

BANCO
CENTRAL DE CHILE
ANNUAL REPORT 1983





BANCO CENTRAL DE CHILE

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SUBMITTED
TO THE SUPERINTENDENCY
OF BANKS AND FINANCIAL
INSTITUTIONS

1983

AUTHORITIES OF BANCO CENTRAL DE CHILE

As of December 31, 1983

EXECUTIVE COMMITTEE

HERNAN F. ERRAZURIZ CORREA
Chairman and President of the Bank

FERNANDO OSSA SCAGLIA
Vice Chairman and Vice President of the Bank

CARLOS MOLINA ORREGO
General Manager

GENERAL COUNSEL

JOSE A. RODRIGUEZ VELASCO

DIRECTORS

JOSE LUIS CORVALAN BUCHER
Administration

FRANCISCO GARCES GARRIDO
International Affairs

RENATO PEÑAFIEL MUÑOZ
Financial Policy

FRANCISCO SILVA SILVA
Operations

HERNAN SOMERVILLE SENN
Coordinator Foreign Debt

ENRIQUE TASSARA TASSARA
Financial Representative New York Office

MANAGERS

AMBROSIO ANDONAEGUI ONFRAY
Treasurer-General

FELIX BACIGALUPO VICUÑA
Studies

GUSTAVO DIAZ VIAL
Foreign Trade

FERNANDO ESCOBAR CERDA
Monetary Operations

MARTIN GARCIA CORREA
Administration

EDUARDO GARCIA DE LA SIERRA
International Exchange

ADOLFO GOLDENSTEIN KLECKY
International Affairs

CARMEN HERMOSILLA VALENCIA
Secretary-General

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Auditor-General

PATRICIO ROMAN FIGUEROA
Personnel

JUAN PABLO SILVA PRADO
Information Systems

JORGE TAGLE SCHJOLBERG
Financial Administration

ALDO ZILIANI CARCAMO
Accounting

BRANCHES

As of December 31, 1983

ARICA

HERMANN SCHAFFER SIGGELKOW
Chief Foreign Trade Office

IQUIQUE

LUIS JUSTINIANO RODRIGUEZ
Agent

ANTOFAGASTA

JORGE APABLAZA APABLAZA
Agent

VALPARAISO

PATRICIO TORTELLO ESCRIBANO
Manager

CONCEPCION

IGNACIO KLEIN LATORRE
Agent

PUERTO MONTT

HUMBERTO RIOSECO ADASME
Agent

PUNTA ARENAS

RENE CHATEAU SPENCER
Agent



BANCO CENTRAL DE CHILE

Santiago, June 4, 1984

To
Hernan Büchi Buc
Superintendent of Banks
and Financial Institutions
Santiago

Pursuant to article 53 of the Organic Law of
the Monetary Council and Central Bank of Chile, we are submitting
herewith the Annual Report of this Institution for 1983.

FRANCISCO IBÁÑEZ BARCELO
President

CARLOS MOLINA ORREGO
General Manager

FELIX RUIZ CRISTI
Vice President

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I REPORT

Introduction

This Annual Report contains the Balance-Sheet and Financial Statements of the Central Bank of Chile as of December 31, 1983.

As in 1982, the economic and financial discussion of conditions in Chile, traditionally included in the Annual Report, is now part of a more extensive and detailed publication entitled "Economic Report of Chile", which is issued in conjunction and circulated with this Annual Report.

The Balance-Sheet and Financial Statements are presented within the economic and accounting framework adopted in 1982. This makes for knowing not only the accounting and financial position of the institution, but also its significance in economic affairs. It is thus possible to consider the part played by the Central Bank in domestic supply of monetary assets and credit, and how the creditor position of the Bank affects the international financial system.

Role of Banco Central in 1983

In 1983 the Central Bank took up a decisive role in resolving the difficulties that the country underwent. The certainty that only resolute and coordinated action could reactivate the economy led to seeking solutions abroad in order subsequently to resolve domestic problems.

Action in the foreign sector aimed at checking the loss of Chilean international reserves, which was jeopardizing the economy's payment capabilities. To this end, obligations with maturities in the period 1983-1984 were renegotiated and an additional loan amounting to US\$ 1,300,000,000 was obtained, the proceeds of which were devoted to financing a vast plan of aid to productive sectors affected by the recession.

Simultaneously, the exchange policy in force improved the competitive position of domestic products and generated a substantial trade surplus that helped to service foreign indebtedness.

On the home front efforts focused on resolving domestic credit problems. A policy was therefore implemented with a view to reducing the financial burden of firms, by means of lower interest rates as well as by rescheduling obligations with the financial system.

In addition, support was given to financial institutions in difficulties while funds were provided for executing and financing a number of projects, with particular emphasis on labor-intensive schemes.

In the course of the year the Bank allocated resources amounting to over \$ 340,000 million among 10 support programs that effectively contributed to alleviate the financial burden of firms.

