Chile INVESTMENT REVIEW

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Dear Investment Review readers:

President Michelle Bachelet recently honored me by appointing me Executive Vice-President of the Foreign Investment Committee. I look forward to working with the Ministers of the Committee and its President, Minister Ingrid Antonijevic, as well as with other government agencies and economic actors of the private sector, in the common task of promoting foreign investment in Chile.

In a globalized world this is clearly a challenging task, but I believe that Chile offers unique advantages, both to the investors that are already in the country, as well as to those looking for the right location to invest. Chief among these advantages is our country's political, economic and social stability, firmly grounded in the rule of law. Additionally, Chile has an economy which is open to the world, and which guarantees non discriminatory treatment to all investors, both domestic and foreign. Our network of investment and trade agreements grants investors the opportunity to use Chile as a platform for business, both in Latin America and beyond.

I believe that foreign investment is a tool for greater economic and social development in our country, not only in Santiago but also in our twelve regions that extend from the Atacama Desert to Antarctica. I also believe that Chileans and foreign companies can learn from each other in areas such as best practices, corporate social responsibility and the regulation of the environmental impact of investment.

As Executive Vice-President, I would like to extend an invitation to all investors to get to know Chile and the opportunities we have to offer. I believe you will find an ideal combination of a favorable business environment and a high standard of living.

Carlos Eduardo Mena

VELASCO SAYS CHILE'S ECONOMY TO GROW NEAR 6%

Chile's economy will likely expand near 6% for a third year in 2006, boosting revenue for expanded social services from the government, Finance Minister Andres Velasco said.

Velasco said the economy will probably match the growth rate of the past two years, when it expanded 6.2% and 6.3%, spurred by investment and record prices for copper, Chile's top export.

"The economy should continue to grow at comparable rates," Velasco said today at a conference in Santiago. "Countries can grow and be competitive, and at the same time be socially responsible."

Chile's government wants to ensure that a seventh year of economic expansion in 2006 reaches the nation's poor. The government plans to raise pension payments for the elderly poor and increase competition among the country's pension fund managers, which have higher profit margins than other industries, including banking, Velasco said.

Bloomberg, April 6

CHILE 2005 GDP GROWTH 6.3 PCT, FASTEST IN 8 YEARS

Chile's gross domestic product expanded 6.3 percent in 2005, its strongest rate of growth in eight years, as construction boomed, consumer demand soared and prices for its top export copper hit repeated record highs.

The result reported by the central bank on Thursday was just over the 6.1 percent median forecast of eight economists in a Reuters poll and was the strongest since 1997, when Chile's economy grew 6.6 percent.

Chile is the world's biggest copper producer; a major exporter of molybdenum, a mineral used in steel alloys for jet engines; wood pulp and boards; farmed salmon and fish meal; and fresh fruit and wine. Exports rose 6.1 percent last year over 2004.

Economists said that major drivers of growth last year were domestic demand -- retail sales growth were their highest in seven years -- as well as soaring imports to feed booming construction for public works projects and business expansion.

Major wood products manufacturers are expanding plants, salmon farmers are widening operations and miners, fertilizer and chemical firms are also investing in increased production.

Imports of goods and services jumped 20.4 percent, the central bank said.

"The figures reflect good growth and bode well for 2006 for two reasons: international prices (for commodities) are very solid, as well as domestic demand, especially investment which means there will be a bigger rise in productive capacity and sales," said Joseph Ramos, dean of the economy school at the University of Chile.

The central bank said domestic demand, which measures business investment and consumer spending, rose 10.1 percent in the fourth quarter compared with the same quarter a year earlier.

Domestic demand in full-year 2005 grew 11.4 percent compared with 2004.

Consumers have joined the economic fiesta in Chile. Retail sales grew 8.7 percent last year to $29.8 billion, the biggest expansion in seven years, and consumer lending rose 20.33 percent last year.

Gross domestic product grew 5.8 percent in the fourth quarter of 2005 compared with the same quarter a year earlier, and picking up pace from 5.2 percent in the third quarter, the central bank also said. The quarterly result was just below the 5.9 percent median forecast in the Reuters poll.

Bertrand Delgado, an economist with IDEAglobal research firm in New York, forecasts 5.5 percent expansion in gross domestic demand this year, mostly supported by domestic demand and also by exports.

"Investment will likely decline from these high levels that are currently in place. On infrastructure, building will continue however, in a more moderate way," Delgado said.

He said manufacturers who produce goods for the local market will be hurt by cheap imports due to the strength of the peso currency against the dollar, "but industries that export will continue to be responsive to still favorable external conditions."

The central bank estimates GDP growth of between 5.25 percent and 6.25 percent growth this year. Chile's economy grew 6.1 percent in 2004.

While mining output will probably not shoot up this year, since substantial investment in mining expansions are not expected to come on line until next year, Chile will still benefit from high copper prices.

The average copper price was $1.67 per lb in 2005, 28.5 percent higher than in 2004, and the government copper research body projects a $1.72-$1.76 per lb average this year, while some miners think it could top $2.00 per lb.

Reuters, March 23

CHILE'S CENTRAL BANK RAISES RATE, AS EXPECTED

Chile's central bank hiked its benchmark interest rate, as expected, on Thursday and said future rate hikes were still needed and that the timing would depend on economic growth, the exchange rate, and inflation.

The bank raised the rate by a quarter-percentage point to 5.0 percent, which was what most economists and traders polled by Reuters had expected at the monthly monetary policy meeting.

In its decision, the central bank cited record high prices for copper, Chile's main export; vigorous jobs growth; inflation at the high range of the bank's target range; and first-quarter economic growth somewhat weaker than expected.

Inflation in the 12 months ending in March was 4.0 percent.

Some economists had said the bank might choose to keep the rate at 4.75 percent in an effort to tame the appreciation of the peso currency, which has strengthened on an in-flow of dollars from copper revenue.

The bank indicated it would keep an eye on the exchange rate as it gauges the need for further rate hikes.

"In the most likely scenario, slow adjustments in the interest rate continue to be necessary to maintain projected inflation at around 3 percent a year... The timing of these adjustments will depend on the implications of news of (economic) activity, the exchange rate and prices," the central bank said in a statement.

Tomas Flores, economist with the Liberty and Development Institute in Santiago, said he had expected the bank to keep the rate steady since domestic demand has softened somewhat and because of the strong peso currency.

"Maybe they are trying to be more proactive than last year. This hike should be followed by a couple of months without movement in the interest rate. So, July would be the next hike," Flores said.

Reuters, April 13

COPPER PUSHES CHILE TRADE SURPLUS TO RECORD HIGH

Chile's March trade surplus soared to an all-time high of $2.198 billion driven by record prices of the country's leading export copper, the central bank said on Friday.

The March trade surplus was more than double February's surplus of $1.039 billion and 82% higher than last March when it was $1.205 billion.

The number also beat the median forecast of $1.650 billion in a Reuters poll.

Chile is the biggest world producer of copper and prices for the metal have been on a monster rally, hitting successive record highs. Copper prices this week topped $2.64 per lb, a historic peak.

Chile's copper exports in the first three weeks of March were worth $1.877 billion, the central bank said. Full-month copper exports will be announced on April 17.

March exports were $5.112 billion, up 36% from March last year, and the highest ever for a single month in Chile, according to the central bank.

Imports in April were $2.914 billion, up 14% from a year earlier, the central bank said, and also a record high.

The peso currency opened stronger after the trade data, trading at 517.70 per U.S. dollar after closing on Thursday at 519.00 per dollar. The peso has strengthened for eight consecutive sessions, partly due to record high copper income flooding Chile with dollars.

Reuters, April 7

CHILEAN COPPER EXPORTS RISE TO RECORD AS DEMAND JUMPS

Chile, the world's biggest producer of copper, said its exports of the metal surged 63 percent in March from a year earlier after rising demand in China pushed prices to a record.

