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BANCO CENTRAL DE CHILE

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SUPERINTENDENCY OF BANKS
AND FINANCIAL INSTITUTIONS
1987



BANCO CENTRAL DE CHILE

ENRIQUE SWINBURN
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JUAN FRANCISCO GONZALEZ
Juncos y crisantemos



AUTHORITIES OF BANCO CENTRAL DE CHILE

As of December 31, 1987

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President
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BRANCHES

As of December 31, 1987

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PEDRO LIRA
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BANCO CENTRAL DE CHILE

Santiago, May 31, 1988

To
Guillermo Ramírez Vilardell
Superintendent of Banks
and Financial Institutions
Santiago

Pursuant to article 53 of the Organic Law of the Monetary Council and Central Bank of Chile, we are submitting herewith the Annual Report of this Institution for 1987.

ENRIQUE SEGUEL MOREL
President

JORGE AUGUSTO CORREA GATICA
General Manager

ALFONSO SERRANO SPOERER
Vice-President



I REPORT

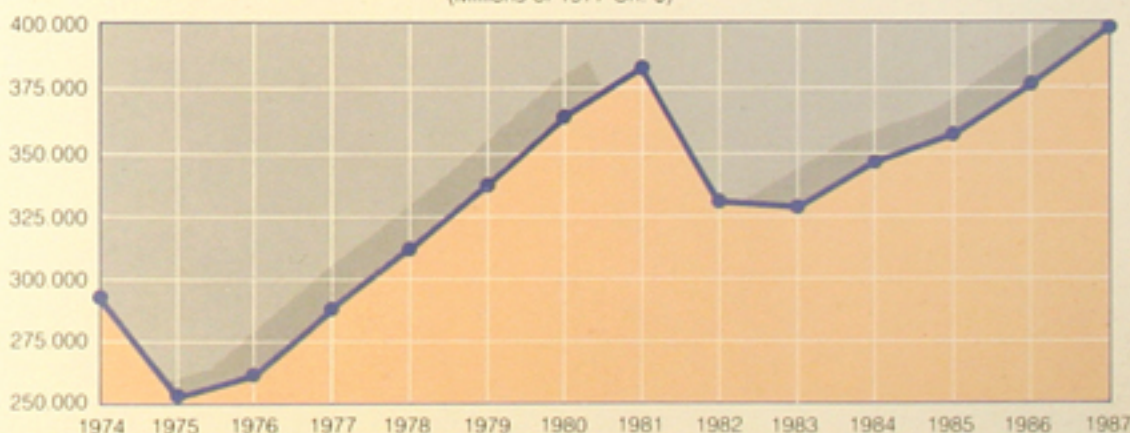
EVOLUTION OF CHILE'S ECONOMY DURING 1987

During 1987, Chile's economy exhibited a satisfactory development that was reflected in a significant increase in economic activity and employment, together with the strengthening of foreign accounts and a moderate rate of inflation. The evolution registered by the majority of the indicators exceeded the projections established at the beginning of the year by the economy authority. Thus, GNP showed a 5.7% growth rate, exceeding the 3-5% range that had been initially projected. The rate of inflation, measured by the CPI variation, reached 21.5% in 1987. National unemployment rate amounted to 7.9% towards the end of the year, becoming the lowest rate registered in the last 15 years. On the other hand, the current account of the Balance of

Payments registered a US\$ 811 millions deficit, whereas the Trade Balance showed a US\$ 1,229.4 millions surplus. Both results—as well as global Balance of Payments surplus that amounted to US\$ 45.4 millions—reflect a more favorable behavior in terms of foreign accounts than the one originally projected.

In the positive results exhibited by Chilean economy during 1987 are reflected on the benefits that are implied in the maintenance of a realistic economic policy that has given priority to stability of growth. On the other hand, during 1987, Chile's economy was favored by the improvement experienced by the terms of exchange that, according to estimates carried out by ECLA, was equal to 5.5%.

Graph N° 1
GROSS DOMESTIC PRODUCT
(Millions of 1977 Ch. \$)



Productive Activity

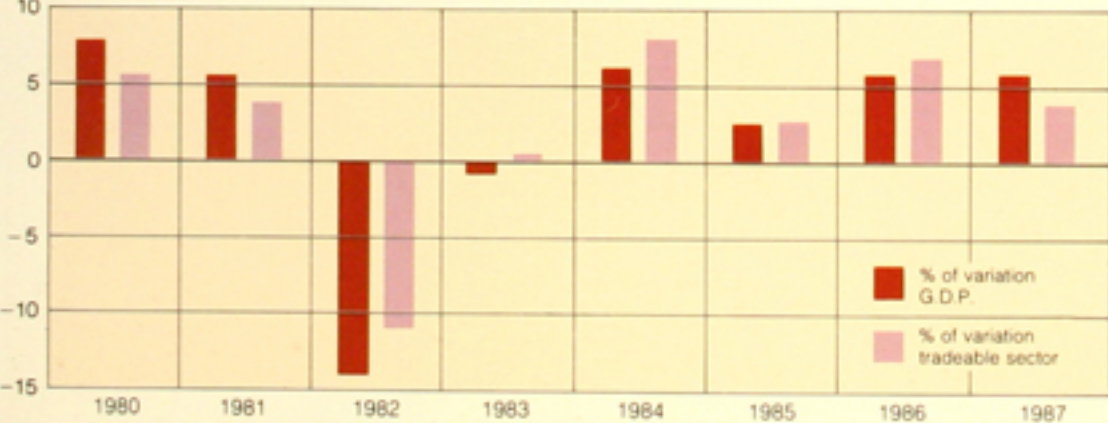
As was said before, GNP registered a 5.7% growth during 1987. Thus, for the fourth consecutive year, Chile's economy shows an improvement in its level of activity, within the framework of a progressive strengthening of its foreign accounts.

Almost all the productive sectors contributed to the product growth registered during 1987, with the sole exception of Fishing and Mining (Chart Nº 1). These two sectors did not show higher levels of activity due to transitory cycles that are inherent to the nature of fishing activity, and to repairs and investments in the case of mining. Within the sectors that experienced growth, it is

worth pointing out: Construction (10.6%), Trade (7.5%), Transport (10.1%), Industry (5.5%).

During 1987, it is worthwhile to point out to the recovery exhibited by the non-tradeable sector (Electricity, Gas and Water, Construction, Trade and Transport), that grew by 7.7% as a whole, after going through a depressed level of activity resulting from the adjustment in the economy's level of expenditure of the previous years. Thus, it is possible to appreciate a generalized increase in the level of activity of the various sectors, as a consequence of the stability that has evidenced the increase in the product, as well as the increase order registered in macroeconomic accounts.

Graph Nº 2
**ANNUAL RATE OF GROWTH OF G.D.P.
 AND OF TRADEABLE SECTOR G.D.P.**
 (percentages)



The GNP increase registered in 1987 places the level of this variable in a 3.8% above its previous maximum, reached in 1981. This result implies not only an end to the stage of recovery of economic activity but, also, involves an increase in the investment effort destined to sustain the process of growth. In this perspective, the results for 1987, can also be considered satisfactory, to the extent that investment showed a strong increase, in line with the objectives of the economic policy that is being implemented. In fact, Gross Formation of Fixed Capital experienced real growth of approximately

16.3% that elevated the investment rate from 15.0% in 1986 to 16.5% in 1987.

On the other hand, domestic savings—that corresponds to that part of geographic savings destined to finance investment—increased by 51.3% in real terms, passing from 7.7% of GNP in 1986 to 12.6% in 1987. Geographic savings—fraction of GNP that is not consumed—increased from 12.6% in 1984 to 18.5% in 1986 and approximately to 21% in 1987.

