other adverse consequences of an essentially temporary nature should not be ruled out.

Domestically, inflationary pressures remain under control at present and as projected for the monetary policy horizon. This is due to the combination of weak domestic demand, the maintenance of a moderate international oil price, and the fact that both output and employment were performing below their potential.

These factors justify the application of a more expansionary monetary policy stance, with inflation close to the middle of the target range for the next two years. Thus, the Board confirms its commitment with the price stability necessary to keep inflation between 2% and 4%, centering on 3% per annum. For this purpose, the Board will continue to apply its monetary instruments flexibly.

### 19 FEBRUARY

At its regular monthly meeting on monetary policy held today, the Board of the Central Bank of Chile reduced the monetary policy interest rate by 50 basis points, from 6.0% per annum to 5.5% per annum. The tranches of the liquidity credit line were also cut by 50 basis points.

International conditions showed no fundamental changes over expectations one month earlier. Although signs of somewhat more rapid recovery were apparent for the US economy, Chile's trading partners in Latin America were showing signs of greater weakness. Conditions in Argentina remained critical, affecting Chilean investors and exporters to that country, but neither Chile nor any other economy in the region has suffered impacts beyond those forecast in January.

Domestically, the likelihood of less inflationary pressure in the future has been reinforced. On one hand, domestic expenditure has performed more weakly than expected and different, partial indicators suggest this trend will not turn around on its own in the short term. This tendency, combined with an international oil price that remains moderate, indicates that inflation should fall below the middle of the target range toward the end of the projection horizon. On the other hand, private expectations about inflation have declined significantly, especially those implicit in one-year interest rates.

This information justifies the application of a more expansionary monetary policy stance, which should encourage expenditure without placing the inflation target at risk.

The Board confirms its commitment to apply its monetary instruments flexibly to keep inflation within the 2% to 4% per annum target range, centered on 3%.

### 12 MARCH

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to reduce the policy interest rate by 75 basis points, from 5.5% to 4.75% per annum. The tranches of the liquidity credit line were also cut by 75 basis points.

Among the factors influencing its decision, the Board concluded that the outlook for reduced inflationary pressures apparent in recent months has tended to consolidate.

Internationally, although there has still been no substantial improvement in overall activity of Chile's trading partners, prospects for growth of the US economy have improved. In any case, emerging economies' financial markets have shown signs of growing stability, which has also been reflected in key financial prices within the Chilean economy.

Domestically, meanwhile, the data collected, including national accounts information based on 1996 confirm that domestic demand will remain below previous forecasts.

Altogether, this information suggests that inflationary pressures will remain under control over the policy horizon. Actual trends in market expectations and price indicators confirm this outlook. In this context, this cut to the monetary policy rate is consistent with inflation converging on 3% per annum over the 12- to 24-month horizon. Moreover, with this monetary impulse, and to the degree that the most recent growth trends worldwide consolidate, it is possible to expect the pace of domestic activity to pick up speed.

The Central Bank will continue to use monetary policy flexibly, as the circumstances require, to deal with any sign that inflation may be tending to move away from the established target.

## 9 APRIL

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 4.75% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

Internationally, better prospects for growth have tended to consolidate for most of Chile's trading partners, although conditions in Latin America remain weak and the oil price has risen due to events in the Middle East.

In terms of the domestic macroeconomic scenario, most indicators point to weakness in the area of year-on-year growth. Figures also suggest, however, that domestic demand levels reached their lowest point during the second half of last year. In this context, prospects for demand to pick up moderately in the coming quarters remain, while inflationary expectations are well settled on the middle of the target range within the projection horizon. In any case, movements in the monetary policy rate in coming months cannot be ruled out, in the event that the future scenario does not follow projections.

The Central Bank repeats its commitment to apply monetary policy flexibly, to deal with any sign that inflation may be tending to move away from the established target.

## 9 MAY

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to reduce the policy interest rate by 75 basis points, from 4.75% to 4% per annum. The tranches of the liquidity credit line were also cut by 75 basis points.

The Board based this decision on the likelihood that medium-term inflation would be lower, in a context where economic activity is likely to improve more slowly than originally forecast.

The outlook for world growth is better than some months ago, although there is caution about the strength of recovery in the industrialized world. Even without financial contagion, complex regional conditions have adversely affected trade and activity in Chile.

Domestically, indicators for the first quarter reveal that expenditure has recovered from its drop in late 2001, although more slowly than expected. Similarly, output grew more slowly during the early months of the year and is now showing signs of expanding more.

Altogether, this information suggests that inflationary pressures will remain low over the policy horizon. The interest rate cut should contribute to keeping inflation toward the 3% per annum target over the 12- to 24-month horizon and favor a speedier pace of activity compared to current conditions.

The Central Bank reaffirms its commitment to apply monetary policy flexibly as circumstances require, to deal with any sign that inflation may be tending to move away from the established target.

## 13 JUNE

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 4% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

Internationally, the regional situation has grown more uncertain, which is reflected in both changes in currencies and sovereign premiums for some economies. However, better prospects for world economic growth have held, and the terms of trade have improved gradually.

Domestically, the most recent information on trends in activity are consistent with the main scenario presented in the previous *Monetary Policy Report*, rather than alternative scenarios. Inflationary pressures remain low, with annual inflation bouncing around somewhat in the coming months. Underlying inflation, meanwhile, remains well within the target range.

The Central Bank will continue to apply monetary policy flexibly to deal with any sign that inflation may be tending to move away from the established target.

## 11 JULY

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to reduce the policy interest rate by 75 basis points, from 4% to 3.25% per annum. The tranches of the liquidity credit line were also cut by 75 basis points.

The global economy continued to expand at the same pace as previous months, although with differences among the main regions. Nonetheless, the prospects for growth of Chile's trading partners have suffered from the negative trends in some Latin America countries. Moreover, risks associated with the main stock markets have grown. Similarly, financial turbulence in the region has become more significant than in previous months.

Domestically, the information gathered suggests that in the second quarter, both expenditure and output rose over the previous quarter, although more slowly than forecast in the May *Monetary Policy Report*. This difference is most evident in the case of expenditure, which is expected to rise the fastest. This trend, combined with international tendencies, suggests that growth rates in coming quarters will be less than forecast by that report.

Some of these conditions have completely opposite implications for inflation. However, the low level of inflation, persistent idle capacity and the reduced passthrough of exchange rate depreciation to prices suggest that inflation will move toward the middle of the target range over the usual policy horizon. This is consistent with the new monetary impulse that should favor more robust activity.

The Central Bank repeats that it will continue to apply monetary policy flexibly to deal with any sign that inflation may be tending to move away from the established target.

## 8 AUGUST

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from 3.25% to 3% per annum. The tranches of the liquidity credit line were also cut by 25 basis points.

Information gathered since the previous meeting revealed a decline in growth prospects for different trading partners, especially the US, both this year and next. This likelihood has already been apparent in lower prices for some commodities, particularly copper.

In the past month, the region's financial markets continued to face considerable volatility. This should tend to decline with yesterday's announcements from Brazil and the International Monetary Fund. Overall, financial indicators for the Chilean economy have behaved according to the solid fundamentals that set them apart.

Domestically, the tendency for inflationary pressure to subside has continued. This is apparent in the changes in different cost indicators and information suggesting lower growth rates for future quarters than previously forecast. These conditions, already foreseen in the previous monetary policy meeting, justify the application of more expansionary monetary policy, consistent with controlled inflation and convergence on the middle of the target range within the projection horizon.

The Central Bank will continue to apply monetary policy flexibly as circumstances require, to deal with any sign that inflation may be tending to move away from the established target.

### 5 SEPTEMBER

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 3% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

The Board considered that the current expansionary approach to monetary policy, whose effects on the economy have gradually become apparent, is consistent with expectations that inflation will converge on the middle of the target range within the usual projection horizon.

Information gathered since the previous meeting confirms a marked decline in the growth prospects of Chile's trading partners. Similarly, international financial markets have become very volatile, touching off considerable uncertainty, which has particularly affected countries in this region.

Regarding the domestic economy, prospects for activity as outlined during the previous meeting hold. In financial markets the process of passing interest rate cuts through to different instruments has continued, within a system well-known for its solvency and low risk. Underlying inflationary pressures remain under control, reflecting ongoing idle capacity. It is therefore expected that with some highs and lows, inflation will approach the middle of the target range in coming months.

The Central Bank repeats that it will continue to apply monetary policy flexibly, to deal with any sign that inflation may be tending to move away from the established target.

### 8 OCTOBER

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 3% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

Overall, the outlook for global economic growth has not changed in recent weeks. Nonetheless, more adverse risk scenarios have become somewhat more relevant and volatility rose in regional financial markets. These events have been particularly apparent in pressure on some currencies.

Domestically, information gathered since the last meeting is generally consistent with the outlook for growth in the *Monetary Policy Report*. The prospects for medium-term inflation remain close to the middle of the target range, although there could be broader fluctuations in the short term.

The Central Bank repeats that it will continue to apply its policies flexibly, to deal with any sign that inflation may be tending to move away from the established target.

### 7 NOVEMBER

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 3% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

The information gathered in recent weeks does not fundamentally change the main scenario for world growth and the main commodity prices described in the last *Monetary Policy Report* for this year and next. Moreover, the risk of conflict in the Middle East remains, although there is more caution about the strength of the industrialized world's recovery. Similarly, uncertainty in regional financial markets has declined in recent weeks.

Domestically, some sectors more linked to natural resources have performed less well than forecast. This could mean growth in activity during the second half will prove to have been weaker than forecast. Inflation, meanwhile, has risen 3% and could rise temporarily toward the beginning of next year. Nonetheless, underlying inflationary pressures remain under control, keeping medium-term prospects for inflation in line with the middle of the target range.

The Central Bank repeats that it will continue to apply its policies flexibly, to deal with any sign that inflation may be tending to move away from the established target.

### 10 DECEMBER

At its regular monthly meeting on monetary policy, the Board of the Central Bank decided to keep the monetary policy rate at 3% per annum. The tranches of the liquidity credit line also remained unchanged at the levels established at the previous meeting.

Although there have been some swings, the result of changes in the oil price, the exchange rate and the price of some perishable products, inflation has remained near the middle of the target range. Underlying inflation (CPIX), meanwhile, has remained near the floor of this range. Inflationary tendencies remain under control within the target range, although they are lower than previously projected. Inflation expectations, meanwhile, have also been corrected downward.

Internationally, risks facing the world economy remain latent, as do some more specific ones facing several countries. Likewise, there are some signs that domestic private consumption could be performing better, reflecting more favorable credit conditions and better labor market prospects. At the same time, some sectors more closely tied to natural resources are expected to perform less strongly for several quarters.

The Central Bank repeats that it will continue to apply its policies flexibly, to deal with any sign that inflation may be tending to move away from the established target.

# APPENDIX 3

## MAIN MONETARY AND CREDIT MEASURES IN 2002

### JANUARY

10 In its monthly monetary policy meeting, the Board decided to cut the reference rate by 50 basis points, from 6.5% per annum to 6.0%. Rates on the tranches of the liquidity lines of credit were also cut by 50 basis points.

### FEBRUARY

10 In its monthly monetary policy meeting the Board decided to cut the reference rate by 50 basis points, from 6.0% per annum to 5.5%. Rates on the tranches of the liquidity lines of credit were also reduced by 50 basis points.

28 In line with the nominalization of the monetary policy reference rate, and in order to ease the gradual convergence at longer terms of peso-denominated instruments, the maximum maturity of Central Bank of Chile discountable promissory notes (PDBC) was extended to five years.

Banking corporations were authorized to pay interest on balances in hand in current bank accounts in national currency from 1 June 2002, upon prior written agreement with the account holders. The interest rate to be paid must be quoted in annual terms (from a 360-day base) and be applied universally, allowing for differences according to the average balance held. To this effect, interest payments shall be made monthly and the relevant information made available to the public. In line with the regulations for preferential payment on demand deposits set out in the General Banking Law, and in light of the Central Bank's legal obligation to provide funds for the payment of such deposits in the case of a bank becoming insolvent, it was decided that banking corporations classified below level A for solvency, as defined in article 61 of the General Banking Law, may not pay a monthly interest rate above the average monthly TIP, as published by the Central Bank for 30- to 89-day non-indexed deposits in the month immediately prior, less 0.04 percentage points. For the same reason, and for a transition period while the financial system adapts to this new measure, from 1 June 2002 to 31 May 2003 there will be a limit on the interest payments allowed on current account balances equivalent to 4% per annum of the average monthly balances held.

In addition, and on the grounds mentioned above, the Board regulated interest payments on "Demand Deposits" covered by Chapter III. B.1.1. of the Compendium of Financial Regulations and held by banking corporations and financial institutions, to allow the benefit to be extended to savers who do not hold current accounts.

The regulations on long-term unrestricted access savings accounts covered by Chapter III E. 1 of the Compendium of Financial Regulations were also amended, prohibiting banking corporations from making charges on these accounts related to checking transactions or other current-account-related business. In order to strengthen the use of this instrument for savings purposes, the regulations also determined that interest would not be paid if withdrawals exceeded six in the space of 12 months.

### MARCH

01 Law 19795, published in the official gazette (*Diario Oficial*) on 28 February 2001, which introduced changes to DL 3500 on pension funds, authorized the creation of multi-funds, denominated pension funds Type A, B, C, D and E. Pension funds Type 1 and 2 funds became known as Type C and E respectively. This legal modification improved pension fund investments in Chile, broadened the range of securities eligible for foreign investment, and raised limits on investment abroad.

In accordance with this law and in light of its transitory Article 1, which limits pension fund investments, the following modifications were approved in the Central Bank's regulations as these refer to the pension funds' investment limits abroad:

- The securities available to pension funds ex-Type 1 now include instruments representing share indexes, short-term deposits and asset loan contracts, and, in the case of pension funds ex-Type 2, investments in short-term deposits. Both ex-Types 1 and 2 may also invest in securities and financial instruments, carry out transactions and make financial contracts as authorized by the Superintendent of Pension Funds, conditional on a Central Bank report.

- The overall limit on investment abroad was raised from 16% to 20% for both ex-Type 1 and 2 funds. For ex-Type 1 funds, the limit on overseas investment in securities representing capital rose from 10% to 13%.

12 In its monthly monetary policy meeting the Board decided to cut the reference rate by 75 basis points, from 5.5% per annum to 4.75%. Rates on the tranches of the liquidity lines of credit were also reduced by 75 basis points.

27 In accordance with interim Article 9 of Law 19795, limits were set on foreign currency investments by pension funds Type A, B, C, D and E, where such investments were not protected by exchange rate risk contracts. The legal limits allow a lower level of uncovered investment the higher the percentage of the pension fund's obligatory investment in fixed rate securities. The limits were to come into force on 1 November 2002.

APRIL

18 From 10 May 2002 the Board extended and modified the interim regulation on term mismatches by banks and financial institutions, which allows higher levels than permitted under the permanent regulations. This takes into account the fact that at this date the structure of asset and liability maturities in the financial system has not yet adjusted to the permanent parameters following the nominalization of the monetary policy reference rate. To facilitate a gradual adjustment to the regulations, from 10 May to 8 December 2002 the limit on interim mismatches for operations with a residual maturity below 30 days is reduced from three times to twice basic capital, and on operations with a residual maturity of less than 90 days, from three to two-and-one-half times basic capital.

25 In the context of the nominalization of the monetary policy reference rate, it was agreed to authorize banks and financial institutions to open and hold non-indexed term savings accounts in pesos, with both restricted and unrestricted access. Term savings accounts with unrestricted access were made subject to the same restrictions as those on indexed savings accounts, that is, interest payments were conditional on a limited number of withdrawals (six) within a 12-month period.

MAY

06 An alternative option was included in the regulations on bids for the purchase by the Central Bank of its own promissory notes, making it possible to apply the 365-day base to the interest rate in the discount offers by the respective institutions in auctions of these securities.

09 In its monthly monetary policy meeting the Board decided to cut the reference rate by 75 basis points, from 4.75% to 4.0% per annum. Rates on the tranches of the liquidity lines of credit were also reduced by 75 basis points.

30 Investment limits for ex-Type 1 pension funds in international securities representing capital were raised from 13% to 15%, in compliance with interim Article 8 of Law 19795.

JUNE

27 Given that the bulk of the legal modifications incorporated into DL 3500 by Law 19795 were due to come into effect on 1 August 2002, the regulations on investment limits for the pension funds were replaced, and those dealing with formal secondary markets were modified. As from the above date, and subject to the regulations introduced by Law 19795, the new investment limits were established for pension funds Type A, B, C, D and E.

## JULY

04 Amendments were made to regulations covering banks' issuance of mortgage bonds, setting out the minimum informational requirements which the issuer must provide to the debtor, both before and after the mortgage loan is granted, in the interests of maximum transparency for the benefit of the debtor. The regulations include the requirement to provide documented information on the conditions of sale of the mortgage bonds by the issuer, indicating the percentage of the discount, if applicable, in relation to the value at issue. They also require the issuer to indicate, in the terms set out by the Superintendent of Banks and Financial Institutions, whether the sale of the mortgage bonds took place in or outside a securities market, and whether the documents were purchased wholly or in part by the issuer or a related party. The information must be duly documented. Information must be given on the market value and the percentage of discount implicit in the prices in other documents issued by the same institution and series, or, in their default, those similar to the documents being sold, issued by the same institution. Finally, so that the borrower may be advised beforehand on the conditions of sale of the mortgage bonds, financial institutions may by common agreement set an acquisition price for all or part of the bonds, recording this agreement explicitly in the respective mortgage contract.

11 In its monthly monetary policy meeting the Board decided to cut the reference rate by 75 basis points, from 4.0% to 3.25% per annum. Rates on the tranches of the liquidity lines of credit were also reduced by 75 basis points.

With reference to the amendments introduced by Law 19769 (from 7 November 2001) to DFL 251 (dating from 1931), which regulates insurance companies, the ceiling for overseas investments by life and non-life insurance and reinsurance companies was set at 20% of their respective equity capital and reserves. The limit will apply up to 31 December 2002.

## AUGUST

08 In its monthly monetary policy meeting the Board decided to cut the reference rate by 25 basis points, from 3.25% to 3.0% per annum. Rates on the tranches of the liquidity lines of credit were also reduced by 25 basis points.

29 The Board exercised its powers under its Basic Constitutional Act to improve the regulations governing Central Bank debt documents, in view of the advantages to be gained from establishing standard instruments similar to those in developed markets.

These modifications made it possible for the Central Bank to issue new long-term debt instruments, to be known as Central Bank of Chile bonds, which can be denominated in pesos, UFs and dollars. They will be known as BCP, BCU and BCD, respectively, and will replace the indexed promissory notes payable in coupons (PRC), the indexed promissory notes in dollars (PRD), and the discountable promissory notes (PDBC).

