

# Chile

# INVESTMENT

# REVIEW

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## CHILE'S LONG-TERM FOREIGN CURRENCY RATING RAISED TO 'A'

Standard & Poor's Ratings Services raised its long-term foreign currency sovereign credit rating on the Republic of Chile to 'A' from 'A-'. According to Standard & Poor's Credit Analyst Joydeep Mukherji, the upgrade reflects prudent economic management that is modernizing Chile's public institutions and strengthening its financial profile. Recent initiatives set the stage for a more transparent fiscal budget and a stronger Central Bank balance sheet, enhancing the credibility of both fiscal and monetary policies.

"Chile's rules-based fiscal policy will become more transparent beginning in 2004 with the introduction of accounting changes and the incorporation of previously off-budget flows", Mukherji said. "The recent issuance of 20-year, inflation-indexed, peso-denominated Treasury debt, along with tightening regulatory and supervisory standards, should strengthen the domestic financial market. It also sets the stage for the government to eventually repay its loan from the Central Bank with funds raised in the domestic market", he added. Standard & Poor's expects that this action will improve the financial results of the Central Bank and facilitate the conduct of monetary policy.

The ability of the Chilean private sector to withstand stress caused by currency depreciation and adverse developments

abroad in recent years demonstrates its growing external resilience. The non-bank private sector's net external debt burden is heavier than that in similarly rated sovereigns. However, the private sector's external debt burden is projected to decline to 55% of current account earnings in 2004 from 65% in 2002, thanks in part to more funding from deepening local financial markets.

Mukherji said that the stable outlook assumes an improvement in Chile's external debt burden due to accelerating GDP growth and growing integration with international capital markets. The government is likely to meet its fiscal targets over the coming years, resorting to tax and expenditure adjustments such as those undertaken in 2003 if necessary.

"Chile will compare favorably with other similarly rated sovereigns over the medium term with regard to its economic policy framework and its low public sector debt burden", noted Mukherji. "However, Chile's sovereign rating will be constrained for many years by a comparatively narrow economic base that leaves it vulnerable to sharp changes in the terms of trade and by the continued dependence of the private sector upon external capital inflows. Chile will also remain comparatively poorer, with per capita GDP now below US\$ 6,000, or just over half the median level for its rated peers", he concluded.

*Standard & Poor's (Press release), January 14*

## SOUTH KOREA PASSES CHILE FREE TRADE PACT

South Korea's parliament braved the wrath of a powerful farm lobby to pass a Free Trade Agreement with Chile, the Asian trading powerhouse's first bilateral market-opening deal.

The South Korea-Chile Free Trade Agreement (FTA) was signed in early 2003, but demonstrations by farmers and obstruction by farm-belt legislators foiled three previous attempts by the National Assembly to vote on the trade bill.

South Korea's Ministry of Commerce hailed the vote and said it would increase exports to Chile of cars, mobile phones and other key industrial goods by US\$ 220 million a year in the medium term. Manufacturers have given higher figures for South Korea's export gains and voiced hopes that Chile will serve as a beachhead in the rapidly integrating North-South American market. "The liberalization of trade is an inescapable trend, and our government will make active efforts on FTAs with Singapore, Japan and other countries", the Ministry said in a statement.

South Korea's exports to Chile, mainly vehicles and appliances, amounted to US\$ 456.5 million in the first 11 months of 2003. Chile sold US\$ 947.2 million worth of goods to South Korea in that period, about 40% of which was copper.

Chile's Senate approved the FTA unanimously in January.

*Reuters, February 16*



## CHILE PLACES US\$ 600 MILLION BOND

Chile has become the latest Latin American country to tap yield-hungry emerging market investors, placing a US\$ 600 million global bond on January 23, its seventh international issue in five years. The deal, at 43 basis points over three-month Libor, is the country's cheapest ever. However, it is also its first floating-rate issue, meaning the coupon will vary according to movements in the underlying interest rate.

The four-year bond, arranged by JPMorgan and Citigroup, will be used to pay off existing external debt, according to Nicolás Eyzaguirre, the Minister of Finance. He said the government hoped to save up to US\$ 20 million a year in interest payments by opting for the floating-rate format. "Had we gone for a fixed-rate issue, we would have been paying about 3.3% interest, compared with 1.5% with this one", he said.

The country's last international issue, a year ago, was a 10-year bond paying a 5.5% coupon.

*Financial Times*, January 26

## CHILE'S NEW BOND FINDS HOME WITH CROSSOVER INVESTORS

Chile successfully placed a US\$ 600 million four-year bond on January 23 as its investment-grade ratings drew in investors who usually don't dabble in emerging market debt. The country priced the 2008 floating rate note 0.43 percentage points over three-month Libor. The deal follows a recent ratings upgrade Chile received from Standard & Poor's and a slew of bond issues from sovereign borrowers hoping to lock in low interest rates.

Chilean Minister of Finance Nicolás Eyzaguirre said the bonds were slightly oversubscribed and brought by investors who normally aren't active in emerging markets. In addition, he said proceeds from the sale will be used to pay off outstanding debt and that the government will not likely offer another bond issue this year. "Unless we get enthusiastic with prepaying debt", Eyzaguirre said in a conference call with reporters. "We'll have to analyze market conditions".

Around 70 accounts participated in the bond sale, with 70% allocated in the US and the balance in Europe, a market source said. He noted the rate of the bond was too expensive for most dedicated emerging markets investors.

Eyzaguirre said if the government had issued a fixed-rate bond it would have been more expensive as the country saves US\$ 30 million a year by using the floater. In addition, he said the country has almost no debt maturing in 2008 and that he, for one, doesn't see major risks ahead in the US twin budget and trade deficits.

Chile's other outstanding issues are fixed-rate: "We're betting on US interest rates being low for an extended period", Eyzaguirre said. However, I think it's very probable the next US administration will adopt the policies it needs (in order) to reduce the federal deficit", which would slow the dollar's fall and keep the Federal Reserve from jerking rates higher, he added.

On January 14, S&P boosted Chile's rating to single-A from single-A-minus, lifting it above such other emerging market nations as South Korea and the Czech Republic. The upgrade, which had little influence on investor participation, was based on Chile's "prudent economic management", S&P said.

Domestically, Chile will issue another US\$ 500 million to US\$ 700 million in pesos and in inflation-linked debt, as detailed in the 2004 budget, in the second half of the year. Proceeds from the issuance beyond the prepayment will go to cover the fiscal deficit.

*Dow Jones Newswires*, January 23

## CHILE WOOS OUTSOURCING WITH ENGLISH-SPEAKERS REGISTRY

Chile has created a national registry of certified English speakers to woo companies to set up call centers here, competing against other countries in the outsourcing boom that has sparked concerns about job losses in the United States.

The Economic Development Agency CORFO ([www.CORFO.cl](http://www.CORFO.cl)) said it spent more than US\$ 500,000 to test 17,000 people in this South American nation in January. Some

15,000 scored high enough to be put in a data bank of intermediate to bilingual English speakers. The registry will be used to attract outsourcing -for example, telephone operators who provide customer support for banks or computer companies- and as a way to put English-speaking job seekers in touch with potential employers.

