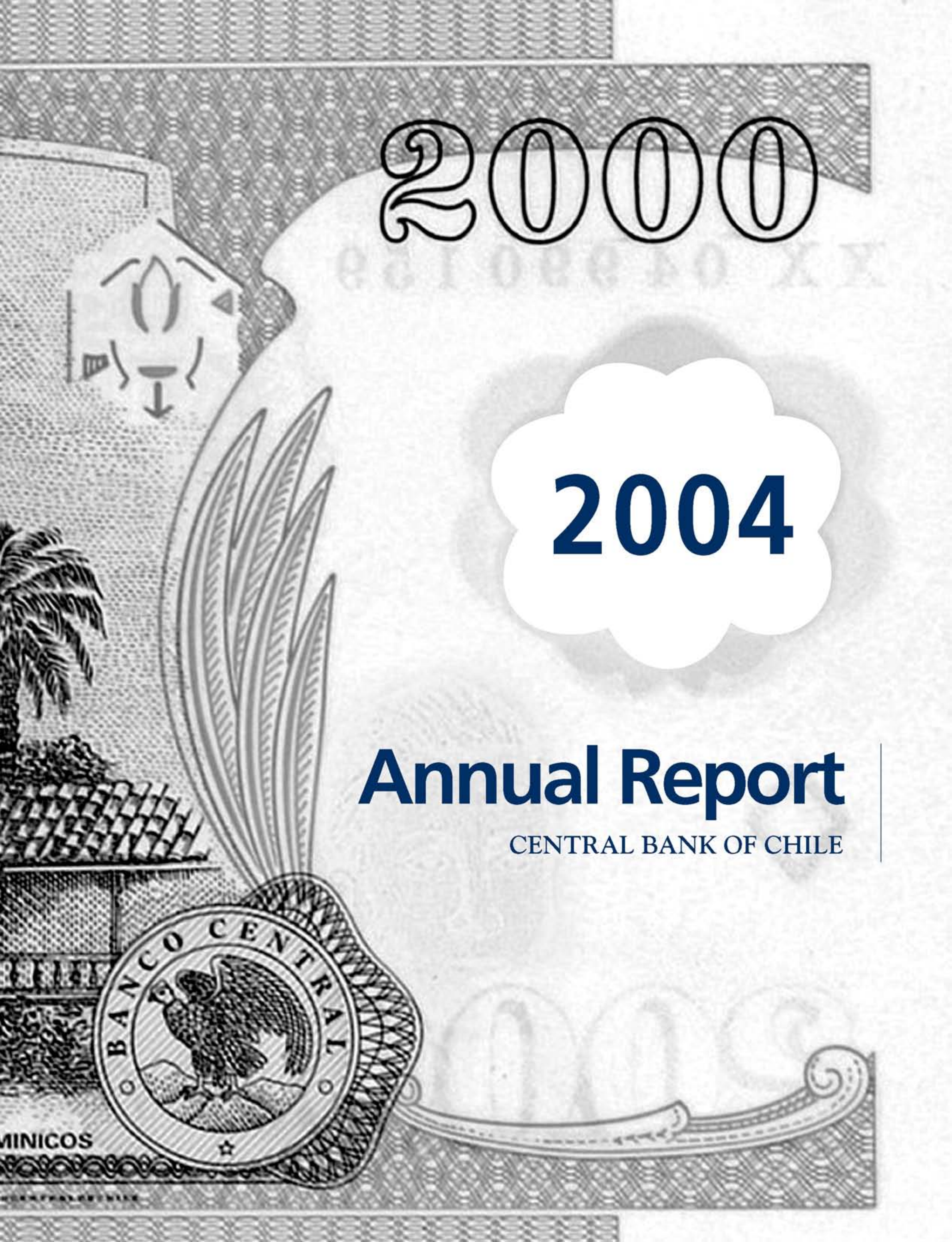
2004

Annual Report

CENTRAL BANK OF CHILE



79th Annual Report

CENTRAL BANK OF CHILE

2004

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Governor

JOSÉ DE GREGORIO REBECO
Vice-Governor

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Board Member

JOSÉ MANUEL MARFÁN LEWIS
Board Member

MARÍA ELENA OVALLE MOLINA
Board Member

CAMILO CARRASCO ALFONSO
General Manager

MIGUEL ÁNGEL NACRUR GAZALI
General Counsel

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ESTEBAN JADRESIC MARINOVIC
International Affairs

CARLOS PEREIRA ALBORNOZ
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Auditor General

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**BANCO CENTRAL
DE CHILE**

Santiago, 25 April 2005

Mr. Nicolás Eyzaguirre G.
Minister of Finance
Santiago

Pursuant to Articles 78 and 79 of the Basic Constitutional Act (*Ley Orgánica Constitucional*) of the Central Bank of Chile, contained in Article 1 of Law 18,840, I hereby submit the *Annual Report* of this Institution, for the year 2004.

Yours sincerely,

Vittorio Corbo L.
Governor


BANCO CENTRAL DE CHILE

**BANCO CENTRAL
DE CHILE**

Santiago, 25 April 2005

Sergio Romero P.
President of the Senate
Valparaíso

Pursuant to Articles 78 and 79 of the Basic Constitutional Act (*Ley Orgánica Constitucional*) of the Central Bank of Chile, contained in Article 1 of Law 18,840, I hereby submit to the Senate the *Annual Report* of this Institution, for the year 2004.

Yours sincerely,

Vittorio Corbo L.
Governor

I. Main economic and financial developments in 2004

Main economic and financial developments in 2004

A. **Overview**

Sustained monetary impulse and a favorable external environment during the first half of 2004 created an expansionary macroeconomic climate, but initially this was not clearly reflected in activity and expenditure growth. By the second half, lags in gross capital formation from late 2003 had disappeared, private consumption remained strong despite high fuel prices, exports were more robust and the labor market, after some weakness in mid-year, was recovering. These conditions led the Board to reduce the monetary policy interest rate (MPR) to 1.75% in January. Later in the year, however, the outlook for the second half justified a gradual reduction in the strong monetary stimulus, leading the Board to raise the MPR by 25 basis points in September and again in November, to close the fiscal year at 2.25%.

Internationally, 2004 proved very positive for Chile, thanks to strong, consolidated world growth, the high copper price, and good financial conditions. Although during the first half there were signs of possible weakness among emerging economies because of the imminent normalization of the Federal Reserve's monetary policy and the threat of new increases to the oil price, favorable financial conditions held. Significant dollar depreciation against most currencies should be noted. This was more marked during the second quarter and was attributed to markets' greater concern about how local macroeconomic imbalances would be absorbed. It became the main factor behind peso movements in recent quarters, although both real and nominal peso appreciations have been minor, as multilateral measures indicate.

On local financial markets, ongoing, significant monetary stimulus was apparent throughout 2004 in both the simultaneous acceleration of the different monetary aggregates and the consistent trajectory of interest rates in the credit market. During the first half, interest rates on consumer credits, mortgages and corporate loans fell to all-time lows. As the year drew to a close and in line with the Central Bank's plans of a gradual normalization of monetary policy, rates on credits to households rose slightly. The financial system's outstanding loans to both individuals and firms rose steeply in annual terms, by 16.4% and 4.9%, respectively. However, despite remaining very high, this tendency had weakened by year's end. Growth in corporate loans primarily reflected more demand for investment financing. Signs of expected inflation that can be deduced from the differential between nominal and indexed medium- and long-term interest rates rose from very low levels early in the year (around 1.5% in the first half) to the target range in August, where they remained, settling around 2.2% by December. The ten-year measure for this differential remained within the target range, closing the year at 2.63%. Moreover, surveys through December revealed analysts' expectations that inflation two years hence would be about 3%, the middle of the inflation target range, after falling to around 2% earlier that year.

Domestic demand grew apace throughout 2004, at an annual growth rate much higher than the previous year's and more than one percentage point higher than the GDP's. This strong performance mainly reflected private consumption and gross fixed capital formation. Given the significant rise in both export and import volumes, shipments abroad were the main factor behind growth in aggregate demand, followed by net domestic demand[1]/. Private consumption posted strong growth in the first three quarters of 2004 (although less than the GDP), then slowed slightly in the last four months, for annual growth of 5.6%. Meanwhile, with the fiscal rule (governing budgetary surpluses/deficits) the high copper price significantly boosted domestic saving. Investment moved into line with macroeconomic conditions in the second quarter and continued to develop strongly, especially in machinery and equipment. Exports performed well throughout the year, especially prices, which rose substantially more than import prices, bringing a significant rise in the terms of trade. Thus, 2004 closed with a current account surplus of about 1.5% of GDP.

[1]/ Domestic demand, minus goods and service imports.

Activity performed better than expected in 2004 (6.1% annually), led by a strong performance from manufacturing. The start of the year saw export-oriented production performing strongly, a tendency that spread to other branches of industry as the year progressed. Retail and wholesale also contributed to aggregate results, particularly in the second half. Mining production rose substantially, reflecting the maturation of large-scale projects, along with the resolution of technical problems that had arisen earlier. It should be noted that restrictions on natural gas imports from Argentina had no major impact on macroeconomic performance.

During the second half, the labor market firmed up, in line with general macroeconomic conditions. Contradictory information reported by different sources earlier in the year became more consistent and weak labor indicators tended to strengthen. Information available by the end of 2004 placed employment significantly higher than in 2003, reflecting an important rise in formal sector employment. The rising tendency favoring formal employment (that is, formal sector employment rose as self-employment fell) became a highlight of 2004.

In the first half, the unemployment rate rose more than usual seasonal fluctuations, peaking in May (9.2%). Toward year's end it declined slowly, falling to 8.7% in December. This trend reflected a significant rise in labor force participation rates, particularly among women.

Annual inflation reflected in the Consumer Price Index (CPI) ended 2004 at 2.4% (for an annual average of 1.1%), within the 2% to 4% target range, centering on 3%. Although during the first quarter CPI inflation even fell into the negative range, by mid-year the different inflation measures were all on the rise. In the last third of the year, CPI inflation was particularly affected by trends in the oil price and the exchange rate, and their impact on regulated service rates. Core inflation (CPIX), meanwhile, ended the year up 1.8% over the previous year. This tendency in inflation also revealed fewer price pressures thanks to trends in margins and a weak rise in unit labor costs. This reflected limited growth in nominal wages, while labor productivity had risen significantly and producer prices picked up very moderately. All this moved the CPI toward the target range very gradually.

In short, in 2004 expenditure, activity and employment all rose significantly, while monetary policy gradually normalized after very expansionary levels early in the year, which were compatible with economic conditions at that time. The latest information available before the end of 2004 showed that the economy was still growing briskly, while international conditions remained favorable, the copper price high and monetary conditions in Chile clearly expansionary. A stronger performance from investment and the labor market had consolidated and private expectations remained optimistic. Inflation remained under control and different measures for inflationary trends pointed to a gradual rise. This last, combined with the steady absorption of idle capacity and significant monetary stimulus made it necessary to increase the MPR, gradually reducing monetary impulse, to control the risk of brusque adjustments in the future and respond to good prospects facing the Chilean economy.

B. Main Central Bank policies

B.1 Monetary policy

The main purpose of the Central Bank of Chile's monetary policy is to keep inflation low and stable, which is defined as a range of from 2% to 4%, centering on 3% over the 12-- to 24--month policy horizon. This reflects the right level of inflation for an economy like Chile's and the lags in monetary policy affecting inflation. In this context, and with a strongly expansionary monetary policy stance, in late 2003 inflation plunged unexpectedly, mainly reflecting lower cost pressures. These were apparent in the decline in peso appreciation and some specific prices (such as non-perishable foods), efficiency gains and/or increased competition in the wholesale and retail trade. These surprises also produced a significant drop in two-year inflation projections. To reduce the risk of inflation falling below target for an undesirably lengthy period, delaying movement toward 3% during the normal policy horizon, the Central Bank's Board decided to reduce the monetary policy rate (MPR) by 50 basis points in December 2003 and again in January 2004, from 2.75% to 1.75%.

In the months that followed, the main elements that had led to the previous cut in rates faded. The prospects of a steady improvement in the terms of trade consolidated and figures for activity and domestic expenditure, especially investment, confirmed forecasts that growth would rise slowly during the year, while inflation forecasts once again approached the center of the target range.

Given the strongly expansionary monetary policy stance, measured, for example, by the difference between the MPR and any neutral interest rate indicator, the need to define the best moment to start the normalization of the MPR became a persistent issue at monetary policy meetings from June to August. The Board decided that delaying normalization for a while should not involve particularly aggressive rises in the future, and therefore opted for maintaining current levels.

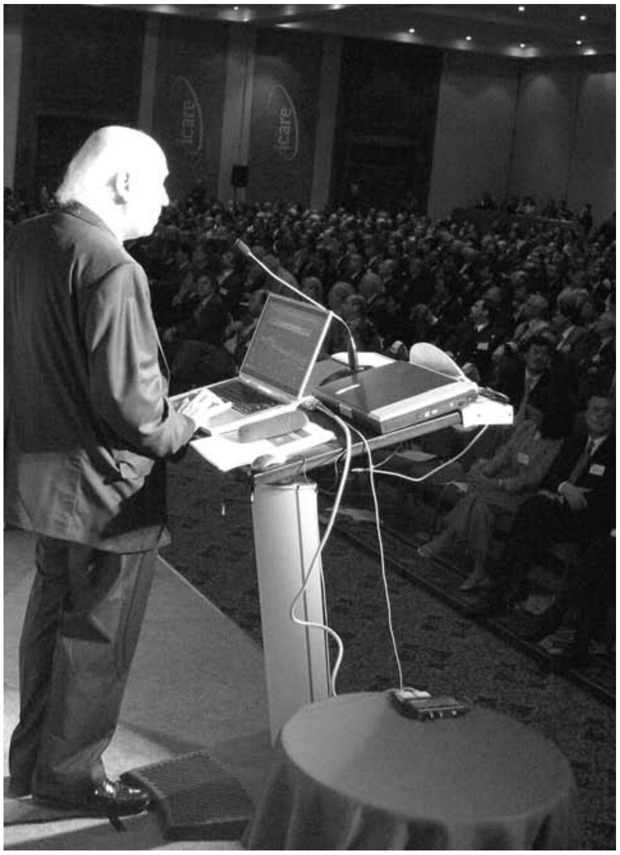
By September, signs that idle capacity would steadily be absorbed in coming quarters strengthened and inflation gradually rose from the undesirable levels prevalent earlier in the year. Moreover, the oil price rose more than forecast, a trend considered relatively lasting. In this context, and according to projections, it became necessary to gradually reduce monetary impulse for the next two years. To achieve this and avoid raising the policy rate too quickly to reach the 3% target, the Central Bank decided to start to normalize by increasing the MPR by 25 basis points.

In November 2004, the pace of economic and investment growth picked up, beyond forecasts, although inflation remained under control. Because of this and given the expected pace for monetary policy normalization, implicit in projections from the most recent *Monetary Policy Report*, the Board increased the MPR by another 25 basis points, to 2.25%, where it remained in December.

In 2004, the Central Bank continued to advance in its efforts to improve the transparency of monetary policy decisions. In January, it decided to reduce the delay in publishing Monetary Policy Meeting minutes and began releasing them some three weeks after the respective sessions. Until then, minutes were released 45 days after meetings. This reduction has made their main principles and data available to the market before the next meeting. With this measure, the Central Bank of Chile took another step toward meeting the standards of the world's main central banks.

Similarly, to improve access to information from the Central Bank through its web page, in March its appearance and contents were restructured according to current rules for good design and use. The change introduced intuitive menus and efficient navigation tools, such as a tracer system and cross-referencing.

Finally, during the first half and upon invitation from the Chilean authorities, an IMF and World Bank mission to Chile evaluated the Chilean financial system as part of



their Financial Sector Assessment Program (FSAP). In its report, the mission commented favorably on the solidity of the financial system and its capacity for overcoming a wide range of adverse financial and macroeconomic scenarios, noting the appropriate framework for regulating and supervising the banking system. The mission made some recommendations to continue to strengthen Chile's financial system.

B.2 Financial policy

The purpose of the Central Bank's financial policy is to contribute to preserving the financial stability of the economy. To this end, it promotes the integration of Chilean capital markets with those abroad, and modernizes the payment system and regulations, to improve efficiency and security, reduce transaction costs and, ultimately, contribute to the development of the financial system and the country at large.

As part of recent years' efforts to modernize the payment system, in early 2004 the Central Bank approved regulations for a "Real Time Gross Settlement" system (RTGS). This governs the transfer of funds in Chilean currency, individually and continually, with participating banks issuing instructions to transfer as soon as they have the necessary resources in their peso checking account in the Central Bank. This system started up on 2 April 2004, it is administered by the Central Bank, and every established banking firm in Chile uses it.

Likewise, to facilitate liquidation of operations through the RTGS system, the Central Bank gave participants access to an "intraday liquidity facility", which offers financing by the hour and operates through the purchase of repo instruments within the day.

Since start-up, the RTGS system and the liquidity facility have functioned well, as per expectations, ensuring payments are settled smoothly and safely. Operations settled through the system have risen steadily by both number and amount, reaching almost 30,000 monthly transactions worth 13 trillion pesos by December 2004. This represented almost 1500 payments per day for an average amount of about US$7.3 million each year.

Moreover, regulations were approved establishing the conditions and requirements for High-Value Payment Clearing Houses to ensure the safe, efficient functioning of interbank settlements for large amounts through privately managed clearing houses.

The Central Bank also made considerable progress in its program to modernize financial regulations, begun in 2003, through changes to financial institution's liquidity risk management methods. In 2004, a review of regulations governing market risk (interest rates and currencies) concluded in January 2005 with the publication of new regulations for identifying, measuring, monitoring and controlling it. This new approach is based on Basel Committee recommendations (1996), which changed the 1988 Basel I Capital Accord and 2004 recommendations on managing interest rate risk, which is an integral part of considerations included in Pillar II of the revised international capital framework, known as Basel II. To ensure that banks have a prudent period in which to adapt their market risk management systems to the new regulations, these will come into full effect on 4 July 2005.

It should be noted that the process of modernizing financial regulations being conducted by the Central Bank of Chile is based on current standards and the latest international recommendations for each area being updated.

Consistently with its commitment to a floating exchange rate, in June 2004 the Central Bank offered the holders of dollar-denominated debt securities payable in pesos the option of swapping them for dollar bonds (BCX) maturing in one year. The Bank also decided to tender one-year BCX for the remainder of dollar-denominated securities that had matured and not been swapped. This was to hold the Central Bank of Chile's net position in foreign currency constant in relation to the market, so it could continue to apply a neutral foreign exchange policy consistent with the free-floating exchange rate. In 2004, bonds and zero coupon promissory notes in dollars falling due reached around US$1.05 billion, and international reserves rose by US$165 million.

As part of modernizing capital markets, in July 2004 the Central Bank offered a new peso-denominated bond maturing in ten years (BCP-10). The issue of this new security formed part of debt normalization policy and made it possible to increase the share of peso-denominated debt over total Central Bank issued debt. This is consistent with the Bank's long-term commitment to stable prices and should help to extend the duration of financial operations in pesos. This instrument has enjoyed wide acceptance in the market: on average the amounts required have been 3.4 times the amounts offered, with average placements reaching 6.1%. This reflects the credibility of the Central Bank's 3% inflation target in the marketplace.

In line with transparency principles recommended by international bodies in the area of monetary and financial policy, in the third quarter of 2004 a procedure was set up governing publication of regulations prepared by the Central Bank under Article 35 of its Basic Constitutional Law, governing policy approvals or modifications, to permit comments from all interested parties and the public in general.

B.3 Foreign exchange policy

B.3.1 Policy on foreign exchange interventions

The Central Bank was not involved in any operations to buy or sell foreign currency on the domestic foreign exchange market.

B.3.2 International reserve management

As part of its responsibility for ensuring currency stability and the normal functioning of external and domestic payment systems, and its general policy framework, in 2004 the Central Bank held international reserves to deal with unusual liquidity needs in foreign currency. As of 31 December 2004, international reserves stood at US$16.016 billion, 1.1 times Chile's foreign debt payments and amortizations falling due in the next 12 months.

During the 2004 fiscal year, international reserves ranged from US$15.21 billion (September) to US$16.686 billion (December). These changes reflected payments and deposits ordered by national banking institutions and public institutions with dollar-denominated accounts in the Central Bank, along with the impact of shifts in parities and international asset prices, accrued interests, and changes in the Central Bank's position with regard to external creditors. The Bank made use of US$1.0014 billion to meet obligations as part of its program to replace dollar-denominated securities payable in pesos with securities payable in dollars.

To ensure sufficient liquidity of foreign currency investments making up international reserves, the Central Bank continued to manage a portfolio consisting of short-term deposits in international commercial banks, with diverse maturities, and other fixed income instruments trading on highly liquid secondary markets. As of 31 December 2004, term deposits within the investment portfolio accounted for 47% of international reserves, while other fixed income securities accounted for 49%. The remaining reserves were held in an independent deposit in US dollars, to deal with immediate liquidity needs, and in the International Monetary Fund.

Preservation of capital invested was based on policies for the controlled management of credit, market and operating risk. Credit risk was controlled by selecting top-ranking, international, sovereign, supranational, and bank issuers, and by diversifying the amounts invested in each. In 2004, the eligible countries and institutions were bodies whose long-term risk was ranked between “AAA” and “A-“ by the main international risk rating agencies. Market risk

was controlled by diversifying investment currencies, instruments and maturities, quantified according to the duration of the portfolio and the values at risk (VaR). As of the end of December, the total duration of reserves stood at 16.1 months and the absolute VaR (parametric method, daily basis, with a confidence level of 95% and a decay factor of 0.94) was 0.24% of the value of international reserves in dollar equivalents at year's end, compared to a duration of 18.9 months and an absolute VaR of 0.26% as of the end of December 2003. Meanwhile, operating risk was controlled as usual by separating functions, responsibilities and the application of internal and external controls.

B.3.3 Foreign exchange regulations

Since April 2001, the Central Bank of Chile has applied a policy of complete foreign exchange freedom, characterized by the absence of restrictions to capital movements or current transactions. Since then, changes to foreign exchange regulations have focused on improving the efficiency of the information gathering process associated with foreign currency exchange operations, adjusting reporting requirements to the information's uses and reducing associated costs.

As part of this effort, in 2004 modifications to the Compendium of Foreign Exchange Regulations were adopted, to clarify and expand on concepts regarding external credits and investment. This has improved the coverage of information to include credit operations abroad, denominated in pesos and payable in foreign currency and investment operations defined in Law 19,840, November 2002, known as the investment platform law.

B.4 Administrative management

Since the new Basic Constitutional Act governing the Bank came into effect, there has been significant progress in a wide range of areas having to do with its internal administration, particularly the "Project to Modernize the Central Bank of Chile," adopted in 1992. Since then, the Bank has made some noteworthy changes to its functions, organizational structure, number of staff, professionalization and human resource training, introduction of technology, budgetary management, and outsourcing of services, among others.

According to the Central Bank's general policy, which considers that the dynamics of a modern society, particularly in Chile, require ongoing effort to introduce new management techniques that enhance efficiency in the use of resources, minimize and manage financial and operating risk, and keep up with international standards for transparency and reputation, in 2004, it made some major decisions to modernize its internal management, according to the following guidelines:

a) Preferential development of human resources, particularly ongoing training, support for clear ethical rules and maintaining a suitable labor environment.

b) Priority for administering, identifying and controlling the risks inherent to Central Bank of Chile functions, with the active, responsible participation of all parties.

c) Responsibility and transparency in budgetary management.

d) Decentralizing administrative decisions with systematic and regular evaluation to the performance of all management.

e) Permanent focus on meeting the highest standards for the quality of administrative services.

f) Incorporation of appropriate technologies for the best compliance with institutional objectives.

In the context of these guidelines, the commitment to the following strategic, across-the-board projects is worth noting. They will tend to steadily improve the efficiency and effectiveness of the Bank's internal functioning in administrative, technological and organizational terms:

(i) Implementation of an "Integrated Risk Management System" in the Central Bank of Chile, which actively involves all areas of the Bank, establishing a new, modern focus for managing risk (operational, financial, information technology, legal, reputation, and the like). This project commenced in November 2004 and should progress in 2005, with the creation of a risk value map, a treatment plan and a monitoring and reporting system.

(ii) New regulations for personnel training, which replaced the current chapter on regulations governing personnel in this sense, to include regulations referring to aspects of training that the Bank offers or requires from its staff. These came into effect in November 2004. In 2005 implementation of the training plan according to the new regulations and in line with the Bank's strategic planning continued.

(iii) New structure of positions and incentives, oriented at meeting goals, which includes a manual of job descriptions and other elements within the career ladder. This project began in November 2004.

(iv) Improvements to and decentralization of budgetary management, that will create a system for use by the different units as a user-friendly management tool, useful to decentralize decision-making and evaluate performance. In December 2004 information gathering began and this should start normal operation in July 2005.

(v) A regular management report system, that will define the content and frequency of management reports that must be presented to different management levels, whether these be the Board, the General Manager, division managers or other chiefs, as determined. This started in September 2004 on a pilot basis in one area of the Bank and will be extended to the rest of the Bank within nine months, starting in March 2005, and reaching completion with the Board's approval of the specific reports.

As a result, with this new strategic vision, the organization underwent some changes, particularly: the creation of the Financial Markets, Communications, Strategic and Risk, Logistics and Security Service management areas, the new focus for the internal comptroller, replacement of area and division managers with Bank professionals and others selected by external consultants, and the new structure of division managers within the Bank.

On communications, the Bank will work to improve transparency as much as necessary to strengthen monetary policy. This involved going beyond the transparency appropriate to an autonomous body, which brought adjustments such as releasing Bank reports to the Senate to the press and putting them on television. During the year, communications focused on making it easier for the market to predict monetary policy. In this sense, it began to publish a *Financial Stability Report* every six months, moved up publication of Monetary Policy Meeting minutes to 15 working days, and provided key figures used at that meeting in its weekly reports on indicators. All this formed part of a communications policy developed by the Board to ensure the quality and effectiveness of its measures.

B.5 Research and development activities

In 2004, economic research focused on issues involved in conducting monetary policy, namely projection models, long-term growth, economic integration, and external vulnerability. On the first issue, studies were carried out on the effects of foreign exchange policy, factors determining the real exchange rate, and management of international reserves in the context of monetary policy based on inflation targeting. A series of statistical models were also developed to project inflation and activity, and construction of a new general equilibrium model for the Chilean economy began. On long-term growth of the Chilean economy, studies were carried out to explore macroeconomic, microeconomic and institutional determinants. Finally, in the field of economic integration and external vulnerability, several studies were carried out that led to presentations at two international conferences.

The first, jointly presented with the World Bank in March, was called "The Future of Trade Liberalization in the Americas". This conference brought together researchers and trade policymakers in the Americas to discuss progress toward trade integration and new research on the subject. Theoretical work and empirical studies of world and regional trade and their determinants were presented. Moreover, papers were presented and round tables took place, organized by regional authorities, during which free trade agreements were discussed along with progress toward a free trade area of the Americas.

Later, the Central Bank of Chile's Eighth Annual Conference, held 10-11 August, brought together a distinguished group of authorities, academics and professionals, both national and foreign, to present and discuss new economic research on the transmission and absorption of external shocks in small open economies like Chile, the analysis of policy options open to economic authorities to these shocks, and the development of new mechanisms to reduce vulnerability to external shocks.

Among relevant activities taking place in 2004, the "Ninth Meeting on Accounting and Budgetary Aspects of Central Banking" should also be noted. It was organized by the Latin American Center for Monetary Studies (Cemla), from 20-22 October 2004. Said meeting analyzed the implications of bringing national accounting regulations closer to International Financial Reporting Standards (IFRS) and new trends in accounting systems being implemented by central bankers, involving strategic planning and institutional risk management.

During the year, Central Bank of Chile economists produced almost 60 papers for the periodical *Economía Chilena*, the working paper series and the economic policy paper series. The seventh volume in the Central Bank's book series was also published, called "Banking Market Structure and Monetary Policy". Finally, the Bank continued to hold seminars on economics and finance, bringing together professionals from the Central Bank, universities and local study centers to discuss the latest economic research and issues relevant to economic policy.

C. International outlook

C.1 World economic growth

In 2004, the world economy turned in a strong performance, achieving growth weighted by purchasing power parity (PPP) of 4.9%, up from 3.6% in 2003 and the average for the previous decade. This mainly reflected the impact of expansionary monetary policy applied in most places around the world and financial conditions, which remained favorable. The recovery of the world economy involved strong growth in the US, emerging Asia, Latin America and, to a lesser degree, Japan. In emerging Asia, China's growth stood out, contributing significantly to rising world demand and boosting the prices for the main commodities. In contrast, the European economy, while growing more strongly than the previous year, performed rather weakly compared to other economies.

The year's concerns focused mainly on high oil prices, especially in the second half, and their effects on growth and inflation. Other reasons for caution included tension around possible terrorist attacks and dollar depreciation, and the possibility this could unleash steeper than forecast interest rate increases. The main source of uncertainty about emerging economies in the first half reflected concerns about how quickly interest rates in the US would be raised and how much they would affect the most vulnerable economies.

Overall, the external scenario was favorable to Chile. Growth of its main trading partners, weighted by their importance to Chilean exports, reached 4.5%, up from 2.8% in 2003. This stronger performance was reflected in better terms of trade, with copper prices at levels unheard of since the mid-1990s, offsetting high oil prices and boosting national income. Better external financial conditions also contributed, as did the fact that rates remained low and that Chile is the region's most stable financial environment, leading to historically low sovereign spreads (table 1).