The aim of this modernization program is to help increase liquidity in the domestic fixed income securities market (bonds), make it more international, and deepen the process of nominalization in financial markets. It will also contribute to more efficient capital markets, with more developed private debt markets and more financial risk coverage. The initiative builds on the experience of the Chilean market in the past decade, on international recommendations for improved practices in public debt issues, and the suggestions and comments of domestic and foreign agents in the fixed income securities market.

There are plans to modernize and introduce more flexibility to the Central Bank's debt management procedures in the following respects: i) by increasing the relative share of debt issued in pesos, and its average maturity, offsetting it with a reduction in UF-denominated debt. Specifically, from the next period of the reserve requirement onwards the Central Bank will begin to auction five-year peso bonds; ii) by adopting international issuing standards; the new notes to be issued will be bullet type securities (paying interest twice yearly and the principal at maturity), which will strengthen the placement of benchmark securities in the fixed income market with a minimum US$300 million per series issued, in line with international liquidity standards. This policy will be implemented through several procedures, to include the re-opening of series, buybacks and/or swaps of non-reference instruments, and special procedures to facilitate the gradual replacement of the promissory notes currently circulating with the new bonds; iii) by allowing the issuance of two- and five-year BCPs to replace the two-year PDBCs, five- ten- and 20-year BCUs to replace the eight and 20-year PRCs, and two- and five-year BCDs to replace the two-, three- and four-year PRDs.

The modernization program is expected to help develop the domestic bond market, making a significant contribution to Chile's financial modernization. Deepening this market will help increase the sources of financing available to companies and individuals, diversify savings portfolios, and make the economy more flexible in the face of international credit fluctuations.

## OCTOBER

24 Continuing the modernization of its debt policy, the Board decided to begin the sale of Central Bank bonds in UFs (BCUs), against the purchase, by auction, of its indexed promissory notes payable in coupons (PRCs). The necessary operating regulations were drawn up so that as from this date the institutions or agents authorized on each occasion to participate in the bidding could make their offers.

## NOVEMBER

23 Type A, B, C and D pension funds were authorized to invest in foreign capital investment funds shares already issued and placed in foreign markets. These pension funds may invest up to the equivalent of 1% of the value of their portfolios in such shares. The same ceiling applies to investments in shares of a single issuer.

The authorization was scheduled to come into effect on 1 January 2003.

28 In order to reduce the costs related to lotteries of bills of credit issued in dematerialized form, the Board decided to waive the obligation to publish these lotteries in the newspaper of choice of the issuing institution, provided that this institution makes a prior agreement with the custodian institution that the latter will be responsible for communicating the results of the lottery to those owners of the letters of credit who, at the time of the lottery, hold a documented position in the securities on offer in their deposit accounts.

Pension funds Type A, B, C, D and E pension funds were authorized to invest in commercial paper issued in accordance with Title XVII of Law 18045. Total investment in these titles may not exceed 5% of the value of each fund.

## DECEMBER

21 During the year 2003, the ceiling for overseas investments by life and non-life insurance and re-insurance companies will be 20% of their equity capital and reserves.

# APPENDIX 4

## MAIN FOREIGN EXCHANGE AND TRADE MEASURES IN 2002

### JANUARY

17 As part of the exchange rate liberalization process begun on 19 April 2001, when foreign currency restrictions were abolished, the Compendium of Foreign Exchange Regulations and its related Information Forms and Procedures Manual were replaced, as of 1 March 2002, in order to reduce and simplify the information required by the Central Bank, improve the quality of information provided, and make best use of the data gathered through this channel, in relation to the structure of the balance of payments.

The format of the Compendium and the manual was revised and re-organized to follow the structure of the balance of payments, and the number of chapters cut from 19 to 14. The relevant forms were redesigned in line with the new information requirements, and the dates for presenting them were standardized.

### MARCH

07 In line with the Board's monetary policy, Central Bank promissory notes in dollars (PRD) close to maturity were to be renewed quarterly. There will be PRD auctions in March, June, September and December for amounts similar to the maturities accumulated during the quarter ending in the respective month.

### OCTUBER

10 In light of the worsening financial situation in several regional economies and increasing levels of risk in the global economy, which were evident in pressures on some currencies and other asset prices, the Board considered it wise to increase the offer of instruments for exchange rate cover and foreign currency liquidity, on a strictly one-off basis.

The supply of dollar-indexed bonds (BCD) was to be raised to up to US$2 billion, with the issue of two- and five-year BCDs, distributed by auction through the normal quota program for Central Bank bonds.

Up to US$2 billion of international reserves were earmarked for possible sales of foreign currency by the Central Bank in the exchange market over the same period.

## TABLE 1

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

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| RESERVE ASSETS (1) | 15,805 | 18,274 | 16,292 | 14,946 | 15,110 | 14,400 | 15,351 |
| Monetary gold | 640 | 533 | 322 | 317 | 18 | 19 | 2 |
| SDR | 2 | 1 | 8 | 19 | 25 | 29 | 37 |
| Reserve position in IMF | 50 | 314 | 605 | 405 | 320 | 299 | 490 |
| Foreign currency | 14,920 | 17,259 | 15,256 | 14,187 | 14,686 | 14,041 | 14,814 |
| Currencies and deposits | 7,563 | 8,554 | 7,796 | 7,502 | 7,852 | 7,279 | 7,535 |
| Securities | 7,358 | 8,704 | 7,460 | 6,685 | 6,834 | 6,762 | 7,279 |
| Other assets (2) | 192 | 166 | 101 | 19 | 61 | 12 | 8 |

(1) Position at each year's end.
(2) Other assets (reciprocal credits agreement).

Source: Central Bank of Chile.

**TABLE 2**

## INTEREST RATES ON CENTRAL BANK INSTRUMENTS (1)

(Percentage)

| Date | PDBC (2) | | | | | BCP (2) | | PRBC (3) | | PRC (3) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30 days (4) | 60 days | 90 days | 360 days | 2 years | 2 years | 5 years | 90 days | 360 days | 8 years | 20 years |
| **1999** | | | | | | | | | | | |
| December | 0.74 | - | 11.09 | 11.19 | | - | - | 5.73 | - | 6.66 | 6.72 |
| **2000** | | | | | | | | | | | |
| December | - | - | 9.30 | 10.00 | - | - | - | 4.94 | - | 5.89 | 5.99 |
| **2001** | | | | | | | | | | | |
| January | - | - | 8.30 | 9.02 | - | - | - | 4.71 | - | 5.60 | 5.78 |
| February | - | - | 8.06 | 8.37 | - | - | - | 4.42 | - | 5.21 | 5.48 |
| March | - | - | 6.14 | 7.54 | - | - | - | 3.84 | - | 4.93 | 5.26 |
| April | 0.83 | - | 8.62 | 7.85 | - | - | - | 3.72 | - | 5.00 | 5.37 |
| May | 0.77 | - | 8.69 | 8.01 | - | - | - | 3.60 | - | 5.06 | 5.51 |
| June | - | - | 6.74 | 7.79 | - | - | - | 3.57 | - | 5.08 | 5.64 |
| July | - | - | 6.44 | 7.44 | - | - | - | 3.72 | - | 5.08 | 5.54 |
| August | 6.66 | 6.86 | 7.07 | 7.86 | - | - | - | 8.00 | 4.82 | 5.45 | 5.95 |
| September | 6.86 | 7.23 | 7.18 | 8.17 | - | - | - | - | 3.70 | 5.20 | 5.68 |
| October | 6.44 | - | 6.61 | 7.66 | - | - | - | - | 3.68 | 4.85 | 5.39 |
| November | 6.38 | - | 6.44 | 7.25 | - | - | - | - | 4.21 | 4.80 | 5.27 |
| December | 6.35 | 6.52 | 6.51 | 7.03 | - | - | - | - | 4.46 | 4.85 | 5.32 |
| **2002** | | | | | | | | | | | |
| January | - | 5.95 | 6.00 | 6.46 | - | - | - | - | 4.47 | 4.53 | 5.04 |
| February | 5.62 | 5.71 | 5.56 | 5.63 | - | - | - | - | 3.80 | 4.34 | 4.85 |
| March | 4.86 | - | 4.73 | 5.02 | 5.71 | - | - | - | 2.20 | 4.02 | 4.77 |
| April | 4.39 | - | 4.39 | 4.95 | 5.60 | - | - | - | 2.27 | 3.99 | 4.94 |
| May | 4.06 | - | 4.15 | 4.55 | 5.37 | - | - | - | - | 4.14 | 5.11 |
| June | 3.97 | - | 4.03 | 4.56 | 5.39 | - | - | - | - | 4.29 | 5.09 |
| July | 3.44 | - | 3.51 | 3.95 | 4.79 | - | - | - | - | 3.79 | 4.65 |
| August | 2.87 | - | 2.96 | 2.82 | 4.02 | - | - | - | - | 3.40 | 4.26 |
| September | 2.88 | - | 2.99 | 3.52 | - | 4.22 | 5.90 | - | - | - | - |
| October | 2.96 | - | 3.03 | 3.83 | - | 4.48 | 6.35 | - | - | - | - |
| November | 2.92 | - | 2.87 | - | - | 4.03 | 5.89 | - | - | - | - |
| December | 2.80 | - | 2.88 | - | - | 4.06 | 5.70 | - | - | - | - |

(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 until May 2001.

Source: Central Bank of Chile.

**TABLE 2**

## INTEREST RATES ON CENTRAL BANK INSTRUMENTS (1)

(Percentage)

*(Continued)*

| Date | BCU (3) | | | PRD | | | BCD | |
|---|---|---|---|---|---|---|---|---|
| | 5 years | 10 years | 20 years | 2 years | 3 years | 4 years | 2 years | 5 years |
| 1999 | | | | | | | | |
| December | - | - | - | - | - | - | - | - |
| 2000 | | | | | | | | |
| December | - | - | - | - | - | - | - | - |
| 2001 | | | | | | | | |
| January | - | - | - | - | - | - | - | - |
| February | - | - | - | - | - | - | - | - |
| March | - | - | - | - | - | - | - | - |
| April | - | - | - | - | - | - | - | - |
| May | - | - | - | - | - | - | - | - |
| June | - | - | - | - | 5.49 | - | - | - |
| July | - | - | - | - | 5.59 | - | - | - |
| August | - | - | - | - | 5.99 | - | - | - |
| September | - | - | - | 4.45 | 5.74 | 5.53 | - | - |
| October | - | - | - | 4.28 | - | 5.45 | - | - |
| November | - | - | - | 4.56 | - | 5.55 | - | - |
| December | - | - | - | 4.85 | - | 6.01 | - | - |
| 2002 | | | | | | | | |
| January | - | - | - | 4.76 | - | 5.91 | - | - |
| February | - | - | - | - | - | - | - | - |
| March | - | - | - | 5.17 | - | 6.11 | - | - |
| April | - | - | - | - | - | - | - | - |
| May | - | - | - | - | - | - | - | - |
| June | - | - | - | - | - | 5.91 | - | - |
| July | - | - | - | - | - | - | - | - |
| August | - | - | - | - | - | - | - | - |
| September | 2.70 | 3.66 | 4.50 | - | - | - | 2.93 | 4.51 |
| October | 2.94 | 3.96 | 4.78 | - | - | - | 3.78 | 5.28 |
| November | 3.19 | 4.06 | 4.78 | - | - | - | 3.39 | 4.74 |
| December | 3.20 | 4.09 | 4.93 | - | - | - | 3.18 | 4.63 |

(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 until May 2001.

Source: Central Bank of Chile.

TABLE 3

## MARKET INTEREST RATES (1)

(Monthly averages in the financial system)

| Period | UNINDEXED OPERATIONS | | | | | | UF-INDEXED OPERATIONS | | |
|---|---|---|---|---|---|---|---|---|---|
| | 30 - 89 days | | | 90 - 365 days | | | 90 - 365 days | | |
| | Deposit | Lending | Spread | Deposit | Lending | Spread | Deposit | Lending | Spread |
| 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 |
| 2002 average | 3.73 | 7.49 | 3.76 | 4.10 | 14.35 | 10.25 | 1.94 | 4.39 | 2.45 |
| 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 |
| 2002 | | | | | | | | | |
| January | 5.76 | 9.24 | 3.48 | 6.24 | 16.32 | 10.08 | 5.80 | 7.58 | 1.78 |
| February | 5.40 | 9.12 | 3.72 | 5.76 | 16.20 | 10.44 | 4.66 | 6.99 | 2.33 |
| March | 4.56 | 7.80 | 3.24 | 5.04 | 15.60 | 10.56 | 2.13 | 5.03 | 2.90 |
| April | 4.32 | 8.40 | 4.08 | 4.68 | 16.20 | 11.52 | 0.57 | 3.84 | 3.27 |
| May | 3.96 | 7.92 | 3.96 | 4.32 | 15.72 | 11.40 | 1.67 | 4.13 | 2.46 |
| June | 3.84 | 7.92 | 4.08 | 4.20 | 14.88 | 10.68 | 2.14 | 4.50 | 2.36 |
| July | 3.24 | 7.56 | 4.32 | 3.60 | 13.80 | 10.20 | 1.58 | 4.20 | 2.62 |
| August | 2.76 | 6.96 | 4.20 | 3.00 | 13.44 | 10.44 | 0.26 | 3.16 | 2.90 |
| September | 2.64 | 6.36 | 3.72 | 3.00 | 12.84 | 9.84 | 0.05 | 2.59 | 2.54 |
| October | 2.76 | 6.24 | 3.48 | 3.12 | 12.84 | 9.72 | 0.03 | 2.37 | 2.34 |
| November | 2.76 | 6.24 | 3.48 | 3.12 | 12.60 | 9.48 | 0.91 | 2.80 | 1.89 |
| Dicember | 2.76 | 6.12 | 3.36 | 3.12 | 11.76 | 8.64 | 3.46 | 5.45 | 1.99 |

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

Source: Central Bank of Chile.

## TABLE 4

# MAIN MONETARY AGGREGATES

(Percentage change)

| Period | Month | | | | | Compared to December | | | | | 12 Months | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | E | C | M1A | M2A | M7 | E | C | M1A | M2A | M7 | E | C | M1A | M2A | M7 |
| **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 | -1.7 | -3.4 | -0.2 | 2.4 | 1.0 | -0.1 | -1.3 | 2.1 | 9.4 | 10.8 |
| February | 1.1 | 1.4 | -1.1 | -1.5 | -0.5 | -0.6 | -2.0 | -1.3 | 0.9 | 0.5 | 4.5 | 2.1 | 3.4 | 9.8 | 10.2 |
| March | 2.6 | 0.0 | 6.6 | -0.5 | 0.1 | 2.0 | -2.0 | 5.2 | 0.4 | 0.6 | 9.1 | 5.5 | 15.3 | 9.8 | 9.8 |
| April | -4.1 | -0.2 | 0.1 | 2.2 | 1.0 | -2.2 | -2.2 | 5.3 | 2.6 | 1.6 | 7.7 | 6.5 | 16.8 | 10.7 | 9.7 |
| May | 1.7 | 0.0 | -0.1 | 0.8 | -0.2 | -0.5 | -2.2 | 5.1 | 3.4 | 1.3 | 7.2 | 7.9 | 18.0 | 10.0 | 8.8 |
| June | 0.2 | 0.7 | 0.6 | 0.4 | 1.2 | -0.3 | -1.5 | 5.7 | 3.8 | 2.5 | 8.7 | 6.6 | 17.9 | 9.5 | 8.7 |
| July | -1.6 | -0.9 | -0.6 | 0.2 | 1.2 | -2.0 | -2.4 | 5.1 | 4.0 | 3.7 | 6.3 | 8.4 | 19.1 | 8.9 | 8.9 |
| August | -0.4 | -1.0 | -2.8 | -0.7 | 0.6 | -2.4 | -3.5 | 2.2 | 3.3 | 4.4 | 9.8 | 9.8 | 15.8 | 9.2 | 9.0 |
| September | 5.1 | 4.9 | 5.1 | -0.2 | 0.3 | 2.7 | 1.2 | 7.4 | 3.0 | 4.7 | 8.8 | 8.4 | 18.2 | 9.2 | 9.3 |
| October | -4.1 | -1.8 | -1.1 | 1.2 | 1.0 | -1.6 | -0.6 | 6.2 | 4.2 | 5.7 | 6.8 | 10.1 | 18.9 | 9.2 | 9.7 |
| November | 1.9 | 1.1 | -2.1 | 0.8 | -0.1 | 0.3 | 0.5 | 4.0 | 5.1 | 5.6 | 9.2 | 10.7 | 15.2 | 8.6 | 7.9 |
| December | 8.5 | 9.6 | 9.6 | 1.8 | 0.1 | 8.8 | 10.2 | 14.0 | 7.0 | 5.6 | 8.8 | 10.2 | 14.0 | 7.0 | 5.6 |
| **2002** | | | | | | | | | | | | | | | |
| January | -1.7 | -3.8 | 3.2 | 1.2 | 0.8 | -1.7 | -3.8 | 3.2 | 1.2 | 0.8 | 8.8 | 9.8 | 18.0 | 5.7 | 5.5 |
| February | 1.3 | 1.7 | -1.9 | 0.7 | 0.2 | -0.4 | -2.2 | 1.3 | 1.9 | 1.1 | 9.0 | 10.0 | 17.0 | 8.0 | 6.3 |
| March | -0.7 | -0.3 | -0.4 | 0.3 | 0.1 | -1.1 | -2.4 | 0.9 | 2.2 | 1.2 | 5.5 | 9.8 | 9.3 | 8.8 | 6.3 |
| April | -2.5 | -1.5 | -0.2 | 1.1 | 0.0 | -3.5 | -3.8 | 0.7 | 3.3 | 1.2 | 7.3 | 8.4 | 9.0 | 7.7 | 5.3 |
| May | 2.9 | 1.2 | 1.9 | -0.4 | -0.7 | -0.7 | -2.7 | 2.7 | 2.9 | 0.5 | 8.6 | 9.6 | 11.3 | 6.5 | 4.8 |
| June | -1.0 | 1.7 | 1.1 | 0.7 | 0.6 | -1.7 | -1.0 | 3.8 | 3.6 | 1.1 | 7.2 | 10.7 | 11.9 | 6.8 | 4.1 |
| July | 1.1 | -0.6 | -1.1 | 1.0 | 0.3 | -0.7 | -1.7 | 2.6 | 4.6 | 1.4 | 10.2 | 11.1 | 11.3 | 7.6 | 3.3 |
| August | -1.4 | 0.0 | 2.0 | -0.5 | 0.4 | -2.1 | -1.7 | 4.7 | 4.1 | 1.8 | 9.1 | 12.2 | 16.7 | 7.8 | 3.0 |
| September | 4.9 | 5.3 | 2.1 | 1.1 | 0.3 | 2.7 | 3.5 | 6.9 | 5.2 | 2.2 | 8.8 | 12.7 | 13.4 | 9.3 | 3.1 |
| October | -4.0 | -2.4 | 0.0 | 0.5 | 0.1 | -1.4 | 1.0 | 6.8 | 5.7 | 2.3 | 9.0 | 12.0 | 14.6 | 8.5 | 2.2 |
| November (*) | -0.9 | 0.2 | 0.6 | 0.3 | 3.1 | -2.2 | 1.3 | 7.4 | 6.1 | 5.5 | 6.1 | 11.0 | 17.7 | 8.0 | 5.5 |
| December (*) | 8.3 | 8.1 | 8.7 | 3.0 | 1.6 | 5.9 | 9.5 | 16.8 | 9.3 | 7.1 | 5.9 | 9.5 | 16.8 | 9.3 | 7.1 |

E : Monetary Base.
C : Currency.
M1A : Broad private money corrected and defined as: currency + non-financial private sector checking accounts net of float + demand deposits other than checking accounts + demand savings deposits.
M2A : M1A + private sector time deposits.
M7 : M2A + 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 data.

