



Investor Update

Ministry of Finance, Republic of Chile

January 2020

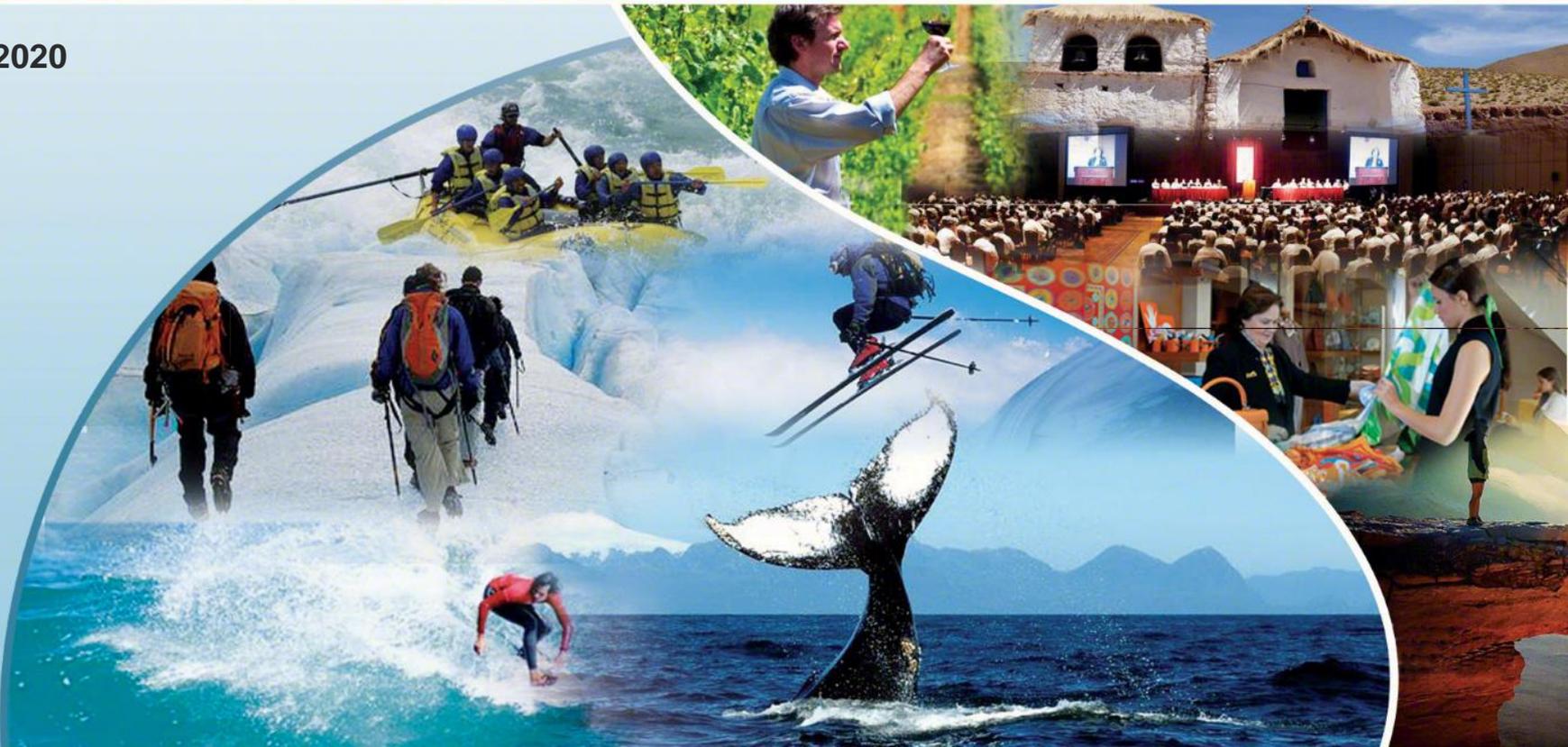
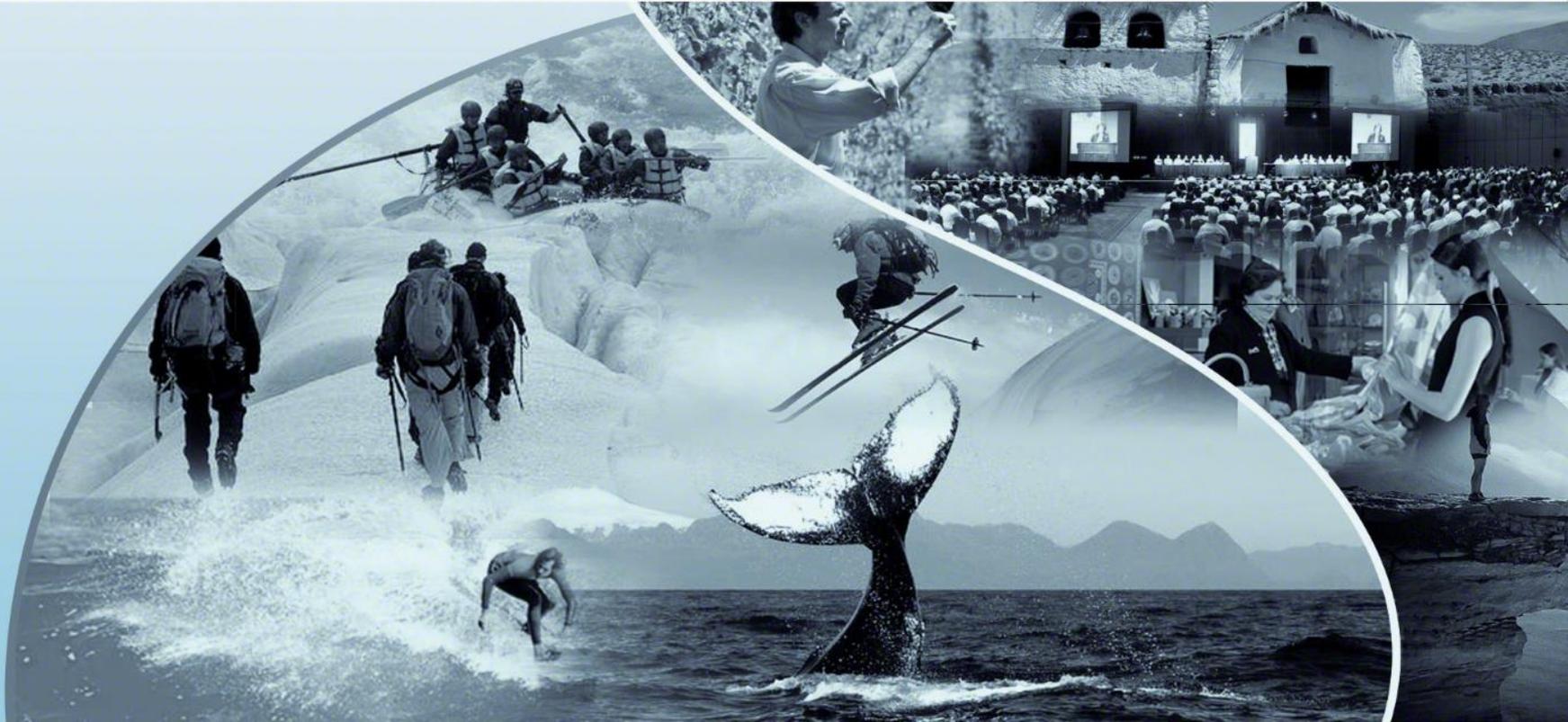


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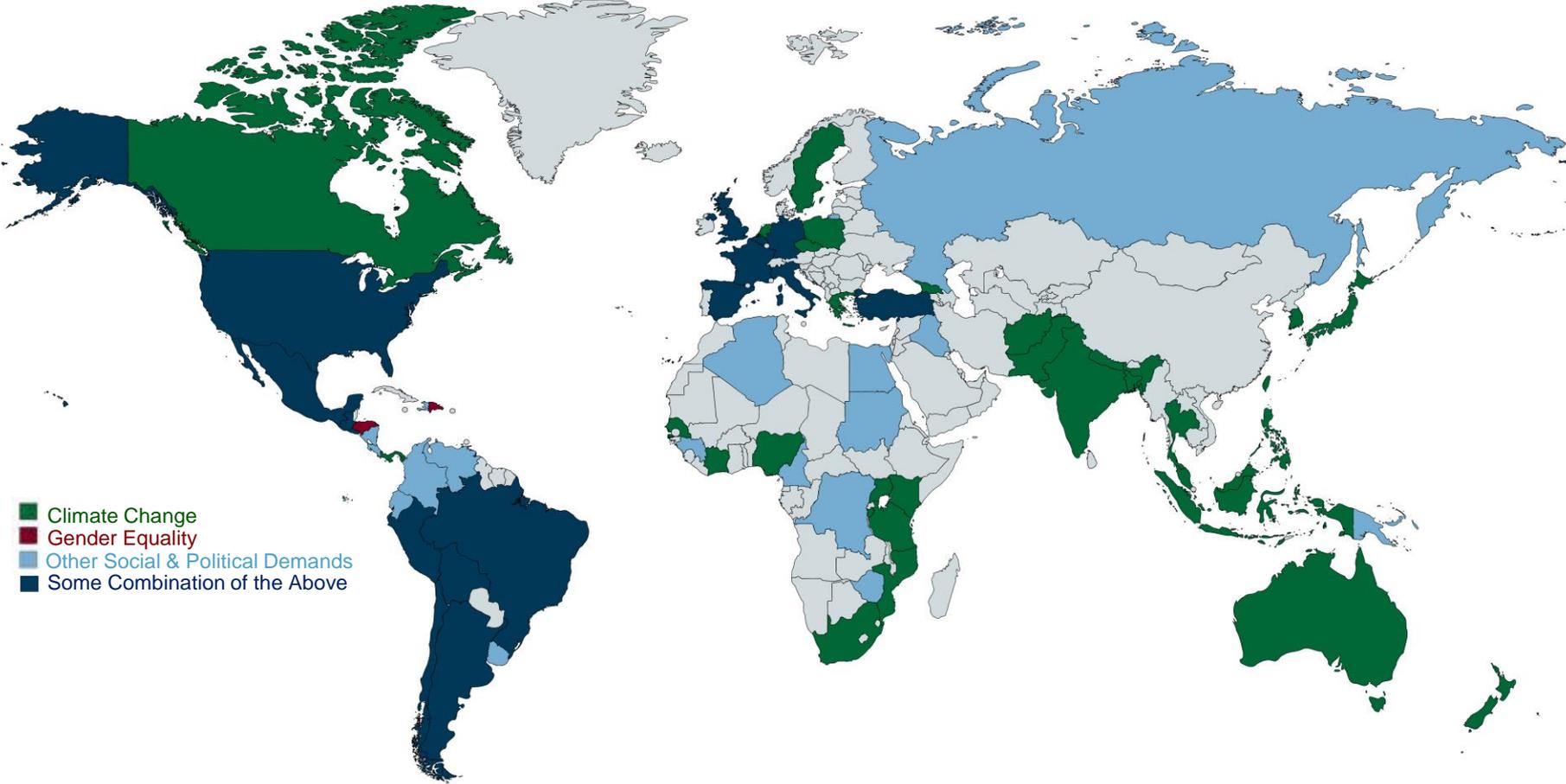
1. An Overview of Recent Events



Most of the world has witnessed cases of social unrest during 2019.