TABLE 1

World growth
(percent)

	Average 1990-1999	2001	2002	2003 (p)	2004 (e)
World (1)	3.3	2.3	2.6	3.6	4.9
United States	3.1	0.8	1.9	3.0	4.4
Europe	2.1	1.7	1.0	0.9	2.0
Euro Zone	2.1	1.6	0.8	0.6	1.8
Japan (2)	1.7	0.4	–0.3	1.4	2.7
Rest of Asia (3)	7.9	5.3	6.7	7.3	8.2
China	9.7	7.5	8.0	9.3	9.5
Latin America (4)	2.8	0.4	–0.3	1.6	5.8
Trading partners (5)	3.1	1.6	1.9	2.8	4.5
Trading partners (6)	2.9	1.2	0.9	2.4	4.4

(1) Regional growth weighted by share of world GDP at PPP. These countries accounted for 84% of World GDP in 2004.
(2) The 1990-1999 average used the new methodology for calculating GDP from 1995 onwards.
(3) China, Indonesia, Malaysia, Thailand, Singapore, South Korea, the Philippines, Taiwan and Hong Kong.
(4) Brazil, Argentina, Mexico, Colombia, Uruguay, Venezuela, Ecuador, Paraguay, Bolivia and Peru.
(5) Growth of Chile's main trading partners weighted for their share of total exports in 2004. The countries included account for a combined 90% of total exports.
(6) Growth of Chile's main trading partners weighted for their share of non-copper exports in 2004. These countries received 92% of total exports.
(p) Provisional.
(e) Estimate.
Sources: Central Bank of Chile based on information from a sample of investment banks. International Monetary Fund.

In 2004, the US economy grew 4.4%, well above its average for the 1990s. The rise in activity was driven by strong domestic demand, mainly in private consumption and investment. The labor market's recovery, which created more than 2 million jobs in the year, was behind strong consumption. Investment, driven by high company profits and good financial conditions, grew at two-digit rates for most of the year. On prices, although the danger of deflation that arose in 2003 was ruled out completely in 2004, inflation remained well under control through the year. There were some doubts about how sustainable growth would be, fueled by significant imbalances between income and expenditure in the US economy and the way these were finally adjusted. This was because the current account deficit was approaching 6% of GDP, while the fiscal deficit was almost 4.5% of GDP/[2].

Although 1.8% growth in the euro zone was up from the previous year, it remained below the average for the 1990s. Members' recoveries were very asymmetrical. The authorities' decision to keep interest rates down, governments' countercyclical policies and the recovery in external demand were offset by euro appreciation and persistently high oil prices, all in a context in which domestic demand remained depressed and did not rebound.

In 2004, the Japanese economy grew 2.7%, above the average for the previous decade/[3] and up from 1.4% in 2003. This growth was driven by the external sector, particularly exports to the US and emerging Asia, especially China, which altogether account for almost half of its export basket. Nonetheless, in the second half of the year the economy slowed, reflecting weak private consumption and less robust private, particularly non-residential, investment. The external sector lost ground, due to a decline in demand from the technology sector, inventory accumulation and its impact on manufacturing activity. Likewise, high oil prices affected the external sector's performance. Despite some tendency for the CPI to rise, core inflation remained deflationary.

Emerging Asia remained the world's strongest performing region and is estimated to have ended the year with growth of 8.2%, led by China and India. The region's indicators reflected the strength of external demand, particularly from the US and Japan, which account for almost 35% of its export basket, and solid domestic demand. China's strong performance nonetheless raised concerns about a forced landing for that economy, causing the authorities to adopt measures to moderate growth. These aimed to control excessive investment growth and restrict market liquidity to avoid inflationary pressures, and focused on specific economic sectors.

In 2004, Latin America grew 5.8%, up from 2003 and well above projections earlier in the year, doubling average

[2]/ Includes government deficits. The federal government's deficit, which is the figure most used by market analysts, is about 3.5% of GDP.
[3]/ Taking into consideration the change in the method for estimating the GDP deflator, applied to figures from 1994 onwards, and mainly affecting the investment deflator and estimates of private consumption.

growth for the previous decade. The region received the benefits of significant commodity price increases and positive financial conditions internationally. In Argentina, growth was also spurred by idle capacity, although doubts about public debt negotiations, the necessary restructuring of the financial system, and efforts to reestablish the contract system remained. Overall, the Argentine economy grew 9% in 2004. The Brazilian economy, meanwhile, grew 5.2% thanks to a strong performance from domestic demand and the external sector and, in the first half of the year, support from a more relaxed monetary policy stance. In the second half, as inflation recovered, monetary authorities raised the interest rate, thus demonstrating their commitment to their 5.5% ± 2.5% target. This, combined with suitable management of public debt, have helped to strengthen foreign investors' confidence. Mexico reaped the benefits of high oil prices and strong growth in the US, its main trading partner. Inflationary pressure in that economy led monetary authorities to decree liquidity restrictions. Overall, the Mexican economy grew 4.4% during the year.

C.2 International prices

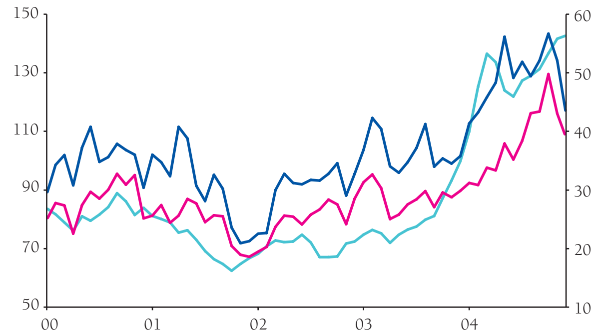
The strong performance from the world's main economies pushed commodity prices upward. The copper price rose almost 60% during the year to average US$1.30 per pound (LME), well up from its average of US$0.81 per pound in 2003. This trend reflected strong demand from the main consumers, a dollar that depreciated in real terms against other major currencies, and insufficient supply, which created a growing shortage in the market as stocks steadily declined. Speculative activity also contributed to price volatility, especially in the second half of the year.

The Brent oil price averaged US$38.3 per barrel for the year, well above the 2003 average (US$28.9), reflecting both fundamental and temporary conditions. The former included high demand associated with the strong world economy, interruptions in the supply and a depreciated dollar. The latter included ongoing geopolitical instability in the Middle East, especially Iraq, the risk of terrorist attacks, the effects of hurricanes on US inventories, and problems with the Russian oil company, Yukos, all of which pushed up the risk premium included in the price.

Trends in other export commodity prices were also driven by strong demand from the main consumers, particularly wood pulp, up 18% to average US$616 per ton in 2004. The price for fishmeal averaged US$673 per ton, but tended to fall during the second half, reflecting the end of the off-season and weather conditions that attracted abundant fish to the coasts of Chile and Peru, the main producers (figure 1).

FIGURE 1

Commodity prices
(monthly average)



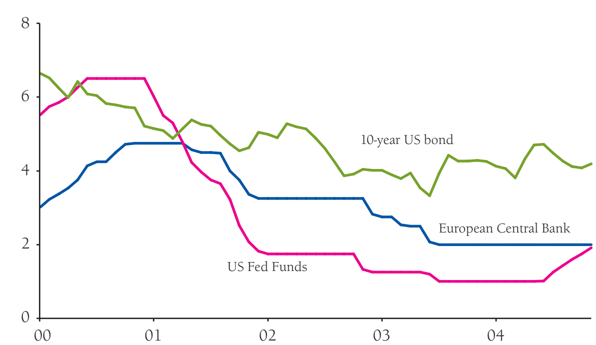
Source: Bloomberg.

C.3 International financial markets

External financial conditions were very positive in 2004. Long-term interest rates (on 10-year bonds) in developed markets remained very low, averaging 4.26% in the US, 1.51% in Japan, and 4.07% in the euro zone. This offset the rise in shorter term interest rates, especially in the US, which accompanied monetary policy's gradual normalization process. In fact, after the first 25-basis-point increase in the federal fund rate, interest continued to rise by the same amount in June and at each of the four remaining meetings during the year, closing at 2.25%. In the euro zone, meanwhile, expectations about when rate increases would resume were postponed, given weak activity and the lack of inflationary pressures. This held the rate at 2% throughout 2004. Likewise, Japan's monetary policy stance did not change. Foreign exchange markets saw steady dollar depreciations, especially in the second half of the year against other currencies, particularly the euro (figures 2 and 3).

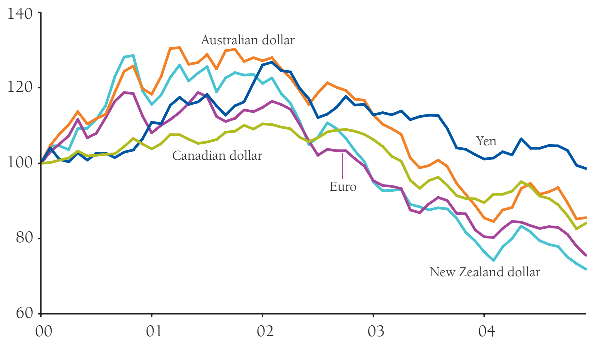
FIGURE 2

International interest rates
(monthly average)



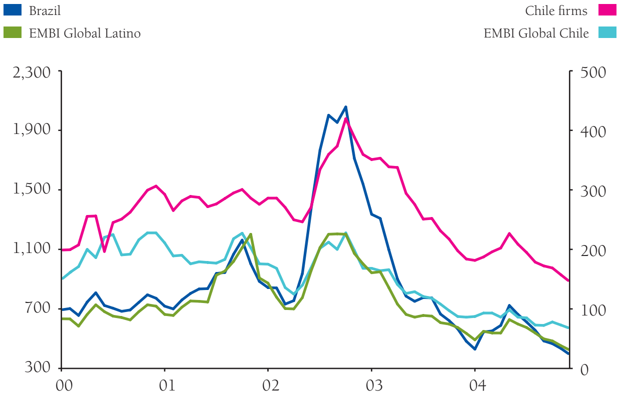
Source: Bloomberg.

GRÁFICO 3
Parities against the US dollar
(índex, January 2000=100)



Source: Bloomberg.

FIGURE 4
Sovereign spreads
(monthly average, basis points)



Sources: Bloomberg.
JP Morgan-Chase.

C.4 Emerging financial markets

Although generally speaking financial conditions favored emerging economies, toward the middle of the second quarter these deteriorated, reflecting uncertainty about the pace of interest rate increases in the US, and fears it could be more rushed. Because of this, and idiosyncrasies of Latin America, the sovereign spreads of emerging countries, measured by EMBI Global, stopped falling. For the second half of the year, once uncertainty about interest rates faded, the outlook for international liquidity improved, generating some of the most favorable conditions ever experienced by emerging economies, with the EMBI Global standing at 350 basis points by the end of December. The spread on high yield American firms also fell steadily, reflecting higher demand from investors for corporate bonds with low risk ratings. In line with this, Chile's sovereign spread stood at 64 basis points as of the end of year, 23 basis points lower than its average in January 2004. Greater stock market activity in emerging markets, combined with less volatile currencies, reduced hedging costs for international investors. Increased external liquidity led to an active market for corporate and sovereign bonds, issued by emerging economies. These included Brazil, Russia, Mexico and Turkey, which altogether accounted for 4% of total issues in 2004. Similarly, the flows of shares and bonds going to emerging economies were negative during the first half of the year, but became positive in the second half. On domestic monetary conditions, although generally emerging economies started to raise their policy interest rates, some reduced theirs (figure 4).

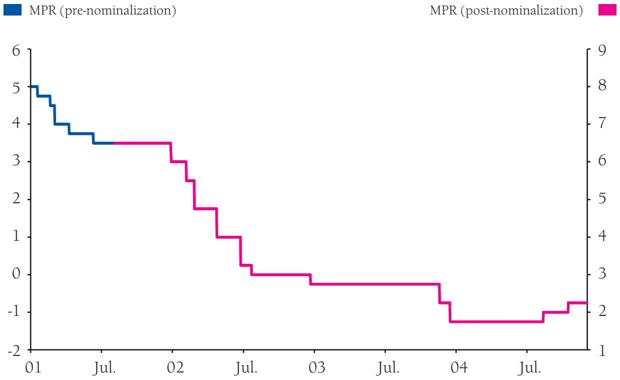
D. Domestic financial developments

D.1 Changes in interest rates

The first half of 2004 saw monetary policy become even more expansionary. In January, the Central Bank decided to increase the already strong monetary stimulus by cutting the monetary policy rate (MPR) by 50 basis points, to 1.75%. This was to reduce the risk of inflation falling below the target range for too long, thereby postponing inflation's convergence to 3% during the usual policy horizon. This was the last time the Central Bank cut rates. The more expansionary stance was apparent in the strong performance of credit, favorable alternatives for corporate financing, low bank interest rates and faster growth of the different monetary aggregates. Toward the end of the third quarter, given the positive signals coming from the economy, the Central Bank decided it was time to moderately and gradually reduce monetary stimulus, increasing the MPR by 25 basis points in early September and again in December. Thus, the MPR ended the year at 2.25% (figure 5).

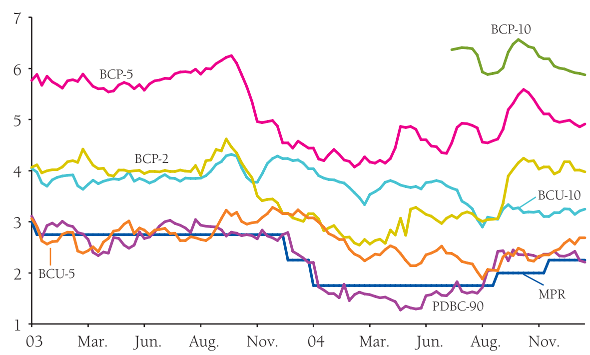
In 2004, interest rates on Central Bank instruments fell to historical lows. The rates on inflation-indexed bonds (BCU) continued to fall during the better part of the year, bottoming out in late August at 1.9% (5-year bonds) and 2.9% (10-year bonds). In the following months, in line with the gradual normalization of monetary policy, these rates recovered, closing the year at 2.7% (5-year bonds) and 3.2% (10-year bonds), still well below rates early in the year (table 1 and figure 6). In general, these rates behaved differently from their international equivalents, which bottomed out at the end of the first quarter, peaked in May and June, and then fell steadily during the second half of the year.

FIGURE 5
Monetary policy interest rate (MPR)
(percent)



Source: Central Bank of Chile.

FIGURE 6
MPR and interest rates on Central Bank of Chile instruments
(percent, weekly average)



Source: Central Bank of Chile.

In line with the plunge in inflation in late 2003 and early 2004, in the first quarter, interest rates on nominal instruments fell for every maturity, to all-time lows in March: 2,6% (two years) and 4.1% (five years). In the following quarters, interest rates on BCPs rose, although they bounced around somewhat, accumulating increases of over 150 basis points by early October: 4.2% (two-year instruments) and 5.6% (five-year instruments). It should be noted that, in line with its long-term commitment to price stability, the Central Bank decided to extend the maturity of financial operations in pesos, and in July ten-year documents (BCP-10) went to tender for the first time. Interests averaged 6.4% on the first tenders, rising to 6.6% in October. Toward year's end, interest rates fell between 25 and 70 basis points, to stabilize in December at 4% (two-year instruments), 4.9% (five-year) and 5.9% (ten-year). Shifts in these interest rates revealed the impact of expectations regarding inflation and monetary policy based on news about prices, including the exchange rate and the oil price, and other policy actions during the year.

Interest rates on short-term nominal documents (PDBC) moved around the MPR on average, despite being affected by changes in demand for technical reserves.

In the private fixed yield market, interest rates on corporate bonds followed a trend similar to those of Central Bank notes, although they were more volatile, averaging 4.5% by year's end,[4]/ down 100 basis points from their 2003 average. After rising in the first quarter, the surcharge on corporate bonds over Central Bank bonds tended to fall for the rest of the year, especially for those rated "A" and "AA". From January to December these spreads fell around 50 basis points, to end the year at 150 and 110 basis points, respectively. Only the surcharge on "AAA"-rated bonds rose in the last quarter, to reach 150 basis points, although there were slight surcharges on infrastructure bond issues (30 basis points). Interest rates on mortgage bills fell until monetary policy began to normalize: 3.6% for bills with a face rate of 4%-5% and 4% for those with a face rate of 5%-6%, maturing in five or six years, before rising gradually, although somewhat less than the MPR.

Average interest rates on bank credits offered the general public continued to reflect the expansionary monetary policy stance. Lending rates fell on average by 100 to 200 basis points, depending on maturity and indexing (table 2). In disaggregate terms, interest rates on consumer credits fell by a total of 300 basis points between January and September 2004, with shrinking margins over the MPR. Toward year's end, in line with the rising MPR, interest rates on these operations rose slightly. Interest rates on commercial credits in pesos rose on average by 100 basis points over 2003, as higher risk clients joined the system.

D.2 Changes in monetary aggregates and credit

In 2004, the different monetary aggregates rose simultaneously and steadily in nominal annual terms, something that had not occurred since the mid-1990s. Noteworthy was a generalized preference for liquidity, reflected in the decision of institutional agents and companies to reorganize their portfolios away from time deposits. This partly reflected opportunities to invest in financial assets, shares and bond issues, which developed during the year. However, despite this strength, toward year's end there was a noticeable decline in the pace,[5]/ which, after rising between 13% and 40%, ended the year at between 5% and 15%.

The nominal annual rate of change in the M1A money aggregate ranged from 12% to 30%. Changes in this aggregate stood out for their larger monthly expansion rates than forecast by the usual projection models. Growth rates for broader aggregates went from negative (−2%) to positive for M2A (around 20%) and M7A 10%, (table 3 and figure 7).

[4]/ Average Internal Rate of Return on transactions in the Santiago Stock Exchange.
[5]/ Moving quarterly average for the annualized monthly change in seasonally adjusted series.

FIGURE 7
Monetary aggregates
(nominal annual change, percent)

Source: Central Bank of Chile.

FIGURE 8
Personal loans
(nominal annual change, percent)

Source: Superintendency of Banks and Financial Institutions.
Central Bank of Chile.

In 2004, total banking debt grew 12% annually by December, the most since late 2001 (table 4). According to the bank credit survey, this growth was driven partly by companies' and households' greater willingness to borrow from banks, thanks to better economic prospects, and partly to the supply of credit, which brought more flexible credit conditions for the household banking sector and less restrictive requirements for guarantees from companies.

Consumer loans posted annual rises, going from 17% at the start of 2004 to almost 20% in December (figure 8). In the year, mortgages changed more than they had since late 1998, reflecting 150% annual growth in mortgages other than credit bills and mortgage mutuals [6]/ Non-bank household borrowing (consumer and housing loans) behaved similarly, with total debt rising to over 45% of disposable income.

After experiencing negative rates of change early in the year, corporate bank loans started to rise during the second half, ending December up 10% for the year. After stagnating during the first half, commercial loans in particular ended the year up 8%, while foreign trade, affected by the usual volatility, rose on average by 8% (figure 9).

FIGURE 9
Corporate loans
(nominal annual change, percent)

In dollars, based on the nominal exchange rate on the last working day of the corresponding month.
Sources: Superintendency of Banks and Financial Institutions.
Central Bank of Chile.

The rise in non-traditional bank financing should be noted, given that loans through factoring achieved growth of up to 200% annually in October and November, while loans through leasing also picked up, although less markedly (26% annually in December). From information on credits by amount granted by banks it can be deduced that during the year loans of amounts over UF200,000 rose. Loans for from UF10,000 and UF200,000 picked up for the first time since early 2002, revealing growth in credits to medium-sized firms. Loans worth less than UF10,000 rose somewhat less.

Corporate bond issues reached UF78 million, mostly for investment purposes and to restructure liabilities. Although issues were down 30% from 2003, they posted historically low spreads and amounts, especially in the case of infrastructure bonds.

[6]/ These include credits at variable rates and for the total value of the housing unit.

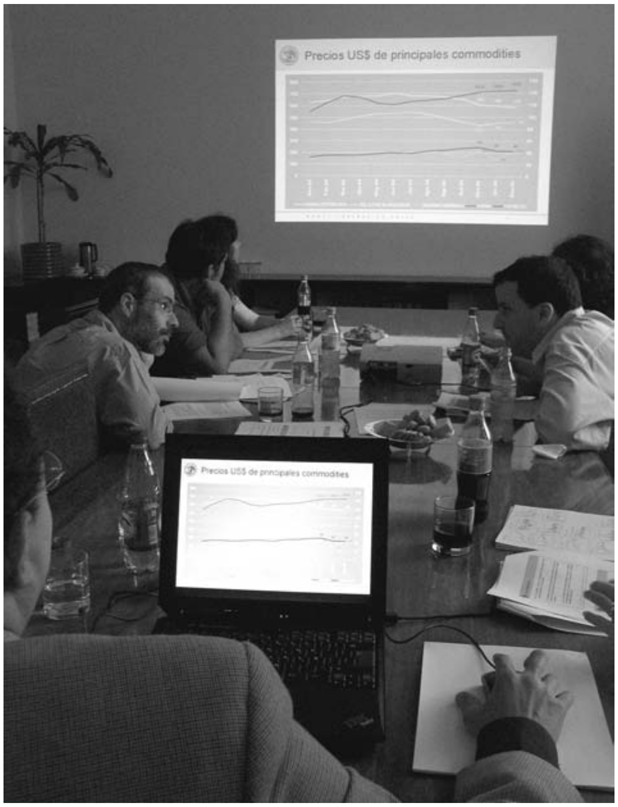
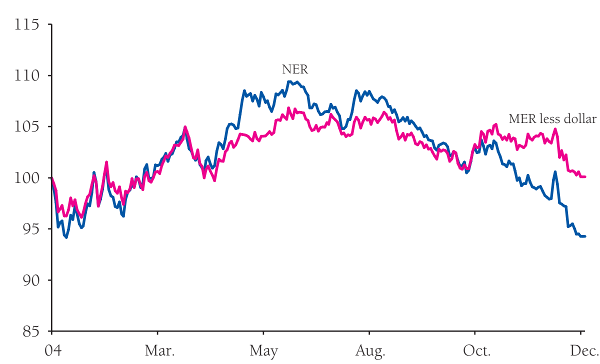


FIGURE 10
Nominal exchange rate (NER) and differential between domestic and external nominal interest rates
(percent, pesos per dollar, weekly average)

(*) Secondary axis inverted.
Source: Central Bank of Chile.

FIGURE 11
Nominal (NER) and multilateral (MER) exchange rates, less dollar
(indices, 02 January 2004=100)



(*) Excludes, in order of weight, US, China and Ecuador.
Source: Central Bank of Chile.

D.3 Movements in the exchange rate

During the year, the peso accumulated nominal appreciation of 6.6% against the dollar. In the first two weeks of 2004 the exchange rate continued along a falling trend that began in late 2003, dropping 40 pesos per dollar, to a minimum of 559 pesos per dollar. For the next five months the peso depreciated to reach 650 pesos per dollar in the second half of June. These trends were coherent with the decline in the differential between domestic and external interest rates, the result of expectations that the US monetary policy rate would rise and uncertainty about oil price trends (figure 10). Overall, the exchange rate averaged 609.6 pesos per dollar for the year, ending at around 560 pesos per dollar.

Broader currency baskets reveal that the multilateral exchange rate (MER), an aggregate basket calculated based on all of Chile's trading partners, and the MER-5, which examines a subset of countries, posted appreciation consistent with but lower than peso/dollar parity (2.9% and 3.1% annually, respectively), indicating that during the year the peso also grew stronger against several other currencies. If dollarized economies are excluded from the MER basket peso, appreciation is considerably lower: 0.9% (table 5 and figure 11).

In the first half of the year, the real exchange rate (RER) rose in line with nominal peso depreciation. In the second half of the year, the RER fell somewhat, coinciding with the improved terms of trade. Thus, during the year, the RER rose by 3.8% and the RER-5, by 1.9% annually. On average, the annual RER fell 3.6% to 99.4 and the RER-5 fell 5% to 91.5, down from their average in 2003, but remained higher than their averages for 1986-2003 (table 6 and figure 12).

Finally, during the fiscal year, the behavior of both the RER and the RER-5 remained in line with other measures for the real exchange rate, based on unit value indices for the wholesale and retail trade or unit labor costs.

FIGURE 12
Real (RER) and multilateral (MER) exchange rates (*)
(MER 02 January 2004=100 and RER 1986=100)

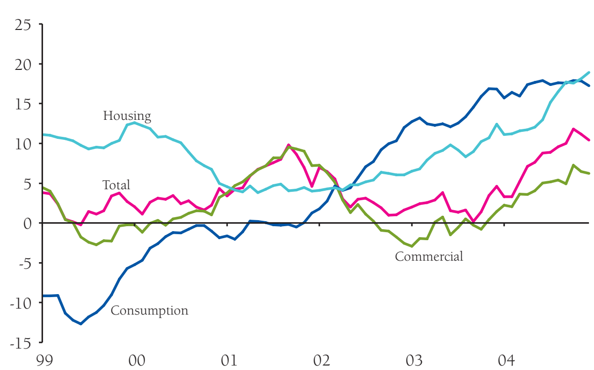
(1) Calculated based on parities with Chile's main trading partners: US, Brazil, Japan, Argentina, China, Mexico, Germany, France, Spain, United Kingdom, South Korea, Netherlands, Italy, Peru, Canada, Colombia, Taiwan and Ecuador.
Source: Central Bank of Chile.

D.4 Changes in the domestic financial system

In 2004, Chile's financial system faced a favorable macro-financial scenario, which contributed to positive performances from its main indicators. Particularly noteworthy were the rise in activity, the decline in credit risk indicators, and persistently high levels of equity solvency and profitability typical of recent years.

The rising pace of economic growth favored banking activity and the year ended with loans up more than 10% annually. In contrast to other years, this trend was apparent in every credit segment (figure 13).

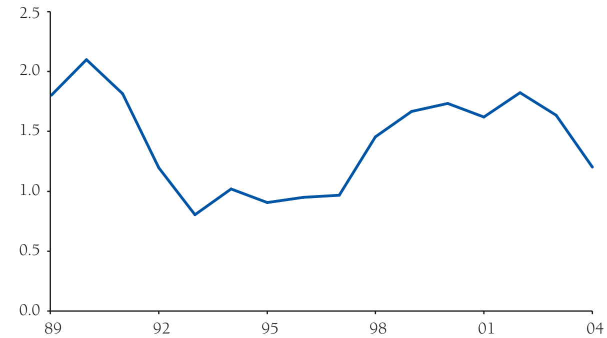
FIGURE 13
Bank loans
(real annual change, percent)



Source: Superintendency of Banks and Financial Institutions.

The main credit risk indicators for the banking industry continued a falling trend that began in mid-2003. Non-performing loans fell throughout the year. Combined with strong growth in loans, this brought non-performing loans to 1.2% in December, their lowest point in the past six years (figure 14). Similarly, the ratio between the stock of provisions and total loans fell to 2% in December 2004.

FIGURE 14
Non-performing loans
(percent)

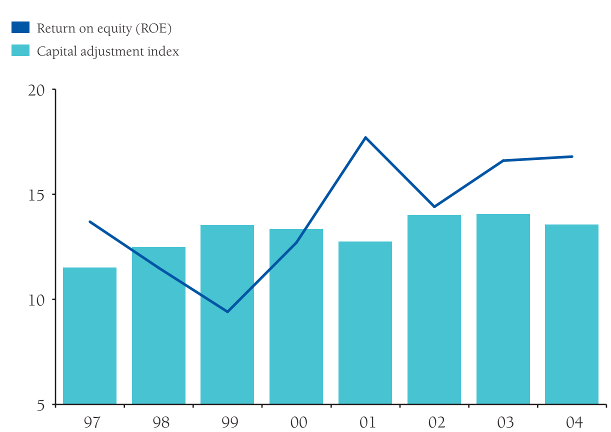


Source: Superintendency of Banks and Financial Institutions.

On financial risk, in the second half of 2004 banks' exposure to liquidity and interest rate risk rose slightly. This partly reflected changes in the loans portfolio and the structure of financing, the result of strong growth in personal loans and, in particular, untraditional credits going to finance housing, most of them credits at variable rates financed using their own resources. In terms of foreign currency risk, despite the more volatile exchange rate this year, there was no rise in institutions' exposure.

In 2004, banks continued to post the solid equity levels typical of recent years. Despite a slight tendency to decline during the second half of the year, the system's aggregate capital adequacy index reached 13.6% in December and over 10% for every institution, well above the required minimum of 8% [7]/ (figure 15). This reduction reflected institutions' greater leverage, as they made the most of more idle capital accumulated in previous years to finance more growth in loans, mainly using deposits (demand and term) and not capital sources.

FIGURE 15
Financial system yields and solvency
(percent)



Source: Superintendency of Banks and Financial Institutions.

[7]/ Because of their importance to the system, for the two main institutions the legally required capital is higher than this figure.

The banking systems' profits during the 2004 fiscal year reached 665.176 trillion pesos (US$1.188 billion), for real annual growth of 4.4%. This took the industry's return on equity to 16.8%, up slightly from the previous year, mainly reflecting an increase in operating efficiency and a decline in spending on provisions. These last fell thanks to borrowers' improved credit ratings, which also reflected more economic growth. Another factor contributing to these higher profits was the banks' growing participation in the personal loans segment, which favored changes in intermediation margins.

Finally, it should be noted that in response to an invitation from the Chilean authorities, in the first half of 2004 an IMF and World Bank mission evaluated Chile's financial system as part of its Financial Sector Assessment Program (FSAP). The mission reported favorably on the solidity of the financial system and its ability to overcome a wide range of adverse financial and macroeconomic scenarios, highlighting the banking system's solid regulation and supervision. The mission noted that life insurance is subject to stricter requirements due to greater competition and the updating of mortality tables. It also pointed out the need to strengthen securities market regulation, supervision and infrastructure. It indicated several areas where the financial system could be improved, including the prudent relaxation of some limits on pension fund investment, fostering more competition in that sector, and carefully adapting the regulatory system to the growing sophistication and integration of financial markets and services.

