

Chile

INVESTMENT

REVIEW

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CHILE POSTS RECORD FISCAL SURPLUS IN 2007

Chile's policy of socking away windfall copper profits pushed 2007's fiscal surplus to another historic high, leaving it in a solid position to weather global economic volatility, the government said on Wednesday.

Government budget director Alberto Arenas said Chile had a fiscal surplus of US\$14.453 billion last year, worth a record 8.7 percent of gross domestic product.

"We have good news," Arenas told a news conference. "We are in an extraordinary position to calmly confront the uncertain financial scenario we've seen in recent months."

Chile's robust fiscal surplus has been bolstered by global copper prices that have held at near record levels since 2006 in what many are calling a commodities super cycle.

Windfall profits from sales of copper, a key component to infrastructure expansion, have been strictly managed by the Chilean government under policies focused on saving for leaner times.

"It's not particularly surprising. It reflects the strict application of the structural surplus rule," said Pablo Correa, an economist with Santander Investment.

In 2006 Chile's fiscal surplus hit 7.7 percent of GDP -the heftiest percentage in Latin America.

Chile is the world's leading exporter of copper, which accounts for over half its exports and is enjoying booming prices on the back of ravenous demand from China.

The surplus effect

Economists said the strong surplus was the result of efficient management of the government budget, and would strengthen Chile's stability and risk standing.

"It's good news for the country given the international scenario. It leaves Chile's public sector in the position of being a net creditor ... and is good news for markets," said Correa.

Correa, however, said that Chile's policy of depositing most of the surplus in stabilization and reserve funds abroad in non-peso currencies meant would limit the effect in Chile.

"These funds are being invested abroad. The flows don't enter directly in the economy. So it won't generate an effect in the exchange rate or local bonds," Correa said. "The main effect is macroeconomic, how the country's solvency compares with that of other markets."

Reuters, January 30

CHILE'S ECONOMY GREW MORE THAN EXPECTED IN NOVEMBER

Chile's economy expanded more than expected in November, boosting expectations that policy makers will raise interest rates to a six-year high this week.

South America's fourth-biggest economy grew 4.6 percent in November from a year earlier, the Central Bank said today in a statement on its web site. Growth was faster than the 4.2 percent median estimate of 12 economists surveyed by Bloomberg.

"The fact that growth in November was higher than expected raises the probability that the Central Bank will hike sooner rather than later," said Neil Dougall, an economist at Dresdner Kleinwort in London.

Dresdner expects the bank to raise its target rate twice in the first half of 2008 to 6.50 percent.

The Central Bank voted unanimously last month to raise the benchmark interest rate by a quarter-point to 6 percent, the fourth increase since July, citing an unexpected acceleration in inflation.

Last week, the National Statistics Institute said consumer prices rose 0.5 percent in December, driving annual inflation to 7.8 percent, the highest since June 1996.

The bank's board meets Jan. 10 to discuss the benchmark rate. Seven of 13 economists in a Bloomberg survey expect policy makers to raise the rate 25 basis points to 6.25 percent, while six forecast the bank's board will maintain the rate unchanged.

Chile's peso was little changed at 496.65 pesos per dollar at 9:40 a.m. New York time compared to 495.72 late Jan. 4.

Bloomberg, January 7

CHILE SUFFERS HIGHEST INFLATION IN TWELVE YEARS, 7.8%

Consumer prices in Chile rose 0.5% in December and the annual rate reached 7.8% the highest level since June 1996 according to the latest report from the government-run National Statistics Institute, INE.

Annual inflation in Chile has accelerated from 2.6% in 2006 to close out 2007 at a level that is almost double the Central Bank's target of 3 percent plus or minus one percentage point. According to INE, Housing (1.4%); Transport (1.4%); Education and Leisure (0.7%); Health (0.6%) and Others (0.6%) had the main impact while Food dropped 0.9%, Clothing 0.1% and Housing equipment remained unchanged.

INE explained that the December jump can be explained by the increases in public utilities rates, electricity 3.6%; natural gas 14%; kerosene 4.5% and drinking water, 1.4%.

In Transport, air tickets increased 16.1% and inter provincial bus tickets, 21.3%; in Education, school fees jumped 5.7%.

In the Food item, milk dropped 1% and fresh fruit and vegetables had a decisive impact with prices falling in the range of 28 to 34%.

Regarding the 7.8% annual consumer prices index, Food and Housing were the most influential for the index. Food soared 15.2% with an annual incidence of 3.75% and Housing, 12.1% and a 2.69% incidence in the overall consumer prices index; together they represent 6.44% of the annual index, points out the INE report.

In the rest of the items, Others jumped 6.8%; Education and Leisure, 3.2%; Transport 1.9%; Health and Clothing actually had negative showings.

Core inflation, which strips out the prices of minus fresh fruit, vegetables and fuel, accelerated 0.9% in the month and 6.3% from December last year, said INE.

Mercopress, January 6

CHILE CENTRAL BANK LIFTS TARGET RATE TO SIX-YEAR HIGH

Chile's Central Bank raised its benchmark lending rate to the highest in six years as it seeks to curb the fastest inflation in a decade.

Policy makers raised the benchmark rate a quarter point to 6.25 percent in a meeting today, in line with the median estimate of 21 economists surveyed by Bloomberg.

The bank acted in response to inflation that climbed to an annual rate of 7.8 percent in December, driven by higher costs for food and transportation. Economists such as Leonardo Suarez at Larraín Vial SA and Pedro Tuesta at 4Cast Inc. say the bank risked losing credibility by not acting.

"As soon as the data on inflation came out, we said they can't avoid it," Tuesta said in a telephone interview.

It was the second consecutive monthly increase as the bank works to bring inflation down to its target for two years from now: 3 percent plus or minus 1 percentage point. The bank's overnight lending rate has risen from a low of 1.75 percent in the first eight months of 2004.

December's inflation was a "significant surprise," the Central Bank said in a statement on its web site after the meeting. "Further additional adjustments may be necessary to guarantee that inflation converges with the target rate."

The Chilean peso rose to its highest level versus the dollar since 1999 today on expectations the Central Bank would lift rates while the U.S. Federal Open Markets Committee cuts. The Federal Reserve will reduce the U.S. federal funds rate by 25 basis points to 4 percent at its Jan. 30 meeting, according to the median estimate of 43 analysts surveyed by Bloomberg.

Rate Outlook

The Central Bank may raise rates by as much as 75 basis points within the next six months, Goldman Sachs Group Inc. economist Alberto Ramos said in a note to clients after the announcement today.

"The post meeting policy statement was more rate hawkish than the preceding one," he said.

Luis Arcentales, an economist at Morgan Stanley in New York, also told clients to expect further tightening.

Chile's economy grew 4.6 percent in November from a year earlier. It is the only Latin American country to have closed its income gap with the U.S. since 1990, as surging demand for the country's exports has stoked expansion, Finance Minister Andrés Velasco told *El Diario Financiero* last week.

Bloomberg, January 10

CHILE 'STUDYING ALTERNATIVES' TO CURB INFLATION

Chile is studying more options to cut the price of fuel, which has pushed inflation to its highest in more than a decade, Finance Minister Andrés Velasco said.

Velasco on Jan. 14 announced a US\$200 million recapitalization of Chile's fuel price-stabilization fund to cut consumers' payouts at the pump. Wholesale fuel prices will fall about 50 Chilean pesos (11 cents) this week, he said today in a Bloomberg Television interview in Davos, Switzerland.

"We're studying other alternatives that will allow us to contribute to this process of containing and ideally reducing inflation," Velasco said. He didn't say if the government planned to cut taxes on fuel.

Economists expect Chilean inflation to slow to about 4.5 percent by year-end, Velasco said.

"Inflation has risen in the whole world and Chile is no exception," he said.

Chile, the world's biggest copper exporter, has taken advantage of the commodity boom to hoard cash, Velasco said. The government has run a surplus of about 8 percent or 9 percent of gross domestic product for the past few years, accumulating over US\$30 billion in government funds and Central Bank reserves, he said.

"Latin American history is full of episodes in which the price of commodities went up and fiscal savings went down," he said. "Chile's doing something different."

