BANCO CENTRAL DE CHILE

63th ANNUAL REPORT

SUBMITTED TO THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS 1988

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Boardroom

AUTHORITIES OF BANCO
As of December 31, 1988



Boardroom, main entrance

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Vice-President

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General Manager

GENERAL COUNSEL

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PATRICIO TORTELLO ESCRIBANO
Valparaíso's Office

ITALO TRAVERSO NATOLI
Coordination Foreign Debt

VICTOR VIAL DEL RIO
Chief Counsel



1.



2.



3.





5.



Branches: 1. Arica / 2. Iquique / 3. Antofagasta / 4. Valparaíso / 5. Concepción / 6. Puerto Montt / 7. Punta Arenas

BRANCHES
As of December 31, 1988



7.

ARICA

JORGE APABLAZA APABLAZA
Agent

IQUIQUE

MANUEL TORRES AGUIRRE
Agent

ANTOFAGASTA

LUIS ALVAREZ TONINI
Agent

VALPARAISO

PATRICIO TORTELLO ESCRIBANO
Manager

CONCEPCION

NIBALDO SCHONFFELDT DE CELIS
Agent

PUERTO MONTT

RAUL HELMKE BORNSCHEUER
Agent

PUNTA ARENAS

EDUARDO ROZAS NAVARRETE
Agent



Stairs of access to the third floor.

BANCO CENTRAL DE CHILE

Santiago, May 31, 1989

To
Guillermo Ramírez Vilardell
Superintendent of Banks
and Financial Institutions
Santiago

Pursuant to article 53 of the Organic Law of the Monetary Council and Central Bank of Chile, we are submitting herewith the Annual Report of this Institution for 1988.

MANUEL CONCHA MARTINEZ
President

JORGE AUGUSTO CORREA GATICA
General Manager

ALFONSO SERRANO SPOERER
Vice-President







Fishing industry. I Region. Fishing works at Iquique's littoral.

I. REPORT

EVOLUTION OF CHILE'S ECONOMY DURING 1988

In 1988, Chile's economy exhibited an outstanding behavior that reflects the benefits obtained from the maintenance of a coherent and flexible economic policy, fundamentally oriented towards sustained growth. It is worth pointing out that the positive results obtained by Chile's economy in 1988 were favorably influenced by the improvement experienced by the terms of exchange during this year. Thus, Gross National Product growth amounted to 7.4%; the rate of inflation was 12.7% and the foreign sector registered a balance of US$ 732 million in its Balance of Payments and a US$ 2,219 million surplus in its Trade Balance.

The following paragraphs include a description of the evolution experienced by the main economic variables during 1988.

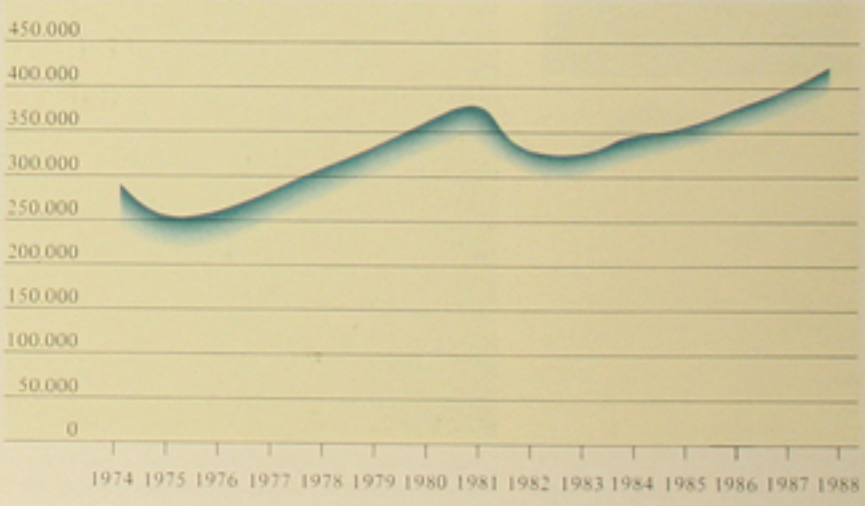
Activity and Employment

According to preliminary estimates, Gross National Product (GNP) increased by 7.4% during 1988 compared with 1987 and clearly exceeding the 4-5% range forecast for the year. The increase in activity extended to all productive sectors, and the following sectors exhibited growth rates higher than the average rate for the economy: Trade (9.8%), Transport and Communications (11.5%); Electricity, Gas and Water (9.3%) and Industry (8.7%).

GRAPH Nº 1

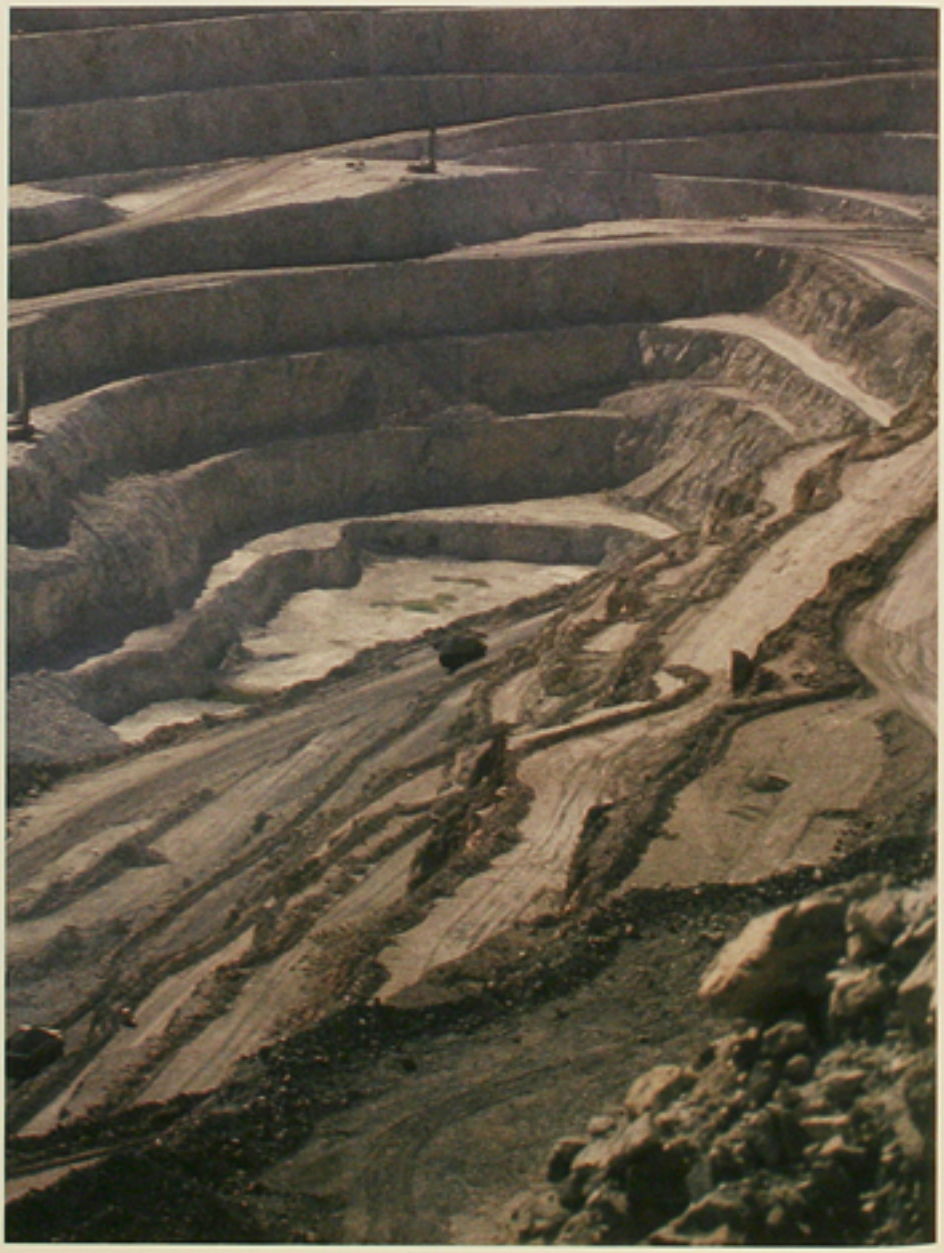
Gross Domestic Product

(Millions of 1977 Ch. $)









Mining industry. II Region. Chuquicamata. Quarrying of copper from the open cut mine. Top photographs: Founding and casting works of the mineral.

The rate of unemployment at the national level has exhibited a sharp decreasing trend from 1982 to this date. According to the occupational survey carried out by the National Statistical Bureau (INE), the unemployment rate amounted to 6.3% during the moving quarter ending in December, which represents a 1.6 percentage point decrease relative to the rate registered on the same quarter of 1987.

