REPUBLIC OF CHILE
Ministry of Finance

ECONOMIC AND SOCIAL STABILIZATION FUND

Third Quarter, 2008

CONTENTS

I. INTRODUCTION

As of September 30, 2008, the Economic and Social Stabilization Fund (ESSF) had a market value of US$19,268.32 million. During the third quarter, contributions of US$1,000 million were paid into the fund. However, it showed a net drop of US$502.06 million in capital and interest income, representing an Internal Rate of Return (IRR) in US dollars[1] of -2.57% for the quarter.[2]

The quarter was dominated by the international financial crisis. The US Federal Reserve's announcement of the intervention of the country's main mortgage agencies (Fannie Mae and Freddie Mac) and the bankruptcy of Lehman Brothers in mid-September marked the start of a chain of events that eventually affected different institutions including investment banks, commercial banks and insurance companies.

The ESSF's value in dollars in the third quarter reflected international financial volatility and, principally, variations in the currencies and rates into which the fund has diversified its portfolio. In the case of currencies, the dollar appreciated against the euro by 12.17% and by 0.15% against the yen while the euro weakened by 10.71% against the yen. It should be noted that the ESSF's IRR for the quarter, measured in a basket of currencies, was 1.94%.

The present report is divided into two parts. The first section provides information about the ESSF's performance during the third quarter and the composition of its portfolio by currency and type of risk while the second part contains an explanation, prepared by the Fiscal Agent, of the behavior of the markets that affected the ESSF's investments during the period.

[1] Henceforth, referred to simply as dollars.
[2] Unless otherwise indicated, the rate given is the non-annualized rate for the period in question.

II. MARKET VALUE AND PERFORMANCE OF THE ESSF

The Economic and Social Stabilization Fund (ESSF) was established on March 6, 2007 and its management was entrusted to the Central Bank of Chile (CBC) which acts as Fiscal Agent. However, formal monitoring of its performance did not begin until April 1, 2007, after the implementation of its investment policy. The starting date for all comparisons with the benchmark is, therefore, March 31, 2007.

II.1. Market Value of the ESSF

As of September 30, the ESSF held assets worth US$19,268.32 million. The variations in its market value are set out in the table below:

Table 1: Market Value of ESSF

Market value (US$ million)	2007	First Sem. 2008	Q3 2008			Summary 2008
			July	August	September	
Starting value	-	14,032.61	18,770.38	19,770.81	19,460.25	14,032.61
Contributions	13,100.00	4,000.00	1,000.00	-	-	5,000.00
Change in value	932.61	737.77	0.43	-310.56	-191.93	235.71
Final value	**14,032.61**	**18,770.38**	**19,770.81**	**19,460.25**	**19,268.32**	**19,268.32**

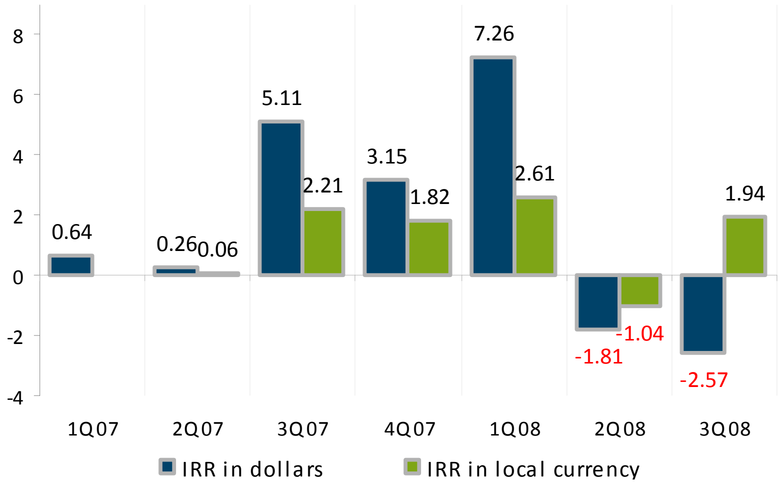
Source: JP Morgan

During the third quarter of 2008, the ESSF's market value decreased by US$502.06 million, representing an IRR for the period of -2.57%. However over the whole year the fund's value has increased by US$235.71 million, equivalent to an annualized IRR of 1.88%.

