# Annual Report 2003

## CENTRAL BANK OF CHILE

# 78ª Annual Report 2003(*)

## CENTRAL BANK OF CHILE

(*)*This is an unofficial translation of the Central Bank of Chile's Memoria Anual 2003 (Annual Report 2003). In case of any discrepancy or difference of interpretation, the Spanish original prevails. Available at* **www.bcentral.cl.**

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María Elena Ovalle Molina
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**BANCO CENTRAL**
**DE CHILE**

Santiago, 19 April 2004

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 ONE of Law 18,840, I hereby submit the Annual Report of this Institution, for the year 2003.

Yours sincerely,

Vittorio Corbo L.
Governor

**BANCO CENTRAL**
**DE CHILE**

Santiago, 19 April 2004

Mr. Hernán Larraín F.
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 ONE of Law 18,840, I hereby submit to the Senate the Annual Report of this Institution, for the year 2003.

Yours sincerely,

Vittorio Corbo L.
Governor

# I. Main economic and financial developments in 2003

# Main economic and financial developments in 2003

## A. **Overview**

In 2003, the world economy grew by about 3.6%, while Chile's main trading partners, weighted for their share of Chile's exports, grew 2.7%, up from 2.0% in 2002. Nonetheless, in 2003 world growth reached historic lows. This result reflects the adverse effects of the first half, influenced by uncertainty in the United States and Europe, reflecting concerns about the war in Iraq, tension around terrorist attacks and financial market volatility sparked by Severe Acute Respiratory Syndrome (SARS) in Asia. Although significant, these tended to fade with no long-term consequences, allowing external conditions to improve and consolidate in the second half. Concerns about the policies implemented by the new government in Brazil, uncertainty surrounding Argentina's debt moratorium, and political conflicts in Venezuela triggered financial instability involving significant challenges that remain unresolved.

This consolidation of greater global growth in developed economies was fundamentally influenced by the fact that many countries continued to apply expansionary monetary policies as they had since the previous year. In the euro zone, the European Central Bank (ECB) cut the policy interest rate twice, reducing it to 2%; in the US, the Federal Reserve reduced its policy interest rate to 1%, its lowest point since the 1970s; and the Bank of Japan, in the face of persistent deflation continued to inject liquidity into the market, achieving no major changes.

This stronger international performance, particularly evident in the US, Japan and Emerging Asia (China, in particular), combined with dollar depreciation in international markets and lower inventory levels than the previous year, was reflected in a solid and significant rise in the copper price, which closed the year with an average price of US$0.81 per pound (BML), up from US$0.71 per pound in 2002. The oil price also tended to rise, hovering between US$25 and US$33 per barrel, to end the year with an average of US$28.9, up from US$25 the previous year.

Domestically, in 2003, particularly the second half, indicators for activity and expenditure posted modest recoveries. Nonetheless, uncertainty about timing and pace persisted throughout most of the year. Only toward year's end did the better conditions abroad, combined with strong monetary impulse and more optimistic domestic expectations make it possible to consolidate the outlook for greater domestic growth for coming quarters. The year closed with growth in economic activity reaching 3.3%, while domestic demand stood at 3.5%.

In 2003, sectors associated with natural resources[1] grew 3.3%, particularly mining (5.4%), thanks to the recovery in copper production levels, driven in part by new projects coming on stream. In contrast, fishing activity fell significantly, affecting aggregate supply, despite its low weight. Other sectors grew 3% on average, with the wholesale and retail trade also driving growth.

Foreign trade rose significantly in 2003. Total exports grew 7.8%, with all components posting increases over the previous year. Total imports also rose, 8.8% over 2002, mainly reflecting consumer and capital goods imports, which rose 16.8% and 7.2%, respectively.

On domestic demand, uncertainty surrounding the war in Iraq and the economic impact of rising fuel prices and some other charges on real family income kept consumption weak until the end of the second quarter. As these conditions cleared in the second half of the year, employment improved, household confidence recovered and access to credit became more favorable, with private consumption picking up.

Investment appears to have lagged more than in other cycles experienced by the Chilean economy. Capital investment in machinery and equipment in particular has risen less than expected, given favorable domestic and external financial conditions and firmer prospects for activity growth toward year's end. Overall, in 2003 gross fixed capital formation, measured at constant prices, is estimated to have risen 4.8% to reach 23.4% of GDP at 1996 prices.

[1]/ These are fishing, mining, and electricity, gas and water, which accounted for 12.2% of GDP in 2003.

In 2003, fiscal policy continued to be governed by the structural surplus rule, set at 0.9% of GDP. The general conventional balance sheet posted a deficit of 0.8% of GDP for the year, the result of annual income and expenditure growth of 3.0% and 3.3%, respectively. Similarly, the deficit consistent with the IMF's accrual criteria reached 0.6% of GDP in 2003.

Expenditure with macroeconomic impact posted real annual growth of 1.6% (compared to the 3.4% assumed during debate over the national budget for 2003). Real investment rose 0.9%.

Despite the Chilean economy's somewhat sluggish recovery, employment improved considerably over previous years, with unemployment averaging 8.5% and employment climbing 3.1% over 2002, mainly reflecting growth in secondary employment in the first half and a recovery in private employment associated with formal sector employees in the last third of 2003. The seasonally adjusted unemployment rate fell steadily in 2003, tending to stabilize at year's end.

Annual Consumer Price Index (CPI) inflation reached 1.1% in 2003, a figure that fell significantly in the last third of the year due to some cost surprises. These first became apparent in rapid peso appreciation, which directly and indirectly influenced price changes within the economy, pushing annual CPI inflation through December down by almost one percentage point. This was followed by a drop in some specific prices, such as durable foods,[2] due to efficiency gains and/or increased competition in the wholesale and retail trade, which contributed between half and one percentage point to the decline in 12-month inflation.

Reduced inflationary pressures were also apparent in core trends, which were lower than forecast, closing the year with annual rises under 2%.

On imported inflation, changes in the exchange rate in the last third in 2003 affected costs, reducing pressures from this front for 2004 and 2005, although these have not faded completely and significant uncertainty remains.

Changes in retail and wholesale margins also influenced the outlook for inflation, as they remained closer to their equilibrium value, mostly due to the peso appreciation mentioned above. More competition apparent among some wholesale and retail sectors seems to be a factor in margins' remaining close to their long-term levels. On one hand, the efficiency gained along production and distribution chains thanks to the use of new technologies, the rise in human capital and more competition, among other factors, constantly affect the relationship between prices and costs, making lower prices possible without significantly affecting margins. On the other, the growing openness of the economy encourages integration into larger-scale markets, pushing local margins toward internationally comparable levels. All this combined with reduced and even negative external inflation in dollars on the products that Chile imports, in both 2002 and 2003.

Changes in wages and particularly average labor productivity in 2003 moved in the same direction, as a scenario with less pressure from labor costs took shape. Nominal wages in general followed the relevant inflation, according to indexation clauses. Average productivity, meanwhile, started to recover in the third quarter of 2003, after slowing down in the first half.

Within the inflation targeting framework, in 2003 the Board decided to increase the already strong monetary policy impulse, cutting the monetary policy rate (MPR) on two occasions: by 25 basis points in January and a further 50 basis points in December, to close the year with the MPR at 2.25%. This policy was consistent with changes in the external and domestic scenarios, but above all with the reductions in projected inflation. Moreover, the Board reaffirmed its commitment to an inflation target ranging from 2% and 4%, and centered on 3%.

The M1A monetary aggregate, which in the early months of the year were behaving similarly to the previous year, growing at annual rates of about 20%, posted rather unusual growth in March. In fact, their annual rate of change soared to 30% as a result of massive transfers of private funds from mutual funds and shares into bank checking accounts, as part of an effort by the Central Bank to temporarily boost liquidity as soon as the Corfo-Inverlink case became known in early March. This irregular situation also affected M2A, although to a lesser degree, through an increase in time deposits, after the Central Bank facilitated intermediation of these documents in the financial system.

The broader aggregates reflected changes in agents' portfolios, especially those of AFPs, who gave priority to investing abroad. This was largely behind the slowdown in growth of the broader monetary aggregates, M2 and M7, due to reduced demand for fixed income instruments from institutional investors.

In line with changes in the US dollar on world markets, in 2003 the peso accumulated nominal annual appreciation of 16%. Measured against a broader currency basket, the multilateral exchange rate (MER), it appreciated less (9%), partly reflecting the fact that some of the currencies included appreciated more than the peso against the dollar. Measured against a smaller number of countries, the MER-5 appreciated just 8%.

Overall, the nominal exchange rate fluctuated a great deal

*2/* Foods included in the CPI, other than fruit, vegetables, meat and fish, which account for 15% of the basket.

in 2003, mainly reflecting external factors. Thus the year began with a sharp rise in the exchange rate, which peaked at historic maximums in March (758 pesos per dollar)[3] due to uncertainty about the war in Iraq. The second half of 2003 saw substantial peso appreciation, reflecting several factors, among them significant dollar depreciation against other currencies, especially the euro and the currencies of commodity-exporting countries; a sharp decline in risk and nervousness worldwide about the war in Iraq; more stable prospects for the main Latin American countries; and a substantial rise in the terms of trade, particularly the copper price, and better growth prospects for Chile. Thus, the peso began to appreciate strongly, ending the year at just under 600 pesos per dollar. Although the speed at which this occurred was unusual for Chile, these kinds of shifts in the exchange rate are not unusual elsewhere. In fact, peso volatility has been no greater than that of other floating currencies. Overall, there is no reason to think that recent shifts in the nominal exchange rate are driving it away from its fundamentals.

Certainly in 2003 the real exchange rate (RER) was the key variable in the Chilean economy's ability to absorb the major changes taking place in the real and financial sphere abroad. Although during the early months of the year the RER depreciated significantly, reaching levels close to the early 1990s, in the last quarter of 2003, because of the strengthening peso in real terms, the RER fell back to levels similar to those of 2001, but higher than those apparent in 2000. The flexible exchange rate and the strong impulse from monetary policy mitigated the impact of a rather unpromising climate abroad during the first half of the year, but were unable to completely turn around the weaker performance from activity.

## B. Main Central Bank policies

In 2003, the Central Bank developed and implemented a series of measures, which included the monetary, financial, foreign exchange and foreign trade spheres, as detailed in appendices 3 and 4, along with several affecting administrative management. The main policies adopted are analyzed below from the perspective of their rationales, contents and consequences.

### B.1 Monetary policy

Inflation bounced around considerably during the year, reflecting strong fluctuations in the exchange rate that affected domestic fuel prices and some regulated service charges, and caused the decline of some durable goods in the last months of the year. While in late 2002 the annual inflation rate remained near the floor of the target range, in March 2003 it soared over the ceiling. Although in the middle of the first half core inflation seemed to accelerate, in the months that followed inflation tended to follow a path considerably below forecasts. By year's end, in particular, inflation projections suggested this could fall below the target range for some time. This fall was mainly due to lower than expected cost pressures, such as peso appreciation and the decline in some specific prices within the retail sector. Due to inflationary inertia and the downward correction to inflation expectations, these surprises significantly reduced inflation projections for 2004 and 2005. Finally, average inflation for the year stood at 2.8%. As expected, the impact of the October 2003 VAT increase on inflation was limited and temporary.

Early in the year, inflation trends within the Chilean economy revealed lower than forecast cost pressures, as a result of external prices falling more and for longer than expected, and particularly a more limited rate of growth for labor costs, largely influenced by the behavior of public wages. In this new scenario, and consistent with the inflation targeting stance that guides monetary policy, the Central Bank decided to increase monetary impulse in early January 2003, cutting the monetary policy interest rate (MPR) by 25 basis points, to 2.75%. In December, to further reduce the risk of inflation falling below target for an undesirably length of time, delaying its reaching 3% during the usual 24-month policy horizon, a situation that could have arisen given the significant and unexpected decline in actual and projected inflation toward year's end, the Board decided to cut the policy interest rate by a further 50 basis points.

### B.2 Financial policy

The purpose of the Central Bank's financial policy is to preserve the economy's financial stability, promote the integration of Chile's capital markets with those abroad and modernize the payments system and regulations, to contribute to the development of a healthy financial system.

The payments system is an essential component of economic and financial infrastructure. Its efficient functioning is a necessary condition for the development of capital markets. In this sense, Chile's financial system clearly lags behind international capital markets.

One task that absorbed a significant amount of human and financial resources in 2003 was continuing the process of modernizing the payments system, in particular the efforts regarding the technological, operating and regulatory aspects of large-value payments, in the new Real Time Gross Settlements (RTGS) system. This system, defined as an electronic process for settling large-value transactions in real time, seeks to limit the Central Bank's credit risk, ensuring that every payment operation among financial institutions takes place immediately, thus avoiding the accumulation of significant amounts that may later become contingencies

3/ As of 11 March 2003.

that must be assumed by the Central Bank. Implementation of the RTGS system will make it possible to significantly reduce other risks of systemic importance present in the payments system, such as liquidity risk, operating risk and legal risk. On this subject, and to improve the system's functioning, an intra-day liquidity credit facility will be implemented to make the settlement process easier.

The development of the RTGS system incorporates international principles and recommendations in this field, particularly those from the Bank for International Settlements Committee on Payments and Settlements Systems. Moreover, the Central Bank has kept the agents involved informed of all aspects of project development and they have provided the respective observations, thus contributing to the timely implementation and transition from the old to the new payments system, scheduled for the early months of 2004.

In the regulatory sphere, Central Bank financial policy continued the process of reviewing and modernizing the *Compendium of Financial Regulations*. In chronological order, regulations governing savings and credit cooperatives were the first to be implemented. In recent years, these financial institutions have become more important in intermediating financial resources for small and medium-sized firms and individuals, with this segment's main institutions' share of these credit markets on the rise. The new law governing cooperatives (*Ley de Cooperativas*) significantly expanded the business of these institutions, by including many activities hitherto restricted to banks and finance companies. Consistent with this and by virtue of the authority granted to the Central Bank to regulate savings and credit cooperatives, the Bank decided to draft prudent management regulations consistent with the principles behind banking regulation. For example, capital requirements were established as a function of operating risk, a cap was placed on credit concentration and, in the case of potential conflict of interests (related parties), ratings of asset (loans and investments) risk became mandatory.

In the process of modernizing regulations, a new measure associated with managing financial institution liquidity stands out. The Central Bank has moved away from a system of mechanical compliance with pre-established limits to adopt a set of rules that require that financial institutions' boards increase the transparency around their participation in the guidelines that define their own liquidity management policy. Moreover, compliance with prudent limits has become a process that tries to adapt to the characteristics of each financial institution, in terms of the structure and duration of sources and uses of liquid funds. The changes introduced into the liquidity administration regulations will come into effect early in the second quarter of 2004. On regulations governing interest rate risk, the calculation for the risk indicator that financial institutions must file was changed, to recognize the relevance of effective equity as backup in the event of critical situations.

In the third quarter of 2003, to improve liquidity in the foreign currency spot market, the Central Bank of Chile offered holders of instruments indexed to US dollars and payable in pesos (PRC and BCD), issued in previous years to facilitate the orderly functioning of the exchange market, the possibility of swapping them for equivalent instruments payable in dollars, called BCX. With this measure the Central Bank intends to reduce the financial cost of its net position in foreign currency without affecting the foreign exchange market.

In terms of regulations, the Central Bank continued to improve the measures regulating savings accounts with passbooks, given the rising normalization of medium-term financial instruments in the economy, making it easier and faster for customers using these products to transfer their savings to non-indexed instruments.

In 2003, the Central Bank continued its policy of expanding the limit on pension fund investments abroad, raising the legally established ceiling. The purpose of this measure is to help these financial institutions to diversify to the maximum to be able to provide the best combination of risk and return to system affiliates. In 2003, the pension fund managers (AFPs) increased their assets abroad, which influenced the low recovery of monetary aggregates (M2 and M7).

Finally, to improve the transparency of bank sector information, the Central Bank started to publish a quarterly survey of changes to bank credit-granting standards, identifying credit supply and demand factors that are apparently influence different agents' perception of risk.

## B.3 Foreign exchange policy

### B.3.1 Administration of international reserves

As part of its mission of ensuring currency stability and the normal functioning of the domestic and external payments systems, and its general policy framework, in 2003 the Central Bank maintained suitable international reserves to deal with possible exception liquidity needs in foreign currency. Through 31 December 2003, international reserves reached US$15.85 billion, 1.2 times amounts coming due and amortizations of Chile's foreign debt in the next 12 months (table 1).

During the year, international reserves fluctuated between US$15.25 billion (January) and US$16.76 billion (March). These changes came from full and partial payments ordered by Chilean banking companies and public institutions with dollar accounts with the Central Bank, and the impact of shifts in parities and international prices, interest accumulation, and changes in the Central Bank's position with foreign creditors. In 2003 the Central Bank did no buying or selling on the domestic foreign exchange markets. Nonetheless, the US$84.4 million paid out due to Central Bank dollar bonds should be considered.

To ensure the liquidity of foreign currency investments making up international reserves, the Central Bank continued to manage a portfolio composed primarily of short-term deposits in international commercial banks, with a variety of maturities, and other fixed income instruments trading on highly liquid secondary markets. Through 31 December 2003, the investment portfolio's time deposits accounted for 46% of international reserves, while other fixed income securities accounted for 47%. The rest of reserves were held in an independent clearing house in US dollars to deal with immediate liquidity needs, as well as the International Monetary Fund's gold reserve.

The preservation of the capital invested was based on administrative policies to control credit, market and operating risk. Credit risk was limited by choosing several first-class sovereign, supernational and bank issuers and by diversifying the amounts so invested. In 2003, the eligible countries and institutions were bodies with a long-term risk rating ranging from "AAA" to "A-", granted by the main international risk agencies. Market risk was controlled by diversifying currencies, instruments and investment maturities, quantified according to the duration of the portfolio and values at risk (VaR). At the end of December, the total duration of reserves was 18.86 months and the absolute VaR (parametric method, daily horizon, with a 95% confidence level) was 0.26% of the value of international reserves in equivalent dollars at year's end compared to the duration of 19.86 months and the absolute VaR of 0.26% at the end of December 2002. Operating risk, meanwhile, was controlled by separating functions, responsibilities and applying internal and external controls.

### B.3.2 Foreign currency regulations

Changes to foreign currency regulations, adopted in 2003, aimed to simplify the information required from agents carrying out foreign exchange operations, to minimize the associated costs, both public and private, always within the framework of the need to meet the Central Bank's objectives.

Essentially two major changes were implemented. Starting on 1 August 2003 the requirement for supplying the number of the customs entry or exit document for merchandise-related foreign currency flows was eliminated. This measure makes it easier for exporters and importers to carry out their foreign exchange operations and reduces the associated transaction costs to these agents and bodies within the formal exchange market responsible for providing information to the Central Bank.

A complementary measure was the replacement, on 1 January 2004, of the operation-by-operation based information system with a mechanism requiring information on the basis of total monthly flows, delivered on a quarterly basis. Moreover, the minimum for agents required to provide information on exporters and importers was raised to US$5 million. This measure, along with significantly reducing the number of companies required to report, reduced the frequency of reports.

## B.4 Administrative measures

In 2003, several measures to improve the Central Bank's internal functioning in administrative, technological and organizational terms were applied, among them:

a) Measures and actions to include, upgrade and update regulations and procedures governing information security. In this sense: i) a set of ethical principals to be applied in the Central Bank was defined; ii) an information security policy manual (*Manual de Políticas de Seguridad Informática*) was created; iii) regulations governing different aspects of information technology were expanded, consolidated and tightened; iv) measures regarding the distribution and confidentiality of information generated and managed by the Central Bank were included in internal regulations, and a special set of regulations was developed for the treatment of highly sensitive information (IAS); and v) software to enhance information security has also been implemented, covering the generation of statistics from electronic communications, the analysis of the Central Bank's e-mail operation, and the incorporation of cryptography and digital certification for a selected group of IAS users.

b) A range of measures to improve and increase the transparency and timeliness of information delivery were also adopted. These increased the frequency and shortened the periods for publication of different indicators and economic data through the Bank's website, as well as facilitating access to historic series, making it possible for the public and economic agents to access the latest information and use more and better analytical elements, thus favoring the quality and transparency of information delivery. An example of this is the weekly publication of economic indicators previously published every two weeks.

   One reflection of the high priority that the Bank has given to developing and improving communications, both external and internal, was the creation, in December, of a new management area for institutional communications, which will be responsible for everything relating with the media, public relations, publications and continuing education.

c) Computer system development that will make it possible for the Real Time Gross Settlements System (RTGS) to function, including purchasing and bringing on stream the necessary equipment, as well as adjusting it to the requirements of the SWIFT communications and other internal Central Bank systems. Likewise, a series of initiatives were carried out with financial system institutions, involving information and preparation for their joining this system.

d) Preparation of an alternative processing site, with a first-rate technological and communications platform that meets strict security norms, to ensure the operational continuity of the Bank's most important processes. This site is also in the process of implementing essential Central Bank applications and contingency procedures have been developed that permit a high degree of availability.

e) Expansion of information technologies to support the Central Bank's essential processes, particularly: i) integration of international investment applications; ii) development of applications for statistical information and research; iii) the second phase of the economic data base project; and iv) adapting the Central Bank's economic information systems for their integration into the Bank for International Settlement's data base.

f) Incorporation of the latest generation of computer technologies into desk top, storage and centralized backup computers, development of critical applications and network services, and increasing the econometric/mathematical/statistical software used in Central Bank work.

g) Optimization of the Central Bank's website, in a context of technological innovation, offering a new graphic design and restructuring all contents, to facilitate information access and offer a modern interface, based on criteria combining the ease of use, sobriety and tradition characteristic of the Central Bank. At the end of 2003, the Central Bank's website was recognized as one of the best public service websites in the country.

h) Implementation of a set of electronic forms for foreign trade and external statistics, simplifying and modernizing these processes to streamline processes for information delivery to the Central Bank for the different economic agents.

i) Boosting the efficiency of currency administration by: i) evaluating and deciding to use polymer substrate in printing 2000-peso banknotes, along with negotiating the corresponding contract for their printing in 2004; ii) evaluating and deciding on modernization methods for the system involved in receiving deposits in banknotes, preparing its implementation in the Bank and other financial system institutions; and iii) issuing instructions to financial institutions on the procedures to be used to detect false currency, to create standardized procedures among these bodies in this area.

j) Renovation of different elements making up the Central Bank's security systems, including communications equipment, fire extinguishers, closed circuit television and vehicles, as well as installing an integrated security system backup in the alternate processing site. All this also aimed to maintain maximum efficiency and reliability.

k) Updating and tests for operating continuity plans and updating the Central Bank's administrative procedures and internal regulations, as part of an ongoing effort to improve efficiency.

l) The 2003 Base Year Program has been implemented. Its purpose is to update the base year used in National Accounts from 1996 to 2003. This will make it possible to suitably reflect technological changes and relative prices experienced in the past seven years in the national accounts system. This program also seeks to expand the coverage of information and improve measurement methods according to international recommendations in the 1993 National Accounts System. The results of the 2003 Base Year Program will translate into the following main products: i) 2003 Input-Output Matrix, ii) 2003-based 2003-2006 production accounts series, at current and constant prices, iii) Integrated 2003-2005 institutional accounts series, iv) 2003 Investment Matrix and 1996-2003 estimation series, v) Quarterly accounts series at current and constant prices and the 2003-2006 Imacec, and vi) 2003-based 1986-2006 annual and quarterly spliced GDP series. These products are scheduled for publication in March 2007.

m) For its quarterly expenditure measures, the Central Bank does not have appropriate measures for inventory changes and private consumption. Both series form part of a component called "Rest of domestic demand". To improve the quality of its statistics for these two important components of domestic expenditure, in 2003 the Central Bank started to apply a quarterly survey of inventory change. At the same time, it has worked with the National Statistics Bureau (INE) to develop a monthly survey of consumer goods sales indicators (*Encuesta Mensual de Indicadores de Ventas de Bienes de Consumo*) to be published in 2004. The inventories survey is applied to a panel of manufacturing, wholesale and retail, and mining sector firms, as these are the main inventory-accumulating activities. The survey results provide a quarter-on-quarter indicator for inventory change. The consumer goods sales survey carried out by the INE, meanwhile, consists of a monthly interview with a panel of wholesale and retail trade firms to obtain indirect measures for changes in private consumption.

n) Indicators for business confidence in the economy have become particularly important internally to analyze short-term economic fluctuations. These indicators express individual company executives' evaluations of activity in their economic units in aggregate form. They are constructed using surveys with qualitative questions, which typically offer three response alternatives: optimistic, pessimistic and neutral (no change). The great advantage of these indices is that they tend to offer advance information on some relevant economic series. As a result, they facilitate timely decision-making. Given the importance of these indicators for macroeconomic analysis, the Central Bank decided it was necessary to develop a survey of business confidence in the Chilean economy that includes the manufacturing, wholesale and retail trade, construction and mining sectors. To do so, in 2003 public bidding took place with this task being assigned to a consortium formed by the *Instituto Chileno de Administración Racional de Empresas* (Icare) and the *Adolfo Ibáñez* University, who will now be responsible for the ongoing administration of this survey. The first results will be published in the second quarter of 2004.

o) To permanently monitor changing expectations among consumers, the Central Bank hired the firm ADIMARK to provide the results from an economic perception index (IPEC) within the first five days of each month. IPEC information provides a view of Chilean consumers' outlook for present and future economic conditions, which enriches the analysis of current economic conditions. This index has been published quarterly since 1981 and monthly since March 2002.

p) The Central Bank of Chile published 59 working documents in 2003, well above most of its Latin American peers, the US Federal Reserve banks and other central banks in Europe, Asia and Oceania, continuing a trend that began in 2000. This output currently places this series in third place worldwide, after the European Central Bank (97 articles) and the Board of Governors of the US Federal Reserve (68). Similarly, visits to working documents on the Ideas-Logec web page, the best known Internet search engine for economic literature, has posted a rising trend similar to that worldwide. This page is receiving a monthly average of almost 2800 visits, making these the fourth most visited series among central bank publications worldwide.

q) On 6 and 7 November 2003 the Seventh Annual Central Bank of Chile Conference took place, on the theme "Labor Market and Institutions". The first day of the conference focused on the issue of optimal design of labor institutions and international experience, with special emphasis on issues crucial in Chile today, such as unemployment insurance and public programs to stimulate employment. The second day examined issues directly associated with Chile, such as the impact of international trade on wages and the composition of employment, income dynamics, labor market flexibility and the distribution of the effects of different labor policies applied in Chile since 1960. The presentations, commentaries and discussions were top notch, offering important lessons for designing labor institutions in the world and especially Chile. These conclusions were based on presentations from distinguished foreign and Chilean economists, experts in labor markets. Moreover, there was excellent debate of the papers by the assigned commentators and many Chilean and foreign specialists participating in the conference, with more than 120 people attending the inauguration and an average of 80 people at the other sessions.

## C. **International scenario**

### C.1 World economic growth

In 2003, the world economy improved significantly over the previous year, achieving weighted growth of 3.6% at purchasing power parity (PPP), up from 2.6% in 2002. This result reflected a first half characterized by uncertainty in the US and Europe, particularly due to the war in Iraq, tension around terrorist attacks, and financial market volatility. In Asia, the main concern during the first half of the year was Severe Acute Respiratory Syndrome (SARS) and its economic impacts, while in Latin America uncertainty was associated with doubts about the policies to be implemented by Brazil's new government, Argentina's debt moratorium, and political conflicts in Venezuela. The second half saw a decline in the factors causing most of the uncertainty, among them the end of the US-Iraqi war, more limited impacts from SARS, recovering stock markets in both developed and emerging countries, and a better outlook for Latin America.

Overall, the external scenario was favorable to Chile in the second part of the year. A stronger performance from the US, Japan and Emerging Asia (in particular China), was reflected in better terms of trade, combined with more favorable external financial conditions, thanks to the behavior of monetary policy in the main developed economies. Thus, growth of Chile's main trading partners, weighted by their share of Chile's exports, reached 2.7% (2.0% in 2002, table 1).

In this scenario, growth of the US economy ended the year at 3.1%, half a percentage point higher than projected early in the year and similar to the average for 1990-1999. In 2003, activity in the US was driven by a strong performance from domestic demand, mainly based on more expansionary monetary policy, fiscal impulse that was particularly strong in the second half of the year and significant productivity growth. Similarly, the labor market ended the year with positive figures, but showing some lag in its recovery. A note of caution is essential regarding the United States, given its current account deficit, which stands at about 5.0% of GDP, and its fiscal deficit.

TABLE 1

**World growth**
(percent)

| | Average 1990-1999 | 2000 | 2001 | 2002 | 2003 (6) |
|---|---|---|---|---|---|
| World (1) | 3.3 | 4.7 | 2.1 | 2.6 | 3.6 |
| United States | 3.0 | 4.1 | 0.3 | 2.2 | 3.1 |
| Europe | 2.0 | 3.3 | 1.6 | 1.0 | 0.8 |
| Japan | 1.7 | 2.8 | 0.4 | -0.3 | 2.7 |
| Rest of Asia (2) | 7.9 | 7.4 | 5.2 | 6.7 | 7.1 |
| Latin America (3) | 2.8 | 4.0 | 0.3 | -0.7 | 1.1 |
| Trading partners (4) | 3.0 | 3.8 | 1.4 | 2.0 | 2.7 |
| Trading partners (5) | 2.9 | 3.8 | 1.1 | 1.5 | 2.6 |

(1) World growth weighted by share of world GDP at PPP. These countries accounted for 84% of World GDP in 2003.

(2) China, Indonesia, Malaysia, Thailand, Singapore, South Korea, the Philippines, Taiwan and Hong Kong.

(3) Brazil, Argentina, Mexico, Colombia, Uruguay, Venezuela, Ecuador, Paraguay, Bolivia and Peru.

(4) Growth of Chile's main trading partners weighted for their share of total exports in 2002. These countries received 92% of total exports.

(5) Growth of Chile's main trading partners weighted for their share of non-copper exports in 2002. These countries received 92% of total exports.

(6) Projection.

Sources:

Consensus Forecasts (February 2004), corrected using projections from a sample of investment banks through 23 February 2004.

International Monetary Fund.

Central Bank of Chile.