"Until we had this registry, companies asked us about English speakers and we didn't have the answer", CORFO's Investment and Development Manager Claudio Bitran said at a news conference. Bitran said CORFO is already in conversations with companies looking into outsourcing here. He said the registry would be touted to data processing companies, software development firms and financial services businesses.

Chile, a country of 15 million people with Free Trade Agreements with the United States and the European Union, sees outsourcing as one way to diversify beyond traditional exports like copper, wood pulp, salmon and fish meal.

Chile also has its eye on European opportunities. Raúl Ciudad, president of the Chilean Information Technologies Companies Trade Association (ACTI) said there are already 35 multinationals operating call centers, mostly in Spanish, in Chile. He believes that over the next 5 years Europe will outsource US\$ 380 billion in services.

"Chile shouldn't be left out", he told *Reuters* in a recent interview, calling on the government to transform Chile into a bilingual country and to grab at least 1% of that business. Ciudad said that while many university-educated professional Chileans speak English, there are not enough technicians of any kind and even fewer bilingual ones.

Only 9% of the technicians who took the international Test of English for International Communication (TOEIC) exam administered by CORFO had the highest level of English, compared with 18% of those with university studies.

The government has already established a long-term effort to make Chile bilingual. Education Minister Sergio Bitran's pet project is to make Chileans Latin America's best English speakers, in order to make the most of its free trade pacts. The Minister's plan includes setting learning standards for English, training teachers in language and teaching methods, using international volunteers in the schools, and offering English classes for technicians.

*Reuters*, February 16



### BIDDING SHEETS AVAILABLE FOR TRANSANTIAGO PLAN

The *Transantiago* Plan, which is due to start operation in May 2005, will provide Chile's capital city with a new integrated system of public transport, including an extended underground railway (Metro), a new network of surface transport services, an integrated fare system using the *Multivía* smart card, and the ongoing renewal of the city's buses. A coordinated program of bids was built into Plan's design as part of a strategy to ensure that all its different components come into operation simultaneously.

Drafts of the bidding sheets for road infrastructure, and their appendices, are now available on *Transantiago's* website, [www.transantiago.cl](http://www.transantiago.cl). These will be followed shortly by the bidding sheets for the system's Financial Administration Service (AFT) and its Information and Control Center (CIF). In addition, presentations corresponding to a roadshow in Europe, undertaken at the beginning of this year, have been published in Spanish, English, and French. **For more information, please write to [info@transantiago.cl](mailto:info@transantiago.cl).**

### TRANSANTIAGO CALENDAR

March 2004	Start of sale of bidding sheets for public transport services.
March 2004	Start of sale of bidding sheets for the Financial Administration Service (AFT) and the Information and Control Center (CIF).
May 2004	Opening of bids for the AFT.
May 2004	Award of contract for the AFT. Opening of bids for the CIG.
June 2004	Award of contract for the CIG. Opening of bids for transport services. Start of operation of the AFT.
August 2004	Award of contracts for transport services.
February 2005	Start of operation of the CIG.
28 May 2005	Start of operation of transport services.

### LAGOS DISCUSSES SUCCESSES, FUTURE

Chilean President Ricardo Lagos spoke optimistically about the future of his country and Latin America, but said the Hemisphere still faces many challenges, including a need for more cooperation with the United States. "Now we have much more mature and realistic Latin American countries", Lagos said. "We have learned that in order to have development, you have to work, you have to be responsible and serious".

Lagos spoke to a crowd of about 500 faculty, students and members of the media at the Institute of the Americas at the University of California San Diego. Elected President in 2000, Lagos has been praised by the US government and international experts for improving Chile's economy and restoring hope to the nation after the dictatorship rule of former leader Augusto Pinochet.

Acting Chancellor Marsha Chandler presented Lagos with the UCSD Medal, the highest honor bestowed by the university, for his service to Chile. Lagos accepted the medal and kept it draped around his neck throughout his 45-minute address and a subsequent 20-minute question-and-answer session with Jeffrey Davidow, president of the institute.

Speaking in English, Lagos recounted Chile's successes, including a drop in the poverty rate. Chile signed a Free Trade Agreement with the United States last year, and Lagos said his nation and others must be prepared for a world featuring more economic globalization. "It is not possible to have a society that has growth when part of the population in that society has the feeling that that growth is not reaching them", he said.

Chile did not support US efforts last year to win UN backing for the use of force against Iraq. Lagos did not specifically address the Iraq war, but said each nation must be able to express its own views and said all parties must act in a consistent, democratic manner to fight terrorism.

On other subjects, Lagos said cultural diversity will increase as English becomes a more popular language in Latin countries and Spanish becomes widely used in the US. "Now is the time to break down barriers that exist among our people", he said. Lagos expressed hope for a peaceful transition in Cuba after the eventual passing of its leader, dictator Fidel Castro. "I think that they're

going to be able to manage to have a much more open society than they have today".

Paul Drake, a political science professor at the university who has studied Chile, praised Lagos' remarks: "He's concerned about human rights as well as economic growth", Drake said after the speech. "Most interesting for Americans was his call for a multilateral world in which there's cooperation".

Richard Feinberg, a professor of international relations, said he was struck by Lagos' description of globalization as a way to help drive countries to higher standards.

*San Diego Union Tribune*, January 10

### CHILE ECONOMIC ACTIVITY GREW 3.2% IN 2003

Chile's Economic Activity Index, a close proxy of Gross Domestic Product, grew 3.2% in 2003 compared with 2002, the Central Bank said. The figure was in line with government and economists' forecasts that 2003 GDP grew 3.2%.

The Bank said the economic activity index grew 3.2% in December, compared with the same month in 2002, buoyed by strong exports and retail sales. The index also rose 3.2% in November. The Bank has forecast economic growth of up to 5.5% this year, partly due to a huge rally in prices for copper, which accounts for some 40% of Chile's exports.

"The figures show a recovery that is still gradual and I don't see big changes in the first two months of this year. We'll continue to see similar figures", said Aldo Lema, economic advisor for Santiago's Security bank. Chile's economic growth has been gradually picking up pace since emerging from a 1999 recession. Lema said his estimate for 2004 growth was between 4.5% and 5.0%, at the low range of the Central Bank's. He said the first few months of the year growth would be held back by sluggishness in non-traditional exports and local manufacturers that compete with imported goods who are struggling to grow due to the strong peso currency.

The peso appreciated 21% last year, and has rallied 1.4% so far this year. With the strong peso making imports cheaper, consumer prices have fallen every month for four months. The Central Bank has moved to halt deflation and the peso appreciation with two consecutive interest rate cuts.

*Reuters*, February 5



### CHILE SEES FASTER ECONOMIC GROWTH, BUOYED BY COPPER

Chile's Central Bank painted a rosy picture for the economy in 2004, forecasting faster growth and a higher trade surplus, buoyed by an Asia-driven jump in prices of its leading export copper. In a presentation to the Senate, Central Bank President Vittorio Corbo raised the forecast range for 2004 economic growth by a half of a percentage point to between 4.5% and 5.5%.

