

# Chile's Path To Development



**Gobierno  
de Chile**

Ministry of  
Finance

**Felipe Larraín B.**

**Minister of Finance**

London - June 28 , 2011

# Chile's long tradition of financial integration with Britain dates back from the XIX Century



THE  
**Investor's  
Monthly Manual.**

A NEWSPAPER FOR

INVESTORS

BRITISH, COLONIAL, AND FOREIGN STOCKS.  
BRITISH, COLONIAL, AND FOREIGN RAILWAYS.  
BANKING COMPANIES. DISCOUNT COMPANIES.  
INSURANCE COMPANIES.  
TRUSTS. LAND COMPANIES. MINING COMPANIES.  
GAS COMPANIES. WATER COMPANIES.  
CANAL COMPANIES.  
TRAMWAY COMPANIES. DOCK COMPANIES.  
STEAM MARINE COMPANIES.  
TELEGRAPH COMPANIES. BREWERIES AND DISTILLERIES.  
IRON WORKS. AND ALL OTHER JOINT STOCK COMPANIES.





# A long tradition of financial integration with Britain: Chile as an active financial player in the London Market during its early stage of economic growth

628		THE INVESTOR'S MONTHLY MANUAL.										[Dec. 31, 1894.]					
BRITISH, COLONIAL, AND FOREIGN STOCKS.																	
<i>(The securities quoted below do not professedly include the entire debts of the State or Nation referred to.)</i>																	
STOCK.	Issue Price. %	Original Issue.	SINKING FUND.			Amount of Loan Unredeem'd	Par. £	PRICES OF THE MONTH.				Yield to Investor at Latest Price. Redemp. Included.	PRICES OF 1894.		DIVIDENDS.		
			Original Annual.	When Applied.	Final Redemption.			Open.	Highest.	Lowest.	Latest.		Highst.	Lowst.	Payable.	Where Payable.	
<b>ANTIGUA</b>																	
<b>CHILIAN.</b>																	
4 1/2 % 1885 .....	89	808,900	1/2	Par. ordwgs	s. ...	783,400	100	95	95 1/2	94 1/2	95	94 1/2	4 17 3	95 1/2	79 1/2	1 Jan., 1 July	City Bank.
4 1/2 % 1886 .....	98 1/2	6,010,000	1/2	Par. ordwgs	s. ...	5,749,600	100	95	96 1/2	95 1/2	96	95 1/2	4 16 6	96 1/2	79 1/2	1 Jan., 1 July	Rothschild.
4 1/2 % 1887 .....	...	1,160,200	1/2	Par. ordwgs	s. ...	1,116,800	100	95	96	95	95	95 1/2	4 17 3	96	79 1/2	1 Jan., 1 July	Rothschild.
4 1/2 % 1889 .....	101 1/2	...	1/2	Or State op.	af. 96	1,504,092	100	95	96	94 1/2	95	95 1/2	4 17 3	96	79 1/2	1 Jan., 1 July	Deutsche Bank.
5 % 1892 .....	95	1,800,000	1/2	Per. ordwgs	...	1,790,000	100	101	102 1/2	101	102	102 1/2	5 0 0	102 1/2	89 1/2	1 Jan., 1 July	Rothschild.
4 1/2 % bonds 1893	...	630,000	...	...	...	439,200	100	95	95	94 1/2	95	94 1/2	4 17 3	95	76	1 Jan., 1 July	...
<b>CHINESE.</b>																	
Drawings from—																	

674		THE INVESTOR'S MONTHLY MANUAL.										[Dec. 31, 1894.]			
MISCELLANEOUS COMPANIES—Continued.															
NAME.	CAPITAL.			PRICES OF THE MONTH.				Last Business Done.	Last yrs. diva. yld. Investor at Latest Price. PerCent.	PRICES OF 1894.		DIVIDENDS.			
	No. of Shares or Amt of Stk	Share or Stock.	Paid.	Open.	Highest.	Lowest.	Latest.			Highst.	Lowst.	Rate % per Annum, including Bonus. * Interest.	Last Four.	Resrv. & Blnce. aft Last Div.	
Do 4 1/2 Imp. Bds. 1897-1913	2884,516	100	100	103	104 1/2	103	103	3 18	6 100 1/2	101	4 Jan. 93	4 July 93	4 Jan. 94	4 July 94	...
Tunbridge Wells 3 % 1931	£116,910	Stock	100	102	102 1/2	102	102 1/2	103 1/2	3 18	0 102 1/2	98 1/2	Half-Yearly	March	Sep. 29, 94	Free stps
Valparaiso 5 1/2 % Bonds...	£200,000	100	100	105	106	104 1/2	105	105 1/2	5 5	3 106	104 1/2	...	...	1 Sept. 94	Free stps
Wakefield Corp. 3% 1929	£250,000	...	...	103	103 1/2	103	103	3 18	6 103 1/2	99	Half-Yearly	1 Mar.	1 Sept.	Free stps	

BRITISH, COLONIAL, AND FOREIGN RAILWAYS.																		
RAILWAYS.	MARKET PRICES IN								Closing Price Dec., 1893.	ADDRESSES AND MEMORANDA.	The Markets where chiefly dealt in.							
	1890.		1891.		1892.		1893.											
	Highst.	Lowst.	Highst.	Lowst.	Highst.	Lowst.	Highst.	Lowst.										
Do share capital gtd. 7% on 675,000			425,000	20	20	9	9 1/2	8 1/2	9	9 1/2	10 0 0	8 1/2	1 1/4	4 Jan. 93	4 Aug. 93	5 Feb. 94	4 Aug. 94	
Copiapo..... Divs. declared in			\$4,200,000	\$500	\$500	22 1/2	22 1/2	19 1/2	19 1/2	21 1/2	5 10 3	22 1/2	17 1/2	5 11 1/2	Jun 94	5 7 May 94	5 1 1/2 Ag. 94	4 11 1/2 N. 94
Coquimbo (Chili) Chilian currency.			\$2,747,700	\$100	\$100	5 1/2	6 1/2	5 1/2	6 1/2	6 1/2	5 15 3	6 1/2	4 1/2	3 1/2	Dec 93	2 0 1/2 Mr. 94	3 2 1/2 J. 94	2 5 1/2 Dec 94
Cordoba and Rosario, L., 5 % debts.			1,064,603	Stock	100	69	69	62 1/2	66	65 1/2	7 12 3	7 1/2	49	5 Mar 93	5 Sep 93	5 Mar 94	5 Sep. 94	
Do 6 % pref. ....			600,000	100	100	31	31	24	25	24	...	34	19 1/2	33 1/2	in arts. to Jan 92, pd. in 2nd deb	...	...	...





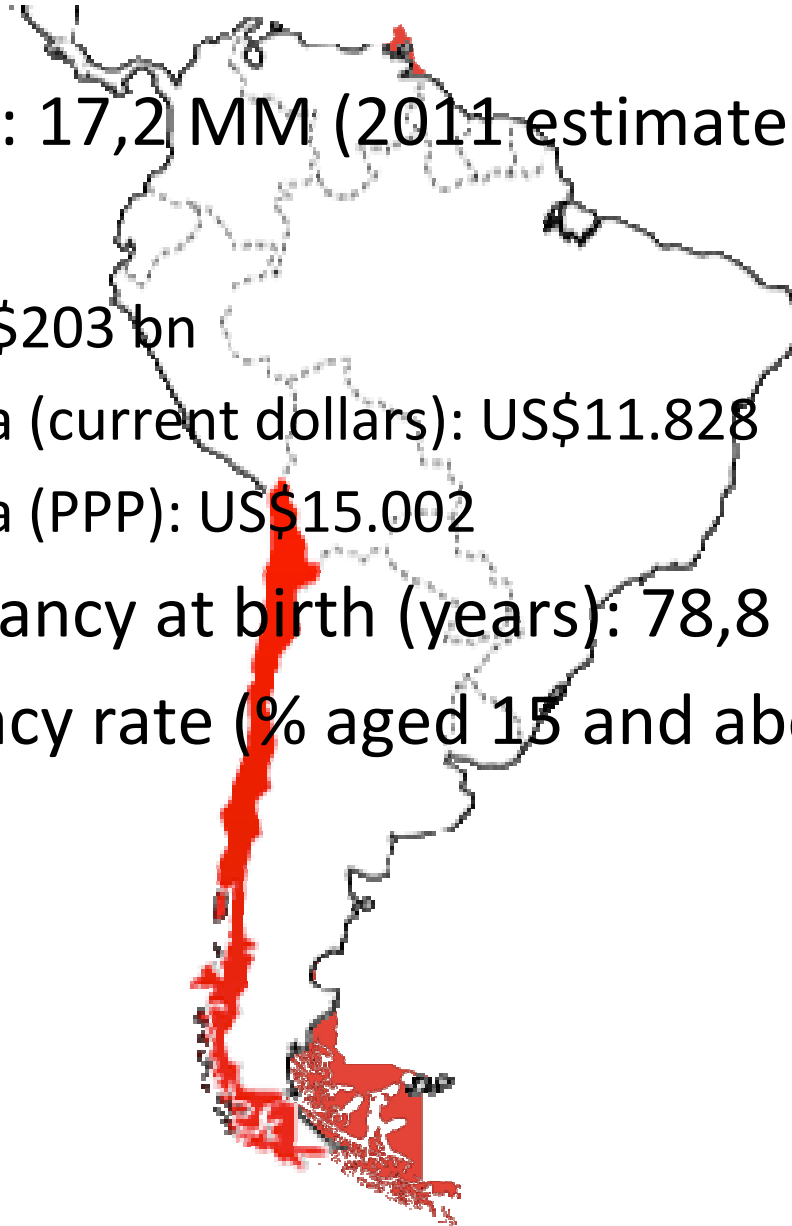
# CHILE: GENERAL OVERVIEW



# Chile: Some Facts

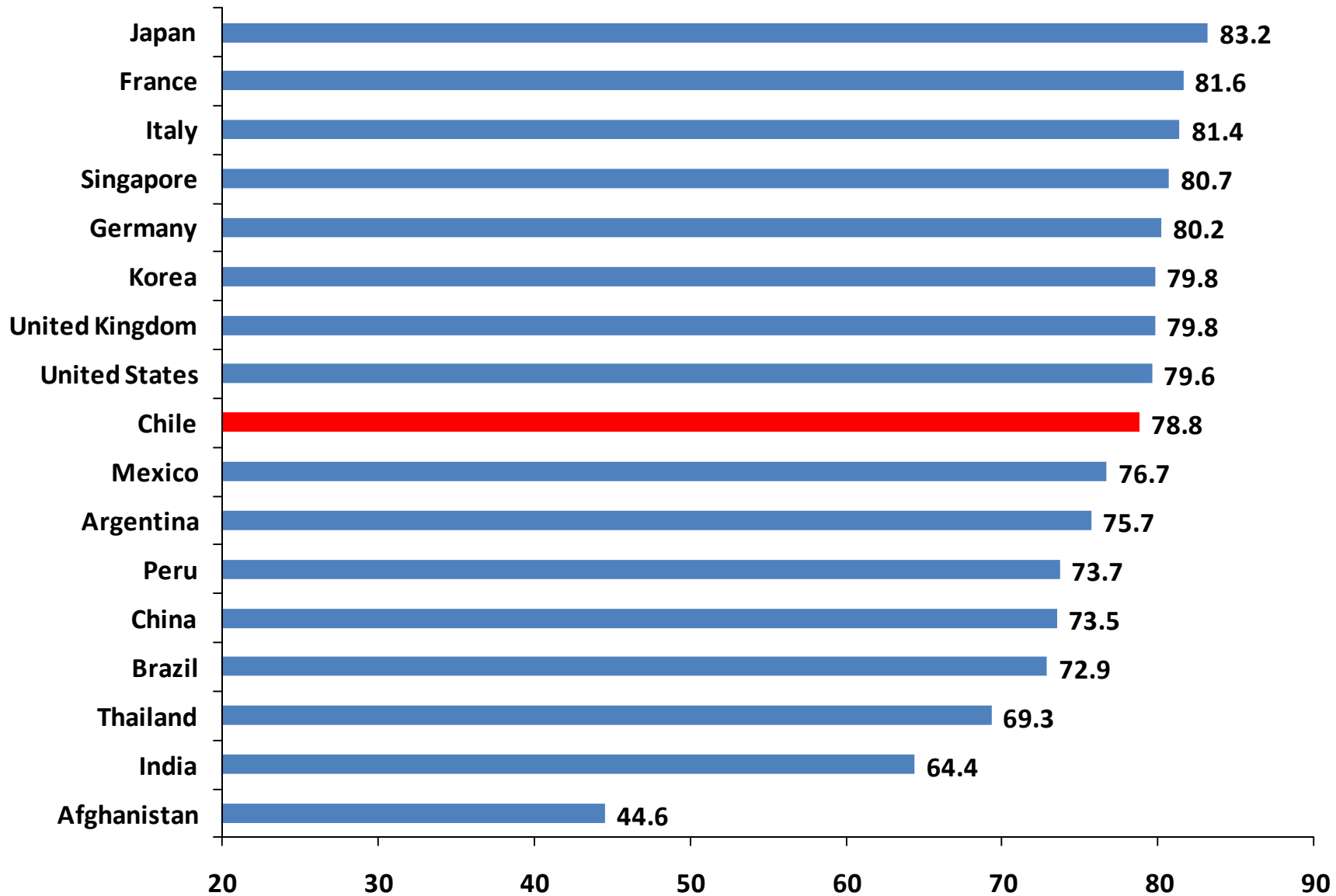


- Population: 17,2 MM (2011 estimate)
- GDP 2010:
  - Total: US\$203 bn
  - Per capita (current dollars): US\$11.828
  - Per capita (PPP): US\$15.002
- Life expectancy at birth (years): 78,8
- Adult literacy rate (% aged 15 and above): 98,6



# Life Expectancy at Birth

(years)

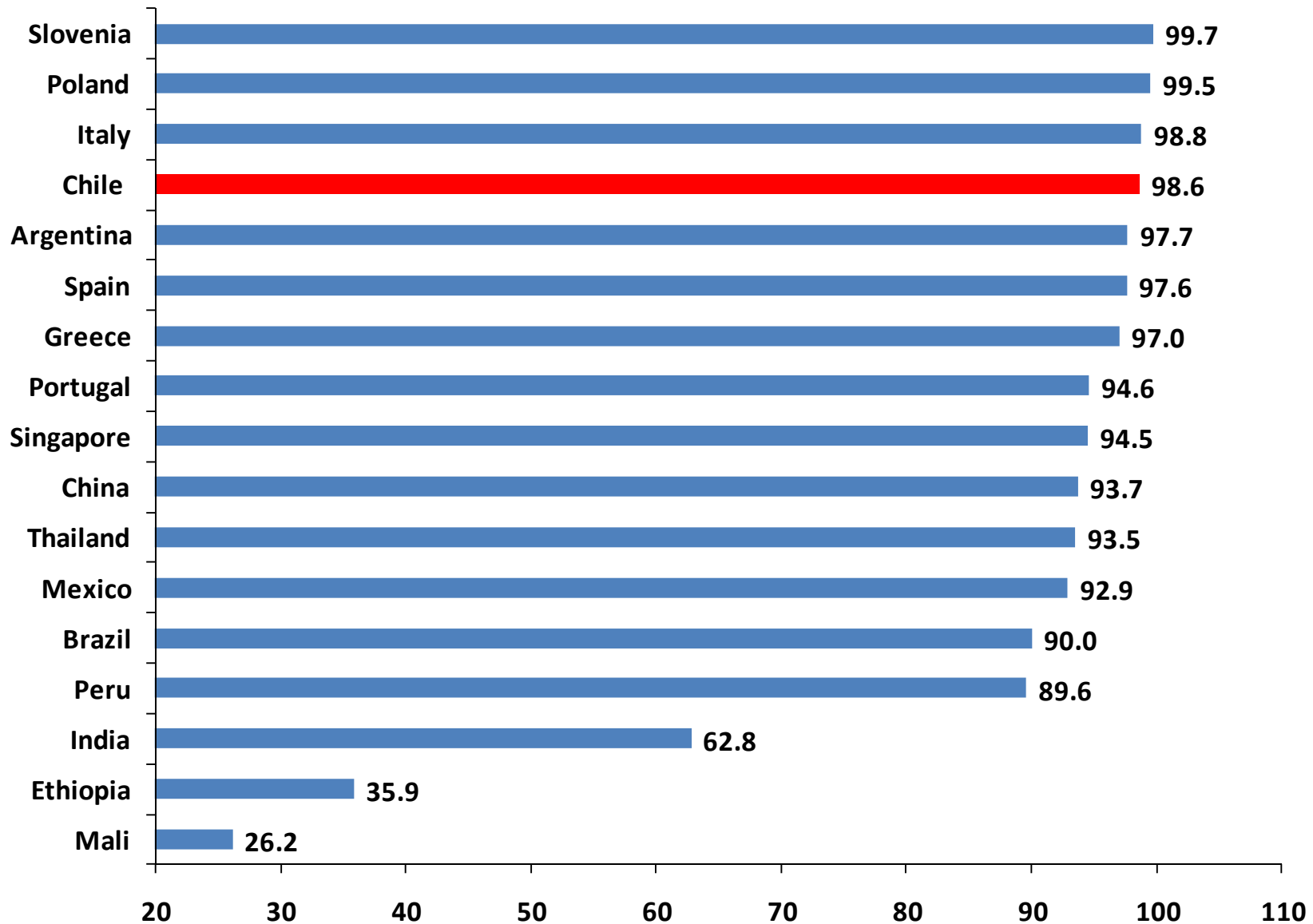


Source: UNDP



# Adult Literacy Rate

(%, ages 15 and older)