In Japan, changes in economic activity went beyond analysts' expectation and in contrast to the previous year, growth reached 2.7%, a favorable change from the 0.3% decline of 2002. This result reflected improved exports to the US and emerging Asia. In contrast, although higher activity reduced the average unemployment rate from 5.4% to 5.1%, disposable income showed no signs of recovery, preventing any turnaround in consumption. Private investment stopped falling, with the residential component growing the most. Public expenditure saw efforts focus on implementing the structural reforms in the government's program and the continuation of efforts to reform the financial system, focusing mainly on debt and capitalization levels. Nonetheless, progress has been minor and has not significantly affected the market.

In Europe, the economy expanded by just 0.8%, down from the 1.0% posted in 2002, and below the average for the 1990s. Reasons include the weakness of domestic demand. In this sense, the economies of Germany, France and Italy, which account for almost 72% of the euro zone's production, were affected by high unemployment and companies' belt-tightening efforts. In fact, unemployment rose over the previous year and companies' expectations only started to turn around very slowly in the second half. In this scenario, between March and June the European Central Bank (ECB) cut its policy interest rate by 75 basis points to 2.0%. Moreover, member countries whose recovery lagged the most continued to apply expansionary fiscal policies to reinforce social spending and deal with the rise in unemployment, which to date has been productive, despite noncompliance with the zone's Stability and Growth Pact. In terms of structural reforms, Germany introduced changes to the health care system and some labor market flexibility, while the French government made advances in the pension system. Nonetheless, toward the medium term a note of caution continues to prevail as structural reforms remain pending.

Latin America also benefited from the better international scenario, posting growth of 1.1%, up from −0.7% the previous year, but below projections early in the year. However, aggregate growth was pushed downward by the strong plunge in Venezuela, reflecting its domestic crisis, and lower growth from Brazil and Mexico. This was partly offset by more growth from Argentina, favored by rising exports and more domestic demand.

The Argentine economy improved, thanks to a better performance from the tradable sector, favored by currency devaluation the previous year and better international prices, along with idle productive capacity. Nonetheless, public debt restructuring remains pending, along with capitalization of the banking system and structural reforms. In this scenario, the economy ended the year with growth of 8.7%, versus −10.9% in 2002, and lower unemployment. Mexico, meanwhile, performed modestly, despite its close trade relations with the US and currency depreciation. Thus, manufacturing was depressed due to greater external competition from China and delays in approvals for public sector structural reforms, which should improve competitiveness. Overall, the year ended with GDP growth of 1.3%, up slightly from 0.9% in 2002.

In Brazil, meanwhile, the effect of restrictive monetary policy applied in the first half of the year to meet its 8.5% inflation target ended up limiting economic growth, which reached -0.2%, down from 1.9% the previous year and initial projections. However, suitable management of its public debt and compliance with IMF targets increased investors' confidence, which was reflected in significant improvements to risk indicators (table 2).

TABLE 2

### World inflation
(percent)

| | Average 1990-1999 | 2000 | 2001 | 2002 | 2003 (3) |
|---|---|---|---|---|---|
| | (average change in local currency) | | | | |
| United States | 3.0 | 3.4 | 2.8 | 1.6 | 2.3 |
| Europe | 3.1 | 2.3 | 2.6 | 2.2 | 2.2 |
| Japan | 1.2 | -0.7 | -0.7 | -1.0 | -0.3 |
| Rest of Asia (1) | 7.6 | 1.1 | 2.1 | 0.9 | 1.8 |
| Latin America (2) | 387.0 | 8.2 | 5.9 | 13.6 | 7.8 |

(1) China, Indonesia, Malaysia, Thailand, Singapore, South Korea, the Philippines, Taiwan and Hong Kong.
(2) Brazil, Argentina, Mexico, Colombia, Uruguay, Venezuela, Ecuador, Paraguay, Bolivia and Peru.
(3) Projection.
Sources:
Consensus Forecasts, corrected using projections from a sample of investment banks (February 2004).
International Monetary Fund.
Central Bank of Chile.

## C.2 International prices

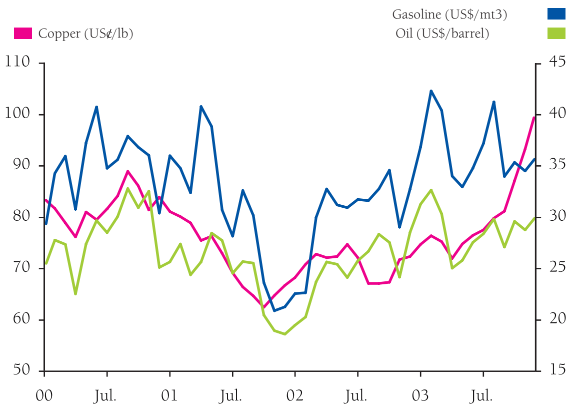
The swifter pace of world economic activity in 2003 and less uncertainty about the war in Iraq were reflected in changing commodity prices. The copper price rose steadily and significantly, mainly toward the last quarter of the year, bringing the average price in 2003 to US$0.81 per pound (LME), closing the year at US$1 per pound, up from US$0.71 per pound in 2002. This trend reflected greater industrial activity among the main copper consumers (China, the US and Japan) and dollar depreciation against the main currencies, which along with the growing supply deficit caused by strikes, mine closures and production cuts led to a significant decline in inventories.

The oil price ranged from US$25 to US$33 per barrel, ending the year with an average of US$28.9, up from its US$25 average the previous year. This was associated with uncertainty about the war in Iraq in the first quarter, low stocks in the US, and a 900,000 barrel per day production cut decreed by OPEC in September. Higher demand for crude for derivative production also contributed, especially for heat, along with uncertainty about Iraqi oil, greater world activity and dollar depreciation (figure 1).

Consistent with the above, other export commodity prices also rose, particularly wood pulp, whose price increased 13% over the average for the previous year. This mainly reflected greater demand from North America and Asia, which together account for 60% of world consumption. Fishmeal, meanwhile, continued to recover, ending the year with an average increase of 11% over 2002, reflecting strong demand from China and Japan and lower production in Chile and Peru, the world's main suppliers.

FIGURE 1

### Commodity prices
(monthly average)




Source: Bloomberg.

## C.3 International financial markets

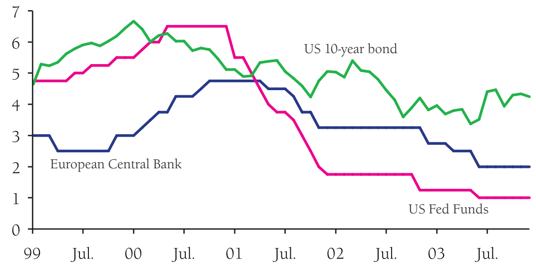
Geopolitical uncertainty early in the year was behind the enormous volatility of international financial markets and led investors to seek secure, liquid assets, pushing down the main stock indicators, yields on developed economies' long-term bonds and causing the dollar to depreciate against the main currencies. Once uncertainty about the war in Iraq cleared, international markets started to perform better, although the dollar nonetheless depreciated, reflecting concern about the US economy, given that the scenario considered most likely after the war did not materialize completely, combined with the high current account deficit. Given a scenario of weak economic activity, very volatile financial markets and low inflation, monetary authorities in most countries extended the expansionary policy being applied since the previous year. Thus, low inflation caused the Federal Reserve to reduce its policy rate by 1%, to a historical low not seen since the early 1970s, while in the euro zone, the ECB cut its policy interest rate twice, bringing it to 2%. Similarly, faced with persistent deflation, the Bank of Japan continued to inject liquidity into the market.

Finally, the dollar depreciated against the main currencies, especially the euro and yen, reflecting the US' high current account deficit. This led the Bank of Japan to intervene significantly in the foreign exchange market, while there was concern in the euro zone about the possibility that these changes in currency prices could dampen the recovery of its exports (figures 2 and 3).

FIGURE 2

**International interest rates**

(monthly average)

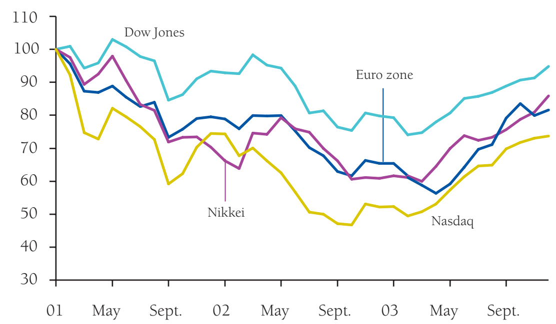



Source: Bloomberg.

FIGURE 3

**Share prices**

(January 2001 = 100)




Source: Bloomberg.

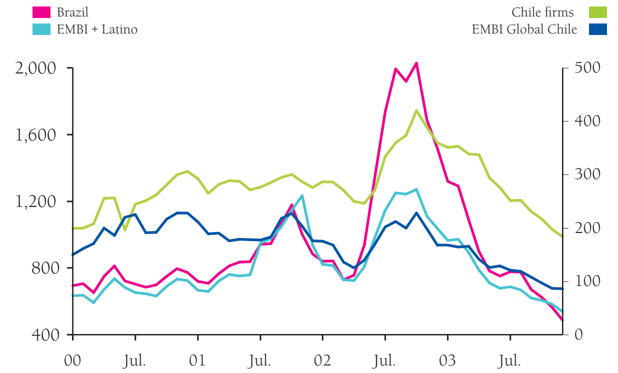
### C.4 Emerging financial markets

In emerging financial markets, conditions moved in line with those of developed economies. This brought a lot of volatility and pressure on local currencies in the first part of the year. Toward the second half of 2003, with regional and global uncertainty somewhat reduced, along with better financial conditions in developed economies, sovereign spreads fell significantly, thus reducing borrowing costs. In fact, sovereign risk in emerging economies, as measured by the EMBI+ index, fell by almost 290 basis points between January and December 2003, reflecting agents' greater willingness to invest in higher risk papers. Similarly, Chilean bond spreads tended to fall, which was reflected in a drop in the overall Chilean EMBI from an average of 168 basis points in January to 86 basis points in December. Moreover, currencies appreciated, domestic interest rates fell and stock exchanges rose (figure 4).

FIGURE 4

**Sovereign spreads**

(monthly average, basis points)




Sources: Bloomberg.
JP Morgan Chase.

Finally, net capital flows into emerging economies rose significantly. Estimates from the JPMorgan Chase investment bank indicate that in 2003 net capital flows into emerging economies may have doubled over the previous year. Asia was the main beneficiary, in line with its better economic performance, receiving over half the capital flowing into emerging markets. Although it received less, Latin America also enjoyed higher capital inflows, going mainly to Mexico and Brazil.

## D. Financial developments

### D.1 Changes in interest rates

In 2003, Chile's financial markets behaved in line with changes in monetary policy. Nonetheless, they were still influenced by swings in international financial markets and unusual occurrences affecting local markets.

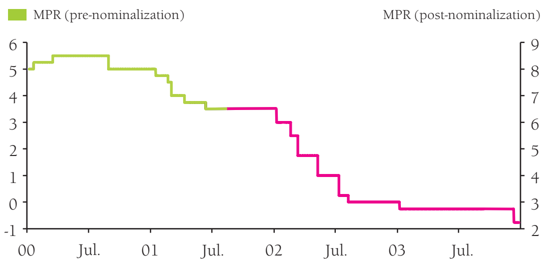
Thus, the monetary policy approach in 2003 was clearly expansionary when compared to its historic behavior, in an inflation scenario approaching the floor of its target range. This was forecast in early January, causing the Central Bank's Board to cut the monetary policy interest rate (MPR) by 25 basis points to 2.75%.

Toward the end of 2003, with price trends in the last quarter of the year lower than forecast, reflecting supply factors such as peso appreciation and less deviation from equilibrium values at the margin in specific sectors due to greater competition and/or efficiency gains in production and distribution chains, the Central Bank decided to reduce the MPR, this time by 50 basis points to 2.25% (figure 5).

FIGURE 5

### Monetary policy interest rate (MPR)

(percent)



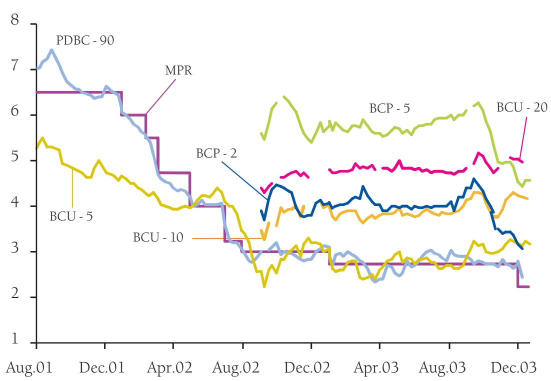

Source: Central Bank of Chile.

The first quarter of the year saw investors prefer short- and medium-term fixed income assets, given general uncertainty prevalent worldwide before the war in Iraq. This brought interest rates on five-year indexed bonds (BCUs) to historical lows of 2.3%, 3.6% on ten-year indexed bonds. These changes were very similar to those of the relevant external rates, although more volatile, given domestic news about the prospects for short-term inflation. In the following quarters, these rates became disassociated from their external equivalents, changing less, although at somewhat higher levels, the result of more optimism about world economic recovery, lower than expected inflation, portfolio adjustments associated with the significant drop in actual inflation and the rise in the supply of both private (corporate bonds) and treasury fixed income instruments. In the last quarter of the year, however, these interest rates rose to annual peaks of 3.3% for five-year and 4.3% for 10-year instruments (table 2 and figure 6).

FIGURE 6

### MPR and interest rates on Central Bank of Chile instruments

(weekly average, percent)




Source: Central Bank of Chile.

Interest rates on dollar-denominated debt securities payable in pesos (PRDs and BCDs), remained at under 3% for 2-year and 4.3% for 5-year maturities, although fluctuating somewhat. However, toward year's end they rose by more than 50 basis points, an increase over other financing alternatives in dollars, such as Chilean sovereign bonds or the usual yield for international reserves. Through October 2003, the Central Bank continued to renew, without changing its net position in foreign currency with regard to the market, thereby applying a neutral foreign exchange policy consistent with the floating exchange regime. To reduce the financing costs of its net position in foreign currency, in November 2003 the Central Bank offered the possibility of swapping promissory notes falling due in 2004 for equivalent securities payable in dollars, and stopped renewing its dollar-indexed documents as they matured, given that interest payments and amortization on the new instruments will be done directly in dollars. This policy also keeps the Central Bank's foreign exchange position vis à vis the private sector unchanged.

Interest rates on nominal documents rose significantly for every maturity in the first quarter and toward the end of the third. This trajectory reflected expectations for rising inflation associated with the higher oil price and the exchange rate. In the last quarter of the year, however, interest rates on these documents fell to all-time lows. Interest rates on two-year BCPs went from 4.6% at the end of September to about 3% in the final days of the year, while those on five-year BCPs fell even more (200 basis points) to 4.5% in December. The magnitude of this shift reveals the effect of news that prices were higher than expectations for inflation and trends expected in monetary policy.

Rates on nominal short-term documents (PDBCs) rose early in the year to almost 3% before trading below the MPR for some time. This trend may have been influenced by strong demand for short-term documents to constitute the technical reserve, which rose unusually due to the hefty amounts in checking accounts and, to a lesser degree, term deposits in banking institutions, caused by the Corfo-Inverlink case. The rest of the year saw auctions at average interest rates higher than the MPR.

In the market for private fixed income instruments, the rates on corporate bonds were linked to trends in long-term Central Bank indexed notes (BCUs), although somewhat volatile, with the year's average interest rate reaching 5.5%, that is 80 basis points lower than the average for the previous year. The downward trend followed by these interest rates from mid-year through November when they bottomed out at UF+4.5% was particularly noteworthy, although it may have been somewhat distorted by specific operations carried out by some major firms. Overall, the surcharge over the BCUs averaged about 190 basis points in 2003, down by about 20 basis points from the average in 2002. For their part, the rates on mortgage bills tended to drop throughout most of the year, reaching their lowest annual average (5.1%) ever registered, an 80 basis point drop from the previous year. Nonetheless, the average surcharge was 150 basis points over the IRR for BCUs, the same as the previous year.

In general, for the year as a whole credit conditions within the financial system continued to reflect the expansionary monetary policy stance. This is apparent in the drop in lending rates – 150 basis points on average in 2002 – and spreads, which fell by about 50 basis points from the average the previous year. Specifically, peso loans to more than 90 days, which account for more than 50% of total banking system credits, posted stable average interest rates throughout 2003 (at about 13% annually), with the amounts charged (7%) on operations involving more than UF5,000 (mainly to firms) remaining particularly stable. These account for somewhat more than half total loans in this category. For several months rates on credits for less than UF 500, mostly associated with consumer credits, also experienced important declines associated with reductions offered by the banking system in line with normal seasonal behavior of these loans. In aggregate terms, in March, September and December rates on consumer credits fell (table 3).

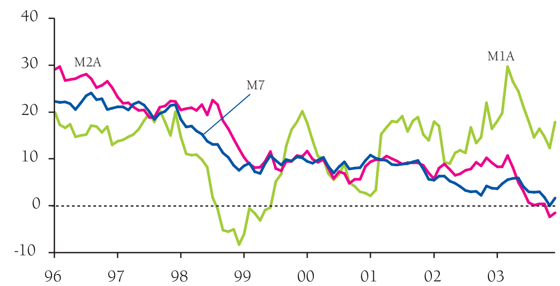
## D.2 Changes in monetary aggregates and credit

In the early months of 2003, currency and M1A, the most liquid monetary aggregates, behaved similarly to the previous year, rising 10% and 20% annually, mainly due to the low opportunity cost of these assets. In March, however, M1A posted rather unusual growth, soaring to 30% per annum. This situation was a direct consequence of the massive shift of private funds out of mutual funds and shares into bank checking accounts, combined with the Central Bank's efforts to temporarily increase liquidity as soon as the Corfo-Inverlink case was discovered early in the month. This irregular situation may also have affected M2A, although to a lesser degree, through a rise in time deposits, once the Central Bank facilitated intermediation in these documents within the financial system.

Trends in broader aggregates reflected changes in agents' portfolios, in particular those of institutional investors. AFPs gave priority to investment abroad, which largely explains the slowdown in the pace of growth of the broader monetary aggregates, M2 and M7, which was decidedly sluggish toward the end of 2003. As of December 2003, AFP investments in external markets stood at US$11.7 billion, somewhat less than 24% of their portfolio, with these operations mostly being carried out with foreign currency hedging (table 4 and figure 7).

In 2003 it became clear that the link between trends in monetary aggregates and changes in inflation is not obvious, since money demand factors associated with local episodes (such as the Corfo-Inverlink case) coincided with geopolitical turbulence (war in Iraq) and decelerating inflation. In any case, according to the empirical evidence, for 1986-2003 M1A growth was no more informative than that of other aggregates as a predictor of future changes over the horizons relevant to monetary policy. However, for longer periods, the relationship between M1A growth and prices seems relevant.

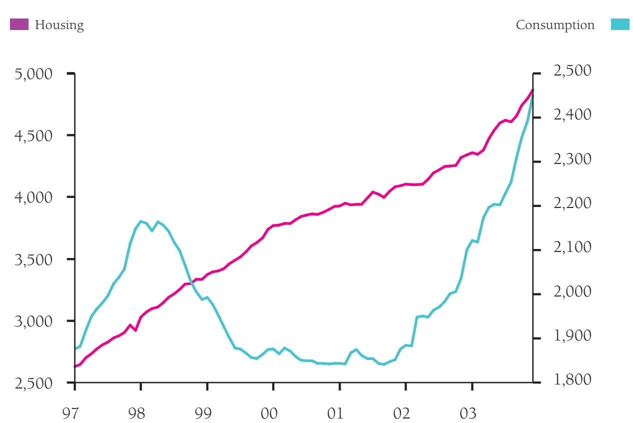
FIGURE 7
**Monetary aggregates**
(nominal annual change, percent)




Source: Central Bank of Chile.

Total loans for the year slowed beyond usual seasonal factors (table 5). Nonetheless, credits to individuals picked up significantly, posting an annual real increase of 17% in the case of consumer credits, beyond historic maximums from 1997, and 11% in the case of housing (figure 8). The consumer credit market has seen new participants join the banks, among them savings and credit cooperatives, department stores, clearing houses and insurance companies. These agents could now represent more than one-third of total consumer credits on the market, serving as an important financing source, primarily for lower income borrowers, which should contribute to more competition in this segment.

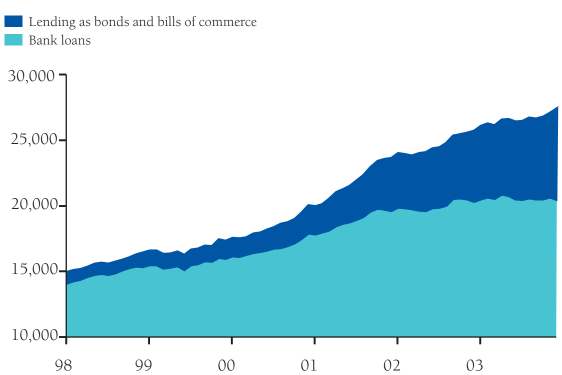
FIGURE 8
**Personal loans**
(billions of 1996 pesos, monthly balance)




Source: Superintendence of Banks and Financial Institutions

After soaring toward the end of 2001, loans to companies performed more flatly in 2003, posting annual growth of 3.0%, although with some important shifts associated with foreign trade loans. This behavior probably reflected demand factors, keeping in mind the recent proliferation of other financing sources, associated with the securities market[4] and sluggish investment, in a context in which banking institutions conditions for corporate loans have not varied. It should be noted that leasing and factoring, alternative financing sources oriented to small and medium-sized firms, although accounting for small amounts posted large growth rates throughout most of 2003. Information on banking system credits by amount suggests that during the year the number of credits for less than UF200 rose significantly (20,000 new borrowers between February and October), while the number of credits for operations involving over UF3,000 fell during this period, although by a lesser magnitude. Finally, it is important to indicate that according to more disaggregated information, bank mergers in recent years have not had much impact on this type of credit, whether from the perspective of interest rates or amounts offered (figure 9).

FIGURE 9
Corporate loans
(millions of pesos, monthly balance)




Sources:
Superintendence of Securities and Insurance.
Superintendence of Banks and Financial Institutions.

The outlook for corporate loans in coming quarters is more optimistic if one considers the results for the survey on bank credit, applied in November 2003, when financial institutions for the first time perceived a rise in demand for corporate loans. At the same time, an increase in the banking system's willingness to offer credit to individuals and companies also became apparent.

In the fixed income market, corporate bond issues reached more than UF100 million in 2003, with practically one-third concentrated in December, which is unusual. This brought the stock of debt in bonds to around UF400 million (30% of total corporate borrowing in the local market). In general, bond issues through 2002 were used to restructure company liabilities, while since 2003 they have been used increasingly to finance long-term investments. Information on the borrowing of publicly traded firms suggests that in the early 1990s the share of bank debt falling due in more than one year accounted for almost 50% of total debt, a ratio that had fallen to just under 15% by mid-2003, as bond issues have grown in importance. Companies' preference for direct debt issues reflects the lower interest rates of recent years and the possibilities for operating with more flexible maturities.

## D.3 Foreign exchange institutions and the exchange rate

The Central Bank's adoption of a floating exchange rate aims to strengthen the macroeconomic policy framework based on the inflation targeting scheme as the economy's nominal anchor. This framework also involves a fiscal surplus rule and financial integration with the rest of the world. The floating exchange rate allows the Central Bank to apply monetary policy independently, at the same time as it facilitates economic adjustment to real shocks and avoids more costly adjustments each time the alternative, an adjustment in prices and wages, takes longer, and, as a result, it involves a greater sacrifice in terms of output volatility.

In 2003, the peso accumulated nominal annual appreciation of 16%, amidst considerable volatility, mainly reflecting external factors. Overall, the exchange rate averaged 691 pesos per dollar for the year, ending at around 600 pesos per dollar, a level comparable to March-May 2001.

The year started with a strong increase in the exchange rate, which reached all-time highs in March (758 pesos per dollar). These high amounts reflected uncertainty about the war in Iraq and its impact on the price of oil and other commodities. Once the war started, most of the market's uncertainty faded and with it pressure on the peso, which rapidly recovered its value from the end of the previous year (700 pesos per dollar) before remaining relatively stable during the four months after the war.

For most of 2003 the US dollar performed weakly in the international market, losing value mainly against the euro, which became apparent in the local market only in August through December, when the peso began to appreciate significantly (15%) against the dollar (figure 10).

This last tendency of the peso was also influenced by the improvement in the Chilean economy's terms of trade, the result of a strong recovery in the copper price, favorable financial conditions for emerging economies, and better indicators for domestic risk (figure 11).

A look at broader currency baskets reveals that the aggregate multilateral exchange rate index, the MER, calculated over the total for Chile's main trading partners, and the MER-5, calculated for a subset of countries, posted significant appreciation against the dollar, but of substantially

[4]/ Bonds, bills of commerce and, recently, initial public offerings.

smaller magnitudes (7% and 6%, respectively), with this once again pointing to the US dollar losing ground against other currencies (table 6).

FIGURE 10

### Exchange rate per dollar: peso and euro

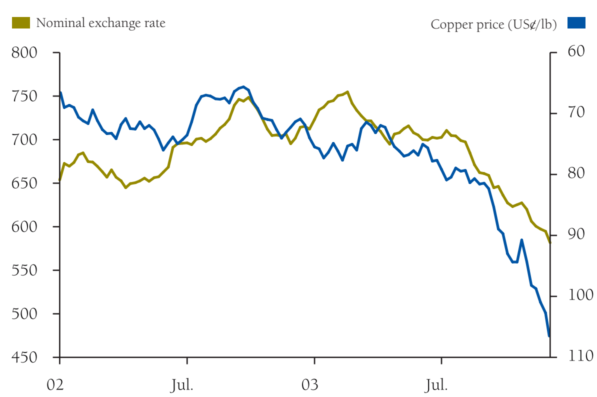
(Index 2 January 2003=100; weekly average).


Source: Bloomberg.

FIGURE 11

### Nominal exchange rate and the copper price

(weekly average)




Source: Bloomberg.

Certainly in 2003 the key variable for absorbing important changes occurring in the real and external financial spheres that affected the Chilean economy was the real exchange rate (RER). In the early months of the year, the same factors that raised the dollar's price produced significant depreciation in the RER and RER-5, pushing them to levels similar those of the early 1990s. However, in the last quarter the peso also grew stronger in real terms, because of changes in the economy's fundamentals, which brought the RER to close the year below the average for 2003 and 2002, but similar to that of 2001 and higher than that of 2000. Because of this, the RER and RER-5 posted significant appreciation, reaching levels similar to the average for 1986-2003, and accumulating annual appreciation of 4.8% and 4.5%, respectively (table 7 and figure 12).

FIGURE 12

### Real (RER) and multilateral (MER) exchange rates (*)

(MER 02 January 1998=100 and RER 1986=100)


(*) Calculated based on the parities for Chile's main trading partners: the United States, Japan, Argentina, Brazil, Mexico, Germany, Spain, Italy, France, United Kingdom, South Korea, Canada, Peru, the Netherlands, Belgium, Colombia, Taiwan, Venezuela and Ecuador.
Source: Central Bank of Chile.

Overall, compared to observations in recent years, the trajectories of the RER and RER-5 were consistent with other measures for the real exchange rate calculated using wholesale and retail unit values or unit labor costs.

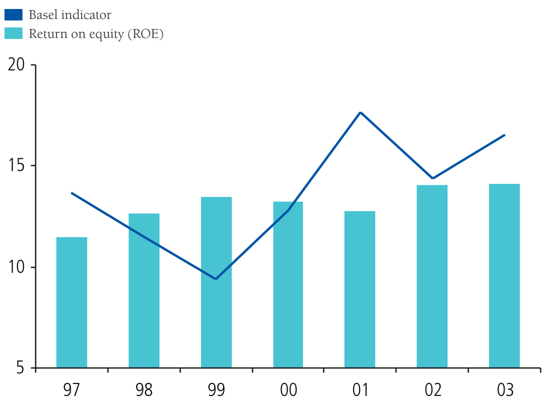
Nominal and real domestic and external interest rate differentials tended to rise throughout most of 2003, suggesting expectations that the peso would depreciate in the medium term. However, starting in October while the real differential continued to post a slight rising trend, the nominal differential plunged (almost 200 basis points), reflecting expectations that domestic inflation would be lower than international rates. Toward year's end, differentials became stabilized, indicating expectations that there would be no significant changes for the time being in the nominal and real exchange rates.

## D.4 Changes in the domestic financial system

In 2003, the main financial indicators for the Chilean financial system improved. Profitability rose, credit risk fell, there were signs that activity was recovering and slack in capitalization remained. In short, recent changes in these indicators have allowed the banking industry to consolidate the financial solidity achieved in recent years.

Financial system profits rose 19% (US$1.03 billion) in 2003 over 2002. These profits meant that banking system return on equity (ROE) reached 16.6%, up from the previous year (14.4%) and slightly under the average for the past decade (17.1%, figure 13). Despite a decline in intermediation margins, the system was able to boost profits through higher efficiency levels, a better quality loans portfolio and strong peso appreciation in 2003. The financial system nonetheless posted stable exchange rate risk and mismatching under the regulatory ceiling last year, so despite the more volatile exchange rate, in 2003 the financial system kept foreign currency risk low in 2003.

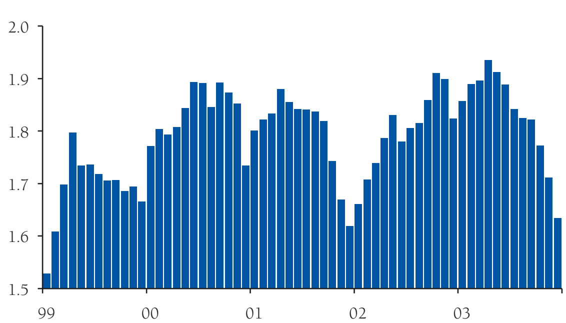
FIGURE 13
### Financial system yields and solvency
(through December of each year, percent)




Source: Superintendence of Banks and Financial Institutions.

Another tendency worth underlining became apparent in May 2003, when credit risk indicators began to improve steadily. Non-performing loans fell an annual 6%, pushing the non-performing loans indicator[5] down from 1.82% in late 2002 to 1.63% in December 2003, its lowest point in the past two years (figure 14). Similarly, changes in the Superintendence of Banks and Financial Institutions risk indicator,[6] which reflects the losses expected in the loans portfolio, also fell from 2% in June to 1.8% in October 2003. Consistent with this decline in credit risk indicators, the financial system continues to post suitable coverage levels for potential losses, which are reflected in the excess of provisions over non-performing loans. These had reached more than 1.4 times in December 2003.