"Since the last report (in September), there have been significant changes in the international arena and that has consolidated the recovery and our main exports", Corbo said in his quarterly report to the Senate in Valparaíso (Region V). The Bank sees copper prices averaging US\$ 1.00 per pound this year, up from a previous estimate of 83 cents per pound, as China leads an upturn in demand for the metal amid a global economic recovery which would help export-oriented Chile overall.

Chile, the world's No. 1 copper producer and one of the most open economies in Latin America, earns an additional US\$ 100 million for every one cent rise in world copper prices. The copper rally will help boost the South American nation's trade surplus to US\$ 4.6 billion this year, the Bank said, up more than 30% from its previous trade surplus estimate of US\$ 3.5 billion. Copper traditionally accounts for 40% of Chile's total exports.

Exports will also rise due to a bilateral free trade deal between Chile and the United States, its biggest trade partner, that went into effect January 1, dropping duties on 87% of all goods. Chile has a similar accord with the European Union.

**Fear of Deflation:** One soft spot in the economy is a threat of deflation coupled with a 20% currency appreciation in 2003 that has sent exporters crying out for Central Bank intervention to stabilize the peso. But Corbo, who maintained the Bank's 2004 inflation estimate of 2%, gave no sign of stepping in to stop the peso's climb.

"The exchange rate has not gone out of orbit ... it's an international phenomenon", Corbo said. Chile has a floating exchange rate but the Central Bank intervenes to sell or buy dollars if it considers the currency to

be unstable. Its last intervention was during the financial crisis leading up to the Brazilian presidential elections in 2002.

Inflation in 2003 was 1.1%, the lowest since 1935 after consumer prices dropped in December for the third straight month. The low inflation prompted the Bank to slash its benchmark interest rate twice in both December and January to a historic low of 1.75%.

Reuters, January 14

### CHILE'S UNEMPLOYMENT 7.4% OCT-DEC VS 7.8% YEAR AGO

Chile's unemployment rate dropped to 7.4% in the October-December reporting period, down from 8.1% in September-November and from 7.8% in the same period in 2002, the National Statistics Bureau, INE (www.ine.cl), said.

Unemployment declined as Chile headed into its summer season, which tends to lead to a rise in employment as temporary work in agriculture, construction, and tourism increases.

Overall, unemployment has been decreasing from rates around 9% as Chile's economy has gradually picked up steam.

Unemployment was at its lowest level for the October-December 2003 period in five years, INE said. For the period, the number of workers employed rose 150% from the September-November 2003 reporting period to 5.68 million people and 2.6% from October-December 2002, meaning 143,870 new jobs were created from last year.

Dow Jones Newswires, January 28

### CHILE: LEADER IN ECONOMIC FREEDOM

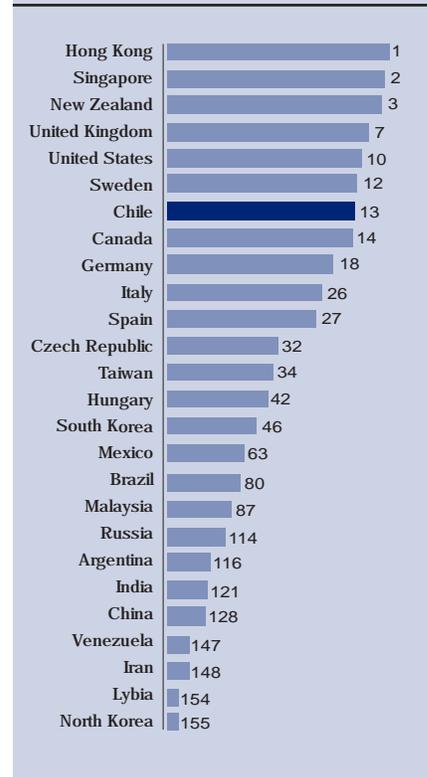
Chile has the freest economy in Latin America and the Caribbean, according to the 2004 *Index of Economic Freedom*, published by the US-based Heritage Foundation (www.heritage.org) and The Wall Street Journal. The report underlines that the Chilean

government has proposed a pro-growth agenda seeking "to liberalize the country's regulatory regimes, increase transparency and efficiency in state institutions, reduce the scope for...judicial arbitrariness, and increase (labor and capital) market flexibility".

The 2004 ranking was led by Hong Kong, Singapore and New Zealand. Chile ranked 13<sup>th</sup> among the 155 economies analyzed, just behind Australia (11<sup>th</sup>) and Sweden (12<sup>th</sup>).

The *Index of Economic Freedom* has long documented that the nations with the most economic freedom are also the most prosperous. Those with the best scores in the 10 categories measured -trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal (or black) market activity- enjoy higher standards of living and higher per capita incomes.

### 2004 Index of Economic Freedom



Heritage Foundation (www.heritage.org), January 2004



## CHILE'S SUCCESS MAKES THE CASE FOR STATE INVOLVEMENT IN ECONOMY

Salmon illustrates why Chile is Latin America's most successful convert to globalization. While neighboring countries sputter, crash and protest against their stumbling economies, Chile is selling more fish, fruit, wine and other goods abroad than ever before, fueling the longest period of economic growth in the nation's history.

No other country in this part of the world has grown more since 1990, inspiring Wall Street, the White House, economists and other gurus of unregulated capitalism to praise this nation of 15 million people as a shining example of what developing countries can accomplish if they tear down their walled-off economies and faithfully follow Washington's blueprint for prosperity.

But the arc of Chile's salmon industry also illustrates how this country assembled Latin America's most dynamic economy by doing quite a bit more than simply stepping out of the way of the free market: It was the Chilean government that in the mid-1980's began developing the technology for salmon cultivation for wide-scale commercial use. When the project became commercially viable, the government's nonprofit research arm, the Chile Foundation ([www.fundacionchile.cl](http://www.fundacionchile.cl)), sold its stake to Japanese investors in 1989. Today, salmon is Chile's second-largest export after copper, bringing annual revenue of nearly US\$ 1 billion and providing jobs for more than 100,000 people.

While many Latin American countries have whittled government's role in business affairs, Chile has gone largely in the other direction. Not only has it wielded influence in getting to market its key exports, from table grapes to goat cheese to sofas, but it also has used more legislation, regulation and taxes to tame a feral free-market system that failed to deliver in the 70's and 80's.

While countries such as Bolivia and Uruguay put the brakes on public spending in the 1990's, the Chileans have more than doubled public expenditures on health and education since 1990. Other countries cut taxes; Chile nearly doubled the taxes on corporations over the past decade. While Argentina in the 1990's was watering down its labor laws to lower costs and make it easier for employers to hire and fire workers, Chile was strengthening its labor legislation,

doubling its minimum wage and requiring that employers extend jobless benefits to unemployed workers.

The difference between Chile and the rest of the continent can be stark. When Bolivian demonstrators in October forced their President to flee the country in violent protests against globalization's unevenness, the first Starbucks was opening in Chile. Nearly half of all Brazilian workers do not have a job contract; for Chile the figure is 1 in 5. The number of Argentines living in poverty has quadrupled since 1989; over that same period, Chile has reduced the ranks of its poor by half.

