72nd ANNUAL REPORT 1997



CENTRAL BANK OF CHILE

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BANCO CENTRAL DE CHILE
PRESIDENCIA

Santiago, April 27, 1998

The Honorable
Minister of Finance
Mr. Eduardo Aninat U.

DEAR SIR:

Pursuant to articles 78 and 79 of the Basic Constitutional Law of the Central Bank of Chile (*Ley Orgánica Constitucional del Banco Central de Chile*), contained in article 1 of Law 18.840, I present you with the Annual Report of this Institution for the year 1997.

Carlos Massad A.
Governor, Central Bank of Chile

I. REPORT

DEVELOPMENTS IN THE CHILEAN ECONOMY DURING 1997

A. GENERAL OVERVIEW

The Chilean economy performed rather well in 1997. Especially notable was the continued drop in inflation in a context of vigorous economic growth and healthy trends in external accounts. According to the National Institute of Statistics (*Instituto Nacional de Estadísticas*, INE), annual inflation at the end of 1997 was 6.0% and, when seasonally adjusted for major agricultural products, 5.4%. Those levels, combined with further progress made in the first few months of 1998 to bring inflation below 5.5% in line with Central Bank targets, represent an important advance in the Central Bank of Chile's strategy to reduce inflation gradually. They are also the lowest inflation figures since 1960, and the average for 1995-97 is the lowest of any three-year period since the Great Depression. Maintaining this reduction in inflation will allow Chile to reach levels similar to those in the most advanced economies fairly soon, and thereby to achieve effective price stability (Figures 1A and 1B).

As in previous years, the drop in inflation was achieved within a framework of economic growth and balanced external accounts -a sign that these reductions are sustainable and will continue during the next few years. In 1997 gross domestic product (GDP) expanded 7.1% (Table 1), and average annual unemployment fell to 6.1% from 6.5% in 1996 (Table 5). The current account of the balance of payments closed with a deficit equivalent to 5.3% of GDP. (This figure is based on the new balance of payments methodology, which replaces remitted earnings with accrued earnings. [1] Under the old methodology the deficit would have been 4% of GDP.)

[1] The main change of the new series, implemented in February 1998 and applied since 1990, involves incorporating measurements of reinvested profits for both foreign direct investment in Chile and that made by Chilean residents abroad. That implies that the income generated by direct investment capital, either repatriated by the investor or reinvested in the host country, is reflected in the current account of the

FIGURE 1A
FIVE-YEAR INFLATION AVERAGE
(1930-1997)

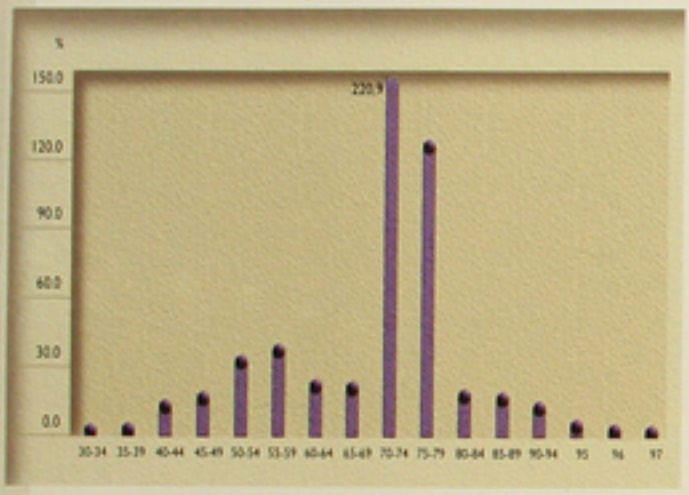
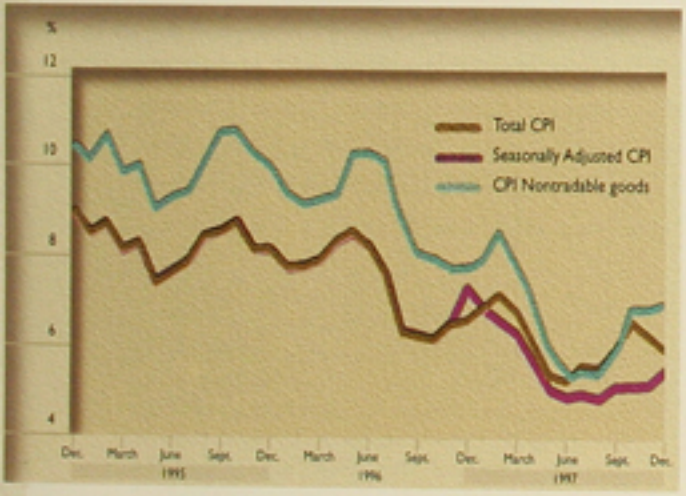


FIGURE 1B
INFLATION INDICATORS
(12-Month)



The annual growth in the consumer-price index (CPI) in December (6.0%) was strongly influenced by the unusual behavior of prices of perishable agricultural goods in the last part of the year (Tables 6 and 7). Different measures of underlying inflation, which attenuate or eliminate the effects of the prices of perishable goods on inflation, were lower. For example, seasonally adjusted inflation was 5.4%, as calculated by INE, which replaces the prices of perishable agricultural products with their annual moving averages, and the measure of underlying inflation that excludes the prices of fruits and vegetables and fuel products was 4.5%. Moreover, the first few months of 1998 saw a rapid drop in the effective rate of inflation, to 5.3% in March, as prices of perishable foods normalized. And moderation in the growth of nominal wages –from 10% in February and March to around 8% during much of the second semester– was consistent with productivity trends and inflationary expectations.

Within the downward trend of underlying inflation, it is worth noting the reduction in inflation for nontradable goods –from 7.8% in December 1996 to 7.0% in December 1997, according to INE figures. If the prices of perishable products are excluded, the decline was even more marked: from 9.1% to 5.1%

balance of payments, while the reinvested part is also shown as foreign investment in the capital account. In this fashion, the criterion previously followed in the current account, which measured foreign investment earnings as they were remitted (on a cash-flow basis), is replaced by a system showing earnings as they accrue.

during the same period. Inflation for tradable goods remained relatively stable, showing an annual growth rate of 4.7% in December, largely because of the stable peso-dollar exchange rate for much of the year and a reduction in the dollar prices of imported goods.

In 1997 production and aggregate demand achieved robust annual growth rates of 7.1% and 9.5%, respectively (Table 3). In both variables, growth accelerated during the year, particularly in the second semester, surpassing earlier projections. For the first half of the year production grew 4.9%, compared to the same period in 1996, and 9.3% in the second half. Similarly, aggregate demand grew 5.5% in the first half of 1997, and 13.3% in the second half.

Growth in domestic demand was led by gross fixed-capital formation, which in constant prices reached a record 33% of GDP. Private consumption grew 8.4%, faster than in 1996, while public consumption maintained the moderation of recent years, growing 3.3%. A large part of the increase in aggregate demand in the second half came from inventory accumulation.

For its part, the trade balance (in constant prices) moderated growth in GDP. The volume of total exports of goods and services was 9.9% higher in real terms than in 1996, and higher than the overall increase in GDP, but this was more than offset by the 14.8% growth in the volume of imports.

Economic growth was led by nontradables, which expanded 7.6%. Notable sectors include construction (6.8%), transport and communications (12.9%), and electricity, gas, and water (9.5%). Growth in tradables (4.2%) was slower than overall economic growth. The 8.1% growth in mining stands out, the result of the strong expansion of copper mining, with a larger volume of extraction and new investments leading to products with greater value added. The industry grew 4.4%, rising throughout the year (Table 2).

Despite a moderate fall in the prices of major export products, especially copper, a sizable drop in import prices allowed for an improvement in the terms of trade, increasing real disposable domestic income. Moreover, domestic savings, expressed in current prices, reached 21.4% of GDP under the new accounting methodology for the balance of payments (Table 4). This increase, compared to the previous year, resulted from the greater expansion of disposable domestic income over total nominal consumption.

Employment grew 2.1% in 1997, an annual average rate equivalent to the creation of 111,000 new jobs. Average employment growth was 9.7% in construction, 4.8% in financial services, and 3.1% in commerce. Average unemployment was 0.4 percentage points lower than in 1996, dropping from 6.5% to 6.1%, the lowest level in the 1990s (Table 5).

In 1997 the Central Bank of Chile maintained a moderately restrictive monetary policy, consistent with the favorable developments in

underlying inflation and a level of growth in the major macroeconomic aggregates compatible with the inflation target. Between February and September the target interest rate used for monetary policy dropped from 7.5% (in real, CPI-indexed units or *unidades de fomento*, UFs) to 6.5%, through gradual reductions of 25 basis points each. These reductions ceased, however, when the growth of production and aggregate demand accelerated beyond what had been planned and when the prices of major export products, such as copper, declined in the wake of the Asian crisis. In January and February 1998 the Central Bank of Chile tightened liquidity and raised the short-term interest rate, to nudge aggregate demand back onto a path compatible with the growth of domestic income and to avoid an eventual deterioration in inflation and the current account of the balance of payments.

To widen the range of instruments available to the Central Bank for executing monetary policy, auctions of short-term nominal promissory notes were introduced in mid-1997 (42-day PDBCs and 90-day PDBCs). Simultaneously, discount window sales of 30-day PDBCs were eliminated. This meant that the Central Bank no longer sent an implicit monthly inflation signal to the market. These modifications to the Central Bank's auction options were intended to give a larger role to market agents in determining interest rates and to broaden the range of instruments available on the fixed-income market.

Fiscal policy –with positive public savings and a fiscal surplus– helped attenuate the growth of aggregate domestic demand. The current surplus reached 5.6% of GDP, 0.2 percentage points lower than in 1996, and the overall surplus reached 2.1% of GDP, compared to 2.3% in 1996.

The crawling exchange rate band system used in recent years was maintained, though changes were made in the parameters. In January 1997 the band width was broadened from ± 10.0% to ± 12.5%. At the same time, the weight of the Japanese yen and Deutsche mark in the reference basket of currencies was reduced, and that of the United States dollar increased. Furthermore, the value of the band middle point (or central parity) was scaled back 4% in line with the new weights and the value of the reference basket was recalculated to be consistent with its new composition.

For much of the year the exchange rate stayed at the lower end of the exchange band, at an average distance of 3.0% from the floor (Table 14). But starting in October –as a result of the real and financial effects of the Asian crisis on the global economy and, especially, on the prices of copper and other major Chilean exports– the price of the dollar began to rise. In addition, foreign exchange markets became more volatile. This situation intensified in December and January but began to stabilize in February 1998.

In early 1997 the real exchange rate intensified the trend appreciation shown throughout the 1990s. Even though the peso maintained a stable relation with the dollar,

the dollar appreciated significantly in world markets. Between December 1996 and December 1997 the real exchange rate appreciated 8.5%, while average real appreciation for the year reached 7.6%. Only toward the end of the year a slowing in the rate of appreciation took place, as a result of the upward trend in the exchange rate (Table 15).

During 1997 capital-account regulations continued to improve and further efforts were made to deepen the foreign exchange market. Among other measures, linkages between formal and informal exchange markets were strengthened, and regulations governing investment abroad were modified (eliminating, among others, restrictions on purchasing foreign exchange in the formal exchange market to acquire financial assets and grant credit outside Chile). Transactions in foreign derivative instruments were liberalized, and the share of funds allowed to be invested abroad by privately administered pension funds was increased from 9% to 12%.

The current account of the balance of payments showed a deficit of US$ 4.057 billion in 1997, equivalent to 5.3% of GDP, as a result of a deterioration in both the trade and financial services accounts, compared to 1996. The trade deficit rose from US$ 1.095 billion in 1996 to US$ 1.295 billion in 1997, and the financial services deficit rose by US$ 178 million to close the year at US$ 2.974 billion (Table 16). The trade deficit widened because of a 10.3% increase in the value of imports, which surpassed the 9.9% increase in the value of exports. The smaller growth in export values resulted from lower international prices, since the growth in the volume of exports was substantial (10.8%), which was higher than the average growth for the 1990s. Most of the expansion in foreign sales volume was in copper (19.3%) and nontraditional products (7.6%). Noncopper traditional exports increased 2.4%. It is worth noting that price drops were more even and smaller, at 0.5% for copper, 0.7% for nontraditional products, and 1.5% for noncopper traditional exports (Table 18).

Import growth was slower than in the previous year, but still exceeded growth in aggregate demand. Imports were up 10.3% over 1996, growing steadily throughout the year, mainly because of a 15.5% increase in volume.

The financial services account showed a substantial increase in direct investment earnings, which increased by US$ 290 million, mainly because of a large outflow of investment earnings from the mining sector in the second half of the year. Finally, nonfinancial services showed a negative net balance of US$ 316 million for the year, similar to 1996, although the composition differed (Tables 19 and 20).

The capital account (excluding reserves) showed a positive net flow of US$ 7.430 billion which, added to errors and omissions with a negative balance of US$ 164 million, and to the current-account deficit, created a balance of payments surplus of US$ 3.209 billion (Table 16). The overall structure of the

capital account was similar to that in 1996, with medium- and long-term flows exceeding short-term and more volatile flows. Of longer-term capital, more than 90% was in flows from the private corporate sector, with sizable growth in portfolio investment associated with issues of primary and secondary ADRs and corporate bonds. At the same time, there was a reduction in net direct investment. In all, total foreign investment flows increased 25% over 1996 (Table 21).

Portfolio investments outside Chile grew substantially in the second half of the year, with an outflow of US$ 400 million from pension funds, insurance companies, and mutual funds for 1997 as a whole.

The short-term capital account, excluding secondary ADRs and investment funds, shows a negative net flow of US$ 1.683 billion, mainly because of a marked drop in commercial bank lines and direct trade flows. These negative flows were partly offset by declines of external assets of the nonbanking private sector.

B. ECONOMIC ACTIVITY AND EMPLOYMENT

In 1997 economic activity (as measured by GDP) grew 7.1%, while domestic demand grew 9.5%. The growth, especially for domestic demand, was more marked in the second half of the year (Figure 2).

The fact that import prices fell more than export prices improved the terms of trade, causing real gross national disposable income to grow 9%.

The strongest component of domestic demand was gross fixed-capital formation, which increased 13.2%. Exports of goods and services grew 9.9%. Imports grew even faster, rising 14.8% over 1996 (Table 3). Private consumption grew 8.4%, following a rising trend that showed 10.8% growth in the second half of the year.

B.1 SECTORAL PRODUCTION

The nontradable sectors of the economy grew 7.6% in 1997, and tradables 4.2%. The leading nontradable sectors were transport

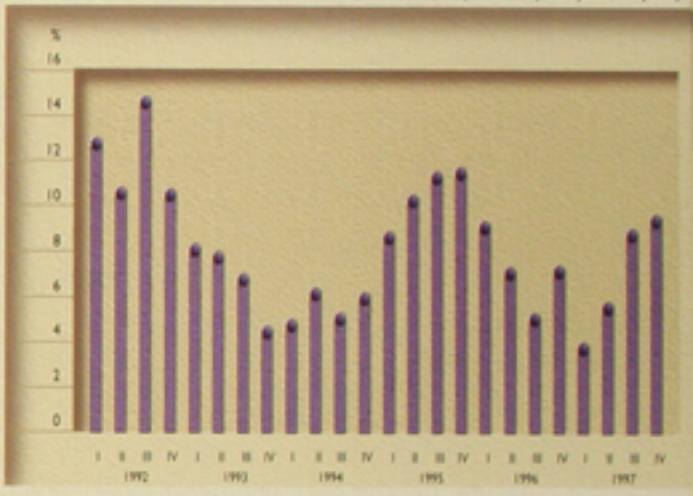
and communications and electricity, gas, and water. Among tradables, the mining sector stands out. (Table 2).

Agricultural and forest products had the least favorable sectoral performance in 1997, showing a 2.1% drop. The sector was hard-hit by drought in the first half of the year, which especially affected agricultural crops and fruits. In the second half of the year, because of excessive rains, products deteriorated, especially vegetables. The livestock category sustained its growth, however, with an increase in swine and milk production. Production of forest products improved relative to 1996, due mainly to positive results in the second quarter.

The fisheries sector grew 7.9% in 1997, basically sustained by a more than 19% increase in fish farm –especially salmon and trout– output. During the second half, industrial fishing recovered, from a low base the previous year, because of the greater abundance of species off the Chilean coast (a result of the El Niño warm water current). The same applies, to a lesser extent, to small-scale fishing.

Mining grew 8.1% because of copper. Especially notable was private sector mining, as major investments bore fruit and new deposits came on stream, focusing on products with greater value added, especially cathodes. Large-scale copper and iron mining performed poorly, while coal production rebounded because of greater demand in the first half of the year.

FIGURE 2
QUARTERLY GROSS DOMESTIC PRODUCT GROWTH
(Percentage variation relative to the same period of the previous year; year-on-year)



The electricity, gas, and water sector grew 9.5% in 1997, mainly because the availability of water normalized in the second half of the year, allowing hydroelectric stations to once again operate at full capacity, thereby raising value-added. From the middle of the third quarter gas output increased substantially because of the addition of natural gas supplies from Argentina.

Manufacturing grew 4.4%. On the demand side, the capital goods-related sectors led annual growth, with a 13.9% increase, mainly in products related to the fabrication of nonelectrical machinery and the construction of transport material. This was followed by a 6.3% increase in intermediate goods, with a notable increase in activities related to construction, especially the fabrication of glass and chemicals. In production for consumption (1.9% annual increase), dairy products and tobacco grew most; sugar, confectionery, clothing, footwear, and furniture all declined.

Export-oriented and import-substituting branches declined, as they had in 1996. Export sectors fell because of a drop in the production of canned fruit, legumes, vegetables, and paper products. Import-substituting sectors fell because of a global reduction in demand, except for the leather industry.

Construction activity expanded throughout 1997, ending the year with 6.8% growth. Most of it came from investment in engineering projects. Commercial construction decreased, while home-building increased.

The trade, restaurants, and hotels sector grew 8.2% in 1997, mainly because of higher sales of imported products and, to a lesser extent, of domestic products.

As in recent years, the transport and communications sector achieved strong growth: 12.9% in 1997, the highest sectoral growth rate that year. Spurring that sector, air transport and communications increased more than 20%. In communications the expansion was concentrated in long-distance service, especially calls abroad. Meanwhile, air transport showed the greatest subsectoral growth as a result of a large increase in demand and the low base in 1996. Finally, maritime transport grew substantially as a result of increased foreign trade.

B.2 COMPOSITION OF AGGREGATE DEMAND

Domestic expenditure grew 9.5% in 1997, up from 7.9% in 1996. Also, domestic spending was 2.4 percentage points higher than GDP growth.

Among the components of domestic expenditure, gross fixed-capital formation grew most (13.2%). In 1997, investment in fixed capital reached 33% of GDP –the highest level since this variable has been recorded. This increase resulted from higher investment in machinery and equipment, both domestic and imported, and to a lesser extent, from construction investment that year (Figure 3).

The 9.0% increase in real gross disposable

domestic income influenced the (7.9%) growth of total consumption during the year, especially the private component (8.4%). The public component grew just 3.3% (Table 3).

The large reduction in the prices of imported goods, together with an average increase of the exchange rate of only 1.7% (less than domestic inflation), contributed to greater private consumption of foreign goods and services. Imports were more dynamic than in 1996, growing 14.8%. The largest increases were in capital goods and consumer goods. Growth in exports of goods and services was also significant, reaching 9.9% in real terms. Shipments of copper contributed substantially to this result, increasing 19.2% over 1996.

Finally, gross national savings at current prices were the equivalent of 21.4% of GDP in 1997, higher than in 1996. The fact that the growth of disposable domestic income was greater than growth of consumption implied that the increase in gross domestic savings was higher than that of gross capital investment, thereby reducing the need for foreign savings (as a percentage of GDP at current prices) relative to 1996. In 1997 foreign savings were 5.5% of GDP (Table 4).