E. **Demand, activity and employment**

E.1 Domestic demand

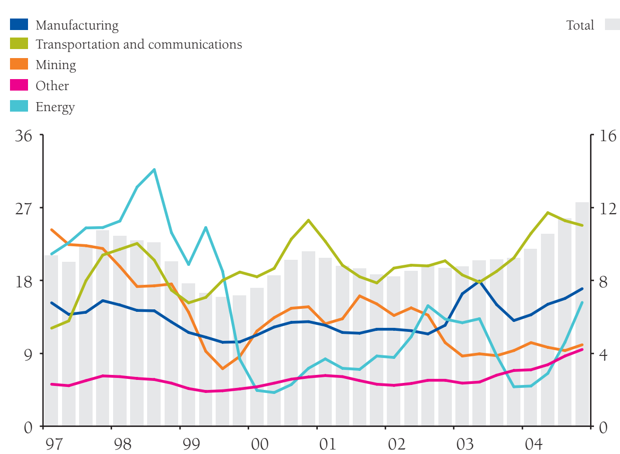
Domestic demand rose quickly throughout 2004, to achieve an annual growth rate well above that of the previous year and more than one percentage point higher than the GDP growth rate. This strength was driven mainly by private consumption and gross fixed capital formation (GFCF). Given the important rise in export and import volumes, the most important factor influencing growth in aggregate demand seems to have been shipments abroad and fixed investment (table 7).

The evidence available indicates that after rising significantly until mid-year (although somewhat more slowly than GDP), private consumption remained robust, despite a temporary rise in fuel prices, ending the year with annual growth of 5.6%.

One of the surprises in 2004 was GFCF, which began the year lagging behind the stage in the cycle, then picked up in the second half, completely absorbing the lag. This trend was driven by the machinery and equipment component, right across different economic sectors and types of capital goods, indicating a general turnaround in the downward trend, more consistent with the good financing conditions open to firms, the decline in idle capacity, trends in expectations and good company results for the year (figure 16). Estimates indicate that in 2004 GFCF grew 12.7% and reached 25.2% of GDP, measured in constant, 1996 prices.

In terms of business returns,[8] figures gathered from the standardized income statements (*Ficha estadística codificada uniforme, Fecu*) for listed companies, reveal a steady rise throughout the year, to reach an average annual return of 14.6%. The best results occur across most economic sectors, although they are strongest in those associated with natural resources, with annual profitability of 18.7%

FIGURE 16
Investment rate in machinery and equipment by economic sector (*)
(moving annual average, percent)



(*) The investment rate is the result of dividing investment in machinery and equipment into aggregate value by sector.
Source: Central Bank of Chile.

[8]/ Understood as the return on equity.

in the last third of the year, and manufacturing, 11.9%. The wholesale and retail trade, in contrast, saw profitability drop to 8.8% annually, down from the peak reached in the last four months of 2003.

The general balance sheet for the Central Government in 2004, prepared according to the IMF's accounting standards, posted an overall surplus of 2.2% of GDP compatible with the structural surplus target of 1% of GDP and substantially above the assumption included in the 2004 national fiscal budget that it would reach −0.1% of GDP. After five years of deficit, the Central Government achieved a general surplus that reflected the improved international climate, reflected in the higher price for copper and low international interest rates, combined with good conditions locally, which generated an important rise in public sector revenues, all of which in the context of compliance with the fiscal rule.

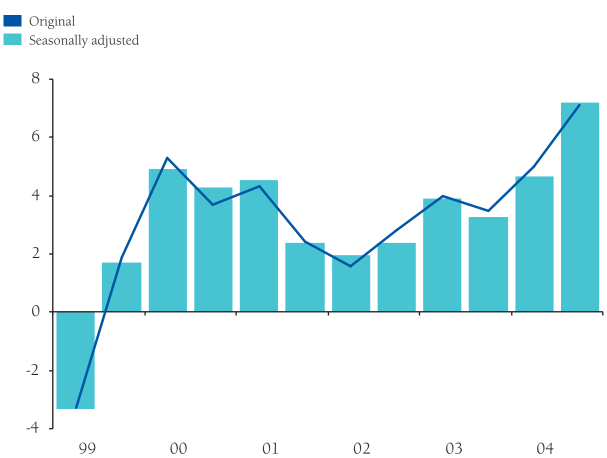
This was possible thanks to the combination of significant growth in total Central Government revenues, primarily through tax and copper revenues [9]/, and changes in total spending in line with official budgets, particularly expenditures involving capital transfers, subsidies, donations and personnel.

E.2 Economic activity

E.2.1 Changes in activity

Chile's economic growth picked up significantly in the second half of 2004, to reach 6.1% for the year. Growth was 4.7% in the first quarter, 5.3% in the second, and around 7% in the third and the fourth (table 8 and figure 17).

FIGURE 17
Gross domestic product
(half-year change, percent)



Source: Central Bank of Chile.

E.2.2 Productive sectors

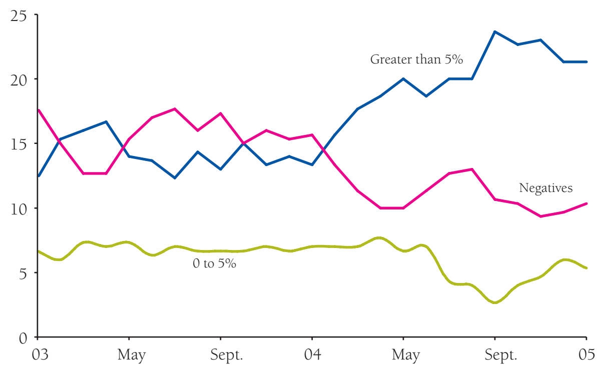
GDP natural resources
Sectors associated with natural resources [10]/ performed increasingly well throughout 2004. Mining (8% of GDP in 2003) grew 6.9% in the year, partly reflecting higher copper production as new, large-scale projects started operations. Fisheries (1.3% of GDP in 2003) grew more than 20% in 2004, reflecting more available resources, especially anchovies, combined with good figures from salmon farms.

Other sectors' GDP
Manufacturing activity (16% of GDP in 2003) picked up significantly in the second half of 2004, growing at around 8% annually during that period. This strength affected most

[9]/ The rise in income from copper reflects record prices in 2004, with the average price at the end of year standing at US$1.301 per pound, combined with the sale of most of Codelco's stock.
[10]/ Fisheries, mining, and electricity, gas and water, which accounted for a combined 12% of GDP in 2003.

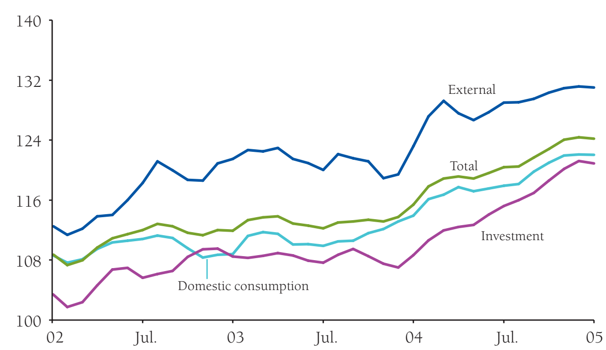
branches of industry, with a significant number growing more than 5% annually [11] (figure 18). By destination for manufacturing production, all components saw increases greater than 7%. Branches focusing on the external sector and investment (especially those supplying road, mining and industrial projects) performed well. Sectors oriented to domestic consumption also tended to rise, posting growth of almost 7% annually. Overall, aggregate growth for manufacturing averaged almost 7% in 2004 (table 9 and figure 19).

FIGURE 18
Number of branches of manufacturing by annual growth range



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

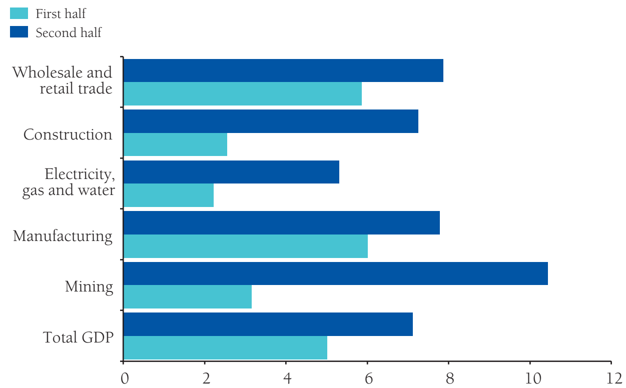
FIGURE 19
Total production by destination (1) (2)
(index 1996=100)



(1) Moving quarterly average. Seasonally adjusted series.
(2) Weightings are: external sector 26%, investment 17% and consumption 57%.
Source: Central Bank of Chile

Trade activity (11% of GDP in 2003) also grew more in the second half of the year, with average annual growth reaching almost 8%, driven by a significant rise in consumer goods imports and manufacturing sales. Construction activity (8% of GDP in 2003) performed similarly, rising more than 7% annually in the second half, due mainly to growth in building (figure 20).

FIGURE 20
Gross domestic product by sector 2004 (*)
(half-year growth, percent)



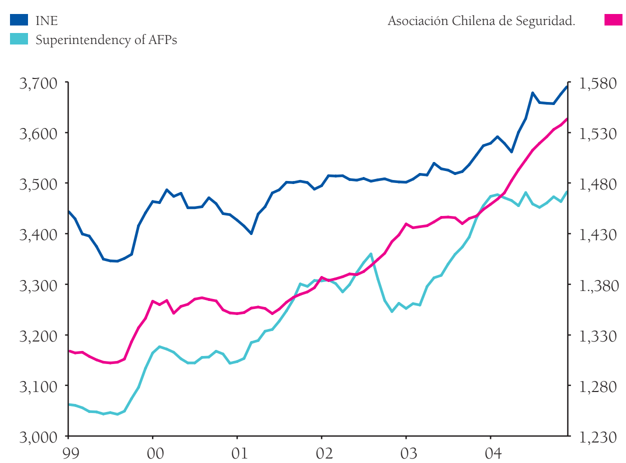
(*) Sectors included account for almost 50% of GDP by sector.
Source: Central Bank of Chile.

E.3 Labor market

The labor market performed differently in the first and second halves of the year. In the first half, employment stagnated, while the unemployment rate rose more than the usual seasonal change. In the second half, employment did better and the unemployment rate fell, becoming more consistent with generally positive economic conditions (table 10).

Job creation in particular performed well during the second half, driven mainly by employment less government programs. Almost 188,000 jobs were generated in the moving quarter ending in December, over and above those existing in December 2003, and total employment also shifted more toward the formal sector (that is, formal

FIGURE 21
Formal sector employment
(thousands of people)



Sources: AChS, (Chilean association for occupational safety and health).
Superintendency of AFPs.
National Statistics Bureau.

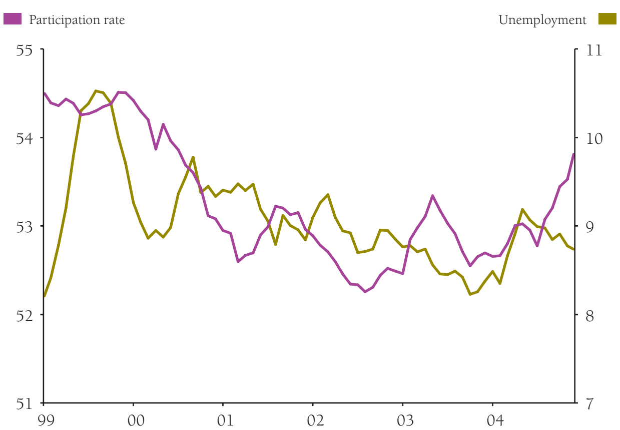
[11]/ The components that continued to grow by more than 5% during the second half of 2004 account for almost 65% of aggregate manufacturing.

employment rose, while self-employment fell), a change that began in July and was confirmed by information from different sources (figure 21). The National Statistics Bureau (INE), the Chilean association for occupational safety and health (*Asociación Chilena de Seguridad, AChS*) and the Superintendency of AFPs all noted increases in formal sector employment.

By branch of economic activity, the change in employment in the construction sector stood out, as it created 45,000 jobs from June 2004 on, after remaining constant since early 2001. The wholesale and retail trade sectors, social and financial services also performed well. Manufacturing employment, however, and according to different sources, closed the year with slow growth.

The unemployment rate, which peaked in May, fell 1.7 percentage points in the last quarter of 2004, to end December at 7.8%, up 0.4 percentage points from the same quarter of the previous year (figure 22).

FIGURE 22
Unemployment and participation rate
(percent, seasonally adjusted series)



Source: National Statistics Bureau.

A strong rise in women's participation in the labor force, which reached all time highs, was particularly important to this trend. This contrasted with men's participation rate, which has been falling since 1994.

Job vacancies varied considerably throughout the year. After a strong first half, with growth rates of around 13%, in the second half this figure fell to 9%, before ending the fiscal year with an annual rate of −10%.

F. Balance of payments, international reserves and foreign debt

Preliminary figures indicate that the balance of payments closed 2004 with a surplus of US$1.39 billion in the current account, about 1.5% of GDP. This result was a considerable turnaround from the US$1.102 billion deficit in 2003. Net financial and capital account flows, less reserves, posted a deficit of US$519 million, down from net inflows of US$1.661 billion in 2003. With these results, plus negative errors and omissions worth US$1.061 billion, the 2004 fiscal year closed with a balance of payments deficit of US$191 million (table 11).

F.1 Current account

The US$2.492 billion improvement in the current account mainly reflected the surplus in the balance of trade, which rose by US$5.497 billion, along with better results from current transfers and, to a lesser extent, services. These flows were partly offset by a larger deficit of US$3.494 billion under the income item.

The balance of trade surplus accumulated for the year reached US$9.019 billion. This reflected a larger increase in the value of exports (48.8%) compared to imports (27.8%, tables 12 and 13).

Goods exports reached US$32.025 billion during this period. This reflected a significant rise in prices (31.4%), combined with a rise in export volumes (13.2%). In particular, the 59.2% annual rise in the copper price [12]/ reflected a rise in physical consumption, along with a steady decline in inventories (table 13).

Mining exports rose 88.5% overall during this period, reflecting a 62.3% increase in the price and a 16.1% increase in volume. In this sector, aside from copper, molybdenum also performed well, both in terms of price (161.4%) and amount (up 49.9%), the price for metallic silver (36.2%).

Agricultural, forestry and extractive fishery exports also rose, 12.6% overall, reflecting larger volumes (10.7%) more than price rises (1.8%).

The value of manufactured goods rose 25.9% annually, reflecting rising volumes (13.4%) and prices (11.1%). The products experiencing the most significant increases in volume were: salmon and trout (23.8%), bleached wood pulp (24.2%), wine (19.8%), sawn wood from the forestry sector (23.7%) and methanol (7.7%). Price increases, meanwhile, primarily benefited bleached wood pulp (14.2%), planed wood (41.3%), sawlogs and timber (14.3%) and fishmeal (7.9%).

[12]/ This is the average weighted price for all the kinds of copper that Chile exports.

An analysis of the geographical destinations of exports reveals that the importance of Asia and Europe has risen. Exports to Asia rose 64.4%, while those to Europe rose 55.4%. Sales to Latin America rose 39%, and to the US 25.4%. All these increases primarily reflected larger copper exports.

Goods imports (cif) reached US$24.871 billion for the year, up 28.4% over 2003, reflecting important increases in volume (19.1%) and price (7.8%). In terms of composition, consumer goods rose 25.9% overall, with volumes (23.4%) and prices (2%) both rising, while capital goods rose 28.3%, reflecting solely volume increases, since prices did not change over 2003. Finally, intermediate goods imports rose 31.3% overall, reflecting a 12.3% price increase and a 16.9% rise in volume.

By origin, Latin America accounts for about 36.7% of total imports (fob), up 25.2%, or US$1.693 billion. The main countries in this continent supplying imports are Argentina, Brazil and Peru, which together account for 77.8% of all imports from Latin America. The United States, Asia and Europe account for 46.7%, with similar shares, up 34%, 31.5% and 10.7%, respectively.

Non-goods current account components (services, income and transfers) posted a deficit of US$7.63 billion in 2004, down US$3.006 billion from the previous year, reflecting mainly larger net outflows of income (US$3.494 billion). This last figure mainly reflected a rise in returns from direct investment in Chile, thanks to higher profits from direct investment, particularly in copper mining. Part of this increase was remitted abroad, offsetting income from transfers under the additional tax item, especially in the second and the third quarters (table 14).

Services posted less of a deficit, because exports (credits) rose more (20.3%) than imports (17.4%). Transportation and travel services rose almost 25% for credits, while the others category rose 9%. On the import side, transportation, which accounts for around half of the total, grew around 28%; travel and others rose less. The rise in transportation services reflected in an increase in export and import amounts and strong rises in the cost of these services, due to excess demand for cargo at the world level and oil increases. Accumulated passenger traffic reaching our country rose steadily throughout this period, generating most of the rise in credits. The flow of Chileans abroad also rose, pushing debits up 15%. The rise in other service exports, meanwhile, mainly reflected rises in commissions, income from operations and business, professional and technical services various (table 15).

F.2 Financial and capital accounts

Financial and capital accounts, less reserve assets, posted net outflows of US$519 million in 2004, reversing positive flows from previous years. This negative flow involved net outflows under portfolio investment (US$3.434 billion), other investment (US$3.666 billion) and financial derivatives (US$84 million), which were partly offset by net inflows under direct investment (US$6.66 billion) and capital transfers (US$5 million, tables 11 and 16).

Net outflows under portfolio investment rose 62% in 2004 over 2003. This reflected significant asset outflows worth US$4.557 billion, compared to net inflows of liabilities worth US$1.123 billion. Asset accumulation was marked by institutional agents, and involved outflows worth US$2.73 billion, 85% managed by pension funds. The private business sector, meanwhile, registered outflows worth US$1.755 billion, and the banking sector, US$72 million. It should be noted that there is a legal limit on this type of investment by pension funds. Liabilities posted positive net flows down 45% over the previous period. This occurred despite the US$2.35 billion in debt securities (bonds) issued by the public sector (US$1.25 billion), the banking sector (US$700 million) and private firms (US$400 million). However, the early recovery of both public and private sector bonds is behind the lower flows involving this kind of debt. It is important to note that in recent years, private firms have given priority to issuing bonds on the domestic market.

Other investment—consisting of currency and deposits, loans, commercial credits and other assets and liabilities—posted significant negative net flows (US$3.666 billion) during this period, led mainly by assets (US$2.966 billion) and to a lesser degree liabilities (US$700 million). Currency and deposit assets (US$1.421 billion) and export-related trade credits rose (US$1.546 billion). For liabilities, loans fell (US$1.34 billion). These involved prepayments worth US$3.707 billion, which, combined with scheduled medium- and long-term amortization payments, offset income of US$5.975 billion posted during this period.

Income under the other investment item included mainly a rise in liabilities due to commercial credits related to imports (US$725 million), in line with their steady increase throughout the year. To a lesser extent, other liabilities contributed positive flows of US$7 million.

Direct investment flows, meanwhile, were positive (US$6.66 billion). This reflected the relatively low amount of direct investment abroad (US$43 million), which fell by about half over the previous period. This came with a significant rise in direct investment in Chile (US$7.603 billion), mainly due to high reinvestment of profits in mining firms, associated with the rising copper price in international markets. These profits were not paid out as dividends, so they became a source of financing for companies.

At the institutional level, financial account flows consisted mainly of institutional investor portfolio assets (US$2.73 billion), with accumulated stock as of 31 December reaching US$16.319 billion. Similarly, company and personal assets in the form of direct investment in portfolio, currency and deposits, and trade credits, accumulated total withdrawals of US$5.094 billion in this period. Under liabilities, positive flows due to direct investment by firms and individuals stood out (US$7.603 billion), as did trade credits (US$725 million), and banking sector loans, along with negative flows due to the decline in public and private sector medium-term loans.

F.3 International reserves

As of 31 December 2004, reserve assets were at US$16.016 billion, up US$165 million from the previous year, despite a deficit in the balance of payments (US$191 million), reflecting a US$326 million increase due to parity changes arising from US dollar depreciation and US$30 million due to higher prices for the instruments in which international reserves are held.

In regards to reserve assets, foreign exchange operations reached US$71 million. Deposits in foreign currency from the financial system, in current, overnight, reserve and other accounts, took reserve assets up to US$346 million. Dollar liabilities falling due (bullet bonds and *Cero* coupon promissory notes) reduced reserves by US$1.058 billion. Finally, other operations in foreign currency (net non-financial public sector deposits, including general government, parity corrections, effect of exchange on instrument prices, interest on international reserves and other) pushed net reserves up by US$806 million.

F.4 Foreign debt

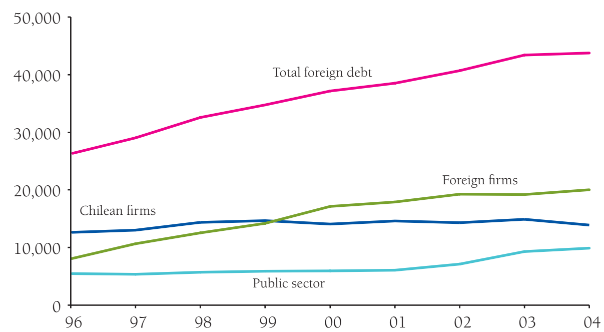
Chile's foreign debt as of 31 December 2004 stood at US$43.764 billion, up 1% or US$368 million from one year earlier (table 17), a very slow pace of foreign debt growth compared to previous years (6% in 2002 and 7% in 2003).

Slow growth in foreign debt mainly reflected the fact that at the aggregate level, amortizations of long-term debt amounted to more than 50% of capital originally falling due in 2004. This was particularly important in the case of mining sector firms, which used the extra revenues from the high copper price to make prepayments. In contrast, short-term foreign debt rose, mainly reflecting trade credits acquired by the private sector to finance foreign trade operations.

In terms of distribution by agent, the public sector increased its net foreign debt by US$564 million, with the long-term portion rising US$1.25 billion, about 70% of which corresponded to state-owned companies (table 18). This increase was partly offset by a US$686 million decline in short-term foreign debt, mainly reflecting net payments by these firms.

Meanwhile, the private sector's foreign debt fell by US$196 million, because although the short-term component rose US$889 million, long-term fell US$1.085 billion. The rise in short-term commitments mainly reflected greater use of trade credits, worth US$449 million, the result of enormous growth in foreign trade. The decline in long-term foreign debt reflected the decline in debt held by private firms (US$1.85 billion), which was partly offset by bank borrowing of US$759 million, mainly through bond issues. The breakdown by creditor country shows that the tendency for foreign companies' share to rise continued throughout the year to reach 58% of total private sector foreign debt (figure 23).

GRÁFICO 23
Foreign debt by creditor´s country of origin (*)
(US$ million)



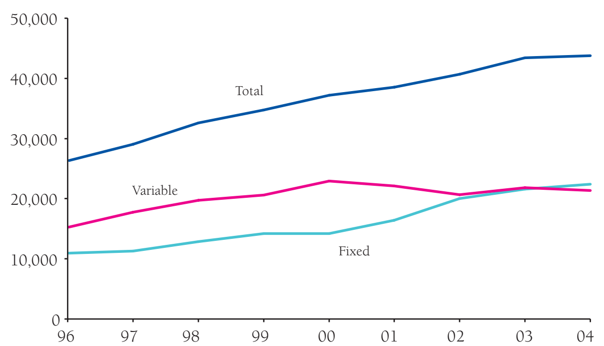
(*) Country of origin of the firm controlling the debt.
Source: Central Bank of Chile.

Also noteworthy was the US$2 billion increase in servicing on long-term foreign debt, which reached US$9.48 billion in the year (table 19). This solely reflected larger amortizations, mainly by companies and government. Interest payments associated with foreign debt servicing remained almost constant at about US$1.25 billion and accounted for 3.5% of total long-term foreign debt. This compared favorably with last year's 3.6%, revealing a falling trend in recent years thanks to the favorable international financial environment and the decline in country risk.

Short-term foreign debt by residual maturity kept up its pace of growth, rising by US$970 million in the year (tables 20 and 21). This mainly reflected larger amortizations of long-term debt worth US$767 million, scheduled over the 12 months and more short-term borrowing abroad, worth US$203 million. In terms of distribution by agent, the private sector increased its residual short-term financial debt by US$1.095 billion, with just over half due to an increase in trade credits. Banks also increased this kind of debt by US$176 million. General Government increased this debt by US$303 million, mainly reflecting a sovereign bond falling due in 2005, although for the public sector this fell US$125 million, as a result of smaller amortizations scheduled by public firms in 2005. These movements meant that, at the aggregate level, short-term residual foreign debt reached US$13.937 billion in December, 32% of total foreign debt.

Also noteworthy was the tendency for the share of foreign debt at fixed rates to rise. This reached about US$22.5 billion in September, 51% of total foreign debt (figure 24).

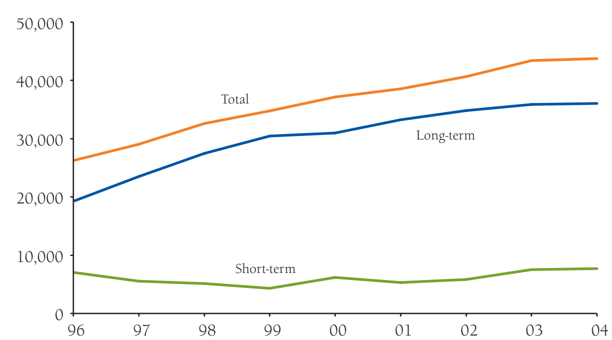
FIGURE 24
Foreign debt by agreed upon rate
(US$ million)



Source: Central Bank of Chile.

Because of these and other situations, Chile's foreign debt is mainly long term (82% of the total, by original maturity), and private (78% of the total), 58% of which corresponds to foreign firms (figure 25).

FIGURE 25
Foreign debt by term of original contract
(US$ million)



Source: Central Bank of Chile.

The economy continued the vigorous process of international financial integration, apparent in recent years. Thus, its international investment position as of June 2004 revealed the stock of external assets had risen 8% to US$65.501 billion, while external liabilities remained with no significant changes, at US$98.75 billion. As a result, its net liabilities reached US$33.249 billion.

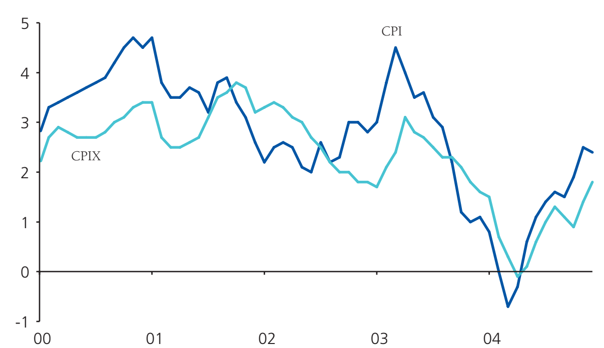
It should be noted that the flow of external liabilities reached US$2.4 billion in the first six months of 2004. However, its contribution to the value of the stock of external liabilities in dollars was completely neutralized by peso depreciation, which reduced the dollar value of the stock of foreign investment in Chile, mainly shares, equity and retained profits. The flow of external assets, meanwhile, reached US$4.097 billion.

G. Inflation and wages

G.1 Inflation

Annual inflation of the Consumer Price Index (CPI) ended the 2004 fiscal year at 2.4%. It was particularly affected by oil price trends and the exchange rate in the last four months of the year. Thus, while the first quarter saw inflation plunge to negative levels, by mid-year it was on the rise, and returned to the 2% to 4% target range. CPIX inflation, which excludes prices for perishables and fuels, ended the year positive and higher than the near zero values of the first quarter, at 1.8% per annum (tables 22 and 23 and figure 26).

FIGURE 26
CPI and CPIX inflation
(annual change, percent)



Source: National Statistics Bureau.

In the first part of the year, monthly CPI and CPIX measures were ruled by fuel prices, the exchange rate and their impact on regulated utility rates. Changes in recent months were mainly determined by food and transportation (the oil price and the exchange rate influenced the latter). Annual CPI inflation was more influenced by fuel prices from October to December.

By component, tradables inflation (CPIT) shifted in line with fuels and, in part, the exchange rate. Thus, the CPIT rose more (1.4% per annum) in 2004 than in the year before (1%). The main changes in non-tradables inflation (CPIN) in 2004 affected rates, reflecting shifts in the exchange rate and amendments to rate-setting regulations.

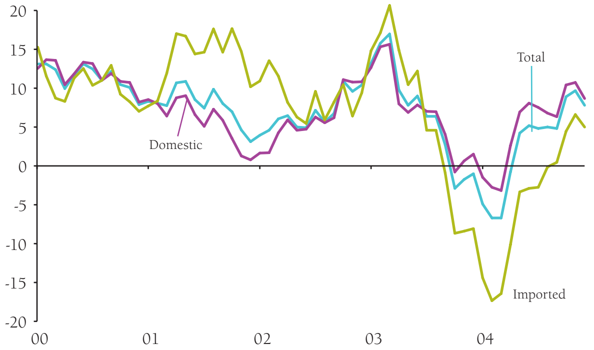
In the first third of the year, the Wholesale Price Index (WPI) plunged, mainly because the basis for comparison included high fuel prices in pesos and a higher exchange rate for the same months of 2003. This turned around in April, due to rising fuel prices, peso depreciation and the high price for copper. Thus, by year's end, its annual growth rate had reached almost 8%, reflecting a significant rise in its domestic component, particularly mining. As usual, the import price component followed shifts in the exchange rate and the oil price, accumulating an annual rise of 5% by December.

In June, the INE began publishing its Producer Price Index (PPI). This is a national, monthly indicator (base April 2003=100), which traces changes in producer prices in general, by sector and according to the destination of goods. This indicator reflects the first price of a product at origin and considers all costs plus the producer's margin. It excludes taxes, insurance and retail margins derived from the distribution process. Through December, the PPI accumulated annual growth of 15.9%. By sector, mining and quarries, significantly affected by the copper price, rose 53.2% annually, significantly affecting overall results (figure 27).

FIGURE 27

Total, domestic and imported WPI

(annual change, percent)



Source: National Statistics Bureau.

