



BANCO CENTRAL DE CHILE

66TH ANNUAL REPORT
1991

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AUTHORITIES OF BANCO CENTRAL DE CHILE

As of December 31, 1991

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BANCO CENTRAL DE CHILE

Santiago, april 22nd of 1992

Mr.
Alejandro Foxley Rioseco
Minister of Finance
PRESENT

In accordance with the enacting sections 78 and 79 of ARTICLE ONE, of Law 18,840 "Constitutional Organic Law of the Central Bank of Chile", I submit to you the Annual Report of this Institution, corresponding to the year 1991.

ROBERTO ZAHLER MAYANZ
Presidente

I. REPORT

EVOLUTION OF CHILE'S ECONOMY DURING 1991

A. Overview

The Chilean economy evolved favourably in 1991, with a significant reduction in inflation and a distinct recovery in the level of output. These results were achieved together with a notable performance in the external sector and higher levels of domestic saving.

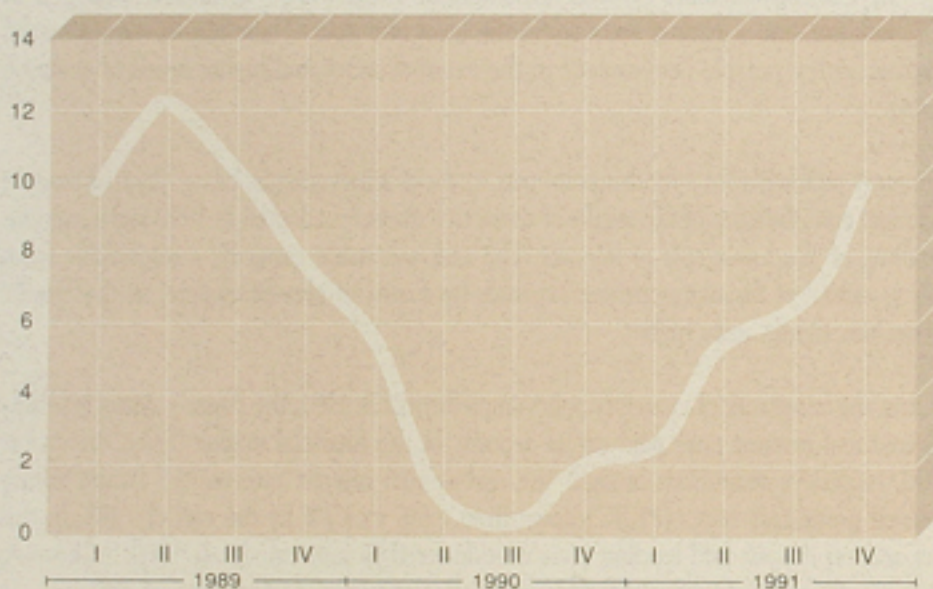
Monetary policy played a fundamental part in these achievements, being directed towards a gradual consolidation of the results of restrictive measures adopted in 1990 and a cautious handling of the lower cost of imports. The task was made easier by a responsible fiscal policy, careful of financing greater expenses by means of greater income, so that public saving was significantly higher.

Within the framework of monetary policy implemented in 1991, the Banco Central gradually lowered real interest rates paid on its deposits in the financial market. From the end of 1990, successive reductions brought the real annual interest rate on the Bank's 90-day indexed promissory notes (PRBC) down from 6.8% to 4.7% by the end of 1991. In this way, market deposit and lending rates were lowered to more moderate levels in keeping with overall macroeconomic stabilisation in the context of a falling rate of inflation. At the same time, in order to improve the profile of its internal debt maturity dates, the Bank reintroduced as from March one-year indexed promissory notes (PRBC). However, this time it decided to increase market participation in the fixing of longer-term interest rates by inviting offers for these instruments instead of fixing the rate as in the past.

The marked upturn in activity compared to 1990 was translated into GDP growth of 6%. This result is an average of the steady tendency to growth throughout the year, a normal snowball recovery following a restrictive period (Chart 1).

Goods and services exports took the lead in product growth, increasing 12.9% in real terms, while consumption grew 5.2%, less than both the 6% product growth and the 7.1% increase in national income. This means that in 1991 national saving as a proportion of real GDP reached its highest level in recent years, standing at 20.8% (or 19% as a proportion of nominal GDP). Although gross fixed-capital formation dropped slightly, around 1% compared to 1990, due to completion of some very large projects and to belated effects of the restrictive period, total investment continued at a higher level than in previous years and, furthermore, showed a promising rising tendency towards the end of the year.

CHART 1
 Quarterly GDP growth rates
 (Percentage changes compared to the same period of the previous year)



GDP grew most significantly in service sectors, the only exception being fishing which grew 8.3%. The service sector showing the greatest real annual growth was transport and telecommunications (11.9%), followed by trade (8.6%) and electricity, gas and water (7.8%) while the other sectors grew more slowly than the product.

Output recovery brought with it increased employment, although with the customary delay which meant that unemployment actually increased at the beginning of the year but then fell steadily until it was down to 5.3% at a national level by the end of 1991, one of the lowest unemployment rates in many years.

Tighter policies put into effect in 1990, together with prudent handling of interest rates in 1991, meant that the sharp recovery in output was accompanied by a substantial drop in inflation. Consumer price inflation went down to 18.7% in the twelve months from

December 1990 to December 1991, satisfactorily lower than in the previous year when it had reached 27.3%.

Not only the monetary policies already mentioned but also the lower cost of imports contributed to lowering the inflation rate. Import tariffs were reduced from 15% to 11% at mid-year, the exchange rate dropped and the goods Chile imports, especially fuels, were at lower prices on international markets, all of which reduced import cost pressure which was translated into constantly lower inflation.

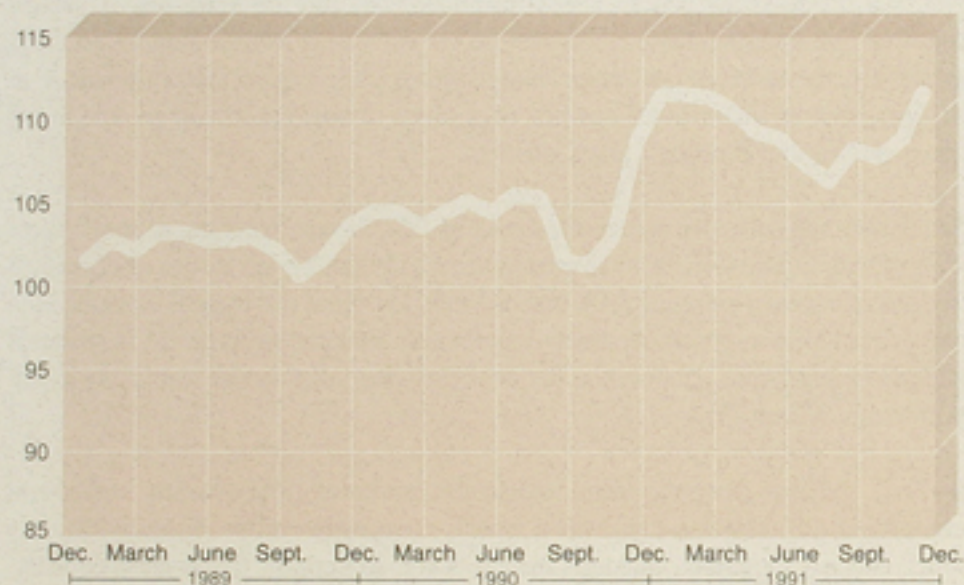
Settlements and collective agreements signed in 1991 brought relatively balanced wages and salary adjustments. These initial agreements, which normally last for two years, resulted in earnings increases averaging 2.4% over past inflation. Since this figure is lower than the two-year productivity growth tendency, it represents a systematic reduction in the nominal increase in salary costs. However, at the same time, the inflation rate was falling so real salaries rose (Chart 2).

In 1991, exchange-rate policy continued similar to that of 1990, avoiding marked real exchange-rate fluctuations. Chile again faced a considerable inflow of foreign currency which required a constant, thorough analysis of the determinant factors affecting short-term exchange rate as well as the evolution of medium- and long-term rates in order to assess the eventual new structure of the balance of payments. To this end the Bank continued buying currency on the formal market whenever the observed exchange rate fell below the lower limit of the band ($\pm 5\%$) within which the referential dollar floats. The referential exchange rate continued to be adjusted according to internal inflation less the discount for relevant external inflation. This exchange-rate maintenance policy meant that the Banco Central accumulated 3,000 million dollars in 1991 by way of these purchases.

The result of this policy was that the mean real exchange rate, excluding Latin America, fell no more than 4% in 1991 compared to 1990 and that the Banco Central continued accumulating international reserves which amounted to US\$ 6,640 million by the end of the year, equivalent to eleven months of goods imports. However, it also meant a Banco Central financial deficit because of the difference in the interest rates it pays on its internal liabilities and those it receives for its international reserves.

To a certain extent, excessive currency inflow was due to the differential between internal and external interest rates, so several measures were taken to offset, directly or indirectly, this inflow of short-term foreign currency. From the beginning of March till mid-June, the

CHART 2
Index of real wages
(December 1982=100)



Source: National Bureau of Statistics.

external inflation discount was eliminated, as a transitory measure, and two compensatory revaluations of 0.7 percentage points were made, one at the beginning and the other at the end of April. Later, in the second fortnight of June, when tariffs and the referential exchange rate were lowered, external credits were subjected to a 20% reserve requirement and this measure was complemented by widening the stamp tax to include foreign debt.

At the same time, continuing its policy of opening the capital account gradually and selectively, the Banco Central in February authorized banking companies to acquire abroad low risk financial assets up to an amount equivalent to 25% of the public's foreign-currency term deposits. The following month the Banco Central authorized commercial banks to use their resources up to the equivalent of 30% of those deposits in financing external trade and this percentage was raised to 40% in April and 60% in May. On the other hand, from mid-June banks were allowed to finance external trade transactions

between third countries belonging to the LAIA for an amount equivalent to 25% of their foreign-currency term deposits. Similarly, Chapter XIX, Title I, of the Compendium of Rules on International Exchange was modified to allow foreign investors who had entered capital under these regulations to remit their capital as from the fourth year of its entry if previously they accumulated in the Bank a percentage of the total investment. Furthermore, the norms stipulated in Chapter XII of the Compendium of Rules on International Exchange regulating natural or juridic persons' investments abroad were made considerably more flexible and the time allowed for exporters to make their returns and currency liquidations was lengthened.

All these measures, and others of relatively less importance, meant that the movement of short-term capital was reverted. In fact, it changed from an inflow of US\$ 1,250 million in 1990 to a net outflow of US\$ 220 million in 1991. In addition, net inflow of medium- and long-term capital was reduced by US\$ 1,000 million due to less inflows to investment funds, smaller sums of external-debt promissory notes conversions and repatriation of some Chapter XIX capital. Direct foreign investment, not considering portfolio investment and external debt promissory notes, increased US\$ 340 million compared to 1990.

However, this more moderate entry of capital did not prevent an important balance of payments surplus which reached US\$ 1,240 million, mainly due to the favourable performance of goods and services transactions. The current account also showed a positive balance of US\$ 90 million.

This result was affected to a great extent by the reduction of the net non-financial services balance, down from US\$ 490 million in 1990 to only US\$ 5 million in 1991. Another determinant factor mentioned earlier was the increased trade-balance surplus which rose from US\$ 1,270 million to US\$ 1,580 million thanks to the 7.5% increase in export values which more than offset the 5.4% upturn in import values.

The satisfactory results of foreign accounts together with the positive outlook for employment, growing levels of saving and investment, and adequate evolution of aggregate supply and demand stand the country in a strong position from which to continue its sustained growth accompanied by falling inflation.

B. Economic activity and employment

In 1991, GDP grew 6% with a steadily sustained increase in activity throughout the year. Output in the first quarter was 2.4%, in the second quarter 5.6%, in the third 6.2% and in the fourth it reached 9.9% (Table 1). A similar tendency was shown by the Monthly Indicator of Economic Activity (IMACEC). This index had shown a very different picture in 1990 when it fell steadily throughout the year.

The 1991 upturn in Chile's economic growth when activity in other economies of the world has been subdued, with symptoms of recession in the United States and Canada, crisis in East European countries and sluggish growth in Latin American and Caribbean countries, shows that the restrictive period begun in 1990 has now been left behind and confirms the soundness of Chilean economic expansion.

B.1 Output by sector

Overall healthy output was seen in every sector of the economy, outstandingly in transport and communications and fishing (Table 2). The 11.9% growth of transport and communications is again explained, as in recent years, by the surge in communications.

The fishing sector's notable recovery from a drop of 10.3% in 1990 to expansion of 8.3% in 1991 resulted from the large volumes caught for industrial use thanks to recovery of the biomass. This sector's average growth for the year is more spectacular considering the problems in the first half of the year when the outbreak of cholera caused a sharp drop in demand for fresh fish.

Trade growth of 8.6% was mainly based on trade in imported consumer goods rather than in home-produced goods.

The electricity, gas and water sector grew 7.8% due to increased electricity generation as the hydro-electric stations normalized after the prolonged period of drought and also because overall productive reactivity increases demand for electric power. The start-up of three new generating stations, Alfalfal, Canutillar and Pehuenche, also contributed.

The upturn in mining activity, from a minus growth in 1990 (-0.7%) to almost 5% in 1991 was mainly due to the start-up of La Escondida copper mine and a new iron pellet plant at Huachipato.

Agriculture, livestock and forestry registered only 1.2% growth and this was the result of contradictory tendencies of livestock production on the one hand, which showed sustained growth, and depressed agricultural output on the other hand. Agriculture was seriously affected by drought, in the case of yearly crops planted in 1990 and harvested this year, and horticulture by the cholera outbreak. However, output for export, especially of fruit and woodpulp, increased and helped to compensate for the lower production of yearly crops.

Manufacturing output recovered sharply from practically zero growth in 1990 to 5.5% growth in 1991, thanks to increased activity in several industries, mainly: rubber products (42%), plastics (22%), printing and publishing (29%), textiles and clothing (11%), pulp and paper (9%) and non-metal mineral products (8%).

Construction output also registered a satisfactory expansion of 4.7% in 1991 (it was 2.5% in 1990) due to housing and non-housing construction which more than offset the fall in construction associated with great engineering projects, several of which were completed in 1990.

Although GDP grew 6%, real available gross national income grew 7.1%. The rise in non-copper export prices and the fall in the price of oil and other intermediate goods impinged on the exchange rate improving the goods and services terms of trade index which increased 2.2% with respect to 1990. There was also a significant increase in current transfers.

B.2 Composition of expenditure

As regards demand, in 1991 growth in volume of goods and services exports took the lead, increasing 12.9% (Table 3). Particularly important were the 10.1% increase in volume of copper exports, due to La Escondida's contribution to output, and the growth in volume of other export products which reached 14%.

The volume of goods and services imports grew 8.5%, of which a significant part were consumer goods (especially domestic electrical appliances and cars) which registered a 31% increase in real terms, and intermediate goods which grew 11%. This expansion can be explained by many factors, particularly output recovery, real exchange-rate reduction and lower import tariffs. The volume of capital goods imports fell by 11.6% although the negative tendency was reverted in the fourth quarter of the year.

Total consumption growth was about 5.2% due to private consumption increasing 5.4% and government consumption 3.6%. Private per capita consumption was 3.9% higher than in 1990. Increase of government consumption, as regards net purchase of goods and services and hiring personnel to provide goods and services, was concentrated on health and education and to a lesser extent on general public administration.

Fixed capital investment slipped 1% compared to 1990. This slight fall was basically because of the completion of several large-scale investment projects which had made an important contribution to the 1989 and 1990 figures. Nevertheless, this variable made a strong and sustained recovery throughout the year reaching an investment rate of 18.2% for 1991. Recovery of the fixed capital investment rate was largely due to the vigorous growth of the construction sector in housing, public works and industrial buildings. Despite the drop in investment as a whole in the first half of the year, the rate for 1991 was one of the highest in recent years.

Gross national savings grew 14.5% in real terms compared to the level registered in 1990, a year in which the real increase was 0.2%. As a proportion of real GDP, national savings edged up from 19.2% in 1990 to 20.8% in 1991. (In terms of nominal GDP, the saving ratio went up from 17.5% in 1990 to 19% in 1991.) Savings growth is explained by both increases in public saving, that is, government and state-owned companies, and in private-sector saving. Maintaining a high and growing level of internal saving, together with external solvency, is one of the fundamental requirements for dynamic, sustained economic growth in coming years.

