



# **Republic of Chile Public Debt Offering**

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**Minister of Finance**  
**July 28, 2010**

# Summary Terms of the Offering



Issuer	Republic of Chile	
Expected Issue Rating	Moody's: Aa3 S&P: A+ Fitch: A (all Stable)	
Transaction	Senior Global USD Bond	Senior Global CLP Bond
Currency of Denomination	USD	CLP
Currency of Payment	USD	USD
Size	Benchmark	Benchmark
Tenor	10-year	10-year
Denominations	US\$ 100,000 / US\$ 1,000	CLP 50,000,000 / CLP 500,000
Distribution and Listing	SEC-Registered; application has been made to list the Notes on the Luxembourg Stock Exchange	
Joint Bookrunners	  	



# Why Invest in Chile?

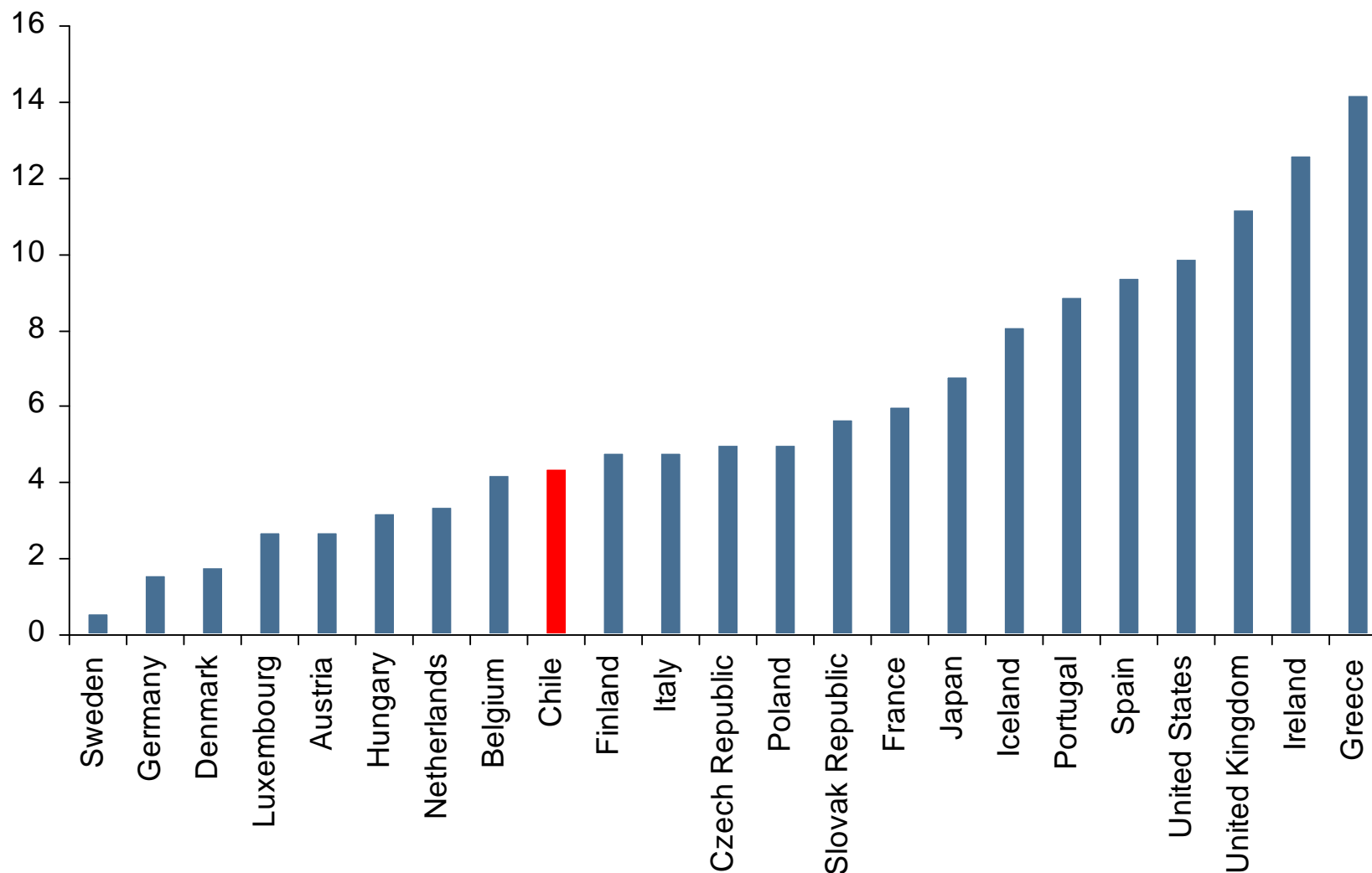


# **CHILEAN PUBLIC FINANCES IN INTERNATIONAL PERSPECTIVE**



# Fiscal Deficit During Global Recession

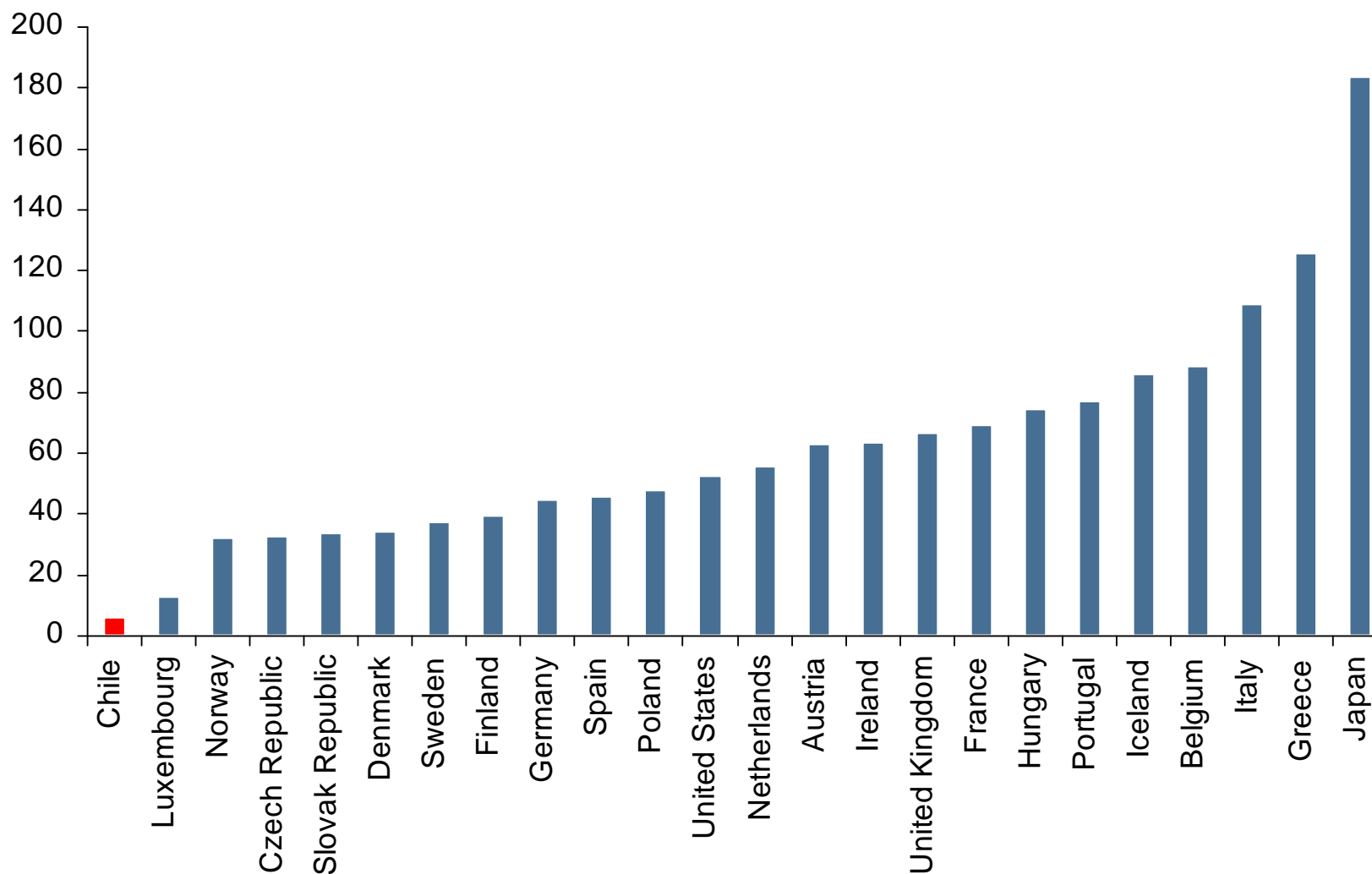
(Central Government, % of GDP, 2009)



Source: Eurostat, OECD, IMF and DIPRES

# Public Debt Burden: A Comparison

(Gross Central Government Debt, % of GDP, 2009)

