



BANCO CENTRAL DE CHILE

64th ANNUAL REPORT
1989



8 Escudos of 1836. Gold coin of 0.875 fineness; 37.5 millimeter and 27 gramme. (Law 1117, of October 24, 1834).

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AUTHORITIES OF BANCO CENTRAL DE CHILE

As of December 31, 1989

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Coordination Foreign Debt

VICTOR VIAL DEL RIO
Acting Secretary General

VICTOR VIAL DEL RIO
Chief Counsel



8 silver Reales. Fineness of 0.902; 40 millimeter and 27 gramme.

BRANCHES
As of December 31, 1989

ARICA
JORGE APABLAZA APABLAZA
Agent

IQUIQUE
MANUEL TORRES AGUIRRE
Agent

ANTOFAGASTA
AMADOR GARAY OTAIZA
Agent

VALPARAISO
PATRICIO TORTELLO ESCRIBANO
Manager

CONCEPCION
NIBALDO SCHONFFELDT DE CELIS
Agent

PUERTO MONTT
RAUL HELMKE BORNSCHEUER
Agent

PUNTA ARENAS
EDUARDO ROZAS NAVARRETE
Agent



Silver coins. XIX Century.



BANCO CENTRAL DE CHILE

Santiago, April 16th of 1990

Mr. Alejandro Foxley Rioseco
Minister of Finance
PRESENT

In accordance with the enacting sections 78 and 79 of ARTICLE ONE, of Law N° 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 1989.

ANDRES BIANCHI LARRE
President

I. REPORT

EVOLUTION OF CHILE'S ECONOMY DURING 1989

During 1989, Chile's economy exhibited a satisfactory performance. Thus, according to preliminary estimates, the country's Gross Domestic Product (GDP) grew by 10%; whereas inflation reached 21.4% and the balance of trade registered a US\$ 1,588 million surplus allowing for a annual reserves amount of US\$ 480 million.

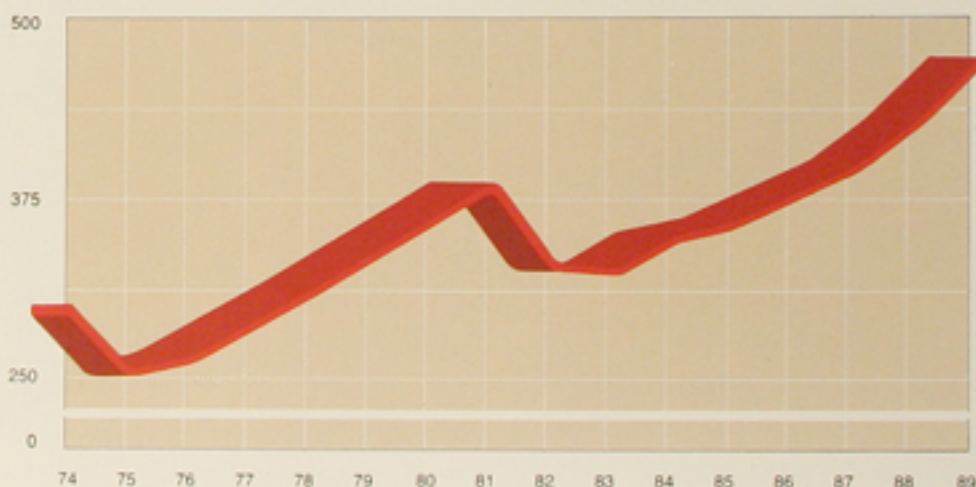
The economic policy remained within its global orientation intended to favor savings, investment and exports as the base for sustained growth, and implemented the necessary adjustments during 1989 to maintain the economy's advancement in that direction.

Activity and Employment

Preliminary estimates of the country's GDP point a 10% growth with respect to 1988, figure that exceeds by far the 5.5% projection established at the beginning of 1989. The higher rhythm of activity reached nearly all productive sectors. Particularly worth mentioning is the growth registered by the following sectors: Fishing (22.1%), Transport and Communications (14.4%), Trade (14.0%), Construction (12.7%) and Industry (10.0%), all of which exhibited higher growth rates than the economy's average.

GRAPH N° 1

Gross Domestic Product
(Millions of 1977 Ch\$)





A silver Peso of 1879: 0.900 of fineness; 37 millimeter and 25 gramme.

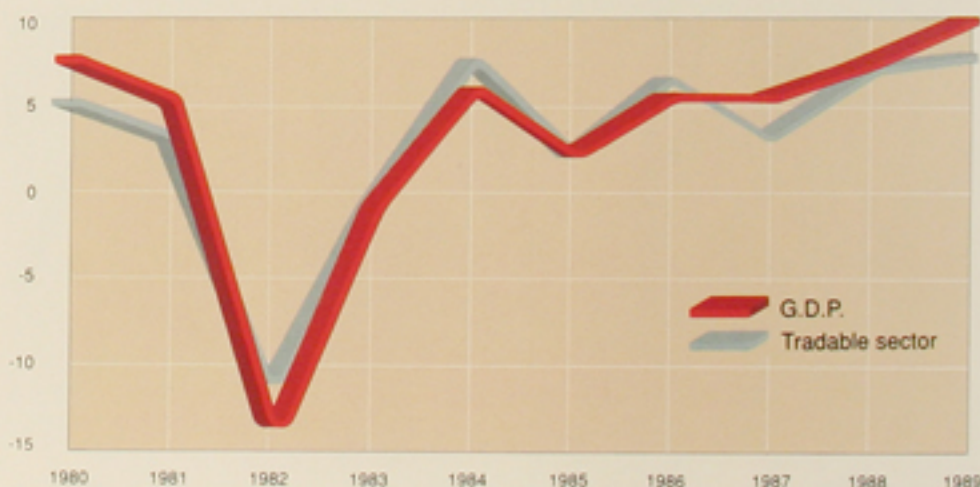
The efforts in terms of savings and investment have had encouraging results. The Gross Domestic Investment rate was 20.4% during 1989, whereas the Gross National Savings increased by 16.9%. The latter figure is noteworthy, since it more than doubled the figure achieved during the rest of the decade (8.2% in the 1980-1988 span).

Equally strong was the sharp increase experienced by the physical volume of goods and services exports, that amounted to 14.8%. This shows continued accomplishment of one of the basic objectives of the macroeconomic program implemented during the last years in order to sustain the growth of activity based upon higher levels of investment and exports.

The jobless rate continued with its downward trend prevailing since 1982, and has stabilized at a level of unemployment that can be considered normal in a medium term context. A survey carried out by the National Statistical Bureau (INE) shows that the national unemployment rate was 5.3% for the October-December moving quarter, that is one percentage point below the figure registered for the same 1988 quarter.