It is worth pointing out that the positive results obtained in matters of savings and



A. ORREGO LUCIO
Roqueros al atardecer

investment were coherent with the increase in private consumption of approximately 4.8%. Thereby, private consumption has increased at a 2.4% average rate during the last four years, that is reflected in the progressive recovery of the levels prevailing during the period prior to the 1981-82 crisis.

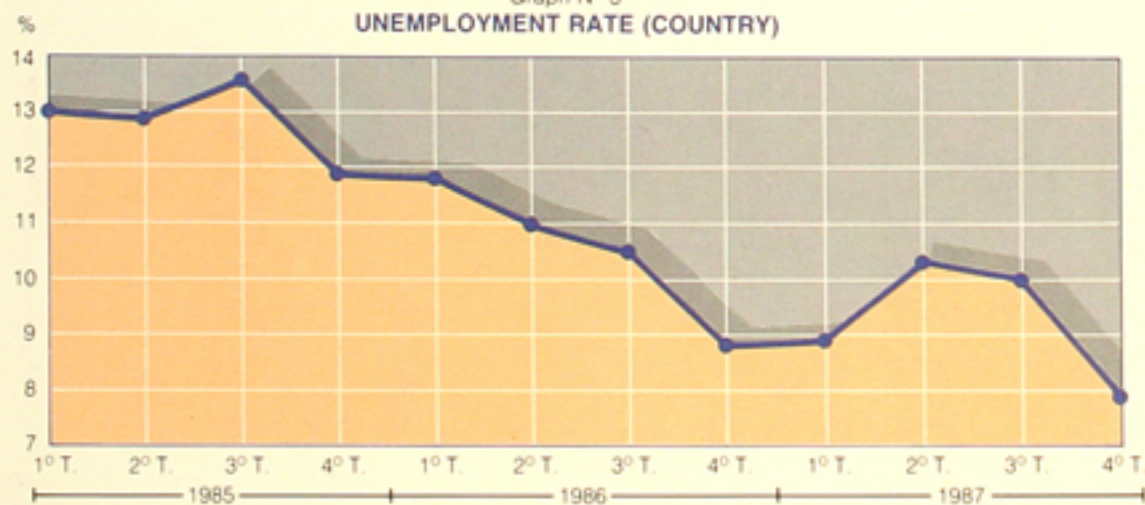
Labor Situation

The creation of a framework of economic stability to foster the increase of investment and of employment has constituted a high priority of the economic policy. Thus—as it has been the case of investment—the level of employment has increased consistently.

Thus, towards the end of 1987, the unemployment rate at the national level reached 7.9%, according to estimates of INE (National Bureau of Statistics). This, notwithstanding a sustained decrease in the number of people assigned to emergency employment programs PEM and POJH, that was equal to 51.7% between the last moving quarter of 1987 and the same period of 1986. Therefore, productive employment experienced a 5.8% growth during the established period.

It is important to point out to the contributions that a flexible and decentered labor legislation, as well as the maintenance of a cautious remuneration policy for the public sector have had in the obtention of these positive results.

Graph N° 3
UNEMPLOYMENT RATE (COUNTRY)



Source: Instituto Nacional de Estadísticas

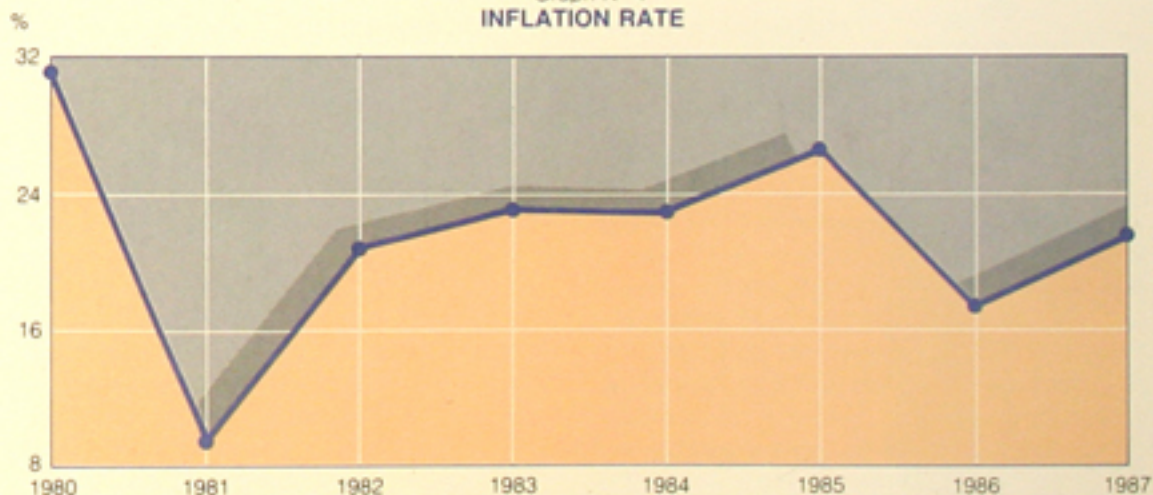
Behavior of Inflation

During 1987, the rate of inflation, measured by the variation of the Consumer Price Index for the last twelve months concluding in December of this year, reached 21.5%. This rate represents an increase of inflation relative to 1986, year when this indicator reached 17.4%. However, the evolution of prices was affected by various factors that are exogenous to the management of economic policy, that contributed to higher inflation levels. On the other hand, it is necessary to keep in mind that the fall observed by the rate of inflation in 1986 was fostered by these exogenous factors, especially the marked decrease observed

by the price of oil in foreign markets, situation that reverted during 1987.

Among the exogenous factors that contributed to the increase in the rate of inflation during 1987, it is worth mentioning: a) the increase observed in the relevant external rate of inflation, as a result of the noticeable fall experienced by the dollar in international markets, b) the unusual winter floods that took place in the central zone causing a considerable increase in the price of food products, especially, and of agricultural goods, in general, c) the increase in the price of oil already mentioned that reverted the trend observed during the previous year, thus contributing to an even faster decrease in the inflationary rhythm.

Graph N° 4
INFLATION RATE



Source: Instituto Nacional de Estadísticas

The slight increase in the growth rate of prices observed during 1987 does not subtract from the permanent preoccupation on the part of the economic authorities towards achieving a gradual fall in inflation. As was previously said, the inflation rate registered during the last two years has been influenced by factors that go beyond economic policy management.

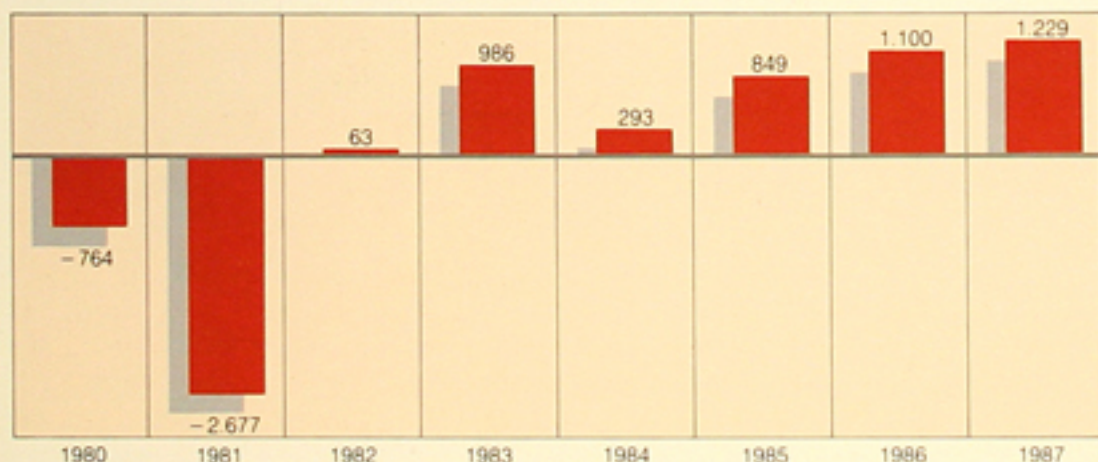
There are no signs, however, leading to a flaring up in the rate of inflation; on the contrary, the various instruments the economic authority relies on—especially monetary policy—have been adapted for the purpose of achieving a gradual, but sustained, reduction in the rate of price increases.

