

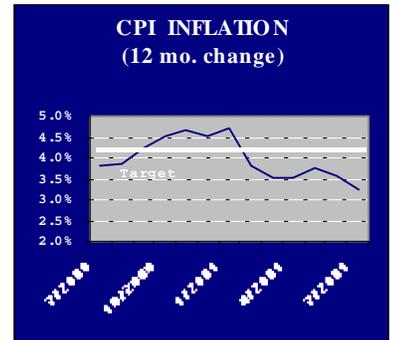


CHILE

BIWEEKLY ECONOMIC REPORT

NEWS

- IMF's Article 4th Consultation** – The IMF's Executive Board finished the analysis of the Staff Report about Chile, pointing out the trend of sound economic policies resulting in high and sustained economic growth and gradually lower inflation rates during the 1990s, as well as the important reduction in poverty levels. The Staff Report projects a growth rate of 4% and inflation of 3% yoy, with a current account deficit of 2% of GDP for the year 2001. The Board agrees with the general approach of the economic policy implemented during the current year, noting that Chile has not been affected in a significant extent by the performance of other emerging markets, given the sound fundamentals of the Chilean economy. In the medium term, the Board considers that growth will be reinforced by prudent economic policies, and by recent structural reforms including the liberalization of the capital account and tariff reductions. In addition, the level of external reserves, the soundness of the banking system, the credibility of economic policies, as well as the floating exchange regime, situate the country in a good position to manage adverse changes in the international economy. Complete information in www.hacienda.cl (July 27)
- Capital Market Reforms** –The Government modified the bill related to tax issues considered in the capital market, in order to extend the capital gain exemption to mutual funds and investment funds with underlying assets corresponding in a 90% to highly traded securities. In this same regard, the Superintendent of Banks, Enrique Marshall, informed that the modifications to the banking law considered in the capital market reform, were sent to the Lower House after passing through the Finance Committee in the Senate. Among the changes, Marshall pointed out the reduction of the minimum capital required to form a new bank, moved from UF 800,000 to UF 400,000. However, in order to maintain the soundness of the banking system, banks with equity level under UF 800,000 must have a larger Basle ratio (currently 8%), corresponding to 12% for capital in the range of UF 400,000-600,000 and 10% for the range of UF 600,000-800,000. On the other hand, Marshall explained the regulatory agency is going to request information from the holding company controlling the bank (according to the definition in the Security Market Law), in order to determine the solvency and overall risks affecting the financial institution. See www.hacienda.cl (August 03)
- Sales of New Houses Increase 53% yoy**– The Chilean Chamber of Construction informed that during the first half of the year 2001, sales of new houses in Santiago increased 53% compared to the same period in the previous year. Until June a total of 5,695 new houses were sold in Santiago, corresponding to 1,970 more units than in the first semester of the year 2000. The president of the Chilean Chamber of Construction, Juan Ignacio Silva, pointed out that the quarter April-June was the most dynamic in the last 4 years. (July 31)
- Evaluation of Public Programs** – The Government informed about the results from the evaluation of 18 public programs, corresponding to US\$350 million in the year 2001. The report gives conclusions about the results of each program, as well as recommendations for its improvement. The evaluations follow the same methodology used by the World Bank and IDB, and their implementation corresponds to independent groups with a technical counterpart from the government agency managing the program. (August 02)
- Consumer price index rose 3.2% in July** – The National Bureau of Statistics (INE) reported that the consumer price index decreased 0.2% in July, registering a growth rate of 3.2% yoy. In terms of sectors, as in the previous month Transport presented the largest reduction (-1.1%) as a result of lower gasoline prices, followed by Clothing (-0.9%) because of seasonal sales. On the other hand, the core index grew 3.1% yoy, after increasing 0.3% in July. (August 03)
- CORFO's Guarantee for exporters** – The credit guarantee recently created by CORFO for small and medium exporter companies, will be considered -by the Superintendencia de Banks- as a real collateral for loans received from banks. This way, banks will be able to reduce provisions for this kind of loans, facilitating the access to external funds for SME in the exporter sector. The guarantee covers up to 40% of the banking loans, and is available for companies with annual sales below US\$ 10 million. (August 06)
- Senate approves Personal Income Tax Cut bill** – The bill was approved by the Senate and sent to the Lower House to complete its last step in the Congress. (August 07)