In absolute terms, the employment added 159,000 new jobs. This large number of jobs is of a strictly productive nature, since in February 1989, the government's emergency employment programs -minimum subsistence employment program (PEM) and household's heads

GRAPH N° 2
Annual Rate of Growth of GDP
and of tradable sector GDP
(Percentages)



occupational program (POJH)—were ended. The mentioned programs shared a high percentage of the labour force during the 1982-1983 economic crisis peak.

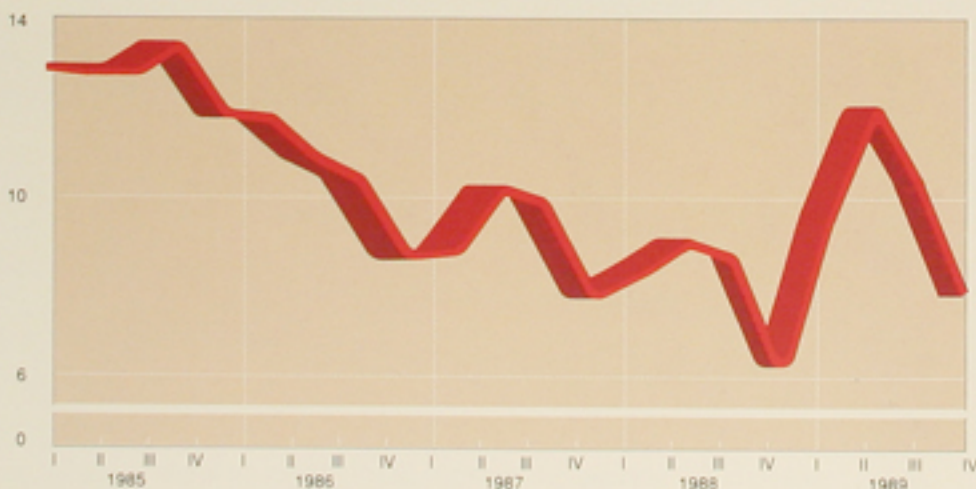
Growth in employment during 1989 was 5.2% higher than the 4.9% observed in 1988. The most dynamic sectors in terms of jobs generation were: Mining (17.4% growth between December 1989 and the same month of 1988), Industry (11.3%), Transport (9.6%), Construction (8.3%) and Financial Services (5.4%).

Inflation and Wages

The rate of inflation during 1989, measured according to the variation experienced by the CPI, was 21.4%. This figure represents a setback compared to the 1988, 12.7 per cent.

However, it is necessary to bear in mind that the trend exhibited by inflation during the above mentioned years has been affected by a series of factors that go beyond what could be considered to be the economy's inflationary trend. In fact, whereas in 1988 the fall registered by inflation was favored by the rebate experienced by the value added tax (VAT) from 20% to 16%, by the reduction of the specific tax on fuel and the approximately 29%

GRAPH N° 3
Unemployment Rate (Country)
(Percentages)

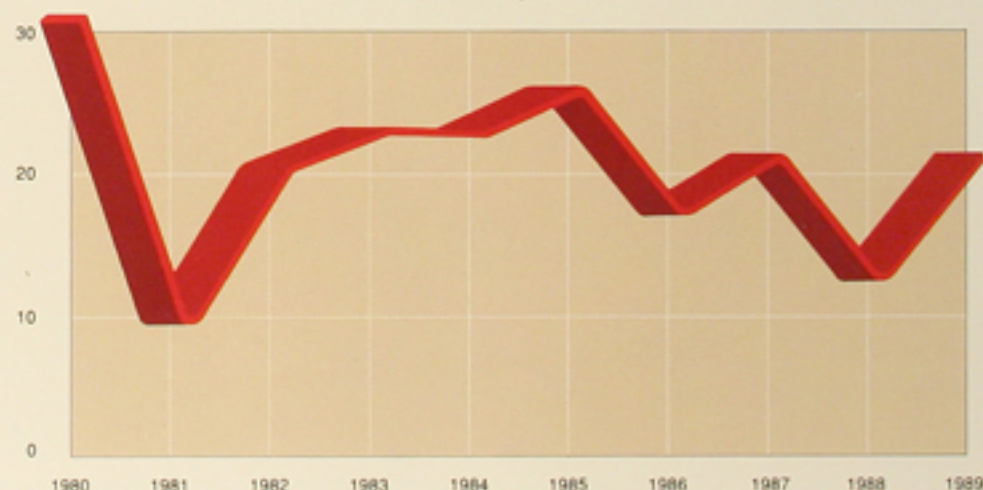


fall of the international oil price, in 1989, taxation remained steady and the international oil price increased by 31.5%.

An additional factor helping to boost the price increasing rhythm was the midyear decision to wide the dollar exchange band. According to such adjustment the maximum authorized range was risen from $\pm 3\%$ respect to the "agreed dollar" fixed by the Central Bank to a $\pm 5\%$. This measure, adopted in order to assign to the exchange rate a greater degree of responsibility in the currency market balance, caused a real devaluation of approximately 7.3% during 1989.

The annual increase for real wages was 3.1% as of December 1989 compared to the same month of 1988, pointing out to the high wages increase paid by sectors like: Construction (8.7%), Electricity, Gas and Water (8.0%) and Mining (4.7%). In the average, real wages increased by 1.9%.

GRAPH N° 4
Inflation Rate
(Percentages)





A silver Peso of Coquimbo (1828): 40 millimeter; 27 gramme; coin wedged at the Coquimbo Mint in La Serena.

Balance of Payments

According to preliminary estimates, the balance of payments would have registered a US\$ 480 million surplus in 1989, with a current account deficit of US\$ 758 million and a positive capital account balance –including errors and omissions– of US\$ 1,238 million.

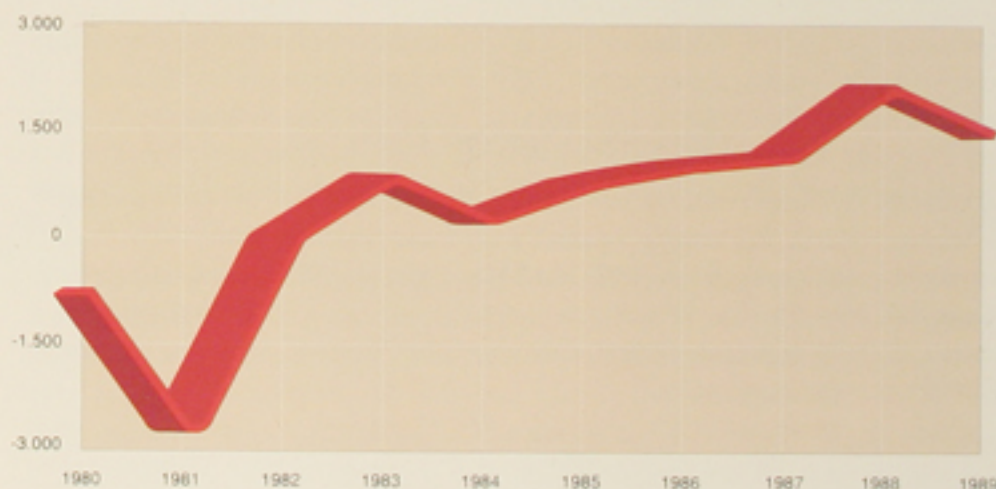
The current account deficit is basically explained by a negative balance of US\$ 2,586 million of the services account (non-financial services for US\$ 627 million and financial services for US\$ 1,959 million) partially compensated by a US\$ 1,588 million surplus of the trade balance and an amount of US\$ 241 million due to net external transfers.