FIGURE 14
### Non-performing loans
(percent of total loans)




Source: Superintendence of Banks and Financial Institutions.

Total 12-month growth in loans peaked at 3.8% in the first half of 2003. After growth fell off for awhile it picked up again in the second half to post a final 12-month rise of 4.6% through December. This recovery partly reflected a stronger performance from consumer loans and mortgages, which grew 16.8% and 12.4% respectively by December 2003. Bank capitalization, measured using the Basel index (defined as effective equity over risk-weighted assets), was over 14% for the financial system. It should be noted that most financial institutions posted a capital index of over 11%, almost 40% more than the minimum (8%) established by the general banking law (*Ley General de Bancos, 8%*).

Bank exposure to different financial risks also remained under control and within the regulatory limits throughout the year. In terms of maturity matches to under 30 and 90 days, banks remained within the legal maximums, which suggests that financial institutions have enough slack to face potential scenarios involving low liquidity. In the same sense, indicators for bank rate risk also improved, posting a general decrease in the last months of the year because of the regulatory changes introduced by the Central Bank in October 2003.

## E. Economic activity, expenditure, employment and the fiscal sector

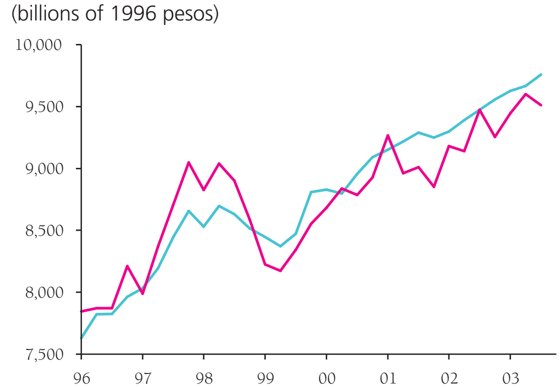
### E.1 Changes in economic activity and expenditure

#### E.1.1 Economic activity

The Chilean economy enjoyed 12-month growth of 3.3% in 2003, up from 2.2% in 2002. Quarterly GDP rose 3.7% in the first quarter, 3.0% in the second, 3.1% in the third and 3.3% in the fourth (table 8 and figure 15).

Domestic demand rose similarly to GDP, performing best in the fourth quarter (5.5%) compared to the same period in 2002 (table 9 and figure 15).

FIGURE 15
### Gross domestic product and domestic demand (*)
(billions of 1996 pesos)




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

[5]/ Non-performing over total loans.

[6]/ This index is obtained after sorting the loans portfolio into specific credit risk categories.

In 2003, natural resource-related sectors[7] drove GDP growth. The strongest thrust came from mining (5.4%), with the recovery in copper production levels. Fishing activity, despite its low weight in aggregate GDP, played an important role, affected by the decline in real terms of salmon and trout exports reflecting supply adjustments. In other sectors, the wholesale and retail trade performed increasingly well as the year progressed, with activity rising on average 3.6% in the first half of the year and 4.7% in the second. The turn around in manufacturing sales from September onward became a decisive factor in these results. The construction sector grew 3.6%, better than in 2002, while manufacturing, despite strong growth in the first quarter, closed the year at 2.4%.

The external sector saw an important rise in volumes in 2003. Exports of goods and services rose 7.8%, with all components posting higher figures than the previous year, particularly mining and manufacturing. Imports of goods and services also posted figures above those of 2002, rising 8.8% in 2003. The strongest performing components of these results were consumer and capital imports.

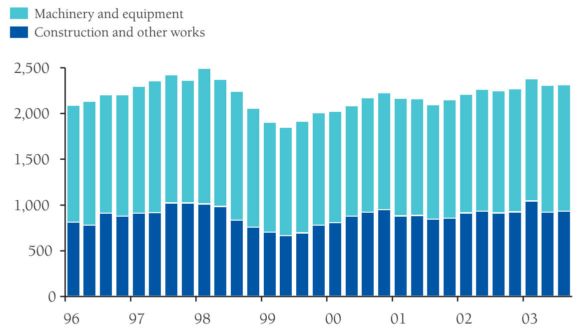
### E.1.2 Domestic demand

In 2003 domestic demand rose in line with GDP, with private consumption in particular picking up in the second half, especially its durable component, while investment remained lower than forecast.

Investment has lagged more than in other cycles of the Chilean economy. In particular, the rise in capital accumulation in the form of machinery and equipment was less than expected, given favorable financial conditions at home and abroad and the consolidation of the prospects for more growth in activity toward year's end. In general, this component of domestic demand has been among the most sensitive to changes in private perceptions and financing possibilities, so its recent sluggishness is unusual. Overall, for 2003 gross fixed capital formation, measured at constant prices, is estimated to have risen 4.8% to reach 23.4% of GDP at 1996 prices.

In terms of business profitability,[8] the figures from the private firms' *Fichas Estadísticas Codificadas Uniformes* (*FECUs*) reveal that this remained relatively stable in the third quarter of 2003, in particular in the wholesale and retail trade. Manufacturing and export sectors, meanwhile, increased their profitability over previous periods and returned to the yields of 2002. It is worth noting that the Free Trade Agreement with the US, which recently came into effect, should favor changes in investment (figure 16).

FIGURE 16
Composition of gross fixed capital formation (*)
(billions of 1996 pesos)




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

After some slowdown at the end of the first half of 2003, private consumption, especially its durable component, recovered somewhat. This reflected improvements in the labor market, recovering household confidence and a rise in consumer credits. Thus, weaker consumption at the end of the second quarter seems to have been associated with uncertainty about the war in Iraq and the impact of rising fuel prices and some public services such as bus fares on families' real incomes. As these concerns faded, confidence rose, giving more thrust to this component of private expenditure. To the degree that external variables such as the oil price and domestic variables such as employment remain favorable, both durable and non-durable private consumption are expected to grow more in 2004 and 2005 than they have in recent years.

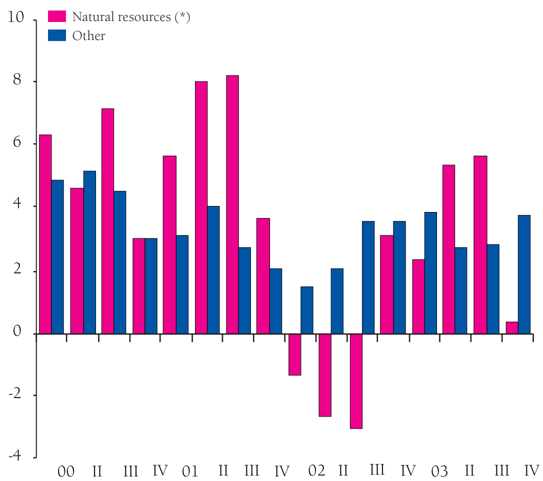
### E.1.3 Productive sectors

The best performing sectors in terms of activity growth in 2003 were mining, agriculture, the wholesale and retail trade, and energy, while the only sector posting negative figures was extractive fishing. The wholesale and retail trade made the most contribution to GDP growth, followed by mining, manufacturing and financial and business services, which each contributed 0.4 percentage points. Personal services, construction and the transportation and communications sectors each contributed 0.3 percentage points to the annual increase in aggregate activity. Sectors associated with natural resources posted higher than GDP growth rates, mainly due to the recovery in copper production rates (driven by more demand from Asian countries) and the coming on stream of public and private projects (table 10 and figure 17).

[7]/ Fishing, mining, electricity, gas and water, which accounted for 12.2% of GDP in 2003.

[8]/ Defined as operating results over equity

FIGURE 17
## GDP by origin
(annual change, percent)



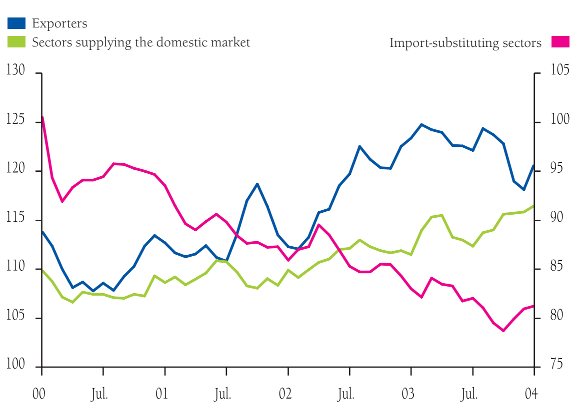

(*) For the sectors: Mining, Electricity Gas and Water, and Fishing.
Source: Central Bank of Chile.

Manufacturing grew 2.4% in 2003. Early in the year, manufacturing areas associated with external markets performed well; however, those serving domestic markets performed better in the second half, while export-oriented businesses saw growth slow. Despite all this, overall the latter grew more than those serving the domestic market (figure 18).

### E.1.4 Income-savings

Real disposable gross domestic income rose 3.9%, more than GDP, mainly due to the rise in the terms of trade during this period, which more than offset net outflows in factor payments (profit remittances and interest payments).

FIGURE 18
## Manufacturing output by destination
(moving quarterly average series, seasonally adjusted)




Sources:
National Statistics Bureau.
Central Bank of Chile

Private consumption measured at current prices rose less than activity, pushing the gross domestic saving rate to 21% of nominal GDP, higher than the previous year. In contrast, the share of gross fixed capital formation remained the same, reducing the need for external saving, which reached 0.8% of GDP measured in current amounts.

## E.2 Employment and unemployment

Despite the Chilean economy's slow recovery in 2003, employment improved significantly over previous years. The number of people employed, according to INE data, rose 3.1% over 2002, thanks to private employment's recovery (table 11). This improvement was also apparent in information from other sources, such as Chile's occupational health and safety association (*Asociación Chilena de Seguridad*, figure 19). Early in the year, this improvement was driven by secondary sectors (self-employed workers and women), but this changed in the second half as primary sectors associated with the more formal sector of the economy started to push employment up. Likewise, the employment of women rose almost 5% in the year, the equivalent of about 90,000 jobs in 2003.

More job creation led to more optimism among households in the last months of the year, which was apparent in a rise in the participation rate. During the first half of the year, this indicator essentially followed the temporary participation of secondary sectors in the economy. Thus, using data from INE and the University of Chile, the unemployment rate fell steadily throughout 2003 and tended to stabilize toward year's end (table 11 and figure 20).

FIGURE 19
## Private employment (INE and AChS) (1)
(thousands of people)


(1) Moving quarterly average, seasonally adjusted series.
(2) Excludes governmental direct employment programs.
Sources:
Chilean Association for Ocupational Safety and Health (AChS).
National Statistics Bureau (INE).

FIGURE 20
Unemployment and national participation rates (*)
(percent)


(*) Seasonally adjusted series.
Source: National Statistics Bureau.

### E.3 The fiscal sector

In 2003 the central government's budgetary implementation resulted in a general, conventional budget deficit of 0.8% of GDP, similar to the previous year, while the structural balance produced a surplus of 0.9% of GDP. Both figures correspond to the projections made by the authorities. The deficit consistent with the IMF standard accrual criterion reached 0.6% of GDP in 2003.

Basically both results were the outcome of a fourth quarter surplus, not seen since 1997. This reflected a 13.3% increase in fourth quarter revenues, after a slow down during the first three quarters, combined with a tendency for total expenditures to grow throughout the period. Thus the final balance in 2003 was the result of a 3.0% rise in total income and a 3.3% rise in total expenditures.

Total income mainly reflected changes in tax revenues, which after falling in the second and third quarters rallied significantly in the last quarter of the year. Within tax revenues, a rise in the VAT rate, which came into effect in October, and progress in controlling evasion of this tax, were important, helping to offset a decline (-30%) in taxes from foreign trade, due to implementation of the Free Trade Agreement with the European Union, no growth in income tax and a modest performance from specific revenues from fuel and tobacco taxes. Within income, welfare contributions also stand out, rising 4.3% in the year.

Spending rose in line with income and the fiscal authorities met projections for both the overall conventional and structural balances, through some adjustments in spending mid-year and toward year's end. These corrections became necessary as a result of changing projections for both income and expenditures.

Spending with macroeconomic effects rose 1.6% during the year, well down from the amount assumed in the national public sector budget for 2003 (3.4%), mainly due to a 5.8% cut to this expenditure in the first quarter of the year. Public investment,[9] after dropping 27.7% in the first quarter, resumed growth to end the last quarter with a 20.2% increase.

## F. Balance of payments, international reserves and foreign debt

According to preliminary figures, in 2003 the current account balance of payments posted a deficit of US$594 million, up from a deficit of US$885 million the previous year. The financial account, less reserves, posted net outflows of US$630 million, thus turning around results from 2002, when it posted net inflows of US$2.1 billion. Thus, the negative balances posted by the current account and the financial account, including positive errors and omission of US$858 million, produced a US$366 million deficit in the balance of payments (table 12).

### F.1 Current account

A smaller current account deficit in 2003 reflected a larger surplus in the goods balance sheet (US$759 million) and a slightly positive balance in transfers (US$8 million), partly offset by a decline in the service (US$111 million) and income (US$365 million) accounts (table 12).

The trade balance posted a US$3.02 billion surplus, the result of US$21.05 billion in exports and US$18.03 billion in imports (fob), the result of 15.8% and 13.3% growth respectively (tables 13 and 14).

Growth in goods exports reflected both rises in volume and the recovery of prices for major exports. Export goods prices rose on average 8.0% during this period, while volume rose 7.2%.

By sector, export goods growth was led by mining (19.6%), reflecting higher prices (13.0%) and volumes shipped (5.9%). The copper price rose 12.9%, while non-copper mining exports rose 13.8%, primarily reflecting a rise in the molybdenum price (43%). Manufacturing exports rose 14.1%, the result of larger volumes (5.3%) and prices (8.3%). For prices, methanol and bleached wood pulp did particularly well, as did sea foods, thanks to a noteworthy recovery in salmon and trout prices (almost 30%).

The manufacturing activities with the largest increase in export volumes were the chemical sector, where quantities rose (mainly due to exports of plastic products, tires and potassium nitrate), the forestry sector with 15% growth (due mainly to products such as logs and planed wood, boards and wood chips), and the livestock sector, which rose almost 18% (thanks mainly to a 35.2% increase in the volume of pork exports). The value of agricultural products exported rose 12.1%, mainly reflecting larger

[9]/ Including the items Real Investment, plus Regional Allocation of Sectoral Investment and Capital Transfers.

volumes (10%). Fruit sector sales abroad rose by volume (9.6%) and prices (around 3.0%).

In terms of destinations, exports to Asia rose 28.4% in 2003, mostly reflecting higher values exported to China (especially copper), and larger shipments to South Korea and Japan. Exports to Europe rose 16.9% and to Latin America, 10.6%. Shipments to the US fell 2.6%.

Goods imports (cif) rose 12.9% in the year, while volumes rose 9.5% and unit value 3.1%. By category, consumer goods imports rose 11.6% (16.8% by volume and −4.4% by price), capital goods 5.7% (7.2% by volume and −1.4% by price), and intermediate goods 13.7% (6.1% by volume and 7.1% by price). The rise in the oil price influenced the latter, causing a significant 25.9% rise in fuel imports (1.9% by volume and 23.6% by price, table 14).

Imports from Latin America rose 21.5% (worth US$1.19 billion), particularly from Argentina, Brazil and Peru. Imports from Europe and Asia increased 6.9% and 14.9%, respectively, while those from the US fell 0.2%.

The other components of the current account, services, income and transfers, posted total negative flows of US$3.61 billion. This result came with a slight surplus in transfer flows (US$8 million), which was more than offset by a decline in services accounts (US$110 million) and income (US$365 million). Above all, the decline in the latter reflected more outflows of profits from direct investment due to the rise in financial and mining company income. Income from the other investment, which refer to credits, posted lower outflows of around US$100 million, the result of lower interest rates for the period (table 15).

The services account saw a US$110 million decline due to 11.7% growth in imports and 10.9% in exports. Among service categories, transportation, particularly of passengers and to a lesser degree freight, stood out, as together they rose by US$246 million. This was partly offset by a decline in trips (US$172 million), other services (US$130 million) and other transportation (US$55 million, table 16).

## F.2 Financial and capital accounts

The financial and capital accounts, less reserve assets, posted outflows of US$630 million, turning around results from the previous year. The negative flow occurred mostly in the first half, with the net outflow reaching US$1.08 billion. The second half saw income rise. The balance in the financial and capital account is the result of negative portfolio investment flows, which despite bond issues from the country, Codelco and the private sector posted a net outflow of US$3.63 billion, 74% more than the previous year. Pension funds were behind this, as their assets abroad rose US$3.74 billion this year, with the total stock reaching US$11.81 billion as of December 2003. In contrast, direct investment, other investment and financial derivatives posted net inflows of US$3 billion, down from US$4.18 billion in 2002 (table 17).

Portfolio investment results reflect mainly assets, which saw growing net outflows of US$5.33 billion for the period, contrasting with declining flows throughout 2002. Pension funds were the most active in these investments, holding 70% of the total, with flows rising as the year progressed. Mutual funds and insurance companies also increased their share over the previous year, to US$996 million. In the second quarter, the maximum percentage that pension funds can invest abroad rose, encouraging this behavior. Liabilities increased on the positive side due to ADRs, which went from negative to slightly positive flows in 2003. Other components, bonds and foreign capital investment fonds (*fondo de inversión de capitales extranjeros, FICE*) remained positive, posting slight increases. *Codelco* and Treasury bond issues reached US$1.5 billion.

Direct investment in 2003 was positive, with flows similar to those of 2002. Investment flows into Chile and abroad increased. In both cases, the rise in net direct investment flows arose from an increase in direct contributions and to a lesser degree reinvested profits. Sectors receiving investment in Chile were communications, electricity, finance and, to a lesser degree, firms involved in road concessions. Other direct investment capital, which refers to credits between related companies, posted negative flows for both kinds of direct investment, continuing a trend from 2002.

Other investment, which consists mainly of loans, trade credits and deposits, posted net positive flows of US$1.29 billion. These were the result of negative asset flows, partly offset by net inflows associated with rising liabilities. This item shrank over the previous year, in terms of virtually all its components, with the change in the sign of trade credits being particularly significant.

Liabilities were positive due to the impact of loans in the second half of the year. These to a large degree were short term, given that medium-term loans saw net outflows attributable to the private, non-financial sector. The banking sector and, to a lesser degree, the public sector, posted income for this item. In 2003, US$1.5 billion worth of prepayments were made on medium-term credits.

Short-term loans posted negative flows worth US$1.87 billion, of which 55% corresponded to the banking sector, 30% to the private non-financial sector and the rest to the public sector (*Codelco*). Short-term loans, moreover, involved temporary credits that will later become medium- and long-term credits.

At the institutional level, assets saw a rise in portfolio investment carried out by pension funds and insurance companies, and a rise in direct investment by companies and individuals. Liabilities involved mainly direct investment by companies and individuals, a rise in public sector portfolio investment, and financial system short- and medium-term borrowing.

### F.3 International reserves

As of 31 December 2003 reserve assets had reached US$15.85 billion, a rise of US$500 million over the close of 2002. This rose despite negative results for the other accounts in the balance of payments, worth US$366 million, thanks to a US$762 million increase due to the impact of parity changes resulting from US dollar depreciation and US$104 million in higher prices for international reserve instruments.

A look at the reason behind changing reserve assets reveals that foreign exchange operations were positive by US$50 million, 87% of which took place in the first quarter of the year. The financial system's deposits in foreign currency, under the items current accounts, overnight, reserve requirement and other, fell by US$255 million, due to the combined effects of negative flows as dollar liabilities fell due (bullet bonds and zero coupon promissory notes) and dropped US$84 million in December. Other operations in foreign currency (changes in net public sector non-financial deposits, including general government, parity corrections, effect of instrument price changes, interest on international reserves and other) posted net positive flows of US$789 million.

### F.4 Foreign debt

International bodies have developed a new *External Debt Statistics: Guide for Compilers and Users*, which has replaced the 1988 edition. In this context, Chile's foreign debt statistics have been adjusted to the new definitions, resulting in a change in reported figures and in how the information is presented.

Chile's total foreign debt as of 31 December 2003 stood at US$43.39 billion, up by US$2.44 billion from December 2002 (table 18).

In terms of institutional composition, in late 2003 Other sectors accounted for 67.2% of total borrowing. The rest corresponded to Banks (12.5%), Central Government (10.5%) and Direct investment (9.8%), that is, loans among related companies using foreign investment. Among Other sectors, non-financial firms, that is the corporate sector, accounted for virtually all borrowing (99.5%, tables 18 and 19).

Disbursements of medium- and long-term external credits in January-December 2003 totaled US$7.01 billion (table 20). Of total resources received 41.9% went to Other sectors, 34.6% to Banks, 16.7% to Central Government, and 6.8% to related companies.

Medium- and long-term foreign debt servicing reached US$7.39 billion in the same period (table 20), with payments abroad reaching US$6.18 billion in amortization and US$1.20 billion in interest. Since disbursements reached US$7.01 billion, the net flow of foreign currency abroad reached US$372 billion.

Short-term foreign debt reached US$7.59 billion as of 31 December 2003, representing 17.5% of total borrowing and a rise of 30.3% over December 2002. The rise in short-term liabilities mainly reflected more borrowing by banks (US$1.14 billion) and non-financial companies (US$894 billion).

The international investment position reflects Chile's financial assets and liabilities abroad. This statement was first calculated and published in June 2002, in the form of an annual series for 1997 to 2001. In June 2003, along with updating this information with data from 2002, the series was reviewed, mainly to adjust it to the new foreign debt definitions and to include other, more up-to-date information. Figures through December 2003 are scheduled for release in June 2004.

Figures indicate that in late 2002 Chile had net debt of US$27.98 billion. Total external assets were estimated at US$55.49 billion, with the main components being reserve assets (27.7%) and other investment (26.6%). For liabilities during the same period, the total stood at US$83.47 billion, of which US$43.86 billion were private sector obligations, in the form of direct investment.

## G. Inflation and wages

### G.1 Inflation

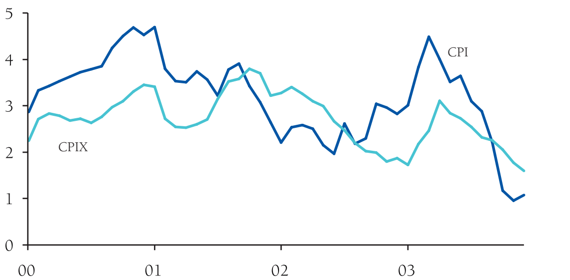
Annual Consumer Price Index (CPI) inflation reached 1.1% in 2003, a figure that was particularly affected by cost disturbances in the last four months of the year, which brought a significant drop in inflation (figure 21 and tables 21 and 22).

In the final months of 2003, inflation plunged unexpectedly due to a surprise reduction in cost pressures. This was apparent first of all in peso appreciation, which directly and indirectly affected price changes within the economy and CPI inflation, measured over the 12 months to December, by almost one percentage point. Secondly, there was a reduction in some specific prices, such as durable foods,[10]

[10]/ Foods included in the CPI, other than fruit, vegetables, meat and fish, which account for around 15% of the total basket.

due to efficiency gains and/or more competition in the wholesale and retail trade, which contributed from half to one percentage point in reduced inflation over the 12 months.

FIGURE 21
### CPI and CPIX inflation
(percentage change over the same period of the previous year)




Source: National Statistics Bureau.

The duration of the effects of recent peso appreciation on cost structures is not clear. Aside from regulated prices, where the effect is better known, not only the magnitude of the passthrough is imprecise, but also how long it will last.

On imported inflation, changes in the exchange rate in the last third of 2003 left their mark on costs, reducing pressures from this front. External inflation, measured using the External Price Index (EPI), increased again in the last quarter of the year, in line with dollar depreciation on world markets. Similarly, unit values for imported products (IVUM) continued to fall in the third and fourth quarters. Thus, the annual change in the IVUM for consumer goods was −3.1 in the third and −1.4% in the fourth quarter. It should be knotted that aside from the recent rising trend in the EPI, the behavior of inflation and prices relevant to measuring imported cost pressures are mainly associated with the IVUM, since it reflects the actual cost of bringing these goods into the country.

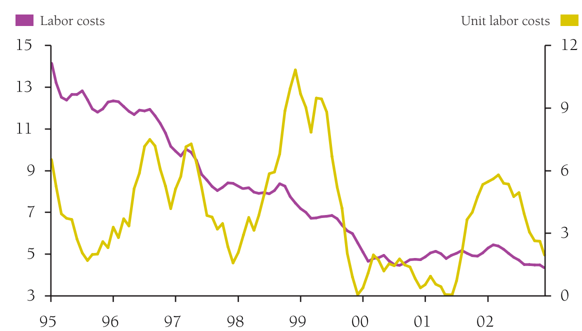
Changes in margins also brought a significant shift in inflation prospects. Theoretical measures[11] typically used posted a lower degree of compression than in previous periods, to a large degree due to peso appreciation, which was also visible in durable product prices within the CPI and the WPI, which has been recovering since the second quarter of 2003. Alternative measures for margins, such as the operating margin obtained from the *FECU* information, also points to an improvement, which in this case began in early 2003. This behavior, with some differences, is also apparent for all the companies considered and in wholesale and retail-related sectors.

Increased competition apparent in some wholesale and retail sectors seems to suggest that margins are not especially compressed. The efficiency gained along production and distribution chains, with the use of new technologies, a rise in human capital and more competition, among other factors, have made it possible to steadily reduce prices without significantly affecting margins. Similarly, the growing openness of the economy encourages integration into larger markets, which makes local margins tend to move toward international levels, thus making the shrinking margins noted above more lasting.

Changes in wages and especially mean labor productivity in 2003 also created a situation involving fewer labor cost pressures. Wages' behavior in the second half was somewhat different from forecast based on historical patterns, since the rise in wages was less than the relevant inflation enshrined in indexation clauses. Mean productivity recovered from the third quarter on, in line with changes in employment and activity (figure 22).

Idle capacity in different markets remained with no significant changes, showing potential and actual growth similar to forecasts. Primary unemployment did not change much either, although the recovery in employment in late 2003, which concentrated more on formal sectors, could bring an increase in this segment of employment.

FIGURE 22
### Wages and unit labor costs
(annual change, percent)




Sources:
Central Bank of Chile.
National Statistics Bureau.

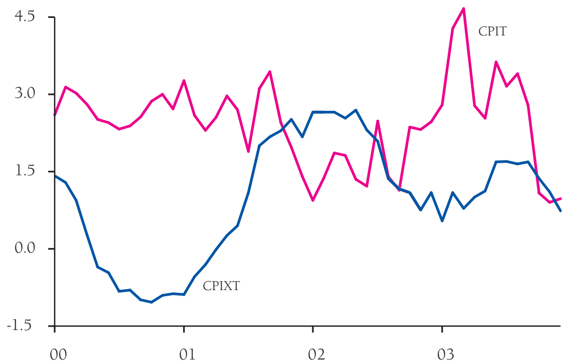
Underlying inflationary trends were also lower than forecast, with annual rises amount to less than 2% in late 2003, which may reflect the impact of the exchange rate on some tariffs and imported costs in general, but also greater competition and efficiency among some wholesale and retail sectors. Thus, in 2003 annual CPIX inflation stood at 1.6%, CPIX1[12] at 1.8%.

In terms of inflation components, tradable products (CPIT) moved somewhat, altogether, in line with fuel and durable food prices. Thus, the CPIT rose 1.0% in 2003 compared to 2.5% in 2002. The CPIXT, which eliminates fuel prices and those of relevant fresh fruit and vegetables, moved in line with CPIX1 inflation (figure 23).

[11]/ This definition uses CPIX1 as the inflation measure and imported inflation and unit labor costs as cost factors.

[12]/ This is the calculation for inflation minus fuel, perishables, regulated rates, indexed prices and financial service prices, which altogether account for 70% of the basket.

FIGURE 23
### CPIT and CPIXT inflation
(percentage change over the same period of the previous year)




Sources:
Central Bank of Chile.
National Statistics Bureau.

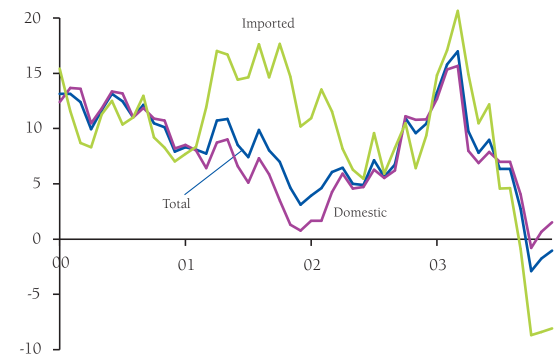
On non-tradables (CPIN), the main changes reflected declines in tariffs caused by the lower exchange rate. This made the annual CPIN much lower than the previous year's. The CPIXN, which excludes the price of perishable goods relevant to this group, also fell significantly during the year, from 2.5% in December 2002 to 2.2% in December 2003 (figure 24).

FIGURE 24
### CPIN and CPIXN inflation
(percentage change over the same period of the previous year)


Sources:
Central Bank of Chile.
National Statistics Bureau.

On wholesale prices, the Wholesale Price Index (WPI) showed a clear tendency to fall, in part due to lower refinery costs for the fuels included in Chile's WPI and also because of the impact of a lower exchange rate on the WPI of imported goods. In the special case of fuel prices, which do not include the operating of the oil price stabilization fund (FEPP), their behavior is completely explained by changes in international prices and the exchange rate. It should be remembered, however, that there is no direct passthrough of prices between the WPI and CPI, because the products making up each basket do not involve a direct relationship between changes in wholesale and consumer prices. Empirical evidence specifically points to the lack of such a relationship, except for the prices for comparable products, for which there is a relationship between wholesale and retail prices (figure 25).

FIGURE 25
### Total, domestic and imported WPI
(percentage change over the same period of the previous year)




Source: National Statistics Bureau.

### G.2 Wages

At the close of 2003, nominal wages, measured by the hourly wage index and the hourly labor cost posted 12-month increases of 3.4% for each, with both being lower since the current index was prepared (April 1993). Thus, these indicators closed the year with annual rises that were lower than the previous year, in line with corrections to inflation in the first half of 2003. In real terms, this increase was 2.3% for both measures (tables 23 and 24).

