

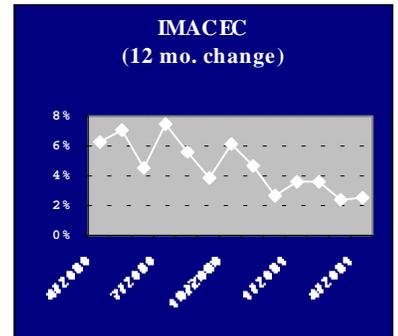


# CHILE

## BIWEEKLY ECONOMIC REPORT

### NEWS

- **Credit risk coverage for exporter companies** –CORFO announced a new program offering a guarantee that cover up to 40% of borrowing of the Small and medium exporters with the banking sector. This program is expected to reduce the cost of funds, as well as improving the access of these companies to the banking sector. (July 10)
- **Central bank keeps target interest rate at UF + 3.5%** – During the monthly Monetary Policy Meeting, the Board of Governors decided to maintain the overnight interest rate at UF + 3.5%. The Central Bank expects a higher growth rate for the domestic demand during the second half of year 2001, and an inflation rate in the target range of 2-4% yoy. On the other hand, the Central Bank considered that the volatility affecting the domestic exchange market – consequence of the emerging markets financial instability- is transitory given the sound macroeconomic fundamentals exhibited by the Chilean economy. (July 12)
- **Debt reschedule program for SMEs** – The Chilean President, Ricardo Lagos, launched in march a package of measures intended to alleviate the financial situation of SMEs which are highly indebted with the domestic financial sector. As part of this program and in order to include more companies of medium size, the Government raised the annual sales limit, established to be eligible for the loan reschedule program, from ch\$500 million to ch\$1,000 million. In addition, the amount of reschedule debt increased from ch\$60 million to ch\$100 million, and the maximum to be used as financing of working capital was expanded from 15% to 25%. (July 16)
- **Stamp Tax exemption bill approved** - A new bill that establishes the temporary exemption of the stamp tax finished its first constitutional proceeding, having been approved in the House of Representatives with a favourable voting. The bill implies the total exemption of the stamps tax for a 12 months period for the reprogramming of effective or weak hypothecating credits destined to the acquisition, extension and reconstruction of houses, granted to natural people. For superior credits, the tax will be applied only to loans that exceed UF3000 (US\$73.000) (July 17)
- **One hundred thousand new jobs** - Over 100,000 jobs were created in June by the job support programs, fulfilling in this way the goal of the Government. The accomplishment of this target locates the programme at its peak level of coverage, since its implementation in 1999. At the same time, the coverage of the plan has been duplicated with respect to the same month of year 2000. All these data reveal the enormous effort made in this matter by the Government of the President Lagos. (July 20)
- **IMACEC of 2.4% in May** – The Central Bank informed that the Monthly Indicator of Economic Activity (IMACEC) grew 2.4% yoy during May. Overall, the growth rate for the first five months of the year reached 3% yoy. The Central Bank clarified that May 2001 had one less working day compared with the previous year, which can explain approximately 0.5% to 1% less of growth. (July 23)
- **Central Bank moves to nominal rate policy** – During an extraordinary meeting, the Board of Governors decided to change the definition of the target interest rate to a nominal basis instead of defining the overnight rate as UF+. The Central Bank established the current target rate as 6.5% in annual terms, corresponding to the previous UF + 3.5%, which is consistent with a real interest rate of 3.5% and expected inflation of 3% yoy. (July 26)
- **Unemployment rate of 9.7% in April-June quarter** - The National Institute of Statistics (INE) informed the unemployment rate reached 9.7% of the labor force during the April-June 2001 quarter. This figure corresponds to an increase of 0.1% with respect to the previous quarter (March-May 2001), and a 0.3% more than the same period in the year 2000. Labor force increased 0.31% (18,000 people) from the previous quarter, while unemployed people increased in 1.38% (7,690 people). (July 27)



### LATEST DATA RELEASES

#### July 27

- Industrial production  
June: 152.5 (+6.3% yoy)
- Industrial sales  
June: 156.0 (+13.6% yoy)
- Initiated construction  
June: 546,907m2 (-22.9% yoy)
- Mining production  
June: 246.6 (+5.2% yoy)
- Copper production  
June: 380,194tn (+7.5% yoy)
- Real supermarket sales  
June: 230.61 (+11.0% yoy)
- Electric Power Production  
June: 3,392GWh (+3.8% yoy)
- Employment  
April-June: 5,257.3m (-1.7% yoy)
- Unemployment rate  
April-June: 9.7%

