

# Republic of Chile

## Analysts

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## Recent Actions

**August 30, 2010**  
Confirmed

## Rating

Debt	Rating	Rating Action	Trend
Long-Term Foreign Currency Debt	A (high)	Confirmed	Stable
Long-Term Local Currency Debt	AA (low)	Confirmed	Stable

## Rating Update

On August 30, 2010, DBRS confirmed its ratings on the Republic of Chile's long-term foreign currency securities at A (high) and long-term local currency securities at AA (low). The trend on both ratings is Stable.

The Stable trends reflect DBRS's belief that the severe damage caused by the February earthquake and tsunami will not present a long-term disruption to economic growth. Despite immediate production losses, the economy is rapidly recovering, growing 6.5% in the second quarter of 2010. The Central Bank of Chile estimates that the earthquake destroyed 3% of the economy's capital stock, suggesting a moderate decline in productive capacity. However, the largest copper mines, located in the far north of the country, suffered little structural damage, and the government's reconstruction plan, combined with private investment, will rebuild the capital stock and support long-term growth in the affected regions.

Due to years of exemplary fiscal management, Chile has the capacity to carry out reconstruction without putting a strain on public finances or the credit ratings. The government estimates that reconstruction will cost \$8.4 billion (5.1% of 2009 GDP) over the next four years. Although Chile could fund the entire reconstruction program with offshore fiscal savings, the government has designed a more balanced financing plan, which includes tax changes, budget reallocations, the sale of non-priority public assets and borrowing. The financing plan aims to limit peso appreciation, which would erode competitiveness, and save offshore sovereign wealth fund resources for future countercyclical needs.

Chile's ratings are underpinned by a sound macroeconomic policy framework, low debt burden and stable political institutions. Rules-based fiscal and monetary policy, a flexible exchange rate and a well-regulated financial system have helped the Chilean economy withstand the economic consequences of the global recession and the February earthquake. In 2009, central government debt totaled 6.1% of GDP. (Continued on page 2.)

## Rating Considerations

### Strengths

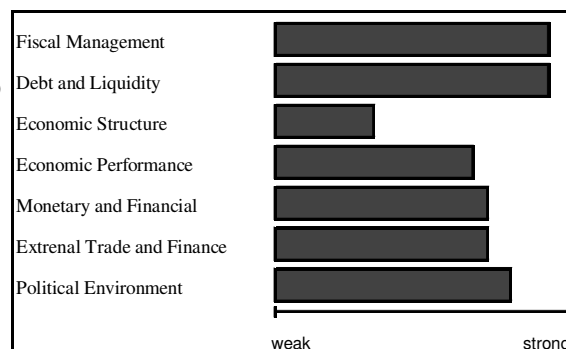
- (1) Sound macroeconomic policy management
- (2) Low public sector debt
- (3) Well-developed domestic capital markets
- (4) Strong and stable political institutions

### Challenges

- (1) High income inequality
- (2) Small, open economy and narrow export base
- (3) Quality of education
- (4) Energy vulnerabilities

## Summary Statistics

For the year ended December 31	2011E	2010E	2009	2008	2007
Nominal GDP (US\$ bn)	202	188	164	171	164
GDP per capita (US\$)	11,711	10,939	9,668	10,193	9,900
Real GDP growth (% change yoy)	5.8%	5.0%	-1.5%	3.7%	4.7%
Inflation (yearend, %)	3.3%	3.6%	-1.4%	7.1%	7.8%
Interest rate (TPM, yearend)	5.5%	3.5%	0.5%	8.3%	6.0%
Exchange rate (CPL/USD, average)	535	530	560	522	522
Current account balance (% GDP)	-2.1%	-0.8%	2.6%	-1.5%	4.5%
Central government balance (% GDP)	N/A	-1.7%	-4.4%	4.8%	8.4%
Central government debt (% GDP)	N/A	9.8%	6.1%	5.2%	4.1%
Net public sector debt (% GDP)	N/A	-7.5%	-12.7%	-23.8%	-13.4%
Gross external debt (% GDP)	N/A	42.4%	40.9%	45.3%	32.2%



## Rating Update (Continued from page 1.)

With \$14.7 billion saved offshore (Chilean Sovereign Wealth Funds) and \$25.4 billion in international reserves, Chile is a net public creditor. Furthermore, there has been strong political consensus in favor of the macroeconomic policy framework across several administrations, and this is one of Chile's biggest strengths.

