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BANCO CENTRAL DE CHILE

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As of December 31, 1990

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BANCO CENTRAL DE CHILE

Santiago, April 22nd of 1991

Mr. Alejandro Foxley Rioseco
Minister of Finance
PRESENT

In accordance with the enacting sections 78 and 79 of ARTICLE ONE, of Law 18,840 "Constitutional Organic Law of the Central Bank of Chile", I submit to you the Annual Report of this Institution, corresponding to the year 1990.

ANDRES BIANCHI LARRE
President

I. REPORT

EVOLUTION OF CHILE'S ECONOMY DURING 1990

1. General Overview

The behavior of the Chilean economy in 1990 was largely determined by the adjustment policy applied to correct the imbalances produced in the two preceding years due to excessive increase in domestic expenditure. In that two-year period such expenditure rose by nearly 23% in real terms, substantially exceeding the also very high growth (18%) of the gross domestic product in the same period. As a result, imports climbed steeply (20% in 1988 and 35% in 1989), while inflation increased almost uninterruptedly in 1989 to an annualized rate of 30% in the last quarter of that year.

Seeking to reduce this rate of growth of both domestic expenditure and imports, which was unsustainable in the medium-term, and to revert the rising trend of inflation, in January the Banco Central resolved to give drastic reinforcement to the restrictive policy it had begun to apply gradually since the second half of 1989. To this end, the Bank allowed the rate of interest on all its instruments to rise significantly, particularly in the case of ten-year indexed promissory notes.

The immediate effect of this measure was an increase in market interest rates, which soared, especially in the first quarter, with a corresponding reduction in domestic spending. The moderate level of the latter was also partly due to some delay in disbursing public outlays associated with the change in administration, together with the decision made by the new authorities to apply a very strict fiscal policy in the matter of expenditure to keep up the public sector surplus, thus reinforcing the adjustment begun by the Bank.

The slower growth of domestic spending had a particularly strong effect on private consumption and imports, which rose by only 0.7%, in real terms, in 1990, after expanding by 8.4% and 25.3%, respectively, in 1989. However, the effect of the adjustment policy was less apparent in the case of gross fixed capital formation, which grew by 7%, primarily thanks to the development of large-scale investment projects in mining, cellulose, hydroelectricity, and communications. Simultaneously, export volume continued to expand, especially in the case of non-copper items.

Under these circumstances, although the 2.1% increase in gross domestic product in 1990 was much less than the 10% figure of 1989, the economy's production capacity continued to expand at a satisfactory rate.

The adjustment policy was particularly effective in achieving the objective of strengthening the position of the external sector. As pointed out earlier, the import volume grew very slightly in 1990, while export volume rose by about 7.5%. Notwithstanding, as the terms of trade deteriorated by 10% at the same time, the trade surplus fell by US$ 300 million. However, due to the improvement registered by the financial and non-financial service accounts, the drop was amply offset by the

remarkable increase in net capital inflow, which more than doubled, from US$ 1,280 million in 1989 to US$ 2,650 million in 1990. As a result, the overall balance of payments surplus was the highest on record in Chilean history, and at year-end international reserves totalled US$ 5,350 million, enough to finance imports for nine months.

Control of inflation progressed more slowly. Though the rising trend of the annualized rate of inflation had been reversed in the first six months, by year-end it had settled at about 25%, largely because cost increases in the first seven months of the year —arising mainly from adjustments to wages, drought, and the higher rate of value added tax— substantially neutralized the effects of restrictive monetary policy and strict control over public spending.

Notwithstanding, by early August most of these cost pressures had been absorbed and it was reasonable to expect that inflation in the last four months of the year would be significantly lower than in the same period of 1989. This in turn would help to loosen the adjustment policy sooner and support more intensive economic growth.

Such twofold progress towards price stabilization and economic reactivation, however, was held back by huge leaps in international oil prices caused by the invasion of Kuwait in early August. Consequently, internal fuel prices had to be severely adjusted in late August and again in early October. This led consumer prices to rise by 4.9% and 3.8% respectively, in September and October, with the accompanying decline in expectations about the future course of inflation and the start and degree of economic reactivation.

Nonetheless, thanks to the degree of macroeconomic control attained before the oil crisis and despite the propagation effects that were to be expected from the existing indexation mechanisms, inflation plummeted in November (0.9%) and even more in December (0.5%).

In addition, the slowing-down of inflation took place together with the beginning of economic recovery. Indeed, gross domestic product, which had scarcely risen in the second and third quarters, increased more than 2% in the fourth quarter.

By the end of the year, then, progress had clearly been made towards the goals of the adjustment policy, as regards balance of payments and stabilization, while a stage had begun of significant economic growth, sustainable in the medium-term.

This progress was recognized by international financial institutions and expedited foreign debt renegotiation. By the end of November, upon expiry of the stand-by agreement subscribed with the International Monetary Fund the year before, the IMF agreed with the Chilean authorities that there was no need to renew it, thus ending the cycle of successive agreements between Chile and the IMF that had begun in 1983.

The progress and stability of the Chilean economy were also recognized by the international private creditor banks, with which a new agreement was quickly reached on the restructured debt, involving a balance of payments relief of US$ 1,800 million in the 1991-1994 period, due to lower principal repayments. Simultaneously, twenty of such banks agreed to purchase bonds issued by the Republic of Chile in the amount of US$ 320 million, a major step towards Chile's return to the international voluntary credit market.

2. Economic Activity and Employment

In 1990 gross domestic product rose by 2.1%, a much lower rate than in the previous four years. The main reason for lower economic expansion was the marked slowing down of domestic spending resulting from the adjustment policy designed to restore basic macroeconomic balances and rechannel the economy in the direction of sustained medium-term growth.

Adjustment policy implications showed clearly in GDP behavior during the year. After rising by 5.5% in the first quarter, GDP increased by 0.8% in the second and 0.2% in the third. Notwithstanding, consistent with falling interest rates and climbing fiscal activity, the declining trend was reversed in the last quarter, when economic activity grew by 2.1% (Table 1 and Chart 1).

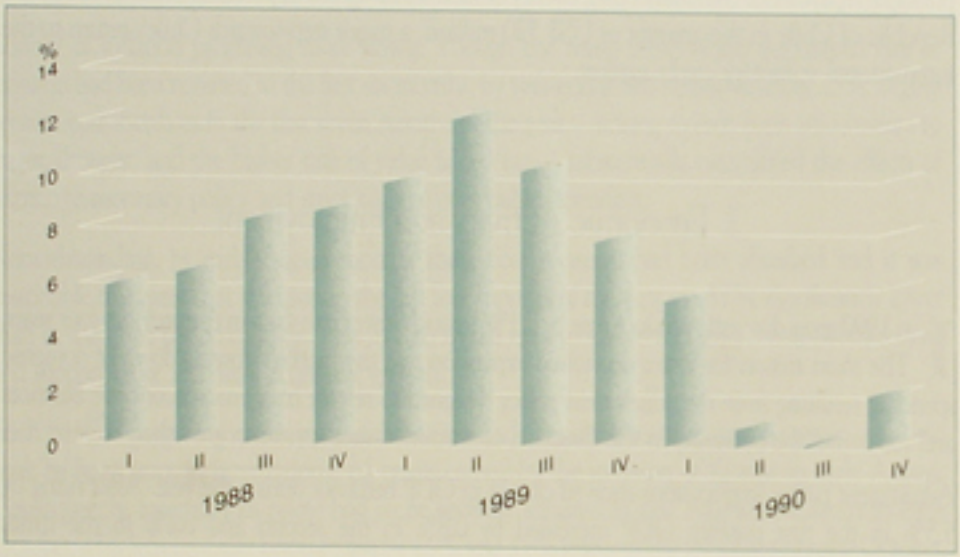
The loss of economic dynamism showed up with varying intensity in the various sectors of the economy. The manufacturing industry, which stagnated, was the most affected, followed by construction and commerce, both of which grew at a much lower rate than in 1989. Conversely, transport and communications expanded again intensively, while agriculture and livestock, and the forestry industry rose by nearly 5%, thus doing better than in the previous year. In turn, the steep decline in fisheries and the slight drop in mining stemmed largely from exogenous elements not linked to the adjustment policy (Table 2).

The slower growth of domestic spending did not affect its diverse components in the same way either. The weight of adjustment fell primarily on private consumption, where expansion fell from 8.4% in 1989 to 0.7% in 1990. In contrast, gross fixed capital formation, especially investments in machinery and equipment, rose vigorously though not as intensively as in the two previous years (Tables 3 and 4). A major part was played here by large scale projects in mining (La Escondida, La Coipa, Disputada de Las Condes), cellulose (Celulosa Arauco y Constitución, Celulosa del Pacífico, and Forestal Santa Fe), hydroelectricity (Canutillar, Pangue, Pehuenche, and Alfalfal), and communications (Compañía de Teléfonos de Chile).

CHART 1

Quarterly GDP rates of growth

(Percentage variation from the same period of the previous year)



Increased investment was also manifest in the substantial expansion of domestic production as well as of imports of capital goods —by 23% and 17%, respectively— and the rising coefficient of investment in fixed assets, which amounted to 19.5%, the highest on record in recent years.

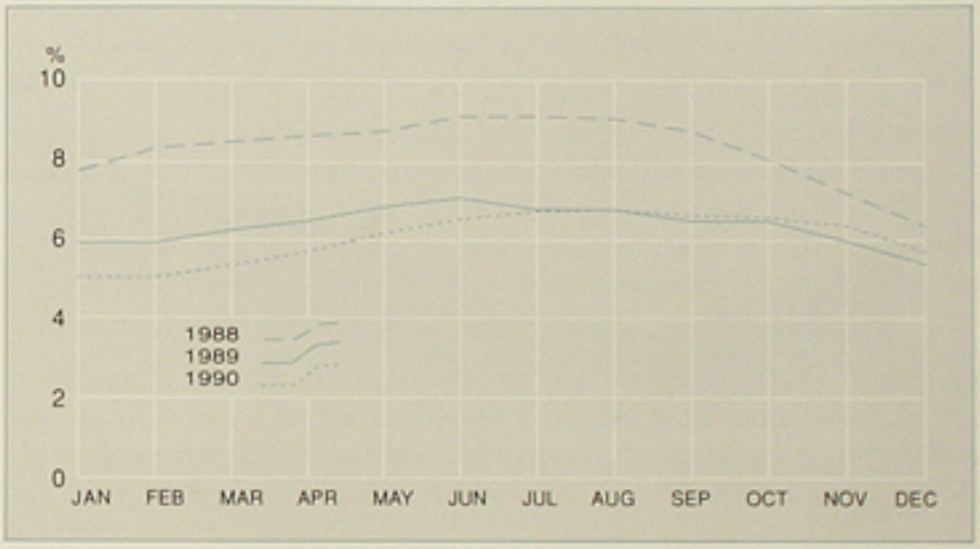
The behavior of economic activity, though with some delay, affected employment. As in the past two years, unemployment rose gradually in the first half of the year for seasonal reasons, at a lower rate, however, than in the same months of 1989. As adjustment proceeded, however, the gap between the unemployment rates prevailing in 1989 and 1990 narrowed and eventually reversed in the last months of the year. As a result, while the average annual rate of unemployment in 1990 was 6% and thus lower than the 6.3% figure observed in 1989, in the last quarter of 1990 it was higher (5.7%) than in the same period of 1989 (5.3%) (Chart 2).

The stable rate of unemployment that prevailed for most of the second half of the year, when production scarcely grew, was to a considerable extent due to a slower growth rate in the labor force. From 3% in 1989 it fell to only 1.7% in 1990. Notwithstanding, as the economy began to recover at the end of the year, both the rate of growth of the labor force as well as the employment rate rose significantly (Table 5).

CHART 2

Unemployment rate

(Quarterly moving averages)



3. Inflation and Wages

a) Inflation

Thanks to the policies enacted in early 1990 to check aggregate demand, the rising trend of inflation was gradually curbed in the first eight months of the year. As shown in chart 3B, the annualized rate of inflation based on moving quarters, which had increased to 30% at the end of 1989, stabilized at about 25% between May and July.

This result was obtained in spite of obstacles to stabilization arising from cost increases.

One influential factor in this context was higher wages. For various reasons, in the last quarter of 1989 there was a tendency to anticipate collective bargaining and agree to work contracts containing indexation clauses amounting to several points over the consumer price index variation. Both prevalent employment conditions, as well as the anticipated institutional changes, contributed

CHART 3A

Consumer price index

(12-month variation)

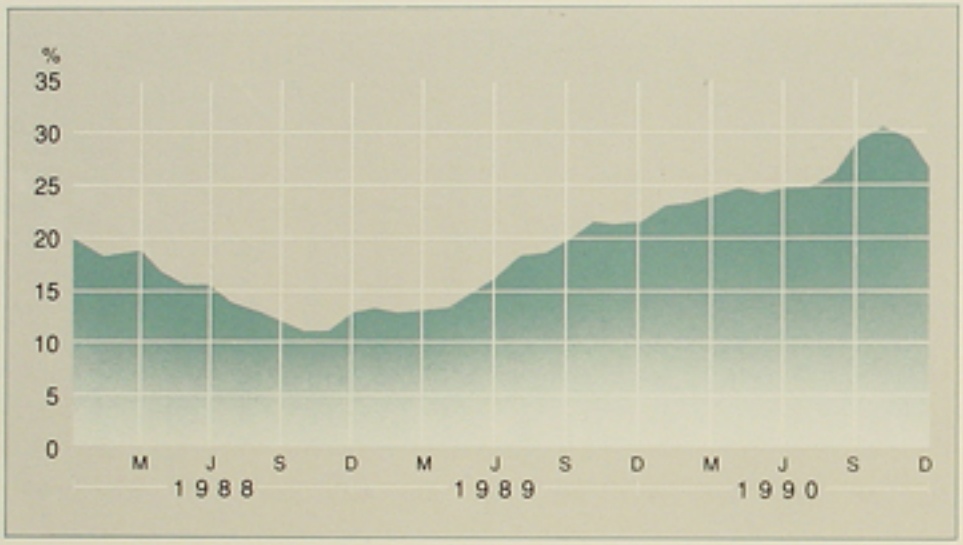
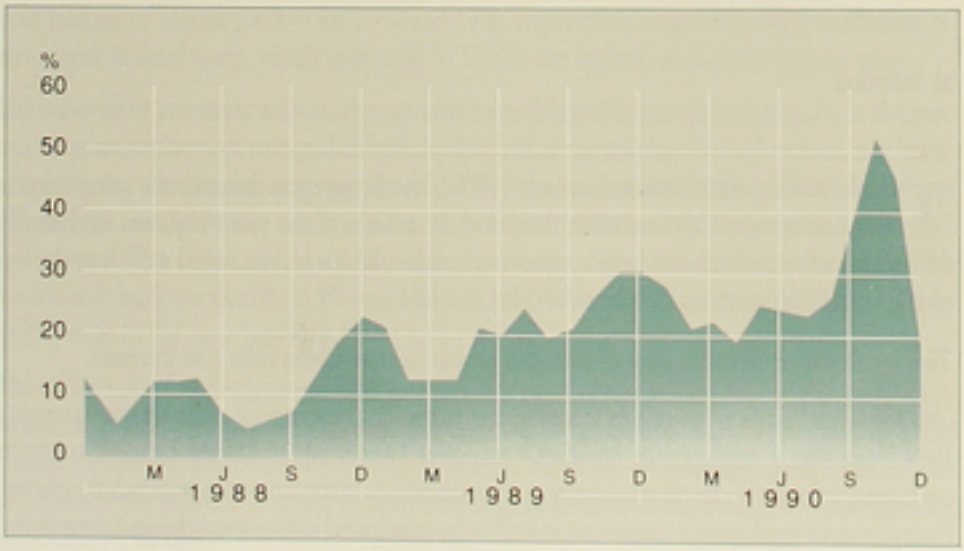


CHART 3B

Annualized rate of Consumer Price Index based on moving quarters



to this. In this context, wages rose sharply between November 1989 and January 1990. Largely as a result of this and of the 44% adjustment to the minimun wage, effective as of June 1, the cumulative average of nominal wages was 28% higher than in 1989, and in the 12 months ending in December 1991 wages rose by nearly 34%. In the context of an adjustment process where labor productivity remained almost constant, these nominal wage increases contributed to generating inflationary pressures.