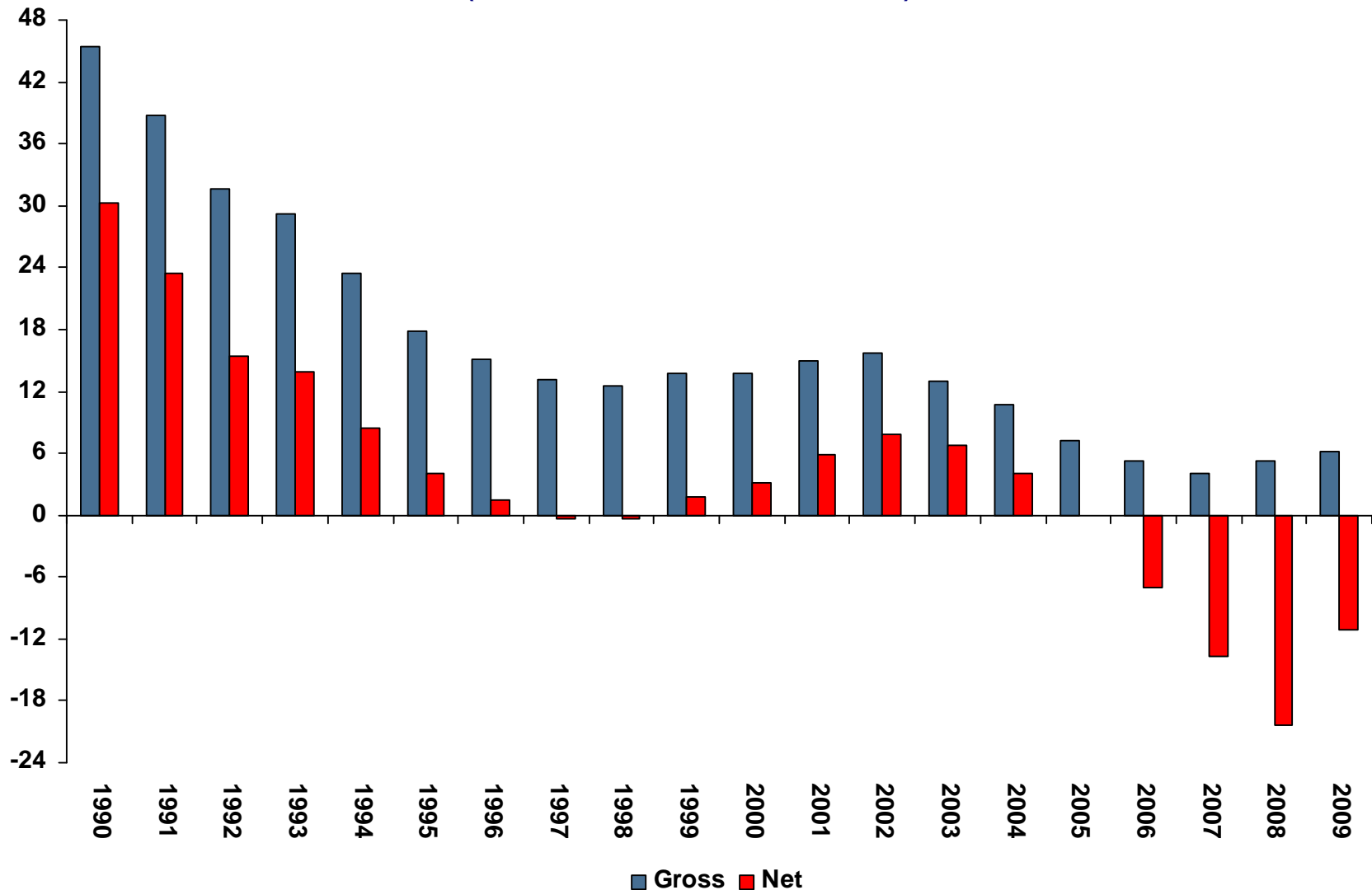


Source: Eurostat, OECD, IMF and DIPRES



# The Government of Chile: A Net Creditor

(Central Government Debt, % of GDP)



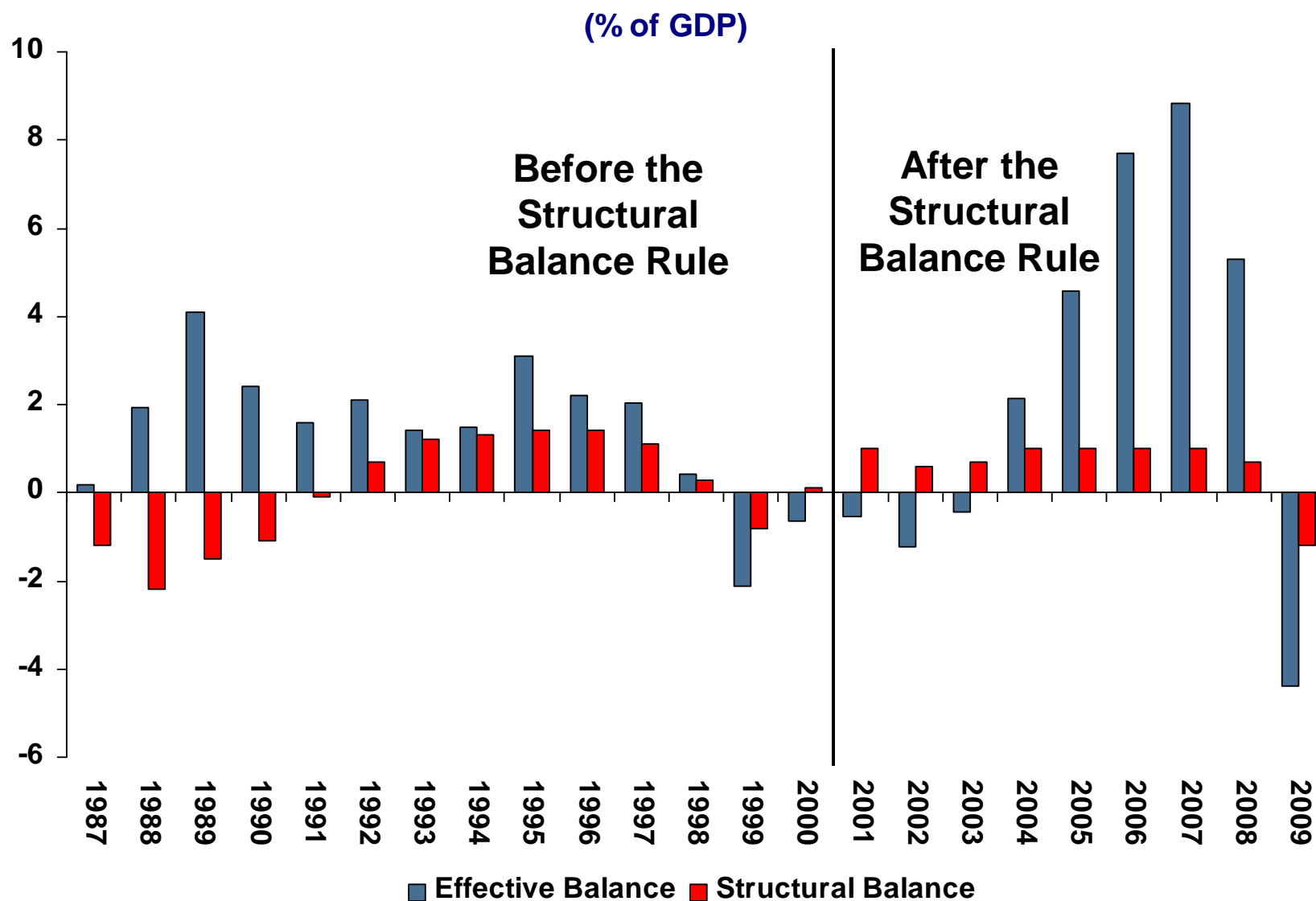
Source: DIPRES

# The Budget: Structural Balance Rule

- The SBR isolates the impact of the economic cycle on public finances
- The SBR commits to a balanced budget (zero deficit) when
  - The economy grows at its potential rate
  - Copper price is at its long-term level
- In practice, this means
  - Saving during economic booms, when extraordinary revenues are received
  - Disaving in downturns, when fiscal revenue drops