Chile's fiscal rule means that the government spends in line with long-term expectations of the price of copper and saves the rest. It currently expects copper to cost about US\$1.3 per pound over the next 10 years, Velasco said.

The Central Bank expects the average price for the metal to be US\$2.95 a pound this year, it said January 16.

Bloomberg, January 25

**CHILE BANK HOLDS
BENCHMARK RATE
UNCHANGED AT 6.25%**

Chile's Central Bank kept its lending rate unchanged after inflation eased from the fastest pace in a decade and signaled it's prepared to act to ensure price increases slow.

Policy makers left the benchmark rate at 6.25 percent after two consecutive increases. The bank's decision matched the forecast of 15 out of 19 economists surveyed by Bloomberg. The other four analysts predicted a quarter-point increase.

"Clearly, policy makers made their decision based on the latest figures that show slower inflation and economic growth," said Alberto Ramos, an economist at Goldman Sachs in New York in a phone interview.

Stable consumer prices in January and slower economic growth in December left the bank room for a pause today, economists said. The Central Bank last month lifted its benchmark rate to a six-year high after annual inflation in December quickened to the fastest since 1996.

The bank said further rate increases may be needed to ensure inflation slows to the target of 2 percent-to-4 percent. The annual inflation rate may climb in coming months before it starts to ease, the bank said.

"It can't be ruled out that new adjustments may be necessary," the bank said. "Annual

inflation remains significantly above the target."

Inflation Forecast

Falling food, clothing and transportation costs helped trim the annual inflation rate in January to 7.5 percent from 7.8 percent in the previous month. Growth in South America's fourth-biggest economy slowed in December on interest-rate increases totaling 1.25 percentage point since July, said economist Leonardo Suarez, at Larraín Vial SA in Santiago.

Chilean economists have lowered their 2008 forecasts for consumer prices and economic growth, according to a Central Bank survey released today.

The annual inflation rate will end 2008 at 3.8 percent, compared with the 4 percent forecast in January's survey.

Chile's economy will expand 4.6 percent in 2008, compared with the 4.9 percent forecast in last month's survey, according to the report posted on the bank's web site.

María Olivia Recart, the Country's Finance Undersecretary and acting Finance Minister, said stable consumer prices reported February 5 are "good news."

Chile, the world's biggest copper producer and exporter, on Jan. 14 announced a US\$200 million recapitalization of the country's fuel price-stabilization fund to cut consumers' payouts at the pump.

The measure led to a 1 percent drop in fuel prices last month.

Balancing Act

At the same time, restrictions on electricity production have slowed the economy.

Output has been hurt by natural-gas shortages triggered by cutbacks from Argentina and low reservoir levels reducing hydroelectric generation.

Chile will cut electricity voltage 10 percent and extend daylight savings until the end of March in a bid to avoid power rationing, Energy Minister Marcelo Tokman said today.

Ramos says he sees annual inflation as fast as 4.3 percent by year-end, above the bank's target.

Bloomberg, February 7

**CHILE OCT-DEC
JOBLESS RATE 7.2 PCT,
OUTPUT UP 3.4 PCT**

Chilean unemployment for the final quarter of 2007 was 7.2 percent, while industrial production rose 3.4 percent in December, both figures below analyst expectations amid slowing economic growth in the last half of the year, the government said on Thursday.

The jobless rate was slightly under the 7.3 percent average estimate of analysts polled by Reuters, but well above unemployment in the final quarter of 2006 of 6.0 percent, which was the lowest rate in 10 years.

With December's jobless rate, Chile's full year unemployment rate was 7.1 percent, versus 7.8 percent in 2006.

Growth in industrial production for December of 3.4 percent, well below analyst estimates for a rise of 4.5 percent, was driven mainly by Chile's wood pulp industry.

"Paper and paper product manufacturers, which includes wood pulp industries, accounted for 2.98 percentage points of the (December) increase," the INE said in its report. Sector output increased over 30 percent for the year.

The December figure brought the increase in industrial output for all of 2007 to 4.1 percent compared with 2006, about three quarters of which was due to the paper and pulp sector.

Chile, which provides around a third of the world's copper, produced 530,487 tonnes of the metal in December, down 0.6 percent from the same month last year, the government said.

Output for the year rose 3.8 percent compared to 2006 to 5.588 million tonnes.

December production of molybdenum, used

to make steel, rose 6.5 percent over the same month last year, bringing its growth for the year to 3.9 percent.

Reuters, January 31

CHILE JOBS AND INDUSTRIAL OUTPUT DATA SURPRISES

Chile's industrial growth was stronger than expected in January, while the jobless rate remained steady despite a briskly expanding workforce, data released on Thursday showed.

The peso rose over 1 percent to a new nine-year high against the dollar as the data reinforced views that the Central Bank could raise interest rates sooner than expected.

Chile's jobless rate in the November-to-January period was 7.2 percent, equal to the rate in the October-to-December period, the National Statistics Institute (INE) said.

The figure was below the 7.4 percent median forecast of seven economists polled by Reuters, but above that of the November-to-January period a year earlier of 6.1 percent.

"In my judgment the biggest surprise was the growth in the number of employed of 3.6 percent, an excellent figure for the Chilean economy," said Rodrigo Aravena, head of economic analysis and fixed income with brokerage Banchile.

The INE said unemployment was up over a year earlier due to an increase in the workforce of 4.9 percent, which exceeded job creation growth of 3.6 percent. It said the number of Chileans looking for work increased 45 percent over the past 12 months.

The INE also reported that Chilean industrial production rose 4.4 percent in January compared with a year earlier, accelerating from a 3.4 percent growth rate in December. The rise was above the median forecast of seven economists polled, who had predicted a rise of 3.2 percent. "The figure was above market expectations," Aravena said.

Rate hikes could follow improved data

The government said the stronger-than-expected growth was driven mainly by wood

pulp and molybdenum output.

Electric utility production increased 4.4 percent, as production from thermoelectric plants offset a decline in hydroelectric output.

The government also reported January retail sales were up 8.1 percent in real terms over 12 months.

"All this makes us think January economic growth will weigh in at about 4 percent," Aravena said.

Even though 4 percent economic growth would be lower than that in January 2007 of 5.4 percent, economist David Duarte with 4CAST in New York said unexpectedly strong industrial output could accelerate rate hikes by Chile's Central Bank.

"The industrial rebound from December 2007 may prompt the bank to tighten (rates) sooner," Duarte said. "Industrial production surpassed expectations on strong external demand for Chilean products and a robust domestic economy."

Duarte said the increase occurred despite declines in mainstays like mining and chemicals. Mining output fell 2.0 percent. Declines in copper, silver and gold production were partially offset by an increase in molybdenum.

Copper production in January fell 1.4 percent from the same month last year to 439,123 tonnes, a fourth straight month of declining output.

Chile, which provides around a third of the world's copper, produced 5.588 million tonnes in 2007, 3.8 percent more than the prior year.

Molybdenum output rose 13.6 percent in January to 3,526 tonnes.

Reuters, February 28

CHILE LAW WILL ENABLE PRIVATE SECTOR TO INVEST IN R&D

Private companies in Chile who hire universities or research centres to do research

and development (R&D) will get tax incentives, as part of a law approved this month (11 January).

With these incentives, companies will be able to use 35 per cent of the money they normally pay in tax to invest in R&D. This is equivalent to receiving a state contribution of US\$46 for every US\$100 invested in R&D, according to the government.

This law positions Chile "in the list of countries with the strongest use of this sort of incentive", according to a press release issued by the Chilean presidency. In comparison, "for every US\$100 invested in R&D the state provides US\$40 in Spain, US\$23 in Norway, and US\$16 in Korea", it adds.

Chile currently invests 0.7 per cent of its GDP in R&D, and just 34 per cent of this investment comes from the private sector.

"It is evident that we need to increase the private participation in R&D. In developed countries this is around 70 per cent. We would like to reach at least a balance between the private and public sector, with 50 per cent each", Carlos Alvarez, executive vice president of the Chilean Economic Development Corporation (CORFO) told SciDev.Net.

"This law is an opportunity for companies who want to make innovation efforts under their own terms, without applying to grants or project competitions", he said.