During 1989, the trade surplus diminished, phenomenon entirely explained by the imports sharp increase (34.6%), amounting to a total of US\$ 6,505 million. This, since exports continued to grow (14.7%), amounting to almost US\$ 8,100 million.

Several factors influenced the growth experienced by the import of goods in 1989. Firstly, it is due to the strong growth in economic activity. Secondly, the starting-up of important investment projects also contributed to boost imports of capital goods and intermediate goods. Thus, upon assessing the incidence a higher import level has on the economy's

GRAPH N° 5

Trade Balance in Goods and Services (Millions of US\$)



perspectives, it cannot be ignored the connection it bears with the 1989's rate of investment and, its direct link with additional sources of foreign financing, as it is the case with large projects. Finally, another reason of the imports boots in 1989 was a greater inventory accumulation and anticipated expenses carried out by firms and consumers in response to the uncertainty generated by expectations of eventual changes in the near future on the economic policy orientation.

The growth in terms of exports is explained by an approximately 2% increase in average price and mainly by a 15% expansion in volume. Whereas copper exports owe their increase to price as much as to volumes, the growth experienced by non-copper exports is exclusively due to increases in terms of volume, around 13% since prices fell by approximately 1.0%.

Within non-copper exports, it is worth mentioning the growth in terms of volume registered by products like: fish meal, bulk iron, iodine and metallic gold, the increase of which fluctuated between a range of 11% to 30%.

The capital account experienced a positive US\$ 1,238 million balance. To this figure contributed firstly, a US\$ 1,580 million income as foreign investment (including credit capitalization and investment by means of promissory notes of the external debt) and secondly, disbursements of long and medium term external loans amounting to US\$ 1,490 million. The latter comprise US\$ 687 million in loans associated to foreign investment (D.L. 600 and Article 15) and US\$ 482 million from multilateral agencies loans (IDB-BIRF). The capital account was accomplished also by short term lines of credit related to foreign trade, for US\$ 776 million. Finally, the capital account registered extraordinary amortizations for US\$ 1,510 million and programmed amortizations for US\$ 840 million, of which approximately US\$ 82 million correspond to Central Bank debt rescue.

Money and Interest Rates

After the significant average growth of 40.2% experienced in 1988 by private nominal money (M1A), this variable registered a significant slowdown during 1989. Thus, its average annual growth was of 24.8%, exhibiting a sustained falling trend through the year. In fact, starting with a twelve months nominal growth rate of 33.2% during the first quarter and 27.7% in the second one, it reached to 29.9% and 17.4% during the third and fourth quarters, respectively.

Something similar, though of a minor magnitude, occurred with the currency, the average level of which, after a 30.9% increase in 1988, grew at a 24.0% in 1989. Just like M1A,

the currency exhibited a decreasing trend during 1989. In fact, after a 30.7% growth during the first quarter and a 27.4% in the second one, it increased by 19.5% during the third and by 18.3% in the fourth quarter.

The lower increase of these aggregates took place simultaneously with a high growth of GDP and interest rates in real and nominal terms. The latter increases responded to the policy applied by the Central Bank, in order to reduce the rhythm of growth on the monetary aggregates. In fact, as a result of the monetary policy implemented by the Central Bank to moderate the rhythm of growth, affecting domestic expenses and economic activity, the real interest rate observed a significant increase during 1989. Thus, the rate for deposits indexed at 90 days –that adequately reflects the conditions prevailing in the credit market– increased from an average of 5.5% during the first quarter of 1989, to an 8.7% during the last quarter registering a sustained growth in the course of the year.

External Debt

The country's overall external debt, as of December 31, 1989, amounted to US\$ 16,250 million, experiencing a US\$ 1,388 million (7.9%) reduction of the existing debt in December 31, 1988.

This result is explained by the fall experienced by the medium and long term debt that represented 81.7% of the total debt as of the end of December. The short term debt instead, experienced a US\$ 787 million increase in 1989 (36.0%), mainly explained by the financing needs of the observed increase in foreign trade volume. Presently, approximately 64% of the short term debt corresponds to public sector and the remaining 36% to private sector.

Medium and long term debt was reduced by US\$ 2,175 million in 1989 (14.1%), amounting to US\$ 13,277 million as of December 31, 1989. This decrease is mainly explained by the reduction registered in debt with banks, notwithstanding the positive flow of medium and long term loans received during the year that climbed to US\$ 636 million. This amounts is made up of disbursements for US\$ 1,477 million and effective amortizations for US\$ 841 million.

In 1989, debt with multilateral agencies increased by 11.8%, thus becoming a 24.6% of the total medium and long term debt as of December 1989. At the same date, debt with official agencies represented an 8.5% of the total –exhibiting a 13.8% increase during the year– and the debt sustained with banks and financial institutions amounted to 55.5%, figure that registered a sharp fall (–27.4%) compared to December of 1988. In absolute terms it implied a debt reduction of US\$ 2,777 million.

During 1989, the debt conversion mechanisms as factors of external debt reduction continued to play a significant role. In fact, by means of these procedures, a total of US\$ 2,767 million were converted, equivalent to 17.9% of the medium and long term debt existing as of December 31, 1988. From June 1985 until December 31, 1989, debt conversions add up to an accumulated total of US\$ 8,987 million, of which 82.5% corresponds to public sector debt, including state guaranteed private debt. Of this overall figure, 63.4% has been converted through operations carried out according to Chapters XVIII and XIX.

In the course of 1989, the Central Bank reduced its external debt by US\$ 140.7 million via the repurchase of its liabilities in an international bidding. This operation carried out with the backing of the IMF and the World Bank involved an US\$ 82.3 million disbursement.

The external debt reduction, via different conversion mechanisms, as well as the positive exports evolution have enabled significant improvements of the external reliability indicators. In fact, the external debt has become to represent a 1.7 times the annual exports of goods and services, after the decade's peak of 4.4 in 1985. Somehow similar has been the trend of the debt-service and interest payments over exports ratios, which from peak values of 73% and 46% decreased to 26% and 18%, respectively.