In 2004, despite the economy's faster growth, different measures for margins did not change significantly over late 2003. Margins for durable goods, for example, fluctuated in line with changes in peso/dollar parity. The measure for a common basket between the CPIX1 and PPI remained almost constant.

As for imported inflation, in the first half news on external prices and the exchange rate was relevant. The annual rate of change for external inflation in dollars (EPI) fell, while consumer import prices (IVUM consumption) rose modestly. After several years of annual declines, in the first half of the year these prices rose about 1% annually.

For the second half, external inflation in dollars (EPI) again saw its annual rate of change rise, reflecting the impact of the higher oil price on each country's inflation and international dollar deflation, bringing annual external inflation for 2004 to 11.4%. Import prices continued to rise, linked mainly to oil. Moreover, consumer import prices rose substantially less than the total.

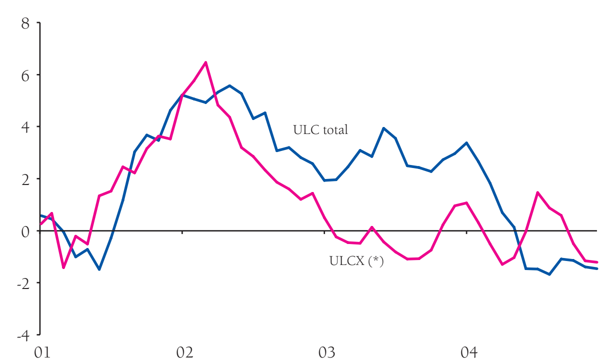
G.2 Wages

Nominal wages, measured using the hourly wage index and hourly labor cost index, ended the year with 12-month rises of 3.2% and 2.7%, respectively, well down from their levels in December 2003. In real terms, this rise was 0.7% for the labor cost index and 0.2% for the hourly wage index (tables 24 and 25).

Changes in wages, especially average labor productivity, reduced pressures on unit labor costs (ULC) compared to 2003 (figure 28). The annual change in the ULCX (unit labor costs, less branches of economic activity involving natural resources) completely reversed increases apparent in July and August, due to higher productivity of sectors covered by this indicator. This trend was led by the manufacturing sector, which saw significant rises in production, while job creation practically stagnated, leading to a significant rise in productivity.

In the first half of the year, the Labor Bureau reported that initial real wage increases approved during collective bargaining were lower than those registered in 2003. In

FIGURE 28
Unit labor costs
(annual change, percent)



(*) Wage-earners' unit labor cost, minus electricity, gas and water, fishing and mining.
Sources: Central Bank of Chile.
National Statistics Bureau.

the second half, consistently with the economic cycle, these tended to rise more than the previous year. Thus, wage increases were 0.7% in the first quarter, 0.53% in the second, 1.05% in the third and 0.95% in the fourth (table 26).

H. **Changes in the Central Bank of Chile's balance sheet**

H.1 Balance structure

As in 2003, the main components of the balance sheet, that is, international reserves and fiscal promissory notes on the assets side, and promissory notes with a secondary market on the liabilities side, posted negative changes in 2004. Unlike in 2003, operations in 2004 were the main influence, while the negative accrual of adjustments reflecting the decline in the exchange rate had a secondary effect. These declines in balances, partly offset by increases associated with accrued interest, led to nominal declines of 6% for total assets and 1% for total liabilities. Thus, at the end of 2004, assets had reached 26.3% of GDP, down from an average for 1990-2002 of 47.4%, and liabilities stood at 28.5%, down from an average 47% for 1990-2002 (table 27).

The balance of international reserves fell by 535 billion pesos, including negative changes of 355 billion pesos for operations during the year, and 393 billion pesos for a decline in value due to exchange rate shifts, specifically peso/dollar parity. Accrued interest, however, was positive at 213 billion pesos. In dollars, reserves went from US$15.851 billion at the end of 2003 to US$16.016 billion at the end of 2004. This reflected negative flows of US$540 million due to operations during the year, increases worth US$349 million in accrued interest and US$356 million in rising dollar value for international reserves held in other currencies.

The 355 billion peso (US$540 million) decline in the international reserve item under annual cash flows partly reflects the Central Bank's policy on promissory notes indexed to the exchange rate. In this sense, the Central Bank created a program to sell in pesos those instruments payable in dollars, to offset peso-denominated promissory notes indexed to the exchange rate falling due, and their non-renewal. This caused a 654 billion peso decline in international reserves, which was offset by an increase in treasury bonds (97 billion pesos) and bank deposits (205 billion pesos) in foreign currency. Remaining flows (−3 billion pesos) reflected minor operations. In summary, international reserve flows reflected changes in bank and treasury portfolios and, in the latter's case, the last resort buy-back of promissory notes indexed to the exchange rate, using dollars. Far from hindering the prevailing floating exchange scheme, this measure actually strengthened it.

The balance of treasury promissory notes in favor of the Central Bank fell by 796 billion pesos. This reflected 688 billion pesos worth of servicing of these instruments, 69 billion pesos in accrued interest, and a negative amount reflecting indexation to the declining exchange rate, which was 177 billion pesos. Of the amount serviced this year, around 300 billion pesos went to prepayments.

The balance for promissory notes with a secondary market fell 920 billion pesos, reflecting net rescue operations of 1.421 trillion pesos, accrued interest of 558 billion pesos, and negatively accrued indexing due to the fall in the exchange rate of 57 billion pesos. The 1.421 trillion pesos repaid included the 654 billion pesos mentioned above, financed with international reserves, plus 767 billion pesos in domestic currency.

The monetary base rose by 235 billion pesos. Net flows included the 767 billion pesos used to buy back promissory notes with a secondary market and 375 billion pesos in liquidity loans and repo operations with banks. Net outflows included 688 billion pesos used to service fiscal promissory notes in favor of the Central Bank and 213 billion pesos in banks' liquidity deposits. Subordinate debt servicing, offset by less expansionary operations, was behind the remaining net shrinkage in flows.

Banks' liquidity deposits should be noted, as these can be used to compute how their technical reserves have risen from 750 billion pesos at the end of 2003 to 963 billion pesos at the end of 2004. These significant and momentary operations at the end of two years have been driven by rising demand obligations in some banks, which increased technical reserve requirements. This circumstantial demand for bank liquidity was satisfied using repo operations of the same magnitude.

In the general downward context affecting assets and liabilities, the ratio of international reserves over total assets remained virtually the same, at 60.1% in 2003 and 60.2% in 2004. Governmental promissory notes, in contrast, saw their share shrink from 22.1% to 18.2%. For liabilities, the share of promissory notes with a secondary market fell from 79.8% to 75.3%. These figures compare with averages for 1990-2002 of 48.1%, 27.5% and 63.1%, respectively.

Equity in foreign currency, that is, the difference between assets and liabilities in dollars or indexed to the dollar, measured in US dollars, fell from US$14.5 billion to US$13.9 billion, the result of virtually no foreign currency sales, US$450 million in gains due to interest and revaluation of the portfolio in terms of US dollars and −US$1.05 billion in servicing, using pesos, of treasury promissory notes in dollars. The magnitude of this exchange mismatch reveals the sensitivity of the balance sheet and book results to fluctuating exchange rates.

H.2 Asset yields, liability costs and changes in net worth

As in 2003, both assets and liabilities were subject to negative rates of inflation compensation in pesos, −3.5% the former, −0.5% the latter. Because most assets are held in foreign currency, the 6.6% decline in the observed exchange rate had a powerful effect, which was somewhat attenuated by the rise in the value of other currencies against the US dollar and the domestic inflation rate (2.1%), which affects most components in domestic currency. Meanwhile, foreign currency or indexed components play a minor role in liabilities, so these were less affected by exchange rate movements and, in any case, cushioned by the positive trend in domestic inflation, which affects part of liabilities in local currency. It should be noted that these losses due to compensation, and even more substantial ones in 2003, reverted gains under this item due to peso depreciation in 1999-2002 only partially.

The fact that international interest rates remained the same, picking up slightly toward year's end, ensured that the average weighted yield in interest on assets remained constant, at 2.3% in 2003 and 2004. Liabilities, consisting mainly of promissory notes, involved an average weighted cost, less indexing, of 3.6%, down from 4.1% in 2003. With short-term interest rates below long-term rates, the longer maturities of promissory notes, combined with risk premiums that create yield differentials, are behind the different rates for assets and liabilities.

Overall, the difference between the cost of liabilities and yields on assets due to interest was 1.3%, down from 1.8% the previous year. Losses due to interest, combined with significant capital losses resulting from the decline in the exchange rate, produced a gap of 3% between the indexation rates for assets and liabilities, down from 5.9% in 2003. Thus, financial losses during the 2004 fiscal year due to indexing amounted to 656 billion pesos (1.2% of GDP): $452 billion pesos in losses due to indexing (0.8% of GDP), 14 billion pesos in profits due to devaluation of negative opening equity, and 285 billion pesos in lost interests (0.4% of GDP). The Other item included net losses worth 27 billion pesos. Altogether, this brought a net loss of 682 billion pesos (1.2% of GDP), which increased the negative balance in book equity from −545 billion pesos at the end of 2003 (−1.1% of GDP), to −1.241 billion pesos in December 2004 (−2.2% of GDP), thus returning to levels similar to those reported in the accounting balance sheet of 1998 (−964 billion pesos, −2.6% of GDP).

APPENDIX 1

OPERATING EXPENSES

Operating expenses sustain the ongoing management of the Central Bank, and involve personnel wages and benefits, the use and consumption of goods and services, and other associated expenses necessary to carry out the Bank's activities. In the Financial Statements, these are broken down as follows: i) Personnel expenditures, ii) Administrative expenditures, iii) Depreciation, amortization and write-offs, and iv) Taxes, benefits and others (tables 28 and 29).

Of total operating expenditures, spending on personnel accounts for 64%, administration 28%, depreciation, amortization and write-offs 6%, and taxes, benefits and others, 2%.

Personnel expenditures

An analysis of figures for 2000–2004, reveals that personnel expenditures rose 5.2% in real terms in the past five years, from 15.331 billion pesos in 2000 to 16.123 billion pesos in 2004, reflecting a gradual reduction in staff and a change in structure, with professionals becoming more numerous and administrative personnel, secretaries and services less so. In this sense, it should be noted that the Bank's staff declined 5.1% between December 2000 and 2004, from 590 to 560 employees. Thus, the percentage of professionals, executives and department heads, rose from 46% of total staff in 2000 to 54% in December 2004. Between 2000 and 2002 total staff fell 6.6% and only in 2003 did it start to rise again, by 2.5%, reflecting the hiring of new professionals. In future, this trend toward more professionals is expected to continue.

The 6.9% rise in personnel expenditures in 2004 over 2003 breaks down as follows:

5.3 percentage points primarily reflect a rise in average real wages (3.97% as per the collective agreement) and the change in the composition of Bank personnel, reflecting the hiring of new executives and professionals, and a bonus for completing collective bargaining for 2004-2006 of 388 million pesos.

The remaining 1.6% reflects a rise in the provision for severance, seniority and retirement payments for those retiring in 2004 (0.8%), spending on training (0.5%) and benefits (0.3%).

Administrative expendtures

In real terms, administrative expenditures rose 48.2%, up from 4.723 billion pesos in 2000 to 7.001 billion pesos in 2004. This rise mainly reflected spending to keep up the Bank's essential functions and the incorporation of appropriate technologies to better comply with the Bank's objectives and satisfy the most demanding quality standards for administrative services. These included spending on computers and technological development, general services, maintenance of fixed assets, consulting, surveys, studies and seminars, and basic services.

Administrative expenditures fell between 2003 and 2004, mainly reflecting less spending on technological development and computers, particularly a 1.795 billion peso decline in spending on the Real Time Gross Settlement system, which was completed in 2003 and started operating in April 2004. This was partly offset by spending on general services and fixed asset maintenance, including the payment of rents and reorganization of offices in new facilities in the *Plaza Constitución* building, which replaced the previous office space in the building on Huérfanos street; spending on institutional communications, consulting, surveys, and studies associated with the 2003 Base Year Program.

APPENDIX 2

News releases from monetary policy meetings in 2004

8 January

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to reduce the monetary policy interest rate from 2.25% to 1.75% (annual).

News from the cost and price side reveals lower than expected inflationary pressures. The 12-month inflation rate is around 1%, and negative rates are expected for some months of the first half of the year. Also, the core inflation CPIX, that excludes the prices of some more volatile goods, is at 2% annual, and is expected to be below 1% in the same period.

These low inflation levels increase the risk of future pricing decisions being based on inflationary expectations inconsistent with the Central Bank's inflation target, thus postponing the convergence of inflation rates to the 3% target in the usual 24-month policy horizon. In this setting, the reduction of the interest rate reduces this risk.

Regarding economic activity, recent information suggests an increase in growth projections for the coming quarters. This is due to both external and domestic factors. Terms of trade continue to improve, especially the price of copper, world growth expected for this year has consolidated, and good international financial conditions continue. Domestically, consumer expectations are more optimistic, in a scenario where employment and household loans continue to grow, which adds to the expansionary monetary policy.

The Central Bank of Chile reassures its objective of attaining an inflation rate centered around 3% in the usual policy horizon, and reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

10 February

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

Economic developments since the last meeting reinforce the output and price forecasts in the last *Monetary Policy Report*. This scenario considers negative readings for annual inflation (12-month rate-of-change) for some months, and a subsequent increase to approach 3% toward the end of the 24-month horizon. This is based on the expected reduction in the output gap and the fading of supply-side shocks. The recent increase in expected inflation for the medium and long term, implicit in the prices of financial assets is consistent with this view.

The Central Bank of Chile reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

11 March

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

In the past two months, CPI inflation has followed the expected course, although core inflation figures (i.e. CPIX and CPIX1, which exclude some of the more volatile prices) have been slightly below previous forecasts. This contrasts with a somewhat higher oil price and a small depreciation of the peso. In this context, a gradual increase in annual inflation to 3% in the usual 24-month policy horizon continues to be expected, which includes monthly inflation rates approaching levels coherent with the target range in the coming months.

Since the last policy meeting, the terms of trade have continued to improve, thanks to the large and unexpected increase in the price of copper, amidst openly expansionary global financial conditions. However, domestic activity figures for the first quarter reveal lower dynamism than previously expected. The performance of mining and manufacturing sectors, together with the still sluggish expansion of investment, explain this result. Overall, these developments are insufficient to warrant a change in the growth projections for the year contained in the last *Monetary Policy Report*.

The Central Bank of Chile reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

15 April

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

Since the last policy meeting, substantially improved world economic conditions have consolidated, particularly the higher copper price. Also, recent domestic activity and demand figures, especially in the manufacturing sector, exports and imports of capital goods, indicate that the lower dynamism observed at the last meeting was transitory. This supports the growth projections contained in the last *Monetary Policy Report*.

Although CPI inflation has been in line with projections in January's *Report*, core inflation readings for the first quarter (i.e. CPIX and CPIX1, which exclude some of the more volatile prices) have been lower than expected. These developments do not change the projection of annual inflation gradually converging to 3% in the usual 24-month policy horizon. However, this process could end up being slower than previously forecasted. In this context, the Board considers that expansionary monetary conditions may last somewhat longer.

The Central Bank of Chile reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

13 May

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

The external scenario relevant for Chile continues to be very positive, despite increased volatility in financial markets and the rise in the international oil price. Also, recent output and spending figures confirm the gradual growth acceleration projected for this year. CPI annual inflation is expected to progressively approach 3% during the usual 24-month policy horizon. This, notwithstanding that in the near future monthly inflation may show large swings because of more volatility in fuel prices and the exchange rate.

The Central Bank of Chile reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

10 June

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

Overall information since the last meeting is consistent with output and price forecasts in the last *Monetary Policy Report*. Alongside substantial expansion of foreign trade figures, the gradual increase in product and expenditure growth rates continues. As previously anticipated, monthly inflation in May increased due to the incidence of movements in fuel prices and the exchange rate, an effect that is believed to be mainly temporary. Core inflation CPIX (that excludes some goods with more volatile prices) remains low. In the near future, the annual CPI inflation is expected to progressively converge to 3% during the usual 24-month policy horizon.

The Central Bank of Chile reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

8 July

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

Since the previous meeting, data shows an increase in annual CPI inflation, while projections point to a gradual convergence to 3% over the usual 24-month policy horizon, in line with the baseline scenario considered in the last *Monetary Policy Report*. Second-quarter output and domestic expenditure growth has strengthened. Although the latest indicators for investment and foreign trade have been more dynamic and the labor market has been weaker than expected, these developments are not sufficient to warrant a modification of growth and inflation prospects for the coming quarters.

The Central Bank will be alert to timely adjust its monetary policy against deviations of projected inflation from the specified target range.

12 August

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75% (annual).

The incidence of the increase in fuel prices will probably push CPI inflation toward 3% before forecast in the latest *Monetary Policy Report*. However, core inflation measures CPIX and CPIX1 (which exclude some goods with more volatile prices) are converging to target range of 2% to 4% at the expected pace. Good economic activity indicators reinforce the scenario of gradual narrowing of the output gap. In particular, foreign trade and investment figures continued to exceed growth expectations. In addition, recent news from the labor market suggests that the weak performance of the last two months has improved to some extent.

Against this background, the Board believes that the moment is approaching when it will be necessary to reduce the marked monetary impulse, in order to make compatible the strengthened economy with an expected annual inflation rate of 3% over the usual policy horizon of 12 to 24 months. At any rate, it reiterates that it will be alert to make timely adjustments to monetary policy in order to confront any deviations of expected inflation from the specified target range.

7 September

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by the vote of four of its members, to raise the monetary policy interest rate by 25 basis points to 2% (annual). The minority vote was for maintaining the interest rate.

The available information shows that a favorable scenario for the Chilean economy continues to develop, thanks to a positive international environment and the strong expansionary impulse of financial conditions. Against this background, a progressively higher output growth is confirmed, backed by the recent upturn of households and firms' confidence indicators, robust investment and improved perspectives for the labor market.

In recent months, annual CPI inflation has begun to normalize, from the low levels earlier in the year. This behavior has been influenced by the rise in some specific utility rates, fuel prices and the progressive increase in core inflation measures (that exclude some goods with more volatile prices). The Central Bank projects that these will continue along this increasing path while the output gap gradually closes. Also, the oil price increase is expected to drive inflation to 3% sooner than previously forecast, although its transmission to other prices will be limited.

Against this background, the Board has considered appropriate to introduce a moderate reduction in the marked monetary impulse, which has become less necessary thanks to the favorable recent behavior and perspectives of expenditures and output. The Central Bank of Chile reiterates that it will be alert to make timely adjustments to monetary policy in order to confront any deviations of expected inflation from the specified target range.

12 October

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 2% (annual).

Since the last meeting, the international environment remains positive, even though the oil price has increased above earlier projections, which is a significant source of risk. Meanwhile, the growth pace of domestic output and expenditure has strengthened. Investment continues to build up dynamism, foreign trade is expanding rapidly and consumer indicators look good, despite the persistence of mixed indicators in the labor market. In this positive picture, the expectation of a gradual compression of the output gap is reaffirmed.

Nevertheless, beyond the effects of international fuel prices, inflation remains low. This is apparent in core inflation measures (that exclude some goods with more volatile prices) and in the evolution of cost pressures, e.g. labor pressures, and imported inflation excluding fuels.

The Board reiterates that, in the most likely scenario, it will continue to reduce the present marked monetary impulse at a measured pace, in order to maintain annual expected inflation centered around 3% in the usual policy horizon.

11 November

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to raise the monetary policy rate by 25 basis points to 2.25% (annual).

The main developments in the domestic economy observed at the time of the last meeting have strengthened, namely subdued inflation and dynamic economic activity. In effect, the growth pace of output and domestic expenditure has increased above forecast in the *Monetary Policy Report* of last September. Investment has gained additional momentum, export volume growth has increased, while private consumption shows no signs of weakness. In addition, labor market figures have improved.

Inflation has remained at low levels, in spite of higher international oil prices. This is particularly apparent in core inflation measures (that exclude some goods with more volatile prices), which continue to show low monthly growth rates and run below previous forecasts. The moderate pace of cost increases, particularly in labor, has contributed to keep inflationary pressures within limits.

The Board believes that, despite increased economic dynamism, today's low inflationary pressures and output gap make it possible, in the most likely scenario, to maintain the gradual reduction of the marked monetary impulse at a measured pace. This is consistent with maintaining expected inflation around 3% per annum in the usual policy horizon of 12 to 24 months.

9 December

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, with the vote of four of its members, to maintain the monetary policy interest rate at 2.25% (annual). The minority vote was for increasing the interest rate by 25 basis points.

Since the last meeting, output and expenditure have maintained their stronger dynamism in comparison to forecast in the last *Monetary Policy Report*, despite the effects caused by the difference in October's number of working days in economic activity indicators. Investment continues to grow at a fast pace, and consumption indicators maintain a positive tone. Furthermore, private expectations and job creation have improved.

The various indicators of the inflation trend have increased from very low levels and CPI inflation has returned to the target range of 2%-4% per year. Core inflation measures (that exclude some goods with more volatile prices) have increased gradually, approaching projections in September's *Monetary Policy Report,* while costs remain subdued.

The Board reiterates that, in the most likely scenario, it will continue to reduce the present marked monetary impulse at a measured pace, in order to maintain annual expected inflation centered around 3% in the usual policy horizon of 12 to 24 months.

APPENDIX 3

Main Central Bank of Chile measures in 2004

January

8 At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate from 2.25% to 1.75% per annum.

15 The Bank agreed to accept the Fiscal Agency assigned to the Central Bank of Chile through Executive Decree 1,211 issued by the Ministry of Finance, 22 December 2003, to represent and act on behalf of the national government's Treasury in the placement and administration of bonds by the General Treasury as referred to in said decree, according to the terms and conditions established therein.

In its performance as Fiscal Agency, the Central Bank took charge of placing General Treasury bonds indexed to the UF worth up to UF7,000,000 through tenders or over-the-counter sales, as well as recovering and charging payment upon maturity to funds deposited for this purpose by the Treasury in the special current account that it maintains in the Central Bank.

22 Regulations governing unconditional and deferred withdrawal time savings accounts were changed to eliminate the option of paying the indexed amount every three months. Payment of amounts due because of indexing and interest will be made every 12 months from now on, to avoid negative inflation during specific quarters affecting the holders of these accounts. Moreover, and in this same context, financial institutions are required to provide information on these changes and the option of replacing the indexation of same to the account holder, in line with the Central Bank of Chile's policy of interest rate nominalization.

29 As part of its program for modernizing the Central Bank of Chile's payment system, it approved the set of regulations governing its "Real Time Gross Settlements" system (RTGS), which was included in the Compendium of Financial Regulations as Chapter III.H.4.

The RTGS system, which is administered by the Central Bank of Chile, consists of an electronic interbank payment system, which settles operations individually by transferring funds in domestic currency among the accounts that participating financial institutions hold in the Central Bank of Chile. This system liquidates charges in domestic currency according to transfer instructions sent by participating bodies on their sole responsibility, acting on their own account or on behalf of clients; the net results from daily cycles in clearing houses used by financial institutions regulated by the Central Bank; and operations between the Central Bank and participants, whose settlement requires depositing or withdrawing from the current accounts they maintain in the Central Bank.

The RTGS system started up on 2 April 2004 and has functioned well to date, making an important contribution to the country's payment system.

29 To facilitate the settlement of operations through the RTGS system, general conditions defining how the system's authorized participants can access the "Intraday Liquidity Facility" provided by the Central Bank of Chile were also defined. This regulation became the new Chapter II.B.5 of the Compendium of Financial Regulations.

The "Intraday Liquidity Facility" consists of the financing provided by the Central Bank of Chile, through the purchase of credit securities belonging to the requesting financial institution, along with the sale and cession of same to the Central Bank, which is obliged to purchase them back and acquire them within the same banking day that the operation takes place. This procedure, which allows the Bank to fulfill its role of providing liquidity to the financial system and overseeing risk, came into operation along with the startup of the RTGS system.

March

4 The regulations governing the clearing house for checks and other documents in domestic currency were adjusted, along with those governing operations through automated teller machines, to bring them into line with the Central Bank of Chile's RTGS system. Thus, settlements of the net results of these clearing houses are carried out through the RTGS system.

Similarly, it was established that payments important to the system usually conducted through the process of swapping, presentation for cashing and compensation in the check clearing house would gradually move into the RTGS system. As part of this process, existing clearing house operations were limited to low-value payments, a concept that excludes obligations between banking firms and those involving more than 50 million pesos. A deadline of April 2005 was set for this transition. From then on, the check clearing house will only handle notes and other demand documents up to the above-mentioned maximum, with all other amounts being processed through the High Value Payment System established by the Bank.

18 Regulations governing the "High Value Payment Clearing Houses" (HVPCH) were approved, establishing conditions and requirements for the appropriate functioning of the payment system for processing large amounts handled by financial institutions. It should be noted that, in terms of controlling settlement risk, the regulations require procedures that ensure final settlement of the net results of each compensation cycle within the RTGS system in a punctual manner, including any case in which the participant has a deficit larger than the resources necessary to settle for any given cycle, to ensure that participants nonetheless extinguish the obligation to pay.

May

5 The method to calculate the amount of the deposit guaranteeing payment of high-value operations prior to liquidation was changed, to facilitate operations in the new payment system described above.

20 A limit was set on investment abroad by insurance, reinsurance, life and non-life insurance firms was established, at 20% of their risk equity and technical reserves, thereby maintaining the previous margin, which was the maximum allowed under current legislation. This limit was in force until 31 December 2004.

27 The amount of the minimum guarantee that the operator must maintain on deposit in the High Value Payments Clearing House was changed to ensure that participants are able to meet their obligations correctly and punctually. The initial amount must be 200,000 *unidades de fomento*, and larger amounts may be required in light of amounts and the nature of operations in the clearing house to ensure the system functions normally.

June

3 Holders of dollar-denominated debt securities payable in pesos were offered the opportunity of swapping them for dollar bonds (BCX) maturing in one year. Moreover, the Central Bank decided to put to tender BCX maturing in one year for the amount of the remainder of dollar-denominated securities that had fallen due and not been swapped. The purpose of this measure was to complement the swap policy begun in December 2003, when the Central Bank offered the possibility of swapping dollar-denominated debt securities payable in pesos falling due between 1 December 2003 and 1 December 2004, for securities for the same period payable in dollars. At the same time, the Central Bank reiterated its commitment to the floating exchange regime, clarifying that the purpose of the current policy was to maintain a constant net position in foreign currency of the Central Bank of Chile, and thereby continue to apply a neutral foreign exchange policy, consistent with the free-floating currency regime.

23 The Central Bank of Chile announced that, starting in July 2004, it would issue a new peso-denominated 10-year bond (BCP-10). This measure, which was consistent with its long-term commitment to price stability, contributed to extending credit market operations in pesos to longer maturities.

July

16 As part of regulations governing the Intraday Liquidity Facility contained in Chapter II.B.5 of the Compendium of Financial Regulations, the availability of securities eligible for repo operations within the same day was expanded to include Central Bank of Chile instruments denominated in and payable in dollars (BCX, XERO, PCX).

29 It became possible for financial institutions to cash in or pay out promissory notes and other demand documents worth 50 million pesos or more directly through the RTGS system.

September

7 At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate from 1.75% to 2% per annum.

9 The Bank agreed to accept the Fiscal Agency assigned to

the Central Bank of Chile through Executive Decree 551 of the Ministry of Finance, 31 May 2004, to represent and act on behalf of the national goverment´s Treasury in placing and administering bonds issued by the General Treasury referred to in said decree, under the terms and conditions set forth therein.

In its role as fiscal agency, the Central Bank of Chile became responsible for placing General Treasury bonds in UFs for up to UF18,000,000 through tenders or over-the-counter sales, as well as repurchasing them and paying them out as they fall due, charging these amounts to General Treasury funds on deposit in the special current account it maintains in its name in the Central Bank.

9 The Board approved a procedure for publishing draft regulations being prepared by the Central Bank of Chile as per Article 35 of its Basic Constitutional Act, which involves adopting or changing Bank policies in this area, to receive comments from interested parties and the general public. For this purpose, the deadline for receiving comments can be no less than one and no more than three months. The Bank will publish the comments received on its web page, reserving the right to edit and summarize the contents and on occasion respond to these within 120 days from the deadline for receiving comments. Notwithstanding the above, the Board can adopt other initiatives to publicize and receive comments about draft regulations required from it under the law.

16 The concept of external credit regulated under Chapters XIII and XIV of the Foreign Exchange Compendium was extended to include external credits expressed or denominated in pesos or unidades de fomento, provided that these are payable in foreign currency.

The treatment under "investment" as per Chapter XII and "capital contributions" as per Chapter XIV, in the Foreign Exchange Compendium, was granted to capital contributed by companies created under Article 41 D of the Income Tax Law that is, freely convertible contributions in foreign currency and those implemented through shares and rights in companies based abroad belonging to persons without domicile or residence in Chile.

November

2 Effective as of this date, the Central Bank of Chile shall publish daily values for the exchange rate, interest rates and bonds observed in their respective markets at or about midday, for purely informational purposes.

11 At its monthly monetary policy meeting, the Board of the Central Bank decided to increase the monetary policy interest rate from 2% to 2.25% per annum.

December

9 To facilitate the issuing of instructions for the transfer of funds within the RTGS system, whose settlement is associated with or a requirement for transferring instruments using the "payment on delivery" method, and which are deposited in a private body set up for deposits and custody of securities regulated by Law 18,876, participants were authorized to be represented by a support company as per Article 74 of the General Banking Law.

23 The Board of the Central Bank of Chile set a limit on investment abroad for insurance, reinsurance, life and non-life insurance firms of 20% of their technical reserves and risk equity, maintaining the previous margin corresponding to the ceiling permitted under current legislation. This limit will remain in effect until 31 December 2005.

