70th ANNUAL REPORT 1995

BANCO CENTRAL DE CHILE

CONTENTS

AUTHORITIES 5

LETTER OF PRESIDENT OF THE BANK 7

I. REPORT 9

THE EVOLUTION OF THE CHILEAN ECONOMY IN 1995 9

General Outlook 9
Economic activity and employment 17
Inflation and earnings 21
Monetary policy and interest rates 24
Exchange-rate policy, balance of payments and external debt 27

Statistical Annexe

TABLES

Table 1 Quarterly gross domestic product 39
Table 2 Sectoral gross domestic product 40
Table 3 Components of gross domestic product expenditure 41
Table 4 Savings and investment coefficients 42
Table 5 National employment and unemployment 43
Table 6 Price indexes 44
Table 7 Consumer-price index 45
Table 8A Hourly-earnings index 46
Table 8B Labour-cost index 47
Table 9 Initial real settlements agreed by collective negotiation 48
Table 10 Interest rates on Banco Central instruments 49
Table 11 90- to 365-day indexed interest rates 50
Table 12 Main monetary aggregates 51
Table 13 Components of private monetary aggregates 52
Table 14 Mean nominal exchange rate 53
Table 15 Real observed exchange rate 54
Table 16 Balance of payments 55
Table 17 Trade balance 56
Table 18 Foreign trade indicators 57
Table 19 Financial services 58
Table 20 Nonfinancial services 59
Table 21 Net foreign-investment flows 60
Table 22 Gross capital contributions abroad via Chapter XII 61
Table 23 International reserves of the Banco Central de Chile 62
Table 24 Foreign debt 63
Table 25 Foreign-debt indicators 64

Charts

Chart	*1*	*Consumer-price index*	*10*
Chart	*2*	*Quarterly GDP growth rate*	*11*
Chart	*3*	*Gross fixed-capital formation as percentage of GDP*	*12*
Chart	*4*	*National unemployment rate*	*13*
Chart	*5*	*Mean interest rates: market and Banco Central*	*14*
Chart	*6*	*Interest rates on 90- to 365-day indexed transactions*	*15*
Chart	*7*	*Broad private money (M1A)*	*27*
Chart	*8*	*Twelve-month nominal changes in monetary aggregates*	*28*
Chart	*9*	*Dollar values*	*30*
Chart	*10*	*Effective real exchange-rate index*	*31*
Chart	*11*	*Real exchange rate*	*32*

Annexe 1

Main monetary and credit measures in 1995 *65*

Annexe 2

Main exchange-rate and foreign trade measures in 1995 *67*

II. ORGANIZATION CHART BANCO CENTRAL DE CHILE AS OF DECEMBER 31, 1995 *71*

III. FINANCIAL STATEMENTS BANCO CENTRAL DE CHILE AS OF DECEMBER 31, 1995 *75*

AUTHORITIES OF BANCO CENTRAL DE CHILE
As of December 31, 1995

COUNCIL

ROBERTO ZAHLER MAYANZ
President

JORGE MARSHALL RIVERA
Vicepresident

MARIA ELENA OVALLE MOLINA
Council Member

PABLO PIÑERA ECHENIQUE
Council Member

ALFONSO SERRANO SPOERER
Council Member

GENERAL MANAGER

CAMILO CARRASCO ALFONSO

GENERAL COUNSEL

VICTOR VIAL DEL RIO

DIVISION MANAGERS

GUSTAVO DIAZ VIAL
Foreign Trade And International Exchange

NICOLAS EYZAGUIRRE GUZMAN
Research

JUAN FOXLEY RIOSECO
International Affairs Adviser

GUILLERMO LE FORT VARELA
International Affairs

SUSANA LEON MILLAN
Management and Development

MANAGERS

HERNAN CAMPOS BASCUR
Informatics

JORGE CARRASCO VASQUEZ
Chief Council

MARIA VICTORIA CASTILLO LEA-PLAZA
Financial Institutions

MIGUEL FONSECA ESCOBAR
External Financing

MARTIN GARCIA CORREA
Special Projects

FRANCISCO GARCIA LETELIER
Administration and Accounting

MARIA DEL CARMEN MARTINEZ COLOMA
Human Resources

CARLOS PEREIRA ALBORNOZ
General Treasurer

JORGE PEREZ ETCHEGARAY
Monetary Transactions

PATRICIO ROJAS RAMOS
Chief Economist and Research (Acting)

JORGE ROSENTHAL OYARZUN
Foreign Trade and International Exchange

CRISTIAN SALINAS CERDA
International Investment

MARIO ULLOA LOPEZ
General Auditor (Acting)

RICARDO VICUÑA POBLETE
Commercial Policy

BANCO CENTRAL DE CHILE

Santiago, April 22nd of 1996

Mr.
Eduardo Aninat
Minister of Finance
PRESENT

In accordance with the enacting sections 78 and 79 of ARTICLE ONE, of Law 18840 "Constitutional Organic Law of the Central Bank of Chile", I submit to you the Annual Report of this Institution, corresponding to the year 1995.

ROBERTO ZAHLER
President

I. REPORT

THE EVOLUTION OF THE CHILEAN ECONOMY IN 1995

A. GENERAL OUTLOOK

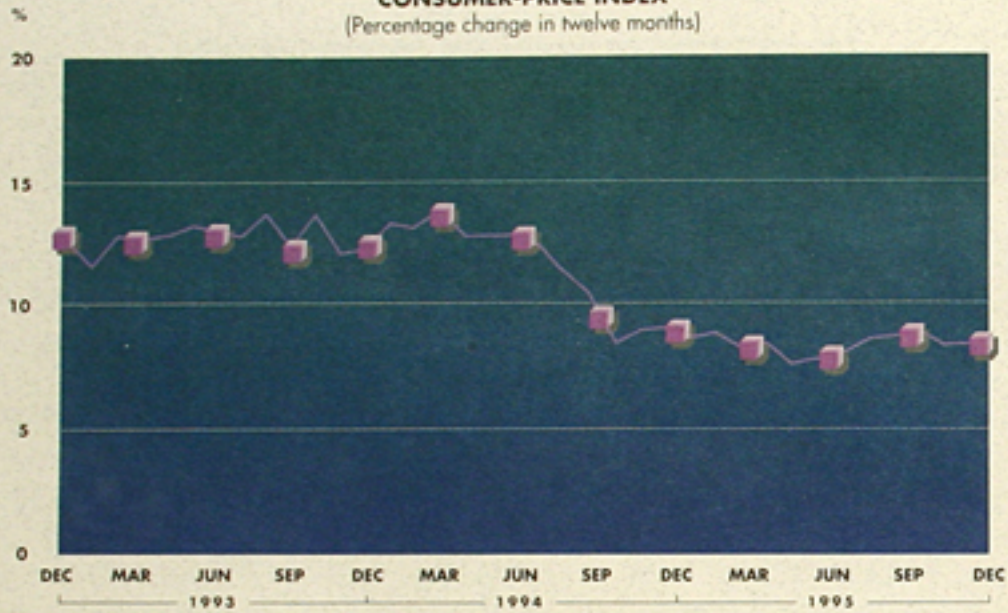
The performance of the Chilean economy turned out to be highly satisfactory in 1995, especially the continuation of the downward trend of inflation, achieved against a backdrop of vigorous economic growth and equilibrium in external accounts. The annual inflation rate of 8.2% for 1995 was fully in line with the target set initially by the Banco Central, and represents a significant step forward in the strategy for a gradual reduction of inflation which the Bank has proposed (Figure 1). This achievement made it possible to consolidate the inflation rate at a one-digit level, converging towards levels seen in the main industrialized countries. It is important to stress that, as in previous years, the progress of bringing inflation down has been achieved without generating imbalances in other areas of the economy. As regards economic activity (Figure 2), gross domestic product (GDP) expanded at a rate of 8.5% in 1995, and the unemployment rate also improved. Meanwhile, on the external front, the current account ended the year practically in balance, with exports displaying a significant rate of expansion in both volume (11.5%) and, especially, in value terms (38.2%). The latter was helped by a favorable condition for international raw materials prices. The drop in inflation, in a context of internal and external balance, is a clear indication that the success already achieved is sustainable and that the process will continue over the course of the coming years.

The dynamic trend in output and aggregate demand was strongly influenced by the favorable international conjuncture in which the national economy operated during 1995. A recovery in the prices of our main export products, which had begun to be seen from the end of 1994, continued in 1995, easily exceeding initial expectations of its magnitude and duration. This improvement in Chile's terms of trade had a strong impact on national income, on the order of 7 percentage points of GDP, and became the main source of expansion in domestic spending. Thus, unlike the previous year, the expansion of output during 1995 was driven by growth in domestic demand, which topped 12.9%, although a significant increase (11.4%) was also recorded in goods and services exports, helped by the favorable international situation. Among the components of domestic demand, a 12.1% increase in gross fixed-capital formation stood out, as a result of which the rate of investment in fixed capital, expressed in constant prices, amounted to 27.2% of GDP, the highest coefficient achieved in recent years (Figure 3). There was also a notable 11.7% increase in private consumption and inventories. At the same time, a 22.2% increase in imports of goods and services was recorded, exceeding initial expectations which had assumed a lower rate of expansion for domestic demand.

Chart 1

CONSUMER-PRICE INDEX

(Percentage change in twelve months)

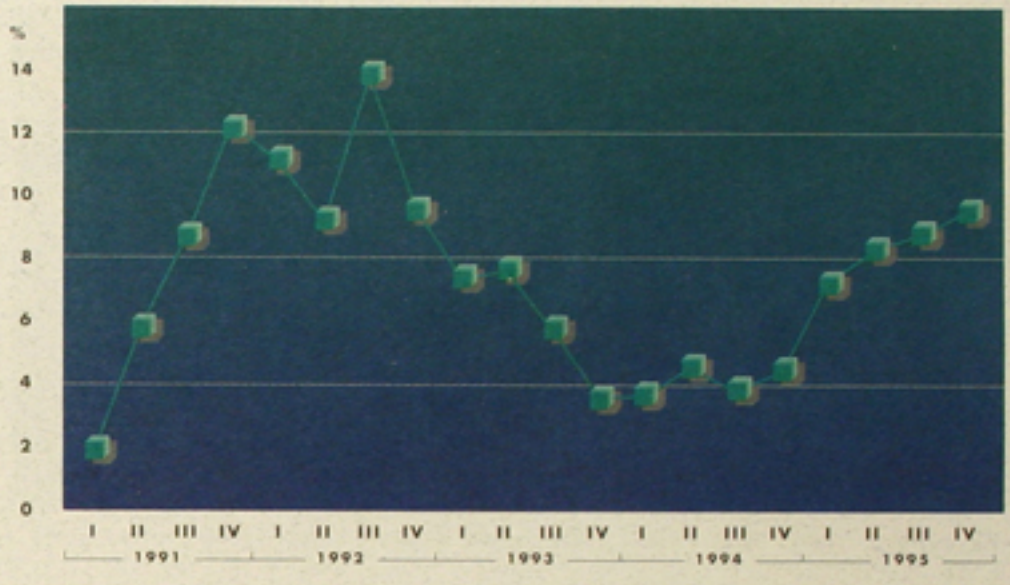


Although domestic demand displayed a highly dynamic trend in 1995, this did not have a significant effect on the price level or on external accounts. A significant fraction of the increase in the domestic spending was channeled towards external markets through higher imports, thereby neutralizing a large part of its impact on domestic productive capacity. The financing of greater domestic demand was aided by the high rate of growth in real gross disposable national income, which expanded by close to 15.8%. Thus, despite a vigorous increase in total spending, the current-account balance, corresponding to the difference between overall income and spending in the national economy, recorded an improvement of 1.6 percentage points of output with respect to 1994, and ended the year practically in balance. It is also worth highlighting the increase recorded by national saving, which in 1995 reached a record level of 27.6% of GDP, at current prices. The high savings rates which the economy has achieved in recent years have become one of its fundamental pillars, ensuring the stability of the growth process and its greater independence from changeable external conditions.

In contrast to the dynamic growth of output, employment displayed a very modest trend with growth of 1.1%, equivalent to approximately 52,000 new jobs. This figure is slightly above the 0.9% expansion in 1994, but below the average for the present decade which stands at 2.4% (Figure 4). The improvement in the level of employment was mainly concentrated in the second half of the year, as an acceleration of growth in the non-tradable productive sectors was recorded. However, despite the modest expansion in employment, a smaller growth in the labor force resulted in a significant fall in the unemployment rate, which dropped to an average 5.5% for 1995, and ended the year at 4.7%, 1.2 percentage points below the 1994 figure.

As regards inflation, the twelve-month increase of 8.2% in the consumer-price index (IPC) in December 1995, was fully in line with the target of around 8% set by the Banco Central for the year.

Chart 2
QUARTERLY GDP GROWTH RATE
(Percentage change on same quarter of previous year)

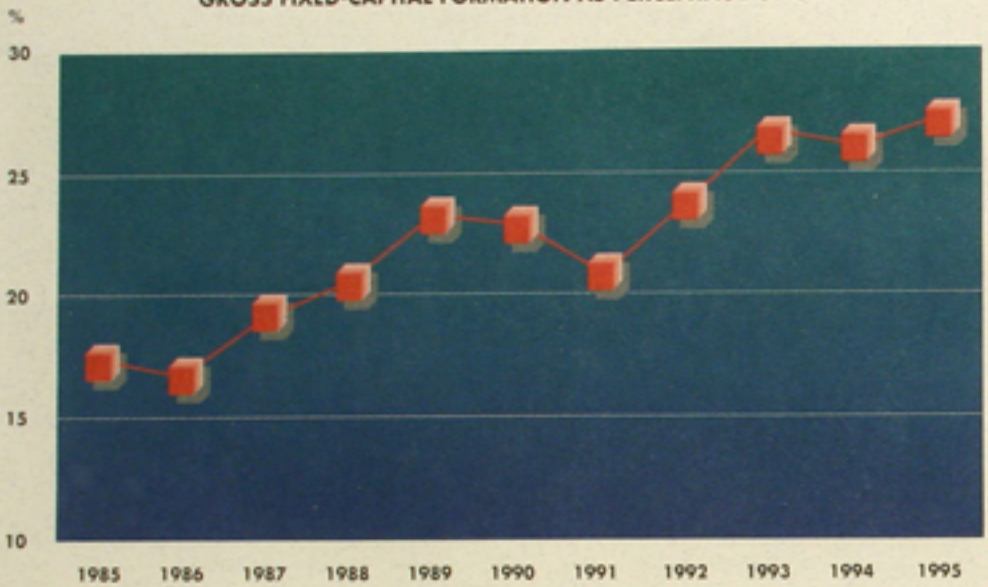


However its behavior during the course of the year was irregular, with a halt in the process of reducing inflation occurring in the second half of the year, which can partly be interpreted as evidence of pressures deriving from the significant growth of aggregate demand in 1995. In the first half of the year highly stable and low inflation figures were recorded, and this permitted a rapid fall in the twelve-month variation in prices. In fact, between May and July, the twelve-month inflation rate, measured by the IPC, was below the central target of around 8% budgeted for the year. However, from August onwards, the combined effect of an increase in indirect taxes on cigarettes and gasoline, together with specific transitory elements in certain food products, led to an increase in the inflation figures during the August-October quarter, although this did not entirely reflect the true inflation trend. Indeed, the available measurements of underlying inflation indicated that there were no significant structural elements leading to an acceleration in inflation, and so one could expect a reversal of this upturn. This began to be seen in November, although only partially, so that by the end of 1995 the variation in the IPC was only slightly above the central target originally set. All in all, when irregular elements are eliminated from the trend of inflation, it can be seen that the behavior of this variable was less satisfactory during the second half of the year, and, although there was no acceleration in the indicators of underlying inflation, the pace of progress recorded in the first half of 1995 did not continue.

The inflation trend was driven by a decline in the rate of change of tradable-goods prices, although it is worth pointing out that specific elements tending towards price rises had a more marked impact on the non-tradable-goods basket. During 1995, as in previous years, inflation among tradable goods was below that in non-tradable goods, 5.6% and 10.0% respectively, reflecting the impact of the real exchange rate appreciation. For its part, earnings inflation displayed a relatively stable behavior

Chart 3

GROSS FIXED-CAPITAL FORMATION AS PERCENTAGE OF GDP

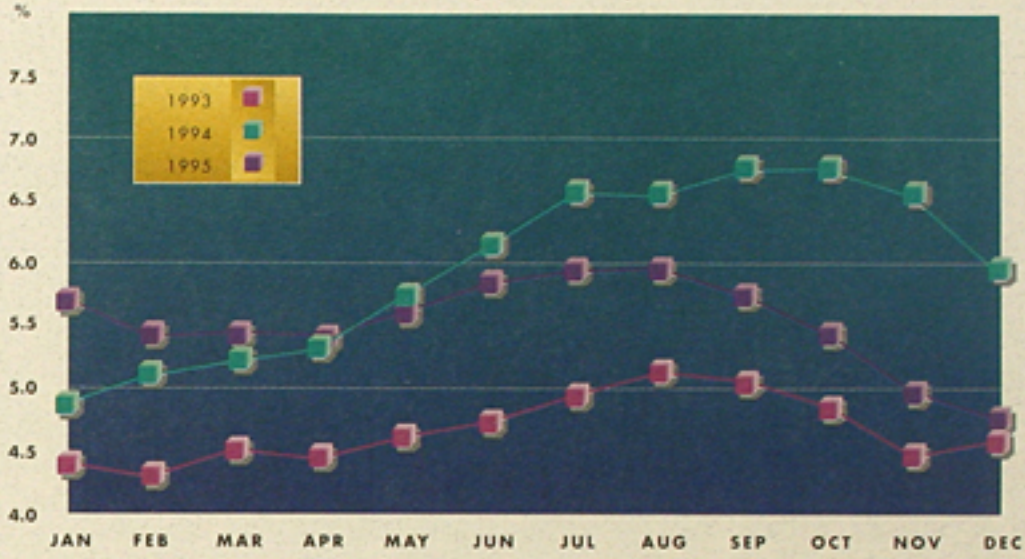


pattern over the course of 1995, with a slight slowdown in the third quarter which was subsequently reversed towards the end of the year, to end with a twelve-month variation of 12.8%. In labor costs, a more marked deceleration was seen which continued up to the end of the year, to end with a rise of 11.3%. Despite the fact that there was scant progress in reducing wage inflation, real wages and labor costs followed a path which was compatible with the growth in this variable over the last five years, as well as with the pace of productivity growth since 1990.

Looking beyond conjunctural factors, it is worth emphasizing that the course of inflation in 1995 fitted into the strategy for gradual but sustained reduction proposed by the monetary authorities. As has been indicated, the inflation figure for 1995 consolidates a single-digit inflation rate in Chile's economy, and this is especially noteworthy in that it has been achieved without generating imbalances in activity levels or in the economy's external competitiveness, as occurred in previous years.

As regards monetary policy, in 1995 the Banco Central Council introduced a series of modifications to the way it operates, seeking thereby to widen and enhance the range of instruments available to it in the control of aggregate spending, and giving it a greater degree of initiative, flexibility and efficiency in the management and conduct of monetary policy. The measures adopted gave a bigger role to the market in the determination of interest rates, in particular medium- and long-term rates, and the Banco Central came to use the one-day interest rate as its principal monetary policy signal. This way of conducting monetary policy, focused on short-term markets, avoids a series of disadvantages which exist when operating with interest rates on three-month instruments: specifically, undesired liquidity movements generating expectations of possible future movements in this variable by the Banco Central. Nevertheless, interest rates continue to be the main control instrument in monetary policy.

Chart 4
NATIONAL UNEMPLOYMENT RATE
(Moving quarter averages)



The trend in interest rates during 1995 reflected the irregular path of price variations over the course of the year, and also, although to a moderate degree compared to what happened in other countries in the region, the effects of the financial turbulence associated with the devaluation of the Mexican currency in December 1994 (Figures 5 and 6). In the initial months of the year, despite a highly favorable trend in domestic inflation and good prospects for the rest of the year, the uncertainty associated with the Mexican crisis produced an increase in the gradient of the yield curve, with longer-term interest rates rising compared to their levels at the end of 1994. This effect began to fade in the course of the second quarter, and subsequently the levels existing prior to the Mexican crisis were regained.

