71st ANNUAL REPORT 1996

BANCO CENTRAL DE CHILE

CONTENTS

AUTHORITIES 5

LETTER OF PRESIDENT OF THE BANK 7

I. REPORT 9

DEVELOPMENTS IN THE CHILEAN ECONOMY DURING 1996 11

A. *General situation* 11
B. *Economic activity and employment* 18
C. *Inflation and wages* 21
D. *Monetary policy and interest rates* 23
E. *Exchange-rate policy, balance of payments, and external debt* 27

STATISTICAL TABLES

Table 1: Quarterly gross domestic product 36
Table 2: Gross domestic product by sector 37
Table 3: Expenditure components of gross domestic product 38
Table 4: Savings and investment ratios 39
Table 5: Employment and unemployment 40
Table 6: Price indexes 41
Table 7: Consumer-price index 42
Table 8A: Hourly-wage index 43
Table 8B: Labor-cost index 44
Table 9: Real initial adjustment agreed in collective bargaining 45
Table 10: Interest rates of Banco Central instruments 46
Table 11: 90- to 365-day UF-indexed interest rates 47
Table 12: Main monetary aggregates 48
Table 13: Components of private monetary aggregates 49
Table 14: Average nominal exchange rate 50
Table 15: Real observed exchange rate 51
Table 16: Balance of payments 52

Table 17: Trade balance 53
Table 18: Foreign-trade indicators 54
Table 19: Financial services 55
Table 20: Nonfinancial services 56
Table 21: Flows of net foreign investment into Chile 57
Table 22: International reserves of the Banco Central de Chile 58
Table 23: External debt 59
Table 24: External borrowing indicators 60

CHARTS

Chart 1: Inflation indicators 12
Chart 2: Quarterly GDP growth rate 12
Chart 3: Gross fixed-capital formation 13
Chart 4: National unemployment rate 14
Chart 5: Interbank interest rate and Banco Central daily instruments 15
Chart 6: Average interest rates: Market and Banco Central 15
Chart 7: 90- to 365-day interest rates for adjustable operations 25
Chart 8: Broad private money (M1A) 26
Chart 9: Nominal changes in monetary aggregates over 12 months 27
Chart 10: U.S. Dollar exchange rate 28
Chart 11: Real effective exchange-rate index 29
Chart 12: Real exchange rate 30

ANNEX 1

Main monetary and credit policy measures in 1996 61

ANNEX 2

Main exchange rate and foreign trade measures in 1996 63

II. **ORGANIZATION CHART OF THE BANCO CENTRAL DE CHILE AS OF DECEMBER 31, 1996** 65

III. **BANCO CENTRAL DE CHILE FINANCIAL STATEMENTS AS OF DECEMBER 31, 1996** 69

AUTHORITIES OF BANCO CENTRAL DE CHILE
As of December 31, 1996

COUNCIL

CARLOS MASSAD ABUD
President

JORGE MARSHALL RIVERA
Vicepresident

MARÍA ELENA OVALLE MOLINA
Council Member

PABLO PIÑERA ECHENIQUE
Council Member

ALFONSO SERRANO SPOERER
Council Member

GERENTE MANAGER

CAMILO CARRASCO ALFONSO

GENERAL COUNSEL

JORGE CARRASCO VÁSQUEZ (Acting)

DIVISION MANAGERS

GUSTAVO DÍAZ VIAL
Foreign Trade and International Exchange

NICOLÁS EYZAGUIRRE GUZMÁN
Research

GUILLERMO LE FORT VARELA
International Affairs

SUSANA LEÓN MILLÁN
Management and Development

MANAGERS

CARLOS BUDNEVICH LE FORT
Financial Analysis

HERNÁN CAMPOS BASCUR
Informatics

JORGE CARRASCO VÁSQUEZ
Chief Counsel

MIGUEL FONSECA ESCOBAR
International Financial Operations

FRANCISCO GARCÍA LETELIER
Administration and Accounting

MARÍA DEL CARMEN MARTÍNEZ COLOMA
Human Resources

CARLOS PEREIRA ALBORNOZ
General Treasurer

JORGE PÉREZ ETCHEGARAY
Monetary Operations

ANDRÉS REINSTEIN ÁLVAREZ
International Analysis

PATRICIO ROJAS RAMOS
Macroeconomic Programing

JORGE ROSENTHAL OYARZÚN
Foreign Trade and International Exchange

CRISTIÁN SALINAS CERDA
International Investment

KLAUS SCHMIDT-HEBBEL DUNKER
Economic Research

MARIO ULLOA LÓPEZ
General Auditor

RICARDO VICUÑA POBLETE
Commercial Policy

BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 22nd of 1997

Mr.
Eduardo Aninat U.
Minister of Finance
BY HAND

In accordance with the provisions of articles 78 and 79 of the Constitutional Law establishing the Banco Central de Chile, contained in ARTICLE ONE of Law 18840, I hereby submit to you the Annual Report of this Institution for 1996.

CARLOS MASSAD A.

I. REPORT

DEVELOPMENTS IN THE CHILEAN ECONOMY DURING 1996

A. GENERAL SITUATION

Chile's economy performed quite well during 1996. As in previous years, inflation fell in line with the targets set by the economic authorities, while economic growth was vigorous. Meanwhile, the current-account deficit was within the range considered prudent by the Banco Central (although at the higher end of this range). The 6.6% change in the consumer-price index was the lowest since 1960. Likewise, inflation was at single-digit levels for the third year in a row, and the conditions are right for the steady reduction seen over the 1990s to continue. If this trend is maintained it will mean that, within a relatively short period, inflation will be at the levels normally found in the main industrial economies, thus achieving effective price stability (Chart 1).

As in the recent past, the drop in inflation was achieved without creating imbalances in other parts of the economy. Although the Banco Central regards price stability as its primary objective, it is pursued within the framework of a strategy to deliver lasting results that are consistent with the general objectives of economic policy. This approach is used because it has been shown that society bears heavy costs when control over inflation is achieved at the expense of imbalances in the rest of the economy. Moreover, these costs undermine the credibility of the effort to combat inflation, often reversing the progress made on this front.

Gross domestic product (GDP) grew by 7.2% in 1996 (Chart 2), and unemployment fell (Chart 4). Both achievements came despite monetary tightening and a substantial deterioration in the terms of trade. Externally, there was a 10.9% increase in exports of goods and services –an impressive achievement given the adverse conditions the economy was facing in terms of international prices. The deterioration in the external price ratio was instrumental in increasing external saving (the current-account deficit) which, at 4.4% of GDP, was still within a moderate and fundable range. These results, which strike a happy balance between lower inflation on the one hand and continuing balance in internal and external situations on the other, show that recent economic progress can be sustained, and that the conditions are in place for this process to be maintained in coming years.

Chart 1

INFLATION INDICATORS

(12-Month change)

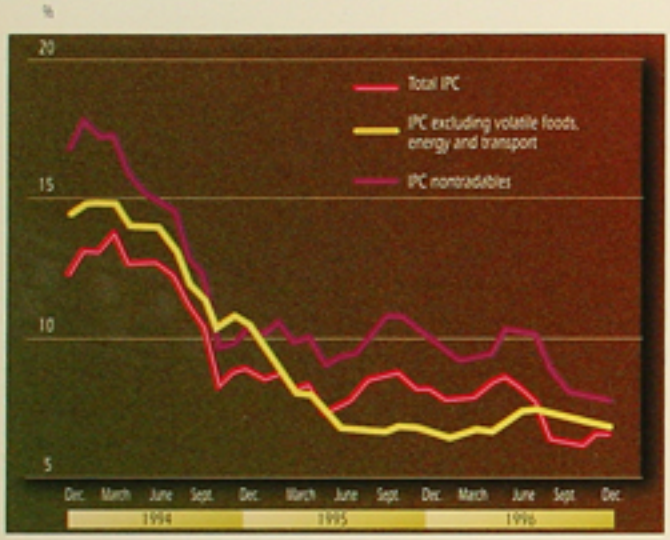
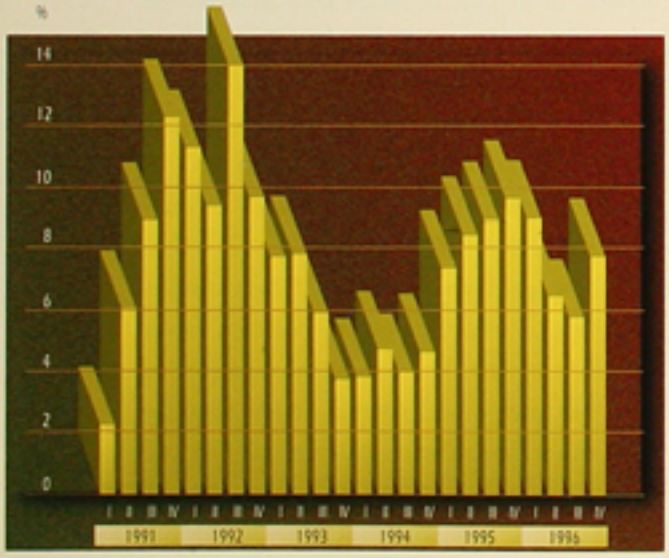


Chart 2

QUARTERLY GROSS DOMESTIC PRODUCT GROWHT RATE

(Percentage change on same period of the previous year)



The annual change in the consumer-price index in 1996 was fully in accordance with the ± 6.5% target set by the Banco Central. Achieving this outcome, however, required adjusting monetary conditions to eliminate the incipient inflationary tendencies that were observed from the second half of 1995 onward –particularly in underlying inflation measures, as well as in nontradable goods and wage inflation. The effects of this effort were seen as the year progressed. The rate of change in prices of nontradable goods accelerated considerably during the second quarter of 1996, at which point the 12-month change was 10.3%. But from this period onward it began to slow down, until by the end of the fourth quarter the average was 7.9% –2.5 percentage points lower than in 1995. Meanwhile, the nominal cost of labor fell from a 12.1% 12-month change in the first quarter of 1996 to a 10.1% change in the fourth. This adjustment was strongest in December, when for the first time a single-digit change was seen over the previous 12 months (9.3%), representing a drop of some 3 percentage points relative to December 1995.

The satisfactory behavior of inflation in general, and its domestic components in particular, was reinforced by lower growth in the prices of perishable products. The below-trend growth in the prices of these items was offset by isolated and transitory increases in the prices of products derived from oil and wheat. These hikes were caused by large swings in the prices of these raw materials on international markets.

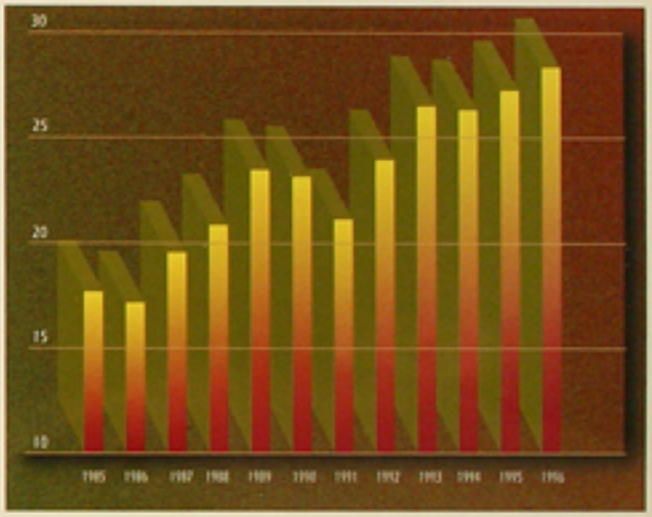
Aggregate demand and output showed great dynamism in 1996, with demand growing by 7.9% and output growing by 7.2%. Although higher than had been initially forecast, over the year these variables tended to converge toward sustainable,

noninflationary levels and growth rates. Thus, while output was 7.7% percent higher in the first half of the year than for the same period in 1995, in the second half growth fell to 6.7%. Likewise, growth in aggregate demand dropped from 9.5% in the first half of 1996 to 6.4% in the second half. Although the general trend was toward convergence, the fourth quarter saw a resurgence of growth in domestic demand and economic activity. This turnaround was caused by several one-off factors such as a larger number of days worked, the import of two ships in October, and an extraordinary increase in purchases of foreign fuel to meet the increased requirements for thermoelectric power resulting from the drought in 1996.

The growth in domestic demand was driven by gross capital formation, which reached a record 28.3% of GDP (measured at constant prices; Chart 3). At 8.8%, growth in private consumption was lower than in 1995 but was still higher than GDP growth (although it fell from 12.7% in the first quarter to 6.1% near the end of 1996). Government consumption followed the same pattern as in recent years, growing by an average of 2.5%. Lower inventory changes –which fell to 3.4% of GDP compared with 4.5% in 1995– was the main cause of the adjustment in domestic demand. Meanwhile, the trade balance, measured at constant prices, had almost no effect on output growth. As noted, exports of goods and services grew by 10.9%, higher than overall growth in output, but the expansionary effect of this achievement was offset by imports, which were 11.7% higher than in 1995.

Economic growth in 1996 was led by the nontradable sectors, which grew by 8:3%. Construction (10.1%) and transport and communications (10.0%) grew the most. Growth in the tradable sectors, at 5.1%, was lower than for the economy as a whole, although mining grew by 11.9%. This was due to the strong growth experienced by copper mining, particularly medium-scale mining, as a result of increased production as new investment came on stream and generated products with higher value added.

Chart 3
GROSS FIXED-CAPITAL FORMATION
(Percentage of GDP)



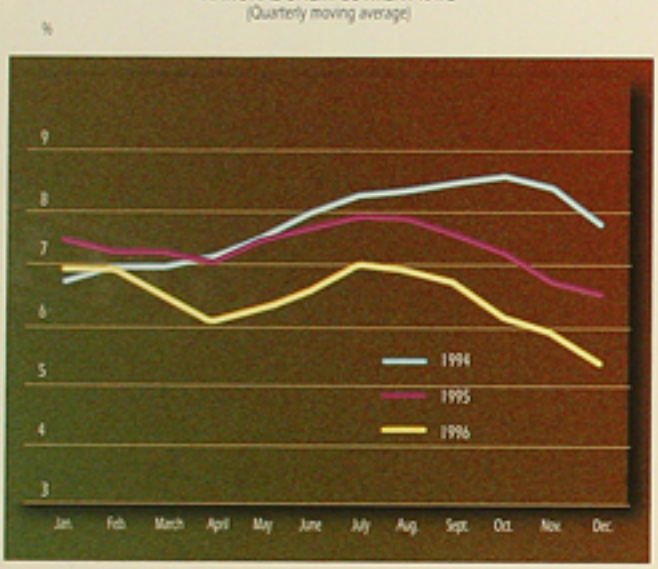
Employment increased slightly during 1996, with growth averaging 1.4%, indicating the creation of 72,000 new jobs. This is higher than the 1.2% growth recorded in 1995 but lower than the 1990s average of 2.5%. Still, unemployment fell about 1 percentage point from 1995 as a result of low growth (0.4%) in the labor force.

National saving was 23.3% of GDP (in current prices), a drop from the record level achieved in

Chart 4

NATIONAL UNEMPLOYMENT RATE

(Quarterly moving average)



1995. This drop can be partly explained by the lower growth in national income in 1996 that resulted from normalization of the terms of trade, and by the delay with which growth in domestic demand adjusted to the new level of income growth. In fact, the fall in prices for major exports (which were corrected from the high levels seen in 1995) and the increase in international prices for oil and oil derivatives led to a substantial drop in the terms of trade, with a negative effect on national income estimated at –5.5% of GDP. For this reason, although demand moved in line with output growth in 1996, the gap between demand and income widened, resulting in a lower level of national saving and an increase in the current-account deficit. This situation is the reverse of what happened in 1995, when rising prices for exports translated into a 15.8% increase in national income, while the increase in domestic demand grew by just 12.9% –a situation that boosted the saving rate to a record 27.6% of GDP. It is hoped that in the near future the terms of trade will return to their trend level and the convergence in domestic spending will be consolidated, causing national saving to return to levels like those seen in previous years (say, 25% of GDP). High saving rates have been one of the pillars of Chile's economic development in recent years, underpinning the stability of growth and bolstering independence from volatile external conditions.

During 1996 the Banco Central's monetary policy was oriented toward consolidating recent achievements in bringing down inflation and making further progress toward price stability. Interest rates were raised to put levels of economic activity and domestic demand on a sustainable course consistent with the control of inflation (Charts 5 and 6). From the end of the third quarter of 1995 the Banco Central raised the short-term interest rate in stages, and liquidity conditions were tightened in April 1996. These moves sought to quicken the pace at which the economy converged toward its noninflationary growth potential, and to combat the pessimism that was starting to affect the expectations of economic agents after a number of price shocks affecting wheat and oil products. While the economy was monitored regularly to ensure that progress met the Banco Central's targets, no other changes were made to monetary policy. The favorable results seen subsequently demonstrated that this timely action on monetary policy controlled the expansionary pressures that were threatening efforts to reduce inflation. Experience has shown that early action is crucial if monetary policy is to be efficient and effective, as the full effect of interest rates

on aggregate demand and inflation takes time to feed through.

The Banco Central maintained the exchange-rate policy that it has applied for several years, using a flotation band of ± 10% around the reference rate. This reference rate is linked to a basket of currencies, and intervention can be carried out at the margins of and within the band. For most of the year the exchange rate was in the lower part of the band, standing at an average of 1.4% above the floor –the lowest level in recent years. Despite changes in international parities and the effect these changes had on the reference rate for the dollar and the intervention margins of the band, the nominal exchange rate (relative to the dollar) spent most of the year fluctuating in a narrow range around 410 Chilean pesos. Only in the fourth quarter, when the peso came very close to the intervention floor, did the peso-dollar parity began to rise and brought its value over 420 pesos. This depreciation was driven largely by the rise in the reference rate of the dollar and the intervention floor as a result of the sharp depreciation of the Japanese yen and the deutsche mark against the dollar on international markets. This situation corrected itself in early 1997, when the relative weight of these currencies dropped within the basket of currencies used for reference.