Source: UNDP





# **THE CHILEAN ECONOMY TODAY: A SHORT TERM PERSPECTIVE**

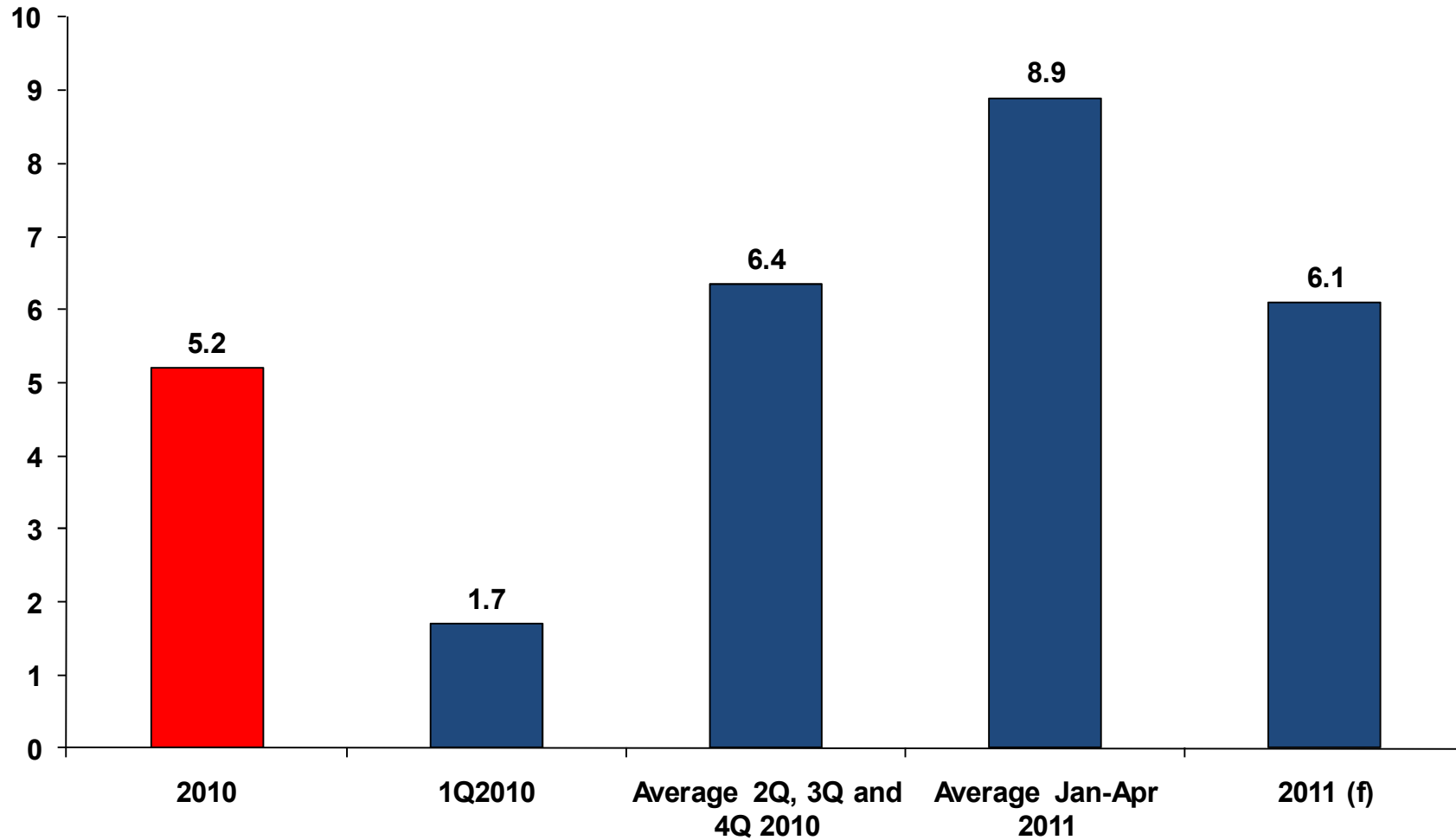




# High Dynamism since Q2 of 2010



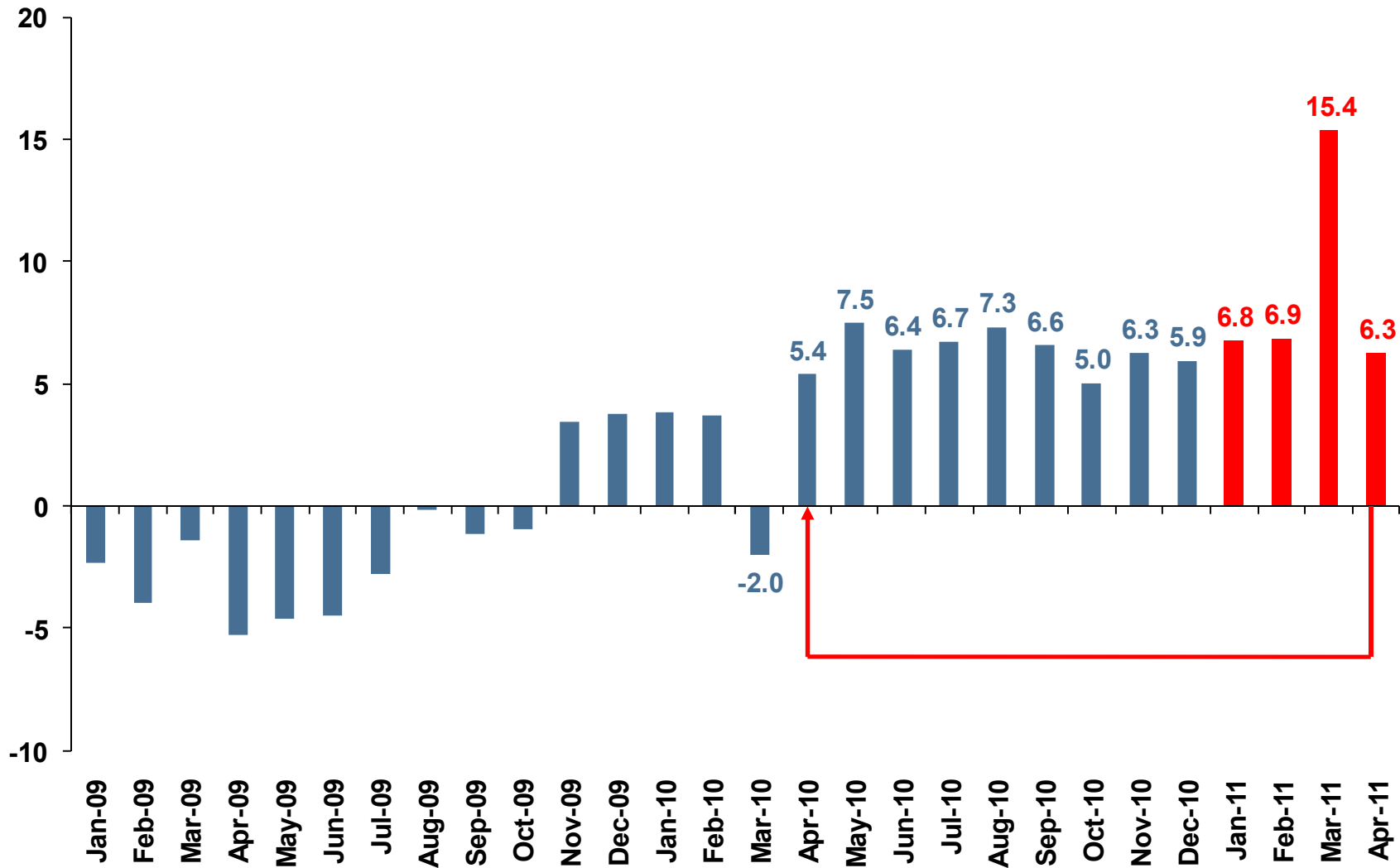
(GDP, annual % change)



# Monthly Economic Activity: Highly Dynamic



(IMACEC, annual % change)



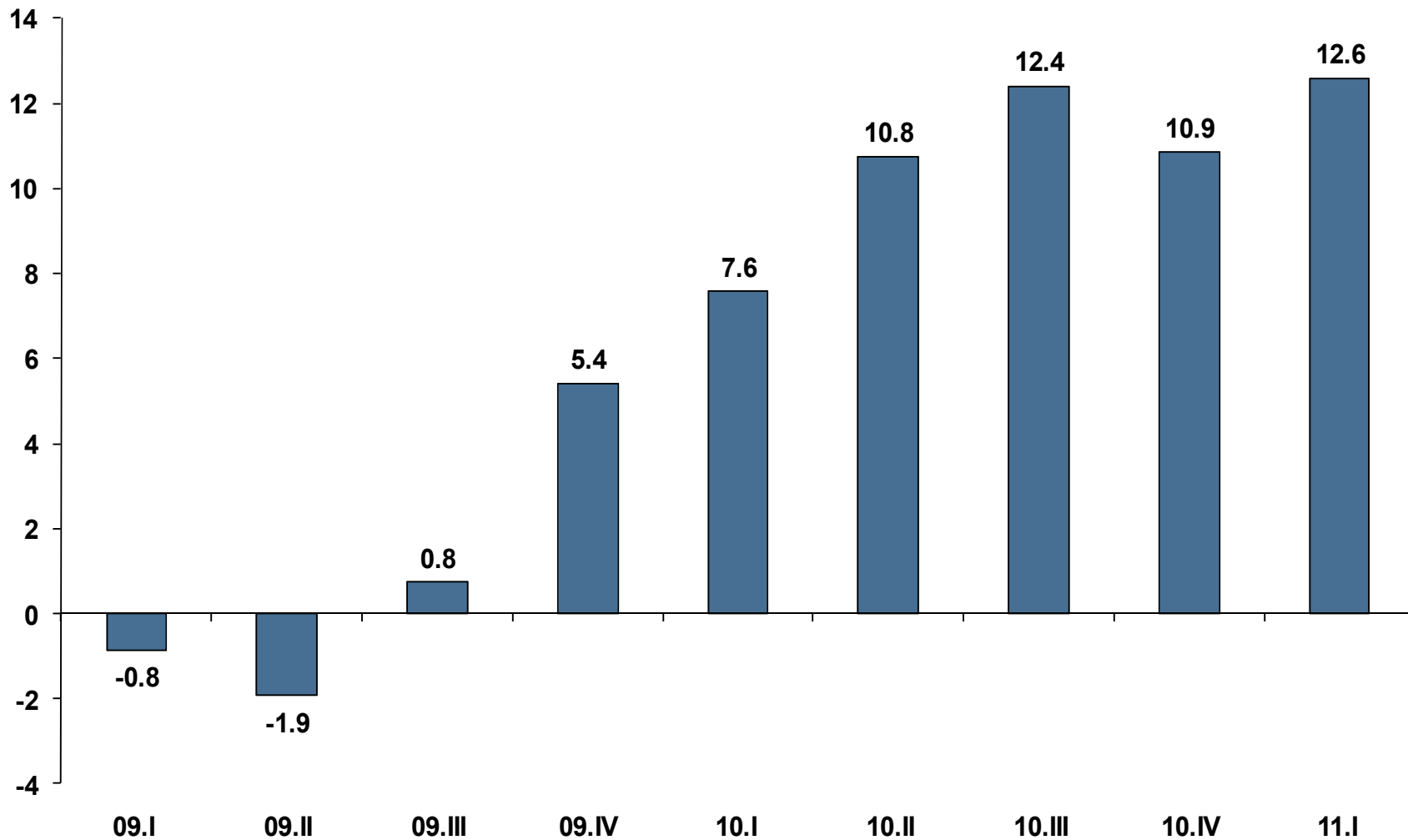
Source: Central Bank of Chile



# Solid Consumption Growth



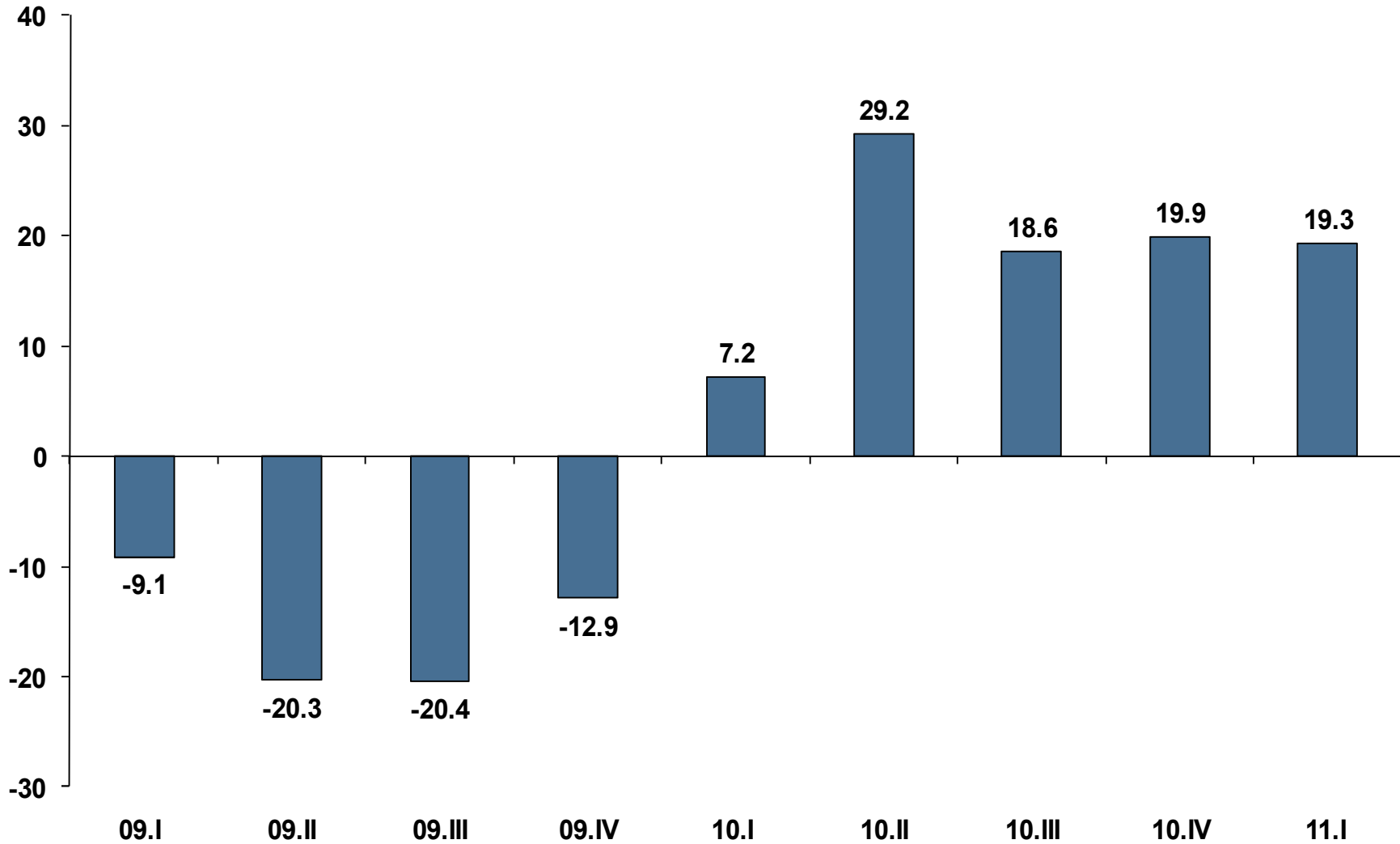
(Private Consumption, annual % change)



# High Growth of Gross Fixed Capital Formation



(Gross Fixed Capital Formation, annual % change)