Exports climbed to an all-time high of $2.7548 billion in March from $1.6895 billion in March 2005, the Santiago-based central bank said today on its Web site.

“It's going to be a record year,” said Luis Aliste, who helps manage $1.8 billion in securities in Santiago at Cia. de Seguros Vida Corp.

Chile, along with other South American commodities exporters such as Peru and Brazil, has benefited from rising demand as China's economy expands. Prices for copper, which have doubled in a year, rose today to a record in New York and Shanghai after China's President Hu Jintao said his country's economic growth quickened to 10.2 percent in the first quarter. China is the world's biggest user of copper.

“The story is China going from a small part of the market to being a major consumer,” Richard Adkerson, chief executive officer at Freeport-McMoRan Copper & Gold Inc., the owner of the world's second-largest copper mine, said April 6.

Copper for May delivery gained 7.15 cents, or 2.5 percent, to $2.8870 a pound on the Comex division of the New York Mercantile Exchange at 11:50 a.m. New York time, and earlier rose to a record $2.9350 a pound.

Adkerson said that he sees few major copper mines coming into production, in an interview in Santiago.

Worldwide Demand

The lack of development of new deposits contrasts with the 1990s, when large mines were being developed, including Escondida in Chile, the world's largest copper mine. Demand for copper in 2005 outpaced production worldwide for a third year, according to the Chilean Copper Commission, a state-run research group.

Chile will report March output of copper on April 27.

A surge in revenue from copper, the nation's top export, may extend a rally by the country's currency to as much as 500 pesos per dollar this week, Aliste said. Chile's peso gained 4.78 pesos, or 0.9 percent, to 511.22 pesos today, extending its 12-month gain to 14 percent.

Rising exports will widen the government's budget surplus, which set a record last year, Aliste said. The government owns Codelco, the world's largest copper producer and owner of almost 20 percent of the world's copper reserves.

Bloomberg, April 17

COPPER PRICES ATTRACT U.S. DOLLARS

The soaring price of copper is a mixed blessing for Chile, says Andrés Velasco, the country's finance minister. It is fueling economic growth, but it is also making the Chilean peso much stronger.

So Velasco is trying to figure out a way to keep so many U.S. dollars from pouring into the country.

Copper, which accounts for almost half of Chile's exports, hit a record $3.24 per pound on the London Metal Exchange on Tuesday. Just 18 months ago, Chilean officials were basing their budget projections on copper at $1 a pound.

As a result, the budget surplus last year was $5 billion. The economy has a strong trade surplus, healthy growth and low inflation. But in a dilemma shared by many resource-rich Latin American nations that have seen commodity prices soar in recent years, the U.S. dollar has lost nearly one-third of its value against the Chilean peso over the past three years and now trades around 520 pesos.

Other Exporters

Even though this constitutes just a 3 percent appreciation when measured over a 10-year average, Velasco says the trend is troubling as it could hurt non-copper exporters.

''It's something worth watching. It's something we need to worry about, but there's no cause for alarm yet," Velasco said in an interview Friday.

Velasco's solution: to divert some of the added copper revenue into new rainy-day funds, which would be allowed to invest overseas. One would be used to boost future pension payments starting 2016; the other would kick in to make up for any future shortfalls in copper revenues. A bill creating the funds will be sent to Congress next week, he says.

The price of Latin American exports relative to the price of imports -- known as the terms of trade -- are at the best level in two decades and currencies are surging as a result. Last year the local currency appreciated 28 percent in Brazil, 15 percent in Chile, 11 percent in Colombia, 9 percent in the Dominican Republic and 12 percent in Uruguay, according to the IMF.

Countries have few palatable options. Argentina has tried to keep its currency weak but has seen inflation creep up as a result, says Frederick Jaspersen, an economist with the Institute of International Finance, a group representing global banking institutions.

Economists say the idea of putting money in offshore funds is a good one. Norway has done that with its oil and natural-gas bonanza.

The problem is that Latin America has a mixed record on commodity funds, says Claudio Loser, a former head of the IMF's Western Hemisphere department.

Mexico's oil fund is too small relative to the size of its economy to make any difference, and Argentina has talked about setting up a fund but has never followed through.

Ecuador tried to set up the fund but ended up spending the money, he says, and Venezuelan President Hugo Chávez has repeatedly raided rainy-day oil funds.

"Chávez came along and started using the money . . . not for rainy-day purposes but as just another source of funding for expenditures," Loser says.

Diverting Money

The Venezuelan central bank and the state oil company, Petróleos de Venezuela, hav e been instructed to divert oil money to a special fund known as Fonden.

The government expects Fonden will accumulate $17.5 billion by the end of 2006, which will be spent on social programs and other initiatives, with little oversight on how it's done.

"It has contributed to an increased lack of transparency in Venezuela," says Jaspersen.

Chile is widely viewed as an economic model, so the way it handles its extra copper revenues will be closely watched, economists say, especially since the commodity bonanza may fizzle if world economic growth slows.

Velasco says the idea is to truly save the extra cash -- meaning the government won't offset the funds' potential benefits by running up more foreign debt.

He notes Chile has a proven track record of meeting its fiscal targets. The government has already put aside $1.2 billion over the years in two "copper stabilization" funds, as mandated by law.

But the funds were designed for much smaller fluctuations in copper prices. The idea is to merge the two funds and include the overseas investment option, he says.

And the mechanism governing the new funds will also be enshrined in a new law. "In Chile, the laws are abided," he notes.

The Miami Herald, April 26

WINE: CHILE EXPANDS ITS HORIZONS

If you're a regular reader of this column, I can only tender sincere apologies for saying something I've said many times. But it's something that can't be said too often, so my apologies are tempered by a sense of necessary tendentiousness. The something in question: in the wine market, just about everything depends on the crucial price bracket between £5 and £10.

This range is crucial because it represents the points between cost-driven buying and status-craving buying. Needless to say, there are good wines selling for less than a fiver and many outstanding bits of value for over £10. But that £5 to £10 range houses most of the wine most people should be aiming to drink regularly. Any region that can't do it has a problem, and needs to fix it ASAP.

Chile is one country that has recognised the need. It's long done well in the under-£5 region, with excellent growing conditions and fairly low production costs making it possible to sell some eminently serviceable wines at low prices. But all over the country, producers have recognised the need to expand their portfolio - and their image - beyond the cheap-and-cheerful category.

As part of that enterprise they have busily and intelligently expanded their geographical horizons. The warmer vineyard areas forming the core of the nation's production - Curico, Rapel and Maule - have been joined by more marginal areas, and wines from the newer areas, in many people's view, are often more interesting and exciting. Prime examples are the Limari Valley in the north of country, the Bio Bio Valley in the south, which is producing aromatic whites and lush Pinot Noir of tremendous distinction; and the Leyda Valley west of Santiago, planted with vines less than a decade ago but now producing some fantastic wine, both red and white. And as these areas mature, with winemaking experts learning how to exploit them fully, the picture can only get better. Its current happiness was abundantly illustrated by the many happy surprises at a recent tasting in London, which showed just how well the country is coming along in a broad spectrum of vinous offerings. Three of the best are highlighted on the right, all red. I could easily have picked out a slew of others, including the sweet and succulent Tabali Shiraz Reserva 2003 (£8.99, Sainsbury's) and the supple and smoky Case Leona Secano Estate Pinot Noir 2005 (£6.99, M&S). Among whites, there was plenty of good Sauvignon Blanc at friendly prices, such as the crisp and restrained Misiones de Rengo Sauvignon Blanc 2005 (£4.99, Morrisons), and the lemony-fresh Tesco Finest Tapiwey Vineyard Sauvignon Blanc 2005 (£7.99).