Since its inception, the value of the ESSF at market prices has shown a net increase in capital and interest income of US$1,168.32 million, equivalent to an annualized IRR in dollars of 5.97%.

The figure below shows the fund's quarterly IRR in dollars and in local currency.

Figure 1: Quarterly IRR in Dollars and Local Currency[3]
(percentage points)

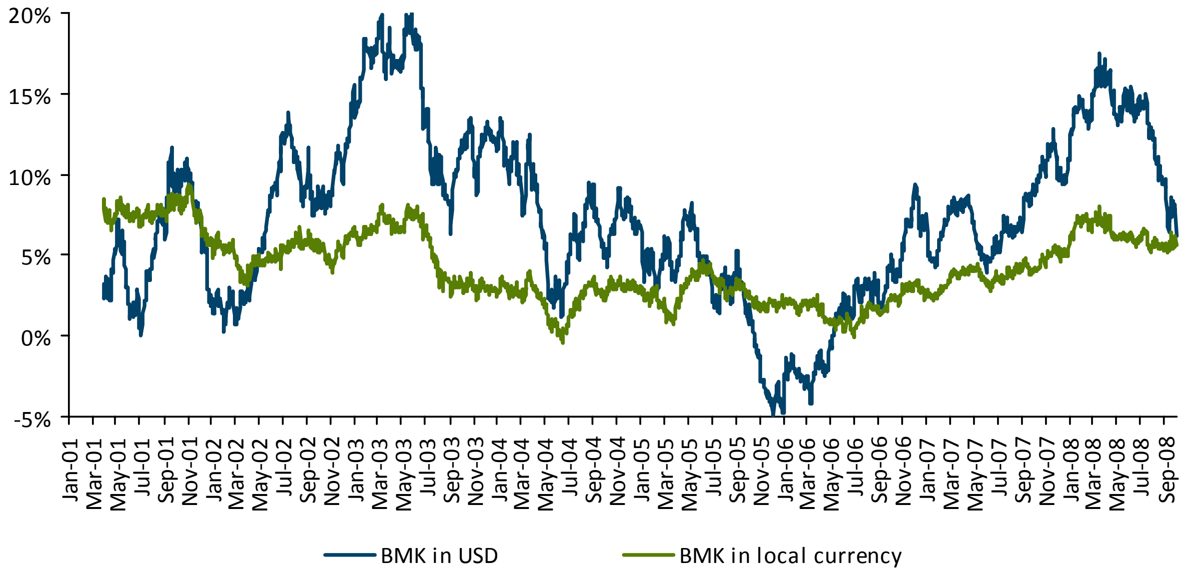


Source: Dipres based on data provided by JP Morgan and Bloomberg.

Analysis of the historic performance of the benchmark portfolio shows that the return in dollars during the first quarter of 2008 and subsequent adjustments in the second and third quarters are similar to those seen between 2001 and mid-2004 during the US Federal Reserve's last expansive monetary-policy cycle. As shown in Figure 2, the benchmark registered higher annual returns - measured in dollars - for almost two years as from mid-2002 before entering a two-year cycle of decreasing returns.

[3] Annualized compound rate. The fund started regular operations on April 1, 2007.

Figure 2: Moving Annual Return on the Benchmark in Dollars and in Local Currency



Source: Dipres based on data provided by JP Morgan and Bloomberg

In the third quarter, the composition of the ESSF by type of risk and currency, expressed in dollars,[4] was as follows:

Table 2: Composition of the ESSF by Asset Class, Currency and Duration

Assets	Original Currency	3rd quarter 2008 (US$ million)		
		July	August	September
Sovereign	USD	7,077.19	6,573.32	7,015.27
	EUR	5,567.38	5,497.65	5,325.01
	JPY	1,357.17	1,359.38	1,376.58
Agencies	USD	-	250.09	-
	EUR	-	-	-
	JPY	-	-	-
Bank	USD	2,851.87	2,928.49	2,768.77
	EUR	2,331.02	2,267.01	2,175.01
	JPY	586.18	584.3	607.68
Total		*19,770.81*	*19,460.25*	*19,268.32*
Duration	*(years)*	*2.3*	*2.39*	*2.36*