Banco Central Support to Production Sectors

Program	Amount allocated as of Dec. 26, '83 (million pesos)
Supplementary debt rescheduling system	211,258
Debt renegotiation by issue of bank bonds	39,999
Rescheduling mortgage loans	3,884
Credit facility for housing purchase	7,487
CF for new housing construction and engineering works	1,193
CF for working capital	31,253
CF for hiring additional labor	11
CF for payroll financing	301
CF for renegotiating transport sector indebtedness through CORFO and Banco del Estado	1,231
Preferential exchange rate	50,139

Support to productive sectors does not involve net expansion of Central Bank issuance where it is granted by means of bonds or notes, as in the case

of preferential exchange rate and renegotiation of production-associated loans.

Trade surplus, drastic reduction of nominal and real interest rates, increased international reserves, and low inflation rates are other objects that the Central Bank helped to achieve in 1983.

General Description of Economic Policy in 1983

To put order in basic macroeconomic variables and curb the atmosphere of uncertainty originated by the modification of the fixed exchange rate régime and fuelled by the intervention in banks that took place early in the year, in March 1983 the economic authorities announced a Program for Recovery. It contained —as its primary element— recognition of domestic and external restrictions on resources, while it attached top priority to reducing unemployment and reactivating production.

In conjunction with the Recovery Program an emergency plan was agreed with the International Monetary Fund, which provided for returning to the targets of the stand-by arrangement approved by the IMF Board early in the year. This was necessary because the targets for international reserves and credit expansion set in the original arrangement were exceeded as a result of intervening in the financial market on January 13, 1983.

Capital payments on financial and public foreign debt due and payable in 1983 and 1984 were also renegotiated. A total of US\$ 3.4 billion was restructured with a repayment term of eight years and four years' grace period, and with a margin of 2-1/8 per annum over LIBOR or 2 per annum over PRIME.

A new loan was obtained amounting to US\$ 1.3 billion, agreement was reached for trade-related credit facilities to be maintained at a level not below US\$ 1.3 billion, and a bridge loan was obtained for US\$ 460 million.

Rescheduling Domestic Indebtedness

The agreements reached with the international financial community released funds to be utilized in reactivating the economy while at the same time additional resources were obtained for the same purpose.

In order to reduce the costs of external recession and the difficulties arising from the burden of previous debt, the Central Bank devoted most of its available resources to rescheduling debts and granting new credit to the production sector. In 1983 the Bank thus committed to such sectors a total of approximately \$ 347 billion, of which \$ 90 billion were paid out during the year, the balance being obligations for future disbursement. Funds were channelled mainly in three ways:

- (a) New resources for financing working capital for production.
- (b) Rescheduling existing debts of production sectors at 7% per annum in real terms, repayment period of ten years with up to five years' grace period for capital payments.
- (c) Preferential exchange rate for economic agents with obligations in foreign currency incurred prior to August 6, 1983.

Exchange Policy

A fundamental element in the recovery program is the establishment of an exchange régime aimed at validating a high real exchange rate by successive modifications of the nominal rate. The rule applied has had the expected results. A Central Bank study shows that the real exchange rate increased by 43.3 per cent between May 1982 and December 1983, which reflects the significant recovery of external competitiveness by the economy.

Tariff Policy

The adoption of export subsidy policies by some of Chile's trade partners led the Central Bank to set temporary tariff surcharges on items to which the above has been found to apply. The object of this measure is to prevent possible damage to domestic producers from such distortions. In addition, the Government's desire to help the sectors most seriously affected by the crisis required seeking new sources of fiscal funds to finance the higher expenditure, and the tariff was raised from 10% to 20% permanently, except those cases where a temporary surcharge became necessary.

Third quarter of 1983: Economic recovery begins

Action by the authorities has been determinant in achieving an atmosphere of greater stability and confidence, thus a favorable framework for development of production. Implementation of a realistic, consistent, and pragmatic policy allowed basic difficulties to be faced and overcome, until the downward trend began to reverse in the third quarter of 1983. GDP in that quarter was the same as in the third quarter of 1982. The trend continued to rise in subsequent quarters. Thus, in the four quarters of 1983 the annual rate of Gross Domestic Product varied as follows: -7.6%, -1.4%, 0.8%, 5.6%, with substantial increases in the construction, fisheries, and commerce sectors.

The recovery of activity levels took place simultaneously with the reordering of economic policy, both in external accounts and in the financial system, where operations are gradually returning to normal.

There was clear recovery during 1983 of the external position of the Chilean economy. The balance of payments deficit amounting to US\$ 1,165 million in 1982 was reduced to US\$ 541 million in 1983, consistent with the agreements entered into with the International Monetary Fund through the emergency program referred to above.

To achieve such a balance in the External Accounts was a major effort for the nation. In fact, US\$ 1 billion in international reserves were lost during the first quarter, affecting the ability to meet commitments to the IMF. The situation reversed in subsequent quarters, however, which allowed the loss to be reduced to approximately US\$ 600 million for the year.