Countries with Episodes of Social Unrest during 2019

At least one Episode

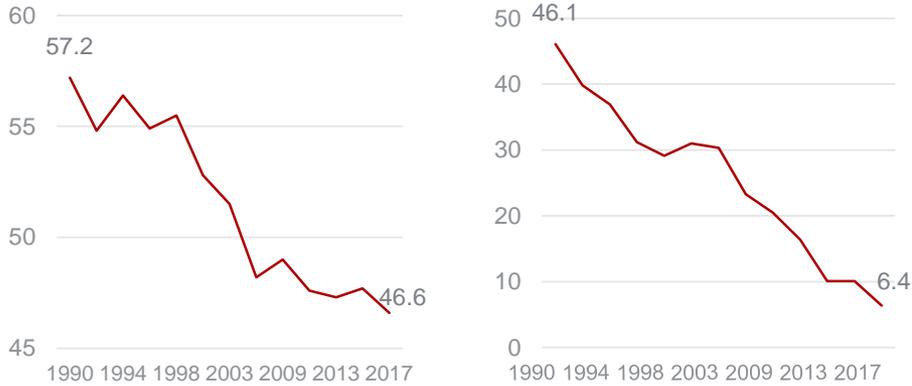


Source: Ministry of Finance.

Chile has made significant progress reducing income inequality and poverty.

Chile's Gini Index & Poverty Rate*

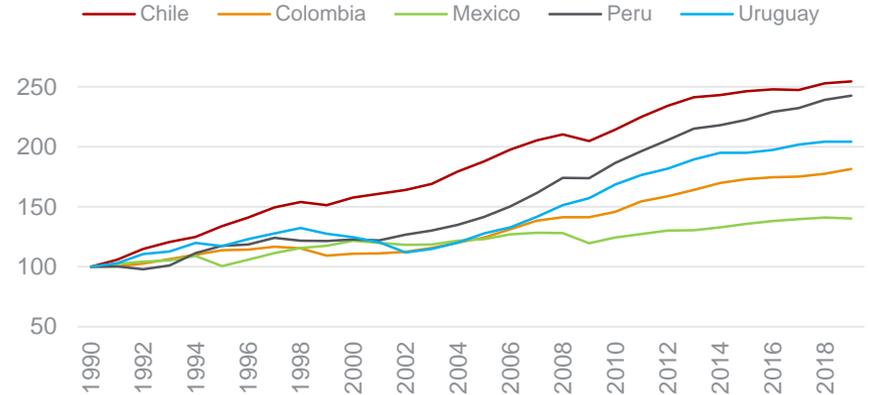
World Bank Estimates, 1990-2017



* Measured as the headcount ratio of the population living at \$5.50 a day or below (2011 PPP)
Source: Ministry of Finance, World Bank national accounts, poverty and GINI data, and OECD National Accounts.

GDP per capita (PPP)* in Select Latin American Economies

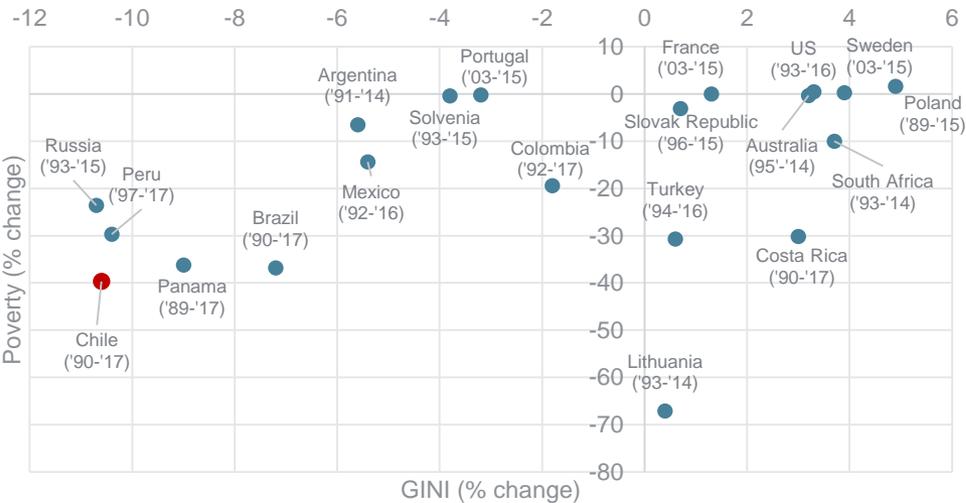
Index 1990=100



* Measured at constant prices (PPP)
Source: IMF

Changes in Gini Index & Poverty Rate Across Economies

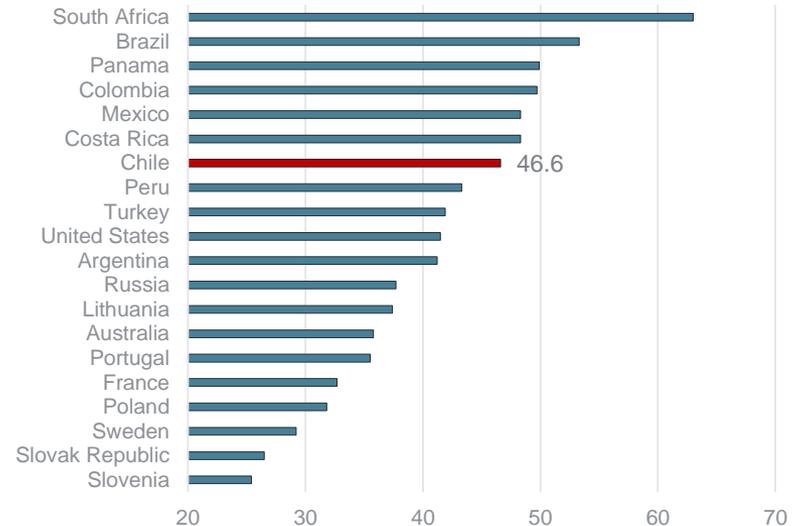
World Bank Estimates



Source: Ministry of Finance, World Bank national accounts, poverty and GINI data, and OECD National Accounts.

Gini Index for Select OECD & Latin American Economies

World Bank Estimates

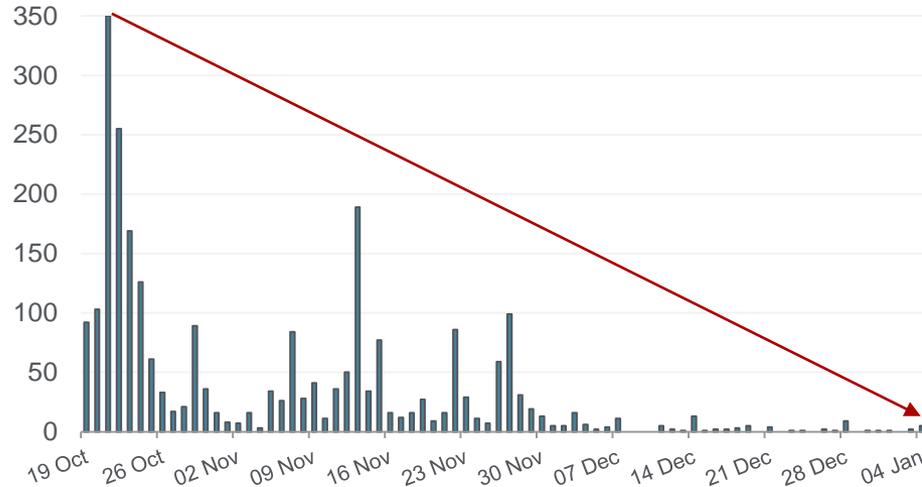


Source: World Bank. Data for most recent year available in World Bank data.

A description of recent events in Chile.

Number of Severe Events in Chile*

Reported between October 19th – January 4th 2019

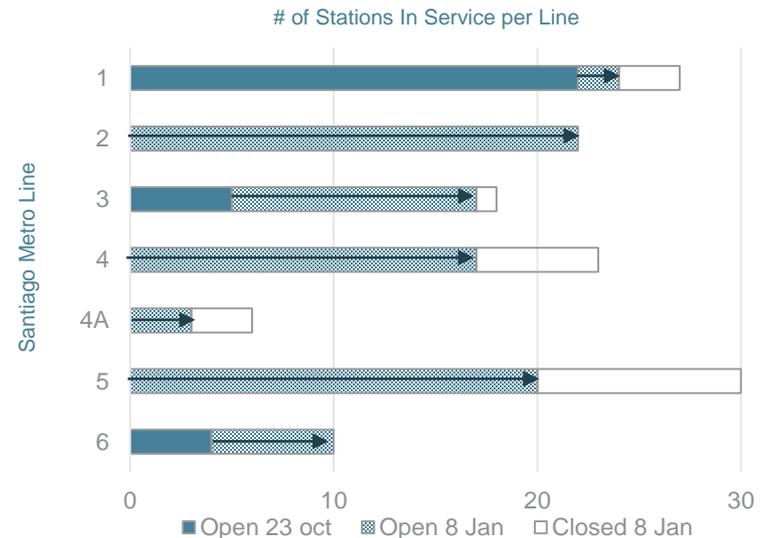
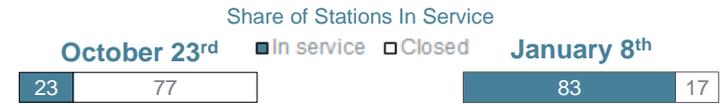


Source: Ministry of the Interior. * Defined as looting, arson, and/or destruction of property.

➤ Frequency, intensity, and geographical distribution of events has declined.

- Estimated losses in infrastructure reached USD 1.4 billion, of which USD 750 million (primarily Metro – USD 380 million) were in public infrastructure and USD 850 million in private infrastructure
- Metro has largely recovered its operational capacity, with most stations in service and operating under normal hours.

Santiago's Metro Transportation System



Source: Ministry of Finance.

Reported Events Across the Country

Cases of arson &/or looting, size of points reflects frequency.

