



Chile's economy: recent performance and prospects

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GOBIERNO DE CHILE
MINISTERIO DE HACIENDA

Outline

- Some basic features
- Recent macroeconomic performance
- Financial Stability Report
- Fiscal policy
- The current reform agenda

A tall, curved building with many windows and a group of people walking on a street in the foreground. The building is light-colored with dark window frames. The people are in the lower left corner, some wearing backpacks. The background is a clear blue sky.

Chile: some basic features

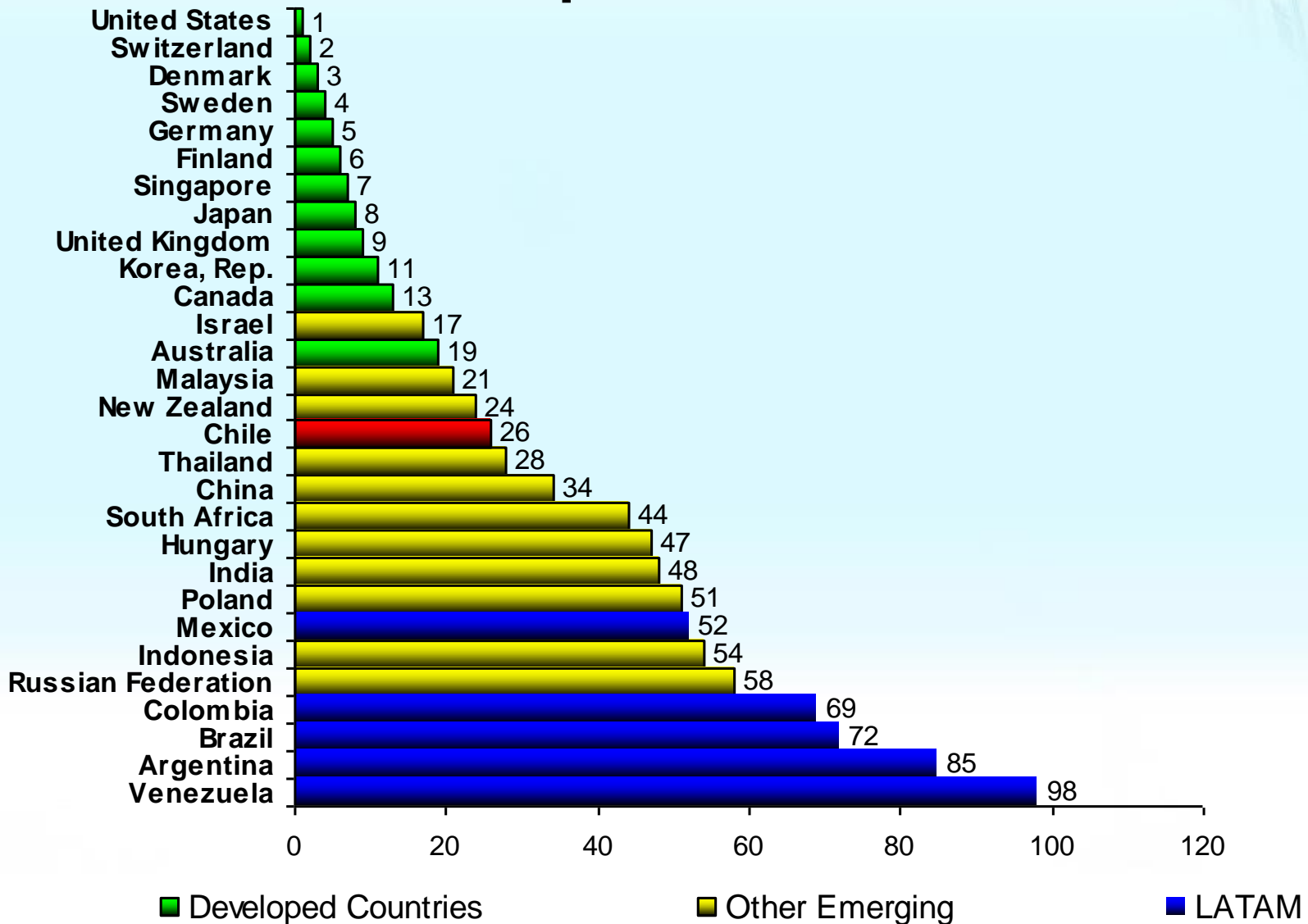
Growth Performance

- 5.4 per cent total annual growth in 1990-2006
- This amounts to 4.5 per cent per capita annual growth over the same period
- Total dollar national income has almost trebled since 1990.

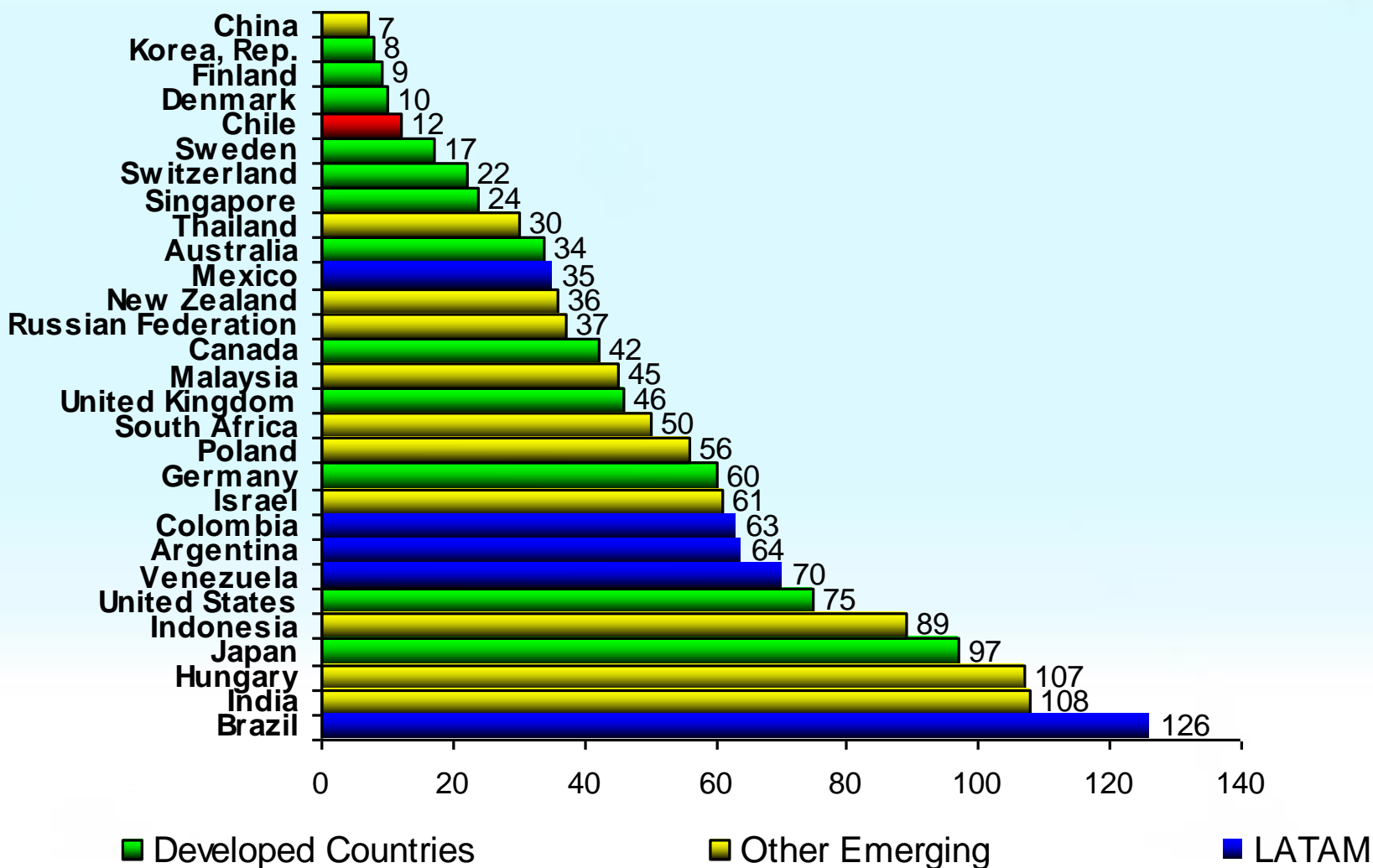
Poverty reduction

- Casen Survey: 40 percent of people lived below the poverty line in 1990.
- Share of people living below the poverty line had dropped to 18 percent by 2003
- Poverty rate went down an additional 5 points between 2003 and 2006, reaching only 13 percent.
- Poverty and extreme poverty dropped to a third from what they were in 1990.
- In the same period of time, the Gini coefficient decreased from 0,57 to 0,54.