"We hope that encouraging the association between the private sector and universities will boost more PhD training and employment for these scientists with an income higher than in the academic sector - thus making more people willing to become scientists not just for the sake of it, but as a real way to make a living", says Jorge Babul, head of the Council of Scientific Societies of Chile.

The state estimates it will spend US\$4.87 million to implement the law in 2008, reaching US\$19.57 million in 2012.

A study released last November by the Organization for Economic Co-operation

and Development (OECD), stressed that Chile must boost innovation and invest more in R&D to improve prosperity and achieve successful incorporation into the OECD.

SciDev.Net, January 23

CHILE LAUNCHES ENERGY-SAVING PLAN

Chile announced Thursday it will try to head off power rationing by cutting electrical voltage, distributing efficient light bulbs and extending daylight savings time.

Fears of power rationing have been fueled by a months long drought in several regions in Chile, which depends on hydroelectric generation for 60 percent of its power supply. The plan includes a 10 percent voltage drop in the nation's electricity supply, from 220 volts. Energy Minister Marcelo Tokman said the reduction would not affect electric equipment and appliances. Electricity is generally provided at 120 volts in the United States.

Other proposed energy-saving measures include a 5 percent cut in power consumption by government offices, the distribution of energy-saving light bulbs and the extension of daylight-saving time by three weeks until the last Saturday in March.

"We are confident that these measures will allow us not to apply power rationing in March," Tokman said. "But that would not be guaranteed for the rest of the year, when we will continue to face a very complicated situation."

Interior Minister Edmundo Pérez Yoma said that if conditions do not improve "experts believe we may be headed to the worst drought in 50 years."

Associated Press, February 7

PERU BECAME IN 2007 CHILE'S MAIN FOREIGN INVESTMENT ATTRACTION

Chile's foreign direct investment in 2007 reached its highest level in the past 10 years, according to the Santiago Chamber of Commerce (CCS). Of US\$ 4.689 billion in Chilean capital invested outside Chile, 26

percent, or US\$ 1.236 billion, ended up in Peru.

This figure is four times the amount Chilean firms invested in 2006, when Colombia was the preferred destination. Spurred by retail expansion, capital from Chile's commercial sector was the decisive factor in the growth in investment in Peru.

Particularly notable was Chilean retail giant Cencosud's purchase of the Wong group, valued at US\$ 500 million. The company acquired 100% of the Peruvian supermarket chain, which operates under several different names: Wong, Metro, Eco and American Outlet.

Brazil placed second in Chilean foreign investment in 2007, with Argentina third. Chilean firms invested US\$ 875 million in Brazil, a 232 percent increase over 2006. The commercial and industrial sectors attracted the most capital. Argentina was not far behind, with US\$ 775 million.

According to CCS figures, the fourth quarter of 2007 alone saw more Chilean foreign direct investment than all of 2006, making it the second most active quarter since 1997.

One reason for this high level of activity was the acquisition of foreign businesses in October and December.

CCS economist George Lever projects a decline in Chilean foreign direct investment in Peru during 2008. "When we see large size operations like this, we normally see an adjustment in the following period," he said. Lever also anticipates growth in the industrial sector.

Mercopress, January 27

CHINA REPLACES U.S. AS CHILE'S BIGGEST EXPORT DESTINATION

China replaced the United States in 2007 as Chile's biggest export destination, according to statistics released Tuesday by Chile's customs authorities.

The figures show Chile's export volume recorded a 14.7 percent rise in 2007, totaling US\$ 65.484 billion, while exports to China reached US\$ 10.172 billion, accounting for

15.5 percent of the total and making China its biggest export destination.

Meanwhile, China also became Chile's second biggest import source country, following just behind the United States after surpassing Argentina and Brazil, the statistics show.

Chilean entrepreneurs attribute the rapid growth of Chile-China trade to the free trade agreement with China which came into effect in 2006. Cristián García Lorca, chair of the Chile-China Trade Association, said there is still room for a further increase despite the rapid growth, and that Chilean businesses should make collective efforts to diversify the country's exports to China.

Xinhua, January 22

CHILE, CHINA ENHANCE COOPERATION IN SERVICE TRADE

Chile and China started their fifth round of talks on service trade Monday in the Chilean city of Viña del Mar to promote the development of bilateral trade.

The free trade agreement was the first of its kind China signed outside Asia, immediately removing all tariffs on 92 percent of Chile's exports.

Andres Rebolledo, a Chilean official in charge of foreign trade, said: "When the agreement came into force in October 2006, we managed to strike an agreement on goods. Today we are negotiating to extend the agreement to services, an area of great importance for Chile's economic development."

Chile will host the second edition of the Free Trade Agreement Administration Thursday to assess its implementation. Chile hopes the agreement can serve as a bridge between South America and the vast Asian market. Thanks to the agreement, China has outstripped the United States and become the biggest importer for Chile.

After the agreement, China-Chile trade volume reached a total of US\$ 11.8 billion, an increase of 66.3 percent.

Xinhua, January 15

CHILE, NORWAY SIGN FISHING RESEARCH, COOPERATION AGREEMENT

Chile and Norway Tuesday signed a pact to extend an existing fishing research and cooperation agreement to cover the fight against illegal fishing, technological training, internships for public sector experts and sharing experience on sustainable development.

Jorge Chocair, Chile's Vice Minister of Fishing, met Norwegian counterpart Vidar Ulriksen in the port city of Valparaíso, 120 km west of Chile's capital Santiago. Chocair told media after the event that it had focused on fighting illegal fishing and an information exchange mechanism covering salmon farming. The two also discussed the Norwegian companies' fulfillment of environment and labor laws; and the effect of fish consumption on human health.

Ulriksen described the agreements as very important. "We will continue developing and promoting aid and exchanges, whether it be studies and research in fishing or areas closely related to international trade," Ulriksen said.

Xinhua, January 22

DUBAI-CHILE BUSINESS NETWORKING FORUM CEMENTS TRADING TIES BETWEEN THE TWO TRADING PARTNERS

Dubai Chamber of Commerce & Industry organized a business networking forum cum reception for its members and the visiting Chilean delegation headed by HE Eduardo Frei Ruiz-Tagle, Former President of Chile, yesterday (Monday) at the Monarch hotel in Dubai.

The delegation was received by HE Hisham Abdullah Al Shirawi, Vice-Treasurer and Board Member of Dubai Chamber, and directors of the chamber's various departments. In town to consolidate trade ties between Dubai and Chile, the visitors gave a presentation of the overall investment environment in Chile and got a chance to learn more about business investment opportunities in the areas of banking, finance,

real estate, hotel and leisure in Dubai and exchanged notes about taking the trade ties between the two sides to the next level. Said Al Shirawi, "Dubai has always been the economic capital of the UAE and the government's continuous support to its various projects has helped the emirate create an encouraging business environment thanks to its free economy and open market policy that are ultimately helping the fast growing city establish itself as an international trading hub."

Added Al Shirawi, "Dubai is now determined to achieve international excellence and global city status and is seeking to increase Foreign Direct Investment (FDI) through building specific clusters such as Media and Internet City, Health Care City, Academic City, Logistics City, Jebel Ali Free Zone, and other mega projects such as Dubai World Central to attract FDI and compete globally."

On its part, Dubai Chamber helps its members to access new business markets, to discover new investment opportunities and to establish strategic partnerships with their counterparts all over the world. "Dubai Chamber is completely committed to extend all possible assistance and facilities to the Chilean businessmen and help them to set up new direct businesses and joint ventures in Dubai," said Al Shirawi.

Impressed by Dubai's remarkable growth and business potential, HE Eduardo Frei Ruiz-Tagle, expressed his satisfaction with the visit by pointing out that the beginning for a stronger trade relation between Chile and Dubai has been made and the two sides see no dearth of opportunities to work together in the common areas of investment and direct trade.

Dubai's non-oil foreign trade with Chile reached US\$74.6 million in 2006, although there are no direct Chilean ownership companies operating in Dubai and registered at Dubai Chamber, Chile still ranked 91 in a list of Dubai's trade partners in 2006 as the Chamber issued a total of 60 certificates of origin for goods exported.