Source: Central Bank of Chile.

## TABLE 5

# 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 ms. | Month | 12 ms. | | Month | 12 ms. | Month | 12 ms. | | Month | Month | 12 ms. | 12 ms. | | Month | 12 ms. | Month | 12 ms. |
| 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 | 16,734 | 1.3 | 8.4 | 1.2 | 4.8 | 5,874 | 0.5 | 9.4 | 0.4 | 5.8 | 4,660 | -2.2 | -2.7 | 30.4 | 26.1 | 25,686 | 0.6 | 10.9 | 0.5 | 7.2 |
| October | 16,775 | 0.2 | 7.4 | -0.5 | 3.5 | 5,933 | 1.0 | 9.9 | 0.3 | 5.9 | 4,756 | 2.1 | 7.6 | 41.0 | 35.9 | 26,019 | 1.3 | 11.3 | 0.6 | 7.3 |
| November | 17,058 | 1.7 | 7.9 | 1.1 | 4.0 | 5,998 | 1.1 | 10.2 | 0.5 | 6.3 | 4,679 | -1.6 | 1.3 | 38.6 | 33.7 | 26,409 | 1.5 | 11.6 | 0.9 | 7.6 |
| December | 17,005 | -0.3 | 4.7 | -0.4 | 1.4 | 6,052 | 0.9 | 10.0 | 0.8 | 6.5 | 4,630 | -1.0 | -5.8 | 32.7 | 28.5 | 6,214 | -0.7 | 8.7 | -0.8 | 5.2 |
| 2002 | | | | | | | | | | | | | | | | | | | | |
| January | 17,091 | 0.5 | 4.1 | 0.6 | 1.2 | 6,067 | 0.2 | 9.8 | 0.3 | 6.7 | 4,648 | 0.4 | -3.4 | 27.7 | 24.1 | 26,208 | 0.0 | 7.7 | 0.1 | 4.7 |
| February | 17,202 | 0.6 | 4.7 | 0.9 | 2.1 | 6,054 | -0.2 | 9.2 | 0.0 | 6.5 | 4,777 | 2.8 | 6.2 | 34.7 | 31.4 | 26,496 | 1.1 | 8.7 | 1.3 | 6.0 |
| March | 17,118 | -0.5 | 4.4 | -0.4 | 2.0 | 6,046 | -0.1 | 8.6 | 0.0 | 6.1 | 4,830 | 1.1 | 0.7 | 32.1 | 29.1 | 26,426 | -0.3 | 8.1 | -0.2 | 5.7 |
| April | 17,176 | 0.3 | 4.9 | 0.2 | 2.4 | 6,052 | 0.1 | 8.4 | 0.0 | 5.7 | 4,898 | 1.4 | -0.2 | 23.2 | 20.2 | 26,482 | 0.2 | 7.7 | 0.1 | 5.0 |
| May | 17,174 | 0.0 | 3.3 | -0.5 | 0.8 | 6,065 | 0.2 | 7.9 | -0.2 | 5.3 | 4,790 | -2.2 | -4.5 | 14.1 | 11.4 | 26,348 | -0.5 | 5.5 | -1.0 | 2.9 |
| June | 17,142 | -0.2 | 4.0 | -0.5 | 1.6 | 6,101 | 0.6 | 6.9 | 0.3 | 4.5 | 4,552 | -5.0 | -4.2 | 6.2 | 3.8 | 26,222 | -0.5 | 4.9 | -0.8 | 2.5 |
| July | 17,220 | 0.5 | 4.7 | 0.4 | 2.6 | 6,143 | 0.7 | 6.1 | 0.6 | 3.9 | 4,681 | 2.8 | 9.6 | 14.3 | 12.0 | 26,629 | 1.6 | 6.1 | 1.5 | 4.0 |
| August | 17,406 | 1.1 | 5.4 | 1.0 | 3.2 | 6,275 | 2.1 | 7.3 | 2.1 | 5.1 | 4,804 | 2.6 | 3.1 | 6.4 | 4.2 | 27,049 | 1.6 | 5.9 | 1.5 | 3.8 |
| September | 17,529 | 0.7 | 4.8 | 0.3 | 2.3 | 6,163 | -1.8 | 4.9 | -2.2 | 2.5 | 4,885 | 1.7 | 3.7 | 13.5 | 10.8 | 27,186 | 0.5 | 5.8 | 0.1 | 3.4 |
| October | 17,788 | 1.5 | 6.0 | 1.0 | 3.8 | 6,191 | 0.5 | 4.3 | -0.1 | 2.1 | 4,914 | 0.6 | 5.2 | 10.9 | 8.6 | 27,653 | 1.7 | 6.3 | 1.2 | 4.0 |
| November (5) | 17,994 | 1.2 | 5.5 | 0.4 | 3.0 | 6,273 | 1.3 | 4.6 | 0.5 | 2.1 | 4,387 | -10.7 | -12.4 | -4.1 | -6.3 | 27,483 | -0.6 | 4.1 | -1.4 | 1.6 |
| December (5) | 18,281 | 1.6 | 7.5 | 1.0 | 4.4 | 6,277 | 0.1 | 3.7 | -0.6 | 0.7 | 4,081 | -7.0 | -10.5 | -8.8 | -11.5 | 27,436 | -0.2 | 4.7 | -0.8 | 1.6 |

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

Source: Central Bank of Chile.

## TABLE 6

## MULTILATERAL EXCHANGE RATE (MER) INDEX

(2 January 1998 = 100)

| Period | TOTAL MER (1) | | | | MER-5 (2) | | | | OBSERVED DOLLAR INDEX |
|---|---|---|---|---|---|---|---|---|---|
| | Index | Percentage change | | | Index | Percentage change | | | |
| | | Month | 12 months | Compared to December | | Month | 12 months | Compared to December | |
| 1998 average | 103.75 | - | 3.7 (3) | 7.5 (4) | 105.11 | - | 7.7 (3) | 11.3 (4) | 104.81 |
| 1999 average | 109.64 | - | 5.7 (3) | 6.6 (4) | 117.05 | - | 11.4 (3) | 11.2 (4) | 115.85 |
| 2000 average | 112.39 | - | 2.5 (3) | 1.8 (4) | 119.88 | - | 2.4 (3) | 1.3 (4) | 122.84 |
| 2001 average | 125.44 | - | 11.6 (3) | 12.2 (4) | 136.49 | - | 13.8 (3) | 13.7 (4) | 144.57 |
| 2002 average | 119.92 | - | -4.4 (3) | -9.1 (4) | 148.77 | | 9.0 (3) | 9.4 (4) | 156.87 |
| 2001 | | | | | | | | | |
| January | 116.16 | -0.9 | 4.2 | -0.9 | 125.57 | 0.1 | 4.6 | 0.1 | 130.04 |
| February | 114.04 | -1.8 | 4.8 | -2.7 | 123.18 | -1.9 | 5.9 | -1.8 | 128.22 |
| March | 117.64 | 3.2 | 9.9 | 0.4 | 127.02 | 3.1 | 11.3 | 1.3 | 133.84 |
| April | 118.60 | 0.8 | 10.4 | 1.2 | 128.18 | 0.9 | 11.9 | 2.2 | 136.31 |
| May | 119.26 | 0.6 | 10.1 | 1.8 | 129.09 | 0.7 | 12.0 | 2.9 | 137.64 |
| June | 120.62 | 1.1 | 8.6 | 2.9 | 130.57 | 1.1 | 9.7 | 4.1 | 140.28 |
| July | 127.96 | 6.1 | 12.6 | 9.2 | 138.91 | 6.4 | 14.5 | 10.7 | 149.47 |
| August | 132.61 | 3.6 | 15.8 | 13.2 | 144.98 | 4.4 | 19.1 | 15.6 | 153.40 |
| September | 133.67 | 0.8 | 14.7 | 14.1 | 147.67 | 1.9 | 19.4 | 17.7 | 155.12 |
| October | 138.33 | 3.5 | 19.3 | 18.0 | 152.79 | 3.5 | 24.2 | 21.8 | 161.23 |
| November | 134.84 | -2.5 | 15.6 | 15.1 | 147.24 | -3.6 | 18.6 | 17.4 | 156.97 |
| December | 131.46 | -2.5 | 12.2 | 12.2 | 142.61 | -3.1 | 13.7 | 13.7 | 152.36 |
| 2002 | | | | | | | | | |
| January | 123.56 | -6.0 | 6.4 | -6.0 | 139.33 | -2.3 | 11.0 | -2.3 | 151.94 |
| February | 122.14 | -1.1 | 7.1 | -7.1 | 140.87 | 1.1 | 14.4 | -1.2 | 154.57 |
| March | 118.33 | -3.1 | 0.6 | -10.0 | 138.39 | -1.8 | 8.9 | -3.0 | 151.02 |
| April | 114.82 | -3.0 | -3.2 | -12.7 | 136.31 | -1.5 | 6.3 | -4.4 | 148.19 |
| May | 114.38 | -0.4 | -4.1 | -13.0 | 139.40 | 2.3 | 8.0 | -2.3 | 148.89 |
| June | 116.69 | 2.0 | -3.3 | -11.2 | 146.19 | 4.9 | 12.0 | 2.5 | 153.41 |
| July | 121.05 | 3.7 | -5.4 | -7.9 | 154.44 | 5.6 | 11.2 | 8.3 | 158.55 |
| August | 120.49 | -0.5 | -9.1 | -8.3 | 154.57 | 0.1 | 6.6 | 8.4 | 159.91 |
| September | 123.52 | 2.5 | -7.6 | -6.0 | 159.92 | 3.5 | 8.3 | 12.1 | 165.53 |
| October | 124.06 | 0.4 | -10.3 | -5.6 | 162.71 | 1.7 | 6.5 | 14.1 | 169.02 |
| November | 120.54 | -2.8 | -10.6 | -8.3 | 157.03 | -3.5 | 6.7 | 10.1 | 161.55 |
| December | 119.47 | -0.9 | -9.1 | -9.1 | 156.05 | -0.6 | 9.4 | 9.4 | 159.83 |

(1) The Multilateral Exchange Rate (MER) Index represents a nominal value for the peso against a broad basket of foreign currencies used to calculate the real exchange rate. See methodological notes in the *Monthly Bulletin*, January 2000, and the *Economic and Financial Report*, March 2001, pg. vii.
(2) RER-5 includes the currencies of the US, Japan, UK, Canada and the Euro zone (Germany, France, Spain, Italy, The Netherlands, and Belgium).
(3) Average annual change.
(4) December to December change.

Source: Central Bank of Chile.

TABLE 7

## REAL OBSERVED EXCHANGE RATE (RER) INDEX

(1986 = 100)

| Period | TOTAL RER (1) | | | | RER-5 (2) | | | |
|---|---|---|---|---|---|---|---|---|
| | Index | Percentage change | | | Index | Percentage change | | |
| | | Month | 12 months | Compared to December | | Month | 12 months | Compared to December |
| 1998 average | 78.01 | - | -0.2 (3) | 2.8 (4) | 67.97 | - | 1.0 (3) | 3.6 (4) |
| 1999 average | 82.29 | - | 5.5 (3) | 10.7 (4) | 73.37 | - | 7.9 (3) | 11.5 (4) |
| 2000 average | 86.02 | - | 4.5 (3) | 3.0 (4) | 74.94 | - | 2.1 (3) | 1.1 (4) |
| 2001 average (5) | 95.89 | - | 11.5 (3) | 9.2 (4) | 83.64 | - | 11.6 (3) | 7.7 (4) |
| 2002 average (5) | 97.54 | - | 1.7 (3) | 2.0 (4) | 89.13 | - | 6.6 (3) | 10.2 (4) |
| 2001 (5) | | | | | | | | |
| January | 90.34 | 0.2 | 6.6 | 0.2 | 79.46 | 1.3 | 6.0 | 1.3 |
| February | 88.38 | -2.2 | 6.6 | -2.0 | 77.63 | -2.3 | 6.5 | -1.0 |
| March | 90.90 | 2.9 | 11.5 | 0.8 | 79.35 | 2.2 | 11.3 | 1.2 |
| April | 91.62 | 0.8 | 12.5 | 1.6 | 79.93 | 0.7 | 12.2 | 1.9 |
| May | 91.90 | 0.3 | 11.7 | 1.9 | 80.33 | 0.5 | 12.2 | 2.4 |
| June | 92.83 | 1.0 | 9.0 | 2.9 | 80.68 | 0.4 | 7.8 | 2.9 |
| July | 98.41 | 6.0 | 12.6 | 9.1 | 85.36 | 5.8 | 11.9 | 8.8 |
| August | 101.35 | 3.0 | 15.2 | 12.4 | 88.38 | 3.5 | 16.1 | 12.7 |
| September | 101.36 | 0.0 | 12.9 | 12.4 | 89.34 | 1.1 | 15.4 | 13.9 |
| October | 103.95 | 2.6 | 16.5 | 15.3 | 91.12 | 2.0 | 18.5 | 16.2 |
| November | 101.22 | -2.6 | 12.9 | 12.2 | 87.71 | -3.7 | 13.4 | 11.8 |
| December | 98.47 | -2.7 | 9.2 | 9.2 | 84.44 | -3.7 | 7.7 | 7.7 |
| 2002 (5) | | | | | | | | |
| January | 95.88 | -2.6 | 6.1 | -2.6 | 83.71 | -0.9 | 5.4 | -0.9 |
| February | 95.34 | -0.6 | 7.9 | -3.2 | 84.69 | 1.2 | 9.1 | 0.3 |
| March | 93.15 | -2.3 | 2.5 | -5.4 | 83.28 | -1.7 | 5.0 | -1.4 |
| April | 91.94 | -1.3 | 0.4 | -6.6 | 82.11 | -1.4 | 2.7 | -2.8 |
| May | 92.48 | 0.6 | 0.6 | -6.1 | 83.93 | 2.2 | 4.5 | -0.6 |
| June | 95.60 | 3.4 | 3.0 | -2.9 | 88.14 | 5.0 | 9.2 | 4.4 |
| July | 99.67 | 4.3 | 1.3 | 1.2 | 92.81 | 5.3 | 8.7 | 9.9 |
| August | 99.88 | 0.2 | -1.4 | 1.4 | 92.74 | -0.1 | 4.9 | 9.8 |
| September | 102.32 | 2.4 | 0.9 | 3.9 | 95.40 | 2.9 | 6.8 | 13.0 |
| October | 103.00 | 0.7 | -0.9 | 4.6 | 96.58 | 1.2 | 6.0 | 14.4 |
| November | 100.73 | -2.2 | -0.5 | 2.3 | 93.12 | -3.6 | 6.2 | 10.3 |
| December | 100.48 | -0.2 | 2.0 | 2.0 | 93.02 | -0.1 | 10.2 | 10.2 |

(1) Observed nominal exchange rate multiplied by relevant foreign inflation over the CPI. Foreign inflation calculated using WPI (or the CPI when the WPI is not available) 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. Both the WPI and the foreign exchange rates for countries are included as monthly changes. See methodological note in the *Economic and Financial Report*, March 2001, pg. vii. As of 2002, to calculate weights, the above, along with natural gas and oil derivatives are excluded. See methodological note in the *Economic and Financial Report*, August 2002, pg. 11.

(2) Uses the same definition as (1). In the *Monthly Bulletin*, January 2000, the new classification for the RER-5 index is provided. This groups Chile's trading partners from the following industrialized countries: US, Japan, UK, Canada and the Euro zone countries. (Germany, France, Spain, Italy, The Netherlands, and Belgium).

(3) Average annual change.

(4) December to December change.

(5) Provisional data.

Source: Central Bank of Chile.

## TABLE 8

### QUARTERLY GROSS DOMESTIC PRODUCT (1)

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

| Period | QUARTER I | II | III | IV | YEAR |
|---|---|---|---|---|---|
| 1997 | 4.3 | 4.9 | 8.3 | 9.0 | 6.6 |
| 1998 | 6.3 | 5.7 | 2.8 | -1.8 | 3.2 |
| 1999 (2) | -1.0 | -3.8 | -1.6 | 3.6 | -0.8 |
| 2000 (2) | 3.7 | 4.7 | 4.4 | 3.9 | 4.2 |
| 2001 (2) | 3.2 | 4.1 | 2.9 | 2.0 | 3.1 |
| 2002 (2) | 1.3 | 1.7 | 2.4 | 3.2 | 2.1 |

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

Source: Central Bank of Chile.

## TABLE 9

### QUARTERLY DOMESTIC DEMAND (1) (2)

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

| Period | QUARTER I | II | III | IV | YEAR |
|---|---|---|---|---|---|
| 1997 | 0.9 | 6.4 | 11.1 | 10.4 | 7.2 |
| 1998 | 10.6 | 8.1 | 3.0 | -5.7 | 3.7 |
| 1999 | -7.0 | -9.7 | -5.8 | -0.1 | -5.8 |
| 2000 | 4.3 | 8.9 | 4.1 | 5.7 | 5.7 |
| 2001 | 6.6 | 0.9 | 2.8 | -1.5 | 2.1 |
| 2002 | -1.9 | 1.3 | 4.2 | 4.1 | 1.9 |

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

Source: Central Bank of Chile.