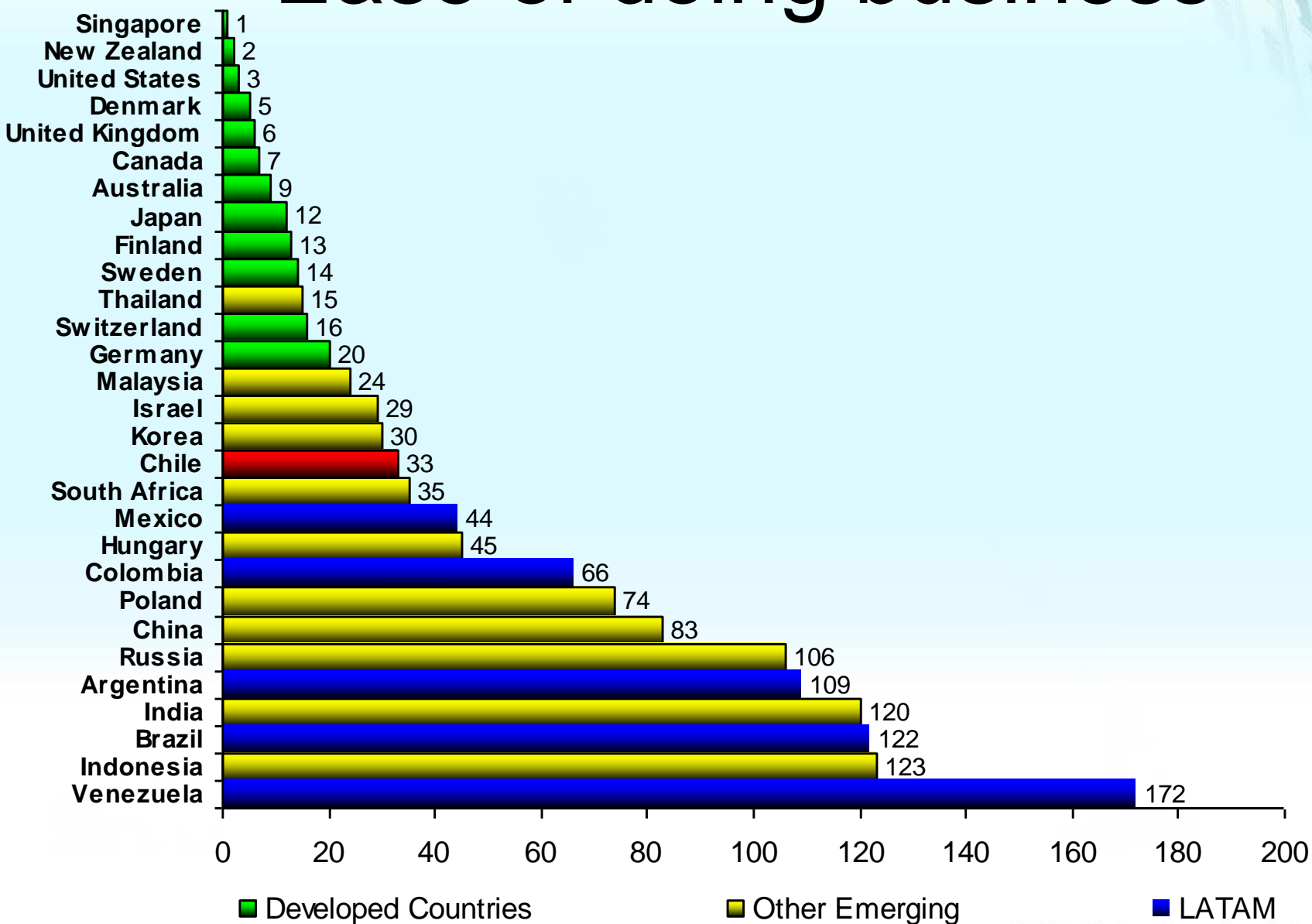
Competitiveness



Macroeconomic management

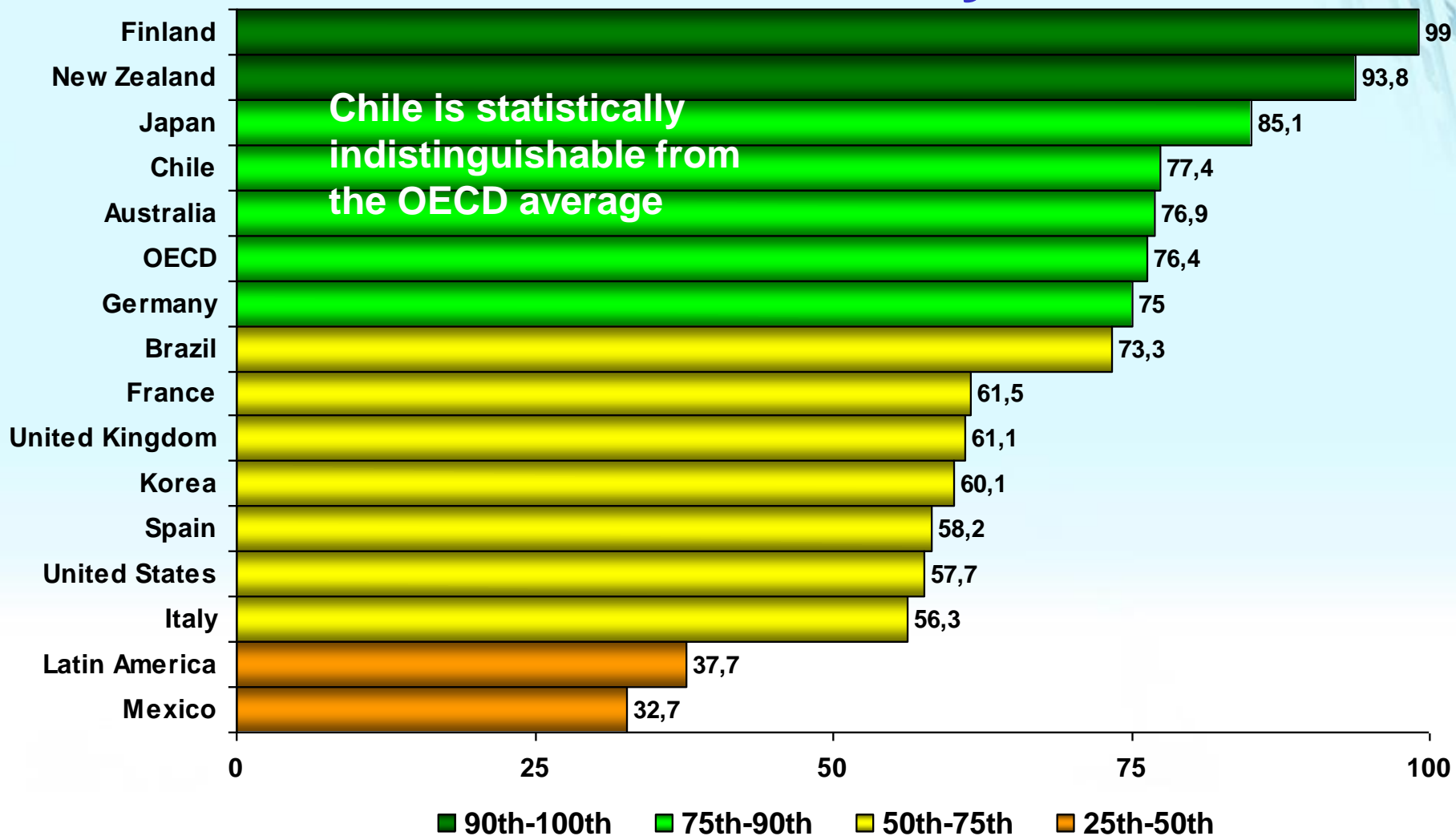


Ease of doing business



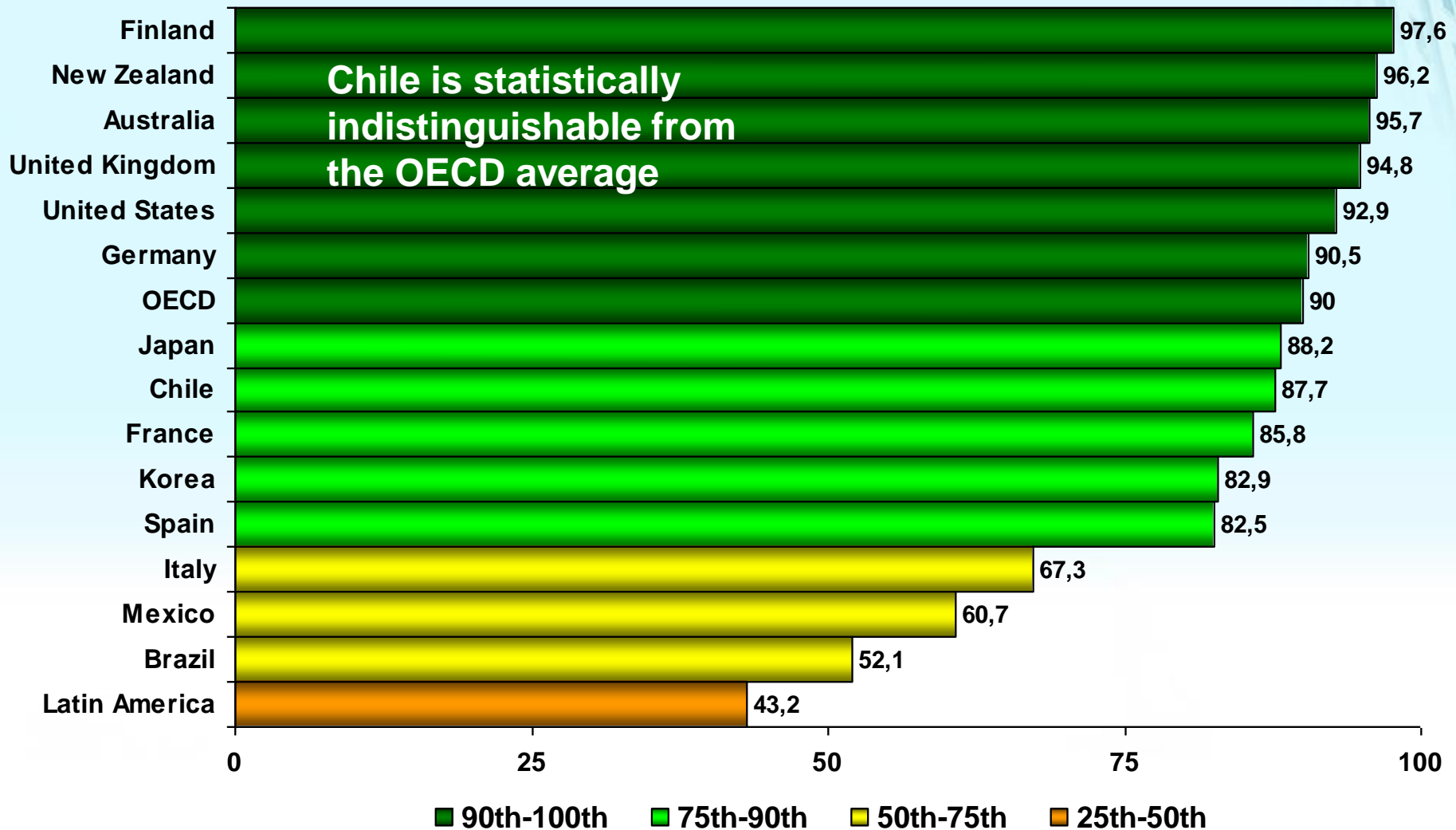
Worldwide Governance Indicators

Political Stability



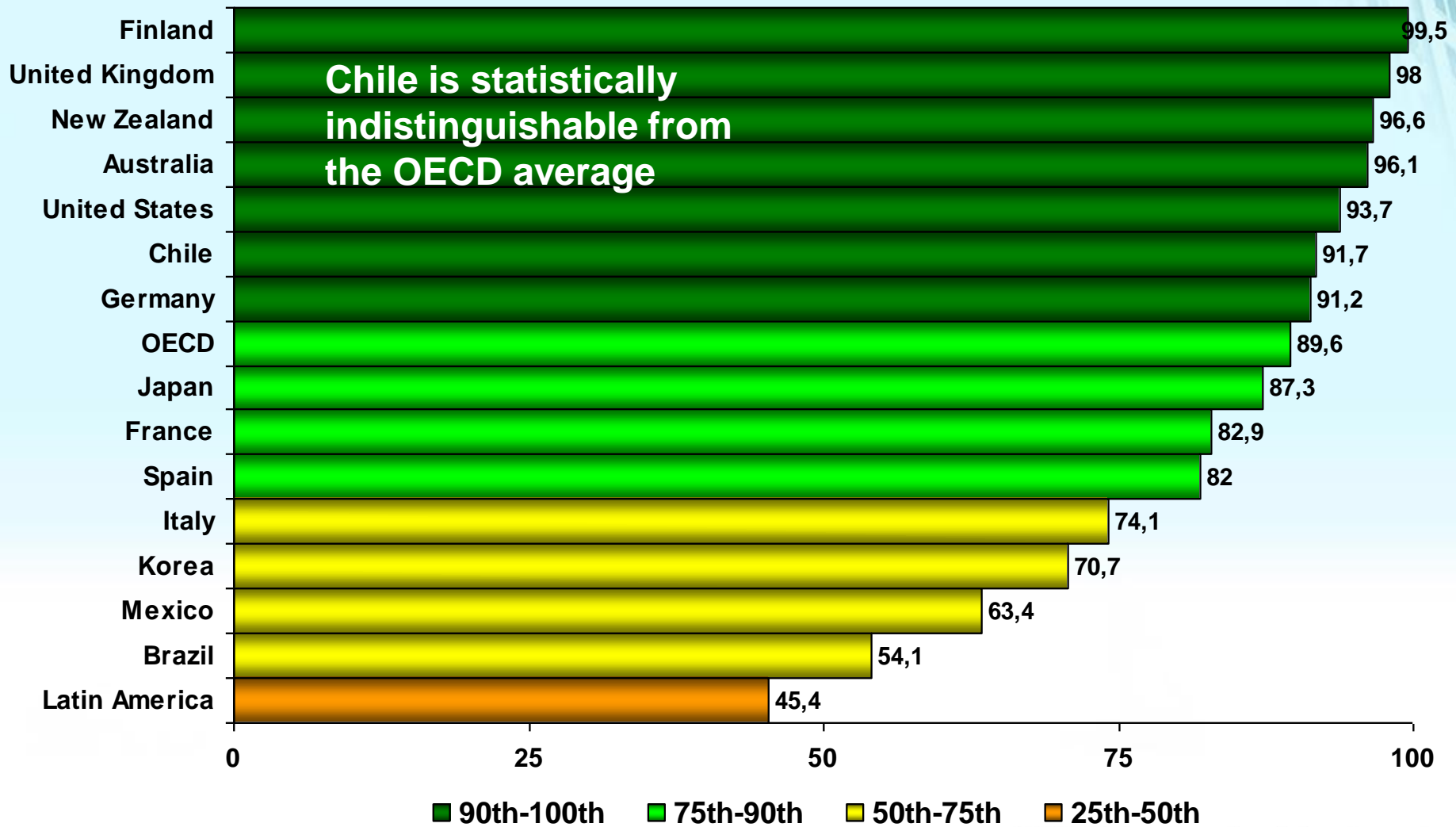
Worldwide Governance Indicators

Government Effectiveness



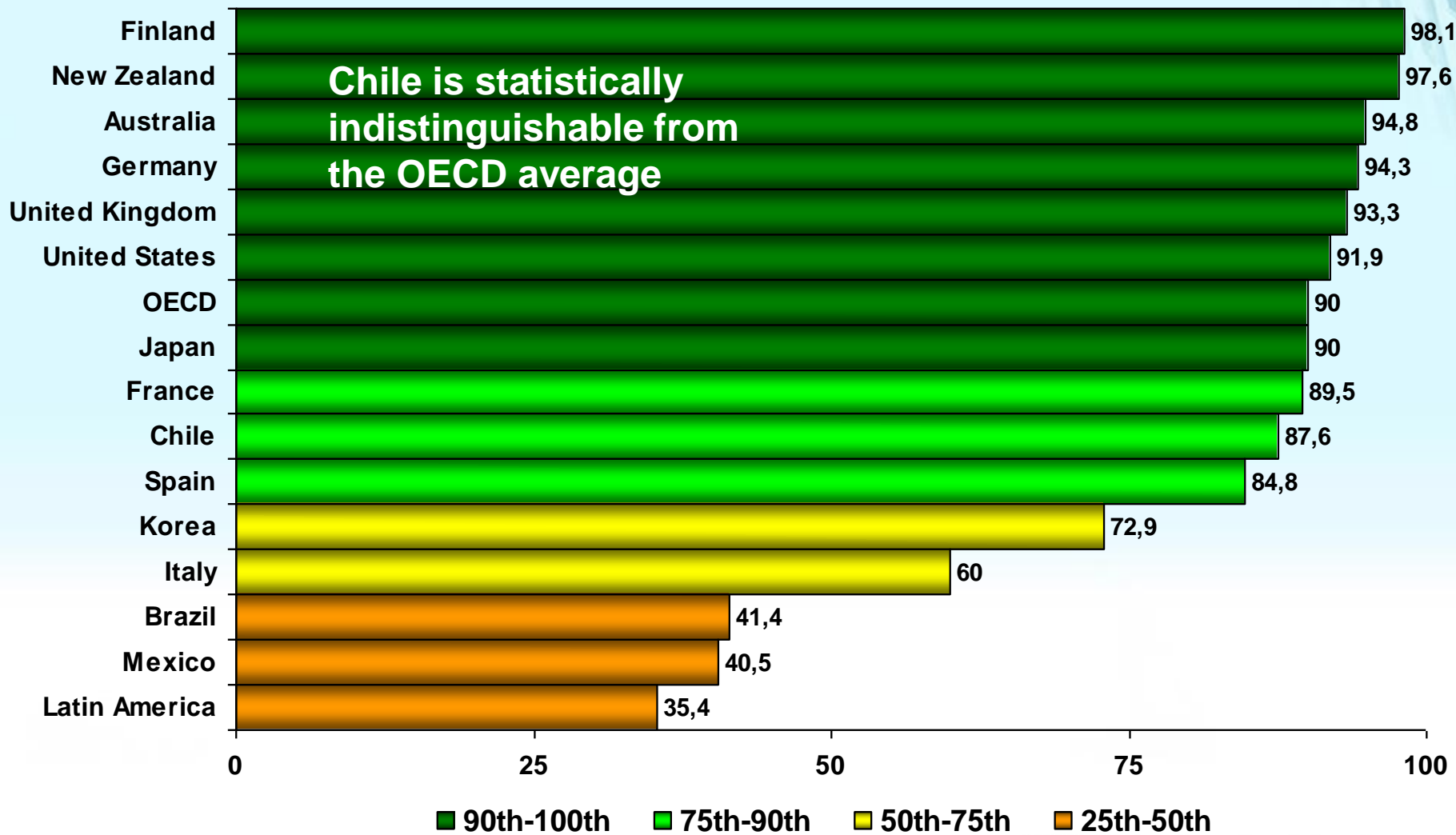
Worldwide Governance Indicators

