

Chile

INVESTMENT

REVIEW

INTERNATIONAL PRESS SELECTIONS

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ECONOMY

CHILE BANK LOANS RISE 9 PERCENT IN JANUARY, DESPITE CRISIS

Chilean bank loans grew sharply in January, despite a deep economic slowdown amid the financial crisis, the country's Superintendent of Banks said.

Banking Superintendent Gustavo Arriagada told lawmakers that loans continued to grow, though at a slower pace, and as banks pass on a series of aggressive cuts in the Central Bank's benchmark interest rate to consumers.

"Although we have seen tighter credit conditions in the last few months and a fall in requests for credit that is due to factors like an increase in risk and worsening of employment conditions and client income" Arriagada said in his presentation.

The Association of Banks widely expects to see loan growth of just 2 percent in 2009, after 10 percent growth in 2008.

In January, loans to companies rose 11 percent and mortgages rose 10 percent, but consumer loans fell 2 percent compared to the same period a year earlier.

The Central Bank cut its target overnight lending rate by a bigger-than-expected 250 basis points to 2.25 percent last week, the third aggressive cut in as many months.

It cut the rate by a total of 600 basis points in the first quarter, the biggest reduction in a single quarter in Chilean history.

While banks have started to pass on those cuts to consumers, Arriagada expects it to take around 2-1/2 months more for those cuts to be fully factored in to loan rates.

Analysts polled by the Central Bank this month slashed their outlook for 2009 economic growth to just 0.2 percent from an outlook of 1.2 percent the previous month, and forecast a 1.0 percent contraction in the first half of the year.

Chile's banking sector, which is made up of more than 25 institutions, is led by Santander Chile and Banco de Chile.

Reuters, March 16

CHILE'S EXAMPLE TRIGGERS CREDIT UPGRADE

Chile's economy is shrinking, its exports plunging, unemployment climbing. That didn't deter Moody's Investors Service from making it the first investment-grade country to be awarded a higher credit rating this year.

The country's US\$22 billion of savings in wealth funds put it in a position to recover more quickly from the global credit crisis than other, similarly rated nations, Moody's said in raising Chile's foreign debt to A1 from A2 with a positive outlook.

Chile's winning formula is as simple as it is uncommon. While other Latin American governments spent their commodity windfalls over the past five years, President Michelle Bachelet salted away revenue from record copper exports into sovereign funds. She's now breaking open a piggy bank that's the envy of cash-strapped governments, plowing US\$4 billion into counter-cyclical tax cuts and handouts in the US\$154 billion economy.

"Nobody else compares with Chile," Moody's analyst Mauro Leos said in a phone interview from New York. "Like everywhere else, they're getting hit hard. But because of the work they did ahead of time, they can go from a 5 percent surplus to a 5 percent deficit without any additional borrowing."

In a sign of how the credit crunch is realigning perceptions of risk, an hour after Chile's upgrade, Moody's lowered General Electric Co. two levels to Aa2 from Aaa, the first cut in more than four decades.

Extra Spending

The extra spending is unlikely to dent the country's finances. In the unlikely case copper prices fall another 40 percent, the funds, which include pension savings, should still finish the year with assets worth 10 percent of GDP, Leos said.

"Chile is in a league of its own," said Luis Arcentales, Chilean economist for Morgan Stanley in New York. "As the crisis deepens,

we'll see on a relative basis that Chile looks better and better".

Also helping bolster the economy is one of the world's most pro-active central banks. Chile's policy makers have slashed the benchmark interest rate by 6 percentage points this year, the most in the region.

Finance Minister Andrés Velasco said the Moody's upgrade is recognition of the government's policy of saving windfalls.

"There's not many countries, rich or poor, big or small, that have reduced gross public debt to minimal levels, that have capitalized their central banks, accumulated gross assets of 15 percent or 16 percent of GDP and can therefore do the kind of counter-cyclical policies that we are applying," Velasco said in a phone interview.

Savings Rate

Chile's spending as a percentage of GDP fell 4.1 percentage points from 2002 through 2007 even as tax collection rose 6.4 percentage points, making it the country with the highest savings rate in Latin America, according to a study based on United Nations data by Brazil's MB Associados.

Investors have rewarded the government for its persistence.

Chile's peso is the best-performing Latin American currency this year, fueling a 19 percent rally in the IPSA index of most-traded stocks, the second-best performance in dollar terms among 89 indexes tracked by Bloomberg.

In another reverse from regional trends, where the crisis is eroding the support of even popular leaders, Bachelet's popularity rose last month to 58.5 percent, the highest since April 2006. A year ago her approval rating hovered around 46 percent.

"People have come to appreciate that there is payoff when you do things seriously," said Velasco.

Bloomberg, March 24

MOODY'S UPGRADES FOREIGN CURRENCY RATINGS OF CHILEAN BANKS

Moody's Investors Service has upgraded to A1 from A2 the long term foreign currency deposit ratings of the rated Chilean banks, Banco Santander Chile, Banco de Chile, Banco del Estado de Chile, and Banco de Crédito e Inversiones following similar actions on the Chilean foreign currency ceilings.

All of the banks' ratings remain constrained by the A1 foreign currency deposit ceiling for Chile. The outlooks were also changed to positive, in line with the outlook for the deposit ceiling. Moody's also affirmed the banks' Prime-1 short term foreign currency deposits. The foreign currency senior debt rating of Banco Santander Chile was also raised to Aa2 from Aa3 as this rating was constrained by the foreign currency debt ceiling. This rating now has a stable outlook, and is no longer constrained, given its Aa2 local currency equivalent.

Banco Santander Chile's Aa3 subordinated debt rating was also affirmed with a stable outlook, as it is not constrained by the ceiling. The rating actions on the Chilean banks follow Moody's upgrade of Chile's A2 and Aa3 foreign currency country ceilings for bank deposits and debt to A1 and Aa2, respectively.

The agency noted that the actions on the deposit and bond ratings of the banks has no effect on their financial strength ratings (BFSRs) or local currency deposit ratings or their respective outlooks, which remain stable. Moody's last rating actions on the Chilean banks were on November 20, 2008 when the foreign currency deposit ratings for Banco del Estado de Chile, Banco Santander Chile, Banco de Chile, and Banco de Crédito e Inversiones, as well as the senior debt rating of Banco Santander Chile were placed on review for possible upgrade following the same actions on the foreign currency country ceilings.

iStock Analyst, March 25

CHILE MINISTER: MEASURES COULD SPUR US\$3.6 BILLION CREDIT

Chile's Finance Minister Andrés Velasco said a series of new measures aimed at helping provide more access to financing for small and medium-sized businesses could generate around US\$3.6 billion in private credit.

Velasco announced the measures, which include increasing resources for the state to support businesses and giving small and medium companies more time to pay taxes and which complement a US\$4 billion fiscal stimulus plan unveiled in January.

"In our view, this group of 20 measures could produce around US\$3.6 billion in additional private credit," Velasco told reporters.

Velasco said that thanks to a previously announced capitalization, Banco Estado could extend another US\$2.4 billion worth of credit.

"With the different pro-credit measures we have undertaken since January 1, there is a potential for US\$6 billion (of credit)," Velasco said.

Reuters, March 30

INITIATIVES ADVANCING CHILEAN LIFE SCIENCES

The Chilean government has pursued a policy of technological innovation in order to move the economy away from a dependency on natural resources. As such, the country has focused its efforts on building up its scientific infrastructure and using biotechnology for agricultural and industrial development.

Chile's biotechnology program involves a number of agencies in key ministries-the four most influential are CONICYT, CORFO, FIA, and Millenium Initiative.

These programs are coordinated through the National Innovation Board for Competitiveness, which reports to the President.