But some of the nicest surprises came in grape varieties and blends that one doesn't usually associate with Chile. Oddbins sells a blend of real class, Anakena Ona Riesling Viognier Chardonnay 2005 (£8.99), whose beguiling complexity and crisp acidity will put a big smile on anyone's face. Vintage Roots (tel: 0118 976 1999, www.vintageroots.co.uk) has small quantities of Coyam 2003 (£10.50), a blend of five grapes put to excellent use. Among single-variety wines, the shock was a cluster of good Gewürztraminer, ranging in style from lychee-syrup richness to an almost austere restraint. Concha y Toro Winemaker's Lot 17 Gewürztraminer 2004 (£7.49, Oddbins) was a star of the first type, Cono Sur Single Vineyard "El Marco" Gewürztraminer 2005 (£7.99, Majestic) a favourite in the second. More shocking still: a Petite Syrah, Carmen Reserve 2003 (£11.99, Threshers and Wine Rack) proves that the wild, brambly flavours of this sometimes unmemorable grape can work beautifully on their own.

I'm still reeling from all those surprises, and I look forward to the surprises still to come.

Belfast Telegraph, April 6

MOODY'S TO REVIEW CHILE'S CREDIT RATING FOR UPGRADE

Moody's Investors Service on Tuesday placed Chile's credit rating on review for possible upgrade on diminished debt risks associated with private-sector external borrowings.

The ratings on review are Chile's "Baa1" foreign-currency country ceiling for bonds and notes and the "Baa1" foreign-currency country ceiling for deposits.

Moody's current rating, unchanged since 1995, is two notches below Standard and Poor's and Fitch's "A" rating.

Moody's said the current economic policy framework has reinforced Chile's already strong credit fundamentals, and significantly improved external debt indicators as confirmed by a reduction in both the foreign currency debt-to-exports ratio as well the foreign currency debt service ratio.

The government's "Baa1" foreign-currency rating for bonds and notes has also been placed on review for possible upgrade.

The review will not extend to the government's local-currency rating, which is expected to remain at "A1."

Chile's local currency guideline is "Aaa."

The review will concentrate on private sector borrowers which accounts for 80 percent of the country's $44.8 billion total external debt and the extent to which most of the foreign debt exposure is hedged.

"Chile merits an upgrade from Moody's to the 'A-class' given strengthening fundamentals and reduced external vulnerabilities," Alberto Ramos, analyst at Goldman Sachs said in a research note. "Following the move to a positive outlook on February 2005 we expect a rating change to 'A3' possibly during the second half of 2006, if not earlier."

Moody's attaches particular weight to the fact that the external debt and external debt service ratio to current account receipts remain very high compared to those of the country's peers, which increases the vulnerability to exchange rate movements,analysts said.

Ramos said Moody's has defended rating inaction since 2003, in the face of an improving outlook, on the grounds that the rating was not downgraded following the Brazilian devaluation or the Argentine devaluation and subsequent default.

The agency however, will pay particular attention to the role of the structural fiscal surplus in sustaining a stable growth path associated with reduced balance of payments imbalances.

Reuters, March 21

CHILE'S SUCCESS COULD BE BACHELET'S BIGGEST CHALLENGE

Chile's first woman president, Michelle Bachelet, takes office on Saturday as her people enjoy an extended run of good fortune, and analysts say the biggest problem for her government could be that Chile has so few problems.

Citizens of Latin America's most stable economy are spending with abandon as companies expand and create new jobs. The government is pouring money into new highways and infrastructure as dollars flow into the country from booming exports of copper to Asia.

Outgoing President Ricardo Lagos, a member of the Socialist Party like Bachelet, is so popular he was greeted with a standing ovation by tens of thousands of U2 fans when he attended the Irish band's recent concert in Santiago.

Some political pundits say all this could make Bachelet too complacent to push for the changes that one of the region's best-run countries needs to launch itself into the developed world.

"She must be a president whose content, and not just her style, are different from Lagos'. Lagos did some very good things, but Chile needs to do a number of more good things to keep moving forward. Continuing the same policies will not make Chile a developed nation in 10 years," said Patricio Navia, a political scientist with New York University.

Navia said Bachelet must take steps to increase workers' productivity and to expand the economy. He also said he feared the Cabinet she has appointed will follow her orders with discipline without producing new ideas.

Bachelet is seen following Lagos' pragmatic blend of liberal social programs with a web of trade agreements that have boosted Chile's salmon and wood pulp exports.

Threshold Of Developed World

Chile's low infant mortality and poverty rate, high life expectancy and literacy rate, relatively high per-capita income, and running water and sewage services for most of the population, make it more advanced than most of the region, and put it on the threshold of the developed world.

Lagos has said Chile should aim to reach developed status by 2010, its bicentennial year.

Visitors to Chile are struck by its honest police, impressive highways, and dramatic transition to democracy after the Augusto Pinochet 1970s-1980s military government that made the country notorious for human rights violations.

But critics of the center-left government, which has ruled since 1990, say education and health reform are lacking, the gap between rich and poor remains appalling and crime is rising.

Bachelet, who was taken political prisoner by the military regime in the 1970s, became defense minister under Lagos decades later. She captivated Chileans in a role that symbolized reconciliation at long last between the country's deeply polarized right and left.

The election of Bachelet, a separated mother of three, is also a sign that socially conservative Chile, which only recently legalized divorce, is becoming more tolerant.

Bachelet's inauguration in the coastal city Valparaiso will be attended by U.S. Secretary of State Condoleezza Rice, a rare high-level visit to a Latin American government handover that analysts said is a sign of solidarity with an important Latin American ally.

"Rice going, that's a step up from what the U.S. has been doing for Latin America recently. I think that's an important gesture," said Nicolas Shumway, director of the Institute of Latin American Studies at the University of Texas.

The inauguration could cement Chile's role as a bridge between the United States and Latin America's resurgent leftists, including confirmed guests Argentine President Nestor Kirchner, Brazilian President Luis Inacio Lula da Silva, Bolivia's Evo Morales, Uruguay's Tabare Vasquez and Venezuela's Hugo Chavez.

Reuters, March 7

WITH A NEW LEADER, CHILE SEEMS TO SHUCK ITS STRAIT LACES

This is the most socially conservative and tradition-minded country in Latin America, or so Chileans are accustomed to being told and to thinking about themselves. So how is it that the new president, who is to take office here on Saturday, is not just a woman, but also a single mother and an agnostic?

The triumph of Michelle Bachelet, 54, a Socialist, pediatrician and former exile, in January's election was clearly a political watershed both for Chile and Latin America. But it has also set Chileans to wondering if perhaps their supposedly inhibited and stodgy society hasn't also become more modern and broad-minded than they had ever imagined possible.

In a book that has been widely commented on and that anticipated the rise of Ms. Bachelet, "The Chilean Dream: Community, Family and Nation at the Bicentennial," the sociologist Eugenio Tironi maintained that modernization here arrived in three waves. First came an economic opening in the 1980's under the dictatorship of Gen. Augusto Pinochet, then a political modernization in the 1990's after the return of democracy and civilian rule.

"Recent years," Mr. Tironi argued in the book, published a year ago, have initiated "the phase of cultural liberalization" and a "new moral climate." Taken as a whole, he concludes, "Chile seems to be evolving toward a liberal model of society of the North American type," marked by greater individualism, an erosion of the traditional family structure and greater social tolerance.

One index of that shift is that last year nearly 60 percent of all babies were born out of wedlock, compared with less than half in 2000. Yet for every sign of change, there seems to be a counter-example of the persistence of traditional values and resistance to more relaxed sexual and social mores.