Chile has sustained strong economic growth and improving standards of living for the last two decades. From 1990 to 2009, the economy grew at an average annual rate of 5.2%, real GDP per capita doubled and the poverty rate declined from 38.6% to 15.1%. On January 11, 2010, Chile became the first South American member of the Organization for Economic Cooperation and Development (OECD).

While OECD membership reflects progress in economic and social development, it also highlights the country's long-term challenges. First, Chile is a small, open economy with 60% of exports concentrated in the mining sector. Although Chile's macroeconomic policies are designed to dampen the effect of copper price fluctuations on the real economy, economic growth and fiscal revenues are exposed to the commodity price cycle. Second, GDP per capita is only 43% of the OECD average, and educational outcomes do not compare favorably with other OECD countries or emerging economies in East Asia. Improvements in the quality of education and microeconomic reform could help sustain higher rates of growth and accelerate the convergence in labor productivity.

DBRS will continue to monitor how the government addresses the country's social development needs during reconstruction. Improvement in Chile's credit profile partly depends on reforms that facilitate productivity-driven growth. This, in addition to ongoing attention to structural concerns, including efforts to improve the quality of education, reduce income inequality and broaden the export base, could put upward pressure on the ratings in the coming years.

## Foreign Versus Local Currency Ratings

DBRS rates the local currency one notch above the foreign currency because Chile has more flexibility to generate financing in local markets than in foreign markets.

## Rating Considerations Details

### Strengths

**(1) Sound macroeconomic policy management.** Chile's macroeconomic framework – comprising a rules-based fiscal policy, an independent Central Bank guided by an inflation-targeting regime, a flexible exchange rate, and openness to trade and foreign investment – has supported the country's strong economic performance and enhanced the economy's resilience to external shocks.

**(2) Low public sector debt.** Chile has one of the most favorable debt profiles among emerging sovereigns. At the end of 2009, central government debt was 6.1% of GDP. Including Chile's large fiscal savings and international reserves, the public sector had a net creditor position of 12.7% of GDP.

**(3) Well-developed domestic capital markets.** The Chilean market is one of the deepest and most sophisticated in Latin America, with a large investor base and a strong regulatory framework. Local markets also offer a wide variety of financial instruments to hedge against exchange rate risk. This has been a key source of stability during periods of external volatility.

**(4) Strong and stable political institutions.** Chile's strong political institutions provide a stable foundation for the country's economic prosperity. By international standards, Chile has low corruption levels, high government effectiveness and a strong legal system.

### Challenges

**(1) High income inequality.** While real GDP-per-capita has doubled since 1990 and successive governments have made steady progress in reducing poverty, Chile continues to suffer from highly unequal income distribution. In 2009, the poorest 20% of the population received 3.6% of national income (not including fiscal subsidies), while the wealthiest 10% received 40.2%.

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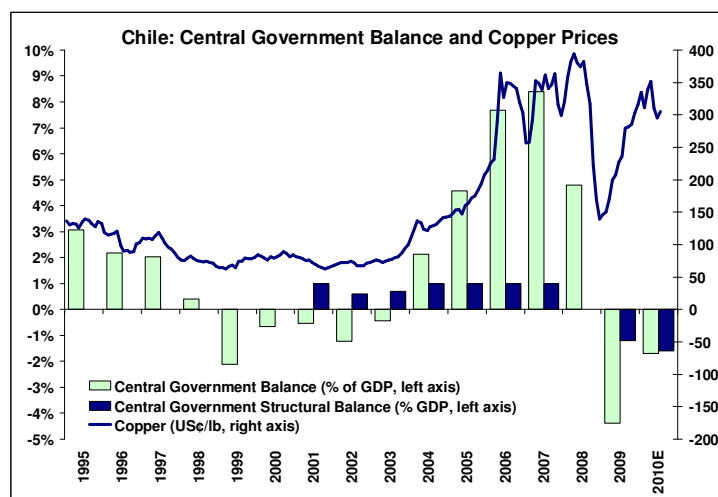
**(2) A small, open economy and narrow export base.** Although industrial exports have doubled since 2002, Chile is highly dependent on copper. In 2009, 60% of exports were concentrated in the mining sector, exposing the economy to fluctuations in the price of copper.