The slowdown in public sector increases in the second half of 2003 weighed considerably on general wage trends. Associated with an increase applied in December (2.7%), service wages reduced their annual increase to 2.5% in late 2003, which was 1.4 percentage points less than in late 2002.

In 2003, real initial increases agreed upon in collective bargaining, provided by the labor bureau (*Dirección del Trabajo*) showed a tendency for higher increases than those of 2002 in every quarter. Thus, increases of this nature were 1.25% in the first quarter, 1.21% in the second, 0.93% in the third and 0.8% in the fourth (table 25).

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

### H.1 Balance structure

The main components of the balance sheet, international reserves and fiscal promissory notes on the asset side and secondary market promissory notes on the liability side post negative changes, mainly reflecting the accrual of negative inflation compensation due to the drop in the exchange rate and, to a lesser degree, operations throughout the year, all of which were much larger than growth in balances associated with accrued interest. Thus, total assets on the balance sheet fell a nominal 11% and total liabilities 3% (table 26). This brought total assets to 33.2% and total liabilities to 34.3% of GDP in 2003, compared to averages of 47.4% and 47.0% respectively for 1990-2002.

The balance of international reserves fell by 1,434 billion pesos, of which 1,210 billion pesos were negative corrections due to declines in the exchange rate and an additional 474 billion peso drop in operations for the year. The remaining, positive change of 250 billion pesos came from accrued interest. Overall, reserves in dollars went from US$15.35 million in late 2002 to US15.85 million in late 2003.

The 474 billion peso decline (US$703 million) in international reserves due to actual flows for the year was mainly offset by changes in bank and Treasury portfolios, which reduced obligations in foreign currency to these bodies by 223 billion and 178 billion pesos respectively. Moreover, payments reduced debt with multilateral bodies by 58 billion pesos. It is therefore clear that shifts in international reserves did not reflect foreign exchange policy decisions, still governed by the current floating exchange rate scheme.

The balance of promissory notes with a secondary market fell 453 billion pesos, the result of net buy-back operations worth 434 billion pesos, accrued interest worth 661 billion pesos and negative accrued corrections of 680 billion pesos.

The monetary base rose by 111 billion pesos. Expansionary flows included: 434 billion pesos for the recovery of promissory notes from the secondary market, as noted above; 434 billion pesos in liquidity loans and repo operations with banks; 328 billion pesos to rescue Resolutions 1836 promissory notes (held by banks and with no secondary market); and 131 billion pesos in withdrawals in pesos from fiscal deposits. Contractionary flows included 447 billion for peso servicing of fiscal promissory notes owed to the Central Bank and 750 billion pesos in bank liquidity deposits. The recovery of subordinate debt and other less important operations explain the rest of net contractionary flows. It should be noted that the rise in liquidity deposits was caused by a few large specific financial operations as the year closed, which caused some temporary but significant increases in demand obligations in some banks, requiring a higher than usual technical reserve, which led to these liquidity deposits. The greater demand for liquidity among banks, caused by these deposits, was met using repo operations of a similar magnitude.

In the context of a generalized decline in assets and liabilities, international reserves dropped from 61.6% to 60.1% of total assets, while promissory notes with a secondary market fell from 80.1% to 79.8% of total liabilities. These figures compare to averages for 1990-2002 of 48.1% and 63.1%, respectively.

Net worth in foreign currency, that is the difference between assets and liabilities in dollars or indexed to dollars, measured in US dollars, rose slightly (from US$14.3 billion to US$14.5 billion), the result of virtually no sales of foreign currency, US$1 billion in gains due to interest and revaluations in terms of the US currency; -US$600 million in servicing using the Chilean peso, of fiscal promissory notes in dollars; and -US$200 million due to the increase of liabilities in foreign currency with international bodies, which were formerly calculated in pesos. The size of this foreign exchange mismatch reveals the sensitivity of the balance sheet and its results to fluctuations in the exchange rate.

Fiscal promissory notes fell from 25.4% to 22.1% of total assets, due to regular servicing of this debt by the government and the fall in the exchange rate. On the liability side, the decline in public sector deposits from 2.9% to 0.8% reflects the copper compensation fund's withdrawals from copper income and to a lesser degree the policy followed by the government in managing its portfolio.

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

Both assets and liabilities were affected by negative inflation compensation rates applied in 2003, by average rates of -10.1% in the case of assets and −4.2%, in the case of liabilities. On the asset side, given that these consist mainly of foreign currency, the 15.9% drop in the observed exchange rate was very important, although cushioned by the rise in the value of other currencies against the US dollar and low domestic inflation (1.1%) applied to most components in domestic currency. It is important to note that these movements largely turned around the gains from peso depreciation occurring between 1999 and 2002.

In terms of liability results, given that the components in foreign currency or indexed to the exchange rate are a minority, the exchange rate had less of an impact and in any case was cushioned by the slight positive rise in domestic inflation, which affected part of liabilities in Chilean currency. International interest rates continued their moderate decline in 2003, which caused the average weighted yields from asset interest to fall slightly from 2.9%

in 2002 to 2.3% in 2003. Liabilities, consisting mainly of promissory notes, had an average weighted cost, less inflation compensation, of 4.1%, down from 5.2% in 2002. With short-term interest rates lower than long-term ones, the longer maturity for promissory notes, along with risk factors, explains the rate differential between assets and liabilities.

Overall, the difference between liability costs and asset yields due to interest was 1.8 percentage points, down from 2.3 percentage points in 2002. Losses in interest and large capital losses reflected the lower exchange rate and reduced the gap between inflation-corrected assets and liabilities to 5.9 percentage points. Thus, financial losses posted in 2003 reached 1,406 billion pesos (2.9% of GDP): 1,112 billion due to inflation compensation (2.3% of GDP), 9 billion pesos due to devaluation of initial capital, and 285 billion in interest (0.6% of GDP). Under the Other Results item, net losses of 24 billion pesos occurred. All this brought an annual loss of 1,431 billion pesos (2.9% of GDP), which turned the late 2002 accounting surplus of 877 billion pesos (1.9% of GDP) into 545 billion peso deficit by December 2003 (-1.1% of GDP).

APPENDIX 1

# Operating expenditures

Operating expenses sustain the ongoing management of the Central Bank, such as 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 27 and 28).

Figures for 1999–2003 reveal that personnel expenditures, which on average account for 65% of operating expenses, fell 0.8% in real terms in the past five years, from 15.06 billion pesos in 1999 to 14.93 billion pesos in 2003, the result of a gradual decline in personnel along with the professionalization of the Bank. In fact, total Central Bank staff fell 8% between 1999 and 2003, going from 612 staff members in 1999 to 565 in 2003. This occurred as the structure evolved to include a larger proportion of professionals, while the number of directors and administrative, secretarial and service staff declined. Thus, professionals, executives and managers, who represented 45% of total staff in 1999, now account for 50%. Between 1999 and 2002 personnel fell by 10% and only in 2003 did this change, with a 2.5% increase reflecting the hiring of new professionals. In future, the staff is expected to continue to incorporate more professionals. The 9.9% rise in personnel expenditures in 2003 breaks down as follows:

- 5.0 percentage points, essentially the hiring of new professionals, compliance with the contract, incentives to personnel and unemployment insurance contributions; also, to a lesser degree, spending on personnel training.

- 4.9 percentage points, an increase in provisions for severance pay per years of service, given a change in the interest rate, whose amount is determined using the present value method (accrued cost of the benefit). For 2003, an interest rate of 6% per annum was used, while in previous years the interest rate was 8% per annum.

Administrative costs, which average 27% of operating expenses posted a real increase of 69.3% between 1999 and 2003. These include spending on technological development and computers, general services, consultants, surveys, studies and seminars, and basic services.

The increase apparent in 1999–2003 mainly reflects spending on technological development and computers (2.22 billion pesos), with the most relevant item being the development of the Real Time Gross Settlements System (RTGS) at 1.78 billion pesos, of unquestionable importance to modernizing Chile's financial system. Disbursements made to develop this system will be recovered gradually, starting with system implementation in April 2004, through the charging of fees to financial institutions for the service they will receive, with full recovery expected in no more than seven years.

Other computer applications and new technologies, such as the integrated foreign debt system, promissory notes payment system, alternate processing site, modernization of the website and economic improvements were also developed. Also, to a lesser degree, spending on general services rose, mostly associated with information services, which have increased to provide Bank operations with constantly improving and more timely economic information. Similarly, there was a modest increase in spending on consultants, surveys, studies and seminars, with the most important being the surveys and studies associated with the 2003 Base Year Program, to change the current base year used in National Accounts from 1996 to 2003, so that measures of activity, expenditure and income, investment and its financing suitably reflect the changes in technologies and relative prices in the past seven years. This project will be completed in 2006, with most spending taking place in 2004 and 2005.

The 10.2% increase in 2003 over 2002, which amounted to a 749 million peso increase in administrative spending during this period, mainly reflects the increase in spending on computers and technological development (1.92 billion pesos), with the most relevant disbursements, as mentioned, being those for the development of the RTGS, somewhat offset by less spending on consultancies (1.24 billion pesos), which in 2002 were higher due to disbursements associated with the sale of shares received in payment from the former Bank of Santiago.

APPENDIX 2

# News releases from monetary policy meetings in 2003

**9 January**

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 25 basis points, from 3% to 2.75% per annum. The tranches of the liquidity credit line were also reduced by 25 basis points.

The decision took into consideration the fact that aside from fluctuations due to changes in the oil price, core inflationary tendencies remained low, below previous forecasts, due to favorable changes in some cost components, particularly external inflation and labor costs.

Inflation may reach the lower end of the target range in some months of this year. However, it is expected that the growing use of installed capacity, favored by the impulse from monetary policy should take inflation to around 3% by the end of the projection horizon.

The performance of the international economy has remained as forecast, although the risks associated with the situation in the Middle East and the challenges of stabilization facing some of the region's countries remain relevant.

The Central Bank reiterates that it will continue to use its policies flexibly, as the circumstances require, to deal with any sign that inflation may be tending to move in either direction away from the established target.

**18 February**

At its monthly monetary policy meeting, the Board of the Central Bank decided to keep the monetary policy interest rate at 2.75% per annum. The tranches of the liquidity credit line also remain unchanged.

In recent weeks, the oil price and its derivatives on international markets, along with the exchange rate, have changed somewhat more than expected. The information available suggests this is essentially a temporary phenomenon, provided that geopolitical uncertainty does not persist. Aside from the implications of this situation for inflation, underlying pressures on prices remain under control and the prospects for inflation in the projection horizon remain unchanged.

In the sphere of domestic activity, the latest information confirms that there are signs of a better performance from private consumption, consistent with the scenario of gradually rising growth assumed in the last *Monetary Policy Report.*

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**13 March**

At its monthly monetary policy meeting, the Board of the Central Bank decided to keep the monetary policy interest rate at 2.75% per annum.

The exchange rate, the oil price and its derivatives in the international market have increased. This will push short-term inflation somewhat higher than the target range for a few months. For now, there is insufficient data to justify changing the opinion that this is essentially a temporary phenomenon. Core inflation of prices, meanwhile, over the 24-month horizon, remains within the target range, although its trajectory is projected to be somewhat higher than estimated in previous months.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**8 April**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

The events of recent weeks, especially the drop in the oil price and its derivatives, suggest that the increase in inflation in recent months was essentially temporary. To the degree that this situation of lower crude oil prices continues, it is likely that inflation will return to the target range in the short term. Underlying price pressures remain within the margins forecast, while the prospects for inflation in the projection horizon remain in line with the center of the target range.

Information from the real sector remains mixed. Externally, aside from uncertainty associated with the war in Iraq, there are doubts about the pace of world economic recovery.

Domestically, the prospects for more growth from output and employment remain, although some indicators for domestic demand show a weakening at the margin.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**8 May**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Although core inflation has risen in recent months, it remains within the margins forecast. In the short term, it is likely that the lower oil price and changes in the exchange rate will help to reduce inflation. However, beyond these fluctuations, the prospects for inflation over the normal projection horizon remain lined up with the center of the target range.

Domestically, the latest indicators on the economy's progress confirm that it has entered a phase of more growth, consistent with a market enjoying monetary stimulus as has existed for several quarters, and remain similar to forecasts from some months ago. Overall, doubts persist about future changes in world growth, especially in developed countries.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**10 June**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Domestically, some of the latest data on the economy's progress as of April indicates it has been weaker than expected. For now this was considered a momentary phenomenon that does not change the prospects that the economy has entered a phase of greater growth, backed by the current monetary stimulus. Nonetheless, doubts persist about the way world growth will behave, especially in developed countries.

The latest price information suggests that the rise in core inflation since the start of the year has slowed, while inflation has returned to the target range. Both elements have remained with the margins forecast.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**10 July**

At its monthly monetary policy meeting, the four members of the Board of the Central Bank present unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Despite the fact that the labor market continues to post high rates of job creation, sectoral indicators have generally been mixed and the latest data on activity points to lower than expected second quarter growth. Nonetheless, this information is not enough to change the prospects for a gradual decline in idle capacity in coming quarters. The strong impulse from monetary policy, along with the continuing prospects for greater world growth in the second half are consistent with this scenario.

Price trends have remained within the margins forecast. Moreover, the effect on inflation of the October VAT increase will be limited and temporary, so inflation projections toward the end of the policy horizon remain unchanged.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**12 August**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

The latest data on activity confirms that second quarter growth was less than expected. This performance partly reflects the higher international oil price and conditions prevailing in external markets, especially in the region, which have affected the performance from some branches of manufacturing.

Despite this news, the outlook continues to assume a gradual decline in idle capacity in coming quarters, backed by the strong monetary policy impulse and firmer prospects for greater world growth in the second half, especially in the US and Asia. Nonetheless, some relevant risks persist in the external sphere.

The latest information shows that core inflation has resumed its expected path. This, combined with the other information available, has kept projected inflation to around 3% over the policy horizon.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**4 September**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Although activity has remained weak, the most likely scenario expects greater growth and a gradual reduction in idle capacity in coming quarters. This is starting to be reflected in more optimistic expectations and financial markets. Consolidation of a better international scenario, especially in the US and Asia, combined with the strong thrust from monetary policy, support this perspective. Overall, some signs of fragility still remain in terms of domestic activity and risks in the external sphere.

The latest price information reveals that core inflation fell significantly in recent months, returning to the lower end of the target range. This indicates that inflationary pressures remain under control and combined with the other information available, has kept the inflation projection at around 3% over the next 24 months.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**14 October**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Since its last meeting, a better international scenario has continued to settle in. This includes prospects for greater world growth next year, especially in the US and Asia, a rise in commodity prices and better financial conditions. These factors, combined with more optimism about the Chilean economy have been vigorously reflected in domestic financial markets.

This favorable outlook is expected to gradually appear in the indicators in coming quarters, although it still is not apparent in actual data for activity. In fact, the latest information points to weak growth in August, associated with some temporary factors.

As for inflation, the latest information points to lower than forecast price pressures. Both CPI and core inflation stand at the lower end of the target range and the first is expected to fall below 2% for a couple of months. However, based on the information available, projected inflation remains at around 3% for the next 12 to 24 months.

The Central Bank will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

**13 November**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to keep the monetary policy interest rate at 2.75% per annum.

Since the last meeting, the rise in the terms of trade has grown more apparent and the outlook for world growth next year has continued to improve, while international financial conditions remain positive. These factors, combined with more optimism domestically, reaffirm the forecast of greater growth in activity foreseen for the coming quarters.

For inflation, the latest information indicates the price pressures have weakened. CPI inflation stands at under 2% while core inflation is in the lower end of the target range. The decline in inflation is greater than forecast, due to the temporary impact of supply factors, particularly the exchange rate and retail margins. Because of this, inflation projections for next year remain at about one percentage point lower than forecast in the last *Monetary Policy Report*. Overall, inflation is projected to converge on 3% toward the end of the policy horizon.

In light of the information available, the Board believes that the current expansionary monetary conditions may be extended for longer than previously forecast. Nonetheless, it will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target, centered on 3%.

**11 December**

At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to reduce the monetary policy interest rate from 2.75% to 2.25% per annum.

Since the last meeting, information has accumulated that points to lower than forecast price pressures. Both annual CPI inflation and CPIX core inflation, which excludes some goods whose prices are more volatile, stand at less than 2%, and could even become negative for some months during the first half of next year. Despite the fact that recent changes in inflation reflect the impact of supply factors, the low level it has reached, its persistence and the effect this has had on inflation expectations in the longer term together constitute a significant risk that inflation may be undesirably low for some time. The movement in the monetary policy interest rate is consistent with limiting this risk, maintaining inflation projections at around 3% for the normal policy horizon.

For activity, the latest information confirms the improvements to the terms of trade, particularly the copper price, and the outlook for world growth for next year, while better international financial conditions have also settled in. These factors, combined with more optimism domestically and monetary impulse have consolidated the outlook for greater activity growth forecast for coming quarters.

The Central Bank reaffirms its objective of achieving inflation centering on 3% over the usual policy horizon and will continue to use its policies flexibly to deal with any sign that inflation may be tending to move in either direction away from the established target.

APPENDIX 3

# Main monetary and credit measures in 2003

## January

2 The holders of term savings accounts for housing were authorized to acquire disability insurance associated with their accounts and the amount of life and disability insurance became more flexible. The importance of this regulation remaining consistent with the new housing policy established by the Ministry of Housing and Urbanism was kept in mind, in light of housing subsidies and programs associated with saving accounts in the financial system.

9 The reserve rates for the financial system applicable to obligations in foreign currency were brought into line with their equivalents in Chilean pesos; for this the current floating exchange system and regulations governing matches were considered to suitably cover liquidity risk in foreign currency.

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the policy interest rate by 25 basis points, from 3.0% to 2.75% per annum. The tranches of the liquidity credit line were also reduced by 25 basis points.

20 The use of debit cards charged to demand savings accounts operated using passbooks was authorized to allow the holders of accounts associated with an automatic telling machine card to use them in this manner.

## March

11 As a result of problems in secondary markets for time deposits that arose out of judicial measures affecting *CORFO*-owned deposits, the Bank decided to temporarily ease restrictions applicable to financial institutions governing the minimum periods for the deposit of funds, to facilitate financial institutions' operations in this market and provide greater liquidity to mutual funds and security intermediates that were dealing with a large amount of buy-backs. Likewise, for 60 days starting on 12 March 2003 financial institutions were allowed to make withdrawals from time and other deposits, thereby temporarily suspending a requirement that they make the corresponding request at least five days prior to the withdrawal.

14 In line with the program decided by the Central Bank's Board for renewing dollar-denominated securities falling due in 2003, the decision was made to go ahead with the sale of Central Bank of Chile bonds expressed in dollars (BCDs), charged to the purchase, at auction, of Central Bank of Chile dollar-indexed promissory notes (PRDs). In this sense, the operation rules applicable to these operations were set up so that from this date on institutions or their agents authorized to participate in the auctions of these securities could present their respective offers to the Central Bank. This program for advance renewal has made it possible to establish more stable BCD auction quotas involving smaller amounts by the last third of the year, when most fall due.

## April

3 With the approval of Law 19,832 amending the general law governing cooperatives (*Ley General de Cooperativas*), which came into effect on 5 May 2003, the Central Bank of Chile replaced the financial regulations applicable to savings and credit cooperatives. The Central Bank's new regulations establish prudent rules for credit and financial management, that should contribute to the solid and sustained development of the savings and credit cooperative sector. These bodies are also authorized to carry out the following operations: open demand savings accounts; provide their customers with third-party financial services; invest in bills of commerce with suitable risk ratings; and obtain loans from domestic and foreign financial institutions. Moreover, savings and credit cooperatives supervised by the Superintendence of Banks and Financial Institutions, with equity of more than UF400,000, can also provide loans with bills of credit; carry out financial leasing and factoring operations; issue bonds and other publicly offered securities; and collect, pay out and transfer funds.

As mentioned above, the new regulations passed by the Central Bank include financial precautions to ensure the solvency of these cooperatives, by establishing: capital requirements as a function of operating risk using a scheme similar to that affecting banks; requiring the rating of their loans and investment and monitoring financial liquidity and interest rate risk; ceilings on the concentration of credits in general and in the case of related persons; and formal procedures for changing the contribution from members through the signing of participation quotas.

The expansion of the operations that savings and credit cooperatives can carry out in the conditions described above will undoubtedly increase the supply of credit and financial services to small and very small entrepreneurs, self-employed workers, and other segments of the population making up the target market for these bodies.

## May

29 Given the significant rise in pension fund investments abroad, the Bank agreed to raise the ceiling on this kind of investment from 20% to 25% of the value of the respective funds, since this measure should help to ensure the suitable diversity of pension fund resources and expand risk-return combinations for these investment portfolios. Thus, the sum of type A, B, C and D pension fund investments and the manager itself in foreign securities cannot exceed 25% of the fund.

## July

10 Upon request of the holders of demand savings deposit accounts, term savings accounts, and term savings accounts with deferred withdrawals, which operate using cards, financial institutions received authorization to obtain insurance against fraud, theft and other forms of falsification of these cards. The regular charges applied to these accounts as premiums will not be treated as withdrawals when it comes to determining the holder's rights to the payment of indexed amounts and interest. This regulation is based on the importance of limiting the equity effects of illicit and fraudulent activities associated with bank cards.

22 Starting on 1 August 2003, the Central Bank of Chile simplified the information requirements facing exporters and importers, eliminating the need to indicate the number of the customs entry or exit document (called DIN and DUS respectively) of the corresponding merchandise used for each foreign exchange operation.

This measure, along with simplifying the information requested for foreign trade operations reduces the operating costs associated with foreign currency movements.

## October

2 In the context of modernizing its financial regulations, the Board of the Central Bank of Chile decided to amend its rules regarding the maturity matches that bank and financial firms must follow, contained in Chapter III.B.2 of the *Compendium of Financial Regulations*.

The new regulations are designed to promote better management, measurement and liquidity risk control, keeping in mind international experience and recommendations in this sense and the characteristics of the Chilean financial system.

According to the new rules, financial institutions must adopt and implement a "Liquidity management policy", to ensure timely compliance with obligations consistent with operating scale and risk of their operations and those of affiliates, under both normal and exceptional operating conditions.

Financial institutions ranked by solvency level and with prior authorization from the Superintendence of Banks and Financial Institutions, will be able to use internal models to measure maturity mismatches.

2 On regulations governing interest rate matches, the definition of the basis against which interest rate risk is measured was changed, with base capital being replaced by effective equity, given the role that banking laws assign to the latter for the purposes of margins. Moreover, term savings accounts with unconditional withdrawals covered by the one- to two-year operating period, which already includes term savings accounts with deferred withdrawals, were added, since these do not show any differences in rates and balances from savings accounts with deferred withdrawals. Both changes are consistent with Basel Committee recommendations in this area.

2 The nominalization of indexed term savings accounts with unconditional withdrawals and deferred withdrawals was authorized. For this purpose, holders must reach agreement with the respective financial institution for the transfer of the entire balance outstanding on the date the transfer of funds to a non-indexed account is to take place, this last to be considered the continuation of the previous account. This transfer will not be treated as a withdrawal for the purpose of determining whether the holder has the right to the payment of indexing and interest. Similarly, and on savings accounts with deferred withdrawals, which only permitted the indexation deposit every three months, the alternative of deposit every 12 months was added.

10 The Central Bank announced it would act as the fiscal agent in the placement of 20-year UF-denominated Treasury bonds (BTU-20s). Fiscal agency also involves servicing payments as BTUs fall due.

23 Regarding financial regulations applicable to savings and credit unions, contained in Chapter III.C.2 of the *Compendium of Financial Regulations*, the Board of the Central Bank agreed to change the definition of effective equity, replacing the "surplus" component with "residuals". Moreover, it decided that these residuals will be calculated as part of effective equity until such time as it is distributed and its destination decided by the general members' board (*Junta General de Socios*) of the respective cooperative, under the terms established in the general cooperatives law (*Ley General de Cooperativas*). Similarly, the department of cooperatives was empowered to provide the savings and credit cooperatives under its supervision extensions in deadlines to allow them to come within the limits set by the Central Bank in terms of capital adjustment, matches, credit margins and investment in fixed assets, provided that cooperatives present a plan for complying with one or more of the limits and that this has been approved by the supervisory body. The extension of this period of grace varies according to the amount of the applying body's total assets.

30 Financial institutions were authorized to transfer bonds issued by the Chilean Treasury (*Tesorería General de la República*).

## November

5 The Central Bank reports that starting with the next matching period, the holders of PRDs and BCDs will be offered the possibility of swapping them for equivalent securities payable in dollars. As a result, the Central Bank will not continue to renew dollar-indexed debt securities when they fall due, given that the servicing and amortization of these new instruments will take place directly in this currency.

The option of swapping will gradually be offered for those dollar-denominated debt securities falling due from 1 December 2003 to 1 December 2004.

## December

04 The Bank decided to replace the current operation-by-operation system of gathering foreign exchange information from exporters and importers with one based on total monthly flows, delivered on a quarterly basis, starting 1 January 2004. Moreover, it established that only those agents posting exports or imports worth US$5 million fob annually must report. Along with significantly reducing the number of firms required to report, this measure reduced the frequency of reporting. This information is primarily used for generating Balance of Payments and International Investment Position statistics.

11 At its monthly monetary policy meeting, the Board of the Central Bank unanimously decided to cut the monetary policy interest rate by 50 basis points, from 2.75% to 2.25% per annum. The tranches of the liquidity credit line were also cut by 50 basis points.

11 The limit on type A, B, C, D and E pension funds' investment abroad was raised from 25% to 30%, the legal ceiling established in D.L. 3500. This change to come into effect on 1 March 2004.

TABLE 1

## International reserves of the Central Bank of Chile (1)

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| **Reserve assets (1)** | **18,274** | **16,292** | **14,946** | **15,110** | **14,400** | **15,351** | **15,851** |
| Monetary gold | 322 | 317 | 18 | 19 | 2 | 3 | |
| SDR | 1 | 8 | 19 | 25 | 29 | 37 | 46 |
| Reserve position in IMF | 314 | 605 | 405 | 320 | 299 | 490 | 582 |
| Foreign currency | 17,259 | 15,256 | 14,187 | 14,686 | 14,041 | 14,814 | 15,211 |
| Currencies and deposits | 8,554 | 7,796 | 7,502 | 7,852 | 7,279 | 7,535 | 7,927 |
| Securities | 8,704 | 7,460 | 6,685 | 6,834 | 6,762 | 7,279 | 7,284 |
| Other assets (2) | 166 | 101 | 19 | 61 | 12 | 8 | 10 |

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

TABLE 2

## Interest rates on Central Bank of Chile instruments (1)

(Percent)

| Period | PDBC (2) | | | | | BCP (2) | | BCU (3) | | | BCD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30 days (4) | 60 days | 90 days | 360 days | 2 years | 2 years | 5 years | 5 years | 10 years | 20 years | 2 years | 5 years |
| **1999** | | | | | | | | | | | | |
| December | 0.74 | - | 11.09 | 11.19 | | - | - | - | - | - | - | - |
| **2000** | | | | | | | | | | | | |
| December | - | - | 9.30 | 10.00 | - | - | - | - | - | - | - | - |
| **2001** | | | | | | | | | | | | |
| December | 6.35 | 6.52 | 6.51 | 7.03 | - | - | - | - | - | - | - | - |
| **2002** | | | | | | | | | | | | |
| January | - | 5.95 | 6.00 | 6.46 | - | - | - | - | - | - | - | - |
| February | 5.62 | 5.71 | 5.56 | 5.63 | - | - | - | - | - | - | - | - |
| March | 4.86 | - | 4.73 | 5.02 | 5.71 | - | - | - | - | - | - | - |
| April | 4.39 | - | 4.39 | 4.95 | 5.60 | - | - | - | - | - | - | - |
| May | 4.06 | - | 4.15 | 4.55 | 5.37 | - | - | - | - | - | - | - |
| June | 3.97 | - | 4.03 | 4.56 | 5.39 | - | - | - | - | - | - | - |
| July | 3.44 | - | 3.51 | 3.95 | 4.79 | - | - | - | - | - | - | - |
| August | 2.87 | - | 2.96 | 2.82 | 4.02 | - | - | - | - | - | - | - |
| September | 2.88 | - | 2.99 | 3.52 | - | 4.22 | 5.90 | 2.70 | 3.66 | 4.50 | 2.93 | 4.51 |
| October | 2.96 | - | 3.03 | 3.83 | - | 4.48 | 6.35 | 2.94 | 3.96 | 4.78 | 3.78 | 5.28 |
| November | 2.92 | - | 2.87 | - | - | 4.03 | 5.89 | 3.19 | 4.06 | 4.78 | 3.39 | 4.74 |
| 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 | 2.70 | - | 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 | - | - | - |

*(1) This is the monthly weighted average for promissory notes sold at auction (360-day base).*
*(2) Annually based nominal rate.*
*(3) Annualized rate over UF.*
*(4) Monthly based nominal rate through May 2001.*