Prior censorship of films, which had kept movies like "The Last Temptation of Christ" out of Chilean theaters for 15 years, ended only in 2003. But in sharp contrast to a place like Brazil, where a pop song called "Sin Does Not Exist Below the Equator" was once a big hit, explicitly erotic magazines are not displayed at newsstands, and nudity and coarse language are absent from prime-time television.

In the social realm, divorce was approved less than 18 months ago, after more than a century of debate during which Chileans could only "nullify" their marriages through legal subterfuge. But abortion remains proscribed, as do the gay unions now offered in parts of Brazil and Argentina, and any discussion of the morning-after pill or sex education in the schools immediately provokes controversy.

Part of the resistance is simply a result of the unusual power wielded by the Roman Catholic Church here, more conservative than its counterparts in places like Brazil and Peru. During the Pinochet dictatorship, the church, under Cardinal Raúl Silva Enríquez, was the most visible and effective defender of human rights through its Vicarate of Solidarity, saving dozens of opposition figures — including some who are in power today — from jail or even death.

"But when democracy was re-established, the church handed the democratic coalition the bill," explained Arturo Valenzuela, who is director of the Center for Latin American Studies at Georgetown University and comes from a Chilean family. "It was, 'We took care of you guys, so don't mess around with divorce.' Yet the ones who handed over that bill weren't the same ones who had protected the Christian Democrats and the Socialists; they represented a church that had moved right."

The news media here have historically been unusually conservative, too, and thus have served to inhibit rather than promote new values, many social analysts say. But Chile's embrace of free market capitalism, originally imposed by advisers of General Pinochet who were followers of Milton Friedman, is forcing changes even in that realm.

One leading television channel here, for instance, is the property of the Roman Catholic university. But in order to maintain the ratings necessary to attract advertisers, it has had to turn to the same mix of reality shows and racy prime-time soap operas, including some featuring premarital sex and gay characters, as its secular competitors.

Another factor in bringing about change is clearly generational. More than half the country's 15 million people were not even in school when democratic rule was restored, meaning the authoritarian practices and values of General Pinochet's 17-year dictatorship, including its emphasis on God, nation and family, are as much a fading memory as the Socialist Salvador Allende's earlier stress on social solidarity and mass political engagement.

Some, however, argue that Chile has never been as socially conservative as it often appeared in the past. A historian and social critic, Alfredo Jocelyn-Holt, for example, talks of a "subterranean" Chile in which abortion, homosexuality and other socially condemned actions have flourished.

It is not that "Chile is more pious or saintly than other countries," but that "society is much more liberal in its behavior than its discourse," he said. "What exists here is a situation that limits the expression, but not the practice."

One landmark event that brought such disapproved behavior to the surface occurred June 30, 2002, when the American photographer Spencer Tunick came here to shoot a series of pictures of multitudes of people naked in public places. To the shock of those accustomed to thinking of Chileans as inhibited, and who predicted Mr. Tunick's failure, an estimated 4,000 people were willing to take part in the project on a cold winter morning when the soccer World Cup final was being played.

The event had so much impact here that academics and journalists began to speculate about a "destape," or "uncorking," like the rapid transformation into a modern society that occurred in Spain after the fall of the Franco dictatorship. But others, like the pollster Marta Lagos, argue that a more relevant comparison is with Ireland, another Catholic country where pockets of traditional values continue to coexist with more liberal, modern attitudes.

"What our numbers tell us is that the speed of changes in values in Chile is much slower than in Argentina, Uruguay, Brazil or Mexico," Ms. Lagos said. "We are changing, but we are still lagging behind in leaving the traditional society for one that is more modern and open. So in the end, it is a question of seeing the glass as half empty or half full."

New York Times, March 8

CHILE BANK LENDING SEEN GROWING 13 PCT THIS YEAR

Loan growth in Chile's banking system is seen at 13 percent this year, due to dynamic domestic demand and a positive outlook for the world economy, the banking association president said on Tuesday.

"In home lending we see growth of 18 percent this year. There is room to keep growing because of optimism over the Chilean economy," Banking Association President Hernan Somerville said at a banking seminar.

Earlier on Tuesday the Banking Superintendency's monthly report said that lending grew 13.39 percent in the January-February period compared with the same months last year. Consumer credit grew 20.91 percent in the same period.

Last year, total lending in Chile's banking system grew 14.2 percent.

In the last two years, the Chilean economy has grown at a rate of about 6 percent per year, helped by solid exports and low interest rates.

"This year we see expansion of between 5.5 and 5.7 percent," Somerville said.

Consumer lending is seen rising 20 percent in 2006, while business loans will likely rise 14 percent and lending for foreign trade will rise 5 percent, the association said.

There are 26 banks in the Chilean financial system. The biggest are Banco Santander Chile (STG.SN: Quote, Profile, Research) (SAN.N: Quote, Profile, Research) and Banco de Chile (CHI.SN: Quote, Profile, Research).

Reuters, March 21

LATIN AMERICAN COMPETITIVENESS REVIEW

Following the release in September of its Global Competitiveness Report 2005-2006, the World Economic Forum (WEF) has recently published the Latin American Competitiveness Review 2006, examining the region’s prospects and the strengths and weaknesses of individual countries.

In the Global Competitiveness Index, which compared a total of 117 countries, Chile ranked 27th, followed by Argentina in 54th place. “Not only is Chile ahead of 13 of the EU’s 25 members, but there is actually no other country in Latin America that surpasses any EU member,” notes the Review.

Chile performs particularly well on macroeconomic management, on which it took first place in the Global Index, but also scores strongly in other key areas. “Not only does Chile continue to benefit from remarkably competent macroeconomic management but…it also operates in an institutional environment characterized by transparency, openness, and predictability,” states the Report. Indeed, according to the WEF, Chile leads the region in four of the six areas considered in assessing the quality of a country’s institutions - respect for property rights, integrity in the management of public resources, public trust in politicians, and the impartiality of government officials.

On infrastructure, the Review notes the high standards of Chile’s ports and of its air transport services as well as the overall quality of its infrastructure, highlighting the incorporation of private investment in this field through a concessions program launched in the mid-1990s. However, it argues that overall infrastructure quality still lags behind that achieved by some East Asian countries.

The study - which is based partly on a survey of almost 11,000 international business leaders - also draws attention to some criticisms of Chile’s performance. According to the survey, the most problematic factors for doing business in Chile are restrictive labor regulation, government bureaucracy and the level of workforce education.

The Review points out that international comparisons suggest that reading comprehension and mathematical ability among Chilean school children are well below levels found in countries such as Finland, New Zealand and Ireland, which are increasingly seen as Chile's benchmarks for competitiveness. "Weaknesses in this area may well be preventing Chile from moving further up on the World Economic Forum's rankings" suggests the Review.

World Economic Forum (Latin American Competitiveness Review 2006)

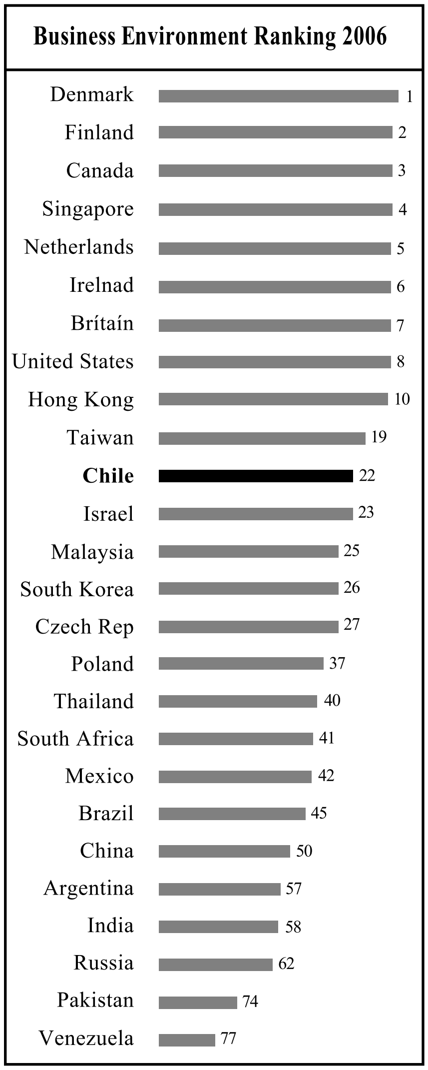
2006 BUSINESS ENVIRONMENT RANKING

The latest Business Environment Rankings, published by the Economist Intelligence Unit (EIU), identifies Chile as the world's 22nd most attractive country in which to do business and invest over the next five years. In the ranking, led by Denmark, Finland and Canada, Chile ranked between Spain and Israel and ahead of countries that include Malaysia, South Korea, China and India.