Between December 1995 and December 1996 the peso appreciated 2.8% in real terms against the average of the currencies of Chile's main trading partners. The average real appreciation for the year was 4.4%. This movement in the real exchange rate continued a pattern established in the 1990s –indicative, on one hand, of the effect that high growth of productivity and competitiveness has

Chart 5

INTERBANK INTEREST RATE AND BANCO CENTRAL DAILY INSTRUMENTS

(Monthly average)

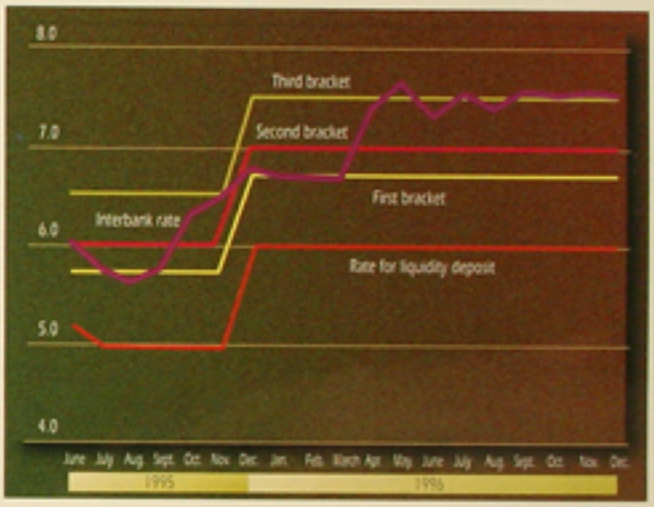
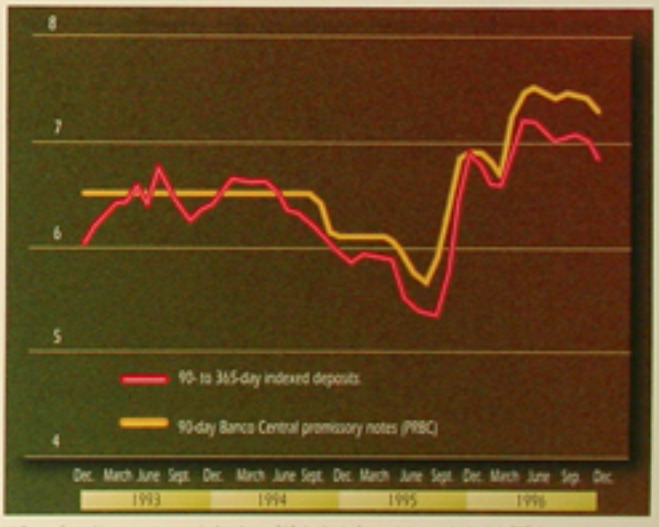


Chart 6

AVERAGE INTEREST RATES: MARKET AND BANCO CENTRAL (*)

(Percentage)



(*) Banco Central instruments are calculated on a 360-day basis; for market rates the basis is 365 days.

had on this relative price and, on the other, of the opening up of the financial system to the outside world over the past decade.

The Bank's policy of relaxing restrictions on currency movements and increasing the scope of the exchange market continued during 1996. Measures to free exchange movements included raising the limit for purchasing freely available currencies from US$ 3,000 to US$ 15,000 a month and abolishing minimum reserve requirements for capital inflows when the external resources thus obtained are applied to uses abroad (such as investments in other countries or refinancing of external liabilities). Likewise, investment funds were freed from restrictions on the share of foreign investments that can be held in their portfolios, so residents now have more opportunities to invest abroad.

Measures were also taken to improve the capital-account policy, the aim being to apply uniform criteria to the way sources of financial capital receipts are treated and to prevent evasion of reserve requirements. To give greater precision to the way the rules on exchange reserves are applied, it was established that investments of a financial nature coming from abroad –in other words, those that are not designed to increase production capacity for goods and services or to secure participation in the productive management of companies– had to constitute reserves. Likewise, opportunities and time limits for renewing credits entering under Chapter XIV of the Compendium of Foreign-Exchange Regulations (CNCI) were restricted.

Once again, there was a surplus in the overall budget settlement (the difference between revenue and spending). At 2.2% of GDP, this surplus compares favorably with the 1.8% average for the 1990s. Obtaining a surplus balance in the fiscal accounts is a prerequisite for macroeconomic stability. Since most public debt lies with the Banco Central, however, the surplus produces a deficit in the Bank's income account, necessitating sufficient coordination between the monetary and fiscal authorities. Public saving, corresponding to the difference between current revenue and current spending, amounted to 5.6% of GDP, a figure that reveals the substantial and continuing contribution made by the government to domestic savings and to capital formation. These figures are mainly the result, on the revenue side, of a 10.2% real increase in tax revenues. On the spending side there was a real increase of 6.9% in current spending and 16.7% in capital costs, so that public absorption (the sum of current spending, excluding interest, and investment spending) grew by 9.5% in real terms during 1996.

The current account had a US$ 2,918 million deficit in 1996, reflecting a significant change in the trade balance and in the financial services account relative to 1995.[1] The trade balance

[1] The Banco Central will soon be making available a new balance of payments series recalculated from 1989 onward. The changes in the series reflect improvements in the sources of information, the replacement of provisional values with final ones, and changes in methodology. Among these are, notably, the inclusion of reinvested profits from direct investment, both from other countries into Chile and from Chile into other countries. Making this change will involve moving from a registration method in which profits are recorded on the basis of actual remittances to one based on accrued profits, which are put down as remitted or reinvested. This affects both the current account and the capital account, as well as the savings figures of national accounts.

went from a surplus of US$ 1,481 million in 1995 to a deficit of US$ 1,147 million in 1996, and the deficit in the financial services account increased from US$ 1,480 million to US$ 2,016 million. Likewise, the deficit in the nonfinancial services account increased by US$ 65 million, ending 1996 with a deficit of US$ 229 million. The results of the trade balance can be explained, on the one hand, by the 4.9% drop in the value of exports and, on the other, by the 12.0% increase in the value of imports. The reduced value of exports can be accounted for entirely by the lower prices at which they were sold abroad, as the volume of exports increased substantially –by 13.7%, even more than the average growth rate seen during the 1990s. Most of the expansion in exports was in copper products, which grew by 22.4%, and in nontraditional products, which rose by 15.3%. Traditional exports other than copper were almost unchanged in real terms. The drop in prices, meanwhile, was concentrated among traditional export products: copper, with –24.1%, and other main products, with –15.8%.

Although the rate of growth in imports was significantly lower than in 1995, their real growth was higher than the growth in aggregate demand. The volume of imports was 11.6% higher than in 1995, though the trend moved downward as the year progressed. Purchases from abroad (measured by volume) increased by 17.4% in the first quarter of 1996, but they fell markedly during the second and third quarters. The downward trend was particularly marked for consumer goods, which in the first quarter grew in volume by about 38% and in the fourth quarter grew by just 2.6%. Finally, in the financial services account there was a US$ 531 million jump in remitted net profits due to greater outflows of investment profits generated by mining in the second half of the year.

The capital account showed a positive net currency flow of US$ 5,016 million which, taken in conjunction with a negative balance of US$ 917 million for errors or omissions and with the current-account deficit, produced a positive balance of payments of US$ 1,181 million. Net capital inflows were reduced by the US$ 2,253 million in repayments made by the public sector (the Banco Central, the General Treasury of the Republic, Codelco, and the Banco del Estado) to international banks and, to a lesser extent, to multilateral organizations. Among the components of the incoming capital flows, there was substantial growth in foreign direct investment and in disbursements of medium- and long-term credits, and a recovery in portfolio-investment flows relative to the depressed levels seen in 1995, though this had a smaller overall effect. In terms of capital outflows, significant changes included a drop in lines of short-term credit and a recovery in flows of direct investment by residents living in other countries; there was also a substantial increase in portfolio investments abroad, but from a very low base. Generally speaking, there was an improvement in the financing composition of the capital account. Of the net resources entering Chile, 80% (US$ 4,019 million) was comprised of medium- and long-term financing, taking into account foreign direct investment and portfolio investment but excluding American depository receipts (ADRs) and investment funds. The remaining 20% was comprised of short-term financing (including investment funds and ADRs).

The consistency and coherence of monetary and exchange-rate policies, and the timeliness of the

adjustments made to available policy instruments, enabled favorable results during 1996 despite incipient inflationary pressures and a substantial deterioration in the terms of trade. The achievements of recent years, particularly the high levels of saving and investment and increasing price stability, mean that Chile is in a strong position to continue on a course of sustained growth. Banco Central authorities and other economic agents must ensure that this process continues to develop on a solid basis and in an environment where inflation stays on a downward course.

B. ECONOMIC ACTIVITY AND EMPLOYMENT

Economic activity continued to grow rapidly in 1996, albeit somewhat slower than in 1995. GDP grew by 7.2%, a remarkable figure considering that it was achieved at a time of economic adjustment and deterioration in the terms of trade. Most economic activity was driven equally by domestic and external demand, resulting in average growth of 6.8% a year for the 1990s as a whole (Chart 1).

During 1996 domestic demand increased by 7.9% and exports of goods and services grew by 10.9%. The increase in exports occurred despite an unfavorable international environment, with export prices falling substantially. In conjunction with the Banco Central's policy of maintaining high domestic interest rates, this drop created a relatively restrictive scenario for the development of dynamic economic activity.

Gross fixed-capital formation was the most vigorous component of domestic demand in 1996, growing by 11.6% relative to 1995. As noted, exports of goods and services also experienced high growth. Private consumption grew by 8.8% –strong, but much less than in 1995. Likewise, growth in imports was down from 1995, ending 1996 with a rise of 11.7% (Chart 3).

The terms of trade was instrumental in reducing the rate of growth in real disposable gross national income, which increased by just 0.5%. The drop in the prices of Chile's main exports –copper and cellulose– was a particularly important factor, insofar as import prices rose slightly.

In terms of growth by sector, nontradables showed considerable dynamism during 1996, growing by 8.3%. Tradables grew by 5.1%. The best-performing nontradable sectors were commerce, construction, and transport and communications. Among tradables mining far outstripped all other sectors. In the fourth quarter, however, tradables grew faster than nontradables.

Export-oriented and import substitution branches, meanwhile, saw growth fall. In the first case this was due to a drop in the processing of sea products, and in the second to a reduction in the categories comprising this branch, with the exception of textile manufacturing (Table 2).

B. 2 Composition of expenditure

Domestic spending rose 7.9% in 1996 – significantly less than in 1995 (12.9%). Among the components of domestic spending, growth in fixed-capital investment was particularly strong at 11.6%, and total consumption rose 8.1%. Private consumption grew by 8.8% and Government spending on consumption by 2.5% (Table 3).

Gross fixed-capital formation experienced strong growth, and this was not accompanied by inventory buildups to the same extent as in 1995. The growth in gross fixed-capital formation was sustained by increased investment in imported machinery and equipment, although investment in construction also grew considerably. As a result investment in fixed capital reached 28.3% of GDP at constant prices, the highest level achieved in recent years (Chart 3).

At 11.7%, growth in imports of goods and services was less dynamic than in 1995. The biggest increases were in consumer goods and capital goods, which grew by more than 14.0%. Import growth fell mainly because growth in domestic spending eased. Other factors, such as a drop in the real exchange rate, also played a role.

Exports of goods and services continued to grow rapidly in 1996 –10.9% in real terms. This occurred despite the sharp drop in international prices for Chile's main exports, especially copper and cellulose. Copper products, iron products, and manufactures showed the greatest increases in export volumes.

The behavior of the variables directly related to external trade –that is, trends in international prices– was reflected in a significant deterioration in the terms of trade, resulting from the drop in export prices and the slight increase in import prices. This had a negative impact on real disposable national income, which grew by 0.5%.

The small increase in disposable national income, together with the increase in consumption, caused a significant reduction in national saving, which amounted to 23.3% of GDP at current prices, less than in previous years. This drop in domestic saving required some of the gross capital investment to be financed by external saving, which amounted to 4.4% of GDP in 1996 (Table 4).

B. 3 Employment

Employment increased by 1.4% in 1996 –a 0.2 percentage point increase over 1995. The labor force grew by 0.4% over the same period. Thus 72,000 new jobs were created and the labor force grew by about 25,000 people. The growth in employment in 1996 was the highest in the last three years.

Because the number of jobs increased by more than the labor force, unemployment fell in 1996. In fact, unemployment averaged 6.5%, almost 1 percentage point lower than in 1995 (7.4%). This was the lowest level in the past decade (Table 5 and Chart 4).

C. INFLATION AND WAGES

The consumer-price index (IPC) rose 6.6% during 1996, which compares favorably with the 8.2% rise in 1995 and 8.9% rise in 1994. Moreover, this was the lowest annual rate of inflation recorded since 1960. This is the sixth year in a row that inflation fell and the third with single-digit inflation. Both developments are without precedent since measurements of this variable began. This new achievement also vindicates the policy of reducing inflation gradually, as it is in line with the target of having annual inflation of 6.5% in 1996 (Table 6).

The drop in inflation forms part of the Banco Central's medium-term strategy, which is to achieve convergence with inflation levels in most developed economies (that is, rates of less than 4%). The perseverance of the monetary authorities in applying consistent macroeconomic policies, and their constant vigilance in forestalling potential imbalances, have enabled a sustained reduction in inflation over the past six years.

A notable feature of the reduction in inflation achieved in 1996 was the drop in the rate of increase in the prices of nontradable goods, which were up by 7.8% during the year. Although higher than the rate of increase for prices in general, this compares favorably with the 1995 figure (10.0%). This improvement became apparent only in the final third of the year; toward the middle of 1996 the rate of increase in the prices of nontradable goods was higher than it had been at the end of 1995.

In the first half of 1996 the annual change in the IPC was rising, reaching 8.6% in May because of external factors such as a rise in the price of fuels and related products, and of products derived from wheat –a consequence of increases in the international prices of these raw materials. During the second half of the year, and in particular from August onward, the annual change in the IPC fell markedly, reaching its lowest point in October when it stood at 6.2%. This downward movement was helped by the reversal or disappearance of

temporary factors that had affected the IPC during the previous year, especially during the third quarter.

Among the categories that make up the IPC, the most favorable inflation figure was recorded in clothing, with a year-on-year change of –4.7%. The performance of food prices was also notable –the annual increase was 4.1%, in contrast to the 9.0% rise in 1995. At the other end of the scale were housing and the "others" category, which includes education, health, recreation, and other services. Both categories showed an increase in the annual rate of change in their prices, with housing rising from 7.1% in 1995 to 8.1% in 1996 and services and others rising from 10.0% in 1995 to 10.5% in 1996. Finally, price rises in transport and communications were lower than in 1995, increasing by 9.2% (Table 7). Meanwhile, the cumulative annual increase in the wholesale-price index (IPM) was 3.1% in 1996, much less than the 8.2% rise in 1995 (Table 6). Most of this improvement occurred because of slower growth in the prices of domestically produced goods, which rose 2.8% in 1996 compared with 9.2% in 1995, and in the prices of imported products, which rose 4.0% in 1996 compared with 5.2% in 1995.

The breakdown of inflation between tradable and nontradable goods carried out by the National Bureau of Statistics (INE) showed that the cumulative annual change for tradable goods was 4.9% in 1996, down slightly from 5.6% in 1995. The annual increase for nontradable goods was 7.8% in 1996, which compares favorably with the 10.0% rise in 1995 and the 10.4% increase in 1994.

Measures of underlying inflation, which reflect the behavior of inflationary pressures, showed a downward tendency similar to that seen in the IPC, although at the end of 1996 the figures for underlying inflation were higher than those for consumer inflation. In fact, in the underlying inflation measure compiled by the INE, which provides a measure of the IPC adjusted for seasonal variations in eleven agricultural products, the cumulative increase over 12 months showed a rising trend until the middle of the third quarter, at which point it started to descend. At all times, however, the figures were higher than the IPC figures. This is because the figures for the agricultural products fell substantially in 1996. The trend is still rising until the third quarter if the effects of fuel, transport, and energy products are not included in this measure, though the figures are lower than the corresponding IPC figures. This index then begins to move downward, ending the year slightly above the measured inflation figure.

In December 1996 the hourly-wage index and the cost of labor index showed nominal increases of 9.5% and 9.3% over 12 months (2.7% and 6.0% in real terms). This result confirms the decline in the rates of increase in nominal wages that began in the middle of the year, when they were still over 12%. These figures, again, are consistent with the Banco Central's monetary adjustment objectives. Consolidating this trend will underpin sustainable results in the effort to lower inflation.

These achievements represent an advance in terms of bringing increases in real wages in line with

trend growth in productivity, as the year-on-year increase in hourly wages fell from 5.1% in December 1995 to 2.7% in December 1996, as noted above. The real annual increase in the cost of labor was higher than in 1995 (when it was 3.7%) as a result of the behavior of the wholesale-price index, which is used as a price deflator when this is calculated (Tables 8A and 8B).

The success in meeting the inflation target for 1996, together with the results in previous years, is evidence of the firm stance that the Banco Central has taken against inflation. Decisive action will be required if a resurgence in inflation jeopardizes the achievements so far or slows down the pace of progress. Thus a consistent and comprehensive monetary policy will continue to be applied over the next few years to achieve the objective of bringing down inflation to the levels seen in industrial economies.

Another factor that will affect future changes in wage levels are the initial adjustments agreed in the collective bargaining contracts concluded in 1996. The adjustments agreed in these contracts, over and above past inflation, showed a moderate tendency, with lower rises than were applied in the same periods in 1995. This is regarded as consistent with productivity trends and inflation goals. The 1.3% wage adjustment agreed during 1996 compares favorably with the 1.7% regional increases seen in 1994 and 1995 (Table 9).

D. MONETARY POLICY AND INTEREST RATES

D. 1 Monetary policy and trends in interest rates

For the past ten years the main objective of the Banco Central's monetary policy has been to influence interest rates in the market. This is done because these rates affect the pace of growth in aggregate spending, and so affect price stability. Since May 1995 the Banco Central has focused on the short-term interest rate, seeking to make monetary policy more effective and to control the liquidity of the financial system. The Bank can manage the liquidity of the financial system using a range of instruments, including the Liquidity Credit Facility (Rediscount), the Liquidity Deposit Facility, operations to purchase promissory notes subject to repurchase agreements, and extraordinary bidding auctions (Repos and Antirepos). The Bank uses these instruments to orient the interbank interest rate in such a way that, when its effect is transmitted to other market

rates, these are compatible with a pace of spending growth that is consistent with the inflation targets set by the monetary authority.

In December 1995 Banco Central authorities decided to increase the rates of the Rediscount brackets and the Liquidity Deposit Facility, with the objective of pushing up the interbank interest rate. This increase in rates was designed to restrain excessive growth in aggregate spending and the inflationary pressures that this entailed. Thus interest rates rose from 5.7% to 6.7% for the first bracket, from 6.0% to 7.0% for the second bracket, and from 7.1% to 7.5% for the third bracket. All the rates are expressed in annual terms over and above the change in the Unidad de Fomento (UF), an inflation-adjusted index of account. The interest rate for the Liquidity Deposit Facility was raised from 5.0% to 6.0%. Subsequent to this there were no other changes to the structure of interest rates, although the objectives for the interbank rate within this structure were modified.