Regarding the trade account, the substantial surplus shown in 1983 is worth mentioning. The Trade Balance showed a surplus of US\$ 63 million in 1982, which rose significantly to US\$ 1,014 million in 1983, as a result of an increase by 4 per cent in exports, while imports fell by 22 per cent.

Furthermore, as a result of financial and credit normalization policies adopted by the Central Bank, significant reduction was made possible in the cost of credit, clearly benefiting debtors and applicants for new funds. A study conducted by the Central Bank covering all short-, medium-, and long-term credit in domestic and foreign currency finds that in 1983 the real average total cost of credit was 15.5 per cent, or 58 per cent less than in 1982. This reduction in the cost of credit certainly is a significant result of economic policy given its decisive influence on activity and employment levels.

Reduction of unemployment played a priority role in economic policy in 1983; a number of measures and programs were adopted to overcome the problem. The Employment Program for Heads of Households (POJH) was thus kept up and improved, as well as the Minimum Employment Program (PEM), which channel most of the resources allocated by the State to fighting unemployment. Other programs were set up to encourage the private sector to hire additional labor. A subsidy was granted for hiring labor and bids were called for from the private sector emphasizing a labor-intensive approach, the cost of which was subsidized by the Government. This allowed for significant improvement in employment rates; hence unemployment amounted to 14.6 per cent in December 1983, substantially down from 19.6 per cent in the fourth quarter of 1982.

Lastly, inflation measured by the variation in the consumer price index amounted to 23.1 per cent, not very different from 20.7 per cent in 1982. This means that the economic policy successfully achieved the necessary adjustments without needing to resort to inflation as an expedient.

Prospects for 1984

In order to assess the prospects of the Chilean economy on 1984 it is necessary to consider the recovery of the developed economies, high foreign interest rates, and the substantial level of Chilean foreign debt. Accelerated increases in production and employment levels become particularly difficult, given the above external economic conditions.

There is evidence that substantial reduction in international interest rates cannot be expected in the course of 1984, therefore the Chilean economy will continue to devote about 9 per cent of its GDP to interest payments on foreign indebtedness.

Given the foregoing, and while sustained recovery does not take place in international economic affairs, economic policy will need to remain within limits of prudence and austerity. Notwithstanding, economic prospects for 1984 are encouraging. GDP is expected to grow by over 4 per cent, inflation will be under 20 per cent, and unemployment will fall.

A deficit of US\$ 1.25 billion is estimated for the current account, while the trade balance will show a surplus of about US\$ 1 billion, comparable to that of 1983. Imports will rise by 7.6 per cent, exports by 5 per cent.

Administrative Issues

The process of remodelling the administrative operation of the Bank under the Work program prepared by the Administrative Department continued in 1983, in response to administrative support requirements in various units and to resolve organizational and internal control issues.

The Work Program aims at:

- meeting strict requirements of administrative efficiency;
- emphasizing standards and procedures;
- encouraging development of administrative information system;
- adapting the organizational structure to new Bank functions.

Major elements of this Work Program include the following:

- A staff information system was implemented covering staff administration issues, remunerations, performance evaluation; it should be completed in 1984.
- The Executive Committee approved the number and distribution of Bank staff in 14 categories.
- Training courses were given at various levels with a view to updating staff capabilities and teaching new work techniques.
- A new building was acquired in 1983, at Huerfanos No. 1175, where several units of the Operations Department were moved, including the foreign trade and exchange areas.
- The plan for computer support to accounting information continued; a Plan of Accounts was prepared, together with the associated Accounts Handbook.
- Computer information support was provided mainly to Bank units dealing with foreign indebtedness, preferential exchange rate, mortgage notes, bank bonds, fixed assets, etc.
- The organization and methods unit supported various Bank units, coordinated with the systems development and operations unit, and took part in drawing up administrative procedures for different Bank units.

Publications

Dissemination of economic information on Chile is an activity to which the Central Bank attaches great importance given the benefits derived from it by the community. Consistent with this editorial policy, 33 publications appeared in 1983 containing statistical, financial, and legal data on the Chilean economy, with special emphasis on the financial and foreign trade sectors.

Further issues appeared of publications with a continuity of many years: Monthly Bulletin, Foreign Trade Indicators, Annual Report, Chilean Statistical Summary, Chilean Foreign Trade, Monetary and Financial Summary, plus six issues of the Economic Studies Series composed of works by professionals on the Central Bank staff dealing with economic subjects of general interest:

- No. 18 Ahorro y crecimiento económico en Chile: una visión del proceso desde 1960 a 1981 y proyecciones de mediano plazo (Savings and Economic Growth in Chile: the Process from 1960 to 1981 and Medium-Term Outlook). By Mario Gutierrez U.
- No. 19 El tipo de cambio fijo en Chile: la experiencia en el período 1979-1982 (Fixed Exchange Rate in Chile: Experience in the Period 1979-1982).
By Roberto Toso C.
- No. 20 Análisis de la economía mundial durante 1982 y perspectivas para 1983 (Analysis of World Economy during 1982 and Prospects for 1983).
By Daniel Fanta de la V. and Raimundo Monge Z.
- No. 21 La crisis económica de la década del treinta en Chile: lecciones de una experiencia (The Economic Crisis of the Thirties in Chile: Lessons from Experience).
By Roberto Toso C., and Alvaro Feller S.