Balance of Payments

The evolution of foreign accounts during 1987 reflected a significant strengthening in the economy's foreign payments position that exceeded initial economic policy projections. Thus, the current account registered a US\$ 811 millions deficit that means an external savings level of 4.3% of GNP, after this indicator reached 10.7% in 1984, 8.3% in 1985 and 6.5% in 1986.

The improvement of the current account was influenced significantly by the verification of a US\$ 1,229.4 millions trade surplus. This trade balance was the result of US\$ 5,223.7 millions in exports and US\$ 3,994.3 millions in imports. The increase in exports, that amounted to

Graph N° 5
TRADE BALANCE IN GOODS AND SERVICES
 (millions of US \$)



24.4% was influenced by an increase in the volumes exported—that reached approximately 11.4% in the case of non-copper exports—as well as by the improvement experienced by the prices of non-copper exports in international markets that is estimated in 9.9%.

Together with preserving a large degree of dynamism in non-copper exports that produced the marked increase in volume of exports for these products, as mentioned above, the growth experienced by global exports was favored by the increase registered by copper exports. This 27.2% growth is explained, mainly, by a higher price for the metal in international markets, that increased appreciably relative to those observed during the previous years, where the increase amounted to 33.9% compared to 1986. (London Metal Market Prices).

On the other hand, imports also experienced an appreciable increase during 1987 equal to 28.9%. This increase results from higher prices for imported products as much as from volume of purchases abroad. The increase in volume of purchases abroad is mainly explained by the following; a) an increase in the level of imports associated to investment projects, which reflects in a 38.9% increase in the volume of capital goods purchases, b) recovery in business inventories after they attained depressed levels on the previous years and c) the sustained growth in economic activity observed during the latter years.



*BANCO CENTRAL DE CHILE
Computers Lab*

The verification of a significant part of imports associated to large foreign investment projects, as well as the adjustment attained by the enterprises in their levels of stock allow the projecting of a moderate increase in imports for 1988.

The current account deficit registered during 1987 was financed with resources originating in multilateral entities, suppliers, foreign investment and short term trade lines. The mechanics of the financial program negotiated with creditor banks was such that they generated no resources during 1987 while the bulk will concentrate during 1988 when relief originating from the extension of the term affecting interest payments will be

generated. In the meantime, the gap in bank financing has been covered with short term loans contracted by Banco Central that will be paid with part of the resources originating in the referred change in periodicity affecting interest payments.

It is important to point out that an important increase in long term financing was registered during 1987 arising from foreign investors and suppliers. This voluntary financing, tied to the increase in investment mentioned above, is estimated to have amounted to US\$ 550 millions in net terms during 1987.

External Debt Policy

The strategy used by Chile to face the problem involved in the existence of a heavy burden of financial obligations abroad, is based on the acknowledgment of the importance of maintaining a harmonious relation with the international financial community so as to take full advantage of the benefits of foreign trade. Thus, in the negotiations sustained with crediting banks as much as in the search for an efficient use of the secondary external debt markets, the endeavor has been to achieve a sustained increase in economic activity within the framework of a progressive strengthening of foreign accounts.

As a result of the negotiations sustained with crediting banks in mid-1987, an

agreement was subscribed insuring the financing of the 1987-88 economic program. It contains an agreement modifying the periodicity of interest payments that will change from 180 days to one year ("retiming"), that will become effective as of January 1988. The use of this mechanism will mean a US\$ 408 millions saving for the country during that year. Besides, a reduction was agreed concerning interest rates applicable to the payment of financial resources as of January 1, 1987 ("repricing"), the restructuring of maturity dates for the US\$ 12,500 millions that constitute the banking external debt contracted prior to December 31, 1983 and subsequent "new loans", and a grace period was agreed up to the year 1990 with bi-yearly payments until the year 2002. An agreement was also reached to extend the availability of short term commercial credit lines amounting to US\$ 1,700 millions until the end of 1989.

The refinancing of the service of foreign obligations has been compatible with a gradual reduction of the debt burden thanks to the operation of external debt reduction mechanisms mentioned above. During 1987, these reductions totalled US\$ 1,997 millions and, since these operations were authorized in mid-1985, they amounted to US\$ 3,294 millions. Of that total, 36% corresponds to capitalization of loans via Chapter XIX, D.L. Nº 600 and others. This has made it possible to use the discount applicable

to them when transacted abroad, to stimulate the conversion of public external debt in risk capital applied to long term investment in the country by foreign investor. The remaining operations correspond to direct agreements between debtors of the private sector and their foreign creditors.

As a result of these mechanisms, nominal external debt has remained constant, in spite of the fact that new loans have been

contracted and of the effect the devaluation of the dollar has had on liabilities expressed in other currencies. Thus, the indicators of foreign solvency have improved significantly. In fact, while external debt represented approximately 4.4 times exports of goods and services in the country during 1985, it now represents 3.1 times exports during 1987. On the other hand, the service of interest has decreased from 43% of the exports of goods and services in 1985 to 32.5%



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Araucarias

during 1987, even though it is worth to keep in mind that net payment is substantially lower if net financing received by the country is taken into account.

Monetary Policy and Interest Rates

The same as in the last two years, during 1987 monetary policy tried to meet the needs in terms of liquidity expressed by an expanding economy, in a manner that would be consistent with balance of payment and inflation objectives. In order to achieve this, Banco Central carried out an orienting function concerning market interest rates, using the rates charged and paid on its own operations. Besides this orienting type function, the capital markets have operated freely and competitively, especially after the lifting of the provisional administration affecting the banks of Chile and Santiago and the elimination of the "suggested interest rate" pactice.

Real interest rates showed a slight increase during 1987. Thus, indexed deposit interest rates increased from 3.5% to 4.5%, while the lending rate increased from 6.6% to 7.5%. This increase was partly due to a deliberate policy on the part of Banco Central to reduce the rhythm of monetary expansion, thus decelerating the strong increase in

expenditure and in prices observed during the first quarter.

As in previous years, the policy adopted by Banco Central concerning domestic interest rates has been to maintain them at levels slightly higher than those reached by international interest rates. Thus, up until the month of October, the rates observed in the local market continued to increase due to the increase of its foreign counterpart. As of the month of November, domestic as well as international interest rates have shown a parallel downward trend.

During 1987, after the conclusion of the cyclic recovery phase, it was reasonable to expect a moderate evolution in monetary aggregates. Nevertheless, the increase observed in inflation rate and in real interest rates produced a slight decrease in traditional monetary aggregates. Thus, during 1987, currency showed a slight 0.5% increase in real terms. Wider monetary aggregates, on the other hand, experienced larger real expansions. In this manner, M2 increased by 20.2% during 1987, while total private financial savings M7 did so by 17.0%. As it has been the case since 1981, the largest increase experienced by these wider monetary aggregates reflect a channeling of savings towards capital markets, as a consequence of the expansion of the role played by institutional investors. In fact, the increase in pension funds explains one fourth of the increase experienced by M2 and M7.