Following the change in the approach to monetary policy, and in accordance with the favorable inflation trend and its prospects, as well as the reduction in international interest rates, a greater availability of liquidity was signalled, and a slight reduction in market interest rates was recorded during the months of June and July. This situation, however, was reversed from August onwards following an upturn in inflationary expectations in financial markets, coinciding with the high inflation figure for that particular month, and also with the emergence of a more dynamic growth pattern than had initially been anticipated in aggregate demand and in output. This change in expectations, coinciding with a reassessment of the macroeconomic situation by the Banco Central, was accommodated within the new monetary policy framework by allowing successive hikes in the daily inter-bank rate through the segments of the liquidity credit line. Finally, in the month of December the credit line and deposit account structures were altered, so as to adjust them to the new level of interest rates ruling in the market, in the belief that a more lasting action was needed to ensure the convergence of the pace of domestic demand and output expansion towards levels sustainable over the medium term, thereby guaranteeing the continuity of the process of lowering inflation.

Chart 5

MEAN INTEREST RATES: MARKET AND BANCO CENTRAL

(Percentages)



Fiscal policy achieved an increase both in the level of public saving and in the fiscal surplus, with the current surplus amounting to the equivalent of 5.3 percentage points of GDP, half a point above the 1994 figure. The overall surplus, meanwhile, grew to the equivalent of 2.5% of GDP, almost one percentage point higher than in 1994. This result serves to confirm the degree of discipline and responsibility in fiscal policy during 1995, with consistently high levels of saving and fiscal surplus being achieved.

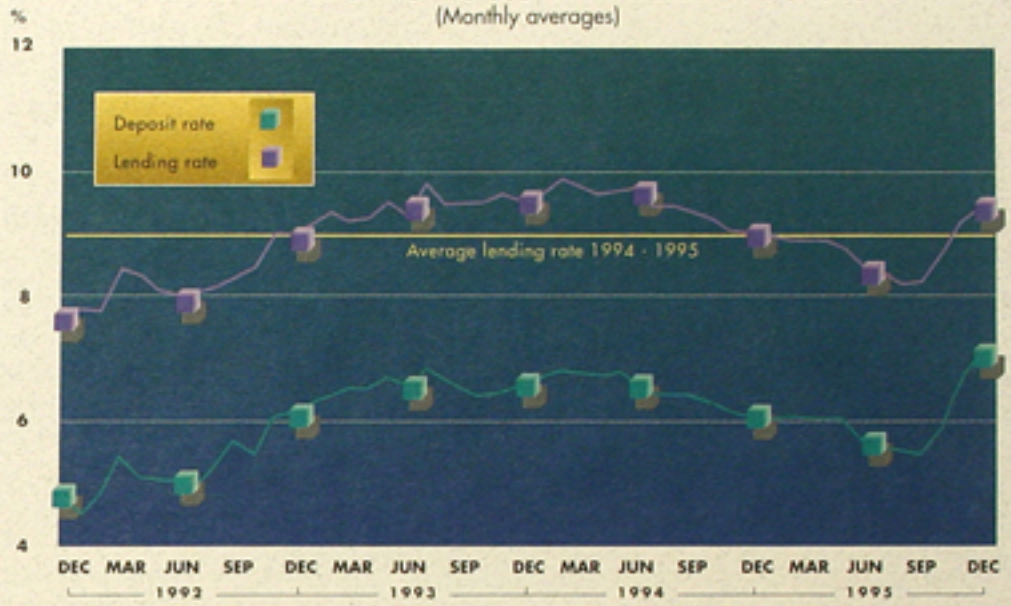
As regards the exchange rate, the Banco Central continued with its policy aimed at promoting a market exchange rate consistent with equilibrium in the economy's external accounts in the medium and long term. In pursuit of these objectives, in 1995 the Bank maintained the same general exchange-rate policy that has been applied over recent years, i.e. a flotation band of ±10% around a referential rate (the *acuerdo* exchange rate), a system of intervention inside that band and the linking of the referential exchange rate to a basket of currencies. For much of the year, the exchange rate was situated in the lower half of the band, but at a greater average distance from its floor (6.3%) than in previous years. This reflected a near 10% revaluation in the value of the referential dollar decreed in November 1994, as well as the financial impact of the Mexican crisis on the Chilean economy, which exerted downward pressure on the peso in the early months of the year. However, once this uncertainty had been satisfactorily overcome, the nominal exchange rate returned to the lower part of the band, fluctuating between -4.9% and -7.6%, with respect to the band's central value. Meanwhile, the volatility of the nominal peso-dollar parity was considerably greater, reflecting the sharp fluctuations being experienced by the latter currency in international markets.

In real terms the exchange rate showed an appreciation of 2.6% between December 1995 and the same month in 1994, whereas the average appreciation for the year amounted to 5.5%, fully registering

Chart 6

INTEREST RATES ON 90- TO 365- DAY INDEXED TRANSACTIONS

(Monthly averages)



the impact of the revaluation which had occurred in 1994. The behavior of the real exchange rate represents a continuation of the trend it has displayed throughout the 1990s, and corresponds to the impact on this relative price of the high growth rate of productivity and competitiveness in the Chilean economy, and particularly in its exports, as well as a deepening of the economy's effective degree of financial openness to the exterior. Taking this situation into account, in November 1995 the referential exchange rate rule was altered to incorporate into its trajectory a slight tendency towards a long-term equilibrium real appreciation, at the present time estimated to be 2% per year.

In addition to the above, in 1995 the policy of gradually relaxing restrictions on currency movements and giving greater depth to the foreign exchange market was continued with. Among the measures tending towards exchange rate liberalization it is especially worth highlighting the complete elimination of the obligation to liquidate export returns in the formal exchange market, and an expansion of the foreign investment opportunities available to institutional investors, by broadening the amounts and instruments available and making them more flexible. Similarly, regulations on foreign investment by the banking system were made more flexible, as were restrictions on the period for repatriation of profits and capital affecting debt-conversion transactions carried out under the aegis of the repealed Chapters XVIII and XIX of Title I of the Compendium of Rules on International Exchange (CNCI). Finally, the requirements for issuing shares abroad through the American Depository Receipts (ADR) mechanism were reduced, although in order to unify the treatment of capital entry, and avoiding leakages through the special reserve mechanism, it was decided to widen the coverage of this mechanism to include currency inflows associated to secondary ADR purchases, i.e. shares which are not of primary issue and are susceptible to being acquired by foreigners and converted into ADRs.

As regards external accounts, the balance on the current account of the balance of payments showed a

surplus of US$ 160 million in 1995, largely attributable to the considerable improvement in the trade balance where a surplus of US$ 1,384 million almost doubled the 1994 result. This positive outcome was in response to an expansion of 38.2% in the value of exports compared with 1994, exceeding the significant 34.7% expansion in imports. The dynamic trend in exports was mainly due to a continuation of the recovery in the terms of trade which had started the previous year, and in particular to the favorable trend in the price of copper and other principal products and, to a lesser though still significant extent, to an expansion in export volumes. Export prices were 23.9% higher than in 1994, while volumes grew at a rate of 11.5%, surpassing the figures for 1994 and 1993. The trend in goods imports was explained mainly by a dynamic expansion of domestic demand, and it can be broken down into a 24.7% increase in volume and a 7.9% increase in prices. As well as the surplus on current account in 1995, a positive currency inflow was recorded on the capital account where a net surplus of US$ 1,168 million was recorded. When a negative balance of US$ 267 million for errors and omissions is added in, the overall balance of payments surplus was US$ 1,061 million.

The capital account recorded a net inflow below that of previous years. This is explained by special amortizations carried out with respect to pre-payments on medium- and long-term external debt by the Treasury and the Banco Central, by a decline in the use of short-term financing and by a sharp reduction in net portfolio investment inflows. This latter item was negatively affected by the turbulence in international financial markets following the financial crisis in Mexico. However, its effects and replicas were steadily overcome during the course of the year, and there was a notable recovery in the final quarter of 1995. Likewise, the lesser inflows of portfolio investment and short-term financing were partially offset by greater resources originating in medium- and long-term loan disbursements and from the use of foreign assets on the part of the private sector. This resulted in a better composition of capital-account financing. Of the net resources entering the country, 69% (US$ 802 million) corresponded to medium- and long-term capital, including foreign investment, while the remaining 31% represented short-term financing. The process of deepening the financial integration of the economy with the outside world continued through 1995, and the risk classification assigned to Chile by the main international agencies improved.

The consistency and coherence of monetary, exchange-rate and fiscal policies, together with the dynamism displayed by exports and the favorable international climate, were fundamental elements in the economy's positive performance in 1995. The results of recent years give strong support to the current development strategy chosen for the Chilean economy. In particular, rising saving and investment levels put the country at the present time in robust position for continuing with a process of sustained growth. In the light of this, one of the greatest responsibilities of the economic authorities, and other economic agents, is to ensure this process continues to be based on solid foundations, with inflation decreasing over time.

B. ECONOMIC ACTIVITY AND EMPLOYMENT

In 1995 economic activity experienced a significant expansion, with GDP growing by 8.5%, double the increase achieved in the previous year (Table 1). This expansion was achieved in a dynamic context as regards both domestic demand and exports. In general terms, 1995 was characterized by a high rate of economic growth, driven by a favorable external situation and made possible by the ruling economy policy. With this result the economy has achieved an average annual growth rate of 6.7% for the period 1990 to 1995.

In 1995, unlike the previous year, expansion was driven by a high growth rate in domestic demand, amounting to 12.9%, and by an 11.4% increase in exports of goods and services, resulting from the favorable international situation since the middle of 1994. Economic activity took place in a less restrictive environment than the previous year, with a modest fall in interest rates being observed up to the third quarter, a situation which was reversed in the final quarter of the year.

Among the components of domestic demand, the following increases stand out: a 12.1% increase in gross fixed-capital formation, 11.7% in private consumption and inventories, and at the same time there was a strong expansion in imports of goods and services (22.2%).

Although domestic demand showed a very dynamic trend in 1995, this did not have significant effects on the price level or external accounts. A significant part of the increase in domestic demand was channeled towards external markets via higher imports, and the financing of greater domestic demand was assisted by the strong growth of real gross disposable national income. This registered a 15.8% increase, resulting from the notable improvement in the terms of trade, due especially to the rise in export prices.

As regards the behavior of the different sectors in 1995, the 7.9% expansion in the sector producing non-tradable goods was greater than that in tradables production, which amounted to 6.4% (1). Especially notable among the former were the performances of the commerce and transport and communications sectors, while fishing, mining and manufacturing stood out among the tradable sectors. Over the course of the year as a whole, the semestral trend in tradable goods was decreasing, whereas there was a sustained upward trend in the non-tradable sectors.

B.1 Sectoral Production

In 1995 the most dynamic activities were the transport and communications sector, with growth of 12.3%, fishing with 10.1% and trade, hotels and catering with 10.6%. Sectors which were in an

(1) The growth figures for both sectoral groupings correspond to their contribution to value-added, so they do not necessarily coincide with the growth of total GDP, as this includes VAT and import duties, as well as imputed banking services.

intermediate growth range were mining, financial services, electricity, gas and water, construction and industry, with growth rates between 6.5% and 7.7%. Finally, the most moderate rates of growth were seen in the agriculture, livestock and forestry sectors, with growth of 4.8%; home ownership, 3%; personal services, 2.9%; and public administration with growth of 1.4% (Table 2).

The transport and communications sector displayed a positive trend in this period especially due to a big expansion in air transport (nearly 20%), arising from increases both in passenger transport and cargo. Similarly, communications registered growth of around 18%, resulting from the consolidation of the multi-carrier system, while maritime transport expanded by about 17%, boosted by greater traffic volumes deriving from international trade. More modest growth rates were seen in road transport services for cargo and passengers and a decline in rail transport.

In the fishing sector, as in the previous year, there was substantial growth principally due to a significant increase (above 20%) in the output of cultivation centers, notably salmon and trout, and to a lesser extent in industrial fishing. Both activities were influenced by the increase in international prices and by the incorporation of higher value-added in the products generated.

Activity in the trade, hotels and catering sector also showed high growth, explained mainly by the greater commercialization of imported products, arising from bigger import volumes with consumer goods, capital goods and intermediate goods all standing out and to a lesser extent by goods of national origin. In the same way the expansion of domestic spending contributed to the positive performance of this sector, especially spending on private consumption and investment.

In the mining sector, where growth reached 7.2%, dynamism was explained by copper mining, especially medium-scale mining, which produced an increase of nearly 40%, as a result of higher production levels arising from the incorporation of new companies and the generation of products with higher value-added. Large-scale copper mining expanded by about 3%, and iron output increased slightly more than 4%. On the other hand there were reductions in coal mining and oil drilling.

As well as this, the electricity, gas and water sector showed an increase of 6.9%, driven mainly by an expansion in electricity generation, which achieved a growth rate of above 7%. This was helped among other things by a higher level of demand arising from the expansion of the economic activity and the coming on line of new electric power plants.

Construction activity expanded by 7.4% during the period, with the most dynamic areas being housing construction and engineering works. In the home-building sub-sector there was a significant increase in the total area of permits approved during the year. Public and private sector infrastructure projects were notable among engineering works.

Finally, the industrial manufacturing sector experienced growth of 6.5%. The production of intermediate goods led the year's growth in this sector, with a rise of 11.3%, where the outstanding products were printing and publishing, other chemical products and construction materials. Branches

oriented towards consumption grew by 3.7%, with the highest growth recorded in confectionery, diverse food products, non-electric equipment, soft drinks and beers. Capital goods-producing branches grew by 4.6%.

In addition to this, export-oriented branches grew by 5.2% sustained by an increase in the supply of fishmeal, canned and frozen fish and shellfish, wood pulp and paper. Import-substituting branches recorded reductions of about 2% in their output levels, especially in footwear and garment production.

B.2 Composition of Spending

As was indicated above, domestic spending achieved 12.9% growth in 1995, following the previous year's modest increase of 3.2%. Although spending grew by 4.4 percentage points more than output, a figure which is itself high, this is not surprising when one considers the increase in real disposable income.

Among the components of domestic spending, investment in fixed capital increased by 12.1% and total consumption by 10.6%. Private consumption grew by 11.7% and consumption spending by the government by 2.3% (Table 3). The behavior of private consumption was influenced among other factors by the increase in real earnings and employment, an expansion of consumer loans and the trend of national income. At the same time, it is possible that given the positive economic situation generally, in terms of growth and stability, perceptions of the level and/or trend in permanent income have been higher than in preceding periods, and this may have influenced spending decisions by economic agents.

There was a high growth rate in investment, both in terms of gross fixed-capital formation and in inventory accumulation. The latter was mainly associated with the increase in imports, which were influenced among other things by the significant rise in consumers' purchasing power in 1995, compared with a year of low sales growth such as 1994. The rapid growth of gross fixed-capital formation was reflected in an increase in investment in imported machinery and equipment and also, although to a lesser extent, in investment in construction. With these results, the rate of fixed-capital investment measured in constant prices, amounted to 27.2% of GDP the highest coefficient ever achieved by the economy representing a significant contribution to maintaining the economic growth process Chile has experienced over the past decade.

Imports of goods and services showed very dynamic behavior in this period, expanding by 22.2%, but with higher increases especially in consumer goods and in intermediate goods, with rates above 25%. This notable growth in imports was compatible with the higher level of domestic spending and with the higher level of purchasing power in the economy, reflected in the behavior of national income. In addition, the real exchange rate appreciation seen towards the end of 1994, and its consolidation in 1995, should be taken into consideration, along with the stability of international prices, as additional factors which also help to explain the higher level of demand for imports.

1995 was noteworthy for a significant expansion in exports of goods and services, which grew by 11.4% in real terms. This was complemented by a sharp increase in the international prices of the main products sent abroad, especially copper, wood pulp and fishmeal among others. The biggest expansion in export volumes was in copper, with an increase of about 13%, together with other mining products and industrial products.

The trend of international prices, brought with it a notable improvement in the terms of trade, resulting from a rise in export prices combined with a smaller increase in import prices. This impacted positively on the trend of real disposable national income, which increased by 15.8%, exceeding GDP growth by about 7 points.

The growth of disposable national income permitted expansions in both consumer spending and investment and, at the same time, an increase in national saving which rose to 27.6% of GDP at current prices a coefficient which is significantly above those of previous years. Greater national saving made it possible to finance gross-capital formation, while at the same time maintaining a current-account surplus equivalent to 0.2% of GDP (Table 4).

B.3 Employment

Employment in 1995 expanded by 1.1%, equivalent to some 52,000 new jobs and slightly above the 0.9% expansion in 1994. This situation reflected a slow rate of absorption of labor by the productive system. Indeed, whereas activity levels grew very rapidly, showing clear signs of economic recovery, at the same time a very low employment-output elasticity was observed. Nevertheless, the dynamism of employment picked up during the course of the year, largely in response to the rising trend in the economy's non-tradable sectors.

Despite the modest expansion in employment, smaller growth in the labor force was accompanied by a significant fall in the rate of unemployment, which averaged 5.5% in 1995. When one looks at the trend over the year, one can perceive a downward course in this indicator. Thus, the unemployment rate in the final quarter of the year amounted to just 4.7%, 1.2 percentage points below the rate for the same period in 1994. The expansion of the labor force in 1995, amounting to 0.6% equivalent to incorporating approximately 31,000 new workers into the labor supply is the lowest of the past decade, and represents a stabilization in the population's labor market participation (Table 5 and Figure 4).

C. INFLATION AND EARNINGS

The IPC registered an accumulated variation of 8.2% in 1995, comparing positively with the increase in consumer prices of 12.2% in 1993 and 8.9% in 1994, and is the lowest figure recorded in the last 35 years (Table 6 and Figure 1). This fall represents a significant advance in the strategy for lowering inflation, and is in line with the annual target set for 1995 (8%).

The fall in the inflation rate in 1995 is consistent with the medium-term strategy proposed by the Banco Central for achieving convergence towards the levels seen in most developed economies, i.e. to rates below 4%. The perseverance in the application of coherent macroeconomic policies, together with the monetary authoritie's continued vigilance to prevent potential imbalances, has made it possible to achieve a sustained fall in inflation over the past five years.

The abrupt drop in the annual inflation rate in 1994, measured by the IPC, as a consequence of the adjustment process initiated at the end of 1992, continued during the early months of 1995 in a more gradual fashion. This decrease was led by a smaller variation in tradable-goods prices compared with the previous year, resulting from an appreciation in the national currency, whereas the variation in the prices of non-tradable goods had tended to stabilize from the final months of 1994 onwards.

Thus, the variation in the IPC was at its lowest level in May 1995, when the twelve-month increase reached 7.4%. However, strong seasonal and transitory effects in a group of foods during the August-October quarter, coming on top of the rise in taxes on cigarettes and gasoline in the month of August, helped to shift the inflation figures upwards in subsequent months. Towards the end of the year, measured inflation displayed a marked downward trend, reflecting the reversal of the transitory shocks mentioned above and helping the inflation figure to end the year in line with the target for 1995.

Among the different components of the IPC, the most favorable figure was seen in the clothing group, with a negative variation over twelve months of 5.5%. Prices in the housing sector rose by 7.1% in the same period, while the foods group rose by 9% over twelve months. The biggest increases were seen in the transport and communications field, with a twelve-month variation of 11.4%; and in the other goods and services sector including education, health, recreation and other miscellaneous services, with a variation of 10.0% over the same period (Table 7). For its part, the wholesale-price index (IPM) was showing an accumulated variation of 8.2% at the end of the year a rise of 0.4 percentage points compared with 1994.

As regards the breakdown of the inflation figures between tradable and non-tradable goods, as calculated by the National Bureau of Statistics (INE), by the end of the year the basket of non-tradable goods and services was posting a variation of 10%, similar to the increase recorded in December 1994. Meanwhile, the inflation recorded in the tradable-goods basket maintained a relatively constant pace throughout the year, fluctuating around an average of 5.7%, to end 1995 with an

accumulated twelve-month increase of 5.6%, and comparing favorably with the twelve-month variation of 6.9% at the same date last year.

Measures of underlying inflation which try to reflect the trend of inflation purged of irregular elements, displayed rates of change which were significantly below those of measured inflation this was particularly so towards the second half of the year, reflecting the impact of the seasonal products mentioned above. However it is worth mentioning that both the Banco Central's measurements, and those of the INE, indicate that during the second half of the year the trend of underlying inflation may have slowed from the marked downward trend shown during the first semester, and this was certainly an alarm signal for the monetary authorities in relation to the progress needed for achieving the targets set for 1996.