TABLE 1

Interest rates on Central Bank of Chile instruments (1)

Period	PDBC (2)					BCP (2)			BCU (3)			BCD (4)		BCX (5)
	30 days	60 days	90 days	360 days	2 years	2 years	5 years	10 years	5 years	10 years	20 years	2 years	5 years	1 year
2000														
December	-	-	9.30	10.00	-	-	-	-	-	-	-	-	-	-
2001														
December	6.35	6.52	6.51	7.03	-	-	-	-	-	-	-	-	-	-
2002														
December	2.80	-	2.88	-	-	4.06	5.70	-	3.20	4.09	4.93	3.18	4.63	-
2003														
January	2.93	-	2.97	-	-	4.15	5.88	-	2.79	3.83	4.77	2.86	4.50	-
February	-	-	2.94	-	-	4.17	5.73	-	2.78	3.93	4.83	2.78	4.34	-
March	-	-	2.65	-	-	4.24	5.75	-	2.50	3.78	4.87	3.07	-	-
April	2.48	-	2.48	-	-	3.97	5.57	-	2.68	3.81	4.81	2.78	-	-
May	2.43	-	2.59	-	-	4.03	5.70	-	2.94	3.91	4.90	2.57	-	-
June	2.62	-	2.78	-	-	4.01	5.71	-	2.81	3.81	4.81	2.46	-	-
July	2.91	-	2.97	-	-	4.04	5.98	-	2.76	3.87	4.78	2.63	-	-
August	2.89	-	2.94	-	-	4.26	6.02	-	2.69	3.87	4.74	3.10	4.37	-
September	2.68	-	2.84	-	-	4.51	6.23	-	2.98	4.19	4.96	3.19	4.44	-
October	2.66	-	2.75	-	-	4.21	5.97	-	3.11	4.14	5.16	3.27	4.29	-
November	2.70	-	2.72	-	-	3.44	4.98	-	3.11	4.05	-	3.39	4.33	-
December	2.45	-	2.58	-	-	3.40	4.70	-	3.25	4.27	-	-	-	-
2004														
January	1.81	-	1.80	-	-	3.08	4.31	-	2.94	3.92	-	-	-	-
February	1.66	-	1.58	-	-	2.82	4.32	-	2.66	3.79	-	-	-	-
March	1.61	-	1.57	-	-	2.69	4.16	-	2.34	3.50	-	-	-	-
April	1.47	-	1.49	-	-	2.90	4.53	-	2.50	3.82	-	-	-	-
May	1.20	-	1.31	-	-	3.29	4.87	-	2.25	3.72	-	-	-	-
June	1.48	-	1.53	-	-	3.13	4.45	-	2.43	3.79	-	-	-	-
July	1.57	-	1.66	-	-	3.17	4.67	6.41	2.35	3.64	-	-	-	2.76
August	1.67	-	1.68	-	-	3.19	4.80	6.23	2.11	3.15	-	-	-	2.59
September	2.07	-	2.33	-	-	3.50	4.96	6.07	2.35	3.27	-	-	-	2.83
October	2.11	-	2.35	-	-	4.30	5.55	6.54	2.38	3.25	-	-	-	2.37
November	2.23	-	2.34	-	-	4.10	5.09	6.17	2.41	3.17	-	-	-	4.07
December	2.07	-	2.32	-	-	4.11	4.92	5.93	2.67	3.23	-	-	-	3.78

(1) This is the monthly weighted average for promissory notes sold at auction (360-day base).
(2) Annually based nominal rate.
(3) Annualized rate on change in UF.
(4) Annualized rate on change in the observed exchange rate.
(5) Annually based nominal rate in dollars.
Source: Central Bank of Chile.

TABLE 2

Market interest rates (*)

(Monthly averages in the financial system)

Period	Non-indexed operations						UF-indexed operations		
	30-89 days			90-365 days			90-365 days		
	Deposit	Lending	Spread	Deposit	Lending	Spread	Deposit	Lending	Spread
1999 Average	8.22	11.93	3.71	8.88	17.63	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
2003 Average	2.70	6.01	3.31	3.24	12.96	9.72	1.76	4.30	2.54
2004 Average	1.92	5.01	3.09	2.40	10.98	8.58	1.07	3.17	2.10
2003									
January	2.64	5.76	3.12	3.12	13.32	10.20	2.29	5.26	2.97
February	2.64	6.00	3.36	3.12	13.80	10.68	0.47	5.11	4.64
March	2.52	5.52	3.00	3.12	12.84	9.72	0.06	3.06	3.00
April	2.52	5.64	3.12	3.12	12.60	9.48	0.58	3.06	2.48
May	2.76	6.12	3.36	3.24	12.00	8.76	3.46	5.19	1.73
June	2.76	6.00	3.24	3.36	12.84	9.48	2.66	4.74	2.08
July	2.88	6.36	3.48	3.36	12.36	9.00	1.31	4.03	2.72
August	2.88	6.48	3.60	3.36	13.68	10.32	0.49	3.31	2.82
September	2.76	6.12	3.36	3.48	13.08	9.60	0.26	2.39	2.13
October	2.76	6.12	3.36	3.36	13.20	9.84	1.40	3.98	2.58
November	2.76	6.36	3.60	3.24	12.84	9.60	3.54	5.62	2.08
December	2.52	5.64	3.12	3.00	12.96	9.96	4.59	5.89	1.30
2004									
January	2.04	5.40	3.36	2.52	12.00	9.48	4.50	5.68	1.18
February	1.68	4.92	3.24	2.16	10.80	8.64	2.00	4.63	2.63
March	1.68	5.40	3.72	2.04	10.32	8.28	0.47	2.71	2.24
April	1.68	4.68	3.00	2.04	10.08	8.04	0.05	2.39	2.34
May	1.68	5.04	3.36	2.16	10.92	8.76	0.06	1.87	1.81
June	1.80	4.92	3.12	2.28	10.92	8.64	0.39	2.36	1.97
July	1.80	5.04	3.24	2.28	11.04	8.76	0.56	2.43	1.87
August	1.68	5.16	3.48	2.16	11.40	9.24	0.22	2.56	2.34
September	1.92	4.80	2.88	2.40	11.04	8.64	0.45	2.49	2.04
October	2.04	4.44	2.40	2.64	10.44	7.80	0.45	3.09	2.64
November	2.28	5.16	2.88	2.76	12.00	9.24	0.97	3.22	2.25
December	2.76	5.16	2.40	3.36	10.80	7.44	2.77	4.65	1.88

(*) These are annual equivalent (360-day) rates.
Source: Central Bank of Chile.

TABLE 3

Main monetary aggregates

(percentage change)

Period	Month					Compared to December of the previous year					12 months				
	E	C	M1A	M2A	M7	E	C	M1A	M2A	M7	E	C	M1A	M2A	M7
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	0.3	4.1	2.4	1.9	-2.2	1.3	11.3	8.3	4.2	6.1	11.0	21.9	10.2	4.2
December	8.3	8.1	4.7	0.8	-0.4	5.9	9.5	16.5	9.2	3.7	5.9	9.5	16.5	9.2	3.7
2003															
January	-0.6	-2.7	4.7	0.5	0.8	-0.6	-2.7	4.7	0.5	0.8	7.1	10.8	18.1	8.3	3.6
February	0.1	1.1	-0.5	0.6	1.3	-0.5	-1.6	4.1	1.1	2.1	5.8	10.1	19.7	8.3	4.7
March	1.0	0.1	7.8	2.5	1.0	0.5	-1.5	12.3	3.7	3.0	7.6	10.5	29.7	10.7	5.6
April	-1.7	0.6	-2.7	-1.3	0.3	-1.2	-0.9	9.3	2.3	3.4	8.5	12.9	26.4	8.1	5.9
May	-0.3	-0.5	0.4	-3.2	-0.6	-1.5	-1.4	9.7	-1.0	2.7	5.1	11.0	24.5	5.0	5.9
June	1.9	0.4	-1.6	-1.1	-1.1	0.3	-1.0	8.0	-2.0	1.5	8.1	9.6	21.2	3.2	4.1
July	-2.3	-2.2	-3.7	-1.4	-0.8	-1.9	-3.1	4.0	-3.4	0.7	4.6	7.9	18.1	0.7	2.9
August	-0.4	-1.5	-1.0	-1.1	0.3	-2.3	-4.6	3.0	-4.5	1.0	5.6	6.3	14.6	0.1	2.9
September	2.7	3.5	3.7	1.3	0.4	0.3	-1.2	6.8	-3.2	1.4	3.5	4.5	16.4	0.4	3.0
October	-2.8	-1.9	-1.4	0.5	-1.0	-2.5	-3.1	5.4	-2.7	0.4	4.7	5.0	14.9	0.4	1.8
November	3.6	1.7	1.8	-0.6	-0.7	1.1	-1.5	7.3	-3.3	-0.3	9.5	6.5	12.3	-2.5	-0.7
December	6.2	8.0	9.6	1.7	0.4	7.3	6.4	17.6	-1.6	0.2	7.3	6.4	17.6	-1.6	0.2
2004															
January	1.8	-1.2	3.0	1.7	-0.5	1.8	-1.2	3.0	1.7	-0.5	9.9	8.0	15.7	-0.5	-1.2
February	0.5	1.8	-1.1	0.7	0.1	2.3	0.5	1.8	2.4	-0.4	10.4	8.7	15.0	-0.3	-2.3
March	-1.6	-0.4	6.4	3.1	2.5	0.7	0.1	8.4	5.6	2.1	7.6	8.2	13.5	0.2	-0.7
April	0.5	0.1	-4.0	0.1	0.3	1.2	0.2	4.1	5.7	2.4	9.9	7.6	12.0	1.6	-0.8
May	2.4	1.8	4.6	0.4	0.8	3.6	2.1	8.9	6.1	3.3	12.9	10.1	16.7	5.4	0.7
June	-0.7	1.1	1.8	0.9	0.7	2.9	3.2	10.9	7.0	4.0	10.0	10.8	20.7	7.5	2.6
July	4.0	-0.9	-0.2	2.3	0.4	7.0	2.3	10.6	9.5	4.5	17.1	12.3	25.0	11.5	3.9
August	-3.5	-1.1	0.2	1.8	1.0	3.2	1.1	10.8	11.5	5.6	13.4	12.8	26.5	14.8	4.7
September	2.4	4.3	3.6	3.4	1.5	5.7	5.4	14.8	15.2	7.2	13.1	13.6	26.4	17.1	5.8
October	0.2	-0.4	1.9	2.6	1.0	5.9	5.0	16.9	18.2	8.2	16.6	15.3	30.5	19.6	7.9
November	1.9	2.2	0.4	0.3	0.6	7.9	7.3	17.4	18.6	8.8	14.6	15.9	28.7	20.6	9.3
December	5.6	7.4	5.7	2.8	0.4	13.9	15.3	24.1	21.8	9.2	13.9	15.3	24.1	21.8	9.2

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.

Source: Central Bank of Chile.

TABLE 4

Financial system loans

Period	Domestic currency (2)										Foreign currency (3)					Total (4)				
	(billions of pesos)										(US$ million)					(billions of pesos)				
	EFECTIVE (1)					MORTGAGE					EFECTIVE									
		Percentage change					Percentage change					Percentage change					Percentage change			
		Nominal		Real			Nominal		Real			US$		Pesos	Real		Nominal		Real	
		Month	12 months	Month	12 months		Month	12 months	Month	12 months		Month	12 months	12 months	12 months		Month	12 months	Month	12 months
2003																				
January	18,381	0.3	7.5	0.4	4.5	6,308	0.3	4.0	0.4	1.0	4,303	-2.8	-1.8	0.5	-2.3	27,754	0.0	5.9	0.2	2.9
February	18,363	-0.1	6.7	0.2	3.8	6,298	-0.2	4.0	0.1	1.1	4,391	2.0	5.2	-0.5	-3.3	27,885	0.5	5.2	0.7	2.3
March	18,513	0.8	8.1	0.6	4.8	6,318	0.3	4.5	0.1	1.2	4,413	0.5	3.1	2.0	-1.2	28,156	1.0	6.5	0.7	3.2
April	18,746	1.3	9.1	0.4	4.9	6,394	1.2	5.7	0.3	1.6	4,339	-1.7	-5.1	-3.0	-6.8	28,296	0.5	6.8	-0.4	2.7
May	19,116	2.0	11.3	1.1	6.6	6,473	1.2	6.7	0.4	2.2	4,144	-4.5	-7.4	-6.0	-10.0	28,512	0.8	8.2	-0.1	3.6
June	18,960	-0.8	10.6	-0.7	6.4	6,506	0.5	6.6	0.6	2.6	4,197	1.3	2.0	0.0	-3.8	28,446	-0.2	8.5	-0.1	4.4
July	18,837	-0.6	9.4	-0.4	5.6	6,535	0.4	6.4	0.7	2.7	4,041	-3.7	-5.5	-13.7	-16.7	28,190	-0.9	5.9	-0.6	2.2
August	18,885	0.3	8.5	0.3	4.8	6,536	0.0	4.2	0.1	0.6	4,164	3.0	4.3	-12.7	-15.7	28,359	0.6	4.8	0.6	1.3
September	19,103	1.2	9.0	1.2	5.7	6,530	-0.1	6.0	-0.1	2.8	4,182	0.4	-0.5	-16.3	-18.8	28,558	0.7	5.0	0.7	1.9
October	19,265	0.8	8.3	0.7	5.4	6,548	0.3	5.8	0.1	2.9	4,238	1.3	-3.6	-23.3	-25.3	28,632	0.3	3.5	0.1	0.8
November	19,483	1.1	7.8	1.0	5.7	6,595	0.7	5.7	0.6	3.6	4,174	-1.5	-7.0	-24.0	-25.5	28,700	0.2	3.4	0.1	1.3
December	19,718	1.2	7.6	1.4	6.3	6,590	-0.1	4.8	0.1	3.5	4,399	5.4	4.8	-11.9	-13.0	29,055	1.2	4.7	1.5	3.5
2004																				
January	19,664	-0.3	7.0	0.0	5.9	6,540	-0.8	3.7	-0.5	2.6	4,308	-2.1	-6.0	-15.8	-16.6	28,786	-0.9	3.7	-0.6	2.7
February	19,777	0.6	7.7	0.8	6.6	6,499	-0.6	3.2	-0.4	2.2	4,262	-1.1	-1.5	-21.1	-21.9	28,819	0.1	3.3	0.4	2.3
March	19,895	0.6	7.5	0.8	6.8	6,437	-1.0	1.9	-0.8	1.3	4,357	2.2	1.8	-22.1	-22.6	28,921	0.4	2.7	0.5	2.1
April	20,266	1.9	8.1	1.8	8.3	6,431	-0.1	0.6	-0.2	0.8	4,544	4.3	9.4	-10.3	-10.1	29,529	2.1	4.4	2.0	4.5
May	20,554	1.4	7.5	1.0	8.2	6,382	-0.8	-1.4	-1.1	-0.8	4,781	5.2	5.5	2.2	2.9	29,923	1.3	5.0	0.9	5.6
June	20,700	0.7	9.2	0.3	9.3	6,346	-0.6	-2.5	-1.0	-2.4	4,768	-0.3	0.9	1.2	1.3	30,061	0.5	5.7	0.0	5.8
July	20,983	1.4	11.4	0.9	10.7	6,281	-1.0	-3.9	-1.5	-4.5	4,909	3.0	3.7	10.9	10.2	30,389	1.1	7.8	0.6	7.1
August	21,309	1.6	12.8	1.2	11.6	6,152	-2.1	-5.9	-2.4	-6.9	5,070	3.3	3.6	10.2	9.0	30,698	1.0	8.2	0.7	7.1
September	22,020	3.3	15.3	3.1	13.7	6,000	-2.5	-8.1	-2.7	-9.3	5,205	2.7	1.1	11.9	10.4	31,294	1.9	9.6	1.7	8.1
October	22,579	2.5	17.2	2.2	15.5	5,859	-2.4	-10.5	-2.7	-11.8	5,176	-0.6	-4.0	11.5	9.8	31,580	0.9	10.3	0.6	8.7
November	23,228	2.9	19.2	2.7	17.4	5,718	-2.4	-13.3	-2.6	-14.6	5,368	3.7	5.1	26.0	24.1	32,248	2.1	12.4	2.0	10.7
December	23,769	2.3	20.5	2.0	18.1	5,620	-1.7	-14.7	-2.0	-16.4	5,536	3.1	-1.4	18.5	16.1	32,645	1.2	12.4	0.9	10.1

(1) Actual net interbank loans. Includes only private and public sectors. Excludes securities purchased from institutions in liquidation or contingency loans.
(2) Real change deflated using average UF for the period.
(3) Change in dollar loans.
(4) Foreign currency loans are converted to pesos using accounting exchange rate published by the Superintendency of Banks and Financial Institutions (SBIF), that is the observed exchange rate on the last day of the preceding month.
Source: Central Bank of Chile.

TABLE 5

Multilateral exchange rate (MER) (1)

(2 January 1998 = 100)

Period	Total MER (1)				MER-5 (2)				Observed dollar index
		Percentage change (3)				Percentage change (3)			
	Value	Month	12 months	Compared to previous December	Value	Month	12 months	Compared to previous December	(2/Jan/98=100)
1998 Average	103.75	-	3.7 (4)	7.5 (5)	105.11	-	7.7 (4)	11.3 (5)	104.81
1999 Average	109.64	-	5.7 (4)	6.6 (5)	117.05	-	11.4 (4)	11.2 (5)	115.85
2000 Average	112.39	-	2.5 (4)	1.8 (5)	119.88	-	2.4 (4)	1.3 (5)	122.84
2001 Average	125.44	-	11.6 (4)	12.2 (5)	136.49	-	13.8 (4)	13.7 (5)	144.57
2002 Average	119.92	-	-4.4 (4)	-9.1 (5)	148.77	-	9.0 (4)	9.5 (5)	156.87
2003 Average	124.34	-	3.7 (4)	-6.8 (5)	161.04	-	8.2 (4)	-6.0 (5)	157.43
2004 Average	113.47	-	-8.7 (4)	-0.3 (5)	149.56	-	-7.1 (4)	0.0 (5)	138.79
2003									
January	125.75	5.2	1.8	5.2	163.90	5.0	17.6	5.0	164.50
February	129.69	3.1	6.2	8.5	169.81	3.6	20.5	8.8	169.68
March	130.09	0.3	9.9	8.9	169.54	-0.2	22.5	8.6	169.24
April	127.78	-1.8	11.3	6.9	163.96	-3.3	20.3	5.0	163.54
May	128.28	0.4	12.2	7.4	164.92	0.6	18.3	5.7	160.20
June	129.68	1.1	11.1	8.5	166.93	1.2	14.2	6.9	161.48
July	127.61	-1.6	5.4	6.8	163.38	-2.1	5.8	4.7	159.65
August	126.34	-1.0	4.9	5.7	162.64	-0.5	5.2	4.2	160.25
September	122.09	-3.4	-1.2	2.2	157.25	-3.3	-1.7	0.7	153.80
October	118.70	-2.8	-4.3	-0.7	154.18	-1.9	-5.2	-1.2	147.11
November	114.68	-3.4	-4.9	-4.0	149.33	-3.1	-4.9	-4.3	142.42
December	111.42	-2.8	-6.8	-6.8	146.69	-1.8	-6.0	-6.0	137.28
2004									
January	107.59	-3.4	-14.4	-3.4	141.81	-3.3	-13.5	-3.3	130.62
February	109.26	1.6	-15.8	-1.9	144.57	1.9	-14.9	-1.4	133.04
March	112.25	2.7	-13.7	0.7	147.34	1.9	-13.1	0.4	137.51
April	112.76	0.5	-11.8	1.2	147.45	0.1	-10.1	0.5	138.48
May	116.07	2.9	-9.5	4.2	152.90	3.7	-7.3	4.2	144.76
June	117.91	1.6	-9.1	5.8	156.14	2.1	-6.5	6.4	146.52
July	116.65	-1.1	-8.6	4.7	154.28	-1.2	-5.6	5.2	143.99
August	117.08	0.4	-7.3	5.1	154.50	0.1	-5.0	5.3	144.80
September	114.11	-2.5	-6.5	2.4	149.94	-2.9	-4.6	2.2	140.39
October	113.42	-0.6	-4.4	1.8	149.24	-0.5	-3.2	1.7	138.28
November	113.50	0.1	-1.0	1.9	149.89	0.4	0.4	2.2	135.87
December	111.08	-2.1	-0.3	-0.3	146.64	-2.2	0.0	0.0	131.19

(1) The Multilateral Exchange Rate Index (MER) 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) MER-5 includes the currencies of the United States, Japan, United Kingdom, Canada and the Euro zone.

(3) Monthly change is calculated against the previous month, 12-month change over the same month of the previous year and annual change over the previous December.

(4) Average annual change.

(5) December on December change.

Source: Central Bank of Chile.

TABLE 6

Real exchange rate (RER) (1)

(Average 1986 = 100)

Period		Total RER				RER-5 (2)			
			Percentage change				Percentage change		
		Value	Month	12 months	Compared to previous December	Value	Month	12 months	Compared to previous 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		95.75	-	11.3 (3)	9.0 (4)	83.53	-	11.5 (3)	7.4 (4)
2002 Average		96.86	-	1.2 (3)	1.8 (4)	88.81	-	6.3 (3)	10.0 (4)
2003 Average (5)		104.31	-	7.7 (3)	-4.7 (4)	96.11	-	8.2 (3)	-4.5 (4)
2004 Average (5)		99.40	-	4.7 (3)	3.8 (4)	91.53	-	4.8 (3)	1.9 (4)
2003 (5)	January	105.41	5.3	10.5	5.3	98.17	5.9	17.6	5.9
	February	108.69	3.1	14.9	8.6	101.85	3.8	20.6	9.9
	March	108.79	0.1	17.8	8.7	101.89	0.0	22.7	10.0
	April	106.10	-2.5	16.2	6.0	96.97	-4.8	18.4	4.7
	May	106.49	0.4	16.0	6.4	97.68	0.7	16.8	5.4
	June	108.38	1.8	14.1	8.2	99.25	1.6	13.0	7.1
	July	106.85	-1.4	7.9	6.7	97.18	-2.1	5.1	4.9
	August	106.00	-0.8	6.8	5.9	96.74	-0.5	4.8	4.4
	September	102.30	-3.5	0.8	2.2	93.65	-3.2	-1.5	1.1
	October	100.04	-2.2	-2.0	-0.1	92.07	-1.7	-4.3	-0.6
	November	97.25	-2.8	-2.6	-2.9	89.45	-2.8	-3.5	-3.5
	December	95.41	-1.9	-4.7	-4.7	88.46	-1.1	-4.5	-4.5
2004 (5)	January	92.19	-3.4	-12.5	-3.4	85.83	-3.0	-12.6	-3.0
	February	94.40	2.4	-13.1	-1.1	88.13	2.7	-13.5	-0.4
	March	97.05	2.8	-10.8	1.7	89.91	2.0	-11.8	1.6
	April	98.28	1.3	-7.4	3.0	90.25	0.4	-6.9	2.0
	May	101.32	3.1	-4.9	6.2	93.85	4.0	-3.9	6.1
	June	103.25	1.9	-4.7	8.2	95.63	1.9	-3.7	8.1
	July	102.38	-0.8	-4.2	7.3	94.46	-1.2	-2.8	6.8
	August	103.05	0.7	-2.8	8.0	94.53	0.1	-2.3	6.9
	September	100.58	-2.4	-1.7	5.4	91.67	-3.0	-2.1	3.6
	October	100.41	-0.2	0.4	5.2	91.77	0.1	-0.3	3.7
	November	100.75	0.3	3.6	5.6	92.18	0.4	3.0	4.2
	December	99.08	0.3	3.8	3.8	90.18	-2.2	1.9	1.9

(1) The real exchange rate (RER) is defined as the nominal exchange rate multiplied by relevant foreign inflation over the CPI. Foreign inflation is calculated using the WPI (or the CPI when the WPI is not available) of Chile's main trading partners, expressed in dollars, weighted by the importance of the imports and exports (excluding oil and copper, respectively) 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: the United States, Japan, United Kingdom, Canada and the Euro zone countries (Germany, France, Spain, Italy, the Netherlands, Belgium and Finland).

(3) Average annual change.

(4) December to December change.

(5) Provisional figures.

Source: Central Bank of Chile.

TABLE 7

Quarterly domestic demand

(percentage change over the same period of the previous year) (*)

Period	Quarter				Year
	I	II	III	IV	
1998	12.3	7.5	4.4	-7.6	3.7
1999	-8.5	-10.1	-6.5	2.5	-5.8
2000	6.2	9.0	4.2	4.6	6.0
2001	5.3	2.0	2.3	0.1	2.4
2002	0.2	1.3	4.9	3.2	2.4
2003 (p)	4.3	5.8	2.4	6.7	4.8
2004 (p)	6.1	5.6	9.5	10.4	7.9

(*) Calculated using figures in 1996 pesos.
(p) Preliminary figures.
Source: Central Bank of Chile.

TABLE 8

Quarterly Gross Domestic Product

(percentage change over the same period of the previous year) (*)

Period	Quarter				Year
	I	II	III	IV	
1997	4.6	6.2	7.4	8.2	6.6
1998	6.8	5.6	3.2	-2.3	3.2
1999	-2.5	-4.1	-1.1	4.8	-0.8
2000	5.5	5.1	4.2	3.2	4.5
2001	3.9	4.7	2.6	2.2	3.4
2002	1.7	1.4	2.4	3.2	2.2
2003 (p)	3.9	4.1	4.1	2.8	3.7
2004 (p)	4.7	5.3	7.0	7.3	6.1

(*) Calculated using figures in 1996 pesos.
(p) Preliminary figures.
Source: Central Bank of Chile.

TABLE 9

Gross domestic product by sector

(Annual change, percent) (1)

Sector	1997	1998	1999	2000	2001	2002	2003 (1)	2004 (2)
Agriculture, livestock and forestry	1.7	5.0	-0.8	6.0	6.1	4.5	5.2	7.0
Fishing	9.5	-6.2	6.4	8.5	12.3	13.9	-11.9	21.3
Mining	11.3	8.3	10.6	3.2	5.7	-4.2	5.0	6.9
Copper mining	11.8	8.2	14.2	3.9	5.8	-4.7	6.1	8.1
Other mining	8.6	8.6	-8.0	-1.4	5.0	-1.1	-2.4	-1.5
Manufacturing	4.7	-2.3	-0.5	4.9	0.6	1.9	3.1	6.9
Food, beverages and tobacco products	1.8	-1.3	1.7	4.8	4.1	1.8	1.1	6.4
Textiles, clothing and leather	2.3	-5.6	-6.0	-3.2	-12.1	-3.9	4.2	10.0
Wood and furniture	13.7	-3.9	2.0	8.2	-0.8	-0.3	6.6	6.1
Paper and printing	2.0	0.8	4.0	3.3	-5.3	7.8	7.8	10.4
Chemicals, oil, rubber and plastic	5.9	0.2	2.0	6.4	3.5	4.5	3.6	4.5
Non-metallic minerals and basic metal manufacture	5.4	-3.4	-9.8	6.8	1.6	-0.4	6.0	13.4
Metal products, machinery and equipment and other ncp	8.6	-7.4	-5.8	5.9	0.3	-2.2	-2.9	2.8
Electricity, gas and water	8.3	4.4	-4.7	9.5	1.5	3.3	3.8	3.8
Construction	6.3	1.9	-9.9	-0.7	4.1	2.5	4.5	5.0
Wholesale and retail trade, hotels and restaurants	7.6	3.5	-4.4	4.4	2.6	0.9	4.8	6.8
Transport	9.1	3.3	-5.4	5.7	3.3	3.9	4.8	5.6
Communications	15.3	14.2	13.6	13.6	14.1	7.4	5.5	3.2
Financial and business services (3)	7.1	6.0	-1.0	5.0	3.6	3.1	3.2	5.9
Housing real estate activities	3.9	3.4	3.0	2.3	2.1	2.2	2.1	2.2
Personal services (4)	6.1	3.2	1.9	3.5	3.2	2.7	3.4	4.1
Public administration	1.5	1.5	1.4	1.5	1.7	1.9	1.9	2.0
Subtotal	**6.4**	**3.0**	**-0.4**	**4.2**	**3.4**	**2.2**	**3.5**	**5.6**
Less: bank charges	7.4	3.8	-1.2	3.5	3.1	2.1	3.9	6.6
GDP at factor cost	6.4	3.0	-0.4	4.2	3.4	2.2	3.5	5.6
Plus: Net VAT collected	7.8	4.9	-1.2	4.5	3.1	2.2	4.1	6.6
Plus: Import duties	12.8	7.1	-12.7	15.0	2.8	1.7	10.8	21.1
Total GDP	**6.6**	**3.2**	**-0.8**	**4.5**	**3.4**	**2.2**	**3.7**	**6.1**

(1) Provisional figures.
(2) Preliminary figures.
(3) Includes financial services, insurance, rental of premises and services to firms.
(4) Includes education, health care and other services.
Source: Central Bank of Chile.