#### July 23

- IMACEC  
May: 254.9 (+2.4% yoy)
- Exports FOB  
June: US\$1.43bn (+12.6% yoy)
- Imports FOB  
June: US\$1.38bn (+3.7% yoy)
- Trade Balance (12mo. Accum.)  
June: US\$ 1.65bn

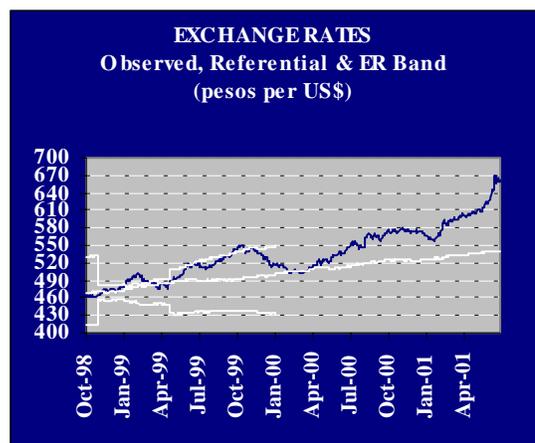
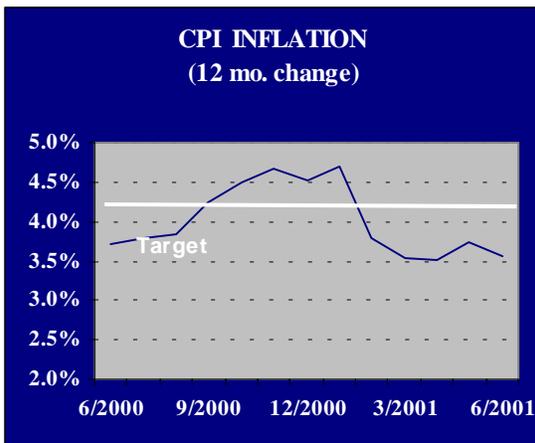
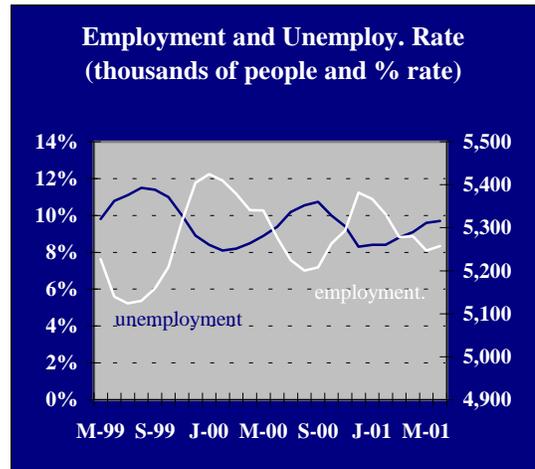
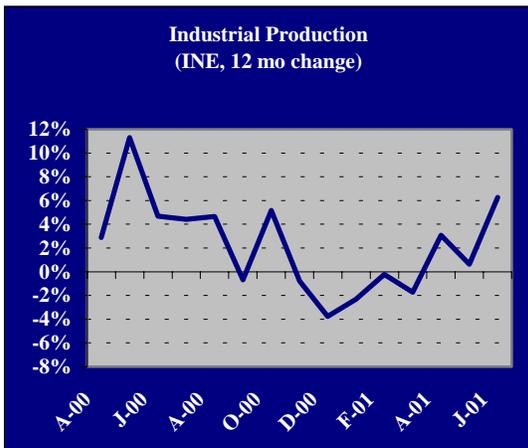
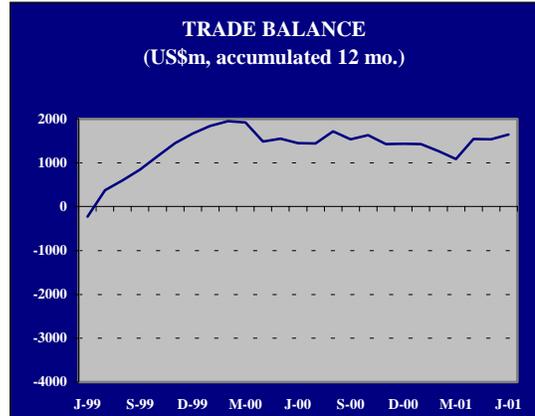
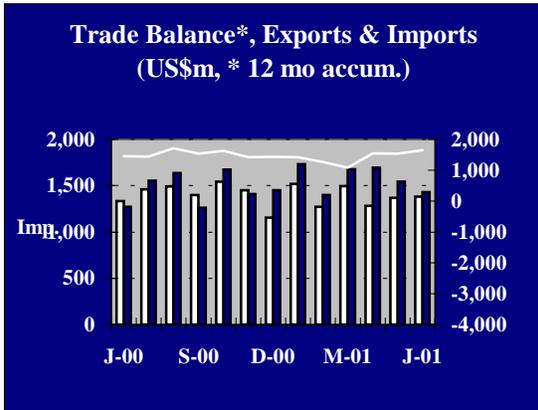
#### July 4