TABLE 3

## 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 |
| 1998 Average | 13.92 | 18.41 | 4.49 | 16.30 | 27.34 | 11.05 | 9.53 | 11.93 | 2.40 |
| 1999 Average | 8.22 | 11.93 | 3.71 | 8.88 | 17.62 | 8.75 | 5.87 | 8.19 | 2.32 |
| 2000 Average | 8.82 | 13.91 | 5.09 | 8.69 | 18.68 | 9.99 | 5.17 | 7.48 | 2.31 |
| 2001 Average | 6.01 | 11.28 | 5.27 | 6.48 | 16.69 | 10.21 | 3.73 | 6.32 | 2.59 |
| 2002 Average | 3.73 | 7.49 | 3.76 | 4.10 | 14.35 | 10.25 | 1.94 | 4.39 | 2.45 |
| 2003 Average | 2.70 | 6.01 | 3.31 | 3.24 | 12.96 | 9.72 | 1.76 | 4.30 | 2.54 |
| 2002 | | | | | | | | | |
| January | 5.76 | 9.24 | 3.48 | 6.24 | 16.32 | 10.08 | 5.80 | 7.58 | 1.78 |
| February | 5.40 | 9.12 | 3.72 | 5.76 | 16.20 | 10.44 | 4.66 | 6.99 | 2.33 |
| March | 4.56 | 7.80 | 3.24 | 5.04 | 15.60 | 10.56 | 2.13 | 5.03 | 2.90 |
| April | 4.32 | 8.40 | 4.08 | 4.68 | 16.20 | 11.52 | 0.57 | 3.84 | 3.27 |
| May | 3.96 | 7.92 | 3.96 | 4.32 | 15.72 | 11.40 | 1.67 | 4.13 | 2.46 |
| June | 3.84 | 7.92 | 4.08 | 4.20 | 14.88 | 10.68 | 2.14 | 4.50 | 2.36 |
| July | 3.24 | 7.56 | 4.32 | 3.60 | 13.80 | 10.20 | 1.58 | 4.20 | 2.62 |
| August | 2.76 | 6.96 | 4.20 | 3.00 | 13.44 | 10.44 | 0.26 | 3.16 | 2.90 |
| September | 2.64 | 6.36 | 3.72 | 3.00 | 12.84 | 9.84 | 0.05 | 2.59 | 2.54 |
| October | 2.76 | 6.24 | 3.48 | 3.12 | 12.84 | 9.72 | 0.03 | 2.37 | 2.34 |
| November | 2.76 | 6.24 | 3.48 | 3.12 | 12.60 | 9.48 | 0.91 | 2.80 | 1.89 |
| December | 2.76 | 6.12 | 3.36 | 3.12 | 11.76 | 8.64 | 3.46 | 5.45 | 1.99 |
| 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 |

*(*) These are annual equivalent (360-day) rates.*

TABLE 4

## Main monetary aggregates

(Percentage change)

| Period | Month | | | | | Compared to December | | | | | 12 months | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | E | C | M1A | M2A | M7 | E | C | M1A | M2A | M7 | E | C | M1A | M2A | M7 |
| **2001** | | | | | | | | | | | | | | | |
| January | -1.7 | -3.4 | -0.2 | 2.4 | 1.0 | -1.7 | -3.4 | -0.2 | 2.4 | 1.0 | -0.1 | -1.3 | 2.1 | 9.4 | 10.8 |
| February | 1.1 | 1.4 | -1.1 | -1.5 | -0.5 | -0.6 | -2.0 | -1.3 | 0.9 | 0.5 | 4.5 | 2.1 | 3.4 | 9.8 | 10.2 |
| March | 2.6 | 0.0 | 6.6 | -0.5 | 0.1 | 2.0 | -2.0 | 5.2 | 0.4 | 0.6 | 9.1 | 5.5 | 15.3 | 9.8 | 9.8 |
| April | -4.1 | -0.2 | 0.1 | 2.2 | 1.0 | -2.2 | -2.2 | 5.3 | 2.6 | 1.6 | 7.7 | 6.5 | 16.8 | 10.7 | 9.7 |
| May | 1.7 | 0.0 | -0.1 | 0.8 | -0.2 | -0.5 | -2.2 | 5.1 | 3.4 | 1.3 | 7.2 | 7.9 | 18.0 | 10.0 | 8.8 |
| June | 0.2 | 0.7 | 0.6 | 0.4 | 1.2 | -0.3 | -1.5 | 5.7 | 3.8 | 2.5 | 8.7 | 6.6 | 17.9 | 9.5 | 8.7 |
| July | -1.6 | -0.9 | -0.6 | 0.2 | 1.2 | -2.0 | -2.4 | 5.1 | 4.0 | 3.7 | 6.3 | 8.4 | 19.1 | 8.9 | 8.9 |
| August | -0.4 | -1.0 | -2.8 | -0.7 | 0.6 | -2.4 | -3.5 | 2.2 | 3.3 | 4.4 | 9.8 | 9.8 | 15.8 | 9.2 | 9.0 |
| September | 5.1 | 4.9 | 5.1 | -0.2 | 0.3 | 2.7 | 1.2 | 7.4 | 3.0 | 4.7 | 8.8 | 8.4 | 18.2 | 9.2 | 9.3 |
| October | -4.1 | -1.8 | -1.1 | 1.2 | 1.0 | -1.6 | -0.6 | 6.2 | 4.2 | 5.7 | 6.8 | 10.1 | 18.9 | 9.2 | 9.7 |
| November | 1.9 | 1.1 | -2.1 | 0.8 | -0.1 | 0.3 | 0.5 | 4.0 | 5.1 | 5.6 | 9.2 | 10.7 | 15.2 | 8.6 | 7.9 |
| December | 8.5 | 9.6 | 9.6 | 1.8 | 0.1 | 8.8 | 10.2 | 14.0 | 7.0 | 5.6 | 8.8 | 10.2 | 14.0 | 7.0 | 5.6 |
| **2002** | | | | | | | | | | | | | | | |
| January | -1.7 | -3.8 | 3.2 | 1.2 | 0.8 | -1.7 | -3.8 | 3.2 | 1.2 | 0.8 | 8.8 | 9.8 | 18.0 | 5.7 | 5.5 |
| February | 1.3 | 1.7 | -1.9 | 0.7 | 0.2 | -0.4 | -2.2 | 1.3 | 1.9 | 1.1 | 9.0 | 10.0 | 17.0 | 8.0 | 6.3 |
| March | -0.7 | -0.3 | -0.4 | 0.3 | 0.1 | -1.1 | -2.4 | 0.9 | 2.2 | 1.2 | 5.5 | 9.8 | 9.3 | 8.8 | 6.3 |
| April | -2.5 | -1.5 | -0.2 | 1.1 | 0.0 | -3.5 | -3.8 | 0.7 | 3.3 | 1.2 | 7.3 | 8.4 | 9.0 | 7.7 | 5.3 |
| May | 2.9 | 1.2 | 1.9 | -0.4 | -0.7 | -0.7 | -2.7 | 2.7 | 2.9 | 0.5 | 8.6 | 9.6 | 11.3 | 6.5 | 4.8 |
| June | -1.0 | 1.7 | 1.1 | 0.7 | 0.6 | -1.7 | -1.0 | 3.8 | 3.6 | 1.1 | 7.2 | 10.7 | 11.9 | 6.8 | 4.1 |
| July | 1.1 | -0.6 | -1.1 | 1.0 | 0.3 | -0.7 | -1.7 | 2.6 | 4.6 | 1.4 | 10.2 | 11.1 | 11.3 | 7.6 | 3.3 |
| August | -1.4 | 0.0 | 2.0 | -0.5 | 0.4 | -2.1 | -1.7 | 4.7 | 4.1 | 1.8 | 9.1 | 12.2 | 16.7 | 7.8 | 3.0 |
| September | 4.9 | 5.3 | 2.1 | 1.1 | 0.3 | 2.7 | 3.5 | 6.9 | 5.2 | 2.2 | 8.8 | 12.7 | 13.4 | 9.3 | 3.1 |
| October | -4.0 | -2.4 | 0.0 | 0.5 | 0.1 | -1.4 | 1.0 | 6.8 | 5.7 | 2.3 | 9.0 | 12.0 | 14.6 | 8.5 | 2.2 |
| November | -0.9 | 0.3 | 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 | -0.4 | 1.1 | -1.5 | 7.3 | -3.3 | 0.0 | 9.5 | 6.5 | 12.3 | -2.5 | -0.5 |
| December (*) | 6.2 | 8.0 | 9.9 | 1.8 | 1.6 | 7.3 | 6.4 | 17.9 | -1.5 | 1.6 | 7.3 | 6.4 | 17.9 | -1.5 | 1.6 |

*E: Monetary base.*

*C: Currency.*

*M1A: Broad private money corrected and defined as: currency + non-financial private sector checking accounts net of float + demand deposits other than checking accounts + demand savings deposits.*

*M2A: M1A + private sector time deposits.*

*M7: M2A + time savings deposits including those for housing + Central Bank promissory notes held by the public (non-financial private sector) + Treasury promissory notes held by the public (non-financial private sector) + bills of credit held by the public (non-financial private sector) + private-sector foreign-currency deposits.*

*(* ) Provisional figures.*

TABLE 5

## Financial system loans

| Period | Domestic currency (2) (Billions of pesos) | | | | | | | | | | Foreign currency (3) (US$ million) | | | | | Total (4) (Billions of pesos) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ACTUAL (1) | | | | | MORTGAGES | | | | | ACTUAL | | | | | | | | | |
| | | Percentage change | | | | | Percentage change | | | | | Percentage change | | | | | Percentage change | | | |
| | | Nominal | | Real | | | Nominal | | Real | | | US$ | | Pesos | Real | | Nominal | | Real | |
| | | month | 12 mon. | month | 12 mon. | | month | 12 mon. | month | 12 mon | | | | month 12 mon. | 12 mon. | | month | 12 mon. | month | 12 mon. |
| **2002** | | | | | | | | | | | | | | | | | | | | |
| January | 17,091 | 0.5 | 4.1 | 0.6 | 1.2 | 6,067 | 0.2 | 9.8 | 0.3 | 6.7 | 4,648 | 0.4 | -3.4 | 27.7 | 24.1 | 26,208 | 0.0 | 7.7 | 0.1 | 4.7 |
| February | 17,202 | 0.6 | 4.7 | 0.9 | 2.1 | 6,054 | -0.2 | 9.2 | 0.0 | 6.5 | 4,777 | 2.8 | 6.2 | 34.7 | 31.4 | 26.496 | 1.1 | 8.7 | 1.3 | 6.0 |
| March | 17,118 | -0.5 | 4.4 | -0.4 | 2.0 | 6,046 | -0.1 | 8.6 | 0.0 | 6.1 | 4,830 | 1.1 | 0.7 | 32.1 | 29.1 | 26,426 | -0.3 | 8.1 | -0.2 | 5.7 |
| April | 17,176 | 0.3 | 4.9 | 0.2 | 2.4 | 6,052 | 0.1 | 8.4 | 0.0 | 5.7 | 4,898 | 1.4 | -0.2 | 23.2 | 20.2 | 26,482 | 0.2 | 7.7 | 0.1 | 5.0 |
| May | 17,174 | 0.0 | 3.3 | -0.5 | 0.8 | 6,065 | 0.2 | 7.9 | -0.2 | 5.3 | 4,790 | -2.2 | -4.5 | 14.1 | 11.4 | 26,348 | -0.5 | 5.5 | -1.0 | 2.9 |
| June | 17,142 | -0.2 | 4.0 | -0.5 | 1.6 | 6,101 | 0.6 | 6.9 | 0.3 | 4.5 | 4,552 | -5.0 | -4.2 | 6.2 | 3.8 | 26,222 | -0.5 | 4.9 | -0.8 | 2.5 |
| July | 17,220 | 0.5 | 4.7 | 0.4 | 2.6 | 6,143 | 0.7 | 6.1 | 0.6 | 3.9 | 4,681 | 2.8 | 9.6 | 14.3 | 12.0 | 26,629 | 1.6 | 6.1 | 1.5 | 4.0 |
| August | 17,406 | 1.1 | 5.4 | 1.0 | 3.2 | 6,275 | 2.1 | 7.3 | 2.1 | 5.1 | 4,804 | 2.6 | 3.1 | 6.4 | 4.2 | 27,049 | 1.6 | 5.9 | 1.5 | 3.8 |
| September | 17,529 | 0.7 | 4.8 | 0.3 | 2.3 | 6,163 | -1.8 | 4.9 | -2.2 | 2.5 | 4,885 | 1.7 | 3.7 | 13.5 | 10.8 | 27,186 | 0.5 | 5.8 | 0.1 | 3.4 |
| October | 17,788 | 1.5 | 6.0 | 1.0 | 3.8 | 6,191 | 0.5 | 4.3 | -0.1 | 2.1 | 4,914 | 0.6 | 5.2 | 10.9 | 8.6 | 27,653 | 1.7 | 6.3 | 1.2 | 4.0 |
| November | 18,069 | 1.6 | 5.9 | 0.8 | 3.4 | 6,241 | 0.8 | 4.1 | 0.0 | 1.6 | 4,706 | -4.2 | -6.1 | 2.9 | 0.5 | 27,761 | 0.4 | 5.1 | -0.4 | 2.6 |
| December | 18,333 | 1.5 | 7.8 | 0.8 | 4.7 | 6,290 | 0.8 | 3.9 | 0.1 | 0.9 | 4,425 | -6.0 | -9.6 | -1.2 | -4.0 | 27,743 | -0.1 | 5.8 | -0.7 | 2.8 |
| **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 (5) | 19,694 | 1.1 | 7.4 | 1.3 | 6.2 | 6,533 | -0.9 | 3.9 | -0.7 | 2.7 | 4,339 | 3.9 | 3.4 | -13.2 | -14.2 | 28,937 | 0.8 | 4.3 | 1.0 | 3.1 |

*(1) Net, effective interbank loans. Includes only private and public sectors. Does not include securities purchased from institutions gone into liquidation nor 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 Superintendence of Banks and Financial Institutions (SBIF), that is the observed exchange rate on the last day of the preceding month.*

*(5) Provisional data.*

TABLE 6

## Multilateral exchange rate index (MER) (1)

(2 January 1998 = 100)

| Period | Total MER | | | | MER-5 | | | | Observed dollar index |
|---|---|---|---|---|---|---|---|---|---|
| | | Percentage change | | | | Percentage change | | | |
| | Value | Month | 12 months | Compared to December | Value | Month | 12 months | Compared to December | (2 January 1998=100) |
| 1998 Average | 103.75 | - | 3.7 (3) | 7.5 (4) | 105.11 | - | 7.7 (3) | 11.3 (4) | 104.81 |
| 1999 Average | 109.64 | - | 5.7 (3) | 6.6 (4) | 117.05 | - | 11.4 (3) | 11.2 (4) | 115.85 |
| 2000 Average | 112.39 | - | 2.5 (3) | 1.8 (4) | 119.88 | - | 2.4 (3) | 1.3 (4) | 122.84 |
| 2001 Average | 125.44 | - | 11.6 (3) | 12.2 (4) | 136.49 | - | 13.8 (3) | 13.7 (4) | 144.57 |
| 2002 Average | 119.92 | - | -4.4 (3) | -9.1 (4) | 148.77 | - | 9.0 (3) | 9.5 (4) | 156.87 |
| **2002** | | | | | | | | | |
| January | 123.56 | -6.0 | 6.4 | -6.0 | 139.33 | -2.3 | 11.0 | -2.3 | 151.94 |
| February | 122.14 | -1.1 | 7.1 | -7.1 | 140.87 | 1.1 | 14.4 | -1.2 | 154.57 |
| March | 118.33 | -3.1 | 0.6 | -10.0 | 138.39 | -1.8 | 8.9 | -3.0 | 151.02 |
| April | 114.82 | -3.0 | -3.2 | -12.7 | 136.31 | -1.5 | 6.3 | -4.4 | 148.19 |
| May | 114.38 | -0.4 | -4.1 | -13.0 | 139.40 | 2.3 | 8.0 | -2.3 | 148.89 |
| June | 116.69 | 2.0 | -3.3 | -11.2 | 146.19 | 4.9 | 12.0 | 2.5 | 153.41 |
| July | 121.05 | 3.7 | -5.4 | -7.9 | 154.44 | 5.6 | 11.2 | 8.3 | 158.55 |
| August | 120.49 | -0.5 | -9.1 | -8.3 | 154.57 | 0.1 | 6.6 | 8.4 | 159.91 |
| September | 123.52 | 2.5 | -7.6 | -6.0 | 159.92 | 3.5 | 8.3 | 12.1 | 165.53 |
| October | 124.06 | 0.4 | -10.3 | -5.6 | 162.71 | 1.7 | 6.5 | 14.1 | 169.02 |
| November | 120.54 | -2.8 | -10.6 | -8.3 | 157.03 | -3.5 | 6.7 | 10.1 | 161.55 |
| December | 119.49 | -0.9 | -9.1 | -9.1 | 156.09 | -0.6 | 9.5 | 9.5 | 159.83 |
| **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 | 126.38 | -1.0 | 4.9 | 5.8 | 162.64 | -0.5 | 5.2 | 4.2 | 160.25 |
| September | 122.12 | -3.4 | -1.1 | 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 |

*(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 (Germany, France, Spain, Italy, the Netherlands, and Belgium).*

*(3) Average annual change.*

*(4) December to December change.*

TABLE 7

## Real exchange rate (RER) (1)

(Average 1986 = 100)

| Date | | Total RER | | | | RER-5 (2) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Percentage change | | | | Percentage change | | |
| | | Value | Month | 12 months | Compared to December | Vaue | Month | 12 months | Compared to December |
| 1998 Average | | 78.01 | - | -0.2 (3) | 2.8 (4) | 67.97 | - | 1.0 (3) | 3.6 (4) |
| 1999 Average | | 82.29 | - | 5.5 (3) | 10.7 (4) | 73.37 | - | 7.9 (3) | 11.5 (4) |
| 2000 Average | | 86.02 | - | 4.5 (3) | 3.0 (4) | 74.94 | - | 2.1 (3) | 1.1 (4) |
| 2001 Average (5) | | 95.75 | - | 11.3 (3) | 9.0 (4) | 83.53 | - | 11.5 (3) | 7.4 (4) |
| 2002 Average (5) | | 97.05 | - | 1.4 (3) | 2.2 (4) | 88.45 | - | 5.9 (3) | 9.6 (4) |
| 2002 (5) | January | 95.31 | -3.0 | 5.6 | -3.0 | 83.14 | -1.3 | 4.7 | -1.3 |
| | February | 94.75 | -0.6 | 7.3 | -3.6 | 84.10 | 1.2 | 8.4 | -0.2 |
| | March | 92.54 | -2.3 | 1.9 | -5.9 | 82.68 | -1.7 | 4.2 | -1.9 |
| | April | 91.45 | -1.2 | -0.1 | -7.0 | 81.52 | -1.4 | 2.1 | -3.2 |
| | May | 91.96 | 0.6 | 0.2 | -6.5 | 83.30 | 2.2 | 3.8 | -1.1 |
| | June | 95.15 | 3.5 | 2.7 | -3.2 | 87.44 | 5.0 | 8.5 | 3.8 |
| | July | 99.24 | 4.3 | 1.0 | 0.9 | 92.06 | 5.3 | 8.0 | 9.3 |
| | August | 99.42 | 0.2 | -1.7 | 1.1 | 91.98 | -0.1 | 4.3 | 9.2 |
| | September | 101.77 | 2.4 | 0.6 | 3.5 | 94.64 | 2.9 | 6.1 | 12.3 |
| | October | 102.40 | 0.6 | -1.3 | 4.2 | 95.82 | 1.2 | 5.4 | 13.7 |
| | November | 100.22 | -2.1 | -0.8 | 1.9 | 92.41 | -3.6 | 5.6 | 9.7 |
| | December | 100.45 | 0.2 | 2.2 | 2.2 | 92.36 | -0.1 | 9.6 | 9.6 |
| 2003 (5) | January | 105.98 | 5.5 | 11.2 | 5.5 | 97.89 | 6.0 | 17.7 | 6.0 |
| | February | 109.35 | 3.2 | 15.4 | 8.9 | 101.59 | 3.8 | 20.8 | 10.0 |
| | March | 109.67 | 0.3 | 18.5 | 9.2 | 101.56 | 0.0 | 22.8 | 10.0 |
| | April | 106.68 | -2.7 | 16.7 | 6.2 | 96.75 | -4.7 | 18.7 | 4.7 |
| | May | 107.20 | 0.5 | 16.6 | 6.7 | 97.49 | 0.8 | 17.0 | 5.5 |
| | June | 108.69 | 1.4 | 14.2 | 8.2 | 99.09 | 1.6 | 13.3 | 7.3 |
| | July | 107.03 | -1.5 | 7.9 | 6.6 | 97.09 | -2.0 | 5.5 | 5.1 |
| | August | 106.20 | -0.8 | 6.8 | 5.7 | 96.65 | -0.5 | 5.1 | 4.6 |
| | September | 102.82 | -3.2 | 1.0 | 2.4 | 93.53 | -3.2 | -1.2 | 1.3 |
| | October | 100.53 | -2.2 | -1.8 | 0.1 | 92.03 | -1.6 | -3.9 | -0.4 |
| | November | 97.72 | -2.8 | -2.5 | -2.7 | 89.32 | -2.9 | -3.3 | -3.3 |
| | December | 95.64 | -2.1 | -4.8 | -4.8 | 88.18 | -1.3 | -4.5 | -4.5 |

*(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, and Belgium).*

*(3) Average annual change.*

*(4) December to December change.*

*(5) Provisional data.*

TABLE 8

## Quarterly gross domestic product

(Percentage change over the same period of the previous year) (1)

| Period | Quarter | | | | Year |
|---|---|---|---|---|---|
| | I | II | III | IV | |
| 1997 | 4.3 | 4.9 | 8.3 | 9.0 | 6.6 |
| 1998 | 6.3 | 5.7 | 2.8 | -1.8 | 3.2 |
| 1999 | -1.0 | -3.8 | -1.6 | 3.6 | -0.8 |
| 2000 | 5.1 | 5.1 | 4.8 | 3.0 | 4.5 |
| 2001 | 3.4 | 4.5 | 3.4 | 2.3 | 3.4 |
| 2002 | 1.1 | 1.5 | 2.7 | 3.5 | 2.2 |
| 2003 (2) | 3.7 | 3.0 | 3.1 | 3.3 | 3.3 |

*(1) Calculated using figures in 1996 pesos.*
*(2) Preliminary figures.*

TABLE 9

## Quarterly domestic demand

(Percentage change over the same period of the previous year) (1)

| Period | Quarter | | | | Year |
|---|---|---|---|---|---|
| | I | II | III | IV | |
| 1997 | 0.9 | 6.4 | 11.1 | 10.4 | 7.2 |
| 1998 | 10.6 | 8.1 | 3.0 | -5.7 | 3.7 |
| 1999 | -7.0 | -9.7 | -5.8 | -0.1 | -5.8 |
| 2000 | 6.1 | 9.1 | 4.3 | 4.3 | 6.0 |
| 2001 | 6.6 | 1.0 | 2.8 | -1.1 | 2.3 |
| 2002 | -1.1 | 1.8 | 4.8 | 4.6 | 2.5 |
| 2003 (2) | 2.8 | 5.2 | 0.6 | 5.5 | 3.5 |

*(1) Calculated using figures in 1996 pesos.*
*(2) Preliminary figures.*

TABLE 10

## Gross domestic product by sector

(Annual percentage change) (1)

| Sector | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (3) |
|---|---|---|---|---|---|---|---|
| Agriculture, livestock and forestry | 1.7 | 5.0 | -0.8 | 6.0 | 6.2 | 4.3 | 4.3 |
| Fishing | 9.5 | -6.2 | 6.4 | 8.5 | 12.3 | 10.3 | -9.2 |
| Mining | 11.3 | 8.3 | 10.6 | 3.2 | 7.3 | -3.9 | 5.4 |
| Manufacturing | 4.7 | -2.3 | -0.5 | 4.9 | 0.9 | 2.7 | 2.4 |
| Electricity, gas and water | 8.3 | 4.4 | -4.7 | 9.5 | 1.1 | 2.2 | 4.1 |
| Construction | 6.3 | 1.9 | -9.9 | -0.7 | 2.7 | 1.7 | 3.6 |
| Wholesale and retail trade. hotels and catering | 7.6 | 3.5 | -4.4 | 4.4 | 2.1 | 1.7 | 4.1 |
| Transport and communications | 10.9 | 6.6 | 0.8 | 8.6 | 7.3 | 6.0 | 3.4 |
| Financial services | 7.1 | 6.0 | -1.0 | 5.0 | 3.8 | 2.4 | 3.0 |
| Home ownership | 3.9 | 3.4 | 3.0 | 2.3 | 2.2 | 2.3 | 2.0 |
| Personal services (2) | 6.1 | 3.2 | 1.9 | 3.5 | 3.3 | 2.7 | 2.7 |
| Public administration | 1.5 | 1.5 | 1.5 | 1.5 | 1.7 | 1.9 | 1.8 |
| **Subtotal** | **6.4** | **3.0** | **-0.4** | **4.2** | **3.4** | **2.3** | **3.1** |
| Less: Bank charges | 7.4 | 3.8 | -1.2 | 3.5 | 3.1 | 2.1 | 2.8 |
| Plus: Net VAT collected | 7.8 | 4.9 | -1.2 | 4.5 | 3.0 | 1.8 | 4.1 |
| Plus: Import duties | 12.8 | 7.1 | -12.7 | 15.0 | 2.8 | 1.9 | 8.7 |
| **Total GDP** | **6.6** | **3.2** | **-0.8** | **4.5** | **3.4** | **2.2** | **3.3** |

*(1) Calculated using figures in 1996 pesos.*
*(2) Includes education and private and public health care services.*
*(3) Preliminary figures.*

TABLE 11

## National employment and unemployment (1) (2)

Moving quarterly average ending in specified month

(Thousands of people)

| Period | Labor force | | Employed | | Unemployment | | |
|---|---|---|---|---|---|---|---|
| | Total | Percentage change over the previous period | Total | Percentage change over the previous period | Total | Percentage change over the previous period | Unemployment rate |
| 1998 Average | 5,739 | 2.0 | 5,375 | 1.8 | 364 | 5.7 | 6.3 |
| 1999 Average | 5,827 | 1.5 | 5,255 | -2.2 | 572 | 57.3 | 9.8 |
| 2000 Average | 5,847 | 0.3 | 5,311 | 1.1 | 536 | -6.3 | 9.2 |
| 2001 Average | 5,861 | 0.3 | 5,326 | 0.3 | 535 | -0.1 | 9.1 |
| 2002 Average | 5,914 | 0.9 | 5,385 | 1.1 | 529 | -1.1 | 9.0 |
| 2003 Average | 6,062 | 2.6 | 5,550 | 3.1 | 516 | -2.6 | 8.5 |
| **2002** | | | | | | | |
| January | 5,947 | 1.5 | 5,471 | 1.9 | 476 | -2.9 | 8.0 |
| February | 5,910 | 1.5 | 5,418 | 1.6 | 492 | 0.7 | 8.3 |
| March | 5,913 | 2.1 | 5,394 | 2.2 | 519 | 1.5 | 8.8 |
| April | 5,909 | 1.8 | 5,388 | 2.0 | 521 | -0.8 | 8.8 |
| May | 5,880 | 1.3 | 5,344 | 1.9 | 536 | -3.4 | 9.1 |
| June | 5,866 | 0.8 | 5,310 | 1.0 | 556 | -1.3 | 9.5 |
| July | 5,859 | 0.5 | 5,307 | 0.9 | 552 | -3.2 | 9.4 |
| August | 5,853 | -0.2 | 5,290 | 0.0 | 563 | -1.3 | 9.6 |
| September | 5,877 | -0.2 | 5,305 | 0.3 | 572 | -4.0 | 9.7 |
| October | 5,933 | 0.3 | 5,364 | 0.4 | 569 | -0.5 | 9.6 |
| November | 5,976 | 0.4 | 5,449 | 0.5 | 527 | -0.2 | 8.8 |
| December | 6,000 | 0.9 | 5,531 | 0.9 | 469 | -0.2 | 7.8 |
| **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 |

*(1) Population 15 years of age and over.*
*(2) Results from the INE's national employment survey.*
*Source: National Statistics Bureau (INE).*

TABLE 12

## Balance of payments

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 (1) | 2001 (1) | 2002 (1) | 2003 (1) |
|---|---|---|---|---|---|---|---|
| **1. Current account** | **-3,660** | **-3,918** | **99** | **-897** | **-1,100** | **-885** | **-594** |
| A. Goods and services | -1,563 | -2,492 | 1,690 | 1,400 | 999 | 1,600 | 2,249 |
| a. Goods | -1,428 | -2,040 | 2,427 | 2,119 | 1,843 | 2,256 | 3,015 |
| 1. Exports | 17,870 | 16,323 | 17,162 | 19,210 | 18,272 | 18,177 | 21,046 |
| 2. Imports | -19,298 | -18,363 | -14,735 | -17,091 | -16,428 | -15,921 | -18,031 |
| b. Services | -136 | -452 | -737 | -719 | -844 | -656 | -767 |
| 1. Credits | 3,892 | 3,952 | 3,869 | 4,083 | 4,138 | 4,332 | 4,805 |
| 2. Debits | -4,028 | -4,404 | -4,606 | -4,802 | -4,983 | -4,988 | -5,571 |
| B. Income | -2,617 | -1,889 | -2,233 | -2,856 | -2,526 | -2,915 | -3,280 |
| 1. Employee wages | -21 | -16 | -14 | -2 | -4 | -3 | -4 |
| 2. Investment income | -2,597 | -1,873 | -2,219 | -2,853 | -2,522 | -2,911 | -3,277 |
| Income from direct investment (2) | -1,943 | -1,136 | -1,413 | -1,971 | -1,604 | -2,158 | -2,613 |
| Abroad | 243 | 266 | 54 | 568 | 646 | 289 | 397 |
| In Chile | -2,185 | -1,401 | -1,467 | -2,539 | -2,250 | -2,447 | -3,010 |
| Income from portfolio investment | -355 | -362 | -347 | -402 | -502 | -517 | -527 |
| Dividends | -252 | -211 | -114 | -66 | -118 | -151 | -39 |
| Interest | -104 | -152 | -233 | -336 | -383 | -367 | -489 |
| Income from other investment | -299 | -375 | -459 | -480 | -416 | -236 | -136 |
| Credits | 923 | 924 | 803 | 929 | 776 | 551 | 442 |
| Debits | -1,222 | -1,298 | -1,262 | -1,408 | -1,192 | -787 | -578 |
| C. Current transfers | 520 | 462 | 643 | 558 | 427 | 430 | 438 |
| 1. Credits | 835 | 810 | 841 | 765 | 713 | 792 | 748 |
| 2. Debits | -315 | -348 | -198 | -207 | -286 | -362 | -310 |
| **2. Financial and capital accounts** | **3,422** | **4,160** | **975** | **451** | **1,958** | **1,898** | **-265** |
| A. Capital account | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| B. Financial account | 3,422 | 4,160 | 975 | 451 | 1,958 | 1,898 | -265 |
| 1. Direct investment | 3,809 | 3,144 | 6,203 | 873 | 2,590 | 1,594 | 1,587 |
| Direct investment abroad | -1,463 | -1,483 | -2,558 | -3,987 | -1,610 | -294 | -1,395 |
| Shares and other equity | -1,148 | -1,263 | -1,896 | -3,573 | -1,111 | 308 | -656 |
| Reinvested profits | -134 | -167 | 91 | -385 | -331 | -231 | -281 |
| Other capital (3) | -181 | -53 | -753 | -28 | -168 | -370 | -458 |
| Direct investment in Chile | 5,271 | 4,628 | 8,761 | 4,860 | 4,200 | 1,888 | 2,982 |
| Shares and other equity | 4,211 | 4,155 | 8,863 | 2,817 | 3,424 | 738 | 1,527 |
| Reinvested profits | 781 | 342 | 281 | 1,171 | 1,105 | 1,367 | 1,939 |
| Other capital (3) | 279 | 131 | -383 | 872 | -329 | -217 | -484 |
| 2. Portfolio investment | 1,625 | -2,469 | -3,217 | 639 | 139 | -2,084 | -3,626 |
| Assets | -989 | -3,311 | -5,795 | 766 | -1,386 | -3,083 | -5,327 |
| Liabilities | 2,614 | 842 | 2,578 | -127 | 1,525 | 999 | 1,701 |
| 3. Financial derivatives | 165 | -59 | -6 | 2 | -86 | -124 | 118 |
| 4. Other investment (4) | 1,143 | 1,350 | -2,743 | -727 | -1,282 | 2,711 | 1,291 |
| Assets | -457 | -1,953 | -3,369 | -2,065 | -1,326 | 1,624 | -387 |
| Liabilities | 1,600 | 3,303 | 626 | 1,338 | 44 | 1,087 | 1,678 |
| 5. Reserve assets | -3,320 | 2,194 | 738 | -337 | 596 | -199 | 366 |
| **3. Errors and omissions** | **238** | **-242** | **-1,074** | **447** | **-858** | **-1,013** | **858** |
| Memorandum | | | | | | | |
| Balance of payments (surplus/deficit) | 3,320 | -2,194 | -738 | 337 | -596 | 199 | -366 |
| Financial account less reserve assets | 6,742 | 1,966 | 237 | 787 | 1,362 | 2,097 | -630 |
| *(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* | *-126.5* | *-1,088.0* | *2,835.3* | *1,974.7* |
| *Assets* | *-416* | *-1,946* | *-3,373* | *-1,921.4* | *-648.7* | *1,556.7* | *-258.8* |
| *Liabilities* | *-1,491* | *-358* | *-681* | *1,795.0* | *-439.4* | *1,278.6* | *2,233.6* |