The higher level of activity registered in 1988 contributed favorably to the creation of new productive jobs. In fact, the level of employment during the moving quarter ending in December amounted to 4.27 million people. This represents an increase of 255,000 jobs (6.4% increase) compared to the same period of the previous year.

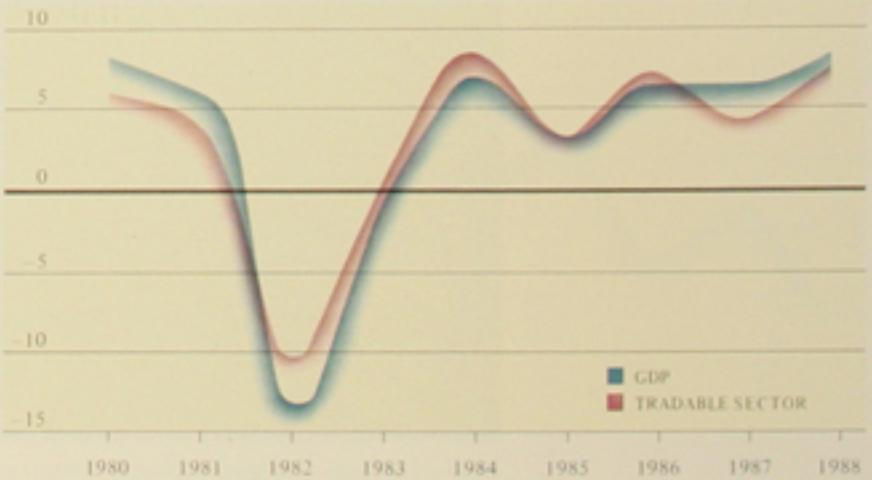
It is important to point out that, during this period, all productive sectors registered an increase in employment, especially in the cases of: Construction (32.3%), Industry (10.4%), Transport and Communications (8.5%), Mining (7.2%) and Trade (6.0%).

The results obtained in the areas of investment and savings are also satisfactory. The country's Gross National Investment rate amounted to 17.0% of GNP during 1988, whereas Gross National Savings rate equaled 16.2%. The latter has largely substituted for foreign savings —that amounted to 0.8% of GNP during 1988— in spite of which foreign savings has continued to increase.

GRAPH Nº 2

Annual Rate of Growth of GDP and of tradable sector GDP

(Percentages)









Petroleum industry. XII Region. Magallanes. Works at an extraction platform.

Inflation and Wages

The annual rate of inflation was 12.7%, which represents a noticeable decrease compared to 1987 when the price growth rate amounted to 21.5%. Inflation registered by the Wholesale Price Index (WPI), on the other hand, was only 3.3% during this same year, while it had amounted to 17.1% during the year 1987.

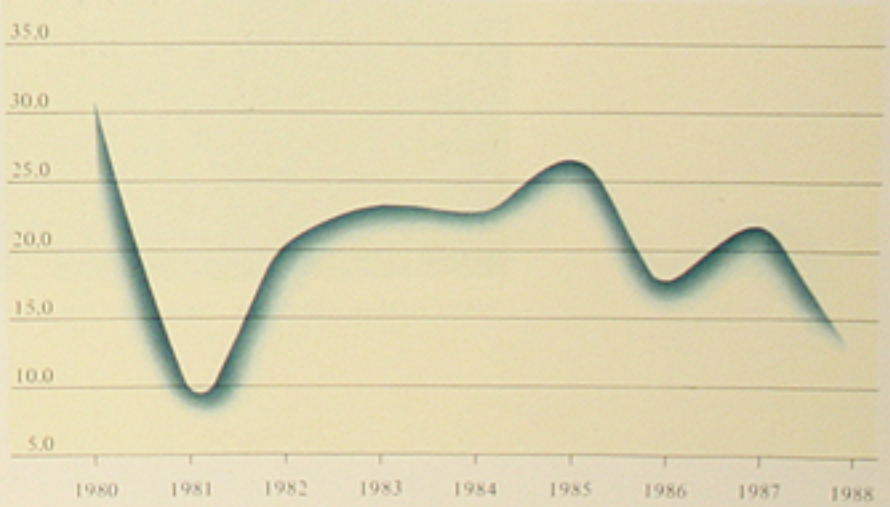
It is worth mentioning that the CPI variation figure for 1988 was the lowest since 1961, with the sole exception of the year 1981. The reduction applied to the value added tax (VAT) around the middle of the present year, the fuel tax reduction and the lower international prices for fuel constitute important factors amongst those that have contributed to the reduction experienced by prices during the year. Elements that have had a positive influence on the rate of inflation, on the other hand, include the increase in prices experienced by numerous imported and exported products.

The growth in employment and the increases observed in labor productivity have translated into a significant improvement of real wages. During the twelve month period ending in December, real wages index registered a 4.3% increase. All productive sectors, except for Mining, contributed to this increase, and the most significant contributors were: Construction (12.3% real increase in twelve months),

GRAPH Nº 3

Inflation Rate

(Percentages)









Forestry industry. VIII Region. Yungay. Pine forest in exploitation.

Communal Services (8.4%), Transport and Communications (6.2%), Industry (6,1%) and Trade (6.0%). Average real wages, on the other hand, registered a 6.5% increase during 1988 compared to the average of the previous year.

Balance of Payments

Available balance of payments figures exhibit a US$ 732 million surplus that exceeds by US$ 687 million the surplus registered for 1987. This positive balance is explained by a current account deficit of US$ 167.4 million (79.3% lower than the deficit registered in 1987) and a positive capital account for US$ 899 million, level that is similar to the one reached during 1987.

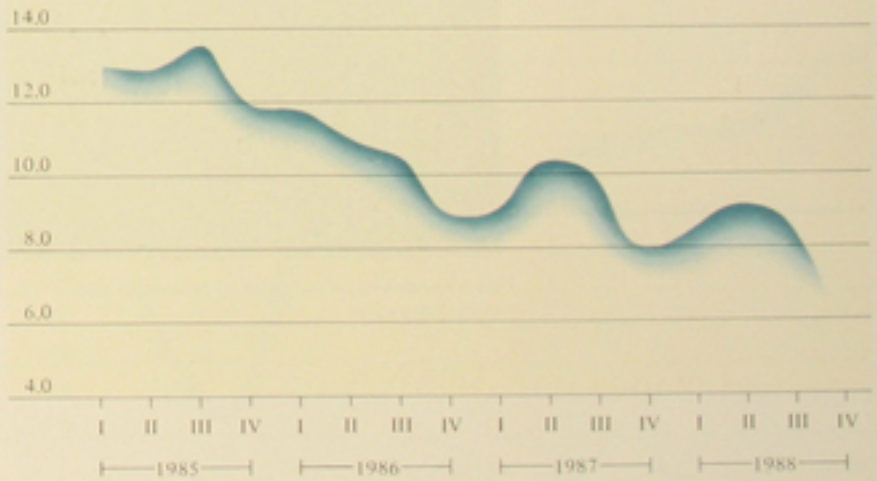
The current account deficit constitutes a joint result stemming from a trade balance surplus of US$ 2,218.6 million, negative financial and non-financial services for US$ 2,562.7 million and positive transfers of the order of US$ 176.7 million. Financial services include accrued interests for US$ 397.5 million (retiming).

The trade balance surplus that almost duplicates the figure for 1987, results from US$ 7,051.8 million in exports and US$ 4,833.2 million in imports (FOB), figures that are 35% and 21% higher, respectively, than the levels achieved the previous year. The increase in exports