Source: JP Morgan

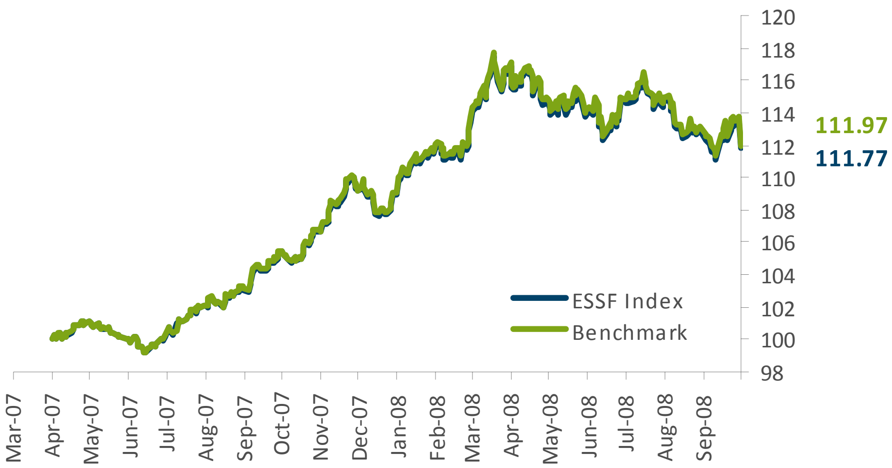
[4] According to JP Morgan, the exchange rates used at the close of the month were:
July 31 : 1.5603 USD/EUR and 108.085 JPY/USD
August 29 : 1.4723 USD/EUR and 108.525 JPY/USD
September 30 : 1.4047 USD/EUR and 106.165 JPY/USD

II.2. Performance of the ESSF

II.2.1 Performance of Financial Investments

Figure 3 sets out the performance of the ESSF measured using an index[5] that shows daily variations in the market value of its portfolio expressed in dollars. The base value is 100 as of March 31, 2007.

Figure 3: ESSF Index vs. Benchmark
(March 31, 2007 = 100)



Source: Dipres based on data provided by JP Morgan, CBC and Bloomberg

In the third quarter of 2008, the index showed a return of -2.52% in comparison to -2.54% for the benchmark. As from 31 March 2007, the index registered an annualized return of 7.72% while the equivalent figure for the benchmark was 7.95%.

[5] Unlike the IRR, this indicator excludes the effect of net cash flows (contributions minus withdrawals) on the fund's return.

The table below provides a summary of the return of both the index and the benchmark in dollars and in local currency:

Table 3: Returns on the ESSF
(In dollars and local currency)

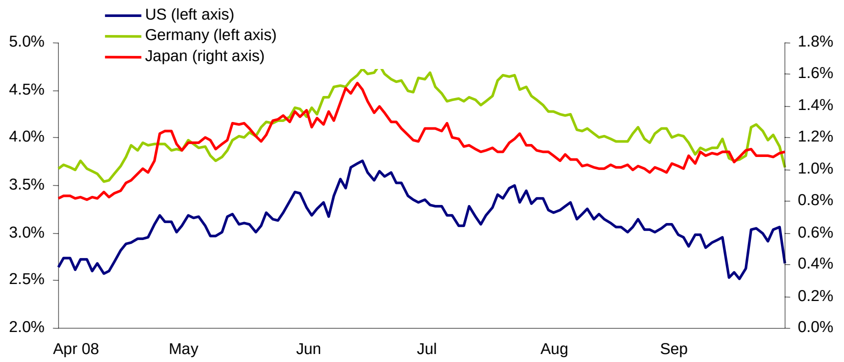
	Return	Q3	Accumulated since March 31, 2007 (annualized)
Dollars	ESSF Index	-2.52%	7.72%
	Benchmark	-2.54%	7.95%
	Return differential	0.02%	-0.22%
Local currency	ESSF Index	1.94%	5.23%
	Benchmark	1.99%	5.45%
	Return differential	0.02%	-0.22%

Source: Dipres

III. BEHAVIOR OF RELEVANT MARKETS IN THE THIRD QUARTER

The third quarter of 2008 was dominated by the financial crisis. The US Federal Reserve's announcement of the intervention of the country's main mortgage agencies (Fannie Mae and Freddie Mac) and the bankruptcy of Lehman Brothers in mid-September marked the start of a chain of events that eventually affected different institutions including investment banks, commercial banks and insurance companies.