CHART Nr. 1
Growth Rates of Gross National Product by Sector*
(Annual variation rate at constant 1977 prices)

SECTOR	1984	1985	1986	1987	1988	1989
Agriculture, Livestock & Forestry	7.1	5.6	8.7	4.5	5.7	3.1
Fishing	11.5	5.6	10.0	-8.0	2.6	22.1
Mining	4.4	2.2	1.4	0.0	4.2	8.4
Industry	9.8	1.2	8.0	5.5	8.7	10.0
Gas, Electricity & Water	7.0	3.5	6.5	3.8	9.3	4.7
Construction	4.2	16.1	1.3	10.6	6.1	12.7
Trade	5.0	1.7	5.5	7.5	9.8	14.0
Transport & Communications	6.0	5.5	8.1	10.1	11.5	14.4
Services 1/	5.4	0.0	4.7	5.8	5.8	8.8
Total GNP	6.3	2.4	5.7	5.7	7.4	10.0

1/ Includes financial services, housing real estate, education, health, other services, public administration, imputed cost to banking services, and duty on imports.

*/ Provisional figures.

CHART Nr. 2
Employment and Unemployment
Overall country

YEAR 1/	LABOR FORCE		EMPLOYED				RATE OF UNEMPLOYED PERSONS
			PRODUCTIVE EMPLOYMENT		FISCAL SUBSISTANCE EMPLOYMENT PROGRAMS		
	Thous. persons	Variation relative to previous year %	Thous. persons	Variation relative to previous year %	Thous. persons	Variation relative to previous year %	Percentage relative to labor force
1984	3,890.7	3.3	2,986.0	10.0	363.4	-27.3	13.9
1985	4,018.7	3.3	3,254.3	9.0	283.1	-22.1	12.0
1986	4,270.0	6.3	3,703.1	13.8	192.6	-32.0	8.8
1987	4,354.4	2.0	3,917.7	5.8	93.1	-51.6	7.9
1988	4,551.6	4.5	4,249.5	8.5	16.3	-82.5	6.3
1989	4,674.6	2.7	4,424.8	4.1	0.0	-	5.3

1/ Moving quarter ending in December.

Source: National Statistical Bureau.

CHART Nr. 3
Wage and Salaries General Index
(Base: 1985 = 100)

YEAR	NOMINAL		REAL 1/	
	Level	Variation relative to previous year %	Level	Variation relative to previous year %
1984	79.93	20.0	104.48	0.1
1985	100.00	25.1	100.00	-4.3
1986	121.96	22.0	102.08	2.1
1987	145.92	19.7	101.88	-0.2
1988	178.34	22.2	108.57	6.6
1989	212.65	19.2	110.62	1.9

1/ Deflated by CPI variation.

Source: National Statistical Bureau.

CHART Nr. 4
Consumer Price Index (CPI) and
Wholesale Price Index (WPI)

YEAR 1/	CPI		WPI	
	Index (April 1989 = 100)	Annual variation	Index (1974 = 100)	Annual variation
1984	47.25	23.0	13,685.6	36.5
1985	59.73	26.4	17,825.6	30.3
1986	70.10	17.4	21,077.2	18.2
1987	85.13	21.5	24,675.6	17.1
1988	95.93	12.7	25,493.6	3.3
1989	116.47	21.4	31,305.2	22.8

1/ As of December 31 of each year.

Source: National Statistical Bureau.

CHART Nr. 5
Balance of Payments
(Millions of US\$)

ITEM	1984	1985 1/	1986 1/	1987 1/	1988 1/	1989 1/
I. Current Account	-2,111	-1,329	-1,137	-808	-167	-758
1. Trade Balance	363	849	1,100	1,229	2,219	1,588
Exports	3,651	3,804	4,199	5,224	7,052	8,092
- Copper	1,604	1,789	1,757	2,235	3,416	4,041
- Others	2,047	2,015	2,422	2,989	3,636	4,051
Imports	-3,288	-2,955	-3,099	-3,994	-4,833	-6,505
2. Non-Financial Services	-556	-338	-434	-463	-643	-627
3. Financial Services	-2,025	-1,901	-1,887	-1,700	-1,920	-1,959
4. Transfers	107	61	84	126	177	241
II. Capital Account 2/	2,128	1,230	909	853	898	1,238
1. Foreign Investment 5/	67	112	319	924	1,011	1,580
2. Amortizations 3/	-498	-625	-719	-1,136	-1,620	-2,351
3. Disbursements Medium & Long Term Loans	1,618	1,471	1,219	1,054	1,522	1,490
- Foreign Banks Loans 4/	(780)	(714)	(370)	(0)	(0)	(0)
- Others	(838)	(757)	(849)	(1,054)	(1,522)	(1,490)
4. Others 6/	941	272	90	12	-413	520
5. Interests Retiming	-	-	-	-	398	0
III. Balance of Payments (I + II)	17	-99	-228	45	732	480

1/ Provisional figures.

2/ Includes Central Banks' short term debt variation and includes entries "errors" and "omissions".

3/ Total amortizations, net of refinancing. Includes extraordinary amortizations for capitalization of loans and for Chapter XVIII only in 1985.

4/ "New Money" of foreign banks. In 1986 includes BIRF's co-financing.

5/ Includes loans capitalizations and, since 1985, investment with external debt promissory notes (Chapter XIX).

6/ Includes counterpart for Chapter XVIII operations only in 1985. Includes Central Bank short term debt (short term credits, short term commercial lines, BIS), other assets, and errors and omissions.

CHART Nr. 6
Gross External Debt 1/
(Millions of US\$)

ITEM	1985	1986	1987	1988	1989 */
I. External Debt Total (II + III)	19,444	19,501	19,208	17,638	16,250
Public Sector	14,079	15,763	16,380	14,692	12,025
Private Sector	5,365	3,738	2,828	2,946	4,225
II. Medium & Long Term External Debt	17,650	17,814	17,191	15,452	13,277
Public Sector	12,515	14,379	14,725	13,091	10,124
Private Sector	5,135	3,435	2,466	2,361	3,153
III. Short Term External Debt	1,794	1,687	2,017	2,186	2,973
Public Sector	1,564	1,384	1,655	1,601	1,901
Private Sector	230	303	362	585	1,072

1/ Balance as of December 31 of each year, referred to net utilizations. Excludes IMF debt and direct commercial debt associated to foreign trade (collections and loans to exporters).

*/ Provisional figures.