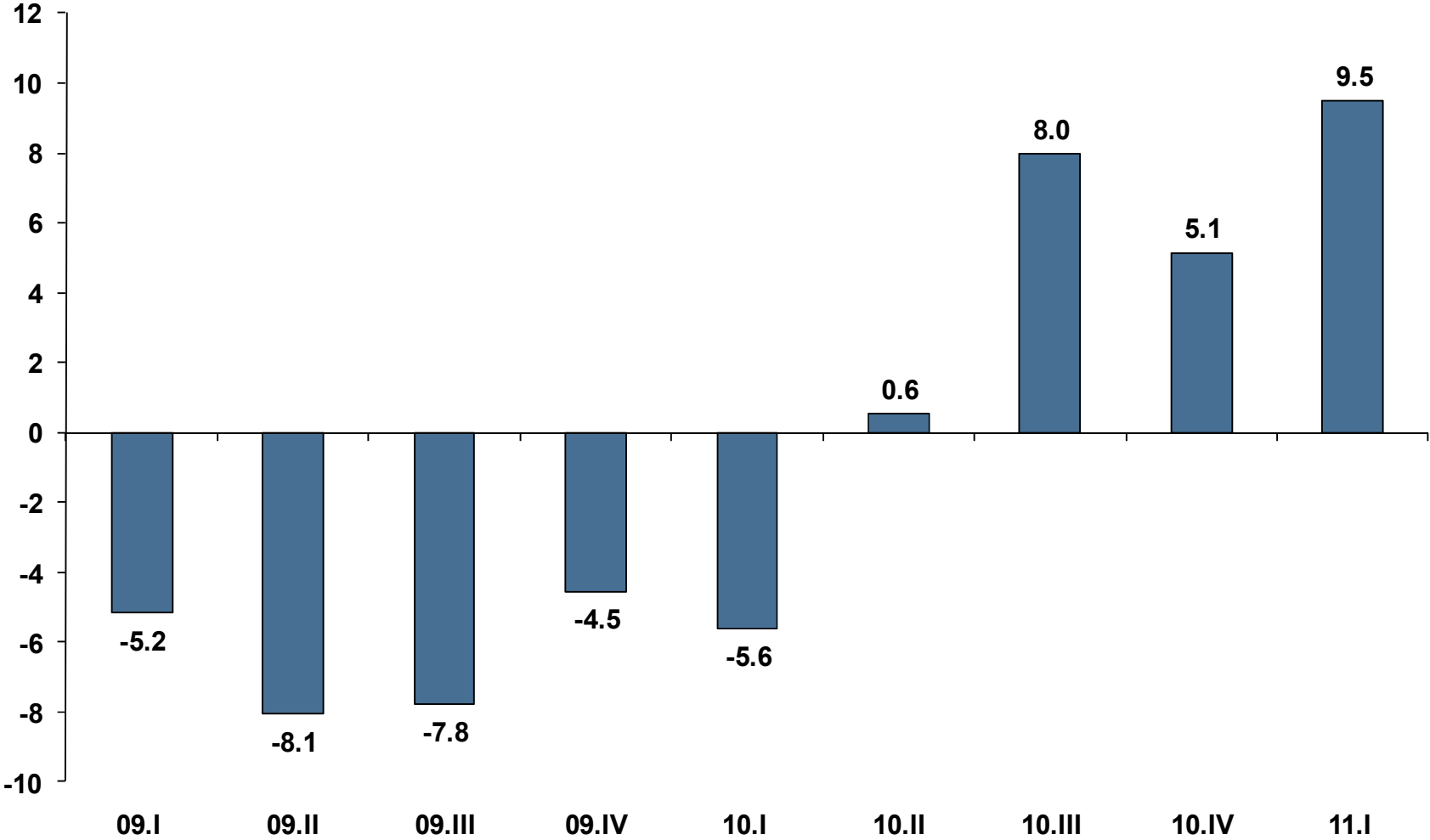
Source: Central Bank of Chile



# Exports are Growing Strongly...



(Exports of Goods and Services, annual % change)



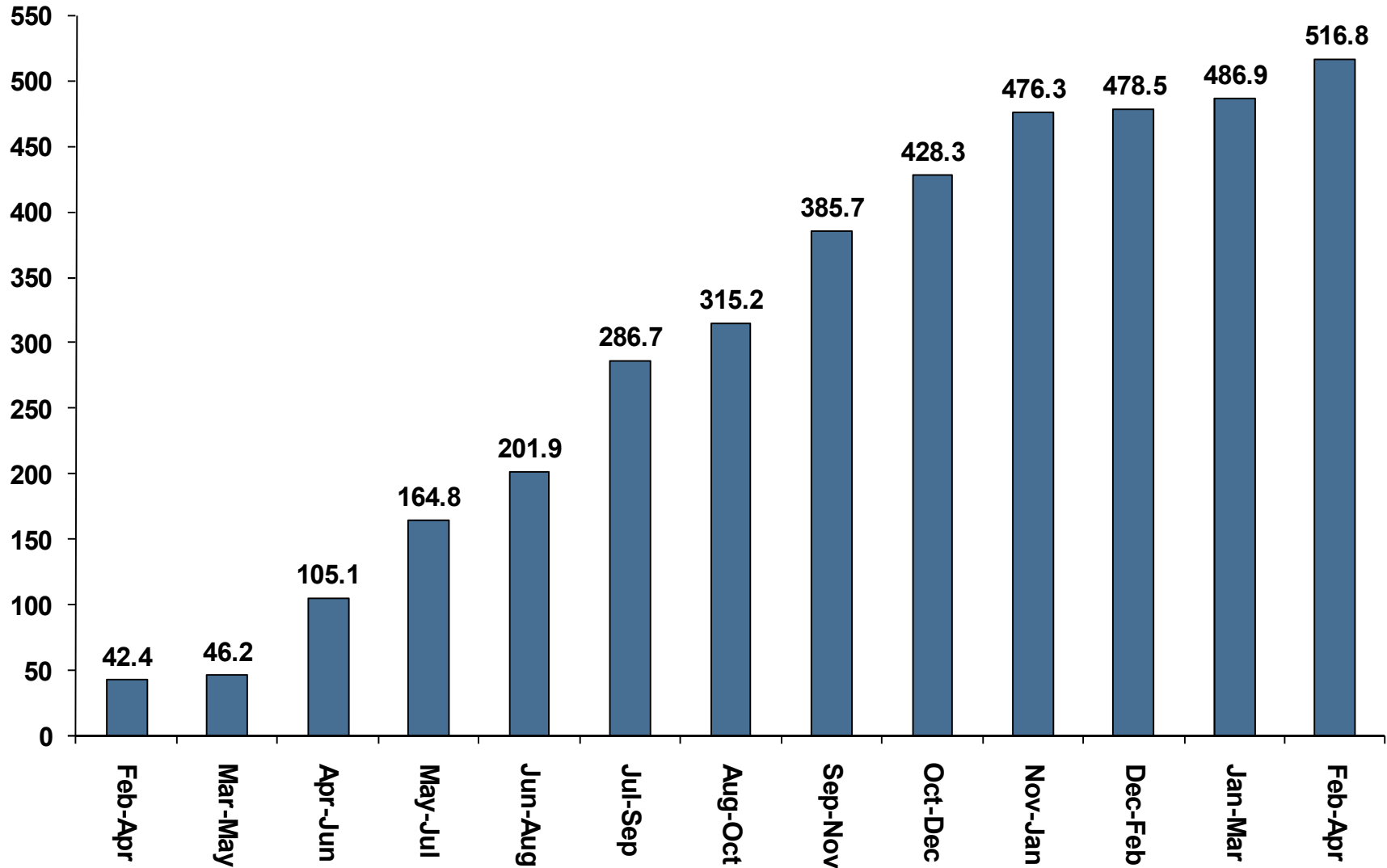
Source: Central Bank of Chile



# Strong Employment Creation



(thousands, cumulative change since Jan-Mar 2010 mobile quarter)



Source: INE





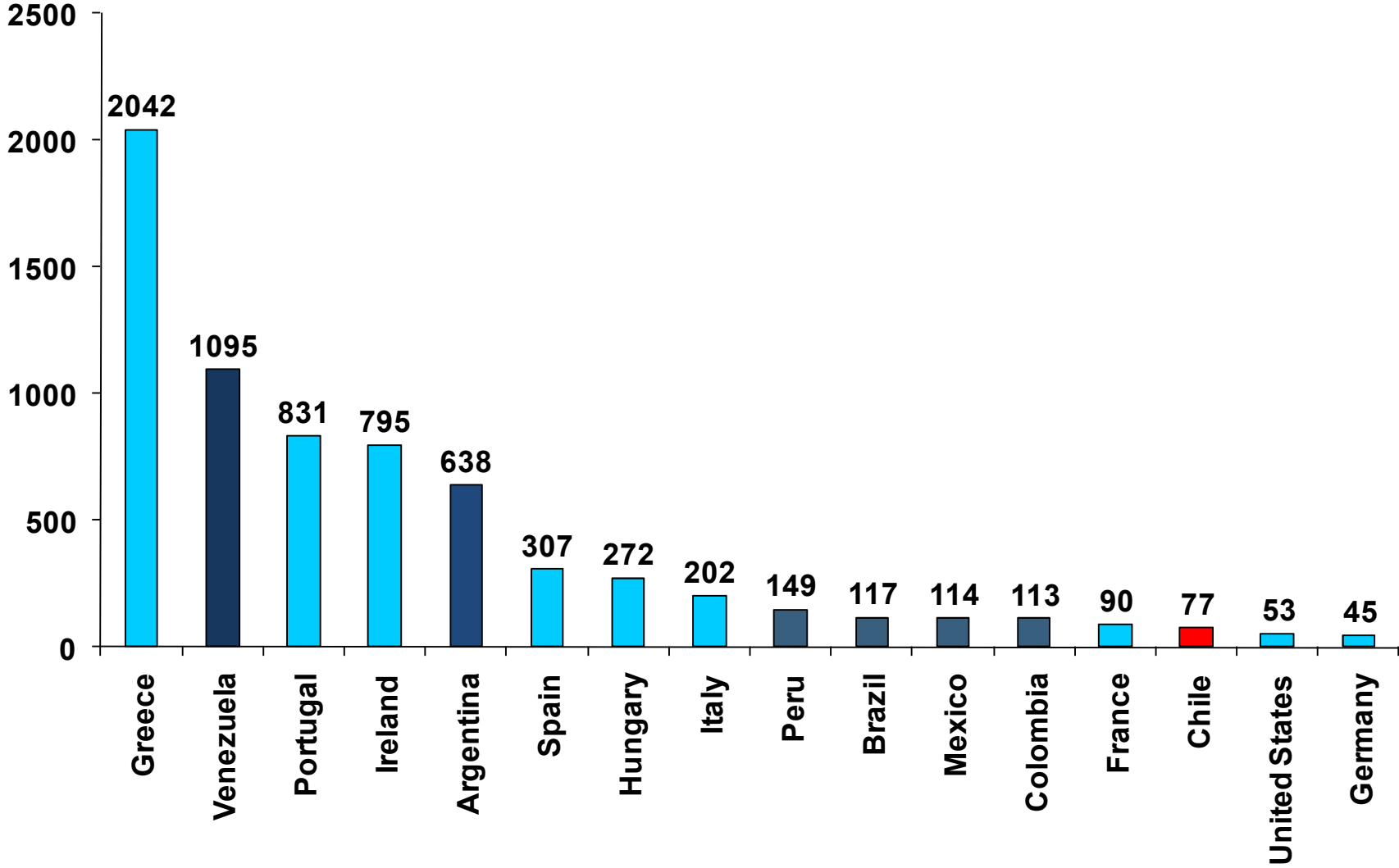
# PUBLIC FINANCES





# Chile has the Lowest Country Risk in Latin America and One of the Lowest in the World

(5-year CDS, basis points, June 24)



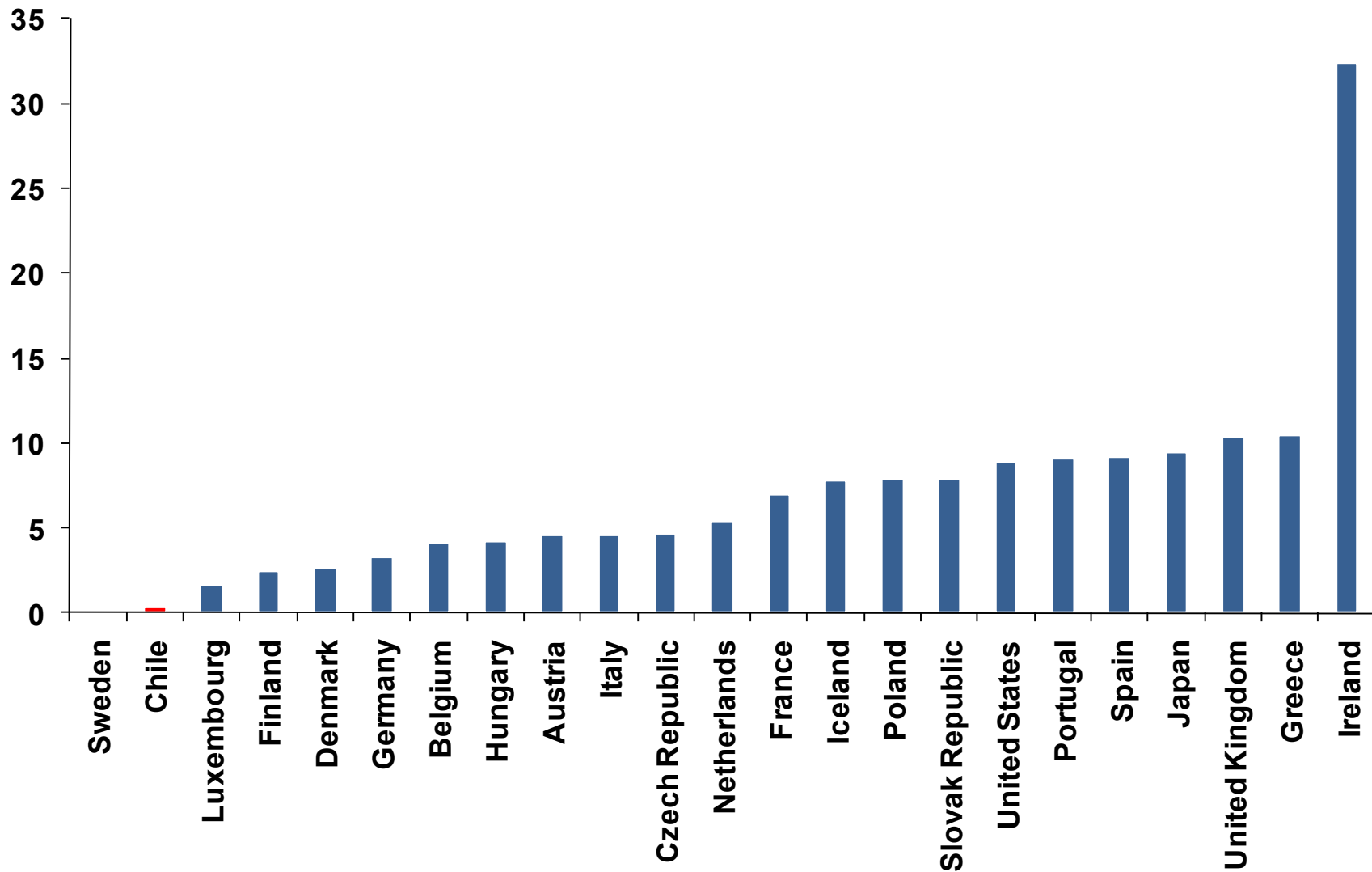
Source: JP Morgan





# Fiscal Deficit in 2010

(General Government, % of GDP, 2010)



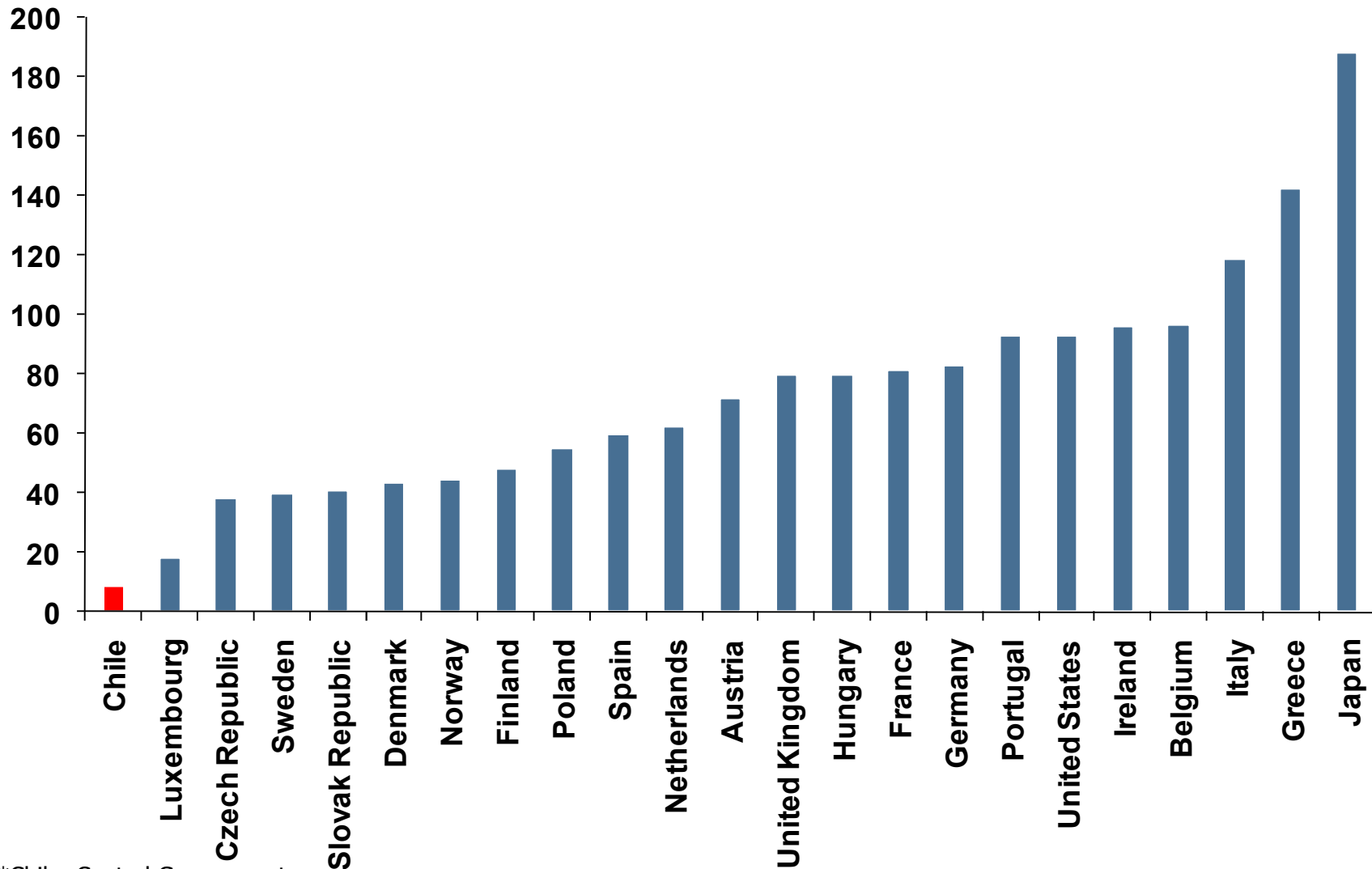
\*Chile: Central Government

Source: Eurostat, OECD, IMF and DIPRES

# Public Debt Burden: A Comparison



(Gross General Government Debt, % of GDP, 2010)