Regulatory Quality



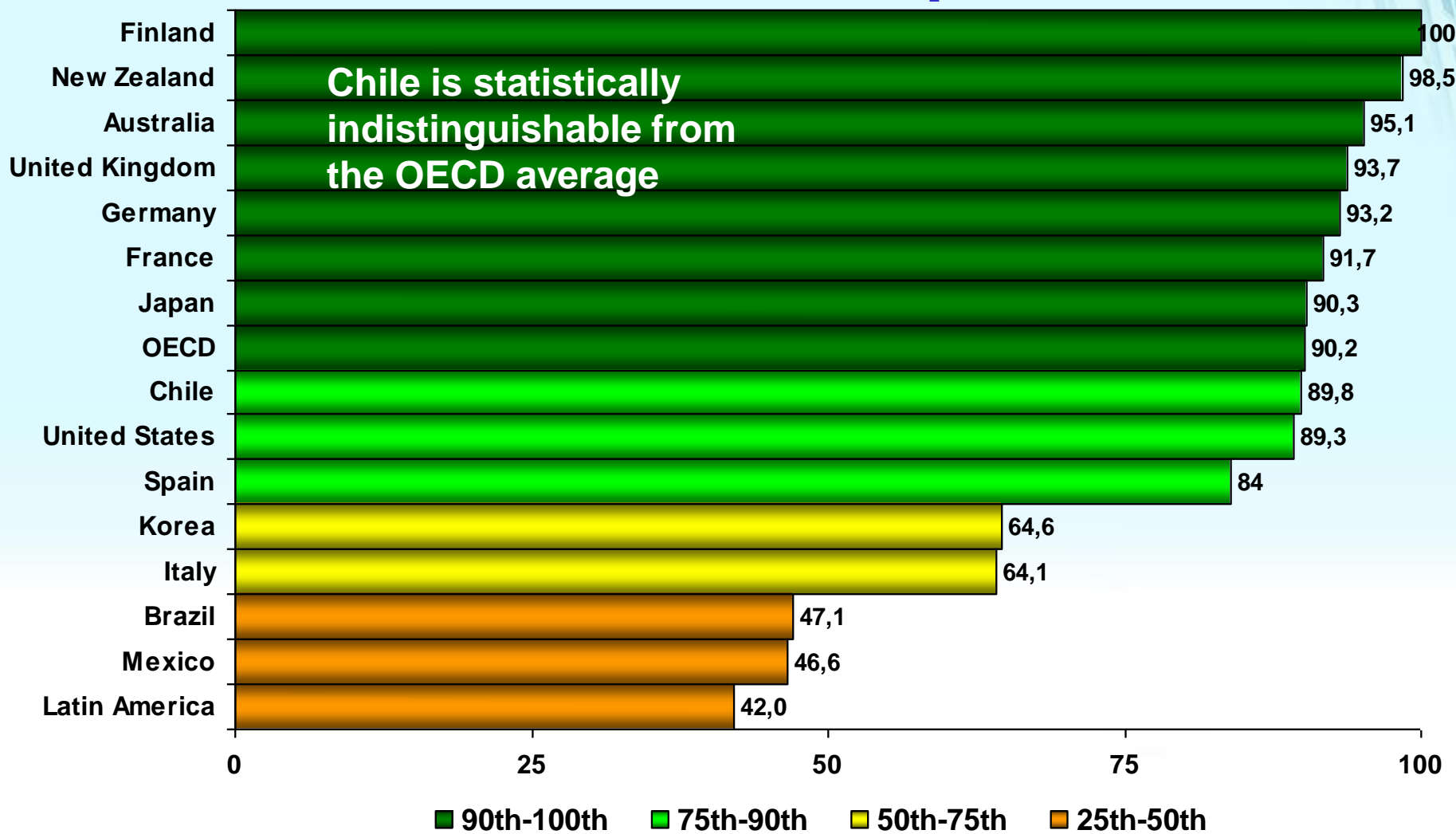
Worldwide Governance Indicators

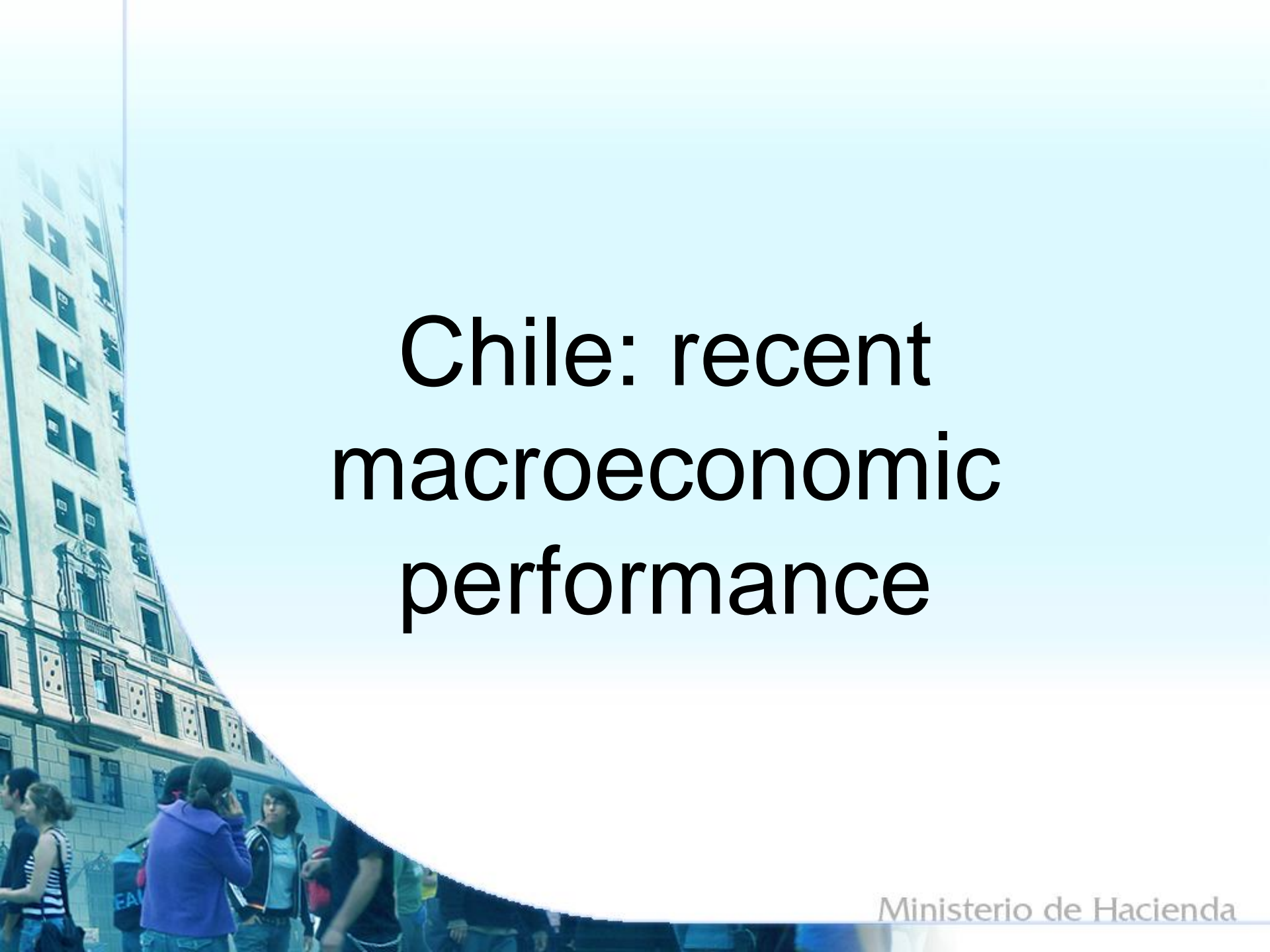
Rule of Law



Worldwide Governance Indicators

Control of Corruption

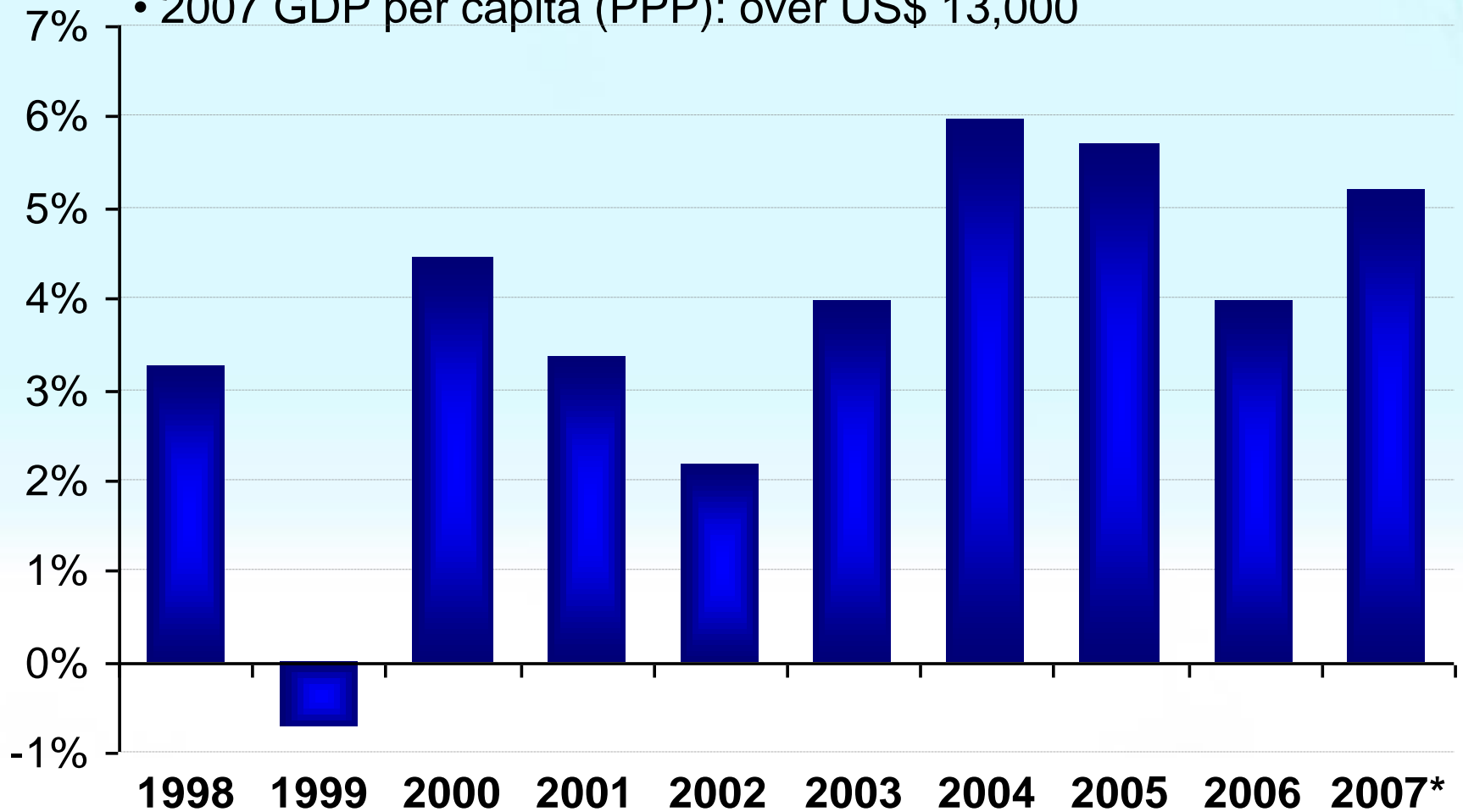




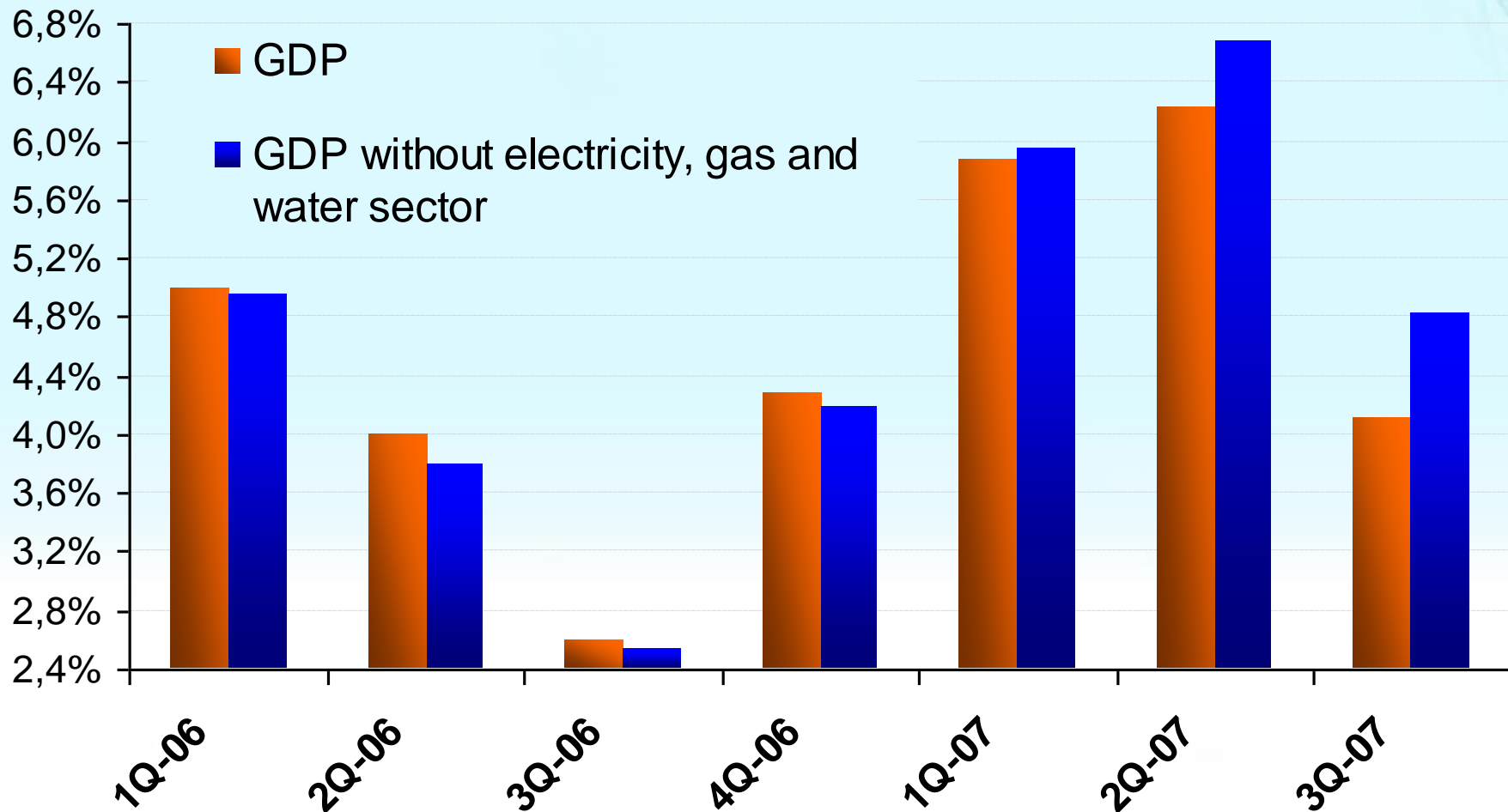
Chile: recent macroeconomic performance

Steady GDP growth

- Economy grew 5.2 per cent in 2007
- 2007 GDP per capita (PPP): over US\$ 13,000