SYNTHESIS

During 1987, Chilean economy registered, for the fourth consecutive year, a significant increase in the levels of activity and employment. This, within the framework of an improved position concerning foreign accounts.

The increase of the product registered during 1987 marks an important landmark to the extent that the previous maximum product level has been recovered and, in fact, has been surpassed. In this fashion, the end of the cyclic recovery phase demands an important

effort at sustained investment in order to keep growing on solid and stable bases. The results obtained in this matter during 1987 can also be defined as satisfactory insofar as significant increases were observed in investment and savings. To keep up these results, however, demands a cautious expansion in the levels of consumption and remuneration so as to insure a sustained growth concerning these same variables.

The maintenance of a climate of stability, through a wise macroeconomic management, constitutes a basic condition towards the achievement of stable growth.



CHART N° 1

GROWTH RATES FOR GROSS NATIONAL PRODUCT BY SECTORS
(Annual variation rate at constant 1977 prices)

| SECTOR/YEAR | 1980 | 1981 | 1982(*) | 1983(*) | 1984(*) | 1985(*) | 1986(*) | 1987 (**) |
|----------------------------|------|------|---------|---------|---------|---------|---------|-----------|
| Agriculture | 3.6 | 2.7 | -2.1 | -3.6 | 7.1 | 5.6 | 8.7 | 4.5 |
| Fishing | 7.5 | 18.1 | 9.4 | 8.8 | 11.5 | 5.6 | 10.0 | -8.0 |
| Mining | 5.2 | 7.7 | 5.7 | -1.9 | 4.4 | 2.2 | 1.5 | 0.0 |
| Industry | 6.2 | 2.6 | -21.0 | 3.1 | 9.8 | 1.2 | 8.0 | 5.5 |
| Electricity, Gas & Water | 5.0 | 2.1 | 0.1 | 4.4 | 7.0 | 3.5 | 6.5 | 3.8 |
| Construction | 23.9 | 21.1 | -23.8 | -5.0 | 4.2 | 16.1 | 1.3 | 10.6 |
| Trade | 12.4 | 4.3 | -17.3 | -3.5 | 5.0 | 1.7 | 5.5 | 7.5 |
| Transport & Communications | 11.1 | 1.8 | -11.8 | -1.5 | 6.0 | 5.5 | 8.1 | 10.1 |
| Various Services 1/ | 5.3 | 6.5 | -15.0 | -0.1 | 5.4 | 0.0 | 4.7 | 5.8 |
| TOTAL GNP | 7.8 | 5.5 | -14.1 | -0.7 | 6.3 | 2.4 | 5.7 | 5.7 |

1/ Includes financial services, personal services, housing property, public administration, taxes on imports and costs imputed of banking services.

(*) Provisional figures.

(**) Estimated.

Source: National Accounts, Banco Central de Chile.



BANCO CENTRAL DE CHILE
Interior, Valparaiso Branch

CHART N° 2
EMPLOYMENT AND UNEMPLOYMENT
 Total country

| YEAR | LABOR FORCE | | EMPLOYED | | | | UNEMPLOYED RATE |
|---------|----------------------|------------------------------|----------------------|------------------------------|----------------------|------------------------------|-----------------|
| | | | GOVERNMENT PROGRAMS | | OTHER | | |
| | Thousands of persons | % Variation on previous year | Thousands of persons | % Variation on previous year | Thousands of persons | % Variation on previous year | |
| 1980 1/ | 3,635.5 | 4.5 | 207.2 | 36.1 | 3,049.9 | 7.0 | 10.4 |
| 1981 1/ | 3,688.0 | 1.4 | 171.4 | -17.3 | 3,099.5 | 1.6 | 11.3 |
| 1982 2/ | 3,660.7 | -0.7 | 385.8 | 125.1 | 2,557.3 | -17.5 | 19.6 |
| 1983 1/ | 3,767.7 | 2.9 | 500.1 | 29.6 | 2,715.7 | 6.2 | 14.6 |
| 1984 1/ | 3,890.7 | 3.3 | 363.3 | -27.4 | 2,986.1 | 10.0 | 14.0 |
| 1985 1/ | 4,018.7 | 3.3 | 283.1 | -22.1 | 3,254.3 | 9.0 | 11.9 |
| 1986 1/ | 4,270.0 | 6.3 | 192.6 | -32.0 | 3,703.1 | 13.8 | 8.8 |
| 1987 1/ | 4,354.4 | 2.0 | 93.2 | -51.7 | 3,917.7 | 5.8 | 7.9 |

1/ Moving quarters ending in December.

2/ Bi-month corresponding to October-November period.

Source: National Bureau of Statistics.

CHART Nº 3
WAGE AND SALARIES GENERAL INDEX
 (Base 1982 = 100)

| YEAR | NOMINAL | | REAL 2/ | |
|---------|---------|-----------------------------|---------|-----------------------------|
| | Level | % Variation previous period | Level | % Variation previous period |
| 1980 | 70.0 | 47.0 | 92.0 | 8.7 |
| 1981 | 91.2 | 30.3 | 100.2 | 8.9 |
| 1982 | 100.0 | 9.6 | 100.0 | -0.2 |
| 1983 | 113.7 | 13.7 | 89.0 | -11.0 |
| 1984 | 136.4 | 20.0 | 89.3 | 0.3 |
| 1985 | 170.6 | 25.1 | 85.3 | -4.5 |
| 1986 | 208.1 | 22.0 | 87.0 | 2.0 |
| 1987 1/ | 249.1 | 19.7 | 86.9 | -0.1 |

1/ Corresponds to the period January-November.

2/ Deflated by CPI variation.

Source: National Bureau of Statistics.

CHART Nº 4
**CONSUMER PRICE INDEX (CPI) AND WHOLESALE
 PRICE INDEX (WPI)**

| PERIOD | CPI | | WPI | |
|---------------|--------------------|--|--------------------|--|
| | Index (1978 = 100) | Variation relative to same month previous year | Index (1974 = 100) | Variation relative to same month previous year |
| December 1980 | 182.3 | 31.2 | 5,973.9 | 28.1 |
| December 1981 | 199.7 | 9.5 | 5,739.5 | -3.9 |
| December 1982 | 241.1 | 20.7 | 8,011.7 | 39.6 |
| December 1983 | 296.8 | 23.1 | 10,029.7 | 25.2 |
| December 1984 | 365.1 | 23.0 | 13,685.6 | 36.5 |
| December 1985 | 461.6 | 26.4 | 17,825.6 | 30.3 |
| December 1986 | 541.7 | 17.4 | 21,077.2 | 18.2 |
| December 1987 | 657.9 | 21.5 | 24,675.6 | 17.1 |

Source: National Bureau of Statistics.

BANCO CENTRAL DE CHILE
Branch in Concepción



CHART N° 5

NOMINAL AND REAL TYPE OF EXCHANGE

| YEAR | NOMINAL 1/ | | REAL 2/ | |
|------|------------|--|--------------------|--|
| | \$/US\$ | % Variation relative to same month previous year | Index (1978 = 100) | % Variation relative to same month previous year |
| 1980 | 39.00 | 0.0 | 81.99 | -14.0 |
| 1981 | 39.00 | 0.0 | 73.32 | -10.6 |
| 1982 | 72.40 | 85.6 | 108.03 | 47.3 |
| 1983 | 87.07 | 20.3 | 103.86 | -3.9 |
| 1984 | 126.23 | 45.0 | 120.42 | 15.9 |
| 1985 | 182.48 | 44.6 | 146.30 | 21.5 |
| 1986 | 203.67 | 11.6 | 148.50 | 1.5 |
| 1987 | 235.34 | 15.5 | 156.30 | 5.3 |

1/ Data as of December of each year for average type of exchange observed.