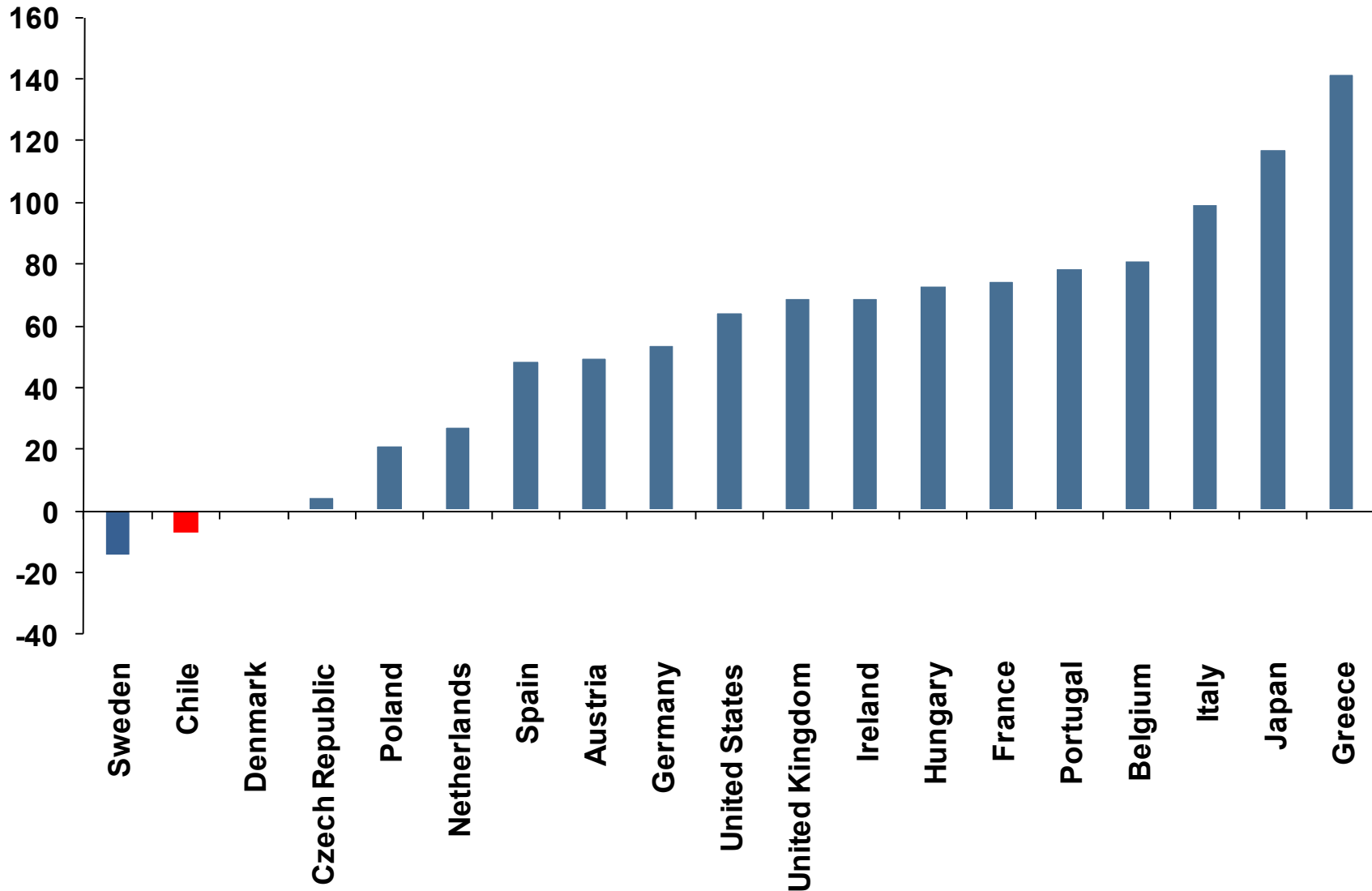
\*Chile: Central Government

Source: Eurostat, OECD, IMF and DIPRES



# Net Public Debt: A Comparison

(Net General Government Debt, % of GDP, 2010)



\*Chile: Central Government

Source: IMF and DIPRES



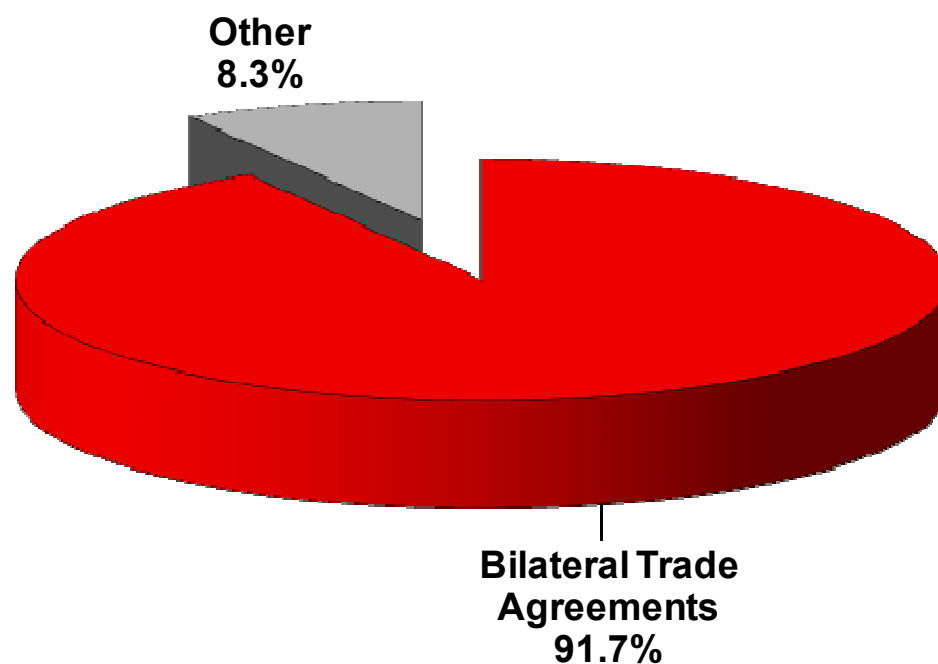
# FOREIGN SECTOR



# Chile's Wide Range of Trade Agreements



(% of exports, 2010)

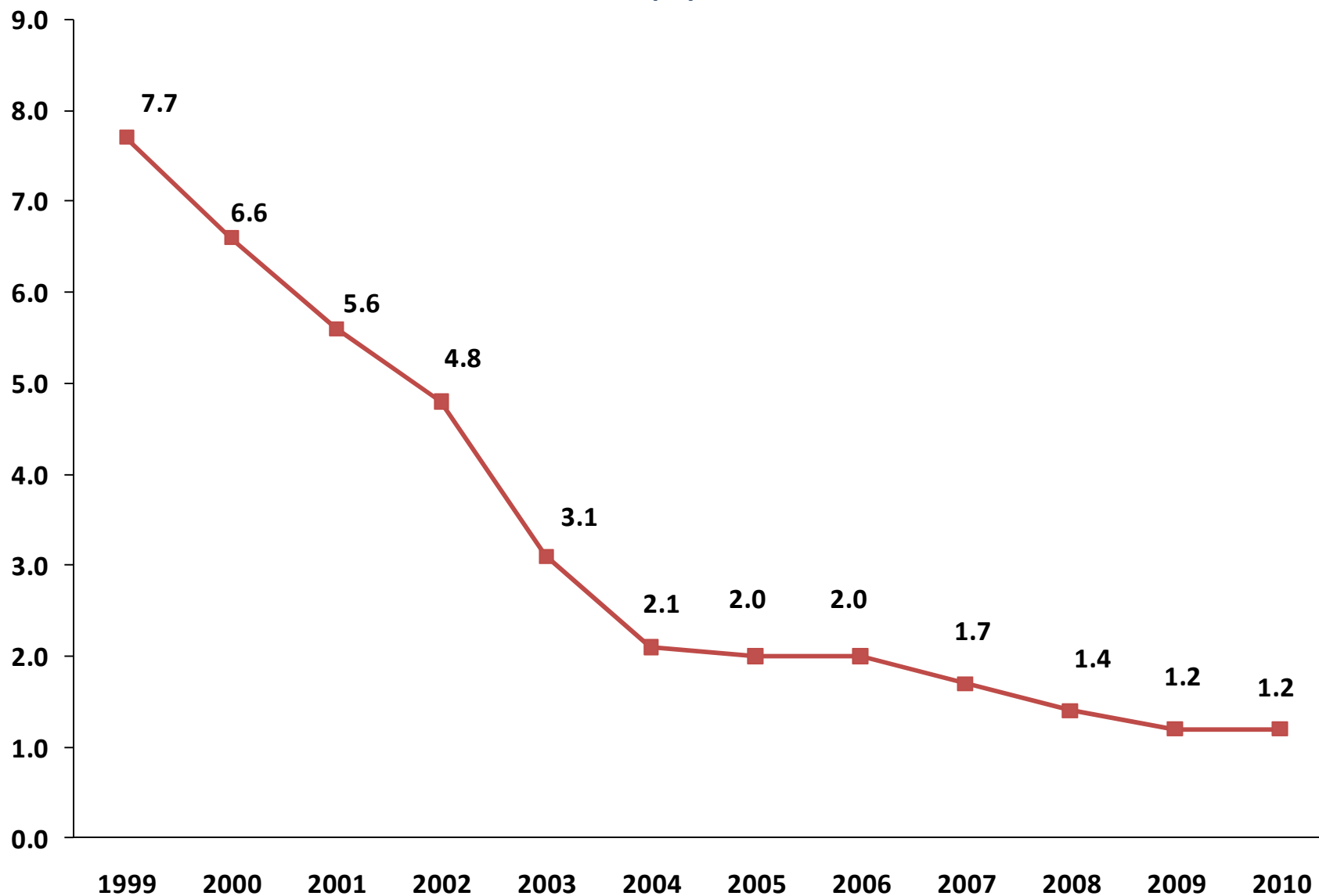


**Chile has signed 22 bilateral trade agreements with 58 trading partners**



# Effective Import Tariff

(%)

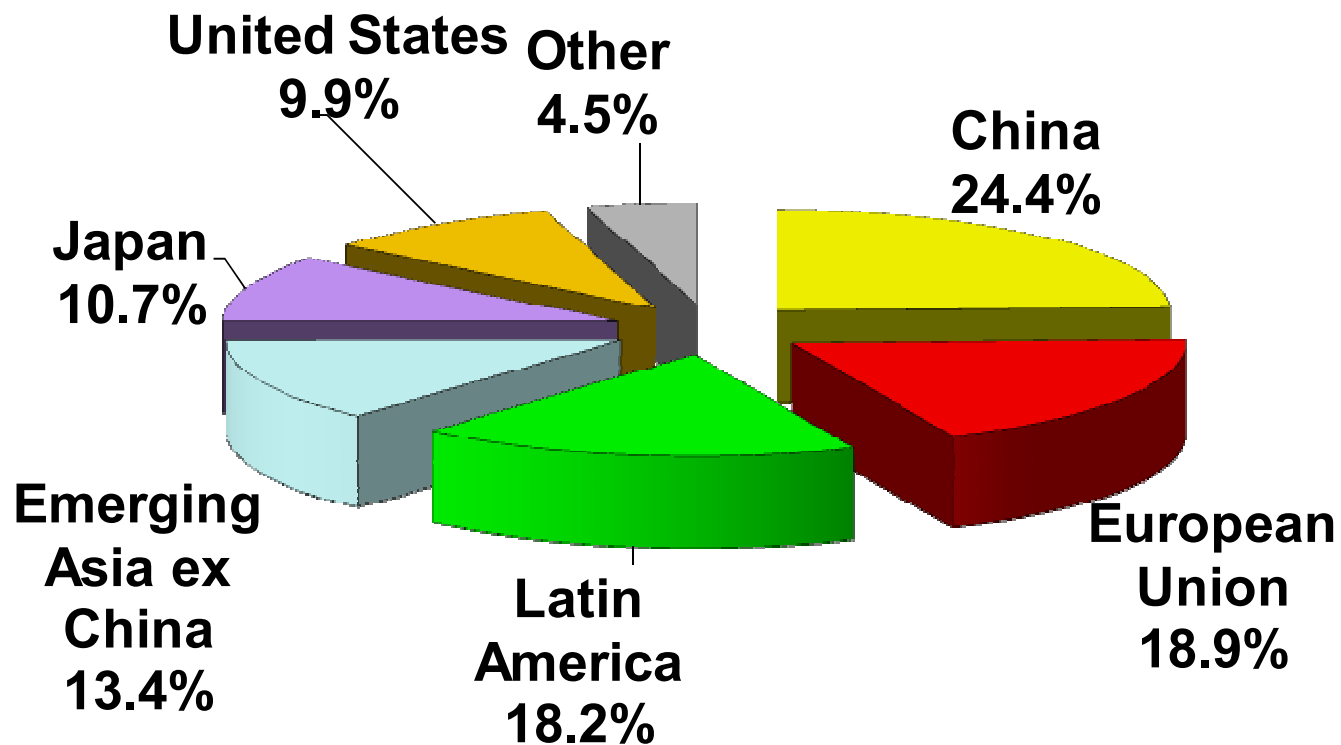


Source: Cámara de Comercio de Santiago



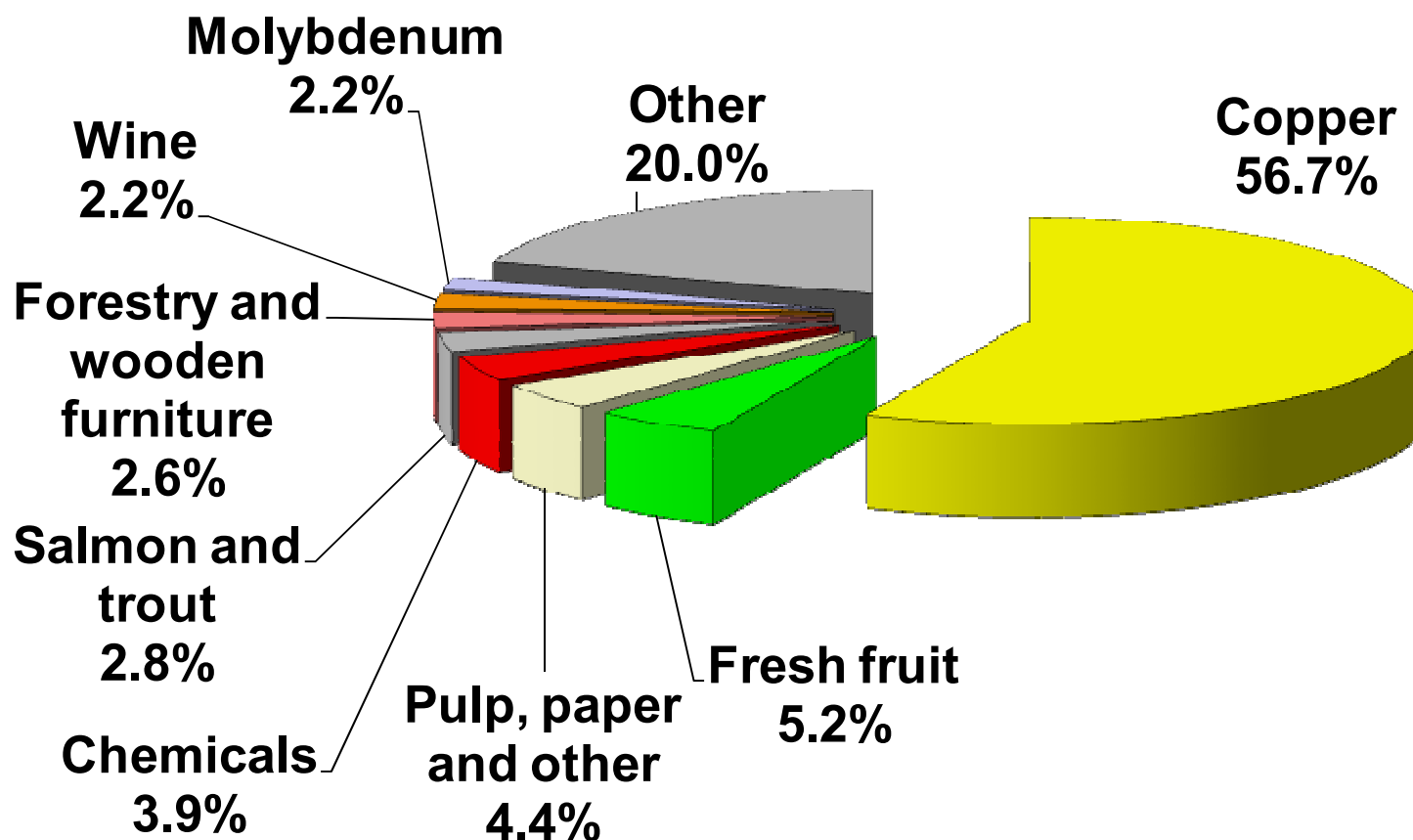
# Geographically Diversified Portfolio of Exports