In real terms the annualized interbank interest rate rose from 6.5% in November 1995 to an average of 6.7% between December 1995 and March 1996. On 4 April 1996 the Banco Central announced that liquidity conditions were to be squeezed in order to push up the interbank interest rate, to leave it between the second and third brackets of the Liquidity Credit Facility. From that month forward the interbank interest rate remained, on average, in the region of the interest rate corresponding to the third Rediscount bracket, fluctuating within a narrow band without returning to the level of the second bracket (Chart 5).

Since May 1995 the market has played an important role in setting the interest rate for the Banco Central's 90-day indexed promissory notes (PRBC). These rates fell during the first quarter of 1996, from 6.9% in January to 6.7% in March. After the adjustments made by the Banco Central in April, these rates rose, reaching an average of 7.5% between May and August. In the fourth quarter the rate fell again, reaching 7.3% in December, because of favorable expectations resulting from the slowdown in price rises and the success in meeting the inflation target. For the year the average interest rate for the 90-day PRBC was 7.3%, slightly more than 1.0 percentage point higher than in 1995 (Table 10).

Interest rates for UF-adjusted deposits from 90 to 365 days moved in a similar way to the 90-day PRBC rate, falling from 6.8% in January to 6.6% in March, then rising from April onward to reach 7.2% during May and June. During the second half of the year these rates fell slightly, particularly in the fourth quarter, reaching 6.8% in December. The annual average was 6.9%, higher than the 5.9% in 1995. The investment interest rate also moved in a similar way, with an average differential, with respect to the deposit rate, of 2.4%. This differential is lower than the 2.7% seen in 1995. This reduction, the second in two years, reflects the increased efficiency and competition in the financial system, which has led to smaller spreads between the interest rates charged and those paid (Table 11 and Chart 7).

As regards the Banco Central's indexed promissory notes payable in coupons (PRC), the investment quotas of 300,000 UF for bidding for 8- and 10-year PRCs and 200,000 UF for bidding

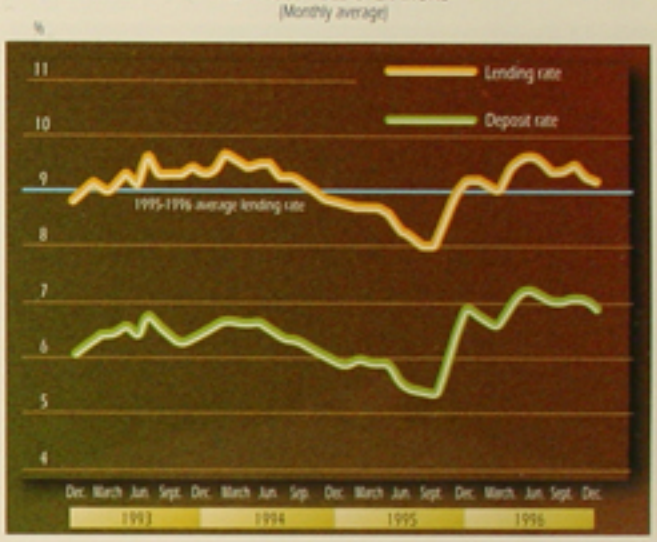
for 12-, 14-, and 20-year PRCs were maintained. On average, the yield for these long-term instruments was slightly higher than for shorter maturities and remained consistent with the 1995 average. In 1995 the 8-year PRC had an average return of 6.2%; in 1996 the return was 6.3%. Meanwhile, the average yield of the 20-year PRC remained at 6.1% (Table 10).

The steeper negative slope of the yield curve during 1996 can be accounted for by the adjustment process initiated at the end of 1995 and carried further in April 1996. The monetary adjustment pushed interest rates upward for shorter maturities. Again, the confidence of the market in the outcome of the adjustment process ensured that interest rates on longer-dated notes remained stable.

Chart 7

90- TO 365-DAY INTEREST RATES FOR ADJUSTABLE OPERATIONS

(Monthly average)



D. 2 Trends in monetary aggregates and credit conditions

Changes in the money supply reflect shifts in the demand for monetary balances. This demand depends primarily on economic growth, the nominal interest rate, and prices. A higher level of economic activity or a lower nominal interest rate will increase the real demand for money –and this, together with changes in prices, increases the nominal supply of money.

In December 1996 the nominal 12-month change in the monthly money supply average using the broadened definition (M1A) was 13.0%, equivalent to a real change of 6.0% (Table 12 and Chart 8). This growth is in line with the expansion in economic activity and the rise in the nominal interest rate since December 1995. When the 12-month change in M1A is broken down into the two basic aggregates that define the measure, it transpires that notes and coins in circulation were up 12.2%, while current accounts and other sight deposits in the private sector grew by 13.3% (Table 13).

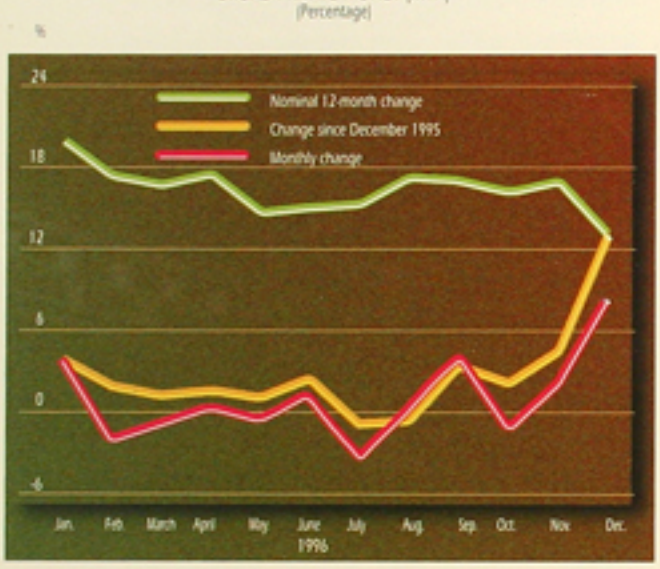
Broader monetary aggregates expanded by more than M1A. In fact, the annual change in private financial saving (M7), measured by the average in December each year, was 13.5% in real terms in 1996. The annual average of this aggregate as a share of output was somewhere in excess of 70% (Chart 9).

In December 1996 the 12-month change in issuance was 15.9%, lower than the 21.0% rise in 1995 (Table 12). During 1996 exchange operations were the main source of issuance, expanding by about 575 billion pesos (excluding the tax administration), being partly

Chart 8

BROAD PRIVATE MONEY (M1A)

(Percentage)



neutralized by placements of Banco Central promissory notes. Operations with the tax administration, meanwhile, were lower –about 75 billion pesos.

The amount of credit granted by the financial system accelerated during the first half of 1996 and slowed down during the second half, in line with changes in private spending. The real increase in total credit granted over 12 months dropped from 14.1% in December 1995 to 13.5% in December 1996. This slower pace of growth was the result of a drop in the rate of increase in foreign-currency loans; loans in Chilean currency maintained their rate of real increase. Total lending was equal to nearly 50% of GDP in 1996.

The real 12-month change in loans in Chilean currency remained unchanged between December 1995 and December 1996, increasing 16.4% in both periods. Within the totals, however, mortgage lending showed a persistent tendency to slow down: the real rate of increase over 12 months fell from 28.5% in December 1995 to 21.7% in December 1996.

Foreign-currency loans, on the other hand, experienced a decline in their annual increase in real terms during 1996, with a 1.9% growth rate in December 1995 giving way to a 12-month fall of 5.0% in 1996. This trend can be explained, on the one hand, by a drop in the volume of loans made in foreign currency and, on the other, by the effect the increase in the real exchange rate had on the value of these loans.

E. EXCHANGE-RATE POLICY, BALANCE OF PAYMENTS, AND EXTERNAL DEBT

E. 1 Exchange-rate policy and institutional structure

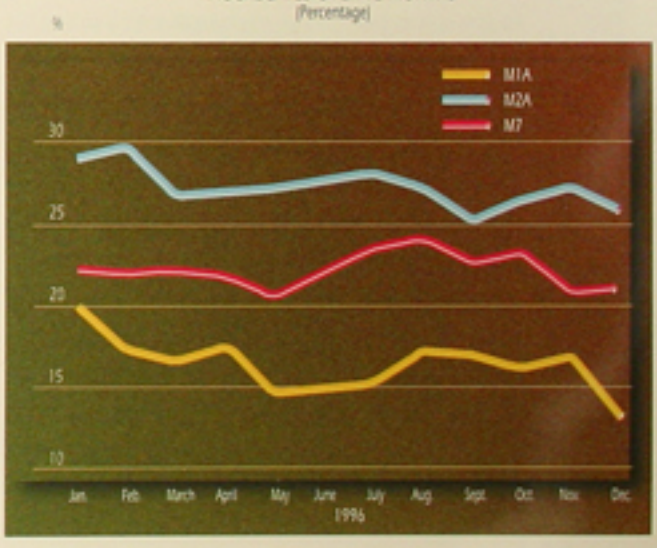
In recent years exchange-rate policy has sought to reduce the extent to which the parity fluctuates, the aim being to ensure that the real exchange rate is set on a course that is consistent with external economic balance in the medium and long term. To achieve this objective, the Banco Central has tried to ensure that the use of external saving (or the current-account deficit, which is equivalent to it) is kept at a level such that domestic investment financing is reinforced by it, but that is consistent with a sustainable level of borrowing in the medium term.

The movement of the exchange rate over the past few years has been determined by structural changes in the Chilean economy. Prominent among these are the high and sustained growth in the economy as a whole and in exports in particular over the past decade, and increased financial integration with the rest of the world, with its beneficial effects on the volume and composition of external financing. These developments have allowed the Banco Central to introduce greater flexibility into its exchange-rate policy, allowing the Chilean currency to appreciate moderately.

Between December 1995 and December 1996 the peso appreciated by 2.8% against the dollar in real terms. The average annual rate of this appreciation was 4.4%. This movement is similar to that in previous years, with annual appreciation of 3.2% a year producing cumulative appreciation of 24.5% since 1990. Still, it should not be assumed from these figures that there has been any significant deterioration in competitiveness in the tradable sectors. In fact, the real exchange rate was 21% higher in 1996 than in 1979 (the year before the sharp appreciation that took place at the beginning of the 1980s) but 15% lower than in 1986 (the year the exchange rate rose strongly in response to the scarcity of currency resulting from the external-debt crisis; Table 15 and Chart 11). The behavior of Chile's exchange rate is similar to that throughout Latin America, the cause being a profound shift in external conditions, in terms of both external financing and foreign trade (Chart 12). Finally, no analysis of changes in the real exchange rate would be complete without

Chart 9

NOMINAL CHANGES IN MONETARY AGGREGATES OVER 12 MONTHS
(Percentage)



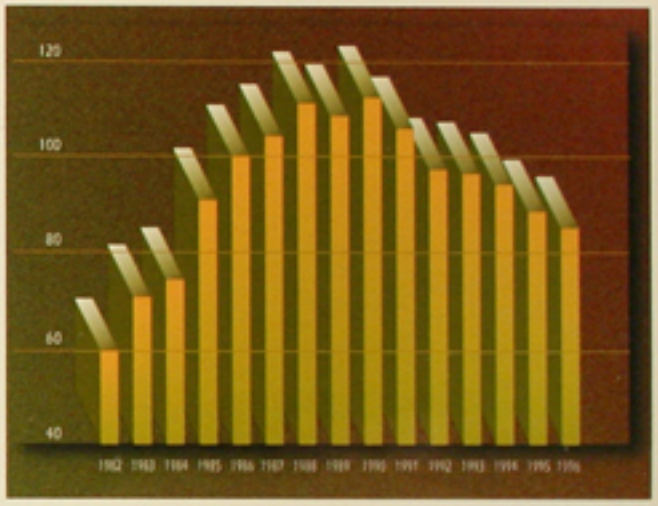
price of domestic assets –including shares, properties, land, and securities– that could lead to a spiral of borrowing and excessive growth in domestic spending. Such a spiral would leave Chile vulnerable to any reversal in the international capital market or in the terms of trade. Thus the Banco Central is taking a gradual approach to opening up the capital account. This strategy also recognizes the costs of systemic risk associated with activities such as those of banks and institutional investors, an issue that directly affects the stability of the payments system. Finally, increased financial integration limits some of the monetary authority's discretionary power, and this cost is reflected in the liberalization strategy.

Over the past year further progress has been made in integrating exchange markets and international capital. Reforms aimed at unifying the exchange market continued. As part of these reforms the ceiling for purchasing freely available currencies on the formal exchange market was raised from US$ 3,000 to US$ 15,000 a month. Likewise, Chilean investors now have a wider range of foreign investment choices. Among the most important measures are the authorization given to mutual funds to invest up to 100% of their assets in foreign instruments, extension of the range of instruments in other countries that insurance companies can use for their investments, and authorization to set up international investment funds of Chilean origin.

Other developments that took place in the area of external financial regulation included improvements to reserve-requirement regulations, the objective being to unify the treatment of different sources of funds entering Chile and to overcome administrative inefficiencies arising

Chart 11

REAL EFFECTIVE EXCHANGE-RATE INDEX(*)
(1986=100)



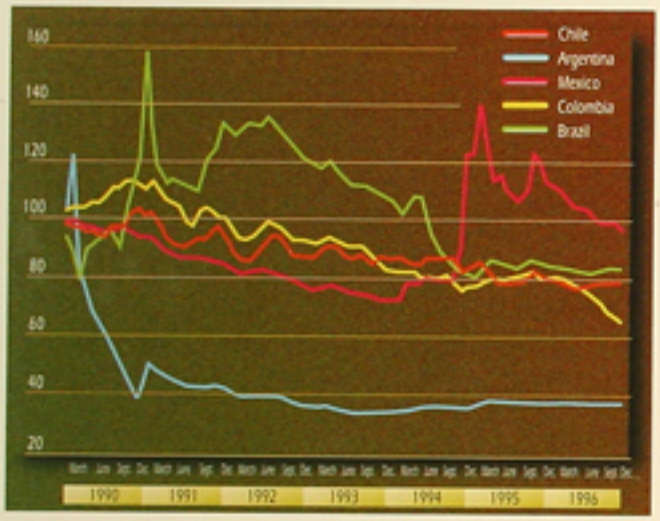
* The effective real exchange rate is defined as the observed nominal exchange rate multiplied by the quotient between the relevant external inflation rate and the IPC. The external inflation rate is calculated using the wholesale-price indexes, expressed in US dollars, of Chile's main trading partners, weighting them for the relative size of the import and export trade –excluding oil and copper– that Chile carries out whit them (about 75% of trade in 1989, excluding oil and copper). Both the wholesale-price indexes and the exchange rates of the countries concerned are incorporated in the form of a monthly variation.

from the application of these regulations. Among the most important measures was the abolition of reserve requirements for external credits that companies raise by issuing bonds to finance investment in other countries or refinance the liabilities of branches or agents in other countries. As a result Chilean firms are now able to gain access to foreign capital markets at a lower cost. Furthermore, external credits entering under Chapter VI of Section I of the Compendium of Foreign-Exchange Regulations (CNCI) can now be paid directly outside the country, using funds from debtors' export operations. In addition, reserve requirements and other controls on credit and investment operations carried out under Chapter XIV were lifted for amounts between US$ 10,000 and US$ 200,000, on the condition that a single agent does not accumulate more than US$ 500,000 in these operations over a 12-month period. To make the regulations applying to cash reserves

Chart 12

REAL EXCHANGE RATE

(December 1989=100)



more precise it was decided that authorization would be required from the Foreign Investment Committee, or from the relevant contract signed with the Chilean state, before liquidating currency corresponding to investments under DL 600. Finally, it was decided that portfolio investments registered under the terms of Chapter XIV of Section I of the CNCI must form a 30% cash reserve when they are to be used to form or increase the capital stock of companies or enterprises set up in Chile (unless they are intended to increase production capacity for goods and services or to secure participation in the productive management of companies or enterprises).

These measures demonstrate the Banco Central's commitment to gradual and selective integration with international capital markets, an approach that has made it possible to reduce Chile's exposure to the volatility of short-term financial flows, adopt a more autonomous monetary policy, and avoid excessive growth in spending. The ultimate objective of the restrictions applying to the capital account has been to reduce and change the composition of external financing, favoring long-term over short-term external financing.

E. 2 Balance of payments

E.2.1 *Current account*

The current account of the balance of payments was in deficit by US$ 2,918 million in 1996 –a considerable deterioration relative to the US$ 147 million surplus of 1995. This result can be attributed chiefly to the drop in the terms of trade, which occurred because the prices of some of Chile's main exports returned to more normal levels. Overall, the prices of exported goods dropped 16.3%. Meanwhile, import prices fell 0.3%. As a result, and despite the increase in export volumes, the trade balance moved from a surplus of US$ 1,481 million in 1995 to a deficit of US$ 1,147 million in 1996. This result breaks down into exports of US$ 15,353 million and imports of US$ 16,500 million. While exports were down 4.9% by value, imports were 12.6% higher than in 1995 (Table 16).

The 16.3% drop in export prices was to a large degree compensated by a 13.7% increase in volume. Although the value of copper exports was down 7.1% (equivalent to US$ 458 million), the value of all other export products suffered only a 3.4% decline. The drop in the value of copper exports was a result of a 24.1% drop in the fob price of the metal, which was not counterbalanced

by the 22.4% increase in the volume of production achieved as a result of new mine workings coming on stream.

Among noncopper exports the value of traditional export products fell by 15.1% as a result of a 15.8% fall in prices, accompanied by an 0.8% increase in volumes. The products subject to significant price reductions included molybdenum (–50.1%), methanol (–49.9%), crude cellulose (–50.5%), and bleached cellulose (–50.0%). For molybdenum and methanol these results can be accounted for by the fact that prices were exceptionally high in 1995, while in 1996 prices returned to normal levels. For cellulose, not only was the basis for comparison exceptionally high, but in 1996 prices fell below normal levels because of large inventories. Again, with the exception of methanol (which had volume growth of 17.5%), the quantities of these export products showed only small increases.

Despite the significant reduction in the value of exports for these four products, the effect on traditional product exports other than copper was lessened by the growth in other important products such as fresh fruit, gilt metal, iodine, planed wood, and silver. The value of fresh fruit exports increased 7.9% (equivalent to US$ 88 million) in 1996 as a result of a 12% increase in volumes, and despite a 3.7% drop in prices.