2/ Effective real type of exchange that measures the weighted average of international prices' index pertinent to our foreign trade, expressed in pesos, relative to national CPI. Wholesale price index of the main trade partners of the country are used, converted by the type of exchange of the respective countries, weighted by the fraction of Chilean imports originating in the respective countries.

CHART N° 6
BALANCE OF PAYMENTS
(Millions of US\$)

| SPECIFICATION | 1980 | 1981 | 1982 | 1983 | 1984 1/ | 1985 1/ | 1986 1/ | 1987 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| I. CURRENT ACCOUNT | -1,971 | -4,733 | -2,304 | -1,117 | -2,060 | -1,329 | -1,137 | -811 |
| 1. Trade Balance | -764 | -2,677 | 63 | 986 | 293 | 849 | 1,100 | 1,229 |
| Exports | 4,705 | 3,836 | 3,706 | 3,831 | 3,650 | 3,804 | 4,199 | 5,224 |
| - Copper | 2,125 | 1,738 | 1,685 | 1,875 | 1,604 | 1,789 | 1,757 | 2,235 |
| - Others | 2,580 | 2,098 | 2,021 | 1,956 | 2,046 | 2,015 | 2,422 | 2,989 |
| Imports | -5,469 | -6,513 | -3,643 | -2,845 | -3,357 | -2,955 | -3,099 | -3,995 |
| 2. Non-financial services | -390 | -701 | -555 | -452 | -434 | -338 | -434 | -457 |
| 3. Financial services | -930 | -1,463 | -1,921 | -1,748 | -2,018 | -1,901 | -1,887 | 1,699 |
| 4. Transfers | 113 | 108 | 109 | 97 | 99 | 61 | 84 | 116 |
| II. CAPITAL ACCOUNT 2/ | 3,215 | 4,800 | 1,139 | 576 | 2,077 | 1,230 | 909 | 856 |
| 1. Foreign Investment 5/ | 170 | 362 | 384 | 132 | 67 | 112 | 319 | 924 |
| 2. Amortizations 3/ | -1,438 | -1,819 | -1,259 | -895 | -488 | -625 | -719 | -1,136 |
| 3. Medium Term & Long term Loans disbursements | 3,541 | 5,090 | 2,609 | 1,934 | 1,620 | 1,471 | 1,219 | 1,054 |
| - Foreign Banks | | | | | | | | |
| Loans 4/ | (-) | (-) | (-) | (1,300) | (780) | (714) | (370) | (0) |
| - Others | (3,541) | (5,090) | (2,609) | (634) | (840) | (757) | (849) | (1,054) |
| 4. Others 6/ | 942 | 1,167 | -595 | -595 | 878 | 272 | 90 | 14 |
| III. BALANCE OF PAYMENTS (I + II) | 1,244 | 67 | -1,165 | -541 | 17 | -99 | -228 | 45 |

1/ Provisional figures.

2/ Includes variation of Banco Central short term debt and "error and omissions" entry.

3/ Total amortizations, net of refinancings. Includes extraordinary amortizations for loan capitalization and for Chapter XVIII only in 1985.

4/ "New money" from foreign banks. In 1986 includes IBRD cofinancing.

5/ Includes loan capitalizations and, as of 1985, investment with external debt promissory notes (Chapter XIX).

6/ Includes counterpart of Chapter XVIII operations only in 1985. Includes short term debt of Banco Central de Chile.

CHART N° 7

GROSS EXTERNAL DEBT 1/
(Millions of US\$)

| ESPECIFICATION | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| I. EXTERNAL DEBT | | | | | | | | |
| TOTAL (II + III) | 11,084 | 15,542 | 17,153 | 17,431 | 18,877 | 19,318 | 19,388 | 19,099 |
| Public Sector | 5,063 | 5,465 | 6,660 | 9,795 | 12,343 | 14,079 | 15,763 | 16,380 |
| Private Sector | 6,021 | 10,077 | 10,493 | 7,636 | 6,534 | 5,239 | 3,625 | 2,719 |
| II. MEDIUM TERM AND LONG TERM EXTERNAL DEBT | 9,413 | 12,553 | 13,815 | 14,832 | 16,963 | 17,650 | 17,814 | 17,191 |
| Public Sector | 4,720 | 4,415 | 5,157 | 8,090 | 10,601 | 12,515 | 14,379 | 14,725 |
| Private Sector | 4,693 | 8,138 | 8,658 | 6,742 | 6,362 | 5,135 | 3,435 | 2,466 |
| III. SHORT TERM EXTERNAL DEBT | 1,671 | 2,989 | 3,338 | 2,599 | 1,914 | 1,668 | 1,574 | 1,908 |
| Public Sector | 343 | 1,050 | 1,503 | 1,705 | 1,742 | 1,564 | 1,384 | 1,655 |
| Private Sector | 1,328 | 1,939 | 1,835 | 894 | 172 | 104 | 190 | 253 |

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

CHART N° 8
MONETARY AGGREGATES
 (Monthly averages in billions of \$)

| PERIOD | M1 | | M2 | | M7 | |
|---------------|--------|--------------------|--------|--------------------|----------|--------------------|
| | Amount | % Variation period | Amount | % Variation period | Amount | % Variation period |
| December 1980 | 75.94 | 59.4 | 200.09 | 53.9 | 284.30 | (—) |
| December 1981 | 82.51 | 8.7 | 307.72 | 53.8 | 424.84 | 49.4 |
| December 1982 | 75.05 | -9.0 | 320.42 | 4.1 | 485.06 | 14.2 |
| December 1983 | 95.18 | 26.8 | 289.73 | -9.6 | 575.63 | 18.7 |
| December 1984 | 102.37 | 7.6 | 380.62 | 31.4 | 755.91 | 31.3 |
| December 1985 | 131.38 | 28.3 | 525.63 | 38.1 | 1,137.51 | 50.5 |
| December 1986 | 189.29 | 44.1 | 655.47 | 24.7 | 1,543.87 | 35.7 |
| December 1987 | 203.62 | 7.6 | 947.32 | 44.5 | 2,146.19 | 39.0 |

MEANINGS: C = Currency.
 M1 = C + Private Sector Current Accounts.
 M2 = M1 + Term Deposits.
 M7 = M2 + Draft and Term Savings + Central Bank Documents + Treasury Promissory Notes + Letters of Credit + Private Sector Deposits in Foreign Currency.

(—) No information available.

CHART N° 9
INTEREST RATES (%)
 Average of Banking System

| PERIOD | NON-ADJUSTABLE SHORT TERM RATES 1/ | | | | INTEREST RATES 1/ | |
|-----------------|------------------------------------|------------|--------------------|------------|------------------------|---------------|
| | 30-89 DAYS DEPOSITS | | 30-89 DAYS LENDING | | 90-365 DAYS ADJUSTABLE | |
| | Nominal 1/ | Real 2/ | Nominal 1/ | Real 2/ | Deposits 3/ | Lending 3/ |
| 1980 (December) | 2.98 | 1.06 | 3.38 | 1.45 | 6.33 | 13.28 |
| 1981 (December) | 3.28 | 2.77 | 4.22 | 3.70 | 7.36 | 15.95 |
| 1982 (December) | 4.59 | 3.35 | 5.47 | 4.22 | 5.90 | 10.36 |
| 1983 (December) | 1.82 | 1.21 | 2.60 | 1.99 | 6.06 | 8.20 |
| 1984 (December) | 2.90 | 1.48 | 4.16 | 2.72 | 14.68 | 10.43 |
| 1985 (December) | 1.92 | 0.62 | 2.34 | 1.04 | 6.22 | 8.87 |
| 1986 (December) | 1.61 | 0.11 | 2.03 | 0.53 | 3.47 | 6.61 |
| 1987 (December) | 1.88 | 1.58 | 4.48 | 2.18 | 4.47 | 7.52 |

1/ Weighted average monthly rate for operations effected during the month.