"What makes Chile different from the rest of Latin America", said Manuel Riesco, an economist with the Center for National Studies of Alternative Development in Santiago, "is not that we embraced the free market more than our neighbors. What we realized is that the free market is like a car. There is no doubt that it is the best way to get you from point A to point B. But you have to steer. If you take your hands off the wheel, you will end up face-down in a ditch".

Said Dani Rodrik, professor of international economics at Harvard University: "The myth is that Chile's success is purely the result of fundamentalist free-market policies. But the truth is quite a bit messier than that. Government activism and management in Chile did not stifle the power of the free market. It unleashed the power of the free market".

**Finding a Balance:** In the 1990's, after Gen. Pinochet allowed a plebiscite that returned democracy to Chile, the new government accelerated reforms, said economic professor Ricardo French-Davis and others. Between 1990 and 1992, Chile doubled government spending on health and education, and introduced tax incentives to businesses that provide job training, helping to increase the percentage of Chileans with higher education from 9% in 1992 to 16.4% last year. The number of professionals in the country expanded 124% over that period.

Successive governments led first by Chile's center-left coalition worked to restore worker rights eroded by Pinochet's regime. Government strengthened trade unions' ability to negotiate collective bargaining agreements, introduced the broadest unemployment insurance plan on the continent and reduced from six months to one month the period of time employees can work without a contract. Between 1990 and 1998, Chilean lawmakers increased the minimum wage by 87%, making it the highest in Latin America.

"You can probably find cheaper labor in other Latin American countries", said José Luis Charpentier, the manager at the Patagonia Salmon farm. "But you can't find better workers than we have here in Chile. Their productivity more than makes up for the difference in costs".

Chile's regulations generally surpassed anything attempted by its neighbors. Preoccupied with fostering competition, the country requires that telecommunications and natural gas firms connect their lines with other providers and Chilean regulatory agencies set the price for those interconnections. That has resulted in the lowest-priced long-distance prices in the region; a phone call from Chile to New York City is actually less expensive than one in the other direction. The low prices have attracted new businesses. Delta Airlines, for example, two years ago opened a US\$ 4 million international call center in Santiago, employing 70 workers.

Since 1990, Chile's Gross Domestic Product has grown by an annual average of 5.9%, the fastest on the continent and nearly twice that of Argentina and Brazil. When Mexico's sharp devaluation of its currency in 1995 plunged both Brazil and Argentina into mild recessions, Chile's economy was unscathed. With money unable to leave at a moment's notice, it grew 6% that year.

Chilean lawmakers in 1999 abandoned restrictions on capital controls, saying they were no longer necessary. This year, they have introduced legislation to scale back workplace protections for workers under 21, and trade union officials and others have criticized those efforts as missteps that may begin to return the country to the unregulated Pinochet days.

In Puerto Montt (Region XII), Patagonia Salmon is anticipating record-breaking sales this year of packaged fillets and steaks to the United States. It remains unclear whether the industry's sales will be affected by recent health warnings about the levels of PCBs, or polychlorinated biphenyls, in farm-raised salmon around the world.

"I think the sky is the limit", said Charpentier, the factory manager. "You know, our economy has been a little like the three little bears. First we were too cold, then we were too hot. Now, I think Chile has gotten it just right".

*Washington Post Foreign Service, January 21*

## CHILE IN THE EYES OF WALL STREET

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

*From Merrill Lynch's  
"Emerging Markets", February 5*

**A Stronger Economy:** The combination of lower interest rates and stronger copper prices led to a revision of our GDP forecasts for 2004 and 2005. **We now expect the Chilean economy to grow at average rates of 5.0% and 5.2% in 2004 and 2005, respectively, versus earlier forecasts of 4.5% and 5.0%.** We expect stronger private sector consumption in 2004, and faster capital accumulation in both 2004 and 2005.

**The current account might go into positive territory in 2004, due to higher copper exports. Our base case looks for a 0.4% of GDP surplus this year, and a small deficit in 2005** on the back of higher exports, which we expect to reach US\$ 24 billion in 2004, and US\$ 26.4 billion in 2005.

Imports were also revised upward due to a weaker CLP and stronger economic activity. We expect the fiscal accounts to move into the 'black', with the nominal balance for the central government reaching 0.2% and 0.7% of GDP in 2004 and 2005, respectively, from a previous forecast of -0.2% for both years. Fiscal spending will likely grow much slower than GDP, despite higher revenues, in order to meet the structural fiscal target of 1% of GDP. Remember that the Chilean government targets a level of spending consistent with reaching such a surplus when revenues are calculated as if copper were at 88c per pound and the economy were at its long-term trend. We estimate that copper will provide revenues in excess of 0.4% of GDP, due to the copper factor, while revenues would be around 0.8% of GDP lower than they could be if the economy were working at a level consistent with normal utilization of labor and capital.

*From Credit Suisse First Boston's  
"Emerging Markets Debt Trading",  
February 20*

**The significant run-up in copper prices (up 42.0% in the last three months) has been key in boosting the country's fiscal and external accounts, as well as domestic sentiment.** This and the strengthening in domestic demand have led the government to anticipate a return to a fiscal surplus in 2004, compared to previous estimates that the deficit of the central government would remain near 0.6% of GDP this year. These

developments, however, have also led to a significant strengthening of the currency, which has partially translated into falling prices in several sectors of the economy. (Other factors that help explain the low inflation readings include new Free Trade Agreements and an increase in competition in the retail sector). Currently, the threat of deflation is still Chile's main economic problem.

**Over the next month, we expect investors to focus on the February inflation report and on the performance of the peso.** We expect inflation in February to be 0.1% month-on month, which would push 12-month inflation to a new low of 0.1%, from 0.8% in January. We still expect negative annual inflation readings for March and April. We would not rule out another monetary easing in the upcoming (11 March) monetary policy meeting, particularly if February inflation is lower than expected and/or if the peso continues to strengthen. We maintain our view that the 550 pesos-per-dollar level represents a strong technical resistance that, if broken, could intensify the pressures for the Central Bank to intervene in the market offering pesos.

**Chile's medium-term prospects remain the strongest in Latin America, in our view, which we believe has been reflected for several years in the country's sovereign asset prices.** For many years, Chile's problems have been minor compared to those in the rest of the region. We do not think this will change in the foreseeable future, despite the threat of deflation.

*From Santander Central Hispano's  
"Strictly Macro", February 17*

**The CLP may have hit a floor:** The appreciation of the CLP and its implications for the Chilean economy has been the hottest economic topic in recent months. The discussion ranges over the actual and real value of the CLP, the causes behind the movement in the CLP, its effect on Chilean export competitiveness, and what steps, if any, the Central Bank or the government should take about it.

**Among the causes of the recent appreciation of the CLP, we highlight the increase in copper prices and the strong external accounts.** The strong increase in copper price, has caused a surge in Chilean exports, of which around 40% are copper. Non-copper exports have also seen a recovery on the back of higher world economic growth. We estimate an extra US\$ 4 billion in export

revenues this year (around 4.6% of GDP), which we estimate would create a current account surplus of around 1% of GDP (from just a small deficit in 2003). We think that all these factors have been priced in by the CLP. As for 2005, we expect diminishing copper prices and a 1% deficit in the current account, and we maintain our expectations of CLP 620/USD for the end of 2004.