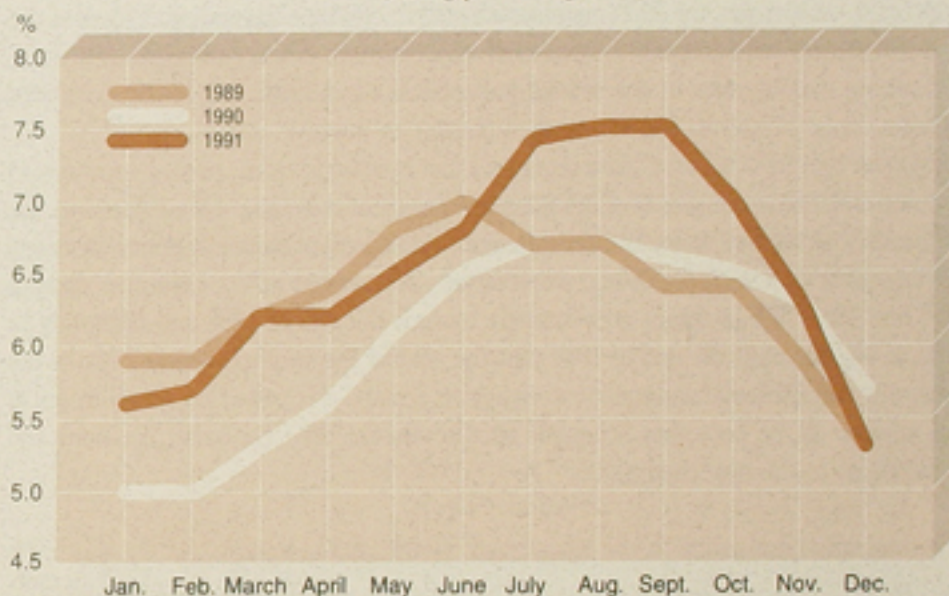
B.3 Employment

The economic activity upturn in 1991 had a strong, though somewhat belated, impact on national employment (Chart 3).

As economic activity picks up, employment responds, but more slowly and this, combined with seasonal factors, meant that unemployment in fact increased during the first few months of the year. However, the last few months brought rapid improvement and 1991 ended with a national unemployment rate of 5.3%, one of the lowest in Chile's history (Table 5).

Unemployment reduction is explained in part by the changes in the work force which in 1991, as in 1990, increased slowly. From mid-1991, with the sustained intensification of

CHART 3
National unemployment rate
(Moving quarter averages)



Source: National Bureau of Statistics.

economic activity and strengthening investment, new jobs were created and employment increased. In the fourth quarter, employment was 1.8% up on the same period of 1990 and 80,000 new jobs were created in the year (Table 5).

C. Inflation and wages

Significant progress in reducing inflation was made in 1991 and the target set in September 1990 of around 18% was met. In fact, from December 1990 to December 1991, consumer-price inflation was 18.7%, substantially lower than the 27.3% registered the previous year (Chart 4 and Table 6). Wholesale-price inflation showed a similar steady downward progress (Table 6).

Tightening of monetary policy at the beginning of 1990 to slow down the over-expansion of activity was fundamental to lowering the inflation rate. If this decision had not been taken, prices would have continued rising and brought the economy to an unsustainable pitch in 1991. As it was, the strict measures adopted to constrain expenditure provided the basis for halting and reversing the tendency to expansion. Later, during the process of normalizing interest rates in the second half of 1990 and 1991, the benefits of lower inflation made themselves felt. It was then possible to improve output.

The anti-inflationary impact of the adjustment policy only became fully evident in the 1991 inflation rate, due, in part, to the inherent lag in effects of monetary policy on prices. The relatively slow response of prices had already been noted in the expansive cycle of 1988 and 1989. While output grew strongly towards the end of 1988 and beginning of 1989, it was not until the end of 1989 that the gradual rise in prices speeded up. In the same way, the restrictive adjustment to aggregate demand was passed on slowly to prices and salaries, at the pace that economic agents adjusted their contracts, decisions and expectations to the new conditions.

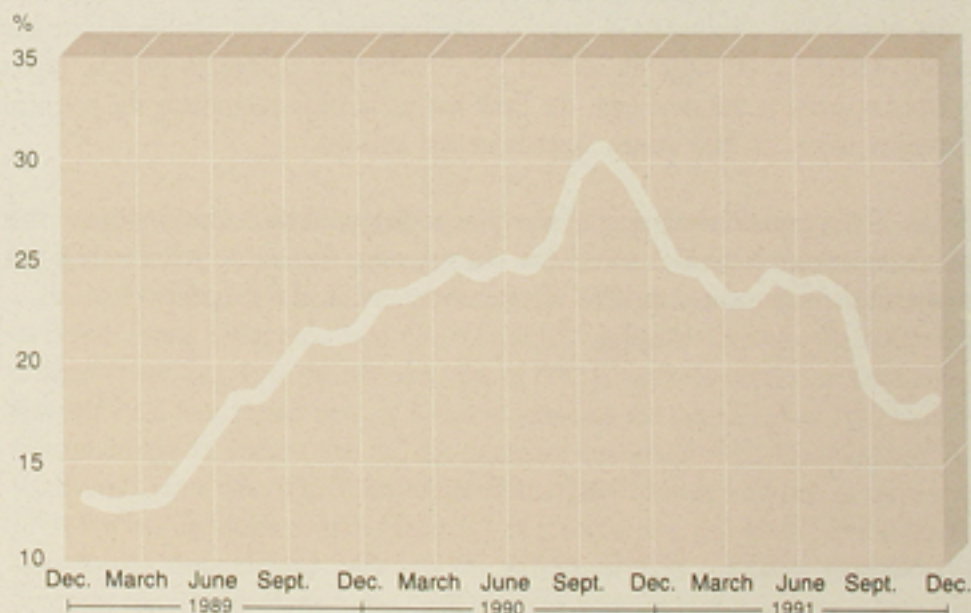
The international situation in the second half of 1990 and beginning of 1991 also had a negative effect on Chile's progress in reducing inflation. Between May and July of 1990, the annual inflation rate had already been reduced to 25% and showed a tendency to continue falling. However, this process was interrupted by the Persian Gulf crisis at the beginning of August which made international oil prices jump. The adverse impact on costs was eventually reverted, but the adjustment policy to reduce inflation was only seen to bear fruit towards the end of 1990, when the monthly rate fell below 1% and the accumulated consumer price rise between November 1990 and February 1991 was only 2%. Although these figures were clearly lower than the underlying tendency of inflation, because they were the result of fuel prices' return to normal and seasonal price falls in some foodstuffs which had reached unusually high prices in September and October, they were quite consistent with the aims of the policies adopted.

Seen from another angle, the contribution of tighter monetary policy to relieving inflationary pressure was also evident in wage settlements agreed by collective bargaining in 1991. These agreements, which normally last for two years, gave initial rises reaching on average 2.4% over past inflation (Table 9). Since this figure is significantly lower than the two-year productivity growth rate, it allowed for a gradual but persistent reduction in the nominal increase in salary costs. However, with inflation falling at the same time, the result was an important increase in real earnings (Table 8).

The gradually falling cost of imported goods also contributed to the significant reduction in inflation in 1991. Reduced cost of imports was partly due to the downswing of the international oil price pendulum which meant that the domestic price of gasoline, which had risen 62% between December 1989 and December 1990, was reduced 5% in nominal terms in the following twelve months. Thus, in December 1991, its price in real terms was only about 2% higher than in the same month of 1989.

Furthermore, in 1991, internal prices of imported goods other than fuels rose only moderately due, in part, to the economic measures taken in June which were motivated by the improved structure of the economy's external situation. These measures consisted of lowering customs duties from 15% to 11% and revaluing the referential dollar which allowed the

CHART 4
Consumer price index
(12-month variation)



Source: National Bureau of Statistics.

observed exchange rate to fall and, consequently, the cost of importing was reduced by 5.4%. Additionally, in 1991, international prices of the goods Chile imports rose less than international inflation and even fell, in nominal terms, compared to the previous year. In fact, according to preliminary estimates, comparing 1991 averages with those of 1990 reveals a drop of 4.3%. Consequently, the slower pace of internal price rises of imported products reflected both internal and external factors.

The favourable effect on inflation of lower imported goods prices was, however, attenuated by considerable increases in some food prices which rose 28% in the twelve-month December 1990 to December 1991 period, having a marked effect on consumer price inflation (Table 7). Nevertheless, prudent and cautious handling of monetary policy maintained adequate macro-economic stability and at the same time reinforced the tendency towards lasting reduction of inflation.

It is worth noting that the Banco Central cash deficit together with the exchange transactions it carried out during 1991 did not exert pressure on inflation. The Bank was well able to place the financial instruments necessary to regulate monetary expansion and keep interest rates consistent with macroeconomic stability. In fact, whenever there was a large volume of exchange transactions or a considerable number of financial papers reached maturity at the same time, the Bank had no problem neutralizing the potential expansive impact on base money, expenditure and inflation.

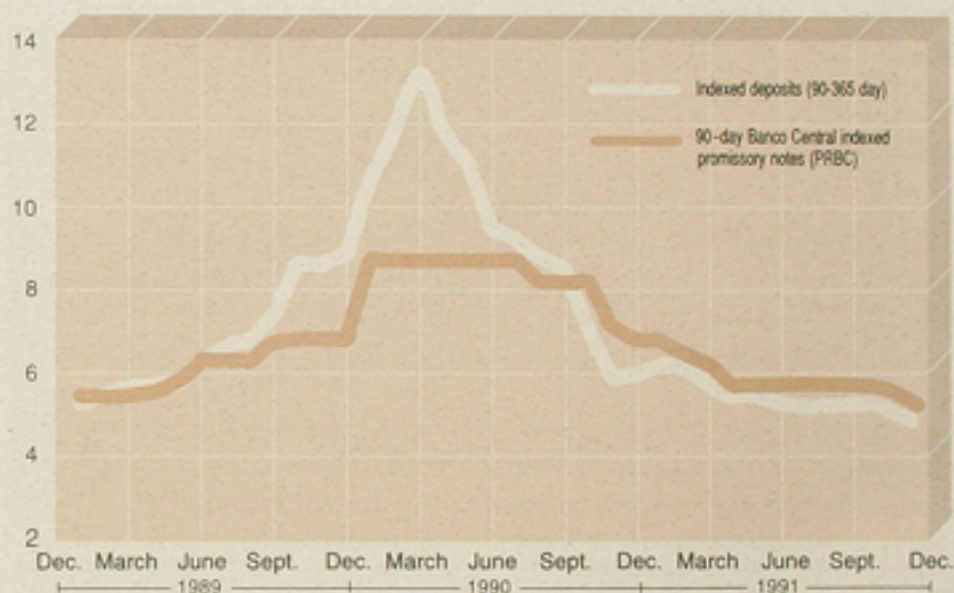
So, in 1991, progress in reducing inflation was accompanied by output growth and this satisfactory result was made possible thanks to a tightening of monetary policy in 1990 and to the measures introduced in 1991, together with a balanced fiscal policy.

D. Money and interest rates

D.1 Monetary policy

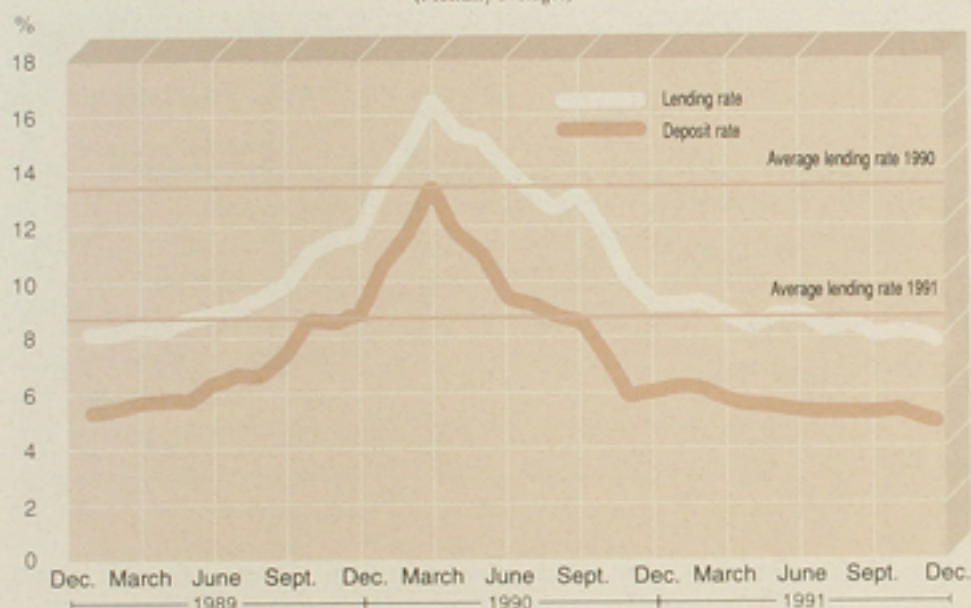
In 1991, the Banco Central continued using the real interest rates it pays for its short-term financial market deposits as the main instrument of monetary policy. Regulating interest rates according to the economy's current macroeconomic conditions allows monetary aggregates to adjust passively to demand.

CHART 5
 Mean interest rates: market and Central Bank
 (Percentages)



Following the Banco Central's significant increase of its promissory note interest rate in the first half of 1990, market rates, together with those of Banco Central instruments, tended to fall. The slide of both interest rates, produced by successive reductions in interest on Banco Central 90-day promissory notes (Table 10) was possible thanks to the moderation of domestic spending since the second quarter of 1990. Chart 5 shows the close relationship between these two interest rates. It is clearly seen that the second half of 1990 brought a downturn in both interest rates and this continued throughout 1991. At the end of 1990, the Banco Central offered its 90-day indexed promissory notes at 6.8% but, by the end of 1991, this rate had fallen to 4.7% (Table 10). In the same way, real 90- to 365-day deposit interest rates dropped from 9.4% in 1990 to 5.4% in 1991 (Table 11 and Chart 6). Similarly, real lending interest rates, which are the most decisive as regards expenditure, in both consumer goods and private investment, dropped most notoriously from an average of 13.3% (1990) to 8.5% (1991) (Table 11). The mean banking interest rate differential—spread—for these transactions also fell almost 0.8 percentage points in 1991 compared to the 1990 level.

CHART 6
 Indexed interest rates on 90- to 365-day transactions
 (Monthly averages)



The main financial instruments of monetary policy continued to be 90-day Banco Central indexed promissory notes (PRBC) which were on offer all year. In fact, this instrument was offered at a fixed real interest rate in accordance with the Banco Central's assessment of the economy (Table 10). 30-day discountable promissory notes (PDBC) continued to be offered at variable nominal rates, according to the Banco Central's projected 30-day inflation. In March, one-year Central Bank indexed promissory notes (PRBC), which had been suspended since August 1990 were reintroduced, but it was decided to welcome bids for the amount and interest rates and the Banco Central should make the final decision as to the rate accepted. This new instrument allowed the Banco Central to refinance its debt at a somewhat longer term than beforehand and in this way improve the coming due profile of that debt. This method of accepting bids instead of offering for sale at a fixed rate enhanced the market's role in determining longer-term interest rate.

The foregoing description is fundamental to understand Banco Central monetary policy since the beginning of 1991, which consists basically in fixing only short-term (30- to 90-

day) promissory note interest rates and accepting bids for its longer-term promissory notes. The aim is to use short-term interest rates as instruments of monetary policy—as happens in most other countries—and to give the market more freedom in establishing long-term rates. At the same time it was considered convenient to reactivate long-term financial instruments in order to improve the distribution of the maturity profile of Banco Central internal debt.

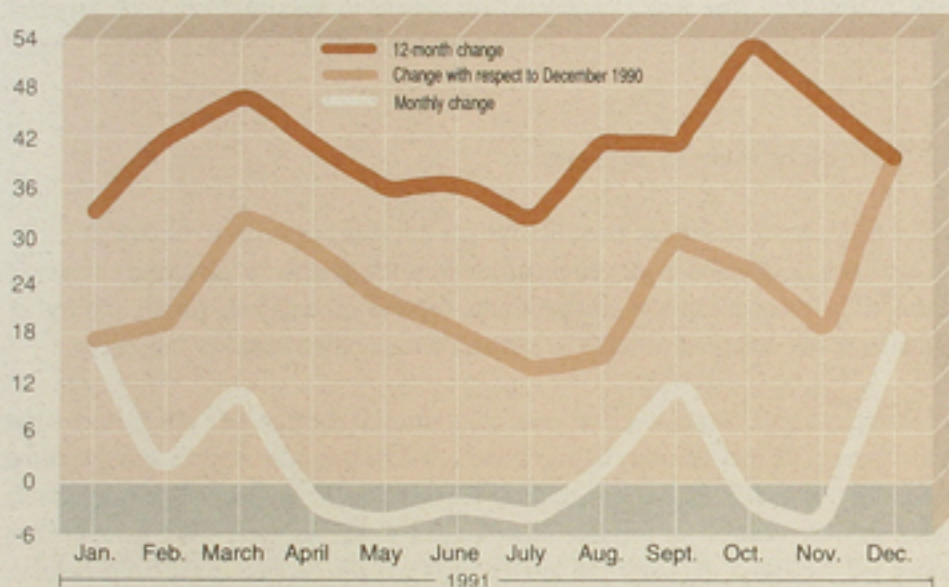
D.2 Evolution of monetary aggregates

With a policy based on interest rates, like the one followed by the Banco Central de Chile, the evolution of observed money essentially reflects movements in the amount of money demanded by economic agents which, in turn, depends on economic growth, the cost of maintaining real balances, seasonal factors and certain other transitory influences.