FIGURE 3
GROSS FIXED-CAPITAL FORMATION AS A PERCENTAGE OF GDP

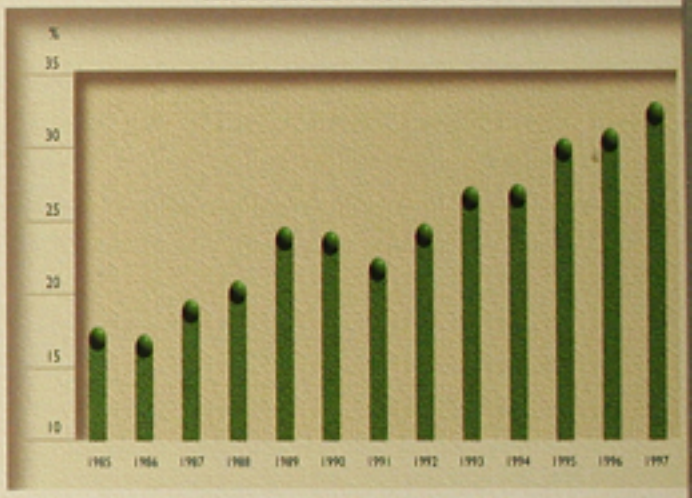
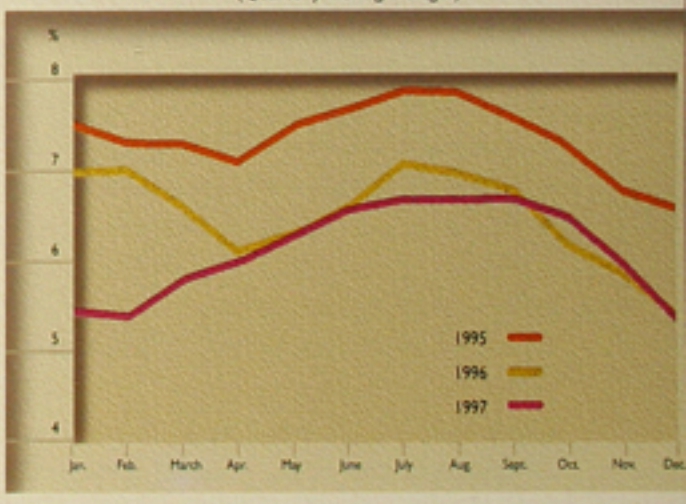


FIGURE 4
UNEMPLOYMENT
(Quarterly moving averages)



B.3 EMPLOYMENT

Employment grew faster than in the previous two years. Average 1997 growth was 2.1%, more than half a percentage point higher than in 1996. Most of it came in the second half of the year as a result of the acceleration of economic activity during that period.

Moreover, the work force expanded 1.7%. Thus, of the 111,000 jobs created in 1997, nearly 86% were absorbed by an expansion of the work force.

Although the work force appeared to be as elastic as employment, the average number of unemployed dropped by 14,000 people in 1997, compared to the previous year. As a result the average unemployment rate dropped from 6.5% in 1996 to 6.1% in 1997. Nevertheless, the drop in the unemployment rate since the middle of 1994 has tended to level off: the pattern seen at the end of 1997 was quite similar to that for the same period in 1996 (Table 5 and Figure 4).

C. INFLATION AND WAGES

In 1997 the consumer-price index rose 6.0%, less than the 6.6% increase in 1996. This was the lowest inflation in 38 years and the fourth consecutive year with single-digit annual inflation (Table 6). At the same time, notwithstanding sporadic and sudden inflationary slippages that dissipated in the first months of 1998, this figure justifies, and leads the Central Bank of Chile to reaffirm, its gradualist approach to lowering inflation. The inflation outcome for 1997 was affected by the unexpected and unusual 31% increase in the prices of perishable products –fruits and vegetables– in the second half of the year, compared with average growth of 9.5% in the first half. This situation compares unfavorably with 1996, when prices of these products were stable and increases were below average, especially in the fourth quarter.

These unexpected shifts caused the consumer-price index to behave irregularly in 1997 (Figure 1B). During the first quarter inflation figures (price changes over 12 months) increased to a maximum of 7.2% in February, because of irregular behavior in the prices of some perishables. This situation was rapidly reversed in the months that followed. In the second quarter, annual inflation reached its lowest point of the year, increasing 5.3% in June, after having ended March at 6.8%. This part of the year saw stable monthly inflation, averaging 0.2%. But after the third quarter, annual inflation began to rise because of

increases in the prices of perishable goods due to mid-year storms and large increases in the price of meat in August and September, following the closure of some border passes to Argentina, also as a result of the storms. This situation pushed inflation to 6.0% in the 12 months to September. In October the prices of perishables were 13% higher than in September. This brought annual inflation to 6.6% and generated the year's highest monthly inflation (1.2%). In November and December the prices of perishables dropped slightly, taking annual inflation back down to 6.0% in December.

In contrast, underlying inflation indicators, which attempt to reflect inflationary trends, fell for all of 1997, approaching the established target near the end of the year. One of these measures, produced by INE, is the consumer-price index seasonally adjusted for 11 agricultural products. This index continued its decline from mid-1996 and in June and August showed the lowest rates of inflation in 12 months, 4.9%. Toward the end of the year, it crept back up to 5.4% (Table 6). A second measure of underlying inflation, the adjusted consumer-price index (which excludes perishables and fuels from the basket of products), also fell after mid-1996. It reached its lowest value for price changes over 12 months, 4.5%, in the third quarter, and stayed at approximately that level in the fourth.

Among the different categories in the consumer-price index, the greatest improvement was for transport and communications. In December this sector registered a 12-month increase of 2.4%, compared with 9.2% in December 1996 (Table 7). This result was largely due to stable fuel prices, which in December showed an annual rise of 1.0%, supported by lower oil prices on world markets. The trend was similar for housing: prices rose 4.7% in the 12 months through December, nearly half the 8.1% increase in 1996. Clothing prices, however, continued to fall: -8.4% in 1997, the third year in a row that this category showed a drop in prices. Declining growth rates were also to be seen in the "various" category, which includes education, health, recreation, and other miscellaneous services –from a 12-month increase of 10.5% in December 1996, to a 9.0% increase in December 1997. The only category with faster inflation was foodstuffs, which ended 1997 with a 12-month inflation rate of 9.2%, more than twice the 1996 rate.

INE's breakdown of inflation between tradable and nontradable goods showed drops in both categories compared to end of 1996 figures. The 12-month consumer-price index for tradables was 4.7% in December 1997, compared with 4.9% in December 1996. The consumer-price index for nontradables ended 1997 with a 12-month increase of 7.0%, compared with 7.8% in December 1996. These results were, however, negatively affected by the increases in the prices of perishable products referred to earlier.

The wholesale-price index for 1997 rose 1.9%, down from 3.1% in 1996 and 8.2% in 1995. Prices of imported products –which went from an increase of 4.0% in December 1996

to a decline of 1.0% in December 1997– contributed to this outcome. Within this category, mining products stood out with prices 19.5% lower in December 1997 than in December 1996. Domestic products showed stable price growth at 2.9% for 1997, compared with 2.8% for 1996 (Table 6).

The index of hourly wages and the index of labor costs showed 12-month nominal growth of 7.4% and 7.6%, respectively (1.3% and 1.4% in real terms). The increase in nominal wages was about 2 percentage points lower than in 1996 (Tables 8A and 8B), consistent with inflation-reduction goals. Analysis of the year-on-year changes in nominal wages during 1997 shows that the slowdown occurred in the first half of 1997, rising to approximately 8.0% for most of the second half and ending the fourth quarter at 7.8%. While this figure is lower than the end of 1996 figure, the drop was much less marked than in previous years. This may partly be explained by the behavior of the consumer-price index during this year which prevented further falls in the indexation of nominal wages to past inflation.

Still, there is consistency between the pace of growth in real wages and the underlying growth in productivity. Thus, deflating by the consumer-price index, hourly wages increased 1.3% in the year to December 1997, about 1.5 percentage points lower than the annual increase recorded in December 1996. By the same token, the real terms increase in labor costs was lower than in 1996, reaching 1.4% in December 1997. When wages are deflated by the underlying inflation index (which excludes perishables and fuel products), they show stable 12-month changes in the order of 3.4% for most of 1997. Only in December is there evidence of a decline, at 2.6%.

Another factor affecting the behavior of wages concerns the initial adjustments for inflation agreed to in collective bargaining during in 1997. These numbers show a moderate trend, even though the adjustments greater than past inflation were not on average lower in 1997 than in 1996. In both 1996 and 1997 the average initial adjustment written into these contracts was around 1.3% (Table 9).

D.1 MONETARY POLICY AND INTEREST RATE MOVEMENTS

During the past decade, and with a view to achieving price stability, the Central Bank of Chile's monetary policy has sought to influence market interest rates given their impact on the rate of growth of aggregate spending.

In 1997 the interbank interest rate, expressed in inflation adjusted units, or *unidades de fomento* (UFs) –the Central Bank of Chile's key monetary policy instrument– was reduced four times in line with publicly stated goals. In February the monetary authority announced a reduction of 0.25% in the interbank (real) interest rate, from 7.5% in January to 7.25% in February. In April it was loosened to 7.0%, and in June, an additional cut to 6.75% was announced. Finally, in early September the rate was lowered another 25 basis points, bringing it to 6.5% until the end of the year (Figure 5).

No changes were made in the structure of interest rates, in the tranches of the liquidity credit line (that is, loans that the Central Bank makes to financial institutions to provide greater liquidity, usually overnight or for up to two days), or in the liquidity deposit account (that is, funds that the client bank may draw on). The real interest rate for the first tranche of the liquidity credit line was 6.7% in UF; for the second, 7.0% in UF and for the third, 7.5% in UF. The interest rate for the liquidity deposit account was 6.0% in UF.

Rates for the Central Bank of Chile's 90-day cpi-indexed notes (PRBC-90s) fell throughout the year, largely as a result of the changes in the interbank interest rate and financial community expectations regarding the future direction of the policy interest rate (Table 10). In January the rate of the PRBC-90s was 7.34%, by March it averaged 6.94%, and in June it reached 6.72%, reflecting in part the drop in the policy interest rate. From September to November it was around 6.50%, and in December it rose to 6.71%.

FIGURE 5
INTERBANK INTEREST RATES AND OVERNIGHT INSTRUMENTS OF THE CENTRAL BANK OF CHILE
(Monthly averages)

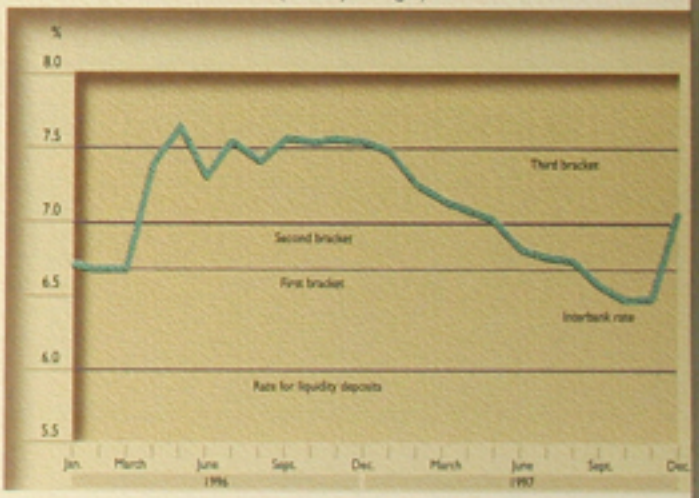
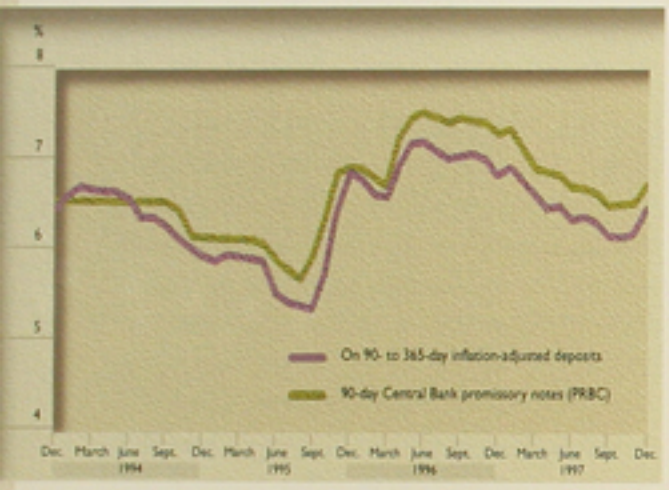
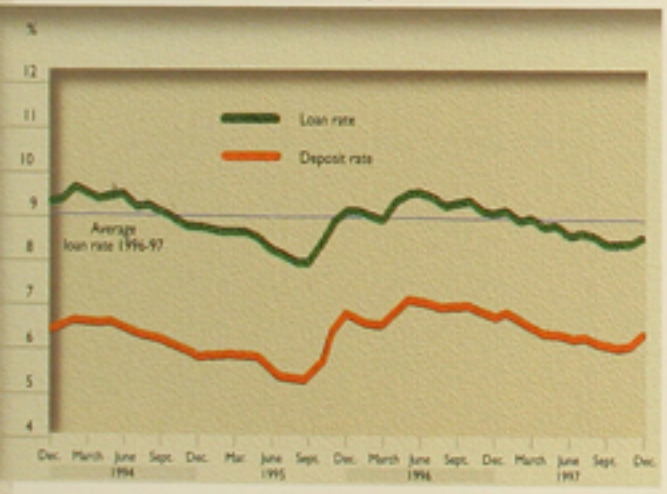


FIGURE 6
AVERAGE INTEREST RATES: MARKET AND CENTRAL BANK OF CHILE (*)
(Percent)



(*) Central Bank of Chile paper is based on a calculation of 360 days; for market rates the basis is 365 days.

FIGURE 7
INTEREST RATES ON 90- TO 365-DAY INFLATION-ADJUSTED OPERATIONS
(Monthly averages)



In July 1997 the Central Bank decided to start issuing 90-day discount notes (PDBC-90s), one feature of which is that the return on them is not tied to changes in the UF or any other indexed unit. These notes began to be auctioned, in the same way as the PRBC-90s, every Tuesday and Thursday. At the same time, "window" sales of 30-day PDBCs were eliminated, ending the Central Bank's practice of providing an inflation signal to the market. Instead, on the same day the PDBC-90s were introduced, the Central Bank began auctioning nominal 42-day notes (PDBC-42s) every Tuesday. The amounts to be auctioned (PDBC-90s and PDBC-42s) were announced in a monthly calendar prior to each cash reserve requirement period. Finally, in November the Central Bank announced plans to introduce 360-day discount notes in the first quarter of 1998. The introduction of these new nominal notes widened the range of instruments available to the Central Bank to execute monetary policy and gave the market a greater role in determining interest rate structures.

The interest rates for cpi-indexed 90-day to 365-day (UF) deposits in showed a direction similar to the interest rates for PRBCs, moving from 6.92% in January to 6.62% in March. In June this rate reached 6.34% and remained almost unchanged until September, when it fell to 6.19%, where it remained until November. In December this rate, as well as the PRBC interest rate, increased to 6.47% (Figure 6). The annual average was 6.45%, lower by almost 50 basis points than the average for 1996. The interest rate on loans followed a similar pattern, with an average differential of 2.33% vis-à-vis deposits,

slightly lower than the average in 1996 (Table 11 and Figure 7).

Regarding the Central Bank of Chile's cpi-indexed coupon notes (PRCs), the amounts auctioned were maintained constant at UF 300,000 per auction for 8-year and 10-year PRCs, and at UF 200,000 for 12-year, 14-year, and 20-year PRCs. Overall, the average yield curve for these long-term instruments moved upward. In 1996 the 8-year PRC had an average return of 6.3%; in 1997 it was 6.5%. In 1997 the 20-year PRC was an average of 20 basis points above the average for 1996, reaching 6.3%. Despite the higher long-term rates, the yield curve declined less sharply in 1997 relative to 1996, as a result of the gradual relaxation of monetary policy in 1997. This monetary expansion lowered short-term interest rates, while long-term rates were relatively more stable (Table 10).

D.2. PERFORMANCE OF MONETARY AGGREGATES AND CREDIT

Under current interest rate policy, a change in the amount of money reflects a change in the demand for money. The demand for money basically depends on economic growth, the behavior of nominal interest rates, and the price level. Higher economic activity, as well as a lower nominal interest rate, increase the real demand for money, which, along with changes in the price level, explains the increase in the nominal money supply.

In December 1997, the 12-month nominal growth rate of broad money (M1A) reached 19.3%, a real terms change of 12.5% (Table 12 and Figure 8). This growth is explained by the expansion in economic activity and the drop in the nominal interest rate relative to December 1996. When changes in M1A are broken down according to its two main components, one sees that cash grew 17.6%, while checking accounts and other private sector demand deposits grew 20.0% (Table 13).

The expansion of the broader monetary aggregates was greater than that of M1A. Private financial savings (M7), measured by the average in December each year, grew 14.8% in real terms in 1997. Year average M7 was the equivalent of just over 86% of GDP (Figure 9).

In December 1997, 12-month growth of the monetary base reached 18.9%, higher than the

FIGURE 8
BROAD PRIVATE MONEY (M1A)
(Percent)



FIGURE 9
12-MONTH NOMINAL GROWHT RATES OF MONETARY AGGREGATES
(Percent)



15.8% change in 1996. In 1997 the main origin of monetary emission was foreign exchange transactions, which were quite large (about 550 billion pesos, excluding the Treasury). These transactions were partly sterilized through placements of Central Bank notes. Operations with the Treasury remained sizable, at about 30 billion pesos, and consisted mainly of the purchase of foreign exchange by the Central Bank of Chile.

Credit granted by the financial system showed slower growth in 1997, with the real 12-month increase in loans falling from 13.2% in December 1996, to 12.4% in December 1997. The growth in mortgages slowed, while that of foreign currency denominated loans recovered. Total lending in the financial system was equivalent to 60% of GDP in 1997.

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

E.1 EXCHANGE-RATE POLICY AND INSTITUTIONAL FRAMEWORK

In recent years exchange-rate policy has sought to maintain the real exchange rate in a range compatible with balanced external accounts over the medium and long term. To achieve this goal, the Central Bank has attempted to ensure that the use of external savings, or what is practically the equivalent, the current-account deficit, stays at a level that complements the domestic financing of investment, but that is at the same time consistent with a sustainable level of indebtedness over the medium term.

In a market economy real exchange rate movements are driven by fundamental forces, among them the differences between productivity and income growth rates in different countries; the level and strength of relations with trading partners; tariffs, quasi-tariffs, and other barriers; and the behavior of public spending. In recent years Chile's exchange rate has reflected the country's significant growth in productivity relative to

its main trading partners, growing access to external medium- and long-term financing, and easier access to export markets as protectionism in the world, and especially in the region, declines.

The real exchange rate appreciated 8.5% between December 1996 and December 1997; the average appreciation was 7.6% (Table 15 and Figure 11). Since 1990 the average annual real appreciation has been 3.7%, which can largely be explained by the behavior of fundamental factors. Average labor productivity has increased 4% a year since 1990. And the external financial situation has strengthened markedly, with foreign debt dropping from 58% of GDP in 1990 to around 34% in 1997. Furthermore, international reserves covered approximately 12 months of imports in 1997, compared with 9 months in 1990 (Table 24).

These new developments in long-term conditions have led the Central Bank to make its exchange-rate policy more flexible. Given that foreign exchange markets fluctuate because current foreign currency flows, both present and future, as well as capital movements are highly volatile, it is desirable that the price of foreign exchange reflects that fact. Exchange risk is largely inherent in trade and financial transactions with the rest of the world, and the Central Bank does not avoid all these fluctuations. Still, the Central Bank has neutralized short-term exchange rate fluctuations to some extent through its policy on international reserves, and by using complementary regulations on the entry of short-term financial capital. These regulations scaled back short-term credits to less than 5% of the total.