Chile has a market-oriented economy characterized by a high level of foreign trade. Growth in real GDP averaged 8% during 1991-97, but fell to half that level in 1998

because of tight monetary policies implemented to keep the current account deficit in check and because of lower export earnings. Between 2000 and 2007 growth ranged between 2%-6% as the country maintained a low rate of inflation with GDP growth coming from high copper prices, solid export earnings (particularly forestry, fishing, and mining), and growing domestic consumption. Today, Chile continues to attract foreign direct investment, but most foreign investment goes into gas, water, electricity and mining. Unemployment has exhibited a downward trend over the past two years, dropping to 7.8% and 6.7% at the end of 2006 and 2007, respectively.

Dubai Time, January 19

VIETNAM – CHILE FREE TRADE AGREEMENT NEGOTIATIONS ON TRACK

On receiving Deputy Minister of Chilean Foreign Affairs Carlos Furche on January 24, Prime Minister Nguyen Tan Dung said that the Vietnam-Chile free trade agreement which is expected to be signed soon would be an important legal foundation to boost economic, trade and investment link between the two nations.

He added that the Vietnamese-Chilean relationship has developed well with positive changes in the turnover of two-way trade, which has reached US\$ 200 million. However, this does not match both countries' potential, according to the Vietnamese Prime Minister.

He said that he believed the visit by the Chilean delegation on the free trade agreement would open a new door for the agreement to be signed which would become an important legal foundation in boosting economic, trade and investment cooperation and bringing interests and prosperity to both countries.

The Chilean Foreign Affairs Deputy Minister Carlos Furche thanked the Vietnamese Prime Minister for his warm reception, and said that Chile was willing to be a gateway for Vietnamese goods to penetrate the Latin American market. He also said that he wanted Vietnam to help Chile other increase economic and trade relations with Southeast Asian countries.

In the period 2004-2006, trade exchanges between Vietnam and Chile increased by 6 times and reached US\$ 160.731 million in 2006. Vietnam's exports to Chile are mainly footwear, textiles and garments, coal, electronic goods, rice, wood, rubber, handicrafts and fine arts. The country imports mainly pulp, fish paste, copper, grapes and wine from Chile.

Chile has considered negotiations on the free trade agreement between the two countries as one of its priorities in 2008, in an attempt to increase two-way trade relations.

VietNamNet Bridge, January 28

U.S., NEW ZEALAND, CHILE IN GROUP PURSUING PACIFIC TRADE ACCORD

The U.S., Chile, Singapore, Brunei and New Zealand will pursue a regional accord to reduce barriers to foreign investment, U.S. Trade Representative Susan Schwab said.

The four countries will start talks next month on common rules to open the economies to more foreign investment and financial services, Schwab said today. The move is an attempt by the Bush administration to revive interest in new trade deals. Officials see the accord, which may be left to the next president to complete, as the core of a broader agreement among Pacific-rim nations.

"This initiative also will provide another opportunity for the United States to participate in the regional trade architecture that is emerging in" Asia, Schwab said in a statement announcing the initiative.

While Congress last year approved a trade agreement with Peru, lawmakers such as Democratic Representative Mike Michaud of Maine and presidential candidate Senator Hillary Clinton of New York are balking at similar accords with Colombia and South Korea. Clinton has called for a "pause" in negotiating new accords.

The administration is pushing ahead with the new plan. Business groups argue that otherwise the U.S. will be left behind as Asian nations, led by China, put together their own agreements, cutting out American

competitors. The talks "will put building blocks in place for the longer term goal of free trade in the Asia Pacific region," said Bob Vastine, president of the Coalition of Service Industries, which represents Citigroup Inc. and other financial and telecommunications companies.

2005 Accord

The new agreement would tap into an accord the nations completed in 2005 to eliminate tariffs. It also builds upon free-trade agreements the U.S. previously worked out with Chile and Singapore. The U.S. will initially try to negotiate rules governing foreign investment in areas such as express delivery, and insurance and telecommunications based on the terms of the free-trade agreements with Chile and Singapore, Schwab said.

New Zealand tried to persuade the Bush administration to negotiate a free-trade agreement in 2003, when the U.S. was negotiating with Australia, New Zealand's primary commercial partner. The U.S. rebuffed New Zealand then as the leaders of the two nations differed over the war in Iraq, and New Zealand refused to allow U.S. nuclear-powered ships to dock there. Diplomatic ties have since improved.

Bloomberg, February 4

CHILE ADVANCES IN ECONOMIC FREEDOM INDEX

In the 2008 Index of Economic Freedom released recently by the US-based Heritage Foundation and the Wall Street Journal, Chile ranked 8th out of 162 countries, up from 11th position in 2007. In South America, it was followed by Uruguay in 40th place while Brazil and Argentina ranked 101st and 108th, respectively.

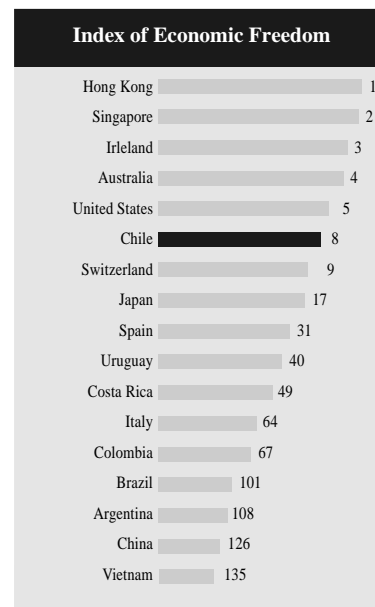
"Chile is a regional economic power and scores higher than average in all 10 areas of economic freedom, especially investment freedom, property rights, and freedom from corruption," the report stated. "Foreign investment is a cornerstone of Chile's strong growth, and allowing easy repatriation is an attraction to inbound capital," it also noted, adding that the rule of law in Chile is

"remarkably transparent and impartial."

The Index, based on the analysis of ten areas of freedom, was led by Hong Kong and Singapore. Chile was positioned immediately after New Zealand and Canada and ahead of Switzerland and the United Kingdom.

Its highest scores were for protection of property rights and labor freedom, on both of which it obtained 90%, and freedom from government (measured as the relative size of the public sector) on which it obtained 88.2%. In the case of financial freedom, although Chile's score dropped to 70%, the report praised its performance, noting that its "financial system is among the strongest and most developed among all emerging markets."

Chile's weakest performance was on business freedom, reflecting "cumbersome" bankruptcy procedures. However, the report pointed out that starting a business is comparatively easy, taking an average of 27 days, compared to a world average of 43 days.



Source: Heritage Foundation

MIXED RESULTS FOR CHILE IN ENVIRONMENTAL INDEX

At the World Economic Forum meeting held in Davos, Switzerland, in January, Yale University and Columbia University released the 2008 Environmental Performance Index (EPI) in which Chile ranked 29th out of 149

countries. The Index uses 25 indicators to measure a country's performance in six policy categories: environmental health, air pollution, water resources, biodiversity and habitat, productive natural resources, and climate change.

Switzerland ranked in first place, followed by Norway, Sweden and Finland and the Index shows a close correlation between a country's performance and per capita income. However, some countries such as Costa Rica - which took 5th place - achieved a position that far exceeded those of the rest of their peer income group while others performed significantly below par. The United States, for example, took 39th position, well below other industrialized countries such as the United Kingdom (14th) and Japan (21st).

In Latin America, Chile ranked below Colombia and Ecuador which were placed 9th and 22nd, respectively. However, it performed better than Brazil (34th), Argentina (38th) and Mexico (47th).

On environmental health, Chile achieved a score of 93.3, boosted by the high quality of water for human consumption and of sanitation services in general. However, as regards ecosystem vitality, its score dropped to 73.6, reflecting a weak performance on the conservation of biodiversity and endangered habitats.



Source: World Economic Forum

LLOYD'S BECOMES CHILE'S FIRST 'APPROVED FOREIGN INSURER'

Lloyd's announced that it has become the first foreign entity to take advantage of a recent regulatory change in Chile's insurance practice. Following the signing of a Free Trade Agreement in 2007 "between Chile and the European Union, the South American country's insurance regulator, Superintendencia de Valores y Seguros (SVS), enacted a new regulation relating to marine, aviation, and transportation (MAT) insurance business," said the bulletin. Lloyd's has received approval under Regulation No.197, to transact direct MAT business in Chile.