GRAPH Nº 4

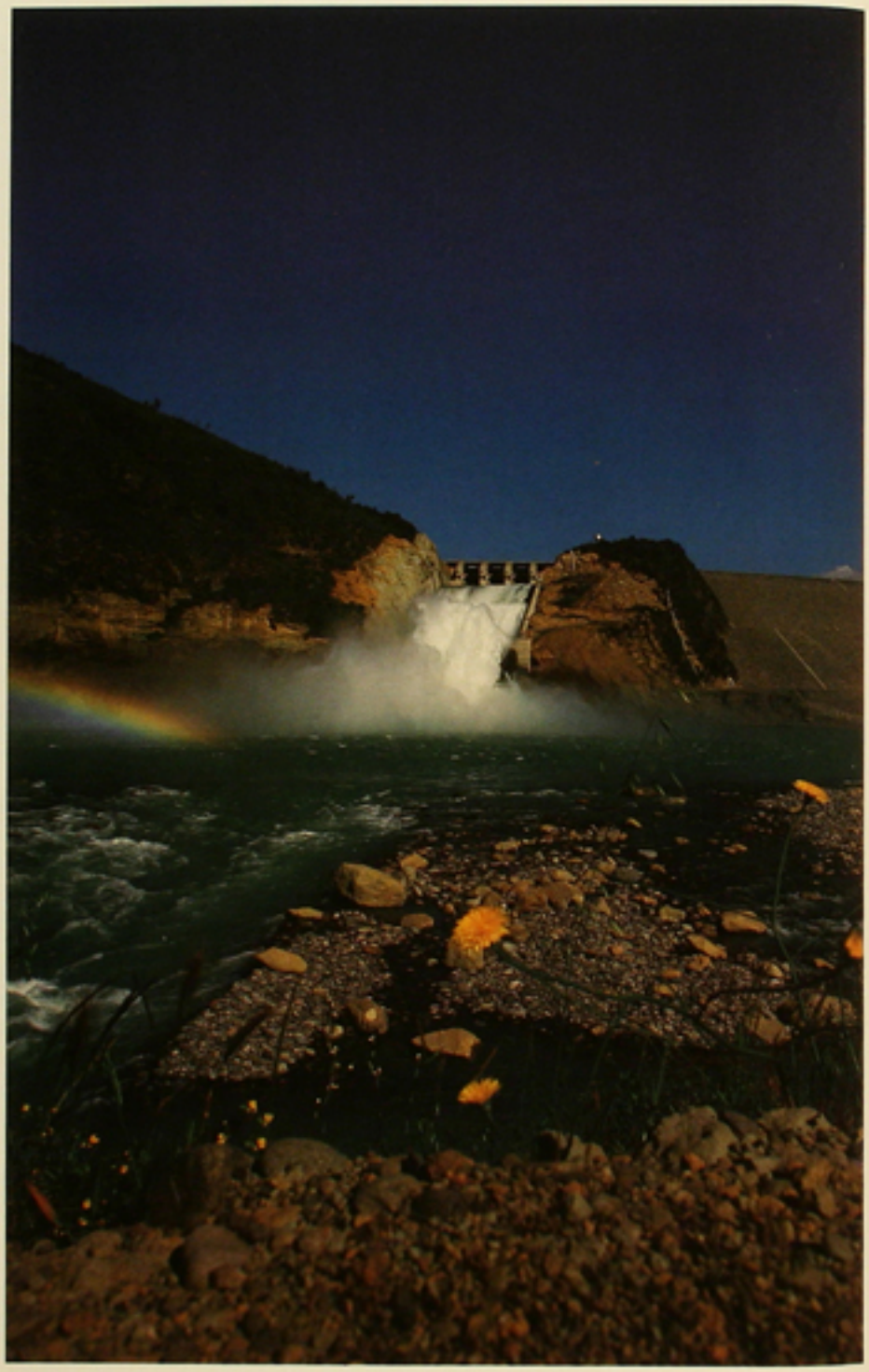
Unemployment Rate (Country)

(Percentages)









Hydroelectricity. VII Region. A panoramic view of the dam Colbún-Machicura with its sluice gates open.

(35%) during 1988 was higher than the increase registered for exports during 1987 (24.4%); whereas the increase in imports (21.0%) was lower than the one observed the previous year (28.9%).

The 35% growth in exports is explained by a 27.6% increase in price and a 5.8% increase in volume. It is necessary to point out that the growth in copper exports resulted, basically, from the increase observed in its price, whereas non-copper exports grew by both concepts, particularly by a 10.8% increase in volume. The latter is the result of the type of exchange and the export promotion policies implemented during the last several years.

Among non-copper exports, it is worth mentioning the increase in volume experienced by fruit, bulk iron, potassic nitrate and metallic gold, whose increase in exported volumes ranged from 5% to 75%.

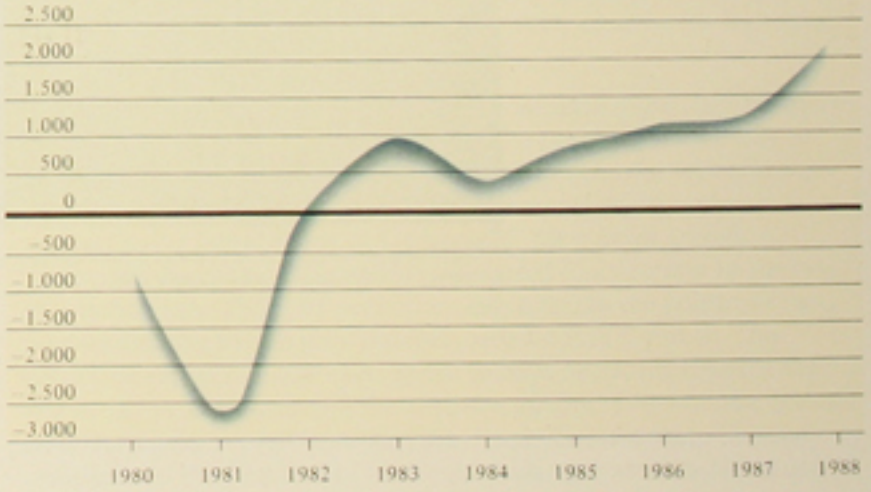
The growth experienced by imports during 1988 results from a 20.3% increase in consumer goods' imports, an 18.4% for intermediate goods (figure that is strongly influenced by the 35.6% increase in non-refined oil imports) and 24.4% for capital goods.

The capital account, on the other hand, exhibited foreign loan disbursements for US$ 1,494.4 million, figure that includes the second instalment of the Structural Adjustment Loan (SAL) III for US$ 112.4 million and US$ 201.1 million granted by Eximbank from Japan,

GRAPH Nº 5

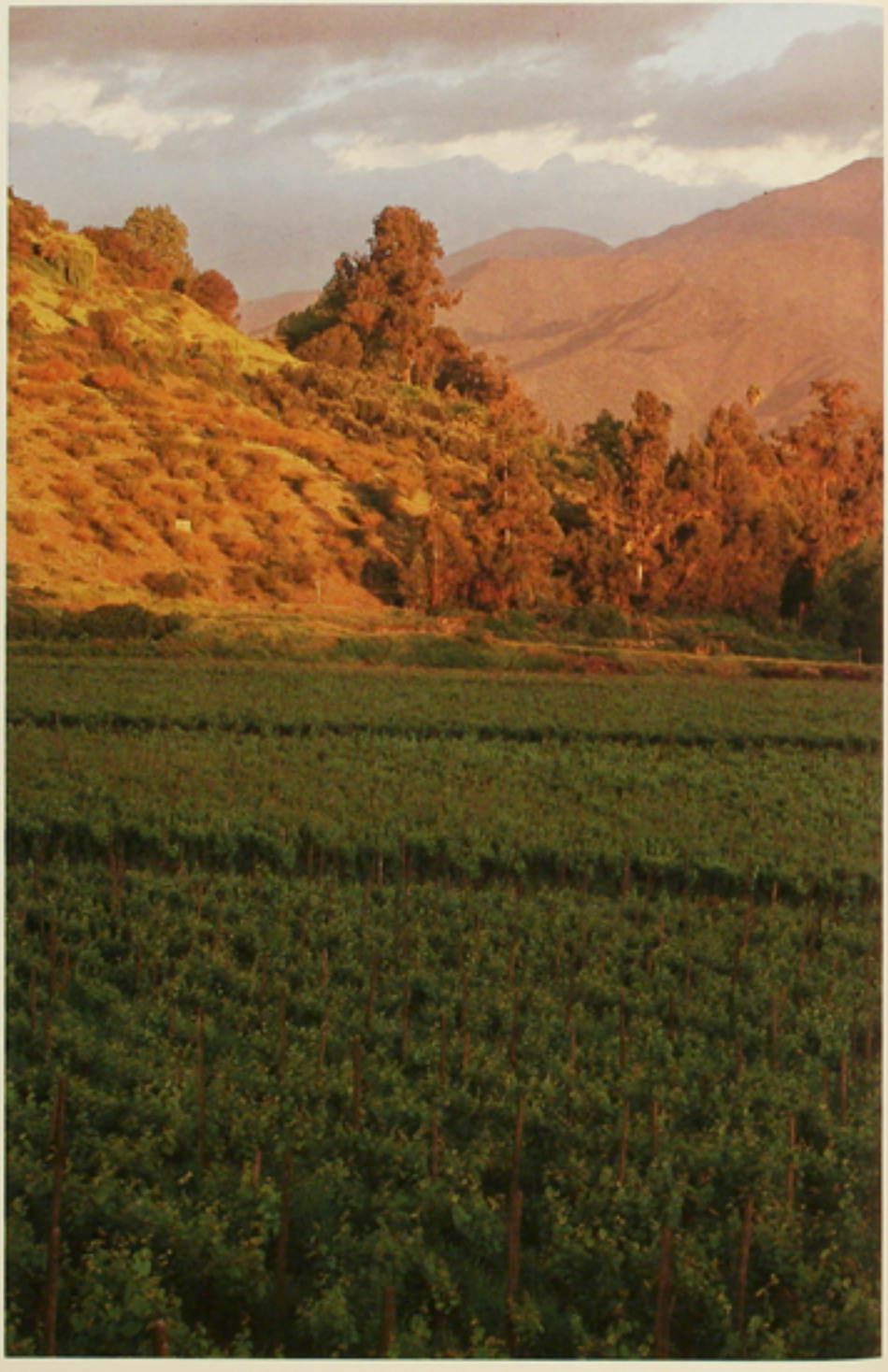
Trade Balance in Goods and Services

(Millions of US$)









Fruitgrowing. IV Region. A vineyard at a beautiful site of the city of Vicuña. Top photographs: Gathering of table grapes and packing works.

the latter being a free-availability loan. The financing of the capital account resulted from the contribution of US$ 555.6 million originating from loans associated to D.L. 600 and Article 15 related to foreign investment; US$ 382.2 million from multilateral organizations (IDB-BIRF) and short term lines of credit for the financing of foreign trade and other totalling US$ 385.6 million. Real loan amortizations amounted to US$ 648.5 million, including US$ 170 million destined to repurchase Banco Central foreign debt promissory notes (that meant a reduction of US$ 299 million of the country's nominal foreign debt).