No. 22 Fluctuaciones de corto plazo de ingresos nominal y real: comentarios del modelo monetarista de Emil-María Claassen (Short-Term Fluctuations in Nominal and Real Income: Comments on Emil-Maria Claassen's Monetarist Model).
By Eduardo García de la S.

No. 23 El modelo logístico (The Logistics Model).
By Leonidas Espina M.

Estudios Monetarios VIII (Monetary Studies VIII), the bilingual edition of the proceedings of the Seminar on Experiences on Central Banks, sponsored by the Central Bank of Chile in 1981.

A new publication worth mentioning is Indicadores Económicos y Sociales 1960-1982 (Economic and Social Indicators 1960-1982), a significant compilation of statistical series on main socioeconomic and social variables in the period —an essential work for understanding the economic development of two decades and a base for preparing projections and works supported by economic reasoning. Another major work is Cuentas Nacionales de Chile 1960-1982 (Chilean National Accounts 1960-1982) containing definitions and basic concepts on the subject, methods and series according to major concepts and economic activities. This information is supplemented by Cuentas Nacionales Trimestralizadas 1980-1983 (Quarterly National Accounts).

Publication began of the fortnightly Economic and Financial Report in Spanish and English containing updated figures on trade balance, balance of payments, international reserves, foreign credit, monetary and financial information, and comments on economic issues.

Supplementing the dissemination of economic data, the library provided information to the public addressing queries in person or by telephone. Collections of book and periodicals were updated by purchases and a computer system was implemented to expedite access to information contained in bibliographic material.

Lectures and Talks

The following deserve special mention:

- Lecture by Professor Bela Balassa, of Johns Hopkins University and World Bank Consultant, on "The International Economic Situation and Adjustment Policies in Developing Countries", on January 12, 1983.
- Seminar on the Role of the International Monetary Fund in the Adjustment Process, sponsored by the Central Bank of Chile, the International Monetary Fund, Universidad Tecnica Santa Maria, the Valparaiso Business School, held in Viña del Mar on April 6-8, 1983.
The program included presentations on: recent evolution of the world economy and non-oil developing countries in the American continent; the balance of payments adjustment process; IMF conditionality re-examined; the role of key prices in the adjustment process; the object of adjustment and conditionality; the role of fiscal policy; the role of international reserves and foreign indebtedness in the external adjustment process; the role of commercial banking in the adjustment process.
- Lecture by Ms. Ricki Tigert, U.S. lawyer specializing in banking legal matters, operations and activity of the banking system in the U.S.A., held on October 11, 1983.

II
ORGANIC
STRUCTURE

BANCO CENTRAL
DE CHILE

December 1983

III
BALANCE
SHEET

BANCO CENTRAL
DE CHILE

as of December 31, 1983



BALANCE - SHEET

AS OF 31 DECEMBER, 1983
(million pesos)

Chilean Currency
and F/C equiv.
(US\$ 1 = \$ 87,51)
(Gold \$ 1 = \$ 183,53)

ASSETS

EXTERNAL ASSETS		<u>304,398.8</u>
RESERVE	<u>282,792.9</u>	
Gold and Foreign Currency	215,331.6	
Holdings of Special Drawing Rights	473.3	
IMF Subscription Payments	40,358.1	
Bonds, Certificates of Deposit & Other	9,096.9	
Reciprocal Credit Agreements	14,021.4	
Other Securities	<u>3,511.6</u>	
OTHER EXTERNAL ASSETS	<u>21,605.9</u>	
Contributions to Other International Organizations ..	16,122.1	
Interest Receivable	4,241.9	
Other Securities	<u>1,241.9</u>	
DOMESTIC ASSETS		<u>789,653.4</u>
DOMESTIC CREDIT	<u>775,713.0</u>	
Credits to the Treasury	49,338.6	
Credits to State-Owned Enterprises	20,757.4	
Credits to Banco del Estado	72,452.7	
Credits to Commercial Banks	476,124.3	
Credits to Other Institutions	<u>157,040.0</u>	
INVESTMENTS & OTHER ASSETS	<u>13,940.4</u>	
OTHER ASSET ACCOUNTS		<u>362,734.0</u>
 TOTAL ASSETS		<u><u>1,456,786.2</u></u>