Lloyd's explained that "before the enactment of 197, any Chilean citizen or company was free to buy insurance from a foreign insurer. However, foreign insurers and intermediaries were not allowed to solicit or broke for direct business within Chile. The new ruling enables Lloyd's to write on a direct basis in Chile all insurance connected directly with international marine transport, international commercial aviation and goods in international transit. Also included are civil liability, vessel and aircraft hull insurance, and cargo insurance. However, loan insurances and civil liability for the transportation of passengers are excluded."

Chilean authorities designated Lloyd's as an "approved foreign insurer" and allocated the registration code "AS002," which Lloyd's indicated it would need to "be included on all direct MAT placements in the information section on the slip."

Lloyd's also noted that Chile has "the most favorable business environment in Latin America according to US think-tank the Heritage Foundation." The country has been economically stable for "two decades" accompanied by "increasing living standards."

Lloyd's described Chile's economy as "deregulated and stable," as well as welcoming to foreign investment. It also indicated that "its brokers and syndicates are well-positioned to take advantage of the opportunities presented in the Chile insurance

market, which has been the second most dynamic market for Lloyd's in Latin America producing an annual average premium growth of 8.8 percent".

Insurance Journal, January 7

TRANSFIELD EXPANDS INTO CHILE

Transfield Services has taken a 50 percent stake in Chilean mining maintenance and capital works services company, Instrumentación y Servicios S.A. (Inser), for US\$16.25 million. Transfield said the acquisition fitted with the company's international growth strategy of expanding into new markets with favourable macro-economic conditions.

"We're partnering with a local company that has grown four-fold in as many years in a country averaging a five per cent GDP growth rate," Transfield chief executive Peter Watson said. "Chile's growth has been driven by investment in the mining and infrastructure-related industries, both industries in which Transfield Services has core skills".

"The mining sector represents 63 per cent of Chile's export market and has the potential to grow as this industry expands to meet growing demand for iron, copper, gold, silver, zinc and lead." Transfield said it would build on Inser's strong local presence by leveraging its core skills in asset, project and subcontractor management, to grow the existing business.

The company will operate as Inser Transfield Services S.A. and will have more than 1200 technically-skilled employees. It has long-term contracts with clients including BHP Billiton, Codelco and Xstrata.

The current shareholders will retain 50 percent ownership. Existing management team also will remain in place. They will work closely with Transfield Services New Zealand, under the leadership of Graeme Sumner, its chief executive, Transfield said. The company expects to complete the acquisition, which includes subsidiary company Ingeniera Ambiental y Servicios S.A., in February 2008.

News.com.au, January 9

CODELCO, CANADIAN FIRM TO EXPLORE FOR GOLD IN NORTHERN CHILE

Chilean state-owned copper giant Codelco and Canada's Fortune Valley Resources Inc. on Thursday announced a joint contract to explore for gold in the northern Antofagasta region.

According to a communique released Thursday by Codelco, Fortune Valley could spend up to US\$ 3 million on exploration efforts and a feasibility study over the next six years in exchange for a 65 percent stake in the joint venture.

Codelco's CEO, José Pablo Arellano, said that the alliance was "a valuable opportunity to partner with a firm that has experts in exploration and development of gold projects." The association "allows us to take advantage of our mining assets, thus adding value to the company and its stockholders, who are the entire Chilean public," Arellano said.

The area to be explored comprises 24,000 hectares (60,000 acres) and is adjacent to the El Peñón mine, which is run by Yamana Gold. Though based in Canada, Fortune Valley has strong ties with Chile. The firm focuses on the acquisition, exploration and development of high-quality gold and silver projects in Chile, where it has property interests to prospect on approximately 54,000 hectares (135,000 acres).

EFE, January 10

RIO TINTO SIGNS COPPER EXPLORATION PACT IN CHILE

Rio Tinto said Thursday that it has signed an exploration joint venture agreement with Codelco, the world's largest copper producer.

Under the terms of the agreement, Rio Tinto and Codelco's 100 percent owned subsidiary SCM Los Andes will jointly contribute mineral rights in Chile to the joint venture, which will be managed by Rio Tinto.

This is the first joint venture that Rio Tinto

has entered into with state-owned Codelco. The property to be explored is the Exploradora prospect in northern Chile. Rio Tinto has the option to earn a 55 percent interest in the prospect through an exploration investment of US\$ 20 million, with the potential to increase ownership to 60 percent.

Rio Tinto has been exploring in Chile since 1989 and has several copper exploration properties under title which are scheduled for drill-testing in 2008.

MarketWatch, January 24

CHILE TO BUILD GAS PLANT

Chile's state copper giant Codelco and French-Belgium company Suez announced on Monday that they will start construction of a natural gas regasification plant next month.

The project in the northern port city of Mejillones is seen as a key step in the government's efforts to reduce the country's dependence on imported energy.

The companies said in a communique that their GNL Mejillones project, which is expected to start production in late 2009 or early 2010, was unanimously approved by environmental regulators.

Its production capacity is planned at 5.5 million cubic meters (194 million cubic feet) a day. Chile depends entirely on neighboring Argentina for its gas supplies, and in recent years Argentina has frequently reduced or suspended pumping to Chile.

The area where the plant will be located is in the heart of Chile's mining region, and several private companies and Codelco's largest copper mines have already signed contracts for the purchase of gas from GNL Mejillones.

Indonesia and Trinidad and Tobago have been mentioned as likely providers of liquified gas to Chile once the plant in Mejillones starts operations.

Associated Press, February 11

JSW STEEL IN JOINT VENTURE WITH CHILE'S MINERA SANTA FE

India's JSW Steel Ltd said it has signed a joint venture agreement with Chile's Minera Santa Fe to develop iron ore mines and port projects in Chile and South America.

Minera Santa Fe is controlled by Chilean entrepreneur Leonardo Farkas Klein, JSW Steel said in a regulatory filing.

Chairman Sajjan Jindal said he is planning to invest around US\$ 500 million in the venture and added that he plans to start mining operations in the next 18 months.

The venture currently holds iron ore exploration and exploitation concessions over 26,000 hectares in Bellavista and Viña mines located in Atacama region in North Chile. The JV also has right to use port in Caldera region for export of iron ore and has applied for a concession to develop new port infrastructure suitable for large vessels, JSW Steel added.

The Indian company said it expects these mines will create 4 million tonnes per annum worth of saleable high grade iron ore in the next 12 to 18 months, and added it has plans to scale production to 20 million tonnes a year over the next four years.

Thomson Financial, January 31

MAGALLANES OIL/GAS EXPLORATION CONTRACTS READY FOR NEXT MARCH

Chile's Ministry of Mines expects to sign next March oil operating contracts with the corporations that have won licences to explore and exploit hydrocarbons in the extreme south of the country reports La Prensa Austral from Punta Arenas.

"We are contacting the successful companies of the Magallanes and Tierra del Fuego bidding process to agree on a basic operations contract and have accepted some of their recommendations", said Diego Vio head of the Legal Department from the Mining Ministry in Santiago. Meantime the corporations are complying with all the

documents from the Central Bank, tax Department and Energy Commission which they will need to operate in Chile. Chile and the corporations actually are breaking ground since it's the first time the private sector has been invited in Chile to participate in oil/gas exploration.

"We expect all the process can be over next March when we sign the contracts. We are hopeful the ceremony will take place in Punta Arenas", said Mr. Vio.

The five successful corporations (out of a total of ten) involved in the Magallanes region hydrocarbons exploration are: Total S.A. (France); Apache Corporation (Canada), Pan-American Energy LLC (US); Greymouth Petroleum Holding Limited (New Zealand) and the IPR-Manas consortium (US/Switzerland).

They have promised an initial investment of US\$ 267 million.

According to contract conditions before six months after the signature the companies must begin exploratory operations and have a seven year timetable to comply with the production goal on three legs: 3+2+2.