Taxation changes were another element that helped to raise prices, especially the rise of value added tax (VAT) from 16% to 18%, which became effective on July 1. This explains in part why inflation was not quickly controlled, despite the rigorous adjustment policy. Indeed, the direct effect of a higher VAT on consumer prices, which was probably hastened to some extent by producers was estimated to be between 1.5 and 2 percentage points and would account for a significant portion of the increase in prices in the June-August quarter.

Nevertheless, by the middle of the third quarter, conditions were ripe for inflation to begin to slow down quickly. Progress in this direction, however, was deferred by the unexpected and abnormal rise in oil prices resulting from the Persian Gulf conflict. In August alone the price of petroleum imported by the Empresa Nacional del Petróleo increased by 72% and rose again by 16% in September.

Under such circumstances and to avoid distorting the allocation of resources, internal fuel prices were raised sharply in both late August and early October. The immediate result of such increases was a jump in inflation. Consumer prices went up by 4.9% in September and 3.8% in October, while the sum of direct and indirect effects of adjusted fuel prices was estimated to be 0.2% in August, 3% in September, 1.2% in October, and 0.2% in November.

However, thanks to controlled internal spending achieved before the oil crisis, the subsequent effects of such crisis on the rate of price growth were less than they might have been in a less constrained macroeconomic framework.

The increase in consumer prices in November was thus 0.9%, slightly more than half the figure for the same month in 1989; in December it fell to 0.5%, less than one quarter on the rate prevailing in the previous year (Table 6).

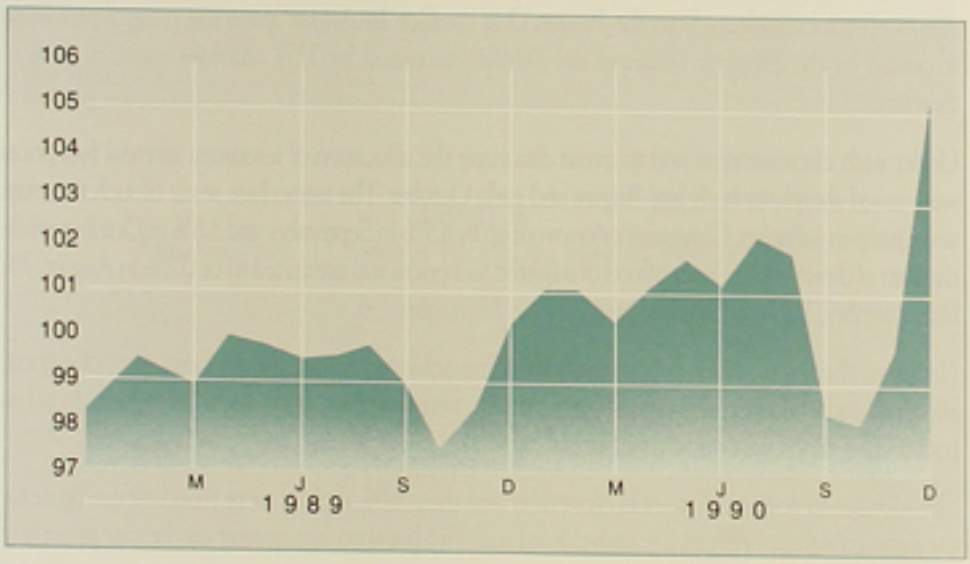
In this context, progress towards stabilization, hindered until August by cost pressures as described above and reversed in September and October because of rising fuel prices, began to show itself more clearly. Although the variation in the consumer price index was greater in 1990 (27.3%) than in 1989 (21.4%), its overall trajectory proved more favorable: unlike 1989, which ended in a high and rising annualized rate, 1990 finished with a lower and declining rate of inflation (Charts 3A and 3B).

b) Wages

Real average wages rose by 1.8% in 1990, only slightly less than in the previous year (1.9%). This similarity is remarkable in the light of the marked slowdown of economic growth in 1990 and deterioration of the terms of trade, suggesting an increase in the wage earners' share in domestic income in 1990.

As usual, the behavior of real wages in 1990 also reflected their inverse relation to the development of inflation. Real wages thus dropped in March, June, September and October, when inflation was high, and rose sharply in July, November and December, when price increases were lower and less than expected (Table 7 and Chart 4).

CHART 4
Index of real wages
(April 1989 = 100)



4. Money and Interest Rates

The behavior of the money and credit market in 1990 was marked by the measures adopted by the Banco Central. The main instrument used was the real rate of interest paid on its borrowings in the financial market. The Bank in fact actively managed these rates so as to influence

the cost of credit in accordance with prevailing economic conditions, whereas nominal monetary aggregates were allowed to adjust passively in accordance with demand.

In early January the Bank resolved to increase substantially the rates of interest on its instruments, to moderate the growth of aggregate demand. Accordingly, the interest on 90-day Indexed Promissory Notes (PRBC) went from 6.8% to 8.7% and on ten-year Indexed Promissory Notes Payable in Coupons (PRC) from 6.9% to 9.7%, while placement of 180-day and 360-day PRBCs was resumed (Table 8).

These measures had an immediate effect on credit market conditions: the interest rate on indexed 90 to 365 day deposits —a good indicator of these conditions— rose from an average 8.7% in the last quarter of 1989 to 11.9% in the first quarter of 1990.

In the following months, the interest rates paid by both the Banco Central and the financial market gradually returned to more moderate levels, consistent with the falling growth rate of domestic expenditure. On June 1, the Bank discontinued the sale of its longer term PRCs and in the second half of the year it continued backing the normalization of the market interest rate. To this end, on August 17, the Bank stopped selling 180 and 360-day PRBCs, whose interest rates were 8.9% and 9.2% respectively, and lowered the 90-day PRBC interest rates from 8.7% to 8.2%. The rate on these promissory notes was reduced again on October 31, to 7.2% and in late November, to 6.8%.

These measures contributed to reinforcing the declining trend in interest rates since April. In fact, the real average rates of interest on indexed UF (indexation unit) 90 to 365-day instruments fell from the peak figures recorded in March, 13.3% (deposits) and 16.5% (loans), to 6% and 9.2%, respectively, in December. Therefore, the year ended with interest rates on deposits and loans equivalent to those of mid-1989 (Chart 5).

In this context, the annual growth rate of broad private money (M1A), which had already fallen persistently in 1989, continued to decline to slightly more than 12% by the end of the year (Chart 6). This slowdown was more marked in the case of demand deposits, which rose by 8.6%, while money in circulation grew more steadily by about 19% (Tables 9 and 10).

In real terms, money registered a steady decline. In fact, real 12-month M1A variations fell by 5.4% in the first quarter, 4.2% in the second, 11.5% in the third, and 14.8% in the fourth. The declining trend of real money did not reverse until December, as a result of the substantial reduction in nominal interest rates caused by the sharp drop in inflation and the fall of real interest rates.

The behavior of the money was a clear reflection of the effect that economic slowdown had on money demand, and particularly of the increasing cost of holding cash balances, as represented by the nominal rate of interest. In fact, in 1990 this rate remained systematically higher than in 1989, because of the joint effect of increase in real interest rates and inflation. The nominal interest rate

CHART 5

90 to 365-day interest rates on indexed operations

(Monthly averages)

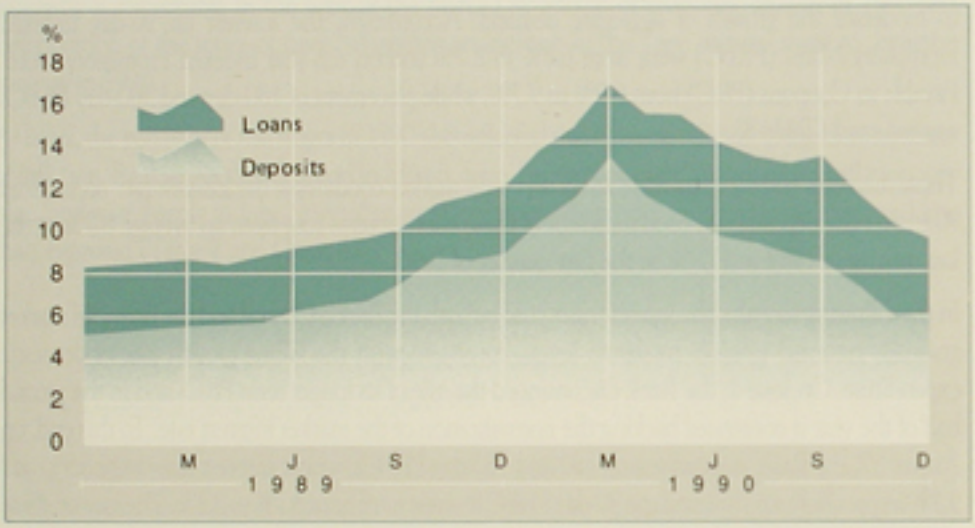
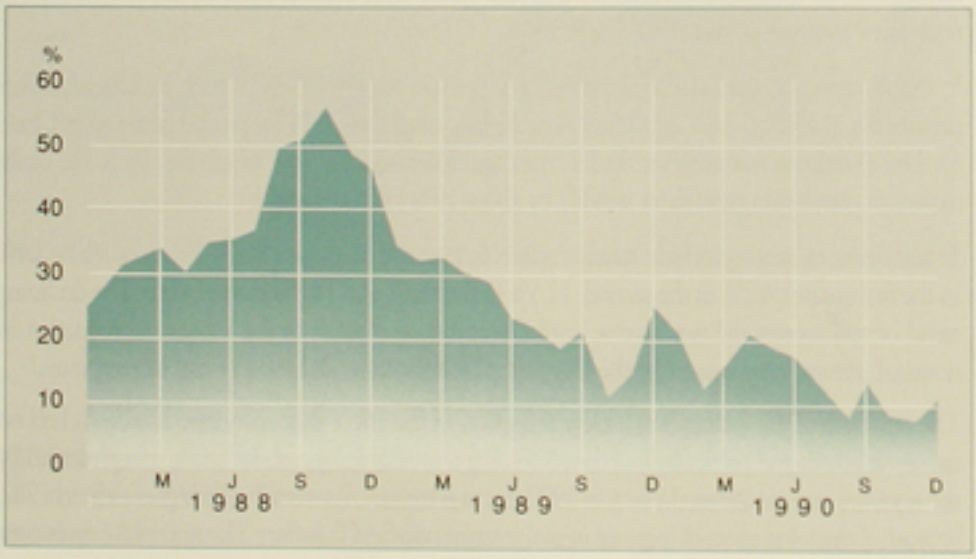


CHART 6

Behavior of broad private money (M1A)

(12-month variation)



on short-term deposits showed a monthly average of 2.8%, compared with 2% in the previous year, or a difference of 12 percentage points in annualized terms.

Base money, in turn, increased by somewhat more than 25%, mainly owing to exchange operations, whereas domestic credit operations contracted substantially throughout the year.

To some extent, the considerable increase in exchange operations resulted from temporary factors associated with the positive differential between internal and external rates of interest. A major cause of issue during the first quarter were the currency swaps between the private sector and the Banco Central, transactions which provide cover against exchange risk. These operations were subsequently curtailed to a considerable extent by raising the associated fees, extending the minimum authorized terms, and restricting the origin of the currency used in the swaps. The amount of such operations, which had risen from US$ 2,018 million to US$ 2,870 million from December 1989 to March 1990, subsequently fell steadily to US$ 1,840 million by the end of 1990.

Despite the contractive effect of the falling swap level on base money, exchange operations continued to be the main cause of its increase. This effect was neutralized, however, by the sale of Banco Central paper, by which means the volume of more liquid monetary aggregates was kept under closer control.

By contrast, the broader monetary aggregates grew substantially, though less than in 1989 in real terms. Under its broader definition (M7), real expansion between December 1989 and December 1990 amounted to 9.3%. This increase resulted from more Banco Central instruments being held by the private sector; whose relative share in M7 rose from 25% in the last quarter of 1989 to 32% in the same period of 1990 (Table 10). This last result directly reflected the effect of the monetary policy applied during the year, countered by monetary contraction, as described above, and substantial increase of international reserves.

5. Balance of Payments and Exchange Rate Policy

a) Balance of Payments

In 1990 the balance of payments closed with a surplus of almost US$ 2,370 million, the highest ever reached by the Chilean economy. By year-end, international reserves totalled US$ 5,350 million, 80% higher than in December 1989. These results were due primarily to considerable improvement in the capital account, substantial increase in non-copper exports, and moderate growth of imports.

i) The current account

The current account deficit amounted to US$ 790 million, 3% higher than in 1989. As in previous years, this was the result of high negative balances in the financial (US$ 1,810 million) and non-financial (US$ 450 million) services accounts, which were not offset by the trade surplus of more than US$ 1,270 million and the positive net balance of US$ 200 million in unrequited transfers (Table 11).

The trade surplus (19% lower than in 1989, but substantially higher than expected initially) was caused by an increase of 2.8% in exports and 8.2% in imports (Table 12).

Export growth originated entirely in the substantial expansion (11%) of non-copper sales. The value of copper exports, in turn, dropped 5.6%, interrupting the steadily rising trend of the three previous years. The main reason for this fall was a drop in international prices, down from US$ cents 127 per pound in 1989 to US$ cents 121 in 1990. Some influence, though not as much, was due to a 1.4% reduction in export volume.