LIABILITIES

EXTERNAL LIABILITIES		351,142.1
RESERVE	105,789.0	
IMF Credits	53,047.2	
Reciprocal Credit Agreements	12,324.0	
IMF Deposits	<u>40,417.8</u>	
MEDIUM - AND LONG- TERM	228,237.6	
Loans and Other Obligations	208,151.8	
Accounts with Other International Organizations	<u>20,085.8</u>	
OTHER EXTERNAL LIABILITIES	5,944.9	
SDR ALLOCATIONS	11,170.6	
DOMESTIC LIABILITIES		583,038.1
ISSUANCE	72,469.6	
Bills and Coins in Circulation	65,793.2	
Deposits of Financial Institutions (D/C)	<u>6,676.4</u>	
OTHER DEPOSITS AND OBLIGATIONS	159,801.9	
Deposits & Obligations with the Treasury	20,142.4	
Other	<u>139,659.5</u>	
DOCUMENTS ISSUED BY THE CENTRAL BANK	340,635.9	
OTHER DOMESTIC LIABILITIES	10,130.7	
OTHER LIABILITY ACCOUNTS		303,513.5
CAPITAL AND RESERVES		218,350.7
Capital	50.0	
Buffer Fund	173,106.4	
Contingency Fund	<u>45,194.3</u>	
Reserve for Equity Capital Rev.:		
Equity Capital Rev. 1983	44,408.8	
Monetary Adjustment (Net)	(13,399.2)	
Distr. to Buffer & Cont. Fund from Res. for Equity Capital Rev.	<u>(31,009.6)</u>	
SURPLUS		741.8
TOTAL LIABILITIES		1,456,786.2



INCOME STATEMENT

(For the period from January 1 to December 31, 1983)

	Current pesos (million)	
OPERATING INCOME		
Interest and Discounts Earned	66,347.2	
Exchange Profit	16,289.4	
Other	<u>326.5</u>	
TOTAL OPERATING INCOME	<u>82,963.1</u>	
OPERATING EXPENDITURE (Less)		
Interest and Discounts Paid	73,155.0	
Exchange Losses	52,638.3	
Other	<u>2,532.5</u>	
TOTAL OPERATING EXPENDITURE	<u>128,325.8</u>	
OPERATING RESULT		<u>(45,362.7)</u>
FIXED OVERHEAD (less)		
Admin., Rem., Other	2,133.5	
Depr., Write-off, Prov.	<u>51,826.7</u>	
TOTAL FIXED OVERHEAD	<u>53,960.2</u>	<u>(53,960.2)</u>
NET OPERATING EXPENDITURE		<u>(99,322.9)</u>
OTHER INCOME (Plus)		<u>100,064.7</u>
SURPLUS		<u>741.8</u>



MEMORANDUM ACCOUNTS

Current pesos
(million)

TREASURY OPERATIONS	3,462.6
DOMESTIC CREDIT OPERATIONS	165.6
EXCHANGE & EXTERNAL CREDIT OPERATIONS	1,173.1
SAFEKEEPING & SECURITY OPERATIONS	94,524.6
TOTAL	<u>99,325.9</u>

Notes 1 to 18 below are an integral part of the above Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING CRITERIA APPLIED

(a) PRINCIPLES

The financial statements as of December 31, 1983 were prepared according to generally accepted accounting principles, rules issued by the Superintendency of Banks and Financial Institutions where applicable, and provisions of the Organic Law of the Central Bank of Chile (DL 1,078). The Superintendency rules differ from generally accepted accounting principles as regards provisions on loans.

(b) PARITIES

Assets and liabilities in foreign currencies are shown in pesos at the rates of exchange for each currency at year-end, as set by the Superintendency of Banks and Financial Institutions.

Under instructions from the Superintendency of Banks and Financial Institutions, assets and liabilities denominated in Chilean gold bullion pesos were valued at the average London morning Gold Fixing rate (US dollars per ounce troy fine) for all business days in the preceding quarter, less 10 per cent.

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

	\$
Chilean gold bullion	183,530
US Dollar	87,510
Pound Sterling	127,010
Deutsche Mark	32,102
Special Drawing Rights (SDR)	91,619

(c) LOANS AND OBLIGATIONS

Non-indexed loans and obligations are shown at original value or value at latest renewal, except for purchased commercial paper or discounted documents, which are shown at nominal value at maturity. Indexed balances include adjustments earned by the date of the balance-sheet and balances in foreign currency include the respective exchange adjustments.

Interest accrued as of the end of the year is included under Other External Assets and Other External Liabilities when in respect of operations with residents abroad, and under Investments and Other Assets and under Other Domestic Liabilities when in respect of operations with residents in Chile. Interest paid and not accrued from obligations is included under Other Asset Accounts. Interest received and not accrued from loans is included under Other Liability Accounts.

(d) NON-PERFORMED LOANS

This item is included under Other Asset Accounts and includes all loans outstanding 90 days after maturity. Interest receivable on such loans and adjustments where applicable are calculated and accounted for until maturity only.

(e) FINANCIAL INVESTMENTS

External financial investments, which are shown under Reserve Assets broken down into bonds, certificates of deposit, and other, basically include bonds and instruments issued by Governments, foreign institutions, and banks, valued at investment cost. Interest receivable is shown under Other External Assets.