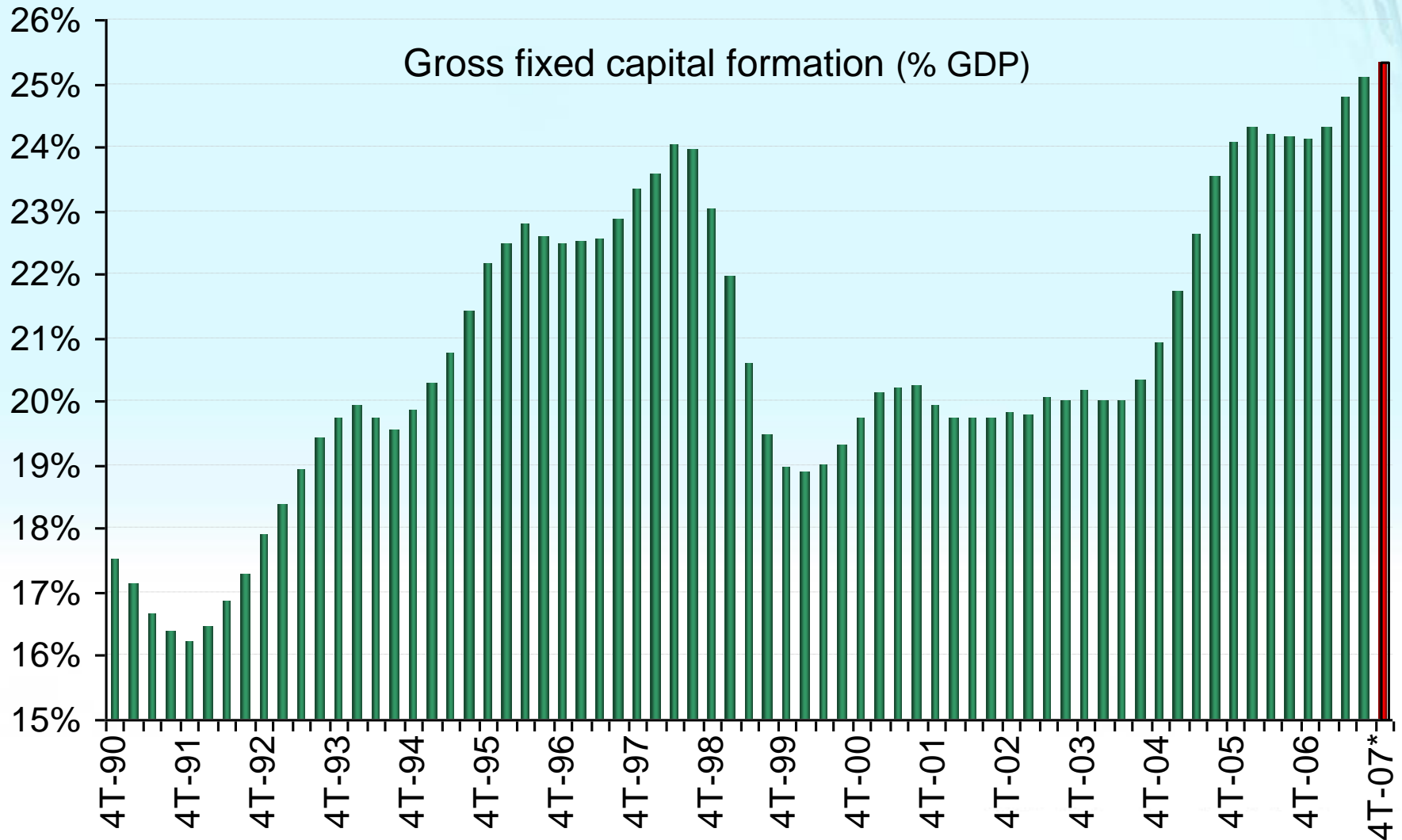


Economic growth despite the effect of energy sector

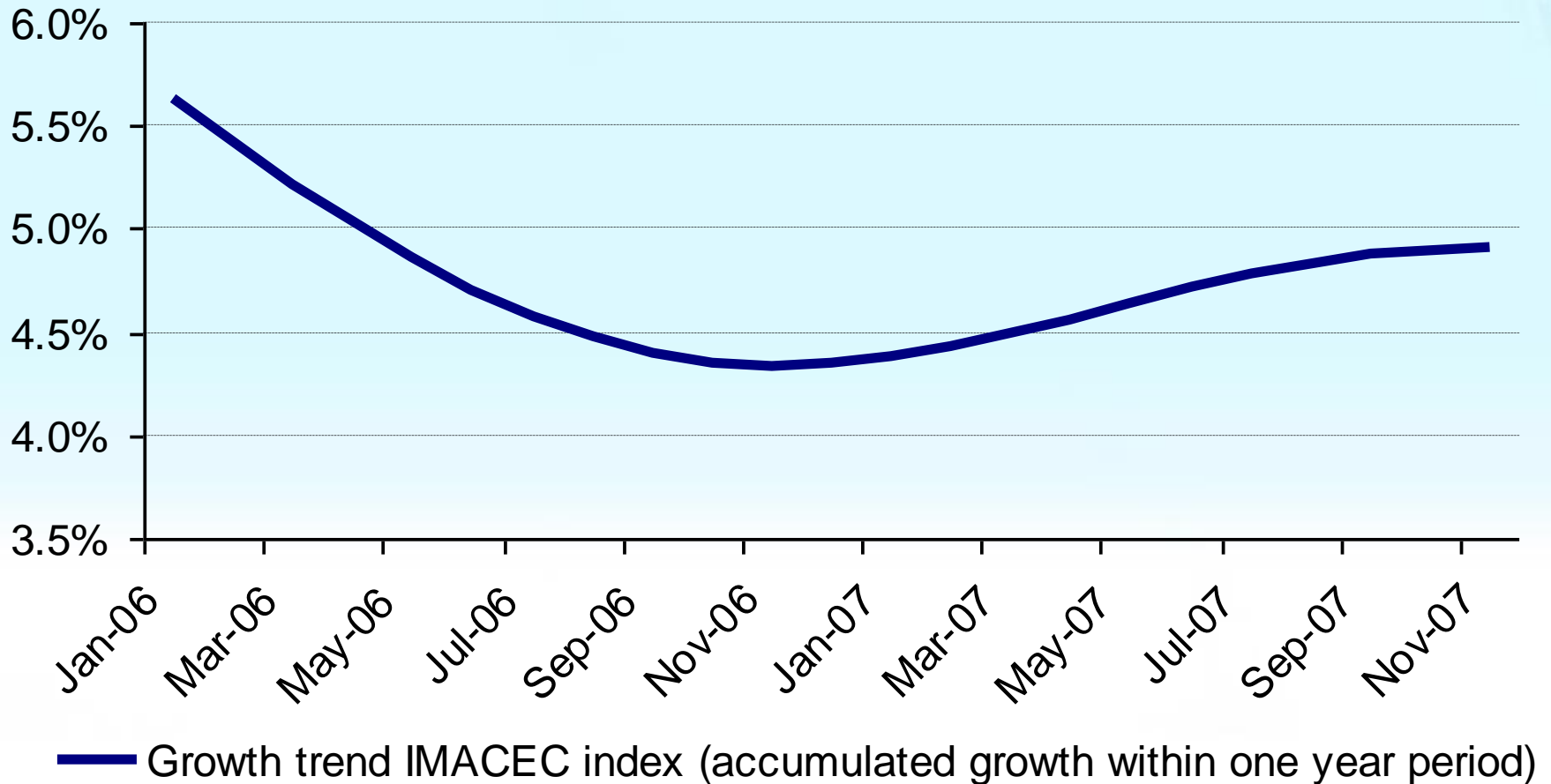


Record 2007 investment: over 25% of GDP

- Gross fixed capital formation growth of almost 12%



Chile: growth trend near its potential rate

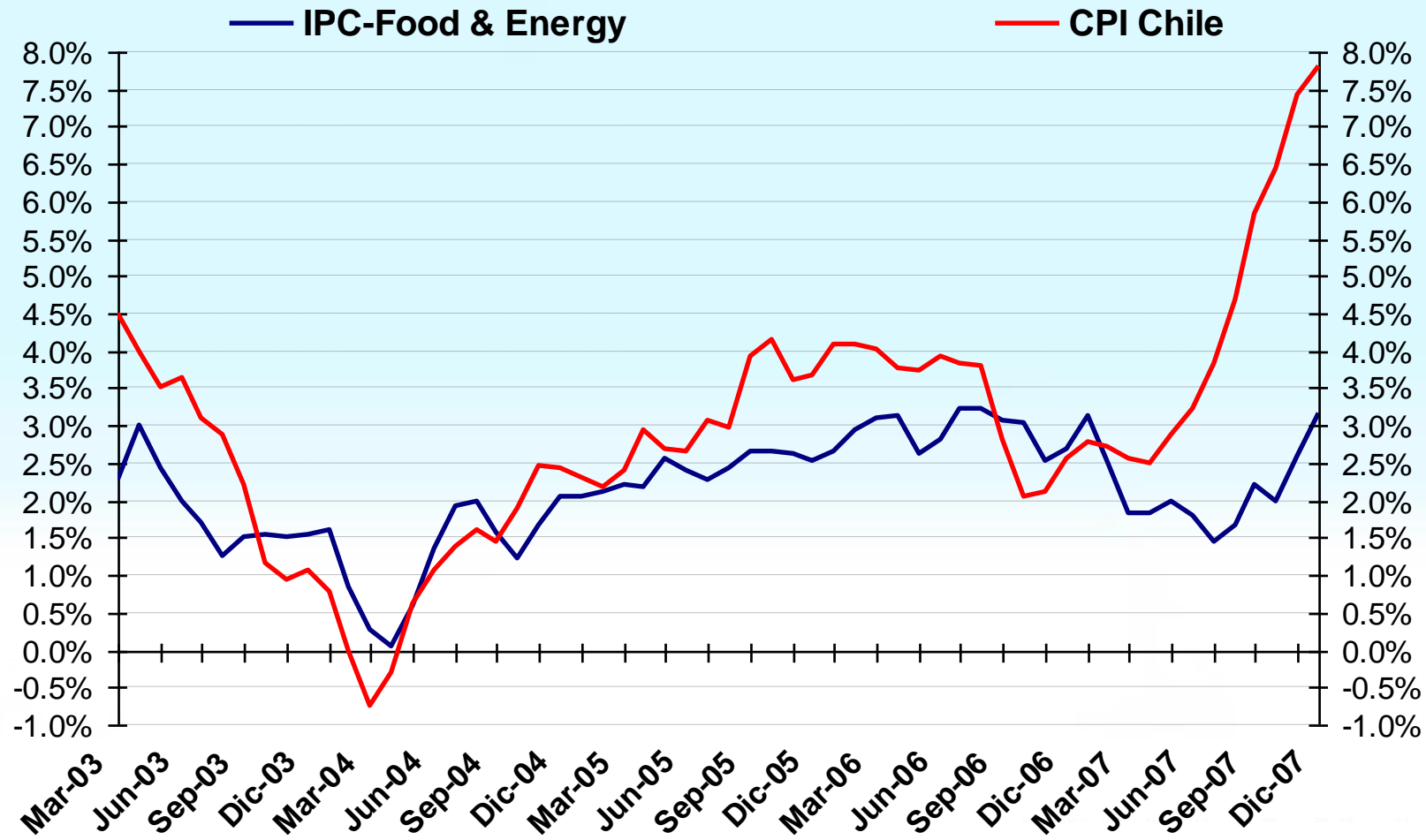


Unemployment broken from its previous high plateau



High inflation largely due to food and energy

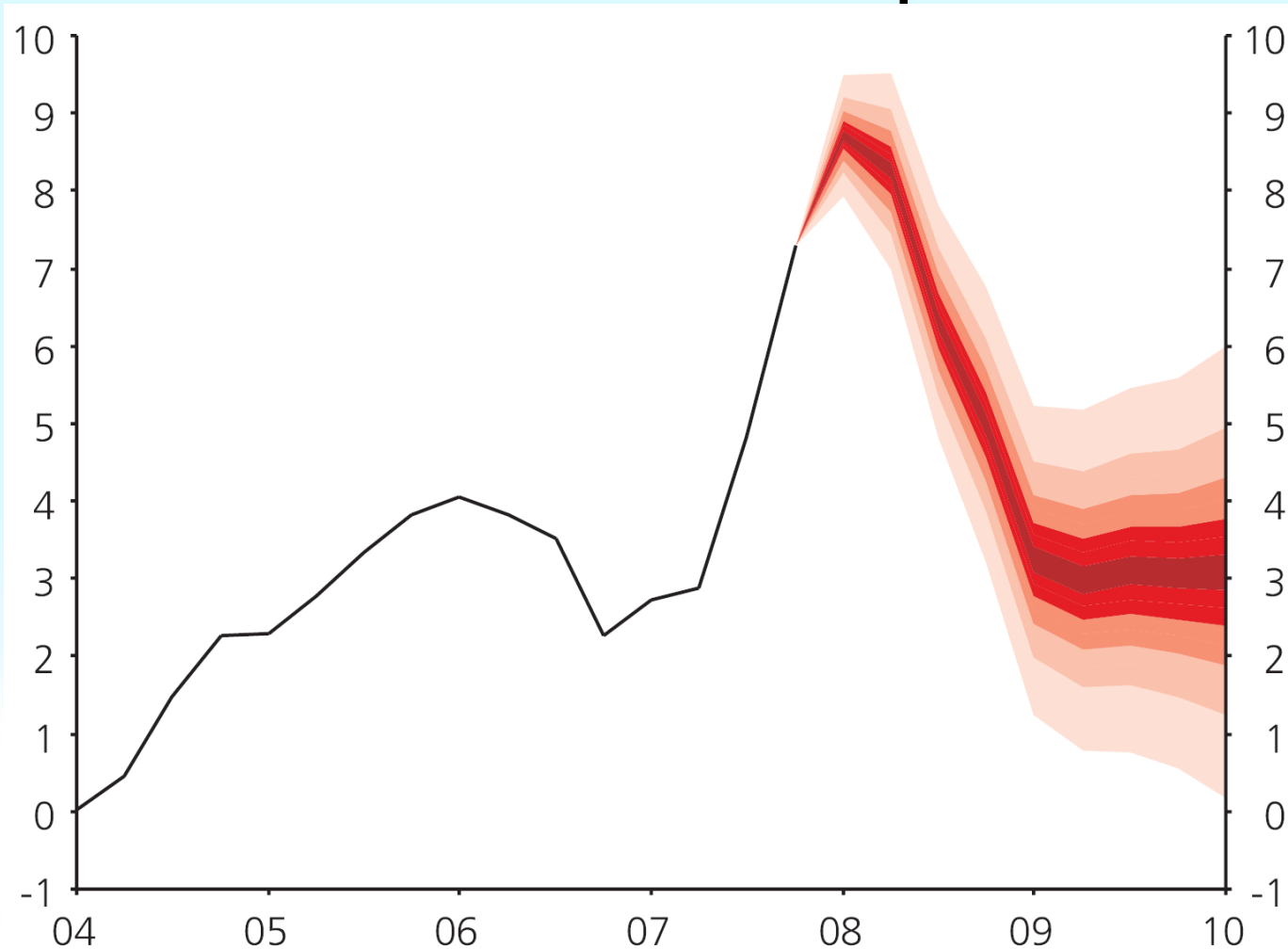
- Inflation expectations for 2009 anchored within Central Bank's target range