The ranking, which includes the world's 82 largest economies, takes into account more than 90 factors that affect the opportunities for, and hindrances to, business development. It measures a country's performance in ten key areas: political and institutional environment, macroeconomic stability, market opportunities, policy towards private enterprise, policy towards foreign investment, foreign trade and exchange regime, the tax system, financing, the labor market and infrastructure.

In general, Latin American countries slipped as compared to last year's version of the ranking, and Chile's score of 7.81, on a scale of 1 to 10, represented a drop from 8.02 in 2005. However, according to the EIU, Chile remains the region's most attractive country in which to do business, followed by Mexico (42nd) and Brazil (45th).

Economist Intelligence Unit (Press release, excerpts), March 27



Source: Economist Intelligence Unit

CHILE RECOVERS TOP POSITION IN MINING SURVEY

According to the 2005/2006 Mining Survey, released recently by Canada's Fraser Institute, Chile is currently the most attractive location out of 64 jurisdictions around the world for investment in mining exploration. Chile also held this position in the Institute's 2003/2004 Survey, but fell to 5th place last year, after Nevada, Western Australia, Quebec and Ontario.

The survey considers not only a jurisdiction's mineral resources, but also how industry executives assess the impact of public policy factors, such as taxation and regulation, on exploration investment. On these factors, as measured in the survey's Policy Potential Index, Chile dropped to 14th position last year, down from 2nd place in the 2003/2004 Survey. According to the Fraser Institute, this may have been the result of controversy over the introduction of a mining royalty.

However, Chile has now climbed back to 4th place in the Policy Potential Index, after Nevada, Alberta and Manitoba. Moreover, according to the executives from 322 companies - representing a third of global investment in exploration in 2005 - who responded to the survey, Chile ranks in 6th place out of the 64 jurisdictions on the impact of its tax regime on exploration investment.

As regards mineral resources, Chile also performs strongly, ranking in 1st place in the survey's Current Mineral Potential Index, ahead of Nevada and Mongolia. This represents an advance on last year when Chile took 2nd place after Nevada.

Canada's Fraser Institute (2005/2006 Mining Survey)

CHILE CLIMBS SIX PLACES IN TECHNOLOGY INDEX

In the Networked Readiness Index 2005, published by the World Economic Forum (WEF), Chile ranks in 29th position out of 115 countries, up from 35th position out of 104 countries in the previous year's ranking. The Index, which was first released in 2000, measures a country's preparation to adopt new information and communications technologies (ICTs) and to effectively harness them to its development.

Chile's position in the 2005 Index, which is headed by the United States and Singapore, puts it ahead of countries that include Spain (31st), South Africa (37th) and India (40th). Within Latin America, it is followed by Brazil (52nd) and Mexico (55th).

The new Index is contained in the WEF's Global Information Technology Report 2005–2006, which pays specific tribute to Chile's "outstanding achievements" in the field of ICT development, attributing them partly to progressive government policy intervention and to collaboration between the public and private sectors. Chile is "a reliable front runner for both local and foreign investors, with clear rules and qualified human capital," the report concludes.

World Economic Forum (Networked Readiness Index 2005)

AUSTRALIA - CHILE VISA AGREEMENT

Young Australians will now be able to work Chile, after the Latin American country agreed to a work and holiday visa with Australia. The reciprocal agreement allows university students and young professionals to work and travel for up to a year.

Unlike similar visas, it requires the applicant to have the support of their government, hold tertiary qualifications or to be studying towards a tertiary qualification, and to speak functional English.

The arrangement is available to people aged between 18 and 30 years, with a limit of 100 visas on both sides.

Australia's Immigration Minister Amanda Vanstone says it'll give young people the opportunity to experience different cultures. "As well as being an investment into future relations with Chile, the new arrangement will help develop links between people in both countries." Senator Vanstone said in a statement.

AAP, March 31

INDIA, CHILE SIGN TRADE AGREEMENT

India and Chile on Wednesday signed a Preferential Trade Agreement as part of initiatives to increase trade and investment between the two countries.

"The PTA strategically positions Chile to access and to capitalise on the Indian market and its technological assets. This marks a watershed in ties between the two countries as it will impart a new dimension to our trade relations in times to come," Commerce Minister Kamal Nath said.

The agreement, signed by Commerce Secretary SN Menon and Chilean Ambassador Jorge Heine, provides tariff preferences ranging from 10 to 50 per cent on 178 products to Chile and a similar range of preferences on 296 items to India.

It would benefit 98 per cent of items being exported by Chile to India and 91 per cent of the goods being exported by India to Chile.

The Indian products, which would benefit include textiles, chemicals, pharmaceuticals, engineering and agricultural machinery while Chilean products include copper, newsprint, iodine, fish meal and salmons.

The two sides have also discussed the draft reports of the Joint Study Group and agreed to submit their findings to consider further action on a Free Trade Agreement.

The PTA is consequent to the signing of a Framework Agreement on Economic Cooperation on January 20, 2005 during the visit of the Chilean President to India.

The Framework Agreement also provided for a Joint Study Group to identify the potential for cooperation in trade in goods and services, investments and other areas.

Chile is a major Latin American country with a GDP of $76.3 billion and a trade of $53.2 billion during 2004.

India-Chile trade during 2004-05 stood at $447 million.

Hindustan Times, March 8

THAILAND, CHILE AGREE TO CONDUCT FREE-TRADE PACT STUDY

Thailand and Chile have agreed to carry out a feasibility study this year to pave the way for the signing of a bilateral free trade agreement (FTA), local press reported Sunday.

During a meeting between newly-elected Chilean President Michelle Bachelet and visiting Foreign Minister Kantathi Suphamongkhon in Santiago Friday, Kantathi praised Chile for its economic success and spoke highly of the country's free trade policies, which have boosted the competitiveness of its private sector.

Both sides saw it necessary to strengthen economic and other ties and emphasized the need to complete a feasibility study on a Thailand-Chile FTA this year.

Kantathi urged the establishment of partnerships between Thai small and medium enterprises and Chilean companies in the field of biotechnology, reported Bangkok Post newspaper.

Other areas of potential cooperation between the two countries include hotel and restaurant industries and tourism.

Thailand considers Chile as a gateway to more trade and investment in Latin America, and Chile views Thailand as a breakthrough for the enhancement of trade and investment ties with Southeast Asia.

During a visit to Colombia, Kantathi and the Vice-President Francisco Santos explored the possibility to develop the FTA.

In Bolivia, Kantathi met with his counterpart David Choquehuanca Cespedes and discussed ways to promote economic development.

Kantathi is on a visit to Latin America covering Chile, Colombia and Bolivia. He is scheduled to return to Bangkok on Tuesday.

Xinhuanet, March 12

"STRATEGIC ALLIANCE" WITH ARGENTINA, CHILE'S TOP PRIORITY

Consolidating relations with Latinamerica and "most particularly" with Argentina, plus Peru and Bolivia are foreign relations "top priorities" of the incoming administration of elected Chilean president Michelle Bachelet.