CONICYT (Chilean National Commission for Scientific and Technological Research) supports basic research and promotes commercialization and development of resources. As Chile's scientific agency, CONICYT has an annual budget of roughly US\$50 million. Of this, 79% is dedicated to science and technology.

The agency has two competitive funds-FONDECYT, which supports basic research principally at the universities, and FONDEF, which finances collaborative projects between academic institutions and private firms.

There are 61 universities in Chile. Their principal function is education, very few of them possess the facilities and investigators necessary to carry out basic research. Leading institutions include the University of Chile and the Pontificia Universidad Católica, both of them in Santiago, while the University of Concepción, one of the regional institutions, has been building up its capabilities.

CORFO (Chilean Economic Development Agency) promotes the commercialization of new technologies and products. This agency has a leading role in stimulating innovation in the private sector. It established the InnovaChile program to strengthen innovation infrastructure through matching grants, technical support, and the creation of collaborative networks.

According to CORFO, the Chilean biotechnology industry consists of 70 firms, 56% of which are linked to natural resources (42% agriculture, 8% fishing, 6% forestry). The other major business areas are human health (22%) and industrial biotechnology (22%). At present, the principal products are diagnostic kits, biological control agents, and genetic manipulation platforms for the improvement of particular crops or processes. The majority of the organization's effort is

directed toward the Chile Genome Initiative, the establishment of technological consortia (private-public partnerships) and regional R&D centers, and the identification of new markets.

There is a general consensus within Chile that its biotech industry is limited by the small domestic market and the obstacles to breaking into the export markets. Of late, though, active promotion of Chile has led to an increase in the number of foreign participants in the InnovaChile projects.

FIA's (Fund for Agrarian Innovation) principal responsibility is to support agricultural research and to transfer new technology to the agricultural industry. This Ministry of Agriculture agency has a budget of about US\$6 million. One of its funded programs is developing new fruit strains that will be more competitive in export markets, allow cultivation into new areas of the country, and are less vulnerable to pests and diseases.

Millenium Scientific Initiative's (MSI) major objective is to strengthen the science and technology infrastructure of the country through the creation of centers of excellence in collaboration with universities.

This program, which receives funding from the World Bank, is dedicated to fundamental research and the training of young investigators. MSI's mission is accomplished by establishing institutes or nuclei of researchers. There are now five MSI-founded institutes operating, including the Millenium Institute for Advanced Studies in Cell Biology and Biotechnology, the Center for Scientific Studies, and the Millenium Institute for Fundamental and Applied Biology.

Institutes typically have 10 associate researchers and an annual budget of US\$1.2 million, while the nuclei have three associate researchers with an annual budget of US\$270,000. Though the mission of the organization is the creation of knowledge, there have been major research findings that

have had important commercial applications, including a vaccine against a major salmon pathogen and the development of enzymes that are active at low temperatures.

Interministerial activities

In addition, there are three interministerial initiatives to boost technology commercialization. One of them, GenomaChile, focuses on projects that make use of genomics, proteomics, and metabolomics. From 2001 to 2007, US\$3.5 million was invested in GenomaChile.

Finally, 15 consortia boast a total investment (public-private) of US\$55.6 million and the participation of 110 companies and 36 research groups. There are consortia for animal health, fruits, and salmon. The country also has seven regional centers of biotechnology with an investment of US\$8.48 million.

Chile has two private foundations that play an unusual role in promoting biotech-Fundación Chile and Ciencia para la Vida. Fundación Chile was established in 1976 by the Chile government and ITT with two objectives: technology transfer and the creation of new technology companies.

The Fundación has a technology center that works in five principal areas: agroindustry, marine resources, forestry, environment, and IT. It has a budget of US\$19 million for five years with a staff of 200 and an additional 500 consultants. The corporate center is dedicated to launching new companies, establishing strategic alliances, providing technology services, and licensing technologies and products.

The Fundación business model is self-financing mainly through the sale of its companies once they have come to maturity. R&D grants up to US\$300,000 are awarded, and seed capital up to US\$600,000 is also provided. Investment capital can reach up to US\$3 million. FC now has 23 companies in its portfolio.

Ciencia para la Vida was founded to advance the adoption and use of science-based innovations by Chilean and international companies. It has developed products and technologies that serve the needs of the agriculture, mining, forestry, aquaculture, and healthcare industries.

In addition, it is building human resources capacities through the training of undergraduate and Ph.D. students in collaboration with local universities. It also participates in a number of global networks that facilitate scientific collaboration between local and international centers of academic excellence.

Genetic, Engineering & Biotechnology News, April 1

CRISIS HANDLING BOOSTS CHILE PRESIDENT RATING - POLL

Chilean President Michelle Bachelet's approval rating rose in March to 62.2 percent, the highest level since taking office in 2006, on support for how she is tackling global economic crisis, a poll showed.

Bachelet and her government were battered in polls last year amid complaints of mismanagement of government funds, anger at high inflation, sometimes violent student protests and a botched revamp of the capital Santiago's transit system.

But a US\$4 billion anti-crisis fiscal stimulus plan Bachelet unveiled in January in a bid to fend off recession, as well as a newly-announced batch of measures aimed at spurring private sector credit, were well received.

"The high correlation between the economic issue and the president's approval rating lead us to the conclusion that it is the way the government has faced the crisis that explains the rise in the president's rating," private pollster Adimark GfK said.

Bachelet's approval rating had hit a two-year high of 58.5 percent in February, again for her handling of the economy amid the global crisis.

The poll comes as Bachelet's ruling center-left coalition, the Concertación, faces one of its toughest election years since taking power nearly two decades ago when Gen. Augusto Pinochet's dictatorship ended.

Reuters, April 2

CHILE CENTRAL BANK CUTS RATES 50 BASIS POINTS TO 1.75% AS EXPECTED

The Chilean Central Bank Thursday continued easing monetary policy with a fourth consecutive rate cut, citing rapidly decreasing inflation, and anticipated further cuts.

The bank's governing council cut the key rate, known as the TPM, 50 basis points to 1.75%, in line with the median estimate of 14 economist polled by Dow Jones Newswires. Estimates for the cut had ranged from 25 to 100 basis points.

In its first three monthly monetary policy meetings this year, the bank slashed the key rate by a total of 600 basis points, bringing it to 2.25% from 8.25% late last year.

Wall Street Journal, April 9

HIGH HOPES FOR CHILEAN MARKET

Investors remain drawn to the safety of Chilean utility stocks, but they have high hopes that Chile's broad stock-market index also will rise in the second quarter.

The Andean country's stocks are expected to continue to take cues from Wall Street as the U.S. struggles to pull itself out of the financial crisis. But analysts expect the Santiago Stock Exchange's benchmark 40-share Ipsa index to post gains as falling interest rates entice investors back to stocks.

The Ipsa ended the first quarter up 4.3% at 2478.94. The index fell 22.3% last year and lost 13.9% in the fourth quarter of 2008 compared with the previous quarter.

"The U.S. is looking better and as long as U.S. markets recover, local stocks will follow," said Roberto Guzmán, head of investments at Fit Corredores de Bolsa.

Still, until recovery is certain, Chile's utilities remain attractive, analysts say, because demand for basic services such as water and electricity will continue to yield steady income despite the economic climate.

In addition, healthy reservoir levels following some strong ice melts in the first quarter and expectations for a rainy southern-hemisphere winter are expected to boost hydroelectric generators' results, they added. In general, Chilean electricity-related companies are seen benefiting from higher wholesale regulated prices and from their presence in other countries in Latin America.

Many of the utilities on the Ipsa are among the heaviest weighted shares on the blue-chip index, which will help offset poor performance in other sectors. Among analysts' favorites are power generator Empresa Nacional de Electricidad SA, or Endesa, its parent company Enersis SA, and Colbún SA.