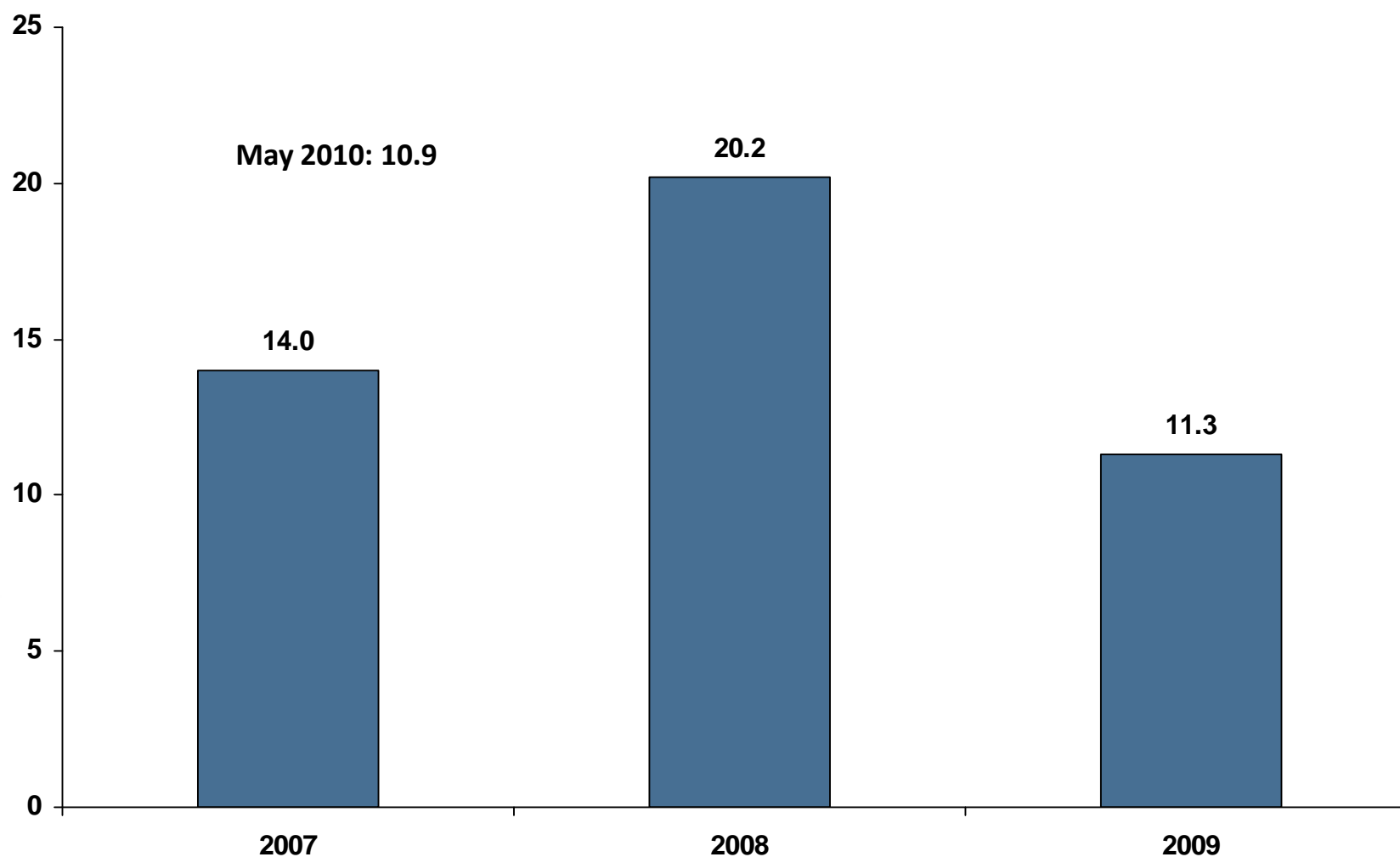
# Central Government Balance 1987-2009



Source: DIPRES

# Chile's Economic and Social Stabilization Fund (Sovereign Fund)

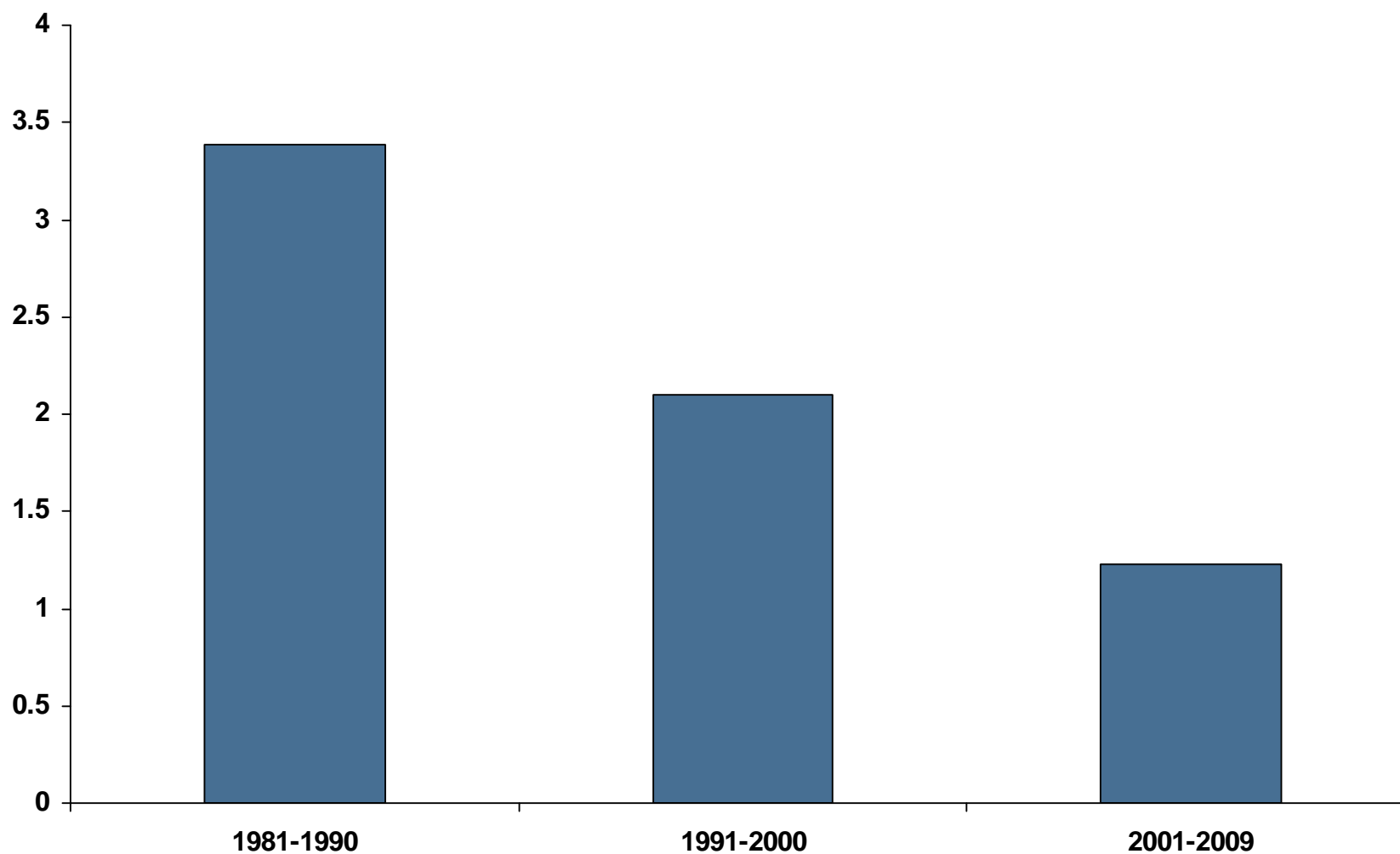
(billion dollars)



Source: DIPRES

# Chile's Declining Macroeconomic Volatility

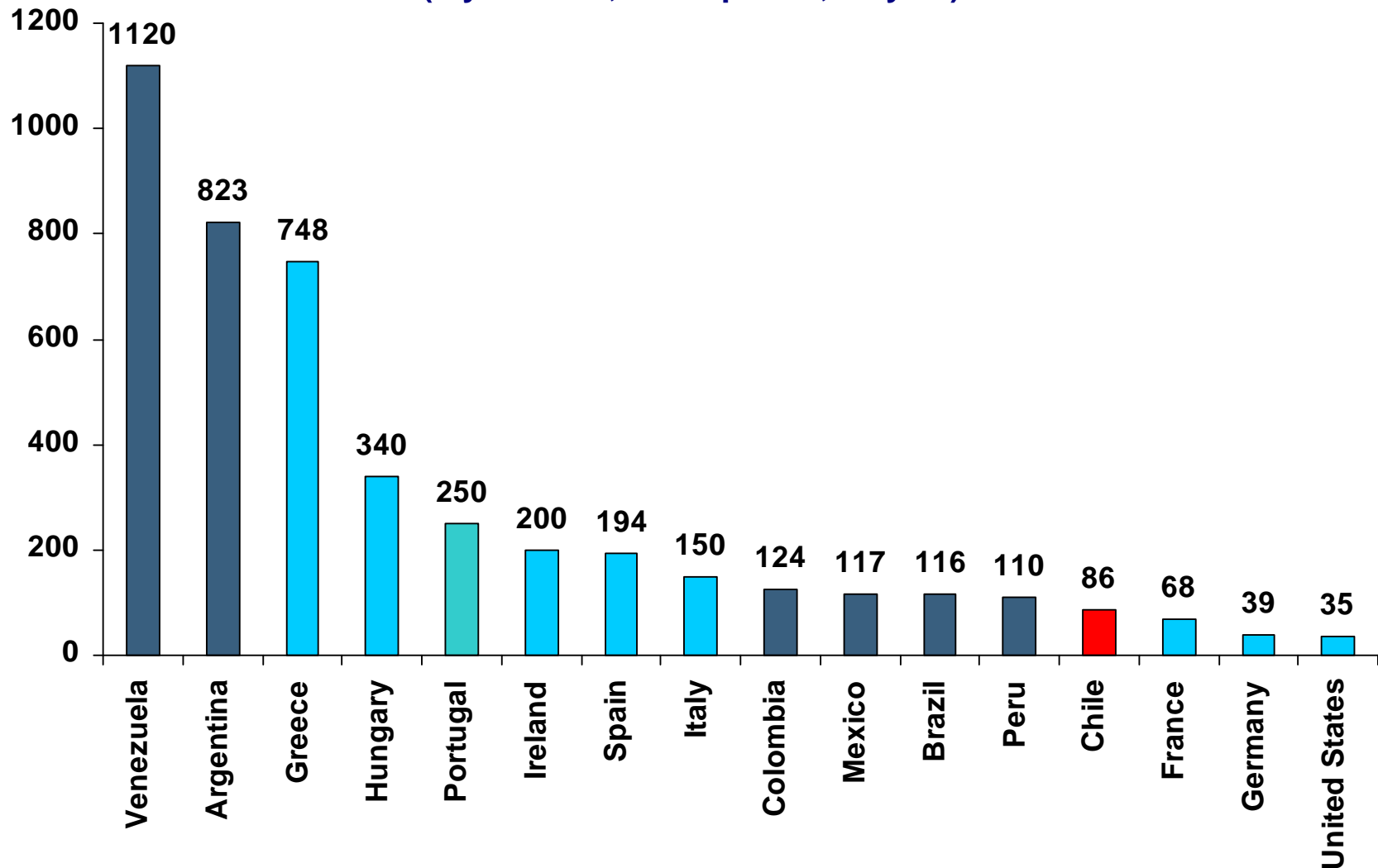
(average of four-quarter trailing standard deviation of GDP growth)



Source: Own elaboration based on Central Bank of Chile

# Chile's Very Favorable International Credit Conditions

(5-year CDS, basis points, July 26)



Source: Bloomberg



# Chile has Significant Ratings Momentum

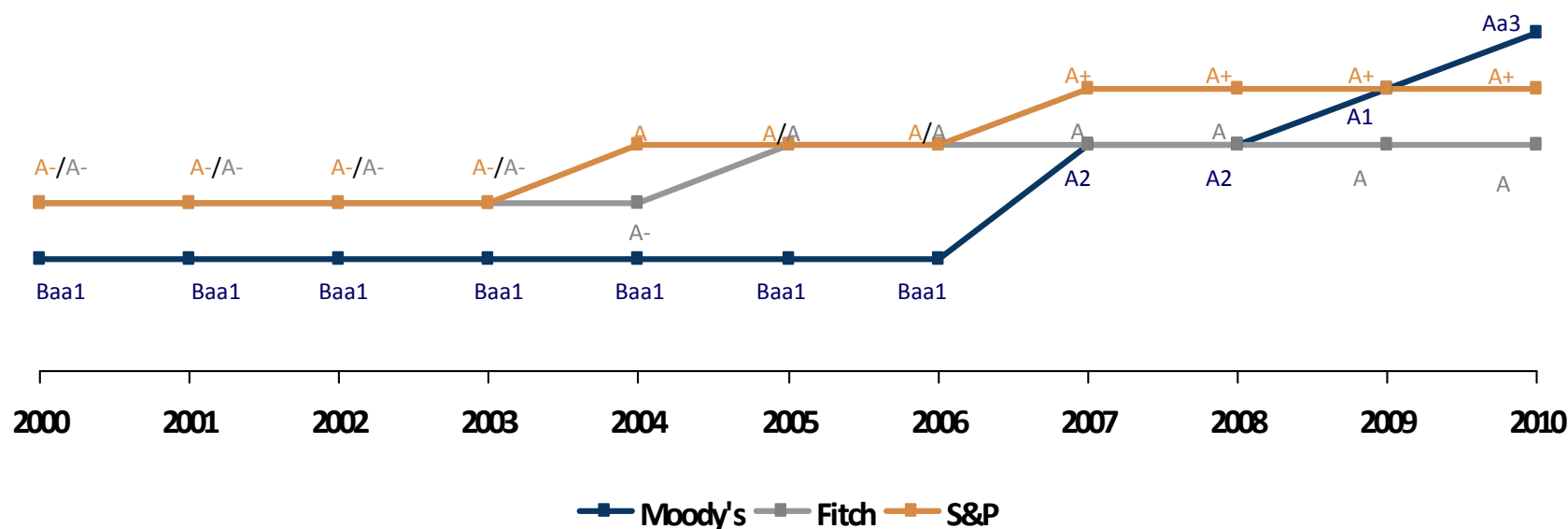


- Foreign Currency Rating: **Aa3/Stable**
- "On June 16 2010, Moody's upgraded Chile's local and foreign currency government bond ratings to Aa3 from A1, with a stable outlook. The upgrade reflected the country's demonstrated economic and financial resilience even in the face of major adverse shocks, including February's historic earthquake"

- Foreign Currency Rating: **A+/Stable**
- "Chile's sovereign ratings--the highest in Latin America--reflect a strong political consensus on key economic policies, the credibility of its institutions, and a track record of stable economic growth. Many years of prudent economic management have strengthened Chile's fiscal and monetary flexibility."