(2010)



# Concentration in Natural Resource-Based Exports

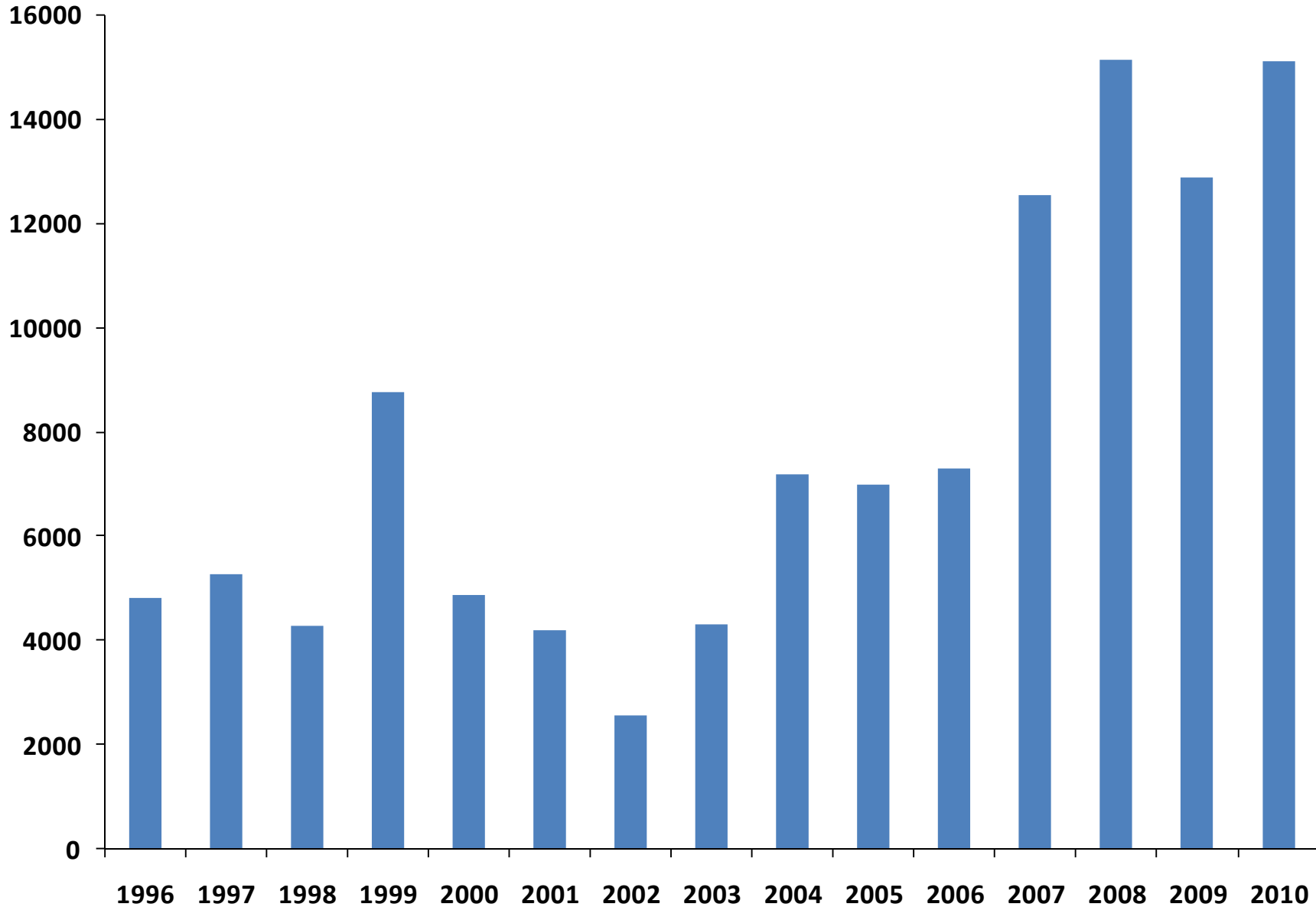
## (2010)





# Foreign Direct Investment in Chile

(US\$ million)



Source: Central Bank of Chile



# Investment Promotion and Double Taxation Treaties



- Bilateral Investment Promotion and Investment Protection Agreements with 49 countries:
  - 36 in force
  - 13 signed
- Treaties to Avoid Double Taxation with 28 countries:
  - 24 in force
  - 3 signed
  - 1 negotiation concluded



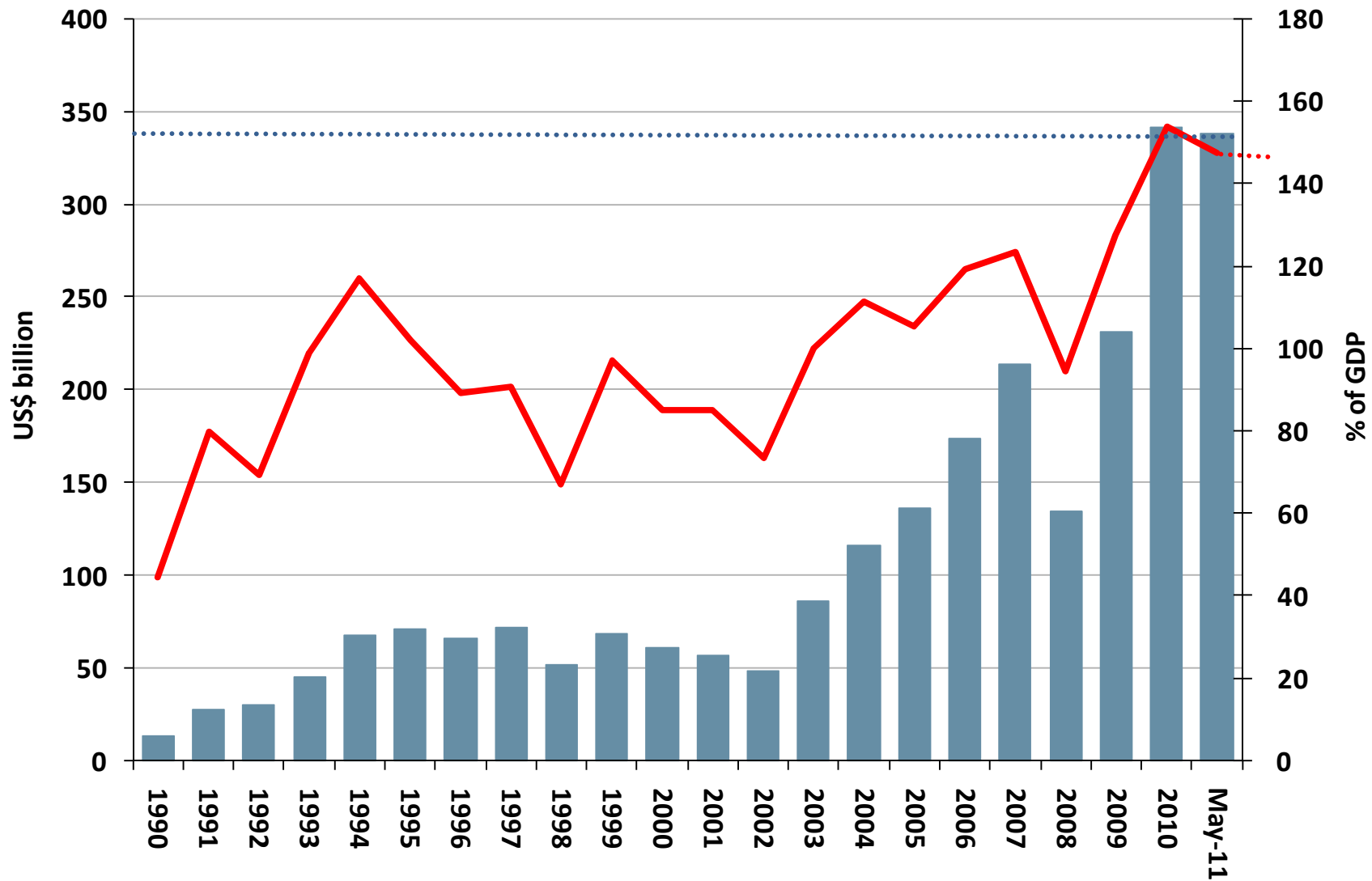


# FINANCIAL MARKET



# Stock Market Capitalization

(end of period)



Source: Central Bank of Chile and Superintendence of Securities

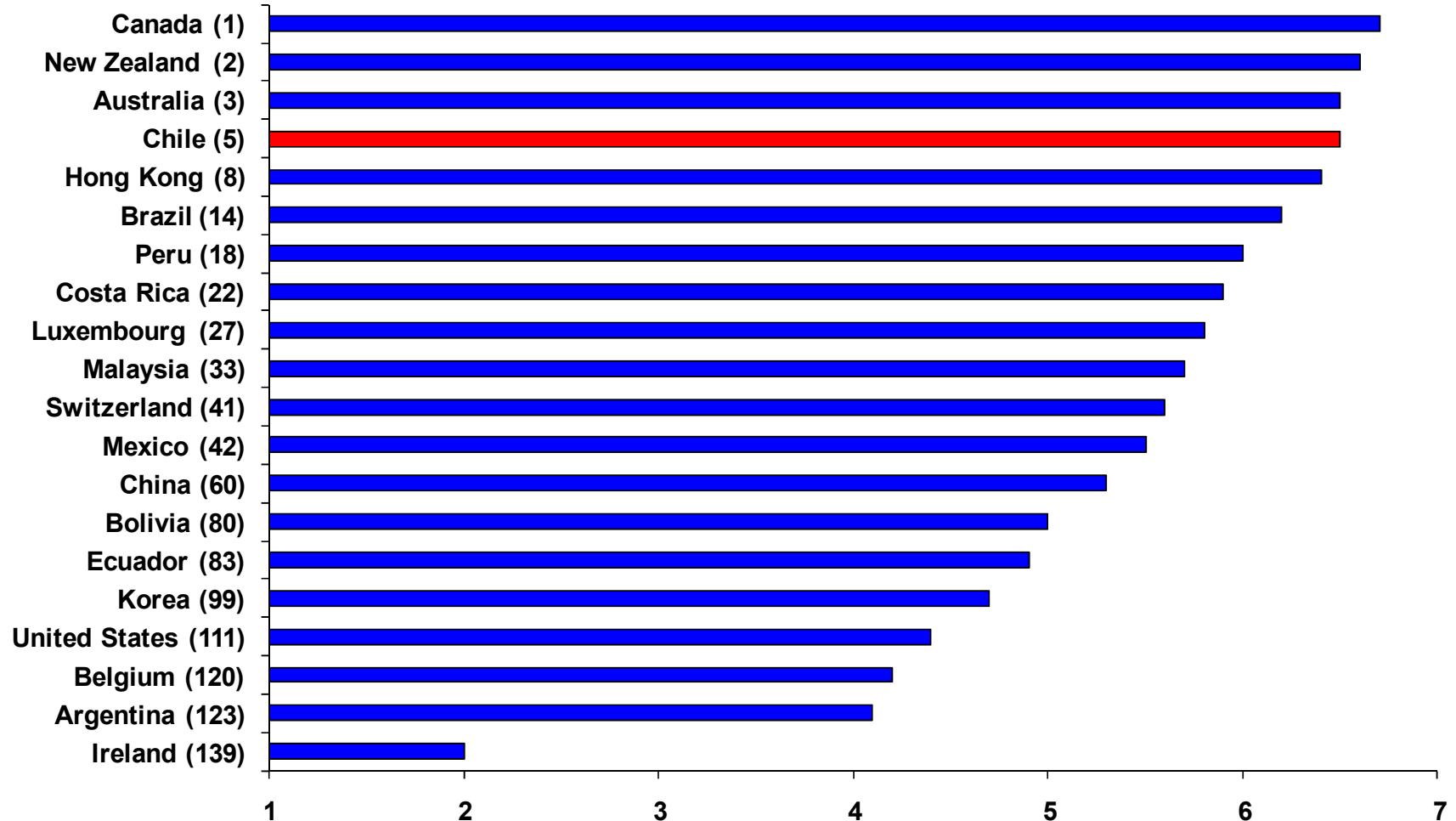


# Soundness of Banks

(139 countries)



(1=insolvent and may require a government bailout, 7=generally healthy with sound balance sheets)



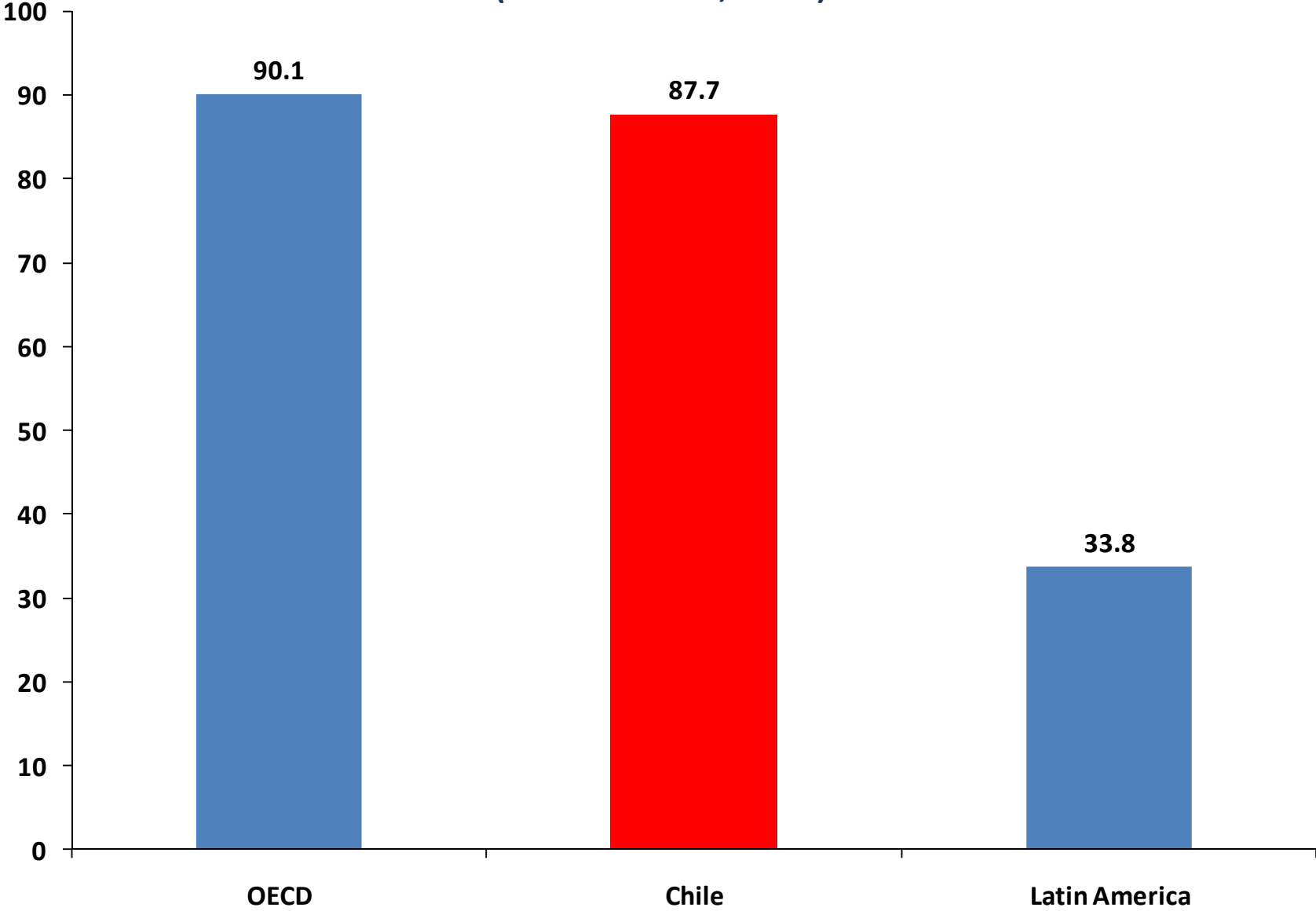


# INSTITUTIONS



# Rule of Law

(Percentil Rank, 0-100)