Other sectors are favored in the second quarter, too, analysts say. Banks, which restricted their lending in recent months, now are set to exploit pent-up demand, falling interest rates and the government's fiscal stimulus package, all of which should boost lending, analysts said.

The Central Bank has cut its key interest rate six percentage points to 2.25% so far this year and is expected to cut by an additional half-percentage point at its monthly meeting. The government, meanwhile, launched a US\$4 billion fiscal stimulus package and recently announced additional measures aimed at jump-starting consumer, mortgage and corporate lending.

"Right now is the time to take advantage of the initiatives that facilitate lending," Finance Minister Andrés Velasco said Wednesday after meeting with representatives of local banks and financial institutions. Retailers also may benefit from more consumer credit and lower interest rates, which are expected to lure customers back to stores.

Commodities-related shares, meanwhile, also may recover with international prices of basic goods showing signs of bottoming out. Among these are fertilizer and specialty chemical producer SQM SA, and steel and iron-ore producer Cap SA, both heavily weighted on the Ipsi.

Another strong choice for the quarter is Lan Airlines SA. Lan's cargo business is solid and the airline is showing strong profits. This is the final in a series of six articles on the second-quarter prospects for Latin America's major stock markets.

Wall Street Journal, April 12

INTERNATIONAL RELATIONS

CHILE-AUSTRALIA FREE TRADE DEAL KICKS IN

A free trade agreement between Chile and Australia that covers 97 per cent of exchanges between the Pacific neighbors went into effect after a year of negotiations.

"This agreement goes far and beyond the mere exchange of goods, since it includes services, investment, public purchasing and intellectual property," Chile's foreign ministry said.

The free trade agreement (FTA) lifts all tariffs on bilateral trade between Chile and Australia within a period of at most six years.

Australian Trade Minister Simon Crean said in a statement earlier this week the FTA eliminated immediately Chile's tariffs

on almost 92 per cent of tariff lines covering 97 per cent of goods currently traded, including Australian exports of coal, meat, wine and key dairy products.

Tariffs on all existing merchandise trade would be eliminated by 2015, the statement said.

Crean said Chile was Australia's third largest trading partner in Latin America and there were approximately 120 Australian companies actively trading with Chile.

The Sydney Morning Herald, March 7

PRESIDENT MICHELLE BACHELET PROMISES TO STRENGTHEN CHILE, INDIA PARTNERSHIP

Chilean President Michelle Bachelet said both India and Chile are commemorating 60 years of friendship and now there is a need to strengthen and deepen the partnership.

Interacting with leaders of the I.T industry at a breakfast meeting organized by NASSCOM, Bachelet said Chile is an open economy with a great investment potential.

She also invited corporate leaders from the Indian Information Technology and Bio-Tech Industry to take advantage of the friendly investment environment and invest in the country.

Lauding the gigantic steps made by India in the IT Sector in the last two decades, Bachelet said her government will study the Indian business model and steps will be taken to improve the linkages between university and industry.

Earlier, a Memorandum of Understanding (MoU) to encourage contribution towards mutual collaboration for growth and development of IT sectors in both the countries was signed between the NASSCOM and the Association of Information Technology companies, Chile.

India and Chile also signed four agreements in the areas of space, renewable energy, education and mineral resources to strengthen their bilateral ties further.

The agreement on space is for exploration and utilization of outer-space for peaceful purposes.

An agreement on gender equality between both countries is also at an advance stage of negotiation. Both sides agreed to pursue cooperation in the Antarctica as well. Both countries also expressed an interest in strengthening cooperation in the areas of IT and biotechnology.

Daily India, March 20

RUSSIA, CHILE AGREE TO ESTABLISH STRATEGIC PARTNERSHIP

Russian President Dmitry Medvedev and his Chilean counterpart Michelle Bachelet signed a joint statement here on Saturday, paving the way for setting up a strategic partnership between the two countries.

The two heads of state agreed that "strategic partnership relations could be established between the two countries in the future," according to the joint statement.

Both leaders agreed to conclude other documents, including an intergovernmental agreement to abolish visas between Russia and Chile, the statement said.

They agreed to continue technical cooperation in the energy sector, including energy supplies, renewable energy, energy effectiveness, liquefied natural gas, hydrocarbons and products from their processing, it said.

The two presidents also supported "thorough reform of international financial organizations to make their work more expeditious and efficient," as well as the two countries' full membership of the Organization for Economic Cooperation and Development (OECD).

They also called for lifting of the U.S. embargo on Cuba.

At a press conference after signing the statement, Medvedev said Russia has decided "to significantly increase the intensity of relations with Latin American states," and is now seeking "full-scale, deep, and mutually advantageous business ties" with the region.

Russia could use its relationship with Chile "as a platform for building relations with other states," the Interfax news agency quoted Medvedev as saying.

Bachelet, who arrived in Russia on Wednesday on a four-day visit, signed a number of documents with Medvedev concerning cooperation in military, culture and space exploration.

According to the Itar-Tass news agency, bilateral trade between Russia and Chile totaled US\$ 364.7 million in 2008, up 30 percent compared to the previous year.

China News, April 4

CHILE'S OBAMA MEETS HER OTHER SELF

A few months ago, Chilean President Michelle Bachelet called herself "Chile's Obama". She was also a first: the first woman president, promising change, like Obama, and with her victory, she has been telling women "Yes, we can."

Days after assuming the presidency, Barack Obama called Bachelet to invite her to Washington. But only on April 18 was she able to sit down next to her other self during the meeting of the Union of South American Nations, Unasur, of which she is temporary president.

She said the meeting was great, and that all the South American presidents participating showed an excellent disposition towards what she called this "first step in building trust in the relationship between the United States and South America".

"We've had a frank conversation, well-intentioned on behalf of all the presidents. We welcome President Obama's comments, expressing the intention of the United States to establish a relationship of mutual respect," said Bachelet.

More than environment, sustainable development and economic crisis, the summit so far has been all about a left-leaning Latin America casting a wary eye on the new representative of its traditional nemesis, one that is now offering dialogue, mutual respect and a relationship among equals, and that Latin Americans seem to be willing to give a chance.

Global Post, April 18

RANKINGS

CHILE LEADS IN TECHNOLOGY

For the second year in a row, Chile leads in information and communication technology development in Latin America, according to the most recent report from the World Economic Forum.

The report, which ranked the technological development of 134 economies worldwide, said that in order to overcome the economic crisis, it is essential that countries be technologically innovative.

The report showed that only three Latin American and Caribbean economies were in the top 50 positions: Chile, Barbados, and Puerto Rico. Chile is now in 39th place, followed by Brazil - which maintained its 59th position, and Colombia, which jumped by five positions to reach 64th place.

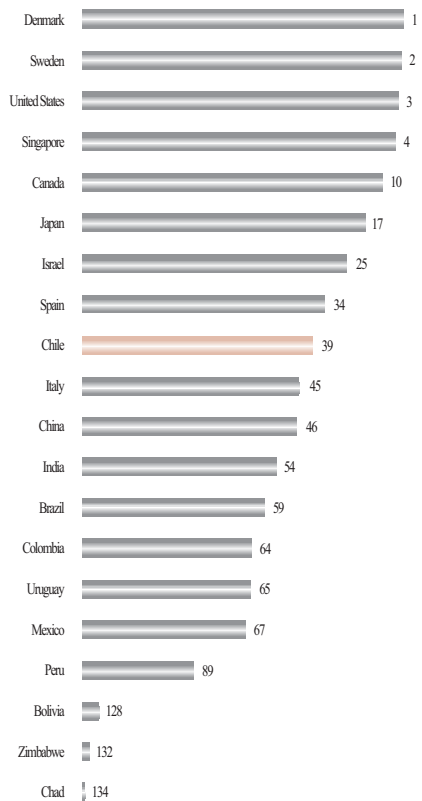
Denmark and Sweden led the global ranking. The U.S. followed, up one position from last year in spite of the economic crisis's affects on the nation. Singapore, Switzerland and other Nordic countries together with the

Netherlands and Canada completed the study's top 10 list.

