PROSPECTUS SUPPLEMENT
(To Prospectus Dated October 4, 2001)

US $650,000,000

Republic of Chile

7.125% Bonds due 2012

The bonds will bear interest at the rate of 7.125% per year. Interest on the bonds is payable on January 11 and July 11 of each year, beginning on July 11, 2002. The bonds will mature on January 11, 2012. The bonds are not redeemable prior to maturity.

Chile has applied to list the bonds on the Luxembourg Stock Exchange.

Neither the Securities and Exchange Commission nor any state securities commission or regulatory body has approved or disapproved of the bonds or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Bond	Total
Public Offering Price(1)	99.236%	$645,034,000
Underwriting Discount	0.35%	$ 2,275,000
Proceeds to Chile (before expenses)	98.886%	$642,759,000

(1) Plus accrued interest from October 16, 2001, if settlement occurs after that date.

Interest on the bonds will accrue from October 16, 2001. The underwriters expect to deliver the bonds to purchasers on or about October 16, 2001.

Joint Lead Managers & Bookrunners

JPMorgan **Salomon Smith Barney**

Co-Managers

Merrill Lynch & Co. **UBS Warburg**

October 11, 2001

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Chile has not authorized anyone to provide you with different information. Chile is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates indicated on their covers.

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Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement supplements the accompanying prospectus dated October 4, 2001, relating to Chile's debt securities and warrants. If the information in this prospectus supplement differs from the information contained in the accompanying prospectus, you should rely on the updated information in this prospectus supplement.

You should read this prospectus supplement along with the accompanying prospectus. Both documents contain information you should consider when making your investment decision. You should rely only on the information provided in this prospectus supplement and the accompanying prospectus. Chile has not authorized anyone else to provide you with different information. Chile and the underwriters are offering to sell the bonds and seeking offers to buy the bonds only in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of their respective dates.

Chile is furnishing this prospectus supplement and the accompanying prospectus solely for use by prospective investors in connection with their consideration of a purchase of the bonds. Chile confirms that:

- the information contained in this prospectus supplement and the accompanying prospectus is true and correct in all material respects and is not misleading as of its date;
- it has not omitted facts, the omission of which makes this prospectus supplement and the accompanying prospectus as a whole misleading; and
- it accepts responsibility for the information it has provided in this prospectus supplement and the accompanying prospectus.

SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that you should consider before investing in the bonds. You should read the entire prospectus supplement and prospectus carefully.

Issuer	The Republic of Chile.
Aggregate Principal Amount............	U.S. $650,000,000.
Issue Price	99.236% plus accrued interest, if any.
Maturity Date	January 11, 2012.
Form of Securities.............................	Chile will issue the bonds in the form of one or more registered global securities without coupons. Chile will not issue any bonds in bearer form.
Denominations	Chile will issue the bonds in denominations of $1,000 and integral multiples of $1,000.
Interest..	The bonds will bear interest from October 16, 2001 at the rate of 7.125% per year. Chile will pay you interest semi-annually in arrears on January 11 and July 11 of each year, commencing on July 11, 2002.
Redemption...	Chile may not redeem the bonds before maturity. At maturity, Chile will redeem the bonds at par.
Status	The bonds will be direct, general, unconditional, unsecured and unsubordinated external indebtedness of Chile and will be backed by the full faith and credit of Chile. The bonds will rank equal in right of payment with all of Chile's present and future unsecured and unsubordinated external indebtedness.
Withholding Tax and Additional Amounts..	Chile will make all payments on the bonds without withholding or deducting any taxes imposed by Chile, subject to certain specified exceptions. For more information, see "Description of the Securities—Debt Securities— Additional Amounts" on page 92 of the accompanying prospectus.
Further Issues	Chile may from time to time, without your consent, increase the size of the issue of the bonds, or issue additional debt securities that may be consolidated and form a single series with the outstanding bonds.
Listing..	Chile has applied to list the bonds on the Luxembourg Stock Exchange.
Governing Law......................................	New York.

USE OF PROCEEDS

Chile will use the net proceeds from the sale of bonds offered by this prospectus supplement for the general purposes of the government, including financial investment and the refinancing, repurchase or retiring of domestic and external indebtedness.

RECENT DEVELOPMENTS

The information included in this section supplements the information about Chile, corresponding to the headings below, that is contained in the prospectus. To the extent that the information included in this section differs from the information in the prospectus, you should rely on the information in this section.

International Developments

During 2001, the Chilean economy has faced an adverse international environment which has lessened Chile's growth, despite government intervention through new macroeconomic policies. Despite the negative trends exhibited by the global economy, including the slowdown in the U.S. economy, Chile has maintained positive economic performance and strong fundamentals.

The global economic slowdown has contributed to lower commodities prices, a key factor in Chilean economic performance. The price of copper, the most important Chilean export, was at historically low levels during the third quarter of 2001. The Chilean economy has also been adversely affected by falling prices and a decrease in the growth rate of export volumes due to weaker external demand. In addition, as in other emerging market economies, foreign capital flows have diminished.

In response, the Chilean economic authorities have undertaken several policies, including maintaining an expansive fiscal policy in line with its structural fiscal balance policy and a series of interest rate cuts by the Central Bank totaling 150 basis points as of the end of September. Depreciation in Chile's real exchange rate has had a mitigating positive influence on exports, which grew 9% during the first half of 2001, with 18% growth in non-traditional exports.

Chile is not able to predict long-term economic impact that may result from the terrorist attacks on the U.S. on September 11, 2001 or any potential military response by the U.S., but these events are likely to prolong and exacerbate the overall weakness in the global economic situation. Uncertainty regarding the future direction of the U.S. economy and the impact on the global economy of a potential U.S. military response has generated a trend of reallocation of portfolio assets to investments perceived to carry less risk. Some industries, particularly airlines and tourism, have been immediately impacted, and there is some possibility that consumer demand will be negatively affected, which would put further pressure on consumer confidence and commodities prices, including Chilean exports.

In addition to any direct effects on the Chilean economy of the kind described above, the financial crises in Argentina and Turkey carry the additional potential threat of "contagion," where an entire region or class of investment is treated similarly by international investors despite dissimilar circumstances. However, spreads on Chilean bonds, interest rates and the Santiago Stock Market Index (IPSA) have all remained stable and have shown little correlation with similar indicators in other countries similarly susceptible to these crises.

2002 Budget

On September 30, 2001, the Chilean government sent to Congress the budget law for government and public sector agencies for the 2002 fiscal year. Projections in the 2002 budget include a central government deficit of 0.3% of gross domestic product (GDP).

Total central government expenditures are estimated at 24.5% of GDP in 2002, with current expenditures representing 20.0% of GDP and capital expenditures of 4.5%. The government expects growth in total expenditures as contemplated in the 2002 budget to be 5.2% and growth in total revenues to be 4.8% (in each case based on the government's most recent estimates of the same figures for 2001). A 6.4% increase in social expenditures is projected for 2002. Current government expenditures are projected to grow at a rate of 4.3% in 2002.

The budget for 2002 is consistent with a 1% structural surplus target and assumes an output gap of 3% and a long-term copper price of 90 cents per pound. The projections also assume a slowdown and possible recession in the U.S. economy, followed by recovery by the second half of 2002, resulting in an initial decrease in Chilean exports followed by a recovery in the second half of 2002.

If the U.S. slowdown is more prolonged than expected, the government believes that domestic demand would nevertheless be able to maintain a positive growth rate in 2002, based on the behavior of key leading indicators, particularly real money growth (M1), increased real wages that are expected to enhance consumption and the apparent end of investment adjustments that the economy has faced so far in 2001.

The main assumptions used in preparing the 2002 budget were real GDP growth of 4.5% and a copper price of 78 cents per pound for the year.

The following table sets forth estimated central government expenditures for 2002.

Central Government
(in millions of US$)

	2002 Budget Law (1)	Percentage Growth (2)
Current Expenditures	US$12,913	4.3%
Capital Expenditures	2,883	9.1%
Total Expenditures	US$15,796	5.2%
Social Expenditures	US$10,704	6.4%
Other Expenditures	5,092	2.8%
Total Expenditures	US$15,796	5.2%
Expenditures With Macroeconomic Impact (3)	*US$14,810*	*4.9%*

(1) Calculated using an exchange rate of 680 pesos per U.S. dollar.
(2) Percent change from 2001. Calculated on the basis of constant pesos of 2001.
(3) Excludes interest payments, payments on past-service recognition bonds and the purchases of financial assets.
Source: Budget Office.

DESCRIPTION OF THE BONDS

Chile will issue the bonds under an amended and restated fiscal agency agreement, dated as of October 16, 2001, between Chile and The Chase Manhattan Bank, as fiscal agent. The information contained in this section summarizes the principal terms of the bonds. The prospectus to which this prospectus supplement is attached contains a summary of the fiscal agency agreement and other general terms of the bonds. You should review the information contained herein and in the accompanying prospectus. You should also read the fiscal agency agreement and the form of the bonds before making your investment decision. Chile has filed a copy of a form of fiscal agency agreement with the SEC and has made copies available at the offices of the fiscal agent and the paying agents.

General Terms of the Bonds

The bonds will:

- be issued on or about October 16, 2001 in a principal amount of US$650,000,000;
- mature at par on January 11, 2012;
- be issued in denominations of US$1,000 and integral multiples of US$1,000;
- bear interest at 7.125% per year, accruing from October 16, 2001;
- pay interest in U.S. dollars on January 11 and July 11 of each year, commencing on July 11, 2002. Interest will be computed on the basis of a 360-day year of twelve 30-day months;
- pay interest to persons in whose names the bonds are registered at the close of business on December 26 or June 26, as the case may be, preceding each payment date;
- constitute direct, general, unconditional, unsecured and unsubordinated external indebtedness of Chile backed by the full faith and credit of Chile;
- be equal in right of payment with all of Chile's present and future unsecured and unsubordinated external indebtedness;
- be represented by one or more global securities in fully registered form only, without coupons;
- be registered in the name of a nominee of The Depository Trust Company, known as DTC, and recorded on, and transferred through, the records maintained by DTC and its participants, including the depositaries for Euroclear Bank S.A./N.V., as operator of the Euroclear Clearance System plc, and Clearstream Banking, *société anonyme*;
- be available in definitive, certificated form only under certain limited circumstances; and
- not be redeemable before maturity and not be entitled to the benefit of any sinking fund.

Payments of Principal and Interest

Chile will make payments of principal of and interest on the bonds in U.S. dollars through the fiscal agent to DTC. Chile expects that payments to holders will be made in accordance with the procedures of DTC and its direct and indirect participants. Neither Chile nor the fiscal agent will have any responsibility or liability for any of the records of, or payments made by, DTC or any failure on the part of DTC in making payments to holders from the money it receives.

Paying Agents; Transfer Agents; Registrar

Until the bonds are paid, Chile will maintain a paying agent in the City of New York. Chile has initially appointed The Chase Manhattan Bank to serve as its paying agent. In addition, Chile will maintain a paying agent and a transfer agent in Luxembourg where bonds can be presented for transfer or exchange for so long as any of the bonds are listed on the Luxembourg Stock Exchange and the rules of the exchange so require. Chile has initially appointed Chase Manhattan Bank Luxembourg S.A. to serve as its Luxembourg paying agent and transfer agent. You can contact the paying agents and transfer agents at the addresses listed on the inside back cover of this prospectus supplement.

Further Issues

Chile may from time to time, without your consent, create and issue additional debt securities having the same terms and conditions as the bonds offered by this prospectus supplement (or the same except for the amount of the first interest payment). Chile may consolidate the additional debt securities to form a single series with the outstanding bonds.

Notices

Chile will publish notices to the holders of the bonds in a leading newspaper having general circulation in London, currently expected to be the *Financial Times*. Chile will also publish notices to holders in a leading newspaper having general circulation in Luxembourg while the bonds remain listed on the Luxembourg Stock Exchange and the rules of that exchange so require. Chile expects that it will make such publications in the *Luxemburger Wort*. A notice will be deemed given on the date of its first publication.

In addition to the above, Chile will mail notices to holders at their registered addresses. So long as DTC, or its nominee, is the registered holder of a global security or securities, each person owning a beneficial interest in the global security or securities must rely on the procedures of DTC to receive notices provided to DTC. Each person owning a beneficial interest in a global security or securities that is not a participant in DTC must rely on the procedures of the participant through which the person owns its interest to receive notices provided to DTC.

UNDERWRITING

J.P. Morgan Securities Inc. and Salomon Smith Barney Inc. are acting as joint lead managers of the offering, and representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated as of October 11, 2001, each underwriter named below has agreed to purchase, and Chile has agreed to sell to that underwriter, the principal amount of bonds set forth opposite the underwriter's name.

Underwriter	Principal Amount of Bonds
J.P. Morgan Securities Inc.	$292,500,000
Salomon Smith Barney Inc.	$292,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 32,500,000
UBS Warburg LLC	$ 32,500,000
Total	$650,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the bonds included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the bonds if they purchase any of the bonds.

The underwriters propose to offer some of the bonds directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the bonds to dealers at the public offering price less a concession not to exceed 0.20% of the principal amount of the bonds. The underwriters may allow, and dealers may reallow, a concession not to exceed 0.10% of the principal amount of the bonds on sales to other dealers. After the initial offering of the bonds to the public, the representatives may change the public offering price and concessions.

The following table shows the underwriting discounts and commissions that Chile is to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the bonds).

	Paid by the Republic of Chile
Per bond	0.35%

In connection with the offering, J.P. Morgan Securities Inc. and Salomon Smith Barney Inc., on behalf of the underwriters, may purchase and sell bonds in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of bonds in excess of the principal amount of bonds to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of bonds made for the purpose of preventing or retarding a decline in the market price of the bonds while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when J.P. Morgan Securities Inc. or Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchase bonds originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Chile estimates that its total expenses for this offering will be $875,000, a portion of which will be reimbursed by the underwriters.

The underwriters have performed investment banking and advisory services for Chile from time to time, for which they have received customary fees and expenses. The underwriters may engage in transactions with and perform services for Chile in the ordinary course of their business.

Chile has agreed to indemnify the underwriters against certain liabilities, including liabilities under the United States Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

The bonds are offered for sale in the United States, the Americas, Europe and Asia, in jurisdictions where it is legal to make these offers. The distribution of this prospectus supplement and the accompanying prospectus, and the offering of the bonds in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any of these restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

Each of the underwriters has specifically agreed to act as follows in each of the following places:

- it has not offered, sold or delivered, and it will not offer, sell or deliver any of the bonds, directly or indirectly, or distribute this prospectus supplement, the accompanying prospectus or any other offering material relating to the bonds, in or from any jurisdiction except under circumstances that will, to the best knowledge and belief of the underwriter, after reasonable investigation, result in compliance with the applicable laws and regulations of such jurisdiction and which will not impose any obligations on Chile except as set forth in the underwriting agreement;

- *United Kingdom.* Each underwriter has severally represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 and the Financial Services and Markets Act 2000 of Great Britain with respect to anything done by it in relation to the bonds in, from or otherwise involving the United Kingdom.

- *Japan.* Each underwriter has severally represented and agreed that it will not, without complying with the applicable Japanese laws and regulations, offer or sell any of the bonds (a) in Japan, (b) to any Japanese person (i.e, a Japanese resident, corporation or other entity organized under the laws of Japan) or (c) to anyone who plans to reoffer or resell the bonds in Japan or to any Japanese person.

- *Hong Kong.* Each underwriter has severally represented and agreed that it will not distribute this prospectus supplement or the prospectus in Hong Kong, except to persons whose business involves the buying, selling or holding of securities, unless the underwriter is a person permitted to do so under the securities laws of Hong Kong.

Neither Chile nor any of the underwriters has represented that the bonds may be lawfully sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption, or assumes any responsibility for facilitating these sales.

VALIDITY OF THE BONDS

The following persons will give opinions regarding the validity of the bonds:

- **For Chile:**
  - Cleary, Gottlieb, Steen & Hamilton, special New York counsel to Chile; and
  - Morales, Noguera, Valdivieso & Besa Ltda., special Chilean counsel to Chile.
- **For the underwriters:**
  - Shearman & Sterling, special New York counsel to the underwriters; and
  - Carey y Cia. Ltda., special Chilean counsel to the underwriters.

As to all matters of Chilean law, Cleary, Gottlieb, Steen & Hamilton may rely on, and assume the correctness of, the opinion of Morales, Noguera, Valdivieso & Besa Ltda. and Shearman & Sterling may rely on, and assume the correctness of, the opinion of Carey y Cía. Ltda.

All statements with respect to matters of Chilean law in this prospectus supplement and the prospectus have been passed upon by Morales, Noguera, Valdivieso & Besa Ltda. and Carey y Cia. Ltda.

GENERAL INFORMATION

Authorization

The Executive Power of Chile has authorized the issuance of the bonds by Supreme Decree No. 887 dated October 2, 2001. Chile has obtained, or will obtain before the issue date for the bonds, all other consents and authorizations (if any) necessary under Chilean law for (i) the issuance of the bonds and (ii) the execution of the amended and restated fiscal agency agreement.

Litigation

Neither Chile nor the Ministry of Finance of Chile is involved in any litigation or arbitration proceeding which is material in the context of the issue of the bonds. Chile is not aware of any similarly material litigation or arbitration proceeding that is pending or threatened.

Clearing

Chile has applied to have the bonds accepted into DTC's book-entry settlement system. The bonds have been accepted for clearance through the clearing systems of Euroclear System and Clearstream Banking, *société anonyme*. The securities codes are:

CUSIP	ISIN	Common Code
168863AP3	US168863AP36	013735603

Where You Can Find More Information

Chile has filed a registration statement relating to its debt securities, including the bonds offered by this prospectus supplement, and warrants with the SEC under the U.S. Securities Act of 1933. Neither this prospectus supplement nor the accompanying prospectus contain all of the information described in the registration statement. For further information, you should refer to the registration statement.

You can request copies of the registration statement, including its various exhibits, upon payment of a duplicating fee, by writing to the SEC. You may also read and copy these documents at the SEC's public reference room in Washington D.C.:

SEC Public Reference Room
Room 1024, Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information.

As long as the bonds are listed on the Luxembourg Stock Exchange, you may receive free of charge copies of the following documents on any business day at the offices of the paying agents in Luxembourg.

- the fiscal agency agreement incorporating the forms of the bonds
- English translations of the Supreme Decree; and
- copies of the most recent annual economic report of Chile (if any)

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PROSPECTUS

Republic of Chile

Debt Securities and Warrants

The Republic of Chile may from time to time offer and sell its debt securities and warrants in amounts, at prices and on terms to be determined at the time of sale and provided in one or more supplements to this prospectus. Chile may offer securities with an aggregate principal amount of up to $2,000,000,000. The debt securities will be direct, unconditional and unsecured external indebtedness of Chile. The debt securities will at all times rank at least equally with all other unsecured and unsubordinated external indebtedness of Chile. The full faith and credit of Chile will be pledged for the due and punctual payment of all principal and interest on the securities.

Chile will provide specific terms of these securities in one or more supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. This prospectus may not be used to make offers or sales of securities unless accompanied by a prospectus supplement.

Chile may sell the securities directly, through agents designated from time to time or through underwriters. The names of any agents or underwriters will be provided in the applicable prospectus supplement.

You should read this prospectus and any supplements carefully. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference in them is accurate as of any date other than the date on the front of these documents.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 4, 2001.

ABOUT THIS PROSPECTUS

This prospectus provides you with a general description of the securities Chile may offer. Each time Chile sells securities covered by this prospectus, it will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If the information in this prospectus differs from any prospectus supplement, you should rely on the information contained herein as updated by the prospectus supplement. You should read both this prospectus and the accompanying prospectus supplement, together with additional information described below under the heading "General Information—Where You Can Find More Information."

This prospectus is based on information that is publicly available or that Chile has supplied, unless otherwise expressly stated. Chile confirms that:

- the information contained in this prospectus is true and correct in all material respects and is not misleading as of its date;
- it has not omitted facts, the omission of which makes this prospectus as a whole misleading; and
- it accepts responsibility for the information it has provided in this prospectus and will provide in any prospectus supplement.

CERTAIN DEFINED TERMS AND CONVENTIONS

Exchange Rates

For your convenience, Chile has provided translations of certain amounts into U.S. dollars at the rates specified below unless otherwise indicated.

	Observed Exchange Rate(1)
At December 31, 1999	Ps.527.70 per US$1.00
Average for year ended December 31, 1999	Ps.508.78 per US$1.00
At December 31, 2000	Ps.572.68 per US$1.00
Average for year ended December 31, 2000	Ps.539.49 per US$1.00
At June 30, 2001	Ps.616.01 per US$1.00

(1) As reported by the Central Bank.

[illegible]

- *Rate of inflation or inflation rate* is measured by the December to December percentage change in the consumer price index or CPI, unless otherwise specified. The CPI is calculated on a weighted basket of consumer goods and services using a monthly averaging method. December to December rates are calculated by comparing the indices for the later December against the indices for the prior December. See "Monetary and Financial System—Inflation."

Unless otherwise indicated, all annual rates of growth are average annual compounded rates, and all financial data is presented in current prices.

This prospectus refers to the state-owned companies and institutions as indicated below:

Banco del Estado de Chile	Banco Estado
Corporación de Fomento de la Producción	Corfo
Corporación Nacional del Cobre de Chile	Codelco
Empresa Nacional de Petróleo	Enap
Empresa Nacional de Minería	Enami

FORWARD-LOOKING STATEMENTS

The following documents relating to the securities to be offered by this prospectus may contain forward-looking statements:

- this prospectus; and
- any prospectus supplement.

Forward-looking statements are statements that are not about historical facts, including statements about Chile's beliefs and expectations. These statements are based on current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. Chile undertakes no obligation to update publicly any of them in light of new information or future events, including changes in Chile's economic policy or budgeted expenditures, or to reflect the occurrence of unanticipated events.

Forward-looking statements involve inherent risks and uncertainties. Chile cautions you that a number of important factors could cause actual results to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to:

- Adverse external factors, such as high international interest rates, low copper and mineral prices and recession or low growth in Chile's trading partners. High international interest rates could increase Chile's current account deficit and budgetary expenditures. Low copper and mineral prices could decrease the government's revenues and could also negatively affect the current account deficit. Recession or low growth in Chile's trading partners could lead to fewer exports from Chile and, indirectly, lower growth in Chile.

- Adverse domestic factors, such as a decline in foreign direct and portfolio investment, increases in domestic inflation, high domestic interest rates and exchange rate volatility. Each of these factors could lead to lower growth or lower international reserves.

- Other adverse factors, such as climatic or seismic events, international or domestic hostilities and political uncertainty.

DATA DISSEMINATION

Chile is a subscriber to the International Monetary Fund's Special Data Dissemination Standard ("SDDS"), which is designed to improve the timeliness and quality of information of subscribing member countries. The SDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released or the so-called "Advance Release Calendar." For Chile, precise dates or "no-later-than-dates" for the release of data under the SDDS are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the International Monetary Fund's Dissemination Standards Bulletin Board. Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the International Monetary Fund's Dissemination Standards Bulletin Board. The Internet website is located at http://dsbb.imf.org/country/chlcats.htm. Neither Chile nor the agents acting on behalf of Chile in connection with the offer and sale of securities as contemplated in this prospectus accept any responsibility for information included on that website, and its contents are not intended to be incorporated by reference into this prospectus.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, Chile will use the net proceeds from the sale of securities offered by this prospectus for the general purposes of the government, including financial investment and the refinancing, repurchase or retiring of domestic and external indebtedness.

SUMMARY

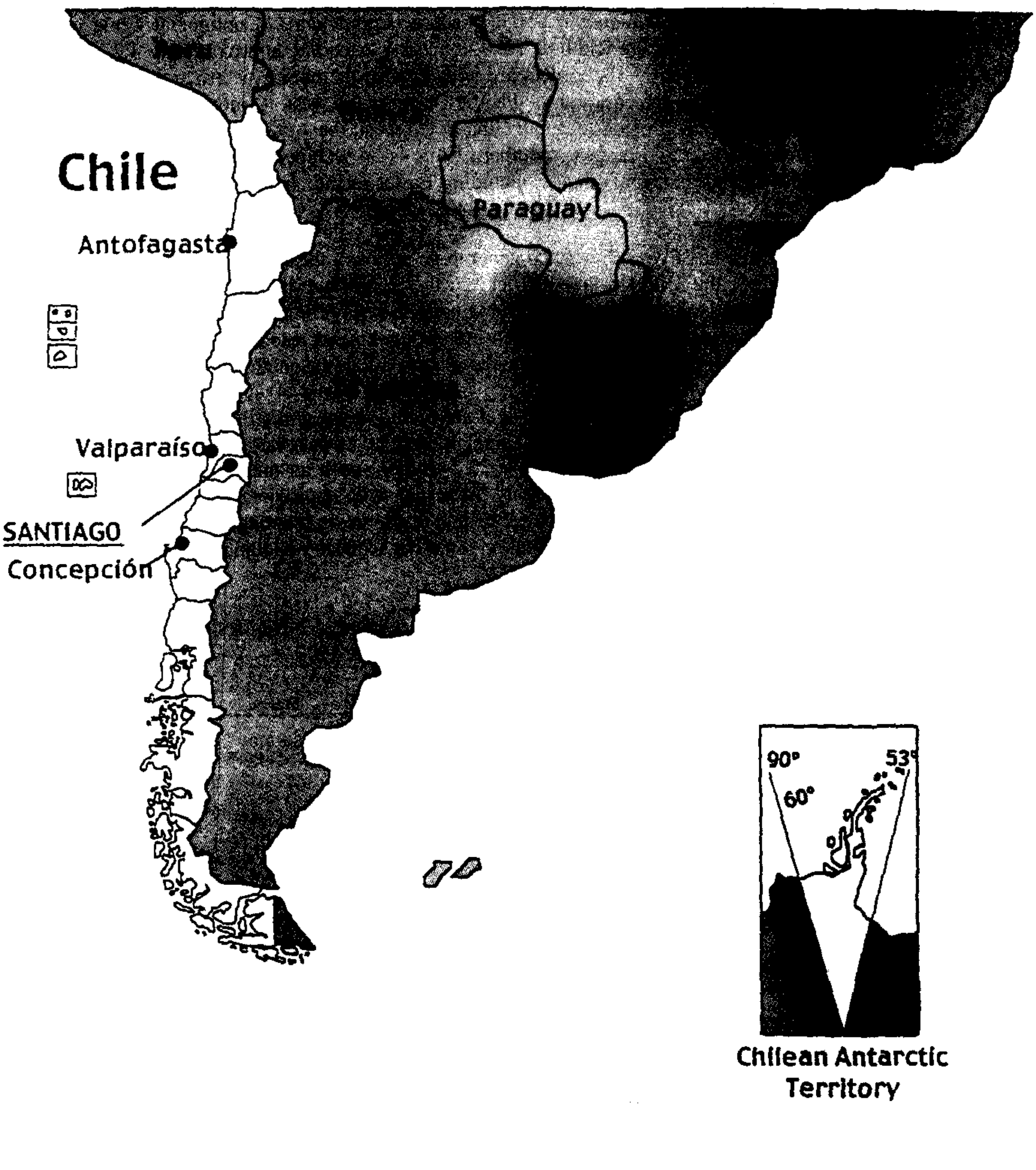
This summary highlights information contained elsewhere in this prospectus. It is not complete and may not contain all the information that you should consider before investing in the debt securities. You should read the entire prospectus and any prospectus supplement carefully.

Selected Financial Information

	1996	1997	1998	1999	2000
	(in millions of US$, except as otherwise indicated)				
THE ECONOMY					
Gross Domestic Product (GDP)(1)	US$ 68,613	US$ 75,340	US$ 73,109	US$ 67,628(5)	US$ 70,083(5)
Real GDP (in billions of constant 1986 pesos)	Ps. 7,305	Ps. 7,845	Ps. 8,153	Ps. 8,060(5)	Ps. 8,493(5)
% change from prior year	7.4%	7.4%	3.9%	(1.1)%(5)	5.4%(5)
Consumer price index (annual rate of change)	6.6%	6.0%	4.7%	2.3%	4.5%
Wholesale price index (annual rate of change)	3.1%	1.9%	0.3%	13.5%	7.9%
Unemployment rate (annual average)	6.5%	6.1%	6.2%	9.7%	9.2%
Balance of payments (in millions of US$)					
Trade balance	US$ (1,091)	US$ (1,557)	US$ (2,517)	US$ 1,664	US$ 1,436
Current account	(3,512)	(3,728)	(4,144)	(78)	(989)
Capital account (including change in reserves)	4,161	4,172	5,320	(80)	1,001
Errors and omissions	(650)	(444)	(1,176)	159	(12)
Change in Central Bank net international reserves(2) (period-end)	1,181	3,209	(2,066)	(683)	198
Central Bank net international reserves(2) (period-end)	15,474	17,841	15,992	14,710	14,741
Number of months of import coverage	11.3	11.8	11.1	12.7	10.6
PUBLIC FINANCE (in billions of US$)					
Public sector revenue(3)	US$ 16.5	US$ 17.9	US$ 17.2	US$ 15.2	US$ 16.9
% of GDP	24.0%	23.8%	23.5%	23.0%	24.1%
Public sector expenditure(3)	14.9	16.5	16.9	16.2	16.8
% of GDP	21.7%	21.9%	23.1%	24.4%	24.0%
Public sector surplus/(deficit)(3)	1.6	1.4	0.3	(1.0)	0.1
% of GDP	2.3%	2.0%	0.4%	(1.5)%	0.1%
Consolidated non-financial public sector surplus/ (deficit)	1.3	0.7	(0.6)	(1.1)	(0.4)
% of GDP	1.8%	0.9%	(0.8)%	(1.6)%	(0.6)%
PUBLIC DEBT(4) (in millions of US$)					
Public sector					
Domestic Debt	US$ 13.5	US$ 9.4	US$ 6.6	4.1	2.2
External Debt	5,163	5,088	5,714	5,827	5,522
Total	5,177	5,097	5,721	5,831	5,524
Public external debt/GDP	7.5%	6.8%	7.8%	8.6%	7.9%
Public external debt/exports	33.5%	30.5%	38.5%	37.3%	30.4%

(1) GDP in US dollars calculated by transforming the nominal GDP in pesos at the average exchange rate of each period.
(2) Gross international reserves less short-term credits.
(3) Central government.
(4) Includes short-, medium- and long-term debt of the non-financial public sector. The non-financial public sector includes the central government, municipalities and public owned enterprises, and does not include Banco Estado and the Central Bank.
(5) Preliminary.
Source: Central Bank, Budget Office and the National Statistics Institute.

MAP OF CHILE


Chile
Paraguay
Antofagasta
Valparaíso
SANTIAGO
Concepción
90°
53°
60°
Chilean Antarctic Territory

REPUBLIC OF CHILE

Area and Population

Chile covers an area of approximately 756,626 square kilometers (excluding the Antarctic Territory with an area of approximately 1,250,000 square kilometers). Continental Chile occupies a narrow strip of land, with an average width of 177 kilometers, extending approximately 4,270 kilometers along South America's west coast. Its borders are with Peru in the north, the Antarctic Territory in the south, Bolivia and Argentina in the east and the Pacific Ocean in the west. Continental Chile's geography is dominated by a range of Pacific coastal mountains in the west, the Andes Mountains in the east and a valley that lies between these two ranges. Southern Chile is an archipelago, with Cape Horn at its tip. Chile's territory also includes several islands, including Easter Island, Juan Fernandez Island and Sala y Gómez Island.

Continental Chile has five well-defined geographic regions: the northern desert, the high Andean sector, the central valley, the southern lake district and the archipelago region. Outside the urban areas, approximately 21% of the land is forested. The remainder consists primarily of agricultural areas, deserts and mountains. The northern desert region is rich in various mineral resources. The climate is dry and hot in the north, temperate in the central regions and cool and wet in the south.

Chile's population, industry and arable land are mainly concentrated in the central valley, which includes the nation's capital and largest city, Santiago, and in its two largest ports, San Antonio and Valparaíso. Chile's population is approximately 15.2 million, with an annual average growth rate of 1.4% from 1993 to 1999. Its population is highly urbanized, with approximately 86% living in cities in 2000, and approximately 40% of Chile's urban dwellers reside in the Santiago metropolitan area, which includes the city of Santiago and the surrounding region. The Chilean population has a 96% literacy rate, and Spanish is the official language.

Chile considers itself an upper-middle income economy. The following table sets forth comparative GNP figures and select other comparative statistics for 1999.

	Argentina	Brazil	Chile	Colombia	Mexico	Venezuela	United States
Per capita GNP(1)	US$11,940	US$ 6,840	US$ 8,410	US$ 5,580	US$ 8,070	US$ 5,420	US$31,910
Life expectancy (in years) ...	73	67	75	70	72	73	77
Infant mortality (as % of live births)(2)	1.9%	3.3%	1.0%	2.3%	3.0%	2.1%	0.7%
Adult literacy rate	97%	85%	96%	91%	91%	92%	97%(3)

(1) Figures are adjusted for purchasing power parity.
(2) Infant mortality per 1,000 live births.
(3) Source: CIA World Fact book.
Source: The World Bank.

Constitution, Government and Political Parties

Chile is organized as a republic and has a democratic political system based on several fundamental democratic precepts: governance based upon the rule of law, separation of powers and freedom of the press. The Chilean Constitution, approved in a national referendum in 1980 and amended in 1989, provides for a system of government composed of three parts: an executive branch headed by a President with a non-renewable six-year term, a legislative branch consisting of a two-chambered Congress, formed by a Senate and a Chamber of Deputies, and a judicial branch with a Supreme Court as its highest authority.

The Congress consists of a Senate, with 49 Senators, and a Chamber of Deputies, with 120 members. Of the 49 Senators, 38 are elected by popular vote to staggered eight-year terms and all 120 Deputies are elected to four-year terms. In addition to the 38 elected Senators, the Senate has nine ordinary "institutional" Senators, all of whom serve eight-year terms. Of these nine "institutional" Senators, three are appointed by the Supreme Court, the National Security Council appoints four and the President appoints two. The Constitution also allows past presidents who have served a full six-year term to become special "institutional" Senators for life. Former Presidents Augusto Pinochet and Eduardo Frei Ruiz-Tagle exercised this right, increasing the total number of "institutional" Senators from nine to eleven. However, as the result of a judicial proceeding, Senator Pinochet and Senator Francisco Errazuriz (from the Centrist Union or UCC) were impeached by the Supreme Court, and are therefore unable to assume their office.

There are 21 judges on the Supreme Court, who are each appointed by the President with the Senate's consent and serve until age 75.

Since its independence from Spain in 1810 until 1973 (with the exception of short intervals in the early 1800s and from 1924 to 1925 and 1931 to 1932), Chile had a democratically elected government. In September 1973, a military junta assumed power and the Commander-in-Chief of the Army, General Augusto Pinochet, became President.