TABLE 13

# Balance of trade

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 (*) | 2001 (*) | 2002 (*) | 2003 (*) |
|---|---|---|---|---|---|---|---|
| Balance of trade (surplus/deficit) | -1,428 | -2,041 | 2,427 | 2,118 | 1,844 | 2,256 | 3,015 |
| Exports | | | | | | | |
| Total goods (fob) | 17,870 | 16,322 | 17,162 | 19,210 | 18,272 | 18,177 | 21,045 |
| General goods | 17,325 | 15,913 | 16,734 | 18,679 | 17,840 | 17,790 | 20,652 |
| General tariff regime | 15,955 | 14,457 | 15,663 | 17,682 | 16,964 | 17,051 | 19,807 |
| Copper | 6,647 | 5,197 | 6,026 | 7,284 | 6,537 | 6,282 | 7,503 |
| Non copper | 9,308 | 9,259 | 9,636 | 10,397 | 10,427 | 10,770 | 12,305 |
| Duty-free zone | 1,370 | 1,456 | 1,072 | 997 | 876 | 739 | 845 |
| Repairs on goods | 0 | 0 | 0 | 0 | 0 | 2 | 1 |
| Goods acquired in port | 126 | 131 | 123 | 188 | 168 | 129 | 92 |
| Non-monetary gold | 418 | 279 | 304 | 343 | 264 | 256 | 302 |
| Memorandum: | | | | | | | |
| Non-copper goods | 11,223 | 11,125 | 11,135 | 11,925 | 11,735 | 11,896 | 13,544 |
| Imports | | | | | | | |
| Total goods (fob) | 19,298 | 18,363 | 14,735 | 17,091 | 16,428 | 15,921 | 18,031 |
| Imports | | | | | | | |
| Total goods (cif) | 20,800 | 19,853 | 15,962 | 18,465 | 17,799 | 17,196 | 19,413 |
| General goods | 20,468 | 19,524 | 15,715 | 18,179 | 17,503 | 16,927 | 19,082 |
| General tariff regime | 18,610 | 17,526 | 14,439 | 17,026 | 16,399 | 15,941 | 17,791 |
| Consumer goods | 3,356 | 3,125 | 2,587 | 3,076 | 2,898 | 2,836 | 3,167 |
| Intermediate goods | 10,071 | 9,593 | 8,776 | 10,520 | 9,951 | 9,634 | 10,956 |
| Fuel | 1,763 | 1,427 | 1,930 | 2,865 | 2,589 | 2,463 | 3,100 |
| (Oil) | 1,169 | 861 | 1,248 | 1,994 | 1,727 | 1,615 | 2,126 |
| Non-oil | 595 | 566 | 682 | 871 | 862 | 848 | 975 |
| Other | 8,307 | 8,166 | 6,846 | 7,655 | 7,362 | 7,172 | 7,856 |
| Capital | 5,184 | 4,808 | 3,076 | 3,430 | 3,549 | 3,470 | 3,668 |
| Duty-free zone | 1,858 | 1,998 | 1,277 | 1,153 | 1,105 | 987 | 1,292 |
| Repairs on goods | 76 | 75 | 53 | 63 | 72 | 52 | 53 |
| Goods acquired in port | 257 | 254 | 194 | 224 | 224 | 217 | 277 |
| Memorandum: | | | | | | | |
| Non-oil goods | 19,632 | 18,991 | 14,714 | 16,471 | 16,072 | 15,581 | 17,287 |

*(*) Provisional figures.*

TABLE 14

## Foreign trade indicators (*)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| Copper price LME (US$/lb) | 1.032 | 0.75 | 0.714 | 0.823 | 0.716 | 0.706 | 0.807 |
| Oil price (US$/barrel cif) | 19.1 | 12.9 | 16.9 | 28.6 | 24.2 | 25.2 | 30.9 |
| Libor US$ to 180 days (nominal) | 5.8% | 5.0% | 5.0% | 6.7% | 3.7% | 1.9% | 1.2% |
| Total foreign inflation | -3.7% | -4.4% | -1.4% | 2.4% | -2.0% | -4.4% | 10.8% |
| Terms of trade index (1996 = 100) | | | | | | | |
| Total goods | 100.1 | 96.2 | 99.8 | 105.9 | 99.0 | 103.4 | 109.4 |
| Total non-copper and non-oil | 97.3 | 104.4 | 111.2 | 119.7 | 111.9 | 116.2 | 123.9 |
| Total exports | | | | | | | |
| Change by value | 7.5% | -8.7% | 5.1% | 11.9% | -4.9% | -0.5% | 15.8% |
| Change by price (fob) | -2.6% | -15.2% | -0.3% | 6.7% | -12.1% | -0.9% | 8.0% |
| Change by volume | 10.3% | 7.7% | 5.4% | 4.9% | 8.2% | 0.4% | 7.2% |
| Copper exports | | | | | | | |
| Change by value | 10.3% | -21.8% | 16.0% | 20.9% | -10.3% | -3.9% | 19.4% |
| Change by price (fob) | -5.6% | -27.3% | 0.5% | 14.8% | -14.0% | 0.4% | 12.9% |
| Change by volume | 16.8% | 7.5% | 15.4% | 5.3% | 4.3% | -4.3% | 5.8% |
| Non-copper exports | | | | | | | |
| Change by value | 5.9% | -0.9% | 0.1% | 7.1% | -1.6% | 1.4% | 13.9% |
| Change by price (fob) | -0.7% | -8.1% | -0.7% | 2.3% | -11.1% | -1.6% | 5.5% |
| Change by volume | 6.6% | 7.9% | 0.8% | 4.7% | 10.6% | 3.0% | 7.9% |
| Imports of goods (cif) | | | | | | | |
| Change by value | 9.0% | -4.6% | -19.6% | 15.7% | -3.7% | -3.3% | 12.9% |
| Change by price | -2.6% | -11.0% | -5.6% | 1.5% | -5.2% | -4.6% | 3.1% |
| Change by volume | 11.9% | 7.2% | -14.8% | 13.9% | 1.6% | 1.4% | 9.5% |

*(*) Provisional figures.*

TABLE 15

# Investment yields

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 (1) | 2001 (1) | 2002 (1) | 2003 (1) |
|---|---|---|---|---|---|---|---|
| **I.Direct investment** | **-1,943** | **-1,136** | **-1,413** | **-1,971** | **-1,604** | **-2,158** | **-2,613** |
| 1. Income from equity | -1,797 | -983 | -1,192 | -1,713 | -1,376 | -1,908 | -2,510 |
| Abroad | 240 | 257 | 47 | 551 | 587 | 277 | 395 |
| Dividends and profits received | 106 | 90 | 138 | 166 | 256 | 46 | 114 |
| Profits reinvested abroad | 134 | 167 | -91 | 385 | 331 | 231 | 281 |
| In Chile | -2,036 | -1,240 | -1,239 | -2,264 | -1,963 | -2,185 | -2,905 |
| Dividends and profits paid out | -1,255 | -899 | -957 | -1,093 | -859 | -818 | -966 |
| Reinvestment of profits in Chile | -781 | -342 | -281 | -1,171 | -1,105 | -1,367 | -1,939 |
| 2. Income from debt (interest) | -146 | -152 | -221 | -259 | -228 | -250 | -103 |
| **II. Portfolio investment** | **-355** | **-362** | **-347** | **-402** | **-502** | **-517** | **-527** |
| Income from equity (dividends) | -252 | -211 | -114 | -66 | -118 | -151 | -39 |
| Credits | 4 | 7 | 55 | 88 | 25 | 80 | 155 |
| Debits | -255 | -218 | -169 | -154 | -143 | -230 | -193 |
| Income from debt | -104 | -152 | -233 | -336 | -383 | -367 | -489 |
| Credits | 0 | 0 | 0 | 0 | 0 | 114 | 108 |
| Debits | -104 | -152 | -233 | -336 | -383 | -481 | -596 |
| **III. Other investment** | **-299** | **-375** | **-459** | **-480** | **-416** | **-236** | **-136** |
| 1. Medium term | -1,053 | -1,156 | -1,168 | -1,346 | -1,102 | -738 | -534 |
| Public sector | -268 | -238 | -256 | -293 | -235 | -149 | -106 |
| Central Bank | -7 | -7 | -4 | -7 | -6 | 0 | 0 |
| Non-financial public sector | -261 | -231 | -252 | -286 | -229 | -149 | -106 |
| Financial sector (2) | -82 | -81 | -77 | -135 | -37 | -10 | -26 |
| Non-financial private sector | -703 | -837 | -835 | -919 | -830 | -579 | -403 |
| 2. Short term | 755 | 781 | 710 | 867 | 686 | 501 | 398 |
| Public sector | 782 | 798 | 659 | 759 | 639 | 430 | 330 |
| Central Bank | 831 | 846 | 705 | 798 | 681 | 450 | 345 |
| Non-financial public sector | -48 | -48 | -45 | -40 | -42 | -19 | -15 |
| Financial sector (2) | -10 | 2 | 17 | 34 | 12 | 29 | 36 |
| Non-financial private sector | -18 | -19 | 33 | 74 | 35 | 42 | 32 |
| **Total (I+II+III)** | **-2,597** | **-1,873** | **-2,219** | **-2,853** | **-2,522** | **-2,911** | **-3,277** |
| Credits | 1,174 | 1,374 | 1,140 | 1,584 | 1,446 | 1,144 | 1,119 |
| Debits | -3,770 | -3,247 | -3,359 | -4,438 | -3,969 | -4,055 | -4,395 |

*(1) Provisional figures.*
*(2) Includes state-owned bank (BancoEstado).*

| Memorandum: | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Direct investment** | -1,943 | -1,136 | -1,413 | -1,971 | -1,604 | -2,158 | -2,613 |
| Credits | 247 | 444 | 282 | 568 | 646 | 399 | 415 |
| Debits | -2,189 | -1,579 | -1,695 | -2,539 | -2,250 | -2,557 | -3,028 |
| **Portfolio investment** | -355 | -362 | -347 | -402 | -502 | -517 | -527 |
| Credits | 4 | 7 | 55 | 88 | 25 | 193 | 263 |
| Debits | -359 | -369 | -402 | -490 | -527 | -711 | -790 |
| **Other investment** | -299 | -375 | -459 | -480 | -416 | -236 | -136 |
| Credits | 923 | 924 | 803 | 929 | 776 | 551 | 442 |
| Debits | -1,222 | -1,298 | -1,262 | -1,409 | -1,192 | -787 | -578 |

TABLE 16

## Services

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 (*) | 2001 (*) | 2002 (*) | 2003 (*) |
|---|---|---|---|---|---|---|---|
| **I. Transportation** | **-74** | **-88** | **-21** | **-4** | **34** | **-1** | **189** |
| Passengers | 5 | 41 | 52 | 77 | 154 | 65 | 227 |
| Credits | 298 | 326 | 332 | 360 | 385 | 323 | 502 |
| Debits | -293 | -286 | -280 | -284 | -231 | -259 | -276 |
| Freight | 318 | 359 | 459 | 501 | 433 | 363 | 447 |
| Credits | 1,137 | 1,158 | 1,247 | 1,316 | 1,294 | 1,229 | 1,422 |
| Debits | -818 | -799 | -788 | -815 | -861 | -866 | -975 |
| Other | -397 | -488 | -532 | -581 | -553 | -429 | -484 |
| Credits | 383 | 426 | 460 | 512 | 615 | 653 | 748 |
| Debits | -780 | -914 | -992 | -1,093 | -1,167 | -1,081 | -1,233 |
| **II. Travel** | **265** | **216** | **159** | **200** | **90** | **264** | **92** |
| Credits | 1,103 | 1,105 | 911 | 819 | 799 | 898 | 860 |
| Debits | -839 | -888 | -752 | -620 | -708 | -633 | -768 |
| **III. Other** | **-327** | **-580** | **-875** | **-915** | **-969** | **-919** | **-1,049** |
| Communications services | 12 | 42 | 53 | 97 | 30 | 25 | 20 |
| Credits | 192 | 203 | 183 | 207 | 125 | 162 | 166 |
| Debits | -180 | -162 | -130 | -110 | -95 | -137 | -146 |
| Insurance services | -77 | -69 | -77 | -116 | -140 | -211 | -248 |
| Créditos | 90 | 68 | 77 | 76 | 71 | 138 | 136 |
| Débitos | -167 | -137 | -153 | -192 | -211 | -349 | -383 |
| Financial services | -88 | -136 | -199 | -184 | -169 | -206 | -222 |
| Credits | 27 | 27 | 42 | 38 | 34 | 25 | 27 |
| Debits | -115 | -163 | -242 | -222 | -203 | -230 | -249 |
| Information technology services | -1 | -13 | -20 | -45 | -4 | 15 | 13 |
| Credits | 26 | 26 | 30 | 33 | 43 | 56 | 55 |
| Debits | -27 | -39 | -50 | -78 | -47 | -41 | -42 |
| Royalties and copyright | -130 | -218 | -318 | -288 | -244 | -209 | -221 |
| Credits | 10 | 5 | 6 | 10 | 25 | 41 | 45 |
| Debits | -140 | -223 | -324 | -298 | -269 | -250 | -266 |
| Other business services | -8 | -118 | -252 | -308 | -368 | -272 | -330 |
| Credits | 505 | 488 | 470 | 602 | 652 | 699 | 725 |
| Debits | -513 | -606 | -722 | -909 | -1,019 | -972 | -1,055 |
| Recreational, cultural and personal services | -2 | -17 | -19 | -22 | -7 | 3 | 3 |
| Credits | 28 | 28 | 23 | 22 | 29 | 39 | 41 |
| Debits | -30 | -45 | -42 | -44 | -36 | -35 | -38 |
| Government and other services (NIOI) | -33 | -51 | -44 | -49 | -67 | -63 | -66 |
| Credits | 92 | 93 | 89 | 88 | 68 | 70 | 77 |
| Debits | -126 | -143 | -133 | -138 | -135 | -134 | -142 |
| **IV. Total (I+II+III)** | **-136** | **-452** | **-737** | **-719** | **-844** | **-656** | **-767** |
| Credits | 3,892 | 3,952 | 3,869 | 4,083 | 4,138 | 4,332 | 4,805 |
| Debits | -4,028 | -4,404 | -4,606 | -4,802 | -4,983 | -4,988 | -5,572 |

*NIOI: not included in other items.*

*(*) Provisional figures.*

TABLE 17

## Balance of payments financial account flows

(US$ million)

| Item | 1997 | 1998 | 1999 | 2000 (*) | 2001 (*) | 2002 (*) | 2003 (*) |
|---|---|---|---|---|---|---|---|
| Financial account | 3,422 | 4,160 | 975 | 450.7 | 1,957.9 | 1,898.2 | -264.6 |
| A. Direct investment | 3,809 | 3,144 | 6,203 | 873.4 | 2,590.0 | 1,594.2 | 1,586.9 |
| Investment abroad (asset) | -1,463 | -1,483 | -2,558 | -3,986.6 | -1,609.7 | -293.8 | -1,395.2 |
| Equity | -1,148 | -1,263 | -1,896 | -3,573.4 | -1,111.3 | 307.7 | -656.5 |
| Credits | 230 | 151 | 486 | 483.7 | 1,156.9 | 1,318.5 | 789.4 |
| Debits | -1,378 | -1,414 | -2,383 | -4,057.2 | -2,268.3 | -1,010.8 | -1,445.9 |
| Other capital | -181 | -53 | -753 | -28.3 | -167.8 | -370.1 | -457.9 |
| Credits | 26 | 148 | 178 | 458.4 | 581.1 | 392.1 | 215.6 |
| Debits | -206 | -202 | -931 | -486.7 | -748.8 | -762.2 | -673.5 |
| Net reinvestment | -134 | -167 | 91 | -384.9 | -330.6 | -231.4 | -280.8 |
| From abroad (liabilities) | 5,271 | 4,628 | 8,761 | 4,860.0 | 4,199.8 | 1,888.0 | 2,982.1 |
| Equity | 4,211 | 4,155 | 8,863 | 2,817.1 | 3,423.9 | 738.1 | 1,527.0 |
| Inflows (credits) | 4,662 | 4,851 | 9,418 | 3,264.1 | 4,672.1 | 2,618.3 | 2,243.2 |
| Re-exported (debits) | -451 | -697 | -555 | -447.1 | -1,248.2 | -1,880.3 | -716,3 |
| Other capital | 279 | 131 | -383 | 872.4 | -328.8 | -216.7 | -484.4 |
| Disbursements (credits) | 418 | 405 | 189 | 1,366.6 | 594.2 | 1,335.4 | 574.4 |
| Amortizations (debits) | -139 | -273 | -572 | -494.2 | -923.0 | -1.552.1 | -1,058.8 |
| Net reinvestment | 781 | 342 | 281 | 1,170.6 | 1,104.6 | 1,366.6 | 1,939.5 |
| B. Portfolio investment | 1,625 | -2,469 | -3.217 | 638.8 | 139.3 | -2,084.4 | -3,625.8 |
| Assets | -989 | -3,311 | -5,795 | 766.1 | -1,386.0 | -3,082.9 | -5,327.2 |
| Equity securities | -743 | -2,518 | -3,474 | 820.9 | -2,094.0 | -2,922.1 | -5,176.0 |
| Debt securities | -246 | -792 | -2,321 | -54.8 | 708.0 | -160.9 | -151.1 |
| Bonds and promissory notes | -246 | -792 | -1,872 | -64.4 | 740.3 | -524.7 | -283.2 |
| Money market instruments | 0 | 0 | -448 | 9.6 | -32.3 | 363.9 | 132.0 |
| Liabilities | 2,614 | 842 | 2,578 | -127.3 | 1,525.3 | 998.5 | 1,701.4 |
| Equity securities | 1,720 | 580 | 524 | -427.3 | -217.1 | -320.3 | 311.5 |
| Debt securities | 894 | 262 | 2,054 | 300.0 | 1,742.4 | 1,318.8 | 1,389.9 |
| Bonds and promissory notes | 894 | 262 | 2,054 | 300.0 | 1,742.4 | 1,318.8 | 1,389.9 |
| Money market instruments | | | | | | | |
| C. Other investment | 1,143 | 1,350 | -2,743 | -726.9 | -1,281.8 | 2,710.7 | 1,290.9 |
| Assets | -457 | -1,953 | -3,369 | -2,064.6 | -1,325.8 | 1,624.0 | -387.2 |
| Trade credits | -70 | -118 | -999 | -1,134.5 | -396.6 | 985.5 | -113.9 |
| Loans | -32 | -214 | -380 | -81.9 | -193.1 | 427.0 | 43.6 |
| Currencies and deposits | -355 | -1,621 | -1,990 | 1,502.7 | 647.8 | 211.5 | -256.8 |
| Other assets | 0 | 0 | 0 | -2,350.9 | -1,383.9 | 0.0 | -60.1 |
| Liabilities | 1,600 | 3,303 | 626 | 1,337.7 | 44.0 | 1,086.7 | 1,678.1 |
| Trade credits | -113 | -595 | -232 | 271.4 | -261.6 | 120.4 | 115.1 |
| Loans | 1,775 | 4,033 | 1,019 | 1,028.9 | 317.6 | 955.9 | 1,445.9 |
| Currencies and deposits | -2 | 2 | -2 | 1.1 | 34.9 | 12.3 | 119.3 |
| Other liabilities | -60 | -138 | -159 | 36.3 | -46.9 | -1.9 | -2.2 |
| D. Financial derivatives | 165 | -59 | -6 | 2.2 | -85.7 | -123.7 | 117.8 |
| E. Reserve assets | -3,320 | 2,194 | 738 | -336.7 | 596.1 | -198.6 | 365.6 |

*(*) Provisional figures.*

TABLE 18

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

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (5) |
|---|---|---|---|---|---|---|---|---|
| **I. Central Government** | **2,669** | **2,284** | **2,183** | **2,594** | **2,420** | **2,887** | **3,565** | **4,538** |
| 1. Short term | | | | | | | | |
| Money market instruments | | | | | | | | |
| Loans | | | | | | | | |
| Trade credits | | | | | | | | |
| Other debts | | | | | | | | |
| 2. Long term | 2,669 | 2,284 | 2,183 | 2,594 | 2,420 | 2,887 | 3,565 | 4,538 |
| Bonds and promissory notes (3) | | | | 500 | 500 | 1,145 | 2,098 | 3,146 |
| Loans | 2,669 | 2,284 | 2,183 | 2,094 | 1,920 | 1,742 | 1,467 | 1,392 |
| Trade credits | | | | | | | | |
| Other debts | | | | | | | | |
| **II. Monetary authorities** | **189** | **165** | **92** | **26** | **62** | **15** | **12** | **10** |
| 1. Short term | 186 | 162 | 89 | 24 | 60 | 13 | 11 | 9 |
| Money market instruments | | | | | | | | |
| Loans | | | | | | | | |
| Currencies and deposits | | | | | | | | |
| Other debts | 186 | 162 | 89 | 24 | 60 | 13 | 11 | 9 |
| 2. Long term | 3 | 3 | 3 | 2 | 2 | 2 | 1 | 1 |
| Bonds and promissory notes (3) | | | | | | | | |
| Loans | 3 | 3 | 3 | 2 | 2 | 2 | 1 | 1 |
| Currencies and deposits | | | | | | | | |
| Other debts | | | | | | | | |
| **III. Banks** | **3,619** | **2,506** | **2,785** | **2,038** | **1,758** | **2,527** | **3,825** | **5,432** |
| 1. Short term | 2,392 | 752 | 878 | 266 | 435 | 1,085 | 1,289 | 2,425 |
| Money market instruments | | | | | | | | |
| Loans | 2,384 | 746 | 870 | 260 | 428 | 1,043 | 1,234 | 2,251 |
| Currencies and deposits | 8 | 6 | 8 | 6 | 7 | 42 | 55 | 174 |
| Other debts | | | | | | | | |
| 2. Long term | 1,227 | 1,754 | 1,907 | 1,772 | 1,323 | 1,442 | 2,536 | 3,007 |
| Bonds and promissory notes (3) | | 400 | 600 | 600 | 600 | 600 | 595 | 598 |
| Loans | 1,227 | 1,354 | 1,307 | 1,172 | 723 | 842 | 1,941 | 2,409 |
| Currencies and deposits | | | | | | | | |
| Other debts | | | | | | | | |
| **IV. Other sectors (4)** | **16,438** | **20,372** | **23,216** | **25,781** | **27,640** | **28,161** | **28,848** | **29,179** |
| 1. Short term | 4,466 | 4,608 | 4,155 | 4,018 | 5,276 | 4,059 | 4,101 | 4,996 |
| Money market instruments | | | | | | | | |
| Loans | 438 | 692 | 834 | 929 | 1,865 | 875 | 668 | 1,302 |
| Currencies and deposits | | | | | | | | |
| Trade credits | 4,028 | 3,916 | 3,321 | 3,089 | 3,411 | 3,184 | 3,433 | 3,694 |
| Other debts | | | | | | | | |
| 2. Long term | 11,972 | 15,764 | 19,061 | 21,763 | 22,364 | 24,102 | 24,747 | 24,183 |
| Bonds and promissory notes (3) | 1,194 | 1,648 | 1,683 | 3,217 | 3,503 | 4,582 | 5,026 | 5,456 |
| Loans | 9,862 | 12,440 | 14,950 | 16,271 | 16,644 | 17,332 | 17,677 | 16,816 |
| Currencies and deposits | | | | | | | | |
| Trade credits | 916 | 1,676 | 2,428 | 2,275 | 2,217 | 2,188 | 2,044 | 1,911 |
| Other debts | | | | | | | | |
| **V. Direct investment: Loans between firms** | **3,357** | **3,707** | **4,315** | **4,319** | **5,297** | **4,948** | **4,706** | **4,232** |
| 1. Short term | 1 | | 8 | 9 | 401 | 133 | 422 | 157 |
| 2. Long term | 3,356 | 3,707 | 4,307 | 4,310 | 4,896 | 4,815 | 4,284 | 4,075 |
| **VI. Gross foreign debt** | **26,272** | **29,034** | **32,591** | **34,758** | **37,177** | **38,538** | **40,956** | **43,391** |

*(1) Nominal value, original maturity.*
*(2) Excludes accrued interest.*
*(3) Excludes bonds from resident issuers held by Chileans.*
*(4) See table "Gross foreign debt, other sectors"*
*(5) Preliminary figures to December.*

TABLE 19

## Gross foreign debt, other sectors (1) (2) (3)

(US$ million)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (5) |
|---|---|---|---|---|---|---|---|---|
| Total other sectors | 16.438 | 20.372 | 23.216 | 25.781 | 27.640 | 28.161 | 28.848 | 29.179 |
| 1. Non-bank financial firms | 171 | 343 | 417 | 174 | 163 | 102 | 104 | 102 |
| Short term | | | | | | | | |
| Money market instruments | | | | | | | | |
| Loans | | | | | | | | |
| Currencies and deposits | | | | | | | | |
| Other debts | | | | | | | | |
| Long term | 171 | 343 | 417 | 174 | 163 | 102 | 104 | 102 |
| Bonds and promissory notes (4) | | | | | | | | |
| Loans | 171 | 343 | 417 | 174 | 163 | 102 | 104 | 102 |
| Currencies and deposits | | | | | | | | |
| Other debts | | | | | | | | |
| 2. Non-financial firms | 16.187 | 19.966 | 22.717 | 25.527 | 27.429 | 28.034 | 28.716 | 29.034 |
| Short term | 4.465 | 4.607 | 4.154 | 4.017 | 5.275 | 4.058 | 4.098 | 4.992 |
| Money market instruments | | | | | | | | |
| Loans | 437 | 691 | 833 | 928 | 1.864 | 874 | 665 | 1.298 |
| Trade credits | 4.028 | 3.916 | 3.321 | 3.089 | 3.411 | 3.184 | 3.433 | 3.694 |
| Other debts | | | | | | | | |
| Long term | 11.722 | 15.359 | 18.563 | 21.510 | 22.154 | 23.976 | 24.618 | 24.042 |
| Bonds and promissory notes (4) | 1.194 | 1.648 | 1.683 | 3.217 | 3.503 | 4.582 | 5.026 | 5.456 |
| Loans | 9.612 | 12.035 | 14.452 | 16.018 | 16.434 | 17.206 | 17.548 | 16.675 |
| Trade credits | 916 | 1.676 | 2.428 | 2.275 | 2.217 | 2.188 | 2.044 | 1.911 |
| Other debts | | | | | | | | |
| 3. Households and non-profit institutions | 80 | 63 | 82 | 80 | 48 | 25 | 28 | 43 |
| Short term | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 4 |
| Money market instruments | | | | | | | | |
| Loans | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 4 |
| Trade credits | | | | | | | | |
| Other debts | | | | | | | | |
| Long term | 79 | 62 | 81 | 79 | 47 | 24 | 25 | 39 |
| Bonds and promissory notes (4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans | 79 | 62 | 81 | 79 | 47 | 24 | 25 | 39 |
| Trade credits | | | | | | | | |
| Other debts | | | | | | | | |

*(1) Nominal value, original maturity.*
*(2) Excludes accrued interest.*
*(3) These are the details, with more of a breakdown, of the "Other sectors" category from table 18 "Gross foreign debt, by institutional sector".*
*(4) Excludes bonds from resident issuers held by Chileans.*
*(5) Preliminary figures to December.*

TABLE 20

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

(US$ million)

| Item | Transactions January-December 2003 | | | Balance owing as of 31 December 2003 (2) |
|---|---|---|---|---|
| | Disbursements | Amortizations | Interest | |
| Central Government | 1,172 | 301 | 253 | 4,538 |
| Monetary authorities | | | | 1 |
| Banks | 2,426 | 1,954 | 67 | 3,007 |
| Other sectors | 2,940 | 3,233 | 781 | 24,183 |
| Direct investment: Loans between firms | 476 | 696 | 101 | 4,075 |
| Total | 7,014 | 6,184 | 1,202 | 35,804 |