For example, higher output levels or lower costs of maintaining money will produce a rise in the demand for real monetary balances which will be translated into an increase in the amount of real money. This is exactly what happened in 1991. Output was considerably higher than in 1990, while nominal interest rates, which represent the cost of holding money, fell because of the lower real interest rates and also because of the 8.6 percentage point drop in inflation compared to 1990. This was reflected in a 40% annual nominal growth of money (measured as M1A) which corresponds to real growth of around 18% (Table 12). It should be noted that during 1990, for the same reasons but moving in opposite directions, nominal money grew only 12% which for that year meant a drop in real money of 12%.

The foregoing reveals how sensitive is the demand for real monetary balances in Chile with respect mainly to the cost of holding money. The latter moved erratically during 1990 and 1991, partly because of the sharp changes in consumer prices which were magnified by the real interest rate changes deriving from the tightening of monetary policy in 1990 and its gradual easing until the end of 1991. Chart 7 shows the monthly evolution of money in 1991. As already mentioned, M1A showed brusque changes—its nominal amount increased during six months and fell in the other six months—reflecting interest rate volatility and real interest rate fluctuations. In the first quarter there was notorious expansion of M1A (32.5%) which can mainly be explained by the low inflation rate in that quarter. In the second quarter, as inflation rose, the tendency was reverted and money fell in nominal terms, bringing the M1A twelve-month variation after six months down to 19.3%. The third and fourth quarters saw growth of M1A due to more dynamic economic activity

CHART 7
Broad private money (M1A)
(Percentages)



and the habitual seasonal factors associated with the months of September and December when there is usually important money growth.

In short, significant variations in monthly monetary balances derive mainly from seasonal factors, sharp monthly inflation rate changes and random fluctuations of demand for money.

This suggests that it is unwise to allow short-term monetary policy to be guided by the evolution of particular monetary aggregates. In fact, attempting to stick to a rule of even growth for the amount of base money or money would produce significant, frequent interest rate fluctuations with the consequent adverse effects on the financial sector, investment and output. On the contrary, pronounced fluctuations in short-term demand for money

justifies an interest rate stance of monetary policy which would contribute to operational stability of the financial sector and of aggregate spending with the consequent favourable effects on investment, output and employment. This obviously does not mean that monetary aggregate evolution has no part to play in steering monetary policy, but that it must indicate monetary policy in the longer term.

In 1991, base money varied greatly month by month, increasing in the year by 50.7%. The main difference with M1A's annual evolution can be explained by the appreciable growth in base money registered in December (28.9%) which in turn was due to unusual reserve expansion that month (49.7%). As is well known, the reserve consists of notes and coins in cash available in the financial system or demand deposits in the Banco Central. December's situation was transitory, being reverted the following month, and was due to the financial system delaying November's reserve requirement which therefore had to be completed in the first few days of December.

Base money variations basically stem from exchange transactions and net lending of Banco Central financial instruments. In both 1990 and 1991, exchange operations contributed to increasing base money while net promissory note lending had the contrary effect. Notwithstanding, it should be stressed that whenever exchange transactions reached an important volume or there were considerable internal debt maturities, the Banco Central nullified the base money generated in this way by placing new promissory notes. A clear example of this occurred in October 1991 when base money shrank in real terms in view of the Banco Central having to buy a significant amount of foreign currency.

E. Balance of payments and exchange policy

E.1 Exchange policy

In recent years, exchange policy successfully contributed to maintaining a relatively high and steady real exchange rate which was of great importance in developing Chilean exports. Outstanding export sector growth—from 1985 to 1991 goods exports jumped from US\$ 3,800 million to almost US\$ 9,000 million, that is 15.5% on average a year—is evidence, in part, of the result of this policy. Goods and services exports, which represented 27% of real GDP in 1985 grew to 33% in 1991, which underscores the importance of this sector in the Chilean economy's overall development in these years.

However, it should be borne in mind that the evolution and long-term tendency of the real exchange rate is also affected by factors beyond the Banco Central's exchange policy. It is neither possible nor convenient for the Banco Central to constantly modify the tendency imposed by the market. Nor is it ideal to allow complete freedom since exchange rate frequently responds abruptly or over-reacts to transitory situations. Such fluctuations can have negative effects on trade flows, investment and domestic output since they produce uncertainty and lack of confidence. Thus, the Banco Central's role must be to attenuate transitory fluctuations of exchange rate. Evidently the less developed is the financial market in terms of having instruments that will cover risk, the more relevant is the Bank's job. In short, the Banco Central fully assumes its role of attenuating marked transitory fluctuations in foreign currency values, but it is also fully aware that when structural changes take place that require modification of the real long-term exchange rate, it is unable, with the instruments available, to alter that course.

In practice, in 1991 exchange policy followed the same methodology as in previous years. That is, the referential dollar value fixed by the Banco Central was adjusted according to the UF variation discounting foreign inflation pertinent to Chile. Similarly, the $\pm 5\%$ variation from the referential dollar value for the purchase or sale of foreign currency by the Banco Central was maintained. This is the range, determined in June 1989, within which the average bank exchange rate (observed dollar) floats. By this means, the referential dollar remains almost constant in real value while the observed dollar may be as much as 5% above or below that value.

Throughout 1991, the dollar's tendency continued the same as since mid-1990, hovering around the lower limit of the range of fluctuation. This situation, explained by the important inflow of foreign currency, the positive evolution of external trade and the end of the 1988-89 period of political uncertainty, indicated that market forces were pushing towards a revaluation of the peso. However, the Banco Central did not respond to this pressure until it was sure that it was a matter of structural change and not a transitory one. Holding the dollar at the lower limit of the range during much of 1990 and 1991 meant that the Banco Central had to acquire US\$ 1,500 million and US\$ 3,000 million in each of these years respectively in order to avoid a bigger exchange rate drop. Purchasing this amount of foreign currency negatively affected the Banco Central's financial situation, in fact, to nullify the monetary effect of these excessive foreign currency purchases, it had to issue internal debt on which it paid higher interest than that received on the international reserves acquired. Although in the short term this does not present operational problems, if it continues much longer it can cause undesirable effects on monetary policy handling and domestic savings.

In 1991, the Banco Central introduced a series of measures to dissuade short-term foreign currency inflows which were attracted by the interest rate differential and were pressuring the exchange rate down. Firstly, from March till mid-June the external inflation discount was eliminated and two compensatory revaluations of 0.7 percentage points each were made at the beginning and end of April, so as not to alter the referential exchange value. Eliminating the external inflation discount was intended to increase the cost of borrowing abroad and thus stem the transitory inflow of capital and, in fact, in the second quarter of the year net short-term capital inflow dropped appreciably. Private and banking sector short-term trade lines fell US\$ 450 million, helping to strengthen the exchange rate and thus reducing the Banco Central's purchasing of dollars.

These measures could evidently be effective only for a limited time and since foreign currency continued to flow in, because of the interest-rate differential with the United States, and because trade flows and direct investment in Chile's external accounts continued bouyant, other measures had to be taken. So it was that on June 15, the Banco Central established a 20% reserve requirement on external credits, reduced the referential exchange rate by 2% and re-established the 0.3% discount into the exchange regulations. To complement these measures, import tariffs were reduced from 15% to 11% and the stamp tax was extended to cover foreign debt. The external credit reserve requirement, applied only during the first year of the loan, aimed to make the cost of indebtedness in domestic currency the same as that in foreign currency, on loans of a year or less. For longer-term external credits marginal reserve is zero. To avoid problems of liquidity that could arise with the reserve on medium- and long-term loans, the Banco Central Council, on July 1, decided to offer the option of paying the equivalent of the reserve cost in repurchase-obligation Banco Central Chapter XIV promissory notes. This means that to cover the reserve the investor does not need to obtain larger credits than originally estimated.

Lowering of tariffs and the 2% drop in the referential exchange rate are both measures of a structural nature. As already mentioned, they were adopted since it could be clearly seen that the inflow of capital and the improved trade flows were of a permanent nature. Their object was to make external savings contribute more towards financing investment.

However, these measures, though important, were not enough to stem the inflow of short-term capital nor to enhance the role of external saving because the United States Federal Reserve interest-rate cut was deeper and more lasting than had been expected.

The Banco Central's policies were vital to keeping real exchange rate up. Despite strong pressures down, the mean real exchange rate (excluding Latin America) in 1991 was only 4.2% lower than in 1990 (Chart 8 and Table 15). However, this was achieved only by great effort on the part of the Banco Central which suffered heavy losses from excessive purchasing of foreign currency to maintain exchange parity.

Towards the end of 1991, downward pressure on real exchange rate was even more telling, justifying the opinion held since mid-year. Despite all the measures taken to combat the falling value of the dollar, it remained at its lowest level and showed no signs of recovery. Furthermore, external accounts were particularly sound—the current account in 1991 registered for the first time in 15 years a US\$ 93 million surplus. Market awareness of these factors led to expectations of revaluation and this, in turn, reduced the expected cost of foreign currency indebtedness. Thus, short-term capital found even more rewarding territory and the Banco Central was obliged to buy yet more foreign currency.

This situation, combined with assessment of the change that Chile's external position had already undertaken, and foreseeably would uphold, led the Banco Central in January 1992 to revalue by 5% the referential dollar and widen the floating range of the dollar on the formal exchange market to $\pm 10\%$.

E.2 Balance of payments

Provisional figures register a balance of payments surplus in 1991 of some US\$ 90 million and a capital account surplus of US\$ 860 million. Errors and omissions of US\$ 290 million bring the overall balance to US\$ 1,240 million (Table 16).

The positive current-account balance, although moderate, deserves special attention because it contrasts with the US\$ 825 million deficit of 1990 and also because the current account has normally shown a deficit which reflects the Chilean economy's need to complement domestic saving with external saving. Also worthy of note is the capital account which in 1990 showed a net balance of short-term capital of US\$ 1,250 million and in 1991 changed to net amortizations of US\$ 220 million. This change in capital-account composition and the improvement of US\$ 900 million in the current account underpin Chile's firm external position achieved in the last years.

E.2.1. The current account

The US\$ 90 million current-account surplus was basically due to vigorous export growth

and to the upturn in non-financial services trade. At the same time, the trade balance surplus reached US\$ 1,580 million, with exports amounting to US\$ 8,930 million and imports to US\$ 7,350 million.

Exports grew 7.5% in value this year, mainly thanks to non-copper products sales which increased 17.7%. Copper exports fell in value 4.7% because of the low international market value (106 cents per pound compared to 121 cents in 1990), whereas the volume exported had increased by 10.1% (Tables 17 and 18). A large part of this increased volume was due to the start-up of the Escondida mine which contributed 275,000 tons of copper concentrate worth US\$ 471 million.

Non-copper exports should be considered in two categories: the group known as main products and the other products which are known as non-traditional. Exports of the first group increased 12% while those of the second group increased 24%, a similar rate as shown in 1989 and 1990. Non-traditional goods exports (which in 1991 amounted to over US\$ 2,500 million) as a proportion of total exports have grown steadily in recent years reaching 28.2% in 1991.

Among non-traditional exports, some products have reached outstanding values, for instance, sea products, agro-industrial products, non-traditional fresh fruits (cherries, plums, peaches, raspberries and kiwis) and in the manufacturing industries, furniture, wood chips and footwear. This underscores how these export products have made remarkable inroads into world markets.

The FOB value of goods imports grew moderately, 4.5% compared to 1990. The year began with a slight fall but quickly recovered from the second quarter onwards, ending the fourth quarter 15% up on the same period of 1990. This shows that although the economy began to pick up towards the end of 1990 there was no immediate recovery of imports, and also that the measures taken at the end of the first half-year, that is reduction of tariffs and exchange rate, did affect imports. However, imports of consumer and intermediate goods behaved differently from those of capital goods. Already in the first quarter of 1991, consumer- and intermediate-goods imports began to pick up, reaching in the year as a whole 34% and 8% growth respectively, whereas the value of capital-goods imports was 12% down on 1990. This drop was to a large extent due to the completion of several big projects. However, it should be noted that capital-goods imports were markedly lower (20%) in the first nine months of the year but in the last quarter they increased 11% compared to the same quarter of 1990 and 30% compared to the preceding quarter.

The 8.1% increase in intermediate-goods imports was produced despite the 8.4% drop in fuels and lubricants which in the first half of the year had been 8.5% up because oil prices were still higher than they had been in 1990 before the Persian Gulf crisis. Other intermediate-goods imports rose 13.9%.

Upturn in the non-financial services account in 1991 amounted to US\$ 480 million. Improvement was evident in several sub-sectors, but particularly in travel. According to provisional figures, income from tourism jumped 42%, thanks to the great influx of tourists during the high season. Consequently, this sub-sector, almost insignificant in 1990, became a strongly contributing factor to surplus in 1991. The increase of incoming tourism in the last couple of years explains the expansion of hotel and catering capacity in many regions of the country. Another important contribution to improvement of this account was made by the port services sector, which showed a recovery of almost US\$ 100 million (Table 19).

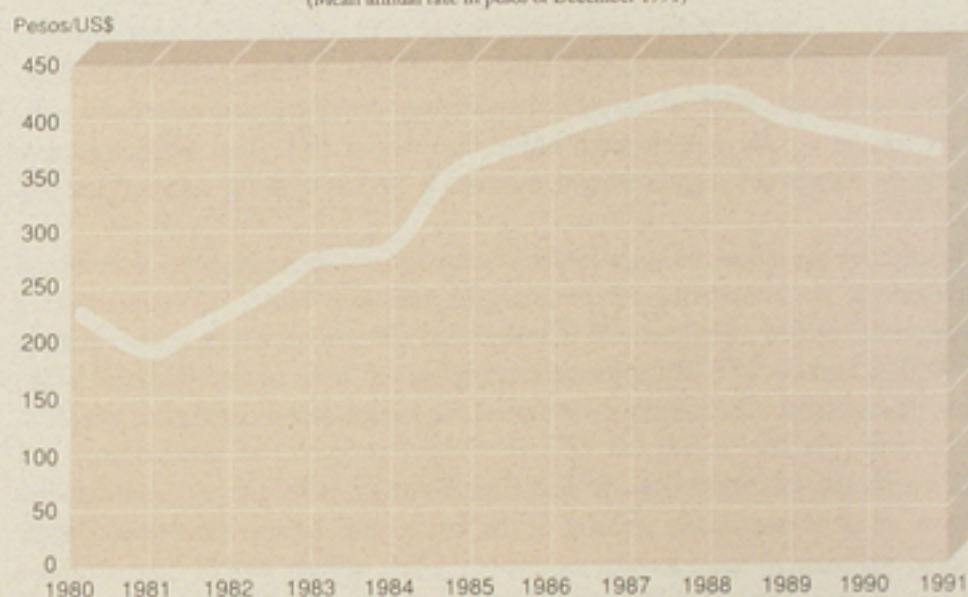
Net outflows for financial services in 1991 were similar to 1990, but there were important changes in their composition. External-debt interest payments fell by about US\$ 200 million, thanks to the interest-rate drop and the reduced debt on which interest was paid, while remittances net of profit, before tax, increased US\$ 300 million. However, this increase in remittances, a high percentage of which is explained by profits from the Escondida mine and Chapter XIX investments, has also meant a rise of around US\$ 110 million in the transfers account because of taxes applied to them. This increase in the transfers account, together with other official transfer payments and a slight drop in non-official transfers, resulted in an overall improvement of some US\$ 130 million in this account.

At the same time, interest received, despite the interest-rate drop, increased almost US\$ 115 million due to notably higher average international reserves held in 1991 (Tables 20 and 23).

E. 2.2. The capital account

According to provisionary figures, the capital account produced a positive balance of US\$ 860 million due to medium-and long-term credits, for the most part associated with investment projects and direct foreign investment carried out mainly under the provisions of DL 600. Short-term capitals, on the other hand, registered a net outflow of US\$ 220 million, in sharp contrast to the inflow of US\$ 1,250 million registered a year ago (Table 16).

CHART 8
 Real effective exchange rate (excluding Latin America) (*)
 (Mean annual rate in pesos of December 1991)



(*) The nominal observed exchange rate multiplied by the ratio of relevant external inflation to consumer price index (CPI). External inflation is calculated using the wholesale price index (WPI) of Chile's main trading partners expressed in dollars, weighted on the relative importance of non-oil imports Chile receives from them (approximately 68% of Chile's total imports in 1985).

Net medium- and long-term capital income in 1991, whether in the form of credit or investment, dropped about US\$ 1,000 million compared to 1990, because of lower levels of foreign investment (US\$ 560 million) and, to a lesser extent, increased investment abroad, and because of the reduction in medium- and long-term financing. A determinant factor in the foreign-investment decrease was lower income from investment funds which had maintained an exceptional level in 1990. There was much less investment in the form of foreign-debt conversion as a result of the high prices of Chilean foreign-debt promissory notes in international markets. In the second and fourth quarters of 1991, repatriation of the capital of some of these transactions meant that in net annual terms foreign investment subject to Chapter XIX provisions was negative by US\$ 40 million. On the other hand, Chilean investors abroad were far more active, mainly thanks to the easing of Chapter XII provisions in the Compendium of Rules on International Exchange.