Corporations must also present collateral in each leg of the timetable in line with the promised minimum investments. The guarantee can be recovered as the investment advances.

Exploitation of each well considered commercially viable extends for a maximum of 25 years, but can't exceed the 35 years of the original contract.

The holder of the license is responsible for any contamination and is entitled to sell the oil and gas extracted in the open market. However the Chilean government has a first choice option. In the first leg of the hydrocarbons exploitation the licensed company keeps 95 percent of the selling price of oil and gas but the percentage declines gradually until the selling price doubles accumulated costs, when another 10 percent will be shaved off. Corporations must also pay a 17 percent income tax.

Mercopress, January 14

APOLLO SWINGS INTO SOUTH AMERICA

On Wednesday the operator of for-profit education services announced it agreed to acquire Chile's Universidad de Artes, Ciencias y Comunicaci6f3n for US\$ 40 million in cash and assumed debt. The University is an accredited, private arts and communications university based in Santiago. The acquisition includes the university's online professional institute, which offers six fully online and one blended program.

Apollo Group, which operates the University of Phoenix, is making the acquisition through its Apollo Global unit. Apollo Global, a US\$1 billion joint venture formed last year, is 80.1 percent owned by Apollo Group and 19.9 percent owned by The Carlyle Group, a private equity firm.

The company also said it will make a payout in four years based on future earnings. If the payout was to be paid based on current earnings, the company said, it would be approximately US\$9 million. Investors were pleased.

Apollo Group Chairman Greg Cappelli said the acquisition is in-line with Apollo's plan to expand internationally. "We have been working diligently to identify opportunities that will create value for Apollo Group shareholders, and we believe UNIACC, coupled with Chile's stable economic environment, strong student enrollment trends, and openness to foreign investment, is an excellent fit," Cappelli said.

The company says that Chile has one of the fastest growing economies and highest post-secondary rates in the region. Chile's growth in private education outpaces that of the public sector. The deal is expected to close within 30 days.

Forbes, February 20

CNN TO PARTNER WITH CHILE'S VTR IN LOCAL NEWS CHANNEL

Global news provider CNN said on Wednesday it will partner with Chile's top

cable television provider to launch a local 24-hour cable TV news network.

Turner Broadcasting System (TBS), a unit of Time Warner Inc responsible for CNN Latin America, and Chile's VTR, a unit of U.S. cable operator Liberty Global, said in a statement CNN Chile would be broadcast from Santiago and "presented by Chileans for Chileans."

"In addition to a fully staffed local news production center, CNN Chile will have complete access to CNN Worldwide's news-gathering resources," they said.

CNN has similar partnership channels in Spain, Turkey, Japan and India.

Reuters, February 13

SSC SIGNS PURCHASE AGREEMENT FOR SANTIAGO SATELLITE STATION

The Swedish Space Corporation has today announced its signing of an agreement with the University of Chile in Santiago regarding the purchase of Centro de Estudios Espaciales (CEE).

The purchase includes the complete Santiago Satellite Station with all equipment and the transfer of all existing contracts. The management of the station remains the same and all 60 staff will be retained.

The Santiago Satellite Station has a very good reputation for its services and for its experienced personnel, says Mikael Stern, General Manager of the Satellite Operations Division, SSC. The station serves mainly the same customers as we do at our satellite station at Esrange Space Center in Northern Sweden, and through our global ground station network, PrioraNet.

Setting up a Chilean subsidiary is an important step in our efforts to go global, says Lars Persson, CEO of SSC. We will now have operations in five countries and more than 170 staff members outside Sweden.

Swedish Space Corporation, February 20

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

From Santander Investment, "Latin American Economics Research", January 2

Chile, A Fifth Year Of Solid Growth Likely In 2008

Positives

- We expect internal demand to continue posting sound growth rates in 2008, with all of its components outpacing GDP, which we expect to expand 5.1%, mainly supported by a strong fiscal impulse and sound private consumption.
- The labor market continues to develop positively, with the unemployment rate at lows not seen since before the Asian financial crisis. Real payroll growth reached 6.5% y/y in 2007, increasing disposable income and thus consumption.
- The strong fiscal position, which showed a net creditor position of 10.7% of GDP as of 1H07, should protect the domestic economy against the risk of adverse international scenarios.

Negatives

- Inflation has accelerated in recent months, reaching nearly twice the top end of the

Central Bank's comfort range of 3% +/- 1%, and likely finished 2007 at 7.1%. Nevertheless, inflation should start to come down in mid-2008 as the temporary shocks start to revert. We expect CPI to average 5.1% in 2008, finishing the year at 3.6%.
 · The latest economic data confirmed lower output in 2H07 than previously expected. We think the persistence of these factors could push down economic activity in 2008.
 · Other potential risks are the deterioration of consumer confidence and the very tight energy supply due to the almost total cutoff of Argentine natural gas exports.

Prospects

Economic growth – Our base case scenario includes an estimate of 5.3% real GDP growth for 2007 and a forecast of 5.1% in 2008. While we could see strong internal demand growth in both years, we are decreasing our forecast for 2008 GDP growth because we think some of the factors behind the decrease in the economic strength in 2H07 could persist in 2008. However, the electricity sector could boost 2008 GDP growth. We expect internal demand to decelerate slightly by the end of 2008, but with a sound expansion in both 2007 and 2008, up 7.5% and 6.8%, respectively. Although from an internal demand perspective 2008 should post sound growth,

outpacing overall GDP, the latest economic data led us to lower our macroeconomic scenario for next year. We think the factors behind the slowdown in 2H07 – such as capacity constraints and maintenance problems in the mining industry, high energy costs and the lack of natural gas from Argentina, tightening of credit conditions, high interest rates due to the hike in inflation, and the risk of adverse international scenarios – could persist in 2008.

However, we still estimate the Chilean economy could grow above its trend of about 4.8%-5.0%. We expect natural resource sectors to drive GDP growth, mainly on the back of the maturity of capacity expansion projects initiated in 2007 and new ones to be started in 2008. In the case of pulp production we expect that the current output constraints at some facilities due to environmental factors could vanish in 2008, as the regulator will likely allow companies to produce at a full capacity. In addition, we expect mining output to increase 6.0%, because in the most likely scenario, longer maintenance stoppages that affected 2007 output could normalize to historical levels, pushing annual production upward.

On the other hand, the tight energy scenario that pressured economic growth in 2007

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through lower value added from the electricity sector could fade in 2008. In fact, while electricity generation increased 6.7% in the first seven months of 2007, the growth contribution of the electricity, gas & water sector in the same period decreased by 8.3%. This was mainly due to the strong decline in hydro generation (which was mainly replaced by diesel generation), as the Central Bank accounts for hydro generation as a more value-added process than thermal generation. However, considering that this sector represents only around 3% of GDP, the impact on overall growth was around 25 bps during the first three quarters of the year and might reach 30 bps for the whole year.

On the other hand, while the scenario in 2008 will be highly dependent on hydrological conditions, in our base scenario of normal-to-dry climate conditions, we could expect the electricity sector to contribute 0.2% growth to total GDP in 2008 on sound y/y growth rates in hydro generation.

There is good news on the aggregate demand side. We estimate that internal demand grew 7.4% in 2007 and will grow 6.4% in 2008, well above the increase of

GDP. Moreover, while the real increase of investment in 2008 could lead the pack with an expected 10.5% rise, we could observe a balanced and strong growth among all components. Although we expect internal demand to decelerate slightly in 2008, as the Chilean economy faces higher interest rates, lower world growth, and worse terms of trade plus a closure of the current capacity gaps, we expect all the components of internal demand to continue growing above the increase of overall GDP, supported by the fiscal impulse, which could affect consumption and investment through transfers to the private sector and spending in public works and infrastructure projects.

In the case of private consumption, the determinants behind growth are (1) a very sound and strong expansion of total real payroll, which has been increasing the real disposable income of families; (2) the formalization of the labor market, increasing the stability of employment and generating a positive sentiment on the part of families regarding their future prospects; and (3) more access to credit, particularly for the low and middle income sectors. In our view, these factors should not change in the medium term, so we think the

expansion of private consumption should be one of the most stable variables. Nevertheless, we are incorporating a slight deceleration of private consumption next year as a result of the negative impact of (1) less favorable financial conditions, on the back of increasing interest rates and the marginal tightening of credit access, as financial institutions could restrict risk exposure, and (2) the decrease in disposable income due to the increases in basic prices such as food and energy goods. Nevertheless, we still see these more as temporary events compared with other factors.