TABLE 10

National employment and unemployment (*)

(Thousands of people)

Period	Labor force		Employed		Unemployed		
	Total	Annual change, percent	Total	Annual change, percent	Total	Annual change, percent	Unemployment rate
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
2003 Average	6,062	2.6	5,550	3.1	516	-2.6	8.5
2004 Average	6,199	2.2	5,653	1.8	546	6.0	8.8
2003							
January	6,003	0.9	5,544	1.3	459	-3.7	7.6
February	6,025	1.9	5,551	2.5	474	-3.7	7.9
March	6,054	2.4	5,559	3.1	495	-4.6	8.2
April	6,072	2.8	5,554	3.1	518	-0.6	8.5
May	6,094	3.6	5,559	4.0	534	-0.4	8.8
June	6,066	3.4	5,517	3.9	549	-1.2	9.1
July	6,033	3.0	5,484	3.3	548	-0.6	9.1
August	6,021	2.9	5,457	3.2	564	0.3	9.4
September	6,015	2.3	5,451	2.7	564	-1.4	9.4
October	6,036	1.7	5,503	2.6	533	-6.3	8.8
November	6,084	1.8	5,593	2.6	491	-6.9	8.1
December	6,128	2.1	5,675	2.6	453	-3.3	7.4
2004							
January	6,132	2.2	5,679	2.4	453	-1.2	7.4
February	6,121	1.6	5,665	2.1	455	-3.9	7.4
March	6,139	1.4	5,640	1.5	500	0.9	8.1
April	6,161	1.5	5,623	1.2	538	3.8	8.7
May	6,159	1.1	5,578	0.3	581	8.7	9.4
June	6,140	1.2	5,550	0.6	590	7.5	9.6
July	6,097	1.1	5,508	0.4	589	7.4	9.7
August	6,136	1.9	5,530	1.3	605	7.3	9.9
September	6,157	2.4	5,558	2.0	600	6.3	9.7
October	6,239	3.4	5,650	2.7	589	10.4	9.4
November	6,285	3.3	5,746	2.7	539	9.9	8.6
December	6,358	3.7	5,863	3.3	495	9.2	7.8

(*) Population 15 years and over.
Source: National Statistics Bureau (INE).

TABLE 11

Balance of payments

(US$ million)

Item	1997	1998	1999	2000	2001	2002 (1)	2003 (1)	2004 (1)
1. Current account	**-3,660**	**-3,918**	**99**	**-897**	**-1,100**	**-580**	**-1,102**	**1,390**
A. Goods and services	**-1,563**	**-2,492**	**1,690**	**1,400**	**999**	**1,684**	**2,905**	**8,439**
a. Goods	-1,428	-2,040	2,427	2,119	1,843	2,386	3,522	9,019
1. Exports	17,870	16,323	17,162	19,210	18,272	18,180	21,524	32,025
2. Imports	-19,298	-18,363	-14,735	-17,091	-16,428	-15,794	-18,002	-23,006
b. Services	-136	-452	-737	-719	-844	-701	-617	-580
1. Credits	3,892	3,952	3,869	4,083	4,138	4,386	4,950	5,956
2. Debits	-4,028	-4,404	-4,606	-4,802	-4,983	-5,087	-5,567	-6,537
B. Income	**-2,617**	**-1,889**	**-2,233**	**-2,856**	**-2,526**	**-2,847**	**-4,606**	**-8,101**
1. Employee wages	-21	-16	-14	-2	-4	-3	-4	-3
2. Investment income	-2,597	-1,873	-2,219	-2,853	-2,522	-2,843	-4,603	-8,097
Income from direct investment (2)	-1,943	-1,136	-1,413	-1,971	-1,604	-2,158	-3,959	-7,391
Abroad	243	266	54	568	646	289	652	662
In Chile	-2,185	-1,401	-1,467	-2,539	-2,250	-2,447	-4,611	-8,052
Income from portfolio investment	-355	-362	-347	-402	-502	-459	-488	-702
Dividends	-252	-211	-114	-66	-118	-93	28	-246
Interest	-104	-152	-233	-336	-383	-367	-516	-457
Income from other investment	-299	-375	-459	-480	-416	-226	-156	-4
Credits	923	924	803	929	776	561	442	432
Debits	-1,222	-1,298	-1,262	-1,408	-1,192	-787	-598	-436
C. Current transfers	**520**	**462**	**643**	**558**	**427**	**583**	**599**	**1,051**
1. Credits	835	810	841	765	713	954	928	1,395
2. Debits	-315	-348	-198	-207	-286	-372	-329	-344
2. Financial and capital accounts	**3,422**	**4,160**	**975**	**451**	**1,958**	**1,519**	**2,027**	**-328**
A. Capital account	**0**	**0**	**0**	**0**	**0**	**83**	**0**	**5**
B. Financial account	**3,422**	**4,160**	**975**	**451**	**1,958**	**1,436**	**2,027**	**-333**
1. Direct investment	3,809	3,144	6,203	873	2,590	2,207	2,501	6,660
Direct investment abroad	-1,463	-1,483	-2,558	-3,987	-1,610	-343	-1,884	-943
Shares and other equity	-1,148	-1,263	-1,896	-3,573	-1,111	310	-705	-136
Reinvested profits	-134	-167	91	-385	-331	-231	-536	-597
Other capital (3)	-181	-53	-753	-28	-168	-421	-643	-210
Direct investment in Chile	5,271	4,628	8,761	4,860	4,200	2,550	4,385	7,603
Shares and other equity	4,211	4,155	8,863	2,817	3,424	1,309	1,442	1,115
Reinvested profits	781	342	281	1,171	1,105	1,367	3,525	6,177
Other capital (3)	279	131	-383	872	-329	-126	-581	311
2. Portfolio investment	1,625	-2,469	-3,217	639	139	-2,317	-2,118	-3,434
Assets	-989	-3,311	-5,795	766	-1,386	-3,316	-4,172	-4,557
Liabilities	2,614	842	2,578	-127	1,525	999	2,054	1,123
3. Financial derivatives	165	-59	-6	2	-86	-124	118	-84
Assets	1,079	695	560	513	1,032	1,788	1,840	639
Liabilities	-914	-754	-565	-510	-1,118	-1,912	-1,722	-723
4. Other investment (4)	1,143	1,350	-2,743	-727	-1,282	1,869	1,160	-3,666
Assets	-457	-1,953	-3,369	-2,065	-1,326	1,141	-384	-2,966
Liabilities	1,600	3,303	626	1,338	44	728	1,544	-700
5. Reserve assets	-3,320	2,194	738	-337	596	-199	366	191
3. Errors and omissions	**238**	**-242**	**-1,074**	**447**	**-858**	**-939**	**-925**	**-1,061**
Memorandum								
Balance of payments (surplus/deficit)	3,320	-2,194	-738	337	-596	199	-366	-191
Financial and capital accounts less reserve assets	6,742	1,966	237	787	1,362	1,717	1,661	-519

(1) Provisional figures.

(2) Includes interest on other capital.

(3) Refers to credits between related firms.

(4) Other short-term net investment flows:	*-1,908*	*-2,304*	*-4,054*	*-126*	*-1,088*	*2,172*	*1,746*	*-2,541*
Assets	*-416*	*-1,946*	*-3,373*	*-1,921*	*-649*	*1,073*	*-256*	*-3,078*
Liabilities	*-1,491*	*-358*	*-681*	*1,795*	*-439*	*1,099*	*2,002*	*536*

Source: Central Bank of Chile.

TABLE 12

Balance of trade

(US$ million)

Item	1997	1998	1999	2000	2001	2002 (*)	2003 (*)	2004 (*)
Balance of trade (surplus/deficit)	**-1,428**	**-2,041**	**2,427**	**2,119**	**1,844**	**2,386**	**3,522**	**9,019**
Exports total goods (fob)	**17,870**	**16,322**	**17,162**	**19,210**	**18,272**	**18,180**	**21,524**	**32,025**
General goods	17,325	15,913	16,734	18,679	17,840	17,793	21,034	31,476
General tariff regime	15,955	14,457	15,663	17,682	16,964	17,054	20,189	30,605
Copper	6,647	5,197	6,026	7,284	6,537	6,323	7,766	14,358
Non-copper	9,308	9,259	9,636	10,397	10,427	10,730	12,423	16,247
Duty-free zone	1,370	1,456	1,072	997	876	739	845	871
Repairs on goods	0	0	0	0	0	2	1	1
Goods acquired in port	126	131	123	188	168	129	187	228
Non-monetary gold	418	279	304	343	264	256	301	320
Memorandum:								
Non-copper goods	11,223	11,125	11,135	11,925	11,735	11,857	13,758	17,666
Imports total goods (fob)	**19,298**	**18,363**	**14,735**	**17,091**	**16,428**	**15,794**	**18,002**	**23,006**
Imports total goods (cif)	**20,800**	**19,853**	**15,962**	**18,465**	**17,799**	**17,146**	**19,381**	**24,871**
General goods	20,468	19,524	15,715	18,179	17,503	16,877	19,043	24,491
General tariff regime	18,610	17,526	14,439	17,026	16,399	15,891	17,753	23,027
Consumer goods	3,356	3,125	2,587	3,076	2,898	2,818	3,145	3,958
Intermediate goods	10,071	9,593	8,776	10,520	9,951	9,615	10,956	14,384
Fuel	1,763	1,427	1,930	2,865	2,589	2,463	3,100	4,397
(Oil)	1,169	861	1,248	1,994	1,727	1,615	2,126	2,875
Non-oil	595	566	682	871	862	848	975	1,522
Other	8,307	8,166	6,846	7,655	7,362	7,152	7,856	9,987
Capital goods	5,184	4,808	3,076	3,430	3,549	3,458	3,652	4,684
Duty-free zone	1,858	1,998	1,277	1,153	1,105	987	1,290	1,464
Repairs on goods	76	75	53	63	72	52	55	62
Goods acquired in port	257	254	194	224	224	217	283	319
Memorandum								
Non-oil goods	19,632	18,991	14,714	16,471	16,072	15,531	17,255	21,996

(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 13

Foreign trade indicators

Item	1997	1998	1999	2000	2001	2002 (*)	2003 (*)	2004 (*)
Copper price LME (US$/lb)	1.032	0.75	0.714	0.823	0.716	0.706	0.807	1.301
Oil price (US$/barrel cif)	19.2	12.8	16.3	28.5	23.9	26.2	33.1	40.4
Libor US$ to 180 days (nominal)	5.8%	5.0%	5.0%	6.7%	3.7%	1.9%	1.2%	1.8%
Total foreign inflation	-3.7%	-4.4%	-1.4%	2.4%	-2.0%	-4.6%	10.5%	9.2%
Terms of trade index (1996 = 100)								
Total goods	100.1	96.2	99.8	105.9	99.0	103.2	112.5	138.0
Total non-copper and non-oil	97.3	104.4	111.2	119.7	111.9	116.0	126.3	137.6
Total exports								
Change by value	7.5%	-8.7%	5.1%	11.9%	-4.9%	-0.5%	18.4%	48.8%
Change by price (fob)	-2.6%	-15.2%	-0.3%	6.7%	-12.1%	-0.8%	11.3%	31.4%
Change by volume	10.3%	7.7%	5.4%	4.9%	8.2%	0.3%	6.4%	13.2%
Copper exports								
Change by value	10.3%	-21.8%	16.0%	20.9%	-10.3%	-3.3%	22.8%	84.9%
Change by price (fob)	-5.6%	-27.3%	0.5%	14.8%	-14.0%	0.2%	18.2%	59.2%
Change by volume	16.8%	7.5%	15.4%	5.3%	4.3%	-3.5%	3.9%	16.1%
Non-copper exports								
Change by value	5.9%	-0.9%	0.1%	7.1%	-1.6%	1.0%	16.0%	28.4%
Change by price (fob)	-0.7%	-8.1%	-0.7%	2.3%	-11.1%	-1.4%	7.7%	15.1%
Change by volume	6.6%	7.9%	0.8%	4.7%	10.6%	2.5%	7.7%	11.6%
Imports of goods (cif)								
Change by value	9.0%	-4.6%	-19.6%	15.7%	-3.7%	-3.3%	13.1%	28.4%
Change by price	-2.6%	-11.0%	-5.6%	1.6%	-5.2%	-4.6%	3.2%	7.8%
Change by volume	11.9%	7.2%	-14.8%	13.9%	1.6%	1.4%	9.6%	19.1%

(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 14

Investment yields

(US$ million)

Item	1997	1998	1999	2000	2001	2002 (1)	2003 (1)	2004 (1)
I. Direct investment	**-1,943**	**-1,136**	**-1,413**	**-1,971**	**-1,604**	**-2,158**	**-3,959**	**-7,391**
1. Income from equity	**-1,797**	**-983**	**-1,192**	**-1,713**	**-1,376**	**-1,908**	**-3,839**	**-7,209**
Abroad	240	257	47	551	587	277	650	650
Dividends and profits received	106	90	138	166	256	46	114	53
Profits reinvested abroad	134	167	-91	385	331	231	536	597
In Chile	-2,036	-1,240	-1,239	-2,264	-1,963	-2,185	-4,489	-7,859
Dividends and profits paid out	-1,255	-899	-957	-1,093	-859	-818	-964	-1,683
Reinvestment of profits in Chile	-781	-342	-281	-1,171	-1,105	-1,367	-3,525	-6,177
2. Income from debt (interest)	**-146**	**-152**	**-221**	**-259**	**-228**	**-250**	**-121**	**-181**
II. Portfolio investment	**-355**	**-362**	**-347**	**-402**	**-502**	**-459**	**-488**	**-702**
Income from equity	-252	-211	-114	-66	-118	-93	28	-246
Credits	4	7	55	88	25	137	222	178
Debits	-255	-218	-169	-154	-143	-230	-193	-424
Income from debt	-104	-152	-233	-336	-383	-367	-516	-457
Credits	0	0	0	0	0	114	108	238
Debits	-104	-152	-233	-336	-383	-481	-624	-694
III. Other investment	**-299**	**-375**	**-459**	**-480**	**-416**	**-226**	**-156**	**-4**
1. Medium term	**-1,053**	**-1,156**	**-1,168**	**-1,346**	**-1,102**	**-738**	**-554**	**-397**
Public sector	-268	-238	-256	-293	-235	-149	-106	-74
Central Bank	-7	-7	-4	-7	-6	0	0	0
Non-financial public sector	-261	-231	-252	-286	-229	-149	-106	-74
Financial sector (2)	-82	-81	-77	-135	-37	-10	-30	-23
Non-financial private sector	-703	-837	-835	-919	-830	-579	-419	-301
2. Short term	**755**	**781**	**710**	**867**	**686**	**512**	**398**	**393**
Public sector	782	798	659	759	639	430	330	332
Central Bank	831	846	705	798	681	450	345	339
Non-financial public sector	-48	-48	-45	-40	-42	-19	-15	-7
Financial sector (2)	-10	2	17	34	12	29	36	27
Non-financial private sector	-18	-19	33	74	35	52	32	33
Total	**-2,597**	**-1,873**	**-2,219**	**-2,853**	**-2,522**	**-2,843**	**-4,603**	**-8,097**
Credits	1,174	1,374	1,140	1,584	1,446	1,212	1,441	1,510
Debits	-3,770	-3,247	-3,359	-4,438	-3,969	-4,055	-6,043	-9,607
Memorandum:								
Direct investment	**-1,943**	**-1,136**	**-1,413**	**-1,971**	**-1,604**	**-2,158**	**-3,959**	**-7,391**
Credits	247	444	282	568	646	399	670	662
Debits	-2,189	-1,579	-1,695	-2,539	-2,250	-2,557	-4,629	-8,052
Portfolio investment	**-355**	**-362**	**-347**	**-402**	**-502**	**-459**	**-488**	**-702**
Credits	4	7	55	88	25	251	329	416
Debits	-359	-369	-402	-490	-527	-711	-817	-1,118
Other investment	**-299**	**-375**	**-459**	**-480**	**-416**	**-226**	**-156**	**-4**
Credits	923	924	803	929	776	561	442	432
Debits	-1,222	-1,298	-1,262	-1,409	-1,192	-787	-598	-436

(1) Provisional figures.
(2) Includes BancoEstado.
Source: Central Bank of Chile.

TABLE 15

Services

(US$ million)

Item	1997	1998	1999	2000	2001	2002 (*)	2003 (*)	2004 (*)
I. Transportation	**-74**	**-88**	**-21**	**-4**	**34**	**-94**	**133**	**77**
Passengers	5	41	52	77	154	65	123	159
Credits	298	326	332	360	385	323	382	463
Debits	-293	-286	-280	-284	-231	-259	-259	-304
Freight	318	359	459	501	433	270	506	603
Credits	1,137	1,158	1,247	1,316	1,294	1,229	1,489	1,890
Debits	-818	-799	-788	-815	-861	-960	-983	-1,286
Other	-397	-488	-532	-581	-553	-429	-496	-686
Credits	383	426	460	512	615	653	776	945
Debits	-780	-914	-992	-1,093	-1,167	-1,081	-1,272	-1,630
II. Travel	**265**	**216**	**159**	**200**	**90**	**225**	**85**	**199**
Credits	1,103	1,105	911	819	799	898	859	1,091
Debits	-839	-888	-752	-620	-708	-673	-775	-892
III. Other	**-327**	**-580**	**-875**	**-915**	**-969**	**-832**	**-835**	**-856**
Communications services	12	42	53	97	30	25	23	31
Credits	192	203	183	207	125	162	133	147
Debits	-180	-162	-130	-110	-95	-137	-111	-116
Insurance services	-77	-69	-77	-116	-140	-215	-296	-269
Credits	90	68	77	76	71	138	145	154
Debits	-167	-137	-153	-192	-211	-353	-441	-424
Financial services	-88	-136	-199	-184	-169	-206	-229	-245
Credits	27	27	42	38	34	25	28	30
Debits	-115	-163	-242	-222	-203	-230	-257	-275
Information technology services	-1	-13	-20	-45	-4	22	35	21
Credits	26	26	30	33	43	63	81	71
Debits	-27	-39	-50	-78	-47	-41	-46	-49
Royalties and copyright	-130	-218	-318	-288	-244	-210	-212	-235
Credits	10	5	6	10	25	41	45	48
Debits	-140	-223	-324	-298	-269	-251	-257	-283
Other business services	-8	-118	-252	-308	-368	-179	-135	-141
Credits	505	488	470	602	652	745	864	960
Debits	-513	-606	-722	-909	-1,019	-925	-998	-1,101
Recreational, cultural and personal services	-2	-17	-19	-22	-7	-5	28	33
Credits	28	28	23	22	29	39	68	73
Debits	-30	-45	-42	-44	-36	-44	-39	-40
Government and other services (NIOI)	-33	-51	-44	-49	-67	-63	-50	-51
Credits	92	93	89	88	68	70	79	84
Debits	-126	-143	-133	-138	-135	-134	-130	-136
IV. Total (I+II+III)	**-136**	**-452**	**-737**	**-719**	**-844**	**-701**	**-617**	**-580**
Credits	3,892	3,952	3,869	4,083	4,138	4,386	4,950	5,956
Debits	-4,028	-4,404	-4,606	-4,802	-4,983	-5,087	-5,567	-6,537

NIOI: not included in other items.
(*) Provisional figures.
Source: Central Bank of Chile.

TABLE 16

Balance of payments financial account flows

(US$ million)

Item	1997	1998	1999	2000	2001	2002 (*)	2003 (*)	2004 (*)
Financial account	3,422	4,160	975	451	1,958	1,436	2,027	-333
I. Direct investment	3,809	3,144	6,203	873	2,590	2,207	2,501	6,660
Investment abroad (assets)	-1,463	-1,483	-2,558	-3,987	-1,610	-343	-1,884	-943
Equity	-1,148	-1,263	-1,896	-3,573	-1,111	310	-705	-136
Credits	230	151	486	484	1,157	1,793	632	862
Debits	-1,378	-1,414	-2,383	-4,057	-2,268	-1,484	-1,337	-998
Other capital	-181	-53	-753	-28	-168	-421	-643	-210
Credits	26	148	178	458	581	449	112	995
Debits	-206	-202	-931	-487	-749	-871	-755	-1,205
Net reinvestment	-134	-167	91	-385	-331	-231	-536	-597
From abroad (liabilities)	5,271	4,628	8,761	4,860	4,200	2,550	4,385	7,603
Equity	4,211	4,155	8,863	2,817	3,424	1,309	1,442	1,115
Inflows (credits)	4,662	4,851	9,418	3,264	4,672	3,196	2,156	4,754
Re-exported (debits)	-451	-697	-555	-447	-1,248	-1,887	-714	-3,639
Other capital	279	131	-383	872	-329	-126	-581	311
Disbursements (credits)	418	405	189	1,367	594	1,426	590	1,729
Amortizations (debits)	-139	-273	-572	-494	-923	-1,552	-1,172	-1,419
Net reinvestment	781	342	281	1,171	1,105	1,367	3,525	6,177
II. Portfolio investment	1,625	-2,469	-3,217	639	139	-2,317	-2,118	-3,434
Assets	-989	-3,311	-5,795	766	-1,386	-3,316	-4,172	-4,557
Equity securities	-743	-2,518	-3,474	821	-2,094	-3,272	-4,356	-3,821
Debt securities	-246	-792	-2,321	-55	708	-44	184	-736
Bonds and promissory notes	-246	-792	-1,872	-64	740	-434	-23	-127
Money market instruments	0	0	-448	10	-32	390	207	-609
Liabilities	2,614	842	2,578	-127	1,525	999	2,054	1,123
Equity securities	1,720	580	524	-427	-217	-320	318	8
Debt securities	894	262	2,054	300	1,742	1,319	1,736	1,116
Bonds and promissory notes	894	262	2,054	300	1,742	1,319	1,736	1,116
Money market instruments								
III. Financial derivatives	165	-59	-6	2	-86	-124	118	-84
Assets	1,079	695	560	513	1,032	1,788	1,840	639
Liabilities	-914	-754	-565	-510	-1,118	-1,912	-1,722	-723
IV. Other investment	1,143	1,350	-2,743	-727	-1,282	1,869	1,160	-3,666
Assets	-457	-1,953	-3,369	-2,065	-1,326	1,141	-384	-2,966
Trade credits	-70	-118	-999	-1,135	-397	685	-996	-1,546
Loans	-32	-214	-380	-82	-193	427	44	0
Currencies and deposits	-355	-1,621	-1,990	1,503	648	28	628	-1,421
Other assets	0	0	0	-2,351	-1,384	0	-60	0
Liabilities	1,600	3,303	626	1,338	44	728	1,544	-700
Trade credits	-113	-595	-232	271	-262	-60	-35	725
Loans	1,775	4,033	1,019	1,029	318	777	1,461	-1,340
Currencies and deposits	-2	2	-2	1	35	12	121	-92
Other liabilities	-60	-138	-159	36	-47	-2	-2	7
V. Reserve assets	-3,320	2,194	738	-337	596	-199	366	191
Memorandum								
Financial account less reserve assets	6,742	1,966	237	787	1,362	1,634	1,661	-524

(1) Provisional figures.

Source: Central Bank of Chile.

TABLE 17

Gross foreign debt, by institutional sector (1) (2)

(US$ million)

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004 (4)
I. General Government	**2,669**	**2,284**	**2,183**	**2,594**	**2,420**	**2,887**	**3,565**	**4,551**	**4,720**
1. Short term	0	0	0	0	0	0	0	0	0
Money market instruments	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Trade credits	0	0	0	0	0	0	0	0	0
Other debt	0	0	0	0	0	0	0	0	0
2. Long term	2,669	2,284	2,183	2,594	2,420	2,887	3,565	4,551	4,720
Bonds and promissory notes (3)	0	0	0	500	500	1,145	2,098	3,159	3,433
Loans	2,669	2,284	2,183	2,094	1,920	1,742	1,467	1,392	1,287
Trade credits	0	0	0	0	0	0	0	0	0
Other debt	0	0	0	0	0	0	0	0	0
II. Monetary authorities	**189**	**165**	**92**	**26**	**62**	**15**	**12**	**10**	**17**
1. Short term	186	162	89	24	60	13	11	9	16
Money market instruments	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Currencies and deposits	0	0	0	0	0	0	0	0	0
Other debt	186	162	89	24	60	13	11	9	16
2. Long term	3	3	3	2	2	2	1	1	1
Bonds and promissory notes (3)	0	0	0	0	0	0	0	0	0
Loans	3	3	3	2	2	2	1	1	1
Currencies and deposits	0	0	0	0	0	0	0	0	0
Other debt	0	0	0	0	0	0	0	0	0
III. Banks	**3,619**	**2,506**	**2,785**	**2,038**	**1,758**	**2,527**	**3,825**	**5,421**	**6,286**
1. Short term	2,392	752	878	266	435	1,085	1,289	2,425	2,319
Money market instruments	0	0	0	0	0	0	0	0	0
Loans	2,384	746	870	260	428	1,043	1,234	2,251	2,236
Currencies and deposits	8	6	8	6	7	42	55	174	83
Other debt	0	0	0	0	0	0	0	0	0
2. Long term	1,227	1,754	1,907	1,772	1,323	1,442	2,536	2,996	3,967
Bonds and promissory notes (3)	0	400	600	600	600	600	595	587	1,287
Loans	1,227	1,354	1,307	1,172	723	842	1,941	2,409	2,680
Currencies and deposits	0	0	0	0	0	0	0	0	0
Other debt	0	0	0	0	0	0	0	0	0
IV. Other sectors (4)	**16,438**	**20,372**	**23,216**	**25,781**	**27,640**	**28,161**	**28,451**	**29,174**	**28,149**
1. Short term	4,466	4,608	4,155	4,018	5,276	4,059	4,101	4,913	4,967
Money market instruments	0	0	0	0	0	0	0	0	0
Loans	438	692	834	929	1,865	875	668	1,219	824
Currencies and deposits	0	0	0	0	0	0	0	0	0
Trade credits	4,028	3,916	3,321	3,089	3,411	3,184	3,433	3,694	4,143
Other debt	0	0	0	0	0	0	0	0	0
2. Long term	11,972	15,764	19,061	21,763	22,364	24,102	24,350	24,261	23,182
Bonds and promissory notes (3)	1,194	1,648	1,683	3,217	3,503	4,582	5,023	5,522	5,832
Loans	9,862	12,440	14,950	16,271	16,644	17,332	17,283	16,828	15,491
Currencies and deposits	0	0	0	0	0	0	0	0	0
Trade credits	916	1,676	2,428	2,275	2,217	2,188	2,044	1,911	1,859
Other debt	0	0	0	0	0	0	0	0	0
V. Direct investment: Loans among firms	**3,357**	**3,707**	**4,315**	**4,319**	**5,297**	**4,948**	**4,822**	**4,240**	**4,592**
1. Short term	1	0	8	9	401	133	422	157	405
2. Long term	3,356	3,707	4,307	4,310	4,896	4,815	4,400	4,083	4,187
VI. Gross foreign debt	**26,272**	**29,034**	**32,591**	**34,758**	**37,177**	**38,538**	**40,675**	**43,396**	**43,764**

(1) Nominal value, original maturity, through December of each year.
(2) Excludes accrued interest.
(3) Excludes bonds from resident issuers held by Chileans.
(4) Preliminary figures.

TABLE 18

Gross foreign debt, by maturity (1)

(US$ million)

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004 (3)
I. Foreign debt (II + III)	**26,272**	**29,034**	**32,591**	**34,758**	**37,177**	**38,538**	**40,675**	**43,396**	**43,764**
1. Public sector	6,011	5,470	5,792	5,989	6,019	6,124	7,193	9,317	9,881
General Government (2)	3,119	2,408	2,290	2,709	2,512	2,959	3,620	4,586	4,732
Monetary authorities	189	165	92	26	62	15	12	10	17
Banks	370	398	301	286	226	55	149	328	291
Other	2,333	2,499	3,109	2,968	3,219	3,095	3,412	4,393	4,841
2. Private sector	20,261	23,564	26,799	28,769	31,158	32,414	33,482	34,079	33,883
Banks	2,934	2,092	2,470	1,740	1,522	2,466	3,671	5,093	5,995
Other	17,327	21,472	24,329	27,029	29,636	29,948	29,811	28,986	27,888
Non-bank financial firms	154	324	417	174	163	102	110	93	92
Non-financial firms (companies)	17,093	21,085	23,830	26,775	29,425	29,821	29,663	28,849	27,744
Households and non-profit organizations	80	63	82	80	48	25	38	44	52
II. Long-term foreign debt	**19,227**	**23,512**	**27,461**	**30,441**	**31,005**	**33,248**	**34,852**	**35,892**	**36,057**
1. Public sector	4,831	4,267	4,781	5,241	4,990	5,346	6,255	7,881	9,131
General Government (2)	3,119	2,408	2,290	2,709	2,512	2,959	3,620	4,586	4,732
Monetary authorities	3	3	3	2	2	2	1	1	1
Banks	355	353	293	285	225	54	50	15	227
Other	1,354	1,503	2,195	2,245	2,251	2,331	2,584	3,279	4,171
2. Private sector	14,396	19,245	22,680	25,200	26,015	27,902	28,597	28,011	26,926
Banks	557	1,385	1,600	1,475	1,088	1,382	2,481	2,981	3,740
Other	13,839	17,860	21,080	23,725	24,927	26,520	26,116	25,030	23,186
Non-bank financial firms	154	324	417	174	163	102	110	93	92
Non-financial firms (companies)	13,606	17,474	20,582	23,472	24,717	26,394	25,971	24,897	23,047
Households and non-profit organizations	79	62	81	79	47	24	35	40	47
III. Short-term foreign debt	**7,045**	**5,522**	**5,130**	**4,317**	**6,172**	**5,290**	**5,823**	**7,504**	**7,707**
1. Public sector	1,180	1,203	1,011	748	1,029	778	938	1,436	750
General Government (2)	0	0	0	0	0	0	0	0	0
Monetary authorities	186	162	89	24	60	13	11	9	16
Banks	15	45	8	1	1	1	99	313	64
Other	979	996	914	723	968	764	828	1,114	670
2. Private sector	5,865	4,319	4,119	3,569	5,143	4,512	4,885	6,068	6,957
Banks	2,377	707	870	265	434	1,084	1,190	2,112	2,255
Other	3,488	3,612	3,249	3,304	4,709	3,428	3,695	3,956	4,702
Non-bank financial firms	0	0	0	0	0	0	0	0	0
Non-financial firms (companies)	3,487	3,611	3,248	3,303	4,708	3,427	3,692	3,952	4,697
Households and non-profit organizations	1	1	1	1	1	1	3	4	5

(1) Nominal value, original maturity, figures through December of each year.

(2) Includes private sector with public guarantee.

(3) Preliminary figures.

Source: Central Bank of Chile.