TABLE 10

## GROSS DOMESTIC PRODUCT BY SECTOR (1)

(Annual percentage change)

| Sector | 1997 | 1998 | 1999 (3) | 2000 (3) | 2001 (3) | 2002 (3) |
|---|---|---|---|---|---|---|
| Agriculture. livestock and forestry | 1.7 | 5.0 | -0.8 | 5.5 | 5.2 | 4.2 |
| Fishing | 9.5 | -6.2 | 6.4 | 12.1 | 7.3 | 8.4 |
| Mining | 11.3 | 8.3 | 10.6 | 3.5 | 6.2 | -0.3 |
| Manufacturing | 4.7 | -2.3 | -0.5 | 4.0 | 0.5 | 2.8 |
| Electricity, gas and water | 8.3 | 4.4 | -4.7 | 6.8 | 1.0 | 4.3 |
| Construction | 6.3 | 1.9 | -9.9 | -0.9 | 3.0 | 2.1 |
| Trade, hotels and catering | 7.6 | 3.5 | -4.4 | 3.8 | 2.5 | 2.0 |
| Transport and communications | 10.9 | 6.6 | 0.8 | 9.2 | 7.7 | 2.3 |
| Financial services | 7.1 | 6.0 | -1.0 | 4.5 | 2.9 | 1.9 |
| Home ownership | 3.9 | 3.4 | 3.0 | 2.4 | 2.2 | 2.3 |
| Personal services (2) | 6.1 | 3.2 | 1.9 | 3.3 | 2.7 | 1.9 |
| Public administration | 1.5 | 1.5 | 1.5 | 1.5 | 1.8 | 1.8 |
| Subtotal | 6.4 | 3.0 | -0.4 | 3.9 | 3.1 | 2.2 |
| Less: bank charges | 7.4 | 3.8 | -1.2 | 4.3 | 2.8 | 2.0 |
| Plus: Collected net VAT | 7.8 | 4.9 | -1.2 | 4.6 | 3.2 | 1.7 |
| Plus: Import duties | 12.8 | 7.1 | -12.7 | 15.6 | 1.7 | 0.7 |
| Total GDP | 6.6 | 3.2 | -0.8 | 4.2 | 3.1 | 2.1 |

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

Source: Central Bank of Chile.

TABLE 11

## NATIONAL EMPLOYMENT AND UNEMPLOYMENT (1) (2)

Moving quarterly average ending in specified month

(Thousands of people)

| Period | LABOR FORCE Total | LABOR FORCE Percentage change over the previous period | EMPLOYED Total | EMPLOYED Percentage change over the previous period | UNEMPLOYED Total | UNEMPLOYED Percentage change over the previous period | UNEMPLOYMENT RATE |
|---|---|---|---|---|---|---|---|
| 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 |
| 2002 average | 5,914 | 0.9 | 5,385 | 1.1 | 529 | -1.1 | 9.0 |
| 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 |
| 2002 | | | | | | | |
| January | 5,947 | 1.5 | 5,471 | 1.9 | 476 | -2.9 | 8.0 |
| February | 5,910 | 1.5 | 5,418 | 1.6 | 492 | 0.7 | 8.3 |
| March | 5,913 | 2.1 | 5,394 | 2.2 | 519 | 1.5 | 8.8 |
| April | 5,909 | 1.8 | 5,388 | 2.0 | 521 | -0.8 | 8.8 |
| May | 5,880 | 1.3 | 5,344 | 1.9 | 536 | -3.4 | 9.1 |
| June | 5,866 | 0.8 | 5,310 | 1.0 | 556 | -1.3 | 9.5 |
| July | 5,859 | 0.5 | 5,307 | 0.9 | 552 | -3.2 | 9.4 |
| August | 5,853 | -0.2 | 5,290 | 0.0 | 563 | -1.3 | 9.6 |
| September | 5,877 | -0.2 | 5,305 | 0.3 | 572 | -4.0 | 9.7 |
| October | 5,933 | 0.3 | 5v364 | 0.4 | 569 | -0.5 | 9.6 |
| November | 5,976 | 0.4 | 5,449 | 0.4 | 527 | -0.2 | 8.8 |
| December | 6,000 | 0.9 | 5,531 | 0.9 | 469 | -0.2 | 7.8 |

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

Source: National Statistics Bureau (INE).

## TABLE 12

## BALANCE OF PAYMENTS (1)

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| I. CURRENT ACCOUNT | -3,083 | -3,660 | -3,918 | 99 | -766 | -1,192 | -553 |
| A. GOODS AND SERVICES | -1,073 | -1,563 | -2,492 | 1,690 | 1,471 | 1,136 | 1,556 |
| a. Goods | -1,072 | -1,428 | -2,040 | 2,427 | 2,119 | 2,054 | 2,513 |
| 1. Exports | 16,627 | 17,870 | 16,323 | 17,162 | 19,210 | 18,466 | 18,340 |
| 2. Imports | -17,699 | -19,298 | -18,363 | -14,735 | -17,091 | -16,411 | -15,827 |
| b. Services | -1 | -136 | -452 | -737 | -648 | -918 | -957 |
| 1. Credits | 3,588 | 3,892 | 3,952 | 3,869 | 4,078 | 4,105 | 3,960 |
| 2. Debts | -3,589 | -4,028 | -4,404 | -4,606 | -4,726 | -5,023 | -4,917 |
| B. INCOME | -2,518 | -2,617 | -1,889 | -2,233 | -2,795 | -2,757 | -2,536 |
| 1. Employee wages | -14 | -21 | -16 | -14 | -14 | -15 | -16 |
| 2. Investment income | -2,504 | -2,597 | -1,873 | -2,219 | -2,781 | -2,742 | -2,520 |
| Income from direct investment (2) | -1,760 | -1,943 | -1,136 | -1,413 | -1,894 | -1,789 | -1,697 |
| Abroad | 132 | 243 | 266 | 54 | 568 | 467 | 459 |
| In Chile | -1,892 | -2,185 | -1,401 | -1,467 | -2,462 | -2,256 | -2,156 |
| Income from portfolio investment | -281 | -355 | -362 | -347 | -402 | -502 | -500 |
| Dividends | -219 | -252 | -211 | -114 | -66 | -118 | -133 |
| Interest | -62 | -104 | -152 | -233 | -336 | -383 | -367 |
| Income from other investment | -462 | -299 | -375 | -459 | -485 | -451 | -322 |
| Credit | 710 | 923 | 924 | 803 | 929 | 776 | 536 |
| Debt | -1,172 | -1,222 | -1,298 | -1,262 | -1,413 | -1,227 | -858 |
| C. CURRENT TRANSFERS | 508 | 520 | 462 | 643 | 558 | 428 | 426 |
| 1. Credits | 665 | 835 | 810 | 841 | 765 | 678 | 698 |
| 2. Debts | -158 | -315 | -348 | -198 | -207 | -250 | -272 |
| II. FINANCIAL AND CAPITAL ACCOUNT | 3,064 | 3,422 | 4,160 | 975 | 491 | 2,356 | 800 |
| A. CAPITAL ACCOUNT | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| B. FINANCIAL ACCOUNT | 3,064 | 3,422 | 4,160 | 975 | 491 | 2,356 | 800 |
| 1. Direct investment | 3,681 | 3,809 | 3,144 | 6,203 | -348 | 3,045 | 1,139 |
| Direct investment abroad | -1,133 | -1,463 | -1,483 | -2,558 | -3,987 | -1,432 | -464 |
| Shares and other equity | -1,017 | -1,148 | -1,263 | -1,896 | -3,573 | -1,111 | 308 |
| Reinvested profits | -117 | -134 | -167 | 91 | -385 | -152 | -401 |
| Other capital (3) | 0 | -181 | -53 | -753 | -28 | -168 | -370 |
| Direct investment in Chile | 4,815 | 5,271 | 4,628 | 8,761 | 3,639 | 4,477 | 1,603 |
| Shares and other equity | 4,039 | 4,211 | 4,155 | 8,863 | 2,821 | 3,424 | 739 |
| Reinvested profits | 478 | 781 | 342 | 281 | 1,123 | 1,148 | 1,190 |
| Other capital (3) | 298 | 279 | 131 | -383 | -306 | -96 | -326 |
| 2. Inversión de cartera | 1,134 | 1,625 | -2,469 | -3,217 | 639 | 46 | -1,876 |
| Assets | -135 | -989 | -3,311 | -5,795 | 766 | -1,386 | -3,203 |
| Liabilities | 1,269 | 2,614 | 842 | 2,578 | -127 | 1,432 | 1,328 |
| 3. Derivative financial instruments | -22 | 165 | -59 | -6 | 2 | -86 | -124 |
| 4. Other investment (4) | -608 | 1,143 | 1,350 | -2,743 | 534 | -1,245 | 1,858 |
| Assets | -855 | -457 | -1,953 | -3,369 | -2,065 | -737 | 575 |
| Liabilities | 247 | 1,600 | 3,303 | 626 | 2,599 | -508 | 1,283 |
| 5. Reserve assets | -1,122 | -3,320 | 2,194 | 738 | -337 | 596 | -199 |
| III. ERRORS AND OMISSIONS | 19 | 238 | -242 | -1,074 | 276 | -1,164 | -246 |
| Memorandum | | | | | | | |
| Balance of payments (surplus/deficit) | 1,122 | 3,320 | -2,194 | -738 | 337 | -596 | 199 |
| Financial account minus reserve assets | 4,186 | 6,742 | 1,966 | 237 | 827 | 1,760 | 998 |
| (1) Provisional figures. | | | | | | | |
| (2) Includes interest on other capital. | | | | | | | |
| (3) Refers to credits to related firms. | | | | | | | |
| (4) Other short-term net investment flows. | -869 | -1,908 | -2,304 | -4,054 | 265 | 209 | 2,075 |
| Assets | -856 | -416 | -1,946 | -3,373 | -1,921 | 649 | 497 |
| Liabilities | -13 | -1,491 | -358 | -681 | 2,186 | -439 | 1,578 |

Source: Central Bank of Chile.

TABLE 13

# BALANCE OF TRADE (1)

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| BALANCE OF TRADE (surplus/deficit) | -1,072 | -1,428 | -2,041 | 2,427 | 2,118 | 2,054 | 2,513 |
| Exports | | | | | | | |
| Total goods (fob) | 16,626 | 17,870 | 16,322 | 17,162 | 19,210 | 18,465 | 18,340 |
| General goods | 16,052 | 17,325 | 15,913 | 16,734 | 18,679 | 17,989 | 17,874 |
| General regime | 14,816 | 15,955 | 14,457 | 15,663 | 17,682 | 17,031 | 16,914 |
| Copper | 6,029 | 6,647 | 5,197 | 6,026 | 7,284 | 6,746 | 6,270 |
| Non-copper | 8,787 | 9,308 | 9,259 | 9,636 | 10,397 | 10,286 | 10,644 |
| Main (2) | 3,786 | 3,917 | 3,562 | 3,660 | 4,014 | 3,743 | 4,119 |
| Other | 5,001 | 5,391 | 5,698 | 5,976 | 6,384 | 6,542 | 6,525 |
| Duty free zone | 1,236 | 1,370 | 1,456 | 1,072 | 997 | 957 | 960 |
| Repairs on goods | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Goods acquired in port | 94 | 126 | 131 | 123 | 188 | 207 | 209 |
| Non-monetary gold | 481 | 418 | 279 | 304 | 343 | 270 | 257 |
| Memorandum: | | | | | | | |
| Non-copper goods | 10,599 | 11,223 | 11,125 | 11,135 | 11,925 | 11,719 | 12,070 |
| Imports | | | | | | | |
| Total goods (fob) | 17,699 | 19,298 | 18,363 | 14,735 | 17,091 | 16,411 | 15,827 |
| Imports | | | | | | | |
| Total goods (cif) | 19,097 | 20,800 | 19,853 | 15,962 | 18,465 | 17,781 | 17,093 |
| General goods | 18,769 | 20,468 | 19,524 | 15,715 | 18,179 | 17,485 | 16,811 |
| General regime | 17,273 | 18,610 | 17,526 | 14,439 | 17,026 | 16,379 | 15,831 |
| Consumer goods | 3,148 | 3,356 | 3,125 | 2,587 | 3,076 | 2,900 | 2,843 |
| Intermediate goods | 9,460 | 10,071 | 9,593 | 8,776 | 10,520 | 10,061 | 9,661 |
| Fuel | 1,782 | 1,763 | 1,427 | 1,930 | 2,865 | 2,589 | 2,486 |
| (Oil) | 1,187 | 1,169 | 861 | 1,248 | 1,994 | 1,727 | 1,615 |
| Non-oil | 595 | 595 | 566 | 682 | 871 | 862 | 871 |
| Resto | 7,678 | 8,307 | 8,166 | 6,846 | 7,655 | 7,473 | 7,175 |
| Capital | 4,666 | 5,184 | 4,808 | 3,076 | 3,430 | 3,418 | 3,326 |
| Duty-free zone | 1,496 | 1,858 | 1,998 | 1,277 | 1,153 | 1,105 | 980 |
| Repairs on goods | 75 | 76 | 75 | 53 | 63 | 72 | 52 |
| Goods acquired in port | 253 | 257 | 254 | 194 | 224 | 224 | 231 |
| Memorandum: | | | | | | | |
| Non-oil goods | 17,910 | 19,632 | 18,991 | 14,714 | 16,471 | 16,054 | 15,478 |

(1) Provisional figures.
(2) Includes iron, nitrate and iodine, silver, fruit, fishmeal, lumber, logs and planed wood, wood pulp, methanol, lithium carbonate, oxide and ferromolybdenum.

Source: Central Bank of Chile.

TABLE 14

## FOREIGN TRADE INDICATORS (*)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| Copper price LME (US$/lb) | 1.032 | 0.750 | 0.714 | 0.823 | 0.716 | 0.706 |
| Oil price (US$/barrel cif) | 19.1 | 12.9 | 16.9 | 28.6 | 24.2 | 25.2 |
| LIBOR US$ over 180 days (nominal) | 5.8% | 5.0% | 5.0% | 6.7% | 3.7% | 1.9% |
| Total foreign inflation | -3.7% | -4.4% | -1.4% | 2.4% | -1.9% | -4.1% |
| Terms of trade index (1988 = 1.0) | | | | | | |
| Total goods | 0.77 | 0.73 | 0.78 | 0.82 | 0.75 | 0.77 |
| Total non-copper and non-oil | 0.85 | 0.87 | 0.93 | 0.99 | 0.89 | 0.93 |
| Total exports | | | | | | |
| Change by value | 7.5% | -8.7% | 5.1% | 11.9% | -3.9% | -0.7% |
| Change by price (fob) | -2.6% | -15.2% | -0.3% | 6.7% | -11.6% | -2.1% |
| Change by volume | 10.3% | 7.7% | 5.4% | 4.9% | 8.7% | 1.4% |
| Copper exports | | | | | | |
| Change by value | 10.3% | -21.8% | 16.0% | 20.9% | -7.4% | -7.1% |
| Change by price (fob) | -5.6% | -27.3% | 0.5% | 14.8% | -11.2% | -4.2% |
| Change by volume | 16.8% | 7.5% | 15.4% | 5.3% | 4.3% | -3.0% |
| Main non-copper exports | | | | | | |
| Change by value | 3.4% | -9.1% | 2.8% | 9.7% | -6.7% | 10.0% |
| Change by price (fob) | 0.2% | -8.6% | -4.0% | 9.4% | -14.5% | 4.1% |
| Change by volume | 3.2% | -0.5% | 7.1% | 0.2% | 9.1% | 5.7% |
| Non-traditional exports | | | | | | |
| Change by value | 7.8% | 5.7% | 4.9% | 6.8% | 2.5% | -0.3% |
| Change by price (fob) | 0.3% | -7.8% | 2.2% | -1.9% | -12.5% | -3.7% |
| Change by volume | 7.5% | 14.6% | 2.6% | 8.9% | 17.1% | 3.6% |
| Imports of goods | | | | | | |
| Change by value | 9.0% | -4.6% | -19.6% | 15.7% | -3.8% | -3.8% |
| Change by price (cif) | -2.6% | -11.0% | -5.6% | 1.5% | -4.0% | -3.9% |
| Change by volume | 11.9% | 7.2% | -14.8% | 13.9% | 0.2% | 0.2% |

(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 15

## INVESTMENT YIELDS (1)

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| I. DIRECT INVESTMENT | -1,760 | -1,943 | -1,136 | -1,413 | -1,894 | -1,789 | -1,697 |
| 1. Income from equity | -1,665 | -1,797 | -983 | -1,192 | -1,665 | -1,598 | -1,561 |
| Abroad | 132 | 240 | 257 | 47 | 551 | 409 | 447 |
| Dividends and profits received | 15 | 106 | 90 | 138 | 166 | 256 | 46 |
| Profits reinvested abroad | 117 | 134 | 167 | -91 | 385 | 152 | 401 |
| In Chile | -1,798 | -2,036 | -1,240 | -1,239 | -2,216 | -2,007 | -2,007 |
| Dividends and profits paid out | -1,320 | -1,255 | -899 | -957 | -1,093 | -859 | -817 |
| Profits reinvested in Chile | -478 | -781 | -342 | -281 | -1,123 | -1,148 | -1,190 |
| 2. Income from debt (interest) | -95 | -146 | -152 | -221 | -229 | -191 | -137 |
| II. PORTFOLIO INVESTMENT | -281 | -355 | -362 | -347 | -402 | -502 | -500 |
| Income from equity (dividends) | -219 | -252 | -211 | -114 | -66 | -118 | -133 |
| Credit | 0 | 4 | 7 | 55 | 88 | 25 | 79 |
| Debit | -219 | -255 | -218 | -169 | -154 | -143 | -213 |
| Income from debt | -62 | -104 | -152 | -233 | -336 | -383 | -367 |
| Credit | 0 | 0 | 0 | 0 | 0 | 0 | 114 |
| Debit | -62 | -104 | -152 | -233 | -336 | -383 | -481 |
| III. OTHER INVESTMENT | -462 | -299 | -375 | -459 | -485 | -451 | -322 |
| 1. Medium term | -960 | -1,053 | -1,156 | -1,168 | -1,351 | -1,137 | -809 |
| Public sector | -352 | -268 | -238 | -256 | -293 | -235 | -149 |
| Central Bank | -70 | -7 | -7 | -4 | -7 | -6 | 0 |
| Non-financial public sector | -281 | -261 | -231 | -252 | -286 | -229 | -149 |
| Financial sector (2) | -99 | -82 | -81 | -77 | -99 | -37 | -2 |
| Non-financial private sector | -510 | -703 | -837 | -835 | -960 | -865 | -658 |
| 2. Short term | 498 | 755 | 781 | 710 | 867 | 686 | 487 |
| Public sector | 551 | 782 | 798 | 659 | 759 | 639 | 430 |
| Central Bank | 595 | 831 | 846 | 705 | 798 | 681 | 450 |
| Non-financial public sector | -44 | -48 | -48 | -45 | -40 | -42 | -20 |
| Financial sector (2) | -36 | -10 | 2 | 17 | 34 | 12 | 29 |
| Non-financial private sector | -16 | -18 | -19 | 33 | 74 | 35 | 28 |
| TOTAL (I+II+III) | -2,504 | -2,597 | -1,873 | -2,219 | -2,781 | -2,742 | -2,520 |
| Credit | 1,006 | 1,174 | 1,374 | 1,140 | 1,584 | 1,268 | 1,299 |
| Debit | -3,510 | -3,770 | -3,247 | -3,359 | -4,365 | -4,010 | -3,819 |

(1) Provisional figures.
(2) Includes State Bank (*BancoEstado*).

| Memorandum | | | | | | | |
|---|---|---|---|---|---|---|---|
| Direct investment | -1,760 | -1,943 | -1,136 | -1,413 | -1,894 | -1,789 | -1,697 |
| Credit | 297 | 247 | 444 | 282 | 568 | 467 | 569 |
| Debit | -2,057 | -2,189 | -1,579 | -1,695 | -2,462 | -2,256 | -2,267 |
| Portfolio investment | -281 | -355 | -362 | -347 | -402 | -502 | -500 |
| Credit | 0 | 4 | 7 | 55 | 88 | 25 | 193 |
| Debit | -281 | -359 | -369 | -402 | -490 | -527 | -694 |
| Other investment | -462 | -299 | -375 | -459 | -485 | -451 | -322 |
| Credit | 710 | 923 | 924 | 803 | 929 | 776 | 536 |
| Debit | -1,172 | -1,222 | -1,298 | -1,262 | -1,413 | -1,227 | -858 |

Source: Central Bank of Chile.