Source: National Statistics Institute and Ministry of Finance

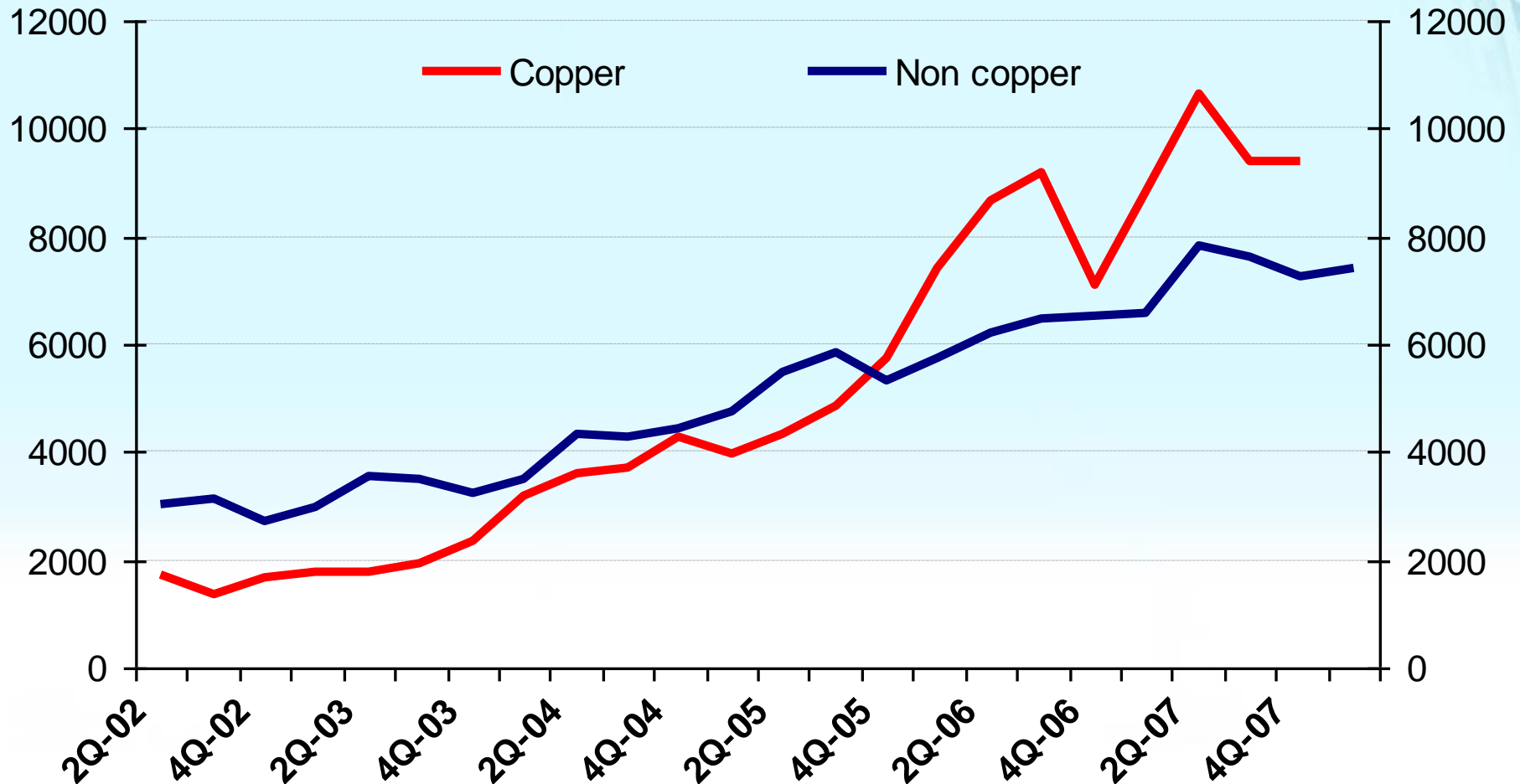
Inflation outlook: January 2008

Central Bank report

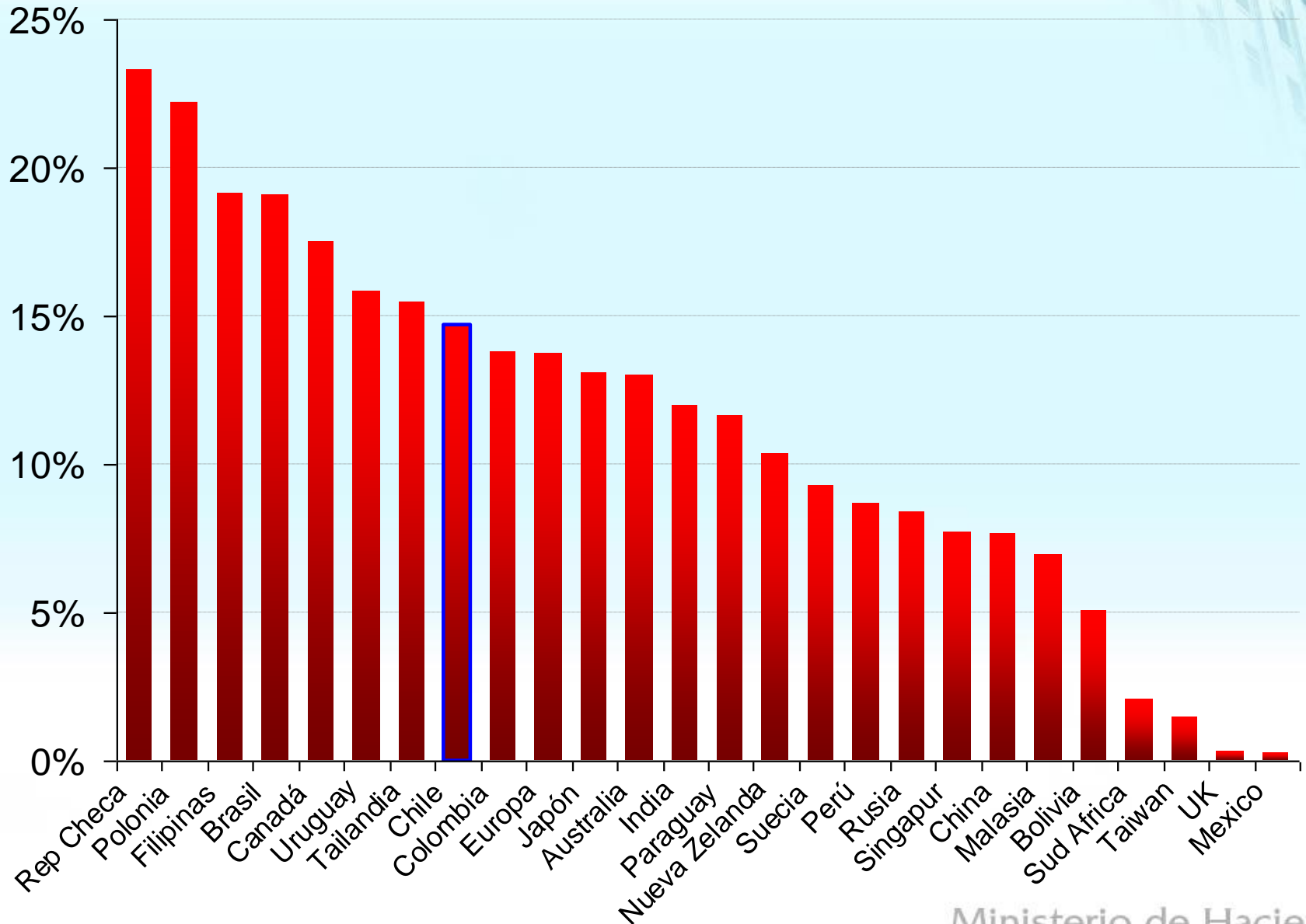


Strong export performance

(Exports, millions of USD)



Nominal appreciation vs US dollar in 2007



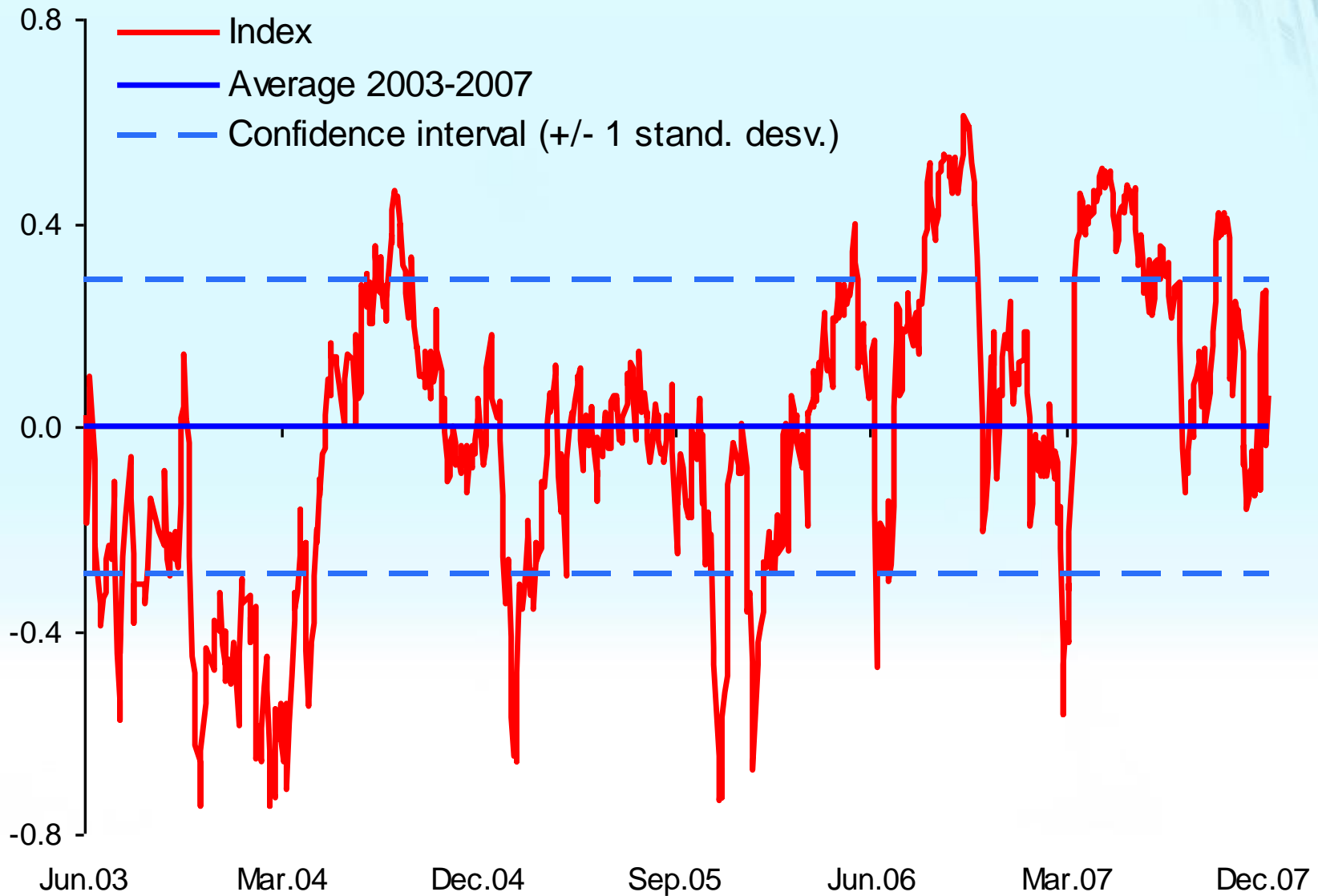
2008 forecasts

	2007	2008
Terms of trade	3.0%	-11.0%
GDP commercial partners	4.3%	3.7%
GDP	5.2%	4.5%-5.5%
GFCF	12.8%	8.4%
Total consumption	7.3%	5.6%
Exports of good and services	8.1%	5.0%
Imports of good and services	15.1%	8.3%