FIGURE 10
PESO-US DOLLAR EXCHANGE RATES
(Nominal monthly averages)

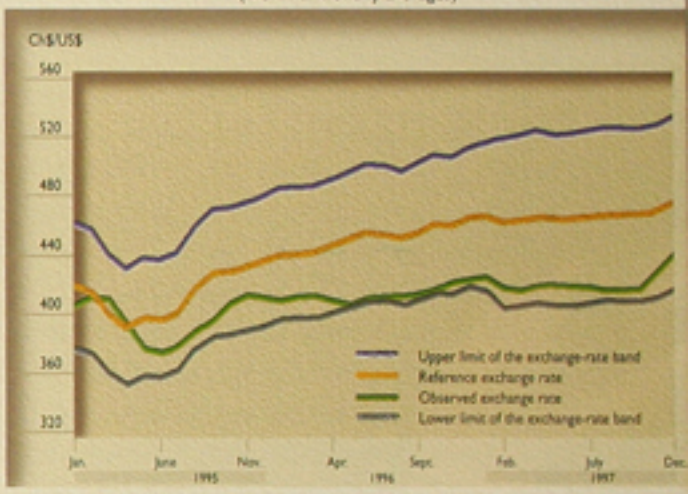
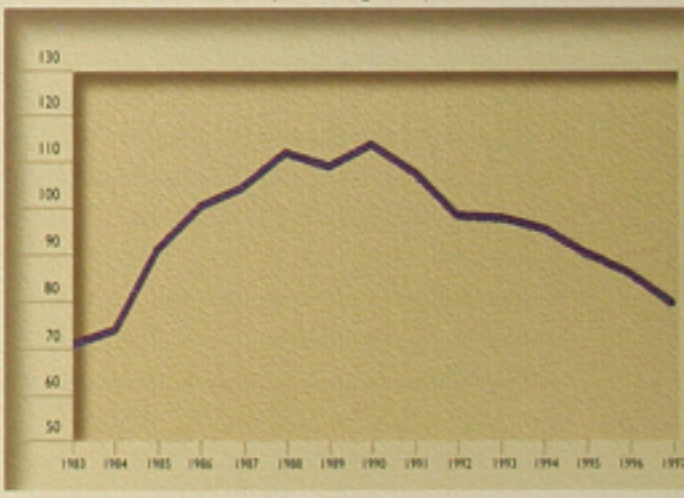


FIGURE 11
EFFECTIVE REAL EXCHANGE RATE INDEX (*)
(1986 average =100)



(*) The effective real exchange rate is defined as the observed nominal exchange rate multiplied by the quotient relevant external inflation and the consumer-price index. The external inflation is estimated by taking the wholesal price indexes, expressed in dollars, of Chile's main trading partners, and weighting them according to the relati importance of the imports and exports –excluding oil and copper– that Chile trades with them (about 70% of aggreg trade in 1997, excluding oil and copper). For both the wholesale-price indexes and the exchange rates of the countrie monthly variation figures are used.

As has been common in recent years, the exchange rate fluctuated for much of 1997 in the lower range of the exchange-rate band at an average 3% distance from the floor (Table 14 and Figure 10). In response to the movements in international currency markets in late 1996, the Central Bank adjusted the exchange-rate rule in January, modifying the composition and valuation of the currency basket. The relative weight of the U.S. dollar was increased and that of the Japanese yen and Deutsche mark reduced, reflecting the changing importance of the three currencies in Chile's foreign trade. In the same fashion, the floating band of the dollar was widened to ± 12.5% around its middle point and the central parity was adjusted downwards 4%. Between January and October 1997, the exchange rate was relatively stable, showing a small decline of 2.3%. In October, however, Asia's economic crisis began to weaken the yen, bringing the peso-dollar parity in December to a level 6% higher than in October. However, expectations of a more fragile external situation and its negative effects on Chile's foreign trade and current account –together with the portfolio effect of investors trying to cover short positions in foreign currencies– led to a 10% depreciation of the peso between October 1997 and January 1998.

The integration of international capital and exchange markets continued in 1997, and several reforms were made to unify the exchange market. Limits on the purchase of foreign exchange for free use on the formal currency market were eliminated. Changes were made in the regulations governing overseas investment, eliminating the restrictions on access to foreign exchange on the formal currency market for investment abroad in financial and real assets, the taking of deposits, and the granting of credits. The foreign investment ceiling for AFPs was increased from 9% to 12%. Regulations on financial derivatives were simplified, eliminating the requirement that transactions be backed by foreign trade or overseas investment operations. Derivative operations with variable income instruments were allowed, and free access granted to formal currency markets for the purchase of dollars through futures contracts.

E.2 BALANCE OF PAYMENTS

E.2.1 *Current Account*

The current account of the balance of payments showed a US$ 4.057 billion deficit in 1997, US$ 313 million more than the US$ 3.744 billion deficit in 1996 (Table 16). This difference was mainly the result of a US$ 200 million increase in the trade deficit, mostly in late 1997. Even though the trade balance showed a higher surplus in the first quarter of 1997 than for the same period in 1996, in the second quarter the situation reverted –primarily because of strong growth in imports.

The trade deficit was US$ 1.295 billion in 1997, the result of exports of US$ 16.923 billion and imports of US$ 18.218 billion. In 1996 the trade deficit was US$ 1.095 billion (Table 17). The deficit widened because the 10.4% increase in the value of imports surpassed the 9.9% increase in the value of

exports. The value of imports and exports increased because of increased volumes traded, with 10.8% growth for exports and 15.5% growth for imports. Expressed in dollars, however, the prices were lower in both cases, particularly for imports (Table 18). Thus the terms of trade improved, the volumes exported increased, and the deterioration in the trade balance stemmed from the expansion in aggregate demand that stimulated the rapid growth of imports.

Volumes increased and prices fell in nearly every large category of exports. In terms of volume, copper exports increased 19.3%, followed by nontraditional exports, which rose 7.6%, and finally noncopper traditional exports, which grew just 2.4%. The declines in prices for these categories were similar and smaller, with drops of 0.5% for copper, 0.7% for nontraditional exports, and 1.5% for noncopper traditional exports.

As noted, the value of exports of goods increased 9.9% in 1997, with volume increasing 10.8% and prices falling 0.8%. This result was largely due to copper exports, which increased 18.7% in value (equivalent to US$ 1.128 billion) in 12 months. The value of noncopper exports grew only 4.2% during the same period.

Despite the 0.5% drop in the fob price of copper, the volumes exported grew 19.3% in 1997 because of increased production by corporations such as La Escondida and Mantos Blancos, and because new mining operations, such as El Abra and Andacollo, began operating at normal capacity.

The 4.2% growth of noncopper traditional exports resulted from a 5.2% increase in volume and 1.0% drop in price. Traditional products (fruit, fishmeal, cellulose, wood, and others) grew 0.9% in value, with a 2.4% increase in volume and a 1.5% decline in price (with individual products varying widely). There were notable increases in the export volumes of methanol, lithium carbonate, iodine, and dressed lumber. These increases offset a reduction in exports of such other traditional products as fresh fruit, fishmeal, and cellulose. Fresh fruit exports were lower because output had been hit by the 1996 drought. Fishmeal exports were affected by a reduced fish catch. And cellulose exports fell as a result of a decline in demand by Asian countries undergoing an economic crisis in 1997.

Prices for noncopper traditional exports fell because of lower prices for metallic gold and gold bullion, lithium carbonate, and some woods –offset only in part by price increases for methanol and molybdenum.

Exports of nontraditional products grew 6.9% in 1997 because of increased volume, with prices dropping 0.7%. The beverage sector played a substantial part in this increase. Exports of its main product, wine, increased notably in value terms, due to both greater volumes and higher prices. Also contributing to the increase of nontraditional goods exports were some seafood products, and the favorable performance of metal products, electric goods, and transport.

The deterioration in the balance of payments was partly the result of imports, which

increased 10.3% in cif terms (10.4% in fob values) relative to the same period in 1996, mainly a reflection of a 15.5% jump in volume. The increase in value started with a 12-month rate of 4.7% in the first quarter and reached 15.7% in the fourth quarter. The increase was greatest for consumer goods (13.6%), followed by capital goods (12.1%) and intermediate goods (8.3%). Among imports of intermediate goods, fuels and lubricants increased 7.7%, and nonfuel intermediate products, 8.5%. This result was partly due to crude oil imports, which grew 4.3% in value as a result of a 4.9% drop in price and 9.6% increase in volume.

The prices of imported goods also fell in all the large categories, 5.1% for intermediate goods, 4.2% for capital goods, and 3.2% for consumer goods. The price declines were amply offset by the increased volumes of all categories of imports.

Services and transfers had a net deficit of US$ 2.762 billion, US$ 113 million more than in 1996. This deficit occurred because financial services experienced a US$ 178 million decline that was partly offset by better results on unilateral transfers and somewhat smaller net outflows for nonfinancial services than in 1996.

The net outflow for interest was US$ 111 million less in 1997 than in 1996, as a result of an increase in interest paid smaller than the increase in interest received (Table 19). Interest paid rose US$ 72 million because of the US$ 199 million increase in interest on medium- and long-term private foreign debt. The increase in the interest rate applicable to this debt had some effect on the payments in 1997, but the basic reason for the increase was the sector's higher external medium- and long-term indebtedness. This included bonds issued abroad directly by resident enterprises, which totaled US$ 12.178 billion at the end of 1995, rose to US$ 15.181 billion in December 1996, and amounted to US$ 19.478 billion in December 1997.

The interest paid on medium- and long-term public debt fell US$ 81 million, largely because of prepayments of public debt that started in 1995 and continued in 1996. This, combined with the decline in interest paid on short-term debt due to the reduction in the amount of short-term debt contracted, partly offset higher interest payments on medium- and long-term private debt. Interest received grew US$ 182 million, mainly because of the accumulation of international reserves in recent years.

Net outflows for earnings and dividends on foreign direct investment and portfolio investment were US$ 289 million higher than in 1996, contributing to the larger deficit in financial services and the current account. The level of earnings and dividends actually remitted was similar to that in 1996, though their composition changed. Slight growth in earnings remitted under Decree Law 600 and ADRs was counteracted by a large increase in earnings from investments abroad carried out in previous years. The increased net outflow of earnings and dividends was thus due to the US$ 353 million increase in reinvested earnings, mostly because large mining and services corporations came on stream.

The nonfinancial services account showed a negative net balance of US$ 316 million in 1997, similar to the outcome in 1996, though the composition changed somewhat (Table 20). Notable is the US$ 59 million deterioration in the shipping component, a result of greater spending on freight and on import insurance. Outflows for shipping and import insurance increased nearly 10%, similar to the growth in the value of imports.

The large deficit in the shipping account was almost entirely offset by surpluses in other categories of services, especially miscellaneous services ($ 23 million), port services ($ 32 million), and travel ($ 34 million).

E.2.2 *Capital Account*

In December 1997 the capital account (except for reserves) showed a positive balance of US$ 7.430 billion, US$ 1.973 billion more than in December 1996 (Table 16). This increase is largely explained by the significant amount of public foreign debt prepaid during the first half of 1996 and by the large increase in portfolio investment. The 1997 capital flow not only comfortably financed the current-account deficit also resulted in a balance of payments surplus of US$ 3.209 billion.

In 1997 the overall structure of the capital account was similar to that in 1996, in respect of the preponderance of medium- and long-term flows over short-term and more volatile flows. Of the total capital that came in during 1997, 107% was medium- and long-term capital, including foreign credits and foreign investment of a more permanent nature (excluding flows of secondary ADRs and investment funds). The net contribution of short-term capital was negative, at -7% (including net income from secondary ADRs and investment funds). Short-term capital, considered to be more volatile and largely conditioned by current market conditions, lowered its share in the financing flow in the capital account. The main reason for this was the strong decline in bank credit lines that began in 1996 and intensified in 1997 –as financial institutions restructured their portfolios, motivated largely by the reserve requirements for short-term debt.

Of the medium- and long-term capital flows, as defined above, 91.4% were from private enterprises, distributed in equal portions between foreign investment and foreign credit. The banking sector accounted for 8.8%, while the public sector outflows accounted for 0.2%.

Total net foreign investment flows (including both direct and all portfolio investments) were positive in 1997 and 25% higher than in 1996 (Table 21). Their composition changed, however. Portfolio investment more than doubled the net flow of 1996, and there was a 3% drop in net earnings from direct investment (15% if reinvested earnings are excluded).

The net inflow from portfolio investment reached US$ 2.370 billion in 1997, accounting for 41% of net investment. Portfolio investment was US$ 1.272 billion higher than in 1996, increasing its share in foreign

investment flows by 17 percentage points. The increase comprised growth in investments from abroad as well as in investment abroad. ADR issues, both primary and secondary, were the most important component of portfolio investment. Together they more than doubled net issues in 1996. Primary ADR issues rose to US$ 541 million in 1997 –from US$ 198 million in 1996– divided about evenly between the second and fourth quarters. The bulk of the net inflow from secondary ADRs came during the first half of the year. It fell during the third quarter, and turned highly negative in the fourth quarter. As of September there was a marked drop in the net inflow from secondary ADRs, which became negative by November. This reversal was a direct result of the Asian crisis, which, although it did not have a sizable effect on other medium-term flows of the capital account, did have a marked impact on the net inflow of these instruments. Still, for the year as a whole and given the major flows in the first half, the net inflow from secondary ADRs in 1997 was 89% higher than in 1996.

Inflows from bonds issues, another important component of portfolio investment, increased 57% over 1996, with four issues raising US$ 894 million. These issues took place in the first, third, and fourth quarters, for about US$ 300 million a quarter. Of the bonds issued, 44% were in the banking sector.

Portfolio investments abroad grew substantially from the second half of the year due to investments made by pension funds, insurance companies, and mutual funds. Outflows totaled US$ 400 million, partially offset by receipts of US$ 165 million from operations with financial derivatives.

The US$ 787 million increase in outward foreign investment just surpassed the US$ 693 million increase in investments from abroad, so net flows decreased by US$ 94 million compared to the previous year. The credits associated with investments from abroad grew 76% in net terms. Even though the amount of credit disbursed in 1997 was much greater than in 1996, amortizations increased 28% due to grace periods for some credits expiring, and a substantial prepayment made by a mining company.

Spain and the United States were the main sources of foreign direct investment in 1997. Investment abroad was mostly channeled through the formal currency market to countries in Latin America (Argentina, Peru, Uruguay), Central America (Cayman Islands) and the United States.

Inflows of medium- and long-term capital other than investment –mainly external credits– reached US$ 3.276 billion in 1997, US$ 2.770 billion more than in 1996. This increase is largely explained by debt prepayments made in the first half of 1996, which were significantly higher than those made in 1997, and by the growth in credits from foreign banks. Thus the net flow of external credits resulted in disbursements of US$ 6.173 billion and amortizations of US$ 2.812 billion, of which US$ 1.027 billion were prepayments of debt. Of these prepayments, 71% involved a restructuring of liabilities –that is, they were offset by

disbursements of other credits. Approximately 80% of the net inflows of external credit were used to finance productive investments in mining, telecommunications, and industry. The credits and other medium- and long-term assets drawn against foreign entities increased during the period, resulting in a negative capital flow of US$ 86 million.

The short-term capital account, excluding secondary ADRs and investment funds, showed a net negative flow of US$ 1.683 billion, mainly because of a strong drop in bank credit lines and in direct trade flows, especially during the first half of the year. These negative flows were partly offset by reductions in the external assets of the nonbanking private sector.

E.3 FOREIGN DEBT AND INTERNATIONAL RESERVES

Chile's foreign debt at the end of 1997 totaled US$ 26.775 billion, US$ 3.796 billion more than in 1996 (Table 23). This increase was the result of net external medium- and long-term credits of US$ 5.144 billion, including US$ 894 million for bonds issued by resident enterprises and US$ 900 million for issues placed by branches of Chilean enterprises abroad (which are considered nonresident for purposes of the balance of payments). Short-term external net credit fell by US$ 1.348 billion.

Broken down by type of institution, private enterprises increased their medium- and long-term capital debt by US$ 4.669 billion increase, and the banking sector by US$ 528 million. The public sector lowered its medium- and long-term debt by US$ 53 million.

International banks and financial institutions were the main sources of medium- and long-term financing, contributing 55% of the net inflow of funds. Bond issues by resident enterprises and by branches abroad accounted for 35%, and suppliers and others for 20%. International organizations and government agencies were net recipients of 10%.

The short-term debt account, mainly bank lines, closed the year with a balance of US$ 1.287 billion, which meant a lower net indebtedness of US$ 1.348 billion relative to December 31, 1996.

These figures confirm the trend towards a greater share of more permanent capital in Chile's foreign debt. By December 31, 1997 medium- and long-term external debt accounted for 95% of the total; the remaining 5% was short-term.

At the end of 1997 international reserves reached US$ 17.841 billion, US$ 2.367 billion more than in 1996 (Table 22). Reserves increased because of a US$ 3.209 billion surplus in the balance of payments, less US$ 842 million in accounting revaluations, mostly because of changes in currency parities vis-à-vis the dollar.

F. CHANGES IN THE CENTRAL BANK OF CHILE'S BALANCE SHEET

F.1 STRUCTURE OF THE BALANCE SHEET

The financial results obtained during the fiscal year derive from the composition of the Central Bank of Chile's assets and liabilities and the corresponding interest rates and adjustments. This structure is a consequence of financial policy decisions made over the past decade, as well as of monetary and exchange rate policies to enhance macroeconomic stability. These policies do not necessarily coincide with policies geared to maximizing the Central Bank of Chile's own financial results.

International reserves account for 55% of the Central Bank of Chile's assets (Table 25). Treasury promissory notes issued in the financial crisis of the early 1980s to recapitalize the Central Bank of Chile account for 25%. Another asset related to that crisis is the so-called subordinated debt, issued by commercial banks and assumed by the Central Bank of Chile to improve the banks' financial position. Assets related to this operation account for 13% of the total.[2] The remaining 7% of assets mainly correspond to operations with the external sector not included in international reserves as well as to operations, with both the public sector and the financial system, that are being phased out.

Central Bank of Chile commitments are concentrated on notes with a secondary market; this paper represents 68% of total liabilities. Treasury deposits and other liabilities to the public sector are another important source of financing, equivalent to 16% of liabilities. Noninterest-earning obligations –including the monetary base, cash reserves and foreign-currency checking accounts in banks– account for 12% of liabilities. The remaining 4% mainly involves operations being phased out with the financial system and minor operations with the external sector.

During 1997 Central Bank of Chile transactions maintained a pattern characteristic of recent years. A significant amount of funds was used to purchase international reserves through two main financing mechanisms: the public sector (through debt service and the increase of its deposits at the Central Bank of Chile) and the placement of notes. Given their absolute levels, changes in the composition of assets and liabilities have been marginal.

The current structure of assets and liabilities reflects both the financial crisis of the early 1980s, which gave rise to Treasury notes and subordinated debt, and the subsequent strength of the balance of payments. The Bank's permanent commitment to anti-inflationary

[2] The promulgation of Law 19.396 in July 1995 made it possible to identify and separate off in the accounts the part of the assets deriving from subordinated debt with no economic value. By the end of 1997 the bulk of the assets with no economic value had been identified under the heading "deferred loss". It was equivalent to approximately 5% of the total value of the assets, while the remaining part, for which the book value more closely approximates their economic value, accounts for around 8%.

policy has been reflected in the controlled expansion of the monetary base, which has been achieved by issuing notes to sterilize the monetary impact of a steady accumulation of foreign reserves. The Bank's balance sheet reflects prudence in the handling of public finances. The financing brought by the Treasury through debt service and the increase of its deposits, as well as the decision to abstain from generating public domestic debt, have facilitated the placement of Central Bank of Chile notes under better conditions.

The total book value of Central Bank of Chile assets minus liabilities showed positive assets of CH$ 187 billion at the end of 1996. In 1997 that evaluation turned negative, to CH$ 558 billion. The CH$ 745 billion drop was the result of financial losses during the fiscal year –CH$ 200 billion in interest and CH$ 573 billion in adjustments– which were minimally offset by CH$ 28 billion in net earnings of a nonfinancial nature (Table 25).