CHART Nr. 7
Interest Rates (%) 1/
(Average of the Banking System)

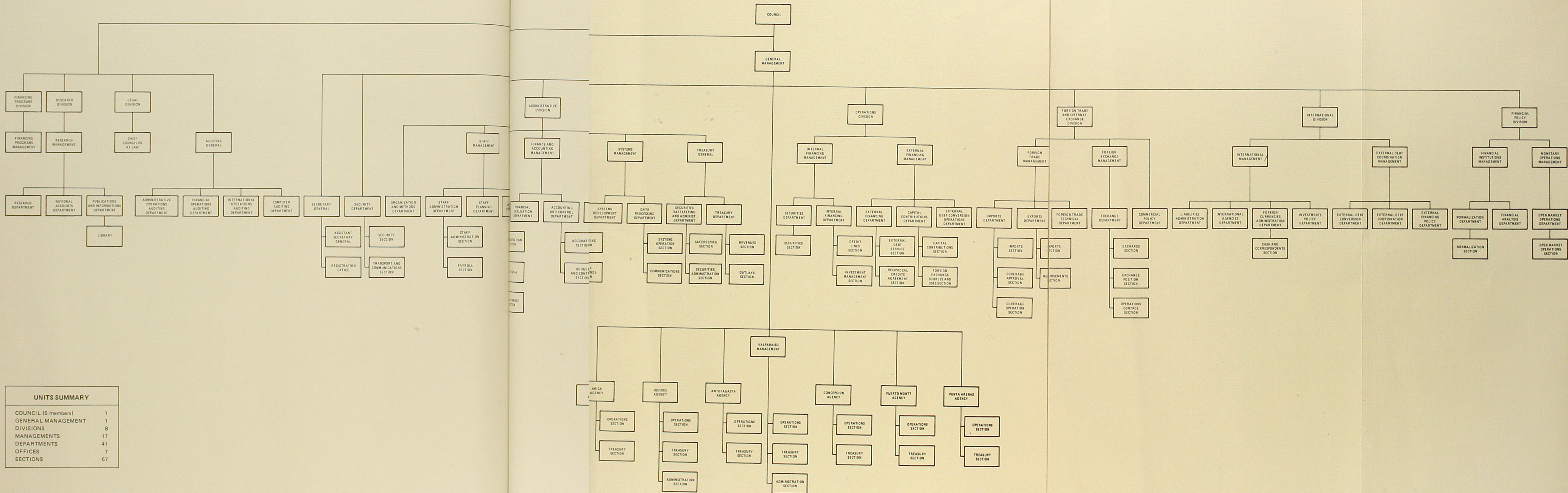
YEAR	30-89 DAYS' RATES			90-365 DAYS' RATES	
	NON-INDEXED		INDEXED	INDEXED	
	Deposits	Loans	Loans	Deposits	Loans
1984	1.97	2.70	8.82	8.42	9.00
1985	2.32	2.89	9.97	8.16	9.43
1986	1.46	1.96	7.95	4.13	7.67
1987	1.89	2.40	7.52	4.25	7.26
1988	1.17	1.61	7.96	4.58	7.63
1989	2.05	2.58	9.58	6.77	9.42

1/ Annual average.

II. ORGANIZATION CHART

BANCO CENTRAL DE CHILE

As of December 31, 1989



III. FINANCIAL STATEMENTS

BANCO CENTRAL DE CHILE

As of December 31, 1989

BALANCE SHEET
As of December 31, 1989
(In millions of Chilean pesos)

ASSETS

OVERSEAS ASSETS		1,577,469.4
ASSETS RESERVE	1,493,622.1	
Gold	167,463.4	
Foreign currencies	395,510.9	
Special drawing rights holdings	6,878.7	
IMF subscription	163,451.0	
Bonds, certificates of deposit and others	623,593.7	
Mutual Loan Agreements	136,227.1	
Others	497.3	
OTHER OVERSEAS ASSETS	83,847.3	
Contributions made to other international organizations	52,121.9	
Interest receivable	17,068.1	
Others	14,657.3	
DOMESTIC ASSETS		4,169,386.0
DOMESTIC LOANS	4,169,386.0	
Fiscal loans	76,397.7	
Loans to public entities	166,232.4	
Loans to Banco del Estado	178,721.7	
Loans to commercial banks	694,833.3	
Loans to other institutions	123,639.6	
Treasury transferred funds (Laws N° 18,267; N° 18,401 and N° 18,768)	1,972,298.7	
Loans to financial institutions with subordinate obligation (Law N° 18,401)	957,262.6	
OTHER ASSETS ACCOUNTS		611,843.7
Fixed assets	8,417.1	
U.S. dollars purchase with obligation to resell	579,692.0	
Others	23,734.6	
TOTAL ASSETS		6,358,699.1

Chilean currency and F/C
equivalent
(US\$ 1 = \$ 282.89)
(Gold \$ 1 = \$ 562.61)

LIABILITIES AND EQUITY

OVERSEAS LIABILITIES		<u>1,616,693.5</u>
RESERVE LIABILITIES	659,615.0	
IMF loans	358,611.7	
Mutual credit agreements	137,552.2	
IMF deposits	163,451.1	
OTHER OVERSEAS LIABILITIES	911,837.5	
Loans and other liabilities	725,204.1	
Accounts with other international organizations	84,886.8	
Interest payable	91,357.2	
Others	10,389.4	
ALLOCATION OF SPECIAL DRAWING RIGHTS	45,241.0	
DOMESTIC LIABILITIES		<u>3,544,632.7</u>
EMISSION	280,554.0	
Bills and coins in circulation	264,829.4	
Financial institutions deposits (CH/C)	15,724.6	
DEPOSITS AND COMMITMENTS	1,016,565.8	
Deposits and commitments with the Treasury	236,325.1	
Other deposits commitments	780,240.7	
NOTES ISSUED BY BANCO CENTRAL	2,247,512.9	
Readjustable notes issued by Banco Central	275,272.0	
Readjustable promissory notes to be paid in Treasury bills (Agreement N° 1,909)	294,550.7	
Readjustable promissory notes with floating interest rate (FRPN)	65,740.7	
Promissory notes in respect of exchange differential	201,041.6	
Promissory notes on debt rescheduling	183,971.6	
Promissory notes on purchase of portfolio under Agr. N° 1,555	121,272.4	
Promissory notes stated in US dollars	227,488.6	
Letters issued on purchase of portfolio (Agr. N° 1,555)	226,198.5	
Documents issued on rescheduling of foreign debt (Compendium in Chapter XIX on Foreign Exchange Norms)	177,782.8	
Promissory notes on purchase of letters of credit	69,360.5	
Non-transferable deposit certificates (Agr. N° 1,649)	71,246.2	
Commercial effects due to redenomination of external debt	104,682.8	
Promissory notes stated in Unidades de Fomento (Agr. N° 1,836) from dollar certificates	162,281.7	
Others	66,622.8	
OTHER LIABILITY ACCOUNTS		<u>770,712.1</u>
Provisions	148,293.3	
US dollars purchase with obligation to resell	580,449.2	
Others	41,969.6	
EQUITY		<u>408,528.1</u>
Capital	408,528.1	
NET INCOME FOR THE YEAR		<u>18,132.7</u>
TOTAL LIABILITIES AND EQUITY		<u><u>6,358,699.1</u></u>