Financial investments and interest receivable in Chile are shown under Investments and Other Assets.

(f) TANGIBLE FIXED ASSETS

Tangible fixed assets are included under Other Asset Accounts and are shown at cost plus legal revaluations, net of cumulative depreciation. Depreciation was calculated by the linear method, considering years of useful life of the goods. Breakdown is given in note 3.

(g) COMPENSATION FOR YEARS OF SERVICE

Compensation for years of service is payable by the Bank as an acquired right of Bank staff; it was calculated on the basis of present value (accrued cost) plus interest at 8 per cent per annum. The balance of the obligation as of December 31, 1983 amounts to \$ 90.0 million and is included under Other Liability Accounts.

(h) PROVISIONS ON LOANS

In 1983, pursuant to the powers of the Executive Committee, the Bank allowed for provisions on non-performed loans and individual provisions on loans considered likely to prove irrecoverable. These provisions are included under Other Liability Accounts and the associated charge to the profit-and-loss account is shown in note 10.

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

Shares and contributions from Chile to the Inter American Development Bank and the International Monetary Fund are valued at acquisition cost and at value of contribution plus adjustments where appropriate.

Shares in and contributions to, the IDB are shown under Other External Assets as Contributions to Other International Organizations.

Contributions to the IMF in both domestic and foreign currency are shown under Reserve Assets as IMF Subscription Payments. Shares in and contributions to, the IDB and contributions to the IMF, as expressly provided under DL 2,943 of November 8, 1979, are considered investments.

(j) GOLD AND FOREIGN CURRENCY RESERVES

Pursuant to article 41 of DL 1,078 (Organic Law of the Central Bank), the Bank is bound to keep a reserve fund in gold, foreign currency, or both.

Under Reserve Assets the item Gold and Foreign Currency includes 270.2 million gold pesos, of which 210.7 million gold pesos compose the Gold Reserve Fund.

(k) INCOME AND EXPENDITURE ACCOUNTS

Financial income and expenditure are entered on the basis of accrued value.

Profit-and-loss balances in domestic currency, except for depreciations, account for cumulative values corresponding to peso amounts entered at the time of the transactions involved.

(l) MONETARY ADJUSTMENT

This year—as in 1982—the net result of monetary adjustment of non-monetary assets and liabilities is shown in the Capital and Reserve accounts.

The effect of applying this criterion are described in note 9.

(m) COMPARATIVE BALANCE-SHEET

The Comparative Balance-Sheet shown in note 14 is adjusted according to the following guidelines:

Assets and liabilities in domestic currency and profit-and-loss accounts in the balance-sheet as of December 31 of the previous year are adjusted by the variation in the Consumer Price Index (CPI) between November 30 of last year and November 30 of the present year. Assets and liabilities in foreign currency are adjusted according to the variation in the US dollar exchange rate for accounting purposes, as set by the Superintendency of Banks and Financial Institutions, between December 31 of last year and December 31 of the present year.

2. CRITERIA FOR PRESENTING FINANCIAL STATEMENTS

Balance-sheet presentation, as approved by the Superintendency of Banks and Financial Institutions, is framed in an economic-accounting scheme that reveals the accounting and financial position of the Bank while simultaneously aiding economic analysis of Central Bank operations by clearly distinguishing whether they are conducted with domestic or external agents. In this way Central Bank participation in the domestic supply of monetary assets and credit may be assessed together with its effect on the Bank's external creditor position.

The economic concepts of international and issue reserves are thus shown respectively under Reserve and Issue Assets and Liabilities.

3. TANGIBLE FIXED ASSETS

The following is a breakdown of tangible fixed assets as of December 31, 1983.

(Million pesos)

	Previous value (Net) Dec. 31, '82	Year's variation	Year's revaluation	Year's depreciation	Net book value Dec. 31, '83
Real estate	1,335.9	383.2	388.9	(77.0)	2,031.0
Chattels	77.5	111.6	39.3	(35.9)	192.5
Vehicles	22.3		8.1	(7.4)	23.0
Works of art	47.5	0.1	11.3		58.9
Collections of bills, coins, medals, etc.	37.1	32.7	9.7	(2.2)	77.3
Total Fixed Assets	1,520.3	527.6	457.3	(122.5)	2,382.7

4. INVESTMENTS AND OTHER ASSETS

Includes investment in CORFO notes for \$ 184.1 million and interest and commissions receivable on Domestic Assets amounting to \$ 13,756.3 million .

5. OTHER ASSET ACCOUNTS

Mainly includes tangible fixed assets for \$ 2,382.7 millions, purchase of US dollars with repurchase agreement for \$ 126,017.7 million, past-due credits for \$ 11,773.8 million, portfolio purchased from financial institutions for \$ 117,772.9 million , and Treasury notes for \$ 100,000 million.