Former President Patricio Aylwin, a member of the Christian Democrat Party, reinstated civilian rule when he took office for a four-year term on March 11, 1990. His election in December 1989 followed a negotiated transition from military rule that included a countrywide plebiscite in 1988, as contemplated in the 1980 Constitution. With the support of the *Concertación* coalition described below, Eduardo Frei Ruiz-Tagle, also a member of the Christian Democratic Party, was elected to the presidency in December 1993 for a six-year term and he took office on March 11, 1994. In December 1999, with the support of the *Concertación* coalition, Ricardo Lagos, a member of the Party for Democracy, was elected to the presidency for a six-year term. He took office on March 11, 2000.

The Chilean political system is primarily comprised of two major political groups, which are the center-left coalition and the center-right opposition.

- The center-left coalition, *Concertación*, includes the centrist Christian Democratic (known in Chile as the PDC) and Radical Social Democratic (PRSD) parties, as well as the moderate leftist Party for Democracy (PPD) and the Socialist Party (PS).

- The center-right coalition includes the National Renewal Party (RN) and the Independent Democratic Union (UDI).

Chile also has several other smaller parties, including a Communist Party which is not represented in either the executive branch or in Congress, but does have elected representatives in certain local governments. The Centrist Union, or UCC, is represented in Congress by one deputy and one senator. Formerly part of the Center-Right Alliance, it has run independently in the last three elections. Because voting for the Chamber of Deputies is done on a district by district basis, Deputy candidates for smaller parties may receive a majority of votes within a particular district (and therefore be elected to the Chamber of Deputies) even though the party with which they are affiliated may not receive a significant percentage of total votes on a national level.

The following tables set forth the results of the presidential elections held in 1989, 1993 and 1999, and of the congressional elections held in 1989, 1993 and 1997.

Presidential Elections

	1989	1993	1999	1999(2)
Concertación	55.2%	58.0%	48.0%	51.3%
Center-Right	29.4	30.6(1)	47.5%	48.7%
Far-Left	—	4.7	3.2%	—
Humanist and Green	—	6.7	1.0%	—
Centrist Union (UCC)	15.4	—	0.4%	—
Total	100.0%	100.0%	100.0%	100.0%

(1) Aggregate percentage represented by two center-right presidential candidates.
(2) Second round took place in January 2000.

Congressional Elections (Chamber of Deputies)

	1989	1993	1997
Concertación	51.5%	55.4%	50.5%
Center-Right	34.2	36.7	36.3
Far-Left	5.3	6.4	7.5
Humanist and Green	—	1.4	2.9
Centrist Union (UCC)	2.6	—	2.1
Others	6.4	0.1	0.7
Total	100.0%	100.0%	100.0%

The following table sets forth the composition of the Senate and Chamber of Deputies as of December 31, 2000.

Composition of Senate

Concertación	20
Center-Right	17
Institutional(1)	11
Centrist Union (UCC)	1
Total	49

Composition of Chamber of Deputies

Concertación	70
Center-Right	44
Far-Left	—
Humanist and Green	—
Centrist Union (UCC)	1
Independent(2)	5
Total	120

(1) Three institutional senators are members of Concertación.
(2) Pro Center-Right

Chile will hold the next presidential election in December 2005 and the next congressional elections for all Deputies and half of the elected Senators in December 2001.

The National Security Council, a special governmental body in Chile, advises the President of Chile on domestic and national security issues and also appoints four of the nine ordinary "institutional" Senators. The Council was created pursuant to the Constitution in 1980 and began full operations in 1989 as part of the transition to democracy. The Council is composed of eight voting members which include the President of Chile, the President of the Senate, the Chief Justice of the Supreme Court, each of the Commanders-in-Chief of the three branches of the Armed Forces, the Head of the Police Force and the General Comptroller. Non-voting members of the Council include the Ministers of the Interior, Foreign Relations, National Defense, Economy and Finance.

International and Regional Relations

Chile has had no significant regional or international conflicts in recent years. Chile is a member of or party to:

- the United Nations, as a founding member, including many of its specialized agencies;
- the Organization of American States;
- the General Agreement on Tariffs and Trade (as a founding member);
- the World Health Organization;
- the World Trade Organization;
- the International Labor Organization;
- the International Monetary Fund or IMF;
- the International Bank for Reconstruction and Development or the World Bank;
- the Inter-American Development Bank;
- the International Conference of Copper Exporting Countries; and
- the Asian Pacific Economic Cooperation forum or APEC.

Chile maintains close ties to its neighboring countries and participates in several regional arrangements designed to promote cooperation in trade, investment and services. Chile is a member of the Latin American Integration Association, a regional external trade association.

Chile entered into bilateral free trade agreements with Canada in 1997 and Mexico in 1998. As of 1996, Chile is an associate member of the Mercosur Treaty, which attempts to create a common market between Argentina, Brazil, Paraguay and Uruguay. Chile participates in the Mercosur arrangements pursuant to a free-trade agreement, but does not participate in Mercosur's common external tariff because it historically has been higher than Chile's external tariff. Mercosur members and Chile expect tariffs between them to be eliminated by 2014. In addition, Chile has entered into trade liberalization agreements with Colombia in 1993, Ecuador in 1994, Peru in 1998 and Venezuela in 1993. Chile also negotiated limited agreements with Bolivia and Cuba in 1993 and 1998, respectively. Currently, Chile and the six countries of Central America are in the final stage of completing their negotiations for a free trade agreement.

Chile is also a member of the Free Trade Area of the Americas negotiations in which 34 American countries are working to achieve a free trade area by 2005.

In 1996, Chile and the European Union signed a bilateral framework agreement liberalizing trade between the two parties. The pre-negotiation phase formally concluded in May 1998, and the European Commission approved directives for the negotiations with Chile in July 1998. Actual negotiations started in June 2000.

In December 2000, Chile and the United States agreed to negotiate a comprehensive free trade agreement, and since then seven rounds of negotiations have been held. Chile expects to conclude the negotiations by December 2001. Any treaty will be subject to ratification by the legislatures of both countries.

THE ECONOMY

History and Background

Chile is a country with rich natural resources, and its economy has been oriented historically towards the export of primary products. During the international economic crisis of the 1930s, however, the market for Chilean exports collapsed and international capital markets effectively were closed to both private and public sector Chilean borrowers. In reaction, successive governments sought to reduce Chile's dependence on foreign trade by implementing import substitution policies designed to promote domestic industries and discourage imports. The strategy was supplemented by giving the state a role in the development of some key sectors (including electricity and steel). As a result of these policies, its role in the economy expanded in the following decades.

As part of the government's efforts to liberalize Chile's economy between 1964 and 1966, the administration of President Eduardo Frei Montalva (1964 to 1970) lowered external tariffs and greatly reduced other non-administrative import barriers. In addition to these economic reforms, the administration tried to professionalize Chile's monetary policy by recruiting career economists to the Central Bank and the Ministry of Finance. Despite these more liberal economic policies, Chile's economy was still heavily regulated by the late 1960s.

The socialist government of President Salvador Allende (1970 to 1973) further increased the government's role in the economy by implementing a widespread nationalization program, deepening agrarian reform and increasing government expenditures. By 1973, inflation reached an annual rate of more than 500%, industrial output declined more than 6% and the Central Bank's foreign exchange reserves stood at slightly above US$40 million.

Following the military *coup d'etat* in 1973, the military government led by General Augusto Pinochet (1973 to 1990) introduced liberal economic reforms designed to open the economy to foreign investment, liberalize foreign trade and reduce the central government's size and influence in the economy. Although the military government was able to reduce inflation, eliminate budget deficits and initiate an economic recovery, Chile's economy continued to suffer in the early 1980s due to macroeconomic policies and a global recession that resulted in an external debt crisis. See "Public Sector Debt—Debt Service and Debt Restructuring." The government's decision to implement an austerity program and depreciate the peso contributed to a sharp recession that began in 1982 with real GDP decreasing 13.4% during that year. In 1983, real GDP further decreased 3.5% and unemployment reached a peak of 20.5% (without taking into account certain ad-hoc emergency employment programs developed by the government). However, from 1984 to 1989, these measures resulted in:

- increased exports;
- an average GDP growth of 6.7% per year;
- a 66.6% reduction in the current account deficit; and
- a steady rise in international reserves.

In 1985, the government launched a series of privatizations with the objective of broadening the base of equity owners (so-called "popular capitalism"). These economic policies and the government's expansionary monetary policy led to an approximately 22.8% increase in domestic spending for the two-year period from 1987 to 1989, which in turn led to increases in inflation. When the elected government of President Aylwin took office in 1990, it implemented a contractionary macroeconomic policy designed to correct these economic imbalances.

In December 1989, the government redefined the Central Bank as a fully autonomous agency functioning independently from the central government. At the time, the autonomous and independent status of Chile's Central Bank was unique in Latin America. The Central Bank's two main objectives are to reduce inflation and to ensure the regular flow of external and domestic payments. See "Monetary and Financial System—Role of the Central Bank." The government also undertook a deliberate effort to coordinate macroeconomic policies between the Central Bank and the Ministry of Finance.

During the 1990s, the coalition governments of President Patricio Aylwin (1990 to 1994) and President Frei (1994 to 2000), the son of the former President Eduardo Frei (1964 to 1970), sought to provide stability and economic growth to Chile. Both administrations attempted to construct a wide consensus around free-market economic principles including respect for private property, the limited role of the government in economic affairs, free trade, open and fair competition and sound fiscal policies. The government attributes economic growth during this period primarily to increases in investment as well as exports, with a focus on diversifying exports away from copper.

In 1991, the Central Bank established a one-year non-interest bearing 30% reserve requirement on sources of external financing (known as *encaje*). Following that, a gradual process of capital account liberalization began, as a way to fully integrate Chile into the international capital markets, while avoiding major disruptions that could endanger macroeconomic and financial stability during the process. All remaining restrictions on foreign exchange operations were eliminated in April 2001, including the *encaje* and the authorization requirement that was in place for a number of capital transactions. However, the requirement that payments in respect of international offerings of securities, among others, foreign exchange transactions, be made through the formal exchange market formed by the banks and other entities authorized by the Central Bank remains in place. The Central Bank is authorized by law to implement or reinstate foreign exchange controls when required.

The Central Bank's economic policies also affected net international reserves. The government defines net international reserves as Central Bank financial assets minus short-term liabilities and IMF credits. Net international reserves amounted to US$15.5 billion in 1996, US$17.8 billion in 1997, US$16.0 billion in 1998, US$14.7 billion in 1999 and US$14.7 billion in 2000. Net international reserves increased in 1997 and 1998 primarily due to large inflows of foreign direct investments and long-term capital. Accompanying this increase in international reserves, between 1995 and 1996 the Central Bank prepaid all of its public external debt and its IMF debt. See "Public Sector Debt—Debt Service and Debt Restructuring."

After a decade of autonomous action by the Central Bank, including the setting of explicit inflation targets, inflation gradually tended to decrease in the period 1990 to 2000, from 27.3% in 1990 to 4.5% in 2000, consistent with the current Central Bank medium term target of 3%, with a range of 2-4% per year.

With respect to public finance management, budgetary discipline has provided a basis for economic growth and for consistent fiscal surpluses since 1988, interrupted only in 1999 as a result of the fall in revenue resulting from the Asian crisis, and resumed in 2000. The current administration has reaffirmed its commitment to budgetary discipline by setting a goal of achieving a structural surplus equal to 1% of GDP each year. See "Public Sector Finances—The New Framework for Formulation of Fiscal Policy."

Between 1990 and 2000, GDP grew at an average annual real rate of 6.4%, and domestic saving averaged 21.9% of GDP. During the same period, real wages rose 3.8% per year, keeping in step with average labor productivity growth. Real exports of goods and non-factor services grew by 8.5% per year in real terms, significantly faster than GDP growth, and the average annual current account deficit of the balance of payments was equivalent to 3.5% of GDP during the same period.

The following table sets forth information regarding Chile's recent macroeconomic performance.

Recent Macroeconomic Performance

	Current Account(1) (in millions of US$)	GDP Growth	Domestic Demand Growth
1999			
First quarter	US$(2,841.6)	(2.8)%	(14.8)%
Second quarter	(1,723.9)	(3.7)	(14.0)
Third quarter	(694.1)	(1.8)	(9.9)
Fourth quarter	(78.1)	4.0	(0.3)
2000			
First quarter	15.1	5.5	5.4
Second quarter	(656.9)	6.0	11.0
Third quarter	(723.3)	5.6	5.7
Fourth quarter	(988.5)	4.5	4.7
2001			
First quarter	(1,539.1)	3.5	4.0
Second quarter	(1,007.8)	3.4	(2.8)

(1) Cumulative 12 month.
Source: Central Bank.

After a prolonged period of rapid economic growth, the Chilean economy, along with most emerging market economies, faced the effects of the international crises that originated in 1998 in Asia. The external contagion forced a severe reduction in domestic demand, a strong real depreciation of the peso and resulted in the first recession in 17 years that drove the unemployment rate above 10 percent, a level that had not been reached in Chile since 1988. The Chilean economy initiated a strong recovery from the recession in the last quarter of 1999, but the recovery has lost some momentum since then. GDP growth reached 5.4% in 2000; for 2001 it is projected at approximately 3.5%. Chile's growth has also fallen short of the average rate prevailing in the 1990s, reflecting mainly the effects of a cyclical downturn and also of reduction in the rate of expansion of potential output.

Role of the Government in the Economy

Beginning in 1974, the military government began to implement free-market economic policies, including the elimination of long-standing widespread price controls. The government undertook large scale privatizations which were among the most important aspects of these structural reform measures. In addition to curbing inflation, the military government embarked on a comprehensive privatization program, divided primarily into two phases. In the first phase, between 1974 through 1979, the government privatized most state-owned banks and manufacturing firms, which previous administrations had nationalized in the early 1970s. By 1980, the government had privatized approximately 90% of all previously state-owned companies, which represented more than 500 companies. In addition, the government began a comprehensive reform of its social security system in 1980. Under this reform, the government replaced the social security system with a privately run system of individual pension plans. This privatized pension system is based on individualized accounts with fully funded, vestable and portable benefits that are entrusted to specialized pension management companies known as *administradoras de fondos de pensiones*, or AFPs. See "Monetary and Financial System—The Chilean Pension System."

In the second phase of privatizations, between 1984 through 1989, the privatization efforts of the government focused on traditional state-owned companies such as the telecommunications, electricity and steel production enterprises. By 1989, the government had also privatized most of the state-owned enterprises held by Corfo, a state-owned holding company that held a substantial amount of the government's interest in state-owned companies. By the end of this phase, the government had sold 33 state-owned enterprises.

In 1990, the administration of then President Aylwin modified the government's policy towards privatizations. Since the previous administration had already undertaken a large-scale program of privatizations to reduce the overall size of the public sector, the government of President Aylwin decided to analyze future privatizations on a case-by-case basis, and in certain limited cases, to retain an interest in the companies that have been privatized. The administrations of Presidents Frei and Lagos have continued that policy to attract private investment in traditional government activities such as infrastructure development, port management, water supply and waste water treatment.

The following table sets forth information regarding Chile's principal privatizations since 1990.

Chile's Principal Privatizations Since 1990

Company	Date	Sector	% Interest Sold	% Interest Retained	Proceeds (in millions of US$)
Zofri S.A.	1991-93	Service	48%	52%	US$ 23.9
El Abra	1994	Mining	51	49	330.0
Fepasa S.A.	1994	Transportation	51	49	30.0
Colbún S.A.	1994	Power Utility	8	92	65.0
Línea Aérea Nacional (Lan)	1994	Transportation	24	0	10.7
Edelnor S.A.	1994	Power Utility	30	9	86.4
Empremar S.A.	1995	Transportation	95	0	4.5
Radio Nacional	1995	Broadcasting	100	0	1.8
Minsal S.A.	1995	Mining	18	0	7.1
Colbún S.A.	1996	Power Utility	38	43	340.0
Ferronor S.A.	1996	Transportation	100	0	12.0
Inversiones Tocopilla Ltda.	1996	Power Utility	51	49	178.0
Edelaysen S.A.	1998	Power Utility	91	0	43.0
Esval S.A.	1998-99	Sanitation	55	45	138.0
Transmarchilay S.A.	1998	Transportation	100	0	5.6
Emos	1999	Sanitation	55.8	42.2	698.7
Essbio	2000	Sanitation	51.9	48.1	243.5
Essel	2000-2001	Sanitation	52.6	47.4	93.9
Colbun	2001	Power Utility	35.6	0	144.2

Source: Ministry of Finance.

The following table sets forth the government's share ownership for the principal state-owned enterprises as of December 31, 2000.

Public Sector Enterprises

	Percentage of State Ownership at December 31, 2000	Total Assets at December 31, 2000 (in millions of US$)	Total Assets as a Percentage of GDP at December 31, 2000
Principal Public Sector Enterprises:			
Banco Estado (financial)	100.0%	US$10,785.8	15.4%
Codelco (copper)	100.0	6,197.8	8.9
Enap (oil and gas)	100.0	2,336.0	3.3
Enami (mining)	100.0	850.4	1.2
Empresa de Ferrocarriles (railroad)	100.0	618.0	0.9
Empresa de Correos de Chile (postal)	100.0	75.0	0.1
Other Significant Public Sector Enterprises by Sector:			
Ports(1)	100.0	1,049.7	1.5
Water Supply(2)	100.0	827.5	1.2
Transportation(3)	100.0	1,346.3	1.9
Services(4)	—(4)	102.0	0.1
Energy(5)	99.8	13.1	0.0

(1) Comprised of ten companies, which are 100% state-owned, and which were created from the division of Emporchi, the state-owned ports company. As of September 2001, the government had granted total or partial concessions over four ports: Valparaíso, San Antonio, San Vicente-Talcahuano and Iquique.

(2) Comprised of eight companies, which are 100% state-owned (after the privatization of five companies).

(3) Comprised of one company, which is 100% state-owned.

(4) Comprised of five companies, of which one is 100% state-owned, one is 99.6% state-owned, one is 99.9% state-owned, one is 90.8% and one is 52.0% state-owned.

(5) Comprised of one company, which is 99.8% state-owned.

Source: Budget Office.

On December 31, 1998, the government divided Emporchi, a state-owned ports company, into ten state-owned companies, each to be privatized through public works concessions. The government initiated the privatization process during the first semester of 1999, beginning with three ports: Valparaíso, San Antonio and San Vicente-Talcahuano. Privatization of the Iquique port occurred in 2000. See "—Principal Sectors of the Economy—Services Sector—Transport and Communications."

Prior to 1999, Chile's water supply sector was comprised principally of 13 state-owned companies, accounting for 92% of water supply. In November 1997, Congress enacted a law authorizing private investment in the water sector and the transfer of up to 65% of its property to the private sector. By August 2001, the government had privatized five of the 13 state-owned water companies. The remaining state owned water companies will be subject to a long term concessions program under which they will be transferred to private control.

The sale of a 40% controlling interest in Esval, the water company for the area which includes the city of Valparaíso, took place in December 1998. More than 50% of the water companies Emos, Essbio and Essel was privatized between 1999 and 2001. By the end of 2001, Chile's largest water companies had thus been privatized.

The government is in the process of granting concessions over two additional state-owned water utilities, Essam and Essar, and expects that the closings will take place by year-end 2001. The government expects to grant concessions over the remaining state-owned water utilities by 2006.

The government is currently in the process of selling its remaining 35.6% interest in Colbun, a power utility.

In 1998, the government postponed indefinitely a railway development project. Currently, the government is planning to seek private capital participation on certain infrastructure projects, such as the railroad system in the Santiago metropolitan region (the Melipilla-Batuco railroad).

Second Generation Reforms

During the 1990s, the government undertook structural reforms of public works, the education system and the justice system. The government views these second generation reforms as a continuation of the structural economic changes that began with the first generation reforms of the 1980s, which included the adoption of a privately administered system of individual pension plans and the implementation of a comprehensive privatization program. During the current administration, the government is committed to deepening these reforms, and selectively identifying additional reform areas, such as the healthcare system and the modernization of the state. See "Monetary and Financial System—The Chilean Pension System" and "—Role of the Government in the Economy."

Public Works—Infrastructure Concessions

The Concessions Act and the Financing of Infrastructure Act, both adopted in 1991 and later modified in 1996, are aimed at increasing private investment in the infrastructure sector. The main goal of the Concessions Act is to provide certain guarantees for and flexibility in the form of concessions to foreign and local investors. The objective of the Financing of Infrastructure Act is to provide alternatives for the financing of infrastructure projects using direct investment from institutional and other long-term investors.

Concessions are granted by the government through the Ministry of Public Works, which awarded its first concession in 1993. Concessions may be applied to any public works project. Generally, a concessionaire undertakes to construct or improve a facility and then to operate and maintain it for a specified period. In return, the government provides the concessionaire with the design and monitors the construction and operation of the facility. Concessions typically last from 10 to 30 years, although the law allows for periods of up to 50 years.

As of August, 2001, 30 concession projects, including projects such as the rehabilitation and maintenance of 2,163 kilometers of highway (including a substantial part of the Pan American Highway) and of eight regional airports, had been successfully put out to bid to the private sector with investments totaling US$5.1 billion. Among the projects to be included in future concessions are the building of new schools, hospitals and jails.

The following table sets forth information regarding infrastructure concessions for the periods indicated.

Infrastructure Concessions Investment Program

Period	Number of Projects	Approximate Amount (in millions of US$)
1992 to 1994	7	600
1995 to 2000	23	4,500

The government may provide on a case by case basis a minimum revenue guarantee to a concessionaire. This guarantee is a percentage of the estimated revenues for a given period. If there is a revenue guarantee, the concessionaire must transfer 50% of any amount in excess of a specified real rate of return to the Ministry of Public Works. The government assesses each project to determine how risks associated with the project should be shared by the concessionaire and the government. A concessionaire may raise additional funds by issuing non-recourse bonds backed by revenues from the concession and the minimum revenue guarantee, if any, by the government. The government has also created a foreign exchange hedge mechanism for public work concessions financed in foreign currencies to reduce currency risk exposure, which is also available on a case by case basis.

The Tax Evasion Bill (see *Tax Reform*) eliminated the withholding tax on payments of fees and premiums made to non-residents in consideration for guarantees, insurance and reinsurance related to the payment of credits or rights vested upon third parties arising out of either the financing of public infrastructure works or debt issuance (e.g., bonds) for the financing of such public infrastructure works. This exemption applies only to public work concession companies subject to the Concessions Act, state-owned port companies created by the 1997 port bill and port concession companies.

Education Reforms

Chile's education system is decentralized. Public schools are managed by municipal governments, which are responsible for their own budgets but have no taxing authority. Families are free to choose between public and publicly certified private schools. Public and some private schools receive monthly transfers from the government based on their number of students. The most difficult systemic problems facing the educational system in Chile are the quality of the training of teachers, insufficient classroom time, the quality of education for underprivileged students and the use of obsolete curricula.

Educational reform began under the administration of President Aylwin. As part of these educational reforms, the government has undertaken to create the infrastructure and organizational conditions necessary to lengthen the school day at all subsidized educational establishments and to improve teacher training at university and secondary levels. A program, called Full School Day, aims to increase yearly academic training from 1,200 to 1,520 hours per year for primary school students and from 1,400 to 1,620 hours per year for secondary school students. In 2001, 5,200 of a total of 9,467 schools have extended their academic training hours. It is expected that all schools will be operating under the Full School Day program by 2006.

As a way of increasing opportunities for all students, the government plans to increase the number of students enrolled in the pre-school system. The administration of President Lagos plans to create 120,000 new places for preschoolers in addition to the 40,000 new places that were created between 2000 and 2001.

Additionally, the government has announced its goal to provide every person with access to a college education. Toward this end, the government intends to increase attendance in the universities, and to offer more scholarships for technical and graduate level studies.

Justice System Reforms

Chile's constitution establishes the independence of the judiciary from the executive and legislative branches with the Supreme Court administering the court system. Chilean courts are by law exclusively responsible for trying civil and criminal cases and carrying out court orders. Supreme Court justices are appointed by the president with the Senate's approval from a list of candidates proposed by the Supreme Court.

The Chilean justice system is currently undergoing a series of extensive reforms which include the revision of the criminal process, the creation of a public defender's office (known as the *Ministerio Público*), an autonomous and impartial organization of public defenders to represent the interests of the accused, and the institution of the oral examination of witnesses and defendants. These reforms are designed to increase the efficiency of criminal prosecution by granting the public defender's office a role in the prosecutional system as well as protecting the rights of the accused. The new system is operating in two regions of the country, representing approximately 10% of the Chilean population. The government expects to expand the system to three additional regions in October 2001.

Judicial reform also includes the creation of family courts, which until now were under the jurisdiction of local courts. Each family court will rely on a technical advisory board and mediation as an alternative method to resolving conflicts.

Health System Reforms

The Chilean health system is a dual insurance system, comprised of the public National Health Fund (*Fondo Nacional de Salud* or *Fonasa*) and licensed private insurers (*Instituciones de Salud Previsional or Isapres*). Under a 1981 law, all workers are required to contribute 7% of their wage income and may direct this contribution to *Fonasa* or purchase a policy from an *Isapre*. Fonasa is also the insurer of last resort for unemployed and very low income Chileans. Almost 70% of the population is insured through *Fonasa*, while the *Isapres* and alternatives, such as the specialized insurance available to members of the armed forces, are responsible for the remaining 30%. Within the Fonasa system, beneficiaries can choose to pay a modest co-payment and obtain care from any provider on a pre-approved list (*Modalidad de Libre Elección* or *MLE*), or they may choose to obtain care at no cost at public facilities (*Modalidad de Atención Institucional* or *MAI*). *Isapres* offer a myriad and widely varying combinations of premiums and co-payments, depending on the beneficiary's age and sex, in order to obtain care from a network of private providers.

Currently, the Chilean health system faces several problems, some of which are global while others are specific to each subsystem. The main global challenge is to restructure and prepare the health system to face the new epidemiological and demographic reality of the Chilean population, which includes such factors as aging, urbanization, new lifestyles and worsening environmental conditions. There are also problems reflecting the fact that health indicators vary significantly among the country's different socioeconomic groups. Specific problems are associated with each subsystem of care. In the public sector, dissatisfaction results from delays and unfriendly treatment as well as inefficiency and increasing costs. In the private subsystem, concerns center on the low level of coverage for catastrophic diseases as well as price discrimination based on income, age and gender.

The Chilean government has committed to reform the Chilean health sector to address these and other concerns.

Modernization of the State:

The administration of President Lagos is undertaking to modernize the state by building a more efficient and transparent public administration, and improving coordination among different public institutions in different levels of government. The undertaking involves the following:

- Creation of new public institutions in the areas of culture, infrastructure, social development, economic development, business competition regulation, environmental protection and public enterprise administration.
- Decentralization of public sector institutions.
- Encouragement of competition among public institutions, in part through greater flexibility in budget allocations to those institutions.
- Increase in use of information technologies.
- Increase in citizen participation and broad protection of private rights.
- Establishment of simpler mechanisms of information dissemination, greater accountability of public authorities, and internal auditing.

Gross Domestic Product

After experiencing negative growth of 13.4% in 1982 and 3.5% in 1983, in 1984 the Chilean economy began a period of 15 consecutive years of strong growth of real GDP, which was interrupted in 1999 as a result of the Asian crisis, events in international capital markets following the devaluation of the Russian ruble, and events in markets of important trading partners of Chile. The average annual rate of growth between 1990 and 2000 was 6.4%, including the 1.1% contraction in 1999.

The following tables set forth GDP and expenditures for the periods indicated.

GDP and Expenditures
(in billions of pesos)

	1996	1997	1998	1999(1)	2000(1)
GDP	Ps. 28,268	Ps. 31,567	Ps. 33,630	Ps. 34,423	Ps. 37,775
Imports of goods and services	8,735	9,740	10,383	9,360	11,629
Total supply of goods and services	37,003	41,307	44,013	43,783	49,404
Exports of goods and services	8,076	8,878	8,986	9,989	12,031
Total goods and services available for domestic expenditures	Ps. 28,927	Ps. 32,429	Ps. 35,027	Ps. 33.794	Ps. 37,373
Allocation of total goods and services:					
Consumption (public and private)	21,888	24,385	26,283	26,272	28,943
Gross investment (public and private)	7,040	8,044	8,744	7,522	8,430
Total domestic expenditures	Ps. 28,928	Ps. 32,429	Ps. 35,027	Ps. 33,794	Ps. 37,373

(1) Preliminary.
Source: Central Bank.

GDP and Expenditures
(in billions of constant 1986 pesos)

	1996	1997	1998	1999(1)	2000(1)
GDP	Ps. 7,305	Ps. 7,845	Ps. 8,153	Ps. 8,060	Ps. 8,493
Imports of goods and services	3,607	4,071	4,292	3,680	4,053
Total supply of goods and services	10,912	11,916	12,445	11,740	12,546
Exports of goods and services	2,743	3,002	3,180	3,399	3,652
	Ps.		Ps.	Ps.	Ps.
Total goods and services available for domestic expenditures	8,169	8,914	9,265	8,341	8,894
Allocation of total goods and services:					
Consumption (public and private)	5,905	6,391	6,637	6,170	6,632
Gross investment (public and private)	2,263	2,524	2,627	2,170	2,263
Total domestic expenditures	Ps. 8,168	Ps. 8,915	Ps. 9,264	Ps. 8,340	Ps. 8,895
Real GDP growth (%)	7.4%	7.4%	3.9%	(1.1)%	5.4%

(1) Preliminary.
Source: Central Bank.

Composition of Demand

From a demand perspective, the primary user of total goods and services available for domestic expenditures (absorption) is private consumption, representing approximately 68.4% of GDP on average from 1996 to 2000. During the same period, government consumption averaged only 7.8% of GDP, while exports averaged 40% of GDP.

The following table sets forth information regarding GDP by categories of aggregate demand.

GDP by Aggregate Demand
(% of total GDP at constant prices)

	1996	1997	1998	1999(1)	2000(1)
GDP (in billions of constant 1986 pesos)	Ps. 7,305	Ps. 7,845	Ps. 8,153	Ps. 8,060	Ps. 8,493
Absorption	111.8%	113.6%	113.6%	103.5%	104.7%
Private consumption	68.5	69.0	69.3	67.9	67.1
Government consumption	7.8	7.7	7.7	7.9	7.8
Gross fixed investment	31.0	32.2	32.2	26.9	26.6
Exports of goods and services	37.6	38.3	39.0	42.2	43.0
Imports of goods and services	49.4	51.9	[illegible]	45.7	47.7

(1) Preliminary
Source: Central Bank.

Savings and Investment

The government attributes the steady, high economic growth rates during the 1990s to the government's sustained efforts to encourage capital investment. The ratio of gross fixed investment increased from 17.7% of GDP in 1985 to 24.2% by 1990. In 2000, this investment ratio reached 26.6% of GDP.

The increase in gross fixed investment ratio reflects a smooth productive transformation in the Chilean economy, through the accumulation of machinery and equipment containing new technologies.

Increases in investment have been matched by similar increases in savings. Following low levels of domestic savings after the 1982 and 1983 economic crisis, savings increased from 7.8% of GDP in 1985 to 23.2% of GDP in 1990. This increase in domestic savings was primarily due to increases in private savings. From 1996 to 2000, however, private savings remained at an average 17.2% of GDP. Public savings as a percentage of GDP grew from 2.5% in 1990 to 5.6% in 1997. In the following years public savings decreased, reducing to 2.5% of 1999's GDP and 3.7% of GDP in 2000. The government believes that external savings were also available due to Chile's relatively stable macroeconomic environment compared to other Latin American countries.

The following table sets forth information concerning savings for the periods indicated.

Savings
(% of Nominal GDP)

	1996	1997	1998	1999(1)	2000(1)
External savings	5.7%	5.6%	6.2%	0.2%	1.6%
Domestic savings:					
Public savings (central government only)	5.8	5.6	4.1	2.5	3.7
Private savings	15.4	16.0	17.1	19.3	18.2
Total domestic savings	21.2	21.6	21.2	21.8	21.9
Total savings (2)	26.9%	27.2%	27.4%	22.0%	23.5%

(1) Preliminary.
(2) External savings, plus domestic savings.
Source: Central Bank and Budget Office.

Principal Sectors of the Economy

The Chilean economy, with a GDP of US$70.1 billion in 2000, has considerable natural resources, a modern export-oriented manufacturing sector and a sophisticated services sector.

The following tables set forth the components of Chile's GDP and their respective growth rates for the periods indicated.

Real GDP by Sector (% of GDP)

	1996	1997	1998	1999(1)	2000(1)
PRIMARY SECTOR:					
Agriculture, livestock and forestry	6.4%	5.7%	5.9%	5.9%	5.9%
Fishing	1.5	1.5	1.5	1.6	1.7
Mining	8.4	8.4	8.7	10.2	10.1
Total primary sector	16.3	15.7	16.1	17.7	17.7
MANUFACTURING SECTOR(2):	15.6	15.3	14.5	14.6	14.5
SERVICES SECTOR:					
Construction	5.3	5.3	5.2	4.7	4.5
Electricity, gas and water	2.2	2.3	2.3	2.3	2.6
Trade and catering	17.0	17.3	17.3	16.9	16.8
Personal services	6.1	5.9	5.8	5.9	5.7
Financial services	13.4	13.4	13.7	13.7	13.6
Transport and communications	7.8	8.3	8.6	9.0	9.3
Housing	3.3	3.2	3.2	3.3	3.2
Public administration	2.3	2.1	2.1	2.1	2.1
Total services sector	57.4	57.8	58.1	57.9	57.7
Net adjustments for payments made by financial institutions, VAT and import tariffs	10.7	11.2	11.2	9.8	10.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Real GDP (in billions of constant 1986 pesos)	Ps.7,305	Ps.7,845	Ps.8,153	Ps.8,060	Ps.8,493

(1) Preliminary.
(2) Includes the processing of mining production.
Source: Central Bank.

Change in GDP by Sector
(% change from previous year)

	1996	1997	1998	1999(1)	2000(1)
PRIMARY SECTOR					
Agriculture, livestock and forestry	1.3%	(3.9)%	6.5%	(1.3)%	5.2%
Fishing	9.7	9.3	2.4	1.7	16.9
Mining	15.8	7.9	7.4	16.2	4.0
MANUFACTURING SECTOR(2)	3.2	5.6	(1.5)	(0.7)	4.3
SERVICES SECTOR					
Construction	8.6	7.8	0.7	(10.0)	0.0
Electricity, gas and water	(3.8)	10.5	4.4	1.7	17.3
Trade and catering	9.5	9.3	4.1	(3.5)	4.7
Personal services	5.8	3.4	2.7	(0.4)	2.3
Financial services	6.8	7.8	5.6	(1.0)	4.8
Transport and communications	10.2	12.9	9.2	2.7	9.5
Housing	3.1	3.7	3.4	2.9	1.8
Public administration	1.4	1.4	1.4	1.4	1.4
Total GDP	7.4%	7.4%	3.9%	(1.1)%	5.4%

(1) Preliminary.
(2) Includes the processing of mining production.
Source: Central Bank.

Primary Sector

Chile's primary sector of the economy is significant for its direct contribution to GDP (17.7% in 2000) and also as supplier of primary goods to the manufacturing sector.