Meanwhile, exports of nontraditional products grew in value by 9.0%, with volumes increasing 15.3% and prices falling 5.4%. A favorable contribution was made to these results by certain agricultural products (maize) and others derived from agriculture (wine, fruit preserves, and juices), as well as pastas and other food preparations and a number of products derived from the sea (fish in brine, trout, salmon). Exports of metal products, textiles, and electrical and transport products (especially boats) were also notable. Some nontraditional exports suffered a contraction during 1996, however –for example, certain sea products (sword fish and sea bass), some agricultural or agriculture-derived products (onions, kidney beans, tomato juices, pastes, and preserves), wood chips and other forestry products, and copper wire.

The deterioration in the trade balance also resulted from the growth in imports, which increased by 12.6% (fob value) over 1995. This increase corresponds to an 11.6% rise in volume. The increase in value (cif) was 17.6% for consumer goods, 13.4% for capital goods, and 9.7% for intermediate goods. Among imports of intermediate goods, a distinction should be made between imports of fuels and lubricants, which were up 31.8%, and imports of nonfuel intermediate goods, which grew 5.5%. This result was influenced by the 22.0% increase in the price of oil (Tables 17 and 18).

The net result for services and transfers was a deficit of US$ 1,771 million –a deterioration of US$ 437 million relative to 1995. This was mainly due to higher net outflows in the financial services accounts in the form of profits from direct investments. These profits rose US$ 509 million, mainly due to higher outflows of profits from investments in mining in the second half of the year.

Net interest flows remained at almost the same level as in 1995, the result of a drop in interest paid for medium- and long-term debt, balanced by a drop in interest received for international reserves. Interest payments on external debt fell by

US$ 125 million relative to 1995, mainly because of the US$ 225 million drop in the interest paid on public-sector debt. A drop in external indebtedness due to prepayments made during the second half of 1995 and the first half of 1996 accounts for the reduction in interest payments. In the meantime, the private sector increased its interest payments by US$ 100 million as a consequence of an increase in its external borrowing. Interest received for international reserves decreased by US$ 124 million in 1996, primarily as a consequence of the drop in interest rates in international markets, combined with a fall in international reserves in the first few months of the year (Table 19).

Nonfinancial services showed a negative balance of US$ 229 million in 1996, which meant higher net outflows of US$ 65 million compared with 1995. Among these services the most important change was in the shipments category –a result not only of the increase in imports but also of the increased share of import carriage taken by transport facilities operated by nonresidents. This meant that outflows of shipments increased 12.6% while freight and insurance costs for goods imports increased only 5.5%. Next in size was the net result for port services, caused by a drop of 5.1% in exports of these services. The net result for the travel category was a small decrease relative to 1995, the result of a 13.3% increase in spending by Chileans abroad and a rise of just 10.4% in tourism receipts in Chile. The increase in spending for tourism to other countries was especially pronounced in the third quarter of the year, more than balancing the drop recorded in the second quarter (Table 20).

Net revenue in the unilateral transfers category, of which taxes received on profits remitted by foreign investors are the most important item, increased by US$ 164 million due to an increase in these remittances.

E.2.2 *Capital account*

During 1996 the capital account (excluding reserves) showed a net inflow of US$ 5,016 million –US$ 3,706 million more than in 1995. Most of this increase was accounted for by foreign investment, both direct investment and portfolio investment, and to a lesser extent by the net inflow of external credits which, despite prepayments of debt, were positive (Table 16).

Of the net resources entering Chile, 80% (US$ 4,019 million) was comprised of medium- and long-term financing (taking into account foreign direct investment and portfolio investment but excluding ADRs and investment funds). The remaining 20% was short-term financing (including investment funds and ADRs).

Of the medium- and long-term capital, the positive flow received by the private sector was particularly significant –especially in the companies sector, where the figure was US$ 5,852 million. Of this, 69% was comprised of net foreign investment, including associated credits. The remaining 31% consisted of external credits, most of them going to finance investments in electricity, telecommunications, mining, and services. Private banks received positive net flows of US$ 19 million, mainly in the form of external credits. The public sector recorded negative flows amounting to US$ 1,800 million, including US$ 2,253 million in prepayments of credits (mainly to international banks and to a lesser extent to multilateral

organizations). These prepayments related mainly to the 1983–91 financial program, and most were made by the Banco Central (US$ 1,369 million), the General Treasury of the Republic (US$ 300 million), and Codelco and the Banco del Estado (US$ 313 million). The Treasury and Corfo carried out prepayments to multilateral organizations totaling US$ 271 million.

Receipts classified as net foreign investment, including direct investment and portfolio investment, were US$ 4,114 million, more than four times the 1995 figure. This was the result of strong direct investment receipts, particularly for investment carried out through DL 600. Portfolio investment, likewise, increased strongly over the depressed levels in 1995.

The 210% increase in direct investment was the result of a jump in investment from other countries, partly counterbalanced by an increase in investment in other countries. Direct investment capital entering the country by way of DL 600 totaled US$ 3,936 million –a 122% increase over 1995– and remittances of this kind totaled US$ 177 million. Seventeen recipients accounted for 65% of the total coming in by way of DL 600. Of these, 37% were in banking finance, 22% were in electricity and telecommunications, 10% were in industry, and 8% were in mining. The remaining 23% were mainly in services. Over the course of the year there was a substantial increase from the third quarter onward.

Portfolio investment, meanwhile, saw considerable changes relative to 1995. After a period in which net flows were negative, a resurgence occurred in the fourth quarter of 1995. This continued through the first three quarters of 1996, accounted for by ADR flows and successive issues of bonds amounting to about US$ 200 million per quarter. This tendency was reversed in the fourth quarter, when a substantial remittance of investment funds (FICE) occurred and ADRs fell.

As regards portfolio investment abroad, insurance companies and mutual funds investing in foreign markets contributed significantly to the net outflow of US$ 124 million recorded in this category (Table 21).

A positive flow of US$ 608 million in medium-term capital originated from external credits, an increase of US$ 689 million over 1995. This flow was the result of receipts of external credits amounting to US$ 5,286 million and repayments of US$ 4,678 million, which include prepayments of external debt totaling US$ 2,713 million. Among the external credit receipts it is important to highlight those entering under the auspices of Chapter XIV letter A of the CNCI, amounting to US$ 2,007 million (91% of which was channeled to private companies). Of this, 43% went to electricity and telecommunications, 27% to services, 23% to mining, and the remaining 7% to other sectors. The public sector, meanwhile, received capital in the form of credits totaling US$ 992 million; of these, 50% went to Codelco, which used 34% to prepay external debt and 66% to finance investment projects. Of the total amount repaid, 59% came from the public sector, 36% from private companies, and 5% from private banks. Of the total repaid, 58% was for prepayment of external debt.

Net inflows of short-term capital were US$ 328 million, a drop of US$ 220 million over 1995. Breaking down this figure by sector, the nonfinancial private sector accounted for net receipts of US$ 683 million and the public sector

for net receipts of US$ 102 million. Private banks had negative flows amounting to US$ 457 million. This drop was a consequence of a sharp reduction in the use of commercial credit facilities during the first three quarters of the year, and the outcome of policies to restructure liabilities that led to external financing being replaced by domestic financing. This situation was reversed in the fourth quarter, compensating to some extent for the fall that had taken place in the previous three. Private companies, meanwhile, obtained a substantial volume of financing by using external assets. This partly compensated for the outflow related to trade movements in the first half of the year, which was mainly the result of an increase in pending export returns and a decline in the advances received by exporters.

E. 3 External debt and international reserves

As of 31 December 1996, Chile's external debt was US$ 23,049 million –US$ 1,313 million more than a year before. This increase was the result of net disbursements totaling US$ 1,237 million, a negative adjustment of US$ 91 million due to parity differences, and other positive adjustments amounting to US$ 167 million.

Gross disbursements of medium- and long-term debt, which include issues of bonds by resident companies and by their agencies in other countries, totaled US$ 6,626 million. Of this, 82% (US$ 5,457 million) related to private companies' debt. Disbursements from the public sector amounted to US$ 992 million, of which US$ 500 million was drawn by Codelco and used to finance investments and to prepay external debt. Private banks disbursed US$ 177 million.

The tendency to return to traditional markets for credit –that is, to lending banks– continued. These banks supplied 78% of the credit received in 1996. Direct providers were another important source of funds, accounting for 10% of the total. Enterprises associated with foreign investment, multilateral organizations (the Inter-American Development Bank and the International Bank for Reconstruction and Development), and official agencies supplied only 7%, 3%, and 2% of gross financing. Meanwhile, the private sector, with the backing of international banks, issued bonds totaling US$ 1,370 million, of which US$ 800 million came from agencies of these companies in other countries. Loans taken out or bonds issued by agencies in other countries represent a further step in the globalization of financial systems and in the financial disintermediation of Chilean companies. These resources were used to finance investments carried out by Chilean firms in other countries.

Repayments of medium- and long-term external debt totaled US$ 4,593 million, with repayments by the public sector reaching US$ 2,978 million and those by the private sector reaching US$ 1,615 million. Of total repayments, 69% went to international lending banks, 16% to multilateral organizations, and 9% to direct providers. The remaining 6% went to companies associated with foreign investment and to government organizations. Advanced payments totaled US$ 2,713 million in 1996, of which the most significant were the prepayments of external debt carried out by the Banco Central, the General Treasury of the Republic, Codelco, and the Banco del Estado, which accounted for 83% of the total.

Breaking down the distribution of medium- and long-term external debt by sector, the private

sector increased its share from 62% in December 1995 to 76% in December 1996. This change can be accounted for, in the main, by the prepayments carried out by the public sector, in contrast to the positive net flows of external credit that were received by the private sector. In 1996 the public sector reduced its medium- and long-term debt by US$ 2,070 million, while the private sector increased its borrowing by US$ 4,179 million.

Short-term external debt totaled US$ 2,635 million in 1996, or 11% of total external debt. Of this, 83% went to private banks, 13% to the public sector, and 4% to private companies.

Short-term credits fell by US$ 796 million in net terms in 1996, the result of a US$ 957 million drop during the first three quarters (although this was then reversed in the fourth quarter, when short-term facilities of US$ 161 million were received). The fall in credit facilities affected private banks, (which experienced a drop of US$ 309 million), private companies (US$ 222 million), and the public sector (US$ 265 million; Table 23).

Of the external debt incurred in 1996, 96% was in dollars. The rest was denominated primarily in yen and deutsche marks. As regards interest rates, 66% of the debt was subject to variable rates and the remaining 35% to fixed rates.

International reserves stood at US$ 15,474 million at the end of 1996, a figure equivalent to eleven months worth of goods imports (Table 24). The US$ 669 million increase in international reserves was a result of the balance of payments surplus of US$ 1,181 million and of revaluations totaling US$ 512 million, the latter being associated with movements in the parities between currencies and with changes in the prices of instruments in which the international reserves are invested (Table 22).

Table 1

QUARTERLY GROSS DOMESTIC PRODUCT (1)

(Percentage change on same period of the previous year)

Period	QUARTER				YEAR
	I	II	III	IV	
1987	9.9	5.8	6.0	4.9	6.6
1988	7.5	4.9	8.2	8.7	7.3
1989	9.0	13.4	9.7	7.6	9.9
1990	8.6	2.8	0.0	1.5	3.3
1991	2.2	6.0	8.9	12.3	7.3
1992	11.3	9.4	14.0	9.7	11.0
1993	7.7	7.8	5.9	3.7	6.3
1994	3.8	4.7	4.0	4.6	4.2
1995	7.3	8.4	8.9	9.6	8.5
1996	9.0	6.4	5.7	7.7	7.2

(1) Provisional figures in 1986 pesos.

Source: Banco Central de Chile.

Table 2

GROSS DOMESTIC PRODUCT BY SECTOR (1)
(Annual percentage change)

Sector	1990	1991	1992	1993	1994	1995	1996
Agriculture, livestock and forestry	7.6	1.8	7.0	1.6	6.9	4.8	1.5
Fishing	–4.6	9.7	10.5	0.8	18.8	10.1	3.4
Mining	5.5	4.6	2.0	0.9	2.7	7.2	11.9
Manufacturing	1.1	6.6	11.0	5.1	2.9	6.5	3.5
Electricity, gas and water	–4.3	28.3	20.7	4.3	4.5	6.9	1.7
Construction	4.5	3.8	12.8	14.0	2.0	7.4	10.1
Trade, hotels and catering	3.8	11.5	18.2	8.6	3.8	10.6	10.4
Transport and communications	6.6	9.8	13.8	7.9	8.6	12.3	10.0
Financial services	3.5	8.5	9.9	6.8	4.7	7.7	7.0
Home ownership	2.6	2.0	1.6	2.5	2.9	3.0	3.2
Personal service (2)	3.0	3.5	3.7	4.0	3.4	2.9	3.6
Public administration	1.2	1.7	2.9	1.8	0.7	1.4	1.4
Subtotal	**3.5**	**7.0**	**10.1**	**5.6**	**4.2**	**7.4**	**6.7**
Less: Bank charges	2.2	7.4	10.4	5.7	4.4	7.6	6.8
Plus: Collected net VAT	0.7	8.1	11.6	8.3	4.0	8.8	8.0
Plus: Import duties	2.2	11.6	26.9	13.1	5.6	24.7	12.8
Total GDP	**3.3**	**7.3**	**11.0**	**6.3**	**4.2**	**8.5**	**7.2**

(1) Provisional figures in 1986 pesos.
(2) Including education and public and private health.

Source: Banco Central de Chile.

Table 3

EXPENDITURE COMPONENTS OF GROSS DOMESTIC PRODUCT (1)

Component	PERCENTAGE CHANGE							PERCENTAGE OF GDP						
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
CONSUMPTION	0.5	8.3	10.8	7.5	4.1	10.6	8.1	74.4	75.1	74.9	75.8	75.7	77.1	77.7
Private	0.4	8.9	11.6	8.1	4.4	11.7	8.8	64.2	65.1	65.5	66.6	66.7	68.6	69.6
Government	1.1	4.3	5.3	3.3	2.3	2.3	2.5	10.2	10.0	9.4	9.2	9.0	8.5	8.1
INVESTMENT	4.0	1.6	26.0	12.5	1.0	19.0	7.4	26.2	24.8	28.1	29.8	28.9	31.7	31.7
Gross fixed-capital formation	1.8	–2.2	26.0	17.7	3.5	12.1	11.6	23.1	21.1	23.9	26.5	26.3	27.2	28.3
Changes in inventory	–	–	–	–	–	–	–	3.1	3.7	4.2	3.3	2.6	4.5	3.4
DOMESTIC DEMAND	1.4	6.5	14.5	8.9	3.2	12.9	7.9	100.6	100.0	103.1	105.6	104.6	108.8	109.5
EXPORTS	9.7	10.7	13.5	4.2	8.2	11.4	10.9	34.0	35.1	35.9	35.2	36.5	37.5	38.8
IMPORTS	3.6	8.5	23.5	11.2	5.1	22.2	11.7	34.6	35.0	39.0	40.8	41.1	46.3	48.3
TOTAL GDP	**3.3**	**7.3**	**11.0**	**6.3**	**4.2**	**8.5**	**7.2**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Provisional figures in 1986 pesos.

Source: Banco Central de Chile.

Table 4

SAVINGS AND INVESTMENT RATIOS (1)

Component	PERCENTAGE CHANGE							PERCENTAGE OF GDP						
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
TOTAL SAVINGS	26.8	20.9	41.0	27.8	10.6	24.4	12.2	26.3	24.5	26.8	28.8	26.8	27.4	27.7
Gross domestic savings	25.8	28.7	32.9	16.0	24.7	32.5	–6.3	24.3	24.1	24.8	24.2	25.4	27.6	23.3
External savings	41.2	–71.9	487.6	172.9	–63.1	–	–	2.0	0.4	2.0	4.6	1.4	–0.2	4.4
TOTAL INVESTMENT	26.8	20.9	41.0	27.8	10.6	24.4	12.2	26.3	24.5	26.8	28.8	26.8	27.4	27.7
Fixed-capital investment	24.6	16.3	40.1	34.1	12.9	16.6	16.9	23.3	20.9	22.7	25.6	24.3	23.2	24.5
Changes in inventory	–	–	–	–	–	–	–	3.0	3.6	4.1	3.2	2.5	4.2	3.2

(1) Provisional figures in pesos of each year.

Source: Banco Central de Chile.

Table 5

EMPLOYMENT AND UNEMPLOYMENT (1) (2)

Quarterly moving averages ending in the specified month
(Thousands of persons)

Date	WORKFORCE		EMPLOYED		UNEMPLOYED		UNEMPLOYMENT RATE
	Total	**% Change on Previous Period**	**Total**	**% Change on Previous Period**	**Total**	**% Change on Previous Period**	
1992 Average	5,040	2.7	4,704	4.4	337	−16.4	6.7
1993 Average	5,322	5.6	4,977	5.8	346	2.6	6.5
1994 Average	5,459	2.6	5,034	1.1	425	22.9	7.8
1995 Average	5,497	0.7	5,092	1.2	405	−4.7	7.4
1996 Average	5,522	0.4	5,164	1.4	358	−11.7	6.5
1995							
January	5,571	−0.2	5,153	0.6	419	−2.9	7.5
February	5,582	0.2	5,177	0.5	405	−3.3	7.3
March	5,549	−0.6	5,141	−0.7	408	0.7	7.3
April	5,518	−0.6	5,127	−0.3	391	−4.0	7.1
May	5,469	−0.9	5,060	−1.3	409	4.5	7.5
June	5,438	−0.6	5,018	−0.8	420	2.8	7.7
July	5,432	−0.1	5,000	−0.4	432	2.7	7.9
August	5,432	0.0	5,005	0.1	427	−1.1	7.9
September	5,463	0.6	5,048	0.9	415	−2.7	7.6
October	5,460	−0.1	5,064	0.3	396	−4.6	7.3
November	5,517	1.0	5,141	1.5	376	−5.1	6.8
December	5,538	0.4	5,174	0.7	364	−3.2	6.6
1996							
January	5,597	1.1	5,207	0.6	390	7.2	7.0
February	5,585	−0.2	5,196	−0.2	389	−0.4	7.0
March	5,564	−0.4	5,198	0.0	366	−5.8	6.6
April	5,498	−1.2	5,163	−0.7	335	−8.6	6.1
May	5,503	0.1	5,159	−0.1	345	3.0	6.3
June	5,504	0.0	5,142	−0.3	362	5.1	6.6
July	5,479	−0.4	5,093	−0.9	386	6.7	7.1
August	5,451	−0.5	5,067	−0.5	383	−0.8	7.0
September	5,460	0.2	5,090	0.4	370	−3.5	6.8
October	5,480	0.4	5,138	0.9	342	−7.6	6.2
November	5,543	1.2	5,217	1.5	326	−4.7	5.9
December	5,601	1.0	5,299	1.6	302	−7.3	5.4

(1) Including population aged 15 and over.
(2) According to results of the latest National Survey on Employment based on the Population and Housing Census of 1992.