Investment, on the other side, should show a strong rebound in 2007 after the meager performance of 2006. It is important to note that it is not concentrated in one particular sector but across the whole economy. The most important investment projects between now and 2010 are concentrated in four sectors: mining, energy, real estate, and public works. Looking into 2008, investment should decelerate in a scenario of higher interest rates. Nevertheless, the strong expected rise in fiscal spending in infrastructure projects should push investment growth above GDP growth.

In addition, the fiscal sector should continue supporting economic growth in 2008. The recently announced 2008 fiscal budget law assumes a real increase in fiscal expenditures of 8.9%, the same level as in 2007. Therefore, we expect a strong contribution from fiscal expenditures to growth, mainly in the form of higher spending on public works, infrastructure, and housing on one side, and on higher transfers to the private sector on the other. Nevertheless, as the fiscal sector should play an important role in economic activity in 2008, one of the risk factors to the total GDP expansion comes from the proper execution of the fiscal budget.

Another important downside risk comes from the energy sector. On one hand, as current energy reservoir levels are not significantly below the historical average, we think it is very likely that, under normal climate conditions, Chile will not experience blackouts in 2008. However, if rainfall is poor, the immediate effect should be higher energy costs and increasing inflation pressures, mostly through higher residential electricity tariffs and additional stress on the industrial sector.

*From Santander Investment, "Latin American Economics Research",
February 15*

Chile, Open To The World, But Protected

Although inflation remains a concern in 2008, we expect the Central Bank to keep the interest rate at 6.25%, as the global slowdown may prompt inflation at home to converge to the target range more rapidly. Moreover, we do not rule out a decrease in the reference interest rate if we observe a further deterioration on the external front.

In our opinion, in an adverse international scenario, the Chilean economy would be well shielded against external shocks, as the central government has a strong financial position and could implement a countercyclical fiscal impulse, and most of the GDP growth is supported by internal demand.

Chile is in a strong position to face a financial and liquidity crisis due to its net creditor position. In a negative scenario of increasing risk aversion and liquidity problems (which could imply less favorable conditions for sovereign bond issuances,

as premiums for these instruments could increase) Chile would be well insulated, as the consolidated government shows a net creditor position of about 11% of GDP. In addition, we believe the Chilean government will not have financial needs through 2009, so we do not expect it to issue any bonds in the next couple of years.

A strong financial position and the structural fiscal surplus rule allow the government to conduct a countercyclical fiscal policy. Fiscal assets amounted to US\$20,922 million at the end of 2007, with 91.5% of that amount invested outside Chile – an arrangement intended to deal with Chilean peso appreciation as a result of increasing copper-related revenues in U.S. dollars. The Social and Economic Stabilization Fund reached US\$14,032 million. This fund, which is the continuation of the former copper fund, receives the entire fiscal surplus above 1% of GDP. Given the 2007 fiscal surplus, we expect the fund to reach at least US\$26 billion by the end of 2008. Therefore, in our view, economic growth could be supported by an expansionary fiscal impulse, even in an adverse international scenario, as the government will not have any constraints on financing a countercyclical fiscal budget. The structural surplus rule is linked to potential

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GDP growth and the long-term copper price, which are not affected by temporary negative factors. Moreover, we believe the fiscal impulse in 2008 and 2009 should prevent a steeper deterioration of the internal demand through transfers to consumers and public investment.

We are confident about internal drivers, which could support economic growth in 2008 and 2009. With regard to the potential impact of a global slowdown on Chilean GDP growth, we expect Chile's economic growth in 2008 and 2009 to be mostly driven by internal demand, because growth of consumption and investment, although slowing, could remain robust in these years, largely isolated from external shocks. Nevertheless, given that about 17% of Chilean exports go to the U.S., we do not rule out a further deterioration of this sector if we see a steeper deceleration of the U.S. economy. We incorporated a slowdown in the U.S. in our base macro scenario, so we maintain our view that exports could increase by 5.5% in real terms in 2008 and 5.7% in 2009, compared with the 8.0% expected for 2007. Nevertheless, as a sensitivity

analysis, we estimate that a 1% per annum decrease in our growth forecast for exports could imply a 38 bp negative impact on our yearly GDP growth forecast.

Nevertheless, we expect the growth of demand to slow in 2008, mainly due to the lagged effect of the monetary tightening in late 2007 and the negative income effect of the high inflation episode. Despite these factors, we still see internal demand increasing 6.1% in 2008, representing one of the strongest increases in Latin America. Despite negative temporary factors, we still expect private consumption to increase 6.3% and 6.5% in 2008 and 2009, respectively. Private consumption should continue to be one of the most stable variables of the Chilean economy, as its fundamentals remain strong and are unlikely to change in the medium term: (1) a very sound and strong expansion of real total payroll, which has been affecting the real disposable income of families; (2) the formalization of the labor market; and (3) more access to credit, particularly for the low- and middle-income sectors.

However, we are incorporating a

deceleration of private consumption next year as a result of the negative impact of (1) less favorable financial conditions owing to increasing interest rates and the marginal tightening of credit access, as financial institutions could restrict risk exposure and (2) the decrease in disposable income and real wages due to the high inflation episode. However, in 2009 we expect private consumption to post a higher growth, as inflation could decrease next year. We see the deceleration of economic activity and internal demand as good news for inflation, as the gap between actual economic activity and higher full employment growth could be maintained for a longer period, meaning that it is unlikely that we will see inflation pressures coming from overheated activity.

Finally, although we maintain our view that CPI inflation could end the year at 4.0%, a global slowdown could imply lower inflation pressures. We continue to see high inflation as a risk for the Chilean economy. Despite recent news of the deterioration of the international scenario and the slowdown of internal activity, we maintain our view that CPI

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inflation could reach 4.0% in December 2008, averaging 6.4%, as we believe there are several factors that could push inflation down, especially after mid-2008: (1) the Central Bank tightening of monetary policy to support the containment of this potential propagation of shocks to other prices through a deceleration of internal demand; (2) the likely reversion of perishable food prices due to the increase in supply from new harvests; and (3) diminished inflation pressures with the deceleration of economic growth as a result of a widening of the output gap in 2008. Nevertheless, as a downside risk, we think if the international scenario prompts a stronger mean reversion of commodity prices, we could see less inflation from imported goods, such as oil and some food items, implying less inflation than our current CPI inflation forecast.

In our base scenario, we expect the Central Bank (BCCh) to maintain the MPR at 6.25%, but we do not rule out a decrease in the reference interest rate in 2H08. As inflation expectations started to show some decoupling from the target of 3% over the monetary policy horizon of 12/24 months, the Central Bank

increased the reference interest rate from 5.75% in September to 6.25% in January, reaching a level that is in the high part of our estimates for a neutral interest rate.

Looking forward, we believe that in the most likely scenario the Central Bank could leave the rate unchanged for the rest of the year owing to the international scenario, because we expect local inflation to remain above the BCCh's target range for all of 2008. Inflation expectations have increased strongly in recent weeks, as local players see less inflation pressure coming from oil prices and other imported goods, as a reflection of the appreciation of the exchange rate. In our view, although the BCCh is clearly uncomfortable with current inflation, it will not increase the interest rate because of the decrease of inflation expectations, which translates into lower implicit inflation on the secondary market in the last few weeks. With the widening of the interest rate differential with the U.S. and Chile, the local exchange rate could reach a level that could hurt the local economy. Moreover, if the international scenario deteriorates further, we do not rule out a reversal of the monetary impulse in later 2008.

In conclusion, under a possible adverse scenario, the Chilean economy would be sheltered from external shocks, as the central government has a strong financial position and could implement a countercyclical fiscal impulse, and most of the GDP growth is supported by internal demand, as has been the case in recent years. Although the price of copper has remained high, the external scenario relevant to the Chilean economy presents increased adverse risks. Inflation remains as a concern in 2008, but we expect the Central Bank to keep the interest rate at 6.25%, because the global slowdown may prompt inflation to converge to the target range more rapidly. We do not rule out a decrease in the reference interest rate if we see a further deterioration on the external front.