2/ Nominal rate deflated by CPI for the month.

3/ Weighted average annual rate for operations effected during the month.



THOMAS SOMERSCALES
 Bahía de Valparaíso



II ORGANIZATION CHART

BANCO CENTRAL
DE CHILE

As of December 31, 1987

III
BALANCE
SHEET

BANCO CENTRAL
DE CHILE

As of December 31, 1987

BALANCE SHEET
 As of December 31, 1987
 (In million of Chilean pesos)

ASSETS

| | | |
|---|--------------------|---------------------------|
| ASSETS OVERSEAS | | <u>1,038,805.6</u> |
| ASSET RESERVE | <u>983,819.1</u> | |
| Gold and foreign currencies | 411,031.5 | |
| Special drawing rights holdings | 9,354.3 | |
| IMF subscription | 144,650.2 | |
| Bonds, certificates of deposit and others | 342,685.1 | |
| Mutual loan agreements | 75,995.1 | |
| Others | <u>102.9</u> | |
| OTHER ASSETS | <u>54,986.5</u> | |
| Contributions made to other international organizations | 43,123.3 | |
| Interest receivable | 6,331.4 | |
| Other securities | <u>5,531.8</u> | |
| DOMESTIC ASSETS | | <u>2,672,852.6</u> |
| DOMESTIC LOANS | <u>2,570,489.7</u> | |
| Fiscal loans | 297,424.6 | |
| Loans to public entities | 162,556.1 | |
| Loans to Banco del Estado | 194,685.2 | |
| Loans to commercial banks | 1,595,256.2 | |
| Loans to other institutions | <u>320,567.6</u> | |
| OTHER DOMESTIC ASSETS | <u>102,362.9</u> | |
| OTHER ASSET ACCOUNTS | | <u>2,167,156.2</u> |
| TOTAL ASSETS | | <u><u>5,878,814.4</u></u> |

LIABILITIES AND EQUITY

| | | |
|---|--------------------|--------------------|
| OVERSEAS LIABILITIES | | <u>1,850,072.2</u> |
| RESERVE LIABILITIES | <u>546,376.3</u> | |
| IMF loans | 339,856.8 | |
| Mutual credit agreements | 61,508.3 | |
| IMF deposits | <u>145,011.2</u> | |
| OTHER OVERSEAS LIABILITIES | <u>1,264,038.8</u> | |
| Loans and other liabilities | 1,149,453.2 | |
| Accounts with other international organizations | 67,879.6 | |
| Interest payable | <u>46,706.0</u> | |
| ALLOCATION OF SPECIAL DRAWING RIGHTS | <u>39,657.1</u> | |
| DOMESTIC LIABILITIES | | <u>2,831,581.5</u> |
| ISSUES OF | <u>171,385.7</u> | |
| Notes and coins in circulation | 161,486.2 | |
| Financial institutions' deposits | <u>9,899.5</u> | |
| DEPOSITS AND COMMITMENTS | <u>912,059.9</u> | |
| Deposit and commitments with the Treasury | 188,954.6 | |
| Other deposits and commitments | <u>723,105.3</u> | |
| NOTES ISSUED BY BANCO CENTRAL DE CHILE | <u>1,655,616.6</u> | |
| OTHER DOMESTIC LIABILITIES | <u>92,519.3</u> | |
| OTHER LIABILITY ACCOUNTS | | <u>909,696.3</u> |
| EQUITY | | <u>286,853.0</u> |
| Capital | 50.0 | |
| Fluctuation reserve | 226,823.4 | |
| Contingency reserve | <u>59,979.6</u> | |
| SURPLUS FOR THE YEAR | | <u>611.4</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>5,878,814.4</u> |

STATEMENT OF INCOME
 For the year ended December 31, 1987
 (In millions of Chilean pesos)

OPERATING RESULTS

OPERATING INCOME

| | | |
|-------------------------------|-----------|-------------|
| Interest earned | 168,007.6 | |
| Gains on restatement of loans | 747,624.5 | |
| Gains on sale of assets | 36,129.8 | |
| Gains on exchange | 106,467.9 | |
| Other operating income | 11,623.4 | |
| Total operating income | | 1,069,853.2 |

OPERATING EXPENSES

| | | |
|-------------------------------|-----------|-----------------|
| Interest expense | 326,343.9 | |
| Loss on restatement of loans | 248,518.9 | |
| Commission expense | 2,008.8 | |
| Loss on sale of assets | 5,359.5 | |
| Loss on exchange | 445,957.7 | |
| Other operating expenses | 6,083.8 | |
| Total operating expenses | | (1,034,272.6) |
| GROSS OPERATING INCOME | | 35,580.6 |

OTHER EXPENSES

| | | |
|---|---------|------------|
| Personnel expenses | 3,119.4 | |
| Administrative expenses | 1,678.6 | |
| Depreciation, amortization and write-offs | 546.0 | |
| Taxes | 825.5 | |
| Total other expenses | | (6,169.5) |

Income before write-offs and provisions for loan losses 29,411.1

Write-offs and provisions for possible loan losses (996.7)

NET OPERATING INCOME 28,414.4

NON OPERATING INCOME

| | | |
|--|----------|--------------------|
| Non operating income | 24,256.0 | |
| Non operating expenses | (4.1) | |
| Total of non operating results | | 24,251.9 |
| Income before price-level restatements | | 52,666.3 |
| PRICE-LEVEL RESTATEMENTS (loss) | | (52,054.9) |
| NET INCOME FOR THE YEAR | | 611.4 |

The accompanying notes 1 to 18 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) PRINCIPLES APPLIED:

The financial statements as of December 31, 1987 have been prepared in accordance with generally accepted accounting principles, with the norms and instructions of the Superintendencia de Bancos e Instituciones Financieras (the Superintendency), and with the provisions of the statutes of the Banco Central de Chile (Decree Law 1,078). The norms and instructions of the above mentioned Superintendency are in agreement with generally accepted accounting principles except for provisions for possible loan losses.

b) EXCHANGE RATES:

Assets and liabilities in foreign currencies have been translated into Chilean pesos at exchange rates prevailing on December 28, 1987, set by the Superintendency.

In accordance with the Superintendency's regulations, 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 ounce troy) for all business days in the preceding quarter, less 10%. Likewise, foreign currency including special drawing rights holdings were translated at the rate set by the Superintendency. The exchange rate used for translating special drawing rights holdings in the prior year was that prevailing on December 31, 1986.

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

| | \$ |
|------------------------------|---------|
| Minted Chilean gold coins | 576.170 |
| U.S. dollar | 234.050 |
| Pound sterling | 434.230 |
| Deutsche mark | 145.916 |
| Special drawing rights (SDR) | 325.261 |

c) LOANS RECEIVABLE AND PAYABLE:

Non readjustable loans 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 maturity value. Readjustable loans are shown with their corresponding accrued restatements at the balance sheet date, and loans expressed in foreign currency include their respective exchange adjustments.

Accrued interest on loans receivable and payable at the balance sheet date is shown for residents abroad under Other Overseas Assets and Other Overseas Liabilities, respectively. Operations concerning local residents are included under Other Domestic Assets and Other Domestic Liabilities.