STATEMENT OF INCOME

For the year ended December 31, 1989
(Millions of Chilean pesos)

OPERATING INCOME		
Interest earned	387,189.9	
Restatement gains on loans	479,153.7	
Income from price differences	43,563.3	
Income on exchange	131,665.8	
Other income	<u>4,352.3</u>	
Total operating income		1,045,925.0
OPERATING EXPENSES		
Interest expense	388,951.7	
Restatement losses on loans	387,307.2	
Commission expense	5,216.7	
Loss on sale of assets	7,361.7	
Loss on exchange	68,515.9	
Other operating expenses	<u>8,290.2</u>	
Total operating expenses		(865,643.4)
GROSS OPERATING LOSS		180,281.6
OTHER EXPENSES		
Personnel expenses	5,378.3	
Administrative expenses	2,246.0	
Depreciation and amortizations	767.6	
Taxes and contributions	<u>616.4</u>	
Total other expenses		(9,008.3)
Income before charge-offs and provisions for loan losses		171,273.3
Charge-offs and provisions for possible loan losses		(84,467.8)
NET OPERATING INCOME		86,805.5
Non operating income	579.3	
Non operating expenses	<u>(6.6)</u>	
Total non operating income		572.7
Income before price-level restatement		87,378.2
PRICE-LEVEL RESTATEMENT		(69,245.5)
NET INCOME FOR THE YEAR		<u>18,132.7</u>

The notes 1 to 21 are 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) published in the Official Register on October 10, 1989, which came into effect on December 9, 1989. Pursuant to the provisions in Article 75 of the above mentioned Law, the Consejo del Banco Central (Central Bank Council) with the agreement of the Superintendencia de Bancos e Instituciones Financieras (the Superintendency) established the norms, regulations and general conditions for the financial statements of the Central Bank, as enacted in Agreement Nº 04, dated December 29, 1989.

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, 1989. 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 ounce troy), for all business days in the preceeding quarter, less 10%.

Settlement 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	562.610
U.S. dollar	282.890
Pound sterling	459.984
Deutsche mark	166.308
Special drawing rights	371.059

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 Asset 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 overdue for more than 90 days from their maturity. 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, were accounted for up to their maturity dates.

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 Asset 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. This amounts to \$ 1,041.1 million at December 31, 1989 and it is included under Other Liability Accounts.

h) PROVISION FOR POSSIBLE LOAN LOSSES

The bank, pursuant to the powers of the Executive Committee until December 8, 1989, and the powers of the Bank's Council as from December 9, 1989, has set up provisions, as at December 31, 1989, for overdue loans and doubtful debts, under Resolutions N° 1,911, dated January 25, 1989, N° 1,955, dated August 30, 1989, N° 1,961, dated September 27, 1989, N° 1,972, dated November 22, 1989 and N° 1,975, dated December 6, 1989 of the Executive Committee, and Resolution N° 04, dated December 29, 1989, of the Bank's Council. The provisions are included under Other Liability Accounts, and the charge to income is detailed in Note 8.

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 acquisitions costs, and contributions at restatement value, when 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 accrual basis.

Revenue and expense accounts, expressed in domestic currency, with the exception of depreciation, represent accumulations of amounts registered at 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 considering 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 N° 7. 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

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 performed 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 over the Bank's gearing position abroad. The economic concepts of international reserves and emission are thus shown as Assets and Liabilities, under Asset Reserve and Issues, respectively.

3. OTHER OVERSEAS ASSETS

Other Assets, included under this caption, consists of the amount of \$ 8,695.1 million corresponding to 15.5 million of gold purchased with obligation to resell, and it is detailed under the caption Other Overseas Liabilities as Others.

4. DOMESTIC LOANS

The items Loan to Public Entities, Loans to Banco del Estado, Loans to Commercial Banks, and Loans to other Institutions include mainly: credit lines in respect of rescheduling of debts for \$ 476,509.2 million; credit lines in respect of deposits under Agreement N° 1,686 for \$ 164,695.0 million; loans granted to Asociación Nacional de Ahorro y Préstamo (ANAP) for \$ 51,314.0 million receivable assets from Corfo (Laws N° 18,577 and N° 18,401), for \$ 90,016.0 million; credit lines to international organizations programmes for \$ 119,494.3 million; mortgage loans portfolio for \$ 72,082.1 million, and loans granted to Caja Central de Ahorro y Préstamos for \$ 17,367.7 million.

5. OTHER OVERSEAS LIABILITIES

Loans and other liabilities which are included under this caption consist mainly of credit agreements of the years 1983, 1984 and 1985 to grant new money for \$ 437,799.9 million; rescheduling of foreign debts years 1983-1984, 1985-1987 and 1988-1991 for \$ 210,895.4 million, and Inter American Development Bank (IDB) for \$ 41,677.1 million.

6. DEPOSITS AND COMMITMENTS

The item "Other Deposits and Commitments" includes mainly the following: Public sector time deposits for \$ 254,467.3 million; Agreement N° 1,470 deposits (peso current accounts expressed in U.S. dollars) for \$ 2,774.3 million; differential in exchange payable for \$ 4,476.6 million; Banco del Estado de Chile deposits for \$ 181,430.0 million; foreign currency current accounts for \$ 15,965.9 million; outstanding balance on promissory notes acquired from Banco del Estado for \$ 5,760.6 million; deposits on import operations for advance sales of foreign currencies for \$ 47,397.1 million; short-term certificates of deposit for \$ 4,897.6 million; taxes withheld and payable for \$ 7,985.0 million; and foreign currency deposits under Agreements N° 1,657 and N° 1,686 for \$ 228,353.9 million.

7. PRICE-LEVEL RESTATEMENT

Price-level restatement as indicated in Note 1, letter k), resulted in a net charge to income of \$ 69,245.5 million, as follows:

	(in millions of Chilean pesos)
	Debits (Credits)
Equity	71,185.1
Property, premises, and equipment	(1,763.4)
Other assets	(176.2)
Net effect on the results for the year	<u>69,245.5</u>

The change in the consumer price index amounted to 21.1%.

8. PROVISION FOR POSSIBLE LOAN LOSSES

The changes in charge-offs and provisions for possible loan losses during the year are summarized as follows:

	(in millions of Chilean pesos)
Balance brought forward 31.12.88	424,043.6
Exchange readjustments	14,904.5
Charge-offs against provisions	(352,762.8)
Provisions set up during the year	70,433.9
Recovery of prior year's provisions	(9,340.0)
Balance at 31.12.89	<u>147,279.2</u>

The charge to income of the year arising from provisions set up amounting to \$ 70,433.9 million is included under Charge-offs, and Provisions in the Statement of Income.