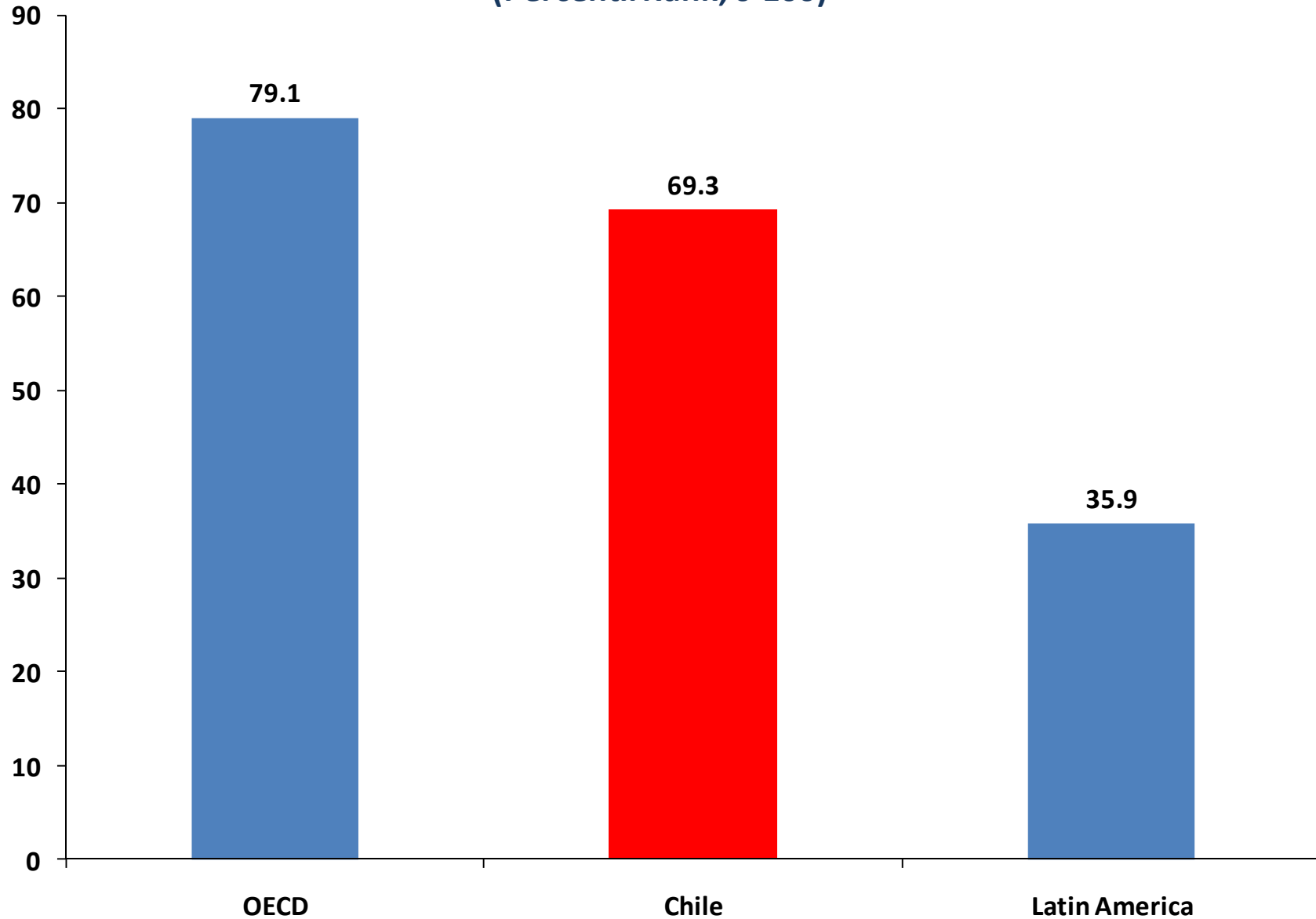


Source: World Bank, Worldwide Governance Indicators (2010)



# Political Stability

(Percentil Rank, 0-100)

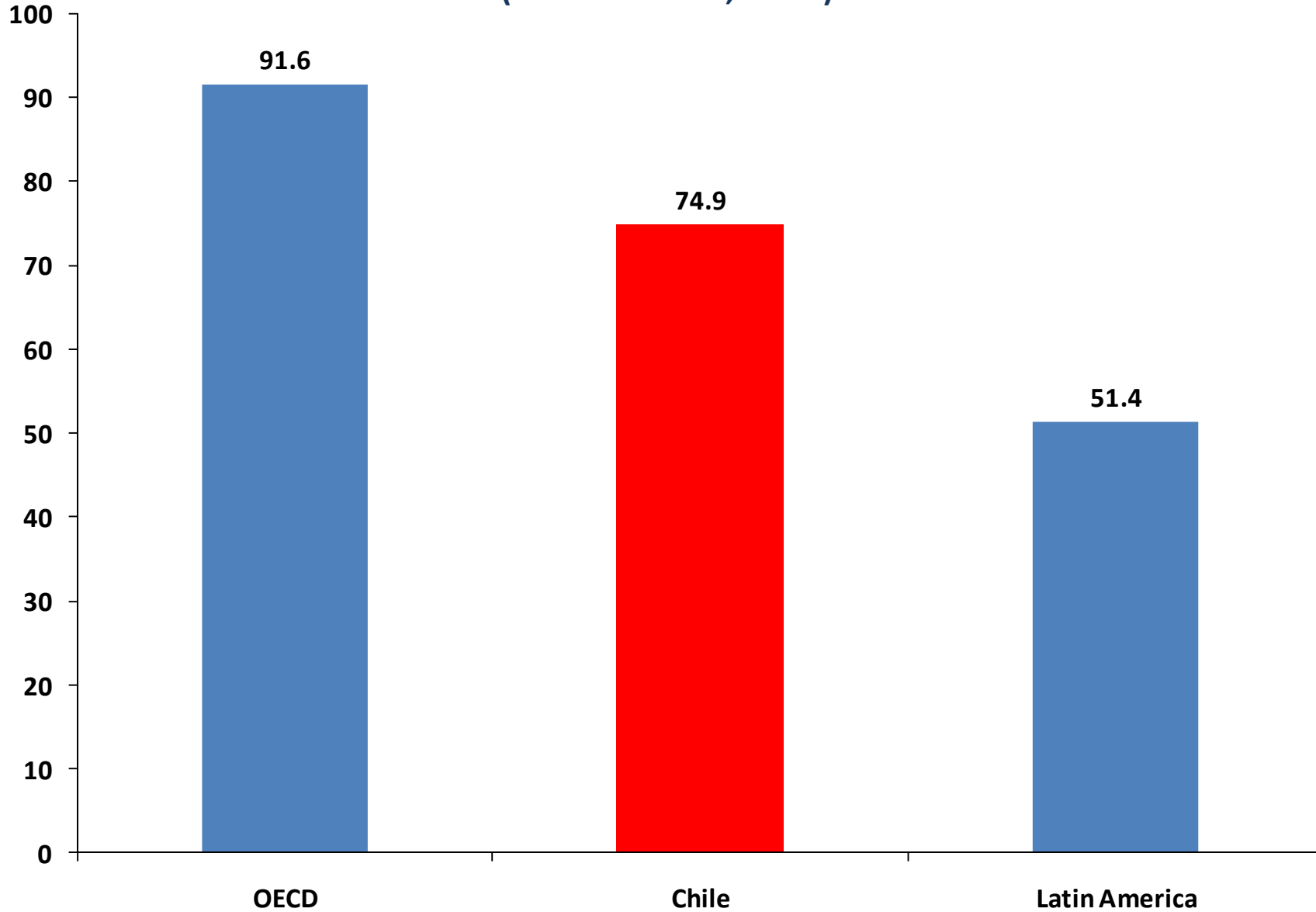


Source: World Bank, Worldwide Governance Indicators (2010)



# Voice and Accountability

(Percentil Rank, 0-100)

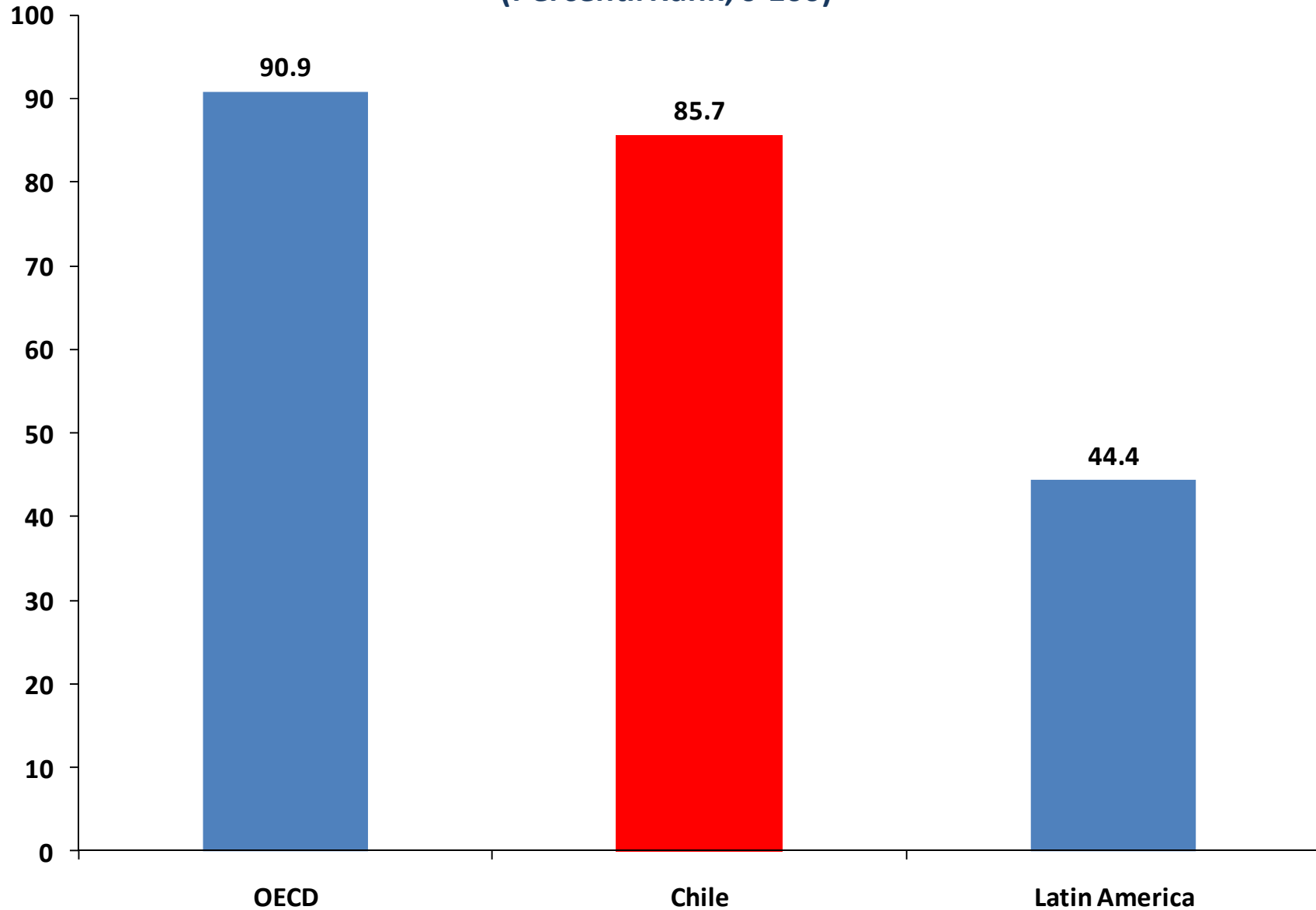


Source: World Bank, Worldwide Governance Indicators (2010)

# Government Effectiveness



(Percentil Rank, 0-100)

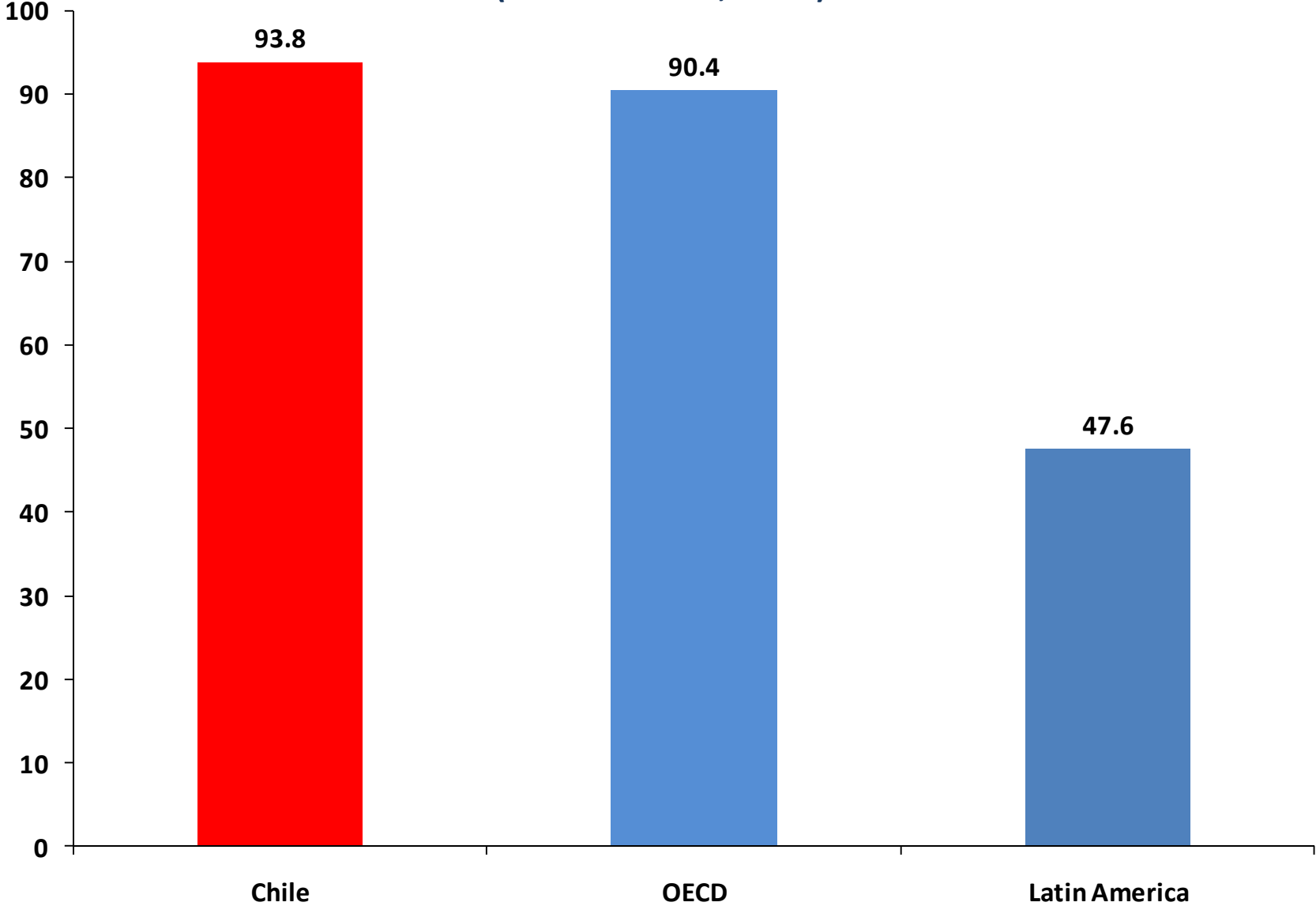


Source: World Bank, Worldwide Governance Indicators (2010)



# Regulatory Quality

(Percentil Rank, 0-100)

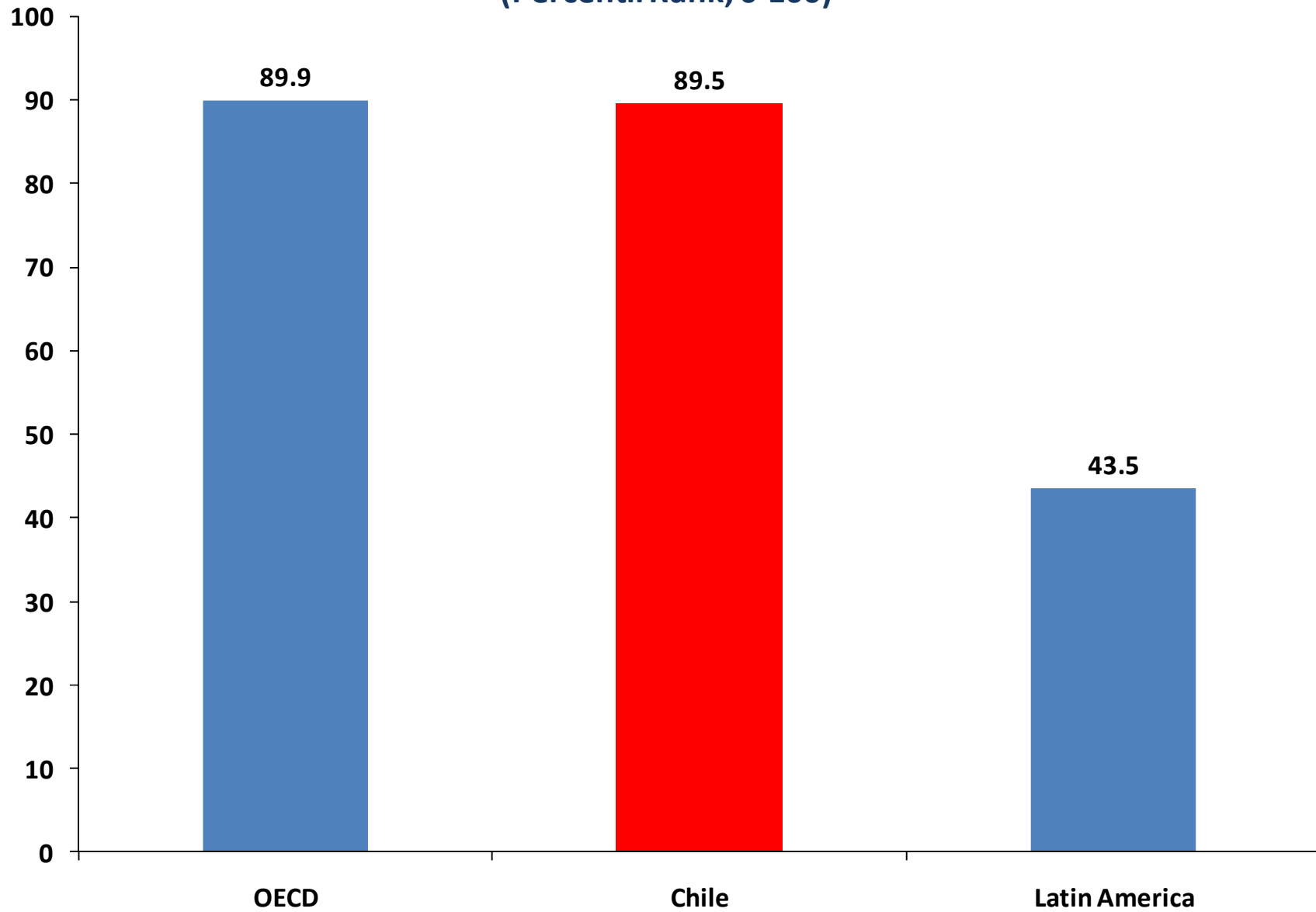


Source: World Bank, Worldwide Governance Indicators (2010)