F.2 RETURN ON ASSETS AND COSTS OF LIABILITIES

Given the concentration of Central Bank of Chile assets in international reserves and Treasury notes, with the notes mainly in foreign currency, the average return on assets (from interest) is largely determined by international interest rates. In 1997 the London Interbank Offered Rate (LIBOR) in U.S. dollars was 5.7%. The average annual return for all assets was 4.4%.[3]

Most assets –international reserves and Treasury notes in U.S. dollars– are subject to the adjustability of the middle point of the exchange-rate band (*"dólar acuerdo"*). In January 1997, exchange-rate policy adjustments caused a 4% drop in this rate. For the rest of the year the exchange-rate rule continued with the indexation to past inflation of UF minus 4.4% a year and tied to a currency basket composed principally of the U.S. dollar. The evolution of the band middle point and the existence of a minority of assets indexed to past inflation resulted in an average annual rate of revaluation, for total assets, of 0.7%.

The liabilities, primarily notes, had an average weighted cost, in terms of interest, of 5.7%. Included in that average cost are non-interest bearing liabilities, such as the monetary base and foreign-currency cash reserves, which account for 12% of total liabilities. The average annual revaluation of liabilities, including foreign currency denominated liabilities and the monetary base, was 4.6% in 1997.[4]

The divergence between assets and liabilities in terms of interest and price adjustments translated into losses of CH$ 200 billion for interest and CH$ 573 billion for revaluation.[5]

[3] Other factors raise or lower average returns besides the LIBOR rates mentioned. The former include the average weighted spread over LIBOR earned by international reserves, and the spread over U.S. dollar LIBOR earned by dollar-denominated Treasury notes. Among the factors tending to lower returns is the fact that part of the international reserves are invested in gold and in other currencies earning lower interest than the dollar; also the fact that the "deferred loss" does not generate interest, and that about 11% of the Treasury notes are denominated in UFs, with a 1% annual interest rate.

[4] The variation of the UF was 5.7%.

[5] If one adds the debit resulting from revaluation of capital (CH$12 billion), the total impact of monetary correction on results rises to -CH$577 billion.

These losses were minimally offset by CH$ 28 billion in nonfinancial earnings.

Nonfinancial results include general operating expenses, including operational support expenditures (except write-offs and depreciation), which were CH$ 17 billion. This value has remained stable, in real terms, since 1993.[6]

The results mentioned represented a nominal shrinkage in net worth of CH$ 745 billion, equivalent to a CH$ 757 billion real deterioration. With that, book equity went from an initial positive CH$ 187 billion to a final negative balance of CH$ 558 billion at the end of 1997.

While acknowledging the special weight that the adjustment of the band middle point exchange rate in January had on the accounting results of 1997, it is clear that most Central Bank assets earn less than the cost of Central Bank liabilities. However, it is not feasible to revert this situation in the ordinary transactions of the Central Bank.

As was noted in the report presented to the Senate in September 1995, the effects of Central Bank management of aggregate expenditure and macroeconomic balances are better reflected in its cash flow position. This result excludes the accounting losses and gains derived from changes in the valuation of assets and liabilities, as well as interest whose real accrual is uncertain. For 1997, taking just a 2% accrual of interest for dollar-denominated Treasury notes (which corresponds to the part paid in cash), the cash deficit amounts to CH$ 290 billion, or 0.9% of GDP. Given current economic growth and the performance of public finances, a deficit of this magnitude does not generate major macroeconomic distortions. Indeed, despite the significant surplus in the balance of payments in 1997 (US$ 3.2 billion), the ratio of promissory notes to GDP remained constant at 32%.

Although the Central Bank of Chile currently does not have any real difficulty applying its policies effectively, a persistent deterioration in its asset base restricts its room for maneuver. Faced with a severe deterioration of external conditions, or with eventual pressures on public finances, a stronger net worth base would help support the continuity of its stabilizing policies.

Given these facts, studies have been done with the Ministry of Finance to devise a solution to the Central Bank of Chile's equity position problem. This solution would essentially provide guarantees that public finances will be handled carefully and allow the Central Bank to continue fulfilling its goals and objectives.

[6] In 1993 these expenses posted a marked drop relative to the real level of previous years.

TABLE I

QUARTERLY GDP

(Percentage change relative to the same period of the previous year) (1)

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	10.6	14.5	10.2	7.2	10.6
1990	8.8	3.2	0.6	2.1	3.7
1991	2.8	7.0	9.6	12.9	8.0
1992	13.0	10.8	14.8	10.7	12.3
1993	8.3	8.0	7.0	4.7	7.0
1994	5.0	6.4	5.3	6.2	5.7
1995	8.9	10.5	11.5	11.7	10.6
1996 (2)	9.3	7.3	5.3	7.4	7.4
1997 (2)	4.0	5.8	9.0	9.6	7.1

(1) Calculated on the basis of figures expressed in 1986 Chilean pesos.
(2) Provisional figures.

Source: Central Bank of Chile.

TABLE 2

SECTORAL GDP

(Annual percentage change) (1)

Sector	1991	1992	1993	1994	1995	1996 (3)	1997 (3)
Agriculture, livestock and forestry	1.2	11.2	2.7	6.0	5.2	2.6	-2.1
Fishing	10.2	16.6	5.6	16.3	15.9	9.6	7.9
Mining	12.4	-1.4	-0.2	8.9	9.3	13.0	8.1
Manufacturing	5.3	11.4	7.3	4.1	7.5	3.5	4.4
Electricity, gas and water	27.0	27.6	4.8	6.2	7.6	1.2	9.5
Construction	-1.5	13.6	23.5	-1.1	9.9	9.0	6.8
Trade, hotels and catering	9.6	17.6	7.3	5.1	14.2	9.4	8.2
Transport and communications	8.4	17.3	5.8	5.4	14.7	10.5	12.9
Financial services	14.7	11.3	6.9	7.1	9.8	7.2	7.4
Home ownership	2.0	1.8	3.1	3.1	2.9	3.1	3.7
Personal services (2)	4.2	6.8	3.6	3.9	3.2	4.1	4.2
Public administration	1.7	2.9	1.9	1.1	1.4	1.4	1.4
Subtotal	**7.6**	**11.1**	**6.2**	**5.1**	**9.2**	**6.8**	**6.4**
Less: Bank charges	7.4	10.1	6.3	4.5	8.5	7.2	7.5
Plus: Collected net VAT	9.9	14.8	8.9	7.3	10.6	9.1	6.6
Plus: Import duties	10.9	27.3	15.6	10.6	28.5	11.5	15.4
Total GDP	**8.0**	**12.3**	**7.0**	**5.7**	**10.6**	**7.4**	**7.1**

(1) Calculated on the basis of figures expressed in 1986 Chilean pesos.
(2) Including education and public and private health.
(3) Provisional figures.

Source: Central Bank of Chile.

TABLE 3

COMPOSITION OF AGGREGATE DEMAND

Component	PERCENTAGE CHANGE (1)							PERCENTAGE OF GDP (1)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996** (2)	**1997** (2)	**1991**	**1992**	**1993**	**1994**	**1995**	**1996** (2)	**1997** (2)
CONSUMPTION	8.2	12.7	7.0	7.4	9.2	8.1	7.9	74.7	75.0	75.1	76.3	75.3	75.9	76.5
Private	8.9	13.8	7.4	8.2	9.8	8.8	8.4	65.0	65.9	66.2	67.7	67.2	68.1	69.0
Government	3.6	5.6	4.3	1.9	4.2	3.1	3.3	9.7	9.1	8.9	8.6	8.1	7.8	7.5
INVESTMENT	1.6	26.0	12.5	1.0	19.0	7.4	12.8	25.4	27.5	31.1	29.7	36.1	36.1	38.0
Gross fixed-capital formation	-0.2	24.0	18.0	6.2	23.5	9.6	13.2	22.4	24.7	27.2	27.4	30.6	31.2	33.0
Changes in inventory	-	-	-	-	-	-	-	3.0	2.8	3.9	2.3	5.5	4.9	5.0
DOMESTIC DEMAND	6.2	15.0	10.8	5.5	16.2	7.9	9.5	100.1	102.6	106.2	106.0	111.3	111.9	114.4
EXPORTS	12.4	13.9	3.5	11.6	11.0	10.0	9.9	34.7	35.2	34.1	36.0	36.1	37.0	38.0
IMPORTS	7.0	21.8	14.2	10.1	25.0	10.7	14.8	34.8	37.8	40.3	42.0	47.4	48.9	52.4
TOTAL GDP	**8.0**	**12.3**	**7.0**	**5.7**	**10.6**	**7.4**	**7.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Calculated on the basis of figures expressed in 1986 Chilean pesos.
(2) Provisional figures.

Source: Central Bank of Chile.

TABLE 4

SAVINGS AND INVESTMENT RATIOS

Component	PERCENTAGE CHANGE (1)							PERCENTAGE OF GDP (1)						
	1991	1992	1993	1994	1995	1996 (2)	1997 (2)	1991	1992	1993	1994	1995	1996 (2)	1997 (2)
TOTAL SAVINGS	17.5	32.5	31.8	8.2	29.4	13.9	14.4	22.6	23.8	26.5	24.1	25.8	26.6	26.9
Gross domestic savings	25.5	21.4	15.1	19.6	36.8	-3.6	16.2	22.3	21.5	20.9	21.1	23.8	20.8	21.4
External savings	-	-	-	-	-	-	-	0.3	2.3	5.6	3.0	2.0	5.8	5.5
TOTAL INVESTMENT	17.5	32.5	31.8	8.2	29.4	13.9	14.4	22.6	23.8	26.5	24.1	25.8	26.6	26.9
Fixed-capital investment	12.7	41.2	31.6	11.2	24.0	14.7	14.7	19.9	22.4	24.9	23.3	23.9	24.8	25.2
Changes in inventories	-	-	-	-	-	-	-	2.7	1.4	1.6	0.8	1.9	1.8	1.7

(1) Calculated on the basis of figures expressed in Chilean pesos of each year.
(2) Provisional figures.

Source: Central Bank of Chile.

TABLE 5

EMPLOYMENT AND UNEMPLOYMENT, NATIONWIDE (1) (2)

Moving quarterly averages ending in the month indicated
(Thousands of people)

Date	WORK FORCE		EMPLOYED		UNEMPLOYED		UNEMPLOYMENT RATE
	Total	% Change whith Respect to the Preceding Period	Total	% Change whith Respect to the Preceding Period	Total	Change whith Respect to the Preceding Period	
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
1997 Average	5,618	1.7	5,275	2.1	344	-3.9	6.1
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	1.1	5,217	1.5	326	-4.7	5.9
December	5,601	1.0	5,299	1.6	302	-7.3	5.4
1997							
January	5,608	0.1	5,303	0.1	305	1.0	5.4
February	5,597	-0.2	5,292	-0.2	304	-0.1	5.4
March	5,577	-0.3	5,252	-0.8	325	6.9	5.8
April	5,590	0.2	5,258	0.1	333	2.3	6.0
May	5,579	-0.2	5,226	-0.6	354	6.2	6.3
June	5,562	-0.3	5,195	-0.6	367	3.8	6.6
July	5,591	0.5	5,217	0.4	374	2.0	6.7
August	5,643	0.9	5,266	0.9	377	0.6	6.7
September	5,678	0.6	5,298	0.6	380	0.9	6.7
October	5,655	-0.4	5,291	-0.1	365	-4.1	6.4
November	5,655	0.0	5,317	0.5	337	-7.5	6.0
December	5,684	0.5	5,380	1.2	304	-10.0	5.3

(1) Including population aged 15 years or older.
(2) Corresponds to the new National Employment Survey, based on the Population and Housing Census of 1992.

Source: National Bureau of Statistics (INE).

TABLE 6

PRICE INDEXES

Date	CONSUMER-PRICE INDEX (CPI) (April 1989 = 100)						WHOLESALE-PRICE INDEX (WPI) (June 1992 = 100)		
		Percentage Change		Seasonally-Adjusted	Percentage Change			Percentage Change	
	Total	Month	12-month	Index (1)	Month	12-month	Index	Month	12-month
1993 Average	210.2	-	12.2 (2)	208.1	-	13.4 (2)	110.3	-	6.7 (2)
1994 Average	234.2	-	8.9 (2)	232.4	-	9.5 (2)	118.8	-	7.8 (2)
1995 Average	253.5	-	8.2 (2)	249.8	-	7.5 (2)	127.8	-	8.2 (2)
1996 Average	272.2	-	6.6 (2)	269.9	-	7.4 (2)	135.8	-	3.1 (2)
1997 Average	288.9	-	6.0 (2)	284.8	-	5.4 (2)	138.0	-	1.9 (2)
1996									
January	263.1	0.3	7.8	260.0	0.8	7.7	133.3	0.1	7.9
February	264.4	0.5	7.8	262.0	0.8	7.9	132.6	-0.5	6.7
March	266.4	0.7	7.9	264.2	0.8	8.0	134.2	1.2	6.1
April	269.1	1.0	8.4	266.8	1.0	8.3	136.0	1.3	7.2
May	271.2	0.8	8.6	269.3	0.9	8.7	135.8	-0.1	7.9
June	272.4	0.4	8.3	270.6	0.5	8.8	136.1	0.3	8.8
July	273.2	0.3	7.7	271.5	0.3	8.8	135.5	-0.5	7.4
August	274.3	0.4	6.4	272.5	0.4	8.0	136.0	0.4	6.7
September	275.7	0.5	6.3	273.6	0.4	7.7	136.9	0.7	5.5
October	277.7	0.7	6.2	275.1	0.6	7.7	137.9	0.7	4.4
November	278.8	0.4	6.6	275.9	0.3	7.7	137.9	0.1	3.5
December	279.8	0.4	6.6	276.9	0.4	7.4	137.3	-0.4	3.1
1997									
January	281.2	0.5	6.9	278.0	0.4	6.9	138.3	0.7	3.7
February	283.5	0.8	7.2	279.4	0.5	6.6	137.7	-0.4	3.8
March	284.4	0.3	6.8	280.9	0.5	6.3	135.8	-1.4	1.2
April	285.4	0.3	6.1	282.1	0.4	5.7	136.0	0.2	0.1
May	286.0	0.2	5.4	283.1	0.4	5.1	136.6	0.4	0.7
June	286.7	0.2	5.3	284.0	0.3	4.9	138.1	1.1	1.5
July	288.4	0.6	5.6	285.1	0.4	5.0	137.5	-0.4	1.5
August	289.6	0.4	5.6	285.9	0.3	4.9	137.1	-0.3	0.8
September	292.3	0.9	6.0	287.7	0.6	5.2	139.0	1.4	1.5
October	295.9	1.2	6.6	289.4	0.6	5.2	140.0	0.7	1.5
November	296.3	0.1	6.3	290.2	0.3	5.2	140.1	0.1	1.6
December	296.7	0.1	6.0	292.0	0.6	5.4	140.0	-0.1	1.9

(1) Seasonally-adjusted index for 11 agricultural products.
(2) Variation from December to December.

Source: National Bureau of Statistics (INE).

TABLE 7

CONSUMER-PRICE INDEX

(April 1989 = 100)

Date	OVERALL INDEX		FOOD		HOUSING		CLOTHING		TRANS. & COMM.		OTHERS	
	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change	Index	12-month Percentage Change
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	9.0	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
1997 December	296.7	6.0	313.0	9.2	287.5	4.7	150.6	-8.4	281.8	2.4	369.7	9.0
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	277.6	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
1997												
January	281.2	6.9	288.4	5.8	276.3	8.4	161.4	-4.5	277.8	7.5	340.3	9.5
February	283.5	7.2	292.8	7.9	278.2	7.6	159.3	-5.5	279.4	6.3	342.2	9.7
March	284.4	6.8	291.6	6.9	278.1	7.2	158.7	-4.0	280.0	7.1	350.0	8.7
April	285.4	6.1	292.8	6.3	279.0	6.5	163.5	-3.1	277.5	5.0	352.0	8.5
May	286.0	5.4	292.8	4.9	281.3	6.2	162.8	-2.9	277.6	4.6	352.7	8.4
June	286.7	5.3	293.5	4.2	282.3	6.3	161.4	-2.7	277.3	4.8	355.1	8.2
July	288.4	5.6	298.3	5.7	281.4	5.5	159.9	-2.4	277.6	5.0	357.9	8.1
August	289.6	5.6	301.3	6.1	282.6	5.0	156.6	-3.7	278.0	5.0	358.5	8.1
September	292.3	6.0	307.4	7.8	283.3	4.8	153.2	-5.2	280.3	5.3	360.9	8.0
October	295.9	6.6	316.3	10.4	285.4	4.6	152.6	-6.6	279.6	3.5	362.7	8.2
November	296.3	6.3	316.8	10.3	286.7	4.8	151.5	-7.7	279.5	2.4	362.6	8.2
December	296.7	6.0	313.0	9.2	287.5	4.7	150.6	-8.4	281.8	2.4	369.7	9.0

Source: National Bureau of Statistics (INE).

TABLE 8 A

INDEX OF HOURLY WAGES

(April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	Monthly Change		Index	Monthly Change	
		Variation	12-month		Variation	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
1997 December	176.40	-	7.4	120.93	-	1.3
1997						
January	165.38	0.7	9.9	119.63	0.2	2.9
February	166.38	0.6	10.0	119.35	-0.2	2.6
March	167.17	0.5	10.0	119.54	0.2	3.0
April	167.64	0.3	9.4	119.48	-0.1	3.1
May	168.13	0.3	8.9	119.56	0.1	3.3
June	168.92	0.5	8.2	119.83	0.2	2.8
July	170.04	0.7	8.3	119.90	0.1	2.6
August	170.77	0.4	8.0	119.93	0.0	2.3
September	171.93	0.7	8.1	119.64	-0.2	2.0
October	172.24	0.2	8.1	118.40	-1.0	1.4
November	173.40	0.7	8.0	119.04	0.5	1.6
December	176.40	1.7	7.4	120.93	1.6	1.3

(*) Obtained using the consumer-price index as a deflator.

Source: National Bureau of Statistics (INE).

TABLE 8 B

INDEX OF LABOR COSTS

(April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	**Monthly Change**		**Index**	**Monthly Change**	
		Variation	12-month		Variation	12-month
1993 December	111.82	-	-	102.18	-	-
1994 December	128.16	-	14.6	107.50	-	5.2
1995 December	143.79	-	12.2	111.46	-	3.7
1996 December	157.21	-	9.3	114.29	-	2.5
1997 December	169.10	-	7.6	115.93	-	1.4
1997						
January	157.16	0.0	9.9	113.68	-0.5	2.8
February	157.98	0.5	9.9	113.33	-0.3	2.5
March	159.40	0.9	10.3	113.99	0.6	3.3
April	160.26	0.5	9.4	114.22	0.2	3.1
May	160.54	0.2	8.8	114.16	-0.1	3.2
June	161.94	0.9	8.3	114.88	0.6	2.9
July	162.54	0.4	8.6	114.62	-0.2	2.8
August	162.19	-0.2	7.9	113.91	-0.6	2.2
September	163.25	0.7	7.7	113.60	-0.3	1.5
October	165.26	1.2	9.0	113.60	0.0	2.3
November	166.25	0.6	8.6	114.13	0.5	2.1
December	169.10	1.7	7.6	115.93	1.6	1.4

(*) Obtained using the consumer-price index as a deflator.

Source: National Bureau of Statistics (INE).

TABLE 9

INITIAL REAL WAGE ADJUSTMENT AGREED ON IN COLLECTIVE BARGAINING

(Percentages)

Period	UNIONS	OTHER GROUPS	TOTAL
1995			
January - March	2.1	2.0	2.1
April - June	2.3	2.0	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	1.0
1997			
January - March	1.6	1.7	1.6
April - June	2.0	2.0	2.0
July - September	0.8	0.4	0.7
October - December	1.2	0.5	1.1

Source: Division of Labour, Ministry of Labour and Social Security.