The report remains the world's most comprehensive and authoritative international assessment of the impact information and communication technologies have on the development of nations.

Mercopress, April 7

Network Readiness Index 2008-2009



Source: World Economic Forum

ENTERPRISES

CODELCO OBTAINS PRE-TAX PROFIT OF US\$ 4.968 BILLION THROUGH 2008

The Corporación Nacional del Cobre de Chile, Codelco, obtained a pre-tax profit of US\$ 4.968 billion during 2008, with US\$104 million of that in the last quarter of the year, while the international crisis hurt prices for copper and other company products.

During the years between 2006 and 2008, Codelco has provided the Chilean government with US\$ 22.634 billion in pre-tax profit, or an average of US\$ 7.5 billion per year.

Your Mining News, March 11

N.Z.'S MIGHTY RIVER INVESTS IN CHILEAN GEOTHERMAL EXPLORATION

Mighty River Power Ltd., developer of the world's largest single-turbine geothermal generator near Taupo in New Zealand, is investing in underground steamfield exploration in Chile.

The government-owned company has spent US\$6.7 million to help fund drilling by its GeoGlobal Energy LLC associate in the Tolhuaca permit in southern Chile, Chief Executive Officer Doug Heffernan said. GeoGlobal is planning to bid for rights in the Puchuldiza region in the country's north and will seek other concessions, he said.

New Zealand, one of the first developers of large-scale geothermal power generation, lies on the "ring of fire," a volcanic zone around the Pacific, and gets 9 percent of its electricity from underground steam. Chile, home to more than 5 percent of the world's active volcanoes, is encouraging geothermal development after dwindling gas supplies from Argentina forced it to widen its energy sources.

Chile has "significant resources, in scale much bigger than in New Zealand, and that's the opportunity, to get in at the front-end of that," Heffernan said on a conference call with journalists.

Bloomberg, March 12

SIGMA-ALDRICH ACQUIRES SIGAL LTDA. AND EXPANDS OPERATIONS IN CHILE

Sigma-Aldrich announced that it has expanded its presence in Chile to directly serve research and manufacturing customers throughout the country. The Company has acquired Sigal Ltda, its primary distributor in Chile, and established Sigma-Aldrich Química Ltda. to provide a foundation for future growth in the country.

"Building on our strong customer base in Chile and throughout Latin America is a long-term strategy for Sigma-Aldrich," said Eric Green, Vice President of International Sales and Operations. "We experienced 20% sales growth in Latin America in 2008 alone, and we believe our expanded presence in Chile, which will integrate sales, marketing and distribution, provides a solid base for consistent growth in the years to come."

Sigma-Aldrich's expansion of operations in Chile is part of the Company's strategic plan to accelerate growth in Canada, Asia Pacific and Latin America to 25% of corporate sales by 2010.

Santiago-based Sigal Ltda was established in 1997 to supply research products to customers in Chile. Its General Manager, Patricia Bravo, will become Sigma-Aldrich's Sales and Marketing Manager for Chile. Terms of the deal were not disclosed.

PR News Wire, March 13

IRISH RENEWABLE ENERGY FIRM MAKES US\$1 BILLION INVESTMENT IN CHILE

Leading Irish renewable energy firm Mainstream Renewable Power has backed Chile's suitability for wind energy by ploughing US\$1 billion over the next five years to build wind farms in the country, the company has said in a statement.

Part of an alliance formed with Chile's Andes Energy, the project is expected to generate more than 400 MW of electricity and supply power to more than 300,000 homes, said a weekend report by the Latin American Herald Tribune.

Pointing out the scheme was merely a "starting point", José Ignacio Escobar, Mainstream's General Manager in Chile, said: "If we can install not 400, but instead 800, 1,500 or 2,000 megawatts, we're going to do it," Escobar said.

The conglomerate's first wind farm will be built at Laguna Verde, near Valparaíso, and is expected to be operational by next year. Several other areas across the country had been selected as possible sites for wind farms, making use of the excellent wind conditions around the Latin American country.

"Our research shows that Chile has the natural resources to develop 44,000 megawatts of wind energy and another 37,000 of solar energy," said company CEO Eddie O'Connor.

He added that "renewable energy resources alone can turn Chile into an exporter of clean energies" saying that he had presented a report to Chilean Energy Minister Marcelo Tokman outlining how the country could achieve energy independence.

The Tech Herald, March 30

AVESTHAGEN TIES UP WITH CHILEAN FIRM

Avesthagen Limited, a leading Indian biotechnology firm, has entered into strategic alliance with Uxmal S.A., a Chilean biotechnology firm for promoting research and development of bioactives for commercialization and use in products like functional foods and healthcare.

Avesthagen also announced its international expansion by setting up Avesthagen Latam SpA at the Venture Lab at the Business School of the Universidad Adolfo Ibáñez in Peñalolén, Santiago.

The two firms would work on bioactives and tissue culture for development of bioinformatic platforms based on Latin American plants, development and commercialization of functional foods based on bioactives developed by Avesthagen and those from Latin American medicinal plants.

It would also work on development of bioactives and tissue culture of a specific plant species for commercial applications and production of bioactives globally. The firms would work on marketing of biosimilars that are in an advanced stage of development at Avesthagen.

According to Dr. Viloo Moarawala Patel, CMD, Avesthagen: "We intend to use our domain expertise and knowledge base in furthering research and development related activities for the development of technology and products in agriculture, pharma and food business internationally."

The Hindu News, March 30

CHILEAN-MALAYSIAN JV WINS RURAL BROADBAND PROJECT

Inverca Telecom, a Chilean company associated with Malaysia-based WiMax operator Packet One, has been awarded a 56 billion pesos (US\$93 million) deal to provide wireless broadband in rural Chile,

Chile's Transport and Communications Minister René Cortázar said at a press conference.

The Minister said that the company won because in its offer it requested zero government subsidies. The other three bidders - Telefónica Chile, Entel, and Comunicación y Telefonía Rural (CTR) - asked for subsidies of 28 billion pesos, 22 billion pesos and 31 billion pesos, respectively. The government was prepared to pay out a subsidy of up to 35 billion pesos.

The project will involve providing connectivity to 1,470 rural communities that consist of more than 850,000 households and 3 million individuals. There are also 800 schools. The idea is to boost industries such as agriculture and tourism in those areas.

Cortázar said it is stipulated that Inverca must establish 30% coverage of the rural areas by October this year, 70% by July 2010 and 100% by March 2011, when the country expects 92% of its total population of around 16 million to have access to internet, compared to the current 70%.

The cost of the internet service will be approximately 15,000 pesos a month per megabyte.

Speaking on the sidelines of the press conference, telecommunications regulator Subtel's head Pablo Bello told BNAmericas that the government is evaluating how to provide some sort of help to those rural communities to pay for access to the internet. He said that the principal obstacle to such communities adopting internet is that often, there is not a perception or understanding of how internet can boost productivity. The government will be carrying out educational programs to that end.

There is also the problem of cost, and the government does not rule out a direct subsidy to help pay the bills. However,

Subtel is seeking other, more indirect means of helping citizens access internet, such as subsidies of PCs as well as incentives for operators to drop prices and become more competitive.

Competitors

The two surprise contenders in the bidding process were Inverca Telecom and CTR, both of whom offered to deploy WiMax technology, whereas Entel and Telefónica planned to provide the service over the 3G networks of their sister operators, Entel PCS and Movistar.

Inverca has traditionally been a software integrator and is part of local company NomadeNET.

Bello said that he was encouraged by the fact Inverca allied with an experienced WiMax operator that has deployed the technology in topography in Asia that is often similar to that of Chile.