**(3) Low quality of education compared to advanced economies.** A better trained and educated workforce is necessary to raise labor productivity, enhance international competitiveness and sustain higher rates of economic growth. Chile has increased public spending on education and reformed the educational system. However, Chilean students' performance on international science and math assessments do not compare favorably with those from OECD countries or emerging economies in East Asia. DBRS recognizes that improving Chile's educational outcomes is a long-term challenge.

**(4) Energy vulnerabilities.** Chile has responded to energy supply disruptions by investing in coal-fired plants, diesel turbines, hydropower and two liquefied natural gas (LNG) terminals. However, Chile continues to import two-thirds of its energy needs, leaving it subject to supply shocks and swings in world energy prices.

**Fiscal Management and Policy**

Strong fiscal institutions anchor Chile's macroeconomic stability. Guided by the structural balance rule, Chile ties spending to cyclically-adjusted revenues and directs the government to save any surplus. Structural revenues are estimated based on the long-term reference price for copper (US\$2.13/lb for the 2010 fiscal year) and molybdenum (US\$20.5/lb), as well as GDP growth potential (4.2%). Consequently, fiscal policy is countercyclical, running deficits when growth and commodity prices are below trend, and accumulating surpluses when growth and the external environment are favorable. Chile's rules-based policy has helped mitigate the effect of commodity price fluctuations on the real economy, build a reserve of public savings and provide a credible anchor for fiscal sustainability over the medium term.



Note: The structural balance rule was implemented in 2001.  
Source: DIPRES, DBRS.

Chile implemented strong countercyclical fiscal policy in 2009 to cushion the effects of a severe external shock. The central government balance shifted from a surplus of 4.8% of GDP in 2008 to a deficit of 4.4% in 2009. Revenues declined 21.1%, in real terms, primarily driven by the sharp decline in copper-related tax revenue. At the same time, spending rose 18.2% as the government increased public investment and provided temporary subsidies to low-income families. In the first half of 2010, buoyant copper prices and strengthening domestic demand boosted tax revenues and led to a surplus of 0.8% of GDP. However, spending is expected to accelerate in the second half of the year, driven by reconstruction efforts. The government projects an overall deficit of 1.7% of GDP in 2010.

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<b>Public Finances</b>				
(Billions of Pesos)				
<b>Central Government Finances</b>	<b>2010E</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Taxes	17,160	13,347	16,473	16,166
Income on Assets	436	656	765	651
Social contributions	1,452	1,372	1,289	1,149
Transfers from public enterprises	3,420	2,132	3,728	4,607
of which: copper	2,929	1,593	3,199	4,142
Grants & other	576	862	673	590
<b>Total Revenue</b>	<b>23,045</b>	<b>18,369</b>	<b>22,929</b>	<b>23,163</b>
<b>% of GDP</b>	<b>23.2%</b>	<b>20.1%</b>	<b>25.7%</b>	<b>27.0%</b>
Consumption	5,796	6,269	5,245	4,773
Social benefits	5,472	4,591	4,084	3,590
Subsidies, grants & other	7,623	6,791	5,520	4,305
Interest payments	322	475	440	521
<b>Current Expenditure</b>	<b>19,213</b>	<b>18,126</b>	<b>15,288</b>	<b>13,190</b>
Gross investment	2,089	2,477	2,016	1,789
Net capital transfers	2,079	1,808	1,375	984
June Budget Adjustment	1,403			
<b>Total Expenditure</b>	<b>24,784</b>	<b>22,411</b>	<b>18,680</b>	<b>15,964</b>
<b>% of GDP</b>	<b>24.9%</b>	<b>24.5%</b>	<b>20.9%</b>	<b>18.6%</b>
<b>Primary balance</b>	<b>-1,418</b>	<b>-3,567</b>	<b>4,689</b>	<b>7,720</b>
<b>% of GDP</b>	<b>-1.4%</b>	<b>-3.9%</b>	<b>5.3%</b>	<b>9.0%</b>
<b>Central government balance</b>	<b>-1,740</b>	<b>-4,043</b>	<b>4,249</b>	<b>7,199</b>
<b>% of GDP</b>	<b>-1.7%</b>	<b>-4.4%</b>	<b>4.8%</b>	<b>8.4%</b>

Source: DIPRES, DBRS.