The image features a tall, curved building with many windows on the left side. In the foreground, a group of people is walking on a street. The background is a light blue sky. The title 'Chile: Financial Stability Report' is centered in the middle of the image.

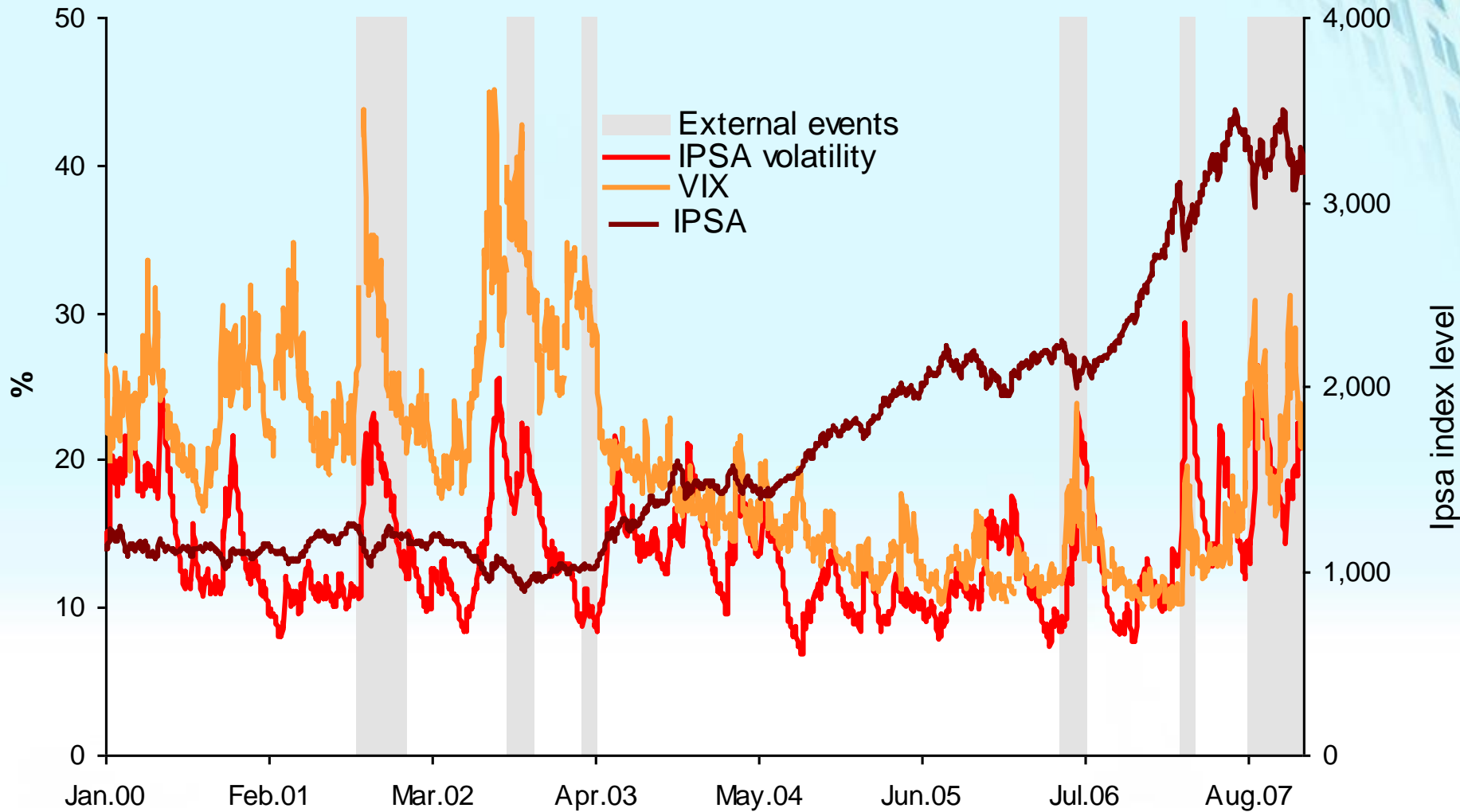
Chile: Financial Stability Report

Aggregate liquidity index

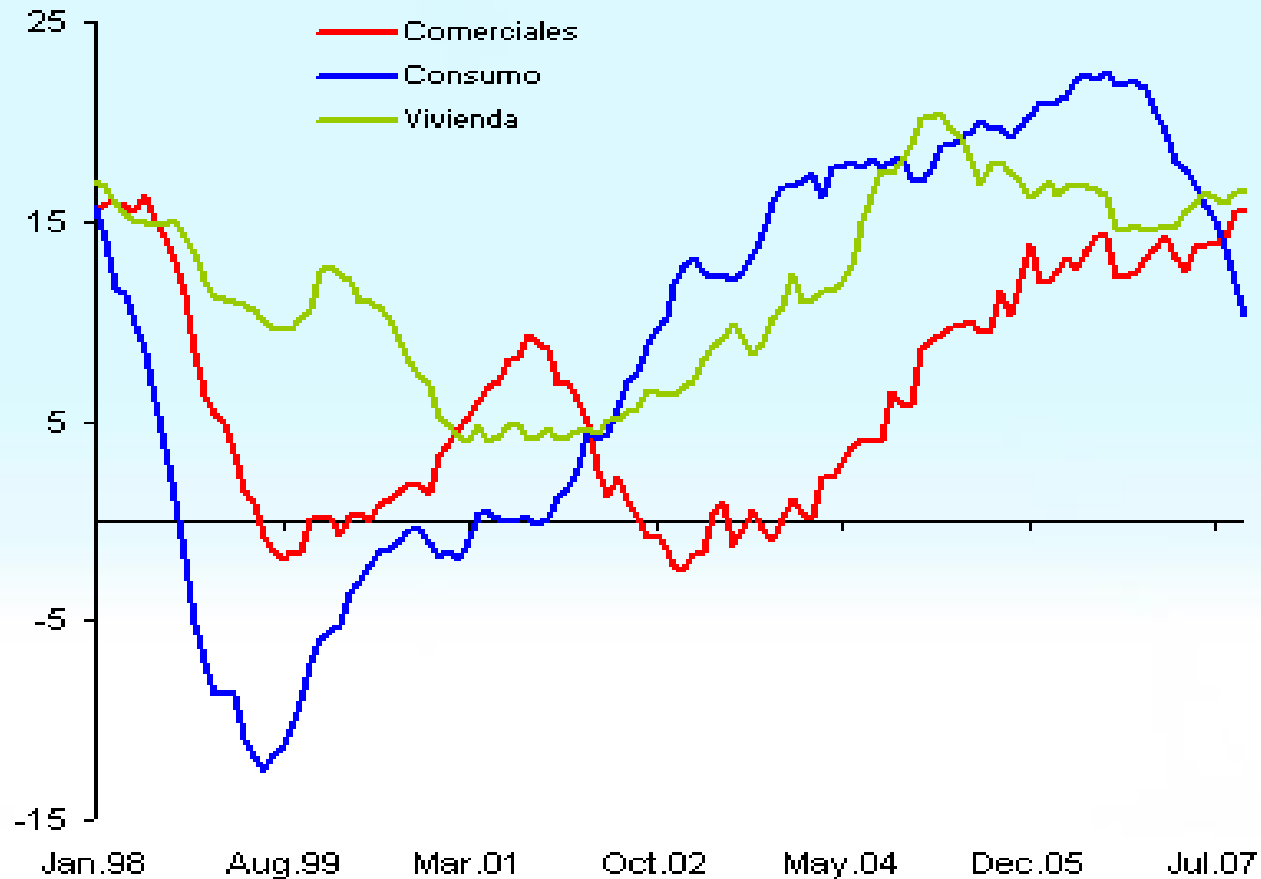


Source: Central Bank of Chile. Liquidity measured as the bid-ask spread in the local markets