As regards wages and salaries, the hourly-earnings index and the labor-cost index recorded nominal increases in December 1995, of 12.8% and 11.3% respectively compared to the same month in 1994. As in the preceding months, the pace of deceleration in the twelve-month variation in nominal earnings displayed a certain degree of sluggishness an inconvenient situation from the point of view of achieving the goals set for 1996. Indeed the reduction in inflation would have been facilitated by a continuous and consistent slowdown in the rate of growth of nominal earnings, and this occurred more slowly than desirable during the second half of 1995.

To continue bringing inflation down, increases in earnings need to reflect a greater degree of explicit consideration for the projected fall in inflation, rather than past inflation, so that the increase in nominal labor costs per unit of output should be below past inflation. This is perfectly compatible with an increase in average real wages and constitutes the most secure way of ensuring that wages do not deteriorate in the future as a result of inflation.

Real earnings growth in December 1995, compared with the same month in 1994, amounted to 4.2% for hourly earnings and 2.8% for the labor costs. This compares with increases of 4.2% and 6.0% respectively during the same period in 1994 (Tables 8A and 8B). Although the increase in real earnings during the year was kept below short-run productivity growth, as a result of the slow recovery of employment compared to economic activity, it is desirable for this to tend to converge towards the trend growth rate of productivity.

An important piece of information for analyzing the future trend of earnings relates to collective bargaining contracts negotiated during 1995. The initial increases in these contracts over and above past inflation show a modest trend, considered consistent with the trends in labor productivity and future inflation goals. The average increase agreed in excess of past inflation was 1.7% in 1995, compared with 1.7% and 2.3% in 1994 and 1993 respectively (Table 9).

It should be pointed out that the progress achieved in stabilizing prices would not have been possible without the monetary authorities being constantly concerned about trends in other related variables.

Thus, in response to the dynamic growth of output and the interruption of the downward trend in nominal earnings, as well as inflation in non-tradable goods, the figures for underlying inflation and the proximity to the level of frictional unemployment, the monetary authorities decided to consolidate a more restrictive monetary policy at the end of 1995, seeking to lead domestic spending on to a course which is compatible with the inflation target for 1996.

It is clear that the inflation problem is not yet resolved. As a result, the need to maintain policies to ensure a moderate expansion in spending (public and private), must be insisted on. Similarly, it is essential to prevent pressures originating in the labor market, from profit margins, or from low productivity sectors seeking protection, leading to the introduction of additional inflationary pressures from the supply side.

The fulfillment of the inflation target set for 1995 follows similar achievements in previous years, thereby ratifying the determination of the Banco Central to keep up its anti-inflationary commitment. Credibility is a fundamental element for success in this task, as only through credibility can a favorable climate be created for voluntary de-indexation of contracts and expectations, thereby making it possible to break the inertial elements in the inflationary process and, consequently, set more ambitious targets for its reduction in the future. The Banco Central will act decisively in the face of any inflationary outbreak which could endanger what has been achieved, and will continue to apply a global and coherent monetary policy directed towards achieving the convergence of Chile's inflation towards levels seen in industrialized nations within the next few years.

D. MONETARY POLICY AND INTEREST RATES

D.1 Monetary Policy and the Evolution of Interest Rates

For nearly a decade the Banco Central's monetary policy has been based on the influence it exerts on interest rates, a policy founded on the impact these rates have on the pace of aggregate demand expansion. In May 1995 the Banco Central Council introduced a series of modifications in the way it carries out its monetary policy, aimed at broadening and improving the instruments available to it for the control of aggregate demand. These changes notwithstanding, interest rates have continued to be the operational target on which monetary policy is conducted.

The measures adopted by the Banco Central towards the end of May represented an additional step in the process of giving a more important role to the market in the determination of a macroeconomic price as fundamental as the rate of interest. This process has been reflected in greater market determination of medium- and long-term interest rates on Banco Central instruments. The Bank at present only uses interest rates on one-day transactions as its main monetary policy signal. In this way, as a means of operating with more flexible and efficient instruments in the control of liquidity, under the new monetary policy framework, the Banco Central stopped offering unlimited amounts of ninety-day PRBCs at a fixed rate, and concentrated the main force of its actions on the use of one-day interest rates.

Within this new framework, the Banco Central continues to ensure the maintenance of interest rates within an equilibrium range, by means of explicit elements which guide market expectations regarding short-term-interest rates. For this purpose a liquidity deposit account was created where one-day transactions are carried out at a prefixed rate, thereby establishing an effective lower bound to short-term interest rates. As well as this, the Bank can provide liquidity to the market in order to avoid sharp interest rate movements, through liquidity credit lines and the purchase of securities with a resale agreement (Repos). This approach to monetary policy management, focused on short-term markets, avoids a series of disadvantages implied by operating with interest rates on three-month instruments. Specifically, it avoids the sharp movements in liquidity which were being generated by expectations of possible changes in interest rates on the part of the Banco Central.

On this point it is worth mentioning the coordination that has been evident in 1995 between monetary and fiscal policies. Throughout the year fiscal policy showed increases both in the level of public sector saving and in the fiscal surplus. Thus the current surplus amounted to 5.3% of GDP, half a percentage point above the 1994 rate; whereas the overall surplus was equivalent to 2.5% of GDP, almost one percentage point higher than in 1994. This result confirms the degree of discipline and responsibility in fiscal policy during 1995, which has consistently registered high levels of saving and fiscal surplus.

With regard to the evolution of monetary policy as such, since November 1994, when the adjustment

which had been going on for nearly two years was partially relaxed, until May 1995, the rate of interest expressed in indexed units (UF) on Banco Central Indexed Promissory Notes (PRBCs) remained unchanged at 6.1% (Table 10 and Figure 5). In subsequent months this rate has fallen systematically, reaching a minimum average in the month of August of 5.7%. These recent falls were helped by the signals of greater availability of liquidity which the Banco Central sent out, in lowering the rate of interest on liquidity deposits, from 5.2% to 5.0%, and by announcing the carrying out of repo transactions, consistent with the favorable outlook displayed by inflation in the middle of the year. Subsequently, and in view of the vigorous expansion of spending and output and the slowdown in reducing inflation, the Banco Central decided to gradually raise daily interest rates, stepping them up successively through the liquidity credit line segments. The same occurred with auction interest rates on PRBCs, which attained their maximum average in the month of December with a rate of 6.9%. In this month, the Banco Central decided to raise one-day interest rates on liquidity deposits and on the liquidity credit line segments.

Rates of interest on indexed UF deposits of 90- to 365-day terms, meanwhile, displayed a similar trajectory to the rate on PRBCs, keeping generally slightly below the latter. These rates fell from 5.9% in January to 5.3% in September, then rising again to reach 6.9% in December. The annual average was 5.9%. The rate of interest on loans displayed a similar behavior pattern, but permanently reducing its differential with the deposit rate over the course of the year. In January, the spread was 2.9% while towards the end of the year this fell to 2.3%, with an average for the year of 2.7%. One factor which possibly has had an influence on the narrowing of the interest rate spread has been the fact that by reducing the interest rate differential between Chile and abroad, the most important firms in the nonfinancial private sector are probably resorting more to internal financing, reducing the relative preponderance of transactions with more risky clients which would require a greater compensatory spread. On the other hand, the greater efficiency of the financial system raises the possibility of operating with lower interest rate differentials (Table 11 and Figure 6).

As regards Banco Central Indexed Promissory Notes Payable in Coupons (PRCs) the placement quotas were kept fixed at UF 300,000 for PRC auctions of 8 and 10 years and UF 200,000 for auctions of PRCs of 12, 14 and 20 years. In 1995 the yield curve has shifted slightly upwards with respect to the previous year, although longer-term rates did so more vigorously. Thus, although interest rates on 8-year PRCs rose from 6.1% on average in 1994 to an average 6.2% in 1995, the rates on 20-year PRCs climbed from an average of 5.9% in 1994 to 6.1% in 1995.

In 1995 the yield curve continued to show a negative gradient, although less steep than the year before. Given the relative relaxation in monetary policy during the first half of 1995, shorter-term rates showed a fall from their level of the previous year. As well as this, the uncertainty deriving from international financial turbulence in the first part of the year, as well as the new stimulus to private spending which the economy received in 1995, ended up by moderating expectations of new falls in interest rates, thereby putting upward pressure on longer-term rates.

D.2 Trends in Monetary Aggregates and Credit

The evolution of the monetary aggregates mainly reflects the course of the demand for balances by the private sector. Fundamentally this depends on economic growth, on the alternative cost of holding money, and on the trend in prices. A higher level of economic activity, as well as a lower nominal interest rate, provoke an increase in the real demand for money, which, when added to a variation in the level of prices, explains the increase in the nominal quantity of money.

In December 1995, the nominal twelve-month variation in the average monthly money supply, using its broader definition (M1A), amounted to 19.7%, which is equivalent to a real variation of 10.6% (Table 12 and Figure 7). This growth is in line with the expansion in the level of economic activity and the fall in the nominal interest rate seen in the course of this same period. If the variation in M1A is broken down according to its two basic defining aggregates, it can be seen that money in circulation expanded by 16.5%, whereas current accounts and other sight deposits held by the private sector grew by 21.1%.

The expansion in the broader monetary aggregates was slightly greater than the growth of M1A. The annual change in private-sector financial saving (M7), measured by the December average each year, amounted to 12.9% in real terms in 1995. The yearly average of this aggregate, as a proportion of output, remained stable compared with the year before, at 65% (Figure 8).

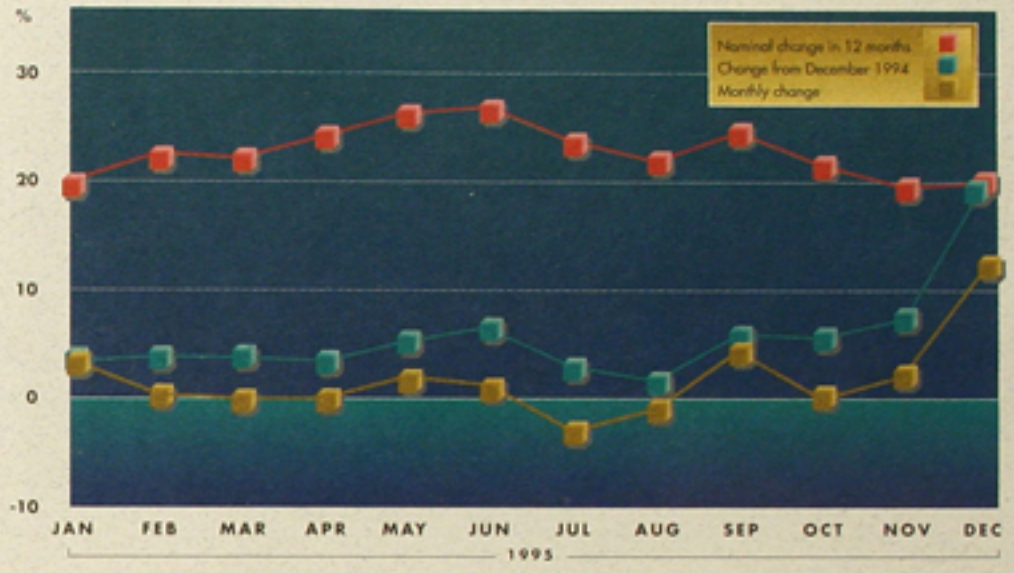
The twelve-month variation in money issue for 1995 was 21%, higher than the 13.3% increase recorded in 1994. In 1995 the principal source of emission were expansionary exchange market transactions, (on the order of 355 billion pesos), which were partially sterilized by placements of promissory notes by the Banco Central (Table 13). Operations with the Treasury, meanwhile, were moderately expansionary.

Credit granted by the financial system in 1995 showed an increase in its rate of growth, consistent with the acceleration in private-sector spending. The real twelve-month variation in total loans rose from 7.6% in December 1994 to 14.1% in December 1995. This relative acceleration was the result of an increase in lending in both national currency and foreign currency. Total lending in relation to GDP rose, in turn, reaching an average close to 47% in 1995, up from the 1994 figure of 46%.

The real twelve-month variation in loans made in national currency rose from 11.9% in December 1994 to 16.4% in December 1995. Despite this expansion in total lending in national currency, mortgage loans reversed the upward trend they had been displaying, to decline from a real twelve-month variation of 32.1% in December 1994, to 28.2% in December 1995.

Foreign currency lending, on the other hand, accelerated in real terms in 1995, turning a twelve-month decline of 11.2% in December 1994 into a 1.9% increase in December 1995. This increase was the result of a larger volume of foreign-currency lending together with a rise in the exchange rate during the second half of the year.

Chart 7
BROAD PRIVATE MONEY (M1A)
(Percentages)



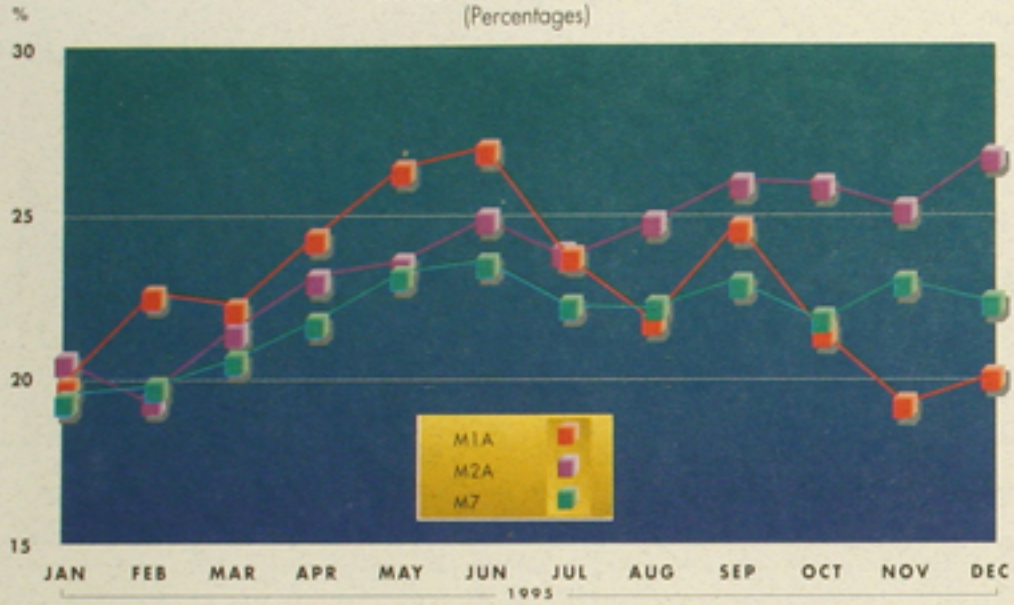
E. EXCHANGE-RATE POLICY, BALANCE OF PAYMENTS AND EXTERNAL DEBT

E.1 Exchange-rate Policy and Institutional Framework

In recent years the aim of exchange rate policy has been to restrict the variability of the parity so as to keep the real exchange rate in a range consistent with external equilibrium in the economy over the medium and long term. To achieve this objective the Banco Central has tried to ensure that the use of external saving –or the current-account deficit, which is the same thing– should be consistent with a level of borrowing which is sustainable in the medium term. In practice it is estimated that a trend deficit on current account of between 3% and 4% of GDP makes it possible to maintain and even slightly improve the country's external solvency indicators, such as the relationship between external debt and GDP, or the ratio of financial services to exports. In addition, it approximates to prudent projections of the supply of external financing in the medium and long run. Although at any particular moment the economy may diverge from this range, the important thing is that on average external saving should be around these levels.

In recent years the path of the exchange rate has been determined by the structural modifications experienced by the Chilean economy, and these have led the Banco Central to validate a gradual and moderate appreciation in the real exchange rate. Among the most important of these are the high and sustained growth experienced by the economy throughout the past decade and, in particular, the expansion of the exporting sector. In the same sense it is also worth mentioning the deepening process of financial integration with the rest of the world, which has been reflected in increases in volumes as well as improvements in the composition of the external financing available to the economy.

Chart 8
TWELVE-MONTH NOMINAL CHANGES IN MONETARY AGGREGATES
(Percentages)



Additionally, in 1995 the favorable terms of trade scenario helped to increase the supply of foreign currency and it became a stimulus to spending, the channeling of which towards external markets was made possible by a more appreciated real exchange rate.

For much of the year the exchange rate was situated in the lower half of the band, but at a greater average distance (6.3%) from its floor than in previous years. It should be remembered that in November 1994 it was decided to raise the value of the referential dollar by 9.66%, in the belief that the consolidation of structural changes, such as the sustained growth of exports, the greater availability of medium- and long-term external financing, and the moderate level of external saving which the Chilean economy has needed (about 2% of GDP) in the 1990s, were all indicating that the equilibrium exchange rate was below the floor of the band. Similarly, in the first quarter of 1995, and in part of the second, a tendency towards peso depreciation was observed, resulting from the Mexican crisis which not only affected the Chilean economy but all the economies of the region. However, after successfully overcoming this uncertainty, the nominal exchange rate returned to the lower half of the band, fluctuating between -4.9% and -7.6% with respect to the value of the referential dollar (Table 14 and Figure 9).

For its part, the volatility of the nominal peso-dollar parity was considerably greater, reflecting the sharp fluctuations experienced by the latter currency on international markets with respect to the Yen and the Deutschmark –volatility which affected the value of the referential dollar. During much of 1994 the referential dollar remained practically constant because, whereas its value was devalued by the differential between domestic and external inflation, this was offset by the dollar's depreciation on international markets. From 1995 onwards, the depreciation of the dollar intensified, with the result

that the referential dollar fell by 5.8% between December 1994 and June 1995. Nevertheless, in the second half of the year the dollar recovered some of its lost value, so that the referential dollar in the month of December was almost 10% higher than the minimum value it had reached in June 1995, and 3.2% above its level in December 1994. On this point it is important to mention that the value of the currency observed in the market to some extent follows the trend of the referential dollar. This means that part of the nominal appreciation in the peso-dollar relation during the first half of 1995, was a reflection of the depreciation of the latter currency on international markets, whereas in the second half of the year the peso depreciated in nominal terms in response to the dollars recovery on international markets.

In real terms the exchange rate showed an appreciation of 2.6% between December 1995 and the same month in 1994, while the average appreciation for the year amounted to 5.5%, fully recording the impact of the revaluation which had occurred at the end of 1994 (Table 15 and Figure 10). As has been mentioned, the real exchange rate has fallen in a gradual and sustained way since 1990, at an average rate of 4.4%, accumulating an appreciation of nearly 21% in the decade so far. Nevertheless, the real exchange rate in 1995 is 27% higher than in 1979 – the year before the sharp appreciation of the peso at the start of the 1980s – and only 11% lower than in 1986, the year in which the exchange rate overreacted in an upward direction in response to the severe currency scarcity following the international foreign-debt crisis at the beginning of that decade. These comparisons indicate that current levels of competitiveness in the national tradables sector are historically high. Furthermore, the real appreciation of the national currency during the 1990s is not a phenomenon which is unknown in the region (Figure 11), but instead the result of a profound change in the external conditions affecting the region with respect to external financing and export markets. Taking these structural factors into account, in November 1995 the exchange-rate rule for the referential dollar was modified to incorporate a factor reflecting a slight tendency towards real long-term appreciation, estimated at the present time at 2% a year.

The Banco Central is maintaining a policy of gradual progress towards integration into international capital markets. The justification for this gradualness in policy is to avoid an excessive expansion in spending, enable relative assets prices to adjust slowly to the greater economic integration and give time for domestic agents to adapt to the new conditions.