# Control of Corruption

(Percentil Rank, 0-100)



Source: World Bank, Worldwide Governance Indicators (2010)

# Chile is a Beacon of Economic and Institutional Stability...



(Percentil Rank, 0-100)

	<b>Chile</b>	<b>OECD</b>	<b>Latin America</b>
<b>Rule of Law</b>	<b>87.7</b>	90.1	33.8
<b>Political Stability</b>	<b>69.3</b>	79.1	35.9
<b>Voice and Accountability</b>	<b>74.9</b>	91.6	51.4
<b>Government Effectiveness</b>	<b>85.7</b>	90.9	44.4
<b>Regulatory Quality</b>	<b>93.8</b>	90.4	47.6
<b>Control of Corruption</b>	<b>89.5</b>	89.9	43.5





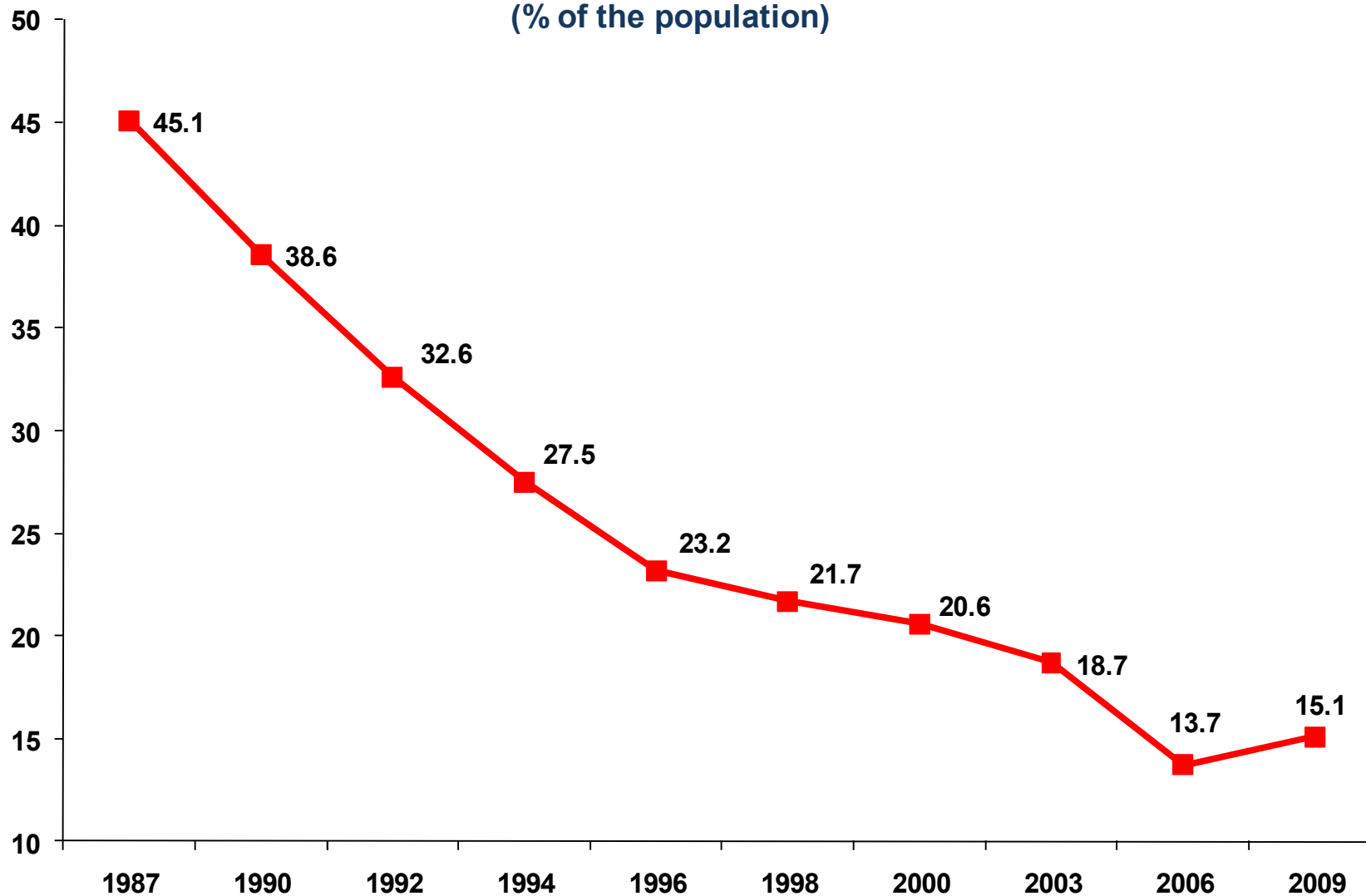
# POVERTY AND INCOME DISTRIBUTION



# Poverty



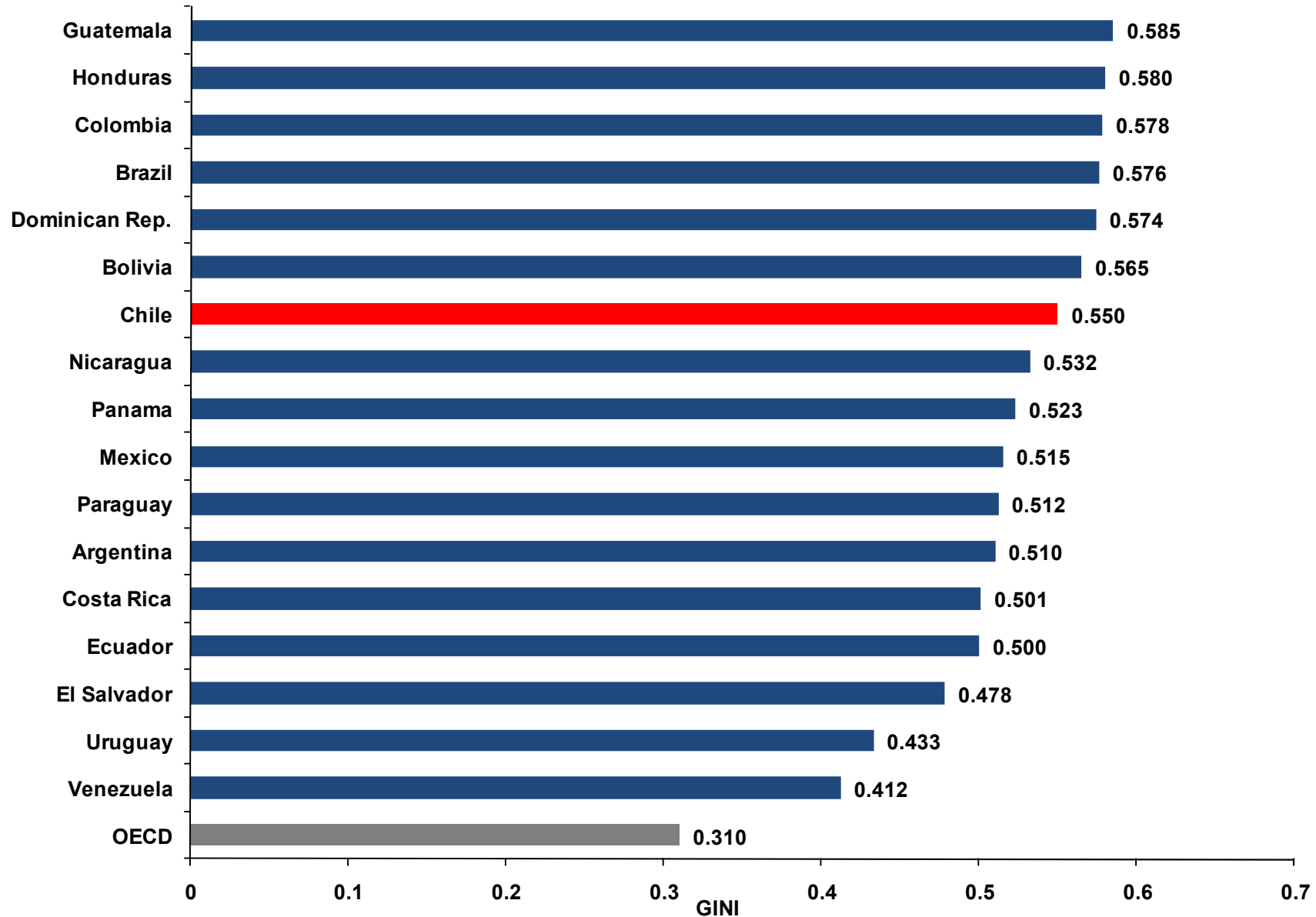
(% of the population)



Fuente: MIDEPLAN



# Income Distribution: GINI



Source: CEPAL, MIDEPLAN and OCDE





# PRO-GROWTH ACTIONS





# Pro-Investment



# Investment Incentives 2010



- Corporate Tax for reinvested earnings of SMBs eliminated
- Stamp (Credit) Tax reduced from 1.2% to 0.6%



# Financing of the Reconstruction Effort: Another Contribution to Investment



- Balanced financing plan
  - Key to avoid undesirable macroeconomic effects on variables such as exchange rate, inflation and interest rate
  - Helps maintain a strong and stable economy, which translates into lower country risk
- This was recognized when Moody's upgraded Chile's government bond ratings from A1 to Aa3 :


*“Fiscal saving by themselves would be enough to cover the government's estimated \$8.4 bn in post-earthquake financing needs, but the new center-right administration has chosen to rely mainly on a combination of taxation and new debt issuance, and keep most of the fiscal savings for future use”*

Moody's Statement, June 16, 2010





# Successful Placement of Sovereign Bonds

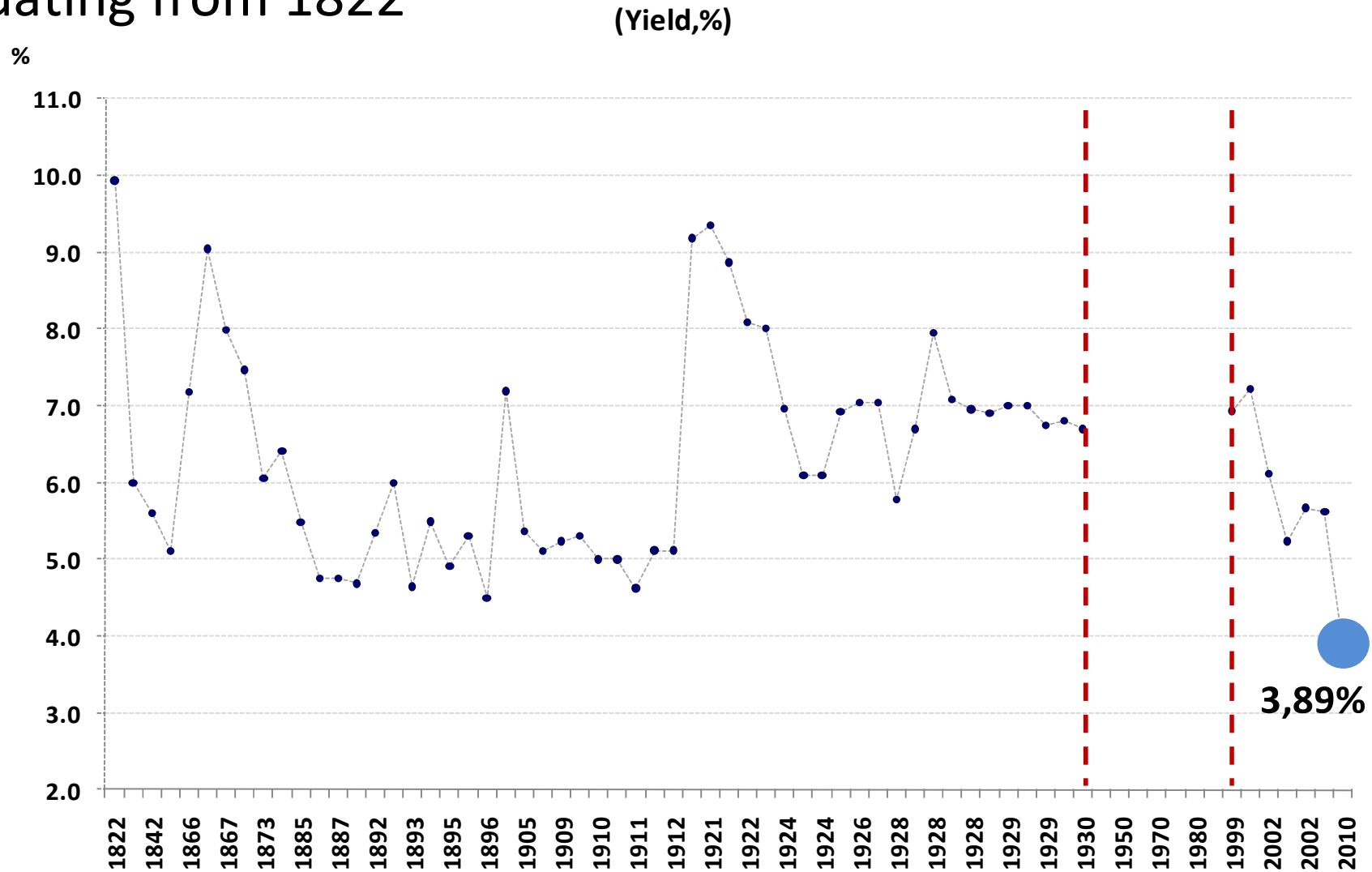
- Lower interest rate in Chile's history
- First issuance of a peso global bond in Chile's history  
 Financial integration and internationalization of the Chilean Peso
- Chilean companies can obtain cheaper financing abroad in dollars and pesos



# Sovereign Bond Issue



The best issuance on the credit history of the Republic, dating from 1822



Source: Ministry of Finance





# Promoting Productivity



# Modernization of the State



- Improving Human Resources in the State
- Enhanced Management of the State:  
New Management Unit with Quantitative  
Targets and Deadlines





# Management Unit



5 indicators are monitored:

- Labor absenteeism
- Use of overtime pay
- Recovery of sick licenses
- Delay in payments to government supplier  
→ new **Chilepaga** scheme
- Breach of statutory deadlines

Each Undersecretary is responsible for taking concrete steps to immediately improve performance in these 5 indicators



# Project Estado Eficiente



<http://estadoeficiente.hacienda.cl>

## ¿Cómo aportar ideas?

Muy simple. **Escribe tu idea y nosotros la recibiremos.** Cualquier aporte original o creativo. Cualquier experiencia que hayas tenido y que creas que hay que mejorar. Todo aporte es bienvenido y necesario. La Unidad de Gestión de Hacienda se encargará de procesar las ideas y rescatar las mejores.

## ¿Cómo ayudar adicionalmente?

Ayúdanos a difundir. Mientras más gente participe, más ideas tendremos para mejorar el Estado y hacerlo más eficiente.



The screenshot shows the 'Estado Eficiente' website interface. At the top, there is a navigation bar with the logo of the 'Ministerio de Hacienda' and the 'Gobierno de Chile'. The main content area is titled 'Ingresar tu idea' and contains a form with the following fields: 'Idea' (a large text area), 'Tu nombre (opcional)' (a text input), and 'Dirección de e-mail (opcional)' (a text input). Below the form is an 'Aceptar' button. On the right side, there is a vertical menu with the following items: 'El Ministerio', 'Misión y Objetivos', 'Ministro', 'Subsecretaría', 'Áreas de trabajo', 'Proyecto de Reforma de Gestión del Estado' (highlighted), 'Estructura', 'Plan de Acción Inmediata', 'Servicios del Plan Piloto', 'Informes', 'Estado Eficiente' (highlighted), 'Sector Hacienda', 'Chile en la OCDE', 'SICEX', 'Organigrama', 'Historia', 'Edificio', and 'Trámites'. At the bottom of the page, there is a footer with the following text: 'Ministerio de Hacienda Teatinos 120, Santiago de Chile - Teléfono: +56 2 828 2000', 'Políticas de Privacidad | Condiciones de Uso | Visualizadores y Plugins | Intranet | XHTML 1.0 | CSS 3'. There are also small social media icons and a search bar at the top right of the page.



# Bicentennial Capital Markets Agenda (MKB)



## Main Initiatives

- Clarify Taxation of Derivatives (Bill in Congress)
- Financial System Modernization (Bill in Congress)

## Next steps

- Creation of Financial Stability Board
- New Securities Commission
- Commercial Information: consolidated debt
- Single Law of Funds (LUF)
- Risk Based Supervision for the Insurance Sector



# Single Funds Law

## Background and Motivation



- The **Chilean funds industry** has grown strongly, reaching **USD 50 bn of AUM** by 2010
- To become a **financial platform, an exporter of fund management services**, we need to **remove certain existing asymmetries and rigidities** and to **define a reasonable and fair tax treatment** for the industry
- This will lead to costs reductions, a better and wider fund supply and a higher attractiveness to foreign investors
- At present, the Chilean regulation recognizes **different types of funds**, each one regulated by particular laws: **mutual funds, investment funds, foreign capital funds, foreign risk capital funds, funds for home savings**.
- Although these vehicles have similar objectives and face comparable problems, **the legal framework establishes several differences** between them, many of which have no technical justification, **generating confusion among investors and motivating regulatory arbitrage**.