Money and Interest Rates

Money exhibited a dissimilar behavior during 1988. During the first semester, the currency grew by an average of 7.6% in real terms, whereas M1A increased by 12.6%. This behavior is consequent with the 5.9% product growth prevailing during that period and with the sharp decrease experienced by the cost of holding money that resulted from the dramatic fall affecting the price growth rate. In fact, nominal interest rates for 30-89 days deposits equaled 1.07% during the first semester, 0.85 percentage points lower than the rate registered for the same period of 1987. Real interest rates, on the other hand, registered an increase compared to the same semester of the previous year, for deposit as well as for loan operations. The 90-365 days rate for deposit operations exceeded by 0.38 percentage points the figure registered for the first semester of 1987, whereas the loan rate did so by 0.42.

The second semester exhibited a more accelerated expansion for these two aggregates, especially for M1A. The Currency grew by 23.3% in real terms, and M1A increased by 35.9%. This behavior seems to have reflected not only higher levels of economic activity but, also, a preference for liquid assets and, especially, for current accounts, apparently associated to expectations related to a decrease in the rate of inflation after the VAT reduction and, later, to the political events surrounding the plebiscitary process carried out in October. This notorious expansion, however, seems to have decreased towards the end of the year. Concerning the behavior exhibited by nominal interest rates during the second semester, they experienced a sharp increase compared to the first half of the year, resulting from an acceleration

in the rate of inflation, even though they remained below the levels that prevailed during the second semester of 1987. The rate for 30-89 days deposit operations exhibited a six month average of 1.28%, whereas the loan rate reached a 1.66% average. These rates are 0.59 and 0.72 percentage points lower than those of 1987, respectively. Real rates also experienced increases, compared to both the first and the second semester of 1987. This growth is associated to a higher level in activity as well as in international interest rates.
The real interest rate for deposit operations averaged 4.91% during the second semester of 1988. The loan rate, on the other hand, was 7.90%.

Foreign Investment

Preliminary figures show that, during 1988, foreign investment operations authorized through traditional mechanisms, that is, according to D.L. 600, amounted to US$ 1,949.5 million, in the form of direct investment. Overall foreign investment entering the country during 1988, on the other hand, amounts to US$ 1,019.9 million of which US$ 117.4 million entered according to D.L. 600; US$ 886.0 million through foreign debt conversion operations carried out with Foreign Debt Promissory Notes (according to Chapter XIX of the Rules on International Exchange of Banco Central de Chile), and US$ 16.5 million correspond to capitalization of foreign loans. These figures exclude the amounts that correspond to loans associated to D.L. 600.

External Debt

Overall external debt as of December 31, 1988 amounted to US$ 17,649 million, figure that is US$ 1,559 million (8.1%) lower than the total external debt existing as of December 31, 1987.

Short term debt, included in the overall debt figure, amounted to US$ 2,202 million as of the end of 1988, figure that represents a US$ 185 million (9.2%) increase compared to that of December of the previous year. This growth is consistant with greater activity in the area of foreign trade that is partially financed with these lines of credit.

Medium and long term debt as of December 31, 1988 amounted to US$ 15,447 million, figure that represents a US$ 1,744 million (10.1%) fall compared to that of December, 1987. Such decrease is mainly explained by external debt conversion operations and, to a lesser extent, by the appreciation experienced by the US Dollar in international markets, thus negatively affecting the value of the country's external debt denominated in other currencies. Such revaluation implied a US$ 189 million decrease in debt. The above mentioned foreign debt reduction was achieved in spite of the fact that the year 1988 witnessed the absorption of a positive flow of foreign resources in the form of medium and long term loans for US$ 845.9 million (US$ 1,494.4 million in the form of disbursements and US$ 648.5 million in effective amortizations). Basically, these disbursements stem from multilateral organizations (34.4%); loans associated to foreign investment (34.5%); and from official entities (18.8%). In this latter concept it is worth mentioning the free availability loan for US$ 201.1 million granted by the Eximbank, Japan.

The US$ 648.5 million figure for outgoing resources in the form of amortizations include amortizations paid to multilateral organizations and to official entities that constitute 24.4% of the total figure, and the repurchase of foreign debt of the country that accounts for 26.2% of the amortizations. Said repurchase of foreign debt of the country was carried out through a bid agreed to with creditor banks for a total of US$ 170 million and meant a reduction of US$ 298.9 million in nominal external debt.

By creditor, medium and long term debt has continued to exhibit significant modification as far as its composition. It is thus the case that loans with multilateral organizations have increased their participation from 8.2% in 1985 to 18.9% as of December 1988; the loans held with official entities have gone from 3.6% in 1985 to 6.4% as of December of 1988. Loans with banks and financial institutions experienced the opposite variation and they went from 83.4% participation in medium and long term debt to 65.7% as of December 1988.

This trend has been maintained during 1988 and the participation of banks and financial institutions has decreased by 8.0 percentage points over the overall debt figure, whereas the debt related to multilateral

organizations has increased by 4.4%; the debt from official entities by 2.2 and that from suppliers and other related to foreign investment has increased by 1.3. In absolute terms, the debt with banks and financial institutions decreased by 19.9% during 1988, whereas the debt contracted with multilateral organizations and with official entities increased by 17.2% and 36.6%, respectively, during the same period.

The debt conversion mechanisms implemented as of the month of June, 1985, have constituted a very important factor in the reduction of the country's external debt. It is thus the case that overall medium and long term external debt reconverted through these mechanisms amounted to US$ 2,928.1 million during 1988, that is to say, 17% of the stock in existance as of December 31, 1987 and exceeded by 48% the total amount reconverted during 1987.

From the beginning of the application of the debt conversion mechanisms (June 1985) up until December of 1988, the operations of debt conversion carried out have totalled US$ 6,220.3 million and allowed for an effective reduction of medium and long term debt that amounts to 37.1%.

Concerning the above, it is important to point out that 44.1% (US$ 2,745.4 million) correspond to reductions of the private financial sector (where this total figure includes the debt guaranteed by the public sector). Also, the most frequently used mechanisms are those contained in Chapters XVIII and XIX of the Rules on International Exchange. In fact, 63.8% of the total amount to date has been carried out according to those rules.

In November of 1988 and according to a provision contained in the restructuring agreements, Banco Central de Chile placed a bid for promissory notes on the country's external debt for a nominal value of US$ 298.9 million that signified a real disbursement of US$ 170 million, that is to say, at a 43.1% discount in the international market.

Synthesis

Chile's economy registered during 1988, for the fifth consecutive year, a significant increase in its levels of activity and employment. To ensure that these variables continue to grow, a prudent expansion is required in the levels of consumption and remunerations. To maintain a climate of stability through careful macroeconomic management constitutes a basic requirement to stay on the road of development and of sustained growth.

CHART Nr. 1

Growth rates for Gross National Product by sectors

(Annual variation rate at constant 1977 prices)

SECTOR	1984	1985	1986	1987	1988*/
Agriculture	7.1	5.6	8.7	4.5	5.7
Fishing	11.5	5.6	10.0	−8.0	2.6
Mining	4.4	2.2	1.5	0.0	4.2
Industry	9.8	1.2	8.0	5.5	8.7
Gas, Electricity & Water	7.0	3.5	6.5	3.8	9.3
Construction	4.2	16.1	1.3	10.6	6.1
Trade	5.0	1.7	5.5	7.5	9.8
Transport & Communications	6.0	5.5	8.1	10.1	11.5
Various Services 1/	5.4	0.0	4.7	5.8	5.8
Total GNP	**6.3**	**2.4**	**5.7**	**5.7**	**7.4**

1/ Includes financial services, personal services, tenure of houses, public administration, taxes on imports and costs charged for bank services.