## TABLE 16

## SERVICES (*)

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| I. TRANSPORTATION | -95 | -74 | -88 | -21 | -4 | -23 | 14 |
| Passengers | 37 | 5 | 41 | 52 | 77 | 154 | 129 |
| Credit | 278 | 298 | 326 | 332 | 360 | 385 | 345 |
| Debit | -241 | -293 | -286 | -280 | -284 | -231 | -216 |
| Freight | 205 | 318 | 359 | 459 | 501 | 404 | 356 |
| Credit | 1,011 | 1,137 | 1,158 | 1,247 | 1,316 | 1,266 | 1,221 |
| Debit | -806 | -818 | -799 | -788 | -815 | -861 | -865 |
| Others | -337 | -397 | -488 | -532 | -581 | -582 | -472 |
| Credit | 362 | 383 | 426 | 460 | 512 | 587 | 594 |
| Debit | -699 | -780 | -914 | -992 | -1,093 | -1,169 | -1,065 |
| II. TRAVEL | 195 | 265 | 216 | 159 | 200 | 90 | -5 |
| Credit | 931 | 1,103 | 1,105 | 911 | 819 | 799 | 733 |
| Debit | -736 | -839 | -888 | -752 | -620 | -708 | -788 |
| III. OTHERS | -101 | -327 | -580 | -875 | -844 | -985 | -917 |
| Communications services | 44 | 12 | 42 | 53 | 97 | 89 | 80 |
| Credit | 194 | 192 | 203 | 183 | 207 | 211 | 217 |
| Debit | -150 | -180 | -162 | -130 | -110 | -122 | -137 |
| Insurance services | -48 | -77 | -69 | -77 | -116 | -114 | -117 |
| Credit | 91 | 90 | 68 | 77 | 76 | 62 | 64 |
| Debit | -139 | -167 | -137 | -153 | -192 | -176 | -181 |
| Financial services | -69 | -88 | -136 | -199 | -184 | -167 | -169 |
| Credit | 27 | 27 | 27 | 42 | 38 | 34 | 30 |
| Debit | -96 | -115 | -163 | -242 | -222 | -202 | -200 |
| Information technology services | 4 | -1 | -13 | -20 | -45 | -46 | -42 |
| Credit | 26 | 26 | 26 | 30 | 33 | 34 | 34 |
| Debit | -23 | -27 | -39 | -50 | -78 | -81 | -76 |
| Royalties and copyright | -107 | -130 | -218 | -318 | -345 | -355 | -339 |
| Credit | 10 | 10 | 5 | 6 | 5 | 5 | 6 |
| Debit | -117 | -140 | -223 | -324 | -350 | -360 | -345 |
| Other business services | 84 | -8 | -118 | -252 | -179 | -308 | -245 |
| Credit | 538 | 505 | 488 | 470 | 602 | 620 | 605 |
| Debit | -453 | -513 | -606 | -722 | -781 | -929 | -850 |
| Recreational, cultural and personal services | 3 | -2 | -17 | -19 | -22 | -23 | -20 |
| Credit | 28 | 28 | 28 | 23 | 22 | 22 | 28 |
| Debit | -25 | -30 | -45 | -42 | -44 | -45 | -48 |
| Government services and others | -12 | -33 | -51 | -44 | -49 | -61 | -64 |
| Credit | 93 | 92 | 93 | 89 | 88 | 80 | 82 |
| Debit | -105 | -126 | -143 | -133 | -138 | -141 | -146 |
| IV. TOTAL (I+II+III) | -1 | -136 | -452 | -737 | -648 | -918 | -957 |
| Credit | 3,588 | 3,892 | 3,952 | 3,869 | 4,078 | 4,105 | 3,960 |
| Debit | -3,589 | -4,028 | -4,404 | -4,606 | -4,726 | -5,023 | -4,917 |

(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 17

## BALANCE OF PAYMENTS FINANCIAL ACCOUNT FLOWS

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000(*) | 2001(*) | 2002(*) |
|---|---|---|---|---|---|---|---|
| FINANCIAL ACCOUNT | 3,064 | 3,422 | 4,160 | 975 | 491 | 2,356 | 800 |
| A. Direct investment | 3,681 | 3,809 | 3,144 | 6,203 | -348 | 3,045 | 1,139 |
| Investment abroad (asset) | -1,133 | -1,463 | -1,483 | -2,558 | -3,987 | -1,432 | -464 |
| Equity | -1,017 | -1,148 | -1,263 | -1,896 | -3,573 | -1,111 | 308 |
| Credits | 99 | 230 | 151 | 486 | 484 | 1,157 | 1,318 |
| Debts | -1,115 | -1,378 | -1,414 | -2,383 | -4,057 | -2,268 | -1,011 |
| Other capital | 0 | -181 | -53 | -753 | -28 | -168 | -370 |
| Credits | 0 | 26 | 148 | 178 | 458 | 581 | 392 |
| Debts | 0 | -206 | -202 | -931 | -487 | -749 | -762 |
| Net reinvestment | -117 | -134 | -167 | 91 | -385 | -152 | -401 |
| From abroad (liabilities) | 4,815 | 5,271 | 4,628 | 8,761 | 3,639 | 4,477 | 1,603 |
| Equity | 4,039 | 4,211 | 4,155 | 8,863 | 2,821 | 3,424 | 739 |
| Incoming (credits) | 4,367 | 4,662 | 4,851 | 9,418 | 3,269 | 4,672 | 2,624 |
| Re-exported (debts) | -328 | -451 | -697 | -555 | -447 | -1,248 | -1,885 |
| Other capital | 298 | 279 | 131 | -383 | -306 | -96 | -326 |
| Disbursements (credits) | 382 | 418 | 405 | 189 | 90 | 251 | 817 |
| Amortizations (debts) | -84 | -139 | -273 | -572 | -395 | -347 | -1,143 |
| Net reinvestment | 478 | 781 | 342 | 281 | 1,123 | 1,148 | 1,190 |
| B. Portfolio investment | 1,134 | 1,625 | -2,469 | -3,217 | 639 | 46 | -1,876 |
| Assets | -135 | -989 | -3,311 | -5,795 | 766 | -1,386 | -3,203 |
| Equity securities | -43 | -743 | -2,518 | -3,474 | 821 | -2,094 | -2,922 |
| Debt securities | -92 | -246 | -792 | -2,321 | -55 | 708 | -281 |
| Bonds and promissory notes | -92 | -246 | -792 | -1,872 | -64 | 740 | -645 |
| Monetary market instruments | 0 | 0 | 0 | -448 | 10 | -32 | 364 |
| Liabilities | 1,269 | 2,614 | 842 | 2,578 | -127 | 1,432 | 1,328 |
| Equity securities | 700 | 1,720 | 580 | 524 | -427 | -217 | -317 |
| Debt securities | 569 | 894 | 262 | 2,054 | 300 | 1,649 | 1,645 |
| Bonds and promissory notes | 569 | 894 | 262 | 2,054 | 300 | 1,649 | 1,645 |
| Monetary market instruments | | | | | | | |
| C. Other investment | -608 | 1,143 | 1,350 | -2,743 | 534 | -1,245 | 1,858 |
| Assets | -855 | -457 | -1,953 | -3,369 | -2,065 | -737 | 575 |
| Trade credits | -492 | -70 | -118 | -999 | -1,135 | 192 | 59 |
| Loans | -68 | -32 | -214 | -380 | -82 | -193 | 527 |
| Currencies and deposits | -295 | -355 | -1,621 | -1,990 | 1,503 | 648 | -10 |
| Others assets | 0 | 0 | 0 | 0 | -2,351 | -1,384 | 0 |
| Liabilities | 247 | 1,600 | 3,303 | 626 | 2,599 | -508 | 1,283 |
| Trade credits | 839 | -113 | -595 | -232 | 323 | -228 | 249 |
| Loans | -362 | 1,775 | 4,033 | 1,019 | 2,096 | -90 | 999 |
| Currencies and deposits | -3 | -2 | 2 | -2 | 1 | 5 | 36 |
| Others liabilities | -228 | -60 | -138 | -159 | 179 | -195 | -2 |
| D. Derivatives | -22 | 165 | -59 | -6 | 2 | -86 | -124 |
| E. Reserve assets | -1,122 | -3,320 | 2,194 | 738 | -337 | 596 | -199 |

(*) Provisional figures.

Source: Central Bank of Chile.

## TABLE 18

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

(US$ million)

| Item | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002(1) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I. FOREIGN DEBT (II+III) | 16,364 | 18,242 | 19,186 | 21,478 | 21,736 | 22,979 | 26,701 | 31,691 | 34,112 | 36,477 | 38,032 | 40,395 |
| PUBLIC SECTOR | 10,554 | 9,623 | 9,020 | 9,135 | 7,501 | 5,163 | 5,088 | 5,714 | 5,827 | 5,522 | 5,759 | 7,197 |
| Financial | 2,560 | 2,385 | 2,353 | 2,355 | 1,893 | 387 | 421 | 283 | 273 | 224 | 57 | 150 |
| *BancoEstado* | 433 | 388 | 441 | 415 | 401 | 384 | 418 | 280 | 271 | 222 | 55 | 149 |
| Central Bank of Chile | 2,127 | 1,997 | 1,912 | 1,940 | 1,492 | 3 | 3 | 3 | 2 | 2 | 2 | 1 |
| Non-financial | 6,201 | 6,295 | 5,756 | 5,834 | 4,849 | 4,326 | 4,543 | 5,324 | 5,439 | 5,206 | 5,630 | 6,992 |
| General Treasury of the Republic | 4,279 | 4,542 | 4,196 | 4,230 | 3,211 | 2,653 | 2,269 | 2,169 | 2,583 | 2,410 | 2,884 | 3,625 |
| Other | 1,922 | 1,753 | 1,560 | 1,604 | 1,638 | 1,673 | 2,274 | 3,155 | 2,856 | 2,796 | 2,746 | 3,367 |
| Private Sector with Public Guarantee | 1,793 | 943 | 911 | 946 | 759 | 450 | 124 | 107 | 115 | 92 | 72 | 55 |
| PRIVATE SECTOR | 5,810 | 8,619 | 10,166 | 12,343 | 14,235 | 17,816 | 21,613 | 25,977 | 28,285 | 30,955 | 32,273 | 33,198 |
| Financial | 529 | 2,842 | 3,022 | 3,400 | 3,126 | 2,940 | 2,222 | 2,592 | 1,807 | 1,494 | 2,522 | 3,726 |
| Non-financial | 5,281 | 5,777 | 7,144 | 8,943 | 11,109 | 14,076 | 17,691 | 21,035 | 24,318 | 26,925 | 27,362 | 27,017 |
| Agencies abroad | 0 | 0 | 0 | 0 | 0 | 800 | 1,700 | 2,350 | 2,160 | 2,536 | 2,389 | 2,455 |
| II. MEDIUM- AND LONG-TERM FOREIGN DEBT | 13,062 | 13,609 | 14,332 | 16,027 | 16,563 | 18,527 | 23,107 | 27,539 | 30,113 | 29,882 | 31,327 | 31,871 |
| PUBLIC SECTOR | 8,905 | 8,606 | 7,976 | 7,884 | 6,499 | 4,410 | 4,018 | 4,708 | 4,993 | 3,906 | 4,742 | 6,109 |
| Financial | 2,486 | 2,230 | 2,146 | 2,060 | 1,855 | 371 | 263 | 273 | 223 | 61 | 4 | 49 |
| *BancoEstado* (2) | 395 | 265 | 265 | 371 | 363 | 368 | 260 | 270 | 221 | 59 | 2 | 48 |
| Central Bank of Chile | 2,091 | 1,965 | 1,881 | 1,689 | 1,492 | 3 | 3 | 3 | 2 | 2 | 2 | 1 |
| Non-financial | 5,432 | 5,466 | 4,958 | 4,918 | 3,914 | 3,658 | 3,651 | 4,349 | 4,676 | 3,772 | 4,683 | 6,021 |
| General Treasury of the Republic | 3,961 | 4,183 | 3,891 | 3,905 | 3,005 | 2,431 | 2,028 | 1,933 | 2,337 | 2,149 | 2,636 | 3,457 |
| Other | 1,471 | 1,283 | 1,067 | 1,013 | 909 | 1,227 | 1,623 | 2,416 | 2,339 | 1,623 | 2,047 | 2,564 |
| Private Sector with Public Guarantee | 987 | 910 | 872 | 906 | 730 | 381 | 104 | 86 | 94 | 73 | 55 | 39 |
| PRIVATE SECTOR | 4,157 | 5,003 | 6,356 | 8,143 | 10,064 | 14,117 | 19,089 | 22,831 | 25,120 | 25,976 | 26,585 | 25,762 |
| Financial (2) | 68 | 238 | 375 | 408 | 438 | 640 | 1,486 | 1,744 | 1,425 | 1,028 | 809 | 869 |
| Non-financial | 4,089 | 4,765 | 5,981 | 7,735 | 9,626 | 12,677 | 15,903 | 18,737 | 21,535 | 22,412 | 23,387 | 22,857 |
| Agencies abroad | | 0 | 0 | 0 | 0 | 800 | 1,700 | 2,350 | 2,160 | 2,536 | 2,389 | 2,036 |
| III. SHORT-TERM FOREIGN DEBT | 3,302 | 4,633 | 4,854 | 5,451 | 5,173 | 4,452 | 3,594 | 4,152 | 3,999 | 6,595 | 6,705 | 8,524 |
| Credits scheduled to mature in less than one year | 2,199 | 3,475 | 3,487 | 3,865 | 3,431 | 2,635 | 1,287 | 1,610 | 1,171 | 2,531 | 2,051 | 2,324 |
| Public sector | 1,064 | 448 | 488 | 526 | 615 | 350 | 609 | 598 | 260 | 378 | 245 | 364 |
| Private sector (3) | 1,135 | 3,027 | 2,999 | 3,339 | 2,816 | 2,285 | 678 | 1,012 | 911 | 2,153 | 1,806 | 1,960 |
| Other term credits maturing within one year | 1,103 | 1,158 | 1,367 | 1,586 | 1,742 | 1,817 | 2,307 | 2,542 | 2,828 | 4,064 | 4,654 | 6,200 |
| Public sector | 585 | 569 | 556 | 725 | 387 | 403 | 461 | 408 | 574 | 1,238 | 772 | 724 |
| Private sector | 518 | 589 | 811 | 861 | 1,355 | 1,414 | 1,846 | 2,134 | 2,254 | 2,826 | 3,882 | 5,476 |
| IV. CENTRAL BANK WITH IMF | 955 | 722 | 479 | 290 | 290 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(1) Preliminary figures.
(2) Includes leasing companies.
(3) Excludes suppliers' loans.

Source Central Bank of Chile.

TABLE 19

## MEDIUM- AND LONG-TERM FOREIGN DEBT FLOWS JANUARY–DECEMBER 2002 AND BALANCE AS OF 31 DECEMBER 2002 (1) (2)

(US$ million)

| Debtor | DISBURSEMENT | AMORTIZATION | INTEREST | BALANCE OUTSTANDING AS OF 31/12/2002 (3) (4) |
|---|---|---|---|---|
| PUBLIC SECTOR (I + II + III) | 2,401 | 1,173 | 241 | 6,833 |
| I. Financial | 47 | 52 | 1 | 51 |
| II. Non-financial | 2,354 | 1,105 | 237 | 6,727 |
| III. Publicly guaranteed private sector | 0 | 16 | 3 | 55 |
| PRIVATE SECTOR (I + II + III) | 4,456 | 4,672 | 1,341 | 31,238 |
| I. Financial | 1,711 | 610 | 53 | 2,591 |
| II. Non-financial | 2,745 | 4,062 | 1,108 | 26,192 |
| III. Agencies abroad | 0 | 0 | 180 | 2,455 |
| TOTAL MEDIUM- AND LONG-TERM | 6,857 | 5,845 | 1,582 | 38,071 |

(1) Preliminary figures.
(2) Exchange rate for the month flow occurred. The balance outstanding is expressed using the exchange rate as of 31 December 2002. Contract specifies timeframe.
(3) Balance for 31 December 2002 is up US$122 million, due to exchange rate and US$1.026 billion for short- and medium-term credit transfers.
(4) Balance down US$70 million due to debt write-offs and statistical adjustments.

Source: Central Bank of Chile.

## TABLE 20

# PRICE INDICES

| Period | CPI (December 1998 = 100) Index | Percentage change Month | 12 months | CPI Minus PERISHABLES AND FUELS (1) (December 1998 = 100) Index | Percentage change Month | 12 months | WPI (June 1992 = 100) Index | Percentage change Month | 12 months |
|---|---|---|---|---|---|---|---|---|---|
| 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) |
| 2002 average | 111.4 | - | 2.8 (2) | 110.2 | - | 1.8 (2) | 189.8 | - | 10.4 (2) |
| 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 | 2.6 | 176.8 | 1.5 | 10.9 |
| June | 108.5 | 0.1 | 3.6 | 107.0 | 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 | 0.5 | 3.6 | 185.6 | 1.4 | 8.0 |
| October | 110.1 | 0.1 | 3.4 | 108.9 | 0.4 | 3.8 | 184.9 | -0.4 | 7.0 |
| November | 110.1 | 0.0 | 3.1 | 109.0 | 0.1 | 3.7 | 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 |
| 2002 | | | | | | | | | |
| January | 109.7 | -0.1 | 2.2 | 109.2 | 0.1 | 3.3 | 178.1 | 0.4 | 3.9 |
| February | 109.7 | 0.0 | 2.5 | 109.3 | 0.1 | 3.4 | 179.0 | 0.5 | 4.6 |
| March | 110.3 | 0.5 | 2.6 | 109.9 | 0.5 | 3.3 | 181.3 | 1.3 | 6.1 |
| April | 110.7 | 0.4 | 2.5 | 109.8 | 0.0 | 3.1 | 185.5 | 2.3 | 6.5 |
| May | 110.8 | 0.1 | 2.1 | 110.0 | 0.2 | 3.0 | 185.6 | 0.1 | 5.0 |
| June | 110.6 | -0.1 | 2.0 | 109.9 | -0.1 | 2.7 | 185.3 | -0.2 | 4.9 |
| July | 111.1 | 0.4 | 2.6 | 110.0 | 0.1 | 2.5 | 191.0 | 3.0 | 7.1 |
| August | 111.5 | 0.4 | 2.2 | 110.2 | 0.2 | 2.2 | 193.3 | 1.2 | 5.6 |
| September | 112.5 | 0.8 | 2.3 | 110.6 | 0.3 | 2.0 | 198.1 | 2.5 | 6.7 |
| October | 113.5 | 0.9 | 3.0 | 111.0 | 0.4 | 2.0 | 205.1 | 3.5 | 10.9 |
| November | 113.4 | -0.1 | 3.0 | 111.0 | 0.0 | 1.8 | 199.7 | -2.6 | 9.6 |
| December | 112.9 | -0.4 | 2.8 | 111.0 | 0.1 | 1.8 | 195.8 | -1.9 | 10.4 |

(1) Perishables: fresh fruit and vegetables described as follows:

*Fresh fruit*: peach, apple, melon, orange, pear, banana, watermelon, grape, strawberry, cherry, 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, assorted herbs, mushrooms, celery, cucumber and artichoke.