Their investments soared from US\$ 8 million net in 1990 to US\$ 98 million net in 1991 (Table 21) of which US\$ 84 million correspond to informal exchange market transactions (Table 22).

Considering the 1991 direct foreign investment figures, without including portfolio investment (investment fund and ADRs) and foreign debt promissory note investment, there remains a positive result much higher than that of 1990. This traditional, more permanent concept of foreign investment, increased in 1991 by US\$ 340 million (Table 21).

The effective net inflow of foreign medium- and long-term financing, other than foreign investments not considering extraordinary amortizations which are counterpart to investment, reached a positive total of around US\$ 650 million, which is lower than in 1990. This includes US\$ 200 million corresponding to Chile's issuance of bonds which took place parallel to and at the same time as the foreign-debt renegotiation process.

As regards the substantial drop in short-term financing, it should be noted that this downward trend was already apparent in the first quarter, became more abrupt in the second and began to revert towards the end of the year, as there seemed more likelihood of a revaluation of the peso. This net fall was influenced by the Banco Central measures adopted during the year aimed at discouraging short-term capital inflows which were pushing the exchange rate down.

Furthermore, lessening the stock of short-term liabilities in 1991 was assisted by the net public-sector debt reduction (including Codelco) whose short-term debt was reduced by US\$ 660 million in the year.

When analyzing the drop in short-term capital inflows it should be remembered that not all flows registered in the balance of payments —whether incoming or outgoing— exert pressures on the formal exchange market. Only part of such flows are channeled through the formal exchange market and can thus affect exchange rate, but others exert a pressure by other vias such as the informal market and direct transactions with the Banco Central. Consequently, public-sector short-term credits, which dropped significantly by way of a deliberate external-debt repayment policy, show up negatively on the balance of payments, and yet they were not translated into less sales for or more purchases of foreign currency within the banking system but into a drop in public-sector term deposits in the Banco Central. Similarly, the US\$ 200 million obtained by Chilean bonds issuance did not exert pressure on the foreign-currency market.

Among short-term capitals, the lines destined to finance external trade fell by some US\$ 750 million in the first three quarters of the year (compared to growth of around US\$ 470 million in the same period of the previous year) and increased about US\$ 360 million in the fourth quarter. What happened in the second and third quarters reflected the substitution of external credit channels for other sources of financing such as foreign-currency deposits and resources made available by the commercial banks' liquidation of Banco Central promissory notes.

F. External debt

Chile's total external debt by December 31, 1991, amounted to US\$ 16,405 million, US\$ 1,020 million lower than in the previous December. Reduction of short-term debt by US\$ 1,170 million was a decisive factor in this overall result, since medium- and long-term external debt increased slightly by US\$ 150 million. On the other hand, international reserves reached the record level of US\$ 6,640 million by the end of 1991 (Tables 23 and 24).

Short-term external debt reduction was, to a great extent, achieved by the policies mentioned earlier aimed at discouraging the use of this kind of financing by the public sector (US\$ 660 million) and by the private sector (US\$ 500 million).

Medium- and long-term external debt increased by US\$ 150 million net mainly because of increased use of credits (disbursements less amortizations) for US\$ 680 million of which the non-financial private sector took the largest portion (US\$ 630 million). On the other hand, an accounting increase for exchange-rate variation worth US\$ 70 million and transfer of loans from short-term to medium-term amounting to US\$ 150 million were also important. On the contrary, debt reductions through conversion mechanisms amounted to US\$ 810 million (Table 26).

Public-sector indebtedness was lowered, as a proportion of the whole, from 56% in 1990 to 53% in 1991, continuing its steady descent observed since 1988 (Table 24).

External debt increased with practically all creditors, except with banks or financial institutions with whom it was considerably lower and to a lesser extent with suppliers. This was because of the change in project financing since both public and private investments used resources from multilateral financing organizations — IDB, IBRD, IFC. Banking

sector credit debt was lowered by the debt conversions already mentioned (US\$ 810 million) which were partially made up again by new loans from this group.

Strong development of the current account, together with significant economic expansion led by exports, was translated into a strengthening of the country's external situation. This is borne out by several external debt indicators (Table 25). The ratio of external debt to goods and services exports dropped 25 percentage points in the year and the coefficient of total interests to goods and services exports fell by 2 percentage points. At the same time, the ratio of servicing of medium- and long-term external debt to goods and services exports also fell 2 percentage points. Finally, it is worth noting that towards the end of 1991 international reserves were equivalent to eleven months of goods and services imports which bears out the positive evolution compared to the values registered in previous years.

TABLE 2
Sectoral gross domestic product
(Annual percentage variations)

SECTOR	1988	1989	1990	1991 (*)
Agriculture, Livestock and Forestry	5.7	3.1	4.8	1.2
Fishing	2.6	22.1	-10.3	8.3
Mining	4.2	8.4	-0.7	4.8
Manufacturing	8.7	10.0	0.1	5.5
Electricity, Gas and Water	9.3	4.7	3.0	7.8
Construction	6.1	12.7	2.5	4.7
Trade	9.8	14.0	2.5	8.6
Transport and Communications	11.5	14.4	10.4	11.9
Others	5.8	8.8	1.9	5.1
Total GDP	7.4	10.0	2.1	6.0

(*) Provisional figures.

TABLE 3
Components of GDP expenditure (a)

COMPONENTS	PERCENTAGE CHANGES			PERCENTAGE OF GDP		
	1989	1990	1991 (b)	1989	1990	1991 (b)
CONSUMPTION	7.5	0.8	5.2	76.3	75.3	74.7
Private Consumption	8.4	0.7	5.4	67.0	66.0	65.7
Government Consumption	0.9	1.6	3.6	9.3	9.3	9.0
INVESTMENT	32.5	-2.5	1.9	21.8	20.8	20.0
Gross Fixed Capital Formation	20.8	6.9	-1.0	18.6	19.5	18.2
Changes in Inventory	-	-	-	3.1	1.3	1.8
EXPORTS	15.7	7.6	12.9	29.4	31.0	33.0
IMPORTS	25.3	0.6	8.5	27.4	27.0	27.7

(a) Calculations based on Chilean pesos of 1977.

(b) Provisional figures.

TABLE 4
Savings and investment coefficients (a)

COMPONENTS	PERCENTAGE CHANGES			PERCENTAGE OF GDP		
	1989	1990	1991 (b)	1989	1990	1991 (b)
TOTAL SAVINGS	32.5	-2.5	1.9	21.8	20.8	20.0
Gross Domestic Savings	22.1	0.2	14.5	19.6	19.2	20.8
External Savings	450.1	-26.5	-151.6	2.2	1.6	-0.8
TOTAL INVESTMENT	32.5	-2.5	1.9	21.8	20.8	20.0
Fixed Capital Investment	20.8	6.9	-1.0	18.6	19.5	18.2
- Construction and Other Works	12.2	3.7	4.6	10.4	10.5	10.4
- Machinery and Equipment	33.7	10.9	-7.6	8.3	9.0	7.8
Changes in Inventory	-	-	-	3.1	1.3	1.8

(a) Calculations based on Chilean pesos of 1977.

(b) Provisional figures.

TABLE 5
National employment and unemployment (*)
Quarterly moving averages ending in the specified month
(Thousands of persons)

DATE	LABOR FORCE		EMPLOYED		UNEMPLOYED		RATE OF UNEMPLOYMENT
	Total	% Variation from previous period	Total	% Variation from previous period	Total	% Variation from previous period	
1986 Average	4,227	9.1	3,770	11.8	457	-9.4	10.8
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
1990							
January	4,704	0.6	4,467	1.0	236	-5.4	5.0
February	4,703	0.0	4,468	0.0	235	-0.7	5.0
March	4,689	-0.3	4,440	-0.6	249	5.9	5.3
April	4,678	-0.2	4,417	-0.5	261	4.9	5.6
May	4,656	-0.5	4,374	-1.0	283	8.5	6.1
June	4,652	-0.1	4,350	-0.5	302	6.8	6.5
July	4,645	-0.2	4,332	-0.4	313	3.6	6.7
August	4,634	-0.2	4,323	-0.2	312	-0.4	6.7
September	4,633	0.0	4,328	0.1	305	-2.0	6.6
October	4,652	0.4	4,350	0.5	302	-1.2	6.5
November	4,686	0.7	4,391	0.9	295	-2.3	6.3
December	4,729	0.9	4,460	1.6	269	-8.8	5.7
1991							
January	4,732	0.6	4,466	0.0	266	12.6	5.6
February	4,749	1.0	4,479	0.2	270	15.2	5.7
March	4,768	1.7	4,470	0.7	298	19.7	6.2
April	4,732	1.2	4,438	0.5	294	12.7	6.2
May	4,679	0.5	4,376	0.1	303	7.1	6.5
June	4,647	-0.1	4,333	-0.4	314	4.0	6.8
July	4,678	0.7	4,332	0.0	346	10.7	7.4
August	4,714	1.7	4,361	0.9	352	13.1	7.5
September	4,749	2.5	4,392	1.5	357	16.9	7.5
October	4,758	2.3	4,424	1.7	334	10.8	7.0
November	4,775	1.9	4,473	1.9	303	2.6	6.3
December	4,794	1.4	4,540	1.8	254	-5.7	5.3

(*) Including population aged 15 and over.

Source: National Bureau of Statistics

TABLE 6
Price indexes

DATE	CONSUMER PRICE INDEX (April 1989 = 100)			WHOLESALE PRICE INDEX (December 1974 = 100)		
	Index	Changes		Index	Changes	
		Month	12 months		Month	12 months
1987 Average	78.4	-	21.5 (*)	23,524	-	17.1 (*)
1988 Average	89.9	-	12.7 (*)	24,923	-	3.3 (*)
1989 Average	105.2	-	21.4 (*)	28,687	-	22.8 (*)
1990 Average	132.6	-	27.3 (*)	34,934	-	25.7 (*)
1991 Average	161.5	-	18.7 (*)	42,454	-	16.5 (*)
1990						
January	119.4	2.5	23.1	31,812	1.6	23.5
February	119.7	0.3	23.3	31,765	-0.1	20.7
March	122.6	2.4	23.9	31,918	0.5	19.5
April	124.8	1.8	24.8	32,397	1.5	19.1
May	126.7	1.5	24.3	32,621	0.7	17.2
June	129.5	2.2	24.8	33,254	1.9	17.4
July	131.6	1.7	24.6	34,510	3.8	19.4
August	134.3	2.0	25.8	35,337	2.4	19.7
September	140.9	4.9	29.3	37,253	5.4	23.7
October	146.2	3.8	30.4	39,341	5.6	27.4
November	147.5	0.9	29.4	39,645	0.8	26.5
December	148.3	0.5	27.3	39,360	-0.7	25.7
1991						
January	148.9	0.4	24.8	39,416	0.1	23.9
February	149.1	0.1	24.5	39,736	0.8	25.1
March	150.9	1.2	23.0	40,096	0.9	25.6
April	153.6	1.8	23.1	40,275	0.4	24.3
May	157.5	2.5	24.3	41,190	2.3	26.3
June	160.4	1.8	23.8	42,223	2.5	27.0
July	163.3	1.8	24.0	43,083	2.0	24.8
August	165.2	1.2	23.0	43,337	0.6	22.6
September	167.4	1.3	18.8	43,842	1.2	17.7
October	172.2	2.9	17.8	44,810	2.2	13.9
November	173.8	0.9	17.8	45,593	1.7	15.0
December	176.0	1.2	18.7	45,850	0.6	16.5

(*) December to December change.

Source: National Bureau of Statistics.

TABLE 7
 Consumer price index
 (Percentage changes in 12 months)

DATE	OVERALL INDEX	FOOD	HOUSING	CLOTHING	TRANSPORT AND COMMUNICATIONS	OTHERS
1987 December	21.5	23.4	22.3	22.8	(*)	18.3
1988 December	12.7	13.6	12.8	16.6	(*)	10.7
1989 December	21.4	25.8	19.3	13.3	(*)	16.7
1990 December	27.3	23.8	29.4	13.6	32.7	32.9
1991 December	18.7	27.9	15.2	22.5	6.4	16.9
1990						
January	23.1	26.8	19.4	12.4	(*)	16.2
February	23.3	25.8	20.1	10.9	(*)	16.7
March	23.9	23.4	22.9	11.1	(*)	24.8
April	24.8	23.7	23.8	13.2	33.9	25.2
May	24.3	23.4	22.9	14.9	30.0	27.0
June	24.8	23.6	23.3	16.2	30.4	28.2
July	24.6	24.5	23.7	12.6	27.7	29.1
August	25.8	27.0	24.7	14.7	28.8	27.7
September	29.3	29.0	28.5	15.7	38.1	28.0
October	30.4	31.2	28.5	17.1	37.6	28.8
November	29.4	28.3	29.2	16.1	36.8	30.3
December	27.3	23.8	29.4	13.6	32.7	32.9
1991						
January	24.8	20.9	28.0	11.6	25.8	33.6
February	24.5	22.5	26.9	12.3	23.6	32.4
March	23.0	23.6	23.4	14.1	22.0	26.4
April	23.1	25.0	22.1	17.9	20.2	26.6
May	24.3	28.6	23.5	20.0	18.8	24.9
June	23.8	28.9	22.2	19.8	18.1	24.6
July	24.0	30.4	21.3	21.9	16.4	24.6
August	23.0	28.2	21.5	22.0	15.1	24.1
September	18.8	25.1	16.6	20.3	6.8	22.6
October	17.8	23.8	15.2	21.3	5.7	22.7
November	17.8	24.7	15.7	20.7	4.5	20.5
December	18.7	27.9	15.2	22.5	6.4	16.9

(*) Transport and Communications began to be calculated as a separate sector in April 1989.

Source: National Bureau of Statistics.

TABLE 8
General index of wages
(December 1982 = 100)

DATE	NOMINAL				REAL			
	Index	Percentage Change			Index	Percentage Change		
		Month	12 months	Average (a)		Month	12 months	Average (a)
1987 Average	237.3	-	22.1 (b)	19.7	94.4	-	0.5 (b)	-0.2
1988 Average	290.0	-	17.5 (b)	22.2	100.6	-	4.3 (b)	6.5
1989 Average	345.8	-	25.2 (b)	19.2	102.5	-	3.1 (b)	1.9
1990 Average	443.8	-	33.8 (b)	28.4	104.4	-	5.0 (b)	1.8
1991 Average	566.8	-	21.9 (b)	27.7	109.5	-	2.7 (b)	4.9
1990								
January	399.7	3.3	26.5	26.5	104.5	0.8	2.8	2.8
February	400.8	0.3	25.2	25.9	104.4	0.0	1.6	2.2
March	407.7	1.7	25.8	25.8	103.7	-0.7	1.5	2.0
April	418.1	2.6	26.3	26.0	104.5	0.8	1.2	1.8
May	427.1	2.2	26.7	26.1	105.2	0.6	2.0	1.8
June	434.0	1.6	27.0	26.3	104.6	-0.6	1.8	1.8
July	445.8	2.7	28.0	26.5	105.6	1.0	2.7	1.9
August	453.3	1.7	28.5	26.8	105.3	-0.3	2.1	2.0
September	458.8	1.2	28.4	27.0	101.6	-3.5	-0.6	1.7
October	475.3	3.6	31.2	27.4	101.4	-0.2	0.6	1.6
November	487.7	2.6	31.2	27.8	103.1	1.7	1.4	1.6
December	517.6	6.1	33.8	28.4	108.9	5.6	5.0	1.8
1991								
January	531.9	2.7	33.1	33.1	111.4	2.3	6.7	6.7
February	532.9	0.2	33.0	33.0	111.5	0.1	6.8	6.7
March	537.5	0.9	31.8	32.6	111.2	-0.3	7.2	6.9
April	544.7	1.3	30.3	32.0	110.6	-0.5	5.8	6.6
May	552.4	1.4	29.3	31.5	109.5	-1.1	4.1	6.1
June	559.6	1.3	28.9	31.0	108.9	-0.5	4.1	5.8
July	562.7	0.5	26.2	30.3	107.5	-1.2	1.8	5.2
August	563.9	0.2	24.4	29.5	106.5	-1.0	1.1	4.7
September	581.7	3.1	26.8	29.2	108.4	1.8	6.7	4.9
October	596.2	2.5	25.5	28.8	108.0	-0.4	6.5	5.1
November	607.7	1.9	24.6	28.3	109.1	1.0	5.8	5.1
December	630.8	3.8	21.9	27.7	111.8	2.5	2.7	4.9

(a) Change between the cumulative average to such month and the cumulative average to the same month of the previous year.

(b) December to December change.

Source: National Bureau of Statistics.

TABLE 9
Initial real adjustments agreed in collective negotiation
(Percentage)

PERIOD	UNIONS	OTHER GROUPS	TOTAL
1990			
January-March	5.1	4.9	5.0
April-June	3.7	3.7	3.7
July-September	4.6	2.1	4.1
October-November	3.5	2.9	3.4
1991			
January-March	3.2	2.5	3.1
April-June	3.0	4.7	3.5
July-September	1.4	0.8	1.3
October-December (*)	1.6	0.8	1.5

(*) Provisional figures.