- Foreign Currency Rating: **A/Stable**
- "Fitch Ratings-New York-18 May 2010: Fitch Ratings has affirmed Chile's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and 'A+', respectively, both with a Stable Outlook"
- "Despite the earthquake, Fitch expects Chile's real GDP to expand by 4.6% in 2010. Fitch revised its 2011 real GDP growth projection to 5.6% from 5.0% following the earthquake, as it expects the strongest impulse from reconstruction to carry over into 2012"

Chile's foreign currency long term debt rating evolution



# FOREIGN SECTOR



# Overview

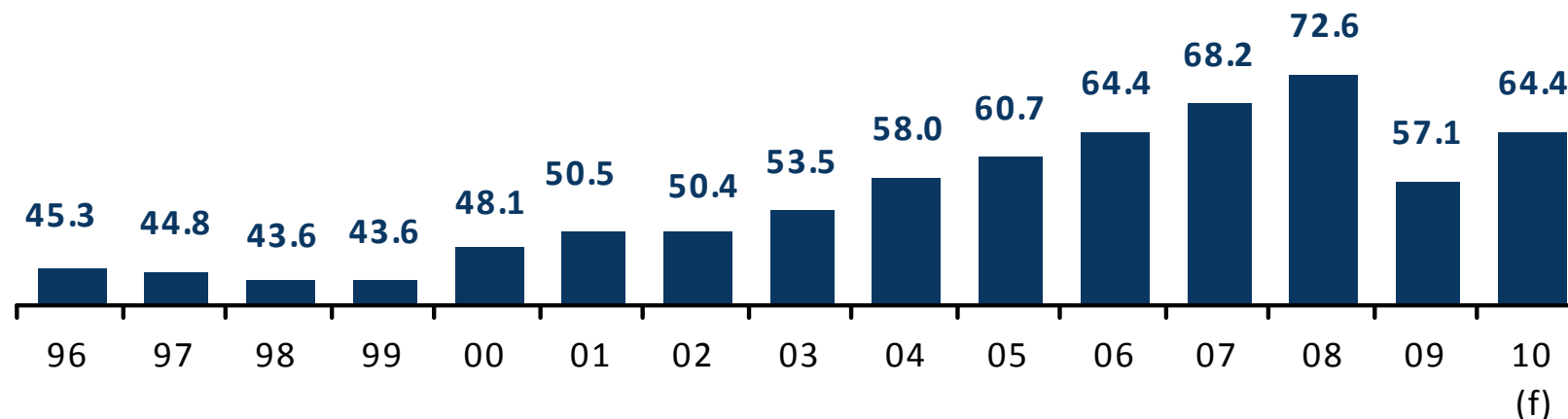


- Chile has signed 21 bilateral trade agreements with 57 trading partners that represent 93.6% of its exports (2009)
- Since 1994, Chile has been a member of, and active participant in, the Asia-Pacific Economic Cooperation (APEC) forum; since May 2010, Chile has been a member of the OECD
- Effective import tariff was 0.94% in 2009 (3.2% in 2003 and 9.5% in 1995)

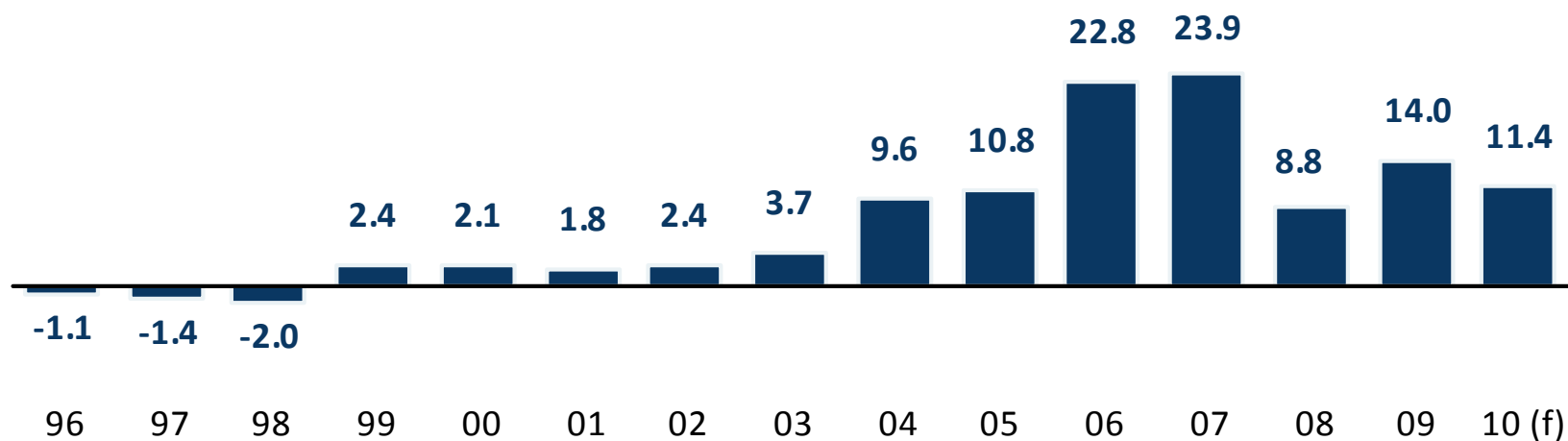
# A Dynamic Export and Investment Oriented Climate has Fueled GDP growth



Exports + Imports over GDP (%)



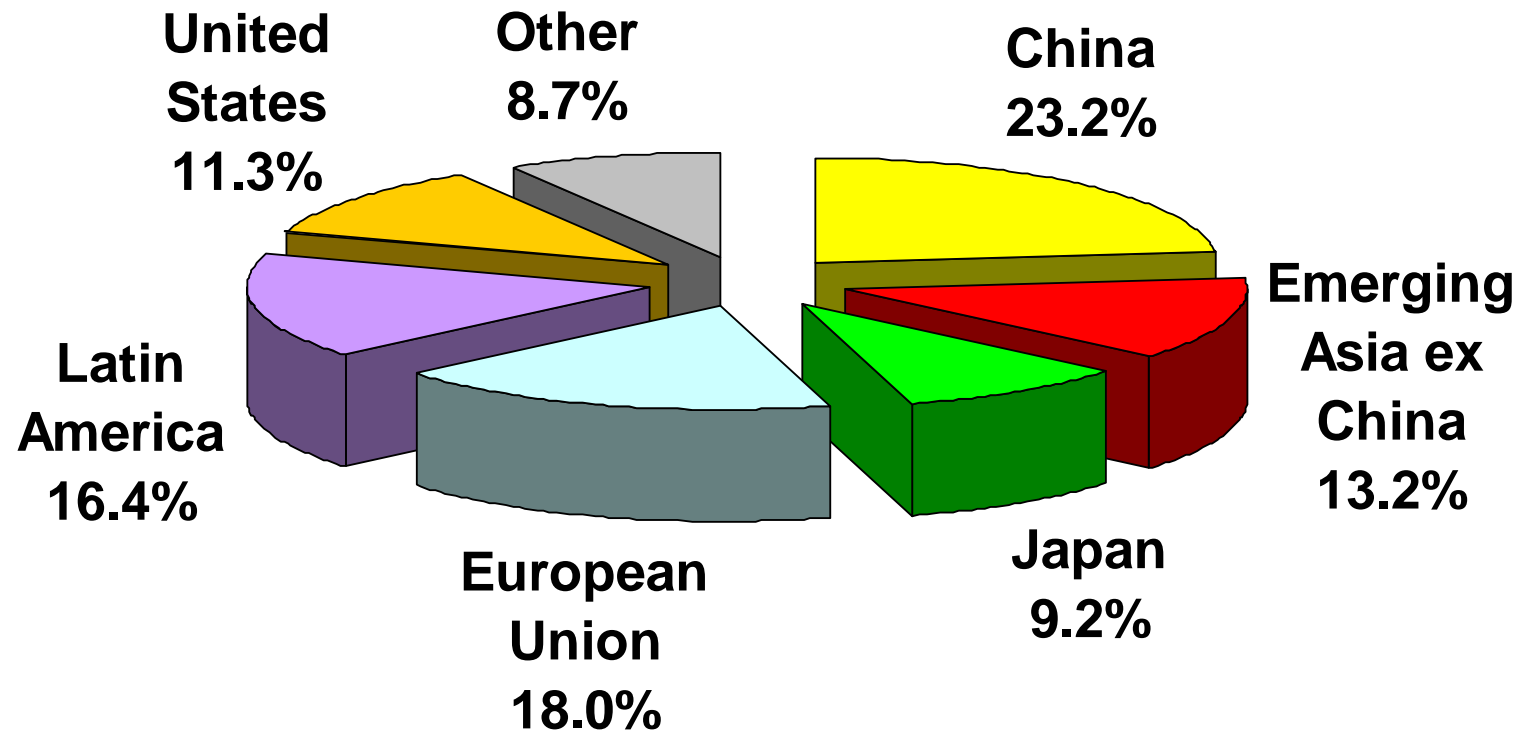
Trade Balance (US\$bn)