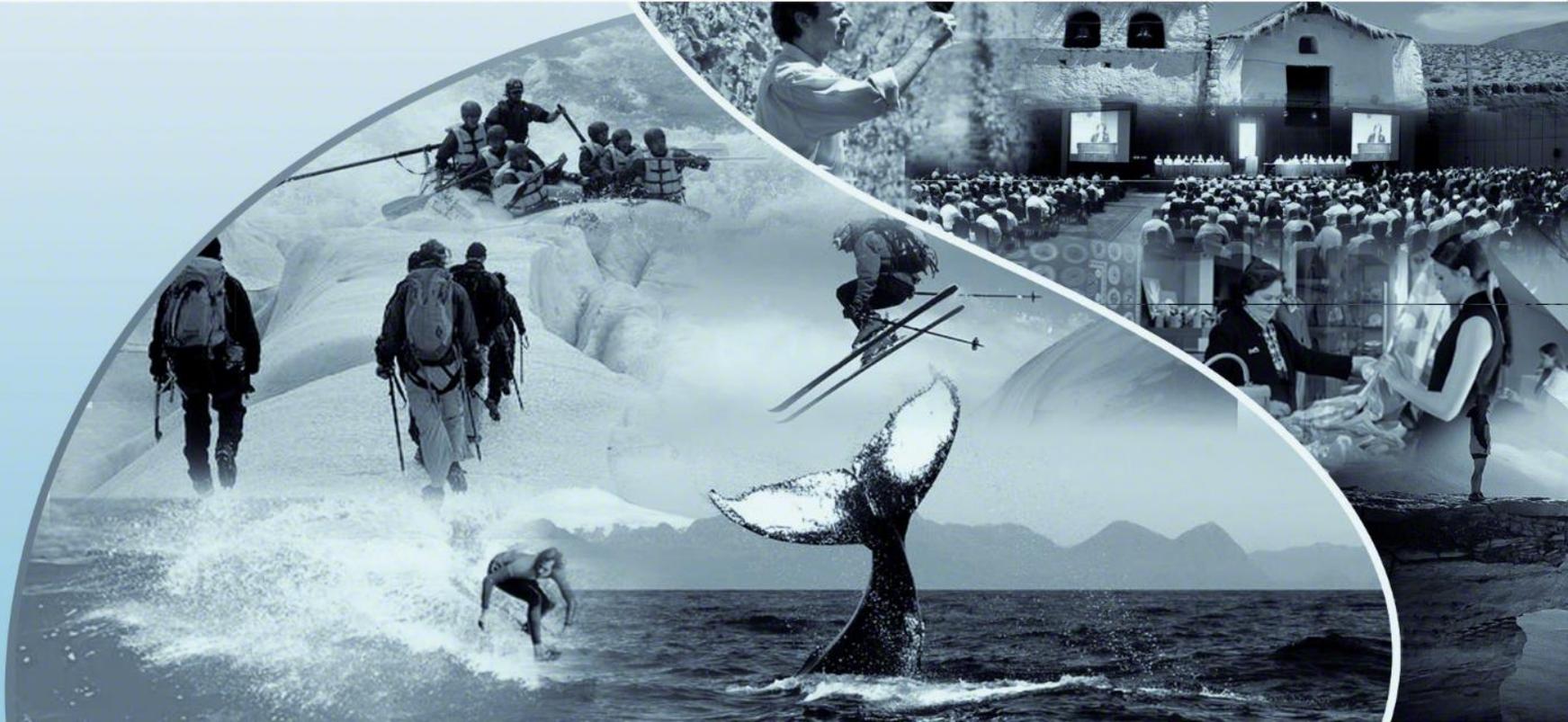
Oct.18-22, 2019 Nov.28 – Dec.2, 2019 Dec.29, 2019 – Jan.2, 2020



Source: Ministry of Finance based on data from the Ministry of the Interior.



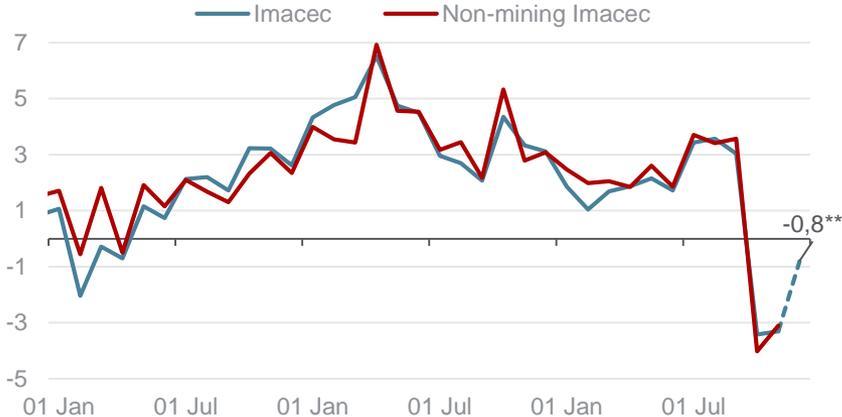
2. Recent Economic Developments & Policy Action



Activity data and confidence indicators have shown an improvement at the margin.

Monthly Activity Proxy (IMACEC)

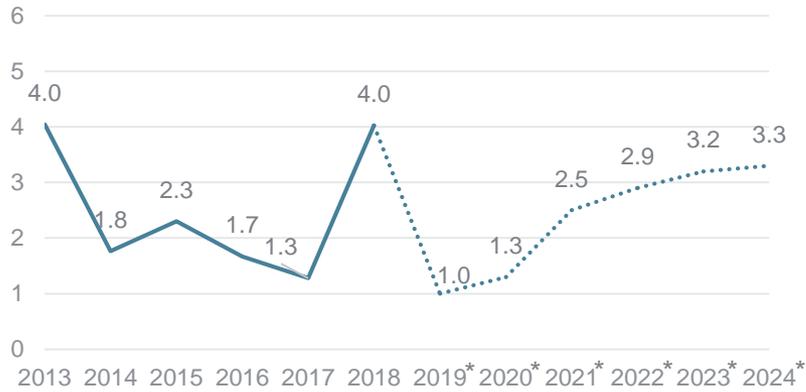
Percent, year-on-year (01.2017-11.2019)



Source: Central Bank of Chile.
** According to Ministry of Finance projections

Real GDP: Actual & Forecast

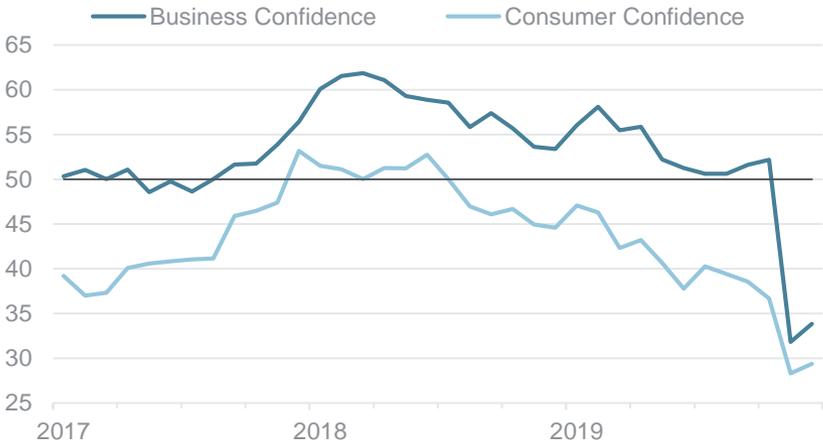
Percent, year-on-year



Source: Central Bank of Chile and Budget Office
* According to Ministry of Finance estimates

Consumer & Business Confidence Indicators*

Expectations Diffusion Index (01.2017-12.2019)



Business Confidence is IMCE Retail index, consumer confidence is the IPEC Total index
A value above (under) 50 means optimism (pessimism)
Source: ICARE, Adimark

National Unemployment Rate

3-month moving average, percent



Source: National Employment Survey, INE

The government has responded with agreements across the political spectrum on key reform issues.

1. Institutional Agreement on Mechanisms to Eventually Draft a New Constitution

- The agreement endorsed by Chile's main political parties outlines a plebiscite on April 26th, 2020 will ask citizen's desire for a new constitution, and proposes two mechanisms:
 - ✓ A mixed Constitutional Convention, composed in equal parts by members of Congress and members elected by popular-vote, or
 - ✓ A Constitutional Convention in which all members are elected from civil society

2. Broad-based Agreement on a Pro-growth and Progressive Tax Reform

- Greater revenues in 2021 of USD 1.1 billion, reaching USD 2.2 billion thereafter, due to:
 - Implementation of e-receipts, which will lower tax evasion
 - New personal income tax bracket (>USD 20,000 of monthly income) which increases its marginal rate from 35% to 40%
 - Additional progressive tax rate of 7.5-27.5bp on cumulative real estate assets in excess of ~USD 500,000
 - VAT tax on digital services
- A fully integrated system for SMEs, and a 50% instantaneous depreciation on purchase of fixed assets for the next two years, to promote investment and support the economy
- Commitment to institutionalize and institute spending reviews, to improve effectiveness and efficiency of public expenditure



3. Agreement on Pension Reform & the Implementation of a Broad Social Agenda:

- Targeted and gradual increase in minimum guaranteed pensions paid by the State
- Catastrophic health insurance
- Minimum guaranteed income complemented by the State
- Tax reform considers a reduction in property taxes for the elderly and disabled
- Metro price increases have been pared back
- Agreement on a payment plan for outstanding fines for highway tolls

The MoF has responded with a sizable, transitory fiscal stimulus package to support the economy.

➤ 2020 Transitory Fiscal Stimulus Package:

- **Total amount of USD 5.5 billion (2.1% of GDP)**
 - USD 4.8 billion in new initiatives, of which USD 1.3 billion will be for reconstruction
 - USD 700 million announced to support Banco Estado (including CORFO-FOGAIN: credits to SMEs)

Three Pillars

I. Reconstruction and Boosting Public Investment	II. Measures to Support Employment and Households	III. Working Capital Support for SMEs
Reconstruction: USD 1.3 billion (of which USD 380 million correspond to Metro)	Reconstruction efforts to yield >100k jobs in 2020	Early tax refunds (20%-75% of the average provisional monthly payments)
Investment in Regions: USD 480 million	Firms that have been negatively affected by the unrest may reach an agreement with workers on a reduction in work hours	Easing VAT payment schedules
Housing and related: USD 350 million	Transitory Adjustments to the Unemployment Insurance System	Capitalization of Banco Estado, FOGAIN, and FOGAPE
Water infrastructure: USD 200 million	- Increase in notional amount of payouts	Support for Tourism (US\$50 million in subsidies)
Investment fund for municipalities: USD 100 million	- Wider access in eligibility criteria for use of funds	Faster payments to suppliers of the State
Santiago-Melipilla Railroad: USD 1.5 billion in 5 years of which USD 100 million in 2020-2021	- Increase in the number of monthly payouts	Special tax treatment for donations for SMEs
Contribution to the Common Municipal Fund: USD 50 million	Accelerating the Transition of Pension Payouts from the Solidarity Pillar	
Others: USD 295 million	December one-time transfer of roughly CLP 50,000 for most vulnerable individuals	

Source: Ministry of Finance

Our revised fiscal consolidation path balances the need to support the economy, address social and development needs, and stabilize debt in the medium-term.