6. OTHER EXTERNAL LIABILITIES

Includes interest and commissions payable amounting to \$ 5,944.9 million.

7. OTHER DEPOSITS AND OBLIGATIONS

"Other" mainly includes mandatory deposits on foreign credits for \$ 22,082.1 million, public sector time deposits for \$ 29,318 million, deposits under Resolution 1470 (peso current accounts denominated in US dollars) for \$ 1,651.3 million, Banco del Estado deposits for \$ 47,736.1 million, and foreign currency current accounts for \$ 3,029 million.

8. OTHER LIABILITY ACCOUNTS

Mainly includes provisions for \$ 55,232.5 million, reimbursement funds under reciprocal credit agreements for \$ 2,731.4 million, foreign currency to be sold for purchase of US dollars for \$ 126,017.7 million, income received and not accrued for \$ 1,311.5 million, and bills of exchange for purchase of portfolio from financial institutions for \$ 117,772.9 million.

9. MONETARY ADJUSTMENT

To allow financial statements to reflect the effect of variations in currency purchasing power in the year, financial monetary adjustment was applied in order to discount equity capital and non-monetary assets and liabilities in accordance with CPI variation between November 30, 1982 and November 30, 1983, or 23.7 per cent.

The net effect of this operation is shown directly in the capital and reserve accounts. The result of monetary adjustment was a charge of \$ 13,399.2 million pesos as follows:

	(Millions pesos)	
	Charges	Credits
Equity capital	44,408.8	
Adjustable liabilities	26,641.7	
Loans & adjustable investments		69,412.2
Exchange position settlement	21,223.2	5,248.0
Gold reserve fund		3,728.3
Tangible fixed assets		457.3
Other assets		28.7
Net effect on capital & reserves		13,399.2
Total	<u>92,273.7</u>	<u>92,273.7</u>

10. PROVISIONS AND WRITE-OFFS IN THE LOANS & INVESTMENTS PORTFOLIO

Provisions and writeoffs during the year moved as follows:

	(Million \$)
-Write-offs charged to previous year provisions	33.4
-Recovery of previous year provisions	152.2
-Write-offs charged to present year results	
Total as of December 31, 1983	<u>185.6</u>
-Individual provisions charged to present year results	51,697.2
-Remainder of individual previous year provisions	3,040.8
Total as of December 31, 1983	<u>54,738.0</u>
-Overall provisions for loans & investments portfolio charged to present year results	
-Remainder of overall previous year provisions	404.5
Total as of December 31, 1983	<u>404.5</u>

The charge to the year's results arising from provisions set up amounting to \$ 51,697.2 million, is included under depreciations, write-offs, and provisions in the income statement.

11. CAPITAL AND RESERVES

Capital and reserves accounts moved in 1983 as shown below:

(Million pesos)

	Capital	Contingency Fund	Buffer Fund	Equity cap. revaluation reserve	Surplus 1983	Total
Balances as of January 1, 1983	50.0	32,597.4	148,608.8		6,727.4	187,983.6
Distribution 1982 surplus & repayment of credits to Treasury (fiscal remainder)		6,084.9			(6,727.4)	(642.5)
Equity capital revaluation				44,408.8		44,408.8
Monetary adjustment for the year				(13,399.2)		(13,399.2)
Equity capital revaluation reserve distribution		6,512.0	24,497.6	(31,009.6)		
Surplus for the year					741.8	741.8
Balance as of December 31, 1983	50.0	45,194.3	173,106.4		741.8	219,092.5

12. INCOME TAX

Pursuant to DL 3,345 of April 24, 1980, the Central Bank is exempt from income tax.

13. PREFERENTIAL EXCHANGE RATE

Under resolutions No. 1462, 1466, and 1484 of the Executive Committee, the Central Bank provided that certain obligations incurred in foreign currency or indexed in foreign currency terms before August 6, 1982 may be repaid at a preferential exchange rate, the Central Bank bearing the difference between this rate and the rate prevailing on the date of payment, which is recognized to the extent that beneficiaries take advantage of the measure. In 1983, this form of payment amounted to \$ 50,304.9 million.

14. COMPARATIVE BALANCE-SHEET

The figures of the Balance-Sheet as of December 31, 1983 and for the Balance-Sheet as of December 31, 1982 are compared below:

(Million pesos)

1983 1982
\$ \$

ASSETS

EXTERNAL ASSETS	304,398.8	283,040.7
Reserve	282,792.9	263,028.1
Other external assets	21,605.9	20,012.6
DOMESTIC ASSETS	789,653.4	357,404.4
Domestic credit	775,713.0	350,377.9
Investment & other assets	13,940.4	7,026.5
OTHER ASSET ACCOUNTS	362,734.0	138,480.9
Total Assets	1,456,786.2	778,926.0