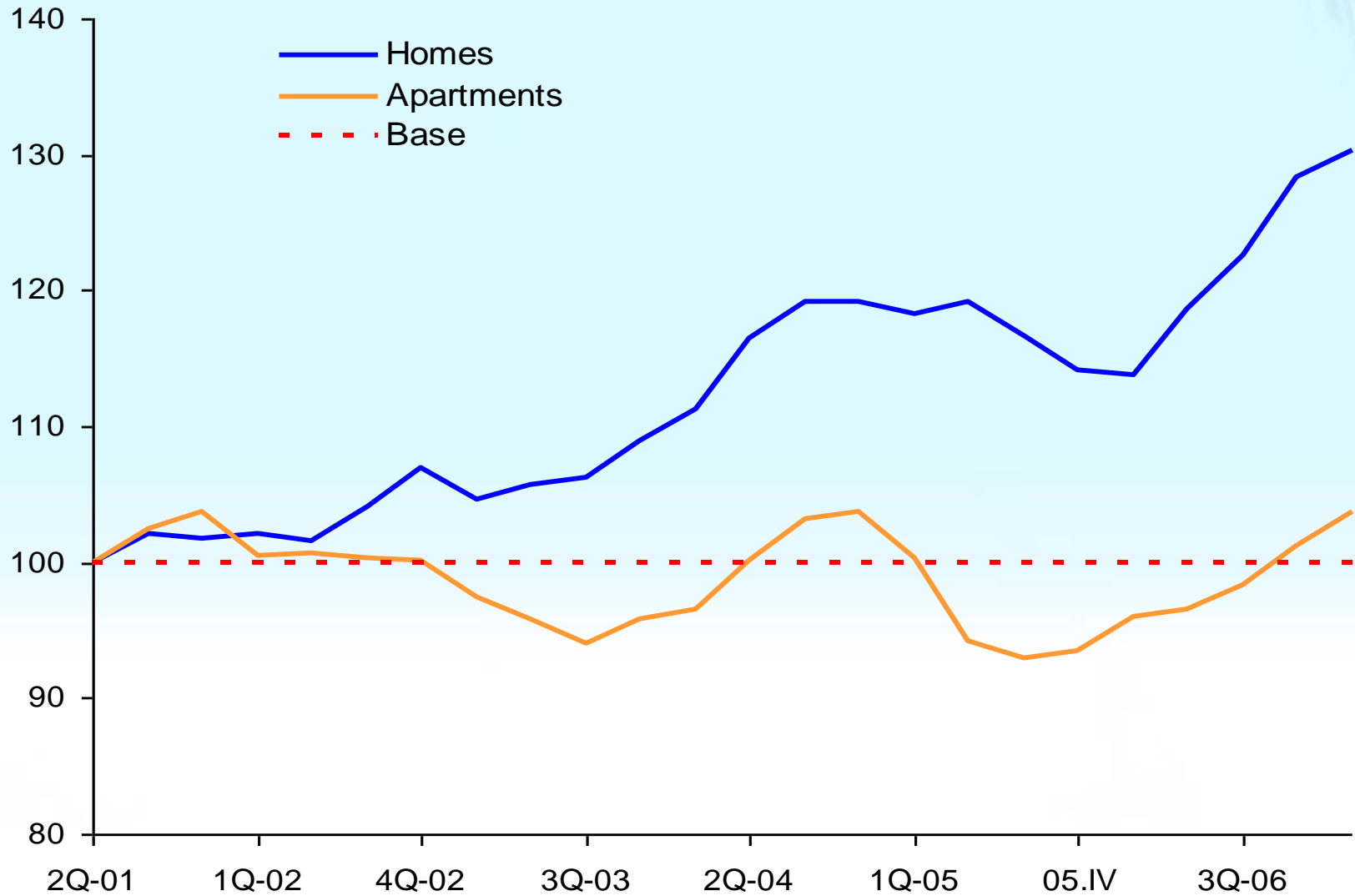
Volatility of equity indexes



Credit Expansion

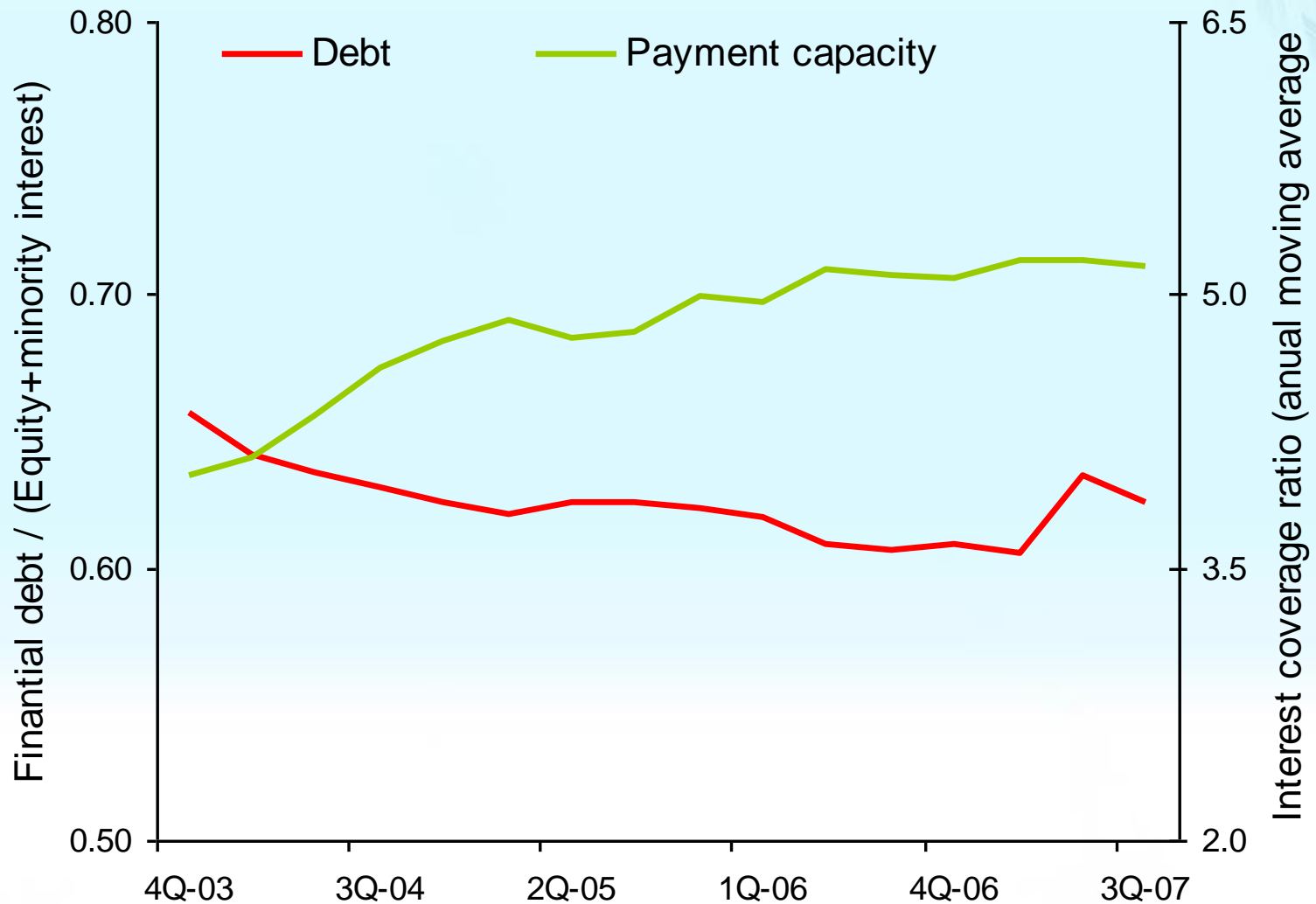


Home prices



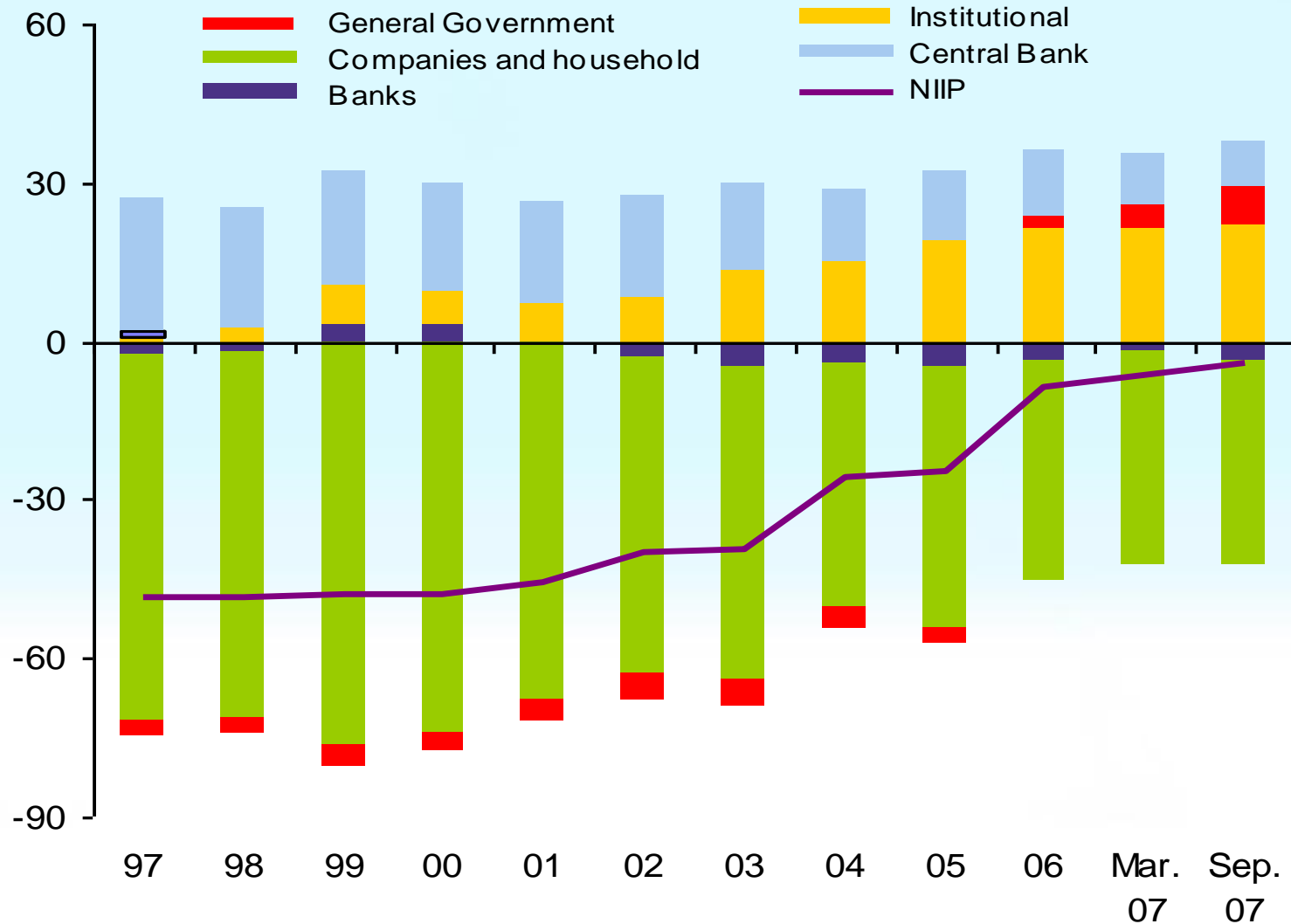
Source: ACOP. Prices measured as median transaction prices in UF.

Payment capacity and debt



Source: SVS. Consolidated Financial statements without mining sector.

Net international investment position by institutional sector





Chile: fiscal policy

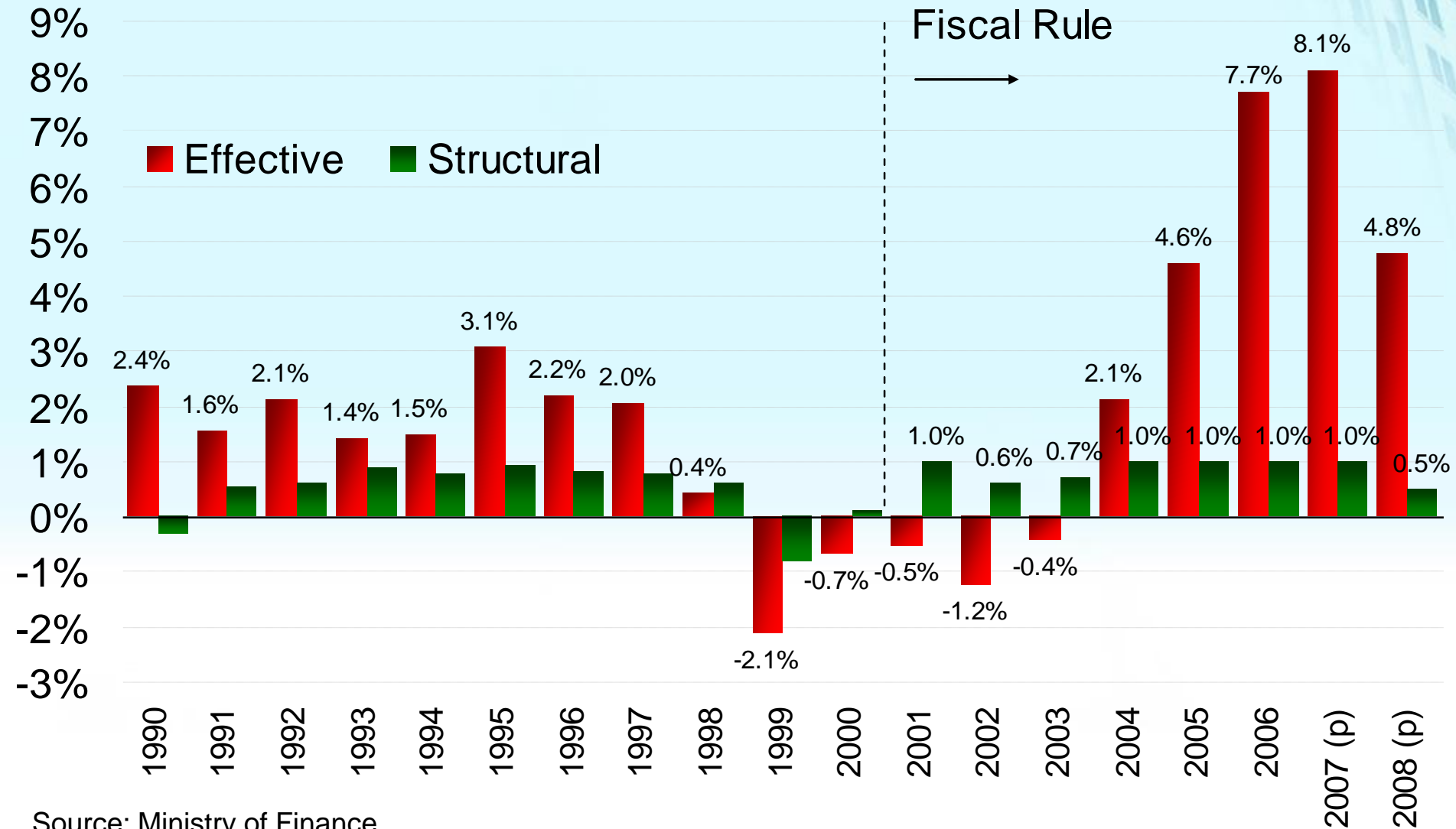
Chile's economic policy framework

- Monetary policy:
 - Inflation targeting
 - Independent Central Bank
- Exchange rate policy
 - Floating exchange rate
- Fiscal policy
 - Structural surplus rule
 - Fiscal asset (sovereign wealth) funds

The fiscal structural surplus rule

- The income of the Chilean Government stems from 2 main sources:
 - Tax revenues (72% of total government revenue, 1994-06 avg.)
 - Copper-related revenue (10% of total revenue, 1994-06 avg.)
- Basic idea: spend permanent income, save transitory income
- Target average surplus of 0.5% of GDP
- The fiscal rule aims to protect government spending from the effects of the economic and copper price cycles