Source: Instituto Nacional de Estadísticas (INE).

Table 6

PRICE INDEXES

Date	CONSUMER-PRICE INDEX (IPC) (April 1989 = 100)			WHOLESALE-PRICE INDEX (IPM) (June 1992 = 100)		
	Index	**Percentage Change**		**Index**	**Percentage Change**	
		Month	12-month		Month	12-month
1990 Average	132.6	–	27.3 (1)	74.8	–	25.7 (1)
1991 Average	161.5	–	18.7 (1)	91.0	–	16.5 (1)
1992 Average	186.4	–	12.7 (1)	101.6	–	8.9 (1)
1993 Average	210.2	–	12.2 (1)	110.3	–	6.7 (1)
1994 Average	234.2	–	8.9 (1)	118.8	–	7.8 (1)
1995 Average	253.5	–	8.2 (1)	127.8	–	8.2 (1)
1996 Average	272.2	–	6.6 (1)	135.8	–	3.1 (1)
1995						
January	244.0	0.6	8.5	123.5	0.4	8.2
February	245.3	0.5	8.7	124.3	0.6	8.6
March	246.8	0.6	8.2	126.5	1.7	9.2
April	248.3	0.6	8.3	126.8	0.3	9.4
May	249.8	0.6	7.4	125.8	–0.8	7.5
June	251.6	0.7	7.6	125.0	–0.6	5.7
July	253.7	0.8	7.9	126.1	0.8	5.9
August	257.9	1.6	8.5	127.5	1.1	5.5
September	259.4	0.6	8.6	129.7	1.8	6.6
October	261.4	0.8	8.8	132.1	1.8	8.2
November	261.6	0.1	8.2	133.3	0.9	7.9
December	262.4	0.3	8.2	133.2	–0.1	8.2
1996						
January	263.1	0.3	7.8	133.3	0.1	7.9
February	264.4	0.5	7.8	132.6	–0.5	6.7
March	266.4	0.7	7.9	134.2	1.2	6.1
April	269.1	1.0	8.4	136.0	1.3	7.2
May	271.2	0.8	8.6	135.8	–0.1	7.9
June	272.4	0.4	8.3	136.1	0.3	8.8
July	273.2	0.3	7.7	135.5	–0.5	7.4
August	274.3	0.4	6.4	136.0	0.4	6.7
September	275.7	0.5	6.3	136.9	0.7	5.5
October	277.7	0.7	6.2	137.9	0.7	4.4
November	278.8	0.4	6.6	137.9	0.1	3.5
December	279.8	0.4	6.6	137.3	–0.4	3.1

(1) December to December change.

Source: Instituto Nacional de Estadísticas (INE).

Table 7

CONSUMER-PRICE INDEX

(April 1989 = 100)

Date	OVERALL INDEX		FOOD		HOUSING		CLOTHING		TRANS. & COMM.		OTHERS	
	Index	% Change 12-month	Index	% Change 12-month	Index	% Change 12-month	Index	% Change 12-month	Index	% Change 12-month	Index	% Change 12-month
1990 December	148.3	27.3	151.5	23.8	146.0	29.5	123.1	13.6	158.7	32.7	147.5	32.9
1991 December	176.0	18.7	193.8	27.9	168.3	15.2	150.8	22.5	168.9	6.4	172.4	16.9
1992 December	198.3	12.7	217.5	12.2	189.9	12.8	168.1	11.5	183.1	8.4	204.2	18.5
1993 December	222.6	12.2	235.9	8.5	217.7	14.7	176.1	4.8	206.4	12.7	244.3	19.6
1994 December	242.5	8.9	252.5	7.0	237.2	8.9	182.6	3.7	226.2	9.6	278.9	14.2
1995 December	262.4	8.2	275.3	9.0	254.1	7.1	172.5	–5.5	252.1	11.4	306.8	10.0
1996 December	279.8	6.6	286.5	4.1	274.6	8.1	164.5	–4.7	275.1	9.2	339.2	10.5
1995												
January	244.0	8.5	253.6	6.3	238.4	9.1	180.5	2.5	228.4	8.9	282.9	13.9
February	245.3	8.7	253.7	7.6	240.9	8.4	178.6	1.6	231.8	9.9	284.0	12.9
March	246.8	8.2	253.6	7.4	242.4	8.2	176.9	1.2	233.4	10.5	290.2	10.0
April	248.3	8.3	254.8	8.4	243.4	7.8	181.2	–0.7	234.5	10.8	292.1	9.8
May	249.8	7.4	255.7	6.9	246.0	7.4	183.2	–0.6	235.8	9.7	293.0	9.4
June	251.6	7.6	259.1	7.4	246.9	7.3	182.6	–0.5	237.6	9.2	294.5	10.0
July	253.7	7.9	264.7	8.3	247.7	7.2	180.7	–0.1	237.8	9.2	295.6	9.8
August	257.9	8.5	272.4	9.1	249.5	7.3	177.4	–0.6	244.0	10.7	298.1	10.1
September	259.4	8.6	274.4	9.6	250.4	7.3	173.7	–3.4	248.5	11.1	299.1	10.1
October	261.4	8.8	278.1	10.6	251.6	7.2	176.6	–3.3	248.7	10.2	300.7	10.4
November	261.6	8.2	276.7	8.8	252.8	6.8	174.3	–4.9	249.5	10.6	303.1	11.2
December	262.4	8.2	275.3	9.0	254.1	7.1	172.5	–5.5	252.1	11.4	306.8	10.0
1996												
January	263.1	7.8	272.6	7.5	254.9	6.9	169.0	–6.3	258.3	13.1	310.6	9.8
February	264.4	7.8	271.2	6.9	258.5	7.3	168.6	–5.6	262.8	13.4	311.8	9.8
March	266.4	7.9	272.8	7.6	259.5	7.1	165.4	–6.5	261.4	12.0	322.0	11.0
April	269.1	8.4	275.5	8.1	261.9	7.6	168.8	–6.8	264.4	12.8	324.4	11.1
May	271.2	8.6	279.1	9.1	264.9	7.7	167.8	–8.4	265.5	12.6	325.3	11.0
June	272.4	8.3	281.5	8.7	265.6	7.6	165.8	–9.2	264.5	11.3	328.2	11.4
July	273.2	7.7	282.3	6.6	266.8	7.7	163.9	–9.3	264.3	11.2	331.1	12.0
August	274.3	6.4	283.9	4.2	269.1	7.9	162.6	–8.3	264.8	8.6	331.5	11.2
September	275.7	6.3	285.1	3.9	270.4	8.0	161.6	–7.0	266.3	7.2	334.2	11.7
October	277.7	6.2	286.4	3.0	272.8	8.4	163.5	–7.4	270.1	8.6	335.1	11.5
November	278.8	6.6	287.3	3.8	273.7	8.3	164.1	–5.9	273.1	9.5	335.2	10.6
December	279.8	6.6	286.5	4.1	274.6	8.1	164.5	–4.7	275.1	9.2	339.2	10.5

Source: Instituto Nacional de Estadísticas (INE).

Table 8 A

HOURLY-WAGE INDEX

(April 1993 = 100)

Date	NOMINAL			REAL (1)		
	Index	**Percentage Change**		**Index**	**Percentage Change**	
		Month	12-month		Month	12-month
1993 December	115.06	–	–	105.14	–	–
1994 December	131.88	–	14.6	110.61	–	5.2
1995 December	149.98	–	13.7	116.26	–	5.1
1996 December	164.23	–	9.5	119.39	–	2.7
1996						
January	150.42	0.3	13.3	116.29	0.0	5.0
February	151.29	0.6	13.0	116.36	0.1	4.8
March	151.99	0.5	12.1	116.05	–0.3	3.9
April	153.28	0.8	12.0	115.86	–0.2	3.4
May	154.34	0.7	12.3	115.73	–0.1	3.4
June	156.17	1.2	11.9	116.61	0.8	3.4
July	156.94	0.5	12.0	116.84	0.2	4.0
August	158.14	0.8	12.3	117.24	0.3	5.6
September	159.06	0.6	11.3	117.34	0.1	4.7
October	159.35	0.2	11.3	116.72	–0.5	4.8
November	160.57	0.8	10.8	117.15	0.4	4.0
December	164.23	2.3	9.5	119.39	1.9	2.7

(1) Deflated by the consumer-price index.

Source: Instituto Nacional de Estadísticas (INE).

Table 8 B

LABOR-COST INDEX

(April 1993 = 100)

Date	NOMINAL			REAL (1)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-month		Month	12-month
1993 December	111.82	–	–	105.83	–	–
1994 December	128.16	–	14.6	112.48	–	6.3
1995 December	143.79	–	12.2	116.63	–	3.7
1996 December	157.21	–	9.3	123.68	–	6.0
1996						
January	143.06	–0.5	12.4	115.93	–0.6	4.2
February	143.71	0.5	12.3	117.06	1.0	5.2
March	144.50	0.5	11.5	116.32	–0.6	5.1
April	146.52	1.4	11.8	116.43	0.1	4.3
May	147.58	0.7	11.8	117.44	0.9	3.6
June	149.58	1.4	12.1	118.73	1.1	3.0
July	149.71	0.1	11.6	119.39	0.6	3.9
August	150.31	0.4	12.0	119.41	0.0	5.0
September	151.63	0.9	11.2	119.63	0.2	5.4
October	151.56	0.0	10.5	118.77	–0.7	5.9
November	153.15	1.0	10.6	119.96	1.0	6.9
December	157.21	2.7	9.3	123.68	3.1	6.0

(1) Deflated by the wholesale-price index.

Source: Instituto Nacional de Estadísticas (INE).

Table 9

REAL INITIAL ADJUSTMENT AGREED IN COLLECTIVE BARGAINING

(Percentages)

Period	UNIONS	OTHER GROUPS	TOTAL
1994			
January-March	1.9	1.0	1.8
April-June	1.7	0.6	1.5
July-September	1.6	1.8	1.7
October-December	1.9	1.4	1.9
1995			
January-March	2.1	2.0	2.1
April-June	2.3	2.1	2.2
July-September	1.3	0.6	1.1
October-December	1.7	0.5	1.6
1996			
January-March	1.7	1.2	1.5
April-June	2.1	0.9	1.7
July-September	0.8	1.6	1.0
October-December	1.1	0.9	1.1

Source: Dirección del Trabajo. Ministerio del Trabajo y Previsión Social.

Table 10

INTEREST RATES OF BANCO CENTRAL INSTRUMENTS

(Annual rate on UF)

Date	PRBC	PRC (1)				
	90-Day	8-Year (2)	10-Year (2)	12-Year (3)	14-Year (3)	20-Year (3)
1994						
January	6.50	6.30	6.30	6.20	6.20	6.10
February	6.50	6.10	6.10	6.00	6.00	5.90
March	6.50	6.10	6.10	6.00	6.00	5.90
April	6.50	6.10	6.10	6.10	6.00	5.90
May	6.50	6.10	6.00	5.90	5.90	5.80
June	6.50	6.10	6.00	5.90	5.90	5.80
July	6.50	6.10	6.10	6.00	6.00	5.90
August	6.50	6.10	6.10	6.00	6.00	5.90
September	6.50	6.10	6.00	6.00	6.00	5.90
October	6.50-6.25	6.00	6.00	6.00	6.00	5.90
November	6.25-6.00	5.90	6.00	6.00	5.90	5.90
December	6.10	5.90	5.90	5.90	5.90	5.80
1995						
January	6.10	5.95	5.95	5.94	5.93	5.85
February	6.10	6.13	6.15	6.14	6.13	6.02
March	6.10	6.21	6.24	6.23	6.23	6.16
April	6.10	6.31	6.33	6.32	6.32	6.27
May	6.04 (1)	6.21	6.23	6.23	6.21	6.16
June	5.86 (1)	5.97	6.00	6.01	6.00	5.94
July	5.73 (1)	5.72	5.72	5.70	5.67	5.61
August	5.65 (1)	5.94	5.96	5.93	5.92	5.83
September	5.90 (1)	6.12	6.13	6.13	6.13	6.02
October	6.34 (1)	6.41	6.42	6.41	6.41	6.30
November	6.84 (1)	6.69	6.72	6.70	6.67	6.52
December	6.90 (1)	6.86	6.87	6.84	6.82	6.63
1996						
January	6.89 (1)	6.50	6.51	6.49	6.48	6.36
February	6.79 (1)	6.43	6.44	6.41	6.41	6.26
March	6.67 (1)	6.50	6.50	6.47	6.45	6.31
April	7.22 (1)	6.62	6.61	6.60	6.57	6.38
May	7.46 (1)	6.45	6.47	6.43	6.42	6.29
June	7.51 (1)	6.41	6.42	6.39	6.38	6.20
July	7.46 (1)	6.25	6.24	6.20	6.18	6.03
August	7.41 (1)	6.21	6.21	6.18	6.14	5.99
September	7.46 (1)	6.18	6.18	6.14	6.09	5.95
October	7.43 (1)	6.10	6.09	6.05	6.00	5.83
November	7.41 (1)	6.08	6.08	6.04	5.99	5.82
December	7.29 (1)	6.08	6.09	6.05	6.01	5.85

(1) Shows the weighted average rate for the month of promissory notes sold under the bidding system (basis 360 days).
(2) Since 28 July 1992, the Banco Central de Chile has undertaken to allocate UF 300,000 at each bidding session.
(3) Since 16 February 1992, the Banco Central de Chile has undertaken to allocate UF 200,000 at each bidding session.

Source: Banco Central de Chile.

Table 11

90- TO 365-DAY UF-INDEXED INTEREST RATES

(Monthly averages of the financial system)

Date	DEPOSITS	LOANS	SPREAD
1990 Average	9.46	13.28	3.82
1991 Average	5.43	8.48	3.05
1992 Average	5.25	8.14	2.89
1993 Average	6.41	9.23	2.82
1994 Average	6.38	9.27	2.89
1995 Average	5.85	8.53	2.68
1996 Average	6.94	9.34	2.39
1994			
First quarter	6.63	9.57	2.93
Second quarter	6.57	9.47	2.90
Third quarter	6.33	9.20	2.87
Fourth quarter	6.00	8.87	2.87
1995			
First quarter	5.90	8.71	2.81
Second quarter	5.76	8.50	2.74
Third quarter	5.38	8.06	2.68
Fourth quarter	6.35	8.85	2.49
1996			
January	6.77	9.19	2.42
February	6.60	9.11	2.51
March	6.59	9.00	2.41
April	6.93	9.40	2.47
May	7.20	9.58	2.38
June	7.19	9.64	2.45
July	7.09	9.53	2.44
August	7.01	9.33	2.32
September	7.03	9.37	2.34
October	7.06	9.46	2.40
November	7.01	9.25	2.24
December	6.83	9.16	2.33

Source: Banco Central de Chile.

Table 12

MAIN MONETARY AGGREGATES

(Percentage change)

Date	MONTH				YEAR				12-MONTH			
	E	M1A	M2A	M7	E	M1A	M2A	M7	E	M1A	M2A	M7
1994												
January	–1.0	–5.2	1.2	1.4	–1.0	5.2	1.2	1.4	16.5	17.8	22.8	23.9
February	2.4	–1.8	2.2	1.5	1.4	3.3	3.4	2.9	7.4	14.3	25.2	25.1
March	–2.2	0.2	1.4	1.0	–0.9	3.5	4.9	4.0	13.2	14.3	25.6	25.1
April	0.6	–2.0	0.3	0.1	–0.3	1.5	5.2	4.1	13.1	11.4	24.1	23.0
May	0.5	0.2	1.0	0.6	0.2	1.7	6.3	4.7	11.5	14.1	23.3	22.5
June	–3.3	0.5	1.4	1.5	–3.0	2.2	7.8	6.3	12.7	16.1	21.0	21.3
July	2.2	–0.8	2.0	2.2	–0.8	1.5	10.0	8.6	12.3	17.3	22.1	21.4
August	–1.2	0.2	0.6	1.5	–2.1	1.6	10.6	10.3	13.7	18.4	20.9	21.3
September	3.3	1.8	1.4	1.4	1.2	3.4	12.1	11.8	14.8	19.9	20.1	20.7
October	1.0	2.2	1.4	2.0	0.2	5.7	13.7	14.0	14.4	21.4	19.1	20.1
November	4.0	3.5	1.4	2.1	4.1	9.4	15.3	16.5	16.5	26.3	18.8	19.9
December	8.8	11.5	2.9	2.2	13.3	22.0	18.6	19.0	13.3	22.0	18.6	19.0
1995												
January	2.0	3.4	2.7	1.8	2.0	3.4	2.7	1.8	16.7	19.9	20.3	19.5
February	2.7	0.4	1.3	1.6	4.7	3.8	4.0	3.5	17.0	22.5	19.3	19.6
March	–2.5	–0.1	3.1	1.7	2.1	3.6	7.3	5.3	16.6	22.1	21.4	20.5
April	3.6	0.3	1.6	1.1	5.8	3.3	9.0	6.4	20.2	24.2	23.0	21.6
May	0.0	1.9	1.4	1.8	5.8	5.3	10.5	8.3	19.5	26.2	23.4	23.0
June	–2.4	1.0	2.4	1.8	3.2	6.3	13.2	10.2	20.6	26.8	24.6	23.4
July	1.7	–3.4	1.1	1.1	5.0	2.7	14.5	11.4	19.9	23.5	23.5	22.1
August	–0.4	–1.4	1.3	1.4	4.6	1.3	16.0	12.9	20.9	21.6	24.4	21.9
September	3.0	4.2	2.5	2.1	7.7	5.5	18.9	15.3	20.6	24.5	25.8	22.8
October	4.0	–0.5	1.3	0.9	12.1	5.1	20.5	16.4	26.7	21.2	25.7	21.5
November	–2.0	1.5	0.4	3.2	9.8	6.7	20.9	20.1	19.4	18.9	25.0	22.7
December	10.2	11.9	4.1	1.6	21.0	19.4	25.9	22.0	21.0	19.4	25.9	22.0
1996												
January	2.7	3.9	5.2	2.0	2.7	3.9	5.2	2.0	21.8	20.0	29.1	22.3
February	0.6	–1.9	1.8	1.4	3.4	2.0	7.1	3.4	19.4	17.3	29.7	22.0
March	–2.9	–0.7	0.8	1.8	0.4	1.2	8.0	5.3	19.0	16.6	26.8	22.1
April	2.4	0.3	1.8	0.8	2.8	1.6	9.9	6.2	17.5	17.4	27.0	21.8
May	1.0	–0.5	1.6	0.7	3.8	1.1	11.6	6.9	18.7	14.7	27.2	20.5
June	–0.9	1.3	2.8	3.0	2.9	2.4	14.8	10.1	20.6	15.0	27.7	22.0
July	1.4	–3.2	1.5	2.3	4.4	–0.9	16.4	12.7	20.3	15.2	28.1	23.5
August	–5.3	0.3	0.6	1.9	–1.2	–0.6	17.1	14.8	14.4	17.1	27.2	24.1
September	8.4	4.0	0.9	0.9	7.1	3.3	18.2	15.9	20.3	16.9	25.2	22.6
October	–3.8	–1.2	2.3	1.4	3.1	2.1	20.9	17.5	11.3	16.1	26.4	23.2
November	2.6	2.2	1.0	1.2	5.8	4.4	22.1	18.9	16.6	16.8	27.2	20.8
December	9.5	8.2	3.0	1.7	15.9	13.0	25.8	21.0	15.9	13.0	25.8	21.0

E : Base money.