*(1) Exchange rate for the month when movement or flow occurs. The balance is expressed using the exchange rate as of 31 December 2003.*

*(2) Balance as of 31 December 2003, compared to the balance as of 31 December 2002, increased US$143 million due to the foreign exchange effect and decreased by US$302 million in statistical corrections.*

TABLE 21

## Price indices

| Period | CPI (December 1998 = 100) | | | CPI less perishables and fuels (1) (December 1998 = 100) | | | WPI (June 1992 = 100) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Index | Percentage change | | Index | Percentage change | | Index | Percentage change | |
| | | Month | 12 months | | Month | 12 months | | Month | 12 months |
| 1995 Average | 81.6 | - | 8.2 (2) | - | - | - | 127.8 | - | 8.2 (2) |
| 1996 Average | 87.7 | - | 6.6 (2) | - | - | - | 135.8 | - | 3.1 (2) |
| 1997 Average | 93.0 | - | 6.0 (2) | 92.1 | - | - | 138.0 | - | 1.9 (2) |
| 1998 Average | 97.8 | - | 4.7 (2) | 97.4 | - | 6.2 (2) | 140.6 | - | 0.3 (2) |
| 1999 Average | 101.0 | - | 2.3 (2) | 101.3 | - | 2.1 (2) | 148.0 | - | 13.5 (2) |
| 2000 Average | 104.9 | - | 4.5 (2) | 104.1 | - | 3.4 (2) | 164.8 | - | 7.9 (2) |
| 2001 Average | 108.7 | - | 2.6 (2) | 107.4 | - | 3.2 (2) | 177.7 | - | 3.1 (2) |
| 2002 Average | 111.4 | - | 2.8 (2) | 110.2 | - | 1.8 (2) | 189.8 | - | 10.4 (2) |
| 2003 Average | 111.5 | - | 1.1 (2) | 110.2 | - | 1.6 (2) | 202.3 | - | -1.0 (2) |
| **2002** | | | | | | | | | |
| January | 109.7 | -0.1 | 2.2 | 109.2 | 0.1 | 3.3 | 178.1 | 0.4 | 3.9 |
| February | 109.7 | 0.0 | 2.5 | 109.3 | 0.1 | 3.4 | 179.0 | 0.5 | 4.6 |
| March | 110.3 | 0.5 | 2.6 | 109.9 | 0.5 | 3.3 | 181.3 | 1.3 | 6.1 |
| April | 110.7 | 0.4 | 2.5 | 109.8 | 0.0 | 3.1 | 185.5 | 2.3 | 6.5 |
| May | 110.8 | 0.1 | 2.1 | 110.0 | 0.2 | 3.0 | 185.6 | 0.1 | 5.0 |
| June | 110.6 | -0.1 | 2.0 | 109.9 | -0.1 | 2.7 | 185.3 | -0.2 | 4.9 |
| July | 111.1 | 0.4 | 2.6 | 110.0 | 0.1 | 2.5 | 191.0 | 3.0 | 7.1 |
| August | 111.5 | 0.4 | 2.2 | 110.2 | 0.2 | 2.2 | 193.3 | 1.2 | 5.6 |
| September | 112.5 | 0.8 | 2.3 | 110.6 | 0.3 | 2.0 | 198.1 | 2.5 | 6.7 |
| October | 113.5 | 0.9 | 3.0 | 111.0 | 0.4 | 2.0 | 205.1 | 3.5 | 10.9 |
| November | 113.4 | -0.1 | 3.0 | 111.0 | 0.0 | 1.8 | 199.7 | -2.6 | 9.6 |
| December | 112.9 | -0.4 | 2.8 | 111.0 | 0.1 | 1.8 | 195.8 | -1.9 | 10.4 |
| **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 |
| April | 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 |

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

*(2) December to December change.*

*Source: National Statistics Bureau.*

TABLE 22

## Consumer price indices

(December 1998 = 100)

| Period | General index | | Food | | Housing | | Housing furnishings | | Clothing | | Transportation | | Health care | | Education and recreation | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. | Index | Var.% 12 ms. |
| 1995 December | 84.5 | 8.2 | 87.4 | 9.0 | 84.3 | 7.1 | 87.8 | 7.1 | 114.6 | -5.5 | 82.8 | 11.4 | 77.7 | 11.4 | 72.7 | 11.4 | 75.2 | 10.0 |
| 1996 December | 90.1 | 6.6 | 91.0 | 4.1 | 91.6 | 8.6 | 91.8 | 4.6 | 109.3 | -4.7 | 90.8 | 9.6 | 85.0 | 9.5 | 82.3 | 13.1 | 80.6 | 7.2 |
| 1997 December | 95.5 | 6.0 | 99.4 | 9.2 | 95.8 | 4.6 | 96.2 | 4.7 | 100.1 | -8.4 | 92.9 | 2.3 | 92.5 | 8.8 | 92.8 | 12.8 | 82.1 | 1.9 |
| 1998 December | 100.0 | 4.7 | 100.0 | 0.6 | 100.0 | 4.4 | 100.0 | 4.0 | 100.0 | -0.1 | 100.0 | 7.7 | 100.0 | 8.1 | 100.0 | 7.8 | 100.0 | 21.8 |
| 1999 December | 102.3 | 2.3 | 101.0 | 1.0 | 101.5 | 1.5 | 99.0 | -1.1 | 96.0 | -4.0 | 109.8 | 9.8 | 104.9 | 4.9 | 104.3 | 4.3 | 100.6 | 0.6 |
| 2000 December | 106.9 | 4.5 | 100.9 | -0.1 | 111.6 | 9.9 | 96.4 | -2.6 | 88.0 | -8.3 | 131.2 | 19.5 | 110.2 | 5.1 | 108.8 | 4.3 | 97.0 | -3.6 |
| 2001 December | 109.8 | 2.6 | 102.9 | 2.0 | 115.5 | 3.5 | 96.4 | 0.1 | 83.8 | -4.8 | 136.9 | 4.4 | 115.6 | 4.9 | 114.1 | 4.9 | 96.9 | 0.0 |
| 2002 December | 112.9 | 2.8 | 106.6 | 3.5 | 120.2 | 4.1 | 96.4 | 0.0 | 80.7 | -3.8 | 141.7 | 3.5 | 121.2 | 4.8 | 118.0 | 3.4 | 93.7 | -3.3 |
| **2002** | | | | | | | | | | | | | | | | | | |
| January | 109.7 | 2.2 | 102.4 | 2.3 | 115.3 | 2.0 | 96.4 | 0.1 | 83.4 | -4.3 | 136.8 | 2.3 | 116.2 | 5.1 | 114.2 | 4.9 | 99.5 | 2.0 |
| February | 109.7 | 2.5 | 101.3 | 2.1 | 115.3 | 2.9 | 96.7 | 0.5 | 83.1 | -4.0 | 136.9 | 1.9 | 118.6 | 6.9 | 114.5 | 5.1 | 100.0 | 1.5 |
| March | 110.3 | 2.6 | 101.4 | 1.3 | 115.6 | 3.6 | 96.7 | 0.5 | 83.2 | -4.0 | 137.2 | 2.9 | 119.4 | 7.5 | 117.6 | 4.2 | 100.5 | 1.5 |
| April | 110.7 | 2.5 | 101.9 | 1.6 | 116.3 | 3.8 | 97.0 | 0.9 | 82.7 | -4.7 | 137.9 | 1.6 | 120.5 | 7.9 | 117.6 | 4.1 | 100.3 | 1.5 |
| May | 110.8 | 2.1 | 102.2 | 1.8 | 116.3 | 3.2 | 97.0 | 0.7 | 83.1 | -4.0 | 137.5 | -0.4 | 120.6 | 7.7 | 117.7 | 4.1 | 99.9 | 1.7 |
| June | 110.6 | 2.0 | 102.2 | 1.1 | 116.4 | 3.1 | 97.0 | 0.8 | 82.8 | -3.7 | 136.9 | 0.1 | 120.5 | 7.1 | 117.6 | 4.1 | 99.1 | 0.7 |
| July | 111.1 | 2.6 | 102.7 | 1.7 | 116.6 | 3.2 | 96.9 | 0.9 | 82.3 | -3.4 | 140.2 | 3.6 | 120.3 | 6.1 | 117.6 | 4.1 | 98.3 | 0.6 |
| August | 111.5 | 2.2 | 103.3 | 0.8 | 117.0 | 3.1 | 96.6 | 0.7 | 81.3 | -3.9 | 142.2 | 2.9 | 121.4 | 6.4 | 117.6 | 3.9 | 97.3 | -0.1 |
| September | 112.5 | 2.3 | 104.9 | 2.0 | 118.0 | 3.1 | 96.5 | 0.5 | 81.6 | -3.5 | 144.2 | 1.7 | 121.8 | 6.4 | 117.6 | 3.8 | 96.3 | -0.9 |
| October | 113.5 | 3.0 | 106.4 | 3.3 | 119.6 | 3.9 | 96.4 | 0.2 | 81.6 | -3.5 | 146.5 | 4.3 | 121.8 | 5.8 | 117.7 | 3.5 | 95.5 | -1.6 |
| November | 113.4 | 3.0 | 107.1 | 3.5 | 120.1 | 3.9 | 96.4 | -0.2 | 81.3 | -3.7 | 143.9 | 4.0 | 121.4 | 5.2 | 117.8 | 3.6 | 94.8 | -1.9 |
| December | 112.9 | 2.8 | 106.6 | 3.5 | 120.2 | 4.1 | 96.4 | 0.0 | 80.7 | -3.8 | 141.7 | 3.5 | 121.2 | 4.8 | 118.0 | 3.4 | 93.7 | -3.3 |
| **2003** | | | | | | | | | | | | | | | | | | |
| January | 113.0 | 3.0 | 105.9 | 3.4 | 120.8 | 4.8 | 96.4 | 0.0 | 79.6 | -4.6 | 144.9 | 5.9 | 119.9 | 3.2 | 118.2 | 3.5 | 93.6 | -6.0 |
| February | 113.9 | 3.8 | 105.5 | 4.1 | 122.3 | 6.1 | 96.2 | -0.5 | 78.7 | -5.3 | 149.1 | 8.9 | 123.0 | 3.7 | 118.1 | 3.1 | 93.5 | -6.5 |
| March | 115.2 | 4.5 | 105.9 | 4.5 | 124.1 | 7.3 | 96.0 | -0.7 | 79.1 | -4.9 | 152.4 | 11.1 | 123.3 | 3.2 | 121.5 | 3.3 | 94.1 | -6.4 |
| April | 115.1 | 4.0 | 106.2 | 4.3 | 123.1 | 5.9 | 96.0 | -1.0 | 79.2 | -4.2 | 152.0 | 10.2 | 123.4 | 2.4 | 121.7 | 3.5 | 94.0 | -6.3 |
| May | 114.7 | 3.5 | 106.5 | 4.2 | 122.8 | 5.6 | 95.9 | -1.1 | 79.1 | -4.8 | 147.8 | 7.5 | 124.2 | 3.0 | 121.8 | 3.5 | 93.9 | -6.0 |
| June | 114.7 | 3.6 | 106.9 | 4.6 | 123.0 | 5.7 | 95.7 | -1.4 | 78.6 | -5.1 | 146.2 | 6.8 | 125.0 | 3.7 | 122.1 | 3.8 | 94.0 | -5.1 |
| July | 114.6 | 3.1 | 107.2 | 4.3 | 122.9 | 5.4 | 95.6 | -1.4 | 77.9 | -5.3 | 146.2 | 4.3 | 124.5 | 3.6 | 121.9 | 3.6 | 93.7 | -4.7 |
| August | 114.8 | 2.9 | 107.5 | 4.1 | 122.7 | 4.9 | 95.2 | -1.4 | 77.1 | -5.2 | 147.9 | 4.0 | 124.7 | 2.8 | 121.9 | 3.6 | 93.3 | -4.1 |
| September | 115.0 | 2.2 | 106.9 | 1.9 | 122.7 | 4.0 | 95.0 | -1.6 | 77.5 | -5.0 | 148.8 | 3.2 | 126.2 | 3.6 | 122.1 | 3.9 | 95.5 | -0.9 |
| October | 114.8 | 1.2 | 106.6 | 0.2 | 124.0 | 3.7 | 94.8 | -1.6 | 77.5 | -5.0 | 145.6 | -0.6 | 126.8 | 4.1 | 122.1 | 3.8 | 95.4 | -0.1 |
| November | 114.4 | 1.0 | 106.4 | -0.7 | 124.1 | 3.3 | 94.6 | -1.9 | 77.2 | -5.1 | 143.3 | -0.5 | 127.1 | 4.7 | 122.1 | 3.7 | 95.3 | 0.6 |
| December | 114.1 | 1.1 | 105.7 | -0.8 | 123.9 | 3.0 | 94.1 | -2.4 | 77.0 | -4.6 | 142.2 | 0.3 | 127.0 | 4.8 | 122.6 | 3.9 | 95.7 | 2.0 |

*Source: National Statistics Bureau (INE).*

TABLE 23

## Hourly wage index

(April 1993 = 100)

| Period | Nominal | | | Real (*) | | |
|---|---|---|---|---|---|---|
| | Index | Percentage change | | Index | Percentage change | |
| | | Month | 12 months | | Month | 12 months |
| 1998 December | 190.0 | | 7.7 | 124.5 | | 2.9 |
| 1999 December | 199.0 | | 4.7 | 127.4 | | 2.4 |
| 2000 December | 209.5 | | 5.3 | 128.3 | | 0.7 |
| 2001 December | 220.5 | | 5.3 | 131.6 | | 2.6 |
| 2002 December | 229.4 | | 4.1 | 133.1 | | 1.2 |
| 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 |

*(*) Deflated using the consumer price index (CPI).*
*Source: National Statistics Bureau (INE).*

TABLE 24

## Labor cost index

(April 1993 = 100)

| Period | Nominal | | | Real (*) | | |
|---|---|---|---|---|---|---|
| | Index | Percentage change | | Index | Percentage change | |
| | | Month | 12 months | | Month | 12 months |
| 1998 December | 182.2 | | 7.8 | 119.4 | | 3.0 |
| 1999 December | 190.8 | | 4.7 | 122.2 | | 2.3 |
| 2000 December | 199.6 | | 4.6 | 122.2 | | 0.1 |
| 2001 December | 210.3 | | 5.4 | 125.5 | | 2.6 |
| 2002 December | 218.8 | | 4.1 | 127.0 | | 1.2 |
| 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 |

*(*) Deflated using the consumer price index.*

*Source: National Statistics Bureau (INE).*

TABLE 25

## Real wage increase resulting from collective bargaining (1)

(Percent)

| Period | Unions | Other groups | Total |
|---|---|---|---|
| **2002** | | | |
| January-March | 0.57 | 1.44 | 0.81 |
| April-June (2) | 0.92 | 0.56 | 0.85 |
| July-September (2) | 0.25 | 0.66 | 0.33 |
| October-December (2) | 0.50 | 0.81 | 0.52 |
| **2003** | | | |
| January-March | 1.32 | 0.69 | 1.25 |
| April-June (2) | 1.32 | 0.69 | 1.21 |
| July-September (2) | 0.80 | 1.49 | 0.93 |
| October-December (2) | 0.88 | 0.25 | 0.80 |

*(1) Provisional figures.*

*(2) Estimates.*

*Source: Labor Bureau.*

TABLE 26

## Central Bank of Chile balance sheet

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

| Item | 2002 | 2003 | Structure of assets and liabilities (%) 2002 | 2003 | Average 2003 (1) |
|---|---|---|---|---|---|
| Assets | 17,757 | 15,807 | 100.0 | 100.0 | 100.0 |
| Net international reserves | 10,936 | 9,501 | 61.6 | 60.1 | 62.6 |
| Net Treasury promissory notes | 4,504 | 3,501 | 25.4 | 22.1 | 24.5 |
| Other public sector assets | 565 | 588 | 3.2 | 3.7 | 3.3 |
| Subordinated debt (shares and credit) | 892 | 924 | 5.0 | 5.8 | 5.2 |
| Deferred loss | 379 | 383 | 2.1 | 2.4 | 2.2 |
| Liquidity credit line and repos | 209 | 645 | 1.2 | 4.1 | 0.7 |
| Other assets | 271 | 265 | 1.5 | 1.7 | 1.5 |
| Liabilities | 16,880 | 16,351 | 100.0 | 100.0 | 100.0 |
| Monetary policy promissory notes | 13,401 | 12,972 | 79.4 | 79.3 | 75.4 |
| Other promissory notes with secondary market | 112 | 88 | 0.7 | 0.5 | 1.1 |
| Checking accounts and float in foreign currency | 236 | 37 | 1.4 | 0.2 | 0.7 |
| Treasury and other public sector deposits | 493 | 127 | 2.9 | 0.8 | 8.1 |
| Other non-monetary base liabilities | 655 | 1,034 | 3.9 | 6.3 | 4.8 |
| Monetary base | 1,983 | 2,094 | 11.7 | 12.8 | 10.0 |
| Equity | 877 | -545 | | | |
| Revalued initial capital | 258 | 886 | | | |
| Nominal initial capital | 250 | 877 | | | |
| Revalued own capital | 8 | 9 | | | |
| Net results | 619 | -1,431 | | | |
| Non-financial results | -27 | -24 | | | |
| Net interest (2) | -353 | -285 | | | |
| Net indexing and other changes in value (3) | 1,007 | -1,112 | | | |
| Less: revaluation own capital | -8 | -9 | | | |

*(1) Over average end-of-month balances from December 2002 to December 2003, inclusive.*

*(2) Foreign currency interest and other profits converted to pesos using average exchange rates.*

*(3) Includes indexing in domestic currency, the effect of foreign exchange rate fluctuations on foreign currency assets and liabilities and, as of 2002, amortization of -204 billion pesos in deferred losses.*

TABLE 27

## Operating expenditures

(As of 31 December of each year)

| Item | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Operating expenditures (1) | | | | | |
| Personnel | 13,290.4 | 13,898.9 | 13,415.3 | 13,223.9 | 14,934.4 |
| Administration | 4,225.2 | 4,282.3 | 5,069.2 | 7,156.6 | 8,106.3 |
| Depreciation, amortization and write-offs | 1,251.5 | 1,469.6 | 1,362.1 | 1,443.6 | 1,289.4 |
| Taxes, contributions and payments | 476.9 | 455.2 | 483.2 | 474.2 | 505.5 |
| **Total** | **19,244.0** | **20,106.0** | **20,329.8** | **22,298.3** | **24,835.6** |
| Operating expenditures (2) | | | | | |
| Personnel | 15,058.0 | 15,163.7 | 14,139.7 | 13,594.2 | 14,934.4 |
| Administration | 4,787.2 | 4,672.0 | 5,342.9 | 7,357.0 | 8,106.3 |
| Depreciation, amortization and write-offs | 1,418.0 | 1,603.3 | 1,435.7 | 1,484.0 | 1,289.4 |
| Taxes, contributions and payments | 540.3 | 496.6 | 509.3 | 487.5 | 505.5 |
| **Total** | **21,803.5** | **21,935.6** | **21,427.6** | **22,922.7** | **24,835.6** |

*(1) Millions of each year's pesos.*

*(2) Millions of 2003 pesos. The average change in each year's CPI was used to update figures from previous years.*

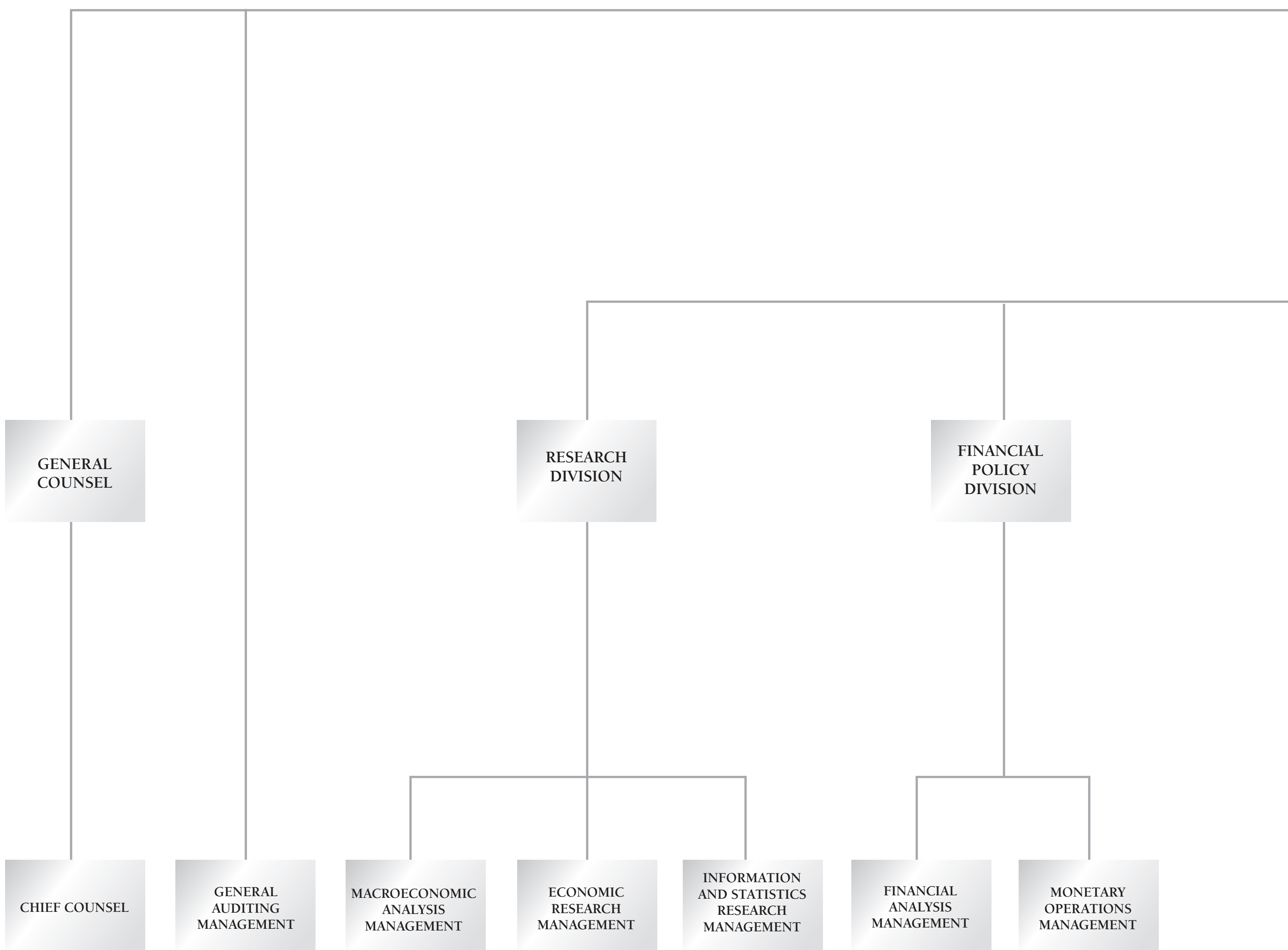
TABLE 28

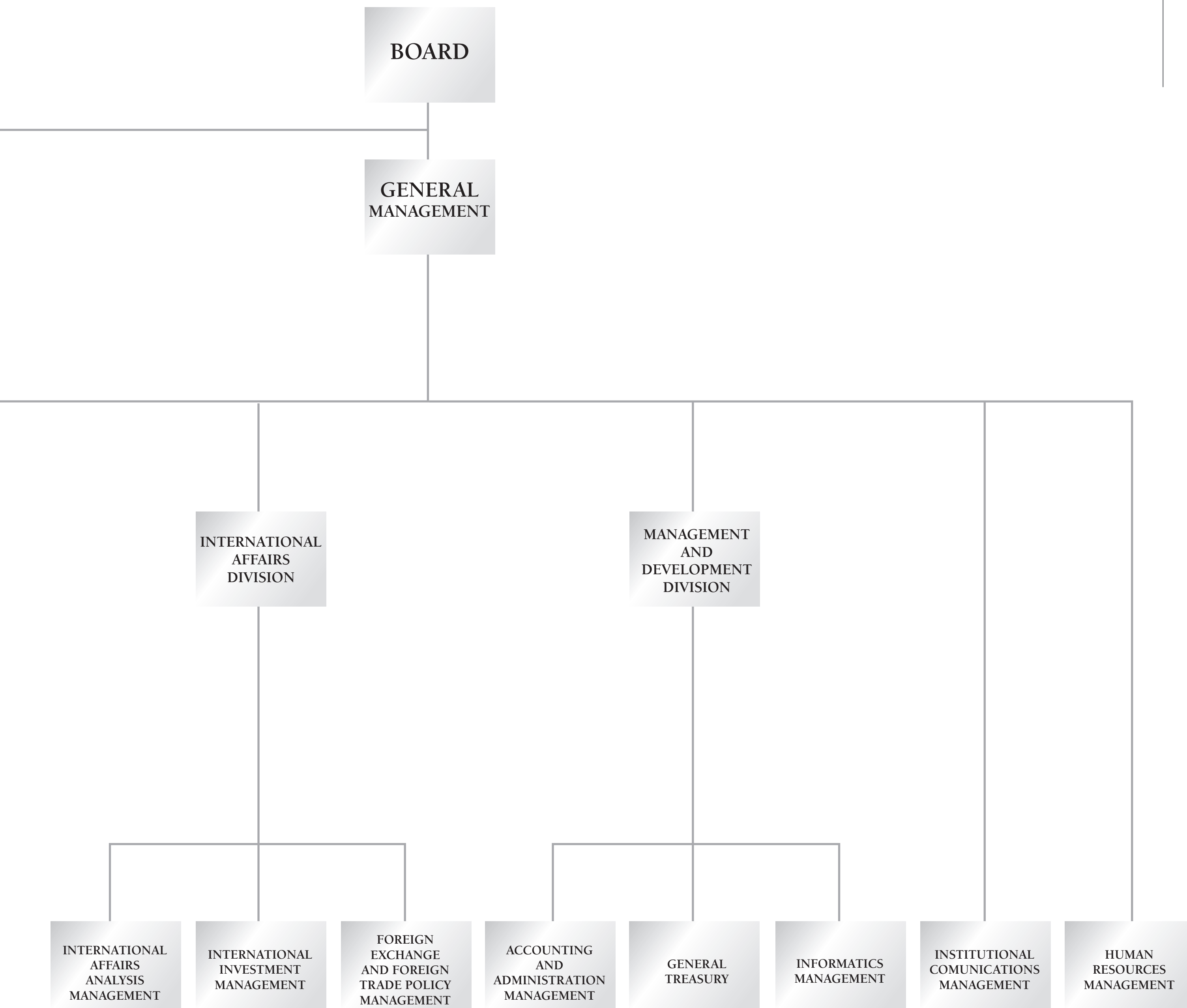
## Itemization of main operating expenditures

(Millions of 2003 pesos)

| Item | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Personnel expenditures | | | | | |
| Wages and employer contributions | 11,828.3 | 11,894.2 | 10,993.4 | 11,469.5 | 12,100.0 |
| Personnel benefits | 1,733.4 | 1,759.3 | 1,701.0 | 1,664.5 | 1,680.4 |
| Training | 125.9 | 117.8 | 137.0 | 162.9 | 188.3 |
| Provisions for years of service severance pay | 1,370.5 | 1,392.4 | 1,308.5 | 297.3 | 965.8 |
| **Total** | **15,058.1** | **15,163.7** | **14,139.9** | **13,594.2** | **14,934.5** |
| Administrative expenditures | | | | | |
| Basic services | 506.8 | 537.3 | 524.3 | 569.1 | 545.7 |
| General services | 2,163.6 | 2,186.0 | 2,602.9 | 2,787.4 | 2,881.3 |
| Spending on computers and technological development | 1,453.7 | 1,273.8 | 1,489.2 | 1,756.5 | 3,675.6 |
| Consultants, surveys, studies and seminars | 663.1 | 674.9 | 726.6 | 2,244.0 | 1,003.7 |
| **Total** | **4,787.2** | **4,672.0** | **5,343.0** | **7,357.0** | **8,106.3** |

# II. Organizational structure of the Central Bank of Chile as of 31 December 2003


GENERAL COUNSEL
RESEARCH DIVISION
FINANCIAL POLICY DIVISION
CHIEF COUNSEL
GENERAL AUDITING MANAGEMENT
MACROECONOMIC ANALYSIS MANAGEMENT
ECONOMIC RESEARCH MANAGEMENT
INFORMATION AND STATISTICS RESEARCH MANAGEMENT
FINANCIAL ANALYSIS MANAGEMENT
MONETARY OPERATIONS 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
ACCOUNTING AND ADMINISTRATION MANAGEMENT
GENERAL TREASURY
INFORMATICS MANAGEMENT
INSTITUTIONAL COMUNICATIONS MANAGEMENT
HUMAN RESOURCES MANAGEMENT

# III. Financial statements of the Central Bank of Chile

## Balance sheets as of 31 December

(Millions of Chilean pesos)

| Assets | 2003 | 2002 |
|---|---|---|
| **Foreign Assets** | **9,649,310.9** | **11,177,762.2** |
| **Reserve assets** | **9,501,545.5** | **11,045,194.9** |
| Monetary gold | 1,636.4 | 1,635.7 |
| Special drawing rights (SDR) | 27,339.0 | 26,271.1 |
| Reserve position in the IMF | 349,006.5 | 352,724.1 |
| Foreign exchange | 9,117,766.2 | 10,658,633.7 |
| Other assets | 5,797.4 | 5,930.3 |
| **Other foreign assets** | **147,765.4** | **132,567.3** |
| Shares and contributions to IDB | 110,442.0 | 132,567.3 |
| Bank of International Settlements (BIS) Shares | 37,323.4 | - |
| **Domestic Assets** | **5,743,220.8** | **6,341,523.4** |
| **Domestic loans** | **5,743,220.8** | **6,341,523.4** |
| Loans to state-owned companies | 5,237.4 | 7,070.0 |
| Loans to *BancoEstado* | 173,978.3 | 122,972.5 |
| Loans to commercial banks | 526,692.4 | 168,740.8 |
| Loans to other institutions | 420,137.2 | 399,671.9 |
| Treasury transfers (Laws 18,267, 18,401 and 18,768) | 3,693,366.9 | 4,742,148.4 |
| Loans for subordinated obligations of financial institutions (Laws 18,401 and 19,396) | 923,808.6 | 900,919.8 |
| **Other Assets** | **441,935.3** | **645,727.2** |
| Bank premises and equipment, net | 16,876.8 | 16,331.0 |
| Temporary assets | 38,361.7 | 242,596.5 |
| Other securities | 386,696.8 | 386,799.7 |
| **Total Assets** | **15,834,467.0** | **18,165,012.8** |