Source: Central Bank of Chile

# Geographically Diversified Portfolio of Exports

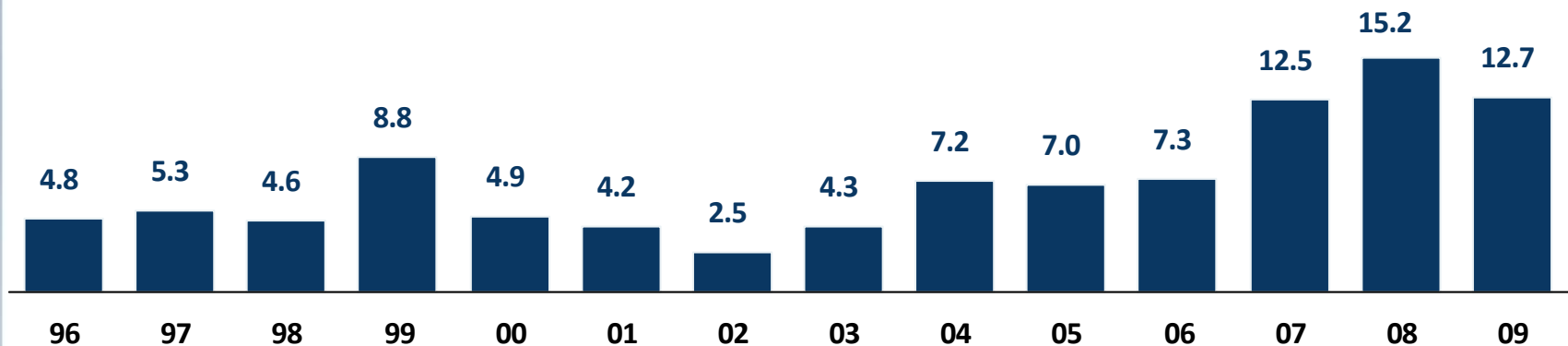
(2009)



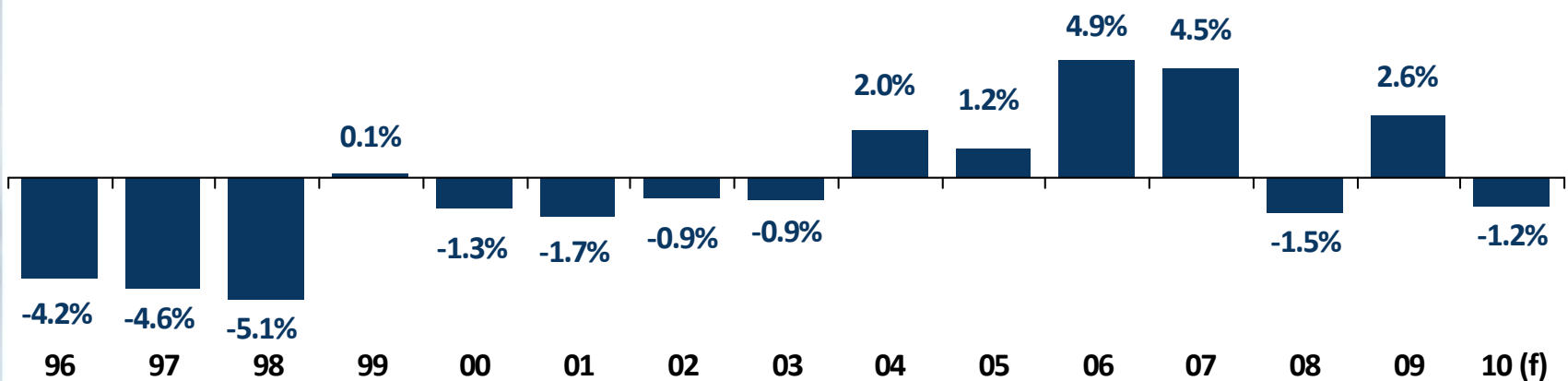
Source: Central Bank of Chile

# Foreign Direct Investment and Current Account

FDI (US\$bn)



Current account (% of GDP)



Source: Central Bank of Chile

# INSTITUTIONS

# Chile is a Beacon of Economic and Institutional Stability...

(2008, Percentil Rank, 0-100)



	Chile	OECD	Latin America
Rule of Law	88.0	90.2	33.1
Political Stability	66.0	81.9	35.0
Voice and Accountability	76.9	90.6	52.1
Government Effectiveness	84.8	88.7	44.8
Regulatory Quality	92.8	91.2	48.3
Control of Corruption	87.0	90.2	44.1

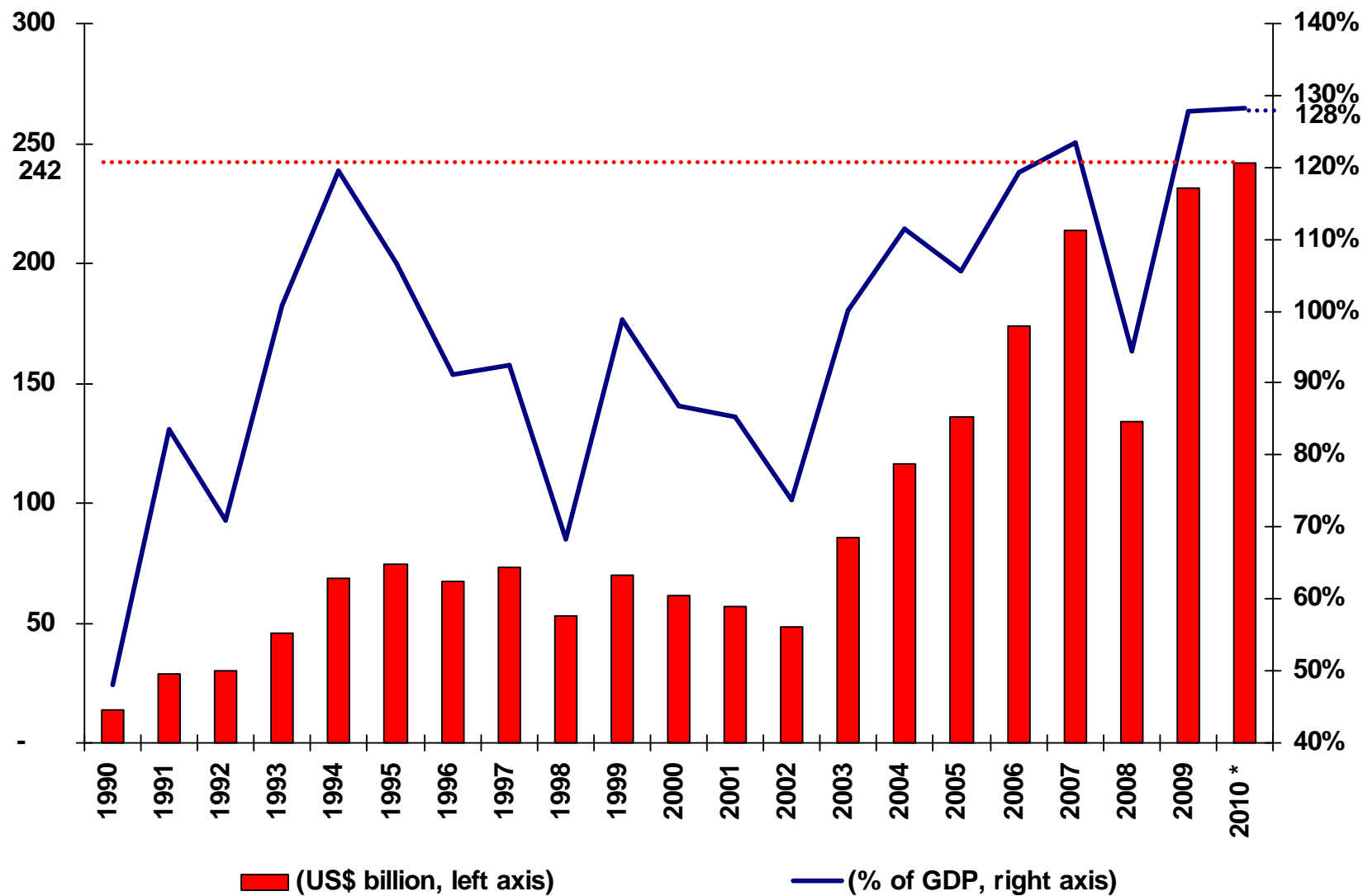
Source: World Bank, Worldwide Governance Indicators 2009



# FINANCIAL MARKET

# Stock Market Capitalization

(end of period)



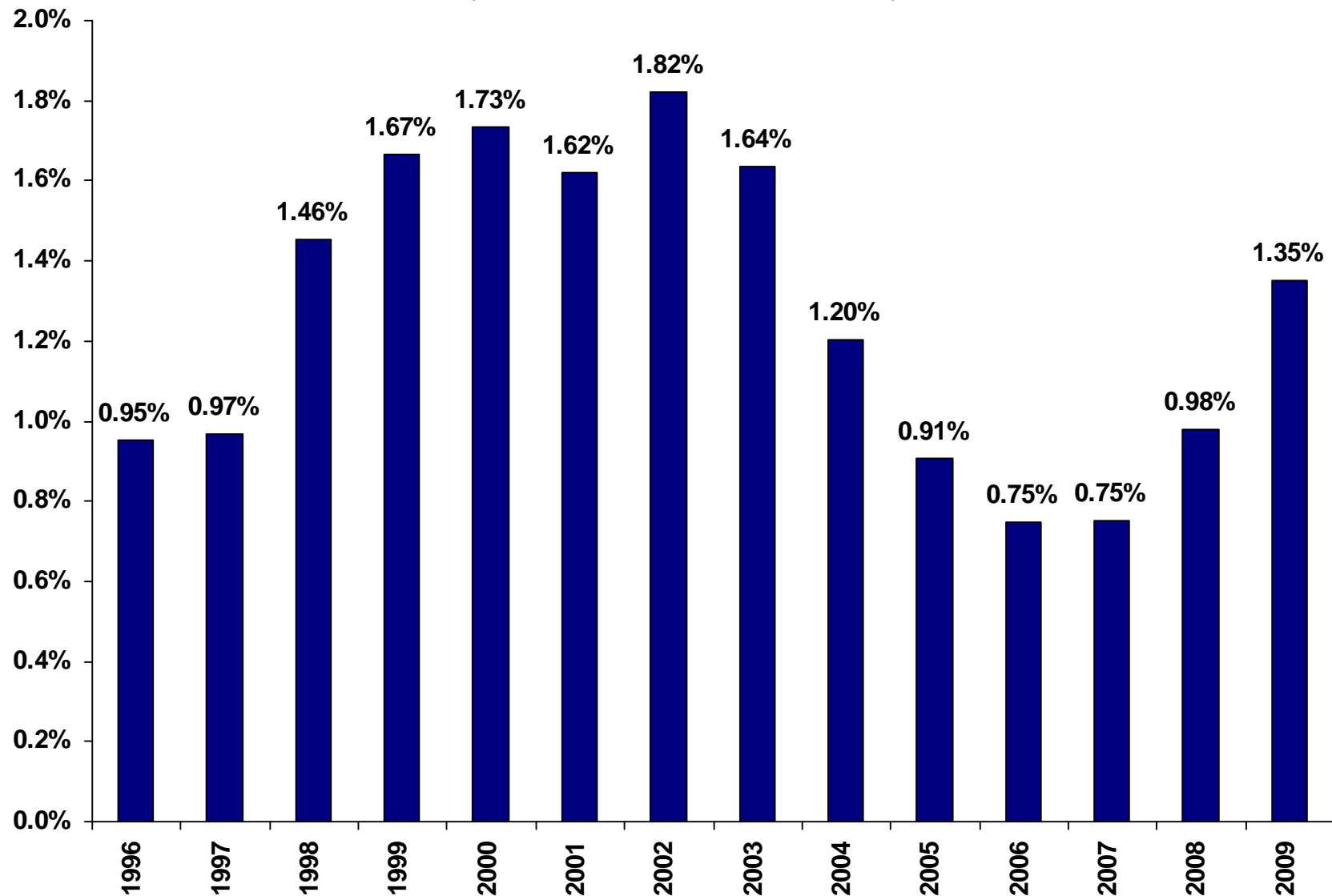
\* Data for second quarter

Source: Central Bank of Chile and Superintendence of Securities



# Chile's Financial System is in Strong Shape

(Past due loans/Total loans, %)



