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ECONOMIC ENVIRONMENT

[The Evolution of the Economy]

In 2008, the Chilean economy went from boom to bust due to the unfolding of the financial crisis worldwide, and the deceleration of developed economies. In fact, the economy was gradually losing dynamism, particularly over the last four months when the effects of the crisis were strongly felt, mainly in the exports sector and consumption. In this scenario, the GDP grew 3.5% while internal demand increased 8.5% driven by fixed investment which went up roughly at a rate of 19.5%. On the other hand, private consumption decelerated in the latter part of the year posting an annual rise of 5.0%.

Among producing sectors, construction and telecommunications were the most dynamic of the year, reaching average growth rates of close to 10% a year, whereas the mining and manufacturing sectors showed a lackluster performance averaging growth rates of -4.0% and 0.3%, respectively.

Notwithstanding the economy was losing dynamism during the year, job creation was high, expanding at an annual average of 3.1%, thus compensating, in part, the strong growth showed by the labor force during the year of 3.8% on average, which did not allow for the unemployment rate to go over 8.5% throughout the year. The average annual unemployment rate was 7.8%, six basis points above the estimates for 2007.

As regards inflation, the steep rise in commodity prices led inflation to jump in 2008 to an annual all-time high of 9.9% in October. However, the external deceleration coupled with the evident instability of the financial markets in Q3 resulted in plummeting commodity prices in Q4, which allowed for negative inflation in November and December, hence, the accumulated CPI for December 2008 fell 7.1%. Despite these better inflationary perspectives, the monetary policy of the Central Bank regarding interest rates remained unaltered during H2, when most central banks worldwide were in favor of more lax monetary policies. In essence, the decision was justified due to the remaining uncertain inflationary scenario the economy showed towards the end of 2008, which led the Central Bank to put off rate cuts to the first few months of 2009.



As of December 2008, the banking industry posted total loans for \$70,3 trillion showing a growth of 10.9% vis-à-vis December 2007





[Behavior of the Banking Sector]

External accounts deteriorated significantly starting in September as a consequence of falling copper prices and the meager performance of exported volumes shown during the whole year. In Q4, copper prices tanked close to 50% vis-à-vis the average price of the first nine months of the year which seriously affected the value of exports resulting in a slump in the terms of trades of nearly 11% in 2008. On top of that, copper production shrank on account of a slide in copper ore in the deposits as well as of some technical difficulties experienced in the mining industry affecting shipments. All in all, exports of goods at the end of the year totaled US\$ 67,800 million, whereas total imports accumulated US\$57.6 million. The current account showed a deficit of roughly US\$4,500 million equivalent to approximately 2.6% of the GDP.

At the close of December '08, total loans for the banking industry amounted to \$70.3 billion growing by 10.9% relative to same period of '07, while sector profits totaled \$933,130 million showing a rise of 2.5% and a return on equity of 13.2%. Bci posted net earnings for 19.2%.

Consolidated total assets for the system were \$103.1 billion, an increase of 15.3% vis-à-vis December 2007. On the flip side, risk weighted assets represented, as of December 2008, 72.2% of total assets for the industry and 79.0% for Bci, due to the operational development of basic assets the Bank has reached consisting primarily of loans with normal risk.

Capital resources of the banking sector comprised of the basic capital, subordinated bonds, and additional allowances summed up to \$9.6 trillion, compared to the \$1.2 billion shown by Bci. The rise in these resources was 36% basically on account of the anticipated net income capitalization of 2008.

The following graph shows the main figures of the sector compared to those of Bci, the market share gained and the increased in the volume of transactions in 2008. As can be seen, Bci has performed better than the industry in every respect.

MILLIONS OF PESOS ⁸	SECTOR	BCI	% BCI'S MARKET	% INCREASE IN VOLUMEN	
				Sector	Bci
Total Consolidated Assets	110.702.575	13.869.441	12.5%	26%	31%
Risk weighted assets	79,968,379	10,951,048	13.7%	29%	33%
% weighted average	72.2%	79.0%			
Basic Capital	7,454,746	772,887	10.4%	27%	40%
Tangible net worth	9,638,016	1,155,636	12.0%	27%	36%
Net income	952,373	140,989	14.8%	7%	14%

⁸ Figures at November 2008