Alejandro Foxley, Chile's Foreign Affairs minister described relations with Argentina as "excellent" and anticipated that "our task will be to continue and strengthen that strategic alliance".

With Argentina Chile has advanced in the consolidation of a "general integration process" which includes such sensitive issues as border issues and the intensification of a "frank and direct" dialogue between both governments, added Mr. Foxley.

Another area where both countries have significantly advanced is in defense affairs with an increase in the number of joint military exercises involving all services, as well as peace operations under the command of United Nations.

During a recent visit to Argentina incoming president Bachelet assured President Kirchner that Chile is committed to a strong Mercosur "political integration, beyond trade and tariff issues, which also concentrates on jointly developing much needed infrastructure and energy projects for the region".

This is crucial for Chile since Argentina supplies over half of its oil and natural gas consumption and has lately been exposed to an insufficient winter gas provision disrupting local industries production and working hours.

With Bolivia Chile has a difficult relation since the landlocked country is claiming back the Pacific outlet which it lost in the 1879/1883 war. However in the last twelve months Chile has eliminated most tariffs on Bolivian goods and both countries have addressed pressing issues such as the use of water from shared rivers, the port of Arica, Customs paperwork and the destruction of antipersonnel mines planted in border areas during the seventies.

Besides, an even more sensitive issue, the provision of Bolivian natural gas to Chile and discussing Bolivia's outlet to the Pacific are no longer taboos and are on the bilateral table for consideration. Chile's historic policy has been that no trade back on these two issues is possible.

Furthermore, in an unprecedented event Chilean president Ricardo Lagos recently participated in the taking office ceremony of Bolivian president Evo Morales, --in spite of the fact the two neighbouring countries have no formal diplomatic relations since 1979--, and forecasted a "promising future" for bilateral links.

"During these six years I've tried to agree on an agenda, with no exclusions and to work hard on the maritime issue", said president Lagos who admitted that the presidents with whom he most met were Bolivians, "but with not much success".

Bolivian president Evo Morales has stated that no gas will be sold to Chile until an agreement has been reached for the recovery of his country's "maritime condition", but nevertheless he will be one of the privileged guests next Saturday when Ms Bachelet takes office as Chile's first woman president.

"Our Indian culture teaches us reciprocity", said President Evo Morales.

With Peru the Bachelet administration will have to address a maritime border dispute and establish clear rules for the Armed Forces re-equipment. Peru complains of an "arms race" every time Chile acquires frigates or aircrafts to replace obsolete material.

Nevertheless this week Chile and Peru resumed talks on economic complementation and top level contacts in defense and military issues were re-established. But a controversial matter which could turn sour remains: former Peruvian president Alberto Fujimori's currently under arrest in Santiago whom Peru wants to extradite to face charges of human rights abuse and corruption, which must be decided by Chilean courts, the most independent and less politicized of South America

Mercopress, March 8

EQUITY INTERNATIONAL EYES CHILE FOR INVESTMENT

Chile could be a new investment area for US private equity firm Equity International, as attractive opportunities in retail and logistics trump the low-risk, low-return environment, its top executive said on Wednesday. "We've always been captivated by Chile. It's the Switzerland of Latin America in many ways," Equity International Chief Executive Gary Garrabrant said at the Reuters Latin America Investment Summit in New York.

Garrabrant visited Santiago and was struck by the number of cranes building high-rises in the capital. But Garrabrant said in the past he had been somewhat frustrated with Chile because it's expensive compared with other Latin American countries and Equity International prefers taking on a little more risk to maximize returns.

Equity International's investments in Mexican homebuilder Homex and Brazilian real estate developer Gafisa, have yielded high returns for the company. But he said now things are changing even though Chile is still one of the lowest-risk investment environments in the region due to economic and political stability as well as market-friendly policies. "There are interesting opportunities in Chile at this moment.

Investment returns are favorable, relative to the risk," Garrabrant said.

With a slow rate of inflation, low interest rates and a stable currency, there are businesses in retail and what Garrabrant termed logistics, that "for the first time in five to seven years are attractive." Garrabrant said Equity International is interested in a Chilean company that is possibly involved in distribution and logistics. He said the firm always co-invests rather than directly invests and looks at companies with which it could do a New York Stock Exchange listing.

Equity International had attempted to create a pan-Latin America office company, but failed. So Garrabrant is again looking at Chile, which is undergoing a construction boom.

As far as risks, he said the supply of space in relationship to demand in Chile could be a concern. "I was really taken by the cranes. There's a lot of high rises ... I would share with you your concern about who's going to take up this space," he said. But he also noted that Santiago's players are sophisticated even though it is not a huge city, at some 6 million people.

Unlike other Latin American countries, where home-buyers cannot get mortgage loans, Chile has a relatively developed mortgage market. "Chile is an exception in this case. The Chilean financial institutions are great examples ... of an international standard system," he said.

Reuters, March 29

FALCONBRIDGE STUDYING CHILE HYDRO PROJECT

Canadian miner Falconbridge said Friday it is evaluating a project to build a $600 million hydroelectric power plant in southern Chile. Toronto-based Falconbridge said the project, known as Energia Austral, would involve the construction of a 740 MW Rio Cuervo hydroelectric power generating plant in Chile's Aysen region.

Energy-poor Chile is searching for ways to supply growing demand amid threats of interruptions. The mining industry, which produces Chile's No. 1 export copper, is the nation's top energy consumer.

Falconbridge said in a statement issued in Santiago that the project site would be on lands owned by the company in the Rio Cuervo area, which have no use for cattle breeding or tourism but with "great hydroelectric potential."

Falconbridge, which merged with Noranda in mid-2005, is one of the world's leading producers of copper, nickel and zinc. Noranda had originally planned to build three hydroelectric power plants in the Aysen area to supply its Alumysa aluminum plant project. But development was halted after the government, under pressure from salmon farmers and environmental groups, decided not to allow the aluminum plant to be built there.

Reuters, March 31

MEXICO GRUPO POSADAS TO OPEN HOTEL IN SANTIAGO

Mexican hotel chain Grupo Posadas plans to open its four-star hotel Caesar Business in the Chilean capital Santiago in July 2006, the company said in a statement on March 27, 2006. Caesar Business has 18 floors and 144 rooms and is part of the shopping complex Mall Santa Lucia, which is currently in construction, worth US$ 15 million. The complex will be carried out and operated by the local construction group Boetsch.

The new outlet is expected to benefit from the growing tourist flow to Chile and to the lack of substantial new hotels in the area, where Caesar Business is located. The hotel was also supported by the Chilean Government as a project, preserving the historical part of the city.

Grupo Posadas plans to invest US$ 350 million between 2006 and 2009 to open nearly 30 new hotels, the vice president of the company, Javier Barrera said, as reported by the Latin America News Digest on February 1, 2006. Grupo Posadas opened 17 hotels between 2002 and 2005 with an investment of US$ 300 million. Grupo Posadas is owned by the Mexican businessman Gaston Azcarraga.

Hotels Magazine, March 29

BRITISH EXPLORE INVESTMENT OPPORTUNITIES IN CDM

The United Kingdom, one of the world’s leaders in the financing of carbon trading projects, is currently considering a US$600 investment in projects related to clean production mechanisms in diverse parts of the world. The International Financial Services London (IFSL) has released a report on London’s latest position in exchange-traded derivatives across key international markets, demonstrating that the sector’s growth has continued for a second consecutive year.

Chile, considered one of the most interesting markets for this kind of ventures, was host to a British Trade Mission last March. 11 companies visited the country to explore investment opportunities in the carbon trading market. The mission included both companies from the areas of project development and technology and companies offering financing for Clean Development Mechanism (CDM) projects. The Mission received the support of the UK Climate Change Projects Offices (CCPO) – a government organization set up to assist UK businesses who wish to pursue opportunities arising from the Kyoto Protocol. The CCPO provide advice and support for projects which reduce greenhouse gas emissions and which could be eligible for tradeable emission reduction credits.