"It is good news for the country. Not only will we have a new operator, we will also have new technology that can become more widespread than it has been to date," Bello told press.

Chile already has some limited offerings of WiMax in the 3.5GHz band.

"The 2.3GHz band is better from a technological point of view. But, also, this is a company that is dedicated to WiMax, has expertise in WiMax, that produces equipment for WiMax in the same bands as those that we use in Chile. That makes a world of difference having a company with know-how in developing a complex project like this one," Bello said.

Chipmaker Intel has said it is very interested in helping to finance the winner of the project through its financial wing Intel Capital.

BNAmericas, March 30

CHILE'S FALABELLA PLACES US\$156 MILLION BOND-SOURCE

Leading Chilean retailer Falabella placed US\$156 million worth of bonds on the Chilean market, a source close to the operation said.

The source said the company placed 85.386 billion pesos worth of 6-year bonds with an internal rate of return of 6.29 percent.

A string of Chilean companies has turned to corporate debt issues this year to finance debt and investments to give world markets battered by financial crisis and bank lending restrictions a wide berth.

Reuters, April 2

XSTRATA COPPER EXPECTS INCREASED PRODUCTION IN CHILE IN 2009

Xstrata Copper expects its copper production in Chile this year to expand in comparison to 2008, thanks in part to the successful performance of the Collahuasi Mine, of which the company is a shareholder.

Stefan Buys, the Chief of Operations for the northern division of Xstrata Copper in Chile, has said that the company is expecting production to be "slightly" higher, but declined to offer precise figures.

Buys added that, for the moment, the company has focused more on cost reduction.

Amidst an effort to overcome the world financial crisis, since January Xstrata Copper has slashed its cash cost for producing copper from US\$ 1 to 90 cents per pound. At their high-cost mines, the company reduced the cost from US\$ 1.80 to US\$ 1.20 per pound.

Buys pointed out that the company is pushing exploration efforts forward and indicated that the Lomas Bayas Mine in Chile could hold promising reserves.

"We have obtained very good exploration results from a body of primary sulfur", he stated during an interview held at the end of the CRU/CESCO World Copper Conference, which took place in Santiago.

El Mercurio, April 3

CHILE'S D&S TO SPEND US\$87 MILLION ON NEW MALLS

D&S SA, a grocery store chain controlled by Wal-Mart Stores Inc., will spend US\$87 million this year to build two new malls and expand a third in Chile.

D&S, the South American country's biggest grocer, will begin construction in the coming weeks on the new shopping centers in and around the resort city of Viña del Mar, Chile.

Wal-Mart took control of D&S in January and increased its stake to 74.6 percent from 58.3 percent in a tender offer last month.

Bloomberg, April 6

TELEFÓNICA CHILE TO ISSUE UP TO US\$216 MILLION IN BONDS

Telefónica Chile, Chile's biggest telecommunications operator, said it planned to issue series of bonds worth up to US\$216 million on the local market.

Telefónica announced the issue in a note to Chile's market regulator, but gave no details on what the funds would be used for.

A string of Chilean companies has turned to corporate debt issues this year to finance debt and investments to avoid world markets battered by a financial crisis and bank lending restrictions.

Reuters, April 6

SUBTEL CHILE LAUNCHES 3G TENDER

Chile's telecoms regulator, Subtel has introduced the 3G tender, licence for which will be awarded in July'09. The initiative is aimed at boosting competition to the Chilean mobile market. The tender will offer three blocks of 30 MHz in the 1700/2100 MHz frequency band. The Chilean regulator intends to assign the spectrum to the incumbents which offer large population coverage and will start operations in the shortest time span.

Wireless News, April 7

CHILE SAYS MINE INVESTMENT TO REACH US\$34.1 BILLION

Chile, the world's biggest copper supplier, said investment in the nation's copper and gold mines will rise to US\$34.1 billion in the five years through 2013.

Companies will invest US\$30.3 billion of that in copper mines, including US\$9.6 billion in spending by state-owned Codelco, the Chilean Copper Commission, a state-run research group, said today. The group last year forecast US\$21.6 billion in copper and gold spending in the five years through 2012.

BHP Billiton Ltd. and Freeport-McMoRan Copper & Gold Inc. have delayed projects after copper dropped 53 percent from a record in May. Still, new mines and expansions will boost the nation's copper production by 19 percent to 6.3 million metric tons by 2015, from 5.3 million tons last year, the group said.

BHP may not complete a US\$3.25 billion expansion at Escondida, the world's biggest copper mine, until after 2013, according to the commission. In January, BHP said it delayed until 2011 a decision on whether to expand the mine, while postponing a plant at Escondida to desalinate seawater.

Xstrata Plc's US\$2.5 billion El Morro project may begin production in 2013, a year later than the commission previously estimated, according to the report. Xstrata said in November that it hadn't yet decided whether to build the mine.

Barrick Gold Corp., the world's largest gold producer, may begin output at its Pascua-Lama gold mine in 2012, also a year later than the group previously forecast, the report said.

Codelco will finish part of an expansion under way at its Andina mine in mid-2010, instead of late this year as previously forecast, the commission said.

Codelco also may invest in a deposit at its Salvador division in 2013 and open a new mine, called Ministro Hales, within the next five years, according to the group. Codelco has pressed ahead with investments this year after production dropped four years in a row.

Bloomberg, April 8

CHILE STEELMAKER CAP TO INVEST US\$250 MILLION IN 2009

Chilean steel and iron ore producer CAP said it would invest US\$250 million this year, mainly in iron mining, after the global financial downturn hammered the construction sector and demand for steel.

Roberto de Andraca, Chairman of CAP's board, said the company was betting on its iron business because demand for the metal had not been hit as hard as demand for steel.

"We are investing the same amount as we envisaged investing before the crisis ... and that is around US\$250 million, (basically) in iron mining," he told reporters.

De Andraca said CAP was evaluating its 2009-2014 US\$4 billion investment plans. He said there was no need or rush to boost CAP's steel output capacity given the fall in demand.

"We are expecting the half-year from January to June to be very difficult, probably with some numbers in the red, but we are not worried," De Andraca said later during a presentation to shareholders.

CAP last year delayed plans for a US\$550 million capital increase, citing falling commodity prices amid global financial crisis.

"(The crisis) catches us without having sought the US\$550 million capital increase and with a cash flow of around \$400 million," De Andraca said.

A company source said on Monday CAP expects revenues to fall 20 percent in 2009 from a year earlier, after steel sales fell sharply due to the global crisis.

CAP's revenues totaled US\$1.97 billion in 2008, when the company posted a net profit of US\$293 million.

Reuters, April 13

CODELCO, CHINA MINMETALS EYE JOINT EXPLORATION

Chilean state copper giant Codelco and China's Minmetals are studying mining prospects with a view to joint exploration projects in Asia and Latin America, Mines Minister Santiago González said.

China Minmetals Corp announced last year it would seek business opportunities globally with Codelco after agreeing to give up the right to buy about half of the Chilean company's newest mine, Gaby, in northern Chile.

"(The companies) are evaluating mining prospects at the moment. They are still not conducting any actual exploration as such, but we know that they are evaluating and analyzing some mining prospects in some parts of the world," González told reporters.

González spoke after meeting with a visiting delegation of Minmetals officials, who are due to hold separate meetings with counterparts at Codelco and other mining companies.

"Codelco has just opened an important office in Shanghai, through which a commercial as well as Asia mining exploration strategy will be developed, and ideally a big part of that will be developed with Minmetals," González added. "We also have some prospects in Latin America."

China is the world's No.1 copper consumer, accounting for 1.2 million tonnes of Chile's annual copper exports. Chile produced 5.33 million tonnes of copper in 2008.

China, which consumes about 25 percent of the world's copper, is eager to get its hands on direct sources of the metal to guarantee supplies for massive infrastructure development.