*/ Preliminary figures.

CHART Nr. 2

Employment and Unemployment

Overall country

YEAR 1/	LABOR FORCE		EMPLOYED				RATE OF UNEMPLOYED PERSONS
			FISCAL PROGRAMS		OTHER		
	Thous. of persons	% Var. previous year	Thous. of persons	% Var. previous year	Thous. of persons	% Var. previous year	% Unemployed persons over labor force
1984	3,890.7	3.3	363.3	–27.4	2,986.1	10.0	14.0
1985	4,018.7	3.3	283.1	–22.1	3,254.3	9.0	11.9
1986	4,270.0	6.3	192.6	–32.0	3,703.1	13.8	8.8
1987	4,354.4	2.0	93.1	–51.6	3,917.7	5.8	7.9
1988	4,551.6	4.5	16.3	–82.5	4,249.5	8.5	6.3

1/ Moving quarters ending in December.

Source: National Statistical Bureau.

CHART Nr. 3

Wage and salaries general index

(Base: 1985 = 100)

AÑO	NOMINAL		REAL 1/	
	Level	% Variation previous period	Level	% Variation previous period
1984	79.93	20.0	104.48	0.1
1985	100.00	25.1	100.00	–4.3
1986	121.96	22.0	102.08	2.1
1987	145.92	19.7	101.88	–0.2
1988	178.34	22.2	108.55	6.6

1/ Deflated for CPI variation.

Source: National Statistical Bureau.

CHART Nr. 4

Consumer Price Index (CPI) and Wholesale Price Index (WPI)

PERIOD	CPI		WPI	
	Index (1978 = 100)	Variation relative to same month of previous year	Index (1974 = 100)	Variation relative to same month of previous year
December 1984	365.1	23.0	13,685.6	36.5
December 1985	461.6	26.4	17,825.6	30.3
December 1986	541.7	17.4	21,077.2	18.2
December 1987	657.9	21.5	24,675.6	17.1
December 1988	741.3	12.7	25,493.6	3.3

Source: National Statistical Bureau.

CHART Nr. 5

Balance of Payments

(Millions of US$)

ESPECIFICATION	1984	1985 1/	1986 1/	1987 1/	1988 1/
I. Current Account	**−2,111**	**−1,329**	**−1,137**	**−808**	**−167**
1. Trade Balance	363	849	1,100	1,229	2,219
Exports	3,651	3,804	4,199	5,223	7,052
– Copper	1,604	1,789	1,757	2,235	3,416
– Others	2,047	2,015	2,422	2,988	3,636
Imports	−3,288	−2,955	−3,099	−3,994	−4,833
2. Non-financial Services	−556	−338	−434	−463	−643
3. Financial Services	−2,025	−1,901	−1,887	−1,700	−1,920
4. Transfers	107	61	84	126	177
II. Capital Account 2/	**2,128**	**1,230**	**909**	**853**	**899**
1. Foreign Investment 5/	67	112	319	923	1,020
2. Amortizations 3/	−498	−625	−719	−1,136	−1,619
3. Disbursements Med-Long Term Loans	1,618	1,471	1,219	1,054	1,494
– Loan Foreign Banks 4/	(780)	(714)	(370)	(0)	(0)
– Others	(838)	(757)	(849)	(1,054)	(1,494)
4. Others 6/	941	272	90	12	−394
5. Interests Retiming	–	–	–	–	398
III. Balance of Payments (I + II)	**17**	**−99**	**−228**	**45**	**732**

1/ Preliminary figures.
2/ Includes Central Banks' short term debt variation and includes entries "errors" and "omissions".
3/ Total amortizations, net of refinancing. Includes extraordinary amortizations for capitalization of loans and for Chapter XVIII only in 1985.
4/ "New Money" of foreign banks. In 1986 includes BIRF's co-financing.
5/ Includes loans capitalizations and, starting in 1985, investment with external debt promissory notes (Chapter XIX).
6/ Includes counterpart for Chapter XVIII operations only in 1985. Includes Central Bank short term debt.

CHART Nr. 6

Gross External Debt 1/

(Millions of US$)

ESPECIFICATION	1985	1986	1987	1988
I. External Debt Total (II + III)	**19,444**	**19,501**	**19,208**	**17,649**
Public Sector	14,079	15,763	16,380	14,673
Private Sector	5,365	3,738	2,828	2,976
II. Medium & Long Term External Debt	**17,650**	**17,814**	**17,191**	**15,447**
Public Sector	12,515	14,379	14,725	13,072
Private Sector	5,135	3,435	2,466	2,375
III. Short Term External Debt	**1,794**	**1,687**	**2,017**	**2,202**
Public Sector	1,564	1,384	1,655	1,601
Private Sector	230	303	362	601

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

CHART Nr. 7

Interest Rates (%)

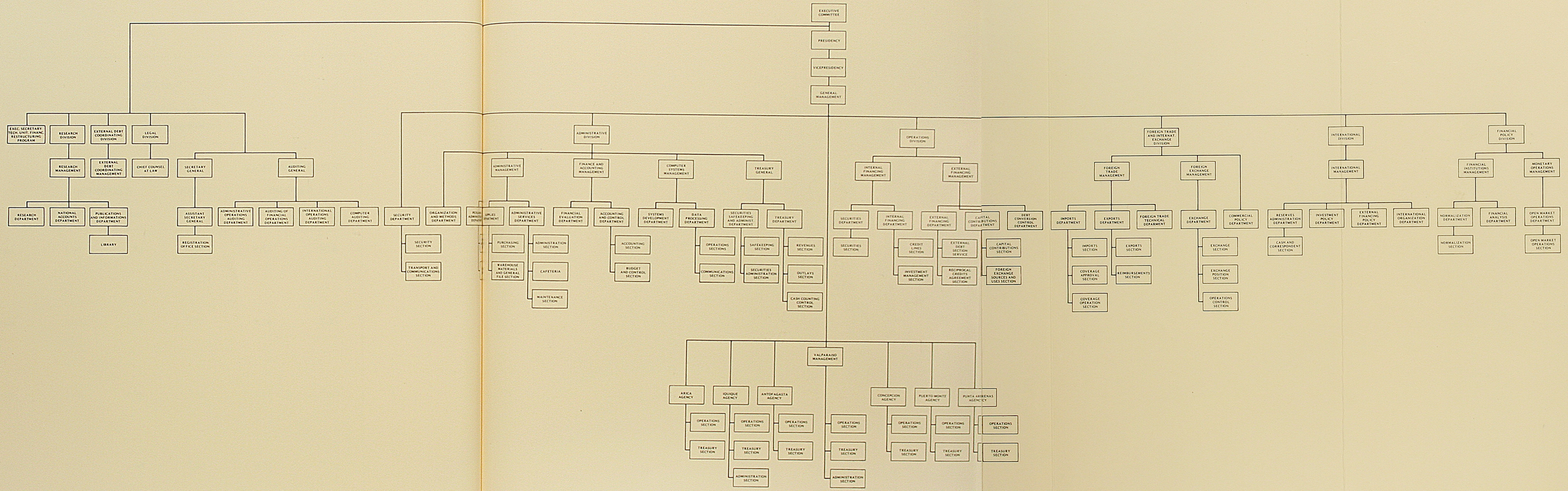
(Average of the Banking System)