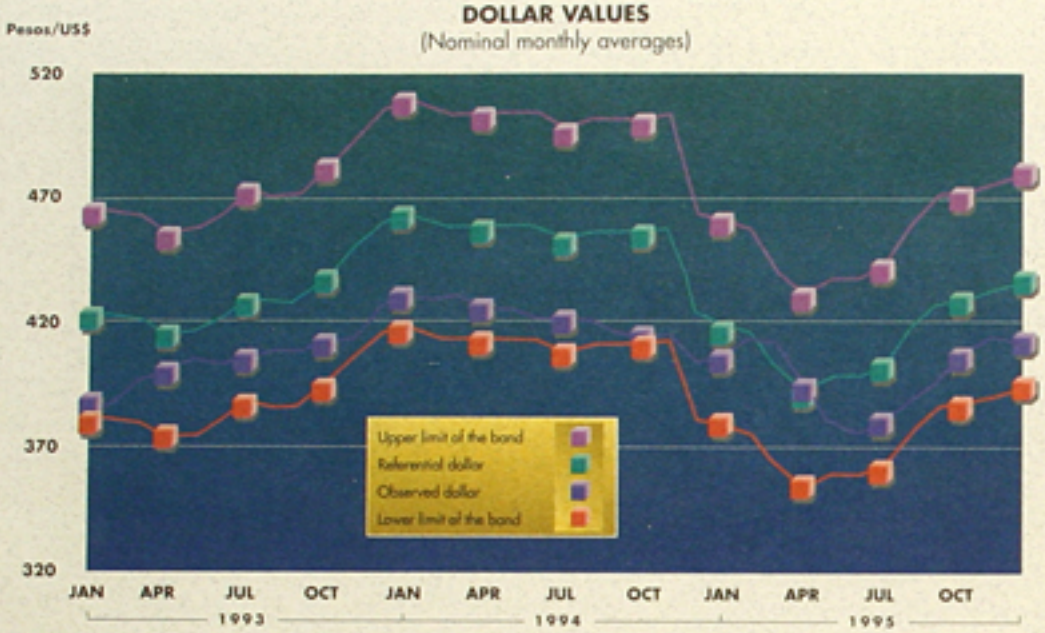
In the past year progress has continued as regards the unification of the foreign exchange markets and integration into international capital markets. In 1995 the formal and informal currency markets have practically been unified: the price differential during this year was only 0.1%. In addition, the Chilean stock market has become increasingly integrated with the main stock markets of the world, a fact which is reflected in the correlation between the price of shares in Chile and abroad. Also, as part of this process of financial integration, there has been a progressive diversification in residents income sources, with direct and portfolio investments abroad increasing year after year.

As regards the institutional framework for foreign currency trading, 1995 was characterized by a deepening of reforms tending to unify the exchange market and to make progress in integration into international markets. Among the most important measures with respect to exchange market liberalization was the decision to eliminate the obligation to liquidate a fraction of export returns in

Chart 9

DOLLAR VALUES

(Nominal monthly averages)



the formal exchange market. In earlier years there had already been gradual advances towards lowering the percentage of such returns subject to this requirement.

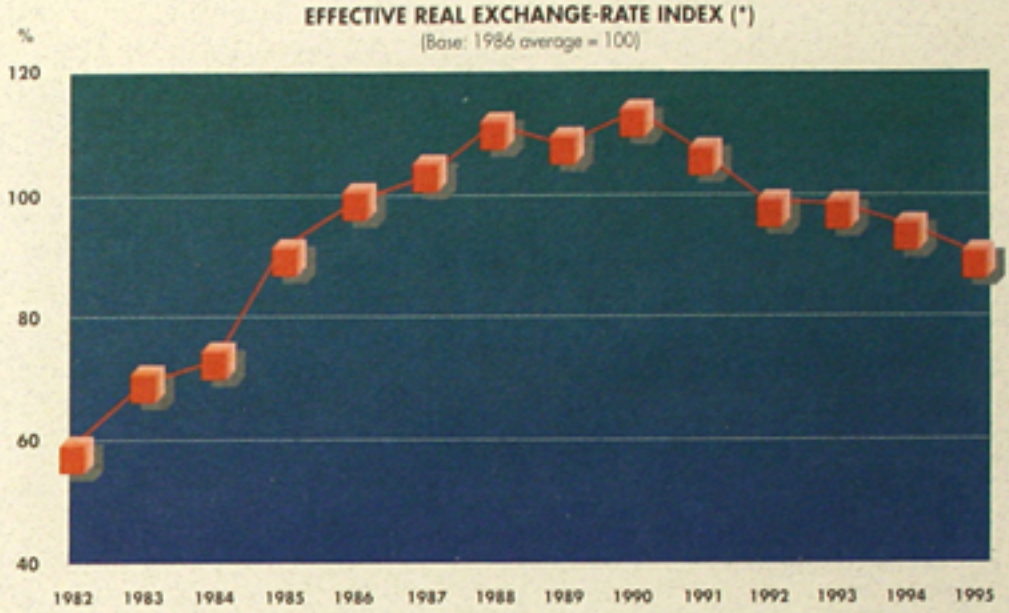
On the capital account front, the majority of the measures were focused on giving greater flexibility to institutional investors to take capital out of the country. In fact, the limits on investment by Pension Funds Managers (AFP) abroad were widened, and these institutions can now invest up to 9% of the funds value in international assets. In addition they were authorized to invest up to 4.5% of the funds value in variable income instruments, and they had the risk classification requirement on instruments eligible to AFPs, reduced from A- to BBB-. Life insurance companies for their part, were permitted to place up to 10% of their resources in financial investments and up to 3% in non-residential urban property. General insurance companies, in turn were authorized to invest up to 15% of their resources in financial investments and up to 3% in non-residential urban real-estate. Mutual funds, for their part, were authorized to invest up to 30% of their total funds in financial assets abroad without having to comply with a minimum classification or a predetermined number of countries. Consistent with the above, the AFPs and the insurance companies have access to the formal exchange market for currency purchases in order to effect payments or remittances related to these operations. Finally, it was decided that for investment in shares by institutional investors, issuing country risk would no longer be considered, but instead the risk of the country where the shares are being traded, and this was set at BBB-.

The greater flexibility in the capital account also touched the banking system. During 1995 the requirements for financial investment by banks abroad were modified, whose amount can be up to 25% of capital and reserves, with the risk requirement falling from A- to BBB-, in the case of instruments issued or guaranteed by foreign states, central banks, foreign or international banking or

Chart 10

EFFECTIVE REAL EXCHANGE-RATE INDEX (*)

(Base: 1986 average = 100)



* The nominal observed exchange rate multiplied by the ratio of relevant external inflation to consumer-price index (IPC). External inflation is calculated using the wholsale price index (IPM) expressed in dollars of Chile's main trading partners, weighted by the relative importance of imports and exports that Chile trades with them (approximately 75% of Chile's total trade in 1989 excluding oil and copper). Both the IPM and the exchange rates of the trading partners are incorporated in the form of monthly variations.

financial entities and bonds issued by foreign firms. In addition it was decided that 30% of this investment could be made in higher risk instruments, for which the minimum risk requirement was set at BB-. Another advance in terms of capital-account opening was the abolition of Chapters XVIII and XIX of the CNCI, which regulated foreign investment carried out on the basis of the conversion of Chilean external-debt papers traded on international markets. This measure meant the elimination of term restrictions affecting the repatriation of profits from investment which had entered the country under this mechanism. Finally, greater flexibility was introduced into the requirements under which firms quoting ADRs on stock markets could make new flotations of these securities, lowering the minimum amount of capital from US$ 25 million to US$ 10 million.

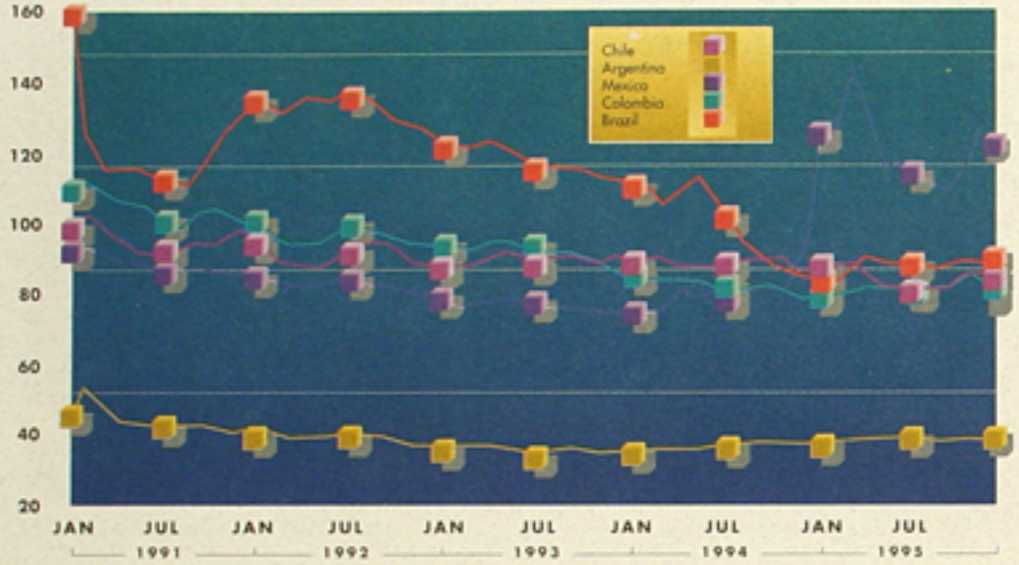
Notwithstanding progress in terms of openness, from July onwards secondary ADRs, that is shares which are not of primary issue susceptible to being purchased by foreigners and converted in to ADRs, became subject to the same reserve requirement which affects foreign loans, in order to unify treatment with respect to other capital inflows and to avoid leakages from the reserve mechanism. In addition, the maximum term was reduced both for acquiring foreign currency, resulting from the divestiture of shares arising from security substitution, as well as requesting permission from the Banco Central to repatriate capital if the shares had not been required within a definite term.

The measures mentioned above show that the Banco Central has favored a gradual and selective integration into international capital markets. Although the Banco Central recognizes the benefits of

Chart 11

REAL EXCHANGE RATE

(Base: 1989 December = 100)



integration in these markets, it is also aware of the risks associated with a rapid opening. The Chilean economy achieves its domestic equilibrium with interest rates that are higher than international ones, and this would be impracticable or it would be at the cost of great exchange rate volatility if the national and international fixed interest markets were fully integrated. In that case the resulting interest rate would be less than that needed to keep control of spending, thereby putting at risk both what has been achieved in bringing inflation down and the control of the current-account deficit.

As well as this, a more rapid integration process would run the risk of generating large short-run capital flows into the country, at least large relative to the size of the country's capital market. For an economy of the size of Chile's, adjustments in the asset portfolios of foreign investors can mean very significant capital inflows. In such conditions, a rapid and complete integration implies the risk of sharp increases in the prices of domestic assets, including shares, real estate, land and securities. Higher asset prices would generate an increase in perceived wealth, and therefore in domestic spending, as well as an increase in the value of bank guarantees, in the real value of the peso and in the country's net external borrowing. As the adjustment in the assets portfolio is completed, or in the face of any unfavorable exogenous event, foreign investors could detain and even reverse the direction of the flow of capital entering the country. This situation could force a recessionary adjustment, amplifying the expansionary and contractionary cycles which the economy goes through, which is highly damaging for its development. Finally, the choice of gradualness in opening up the capital account has taken into consideration the costs of systemic risk associated with certain activities, such as those of banks and institutional investors, a topic which is directly related to the stability of the payments system.

The policy of gradual and selective capital-account liberalization has made it possible to reduce

exposure to the volatility of short-term financial flows, give more autonomy to monetary policy and avoid the over-expansion of spending. The final aim of the set of restrictions which still affect the capital account today has been to diminish the volume and change the composition of the overall flow of external financing, making short-term financial flows more expensive relative to long-term external financing.

E.2 Balance of Payments

The balance of payments, according to provisional figures, registered a surplus on current account of US$ 160 million in 1995, which, when added to net capital inflows of US$ 1,168 million and to negative errors or omissions of US$ 267 million, gave an overall surplus of US$ 1,061 million. This represents a significant change compared to the previous year, when the current account was in deficit to the extent of US$ 639 million, and net capital inflows amounted to US$ 4,573 million (Table 16).

E.2.1 Current Account

The positive trend in the current account in 1995 is attributable largely to an appreciable improvement in the trade balance, mainly explained by a continuation of the recovery in the terms of trade which had begun the previous year, and, to a lesser extent, by an increase in export volumes. This made possible a 38.2% increase in the value of goods exports, which more than offset the 34.7% growth in imports, and meant a trade surplus of US$ 1,384 million, almost double the 1994 figure (Table 17).

The prices obtained abroad, which experienced an average increase of 23.9%, played a predominant role in the higher export values, with volumes only increasing by 11.5%. This situation was reflected in different degrees by the different goods categories, with copper being the outstanding case. Exports of this product grew by 52.9%, mainly as a consequence of the higher price of the metal on international markets, which meant a 34.5% rise in fob prices for Chile. Volumes, meanwhile expanded by 13.7% as a result of higher production at Codelco and at other firms such as Cerro Colorado and Candelaria, which, having started operations in the second half of 1994, were in full production during 1995 (Table 18).

Exports of traditional or principal products grew by 38.7%, essentially as a result of better prices (25%), while volumes shipped grew in lesser proportion (10.9%). Outstanding in first place, due to the amounts involved, were products such as bleached wood pulp, fishmeal, fresh fruit and sawn wood which together raised exports by US$ 890 million. The value of bleached wood pulp exports grew by US$ 533 million, a 91.3% increase, due mainly to a 75.8% rise in fob prices. The 39.7% growth in fishmeal exports, equivalent to US$ 178 million, is also mainly attributable to better prices (22.8%). Exports of fresh fruit and sawn wood, meanwhile, increased by US$ 104 and US$ 75 million respectively. Also worthy of mention are products which, although of little significance in absolute terms, exceeded 50% growth during the year. Such was the case of iodine (66.6%), oxide and ferromolybdenum (151.1%), logs for wood pulp (85.7%), and crude wood pulp (50.8%).

As regards exports of non-traditional products, there was a 21.6% increase during the year, resulting from both better prices (10.8%) and bigger volumes (9.7%). Within this category it is worth highlighting the increases in exports of industrial marine products (24.0%, led by salmon and canned fish), agro-industry (28.7%, led by dehydrated products, fruit and tomato either frozen, canned or in the form of juice) and, within the drinks sector, products such as bottled wine and malted barley. In the other categories of the industrial sector, there were contributions to the results mentioned from exports of wood chips, newsprint, newspapers and publications, and certain copper derivatives, such as tubes, wire, bars and sections.

Goods imports in 1995 grew by 34.6% in cif values. This was principally due to volume increases, amounting on average to 24.7%, while prices rose by 7.9% compared with 1994. As regards the share of the different categories, the highest rate of expansion was in consumer goods with growth of 43.8%, followed by non-fuel intermediate goods which expanded by 36.5%. Imports of capital goods meanwhile increased by 28.8%. Fuel imports, for their part, increased by 26.8%, due to crude oil imports which rose by 20.5% as a result of an 11.3% increase in volume and 8.2% in cif prices.

Among non-fuel intermediate goods, there were notable increases in imports in the following sectors: basic metal products (especially those derived from steel and aluminum), chemical products (colorants, urea, resins and tyres) and other sectors such as textiles, foods and paper derivatives.

Among consumer-goods imports, on the other hand, there were significant increases in the food and drinks sector, the textile and leather industry (footwear), as well as goods in the wood industry, publications (books) and metal products and equipment. Among the latter, as well as imports of domestic consumer goods such as refrigerators, washing machines, color televisions, microwaves and radios, there were notable increases, because of the amounts involved, in automobile imports, which rose from US$ 407 million in 1994 to US$ 687 million in 1995, with increases of 68.9% in value and 68% in the number of units imported.

As regards capital goods, there were significant increases in imports of vehicles for merchandise transport, four-wheel drive vehicles, vans and equipment for loading and unloading and television cameras, as well as radio-telephony and computing equipment.

The net result of services and transfers was a deficit of US$ 1,224 million, which nevertheless was an improvement of US$ 140 million on the 1994 figure (Table 16). This was due fundamentally to lower net outflows on the financial services account, in terms of both profits and interest, partly offset by the change in the net result for nonfinancial services.

The decrease in net outflows of interest payments was due to a US$ 315 million increase in interest received on international reserves, which was partly offset by a US$ 165 million increase in interest paid. The increase in interest paid mainly related to medium- and long-term debt held by the private sector, and originated in an increase in interest rates as well as in the foreign-debt stock held by that sector.

The US$ 166 million decrease in profits on foreign investment, on the other hand, was mainly due to a smaller outflow of profits from investment funds. Following the heavy outflow in this category in 1994, remittances from these funds in 1995 mainly affected the capital account (Table 19). In 1995 nonfinancial services showed a deficit of US$ 149 million, which meant net outflows US$ 171 million higher than in 1994. It is worth emphasizing the composition change which occurred during the year, with a significant improvement in the net results of port service trade, being counterbalanced by a deterioration in net inflows from shipping and travel. The increase in the volume of goods imports led to a significant increase in freight payments, while spending by Chilean travelers abroad grew by 10.9%, and income from inward tourism suffered a drop of 2.7% (Table 20).

Unilateral transfers, within which taxes received on profit remittances on foreign investment were the most important, were practically the same in absolute value terms in 1995 as in 1994.

E.2.2 Capital Account

In 1995 the capital account excluding reserves, registered a positive inflow of US$ 1,168 million, US$ 3,405 million less than the 1994 result (Table 16). This decrease is explained by amortizations carried out with respect to pre-payments on medium- and long-term external debt, by a decrease in the use of short-term credit lines, by short-term commercial flows which turned from positive to negative values, and by a sharp reduction in net inflows of portfolio investment. These factors were partially offset by a higher level of financing coming from disbursements of medium- and long-term loans, and from the use of external assets on the part of the private sector.

Of the net resources entering the country, 69% (US$ 802 million) corresponded to medium- and long-term capital, including foreign investment, whereas the remaining 31% was short-term financing.

Among medium- and long-term capital items, the US$ 2,795 million inflow received by the private sector, particularly the corporate sector, was outstanding. Of this, 75% corresponded to net foreign investment, including associated loans, while the remaining 25% related to external loans, mainly destined for the financing of investments in the telecommunications, forestry and services sectors. The private banking sector received net positive flows of US$ 284 million, mainly in the form of foreign loans. The public sector, in turn, recorded outflows of US$ 2,277 million which included US$ 1,391 million of pre-payments on loans from multilateral agencies carried out by the Treasury and by the Banco Central.

Net foreign investment showed an inflow of US$ 1,030 million, 41% below the 1994 value. This resulted from a significant fall in portfolio investment during the first three quarters, arising from the difficult conditions ruling in international markets following the crises in certain Latin American countries at the beginning of the year.

Unlike what happened with portfolio investment, direct investment increased by 19%, resulting from a reduction in outward investment abroad, partly compensated by a slight fall in investment from

abroad. The latter was due to the fact that in 1995 a significant increase in capital remittances on investments through external-debt conversion mechanisms was only partly offset by an increase of 2% in direct investment channeled through DL 600 (Table 21). It should be pointed out that if one includes associated credits in this, investment under the aegis of DL 600 would have grown at a rate of 7.3%. This is due to the lack of synchronization between funds entering as direct capital contributions and those entering as foreign loans, and means that significant projects which are being carried out at the present time have entered the phase of capital inflows via loans.

As regards its evolution during the course of the year, the decline in portfolio investment compared with 1994 was concentrated in the first nine months of the year, the result of a significant outflow of ADRs and remittances made by foreign-capital investment funds (FICEs). Despite a substantial capital remittance by an important fund, the trend was reversed in the fourth quarter due to two primary ADR flotations and a bond issue made by CELCO in December.

As regards medium-term capital originating in foreign loans, the result was an outflow of US$ 63 million, which represents an absolute negative variation of US$ 1,491 million compared with the previous year. The result is explained by pre-payments on foreign loans carried out by the public and private sectors, which in total amounted to US$ 1,835 million. In this regard, it is worth pointing out that the pre-payments made by the public sector meant an effective reduction of external debt, unlike the private sector pre-payments, which in the majority of cases were associated with inflows of new loans, of equivalent amount but under more favorable terms.

Net short-term capital inflows, meanwhile, were positive to the tune of US$ 366 million, representing a reduction of US$ 1,126 million compared to the previous year. As regards the sectoral composition, the private nonfinancial sector brought in resources with a net value of US$ 794 million, the public sector brought in US$ 14 million. The private banking sector recorded negative flows of US$ 442 million, as a result of a sharp fall in commercial credit lines during the first semester, associated with liability-restructuring policies leading to the substitution of foreign for domestic financing in that period. This situation was reversed in the second semester when an increase was seen in the net use of short-term credit lines. The private non-banking sector, for its part, obtained a significant amount of financing by the use of external assets, and this offset commercial outflows which turned from positive to negative during the year, mainly as result of a higher level of pending export returns and a decrease in the advances received by exporters.