TABLE 19

Long-term foreign debt by institutional sector, annual transactions (1)

(US$ million)

item	1996	1997	1998	1999	2000	2001	2002	2003	2004 (2)
General Government									
Balance owing	2,669	2,284	2,183	2,594	2,420	2,887	3,565	4,551	4,720
Disbursement	151	176	111	640	119	765	1,097	1,186	977
Amortization	667	517	242	244	247	254	483	302	851
Interest	204	163	120	147	165	152	130	253	265
Monetary authorities									
Balance owing	3	3	3	2	2	2	1	1	1
Disbursement	0	0	0	0	0	0	0	0	0
Amortization	1,475	0	0	0	0	0	0	0	0
Interest	61	0	0	0	0	0	0	0	0
Banks									
Balance owing	1,227	1,754	1,907	1,772	1,323	1,442	2,536	2,996	3,967
Disbursement	348	951	315	31	6	464	1,749	2,435	3,321
Amortization	541	424	162	166	455	345	655	1,975	2,346
Interest	72	106	109	119	177	82	60	82	80
Other sectors									
Balance owing	11,972	15,764	19,061	21,763	22,364	24,102	24,350	24,261	23,182
Disbursement	5,106	5,581	5,105	5,118	3,636	5,166	4,376	3,060	2,890
Amortization	2,134	1,747	1,805	2,414	2,974	3,329	3,912	3,189	3,969
Interest	654	782	927	1,103	1,309	1,284	1,003	807	724
Direct investment: loans among firms									
Balance owing	3,356	3,707	4,307	4,310	4,896	4,815	4,400	4,083	4,187
Disbursement	432	602	1,103	634	1,139	498	928	492	1,162
Amortization	197	251	503	631	553	579	1,459	801	1,060
Interés	102	128	148	164	236	177	252	118	185
Balance owing	19,227	23,512	27,461	30,441	31,005	33,248	34,852	35,892	36,057
Disbursement	6,037	7,310	6,634	6,423	4,900	6,893	8,150	7,173	8,350
Amortization	5,014	2,939	2,712	3,455	4,229	4,507	6,509	6,267	8,226
Interest	1,093	1,179	1,304	1,533	1,887	1,695	1,445	1,260	1,254

(1) Original maturity in contract, preliminary figures through December of each year.
(2) Preliminary figures.
Source: Central Bank of Chile.

TABLE 20

Gross short-term residual foreign debt, by institutional sector (1) (2)

(US$ million)

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004 (3)
General Government	**222**	**241**	**241**	**246**	**248**	**248**	**168**	**176**	**479**
Short-term debt by original maturity	0	0	0	0	0	0	0	0	0
Long-term debt falling due within the year	222	241	241	246	248	248	168	176	479
Monetary authorities	**186**	**162**	**89**	**24**	**60**	**13**	**11**	**9**	**16**
Short-term debt by original maturity	186	162	89	24	60	13	11	9	16
Long-term debt falling due within the year	0	0	0	0	0	0	0	0	0
Banks	**2,490**	**1,029**	**958**	**435**	**686**	**1,789**	**2,987**	**4,638**	**4,814**
Short-term debt by original maturity	2,392	752	878	266	435	1,085	1,289	2,425	2,319
Long-term debt falling due within the year	98	277	80	169	251	704	1,698	2,213	2,495
Other sectors	**5,748**	**5,940**	**6,140**	**6,120**	**8,566**	**6,948**	**7,655**	**7,390**	**7,706**
Short-term debt by original maturity	4,466	4,608	4,155	4,018	5,276	4,059	4,101	4,913	4,967
Long-term debt falling due within the year	1,282	1,332	1,985	2,102	3,290	2,889	3,554	2,477	2,739
Direct investment: loans among firms	**216**	**457**	**244**	**320**	**676**	**946**	**770**	**754**	**922**
Short-term debt by original maturity	1		8	9	401	133	422	157	405
Long-term debt falling due within the year	215	457	236	311	275	813	348	597	517
Total	**8,862**	**7,829**	**7,672**	**7,145**	**10,236**	**9,944**	**11,591**	**12,967**	**13,937**
Short-term debt by original maturity	7,045	5,522	5,130	4,317	6,172	5,290	5,823	7,504	7,707
Long-term debt falling due within the year	1,817	2,307	2,542	2,828	4,064	4,654	5,768	5,463	6,230

(1) Nominal value, figures through December of each year.

(2) Excludes accrued interest.

(3) Preliminary figures.

Source: Central Bank of Chile.

TABLE 21

Gross short-term residual foreign debt, by type of instrument (1) (2)

(US$ million)

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004 (3)
Total	**8,862**	**7,829**	**7,672**	**7,145**	**10,236**	**9,944**	**11,591**	**12,967**	**13,937**
Short-term debt by original maturity	7,045	5,522	5,130	4,317	6,172	5,290	5,823	7,504	7,707
Money market instruments	0	0	0	0	0	0	0	0	0
Loans	2,823	1,438	1,712	1,198	2,694	2,051	2,324	3,627	3,465
Currencies and deposits	8	6	8	6	7	42	55	174	83
Trade credits	4,028	3,916	3,321	3,089	3,411	3,184	3,433	3,694	4,143
Other debt	186	162	89	24	60	13	11	9	16
Long-term debt falling due within a year	1,817	2,307	2,542	2,828	4,064	4,654	5,768	5,463	6,230
Bonds and promissory notes	0	151	0	0	0	12	361	167	794
Loans	1,635	1,999	2,077	2,451	3,723	4,374	5,185	4,995	5,282
Currencies and deposits	0	0	0	0	0	0	0	0	0
Trade credits	182	157	465	377	341	268	222	301	154
Other debt	0	0	0	0	0	0	0	0	0

(1) Nominal value, figures through December of each year.
(2) Excludes accrued interest.
(3) Preliminary figures.
Source: Central Bank of Chile.

TABLE 22

Price indices

Period	CPI (December 1998=100) Index	CPI Percentage change Month	CPI Percentage change 12 months	CPI less perishables and fuels (1) (December 1998=100) Index	Percentage change Month	Percentage change 12 months	WPI (June 1992=100) Index	WPI Percentage change Month	WPI Percentage change 12 months
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)
2003 average	114.5	-	1.1 (2)	112.7	-	1.6 (2)	202.3	-	-1.0 (2)
2004 average	115.7	-	2.4 (2)	113.7	-	1.8 (2)	207.4	-	7.8 (2)
2003									
January	113.0	0.1	3.0	111.0	0.0	1.7	201.6	3.0	13.2
February	113.9	0.8	3.8	111.6	0.5	2.1	207.3	2.8	15.8
March	115.2	1.2	4.5	112.5	0.8	2.4	212.0	2.3	17.0
Abril	115.1	-0.1	4.0	113.2	0.6	3.1	203.6	-4.0	9.8
May	114.7	-0.4	3.5	113.1	-0.1	2.8	200.1	-1.7	7.8
June	114.7	0.0	3.6	112.9	-0.2	2.7	202.0	0.9	9.0
July	114.6	-0.1	3.1	112.8	-0.1	2.5	203.1	0.6	6.4
August	114.8	0.2	2.9	112.8	-0.1	2.3	205.6	1.2	6.4
September	115.0	0.2	2.2	113.1	0.3	2.3	203.5	-1.0	2.7
October	114.8	-0.2	1.2	113.3	0.2	2.1	199.1	-2.1	-2.9
November	114.4	-0.3	1.0	112.9	-0.3	1.8	196.2	-1.5	-1.7
December	114.1	-0.3	1.1	112.8	-0.1	1.6	193.8	-1.2	-1.0
2004									
January	113.9	-0.2	0.8	112.6	-0.2	1.5	191.7	-1.1	-4.9
February	113.9	0.0	0.0	112.4	-0.2	0.7	193.4	0.9	-6.7
March	114.4	0.4	-0.7	112.8	0.3	0.3	197.7	2.2	-6.7
Abril	114.8	0.4	-0.3	113.1	0.2	-0.1	202.0	2.2	-0.8
May	115.4	0.5	0.6	113.2	0.1	0.1	208.6	3.3	4.2
Junio	115.9	0.4	1.1	113.6	0.3	0.6	212.4	1.8	5.2
July	116.1	0.2	1.4	114.0	0.4	1.0	212.9	0.3	4.8
August	116.6	0.4	1.6	114.2	0.2	1.3	215.8	1.4	5.0
September	116.6	0.1	1.5	114.3	0.1	1.1	213.3	-1.2	4.8
October	117.0	0.3	1.9	114.3	0.0	0.9	216.9	1.7	8.9
November	117.3	0.3	2.5	114.6	0.2	1.4	215.2	-0.8	9.7
December	116.8	-0.4	2.4	114.8	0.2	1.8	208.9	-3.0	7.8

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

Fresh fruit: peaches, apples, melons, oranges, pears, bananas, water melons, grapes, strawberries, cherries, kiwis, cherimoyas, prickly pears, plums and melon pears.

Fresh vegetables: avocados, tomatoes, lettuce, cabbage, cauliflower, chard, pumpkin, fresh corn, zucchini, peppers, fresh peas, fresh green beans, pinto beans, potatoes, onions, carrots, beetroot, lemons, garlic, assorted greens, mushrooms, celery, cucumber and artichokes.

Fuels: city gas, liquefied gas and kerosene.

(2) Change December through December.

Source: National Statistics Bureau (INE).

TABLE 23

Consumer price index

(December 1998 = 100)

Period	General index		Food		Housing		Housing furnishings		Clothing		Transportation		Health care		Education and recreation		Other	
	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months	Index	% change 12 months
1996 December	90.10	6.6	91.97	4.1	91.61	8.6	91.83	4.6	109.28	-4.7	90.76	9.6	85.01	9.5	82.27	13.1	80.61	7.2
1997 December	95.54	6.0	99.38	9.2	95.81	4.6	96.16	4.7	100.07	-8.4	92.87	2.3	92.47	8.8	92.78	12.8	82.11	1.9
1998 December	100.00	4.7	100.00	0.6	100.00	4.4	100.00	4.0	100.00	-0.1	100.00	7.7	100.00	8.1	100.00	7.8	100.00	21.8
1999 December	102.31	2.3	101.97	1.0	101.49	1.5	99.95	-1.1	96.96	-4.0	109.76	9.8	104.88	4.9	104.28	4.3	100.58	0.6
2000 December	106.94	4.5	100.87	-0.1	111.57	9.9	96.36	-2.6	88.04	-8.3	131.21	19.5	110.21	5.1	108.76	4.3	97.95	-3.6
2001 December	109.76	2.6	102.93	2.0	115.47	3.5	96.42	0.1	83.84	-4.8	136.92	4.4	115.61	4.9	114.13	4.9	96.93	0.0
2002 December	112.86	2.8	106.55	3.5	120.23	4.1	96.43	0.0	80.67	-3.8	141.66	3.5	121.19	4.8	118.99	3.4	93.74	-3.3
2003 December	114.07	1.1	105.67	-0.8	123.87	3.0	94.12	-2.4	77.99	-4.6	142.15	0.3	127.00	4.8	122.59	3.9	95.66	2.0
2004 December	116.84	2.4	105.86	0.2	128.24	3.5	93.39	-0.8	75.62	-1.8	155.12	9.1	128.33	1.0	125.82	2.6	94.02	-1.7
2003																		
January	112.97	3.0	105.87	3.4	120.75	4.8	96.40	0.0	79.57	-4.6	144.85	5.9	119.87	3.2	118.18	3.5	93.58	-6.0
February	113.88	3.8	105.46	4.1	122.32	6.1	96.15	-0.5	78.67	-5.3	149.07	8.9	122.99	3.7	118.05	3.1	93.47	-6.5
March	115.21	4.5	105.90	4.5	124.06	7.3	96.03	-0.7	79.10	-4.9	152.37	11.1	123.30	3.2	121.50	3.3	94.05	-6.4
April	115.10	4.0	106.24	4.3	123.08	5.9	96.01	-1.0	79.24	-4.2	152.99	10.2	123.42	2.4	121.68	3.5	94.99	-6.3
May	114.66	3.5	106.50	4.2	122.76	5.6	95.91	-1.1	79.13	-4.8	147.81	7.5	124.24	3.0	121.81	3.5	93.87	-6.0
June	114.66	3.6	106.91	4.6	123.01	5.7	95.69	-1.4	78.60	-5.1	146.16	6.8	125.95	3.7	122.05	3.8	94.99	-5.1
July	114.56	3.1	107.19	4.3	122.87	5.4	95.55	-1.4	77.86	-5.3	146.15	4.3	124.52	3.6	121.86	3.6	93.67	-4.7
August	114.75	2.9	107.48	4.1	122.73	4.9	95.24	-1.4	77.10	-5.2	147.90	4.0	124.74	2.8	121.89	3.6	93.30	-4.1
September	115.97	2.2	106.91	1.9	122.73	4.0	95.96	-1.6	77.49	-5.0	148.81	3.2	126.24	3.6	122.14	3.9	95.45	-0.9
October	114.79	1.2	106.61	0.2	124.00	3.7	94.81	-1.6	77.52	-5.0	145.58	-0.6	126.84	4.1	122.13	3.8	95.35	-0.1
November	114.44	1.0	106.38	-0.7	124.05	3.3	94.58	-1.9	77.19	-5.1	143.27	-0.5	127.10	4.7	122.13	3.7	95.34	0.6
December	114.07	1.1	105.67	-0.8	123.87	3.0	94.12	-2.4	77.99	-4.6	142.15	0.3	127.02	4.8	122.59	3.9	95.66	2.0
2004																		
January	113.86	0.8	105.96	-0.9	124.08	2.8	93.87	-2.6	76.73	-3.6	142.54	-1.6	126.47	5.5	122.45	3.6	95.59	2.1
February	113.87	0.0	104.62	-0.8	124.51	1.8	93.74	-2.5	75.92	-3.5	143.17	-4.0	126.57	2.9	122.49	3.8	95.75	2.4
March	114.35	-0.7	104.84	-1.0	124.07	0.0	93.72	-2.4	76.90	-2.8	144.49	-5.2	126.59	2.7	124.96	2.8	95.39	1.4
April	114.77	-0.3	104.48	-1.7	124.23	0.9	93.83	-2.3	76.92	-2.9	147.44	-3.0	127.23	3.1	125.20	2.9	96.17	2.3
May	115.37	0.6	104.29	-2.1	125.13	1.9	93.60	-2.4	76.83	-2.9	151.36	2.4	127.56	2.7	125.04	2.7	96.47	2.8
June	115.87	1.1	104.49	-2.3	126.10	2.5	93.62	-2.2	76.66	-2.5	153.57	5.1	127.54	2.1	125.06	2.5	96.19	2.3
July	116.14	1.4	104.68	-2.3	126.94	3.3	93.51	-2.1	76.08	-2.3	154.13	5.5	127.87	2.7	125.35	2.9	95.43	1.9
August	116.58	1.6	104.84	-2.5	129.29	5.3	93.40	-1.9	75.53	-2.0	154.03	4.1	128.99	2.6	125.36	2.8	94.75	1.6
September	116.64	1.5	105.98	-1.8	129.39	5.4	93.07	-2.0	75.92	-2.0	154.00	3.5	128.01	1.4	125.34	2.6	94.76	-0.7
October	116.98	1.9	105.31	-1.2	129.21	4.2	93.13	-1.8	75.94	-2.0	156.51	7.5	127.73	0.7	125.42	2.7	94.63	-0.8
November	117.28	2.5	106.22	-0.2	128.91	3.9	93.41	-1.2	75.82	-1.8	156.89	9.5	128.53	1.1	125.42	2.7	94.04	-1.4
December	116.84	2.4	105.86	0.2	128.24	3.5	93.39	-0.8	75.62	-1.8	155.12	9.1	128.33	1.0	125.82	2.6	94.02	-1.7

Source: National Statistics Bureau (INE).

TABLE 24

Hourly wage index

(April 1993 = 100)

Period	Nominal			Real (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12 months		Month	12 months
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 December	229.4	-	4.0	133.1	-	1.2
2003 December	237.1	-	3.4	136.1	-	2.3
2004 December	243.4	-	2.7	136.5	-	0.2
2003						
January	230.5	0.5	4.0	133.7	0.4	1.0
February	231.3	0.3	4.0	133.0	-0.5	0.2
March	232.1	0.4	4.0	132.0	-0.8	-0.5
April	232.0	0.0	3.9	132.1	0.1	-0.1
May	232.0	0.0	3.7	132.5	0.4	0.2
June	232.6	0.2	3.6	132.9	0.2	-0.1
July	233.2	0.3	3.8	133.3	0.4	0.7
August	233.8	0.3	3.9	133.4	0.1	1.0
September	234.3	0.2	3.7	133.5	0.0	1.4
October	234.6	0.1	3.7	133.9	0.3	2.5
November	235.2	0.3	3.7	134.6	0.6	2.7
December	237.1	0.8	3.4	136.1	1.1	2.3
2004						
January	238.1	0.4	3.3	137.0	0.6	2.5
February	238.4	0.1	3.1	137.2	0.1	3.1
March	238.8	0.1	2.9	136.8	-0.3	3.6
April	238.9	0.1	3.0	136.4	-0.3	3.3
May	238.8	0.0	3.0	135.6	-0.6	2.3
June	239.6	0.3	3.0	135.5	-0.1	2.0
July	240.0	0.1	2.9	135.3	-0.1	1.5
August	240.0	0.0	2.7	134.8	-0.4	1.0
September	241.1	0.5	2.9	135.4	0.4	1.4
October	241.1	0.0	2.8	135.0	-0.3	0.8
November	241.6	0.2	2.7	134.9	-0.1	0.2
December	243.4	0.8	2.7	136.5	1.2	0.2

(*) Deflated using the Consumer Price Index.

Source: National Statistics Bureau (INE).

TABLE 25

Labor cost index

(April 1993 = 100)

Período	Nominal			Real (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12 months		Month	12 months
1999 December	190.8	-	4.7	122.2	-	2.3
2000 December	199.6	-	4.6	122.2	-	0.1
2001 December	210.3	-	5.4	125.5	-	2.6
2002 December	218.8	-	4.1	127.0	-	1.2
2003 December	226.3	-	3.4	129.9	-	2.3
2004 December	233.5	-	3.2	130.9	-	0.7
2003						
January	219.5	0.3	3.8	127.3	0.2	0.8
February	219.8	0.1	3.7	126.4	-0.7	-0.2
March	220.6	0.4	3.8	125.4	-0.8	-0.7
April	221.1	0.2	3.8	125.8	0.3	-0.2
May	221.4	0.1	3.6	126.5	0.5	0.1
June	221.8	0.2	3.5	126.7	0.2	-0.1
July	222.3	0.2	3.5	127.1	0.3	0.4
August	222.8	0.2	3.5	127.2	0.1	0.6
September	223.4	0.3	3.5	127.3	0.1	1.3
October	223.9	0.3	3.6	127.8	0.4	2.4
November	224.3	0.2	3.5	128.4	0.5	2.5
December	226.3	0.9	3.4	129.9	1.2	2.3
2004						
January	226.8	0.2	3.3	130.4	0.4	2.5
February	227.1	0.2	3.3	130.6	0.2	3.4
March	227.7	0.3	3.2	130.4	-0.2	4.0
April	228.2	0.2	3.2	130.2	-0.1	3.5
May	228.0	-0.1	3.0	129.4	-0.6	2.3
June	229.0	0.4	3.2	129.4	0.0	2.2
July	229.5	0.2	3.2	129.4	0.0	1.8
August	229.9	0.2	3.2	129.1	-0.2	1.5
September	230.8	0.4	3.3	129.6	0.4	1.9
October	230.8	0.0	3.1	129.2	-0.3	1.1
November	231.4	0.2	3.2	129.2	0.0	0.7
December	233.5	0.9	3.2	130.9	1.3	0.7

(*) Deflated using the Consumer Price Index.

Source: National Statistics Bureau (INE).

TABLE 26

Real wage increase resulting from collective bargaining (1)

(percent)

Period	Unions	Other groups	Total
2003			
January-March	1.32	0.69	1.25
April-June	1.32	0.69	1.21
July-September	0.80	1.49	0.93
October-December	0.88	0.25	0.80
2004			
January-March	0.67	0.99	0.70
April-June (2)	0.49	0.94	0.53
July-September (2)	1.06	1.02	1.05
October-December (2)	0.98	0.83	0.95

(1) Provisional figures.

(2) Estimate

Source: Labor Bureau.

TABLE 27

Central Bank of Chile balance sheet

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

Item	2003	2004	Structure of assets and liabilities (%)		
			2003	2004	Average 2004 (2)
Assets (1)	15,807	14,891	100	100	100
Net international reserves	9,501	8,966	60	60	63
Fiscal promissory notes	3,501	2,705	22	18	22
Other public sector assets	588	619	4	4	4
Subordinated debt (shares and credits)	924	934	6	6	6
Deferred losses	383	393	2	3	2
Liquidity credit line and repos	645	1,021	4	7	1
Other assets	265	252	2	2	2
Liabilities (1)	16,351	16,131	100	100	100
Monetary policy promissory notes	12,972	12,060	79	75	75
Other promissory notes with a secondary market	88	80	1	0	1
Checking accounts and foreign currency float	37	77	0	0	1
Treasury and other public sector deposits	127	205	1	1	8
Other non-monetary base liabilities	1,043	1,380	6	9	5
Monetary base	2,094	2,329	13	14	10
Equity (1)	-545	-1,241			
Revalued initial capital	886	-558			
Nominal initial capital	877	-545			
Revalued own capital	9	-14			
Net results	-1,431	-682			
Non-financial results	-24	-27			
Net interest (3)	-285	-216			
Net indexing and other changes in value (4)	-1,112	-452			
Less: Revaluation own capital	-9	14			

(1) The equity evaluated is equivalent to book value, while total assets and liabilities are different due to different treatments of provisions and temporary assets and liabilities.

(2) Over average balances at month's end in December 2003 and December 2004, inclusive.

(*3) Interest and other profits in foreign currency are converted to pesos using average foreign exchange rates.*

(*4) Includes indexation in Chilean pesos and the effect of the fluctuating exchange rate on foreign currency assets and liabilities.*

Source: Central Bank of Chile.

TABLE 28

Operating expenditures

(as of 31 December of each year)

Item	2000	2001	2002	2003	2004
Operating expenditures (1)					
Personnel expenditures	13,898.9	13,415.3	13,223.9	14,934.4	16,123.1
Administrative expenditures	4,282.3	5,069.2	7,156.6	8,106.3	7,001.2
Depreciation, amortization and write-offs	1,469.6	1,362.1	1,443.6	1,289.4	1,556.2
Taxes, contributions and payments	455.2	483.2	474.2	505.5	474.6
Total	**20,106.0**	**20,329.8**	**22,298.3**	**24,835.6**	**25,155.1**
Operating expenditures (2)					
Personnel expenditures	15,330.5	14,287.3	13,739.6	15,083.7	16,123.1
Administrative expenditures	4,723.4	5,398.7	7,435.7	8,187.3	7,001.2
Depreciation, amortization and write-offs	1,621.0	1,450.6	1,499.9	1,302.3	1,556.2
Taxes, contributions and payments	502.1	514.6	492.7	510.6	474.6
Total	**22,177.0**	**21,651.2**	**23,167.9**	**25,083.9**	**25,155.1**

(1) Millions of each year's pesos.

(2) Millions of 2004 pesos. The average change in each year's CPI was used to update figures from previous years.

Source: Central Bank of Chile.

TABLE 29

Main operating expenditures (*)

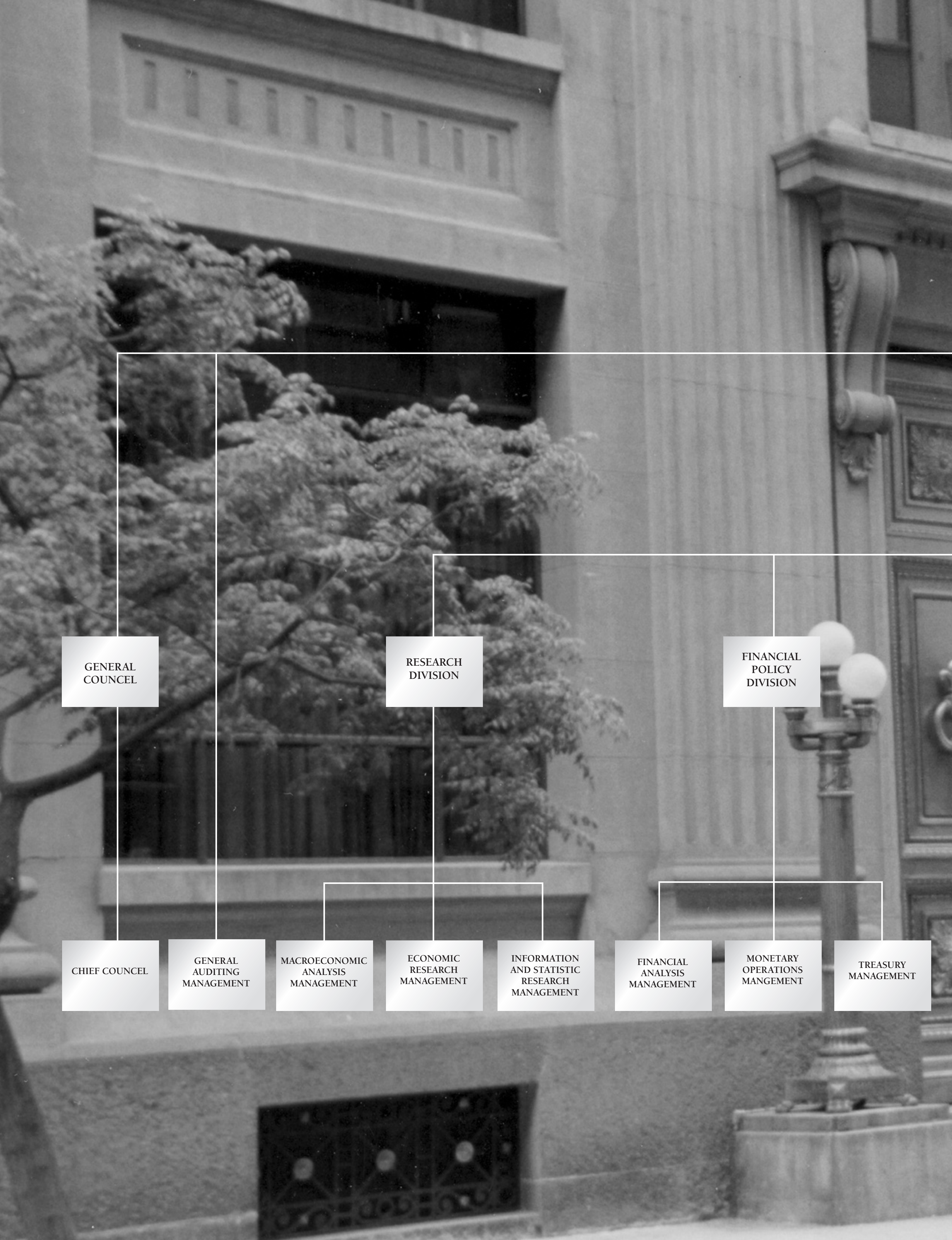
(as of 31 December of each year)

Item	2000	2001	2002	2003	2004
Personnel expenditures					
Wages and employee contributions	12,025.0	11,108.0	11,592.2	12,220.9	13,013.0
Staff welfare	1,778.7	1,718.7	1,682.3	1,697.2	1,741.2
Training	119.1	138.5	164.6	190.1	272.9
Provisions for seniority and severance pay	1,407.7	1,322.1	300.5	975.5	1,096.0
Total	**15,330.5**	**14,287.3**	**13,739.6**	**15,083.7**	**16,123.1**
Administrative expenditures					
Basic services	543.2	529.8	575.2	551.2	570.9
General services	1,666.5	2,085.7	2,173.3	2,052.1	2,419.6
Maintenance fixed assets	543.6	544.3	643.9	858.0	910.1
Expenditure on technological development and computing	1,287.8	1,504.7	1,775.2	3,712.3	1,980.1
Consultants, surveys, studies and seminars	682.3	734.2	2,268.1	1,013.7	1,120.5
Total	**4,723.4**	**5,398.7**	**7,435.7**	**8,187.3**	**7,001.2**

(*) Millions of each year's pesos.

Source: Central Bank of Chile.