The average price of non-copper exports also fell in 1990. The fall, amounting to over 4%, was more than offset, however, by higher volume, which rose by more than 16%, exceeding the already high growth of the two previous years (Table 13).

Among non-copper exports, it is worth noting the considerable rise in non-traditional items, which grew by 24% for the second consecutive year, contributing more than one quarter of the value of total exports of goods (Table 12).

The behavior of imports reflected to a considerable extent the effects of the adjustment policy. After expanding by 35% in 1989 and by a still high rate of 20% in the first three months of 1990, imports rose a mere 2% in the second quarter and by 1% in the third. Though they rose again by 11% in the fourth quarter, due to the abrupt rise in international crude oil prices, overall growth for the year amounted to 8.2%, less than a quarter of the figure for 1989.

The adjustment policy left its mark particularly on imports of consumer goods and non-fuel intermediate goods, which as from the second quarter were substantially lower, in absolute terms, than in the same period of 1989 (Charts 7A and 7B).

Conversely, fuel imports rose 43%, mainly as a result of an increase of nearly 26% in the average prices of petroleum and of 14% in the volume of imported crude oil. The latter, in turn, was due to renewed decline in domestic crude production and the decision to accumulate more stock to face possible interruptions in external supply caused by the Persian Gulf crisis (Chart 7C).

CHART 7A

Imports of consumer goods

(Percentage variations in respect of the same quarter of the previous year)

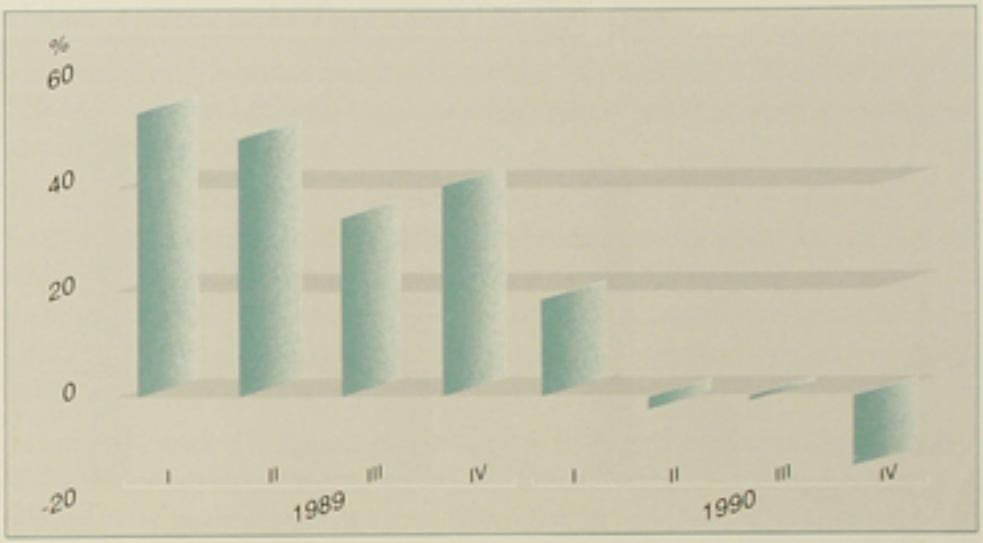


CHART 7B

Imports of non-fuel intermediate goods

(Percentage variations in respect of the same quarter of the previous year)

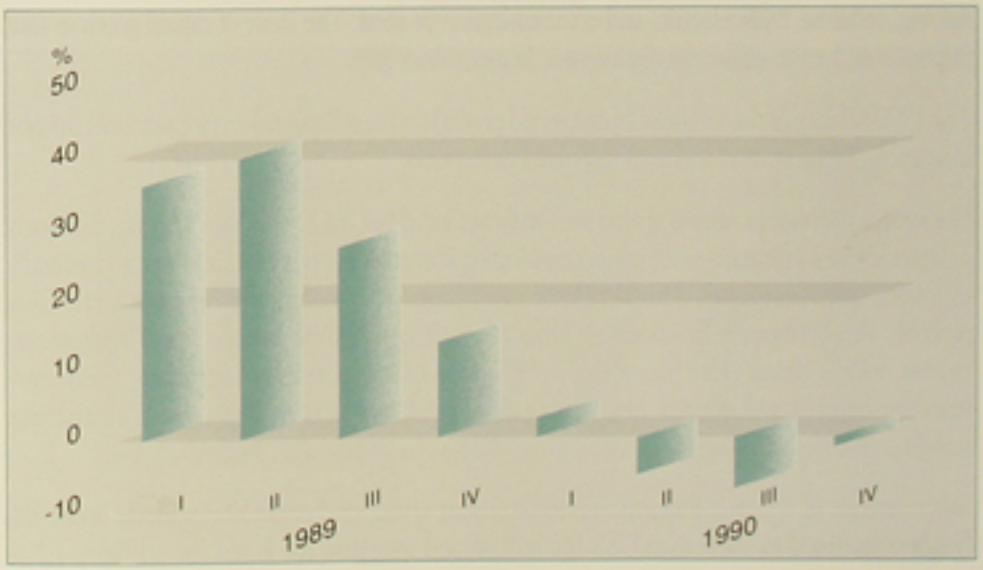
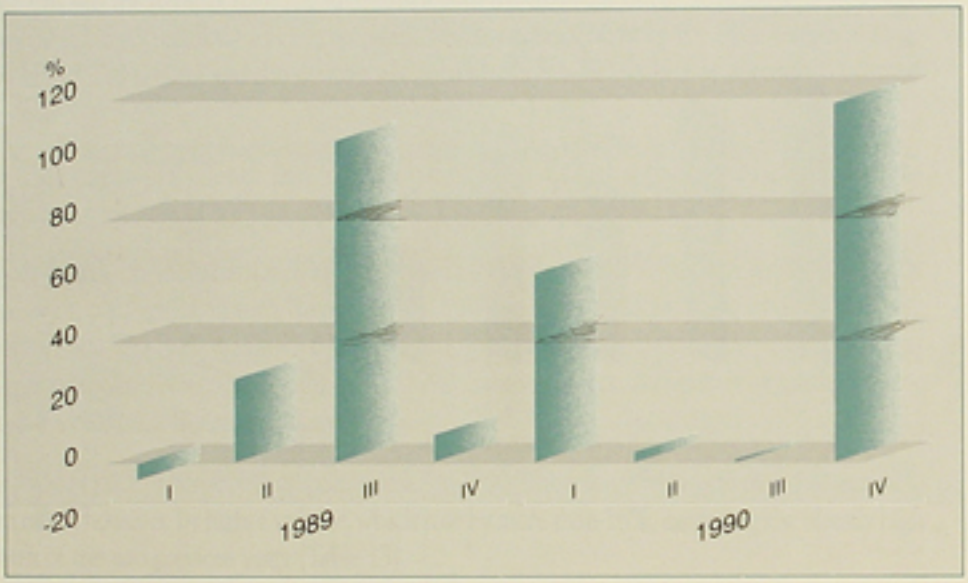


CHART 7C

Imports of fuels

(Percentage variations in respect of the same quarter of the previous year)



Imports of capital goods went up by 17%, driven to some extent by materialization of large-scale mining, cellulose, hydroelectric, and communication projects. The share of capital goods in total imports rose for the eighth successive year, to more than 30%.

The 1990 balance of the financial (interest and profits) and non-financial service accounts (freight, insurance, transport, and tourism) improved perceptibly.

Net financial service payments abroad were in fact reduced by US$ 115 million. This was due, firstly, to larger interest payments received on considerably increased international reserves, and secondly, to lower profit remittances. This last factor was influenced by both lower company profitability, probably arising from the deteriorating prices of many export items and the internal adjustment process, and the greater attraction offered in 1990 by financial placement of surpluses in the country, based on internal and external interest rate differential, and growing expectations of exchange stability.

Improvement of the non-financial services account was even better. Net outflows under this heading decreased by more than US$ 180 million and were thus the lowest since 1986.

ii) The capital account

As in the two previous years, net capital inflow exceeded the current account deficit, generating a balance of payment surplus of approximately US$ 2,370 million.

The overall positive balance of the capital account rose from nearly US$ 1,280 million in 1989 to US$ 2,650 million in 1990; of its components, the substantial growth of foreign investment and associated credit is worth noting.

The former was influenced by increased flows channelled through foreign investment funds, handled by institutions authorized to operate with external resources in the domestic financial market, with disbursements amounting to US$ 257 million, and by borrowing external funds for the first time through the system known as ADR (American Depositary Receipts), under which the Compañía de Teléfonos de Chile listed a new stock issue on the New York Stock Exchange, amounting to US$ 92 million.

As a result of considerably expanded net capital inflow, by year-end international reserves totalled US$ 5,350 million, enough to finance imports for 9 months. This reversed the declining trend observed in the reserves/imports ratio since 1986 (Chart 8).

CHART 8

International reserves/Total imports ratio

(In number of months)

b) Exchange Rate Policy

In 1990 the basis of the exchange rate policy was still the daily adjustment of the U.S. dollar as set by the Banco Central (referential dollar). This adjustment is equivalent to the variation of the consumer price index, less medium-term international inflation relevant for Chile (estimated at 3.66% per annum in 1990). The exchange policy also retained the ±5% margin on the referential dollar value for the purchase and sale of foreign currency by the Banco Central fixed in June 1989, which determines a range within which the average banking exchange rate (or market observed rate) may move freely.

Application of this exchange rule led the referential dollar to rise steadily from 281 pesos in December 1989 to 352 pesos one year later. Notwithstanding, as a result of substantial inflow of foreign capital and positive development of foreign trade, the observed dollar stabilized at about 297 pesos between January and July (Table 15).

Accordingly, the real observed exchange rate also fell in the same period; in July, however, the observed exchange rate touched the floor of the range. Then, as may be seen in Chart 9, the observed dollar rose again in subsequent months in the wake of the referential dollar variations.

In this context, the real observed exchange rate, despite its decline until July, reached one of its highest levels in the past fifteen years (Chart 10).

On the other hand, the priority that the economic authorities continued to place on the maintenance of a stable real exchange rate in the medium-term was evidenced by the decision to retain the rule determining the referential exchange rate in a period characterized by abundant flow of external credit, high foreign investment, and relatively high copper prices. This ensures that, in the medium-term, fluctuations in the observed exchange rate will take place around a stable official exchange rate in real terms.

Together with the maintenance of the exchange policy based on gradual devaluation of the peso, the Banco Central introduced various reforms in exchange regulations, the main amendment being the entry into effect of the Constitutional Organic Act of the Banco Central, in December 1989, followed by enactment of the new Compendium of Rules on International Exchange, in April 1990.

One of the major issues in the new regulations was a change in the original basic principle, to the effect that "any person may freely engage in international exchange operations". Whereas the previous regulations allowed only such exchange operations as were expressly defined by the Banco Central, under the new rules all operations may be performed freely, subject only to certain

CHART 9

Value of the U.S. dollar

(Nominal monthly averages)

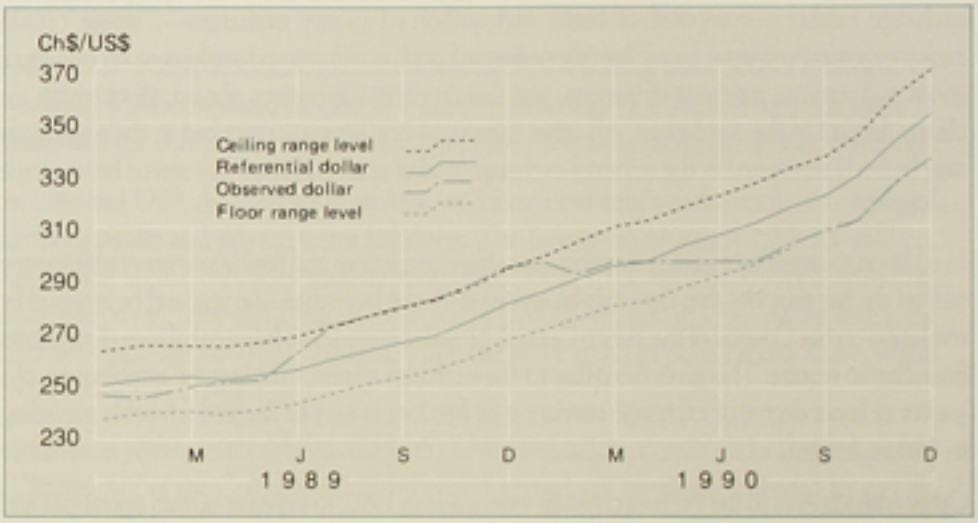
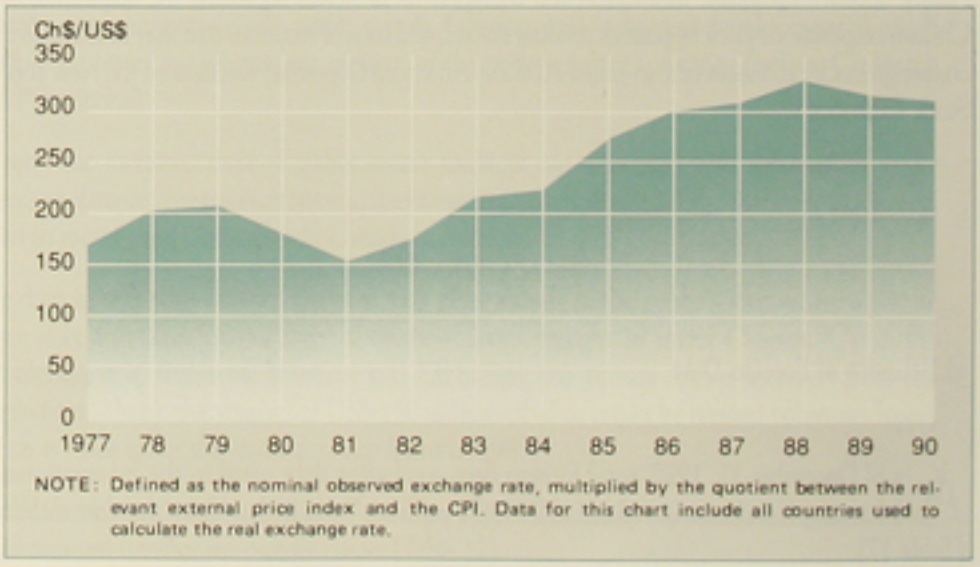


CHART 10

Real value of observed dollar

(Annual averages in pesos of June 1990)



NOTE: Defined as the nominal observed exchange rate, multiplied by the quotient between the relevant external price index and the CPI. Data for this chart include all countries used to calculate the real exchange rate.

limitations or restrictions explicitly established, designed to ensure currency stability and appropriate balance of payments financing.