Thanks to years of exemplary fiscal management, Chile has the financial capacity to carry out reconstruction without putting a strain on public finances. The government estimates that post-earthquake reconstruction will cost \$8.4 billion over the next four years. Although Chile could finance the entire reconstruction effort with its offshore fiscal savings, the government has designed a more balanced financing plan, which includes tax changes, budget reallocations, the sale of non-priority public assets and borrowing. The financing mix aims to limit peso appreciation, which would erode competitiveness, and save Social and Economic Stabilization Fund (FEES) resources for future countercyclical needs.

Due to the severity of the global financial crisis, the structural deficit was 1.2% of GDP in 2009 – the first structural deficit since the structural balance rule was introduced. With the reconstruction plan, the 2010 structural deficit is projected to increase to 1.6% of GDP. While public investment and social programs will continue to put pressure on spending going forward, the new administration is committed to achieving a structural balance by 2014. Moreover, the government is currently considering ways to incorporate an accounting mechanism for non-cyclical events in order to add greater transparency and accountability to the structural balance rule.

## Debt and Liquidity

As a net public creditor, Chile has one of the most favorable debt profiles among all emerging sovereigns. The government has used surpluses generated by high copper prices to pay down debt and accumulate fiscal savings. In 2009, central government debt was 6.1% of GDP. If Chile borrows \$7.8 billion in 2010, as the budget law permits, central government debt will approach 10% of GDP by year-end. In addition to \$3.8 billion in the Public Treasury (June 2010), fiscal savings held abroad include \$10.8 billion in the FEES and \$3.7 billion in the Pension Reserve Fund (FRP). On a net basis, including international reserves, the public sector had a creditor position of 12.7% of GDP at the end of 2009.

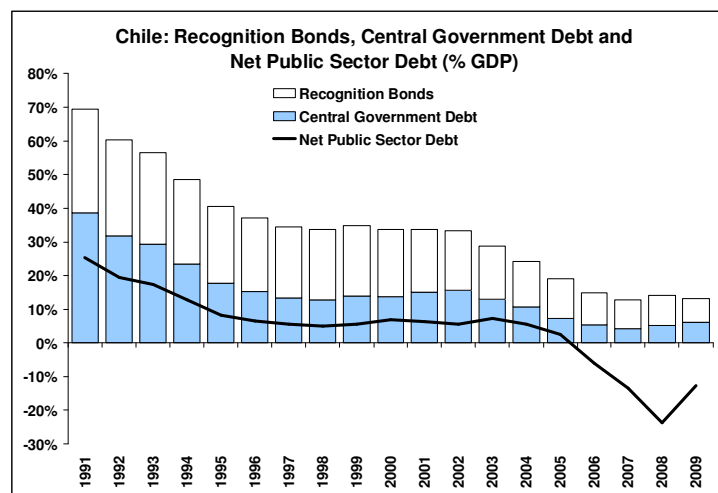
In addition to low debt and large fiscal savings, the public sector balance sheet also benefits from Chile's transition from a pay-as-you-go (PAYG) pension system to a private pension system, a process that began in 1981. Workers who moved to the new system receive a "recognition bond" at the time of retirement representing the value of benefits accrued under the old system. In effect, the transition replaced the implicit liabilities of an underfunded pension system with explicit debt. From 1984 to 2009, the stock of outstanding

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recognition bonds declined from 44.1% of GDP to 7.0%. Benefits for those workers who chose to remain in the old system are financed as part of the governmental budget each year, resulting in a perennial operational deficit. The deficit declined from 4.7% of GDP in 1984 to 2.0% in 2009, and is expected to fall below 0.5% by 2035. Unlike most advanced economies, Chile has gradually reduced the implicit and explicit obligations associated with its pension system and lifted a significant burden from the public sector balance sheet.



Note: Recognition Bonds are not included in the central government or net public sector debt figures.  
Source: Banco Central de Chile, Ministerio de Hacienda, DBRS.

The Chilean economy benefits from strong external solvency and liquidity ratios. Gross external debt increased to \$74.0 billion in 2009 (40.9% of GDP) but remains within historic norms. This was accompanied by an improvement in Chile's net international investment position in 2009 to -11.9% of GDP as Chile's institutional investors, principally pension funds, increased foreign holdings. Chile is also well-positioned to confront a potential return to scarce external financing conditions. With \$14.7 billion in offshore fiscal savings and \$25.4 billion in international reserves, Chile has sufficient liquidity to cover all external debt maturing in the next 12 months.