**We do not expect the Central Bank to intervene directly in the FX market, but it could cut the interest rate if the CLP strengthens beyond CLP 550/USD.** Central Bank authorities have given enough evidence of their support for the free-float exchange system. However, the strong effect that the appreciation of the CLP has had on inflation, which would accumulate around -1.0% in the 12 months to March, has already led the Central Bank to cut the interest rate by 100 bps between December and January. We think that if the CLP appreciated beyond CLP550/USD, the Central Bank would lower the current interest rate of 1.75% by 50 or 75 basis points. Apart from this, we do not expect any direct intervention from the Central Bank or the government.

Although the CLP has strengthened in the last 12 months, various measures of the value of the currency do not indicate that it is far from a sustainable value. We would not be surprised to see the CLP depreciating or appreciating further. In any case, we do not expect direct interventions by the Central Bank in order to control the exchange rate.

*From UBS's  
"Emerging Markets Comment",  
February 10*

**We expect GDP to grow 4.7% and 5.2% in 2004 and 2005, respectively.** Conditions are favorable for the country to accelerate its recovery, and we expect growth to surpass 5% by 2005. While there have been deflationary concerns given continued negative month-over-month inflation figures, we view the current trend as a transitory phenomenon, in part exacerbated by the strong currency appreciation observed since August/September. Having said that, there are reasons for inflation to continue low for some time, and therefore **we revise inflation this year to 1.9% compared to our previous 2.6% outlook.** Similarly, given the domestic recovery outlook, the low inflation environment, and the commodity outlook, we think the currency can continue near current levels, and **we expect the peso to end 2004 at 589 and stabilize at approximately that level through 2005.**



**CHILE CONGRESS PASSES BILL REGULATING POWER INDUSTRY**

Chile's congress passed into law a bill to regulate Chile's electrical power industry. The government hopes the long-awaited law will help stimulate investment in the sector as rising demand risks outpacing production in a few years, some analysts said. The bill also seeks to boost interconnection between Chile's northern SING and central SIC grids as well as with Argentina.

The three principal power generators are Endesa Chile SA, a unit of Spain's Endesa SA; AES Gener SA, a unit of US-based AES Corp.; and Colbún, controlled by Belgium's Tractebel SA and local group Matte.

The new law tightens the range of price fluctuations in regulated prices for small consumers. The average regulated electricity wholesale price, or node rate, generators charge distributors can now only rise or fall a maximum of 5% each time the prices are set. The National Energy Commission ([www.cne.cl](http://www.cne.cl)) sets these prices twice a year.

At the same time, the number of non-regulated consumers was increased by including those who consume 500 kilowatts of power or more as opposed to from 2000 kilowatts. The Energy Commission wasn't immediately able to explain in which time frame the consumption has to occur.

The law also includes provisions to boost regional investment for rural areas as well as the use of renewable energy generation technology beyond hydrology and interconnection with neighboring Argentina.

*Dow Jones Newswires, January 23*

**SANTIAGO, A COST-COMPETITIVE LOCATION IN LATIN AMERICA**

According to a survey of office rentals, published by US-based CB Richard Ellis Global Research & Consulting in January 2004, Chile's capital Santiago is one of Latin

America's most cost-competitive locations. The study compares total occupancy costs ("gross rents"), not just rental rates, for a typical 10,000 square-foot unit in a class A office building in a prime location in the city.

Santiago emerged as the 6<sup>th</sup> least expensive location (US\$ 21.81 per year per square foot), among the 14 cities surveyed in the region, and was better positioned than Buenos Aires, Sao Paulo, Montevideo and Rio de Janeiro, among others.

<b>COST OF OFFICE SPACE (US\$ per year per square foot)</b>			
LOCATION	2002	2003	2004
San Juan, Puerto Rico	39.44	39.44	39.44
Mexico City, Mexico	34.03	36.38	35.20
Nassau, Bahamas	34.35	34.35	34.50
Caracas, Venezuela	32.33	30.66	29.54
Rio de Janeiro, Brazil	27.06	26.50	26.53
Sao Paulo, Brazil	28.26	26.44	24.28
Buenos Aires, Argentina	21.68	23.53	23.53
Santiago, Chile	18.75	19.28	21.81
Lima, Peru	18.95	21.18	21.18
Panama City, Panama	16.72	17.72	16.72
Bogota, Colombia	16.72	16.72	16.72
Quito, Ecuador	14.83	14.83	14.83

*CB Richard Ellis Global Research & Consulting, Latin America & Caribbean Rate, 2004*

**CANADA FASTEST-GROWING MARKET FOR CHILE FREE TRADE GOODS**

Chilean exports to Canada increased faster than those to all other destinations, Chile's Ministry of Foreign Relations said. Exports to Canada, with which it has a six-year old FTA and to which nearly all Chilean goods now enter duty-free, rose 57% to US\$ 415.0 million. In 1997, when the FTA went into effect, exports totaled US\$ 131.2 million, said the Ministry's Division of International Economic Relations ([www.direcon.cl](http://www.direcon.cl)).

Out of the total exports to Canada, natural resources -Chile's traditional exports- topped the list with 76.6%, including copper's 45% of all Chilean exports to Canada. Other main goods included wine, fruit and wood products.

Nontraditional exports of textiles, clothing, and services however increased sharply.

Other fast-growing regions with close trade ties to Chile included Central America, up 50.6% to US\$ 272.9 million, and the Mercosur customs union of which Chile is an associate member, up 24.7% to US\$ 1.23 billion. To both areas, nontraditional industrial exports led.

Export growth to the European Union, whose FTA with Chile went into effect a year ago, trailed in comparison, though the EU was by far the largest export market among FTA partners. Trade with the bloc reached US\$ 4.99 billion.

**AES GENER PLANS NEW US\$ 210 MILLION POWER PLANT**

Chile's second biggest power generating company AES Gener announced it is planning to invest US\$ 210 million in a new 394 megawatt thermoelectric plant to meet central Chile's growing demand for electricity.

The company, majority owned by Arlington, Virginia-based AES Corp., said in a statement that it submitted an environmental impact study on the project for government approval. The proposed natural-gas burning plant will be located at Laguna Verde near the port of Valparaíso (Region V).

The company said power demand in central Chile has grown 7% a year, more than double the rate of economic growth in the country. Natural gas for the plant will come from Electrogas and the plant will tap into the existing electricity transmission system that AES Gener uses for its 57 MW coal-burning plant in the same location.

*Reuters, February 9*



## CHILE LAUNCHES POLICY TO BOOST BIOTECH

Alvaro Díaz, Chile's Deputy Economy Minister, presented the country's national policy, called "Biotechnology as a tool for development and wellbeing", in a ceremony attended by President Ricardo Lagos on November 18. Although the proposal presents a rational approach to using biotechnology to make more competitive the existing strong sectors of Chile's economy, critics say scientists, many of whom are against the commercialization of scientific research, need to change their attitudes, and bureaucracy must be reduced before the policy can be successful.

