

I. OVERVIEW

I.1 Chilean Territory.

The Chilean territory occupies an area of 746,000 square kilometers from the Peruvian border to the boundary with the Antarctic Territory. Its population is approximately 13.2 million, slightly more than 5 million of whom live in Santiago, the country's capital.

Other important cities are Valparaíso, the main Chilean port located 120 kilometers from Santiago; Concepción, in the Center-South region next to the Huachipato steel mill, the military port of Talcahuano and the coal mines of Lota and Schwager; and Antofagasta, a port in the North of the country, near the big Chuquicamata, Mantos Blancos and Escondida mines.

I.2 Economic Synopsis.

Gross Domestic Product was almost US\$ 30 billion in 1991, with an average per capita income of approximately US\$ 2,250 dollars.

The growth of economic activity, measured by Gross Domestic Product, was 2.1% in 1990 and 6% in 1991.

Inflation was 18.7% in 1991 whereas in the first two months of 1992 it reached 0.50%, the lowest average of all Latin American countries, according to ECLA figures (Argentina's inflation was 5.20 for the period, Peru's was 8.4% and Brazil's was 48.01%). The government's estimate for 1992 is 15%.

TABLE I
GROSS DOMESTIC PRODUCT GROWTH RATES BY SECTOR OF ECONOMIC ACTIVITY

	1988	1989	1990	1991
Agriculture	5.7	3.1	4.8	1.2
Fishing	2.6	22.1	-10.3	8.3
Mining	4.2	8.4	-0.7	4.8
Industry	8.7	10.0	0.1	5.5
Electricity, Gas, Water	9.3	4.7	3.0	7.8
Construction	6.1	12.7	2.5	4.7
Commerce	9.8	14.0	2.5	8.6
Transport	11.5	14.4	10.4	11.9
Others*	5.8	8.8	1.9	5.1
Average for sector	7.4	10.0	2.1	6.0

* Includes Financial Sector, Housing, Education, Health, Other Services, Public Administration, Banking and Import Taxes.

During 1991 unemployment averaged 4.8%. Inflation was 18.7% compared to 27.3% the previous year.

The Balance of Trade closed with a surplus of US\$ 1.6 (1.595) billion, and the Balance of Payments closed with a surplus of US\$ 1.3 (1.238) Billion. Foreign debt was US\$ 16.4 billion at the end of 1991.

Chile's macroeconomic variables are stable except for inflation.

Its rising trend is due to an excess of foreign currency coming into the economy, which the Central Bank is forced to purchase using Chilean pesos. The liquidity introduced into the monetary system makes prices rise, and to attenuate this situation the Central Bank is using mechanisms designed to withdraw money from circulation.

This monetary situation has resulted in two government actions which affect foreign investment: the first was a reserve requirement placed on foreign currency investment in mid-1991 to keep undesired short-term capital from entering the country to take advantage of the interest rate differential; the second was a 6.6% revaluation of the Chilean peso at the beginning of 1992.