- CPI index  
June: 108.50 (+3.6% yoy)
- WPI index  
June: 176.67 (+8.5% yoy)
- Hourly wage index (nominal)  
June: 213.55 (+5.4% yoy)
- Labor cost index (nominal)  
May: 203.62 (+4.7% yoy)

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## MACROECONOMIC DATA

The monthly indicator of economic activity (IMACEC) rose to 2.4% in May. May industrial production increased 6.3%, while industrial sales increased 13.6% yoy. Unemployment reached 9.7% in the April-June quarter. June imports increased 3.7% yoy, reaching the total amount of US\$ 1.38 billion, and exports increased 12.6% yoy, amounting to US\$ 1.43 billion. June's trade balance had a surplus of US\$ 48.4 million.



## SUMMARY TABLE OF MONTHLY INDICATORS

	1996	1997	1998	1999	4/2000	5/2000	6/2000	7/2000	4/2001	5/2001	6/2001	7/2001
<b>OUTPUT AND DEMAND</b>												
Indicator of Economic Activity IMACEC (12 mo. change*)	7.4%	7.6%	3.4%	-0.8%	6.3%	7.0%	4.6%	7.5%	2.6%	2.4%	n/a	n/a
Industrial Production (12 mo. change*)	2.4%	4.0%	-1.1%	-1.3%	2.9%	11.3%	4.7%	4.4%	3.1%	0.6%	6.3%	n/a
Industrial Sales (12 mo. change*)	2.9%	4.5%	-1.5%	-1.2%	5.7%	3.1%	0.0%	1.2%	4.1%	8.7%	13.6%	n/a
Mining Production (12 mo. change*)	22.3%	10.3%	5.7%	16.0%	11.6%	3.0%	2.8%	11.5%	-4.1%	3.4%	5.2%	n/a
Unemployment Rate	6.5%	6.1%	6.2%	9.7%	8.5%	8.9%	9.4%	10.2%	9.1%	9.6%	9.7%	n/a
Employment (12 mo. change)	1.4%	2.1%	1.8%	-2.1%	0.8%	2.2%	2.7%	2.0%	-1.1%	-1.7%	-0.4%	n/a
<b>FOREIGN TRADE AND INVESTMENT</b>												
Exports FOB (US\$m)	15,404.8	16,923.4	14,826.1	15,615.6	1,316.1	1,752.7	1,269.1	1,551.9	1,692.8	1,541.4	1,428.4	n/a
Import FOB (US\$m)	16,499.8	18,217.9	17,390.3	13,951.2	1,363.6	1,566.0	1,331.2	1,458.1	1,280.0	1,365.1	1,380.0	n/a
Trade Balance (US\$m)	-1,095.0	-1,294.5	-2,564.2	1,664.4	-47.5	186.7	-62.1	93.8	412.8	176.3	48.4	n/a
Trade Balance (US\$m, 12mo. accum.)	-1,095.0	-1,294.5	-2,564.2	1,664.4	1,484.3	1,546.4	1,450.9	1,440.6	1,545.7	1,535.3	1,645.8	n/a
Direct Investment from Abroad (US\$m, year to date)	4,633.1	5,219.1	4,638.3	9,220.8	818.0	1,065.7	1,606.5	1,779.0	6,416.1	6,501.2	6,930.6	n/a
Portfolio Investment from Abroad (US\$m, year to date)	1,229.8	2,602.3	590.1	2,496.1	-430.2	-462.7	-496.7	-498.1	268.4	249.0	186.3	n/a
<b>MONEY, INTEREST AND PRICES</b>												
CPI Inflation Rate (12 mo. change)	6.6%	6.0%	4.7%	2.3%	3.5%	3.6%	3.7%	3.8%	3.5%	3.7%	3.6%	n/a