The policy sets out four main objectives: updating laws that concern biotechnological activities, creating an overarching regulatory body, developing scientific and technological capacity and promoting entrepreneurial innovation in biotechnology. To achieve these goals, the government will introduce a biotechnology framework law to parliament in May 2004.

If the law passes, a coordinating Public Biotechnology Regulations Committee will define the role of public institutions responsible for the impact of biotechnology. For example, the Ministry of Health ([www.minsal.cl](http://www.minsal.cl)), Agriculture and Livestock Agency ([www.sag.gob.cl](http://www.sag.gob.cl)) and the National Environmental Commission ([www.conama.cl](http://www.conama.cl)) will have increased enforcement powers for the oversight of genetically modified products. Meanwhile, the proposal suggests the creation of a permanent and independent Biotechnology Forum to be consulted on any proposed biotechnology norms and charged with promoting public debate.

But one of the key measures is designed to strengthen entrepreneurial spirit among Chile's biotechnology researchers. Specifically, the policy plans to boost the use of biotech processes in industries that depend on natural resources—principally mining, forestry, fisheries and fruit production

—which account for 75% of Chile's exports. "This is where the country's scientific capacity has developed most and this is where the greatest potential for biotechnological R&D lies", says Díaz.

The government believes Chile can attract foreign investment by setting up consortia between firms in Chile's most profitable export sectors and biotechnology companies. For example, Biosigma is a US\$ 2 million alliance between Chile's state copper mining company CODELCO and the Japanese company Nippon Mining to invest in biotechnological extraction of metal using genetically modified bacteria—a process called biolixiviation.

Alfredo de Ioannes, director of the immunological drug discovery company Biosonda, says the existing scientific capacity in Chile is so small that the government is obliged to try and attract foreign investment and scientists. But "the fostering of entrepreneurship depends more on the existence of a market than on government incentives, which corroborates Chilean authorities' decision to concentrate on the industries (at which) they excel", says João Paes de Carvalho, executive director of the Brazilian Biotech Enterprises Association.

Although the government has not yet defined the criteria of the new policy, companies can expect state funding if they are prepared to invest in R&D themselves. Mario Roseblatt, director of the nonprofit organization Life Science Foundation (Santiago) and who has been involved in setting up the policy, says the favored formula would require the state to match private investment in biotech R&D spending, as it did for Biosigma. He believes the proposed consortia present a realistic way forward: "Given the backward state of biotechnology in Chile, any attempt to develop it needs to be very well focused".

However, some are concerned that the concentration of large consortia threatens to marginalize emerging small and medium companies. "The concerns of local biotech companies are insufficiently reflected in this document", says Mónica Acuña founder of

DNA analysis company Genética y Tecnología. "They are looking for innovation, but the young researchers most likely to provide it will be excluded by the bureaucratic requirements for evidence of capital and (of) previous profits", she argues.

And de Ioannes thinks there is a cultural reticence behind the failure to embrace biotechnology wholeheartedly. "Twenty years ago biotechnology was seen as the prostitution of science and the universities traditionally had a poor relationship with the commercial sector. So we simply imported technology and exported raw materials".

Yet, as part of the new policy, the government is planning to increase recruitment in biotechnology R&D, which should help change people's attitude towards the sector. "By 2006, the government plans to reach at least 1% of GDP in science and technology funding", says Díaz. This represents an increase of 25% on current investment in biotechnology R&D, which is about US\$ 380 million. However, the policy document is unclear about how to achieve this goal and delegates the task to a commission, suggesting they consider increasing taxes.

But further changes will be needed. "Our tradition is as good administrators. Now we need to add innovation and creativity", de Ioannes adds. To foster innovation, the government's policy recognizes the need to improve the protection of intellectual property rights. Patenting procedures will be introduced into science education, scientists will benefit from financial incentives to apply for patents, and successful patent applications will be recognized for academic promotions.

That the Chilean government has made biotechnology a national priority is a fundamental step forward. "As in many countries, the grand design of these kinds of national policies' is hindered by petty bureaucracy and conflicting regulations", says Carvalho. "If Chilean biotech policy can escape these pitfalls, it has a good opportunity to impact the country's competitiveness".

*Nature Biotechnology*, January 2004



## ESCONDIDA NORTE ON TRACK FOR 4Q05 START-UP

The development of the Escondida Norte pit, part of the existing Escondida copper mine in northern Chile's Region II, is proceeding on schedule, majority owner Anglo-Australian mining giant BHP Billiton said in a quarterly report. "Pre-mine development, design and construction activities are on track to meet first ore delivery to the crusher in the fourth quarter of 2005", the company said in a statement outlining its exploration and development activities. BHP Billiton said that the first mining shovel, loader, drills and haul trucks were moved to Escondida Norte pre-mine at the beginning of December 2003 as planned. A total 5.3Mt of material had been shifted by the end of the month. Works include new maintenance areas and other development activities. Construction activities have also started on the initial infrastructure requirements and the engineering, procurement, construction and management contractor has ramped up detailed design activities and orders for all long lead time purchases handling work, it said.

The US\$ 400 million project, approved June 2003, is designed to provide mill feed to maintain capacity at Escondida above 1.2Mt/y of copper in concentrate and cathodes to end-2008 as grades at the existing pit decline. Located 5km from the current Escondida operation, the world's largest copper mine, Norte has proven and probable reserves of 502Mt grading 1.44% copper using a cutoff of 0.7%, according to the company. The contained copper figure stands at 7.23Mt. Escondida is 57.5% owned by BHP Billiton, 30% by London-based Rio Tinto, 10% by a Japanese consortium led by Mitsubishi and 2.5% by the World Bank's International Finance Corporation.

*Business News Americas*, February 3

## CHILEAN BANKING WEBSITES AMONG THE BEST IN THE REGION

Websites of two Chilean banks appear among the top 25 *Best Banking Websites*, according to a report prepared by US financial market research firm Speer & Associates and published in December 2003. This consulting firm analyzed the websites of 148 banking institutions in North, Central and South

America and placed Chile's BBVA and BCI among the best 25 in the global ranking.

Speer & Associates grades from 1 to 5 the web portals of banking institutions based on hundreds of factors, such as how easy the navigation is, the quantity of transactions offered, and the kind of information being offered to customers.

Among the top 25 in the global ranking appear 18 US banks (headed by Bankcorp), 4 Canadians, 1 Mexican and 2 Chilean banks, the BBVA and BCI.

Meanwhile, in the case of the ranking for the Latin American region, seven Chilean banks appear among the best 29 banking sites.