Production at Chile's Codelco, the world's largest copper producer, has declined in recent years as ore grades fall at aging mines. Codelco is investing heavily in expansions at existing mines, but in recent years has inaugurated only one new mine, the Gaby pit.

Reuters, April 13

MITSUBISHI EYES CHILE COPPER, IRON ORE POST-CRISIS

Mitsubishi Corp, Japan's top trading house, is reviewing its Chile investment plans but is looking to invest in copper and iron ore assets once global crisis abates, a top executive said.

Masaki Kurita, Chairman of Mitsubishi Chile, told Reuters he was looking to invest in Chilean mines and other metal resources once economic conditions allow.

"As far as this world situation goes, we have to be very careful with our investment," he said on the sidelines of a business forum in the Chilean capital. "We will take a very cautious approach, but I'd like to make further investments in a steady way."

"That means looking at the economic conditions because most of the products we commercialize or distribute to the outside market," he said, adding he was interested "in mines, copper or metal resources".

Mitsubishi has a 10 percent stake in Chile's Escondida, the world's biggest copper mine, as well as a stake in Antofagasta Minerals' Pelambres mine. It has also tied up with Chilean steel and iron ore producer CAP.

Reuters, April 17

AMÉRICA MOVIL TAPS CHILEAN BOND MARKET IN DEBUT SALE

América Móvil SAB, the Mexican mobile telephone company controlled by billionaire Carlos Slim, sold Chilean bonds for the first time to take advantage of falling rates and a strengthening currency.

América Móvil raised US\$145 million in an auction, marking the debut sale of

local-currency debt by a company based outside Chile. The five-year notes denominated in Chile's inflation-adjusted accounting unit were priced to yield 3.31 percent, or 143 basis points above Central Bank bond yields, said a person at the Banco de Chile unit that arranged the sale. He declined to be named because results haven't been disclosed publicly.

Demand was about 1.5 times the amount offered and the company may tap the market again, Treasurer Ricardo Rivera said. The transaction may also entice other investment-grade borrowers to sell local-currency bonds in the country, according to Standard & Poor's analysts Jane Eddy and Eduardo Uribe.

"It's a very good possibility that we can go again in the market sometime later this year," Rivera said in a telephone interview today from the company's headquarters in Mexico City.

Chilean companies are selling bonds at a record pace in 2009 after the Central Bank lowered the benchmark lending rate 6.5 percentage points to 1.75 percent, and the government started spending savings from copper exports to cushion the economy from the global financial crisis.

Peso, Stocks

Chile's peso is up 10 percent against the dollar this year, the biggest gain in the world, according to data compiled by Bloomberg. The nation's benchmark stock index was the best performer among measures in the world's 50 largest equity markets over the last 12 months, with a drop of 12 percent, Bloomberg data show.

Chilean corporate debt similar to América Móvil's trades at a spread of 100 basis points to 150 basis points, said Ricardo Gómez, head of fixed-income sales and trading at Larraín Vial SA in Santiago. That

compares with about 80 basis points before the global crisis began last year and a peak of about 200 basis points, he said. A basis point equals 0.01 percentage point.

América Móvil, which operates in Chile under the Claro brand, placed the bonds through a program registered in 2006 to sell as much as US\$1.1 billion in debt maturing in as long as 30 years. Moody's Investors Service rates the bond program A3, the fourth-highest investment-grade level.

Slim, ranked third on Forbes Magazine's list of the world's billionaires, owns about a third of América Móvil's shares and controls the company through voting rights, according to regulatory filings.

'Sophisticated' Investors

Proceeds won't necessarily be used for América Móvil's Chilean operations, and some may be converted into U.S. dollars, Rivera said. The company doesn't plan on raising debt elsewhere in the region, he said.

More international companies probably are looking at Chile's "sophisticated" investor base to diversify their funding sources, Rivera said.

"The fact that we can open up this market for Chilean investors to look at other types of risk would be extremely helpful for them," he said.

Latin American companies may turn to Chile's local-currency debt market to take advantage of its borrowing costs and the country's US\$82 billion in private pension fund holdings, S&P's Eddy and Uribe said in an interview in New York.

"Regional investment-grade companies may find it cheaper to sell

bonds in the local market in Chile and more demand from Chilean pension funds," said Uribe.

Copper Savings

Chile, the world's largest copper producer, is benefiting from US\$21.7 billion of savings in sovereign wealth funds, positions that will help it recover faster from the global credit crisis than other, similarly-rated nations, Moody's said in raising Chile's foreign debt last month to A1 from A2. The rating is the highest in Latin America.

The Mexican company probably has found "a window of opportunity in terms of spreads and costs of capital" in Chile, said Eric Conrads, a Mexico City-based hedge fund manager at ING Investment Management SA, which oversees US\$60 billion in assets and pension funds in Latin America.

The transaction is unlikely to trigger multiple debt sales from international companies because the issuers are limited to those with operations across the region, Conrads said.

América Móvil is "just testing the water," he said. "So we'll have to see the real demand for it."

Bloomberg, April 17

CHILE'S MADECO MAY UP STAKE IN FRANCE'S NEXANS

Chilean copper cable and pipe manufacturer Madeco said on Wednesday it was studying increasing its stake in France's Nexans, the world's biggest cable maker.

Madeco sealed a deal early last year to transfer the assets of its cable-making unit to Nexans in exchange for US\$448 million and 2.5 million

shares in the French company, equal to an 8.9 percent stake.

Madeco currently has a near 10 percent stake in Nexans, making it the top shareholder in the company.

"(Increasing the stake) is an idea that we are considering and could be a very good option for Madeco," Madeco President Guillermo Luksic told reporters after a shareholders' meeting.

He said Madeco was in good shape in the face of the global financial crisis, with US\$100 million in cash available for any future expansions or new investment.

Luksic said the company would focus part of its efforts on expanding its flexible packaging business, potentially targeting expansion into markets like Brazil and Colombia as the company seeks to diversify away from copper and into plastics.

"We want to expand in the flexible packaging business ... probably in other countries in the region," Luksic said.

During the shareholder meeting, Madeco approved a 15 peso per share dividend. Shares in Madeco rose 1.4 percent on Wednesday, outperforming the wider Santiago Stock Exchange, to close at 43.6 pesos each.

Madeco is controlled by Chile's Luksic group through its holding company Quiñenco SA. The Luksic group's other holdings include No. 2 bank Banco de Chile, leading brewer CCU and Miner Antofagasta Plc.

Reuters, March 25

CHILE IN THE EYES OF WALL STREET

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

From Santander Investment, Inside Latin America - Accepting less, waiting for what comes next, April 15, 2009.

BETTER TIMES AHEAD

POSITIVES

- A fiscal stimulus plan worth 2.8% of GDP and strong monetary easing by the Central Bank will likely allow the Chilean economy to partly offset the negative effects of the crisis on the local economy this year, and encourage a rapid rebound in 2010. We expect 2010 GDP growth of 3.4%.
- Inflation is no longer a problem for the Chilean economy. Weak international demand and a wider capacity gap in Chile could imply a rapid curbing of the yearly CPI inflation in 2009. We expect annual inflation to decrease to 1.1% in December 2009 after finishing 2008 at 7.1%.