E.3 External Debt and International Reserves

The external debt as at 31st December 1995 stood at US$ 21,825 million, which meant an increase of US$ 347 million over the year (Table 24). This increase was the result of net disbursements of medium- and long-term loans of US$ 731 million, a positive parity adjustment of US$ 18 million and a positive statistical adjustment to correct balances of US$ 49 million –increases which were partly offset by net repayment of short-term loans of US$ 355 million, and by debt reductions of US$ 143 million.

In addition, there were transfers of private-sector debt from short to medium term, amounting to US$ 47 million, thereby altering the term structure of the debt.

Gross disbursements of medium- and long-term credits amounted to US$ 3,619 million, of which 88% (US$ 3,181 million) corresponded to loans contracted by private-sector firms. A significant part (US$ 1,321 million) was destined to investment projects via loans associated to DL 600. The public sector, meanwhile, received loans to a value of US$ 212 million, of which US$ 187 million were drawn by the Treasury, and were allocated to infrastructure projects in different areas. The private banking sector disbursed US$ 226 million.

As regards the origin of these funds, it can be seen that there was a continuation of the trend towards a return to traditional credit markets, in other words to creditor banks, which provided 65% of the total inflow in the period. Another significant source of funds, representing 14% of the total, were the subsidiary companies of foreign investors. Direct suppliers, multilateral organizations (IDB and IBRD), and official agencies only contributed 10%, 7% and 4%, respectively, of total gross financing. It is worth pointing out that US$ 353 million provided by banks was destined by the private sector to pre-payments on loans contracted in earlier periods, with the aim of improving the financial terms of foreign borrowing. As well as this, the private sector, with the backing of international banks, issued bonds to a value of US$ 297 million.

Repayments on medium- and long-term loans amounted to US$ 2,888 million of which US$ 1,852 million were remitted by the public sector, and US$ 1,036 million by the private sector, 54% of total repayments were made to multilateral organizations, 24% to international creditor banks, 12% to firms related to foreign investment and direct suppliers, and the remaining 10% corresponded to amortizations made to official agencies. In the first quarter of the year the Banco Central began to repay credits relating to the "financial program" of the 1983-1991 period. The amount repaid in 1995 was US$ 230 million, and corresponded to amortizations with respect to the fresh money granted by international banks between 1983 and 1986 for financing the balance of payments. In September and October the Treasury and the Banco Central pre-paid loans from the World Bank (IBRD) and the Interamerican Development Bank (IDB) to a nominal value of US$ 940 million, which, when accounting revaluations of US$ 451 million are included, meant an effective amortization of US$ 1,391 million. As well as this, the private sector made pre-payments on external debt of US$ 443 million, of which US$ 353 million was replaced by new loans.

The balance of medium- and long-term debt grew in the period by US$ 702 million. In 1995, the trend seen in preceding periods towards a greater relative private sector share of total external debt was accentuated, due to the debt pre-payments made by the public sector which were not accompanied by new borrowing. Indeed, in 1995, the public sector reduced its indebtedness significantly (US$ 1,536 million) while a significant increase was seen in private-sector debt (US$ 2,238 million), particularly in the corporate sector. Thus, whereas at the end of 1994 the medium- and long-term debt was almost equally distributed between the public and private sector, by the end of 1995 the public sector held 33% of this debt and the private sector 67%. Similarly, one can observe the maintenance of trends

relating to financing sources. Net borrowing from banks showed an increase of US$ 1,519 million while borrowing from firms related to foreign investment, and from suppliers, rose by US$ 555 million. Finally, net borrowing from multilateral organizations and governments declined by US$ 1,372 million.

The short-term external debt as at 31st December stood at US$ 3,510 million, and represented 16% of the total external debt at this date. The private banking sector owed 73%, the public sector 18% and the private corporate sector 9%.

Short-term loans showed a net reduction of US$ 355 million over the period. During the first semester this reduction amounted to US$ 979 million, a trend which was reversed from the third quarter onwards, when there was an inflow of short-term credit lines of US$ 545 million, continuing although moderately, in the fourth quarter with a net inflow of US$ 79 million. Thus, in 1995 the private banking sector reduced its credit lines by US$ 405 million, the private corporate sector by US$ 39 million and the public sector increased theirs by US$ 89 million.

The level of net international reserves amounted to US$ 14,805 million at the end of 1995, a figure equivalent to twelve-months of goods imports (Table 23). The US$ 1,339 million increase in international reserves came from the balance of payments surplus of US$ 1,061 million and from revaluations due to parity changes between currencies and rises in the prices of certain instruments in which reserves have been placed.

In terms of its components, the increase in net reserves meant a US$ 1,050 million increase in assets held in foreign currencies, a US$ 290 reduction in liabilities with the International Monetary Fund (IMF) and a slight fall in holdings of gold and other assets.

Table 1

QUARTERLY GROSS DOMESTIC PRODUCT

(Percentage changes compared to the same period of the previous year) (*)

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

(*) Provisional figures in 1986 pesos.

Source: Banco Central de Chile.

Table 2

SECTORAL GROSS DOMESTIC PRODUCT
(Annual percentage changes) (1)

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

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

Source: Banco Central de Chile.

Table 3

COMPONENTS OF GROSS DOMESTIC PRODUCT EXPENDITURE

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

(*) Provisional figures in 1986 pesos.

Source: Banco Central de Chile.

Table 4

SAVINGS AND INVESTMENT COEFFICIENTS

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

(*) Provisional figures in pesos of each year.

Source: Banco Central de Chile.

Table 5

NATIONAL EMPLOYMENT AND UNEMPLOYMENT (*)

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

Date	WORKFORCE		EMPLOYED		UNEMPLOYED		RATE OF UNEMPLOYMENT
	Total	% change on previous period	Total	% change on previous period	Total	% change on previous period	
1987 Average	4,304	1.8	3,903	3.5	401	-12.1	9.3
1988 Average	4,460	3.6	4,092	4.9	368	-8.2	8.3
1989 Average	4,594	3.0	4,304	5.2	290	-21.3	6.3
1990 Average	4,672	1.7	4,392	2.0	280	-3.3	6.0
1991 Average	4,731	1.3	4,424	0.7	308	9.8	6.5
1992 Average	4,844	2.4	4,606	4.1	238	-22.8	4.9
1993 Average	5,095	5.2	4,860	5.5	235	-1.1	4.6
1994 Average	5,213	2.3	4,904	0.9	308	31.2	5.9
1995 Average	5,244	0.6	4,957	1.1	287	-6.9	5.5
1994							
January	5,254	0.7	5,001	0.3	254	8.6	4.8
February	5,283	0.5	5,013	0.2	270	6.5	5.1
March	5,257	-0.5	4,985	-0.5	272	0.6	5.2
April	5,241	-0.3	4,962	-0.5	279	2.7	5.3
May	5,208	-0.6	4,909	-1.1	298	6.8	5.7
June	5,164	-0.8	4,847	-1.3	317	6.3	6.1
July	5,152	-0.2	4,819	-0.6	333	5.0	6.5
August	5,151	0.0	4,814	-0.1	337	1.2	6.5
September	5,141	-0.2	4,799	-0.3	343	1.7	6.7
October	5,181	0.8	4,835	0.8	346	1.0	6.7
November	5,219	0.7	4,881	0.9	338	-2.2	6.5
December	5,300	1.5	4,988	2.2	311	-8.0	5.9
1995							
January	5,314	0.3	5,012	0.5	302	-3.1	5.7
February	5,325	0.2	5,037	0.5	288	-4.6	5.4
March	5,295	-0.6	5,007	-0.6	288	0.0	5.4
April	5,269	-0.5	4,992	-0.3	277	-3.8	5.3
May	5,219	-1.0	4,925	-1.3	293	5.9	5.6
June	5,191	-0.5	4,891	-0.7	300	2.1	5.8
July	5,182	-0.2	4,875	-0.3	307	2.4	5.9
August	5,187	0.1	4,883	0.2	304	-0.8	5.9
September	5,212	0.5	4,914	0.6	298	-2.1	5.7
October	5,204	-0.1	4,924	0.2	281	-5.9	5.4
November	5,252	0.9	4,993	1.4	259	-7.6	4.9
December	5,274	0.4	5,026	0.7	248	-4.3	4.7

(*) Including population aged 15 and over.

Source: Instituto Nacional de Estadísticas (INE).

Table 6

PRICE INDEXES

Date	CONSUMER-PRICE INDEX (Base: April 1989 = 100)			WHOLESALE-PRICE INDEX (Base: June 1992 = 100)		
	Index	Percentage change		Index	Percentage change	
		Month	12-month		Month	12-month
1989 Average	105.2	-	21.4 (*)	61.5	-	22.8 (*)
1990 Average	132.6	-	27.3 (*)	74.8	-	25.7 (*)
1991 Average	161.5	-	18.7 (*)	91.0	-	16.5 (*)
1992 Average	186.4	-	12.7 (*)	101.6	-	8.9 (*)
1993 Average	210.2	-	12.2 (*)	110.3	-	6.7 (*)
1994 Average	234.2	-	8.9 (*)	118.8	-	7.8 (*)
1995 Average	253.5	-	8.2 (*)	127.8	-	8.2 (*)
1994						
January	224.9	1.0	13.2	114.2	0.1	7.8
February	225.6	0.3	13.1	114.5	0.2	8.3
March	228.1	1.1	13.7	115.8	1.2	8.5
April	229.3	0.5	12.7	115.9	0.1	7.3
May	232.5	1.4	12.7	117.0	0.9	6.8
June	233.8	0.5	12.7	118.3	1.1	7.6
July	235.2	0.6	12.3	119.0	0.6	7.6
August	237.8	1.1	11.2	120.8	1.5	7.8
September	238.9	0.5	10.4	121.8	0.8	7.9
October	240.4	0.6	8.3	122.1	0.3	6.9
November	241.8	0.6	8.9	123.5	1.1	8.3
December	242.5	0.3	8.9	123.1	-0.3	7.8
1995						
January	244.0	0.6	8.5	123.5	0.4	8.2
February	245.3	0.5	8.7	124.3	0.6	8.6
March	246.8	0.6	8.2	126.5	1.7	9.2
April	248.3	0.6	8.3	126.8	0.3	9.4
May	249.8	0.6	7.4	125.8	-0.8	7.5
June	251.6	0.7	7.6	125.0	-0.6	5.7
July	253.7	0.8	7.9	126.1	0.8	6.0
August	257.9	1.6	8.5	127.5	1.1	5.5
September	259.4	0.6	8.6	129.7	1.8	6.6
October	261.4	0.8	8.8	132.1	1.8	8.2
November	261.6	0.1	8.2	133.3	0.9	7.9
December	262.4	0.3	8.2	133.2	-0.1	8.2

(*) December to December change.

Source: Instituto Nacional de Estadísticas (INE).

Table 7

CONSUMER-PRICE INDEX
(Base: April 1989 = 100)

Date	OVERALL INDEX		FOOD		HOUSING		CLOTHING		TRANS. & COMM.		OTHERS	
	Index	% change 12-month	Index	% change 12-month	Index	% change 12-month	Index	% change 12-month	Index	% change 12-month	Index	% change 12-month
1989 December	116.5	21.4	122.4	25.8	112.8	19.3	108.4	13.3	119.6	-	110.9	16.7
1990 December	148.3	27.3	151.5	23.8	146.0	29.4	123.1	13.6	158.7	32.7	147.5	32.9
1991 December	176.0	18.7	193.8	27.9	168.3	15.2	150.8	22.5	168.9	6.4	172.4	16.9
1992 December	198.3	12.7	217.5	12.2	189.9	12.8	168.1	11.5	183.1	8.4	204.2	18.5
1993 December	222.6	12.2	235.9	8.5	217.7	14.7	176.1	4.8	206.4	12.7	244.3	19.6
1994 December	242.5	8.9	252.5	7.0	237.2	8.9	182.6	3.7	226.2	9.6	278.9	14.2
1995 December	262.4	8.2	275.3	9.0	254.1	7.1	172.5	-5.5	252.1	11.4	306.8	10.0
1994												
January	224.9	13.2	238.5	11.6	218.5	14.5	176.1	7.4	209.8	11.9	248.5	18.4
February	225.6	13.1	235.7	11.8	222.2	14.3	175.7	5.6	210.9	11.4	251.6	18.9
March	228.1	13.7	236.2	13.1	224.0	14.6	174.8	4.8	211.2	11.2	263.7	19.7
April	229.3	12.7	235.0	11.8	225.7	14.6	182.4	2.5	211.7	9.8	266.1	18.9
May	232.5	12.7	239.3	11.4	229.0	14.2	184.3	2.0	214.9	11.1	267.9	19.0
June	233.8	12.7	241.2	12.5	230.1	12.8	183.5	1.9	217.5	12.2	267.8	18.1
July	235.2	12.3	244.5	12.2	231.1	11.9	180.8	2.3	217.8	11.8	269.3	17.4
August	237.8	11.2	249.8	10.0	232.5	11.0	178.5	1.3	220.4	12.2	270.8	16.8
September	238.9	10.4	250.4	8.3	233.3	10.4	179.9	1.4	223.6	13.1	271.6	16.0
October	240.4	8.3	251.4	3.6	234.7	10.2	182.7	0.4	225.6	12.2	272.4	15.1
November	241.8	8.9	254.2	5.7	236.6	9.5	183.2	4.0	225.5	10.5	272.5	14.8
December	242.5	8.9	252.5	7.0	237.2	8.9	182.6	3.7	226.2	9.6	278.9	14.2
1995												
January	244.0	8.5	253.6	6.3	238.4	9.1	180.5	2.5	228.4	8.9	282.9	13.9
February	245.3	8.7	253.7	7.6	240.9	8.4	178.6	1.6	231.8	9.9	284.0	12.9
March	246.8	8.2	253.6	7.4	242.4	8.2	176.9	1.2	233.4	10.5	290.2	10.0
April	248.3	8.3	254.8	8.4	243.4	7.8	181.2	-0.7	234.5	10.8	292.1	9.8
May	249.8	7.4	255.7	6.9	246.0	7.4	183.2	-0.6	235.8	9.7	293.0	9.4
June	251.6	7.6	259.1	7.4	246.9	7.3	182.6	-0.5	237.6	9.2	294.5	10.0
July	253.7	7.9	264.7	8.3	247.7	7.2	180.7	-0.1	237.8	9.2	295.6	9.8
August	257.9	8.5	272.4	9.1	249.5	7.3	177.4	-0.6	244.0	10.7	298.1	10.1
September	259.4	8.6	274.4	9.6	250.4	7.3	173.7	-3.4	248.5	11.1	299.1	10.1
October	261.4	8.8	278.1	10.6	251.6	7.2	176.6	-3.3	248.7	10.2	300.7	10.4
November	261.6	8.2	276.7	8.8	252.8	6.8	174.3	-4.9	249.5	10.6	303.1	11.2
December	262.4	8.2	275.3	9.0	254.1	7.1	172.5	-5.5	252.1	11.4	306.8	10.0

Source: Instituto Nacional de Estadísticas (INE).

Table 8 A

HOURLY-EARNINGS INDEX
(Base: April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12-month		Month	12-month
1994						
January	115.62	1.7	-	104.56	0.7	-
February	116.39	0.7	-	104.93	0.4	-
March	117.44	0.9	-	104.70	-0.2	-
April	118.49	0.9	18.5	105.12	0.4	5.1
May	118.31	-0.2	17.4	103.48	-1.6	4.2
June	120.26	1.6	17.2	104.63	1.1	3.9
July	121.12	0.7	17.8	104.75	0.1	4.9
August	121.81	0.6	17.5	104.19	-0.5	5.7
September	123.86	1.7	16.9	105.43	1.2	5.8
October	124.15	0.2	15.7	105.05	-0.4	6.8
November	124.85	0.6	15.3	105.01	0.0	5.9
December	129.07	3.4	13.5	108.26	3.1	4.2
1995						
January	130.03	0.7	12.5	108.37	0.1	3.6
February	131.00	0.7	12.6	108.64	0.2	3.5
March	132.41	1.1	12.7	109.14	0.5	4.2
April	133.77	1.0	12.9	109.59	0.4	4.3
May	134.15	0.3	13.4	109.23	-0.3	5.6
June	135.95	1.3	13.0	109.89	0.6	5.0
July	136.36	0.3	12.6	109.31	-0.5	4.4
August	136.98	0.5	12.5	108.03	-1.2	3.7
September	138.92	1.4	12.2	108.91	0.8	3.3
October	139.28	0.3	12.2	108.36	-0.5	3.2
November	140.60	0.9	12.6	109.30	0.9	4.1
December	145.56	3.5	12.8	112.84	3.2	4.2

(*) Deflated by the consumer-price index (IPC).

Source: Instituto Nacional de Estadísticas (INE).

Table 8.8

LABOUR-COST INDEX
(Base: April 1993 = 100)

Date	NOMINAL			REAL (*)		
	Index	Percentage change		Index	Percentage change	
		Month	12-month		Month	12-month
1994						
January	112.13	1.1	-	106.07	1.0	-
February	112.67	0.5	-	106.34	0.3	-
March	113.91	1.1	-	106.26	-0.1	-
April	115.55	1.4	15.6	107.69	1.3	7.7
May	115.69	0.1	15.5	106.81	-0.8	8.2
June	117.32	1.4	16.1	107.15	0.3	7.9
July	117.90	0.5	17.5	107.04	-0.1	9.2
August	118.59	0.6	17.1	106.06	-0.9	8.6
September	121.26	2.3	16.7	107.60	1.4	8.1
October	121.01	-0.2	15.1	107.07	-0.5	7.7
November	122.00	0.8	14.8	106.75	-0.3	6.1
December	126.86	4.0	14.4	111.34	4.3	6.0
1995						
January	125.93	-0.7	12.3	110.13	-1.1	3.8
February	126.60	0.5	12.4	110.02	-0.1	3.5
March	128.05	1.1	12.4	109.38	-0.6	2.9
April	129.78	1.4	12.3	110.55	1.1	2.7
May	130.27	0.4	12.6	111.87	1.2	4.7
June	131.52	1.0	12.1	113.63	1.6	6.0
July	132.16	0.5	12.1	113.24	-0.3	5.8
August	132.11	0.0	11.4	111.97	-1.1	5.6
September	134.04	1.5	10.5	111.62	-0.3	3.7
October	134.97	0.7	11.5	110.39	-1.1	3.1
November	136.07	0.8	11.5	110.32	-0.1	3.3
December	141.14	3.7	11.3	114.49	3.8	2.8

(*) Deflated by the wholesale-price index (IPM).

Source: Instituto Nacional de Estadísticas (INE).