LIABILITIES

EXTERNAL LIABILITIES	351,142.1	145,859.4
Reserve	105,789.0	37,463.0
Medium- and long-term	228,237.6	93,415.9
Other external liabilities	5,944.9	3,191.5
SDR allocations	11,170.6	11,789.0
DOMESTIC LIABILITIES	583,038.1	270,207.9
Issue	72,469.6	77,269.1
Other deposits and obligations	159,801.9	151,037.7
Documents issued by Central Bank	340,635.9	38,536.6
Other domestic liabilities	10,130.7	3,364.5
OTHER LIABILITY ACCOUNTS	303,513.5	130,323.0
CAPITAL AND RESERVES	218,350.7	224,213.9
SURPLUS FOR THE YEAR	741.8	8,321.8
Total liabilities	1,456,786.2	778,926.0
PROFIT AND LOSS ACCOUNTS		
Operating income	82,963.1	100,197.8
Operating expenditure (less)	(128,325.8)	(85,743.0)
Fixed overhead (less)	(53,960.2)	(6,212.2)
Other income (plus)	100,064.7	79.1
Surplus for the year, ...	741.8	8,321.7

15. TREASURY FUNDS TRANSFERRED TO THE CENTRAL BANK

Pursuant to Article 39 of Law No.18,267 of December 2, 1983 the Treasury transferred to the Central Bank of Chile the sum of \$ 100,000 million in 25-year notes of the Treasury of the Republic. The above sum has been entered as extraordinary income in the year under the heading other income, while the notes are entered under other asset accounts.

16. PAYMENT OF EXTERNAL CREDITS OF THE PUBLIC SECTOR, BANKING INSTITUTIONS, AND FINANCIAL COMPANIES

Making use of the powers granted respectively to the Ministry of Economic Affairs, the Ministry of Finance, and the Central Bank, a 90-day extension was granted as of November 1, 1983 to all capital payments on external credits obtained prior to January 31, 1983 from foreign institutions; the amounts so extended might be deposited with the Central Bank and are entered under external medium- and long-term liabilities in the amount of \$ 15,700.2 million.

17. BALANCES IN FOREIGN CURRENCIES

(Million US\$)

1983 1982

ASSETS

EXTERNAL ASSETS	2,965.6	2,779.2
Reserve	2,866.3	2,704.0
Other external assets	99.3	75.2
DOMESTIC ASSETS	2,276.8	840.6
Domestic credit	2,215.4	776.4
Investments & other assets	61.4	64.2
OTHER ASSET ACCOUNTS	6.3	818.5
Total assets	5,248.7	4,438.3

(Million US\$)

1983 1982

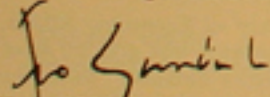
LIABILITIES

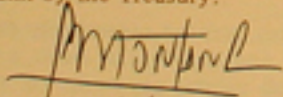
EXTERNAL LIABILITIES	2,727.5	1,149.9
Reserve	140.8	128.6
Medium- and long-term	2,391.1	850.1
Other external liabilities	67.9	36.5
SDR allocations	127.7	134.7
DOMESTIC LIABILITIES	3,188.5	1,342.3
Issue	—	—
Other deposits & obligations	1,510.1	1,294.1
Documents issued by the Central Bank	1,631.4	37.0
Other domestic liabilities	47.0	11.2
OTHER LIABILITY ACCOUNTS	(667.3)	1,946.1
Total liabilities	5,248.7	4,438.3

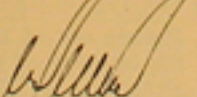
18. SURPLUS FOR THE YEAR

Under the Organic Law of the Bank, any surpluses arising in the year, after deducting write-offs and provisions as the Executive Committee may decide, shall be allocated to the following purposes:

To make up reserve funds to cover the risks of its loans and exchange operations, or any other contingency, in such percentage as the Executive Committee may decide. The balance, which shall accrue to the benefit of the Treasury, preferably to repay outstanding debts owed to the Bank by the Treasury.


FRANCISCO GARCIA LETELIER
Auditing Accountant
Acting Manager-Accounting


VICENTE MONTAN UGARTE
Auditing Accountant
Auditor-General


CARLOS MOLINA ORREGO
Colonel (R)
General Manager

AUDITORS' REPORT

To the Chairman and Members of the
Executive Committee of the Central Bank of Chile:

We have examined the balance-sheet of the Central Bank of Chile as of December 31, 1983 and the associated income statement for the twelve-month period ending on that date. Our examination was performed in accordance with generally accepted accounting principles; accordingly, it included selective accounting entry tests and other auditing procedures to the extent we judged them necessary under the circumstances.

As pointed out in note 1 (a), the Central Bank of Chile prepares and submits its financial statements based on rules and accounting practices issued by the Superintendency of Banks and Financial Institutions.

In our opinion, the above financial statements have been prepared pursuant to the rules and accounting practices issued by the Superintendency of Banks and Financial Institutions and to the provisions of its own Organic Law described in the notes appended to such statements.

LANGTON CLARKE
COOPERS AND LYBRAND

VIVIAN CLARKE LEVI

Santiago, January 6, 1984.

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