Agriculture, Livestock and Forestry

While the agriculture, livestock and forestry sector grew steadily from 1993 to 1996, the importance of this primary sector as a component of Chile's economy has decreased somewhat since 1986, due to faster growth in other sectors of the economy. Nevertheless, the agriculture, livestock and forestry sector has grown due to trade liberalization and increased demand for exports, such as fruit, from this sector. In 1997, a prolonged drought caused a reduction in this sector from 6.4% of GDP in 1996 to 5.8% of GDP in 1997. In 1998, 1999 and 2000, this sector represented 5.9% of GDP.

Agricultural production consists primarily of fruit, which includes fruit concentrate, table grapes, apples, pears, nectarines, prunes, lemons and peaches.

From 1996 to 2000, exports of agricultural and livestock products represented approximately 9.2% of total exports with a 1.3% average annual growth. In 2000, exports of agricultural products reached US$1.5 billion, an increase of 2.5% as compared to 1999.

Trees in Chile grow faster and with higher density than in many other regions in the world. The Chilean timber industry attempts to exploit this advantage with, among other things, an extensive planting program which in 1999 and 2000 averaged approximately 100,000 hectares of new trees a year. Primary exports of the forestry sector were US$ 51.7 million in 2000, representing 0.3% of total exports. However, most forestry products are exported after gaining some value added through manufacturing.

In May, 2001, raspberry producers from the states of Oregon and Washington accused Chilean producers of subsidies and dumping practices before the International Trade Commission (ITC) and the U.S. Department of Commerce (DOC), and proposed that an antidumping duty of between 8.9% and 60.3% be levied on Chilean producers. In July 2001, the ITC determined, in a preliminary injury determination, that the import of Chilean raspberries is materially harmful to the US raspberry industry and gave notice of the commencement of its countervailing duty investigation. Chilean producers must present their defenses before the ITC. A preliminary subsidy and dumping margin determination by the DOC was scheduled for August 2001. However, the DOC agreed to a request by petitioners for a postponement of the preliminary subsidy determination until October 8, 2001.

On May 31, 2001, a similar petition was filed by grape producers from California. However, the ITC rejected the case.

Fishing

Chile ranks among the foremost fishing nations in the world, with an estimated total catch of 4.6 million tons of fish, mollusks and crustaceans in 2000. In less than a decade, Chile became a leading farmed salmon and trout producer and exporter in the world. Climatic conditions around the Chiloé and Aysén regions, including water that is continually replenished from both the Antarctic currents and the Andes melt-off, provide an ideal environment for year-round farmed fish production. Between 1990 and 1999, the Chilean salmon and trout industry grew significantly with a catch of 257,188 tons in 1999, a 798.8% increase as compared with 1990.

In 1991, a new fishing law was enacted to introduce the concept of sustainable use. The government also limited the size of Chile's fishing fleet to curb over-fishing and implemented a resource management system to promote more favorable fishing conditions for the future.

On June 12, 1997, the United States Department of Commerce received a petition by a coalition of Atlantic salmon producers alleging that imports of fresh salmon from Chile were being, or were likely to be, sold in the United States at less than fair value and proposing an antidumping duty of 40% to be assessed on Chilean industry. An investigation by the Department of Commerce and the International Trade Commission was initiated. The investigation, conducted from June 1997 to April 1998, resulted in findings that three of the five Chilean companies investigated had employed price dumping margins ranging from 0.2% to 10.9%. As a result of these findings, a special antidumping duty of 5.2% was applied to the Chilean salmon industry as a whole.

A new fishing law was passed in January 2001, granting to fishing authorities the power to establish limits on the number of fish that industrial ship owners may catch, in order to prevent depletion of fishing populations by a small number of ship owners. The law will be effective until December 2002.

Mining

Chile has large reserves of metallic and non-metallic resources and is the world's largest producer of copper, accounting for approximately 34.7% of world production of copper as of 2000. Chile has an estimated 85 million metric tons of copper reserves and produced 4,600 metric tons of grade A copper in 2000. Large quantities of iodine, coal, gold, silver, nitrate, iron ore and molybdenum are also found in Chile. As a result, the mining sector of the Chilean economy is a significant contributor to the export sector, as well as GDP. The processing of mining production is included in the manufacturing sector.

Since 1974, as a result of trade liberalization, mining sector exports have increased in absolute terms, but decreased as a percentage of total exports because of an increase in exports from other sectors.

In the 1990s, the mining sector grew as a result of increased investment, including the opening of new mines. During 2000, this sector represented 10.1% of GDP, and mining exports constituted approximately 46.4% of total exports. During 2000, mining exports were US$8.4 billion, representing an increase of 21.6%. Copper prices increased approximately 17.2% from US$0.70 per pound in June 1999 to US$0.82 per pound in December 2000.

The state-owned copper company, Codelco, is the largest copper producer in the world as well as the largest company in Chile. Codelco controls approximately 20% of the world's proven and provable copper reserves. Codelco accounted for approximately 33% of Chile's total mining sector output in 2000. As a state-owned enterprise, Codelco transfers 100% of its net profits to the Chilean Treasury. See "Public Sector Finance—Government Revenue—Codelco."

As part of its strategy to increase production and revenues, Codelco has entered into joint ventures with third parties. In 1996, Codelco entered into a US$1.0 billion joint venture with Cyprus Amax Minerals Company (in which Codelco holds a 49% interest and Cyprus Amax Minerals Company a 51% interest) to develop the El Abra mine, the world's largest SX-EW facility (an efficient alternative to the conventional concentrator/smelter/refinery process) in northern Chile.

During the 1990s, the government encouraged private sector participation, including foreign investment, in the mining sector which increased from US$0.8 billion in 1990 to US$2.4 billion in 1998. A trend toward diversification has in recent years made the electricity and service sectors increasingly appealing to foreign investors, and mining investments have decreased in relative terms.

A mining agreement between Chile and Argentina became effective on February 7, 2001. The purpose of this treaty is to encourage the exploitation of mining deposits located in border areas.

Manufacturing Sector

Manufacturing is one of the largest sectors of Chile's economy and is based primarily on the processing of natural resources. While the 1980s brought a period of stagnation, the 1990s have seen a sharp increase in exports from the manufacturing sector as a result of a diversification away from copper as well as a substantial increase in the demand for and export of non-traditional products, such as processed food and printing products.

During 1999, exports from the manufacturing sector were US$7.2 billion, representing 45.8% of total exports. During 2000, exports from this sector were US$8.2 billion and constituted 45.0% of total exports, which was an increase of 14.3% over 1999.

The following table sets forth information regarding the output of manufacturing production for the periods indicated.

Output of Manufacturing Products
(in billions of pesos and % of total)

	1996(1)		1997(1)		1998(1)		1999		2000	
Foodstuffs, beverages and tobacco	Ps. 1,743	32.3%	Ps. 1,891	31.6%	Ps. 2,038	33.3%	Ps. 2,116	34.7%	Ps. 2,287	34.1%
Textiles, clothing and leather	342	6.3	336	5.6	291	4.8	269	4.4	272	4.1
Wood products and furniture	474	8.8	486	8.1	424	6.9	417	6.8	467	7.0
Paper and printing products	636	11.8	668	11.2	692	11.3	674	11.1	740	11.0
Chemicals, petroleum, rubber and plastic products	1,334	24.7	1,562	26.1	1,658	27.1	1,704	28.0	1,887	28.1
Non-metallic mineral products	298	5.5	332	5.5	340	5.6	307	5.0	370	5.5
Base metals products	97	1.8	118	2.0	126	2.1	123	2.0	135	2.0
Metal products, machinery and equipment	433	8.0	548	9.2	502	8.2	450	7.4	513	7.7
Miscellaneous manufacturing	34	0.6	41	0.7	43	0.7	31	0.5	33	0.5
Total	Ps.5,391	100%	Ps.5,982	100%	Ps.6,115	100%	Ps.6,091	100%	Ps.6,704	100%

(1) Estimated by the Ministry of Finance.
Source: Ministry of Finance.

Chile's most important manufactured products have been food, chemicals and forestry products, accounting for approximately 80% in 2000 of total manufactured products and the majority of non-copper exports. The remainder of this sector's production is oriented towards internal consumption and intermediate goods.

The food products subsector includes products such as fish meal, wine, juices, crackers, sweets and chocolates. Exports of manufactured food products have grown significantly in the last 10 years. During 2000, exports of manufactured food products amounted to US$2.6 billion.

Exports of the manufactured products from the forestry subsector have grown significantly in the last 10 years. This subsector includes products such as wood products, furniture, paper, cardboard and pulp. During 2000, exports of manufactured forestry products amounted to US$2.4 billion.

Chile is the largest exporter of wine in Latin America and a leading exporter of wine in the world. During 1999 and 2000, wine exports were valued at US$537 million and US$581 million, respectively.

Fish meal production has decreased in recent years. In 2000, fish meal exports fell to US$233 millions, representing 1.3% of total exports.

Services Sector

Construction

The construction sector is comprised of an infrastructure and a non-infrastructure subsector. The infrastructure subsector, including projects such as the construction of large scale mining, energy and water projects, has been the Chilean economy's most dynamic subsector. Growth in the infrastructure sector has been aided by private concessions that have been granted for public sector projects, principally highway projects. The non-infrastructure subsector has also grown through various projects, including new hotels, apartments, office buildings, malls, commercial outlets, cinemas and single family homes. The construction sector increased in real terms but decreased as a percentage of GDP, from 5.3% in 1996 to 4.5% in 2000.

Electricity, Gas and Water

Energy consumption in Chile consists of oil and gas, electricity and wood. Between 1996 and 2000, the electricity, gas and water sector remained approximately constant as a percentage of GDP, at 2.6%.

Due to a state monopoly, Enap, a state-owned enterprise, is the sole producer of crude oil in Chile. Although there are no legal restrictions on the refining of crude oil by private sector companies, Enap is currently the only refiner of crude oil in Chile. Enap refines the crude and then sells refined products in an open and competitive market to private distributors. From 1995 to 1999, domestic production of natural gas decreased from 3.8 million cubic meters to 3.0 million cubic meters, representing an approximate 21% decrease. For the same period, crude oil production decreased from 605 thousand cubic meters to 446 thousand cubic meters, representing an approximate 26% decrease in crude oil production. However, Chile relies heavily on imports of both oil and gas. Until 1995, Chile did not import natural gas, but by 1999 it was importing 2.7 million cubic-meters per year. Crude oil imports for the same period also increased from 45.4 million barrels to 67.9 million barrels, representing an approximate 50% increase. In 2000, Chile imported 2.9 million cubic meters of natural gas and 69.6 million barrels of crude oil.

The electricity industry in Chile is divided into three subsectors: generation, transmission and distribution. The generation sector consists of companies that generate electricity from hydroelectric, gas-fired and thermal sources which have low production costs and are environmentally friendly. In 2000, 53.5% of total electricity produced in Chile was generated from hydroelectric sources and 34.1% was derived from thermal sources which primarily use carbon products. Once electricity is generated, it is sold to distribution companies, end customers and other generation companies.

The transmission subsector consists of companies that transmit the electricity produced by generation companies at high voltage. The distribution sector consists of companies that purchase electricity from generation companies to sell to regulated and unregulated customers. As of December 31, 2000, 100% of distribution and generation was controlled by the private sector. Over 80% of the investment in the power sector has been concentrated in the generation, transmission and distribution of hydro and thermal electricity. Remaining investments have been made in the natural gas and fossil fuel subsectors, which are expected to cover 24% of electric generation by the year 2015. A number of Chilean companies currently controlled by foreign investors have also been active in investing in the energy sectors in Argentina, Brazil, Colombia and Peru.

The government expects to create a new legal framework for the power industry. These measures are intended to assist the power sector in guaranteeing power service that is consistent, of high quality, and affordable to its users.

The power sector has paralleled Chile's economic growth in the last decade. Deregulation and the government's policy of promoting competition and investment, through projects like the government sponsored natural gas pipeline projects from Argentina, has bolstered the growth of this sector. For a discussion of natural gas pipeline projects, see "—Environment."

The power sector has suffered shortages due to a number of droughts from 1996 to 1999. In May 1999, Congress responded to these conditions by amending the electricity law and the law governing the Superintendency of Electricity and Fuels. These amendments provide for apportionment of any deficit during periods of rationing, compensation to end users for energy deficits and expansion of administrative fines for any infractions. As to rationing of power, the amendments provide that droughts will not be counted among *force majeure* events for the purposes of certain indemnification provisions that apply to electricity providers.

In the area of water supply, approximately 96% of Chileans living in urban centers have access to drinkable water. The water and wastewater sector in Chile comprises 13 state-owned companies in 1998, which account for approximately 85% of the water service and over 90% of the wastewater service in Chile. In 2001, the number of public companies fell to 8, due to the privatization of 5 companies, including Emos, Esval, Essbio, Essel and Essal. The government will grant concessions for the remaining state-owned water companies; grants for two such companies, Essar and Essam, are expected in October 2001. See "—Second Generation Reforms."

Trade and Catering

The trade and catering sector is primarily comprised of commerce. This sector includes retail business and captures a portion of Chile's gross tourism receipts. Growth and liberalization of Chile's economy during the 1990s led to the rapid growth of this sector. In 1999, trade and catering represented 16.9% of GDP. In 2000, this sector represented 16.8% of GDP.

The travel industry, particularly tourism, is the largest contributor to the services sector. During 2000, 1.7 million tourists visited Chile, of whom 49% came from Argentina. Estimated gross tourism receipts for 2000 were US$0.8 billion. However, net tourism receipts decreased during the 1990s due to increased travel abroad by Chileans.

Personal Services

Chile's personal services sector is primarily comprised of education and public and private health services, representing approximately 5.9% of GDP in 1999 and 5.7% in 2000. Other services include media (radio and television) and other personal and social services not provided by the government. From 1996 to 2000, this sector grew at an average annual rate of 2.8%.

Financial Services

Chile's financial services sector is comprised of banking and pension funds, and insurance companies and other institutional investors. From 1996 to 2000, the financial services sector has increased annually, but has remained fairly constant as a percentage of GDP at approximately 13.6%. The Chilean economy grew 7.4% in 1997, grew 3.9% in 1998, fell 1.1% in 1999 and grew 5.4% in 2000, while the financial services sector grew 7.8%, grew 5.6%, fell 1.0% and grew 4.8%, respectively.

Conditions in this sector have been relatively favorable in recent years due to current regulations, dating from the 1982 to 1983 financial crisis, and the privatization of the pension fund system which has created a constant flow of savings and a strong demand for stock investments. See "Monetary and Financial System—Financial Sector," and "Monetary and Financial System—Capital Markets."

As of December 31, 2000, Chile's banking sector was composed of 27 privately owned banks, one finance company and one state-owned bank, Banco Estado. As of December 31, 2000, total banking system assets, deposits and loans amounted to Ps.39.5 billion, Ps.22.0 billion and Ps.28.1 billion, respectively.

Chile's stock market is comprised of three stock exchanges: the *Bolsa de Comercio de Santiago*, on average accounting for almost 80% of all stock transactions, the *Bolsa de Comercio de Valparaíso* and the *Bolsa Electrónica* (the electronic stock market). Trading of common shares on these exchanges represents their main source of revenue. As of December 31, 2000, the Santiago Stock Exchange had 296 companies listed, and total market capitalization was US$60.5 billion.

Transport and Communications

Chile's transport and communications sector has consistently registered positive growth each year since 1994 due to increased international commerce as well as consistent domestic demand for telephone services. From 1996 to 2000, this sector increased at an average annual rate of 8.9% and in 2000, represented 9.3% of GDP.

In the second half of the 1990s, average annual investment in telecommunications reached US$1 billion and increased to US$1.1 billion in 2000, which were the highest levels of investment to date.

Forty percent of Chile's telecom investment has gone into the mobile telephony market. As a result, the country had 3.8 million mobile subscribers by June 2001, exceeding for the first time the country's 3.5 million fixed telephone lines. This represents a penetration rate of 24.9% for mobile services and of 22.8% for fixed telephony.

New fiber optic cable links have also improved Chile's communications with the rest of the world. In less than a year, national bandwidth increased sixteen-fold (to 40 GBps from 2.5 GBps; operating companies anticipate a further leap to 1.2 TBps in the near future).

Internet-related services have shown strong growth in keeping with government policy. The administration of President Lagos has stressed the importance of adopting new communications and information technologies. Commuted internet connections grew by 23.4% in the second half of 2000, while dedicated connections increased by 223.3%. Independent estimates suggest that in 2000 the number of internet users rose by almost 30% to 1.8 million.

Over the next few years, the government anticipates that a significant portion of new investment in telecommunications will go towards developing a Wireless Local Loop (WLL) telecommunications system, which will help to create virtually universal access to basic telephone services and IP technology. The advantages of WLL include deployment speed, lower costs in areas where underground pipes are highly congested and broadband availability in places where the terrain is rugged. Other broadband wireless technologies, like Local Multipoint Distribution Services (LMDS), may also be used by businesses to develop corporate networks.

Since October 2000, Chile has been linked to South American Crossing (SAC), a Pan-American fiber optic network operated by Global Crossing. The submarine SAC network, which represented an investment of US$2 billion, covers six South American countries, connecting them to Global Crossing's networks in North America and Europe.

Chile has also established connections with three other fiber optic networks — Emergia, a US$1.6 billion system built by Spain's Telefonica; the Latin American segment of the Nautilus global network; and Silica Networks, a system linking Chile and Argentina across the Andes Mountains. Together, these networks provide Chile with sufficient infrastructure to handle 45 million telephone calls simultaneously.

In 1993, the Antitrust Commission encouraged competition by creating a "multicarrier system," under which providers of local telephone services may supply long distance services ; thirteen companies currently offer long distance services through the multicarrier system and consumers are free to choose among them.

The following table provides a summary of certain information relating to the telecommunications sector in Chile.

Summary Telecommunications Sector Information

	1996(1)	1997(1)	1998(1)	1999	2000(2)
Lines per 100 inhabitants	15.6	18.3	20.4	20.6	22.0
Cellular subscribers per 100 inhabitants	2.2	2.8	6.5	15.0	22.2
Domestic long distance minutes (millions)	2,259.0	2,704.0	2,994.5	2,282.1	2,500.9
International long distance minutes (incoming and outgoing millions)	173.7	242.1	268.1	210.2	222.5

(1) Figures for minutes are rounded.
(2) Preliminary.
Source: Ministry of Transport and Telecommunications.

Transportation has also contributed to growth in this sector due to increases in merchandise transportation activity. The government owns three transportation companies, each of which is managed by an autonomous board: the Santiago Metro (the subway company for passenger transportation), Efe (the main railroad) and a maritime transportation enterprise that operates only in the archipelago region (fjords). From 1992 to 2000, the total amount of cargo transported by air and the number of passengers traveling through Chilean airports, increased at an average annual rate of 15%. In December 2000, there were 32 airlines operating in Chile, six of which are domestic carriers.

The government owns 10 companies which operated 11 ports which during 2000 moved more than 19 million tons, accounting for roughly 60%, in value, of the general cargo transported through the country's ports (these figures do not take into account the handling of private mining shipments by private port facilities associated with nearby mining operations). The remainder of the country's cargo is transported through 28 privately owned ports and terminals, of which 14 are exclusively for private use.

As part of its goal of increasing participation of the private sector in the administration of roads, ports, airports and railways, the government has privatized the auxiliary services in the state-owned ports by granting concessions. Some port services, such as loading and unloading, are provided by private companies. A new port bill was passed in 1997, authorizing the breakup of Emporchi, the state-owned port company, into several autonomous state companies and allowing concession programs for up to 30 years for new and existing docks. This law restructures Emporchi by dividing it into ten state-owned companies, which will later be administered by the private sector through a public works concession. In 1999, the government started the privatization process, granting concessions for the ports of Valparaíso, San Antonio and San Vicente-Talcahuano. In 2000, the concession process began for the ports of Arica and Iquique, ending with the successful awarding of the latter.

Housing

The contribution of the housing sector (defined to include services provided by dwellings and real estate) to GDP at constant market prices decreased from 3.3% in 1996 to 3.2% in 2000. The housing sector grew at a slower rate than GDP growth principally due to the differences between the supply and demand of housing resulting from the population's growth rate and economic progress. Demand for residential, commercial and industrial properties grew at a significantly stronger rate than GDP but was not satisfied by an increase in supply.

Public Administration

The public administration sector consists of expenditures of the central government for public administrative services, principally personnel expenditures. Since 1996, the public administration sector has increased 1.4% on average, but has decreased as a percentage of GDP from 2.3% in 1996 to 2.1% in 2000.

Environment

The Chilean Constitution of 1980 grants all citizens the right to live in a pollution-free environment. It further provides that other legal rights may be specifically limited by law in order to protect the environment.

Chile's principal environmental concerns include industrial and urban pollution as well as air, water and soil pollution caused by development during periods of less strict environmental regulation. Although Chilean environmental regulation is not as well developed as that of the United States and certain other countries, Chile has numerous laws, regulations, decrees and municipal ordinances that protect the environment. The General Environmental Law enacted in 1994 created the National Environmental Commission and set forth a series of environmental regulations that meet internationally accepted standards of air and water quality, as well as noise pollution.

Among the elements of Chilean environmental regulation are the following:

The Environmental Impact Assessment System (SEIA) was created in 1997 under authority of the General Environmental Law. The purpose of environmental impact assessment is to ensure the environmental sustainability of projects and activities performed by the public and private sectors. The National Commission for the Environment (Conama), which is composed of 13 governmental ministers and has a presence in every region in Chile, is responsible for SEIA's implementation and administration, as well as for the coordination of the public institutions that have environmental responsibilities and powers.

Depending on the circumstances of a particular project, the interested company must prepare an environmental impact statement or a more burdensome environmental impact study, which will be reviewed within 60 or 120 days, respectively. Reviews of projects that are national in scope are conducted by Conama; reviews of local projects are conducted by a regional environmental commission. The process ends with a resolution issued by the relevant authorities, who certify whether the project complies with all applicable environmental requirements. Interested parties have the right to contest the decision. As of August 2001, approximately 3,650 projects and activities, with an estimated value of US$48.8 billion, have been submitted to SEIA.

In addition to ordinary legal remedies available to those damaged by violators of environmental laws, the General Environmental Law authorizes the government to bring administrative and civil actions against violators in order to repair the environment. The government can close non-complying facilities, revoke required operating licenses and impose sanctions and fines when companies act negligently, recklessly or deliberately to harm the environment. The General Environmental Law also grants any person the right to bring civil actions against companies that do not comply with environmental regulations, once noncompliance has already been established by a judicial proceeding.

The government is implementing remediation plans that include pollution control and pollution prevention plans for areas affected by copper smelters, fish processing plants, and pulp processing plants.

A decontamination plan for the Santiago metropolitan area to reduce airborne emissions is also underway and implements stationary and mobile source emission standards. Moreover, the government has promoted the replacement of heavy fuel oils and coal, which are used as fuels for industry and electricity generation in Santiago, by natural gas, and is also evaluating the use of this fuel for public transportation. The atmospheric pollution control measures applied in the country have resulted in air quality improvements in all areas where these measures have been implemented.

To protect the environment, the government also has granted subsidies to promote soil protection and forest plantations. Congress is considering a bill aimed at regulating the use of the native forests and maintaining biodiversity.

Chile was one of the first countries to sign the Montreal Protocol on Substances that Deplete the Ozone Layer in 1987 and has ratified all the subsequent amendments of London, Copenhagen, Montreal and Beijing.

In 1994, the government of Chile began implementing a specific country program aimed at protecting the Ozone Layer. The program has been successful in phasing out the use of CFCs in the country. At the same time, the government has prepared a legal framework that will regulate the imports, commerce and use of Ozone Depleting Substances in Chile. It is expected that this proposal will be discussed in Congress in 2002.

In December 1994, Chile became a Party to the UN Framework Convention on Climate Change. Since then, Chile has undertaken the establishment of a national climate change committee, implemented bilateral cooperation projects and has actively participated in the Kyoto Protocol negotiations.

Renewal of Military Equipment

The Chilean Navy is currently undergoing modernization and is in the final stages of negotiating the purchase of a new frigate from Germany and the construction of three additional ships in the Chilean shipyards of Talcahuano. Financing for the project will be provided by the reserved copper law. See "Public Sector Finances—Distributions from Codelco." The total cost of the project is approximately 770 million euros, with credit guaranteed by the German export credit agency (Hermes) and the Chilean government. The first frigate is expected to operate by 2006, and the others between 2008 and 2011.

The Chilean Air Force is currently negotiating the purchase of ten F-16 fighter planes with the United States. The first stage of negotiations is expected to be completed by October 2001, and the final negotiations are expected to be completed by May 2002. Financing for the project, which is expected to amount to approximately US$230 million, will be provided by the reserved copper law, and an explicit government guarantee is expected. The planes are expected to be in Chile by 2004.

Employment and Labor

Employment

From a peak of 20.5% in 1983, there was a steady decrease in unemployment through the 1990s. The average unemployment rate in Chile decreased from 7.8% in 1994 to 6.2% in 1998, primarily due to the continuing strength of the Chilean economy. Unemployment increased in 1999 and 2000, reaching 9.7% and 9.2%, respectively, as a result of the recession that affected the country.

The effect of the recession on firms' earnings brought attention to cost increases incurred during years of rapid GDP expansion. The cost rationalization process that followed was especially severe in labor intensive industries, and caused a severe reduction in employment. This was followed by an extremely slow recovery of employment from the recession levels of 1999, a rapid increase in labor productivity in 2000 and 2001, and an unemployment rate that, although short of the high marks of 1999, has remained well above the average rates of the last decade.

In 2000, as a way to keep unemployment below 10%, the government succeeded in implementing a special employment program in order to create 150,000 new jobs, mainly in public investment, including infrastructure improvement; in promoting productive activities such as forestry protection, development of social projects and employment training; and in subsidies for private companies that hire new employees.

The following table sets forth certain information regarding employment and labor in Chile for the periods indicated.

Employment and Labor
(in thousands of persons)

	1996	1997	1998	1999	2000
Nationwide:					
Labor force	5,522	5,618	5,722	5,823	5,851
Employment(1)	5,164	5,275	5,369	5,258	5,312
Participation rate(2)	54.5%	54.4%	55.1%	55.0%	53.6%
Unemployment rate(3)	6.5%	6.1%	6.2%	9.7%	9.2%
Santiago:					
Labor force	2,352	2,416	2,481	2,541	2,541
Employment(1)	2,186	2,245	2,314	2,274	2,288
Participation rate(2)	58.1%	58.4%	59.9%	59.4%	56.6%
Unemployment rate(3)	7.1%	7.1%	6.7%	10.5%	10.0%

(1) To be considered employed, a person must work for at least one paid hour per week.
(2) Labor force as a percentage of the total population above the minimum age requirement.
(3) Unemployed population above the minimum age requirement as percentage of the labor force.
Source: National Statistics Institute.

An increase in women's participation in the labor force, from 31.7% in 1990 to 35.0% in 2000, has led to a substantial change in the composition of the labor market.

The sectoral composition of employment in Chile generally mirrors the sectoral composition of GDP. The most notable deviation is in the mining sector, which accounted for approximately 10.1% of GDP in 2000, while employing only approximately 1.3% of Chile's labor force. In 2000, the manufacturing, trade and catering and financial services sectors employed 40.4% of Chile's labor force and contributed 44.9% of GDP. In 2000, the agriculture, livestock and forestry and fishing sectors contributed 7.6% of GDP, but accounted for 14.4% of Chile's labor force because of this sector's labor intensive nature.

The following table sets forth information regarding the percentage of the labor force by sector of the economy for the periods indicated.

Employment
(% by sector)

	1996	1997	1998	1999(1)	2000(1)
PRIMARY SECTOR					
Agriculture, livestock and forestry and fishing	15.4%	14.4%	14.4%	14.4%	14.4%
Mining	1.7	1.6	1.5	1.4	1.3
MANUFACTURING SECTOR	16.2	16.0	15.1	14.3	14.0
SERVICES SECTOR					
Construction	7.9	9.1	8.3	7.2	7.5
Electricity, gas and water	0.8	0.6	0.7	0.5	0.5
Trade and catering	17.6	18.1	18.5	19.0	18.5
Financial services	7.0	7.0	7.5	7.2	7.9
Transport and communications	7.4	7.5	8.0	7.5	8.0
Community and social services	26.0	25.7	26.1	28.5	27.8
Other activities	0.0	0.0	0.0	0.0	0.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) *Source:* National Statistics Institute.

At December 31, 2000, approximately 13.6% of the total labor force in Chile was unionized, concentrated primarily in the electricity, gas and water and mining sectors of the economy. Reforms to the labor code in 1990 have removed significant restrictions on the right to strike. Contracts for wages of unionized employees are negotiated by individual employers, rather than on an industry-wide basis. According to legislation passed in 1994, government employees may form associations similar to unions, but cannot strike.

From 1996 to 2000, there have been minor work stoppages in the public and private sectors. In 1998, work stoppages in the public sector included a 17-day stoppage by teachers.

A labor reform project was recently enacted by the Congress. The primary objective of the reform is to facilitate collective bargaining at the firm level, fostering competition and allowing the market to operate efficiently so as to reduce the rate of long term unemployment. The bill eliminates restrictions on unionization following ILO guidelines and in general strengthens the defense of civil rights in the work place. Flexible labor contracts are also contemplated, allowing, among others, for part-time, flexible time, work at home, temporary, and special training contracts. Collective bargaining under the reform continues to be held at the firm level, but it may be voluntarily extended to a group of firms, requiring the explicit agreement of all participating employers and unions. Employers under the reform may hire replacement workers during a labor dispute, subject to a fee paid into a fund that benefits striking workers once the dispute has been resolved.

With respect to unemployment insurance, in May 2001 a law was enacted creating a system that seeks to assure stability of income during the period when new employment is sought. The system has two parts, combining mandatory contributions of workers together with a contribution of employers in individual unemployment accounts and a solidarity fund, comprised of a contribution of employers and an annual fiscal contribution. The resources will be administered by a private fund manager and the law is expected to begin operation by 2002.

Wages

Real wages grew at an average rate of 2.6% between 1996 and 2000. Although varying rates of productivity growth have resulted in employment shifts between sectors, the government does not believe that Chile has suffered from wage inflationary pressures. The hourly real wage index reached an annual growth rate of 2.4% in December 1999 and a decrease of 1.3% in December 2000.

Labor productivity grew at an average annual rate of 3.6% across the sectors in the period between 1996 and 2000.

In the 1980s, public sector wages were indexed to past inflation rates. Public sector wages are now adjusted according to the estimated inflation rate for the following year.

Real Wages
(% change from previous year)

	1996	1997	1998	1999(1)	2000(1)
Average real wages	4.1%	2.4%	2.6%	2.4%	1.3%
Public sector (1)	6.2%	4.1%	4.1%	3.6%	2.6%
Private sector	3.4%	1.8%	1.9%	2.0%	0.9%
Average change in productivity (2)	5.6%	5.6%	1.6%	0.9%	4.3%

(1) Corresponds to community and social services sector.
(2) Derived from change in real GDP per worker.
Sources: Central Bank, Ministry of Finance and National Statistics Institute.

Poverty; Distribution of Wealth

Over the last ten years poverty has fallen in Chile. The percentage of the population living with a per capita income below the poverty line fell from 38.6% in 1990 to 20.6% in 2000. This reduction in poverty can be attributed to strong GDP growth, rising wages, rapidly increasing employment and a significant increase in government transfers to low income groups.

Social expenditures also have helped to improve income distribution. In fact, the poorest 20% of the population have increased their share of national income from 3.7% to 6.4% in 2000, while the share of the wealthiest 20% decreased from 57.5% to 53.4% during the same year. In addition, in 2000 the poorest 40% received 68.8% of total social spending and the wealthiest 40% received only 12% of those resources.

The following table sets forth information regarding the evolution of poverty for the periods indicated.

Evolution of Poverty(1)
(% of Population)

	Extreme Poverty(2)	Total Poverty(3)
1990	12.9	38.6
1992	8.8	32.6
1994	7.6	27.5
1996	5.8	23.2
1998	5.6	21.7
2000	5.7	20.6

(1) Poverty is defined as households with a per capita monthly income lower than twice the threshold for extreme poverty.
(2) Extreme poverty is defined as households with a per capita monthly income lower than the cost of a basket of subsistence goods. In 2000, extreme poverty was a per capita monthly income below Ps.20,281 for urban areas and Ps.15,628 for rural areas.
(3) Total poverty includes extreme poverty.
Source: Ministry of Planning.

The reduction in poverty can also be attributed to the government's emphasis on social programs which allocate funds based on degree of need. Public social expenditure as a percentage of the total public expenditure increased from 60.6% in 1991 to 69.1% as budgeted for 2000. These social programs have contributed to the decrease of extreme poverty from 12.9% in 1990 to 5.7% in 2000.

The government's spending in the social sector has increased 96% in real terms from 1991 to 2000. Budgets for education and health increased by over 100% in real terms from 1991 to 2000. The following table sets forth information regarding social public spending by the government in 1991 and 2000.

Social Public Spending
(in billions of constant pesos of 2000)

	1991	2000(1)	% change 1991 to 2000
Education	Ps. 645	1,577	144%
Health	525	1,099	109
Housing	263	360	37
Social Security	1,489	2,600	75
Others	268	625	133
Total	Ps. 3,190	Ps. 6,261	96%

Source: Budget Office.

Chile is highly concentrated both in terms of income distribution and location of economic activity. In 2000, the wealthiest 10% of municipalities captured 62.7% of the municipal systems' income (mainly through real estate taxes), while the poorest 10% held only 0.3% of those resources.

The government created the Municipal Fund as part of its efforts to improve the distribution of wealth within Chile. The Municipal Fund is a mechanism which pools a percentage of revenues from fees collected by Chile's 341 municipal governments on license plates and certain licenses, as well as a portion of the amounts allocated to these municipal governments by the central government from the collection of real estate taxes. The Municipal Fund redistributes a portion of these municipal revenues to lower income municipalities. See "Public Sector Finance—General—Public Sector Accounts."

The following table sets forth information regarding income distribution in 2000 by quintile in Chile.

Income Distribution in 2000 With and Without Social Programs
(% of total income)

Population Quintiles	Individual Income (a)	Monetary Subsidies and Social Programs (b)	Total Income (a) + (b)
20%	3.7%	40.0%	6.4%
20%-40%	8.1	28.8	9.7
40%-60%	12.2	19.2	12.7
60%-80%	18.5	10.3	17.9
80%-100%	57.5	1.7	53.4

Source: Budget Office and Ministry of Planning.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Chile's external accounts reflect the country's high degree of financial and trade integration with the rest of the world, a state of affairs that began in the 1970s with the trade liberalization process and has been consolidated in 2001 through capital account liberalization. In terms of external accounts, Chile's balance of payments registered a surplus between 1987 and 1997, largely attributable to dynamic exports and record capital inflows, specifically direct investments, portfolio investments and other medium- and long-term capital. In contrast, in 1998 and 1999, Chile's balance of payments registered a deficit of US$2.1 billion and US$0.7 billion, respectively, mainly due to the effect of lower commodity prices and lower net capital inflows, in the context of the Asian crisis and other international events. During 2000, the balance of payments returned to a surplus, which amounted to US$0.2 billion. However, the recent decrease in world economic activity and its consequences on commodity prices, particularly copper, will most likely have an adverse impact on the balance of payments for 2001.