Looking ahead, Chile's debt management strategy is focused on developing liquid yield curves. In July 2010, Chile issued a \$1 billion ten-year global bond and a \$500 million peso-denominated global bond, Chile's first local currency global issuance. With only two global bonds outstanding (Global 2012 and Global 2013), the new issuances aim to create liquid external benchmarks that can serve as a reference for domestic issuers. In the domestic market, issuance is likely to focus on feeding points on the curve that are under-supplied. Chile issued \$3 billion in inflation-indexed 5-, 10-, 20-, 30- and nominal 10-year bonds in the first six months of 2010, and debt authorities plan to issue another \$3 billion in the second half of the year, including a new seven-year bond.

## Economic Structure and Performance

Although the earthquake and subsequent tsunami led to immediate production losses, the damage will not present a long-term disruption to economic growth. The economy is rapidly recovering, with domestic demand increasing 19.4%, in annual terms, in the second quarter. Furthermore, reconstruction is likely to add stimulus to the economy in the second half of 2010 and in 2011. The Central Bank estimates that 3% of the capital stock was damaged by the earthquake, suggesting a moderate decline in the economy's productive capacity. However, high public and private investment in the coming years will rebuild the capital stock and support growth in the affected regions.

Over the last two decades, Chile's prudent macroeconomic policies, openness to international trade and investment and stable political environment helped sustain strong economic growth and higher standards of living. From 1990 to 2009, the economy grew at an average rate of 5.2%, real GDP-per-capita doubled and the poverty rate declined from 38.6% to 15.1%. In January 2010, Chile became the first South American member of the OECD.

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While OECD membership reflects the progress that Chile has made in the areas of economic and social development, it also highlights some of the country's long-term challenges. Chile's GDP-per-capita is only 43% of the OECD average. Reductions in income inequality, improvements in the quality of education and microeconomic reforms are likely needed to sustain higher rates of growth and accelerate the convergence in labor productivity.

Despite significant success in reducing poverty, Chile's income distribution is among the most unequal in the world. According to the 2009 Chilean National Socio-Economic Characterization Survey, the poorest 20% of the population received only 3.6% of national income, while the wealthiest 10% received 40.2%. While the government has increased transfers and social expenditures, income equality has remained stubbornly high since 1990, creating uneven economic growth and perpetuating disparities in social development. In addition, Chile's education outcomes do not compare favorably with those of other OECD countries. Chilean students score below all OECD countries, with the exception of Turkey and Mexico, on international science assessments, and below all OECD countries, with the exception of Mexico, on math assessments.

Labor market rigidities, such as high firing costs, contribute to the persistence of an informal economy and low productivity growth. According to the World Bank's *Doing Business 2010*, the notice requirements, severance payments and penalties due when terminating a redundant worker in Chile is equivalent to 52 weeks of salary, slightly below the Latin American average (53 weeks) but double the OECD average (27 weeks). In addition, the high costs associated with starting and closing a business discourage firm creation and entrepreneurship. Starting a business in Chile takes 27 days (compared with the OECD average of 13 days), and the bankruptcy process is among the most inefficient in the world. The new administration has recognized the importance of these issues and announced an ambitious reform agenda to raise productivity growth.

Sustaining economic growth also depends on Chile's ability to establish secure sources of energy. Due to rising energy demand and limited domestic resources, the country is highly dependent on imports, importing 65% of its energy needs in 2008. Chile has responded by diversifying its suppliers and investing in a broader energy matrix. In 2009, Chile opened two LNG terminals, reducing dependency on Argentine natural gas and partially offsetting the demand for other dirtier and more expensive fuels. In addition, Chile is increasing domestic electricity generation from coal-fired plants, diesel-fired turbines and hydroelectric sources, and developing plans to expand transmission lines.