Table 9

INITIAL REAL SETTLEMENTS AGREED BY COLLECTIVE NEGOTIATION

(Percentages)

Period	UNIONS	OTHER GROUPS	TOTAL
1993			
January-March	3.0	2.3	2.8
April-June	2.7	3.9	3.0
July-September	1.9	2.4	2.0
October-December	1.7	0.3	1.5
1994			
January-March	1.9	1.0	1.8
April-June	1.7	0.6	1.5
July-September	1.6	1.8	1.7
October-December	1.9	1.4	1.9
1995			
January-March	2.1	2.0	2.1
April-June	2.3	2.1	2.2
July-September	1.3	0.6	1.1
October-December	1.7	0.5	1.6

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

Table 10

INTEREST RATES ON BANCO CENTRAL INSTRUMENTS
(Real annual rates)

Date	PRBC		PRC (4)						
	90-day	360-day (1) (4)	4-year (2)	6-year (2)	8-year (2)	10-year (2)	12-year (3)	14-year (3)	20-year (3)
1993									
January	6.5	7.3	7.7	7.7	7.6	7.6	.	.	.
February	6.5	7.2	7.6	7.6	7.5	7.5	7.4	7.4	7.2
March	6.5	7.3	7.6	- (5)	7.5	7.5	7.4	7.4	7.3
April	6.5	7.1	7.6	-	7.5	7.5	7.4	7.4	7.3
May	6.5	7.1	7.7	-	7.7	7.6	7.6	7.6	7.4
June	6.5	7.0	7.4	-	7.4	7.4	7.3	7.3	7.2
July	6.5	7.2	7.2	-	7.0	7.0	6.9	6.9	6.8
August	6.5	6.7	6.8	-	6.6	6.6	6.6	6.5	6.4
September	6.5	- (5)	6.5	-	6.4	6.4	6.4	6.4	6.3
October	6.5	-	6.6	-	6.5	6.5	6.5	6.5	6.4
November	6.5	-	6.7	-	6.5	6.5	6.5	6.5	6.4
December	6.5	-	6.6	-	6.4	6.4	6.4	6.4	6.3
1994									
January	6.5	-	6.5	-	6.3	6.3	6.2	6.2	6.1
February	6.5	-	- (5)	-	6.1	6.1	6.0	6.0	5.9
March	6.5	-	-	-	6.1	6.1	6.0	6.0	5.9
April	6.5	-	-	-	6.1	6.1	6.1	6.0	5.9
May	6.5	-	-	-	6.1	6.0	5.9	5.9	5.8
June	6.5	-	-	-	6.1	6.0	5.9	5.9	5.8
July	6.5	-	-	-	6.1	6.1	6.0	6.0	5.9
August	6.5	-	-	-	6.1	6.1	6.0	6.0	5.9
September	6.5	-	-	-	6.1	6.0	6.0	6.0	5.9
October	6.5-6.25	-	-	-	6.0	6.0	6.0	6.0	5.9
November	6.25-6.1	-	-	-	5.9	6.0	6.0	5.9	5.9
December	6.1	-	-	-	5.9	5.9	5.9	5.9	5.8
1995									
January	6.1	-	-	-	6.0	6.0	5.9	5.9	5.9
February	6.1	-	-	-	6.1	6.2	6.1	6.1	6.0
March	6.1	-	-	-	6.2	6.2	6.2	6.2	6.2
April	6.1	-	-	-	6.3	6.3	6.3	6.3	6.3
May	6.0	-	-	-	6.2	6.2	6.2	6.2	6.2
June	5.9	-	-	-	6.0	6.0	6.0	6.0	5.9
July	5.7	-	-	-	5.7	5.7	5.7	5.7	5.6
August	5.7	-	-	-	5.9	6.0	5.9	5.9	5.8
September	5.9	-	-	-	6.1	6.1	6.1	6.1	6.0
October	6.3	-	-	-	6.4	6.4	6.4	6.4	6.3
November	6.8	-	-	-	6.7	6.7	6.7	6.7	6.5
December	6.9	-	-	-	6.9	6.9	6.8	6.8	6.6

(1) As from April 9th 1992, the Banco Central de Chile agrees to accept UF 350.000 in each tender.
(2) As from July 28th 1992, the Banco Central de Chile agrees to accept UF 300.000 in each tender.
(3) As from February 16th 1993, the Banco Central de Chile agrees to accept UF 200.000 in each tender.
(4) Corresponds to mean weighted trade rate in that month (base 360 days).
(5) Discontinued.

Source: Banco Central de Chile.

Table 11

90- TO 365-DAY INDEXED INTEREST RATES
(Financial system monthly averages)

Date	Deposits	Loans	Spread
1990 Average	9.4	13.3	3.8
1991 Average	5.4	8.5	3.1
1992 Average	5.3	8.1	2.9
1993 Average	6.4	9.2	2.8
1994 Average	6.4	9.3	2.9
1995 Average	5.9	8.5	2.7
1993			
First quarter	6.3	9.0	2.7
Second quarter	6.5	9.2	2.7
Third quarter	6.5	9.4	2.9
Fourth quarter	6.3	9.3	3.0
1994			
First quarter	6.6	9.6	3.0
Second quarter	6.6	9.5	2.9
Third quarter	6.3	9.2	2.9
Fourth quarter	6.0	8.9	2.9
1995			
January	5.9	8.8	2.9
February	5.9	8.7	2.8
March	5.9	8.7	2.8
April	5.9	8.7	2.8
May	5.9	8.6	2.7
June	5.5	8.3	2.8
July	5.4	8.2	2.8
August	5.4	8.0	2.6
September	5.3	8.0	2.7
October	5.7	8.4	2.7
November	6.5	8.9	2.4
December	6.9	9.2	2.3

Source: Banco Central de Chile.

Table 12

MAIN MONETARY AGGREGATES
(Percentage changes)

Date	Month				Year				12-month			
	E	M1A	M2A	M7	E	M1A	M2A	M7	E	M1A	M2A	M7
1993												
January	-0.2	9.6	4.2	3.8	-0.2	9.6	4.2	3.8	14.1	35.1	31.5	30.2
February	11.0	1.3	0.3	0.5	10.8	11.0	4.5	4.3	31.2	35.8	28.8	27.6
March	-7.2	0.2	1.1	1.0	2.8	11.2	5.7	5.4	29.0	6.9	23.5	26.8
April	0.6	0.6	1.4	1.8	3.4	11.8	7.2	7.3	-18.4	10.1	26.3	28.3
May	2.0	-2.2	1.7	1.0	5.5	9.4	9.1	8.4	17.3	18.1	29.9	28.4
June	-4.3	-1.2	3.3	2.4	1.0	8.1	12.7	11.0	16.7	17.2	30.4	27.1
July	2.7	-1.8	1.1	2.2	3.6	6.1	14.0	13.4	20.5	18.1	30.4	26.6
August	-2.5	-0.7	1.5	1.6	1.1	5.3	15.7	15.3	19.8	16.6	29.4	26.1
September	2.4	0.5	2.1	1.8	3.5	5.9	18.1	17.4	6.2	14.7	28.1	27.0
October	-0.7	0.9	2.2	2.5	2.8	6.9	20.8	20.4	12.9	21.1	27.3	27.6
November	2.1	-0.5	1.7	2.3	4.9	6.3	22.8	23.1	21.5	19.6	25.9	26.4
December	11.9	15.5	3.1	3.0	17.4	22.7	26.5	26.8	17.4	22.7	26.5	26.8
1994												
January	-1.0	5.2	1.2	1.4	-1.0	5.2	1.2	1.4	16.5	17.8	22.8	23.9
February	2.4	-1.8	2.2	1.5	1.4	3.3	3.4	2.9	7.4	14.3	25.2	25.1
March	2.2	0.2	1.4	1.0	-0.9	3.5	4.9	4.0	13.2	14.3	25.6	25.1
April	0.6	-2.0	0.3	0.1	-0.3	1.5	5.2	4.1	13.1	11.4	24.1	23.0
May	0.5	0.2	1.0	0.6	0.2	1.7	6.3	4.7	11.5	14.1	23.3	22.5
June	-3.3	0.5	1.4	1.5	-3.0	2.2	7.8	6.3	12.7	16.1	21.0	21.3
July	2.2	-0.8	2.0	2.2	-0.8	1.5	10.0	8.6	12.3	17.3	22.1	21.4
August	-1.2	0.2	0.6	1.5	-2.1	1.6	10.6	10.3	13.7	18.4	20.9	21.3
September	3.3	1.8	1.4	1.4	1.2	3.4	12.1	11.8	14.8	19.9	20.1	20.7
October	-1.0	2.2	1.4	2.0	0.2	5.7	13.7	14.0	14.4	21.4	19.1	20.1
November	4.0	3.5	1.4	2.1	4.1	9.4	15.3	16.5	16.5	26.3	18.8	19.9
December	8.8	11.5	2.9	2.2	13.3	22.0	18.6	19.0	13.3	22.0	18.6	19.0
1995												
January	2.0	3.4	2.7	1.8	2.0	3.4	2.7	1.8	16.7	19.9	20.3	19.5
February	2.7	0.4	1.3	1.6	4.7	3.8	4.0	3.5	17.0	22.5	19.3	19.6
March	-2.5	-0.1	3.1	1.7	2.1	3.6	7.3	5.3	16.6	22.1	21.4	20.5
April	3.6	-0.3	1.6	1.1	5.8	3.3	9.0	6.4	20.2	24.2	23.0	21.6
May	0.0	1.9	1.4	1.8	5.8	5.2	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	1.6	0.8	3.2	9.8	6.8	21.5	20.1	19.4	19.0	25.0	22.8
December	10.2	12.2	4.2	1.7	21.0	19.7	26.5	22.2	21.0	19.7	26.5	22.2

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 + Banco Central instruments held by the public (nonfinancial private sector) + Treasury promissory notes held by the public (nonfinancial private sector) + credit bills held by the public (nonfinancial private sector) + private-sector foreign-currency deposits.

Source : Banco Central de Chile.

Table 13

COMPONENTS OF PRIVATE MONETARY AGGREGATES
MONTHLY AVERAGES
(Billions of Chilean pesos)

Date	C	D1A	Dp	Ahp	Banco Central instruments	Treasury promissory notes	Credit bills	Private-sector foreign-currency deposits
1994								
January	495.45	1,159.86	4,070.50	1,158.34	4,257.45	18.29	1,287.97	766.21
February	508.82	1,117.34	4,227.05	1,169.73	4,260.87	19.88	1,323.93	778.41
March	507.08	1,122.18	4,303.99	1,188.44	4,269.06	17.00	1,366.78	766.62
April	494.47	1,102.90	4,354.54	1,201.78	4,274.46	16.49	1,378.11	738.21
May	492.72	1,108.04	4,412.67	1,221.89	4,268.04	17.40	1,427.74	694.81
June	490.27	1,118.74	4,490.11	1,245.47	4,325.62	17.41	1,465.51	688.83
July	485.46	1,111.51	4,624.65	1,265.04	4,435.60	17.12	1,479.93	725.79
August	474.78	1,124.41	4,659.85	1,275.49	4,560.99	15.84	1,527.51	723.84
September	501.54	1,126.34	4,716.39	1,284.30	4,641.99	11.43	1,588.38	690.93
October	491.54	1,171.80	4,769.42	1,298.88	4,803.85	11.39	1,608.02	695.75
November	498.19	1,223.82	4,800.15	1,307.29	4,967.60	12.27	1,679.91	680.55
December	572.15	1,347.56	4,792.99	1,310.20	5,057.28	11.53	1,771.62	638.88
1995								
January	565.39	1,419.39	4,905.94	1,328.21	5,154.83	9.70	1,778.33	625.29
February	584.49	1,407.35	4,989.56	1,343.46	5,190.33	11.22	1,862.81	650.10
March	578.51	1,410.86	5,211.45	1,363.05	5,160.30	9.46	1,934.21	648.62
April	576.12	1,407.27	5,335.42	1,378.88	5,205.74	9.71	1,956.92	622.84
May	570.11	1,450.35	5,400.26	1,398.50	5,318.73	8.49	2,024.17	612.64
June	582.21	1,458.56	5,557.80	1,430.90	5,318.66	8.46	2,101.80	620.35
July	568.34	1,403.46	5,712.46	1,446.66	5,380.79	6.65	2,123.13	622.48
August	557.47	1,387.26	5,842.77	1,461.87	5,440.00	6.23	2,198.81	612.13
September	597.92	1,428.03	5,952.49	1,475.17	5,535.85	5.07	2,284.82	597.49
October	584.34	1,432.43	6,069.12	1,501.15	5,538.89	4.82	2,319.63	592.93
November	591.10	1,458.20	6,105.03	1,512.24	5,969.98	5.43	2,398.98	579.96
December	666.38	1,631.91	6,195.42	1,515.47	5,863.39	6.52	2,448.06	612.18

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 + Banco Central instruments held by the public (nonfinancial private sector).
M5 = M4 + Treasury promissory notes held by the public (nonfinancial private sector).
M6 = M5 + Credit bills held by the public (nonfinancial private sector).
M7 = M6 + private-sector foreign-currency deposits.

Source: Banco Central de Chile.

Table 14

MEAN NOMINAL EXCHANGE RATE
(Pesos / US dollar)

Date	OBSERVED	REFERENTIAL	BREACH OBSERVED/REFERENTIAL -1 (%)
1991 Average	349.2	366.5	-4.7
1992 Average	362.6	390.3	-7.1
1993 Average	404.2	430.0	-6.0
1994 Average	420.2	454.8	-7.6
1995 Average	396.8	413.1	-3.9
1994			
January	430.5	464.4	-7.3
February	428.7	459.8	-6.8
March	430.5	458.1	-6.0
April	424.5	458.3	-7.4
May	424.7	459.1	-7.5
June	420.7	458.3	-8.2
July	420.5	453.0	-7.2
August	419.4	456.0	-8.0
September	414.9	456.0	-9.0
October	412.2	456.2	-9.6
November	413.5	457.2	-9.6
December	402.2	421.1	-4.5
1995			
January	405.8	418.7	-3.1
February	412.1	415.3	-0.8
March	410.5	400.2	2.6
April	394.3	390.7	0.9
May	377.2	396.7	-4.9
June	373.6	396.7	-5.8
July	378.1	400.8	-5.7
August	387.3	416.4	-7.0
September	394.6	426.9	-7.6
October	406.6	428.2	-5.0
November	412.3	431.5	-4.4
December	409.0	434.9	-5.9

Source: Banco Central de Chile.

Table 15

REAL OBSERVED EXCHANGE RATE
(Base: 1986 average = 100)

Date	OVERALL INDEX (1)			INDEX LESS LATIN AMERICA (2)		
	Index	Percentage Change		Index	Percentage Change	
		Month	12-month		Month	12-month
1991 Average (4)	106.4	.	-5.6 (3)	95.5	.	-3.8 (3)
1992 Average (4)	97.6	.	-8.3 (3)	88.4	.	-7.4 (3)
1993 Average (4)	96.9	.	-0.8 (3)	86.8	.	-1.7 (3)
1994 Average (4)	94.3	.	-2.7 (3)	83.0	.	-4.4 (3)
1995 Average (4)	89.1	.	-5.5 (3)	77.8	.	-6.3 (3)
1994 (4)						
January	95.6	0.0	0.0	85.0	-0.2	-1.1
February	95.9	0.3	-0.2	85.3	0.4	-1.3
March	96.3	0.4	-2.4	85.4	0.2	-3.7
April	94.5	-1.8	-5.5	84.1	-1.6	-6.8
May	93.5	-1.1	-6.6	83.5	-0.7	-7.3
June	93.0	-0.6	-5.9	82.9	-0.7	-6.7
July	94.9	2.1	-2.5	83.9	1.1	-3.7
August	94.6	-0.3	-1.8	82.9	-1.2	-3.8
September	94.1	-0.6	-2.4	82.0	-1.1	-4.8
October	94.0	-0.1	-0.4	81.6	-0.5	-3.1
November	94.0	0.0	0.8	81.3	-0.4	-2.2
December	90.7	-3.5	-5.1	78.2	-3.8	-8.1
1995 (4)						
January	92.0	1.4	-3.8	79.5	1.6	-6.5
February	93.7	1.9	-2.3	81.1	2.0	-4.9
March	94.4	0.7	-2.0	82.5	1.7	-3.4
April	92.2	-2.3	-2.5	80.9	-2.0	-3.9
May	87.4	-5.2	-6.5	76.6	-5.2	-8.2
June	86.3	-1.3	-7.2	75.7	-1.2	-8.6
July	86.5	0.3	-8.9	75.8	0.1	-9.6
August	85.6	-1.0	-9.5	74.6	-1.6	-10.0
September	85.7	0.2	-8.9	74.8	0.2	-8.8
October	87.9	2.6	-6.5	76.9	2.9	-5.7
November	89.3	1.5	-5.0	77.9	1.3	-4.2
December	88.3	-1.1	-2.6	77.2	-0.9	-1.3

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

Source: Banco Central de Chile.

Table 16

BALANCE OF PAYMENTS
(Millions of US dollars)

Item	1993	1994	1995	PERCENTAGE CHANGE (1) 1994	1995
I. CURRENT ACCOUNT	**-2,077**	**-639**	**160**	**-69.2**	
A. Trade balance	-982	725	1,384		90.8
1. Exports fob	9,199	11,604	16,039	26.1	38.2
2. Imports fob	-10,181	-10,879	-14,655	6.9	34.7
B. Nonfinancial services	3	22	-149	560.6	
Credits	2,599	2,847	3,155	9.6	10.8
Debits	-2,596	-2,825	-3,304	8.9	16.9
C. Financial services	-1,468	-1,744	-1,430	18.8	-18.0
Net interest	-720	-688	-540	-4.5	-21.5
Net profit	-748	-1,056	-890	41.3	-15.7
D. Transfers	370	358	355	-3.2	-0.8
II. CAPITAL ACCOUNT	**2,725**	**4,573**	**1,168**	**67.8**	**-74.5**
A. Medium- and long-term capital	1,626	3,081	802	89.5	-74.0
1. Foreign investment (2)	1,104	1,754	1,030	58.9	-41.3
a. Direct	374	846	1,008	126.0	19.2
-From abroad	808	1,772	1,695	119.4	-4.4
-Abroad	434	926	687	113.6	-25.8
b. Portfolio	730	908	22	24.4	-97.6
-From abroad	820	1,259	35	53.6	-97.2
-Abroad	90	351	13	289.3	-96.2
2. DL 600 credit disbursements	845	1,000	1,321	18.4	32.0
3. Other disbursements	1,133	1,845	2,051	62.8	11.2
4. Loans repayments	-1,144	-1,418	-3,435	24.0	142.2
5. External-debt conversions	-284	-63	-136	-77.7	115.0
6. Other (3)	-28	-37	-29	32.5	-22.3
B. Short-term capital	1,099	1,492	366	35.8	-75.5
1. Credit lines	154	623	-362	305.7	
2. Other (4)	945	869	728	-8.1	-16.2
III. ERRORS AND OMISSIONS	**-70**	**-740**	**-267**		
IV. BALANCE OF PAYMENTS	**578**	**3,194**	**1,061**	**452.3**	**-66.8**

(1) Not indicated if item changes from plus to minus or viceversa.
(2) Including direct investment under DL 600, Chapter XIV capital contributions, ADRs, investment funds, Chapter XIX promissory notes and Chilean investment abroad.
(3) Including reversion payment for 1991 and 1993 retiming, financing for leasing and external assets variation.
(4) Including counterpart to external-debt recovery transactions.

Source: Banco Central de Chile.

Table 17

TRADE BALANCE
(Millions of US dollars)

Item	1993	1994	1995	PERCENTAGE CHANGE (1) 1994	1995
BALANCE OF TRADE	**-982**	**725**	**1,384**		**90.9**
Total exports (fob)	**9,199**	**11,604**	**16,039**	**26.1**	**38.2**
Copper	3,248	4,242	6,487	30.6	52.9
Non-copper	5,951	7,362	9,552	23.7	29.7
Other main (2)	2,737	3,515	4,874	28.4	38.7
Non-traditional	3,214	3,847	4,678	19.7	21.6
Total imports (fob)	**10,181**	**10,879**	**14,655**	**6.9**	**34.7**
Total imports (cif)	**11,125**	**11,825**	**15,914**	**6.3**	**34.6**
Consumer goods	1,769	1,877	2,698	6.1	43.8
Intermediate goods	6,343	6,705	9,039	5.7	34.8
Fuels	1,118	1,141	1,447	2.1	26.8
Other	5,226	5,563	7,592	6.5	36.5
Capital goods	3,013	3,243	4,177	7.6	28.8

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

Source: Banco Central de Chile.

Table 18

FOREIGN TRADE INDICATORS

Item	1993	1994	1995
Price of copper LME (US$/lb) (*)	0.862	1.055	1.332
Oil price (US$/barrel fob)	15.9	14.6	15.6
Libor US$ (nominal)	3.4%	5.1%	6.1%
External inflation excluding Latin America	-0.6%	2.5%	8.3%
Terms of trade index (1988 = 100)			
Total goods	79.6	91.3	104.8
Total non-copper and non-oil goods	89.3	97.9	106.7
Total exports			
Change in value	-8.1%	26.1%	38.2%
Change in price (fob)	-11.3%	14.8%	23.9%
Change in volume	3.7%	9.9%	11.5%
Copper exports			
Change in value	-16.4%	30.6%	52.9%
Change in price (fob)	-18.1%	23.4%	34.5%
Change in volume	2.1%	5.9%	13.7%
Traditional non-copper exports			
Change in value	-11.9%	28.4%	38.7%
Change in price (fob)	-9.6%	16.8%	25.0%
Change in volume	-2.6%	9.9%	10.9%
Non-traditional exports			
Change in value	6.7%	19.7%	21.6%
Change in price (fob)	-5.0%	5.2%	10.8%
Change in volume	12.3%	13.8%	9.7%
Goods imports			
Change in value	9.8%	6.3%	34.6%
Change in price (cif)	-2.4%	-0.4%	7.9%
Change in volume	12.6%	6.7%	24.7%

(*) Average price weighted by quarterly volumes exported.