M1A : Corresponds to corrected definition of M1A = money in circulation + nonfinancial private-sector current-account deposits net of float + sight deposits other than current accounts + sight savings deposits.

M2A : M1A + private-sector time deposits.

M7 : M2A + time savings deposits including those for housing + Banco Central instruments held by the public (nonfinancial private sector) + Treasury promissory notes held by the public (nonfinancial private sector) + credit bills held by the public (nonfinancial private sector) + private-sector foreign-currency deposits.

Source : Banco Central de Chile.

Table 13

COMPONENTS OF PRIVATE MONETARY AGGREGATES

MONTHLY AVERAGES

(Billions of Chilean pesos)

Date	C	DIA	Dp	Ahp	Banco Central Instruments	Treasury Promissory Notes	Credit Bills	Private-Sector Foreign-Currency Deposits
1995								
January	565.39	1,419.39	4,905.94	1,328.21	5,154.83	9.70	1,778.33	625.29
February	584.49	1,407.34	4,989.56	1,343.46	5,190.33	11.22	1,862.81	650.10
March	578.51	1,410.87	5,211.45	1,363.05	5,160.30	9.46	1,934.21	648.62
April	576.12	1,407.26	5,335.42	1,378.88	5,205.74	9.71	1,956.92	622.84
May	570.11	1,450.35	5,400.26	1,398.50	5,318.73	8.49	2,024.17	612.64
June	582.21	1,458.57	5,557.80	1,430.90	5,318.66	8.46	2,101.80	620.35
July	568.34	1,403.46	5,712.46	1,446.66	5,380.79	6.65	2,123.13	622.48
August	557.47	1,387.26	5,842.77	1,461.87	5,440.00	6.23	2,198.81	612.13
September	597.92	1,428.03	5,952.49	1,475.17	5,535.85	5.07	2,284.82	597.49
October	584.34	1,432.43	6,069.12	1,501.15	5,538.89	4.82	2,319.63	592.93
November	590.82	1,457.03	6,069.31	1,512.31	5,970.19	5.40	2,412.97	602.50
December	666.31	1,625.68	6,161.63	1,515.43	5,863.40	6.54	2,474.17	607.23
1996								
January	655.85	1,726.63	6,510.25	1,530.22	5,795.48	5.53	2,461.91	618.46
February	673.91	1,663.05	6,719.32	1,543.07	5,803.74	5.28	2,537.33	625.06
March	667.12	1,653.17	6,808.09	1,558.87	5,988.40	2.78	2,603.58	647.90
April	662.73	1,665.70	6,963.27	1,574.92	5,947.29	2.78	2,625.49	645.51
May	664.70	1,652.27	7,119.53	1,591.54	5,898.81	2.97	2,694.02	606.93
June	668.97	1,677.61	7,355.95	1,624.18	6,134.11	3.90	2,786.84	584.79
July	653.64	1,618.04	7,572.46	1,647.38	6,394.01	1.98	2,823.35	606.86
August	645.88	1,632.15	7,624.72	1,653.36	6,650.26	0.00	2,906.29	606.45
September	685.91	1,682.71	7,620.95	1,662.87	6,723.97	0.00	2,979.18	566.83
October	666.63	1,674.45	7,881.21	1,676.25	6,781.24	0.00	2,994.16	551.04
November	670.59	1,721.56	7,931.66	1,681.61	6,830.05	0.00	3,090.91	566.33
December	747.81	1,841.31	8,046.79	1,683.59	6,864.55	0.00	3,143.70	558.28

SYMBOLS:

C : Money in circulation (held by the public).
D1A : Current accounts + other nonfinancial private-sector sight deposits net of float + sight deposits.
Dp : Private-sector time deposits.
Ahp : Time savings deposits including those for housing.

RATIOS:

M1 = C + D1 (D1: Nonfinancial private-sector current accounts net of float).
M1A = M1 + Dv (Dv: Sight deposits other than current accounts) + Ahv (Ahv: sight savings deposits).
M2A = M1A + Dp (Dp: Private-sector time deposits).
M3 = M2A + Ahp (Ahp: Time savings deposits including those for housing).
M4 = M3 + Banco Central instruments held by the public (nonfinancial private sector).
M5 = M4 + Treasury promissory notes held by the public (nonfinancial private sector).
M6 = M5 + Credit bills held by the public (nonfinancial private sector).
M7 = M6 + private-sector foreign-currency deposits.

Source: Banco Central de Chile.

Table 14

AVERAGE NOMINAL EXCHANGE RATE
(Chilean pesos per US dollar)

Date	OBSERVED	REFERENTIAL	BREACH OBSERVED/REFERENTIAL –1 (%)
1991 Average	349.2	366.5	–4.7
1992 Average	362.6	390.3	–7.1
1993 Average	404.2	430.0	–6.0
1994 Average	420.2	454.8	–7.6
1995 Average	396.8	413.1	–3.9
1996 Average	412.3	450.9	–8.6
1995			
January	405.8	418.7	–3.1
February	412.1	415.3	–0.8
March	410.5	400.2	2.6
April	394.3	390.7	0.9
May	377.2	396.7	–4.9
June	373.6	396.7	–5.8
July	378.1	400.8	–5.7
August	387.3	416.4	–7.0
September	394.6	426.9	–7.6
October	406.6	428.2	–5.0
November	412.3	431.5	–4.4
December	409.0	434.9	–5.9
1996			
January	408.5	439.9	–7.1
February	411.0	440.0	–6.6
March	411.6	441.3	–6.7
April	408.4	445.8	–8.4
May	406.2	449.6	–9.7
June	409.9	454.0	–9.7
July	410.7	453.7	–9.5
August	411.1	450.4	–8.7
September	411.8	454.3	–9.3
October	415.6	459.1	–9.5
November	420.0	458.3	–8.3
December	422.4	464.6	–9.1

Source: Banco Central de Chile.

Table 15

REAL OBSERVED EXCHANGE RATE

(1986 average = 100)

Date	OVERALL INDEX (1)			INDEX EXCLUDING LATIN AMERICA (2)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-month		Month	12-month
1991 Average	106.4	–	–5.6 (3)	95.5	–	–3.8 (3)
1992 Average	97.6	–	–8.3 (3)	88.4	–	–7.4 (3)
1993 Average	96.9	–	–0.8 (3)	86.9	–	–1.7 (3)
1994 Average (4)	94.3	–	–2.7 (3)	83.1	–	–4.4 (3)
1995 Average (4)	89.1	–	–5.5 (3)	77.7	–	–6.4 (3)
1996 Average (4)	85.1	–	–4.4 (3)	74.0	–	–4.8 (3)
1995 (4)						
January	92.0	1.5	–3.8	79.5	1.5	–6.4
February	93.8	1.9	–2.3	81.1	2.0	–4.9
March	94.4	0.7	–1.9	82.5	1.8	–3.4
April	92.2	–2.4	–2.5	80.8	–2.1	–3.9
May	87.4	–5.2	–6.5	76.6	–5.2	–8.3
June	86.3	–1.3	–7.2	75.8	–1.1	–8.7
July	86.5	0.3	–8.9	75.9	0.1	–9.6
August	85.7	–0.9	–9.4	74.7	–1.5	–9.9
September	85.7	0.0	–8.9	74.7	–0.1	–9.0
October	87.9	2.6	–6.4	76.8	2.9	–5.9
November	89.0	1.3	–5.3	77.7	1.1	–4.5
December	87.9	–1.3	–3.1	76.7	–1.3	–2.0
1996 (4)						
January	87.1	–0.8	–5.3	75.9	–1.1	–4.6
February	87.3	0.2	–6.9	76.0	0.2	–6.3
March	86.7	–0.6	–8.1	75.5	–0.7	–8.5
April	85.2	–1.7	–7.5	74.1	–1.9	–8.4
May	84.3	–1.2	–3.6	73.2	–1.2	–4.5
June	84.3	0.1	–2.2	73.2	0.0	–3.4
July	84.5	0.2	–2.3	73.3	0.1	–3.4
August	84.4	0.1	–1.5	73.4	0.2	–1.8
September	83.9	–0.6	–2.0	72.8	–0.8	–2.5
October	83.6	–0.4	–4.9	72.5	–0.4	–5.6
November	84.5	1.1	–5.0	73.5	1.4	–5.4
December	85.4	1.0	–2.8	74.2	0.9	–3.3

(1) Defined as the nominal observed exchange rate multiplied by the quotient between relevant external inflation and IPC. External inflation is calculated from IPM of main trading partners, denominated in US dollars weighted by the relative importance of Chilean exports and imports (excluding oil and copper) traded with them (approximately 75% of Chile's total trade in 1989, excluding oil and copper). Both the IPM and exchange rates of the countries are incorporated as monthly changes.
(2) Same definition as (1) but excluding Latin American trading partners.
(3) Annual average change.
(4) Provisional figures.

Source: Banco Central de Chile.

Table 16

BALANCE OF PAYMENTS

(Millions of US dollars)

Item	1994	1995	1996	PERCENTAGE CHANGE (1)	
				1995	1996
I. CURRENT ACCOUNT	**-639**	**147**	**-2,918**		
A. Trade balance	725	1,481	-1,147	104.3	
Exports fob	11,604	16,136	15,353	39.1	-4.9
Imports fob	-10,879	-14,655	-16,500	34.7	12.6
B. Nonfinancial services	22	-164	-229		39.6
Credits	2,847	3,160	3,358	11.0	6.3
Debits	-2,825	-3,324	-3,587	17.7	7.9
C. Financial services	-1,743	-1,480	-2,016	-15.1	36.2
Net interest	-688	-592	-597	-14.0	0.8
Net profits	-1,055	-888	-1,419	-15.8	59.8
D. Transfers	357	310	474	-13.2	52.9
II. CAPITAL ACCOUNT	**4,573**	**1,310**	**5,016**	**-71.4**	**283.0**
A. Medium- and long-term capital	3,081	762	4,688	-75.3	515.5
Foreign investment (2)	1,754	1,007	4,114	-42.6	308.7
Direct	846	971	3,013	14.8	210.3
-From abroad	1,772	1,667	4,092	-5.9	145.5
-Abroad	926	696	1,079	-24.8	55.0
Portfolio	908	36	1,101	-96.1	2,992.7
-From abroad	1,259	49	1,238	-96.1	2,426.5
-Abroad	351	13	137	-96.2	922.4
DL 600 credit disbursements	1,001	1,343	881	34.2	-34.4
Other disbursements	1,844	2,065	4,404	12.0	113.3
Loans repayments	-1,418	-3,490	-4,678	146.1	34.0
Foreign-debt conversions	-63	-136	-5	114.5	-96.3
Other (3)	-37	-27	-28	-27.0	3.7
B. Shorth-term capital	1,492	548	328	-63.3	-40.1
Credit lines	623	-416	-744		78.8
Other (4)	869	964	1,072	11.0	11.2
III. ERRORS AND OMISSIONS	**-740**	**-396**	**-917**		
IV. BALANCE OF PAYMENTS	**3,194**	**1,061**	**1,181**	**-66.8**	**11.3**

(1) Not indicated if item changes from plus to minus or viceversa.
(2) Including direct investment under DL 600, Chapter XIV capital contributions, ADRs, investment funds, Chapter XIX promissory notes and Chilean investment abroad.
(3) Including reversion payment for retiming, financing for leasing and external assets variation.
(4) Including counterpart to foreign-debt recovery transactions.

Source: Banco Central de Chile.

Table 17

TRADE BALANCE
(Millions of US dollars)

Item	1994	1995	1996	PERCENTAGE CHANGE (1)	
				1995	**1996**
BALANCE OF TRADE	**725**	**1,481**	**–1,147**	**104.3**	
Total exports (fob)	**11,604**	**16,136**	**15,353**	**39.1**	**–4.9**
Copper	4,242	6,487	6,029	52.9	–7.1
Noncopper	7,362	9,649	9,324	31.1	–3.4
Other main (2)	3,515	4,964	4,216	41.2	–15.1
Nontraditional	3,847	4,685	5,109	21.8	9.0
Total imports (fob)	**10,879**	**14,655**	**16,500**	**34.7**	**12.6**
Total imports (cif)	**11,825**	**15,914**	**17,828**	**34.6**	**12.0**
Consumer goods	1,877	2,698	3,173	43.8	17.6
Intermediate goods	6,705	9,039	9,918	34.8	9.7
Fuels	1,141	1,447	1,907	26.8	31.8
Other	5,563	7,592	8,011	36.6	5.5
Capital goods	3,243	4,177	4,736	28.8	13.4

(1) Not indicated if item changes from plus to minus or viceversa.
(2) Including iron, nitrate and iodine, silver, gold ore, fruit, fishmeal, sawn wood, logs, planed wood, pulp, methanol, lithium carbonate, molybdenum oxide and ferromolybdenum, gold metal and bullion.

Source: Banco Central de Chile.

Table 18

FOREIGN-TRADE INDICATORS

Item	1994	1995	1996
Price of copper LME (US$/lb) (1)	1.055	1.332	1.039
Oil price (US$/barrel fob)	14.6	15.6	19.0
Libor US$ (nominal)	5.1%	6.1%	5.6%
External inflation excluding Latin America	2.6%	7.3%	–1.8%
Terms of trade index (1988 = 100)			
Total for goods	91.3	106.2	88.6
Total for noncopper and nonoil goods	97.9	109.0	98.4
Total exports			
Change in value	26.1%	39.1%	–4.9%
Change in price (fob)	14.8%	25.5%	–16.3%
Change in volume	9.9%	10.8%	13.7%
Copper exports			
Change in value	30.6%	52.9%	–7.1%
Change in price (fob)	23.4%	34.5%	–24.1%
Change in volume	5.9%	13.7%	22.4%
Traditional exports other than copper			
Change in value	28.4%	41.2%	–15.1%
Change in price (fob)	16.8%	26.4%	–15.8%
Change in volume	9.9%	11.7%	0.8%
Nontraditional exports			
Change in value	19.7%	21.8%	9.0%
Change in price (fob)	5.2%	14.1%	–5.4%
Change in volume	13.8%	6.7%	15.3%
Goods imports			
Change in value	6.3%	34.6%	12.0%
Change in price (cif)	–0.4%	7.9%	0.3%
Change in volume	6.7%	24.7%	11.6%

(1) Weighted average price for quarterly export volumes.

Source: Banco Central de Chile.

Table 19

FINANCIAL SERVICES

(Millions of US dollars)

Item	1994	1995	1996	PERCENTAGE CHANGE (1)	
				1995	1996
INTEREST PAID (2)	**1,182**	**1,400**	**1,277**	**18.4**	**–8.8**
Medium and long term	1,008	1,196	1,067	18.7	–10.8
Short term	174	204	210	17.1	2.9
INTEREST RECEIVED	**495**	**811**	**680**	**63.8**	**–16.2**
PROFITS AND DIVIDENS	**–1,055**	**–888**	**–1,419**	**–15.8**	**59.8**
Credits received	3	13	14	333.3	7.7
Debits paid	1,058	901	1,433	–14.8	59.0
LEASING SERVICES	**1**	**3**	**0**	**114.3**	
TOTAL FINANCIAL SERVICES	**–1,743**	**–1,480**	**–2,016**	**–15.1**	**36.2**
Credits	498	824	694	65.5	–15.8
Debits	2,241	2,304	2,710	2.8	17.6

(1) Not indicated if item changes from plus to minus or viceversa.
(2) Including interest paid on foreign debt and other liabilities not included in this.

Source: Banco Central de Chile.

Table 20

NONFINANCIAL SERVICES

(Millions of US dollars)

Item	1994	1995	1996	PERCENTAGE CHANGE (1)	
				1995	1996
EXPORT SHIPMENTS	**134**	**–72**	**–108**		**50.0**
Credits	591	608	658	2.9	8.2
Debits	457	680	766	48.8	12.6
OTHER TRANSPORT	**–339**	**–220**	**–271**	**–35.1**	**23.2**
Passenger services	–2	9	–5		
Credits	191	205	177	7.3	–13.7
Debits	193	196	182	1.6	–7.1
Port services	–337	–229	–266	–32.0	16.2
Credits	419	590	560	40.8	–5.1
Debits	756	819	826	8.3	0.9
TRAVEL	**224**	**131**	**124**	**–41.5**	**–5.3**
Credits	863	840	927	–2.7	10.4
Debits	639	709	803	11.0	13.3
OTHER GOODS, SERVICES AND REVENUE	**3**	**–3**	**26**		
Credits	783	917	1,036	17.1	13.0
Debits	780	920	1,010	17.9	9.8
TOTAL NONFINANCIAL SERVICES	**22**	**–164**	**–229**		**39.6**
Credits	2,847	3,160	3,358	11.0	6.3
Debits	2,825	3,324	3,587	17.7	7.9

(1) Not indicated if item changes from plus to minus or viceversa.

Source: Banco Central de Chile.