CHILE: FOREIGN DIRECT INVESTMENT NET INFLOWS 2003-2007
(in nominal US\$ million)

Component / Period	2003	2004	2005	2006*	2007*
Equity capital	1,546.4	1,242.9	796.2	1,957.5	5,414.6
Other capital (Loans)	-574.2	-21.8	-375.6	-1,463.2	-15.6
Reinvested earnings	3,335.2	5,951.6	6,539.0	7,457.3	10,008.3
Total FDI	4,307.4	7,172.7	6,959.6	7,951.6	15,407.3

Source: Central Bank of Chile
* Provisional figures as of December 31, 2007



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FOREIGN INVESTMENT STATUTE (DL 600)

DL 600 MATERIALIZED FOREIGN DIRECT INVESTMENT REPORT BY SECTOR
5 LAST QUARTERLY PERIODS (in nominal US\$ million)

SECTOR/QUARTER	2006	2007			
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Agriculture & livestock	0.3	0.5	0.1	0.1	0.1
Forestry	1.0	67.5	33.4	5.2	1.5
Fishing & aquaculture	0.0	9.2	1.0	0.5	0.7
Mining	737.8	154.3	41.5	68.8	49.8
Industry	10.6	19.5	12.4	29.5	8.0
Electricity, gas & water	12.0	5.8	4.8	97.5	60.5
Construction	0.0	0.0	0.0	0.0	1.5
Transport & communications	19.8	10.9	7.8	22.6	41.6
Wholesale & retail trade	0.0	1.9	34.0	37.8	188.9
Financial services	117.8	2.6	112.5	42.3	92.2
Other services	79.1	32.7	21.2	21.5	26.7
Total	978.4	304.9	268.7	325.8	471.5

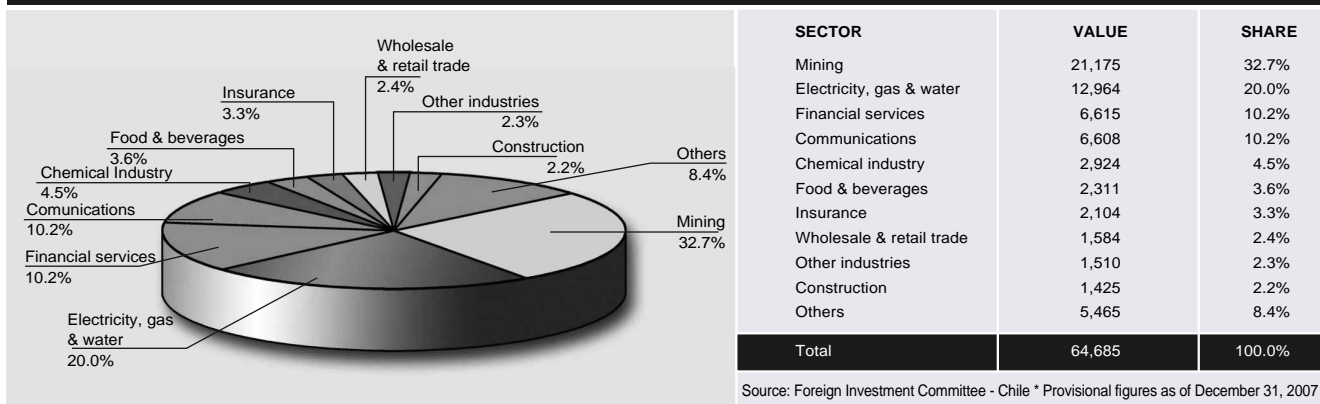
Note: Materialized investments include all forms accepted under the Foreign Investment Statute.
Source: Foreign Investment Committee. *Provisional figures as of December 31, 2007

DL 600 MATERIALIZED FOREIGN INVESTMENT
GROSS INFLOWS BY SECTOR OF DESTINATION 2007* (in US\$ thousand)

SECTOR	VALUE	SECTOR	VALUE
Agriculture and livestock	734	Construction	1,543
Forestry	107,690	Wholesale & retail trade	262,638
Fishing and aquaculture	11,483	Transport & storage	15,741
Mining and quarrying	314,417	Communications	67,094
Food, beverages and tobacco	20,226	Financial services (1)	249,601
Wood and paper products, printing and publishing	23,369	Insurance	10,268
Chemical, rubber and plastics	7,157	Engineering & business services	71,472
Other manufacturing industries	18,705	Other services (2)	20,301
Electricity, gas & water supply	168,640		
		Total	1,371,079

(1) Includes: Banking, Investment companies, Investment & risk capital funds and other financial services.
(2) Includes: Restaurants & hotels, Real Estate activities, Social & related community services, Recreation & cultural services and other services.
Source: Foreign Investment Committee - Chile. *Provisional figures as of December 31, 2007

DL 600 MATERIALIZED FOREIGN INVESTMENT
GROSS INFLOWS BY SECTOR OF DESTINATION 1974 - 2007* (in nominal US\$ million)

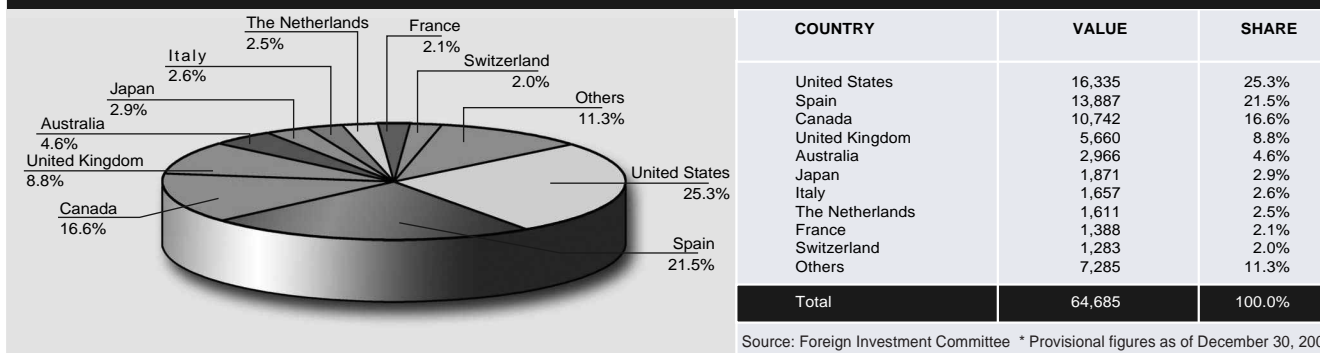


DL 600 MATERIALIZED FOREIGN INVESTMENT
GROSS INFLOWS BY COUNTRY OF ORIGIN 2007* (in US\$ thousand)

COUNTRY	VALUE	COUNTRY	VALUE
Argentina	49,113	Liberia	6,000
Australia	104,970	Mexico	54,547
Brazil	36,359	The Netherlands	82,888
Canada	333,928	Norway	14,400
Cayman Islands	24,975	Panama	3,554
China	1,961	South Africa	1,590
Colombia	194,455	Spain	106,692
France	14,428	Sweden	2,203
Germany	17,611	United Kingdom	8,243
International Organizations	15,000	United States	265,629
Japan	32,533		
Total		Total	1,371,079

Source: Foreign Investment Committee - Chile
 * Provisional figures as of December 31, 2007

DL600 MATERIALIZED FOREIGN INVESTMENT,
GROSS INFLOWS BY COUNTRY OF ORIGIN 1974-2007* (in nominal US\$ million)



DL600 INVESTMENT APPROVED DURING 2007* - SHARE BY SECTOR & COUNTRY

SECTOR	US\$ MILLION	COUNTRY	US\$ MILLION
Mining	1,072	Canada	1,156
Electricity, gas & water	536	United States	550
Financial services	407	Colombia	331
Wholesale & retail trade	385	United Kingdom	310
Transport & communications	137	Spain	124
Others	422	Others	488
Total	2,959	Total	2,959

* Provisional figures as of December 31, 2007