NEGATIVES

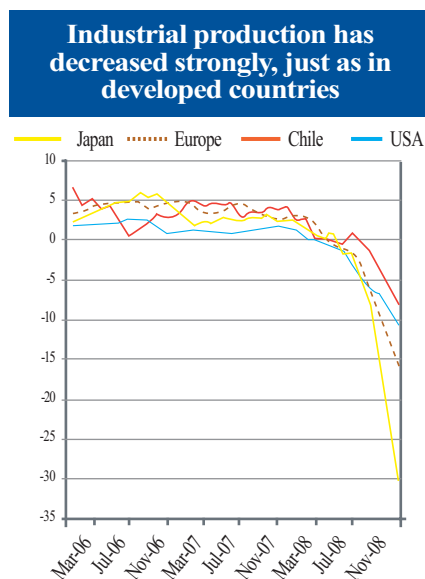
- We expect both the export sector and internal demand to be significantly affected by the financial crisis. We highlight three negative effects for the Chilean economy: (1) lower demand for Chilean export goods and services, (2) a rise in financing costs, (3) a negative impact on both investor and consumer confidence, and (4) a rise in unemployment.
- The fall of sectors strongly linked to international trade, declining internal demand owing to the impact of the international crisis via tight and expensive credit, and poor confidence among both consumers and investors suggest zero GDP growth in 2009.

PROSPECTS

Economic growth - Our scenario assumes no GDP growth in 2009, which we see as positive considering the strong deterioration of world economic growth. The international crisis has affected the Chilean economy via low demand for exports, low economic confidence, and tight credit conditions. Nevertheless, a countercyclical fiscal policy and the strong monetary easing will likely allow the growth of GDP to be flat in real terms.

The intensification of the financial crisis has led us to reduce our GDP growth estimate. Despite Chile's very solid financial position, we note several significant effects on the local economy of the worst world economic scenario in 60 years (according to the IMF): (1) a contraction of the demand for Chilean export goods and services, (2) a rise in financing costs, and (3) a negative impact on both investor and consumer confidence.

Considering export-oriented sectors, industrial activity has shown very negative numbers. Indeed, industrial production has decreased close to 8% annually this year, following a trend in line with that observed in developed countries.



Industrial production growth, MA3.
Source: Bloomberg and Santander

According to our estimates, industrial production growth is highly correlated with growth among Chile's trade partners (a group in which developed countries represent more than 50%). In addition, industrial production of goods related to local activity, such as the manufacture of durable and capital goods, has shown negative figures, reflecting the deceleration of internal demand. Looking forward, we believe that industrial production could continue posting weak figures as long as world trade fails to recover consistently. Industrial sectors represent close to 18% of GDP.

Another sector directly affected by the international crisis is mining. Copper production decreased 7% on average this year, mainly explained by lower ore grades in some important mines. Nevertheless, we believe that some mining facilities are not operating at full capacity, because the current copper price is below their cash cost. Thus, we expect this scenario to continue in 2009 if copper prices do not stabilize at levels above US\$2 per pound, which is a long-term copper price estimated by the Budget Office based on fundamentals such as marginal cost.

In addition, several leading indicators of internal demand performance deteriorated in recent months. Retail sales have decreased 1.3% thus far in 2009, while imports of capital and consumption goods have contracted 16% and 26%, respectively. Thus, we believe internal demand could show a very negative growth in the first half of 2009.

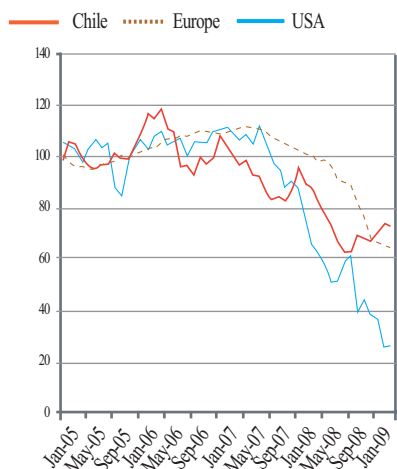
From the positive side, it is worth considering that the figures noted above do not reflect any positive effect from the fiscal stimulus plan (equivalent to 2.8% of GDP) and the aggressive monetary impulse implemented by the Central Bank (BCCh) in 2009 (with 650 bps in rate cuts since January), because (1) the fiscal stimulus plan started to operate

CHILE IN THE EYES OF WALL STREET

in March, and (2) the monetary impulse has a lagged effect on economic activity. Thus, we expect internal demand figures to rebound in the second half of this year, reflecting the impact of the government's stimulus.

Our scenario estimates GDP growth at 0.1% in 2009. The downward correction in our GDP growth estimate corresponds to a sharp contraction of sectors related to external demand, in addition to a general deterioration of internal demand. The tightening of credit conditions and the negative impact of the financial crisis on consumers and companies' economic confidence will likely lead to a rapid deceleration of internal demand, which should post negative growth of 2.2% this year.

Expectations have deteriorated in Chile as in developed countries



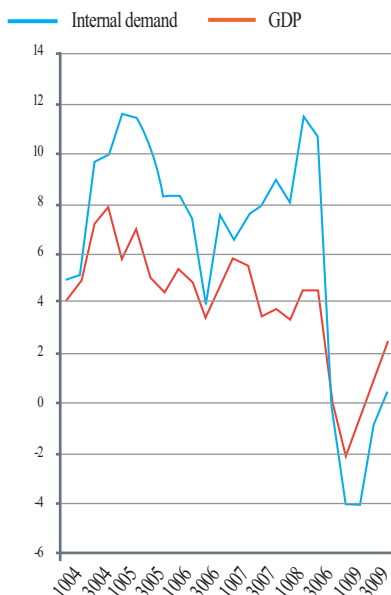
Source: Bloomberg and Santander

Continuing our forecast for 2009, we expect overall consumption to remain relatively flat, decreasing only 0.2%. We estimate that private consumption will decrease 1.6% owing to the fall in durable goods consumption, as some components (such as car sales) have shown sharp decreases in recent months. This is a trend that could continue in 2009, as we expect a slow recovery of consumer confidence, tight credit

conditions, and rising unemployment to offset the positive impact on disposable income of decreasing inflation and the fiscal stimulus plan.

We expect capital formation to decrease sharply, reaching -7.8% this year. We base our view on tight credit conditions and low confidence on the part of both businesses and investors, which has driven the postponement of important investment projects. In addition, real estate development is declining, reflected in the decrease of construction-related employment. On the other hand, when considering the strong growth of investment in machinery and equipment in 2008, and the fact that this kind of investment follows a cyclical pattern, we expect that component to decrease 15% this year. On the positive side, investment in infrastructure projects (with a significant part driven by the fiscal stimulus plan) should allow the construction component to show flat growth this year.

We expect economic activity to recover in 2H09



Source: Santander estimates

Monetary policy and inflation - The international crisis has prompted a rapid decrease in inflation, which has given the Central Bank maneuvering room to implement strong monetary easing in order to prevent a scenario of persistent low inflation/weak economic growth in late 2009 and 2010. Looking ahead, after reducing the monetary policy interest rate by 650 bps so far this year, we expect the Central Bank to ease the pace of easing and leave the benchmark interest rate at 1.75% at the end of 2009.

The Central Bank has surprised market participants this year, slashing its monetary policy rate from 8.25% in December 2008 to 1.75% in April 2009. The Central Bank justified the rate cuts by citing a rapid decline in expected inflation. In addition, according to the BCCh, the current interest rate is closer to a level consistent with the prevailing macroeconomic environment and its related risks.

While the pace of the rate cuts surprised us, we believe that BCCh's macro scenario is in line with our view. Indeed, we expect annual CPI inflation to converge rapidly to 3% in June after reaching 5.0% in 1Q09, compared with 7.1% in December 2008. Moreover, we expect annual inflation to be below 0% between October and November, reaching 1.1% in December due to a less favorable base of comparison.

Inflation has decreased strongly and could be below the Central Bank's target starting in June

Our reasoning is that there is the prospect of zero or even negative external inflationary pressure due to the further deterioration of the global growth scenario, the sharp contraction of world trade, and low commodities prices. In addition, the weakness of economic activity in 4Q08 and

CHILE IN THE EYES OF WALL STREET

2009 would imply a further widening of the output gap, which could completely offset the second-round effects of high inflation in 2008 and drive the contraction of margins in 2009.