Such limitations and restrictions on specific transactions include the operation of a formal exchange market —composed of banks and authorized money exchanges—, where certain exchange operations must be exclusively performed, such as returns and settlement on exports of goods and services, payment of imports, and certain capital operations abroad, all of which are clearly defined in the regulations. All other operations not expressly described in the regulations may be freely transacted in the informal exchange market at an exchange rate agreed between the parties.

In addition to requiring specific provisions, the above restrictions and limitations are of a temporary nature; the law provides that they may be enforced for not more than one year and be renewed by resolution on the Council of the Banco Central, provided currency stability or balance of payments financing so require. This gives flexibility to the exchange system, enabling the establisment of a greater or lesser degree of exchange restriction or freedom as may be deemed advisable according to circumstances.

Other amendments to the exchange system were made in 1990, to expedite certain operations and enhance their flexibility. They included suppression of the minimum 120-day term for import permits; extension of the term for settling foreign currency export earnings, from 90 to 120 days; suppression of the possibility of applying foreign currency from export earnings in swap transactions with the Banco Central; and flexibilization of the term for purchasing foreign currency for traveling. Finally, another significant innovation was the approval of norms regulating the acquisition of Chilean corporations stock by persons residing abroad, and issue of securities that may be transacted on foreign stock exchanges (the so-called ADRs or American Depositary Receipts on the New York Stock Exchange).

6. Foreign Debt

a) Behavior of Foreign Debt

As of December 31, 1990, total foreign debt, excluding debt owed to the International Monetary Fund, amounted to US$ 17,450 million, 7.4% higher than one year earlier (Table 17).

Short-term foreign debt, which is linked to foreign trade financing and use of so-called bridge credit lines by expanding companies, and which in recent years has been influenced by increased net inflow of financial credits, totalled slightly over US$ 3.350 million, continuing the growing trend of the previous years.

Medium-and long-term debt amounted to nearly US$ 14,100 million, about 80% of total debt. Of the increase, which amounted to US$ 815 million, more than 300 million were the result of devaluation of the U.S. dollar because about 35% of such debt is denominated in other currencies.

As in 1988 and 1989, the increase in medium-and long-term debt was the result of an unequal behavior of public and private sector liabilities. The former fell by nearly US$ 300 million, while private sector liabilities rose by more than US$ 1,100 million. Notwithstanding, restructured private debt with creditor banks fell by US$ 487 million in 1990. Accordingly, the breakdown of foreign liabilities changed, while the down trend in public sector share, begun in 1988, continued (Table 17).

The increase in private sector debt was due to the substantial inflow of credit under Decree Law 600 and Chapter XIV of the Compendium of Rules on International Exchange, intended for specific investment projects.

The share of non-financial creditors (multilateral organizations, governments, suppliers, and others) continued to rise, while the share of commercial banks as Chile's creditors diminished.

The largest portion of the debt with multilateral organizations was associated with public sector infrastructure projects (roads, water supply, housing, and industrial development through Corfo) and financing investment projects of the private sector (credit to Endesa, Chilectra, and Pehuenche).

In turn, the increased share of public sector creditors was associated with substantially larger financing of major investment projects in the private sector, where official organizations participated: Japan in mining and Germany and Canada in cellulose.

The drop in debt with banking creditors took place mainly in the public sector, whereas private sector debt increased. In the form of financial loans brought in under Chapter XIV of the Compendium of Rules on International Exchange, the private sector received from the international bank the amount of US$ 150 million of what might be termed voluntary loans, which is three times the figure for such loans in 1989.

Finally, the debt with the International Monetary Fund fell by nearly 10% in 1990, thus continuing the downward trend of the past two years (Table 17).

On the other hand, debt conversion operations, basically under Chapters XVIII and XIX of the Compendium of Rules on International Exchange, continued in 1990. Debt redemption reached US$ 1,090 million, considerably lower than the US$ 2,760 million of 1989, the main reason for the difference being the substantial rise in the price of Chilean foreign debt instruments in the international secondary market, together with smaller supply of said instruments on that market.

At the same time, the share of the various debt-conversion mechanisms changed: while the absolute amount and relative share of Chapter XVIII operations rose substantially, those under Chapter XIX fell (Table 19).

b) Foreign Debt Renegotiation

In late 1990 a new agreement was reached with the creditor banks on debts contracted before January 1983 which have been subject to succesive renegotiation procedures.

The strategy designed by the government and the Banco Central was based on treating restructured debt-related problems separately from the need to obtain new money. To this end a twofold strategy was applied: on the one hand, debt agreements were restructured and made more flexible, while on the other hand, bonds were issued as a new instrument for additional external financing, with a view to returning to voluntary credit markets.

i) Renegotiation agreement

The agreement with the Creditor Banks Committee, which is composed of 13 banks, was reached in late September and the agreements including the other creditor banks were subscribed on December 12.

Seventeen obligors of the public sector and private financial sector and 220 creditor banks were parties to this agreement. Total debt as at the signature date of the new agreement amounted to US$ 4,600 million originated under the new money agreements of 1983, 1984, and 1985, World Bank cofinancing agreement of 1985, and renegotiation agreements for the periods 1983-84, 1985-87, and 1988-91.

Of the US$ 4,600 million, US$ 4,100 million pertained to the public sector and the balance to private banks. In 1985 restructured debt amounted to more than US$ 14,000 million, accounting

for about 70% of Chile's total foreign debt. As a result of debt-reduction operations, by late 1990 the US$ 4,600 million accounted for only quarter of total foreign debt.

The main issues agreed on included rescheduling payment terms, extending retiming reversion terms, more flexibility in foreign debt reduction mechanisms, and extension for one year (1991) of short-term commercial credit lines.

Rescheduling of payment terms

Payment terms were amended as follows:

	Previous Agreements	New Agreement
1983 New Money	1991-1996	1995-1999
1984 New Money	1991-1993	1995-1999
1985 New Money	1991-1996	1995-2002
1985 Cofinancing	1996-1998	unchanged
1983-1984 Renegotiation	1993-2002	1997-2005
1985-1991 Renegotiation	1993-2002	1997-2005

The new terms brought relief for the 1991-1994 period in the amount of US$ 1,800 million in lower principal repayments.

Extension of retiming reversion

In the 1987 negotiations it was agreed that interest would be paid yearly rather than half-yearly (retiming), which brought relief to the balance of payments in 1988. Such retiming was then considered a substitute for additional new money debt, and it was agreed to return to half-yearly interest payments gradually from 1991 to 1993.

Notwithstanding, under the 1990 agreements such reversion would be gradually deferred, as shown below, to relieve the balance of payments. In practice, this change means a savings of more than US$ 200 million in the three-year period 1991-1993.

	Previous Agreement	New Agreement
1983 New Money	1991	1994
1984 New Money	1991	1994
1985 New Money	1991	1993
1985 Cofinancing	1991	unchanged
1983-1984 Renegotiation	1992	1995
1985-1991 Renegotiation	1993	1996

Flexibilization of foreign debt reduction mechanisms

To continue expediting the foreign debt reduction process, several clauses in the agreements were made more flexible, so as to allow cash buy-backs or debt exchange, taking advantage of available discounts on transactions of this kind and substantially raising the quantitative limits prevailing on such type of operations.

Under the new agreement international reserves up to US$ 750 million may be used for such transactions in 1991, rising to 1,000 million in 1992, and 1,250 million for 1993 and subsequent years. Any of the public sector or financial private sector obligors being party to the renegotiation agreements and wishing to redeem debts by means of the above margins, shall require approval from the Banco Central.

Extension for one year of short-term commercial credit lines

Since the renegotiation process began in 1983, agreements have systematically included the banks' commitment to grant short-term credit lines for financing foreign trade, with the guarantee of the Republic of Chile on any such operations as far as they be performed by public sector institutions or the financial private sector.

Present negotiations extended the banking commitment in respect of such facilities until 1991, under the same conditions. The credit line commitment amounts to US$ 1,440 million.

ii) Republic of Chile bond issue

Together with renegotiations on restructured debt, an operation was launched in the international capital market for voluntary financing of the 1991 and 1992 balance of payments. This operation is part of Chile's return to financial normality, by using a new instrument to borrow bank funds.

This financing is provided by bearer bonds issued by the Republic of Chile, in the amount of US$ 320 million, at an interest rate of LIBO + 1.5%, for a term of 5 years with 2 years' grace period. The bonds were acquired by 20 banks (from the U.S.A., Canada, Europe, and Japan), with balanced shares in the total issue.

TABLE 1

Quarterly gross domestic product

(Percentage variations from the same quarter of the previous year)

DATE	QUARTER				YEAR
	I	II	III	IV	
1985	3.8	0.4	1.4	4.3	2.4
1986	4.5	7.3	4.8	6.0	5.7
1987	8.5	4.3	5.2	5.0	5.7
1988	5.9	6.4	8.4	8.7	7.4
1989	9.8	12.2	10.3	7.6	10.0
1990(a)	5.5	0.8	0.2	2.1	2.1

(a) Provisional figures.

TABLE 2

Sectoral gross domestic product

(Annual percentage variations)

SECTORS	1988	1989	1990(a)
Agriculture, Livestock and Forestry	5.7	3.1	4.8
Fishing	2.6	22.1	−10.3
Mining	4.2	8.4	−0.7
Manufacturing	8.7	10.0	0.1
Electricity, Gas and Water	9.3	4.7	3.0
Construction	6.1	12.7	2.5
Trade	9.8	14.0	2.5
Transport and Communications	11.5	14.4	10.4
Others	5.8	8.8	1.9
Total GDP	**7.4**	**10.0**	**2.1**

(a) Provisional figures.

TABLE 3
Components of GDP expenditure

COMPONENTS	PERCENTAGE VARIATIONS			PERCENTAGE OF GDP		
	1988	1989	1990(a)	1988	1989	1990(a)
CONSUMPTION	9.0	7.5	0.8	78.1	76.3	75.3
Private Consumption	9.6	8.4	0.7	67.9	67.0	66.0
Government Consumption	4.7	0.9	1.6	10.1	9.3	9.3
INVESTMENT	8.5	32.5	−2.5	18.1	21.8	20.8
Gross Fixed Capital Formation	10.7	20.8	6.9	17.0	18.6	19.5
Changes in Inventory	−16.7	210.0	−58.1	1.1	3.1	1.3
EXPORTS	6.1	15.7	7.6	27.9	29.4	31.0
IMPORTS	12.1	25.3	0.6	24.1	27.4	27.0

(a) Provisional figures.

TABLE 4

Savings and investment coefficients

COMPONENTS	PERCENTAGE VARIATIONS			PERCENTAGE OF GDP		
	1988	1989	1990(a)	1988	1989	1990(a)
TOTAL SAVINGS	8.5	32.5	−2.5	18.1	21.8	20.8
Gross Domestic Savings	–	22.1	0.2	17.6	19.6	19.2
External Savings	–	450.1	−26.5	0.4	2.2	1.6
TOTAL INVESTMENT	8.5	32.5	−2.5	18.1	21.8	20.8
Fixed Capital Investment	10.7	20.8	6.9	17.0	18.6	19.5
– Construction and Other Works	6.7	12.2	3.7	10.2	10.4	10.5
– Machinery and Equipment	17.3	33.7	10.9	6.8	8.3	9.0
Changes in Inventory	−16.7	210.0	−58.1	1.1	3.1	1.3

(a) Provisional figures.

TABLE 5

National employment and unemployment (a)
Quarterly moving averages ending in the specified month
(Thousands of persons)

DATE	LABOR FORCE		EMPLOYED		UNEMPLOYED		RATE OF UNEMPLOYMENT
	Total	% variation from previous period	Total	% variation from previous period	Total	% variation from previous period	
1986 Average	4,227	9.1	3,770	11.8	457	−9.4	10.8
1987 Average	4,304	1.8	3,903	3.5	401	−12.1	9.3
1988 Average	4,460	3.6	4,092	4.9	368	−8.2	8.3
1989 Average	4,594	3.0	4,304	5.2	290	−21.3	6.3
1990 Average	4,672	1.7	4,392	2.0	280	−3.3	6.0
1989							
January	4,560	0.2	4,289	0.5	271	−5.1	5.9
February	4,563	0.1	4,294	0.1	269	−0.8	5.9
March	4,579	0.4	4,296	0.0	284	5.3	6.2
April	4,592	0.3	4,298	0.1	293	3.5	6.4
May	4,598	0.1	4,285	−0.3	313	6.8	6.8
June	4.581	−0.4	4,262	−0.5	319	1.8	7.0
July	4,571	−0.2	4,264	0.0	307	−3.6	6.7
August	4,570	0.0	4,263	0.0	307	−0.1	6.7
September	4,584	0.3	4,289	0.6	295	−4.0	6.4
October	4,614	0.7	4,318	0.7	297	0.6	6.4
November	4,642	0.6	4,370	1.2	272	−8.4	5.9
December	4,675	0.7	4,425	1.2	250	−8.1	5.3
1990							
January	4,704	0.6	4,467	1.0	236	−5.4	5.0
February	4,703	0.0	4,468	0.0	235	−0.7	5.0
March	4,689	−0.3	4,440	−0.6	249	5.9	5.3
April	4,678	−0.2	4,417	−0.5	261	4.9	5.6
May	4,656	−0.5	4,374	−1.0	283	8.5	6.1
June	4,652	−0.1	4,350	−0.5	302	6.8	6.5
July	4,645	−0.2	4,332	−0.4	313	3.6	6.7
August	4,634	−0.2	4,323	−0.2	312	−0.4	6,7
September	4,633	0.0	4,328	0.1	305	−2.0	6.6
October	4,652	0.4	4,350	0.5	302	−1.2	6.5
November	4,686	0.7	4,391	0.9	295	−2.3	6.3
December	4,729	0.9	4,460	1.6	269	−8.8	5.7

(a) Including population aged 15 and over.

Source: National Bureau of Statistics.