Source: Division of Labour.

TABLE 10
Interest rates on Banco Central indexed instruments
(Annual rate over indexed unit-UF)

DATE	PRBC			PRC
	90-day	180-day	360-day	
1988				
January	4.1	4.3	4.5	-
July 11	4.7	4.6	4.6	-
July 27	4.5	4.7	4.9	-
August 10	4.8	5.0	5.2	-
December 9	5.1	5.3	5.5	-
1989				
January 4	5.5	5.7	6.0	-
April 24	5.8	6.0	6.4	6.9
June 7	6.3	(a)	(a)	6.9
September 5	6.8	(a)	(a)	6.9
1990				
January 5	8.7	8.9	9.2	9.7
June 1	8.7	8.9	9.2	(a)
August 17	8.2	(a)	(a)	(a)
October 31	7.2	(a)	(a)	(a)
November 27	6.8	(a)	(a)	(a)
1991				
January 30	6.5	(a)	(a)	(a)
February 20	6.2	(a)	(a)	(a)
March 18	5.7	(a)	5.9 (b)	(a)
November 8	5.2	(a)	5.4 (b)	(a)
December 20	4.7	(a)	4.9 (b)	(a)

(a) Suspended. As from March 1991 30-day Banco Central indexed promissory notes (PRBC) were reintroduced according to bids.

(b) Mean rate bid.

TABLE 11
 90- to 365-day indexed interest rates
 (Financial system monthly averages)

DATE	DEPOSIT RATE	LENDING RATE	SPREAD
1986 Average	4.1	7.7	3.6
1987 Average	4.3	7.3	3.0
1988 Average	4.6	7.6	3.0
1989 Average	6.8	9.4	2.7
1990 Average	9.5	13.3	3.8
1991 Average	5.4	8.5	3.1
1989			
First Quarter	5.5	8.2	2.8
Second Quarter	6.0	8.6	2.6
Third Quarter	7.0	9.5	2.5
Fourth Quarter	8.7	11.4	2.8
1990			
First Quarter	11.9	15.0	3.1
Second Quarter	10.7	14.8	4.1
Third Quarter	8.8	13.0	4.2
Fourth Quarter	6.4	10.3	3.9
1991			
January	6.2	9.2	3.0
February	6.1	9.2	3.1
March	5.7	8.8	3.1
April	5.5	8.4	2.9
May	5.5	8.8	3.3
June	5.3	8.8	3.5
July	5.2	8.2	3.0
August	5.3	8.5	3.2
September	5.3	8.1	2.8
October	5.3	8.1	2.8
November	5.0	8.0	3.0
December	4.8	7.7	2.9

TABLE 12
Percentage changes of major monetary aggregates

DATE	MONTH			YEAR			12-MONTH		
	E	MIA	M7	E	MIA	M7	E	MIA	M7
1989									
January	2.2	2.6	5.2	2.2	2.6	5.2	30.9	34.5	31.7
February	-0.6	1.9	2.3	1.5	4.5	7.6	28.1	32.2	33.6
March	3.1	3.8	2.9	4.7	8.5	10.7	30.3	32.9	33.1
April	4.9	-2.3	0.9	9.8	5.9	11.7	31.9	30.3	31.7
May	-1.4	-0.1	2.4	8.3	5.8	14.4	28.1	29.0	31.5
June	4.8	-2.2	3.9	13.5	3.4	18.9	38.0	23.7	34.6
July	-4.7	2.4	4.2	8.2	5.9	23.8	28.7	22.1	37.0
August	-7.7	-0.5	2.1	-0.1	5.4	26.5	18.7	19.0	37.3
September	10.5	6.5	2.7	10.3	12.3	29.9	23.6	21.7	38.7
October	-1.8	-5.0	1.6	8.4	6.6	32.0	17.9	11.6	38.0
November	-5.2	-0.5	3.5	2.8	6.1	36.6	13.8	15.3	41.2
December	19.3	18.2	6.0	22.6	25.3	44.8	22.6	25.3	44.8
1990									
January	-0.6	-0.9	2.5	-0.6	-0.9	2.5	19.2	21.1	41.0
February	1.2	-4.8	2.8	0.6	-5.7	5.4	21.5	13.1	41.8
March	3.8	6.7	4.0	4.4	0.6	9.6	22.2	16.3	43.2
April	6.3	1.7	1.3	11.0	2.4	11.0	23.9	21.1	43.8
May	0.6	-1.9	2.3	11.6	0.4	13.5	26.4	19.0	43.6
June	-2.6	-3.2	2.7	8.8	-2.8	16.5	17.4	17.8	41.9
July	-6.3	-1.3	3.5	1.9	-4.0	20.6	15.5	13.6	40.9
August	1.4	-5.0	1.6	3.4	-8.8	22.5	26.8	8.4	40.3
September	11.4	12.0	3.6	15.2	2.1	26.9	27.9	14.0	41.5
October	-1.2	-9.4	2.8	13.7	-7.6	30.4	28.7	8.7	43.1
November	-4.6	-1.1	4.0	8.5	-8.6	35.7	29.4	8.1	43.8
December	15.6	22.8	4.8	25.3	12.0	42.2	25.3	12.0	42.2
1991									
January	6.3	17.7	3.2	6.3	17.7	3.2	34.1	32.9	43.1
February	-0.5	1.7	2.1	5.7	19.8	5.3	31.7	42.0	42.1
March	3.1	10.7	2.3	9.0	32.5	7.8	30.9	47.3	39.9
April	7.1	-2.6	0.4	16.8	29.1	8.2	31.9	41.1	38.6
May	2.3	-4.9	0.8	19.5	22.7	9.0	34.1	36.8	36.6
June	-1.2	-2.8	3.3	18.0	19.3	12.7	36.0	37.3	37.5
July	-7.2	-4.1	3.2	9.5	14.4	16.2	34.7	33.4	37.1
August	-2.6	1.4	2.4	6.7	16.0	19.0	29.4	42.3	38.1
September	17.7	11.7	3.3	25.6	29.5	22.9	36.7	41.9	37.7
October	-5.7	-2.2	2.4	18.5	26.7	25.8	30.5	53.3	37.1
November	-1.3	-5.9	3.9	16.9	19.2	30.7	35.0	45.8	37.0
December	28.9	17.5	3.8	50.7	40.0	35.7	50.7	40.0	35.7

E: Base money.

MIA: Money in circulation + non-financial private sector current accounts net of float + demand deposits other than current accounts.

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

TABLE 13
 Components of private monetary aggregates
 Monthly averages
 (Billions of pesos)

DATE	C	D1A	Dp	Ahp	Instruments of the Banco Central	Treasury Promissory Notes	Credit Bills	Private Sector Foreign Currency Deposits
1990								
January	186.2	349.0	1,347.5	421.7	1,062.3	24.0	346.4	432.2
February	193.5	316.1	1,375.6	426.3	1,148.6	22.6	360.3	442.3
March	197.9	345.6	1,373.0	435.7	1,255.1	23.5	372.0	452.9
April	197.5	355.2	1,409.9	438.3	1,272.6	22.3	362.9	455.4
May	193.4	348.6	1,465.1	447.1	1,298.2	18.7	384.3	460.9
June	193.5	331.4	1,513.4	456.8	1,352.9	20.5	391.7	479.6
July	187.5	330.8	1,569.3	464.7	1,432.6	19.6	401.2	498.1
August	188.3	304.2	1,568.6	473.2	1,500.8	19.2	414.5	514.9
September	204.5	346.9	1,576.1	482.1	1,574.9	16.8	433.0	528.4
October	190.2	309.2	1,676.2	491.1	1,659.1	17.7	442.0	519.6
November	194.0	299.9	1,755.5	511.0	1,752.1	18.6	471.5	516.2
December	231.9	372.3	1,748.5	531.1	1,849.6	18.9	495.1	535.2
1991								
January	238.8	472.4	1,704.3	547.8	1,920.5	18.7	504.8	559.3
February	254.9	468.7	1,731.3	562.7	1,956.2	18.8	522.0	576.3
March	265.7	535.1	1,688.3	578.8	2,030.6	16.2	534.8	582.9
April	265.9	514.1	1,717.5	592.3	2,016.5	16.0	536.3	598.0
May	265.8	475.8	1,822.8	607.4	1,958.0	16.3	555.3	603.0
June	260.0	460.7	1,943.5	625.9	2,042.0	17.6	577.3	588.6
July	257.1	434.1	2,049.0	645.9	2,142.7	17.6	582.6	592.0
August	256.6	444.0	2,088.3	661.0	2,196.8	17.7	608.3	607.4
September	279.3	503.2	2,089.2	676.3	2,285.6	16.7	632.9	623.2
October	271.2	494.1	2,133.8	688.2	2,425.6	16.9	616.3	627.6
November	273.6	446.3	2,273.9	699.5	2,539.3	16.9	643.9	666.4
December	316.7	529.2	2,355.7	717.4	2,534.0	16.8	663.8	711.6

SYMBOLS:

- C : Money in circulation (held by the public).
 D1A : Non-financial private sector current accounts and other demand deposits net of float, less all deposits of the Treasury Banking Account + demand savings deposits. Float refers to documents received by banks and the extended against all kinds of deposits (public, private and interfinancial).
 Dp : Private sector time deposits.
 Ahp : Demand and time savings deposits including those for housing.

RATIOS:

- M1 : C + D1 (D1: Non-financial private sector current accounts net of float).
 M1A : M1 + Dv (Dv: Demand deposits other than current accounts).
 M2A : M1A + Dp (Dp: Private sector time deposits).
 M3 : M2A + Demand and time savings deposits including those for housing.
 M4 : M3 + Instruments of the Central Bank of Chile held by the public (non-financial private sector).
 M5 : M4 + Treasury Promissory Notes held by the public (non-financial private sector).
 M6 : M5 + Credit Bills held by the public (non-financial private sector).
 M7 : M6 + Private sector deposits in foreign currency.

TABLE 14
Nominal exchange rate
(Pesos to dollar)

DATE	OBSERVED	REFERENTIAL	BREACH (%)
1987 Average	219.4	218.0	0.6
1988 Average	245.0	246.0	-0.4
1989 Average	267.0	261.2	2.2
1990 Average	304.9	312.6	-2.5
1991 Average	349.2	366.5	-4.7
1990			
January	296.8	285.2	4.0
February	292.5	290.4	0.7
March	296.7	295.2	0.5
April	296.4	297.1	-0.2
May	297.0	302.6	-1.9
June	296.8	306.9	-3.3
July	296.7	311.2	-4.7
August	303.4	316.7	-4.2
September	308.4	321.3	-4.0
October	312.5	329.2	-5.0
November	326.9	342.9	-4.7
December	335.0	352.4	-5.0
1991			
January	337.2	354.6	-4.9
February	337.5	355.2	-5.0
March	340.2	355.9	-4.4
April	340.3	354.9	-4.1
May	340.0	357.0	-4.8
June	344.9	360.4	-4.3
July	348.7	363.9	-4.2
August	350.9	369.4	-5.0
September	355.6	374.3	-5.0
October	359.1	377.9	-5.0
November	364.3	383.2	-5.0
December	371.9	391.4	-5.0

TABLE 15
Real observed exchange rate
(1986 = 100)

DATE	TOTAL INDEX (a)			INDEX LESS LATIN AMERICA (b)		
	Index	Change		Index	Change	
		Month	12-month		Month	12-month
1987 Average	103.6	-	3.6 (c)	103.4	-	3.4 (c)
1988 Average	110.2	-	6.4 (c)	107.1	-	3.6 (c)
1989 Average	106.5	-	-3.4 (c)	100.8	-	-5.8 (c)
1990 Average (d)	110.3	-	3.6 (c)	98.0	-	-2.8 (c)
1991 Average (d)	102.0	-	-7.5 (c)	93.9	-	-4.2 (c)
1990 (d)						
January	115.9	3.3	9.8	102.4	-0.1	0.6
February	114.8	-0.9	9.4	100.8	-1.6	-0.5
March	116.9	1.8	10.3	98.6	-2.1	-2.0
April	111.6	-4.5	9.0	96.8	-1.8	-4.0
May	111.1	-0.5	10.8	96.8	0.0	-1.0
June	108.4	-2.4	4.9	94.3	-2.6	-4.0
July	107.2	-1.1	0.2	94.2	-0.1	-8.0
August	108.1	0.9	0.0	97.3	3.2	-5.0
September	106.6	-1.5	-1.6	95.9	-1.4	-4.9
October	105.4	-1.1	-2.9	96.8	0.9	-3.7
November	108.9	3.3	-1.8	100.8	4.1	-0.2
December	109.0	0.1	-2.8	101.4	0.6	-1.1
1991 (d)						
January	108.7	-0.3	-6.2	101.8	0.4	-0.6
February	110.0	1.2	-4.2	102.2	0.4	1.4
March	107.5	-2.3	-8.1	98.0	-4.2	-0.6
April	103.6	-3.6	-7.2	94.6	-3.4	-2.3
May	99.5	-3.9	-10.4	92.0	-2.7	-5.0
June	98.1	-1.4	-9.5	90.3	-1.9	-4.3
July	98.6	0.5	-8.0	89.8	-0.5	-4.7
August	99.6	1.0	-7.9	90.0	0.2	-7.5
September	101.0	1.4	-5.2	91.3	1.4	-4.8
October	98.0	-2.9	-7.0	90.2	-1.1	-6.8
November	99.0	1.0	-9.1	92.1	2.1	-8.6
December	100.3	1.3	-8.0	93.9	1.9	-7.4

(a) Defined as the nominal observed exchange rate multiplied by the quotient between relevant external inflation and CPI. External inflation is calculated from WPI of main trade partners, denominated in US dollars, weighted by the relative importance of Chilean imports (excluding petroleum) therefrom (approximately 68% of total Chilean imports in 1985).

(b) Same definition as in (a), excluding Latin American trade partners.

(c) Annual average change.

(d) Provisional figures.

TABLE 16
Balance of payments
(Millions of dollars)

ITEM	1989	1990	1991	Percentage Change	
				1990	1991
I. CURRENT ACCOUNT	-767	-825	93	-8	111
A. Trade Balance	1,578	1,273	1,576	-19	24
1. Exports FOB	8,080	8,310	8,929	3	8
Copper	4,021	3,795	3,617	-6	-5
Non copper	4,059	4,515	5,312	11	18
2. Imports FOB	-6,502	-7,037	-7,354	8	5
Petroleum	-589	-843	-739	43	-12
Non petroleum	-5,913	-6,194	-6,614	5	7
B. Non-financial Services	-634	-486	-5	23	99
C. Financial Services	-1,926	-1,811	-1,810	-6	0
D. Transfers	215	199	332	-7	67
II. CAPITAL ACCOUNT	1,278	3,356	860	163	-74
A. Medium- and long-term capital	712	2,107	1,084	196	-49
1. Actual net foreign investment (*)	259	587	431	127	-27
2. Loan disbursements under DL 600	437	887	458	103	-48
3. Other disbursements	1,046	1,376	1,127	32	-18
4. Loan repayments	-734	-743	-933	1	26
5. Repayments with fruit promissory notes and foreign debt repurchase	-296	0	0	-100	0
B. Short-term capital	566	1,250	-224	121	-118
1. Banking commercial lines	371	257	-283	-31	-210
2. Others	195	993	59	409	-94
III. ERRORS AND OMISSIONS	-74	-164	285	-122	274
IV. BALANCE OF PAYMENTS					
SURPLUS/DEFICIT	437	2,368	1,238	442	-48

(*) Including investment funds and ADRs, excluding inflows from Chapter XIX promissory notes and credit capitalization, including capital re-exportation for the same.

TABLE 17
Trade balance

ITEM	Millions of dollars			Percentage change	
	1989	1990	1991	1990	1991
Balance of trade					
Surplus/Deficit	1,578	1,273	1,576	-19.3	23.8
Total exports (FOB)	8,080	8,310	8,929	2.8	7.5
Copper	4,021	3,795	3,617	-5.6	-4.7
Non-copper	4,059	4,515	5,312	11.2	17.7
Other major (a)	2,376	2,485	2,793	4.6	12.4
Non traditional	1,683	2,030	2,519	20.6	24.1
Total imports (FOB)	6,502	7,037	7,354	8.2	4.5
Total imports (CIF)	7,145	7,678	8,094	7.5	5.4
Consumer goods (b)	1,054	1,042	1,392	-1.1	33.5
Intermediate goods (b)	4,111	4,313	4,662	4.9	8.1
Fuels	814	1,129	1,034	38.7	-8.4
Others	3,297	3,184	3,627	-3.4	13.9
Capital goods (b)	1,980	2,322	2,041	17.3	-12.1

(a) Including iron, nitrate and iodine, silver, gold ores, fruit, fishmeal, sawn lumber, logs, planed wood, cellulose, methanol, lithium carbonate, oxide and ferromolybdenum, gold metal and dore.

(b) For 1989 and 1990, total accumulated in the year under the new classification.