*Fuel*: unleaded gasoline, leaded gasoline, city gas, liquefied gas and kerosene.

(2) December to December change.

Source: National Statistics Bureau (INE).

## TABLE 21

## CONSUMER PRICE INDICES

(December 1998 = 100)

| Period | GENERAL INDEX | | FOOD | | HOUSING | | FURNISHING | | CLOTHING | | TRANSPORTATION | | HEALTH CARE | | EDUCATION AND RECREATION | | OTHERS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| 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 |
| 2002 December | 112.9 | 2.8 | 106.6 | 3.5 | 120.2 | 4.1 | 96.4 | 0.0 | 80.7 | -3.8 | 141.7 | 3.5 | 121.2 | 4.8 | 118.0 | 3.4 | 93.7 | -3.3 |
| 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 |
| 2002 | | | | | | | | | | | | | | | | | | |
| January | 109.7 | 2.2 | 102.4 | 2.3 | 115.3 | 2.0 | 96.4 | 0.1 | 83.4 | -4.3 | 136.8 | 2.3 | 116.2 | 5.1 | 114.2 | 4.9 | 99.5 | 2.0 |
| February | 109.7 | 2.5 | 101.3 | 2.1 | 115.3 | 2.9 | 96.7 | 0.5 | 83.1 | -4.0 | 136.9 | 1.9 | 118.6 | 6.9 | 114.5 | 5.1 | 100.0 | 1.5 |
| March | 110.3 | 2.6 | 101.4 | 1.3 | 115.6 | 3.6 | 96.7 | 0.5 | 83.2 | -4.0 | 137.2 | 2.9 | 119.4 | 7.5 | 117.6 | 4.2 | 100.5 | 1.5 |
| April | 110.7 | 2.5 | 101.9 | 1.6 | 116.3 | 3.8 | 97.0 | 0.9 | 82.7 | -4.7 | 137.9 | 1.6 | 120.5 | 7.9 | 117.6 | 4.1 | 100.3 | 1.5 |
| May | 110.8 | 2.1 | 102.2 | 1.8 | 116.3 | 3.2 | 97.0 | 0.7 | 83.1 | -4.0 | 137.5 | -0.4 | 120.6 | 7.7 | 117.7 | 4.1 | 99.9 | 1.7 |
| June | 110.6 | 2.0 | 102.2 | 1.1 | 116.4 | 3.1 | 97.0 | 0.8 | 82.8 | -3.7 | 136.9 | 0.1 | 120.5 | 7.1 | 117.6 | 4.1 | 99.1 | 0.7 |
| July | 111.1 | 2.6 | 102.7 | 1.7 | 116.6 | 3.2 | 96.9 | 0.9 | 82.3 | -3.4 | 140.2 | 3.6 | 120.3 | 6.1 | 117.6 | 4.1 | 98.3 | 0.6 |
| August | 111.5 | 2.2 | 103.3 | 0.8 | 117.0 | 3.1 | 96.6 | 0.7 | 81.3 | -3.9 | 142.2 | 2.9 | 121.4 | 6.4 | 117.6 | 3.9 | 97.3 | -0.1 |
| September | 112.5 | 2.3 | 104.9 | 2.0 | 118.0 | 3.1 | 96.5 | 0.5 | 81.6 | -3.5 | 144.2 | 1.7 | 121.8 | 6.4 | 117.6 | 3.8 | 96.3 | -0.9 |
| October | 113.5 | 3.0 | 106.4 | 3.3 | 119.6 | 3.9 | 96.4 | 0.2 | 81.6 | -3.5 | 146.5 | 4.3 | 121.8 | 5.8 | 117.7 | 3.5 | 95.5 | -1.6 |
| November | 113.4 | 3.0 | 107.1 | 3.5 | 120.1 | 3.9 | 96.4 | -0.2 | 81.3 | -3.7 | 143.9 | 4.0 | 121.4 | 5.2 | 117.8 | 3.6 | 94.8 | -1.9 |
| December | 112.9 | 2.8 | 106.6 | 3.5 | 120.2 | 4.1 | 96.4 | 0.0 | 80.7 | -3.8 | 141.7 | 3.5 | 121.2 | 4.8 | 118.0 | 3.4 | 93.7 | -3.3 |

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 |
| 2002 | | | | | | |
| January | 221.7 | 0.5 | 5.2 | 132.4 | 0.6 | 2.9 |
| February | 222.3 | 0.3 | 5.2 | 132.8 | 0.3 | 2.6 |
| March | 223.2 | 0.4 | 5.1 | 132.6 | -0.1 | 2.5 |
| April | 223.3 | 0.0 | 4.9 | 132.2 | -0.3 | 2.3 |
| May | 223.8 | 0.2 | 4.8 | 132.3 | 0.1 | 2.6 |
| June | 224.5 | 0.3 | 4.4 | 132.9 | 0.5 | 2.4 |
| July | 224.7 | 0.1 | 4.2 | 132.4 | -0.4 | 1.5 |
| August | 225.1 | 0.2 | 4.1 | 132.2 | -0.2 | 1.9 |
| September | 226.0 | 0.4 | 4.2 | 131.6 | -0.4 | 1.9 |
| October | 226.3 | 0.1 | 4.4 | 130.7 | -0.7 | 1.3 |
| November | 226.9 | 0.2 | 4.3 | 131.1 | 0.3 | 1.3 |
| December | 229.4 | 1.1 | 4.0 | 133.1 | 1.6 | 1.2 |

(*) 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 |
| 2002 | | | | | | |
| January | 211.5 | 0.6 | 5.5 | 126.3 | 0.7 | 3.2 |
| February | 212.1 | 0.3 | 5.5 | 126.6 | 0.3 | 2.9 |
| March | 212.6 | 0.3 | 5.2 | 126.3 | -0.3 | 2.5 |
| April | 213.1 | 0.2 | 5.0 | 126.1 | -0.2 | 2.5 |
| May | 213.8 | 0.3 | 5.0 | 126.4 | 0.2 | 2.8 |
| June | 214.2 | 0.2 | 4.5 | 126.8 | 0.3 | 2.5 |
| July | 214.8 | 0.3 | 4.6 | 126.6 | -0.2 | 1.9 |
| August | 215.3 | 0.2 | 4.4 | 126.4 | -0.2 | 2.2 |
| September | 215.8 | 0.3 | 4.5 | 125.7 | -0.6 | 2.2 |
| October | 216.2 | 0.2 | 4.5 | 124.8 | -0.7 | 1.5 |
| November | 216.7 | 0.3 | 4.4 | 125.2 | 0.3 | 1.4 |
| December | 218.8 | 1.0 | 4.1 | 126.9 | 1.4 | 1.2 |

(*) 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 |
|---|---|---|---|
| 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 | 0.35 | 0.93 | 0.57 |
| 2001 | | | |
| January - Marzo | 0.80 | 0.65 | 0.75 |
| April - June | 1.21 | 0.58 | 1.04 |
| July - September | 0.58 | -0.04 | 0.42 |
| October - December (1) | 0.80 | 0.21 | 0.52 |
| 2002 | | | |
| January - March | 0.57 | 1.44 | 0.81 |
| April - June (2) | 0.92 | 0.56 | 0.85 |
| July - September (2) | 0.25 | 0.66 | 0.33 |
| October - December (2) | 0.50 | 0.81 | 0.52 |

(1) Provisional figures.
(2) Estimates.

Source: Labor Bureau.

TABLE 25

## CENTRAL BANK OF CHILE BALANCE SHEET (1)

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

| Item | 2001 | 2002 | Structure of assets and liabilities (%) 2001 | 2002 | Average (2) |
|---|---|---|---|---|---|
| ASSETS | 17,357 | 17,757 | 100.0 | 100.0 | 100.0 |
| Net foreign exchange reserves | 9,449 | 10,936 | 54.4 | 61.6 | 58.8 |
| Treasury promissory notes | 4,515 | 4,504 | 26.0 | 25.4 | 26.5 |
| Other public sector assets | 534 | 565 | 3.1 | 3.2 | 3.1 |
| Subordinated debt (shares and credit) | 1,376 | 892 | 7.9 | 5.0 | 5.8 |
| Deferred loss | 558 | 379 | 3.2 | 2.1 | 3.2 |
| Liquidity credit line and repos | 651 | 209 | 3.7 | 1.2 | 0.9 |
| Other assets | 275 | 271 | 1.6 | 1.5 | 1.6 |
| LIABILITIES | 17,107 | 16,880 | 100.0 | 100.0 | 100.0 |
| Monetary policy promissory notes | 12,874 | 13,401 | 75.3 | 79.4 | 75.4 |
| Other promissory notes with secondary market | 151 | 112 | 0.9 | 0.7 | 1.1 |
| Checking accounts and float in foreign currency | 168 | 236 | 1.0 | 1.4 | 0.7 |
| Treasury and other public sector deposits | 1,174 | 493 | 6.9 | 2.9 | 8.1 |
| Other non-monetary base liabilities | 846 | 655 | 4.9 | 3.9 | 4.8 |
| Monetary base | 1,894 | 1,983 | 11.1 | 11.7 | 10.0 |
| CAPITAL AND RESERVES | 250 | 877 | | | |
| Revalued initial capital | -738 | 258 | | | |
| Nominal initial capital | -715 | 250 | | | |
| Revalued own capital | -22 | 8 | | | |
| Net results | 988 | 619 | | | |
| Non-financial results | -21 | -27 | | | |
| Net interest (3) | -184 | -353 | | | |
| Net indexing and other variations (4) | 1,171 | 1,007 | | | |
| Less: revaluation own capital | 22 | -8 | | | |

(1) Figures for assets and liabilities are consolidated into related accounts to make this section easier to analyze. As a result, the figures presented here are not necessarily comparable to those from the chapter Financial Statements of the Central Bank of Chile.
(2) Over average end-of-month balances from December 2001 to December 2002, inclusive.
(3) Foreign currency interest and other profits converted to pesos using average exchange rates.
(4) Includes indexing in domestic currency, the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency and amortization of (-)132 billion pesos and (-) 204 billion pesos in deferred losses for 2001 and 2002, respectively.

Source: Central Bank of Chile.

TABLE 26

## OPERATING EXPENDITURES TO 31 DECEMBER OF EACH YEAR

| Item | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| OPERATING EXPENDITURES (1) | | | | | |
| Personnel | 12,853.6 | 13,290.4 | 13,898.9 | 13,415.3 | 13,223.9 |
| Administration | 3,897.5 | 4,225.2 | 4,282.3 | 5,069.2 | 7,156.6 |
| Depreciation, amortization and write-offs | 1,232.4 | 1,251.5 | 1,469.6 | 1,362.1 | 1,443.6 |
| Taxes, contributions and payments | 382.0 | 476.9 | 455.2 | 483.2 | 474.2 |
| TOTAL | 18,365.5 | 19,244.0 | 20,106.0 | 20,329.8 | 22,298.3 |
| OPERATING EXPENDITURES (2) | | | | | |
| Personnel | 14,640.3 | 14,646.0 | 14,746.7 | 13,750.7 | 13,223.9 |
| Administration | 4,439.3 | 4,656.1 | 4,543.5 | 5,195.9 | 7,156.6 |
| Depreciation, amortization and write-offs | 1,403.7 | 1,379.2 | 1,559.2 | 1,396.2 | 1,443.6 |
| Taxes, contributions and payments | 435.1 | 525.6 | 483.0 | 495.3 | 474.2 |
| TOTAL | 20,918.4 | 21,206.9 | 21,332.4 | 20,838.1 | 22,298.3 |

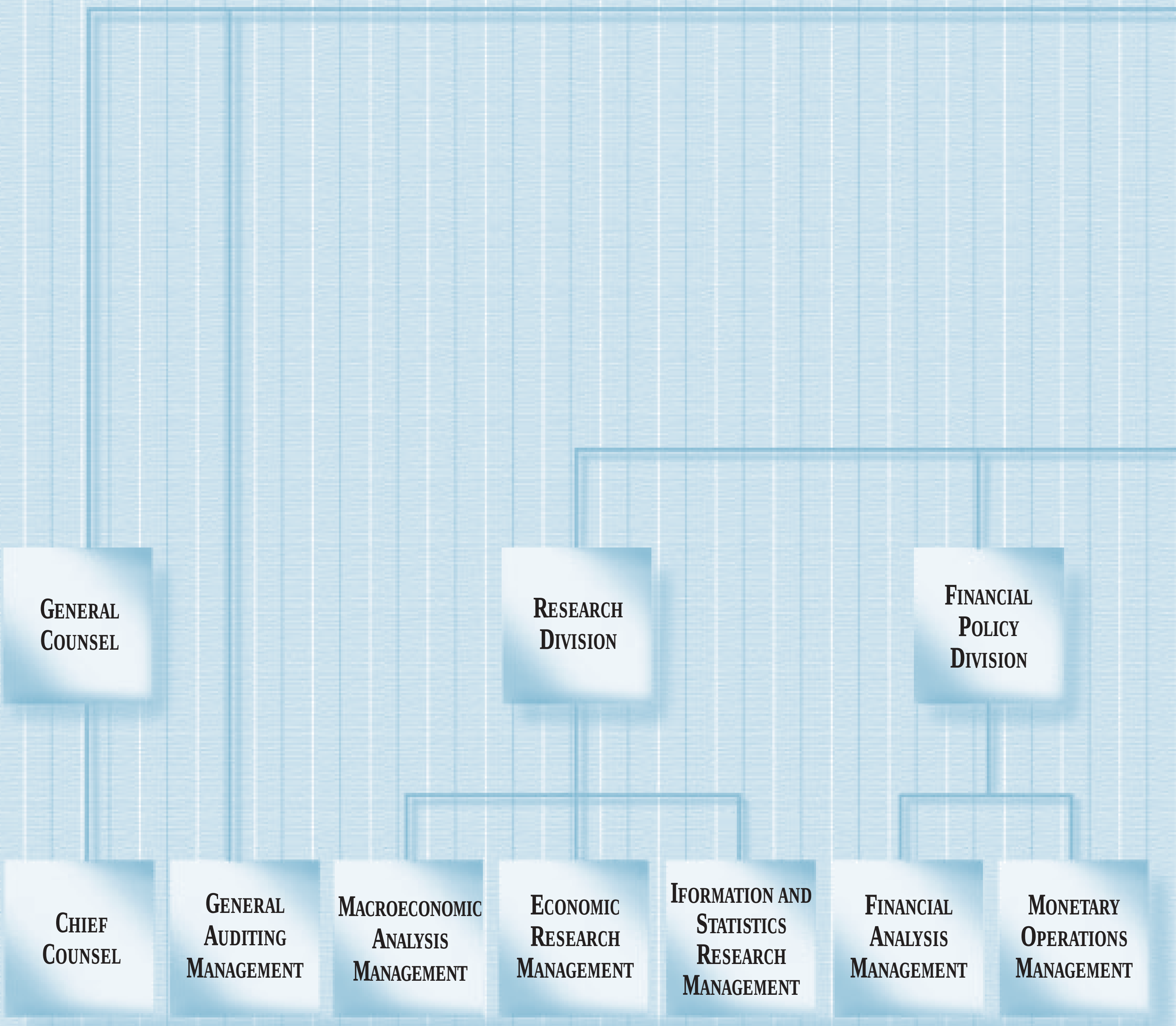
(1) Millions of each year's pesos.
(2) Millions of 2002 pesos. The average change in each year's CPI was used to update figures from previous years.

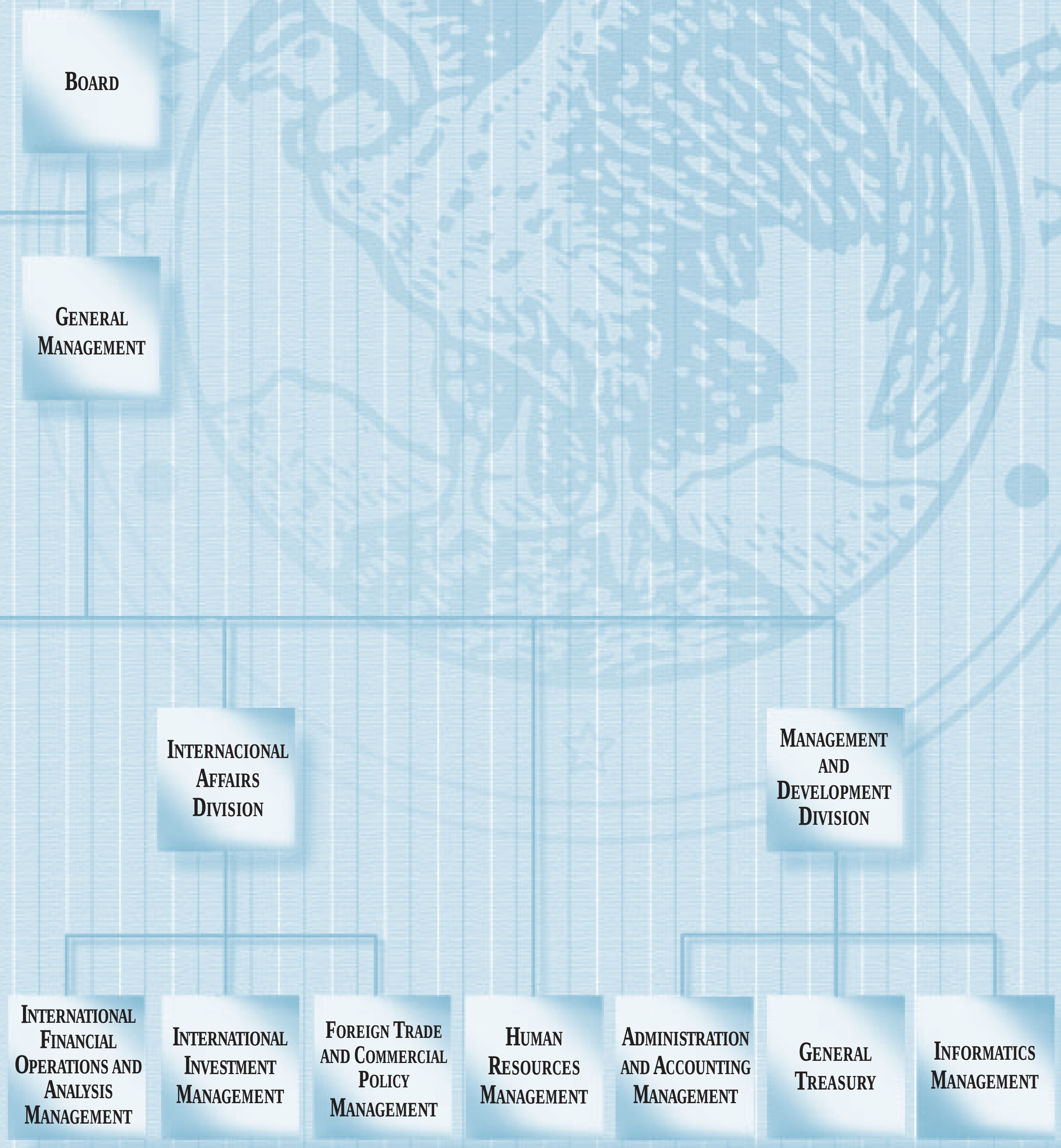
Source: Central Bank of Chile.