TABLE 6
Price indexes

DATE	CONSUMER PRICE INDEX (April 1989 = 100)			WHOLESALE PRICE INDEX (December 1974 = 100)		
	Index	Variations		Index	Variations	
		Month	12 months		Month	12 months
1986 Average	65.4	–	17.4(a)	19,731	–	18.2(a)
1987 Average	78.4	–	21.5(a)	23,524	–	17.1(a)
1988 Average	89.9	–	12.7(a)	24,923	–	3.3(a)
1989 Average	105.2	–	21.4(a)	28,687	–	22.8(a)
1990 Average	132.6	–	27.3(a)	34,934	–	25.7(a)
1989						
January	97.0	1.1	13.1	25,761	1.0	6.2
February	97.1	0.1	12.8	26,327	2.2	9.1
March	99.0	1.9	12.9	26,701	1.4	9.9
April	100.0	1.0	13.2	27,208	1.9	10.8
May	102.0	2.0	14.8	27,842	2.3	12.5
June	103.8	1.8	16.2	28,336	1.8	12.9
July	105.7	1.8	18.1	28,913	2.0	14.7
August	106.7	1.0	18.4	29,531	2.1	17.8
September	109.0	2.1	19.8	30,105	1.9	19.2
October	112.1	2.9	21.4	30,886	2.6	21.1
November	114.1	1.7	21.2	31,335	1.5	23.1
December	116.5	2.1	21.4	31,305	–0.1	22.8
1990						
January	119.4	2.5	23.1	31,812	1.6	23.5
February	119.7	0.3	23.3	31,765	–0.1	20.7
March	122.6	2.4	23.9	31,918	0.5	19.5
April	124.8	1.8	24.8	32,397	1.5	19.1
May	126.7	1.5	24.3	32,621	0.7	17.2
June	129.5	2.2	24.8	33,254	1.9	17.4
July	131.6	1.7	24.6	34,510	3.8	19.4
August	134.3	2.0	25.8	35,337	2.4	19.7
September	140.9	4.9	29.3	37,253	5.4	23.7
October	146.2	3.8	30.4	39,341	5.6	27.4
November	147.5	0.9	29.4	39,645	0.8	26.5
December	148.3	0.5	27.3	39,360	–0.7	25.7

(a) December to December variation.

Source: National Bureau of Statistics.

TABLE 7

General index of wages

(December 1982 = 100)

DATE	NOMINAL				REAL			
	Index	% Variation			Index	% Variation		
		Month	12 month	Average (a)		Month	12 month	Average (a)
1986 Average	198.3	–	19.8(b)	22.0	94.6	–	2.1(b)	2.0
1987 Average	237.3	–	22.1(b)	19.7	94.4	–	0.5(b)	–0.2
1988 Average	290.0	–	17.5(b)	22.2	100.6	–	4.3(b)	6.5
1989 Average	345.8	–	25.2(b)	19.2	102.5	–	3.1(b)	1.9
1990 Average	443.8	–	33.8(b)	28.4	104.4	–	5.0(b)	1.8
1989								
January	315.9	2.2	17.3	17.3	101.6	1.1	3.7	3.7
February	320.0	1.3	17.6	17.5	102.8	1.2	4.2	4.0
March	324.1	1.3	17.4	17.5	102.2	–0.6	4.1	4.0
April	331.1	2.2	18.5	17.7	103.3	1.1	4.7	4.2
May	337.1	1.8	18.7	17.9	103.1	–0.2	3.4	4.0
June	341.8	1.4	17.2	17.8	102.8	–0.4	0.9	3.5
July	348.3	1.9	18.0	17.8	102.8	0.1	–0.1	3.0
August	352.7	1.3	18.2	17.9	103.1	0.3	–0.1	2.6
September	357.3	1.3	19.3	18.0	102.3	–0.8	–0.4	2.2
October	362.1	1.4	20.6	18.3	100.8	–1.5	–0.6	1.9
November	371.7	2.6	21.9	18.7	101.7	0.9	0.6	1.8
December	387.0	4.1	25.2	19.2	103.7	2.0	3.1	1.9
1990								
January	399.7	3.3	26.5	26.5	104.5	0.8	2.8	2.8
February	400.8	0.3	25.2	25.9	104.4	0.0	1.6	2.2
March	407.7	1.7	25.8	25.8	103.7	–0.7	1.5	2.0
April	418.1	2.6	26.3	26.0	104.5	0.8	1.2	1.8
May	427.1	2.2	26.7	26.1	105.2	0.6	2.0	1.8
June	434.0	1.6	27.0	26.3	104.6	–0.6	1.8	1.8
July	445.8	2.7	28.0	26.5	105.6	1.0	2.7	1.9
August	453.3	1.7	28.5	26.8	105.3	–0.3	2.1	2.0
September	458.8	1.2	28.4	27.0	101.6	–3.5	–0.6	1.7
October	475.3	3.6	31.2	27.4	101.4	–0.2	0.6	1.6
November	487.7	2.6	31.2	27.8	103.1	1.7	1.4	1.6
December	517.6	6.1	33.8	28.4	108.9	5.6	5.0	1.8

(a) Variation between the cumulative average to such month and the cumulative average to the same month of the previous year.

(b) December to December variation.

Source: National Bureau of Statistics.

TABLE 8

Interest rates on Banco Central indexed instruments

(Percentages)

DATE	PRBC			PRC
	90 days	180 days	360 days	
1988				
December	5.1	5.3	5.5	–
1989				
January, 4	5.5	5.7	6.0	–
April, 24	5.8	6.0	6.4	6.9
June, 7	6.3	(*)	(*)	6.9
September, 5	6.8	(*)	(*)	6.9
1990				
January, 5	8.7	8.9	9.2	9.7
June, 1	8.7	8.9	9.2	(*)
August, 17	8.2	(*)	(*)	(*)
October, 31	7.2	(*)	(*)	(*)
November, 27	6.8	(*)	(*)	(*)

(*) Suspended.

TABLE 9

Behavior of major monetary aggregates

DATE	MONTHLY AVERAGES (Thousand millions of Ch$)			PERCENTAGE VARIATIONS					
				Month			12 month		
	E	M1A	M7	E	M1A	M7	E	M1A	M7
1989									
January	253	439	2,956	2.1	2.6	5.2	30.9	34.5	31.7
February	252	447	3,023	−0.6	1.9	2.3	28.1	32.2	33.6
March	260	464	3,111	3.1	3.8	2.9	30.3	32.9	33.1
April	272	453	3,138	4.9	−2.3	0.9	31.9	30.3	31.7
May	269	452	3,215	−1.4	−0.2	2.4	28.1	29.0	31.5
June	282	442	3,340	4.8	−2.2	3.9	38.0	23.7	34.6
July	268	453	3,480	−4.7	2.4	4.2	28.7	22.1	37.0
August	248	451	3,553	−7.7	−0.5	2.1	18.7	19.0	37.3
September	274	480	3,650	10.5	6.5	2.7	23.6	21.7	38.7
October	269	456	3,707	−1.8	−5.0	1.6	17.9	11.6	38.0
November	255	454	3,837	−5.2	−0.5	3.5	13.8	15.3	41.2
December	304	536	4,067	19.3	18.2	6.0	22.6	25.3	44.8
1990									
January	302	531	4,169	−0.7	−0.9	2.5	19.3	21.1	41.0
February	306	506	4,285	1.2	−4.8	2.8	21.4	13.1	41.7
March	317	539	4,456	3.8	6.7	4.0	22.2	16.3	43.2
April	337	549	4,514	6.3	1.7	1.3	23.9	21.1	43.8
May	339	538	4,616	0.6	−1.9	2.3	26.4	19.0	43.6
June	331	521	4,740	−2.6	−3.2	2.7	17.4	17.8	41.9
July	310	515	4,904	−6.3	−1.2	3.5	15.5	13.6	40.9
August	314	489	4,984	1.4	−5.0	1.6	26.8	8.4	40.3
September	350	547	5,163	11.4	12.0	3.6	27.9	14.0	41.5
October	346	496	5,305	−1.2	−9.4	2.8	28.7	8.7	43.1
November	330	490	5,519	−4.6	−1.1	4.0	29.4	8.1	43.8
December	381	602	5,783	15.6	22.8	4.8	25.4	12.3	42.2

E: Base Money.

M1A: Money in circulation + Non-financial private sector current accounts net of float + Demand deposits other than current accounts.

M7: M1A + Private sector time deposits + Demand and time savings deposits including those for housing + Banco Central instruments held by the public (non-financial private sector) + Treasury promissory notes held by the public (non-financial private sector) + Credit bills held by the public (non-financial private sector) + Private sector foreign currency deposits.

TABLE 10

Components of private monetary aggregates

Monthly averages

(Thousand millions of Ch$)

DATE	C	D1A	Dp	Ah	Instruments of the Banco Central	Treasury Promissory Notes	Credit Bills	Private Sect. Foreign Currency Deposits
1989								
January	157.3	281.5	981.3	356.5	613.1	23.8	251.4	291.3
February	163.7	283.4	991.7	362.3	633.7	22.4	261.7	304.5
March	168.3	295.5	989.7	369.6	676.2	21.8	276.5	313.7
April	164.9	288.1	1,009.4	375.1	688.0	21.2	272.4	319.5
May	164.5	287.8	1,015.1	383.0	738.0	22.5	280.1	323.5
June	164.4	277.8	1,057.7	389.9	808.5	22.7	288.6	330.0
July	162.1	290.8	1,106.0	397.3	870.2	22.4	290.4	340.4
August	158.5	292.3	1,140.7	403.3	879.5	23.4	300.7	354.9
September	171.4	308.8	1,151.5	407.7	905.5	23.5	309.2	372.0
October	165.9	290.1	1,179.8	410.8	929.1	23.4	315.6	392.5
November	167.6	286.0	1,241.2	414.2	971.5	22.1	327.7	406.9
December	195.3	340.8	1,287.6	418.9	1,040.4	23.4	342.7	418.1
1990								
January	186.2	345.1	1,347.5	425.6	1,062.3	24.0	346.4	432.2
February	193.5	312.1	1,375.6	430.2	1,148.6	22.6	360.3	442.3
March	197.9	341.5	1,373.0	439.8	1,255.1	23.5	372.0	452.9
April	197.5	351.2	1,409.9	442.3	1,272.6	22.3	362.9	455.4
May	193.4	344.7	1,465.1	451.0	1,298.2	18.7	384.3	460.9
June	193.5	372.6	1,513.4	460.7	1,352.9	20.5	391.7	479.6
July	187.5	327.0	1,569.3	468.5	1,432.6	19.6	401.2	498.1
August	188.3	300.4	1,568.6	477.1	1,500.8	19.2	414.5	514.9
September	204.5	342.8	1,576.1	486.2	1,574.9	16.8	433.0	528.4
October	190.2	305.4	1,676.2	494.9	1,659.1	17.7	442.0	519.6
November	194.0	296.1	1,755.5	514.7	1,752.1	18.6	471.5	516.2
December	231.9	368.3	1,748.5	535.2	1,849.6	18.9	495.1	535.2

SYMBOLS:

C : Money in circulation (held by the public).
D1A : Non-financial private sector current accounts net of float, less all deposits of the Treasury Banking Account. Float refers to documents received by banks and extended against all kinds of deposits (public, private, and interfinancial).
Dp : Private sector time deposits.
Ah : Demand and time savings deposits including those for housing.

RATIOS:

M1 : C + D1 (D1: Non-financial private sector current accounts net of float).
M1A : M1 + Dv (Dv: Demand deposits other than current accounts).
M2A : M1A + Dp (Dp: Private sector time deposits).
M3 : M2A + Demand and time savings deposits including those for housing.
M4 : M3 + Instruments of the Central Bank of Chile held by the public (non-financial private sector).
M5 : M4 + Treasury Promissory Notes held by the public (non-financial private sector).
M6 : M5 + Credit Bills held by the public (non-financial private sector).
M7 : M6 + Private sector deposits in foreign currency.

TABLE 11

Balance of payments

(Millions of US$)

ITEM	1988	1989	1990	Percentage Variation 1989	Percentage Variation 1990
I. Current Account	**–167**	**–767**	**–790**	**–359.3**	**–3.0**
A. Trade balance	**2,219**	**1,578**	**1,273**	**–28.9**	**–19.3**
1. Exports FOB	7,052	8,080	8,310	14.6	2.8
Copper	3,416	4,021	3,795	17.7	–5.6
Non-copper	3,636	4,059	4,515	11.6	11.2
2. Imports FOB	–4,833	–6,502	–7,037	34.5	8.2
Petroleum	–465	–589	–843	26.7	43.1
Non-petroleum	–4,368	–5,913	–6,194	35.4	4.8
B. Non-financial services	**–643**	**–634**	**–451**	**–1.4**	**–28.9**
C. Financial services	**–1,920(a)**	**–1,926**	**–1,811**	**0.3**	**–6.0**
D. Transfers	**177**	**215**	**199**	**21.5**	**–7.4**
II. Capital Account	**1,009**	**1,278**	**2,650**	**26.7**	**107.4**
A. Medium-and long-term capital	**982**	**712**	**2,067**	**–27.5**	**190.3**
1. Actual net foreign investment (b)	109	259	587	137.6	126.6
2. Loan disbursements under DL 600	521	437	887	–16.1	103.0
3. Other disbursements	1,001	1,046	1,336	4.5	27.7
4. Loan repayments	–479	–734	–743	53.2	1.2
5. Repayments with fruit promissory notes and foreign debt repurchase	–170	–296	0	74.1	–100.0
B. Short-term capital	**28**	**566**	**583**	**1,921.4**	**3.0**
1. Banking commercial lines	235	371	204	57.9	–45.0
2. Others	–207(c)	195	379	194.2	94.4
III. Errors and Omissions	**–110**	**–74**	**508**	**–32.7**	–
IV. Balance of Payments Surplus/Deficit	**732**	**437**	**2,368**	**–40.3**	**441.9**

(a) Including US$ 397.5 million interest accrued and negotiated under retiming.
(b) Including investment funds and ADRs, excluding Chapter XIX promissory notes and credit capitalization.
(c) Including US$ 397.5 million for interest retiming and US$ 225 million for payment of Banco Central-BIS loan.

TABLE 12
Trade balance

ITEM	Millions of US$			Percentage Variation		
	1988	1989	1990	1988	1989	1990
Balance of Trade Surplus/Deficit	**2,219**	**1,578**	**1,273**	**80.5**	**−28.9**	**−19.3**
Total Exports (FOB)	**7,052**	**8,080**	**8,310**	**35.0**	**14.6**	**2.8**
Copper	3,416	4,021	3,795	52.9	17.7	−5.6
Non-copper	3,636	4,059	4,515	21.6	11.6	11.2
Other major(a)	2,295	2,376	2,425	–	3.5	2.1
Non-traditional	1,341	1,683	2,090	–	25.5	24.2
Total Imports (FOB)	**4,833**	**6,502**	**7,037**	**21.0**	**34.5**	**8.2**
Total Imports (CIF)	**5,292**	**7,144**	**7,678**	**20.4**	**35.0**	**7.5**
Consumer goods (b)	935	1,054	1,043	20.9	43.8(c)	−1.1
Intermediate goods (b)	2,987	4,111	4,313	18.4	28.9(c)	4.9
Fuels	628	814	1,129	32.4	29.5(c)	38.8
Others	2,359	3,297	3,184	15.2	28.8(c)	−3.4
Capital goods (b)	1,370	1,980	2,322	24.4	42.3(c)	17.3

(a) Including iron, nitrate and iodine, silver, gold ores, fruit, fishmeal, sawn lumber, logs, planed wood, cellulose, methanol, lithium carbonate, oxide and ferromolybdenum, gold metal and dore.
(b) For 1989 and 1990, total accumulated in the year under the new classification.
(c) From figures for the old classification.