Figure 4: Interest Rates on 5-Year Bonds



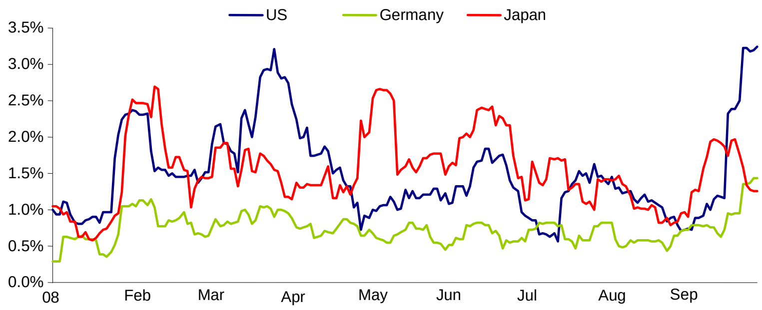
Source: Bloomberg.

The bankruptcy of Lehman Brothers, the fourth largest US investment bank, was announced on September 15 and was followed by Bank of America's acquisition of Merrill Lynch. In addition, the US government bailed out the AIG group (September 16) and Washington Mutual, after declaring bankruptcy, was acquired by JP Morgan (September 26). These events had repercussions in Europe, revealing a serious lack of liquidity as the result of uncertainty and reduced confidence in the financial system. For example, Belgium's main bank, Fortis, lost 50% of its market value in September and the Belgian, Dutch and Luxembourg governments were forced to acquire a 49% stake (September 28). In addition, Britain's Bradford & Bingley bank was nationalized (September 28) and Dexia, a French-Belgian bank, was intervened (September 30).

The news of a US government bailout planned evoked mixed expectations in financial markets. On September 29, the plan was initially rejected by the House of Representatives, triggering historic losses on world stock exchanges and boosting demand for fixed-income sovereign assets. In general terms, the plan authorized the US government to spend US$700 billion on the acquisition of non-performing mortgages and other devalued assets held by institutions with liquidity problems.

As a result of this chain of events, the price volatility of fixed-income instruments increased. The volatility of US sovereign instruments in September was comparable to their volatility in March 2008 when JP Morgan acquired Bear Stearns and the Federal Open Market Committee (FOMC) reduced the monetary-policy interest rate by 75 basis points.

Figure 5: Risk Level of 5-Year Bonds[6]



Source: Bloomberg.

III.1. Main Economic Trends

In the third quarter, indicators of activity in the **United States** remained weak. In a sign of a balance of risks between growth and inflation, the Federal Reserve opted to maintain the monetary-policy interest rate at 2.0%. The upward trend of unemployment continued, closing the quarter at 6.1%, up from 5.5% at the end of the previous quarter. At an annual rate of 5.4%, inflation remained outside the Federal Reserve's target range while core inflation reached 2.5%. Conditions in the real estate market continued to deteriorate along with consumer expectations.

In the **Euro Zone,** the European Central Bank increased its monetary-policy interest rate to 4.25% in the face of inflationary pressures. However, inflation dropped to close the quarter at an annual rate of 3.6%, down from 4.0% at the beginning of the quarter while core inflation continued to rise, closing the quarter at an annual 1.9%. Unemployment showed a small increase and reached 7.5%. During the quarter, the main indicators of economic perceptions continued to deteriorate.

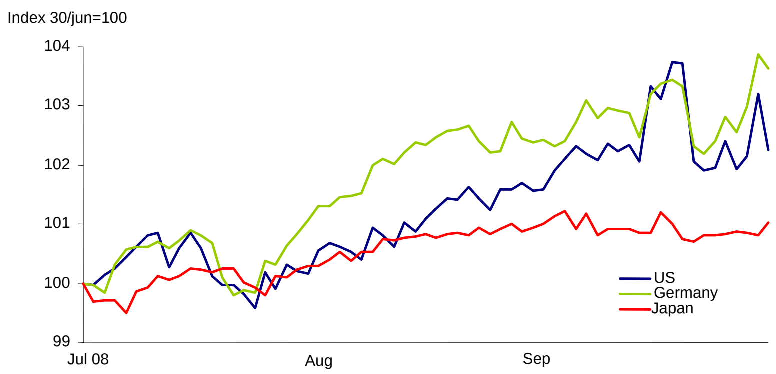
[6] The standard deviation of the daily logarithmic variation of the price of a generic 5-year bond in a moving 10-day period was used as an approximate measure of risk.