TABLE 18
Foreign trade indicators

ITEM	1989	1990	1991
Price of copper LME (US\$/lb)	1.27	1.21	1.06
Price of petroleum (US\$/barrel FOB)	17.1	21.6	19.0
LIBOR US\$ (Nominal) (%)	9.4	8.6	7.4
International inflation (%)	3.2	7.0	1.8
Terms of trade index (1988 = 100)			
Total goods	96.0	85.7	85.7
Total non-copper and non-petroleum goods	93.9	86.5	85.8
Total exports			
Percentage variation of value	14.6	2.8	7.5
Percentage variation of prices (FOB)	0.1	-2.8	-4.3
Percentage variation of volume	0.0	5.8	12.3
Copper exports			
Percentage variation of value	17.7	-5.6	-4.7
Percentage variation of prices (FOB)	3.6	-4.3	-13.5
Percentage variation of volume	13.6	-1.4	10.1
Non-copper exports			
Percentage variation of value	11.6	11.2	17.7
Percentage variation of prices (FOB)	-3.2	-1.5	3.2
Percentage variation of volume	15.3	12.9	14.0
Imports of goods (CIF)			
Percentage variation of value	35.0	7.5	5.4
Percentage variation of prices	4.2	9.0	-4.3
Percentage variation of volume	29.5	-1.4	10.1

TABLE 19
 Non-financial services
 (Millions of dollars)

ITEM	1989	1990	1991	Percentage	Change
				1990	1991
1. SHIPMENTS	-46	42	41	192.5	-1.9
Credits	329	407	405	23.5	-0.3
Debits	375	364	364	-2.8	-0.1
2. OTHER TRANSPORT	-384	-389	-247	-1.3	36.5
a. Passenger services	-99	-54	-24	45.0	55.7
Credits	80	151	172	89.1	14.3
Debits	178	205	196	14.9	-4.3
b. Port services	-285	-335	-223	-17.2	33.4
Credits	142	178	317	26.0	78.0
Debits	427	513	540	20.1	5.3
3. TRAVEL	-2	57	275	3,121.1	379.6
Credits	395	483	684	22.3	41.6
Debits	397	426	409	7.3	-4.0
4. OTHER GOODS, SERVICES AND INCOMES	-203	-196	-75	3.2	61.9
Credits	592	623	681	5.3	9.3
Debits	795	820	756	3.2	-7.8
TOTAL NON-FINANCIAL SERVICES	-634	-486	-5	23.4	99.0
Credits	1,537	1,842	2,260	19.8	22.7
Debits	2,171	2,327	2,265	7.2	-2.7

TABLE 20
 Financial services
 (Millions of dollars)

ITEM	1989	1990	1991	Percentage Change	
				1990	1991
I. INTEREST PAID	1,780	1,829	1,631	2.7	-10.8
Medium- and long-term	1,442	1,483	1,340	2.9	-9.6
Short-term	338	345	291	2.2	-15.8
II. INTEREST RECEIVED	237	354	470	49.5	32.7
III. PROFITS AND DIVIDENDS	-383	-333	-643	13.1	-93.3
Credits (received)	3	2	2	-7.7	-12.5
Debits (paid)	385	335	645	-13.1	92.5
IV. LEASING SERVICES	0	4	6	-	65.7
TOTAL FINANCIAL SERVICES	-1,926	-1,811	-1,810	6.0	0.1
Credits	239	356	472	48.9	32.4
Debits	2,165	2,167	2,281	0.1	5.3

TABLE 21
 Net foreign investment in Chile
 (Millions of dollars)

ITEM	1984	1985	1986	1987	1988	1989	1990	1991 (a)
I. TOTAL FOREIGN INVESTMENT (1 + 2 + 3)	67	143	313	882	952	1,366	937	450
1. Direct Investment	67	113	114	223	160	174	241	478
DL 600	63	73	55	91	111	171	198	480
Credit capitalization	6	42	56	125	52	2	16	0
Chapter XIV capital contribution	8	-1	5	14	13	11	35	96
Investment abroad	-11	-2	-3	-7	-16	-10	-8	-98
2. Portfolio Investment	0	0	0	0	0	87	362	12
Chapter XIV ADR	0	0	0	0	0	0	105	-31
Investment funds	0	0	0	0	0	87	257	43
3. Chapter XIX (b)	0	30	199	659	792	1,105	334	-40
II. ASSOCIATED CREDITS	-4	-21	67	185	385	311	749	336
Credit disbursements under DL 600	49	30	108	226	521	437	888	458
Credit amortizations under DL 600	-53	-51	-41	-41	-136	-126	-139	-122
III. TOTAL (I + II)	63	122	380	1,067	1,336	1,677	1,685	785

(a) Provisional figures.

(b) At redenomination value. In 1991, comprises capital repatriation.

TABLE 22
 Gross capital contribution abroad via Chapter XII
 (Thousands of dollars)

YEAR	Authorized amount	Remitted amount
1980	9,818	43,510
1981	19,348	21,730
1982	7,112	17,680
1983	71	3,870
1984	898	10,540
1985	26	1,680
1986	1,400	2,705
1987	2,500	6,915
1988	3,604	15,720
1989	40,561	9,780
1990	33,279	7,890
1991 (a)	18,470	107,177 (b)

(a) Figures at each year end.

(b) Including US\$ 84.4 million remitted through informal exchange market.

TABLE 23
International reserves of the Banco Central de Chile (a)
(Millions of dollars)

ITEM	1984	1985	1986	1987	1988	1989	1990	1991
1. Gold (Ounces troy)	540 1,759	519 1,770	668 1,795	757 1,811	679 1,824	592 1,752	642 1,858	597 1,863
2. SDRs	12	0	1	41	44	24	1	1
3. Reserve position with IMF	0	0	0	0	0	0	0	0
4. Foreign currency assets	2,292	2,450	2,351	2,463	3,116	3,604	6,068	7,041
5. Others assets	-7	-16	86	62	32	-5	-202	-43
6. Use of IMF credit	781	1,086	1,328	1,452	1,322	1,268	1,151	955
7. Short-term loans	480	325	0	225	0	5	10	1
I. INTERNATIONAL ASSETS (b)	2,837	2,952	3,106	3,323	3,872	4,216	6,508	7,595
II. GROSS RESERVES (c)	2,056	1,867	1,778	1,871	2,550	2,948	5,358	6,641
III. NET RESERVES (d)	1,576	1,542	1,778	1,646	2,550	2,943	5,347	6,639

(a) Calculated from foreign currency and gold quotation in effect at the end of each period.

(b) (1 + 2 + 3 + 4 + 5).

(c) (I - 6).

(d) (II - 7).

TABLE 24
Foreign debt (a)
(Millions of dollars)

ITEM	1985	1986	1987	1988	1989	1990	1991 (b)
I. Total Foreign Debt (II + III)	19,444	19,501	19,208	17,638	16,252	17,425	16,405
Public sector	11,769	12,394	13,128	11,889	10,135	9,727	8,768
Private sector	7,675	7,107	6,080	5,749	6,117	7,698	7,637
Private sector with public guarantee	2,310	3,369	3,252	2,820	1,897	2,065	1,785
II. Medium-and Long-term Foreign Debt	17,650	17,814	17,191	15,452	13,279	14,043	14,194
Public sector	10,552	11,483	12,075	11,048	9,063	8,769	8,483
Private sector	7,098	6,331	5,116	4,404	4,216	5,274	5,711
Private sector with public guarantee	1,963	2,896	2,650	2,060	1,068	1,039	1,006
III. Short-term Foreign Debt	1,794	1,687	2,017	2,186	2,973	3,382	2,211
Public sector	1,217	911	1,053	841	1,072	958	285
Private sector	577	776	964	1,345	1,901	2,424	1,926
Private sector with public guarantee	347	473	602	760	829	1,026	779
IV. International Monetary Fund	1,085	1,328	1,452	1,322	1,268	1,151	955

(a) Balances as of December 31 of each year, based on net disbursements. Excluding debt owned to the IMF and foreign commercial credit lines (anticipated export earnings and pending import payments).

(b) Provisional figures.

TABLE 25
Foreign debt indicators

ITEM	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 (b)
<i>(millions of dollars)</i>												
Total foreign debt	11,084	15,542	17,153	17,431	18,877	19,444	19,501	19,208	17,638	16,252	17,425	16,405
Medium- and long-term foreign debt	2,361	3,215	2,989	2,242	2,255	2,057	2,041	1,697	1,676	2,139	2,086	2,173
Interest on total foreign debt	1,074	1,795	2,131	1,705	2,069	1,838	1,772	1,516	1,612(a)	1,559	1,558	1,413
Current account deficit	1,971	4,733	2,305	1,117	2,110	1,328	1,137	808	167	767	824	-93
Net international reserves	4,074	3,775	2,378	1,723	1,576	1,542	1,778	1,646	2,550	2,943	5,347	6,639
Trade balance, Surplus/deficit	-764	-2,677	63	986	363	850	1,100	1,229	2,219	1,578	1,273	1,577
Exports of goods and services	5,968	5,009	4,642	4,605	4,495	4,470	5,030	6,310	8,266	9,479	10,152	11,189
<i>(percentages)</i>												
Foreign debt / export of goods and services	186	310	370	379	420	435	388	304	213	171	172	147
Medium- and long-term debt servicing/exports of goods and services	40	64	64	49	50	46	41	27	20	23	21	19
Interest/export of goods and services	19	36	46	37	46	41	35	24	20	16	15	13
Current-account deficit / exports of goods and services	33	94	50	24	47	30	23	13	2	8	8	-1
Trade balance surplus (deficit) / export of goods and services	-13	-53	1	21	8	19	21	19	27	17	13	14
<i>(months)</i>												
Net international reserves / import of goods (FOB)	8	8	8	7	6	6	7	5	6	5	9	11

(a) Including interests for retiming (US\$ 398 million).

(b) Provisional figures.

TABLE 26
 Chilean foreign debt redeemed through conversion transactions
 ruled by the Banco Central de Chile (a)
 (Millions of dollars)

ITEM	1985	1986	1987	1988	1989	1990	1991
Capitalization under DL 600 and others	53.0 (b)	56.3	124.6	51.5	2.4	15.9	-
Chapter XVIII	115.2	410.6	695.8	909.3	410.3	591.6	147.0
Chapter XIX	32.3	213.5	707.3	885.9	1,321.4	417.5	21.6
Portfolio exchange	41.0	27.2	-	67.6	19.7	-	-
Others	88.7	275.9	451.0	1,026.0	1,013.5	70.7	638.9
Total	330.2	983.5	1,978.7	2,940.3	2,767.3	1,095.7	807.5

(a) Materialized transactions. Foreign debt securities are taken at their face value.

(b) Including US\$ 10.8 million capitalized before 1985.

ANNEX 1

MAIN MONETARY AND CREDIT MEASURES

January 1991

- Interest payment on the reserve for domestic currency deposits and term deposits was modified. Previously, payment was made for the part of the consumer price index (CPI) of the month preceding the reserve that exceeded 1.5%. From now on, the total CPI variation of the month preceding the reserve will be paid.
- From January 30, 1991, the annual interest rate on 90-day Banco Central indexed promissory notes (PRBC) was reduced from 6.8% to 6.5%.

February 1991

- From February 20, the annual interest rate on 90-day Banco Central indexed promissory notes (PRBC) was reduced from 6.5% to 6.2%.

March 1991

- From March 18, the annual interest rate on 90-day Banco Central indexed promissory notes (PRBC) was reduced from 6.2% to 5.7%.
- Bids were called for 360-day Banco Central indexed promissory notes (PRBC), the Bank determining the dealing rate or withdrawing the tender.

July 1991

- Financial institutions were given the option of paying at the beginning and in one lump sum the amount that the 20% reserve on external credits would cost them. (see Annex 1B) This payment would be made by way of Banco Central Chapter XIV promissory notes with repurchase obligation, following a similar procedure to that of the tender of Chapter XVIII coupons. The interest rate on these papers would be the 180-day LIBO rate, plus 20% of that rate. This measure was introduced taking account of the sums of

the credits associated to DL 600 investment, in order to avoid possible problems of liquidity caused by the reserve requirement.

- The only requirement for authorization of access to domestic credit available to foreign investors subject to Article 11 bis of DL 600 stipulations is that the amount of internal credit should not exceed 20% of the total investment and that the investor accepts to waive the right given by said article for returns equivalent to the proportion that the ratio of internal credit to total investment represents. This resolution favours foreign investment projects over US\$ 50 million.

September 1991

- Financial norms relating to term savings accounts, demand savings accounts, and term savings accounts with deferred withdrawals were modified to allow them to operate with or without an account book, as stipulated in the moment of opening the account. Furthermore, withdrawals and deposits can be made through automatic tellermachines or other electronic devices authorized by the Superintendency of Banks.

October 1991

- Chapter III.B.3. on "Social Prevision Institutions' Investments and Financial Instruments" was incorporated into the Compendium of Financial Regulations. It states that such institutions may invest in Treasury promissory notes, Banco Central papers, mortgage letters and deposits and instruments issued by banks and financial institutions.

November 1991

- From November 8, the annual interest rate on 90-day Banco Central indexed promissory notes (PRBC) was reduced from 5.7% to 5.2%.

December 1991

- From December 23, the annual interest rate on 90-day Banco Central indexed promissory notes (PRBC) was reduced from 5.2% to 4.7%. This interest-rate drop was accompanied by advance payment of US\$ 204 million by the Treasury to the Banco Central as part of its debt with the Bank.

- Modifications were introduced to the ruling on tender of Banco Central indexed promissory notes (PRBC) and indexed promissory notes to be paid in coupons (PRC). The most significant change is that now the same rate implicit in the bid of the accepted tender will be paid to all those whose bid was the same or higher. This procedure is known as "Dutch tendering". Previously, each tender was paid at its own implicit rate as long as it was equal to or below the dealing rate.

ANNEX 2

MAIN EXCHANGE AND EXTERNAL TRADE MEASURES

February 1991

- Exchange rate indexation was modified for the period March 1 through April 9. The exchange rate will be equal to that in force on February 28 adjusted as from March 1 by the same percentage as the daily indexed unit (UF) variation.
- Banking companies are authorized to invest abroad up to 25% of the funds obtained from the public in foreign currency term deposits. These investment may be in the form of term deposits, deposit certificates, bank letters, US Treasury bills, Euro-bills and short-term commercial papers of foreign governments or foreign low-risk, state-owned companies; and fixed- or floating-rate bonds with a maximum 5-year maturity-term of foreign banks, foreign governments or foreign low-risk, state-owned companies.

April 1991

- On April 3, the referential dollar exchange rate was lowered 0.7% to be adjusted daily by the same percentage as the UF variation until May 9.
- Chapter XIV, Title 1, of the Compendium of Rules on International Exchange was modified to the effect that the liquidation of foreign currency obtained from external credits with a term of up to 180 days should be transferred to the informal exchange market, the only requirement being to inform the Banco Central of the credits entered and also capital and interest payments.
- The percentage of term deposits banks can use for financing external trade was raised to 40%.
- Time allowed to foreign investors subject to Chapter XIX of the Compendium of Rules on International Exchange for remittance of capital was lowered from 10 years to 3 years, on condition that they first pay the Banco Central a percentage of the total investment, in this way complying with the same conditions governing direct external investment. The percentage of the initial investment is calculated on the basis of the differential

between external and internal values of the foreign debt promissory notes used to effect the investment, and also depending on the time the investment has stayed in the country. At the same time, the right was given to remit, before the established term expires, the profits corresponding to the proportion of capital authorized for advance remittance.

- Maximum term for export return was extended from 120 to 150 days. The obligation to liquidate foreign currency obtained from sales to foreign credit card holders on the formal exchange market was eliminated. The value of single sporadic export shipments without return obligation was increased from US\$ 1,000 to US\$ 2,000. The obligation to present an import report for lesser imports (without cover) was eliminated and also the obligation to account for 5% of the returns up to a limit of US\$ 500,000 a year used by exporters abroad.
- Chapter XII of the Compendium of Rules on International Exchange, which regulates investment abroad effected by Chilean individuals and juridical entities, was modified to allow investment abroad to be carried out using foreign currency of their own or purchased on the informal exchange market. Banco Central prior approval is no longer required and the investor only has to inform of the investment within 30 days. The existing ruling on investment abroad operating through the formal exchange market continues in force and a maximum of 30 days has been established in which the Banco Central should authorize the transaction.
- On May 1, the referential dollar exchange rate was lowered 0.7% to be adjusted daily according to the UF variation until July 9. This means that by that date the referential dollar will reach the same value as it would have had without any of the adjustments made during this year.

June 1991

- On June 17, the referential dollar rate was lowered 2%, to be adjusted from then on according to the traditional exchange ruling, which supposes a monthly discount of 0.3% for external inflation.
- On June 17, a reserve requirement of 20% was applied to external credits, with decreasing incidence on the cost of the reserve for transactions of over one year. This reserve is required for terms of 90 days to one year. The reserve is paid in foreign currency in the Banco Central, earns no interest and is applicable to all external credits in favour of

banks or others. Buyers' advance payments are exempt, but a period of up to 6 months is allowed for shipment to be made. Payments for exports are also exempt.