TABLE 13

Foreign trade indicators

ITEM	1988	1989	1990
Price of copper LME (US$/lb)	1.197	1.274	1.210
Price of petroleum (US$/barrel FOB)	14.6	17.1	21.6
LIBOR US$ (Nominal)	7.6%	9.4%	8.6%
International inflation	9.2%	3.2%	7.0%
Terms of trade index			
Total goods	1.000	0.960	0.860
Total non-copper and non-petroleum goods	1.000	0.939	0.858
Total exports			
Percentage variation of value	35.0%	14.6%	2.8%
Percentage variation of prices	28.2%	0.1%	–4.3%
Percentage variation of volume	0.0%	0.0%	7.4%
Copper exports			
Percentage variation of value	52.8%	17.7%	–5.6%
Percentage variation of prices (FOB)	54.3%	3.6%	–4.3%
Percentage variation of volume	–0.9%	13.6%	–1.4%
Non-copper exports			
Percentage variation of value	21.6%	11.6%	11.2%
Percentage variation of prices	10.7%	–3.2%	–4.3%
Percentage variation of volume	9.9%	15.3%	16.2%
Imports of goods (CIF)			
Percentage variation of value	20.4%	35.0%	7.5%
Percentage variation of prices	6.6%	4.2%	6.9%
Percentage variation of volume	12.9%	29.5%	0.6%

TABLE 14

International reserves of the Banco Central de Chile

(Millions of US$)

ITEM	1984	1985	1986	1987	1988	1989	1990
1. Gold	540	519	668	757	679	592	642
(Ounces Troy)	1,759	1,770	1,795	1,811	1,824	1,752	1,858
2. SDRs	12	0	1	41	44	24	1
3. Reserve position with IMF	0	0	0	0	0	0	0
4. Foreign currency assets	2,292	2,450	2,351	2,463	3,116	3,604	6,068
5. Other assets	−7	−16	86	62	32	−5	−202
6. Use of IMF credit	781	1,086	1,328	1,452	1,322	1,268	1,151
7. Short-term loans	480	325	0	225	0	5	10
I. International Reserves (a) (b)	**2,837**	**2,952**	**3,106**	**3,323**	**3,872**	**4,216**	**6,508**
II. Gross Reserves (a)(c)	**2,056**	**1,867**	**1,778**	**1,871**	**2,550**	**2,948**	**5,358**
III. Net Reserves (a) (d)	**1,576**	**1,542**	**1,778**	**1,646**	**2,550**	**2,943**	**5,347**

(a) Calculated from foreign currency and gold quotations in effect at the end of each period.
(b) (1 + 2 + 3 + 4 + 5).
(c) (I-6).
(d) (II-7).

TABLE 15

Average nominal exchange rate

(Ch$ /US$)

DATE	OBSERVED	REFERENTIAL	GAP (%)
1986 Average	192.9	191.0	1.0
1987 Average	219.4	218.0	0.6
1988 Average	245.0	246.0	−0.4
1989 Average	267.0	261.2	2.2
1990 Average	304.9	312.6	−2.5
1989			
January	247.1	250.7	−1.4
February	245.8	252.9	−2.8
March	249.6	253.1	−1.3
April	251.4	252.6	−0.5
May	252.4	254.6	−0.8
June	261.7	256.1	2.2
July	272.8	259.9	5.0
August	276.7	263.5	5.0
September	280.2	266.7	5.0
October	282.8	269.4	5.0
November	288.4	274.7	5.0
December	294.6	280.9	4.9
1990			
January	296.8	285.2	4.0
February	292.5	290.4	0.7
March	296.7	295.2	0.5
April	296.4	297.1	−0.2
May	297.0	302.6	−1.9
June	296.8	306.9	−3.3
July	296.7	311.2	−4.7
August	303.4	316.7	−4.2
September	308.4	321.3	−4.0
October	312.5	329.2	−5.0
November	326.9	342.9	−4.7
December	335.0	352.4	−5.0

TABLE 16
Real observed exchange rate
(1986 = 100)

DATE	TOTAL INDEX(a)			INDEX LESS LATIN AMERICA(b)		
	Index	Variation		Index	Variation	
		Month	12-month		Month	12-month
1986 Average	100.0	–	10.1(c)	100.0	–	9.7(c)
1987 Average	103.6	–	3.6(c)	103.4	–	3.4(c)
1988 Average	110.2	–	6.4(c)	107.1	–	3.6(c)
1989 Average	106.5	–	–3.4(c)	100.8	–	–5.8(c)
1990 Average(d)	103.9	–	–2.5(c)	98.0	–	–2.8(c)
1989						
January	105.5	0.1	–4.8	101.8	–0.8	–8.6
February	105.0	–0.5	–3.4	101.2	–0.6	–6.6
March	106.0	0.9	–3.5	100.7	–0.6	–7.5
April	102.4	–3.4	–7.3	100.9	0.2	–7.1
May	100.2	–2.1	–10.7	97.8	–3.1	–10.8
June	103.3	3.1	–10.2	98.2	0.4	–10.3
July	107.4	4.0	–5.5	102.5	4.3	–4.5
August	108.1	0.6	–4.4	102.3	–0.1	–2.3
September	108.2	0.1	1.0	100.8	–1.5	–3.2
October	108.5	0.3	0.1	100.4	–0.3	–4.2
November	110.9	2.1	2.8	101.0	0.6	–3.7
December	112.2	1.2	6.4	102.5	1.5	–0.1
1990(d)						
January	115.9	3.3	9.8	102.4	–0.1	0.6
February	114.8	–0.9	9.4	100.8	–1.6	–0.5
March	107.1	–6.8	1.0	98.6	–2.1	–2.0
April	103.2	–3.6	0.8	96.8	–1.8	–4.0
May	102.7	–0.5	2.5	96.8	0.0	–1.0
June	100.2	–2.4	–3.0	94.3	–2.5	–3.9
July	99.5	–0.7	–7.4	94.2	–0.1	–8.0
August	100.6	1.1	–7.0	97.3	3.2	–4.9
September	98.8	–1.8	–8.7	95.8	–1.5	–4.9
October	98.6	–0.2	–9.2	96.7	0.9	–3.7
November	102.2	3.6	–7.8	100.7	4.1	–0.3
December	102.7	0.6	–8.4	101.4	0.7	–1.1

(a) Defined as the nominal observed exchange rate multiplied by the quotient between relevant external inflation and CPI. External inflation is calculated from WPI of main trade partners, denominated in US dollars, weighted by the relative importance of Chilean imports (excluding petroleum) therefrom (approximately 68% of total Chilean imports in 1985).
(b) Same definition as in (a), excluding Latin America trade partners.
(c) Annual average variation.
(d) Provisional figures.

TABLE 17

Foreign debt (a)

(Millions of US$)

ITEM	1985	1986	1987	1988	1989	1990(b)
I. Total Foreign Debt (II + III)	**19,444**	**19,501**	**19,208**	**17,638**	**16,252**	**17,451**
Public sector	11,769	12,394	13,128	11,889	10,135	9,726
Private sector	7,675	7,107	6,080	5,749	6,117	7,725
With public guarantee	2,310	3,369	3,252	2,803	1,897	1,606
II. Medium-and Long-Term Foreign Debt	**17,650**	**17,814**	**17,191**	**15,452**	**13,279**	**14,095**
Public sector	10,552	11,483	12,075	11,048	9,063	8,768
Private sector	7,098	6,331	5,116	4,404	4,216	5,327
With public guarantee	1,963	2,896	2,650	2,043	1,068	581
III. Short-Term Foreign Debt	**1,794**	**1,687**	**2,017**	**2,186**	**2,973**	**3,356**
Public sector	1,217	911	1,053	841	1,072	958
Private sector	577	776	964	1,345	1,901	2,398
With public guarantee	347	473	602	760	829	1,025
IV. International Monetary Fund	**1,085**	**1,328**	**1,452**	**1,322**	**1,268**	**1,151**

(a) Balances as of December 31 of each year, based on net disbursements. Excluding debt owed to the IMF and foreign commercial credit lines (anticipated export earnings and pending import payments).

(b) Provisional figures.

TABLE 18
Foreign debt indicators

ITEM	1984	1985	1986	1987	1988	1989	1990(a)
			(millions of US$)				
Total foreign debt	18,877	19,444	19,501	19,208	17,638	16,252	17,451
International reserves	2,056	1,867	1,778	1,871	2,550	2,948	5,358
Debt service	2,557	2,364	2,299	1,826	2,261	2,371	2,344
Interest on total foreign debt	2,069	1,838	1,772	1,516	1,612	1,559	1,601
			(percentages)				
Total foreign debt / Exports of goods	517.1	511.1	464.4	367.7	250.1	201.1	210.0
Debt service / Exports of goods	70.0	62.1	54.8	35.0	32.1	29.3	28.2
Interest / Exports of goods	56.7	48.3	42.2	29.0	22.9	19.3	19.3
International reserves / Foreign debt	10.9	9.6	9.1	9.7	14.5	18.1	30.7
			(months)				
International reserves / Imports	8	8	7	6	6	5	9

(a) Provisional figures.

TABLE 19

Chilean foreign debt redeemed through conversion operations regulated by the Banco Central de Chile (a)

(Millions of US$)

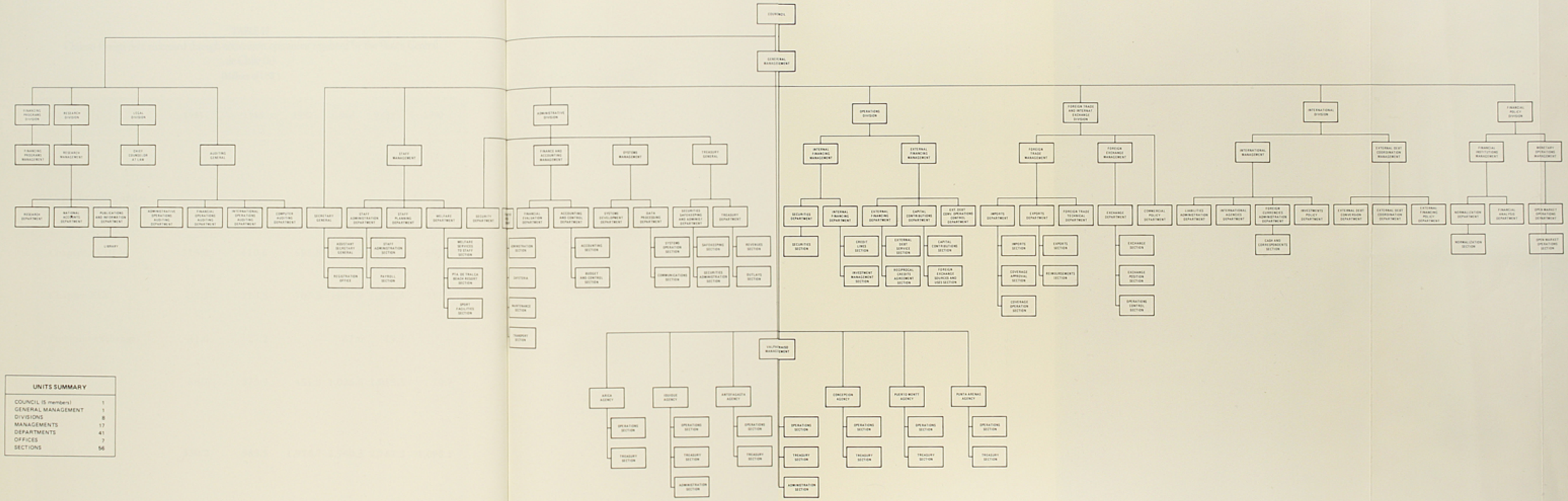
ITEM	1985	1986	1987	1988	1989	1990
Capitalizations under DL 600 and others	53.0(b)	56.3	124.6	51.5	2.4	15.9
Chapter XVIII	115.2	410.6	695.8	909.3	410.3	591.4
Chapter XIX	32.3	213.5	707.3	885.9	1,321.4	417.5
Portfolio exchange	41.0	27.2	–	67.6	19.7	–
Others	88.7	275.9	451.0	1,026.0	1,013.5	70.7
Total	**330.2**	**983.5**	**1,978.7**	**2,940.3**	**2,767.3**	**1,095.5**

(a) Materialized operations. Foreign debt securities are taken at face value.

(b) Including US$ 10.8 million capitalized before 1985.