In **Japan**, the monetary authority held its policy rate at 0.5%. The consumer price index showed an increase of 2.1%, its highest level in ten years. Core inflation also remained high, closing the quarter at 0.5%. Unemployment continued to increase and reached 4.2%. As in the United States and Europe, indicators of confidence continued to deteriorate.

III.1.1 Fixed-Income Market

In the third quarter, the general drop in interest rates meant that fixed-income sovereign instruments performed positively as regards total returns (Figure 6).

Figure 6: Index of Total Returns, 1-10 Year Sovereign Bonds[7]



Source: JP Morgan.

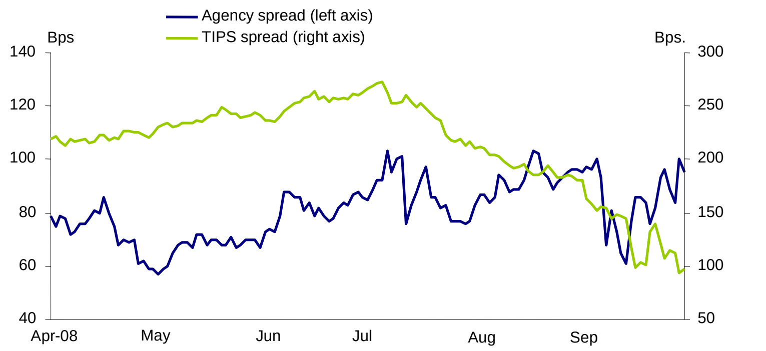
III.1.2 Main Spreads on Portfolio Securities

The agency spread[8] showed a small increase as from the beginning of the quarter (Figure 7). However, as regards total returns, 5-year agency bonds performed better than the equivalent Treasury bills.

Lower inflation expectations meant that the yield on US Inflation-Linked Bonds (TIPS)[9] was lower than on equivalent nominal Treasury bills. This resulted in a drop in the spread on TIPS[10] during the quarter.

[7] Total return expressed in local currency.
[8] Agency Spread: Yield on an agency bond minus the yield on a US treasury bill of an equivalent maturity.
[9] TIPS: Treasury Inflation-Protected Securities.
[10] TIPS Spread: Yield on a US Treasury bill minus the yield on TIPS of an equivalent maturity.

Figure 7: Agency and TIPS Spread on 5-Year Bonds

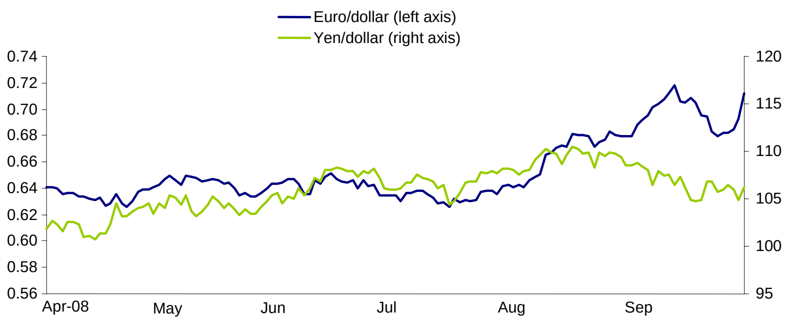


Source: Bloomberg.

III.1.3 Exchange Rates

Given the more marked drop in interest rates in Europe as compared to the United States, the dollar strengthened by 12.17% against the euro in the third quarter of 2008 and also appreciated, although only by 0.15%, against the yen (Figure 8). This meant that the euro depreciated by 10.71% against the yen.

Figure 8: Euro/Dollar and Yen/Dollar Exchange Rates



Source: JP Morgan.

IV. Appendix 1: Positions with Sovereign Issuers and Financial Institutions

The Fiscal Agency has investments in **Sovereign Bonds** of the United States, Germany, France and Japan.