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

(Continued from previous page)

| Liabilities | 2003 | 2002 |
|---|---|---|
| **Foreign Liabilities** | **231,055.0** | **274,967.8** |
| Reciprocal loan agreements | 5,454.8 | 8,164.5 |
| Loans | 1,004.0 | 1,439.0 |
| Accounts with international organizations | 116,100.8 | 146,141.1 |
| Special drawing rights (SDR) allocations | 108,495.4 | 119,223.2 |
| **Domestic Liabilities** | **16,139,477.3** | **16,996,011.4** |
| **Currency issuance** | **2,094,416.8** | **2,002,992.1** |
| Banknotes and coins in circulation | 1,917,725.4 | 1,804,048.1 |
| Deposits from financial institutions (domestic currency) | 176,691.4 | 198,944.0 |
| **Deposits and obligations** | **944,680.9** | **768,041.1** |
| Deposits and obligations with the Treasury | 126,434.3 | 497,029.7 |
| Other deposits and obligations | 818,246.6 | 271,011.4 |
| **Instruments issued by Central Bank of Chile** | **13,100,379.6** | **14,224,978.2** |
| Indexed promissory notes payable in coupons (PRC) | 3,827,183.1 | 4,652,114.3 |
| Central Bank bonds in US dollars (BCD) | 2,129,741.4 | 1,036,693.1 |
| Central Bank discountable promissory notes (PDBC) | 2,017,000.0 | 3,012,830.0 |
| Central Bank bonds in Chilean pesos (BCP) | 1,520,029.1 | 377,489.7 |
| Indexed promissory notes in US dollars (PRD) | 1,115,438.4 | 2,648,312.2 |
| Central Bank bonds in UF (BCU) | 929,935.6 | 229,062.4 |
| Indexed coupons (CERO) in indexed units UF | 899,415.2 | 1,160,883.9 |
| Indexed coupons (CERO) in US dollars | 373,244.1 | 597,563.5 |
| Promissory notes in US dollars (PCX) | 141,636.0 | - |
| Commercial notes from redenomination of foreign debt securities | 87,904.9 | 113,118.8 |
| Coupons issued in US dollars (XERO) | 56,386.2 | - |
| Deposit certificates in US dollars, Resolution 1649 | 2,444.4 | 3,682.7 |
| Promissory notes issued for exchange rate differential | 21.2 | 21.3 |
| Promissory notes in indexed units UF (Resolution 990 for redemption of promissory notes Resolution 1836) | - | 329,854.8 |
| Central Bank indexed promissory notes (PRBC) | - | 60,881.6 |
| Promissory notes in indexed units UF (Resolution 1836 from certificates in US dollars) | - | 1,372.6 |
| Floating interest rate promissory notes (PTF) | - | 1,097.3 |
| **Other liabilities** | **8,688.5** | **8,247.1** |
| Provisions | 8,415.6 | 8,040.5 |
| Other securities | 272.9 | 206.6 |
| **Capital and reserve** | **(544,753.8)** | **885,786.5** |
| Capital | 885,786.5 | 260,180.7 |
| Net surplus (deficit) for the year | (1,430,540.3) | 625,605.8 |
| **Total Liabilities** | **15,834,467.0** | **18,165,012.8** |

## Statements of Income for the years ended as of 31 December

(Millions of pesos)

| Operating results | 2003 | 2002 |
|---|---|---|
| **Operating Income** | **807,916.3** | **2,435,884.0** |
| Interest earned and accrued | 474,434.0 | 660,321.4 |
| Indexation earned and accrued | 17,657.4 | 84,094.1 |
| Income on price differences | 123,397.6 | 146,797.3 |
| Foreign exchange earnings | 188,322.6 | 1,544,014.1 |
| Other operating income | 4,104.7 | 657.1 |
| **Operating Expenses** | **(2,215,021.9)** | **(1,600,853.2)** |
| Interest paid and accrued | 726,177.2 | 742,756.0 |
| Indexation paid and accrued | (647,336.4) | 478,331.7 |
| Loss due to price differences | 126,037.0 | 300,883.4 |
| Exchange rate losses | 2,004,643.0 | 70,692.1 |
| Other operating expenses | 5,501.1 | 8,190.0 |
| **Gross margin** | **(1,407,105.6)** | **835,030.8** |
| **Other Operating Expenses** | **(24,835.6)** | **(22,521.3)** |
| Personnel expenses | 14,934.4 | 13,356.1 |
| Administrative expenses | 8,106.3 | 7,228.2 |
| Depreciation, amortization and write-offs | 1,289.4 | 1,458.0 |
| Taxes, rates and contributions | 505.5 | 479.0 |
| Income before provisions and write-offs | (1,431,941.2) | 812,509.5 |
| Provisions and write-offs | - | (206,396.6) |
| **Net margin (Total operating income)** | **(1,431,941.2)** | **606,112.9** |
| **Non-Operating results** | **494.9** | **405.3** |
| Non-operating income | 503.3 | 451.9 |
| Non-operating expenses | (8.4) | (46.6) |
| Income before price-level restatement | (1,431,446.3) | 606,518.2 |
| Price-level restatement | 906.0 | 19,087.6 |
| **Surplus (deficit) for the year** | **(1,430,540.3)** | **625,605.8** |

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

# Notes to the Financial Statetments

## 1. Incorporation and objetive of the entity

The Central Bank of Chile was incorporated on 21 August, 1925 by Decree Law 486. The Bank is an autonomous organization, of Constitutional rank, of a technical nature, with legal status, its own equity and indefinite duration, governed by Basic Constitutional Act 18,840 and its modifications.

The Bank's objective is to ensure stability of both the currency and the normal operation 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 principles

### a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with generally accepted accounting principles in Chile ("Chile GAAP") and policies set forth by the Board of the Central Bank of Chile, upon approval of the Chilean Superintendence 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 generally accepted accounting principles in Chile, 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 2002 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November, 2002 and 30 November, 2003, amounting to 1.0%.

### b) Exchange rates used

Assets and liabilities denominated in foreign currency are translated into Chilean pesos at the "observed dollar" pursuant to Article 44 of the Basic Constitutional Act, exchange rate 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 coins 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 the US dollar is made at the exchange rates published daily by Central Bank of Chile, in the Official Gazette, which are always based upon the "observed dollar" rate.

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

| | 2003 Ch$ | 2002 Ch$ |
|---|---|---|
| US Dollar (observed exchange rate) | 599.42 | 712.38 |
| Pound Sterling | 1,062.61 | 1,142.18 |
| Euro | 748.81 | 741.75 |
| Special Drawing Rights (SDR) | 887.51 | 964.97 |

### c) Shares and contributions to the Interamerican Development Bank (IDB) and contributions to the International Monetary Fund (IMF)

Shares issued by and contributions made to the IDB, and contributions to the IMF, on behalf of the Chilean Treasury, are valued at purchase or contribution cost, plus restatements, where applicable.

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

### d) Bank of International Settlements (BIS) shares

During this period, 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 of 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 were 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 or 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 dates, 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) include 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 provisions 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 in order to absorb any such losses...".

Deferred losses amount to Ch$383,293.6 million as of 31 December, 2003, (Ch$383,293.6 million in 2002) and are shown under Other securities of the group in Other asset accounts. During 2003, no provision was established for this concept (during 2002, a provision of Ch$206,388,9 million was established).

### h) Loan provisions

The Bank has not established provisions on loans in 2003 and 2002. The balance of provisions amounts to Ch$10,093.9 million (Ch$12,103.4 million in 2002), net of the corresponding assets. The decrease in 2003 and the increase in 2002 is due to the variation in the exchange rate as contrasted with variations in the foreign currency provisions.

### i) Bank premises and equipment

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

### j) Severance indemnities

Severance indemnities have been determined using the present value method (accrued cost of the benefit), with an annual 6% interest rate (8% in 2002). The total provision amount as of year-end is Ch$7,360.8 million (Ch$7,005.3 million in 2002).

### k) Staff vacation provision

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. Income statement account balances in local currency, except for depreciation and price-level restatement, have not been price-level restated. The net effect of applying price-level restatement, is shown as a credit to income of Ch$906.0 million in 2003 (Ch$19,087.6 million in 2002).

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

## 3. Reserve assets

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

| | (US$ million) | |
|---|---|---|
| | 2003 | 2002 |
| Monetary gold | 2.7 | 2.3 |
| Special Drawing Rights (SDR) | 45.6 | 36.5 |
| Reserve position in the IMF | 582.2 | 490.2 |
| Foreign currencies: | | |
| Coins and deposits | 7,927.1 | 7,534.8 |
| Bonds issued by governments, organizations and foreign banks | 4,873.5 | 4,855.6 |
| Commercial papers | 254.6 | 1,242.5 |
| Euronotes | - | 452.0 |
| Foreign government treasury bills | 1,007.5 | 343.4 |
| Floating rate bills | 609.6 | 264.2 |
| Other foreign investment instruments | 538.7 | 121.4 |
| Other Assets: | | |
| Reciprocal loan agreements | 9.7 | 8.2 |
| Total reserve assets | 15,851.2 | 15,351.1 |

## 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$1,126,045.3 million in 2003 (Ch$698,455.2 million in 2002), is detailed below:

| | (Millions of Ch$) | |
|---|---|---|
| | 2003 | 2002 |
| Receivables from *CORFO* (note 5) | 1,462.6 | 1,614.5 |
| Credit lines on debt restructuring | 25,591.7 | 33,622.7 |
| Mortgage loan portfolio acquired | 1,532.0 | 8,914.5 |
| Liquidity credit lines | 2,600.3 | 10,101.7 |
| Credit lines to finance the sale of mortgage portfolio of former *ANAP* | 28,255.0 | 36,609.6 |
| Credit lines for programs of international organizations | 3,184.8 | 4,471.7 |
| Credit lines for deposits (Resolution 1686) | 446.1 | 1,155.9 |
| Former *Caja Central de Ahorros y Préstamos* and former *ANAP* (note 6) | 420,137.2 | 399,671.9 |
| Purchase of Central Bank of Chile promissory notes with resale agreement | 642,192.0 | 201,134.7 |
| Other | 643.6 | 1,158.0 |
| Total | 1,126,045.3 | 698,455.2 |

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

The balance 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 the 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* is amortizing such debt by transferring securities recovered from shareholders, to be the assigned as shares transferred to the corresponding financial institutions. As of 31 December, 2003, the balance of accounts receivable from *CORFO* amounted to Ch$1,462.6 million (Ch$1,614.5 million in 2002), 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, 2003 amounted to Ch$192,806.6 million, equivalent to UF11.4 million (Ch$192,710.4 million in 2002, 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* and *Asociación Nacional de Ahorro y Préstamo*

Law 18,900 dated 16 January, 1990 ceased the legal existence of *Caja Central de Ahorros y Préstamos* and the authorization for the existence of *Asociación Nacional de Ahorro y Préstamo (ANAP)*, and established the procedure through which the respective 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 *Caja Central de Ahorros y Préstamos* 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, 2003, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, amounted to Ch$420,137.2 million, of which Ch$387,019.1 million correspond to direct loans granted by the Bank and Ch$33,118.1 million to credit lines for international organizations programs (Ch$399,671.9 million in 2002, of which Ch$368,516.2 million correspond to direct loans granted by Central Bank of Chile and Ch$31,155.7 million to credit lines or international organization programs) and are shown under the caption "Loans to other institutions".

## 7. Treasury transfers

Treasury transfers, included under Domestic Loans, the following:

| | (Millions of Ch$) | |
|---|---|---|
| | 2003 | 2002 |
| Treasury promissory notes Law 18.267 | 284,985.8 | 338,428.2 |
| Treasury promissory notes Law 18.768 | 3,215,574.5 | 4,211,009.8 |
| Treasury transfers Law 18.401 | 192,806.6 | 192,710.4 |
| **Total** | **3,693,366.9** | **4,742,148.4** |

### 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, stated in indexed units (UF) with a 1% annual interest rate, capitalized and amortized on a semi-annual basis with a five-year grace period.The last installment matures on 15 December, 2008.

### b) Treasury promissory notes Law 18,768

This item corresponds to promissory notes denominated and payable in US dollars, accruing an annual interest rate of LIBOR plus 0.5 points, of which 2% is payable semi-annually and the balance is capitalized. The last installment matures on 15 December, 2014.

Law 19,774 on public sector budgets was published in the Official Gazette on 4 December, 2001. Article 21 of this law states: "The President of the Republic is authorized to substitute the promissory notes issued in virtue of Article 75 of Law 18,768, through one or more supreme decrees from the Ministry of Finance, for other documents in Chilean pesos issued by the Treasury, which will retain the originally scheduled semi-annual maturity dates. The substitution procedure, interest rate, capitalization regime and other characteristics, conditions and types of those promissory notes will be determined in the respective decree".

### c) Treasury transfer Law 18,401

This item 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 aforementioned law, as detailed in note 5.

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

## 8. Subordinated obligation

The balances as of each year-end account for 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, the parent company of *Banco de Chile*, formerly *Banco de Chile*, agreed to the assignment of the contract to *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, based on paragraphs three and five of the aforementioned law. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments starting 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:

| Denomination | (Millions of Ch$) 2003 | 2002 |
|---|---|---|
| $ 20,000 | 383,600.0 | 334,529.5 |
| $ 10,000 | 1,098,025.3 | 1,055,619.9 |
| $ 5,000 | 182,292.4 | 173,293.2 |
| $ 2,000 | 55,261.9 | 47,058.9 |
| $ 1,000 | 86,433.6 | 83,790.3 |
| $ 500 | 5,416.6 | 7,764.0 |
| Coins | 106,695.6 | 101,992.3 |
| Total | 1,917,725.4 | 1,804,048.1 |

## 10. Deposits and loan obligations

Other deposits and loan obligations as of 31 December, 2003 and 2002, includes the following items:

| | (Millions of Ch$) 2003 | 2002 |
|---|---|---|
| Foreign currency current accounts | 36,576.3 | 239,515.0 |
| Deposits in foreign currency, Resolutions 1657 and 1686 | 270.9 | 1,112.9 |
| Short-term deposits | 780,324.6 | 29,462.5 |
| Current accounts in domestic currency | 1,074.8 | 921.0 |
| Total | 818,246.6 | 271,011.4 |

## 11. Future maturities of instruments issued by Central Bank of Chile, as of 31 December, 2003 and 2002

| Type of document | Up to 90 Days | 91 to 180 Days | 181 days to 1 year | (Millions of Ch$) over 1 year to 3 years | over 3 years | Total 2003 | Total 2002 |
|---|---|---|---|---|---|---|---|
| Indexed promissory notes payable in coupons (PRC) | 233,378.2 | 195,941.1 | 350,077.1 | 1,237,750.3 | 1,810,036.4 | 3,827,183.1 | 4,652,114.3 |
| Central Bank bonds in US dollars (BCD) | 24,313.9 | 7,247.7 | 755,269.2 | 869,368.8 | 473,541.8 | 2,129,741.4 | 1,036,693.1 |
| Central Bank discountable promissory notes (PDBC) | 1,647,000.0 | 170,000.0 | 200,000.0 | - | - | 2,017,000.0 | 3,012,830.0 |
| Central Bank bonds in Chilean pesos (BCP) | 30,810.0 | 219.1 | 770,000.0 | 274,000.0 | 445,000.0 | 1,520,029.1 | 377,489.7 |
| Central Bank Promissory notes indexed in US dollars (PRD) | 70,342.6 | 7,379.9 | 620,219.9 | 417,496.0 | - | 1,115,438.4 | 2,648,312.2 |
| Central Bank bonds in indexed units UF (BCU) | 14,870.2 | 124.8 | - | - | 914,940.6 | 929,935.6 | 229,062.4 |
| Indexed coupons (CERO) in UF | 31,815.2 | 38,852.0 | 55,222.5 | 163,220.7 | 610,304.8 | 899,415.2 | 1,160,883.9 |
| Indexed coupons (CERO) in US dollars | 6,987.5 | 25,115.5 | 216,390.9 | 124,750.2 | - | 373,244.1 | 597,563.5 |
| Central Bank indexed promissory notes in US dollars (PCX) | 25,919.7 | 31,617.6 | 84,098.7 | - | - | 141,636.0 | - |
| Commercial notes from redenomination of foreign debt securities | 9,724.5 | - | - | 78,180.4 | - | 87,904.9 | 113,118.8 |
| Coupons in US dollars (XERO) | 622.7 | 15,367.0 | 40,396.5 | - | - | 56,386.2 | - |
| Deposit certificates expressed in US dollars, Resolution 1649 | - | - | 621.3 | 1,215.3 | 607.8 | 2,444.4 | 3,682.7 |
| Exchange differential promissory notes | 21.2 | - | - | - | - | 21.2 | 21.3 |
| Promissory notes in UF (Resolution 990 for exchange of promissory notes Resolution 1836) | - | - | - | - | - | - | 329,854.8 |
| Central Bank indexed promissory notes (PRBC) | - | - | - | - | - | - | 60,881.6 |
| Other notes issued | - | - | - | - | - | - | 2,469.9 |
| Total notes issued | 2,095,805.7 | 491,864.7 | 3,092,296.1 | 3,165,981.7 | 4,254,431.4 | 13,100,379.6 | 14,224,978.2 |
| Total 2002 | 2,767,304.9 | 656,652.8 | 1,908,274.6 | 4,912,577.9 | 3,980,168.0 | - | 14,224,978.2 |

The balances include accrued interest and adjustments as of 31 December, 2003 and 2002.

Transitory assets include discounts granted but not accrued, net of the price difference received but not accrued originating from other documents issued in the amount of Ch$38,361.7 million in 2003 (Ch$242,251.8 million in 2002).

## 12. Capital and reserves

Changes in capital and reserves during 2003 and 2002 were as follows:

| | (Millions of Ch$) | | |
|---|---|---|---|
| | Capital | Income for the year | Total |
| Balances as of 1 January, 2002 | (737,649.9) | 987,751.5 | 250,101.6 |
| Distribution of the 2001 surplus | 987,751.5 | (987,751.5) | - |
| Price-level restatement on equity | 7,503.0 | - | 7,503.0 |
| Surplus for the year | - | 619,411.7 | 619,411.7 |
| Balances as of 31 December 2002 | 257,604.6 | 619,411.7 | 877,016.3 |
| Balances as of 31 December 2002 Restated for comparison purposes | 260,180.7 | 625,605.8 | 885,786.5 |
| Balances as of 1 January, 2003 | 257.604,6 | 619.411,7 | 877,016.3 |
| Distribution of 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) |

Article 5 of the Basic Constitutional Act of the Central Bank of Chile (Law 18,840) established start-up capital for the Bank at Ch$500,000 million (Ch$1,562,792.3 million restated as of 31 December, 2003), to be paid according to Interim Article 2 of the aforementioned law.

In accordance with Article 77 of 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 a certain period will be absorbed with charge to paid-in capital.

As of 31 December, 2003, the Bank has a shareholders' equity deficit amounting to Ch$544,753.8 million (surplus amounting to Ch$885,786.5 million in 2002).

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

## 13. Monetary base and international reserve assets variations

In conformity with note 2 a) and in consideration of the Bank's unique operations, starting 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: Central Bank of Chile Bank liabilities that form part of money, or otherwise contribute to the formation of monetary aggregates including freely circulating bills, 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 direct financing payment imbalances, for indirectly regulating such imbalances through exchange market intervention and for other purposes.

| Variations in monetary base | | |
|---|---|---|
| | (Millions of Ch$) | |
| | 2003 | 2002 |
| Price-level restated on beginning balance of issuance | 2,002,992.1 | 1,959,988.8 |
| Increase in issuance | | |
| Operations with international organizations | 11,462.8 | 93,350.3 |
| Domestic loans | 394,794.8 | - |
| Interest and indexation paid for instruments issued | 743,519.7 | 1,450,060.5 |
| Instruments issued by Central Bank of Chile | 49,150.9 | - |
| Deposits and obligations | - | 200,607.0 |
| Other operating expenses | 324.9 | 5,290.9 |
| Operating support expenses | 17,266.8 | 18,143.0 |
| Total increase | 1,216,519.9 | 1,767,451.7 |
| Decrease of issuance | | |
| Instruments issued by Central Bank of Chile | - | (485,093.1) |
| Domestic loans | - | (965,071.5) |
| Interest and indexation received for domestic loans | (69,679.6) | (122,441.8) |
| Deposits and obligations | (624,020.2) | - |
| Other assets | - | (6,543.4) |
| Net sale of foreign currencies | (411,563.8) | (88,211.6) |
| Total decrease | (1,105,263.6) | (1,667,361.4) |
| Change in currency issuance for the year | 111,256.3 | 100,090.3 |
| Effect of price-level restatement on beginning balance of issuance | (19,831.6) | (57,087.0) |
| Ending balance of issuance | 2,094,416.8 | 2,002,992.1 |

| Net variation in international reserves | | |
|---|---|---|
| | (US$ million ) | |
| | 2003 | 2002 |
| Beginning reserves balance | 15,351.1 | 14,386.8 |
| Reserve increase | | |
| Domestic loans | 0.7 | 0.6 |
| Other assets | - | 0.1 |
| Other liabilities | 0.2 | - |
| Other foreign liabilities | 89.7 | - |
| Interest received for deposits and other investments abroad | 685.3 | 672.3 |
| Total increase | 775.9 | 673.0 |
| Reserve decrease | | |
| Deposits and obligations | (86.7) | (269.3) |
| Instruments issued | - | (1.0) |
| Other liabilities | - | (0.2) |
| Other foreign liabilities | - | (0.3) |
| Interest paid for foreign liabilities | - | (0.3) |
| Other foreign assets | (209.8) | - |
| Foreign assets | (1.5) | - |
| Other operating expenses | - | (2.5) |
| Operating support expenses | (5.8) | (3.8) |
| Net sale of foreign currencies | (746.8) | (133.9) |
| Total decrease | (1,050.6) | (411.3) |
| Changes in reserves during the year | (274.7) | 261.7 |
| Effect of exchange rate | 774.8 | 691.3 |
| Reciprocal credit agreements | - | 11.3 |
| Final reserves balance | 15,851.2 | 15,351.1 |

## 14. Balances in foreign currency

Rights and obligations paid in foreign currency included in the balance sheet as of 31 December, 2003 and 2002 are as follows:

| | (US$ million) 2003 | 2002 |
|---|---|---|
| Assets | | |
| Foreign assets | 15,806.5 | 15,163.8 |
| Reserves | 15,560.0 | 15,127.1 |
| Other foreign assets | 246.5 | 36.7 |
| Domestic assets | 5,365.5 | 5,854.0 |
| Domestic loans | 5,365.5 | 5,854.0 |
| Other assets | 3.2 | 1.2 |
| Total assets | 21,175.2 | 21,019.0 |
| Liabilities | | |
| Foreign liabilities | 281.8 | 179.0 |
| Reserves | 9.1 | 11.3 |
| Other foreign liabilities | 91.7 | 2.0 |
| Special drawing rights (SDR) allocations | 181.0 | 165.7 |
| Domestic liabilities | 583.8 | 819.6 |
| Deposits and Treasury obligations | 145.3 | 459.6 |
| Other deposits and obligations | 104.2 | 360.0 |
| Notes issued | 334.3 | - |
| Other liabilities | 0.2 | - |
| Total liabilities | 865.8 | 998.6 |
| Net assets position | 20,309.4 | 20,020.4 |

## 15. Contingencies and commitments

Management are not aware of any pending lawsuits against the Bank that could eventually represent a contingency in the financial statements.

## 16. Income tax

Pursuant to Article 7 of the Decree Law 3345, dated 1980, income of the Bank is tax exempt.

## 17. Income from interest, indexation and price differences

Income generated by interest, indexation and price differences, as of 31 December, 2003 and 2002 is detailed as follows:

| | (Millions of Ch$) 2003 | 2002 |
|---|---|---|
| Interest earned and accrued | | |
| originates from: | | |
| Investments abroad | 339,344.8 | 473,290.6 |
| Treasury transfers | | |
| Laws 18,768 and 18,267 | 62,395.3 | 109,692.9 |
| Subordinate obligations | 45,349.3 | 43,948.8 |
| Other institutions | 22,664.9 | 24,801.2 |
| Commercial banks | 3,499.0 | 6,388.6 |
| *BancoEstado* | 1,121.2 | 2,086.6 |
| Reciprocal loan agreements | 59.5 | 112.7 |
| **Total** | **474,434.0** | **660,321.4** |
| Indexation earned and accrued | | |
| crresponding to: | | |
| Subordinated obligation | 9,004.2 | 25,042.2 |
| Treasury transfers | | |
| Laws 18,401 and 18,267 | 5,687.7 | 16,172,3 |
| *Caja Central de Ahorros y* | | |
| *Préstamos and Asociación Nacional* | | |
| *de Ahorro y Préstamo* | 1,999.8 | 5,529.0 |
| Other | 965.7 | 37,350.6 |
| **Total** | **17,657.4** | **84,094.1** |
| Income on price differences | | |
| originated from: | | |
| Central Bank bonds in Chilean pesos (BCP) | 36,424.8 | 3,089.6 |
| Central Bank bonds in US dollars (BCD) | 28,439.0 | 2,913.1 |
| Central Bank indexed | | |
| promissory notes (PRBC) | 18,246.5 | 32,578.0 |
| Indexed promissory notes in | | |
| US dollars (PRD) | 14,613.6 | 17,138.0 |
| Redemption to CERO promissory | | |
| notes in UF | 12,600.6 | 89,887.5 |
| Central Bank bonds in UF (BCU) | 11,408.1 | 1,191.1 |
| Redemption to CERO promissory | | |
| notes in US dollars | 1,665.0 | - |
| **Total** | **123,397.6** | **146,797.3** |

| | (Millions of Ch$) 2003 | 2002 |
|---|---|---|
| Interest paid and accrued from: | | |
| Indexed promissory notes payable in coupons (PRC) | 267,252.3 | 327,404.7 |
| Indexed promissory notes in US dollars (PRD)) | 118,228.2 | 161,114.1 |
| Central Bank bonds expressed in US dollars (BCD) | 83,471.4 | 7,992.1 |
| Central Bank discountable promissory notes (PDBC) | 83,127.0 | 143,916.2 |
| Central Bank bonds in Chilean pesos (BCP) | 76,833.5 | 4,445.1 |
| Foreign operations | 52,967.7 | 45,793.7 |
| Central Bank bonds in UF (BCU) | 30,130.6 | 1,807.7 |
| Other instruments issued | 13,790.5 | 38,915.9 |
| Central Bank indexed promissory notes (PRBC) | 306.4 | 11,228.1 |
| Reciprocal loan agreements | 69.6 | 138.4 |
| **Total** | **726,177.2** | **742,756.0** |
| Inflationary indexation paid and accrued from: | | |
| Indexed promissory notes payable in coupons (PRC) | 45,451.1 | 139,015.3 |
| Other instruments issued | 23,311.0 | 30,903.6 |
| Optional indexed coupons (CERO) in UF | 11,458.1 | 35,194.8 |
| Central Bank bonds in UF (BCU) | 3,737.3 | 2,137.1 |
| Central Bank bonds in US dollars (BCD) | (362,137.6) | (7,187.8) |
| Indexed promissory notes in US dollars (PRD) | (286,707.9) | 223,222.6 |
| Optional indexed coupons (CERO) in US dollars | (82,361.3) | 48,785.1 |
| Central Bank indexed promissory notes (PRBC) | (87.1) | 6,261.0 |
| **Total** | **(647,336.4)** | **478,331.7** |
| Loss due to price differences corresponds to: | | |
| Redemption to CERO promissory notes in UF | 68,857.2 | 168,499.7 |
| Redemption to CERO promissory notes in US dollars | 28,407.9 | 30,333.0 |
| Indexed promissory notes payable in coupons (PRC) | 18,593.6 | 94,595.6 |
| Indexed promissory notes in US dollars (PRD) | 8,615.8 | 3,412.6 |
| Other | 1,562.5 | 4,042.5 |
| Total | 126,037.0 | 300,883.4 |

## 18. Subsequent events

Between 31 December, 2003 and the date of issuance of these financial statements, the observed dollar exchange rate has decreased from Ch$599.42, used for the closing of these financial statements, to Ch$577.40 per US dollar.

Camilo Carrasco Alfonso
General Manager

Francisco García Letelier
Accounting and Administration Manager

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 sheet of Central Bank of Chile (The "Bank") as of December 31, 2003 and 2002 and the related statements of income for the years then ended. These financial statements (including their corresponding notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. The Bank prepares its financial statements in conformity with accounting policies established by its Board, with prior approval from the Chilean Superintendence of Banks and Financial Institutions (Law 18,840). These policies are in accordance with generally accepted accounting principles, except for the deferral of accounting losses amounting to Ch$383,293.6 million in 2003 (Ch$383,293.6 million in 2002), arising from the amendments to the subordinated loan obligation payment agreements of certain banks, as set forth by Law 19,396 (See notes 2g and 8).
4. In our opinion, the financial statements as of December 31, 2003 and 2002 present fairly, in all material respects, the financial position of Central Bank of Chile as of December 31, 2003 and 2002, and the results of its operations for the years then ended in conformity with the accounting policies described in note 2.
5. As of December 31, 2003, the Bank recorded a deficit in shareholders' equity of Ch$544,753.8 million (surplus of Ch$885,786.5 million as of December 31, 2002). The negative variation in shareholders' equity as of December 31, 2003 as compared to the previous year is a consequence of the deficit for the year amounting to Ch$1,430,540.3 million, which is mainly due to variations in the exchange rate of the United States dollar and other foreign currencies during 2003 that unfavorably affected the foreign currency asset position of the Bank.
6. As of December 31, 2002, as explained in note 2g, the Bank's management decided to amortize Ch$206,388.9 million corresponding to losses originated by modification of the payment conditions of the subordinated loan obligations of certain Banks according to Law 19,396 with a charge to income for the year. During 2003, there were no amortizations because there was a deficit in that period.

Rubén López D.

ERNST & YOUNG LTDA

Santiago, Chile, January 19, 2004.

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DE CHILE

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