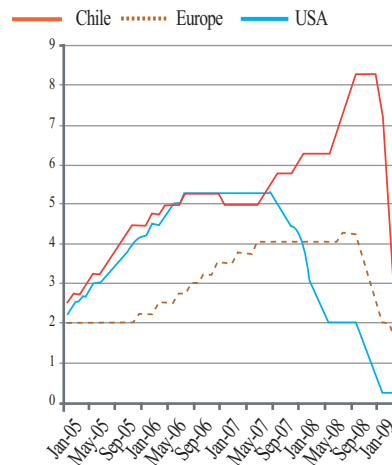
In line with this view, inflation expectations have fallen sharply and are below the BCCh's target of 3% for the monetary policy horizon of 12-24 months. Although we agree with a scenario of low inflation in 2009, in the mid-term we expect the monetary easing and the fiscal stimulus, together with a less favorable comparison base and flat commodities prices, to drive inflation up in late 2010 and 2011. In fact, we expect CPI inflation of 3.6% in 2010.

The Central Bank has an inflation objective of a projected annual inflation of the CPI at 3% +/-1% in the policy horizon of 12/24 months. In our view, the monetary authority has acted aggressively now in order to stimulate domestic demand, push inflation expectations up, and prevent persistent low inflation and weak economic activity in late 2009 and 2010.

However, we believe the Central Bank will not significantly reduce the benchmark interest rate from current levels, considering that the current rate is very expansive in terms of monetary policy. Thus, we expect a 1.5%-1.75% interest rate at the end of 2009. We believe that the Central Bank, after cutting the interest rate 650 bps this year, will adopt a more conservative mode in coming months. The BCCh said in its last communiqué that further cuts to the monetary policy rate may be necessary, although their size and frequency would be more comparable to historical patterns. Before 2009, historical rate movements were 25 to 50 bps. We believe the monetary authority could be looking to leave the real interest rate near zero in the next months, which implies a monetary policy interest rate of 1.5%-1.75%, according to our estimates (in

which we used 12 months forward inflation expectations instead of current annual CPI). Afterward, we could expect the Central Bank to adopt a neutral stance and to analyze the impact on inflation prospects of the development of the international scenario, the strong monetary impulse, and the fiscal stimulus plan.

Chile's Central Bank has implemented one of the most aggressive monetary impulses in the world



Source: Bloomberg and Santander

Fiscal policy - A sound financial position has allowed the government to conduct a countercyclical policy this year, with a 2.8% fiscal stimulus plan already in execution. The proper execution of the 2009 fiscal budget plays an important role in our expectations for GDP growth. We see the fiscal sector supporting private consumption and investment, in addition to limiting unemployment through labor programs.

The sound position of the public sector, which holds close to US\$26 billion in sovereign wealth funds, the policy framework of the structural fiscal surplus, set at 0% of GDP for this year, and other factors such as having a free-floating exchange rate support our view that the Chilean economy has strong fundamentals

to offset the impact of the financial crisis. In fact, in a coordinated action, the government and the Central Bank provided both a fiscal and a monetary impulse in order to boost local demand. The fiscal impulse is a US\$4 billion fiscal stimulus plan aimed at strengthening growth and encouraging employment. The plan contemplates an increase in public sector outlays of 1% of GDP (US\$1,485 million), so that the 2009 real increase in public expenditures will reach 10.7%, and a temporary reduction in tax revenues of US\$1,455 million, or 1% of GDP in 2009.

Owing to this expansionary fiscal budget, we estimate a fiscal deficit in 2009 of 3.8% of GDP, given that we expect the copper price to be below the US\$1.99 used in the fiscal budget, meaning actual copper-related revenues could be lower than projected levels. In addition, as GDP growth would be below potential, structural tax revenues could also be below the estimates used in the fiscal law. Nevertheless, there is no need for the government to issue debt to finance the budget, given the strong financial position of the fiscal sector. Therefore, we expect the government to finance this deficit through withdrawals from the sovereign funds, as we believe the government wants to avoid putting pressure on secondary market rates. The financial crisis has prompted an increase in the supply of corporate bonds locally. Thus, a scenario of higher government issuance could push secondary market rates up due to oversupply risk.

Trade balance and current account - We expect Chilean external accounts to deteriorate owing to the international scenario. We are forecasting a trade surplus near zero in 2009, as the fall of exports (due to a lower copper price) is likely to be offset by the sharp adjustment of imports owing to the weak

CHILE IN THE EYES OF WALL STREET

internal demand. This also could allow a small current account deficit in 2009.

Recall that one of the direct negative effects of the international crisis on the Chilean economy is lower demand for Chilean export goods and services. The export sector could be strongly affected by the international slowdown. In addition to the expected decrease in the value of copper exports, in which the low metal price has driven adjustments in less efficient operations, volume growth has been driven by noncommodities items such as wine, processed food, salmon, wood products, etc. In fact, while mining production has grown by 0.7% yearly since 2005, real exports have increased by 5.1%. Most of these non-commodities products are sold in high-income countries (50% of Chilean exports go to the U.S., Europe, or Japan), so the recession in the industrialized economies could lead to a significant impact on demand for Chilean exports. Nevertheless, most of Chile's exports are still raw materials, and most of the impact is through neither prices nor volumes. Thus, we expect real volumes of exports to contract 1%, although in nominal terms we expect a fall of 32% y/y, reaching US\$45.5 billion.

We expect imports to decrease in 2009 as a result of the contraction of internal demand (which could imply lower demand for durable goods and machinery and equipment) in addition to a lower average oil price. By components, we expect intermediate goods imports (which include oil and its derivatives) to reach US\$28 billion, down 28% y/y. In addition, we expect capital goods imports to decrease 25%, after rising 31% in 2008, due to the contraction of investment. Finally, we expect consumer goods imports to decrease 13% 2009 (a strong slowdown from the 19% expansion in 2008) due to the

deceleration of private domestic consumption, possibly led by durable goods, which are mainly imported. Therefore, we expect to see imports at US\$45.5 billion this year, down 21% y/y owing to the deceleration of internal demand.

Thus, the reduced volume of imports implies a lower-than-expected current account deficit this year. The deterioration of the trade balance could imply a current account deficit of US\$3.6 billion this year, about 2.4% of GDP. We expect the narrowing of the trade balance surplus to be offset by a fall of remittances in 2009 as a result of lower remittances by foreign-owned copper companies.

External financing - Despite the expected deterioration of external accounts, Chile's financial position is very solid, with the sum of international reserves and the sovereign wealth funds expected to be at US\$45 billion (29% of GDP) at year-end 2009. The public sector has no net financial needs and has a consolidated creditor position of 14.4% of GDP as of 2008. Nevertheless, we expect the international financial crisis to limit external issuance by Chilean companies.

At first glance, the consolidated public sector appears to have no financial needs despite an expected fiscal deficit in 2009. Sovereign wealth funds and other fiscal assets amounted to about US\$30 billion as of 2008, and the central government including the Central Bank has a consolidated creditor position of 14.4% of GDP as of the end of last year. We expect the government to finance any fiscal deficit in 2009 by using the resources saved in the sovereign funds.

It is also unlikely that we will see any external debt issuance in the medium and

long term due to the strong accumulation of fiscal assets. The structural surplus rule supports the idea of no financial needs in the long term.

We expect credit conditions for corporate issuance overseas to worsen as a result of the financial crisis. Therefore, we could see Chilean companies financing their dollar needs locally instead of issuing bonds internationally, a process that has already started; up to March 2009, US\$1.8 billion of debt denominated in both nominal and CPI-linked pesos had been issued locally, about 50% of the total for 2008. Moreover, we expect total corporate debt issuance of about US\$5.300 billion for all of 2009, about 50% higher in local currency terms than the average amount in the past few years.