Fiscal Balance: Headline and Structural

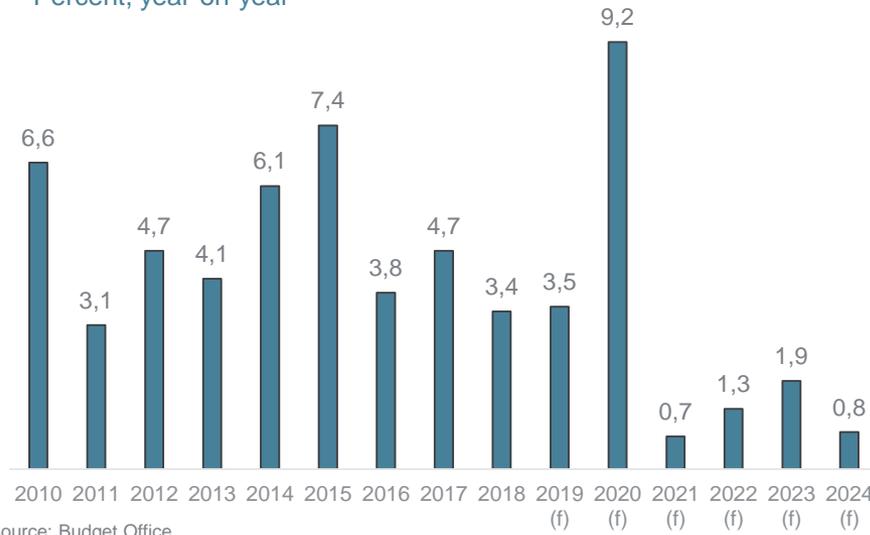
Percent of GDP



Source: Budget Office
 2013-2014 with long-term parameters of each previous year; 2015-2017 with 2017 parameters; 2019-2022.
 * Headline fiscal balance estimated as of December, 2019
 ** Estimated structural path including revenue of the tax modernization bill

Central Government Real Expenditure Growth

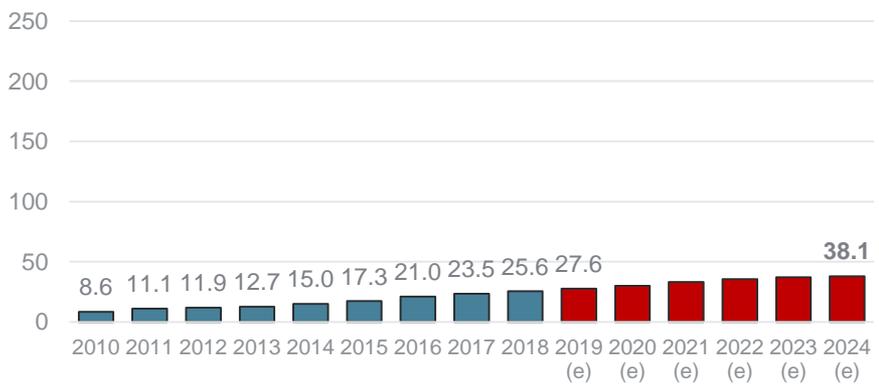
Percent, year-on-year



Source: Budget Office

Chile's Gross Public Debt

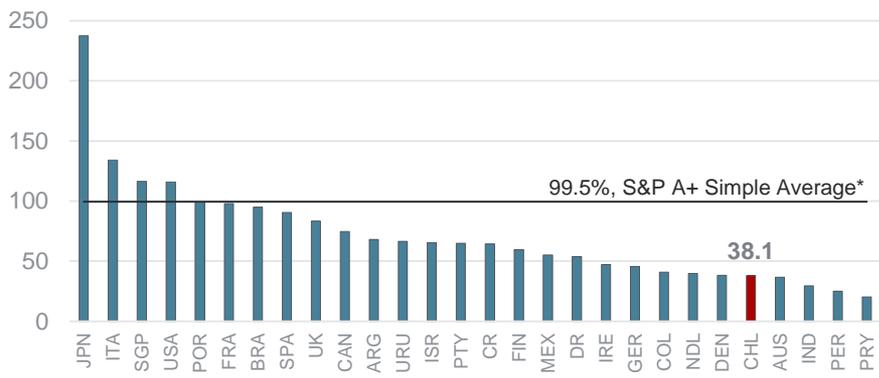
Percent of GDP



Source: Ministry of Finance and Budget Office

Gross Public Debt Forecast for Selected Economies

Percent of GDP, 2024

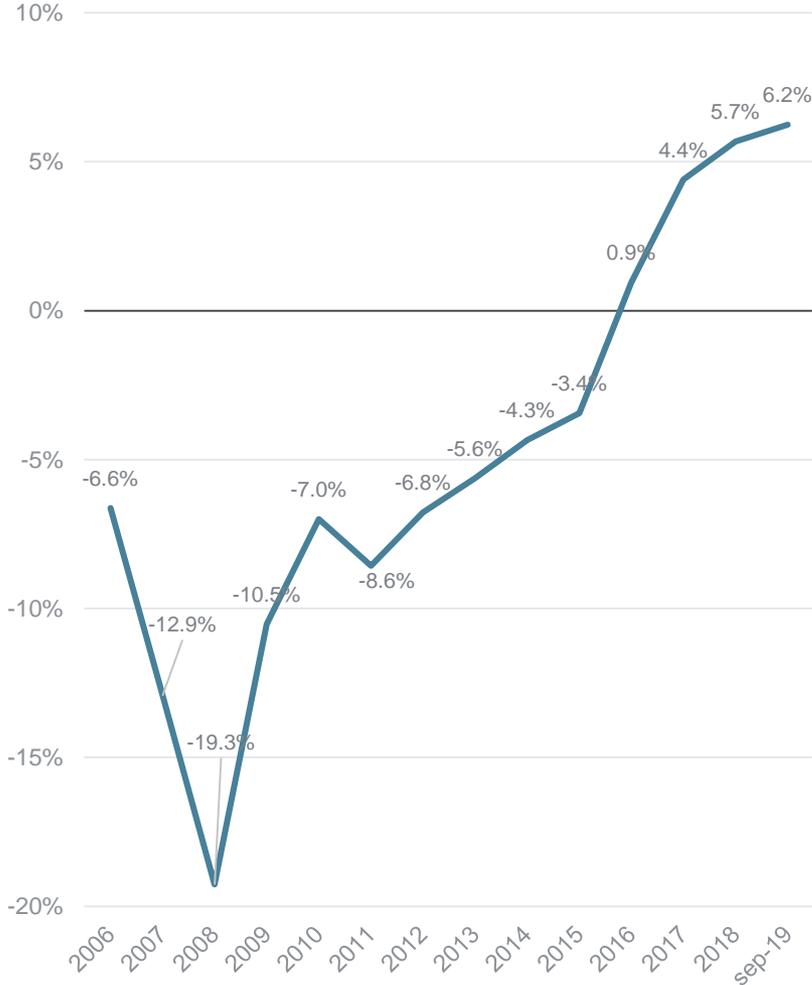


* As of Nov. 30th, 2019. Includes Chile, China, Japan, and Slovak Republic
 Source: Ministry of Finance's 2024 forecast for Chile. All other forecasts are from IMF WEO October 2019

The Chilean economy has fiscal space to carry out the economic stimulus package responsibly.

Chile's Net Public Debt

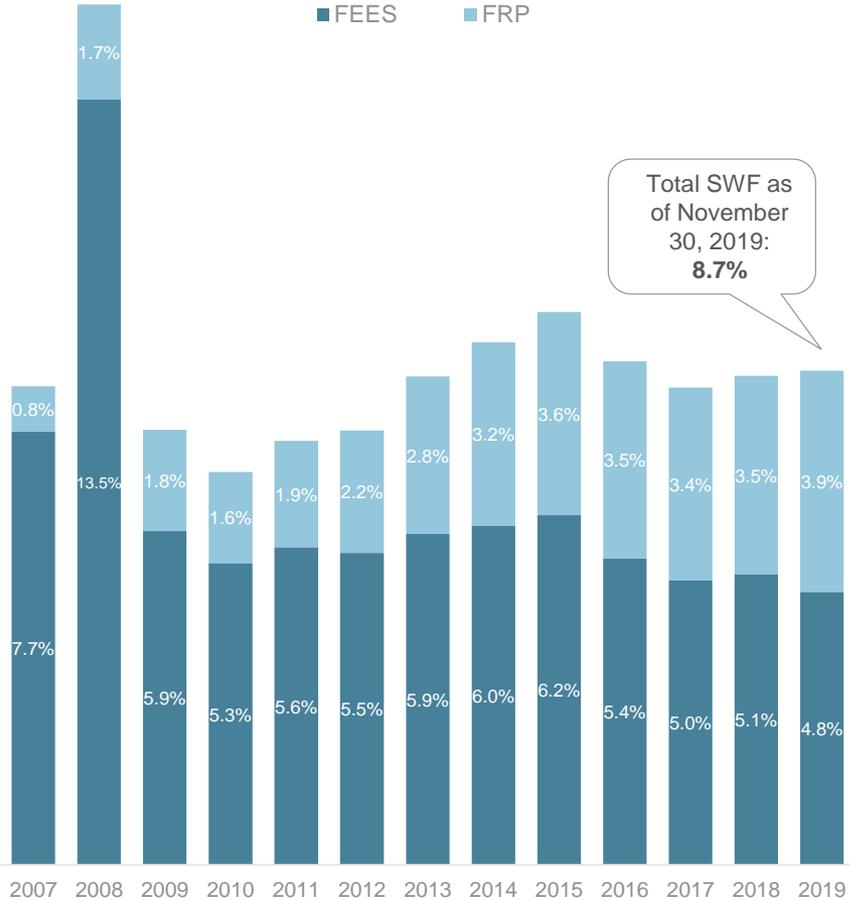
Percent of GDP



Source: Ministry of Finance

Sovereign Wealth Funds

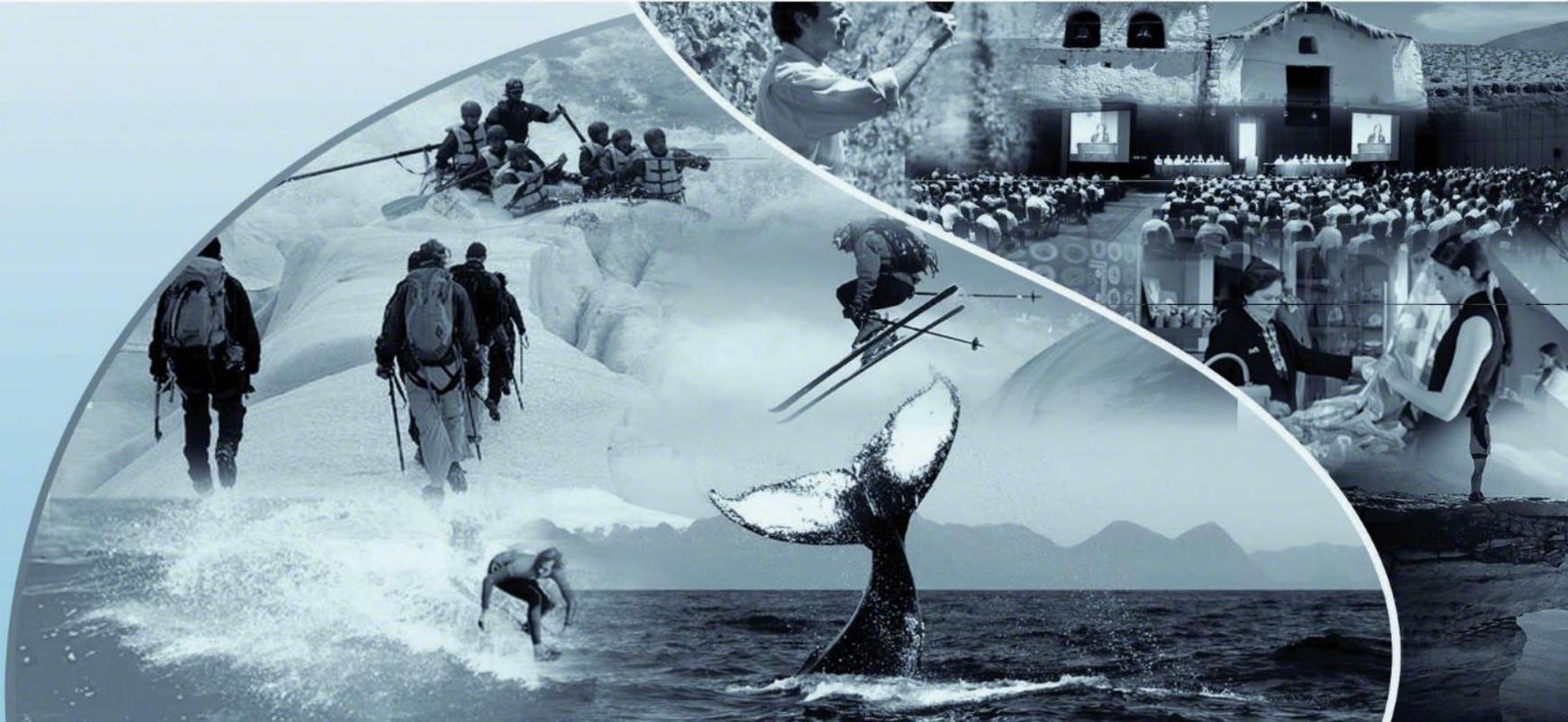
Total Assets as a Percent of GDP



Source: Ministry of Finance



3. Chile's Strong Fundamentals

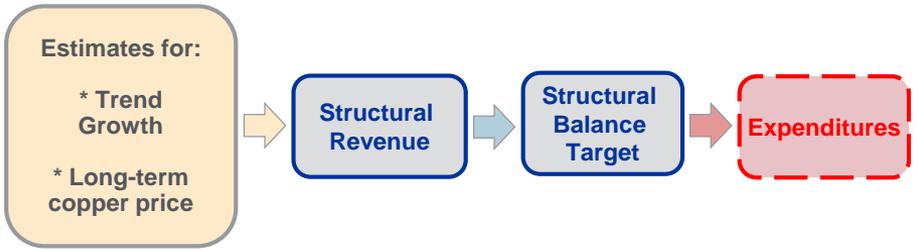


Rules-based fiscal policy supports the sustainability of public spending, while SWFs provide an important buffer.