## Monetary Policy and Financial Stability

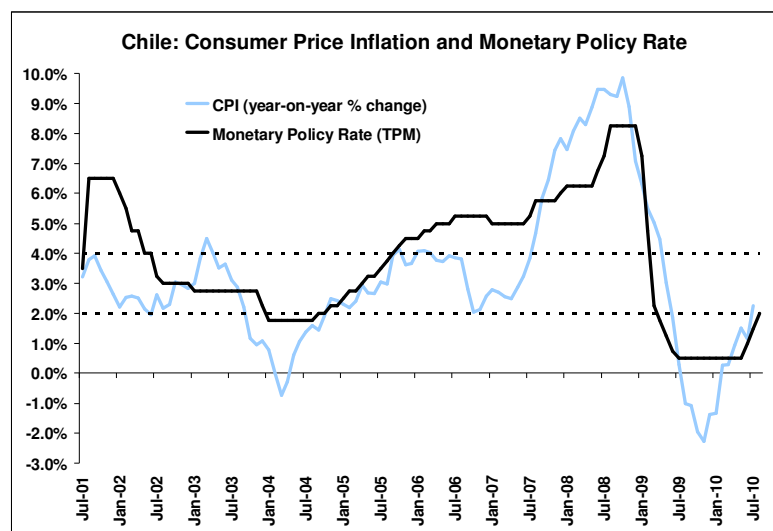
Independent monetary policy, a flexible exchange rate and a well-regulated financial system strengthen Chile's policy framework. Despite large price shocks over the past two years, the inflation targeting regime has effectively anchored inflation expectations on the 3% target over a 24-month horizon.

Rising international food and energy prices, in addition to strong domestic demand, led Chile's annual inflation to climb well above the target range in 2007 and 2008. With the onset of the global recession and the decline in commodity prices in late 2008, inflationary pressures quickly dissipated. Annual CPI declined from 9.9% in October 2008 to -2.3% in November 2009. Chile is particularly sensitive to supply-side shocks, in large part due to the fact that it does not mitigate price fluctuations of fuel consumption to the same extent as many other emerging economies and, therefore, pass-through from international commodity prices to domestic retail prices is high. This relative sensitivity is also a reflection of the highly open and integrated nature of the Chilean economy.

While the supply-side impact of the February earthquake on inflation was limited, the demand-side effects are likely to contribute to upward price pressures, particularly as reconstruction gets into full swing. In July, annual inflation reached 2.2% – within the target range – and, according to a survey by the Central Bank, inflation is expected to rise to 3.6% in the second half of the year before stabilizing around the target over the policy horizon. With unemployment declining and the output gap narrowing, the Central Bank started tightening monetary policy in June 2010. The accumulated rate increase through August has been 150 basis points. With real short-term interest rates still close to zero, the tightening process is likely to continue in order to maintain price stability and avoid an over-expansionary impulse.

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Source: Banco Central de Chile, DBRS.

The Chilean banking system demonstrated resilience during the global financial crisis and is well-positioned to support the recovery. Banks are highly capitalized, profitable and have a low level of non-performing loans. Credit to the private sector, measured in real annual terms, has been growing since February 2010. Furthermore, the overall impact of the earthquake on the banking system was limited. In the regions most affected, credit quality has deteriorated among small and medium-sized firms as well as households, but banks are well-provisioned to manage expected losses. While external volatility could restrict access to funding and affect financial conditions in Chile, banks are adequately prepared to manage potential liquidity pressures.

While it lacks the depth of many advanced economies, Chile's local bond market has rapidly grown over the last decade and is one of the deepest and most sophisticated in Latin America. Importantly, the local market provided larger Chilean firms with an alternative source of funding during the recent turbulence in international financial markets. From 2000 to 2009, the number of companies with bonds in the local market increased from 44 to 103, and outstanding corporate debt increased from 5.1% of GDP to 16.5%. The new administration is proposing a new round of capital market reforms, including simplification of derivative taxation, greater consumer protection and bankruptcy reform, with the objective of increasing market depth, transparency and accessibility.

### Balance of Payments

Chile's balance of payments weathered the global financial crisis well. This is largely due to the country's strong fiscal and monetary institutions, flexible exchange rate and developed domestic capital markets. However, the crisis also highlighted the fact that Chile is a small, open economy with a very narrow export base. In 2009, 60% of exports were concentrated in mining. Although Chile's macroeconomic policies are designed to dampen the effect of copper price fluctuations on the real economy, it is clear that the economy is exposed to the commodity price cycle.