TABLE 10

INTEREST RATES ON CENTRAL BANK OF CHILE INSTRUMENTS (1)

Date	PDBC		PRBC (2)	PRC (2)				
	42-Day (3)	90-Day (4)	90-Day	8-Year (5)	10-Year (5)	12-Year (6)	14-Year (6)	20-Year (6)
1995								
December	-	-	6.90	6.86	6.87	6.84	6.82	6.63
1996								
January	-	-	6.89	6.50	6.51	6.49	6.48	6.36
February	-	-	6.79	6.43	6.44	6.41	6.41	6.26
March	-	-	6.67	6.50	6.50	6.47	6.45	6.31
April	-	-	7.22	6.62	6.61	6.60	6.57	6.38
May	-	-	7.46	6.45	6.47	6.43	6.42	6.29
June	-	-	7.51	6.41	6.42	6.39	6.38	6.20
July	-	-	7.46	6.25	6.24	6.20	6.18	6.03
August	-	-	7.41	6.21	6.21	6.18	6.14	5.99
September	-	-	7.46	6.18	6.18	6.14	6.09	5.95
October	-	-	7.43	6.10	6.09	6.05	6.00	5.83
November	-	-	7.41	6.08	6.08	6.04	5.99	5.82
December	-	-	7.29	6.08	6.09	6.05	6.01	5.85
1997								
January	-	-	7.34	6.11	6.13	6.11	6.05	5.86
February	-	-	7.14	6.19	6.22	6.21	6.16	5.95
March	-	-	6.94	6.18	6.19	6.17	6.16	5.98
April	-	-	6.88	6.22	6.23	6.22	6.20	6.05
May	-	-	6.85	6.30	6.30	6.30	6.29	6.14
June	-	-	6.72	6.36	6.35	6.34	6.34	6.16
July	0.87	12.54	6.70	6.49	6.50	6.49	6.49	6.34
August	1.07	13.77	6.64	6.54	6.56	6.55	6.54	6.45
September	1.00	13.47	6.51	6.66	6.66	6.66	6.65	6.58
October	1.42	14.82	6.52	6.86	6.86	6.85	6.84	6.74
November	1.28	13.04	6.52	6.80	6.80	6.79	6.78	6.70
December	0.66	10.63	6.71	6.82	6.83	6.82	6.82	6.75

(1) Corresponds to the average weighted rate of the month of the notes sold at auction (base 360 days).
(2) Annual rate in inflation-adjusted units or UFs.
(3) Nominal rate with monthly base.
(4) Monthly rate with annual base.
(5) As of July 28, 1992 the Central Bank of Chile undertook to adjudicate 300,000 UF at each auction.
(6) Starting on February 16, 1993 the Central Bank of Chile undertook to adjudicate 200,000 UF at each auction.

Source: Central Bank of Chile.

TABLE 11

INFLATION-ADJUSTED 90- TO 365-DAY INTEREST RATES IN UNIDADES DE FOMENTO (UFs)

(Montly averages of the financial system)

Date	DEPOSITS	LOANS	SPREAD
1990 Average	9.46	13.28	3.82
1991 Average	5.43	8.47	3.04
1992 Average	5.25	8.13	2.88
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
1997 Average	6.45	8.77	2.33
1995			
Quarter I	5.90	8.71	2.81
Quarter II	5.76	8.50	2.74
Quarter III	5.38	8.06	2.68
Quarter IV	6.35	8.85	2.49
1996			
Quarter I	6.65	9.10	2.45
Quarter II	7.11	9.54	2.43
Quarter III	7.04	9.41	2.37
Quarter IV	6.97	9.29	2.32
1997			
January	6.92	9.21	2.29
February	6.78	9.02	2.24
March	6.62	9.05	2.43
April	6.47	8.89	2.42
May	6.49	8.89	2.40
June	6.34	8.68	2.34
July	6.38	8.72	2.34
August	6.32	8.67	2.35
September	6.19	8.50	2.31
October	6.17	8.50	2.33
November	6.19	8.49	2.30
December	6.47	8.65	2.18

Source: Central Bank of Chile.

TABLE 12

PRINCIPAL MONETARY AGGREGATES

(Percentage change)

Date	MONTH				YEAR				12-MONTH			
	E	M1A	M2A	M7	E	M1A	M2A	M7	E	M1A	M2A	M7
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	0.7	-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	0.4	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	-1.5	1.7	1.1	3.1	1.7	20.2	17.2	11.3	15.6	25.7	22.9
November	2.6	2.7	1.1	1.2	5.8	4.5	21.5	18.6	16.5	16.9	26.6	20.5
December	9.5	8.1	3.0	1.9	15.8	13.0	25.2	20.8	15.8	13.0	25.2	20.8
1997												
January	0.7	4.7	3.6	2.3	0.7	4.7	3.6	2.3	13.6	13.8	23.3	21.1
February	2.9	-1.6	0.7	1.4	3.6	3.0	4.3	3.7	16.1	14.1	21.9	21.1
March	-4.0	-0.1	0.8	1.3	-0.6	2.8	5.2	5.0	14.7	14.7	21.9	20.4
April	1.3	0.8	1.1	1.8	0.6	3.6	6.4	6.9	13.5	15.2	21.1	21.6
May	0.8	0.5	0.9	1.1	1.5	4.1	7.3	8.0	13.2	16.3	20.4	22.1
June	1.6	2.9	2.9	2.5	3.1	7.1	10.4	10.7	16.0	18.2	20.4	21.5
July	0.4	-1.9	0.1	1.1	3.4	5.1	10.5	11.9	14.8	19.7	18.8	20.1
August	-2.7	-1.3	0.7	0.8	0.6	3.7	11.3	12.9	17.9	17.9	18.9	18.8
September (*)	8.2	6.3	3.0	2.3	8.9	10.3	14.6	15.4	17.8	20.6	21.4	20.4
October (*)	-5.8	-3.9	1.8	1.6	2.5	6.0	16.6	17.3	15.2	17.7	21.5	21.0
November (*)	4.4	1.2	2.4	2.1	7.1	7.3	19.4	19.7	17.3	16.0	23.0	22.0
December (*)	11.1	11.2	2.5	1.7	18.9	19.3	22.4	21.7	18.9	19.3	22.4	21.7

E : Base money.

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

M2A : M1A + private-sector time deposits.

M7 : M2A + time savings deposits including those for housing + Central Bank 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.

(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 13

COMPONENTS OF PRIVATE MONETARY AGGREGATES MONTHLY AVERAGES

(Billions of Chilean pesos)

Date	C	D1A	Dp	Ahp	CENTRAL BANK INSTRUMENTS	TREASURY PROMISSORY NOTES	CREDIT BILLS	PRIVATE-SECTOR FOREIGN-CURRENCY DEPOSITS
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	666.71	1,665.32	7,828.83	1,675.84	6,780.65	0.00	3,001.62	551.15
November	670.60	1,724.00	7,880.48	1,681.70	6,830.41	0.00	3,101.18	550.69
December	748.16	1,840.80	7,993.65	1,683.30	6,865.09	0.00	3,186.89	546.75
1997								
January	738.45	1,971.91	8,249.93	1,694.61	6,931.72	0.00	3,215.91	578.58
February	753.52	1,912.43	8,373.08	1,707.38	7,057.42	0.00	3,287.70	614.86
March	746.69	1,915.82	8,468.70	1,722.39	7,149.96	0.00	3,402.00	597.93
April	740.99	1,941.99	8,573.12	1,743.81	7,393.51	0.00	3,451.56	589.17
May	748.16	1,947.28	8,663.40	1,759.28	7,453.24	0.00	3,546.73	586.00
June	765.94	2,006.84	8,911.12	1,792.01	7,589.75	0.00	3,631.69	613.81
July	758.10	1,961.89	8,975.62	1,812.77	7,852.79	0.00	3,643.36	588.81
August	749.26	1,935.79	9,089.10	1,823.27	7,862.89	0.00	3,724.13	533.15
September (*)	793.16	2,062.23	9,273.40	1,836.92	7,948.60	0.00	3,938.31	542.05
October (*)	766.32	1,977.79	9,599.90	1,850.64	8,072.89	0.00	3,971.95	577.62
November (*)	778.82	1,998.99	9,857.40	1,866.32	8,237.52	0.00	4,072.90	555.06
December (*)	880.08	2,208.33	9,868.51	1,875.39	8,334.99	0.00	4,101.90	566.64

SYMBOLS:

C : Money in circulation (held by the public).
D1A : Current accounts + other nonfinancial private-sector demand deposits net of float + demand 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: Demand deposits other than current accounts) + Ahv (Ahv: Demand savings deposits).
M2A = M1A + Dp (Dp: Private-sector time deposits).
M3 = M2A + Ahp (Ahp: Time savings deposits including those for housing).
M4 = M3 + Central Bank 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.
(*) Provisional figures.

Source: Central Bank of Chile.

TABLE 14

AVERAGE NOMINAL EXCHANGE RATE

(Chilean pesos per US dollar)

Date	OBSERVED	REFERENTIAL	BREACH OBSERVED/REFERENTIAL-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
1997 Average	419.3	464.7	-9.8
1996			
January	408.5	439.9	-7.1
February	410.0	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	453.6	-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
1997			
January	423.8	464.9	-8.8
February	416.2	460.0	-9.5
March	414.1	461.7	-10.3
April	417.6	464.2	-10.0
May	418.6	462.5	-9.5
June	417.4	462.1	-9.7
July	416.6	463.9	-10.2
August	414.9	465.9	-10.0
September	414.9	465.5	-10.9
October	414.4	465.2	-10.9
November	425.0	467.7	-9.1
December	438.3	472.6	-7.3

Source: Central Bank of Chile.

TABLE 15

REAL EXCHANGE RATE

(Average 1986 = 100)

Date	OVERALL INDEX (1)			INDEX WITHOUT LATIN AMERICA (2)		
	Index	**Monthly Change**		**Index**	**Monthly Change**	
		Variation	12-Month		Variation	12-Month
1993 Average	96.9	-	-0.7 (3)	86.9	-	-1.7 (3)
1994 Average (4)	94.3	-	-2.7 (3)	83.0	-	-4.4 (3)
1995 Average (4)	88.9	-	-5.7 (3)	77.6	-	-6.6 (3)
1996 Average (4)	84.7	-	-4.7 (3)	73.6	-	-5.1 (3)
1997 Average (4)	78.3	-	-7.6 (3)	67.2	-	-8.7 (3)
1996 (4)						
January	87.0	-1.0	-5.5	75.7	-1.3	-4.8
February	87.1	0.2	-7.1	75.8	0.2	-6.5
March	86.6	-0.5	-8.2	75.4	-0.6	-8.7
April	85.0	-1.9	-7.8	73.8	-2.2	-8.8
May	83.9	-1.2	-4.0	72.8	-1.3	-5.0
June	83.9	0.0	-2.7	72.7	0.0	-4.0
July	84.1	0.2	-2.8	72.8	0.1	-4.0
August	84.1	0.0	-1.9	73.0	0.3	-2.3
September	83.6	-0.6	-2.4	72.5	-0.8	-3.0
October	83.3	-0.3	-5.2	72.2	-0.3	-6.0
November	84.2	1.1	-5.4	73.2	1.3	-5.8
December	84.2	-0.1	-4.2	72.9	-0.3	-4.9
1997 (4)						
January	83.5	-0.8	-4.0	72.2	-1.1	-4.7
February	79.8	-4.4	-8.4	68.7	-4.8	-9.5
March	78.6	-1.5	-9.3	67.4	-1.9	-10.7
April	78.8	0.2	-7.3	67.6	0.3	-8.4
May	79.5	0.9	-5.2	68.3	1.1	-6.1
June	79.3	-0.3	-5.5	68.1	-0.3	-6.3
July	77.9	-1.7	-7.3	66.9	-1.8	-8.1
August	76.6	-1.7	-8.9	65.6	-1.9	-10.2
September	76.2	-0.5	-8.9	65.3	-0.5	-9.9
October	75.4	-1.0	-9.5	64.7	-0.9	-10.4
November	76.7	1.8	-8.9	65.8	1.7	-10.1
December	77.0	0.3	-8.5	65.5	-0.4	-10.1

(1) Defined as the nominal observed exchange rate multiplied by the quotient between relevant external inflation and CPI. External inflation is calculated from WPI of main trading partners, denominated in US dollars weighted by the relative importance of Chilean exports and imports (excluding oil and copper) traded with them (approximately 70% of Chile's total trade in 1997, excluding oil and copper). Both the WPI and exchange rates of the countries are incorporated as monthly changes.
(2) Uses the same definition but excludes Latin American trading partners.
(3) Mean annual change.
(4) Provisional figures.

Source: Central Bank of Chile.

TABLE 16

BALANCE OF PAYMENTS

(Millions of US dollars)

Item	1995	1996	1997	PERCENTAGE CHANGE (1)	
				1996	1997
I. CURRENT ACCOUNT	**-1,398**	**-3,744**	**-4,057**	**167.7**	**8.3**
A. Trade balance	1,369	-1,095	-1,295		18.2
Exports fob	16,024	15,405	16,923	-3.9	9.9
Imports fob	14,655	16,500	18,218	12.6	10.4
B. Nonfinancial services	-349	-353	-316	1.1	-10.6
Credits	3,20:	3,366	3,685	4.9	9.5
Debits	3,559	3,719	4,000	4.5	7.6
C. Financial services	-2,728	-2.796	-2,974	2.5	6.4
Net interest	-603	-645	-535	7.1	-17.1
Net profit (2)	-2,126	-2.150	-2,440	1.2	13.5
Net remittance	-888	-1,525	-1,462	71.7	-4.2
Net reinvestment	-1,237	-625	-978	-49.5	56.5
D. Transfers	310	500	528	61.3	5.7
II. CAPITAL ACCOUNT	**2,411**	**5,457**	**7,430**	**126.4**	**36.1**
A. Medium- and long-term capital	2,009	5,165	9,113	157.1	76.4
Foreign investment (3)	2,256	4,659	5,837	106.5	25.3
Direct	2,220	3,561	3,467	60.4	-2.6
- From abroad	2,977	4,724	5,417	58.7	14.7
Direct contribution	1,680	4,022	4,342	139.4	8.0
Profits reinvestment	1,297	702	1,075	-45.9	53.1
- Abroad	757	1,163	1,950	53.7	67.7
Direct contribution	697	1,086	1,853	55.8	70.6
Profits reinvestment	60	77	97	28.5	26.0
Portfolio	36	1,098	2,370	2,950.0	115.8
- From abroad	49	1,230	2,605	2,410.2	111.8
- Abroad	13	132	235	915.4	78.0
DL 600 credit disbursements	1,343	881	1,405	-34.4	59.5
Other disbursements	2,063	4,413	4,768	114.0	8.0
Loans repayments	3.490	4,756	2,812	36.3	-40.9
External-debt conversions	-136	-5	0	-96.3	
Other (4)	-27	-27	-86	3.0	212.4
B. Short-term capital	401	292	-1,683	-27.1	
Credit lines	-416	-744	-1,355	78.6	82.3
Other (5)	818	1,036	-328	26.7	
III. ERRORS AND OMISSIONS	**49**	**-532**	**-164**		
IV. BALANCE OF PAYMENTS	**1,061**	**1,181**	**3,209**	**11.3**	**171.8**
Memo: Current account of the balance of payments excluding reinvestment of earnings.	-161	-3,119	-3,079	1,834.3	-1.3

(1) No indication when the item changes (+ or -) sign.
(2) Since 1990 the concept of earnings includes, in the case of direct investment earnings, not only those remitted but also those that were reinvested. The counterpart is shown in the capital account.
(3) Includes direct investment under Decree Law 600, capital contributions under Chapter XIV, ADRs, investment funds, Chapter XIX, and investments abroad.
(4) Includes reversion of retiming payments, financing via leasing, and change in external assets.
(5) Includes counterpart for external-debt repayment transactions, trade flows, and other external assets flows.

Source: Central Bank of Chile.

TABLE 17

TRADE BALANCE

(Millions of US dollars)

Item	1995	1996	1997	PERCENTAGE CHANGE (1)	
				1996	1997
BALANCE OF TRADE	**1,369**	**-1,095**	**-1,295**		**18.2**
Total exports (fob)	**16,024**	**15,405**	**16.923**	**-3.9**	**9.9**
Copper	6,487	6,029	7,156	-7.1	18.7
Non-copper	9,537	9,376	9,767	-1.7	4.2
Other main (2)	4,851	4,267	4,307	-12.0	0.9
Non-traditional	4,686	5,109	5,460	9.0	6.9
Total imports (fob)	**14,655**	**16,500**	**18,218**	**12.6**	**10.4**
Total imports (cif)	**15,914**	**17,828**	**19,660**	**12.0**	**10.3**
Consumer goods	2,698	3,173	3,603	17.6	13.6
Intermediate goods	9,039	9,918	10,746	9.7	8.3
Fuels	1,447	1,907	2,054	31.8	7.7
Other	7,592	8,011	8,692	5.5	8.5
Capital goods	4,177	4,736	5,311	13.4	12.1

(1) No indication when the item changes (+ or -) sign.
(2) Includes iron, nitrate and iodine, silver, gold ore, fruit, fishmeal, lumber, logs and dressed lumber, cellulose, methanol, lithium carbonate, ferromolybdenum, metallic gold, and gold bullion.

Source: Central Bank of Chile.

TABLE 18

FOREIGN TRADE INDICATORS

Item	1995	1996	1997
Price of copper BML (US$/lb) (*)	1.332	1.039	1.032
Price of oil (US$/barrel fob)	15.6	19.0	18.1
LIBOR US$ 180-day, (nominal)	6.1%	5.6%	5.8%
Total external inflation whithout Latin America	8.0%	-1.5%	-3.6%
Index of terms of trade (1988 = 100)			
Total goods	1.06	0.89	0.93
Total noncopper and nonoil goods	1.08	1.00	1.04
Total exports			
Change in value	38.1%	-3.9%	9.9%
Price variation (fob)	24.4%	-15.2%	-0.8%
Volume variation	11.0%	13.4%	10.8%
Copper exports			
Change in value	52.9%	-7.1%	18.7%
Price variation (fob)	34.5%	-24.1%	-0.5%
Volume variation	13.7%	22.4%	19.3%
Noncopper traditional exports			
Change in value	38.0%	-12.0%	0.9%
Price variation (fob)	23.5%	-12.7%	-1.5%
Volume variation	11.7%	0.7%	2.4%
Nontraditional exports			
Change in value	21.8%	9.0%	6.9%
Price variation (fob)	13.4%	-4.5%	-0.7%
Volume variation	7.4%	14.1%	7.6%
Imports of goods			
Change in value	34.6%	12.0%	10.3%
Price variation (cif)	7.9%	0.3%	-4.5%
Volume variation	24.7%	11.6%	15.5%

(*) Average price weighted according to quarterly volumes exported.
Source: Central Bank of Chile.

TABLE 19

FINANCIAL SERVICES (1)

(Millions of US dollars)

Item	1995	1996	1997	PERCENTAGE CHANGE (2)	
				1996	**1997**
INTEREST PAID (3)	**1,400**	**1,308**	**1,379**	**-6.6**	**5.5**
Medium and long term	1,196	1,098	1,221	-8.1	11.2
Short term	204	209	158	2.5	-24.4
INTEREST RECEIVED	**800**	**662**	**844**	**-17.2**	**27.5**
EARNINGS AND DIVIDENDS	**-2,126**	**-2,150**	**-2,440**	**1.2**	**13.5**
Credits (received)	73	91	180	24.5	97.8
Profits remitted (4)	13	14	84	8.3	484.6
Profits reinvestment	60	77	96	28.0	25.7
Debits (paid)	2,199	2,241	2,620	1.9	16.9
Profits sent (4)	902	1,539	1,545	70.7	0.4
Profits reinvestment	1,297	702	1,075	-45.9	53.0
LEASING SERVICES	**3**	**0**	**0**	-97.4	
TOTAL FINANCIAL SERVICES	**-2,727**	**-2,796**	**-2,974**	**2.5**	**6.4**
Credits	873	753	1,024	-13.7	36.0
Debits	3,600	3,549	3,999	-1.5	12.7

(1) Provisional figures.
(2) No indication when the item changes (+ or -) sign.
(3) Includes the interest paid on foreign debt and other liabilities not included in it.
(4) Gross earnings (before additional tax).