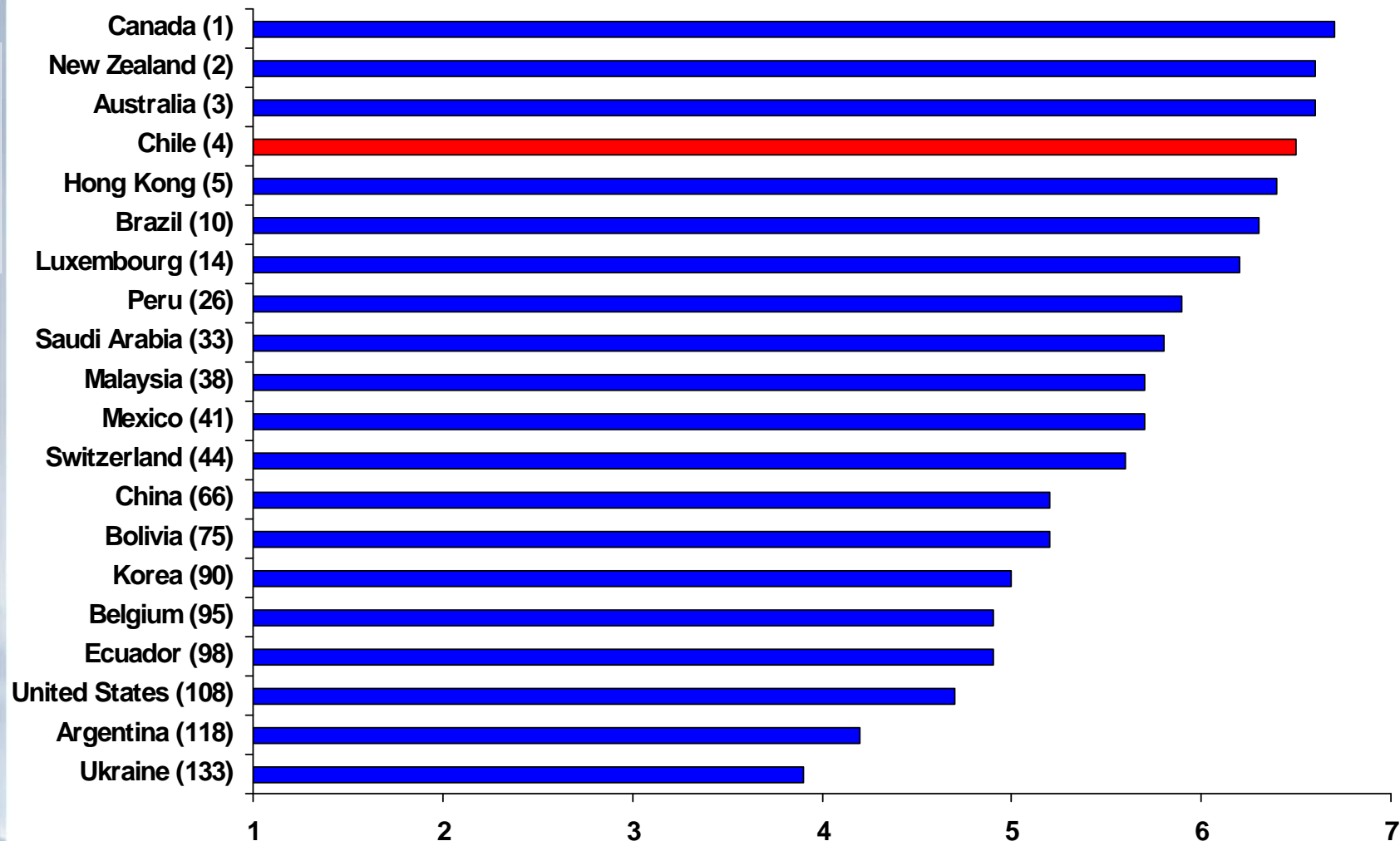
Source: Superintendence of Banks



# Soundness of Banks

(133 countries)

(1=insolvent and may require a government bailout, 7=generally healthy with sound balance sheets)

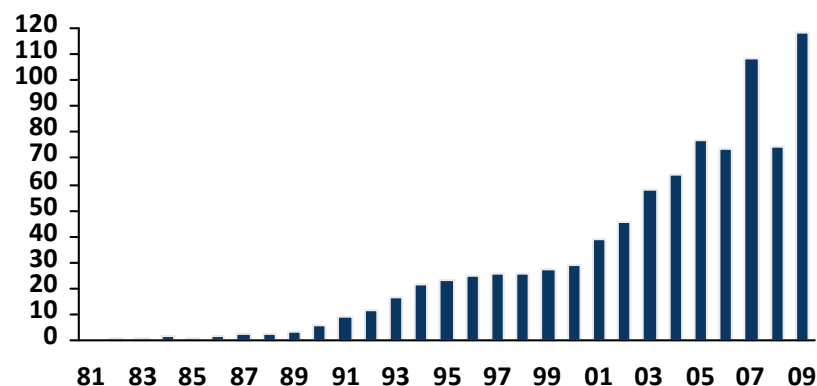


Source: World Economic Forum, The Global Competitiveness Report 2009-2010

# Chile's Domestic Securities Market is Well Developed

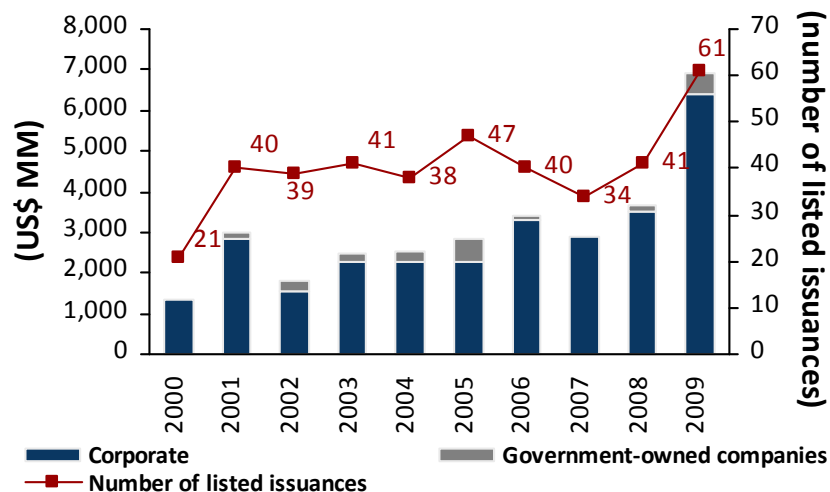


Pension funds AUM (end of period, US\$ MM)

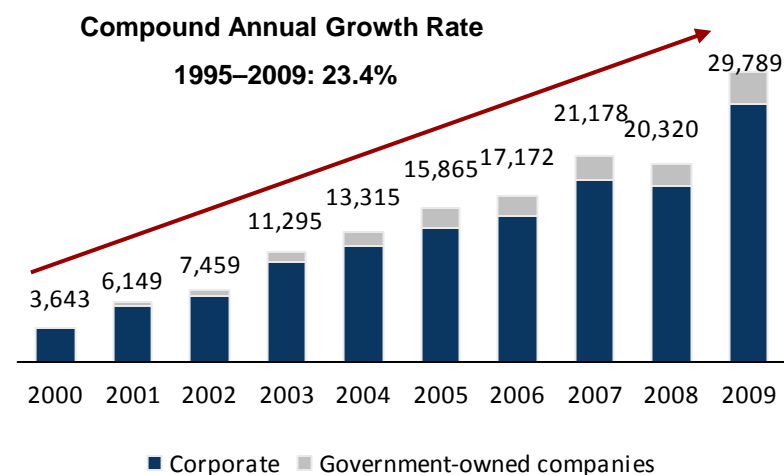


Source: Superintendence of Pension Funds

Local debt issuances evolution (US\$ MM)



Stock of debt outstanding (end of period, US\$ MM)