# Single Funds Law



- The new funds law will create a **unified and simplified regulatory framework** for those aspects that are common to all vehicles and that establish specific **requirements based on** variables such as **the type and number of investors and the liquidity of the shares**.
- It will entail **more flexibility** in administrative and investment terms: the industry will offer better service and a wider range of products, together with appropriate **investor protection** and **safeguard of transparency and competition**.
- As a counterweight, the new law will provide the Superintendence of Securities and Insurance (SVS) **greater regulatory and supervisory authority**.



# Tax Incentives for R&D



- Tax incentive which allows companies to use as tax credit 35% of expenditure in R&D (extramural) in contracts with registered research centers (established 2008)
- Will create an additional tax incentive for private investment in R&D conducted within the enterprise (intramural)



# Reducing Transaction Costs : A Single Window for Foreign Trade



- A Commission of 6 Undersecretaries is working to establish a Single Window for all foreign trade operations in 2011-12
- Currently, up to 19 agencies are involved in an international trade
- The Single Window will reduce the number of days used in a foreign trade operation from 21 to 10 (OECD standard)



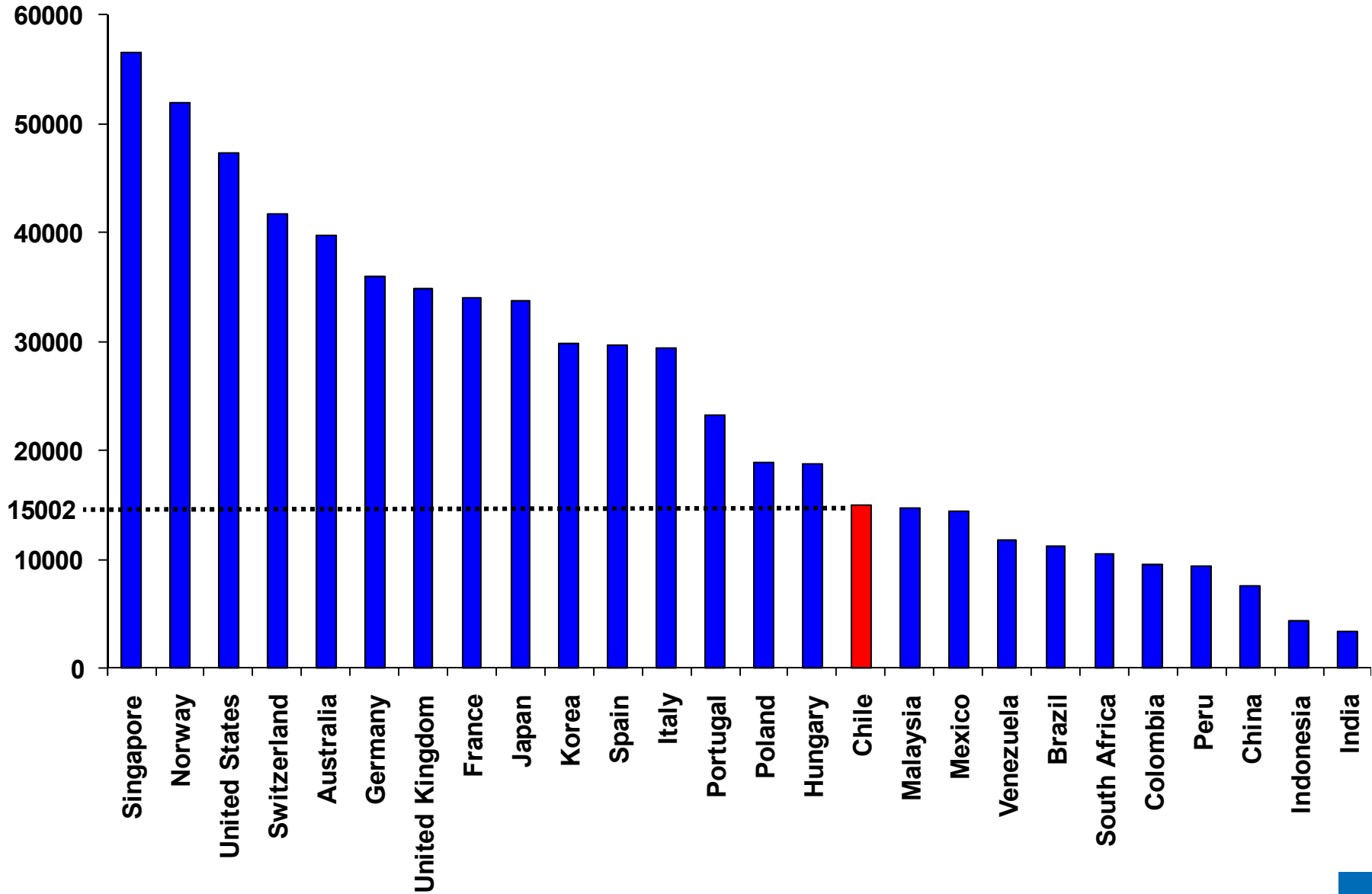


# CHILE: WHERE ARE WE?





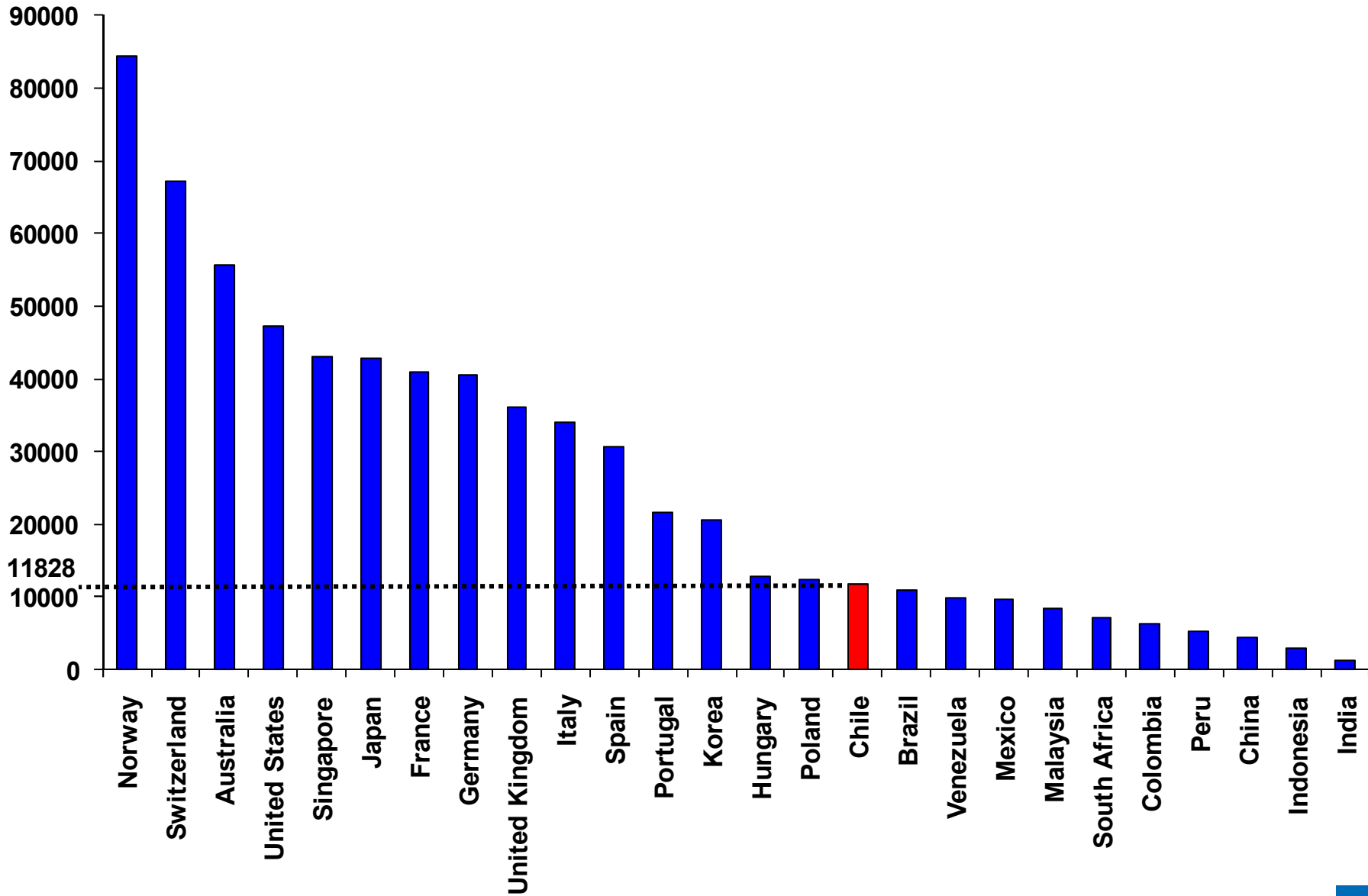
# GDP per Capita PPP 2010



Source: IMF



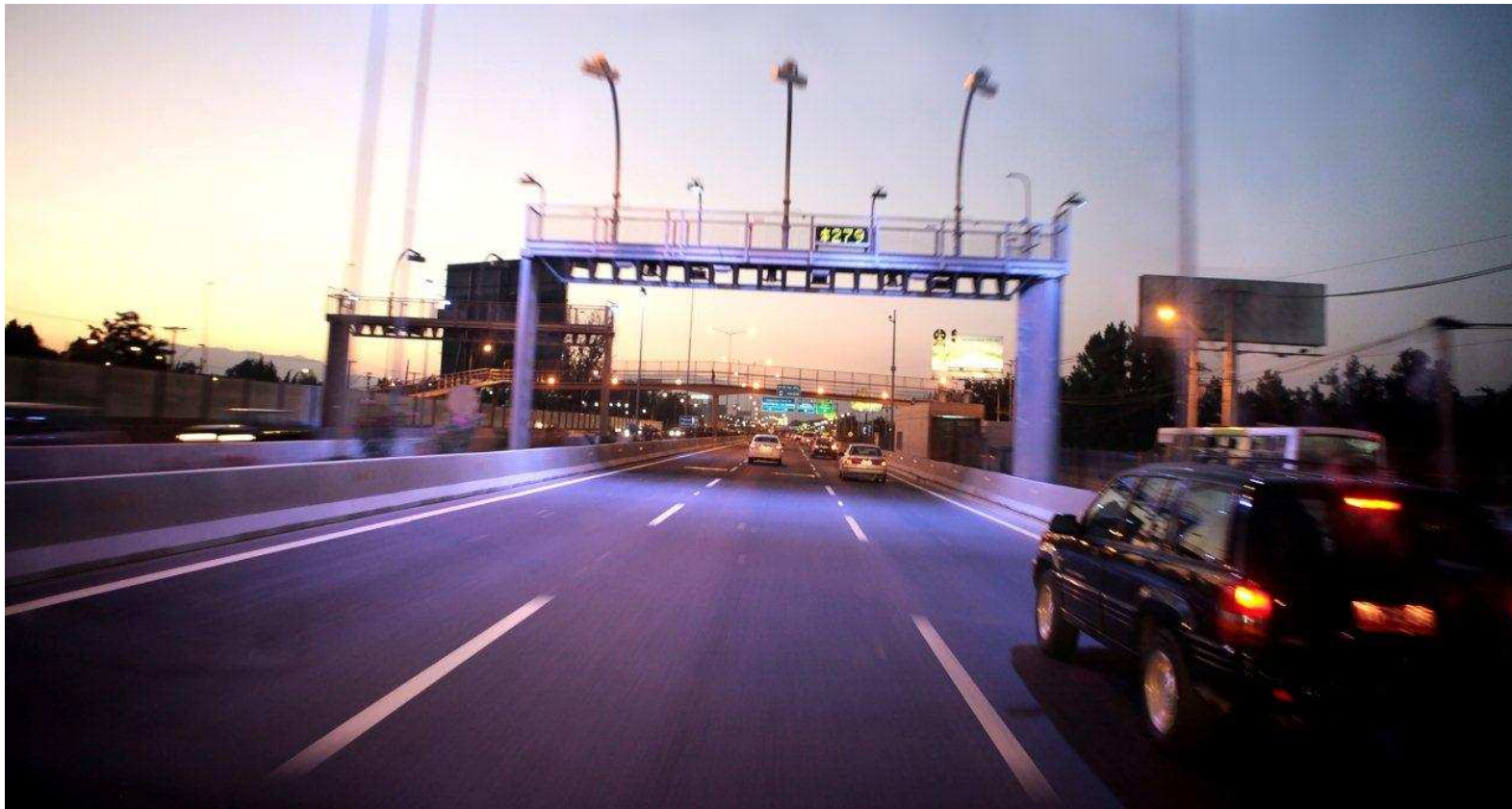
# GDP per Capita US\$ 2010



Source: IMF



# CHILE: WHERE ARE WE GOING?



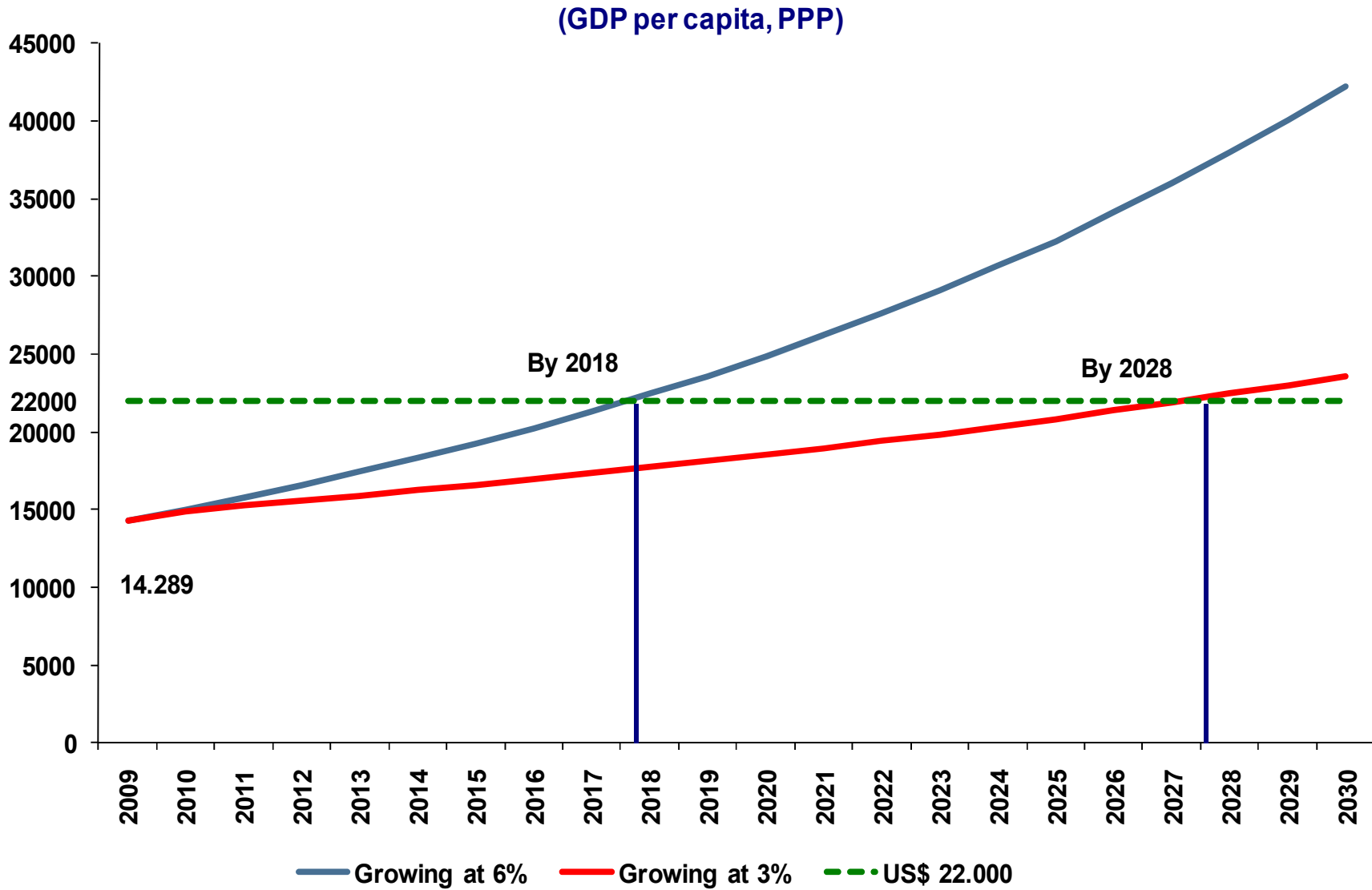
# Our Main Goals



- Grow at 6% average annual rate
- Create 200.000 jobs annually (2010-2014)
- Increase investment (Gross Fixed Capital Formation) from 21% of GDP (2009) to 28% of GDP in 2014
- Eliminate extreme poverty by 2014
- Lay the ground to become a developed country by 2018



# Chile's Road to Development by 2018



# The Spirit of Chile



Rescue of 33 miners in Chile



# Chile's Path To Development



**Gobierno  
de Chile**

Ministry of  
Finance