Current Account

The current account involves movements of the trade balance, non-financial services (mainly trade-related services, such as insurance and transportation fees and travel services), net interest payments, dividends and transfer payments (primarily taxes).

The government believes that there have been and remain many economically viable investment projects and investment opportunities in Chile requiring the use of foreign savings to support the financing demands of the economy's investment needs. The government also believes that given the stage of Chile's economic development, the level of aggregate domestic demand will exceed the level of national income, resulting in a current account deficit. During the 1990s, the government's aim was to maintain the current account deficit in line with medium and long term external financing possibilities. Currently, and given the fact that the country adopted a floating exchange rate regime, the authorities maintain a permanent monitoring of the current account, in order to reduce the country's vulnerability to external shocks.

During the first half of the 1990s, the Chilean economy experienced a moderate current account deficit, on average, of 2.5% of GDP. In contrast, between 1996 and 1998, the current account deficit reached rates of over 5% of GDP, primarily due to a deficit in the trade balance. In this context the Central Bank, in coordination with the government, implemented large-scale adjustment policies to moderate the expansion of aggregate demand, including the increase of interest rates, which led to a reduction in the current account deficit to almost balance in 1999 and 1.4% of GDP in 2000. In 2001, the current account deficit is expected to reach 2.2% of GDP as a result of lower terms of trade.

In terms of the current account components, the trade balance has exhibited major improvements in the last years, from a deficit of US$2.5 billion in 1998 to a surplus of US$1.4 billion in 2000. This favorable evolution of the trade balance is the result of a highly diversified export base which makes Chile's economy less vulnerable to external shocks. The second major component of the current account corresponds to interest payments, profits and dividends. From 1996 to 2000, net interest payments increased from US$666 million to US$947 million, due to the fact that lower interest payments by the public sector were offset by higher interest payments by the private sector. In terms of profits and dividends, net payments in the form of profit repatriation and dividends increased from US$1.1 billion in 1999 to US$1.5 billion in 2000. Taking into account net transfers of US$538 million, the current account deficit in 2000 reached US$988 million.

Capital Account

The counterpart of the current account deficit is the capital account balance, which represents net foreign investment in Chile. The capital account includes direct investments, portfolio investments and short-, medium- and long-term indebtedness.

During the last decade, capital inflows to Chile increased considerably. Capital inflows, measured as capital account surplus (excluding change in reserves), averaged 7.4% of GDP from 1996 to 1998. These inflows, however, were partially offset by accumulation of international reserves by the Central Bank. In addition, while Chile incurred new foreign debt, it did so at a rate lower than the growth rates of GDP and exports. Furthermore, mainly due to the *encaje*, the ratio of long-term funds relative to short-term capital increased. In recent years, there has been a significant reduction in net capital inflows.

During the 1990s, Chile conducted a gradual process of capital account liberalization, designed to attain full integration to the international capital markets, while avoiding major disruptions that could endanger macroeconomic and financial stability during the process. The opening of the capital account was fully completed in April 2001, when the Central Bank removed the remaining restrictions in foreign exchange operations, including among others, the *encaje* on capital inflows and the authorization requirement that was in place for a number of capital transactions. This step was justified on the basis of:

- the consolidation of a long period of solid macroeconomic fundamentals;
- the successful adoption of a floating exchange rate and inflation targeting regime;
- the convergence of the inflation rate to that of industrial countries;
- a fiscal policy aimed at a small structural surplus;
- a high standard of solvency of the financial system, including development of instruments to hedge exchange rate risk and regulations that take into account the exchange-rate risk of bank clients;
- increased diversification of foreign trade; and
- a high level of international reserves.

However, the requirement that payments of international offerings of securities, among others foreign exchange transactions, be made through the formal exchange market formed by the banks and other entities authorized by the Central Bank remains in place. The Central Bank is authorized by law to implement or reinstate foreign exchange controls when required.

In addition, the government has also taken actions to promote greater international diversification of the portfolio of domestic investors, such as broadening the range of permitted investments by these investors, particularly those of regulated institutional investors. As a result of the capital account liberalization process and the higher portfolio diversification of domestic investors, the total volume of capital flows is expected to increase in both directions, either as capital inflows or outflows.

In the last few years, measures have been taken to facilitate issuing abroad of debt denominated in local currency. The Central Bank authorized the issuance of domestic currency indebtedness abroad in 1998, and recently, the difference between the tax withheld from payments of interest on foreign debt in domestic currency and the tax on interest on debt in foreign currency was eliminated.

In addition, since 2000 foreign entities have issued four bonds denominated in UF. First, the World Bank issued a five year bond in 2000 valued at Ps.55 billion, which was followed by two bond issues by the Republic of Uruguay, one in 2000 valued at Ps.82 billion and one in 2001 valued at Ps.88.2 billion, with maturities of seven and ten years, respectively. Recently, Hilton Hotels Corporation issued a UF-linked bond with an eight year maturity valued at Ps.67.7 billion. Issuers have carried out swap operations, subsequent to the debt issues, in order to eliminate the exchange rate risk related to these securities.

These operations allow a diversification of exchange rate risk in Chile, since domestic and foreign institutional investors with a demand for UF notes can diversify by investing abroad in those notes. They are also intended to contribute to developing an external market that can provide domestic firms with additional hedging and financing alternatives, which may be important to firms that are indebted in foreign currency but prefer to borrow in UF.

In 2000, the capital account (excluding change in reserves) registered a surplus of US$1,198 million as compared to US$–764 million in 1999, US$3.25 billion in 1998 and US$7.38 billion in 1997. The capital account surplus was approximately –1.1% of GDP and 1.7% of GDP in 1999 and in 2000, respectively.

Balance of Payments
(in millions of US$)

	1996(1)	1997(1)	1998(1)	1999(1)	2000(1)
Current account:					
Merchandise trade:					
Exports	US$15,405	US$16,663	US$14,830	US$15,616	US$18,158
Imports	(16,496)	(18,220)	(17,346)	(13,951)	(16,722)
Merchandise trade balance	(1,091)	(1,557)	(2,517)	1,664	1,436
Services: (2)					
Non-financial services:					
Outflows	(3,922)	(4,061)	(4,234)	(4,105)	(4,487)
Inflows	3,661	4,109	4,119	3,790	3,929
Non-financial services, net	(261)	48	(115)	(315)	(558)
Interest:					
Interest paid	(1,328)	(1,418)	(1,508)	(1,506)	(1,893)
Interest received	662	844	870	738	946
Interest, net	(666)	(574)	(638)	(768)	(947)
Profits and dividends:					
Outflows	(2,133)	(2,404)	(1,600)	(1,476)	(2,122)
Inflows	131	240	262	363	666
Profits and dividends, net	(2,002)	(2,164)	(1,338)	(1,113)	(1,456)
Leasing services	0	0	0	0	0
Financial Services	(2,667)	(2,738)	(1,975)	(1,881)	(2,404)
Total Services, net	(2,929)	(2,690)	(2,091)	(2,196)	(2,962)
Current transfers, net(3)	508	519	463	453	538
Total current account	(3,512)	(3,728)	(4,144)	(78)	(989)
Capital account:					
Direct Investment:					
Outflows	(1,188)	(1,866)	(2,797)	(4,855)	(4,778)
Inflows	4,633	5,219	4,638	9,221	3,674
Direct investments, net	3,445	3,353	1,842	4,366	(1,103)
Portfolio investments: (4)					
Outflows	(130)	(237)	(1,419)	(2,366)	(148)
Inflows	1,230	2,602	590	2,496	(113)
Portfolio investments, net	1,100	2,365	(829)	130	(261)
Other medium- and long-term capital, net	504	3,247	3,313	65	241
Other short-term capital, net	293	(1,584)	(1,071)	(5,325)	2,322
Total capital account without reserves	5,342	7,381	3,254	(764)	1,199
Change in reserves	(1,181)	(3,209)	2,066	683	(198)
Total capital account	4,161	4,172	5,320	(80)	1,001
Errors and omissions(5)	(650)	(444)	(1,176)	158	(12)
Total balance of payments	US$ 1,181	US$3,209	US$(2,066)	(683)	198

(1) Preliminary.
(2) Includes financial, legal and other non-financial services.
(3) Current transfers consist of transactions without a quid pro quo, many of which are gifts.
(4) Includes bonds, commercial paper and notes.
(5) *Constitutes a residual item which is periodically revised as additional information regarding the current and capital accounts becomes available.*
Source: Central Bank.

Foreign Trade

Merchandise Trade

Chile's trade is diversified among countries of the Americas, Europe and Asia. In 2000, 40.1% of Chile's exports went to the Americas (of which approximately 22.7% went to NAFTA countries, 5.3% to Brazil and 3.5% to Argentina), 26.6% went to Europe and 30.9% went to Asia. Japan and the United

States are Chile's main trading partners, accounting for 13.9% and 16.8% of total exports in 2000, respectively.

Merchandise exports have diversified and increased substantially over time from US$15.4 billion in 1996 to approximately US$18.2 billion in 2000. From 1996 to 2000, the value of Chile's merchandise exports grew at an average annual rate of 4.2%. Chile's traditional merchandise exports are mining products (principally copper), which accounted for approximately 62.0% of the total merchandise exports in 1985. Chile's traditional merchandise exports declined to 43.2% of total merchandise exports in 1993, but since 1993 they have generally increased as a percentage of total exports (to 46.4% in 2000) primarily due to the development of large-scale mining projects by public and private sector mining companies. Since the mid-1980s Chile has increased its exports of nontraditional goods, namely seafood, agricultural products and wine.

Since 1993, Chile has increased and diversified imports due to:

- increased production and economic activity;

- the reduction of tariff rates; and

- the real appreciation of the peso against other currencies, which has made imports relatively inexpensive to Chilean consumers.

The largest portion of Chile's imports consists of intermediate goods accounting for 60.8% of total imports in 2000. The share of consumer good imports decreased from 18.8% of total imports in 1996 to 18.7% in 2000. Imports of capital goods have declined from an average of 27.3% of total imports from 1996 to 1998 to 20.5% of total imports in 2000.

The following tables set forth information on exports and imports for the periods indicated.

Exports of Goods (FOB)
(in millions of US$ and % of total exports)

	1996(1)		1997(1)		1998(1)		1999(1)		2000(1)	
Mining:										
Copper	US$ 6,029	39.1%	US$ 6,841	41.1%	US$ 5,332	36.0%	US$ 5,889	37.7%	US$ 7,347	40.5%
Metallic gold and bullion	423	2.7%	374	2.2%	274	1.8%	248	1.6%	294	1.6%
Iron	147	1.0%	150	0.9%	164	1.1%	126	0.8%	142	0.8%
Nitrate and iodine	163	1.1%	220	1.3%	253	1.7%	215	1.4%	209	1.2%
Molybdenum oxide and ferromybdenum	224	1.5%	247	1.5%	224	1.5%	171	1.1%	181	1.0%
Other	338	2.2%	300	1.8%	257	1.7%	285	1.8%	257	1.4%
Total mining	7,324	47.6%	8,132	48.8%	6,504	43.9%	6,934	44.4%	8,430	46.4%
Agriculture, live stock, forestry and fishing:										
Fruit	1,205	7.8%	1,194	7.2%	1,180	8.0%	1,121	7.2%	1,122	6.2%
Timber	103	0.7%	93	0.6%	17	0.1%	39	0.2%	32	0.2%
Other	286	1.9%	342	2.1%	379	2.6%	370	2.4%	402	2.2%
Total agriculture, livestock, forestry and fishing	1,594	10.3%	1,629	9.8%	1,576	10.6%	1,530	9.8%	1,556	8.6%
Industrial:										
Fishmeal	608	3.9%	550	3.3%	346	2.3%	278	1.8%	233	1.3%
Processed salmon	392	2.5%	469	2.8%	516	3.5%	603	3.9%	729	4.0%
Wine	293	1.9%	424	2.5%	528	3.6%	537	3.4%	581	3.2%
Sawn wood	240	1.6%	301	1.8%	239	1.6%	287	1.8%	321	1.8%
Bleached and unbleached pulp	725	4.7%	680	4.1%	689	4.6%	773	5.0%	1,111	6.1%
Methanol	91	0.6%	211	1.3%	125	0.8%	136	0.9%	297	1.6%
Other	4,138	26.9%	4,267	25.6%	4,307	29.0%	4,538	29.0%	4,900	27.0%
Total industrial	6,487	42.1%	6,902	41.4%	6,750	45.5%	7,152	45.8%	8,172	45.0%
Total exports	US$ 15,405	100.0%	US$ 16,663	100.0%	US$ 14,830	100.0%	US$ 15,616	100.0%	US$ 18,158	100.0%

Imports of Goods (CIF)
(in millions of US$ and % of total imports)

	1996(1)		1997(1)		1998(1)		1999(1)		2000(1)	
Imports (CIF):										
Consumer goods	US$ 3,346	18.8%	US$ 3,616	18.4%	US$ 3,463	18.4%	2,833	18.7%	3,381	18.7%
Intermediate goods	9,703	54.4	10,557	53.7%	10,205	54.3%	9,008	59.5%	11,007	60.8%
Capital goods	4,774	26.8	5,490	27.9%	5,112	27.2%	3,297	21.8%	3,702	20.5%
Total imports (CIF)	US$ 17,823	100.0%	US$ 19,663	100.0%	US$ 18,780	100.0%	US$ 15,138	100.0%	US$ 18,090	100.0%
Total imports (FOB)	US$ 16,496		US$ 18,220		US$ 17,346		US$ 13,951		US$ 16,722	

(1) Preliminary.
Source: Central Bank.

Geographical Distribution of Merchandise Trade
(% of total exports/imports)

	1996	1997	1998	1999	2000
EXPORTS (FOB)					
Americas					
Argentina	4.6%	4.6%	4.9%	4.6%	3.5%
Brazil	6.1	5.6	5.6	4.5	5.3
United States	16.6	15.9	16.4	18.3	16.8
Other	10.0	11.1	14.3	13.9	14.5
Total Americas:	37.3%	37.2%	41.2%	41.3%	40.1%
Europe:					
EU: (1)					
France	2.6	2.7	3.0	3.1	3.4
Germany	4.8	4.4	3.8	3.6	2.5
Italy	3.1	2.9	4.5	4.1	4.5
United Kingdom	5.8	6.2	7.9	6.8	5.9
Other EU	7.6	8.2	8.9	8.6	8.4
Total EU	23.9	24.4	28.1	26.2	24.7
EFTA(2) and other	2.0	1.4	1.1	1.5	1.9
Total Europe	25.9%	25.8%	29.2%	27.7%	26.6%
Asia:					
Japan	16.2	15.7	13.8	14.4	13.9
Korea	5.6	5.8	2.8	4.4	4.4
Taiwan	4.1	4.6	3.6	3.2	3.3
Other Asia	7.6	7.9	7.4	7.3	9.3
Total Asia	33.5	34.0	27.6	29.3	30.9
Other(3)	3.3	3.0	2.0	1.7	2.4
Total exports	100.0%	100.0%	100.0%	100.0%	100.0%
IMPORTS (CIF)					
Americas					
Argentina	9.4	9.3	10.1	13.4	15.9
Brazil	6.1	6.3	5.8	6.4	7.4
United States	23.7	22.0	21.4	20.0	18.5
Other	14.6	13.7	12.3	12.8	12.8
Total Americas:	53.8%	51.3%	49.6%	52.6%	54.6%
Europe:					
EU: (1)					
France	3.3	2.6	3.6	2.8	2.5
Germany	4.2	4.3	4.3	4.1	3.4
Italy	3.2	3.6	3.3	3.4	2.3
United Kingdom	1.6	1.6	1.3	1.2	1.0
Other EU	8.1	8.0	7.7	7.3	6.7
Total EU	20.4	20.1	20.5	18.8	15.9
EFTA(2) and other	2.0	1.4	1.7	2.0	1.8
Total Europe	22.4%	21.5%	22.2%	20.8%	17.7%
Asia:					
Japan	5.5	5.4	5.3	4.2	3.9
Korea	3.2	3.0	2.9	2.7	3.0
Taiwan	1.3	1.1	1.1	1.1	1.1
Other Asia	6.0	6.4	7.1	7.8	8.3
Total Asia	16.0	15.9	16.4	15.8	16.3
Other(3)	7.8	11.3	11.8	10.8	11.4
Total imports	100.0%	100.0%	100.0%	100.0%	100.0%

(1) European Union.
(2) European Free Trade Association.
(3) Includes Africa, the Middle East and other countries.
Source: Central Bank.

Services Trade

Non-financial services include transportation, passenger services, port services and the travel industry. The travel industry, particularly tourism, is the largest contributor to the service trade sector. During 2000, 1.7 million tourists visited Chile of which 49% came from Argentina. Estimated gross tourism receipts for 2000 were US$0.8 billion. However, net tourism receipts decreased during the 1990s due to increased travel abroad by Chileans. See "The Economy—Principal Sectors of the Economy—Trade and Catering."

Trade Policy

Chile's foreign trade policy is aimed at the integration of Chile into the global economy and the creation of commercial opportunities for Chilean goods and services abroad. This policy combines unilateral trade measures with bilateral, regional and multilateral negotiations, including the reduction of trade barriers, increased transparency and the establishment of dispute settlement mechanisms.

On January 1, 2001, the customs duties rate was reduced from 9% to 8%, which rate will be reduced 1% annually until a 6% flat rate is achieved in the year 2003. These reductions in the customs duties rate have been approved by Congress and no other approvals are necessary for their implementation. As part of this law, Congress also eliminated certain subsidies, reduced certain nontariff trade barriers, took measures to avoid the dumping of products and enhanced the protection of intellectual property rights.

In 1994, Chile became a party to the Marrakech Agreement (WTO), which became a law of the country. To enhance bilateral regional and multilateral negotiations, Chile signed agreements with Canada, Mexico, Colombia, Ecuador, Peru and Venezuela. Chile negotiated limited agreements with Bolivia and Cuba in 1993 and 1998, respectively. In 1994, Chile joined the Asia-Pacific Economic Cooperation or APEC. In 1996, Chile signed a framework agreement with the European Union and an association agreement with Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). Chile is in the final stage of negotiations of a free trade agreement with Central America and is currently participating in the Free Trade Area of the Americas or FTAA negotiations.

Negotiations for an association with the EU started in June 2000 and in December of this year the US and Chile agreed to negotiate a comprehensive free trade agreement. In addition, Chile is currently in negotiations for a goods and services trade agreement with the European Free Trade Association. The first formal round was in March 2001, and three rounds have taken place.

Since November 1994, Chile has been a member of APEC, a forum committed to the liberalization and opening of trade and investments in the Asia-Pacific area. APEC has set deadlines for achieving free trade for the industrialized economies by 2010 and for the developing ones by 2020. Chile is committed to meeting the deadlines for industrialized economies. Between 1999 and 2000, exports to Asia increased from US$4.6 billion to US$5.6 billion, while imports increased from US$2.4 billion to US$3.0 billion, representing increases of 21.7% and 25.0%, respectively.

In December 1994, at the first Summit of the Americas held in Chile, the 34 leaders of the Americas agreed to negotiate the creation of a FTAA by the year 2005. In April 1998, at the Second Summit of the Americas, the FTAA negotiations were officially launched. Participants in the FTAA established nine negotiating groups on market access, agriculture, investment, subsidies, antidumping and countervailing duties, intellectual property rights, government procurement, services and competition policies and dispute settlement mechanisms. Chile is an active participant of these negotiations to create a free trade area in the Western Hemisphere.

From 1999 to 2000, exports and imports between Chile and the European Union increased 9.7% and 1.1%, respectively. In June 1996, Chile signed a framework agreement with the European Union to strengthen political dialogue, liberalize trade, promote joint investments and scientific, cultural and technological cooperation. While total exports declined 3.9% in 1996, this trade agreement helped Chile recover from this decline with an increase up to US$ 4.5 billion in 2000. In June 1996, the four Mercosur members agreed to include Chile in Mercosur with a special associate status. On October 1, 1996, Chile became a participant in Mercosur arrangements pursuant to a free-trade agreement, but does not participate in Mercosur's common external tariff, which is higher than Chile's. The majority of traded products will be free of tariff duties by 2004, with the remaining traded products free of tariff duties by 2014. Imports from Mercosur countries increased from US$3.1 billion in 1999 to US$4.3 billion in 2000, while exports increased from US$ 1.5 billion in 1999 to US$1.7 billion in 2000.

Foreign Direct Investment

Chile's constitutional and legislative framework requires equal treatment of foreign and local investors and foreign access to all economic sectors. The 1974 Foreign Investment Statute, known as Decree Law 600, sets forth the general rules applicable to foreign investors and repatriation of capital and earnings and governs new foreign investment in freely convertible currency as well as in assets, technology, investment related credits and capitalized earnings.

Under Decree Law 600, the Chilean Foreign Investment Committee, acting as the authorized representative of the government, enters into a contract with each foreign investor, which stipulates the time period during which the investment or investments must be made. In the case of mining investments, the period is generally eight years. In all other economic sectors, it is generally three years. As a general rule, foreign exchange transactions must be effected through authorized banks and financial institutions.

As an alternative to Decree Law 600, under the provisions of the Central Bank Foreign Exchange Regulations, foreign investors may freely bring capital contributions and loans to Chile by way of convertible foreign currency. Nevertheless, this alternative does not provide foreign investors with special protection against possible changes in laws relating to taxes, dividends or repatriation of profits. Chile has signed a series of bilateral investment protection and promotion treaties designed to guarantee an even greater degree of security to foreign investors.

Foreign direct investment (FDI) made through the Decree Law 600 mechanism totaled US$3.0 billion in 2000 and US$3.1 billion for January 1 to June 30, 2001. FDI in Chile traditionally has been directed towards the mining sector which accounted for 69.8% of total foreign investment in 1994 (a high in the 1990s). Recently, however, a trend towards diversification has made the electricity and service sectors increasingly appealing to foreign investors. FDI in these sectors totaled US$4.5 billion and US$1.9 billion in 1999 and US$0.9 billion and US$0.7 billion in 2000, respectively. During the same periods, FDI directed towards mining products decreased to US$1.2 billion, representing 13.4% of total foreign investment, and US$0.2 billion, representing 7.9% of total foreign investment, respectively. While the trend of total FDI under Decree Law 600 has been a steady increase since the early nineties, the particular sectors in which foreign investments have been made has varied from year to year primarily due to the effects of individual large scale projects. In fact, the exceptionally high amount of FDI in 1999 is explained by investments in the power sector by a Spanish company.

Historically, investors from the United States have represented the largest component of FDI in Chile. U.S. investment totaled approximately US$13.5 billion from the inception of Decree Law 600 in 1974 to 2000, representing 30.9% of total accumulated FDI. However, in the last few years U.S. investment in Chile has been decreasing as a percentage of total FDI, representing 21.0% and 24.5% in

1999 and 2000, respectively. This relative decrease in FDI coming from the U.S. was offset by large individual projects from other countries as well as trade liberalization policies which have attracted capital from other foreign investors.

The following table presents the changes in foreign direct investments, including capital and debt, made under Decree Law 600 by sector for the periods indicated.

Foreign Investment under Decree Law 600 by Sector(1)
(in millions of US$)

	1996	1997	1998	1999	2000(2)
Mining	US$ 999	US$ 1,706	US$ 2,393	1,220	236
Services	1,958	1,197	2,006	1,909	684
Manufacturing	917	593	530	780	202
Electricity, gas and water	406	1,395	495	4,559	860
Transport and communications	459	171	211	359	870
Construction	26	114	280	215	29
Agriculture, livestock and Forestry	36	43	49	40	25
Fishing	21	12	9	1	93
Total	US$ 4,822	US$ 5,231	US$ 5,973	US$ 9,083	US$ 2,999

(1) Including capital and debt.
(2) Preliminary.
Source: Foreign Investment Committee.

MONETARY AND FINANCIAL SYSTEM

Role of the Central Bank

In 1989, the Chilean Constitution created the Central Bank as an autonomous legal entity. The Central Bank is subject to the Central Bank Act, which has the rank of a constitutional organic law. To the extent that it is consistent with this law, the Central Bank is also subject to the private sector's laws and regulations. A Board of Directors, composed of five members, governs and administers the Central Bank. The President of Chile, with the prior consent of the Senate, appoints each member of the Board of Directors for staggered ten-year periods.

According to the Chilean Constitution, the main objectives of the Central Bank are to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment systems. To fulfill this purpose the law gives the Central Bank the authority to set reserve requirements, to regulate the amount of money and credit in circulation, to operate as a lender of last resort and to establish regulations and guidelines regarding financial institutions, the formal exchange market and bank deposit-taking activities. These attributes allow the Bank to set up its main policy tools: monetary and exchange rate policy.

Monetary and Exchange Rate Policy

Monetary policy has been carried on by the Central Bank setting an explicit annual inflation target. Between 1990 and 2000 this target was set on the year-end CPI inflation. Under this regime the Chilean economy achieved a gradual but steady reduction in inflation, from 27.3% in 1990 to 4.5% in 2000. When steady-state inflation levels were attained, the Central Bank changed its goal to a medium-term inflation target. Currently, this target corresponds to a 2 to 4% target range (centered on 3%) for CPI inflation, defined over a rolling window of 8 quarters.

With regard to the exchange policy, an exchange rate band was in place from the mid-1980s until September 1999, when a floating exchange rate regime was adopted. This new regime was adopted only when other economic conditions that were consistent with it were previously attained. In particular, the achievement of a low and stable inflation rate; the redefinition of the Central Bank's inflation target; adequate financial regulation which introduces appropriate matching standards for money and interest rates; the development of exchange rate and financial hedging instruments; and improvements in private risk management.

Monetary Policy and Interest Rate Evolution

The Central Bank has carried out its monetary policy through a target for the interest rate. The target is currently the daily interbank nominal interest rate. Before May 1995, the Central Bank targeted the offer rate on 90-day indexed promissory notes with a prefixed interest rate by the sale of its 90-day notes. Since 1995, the Central Bank has carried out its monetary policy through a target for the daily interbank real interest rate. The use of nominal interest rates is a very recent phenomenon; only in August 2001 did the Central Bank shift its monetary instrument from an indexed interest rate to a nominal interest rate target. The nominal rate was initially set in August 2001 at 6.5%, in line with the 3.5% real rate set in June 2001 and 3% expected inflation (the Central Bank's medium-term inflation target). The use of an interest rate target instead of a monetary aggregate target is based on the instability exhibited by the domestic money demand.

The use of nominal instead of real interest rates is part of the modernization of the monetary policy framework. This process allows a reduction in the volatility of nominal instruments, especially exchange rate and monetary liquid aggregates volatility. It is also intended to simplify international financial integration, expedite risk management and give more transparency to the interest rate itself. This change is also coherent with current macroeconomic conditions, in particular, low and stable inflation, high credibility of the Central Bank inflation target and a relatively developed nominal financial market.

The Central Bank has other instruments to regulate market liquidity. Banks and other financial institutions have a liquidity deposit account at the Central Bank, where a one-day deposit can earn a predetermined interest rate. This deposit account establishes an effective lower threshold for short-term interest rates. Additionally, financial institutions have a liquidity credit line at the Central Bank for which they pay an overnight pre-determined interest rate. This credit line is divided into three tranches, each of which has a different interest rate. For each bank, the first tranche is 40% of the total credit line, and the second and third tranches are 30% of the total line each. The total credit line is equivalent to 60% of each bank's reserve requirements. These restrictions have impeded the attractiveness of the liquidity credit lines. The Central Bank conducts the short-term management of liquidity mainly through repurchase agreements.

Repurchase agreements are a complementary liquidity line for banks, for which the Central Bank announces a daily rate whereby banks indicate which instruments they wish to sell to the Central Bank. To maintain the base interest rate at the desired level, the Central Bank conducts open-market operations involving the purchase of repurchase agreements that use promissory notes with maturities of less than seven days, or the sale of reverse repurchase agreements, which is the selling of an asset with a simultaneous agreement to repurchase the asset at a specified price.

The trajectory of the interest rate has been determined by domestic and external economic evolution, and especially by the prevailing exchange rate regime. After reaching 14.0% in September 1998 in order to address international economic volatility and what the Central Bank viewed as excessive demand, the target average real interbank rate has experienced several reductions. In December 1998, the Central Bank lowered the rate to 7.8%, and further reductions during 1999 set the rate at 7.0% in March, 6.5% in April, 6% in May, 5.75% in June and 5% in July. To account for inflationary pressures, the Central Bank decided to raise the rate, setting it at 5.25% and 5.5% in January and February 2000. However, this movement was short-lived, and as inflation remained under control the target average real interest rate was reduced to 5% in August 2000 and, during 2001, the rate was set at 4.75% in January, 4.5% in February, 4% in March, 3.75% in April and 3.5% in June. Since August 2001, the Central Bank has changed its policy instrument from real to nominal rates. Given expected inflation of 3% (consistent with the Bank's medium-term inflation target), the target average nominal interbank rate was set to 6.5% (the nominal equivalent of the target average real interbank rate in place until that date). In addition, the 1999 exchange rate liberalization has improved the Central Bank's ability to respond to shocks, in the sense that part of these adjustments are now absorbed by changes in the exchange rate, and not only by changes in interest rates, thus contributing to the stability of interest rates.

The following table sets forth the Central Bank's average interest rates for the periods indicated.

Central Bank Average Interest Rates

Year	PRC Eight Year(1)	Target Average Real Interbank Rate
1995	6.2%	6.1%
1996	6.3	7.3
1997	6.5	6.9
1998	7.5	9.0
1999	6.5	5.9
2000	6.4	5.3

(1) Central Bank eight-year notes with coupons.
Source: Central Bank

Foreign Exchange and International Reserves

The current exchange rate policy is characterized by a free floating regime with unrestricted access to the exchange rate market. However, this reflects a long but gradual liberalization process.

Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only when explicitly authorized by the Central Bank. The Central Bank Act in 1989 liberalized the rules that governed the purchase and sale of foreign exchange, but allows the Central Bank to require that certain purchases and sales of foreign exchange be carried out in the formal exchange market. This market historically has been formed by banks and other financial entities authorized by the Central Bank. In the formal exchange market, the Central Bank set a reference exchange rate based on the pegged value of a basket of currencies. The Central Bank adjusted daily the reference exchange rate to reflect the differences between the domestic inflation target and foreign inflation based on Chile's trade with certain countries.

Purchases and sales of foreign exchange could also be carried out in the informal exchange market. The informal exchange market reflected the supply and demand for foreign currency. There were no limits imposed on the extent to which the exchange rate in the informal exchange market could fluctuate above or below the observed exchange rate (the daily observed exchange rate is the average exchange rate of the transactions conducted in the formal exchange market on a given day).

In April 1997, the Central Bank authorized free access to buy and sell foreign exchange on the formal exchange market. Since that date there has been no difference between the exchange rate in the formal and the informal exchange markets. This similarity has been enhanced since the adoption of the floating regime in September 1999.

Exchange rate policy has also reflected the existence of limits to its fluctuations through an exchange rate band. From the mid 1980s to September 1999, transactions by banks were generally done within a narrow band that was set around the reference exchange rate. In order to maintain the average exchange rate within certain limits, the Central Bank intervened by buying or selling foreign exchange on the formal exchange market, which is primarily operated by commercial banks. In January 1992, the Central Bank re-valued the reference exchange rate and widened the band for transactions in the formal exchange market from 5% to 10%. In January 1997, the Central Bank reduced the reference exchange rate by approximately 4% and widened the band for transactions in the formal exchange market from 10% to 12.5%. In June 1998, the Central Bank narrowed the band for transactions in the formal exchange market from 12.5% to 2% above and 3.5% below the reference exchange rate. In September 1998, the Central Bank began a gradual widening of the exchange rate band from 3.5% to 5% above and below the reference exchange rate. In December 1998, the Central Bank set the exchange band at 8% above and below the reference exchange rate and provided for the gradual widening of the limits of the band at a daily rate of 0.01375%.

In September 1999, the band was abandoned, and the reference exchange rate began to be quoted as a point of reference only. The exchange rate was allowed to freely float in the formal market, and Central Bank intervention to maintain the average exchange rate in a certain range ceased. However, the Central Bank has maintained its right to intervene in the exchange rate market, but only in exceptional cases and under strict transparency standards. The use of international reserves to stabilize the exchange rate is generally only for exceptional cases, and the Central Bank has committed to publicly announcing any intervention, and clearly stating its reasons for doing so. Since the adoption of a free-floating regime, there has been direct intervention in the exchange rate market only during the period starting in August 2001. On August 16, 2001, the Central Bank announced its intention to intervene in the exchange rate market through the use of its international reserves, in an amount of up to US$2 billion through the end of the year. As of September 24, 2001, the Central Bank had intervened through the use of reserves for this purpose of an aggregate of US$204 million.

In 1998, in the midst of a severely adverse international shock, the Central Bank implemented monetary policies designed to avoid sharp fluctuations in nominal exchange rates, while simultaneously allowing the market to dictate the trend of the exchange rate. First, the Central Bank used its international reserves (US$ 3 billion) between 1997 and 1999 as a means to stabilize the exchange rate. Second, the Central Bank introduced three and four-year exchange rate indexed notes that may be used as hedging instruments to mitigate the exchange rate risk. From July 1998 to May 1999, the Central Bank sold these notes in bi-weekly auctions. Although the Central Bank stopped selling these notes during 1999 and 2000, for 2001 it announced that it will introduce new two and four-year exchange rate indexed notes to account for a higher demand for hedging instruments. At the end of 2001, the total stock of these notes should be close to US$ 4.5 billion.

The following tables show changes in the nominal exchange rate during the second half of the 1990s. The tables present the annual high, low, average and period-end observed for each year beginning in 1993. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Observed Exchange Rates
(Pesos (Ch$) per US$)

	High(1)	Low(1)	Average(2)	Period-End
1994	434	398	420	404
1995	419	369	397	407
1996	425	402	412	425
1997	440	412	419	440
1998	475	439	460	474
1999	551	469	509	528
2000	580	501	539	573

(1) Rates shown are the actual low and high on a daily basis for periods indicated.
(2) Represents the average of average monthly rates for the periods indicated.
Source: Central Bank.

International Reserves

The Central Bank manages its international reserves according to the prevailing exchange rate policy regime. Net international reserves of the Central Bank grew steadily in the last decade, except in 1998 and 1999, when international reserves fell US$ 3.0 billion as compared to 1997 as a result of Central Bank intervention to reduce the effect of international volatility on the exchange rate. After 1999, the level of international reserves has remained stable, reflecting the adoption of a floating exchange rate regime in September 1999.

Chile's net international reserves remained constant between 1999 and 2000 at a level of US$14.7 billion. Chile's net international reserves in 1998, 1999 and 2000 were equivalent to 11.1, 12.6 and 10.5 months of imports coverage, respectively.

The following table shows the composition of net international reserves of the Central Bank of Chile at each of the dates indicated below.