The participating companies were:

- CO2e.com Ltd - www.CO2e.com
- Rurelec PLC - www.rurelec.com

- Trading Emissions PLC - www.tradingemissionsplc.com
- EcoSecurities Plc - www.ecosecurities.com
- Tradition Financial Services - www.tfsbrokers.com
- Climate Change Capital - www.climatechangecapital.com
- EDF Trading Ltd -
BSI Management Systems
www.bsi-global.com/ghg
- Natsource Europe Ltd -. www.natsource.com
- European Carbon Fund - www.europeancarbonfund.com
- DET Norske Veritas - www.climatechange.dnv.com.

UK Embassy in Chile, March

BHP BILLITON CONFIRMS ESCONDIDA TO PAY CHILE ROYALTY

BHP Billiton (BHP) confirmed Thursday it has agreed to pay Chile's recently introduced tax on mining, known as royalty, stressing it is "in Chile for the long term."

"This outcome finally closes the already long lasting debate around the mining taxation in Chile, and it also ratifies Escondida's and its owners' contractual rights under the foreign investment statute DL 600," company spokeswoman Ariane Gentil told Dow Jones Newswires.

The royalty is a 5% lev y on the operating profits of mining companies that produce more than 50,000 metric tons of copper a year.

According to the mining tax law ratified in May 2005, foreign mining companies could choose between maintaining a guaranteed 42% income tax rate or pay a 35% tax along with a royalty.

The decision to pay the royalty reverses Escondida and BHP Billiton's previous stance that it wouldn't pay because one of the mine's minority shareholders, a Japanese consortium led by Mitsubishi Corp. (8058.TO), opted for the guaranteed rate. The decision also "recognizes that Escondida did not have the obligation to pay the royalty under the mining tax law of 2005, and it provides the original incentives under the law for those companies that opted into the regime by November 2005, plus gives additional incentives under the new law," Gentil said.

"We are currently assessing what the financial impact of this will be on the BHP Billiton group," she added.

Gentil said Escondida has paid $3 billion in income taxes over the last 15 years and is, and will continue to be, an "outstanding corporate citizen."

Escondida is owned 57.5% by Anglo-Australian mining giant BHP Billiton PLC, 30% by Anglo-Australian Rio Tinto PLC (RTP), 10% by the Japanese consortium, and 2.5% by the International Finance Corp.

Dow Jones, March 9

CHILE ANNOUNCES NATURAL GAS DISCOVERY

President Ricardo Lagos on Thursday announced the discovery of important natural gas reserves in southern Chile and local media said they could be enough to cover 25 prevent of the country's consumption.

Lagos gave no details on the size of the find by the state oil company, but said a formal announcement would be made soon.

In an interview with local Radio W, Lagos said the reserves in Magallanes, Chile's southernmost region, could help meet domestic consumption as well as aiding Methanex, a company that has had trouble finding enough imported gas for its three large methanol plants in the area.

The Santiago daily El Mercurio said that the newly found reserves, 2,500 kilometers (1,550 miles) south of Santiago, would be enough to supply 25 percent of Chile's consumption.

The Magallanes region was an important gas producer in the past, but known reserves had been virtually exhausted in recent years and no major discoveries had been reported until Lagos surprise announcement.

Chile imports more than 97 percent of the 22 million cubic meters of natural gas it consumes every day. It cost the country US$822 millions (euro 693 million) in 2005.

It also imports 98 percent of the oil it needs. The oil bill reached US$5.35 billions (euro4.49 billion) last year.

Chile depends almost entirely on the gas imported from neighboring Argentina, but there have been supply problems due to growing consumption and reduced reserves in that country.

That situation prompted Lagos to order Chile's state company, ENAP, to build a plant to convert liquid gas. The plant is expected to start operations within three years. The president has mentioned Trinidad and Tobago, Indonesia and Australia as potential suppliers of liquid gas for the plant.

Lagos also told the radio that he discussed natural gas with Bolivian President Evo Morales when he attended his inauguration in January.

Bolivia owns South America's largest natural gas reserves after Venezuela, but does not sell to Chile; the two countries lack diplomatic relations because of Bolivia's continued demand for an access to the Pacific Ocean through Chilean territory. Bolivia lost its sea outlet in the 1879 War of the Pacific with Chile. Bolivian officials have suggested they could use gas to press Chile into agreeing to its demand, a policy former Bolivian President Carlos Mesa described with the slogan "gas for sea."

Associated Press, March 2

The following are excerpts from Wall Street Investment Banks' reports on Chile:

From UBS "Emerging Markets Daily Economic Comment", April 17:

At its monthly monetary policy meeting, the Central Bank raised the target interbank lending rate 25 bp to 5.0%, as expected. In its statement the Bank said that external conditions remain favorable, with copper prices considerably higher than projected. The Bank noted that internal demand had moderated from its previous high growth rates, but that was in line with projections. While admitting that first quarter growth had been somewhat lower than expected, the Bank said it believes that this was due to behavior in various sectors (meaning, we think, that this did not imply a general slowing of activity). Once again, the Bank noted the improvement in the labor market, where job creation, especially creation of formal employment, remains dynamic. As for inflation, the Bank said it believes that CPI and core CPI stand at the top of the target range only temporarily, and that other core measures and well as expectations, remain well-anchored at the center of the target range.

Importantly, the Bank mentioned once again, that it believes domestic financial conditions remain expansive, and concluded its statement with the note that gradual adjustments in interest rates would remain necessary to keep expected inflation in the middle of the range (3%). However, the Bank said the timing of these adjustments would depend on the data on economic activity, the foreign exchange rate and prices. We expected the Bank to resume its tightening at the April meeting given the country's firm economic growth and the accelerated rate of March core CPI. Furthermore, the Bank's continued reference to monetary conditions as expansive leave us comfortable with our forecast for further rate hikes this year. We expect two more hikes of 25 bp each, bringing the target interbank lending rate to 5.5%.

From Goldman Sachs "Emerging Markets Daily Economic Comment", April 10:

Chilean Trade Balance Posts Record US$2.2 Billion Surplus in March

The trade balance reached a significantly larger than expected US$2.2 billion surplus in March, up from a surplus of US$1.0 billion in February and US$1.2 billion during the same month a year ago.

Exports reached a record monthly high US$5.1 billion in March growing a very significant 36% YoY; largely outpacing the somewhat lower than expected 14.0% YoY increase in imports.

On a trailing 12-month basis both exports and imports posted new record highs; US$43.4 billion and US$31.8 billion, respectively. The 12-month cumulative trade surplus is also at a record high level: US$11.6 billion (close to 10% of GDP).

During 1Q2006 exports jumped another 30% YoY (on the back of record breaking copper prices) while imports grew a solid 21% YoY during 1Q2006 which attests to the still vigorous domestic demand conditions. Consequently, the trade surplus increased more than 50% from a year ago; from US$2.6 billion during 1Q2005 to US$4.0 billion during 1Q2006.

The solid pace of imports, particularly of durable and capital goods, showcases the underlying strength of domestic demand; which grew in double digits during 2005 (+11.4%) and is expected to continue to lead growth in 2006. Imports of capital goods have shown remarkable resilience: up 53% during 2005 and up another +18% YoY year-to-date. Imports of durable goods were up 25% YoY during 1Q2006. This attest to the resilience of the capital deepening cycle the economy is undergoing (investment spending was up 24.7% YoY in 2005) and bodes well for solid non-inflationary growth in the quarters ahead. Trade strong balance flows -a reflection of terms of trade that continue to improve- continue to support the CLP.