Real Wages (12 mo. change)	2.7%	1.3%	2.9%	2.4%	1.6%	1.4%	1.0%	1.2%	1.7%	1.6%	n/a	n/a
Exchange Rate (observed, \$/US\$)	412.27	419.31	460.29	508.78	508.10	521.66	529.74	542.75	598.63	604.48	616.07	646.49 **
Exchange Rate Gap (observed-referential)	-8.6%	-9.8%	-2.3%	4.5%	0.0%	1.7%	3.7%	5.7%	12.3%	12.9%	14.4%	19.7% **
Real Exchange Rate (12 mo. change)	-5.3%	-8.3%	1.0%	7.9%	3.8%	3.8%	5.3%	4.2%	11.9%	12.0%	n/a	n/a
Real Private Money M1A (12 mo. change)	5.6%	13.2%	-12.3%	17.2%	6.4%	3.3%	1.8%	2.8%	14.1%	13.3%	16.8%	n/a
Central Bank Overnight Target (real rate)	7.50	6.50	7.80	5.00	5.50	5.50	5.50	5.50	3.75	3.75	3.50	3.50
Interbank Lending (real rate)	6.72	7.00	12.95	5.72	5.54	5.50	5.47	5.47	3.86	3.80	3.58	3.46
90 day Central Bank Paper (real rate)	7.25	6.79	9.57	5.99	5.59	5.81	5.78	5.60	3.72	3.60	3.57	3.61
8 Year Central Bank Bond (real rate)	6.32	6.46	7.48	5.96	6.51	6.65	6.55	6.34	5.00	5.06	5.08	5.11
Sovereign Spread *** (Bid, bp over US Treasury)	-	-	-	-	-	-	-	-	169	165	170	161
IPSA Return (in US\$, year to date)	-15.5%	9.2%	-28.2%	28.4%	4.5%	2.9%	0.2%	-2.8%	-13.7%	-7.0%	-8.4%	-14.6%
<b>DEBT AND RESERVES</b>												
Net Reserves (US\$m)	15,474	17,841	15,992	14,710	14,338	14,687	14,597	14,578	14,329	14,422	14,295	14,348
Liquidity Ratio (Net reserves / M2)	61.8%	60.5%	52.1%	49.4%	45.2%	46.9%	47.0%	47.7%	48.0%	48.7%	48.5%	50.2%
Total External Debt (US\$m)	22,979	26,701	31,691	33,984	34,845	34,991	35,049	35,256	37,334	37,205	n/a	n/a
Total External Debt (as % of 12 mo. accum. exports)	149%	158%	214%	218%	212%	207%	207%	204%	202%	203%	n/a	n/a
Short-term Debt (as % of total debt)	19.4%	13.5%	12.5%	11.5%	12.0%	12.4%	13.6%	13.7%	18.0%	17.1%	n/a	n/a
Public Debt (as % of total debt)	22.5%	19.1%	18.0%	17.1%	16.7%	16.5%	16.3%	16.0%	14.8%	14.6%	n/a	n/a
Financial System non-performing Loans (as % of total)	0.95%	0.97%	1.45%	1.67%	1.84%	1.88%	1.93%	1.93%	1.93%	1.91%	1.89%	n/a
Financial System Capital Adequacy Ratio (in %)	n/a	n/a	12.48%	13.50%	13.21%	13.23%	13.25%	13.39%	13.67%	13.13%	12.92%	n/a

Notes: All interest rates are monthly averages of daily rates, except for Central Bank Target, which refers to month end. IPSA Return does not include dividends. (\*) Yearly data are averages. (\*\*) July 27, 2001. (\*\*\*) Chile 09.

Sources: Chilean Central Bank, Instituto Nacional de Estadísticas (INE), Superintendencia de Bancos e Instituciones Financieras, Bolsa de Comercio de Santiago.