Expenditures are set by permanent revenues and a structural target

- Structural balance rule smooths out spending throughout the business cycle and allows for:
 - Flows in/out from the FEES when cyclical revenues deviate from structural revenues
- Estimates for trend GDP growth and the long-term price of copper are delivered every year by an independent panel of experts via a transparent process

A Simplified Version of the Fiscal Rule



Recent Improvements to the Fiscal Institutional Framework

- Fiscal responsibility is further supported by an enhanced Autonomous Fiscal Council with more independence, its own resources, and a broader mandate
- Publication of quarterly macro-fiscal projections, in line with international best practice
- Open budget initiative allows for citizens to review the suppliers of the State online

Chile’s Sovereign Wealth Funds

Supported by a solid institutional framework, clear rules on withdrawals and contributions, and in line with international best practices in transparency

Economic and Social Stabilization Fund (FEES)

- Established in 2007, the FEES is designed to complement the structural balance rule providing the government with financing needs throughout the cycle
- The FEES is invested primarily in highly liquid assets with low levels of credit risk

Pension Reserve Fund (FRP)

- Created in 2006 to support state-financed pensions and old-age benefits over time
- New investment policy aims to obtain an annualized expected return in Chilean pesos of at least 2% above inflation in a ten-year horizon with at least a 60% probability

A credible inflation-targeting framework allows for effective counter-cyclical monetary policy, while the free-floating exchange rate facilitates the economy's adjustment to external shocks.

Independent Central Bank since 1989:

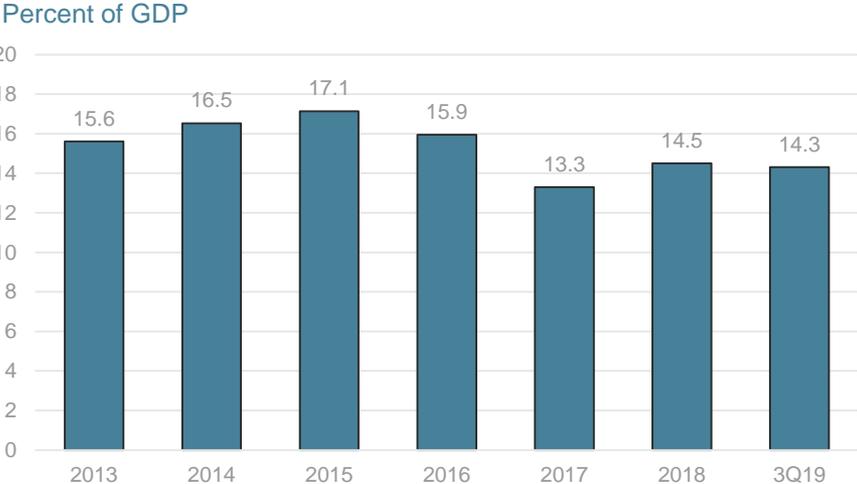
- The Bank adjusts the policy rate to ensure inflation expectations two-year's ahead remain anchored at 3%, with a tolerance range of +/- 1%
- Counter-cyclical monetary policy has contributed to smoother business cycles while ensuring price stability; inflation has averaged 3.2% since 2000
- Decision-making is driven by a Board of experienced professional economists, allowing for policy implementation without credibility risk
- The free-floating exchange rate plays a crucial role in facilitating adjustments to external shocks. The Central Bank has intervened in 5 exceptional circumstances since 2001

Inflation, Target, & Inflation Expectations



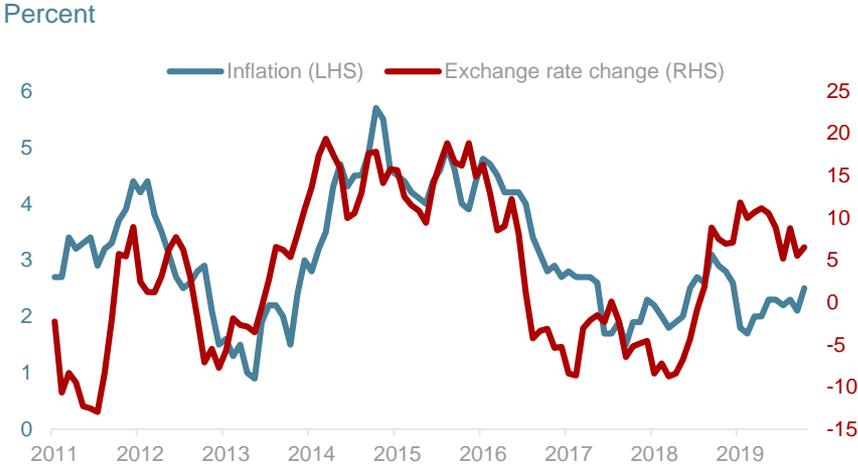
Source: Central Bank of Chile. Inflation expectations as measured by the Central Bank EEE survey

Central Bank's International Reserves



Source: Central Bank of Chile

Inflation and Exchange Rate Dynamics¹

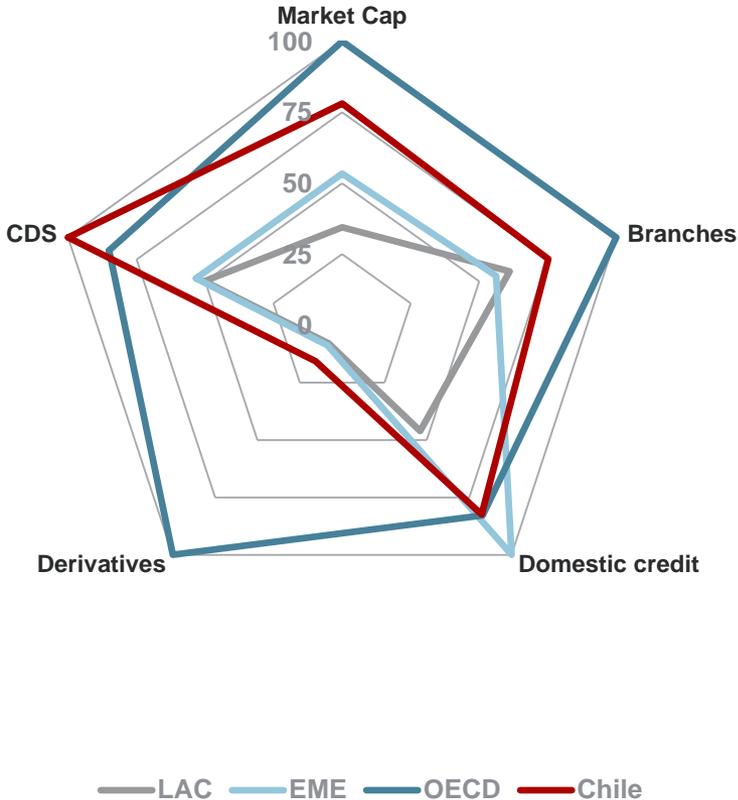


Source: Central Bank of Chile
 1. Chilean peso with respect to the US dollar; positive data reflects a nominal depreciation of the former

The Chilean financial sector is among the most developed in the emerging world.

Chilean Banking System Development*

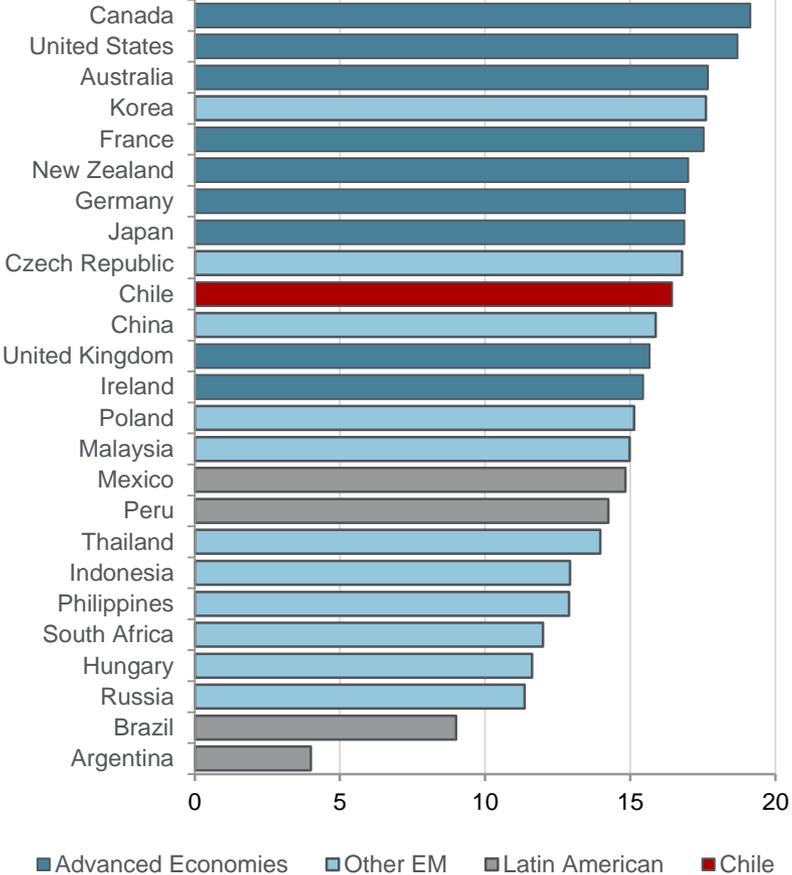
Relative Percent



(*) Relative to the maximum on each category until 2018 or last available data
 Source: Central Bank of Chile, based on data from BIS, WB, IMF, and Bloomberg

Banking Strength Index*

Percent



(*) Higher value implies a greater banking strength
 Source: Moody's Average Long-Term Ratings, December 3rd 2019

Chile continues to be firmly committed to trade, and plans on further deepening, broadening, and modernizing its trading relationship with the world.