Table 21

FLOWS OF NET FOREIGN INVESTMENT INTO CHILE

(Millions of US dollars)

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 (1)
TOTAL FOREIGN INVESTMENT	**235**	**877**	**944**	**1,358**	**935**	**586**	**773**	**1,104**	**1,754**	**1,007**	**4,114**
DIRECT INVESTMENT	313	885	952	1,278	582	400	321	374	846	971	3,013
From abroad	315	891	968	1,288	590	522	699	808	1,772	1,667	4,092
Decree Law 600	111	216	163	172	216	466	574	660	1,476	1,475	3,759
Chapter XIV capital contribution	5	14	13	11	35	96	157	203	400	406	415
Chapter XIX (2)	199	661	792	1,105	339	–40	–32	–55	–104	–214	–82
Abroad	–3	–6	–16	–10	–8	–122	–378	–434	–926	–696	–1,079
PORTFOLIO INVESTMENT	–78	–8	–8	80	353	186	452	730	908	36	1,101
From abroad	–78	–8	–8	80	353	186	452	820	1,259	49	1,238
Chapter XXVI ADRs	0	0	0	0	105	–31	282	790	1,273	32	863
Investment funds	0	0	0	87	254	56	50	26	–14	–280	–194
Bonds	–78	–8	–8	–7	–6	161	120	4	0	297	569
Abroad								–90	–351	–13	–137
ASSOCIATED CREDITS	**67**	**185**	**385**	**311**	**749**	**284**	**51**	**616**	**837**	**965**	**589**
Credit disbursements	108	226	521	437	888	458	328	845	1,001	1,343	881
Credit amortisations	–41	–41	–136	–126	–139	–174	–277	–299	–164	–378	–292
TOTAL	**301**	**1,062**	**1,329**	**1,669**	**1,684**	**870**	**824**	**1,720**	**2,591**	**1,972**	**4,703**

(1) Provisional figures.
(2) At redenomination value. As from 1991 includes repatriation of capital.

Source: Banco Central de Chile.

Table 22

INTERNATIONAL RESERVES OF THE BANCO CENTRAL DE CHILE (1)

(Millions of US dollars)

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
1. Gold	668	757	680	592	642	597	574	612	652	643	637
(Troy ounces)	1,795	1,811	1,824	1,752	1,858	1,863	1,867	1,865	1,864	1,861	1,859
2. SDRs at the IMF	1	41	44	24	1	1	1	1	1	3	2
3. Reserves position at the IMF	0	0	0	0	0	0	0	0	0	0	50
4. Foreign-currency assets	2,351	2,463	3,116	3,604	6,068	7,041	9,167	9,639	13,087	14,137	14,781
5. Other assets	86	62	32	−5	−202	−43	−11	−15	17	22	4
6. Use of IMF credit	1,328	1,452	1,322	1,268	1,151	955	722	479	290	0	0
7. Short-term credits	0	225	0	5	10	1	1	0	0	0	0
I. INTERNATIONAL ASSETS (2)	**3,106**	**3,323**	**3,872**	**4,215**	**6,509**	**7,596**	**9,731**	**10,237**	**13,757**	**14,805**	**15,474**
II. GROSS RESERVES (3)	**1,778**	**1,871**	**2,550**	**2,947**	**5,358**	**6,641**	**9,009**	**9,758**	**13,467**	**14,805**	**15,474**
III. NET RESERVES (4)	**1,778**	**1,646**	**2,550**	**2,942**	**5,348**	**6,640**	**9,008**	**9,758**	**13,467**	**14,805**	**15,474**

(1) Calculated from foreign-currency and gold quotations at the end of each period.
(2) Corresponds to (1 + 2 + 3 + 4 + 5).
(3) Corresponds to (I - 6).
(4) Corresponds to (II - 7).

Source: Banco Central de Chile.

Table 23

EXTERNAL DEBT (1)

(Millions of US dollars)

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 (4)
I. TOTAL (II+III)(2)	**19,501**	**19,208**	**17,638**	**16,252**	**17,425**	**16,364**	**18,242**	**19,186**	**21,478**	**21,736**	**23,049**
Public sector	12,394	13,128	11,889	10,136	9,727	8,763	8,681	8,110	8,189	6,742	4,716
Private sector	7,107	6,080	5,749	6,116	7,698	7,601	9,561	11,076	13,289	14,994	18,333
Publicly guaranteed (3) private-sector debt	3,369	3,252	2,820	2,115	2,065	1,791	941	910	946	759	450
II. MEDIUM AND LONG TERM	**17,814**	**17,191**	**15,452**	**13,279**	**14,043**	**14,165**	**14,767**	**15,699**	**17,613**	**18,305**	**20,414**
Public sector	11,483	12,075	11,048	9,064	8,769	8,478	8,233	7,622	7,663	6,127	4,366
Private sector	6,331	5,116	4,404	4,215	5,274	5,687	6,534	8,077	9,950	12,178	16,048
Publicly guaranteed (3) private-sector debt	2,896	2,650	2,060	1,286	1,039	1,012	941	910	946	759	450
III. SHORT TERM	**1,687**	**2,017**	**2,186**	**2,973**	**3,382**	**2,199**	**3,475**	**3,487**	**3,865**	**3,431**	**2,635**
Public sector	911	1,053	841	1,072	958	285	448	488	526	615	350
Private sector	776	964	1,345	1,901	2,424	1,914	3,027	2,999	3,339	2,816	2,285
Publicly guaranteed (3) private-sector debt	473	602	760	829	1,026	779	0	0	0	0	0
IV. INTERNATIONAL MONETARY FUND	**1,328**	**1,452**	**1,322**	**1,268**	**1,151**	**955**	**722**	**479**	**290**	**0**	**0**

(1) Including debt for bonds, included in foreign investment.
(2) Balance as of 31 December of each year, related to net disbursements. Excluding debt with IMF and direct commercial debt associated with foreign trade (export returns and pending cover).
(3) From 1990 onward debt owed to IDB and IBRD by private firms (Endesa, Chilectra and Pehuenche) has been included as publicly guaranteed private-sector debt.
(4) Provisional figures.

Source: Banco Central de Chile.

Table 24

EXTERNAL BORROWING INDICATORS

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 (1)
						(Millions of US dollars)					
Total external debt	19,501	19,208	17,638	16,252	17,425	16,364	18,242	19,186	21,478	21,736	23,049
Medium- and long-term external debt servicing	2,041	1,697	1,676	2,139	2,086	2,197	2,229	2,378	2,351	4,141	5,654
Interest on total foreign debt	1,772	1,516	1,214	1,559	1,558	1,417	1,240	1,089	1,121	1,308	1,186
Current-account deficit	1,191	735	231	705	648	−15	743	2,077	−639	147	−2,918
International reserves	1,778	1,646	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474
Trade-balance position surplus/deficit	1,092	1,309	2,210	1,578	1,273	1,576	749	−982	725	1,481	−1,147
Goods and services exports	5,233	6,349	8,144	9,575	10,215	11,047	12,417	11,798	14,451	19,296	18,711
Goods imports (fob)	3,099	3,994	4,883	6,502	7,037	7,354	9,237	10,181	10,879	14,655	16,500
						(Percentages)					
Total external debt/goods and services exports	373	303	217	170	171	148	147	163	149	113	123
Medium- and long-term external debt servicing/Goods and services export	39	27	21	22	20	20	18	20	16	21	30
Interest / Goods and services exports	34	24	15	16	15	13	10	9	8	7	6
Current-account deficit / Goods and services exports	23	12	3	7	6	0	6	18	−4	1	−16
Trade-balance surplus or deficit / Goods and services exports	21	21	27	16	12	14	6	−8	5	8	−6
Current-account deficit / GDP	7	4	1	2	2	0	2	5	−1	0	−4
						(Months)					
Net international reserves / Goods imports (fob)	7	5	6	5	9	11	12	12	15	12	11

(1) Provisional figures.

Source: Banco Central de Chile.

ANNEX 1

MAIN MONETARY AND CREDIT POLICY MEASURES IN 1996

April

4 Notification is given that the Banco Central is to implement the necessary operating measures for the interbank rate to be held between the second and third brackets of the Liquidity Credit Facility.

May

3 Changes are made to the regulations under which the Banco Central provides liquidity credit facilities to banking firms and financial companies, in either Chilean or foreign currency. From 9 June onward, these will be used by sending electronic messages to the Banco Central, the cutoff time being 15 hours from the day of the application.

June

7 It is decided that average use of the Liquidity Credit Facility in Chilean currency is to be reduced from 60% to 30% of the first bracket, taking effect from 9 June 1996.

20 Securities brokers, who could be used to invest pension funds, are no longer to operate in the formal secondary market in Chile.

In respect of authorized forward operations to hedge against risk in operations carried out by pension fund managers, it is established that managers may only operate with commercial banks whose long-term instruments have a risk classification of AA- or better and a level of 1- for short-term instruments.

In respect of the formal secondary market abroad, rules were laid down on the characteristics of the stock exchanges, futures exchanges, securities brokers, and stockbrokers that pension fund managers are allowed to carry out transactions with.

August

9 When announcing an extraordinary bidding session for PDBCs, the Banco Central has the power to stipulate that institutions purchasing these may not have access to the Liquidity Credit Facility on that same day. The intention behind this measure is to make the use of Antirepos more efficient and avoid the rate arbitrage that had been taking place.

ANNEX 2

MAIN EXCHANGE RATE AND FOREIGN TRADE MEASURES IN 1996

January

29 To the regulations already in place on prepayment of Chapter XIV credits is added the option of entering the formal exchange market to purchase currency up to the total amount owed, even if the due date for the liability is still pending. It is also made permissible to pay credits of this type abroad directly using revenue from export operations being carried out. The External Financing Management of the Banco Central is to be informed in both cases.

March

7 Advance payments for exports must enter the country through the formal exchange market, by bank transfer. The banking company receiving it must inform the Banco Central of this. The purpose of the measure is to obtain clearer information on the origin of currency, who is sending it, and who is the recipient, and thereby to prevent external credits entering the country under the guise of advance payments for exports with the intention of avoiding reserve-requirement regulations.

22 It is agreed that the obligation to establish a cash reserve is waived in the case of external credits when the exclusive purpose of these is to carry out prepayment of external credits already authorized and recorded at the Banco Central. For this waiver to operate, the average weighted payback periods for the new credit and the residual part of the original one must be similar.

April

17 The Council of the Banco Central decides to renew the exchange restrictions contained in the Compendium of Foreign-Exchange Regulations until 19 April 1997.

It is made permissible for freely available currencies to be purchased on the formal exchange market subject to a limit of US$ 15,000 a month. At the time of purchase, a sworn declaration must be made to the effect that the maximum limit has not been exceeded. This measure raises the limit of US$ 3,000 a month that previously applied, thus continuing the process of liberalization in the exchange market.

May

29 The right of access to the formal exchange market for credits entering under the auspices of Chapter XIV is restricted to a single extension for an average of no more than one year. This means that if the minimum period was previously 12 months, this is now the maximum. The option of entering the informal exchange market to purchase the currency needed to make payment of capital, interest, or commission is abolished. If there is no recourse to the formal exchange market within the time limit, the debtor will be penalized by a fine equivalent to 4% of the portion that has matured, which will go to the tax authorities.

Any export loan must be identified with particular shipments. Payment of these credits must be carried out with returns as soon as these are received.

June

27 It is established that payments for imports must be remitted through the formal exchange market.

In cases where the operations concerned are covered by a documentary letter of credit, and payment is carried out using currency acquired outside the formal exchange market, the Banco Central must be informed of this.

July

4 It is made permissible for debtors holding external credits entering under Chapter VI of Title II of the Compendium of Foreign-Exchange Regulations to pay them directly outside the country, using resources originating from the export operations they carry out. This also extends to payment of interest, commission, or costs. Once payment has been made, the International Financial Operations Management of the Banco Central must be informed within ten days.

September

5 The reserve requirement is abolished for external credits that companies procure by issuing bonds, when the purpose of the funds thus obtained is exclusively and entirely to finance investments to be made in other countries by the same debtor, or to refinance liabilities held by their agents or branches abroad. Thus, Chilean companies will be in a position to enter foreign capital markets at a lower cost to finance their investment projects in other countries.

October

3 The Banco Central raises the limit for assets that mutual funds can invest outside Chile from 30% to 100%. Furthermore, it is made permissible for them to enter the formal exchange market to purchase the resources that they wish to send abroad. Investments of this type are exempt from the reserve requirement, as are the returns that are derived from them.

23 Two agreements are adopted to give greater precision to the way the regulations covering the exchange reserve are applied:

- Express authorization must be obtained from the Foreign Investment Committee, or the relevant contract signed with the Chilean state, for currency corresponding to investments carried out by way of DL 600 to be liquidated.

- Portfolio investments carried out under the auspices of Chapter XIV of Title I of the Compendium of Foreign-Exchange Regulations issued by the Banco Central must provide a 30% cash reserve, including when the purpose of these investments is to form or add to the capital stock of companies or enterprises established in the country, unless the purpose of these is to increase production capacity for goods and services or to secure participation in the productive management of companies or enterprises. Exemption from the reserve requirement is maintained for investments whose purpose is to acquire common stock on the basis of an agreement concluded under the auspices of Chapter XXVI (primary ADRs).

24 Chapter IV.E.3 of the Compendium of Financial Regulations is waived in the case of operations to buy US dollars using resources obtained in the form of investments subject to a repurchase agreement.

December

5 To avoid high administrative costs, it is decided to waive the 30% reserve requirement and other controls relating to credit and investment operations of a financial nature for amounts between US$ 10,000 and US$ 200,000 (or the equivalent in other foreign currencies) carried out under Chapter XIV of the Compendium of Foreign-Exchange Regulations, although it remains obligatory for liquidation to be carried out through the formal exchange market. Likewise, the accrued amount of operations of this type carried out by one agent over a 12-month period must not exceed US$ 500,000.

23 It is made permissible for international investment funds to operate in the formal exchange market.

II. ORGANIZATION CHART

BANCO CENTRAL DE CHILE
As of December 31, 1996

ORGANIZATION CHART
BANCO CENTRAL DE CHILE



III. FINANCIAL STATEMENTS

BANCO CENTRAL DE CHILE
As of December 31, 1996

BALANCE SHEET
As of December 31, 1996
(Millions of Chilean pesos)

ASSETS

OVERSEAS ASSETS		7,886,602.6
RESERVE ASSETS	7,732,968.9	
Gold	297,777.8	
Foreign currencies	3,497,252.8	
Special drawing rights holdings	889.4	
IMF subscription	416,845.7	
Bonds, certificates of deposit and other	3,408,094.7	
Mutual loan agreements	88,640.1	
Other	23,468.4	
OTHER OVERSEAS ASSETS	153,633.7	
Contributions made to other international organizations	86,077.0	
Interest receivable	67,550.2	
Other	6.5	
DOMESTIC ASSETS		6,153,031.6
DOMESTIC LOANS		
Loans to state-owned entities	59,236.8	
Loans to the Banco del Estado de Chile	54,644.6	
Loans to commercial banks	309,094.5	
Loans to other institutions	233,692.0	
Treasury transferences (Laws 18267, 18401 and 18768)	3,756,615.3	
Subordinate obligations of financial institutions (Law 18401)	1,739,748.4	
OTHER ASSETS		262,620.3
Fixed assets	14,683.4	
Other	247,936.9	
TOTAL ASSETS		14,302,254.5

Notes 1 to 12 are an integral part of these financial statements.

LIABILITIES

OVERSEAS LIABILITIES		726,203.8
RESERVE LIABILITIES	503,834.0	
Mutual credit agreements	87,003.6	
IMF deposits	416,830.4	
OTHER OVERSEAS LIABILITIES	140,620.4	
Loans and other liabilities	1,579.1	
Accounts with other international organizations	137,112.1	
Interest payable	1,929.2	
ALLOCATION OF SPECIAL DRAWING RIGHTS	81,749.4	
DOMESTIC LIABILITIES		13,278,644.8
CURRENCY ISSUED AND DEPOSITS	1,211,265.5	
Currency in circulation	1,077,005.5	
Financial institutions deposits (Chilean pesos)	134,260.0	
DEPOSITS AND OBLIGATIONS	2,653,956.9	
Deposits and obligations with the Treasury	1,995,737.6	
Other deposits and obligations	658,219.3	
INSTRUMENTS ISSUED BY THE BANCO CENTRAL	9,413,422.4	
Indexed promissory notes to be paid in coupons (PRC)	5,759,293.8	
Indexed promisssory notes of the Banco Central (PRBC)	2,576,403.4	
Promissory notes stated in indexed units (UF) (Resolution 1836) arising from US dollar certificates	398,421.4	
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange, CNCI)	316,721.5	
Commercial notes from redenomination of foreign debt	220,330.1	
Indexed promissory notes with floating interest rate (PTF)	96,372.7	
Promissory notes issued for purchase of portfolio	35,656.2	
Deposit certificates stated in US dollars (Resolution 1649)	5,349.7	
Discountable promissory notes of the Banco Central (PDBC)	3,460.0	
Promissory notes for purchase of portfolio under Resolution 1555	1,015.9	
Promissory notes issued for exchange rate differential	397.7	
OTHER LIABILITIES		110,854.6
Accruals	6,583.7	
Other	104,270.9	
CAPITAL AND RESERVES		186,551.3
Capital	314,734.6	
Deficit for the year	(128,183.3)	
TOTAL LIABILITIES		14,302,254.5

STATEMENT OF INCOME
For the year ended December 31, 1996
(Millions of Chilean pesos)

OPERATING RESULTS		
OPERATING INCOME		1,334,045.1
Interest earned	675,024.9	
Indexation gains on assets	185,376.6	
Income on price differences	50,514.4	
Gain on exchange differences	420,204.0	
Other operating income	2,925.2	
OPERATING EXPENSES		(1,430,688.6)
Interest expenses	720,706.3	
Indexation losses on liabilities	555,637.7	
Commission expenses	1,128.8	
Loss on price differences	22,823.4	
Loss on exchange differences	119,059.6	
Other operating expenses	11,332.8	
GROSS MARGIN		(96,643.5)
OTHER OPERATING EXPENSES		(18,496.6)
Personnel expenses	12,664.8	
Administrative expenses	4,020.0	
Depreciation, amortization and write-offs	1,439.9	
Taxes	371.9	
NET MARGIN (Total operating loss)		(115,140.1)
NON-OPERATING INCOME AND EXPENSES		957.3
Non-operating income	1,001.8	
Non-operating expenses	(44.5)	
Loss before price-level restatement		(114,182.8)
PRICE-LEVEL RESTATEMENT		(14,000.5)
LOSS FOR THE YEAR		(128,183.3)

Notes 1 to 12 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in Chile and policies issued by the Board of the Banco Central de Chile, upon prior approval of the Superintendencia de Bancos e Instituciones Financieras (Superintendency of Banks and Financial Institutions), as established by Law 18840 (Constitutional Organic Law of the Banco Central de Chile). These policies are in accordance with generally accepted accounting principles, except for the exchange rates used, as explained in b, below, and except for the method of recording losses on subordinated obligations treated, as explained in f, below.