II. Organizational structure of the Central Bank of Chile as of 31 December 2004


GENERAL COUNCEL
RESEARCH DIVISION
FINANCIAL POLICY DIVISION
CHIEF COUNCEL
GENERAL AUDITING MANAGEMENT
MACROECONOMIC ANALYSIS MANAGEMENT
ECONOMIC RESEARCH MANAGEMENT
INFORMATION AND STATISTIC RESEARCH MANAGEMENT
FINANCIAL ANALYSIS MANAGEMENT
MONETARY OPERATIONS MANGEMENT
TREASURY MANAGEMENT


BOARD
GENERAL MANAGEMENT
INTERNATIONAL AFFAIRS DIVISION
MANAGEMENT AND DEVELOPMENT DIVISION
INTERNATIONAL AFFAIRS ANALYSIS MANAGEMENT
INTERNATIONAL INVESTMENT MANAGEMENT
FOREIGN EXCHANGE AND FOREIGN TRADE POLICY MANAGEMENT
LOGISTICAL SERVICES AND SECURITY MANAGEMENT
ACCOUNTING AND ADMINISTRATION MANAGEMENT
INFORMATICS MANAGEMENT
HUMAN RESOURCES MANAGEMENT
COMMUNICATIONS MANAGEMENT

III. Financial statements of the Central Bank of Chile

Balance Sheets as of 31 December

(In millions of Chilean pesos)

Assets	2004	2003
Foreign assets	9,105,843.7	9,890,543.8
Reserve assets	8,966,255.1	9,739,084.2
Monetary gold	1,683.2	1,677.3
Special drawing rights (SDR)	29,464.3	28,022.5
Reserve position in the IMF	249,476.2	357,731.7
Foreign currencies	8,674,772.1	9,345,710.4
Other assets	10,859.3	5,942.3
Other foreign assets	139,588.6	151,459.6
Shares and contributions to the IDB	103,147.6	113,203.1
Bank for International Settlements (BIS) Shares	36,441.0	38,256.5
Domestic assets	5,344,340.4	5,886,801.3
Domestic loans	5,344,340.4	5,886,801.3
Loans to state-owned companies	3,430.4	5,368.3
Loans to *BancoEstado de Chile*	373,332.8	178,327.8
Loans to commercial banks	685,466.5	539,859.7
Loans to other institutions	451,750.4	430,640.6
Treasury transfers (Laws 18,267, 18,401 and 18,768)	2,896,181.5	3,785,701.1
Loan for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	934,178.8	946,903.8
Other assets	424,380.0	452,983.7
Bank premises and equipment, net	16,715.7	17,298.7
Temporary assets	-	39,320.8
Other securities	407,664.3	396,364.2
Total assets	14,874,564.1	16,230,328.8

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

(Continued)

Liabilities	2004	2003
Foreign liabilities	**214,983.7**	**236,831.4**
Reciprocal loan agreements	8,891.5	5,591.2
Loans	455.7	1,029.1
Accounts with international organizations	99,600.7	119,003.3
Special drawing rights (SDR) allocations	106,035.8	111,207.8
Domestic liabilities	**15,838,630.1**	**16,542,964.3**
Currency issuance	**2,329,189.8**	**2,146,777.4**
Banknotes and coins in circulation	2,143,372.0	1,965,668.5
Deposits from financial institutions (domestic currency)	185,817.8	181,108.7
Deposits and obligations	**1,421,190.4**	**968,298.0**
Deposits and obligations with the Treasury	198,608.6	129,595.2
Other deposits and obligations	1,222,581.8	838,702.8
Instruments issued by Central Bank of Chile	**12,088,249.9**	**13,427,889.1**
Indexed promissory notes payable in coupons (PRC)	3,154,496.0	3,922,862.7
Central Bank bonds in Chilean pesos (BCP)	1,919,107.7	1,558,029.8
Central Bank discountable promissory notes (PDBC)	1,635,000.0	2,067,425.0
Central Bank bonds in US dollars (BCX)	1,421,343.0	-
Central Bank bonds expressed in US dollars (BCD)	1,274,553.0	2,182,984.9
Central Bank bonds in UF (BCU)	1,267,750.6	953,184.0
Indexed coupons (CERO) in UF	822,615.5	921,900.6
Indexed promissory notes in US dollars (PRD)	395,118.3	1,143,324.4
Indexed coupons (CERO) in US dollars	116,510.9	382,575.2
Commercial notes from redenomination of foreign debt securities	80,015.0	90,102.5
Other	1,739.9	2,527.2
Promissory notes in US dollars (PCX)	-	145,176.9
Coupons issued in US dollars (XERO)	-	57,795.9
Other liabilities	**61,814.3**	**8,905.7**
Provisions	8,063.1	8,626.0
Other securities	183.6	279.7
Temporary liabilities	53,567.6	-
Capital and reserves	**(1,240,864.0)**	**(558,372.6)**
Capital	(558,372.6)	907,931.2
Deficit for the year	(682,491.4)	(1,466,303.8)
Total liabilities	**14,874,564.1**	**16,230,328.8**

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

Statements of income for the years ended 31 December

(In millions of Chilean pesos)

Operating Results	2004	2003
Operating Income	**923,573.1**	**828,114.2**
Interest earned and accrued	416,542.8	486,294.9
Indexation earned and accrued	37,095.9	18,098.8
Income on price differences	138,137.4	126,482.5
Foreign exchange earnings	331,483.4	193,030.7
Other operating income	313.6	4,207.3
Operating Expenses	**(1,608,766.9)**	**(2,270,397.5)**
Interest paid and accrued	707,527.7	744,331.6
Indexation paid and accrued	52,643.2	(663,519.8)
Loss due to price differences	58,152.7	129,187.9
Exchange rate losses	783,747.9	2,054,759.1
Other operating expenses	6,695.4	5,638.7
Gross margin	**(685,193.8)**	**(1,442,283.3)**
Other Operating Expenses	**(25,155.1)**	**(25,456.5)**
Personnel expenses	16,123.1	15,307.8
Administrative expenses	7,001.2	8,309.0
Depreciation, amortization and write-offs	1,556.2	1,321.6
Taxes, rates and contributions	474.6	518.1
Income before provisions and write-offs	(710,348.9)	(1,467,739.8)
Provisions and write-offs	58.4	-
Net margin (Total operating results)	**(710,290.5)**	**(1,467,739.8)**
Non-Operating Results	**735.1**	**507.3**
Non-operating income	759.9	515.9
Non-operating expenses	(24.8)	(8.6)
Income before price-level restatement	(709,555.4)	(1,467,232.5)
Price-level restatement	**27,064.0**	**928.7**
Deficit for the year	**(682,491.4)**	**(1,466,303.8)**

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

Notes to the Financial Statements

1. Description of business

The Central Bank of Chile was incorporated on 21 August, 1925 by Decree Law 486. The Bank is an autonomous organization established in the Basic Constitutional Act 18,840 and its modifications.

The Bank's objective is to look after stability of the currency and the normal functioning of domestic and foreign payments.

In order to meet its objectives, the Bank regulates the amount of money and credit in circulation and executes credit operations and international exchange, such as, dictating regulations on monetary, credit, financial and international exchange matters. Additionally, the Bank is exclusively empowered to issue banknotes and to mint coins.

2. Summary of significant accounting policies

a) Basis of preparation of the financial statements

The financial statements have been prepared in conformity with generally accepted accounting principles in Chile ("Chilean GAAP") and regulations issued by the Board of the Central Bank of Chile, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Article 75 of the Basic Constitutional Act of the Central Bank of Chile. These policies are consistent with Chilean GAAP, except for the method used in recording losses on subordinated loan obligations, which is explained under letter g) 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 Bank's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Bank'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, respectively. Therefore, and especially considering the unique operating features of the Bank, the statement of cash flows is not presented. Instead, notes to the financial statements containing the Monetary Base Change and another detailing the International Asset Reserves Change (note 13) are presented.

For comparative purposes, the 2003 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2003 and 30 November 2004, amounting to 2.5%.

b) Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the "observed U.S. dollar" exchange rate pursuant to Article 44 of the Basic Constitutional Act, that governs the Bank, referred to under No. 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 are valued at the average London morning quotation of the "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 US dollars is made at the exchange rates published daily by Central Bank of Chile, in the Official Gazette, which are always based upon the "Observed US dollar" rate.

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

	2004 Ch$	2003 Ch$
United States dollar (Observed exchange rate)	559.83	599.42
Pound Sterling	1,072.88	1,062.61
Euro	759.71	748.81
Special Drawing Rights (SDR)	866.53	887.51

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 acquisition or contribution cost plus restatements, where applicable.

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

d) Bank for International Settlements (BIS) Shares

During 2003, Board resolutions Nos. 1073-04-030710 and 1084-02-030916, authorized the incorporation of the Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, the Central Bank of Chile acquired 3,000 shares of the BIS for SDR 42,054,000, which are valued at acquisition cost and are shown under Other Foreign Assets.

e) Financial investments

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

f) 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 date, and balances denominated in foreign currency include the corresponding exchange rate adjustments.

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

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

g) Subordinated obligations of financial institutions

Loan for subordinated obligations included under Domestic Assets (note 8) includes restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis, in conformity with Law 19,396.

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 Article 19 of Law 19,396 which states: "Any losses incurred by the Central Bank of Chile in its capacity as creditor of a subordinated obligation may be deferred and absorbed by any surpluses generated in future periods. To this effect, the Central Bank of Chile is entitled to allocate such surplus to set up provisions to absorb any such losses".

As of 31 December 2004, deferred losses amount to Ch$392,876.0 million (Ch$392,876.0 million as of 31 December 2003) and are shown under Other Securities in Other Asset Accounts. During 2004 and 2003, no provisions have been made for this concept.

h) Loan provisions

The Bank has not established any provision on loans in 2004 and 2003. The balance if provisions amounts to Ch$9,365.3 million (Ch$10,346.3 million in 2003), net of the corresponding assets. During 2004, an amount of Ch$7.8 million was written-off with a charge to Provisions and provisions of Ch$58.4 million were recovered.

i) Bank premises and equipment

Bank premises and equipment at each year-end are shown at cost plus price-level restatement, net of accumulated depreciation under "Other Assets". Depreciation has been calculated using the straight-line method based on the estimated useful lives of assets.

j) Severance indemnities

Staff severance indemnities have been determined using the present value method (accrued cost of the benefit), with an annual interest rate of 6%. As of 31 December 2004, the total amount of the provision is Ch$7,075.4 million (Ch$7,544.8 million as of 31 December 2003).

k) Vacation accrual

The annual cost of employee vacations is recognized in the financial statements on an accrual basis.

l) Price-level restatement

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 (CPI). Income statement account balances in local currency, except for depreciation and price-level restatement, have not been restated for inflation. The effect of the application of price-level restatement represented a net credit to income of Ch$27,064.0 million in 2004 (Ch$928.7 million in 2003).

The effect of foreign currency translation on assets and liabilities denominated in foreign currencies and indexation on loans and liabilities are included under Operating Results, separate from price-level restatement.

3. Reserve assets

Reserve assets include international reserves held by the Bank, detailed as follows:

	(US$ million)	
	2004	2003
Monetary gold	3.0	2.7
Special Drawing Rights (SDR)	52.6	45.6
Reserve position in the IMF	445.6	582.2
Foreign currencies:		
Coins and deposits	7,604.1	7,927.1
Bonds issued by governments,		
organizations and foreign banks	5,824.0	4,873.5
Commercial papers	972.4	254.6
Foreign government treasury bills	712.7	1,007.5
Floating rate bills	282.0	609.6
Other foreign investment instruments	100.2	538.7
Other assets:		
Reciprocal loan agreements	19.4	9.7
Total reserve assets	**16,016.0**	**15,851.2**

4. Domestic loans to banks, financial institutions and other institutions or companies

Domestic loans to banks, financial institutions and other institutions or companies, which amounted to Ch$1,513,980.1 million in 2004 (Ch$1,154,196.4 million in 2003), mainly include the following operations:

	(Millions of Ch$)	
	2004	2003
Receivables from *Corfo* (note 5)	1,283.7	1,499.2
Credit line on debt restructuring	17,275.7	26,231.5
Mortgage loan portfolio acquired	-	1,570.3
Liquidity credit lines	38,004.8	2,665.3
Credit lines to finance the sale of mortgage portfolio of former *Anap*	19,834.6	28,961.4
Credit lines for programs of international organizations	1,947.2	3,264.4
Credit lines for deposits (Resolution 1,686)	230.7	457.2
Former *Caja Central de Ahorros y Préstamos* and former *Anap* (note 6)	451,750.4	430,640.6
Purchase of Central Bank of Chile promissory notes with resale agreement	983,453.3	658,246.8
Other	199.7	659.7
Total	**1,513,980.1**	**1,154,196.4**

5. Accounts receivable from *Corporación de Fomento de la Producción (Corfo)*

Balances receivable from *Corporación de Fomento de la Producción (Corfo)* in accordance with Law 18,401 dated 1985 and its modifications, and Law 18,577 dated 1986, relates to loans granted to financial institutions that were sold by the Central Bank of Chile 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 the corresponding financial institutions. As of 31 December 2004, accounts receivable from *Corfo* amounts to Ch$1,283.7 million (Ch$1,499.2 million in 2003), and is included under Loans to state-owned companies.

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million will be covered by the Treasury through future transfers (note 7), which as of 31 December 2004 amounted to Ch$197,331.0 million, equivalent to UF11.4 million (Ch$197,626.8 million in 2003, equivalent to UF11.4 million). Based on available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

6. *Caja Central de Ahorros y Préstamos y Asociación Nacional de Ahorro y Préstamo*

In accordance with Law 18,900 dated 16 January 1990, *Caja Central de Ahorros y Préstamos* ("*CCAP*") and *Asociación Nacional de Ahorro y Préstamo* ("*Anap*") ceased to exist and a procedure was established through which the respective equity would be liquidated and used to pay shareholders and obligations of the institutions.

Article 5 of the aforementioned law establishes that the Treasury shall be responsible for any obligations of the *CCAP* and the *Anap* that are not covered upon liquidating shareholders' equity, the funds for which should be requested from the national budget, in conformity with Article 21 of Decree Law 1,263 of 1975.

As of 31 December 2004, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch$451,750.4 million, of which Ch$415,767.2 million relate to direct loans granted by the Bank and Ch$35,983.2 million to credit lines for international organizations programs (Ch$430,640.6 in 2003, of which Ch$396,694.6 relate to direct credits granted by Central Bank of Chile and Ch$33,946.0 to credit lines for international organizations programs) and is shown under "Loans to other institutions".

7. Treasury transfers

Treasury transfers, included under Domestic Loans, the following:

	(Millions of Ch$)	
	2004	2003
Treasury promissory notes Law 18,267	235,672.1	292,110.4
Treasury promissory notes Law 18,768	2,463,178.4	3,295,963.9
Treasury transfers Law 18,401	197,331.0	197,626.8
Total	**2,896,181.5**	**3,785,701.1**

a) Treasury promissory notes Law 18,267

In conformity with Law 18,267, the Treasury transferred Ch$100,000 million to the Bank by issuing 40 Treasury promissory notes over a 25-year term, denominated in UFs with an annual interest rate of 1%, capitalized and amortized on a semiannual basis with a five-year grace period. The last installment matures on 15 December 2008.

b) Treasury promissory notes Law 18,768

This item relates to promissory notes denominated and payable in US dollars, accruing an annual interest rate of Libor plus 0.5 points, of which 2% is payable semiannually and the balance is capitalized. The last installment expires on 15 December 2014. During the present year, the Bank received principal prepayments of US$488.2 million and interest prepayments of US$12.1 million. The portion of interest not accrued during the year, US$11.7 million, is included under Temporary Liabilities within Other Liabilities.

Law 19,986 on public sector budgets for 2005 was published in the Official Gazette on 7 December, 2004. Article 15 of this law states:

"Article 15 - The President of the Republic is authorized to substitute the promissory notes issued by virtue of Article 75 of Law 18,768, through one or more executive decrees from the Ministry of Finance, for other documents or bonds issued by the Treasury, the expiration period of which will be equal to or less than the expiration of debt referred to in Law 18,358. The substitution procedure, interest rate, and other characteristics, conditions and types of those instruments will be determined in the respective decree.

Upon substitution of those promissory notes indicated in the preceding subparagraph or upon assumption of obligations with the purpose of prepaying debt indicated in Law 18,358 and its modifications, interest rate or foreign currency exchange contracts may be entered into for the resulting liabilities. The sum of amounts involved in exchange contracts cannot exceed the total amount of related liabilities".

c) Transferencia fiscal Ley 18.401

The balance of this account corresponds to discounts of up to UF15 million, as stipulated in Article 13 of Law 18,401, that have been granted to shareholders who are subject to the aforementioned law, as explained in note 5.

Also in conformity with this law, Treasury transfers will be completed in a period not exceeding 30 years, with a 10-year grace period, beginning on the date of final determination of the total amount.

8. Subordinated obligation

The balances as of each year-end represent a subordinated obligation of *Banco de Chile* with the Bank as established in the agreement amending payment terms dated 8 November 1996, in accordance with provisions of Law

19,396. On that date, parent company of *Banco de Chile*, formerly *Banco de Chile*, agreed to transfer the contract to SAOS *S.A. (Sociedad Administradora de la Obligación Subordinada)*, based on paragraphs three and five of the aforementioned law. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

9. 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 31 December is as follows:

	(Millions of Ch$)	
Denomination	2004	2003
Ch$ 20,000	451,690.5	393,190.0
Ch$ 10,000	1,222,620.7	1,125,476.0
Ch$ 5,000	195,625.2	186,849.7
Ch$ 2,000	64,569.5	56,643.4
Ch$ 1,000	91,308.2	88,594.4
Ch$ 500	5,045.0	5,552.0
Coins	112,512.9	109,363.0
Total	**2,143,372.0**	**1,965,668.5**

10. Deposits and loan obligations

Other deposits and loan obligations as of 31 December 2004 and 2003, include the following items:

	(Millions of Ch$)	
	2004	2003
Foreign currency current accounts	76,983.3	37,490.7
Deposits in foreign currency, Resolutions 1,657 and 1,686	128.5	277.7
Short-term deposits	1,145,239.3	799,832.7
Current accounts in domestic currency	230.7	1,101.7
Total	**1,222,581.8**	**838,702.8**

11. Future maturities of instruments issued by the Central Bank of Chile, as of 31 December 2004 and 2003

	(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 2004	Total 2003
Indexed promissory notes payable in coupons (PRC)	219,009.7	187,931.7	327,909.1	1,091,692.9	1,327,952.6	3,154,496.0	3,922,862.7
Central Bank bonds in Chilean pesos (BCP)	41,130.0	7,477.7	496,500.0	824,000.0	550,000.0	1,919,107.7	1,558,029.8
Central Bank discountable promissory notes (PDBC)	1,635,000.0	-	-	-	-	1,635,000.0	2,067,425.0
Central Bank bonds in US dollars (BCX)	9,911.4	307,530.9	1,103,900.7	-	-	1,421,343.0	-
Central Bank bonds expressed in US dollars (BCD)	432,433.6	276,691.1	123,162.6	223,932.0	218,333.7	1,274,553.0	2,182,984.9
Central Bank bonds in indexed units UF (BCU)	18,653.7	979.1	-	241,131.3	1,006,986.5	1,267,750.6	953,184.0
Indexed coupons (CERO) in UF	28,369.6	20,865.2	45,026.2	173,165.3	555,189.2	822,615.5	921,900.6
Central Bank promissory notes indexed in US dollars (PRD)	2,241.5	2,955.2	326,660.8	63,260.8	-	395,118.3	1,143,324.4
Indexed coupons (CERO) in US dollars	314.5	2,937.7	113,258.7	-	-	116,510.9	382,575.2
Commercial notes from redenomination of foreign debt securities	-	-	1,381.8	78,633.2	-	80,015.0	90,102.5
Deposit certificates expressed in US dollars, Resolution 1649	16.2	-	567.5	1,135.1	-	1,718.8	2,505.5
Exchange differential promissory notes	21.1	-	-	-	-	21.1	21.7
Promissory notes in US dollars (PCX)	-	-	-	-	-	-	145,176.9
Coupons in US dollars (XERO)	-	-	-	-	-	-	57,795.9
Total notes issued	2,387,101.3	807,368.6	2,538,367.4	2,696,950.6	3,658,462.0	12,088,249.9	
Total 2003	2,148,200.8	504,161.3	3,169,603.5	3,245,131.2	4,360,792.3		13,427,889.1

Balances include interest and adjustments accrued as of 31 December 2004 and 2003.

Transitory liabilities include net discounts granted but not accrued, net of price differences earned but not accrued, generated by notes issued for Ch$53,640.2 million (Ch$39,320.8 million in 2003, included in Transitory Assets).

12. Capital and reserves

Changes in capital and reserves during 2004 and 2003 were as follows:

	(Millions of Ch$)		
	Capital	Results for the year	Total
Balances as of 1 January 2003	257,604.6	619,411.7	877,016.3
Distribution of the 2002 surplus	619,411.7	(619,411.7)	-
Price-level restatement on equity	8,770.2	-	8,770.2
Deficit for the year	-	(1,430,540.3)	(1,430,540.3)
Balances as of 31 December 2003	885,786.5	(1,430,540.3)	(544,753.8)
Balances as of 31December 2003 restated for comparison purposes	907,931.2	(1,466,303.8)	(558,372.6)
Balances as of 1 January 2004	885,786.5	(1,430,540.3)	(544,753.8)
Distribution of the 2003 deficit	(1,430,540.3)	1,430,540.3	-
Price-level restatement on equity	(13,618.8)	-	(13,618.8)
Deficit for the year	-	(682,491.4)	(682,491.4)
Balances as of 31 December 2004	(558,372.6)	(682,491.4)	(1,240,864.0)

Article 5 of the Basic Constitutional Act of the Central Bank of Chile established start-up capital for the Bank at Ch$500,000 million (Ch$1,601,862.1 million restated as of 31 December 2004), to be paid according to Interim Article 2 of Law 18,840.

In accordance with Article 77 of the Basic Constitutional Act of the Central Bank of Chile (Law 18,840), a deficit produced in any year will be absorbed with a charge to constituted reserves.

When there are no reserves or they are insufficient, the deficit produced in any certain period will be absorbed with a charge to paid-in capital.

As of 31 December 2004, the bank has an equity deficit of Ch$1,240,864.0 million (deficit of Ch$558,372.6 million in 2003).

The negative variation in equity resulted principally from the effects of exchange rate variations on assets in foreign currency.

13. Monetary base and international reserve asset variations

In conformity with note 2 a) and in consideration of the Bank's unique operations, beginning in 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, further defined as follows:

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

International Reserves: Foreign assets that are readily available and controlled by monetary authorities for directly financing payment imbalances, indirectly regulating such imbalances through exchange market intervention and/or for other purposes.

Variations in the monetary base		
	(Millions of Ch$)	
	2004	2003
Price-level restatement on beginning balance	2,146,777.2	2,053,066.9
Increase of issuance		
Operations with international organizations	-	11,749.4
Domestic loans	324,611.2	404,664.7
Notes issued	1,527,997.6	50,379.6
Interest and indexation paid	490,169.9	762,107.7
Other operating expenses	11,264.6	333.0
Operating support expenses	22,750.9	17,698.5
Total increase	**2,376,794.2**	**1,246,932.9**
Decrease of issuance		
Operations with international organizations	(80,272.9)	-
Deposits and obligations	(212,856.3)	(639,620.7)
Interest and indexation received for domestic loans	(86,623.2)	(71,421.6)
Net sales of foreign currencies	(1,762,268.9)	(421,852.9)
Total decrease	**(2,142,021.3)**	**(1,132,895.2)**
Change in currency issuance	234,772.9	114,037.7
Effect of price-level restatement on beginning balance of issuance	(52,360.3)	(20,327.4)
Ending balance of issuance	**2,329,189.8**	**2,146,777.2**

Variations in assets in international reserves		
		(US$ million)
	2004	2003
Beginning reserver balance	15,851.2	15,351.1
Reserver increase		
Domestic loans	0.7	0.7
Other foreign liabilities	-	89.7
Deposits and obligations	479.6	-
Other liabilities	-	0.2
Interest received for deposits and other investment instruments abroad	565.6	685.3
Total increase	**1,045.9**	**775.9**
Reserve decrease		
Foreign assets	-	(1.5)
Other foreign assets	-	(209.8)
Deposits and obligations	-	(86.7)
Notes issued	(1,001.4)	-
Other liabilities	(0.5)	-
Interest paid for foreign liabilities	(0.7)	-
Operating support expenses	(6.0)	(5.8)
Net sale of foreign currencies	(2,880.4)	(746.8)
Total decrease	**(3,889.0)**	**(1,050.6)**
Exchange and conversion operations that did not generate any flow in foreign currency	2,840.7	-
Change in reserves during the year	(2.4)	(274.7)
Effect of exchange rate	167.2	774.8
Final asset reserve balance	**16,016.0**	**15,851.2**

14. Balances in foreign currency

Rights and obligations paid in foreign currency included in the balance sheet as of 31 December 2004 and 2003 are as follows:

	(US$ million)	
	2004	2003
Assets		
Foreign assets	16,123.8	15,806.5
Reserves	15,874.5	15,560.0
Other foreign assets	249.3	246.5
Domestic assets	4,400.2	5,365.5
Domestic loans	4,400.2	5,365.5
Other assets	12.5	3.2
Total assets	20,536.5	21,175.2
Liabilities		
Foreign liabilities	296.1	281.8
Reserves	15.9	9.1
Other foreign liabilities	90.8	91.7
Special Drawing Rights (SDR) allocations	189.4	181.0
Domestic liabilities	3,274.6	583.8
Deposits and Treasury obligations	282.5	145.3
Other deposits and obligations	450.2	104.2
Notes issues	2,541.9	334.3
Other liabilities	-	0.2
Total liabilities	3,570.7	865.8
Net assets position	16,965.8	20,309.4

15. Contingencies and commitments

Certain lawsuits are currently in process against Central Bank of Chile, according to the law department, the outcomes of these lawsuits will have no material effect on equity.

16. Income taxes

Pursuant to Article 7 of the Decree Law 3,345, dated 1980, the Bank's income is tax exempt.

17. Income from interest, indexation and price differences

Income generated by interest, indexation and price differences, as of 31 December 2004 and 2003, is detailed as follows:

	(Millions of Ch$)	
	2004	2003
Interest earned and accrued originates from:		
Investments abroad	276,377.9	347,828.4
Treasury transfers Laws 18,768 and 18,267	63,910.7	63,955.1
Subordinate obligations	45,611.6	46,483.1
Other institutions	27,038.7	23,231.6
Commercial banks	2,587.8	3,586.4
BancoEstado de Chile	880.7	1,149.3
Reciprocal loan agreements	135.4	61.0
Total	416,542.8	486,294.9
Indexation earned and accrued relate to:		
Subordinated obligation	20,678.5	9,229.3
Treasury transfers Laws 18,401 and 18,267	10,611.7	5,829.9
Caja Central de Ahorro y Préstamo and *Asociación Nacional de Ahorro y Préstamo*	4,514.6	2,049.8
Other	1,291.1	989.8
Total	37,095.9	18,098.8
Income on price differences originated from:		
Central Bank bonds in Chilean pesos (BCP)	68,977.5	37,335.4
Central Bank bonds expressed in US dollars (BCD)	27,336.5	29,150.0
Central Bank bonds in UF (BCU)	18,071.7	11,693.3
Central Bank indexed promissory notes (PRC)	12,889.7	18,702.6
Central Bank bonds in US dollars (BCX)	9,134.2	-
Indexed promissory notes in US dollars (PRD)	1,668.2	14,978.9
Redemption to CERO promissory notes in US dollars	59.6	1,706.6
Redemption to CERO promissory notes in UF	-	12,915.7
Total	138,137.4	126,482.5

	(Millones de pesos) 2004	2003
Interest paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	221,445.2	273,933.6
Central Bank bonds in Chilean pesos (BCP)	154,496.7	78,754.4
Central Bank bonds expressed in US dollars (BCD)	91,729.3	85,558.2
Foreign operations	59,749.5	54,291.8
Central Bank bonds in UF (BCU)	53,933.1	30,883.9
Central Bank discountable promissory notes (PDBC)	43,576.3	85,205.1
Indexed promissory notes in US dollars (PRD)	38,889.5	121,183.9
Central Bank bonds in US dollars (BCX)	22,568.0	-
Other notes issued	21,048.9	14,135.3
Reciprocal loan agreements	91.2	71.4
Central Bank indexed promissory notes (PRBC)	-	314.0
Total	707,527.7	744,331.6
Indexation paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	75,211.0	46,587.4
Central Bank bonds in UF (BCU)	26,593.6	3,830.7
Optional indexed coupons (CERO) in UF	20,276.5	11,744.5
Optional indexed coupons (CERO) in US dollars	5,910.8	(84,420.4)
Other instruments issued	4,282.6	23,893.8
Central Bank bonds expressed in US dollars (BCD)	(67,485.5)	(371,191.1)
Indexed promissory notes in US dollars (PRD)	(12,145.8)	(293,875.5)
Central Bank indexed promissory notes (PRBC)	-	(89.2)
Total	52,643.2	(663,519.8)

	(Millions of Ch$) 2004	2003
Loss due to price differences corresponds to:		
Redemption to CERO promissory notes in UF	39,292.9	70,578.6
Redemption to CERO promissory notes in US dollars	13,208.0	29,118.1
Indexed promissory notes payable in coupons (PRC)	4,407.7	19,058.4
Other	669.2	1,601.6
Indexed promissory notes in US dollars (PRD)	574.9	8,831.2
Total	58,152.7	129,187.9

18. Subsequent events

Between 31 December 2004 and the date of issuance of these financial statements there have been no significant subsequent events that may affect them.

Camilo Carrasco Alfonso
General Manager

César Caro Brown
General Accountant

Mario Ulloa López
General Auditor

Report of Independent Auditors

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

1. We have audited the accompanying balance sheets of Central Bank of Chile (the "Bank") as of 31 December 2004 and 2003, and the related statements of income for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Central Bank of Chile. Our responsibility is to express an opinion on these financial statements based upon our audits.

2. We conducted our audits in accordance with generally accepted auditing standards 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. The Bank prepares its financial statements in accordance with accounting policies established by its Board with prior approval from the Chilean Superintendency of Banks and Financial Institutions (Law 18,840). These policies are in accordance with generally accepted accounting principles in Chile, except for the deferral of accounting losses of Ch$392,876.0 million in 2004 (Ch$392,876.0 million in 2003), arising from amendments to the subordinated loan obligation payment agreements of certain banks, in accordance with Law 19,396 (See notes 2g) and 8).

4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2004 and 2003 and the results of its operations for the years then ended, in conformity with accounting policies described in note 2.

5. As of 31 December 2004, the Bank recorded a deficit in equity of Ch$1,240,864.0 million (Ch$558,372.6 million as of 31 December 2003). As in the prior year, the negative variation in equity as of 31 December 2004 is a consequence of the deficit for the year of Ch$682,491.4 million (Ch$1,466,303.8 million in 2003), which is mainly due to variations in the observed exchange rate of the United States dollar and in exchange rates of other foreign currencies during 2004 and 2003 that unfavorably affected the foreign currency asset position of the Bank.

6. As explained in note 2 g), during 2004 and 2003, the Bank did not amortize accounting losses generated by the modification of the payment conditions for the subordinated loan obligations given that the Bank had a deficit in both periods.

Rubén López D. ERNST & YOUNG LTDA.

Santiago, Chile, 14 January 2005

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