From Goldman Sachs "Emerging Markets Daily Economic Comment", April 17:

Central Bank of Chile Expected to Raise the Policy Rate 25 Basis Points to 4.0%

As we went to press the central bank monetary policy committee was still meeting.

Following the pause in February, we expected the central bank to later today (Thursday) hike the policy rate from 4.75% to 5.00% and to continue to push the policy rate higher at a moderate and gradual pace throughout 2006.

Although the pace of activity has moderated somewhat in recent months and the CLP is now trading at a strong level, we expect the central bank to continue with the interest rate normalization process. After all, domestic financial conditions are still easy, the slack in the labor market has been already significantly reduced (unit labor costs are now on the rise; albeit from a low base), and the economy is still growing above trend. Furthermore, core inflation was relatively high in March: +0.70% MoM with trailing 12-month basis core increasing from 3.5% in February to 3.7% in March; reaching the highest level since October 2001.

In addition, non-tradable goods prices increased by 1.1% MoM in March; which should capture the attention of the central bank. Non-tradable goods inflation jumped from 3.3% YoY in December to 4.5% YoY in March, which might be a reflection of several quarters of above-trend growth.

Going forward, given the advanced stage of the monetary tightening cycle the pace of further rate hikes should be increasingly data-dependent. We expect the TPM to reach 5.50% by the end of 2006, with risk on the downside.

Chile
All Ways Surprising

Between January and February 2006, materialized Foreign Direct Investment reached US$ 340.9 million, as compared to US$ 221.1 million for the same period of 2005. The Foreign Investment Statute (D.L. 600) channeled 18% of the gross inflows. The main recipient sectors of D.L. 600 FDI were Mining (47.5%); Industry (25.4%) and Services (18.1%). During those months, materialized D.L. 600 FDI came mainly from Canada (27.6%); Belgium (26.1%); Australia (12.5%) and United Kingdom (9.9%).

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FOREIGN DIRECT INVESTMENT REPORT: INFLOWS & OUTFLOWS / January - February 2006* (in nominal US$ million)

Instrument/Period	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005 Jan-Feb	2006 Jan-Feb	Growth rate
FOREIGN INVESTMENT STATUTE (DL 600)												
- Equity Contributions	3,803.0	4,368.1	8,630.7	2,563.0	4,320.8	2,314.6	1,109.3	4,023.0	1,768.3	78.9	61.5	-22.1%
- Other capital	1,422.3	1,670.3	594.6	475.9	699.2	1,066.5	177.1	611.5	150.7	0.0	0.0	-
MATERIALIZED INVESTMENT (DL 600) (1)	5,225.3	6,038.4	9,225.3	3,038.9	5,020.0	3,381.1	1,286.4	4,634.5	1,919.0	78.9	61.5	-22.1%
CHAPTER XIV												
- Equity Contributions	920.6	539.3	688.8	653.7	737.5	1,020.5	1,235.4	1,140.2	1,569.3	117.5	246.6	109.9%
- Other capital	-	-	-	1,276.9	299.8	633.6	202.5	977.9	252.8	24.7	32.8	32.8%
TOTAL INVESTMENT CHAPTER XIV (2)	920.6	539.3	688.8	1,930.6	1,037.3	1,654.1	1,437.9	2,118.1	1,822.1	142.2	279.4	96.5%
TOTAL F.D.I. MATERIALIZED (DL 600 + Chapter XIV)	6,145.9	6,577.7	9,914.1	4,969.5	6,057.3	5,035.2	2,724.3	6,752.6	3,741.1	221.1	340.9	54.2%
REMITTANCES												
- DL 600 (1)	797.8	600.6	1,284.0	1,249.9	1,384.5	3,093.5	947.6	4,776.7	2,576.7	103.7	32.1	-69.0%
Equity	354.9	119.9	234.0	462.7	665.8	1,712.1	248.2	3,191.6	1,996.0	102.1	32.0	-68.7%
Other capital	442.9	480.7	1,050.0	787.2	718.7	1,381.4	699.4	1,585.1	580.7	1.6	0.1	-93.8%
- CHAPTER XIV (2)	20.6	323.9	47.8	177.4	855.5	419.8	780.9	1,019.9	621.9	70.7	68.6	-3.0%
Equity	20.6	323.9	47.8	78.6	282.2	39.0	16.0	461.7	302.2	12.1	12.3	1.7%
Other capital	-	-	-	98.8	573.3	380.8	764.9	558.2	319.7	58.6	56.3	-3.9%
TOTAL REMITTANCES (DL 600 + Chapter XIV)	818.4	924.5	1,331.8	1,427.3	2,240.0	3,513.3	1,728.5	5,796.6	3,198.6	174.4	100.7	-42.3%

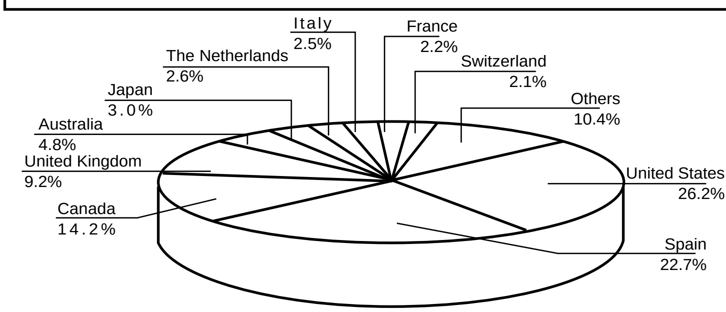
(1) Source: Foreign Investment Committee
(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1997-1999
* Provisional figures as of February 28, 2006

MATERIALIZED FOREIGN INVESTMENT, GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (DL 600) BY SECTOR 1974-2006* (in nominal US$ million)

SECTOR/PERIOD	74-98	1999	2000	2001	2002	2003	2004*	2005*	2006*	TOTAL
Agriculture & Livestock	206	21	23	10	2	0	0	1	0	263
Fishing & Aquaculture	189	0	92	5	0	10	0	0	0	296
Forestry	219	17	4	1	1	1	0	7	0	250
Mining	13,701	1,337	234	1,136	2,003	392	350	823	29	20,005
Industry	4,820	828	254	809	218	234	429	85	16	7,693
Electricity, Gas & Water	2,368	4,540	860	908	473	150	2,193	98	1	11,591
Construction	716	211	29	164	138	29	119	8	3	1,417
Transport & Communications	1,769	414	870	1,281	336	340	1,426	569	2	7,007
Wholesale & Retail Trade	848	86	120	114	72	43	17	8	1	1,309
Financial Services	4,650	950	273	121	60	44	12	132	3	6,245
Insurance	1,325	208	90	265	20	4	49	107	6	2,074
Other Services	946	614	190	206	58	39	39	81	1	2,174
TOTAL	**31,757**	**9,226**	**3,039**	**5,020**	**3,381**	**1,286**	**4,634**	**1,919**	**62**	**60,324**

Note: Materialized investments include all forms accepted under the Foreign Investment Statute
SOURCE: Foreign Investment Committee
*Provisional figures as of February 28, 2006

MATERIALIZED FOREIGN INVESTMENT, GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (DL 600) BY COUNTRY OF ORIGIN 1974-2006* (in nominal US$ million)



COUNTRY	VALUE	SHARE
United States	15,829	26.2%
Spain	13,707	22.7%
Canada	8,590	14.2%
United Kingdom	5,565	9.2%
Australia	2,901	4.8%
Japan	1,788	3.0%
The Netherlands	1,555	2.6%
Italy	1,506	2.5%
France	1,352	2.2%
Switzerland	1,276	2.1%
Others	6,255	10.4%
Total	**60,324**	**100.0%**

Source: Foreign Investment Committee *Provisional figures as of February 28, 2006