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

III. BALANCE SHEET

BANCO CENTRAL DE CHILE

As of December 31, 1988


EXECUTIVE COMMITTEE
PRESIDENCY
VICEPRESIDENCY
GENERAL MANAGEMENT
EXEC. SECRETARY TECH. UNIT. FINANC. RESTRUCTURING PROGRAM
RESEARCH DIVISION
EXTERNAL DEBT COORDINATING DIVISION
LEGAL DIVISION
RESEARCH MANAGEMENT
EXTERNAL DEBT COORDINATING MANAGEMENT
CHIEF COUNSEL AT LAW
RESEARCH DEPARTMENT
NATIONAL ACCOUNTS DEPARTMENT
PUBLICATIONS AND INFORMATIONS DEPARTMENT
LIBRARY
SECRETARY GENERAL
AUDITING GENERAL
ASSISTANT SECRETARY GENERAL
REGISTRATION OFFICE SECTION
ADMINISTRATIVE OPERATIONS AUDITING DEPARTMENT
AUDITING OF FINANCIAL OPERATIONS DEPARTMENT
INTERNATIONAL OPERATIONS AUDITING DEPARTMENT
COMPUTER AUDITING DEPARTMENT
ADMINISTRATIVE DIVISION
SECURITY DEPARTMENT
SECURITY SECTION
TRANSPORT AND COMMUNICATIONS SECTION
ORGANIZATION AND METHODS DEPARTMENT
ADMINISTRATIVE MANAGEMENT
PURCHASING SECTION
WAREHOUSE MATERIALS AND GENERAL FILE SECTION
ADMINISTRATIVE SERVICES DEPARTMENT
ADMINISTRATION SECTION
CAFETERIA
MAINTENANCE SECTION
FINANCE AND ACCOUNTING MANAGEMENT
FINANCIAL EVALUATION DEPARTMENT
ACCOUNTING AND CONTROL DEPARTMENT
ACCOUNTING SECTION
BUDGET AND CONTROL SECTION
COMPUTER SYSTEMS MANAGEMENT
SYSTEMS DEVELOPMENT DEPARTMENT
DATA PROCESSING DEPARTMENT
OPERATIONS SECTIONS
COMMUNICATIONS SECTION
TREASURY GENERAL
SECURITIES SAFEKEEPING AND ADMINIST. DEPARTMENT
SAFEKEEPING SECTION
SECURITIES ADMINISTRATION SECTION
TREASURY DEPARTMENT
REVENUES SECTION
OUTLAYS SECTION
CASH COUNTING CONTROL SECTION
OPERATIONS DIVISION
INTERNAL FINANCING MANAGEMENT
EXTERNAL FINANCING MANAGEMENT
SECURITIES DEPARTMENT
SECURITIES SECTION
INTERNAL FINANCING DEPARTMENT
CREDIT LINES SECTION
INVESTMENT MANAGEMENT SECTION
EXTERNAL FINANCING DEPARTMENT
EXTERNAL DEBT SECTION SERVICE
RECIPROCAL CREDITS AGREEMENT SECTION
CAPITAL CONTRIBUTIONS DEPARTMENT
CAPITAL CONTRIBUTIONS SECTION
FOREIGN EXCHANGE SOURCES AND USES SECTION
DEBT CONVERSION CONTROL DEPARTMENT
FOREIGN TRADE AND INTERNAT. EXCHANGE DIVISION
FOREIGN TRADE MANAGEMENT
FOREIGN EXCHANGE MANAGEMENT
IMPORTS DEPARTMENT
IMPORTS SECTION
COVERAGE APPROVAL SECTION
COVERAGE OPERATION SECTION
EXPORTS DEPARTMENT
EXPORTS SECTION
REIMBURSEMENTS SECTION
FOREIGN TRADE TECHNICAL DEPARTMENT
EXCHANGE DEPARTMENT
EXCHANGE SECTION
EXCHANGE POSITION SECTION
OPERATIONS CONTROL SECTION
COMMERCIAL POLICY DEPARTMENT
INTERNATIONAL DIVISION
INTERNATIONAL MANAGEMENT
RESERVES ADMINISTRATION DEPARTMENT
CASH AND CORRESPONDENT SECTION
INVESTMENT POLICY DEPARTMENT
EXTERNAL FINANCING POLICY DEPARTMENT
INTERNATIONAL ORGANIZATION DEPARTMENT
FINANCIAL POLICY DIVISION
FINANCIAL INSTITUTIONS MANAGEMENT
MONETARY OPERATIONS MANAGEMENT
NORMALIZATION DEPARTMENT
NORMALIZATION SECTION
FINANCIAL ANALYSIS DEPARTMENT
OPEN MARKET OPERATIONS DEPARTMENT
OPEN MARKET OPERATIONS SECTION
VALPARAISO MANAGEMENT
ARICA AGENCY
IQUIQUE AGENCY
ANTOFAGASTA AGENCY
CONCEPCION AGENCY
PUERTO MONTT AGENCY
PUNTA ARENAS AGENCY
OPERATIONS SECTION
TREASURY SECTION
ADMINISTRATION SECTION

BALANCE SHEET
As of December 31, 1988
(In million of Chilean pesos)

ASSETS

ASSETS OVERSEAS		1,263,181.6
ASSET RESERVE	1,203,688.4	
Gold and foreign currencies	508,656.8	
Special drawing rights holdings	11,059.9	
IMF subscription	147,994.4	
Bonds, certificates of deposit and others	439,015.6	
Mutual loan agreements	96,865.9	
Others	95.8	
OTHER ASSETS	59,493.2	
Contributions made to other international organizations	46,006.7	
Interest receivable	8,349.1	
Other securities	5,137.4	
DOMESTIC ASSETS		2,371,636.7
DOMESTIC LOANS	2,244,124.6	
Fiscal loans	142,224.9	
Loans to public entities	153,970.0	
Loans to Banco del Estado	183,616.7	
Loans to commercial banks	1,418,030.6	
Loans to other institutions	346,282.4	
OTHER DOMESTIC ASSETS	127,512.1	
OTHER ASSET ACCOUNTS		2,744,146.4
TOTAL ASSETS		6,378,964.7

Chilean Currency
and F/C equivalent
(US$ 1 = $ 249.70)
(Gold $ 1 = $ 547.42)

LIABILITIES AND EQUITY

OVERSEAS LIABILITIES		1,741,775.2
RESERVE LIABILITIES	566,964.6	
IMF loans	330,088.8	
Mutual credit agreements	88,893.0	
IMF deposits	147,982.8	
OTHER OVERSEAS LIABILITIES	1,133,835.6	
Loans and other liabilities	979,271.1	
Accounts with other international organizations	71,786.8	
Interest payable	82,777.7	
ALLOCATION OF SPECIAL DRAWING RIGHTS	40,975.0	
DOMESTIC LIABILITIES		3,005,943.1
ISSUES OF	245,888.9	
Notes and coins in circulation	216,649.4	
Financial institutions' deposits	29,239.5	
DEPOSITS AND COMMITMENTS	986,971.5	
Deposits and commitments with the Treasury	212,119.8	
Other deposits and commitments	774,851.7	
NOTES ISSUED BY BANCO CENTRAL DE CHILE	1,726,189.8	
OTHER DOMESTIC LIABILITIES	46,892.9	
OTHER LIABILITY ACCOUNTS		1,293,643.3
EQUITY		337,342.9
Capital	45,050.0	
Fluctuation reserve	251,525.7	
Contingency reserve	40,767.2	
SURPLUS FOR THE YEAR		260.2
TOTAL LIABILITIES AND EQUITY		6,378,964.7

STATEMENT OF INCOME
For the year ended December 31, 1988
(In million of Chilean pesos)

STATEMENT OF INCOME		
OPERATING INCOME		
Interest earned	182,507.0	
Gains on restatement of loans	401,524.1	
Gains on sale of assets	53,203.3	
Gains on exchange	36,581.0	
Other operating income	2,522.9	
Total operating income		676,338.3
OPERATING EXPENSES		
Interest expense	339,721.4	
Loss on restatements of loans	174,902.9	
Commission expense	7,208.3	
Loss on sale of assets	910.0	
Loss on exchange	155,206.2	
Other operating expenses	7,970.8	
Total operating expenses		(685,919.6)
GROSS OPERATING INCOME		(9,581.3)
OTHER EXPENSES		
Personnel expenses	4,155.3	
Administrative expenses	1,855.2	
Depreciation, amortization and write-offs	418.7	
Taxes	968.9	
Total other expenses		(7,398.1)
Income before write-offs and provisions for loan losses		(16,979.4)
Write-offs and provisions for possible loan losses		(232,173.8)
NET OPERATING INCOME		(249,153.2)
Non operating income	279,838.8	
Non operating expenses	(38.5)	
Total of non operating results		279,800.3
Income before price-level restatements		30,647.1
PRICE-LEVEL RESTATEMENTS (loss)		(30,386.9)
NET INCOME FOR THE YEAR		260.2

The accompanying notes 1 to 21 are an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL ACCOUNTING PRINCIPLES APPLIED

a) GENERAL:

These financial statements have been prepared in accordance with the accounting norms of the Superintendencia de Bancos e Instituciones Financieras (the Superintendency), provisions of the Ley Orgánica del Banco Central de Chile (D.L. 1,078) and generally accepted accounting principles except when, as regards the latter, certain debits have been made to Capital and Reserves Account, as described in Note Nº 12.

b) EXCHANGE RATES:

Assets and liabilities in foreign currencies have been translated into Chilean pesos at exchange rates set by the Superintendency.
In accordance with the Superintendency's instructions, 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 ounce troy) for all business days in the preceding quarter, less 10%. Settlement of exchange positions was effected according to instructions of the Superintendency.
The main rates used at year-end are as follows:

	$
Minted Chilean gold coins	547.420
U.S. dollar	249.700
Pound sterling	449.910
Deutsche mark	140.518
Special drawing rights (SDR)	336.070

c) LOANS RECEIVABLE AND PAYABLE:

Non-readjustable loans are shown at their original value or at their latest renewal value, with the exception of acquired commercial instruments and discounted notes which are expressed at their nominal maturity value. Readjustable loans are shown with their corresponding accrued restatements at the balance sheet date, and loans expressed in foreign currency include their respective exchange adjustments.
Accrued interest at closing is included in Other Overseas Assets and Other Overseas Liabilities, respectively, for operations effected with residents abroad. Operations concerning local residents are included under Other Domestic Assets and Other Domestic Liabilities.
Prepaid interest on borrowings is included under Other Asset Accounts. Interest received in advance on loans is included under Other Liability Accounts.

d) PAST DUE LOAN PORTFOLIO:

These are shown under Other Assets and include all loans receivable which are overdue for more than 90 days from their maturity date. Foreign loans are translated into Chilean pesos at the rate of exchange prevailing on the Balance Sheet date. Interest receivable on these loans and restatements, if applicable, were accounted for up to their maturity dates.

e) FINANCIAL INVESTMENTS:

Overseas financial investments are shown under Asset Reserves as bonds, certificates of deposit and others, and include mainly government, overseas institutions and bank bonds and commercial instruments valued at their investment cost. Interest receivable is shown under Other Overseas Assets.

f) PROPERTY, PREMISES, AND EQUIPMENT:

These are shown under Other Asset Accounts and are stated at cost plus price-level restatements, net of accumulated depreciation. Depreciation has been computed by the straight-line method over the estimated useful lives of the assets.

g) EMPLOYEES SEVERANCE COMPENSATION:

The provision for accrued severance compensation payable by the Bank as an acquired right of its staff for past services, has been set-up each year based on the present value of the accrued cost, discounted at an 8% annual interest rate. This amounts to $ 702.5 million at December 31, 1988 and is included under Other Liability Accounts.

h) PROVISION FOR POSSIBLE LOAN LOSSES:

The Bank, pursuant to the powers of the Executive Committee, has set up provisions during 1988 for overdue loans and doubtful debts, under Resolutions Nº 1,904, dated December 28, 1988 and Nº 1,906, dated December 30, 1988. These provisions are included under Other Liability Accounts, and the charge to income is detailed in Note 9.

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

Shares and contributions made by the Chilean Treasury to the Inter American Development Bank and contributions to the International Monetary Fund are carried at acquisition costs, and contributions at restatement value, when applicable.
IDB shares and contributions are shown under Other Assets Overseas, as Contributions made to other International Organizations.
Contributions to the IMF in domestic and foreign currencies are shown under Asset Reserves Overseas as an IMF Subscription. Shares and contributions made to the IDB and contributions to the IMF are considered investments, pursuant to Decree Law 2,943 of November 8, 1979.

j) GOLD AND FOREIGN CURRENCY RESERVES:

In accordance with Article 41 of the Bank's bylaws (Decree Law 1,078), a mandatory cash reserve must be kept either in gold, foreign currency, or both.
Gold and foreign currencies shown under Asset Reserve include 210.7 million of Chilean gold pesos which correspond to the mandatory gold reserve.

k) REVENUE AND EXPENSE ACCOUNT:

Revenues and expenses are accounted for on an accrual basis.
Revenue and expense accounts, expressed in domestic currency, with the exception of depreciation, represent accumulations of amounts registered at the date the transactions were performed.

l) PRICE-LEVEL RESTATEMENTS:

The effect of price-level restatements of equity, property, premises, equipment and other assets and liabilities considering the changes in the consumer price index during the year is shown in the Statement of Income under price-level restatements and detailed in Note Nº 8. Likewise, exchange differences in assets and liabilities expressed in foreign currencies, and restatement of loans, are included under operating results.

2. FINANCIAL STATEMENTS PRESENTATION POLICIES

The financial sheet presentation follows an economic-accounting pattern which aims to show the institution's accounting and financial position, at the same time assisting the economic analyses of the Bank's operation by clearly distinguishing whether they are performed by domestic or overseas agents. In this manner the Bank's participation in the domestic supply of monetary assets and credit policy may be assessed together with their effect over the Bank's gearing position abroad.
The economic concepts of international reserves and issues are thus shown as Assets and Liabilities, under Asset Reserve and Issues, respectively.

3. DOMESTIC ASSETS

Domestic assets comprise the following:

a) DOMESTIC LOANS:

This caption includes mainly credit lines in respect of rescheduling of debts amounting to $ 506,858.2 million, credit lines in respect of deposits under Agreement Nº 1,686 for $ 219,153.3 million; portfolios purchased with obligation to resell under Agreement 1,555 for an amount of $ 523,099.3 million; consolidation of promissory notes of financial institutions for $ 314,588.0 million and loans granted to A.A.P. Nacional for $ 164,133.8 million.

b) OTHER DOMESTIC ASSETS:

Correspond to interest and commission receivable on domestic assets amounting to $ 127,512.1 million.

4. OTHER ASSET ACCOUNTS

Other asset accounts mainly includes: tangible fixed assets amount to $ 6,769.9 million; purchase of U.S. dollars with obligation to resell for $ 558,600.0 million; overdue loans for $ 5,293.4 million; loan portfolio acquired from financial institutions and paid with notes for $ 246,398.4 million; Treasury notes for $ 1,866,491.4 million and interest paid in advance on sale of readjustable promissory notes of the Banco Central de Chile for $ 6,216.6 million.

5. OTHER OVERSEAS LIABILITIES

Loans and other liabilities which are included under this caption consist mainly of credit agreements of the years 1983, 1984 and 1985 to grant new money for $ 590,588.0 million; rescheduling of foreign debt years 1983-1984 and 1985-1987 for $ 160,562.7 million and deposits received from the private corporate sector rescheduled by the Central Bank for future payment abroad for $ 116,450.3 million.

6. DOMESTIC LIABILITIES

The following are included under this caption:

a) DEPOSITS AND COMMITMENTS:

The item "Other Deposits and Commitments" includes mainly the following: public sector time deposits for $ 199,081.3 million; Agreement Nº 1,470 deposits (peso current accounts expressed in U.S. dollars) for $ 3,615.8 million; differential in exchange payable for $ 12,288.7 million; Banco del Estado de Chile deposits for $ 191,213.4 million; foreign currency current accounts for $ 5,815.5 million; outstanding balance on promissory notes acquired from Banco del Estado for $ 7,048.2 million; deposits on import operations for advance sales of foreign currencies for $ 29,152.6 million; short-term certificates of deposit for $ 12,848.3 million; taxes withheld and payable for $ 7,709.4 million; and foreign currency deposits under Agreements Nºs. 1,657 and 1,686 for $ 295,863.3 million.

b) NOTES ISSUED BY BANCO CENTRAL DE CHILE:

This caption includes mainly promissory notes for renegotiation of debts for $ 225,340.8 million; non-transferable deposit certificates stated in U.S. dollars as per Agreement Nº 1,649 for $ 205,475.0 million; readjustable promissory notes issued by Banco Central for $ 530,660.3 million; promissory notes on purchase of portfolio under Agreement Nº 1,555 for $ 119,460.6 million; promissory notes stated in U.S. dollars for $ 55,147.1 million; promissory notes in respect of exchange differentials for $ 162,262.6 million; floating interest readjustable promissory notes for $ 53,005.5 million; promissory notes stated in US dollars issued by Banco Central for $ 49,979.2 million and promissory notes stated in U.F.s under Agreement Nº 1,836 from dollar certificates for $ 130,133.0 million.

7. OTHER LIABILITY ACCOUNTS

This caption includes mainly provisions for $ 424,746.1 million; funds for reimbursement of reciprocal credit agreements for $ 35,444.4 million; foreign currencies to be sold for dollar acquisitions for $ 560,472.4 million; and financial institutions notes for $ 246,398.4 million in respect of portfolio purchased:

8. PRICE-LEVEL RESTATEMENT

Price-level restatement as indicated in Note 1, letter l) resulted in a net charge to income of $ 30,386.9 million, as follows:

	Debits (Credits) In millions of Chilean pesos
Equity	31,268.8
Property, premises, and equipment	(779.9)
Other Assets	(102.0)
Net effect on results for the year	30,386.9

The change in the consumer price index applied for the year amount to 10.9%.

9. PROVISION FOR POSSIBLE LOAN LOSSES

The changes in write-offs and provisions for possible loan losses during the year were as follows:

	In millions of Chilean pesos
– Balance brought forward 12.31.87	167,072.5
– Write-off against provisions	(857.9)
– Provisions set up during the year	257,829.2
– Recovery of prior year's provisions	(0.2)
Balance at 12.31.88	424,043.6

The charge to income of $ 257,829.2 million in respect of provisions set up during the year is included under Write-offs and Provisions for Possible Loan Losses in the Statement of Income, reduced by $ 25,778.9 million following write-off of losses indicated in Note Nº 12.