Source: Banco Central de Chile.

Table 19

FINANCIAL SERVICES
(Millions of US dollars)

Item	1993	1994	1995	PERCENTAGE CHANGE (1) 1994	1995
INTEREST PAID (2)	**1,209**	**1,182**	**1,347**	**-2.3**	**14.0**
Medium and long term	1,000	991	1,126	-0.9	13.7
Short term	209	191	221	-8.8	15.8
INTEREST RECEIVED	**491**	**495**	**810**	**0.9**	**63.7**
PROFITS AND DIVIDENDS	**-748**	**-1,056**	**-890**	**41.2**	**-15.7**
Credits received	6	2	13	-58.6	441.7
Debits paid	754	1,058	903	40.4	-14.7
LEASING SERVICES	**2**	**1**	**3**	**-26.3**	**107.1**
TOTAL FINANCIAL SERVICES	**-1,468**	**-1,744**	**-1,430**	**18.8**	**-18.0**
Credits	497	497	823	0.2	65.5
Debits	1,965	2,241	2,253	14.1	0.5

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

Source: Banco Central de Chile.

Table 20

NONFINANCIAL SERVICES
(Millions of US dollars)

Item	1993	1994	1995	PERCENTAGE CHANGE (*) 1994	1995
SHIPMENTS	**50**	**134**	**-44**	**167.2**	
Credits	495	591	605	19.5	2.4
Debits	445	457	649	2.8	42.1
OTHER TRANSPORT	**-344**	**-339**	**-220**	**-1.4**	**-35.1**
Passenger services	-4	-2	9	-48.8	
Credits	182	191	205	4.9	7.4
Debits	186	193	196	3.7	1.6
Port services	-340	-337	-229	-0.8	-32.0
Credits	361	419	588	16.1	40.3
Debits	701	756	817	7.9	8.1
TRAVEL	**274**	**224**	**131**	**-18.2**	**-41.6**
Credits	833	863	840	3.6	-2.7
Debits	559	639	709	14.3	10.9
OTHER GOODS, SERVICES AND INCOMES	**23**	**3**	**-16**	**-85.8**	
Credits	728	783	917	7.6	17.1
Debits	705	780	933	10.7	19.6
TOTAL NONFINANCIAL SERVICES	**3**	**22**	**-149**	**572.8**	
Credits	2,599	2,847	3,155	9.6	10.8
Debits	2,596	2,825	3,304	8.9	17.0

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

Source: Banco Central de Chile.

Table 21

NET FOREIGN-INVESTMENT FLOWS
(Millions of US dollars)

Item	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995(1)
I. TOTAL FOREIGN INVESTMENT	**143**	**235**	**877**	**944**	**1,358**	**935**	**586**	**773**	**1,104**	**1,754**	**1,030**
A. DIRECT INVESTMENT	143	313	885	952	1,278	582	400	321	374	846	1,008
1. From abroad	144	315	891	968	1,288	590	522	699	808	1,772	1,695
Decree Law 600	115	111	216	163	172	216	466	574	660	1,476	1,503
Chapter XIV capital contribution	-1	5	14	13	11	35	96	157	203	400	406
Chapter XIX (2)	30	199	661	792	1,105	339	-40	-32	-55	-104	-214
2. Abroad	-1	-3	-6	-16	-10	-8	-122	-378	-434	-926	-687
B. PORTFOLIO INVESTMENT	0	-78	-8	-8	80	353	186	452	730	908	22
1. From abroad	0	-78	-8	-8	80	353	186	452	820	1,259	35
Chapter XXVI ADRs	0	0	0	0	0	105	-31	282	790	1,273	31
Investment funds	0	0	0	0	87	254	56	50	26	-14	-293
Bonds	0	-78	-8	-8	-7	-6	161	120	4	0	297
2. Abroad									-90	-351	-13
II. ASSOCIATED CREDITS	**-21**	**67**	**185**	**385**	**311**	**749**	**284**	**51**	**616**	**836**	**978**
Credit disbursements	30	108	226	521	437	888	458	328	845	1,000	1,321
Credit amortizations	-51	-41	-41	-136	-126	-139	-174	-277	-229	-164	-343
TOTAL	**122**	**302**	**1,062**	**1,329**	**1,669**	**1,684**	**870**	**824**	**1,720**	**2,590**	**2,008**

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

Source: Banco Central de Chile.

Table 22

GROSS CAPITAL CONTRIBUTIONS ABROAD VIA CHAPTER XII
(Millions of US dollars)

Year	FORMAL MARKET (1)	INFORMAL MARKET (2)	TOTAL (1) + (2)
1980	27.3		27.3
1981	35.7		35.7
1982	10.3		10.3
1983	1.7		1.7
1984	9.5		9.5
1985	1.9		1.9
1986	9.7		9.7
1987	14.4		14.4
1988	3.5		3.5
1989	38.7		38.7
1990	12.4	2.8	15.2
1991	8.5	90.2	98.7
1992	9.1	341.2	350.3
1993	90.1	320.9	411.0
1994	460.7	422.0	882.7
1995	343.5	410.8	754.3

(1) Only through the formal exchange market, Chapter XII, letter A of the Compendium of Rules on International Exchange.
(2) Only through the informal exchange market, Chapter XII, letter B of the Compendium of Rules on International Exchange.

Source: Banco Central de Chile.

Table 23

INTERNATIONAL RESERVES OF THE BANCO CENTRAL DE CHILE (1)

(Millions of US dollars)

Item	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
1. Gold	519	668	757	680	592	642	597	574	612	652	643
(Ounces Troy)	1,770	1,795	1,811	1,824	1,752	1,858	1,863	1,867	1,865	1,864	1,861
2. SDRs	0	1	41	44	24	1	1	1	1	1	3
3. Reserve position with IMF	0	0	0	0	0	0	0	0	0	0	0
4. Foreign-currency assets	2,450	2,351	2,463	3,116	3,604	6,068	7,041	9,167	9,639	13,087	14,137
5. Other assets	-16	86	62	32	-5	-202	-43	-11	-15	17	22
6. Use of IMF credit	1,085	1,328	1,452	1,322	1,268	1,151	955	722	479	290	0
7. Short-term loans	325	0	225	0	5	10	1	1	0	0	0
I. INTERNATIONAL ASSETS (2)	2,953	3,106	3,323	3,872	4,215	6,509	7,596	9,731	10,237	13,757	14,805
II. GROSS RESERVES (3)	1,868	1,778	1,871	2,550	2,947	5,358	6,641	9,009	9,758	13,467	14,805
III. NET RESERVES (4)	1,543	1,778	1,646	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805

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

Source: Banco Central de Chile.

Table 24

FOREIGN DEBT (1)
(Millions of US dollars)

Item	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995(4)
I. Total foreign debt (II+III) (2)	**19,444**	**19,501**	**19,208**	**17,638**	**16,252**	**17,425**	**16,364**	**18,242**	**19,186**	**21,478**	**21,825**
Public sector	11,769	12,394	13,128	11,889	10,136	9,727	8,763	8,681	8,110	8,189	6,742
Private sector	7,675	7,107	6,080	5,749	6,116	7,698	7,601	9,561	11,076	13,289	15,083
With public guarantee (3)	2,310	3,369	3,252	2,820	2,115	2,065	1,791	941	910	946	759
II. Medium- and long-term foreign debt	**17,650**	**17,814**	**17,191**	**15,452**	**13,279**	**14,043**	**14,165**	**14,767**	**15,699**	**17,613**	**18,315**
Public sector	10,552	11,483	12,075	11,048	9,064	8,769	8,478	8,233	7,622	7,663	6,127
Private sector	7,098	6,331	5,116	4,404	4,215	5,274	5,687	6,534	8,077	9,950	12,188
With public guarantee (3)	1,963	2,896	2,650	2,060	1,286	1,039	1,012	941	910	946	759
III. Short-term foreign debt	**1,794**	**1,687**	**2,017**	**2,186**	**2,973**	**3,382**	**2,199**	**3,475**	**3,487**	**3,865**	**3,510**
Public sector	1,217	911	1,053	841	1,072	958	285	448	488	526	615
Private sector	577	776	964	1,345	1,901	2,424	1,914	3,027	2,999	3,339	2,895
With public guarantee (3)	347	473	602	760	829	1,026	779	0	0	0	0
IV. International Monetary Fund	**1,085**	**1,328**	**1,452**	**1,322**	**1,268**	**1,151**	**955**	**722**	**479**	**290**	**0**

(1) Including debt in bonds, as foreign investment.
(2) Balance at December 31st of each year, based on net disbursements. Excluding debt with IMF and foreign commercial credit lines (pending export returns and import payments).
(3) As from 1990, debt with IDB and IBRD corresponding to privatised companies (Endesa, Chilectra and Pehuenche) has been included as private-sector debt with public guarantee.
(4) Provisional figures.

Source: Banco Central de Chile.

Table 25

FOREIGN-DEBT INDICATORS

Item	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995(*)
						(Millions of US dollars)					
Total foreign debt	19,444	19,501	19,208	17,638	16,252	17,425	16,364	18,242	19,186	21,478	21,825
Medium- and long-term foreign-debt servicing	2,058	2,041	1,697	1,676	2,139	2,086	2,197	2,229	2,378	2,351	4,013
Interest on total foreign debt	1,838	1,772	1,516	1,214	1,559	1,558	1,417	1,240	1,089	1,121	1,252
Current-account deficit	1,413	1,191	735	231	705	558	-111	699	2,077	639	-160
International reserves	1,543	1,778	1,646	2,550	2,942	5,348	6,640	9,008	9,758	13,467	14,805
Trade-balance surplus/deficit	884	1,092	1,309	2,210	1,578	1,336	1,588	771	-982	725	1,384
Goods and services exports	4,497	5,233	6,349	8,144	9,575	10,278	11,059	12,439	11,798	14,451	19,194
Goods imports (fob)	2,955	3,099	3,994	4,833	6,502	7,037	7,354	9,237	10,181	10,879	14,653
						(Percentages)					
Total foreign debt/goods and services exports	432	373	303	217	170	171	148	147	163	149	114
Medium- and long term foreign debt servicing / Goods and services exports	46	39	27	21	22	20	20	18	20	16	21
Interest / Goods and services exports	41	34	24	15	16	15	13	10	9	8	7
Current-account deficit / Goods and services exports	31	23	12	3	7	5	-1	6	18	4	-1
Trade-balance surplus or deficit / Goods and services exports	20	21	21	27	16	13	14	6	-8	5	7
Current-account deficit / GDP	9	7	4	1	2	2	0	2	5	1	0
						(Months)					
Net international reserves / Goods imports (fob)	6	7	5	6	5	9	11	12	12	15	12

(*) Provisional figures.

Source: Banco Central de Chile.

ANNEXE 1

MAIN MONETARY AND CREDIT MEASURES IN 1995

May

18 The Banco Central, in accordance with the attributions granted it by the capital markets law decided to increase the limits on investment abroad by Pension Fund Administrators (AFPs), as well as widening the menu of instruments in which they can invest. The upper limit for investment abroad was raised from 6% to 9% of the total value of the fund, and investment in variable income instruments was authorized up to 4.5% of the funds value. Investment was also authorized in risk-coverage instruments up to 9% of the value of the fund. As regards investment nationally, the margin of investment by AFPs in shares of public corporations was raised from 30% to 37%, while for state securities the limit was raised from 45% to 50%.

26 From Monday May 29th onwards there was a modification to the way in which 90-day PRBCs are sold. In future these securities will be sold via auctions held on Tuesday and Thursday each week, with pre-established quotas to be announced monthly. Thus it is no longer the Banco Central which fixes the rates on 90-day PRBC, but instead the market is acquiring a wider role in the determination of this rate. The Banco Central will use the one-day interest rate as its main monetary policy signal, thereby giving greater flexibility to the way it conducts monetary policy.

In addition, the system for selling 30-day PDBCs was also modified. In the future these bills will continue to be sold on Wednesdays, but only to those banks and financial institutions that have been awarded PRBCs in the auction on the preceding Tuesday. These banks and financial institutions will have the option to purchase up to 10% of the amount awarded in PRBCs at a nominal interest rate to be announced on Wednesday before 9.30 AM. This nominal interest rate will have an implicit real interest of 0.4% below the real interest rate at which the 90-day PRBCs were awarded in the auction on the preceding Tuesday.

Banks and financial institutions can open a liquidity deposit account at the Banco Central de Chile, in which they can effect one-day deposits and receive an interest rate equivalent to UF+5.2%.

Interest rates on the liquidity credit line are modified in the following way: the first segment goes from UF+6.30% to UF+5.70%; the second segment goes from UF+6.55% to UF+6.00%; and the third segment goes from UF+7.05% to UF+6.50%.

The aim of this is for the inter-bank interest rate to vary between the liquidity deposit account rate and the liquidity credit account rate. As secondary instruments of monetary policy, the Banco Central has at its disposal the quotas for 90-day PRBCs, repos and special auctions.

June

23 From Monday June 26th onwards the real return on the liquidity deposit account is modified and falls from a nominal interest rate equivalent to UF+5.2% to UF+ 5.0%, with the remaining Banco Central interest rates remaining unchanged.

August

19 Different modalities were incorporated into PDBC auctions as regards the presentation of offers and the form of adjudication. With this measure, as well as the regular sale of PDBCs on Wednesdays, the Banco Central will have the additional possibility to call an auction on dates and in modalities which it considers convenient.

September

5 The use of the liquidity credit line offered by the Banco Central is limited to financial entities. From September 9th onwards the use of the liquidity credit line by each financial institution on average is limited for the reserve period to 90% of the amount assigned in the first segment, and from October 9th it is restricted to 60% of this amount.

7 The following is incorporated into the Compendium of Financial Rules as Chapter III.B.4: "Conditions relating to the sale or transfer of portfolios from banks or financial companies to securitizing companies, or to securitized loan investment funds."

October

27 The payment of promissory notes is authorized to entities applying for payment, represented by security deposit firms, without the need for immediate presentation of the corresponding titles, provided the security deposit company applying for the payment has subscribed to the conditions of authorization established by the Banco Central de Chile, by means of which it adheres to a procedure of redemption and payment defined by the Bank.

December

5 It is decided to raise the interest rates which the Banco Central applies to liquidity credit lines in national currency and to the liquidity deposit account. The real rates of interest from this date are the following:

First segment of the liquidity credit line	6.7%
Second segment of the liquidity credit line	7.0%
Third segment of the liquidity credit line	7.5%
Liquidity deposit account	6.0%

ANNEXE 2

MAIN EXCHANGE-RATE AND FOREIGN TRADE MEASURES IN 1995

January

5 Banking firms and financial institutions are advised that, in order to deduct financial investments which they carry out abroad from their foreign currency balances for reserve purposes, the total amount to be deducted cannot exceed the limit provided for such investment.

12 The Banco Central officially fixes limits for investment abroad in the following terms:

A widening of the margin from 3% to 6% of total assets accumulated in pension funds.

Authorization for life insurance companies to invest up to 10% of their resources in financial investments and up to 3% in non-residential urban real-estate.

Authorization for general insurance companies to invest up to 15% of their resources in financial investments and up to 3% in non-residential urban real-estate.

Authorization for mutual funds to invest up to 30% of their total assets, without complying with the requirements for minimum classification or a pre-determined number of countries.

In accordance with the above, AFPs and insurance companies will have access to the formal exchange market to acquire foreign currency for effecting payments or remittances related to these operations. From this date onwards the Superintendency of Banks and Financial Institutions is given the faculty to fix the terms under which banking firms which, after obtaining authorization to invest abroad and having exceeded the maximum assets coefficients, may adjust and eliminate such excesses.

March

2 Foreign exchange houses are authorized as entities in the formal exchange market to carry out exchange transactions related to foreign investments by AFPs, insurance companies and mutual funds.

16 Investment rules for AFPs are adjusted by defining the requirements with which stock markets and their agents must comply, denominating these as the "formal secondary market", through which transactions in financial instruments must be carried out both nationally and abroad.

It is stipulated that mutual funds shall not have access to the formal exchange market for acquiring currency to effect payments or remittances related to their investments abroad.

April

18 The general exchange market restrictions, contained in the Compendium of Rules on International Exchange, and which expire on April 19th 1995, are renewed until April 19th 1996.

From the following June 16th onwards, the obligation to make returns of foreign currency originating from the export of goods and services and liquidate these in the national market will be eliminated. The obligation to inform the Banco Central for statistical purposes alone will remain.

May

17 The provisions relating to investment abroad for pension funds is modified (Annexe 1).

June

14 The maximum amount of loans in pesos with a charge on foreign currency resources in the banking system is restricted (Chapter V.B.2 of the Compendium of Financial Rules). The amount is altered from 1.5 times the average of the International Exchange Positions balances to 0.7 times, in the month of July, and 0.1 times from August onwards.

July

From this month onwards secondary ADRs will be subject to the same reserve requirement as affects foreign loans.

The risk classification is reduced on instruments in which AFPs can invest from A- to BBB-.

It is decided that for investment in shares of insurance companies, the country risk of the issuing country will not be considered, but the risk of the country where the shares are traded. The risk classification which the country trading the shares must comply with is set at BBB-.

Of the part of paid up capital and reserves which banking firms may keep in financial investments abroad, it is permitted that 30% may be invested in instruments with a risk classification of BB-, while the rest must be invested in instruments of risk classification BBB-, lower than the A- requirement which was previously in force.

August

During the first fortnight of August the Banco Central authorities decided to eliminate Chapters XVIII and XIX of the Compendium of Rules on International Exchange. Consequently, restrictions which had been in force on capital and profit remittances, for investments associated with the latter chapter, were lifted.

September

20 In relation to ADRs, the maximum period for acquiring currency resulting from the disposal of shares originating from security substitutions, is lowered from 60 working days to 5. In addition the period for presenting the request to the Banco Central de Chile for authorization to repatriate the capital if shares have not been acquired within 5 working days, is reduced from 90 to 7 days.

November

3 Banking firms selling currency must possess specific documents for carrying out such operations.

9 To the discount already being applied to the path of the value of the referential currency basket (CRM) in terms of the indexed unit (UF), due to foreign inflation, a trend factor or exchange rate revaluation of 2% per year is added, so that the estimated medium-term trend of the real exchange rate may approximate its equilibrium level. In practice the referential exchange rate is revalued by 2% per year.

17 Authorization is given to not make returns of funds obtained from bond issues abroad. Such resources can be kept in an open account in a banking firm abroad, from which payments can be made (at expiry date) on foreign loans or imports which have been duly approved by and registered at the Banco Central de Chile, and for making investments in financial instruments abroad.

Together with this, the functioning of duty-free stores in national territory is regulated, and it is established that the sale of national and foreign merchandise to passengers traveling abroad will not constitute an export or an import, respectively.

23 Greater flexibility is given to the requirements under which firms quoting ADRs on foreign stock markets can make new placements of such securities, reducing the minimum amount of capital from US$ 25 million to US$ 10 million.