Net International Reserves of the Central Bank
(in millions of US$)

	1996	1997	1998	1999	2000
Central Bank:					
Assets:					
Gold	US$ 637	US$ 533	US$ 322	US$ 317	US$ 18
SDRs	2	1	8	19	25
Reserve position in the IMF(1)	50	313	602	403	318
Foreign exchange	14,781	16,991	15,049	13,977	14,381
Other assets	4	2	11	(5)	0
Total	15,474	17,840	15,992	14,711	14,742
Liabilities:					
Short-term credits	0	0	0	0	0
Use of IMF credits	0	0	0	0	0
Total	0	0	0	0	0
Total international reserves, net	US$15,474	US$17,840	US$15,992	US$14,711	US$14,742

Source: Central Bank.

Money Supply

The evolution of monetary aggregates reflects the private sector's demand for monetary balances, which is dependent on economic growth, the alternative cost of money and inflation. Although the Central Bank does not seek to implement monetary aggregates control, these variables are under continuous monitoring to protect against the effects of external shocks. The following tables set forth the monthly average monetary base and the average monetary aggregates for the periods indicated.

Monetary Base(1)
(in billions of Pesos (Ch$))

	1996	1997	1998	1999	2000
Currency in circulation	748	880	853	997	1,001
Bank reserves	456	552	630	655	682
Monetary base	1,204	1,432	1,483	1,652	1,683

(1) There are no demand deposits at the Central Bank.
Source: Central Bank.

Monetary Aggregates
(in billions of Pesos (Ch$))

	1996	1997	1998	1999	2000
Currency in circulation	748	880	853	997	1,001
Demand deposits at commercial banks	1,841	2,228	1,999	2,429	2,517
Total M1	2,589	3,108	2,852	3,426	3,518
Total time and savings deposits at banks	9,677	11,704	13,517	14,587	16,005
Government time deposits at Central Bank	925	1,227	788	1,026	832
Total M2(1)	13,191	16,039	17,157	19,039	20,355
Foreign currency deposits at banks	547	553	1,091	1,742	2,097
Total M3(1)	13,738	16,592	18,248	20,781	22,452

(1) Includes government time deposits at Central Bank.
Source: Central Bank.

The following table shows selected monetary indicators for the periods indicated.

Selected Monetary Indicators
(% change)

	1996	1997	1998	1999	2000
M1 (% change)(1)	13.0%	20.0%	(8.2)%	20.1%	2.7%
M2 (% change)(2)	23.0	20.7	10.5	10.0	8.4
Credit from the financial system (% change)	20.7	19.6	8.2	10.3	10.9
Average annual peso deposit rate(3)	6.9	6.5	9.5	5.9	5.2

(1) Currency in circulation plus peso-denominated demand deposits.
(2) Ml plus peso-denominated savings deposits.
(3) Represents real interest rates for a period of 90 to 365 days.
Source: Central Bank.

Between 1996 and 2000, the monetary base grew at an annual average rate of 10.3% (December to December comparison). In 2000, the monetary base's slight increase over the previous year is explained by the so called "Y2K effect", as monetary balances were abnormally high in December 1999. The narrow money aggregate (M1) was 9.2% of GDP in 1996, 9.8% in 1997, 8.5% in 1998, 10.0% in 1999 and 9.3% of GDP in 2000. The money aggregate (M2) increased from 46.7% of GDP in 1996 to 50.8% in 1997, 51.0% in 1998, and 55.3% in 1999, decreasing slightly to 53.9% of GDP in 2000.

The following table shows liquidity and credit aggregates for the periods indicated.

Liquidity and Credit Aggregates
(in millions of pesos)

	1996	1997	1998	1999	2000(5)
Liquidity aggregates (at period end):	1,204	1,432	1,483	1,652	1,683
Monetary base:					
Currency, excluding cash in vaults at banks	748	880	853	997	1,001
M1(1)	2,589	3,108	2,852	3,426	3,518
M2(2)	12,266	14,812	16,368	18,014	19,524
M3(3)	12,813	15,365	17,459	19,756	21,621
Credit aggregates (at period end):					
Private sector credit	18,843	21,034	22,840	24,243	26,792
Public sector credit	1,403	1,063	1,169	1,802	2,518
Total domestic credit(4)	17,645	20,228	22,417	23,361	26,323
Deposits:					
Chilean peso deposits	9,988	12,009	13,838	15,065	16,476
Foreign-currency deposits	547	553	1,091	1,742	2,097
Total deposits	10,535	12,562	14,929	16,807	18,574

(1) Currency in circulation plus peso-denominated demand deposits.
(2) M1 plus peso-denominated savings deposits.
(3) M2 plus deposits in foreign currency, principally U.S. dollars. Does not include government time deposits at Central Bank.
(4) Includes capital reserves and other net assets and liabilities.
(5) Preliminary.
Source: Central Bank.

Inflation

The government and Central Bank policies permitted the Chilean economy to attain a gradual but significant reduction in domestic inflation, as measured by the December to December increase in the CPI. Perhaps most importantly this reduction was achieved without incurring significant real costs; this was possible because of a combination of both a favorable external condition during the 1990s and the high grade of Central Bank credibility. The inflation rate decreased from 27.3% in 1990, to 6.6% in 1996, 6.0% in 1997, 4.7% in 1998, 2.3% in 1999 and 4.5% in 2000. The rise in inflation in 2000 is explained by the increase in international oil prices. Core inflation measures for 2000 were similar to those in 1999, and thus consistent with the medium-term target. See "The Economy—History and Background and the Economy—Current Economic Situation and Policy."

The following table shows changes in the CPI and the Wholesale Price Index or WPI for the periods indicated.

Inflation

	Percent Change from Previous Year at Period End	
	CPI	**WPI**
1994	8.9%	7.8%
1995	8.2	8.2
1996	6.6	3.1
1997	6.0	1.9
1998	4.7	0.3
1999	2.3	13.5
2000	4.5	7.9

Source: Central Bank.

Financial Sector

General Overview of Banking System

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention and by periods of deregulation. After the Chilean financial crisis of 1982 and 1983, the Central Bank and the Superintendency of Banks established strict controls on the funding, lending and general business matters of the banking industry in Chile. See "—1982 and 1983 Chilean Bank Crisis; Central Bank Subordinated Obligations." The most recent period of deregulation began in 1975 and ended with the adoption of the General Banking Law. The General Banking Law, amended most recently in 1986, 1997 and 2000, enlarges the scope of business of banks in Chile and abroad, subject to certain regulations.

The Superintendency of Banks regulates the banking sector. The Central Bank, which has an autonomous role from the government, oversees the exchange rate policy and regulates international capital movements and bank operations.

At April 30, 2001, Chile's banking system was comprised of 27 privately owned banks, one finance company and one state-owned bank, Banco Estado. At December 31, 2000, the Chilean banking system had a total of Ps.28,067 billion (US$49 billion) of loans outstanding. For the five-year period ended December 31, 2000, the average rate of increase in outstanding loans for the Chilean financial system was 6.6% (compared with an average annual rate of increase in GDP of 4.6% during the same period) and the average annual return on shareholders' equity was 8.0%.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2000.

Chilean Financial System
(in billions of pesos except for percentages)

	As of December 31, 2000							
	Assets		Loans		Deposits		Shareholders' Equity	
	Amount	Market Share %	Amount	Market Share %	Amount	Market Share %	Amount	Market Share %
Domestically-owned private-sector banks	Ps. 15,564.5	39.4%	Ps. 11,819.7	42.1%	Ps. 9,034.8	41.1%	Ps. 1,062.4	34.3%
Foreign-owned private-sector banks	18,228.9	46.2	12,556.9	44.7	9,712.2	44.1	1,672.6	54.0
Private-sector total	33,793.4	85.6	24,376.6	86.9	18,747.0	85.2	2,735.0	88.3
Banco Estado	5,327.2	13.5	3,379.1	12.0	2,990.4	13.6	302.6	9.8
Total banks	39,120.6	99.1	27,755.7	98.9	21,737.4	98.8	3,037.6	98.0
Finance companies	350.5	0.9	310.8	1.1	262.2	1.2	61.5	2.0
Financial system total	Ps. 39,471.1	100.0%	Ps. 28,066.5	100.0%	Ps. 21,999.6	100.0%	Ps. 3,099.1	100.0%

Source: Superintendency of Banks.

The following table sets forth the total assets of the six largest Chilean private-sector banks and state-owned Banco Estado, as of December 31, 2000.

	2000 (in billions of pesos)
Banco Estado(1)	Ps. 5,322.1
Banco Santiago(2)	5,573.5
Banco de Chile	4,983.5
Banco Santander	4,882.1
Banco de Credito	3,407.7
Banco Edwards	2,785.6

(1) Wholly-owned by the Chilean government. See "—Banco Estado."
(2) The Central Bank owns approximately 35.4% of Banco Santiago's outstanding common stock. The common stock owned by the Central Bank is non-voting until transferred by the Central Bank. In 1999, Banco Santander Central Hispano of Spain acquired control of Banco Santiago.
Source: Superintendency of Banks and Financial Institutions.

The following table sets forth information on indicators of bank operation efficiency.

Indicators of Bank Operation Efficiency

	1996	1997	1998	1999	2000
Return on assets	1.2%	1.0%	0.9%	0.8%	1.0%
Return on equity	16.7	13.7	11.5	9.4	12.7
Non-performing loans as a percentage of total loans	1.0	1.0	1.5	1.7	1.7
Gross operational margin/assets	5.0	4.8	5.1	4.9	4.7
Operating expenses/operating revenue	66.5	66.5	61.4	60.2	60.8
Operating expenses/average total assets	3.3	3.2	3.1	2.9	2.8
Risk weighted capital(1)	N/A	11.5	12.5	13.5	13.3

(1) The Superintendency of Banks began to keep statistics on risk weighted capital in November 1997.
Source: Superintendency of Banks.

Commercial banks in Chile face growing competition from several sources: consolidation, economic conditions in Latin America, as well as credit extensions from finance companies and department stores. The Chilean banking industry has experienced increased levels of competition in recent years, including from foreign banks, which has led to, among other things, consolidation in the industry.

The government expects the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups. Congress recently passed a measure increasing the competitive pressure on bank loans by reducing the stamp tax on commercial paper to a level comparable to the tax on lines of credit from banks. Finance companies have gradually disappeared as they have been merged into the largest banks. Nonbank competition from department stores has become increasingly significant, and two of the largest department store owners have obtained licenses to engage in, and begun the process of, commercial banking activity.

Recent Development in Banking Sector

Between 1998 and 2001 banks significantly reduced their exposure to small and medium-sized enterprises and focused their lending on larger companies. In response to this situation, in March 2001, the government implemented a US$1 billion program targeted at refinancing of local small and medium-sized companies. By providing guarantees for the refinancing of outstanding bank loans of economically viable small and medium-sized companies and the provision of new credit lines to banks for this purpose, the program supported the refinancing of more than 12,000 small and medium-sized enterprises by mid-September 2001.

Banco Estado

Banco Estado is an autonomous state banking enterprise, wholly-owned by the Chilean government. Because it is state-owned, Banco Estado occasionally engages in activities at the request of the Chilean government and assists the government in fulfilling its economic and social development objectives. Banco Estado is regulated in the same manner as any Chilean private-sector bank. Banco Estado has 294 branches in Chile. Banco Estado also attempts to promote savings in the medium- and low-income population. As of December 31, 2000, Banco Estado had over 12.7 million savings accounts.

Up to 100% of Banco Estado's annual net earnings may be transferred to the Chilean Treasury, and all earnings not transferred may be retained as part of the Bank's capital reserves. In 1998, 1999 and 2000, Banco Estado remitted approximately 75%, 95% and 90%, respectively, of its annual net income to the Chilean Treasury. In the same periods, Banco Estado transferred US$97.3 million, US$117.3 and US$131.5, respectively, in income and taxes to the Chilean Treasury.

Banking Regulation

Banks are supervised and controlled by the Superintendency of Banks. The Superintendency of Banks, an independent governmental agency, authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and finance companies. The Superintendency of Banks must also approve any amendment to a bank's by-laws or an increase in its capital. In case of noncompliance, the Superintendency of Banks has the authority to impose a range of measures to correct the situation.

As part of its supervisory role, the Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are required to submit their financial statements monthly to the Superintendency of Banks and to publish them at least four times a year in a newspaper with national coverage. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Superintendency of Banks. Banks must also submit their annual financial statements and the opinions of their independent auditors for review to the Superintendency of Banks. Chilean banks are also required to be rated by two independent rating agencies.

Any person acquiring more than 10% of the share capital of a bank must obtain the prior approval of the Superintendency of Banks. Noncompliance with this requirement results in the suspension of voting rights with respect to the acquired shares.

Banks are required to inform the Superintendency of Banks of any person owning, directly or indirectly, 5% or more of the bank's shares.

Chilean banks may conduct only those activities allowed by the General Banking Law. Banks may lend, accept deposits and, subject to limitations, invest and perform financial services. The General Banking Law limits investments by banks to real estate investments for their own use, gold, foreign exchange and debt securities. Directly or through subsidiaries, banks may also engage in certain specified activities, such as securities brokerage services, mutual fund management, factoring, securitization, financial leases and insurance brokerage services (except for pension funds insurance). Subject to certain limitations and with prior approval of the Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks. In addition, banks may operate as agents for sales of initial public offering shares and to cross market products of their subsidiaries.

On December 20, 2000, the General Banking Law was amended, in order to prevent excessive market concentration, by requiring the prior authorization of the Superintendency of Banks in the case of a merger between banks, the acquisition of all or a material part of the assets and liabilities of one bank by another, the takeover of two or more banks by the same entity or controlling group, or a substantial increase in the existing controlling interest of a Bank. The Superintendency of Banks may, with the approval of the Central Bank, reject any of the foregoing proposals, and it may on its own authority place conditions upon them, including the bank's satisfaction of increased capital reserves and technical reserve requirements, as well as a reduction in the bank's participation in the interloan banking market.

In March 1997, the Superintendency of Banks and the United States Federal Reserve Board signed an information sharing and cooperation agreement.

Deposit Insurance

In the case of forced liquidation of a bank, the Central Bank will provide liquidity up to 100% of the amount of the deposits in current accounts and the other sight deposits it may have received, the sight obligations it may have assumed and the deposits and obligations counting from the tenth day preceding their maturity. The General Banking Act also provides for a government guarantee of up to 90% of the aggregate amount of certain time deposits, savings accounts and non-bearer securities issued by banks and financial institutions held by natural persons. This guarantee is limited to obligations of up to a maximum of UF120 (US$3,304 at December 31, 2000) per person for each calendar year. A unidad de fomento or UF is an index that varies daily to reflect local inflation, as measured by the CPI, during the immediately preceding month.

In September 2001, a bill was passed by Congress allowing new banks to operate with 50% of the current minimum paid-in capital reserve, or UF400,000. Under the bill, new banks whose paid-in capital reserve is less than UF800,000 are authorized by the Superintendency of Banks to operate subject to higher capital adequacy ratio requirements. A bank whose paid-in capital reserve is less than UF600,000, or UF800,000 will be required to maintain an "effective net worth" of no less than 12%, or 10%, of its risk-weighted assets, respectively. A bank whose paid-in capital is UF800,000 of greater will, as under current law, be required to maintain an "effective net worth" of no less than 8%.

Reserve Requirements

Deposits are subject to a reserve requirement of 9% for peso-denominated demand deposits, 3.6% for peso- and short term UF-denominated time deposits (with maturity of less than one year), 19% for foreign-currency demand deposits and 13.6% for time deposits and obligations in foreign currency with a term of less than a year (foreign currency obligations with a term over a year are subject to special reserve requirements) of the Bank. In order to implement monetary policy, the Central Bank has statutory authority to increase these percentages up to 40% for demand deposits and up to 20% for time deposits.

In addition, a 100% special reserve applies (the "technical reserve") to demand deposits and deposits in checking accounts and certain other accounts to the extent that their total amount exceeds 2.5 times the paid-in capital and reserves of the bank.

Minimum Capital; Capital Adequacy Requirements

The General Banking Law stipulates that banks must meet a minimum paid-in capital and reserves requirement of UF800,000 (or approximately US$22 million at December 31, 2000). In the case of financial companies, capital and reserves must be at least UF400,000 (approximately US$11 million at December 31, 2000).

The General Banking Law applies a modified version of the capital adequacy guidelines issued by the Basle Committee on Banking Regulation and Supervisory Practices to the Chilean banking system. The principal change that Chile has made to the Basle capital adequacy guidelines has been to assign a higher weighting to mortgage loans than that contemplated in the Basle guidelines. The General Banking Law provides that the capital and reserves of a bank net of investments in subsidiaries ("net capital base") cannot be less than 3% of total assets net of provisions, and its "effective net worth" cannot be less than 8% of its risk-weighted assets. The "effective net worth" is defined as "net capital base" plus subordinated bonds (up to 50% of the net capital base) plus voluntary provisions up to 1.25% of its riskweighted assets. At December 31, 2000, all Chilean banks met Chilean capital adequacy guidelines.

In September 2001, legislation was passed by Congress allowing banks to operate with 50% of the current minimum paid-in capital reserve, or UF400,000. Under the bill, banks whose paid-in capital reserve was less than UF800,000 are authorized by the Superintendency of Banks to operate subject to higher capital adequacy ratio requirements. A bank whose paid-in capital reserve is less than UF600,000, or UF800,000 will be required to maintain an "effective net worth" of no less than 12%, or 10%, of its risk-weighted assets, respectively. A bank whose paid-in capital is UF800,000 or greater will, as under current law, be required to maintain an "effective net worth" of no less than 8%.

The same legislation allows banks to account for investments in subsidiaries abroad by subtracting them from effective net worth rather than from net base capital.

Lending Limits

The General Banking Law imposes on Chilean banks certain lending limits, including the following:

- a bank may not extend to any one entity (or group of related entities), directly or indirectly, unsecured credit in an amount that exceeds 5% of the bank's effective net worth, or in an amount that exceeds 25% of its effective net worth if the excess over 5% is secured by assets with a value equal to or higher than the excess. For foreign export trade financing, the 5% ceiling for unsecured credits is raised to 10% and the 25% ceiling for secured credits to 30%. In the case of financing of infrastructure projects built through the concession mechanism, the 5% ceiling for unsecured credits is raised to 15% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

- a bank may not extend loans to another financial institution in an aggregate amount exceeding 30% of its effective net worth;

- a bank may not directly or indirectly grant a loan whose purpose is to allow an entity or individual to acquire shares of the lender bank; and

- a bank may not lend, directly or indirectly, to a director or any other person who generally has the power to act on behalf of the bank, or to certain related parties of the same.

Also, a bank may not grant loans to parties related to management or with an ownership stake (including holders of more than 1% of its shares) on more favorable terms than those generally offered to non-related parties. Additionally, loans granted to related parties are subject to the limitations described above. In addition, the aggregate amount of loans to related parties may not exceed a bank's effective net worth.

The General Banking Law also limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its effective net worth.

Loan Loss Reserves

Chilean banks are required to provide monthly to the Superintendency of Banks detailed information regarding their loan portfolio. Each bank is also required to maintain a global loan loss reserve, the amount of which must equal the aggregate amount of its outstanding loans multiplied by the greater of (i) its "risk index" or (ii) 0.75%. In the Chilean banking system, the risk index derives from a computation method that classifies loans into specific categories of repayment risk, each with a separate provision level. The risk index is the primary benchmark for determining the level of risk in a loan portfolio. At February 28, 2001, the average risk index for the financial system as a whole (i.e., all banks and finance companies) was 2.08%, up from 1.28% in 1997. A lower risk index indicates less risk. The government believes that the increase in the risk index is primarily attributed to the effects on Chilean borrowers of reduced economic activity.

Banks in Chile are also required to maintain individual loan loss reserves for loans that are overdue as to any payment of principal or interest by 90 days or more. At December 31, 2000, the aggregate amount of non-performing banks loans in the whole financial system was 72.4% of the financial system's global loan loss reserves. A bank may voluntarily maintain additional loan loss reserves in excess of the minimum amounts required as global and individual loan loss reserves.

In addition, the General Banking Law contains a comprehensive five-category management and solvency classification system, in which banks are periodically rated by the Superintendency of Banks. The Superintendency of Banks is expected to begin the application of all five categories by 2002.

The Superintendency of Banks regularly examines and evaluates each financial institution's credit management process, including its compliance with loan classification guidelines, and classifies banks and other financial institutions into three categories: I, II or III. Category I is reserved for institutions that fully comply with the loan classification guidelines. Institutions are rated Category II if their loan classification system reveals deficiencies that must be corrected by the bank's management, and lastly, Category III indicates significant deviations from the Superintendency of Banks' guidelines that clearly reflect inadequacies in the evaluation of the risk and estimated losses associated with loans.

At December 31, 2000, a single financial institution was rated Category II, which had outstanding less than 0.1% of the aggregate outstanding principal amount of all loans made by the Chilean financial system. At that date there were no financial institutions rated Category III.

The Superintendency of Banks publishes these ratings three times a year in the Chilean Official Gazette. The Superintendency of Banks also has the authority to (i) require financial institutions that fail to comply with its credit management guidelines establish higher than usual levels of provisioning, (ii) oversee the classification of loans and, in certain circumstances, (iii) force the liquidation of the financial institution.

The loan classification guidelines of the Superintendency of Banks, applicable to commercial loans, require that banks classify the greater of (i) the commercial loans outstanding to its 400 largest debtors or (ii) the commercial loans outstanding to the number of its largest debtors whose commercial loans aggregate to 75% of the total amount of loans included in its commercial loan portfolio. These guidelines also require that banks classify 100% of their residential mortgage and consumer loans. For purposes of this classification, the loan amount includes outstanding principal (whether or not past due) and accrued and unpaid interest.

For purposes of classification, banks divide loans into consumer loans, residential mortgage loans and commercial loans (which are all loans that are not consumer loans and residential mortgage loans). In the case of commercial loans, banks make the classification based on the estimated losses on all of the loans outstanding to the borrower, as determined by the bank. In the case of consumer loans and residential mortgage loans, the extent to which payments are overdue determines the classification. Commercial and consumer loans are rated A, B, B-, C or D, while residential mortgage loans are rated only A, B or B-.

Each month, the Superintendency of Banks reviews the total exposure of a bank to each of its customers and the classification of each customer's loans. The aforementioned loan classification criteria and the provisions required for each category of loans, as established by the Superintendency of Banks, are as follows:

Classification	Commercial Loans(1)	Residential Mortgage Loans	Consumer Loans	Required Provisions
"A"	Credits which are not expected to default	Interest and principal payments are current	Interest and principal payments are current	0%
"B"	Credits with potential loss of less than 5%	Payments are up to 6 months overdue	Payments are up to 1 month overdue	1%
"B-"	Credits with potential loss between 5% and 39%	Payments are over 6 months overdue	Payments are overdue by 1 to 2 months	20%
"C"	Credits with potential loss between 40% and 79%	Not applicable	Payments are overdue by 2 to 4 months	60%
"D"	Credits with potential loss between 80% and 100%	Not applicable	Payments are overdue by over 4 months	90%

(1) A bank determines the "potential loss" of commercial loans based on (i) the financial condition of the customer; (ii) the past payment behavior of the customer; (iii) the collateral or guarantee, if any, that the customer has provided to the Bank in connection with the loan and the market or liquidation value of the collateral or guarantee and (iv) the outlook for the economic sector or industry in which the customer is engaged in business activities.

The following table sets forth the classification of aggregate loan assets of the Chilean banking system for the categories indicated.

Classification of Aggregate Assets of the Chilean Banking System (as of October 31, 2000)

	Category				
	A	B	B-	C	D
State-owned:					
Banco Estado	68.3%	27.6%	3.2%	0.8%	0.1%
Privately owned:					
Domestic banks	56.8%	36.9%	5.2%	0.8%	0.3%
Foreign banks	66.5%	29.2%	2.8%	1.0%	0.5%
Finance companies	58.1%	21.2%	7.9%	7.0%	5.8%

Source: Superintendency of Banks.

Mark to Market Requirements for Financial Investments

In September 1998, in accordance with international practice, the Superintendency of Banks modified the regulations regarding the valuation of financial investments. Pursuant to the new regulations, a bank may differentiate its financial investments between permanent investments and short-term investments. The value of a bank's permanent investment portfolio cannot exceed the bank's basic capital. In addition, once a financial investment is classified as a permanent investment, it can only be recategorized when it reaches maturity or when it is sold.

The variations in the value of financial investments classified as permanent investments are not recorded in a bank's income statement, but are recorded in a bank's shareholders' equity as "other reserves." All permanent financial investments and short-term investments must be marked to market.

Foreign Currency Exposure

The balance, whether positive or negative, between a bank's assets and liabilities that are denominated in foreign currencies (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and adjusted by the variation of the U.S. dollar exchange rate) cannot exceed 20% of its paid-in capital and reserves. However, if a bank's assets are higher than its liabilities it may exceed 20% in an amount equal to its allowances and reserves in foreign currency (excluding those which correspond to profits to be remitted abroad).

Capital Markets

Under the General Banking Law, banks in Chile may only purchase, sell, place or underwrite and act as paying agent with respect to specified debt securities. Banks in Chile may place and underwrite certain equity securities of public companies.

Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as in mutual fund advice and administration, investment advisory services, merger and acquisition services, factoring, insurance brokerage (excluding insurance in connection with pensions), securitization and leasing activities. These subsidiaries are regulated by the Superintendency of Banks and, in some cases, also by the Securities and Insurance Commission.

Foreign Investments

Under current Chilean banking regulations, banks may invest in certain foreign currency securities and may grant loans to foreign individuals and entities. Banks in Chile may only invest in equity securities of foreign banks and certain other foreign companies in which Chilean banks would be able to invest if those companies were incorporated in Chile.

Banks in Chile may only invest in debt securities that trade in formal secondary markets. The debt securities shall qualify as securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and bonds issued by foreign companies. These debt securities must have a minimum rating as follows:

Rating Agency	Short-Term	Long-Term
Moody's	P2	Baa3
Standard and Poor's	A3	BBB-
Fitch IBCA	F2	BBB-

The securities may have a lower rating, as long as certain other conditions specified in the regulations of the Central Bank are fulfilled.

Subject to certain conditions, a bank may grant loans in dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the bank keeps the Central Bank informed of these activities.

If the sum of the investments of a bank in foreign securities and of the loans granted to foreign individuals and entities exceeds 70% of the effective net worth of the bank, the excess is subject to a mandatory reserve of 100%.

Extraordinary Capitalization of Financial Institutions with Economic Difficulties

Unless under voluntary liquidation, under Chilean law banks may not be declared in bankruptcy. The General Banking Law provides that if certain specified adverse financial circumstances exist at a bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board is unable to correct the situation, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term agreed on at the meeting or if the Superintendency of Banks does not approve the board's proposal, the bank will be barred from increasing its loan portfolio beyond the amount stated in its financial statements and from making further investments in instruments other than those issued by the Central Bank.

If a bank is barred from increasing its loan portfolio, or if the board of directors of a bank determines that the bank may be unable to make timely payment in respect of its obligations or if a bank is under the provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year loan from another bank. The terms and conditions of this loan must be approved by the directors of both banks, as well as by the Superintendency of Banks, but need not be approved by the borrowing or lending banks' shareholders.

In no case may a creditor bank grant interbank loans to an insolvent bank in an amount exceeding 25% of the creditor bank's effective net worth.

Dissolution and Liquidation of Banks

The Superintendency of Banks may determine that a bank should be liquidated for the benefit of its depositors or other creditors when a bank may not be able to continue its operations. The Superintendency of Banks must revoke a bank's authorization and order its mandatory liquidation (subject to the agreement of the Central Bank) if it determines that a bank may not be able to continue operations or if the reorganization plan of the bank has been rejected twice. The resolution of liquidation by the Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Superintendency himself assumes this responsibility.

When the Superintendency declares a liquidation, all deposits on checking accounts, other demand deposits received or obligations payable on sight incurred in the ordinary course of business, other deposits unconditionally payable immediately or within a term of less than 30 days and other time deposits and receipts payable within 10 days are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves.

If these funds are insufficient to pay these obligations, the liquidator may dispose of the rest of the bank's assets, as needed. If necessary, the Central Bank will lend the bank the funds necessary to pay these obligations. These loans are preferential to any claims of other creditors of the liquidated bank.

1982 and 1983 Chilean Bank Crisis; Central Bank Subordinated Obligations

During 1982 and 1983, the Chilean banking system experienced significant instability due to external and domestic factors, such as the overvaluation of the peso and a lack of stringent banking regulation and of effective credit policies at most Chilean banks. This instability resulted in a banking crisis which required the Central Bank and the government to provide assistance to most Chilean private sector banks and, in the case of certain institutions, the Superintendency of Banks was required to assume control.

As one form of assistance to private-sector banks, the Central Bank permitted some banks to sell to the Central Bank certain of their non-performing loans in exchange for cash, third party drafts and a promissory note of the Central Bank. Each bank that sold non-performing loans to the Central Bank agreed to repurchase the loans out of its future income.

In 1989, the government enacted a law permitting banks with outstanding repurchase obligations to reacquire the loans still being held by the Central Bank for a price, payable in cash, equal to the actual economic value of these loans at the time of repurchase. The Superintendency of Banks appraised the transaction which was generally lower than the price initially paid by the Central Bank for these loans. This law also provided that the obligation to pay the difference between the price initially paid to each bank by the Central Bank for the loans and the amount paid by the bank to the Central Bank to reacquire its loans would constitute subordinated obligations with no fixed term. The law provided that until the subordinated obligations of a bank were discharged in full, the bank was required to make certain payments in respect of the subordinated debt obligations to the Central Bank out of net profits.

The Chilean Congress subsequently adopted the Subordinated Obligations Law, enabling banks owing subordinated obligations to the Central Bank to modify the repayment terms of the debt. All banks with subordinated debt prepaid their obligations with the Central Bank and/or reached an agreement with the Central Bank according to the terms of the Subordinated Obligations Law. Currently, no bank has subordinated obligations with the Central Bank.

Capital Markets

General

The Chilean stock market is regulated by the Securities and Insurance Commission or the SVS under the Securities Market Law. The government's policy of privatizing state-owned companies as well as the development of privately managed pension funds, implemented during the 1980s, has led to an expansion of private ownership of shares, resulting in an increase in the importance of stock markets. The regulatory environment of the capital markets is comprehensive and sophisticated, which requires the delivery of detailed information by certain market participants, allows for a broad array of investment options and includes a detailed set of regulations for the use of derivatives, futures, options, forwards and swaps in limiting foreign investment risks associated with variations in interest and exchange rates. In 1994, a new law allowed the SVS to issue a new set of regulations which sought to modernize the regulatory environment and focused on regulations relating to conflicts of interest and increasing the limits of certain investments or concentrations by institutional investors. The Securities Market Law allows the public offering and listing of foreign securities on the Chilean stock exchanges.

Effective December 20, 2000 a major reform of the corporate and securities laws provided for a comprehensive regulation of tender offers and corporate governance. This new legislation sets forth new rules regarding the necessary information that needs to be given to the public and, in general, intends to protect the interests of minority shareholders. It also includes important amendments to the Corporations Law regarding corporate governance, related party transactions, voting rights for mutual funds, elimination of restrictions on control rights for preferred shares and the creation of audit committees.

As for tender offers, the new legislation provides that majority shareholders of publicly traded corporations must share with minority or outside shareholders the benefits of a change of control, by requiring that the relevant acquisition of shares is made pursuant to a tender offer. The new legislation strictly regulates tender offer procedures. However, controlling shareholders may freely sell their shares in some circumstances, as when the sale price of the controller's shares is not substantially above market levels, that is, within a range between 10% and 15% (currently set at 10% by the SVS). There is also a safe harbor, adopted by 92 listed corporations on or before June 20, 2001 (when the option period expired), that allows for free transfers of control during a 3-year period ending on January 1, 2004.

Effective June 19, 2001, foreign portfolio investors, like mutual funds or pension funds, are exempt from capital gains tax on the sale of highly traded equity and bonds made in authorized stock exchanges.

Other tax regulatory changes included elimination of the need to obtain a Chilean taxpayer identification number (RUT); the need to appoint and register a local legal representative; and the obligation of foreign investors to maintain local accounting authorized by the Chilean tax authorities.

Capital Markets Reform

In June 2001, the government introduced a bill that would implement a series of measures in order to modernize the domestic capital markets. Fifteen measures were proposed, most of which involve amendments to current law, emphasizing the need to enhance liquidity, improve investment alternatives and foster long term savings. The proposed measures look forward to:

- Provide an alternative for the financing of emerging companies, and firms with growth potential, but no track record.
- Increase the liquidity of the domestic capital market, enhancing the participation of new investors.
- Offer a wider range of alternatives to investors in terms of providing different risk/return profiles.
- Eliminate the remaining financial flows restrictions, in accordance with the new scenario of less available foreign financial resources and the challenges that result from globalization.
- Promote the long-term domestic savings.

The following measures were approved by Congress in September 2001: the elimination of the 15% capital gains tax for highly traded equity; the reduction of the withholding tax (from 35% to 4%) on interest paid to non-resident entities for Chilean currency-denominated bank deposits in Chile and local currency-denominated bonds; the equal treatment of commercial paper and bank loans for stamp tax purposes; the creation of a voluntary individual savings system for pension funds that allows the deduction from the individual income tax base of up to 50 UF (approximately US$1,200) of amounts saved for this purpose; the creation of a new stock exchange segment for emerging companies with important growth potential; and the deregulation of the insurance and mutual funds companies;

Among the capital markets reform measures that were announced in April 2001, but that are still pending, are the implementation of multiple pension funds administered by a single entity and the creation of a new stock exchange segment for emerging companies with growth potential. Implementation of the first measure first requires passage of a bill, which is expected by the end of September 2001; implementation of the second measure requires the promulgation of regulations by the SVS.

History and Description

The Santiago Stock Exchange was established in 1893 and is a private company whose equity is held by 37 shareholders. As of December 31, 2000, 296 companies had shares listed on the Exchange. The Santiago Stock Exchange is Chile's principal exchange and accounted for almost 80% of all equity traded in Chile during year 2000. Approximately 18% of equity trading is conducted on the Chilean Electronic Stock Exchange, an electronic trading market which was created by banks and non-member brokerage houses. The remaining 2% of equity is traded on the Valparaíso Stock Exchange.

Equities, closed-end funds, fixed-income securities, short-term and money market securities, gold and U.S. dollars are traded on the Santiago Stock Exchange. In 1991, the Santiago Stock Exchange initiated a futures market with two instruments: U.S. dollar futures and Selective Shares Price Index or IPSA futures. Securities are traded through an open voice and electronic auction system. With the Capital Markets Reform, a larger developing of the derivatives market is intended to be accomplished through the proposed exemption of short sales from the capital gains tax, in transactions that take place in authorized markets.

The two main share price indices for the Santiago Stock Exchange are: the General Share Price Index, or IGPA, and the IPSA. The IGPA is calculated using the prices of over 180 issues and is broken into five main sectors: banks and finance, farming and forest products, mining, industrials, and miscellaneous. The IPSA is a major company index, currently including the Exchange's 40 most active stocks. Shares included in the IPSA are weighted according to the value of shares traded, and account for 69% of the entire market capitalization.