Source: Central Bank of Chile.

TABLE 20

NONFINANCIAL SERVICES

(Millions of US dollars)

Item	1995	1996	1997	PERCENTAGE CHANGE (*)	
				1996	1997
EXPORT SHIPMENTS	**-251**	**-225**	**-284**	**-10.6**	**26.4**
Credits	605	699	731	15.5	4.6
Debits	856	923	1,015	7.9	9.9
OTHER TRANSPORT	**-284**	**-350**	**-311**	**23.4**	**-11.2**
Passenger services	131	72	79	-45.3	11.0
Credits	362	355	366	-2.0	3.0
Debits	232	284	286	22.5	1.0
Port services	-415	-422	-390	1.7	-7.4
Credits	303	310	356	2.5	14.8
Debits	717	732	746	2.0	2.0
TRAVEL	**208**	**142**	**176**	**-31.8**	**24.1**
Credits	911	900	1,039	-1.2	15.5
Debits	703	758	863	7.9	13.9
OTHER GOODS, SERVICES AND INCOME	**-22**	**80**	**103**		**29.1**
Credits	1,029	1,102	1,193	7.1	8.2
Debits	1,051	1,022	1,090	-2.8	6.6
TOTAL NONFINANCIAL SERVICES	**-349**	**-353**	**-316**	**1.1**	**-10.6**
Credits	3,210	3,366	3,685	4.9	9.5
Debits	3,559	3,719	4,000	4.5	7.6

(*) No indication when the item changes (+ or -) sign.

Source: Central Bank of Chile.

CUADRO 21

NET FOREIGN INVESTMENT FLOWS IN CHILE

(Millions of US dollars)

Item	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 (1)
I. TOTAL FOREIGN INVESTMENT	**877**	**944**	**1,360**	**1.015**	**885**	**996**	**1,330**	**2,580**	**2,256**	**4,659**	**5,837**
A. DIRECT INVESTMENT	885	952	1,277	654	697	538	600	1,672	2,220	3,561	3,467
From abroad	891	968	1,284	661	822	935	1,034	2,583	2,977	4,724	5,417
Decree Law 600	216	163	169	208	455	512	660	1,466	1,488	3,692	3,443
Chapter XIV capital contribution	14	13	11	35	96	157	203	400	406	411	900
Chapter XIX (2)	661	792	1,104	339	-40	-32	-55	-104	-214	-81	-1
Profits reinvestment (3)	n.d.	n.d.	n.d.	79	311	298	226	821	1.297	702	1,075
Abroad	-6	-16	7	7	125	397	434	911	757	1.163	1,950
Direct contribution	-6	-16	7	7	125	376	433	926	697	1.086	1,853
Profits reinvestment (3)	n.d.	n.d.	n.d.	n.d.	n.d.	21	1	-15	60	77	97
B. PORTFOLIO INVESTMENT	-8	-8	83	361	188	458	730	908	36	1.098	2.370
From abroad	-8	-8	83	361	188	458	820	1,259	49	1,230	2,605
Chapter XXVI ADRs	0	0	0	105	-31	281	790	1,273	32	863	1,797
Investment funds	0	0	90	262	55	57	26	-14	-280	-202	-86
Bonds	-8	-8	-7	-6	164	120	4	0	297	569	894
Abroad	0	0	0	0	0	0	90	351	13	132	235
II. ASSOCIATED CREDITS	**185**	**385**	**311**	**610**	**198**	**34**	**616**	**837**	**965**	**574**	**1,013**
Credit disbursements	226	521	437	749	372	311	845	1,001	1,343	881	1,405
Credit amortisations	41	136	126	139	174	277	229	164	378	307	392
TOTAL (I + II)	**1,062**	**1,329**	**1,671**	**1,625**	**1,083**	**1,030**	**1,946**	**3,417**	**3,221**	**5,233**	**6,850**

(1) Provisional figures.
(2) At redenomination value. Since 1991 includes repatriation of capitals.
(3) As of 1990 reinvestment of earnings is recorded in the accounts for foreign direct investment. After 1992 the same approach was applied to investment.

Source: Central Bank of Chile.

TABLE 22

INTERNATIONAL RESERVES OF THE CENTRAL BANK OF CHILE (1)

(Millions of US dollars)

Item	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Troy	757	680	592	642	597	574	612	652	643	637	533
(Ounces of gold)	1,811	1,824	1,752	1,858	1,863	1,867	1,865	1,864	1,861	1,859	1,858
2. SDRs (Special Drawing Rights in the International Monetary Fund)	41	44	24	1	1	1	1	1	3	2	1
3. Reserve position in the IMF	0	0	0	0	0	0	0	0	0	50	313
4. Foreign-currency holdings	2,463	3,116	3,604	6,068	7,041	9,167	9,639	13,087	14,137	14,781	16,992
5. Other international assets	62	32	-5	-202	-43	-11	-15	17	22	4	2
6. Use of IMF credit	1,452	1,322	1,268	1,151	955	722	479	290	0	0	0
7. Short-term credits	225	0	5	10	1	1	0	0	0	0	0
I. GROSS INTERNATIONAL RESERVES (2)	3,323	3,872	4,215	6,509	7,596	9,731	10,237	13,757	14,805	15,474	17,841
II. GROSS RESERVES (3)	1,871	2,550	2,947	5,358	6,641	9,009	9,758	13,467	14,805	15,474	17,841
III. NET RESERVES (4)	1,646	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841

(1) Estimated by taking prices quoted for foreign currency and gold 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: Central Bank of Chile.

TABLE 23

FOREIGN DEBT (1)

(Millions of US dollars)

Item	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 (4)
I. Total foreign debt (II+III) (2)	**19,208**	**17,638**	**16,252**	**17,425**	**16,364**	**18,242**	**19,186**	**21,478**	**21,736**	**22,979**	**26,775**
Public sector	13,128	11,889	10,136	9,727	8,763	8,681	8,110	8,189	6,742	4,713	4,919
Private sector	6,080	5,749	6,116	7,698	7,601	9,561	11,076	13,289	14,994	18,266	21,856
With government guarantee (3)	3,252	2,820	2,115	2,065	1,791	941	910	946	759	450	124
II. Medium- and long-term foreing debt	**17,191**	**15,452**	**13,279**	**14,043**	**14,165**	**14,767**	**15,699**	**17,613**	**18,305**	**20,344**	**25,488**
Public sector	12,075	11,048	9,064	8,769	8,478	8,233	7,622	7,663	6,127	4,363	4,310
Private sector	5,116	4,404	4,215	5,274	5,687	6,534	8,077	9,950	12,178	15,981	21,178
With government guarantee (3)	2,650	2,060	1,286	1,039	1,012	941	910	946	759	450	124
III. Short-term foreign debt	**2,017**	**2,186**	**2,973**	**3,382**	**2,199**	**3,475**	**3,487**	**3,865**	**3,431**	**2,635**	**1,287**
Public sector	1,053	841	1,072	958	285	448	488	526	615	350	609
Private sector	964	1,345	1,901	2,424	1,914	3,027	2,999	3,339	2,816	2,285	678
With government guarantee(3)	602	760	829	1,026	779	0	0	0	0	0	0
IV. International Monetary Fund	**1,452**	**1,322**	**1,268**	**1,151**	**955**	**722**	**479**	**290**	**0**	**0**	**0**

(1) Includes debt for bonds, considered as a portfolio investment in the balance of payments. Within that is included debt for bonds issued by branches of Chilean enterprises abroad, which is not recorded in Chile's balance of payments.
(2) Balances on December 31 of each year, referring to net disbursements. Excludes debt with the IMF and direct short-term commercial debt associated with foreign trade (downpayments on exports and imports charges).
(3) Beginning in 1990, the debt with IDB and IBRD corresponding to privatized enterprises (Endesa, Chilectra, Pehuenche) has been included as private debt with a government guarantee.
(4) Provisional figures.

Source: Central Bank of Chile.

TABLE 24

INDICATORS OF FOREIGN INDEBTEDNESS (1)

Item	1987	1988	1989	1990	1991	1992	1993	1994	1995 (2)	1996 (2)	1997 (2)
						(Millions of US dollars)					
Total foreign debt	19,208	17,638	16,252	17,425	16,364	18,242	19,186	21,478	21,736	22,979	26,775
Medium- and long-term debt service	1,697	1,676	2,139	2,086	2,197	2,229	2,378	2,351	4,141	5,793	4,026
Interest on total foreign debt	1,516	1,214	1,559	1,558	1,417	1,240	1,089	1,121	1,308	1,218	1,323
Current-account deficit	-735	-231	-690	-485	-99	-958	-2,553	-1,585	-1,398	-3,744	-4,057
International reserves	1,646	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805	15,474	17,841
Trade balance	1,309	2,210	1,483	1,284	1,485	722	-990	732	1,369	-1,095	-1,295
Exports of goods and services	6,349	8,144	9,614	11,069	11,069	12,365	11,711	14,444	19,234	18,771	20,608
Imports of goods (fob)	3,994	4,833	6,502	7,037	7,354	9,237	10,181	14,655	14,655	16,500	18,218
						(Percentages)					
Total foreign debt / exports of goods and services	302.6	216.6	169.0	157.4	147.8	147.5	163.8	148.7	113.0	122.4	129.9
Medium- and long-term foreign-debt service / exports of goods and services	26.7	20.6	22.2	18.8	19.8	18.0	20.3	16.3	21.5	30.9	19.5
Interest / exports of goods and services	23.9	14.9	16.2	14.1	12.8	10.0	9.3	7.8	6.8	6.5	6.4
Current-account deficit / exports of goods and services	-11.6	-2.8	-7.2	-4.4	-0.9	-7.7	-21.8	-11.0	-7.3	-19.9	-19.7
Trade balance / exports of goods and services	20.6	27.1	15.4	11.6	13.4	5.8	-8.5	5.1	7.1	-5.8	-6.3
Current-account deficit / GDP	-3.6	-1.0	-2.5	-1.6	-0.3	-2.3	-5.7	-3.1	-2.1	-5.4	-5.3
						(Months)					
Net international reserves / Imports of goods (fob)	5	6	5	9	11	12	11	15	12	11	12

(1) Beginning in 1989 there were methodological changes in Chile's balance of payments and national accounts calculation.
(2) Provisional figures.

Source: Central Bank of Chile.

TABLE 25

CENTRAL BANK OF CHILE BALANCE SHEET

(Balances expressed in billions of Chilean pesos of each year)

Item	1996	1997	STRUCTURE OF ASSETS AND LIABILITIES (%)		
			1996	1997	Average (1)
ASSETS	**13,798.8**	**15,032.1**	**100.0**	**100.0**	**100.0**
Net international reserves	7,229.2	8,437.9	52.4	56.1	54.9
Treasury notes	3,616.5	3,641.7	26.2	24.2	24.8
Other public-sector assets	480.8	504.1	3.5	3.4	3.4
Subordinated debt	1,798.4	1,150.6	13.0	7.7	9.0
Deferred loss	136.1	796.4	1.0	5.3	4.3
Liquidity credit line and repo operations	81.1	68.2	0.6	0.5	0.6
Other assets	456.7	433.2	3.3	2.9	3.1
LIABILITIES	**13.612.2**	**15.590.4**	**100.0**	**100.0**	**100.0**
Monetary policy promissory notes	8,430.9	10,018.0	61.9	64.3	63.4
Other notes with a secondary market	574.3	526.5	4.2	3.4	3.5
Checking accounts and cash reserves in foreign currency	547.6	543.0	4.0	3.5	3.7
Deposits from the Treasury and other public-sector deposits	1,996.5	2,383.4	14.7	15.3	15.8
Other liabilities, other than monetary base	852.0	724.3	6.3	4.6	5.4
Monetary base	1,211.0	1,395.2	8.9	8.9	8.2
PATRIMONY	**186.6**	**-558.3**			
Initial capital and revaluation of capital		**198.3**			
Initial capital		186.6			
Revaluation own capital		11.8			
Net result		**-756.6**			
Nonfinancial results		28.0			
Net interest (2)		-199.7			
Net adjustments and other changes in value (3)		-573.1			
Less: Revaluation own capital		-11.8			

(1) Averages of end of month balances between December 1996 and December 1997, both included.
(2) Interest in foreign currency is converted to Chilean pesos using average exchange rates.
(3) Includes next exchange rate earnings derived from the changes in value of assets and liabilities in foreign currency.

ANNEX I

SUMMARY OF QUARTERLY MEETINGS ON MONETARY POLICY IN 1997

In general, the quarterly meetings begin with a presentation by the manager of the Research Division on the recent developments in the economy and the immediate outlook; the main conclusions are presented in point I. Then the Central Bank of Chile Board members and other participants study the data presented, and the Board analyzes their implications for the Central Bank of Chile's economic policy decisions, which are noted in point II. Finally, the Board formulates its conclusions and adopts the measures indicated in point III.

APRIL 11 MEETING

I. Economic Developments and Outlook

During the first quarter of 1997 underlying inflation continued a moderate trend, despite a slight increase in effective inflation. The rebound in effective inflation during the first quarter is thought to have been due to temporary phenomena (perishable goods), given that all other measures of inflation continued to fall.

In relation to spending and economic activity, preliminary indicators show a significant moderation in the growth of these aggregates during the first quarter, within a path compatible with the fulfillment of annual growth projections. Within the components of aggregate demand, fixed-capital formation grew strongly, while there are signs of a drawdown in inventories in the mining, industry, and trade (imported goods) sectors.

Current unemployment rates are low in historical terms. This is due to a marked decline in the rate of growth of the work force, combined with maintenance of a high job creation rate. Excluding agricultural work, there has been significant expansion, especially in nontradables. In conclusion, there are no observed significant downward pressures on the rate of growth of nominal wages, and the increases expected should parallel those observed in price inflation.

Among the external factors having a bearing on inflation, both the foreign exchange market and the external inflation that affects Chile are currently favorable.

The growth of monetary and credit aggregates is converging toward lower levels compatible with economic activity targets. In addition, the structure of interest rates, by term or

maturity period, reflects expectations of a gradual easing of monetary restrictions

Final data for 1996 showed that government spending grew significantly faster than GDP and demand, but offset by growth in tax revenues. Government spending was moderate through the year, especially in the fourth quarter. The fiscal projections for 1997 are consistent with the goals programmed, to the degree that traditional levels of budgetary execution persist.

As for the macroeconomic outlook for the rest of the year, growth in economic activity and spending is projected to accelerate gradually throughout the year, to end with an average rate of growth within the range planned –that is, from 5.5% to 6.0%. It is hoped that the rate of growth of gross fixed-capital formation exceeds this level, sustained by the stability of long-term interest rates, important infrastructure projects, both public and private, and a favorable scenario for foreign investment during the current year.

For the inflation target, the information reviewed indicates that the outlook is favorable and that significant progress is expected during the second quarter. Even if certain temporary factors influence the effective rate of inflation, they should not jeopardize meeting the inflation target, to the degree that they cancel each other out mutually, as they did in 1996.

Finally, during the next few months it will be necessary to monitor certain factors. For trends in employment and wages, the moderation observed in the nominal growth rate of wages should be consolidated and accentuated. Execution of the Treasury budget should be compatible with programmed targets. Attention must also paid to changes in the external accounts and the current-account deficit, considering that the latter is projected to end the year in the higher range of limits considered prudent for this variable. For the capital account, the available data show a significant inflow during the first quarter of 1997.

II. Analysis and Consequences of the Data Presented

The Central Bank of Chile Board members and the Ministry of Finance began the analysis of the data presented. The pace of adjustment was deemed satisfactory. It was pointed out that economic activity and spending indicators for the first quarter revealed moderate growth compared to what had happened at the end of 1996, and that they were in line with projections for 1997 as a whole. Emphasis was laid on the lower rate of growth of expenditure as a percentage of GDP, and that in this regard programmed goals had been fully met. In addition, it was suggested that there are expectations and indications of greater acceleration of the economy in the second half of the year. Also pointed out was the existence of an external scenario without major inflationary or financing pressures, even though the current-account deficit was at the higher limit of what is considered prudent.

The situation in the labor market does not facilitate a downward movement in inflation, but neither does it introduce additional pressures that impede progress of the sort already seen. Another issue of concern is the

gap between tradable and nontradable inflation; greater progress in curbing the latter has to be achieved in the course of the year. Finally, the importance of ensuring compliance with fiscal goals was emphasized.

In sum, it was confirmed that the process of monetary restriction has begun to produce hoped-for results, and that inflation goals appear feasible, within a scenario of economic growth and of the balance of payments in accord with economic plans. Some risk factors must be carefully monitored by the Central Bank of Chile, but it is not anticipated that they will require major changes in policies already implemented.

III. Agreements

In light of the above, the Board reached the following conclusions:

1. In line with the Central Bank of Chile's goals of gradual and sustained reduction of inflation, the Board deems it appropriate that the interbank interest rate be set in a range centered on 7% annual equivalent in inflation-adjusted units, or UF, a rate that corresponds to the second tranche of the liquidity credit line. This represents a 25 basis point reduction vis-à-vis the previous target range.

2. The Board will continue to evaluate economic, financial, and monetary developments, in order to adjust the liquidity of the financial system and short-term interest rates in response to factors that could affect inflation, and to ensure that the 5.5% goal is met.

3. Monetary policy will carefully monitor the performance of inflation and wage indicators, private and public spending, economic activity, and developments in the external accounts.

JULY 11 MEETING

I. Economic Developments and Outlook

During the second quarter major progress was made in respect of inflation; annualized, it was in accord with the inflation target for the year. Moreover, the bulk of the improvement came with regard to the most rigid components of inflation, such as nontradable goods and services. Since mid-1996 there has been a continuous downward trend in measures of underlying inflation, and in recent months this trend has also been reflected in measured inflation. Nominal wages have also developed in line with the inflation target and the underlying trend for the growth of labor productivity.

As far as economic activity and spending are concerned, preliminary indicators show a more dynamic second quarter, likely to offset the low growth in the first quarter and thereby reaffirm the growth projection for the year as a whole, for both domestic demand and GDP. Among the components of domestic demand, gross fixed-capital formation showed stronger growth. In terms of sectoral output, there was notable growth in mining; other sectors showed more moderate performance. In industry and commerce there was evidence of a recovery from the first quarter. Government spending during the first quarter was in line with the growth initially expected for this

period, though it was above effective GDP growth.

The second quarter saw a slight rebound in the rate of job creation, but one that was in line with the rate of growth of the work force. The unemployment rate was similar to levels in 1996, a low level compared to historical averages and particularly compared to earlier periods of macroeconomic adjustment. This situation, nevertheless, did not impede a moderation in the growth rate of nominal wages.

With regard to interest rates, since the April meeting there were two reductions in the target range for the interbank interest rate, leading to changes in market rates. Nevertheless, long-term interest rates for Central Bank of Chile notes have risen, which it is felt responds to the data showing greater dynamism for GDP and spending. Credit aggregates showed a sustained real annual increase of around 12%, while the more restricted monetary aggregates showed upward growth for the quarter, but mainly because of the effects of lower interest rates relative to those of the same period in 1996.

As far as external factors are concerned, it is estimated that external inflation in dollars is negative because of the dollar's appreciation on world markets. At the same time, the peso shows a nominal appreciation relative to the dollar compared to the situation a year ago. This means that underlying imported inflation is slightly negative, thereby tending to reduce inflation. The significant surplus shown in the capital account has an impact on the exchange rate. Within the capital account the revenues associated with ADRs and disbursements of medium- and long-term credits are especially notable.

On the outlook for economic activity and aggregate demand for the year, the projection for growth within the stipulated range of 5.5-6.0% is reaffirmed, with a slight acceleration in the second half and greater growth in the third quarter, offsetting a reverse situation in 1996. Domestic spending is expected to grow faster during the second half of the year, with investment continuing strong, and consumption is likely to accelerate slightly in response to its underlying fundamentals (such as the rate of job creation and the behavior of wages and disposable national income).

The terms of trade have recently developed more favorably than anticipated in the April report, mostly because of a better copper price. The current-account deficit projection has been adjusted accordingly, to the equivalent of approximately 3.5% of GDP for 1997.