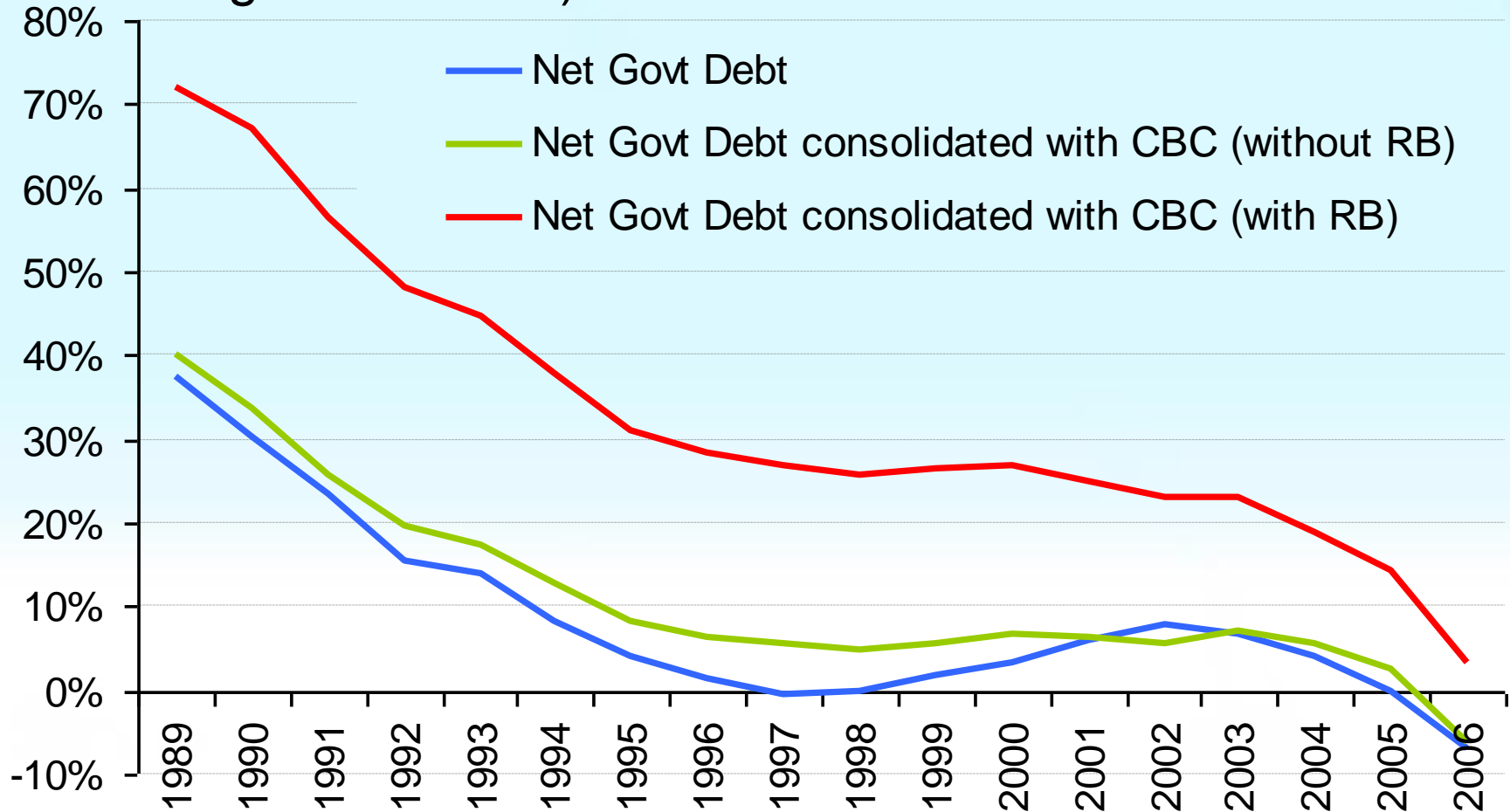
Fiscal balance pre & post rule (% GDP)



Source: Ministry of Finance

Falling net public debt (% of GDP)

- Net public sector debt for year-end 2007 (including recognition bonds) stands at -1.4% of GDP



FISCAL SURPLUS



PENSION RESERVE FUND

- 0.2% of GDP minimum
- 0.5% of GDP maximum



CAPITALIZATION OF THE CENTRAL BANK

- 0.5% of GDP for 5 years (optional)

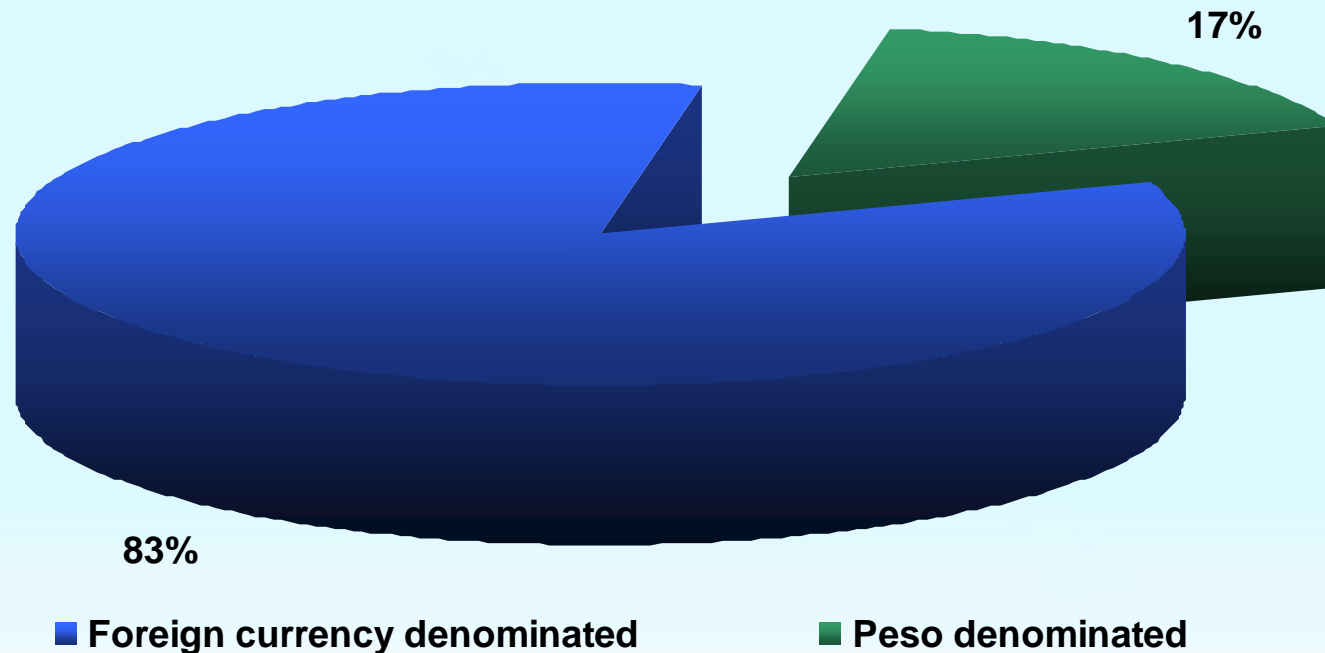


SOCIAL & ECONOMIC STABILIZATION FUND

- Accumulates remaining surplus

Central government financial assets


Total: 19,9 bn USD (as of 30 Sept. 2007) \approx 13.6% of 2006 GDP



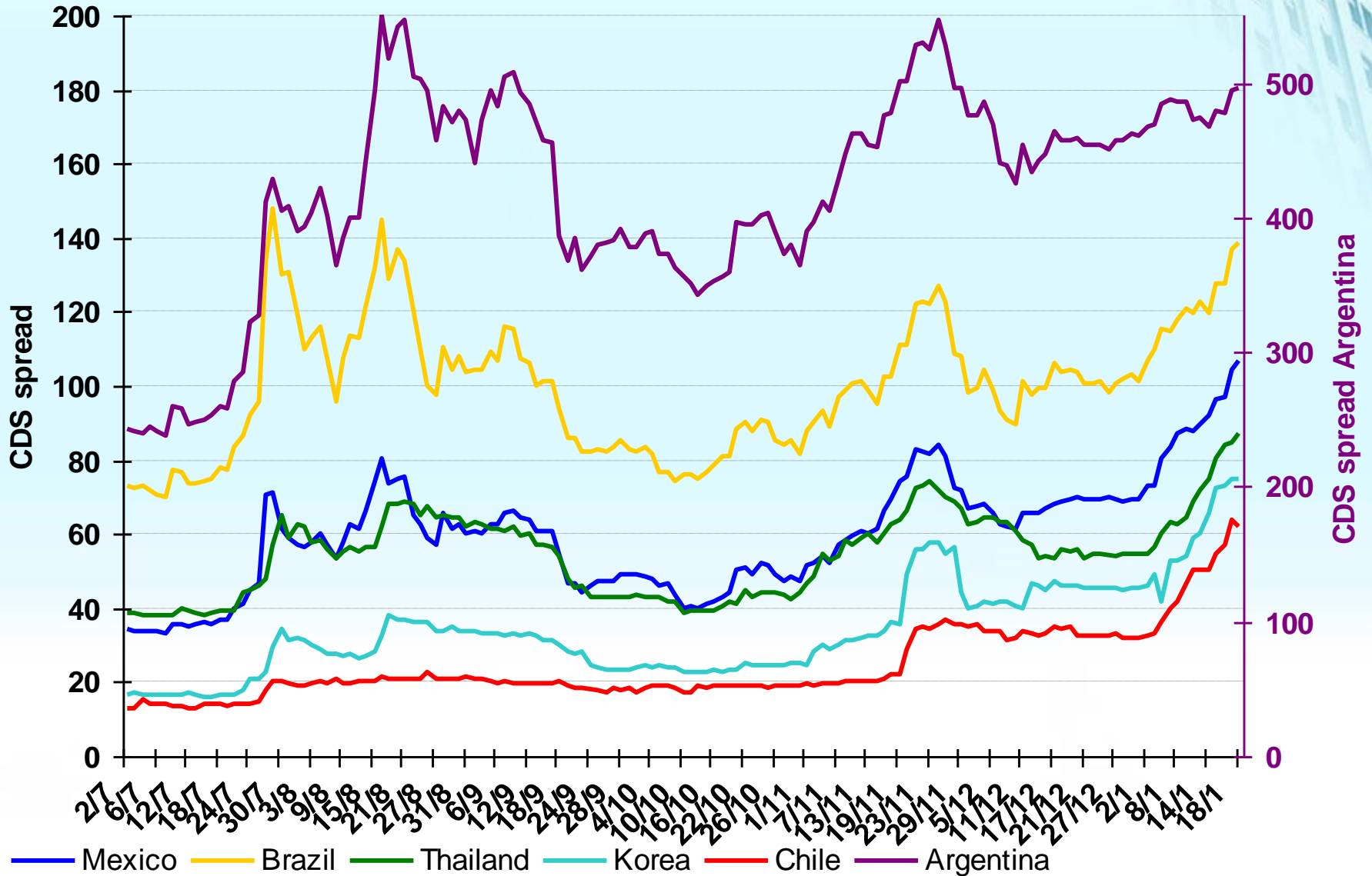
Approximately 63% of these assets are currently held in the 2 fiscal funds, which are **wholly foreign currency denominated**. These funds stand at:

- Pension reserve fund: US\$1.47 bn (0.97% of 2006 GDP)
- Social and economic stabilization fund: US\$ 13.06 bn (7.7% of 2006 GDP)

Sovereign rating (Standard & Poor's)


Investment grade	Rating	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA
	AAA	Canada, USA	Austria Denmark Finland France, Germany Ireland, Luxembourg, Holland, Norway, Spain, Sweden Switzerland UK	Australia Singapore	
	AA+		Belgium	New Zealand	
	AA	Bermuda (+)	Slovenia	Hong Kong (+), Japan	
	AA-		Portugal	Taiwan (-)	Kuwait Quatar Saudi Arabia
	A+	Chile	Italy, Iceland (-)		
	A		Cyprus (+), Czech Rep., Greece , Malta, Slovakia	China (+), Corea del Sur	Bahrain, Israel (+) , Oman
	A-	Bahamas (+), Trinidad & Tobago (+)	Poland	Malaysia (+)	
	BBB+	Barbados, Mexico	Hungary , Russia	Thailand	S. Africa
	BBB		Croatia		Tunisia
	BBB-		Romania (-)	India, Kazakhstan	
	Speculative grade				

Sovereign risk



“Chile’s economy is more resilient than ever before”

- The upgrade primarily reflects the increasing resilience of the economy to potential adverse shocks
- Chile is one of the few emerging market economies to gain strong credentials because of the implementation of countercyclical fiscal and monetary policies, policies that are anchored on a solid institutional framework
- This has led to stable economic performance and a significant decline in debt levels



Chile: the current reform agenda

Pension reform I

Creates a **new Solidarity Pillar**

- Basic solidarity pension
- Top up for low-saving individuals
- Benefits will be received by the lowest-earning 60 percent of the population

New benefits

- Universal bonus per child to women
- Pension contribution subsidy for younger workers

Pension reform II

More competition in the AFP market

- Tender for the affiliation of workers entering the labour market
- Unbundling of asset management and other functions
- Tender of the life and invalidity insurance

Liberalization of investment guidelines

- Simplification of investment regulations by asset class
- Raising of the ceiling for investment abroad from 45% to 80% of the funds

Education I

Enrollment and coverage

– Pre-school education:

- 2 to 3 years old: 9.9% in 1990 to 26.5% today
- 4 to 5 year old: 40.8% in 1990 to 75.4% today

– Primary education net enrolment rate around 90%

– Upper-secondary education:

- 1995: 43.4% graduation rate
- 2003: 67.4% graduation rates

– Tertiary education: 2.6 fold enrolment increase from 1990 to 2006 and 7 out of 10 students are the first in their families to reach tertiary education

Education II

Public spending

- Expenditure was 2.1% of GDP in 1990, 3.2% in 2006 and will reach 3.7% in 2008:
 - **General increase in voucher payment:** 15% for all students, an additional 10% for rural students and over 40% for adult students.
 - **New differentiated voucher** for primary school students from disadvantaged social backgrounds
- Tertiary and graduate education
 - **Student loans** reach over 120 thousand
 - **Graduate education scholarships:** over 90% increase from 2005 to 2008

Education III

- Moving from increasing enrollment to **improving quality** of general education:
 - **Creation of new institutions:**
 - Superintendency of Education mainly a regulatory role
 - Quality Assurance Agency for Education mainly a supervisory role
 - **New accountability system** with high standards for school performance and school administrators
- Boosting graduate education scholarship system by:
 - Increasing the number of scholarships
 - Meeting the economy's need for skilled human capital in priority areas

Education IV: PISA test results 2006

57 countries participated in the test, 27 of them are non-members countries of the OECD, 5 of them are latin american countries: Argentina, Brasil, Colombia, Chile, Uruguay. **Chile's general ranking: 40/57**

Chile Scores PISA 2006

- **Science:** 438 points , 1st in Latin America.
- **Reading literacy:** 442 points, 1st in Latin America. An improvement of 33 points in contrast to 2000. The most significant improvement in this area from all the countries that participated in the test in 2000 and 2006.
- **Mathematics:** 411 points, 2nd in Latin America, after Uruguay.



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