- The banks are authorized to finance foreign-trade transactions between third countries belonging to LAIA using their own resources (term deposits).

July 1991

- Chapter VIII of the Compendium of Rules on International Exchange referring to futures contracts and options of products and of foreign currency was modified to allow greater exchange coverage of these transactions, incorporating transactions outside the stock exchange, principal to principal, and at the same time making it possible for all individuals and juridical entities domiciled in Chile who are at risk because of transactions abroad, whether in the price of the goods and/or foreign currency, can cover themselves by way of futures and options contracts.

August 1991

- The time allowed for exporters to liquidate advance payments received on the sale of their products abroad was extended from 90 to 150 days. This gives more time for liquidation and brings it into line with the general ruling.
- The banks are authorized to finance export transactions between third countries belonging to LAIA extending additional external credit lines.
- Chapter XXIV was added to the Compendium of Rules on International Exchange. It deals with the "general conditions that limit the resolutions on which is based the exchange regime applicable to contractors who sign special operation contracts for the exploration and exploitation of hydrocarbon deposits."

October 1991

- Chapter XIX of the Compendium of Rules on International Exchange was modified, authorizing foreign investors who have brought capital into the country under this chapter to apply for and agree upon the remittance of their capital, total or partial, with the Banco Central before the end of the third year. However, the requirement still stands that three complete years elapse before capital and profits may be repatriated.

November 1991

- On November 10, the annual external inflation rate used to determine the referential exchange rate was lowered from 3.7% to 2.4%.
- Chapter XXVI, Title 1, of the Compendium of Rules on International Exchange was modified allowing shares (by way of ADRs) to be placed, traded and quoted not only on official foreign stock markets but also privately.

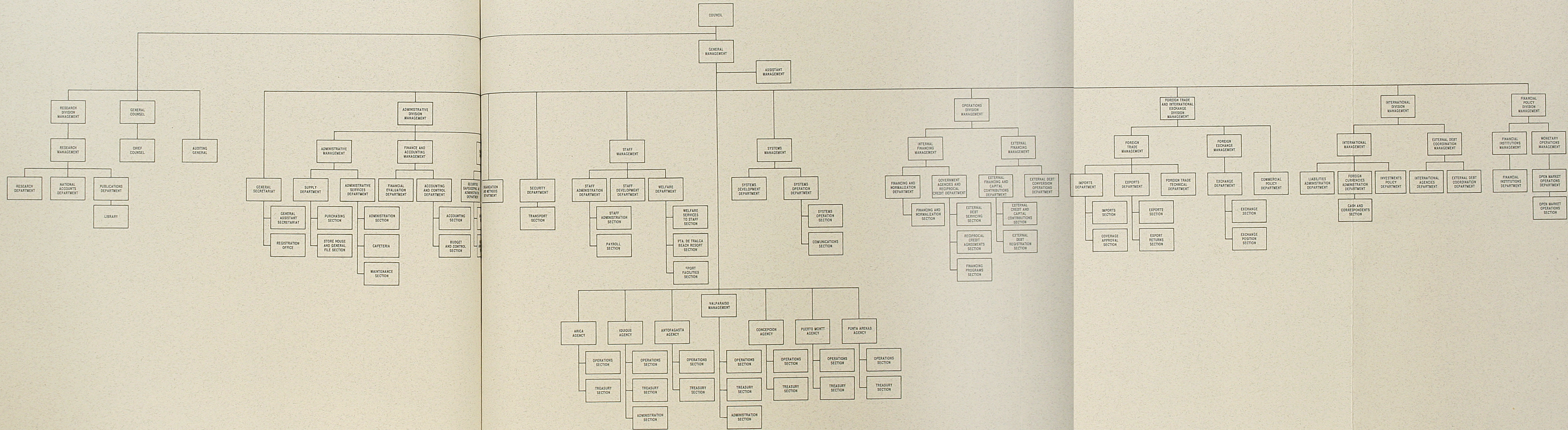
December 1991

- Chapters I and XIV of Title I of the Compendium of Rules on International Exchange were modified adding gold (Troy ounce) as an accounting unit to register or determine external credit adjustment.
- External credit lines directed to granting credits to residents abroad for financing exports to or from Chile, independently of their term, were exempted from the obligation of liquidating them on the formal exchange market. Previously, this regulation applied only to credits of 180-day term or less.

II. ORGANIZATION CHART

BANCO CENTRAL DE CHILE

As of December 31, 1991



III. FINANCIAL STATEMENTS

BANCO CENTRAL DE CHILE

December 31, 1991

BALANCE SHEET
As of December 31, 1991
(In millions of Chilean pesos)

ASSETS

OVERSEAS ASSETS		<u>3,534,505.0</u>
RESERVE ASSETS	3,411,059.8	
Gold	234,564.5	
Foreign currencies	840,604.6	
Special drawing rights holdings	298.2	
IMF Subscription	246,945.4	
Bonds, certificates of deposits and others	1,925,923.6	
Mutual loan agreements	162,555.7	
Other	167.8	
OTHER OVERSEAS ASSETS	<u>123,445.2</u>	
Contributions made to other international organizations	72,404.0	
Interest receivable	42,017.7	
Others	9,023.5	
DOMESTIC ASSETS		<u>5,574,948.3</u>
DOMESTIC LOANS		
Fiscal loans	67,150.2	
Loans to state-owned entities	172,614.5	
Loans to the Banco del Estado	249,055.7	
Loans to commercial banks	626,383.1	
Loans to other institutions	190,355.0	
Treasury transferences (Laws 18,267; 18,401 and 18,768)	2,900,555.5	
Financial institutions subordinate obligations (Law 18,401)	<u>1,368,834.3</u>	
OTHER ASSETS ACCOUNTS		<u>309,416.0</u>
Fixed assets	12,680.7	
U.S. dollars purchase with a resale commitment	135,716.9	
Other	161,018.4	
 TOTAL ASSETS		 <u><u>9,418,869.3</u></u>

Chilean currency
and F/C
equivalent
(US\$ 1 = \$ 392.97)
(GOLD \$ 1 = \$ 741.11)

LIABILITIES AND EQUITY

OVERSEAS LIABILITIES		1,891,213.3
RESERVE LIABILITIES		<u>801,577.7</u>
IMF Loans	375,256.2	
Mutual credit agreements	179,379.9	
IMF deposits	246,941.6	
OTHER OVERSEAS LIABILITIES		<u>1,021,283.9</u>
Loans and other liabilities	826,920.2	
Accounts with other international organizations	116,270.6	
Interest payable	78,093.1	
ALLOCATION OF SPECIAL DRAWING RIGHTS		<u>68,351.7</u>
DOMESTIC LIABILITIES		<u>6,533,914.1</u>
CURRENCY ISSUED AND DEPOSITS		<u>563,914.1</u>
Currency in circulation	445,634.9	
Financial institutions deposits (Ch. pesos)	118,279.2	
DEPOSITS AND COMMITMENTS		<u>1,432,000.7</u>
Deposits and commitments with the Treasury	780,061.7	
Other deposits and commitments	651,939.0	
INSTRUMENTS ISSUED BY THE BANCO CENTRAL		<u>4,537,999.3</u>
Discountable promissory notes issued by the Banco Central (PDBC)	129,020.0	
Readjustable promissory notes to be paid in Treasury bill (PRC) (Resolution 1,909)	982,621.1	
Readjustable promissory notes with floating interest rate (PTF)	99,815.9	
Promissory notes issued for exchange rates differential	274,978.6	
Promissory notes on debt rescheduling	28,281.8	
Promissory notes on purchase of portfolio under Resolution 1,555	122,887.2	
Promissory notes expressed in US dollars	54,097.0	
Promissory notes issued on purchase of portfolio	233,580.6	
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange)	274,703.9	
Promissory notes on purchase of letters of credit	79,550.7	
Readjustable promissory notes issued by the Banco Central	1,611,683.4	
Commercial effects from redenomination of external debt	306,465.1	
Promissory notes stated in Indexed Units (UF) (Resolution 1,836) from dollar certificates	246,314.9	
Other	93,999.1	
OTHER LIABILITY ACCOUNTS		<u>321,491.9</u>
Reserves	82,740.5	
US dollars purchase with resale commitments	135,906.7	
Other	102,844.7	
EQUITY		<u>664,015.4</u>
Capital	664,015.4	
NET INCOME FOR THE YEAR		<u>8,234.6</u>
TOTAL LIABILITIES AND EQUITY		<u><u>9,418,869.3</u></u>

STATEMENT OF INCOME
 For the year ended December 31, 1991
 (In millions of Chilean pesos)

OPERATING INCOME		<u>1,353,962.9</u>
Interest earned	512,121.9	
Restatement gains on loans	449,488.1	
Income from price differences	17,078.2	
Income on exchange	374,622.8	
Other operating income	<u>651.9</u>	
OPERATING EXPENSES		<u>(1,248,674.1)</u>
Interest expenses	509,458.9	
Restatement losses on loans	636,298.6	
Commission expenses	2,684.3	
Loss on price differences	13,482.1	
Loss on exchange	74,587.2	
Other operating expenses	<u>12,163.0</u>	
GROSS OPERATING INCOME		105,288.8
OTHER OPERATIONAL EXPENSES		<u>(15,859.6)</u>
Personnel	10,487.1	
Administrative expenses	3,413.7	
Depreciation and amortization	1,377.8	
Taxes	<u>581.0</u>	
Income before loans write-offs and reserves		89,429.2
Loans write-offs and reserves, and other		<u>(10,483.5)</u>
NET OPERATING INCOME		78,945.7
NON-OPERATING INCOME		<u>11,570.4</u>
Non-operating income	11,673.0	
Non-operating expenses	<u>(102.6)</u>	
Income before price level restatement		90,516.1
PRICE LEVEL RESTATEMENT		<u>(82,281.5)</u>
NET INCOME FOR THE YEAR		<u><u>8,234.6</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES APPLIED

a) GENERAL

The financial statements have been prepared in accordance with generally accepted accounting principles and with the provisions of Article 75 of Law 18,840 (Constitutional Organic Act of the Central Bank of Chile), the latter subject to previous clearance from the Superintendency of Banks and Financial Institutions.

Such provisions are in accordance with generally accepted accounting principles, except for the exchange rates used, as explained in 1.b), below.

b) EXCHANGE RATES

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 dollar). Excepting to this policy are the balances of Exchange accounts, or the ones replacing them, corresponding to transactions which, according to current regulations, have to be settled at a different exchange rate, duly specified in the respective dispositions.

Those 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 (U.S. dollars per Troy ounce), for all business days in the preceding quarter, less 10%.

Settlements of foreign exchange currency other than the U.S. dollar are made according to the exchange rates given by the Superintendency of Banks and Financial Institutions always based on the referential U.S. dollar exchange rate.

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

	Ch. \$
Minted Chilean gold coins	741.110
US dollar	392.970
Pound sterling	738.665
Deutsche mark	259.729
Special drawing rights	560.609

c) LOANS RECEIVABLE AND PAYABLE

Non-indexed loans and deposits 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 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 on loans receivable and payable at the balance sheet date is shown for residents abroad under Other Overseas Assets and Other Overseas Liabilities respectively. Transactions carried out by domestic residents are included in Domestic Assets and Liabilities.

Prepaid interest on borrowings is included under Other Assets Accounts. Unaccrued interest received in advance on loans is included under Other Liability Accounts.

d) PAST DUE LOANS RECEIVABLE

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

e) FINANCIAL INVESTMENTS

Overseas financial investments are shown under Reserve Assets, as bonds, certificates of deposit and others, and mainly include, bonds and commercial instruments issued by foreign governments, overseas institutions and banks, valued at cost which is lower than market value. Interest receivable is shown under Other Overseas Assets.

f) PROPERTY, PREMISES AND EQUIPMENT

These are shown under Other Assets 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

A provision for accrued severance compensation payable by the Bank as an acquired right of its staff for past services, in case of retirement or dismissal, has been set up each year based on the present value of the accrued cost, discounted at an 8% annual interest rate. In this respect, these financial statements include accruals by \$ 2,983 million (see Note 7) and deferred expenses by \$ 347.2 million, which are included in Other under Other Assets Accounts.

h) RESERVE FOR POSSIBLE LOAN LOSSES

The Bank, pursuant to the powers of the Council, which are set out in Article 18, Number 9 of Law 18,840, has made reserves in the year for doubtful debts, under Resolution 183 dated December 1991 of the Council. These provisions are included under Other Liability Accounts, and the resultant debit to income is detailed in Note 7.

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

Shares and contributions made by the Chilean Treasury to the Inter American Development Bank and contributions to the International Monetary Fund are presented at acquisition or contributions cost plus restatements value, where applicable.

IDB shares and contributions are shown under Other Overseas Assets, as Contributions made to other international organizations.

Contributions to the IMF in domestic and foreign currencies are shown under Overseas Reserve Assets as 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 16, 1979.

j) REVENUE AND EXPENSE ACCOUNTS

Revenues and expenses are accounted for on an accrual basis.

Non-Operating Income includes indemnities received by foreign exchange transactions.

Revenues and expense accounts, expressed in domestic currency, with the exception of depreciation, represent accumulations of amounts registered at the date the transactions were performed.

k) PRICE-LEVEL RESTATEMENT

The effect of price-level restatements of equity, property, premises, equipment and other assets and liabilities, considering variations in the consumer price index during the year is shown in the Statement of Income under Price-Level Restatement and detailed in Note 6. Likewise, exchange differences in assets and liabilities expressed in foreign currency, and restatements of loans, are included under Operating Results.

2. FINANCIAL STATEMENTS PRESENTATION POLICIES

The financial statements presentation follows an economic-accounting pattern which aims to show the institution's accounting and financial position, at the same time assisting the economic analysis of the Bank's operation by clearly distinguishing whether they are undertaken 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 on the Bank's gearing position abroad.

The economic concepts of international reserves and currency issuing are thus shown, under Reserve Assets and Liabilities and Currency Issued, respectively.

3. DOMESTIC LOANS

The headings Loans to state owned entities, Loans to the Banco del Estado, Loans to commercial banks, and Loans to other institutions mainly include: credit lines in respect of rescheduling of debts for \$ 466,449.6 million; credit lines in respect of deposits under Resolution 1,686 for \$ 213,923 million; receivables from the Corporación de Fomento de la Producción (Cofo), (Laws 18,577 and 18,401) for \$ 105,386.3 million; credit lines to international organizations' programmes for \$ 162,240.4 million; mortgage loans portfolio for \$ 90,142.3 million and amounts to be recovered by the liquidation of the Caja Central de Ahorros y Préstamos and the Asociación de Ahorro y Préstamo, for \$ 108,685.3 million (see Note 14).

4. OTHER OVERSEAS LIABILITIES

Loans and other liabilities which are included under this heading mainly consist of credit agreements of the years 1983, 1984 and 1985 to grant new money for \$ 508,883.8 million; rescheduling of foreign debts years 1983-1984, 1985-1987 and 1988-1991, for \$ 232,078.7 million; credit from the Inter American Development Bank (IDB) for \$ 50,470.2 million, and deposits of the Banco Exterior de España S.A., (Resolution 1,872) for \$ 33,018.5 million.

5. DEPOSITS AND COMMITMENTS

The heading "Other Deposits and Commitments" mainly includes the following: differential in exchange payable for \$ 5,257.3 million; Banco del Estado de Chile deposits for \$ 174,211.8 million; foreign-currency current accounts for \$ 18,702.2 million; outstanding balance on promissory notes with Banco del Estado originated by foreign liabilities of Banco Unido de Fomento and Banco Hipotecario de Chile, for \$ 45,250.4 million; short-term certificates of deposit for \$ 20,581.9 million; foreign currency deposits under Resolutions, 1,657 and 1,686 for \$ 333,239.3 million and reserve Resolution 143 for \$ 35,372.0 million.

6. PRICE-LEVEL RESTATEMENT

Price level restatement as indicated in note 1, letter k), resulted in a net debit to income of \$ 82,281.5 million, as follows:

	(In millions of Chilean pesos) Debits/(Credits)
Equity	100,335.1
Property, premises and equipment	(2,539.5)
Other assets	(15,514.1)
Net charge to the results for the year	<u>82,281.5</u>

The change in the consumer price index amounted to 17.8% during the year

7. RESERVES AND WRITE-OFFS

Detail of reserves included in Other Liability Accounts is the following:

	(In millions of Chilean pesos)
Loans	10,182.2
Overseas investments	8,991.5
Severance compensation	2,983.0
Subordinate commitments	58,634.0
Other	<u>1,949.8</u>
Balance at 12.31.91	<u>82,740.5</u>

The debit to income of the year arising from reserves set up amounting to 10,483.5 million is included under Write-offs and reserves in the Statement of Income.