LATEST DATA RELEASES

August 7

- Exports FOB
July: US\$0.64bn (-58.5% yoy)
- Imports FOB
July: US\$0.48bn (-66.8% yoy)
- Trade Balance (12mo. Accum.)
July: US\$ 1.71bn

August 3

- CPI index
July: 108.29 (+3.2% yoy)
- WPI index
July: 178.24 (+7.4% yoy)
- Hourly wage index (nominal)
June: 214.92 (+5.6% yoy)
- Labor cost index (nominal)
June: 204.94 (+5.3% yoy)

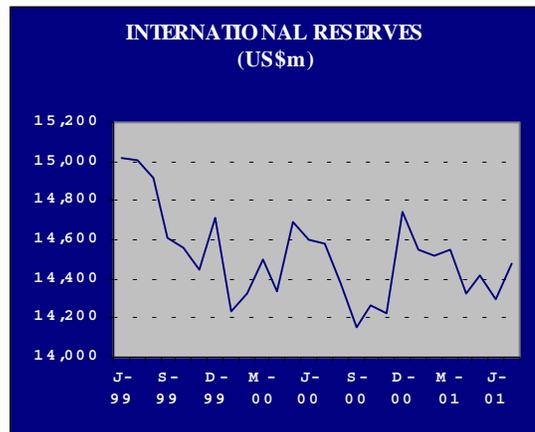
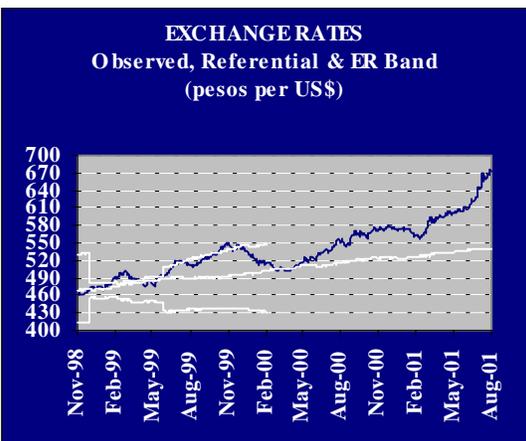
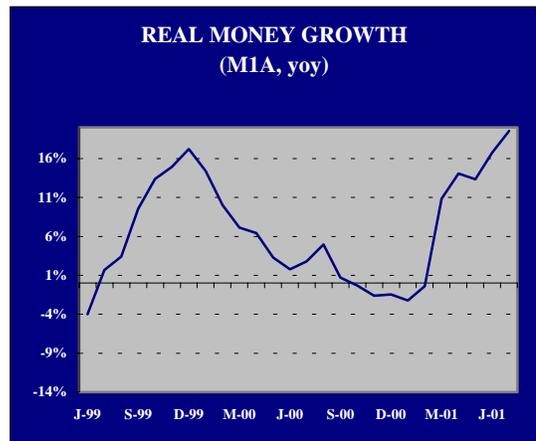
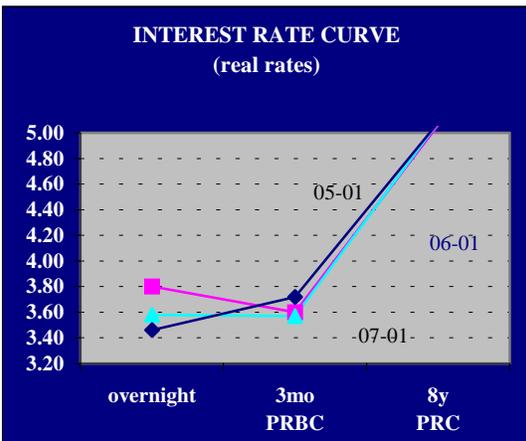
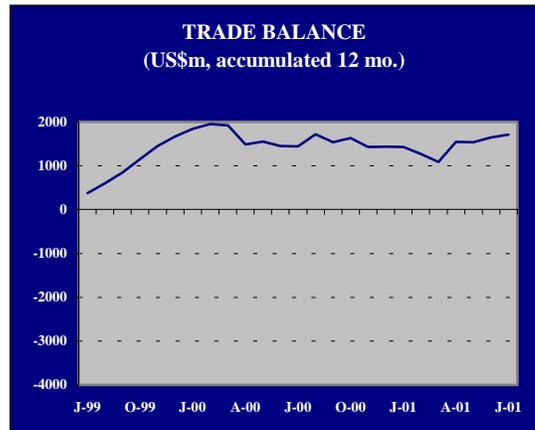
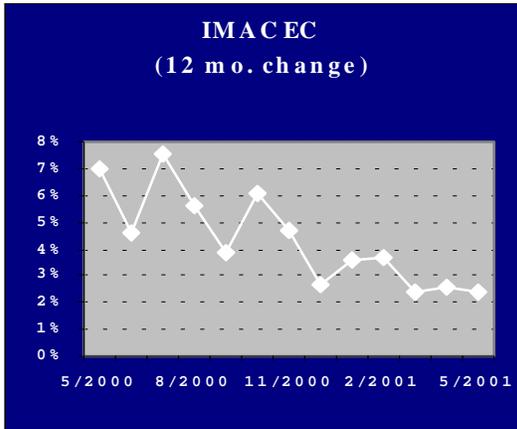
July 27