Prepaid interest on borrowings is included under Other Asset Accounts. Interest received in advance on loans is included under Other Liability Accounts.

d) PAST DUE LOAN PORTFOLIO:

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

e) FINANCIAL INVESTMENTS:

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

f) PROPERTY, PREMISES, AND EQUIPMENT:

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

g) EMPLOYEES SEVERANCE COMPENSATION:

The provision for accrued severance compensation payable by the Bank as an acquired right of its staff for past services, has been set-up each year based on the present value of the accrued cost, discounted at an 8% annual interest rate. This amounts to \$ 468.8 million at December 31, 1987 and is included under Other Liability Accounts.

h) PROVISION FOR POSSIBLE LOAN LOSSES:

Pursuant to Resolution N° 1,838, date December 29, 1987, of the Bank's Executive Committee, the Bank has set up provisions for overdue loans and doubtful debts. These provisions are included under Other Liability Accounts, and the charge to income is detailed in Note 9.

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 carried at acquisition costs, and contributions at restatement value, when applicable.

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

Contributions to the IMF in domestic and foreign currencies are shown under Asset Reserve Overseas as an IMF Subscription. Shares and contributions made to the IDB and contributions to the IMF are considered investments, pursuant to Decree Law 2,943 of November 8, 1979.

j) GOLD AND FOREIGN CURRENCY RESERVES:

In accordance with article 41 of the Bank's statutes (Decree Law 1,078), a mandatory cash reserve must be kept either in gold, foreign currency, or both.

Gold and foreign currencies shown under Asset Reserve include 210.7 million of Chilean gold pesos which correspond to the mandatory gold reserve.

k) REVENUE AND EXPENSE ACCOUNTS:

Revenues and expenses are accounted for on an accrual basis.

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

l) PRICE-LEVEL RESTATEMENTS:

The effect of price-level restatements of equity, property, premises, equipment and other assets and liabilities considering the changes in the consumer price index during the year is shown in the Statement of Income under price-level restatements. Likewise, exchange differences in assets and liabilities expressed in foreign currencies, and restatement of loans, are included under operating results.

2. FINANCIAL STATEMENTS PRESENTATION POLICIES

The balance sheet presentation approved by the Superintendency follow an economic-accounting pattern which aims to show the institution's accounting and financial position, at the same time assisting the economic analyses of the Bank's operations by clearly distinguishing whether they are performed by domestic or overseas agents.

In this manner the Bank's participation in the domestic supply of monetary assets and credit policy may be assessed together with their effect over the Bank's gearing position abroad. The economic concepts of international reserves and issues are thus shown as Assets and Liabilities, under Asset Reserve and Issues, respectively.

3. DOMESTIC ASSETS

Domestic assets comprise the following:

a) DOMESTIC LOANS:

This caption includes mainly credit lines in respect of renegotiation of debts amounting to \$ 613,591.9 million; credit lines in respect of deposits under agreement N° 1,686 for Ch\$ 360,308.8 million; and portfolio purchased with obligation to resell under Agreement 1,555 for an amount of \$ 482,022.7 million.

b) OTHER DOMESTIC ASSETS:

Correspond to interest and commissions receivable on domestic assets amounting to \$ 102,362.9 million.

4. OTHER ASSET ACCOUNTS

Other asset accounts mainly include: tangible fixed assets amounting to \$ 5,683.6 million; purchase of U.S. dollars with obligation to resell for \$ 434,874.2 million; overdue loans for \$ 7,349.3 million; loan portfolio acquired from financial institutions for \$ 272,113.4 million; Treasury notes for \$ 1,429,383.2 million; and interest paid in advance on sale of readjustable promissory notes of the Banco Central de Chile for \$ 3,986.0 million.

5. OTHER OVERSEAS LIABILITIES

Loans and other liabilities which are included under this caption consist mainly of credit agreements of the years 1983, 1984 and 1985 to grant new money for \$ 685,127.5 million; restructure of foreign debt years 1983-84 and 1985-87 for \$ 192,342.5 million; and deposits received from private corporations restructured by Banco Central de Chile for subsequent payment overseas for \$ 133,792.8 million.

6. DOMESTIC LIABILITIES

The following are included under this caption:

a) DEPOSITS AND COMMITMENTS:

The caption "Other Deposits and Commitments" includes the following: mandatory deposits on foreign credits for \$ 748.6 million; public sector time deposits for \$ 148,640.9 million; Agreement N° 1,470 deposits (peso current accounts expressed in U.S. dollars) for \$ 12,844.4 million; differential in exchange payable for \$ 12,075.0 million; Banco del Estado de Chile deposits for \$ 58,589.0 million; foreign currency current accounts for \$ 7,069.1 million; outstanding balance on promissory notes acquired from Banco del Estado for \$ 34,166.0 million; deposits on import operations for advance sales of foreign currencies for \$ 14,108.1 million; short-term certificates of deposit for \$ 2,165.0 million; and Agreements N° 1,657 and 1,686 deposits in foreign currency for \$ 420,187.9 million.

b) NOTES ISSUED BY BANCO CENTRAL DE CHILE:

This caption includes mainly promissory notes for renegotiation of debts for \$ 347,497.5 million; non-transferable deposit certificates stated in U.S. dollars as per Agreement N° 1,649 for \$ 278,027.6 million; readjustable promissory notes issued by Banco Central for \$ 291,655.5 million; promissory notes on purchase of portfolio under Agreement N° 1,555 for \$ 129,422.2 million; promissory notes stated in U.S. dollars for \$ 115,501.7 million; promissory notes in respect of exchange differential for \$ 159,171.0 million; floating interest readjustable promissory notes for \$ 44,241.7 million; and certificates of deposit Agreement N° 1,655 for \$ 65,147.3 million.

7. OTHER LIABILITY ACCOUNTS

This caption includes mainly provisions for \$ 167,499.5 million; funds for reimbursement of reciprocal credit agreements for \$ 23,126.0 million; U.S. dollars purchased under resale agreements for \$ 444,869.5 million; and financial institution notes for \$ 272,113.4 million in respect of portfolio purchased.

8. PRICE-LEVEL RESTATEMENTS

Price-level restatements as indicated in Note 1 (l) resulted in a net charge to income of \$ 52,054.9 million, as follows:

| | Debits (Credits) (In millions of Chilean pesos) |
|--|---|
| | \$ |
| Equity | 53,454.6 |
| Property, premises, and equipment | (1,252.5) |
| Other assets | (147.2) |
| Net effect on the results for the year | 52,054.9 |

The change in the consumer price index applied for the year amounted to 22.9%.

9. PROVISION FOR POSSIBLE LOAN LOSSES

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

| | (In millions of Chilean pesos) |
|--|-----------------------------------|
| | \$ |
| - Balance brought forward 1-1-87 | 176,305.8 |
| - Write-off against provisions | (258.9) |
| - Provisions set up during the year | 961.0 |
| - Recovery of prior years' provisions | (3,766.7) |
| - Transferred to cover exchange differential | (6,210.6) |
| Balance at 12-31-87 | 167,030.6 |

The charge to income of \$ 961.0 million in respect of provisions set up during the year is included under Write-offs and Provisions for Possible Loan Losses in the Statement of Income.

During the year, a provision for \$ 9,893.7 million set up at December 31, 1985 was allocated in accordance with Agreement N° 1,838 of the Executive Committee dated December 29, 1987, to cover the exchange differential arising on the preferential dollar rate requested by Financial Institutions (Note 12). Of this amount at December 31, 1987, \$ 6,210.6 million was used to cover the estimated differential at December 31, 1987, and the remaining \$ 3,683.1 million was treated as provisions recovered, and credited to income under "Other Operating Income".