8. EQUITY AND SURPLUS

a) VARIATIONS IN EQUITY DURING 1991 ARE SUMMARIZED AS FOLLOWS:

(in millions of Chilean pesos)			
	Capital	Surplus	Total
Balance at 01.01.91	552,099.1	11,581.2	563,680.3
Distribution of 1990 surplus	11,581.2	(11,581.2)	-
Equity price level restatement	100,335.1	-	100,335.1
Net income for the year	-	8,234.6	8,234.6
Balance at 12.31.91	664,015.4	8,234.6	672,250.0

b) IN ACCORDANCE WITH ARTICLE 5 OF THE CONSTITUTIONAL ORGANIC ACT OF THE CENTRAL BANK OF CHILE THE INITIAL CAPITAL FOR THE BANK WAS SETTLED BY \$ 500,000 MILLION TO BE CONTRIBUTED ACCORDING TO ARTICLE 2 OF THE SAME LAW. THE FOLLOWING IS A SUMMARY OF THE INITIAL CAPITAL AS OF DECEMBER 31, 1991:

(in millions of Chilean pesos)	
Capital under Article 5, Law 18,840	500,000.0
—Balances on 12.31.90	421,655.1
—Surplus for 1990 assigned to increase the initial capital as per Council Resolution 92 of January 17, 1991	<u>11,581.2</u>
	<u>433,236.3</u>
—Balance required	66,763.7

The restatement of capital after December 8, 1989 correspond only to the price-level restatement of initial paid-up capital, and therefore are not taken into account for the purposes of making up the initial capital.

9. LOANS TO BE COLLECTED FROM THE CORPORACION DE FOMENTO DE LA PRODUCCION (CORFO), ACCORDING TO LAWS 18,401 AND 18,577

Pursuant to Law 18,401, published in the Official Gazette on January 26, 1985, and its amendments, the Banco Central de Chile granted loans to CORFO for the purchase of shares of financial institutions on behalf of third parties.

CORFO pays back its debt by transferring amounts collected from these shareholders, net of discounts granted if paid timely. According to Article 13 of the above mentioned Law, the differences not recovered, of up to 15 million indexed units (UF), will be covered by the Treasury to the Banco Central (see Note 13), by the way of future transferences. As far as the information is currently available, this amount is considered sufficient.

On the other hand, purchase of shares of Banco BHIF, by its preferential shareholders, was financed pursuant to Law 18,577 of November 29, 1986.

As of December 31, 1991 the balance receivable from CORFO amounts to \$ 105,386.3 million (equivalent to UF 12.7 million) and the balance transferable by the Treasury amounts to \$ 70,497.0 million (UF 8.5 million).

10. PREFERENTIAL U.S. DOLLARS

Resolutions 1,466 dated September 3, 1982; 1,484 dated December 15, 1982; 1,556 dated February 22, 1984 and 1,657 dated June 27, 1985, of the Bank's Executive Committee, provided that certain commitments in foreign currencies or stipulated to be restated in foreign currency before August 6, 1982 may be repaid at a preferential exchange rate, the Banco Central bearing the difference between this exchange rate and the rate prevailing at the time of the repayment.

The estimated exchange differential payable as of December 31, 1991, is fully provided for an aggregate amount of \$ 5,257.3 million.

11. FINANCIAL INSTITUTIONS WITH SUBORDINATE OBLIGATIONS (LAW 18,401)

Pursuant to Resolution 1,953, dated August 16, 1989, and the provisions of Article 15 of Law 18,401 amended by Article 3, letter d) of Law 18,818, for those banks and financial institutions which had sold their loan portfolio in accordance with Resolutions 1,450 and 1,555 and their corresponding amendments, and thereby had committed themselves to repurchase the portfolio, the Banco Central provided the option of novation for all the obligations resulting from these loan portfolio repurchase agreements, which were substituted by a subordinate obligation thus stipulated in a novation agreement.

The amount of the subordinate obligation was set up by the outstanding balance between the novated repurchase obligation, resulting from the amount paid for in cash for the loan portfolio by the Banco Central, the amount paid for with one or more Treasury notes with non-accrued interest, and the cumulative interest accrued at the novation date.

The maturity term of the subordinate obligation of the financial institutions is not determined until the date of actual settlement and has a cumulative surcharge of 5% per annum, on the outstanding amounts arising from the novated repurchased obligation, resulting from the amount paid for in cash by the Banco Central plus the cumulative interest accrued to the novation date. This accrued interest is considered as income for the Bank and recognized on an accrual basis.

The financial institutions commit themselves to allocate to the payment of this subordinate obligation the annual profits defined in accordance with regulations of the Superintendency of Banks and Financial Institutions. Likewise, the financial institutions may, whenever they deem appropriate, pay their subordinate obligations with resources authorized by the above mentioned Superintendency. Consequently, the settlement of said commitment is subjected to the financial institutions capability to generate income.

As at December 31, 1991 the subordinate obligation amounts to \$ 1,368,834.3 million, and is included in the item Financial institutions subordinate obligations (Law 18,401) under the caption Domestic Assets of the Balance Sheet. As of that date the Banco Central has set up reserves for \$ 58,634.0 million for this purpose, of which \$ 8,234.0 million were debited to income of this period.

Part of the subordinate obligation was originated by financing with instruments from the Banco Central. The balance of \$ 233,580.6 million of instruments is included as Domestic Liabilities, under instruments issued by the Banco Central, and its settlement is in relation with the payments of the financial institutions subordinate obligations.

12. INTEREST RATE HEDGING

Pursuant to Resolution 1,837, of December 23, 1987 the Executive Committee authorized the International Division to hedge interest rates on its liabilities.

During 1991 "Eurodollars Future Contracts" were executed, of which 5,777 for the equivalency of US\$ 5,777 million are in force at December 31, 1991.

For these contracts the Bank has set up guarantees for US\$ 2.8 million, amount which is included under the heading Bonds, certificates of deposit and others.

During the period these contracts are in force, the net accrued or perceived income from these contracts are recorded as income as the interests on the respective liabilities are accrued. The interest accrued, when a loss, it is recognized in the income statement.

As at December 31, 1991 these transactions showed a loss equivalent to US\$ 33.7 million.

13. TREASURY TRANSFERENCES (LAWS 18,267, 18,401 AND 18,768)

The following amounts are included as Domestic Loans, under the caption Treasury Transferences (Laws 18,267, 18,401 and 18,768):

	(in millions of Chilean pesos)
a) Treasury promissory notes (Law 18,267)	359,190.3
b) Treasury transferences (Law 18,401)	70,497.0
c) Treasury promissory notes (Law 18,768)	2,470,868.2
Total	<u>2,900,555.5</u>

a) TREASURY PROMISSORY NOTES. LAW 18,267

According to provisions of Article 39 of Law 18,267 dated December 2, 1983, as supplemented by Decree 927 of the Ministry of Finance, dated December 12, 1983, the Treasury transferred to the Banco Central de Chile \$ 100,000 million, by issuing 40 Treasury promissory notes with a 25-year maturity term, with 5 years free, stated in indexed units (UF), with an annual capitalizable interest rate of 1% and semiannual amortization.

In prior periods the Bank has received advanced payments of installments maturing up to June 15, 1994.

b) TREASURY TRANSFERENCES. LAW 18,401

This item shows the cumulative amounts of future transferences applicable to the maximum of 15 million indexed units (UF) as stipulated in Article 13 of the Law 18,401 (Note 9). These amounts receivable result from the discounts granted to those shareholders benefited by provisions of the Law mentioned.

According to the referenced law these transferences from Treasury will be completed in a term not exceeding 30 years, with 10 years free, starting from the definite determination of the total amount.

c) TREASURY PROMISSORY NOTES. LAW 18,768

This item corresponds to promissory notes denominated in US dollars, which, under provisions in Article 75 of Law 18,768 published in the Official Gazette on December 29, 1988, as supplemented by Ministry of Finance Executive Decrees 1,257, dated December 29, 1988 and 330, dated April 4, 1989, replaced promissory notes stated in indexed units (UF) and issued to the order of the Banco Central de Chile, under Ministry of Finance, Decrees 1,067 of 1984; 1,197 of 1985; 938 of 1986 and 1,108 of 1987, enacted according to provisions in the sole Article of Law 18,358, as amended. These promissory notes accrue an annual interest of *Labor plus 0.5*, of which, 2% are payable semiannually and the balance is capitalized, and maintain the same issuing and maturity date of the substituted instruments.

These promissory notes have June 15, 1995 as the first maturity date and December 15, 2014 as the last maturity date for the 40 semestral promissory notes issued.

During the current year, the Treasury early made redemption of principal by US\$ 204.4 million and of interest by US\$ 187.5 million, being included as Other under Other Liability Accounts, the unearned interests amounting to US\$ 124.9 million.

14. CAJA CENTRAL DE AHORROS Y PRESTAMOS AND ASOCIACION NACIONAL DE AHORRO Y PRESTAMO (ANAP)

Under the provisions of Law 18,900 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, came to an end. The liquidation of their respective assets was also set out in this Law, and was made at April 30, 1990, being the final approval in process.

The liabilities of the Caja Central, and the Asociación Nacional which were not covered by the proceeds of their liquidation, will, according to Article 5 of this Law, be met by a charge for the necessary funds from the national budget, in accordance with Article 21 of Decree Law 1,263 of 1975.

As at December 31, 1991, the amount owed to the Banco Central for the liquidation of these entities, including interest accrued to that date, amounted to \$ 108,685.3 million, as set out in Note 3.

15. COMPOSITION BY REMAINING PERIOD OF THE INSTRUMENTS ISSUED BY THE BANCO CENTRAL DE CHILE, AS AT DECEMBER 31, 1991.

The different instruments issued by the Banco Central de Chile, detailed according to the remaining time period, are set out below.

TYPE OF INSTRUMENTS	(amounts expressed in millions of Chilean pesos)					Total
	Up to 90 days	91-180 days	181-365 days	1-3 years	Over 3 years	
Discountable promissory notes issued by the Banco Central (PDBC)	129,020.0					129,020.0
Readjustable promissory notes to be paid in Treasury bills (PRC)	38,046.0	26,166.6	46,670.5	202,645.0	669,093.0	982,621.1
Readjustable promissory notes with floating interest rate (PTF)	1,805.9	66.1	700.2	19,054.3	78,189.4	99,815.9
Promissory notes in respect of exchange rate differential	7,322.6	7,549.3	21,696.3	110,392.2	128,018.2	274,978.6
Promissory notes for debt rescheduling	28,281.8					28,281.8
Readjustable promissory notes issued by the Banco Central (Resolution 1,555)	6,371.9	6,014.1	12,337.7	53,744.0	44,419.5	122,887.2
Promissory notes expressed in U.S. dollars (Resolution 1,460)	41,420.7	12,641.6	34.7			54,097.0
Promissory notes issued on purchase of portfolio					233,580.6	233,580.6
Instruments issued on rescheduling of foreign debt (Chapter XIX of the Compendium of Rules on International Exchange)	1,299.6	714.5			272,689.8	274,703.9
Promissory notes on acquisition of letters of credit (Resolution 1,506)	5,013.5	3,727.7	7,761.6	35,561.1	27,486.8	79,550.7
Readjustable promissory notes issued by the Banco Central	657,351.4	30,825.0	923,507.0			1,611,683.4
Commercial effects of the redenomination of foreign debt	2,588.3	634.1	489.3	19,618.6	283,134.8	306,465.1
Readjustable promissory notes in indexed units (UF) (Resolution 1,836)	5,831.2				240,483.7	246,314.9
Readjustable certificates of deposit	23.7		929.6	865.8		1,819.1
Banco Central promissory notes for preferential U.S. dollar rate	9.5					9.5
Certificates of deposit expressed in U.S. dollars (Resolution 1,649)	205.2				6,539.0	6,744.2
Certificates expressed in indexed units (UF) (Resolution 1,691)	49.1	549.1				598.2
Promissory notes expressed in indexed units (UF) to Banco del Estado from BUF-BHC debt (Resolution 91)	12,479.8	11,978.8	23,957.5	36,412.0		84,828.1
Total instruments issued	937,120.2	100,866.9	1,038,084.4	478,293.0	1,983,634.8	4,537,999.3

These figures include interests and restatements accrued as at December 31, 1991

16. BALANCES IN FOREIGN CURRENCIES AND GOLD

	(In million of US\$) as at 12.31.91		
	Transactions payable in foreign currency	Transactions expressed in foreign currency	Total
ASSETS			
OVERSEAS ASSETS	8,349.1	—	8,349.1
Reserves	8,182.6	—	8,182.6
Other overseas assets	166.5	—	166.5
DOMESTIC ASSETS	6,487.4	78.8	6,566.2
Domestic loans	6,487.4	78.8	6,566.2
OTHER ASSETS ACCOUNTS	81.7	—	81.7
Total assets	<u>14,918.2</u>	78.8	<u>14,997.0</u>
LIABILITIES			
OVERSEAS LIABILITIES	2,933.4	5.1	2,938.5
Reserves	456.5	—	456.5
Other overseas liabilities	2,303.0	5.1	2,308.1
SDR allocations	173.9	—	173.9
DOMESTIC LIABILITIES	2,894.7	25.8	2,920.5
Deposits and commitments	2,757.0	9.2	2,766.2
Instruments issued by the Banco Central	137.7	16.6	154.3
OTHER LIABILITY ACCOUNTS	299.1	—	299.1
Total liabilities	<u>6,127.2</u>	<u>30.9</u>	<u>6,158.1</u>
NET ASSETS	<u>8,791.0</u>	<u>47.9</u>	<u>8,838.9</u>

17. CONTINGENCIES, COMMITMENTS AND OBLIGATIONS

a) MEMORANDUM ACCOUNTS

The following balances are outstanding at December 31, 1991:

	(in millions of Chilean pesos)
Treasury transactions	0.4
Exchange and overseas loan transactions	2,270,199.3
Safekeeping and securities in guarantee transactions	<u>3,530,679.0</u>
Total	5,800,878.7

b) CONTINGENCIES

The Banco Central de Chile has filed actions in British and Swiss courts to obtain from the Banco Nacional de Cuba the recovery of S.Fr. 30,752,000 plus interests, from a deposit performed by the Banco Central in the Union Bank of Switzerland on March 24, 1972, which was reserved charging income in prior years. On September, 1990 this demand had a favourable outcome for the Banco Central, consequently, the Bank estimates a prompt recovery of it, although an appeal is still pending.

The Banco Central de Chile is involved in some pending suits, but their final outcome will not have a material effect on the financial statements as of December 31, 1991.

18. INCOME TAX

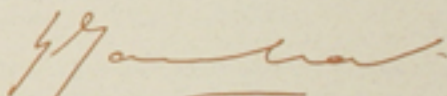
Pursuant to Decree Law 3,345, of April 24, 1980, the Banco Central is exempt from income taxes.

19. NET INCOME FOR THE YEAR

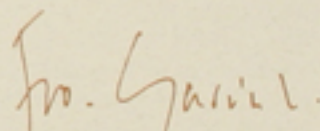
In accordance with the Bank's statutes of Law 18,840 the net income for the year will be allocated to increase the initial capital up to the amount of \$ 500,000 million.

20. SUBSEQUENT EVENTS

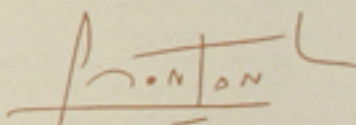
After the issuance date of these financial statements (January 10, 1992), the Council of the Banco Central de Chile, by Resolution 190 of January 22, 1992, settled for January 23, 1992 the exchange rate for the referential dollar in \$ 375.75 instead of \$ 395.53 which corresponded according to past normative. This adjustment in the exchange rate of the U.S. dollar will negatively affect the results of the exchange positions of the Bank, which had it been liquidated by January 23, 1992 would have meant a loss by \$ 19.78 per dollar.



ENRIQUE MARSHALL RIVERA
General Manager



FRANCISCO GARCIA LETELIER
Finance Accounting Manager



VICENTE MONTAN UGARTE
General Auditor

REPORT OF INDEPENDENT AUDITORS

To the President and
Members of the Council of
the Banco Central de Chile

We have audited the balance sheet of the Banco Central de Chile as of December 31, 1991 and the related statement of income for the year then ended. These financial statements (which include the corresponding notes) are the responsibility of the management of the Banco Central de Chile. Our responsibility is to express an opinion on these financial statements, based on the audit work we have performed.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain a 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.

Pursuant to Article 75, Law 18,840, the Banco Central de Chile prepares its financial statements according to standards issued by its Council, previously approved by the Superintendency of Banks and Financial Institutions. As explained in Note 1.a) these policies are in accordance with accounting principles generally accepted in Chile, except for the valuation of assets and liabilities in foreign currencies.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Banco Central de Chile as at December 31, 1991, and the results of its operations for the year then ended, in conformity with the basis described in Note 1.a).

As described in Note 11, the Banco Central de Chile includes within its Domestic Assets Ch.\$ 1,368,834.3 million representing the subordinate commitments of financial institutions, with an undefined maturity term, deriving from the novation of loan portfolio repurchase contracts. According to the nature and characteristics of the novation contract the recoverability of these amounts is uncertain as it is dependent exclusively upon future net income generated by those institutions.

Juan Humud G.
Ernst & Young

Santiago, January 10, 1992, except
for Note 20, as to which the date is
January 22, 1992.



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