The table below summarizes recent value and performance indicators for the Santiago Stock Exchange.

Indicators for the Santiago Stock Exchange

As of December 31,	Market Capitalization (US$ billions)	Annual Trading Volume (US$ billions)	IGPA(1)	IPSA(1)
1991	28.0	1.9	2,483.7	6,800.7
1992	29.6	2.1	2,733.5	8,242.3
1993	44.9	2.8	3,915.5	13,907.2
1994	67.7	5.6	5,425.2	19,764.0
1995	71.2	10.8	5,740.0	20,001.2
1996	65.8	8.2	4,902.6	17,641.8
1997	71.8	7.1	4,794.4	19,917.5
1998	51.7	4.4	3,594.7	15,410.4
1999	68.5	6.5	5,167.7	22,044.0
2000	60.5	5.8	4,869.0	21,243.6

(1) On December 31, 1980, the index base equaled 100.
Source: Santiago Stock Exchange.

Liquidity

The aggregate market value of equity securities listed on the Santiago Stock Exchange was US$60.5 billion in 2000. The ten largest companies in terms of market capitalization represented on the exchange were approximately 41.2% of its accumulated total trading volume between January and July 2001, and approximately 40.8% of its trading volume in July, 2001. These proposals are an important step toward increasing liquidity in the local market.

The following table sets forth a summary of consolidated trading volume on the Santiago, Electronic and Valparaíso Stock Exchanges.

Consolidated Trading Volume on the Santiago, Electronic and Valparaíso Stock Exchanges (in millions of US$)

	1996	1997	1998	1999	2000
Equity	US$11,857	US$10,000	US$5,704	US$8,032	US$ 7,436
Income securities	8,099	9,607	7,491	9,098	10,361
Commercial paper	18,633	27,477	25,579	26,904	31,609
Total	US$38,589	US$47,083	US$38,774	US$44,034	US$49,406
Number of listed companies:					
Equities	326	330	315	316	296
Bonds and other debt issuers	45	41	39	39	32

Source: SVS based on information from the Santiago Stock Exchange, Electronic Stock Exchange and Valparaíso Stock Exchange.

Institutional Investors

The principal institutional investors active in Chile are the AFPs, insurance companies, mutual funds, investment funds and foreign capital investment funds according to the size of their respective investment portfolios. Generally, institutional investors are highly regulated with respect to investment criteria. The following table sets forth the size of the assets of the various types of institutional investors in Chile for the following periods.

Total Assets of Institutional Investors (in billions of US$)

	Pension Funds (AFPs)	Insurance Companies	Mutual Funds	Investment Funds(1)	Foreign Capital Investment Funds
1996	US$27.5	US$9.1	US$2.8	US$1.0	US$1.4
1997	30.9	10.8	4.2	1.2	1.4
1998	31.1	11.3	2.7	1.2	0.8
1999	34.5	11.0	3.5	1.3	1.0
2000	35.9	12.2	4.5	1.3	0.7

(1) Includes international investment funds.
Source: SVS.

Pension Funds (AFPs)

AFPs are the largest institutional investors in the Chilean market. The volume of resources which has flowed into AFPs has continued to grow steadily over time. In 1981 (the first year of operation of the system), AFP assets totaled US$305 million, while at December 31, 2000 the assets of AFPs were US$35.9 billion. See "—The Chilean Pension System."

Insurance Companies

Chile's insurance companies are the second most important institutional investors, based on their total volume of assets. As of December 31, 2000, the combined value of the portfolios of insurance companies stood at US$12.2 billion. See "—The Chilean Insurance System." Although the total asset volume of these institutional investors has exhibited an overall growth tendency, its increase has not been as large as that of the AFPs during the same period.

Mutual Funds

Mutual funds were first created in Chile in the 1960s. Their legal framework was comprehensively reformed in 1976. The Chilean mutual fund system faced serious difficulties during the financial crisis of the early 1980s.

Currently, there are three types of mutual funds: mutual funds investing in short-term, fixed income securities, mutual funds investing in medium- and long-term, fixed-income instruments, and mutual funds investing in variable-income securities, including corporate stocks and similar investments. As of December 31, 2000, 150 mutual funds were chartered in Chile, of which 45 were of the short-term fixed-income type, 31 of the medium- and long-term fixed-income type and 74 of the variable-income type.

Within the capital markets reform approved by Congress in September 2001, there are two specific measures that affect mutual funds directly: the deregulation of mutual funds and the multiple funds manager structure. The first one gives greater flexibility in the investment policy of mutual funds, requiring at the same time higher standards of transparency and disclosure. The latter, allows mutual funds, investment funds and housing funds to be organized under a unique managing structure, a fact that will permit taking advantage of scale economies in the administration of funds.

Investment Funds

As of December 31, 2000, 22 investment fund managers managing a total of 29 funds were operating in Chile. As of December 31, 2000, total assets of these funds stood at the equivalent of US$1.3 billion, distributed among the principal categories that are: real estate investment funds, venture capital investment funds, securities investment funds and international investment funds.

Investment funds, like mutual funds, will also be positively affected by the Multiple Funds Manager structure approved with the capital markets reform.

Foreign Capital Investment Funds (Fices) and Foreign Investment Venture Capital Funds (Ficer)

Fices are a pool of assets which is contributed by investors outside Chilean territory for the purpose of investment in publicly-offered securities in Chile, and which is managed by a Chilean corporation on behalf of and at the risk of the contributors. With respect to the entry of foreign capital into the country, the Fices are principally governed by the Decree Law 600. The capital contributed through a Fice may not be removed from the country within five years after its initial entry into Chile. However, profits may be repatriated at any time, subject to a single tax at a flat rate of 10%.

Fices principally invest their resources in corporate shares, which at December 31, 2000 represented 93% of their total investments, with a value of US$595.1 million. These funds had combined assets of US$0.6 billion among the 20 funds in operation as of December 31, 2000. In 1995, a new type of fund, a Ficer, was authorized to invest in venture capital investment. There is only one Ficer fund which at December 31, 2000 had a value of US$9.6 million.

In December 2000, several changes to the laws regulating Fices and Ficers took place, aimed to deregulate those investment vehicles.

In 2000, the capital account (excluding change in reserves) registered a surplus of US$1.20 billion as compared to US$(0.76) billion in 1999, US$3.25 billion in 1998 and US$7.38 billion in 1997. The capital account surplus was approximately -1.1% of GDP and 1.7% of GDP in 1999 and in 2000, respectively.

Effective June 19, 2001, Fices and Ficers are exempt from capital gains tax on the sale of highly traded equity and bonds made in authorized stock exchanges in Chile, provided that the holders of shares in the respective funds are non-residents of Chile.

The Chilean Pension System

Chile began a comprehensive reform of its social security system in the early 1980s. The Chilean private pension system was created through the adoption on November 13, 1980 of the Pensions Law to eliminate many of the problems associated with the former social security system. Under the Pensions Law, a privately administered system of individual pension plans replaced the social security system. Under the pension system in place prior to enactment of the Pensions Law, contributions from current workers were used to fund pension payments, although there was a limited correlation between the amount contributed and the amount received by each worker upon retirement.

The current pension system is based on individualized accounts with fully funded, vestable and portable benefits. It has averaged real annual returns on the assets under management of 11% since its origin, nearly doubling the growth rate of the GDP. As of December 31, 2000, the pension funds had financial resources of approximately US$35.9 billion representing approximately 51% of GDP. Between January 2000 and December 2000, pension funds increased 12% in real terms. Many countries, including Argentina, Colombia, Mexico and Peru, have implemented similar pension systems and others (in the Americas and Europe) are studying the implementation of similar systems.

The pension system creates individual savings accounts, where employees are obligated to save 10% of every month's salary for retirement, which is deductible from their taxable income. These funds are managed by one of several private sector pension fund administrators known as AFPs, who use long-term growth investment strategies. All AFPs are subject to extensive and continuous regulatory review. The principal regulator is the Superintendency of Pension Funds or SAFP and AFPs are also regulated by the Central Bank. In addition, AFPs that are listed on a stock exchange are regulated by the SVS, which regulates the securities and insurance industries. Finally, the rating commission, composed of the pension, securities and banking superintendents and representatives of the AFP industry determine whether securities qualify as acceptable for pension fund investment. The Central Bank fixes limits among various types of permitted investments for AFPs, subject to ranges of maximum percentages established by law. In 2000, there were eight AFPs in operation, including five that are listed on the Santiago Stock Exchange.

Employees are free to choose the AFP they wish to manage their funds and may switch if they are dissatisfied with the performance of their investments. In addition, employees are free to introduce additional voluntary savings into the system in what is known as the "Second Account." In 1984, the last year in which workers could elect not to participate in the new system, approximately 19% of the individuals who participated in the old system, principally older workers near retirement, elected to stay in the old system. Over the years more workers have continued to be incorporated into the AFP system and as of December 31, 2000, there were 6.3 million AFP affiliates. As of December 31, 2000, approximately 225,000 non-retired individuals were making contributions to the traditional social security system.

Workers who participated in the traditional social security system and shifted to the new system received from the government an interest-earning past-service recognition bond reflecting an estimate of the value of their contributions into the old system. This bond is indexed to the CPI, has a 4% real annual interest rate and is held by the AFP for the benefit of the affiliate. It is held separately from the amounts held in an individual's saving account. The bond becomes payable into the individual's saving account at the time the individual reaches the age of eligibility for retirement, or upon the individual's death or disability.

An AFP must meet a required minimum level of investment return, which is tied to the average performance of all funds in the pension system. In the event that the fund managed by the AFP fails to achieve this minimum return, the AFP is required to cover the difference. The Pensions Law requires that each AFP maintain a capital reserve fund equal to one percent of the value of its pension fund. The purpose of the reserve fund is to provide a cushion in the event that the performance of an individual pension fund drops below a minimum level. If a deficit is not covered or if reserves are not replenished, the AFP will be liquidated by the SAFP and the government will guarantee the minimum level of investment return. The government will then transfer the accounts to another AFP. Historically, the required minimum return on fund investments has led to the various AFPs having similar pension fund portfolios.

The government also guarantees modest minimum old-age, life and disability pensions for individuals who have made contributions for a certain minimum number of years regardless of the level of contributions actually made into the individual's saving account at an AFP. In case of the bankruptcy of an AFP, the government guarantees certain limited liabilities of the AFP. The government is liable for 100% of this obligation up to the amount of the legal minimum pension and for 75% of the pensions above the minimum up to 45 UF monthly (US$1,200 at December 31, 2000).

Regarding the capital markets reform, the concept of multiple pension funds will have a direct effect in Pension Funds. This proposed measure implies that pension funds will offer five different portfolios with different risk/return profiles to their affiliates (compared with two alternatives under the current model). The different risk/return profiles will be defined through the composition of variable and fixed-income instruments. For example, the fund with the greatest risk will have investment in equity in the range between 50% to 80% of the portfolio. On the other hand the funds with lower risk will have 100% of investment in fixed-income instruments. Individuals will choose the fund that best accommodates their needs.

The Chilean Insurance System

The Insurance Company Law of 1979 introduced a framework for the regulation of insurance companies which included the establishment of certain basic principles, including rates and commissions being set by the market, equal access to foreign insurance companies, minimum capital and solvency criteria as well as rules for setting up reserve funds. As a general rule, life insurance companies can have liabilities equal to a maximum of 15 times capital and reserves, while general insurance companies are limited in the amount of their liabilities to five times their capital and reserves.

Though an amendment in 1998 to the Insurance Company Law has allowed more flexibility in the investments in which insurance companies may invest their portfolios, the Insurance Company Law has specific and rigid limitations on investments. For example, the maximum limit for financial investments abroad is 20% of the mandatory reserves and risk capital of each insurance company.

Under the Insurance Company Law, any person or entity offering insurance, whether directly or indirectly, must first obtain authorization from the SVS. Neither individuals nor legal entities may enter into insurance contracts in Chile with an insurer not licensed to operate in Chile.

As of December 31, 2000, 22 insurance companies were involved in general insurance and there were also 32 companies in the life insurance sector. The Chilean insurance market is open to foreign investors, who must operate through a Chilean corporation and must have equity over UF90,000 (approximately US$2.4 million on December 31, 2000). As of June 2000, foreign insurance companies controlled more than 61% of the local general insurance market and 43% of the local life insurance market.

The capital markets reform contemplates the deregulation of the insurance industry, allowing greater flexibility in the investment portfolios of insurance companies. Within this same measure, improvements in the corporate governance of companies is also considered. Directors will bear more responsibility, which should enhance self-regulation.

PUBLIC SECTOR FINANCES

General

The government believes that its fiscal policy has played an important role in Chile's macroeconomic stability while maintaining its commitment to reduce poverty and to create equal economic opportunities for persons in low-income brackets.

Chile's favorable macroeconomic environment is demonstrated by high rates of government savings (current revenues less current expenditures), which for the period from 1996 to 2000 were greater than 4.3% of the average GDP for that period. It is also reflected in the government's overall surplus, the reduction of public debt and the increase of public investment, which are independent from operational expenditures. From 1996 to 2000, government overall surplus averaged 0.64% of GDP, resulting from the limitation of current expenditures to 18.8% of GDP. This savings effort in turn led to decreased reliance on foreign debt to finance infrastructure and other domestic investments, reducing Chile's exposure to foreign economic cycles and allowing Chile to reduce its public external debt from US$11.8 billion in 1990, representing 38.9% of GDP, to US$5.5 billion in 2000, representing 7.9% of GDP.

While maintaining macroeconomic stability, the government has remained committed to improvements in social welfare. The largest category of central government expenditure has been social expenditure, which in 2000 accounted for 69.1% of the central government budget expenditures, representing 16.5% of GDP. The government funded social programs that were adopted in the 1990s to alleviate social problems caused by the debt crisis in 1982 and 1983 and by the following structural adjustment process by changes in the tax structure. This approach to funding for social expenditure has continued with increases in specific taxes to fund improvements to the pension system in 1995 and a 2% increase in the VAT to fund educational reform.

Public Sector Accounts

The Chilean public sector accounts reflect the revenues and expenditures of the central government. Separate accounts are kept for municipalities, non-financial public sector institutions and Banco Estado. Revenues from privatizations are included in the capital revenues in the presentation of Chile's public sector accounts. However, revenues from privatizations are not included in the budget. Public sector accounts do not include the Central Bank's accounts. The Central Bank runs deficits principally due to currency mismatching. The deficit reported by the Central Bank for 2000 was 2.3% of GDP. The Central Bank reported a surplus in the first half of 2001.

The legal authority to impose taxes is exclusive to the central government. Taxes are proposed by the executive branch and approved by Congress. The central government collects real estate taxes on behalf of the municipalities and municipalities collect registration and licensing fees directly.

The system of local governments currently consists of 341 municipalities. Each municipality is a separate entity responsible for managing its own assets and budget but does not tax directly or have authority to incur debt. These budgets are funded by taxes collected on behalf of municipalities by the central government and certain municipal fees. In 1992, the state began to decentralize government expenditures, which created a larger role for municipal governments.

The responsibility for the preparation of the central government budget begins with the Ministry of Finance, which establishes overall targets and then works with the various ministries regarding specific allocations. Based on this work, the President must present a budget proposal to Congress no later than three months prior to its effective date (generally September 30). Congress reviews the proposed budget, but is only permitted to reduce expenditures. Congressional approval is normally obtained by the end of November. If the proposed budget law is not dispatched within the 60 days following the date of submission by the President, the President's proposed budget is deemed approved. Congress passed the budget for 2001 on November 13, 2000.

Since public accounts and budgets are prepared on a cash basis, the government and public sector agencies do not provide for the payment of the government's unincurred contingent liabilities. Current revenues that may result in the readjustment of the annual budget are used to fund future liabilities resulting from contingent liabilities, including various guarantees for the social security system, the financial system or debts of certain state-owned enterprises and certain guarantees of revenues related to the government's concession programs.

Government expenditures are financed principally through the collection of value-added taxes, excise taxes, income taxes, tariffs and other minor taxes, as well as operational revenues, social security revenues and transfers from state-owned companies. Between 1996 and 2000, tax revenues remained constant at approximately 17.7% of GDP.

In recent years, central government expenditures have consisted primarily of wages, salaries and transfers to the social security system, with capital expenditures and interest on public debt accounting for most of this balance. Between 1996 and 2000, public expenditure grew in real terms at an average annual rate of 5.9% per year.

The average central government surplus between 1996 and 2000 was over 0.6% of GDP. In 2000, the central government surplus was 0.1% of GDP.

The following table sets forth a summary of public sector accounts (calculated on a cash basis) and as a percentage of GDP for the periods indicated.

Public Sector Finances
(in billions of US$ and % of total GDP)

	1996		1997		1998		1999		2000	
Revenues:										
Current revenues:										
Taxes										
VAT	US$6.04	8.8%	US$ 6.50	8.6%	US$ 6.18	8.5%	US$ 5.42	8.2%	US$ 5.95	8.5%
Specific consumption taxes	1.39	2.0	1.60	2.1	1.61	2.2	1.58	2.4	1.69	2.4
Custom duties	1.50	2.2	1.47	1.9	1.33	1.8	1.03	1.5	1.02	1.5
Income taxes	2.98	4.3	3.11	4.1	3.11	4.3	2.53	3.8	3.06	4.4
Taxes on legal documents	0.48	0.7	0.56	0.7	0.50	0.7	0.47	0.7	0.45	0.6
Other taxes(1)	*0.23*	*0.3*	*0.30*	*0.4*	*0.20*	*0.3*	*0.16*	*0.3*	*0.13*	*0.2*
Net taxes(2)	12.62	18.4	13.53	17.9	12.93	17.7	11.19	16.9	12.28	17.5
Revenues from operations	1.07	1.6	1.12	1.5	1.22	1.7	1.25	1.9	1.69	2.4
Transfers from Codelco(3)	0.52	0.8	0.73	1.0	0.45	0.6	0.48	0.7	0.52	0.7
Other current revenues(4)	1.86	2.7	2.13	2.8	2.16	3.0	1.97	3.0	2.14	3.0
Total current revenues	16.07	23.4	17.51	23.1	16.76	23.0	14.90	22.5	16.6	23.7
Capital revenues	0.42	0.6	0.46	0.6	0.43	0.6	0.35	0.5	0.29	0.4
Total revenues	16.48	24.0	17.97	23.7	17.19	23.6	15.24	23.0	16.9	24.1
Expenditures:										
Wages and salaries(1)	US$ 2.81	4.1 %	US$ 3.16	4.2%	US$ 3.24	4.4%	US$ 3.17	4.8%	US$ 3.3	4.7%
Transfers to social security	4.12	6.0	4.53	6.0	4.66	6.4	4.71	7.1	4.98	7.1
Transfer payments	3.37	4.9	3.80	5.0	3.82	5.2	3.93	5.9	4.10	5.9
Interest on public debt	0.40	0.6	0.34	0.4	0.51	0.7	0.23	0.4	0.34	0.5
Goods and services	1.25	1.8	1.36	1.8	1.37	1.9	1.11	1.7	1.18	1.7
Other	0.10	0.2	0.12	0.2	0.14	0.2	0.11	0.1	0.12	0.2
Current expenditures	12.06	17.6	13.30	17.5	13.74	18.8	13.26	20.0	14.02	20.0
Capital expenditures	2.83	4.1	3.18	4.2	3.17	4.3	2.95	4.4	2.79	4.0
Total expenditures	14.89	21.7	16.48	21.7	16.91	23.2	16.21	24.4	16.8	24.0
Central government balance	1.60	2.3	1.49	2.0	0.29	0.4	(1.0)	(1.5)	0.1	0.1
Structural balance(5)	1.49	2.2	1.28	1.7	0.73	1.0	(0.2)	(0.3)	0.28	0.4(6)
Non-financial public institutions	(0.32)	(0.5)	(0.82)	(1.1)	(0.88)	(1.2)	(0.1)	(0.1)	(0.5)	(0.7)
Consolidated non-financial public sector surplus/(deficit)	US$1.27	1.8%	US$0.67	0.9%	US$(0.59)	(0.8)%	US$(1.1)	(1.6)%	US$(0.4)	(0.6)%
Current surplus	*4.01*	*5.8*	*4.21*	*5.6*	*3.02*	*4.1*	*1.63*	*2.5*	*2.60*	*3.7*

(1) Includes employer contributions made to social security system for employees of the Central Government.
(2) Taxes collected net of refunds.
(3) Excludes transfers from Codelco under Law No. 13,196 and transfers by the Treasury to the Copper Stabilization Fund.
(4) Includes operation revenues, social security contributions, capital reserves and certain contributions from Codelco including transfers under Law No. 13,196.
(5) Reflects the amount revenues and fiscal spending would reach if the GDP were at its potential level and the price of copper were at the medium-term price; therefore, it excludes the effects of economic activity and the price of copper.
(6) Preliminary.

Source: Budget Office.

Government Revenue

Taxation

Chile's tax structure includes indirect and direct taxes. Indirect taxes represent the largest source of income and include the value-added tax or VAT, specific consumption taxes and custom duties. Direct taxes include the business income tax and personal income tax.

The VAT is assessed at a rate of 18% on the sales of goods and services. There are limited exemptions, principally in the area of personal services and lower rates for certain consumer goods. The structure of the general VAT rate is designed to prevent double taxation by allowing businesses to deduct VAT already paid on inputs. The general VAT rate was last changed in 1990 when it was increased from 16% to 18%.

Specific consumption taxes include taxes for fuel, tobacco and beverages.

Custom duties consist of an *ad valorem* tax on imports. In 1990, the tariff was reduced from 15% to 11%. On January 1, 2001, the custom duties rate was reduced from 9% to 8%, which will be reduced 1% annually until a 6% flat rate is achieved in the year 2003. Congress has approved these reductions in tariffs. Specific consumption taxes increased to compensate for the decline in revenue from custom duties.

Income taxes consist of a first category tax that affects corporations and individuals. The first category tax rate is levied at a flat rate of 15%. However, the first category tax rate will increase to 16% in 2002, to 16.5% in 2003, and to 17% in and after 2004. In addition, a global individual tax is levied at a progressive rate from 0% to 45% on an individual's total income. The first category tax is creditable against the global individual tax. Additionally, there is a second category tax levied at a progressive rate from 0% to 45% on an individual's monthly contract compensation, which is also creditable against the global individual tax. The highest marginal rate for both the first and second category tax will be reduced to 43% in 2002 and to 40% in 2003.

There is also a 35% withholding tax on profits and dividends remitted to non-resident individuals or entities abroad.

The following table sets forth the composition of the government's tax revenues for the periods indicated.

Composition of Tax Revenue

	1996	1997	1998	1999	2000	Budget 2001(1)
Value-added taxes	47.7%	51.0%	51.8%	52.4%	49.9%	47.4%
Other taxes on goods and services	9.7	10.4	11.1	12.3	12.3	14.1
Income taxes	23.7	23.2	23.8	23.9	25.0	28.9
Taxes on capital	0.0	0.0	0.0	0.0	0.0	0.0
Foreign trade taxes	11.4	10.6	11.2	11.0	9.2	8.0
Other taxes	7.8	4.8	2.1	0.4	3.6	1.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Budget Law 2001.
Source: Chilean Internal Revenue Service.

The Chilean internal revenue service estimated total tax evasion for 1997, the latest year for which information is available, at approximately 24%. The government believes this statistic to be low compared to estimates of tax evasion in other Latin American countries. The Chilean internal revenue service believes that VAT and income tax evasion represent the most prevalent types of tax evasion in Chile. The government also believes that first category income tax evasion has declined significantly since 1990 as a result of tax reforms and other amendments.

Tax Reform

In September 2001, a law reducing the individual income tax rate was enacted. Once effective, it will make the following changes in the tax law: it will extend an exemption from individual income tax to individuals who earn less than Ps.$380,000 per month; it will allow the deduction of mortgage loan interest from an individual's income base in calculation of his or her tax obligation; it will reduce the marginal tax rate for earnings above Ps.$4,125,000 by 3% to 8%; and it will reduce the maximum personal income tax rate to 40% from 45% in 2003.

On July 19, 2001, a bill to combat tax evasion and avoidance was enacted. The new law is expected to result in the collection of an additional US$800 million and to achieve a reduction of tax evasion from 24% to 20% by 2005. The additional revenue will be used to finance social programs in the areas of health, education and housing. The law effects a more efficient supervision and regulation of tax collection, and does not raise tax rates.

The tax evasion bill includes substantial amendments to several bodies of tax legislation, including the Tax Code, the Income Tax Law, the VAT Law, and customs legislation. It also strengthens the powers of the Chilean internal revenue service to audit and collect taxes. Some of the major tax changes are the establishment of "thin capitalization" rules for the reduced withholding tax rate on interest paid to related parties; the elimination of the accelerated depreciation for profit distribution purposes; the elimination of the use of net operating losses in certain corporate reorganizations; and the elimination of the real estate tax credit against the corporate tax. Major VAT changes include the applicability of VAT to certain sales of movable fixed assets; the requirement of payment to the treasury of the VAT as a prerequisite for use of the VAT credit; and the new requirement of restitution of VAT refunds obtained in the acquisition of fixed assets when these are partially used or not used at all.

Tax Efficiency Measures

Since 1998, the Chilean internal revenue service has undertaken changes aimed at improving its service to taxpayers. Among these changes are the option to file tax returns and receive tax assistance via the Internet; the simplification of tax proceedings before the Chilean internal revenue service; the establishment of a guaranteed maximum waiting period of 30 minutes for transactions with tax authorities; and the implementation of market research and opinion surveys related to the internal revenue service's corporate image and quality of service.

The Chilean internal revenue service has also been developing international agreements to avoid double taxation and to prevent tax evasion. The following table presents the current status of these agreements.

Status of the Agreement	Other Participants
Effective, and Published in the Official Gazette	Argentina (March 1986) Canada (February 2000) Mexico (February 2000)
In the National Congress	*Ecuador (subscribed in August 1999)* Poland (subscribed in March 2000)
Subscribed	Brazil (April 2001) Peru (June 2001)
Concluded negotiation	Norway (March 2001) *South Korea (July 2001)*
In negotiation – 4th round	United States
In negotiation – 3rd round	United Kingdom
In negotiation – 2nd round	Germany, Malaysia, Spain and Venezuela
In negotiation – 1st round	Finland, Holland, France and Sweden
Negotiation to be initiated	New Zealand, Switzerland and Denmark

Distributions of Codelco

As a state-owned enterprise, Codelco's policy is to transfer 100% of its net profits to the Chilean Treasury. Under Chilean Law, Codelco's net earnings are subject to an additional tax of 40% above and beyond the usual 15% (first category) corporate income tax. This 40% tax constitutes a reduction of the net income of Codelco. Income tax payments and profit distribution by Codelco to the Chilean treasury (excluding transfers by the treasury to the Copper Stabilization Fund) for the fiscal years ended December 31, 1996, 1997, 1998, 1999 and 2000 were US$517 million, US$730 million, US$445 million, US$480 million and US$520 million, respectively. In addition, the copper reserve law requires the payment of a 10% tax on Codelco's exports of copper and related by-products, which is segregated for use by the armed forces. Payments under the copper reserve law were US$266 million, US$282 million, US$215 million, US$231 million and US$296 million in 1996, 1997, 1998, 1999 and 2000, respectively.

When the profit distributions or the income tax payments from Codelco decline due to the fall in the price of copper, transfers from the Copper Stabilization Fund to the current revenue of the government partially offset these declines.

Stabilization Funds

The government has created two stabilization funds: the Copper Stabilization Fund and the Oil Price Stabilization Fund.

To cushion the economy from the effects of fluctuating copper prices on government revenues, the Copper Stabilization Fund was created in 1985 in accordance with the Structural Adjustment Program of the World Bank, but was not operational until 1987. The Fund is based on long-term projections of the price of copper, with a symmetrical mechanism for the deposit or withdrawal of funds from Codelco, according to price movements.

The government used the Copper Stabilization Fund to maintain a smooth flow of revenues from Codelco with respect to fluctuations in copper prices. A reference price is set for copper based on long-term trends in market prices. To the extent that export prices exceed the reference price for copper, the Copper Stabilization Fund accumulates a surplus. To the extent that export prices fall below the reference price, funds are withdrawn from the accumulated reserves and used as current revenue by the government.

The following table provides the U.S. dollar amounts contributed to, withdrawn from and in the fund for the periods indicated at the year end.

Copper Stabilization Fund (in millions of US$)

	Deposits	Uses	Balance
1996	US$ 324	US$ 7	US$ 1,683
1997	118	0	1,801
1998	4	274	1,531
1999	63	516	1,078
2000	0	405	673

Source: Budget Office.

The Oil Stabilization Fund was created in 1991 to stabilize domestic prices of oil products and derivatives, which could be adversely affected by fluctuations of external oil prices in the world market. Although there is no legal restriction on the refining of crude oil by private sector companies, Enap, a state-owned enterprise, is currently the sole refiner of crude oil in Chile. Enap refines purchased crude and any crude that it produces, as the sole producer of crude oil by law and sells refined products to private distributors. Private distributors may also import refined products directly. To the extent that international prices for these refined products fall below the selling reference prices (which are computed by the National Energy Commission), a tax is charged and the fund accumulates a surplus. To the extent that import prices exceed the selling reference price, a subsidy is paid with funds withdrawn from the fund. This is reflected in the establishment of a price band where the parity price is calculated as an average of the international oil price on a weekly basis. The upper and lower limits of the band are established by law, and the band is limited to a 25% difference from the parity price.

In 2000, the Oil Stabilization Fund Law was modified in order to achieve fiscal neutrality by creating symmetry between taxes and subsidies, to calculate the reference price on a weekly basis, to avoid sharp price movements and to increase the transparency in the price calculation.

The following table provides the U.S. dollar amounts contributed to, withdrawn from and in the fund at year end for the periods indicated.

Oil Stabilization Fund (in millions of US$)

	Deposits	Uses	Balance
1996	US$ 2.0	US$ 47.6	US$ 147.5
1997	1.2	42.6	106.1
1998	109.6	7.3	208.4
1999	61.2	180.0	89.6
2000	282.5	362.1	10.0

Source: Budget Office.

Government Expenditures

The largest category of the government's expenditure is social programs, particularly social security, health and education. In 2000, social programs accounted for 69.1% of total government expenditures. During the period from 1996 to 2000, social expenditures grew in real terms at an average annual rate of 7.5%.

Interest on public debt amounted to 2.0% of expenditures in 2000, representing 0.5% of GDP.

The following table sets forth central government expenditures by purpose for the period 1996-2000.

Central Government Expenditures
(in billions of pesos of 2000)

	1996	1997	1998	1999	2000
National administration: (1)	Ps. 1,257	Ps. 1,364	Ps. 1,472	Ps. 1,555	Ps. 1,565
Social programs:					
Health	858	910	984	1,014	1,099
Housing	393	371	383	377	360
Social security	2,021	2,115	2,243	2,477	2,600
Education	1,108	1,221	1,360	1,454	1,577
Employment programs	6	8	7	10	6
Other social programs	434	463	498	569	619
Total	4,820	5,088	5,475	5,901	6,261
Economic programs(2)	1,064	1,174	1,147	1,154	1,052
Interest payments of Public debt	198	159	250	125	180
Total central government expenditures	Ps. 7,339	Ps. 7,785	Ps. 8,344	Ps. 8,736	Ps. 9,058

(1) Includes government, defense, justice and security functions.
(2) Includes promotion and regulation of economic activities as well as the support of infrastructure projects.
Source: Budget Office.

Social Security

Although Chile's pension system has been largely privatized, the government retains obligations with respect to participants in the old system. These obligations consist of issuing interest-earning past-service recognition bonds, which reflect an estimate of the value of participants' previous contributions into the old system and are met on a pay-as-you-go basis. The government defines these obligations as a "social" expenditure. The following table sets forth the government's cost estimate of Chile's traditional social security program as a percentage of GDP (including the separate pension systems of the armed forces and police).

Expenditures of the Social Security System (as a % of GDP)

	Past-service recognition bonds	Government expense for traditional pensions	Total
1996	0.74%	5.17%	5.91%
1997	0.82	5.05	5.87
1998	0.90	5.23	6.13
1999	1.07	5.75	6.82
2000	1.10	5.65	6.75

Source: Budget Office.

Health

Chile has a decentralized public health care system. The Ministry of Health operates the system, providing medical attention and health care through regionally administered health services. The Ministry of Health, through the National Health Fund (known as Fonasa), collects and distributes state and private funds for health services rendered primarily in facilities administered by the Ministry of Health. The Ministry of Health also provides health care coverage for the indigent and for the uninsured.

Private health insurance companies, known as Isapres, were launched in 1981 and provide prepaid insurance plans. Isapres are funded through a 7% withholding of workers' salaries plus an additional voluntary contribution if the costs of an individual's health plan exceeds the 7% compulsory contribution. Workers who do not join an Isapre must contribute 7% of their salary to Fonasa, which then becomes responsible for their health insurance coverage. As of December 31, 2000, approximately 3.1 million persons were covered by private health insurance contracts with Isapres and 9.7 million Chileans were covered by Fonasa. The remainder of the population received health care from the armed forces and police health care systems or from private or alternative health care providers. For additional information, see "Second Generation Reforms—Health System Reforms."

2001 Budget

On November 13, 2000, Congress approved the budget for the government and public sector agencies for the 2001 fiscal year. Projections in the 2001 budget, as adjusted, include a central government deficit of 0.1% of GDP (calculated on a cash flow basis and excluding privatization proceeds) and a consolidated non-financial public sector surplus of 0.8% of GDP.

Total central government expenditures are estimated at 24.1% of GDP in 2001, with current expenditure representing 19.9% of GDP and capital expenditure representing 4.3% of GDP. The government expects the total growth in expenditures as contemplated in the 2001 budget to be 5.3% as compared to the government's latest estimate of its actual expenditures for 2000.

Although in mid-year 2000 these budget assumptions were conservative, certain unexpected global economic conditions affected both the price of copper (which in August 2001 was an average of 66.4 cents per pound) and the growth of real GDP. In September 2001, the government expected that the rate of GDP growth in 2001 would be 3.5%.

The following table sets forth estimated central government expenditures for 2000 and 2001.

Central Government
(in millions of US$)

	2000 Revised Budget Law	2001 Budget Law(1)	Percentage Growth(2)
Current Expenditures	US$ 13,848	US$ 13,706	4.8%
Capital Expenditures	2,885	2,934	7.7
Total Expenditures	US$ 16,733	US$ 16,640	5.3
Social Expenditures	US$ 11,198	US$ 11,180	5.8%
Other Expenditures	5,535	5,460	4.5
Total Expenditures	US$ 16,733	US$ 16,640	5.3%
Expenditures With Macroeconomic Impact(3)	15,758	15,645	5.2%

(1) Calculated using an exchange rate of 590 pesos per U.S. dollar (average January to June 2001).
(2) Calculated using constant pesos of 2000.
(3) Excludes interest payments, payments on past-service recognition bonds and the purchases of financial assets.
Source: Budget Office.