# II. Organizational Structure

## of the Central Bank of Chile
## To 31 December 2002

# Organizational Structure of the Central Bank of Chile
# 2002




Board
General Management
Internacional 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 December 31, 2002 and 2001
(Millions of Chilean pesos)

| ASSETS | 2002 | 2001 |
|---|---|---|
| FOREIGN ASSETS | 11,067,091.3 | 9,840,574.7 |
| RESERVE ASSETS | 10,935,836.6 | 9,732,686,7 |
| Monetary gold | 1,619.5 | 12,561.2 |
| Special drawing rights (SDR) | 26,011.0 | 19,610.1 |
| Reserve position in the IMF | 349,231.8 | 202,042.7 |
| Foreign currencies | 10,553,102.7 | 9,490,326.4 |
| Other assets | 5,871.6 | 8,146.3 |
| OTHER FOREIGN ASSETS | 131,254.7 | 107,888.0 |
| Shares and contributions to the Interamerican Development Bank | 131,254.7 | 107,888.0 |
| DOMESTIC ASSETS | 6,278,736.0 | 6,912,736.6 |
| DOMESTIC LOANS | 6,278,736.0 | 6,912,736.6 |
| Loans to state-owned companies | 7,000.0 | 8,921.0 |
| Loans to *BancoEstado* | 121,754.9 | 174,387.5 |
| Loans to commercial banks | 167,070.1 | 605,767.6 |
| Loans to other institutions | 395,714.8 | 376,800.4 |
| Treasury transfers (Laws 18267, 18401 and 18768) | 4,695,196.4 | 4,840,322.4 |
| Loans for subordinated obligations of financial institutions (Laws 18401 and 19396) | 891,999.8 | 906,537.7 |
| OTHER ASSETS | 639,333.9 | 1,551,157.7 |
| Bank premises and equipment | 16,169.3 | 16,264.0 |
| Temporary assets | 240,194.6 | 439,441.8 |
| Other securities | 382,970.0 | 1,095,451.9 |
| TOTAL ASSETS | 17,985,161.2 | 18,304,469.0 |

The accompanying notes 1 to 18 are an integral part of these financial statements.

| LIABILITIES | 2002 | 2001 |
|---|---|---|
| FOREIGN LIABILITIES | 272,245.4 | 239,663.3 |
| RESERVE LIABILITIES | 8,083.7 | 9,001.9 |
| Reciprocal loan agreements | 8,083.7 | 9,001.9 |
| OTHER FOREIGN LIABILITIES | 264,161.7 | 230,661.4 |
| Loans | 1,424.7 | 1,571.4 |
| Accounts with international organizations | 144,694.2 | 125,221.0 |
| Allocations of special drawing rights (SDR) | 118,042.8 | 103,869.0 |
| DOMESTIC LIABILITIES | 16,827,734.0 | 17,798,666.5 |
| CURRENCY ISSUANCE | 1,983,160.5 | 1,940,583.0 |
| Banknotes and coins in circulation | 1,786,186.2 | 1,739,694.9 |
| Deposits from financial institutions (domestic currency) | 196,974.3 | 200,888.1 |
| DEPOSITS AND OBLIGATIONS | 760,436.7 | 1,428,335.2 |
| Deposits and obligations with the Treasury | 492,108.6 | 1,130,549.1 |
| Other deposits and obligations | 268,328.1 | 297,786.1 |
| NOTES ISSUED BY CENTRAL BANK OF CHILE | 14,084,136.8 | 14,429,748.3 |
| Indexed promissory notes payable in coupons (PRC) | 4,606,053.8 | 5,735,974.3 |
| Central Bank discountable promissory notes (PDBC) | 2,983,000.0 | 2,855,160.0 |
| Central Bank indexed promissory notes in US dollars (PRD) | 2,622,091.3 | 2,624,694.4 |
| Indexed coupons (CERO) in indexed units UF | 1,149,390.0 | 1,643,178.8 |
| Central Bank bonds in US dollars (BCD) | 1,026,428.8 | - |
| Indexed coupons (CERO) in US dollars | 591,647.0 | 595,986.3 |
| Central Bank bonds in Chilean pesos (BCP) | 373,752.2 | - |
| Promissory notes in indexed units UF (Resolution 990 for | 111,998.8 | 155,717.2 |
| redemption of promissory notes Resolution 1836) | 326,588.9 | - |
| Central Bank bonds in indexed units UF (BCU) | 226,794.5 | - |
| Commercial notes from redenomination of foreign debt securities | | |
| Central Bank indexed promissory notes (PRBC) | 60,278.8 | 301,509.7 |
| Deposit certificates in US dollars, Resolution 1649 | 3,646.2 | 4,189.2 |
| Promissory notes stated in indexed units UF (Resolution 1836 arising from certificates in US dollars) | 1,359.0 | 493,582.1 |
| Floating interest rate promissory notes (PTF) | 1,086.4 | 19,734.1 |
| Promissory notes issued for exchange rate differencial | 21.1 | 22.2 |
| OTHER LIABILITIES | 8,165.5 | 8,534.6 |
| Provisions | 7,960.9 | 8,397.0 |
| Other securities | 204.6 | 137.6 |
| CAPITAL AND RESERVES | 877,016.3 | 257,604.6 |
| Capital | 257,604.6 | (759,779.4) |
| Net surplus for the year | 619,411.7 | 1,017,384.0 |
| TOTAL LIABILITIES | 17,985,161.2 | 18,304,469.0 |

# Statements of income

As of December 31, 2002 and 2001
(Millions of Chilean pesos)

| OPERATING RESULTS | 2002 | 2001 |
|---|---|---|
| OPERATING INCOME | 2,411,766.4 | 2,786,655.5 |
| Interest earned and accrued | 653,783.6 | 911,791.5 |
| Indexation earned and accrued | 83,261.5 | 57,091.2 |
| Income on price differences | 145,343.9 | 60,992.5 |
| Exchange rate earnings | 1,528,726.8 | 1,755,924.7 |
| Other operating income | 650.6 | 855.6 |
| OPERATING EXPENSES | (1,585,003.2) | (1,718,780.1) |
| Interest paid and accrued | 735,402.0 | 880,222.2 |
| Indexation paid and accrued | 473,595.7 | 408,923.3 |
| Loss due to price differences | 297,904.4 | 186,062.5 |
| Exchange rate losses | 69,992.2 | 235,043.0 |
| Other operating expenses | 8,108.9 | 8,529.1 |
| GROSS MARGIN | 826,763.2 | 1,067,875.4 |
| OTHER OPERATING EXPENSES | (22,298.3) | (20,939.7) |
| Personnel expenses | 13,223.9 | 13,817.7 |
| Administrative expenses | 7,156.6 | 5,221.3 |
| Depreciation, amortization and write-offs | 1,443.6 | 1,403.0 |
| Taxes, rates and contributions | 474.2 | 497.7 |
| Income before provisions and write-offs | 804,464.9 | 1,046,935.7 |
| Provisions and write-offs | (204,353.1) | (136,594.5) |
| NET MARGIN (TOTAL OPERATING INCOME) | 600,111.8 | 910,341.2 |
| NON-OPERATING RESULTS | 401.3 | 220.2 |
| Non-operating income | 447.4 | 255.4 |
| Non-operating expenses | (46.1) | (35.2) |
| Income before price-level restatement | 600,513.1 | 910,561.4 |
| PRICE-LEVEL RESTATEMENT | 18,898.6 | 106,822.6 |
| SURPLUS FOR THE YEAR | 619,411.7 | 1,017,384.0 |

The accompanying notes 1 to 18 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. INCORPORATION AND OBJECTIVE OF THE ENTITY

Central Bank of Chile was established on August 21, 1925 by Decree Law 486. The Bank is an autonomous organization, of constitutional rank, of a technical nature, with legal status, its own equity and indefinite duration, governed by Basic Constitutional Act 18840 and its modifications.

The Bank's objective is to ensure stability of the currency and the normal operation of domestic and foreign payments.

The Bank's attributions, for these purposes, are the regulation of the amount of money and credit in circulation, the execution of credit operations and international exchange, such as, dictating regulations on monetary, credit, financial and international exchange matters. The Bank is exclusively empowered to issue banknotes and to mint coins.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

### A) BASIS FOR PREPARING THE 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 Chilean Superintendency of Banks and Financial Institutions, as established in Article 75 of Law 18840 (Basic Constitutional Act 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 under letter (f) below.

The presentation of these balance sheets is within an economic and accounting framework that 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. From this information it is possible to determine the Central Bank of Chile's share in the domestic supply of monetary assets and credit and the related effects on the Bank's foreign indebtedness position. 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 Central Bank of Chile, the statement of cash flows is not presented, instead a note to the financial statements with the Monetary Base change and another with the International Reserves change (Note 14) are presented.

For comparative purposes, the 2001 figures have been restated according to changes in the Chilean consumer price index for the period between November 30, 2001 and November 30, 2002, amounting to 3.0%.

### B) EXCHANGE RATES USED

Assets and liabilities denominated in foreign currency are translated into Chilean pesos at the "observed dollar" exchange rate referred to under N° 6 of Chapter I in the "General Provisions" 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 fine troy ounce), 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 Central Bank of Chile, in the Official Gazette, however, always based upon the observed exchange rate.

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

| | 2002 Ch$ | 2001 Ch$ |
|---|---|---|
| US Dollar (observed exchange rate) | 712.38 | 656.20 |
| Pound Sterling | 1,142.18 | 953.92 |
| Euro | 741.75 | 579.63 |
| Special Drawing Rights (SDR) | 964.97 | 823.94 |

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

Shares issued by and contributions made to the IDB, and contributions to the IMF, 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 Foreign Assets. Contributions to the IMF are recorded under Foreign Reserve Assets.

D) FINANCIAL INVESTMENTS

Foreign financial investments are shown under Reserve Assets and mainly include bonds and securities issued by governments, foreign institutions and banks, and are valued at the lower of cost or market value.

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 instruments purchased and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued indexation adjustments as of the balance sheet dates, and balances denominated in foreign currency include the corresponding exchange rate adjustments.

Interests accrued at year-end on transactions with foreign residents are included under Other Foreign Assets and Other Foreign Liabilities. Interests on transactions with domestic residents are included in Domestic Assets and Domestic Liabilities, accordingly.

Interest paid and not accrued arising from obligations, and interest earned and not accrued arising from loans are shown as Transitory Assets under the caption "Other Assets".

F) SUBORDINATED OBLIGATIONS OF FINANCIAL INSTITUTIONS

Loans for subordinated obligation included under Domestic Assets (Note 8), include restated balances as of each year-end of such obligations, governed by Law 19396 including accumulated increases recorded and credited to income on an accrual basis.

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 19396 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, Central Bank of Chile is entitled to allocate such surplus to set up provisions in order to absorb any such losses….".

During 2002 a provision of Ch$204,345.4 was established and charged to income for the same year (Ch$136,594.5 million in 2001), which was applied to this deferred loss. Deferred losses amount to Ch$379,498.6 million as of December 31, 2002 (Ch$574,235.4 million in 2001) and are shown as "Other securities" under the caption "Other Assets".

G) LOAN PROVISIONS

The Bank has not established provisions on loans in 2002 and 2001. The balance of provisions amounts to Ch$11,983.6 million (Ch$11,366.2 million in 2001) and is shown deducting the corresponding assets. The increase is due to the variation in the exchange rate of foreign currency provision.

H) BANK PREMISES AND EQUIPMENT

Bank premises and equipment at each 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 lives 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$6,935.9 million (Ch$7,152.8 million in 2001).

J) STAFF VACATION PROVISION

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

K) PRICE-LEVEL RESTATEMENT

Shareholders' equity, Bank premises and equipment and other assets and liabilities have been price-level restated in accordance with changes in the Chilean 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 applying price-level restatement, is shown as a credit to income of Ch$18,898.6 million in 2002 (credit to income of Ch$106,822.6 million in 2001).

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

## 3. RESERVE ASSETS

Included under reserve assets are the international reserves held by the Bank, as follows:

| | (US$ million) 2002 | 2001 |
|---|---|---|
| Monetary gold (1) | 2.3 | 18.6 |
| Special Drawing Rights (SDR) (3) | 36.5 | 29.0 |
| Reserve position in the IMF (2) | 490.2 | 299.0 |
| Foreign currencies (3): | | |
| Coins and deposits | 7,534.8 | 7,279.3 |
| Bond issued by governments, foreign organizations and banks | 4,855.6 | 4,527.1 |
| Commercial papers | 1,242.5 | 528.7 |
| Euronotes | 452.0 | 374.3 |
| Foreign government treasury bills | 343.4 | 421.4 |
| Floating rate bills | 264.2 | 517.0 |
| Foreign investment instruments | 121.4 | 393.5 |
| Other assets (4): | | |
| Reciprocal loan agreements | 8.2 | 12.1 |
| Total reserve assets | 15,351.1 | 14,400.0 |

(1) It should be noted that for the purpose of complying with the 5th edition of the Balance of Payments Manual of the International Monetary Fund, as of May 2002 the definition of Reserve Assets and Liabilities was modified as follows:

“Gold” was renamed “Monetary gold”.

(2) The previous items “IMF Subscription installment”, “Loans” and “IMF Deposits” (Liabilities) make up the new item “Reserve position in the IMF”.

(3) The previous items “Deposits and sight accounts” and “Deposits and investment instruments” make up the new item “Foreign currency”, with the exception of Special Drawing Rights (SDR), which are shown separately in a new item called “ Special Drawing Rights (SDR)”.

(4) Debit balances of reciprocal loan agreements are included under “Other Assets”.

Interest receivable, associated to reserve assets, that were previously recorded under “other foreign assets” are incorporated in the different captions under “reserve assets”.

Interest payable, associated to foreign liabilities, that were previously recorded under “other foreign liabilities” are included under different captions and under “reserve liabilities”.

The figures for the year 2001, have been reclassified using the above-mentioned classification.

## 4. DOMESTIC LOANS TO BANKS, FINANCIAL INSTITUTIONS AND OTHER INSTITUTIONS OR COMPANIES

The total balance of these loans, amounting to Ch$691,539.8 million (Ch$1,165,876.5 million in 2001), mainly includes the following operations:

| | (Millions of Ch$) | |
|---|---|---|
| | 2002 | 2001 |
| Receivables from *Corfo* (Note 5) | 1,598.5 | 2,121.3 |
| Credit lines on debt restructuring | 33,289.8 | 43,772.6 |
| Mortgage loan portfolio acquired | 8,826.2 | 19,577.5 |
| Liquidity credit lines | 10,001,7 | 40,507.6 |
| Credit lines to finance the sale of mortgage portfolio of former *ANAP* | 36,247.1 | 44,080.7 |
| Credit lines for international organization programs | 4,427.4 | 5,702.2 |
| Credit lines for deposits (Resolution 1686) | 1,144.5 | 2,331.0 |
| Former *Caja Central de Ahorros y Préstamos* and former *ANAP* (Note 6) | 395,714.8 | 376,800.4 |
| Central Bank of Chile promissory notes purchased with resale agreement | 199,143.3 | 629,582.1 |
| Other | 1,146.5 | 1,401.1 |
| Total | 691,539.8 | 1,165,876.5 |

## 5. ACCOUNTS RECEIVABLE FROM *CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN (Corfo)*

The balance receivable from *Corfo*, derives from Law 18401 dated 1985 and its modifications, and Law 18577 dated 1986, by which Central Bank of Chile sold loans granted to financial institutions to *Corfo*, in order to finance the acquisition, on behalf of third parties, of shares of these financial institutions.

*Corfo* amortizes its debt by transferring securities that it recovers from shareholders, for the assignment of shares of financial institutions. As of December 31, 2002 the balance of accounts receivable from *Corfo* was Ch$1,598.5 million (Ch$2,121.3 million in 2001), and is included under Loans to state-owned companies.

In accordance with Article 13 of Law 18401, differences that are produced in the recovery, as a result of discounts granted to shareholders, for up to UF15 million, will be covered by the Treasury through future transfers (Note 7), which as of December 31, 2002 amounted to Ch$190,802.4 million equivalent to UF11.4 million (Ch$190,828.4 million in 2001, equivalent to UF11.4 million). Based on available information, the maximum amount of transfer established by law is deemed adequate to absorb the discounts.

## 6. *CAJA CENTRAL DE AHORROS Y PRÉSTAMOS* AND *ASOCIACIÓN NACIONAL DE AHORRO Y PRÉSTAMO*

Law 18900 dated January 16, 1990 terminated the legal existence of *Caja Central de Ahorros y Préstamos* and the authorization for the existence of *Asociación Nacional de Ahorro y Préstamo (ANAP)*, and established the procedure through 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 y Préstamos* and of *ANAP* that are not covered by the proceeds of their liquidations will be covered by the Treasury by obtaining the necessary funds from the national budget, in conformity with provisions under Article 21 of Decree Law 1263 dated 1975.

As of December 31, 2002, 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$395,714.8 million, of which Ch$364,867.5 million correspond to direct loans granted by Central Bank of Chile and Ch$30,847.3 million to credit lines of international organization programs (Ch$376,800.4 million in 2001, of which Ch$347,879.3 million correspond to direct loans granted by Central Bank of Chile and Ch$28,921.1 million to credit lines of international organization programs) and are shown under the caption “Loans to other institutions”.