Source: Superintendence of Securities

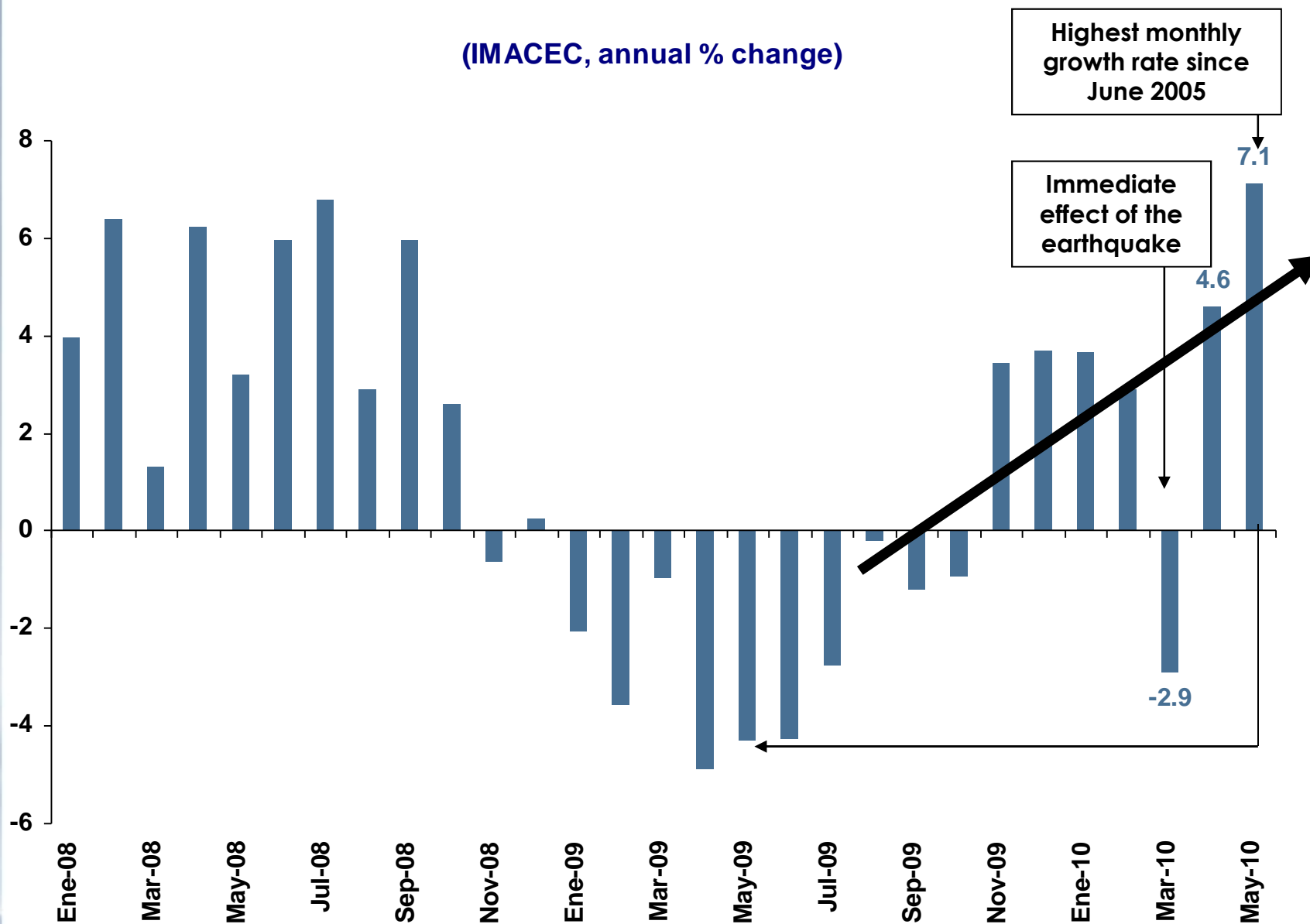


# **CHILE: FROM RECESSION TO RECOVERY**



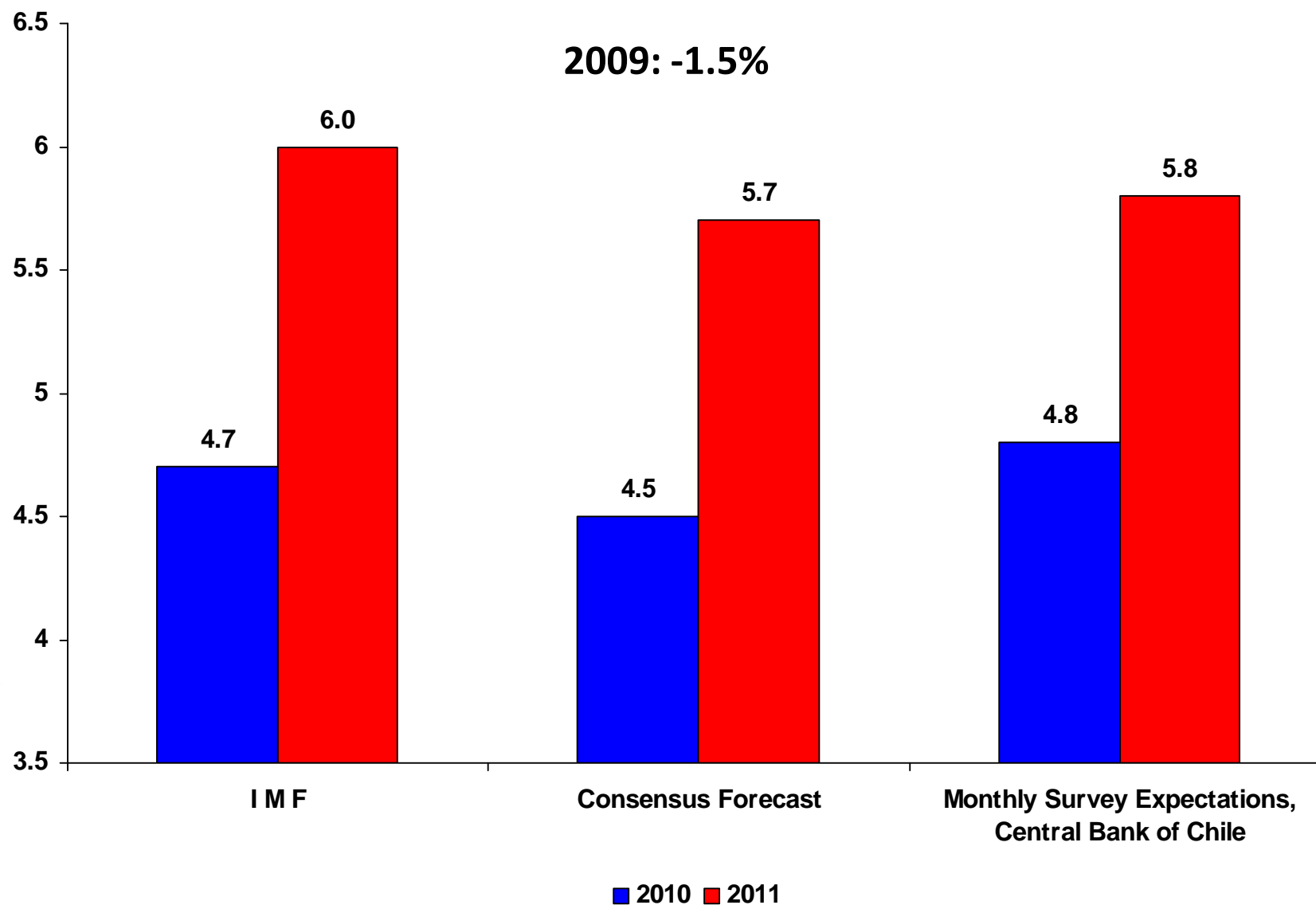
# Monthly Economic Activity: Highly Dynamic

(IMACEC, annual % change)



Source: Central Bank of Chile

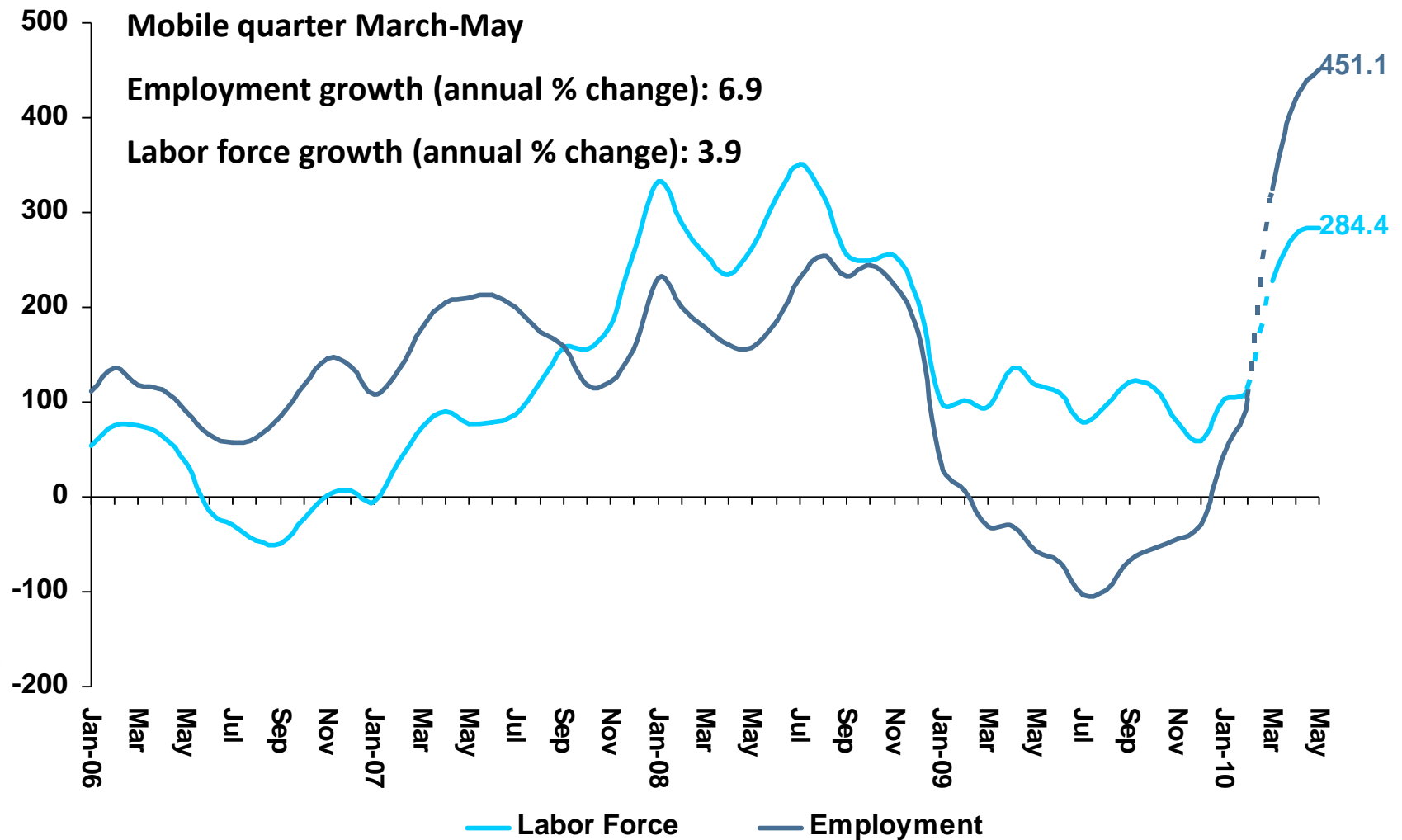
# High Economic Growth Expected for 2011