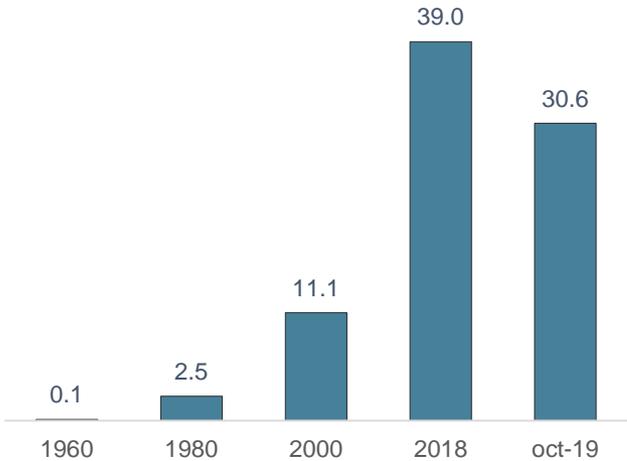
Internationalization of the Chilean Economy:

- Chile has 29 free trade agreements (FTAs), covering 64 economies, that represent roughly 86% of global GDP
 - 95% of exports are delivered to economies with FTAs
- First global exporters of (2017): Copper, fresh grapes, blueberries and plums, dehydrated apples, mussels, salmon fillets and frozen trout fillets, iodine and lithium

Free Trade Agreements (29)				
Bolivia (1993)	European Union (2003)	India (2007)	Colombia (2009)	Thailand (2015)
Venezuela (1993)	Korea (2004)	Japan (2007)	Ecuador (2010)	Pacific Alliance (2016)
Mercosur (1996)	EFTA (2004)	Cuba (2008)	Turkey (2011)	Uruguay (2018)
Canada (1997)	USA (2004)	Panama (2008)	Malaysia (2012)	Argentina (2019)
Mexico (1999)	P4 (2006)	Peru (2009)	Vietnam (2014)	Indonesia (2019)
Central America (2002)	China (2006)	Australia (2009)	Hong Kong (2014)	

Non-Copper Exports

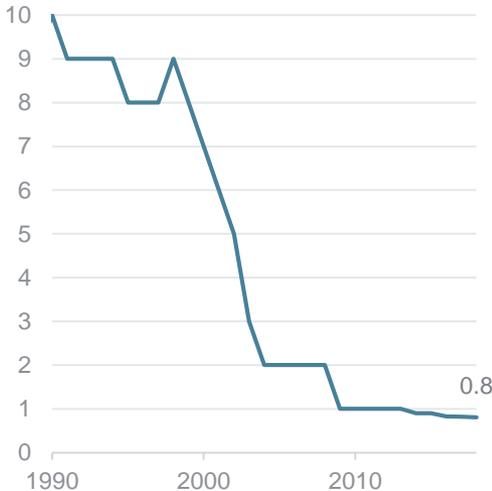
USD billion



Source: SUBREI, Chile

Average Import Tariff 1990-2018

Percent



Source: SUBREI, Chile

Domestic Market Access

Ranking, 2016 (of 136 countries)

Ranking	Country	Score
1	Hong Kong SAR	7.0
2	Singapore	7.0
3	Chile	6.4
6	New Zealand	6.4
15	Australia	5.8
20	Canada	5.6
31	Portugal	5.4
46	France	5.3
51	Germany	5.2
56	United States	5.2
76	South Africa	4.9
109	Brazil	3.9

Source: World Economic Forum

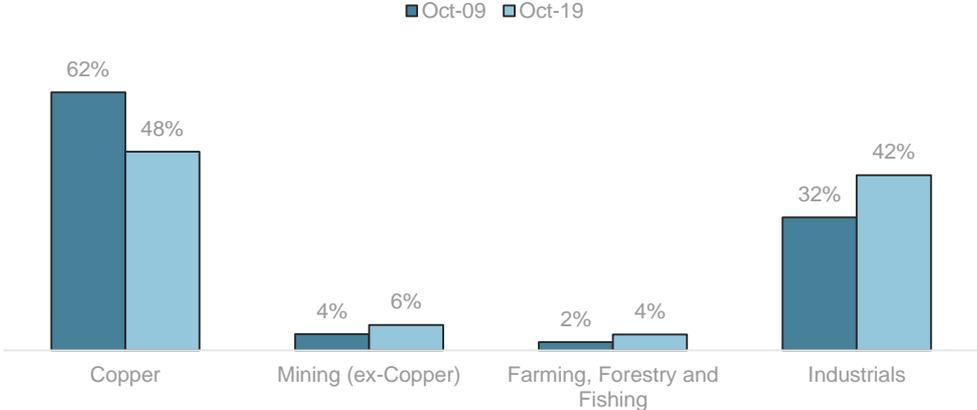
Chile's export sector continues to diversify in terms of products and destination, with the currency supporting greater growth in 2020.

Chile continues to diversify its economy:

- Industrials; Farming, Forestry and Fishing exports have increased their share of total exports
- Chile is the main exporter of salmon and wood pulp in the world. Salmon exports have grown from 1.6% of total exports in 2010 to 6.3% in 2018
- Farming exports, particularly blueberry and cherry exports have experienced strong growth in recent years. Cherry exports have almost tripled since 2010 and blueberry exports more than doubled since 2010

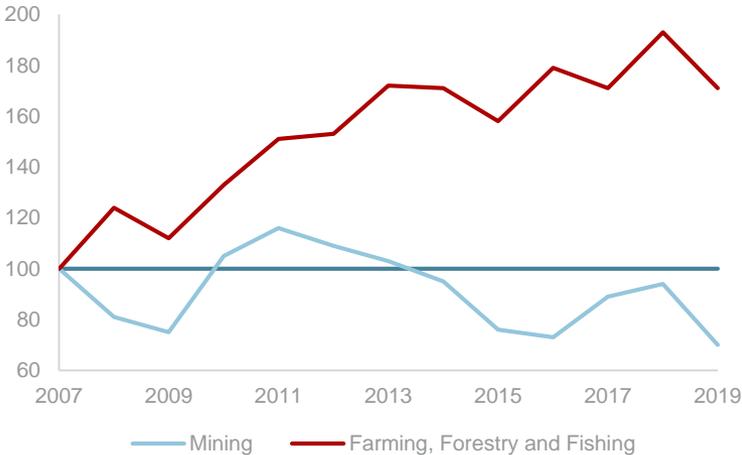
Share of Exports by Category

Percent of total merchandise exports



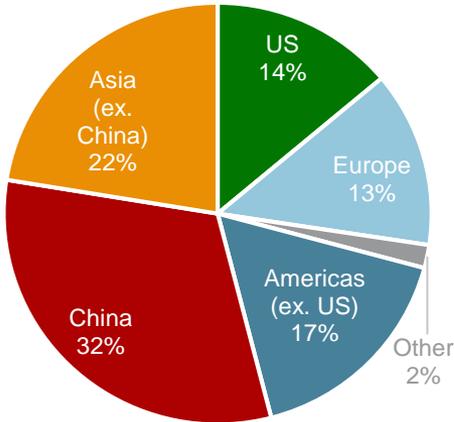
Merchandise Exports

2007=100, US\$ FOB



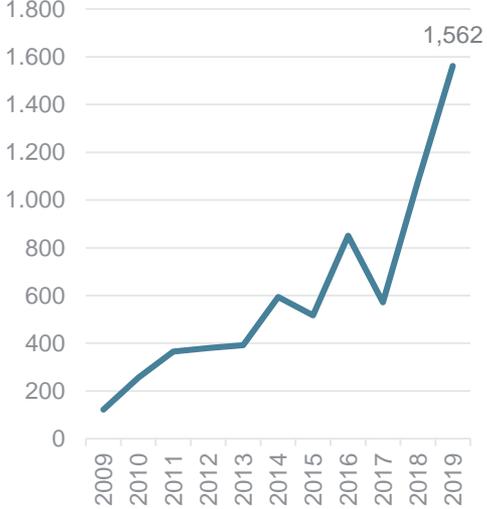
Exports by Destination

Percent of total merchandise exports
Jan – Nov 2019



Cherry Exports

USD million (FOB)



Source: Central Bank of Chile.

Source: Central Bank of Chile.

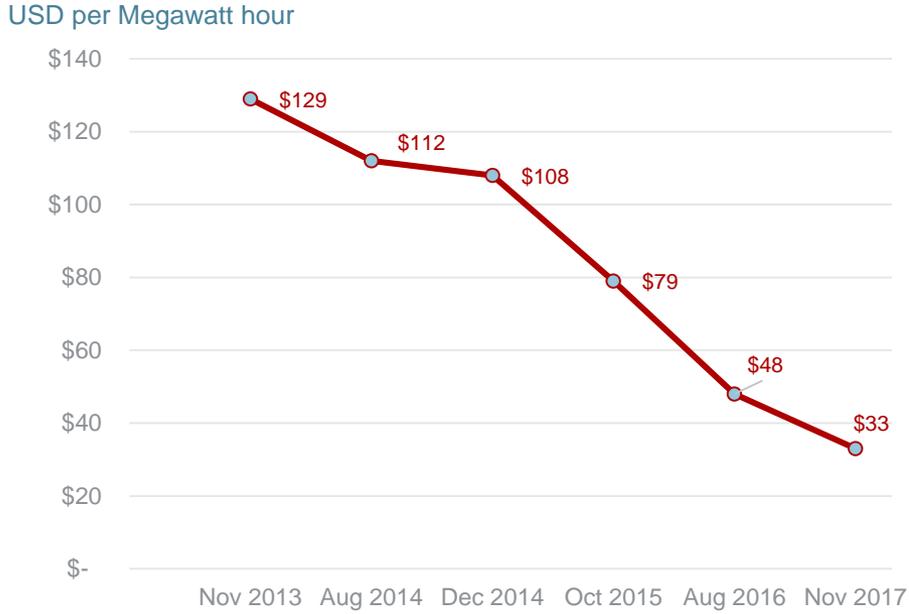
Source: Central Bank of Chile.

Additionally, large declines in energy costs should enhance our economy's competitive advantage.