10. EQUITY

The changes in equity during 1987 are summarized as follows:

| | (In millions of Chilean pesos) | | | | | |
|--|--------------------------------|------------------------------|------------------------|----------------------------------|---------|-----------|
| | Paid-in Capital | Reserve for contingencies | Fluctuation reserve | Restatement of equity reserve | Surplus | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at January 1, 1987 | 50.0 | 48,754.2 | 184,594.2 | — | 355.3 | 233,753.7 |
| Distribution of 1986 surplus and repayments to the Treasury | | | | | (355.3) | (355.3) |
| Equity Price-level restatement | | | | 53,454.6 | | 53,454.6 |
| Distribution of restatement of equity reserve | | 11,225.4 | 42,229.2 | (53,454.6) | | — |
| Surplus for the year | | | | | 611.4 | 611.4 |
| Balance at December 31, 1987 | 50.0 | 59,979.6 | 226,823.4 | — | 611.4 | 287,464.4 |

11. INCOME TAXES

Pursuant to Decree Law N° 3,345 of April 24, 1980, Banco Central de Chile is exempt from income taxes.

12. PREFERENTIAL U.S. DOLLAR

Resolutions N°s 1,466, 1,484 and 1,556 of the Bank's Executive Committee, provided that certain commitments in foreign currencies or stipulated to be restated in foreign currency entered into before August 6, 1982 may be repaid at a preferential exchange rate, the Banco Central bearing the difference between this rate and the prevailing rate at the date of repayment.

On June 27, 1985 the Executive Committee replaced the Resolutions mentioned above by Resolution N° 1,657 and established a new system dealing with preferential exchange rates for commitments amounting to or exceeding US\$ 50,000 as contained in Chapter XIII of "Compendio de Normas de Cambios Internacionales". For debts of up to US\$ 50,000 the amount bearable by the Bank will be the difference between the exchange rate prevailing on the settlement date and the equivalent of 0.0399 U.F. in Chilean pesos on the same date.

In respect of debts exceeding US\$ 50,000 the amount bearable by the Bank will be the difference between the exchange rate prevailing on the settlement date and a variable factor which at June 30, 1985 was 0.39908 and which will be reduced by 0.0007256 daily until it reaches zero value by December 31, 1986.

The estimated exchange differential payable as of December 31, 1987 is fully provided for and amounts to \$ 12,075.0 million, which was completed during the year through the allocation of \$ 6,210.6 million from provisions set up in prior years (Note 9).

13. PORTFOLIO ACQUIRED FROM FINANCIAL INSTITUTIONS

Pursuant to Agreements Nos 1,450 and 1,555 of the Executive Committee and their corresponding amendments, Banco Central de Chile purchased portfolio from financial institutions by issuing special agreements, whereby those institutions have committed themselves to repurchase the portfolio. The amount to be repurchased annually will depend on the amount of portfolio recovered and on the financial institutions' yearly surplus.

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

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

14. TREASURY FUNDS TRANSFERRED TO BANCO CENTRAL DE CHILE

Pursuant to the updated text of Law No 18,358 of November 19, 1984, the Treasury transferred to Banco Central de Chile during the current year six million of "Unidades de Fomento" (restated domestic currency to account for the changes in the consumer price index), by issuing Treasury Promissory Notes with a 27 year maturity term. The amount transferred has been recorded as an extraordinary item and is shown under Non-operating Income, while the Treasury Promissory Notes are included under Other Asset Accounts.

15. BALANCES IN FOREIGN CURRENCIES AND GOLD

| | (Amounts expressed in millions of US\$) |
|-----------------------------|--|
| ASSETS | |
| ASSETS OVERSEAS | |
| Reserve | 3,800.1 |
| Other assets overseas | 3,712.8 |
| | 87.3 |
| DOMESTIC ASSETS | |
| Domestic loans | 1,721.3 |
| Other domestic loans | 1,701.7 |
| | 19.6 |
| OTHER ASSET ACCOUNTS | |
| Total assets | 2.3 |
| | <u>5,523.7</u> |

| LIABILITIES | |
|--|-----------------------|
| OVERSEAS LIABILITIES | <u>5,568.6</u> |
| Reserve | 262.8 |
| Other overseas liabilities | 5,136.4 |
| SDR allocations | 169.4 |
| DOMESTIC LIABILITIES | <u>6,310.9</u> |
| Other deposits and commitments | 3,524.1 |
| Notes issued by Banco Central de Chile | 2,773.1 |
| Other domestic liabilities | 13.7 |
| OTHER LIABILITY ACCOUNTS | <u>(6,355.8)</u> |
| Total liabilities | <u><u>5,523.7</u></u> |

16. CONTINGENCIES, COMMITMENTS AND OBLIGATIONS

a) MEMORANDUM ACCOUNTS:

The following are included under memorandum accounts at December 31, 1986:

| | (In millions of Chilean pesos) |
|--|-----------------------------------|
| Treasury operations | 29,910.2 |
| Domestic loan operations | 357.0 |
| Exchange operations and overseas loan operations | 7.7 |
| Safekeeping and securities in guarantee operations | <u>589,376.4</u> |
| Total | <u><u>619,651.3</u></u> |

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

A request to the Internal Revenue Service has been presented regarding input V.A.T. claimed on gold purchased through agents. The amount disputed is for Th 594.4 U.T.M. There are good reasons to believe that the outcome of this dispute will be favorable.

17. SURPLUS FOR THE YEAR


In accordance with the Bank's statutes, the Executive Committee agreed to allocate the surplus for the year, once all provisions and write-offs agreed by them have been set up, as follows:

To create reserves to cover the risk of portfolio and exchange operations or of any other event, by a percentage to be agreed by the Executive Committee.

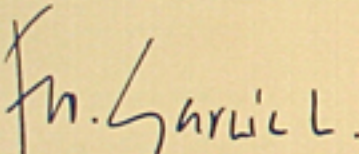
Any remaining surplus will be allocated to pay outstanding debts owed by the Treasury to the Bank.

18. SUBSEQUENT EVENTS

On January 4, 1988 the Executive Committee through Agreement N° 1,839 established that in conformity with Chapter I, N° 7 of the International Exchange Compendium Norms, the exchange rate applicable by the Bank in respect of exchange operations in the Exchange Market will be, as from January 5, 1988, \$ 243.97 per U.S.A. Dollar, which is to be adjusted daily in the manner indicated in Appendix I of Chapter I. This adjustment in the dollar rate would affect the Exchange Position which, if settled on January 5, 1988 would have resulted in a net charge to income of \$ 98,367.2 million.



Mr. JORGE AUGUSTO CORREA GATICA
General Manager



Mr. FRANCISCO GARCIA LETELIER
Finance Accounting Manager



Mr. VICENTE MONTAN UGARTE
General Auditor

INDEPENDENT AUDITORS' REPORT

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

We have examined the balance sheet of the Banco Central de Chile as of December 31, 1987 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 a) to the financial statements, the Banco Central de Chile prepares and presents its financial statements in accordance with accounting norms and instructions established by the Superintendencia de Bancos e Instituciones Financieras (a government supervisory agency).

In our opinion, the financial statements referred to above have been prepared in accordance with the accounting norms and instructions established by the Superintendencia de Bancos e Instituciones Financieras and the provisions of the Bank's statutes, as described in the notes to the financial statements.

Vivian Clarke L.

LANGTON CLARKE
COOPERS & LYBRAND

Santiago, Chile
January 14, 1988



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