In 2009, the current account swung into a surplus of 2.6% of GDP due to a higher trade surplus and a lower income deficit. While exports declined by 19.2%, primarily due to the decline in copper prices, imports fell 31.0%, driving the trade surplus higher from 5.2% of GDP in 2008 to 8.5%. This was accompanied by a decrease in profit repatriation in the income balance, as lower copper prices drove down earnings of foreign mining companies. On the other hand, the financial account shifted from a surplus of 0.5% of GDP in 2008 to a deficit of 2.5% in 2009. This was the result of the decline in inward foreign direct investment, though still high by regional standards at 7.8% of GDP, and an increase in outward portfolio flows, led by the local pension funds which invested \$17.2 billion (10.5% of GDP) abroad.

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The earthquake caused limited damage to Chile’s mining sector. The largest copper mines, which are mainly located in the north of the country and far from the epicenter, suffered little structural damage. Non-copper exporters in the earthquake region – principally pulp and wood producers – were temporarily affected but are quickly recovering. Earthquake reconstruction and strong domestic demand will likely lead to a sharp increase in imports in 2010 and 2011, driving down the trade and current account surpluses.

Strong commodity demand in Asia, particularly China, has supported rapid export growth in Chile and shifted the direction of Chilean trade. From 2005 to 2009, exports to Asia increased from \$15.2 billion to \$24.5 billion, accounting for 75% of the growth in Chile’s exports. Although exports by destination remain well diversified, China has quickly become Chile’s largest trading partner. In 2009, 23.2% of Chile’s exports went to China, up from 11.6% in 2005. China is key driver of global copper demand and international prices. A sharp deceleration in China’s economic activity would likely have an adverse impact on Chile’s export sector.

**Political Environment**

<b>Last election:</b>	December 13, 2009 / January 17, 2010
<b>Next election:</b>	December 2013
<b>Party in power:</b>	Coalición por el Cambio (a coalition comprising of Renovación Nacional and the Unión Demócrata Independiente)
<b>Senate:</b>	Concertación holds 19 of 38 seats
<b>Chamber of Deputies:</b>	Coalición por el Cambio holds 58 of 120 seats

The victory of conservative Sebastián Piñera in the January presidential run-off elections marked the first loss for the leftist coalition Concertación since the country’s return to democracy in 1990. Piñera won 52% of the vote against former president Eduardo Frei. The alternation of power demonstrates the strengthening foundations of Chile’s liberal democracy.

There is consensus across the political spectrum on Chile’s sound macroeconomic policy framework, one of country’s greatest strengths. DBRS also expects continuity in the country’s main social programs. However, the new administration has an ambitious economic agenda. In addition to reconstruction, President Piñera is advocating major reforms to the education system, labor market and public bureaucracy. Without an absolute majority in Congress, Piñera’s coalition will seek congressional allies on an issue-by-issue basis to achieve its legislative goals.

Chile is a stable democracy with strong political institutions. By international standards, Chile has low corruption levels, high government effectiveness and a strong legal system. The 2009 World Bank *Worldwide Governance Indicators* ranked Chile above many industrialized countries, including Japan and Italy, in several categories. The fact that the government has maintained its emphasis on improving social conditions in a manner that is consistent with sustainable public finances suggests that creditworthiness will continue to strengthen.

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**Chile: Selected Indicators**

For the year ended December 31

(US\$ billions unless otherwise noted)