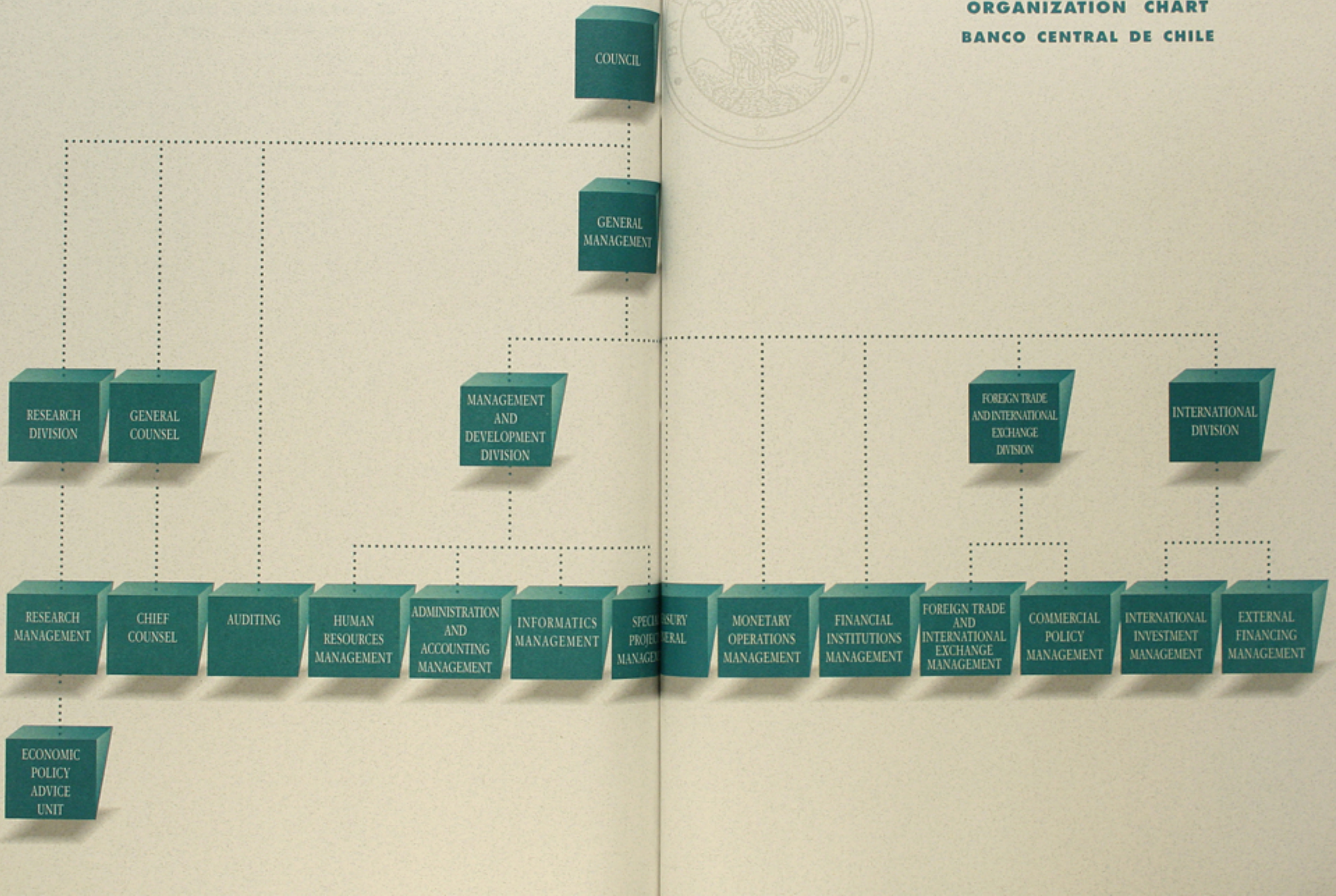
December

23 Uniformity is given to reserve requirement terminology, by establishing that foreign loans used directly abroad also constitute a reserve, instead of a deposit, which could be constituted in banking firms.

II. ORGANIZATION CHART
BANCO CENTRAL DE CHILE

As of December 31, 1995

ORGANIZATION CHART
BANCO CENTRAL DE CHILE



III. FINANCIAL STATEMENTS

BANCO CENTRAL DE CHILE

As of December 31, 1995

BALANCE SHEET

As of December 31, 1995
(In millions of Chilean pesos)

ASSETS

OVERSEAS ASSETS		7,102,765.6
RESERVE ASSETS	6,953,402.5	
Gold	279,533.6	
Foreign currencies	3,052,329.3	
Special drawing rights holdings	1,341.8	
IMF subscription	402,126.9	
Bonds, certificates of deposit and other	2,955,024.3	
Mutual loan agreements	122,621.0	
Other	140,425.6	
OTHER OVERSEAS ASSETS	149,363.1	
Contributions made to other international organizations	80,125.8	
Interest receivable	69,228.2	
Other	9.1	
DOMESTIC ASSETS		6,284,132.7
DOMESTIC LOANS		
Loans to the Treasury	18,190.9	
Loans to state-owned entities	105,054.1	
Loans to the Banco del Estado de Chile	134,165.8	
Loans to commercial banks	309,118.7	
Loans to other institutions	209,531.3	
Treasury transferences (Laws 18267, 18401 and 18768)	3,668,651.4	
Subordinate obligations of financial institutions (Law 18401)	1,839,420.5	
OTHER ASSETS		155,335.4
Fixed assets	12,653.4	
Other	142,682.0	
TOTAL ASSETS		13,542,233.7

Notes 1 to 14 are an integral part of these financial statements.

LIABILITIES

OVERSEAS LIABILITIES		1,396,997.3
RESERVE LIABILITIES	514,995.5	
Mutual credit agreements	112,880.1	
IMF deposits	402,115.4	
OTHER OVERSEAS LIABILITIES	803,139.0	
Loans and other liabilities	648,757.6	
Accounts with other international organizations	128,086.1	
Interest payable	26,295.3	
ALLOCATION OF SPECIAL DRAWING RIGHTS	78,862.8	
DOMESTIC LIABILITIES		11,733,345.2
CURRENCY ISSUED AND DEPOSITS	1,068,794.2	
Currency in circulation	953,799.3	
Financial institutions deposits (Chilean pesos)	114,994.9	
DEPOSITS AND OBLIGATIONS	2,403,106.5	
Deposits and obligations with the Treasury	1,740,819.5	
Other deposits and obligations	662,287.0	
INSTRUMENTS ISSUED BY THE BANCO CENTRAL	8,261,444.5	
Discountable promissory notes of the Banco Central (PDBC)	1,110.0	
Indexed promissory notes to be paid in coupons (PRC)	4,965,680.2	
Indexed promissory notes with floating interest rate (PTF)	105,110.8	
Promissory notes issued for exchange rate differential	57,112.1	
Promissory notes for purchase of portfolio under Resolution 1555	22,794.7	
Promissory notes issued for purchase of portfolio	75,681.1	
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange)	299,272.7	
Promissory notes for purchase of mortgage notes	10,284.7	
Indexed promissory notes of the Banco Central (PRBC)	1,977,901.2	
Commercial notes from redenomination of external debt	369,071.3	
Promissory notes stated in indexed units (UF) (Resolution 1836) arising from US dollar certificates	371,442.5	
Deposit certificates stated in US dollars (Resolution 1649)	5,443.2	
OTHER LIABILITIES		116,643.0
Accruals	5,657.8	
Other	110,985.2	
CAPITAL AND RESERVES		295,248.2
Capital	302,415.8	
Deficit for the year	(7,167.6)	
TOTAL LIABILITIES		13,542,233.7

STATEMENT OF INCOME
For the year ended December 31, 1995
(In millions of Chilean pesos)

OPERATING RESULTS		
OPERATING INCOME		1,468,232.7
Interest earned	766,511.9	
Indexation gains on assets	240,121.9	
Income on price differences	36,654.5	
Gain on exchange differences	409,760.9	
Other operating income	15,183.5	
OPERATING EXPENSES		(1,440,933.1)
Interest expenses	659,097.6	
Indexation losses on liabilities	620,597.5	
Commission expenses	1,355.5	
Loss on price differences	26,573.9	
Loss on exchange differences	123,460.0	
Other operating expenses	9,848.6	
GROSS MARGIN		27,299.6
OTHER OPERATING EXPENSES		(16,762.8)
Personnel expenses	11,100.3	
Administrative expenses	3,782.2	
Depreciation, amortization and write-offs	1,538.5	
Taxes	341.8	
Income before loan provisions and write-offs		10,536.8
Loan provisions and write-offs		(796.7)
NET OPERATING INCOME		9,740.1
NON-OPERATING INCOME AND EXPENSES		823.6
Non-operating income	826.4	
Non-operating expenses	(2.8)	
Income before price-level restatement		10,563.7
PRICE-LEVEL RESTATEMENT		(17,731.3)
LOSS FOR THE YEAR		(7,167.6)

Notes 1 to 14 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles generally accepted in Chile and policies issued by the Board of the Banco Central de Chile, upon prior approval of the Superintendencia de Bancos e Instituciones Financieras (Superintendency of Banks and Financial Institutions), as established by Article 75 of Law 18840 (Constitutional Organic Law of the Banco Central de Chile). These policies are in accordance with generally accepted accounting principles, except for the exchange rates used, as explained in b) below.

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

b) FOREIGN CURRENCY

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

Assets and liabilities expressed in minted Chilean gold coins are valued on the basis of the average London morning quotation of the "Gold Fixing" rate (US dollars per troy ounce), for all business days in the preceding quarter, less 10%.

Settlements of foreign currency other than the US dollar are made at the exchange rates given 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:

	(In Chilean pesos)
Minted Chilean gold coins	883.830
US dollar	434.880
Pound sterling	674.860
Deutsche mark	302.862
Special drawing rights (SDR)	646.819

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, both for account 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 the cost or 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 Liabilities.

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

f) SUBORDINATE OBLIGATIONS OF FINANCIAL INSTITUTIONS

The subordinate obligations of financial institutions included in Domestic Assets (Note 6) comprise the balances of repurchase obligations included in the novation agreement, indexed as of December 31, 1995, including, therefore, the outstanding balances of the portions paid in cash and the portions constituted by notes of the Banco Central, plus cumulative increases on the portions paid in cash which are recorded as a credit to income as they are earned.

g) RESERVE FOR LOAN LOSSES

In 1995, the Bank has constituted reserves for doubtful debts in accordance with Board Resolution 472 of December 1995. The cumulative reserves, amounting to Ch$ 70,684.1 million, 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 determined based on the present value method, considering an 8% annual interest rate. The balance sheet includes at year end an accrual for Ch$ 4,046.6 million for this concept.

j) VACATIONS

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

k) PRICE-LEVEL RESTATEMENT

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

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

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

The total balance of these loans, amounting to Ch$ 776,060.8 million, includes the following transactions:

	(Millions of Chilean pesos)
Loans to the Treasury	18,190.9
Receivables from the Corporación de Fomento de la Producción (Corfo) (Note 3)	70,647.2
Credit lines in respect of rescheduling of debts	133,585.0
Mortgage loan portfolio acquired	76,985.4
Purchase of Banco Central notes under resale agreement	68,651.1
Liquidity credit lines	60,864.0
Credit lines to finance the sale of the mortgage portfolio of the Asociación Nacional de Ahorro y Préstamo (ANAP)	61,505.1
Credit lines of international organization programs	45,483.3
Credit lines for deposits (Resolution 1686)	17,641.7
Caja Central de Ahorro y Préstamo and Asociación Nacional de Ahorro y Préstamo (ANAP) (Note 4)	208,678.4
Other	13,828.7
Total	776,060.8

3. LOANS DUE FROM THE CORPORACION DE FOMENTO DE LA PRODUCCION

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

CORFO serves its debt by transferring the amounts it collects from the shareholders from the transfer of shares of the related financial institutions. At December 31, 1995, the balance receivable from CORFO amounted to Ch$ 70,647.2 million and is included as "Loans to State-Owned Entities."

In accordance with Article 13 of Law 18401, the differences that are not recovered as a result of discounts granted to the shareholders, up to UF 15 million, will be covered by the Treasury (Note 5) by future transferences, which at December 31, 1995 amounted to Ch$ 127,265.8 million, equivalent to UF 10.2 million. On the basis of information currently available, the legal maximun is considered sufficient to cover discounts.

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

Pursuant to Law 18900 of January 16, 1990, the legal existence of the Caja Central de Ahorros y Préstamos and the authorization for the existence of the 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 the Caja Central and the Asociación Nacional which are not covered by the proceeds of their liquidations will be met by charging the national budget, in accordance with Article 21 of Decree Law 1263 of 1975.

At December 31, 1995, the amount owed to the Banco Central for the liquidation of these entities, including accrued interest, amounted to Ch$ 208,678.4 million, and is included in Loans to Other Institutions.

5. TREASURY TRANSFERENCES

Under this heading are listed the following items:

	(Millions of Chilean pesos)
Treasury promissory notes (Law 18267)	504,821.2
Treasury promissory notes (Law 18768)	3,036,564.4
Treasury transferences (Law 18401)	127,265.8
Total	3,668,651.4

a) TREASURY PROMISSORY NOTES (LAW 18267)

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

b) TREASURY PROMISSORY NOTES (LAW 18768)

This item corresponds to promissory notes denominated and payable in US dollars which accrue interest at an annual rate of LIBOR plus 0.5, of which 2% is payable semiannually and the balance is capitalizable. The last installment matures on December 15, 2014.

c) TREASURY TRANSFERENCES (LAW 18401)

This item shows the discounts granted to those shareholders benefited by the mentioned law which are to be applied to the maximum of UF 15 million stipulated in Article 13 of this 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. SUBORDINATE OBLIGATIONS OF FINANCIAL INSTITUTIONS

At December 31, 1995, five private banks maintain subordinate obligations with the Banco Central de Chile, which derive from the application of Law 18401, which granted the banks that had sold to the Banco Central (Resolutions 1450 and 4555, 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 subordinate obligations are to be amortized by the debtor banks with their surpluses, and have no fixed maturity date.

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

The new law provides an option for the banks with subordinate obligations to negotiate the payment terms. It also provides for a maximum 40-year payment term through annual installments and states that the annual surplus must still be allocated to pay the subordinate obligations. In those cases where the surplus does not cover the annual installment, funds will be raised through the subscription and payment of preference shares. The Banco Central will receive as payment the issued, not subscribed shares needed to cover the balance of the annual installment.

The deadline for benefiting from the provisions of this law expires in July 1996; in the case of merger of financial institutions or of total acquisition of a bank's assets through the assumption of liabilities, the deadline will be extended for an additional 360-day term. Currently, the Banco Central is in the process of studying with some debtor banks, the modification of the terms of these subordinate obligations.

7. OTHER OVERSEAS LIABILITIES

Loans and Other Liabilities include:

	(Millions of Chilean pesos)
Credit agreements for 1983, 1984 and 1985 to grant "new money" loans	422,950.9
Rescheduling of foreign debt from 1983-1984, 1985-1987 and 1988-1991	224,006.6
Agency for International Development credit	1,609.9
Other liabilities	190.2
Total	648,757.6

8. DEPOSITS AND OBLIGATIONS

Other Deposits and Obligations include:

	(Millions of Chilean pesos)
Reserve deposits (Resolution 143)	318,738.3
Banco del Estado de Chile deposits	100,043.1
Foreign-currency current accounts	141,115.5
Foreign-currency deposits (Resolutions 1657 and 1686)	14,806.2
Mandatory deposits on overseas credits	68,055.0
Other deposits and obligations	19,528.9
Total	662,287.0

9. CLASSIFICATION OF THE INSTRUMENTS ISSUED BY THE BANCO CENTRAL DE CHILE AT DECEMBER 31, 1995 BY THE PERIOD REMAINING TO MATURITY

Type of instrument	(In millions of Chilean pesos) Up to 90 days	91 - 180 days	181 - 365 days	1-3 years	Over 3 years	Total
Discountable promissory notes of the Banco Central (PDBC)	1,110.0	0.0	0.0	0.0	0.0	1,110.0
Indexed promissory notes to be paid in coupons (PRC)	242,595.0	201,186.2	344,130.6	1,243,831.7	2,933,936.7	4,965,680.2
Indexed promissory notes with floating interest rates (PTF)	7,944.2	1,510.8	7,377.3	29,509.4	58,769.1	105,110.8
Promissory notes issued for exchange rate differential	27,453.9	16,301.2	13,159.8	174.8	22.4	57,112.1
Promissory notes issued for purchase of portfolio (Resolution 1555)	9,000.5	8,821.9	3,700.4	1,271.9	0.0	22,794.7
Promissory notes issued for purchase of portfolio	0.0	0.0	0.0	0.0	75,681.1	75,681.1
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange)	1,361.4	1,408.5	0.0	45,457.8	251,043.0	299,272.7
Promissory notes for purchase of mortgage notes	6,026.1	3,480.4	1,318.2	0.0	0.0	10,824.7
Indexed promissory notes of the Banco Central (PRBC)	1,977,901.2	0.0	0.0	0.0	0.0	1,977,901.2
Commercial notes from redenomination of external debt	16,507.4	36,563.7	112,631.4	23,067.0	180,301.8	369,071.3
Promissory notes stated in indexed units (UF) (Resolution 1836)	9,167.8	0.0	0.0	0.0	362,274.7	371,442.5
Certificates of deposit expressed in US dollars (Resolution 1649)	593.7	0.0	0.0	881.7	3,967.8	5,443.2
Total instruments issued	2,299,663.2	269,272.7	482,317.7	1,344,154.3	3,865,996.6	8,261,444.5

These amounts include interest and indexation accrued at December 31, 1995.

10. CAPITAL AND RESERVES

The changes in Capital and Reserves were as follows:

	(Millions of Chilean pesos)		
	Capital	Deficit for the year	Total
Balances, at January 1, 1995	888,574.3	(609,077.3)	279,497.0
Absorption of 1994 deficit	(609,077.3)	609,077.3	-
Monetary correction of capital	22,918.8	-	22,918.8
Deficit for the year		(7,167.6)	(7,167.6)
Balances, at December 31, 1995	302,415.8	(7,167.6)	295,248.2)

Pursuant to Article 77 of Law 18840 (Banco Central de Chile Constitutional Organic Law), the deficit incurred in any year will be absorbed by charging reserves. As there are no reserves and lacking an express rule, the Board, in accordance with Article 2 and the faculties conferred by Article 75 of the mentioned 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.

11. BALANCES IN FOREIGN CURRENCIES AND GOLD

Assets and liabilities denominated in foreign currencies included in the balance sheet at December 31, 1995 are as follows:

	(Millions of US dollars)
ASSETS	
OVERSEAS ASSETS	15,464.2
Reserve assets	15,268.3
Other overseas assets	195.9
DOMESTIC ASSETS	7,139.5
Domestic loans	7,139.5
OTHER ASSETS	128.0
Total assets	22,731.7
LIABILITIES	
OVERSEAS LIABILITIES	1,993.2
Reserve liabilities	259.6
Other overseas liabilities	1,552.3
Allocation of special drawing rights	181.3
DOMESTIC LIABILITIES	4,895.7
Deposits and obligations	4,895.7
OTHER LIABILITIES	146.0
Total liabilities	7,034.9
NET ASSETS	**15,696.8**

12. CONTINGENCIES AND RESPONSIBILITIES

a) CONTINGENCIES

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

b) RESPONSIBILITIES

The Banco Central de Chile is responsible for the custody of securities owned by pension fund administratoes amounting to Ch$ 8,812,714.6 million at December 31, 1995.

13. INCOME TAXES

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

14. SUBSEQUENT EVENTS

On January 8, 10, 22 and 25, 1996, the Bank pre-paid foreign debt amounting to US$ 1,122.7 million, corresponding to 1983, 1984 and 1985 "new money" loans and rescheduling of foreign debt from 1983 to 1991.

On January 17, 1996, the Treasury pre-paid Treasury promissory notes (Law 18768) totalling US$ 294.2 million, corresponding to the principal of the promissory notes issued in 1985, that matured in 1997, and to interest accrued up to the pre-payment date.

CAMILO CARRASCO ALFONSO
General Manager

FRANCISCO GARCIA LETELIER
Accounting and Administration Manager

MARIO ULLOA LOPEZ
General Auditor (Acting)

DELOITTE & TOUCHE

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

We have audited the balance sheet of the Banco Central de Chile as of December 31, 1995 and the related statement of income for the year then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Chile. Those 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.

The Banco Central de Chile prepares its financial statements in accordance with the accounting policies issued by the Board, upon prior approval of the Superintendencia de Bancos e Instituciones Financieras (Law 18840). These policies are in conformity with accounting principles generally accepted in Chile, except for the exchange rate used in converting foreign-currency assets and liabilities (Notes 1a and b).

In our opinion, the above mentioned financial statements present fairly, in all material respects, the financial position of the Banco Central de Chile at December 31, 1995 and the results of its operations for the year then ended in conformity with the accounting policies described in Note 1.

The subordinate obligations of financial institutions, derived from the novation of the purchase and sale of loan portfolios (Note 6), amount to Ch$ 1,839,420 million at December 31, 1995. The recoverability of this amount is uncertain as it depends on future surpluses generated by the debtor institutions or on the renegotiation of debt service which might be agreed with the debtor banks, pursuant to Law 19396.

January 29, 1996

Patricio González Greco

Deloitte Touche Tohmatsu International

BANCO CENTRAL DE CHILE

AGUSTINAS 1180 – SANTIAGO
P. O. BOX 697 – SANTIAGO
TELEPHONE: 56-2-670 2000
TELEX: 40569 CENBC CL
FAX: 56-2-698 4847