Lower Energy Costs with Greater Participation of NCRE:

- Current installed capacity of NCRE represent 33% of the total generation mix, up from 2% in 2013
- Lower auction pricing and greater NCRE participation has been driven by new rules that introduced hourly blocks
- In order to strengthen Chile's low-carbon transition plans, the National Energy Policy 2050, the energy Sector Mitigation Plan and the Electro Mobility Strategy, among others, have been developed

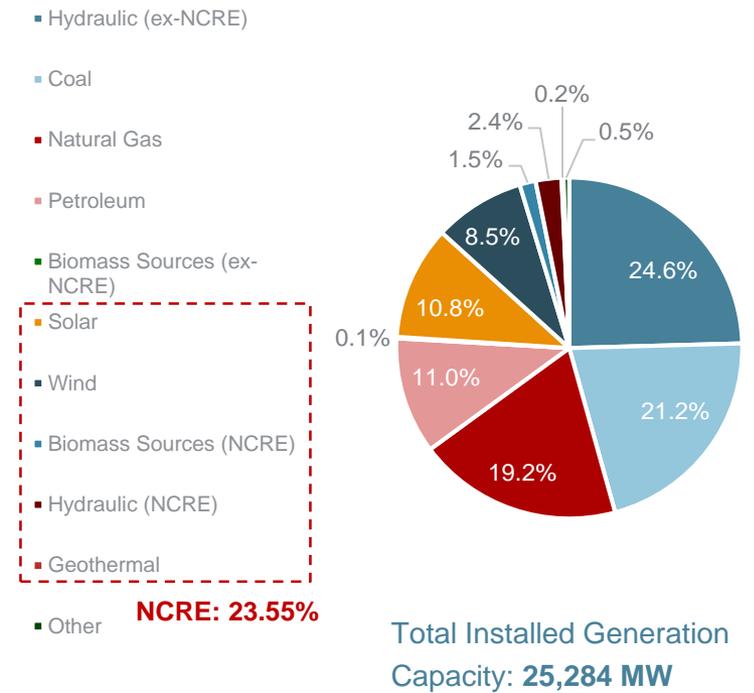
Auction Prices



Source: National Commission of Energy (CNE)

Installed Generation Capacity (SEN)

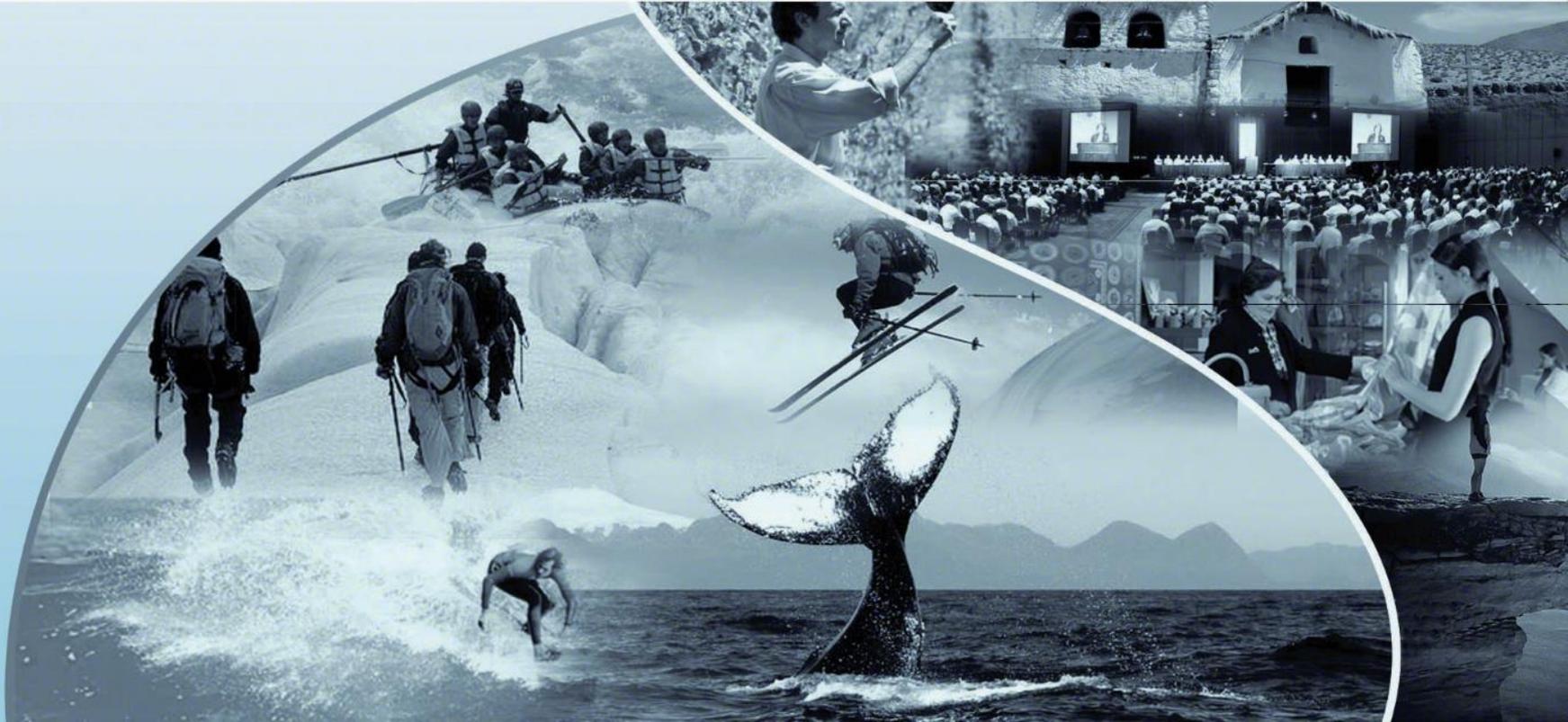
Nov 2019 - Megawatts



Source: National Electricity Coordinator (CEN)



4. Sovereign Debt Issuance Plan and Strategy



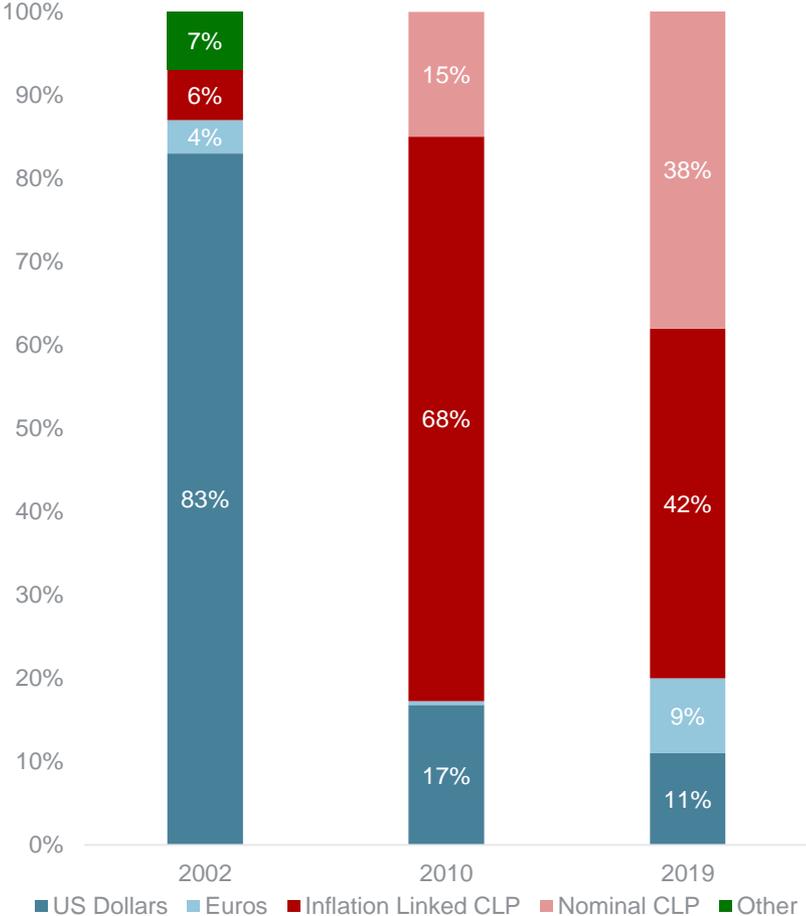
Debt management strategy

Strategy

- **Domestic:** to develop and lengthen yield curves (nominal and real), while deepening liquidity by fostering greater participation of non-residents
 - Recent issuances have strengthened new benchmarks and have created longer tenors, extending the debt maturity profile in line with international standards
- **External:** to establish benchmarks for Chilean companies in international capital markets
- **In addition:** to promote the development of a green asset class (social/green bonds) that attracts foreign investment in support of the country's sustainable infrastructure needs, while diversifying the investor base

Debt Composition by Currency

Percent of total



Source: Ministry of Finance; Public Debt Report

2020 Issuances

- Total bond issuances for USD 8.7 billion
- **Local currency issuances for USD 5.4 billion** in inflation-linked and nominal curves (**~60% of total**)
 - Continuing our efforts to further develop liquid benchmarks across the yield curves, new benchmarks maturing in 2025 and 2039 will be created in Peso and UF (inflation-linked) curves
 - In order to further improve the liquidity and depth of the domestic fixed-income market, benchmark references created in 2019 maturing in 2030 and 2050 will also be reopened
 - USD 2 billion in book-building Euroclearable issuances

Maturity (year)	Amount by denomination (US\$ million)		
	Peso (BTP)	UF (BTU)	Total
2025 (New Issuance)	1,500	500	2,000
2030 (Reopening)	500	500	1,000
2039 (New Issuance)	1,000	500	1,500
2050 (Reopening)	500	400	900
Total Local Currency	3,500	1,900	5,400

- **Foreign currency issuances for US\$3.3 billion** labelled as Green Bonds (**~40% of total**)

The Ministry of Finance has made significant progress towards improving liquidity in the local fixed income market in recent years.

➤ Concentration of trading in key benchmarks, achieved by liability management operations in local currency bonds

- Aimed at creating strong references both in inflation-linked and nominal curves
- Implemented by exchanging illiquid & low outstanding bonds (“non benchmark bonds”), with “benchmark bonds” with high liquidity and larger outstanding amounts

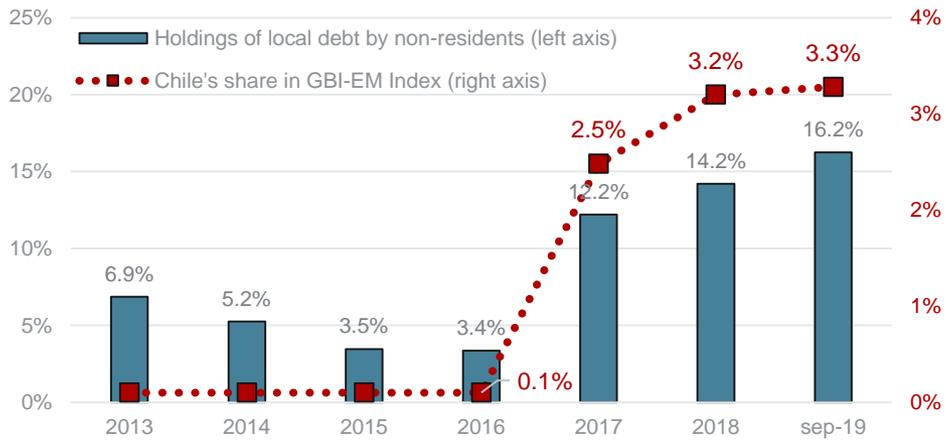
➤ Legislative adjustments that facilitated Euroclearability

➤ Greater weight in the GBI EM Bond index

- Four local Euroclearable bonds issuances since February 2017. These have allowed for a broader inclusion of Chilean bonds in the GBI Emerging Market Bond Index
- Chile’s share in this index increased from 0.10% in 2016 to 3.3% by sept-2019 and non-resident holdings share reached 16.2%