- 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%

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MACROECONOMIC DATA

Annualized CPI inflation was 3.2% after consumer prices decreased 0.2% in July. Core inflation (which excludes fruit, fresh vegetables and fuels) reached an annualized rate of 3.1%. In the first half of July, there was a surplus in the trade balance of US\$ 159.4m resulting from exports of US\$ 644.1m and imports of US\$ 484.7m. Net reserves increased US\$ 178.1m in July to a total of US\$ 14.5bn. Real private money as measured by M1A, a leading indicator for private demand, increased 19.6% yoy in July.



SUMMARY TABLE OF MONTHLY INDICATORS

	1996	1997	1998	1999	5/2000	6/2000	7/2000	8/2000	5/2001	6/2001	7/2001	8/2001
OUTPUT AND DEMAND												
Indicator of Economic Activity IMACEC (12 mo.change*)	7.4%	7.6%	3.4%	-0.8%	7.0%	4.6%	7.5%	5.6%	2.4%	n/a	n/a	n/a
Industrial Production (12 mo. change*)	2.4%	4.0%	-1.1%	-1.3%	11.3%	4.7%	4.4%	4.7%	0.6%	6.3%	n/a	n/a
Industrial Sales (12 mo. change*)	2.9%	4.5%	-1.5%	-1.2%	3.1%	0.0%	1.2%	7.3%	8.7%	13.6%	n/a	n/a
Mining Production (12 mo. change*)	22.3%	10.3%	5.7%	16.0%	3.0%	2.8%	11.5%	0.6%	3.4%	5.2%	n/a	n/a
Unemployment Rate	6.5%	6.1%	6.2%	9.7%	8.9%	9.4%	10.2%	10.6%	9.6%	9.7%	n/a	n/a
Employment (12 mo. change)	1.4%	2.1%	1.8%	-2.1%	2.2%	2.7%	2.0%	1.4%	-1.7%	-0.4%	n/a	n/a
FOREIGN TRADE AND INVESTMENT												
Exports FOB (US\$m)	15,404.8	16,923.4	14,826.1	15,615.6	1,752.7	1,269.1	1,551.9	1,635.3	1,541.4	1,428.4	644.1	n/a
Import FOB (US\$m)	16,499.8	18,217.9	17,390.3	13,951.2	1,566.0	1,331.2	1,458.1	1,490.5	1,365.1	1,380.0	484.7	n/a
Trade Balance (US\$m)	-1,095.0	-1,294.5	-2,564.2	1,664.4	186.7	-62.1	93.8	144.8	176.3	48.4	159.4	n/a
Trade Balance (US\$m, 12mo. accum.)	-1,095.0	-1,294.5	-2,564.2	1,664.4	1,546.4	1,450.9	1,440.6	1,714.5	1,535.3	1,645.8	1,711.4	n/a
Direct Investment from Abroad (US\$m, year to date)	4,633.10	5,219.10	4,638.30	9,220.80	1,065.70	1,606.50	1,779.00	1,923.00	6,501.20	6,930.60	n/a	n/a
Portfolio Investment from Abroad (US\$m, year to date)	1,229.80	2,602.30	590.10	2,496.10	-462.70	-496.70	-498.10	-193.30	249.00	186.30	n/a	n/a
MONEY, INTEREST AND PRICES												