II. ORGANIZATION CHART

BANCO CENTRAL DE CHILE
As of December 31, 1990



UNITS SUMMARY	
COUNCIL (5 members)	1
GENERAL MANAGEMENT	1
DIVISIONS	8
MANAGEMENTS	17
DEPARTMENTS	41
OFFICES	7
SECTIONS	56

BALANCE SHEET
As of December 31, 1990
(In millions of Chilean pesos)

ASSETS

OVERSEAS ASSETS		2,797,652.9
ASSETS RESERVE	2,682,199.6	
Gold	226,973.6	
Foreign currencies	1,016,077.7	
Special drawing rights holdings	344.3	
IMF subscription	220,613.5	
Bonds, certificates of deposit and others	1,130,687.8	
Mutual Loan Agreements	87,350.8	
Others	151.9	
OTHER OVERSEAS ASSETS	115,453.3	
Contributions made to other international organizations	65,194.4	
Interest receivable	41,548.9	
Others	8,710.0	
DOMESTIC ASSETS		5,038,005.7
DOMESTIC LOANS	5,038,005.7	
Fiscal loans	74,491.8	
Loans to public entities	181,233.7	
Loans to the Banco del Estado	211,575.7	
Loans to commercial banks	667,163.0	
Loans to other institutions	167,920.0	
Treasury transferred funds (Laws 18,267; 18,401 and 18,768)	2,538,919.1	
Loans to financial institutions with subordinate obligation (Law 18,401)	1,196,702.4	
OTHER ASSETS ACCOUNTS		764,412.9
Fixed assets	11,031.1	
U.S. dollars purchase with a resale obligation	653,948.8	
Others	99,433.0	
TOTAL ASSETS		8,600,071.5

Chilean currency and F/C equivalent
(US$ 1 = $ 353.84)
(Gold $ 1 = $ 719.09)

LIABILITIES AND EQUITY

OVERSEAS LIABILITIES		1,815,969.3
RESERVE LIABILITIES	786,529.5	
IMF loans	407,119.7	
Mutual credit agreements	158,797.6	
IMF deposits	220,612.2	
OTHER OVERSEAS LIABILITIES	968,377.7	
Loans and other liabilities	770,870.8	
Accounts with other international organizations	113,968.3	
Interest payable	83,538.6	
ALLOCATION OF SPECIAL DRAWING RIGHTS	61,062.1	
DOMESTIC LIABILITIES		5,343,367.2
BILLS ISSUED AND SIGHT DEPOSITS	394,898.5	
Bills and coins in circulation	339,124.6	
Financial institutions deposits (CH/C)	55,773.9	
DEPOSITS AND COMMITMENTS	1,279,940.4	
Deposits and commitments with the Treasury	447,347.1	
Other deposit commitments	832,593.3	
NOTES ISSUED BY THE BANCO CENTRAL	3,668,528.3	
Discountable notes issued by the Banco Central	52,420.0	
Readjustable promissory notes to be paid in Treasury bills (Agreement 1,909)	910,049.1	
Readjustable promissory notes with floating interest rate (FRPN)	86,016.9	
Promissory notes in respect of exchange differential	249,794.3	
Promissory notes on debt rescheduling	130,231.9	
Promissory notes on purchase of portfolio under Agreement 1,555	125,899.1	
Promissory notes expressed in US dollars	444,941.1	
Letters issued on purchase of portfolio	245,433.2	
Documents issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange)	280,036.8	
Promissory notes on purchase of letters of credit	79,357.4	
Readjustable promissory notes issued by the Banco Central	567,278.2	
Commercial effects due to redenomination of external debt	221,894.5	
Promissory notes stated in Unidades de Fomento (Agreement 1,836) from dollar certificates	213,676.3	
Others	61,499.5	
OTHER LIABILITY ACCOUNTS		877,054.7
Provisions	199,315.7	
US dollars purchase with resale obligation	659,676.1	
Others	18,062.9	
EQUITY		552,099.1
Capital	552,099.1	
NET INCOME FOR THE YEAR		11,581.2
TOTAL LIABILITIES AND EQUITY		8,600,071.5

STATEMENT OF INCOME
For the year ended December 31, 1990
(Millions of Chilean pesos)

OPERATING INCOME		
Interest earned	467,562.4	
Restatement gains on loans	645,724.7	
Income from price differences	35,929.6	
Income on exchange	403,498.9	
Other operating income	1,797.7	
Total operating income		1,554,513.3
OPERATING EXPENSES		
Interest expenses	495,442.1	
Restatement losses on loans	720,181.4	
Commission expenses	2,122.3	
Loss on sale of assets	10,451.9	
Loss on exchange	169,793.3	
Other operating expenses	8,603.5	
Total operating expenses		(1,406,594.5)
GROSS OPERATING INCOME		147,918.8
OTHER EXPENSES		
Personnel expenses	7,313.1	
Administrative expenses	2,731.8	
Depreciation and amortizations	1,244.2	
Taxes and contributions	448.4	
Total other expenses		(11,737.5)
Income before write-offs and provisions for loan losses and others		136,181.3
Write-offs and provisions for possible loan losses and others		(19,869.6)
NET OPERATING INCOME		116,311.7
Non operating income	3,884.9	
Non operating expenses	(19.1)	
Total non operating income		3,865.8
Income before price-level restatement		120,177.5
PRICE-LEVEL RESTATEMENT		(108,596.3)
NET INCOME FOR THE YEAR		11,581.2

The accompanying notes 1 to 23 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES APPLIED:

a) GENERAL

The financial statements have been prepared in accordance with generally accepted accounting principles and with the provisions of the Law 18,840 (Ley Orgánica Constitucional del Banco Central de Chile).

b) EXCHANGE RATES

Assets and liabilities in foreign currency have been translated into Chilean pesos at the exchange rate set by the Superintendency at the year-end, December 31, 1990. Those assets and liabilities expressed in minted Chilean gold coins are valued on the basis of the average London morning quotation of the "Gold Fixing" rate (U.S. dollars per troy ounce), for all business days in the preceding quarter, less 10%.
Settlements of foreign exchange positions were made according to the exchange rates given by the Superintendency.

The main rates used at the year-end are as follows:

	Ch. $
Minted Chilean gold coins	719.090
U.S. dollar	353.840
Pound sterling	661.383
Deutsche mark	229.023
Special drawing rights	500.821

c) LOANS RECEIVABLE AND PAYABLE

Non readjustable loans are shown at their original value or at their latest renewal value, with the exception of commercial instruments and discounted notes which are expressed at their nominal maturity value. Readjustable loans are shown with their corresponding accrued restatements at the balance sheet date, and loans expressed in foreign currency include their respective exchange adjustments. Accrued interest on loans receivable and payable at the balance sheet date is shown for residents abroad under Other Overseas Assets and Other Overseas Liabilities, respectively. Operations concerning domestic residents are included under Other Domestic Assets and Other Domestic Liabilities.
Prepaid interest on borrowings is included under Other Assets Accounts. Interest received in advance on loans is included under Other Liability Accounts.

d) PAST DUE LOANS RECEIVABLE

These are shown under Other Assets and include all those loans receivable which are more than 90 days overdue. Foreign loans are translated into Chilean pesos at the rate of exchange prevailing at the Balance Sheet date. Interest receivable on these loans and restatements, if applicable, was accounted for up to the maturity dates only.

e) FINANCIAL INVESTMENTS

Overseas financial investments are shown under Assets Reserve, as bonds, certificates of deposit and others, and include mainly government, overseas institutions and bank bonds and commercial instruments valued at cost. Interest receivable is shown under Other Overseas Assets.

f) PROPERTY, PREMISES, AND EQUIPMENT

These are shown under Other Assets Accounts, and are stated at cost, plus price-level restatements, net of accumulated depreciation. Depreciation has been computed by the straight-line method over the estimated useful lives of the assets.

g) EMPLOYEES SEVERANCE COMPENSATION

A provision for accrued severance compensation payable by the Bank as an acquired right of its staff for past services, in case of retirement or dismissal, has been set up each year based on the present value of the accrued cost, discounted at an 8% annual interest rate.

h) PROVISION FOR POSSIBLE LOAN LOSSES

The Bank, pursuant to the powers of the Council, which are set out in Article 18, number 9 of Law 18,840, has made provisions in the year for doubtful debts, under Resolution 85 and 87 dated December 20 and 27, 1990 respectively, of the Council. These provisions are included under Other Liability Accounts, and the resultant charge to income is detailed in Note 7.

i) INTER AMERICAN DEVELOPMENT BANK (IDB) SHARES AND CONTRIBUTIONS, AND INTERNATIONAL MONETARY FUND (IMF) CONTRIBUTIONS

Shares and contributions made by the Chilean Treasury to the Inter American Development Bank and contributions to the International Monetary Fund are carried at acquisition cost and contributions at restatement value, where applicable.
IDB shares and contributions are shown under Other Assets Overseas, as contributions made to other International Organizations. Contributions to the IMF in domestic and foreign currencies are shown under Overseas Asset Reserve as an IMF subscription. Shares and contributions made to the IDB and contributions to the IMF are considered investments, pursuant to Decree Law 2,943 of November 8, 1979.

j) REVENUE AND EXPENSE ACCOUNTS

Revenues and expenses are accounted for on an accruals basis.
Revenue and expense accounts, expressed in domestic currency, with the exception of depreciation, represent accumulations of amounts registered at the date the transactions were performed.

k) PRICE-LEVEL RESTATEMENTS

The effect of price-level restatements of equity, property, premises, equipment and other assets and liabilities after taking into account the changes in the consumer price index during the year is shown in the Statement of Income under price-level restatements and detailed in Note 6, likewise, exchange differences in assets and liabilities expressed in foreign currencies, and restatements of loans, are included under Operating Results.

2. FINANCIAL STATEMENTS PRESENTATION POLICIES

Under the provisions of Article 75 of Law 18,840, the Bank's Council, in advance of the favorable report of the Superintendency of Banks and Financial Institutions, established norms, requirements and general conditions with which the financial statements of the Banco Central must comply, under Resolution 4 of December 29, 1989, as amended by Resolution 87 of December 27, 1990.
The financial statements presentation follows an economic-accounting pattern which aims to show the institution's accounting and financial position, at the same time assisting the economic analyses of the Bank's operation by clearly distinguishing whether they are undertaken by domestic or overseas agents. In this manner the Bank's participation in the domestic supply of monetary assets and credit policy may be assessed together with their effect on the Bank's gearing position abroad.
The economic concepts of international reserves and Bills Issued are thus shown as Assets and Liabilities, under Assets Reserve and Bills Issued, respectively.

3. DOMESTIC LOANS

The headings Loans to Public Entities, Loans to the Banco del Estado, Loans to Commercial Banks, and Loans to Other Institutions include mainly: credit lines in respect of rescheduling of debts for $ 527,001.3 million; credit lines in respect of deposits under Agreement 1,686 for $ 161,660.3 million; assets from Corfo (Laws 18,577 and 18,401), for $ 103,545.4 million; credit lines to international organizations' programmes for $ 161,346.4 million; mortgage loans portfolio for $ 85,738.7 million and loans granted to Caja Central de Ahorros y Préstamos and Asociación Nacional de Ahorro y Préstamo for $ 88,586.4 million, as detailed in Note 15.

4. OTHER OVERSEAS LIABILITIES

Loans and other liabilities which are included under this heading consist mainly of credit agreements of the years 1983, 1984 and 1985 to grant new money for $ 463,947.1 million; rescheduling of foreign debts years 1983-1984, 1985-1987 and 1988-1991 for $ 212,915.6 million; and credit from the Inter American Development Bank (IDB) for $ 52,230.9 million; and deposits of the Banco Exterior de España S.A., (Resolution 1,872) for $ 36,198.6 million.

5. DEPOSITS AND COMMITMENTS

The heading "Other Deposits and Commitments" includes mainly the following: public sector time deposits for $ 283,997.7 million; Agreement 1,470 deposits (peso current accounts expressed in U.S. dollars) for $ 5,342.7 million; differential in exchange payable for $ 5,354.1 million; Banco del Estado de Chile deposits for $ 181,029.3 million; foreign currency current accounts for $ 28,961.7 million; outstanding balance on promissory notes acquired from Banco del Estado for $ 4,322.5 million; short-term certificates of deposit for $ 20,432.5 million and foreign currency deposits under Agreements 1,657 and 1,686 for $ 272,356.7 million.

6. PRICE-LEVEL RESTATEMENT

Price-level restatement as indicated in Note 1, letter k), resulted in a net charge to income of $ 108,596.3 million, as follows:

	(in millions of Chilean pesos) Debits (Credits)
Equity	125,438.3
Property, premises, and equipment	(3,121.2)
Other assets	(13,720.8)
Net effect on the results for the year	108,596.3

The change in the consumer price index amounted to 29.4%.

7. PROVISIONS AND WRITE-OFFS

The changes in provisions for assets exposed to risk during the year are summarized as follows:

	(in millions of Chilean pesos)
Balance brought forward 12.31.89	147,279.2
Exchange readjustments	31,544.5
Write-offs against provisions	(3.9)
Provisions set up during the year	18,516.9
Recovery of prior year's provisions	(45.6)
Balance at 12.31.90	197,291.1

The charge to income of the year arising from provisions set up amounting to $ 18,516.9 million is included under Write-offs and Provisions in the Statement of Income.
Also included under the heading Provision, Other Liability Accounts, is the amount of $ 2,024.6 million corresponding to the employees severance compensations payable as of December 31, 1990.

8. EMPLOYEES SEVERANCE COMPENSATION

On March 9, 1990, the Bank signed a collective bargaining agreement with the Union of Employees of the Banco Central, which took effect from March 1, 1990. Under the requirements of the twenty fifth point of the agreement, the method of gaining rights to employees' severance compensation was changed, for which reason, it was necessary to recognize a greater cost for this item. The amount corresponding to services performed, before the agreement was made, was accounted for as a deferred charge included within the heading "Others" within "Other Assets Accounts" for $ 443.1 million, and with a charge to income of $ 657.8 million for the cost accrued in 1990.

9. EQUITY AND RESERVES

a) INCREASES AND DECREASES IN EQUITY DURING 1990 ARE SUMMARIZED AS FOLLOWS:

	(in millions of Chilean pesos) Capital	Surplus	Total
Balance at 01.01.90	408,528.1	18,132.7	426,660.8
Distribution of 1989 surplus	18,132.7	(18,132.7)	–
Equity price-level restatement	125,438.3	–	125,438.3
Net income for the year	–	11,581.2	11,581.2
Balance at 12.31.90	552,099.1	11,581.2	563,680.3

b) IN ACCORDANCE WITH ARTICLE 2 OF THE LEY ORGANICA CONSTITUCIONAL DEL BANCO CENTRAL DE CHILE, THE CAPITAL OF THE BANK WAS INCREASED BY $ 500,000 MILLION, UNDER ARTICLE 5 OF THIS LAW, AS FOLLOWS:

		(in millions of Chilean pesos)	
Capital under Article 5, Law 18,840	–	–	500,000
Balances on 12.08.89:			
Capital	45,050.0	–	–
Fluctuation Reserve	251,525.8	–	–
Contingency Reserve	40,767.2	–	–
Equity Restatement Reserve	66,179.4	403,522.4	–
Surplus for 1989	–	18,132.7	421,655.1
Balance required			78,344.9

The surplus for 1989 has increased the initial capital under Council Resolution 08-05-900126.
The restatements of capital after December 8, 1989 correspond only to the price-level restatement of initial paid-up capital, and therefore are not taken into account for the purposes of making up the capital.

10. LOANS TO BE COLLECTED FROM THE CORPORACION DE FOMENTO DE LA PRODUCCION

Pursuant to Law 18,401, published in the Official Register on January 26, 1985, and its amendments, the Banco Central de Chile granted loans to the Corporación de Fomento de la Producción for the purchase of shares of financial institutions on behalf of third parties. According to provisions in Article 13 of the above mentioned Law, the outstanding amounts, of up to 15 million Unidades de Fomento will be transferred by the Treasury to the Banco Central.
As far as the information is currently available, this amount is considered sufficient.

11. PREFERENTIAL U.S. DOLLARS

Resolutions 1,466 dated September 3, 1982; 1,484 dated December 15, 1982; 1,556 dated February 22, 1984 and 1,657 dated June 27, 1985, of the Bank's Executive Committee, provided that certain commitments in foreign currencies or stipulated to be restated in foreign currency before August 6, 1982 may be repaid at a preferential exchange rate, the Banco Central bearing the difference between this exchange rate and the rate prevailing at the time of the repayment.
The estimated exchange differential payable as of December 31, 1990, is fully provided for an aggregate amount of $ 5,354.1 million.