Charge-offs against provisions for \$ 352,184.5 million with charge to income of the year for \$ 23,373.6 million resulted from financial institutions being liquidated. These are included under the caption Charge-offs and Provisions for Possible Loan Losses of the Statement of Income.

9. EQUITY AND RESERVES

Increases and decreases in equity during 1989 are summarized as follows:

	(in millions of Chilean pesos)					
	Capital	Reserve for Contingencies	Fluctuation Reserve	Restatement of equity reserve	Surplus	Total
Balance at 01.01.89	45,050.0	40,767.2	251,525.8	—	260.2	337,603.2
Distribution of 1988 surplus and payments to the Treasury	—	—	—	—	(260.2)	(260.2)
Capitalization of reserves	292,293.0	(40,767.2)	(251,525.8)	—	—	—
Equity price-level restatement	—	—	—	71,185.1	—	71,185.1
Distribution of restatement of equity reserve	71,185.1	—	(71,185.1)	—	—	—
Net income for the year	—	—	—	—	18,132.7	18,132.7
Balance at 31.12.89	408,528.1	—	—	—	18,132.7	426,660.8

Pursuant to Agreement N° 04-10, dated December 29, 1989 of the Bank's Council and in accordance with Article N° 2 of the Ley Orgánica Constitucional del Banco Central de Chile, the balance in items Capital, Reserve for Contingencies, and Fluctuation Reserve of December 8, 1989, increased the capital of the Banco Central de Chile by \$ 500,000.0 million, according to Article N° 5 of the above mentioned Law.

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

Pursuant to Law N° 18,401, published in the Official Register on January 26, 1985, and its further amendments, Banco Central de Chile granted loans to the Corporación de Fomento de la Producción for the purchase of financial institutions shares, on behalf of a third party. According to provisions in Article N° 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 Central Bank.

Provisions in Article 3, letter e) of Law N° 18,818 published in the Official Register on August 1, 1989, include a new Article, N° 16, of Law N° 18,401, according to which those financial institutions owning shares through loans granted by Corporación de Fomento de la Producción, may, pursuant to Article 5 Law N° 18,401, purchase those credits from Corporación de Fomento in cash or by transfer of promissory notes issued by a third party in one or more installments.

As provided in Article 5 of Law N° 18,401 the amount to be paid by the financial institutions is affected by a discount if paid timely, and it is regulated by the market conditions. Corporación de Fomento may authorize these purchases in accordance with the Superintendency's regulations approval of pricing conditions.

Should all the financial institutions shareholders decide to choose this option, the 15 million Unidades de Fomento might be exceeded and the Central Bank would, consequently, bear the difference. Nevertheless, such situation has not occurred as of the date of preparing the financial statements.

11. PREFERENTIAL U.S. DOLLARS

Resolutions N°s 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 exchanging rate and the prevailing rate at the time of the repayment.

The estimated exchange differential payable as of December 31, 1989, is fully provisioned for an aggregate amount of \$ 4,476.6 million.

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

Pursuant to Agreement N° 1,953, dated August 16, 1989 and provisions in Article 15 of Law N° 18,401, amended by Article 3, letter d) of Law 18,818, the Central Bank provided, for banks and financial institutions which had sold their loan portfolio in accordance with Agreements N° 1,450 and N° 1,555 and their corresponding amendments, whereby those institutions had committed themselves to repurchase the portfolio, 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 Banco Central, the amount paid for with one or more Treasury notes with non accrued interest, and the cumulative 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 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 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 accrual basis.

The financial institutions commit themselves to allocate to the payment of subordinate obligation all their annual income in accordance with the Superintendency's regulations. Likewise, the financial institutions may, whenever they deem appropriate, pay their subordinate obligation 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, 1989, the subordinate obligation, amounts to \$ 930,640.4 million for the commercial banks involved in this novation agreement, and is included in the item Loans to Financial Institutions with Subordinate Obligation (Law N° 18,401) under the caption Domestic Assets of the Balance Sheet.

As at December 31, 1989, the Central Bank has set up provisions for \$ 32,000.0 million for this purpose.

Banco de Crédito e Inversiones chose not to be included in the novation option provided by Agreement N° 1,953 of the Executive Committee, thus keeping the obligation with Banco Central to repurchase the portfolio in accordance with provisions in Agreement N° 1,555, and its corresponding amendments for the amount of \$ 26,622.2 million as at December 31, 1989, as shown in the item Loans to Financial Institutions with Subordinate Obligation (Law N° 18,401).

13. INTEREST RATE HEDGING

Pursuant to Agreement N° 1,837, December 23, 1987 the Executive Committee authorized the International Division to hedge interest rates on its liabilities. 14,696 "Eurodollars Futures Contracts" were executed in 1989, equivalent to US\$ 14,696.0 million.

The net unearned income from these contracts is shown as Liabilities under the caption Others, in the item Other Liabilities Accounts, and the result of the interest accrued and paid is shown as losses.

As at December 31, 1989, these transactions showed a loss equivalent to US\$ 2.4 million.

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

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

	(in millions of Chilean pesos)
a) Treasury promissory notes (Law N° 18,267)	302,477.2
b) Treasury transferred funds (Law N° 18,401)	40,633.2
c) Treasury promissory notes (Law N° 18,768)	1,629,188.3
Total	<u>1,972,298.7</u>

a) TREASURY PROMISSORY NOTES. LAW N° 18,267

According to provisions in Article 39 of Law N° 18,267 dated December 2, 1983, as supplemented by Supreme Decree N° 927 of the Ministry of Finance, dated December 12, 1983, the Treasury transferred to Banco Central de Chile \$ 100,000 million, by issuing 40 Treasury promissory notes with a 25 year maturity term, stated in Unidades de Fomento.

b) TREASURY TRANSFERRED FUNDS. LAW N° 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 N° 10 to the Financial Statements. The transferred amount results from the discounts granted to those shareholders benefited by provisions of Law N° 18,401.

c) TREASURY PROMISSORY NOTES. LAW N° 18,768

Provisions in Article 75 of Law 18,768 published in the Official Register on December 29, 1988, as supplemented by Supreme Decrees N° 1,257, of the Ministry of Finance, dated December 29, 1988, and N° 330, dated April 4, 1989, provided for the substitution of promissory notes stated in Unidades de Fomento and issued to the order of Banco Central de Chile, under Supreme Decrees N° 1,067, of 1984, N° 1,197 of 1985, N° 938 of 1986 and N° 1,108 of 1987 of the Ministry of Finance, enacted according to provisions in the Only Article of Law N° 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 issued notes.