10. EQUITY

The changes in equity during 1988 are summarized as follows:

(In millions of Chilean pesos)

	Paid-in Capital	Reserves for contingencies	Fluctuation Reserve	Restatement equity reserve	Surplus	Total
Balance at January 1, 1988	50,0	59,979.6	226,823.4	–.–	611.4	287,464.4
Distribution of 1987 surplus and repayment to the Treasury					(611.4)	(611.4)
Equity Price-level restatements				31,268.8		31,268.8
Distribution of restatement of equity reserve		6,566.5	24,702.3	(31,268.8)		–.–
Paid-in capital increase	45,000.0					45,000.0
Losses charged to reserves for contingencies		(25,778.9)				(25,778.9)
Surplus for the year					260.2	260.2
Balance at December 31, 1988	45,050.0	40,767.2	251,525.7	–.–	260.2	337,603.1

11. INCREASE IN PAID-IN CAPITAL

Article 38 of Act Nº 18,768 published in the Official Register on December 29, 1988 as supplemented by Supreme Decree Nº 1,258 of the Ministry of Finance, dated December 30, 1988 increased the paid-in capital of the Banco Central de Chile by $ 45,000.0 million. The aggregate amount is now $ 45,050.0 million.
Funds corresponding to said increase in capital were paid-in on December 30, 1988.

12. CHARGES TO PROVISIONS

Agreement Nº 1,906, dated December 30, 1988 of the Executive Committee authorized the write-off, as at December 31, 1988, of losses resulting from set-up of provisions for investments and loan portfolios in financial institutions being liquidated for the amount of $ 25,778.9 million to be debited to the contingency fund, with due regard for the increase of capital according to Article 38 of Act 18,768, mentioned in Note Nº 11.

13. PREFERENTIAL U.S. DOLLAR

Resolutions Nos. 1,466, 1,484 and 1,556 dated September 3 and December 15, 1982 and February 22, 1984, respectively and Nº 1,657, June 27, 1985 of Banco Central provided that certain commitments in foreign currencies or stipulated to be restated in foreign currencies entered into before August 6, 1982 may benefit from a preferential exchange rate, the Banco Central bearing the difference between this rate and the prevailing rate at the date of repayment.

The estimated exchange differential payable as of December 31, 1988 is fully provided for an amount of $ 12,288.7 million.

14. PORTFOLIO ACQUIRED FROM FINANCIAL INSTITUTIONS

Pursuant to Agreements Nos. 1,450 and 1,555 of the Executive Committee as amended, Banco Central de Chile purchased portfolio from financial institutions under special agreements, whereunder those institutions have committed themselves to repurchase the portfolio. Amounts repurchased annually depend on the amount of portfolio recovered and on the financial institutions' yearly surplus.

Considering that so far the financial institutions have met their obligations to repurchase the portfolio, allocating their surpluses for this purpose, and assuming this situation will be maintained in the coming years in view of the strengthening of these institutions and of the financial system as a whole, the Bank has not deemed it necessary to set up a provision for this purpose.

The amount recorded by the financial institutions as portfolio sold under repurchase agreements is affected by the change experienced by the "Unidad de Fomento", plus a cumulative real surcharge of 5% per annum, until the date of actual repurchase. The financial institutions have the option to substitute the 5% surcharge for a percentage equivalent to the average interest rate on time savings accounts, as determined by the Evaluation Committee of Banco Central.

15. SUBSTITUTION OF PROMISSORY NOTES OF ACT Nº 18,358

Provisions in Article 75 of Act 18,768 published in the Official Register on December 29, 1988, as supplemented by Supreme Decree Nº 1,257 of the Ministry of Finance, dated December 29, 1988 provided for the substitution of promissory notes stated in "Unidades de Fomento" and issued to the order of Banco Central de Chile, under Decrees Nos. 1,067, 1,197, 938 and 1,108 of 1984, 1985, 1986 and 1987, respectively, enacted according to provisions in the Only Article of Act Nº 18,358 as amended, by notes denominated and payable in U.S. dollars.

The abovementioned notes, denominated and payable in U.S. dollars, substituted and delivered on December 30, 1988 accrue interest every six months at an annual rate equivalent to the 180 day LIBO rate, reported as applicable by the Banco Central on the last day of the semester preceding each interest period, less a percentage differential of 1.26 points per annum, as from the date of issue of the substituted promissory notes, until their expiry date.

Interest accrued from this operation as at December 31, 1988 amounted to $ 279,469.6 million, capitalized on that same date, has been entered as special income for the year and is shown on the item corresponding to non-operational income, whereas the notes received are included in the group Other Asset Accounts.

16. PURCHASE OF FOREIGN DEBT PROMISSORY NOTES

Pursuant to Agreement Nº 1,888, September 14, 1988 the Executive Committee decided to make an offer for early payment of U.S. dollars, corresponding to loans payable by Banco Central, as a result of rescheduling agreements for 1983-1984 and 1985-1991 and the new money agreements corresponding to 1983, 1984 and 1985. As result thereof, Banco Central prepaid US$ 302.1 million with a discount of US$ 131.5 million, as shown in the Profit and Loss Statement, under the heading Profits from price differences.

17. INTEREST RATE HEDGING

Pursuant to Agreement Nº 1,837, December 23, 1987 the Executive Committee authorized the International Division to hedge interest rates on its liabilities.

14,000 "Eurodollars Futures Contracts" were executed in 1988, equivalent to US$ 14,000 million as at December 31, 1988. The net favourable result was $ 3,023.3 million, included as profits in item Interest Accrued and Received and the losses as such in the item Interest Accrued and Paid, of the Profit and Loss Statement.

18. BALANCES IN FOREIGN CURRENCIES AND GOLD

ASSETS	Amounts expressed in million US$ 1988
ASSETS OVERSEAS	
Reserve	4,441.9
Other Assets Overseas	4,351.3
	90.6
DOMESTIC ASSETS	
Domestic loans	862.7
Other domestic loans	854.3
	8.4
OTHER ASSET ACCOUNTS	
Total Assets	6,511.3
	11,815.9
LIABILITIES	
OVERSEAS LIABILITIES	4,783.6
Reserves	356.0
Other overseas liabilities	4,263.5
SDR Allocations	164.1
DOMESTIC LIABILITIES	4,639.8
Other deposits and commitments	3,006.4
Documents issued by Banco Central de Chile	1,620.8
Other domestic liabilities	12.6
OTHER LIABILITY ACCOUNTS	2,392.5
Total Liabilities	11,815.9

19. CONTINGENCIES, COMMITMENTS AND LIABILITIES

a) MEMORANDUM ACCOUNTS:

The following balances are included under Memorandum Accounts as at December 31, 1988:

	In millions of Chilean pesos
Treasury operations	20,859.5
Domestic loan operations	143.3
Exchange operations and overseas loan operations	3,495,810.6
Safekeeping and securities as guarantee operations	824,902.4
Total	4,341,715.8

b) INPUT V.A.T. ON GOLD PURCHASED THROUGH AGENTS:

Exempted Resolution Nº 23,498, November 15, 1988 of the Internal Revenue Service granted the application for annulment of an assessment of Value Added Tax based on gold purchased by the Bank, through its purchasing agents, for Th 594.4 U.T.M.s, at December 31, 1988.

20. INCOME TAX

Pursuant to Decree Law Nº 3,345, April 24, 1980, Banco Central de Chile is exempt from income taxes.

21. SURPLUSES

In accordance with the Bank's statutes, the Executive Committee agreed to allocate the surplus for the year, once all provisions and write-offs agreed by them have been set up, as follows:
To create reserves to cover the risk of portfolio and exchange operations or of any other event, by a percentage to be agreed by the Executive Committee.
Any remaining surplus will be allocated to pay outstanding debts owed by the Treasury to the Bank.

Mr. JORGE AUGUSTO CORREA GATICA
General Manager

Mr. FRANCISCO GARCIA LETELIER
Finance Accounting Manager

Mr. VICENTE MONTAN UGARTE
General Auditor

INDEPENDENT AUDITORS' REPORT

To the President and
Members of the Executive Committee of
the Banco Central de Chile

1. We have examined the balance sheet of Banco Central de Chile as of December 31, 1988 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. As described in Note 12, at December 31, 1988 the Bank charged to Contingency Reserve losses for $ 25,778.9 million which were recorded during the year as Provision for Investment losses and Provision for Loan Portfolio of Financial Institutions in Liquidation. This practice differs from generally accepted accounting principles.

3. In our opinion, except for the matter described in paragraph 2 above, these financial statements present fairly the financial position of Banco Central de Chile as of December 31, 1988, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles and accounting norms established by the Superintendencia de Bancos e Instituciones Financieras, applied on a basis consistently with that of the preceding year.

Vivian Clarke Levi

LANGTON CLARKE Y CIA. LTDA.
COOPERS & LYBRAND

Santiago, Chile,
January 13, 1989.

BANCO CENTRAL DE CHILE

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TELEPHONE: 6962281
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ALFABETA IMPRESORES