As for inflation, given that economic activity is in line with projections for the year, and given satisfactory developments in nominal wages, in inflation in nontradable goods and services, and low levels of external inflation, the downward inflation trend is projected to continue, in line with the 1997 target and heading toward further reductions in 1998.

Nevertheless, certain risk factors should be closely monitored because of their impact on inflation in 1997 and 1998. An increase in the prices of perishable goods –mainly due to normalization of values relative to 1996– is anticipated, which would lead to a rebound

of inflation during the third quarter, but without altering the underlying trend and without endangering compliance with the inflation target. This factor would be partially offset by lower fuel prices, for which new price drops appear likely, given developments in world markets. By the same token, the speed at which the economy recovers must be carefully monitored because of the consequences for inflationary pressure in 1998.

II. Analysis and Consequences of the Data Presented

The members of the Board and others who attended expressed their satisfaction with the current situation of the economy, especially in respect of progress in curbing inflation –particularly in areas that were resistant for a long period, such as nontradable goods and services.

Despite this positive assessment, there was general agreement on the need for close surveillance to prevent an overheating of the economy over the medium term, especially in 1998. It was decided to take a prudent approach toward the pace of economic activity, from the point of view of both GDP and public and private spending.

III. Agreements

In light of the above, the Board reached the following conclusions:

1. In line with the Central Bank of Chile's goals of gradual and sustained reduction of inflation, the Board deems it appropriate that the interbank interest rate be set in a range centered on 7% annual equivalent in inflation-adjusted units, or UFs.

2. The Board will continue paying close attention to economic, financial, and monetary developments in order to tailor its monetary instruments to fulfillment of its inflation targets. Future modifications to monetary policy may be made if the main macroeconomic indicators do not perform in a manner consistent with the trend toward falling inflation that would guarantee meeting 1997 and 1998 targets.

OCTOBER 7 MEETING

I. Economic Developments and Outlook

The most noteworthy feature of the third quarter was a resurgence of measured inflation, which went from approximately 5.5% toward the middle of the year to 6.0% in September. Nevertheless, measures of underlying inflation remain below 5.5%, in line with the target for the year, because most of the rebound was due to unexpected increases in the prices of perishable goods (fruits and vegetables) and meat. It follows that this rebound stemmed from temporary factors, some of which could be reverted during the next quarter, especially those related to fruits and vegetables. Reference was made to potential oil product price inflation, given the recent performance of world prices. Nevertheless, this situation would be partially offset by the fact that no increase in transport costs is expected during the fourth quarter, as

happened at the end of 1996. With respect to the composition of inflation, there appear to be major changes in underlying price trends for either nontradable or tradable goods. For wages, the trend toward moderation continued during the third quarter, there being no evidence of inflationary pressures on this front.

As far as economic activity and spending are concerned, third quarter indicators show more robust growth and suggest that, for the year as a whole, economic growth will be in the upper limit of the 5.5-6.0% projection. At the same time, recent estimates of domestic demand point toward an increase in spending greater than the increase in GDP, and earlier projections for this variable are being revised upward. These figures are being adjusted to take into account increased activity in sectors that are more sensitive to aggregate demand, such as industry, construction, and commerce. Economic growth is now more evenly distributed than it was in the first half of the year, when mining grew much faster than other sectors.

Among the components of domestic demand, gross fixed-capital formation continued growing, at a faster pace, in the third quarter. There was also a rebound in private consumption, according to data on industrial and commercial sales, imports of consumer goods, and sales of durable goods.

Together with this more vigorous economic activity, the third quarter saw more rapid growth in the rate of job creation, especially in the most dynamic sectors, such as construction and trade. This development was partly offset by a fall-off in employment in agriculture at the same time that the labor force has responded in a very elastic fashion to increases in aggregate employment. In all, unemployment remains at low levels by historical standards, a situation that has not hindered the moderation of wages.

The most notable financial indicator of recent months has been the shift in market expectations toward a positive yield curve. A reversal of the recent trend in monetary policy is expected, and associated with that expectation is an increase in interest rates for longer-term paper. During the third quarter the trend in monetary aggregates confirmed these signals of more robust economic growth throughout the economy. Credit aggregates have maintained a stable rate of growth, around 12% a year in real terms.

The exchange rate does not appear to have exerted any upward pressure on prices, due to the stability of the nominal rate and because of negative imported inflation, the result of the appreciation of the dollar on world markets. Nor are pressures from imported inflation expected, judging by recent trends in the balance of payments.

Government spending is expected to expand in the second half of 1997, over and above the expansion recorded in the first semester. An analysis was also made of the likelihood of an expansion of the fiscal impulse, given the background to the Budget Law.

In sum, the data presented indicate that the inflationary pressures of recent months were based exclusively on temporary factors. The prospects for inflation in 1998 are favorable and in accord with proposed goals.

Nevertheless, there are certain risk factors, because indicators of economic activity and monetary and financial aggregates are sending signals that the economy is growing faster than was initially projected.

II. Analysis and Consequences of the Data Presented

The members of the Board agreed with the general diagnosis of the performance of the economy, and the prospects for the end of 1997 and for 1998, as presented by the Research Division.

In light of the data presented, emphasis was placed on the need to act with greater caution with regard to inflationary prospects for the coming year, given the signs that the economy has entered an expansive phase.

In addition, Board members agreed to remain alert to the possibility of demand pressures on the labor market that could lead to increases in the rate of growth of wages. They also reiterated the need for prudent handling of public spending for the rest of 1997 and during 1998.

III. Agreements

In light of the above, the Board reached the following conclusions:

1. The Board deemed it appropriate that the interbank interest rate be maintained in a range centered on 6.5% annual equivalent in inflation-adjusted units or UF, in line with its goal of gradual and sustained reduction of inflation.

2. The Board will continue paying close attention to economic, financial, and monetary developments in order to tailor its monetary instruments to fulfillment of its inflation targets. Future modifications to monetary policy may be made if the main macroeconomic indicators do not perform in a manner consistent with the trend toward falling inflation that would guarantee meeting 1997 and 1998 targets.

ANNEX 2

PRINCIPAL MONETARY AND CREDIT MEASURES IN 1997

February

6 The Bank announces that it has taken steps to cut the average annual real overnight interbank interest rate by 0.25 percentage points. The annual rate is thereby reduced from 7.5% to 7.25%, locating it between the second and third tranches of the liquidity credit line.

April

10 Domestic banks are authorized to finance foreign trade transactions between third countries. Financing by such banks will henceforth not be limited to foreign trade transactions to and from Chile. They may now also grant credits processed in Chile to persons or corporations resident abroad for them to undertake operations with countries other than Chile.

11 The Bank announces that it has taken steps to set the interbank interest rate in a range centered upon 7% per annum real, a rate corresponding to the second tranche of the liquidity credit line. This represents a reduction of 25 basis points vis-à-vis the previous target range.

17 The portion of funds that private pension funds (AFPs) may invest abroad is increased from 9% to 12%. Investments may be in credit instruments, securities, or bills issued or guaranteed by foreign governments, central banks, or foreign or international banking institutions, stocks and bonds issued by foreign governments, and share quotas issued by foreign mutual funds and investment funds approved by the Risk Classification Commission. Also increased from 9% to 12% is the allowance for financial risk coverage operations in respect of the investments that pension funds normally carry out on formal secondary markets and that meet the specifications contained in the general standards to be issued by the Superintendency of AFPs. The ceiling on investment in international investment fund quotas governed by Law 18.815 is also raised: from 4.5% to 6%.

May

30 The Central Bank of Chile announces the issue of 90-day PDBCs starting on July 9, 1997. These non-inflation-adjusted

promissory notes are to be auctioned together with 90-day PRBCs every Tuesday and Thursday. The amount to be auctioned represents around 10% of the monthly supply of short-term notes and the auctions will be announced in the monthly calendar prior to each cash reserve period.

At the same time, discount window sales of 30-day PDBCs are discontinued and replaced by auctions of nominal 42-day notes every Wednesday, in amounts announced in the monthly calendar.

June

5 The Bank announces that it has cut the interbank real interest rate by 25 basis points to a range centered upon 6.75% per annum, that is, a rate between the first and the second tranche of the liquidity credit line.

September

2 The Central Bank of Chile's Board announced that the Bank would take steps to ensure that the daily interbank interest rate moves down to a range centered on 6.5% annual equivalent in inflation-adjusted units, or UFs. This is 25 basis points below the previous target range. The target rate is now between the liquidity deposit rate and the rate corresponding to the first tranche of the liquidity credit line.

October

9 The Central Bank of Chile is exempted from its obligation as safe-keeper of pension fund securities. For the safe-keeping of securities abroad, this service is extended to institutions abroad that offer custody services and to deposit institutions and those that have custody of securities constituted abroad that specialize exclusively in this line of business.

30 Mutual fund administrators are authorized to operate in the Central Bank of Chile's primary market.

In addition, a minimum of two working days and a maximum of five working days is established for banking institutions to release into checking account the value of checks deposited by clients in other banking districts. This measure will take effect on March 9, 1998.

November

6 Announcement of 360-day PDBCs auctions, to start in the first quarter of 1998. This measure seeks to extend the monetarization of Central Bank of Chile paper.

18 It is established that the passbooks issued by savings and loan associations follow the rules established for time deposits.

December

29 Rules governing internationalization of the banking system are issued as a result of changes in banking legislation. These rules establish an overall ceiling of 70% of net worth for transnational loans to finance foreign trade operations between third

countries abroad, to subsidiaries of Chilean enterprises, to enterprises quoted on the stock exchanges of countries with first category country risk ratings, nontied commercial loans, and financial investments. At the same time, a sub-limit of 20% of net worth applies to nontied or freely disposable loans and to high-risk financial investments. This ceiling is increased to 50% for institutions with a Basle indicator of 10%; amounts loaned in excess of the above ceilings must be fully (100%) provisioned against possible loss. The standard rules for provisions for country risk require increasing provisions depending on the amount of net worth committed per country.

In addition, authorization is granted to deduct cross-border loans and financial investments from the foreign-currency cash reserve requirement.

Financial institutions are authorized to make investments abroad, either in stocks of banks or in enterprises established abroad, and which the law permits.

For banks a limit equal to net worth is established to grant guarantees and avals in foreign currency to residents; for nonresidents there is a limit of 25% of net worth. This last ceiling is raised to 50% for banks with a Basle indicator of at least 10%.

31 Authorization is given to subtract from foreign-currency reserve requirements the positive difference between the sum of financial investments held abroad and of commercial loans and foreign trade credits, minus Chapter XIV credits outstanding that are older than one year since the date of disbursement.

In addition, the regulatory framework is amended for the financial investments and credit operations of banking enterprises located abroad and doing business overseas (Chapter III.B.5 of the *Compendium of Financial Regulations*, or CNF).

ANNEX 3

PRINCIPAL EXCHANGE RATE AND FOREIGN TRADE MEASURES IN 1997

January

6 To promote decentralization and simplification of foreign trade and international currency transactions, all commercial banks with offices outside Santiago and the Santiago Metropolitan Region are authorized to process certain foreign trade and currency operations from branches located anywhere in Chile.

9 Resolutions were adopted to deepen exchange rate liberalization and allow greater flexibility and more expeditious processing of foreign trade and international currency transactions. Specifically, regulations in Chapter V of Title I of the *Compendium of Foreign-Exchange Regulations*, or CNCI on insurance and reinsurance were modified, making it easier to purchase foreign currency on the formal exchange market to pay for any sort of insurance policy, be it purchased in Chile or abroad. In addition, rules requiring Central Bank of Chile authorization prior to the purchase of foreign exchange were eliminated, and administrative proceedings streamlined.

Administrative and control procedures were simplified for international transport enterprises, as regulated in Chapter X of Title I of the CNCI. In addition, the conversion to foreign currency of funds obtained from sales of services in local currency are liberalized and simplified for international passenger transport enterprises.

For operations with derivatives regulated in Chapters VI and VIII of Title I of the CNCI, as well as for revenues abroad that domestic investors might obtain through earnings or dividends, or because of sales of assets held abroad by virtue of investments made under the provisions of letter A of Chapter XII of the CNCI, the obligation to repatriate the proceeds and convert the foreign currency is eliminated. Nevertheless, if the choice is made to repatriate the foreign exchange, it should be done through the formal exchange market. Furthermore, sale of the foreign currency should be effected in the same market within 10 days of the repatriation of the funds.

24 It was agreed to modify the composition of the reference basket of currencies, increasing the relative share of the U.S. dollar and diminishing those of the Deutsche mark and Japanese yen. The new

basket will be 80% U.S. dollars, 15% D-marks, and 5% yen.

At the same time, the value accorded the "referential dollar" (dólar acuerdo) on this date corresponds approximately to the level it would have reached if the recently amended weightings had been applied since November 1994 (the last time the composition of the currency basket was changed).

Together with the new basket, the exchange-rate (dollar) band was broadened from a margin of ± 10% vis-à-vis the "referential dollar" to ± 12.5%.

March

27 The regulations of Chapter XIV were applied to external credits and investments or capital contributions greater than US$ 10,000 or equivalent in other foreign currencies. In addition, investments and capital contributions for an individual amount or an amount accumulated in 12 months of up to US$ 100,000 will be exempt from this set of rules, with the exception of the rule that refers to its entry and conversion on the formal exchange market. This reduces the limit for exemption from the 30% cash reserve requirement for investments and capital contributions for financial investments in the country under Chapter XIV, Title I of the CNCI, from an individual amount of US$ 200,000 to US$ 100,000 and/or from an accumulated amount of US$ 500,000 to US$ 100,000 in the past 12 months.

April

10 Banks were authorized to grant credits to individuals or juridical entities located abroad, to finance foreign trade operations between third countries. The credits must be expressed and payable in U.S. dollars, and may not be channeled through the Agreement on Reciprocal Payments and Credits (*Convenio de Pagos y Créditos Recíprocos*). The total amount of credits shall not exceed 20% of the paid-in capital and reserves of the respective bank.

15 Regulations controlling investment abroad were modified. It was agreed to eliminate restrictions on access to foreign exchange on the formal exchange market for certain investment operations abroad. Added to the list of authorized investment operations were the purchase of financial and real assets, the taking of deposits, the granting of credits, and the participation abroad in contracts for exploration and exploitation of natural resources. The rules on investment abroad were extended to investments made with foreign exchange corresponding to the value of unreturned exports.

It was made clear that repatriation of capital and earnings are optional. Nevertheless, should they be returned, the proceeds must be sold on the formal foreign exchange market and the Central Bank of Chile must be notified. These revenues are subject to cash reserve requirements unless there is proof of the original investment and of its having continued until settlement.

In addition, it was decided to ease administrative controls and restrictions on investment abroad, such as prior authorization, the obligation to report periodically, and the prohibition on transferring, mortgaging, or selling.

Nevertheless, for statistical purposes, investments abroad will continue to be monitored when foreign currency leaves or enters the country.

The US$ 15,000 per month ceiling was eliminated, freeing access to the formal exchange market for various types of outflows including travel expenses, medical expenses, contributions and quotas for international agencies, remittances to students, pensions, rentals of real estate, subscriptions, and investments in foreign currency within the country.

19 The exchange restrictions contained in the *Compendium of Foreign-Exchange Regulations*, or CNCI were renewed for one year.

May

8 Chapter XXVI was modified, allowing holders of ADRs to participate in preferential share offerings and to transform into ADRs the shares that they would acquire through the use of this right.

September

10 Regulations on financial derivatives contained in Chapters VI, VII, and VIII of Title I of the CNCI were simplified for nonbank enterprises. For example, Chapters VI and VIII were merged together, and the requirement that each transaction be backed by some real foreign trade operation or investment abroad was eliminated. Also authorized were derivatives transactions on variable income instruments, with the obligation to channel remittances going abroad through the formal exchange market. Furthermore, free access to that market was granted for the purchase of dollars through futures contracts.

December

29 Chapter III.B.5 was incorporated into the *Compendium of Financial Regulations*, or CNF, which contains rules applicable to the financial investments and credit operations that banks carry out abroad.

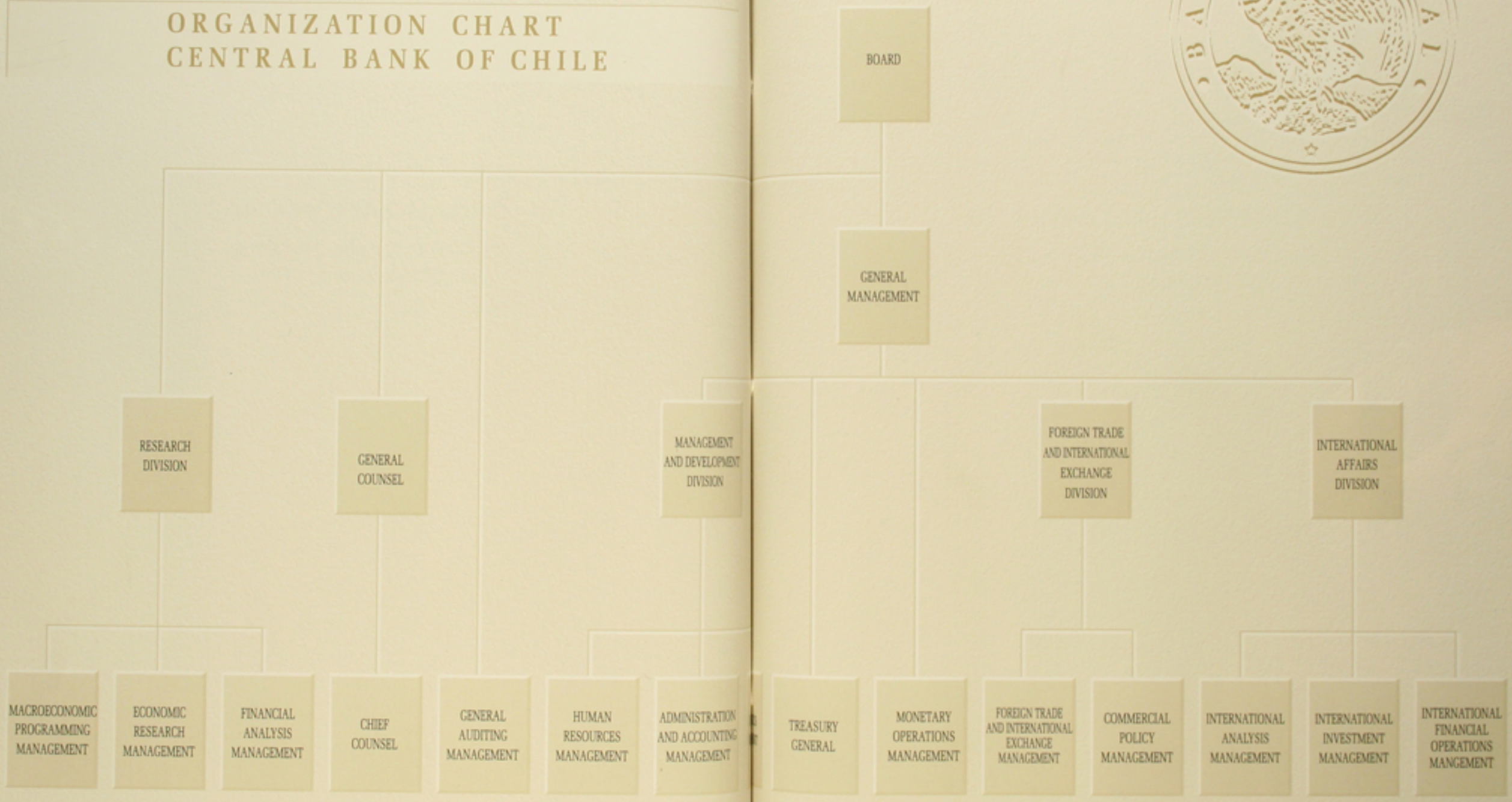
It was established that foreign exchange inflows generated by the execution of guarantees granted by residents abroad to residents in Chile, should be channeled through and sold on the formal exchange market, subject to the provisions of Chapter XIV of Title I of the CNCI regarding external credits.