In addition to presenting the financial position, the balance sheet assists in the economic analysis of the Bank's operations by identifying clearly whether the operations are undertaken with domestic or overseas agents. In this manner, it is possible to evaluate the participation of the Banco Central de Chile in the domestic supply of monetary assets and credit and how this affects the Bank's creditor position abroad. The economic concepts of international reserves and currency issuance are thus shown under Reserve Assets and Reserve Liabilities and Currency Issued, respectively.

b) Foreign currency

Assets and liabilities in foreign currency are converted to Chilean pesos at the exchange rate referred to in paragraph one, Number 7 of Chapter I "General Provisions" of Title I of the Compendium of Rules on International Exchange (dólar acuerdo, hereinafter "referential US dollar"). Excepted from this policy are the balances of accounts of transactions that must be settled at a different exchange rate, which is duly specified in the respective regulations.

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 (US dollars per troy ounce), for all business days in the preceding quarter, less 10%.

Settlements of foreign currency other than the US dollar are made at the exchange rates provided by the Superintendency of Banks and Financial Institutions, always based on the referential US dollar exchange rate.

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

	Chilean pesos
Minted Chilean gold coins	942.518
US dollar	467.180
Pound sterling	790.758
Deutsche mark	300.534
Special drawing rights (SDR)	670.495

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

Shares issued by and contributions made to the Interamerican Development Bank and contributions made to the International Monetary Fund on behalf of the Chilean Treasury are stated at cost of acquisition or contribution plus restatements, where applicable.

IDB shares and contributions are shown under Other Overseas Assets. IMF contributions are shown in Overseas Reserve Assets.

d) Financial investments

Overseas financial investments are shown under Reserve Assets, and basically include bonds and commercial instruments issued by foreign governments, overseas institutions and banks which are stated at cost or at market value, whichever is lower. Interest receivable is shown in Other Overseas Assets.

e) Loans receivable and liabilities

Non-indexed loans receivable and liabilities 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. Indexed loans receivable and liabilities include accrued indexation at the balance sheet date, and balances expressed in foreign currencies include their respective exchange adjustments.

Interest earned at year-end on operations with overseas residents is included in Other Overseas Assets and Other Overseas Liabilities. Interest on transactions with domestic residents is included in Domestic Assets and Domestic Liabilities.

Prepaid interest on liabilities is included in Other Assets. Unearned interest on loans receivable is included in Other Liabilities.

f) Subordinated obligations of financial intitutions

The subordinated obligations of Banco Concepción, Banco de Chile and Banco Santiago included in Domestic Assets (Note 6) comprise the balances of repurchase obligations included in the novation agreements, indexed as of December 31, 1996, and benefiting from Law 18401 and/or 19396. Such subordinated obligations include cumulative increases which are credit to income as earned, net of provisions amounting to Ch$ 58,634.0 million.

Possible accounting losses arising from an amendment of the repayment terms of Banco Concepción, Banco de Chile and Banco Santiago subordinated obligations will be deferred once the obligation is extinguished, in accordance with Article 19 of Law 19396, which states: "The losses that may be incurred by the Banco Central de Chile as a result of its being the creditor of the subordinated obligation may be deferred in order to be absorbed by the surplus earned in future years. For these purposes, the Banco Central de Chile shall be entitled to allocate the surplus to accruing provisions to absorb such losses".

As a result of the amendment of the repayment terms of Banco BHIF and Banco Internacional subordinated obligations, an accounting loss of Ch$ 136,107.5 million was incurred. This loss was deferred, according to the above-mentioned Article 19 of Law 19396, and is presented as "Other", under "Other assets". Such loss will be absorbed by the surplus earned by the Banco Central de Chile in future years.

g) Reserve for loan losses

In prior years, the Bank has constituted reserves for doubtful debts amounting to Ch$ 66,451.6

million, which are deducted from the corresponding assets.

h) Premises and equipment

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

i) Severance indemnities

The severance indemnities have been computed at the discounted present value of restated benefits, considering an 8% annual discount rate. The balance sheet includes an accrual at year end of Ch$ 4,617.1 million for this concept.

j) Vacations

The annual cost of employee vacations is recorded as an expense on the accrual basis.

k) Price-level restatement

Capital and reserves, premises and equipment and certain other assets and liabilities have been price-level restated in accordance with the change in the Chilean consumer-price index. The Chilean currency-denominated balances of the income statement, except for depreciation and the price-level restatement, have not been price-level restated.

In the same manner, exchange differences on assets and liabilities denominated in foreign currency and indexation of loans and liabilities are included in operating income, as distinct from the price-level restatement.

2. LOANS TO THE TREASURY, TO STATE-OWNED ENTITIES, TO BANCO DEL ESTADO DE CHILE, TO COMMERCIAL BANKS, AND TO OTHER INSTITUTIONS

The total balance of these loans, amounting to Ch$ 656,667.9 million, includes the following transactions:

	(Millions of Chilean pesos)
Receivables from Corporación de Fomento de la Producción (Corfo) (Note 3)	47,040.6
Credit lines in respect of rescheduling of debts	111,725.7
Mortgage loan portfolio acquired	68,238.6
Liquidity credit lines	81,136.1
Credit lines to finance the sale of the mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	61,064.5
Credit lines of international organization programs	16,219.8
Credit lines for deposits (Resolution 1686)	28,020.7
Caja Central de Ahorro y Préstamo and Asociación Nacional de Ahorro y Préstamo (ANAP) (Note 4)	233,316.3
Other	9,905.6
Total	656,667.9

3. LOANS DUE FROM CORPORACION DE FOMENTO DE LA PRODUCCION

The balance receivable from Corporación de Fomento de la Producción (CORFO) derives from the provisions in Law 18401 of 1985, as amended, and from Law 18577 of 1986, by which the Banco Central de Chile sold to CORFO financial institution loans to finance the acquisition, by third parties, of shares of such financial institutions.

CORFO serves its debt by transferring the amounts it collects from the shareholders from the transfer of shares of the related financial institutions. At December 31, 1996, the balance receivable from CORFO amounted to Ch$ 47,040.6 million and is included as "Loans to State-Owned Entities".

In accordance with Article 13 of Law 18401, the differences that are not recovered as a result of discounts granted to the shareholders, up to UF 15 million, will be covered by the Treasury (Note 5) by future transferences, which at December 31, 1996 amounted to Ch$ 140,068.3 million, equivalent to UF 10.5 million. On the basis of information currently available, the legal maximun is considered sufficient to cover discounts.

4. CAJA CENTRAL DE AHORROS Y PRESTAMOS AND ASOCIACION NACIONAL DE AHORRO Y PRESTAMO

Pursuant to Law 18900 of January 16, 1990, the legal existence of Caja Central de Ahorros y Préstamos and the authorization for the existence of Asociación Nacional de Ahorro y Préstamo were terminated. The law established the liquidation of their respective net assets. The liquidation is awaiting final approval.

In accordance with Article 5 of this law, the liabilities of Caja Central and Asociación Nacional which are not covered by the proceeds of their liquidations will be met by the national budget, in accordance with Article 21 of Decree Law 1263 of 1975.

At December 31, 1996, the amount owed to the Banco Central for the liquidation of these entities, including accrued interest, amounted to Ch$ 233,316.3 million, and is included in Loans to Other Institutions.

5. TREASURY TRANSFERENCES

Under this heading are listed the following items:

	(Millions of Chilean pesos)
Treasury promissory notes (Law 18267)	500,722.0
Treasury promissory notes (Law 18768)	3,115,825.0
Treasury transferences (Law 18401)	140,068.3
Total	3,756,615.3

a) Treasury promissory notes (Law 18267)

In accordance with Law 18267 of December 2, 1983, the Treasury transferred Ch$ 100,000 million to the Banco Central de Chile by issuing 40 Treasury promissory notes with a 25-year term, stated in indexed units (UF), with an annual capitalizable interest rate of 1%, with semiannual amortizations, and a five-year grace period.

b) Treasury promissory notes (Law 18768)

This item corresponds to promissory notes denominated and payable in US dollars which accrue interest at an annual rate of LIBOR plus 0.5, of which 2% is payable semiannually and the

balance is capitalizable. The last installment matures on December 15, 2014.

c) Treasury transferences (Law 18401)

This item shows the discounts granted to those shareholders benefited by this law which are to be applied to the maximum of UF 15 million stipulated in Article 13 of the law (Note 3).

In accordance with the law, these Treasury transferences will be completed over a period not exceeding 30 years, with a ten-year grace period, starting from the definite determination of the total amount.

6. SUBORDINATED OBLIGATIONS OF FINANCIAL INSTITUTIONS

At December 31, 1996, three private banks maintain subordinated obligations with the Banco Central de Chile, deriving from the application of Law 18401, which granted the banks that had sold to the Banco Central (Resolutions 1450 and 1555, as amended) a portion of their loan portfolios under repurchase agreements the option of novating all the obligations resulting from such loan portfolio sale and purchase agreements. The subordinated obligations are to be amortized by the debtor banks with their surpluses, and have no fixed maturity date.

On July 29, 1995 Law 19396, was published in the Official Gazette. This law, amended by Law 19459, defines a new treatment for these subordinated obligations. The law states that the Banco Central de Chile and the banks with outstanding subordinated obligations shall be entitled to modify, upon agreement, these payment terms for such obligations, in accordance with that law and with the Banco Central de Chile's Board's instructions ruling the execution of said law.

The above-mentioned law provides a range of options for the banks to modify the payment conditions for the subordinated obligations, depending on whether they can serve such debt within 40 years or not. Banks that are not able to repay their subordinated obligation within that term, which is the case of the banks that chose to benefit from this law, may agree with the Banco Central either to repay the subordinated obligation in 40 fixed, annual, successive and equal installments, or to adopt a scheme for bidding shares, plus in both instances, the transfer of shares in settlement to the Banco Central. Also, the law allows the banks that choose one of the forms of modifying the repayment terms of their subordinated obligation to set up a new bank, its Parent Company and a company to manage the subordinated obligation.

At the date these financial statements are issued, the Banco Central had signed arrangements for amending the repayment terms of the subordinated debt of the following five banks which expressed their intention of benefitting from Law 19396.

Banco BHIF and Banco Internacional modified their novation contracts with the Banco Central and extinguished their obligations by issuing and selling shares. The accounting loss of Ch$ 136,107.5 million incurred by the Banco Central was deferred as discussed in Note 1 f).

Banco Concepción, whose subordinated obligation amounts to Ch$ 288,798.7 million (UF 21,746,188.57), entered into a contract with the Banco Central on November 6, 1996 that modifies the payment terms of the subordinated obligation, and will implement a share-bidding scheme as envisaged in Article 13 of Law 19396, without prejudice of making a transfer of shares in settlement to the Banco Central in conformity with Article 18 b) of that law. Such procedure will allow Banco Concepción to extinguish its obligation once it transfers to the Banco Central the proceeds from the placement of shares, estimated at Ch$ 66,120.5 million (UF 4,978,791.31). The accounting loss, estimated at Ch$ 222,678.2 million, will be recorded and deferred as discussed in Note 1 f), once the shares have been issued and received or the Banco Central de Chile has received the funds.

Banco de Chile, whose subordinated obligation amounts to Ch$ 750,412.1 million (UF 56,505,102.17), entered into a contract with the Banco Central on November 8, 1996 that modifies its subordinated obligation, and opted for repayment in a maximum of 40 fixed, annual successive and equal installments, starting in April 1997, and has set up a new Banco de Chile, a Parent Company and a company to manage the subordinated obligation.

Banco Santiago, whose subordinated obligation amounts to Ch$ 759,171.6 million (UF 57,164,686), entered into a contract with the Banco Central on January 13, 1997 to modify its subordinated obligation after its merger with Banco O'Higgins. Banco Santiago has opted for repayment in a maximum of 40 fixed, annual, successive and equal installments. In addition, it agreed to transfer shares in settlement to the Banco Central.

7. DEPOSITS AND OBLIGATIONS

Other Deposits and Obligations include:

	(Millions of Chilean pesos)
Reserve deposits (Resolution 143)	290,136.3
Banco del Estado de Chile deposits	64,114.3
Foreign-currency current accounts	134,294.6
Foreign-currency deposits (Resolutions 1657 and 1686)	24,173.5
Mandatory deposits on overseas credits	123,270.5
Other deposits and obligations	22,230.1
Total	658,219.3

8. CLASSIFICATION OF THE INSTRUMENTS ISSUED BY THE BANCO CENTRAL DE CHILE AT DECEMBER 31, 1996 BY THE PERIOD REMAINING TO MATURITY

(Millions of Chilean pesos)

Type of instrument	Up to 90 days	91 - 180 days	181- 365 days	1 - 3 years	Over 3 years	Total
Indexed promissory notes to be paid in coupons (PRC)	287,716.7	208,376.9	373,579.3	1,452,304.7	3,437,316.2	5,759,293.8
Indexed promissory notes of the Banco Central (PRBC)	2,576,403.4					2,576,403.4
Promissory notes stated in indexed units (UF) (Resolution 1836)	12,998.3				385,423.1	398,421.4
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange, CNCI)	1,413.9	929.8	4,671.8	275,772.0	33,934.0	316,721.5
Commercial notes from redenomination of foreign debt	21,550.1	6,763.8	193.5		191,822.7	220,330.1
Indexed promissory notes with floating interest rates (PTF)	8,694.4	1,607.8	7,848.7	31,395.0	46,826.8	96,372.7
Promissory notes issued for purchase of portfolio					35,656.2	35,656.2
Certificates of deposit expressed in US dollars (Resolution 1649)	140.0		473.6	947.2	3,788.9	5,349.7
Discountable promissory notes of the Banco Central (PDBC)	3,460.0					3,460.0
Promissory notes issued for purchase of portfolio (Resolution 1555)	1,015.9					1,015.9
Promissory notes issued for exchange rate differential	261.9		73.8	61.4	0.6	397.7
Total instruments issued	2,913,654.6	217,678.3	386,840.7	1,760,480.3	4,134,768.5	9,413,422.4

These amounts include interest and indexation accrued at December 31, 1996.

9. CAPITAL AND RESERVES

The changes in Capital and Reserves were as follows:

	(Millions of Chilean pesos)		
	Capital	Deficit for the year	Total
Balances Absorption, at January 1, 1996	302,415.8	(7,167.6)	295,248.2
Absorption of 1995 deficit	(7,167.6)	7,167.6	–
Monetary correction of capital	19,486.4	–	19,486.4
Deficit of the year	–	(128,183.3)	(128,183.3)
Balances, at December 31, 1996	314,734.6	(128,183.3)	186,551.3

Pursuant to Article 77 of Law 18840 (Banco Central de Chile Constitutional Organic Law), the deficit incurred in any year will be absorbed by charging reserves. As there are no reserves and lacking an express rule, the Board, in accordance with Article 2 and the faculties conferred by Article 75 of that law, has determined that the deficit incurred in any year will be absorbed by first charging reserves and any remaining deficit not covered by reserves will be charged to paid-in capital.

10. BALANCES IN FOREIGN CURRENCIES AND GOLD

Assets and liabilities denominated in foreign currencies included in the balance sheet at December 31, 1996 are as follows:

	(Millions of US dollars)
ASSETS	
OVERSEAS ASSETS	15,987.9
Reserve assets	15,806.6
Other overseas assets	181.3
DOMESTIC ASSETS	6,844.4
Domestic loans	6,844.4
OTHER ASSETS	93.4
Total assets	22,925.7
LIABILITIES	
OVERSEAS LIABILITIES	368.7
Reserve liabilities	186.2
Other overseas liabilities	7.5
Allocation of special drawing rights	175.0
DOMESTIC LIABILITIES	5,203.8
Deposits and obligations	5,203.8
OTHER LIABILITIES	110.6
Total liabilities	5,683.1
NET ASSETS	**17,242.6**

11. CONTINGENCIES AND RESPONSIBILITIES

a) Contingencies

The Banco Central de Chile is involved in some pending lawsuits, the final outcomes of which are not expected to have a material effect on capital and reserves.

b) Responsibilities

The Banco Central de Chile is responsible for the custody of securities owned by pension fund administrators amounting to Ch$ 4,345,041.0 million at December 31, 1996.

12. INCOME TAXES

Pursuant to Decree Law 3345 of April 24, 1980, the Banco Central de Chile is exempt from income taxes.

CAMILO CARRASCO ALFONSO
General Manager

FRANCISCO GARCÍA LETELIER
Accounting and Administration Manager

MARIO ULLOA LÓPEZ
General Auditor

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Chairman and Members of the Board Banco Central de Chile:

We have audited the balance sheet of the Banco Central de Chile as of December 31, 1996 and the related statement of income for the year then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Chile. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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.

Banco Central de Chile prepares its financial statements in accordance with the accounting policies issued by the Board, upon prior approval of the Superintendencia de Bancos e Instituciones Financieras (Law 18840). These policies are in conformity with accounting principles generally accepted in Chile, except for (1) the deferral of accounting losses of Ch$ 136,107.5 million incurred as a result of the amendment, in conformity with Law 19396 (Notes 1f and 6), to the repayment terms of the subordinated obligations of Banco BHIF and Banco Internacional and (2) the exchange rate used in translating foreign currency assets and liabilities (Notes 1a and b).

In our opinion, the above mentioned financial statements present fairly, in all material respects, the assets, liabilities, capital and reserves of the Banco Central de Chile at December 31, 1996 and the results of its operations for the year then ended in conformity with the accounting policies described in Note 1.

As further discussed in Notes 1f and 6, the recovery of subordinated obligations from Banco de Chile and Banco Santiago will depend on the method of payment they use in conformity with the law. The modification of the repayment terms of the Banco Concepción subordinated obligation will result in an accounting loss that is estimated at Ch$ 222,678.2 million, which will be recorded and deferred when the obligation is extinguished.

The accompanying financial statements have been translated into English for the convenience of readers outside Chile.

January 14, 1997

Patricio González Greco

Deloitte Touche Tohmatsu International



BANCO CENTRAL DE CHILE

AGUSTINAS 1180 - SANTIAGO
P.O. BOX 967 - SANTIAGO
TELEPHONE: 56 - 2 - 670 2000
TELEX: 40569 CENBC CL
FAX: 56 - 2 - 698 4847