The 2001 budget projects a 5.8% increase in social expenditures due to estimated increases in expenditures associated with the health system and the educational reform program. On the other hand, current government expenditures are estimated to grow at a rate of 4.8% for 2001.

The 2001 budget projects a moderate central government deficit.

The following table sets for the budget for the nonfinancial public sector for 2000 and 2001.

Non Financial Public Sector 2000-2001
in billions of US$)

	Revised 2000 Budget(1)(2)	2001 Budget Law(3)(4)
Central government	US$ 16.2	US$ 16.2
Public sector enterprises	8.1	8.9
Net Transfers from public sector enterprises	(2.5)	(2.6)
Total current revenues	21.8	22.5
Central government	13.8	13.7
Public sector enterprises	4.9	5.5
Total current expenditures	18.7	19.2
Central government	2.4	2.5
Public sector enterprises	0.6	0.8
Total current surplus (deficit)	3.0	3.3
Central government	0.35	0.3
Public sector enterprises	0.04	0.05
Total capital revenues	0.39	0.35
Central government	2.4	2.5
Public sector enterprises	1.0	1.2
Net Transfers	(0.05)	(0.05)
Gross capital formation	3.35	3.65
Central government	0.4	0.4
Public sector enterprises	0.0	0.0
Other	0.4	0.4
Total capital expenditures	3.8	4.1
Central government	(0.15)	(0.08)
Public sector enterprises	(0.22)	(0.45)
Total non financial public sector surplus/(deficit)	US$ (0.37)	US$ (0.53)

(1) Calculated using an exchange rate of 539 pesos per U.S. dollar.
(2) Corresponds to the 2000 Budget Law with adjustments to reflect actual or estimated changes.
(3) Calculated using an exchange rate of 590 pesos per U.S. dollar.
(4) The central government's budget corresponds to the 2001 Budget Law with adjustments to reflect the estimated transfers of public sector enterprises. The budgets of public sector enterprises correspond to their approved budgets.
Source: Budget Office.

The new framework for formulation fiscal policy

To prepare a budget under a policy rule, the administration of President Lagos began with the use of a structural balance. The Structural Balance of the Public Sector reflects the amount revenues and fiscal spending would reach if GDP were at its potential level and the price of copper were at the medium-term price; therefore, it excludes the cyclical and random effects of two very important factors: economic activity and the price of copper. The use of the structural balance will make it possible to broaden the programming horizon of public institutions by helping to avoid inefficient contractions of spending in recessive periods as well as over-expansions financed under temporary fiscal surpluses.

The government has set a target of a structural surplus equal to 1% of the GDP surplus every year. To meet this target, it will be necessary to determine the maximum growth of structural spending that is compatible with the target, which in turn will necessitate a projection of the structural revenues of the period. This projection will depend on the projected gaps between potential and actual GDP and between short-term and long-term copper prices.

Once the changes in structural revenues has been estimated, the growth of structural spending can be determined which will make it possible, on the basis of the estimated closing of the preceding year, to meet the structural surplus of 1% of GDP. The growth of accounted expenses compatible with the fiscal goal derives from the growth of structural spending, reverting adjustments to accounted expenses made previously.

In 2001, the budget was prepared assuming a gap of 2.9% over the estimated long-term growth path. Structural spending and revenue growth were therefore estimated at 5.2% and 4.5%, respectively.

PUBLIC SECTOR DEBT

External Debt of Chile

Chile's total gross public sector external debt consists of all foreign currency denominated debt of the central government, public sector enterprises and the Central Bank. Total public sector short-, medium- and long-term external debt amounted to US$5.2 billion in 1996, US$5.1 billion in 1997, US$5.7 billion in 1998, US$5.8 billion in 1999 and US$5.5 billion in 2000. Chile has reduced its ratio of *total public external debt to GDP from 20.3% in 1993 to 7.9% in 2000.*

Chile is current on all IMF obligations.

The following table sets forth information regarding public sector external debt.

Public Sector External Debt, By Creditor
(in millions of US$ and % of GDP)

	1996	1997	1998	1999	2000
Multilateral Organizations:					
IDB	US$ 971	US$ 619	US$ 574	US$ 599.5	US$ 588
IBRD (World Bank)	1,039	1,020	981	911.5	842
IDA (World Bank)	10	10	9	8	7
FIDA	0	0	2	3	3
Total	2,020	1,649	1,566	1,522	1,440
Bilateral creditors	615	570	579	527	439
Commercial banks	2,175	2,221	2,914	2,657	2,415
Suppliers and other creditors	2	39	57	61	51
Treasury bills	0	0	0	800	800
Trade credits	0	0	0	0	0
Total medium- and long-term debt	4,812	4,479	5,116	5,567	5,145
Total short-term debt	350	609	598	260	378
Total debt	US$ 5,162	US$ 5,088	US$ 5,714	US$ 5,827	US$ 5,522
Public external debt, less reserves (in billions of US$)	US$ *(10.3)*	*US$ (12.8)*	*US$ (10.3)*	*US$* (8.9)	US$ (9.2)
Total public external debt/GDP	7.5%	6.8%	7.8%	8.6%	7.9%
Total public external debt/exports	33.5%	30.5%	38.5%	37.3%	30.4%

Source: Central Bank.

The following table sets forth public sector medium- and long-term external debt, by currency as of the date indicated.

Public Sector Medium- and Long-Term External Debt, by Currency(1)
(in millions of US$)

	2000
United States Dollar	US$ 4,335
Currency Units IBD	438
Japanese Yen	264
Deutsche Mark	70
Other	37
Total	US$ 5,144

(1) Represents medium- and long-term external debt to non-residents.
Source: Central Bank.

The following table sets forth amortization of gross public sector external debt.

Amortization of Gross Public Sector External Debt(1)
(in millions of US$)

	Outstanding as of Dec. 31, 2000	Amortizations 2001	2002	2003	2004	2005	2006	2007 to Final Maturity
Central Government:								
Multilateral organizations	US$ 1,724.3	US$ 187.0	US$ 186.5	US$ 188.7	US$ 201.9	US$ 176.4	US$ 135.7	US$ 648.1
Bilateral creditors	418.3	56.7	53.9	39.4	31.1	22.1	24.3	190.8
Commercial banks	338.0	67.8	67.3	66.9	66.3	66.2	2.3	1.2
Bonds	500.0	0	0	0	0	0	0	500.0
Treasury bills	0	0	0	0	0	0	0	0
Treasury bonds	0	0	0	0	0	0	0	0
Other creditors	0	0	0	0	0	0	0	0
Total	2,980.6	311.5	307.7	295.0	299.3	264.7	162.3	1340.1
Central Bank:								
Multilateral organizations	0	0	0	0	0	0	0	0
Bilateral creditors	2.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial banks	0	0	0	0	0	0	0	0
Other creditors	0	0	0	0	0	0	0	0
Total	2.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Banco Estado:								
Multilateral organizations	2.5	0.7	0.7	0.7	0.4	0	0	0
Bilateral creditors	0	0	0	0	0	0	0	0
Commercial banks	217.9	160.8	51.0	1.9	0.3	0.3	0.3	3.3
Other creditors	0	0	0	0	0	0	0	
Total	220.4	161.5	51.7	2.6	0.7	0.3	0.3	3.3
Non-financial public enterprises:								
Multilateral organizations	0	0	0	0	0	0	0	0
Bilateral creditors	25.0	6.2	12.6	6.2	0	0	0	0
Commercial banks	2,038.6	739.5	447.3	396.9	183.8	76.0	48.8	146.3
Bonds	300.0	0	0	0	0	0	0	300.0
Other creditors	51.4	2.9	3.0	3.0	3.0	2.9	2.9	33.7
Total	2,415.0	748.6	462.9	406.1	186.8	78.9	51.7	480.0
Total Gross Public Sector External Debt	US$ 5,618.1	US$ 1,221.9	US$ 822.6	US$ 704.0	US$ 487.1	US$ 344.2	US$ 214.6	US$ 1,823.7

(1) Includes medium- and long-term external debt.
Source: Central Bank.

Domestic Debt

Chile defines domestic debt as all peso-denominated debt and foreign-currency denominated debt known to be held by Chilean residents. The central government's total domestic debt outstanding are Treasury bills issued to the private sector. Domestic public sector debt of the central government decreased from US$13.5 million in 1996 to US$2.2 million at December 31, 2000.

The following table sets forth the central government's domestic debt for the periods indicated.

Domestic Debt of the Central Government
(in millions of US$)

	Total Domestic Debt	Foreign Currency Treasury bills	Peso Denominated Treasury bills
1996	13.5	0.0	13.5
1997	9.4	0.0	9.4
1998	6.6	0.0	6.6
1999	4.1	0.0	4.1
2000	2.2	0.0	2.2

Source: Budget Office.

The Central Bank issues a wide variety of short- and long-term instruments to conduct market operations. At December 31, 2000, outstanding Central Bank instruments totaled US$22.8 billion (at book value).

The following table sets forth Central Bank domestic debt:

	1996	1997	1998	1999	2000
Billions of Chilean Pesos	Ps. 9,413.4	Ps. 10,786.1	Ps. 10,526.3	Ps. 11,285.4	Ps. 13,086.1
Billions of US$	US$ 22.1	US$ 24.5	US$ 22.2	US$ 21.4	US$ 22.8

Source: Central Bank.

Private Sector External Debt Guaranteed by the Central Government

As a consequence of the 1982-1983 financial crisis and the subsequent privatization of public sector enterprises with outstanding external debt, the central government is the guarantor of a small portion of the private sector's external debt. It is the government's policy not to guarantee new private sector obligations. The contingent liabilities of private sector guarantees have fallen steadily between 1996 and 2000, as shown in the following table.

Private Sector Medium- and Long-Term External Debt
Guaranteed by the Central Government
(in millions of US$)

1996	US$ 381
1997	104
1998	86
1999	94
2000	73

Source: Central Bank.

Public and Private Sector External Debt

The following table sets forth approximate outstanding amounts of Chile's public and private sector external debt for the periods indicated.

Public and Private Sector External Debt
(in millions of US$)

	1996	1997	1998	1999	2000
Medium- and long-term debt					
Public sector (1)	US$ 4,410	US$ 4,018	US $ 4,708	US$ 4,993	US$ 3,923
Private sector	14,117	19,089	22,831	25,175	26,524
Total medium- and long-term debt	18,527	23,107	27,539	30,168	30,447
Short-term debt					
Public sector	753	1,070	1,006	834	1,599
Private sector	3,699	2,524	3,146	3,165	4,803
Total short-term debt	4,452	3,594	4,152	3,999	6,402
Total short-, medium and long-term debt	US$ 22,979	US$ 26,701	US$ 31,691	US$ 34,167	US$ 36,846
Use of IMF credit	0	0	0	0	0
Total public and private external debt, less reserves (in billions of U.S. dollars)	US$ 7.5	US$ 8.9	US$ 15.7	19.5	22.1
Total public and private external debt/GDP	33.5%	35.5%	43.3%	50.5%	52.6%
Total public and private external debt/exports	149%	160%	213%	218%	202%

(1) Includes publicly guaranteed private debt.
Source: Central Bank.

Total Public Debt

Except for its US$500,000,000 of 6.875% Bonds due April 28, 2009, Chile had no other public external bonds as of December 31, 2000.

Debt Service and Debt Restructuring

Chile has a long-standing tradition of prompt service of its external debt obligations, which was interrupted only in the 1930s. The regional debt crisis which started in 1982 resulted in growing unwillingness on the part of foreign commercial banks to lend to the region. Reduced new lending forced Chile to seek the rescheduling of certain obligations to commercial banks due in 1983 and 1984 and to obtain new loans from the banks. Chile agreed to further multi-year debt reschedulings with the international banking community in 1985 and 1987, which provided for the rescheduling of the remaining maturities of the medium-term commercial bank loans outstanding in 1983 to the Chilean public and private financial sectors. Despite the need to enter into these rescheduling agreements, Chile did not fall into arrears in respect to principal and interest payments during this period.

In an effort to reduce its public sector external debt burden, Chile carried out two substantial cash buyback operations during the second half of the 1980's. In 1985, the Chilean authorities promulgated a debt conversion program (Chapters XVIII and XIX of the Central Bank's International Exchange Norms), which permitted foreign investors to exchange Chilean external debt issued by Chilean financial institutions and Chilean public sector companies for equity interests in Chilean companies. From its initiation in 1985 until its discontinuation in the mid 1990s, Chile's debt conversion program under

Chapters XVIII and XIX, together with other debt reduction measures, resulted in debt reduction of more than US$11.5 billion.

Beginning in 1995, Chile began the process of prepaying its public sector debt rescheduled in the 1980s and new money debt borrowed at that time together with debt owing under IMF and World Bank programs. As part of this process, Chile prepaid approximately US$3.9 billion of public debt.

Debt Record

Chile has regularly met all principal and interest obligations on its external debt for over 50 years. See "—Debt Service and Debt Restructuring."

DESCRIPTION OF THE SECURITIES

This prospectus provides a general description of the debt securities and warrants that Chile may offer. Each time Chile sells securities, Chile will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If the information in this prospectus differs from any prospectus supplement, you should rely on the updated information in the prospectus supplement.

Debt Securities

Chile will issue the debt securities pursuant to the Amended and Restated Fiscal Agency Agreement, to be entered into by Chile and The Chase Manhattan Bank, as fiscal agent, prior to the first issuance of debt securities.

The following description is a summary of the material provisions of the debt securities and the fiscal agency agreement. Given that it is only a summary, the description may not contain all of the information that is important to you as a potential investor in the debt securities. You should read the fiscal agency agreement, the form of debt securities attached at the end of the fiscal agency agreement and the applicable prospectus supplement in making your decision on whether to invest in the debt securities. Chile has filed or will file copies of these documents with the SEC and at the office of the fiscal agent in The City of New York.

General

The prospectus supplement relating to any series of debt securities offered will include specific terms relating to the debt securities of that series. These terms will include some or all of the following:

- the title;
- any limit on the aggregate principal amount;
- the issue price;
- the maturity date or dates;
- if the debt securities will bear interest, the interest rate, which may be fixed or floating, the date from which interest will accrue, the interest payment dates and record dates for these interest payment dates;
- any index Chile will use to determine the amount of principal or any premium or interest payments;
- the place or places where principal, interest and other payments (if any) with respect to the securities will be paid;
- the form of debt security (global or certificated and registered or bearer);
- any mandatory or optional sinking fund provisions;
- any provisions that allow Chile to redeem the debt securities at its option;

- any provisions that entitle you to early repayment of all or a portion of the debt securities at your option;
- the currency in which the debt securities are denominated and the currency in which Chile will make payments;
- the authorized denominations;
- any additional covenants or agreements of Chile and any additional events that automatically accelerate, or that give you the right to accelerate, the maturity of your debt securities; and
- any other terms of the debt securities that do not conflict with the provisions of the fiscal agency agreement.

Chile may issue debt securities in exchange for other debt securities or which are convertible into new debt securities. The specific terms of the exchange or conversion of any debt security and the debt security to which it will be exchangeable or converted will be described in the prospectus supplement relating to the exchangeable or convertible debt security.

Chile may issue debt securities at a discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. Chile may also issue debt securities that have floating rates of interest but are exchangeable for fixed rate debt securities. Chile will describe the U.S. federal income tax consequences and other relevant considerations in the prospectus supplement for any such offering.

Chile is not required to issue all of its debt securities under the fiscal agency agreement and this prospectus, but instead may issue debt securities other than those described in this prospectus under other fiscal agency agreements and documentation. That documentation may contain terms different from those included in the fiscal agency agreement and described in this prospectus.

Status of the Debt Securities

The debt securities will be direct, unconditional and unsecured obligations of Chile, backed by the full faith and credit of Chile (e.g., its tax revenues and general funds).

The debt securities will rank at all times at least equal in right of payment among themselves with all of Chile's existing and future unsecured and unsubordinated external indebtedness, including, without limitation, Chile's 6.875% Bonds due 2009. For this purpose, "external indebtedness" means all obligations of Chile or guaranteed by Chile for borrowed money or evidenced by bonds, notes or similar instruments denominated or payable in a currency other than Chilean pesos, including those which at the option of any holder are so denominated or payable.

Form and Denomination

Unless otherwise provided in the prospectus supplement for an offering, Chile will issue debt securities:

- denominated in U.S. dollars;
- in fully registered book-entry form;

- without coupons; and
- in denominations of $1,000 and integral multiples of $1,000.

Debt securities in book-entry form will be represented by one or more global securities registered in the name of a nominee of DTC. Beneficial ownership interests in a global security will only be recorded on, and transferred through, the records maintained by DTC and its participants, including the depositaries for Euroclear System and Clearstream Banking *société anonyme* (Clearstream, Luxembourg).

Unless otherwise specified in the applicable prospectus supplement, Debt Securities in physical, certificated form will be issued only in exchange for interests in a global security in certain limited circumstances described below under "Certificated Securities."

Payments of Principal and Interest

Unless otherwise provided in the applicable prospectus supplement, Chile will make payments of principal of and interest on the debt securities in U.S. dollars through the fiscal agent to DTC. Chile expects that payments to holders will be made in accordance with the procedures of DTC and its direct and indirect participants. Neither Chile nor the fiscal agent will have any responsibility or liability for any of the records of, or payments made by, DTC or any failure on the part of DTC in making payments to holders from the money it receives.

If any date for an interest or principal payment is a day on which banking institutions in The City of New York or in the city where the relevant paying agent or transfer agent is located are authorized or obligated by law to be closed, Chile will make the payment on the following banking day in the respective city. No additional interest on the debt securities will accrue as a result of this delay in payment.

Any money that Chile pays to the fiscal agent or to any paying agent for the payment of principal or interest on the debt securities that remains unclaimed for two years after the payment was due and paid by Chile will be returned to Chile. Afterwards, the holder of the debt security may only look to Chile for repayment. Chile's obligation to pay interest or principal on the debt securities will remain unchanged as a result of such a return of money to Chile.

In the event debt securities in physical, certificated form are issued, payments of interest on each debt security, other than interest payable at maturity, will be made on each interest payment date by check mailed to persons registered as holders on the fifteenth day immediately preceding the interest payment date, except that persons holding at least U.S. $1,000,000 principal amount of debt securities can request up to 15 days prior to an interest payment date that an interest payment be made by wire transfer to a bank account designated by the holder. Payments of principal will be made in the same manner, except that any holder may request payment of principal by wire transfer.

Chile and the fiscal agent may treat the person in whose name a debt security is registered as the owner of that security for the purpose of receiving payments of principal and interest on the debt securities and for all other purposes.

Redemption, Repurchase and Early Repayment

Unless otherwise provided in the applicable prospectus supplement, the debt securities will not be redeemable before maturity at the option of Chile or repayable before maturity at the option of the holder. Nevertheless, Chile may at any time repurchase the debt securities at any price in the open market or otherwise. Chile may hold or resell the securities it purchases or may surrender them to the fiscal agent for cancellation.

Additional Amounts

Chile will make all principal and interest payments on the debt securities without deducting or withholding any present or future Chilean taxes, unless the deduction or withholding is required by law. Chilean law currently requires Chile to deduct or withhold taxes in the case of payments of interest to holders that are not resident or domiciled in Chile. However, Chile will pay the holders the additional amounts required to ensure that they receive the same amount as they would have received without this withholding or deduction. We refer to such amounts as "Additional Amounts." Any new withholding, deduction or other taxes imposed by Chile in the future will also give rise to payment of Additional Amounts.

Chile will not, however, pay any Additional Amounts in respect of debt securities in connection with any tax, assessment or other governmental charge that is imposed due to any of the following:

- the holder has some connection with Chile other than merely owning the debt security or receiving principal and interest payments on it; or
- the holder does not present (where presentment is required) its debt security within 30 days after Chile makes a payment of principal or interest available, except to the extent that such tax, assessment or charge is not caused by the delay.

Chile will pay any administrative, excise or property taxes which arise under Chilean law in connection with the debt securities. Chile will also indemnify the holders against any administrative, excise or property taxes resulting from any enforcement of Chile's obligations under the debt securities following an event of default.

Negative Pledge Covenant

Chile will not grant or allow any lien to be placed on its assets or revenues as security for any of its public external indebtedness unless it contemporaneously grants or allows a lien that provides security on the same terms for Chile's obligations under any debt securities.

For this purpose:

- a "lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind whether in effect on the date of the fiscal agency agreement or at any time thereafter, and
- "public external indebtedness" is external indebtedness (as described above under "Status of the Debt Securities") that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market.

However, Chile may grant or agree to certain permitted types of liens as described below:

- any lien on property to secure public external indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures, after giving effect to all renewals and refinancings, not more than one year after the date on which this type of public external indebtedness was originally incurred;

- any lien on property to secure public external indebtedness incurred to finance Chile's acquisition or construction of the property, and any renewal or extension of the lien which is limited to the original property covered by it and which secures any renewal or extension of the original financing without any increase in the amount of the lien;

- any lien on property arising by operation of any law in force as of the date of this Prospectus in connection with public external indebtedness, including without limitation any right of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property held by financial institutions, which in each case are deposited with or delivered to the financial institutions in the ordinary course of the depositor's activities;

- any lien existing on property at the time of acquisition and any renewal or extension of that lien which is limited to the original property covered by the lien and which secures any renewal or extension of the original financing secured by the lien at the time of the acquisition without increase in the amount of the original secured financing;

- any lien in existence as of the date of the fiscal agency agreement; and

- any lien securing public external indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that (a) the holders of the public external indebtedness agree to limit their recourse to the assets and revenues of the project as their principal source of repayment and (b) the property over which the lien is granted consists solely of the assets and revenues of the project.

Events of Default

Unless otherwise specified in a prospectus supplement, each of the following is an event of default with respect to a series of the debt securities:

1. *Non-Payment*: Chile's failure for a period of 30 days to make a payment of principal or interest when due on any debt security of that series; or

2. *Breach of Other Obligations*: Chile's failure to observe or perform any of its covenants or obligations under that series of the debt securities or the fiscal agency agreement for 60 days following written notice to Chile to remedy the failure by the fiscal agent or persons holding debt securities representing 25% of the aggregate principal amount of the debt securities of the affected series outstanding; or

3. *Cross Default*:

- Chile's failure beyond the applicable grace period to make any payment when due on any public external indebtedness in principal amount greater than or equal to US$20,000,000; or

- acceleration on any public external indebtedness of Chile in principal amount greater than or equal to US$20,000,000 due to an event of default, unless the acceleration is rescinded or annulled; or

4. *Moratorium*: Chile or certain Chilean courts declare a general suspension of payments or a moratorium on payment of its public external indebtedness; or

5. *Validity*: Chile or any governmental entity of Chile which has the legal power to contest the validity of the debt securities contests the validity of the debt securities of that series in any type of formal proceeding.

If any of the above events of default occurs and is continuing, persons holding and representing at least 25% of the aggregate principal amount of the then outstanding debt securities of the affected series may declare all the debt securities of that series to be due and payable immediately. In the case of an event of default described in paragraphs 1 or 4 above, each affected holder may declare the principal amount which it holds to be immediately due and payable. The declarations referred above shall be made by giving written notice to Chile with a copy to the fiscal agent.

Holders of debt securities representing in the aggregate at least 50% of the aggregate principal amount of the then outstanding securities of any series may waive any existing defaults, and their consequences, on behalf of all holders of such series, if:

- following the declaration of the debt securities due and payable immediately, Chile deposits with the fiscal agent a sum sufficient to pay all outstanding amounts then due on the debt securities of that series, other than amounts due solely because of the declaration; and

- all other defaults have been remedied.

Fiscal Agent

The fiscal agency agreement establishes the obligations and duties of the fiscal agent, the right to indemnification of the fiscal agent and the liability and responsibility, including limitations on liabilities and responsibilities, for actions that the fiscal agent takes. The fiscal agent is entitled to enter into business transactions with Chile without accounting for any profit resulting from these transactions.

Chile may replace the fiscal agent at any time, subject to the appointment of a replacement fiscal agent. In addition, Chile may appoint different fiscal agents for different series of debt securities. The fiscal agent is not a trustee for the holders of debt securities and does not have the same responsibilities or duties to act for such holders as would a trustee. Chile may maintain deposit accounts and conduct other banking and financial transactions with the fiscal agent.

Paying Agents; Transfer Agents; Registrar

Chile may appoint paying agents, transfer agents and registrars with respect to any series of debt securities, which will be listed at the back of the applicable prospectus supplement. While Chile may at any time appoint additional or replacement paying agents, transfer agents and registrars, it will, however, maintain a paying agent and a registrar in The City of New York until the debt securities are paid.

In addition, Chile will maintain a paying agent and a transfer agent in Luxembourg with respect to any series of the debt securities listed on the Luxembourg Stock Exchange so long as the rules of the Luxembourg Stock Exchange so require. Chile will promptly provide notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with a series of the debt securities.

Modifications and Amendments

Chile and the fiscal agent may modify or amend the terms and conditions of the debt securities of a series or the fiscal agency agreement if such changes are agreed to, at any meeting of holders or in writing, by persons holding debt securities representing at least 50% of the aggregate principal amount of the then outstanding debt securities of the affected series. However, the consent of each affected holder, at any meeting of holders or in writing, is required for any amendment, modification or change that would:

- change the stated maturity of the principal of or interest on any debt security;
- reduce the principal amount of or interest on any debt security;
- change the currency or place of payment of principal or interest on any debt security;
- shorten the period during which Chile is prohibited from redeeming any debt security;
- impair the right to institute suit for the enforcement of any payment on or with respect to any debt security;
- reduce the percentage of principal amount of securities outstanding necessary to make modifications, amendments or changes to the fiscal agency agreement or the debt securities; or
- change the obligation of Chile to pay Additional Amounts on account of withholding taxes or deductions as described above.

No consent of the holders is or will be required for any modification, amendment or change requested by Chile or the fiscal agent to:

- add to Chile's covenants for the benefit of the holders;
- waive any right or power of Chile;
- provide security or collateral for the debt securities;
- cure any ambiguity, or correct or supplement any defective provision of the fiscal agency agreement;
- change the terms and conditions of the securities or the fiscal agency agreement in any manner which Chile and the fiscal agent mutually deem necessary or desirable so long as any change of this type will not adversely affect the interests of any holder of the affected securities; or
- provide for issuances of warrants as contemplated herein.

Replacement, Exchange and Transfer of Debt Securities

Under certain limited circumstances, beneficial interests in any global security representing debt securities may be exchanged for physical debt securities. See "Certificated Securities." If Chile issues physical debt securities, the holder may present its debt securities for exchange with debt securities of a different authorized denomination, together with a written request for an exchange, at the office of the fiscal agent in The City of New York, or at the office of any paying agent. In addition, the holder of any physical debt security may transfer it in whole or in part by surrendering it at any of these offices together with an executed instrument of transfer. Chile will not charge the holders for the costs and expenses associated with the exchange, transfer or registration of transfer of the debt securities. Chile may, however, charge the holders for certain delivery expenses as well as any applicable stamp duty, tax or other governmental charges. The fiscal agent may reject any request for an exchange or registration of transfer of any debt security made within 15 days of the date for any payment of principal of or interest on the debt security.

If a physical debt security becomes mutilated, defaced, destroyed, lost or stolen, Chile may issue, and the fiscal agent will authenticate and deliver, a substitute debt security in replacement. In each case, the affected holder will be required to furnish to Chile, the fiscal agent and certain other specified parties an indemnity under which it will agree to pay Chile, the fiscal agent and certain other specified parties for any losses they may suffer relating to the debt security that was mutilated, defaced, destroyed, lost or stolen. Chile and the fiscal agent may also require that the applicant present other documents or proof. The affected holder will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen debt security.

Notices

Chile will publish notices to the holders of debt securities in a leading newspaper having general circulation in London, currently expected to be the *Financial Times*. Chile will also publish notices to holders in a leading newspaper having general circulation in Luxembourg while any series of the debt securities remains listed on the Luxembourg Stock Exchange and the rules of that exchange so require. Chile expects that it will make such publications in the *Luxemburger Wort*. A notice will be deemed given on the date of its first publication.

In addition to the above, Chile will mail notices to holders at their registered addresses. So long as DTC, or its nominee, is the registered holder of a global security or securities, each person owning a beneficial interest in the global security or securities must rely on the procedures of DTC to receive notices provided to DTC. Each person owning a beneficial interest in a global security or securities that is not a participant in DTC must rely on the procedures of the participant through which the person owns its interest to receive notices provided to DTC.

Prior Issuance of Debt Securities; Further Issues of Debt Securities

Chile issued US$500,000,000 6.875% Bonds due 2009 on April 21, 1999, under substantially the same terms and conditions as described herein and which constitute one of the series of securities issued under the fiscal agency agreement.

Without the consent of the holders, Chile may create and issue additional debt securities with the same terms and conditions as an outstanding series of debt securities (or the same except for the payment of interest scheduled on them and paid prior to the time of their issue). Chile may consolidate the additional debt securities to form a single series with an outstanding series of debt securities.

Limitation on Time for Claims

Claims against Chile for the payment of principal or interest on the debt securities (including Additional Amounts) must be made within five years of the date on which the payment first became due.

Warrants

If Chile issues warrants, their specific terms will be provided in a prospectus supplement, and a warrant agreement or amendment to the fiscal agency agreement and form of warrant will be filed with the SEC. The following description briefly summarizes some of the general terms that apply to warrants. You should read the applicable prospectus supplement, warrant agreement and form of warrant before making your investment decision.

Chile may issue warrants separately or together with any debt securities. All warrants will be issued under a warrant agreement to be entered into between Chile and a bank or trust company, which may be the fiscal agent, as warrant agent. The prospectus supplement relating to the particular series of warrants will set forth:

- the initial offering price;
- the currency you must use to purchase the warrants;
- the title and terms of the debt securities or other consideration that you will receive on exercise of the warrants;
- the principal amount of debt securities or amount of other consideration that you will receive on exercise of the warrants;
- the exercise price or ratio;
- the procedures of, and conditions to, exercise of the warrants; the date or dates on which you must exercise the warrants;
- whether and under what conditions Chile may cancel the warrants;
- the title and terms of any debt securities issued with the warrants and the amount of debt securities issued with each warrant;
- the date, if any, on and after which the warrants and any debt securities issued with the warrants will trade separately;
- the form of the warrants (global or certificated and registered), whether they will be exchangeable for another form and, if registered, where they may be transferred and exchanged;
- the identity of the warranty agent;
- any special U.S. federal income tax considerations; and
- any other terms of the warrants.

The warrants will be direct, unconditional and unsecured obligations of Chile and do not constitute indebtedness of Chile.

Global Securities

DTC, Euroclear and Clearstream, Luxembourg are under no obligation to perform or continue to perform the procedures described below, and they may modify or discontinue them at any time. Neither Chile nor the fiscal agent will be responsible for DTC's, Euroclear's or Clearstream, Luxembourg's performance of their obligations under their rules and procedures. Additionally, neither Chile nor the fiscal agent will be responsible for the performance by direct or indirect participants of their obligations under their rules and procedures.

Chile may issue the debt securities or warrants in the form of one or more global securities, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of securities.

When Chile issues global securities, it will deposit the applicable security with a clearing system. The global security will be either registered in the name of, or held in bearer form by, the clearing system or its nominee or common depositary. Unless a global security is exchanged for physical securities, as discussed below under "Certificated Securities," it may not be transferred, except as a whole, among the clearing system, its nominees or common depositaries and their successors. Clearing systems include The Depository Trust Company, known as DTC, in the United States and Euroclear System and Clearstream Banking, *société anonyme* (known as Clearstream, Luxembourg) in Europe.

Clearing systems process the clearance and settlement of global securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant. Euroclear and Clearstream, Luxembourg are connected to each other by a direct link and participate in DTC through their New York depositaries, which act as links between the clearing systems. These arrangements permit you to hold global securities through participants in any of these systems, subject to applicable securities laws.

If you wish to purchase global securities, you must either be a direct participant or make your purchase through a direct or indirect participant. Investors who purchase global securities will hold them in an account at the bank or financial institution acting as their direct or indirect participant.

When you hold securities in this manner, you must rely on the procedures of the institutions through which you hold your securities to exercise any of the rights granted to holders. This is because the legal obligations of Chile and the fiscal agent run only to the registered owner or bearer of the global security, which will be the clearing system or its nominee or common depositary. For example, once Chile and the fiscal agent make a payment to the registered holder or bearer of a global security, they will no longer be liable for the payment, even if you do not receive it. In practice, the clearing systems will pass along any payments or notices they receive from Chile to their participants, which will pass along the payments to you. In addition, if you desire to take any action which a holder of the global security is entitled to take, then the clearing system would authorize the participant through which you hold your global securities to take such action, and the participant would then either authorize you to take the action or would act for you on your instructions. The transactions between you, the participants and the clearing systems will be governed by customer agreements, customary practices and applicable laws and regulations, and not by any legal obligation of Chile or the fiscal agent.

As an owner of securities represented by a global security, you will also be subject to the following restrictions:

- you will not be entitled to (a) receive physical delivery of the securities in certificated form or (b) have any of the securities registered in your name, except under the circumstances described below under "—Certificated Securities";
- you may not be able to transfer or sell your securities to some insurance companies and other institutions that are required by law to own their securities in certificated form;
- you may not be able to pledge your securities in circumstances where certificates must be physically delivered to the creditor or the beneficiary of the pledge in order for the pledge to be effective; and
- clearing systems require that global securities be purchased and sold within their systems using same-day funds, for example by wire transfer.

Cross-Market Transfer, Clearance and Settlement

The following description reflects Chile's understanding of the current rules and procedures of DTC, Euroclear and Clearstream Luxembourg relating to cross-market trades in global securities. These systems could change their rules and procedures at any time, and Chile takes no responsibility for their actions or the accuracy of this description.

It is important for you to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date, *i.e.*, the date specified by the purchaser and seller on which the price of the securities is fixed.

When global securities are to be transferred from a DTC seller to a Euroclear or Clearstream, Luxembourg purchaser, the purchaser must first send instructions to Euroclear or Clearstream, Luxembourg through a participant at least one business day before the settlement date. Euroclear or Clearstream, Luxembourg will then instruct its New York depositary to receive the securities and make payment for them. On the settlement date, the New York depositary will make payment to the DTC participant through which the seller holds its securities, which will make payment to the seller, and the securities will be credited to the New York depositary's account. After settlement has been completed, Euroclear or Clearstream, Luxembourg will credit the securities to the account of the participant through which the purchaser is acting. This securities credit will appear the next day, European time, after the settlement date, but will be back-valued to the value date, which will be the preceding day if settlement occurs in New York. If settlement is not completed on the intended value date, the securities credit and cash debit will instead be valued at the actual settlement date.

A participant in Euroclear or Clearstream, Luxembourg, acting for the account of a purchaser of global securities, will need to make funds available to Euroclear or Clearstream, Luxembourg in order to pay for the securities on the value date. The most direct way of doing this is for the participant to preposition funds, *i.e.*, have funds in place at Euroclear or Clearstream, Luxembourg before the value date, either from cash on hand or existing lines of credit. The participant may require the purchaser to follow these same procedures.