31 Authorization was granted to deduct from the "Basic Reserve Requirement Amount", composed of the foreign currency-denominated sight and term deposits, funds, and liabilities in the country, the positive difference between financial investments, commercial loans, and foreign trade credits made abroad, less outstanding Chapter XIV credits that are over one year old. This amount is called the amount deductible from the basic reserve requirement. The amount left after this deduction is the basic amount subject to the 30% reserve requirement. The total amount deductible may not exceed 70% of the net worth of the respective banking institution.

II. ORGANIZATION CHART

CENTRAL BANK OF CHILE
As of December 31, 1997

ORGANIZATION CHART
CENTRAL BANK OF CHILE



III. FINANCIAL STATEMENS

CENTRAL BANK OF CHILE
As of December 31, 1997

BALANCE SHEET

AS OF DECEMBER 31, 1997
(MILLIONS OF CHILEAN PESOS)

ASSETS

OVERSEAS ASSETS		9,126,709.6
RESERVE ASSETS	8,911,773.0	
Gold	252,085.2	
Demand deposits and accounts	4,813.7	
Investment deposits and securities	8,031,870.2	
Mutual loan agreements	77,689.7	
Loans	148,193.6	
IMF subscription	397,120.6	
OTHER OVERSEAS ASSETS	214,936.6	
Shares and contributions made to the Interamerican Development Bank, IDB	87,140.1	
Interest receivable	127,792.7	
Silver and other	3.8	
DOMESTIC ASSETS		5,234,340.5
DOMESTIC LOANS		
Loans to state-owned entities	49,374.3	
Loans to Banco del Estado de Chile	101,319.1	
Loans to commercial banks	247,799.8	
Loans to other institutions	261,025.1	
Treasury transferences (Laws 18,267, 18,401 and 18,768)	3,793,317.8	
Subordinated obligations of financial institutions (Law 18,401)	781,504.4	
OTHER ASSETS		1,136,856.1
Fixed assets	14,580.7	
Other	1,122,275.4	
TOTAL ASSETS		15,497,906.2

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

		LIABILITIES
OVERSEAS LIABILITIES		691,892.9
RESERVE LIABILITIES	473,924.7	
Mutual credit agreements	76,820.2	
IMF deposits	397,104.5	
OTHER OVERSEAS LIABILITIES	217,968.2	
Loans	1,446.4	
Accounts with other international organizations	136,739.7	
Allocation of Special Drawing Rights, SDRs	77,881.0	
Interest payable	1,901.1	
DOMESTIC LIABILITIES		15,348,985.7
CURRENCY ISSUED AND DEPOSITS	1,395,157.4	
Currency in circulation	1,242,011.0	
Financial institutions deposits (Chilean pesos)	153,146.4	
DEPOSITS AND OBLIGATIONS	2,991,884.3	
Deposits and obligations with the Treasury	2,379,706.5	
Other deposits and obligations	612,177.8	
INSTRUMENTS ISSUED BY THE BANCO CENTRAL	10,961,944.0	
Indexed promissory notes to be paid in coupons (PRC)	6,595,531.2	
Indexed promissory notes of the Central Bank (PRBC)	2,918,064.5	
Promissory notes stated in indexed units (UF) (Resolution 1,836) arising from US dollar certificates	421,164.0	
Discountable promissory notes of the Central Bank (PDBC)	411,000.0	
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Foreign-Exchange Regulations, CNCI)	319,218.0	
Commercial notes from redenomination of foreign debt	206,934.2	
Indexed promissory notes with floating interest rate (PTF)	84,965.9	
Deposit certificates stated in US dollars (Resolution 1,649)	4,928.6	
Promissory notes issued for exchange-rate differential	137.6	
OTHER LIABILITIES		15,283.8
Reserves	7,162.2	
Interim liabilities	8,099.8	
Other	21.8	
CAPITAL AND RESERVES		(558,256.2)
Capital	198,304.0	
Deficit for the year	(756,560.2)	
TOTAL LIABILITIES		15,497,906.2

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1997
(MILLIONS OF CHILEAN PESOS)

OPERATING INCOME		
OPERATING INCOME		1,157,184.7
Interest earned	742,830.9	
Indexation gains on assets	132,107.4	
Income on price differences	57,524.9	
Gain on exchange differences	224,078.9	
Other operating income	642.6	
OPERATING EXPENSES		(1,937,477.8)
Interest expenses	849,855.7	
Indexation losses on liabilities	603,569.8	
Commission expenses	904.7	
Loss on price differences	17,908.4	
Loss on exchange differences	454,601.0	
Other operating expenses	10,638.2	
GROSS MARGIN		(780,293.1)
OTHER OPERATING EXPENSES		(18,629.6)
Personnel expenses	12,114.7	
Administrative expenses	4,527.0	
Depreciation, amortization and write-offs	1,549.8	
Taxes and contributions	438.1	
NET MARGIN (Total operating loss)		(798,922.7)
NON-OPERATING INCOME AND EXPENSES		712.9
Non-operating income	742.5	
Non-operating expenses	(29.6)	
Loss before price-level restatement		(798,209.8)
PRICE-LEVEL RESTATEMENT		41,649.6
LOSS FOR THE YEAR		(756,560.2)

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 Central Bank of Chile, upon prior approval of the Superintendencia de Bancos e Instituciones Financieras (Superintendency of Banks and Financial Institutions), as established by Article 75 of Law 18,840 (Constitutional Organic Law of the Central Bank of 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, 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 Central Bank of 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 International-Exchange Regulations (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:

	$
Minted Chilean gold coins	798.366
US dollar (referential rate)	472.950
US dollar (observed rate)	439.810
Pound sterling	783.030
Deutsche mark	264.144
Special drawing rights (SDR)	638.767

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 INSTITUTIONS

The subordinated obligation of Banco de Chile included in Domestic Assets (Note 6) comprises the balances of repurchase obligations included in the novation agreements, indexed as of December 31, 1997, and benefiting from Laws 18,401 and 19,396. Such subordinated obligations include cumulative increases which are credited to income as earned.

Accounting losses arising from the amendment of the repayment terms of the Banco Concepción and Banco Santiago subordinated obligations have been deferred, in accordance with Article 19 of Law 19,396 which states: "The losses that may be incurred by the Central Bank of 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 Central Bank of Chile shall be entitled to allocate the surplus

to accruing provisions to absorb such losses".

Owing to the amended terms for the repayment of Banco Concepción, Banco Santiago, and Banco de Chile subordinated debts, an accounting loss of Ch$ 710,337.2 million (UF 50,389,501.25) resulted at December 31, 1997. Such loss has been deferred as indicated in the aforementioned Article 19 of Law 19,396, and is shown in "Other" under "Other Assets". This item also includes losses deferred of Ch$ 144,682.3 million (UF 10,263,388.32) deferred in 1996. Provisions for Ch$ 58,634.0 million accrued in prior years to cover the risk of irrecoverability of the subordinated debt were used to absorb a portion of the deferred loss. The remaining loss will be absorbed by Banco Central de Chile's surplus in future years.

As a result of the contract with Banco Santiago, Central Bank of Chile received 35,090.5 million Series E shares in settlement of the subordinated debt outstanding. At year end 35,067.7 million shares remain to be sold and are stated at market value. According to Law 19,396, as amended by Law 19,459, there is no fixed term for the sale of such shares. However, Central Bank of Chile intends to sell them within a short term.

G) RESERVE FOR LOAN LOSSES

The Bank has not accrued any reserves in 1997. In prior years, the Bank constituted reserves for doubtful debts amounting to Ch$ 7,914.1 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$ 5,292.0 million for this purpose.

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 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$ 659,518.3 million, includes the following transactions:

	(Millions of Chilean pesos)
Receivables from Corporación de Fomento de la Producción (Corfo) (Note 3)	38,256.8
Credit lines in respect of rescheduling of debts	94,131.1
Mortgage loan portfolio acquired	58,624.9
Liquidity credit lines	68,236.8
Credit lines to finance the sale of the mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	59,190.2
Credit lines of international organization programs	12,003.0
Credit lines for deposits (Resolution 1,686)	8,749.4
Caja Central de Ahorros y Préstamos and Asociación Nacional de Ahorro y Préstamo (ANAP) (Note 4)	260,109.5
Price balances (Law 19,396)	53,520.5
Other	6,696.1
Total	659,518.3

3. LOANS DUE FROM CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN

The balance receivable from Corporación de Fomento de la Producción (CORFO) derives from the provisions in Law 18,401 of 1985, as amended, and from Law 18,577 of 1986, by which the Central Bank of Chile sold to CORFO finance company loans to finance the acquisition, by third parties, of shares of such finance companies.

CORFO serves its debt by transferring the amounts it collects from the shareholders from the transfer of shares of the related finance companies. At December 31, 1997, the balance receivable from CORFO amounted to Ch$ 38,256.8 million and is included as "Loans to state-owned entities".

In accordance with Article 13 of Law 18,401, 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, 1997 amounted to Ch$ 151,613.5 million, equivalent to UF 10.8 million. On the basis of information currently available, the legal maximun is considered sufficient to cover discounts.

4. CAJA CENTRAL DE AHORROS Y PRÉSTAMOS AND ASOCIACIÓN NACIONAL DE AHORRO Y PRÉSTAMO

Pursuant to Law 18,900 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 1,263 of 1975.

At December 31, 1997, the amount owed to the Central Bank for the liquidation of these entities, including accrued interest, amounted to Ch$ 260,109.5 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 18,267)	492,087.0
Treasury promissory notes (Law 18,768)	3,149,617.3
Treasury transferences (Law 18,401)	151,613.5
Total	3,793,317.8

A) TREASURY PROMISSORY NOTES (LAW 18,267)

In accordance with Law 18,267 of December 2, 1983, the Treasury transferred Ch$ 100,000 million to the Central Bank of 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 18,768)

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 18,401)

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 FINANCE COMPANIES

The balance at December 31, 1997, represents Banco de Chile's subordinated obligation outstanding with Central Bank of Chile, deriving from the application of Article 15 of Law 18,401, which granted the banks that had sold to the Central Bank (Resolutions 1,450 and 1,555, 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 were to be amortized by the debtor banks with their surpluses, and had no fixed maturity date.

On July 29, 1995 Law 19,396, was published in the Official Gazette. This law, amended by Law Nº 19,459, defines a new treatment for these subordinated obligations. The law states that the Central Bank of Chile and the banks with outstanding subordinated obligations may agree to modify the payment terms for such obligations, in accordance with that law and with the Central Bank of Chile's Board's related regulations.

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 could serve such debt within 40 years or not. Banks that were 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 Central Bank 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 Central Bank. 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, a bank holding company and a company to manage the subordinated obligation.

The Central Bank of Chile entered into agreements for amending the terms for the repayment of the subordinated obligation with the only five banks that at the date of enactment of Law 19,396, as amended by Law 19,459, showed their intention of benefitting from said Law, namely BHIF, Banco Internacional, Banco Concepción, Banco de Santiago, and Banco de Chile.

Banco BHIF and Banco Internacional modified their novation contracts with the Central Bank and extinguished their obligations by issuing and selling shares. The accounting loss of Ch$ 136,107.5 (historic) million incurred by the Central Bank in 1996, was deferred as discussed in Note 1 f).

Banco Concepción entered into a contract with the Central Bank on November 6, 1996 that modified the payment terms of the subordinated obligation, and was to implement a share-bidding scheme as envisaged in Article 13 of Law 19,396, without prejudice of making a transfer of shares in settlement to the Central Bank in conformity with Article 18 b) of that law. However, Banco Concepción extinguished its obligation in February 1997 by delivering Ch$ 2,791.9 million –the proceeds from the placement of 2,434.8 million shares– and by transfering in settlement the remaining 55,578.8 million shares, which were placed in March 1997, with Central Bank receiving 25% of the payment in cash and the rest over four annual installments maturing on April 30, 1998, 1999, 2000, and 2001, respectively. The final proceeds amounted to UF 4,978,791, while a loss of UF 16,890,997 was deferred as discussed in Note 1 f).

Banco de Chile entered into a contract with the Central Bank on November 8, 1996 that modifies its subordinated obligation. It 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 bank holding company and a company to manage the subordinated obligation. Also, Banco de Chile entered into a contract with the Central Bank to settle the conflict over the capitalization of dividends in 1994 and 1995, committing to paying a compensation equivalent to US$ 14.1 million prior to April 29, 1997, which was paid on April 28, 1997. Such compensation was deducted from the subordinated obligation and the annual installment was reduced to UF 3,187,364. On April 30, 1997, Banco de

Chile paid UF 3,311,444 as the annual installment on the subordinated debt; the balance of such obligation amounts to UF 55,437,917 at December 31, 1997.

Banco Santiago entered into a contract with the Central Bank on January 13, 1997 to modify its subordinated obligation after its merger with Banco O'Higgins. Banco Santiago opted for repayment in a maximum of 40 fixed, annual, successive and equal installments. In addition, it agreed to transfer in settlement 35,100.0 million Series E shares, after making a preferential offering to its shareholders at a price determined by the Central Bank. At the same time, Banco Santiago allocated the 1996 surplus of UF 1,705,203 to amortize the balance of the subordinated obligation. In April 1997 Central Bank of Chile received UF 8,992, the proceeds from the sale of 9.5 million Series E shares, plus the remaining 35,090.5 million Series E shares in settlement, with Banco Santiago thus extinguishing its subordinated debt. The deferred loss amounted to UF 23,110,486.

On April 30, 1997 the Central Bank of Chile commissioned Banco Santiago to sell the 35,090.5 Series E shares referred to above at the same initial price of UF 0.0009459837 a share, with the purchaser having to make a 25% cash payment and paying the balance over 4 annual, succesive and equal installments with an interest rate of TIP plus 1 percent. On June 9, 1997, Banco Santiago reported that it had sold a total of 22.8 million Series E shares, collecting UF 5,842 in cash, with a balance receivable of UF 15,767. Banco Santiago then returned to the Central Bank the remaining 35,067.7 million Series E shares, worth Ch$ 315,608.9 million at December 31, 1997, which are included in "Other" under "Other Assets".

7. DEPOSITS AND OBLIGATIONS

Other Deposits and Obligations include:

	(Millions of Chilean pesos)
Reserve deposits (Resolution 143)	91,842.2
Banco del Estado de Chile deposits	22,649.9
Foreign-currency current accounts	51,069.6
Foreign-currency deposits (Resolution 1,657 and 1,686)	5,498.3
Mandatory deposits on overseas credits	403,358.5
Liquidity deposits	30,005.8
Short-term deposits	7,753.5
Total	612,177.8

8. CLASSIFICATION OF THE INSTRUMENTS ISSUED BY THE CENTRAL BANK OF CHILE AT DECEMBER 31, 1997 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)	318,435.7	230,020.7	428,724.9	1,544,511.4	4,073,838.5	6,595,531.2
Indexed promissory notes of the Banco Central (PRBC)	2,918,064.5					2,918,064.5
Promissory notes stated in indexed units (UF) (Resolution 1,836)	12,044.5				409,119.5	421,164.0
Discountable promissory notes of the Banco Central (PDBC)	411,000.0					411,000.0
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Foreign-Exchange Regulations)	1,466.6	22,157.3	10,497.1	285,097.0		319,218.0
Commercial notes from redenomination of foreign debt	2,541.7	571.0			203,821.5	206,934.2
Indexed promissory notes with floating interest rates (PTF)	8,583.7	1,682.6	8,331.3	33,325.1	33,043.2	84,965.9
Certificates of deposit expresed in US dollars (Resolution 1,649)	134.0		479.5	958.9	3,356.2	4,928.6
Promissory notes issued for exchange-rate differential	84.3		27.9	25.4		137.6
Total instruments issued	3,672,355.0	254,431.6	448,060.7	1,863,917.8	4,723,178.9	10,961,944.0

These amounts include interest and indexation accrued at December 31, 1997.

9. CAPITAL AND RESERVES

The changes in Capital and Reserves were as follows:

(Millions of Chilean pesos)

	Capital	Deficit for the year	Total
Balances, January, 1, 1997	314,734.6	(128,183.3)	186,551.3
Absorption of 1996 deficit	(128,183.3)	128,183.3	-
Monetary correction of capital	11,752.7	-	11,752.7
Deficit for the year	-	(756,560.2)	(756,560.2)
Balances, December 31, 1997	198,304.0	(756,560.2)	558,256.2

Article 5 of Law 18,840 (Banco Central de Chile Constitutional Organic Law) set an initial capital for the Banco Central de Chile of Ch$ 500,000 million, to be paid in according to interim Article 2 of said Law.

Pursuant to Article 77 of Law 18,840, 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.

At December 31, 1997 the Central Bank of Chile shows a deficit in equity of Ch$ 558,256.2 million.

Even though the negative equity position is not foreseen in the near future as an obstacle that would prevent Central Bank of Chile from reaching its banking goals –as further discussed in the Bank's reports to the Senate–, it appears appropiate from a medium-term perspective that the Central Bank's equity be improved and strengthened. For this reason, the Finance Ministry has been requested to seek legislation to solve the situation, in consideration that the third paragraph of the third article of Law 18,840 states that the Bank, by a resolution of the majority of Board members, shall be entitled to request from the Minister of Finance an increase of its capital or specific contributions to its equity as a charge to the funds approved by the Republic's Budget Law. The Finance Minister has announced his intention of sending a bill to Congress shortly.

10. BALANCES IN FOREIGN CURRENCIES AND GOLD

Assets and liabilities denominated in foreign currencies included in the balance sheet at December 31, 1997 are as follows:

	(Millions of US dollars)
ASSETS	
OVERSEAS ASSETS	18,181.9
Reserve assets	17,875.0
Other overseas assets	306.9
DOMESTIC ASSETS	6,684.0
Domestic loans	6,684.0
OTHER ASSETS	0.1
Total Assets	24,866.0
LIABILITIES	
OVERSEAS LIABILITIES	334.2
Reserve liabilities	162.4
Other overseas liabilities	7.1
Allocation of special drawing rights	164.7
DOMESTIC LIABILITIES	5,901.3
Deposits and obligations	5,901.3
OTHER LIABILITIES	17.7
Total liabilities	6,253.2
NET ASSETS	**18,612.8**

11. CONTINGENCIES AND RESPONSIBILITIES

A) CONTINGENCIES

The Central Bank of 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) COMMITMENTS

The Central Bank of Chile is responsible for the custody of foreign currencies receivable from future arbitrations amounting to Ch$ 67,585.3 million (US$ 142.9 million) at December 31, 1997.

12. INCOME TAXES

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

CAMILO CARRASCO ALFONSO
General Manager

FRANCISCO GARCÍA LETELIER
Accounting and Administration Manager

MARIO ULLOA LÓPEZ
General Auditor

Deloitte &
Touche

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the balance sheet of the Banco Central de Chile as of December 31, 1997 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.

2. 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.

3. 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 18,840). These policies are in conformity with accounting principles generally accepted in Chile, except for (1) the deferral of accounting losses of Ch$ 796,385.5 million incurred as a result of the amendment, in conformity with Law 19,396 (Notes 1f and 6), to the repayment terms of the subordinated obligations of Banco BHIF, Banco Internacional, Corpbanca, and Banco Santiago and (2) the exchange rate used in translating foreign currency assets and liabilities (Notes 1a and b).

4. 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, 1997 and the results of its operations for the year then ended in conformity with the accounting policies described in Note 1.

5. As further discussed in Notes 1f and 6 to the financial statements, the banks that still maintained subordinated debts outstanding accepted the repayment terms of Law 19,396. Banco de Chile owes subordinated debt installments amounting to Ch$ 781,504.4 million at December 31, 1997, while the amendment to the repayment terms of Banco de Santiago's subordinated debt caused Banco Central de Chile to accept as settlement for such obligation Banco de Santiago shares with a market value of Ch$ 315,608.9 million at December 31, 1997.

6. Banco Central de Chile has a deficit in equity of Ch$ 558,256.2 million, and talks are under way with the Chilean Finance Ministry (Ministerio de Hacienda) to determine the way to resolve such deficit.

January 14, 1998

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