12. LOANS TO FINANCIAL INSTITUTIONS WITH SUBORDINATE OBLIGATION (LAW 18,401)

Pursuant to Agreement 1,953, dated August 16, 1989, and the provisions of Article 15 of Law 18,401 amended by Article 3, letter (d) of Law 18,818 for those banks and financial institutions which had sold their loan portfolio in accordance with Agreements 1,450 and 1,555 and their coresponding amendments, and thereby had committed themselves to repurchase the portfolio, the Banco Central provided the option of novation for all the obligations resulting from these loan portfolio repurchase agreements, which were substituted by a subordinated obligation thus stipulated in a novation agreement.
The amount of the subordinate obligation is set up by the outstanding balance between the novated repurchase obligation, resulting from the amount paid for cash for the loan portfolio by the Banco Central, the amount paid for with one or more Treasury notes with non accrued interest, and the acumulative interest accrued at the novation date.

The maturity term of the subordinate obligation of the financial institutions is not determined until the date of actual settlement and has a cumulative surcharge of 5% per annum, on the outstanding amounts arising from the novated repurchased obligation, resulting from the amount paid for in cash by the Banco Central plus the cumulative interest accrued to the novation date. This accrued interest is considered as income for the Bank and recognized on an accruals basis.
The financial institutions commit themselves to allocate to the payment of this subordinate obligation all their annual profits in accordance with the Superintendency's regulations. Likewise, the financial institutions may, whenever they deem appropriate, pay their subordinate obligations with resources authorized by the above mentioned Superintendency. Consequently, the settlement of the said commitment is subjected to the financial institutions capability to generate income.
As at December 31, 1990 the subordinate obligation amounts to $ 1,176,678.1 million for the commercial banks involved in this novation agreement, and is included in the item Loans to Financial Institutions with Subordinate Obligation (Law 18,401) under the caption Domestic Assets of the Balance Sheet.
As at December 31, 1990, the Banco Central has set up provisions for $ 50,400.0 million for this purpose.
The Banco de Crédito e Inversiones chose not to be included in the novation option provided by Agreement 1,953 of the Executive Committee, thus keeping the obligation with the Banco Central to repurchase the portfolio in accordance with provisions in Agreement 1,555, and its corresponding amendments for the amount of $ 20,024.3 million as at December 31, 1990, as shown in the item Loans to Financial Institutions with Subordinate Obligation (Law 18,401).

13. INTEREST RATE HEDGING

Pursuant to Agreement 1,837, of December 23, 1987 the Executive Committee authorized the International Division to hedge interest rates on its liabilities. 9,266 "Eurodollars Futures Contracts" were executed in 1990, equivalent to US$ 9,266.0 million. For these contracts the Bank has set up guarantees for US$ 4.8 million, amount which is included under the heading Bonds, Certificates of Deposit and Others. During the period these contracts are in force the net unearned income from these contracts is shown as a current liability under the caption Others, in the item Other Liabilities Accounts, until the position is closed. The result of the interest accrued and paid is shown as a loss.
As at December 31, 1990 these transactions showed a loss equivalent to US$ 0.1 million.

14. TREASURY FUNDS TRANSFERRED TO THE BANCO CENTRAL DE CHILE (LAWS 18,267; 18,401 and 18,768)

The following amounts are included in the item Domestic Loans, under the caption Treasury Transfer (Laws 18,267; 18,401 and 18,768):

	(in millions of Chilean pesos)
a) Treasury promissory notes (Law 18,267)	302,290.7
b) Treasury transferred funds (Law 18,401)	56,452.3
c) Treasury promissory notes (Law 18,768)	2,180,176.1
Total	2,538,919.1

a) TREASURY PROMISSORY NOTES. LAW 18,267

According to provisions of Article 39 of Law 18,267 dated December 2, 1983, as supplemented by Decree 927 of the Ministry of Finance, dated December 12, 1983, the Treasury transferred to the Banco Central de Chile $ 100,000 million, by issuing 40 Treasury promissory notes with a 25 year maturity term, stated in Unidades de Fomento.
In the present period, the Treasury has redeemed these promissory notes before the due date for $ 81,766.0 million.

b) TREASURY TRANSFERRED FUNDS. LAW 18,401

This item shows the cumulative income included in the 15 million Unidades de Fomento as stipulated in Article 13 of the Law mentioned in Note 10 to the Financial Statements. The transferred amount results from the discounts granted to those shareholders benefited by provisions of Law 18,401.

c) TREASURY PROMISSORY NOTES. LAW 18,768

Provisions in Article 75 of Law 18,768 published in the Official Register on December 29, 1988, as supplemented by Supreme Decrees 1,257, of the Ministry of Finance, dated December 29, 1988, and 330, dated April 4, 1989, provided for the substitution of promissory notes stated in Unidades de Fomento and issued to the order of the Banco Central de Chile, under Decrees 1,067, of 1984; 1,197 of 1985; 938 of 1986 and 1,108 of 1987 of the Ministry of Finance, enacted according to provisions in the sole Article of Law 18,358, as amended, by notes denominated and payable in U.S. dollars, with the same date of issue and maturity date of the substituted notes. These notes have June 15, 1995 as the first maturity date and December 15, 2014, the last maturity date for the last of the 40 issues notes.
Pursuant to Supreme Decree 684, dated August 3, 1989 of the Ministry of Finance, the Treasurer of the Republic was authorized to prepay the Treasury promissory notes issued in accordance with Supreme Decrees 1,257, dated December 29, 1988 and 330, dated April 4, 1989, of the Ministry of Finance. The prepaid amount was identical to the corresponding value prevailing on the settlement date.
During the present year, the Treasury has not made any early redemption of these promissory notes.

15. LIQUIDATION OF THE CAJA CENTRAL DE AHORROS Y PRESTAMOS AND THE ASOCIACION NACIONAL DE AHORRO Y PRESTAMO (ANAP)

Under the provisions of Law 18,900 of January 16, 1990, the legal existence of the Caja Central de Ahorros y Préstamos, and the authorization for the existence of the Asociación Nacional de Ahorro y Préstamo, came to an end. The dissolution of their respective capitals was set out in this Law.
The liabilities of the Caja Central, and the Asociación Nacional which are not covered by the proceeds of their liquidation, will according to Article 5 of this Law, be met by a charge for the necessary funds from the national budget, in accordance with Article 21 of Decree Law 1,263 of 1975.
As at December 31, 1990, the amount owed to the Banco Central for the liquidation of these entities, including interest accrued to that date, amounted to $ 88,586.4 million, as set out in Note 3.

16. CHAPTER XIX TRANSACTIONS FROM THE FOREIGN EXCHANGE REGULATIONS

The Council of the Banco Central imposed fines for infringements of the regulations which govern these transactions during the year, which resulted in income for the Treasury of the Republic of US$ 2.2 million.
Similarly, the Bank received an indemnity for damages suffered, which amounted to US$ 8.6 million and is included under the heading of Non Operating Income in the Income Statement.

17. LOANS GUARANTEED BY U.S. GOVERNMENT BOND (REPURCHASE AGREEMENT)

The International Reserves Policy Committee of the Banco Central de Chile gave powers to the International Division through meeting Nº 51 of July 11, 1990 to formalize and carry out transactions in which the Banco Central de Chile gives as guarantee U.S. Government Bonds in return for which, the counterparty (the investing bank) authorizes a loan for the market value of the Bonds, and charges an interest rate for this service, which is paid at the maturity date of the loan, together with the capital. The Federal Reserve Bank acts as custodian of these transactions, and as at December 31, 1990, there were no balances recorded.

18. COMPOSITION BY REMAINING PERIOD OF THE NOTES ISSUED BY THE BANCO CENTRAL DE CHILE, AS AT DECEMBER 31, 1990

The notes issued by the Banco Central de Chile detailed according to the remaining time period for the different documents which make up the balance is set out below. The balances include accrued interest and restatements up to the balance sheet date.

Type of instrument	Up to 90 days	91-180 days	181-365 days	1-3 years	Over 3 years	Total
	M$	M$	M$	M$	M$	M$
Discounted notes issued by the Banco Central	52,420.0	–	–	–	–	52,420.0
Readjustable promissory notes to be paid in Treasury bills	33,253.5	20,450.1	37,270.1	161,479.8	657,595.6	910,049.1
Readjustable promissory notes with floating interest rate	2,687.9	76.1	–	–	83,252.9	86,016.9
Promissory notes in respect of exchange rate differential	9,057.1	4,377.8	9,829.5	50,171.8	176,358.1	249,794.3
Promissory notes for debt rescheduling	26,046.4	26,046.4	52,092.8	26,046.3	–	130,231.9
Readjustable promissory notes issued by the Banco Central (Agreement 1,555)	7,255.6	4,777.6	9,801.0	42,694.3	61,370.6	125,899.1
Promissory notes expressed in U.S. dollars (Agreement 1,460)	282,003.3	155,952.0	6,985.8	–	–	444,941.1
Letters issued on purchase of portfolio	–	–	–	–	245,433.2	245,433.2
Instrument issued on rescheduling of foreign debt (Compendium of Rules on International Exchange, Chapter XIX)	3,105.0	1,384.4	–	–	275,547.4	280,036.8
Promissory notes on acquisition of letters of credit (Agreement 1,506)	4,147.8	2,844.5	5,923.7	47,337.5	19,103.9	79,357.4
Readjustable promissory notes issued by the Banco Central	278,879.5	49,071.3	239,327.4	–	–	567,278.2
Commercial effects of the redenomination of foreign debt	3,721.1	609.8	–	703.4	216,860.2	221,894.5
Readjustable promissory notes in U.F. (Agreement 1,836)	9,263.9	–	–	–	204,412.4	213,676.3
Readjustable certificates of deposit	2,090.0	–	791.5	1,426.0	–	4,307.5
Promissory notes expressed in preferential rate U.S. dollars. (Agreement 1,470)	8,439.4	–	–	–	–	8,439.4
Banco Central promissory notes in preferential U.S. dollars	–	5.5	53.1	7.8	–	66.4
Certificates of deposit expressed in U.S. dollars. (Agreement 1,649)	737.2	–	–	13.9	17,955.5	18,706.6
Certificates expressed in U.F. (Agreement 1,691)	995.3	88.8	505.6	505.6	–	2,095.3
Banco Central promissory notes under Chapter XVIII of the Compendium of Rules on International Exchange	27,884.3	–	–	–	–	27,884.3
Total bills issued	751,987.3	265,684.3	362,580.5	330,386.4	1,957,889.8	3,668,528.3

19. BALANCES IN FOREIGN CURRENCIES AND GOLD

ASSETS	(Amounts expressed in millions of US$) at 12.31.1990
OVERSEAS ASSETS	7,265.3
Reserves	7,086.6
Other Overseas Assets	178.7
DOMESTIC ASSETS	6,561.3
Domestic Loans	6,561.3
OTHER ASSETS ACCOUNTS	1.4
Total Assets	13,828.0

LIABILITIES	(Amounts expressed in millions of US$) at 12.31.1990
OVERSEAS LIABILITIES	3,070.3
Reserves	448.8
Other Overseas Liabilities	2,448.9
SDR allocations	172.6
DOMESTIC LIABILITIES	4,114.2
Deposits and Commitments	2,705.3
Documents issued by the Banco Central de Chile	1,408.9
OTHER LIABILITY ACCOUNTS	6,643.5
Total Liabilities	13,828.0

20. CONTINGENCIES, COMMITMENTS AND OBLIGATIONS

a) MEMORANDUM ACCOUNTS:

The following balances are outstanding at December 31, 1990.

	(in millions of Chilean pesos)
Treasury operations	18.4
Exchange operations and overseas loan operations	3,278,704.6
Safekeeping and securities in guarantee operations	2,054,749.5
Total	5,333,472.5

b) CONTRACT OF SALE BETWEEN INMOBILIARIA BANDERA (CHILE) S.A. AND THE BANCO CENTRAL DE CHILE:

On June 20, 1989, a contract between Inmobiliaria Bandera (Chile) S.A. and the Banco Central de Chile was made for the purchase of a part of the Edificio Bolívar, being constructed in Santiago de Chile, calle Bandera Nº 140.
The above mentioned contract is affected by an indemnity compensation amounting to 300,000 Unidades de Fomento in case of breach of contract, such contingency is already included under the heading Memorandum Accounts.

c) THE FORMER BANCO NACIONAL

The former Banco Nacional has filed a suit against the Banco Central for recompense for the profit arising on the preferential rate dollar on various transactions carried out with its related companies.
This gave rise to a sue against the Banco Central, which in the first hearing was favorable to the former financial institution. The Banco Central has appealed against the sue because in its opinion, it correctly applied the norms which were in force at the time, and consequently it has not made provisions for this suit. The total amount claimed by the former Banco Nacional, in nominal values, is $ 1,000.3 million.

21. INCOME TAX

Pursuant to Decree Law 3,345, of April 24, 1980, the Banco Central de Chile is exempt from income taxes.

22. INCOME FOR THE YEAR

In accordance with the Bank's statutes of Law 18,840 the income for the year will be allocated to increase capital up to the amount of $ 500,000 million.

23. POST BALANCE SHEET EVENTS

No events occurred between the balance sheet date and the issue of the financial statements which would require them to be adjusted.

ENRIQUE TASSARA TASSARA
Provisional General Manager

FRANCISCO GARCIA LETELIER
Finance Accounting Manager

VICENTE MONTAN UGARTE
General Auditor

INDEPENDENT AUDITORS' REPORT

To the President and
Members of the Council of
the Banco Central de Chile

We have audited the balance sheet of the Banco Central de Chile as of December 31, 1990 and the related statement of income for the year then ended.

These financial statements (which include the corresponding notes) are the responsibility of the management of the Banco Central de Chile. Our responsibility is to express an opinion on these financial statements, based on the audit work we have performed.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Banco Central de Chile as at December 31, 1990, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

As described in Note 12, and in accordance with the Agreements 1,450 and 1,555 and subsequent modifications thereon, of the Executive Committee, the Banco Central de Chile purchased loan portfolios from financial institutions under reselling agreements subscribed by the parties. These repurchases were to be covered by future income generated during a defined number of years, which if necessary, could be extended. By virtue of Law 18,401, Art. 15, and Law 18,818, Art. 3 (d), the Banco Central de Chile, by Agreement 1,953, established that financial institutions which had outstanding loan portfolio repurchase contracts from the Banco Central de Chile, could have the option to novate those obligations replacing them for a subordinated commitment as set forth in a contract, which has an indefinite number of years to be complied with. As of December 31, 1990, the Banco Central de Chile includes within its local assets Ch $ 1,176,678.1 million representing the subordinated commitment of those institutions which signed the novation contract. According to the nature and characteristics of the novation contract mentioned above, the recoverability of these amounts is uncertain as it is dependent exclusively upon future net income generated by those institutions.

Vivian L. Clarke

LANGTON CLARKE Y CIA. LTDA.
COOPERS & LYBRAND

Santiago, January 11, 1991.

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