Pursuant to Supreme Decree N° 684, dated August 3, 1989 of Ministry of Finance, the Treasurer of the Republic was authorized to prepay the Treasury Promissory Notes issued in accordance with Supreme Decrees N° 1,257, dated December 29, 1988 and N° 330, dated April 4, 1989, of the Ministry of Finance. The prepaid amount was identical to the corresponding value prevailing on the settlement date.

As at December 31, 1989, the Treasury prepayments amounted to U.S. \$ 1,144.7 million, of capital, and U.S. \$ 35.1 million of accrued interests.

As at December 31, 1989, the balance of these promissory notes amounted to \$ 1,629,188.3 million and is included in the item Treasury Transferred Funds. (Promissory Notes Laws N° 18,267, N° 18,401, and N° 18,768).

**15. DEBT FROM ASOCIACION NACIONAL DE AHORRO Y PRESTAMO
(SAVINGS AND LOANS ASSOCIATIONS)**

The Asociación Nacional de Ahorro y Préstamo (ANAP) made a prepayment of \$ 91,359.8 million, on August 11, 1989, showing as at December 31, 1989 a debt amounting to \$ 51,314.0 million, guarantee by the state, originated on promissory notes issued by ANAP and endorsed by Caja Central de Ahorro y Préstamo to Banco Central de Chile.

16. PURCHASE OF FOREIGN DEBT PROMISSORY NOTES

Pursuant to Agreement N° 1,965, dated October 11, 1989, the Executive Committee decided to make an offer for prepayment of U.S. dollars, corresponding to loans payable by Banco Central, as a result of rescheduling agreements for 1983-1984, 1985-1987 and 1988-1991 and the new money agreements corresponding to 1983, 1984 and 1985. As result, Banco Central prepaid U.S. \$ 140.7 million with a discount of U.S. \$ 58.7 million, as shown in the Income Statement, under the caption income from price differences.

17. BALANCES IN FOREIGN CURRENCIES AND GOLD

(Amounts expressed in millions of U.S. \$)
at 31.12.1989

ASSETS	
OVERSEAS ASSETS	4,971.1
Reserves	4,822.3
Other Overseas Assets	148.8
DOMESTIC ASSETS	6,207.3
Domestic Loans	6,207.3
OTHER ASSETS ACCOUNTS	4.1
Total Assets	<u>11,182.5</u>

LIABILITIES

OVERSEAS LIABILITIES	3,586.8
Reserves	486.3
Other Overseas Liabilities	2,940.6
SDR allocations	159.9
DOMESTIC LIABILITIES	3,986.4
Deposits and Commitments	2,625.5
Documents issued by Banco Central de Chile	1,360.9
OTHER LIABILITY ACCOUNTS	3,609.3
Total Liabilities	<u>11,182.5</u>

18. CONTINGENCIES, COMMITMENTS AND OBLIGATIONS

a) MEMORANDUM ACCOUNTS

The following balances are outstanding at December 31, 1989.

	(in millions of Chilean pesos)
Treasury operations	13,097.0
Exchange operations and overseas loan operations	4,157,360.4
Safekeeping and securities in guarantee operations	1,235,780.9
Total	<u>5,406,238.3</u>

b) INPUT VALUE ADDED TAX ON GOLD PURCHASED THROUGH AGENTS

Exempted Resolution N° 23,498, November 15, 1988 of the Internal Revenue Service granted the application for annulment of a Tax assessment of Value Added Tax based on gold purchased by the Bank through its purchasing agents.

On March 18, 1989, Banco Central de Chile collected the amount of \$ 725.4 million as a remaining surplus resulting from the above mentioned exempted Resolution N° 23,498 dated November 15, 1988.

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

On June 20, 1989, a contract between Inmobiliaria Bandera (Chile) S.A. and Banco Central de Chile was agreed for the purchase of a part of Edificio Bolívar, being constructed in Santiago de Chile, calle Bandera N° 140.

The above mentioned contract is affected by an indemnity compensation amounting to 300,000 Unidades de Fomento in case of breach of contract.

19. INCOME TAX

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

20. INCOME FOR THE YEAR

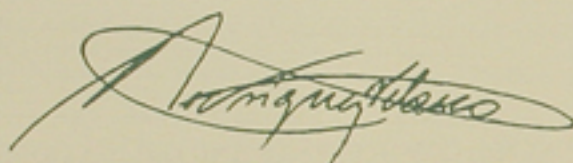
In accordance with the Bank's statutes of Law N° 18,840 the income for the year will be allocated to increase capital up to the amount of \$ 500,000 million.

21. SUBSEQUENT EVENTS

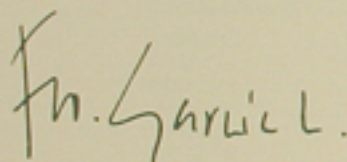
Pursuant to Law N° 18,900, published in the Official Register on January 16, 1990, the Caja Central de Ahorro y Préstamo is legally liquidated and Asociación Nacional de Ahorro y Préstamo ceases to exist, and the liquidation of their respective equities is authorized, as enacted in the above mentioned Law.

Article 5 of Law N° 18,900 provided that the difference resulting from the liquidation of net assets and the respective obligations of Caja Nacional de Ahorro y Préstamos y Asociación Nacional de Ahorro will be borne by the Treasury in accordance with the National Budget, as enacted in Article 21 of Law 1,263 of 1975.

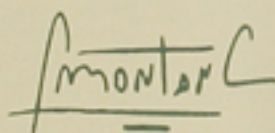
As at December 31, 1989, Banco Central de Chile records the amounts of \$ 17,367.7 million in loans granted to Caja Central de Ahorro y Préstamo, and of \$ 51,314.0 million to Asociación Nacional de Ahorro y Préstamo, as mentioned in Notes 4 and 15 to the Financial Statements.



JOSE ANTONIO RODRIGUEZ VELASCO
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:

1. We have examined the balance sheet of Banco Central de Chile as of December 31, 1989 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. As described in Note 12, and in accordance with the Agreements 1,450 and 1,555 and subsequent modifications thereon, of the Executive Committee, Banco Central de Chile purchased loan portfolio 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), Banco Central de Chile, by Agreement N° 1,953-11 of August 16, 1989, established that financial institutions which had outstanding loan portfolio repurchase contracts from Banco Central de Chile, could have the option to novate those obligations replacing it 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, 1989, Banco Central de Chile includes within its local assets Ch\$ 930,640.4 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 this amount is uncertain as it is dependent exclusively upon future net income generated by those institutions.

3. In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability of assets referred to in the preceding paragraph been known, the financial statements referred to above, present fairly the financial position of Banco Central de Chile as of December 31, 1989, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vivian L. Clarke

LANGTON CLARKE Y CIA. LTDA.
COOPERS & LYBRAND

Santiago, Chile
January 12, 1990



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