# 7. TREASURY TRANSFERS

Treasury transfers includes the following amounts under Domestic Loans:

| | (Millions of Ch$) | |
|---|---|---|
| | 2002 | 2001 |
| Treasury promissory notes Law 18267 | 335.077.4 | 387,201.5 |
| Treasury promissory notes Law 18768 | 4,169,316.6 | 4,262,292.5 |
| Treasury transfers Law 18401 | 190.802.4 | 190,828.4 |
| Total | 4,695,196.4 | 4,840,322.4 |

## A) TREASURY PROMISSORY NOTES LAW 18267

In conformity with Law 18267, the Treasury transferred Ch$100,000 million to Central Bank of Chile by issuing 40 Treasury promissory notes over a 25-year term, stated in indexed units, *Unidades de Fomento* (UF) and at a 1% annual interest rate, capitalized and amortized on a semiannual basis with a five-year grace period. The last installment matures on December 15, 2008.

## B) TREASURY PROMISSORY NOTES LAW 18768

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 semiannually and the balance is capitalized. The last installment matures on December 15, 2014.

During 2002 there was no prepayment of interest. In 2001, prepayment of interest was received in the amount of US$123.8 million, including net in transitory assets the interests received and not accrued in this period amounting to US$115.5 million. The discount granted for prepayment of interest amounted to US$1.3 million in 2001.

Law 19774 on public sector budgets was published in the Official Gazette on December 4, 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 18768, 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 scheduled semi-annual maturity dates. 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 18401

The balance of this item corresponds to discounts granted to shareholders subject to the provisions under Law 18401, amounting to a maximum of UF15 million as stipulated in Article 13 of this law, and explained in Note 5.

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.

## 8. SUBORDINATED OBLIGATION

The balances as of each year-end account for the subordinated obligation with Central Bank of Chile, deriving from the agreement amending payment terms for such obligation subscribed with *Banco de Chile* on November 8, 1996, in accordance with provisions of Law 19396. On such date, the Parent Company of *Banco de Chile*, formerly *Banco de Chile*, agreed to the assignment of the contract to *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, based on paragraphs three and five of the above-mentioned law. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments starting April 1997.

## 9. SHARES RECEIVED IN PAYMENT

Pursuant to Law 19396, Central Bank of Chile received from *Banco Santiago* 35,090.5 million series E shares, in payment during 1997, of which as of December 31, 2001 it held 35,067.8 million.

On May 13, 1999, Central Bank of Chile subscribed an agreement with *Banco Santander Central Hispano S.A.*, whereby, among other matters, Central Bank of Chile was granted the irrevocable option to sell to *Banco Santander Central Hispano*, the total or a portion of the shares that the latter held in *Banco Santiago*, until May 15, 2002.

On April 22, 2002, Central Bank of Chile sold 35,067.7 million shares received in payment from the former *Banco Santiago* at a value of Ch$12.595435 per share to *Banco Santander Central Hispano S.A.*, receiving the sum of Ch$441,692.3 million (equivalent to US$682.2 million) and in the stock market 0.1 million shares, receiving Ch$1.4 million. As a result of this sale, an offsetting charge to deferred losses was recorded as established by Article 19 of Law 19396 in the amount of Ch$95,639.9 million.

## 10. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation are recorded at face value. The costs of printing and coining are recorded as operating expenses.

The distribution of banknotes and coins in circulation as of December 31, is as follows:

| | (Millions of Ch$) | |
|---|---|---|
| Denomination | 2002 | 2001 |
| $ 20,000 | 331,217.3 | 310,716.7 |
| $ 10,000 | 1,045,168.2 | 1,020,723.3 |
| $ 5,000 | 171,577.4 | 179,522.4 |
| $ 2,000 | 46,593.0 | 43,824.1 |
| $ 1,000 | 82,960.7 | 85,511.1 |
| $ 500 | 7,687.1 | 18,932.6 |
| Coins | 100,982.5 | 80,464.7 |
| Total | 1,786,186.2 | 1,739,694.9 |

## 11. DEPOSITS AND OBLIGATIONS

The caption other deposits and obligations includes the following items:

| | (Millions of Ch$) 2002 | 2001 |
|---|---|---|
| Foreign currency current accounts | 237,143.5 | 173,613.5 |
| Deposits in foreign currency (Resolutions 1657 and 1686) | 1,101.9 | 1,798.2 |
| Short-term deposits | 29,170.8 | 111,939.2 |
| Other deposits | - | 10,305.1 |
| Current accounts in domestic currency | 911.9 | 130.1 |
| Total | 268,328.1 | 297,786.1 |

## 12. INSTRUMENTS ISSUED BY CENTRAL BANK OF CHILE, AS DECEMBER 31, 2002 AND 2001 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 2002 | Total 2001 |
|---|---|---|---|---|---|---|---|
| Indexed promissory notes payable in coupons (PRC) | 253,717.7 | 207,182.7 | 364,261.9 | 1,363,001.3 | 2,417,890.2 | 4,606,053.8 | 5,735,974.3 |
| Central Bank discountable promissory notes (PDBC) | 2,138,000.0 | 160,000.0 | 300,000.0 | 385,000.0 | - | 2,983,000.0 | 2,855,160.0 |
| Central Bank indexed promissory notes in US dollars (PRD) | 51,627.0 | 39,413.8 | 1,068,534.4 | 1,382,017.2 | 80,498.9 | 2,622,091.3 | 2,624,694.4 |
| Indexed coupons (CERO) in indexed units UF | 45,886.5 | 47,878.8 | 79,406.2 | 218,696.6 | 757,521.9 | 1,149,390.0 | 1,643,178.8 |
| Central Bank bonds in US dollars (BCD) | 10,891.0 | 3,958.2 | - | 737,313.3 | 274,266.3 | 1,026,428.8 | - |
| Indexed coupons (CERO) in US dollars | 11,030.1 | 15,590.9 | 54,432.4 | 510,593.6 | - | 591,647.0 | 595,986.3 |
| Central Bank bonds in Chilean pesos (BCP) | 8,462.2 | 290.0 | - | 255,000.0 | 110,000.0 | 373,752.2 | - |
| Promissory notes in indexed units UF (Resolution 990 for redemption of promissory notes Resolution 1836) | 162,868.2 | 163,720.7 | - | - | - | 326,588.9 | - |
| Central Bank bonds in indexed units UF (BCU) | 3,687.5 | - | - | - | 223,107.0 | 226,794.5 | - |
| Commercial notes from redenomination of foreign debt securities | 63.9 | 3,350.6 | 21,680.5 | 10,872.1 | 76,031.7 | 111,998.8 | 155,717.2 |
| Central Bank indexed promissory notes (PRBC) | 51,906.7 | 8,372.1 | - | - | - | 60,278.8 | 301,509.7 |
| Deposit certificates in US dollars, Resolution 1649 | 35.2 | - | 722.2 | 1,444.4 | 1,444.4 | 3,646.2 | 4,189.2 |
| Promissory notes stated in indexed units UF (Resolution 1836 arising from certificates in US dollars) | 1,359.0 | - | - | - | - | 1,359.0 | 493,582.1 |
| Floating interest rate promissory notes (PTF) | 349.7 | 393.5 | 343.2 | - | - | 1,086.4 | 19,734.1 |
| Promissory notes issued for exchange rate differencial | 21.1 | - | - | - | - | 21.1 | 22.2 |
| Total notes issued | 2,739,905.8 | 650,151.3 | 1,889,380.8 | 4,863,938.5 | 3,940,760.4 | 14,084,136.8 | 14,429,748.3 |
| Total 2001 | 2,425,599.8 | 820,988.7 | 1,437,754.9 | 4,605,369.3 | 5,140,035.6 | 14,429,748.3 | |

The balances include accrued interest and adjustments as of December 31, 2002 and 2001.

Transitory assets include discounts granted and not accrued net of the price difference received and not accrued originating from other documents issued in the amount of Ch$239,853.3 million (Ch$516,341.8 million in 2001).

## 13. CAPITAL AND RESERVES

Changes in capital and reserves during the years 2002 and 2001 were as follows:

| | (Millions of Ch$) | | |
|---|---|---|---|
| | Capital | Surplus for the year | Total |
| Balance as of January 01,2001 | (895,630.4) | 180,160.1 | (715,470.3) |
| Distribution of the 2000 surplus | 180,160.1 | (180,160.1) | - |
| Price-level restatement on equity | (22,179.6) | - | (22,179.6) |
| Surplus for the year | - | 987,751.5 | 987,751.5 |
| Balance as of December 31, 2001 | (737,649.9) | 987,751.5 | 250,101.6 |
| Balance as of December 31, 2001 Restated for comparison purposes (3%) | (759,779.4) | 1,017,384.0 | 257,604.6 |
| Balance as of January 01,2002 | (737,649.9) | 987,751.5 | 250,101.6 |
| Distribution of the 2001 surplus | 987,751.5 | (987,751.5) | - |
| Price-level restatement on equity | 7,503.0 | - | 7,503.0 |
| Surplus for the year | - | 619,411.7 | 619,411.7 |
| Balance as of December 31, 2002 | 257,604.6 | 619,411.7 | 877,016.3 |

Article 5 of the Basic Constitutional Act of Central Bank of Chile set start-up capital for the Bank at Ch$500,000 million (Ch$1,547,319.1 million restated as of December 31, 2002), to be paid according to Interim Article 2 of said act.
The 2002 surplus will be capitalized.

## 14. MONETARY BASE AND INTERNATIONAL RESERVES

In conformity with Note 2 Letter a) and in consideration of the operating particularities of Central Bank of Chile, starting 2001, instead of a Statement of Cash Flows, 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 banknotes, coins and checks issued by the Bank that are freely circulating, plus deposits made by the financial system in Central Bank of Chile.

International Reserves: Foreign assets that are readily available 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 MONETARY BASE

| | (Millions of Ch$) 2002 | 2001 |
|---|---|---|
| PRICE-LEVEL RESTATED BEGINNING BALANCE OF ISSUANCE | 1,940,583.0 | 1,819,465.2 |
| INCREASE IN ISSUANCE | | |
| Operations with international organizations | 92,426.0 | 9,444.3 |
| Domestic loans | - | 609,543.8 |
| Interest and indexation paid for instruments issued | 1,435,703.5 | 1,547,163.2 |
| Deposits and obligations | 198,620.8 | - |
| Other operating expenses | 5,238.6 | 5,246.5 |
| Operating support expenses | 17,963.4 | 17,908.7 |
| TOTAL INCREASE | 1,749,952.3 | 2,189,306.5 |
| DECREASE OF ISSUANCE | | |
| Instruments issued by Central Bank of Chile | (480,290.2) | (1,159,748.6) |
| Domestic loans | (955,516.4) | - |
| Interest and indexation received for domestic loans | (121,229.6) | (186,832.3) |
| Deposits and obligations | - | (83,112.2) |
| Other assets | (6,478.6) | (4,879.8) |
| Net sale of foreign currencies | (87,338.2) | (578,908.3) |
| TOTAL DECREASE | (1,650,853.0) | (2,013,481.2) |
| Currency issuance change for the year | 99,099.3 | 175,825.3 |
| Effect of price-level restatement on beginning balance of issuance | (56,521.8) | (54,707.5) |
| ENDING BALANCE OF ISSUANCE | 1,983,160.5 | 1,940,583.0 |

## NET VARIATION IN INTERNATIONAL RESERVES

| | (US$ million) 2002 | 2001 |
|---|---|---|
| BEGINNING RESERVES BALANCE | 14,386.8 | 14,902.3 |
| RESERVE INCREASE | | |
| Domestic loans | 0.6 | 0.5 |
| Other assets | 0.1 | 0.1 |
| Other liabilities | - | 0.2 |
| Interest received for deposits and other investments abroad | 672.3 | 1,329.7 |
| TOTAL INCREASE | 673.0 | 1,330.5 |
| RESERVE DECREASE | | |
| Deposits and obligations | (269.3) | (740.2) |
| Instruments issued | (1.0) | - |
| Other liabilities | (0.2) | - |
| Other foreign liabilities | (0.3) | (2.2) |
| Interest paid for foreign liabilities | (0.3) | - |
| Other operating expenses | (2.5) | (10.7) |
| Operating support expenses | (3.8) | (1.0) |
| Net sale of foreign currencies | (133.9) | (791.5) |
| TOTAL DECREASE | (411.3) | (1,545.6) |
| Changes in reserves during the year | 261.7 | (215.1) |
| Exchange rate | 691.3 | (300.4) |
| FINAL RESERVES BALANCE | 15,339.8 | 14,386.8 |

(1) The beginning and final balances of international reserves were modified in accordance with the new definition of assets and liabilities reserve mentioned in Note 3.

## 15. BALANCES IN FOREIGN CURRENCY

| | (US$ million) | |
|---|---|---|
| | 2002 | 2001 |
| ASSETS | | |
| FOREIGN ASSETS | 15,163.8 | 14,384.2 |
| Reserves | 15,127.1 | 14,347.5 |
| Other foreign assets | 36.7 | 36.7 |
| DOMESTIC ASSETS | 5,854.0 | 6,307.9 |
| Domestic loans | 5,854.0 | 6,307.9 |
| OTHER ASSETS | 1.2 | 1.4 |
| Total Assets | 21,019.0 | 20,693.5 |
| LIABILITIES | | |
| FOREIGN LIABILITIES | 179.0 | 169.3 |
| Reserves | 11.3 | 13.2 |
| Other foreign liabilities | 2.0 | 3.0 |
| Special Drawing Rights (SDR) allocations | 165.7 | 153.1 |
| DOMESTIC LIABILITIES | 819.6 | 1,549.6 |
| Deposits and Treasury obligations | 459.6 | 1,197.2 |
| Other deposits and obligations | 360.0 | 352.4 |
| OTHER LIABILITIES | - | 115.9 |
| Total liabilities | 998.6 | 1,834.8 |
| NET ASSET POSITION | 20,020.4 | 18,858.7 |

## 16. CONTINGENCIES AND COMMITMENTS

Central Bank of Chile has pending lawsuits or claims, the final outcome of which (according to the Bank's Legal Department) is not expected to have a material effect on capital and reserves.

## 17. INCOME TAX

Pursuant to DL 3345, dated April 24, 1980, Central Bank of Chile is exempt from income tax.

## 18. INCOME

The breakdown of income generated by interest, indexation and price differences, as of the closing date of each year-end, is as follows:

| | (Millions of Ch$) | |
|---|---|---|
| | 2002 | 2001 |
| Interest earned and accrued originates from: | | |
| Investment abroad | 468,604.5 | 590,844.4 |
| Treasury transfers - Laws 18768 and 18267 | 108,606.9 | 236,513.8 |
| Subordinated obligation | 43,513.7 | 44,415.2 |
| Other institutions | 24,555.6 | 23,528.0 |
| Commercial banks | 6,325.4 | 11,673.2 |
| *BancoEstado* | 2,065.9 | 3,935.5 |
| Reciprocal loan agreements | 111.6 | 881.4 |
| Total | 653,783.6 | 911,791.5 |
| Indexation earned and accrued correspond to: | | |
| Subordinated obligation | 24,794.3 | 26,619.1 |
| Treasury transfers - Laws 18401 and 18267 | 16,012.2 | 18,574.5 |
| *Caja Central y Asociación Nacional de Ahorro y Préstamo* | 5,474.3 | 5,770.6 |
| Other | 36,980.7 | 6,127.0 |
| Total | 83,261.5 | 57,091.2 |
| Income on price differences originated from: | | |
| Redemption to CERO promissory notes in indexed units UF | 88,997.5 | 43,872.5 |
| Central Bank indexed promissory notes | 32,255.5 | 13,094.5 |
| Promissory notes indexed in US dollars | 24,090.9 | 4,025.5 |
| Total | 145,343.9 | 60,992.5 |
| Interest paid and accrued includes interest for: | | |
| Indexed promissory notes with payment in coupons | 324,163.1 | 386,223.6 |
| Promissory notes indexed in US dollars | 159,518.9 | 76,620.7 |
| Central Bank discountable promissory notes | 142,491.3 | 193,288.3 |
| Other instruments issued | 52,634.5 | 87,312.3 |
| Foreign transactions | 45,340.3 | 61,126.2 |
| Central Bank indexed promissory notes | 11,116.9 | 74,914.9 |
| Reciprocal loan agreements | 137.0 | 736.2 |
| Total | 735,402.0 | 880,222.2 |

*(Continued)*

| | (Millions of Ch$) | |
|---|---|---|
| | 2002 | 2001 |
| Indexation paid and accrued originates from: | | |
| Promissory notes in US dollars | 221,012.5 | 42,220.5 |
| Indexed promissory notes paid in coupons | 137,638.9 | 181,601.4 |
| CERO coupons in US dollars | 48,302.1 | (5,303.4) |
| CERO coupons in UF | 34,846.4 | 82,126.0 |
| Other instruments issued | 25,596.8 | 58,710.5 |
| Central Bank indexed promissory notes | 6,199.0 | 49,568.3 |
| Total | 473,595.7 | 408,923.3 |
| Loss due to price differences corresponds to: | | |
| Redemption to CERO promissory notes in indexed units UF | 166,831.4 | 142,899.0 |
| Indexed promissory notes with payments in coupons | 93,659.0 | 23,142.8 |
| Redemption to CERO promissory notes in US dollars | 30,032.7 | 10,668.1 |
| Promissory notes in US dollars | 3,378.8 | 9,352.6 |
| Other | 4,002.5 | - |
| Total | 297,904.4 | 186,062.5 |

CAMILO CARRASCO ALFONSO
General Manager

FRANCISCO GARCÍA LETELIER
Accounting and Administration Manager

MARIO ULLOA LÓPEZ
General Auditor

# REPORT OF INDEPENDENT AUDITORS

To the Chairman and
Board Members of Central Bank of Chile:

1. We have audited the accompanying balance sheet of Central Bank of Chile (The "Bank") as of December 31, 2002 and the related statement of income for the year then ended. These financial statements (including their corresponding notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central Bank of Chile for the year ended December 31, 2001 were audited by other auditors, who issued an unqualified opinion on those financial statements in their report dated January 15, 2002.

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

3. Central Bank of Chile prepares its financial statements in conformity with accounting policies established by its Board, with prior approval from the Chilean Superintendency of Banks and Financial Institutions (Law 18840). These policies are in accordance with generally accepted accounting principles, except for the deferral of accounting losses amounting to Ch$379,498.6 million (Ch$574,235.4 million in 2001), arising from the amendments to subordinated obligation payment agreements of certain banks, as set forth by Law 19396 (See Notes 2(f) and 8).

4. In our opinion, the financial statements as of December 31, 2002 present fairly, in all material respects, the financial position of Central Bank of Chile as of December 31, 2002 and the results of its operations for the year then ended in conformity with accounting policies described in Note 2.

5. As explained in Note 2 f), as of December 31, 2002 the Bank's management decided to amortize, with a charge to the surplus for the year Ch$204,345.4 million (Ch$136,594.5 million in 2001), corresponding to deferred losses originated by the modification of payment conditions of certain banks' subordinated obligations as established by Law 19396.

ERNST & YOUNG LTDA.

Rubén López D.

Santiago, Chile, January 15, 2003

Central Bank of Chile

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