Non-resident Holdings of LC Debt & GBI-EM Share

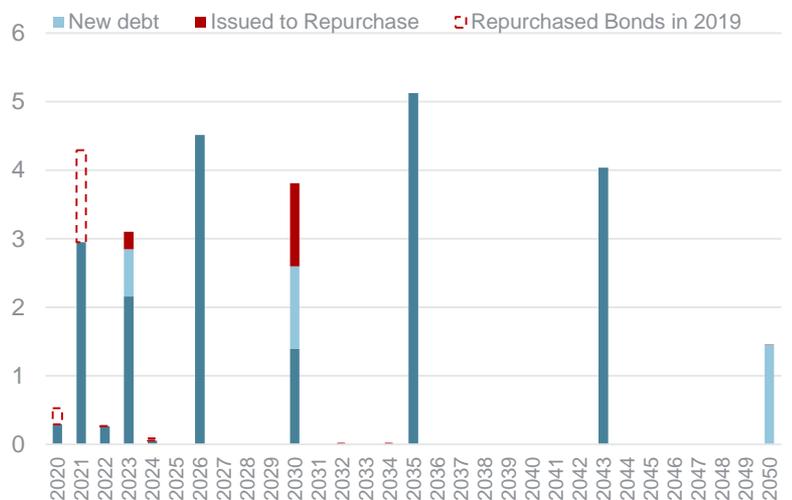
Percent of total



Source: JP Morgan and the Ministry of Finance

Maturity Profile: Nominal Curve

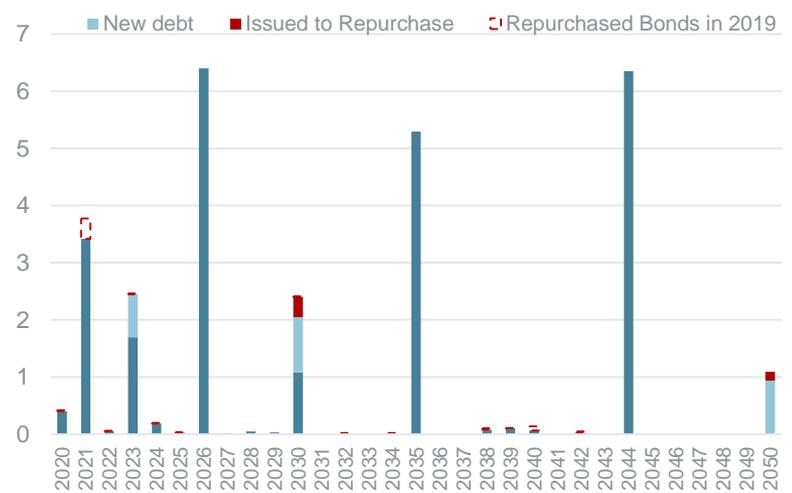
As of December 31, 2019; USD billion



Source: Ministry of Finance

Maturity Profile: Inflation linked Curve (UF)

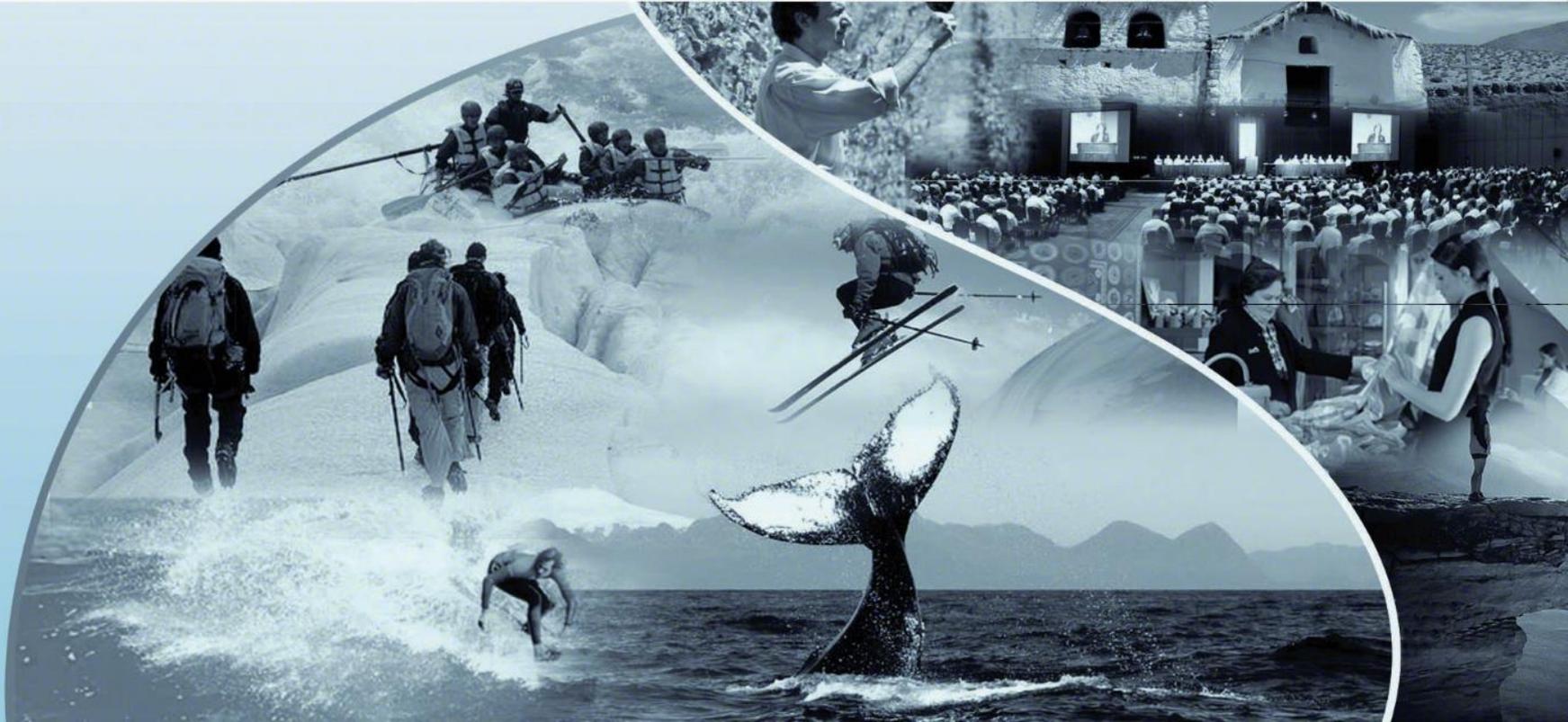
As of December 31, 2019; USD billion



Source: Ministry of Finance



5. Green Bond Framework & 2020 Project Portfolio



Chile has a strong commitment to climate change mitigation and environmental protection.

Chile's strong commitment to Climate Change

- Chile ratified the Paris Climate Agreement in February 2017, committing to reduce its CO₂ emissions per unit of GDP by 30% by 2030, from 2007 levels
- The Government of Chile is proposing a paradigm shift in the life cycle management of public works, and in November 2017 the Ministerial Council for Sustainability approved the Climate Change Mitigation and Adaptation Plan for Infrastructure Services
- According to the Intergovernmental Panel on Climate Change (IPCC) "Special Report on Global Warming of 1.5°C, Chile's exposure to climate change is one of its main challenges
- As part of Chile's national development plan, several ministries, including the Ministry of Finance have created new specialized areas oriented to face climate change, promoting public-private cooperation
- 2017-2022 National Action Plan for Climate Change, where Chile is committed to the Promotion of non-conventional renewable energies via an energy efficiency law
- Energy Sector Mitigation Plan (2017): gradual phase out of coal-fired power generation (*in early 2018, Chile announced that it will not build any new coal-fired power plants without carbon capture systems*)
- Electro Mobility Strategy (2017): transition to 100% electric public transport by 2050

Rationale for issuance

Chile believes the development of a local and international green bond market represents a unique tool to effectively channel its sustainability efforts and finance the country's sustainable development strategy

- Chile is promoting the development of a green asset class to attract foreign investment, in order to support the country's sustainable infrastructure needs
- As the first sovereign Green Bond issuer in the Americas, Chile intends to promote a regional dialogue to enhance the consistency and credibility of future issuance from the region and contribute to the development and acceptance of this asset class by issuers and investors

Leading global and local action on climate change



Chile committed to cut greenhouse gas emissions to net zero by 2050



Chile currently co-chairs the World Bank's Finance Ministers Coalition for Climate Action



Santiago Stock Exchange has a dedicated segment for Green and Social Bonds

<p>Use of Proceeds</p>	<div style="display: flex; justify-content: space-around; text-align: center;"> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Clean Transportation</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Energy Efficiency</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Renewable Energy</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Living Natural Resources, Land Use and Marine Protected Areas</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Water Management</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Green Buildings</div> </div>
<p>Project Evaluation and Selection</p>	<ul style="list-style-type: none"> ▪ Selection of eligible green projects through a decision-making process by the Ministry of Finance ▪ Green Bond Committee, led by the Ministry of Finance with the support of the main ministries in charge of the execution of the public budget, to review and validate the selection of eligible green projects
<p>Management of Proceeds</p>	<ul style="list-style-type: none"> ▪ Net proceeds to be transferred to the general account of Chile and each specific green bond issuance to be linked to a specific pool of eligible projects ▪ Total value of eligible projects to be higher than the amount of issuance, to avoid the necessity to include new projects in event of projects no longer eligible, and includes previous year and current year expenditures and, if necessary, future expenditures ▪ Until full allocation, unallocated proceeds managed in line with the liquidity management policy
<p>Reporting</p>	<ul style="list-style-type: none"> ▪ Annual reporting on: <ul style="list-style-type: none"> ▪ Proceeds allocation (per category) ▪ Output (e.g. km of train lines; installed capacity in MW) and impact indicators (e.g. CO₂ avoided, energy saved)
<p>External Review</p>	<ul style="list-style-type: none"> ▪ Second Party Opinion from Vigeo Eiris on the Framework ▪ CBI certification ▪ Annual Assurance Report by an external auditor on the allocation report and its conformity with the Framework

Green bond current project portfolio worth USD 4.4 billion.

Eligible Category	Ministry / Department	Project	Description	Impact	Estimated Disbursement
Clean Transportation	Metro	Line 4 of Metro Extension	<ul style="list-style-type: none"> 4,3 km route. It will benefit 568 million people 	<ul style="list-style-type: none"> This project generates an important environmental impact, reducing passenger transport from bus services and private cars to metro 	<ul style="list-style-type: none"> US\$ 403mn
	Metro	Line 8 of Metro	<ul style="list-style-type: none"> 19km route that connects with line 1. It will benefit 1.6 million people in four communes and will allow decongesting lines 4 and 5 	<ul style="list-style-type: none"> This project generates an important environmental impact, reducing passenger transport from bus services and private cars to metro 	<ul style="list-style-type: none"> US\$ 1.9bn
	Ministry of Transport and Telecomm.	Metrotren Alameda-Melipilla	<ul style="list-style-type: none"> Enabling the commute between Melipilla and Santiago 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization from the west to Santiago, reducing bus and car transport. Project is not yet operational 	<ul style="list-style-type: none"> US\$1.53bn
	Ministry of Transport and Telecomm.	Metrotren Alameda-Chillán	<ul style="list-style-type: none"> Express passenger service between Chillán and Santiago 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization from the south of the Metropolitan Region area to Santiago, reducing bus and car transport. Project will focus on renovation and modernization of existing service 	<ul style="list-style-type: none"> US\$95mn
	Ministry of Transport and Telecomm.	Metrotren Coronel-Lota	<ul style="list-style-type: none"> Enabling passenger service between Coronel - Lota 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization between Coronel and Lota, in the Bío Bío Region, reducing bus and car transport. The project considers the expansion of the current Biotren railway network 	<ul style="list-style-type: none"> US\$45.4mn
	Ministry of Public Works	Metro Rebuilding	<ul style="list-style-type: none"> Reconstruction of metro stations 	<ul style="list-style-type: none"> Rebuild metro stations affected by recent events 	<ul style="list-style-type: none"> US\$380mn

Source: Republic of Chile's Green Bond Project Portfolio as of January 13, 2020.