Source: IMF, Consensus Forecast and Central Bank of Chile

# Strong Employment Creation

(annual employment growth, thousands, mobile quarters, March-May 2010)

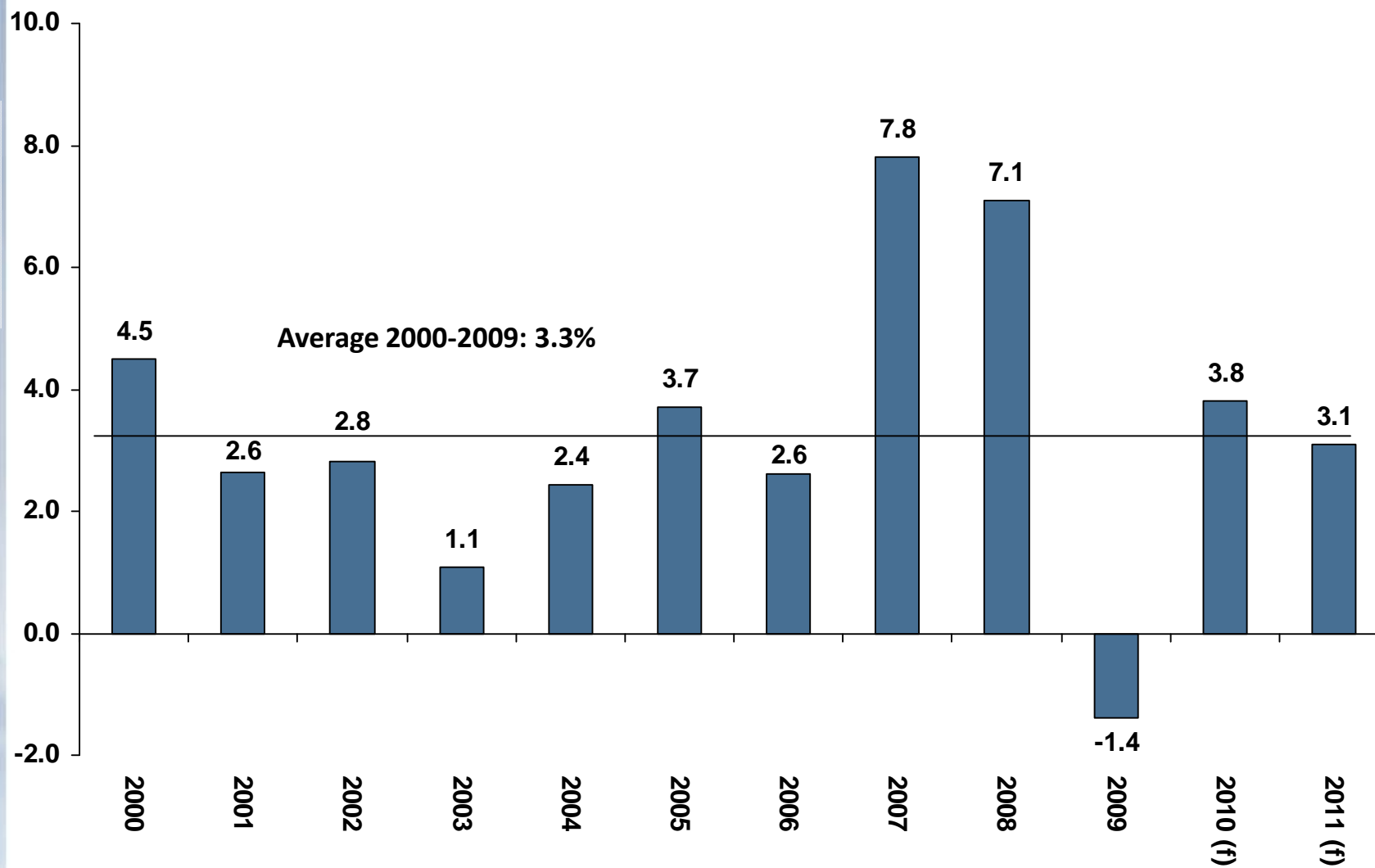


Since mobile quarter January-March 2010 data are based on the New National Employment Survey. Due to the conceptual differences between the new survey and the older one, data can not be spliced.

Source: INE

# Inflation

(% change dec/dec)



Source: Central Bank of Chile, Monetary Policy Report, June 2010



# **CHILE's EARTHQUAKE: COSTS AND FINANCING**

# Chile Had One of the Strongest Earthquakes On Record



Location	Date	Magnitude
Chile	22/05/1960	9.5
Alaska	28/03/1964	9.2
Northern Sumatra	26/12/2004	9.1
Kamchatka	11/04/1952	9.0
Chile	27/02/2010	8.8
Ecuador	31/01/1906	8.8
Alaska	02/04/1965	8.7
Indonesia	28/03/2005	8.6
Assam - Tibet	15/08/1950	8.6
Alaska	03/09/1957	8.6

Source: USGS



# Economic Damages of the Earthquake and the Tsunami



	US\$ bn	% of GDP
Total losses	29.7	14.9
Infrastructure losses	20.9	10.5
Public infrastructure losses:		
• Total	10.6	5.3
• Net of insurance payments	9.3	4.7
• Reconstruction costs (including efficiency gains)	8.4	4.2

# Multiple Financing Sources



- Faster economic growth will increase revenue
- Austerity and budget reallocations total US\$2.9 bn
- Donations Act
- A (mostly) transitory tax component:
  - Corporate Tax (business)
  - Tobacco tax
  - Real estate tax
  - Reducing evasion
- Sale of dispensable public assets
- Issuance of internal and external debt
- Use of the Economic and Social Stabilization Fund (ESSF) and of the Armed Forces Fund

# Importance of Balanced Financing



- Balanced financing of the reconstruction effort is the key to avoid undesirable macroeconomic effects
- This was recognized when Moody's upgraded Chile's government bond ratings from A1 to Aa3 :

*"Fiscal saving by themselves would be enough to cover the government's estimated \$8.4 bn in post-earthquake financing needs, but the new center-right administration has chosen to rely mainly on a combination of taxation and new debt issuance, and keep most of the fiscal savings for future use"*

Moody's Statement, June 16, 2010



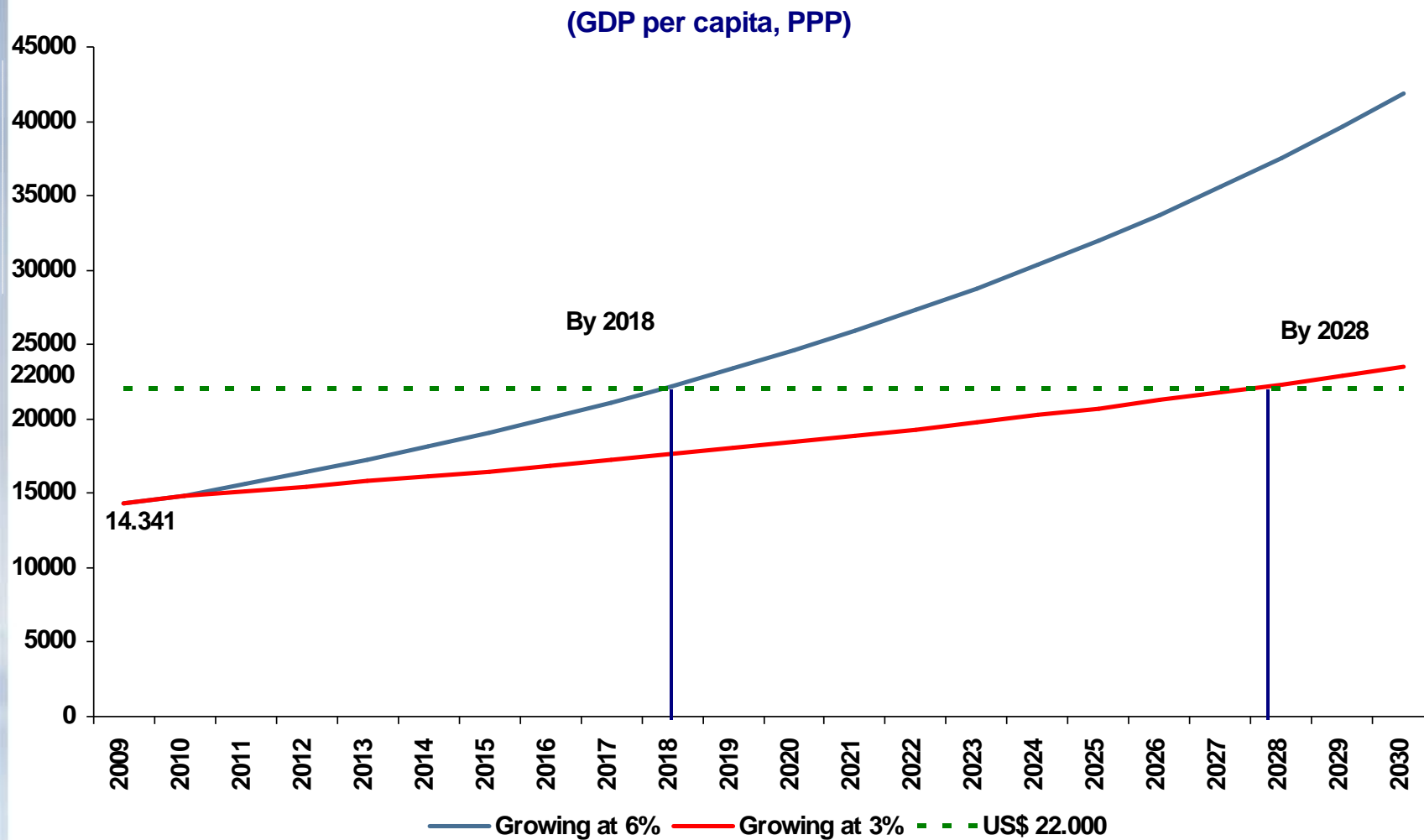
# **BEYOND THE EARTHQUAKE: OUR MAIN GOALS**

# Despite the Difficulties We Maintain Our Main Goals



- Grow at 6% average annual rate
- Create 200.000 jobs annually (2010-2014)
- Increase investment (Gross Fixed Capital Formation) from 22% of GDP (2009) to 28% of GDP in 2014
- Eliminate extreme poverty by 2014
- Lay the ground to become a developed country by 2018

# Chile's Road to Development by 2018





# **Republic of Chile Public Debt Offering**