When global securities are to be transferred from a Euroclear or Clearstream, Luxembourg seller to a DTC purchaser, the seller must first send instructions to and preposition the securities with Euroclear or Clearstream, Luxembourg through a participant at least one business day before the settlement date.

Euroclear or Clearstream, Luxembourg will then instruct its New York depositary to credit the global securities to the account of the DTC participant through which the purchaser is acting and to receive payment in exchange. The payment will be credited to the account of the Euroclear or Clearstream, Luxembourg participant through which the seller is acting on the following day, but the receipt of the cash proceeds will be back-valued to the value date, which will be the preceding day if settlement occurs in New York. If settlement is not completed on the intended value date, the receipt of the cash proceeds and securities debit will instead be valued at the actual settlement date.

Certificated Securities

Chile will only issue securities in certificated form in exchange for interests in a global security if:

- in the case of a global security deposited with or on behalf of a depositary, the depositary is unwilling or unable to continue as depositary or is ineligible to act as depositary, and Chile does not appoint a successor depositary within 90 days after the depositary notifies Chile or Chile becomes aware of this situation; or

- an event of default with respect to the securities represented by a global security or securities has occurred and is continuing.

In either of these cases, unless otherwise provided in the prospectus supplement for an offering, Chile and the fiscal agent will issue certificated securities:

- registered in the name of each holder;

- without interest coupons; and

- in the same authorized denominations as the global securities.

The certificated securities will initially be registered in the names and denominations requested by the depositary. You may transfer or exchange registered certificated securities by presenting them at the corporate trust office of the fiscal agent. When you surrender a registered certificated security for transfer or exchange, the fiscal agent will authenticate and deliver to you or the transferee a security or securities of the appropriate form and denomination and of the same aggregate principal amount as the security you are surrendering. You will not be charged a fee for the registration of transfers or exchanges of certificated securities. However, you may be charged for any stamp, tax or other governmental charge associated with the transfer, exchange or registration. Chile, the fiscal agent and any other agent of Chile may treat the person in whose name any certificated security is registered as the legal owner of such security for all purposes.

If any registered certificated security becomes mutilated, destroyed, stolen or lost, you can have it replaced by delivering the security or the evidence of its loss, theft or destruction to the fiscal agent. Chile and the fiscal agent may require you to sign an indemnity under which you agree to pay Chile, the fiscal agent and any other agent for any losses they may suffer relating to the security that was mutilated, destroyed, stolen or lost. Chile and the fiscal agent may also require you to present other documents or proof.

After you deliver these documents, if neither Chile nor the fiscal agent have notice that a bona fide purchaser has acquired the security you are exchanging, Chile will execute, and the fiscal agent will authenticate and deliver to you, a substitute security with the same terms as the security you are exchanging. You will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, destroyed, stolen or lost security.

If a security presented for replacement has become payable, Chile in its discretion may pay the amounts due on the security in lieu of issuing a new security.

Governing Law; Jurisdiction

The fiscal agency agreement and any warrant agreement, as well as any debt securities or warrants issued thereunder, will be governed by and will be construed and interpreted according to the law of the State of New York.

The debt securities and the fiscal agency agreement provide, and any warrants and warrant agreement will provide, that Chile will appoint and maintain at all times the person acting as or discharging the function of the Consul General of Chile in the City of New York, with an office on the date of this Prospectus at 866 United Nations Plaza, Suite 601, New York, New York 10017, as its process agent. Process may be served upon Chile's process agent in any judicial action or proceeding commenced by any security holder, the fiscal agent or warrant agent arising out of or relating to the securities, the fiscal agency or warrant agreement in any New York state or federal court sitting in the City of New York, in either case in the Borough of Manhattan, The City of New York, and any appellate court with jurisdiction over any of these courts.

The process agent will receive on behalf of Chile and its property service of copies of the summons and complaint and any other process which may be served in any action or proceeding arising out of or based on the securities, the fiscal agency agreement or warrant agreement brought in any New York state or federal court sitting in the City of New York. Service may be made by delivering a copy of the process to Chile, at the address of the process agent, but may not be made by mail. In addition, Chile will authorize and direct the process agent to accept the service on its behalf.

In addition, holders may serve legal process in any other manner permitted by law. The provisions described above do not limit the right of any holder to bring any action or proceeding against Chile or its property in the competent courts of other proper jurisdictions pursuant to applicable law.

Chile is a foreign sovereign state. Consequently, it may be difficult for holders of the securities to obtain judgments from courts in the United States or elsewhere against Chile. Furthermore, it may be difficult for investors to enforce, in the United States or elsewhere, the judgments of United States or foreign courts against Chile. Chile has been advised by Morales, Noguera, Valdivieso & Besa, special Chilean counsel to Chile, that there is doubt as to the enforceability of liabilities predicated solely upon the U.S. federal securities laws in a suit brought in Chile and as to the enforceability in Chilean courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

To the extent that Chile may be entitled, in any jurisdiction in which judicial proceedings may at any time be commenced by a holder, the fiscal agent, warrant agent or underwriters with respect to any securities, the fiscal agency agreement or any warrant agreement to claim for itself or its revenues or assets any immunity from suit, jurisdiction, attachment in aid of execution of a judgment or prior to a judgment, execution of a judgment or any other legal process with respect to its obligations under the securities, the fiscal agency agreement and any warrant agreement, and to the extent that in any jurisdiction there may be attributed to Chile this immunity (whether or not claimed) Chile will irrevocably agree not to claim and will irrevocably waive this immunity to the maximum extent permitted by law, except for actions arising out of or based on the U.S. federal securities laws or any state securities laws.

However, Chile will not waive immunity from attachment prior to judgment and attachment in aid of execution under Chilean law with respect to property of Chile located in Chile and with respect to its movable and immovable property which is destined to diplomatic and consular missions and to the residence of the head of these missions or to military purposes, including any property which is property of a military character or under the control of a military authority or defense agency, or the rights and property of the Central Bank abroad, since this waiver is not permitted under the laws of Chile. Chile agrees that the waivers described in this provision are permitted under the United States Foreign Sovereign Immunities Act of 1976 and are intended to be irrevocable for purposes of this Act.

Chile reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to any action brought against it under the U.S. federal securities laws or any U.S. state securities laws. In the absence of a waiver of immunity by Chile with respect to those actions, it would not be possible to obtain a U.S. judgment in an action brought against Chile under the U.S. federal securities laws or state securities laws unless a court were to determine that Chile is not entitled under the Foreign Sovereign Immunities Act to sovereign immunity with respect to the action.

A final judgment in any of the above actions or proceedings will be conclusive and may be enforced in other jurisdictions.

Chile will waive, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to any of the securities, the fiscal agency agreement, any warrant agreement, the posting of any bond or the furnishing, directly or indirectly, of any other security.

A final judgment obtained against Chile for the payment of a fixed or readily calculable sum of money rendered by any New York State or federal court sitting in The City of New York having jurisdiction, under its laws over Chile in an action arising out of the fiscal agency agreement or the debt securities can be enforced against Chile in the courts of Chile without any retrial or re-examination of the merits of the original action:

- if the judgment is enforceable and final in the State of New York;
- if service of process was made personally on Chile, or on an appropriate agent for service of process;
- if Chile's public policy and certain basic principles of due process have been respected by the judgment, and the judgment does not affect in any way properties of the type referred above, which as a matter of Chilean law are subject exclusively to the jurisdiction of Chilean courts; and
- if under comparable circumstances a United States of America court would enforce a comparable judgment of a Chilean court.

Any treaty as to the enforcement of foreign judgments entered into in the future between Chile and The United States of America could supersede the foregoing.

To enforce in Chile a judgment of a New York State or federal court sitting in The City of New York rendered in relation to any of the securities, the fiscal agency agreement or any warrant agreement, the judgment must be presented to the Supreme Court of Chile, in a form complying with the authentication requirements of Chilean law, including an official translation. The Supreme Court will conduct a hearing limited to enforcement and not the merits of the case.

TAXATION

The following discussion provides a general summary of some of the primary tax consequences of purchasing, owning or selling the debt securities. For further information, you should consult your tax advisor to determine the tax consequences relevant to your particular situation. In addition, you may be required to pay stamp taxes and other charges under the laws of the country where you purchase the debt securities. Chile does not currently have a tax treaty with the United States.

Chilean Taxation

The following is a general summary of the material consequences under Chilean tax law, as currently in effect, of an investment in the debt securities made by a "foreign holder." For this purpose, foreign holder means either: (i) in the case of an individual, a person who is neither a resident nor domiciled in Chile (for purposes of Chilean taxation, an individual holder is deemed a resident of Chile if he or she has remained in Chile for more than six months in one calendar year, or for more than six months in two consecutive calendar years); or (ii) in the case of a legal entity, a legal entity that is not domiciled in Chile even if organized under the laws of Chile, unless the debt securities are assigned to a branch, agent, representative or permanent establishment of an entity in Chile.

Under Chile's income tax law, payments of interest made by Chile in respect of the debt securities to a foreign holder will be subject to a Chilean withholding tax assessed at a rate of 4.0% (the "Chilean Interest Withholding Tax").

As described above, Chile has agreed, subject to specific exceptions and limitations, to pay to the securityholders Additional Amounts in respect of the Chilean Interest Withholding Tax in order that the interest the foreign holder receives, net of the Chilean Interest Withholding Tax, equals the amount which would have been received by the foreign holder in the absence of the withholding. See "Description of the Securities—Payment of Additional Amounts."

Under existing Chilean law and regulations, a foreign holder will not be subject to any Chilean taxes in respect of payments of principal made by Chile with respect to the debt securities.

The income tax law establishes that a foreign holder is subject to income tax on income from a Chilean source. For this purpose, income from a Chilean source means earnings from activities performed in Chile or from the sale or disposition of, or other transactions in connection with, assets or goods located in Chile. Capital gains realized on the sale or other disposition by a foreign holder of the debt securities generally will not be subject to any Chilean taxes provided that this sale or other disposition occur outside of Chile (except that any premium payable on redemption of the debt securities will be treated as interest and subject to the Chilean Interest Withholding Tax, as described above).

A foreign holder will not be liable for estate, gift, inheritance or similar taxes with respect to its holdings unless the debt securities held by a foreign holder are either (i) located in Chile at the time of the foreign holder's death or gift, or (ii) if the bonds are not located in Chile at the time of a foreign holder's death, if the debt securities were purchased or acquired with income obtained from Chilean sources. The issuance of the debt securities by Chile is exempt from Chilean stamp, registration or similar taxes.

United States Federal Taxation

In general, a United States person who holds the debt securities or owns a beneficial interest in the debt securities will be subject to United States federal taxation. You are a United States person for U.S. federal income tax purposes if you are:

- a citizen or resident of the United States or its territories, possessions or other areas subject to its jurisdiction,
- a corporation, partnership or other entity organized under the laws of the United States or any political subdivision of the United States,
- an estate, the income of which is subject to United States federal income taxation regardless of its source, or
- a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

If you are a United States person, the interest you receive on the debt securities (including Additional Amounts) will generally be subject to United States taxation and will be considered ordinary interest income. If you are a U.S. person, withholding tax levied by the government of Chile will be eligible:

- for deduction in computing your taxable income, or
- at your election, for credit against your U.S. federal income tax liability, subject to generally applicable limitations and conditions.

The availability of the deduction or, if you elect to have the foreign taxes credited against your U.S. federal income tax liability, the calculation of the foreign tax credit involves the application of rules that depend on your particular circumstances. You should consult with your own tax advisors regarding the availability of foreign tax credits and the treatment of Additional Amounts.

Under current United States federal income tax law, if you are not a United States person, the interest payments (including any Additional Amounts) that you receive on the debt securities generally will be exempt from United States federal income taxes, including withholding tax. However, to receive this exemption you may be required to satisfy certain certification requirements (described below) of the United States Internal Revenue Service to establish that you are not a United States person.

Even if you are not a United States person, you may still be subject to United States federal income taxes on any interest payments you receive if:

- you are an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, or
- you have an office or other fixed place of business in the United States that receives the interest and you earn the interest in the course of operating (i) a banking, financing or similar business in the United States or (ii) a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

If you are not a United States person, any gain you realize on a sale or exchange of the debt securities generally will be exempt from United States federal income tax, including withholding tax, unless:

- your gain is effectively connected with your conduct of a trade or business in the United States, or
- you are an individual holder and are present in the United States for 183 days or more in the taxable year of the sale, and either (i) your gain is attributable to an office or other fixed place of business that you maintain in the United States or (ii) you have a tax home in the United States.

The fiscal agent must file information returns with the United States Internal Revenue Service in connection with payments made to certain United States persons. If you are a United States person, you generally will not be subject to a United States backup withholding tax on these payments if you provide your taxpayer identification number to the fiscal agent. You may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the debt securities. If you are not a United States person, in order to avoid information reporting and backup withholding tax requirements you may have to comply with certification procedures to establish that you are not a United States person.

A debt security held by an individual holder who at the time of death is a non-resident alien will not be subject to United States federal estate tax.

PLAN OF DISTRIBUTION

General

Chile may sell the securities in any of three ways.

- through underwriters or dealers;
- directly to one or more purchasers; or
- through agents.

Each prospectus supplement will set forth:

- relating to an issuance of the Securities;
- the name or names of any underwriters or agents;
- the purchase price of the securities;
- the proceeds to Chile from the sale;
- any underwriting discounts and other items constituting underwriters' compensation;
- any agents' commissions;
- any initial public offering price of the securities;
- any concessions allowed or reallowed or paid to dealers; and
- any securities exchanges on which such securities may be listed.

If Chile uses underwriters or dealers in a sale, they will acquire the securities for their own accounts and may resell them in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Chile may offer the securities to the public either through underwriting syndicates represented by managing underwriters or directly through underwriters. The obligations of the underwriters to purchase a particular offering of securities may be subject to conditions. The underwriters may change the initial public offering price or any concessions allowed or reallowed or paid to dealers.

Chile may agree to indemnify any agents and underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933. The agents and underwriters may also be entitled to contribution from Chile for payments they make relating to these liabilities. Agents and underwriters may engage in transactions with or perform services for Chile in the ordinary course of business.

Chile may not publicly offer or sell the securities in Chile unless it so specifies in the applicable prospectus supplement.

Chile may also sell the securities directly or through agents. Any agent will generally act on a reasonable best efforts basis for the period of its appointment.

Chile may authorize agents, underwriters or dealers to solicit offers by certain institutions to purchase a particular offering of securities at the public offering price using delayed delivery contracts. These contracts provide for payment and delivery on a specified date in the future. The applicable prospectus supplement will describe the commission payable for solicitation and the terms and conditions of these contracts.

Chile may offer the securities to holders of other securities of Chile as consideration for Chile's purchase or exchange of the other securities. Chile may conduct such an offer either (a) through a publicly announced tender or exchange offer for the other securities or (b) through privately negotiated transactions. This type of offer may be in addition to sales of the same securities using the methods discussed above.

Non-U.S. Offerings

Chile will generally not register under the U.S. Securities Act of 1933 the securities that it will offer and sell outside the United States. Thus, subject to certain exceptions, Chile cannot offer, sell or deliver such securities within the United States or to U.S. persons. When Chile offers or sells securities outside the United States, each underwriter or dealer will acknowledge that the securities:

- have not been and will not be registered under the Securities Act; and
- may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each underwriter or dealer will agree that:

- it has not offered or sold, and will not offer or sell, any of these non-SEC-registered securities within the United States, except pursuant to Rule 903 of Regulation S under the Securities Act; and
- neither it nor its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts regarding these securities.

OFFICIAL STATEMENTS

Information in this prospectus whose source is identified as a publication of Chile or one of its agencies or instrumentalities relies on the authority of the publication as a public official document of Chile. All other information in this prospectus and in the registration statement for the bonds that Chile has filed with the SEC is included as a public official statement made on the authority of Heinz P. Rudolph, the Director of International Finance of the Ministry of Finance of Chile.

VALIDITY OF THE SECURITIES

The following persons, or other counsel specified in the relevant prospectus supplement, will give opinions regarding the validity of the securities:

- ***For Chile:***
  - Cleary, Gottlieb, Steen & Hamilton, special New York counsel to Chile; and
  - Morales, Noguera, Valdivieso & Besa Limitada, special Chilean counsel to Chile.

- **For the underwriters:**
  - Shearman & Sterling, special New York counsel to the underwriters; and
  - Carey y Cia. Ltda., special Chilean counsel to the underwriters.

As to all matters of Chilean law, Shearman & Sterling may rely upon the opinion of Carey y Cia. Ltda.

AUTHORIZED REPRESENTATIVE

The authorized representative of Chile in the United States of America is Jorge Valenzuela Jorquera, Financial Representative of the Ministry of Finance of Chile, whose address is 866 United Nations Plaza, Suite 601, New York, NY 10017.

GENERAL INFORMATION

Authorization

The Executive Power of Chile will authorize each issuance of the securities by Supreme Decree. Chile will obtain all consents and authorizations necessary under Chilean law for the issuance of the securities and has obtained all consents and authorizations necessary for the execution of the fiscal agency agreement.

Litigation

Neither Chile nor the Ministry of Finance of Chile is involved in any litigation or arbitration proceeding which is material in the context of the issue of the securities. Chile is not aware of any similarly material litigation or arbitration proceeding that is pending or threatened.

Where You Can Find More Information

Chile has filed a registration statement for the securities with the SEC under the U.S. Securities Act of 1933. This prospectus does not contain all of the information described in the registration statement. For further information, you should refer to the registration statement.

You can request copies of the registration statement, including its various exhibits, upon payment of a duplicating fee, by writing to the SEC. You may also read and copy these documents at the SEC's public reference room in Washington, D.C. or at the SEC's regional offices:

SEC Public Reference Room
Room 1024, Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information.

As long as any series of the debt securities or any warrants are listed on the Luxembourg Stock Exchange, you may receive free of charge copies of the following documents with respect to such securities on any business day at the offices of the paying agents in Luxembourg:

- the amended and restated fiscal agency agreement incorporating the forms of the debt securities;
- the relevant warrant agreement;
- English translations of the relevant Supreme Decree; and
- copies of the most recent annual economic report of Chile.

External Medium- and Long-Term Direct Debt of the Central Government(1)
Direct Debt of the Government

Currency of Borrowing	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2000 (millions of units)
United States Dollars	Libor+0.8125	1984	2005	18.9
United States Dollars	Libor+0.8125	1984	2005	4.9
United States Dollars	Libor+0.8125	1986	2005	10.4
United States Dollars	Libor+0.8125	1987	2005	3.2
United States Dollars	9.25	1976	2006	12.1
United States Dollars	8.30	1977	2007	12.7
United States Dollars	8.50	1977	1999	0.1
United States Dollars	0.75	1963	2003	2.9
United States Dollars	0.75	1964	2005	0.3
United States Dollars	2.00	1964	2004	1.1
United States Dollars	2.00	1964	2005	6.3
United States Dollars	2.00	1964	2006	0.3
United States Dollars	2.50	1966	2006	0.6
United States Dollars	2.50	1967	2008	3.0
United States Dollars	2.50	1967	2008	7.1
United States Dollars	2.50	1968	2009	4.2
United States Dollars	Libor+1.0	1994	2000	10.0
United States Dollars	Libor	1996	2017	26.0
United States Dollars	7.50	1978	2008	0.4
United States Dollars	2.00	1976	2006	1.2
United States Dollars	2.00	1976	2006	0 3
United States Dollars	2.00	1977	2007	0.4
United States Dollars	0.75	1961	2011	7.2
United States Dollars	7.09	1987	2004	76.9
United States Dollars	7.73	1989	2005	33.8
United States Dollars	7.09	1989	2006	91.6
United States Dollars	7.13	1989	2006	37.5
United States Dollars	7.09	1989	2006	90.1
United States Dollars	7.09	1989	2007	48.8
United States Dollars	7.09	1991	2008	11.0
United States Dollars	7.09	1992	2008	17.2
United States Dollars	7.09	1991	2008	19.6
United States Dollars	7.09	1992	2009	42.9
United States Dollars	7.09	1992	2010	9.9
United States Dollars	7.10	1994	2011	7.9
United States Dollars	7.09	1995	2010	98.9
United States Dollars	5.76	1995	2010	23.0
United States Dollars	7.09	1996	2011	13.4

Currency of Borrowing	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2000 (millions of units)
United States Dollars	7.09	1991	2008	80.5
United States Dollars	7.09	1992	2009	67.5
United States Dollars	7.09	1992	2010	9.1
United States Dollars	7.09	1999	2019	139.0
United States Dollars	7.09	1999	2001	0.1
United States Dollars	7.09	1999	2014	18.4
United States Dollars	7.09	1999	2014	0.6
United States Dollars	7.09	1999	2014	2.1
United States Dollars	6.88	1999	2009	500.0
United States Dollars	2.50	1992	2002	26.5
United States Dollars		1992	2001	4.2
United States Dollars	0.96	1993	2035	87.8
United States Dollars	1.75	1993	2013	16.2
United States Dollars	1.25	1995	2025	0.1
United States Dollars	Libor+0.8125	1992	2005	0.9
United States Dollars	7.13	1985	2000	0.1
Total				USD 1,709.0
Japanese Yen	Libor+0.8125	1986	2005	1,286.3
Japanese Yen	Libor+0.8125	1987	2005	2,139.9
Japanese Yen	7.50	1978	2008	172.3
Japanese Yen	2.00	1976	2006	92.6
Japanese Yen	5.50	1988	2004	6,773.9
Japanese Yen	5.50	1990	2006	10.342.3
				JPY 20,807.3
Deutsche Mark	Libor+0.8125	1984	2005	0.6
Deutsche Mark	Libor+0.8125	1986	2005	3.1
Deutsche Mark	Libor+0.8125	1987	2005	3.7
Deutsche Mark	2.00	1975	2005	4.6
Deutsche Mark	2.00	1991	2021	29.8
Deutsche Mark	2.00	1993	2023	24.7
Deutsche Mark	2.00	1993	2023	15.9
Deutsche Mark	2.00	1995	2009	15.0
Deutsche Mark	2.00	1996	2025	4.9
				DEM 102.2
Canadian Dollar	2.00	1976	2006	0.3
Canadian Dollar	2.00	1976	2006	0.1
Canadian Dollar	2.00	1977	2007	0.4
Canadian Dollar	Libor+1.25	1967	2017	1.6
				CAD 2.3
EURO	Libor+0.8125	1986	2005	0.2
				EUR 0.2
Special Drawing Rights,	2.00	1996	2004	2.6

Currency of Borrowing	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2000 (millions of units)
IMF				
				SDR 26
Netherlands Guilders-Units	7.50	1978	2008	1.3
				NLG 1.3
French Francs	Libor+0.8125	1986	2005	19.9
French Francs	Libor+0.8125	1987	2005	3.8
French Francs	2.00	1977	2007	0.4
French Francs	2.00	1992	2019	38.8
				FRF 62.9
Swiss Francs	Libor+0.8125	1984	2005	0.5
Swiss Francs	Libor+0.8125	1986	2005	0.3
Swiss Francs	7.50	1978	2008	1.4
Swiss Francs	Libor/FTS	1993	2004	6.0
				CHF 8.1
Pounds Sterling	Libor+0.8125	1986	2005	1.7
Pounds Sterling	Libor+0.8125	1987	2005	1.5
				GBP 3.2
Italian Lire	2.00	1976	2006	223.2
Italian Lire	2.00	1977	2007	86.4
				ITL 309.6
Units of Account, IDB	9.00	1984	2004	0.4
Units of Account, IDB	8.00	1989	2005	132.1
Units of Account, IDB	Libor	1991	2011	53.9
Units of Account, IDB	7.92	1991	2016	33.2
Units of Account, IDB	8.00	1992	2014	5.2
Units of Account, IDB	8.00	1992	2012	8.4
Units of Account, IDB	7.72	1992	2012	0.9
Units of Account, IDB	7.50	1994	2019	13.2
Units of Account, IDB	8.00	1995	2020	48.2
				UA 295.5
Swedish Kroner	0.75	1972	1922	10.8
				SEK 10.8
Total external debt of the central government(2)				**USD 2,425.6**

(1) Includes Universidad de Santiago

(2) Amounts expressed in US dollars at the rate announced by the Central Bank on December 31, 2000

External Guaranteed Medium- and Long-Term Debt of State Entities
Indirect Debt of the Government

Debtor	Currency of Borrowing	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2001 (in millions of US$)
Corfo	US$	7.13%	1990	2008	US$ 12.1
Corfo	US$	Libor + 0.8125%	1983	2005	9.9
Corfo	DM	Libor + 0.8125%	1983	2005	0.1
Corfo	GBP	Libor + 0.8125%	1983	2005	2.5
Corfo	CAD	Libor + 0.8125%	1983	2005	0.3
Corfo	CHF	Libor + 0.8125%	1983	2005	0.0
Corfo	US$	Libor + 0.8125%	1983	2005	11.0
Corfo	DM	Libor + 0.8125%	1983	2005	3.0
Corfo	GBP	Libor + 0.8125%	1983	2005	0.9
Corfo	ECU	Libor + 0.8125%	1983	2005	0.3
Corfo	US$	Libor + 0.8125%	1983	2005	52.7
Corfo	DM	Libor + 0.8125%	1983	2005	1.5
Corfo	ITL	Libor + 0.8125%	1983	2005	1.5
Corfo	YEN	Libor + 0.8125%	1983	2005	8.0
Corfo	US$	Libor + 0.8125%	1983	2005	59.4
Corfo	CAD	Libor + 0.8125%	1983	2005	0.6
Corfo	YEN	Libor + 0.8125%	1983	2005	17.4
Corfo	ECU	Libor + 0.8125%	1983	2005	0.3
Corfo	US$	Libor + 7.75%	1962	2002	2.5
Corfo	US$	Libor + 2.00%	1965	2006	0.6
Efe	YEN	Libor + 3.00%	1992	2017	51.2
Enap	US$	Libor + 0.8125%	1983	2005	3.1
Enap	DM	Libor + 0.8125%	1983	2005	2.1
Enap	YEN	Libor + 0.8125%	1983	2005	0.2
Enap	CAD	Libor + 0.8125%	1983	2005	0.1
Enap	US$	Libor + 0.8125%	1983	2005	10.5
Enap	US$	Libor + 0.8125%	1983	2005	23.3
Enami	US$	Libor + 0.8125%	1983	2005	2.1
Enami	YEN	Libor + 0.8125%	1983	2005	2.7
Enami	US$	Libor + 0.8125%	1983	2005	5.1
Enami	YEN	Libor + 0.8125%	1983	2005	1.1
Metro S.A.........	US$	Libor + 0.25% - 0.55%	1993-1998	2003-2007	74.7
Metro S.A.........	US$	Libor + 0.75% - 1.25%	1995-1998	1998-2010	63.7
Metro S.A.........	US$	8.83%	1995	2007	3.8
Metro S.A.........	US$	8.80%	1995	2007	7.2
Metro S.A.........	US$	8.58%	1995	2007	5.3
Metro S.A.........	US$	8.44%	1995	2007	1.9
Metro S.A.........	US$	8.06%	1995	2007	7.4

Debtor	Currency of Borrowing	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2001 (in millions of US$)
Metro S.A.........	US$	7.48%	1997	2007	0.3
Metro S.A.........	US$	6.61%	1993	2006	32.2
Metro S.A.........	US$	6.61%-7.28%	1994	2006	7.3
Metro S.A.........	US$	6.61%-7.95%	1995	2006	0.8
Metro S.A.........	US$	6.61%-8.01%	1994	2006	0.0
Metro S.A.........	US$	6.51%	1996	2007	28.3
Metro S.A.........	US$	6.30%	1996	2007	0.7
Metro S.A.........	US$	6.89%	1996	2002	0.5
Metro S.A.........	US$	6.67%	1996	2002	0.2
Total..............					US$ 520.41

External Medium- and Long-Term Debt of the Private Sector Guaranteed by the Central Government Indirect Debt of the Government

Debtor	*Currency of* Borrowing	Interest Rate	Year Issued	*Year of* Maturity	Principal Amount Outstanding as of *December 31, 2001* (in millions of US$)
Banco Bhif	US$	Libor + 0.8125%	1983	2005	US$ 0.1
Banco Bhif	US$	Libor + 0.8125%	1983	2005	0.5
Banco Bhif	US$	Libor + 0.8125%	1983	2005	0.1(1)
Banco Sudamericano	US$	Libor + 0.8125%	1983	2005	0.1(1)
Banco Sudamericano	US$	Libor + 0.8125%	1983	2005	1.2(1)
Banco Sudamericano	US$	Libor + 0.8125%	1983	2005	0.1
Corpbanca	US$	Libor + 0.8125%	1983	2005	1.5
Corpbanca	DM	Libor + 0.8125%	1983	2005	1.9
Corpbanca	US$	Libor + 0.8125%	1983	2005	2.6
Corpbanca	DM	Libor + 0.8125%	1983	2005	0.3
Corpbanca	ITL	Libor + 0.8125%	1983	2005	0.3
Corpbanca	US$	Libor + 0.8125%	1983	2005	0.7
Endesa	US$	5.32%(2)	1987	2004	4.7
Endesa	US$	Libor + 0.8125%	1986	2005	36.0
Endesa	YEN	Libor + 0.8125%	1986	2005	2.5
Endesa	ITL	Libor + 0.8125%	1986	2005	0.6
Endesa	GBP	Libor + 0.8125%	1986	2005	2.2
Endesa	US$	Libor + 0.8125%	1986	2005	2.4
Esval	US$	Cost of Qualified Borrowing + 0.5 %(3)	1991	2008	16.8
Esval	US$	Cost of Qualified Borrowing + 0.5%(3)	1986	2001	0.3
Total					US$ 74.9

(1) Banco Sudamericano paid this loan before June, 2001.
(2) Interest rate set by World Bank
(3) Lending rate applicable to the United States Dollar Single Currency Pools (SCPs)

External Debt of State Entities without Guarantee by the Central Government

Debtor	Interest Rate	Year Issued	Year of Maturity	Principal Amount Outstanding as of December 31, 2001 (in millions of US$)(1)	
Codelco	Libor + .225% - + .40%	1996-1998	2000-2003	US$	725.0
Codelco	Libor + .30%	1999	2009		300.0
Enap	Libor + .225% - + .75%	1997-2001	2002-2006		528.4
Enami	Libor + 0.3125% - + .75%	1990-1997	2000-2005		88.6
Other(2)	various	various	various		481.1
Total				US$	2,123.1

(1) Preliminary
(2) Includes debt of Banco Estado and the Central Bank, among others.

Internal Medium- and Long-Term Debt of the Central Government(1)

Title	Interest Rate	Year of Maturity	Principal Amount Outstanding as of December 31, 2001 (in millions of pesos)(1)
Treasury notes	4%-6%	2002	Ps. 48.2
Treasury bills	3%	2002	1143.8
Debt of Corfo	floating rate	2004	3458.5
Total			Ps. 4,650.5

(1) Does not include borrowings among public sector entities.

TABLES AND SUPPLEMENTAL INFORMATION

Internal Medium- and Long-Term Debt of Central Bank

Title	Interest Rate	Year of Maturity	Amortization or Sinking Fund Provision	Principal Amount Outstanding as of December 31, 2000 (in millions of pesos)
Notes with coupons (PRC) (1)	various	various	none	6,069,038.9
Peso readjusted notes (PRBC) (1)	various	various	none	2.528,919.6
Discountable peso notes (PDBC)	various	various	none	1,607,500.0
Readjustable Coupon Notes (CERO) denominated in Unidades de Fomento (UF)	various	various	none	1,280,120.8
Peso-denominated readjusted dollar notes (PRD)	various	various	none	854,053.0
Notes denominated in OF (1)	various	various	none	469,208.7
Commercial paper	various	various	none	230,869.8
Floating rate notes (PTF) (2)	various	various	none	37,711.6
Readjustable Coupon Notes (CERO) in dollars	various	various	none	4,482.8
Dollar denominated certificates of deposit	various	various	none	4,208.1
Differential exchange notes	various	various	none	28.4
Chapter XIX Recognition Debt Title	various	various	none	0.0
Total				13,086,141.7

(1) Commercial paper "per" external debt redenomination.
(2) Adjusted for inflation.

Internal Medium- and Long-Term Debt of the Chilean Public Sector

Title	Interest Rate	Year of Maturity	Amortization or Sinking Fund Provision	Principal Amount Outstanding as of December 31, 2000 (in millions of pesos)
Public Sector Entities	various	various	none	Ps.139,260.8
Subsidiaries of Corfo	various	various	none	98,354.0
Total				Ps.237,614.8

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ISSUER

Republic of Chile
The Ministry of Finance
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Santiago, Chile

FISCAL AGENT

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New York, New York 10001-2697

PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

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New York, New York 10001-2697

PAYING AGENTS AND TRANSFER AGENTS

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Santiago, Chile

LISTING AGENT

Banque Internationale à Luxembourg, S.A.
69 Route d ' Esch
L-1470 Luxembourg
Grand Duchy of Luxembourg

US $650,000,000

Republic of Chile

7.125% Bonds due 2012

PROSPECTUS SUPPLEMENT

October 11, 2001

JPMorgan

Salomon Smith Barney

Merrill Lynch & Co.

UBS Warburg

Addendum to Prospectus Supplement dated October 11, 2001

Republic of Chile

US $650,000,000

7.125% Bonds due 2012

This Addendum supplements the information provided on the front cover and in the section "Description of the Bonds" of the Republic of Chile's ("Chile") Prospectus Supplement dated October 11, 2001 (the "Prospectus Supplement"). Capitalized terms not defined in this Addendum have the meanings ascribed to them in the Prospectus Supplement.

Chile has applied to list the bonds on the Luxembourg Stock Exchange, in accordance with its rules and regulations.

As long as the bonds are listed on the Luxembourg Stock Exchange, you may receive free of charge copies of the following documents at the offices of the listing agent or the Luxembourg paying and transfer agents on any business day:

- the prospectus supplement and the accompanying prospectus;
- the fiscal agency agreement incorporating the forms of the bonds;
- English translations of the Supreme Decree;
- any other documents filed by Chile with the U.S. Securities and Exchange Commission; and
- copies of the most recent annual economic report of Chile.

The bonds have been issued in registered, book-entry form through the facilities of the Depository Trust Company, and will be issued in certificated form only under the limited circumstances described in the accompanying prospectus. For so long as the bonds are listed on the Luxembourg Stock Exchange, if the bonds are issued in certificated form:

- certificated bonds will be delivered by the fiscal agent as described in the accompanying prospectus and at the offices of the Luxembourg paying agent;
- holders of bonds in certificated form will be able to transfer or exchange their bonds at the offices of the Luxembourg transfer agent; and
- certificated bonds may be presented and surrendered at the offices of the Luxembourg paying agent for payments of interest and/or principal.

Chile has initially appointed Chase Manhattan Bank Luxembourg S.A. to serve as its Luxembourg paying agent and transfer agent. You can contact the listing agent and the Luxembourg paying agent and transfer agent at the addresses listed on the inside back cover of the prospectus supplement.

October 22, 2001