BEST BANKING WEBSITES IN LATIN AMERICA (Selected institutions)		
Institution	Country	Ranking among the best 29 banking sites
Banamex	Mexico	1
BBVA Banco Bhif	Chile	2
BCI	Chile	3
Banco Itau	Brazil	4
HSBC	Brazil	5
Banco Popular	Puerto Rico	7
Citibank Brazil	Brazil	10
Bitai (HSBC)	Mexico	12
Banco de Chile	Chile	15
Banco Santander	Brazil	17
Citibank Chile	Chile	19
Scotiabank Sud Americano	Chile	20
Banco Mercantil	Venezuela	21
Santander Santiago	Chile	22
BankBoston Chile	Chile	27
Caixa Economica	Brazil	29

*Speer & Associates*  
([www.speerandassociates.com](http://www.speerandassociates.com)),  
December 2003

## CHILE PROJECTS SLIGHT BUDGET SURPLUS UNDER NEW ACCOUNTING RULE

Chile's central government budget will likely end the year with a slight surplus under a rule change introduced to bring its fiscal accounting in line with International Monetary Fund standards, Budget Director Mario Marcel said. "Within the macroeconomic context that can currently be estimated for the present year, the central government's consolidated accounts reported according to the new fiscal statistics will show a positive balance in 2004", he said. "On the basis of conservative estimates the positive factors will dominate over the negative ones", he added.

Helped by the rising price for copper and stronger domestic demand, the budget will show a surplus under the new accrual based accounting.

Copper prices, estimated to run at an average of 83 cents per pound this year, will likely range above that, Marcel added. "We've been working with figures slightly below one dollar, but we'll wait before we have the results from tax receipts to update all our estimates" in May, he said.

The budget will benefit from the recent boom in copper via the earnings of state-owned copper giant Corporación Nacional del Cobre de Chile, or Codelco. Part of the windfall Codelco can expect will be used to stock up the government-run copper stabilization fund which last year disbursed US\$ 202 million when the price of the red metal was still low, leaving it at US\$ 55 million at the end of the year, Marcel said. Once the price topped 92 cents/lb, the fund began receiving inflows, totaling US\$ 6 million so far "and we expect that situation to continue over the course of this year", he added.

The annual thresholds for inflows and outflows to the fund are established by an independent panel ahead of the third-quarter submission of the government budget.

On the negative side, lower-than-expected inflation and the weak dollar that hits Codelco, which has accounts in US currency, will weigh on the budget, but spending has already been adjusted accordingly, Marcel said.

Under the cash-based accounting used until last year, the government registered a deficit of 0.8% of Chile's Gross Domestic Product, close to earlier estimates, and 0.4% under the accrued method, Marcel added.

Under the old method, the budget included a 0.6% deficit to be covered via up to US\$ 1.5 billion in new debt. The government placed a new US\$ 600 million sovereign bond in January.

Government debt as a percentage of GDP fell to 13% in 2003: The government tax take rose a real 3% to 10.73 trillion pesos (US\$ 1=CLP575.00) in 2003, with revenues accelerating during the fourth quarter in particular, with a third of the rise due to a 1% increase in value-added tax to 19% from 18% in October. Income from personal and corporate income taxes plummeted 70% as a result of the economic slowdown that hit Chile in 2002.

Import duties also fell sharply, declining 30% as Chile's Free Trade Agreement with the EU went into effect in February. A similar deal with the US went into effect at the beginning of this year.

*Dow Jones Newswires*, February 12



### SANTIAGO DRIVERS GEAR UP FOR AUTOMATIC TOLLS

Drivers in Chilean capital Santiago are starting to install automatic toll devices in preparation for the kickoff of electronic toll systems throughout the city. The devices, fitted to windshields, will allow drivers to pass toll barriers equipped with electronic sensors without stopping, when the system is activated sometime during the middle of this year. Tags are registered to an individual vehicle and the system will bill for highway usage once a month. The city has 300,000 free tags to distribute, for its four tollways, according to the newspaper.

*Business News Americas*, February 4

### IADB'S CHILE TRANSACTION AWARDED 'LATIN AMERICAN DEAL OF THE YEAR'

For the second year in a row, the Inter-American Development Bank (IADB) received the LATAM Deal of the Year award by "Project Finance International" for its work on a Chilean highway transaction; for the same operation, "Euromoney Project Finance" will present the IADB its Latin American Transportation Deal of the Year award, also for the second consecutive year.

The "Project Finance International" award for the Costanera Norte Toll Road project represents a cross-industry accolade for the region and was based on the guarantors' ability to leverage "groundbreaking toll-collecting technology with pioneering local currency financing", according to the magazine. The Costanera Norte Toll Road Project consists of the construction, rehabilitation and operation of a complex urban expressway complete with electronic tolling systems previously implemented only in Australia, Canada, the United States and Israel.

The IADB-guaranteed bond for Costanera Norte established new benchmarks with both the international rating agencies and local investors. Based on the structure negotiated by the Bank and its co-guarantor, Ambac Assurance Corporation, the project achieved stand-alone global-scale risk ratings of BBB from Standard & Poor's and Baa2 from Moody's Investor Services. The risk rating assigned by S&P represents the highest risk rating ever for a Latin American toll

road project. At the same time, the coupon rate on the long-term tranche at 5.5% represented the lowest fixed rate coupon ever achieved by a Chilean local currency infrastructure bond in excess of 20 years. The transaction itself was placed with Chilean institutional investors on December 11, 2003, and the bonds were over two times over-subscribed.

Also for the second consecutive year the Inter-American Development Bank is to receive Latin American Transportation Deal of the Year award from "Euromoney Project Finance" Magazine.

Hiroshi Toyoda, manager of the Private Sector Department, explains that "the project was innovative in distributing risks efficiently among the sponsors, the guarantors and the government of Chile, which provided a minimum revenue guarantee to the project". Philippe Birebent, project team leader, adds that "the fully local currency financing acts as a natural hedge to foreign exchange risks associated with traditional dollar-based lending. In the Costanera Norte transaction, we were able to fully fund the project with local savings allowing Chile to invest in its own infrastructure development".

The Project Team for Costanera Norte also received this double accolade in 2002 from the same two magazines for its work on the Santiago-Valparaíso Toll Road project, which was the first local currency private bond guarantee undertaken by the Bank.

*Inter-American Development Bank*  
([www.iadb.org](http://www.iadb.org)), February 19

### DESTINATION: CHILE STAR PARTIES IN SOUTH AMERICA

Astronomers have considered northern Chile an ideal laboratory for decades. Its sparse population means there is little light pollution, and the combination of stable air and Andean altitudes produces skies that are largely free of atmospheric distortions. Cerro Tololo Inter-American Observatory, the granddaddy of the region's world-class observatories, averages more than 300 clear nights a year.

It is not just northern Chile's atmosphere that makes it the best place to view the heavens this side of the Hubble Space Telescope. Its Southern Hemisphere location also provides excellent views of objects that

are difficult or impossible to study from the United States. Among the most interesting of these are the Magellanic Clouds, two small galaxies that orbit our own, as well as the Galactic bulge of the Milky Way, a region that is home to vast clouds of gas, dense groupings of stars and probably a super-massive black hole.

If you have an inner Carl Sagan, northern Chile is the place to be. The area began sprouting world-class international observatories in the 1960's, when construction began on Cerro Tololo, a US-run observatory in the mountains east of La Serena (Region IV), a major beach resort. The Europeans arrived about the same time, forming a group called the European Southern Observatory and building farther to the north, first at a site now known as La Silla. More recently, the organization built Paranal Observatory, a cutting-edge facility on a hilltop hundreds of miles to the north. Also, the Carnegie Foundation of Washington operates Las Campanas Observatory in the area.