CPI Inflation Rate (12 mo. change)	6.6%	6.0%	4.7%	2.3%	3.6%	3.7%	3.8%	3.9%	3.7%	3.6%	3.2%	n/a
Real Wages (12 mo. change)	2.7%	1.3%	2.9%	2.4%	1.4%	1.0%	1.2%	1.7%	1.6%	1.9%	n/a	n/a
Exchange Rate (observed, \$/US\$)	412.27	419.31	460.29	508.78	521.66	529.74	542.75	550.99	604.48	616.07	656.46	n/a**
Exchange Rate Breach (observed-referential)	-8.6%	-9.8%	-2.3%	4.5%	1.7%	3.7%	5.7%	6.5%	12.9%	14.4%	21.7%	n/a**
Real Exchange Rate (12 mo. change)	-5.3%	-8.3%	1.0%	7.9%	3.8%	5.3%	4.2%	2.6%	12.0%	8.2%	n/a	n/a
Real Private Money M1A (12 mo. change)	5.6%	13.2%	-12.3%	17.2%	3.3%	1.8%	2.8%	5.0%	13.3%	16.8%	19.6%	n/a
Central Bank Overnight Target (real rate)	7.50	6.50	7.80	5.00	5.50	5.50	5.50	5.43	3.75	3.50	3.50	3.50**
Interbank Lending (real rate)	6.72	7.00	12.95	5.72	5.50	5.47	5.47	5.40	3.80	3.58	3.46	1.88**
90 day Central Bank Paper (real rate)	7.25	6.79	9.57	5.99	5.81	5.78	5.60	5.44	3.60	3.57	3.72	n/a
8 Year Central Bank Bond (real rate)	6.32	6.46	7.48	5.96	6.65	6.55	6.34	6.17	5.06	5.08	5.08	n/a
Sovereign Spread *** (Bid, bp over US Treasury)	-	-	-	153	-	-	-	-	165	170	161	165**
IPSA Return (in US\$, year to date)	-15.5%	9.2%	-28.2%	28.4%	2.9%	0.2%	-2.8%	-3.5%	-7.0%	-8.4%	-14.6%	-13.1%
DEBT AND RESERVES												
Net Reserves (US\$m)	15,474	17,841	15,992	14,710	14,687	14,597	14,578	14,379	14,422	14,295	14,473	n/a
Liquidity Ratio (Net reserves / M2)	61.8%	60.5%	52.1%	49.4%	46.9%	47.0%	47.7%	48.2%	48.7%	48.5%	52.1%	n/a
Total External Debt (US\$m)	22,979	26,701	31,691	33,984	34,991	35,049	35,256	35,716	37,205	37,025	n/a	n/a
Total External Debt (as % of 12 mo. accum. exports)	149%	158%	214%	218%	207%	207%	204%	201%	203%	201%	n/a	n/a
Short-term Debt (as % of total debt)	19.4%	13.5%	12.5%	11.5%	12.4%	13.6%	13.7%	13.9%	17.1%	17.0%	n/a	n/a
Public Debt (as % of total debt)	22.5%	19.1%	18.0%	17.1%	16.5%	16.3%	16.0%	15.7%	14.6%	14.4%	n/a	n/a
Financial System non-performing Loans (as % of total)	0.95%	0.97%	1.45%	1.67%	1.88%	1.93%	1.93%	1.89%	1.91%	1.89%	n/a	n/a
Financial System Capital Adequacy Ratio (in %)	n/a	n/a	12.48%	13.50%	13.23%	13.25%	13.39%	13.16%	13.13%	12.92%	n/a	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. (**) As of August 07.

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