	2009	2008	2007	2006	2005	2004	2003
<b>Public Debt</b>							
Central Government	11.1	7.3	7.1	7.7	9.4	11.1	11.1
% GDP	6.1%	5.2%	4.1%	5.3%	7.3%	10.7%	13.0%
Public Sector	39.8	27.0	25.2	28.3	31.5	29.9	28.5
% GDP	22.0%	19.0%	14.6%	19.4%	24.5%	28.7%	33.4%
Net Public Sector	-22.9	-33.7	-23.3	-8.9	3.3	5.7	6.1
% GDP	-12.7%	-23.8%	-13.4%	-6.1%	2.5%	5.5%	7.2%
Consolidated Public Sector	51.5	36.5	33.7	35.8	38.4	35.9	33.8
% GDP	28.5%	25.7%	19.5%	24.6%	29.9%	34.5%	39.6%
<b>Domestic Debt</b>							
Central Government	8.6	4.4	3.4	3.5	5.1	6.2	6.4
% GDP	4.7%	3.1%	2.0%	2.4%	4.0%	5.9%	7.5%
<b>External Debt</b>							
Central Government	2.5	2.9	3.7	4.2	4.2	4.9	4.7
% GDP	1.4%	2.1%	2.1%	2.9%	3.3%	4.8%	5.5%
Consolidated Public Sector	13.8	12.3	12.8	11.4	9.8	9.8	9.3
% GDP	7.6%	8.7%	7.4%	7.9%	7.6%	9.4%	10.9%
Private Sector	60.3	52.0	43.0	38.1	36.4	33.7	33.8
% GDP	33.3%	36.7%	24.8%	26.1%	28.2%	32.3%	39.6%
Gross External	74.0	64.3	55.7	49.5	46.2	43.5	43.1
% GDP	40.9%	45.3%	32.2%	34.0%	35.9%	41.8%	50.5%
Net External	34.0	18.4	23.3	30.1	29.2	27.5	27.2
% GDP	18.8%	13.0%	13.5%	20.6%	22.7%	26.4%	31.9%
% of Exports	49.1%	21.4%	27.2%	41.0%	55.6%	66.6%	94.3%
<b>Fiscal Balances (% GDP)</b>							
Central Government Balance	-4.4%	4.8%	8.4%	7.7%	4.6%	2.1%	-0.5%
Revenues	20.1%	25.7%	27.0%	25.8%	23.8%	22.0%	20.7%
Expenditures	24.5%	20.9%	18.6%	18.2%	19.3%	19.9%	21.2%
Interest Payments	0.5%	0.5%	0.6%	0.7%	0.8%	1.0%	1.1%
Interest Payments (% Revenues)	2.6%	1.9%	2.3%	2.7%	3.5%	4.4%	5.6%
<b>Balance of Payments &amp; Liquidity</b>							
Current Account Balance	4.2	-2.5	7.5	7.2	1.4	2.1	-0.8
% GDP	2.6%	-1.5%	4.5%	4.9%	1.2%	2.2%	-1.1%
Trade Balance	14.0	8.8	23.9	22.8	10.8	9.6	3.7
Net Foreign Direct Investment (% GDP)	2.9%	4.2%	6.1%	3.5%	4.1%	5.9%	3.7%
External Liquidity Ratio (%)	118%	114%	120%	112%	102%	107%	105%
International Reserves	25.4	23.2	16.9	19.4	17.0	16.0	15.9
Economic and Social Stabilization Fund	11.3	20.2	14.0	-	-	-	-
Pension Reserve Fund	3.4	2.5	1.5	0.6	-	-	-
Copper price (US\$/cent/pound)	234	315	323	305	167	130	81
International Investment Position	-19.6	-30.2	0.7	-15.7	-32.7	-30.2	-37.5
% GDP	-11.9%	-17.7%	0.4%	-10.7%	-27.6%	-31.6%	-50.7%
External Liabilities	208.2	173.1	163.9	136.7	124.6	106.2	98.5
External Assets	188.7	142.9	164.6	121.0	91.9	76.0	61.0

Sources: Central Bank of Chile, Ministry of Finance and Public Credit, BIS, IMF, World Bank, DBRS.

Notes: Public Sector includes the central government, municipalities and the Central Bank of Chile. Net public sector is the sum of public sector financial liabilities and financial assets. Consolidated public sector includes the public sector and state-owned enterprises. Gross external debt is the sum of public and private external debt. Net external debt is gross external debt minus international reserves and sovereign wealth fund assets. Debt figures are converted into dollars using end-of-period exchange rates. External Liquidity Ratio = (international reserves + sovereign wealth fund assets + exports of goods, services, income, net transfers) / (amortizations + short-term debt + imports of goods, services, income).



## Republic of Chile

**Report Date:**  
September 7, 2010

### Ratings

Debt	Rating	Rating Action	Trend
Long-Term Foreign Currency Debt	A (high)	Confirmed	Stable
Long-Term Local Currency Debt	AA (low)	Confirmed	Stable

### Rating History

	Current	2009	2008	2007	2006
Long-Term Foreign Currency Debt	A (high)	A (high)	A (high)	A (high)	A (high)
Long-Term Local Currency Debt	AA (low)	AA (low)	AA (low)	AA (low)	NR

**Note:**

All figures are in U.S. dollars unless otherwise noted.

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