In the last several years, all of these groups have built larger, more powerful telescopes. The biggest of the new telescopes, Paranal Observatory's creatively named Very Large Telescope, links four mirrors, each about 27 feet in diameter, to create the largest instrument of its kind in the world.

With a little planning, tourists can visit most of these facilities. Many offer free guided tours at least a couple of weekends a month, although visitors must provide their own transportation to the observatories, all of which are intentionally in dark swatches of nowhere.

**Observatories:** Most observatories have free daytime tours several weekends a month, although some do not offer tours year-round. Try to book several weeks in advance.

- Cerro Tololo Inter-American Observatory, about 50 miles east of La Serena ([www.ctio.noao.edu](http://www.ctio.noao.edu)).
- European Southern Observatory, Paranal ([www.eso.org](http://www.eso.org)).
- Las Campanas Observatory, La Serena, ([www.ociw.edu/lco](http://www.ociw.edu/lco))
- Cerro Mamalluca, Vicuña; 411-352 ([www.angelfire.com/wy/obsemamalluca](http://www.angelfire.com/wy/obsemamalluca)).

*Los Angeles Times*, January 25

Between January and December of 2003, materialized Foreign Direct Investment totaled US\$ 2.5 billion, a -35.5% as compared to the same period last year. The Foreign Investment Statute (D.L. 600) channeled 51.8% of the inflows. The main recipient sectors were Mining (30%),

Transport & Communications (26.6%), Manufacturing (18.4%) and Electricity, Gas & Water (11.8%). During 2003, materialized FDI came mainly from the US (37.6%); Canada (14.6%); and the UK (10.2%)



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FOREIGN DIRECT INVESTMENT REPORT / January - December 2003 (in nominal US\$ million)														
Instrument/Period	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Jan-Dec 2002	Jan-Dec 2003	Growth rate
<b>FOREIGN INVESTMENT STATUTE (1)</b>														
- Capital Contributions	691.9	895.6	1,549.0	1,802.6	3,967.5	3,803.1	4,368.7	8,591.0	2,536.6	4,320.2	2,260.1	2,260.1	1,091.9	-51.7%
- Associated Credits	307.1	839.0	976.0	1,235.1	868.7	1,414.7	1,665.7	607.4	484.9	461.6	1,116.4	1,116.4	184.5	-83.5%
<b>MATERIALIZED INVESTMENT F.I.S. (DL 600)</b>	<b>999.0</b>	<b>1,734.6</b>	<b>2,525.0</b>	<b>3,037.7</b>	<b>4,836.2</b>	<b>5,217.8</b>	<b>6,034.4</b>	<b>9,198.4</b>	<b>3,021.5</b>	<b>4,781.8</b>	<b>3,376.5</b>	<b>3,376.5</b>	<b>1,276.4</b>	<b>-62.2%</b>
<b>CHAPTER XIV (2)</b>														
- Capital Contributions	157.8	204.2	410.2	409.5	441.6	920.6	539.3	688.8	735.6	775.2	446.3	446.3	1,187.9	166.2%
<b>TOTAL F.D.I. CAPITAL CONTRIBUTIONS</b>	<b>849.7</b>	<b>1,099.8</b>	<b>1,959.2</b>	<b>2,212.1</b>	<b>4,409.1</b>	<b>4,723.7</b>	<b>4,908.0</b>	<b>9,279.8</b>	<b>3,272.2</b>	<b>5,095.4</b>	<b>2,706.4</b>	<b>2,706.4</b>	<b>2,279.8</b>	<b>-15.8%</b>
<i>(F.I.S. + Chapter XIV)</i>														
<b>TOTAL F.D.I. MATERIALIZED</b>	<b>1,156.8</b>	<b>1,938.8</b>	<b>2,935.2</b>	<b>3,447.2</b>	<b>5,277.8</b>	<b>6,138.4</b>	<b>6,573.7</b>	<b>9,887.2</b>	<b>3,757.1</b>	<b>5,557.0</b>	<b>3,822.8</b>	<b>3,822.8</b>	<b>2,464.3</b>	<b>-35.5%</b>
<i>(Materialized F.I.S. + Chapter XIV)</i>														
<b>Capital Remittances</b>														
- Foreign Investment Statute (1)	62.7	174.1	59.5	396.1	333.6	375.5	443.8	281.8	541.4	955.2	1,744.6	1,744.6	267.0	-84.7%
- Chapter XIV (2)	61.6	173.2	49.4	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.2	1,712.2	248.2	-85.5%
	1.1	0.9	10.1	3.5	30.2	20.6	323.9	47.8	78.7	289.4	32.4	32.4	18.8	-42.0%

(1) Source: Foreign Investment Committee      \* Provisional figures as of December 31, 2003  
(2) Source: Central Bank of Chile.

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (DL 600) BY SECTOR 1974-2003* (in nominal US\$ million)										
SECTOR/PERIOD	74-95	1996	1997	1998	1999	2000	2001	2002*	2003*	TOTAL
Agriculture and Livestock	162	16	14	13	21	23	10	2	0	261
Construction	303	26	114	279	211	29	164	138	27	1,291
Electricity, Gas & Water	92	387	1,395	495	4,540	860	908	473	150	9,300
Fishing and Aquaculture	129	40	12	8	0	92	5	0	10	296
Forestry	133	20	29	38	17	4	1	1	1	244
Industry	2,744	917	627	530	828	240	754	209	234	7,083
Mining	8,550	1,014	1,703	2,465	1,350	243	958	1,999	383	18,665
Transport and Communications	911	459	177	224	374	870	1,281	336	340	4,972
Insurance	213	160	250	702	208	90	265	20	4	1,912
Wholesale and retail trade	326	59	272	190	86	117	110	82	43	1,285
Financial services	1,137	1,494	459	813	950	261	108	56	41	5,319
Other Services	1,003	244	167	279	614	192	217	60	43	2,819
<b>TOTAL</b>	<b>15,703</b>	<b>4,836</b>	<b>5,219</b>	<b>6,036</b>	<b>9,199</b>	<b>3,021</b>	<b>4,781</b>	<b>3,376</b>	<b>1,276</b>	<b>53,447</b>

Note: Materialized investments include amounts authorized each year and in all forms accepted under the Foreign Investment Statute  
SOURCE: Foreign Investment Committee      \* Provisional figures as of December 31, 2003

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY REGION OF ORIGIN 1974 - 2003* (in nominal US\$ million)			
REGION	VALUE (in US\$ million)	SHARE	
North America	24,079	45.1%	
European Union	20,611	38.6%	
other European countries	1,711	3.2%	
Pacific Asia & Oceania	3,997	7.5%	
other Asian countries	12	0.0%	
Central America & the Caribbean	1,197	2.2%	
Africa	481	0.9%	
South America	1,051	2.0%	
International Organizations	308	0.6%	
<b>TOTAL</b>	<b>53,447</b>	<b>100.0%</b>	

Source: Foreign Investment Committee - Chile  
\*Provisional figures as of December 31, 2003.