ESSF and PRF
Banks with Deposits, September 30, 2008

1	ABN AMRO BANK NV, AMSTERDAM
2	ALLIANCE AND LEICESTER PLC, LEICESTER
3	ALLIED IRISH BANKS, DUBLIN
4	BANCA MONTE DEI PASCHI DI S., LONDON
5	BANCO ESPIRITO SANTO SA, LONDON
6	BANCO SANTANDER CENTRAL HISPANO SA, N.YORK
7	BANK AUSTRIA CREDITANSTALT AG, VIENNA
8	BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH
9	BAYERISCHE LANDESBANK, MUNICH
10	BNP PARIBAS SA, PARIS
11	CAIXA GERAL DE DEPOSITOS SA, N.YORK
12	CAJA DE AH. Y MONTE DE PIEDAD DE MADRID, MADRID
13	CAJA DE AHORROS Y PENSIONES DE BARCELONA, BARCELONA
14	CREDIT INDUSTRIEL ET COMMERCIAL (CIC), LONDON
15	DANSKE BANK AKTIESELSKAB, COPENHAGEN
16	DEPFA BANK PLC, DUBLIN
17	DEXIA BANK BELGIUM SA, BRUSSELS
18	DEXIA CREDIT LOCAL SA, PARIS
19	FORTIS BANK SA/NV, BRUSSELS
20	HSH NORDBANK AG, KIEL
21	ING BANK NV, AMSTERDAM
22	INTESA SANPAOLO SPA, MILANO
23	INTESA SANPAOLO SPA, N.YORK
24	MIZUHO CORPORATE BANK LTD., LONDON
25	NATIXIS, PARIS
26	NORDDEUTSCHE LANDESBANK GIROZENTRALE, LONDON
27	NORDEA BANK FINLAND PLC, HELSINKI
28	RABOBANK NEDERLAND, LONDON
29	SOCIETE GENERALE, PARIS
30	SUMITOMO MITSUI BANKING CORPORATION, N.YORK
31	SVENSKA HANDELSBANKEN AB (PUBL), STOCKHOLM
32	THE BANK OF TOKYO-MITSUBISHI UFJ LTD, N.YORK
33	UNICREDIT SPA, LONDON

V. Appendix 2: Financial intermediaries used by the Fiscal Agent

ESSF and PRF
Intermediaries used between July and September 2008

1	BANK OF AMERICA SEC. LLC, USA
2	BARCLAYS CAPITAL INC., USA
3	BARCLAYS CAPITAL, U.KINGDOM
4	BNP PARIBAS SA, PARIS
5	COMMERZBANK A.G., FRANKFURT
6	CREDIT SUISSE SECURITIES (USA) LLC, USA
7	DEUTSCHE BANK SECURITIES INC., USA
8	DRESDNER BANK AG, FRANKFURT
9	GOLDMAN, SACHS & CO., USA
10	GREENWICH CAPITAL MARKETS, INC., USA
11	HSBC SECURITIES (USA) INC., USA
12	J.P. MORGAN SEC. LTD., U.KINGDOM
13	J.P. MORGAN SECURITIES, INC., USA
14	LEHMAN BROTHERS INC., USA
15	MERRILL LYNCH GOV. SEC. INC., USA
16	MERRILL LYNCH INTL., U.KINGDOM
17	MIZUHO SECURITIES USA INC., USA
18	MORGAN STANLEY & CO. INC., USA
19	UBS LIMITED, U.KINGDOM
20	UBS SECURITIES LLC, USA

VI. Investment Limits

A. Credit Risk

The ESSF's investments must fulfill the following credit-risk conditions and requirements:

The eligible issuers are:

Asset Class (Risk)	Upper Limit
Sovereigns	100%
Multilaterals	60%
Banks	50%
Agencies	30%

A.1 Sovereign Risk

The eligible countries are those, other than Chile, that over the previous 24 months have held a long-term risk classification equivalent to **A-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's.

Investment limits for eligible sovereign risk (between **AAA** and **A-**) are:

Risk Classification	Upper Limit
AAA	100%
AA+ AA AA-	90%
A+ A A-	30%

A.2 Supranational or Multilateral Risk

The eligible international organizations are those with a long-term risk classification equivalent to **AA-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's.

Investment limits for eligible multilateral risk (between **AAA** and **AA-**) are:

Risk Classification	Upper Limit (US$ million)
AAA Aaa	800
AA+ Aa1 AA Aa2 AA- Aa3	600

A.3 Bank Risk

The methodology for selecting banking institutions and assigning limits is based on international risk classifications and the size of the institutions.

Eligible institutions are those that have a long-term risk classification of **A-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's, and a minimum shareholders' equity equivalent to **US$1,000 million**.

Investment limits by institution are expressed in discrete intervals according to the table below:

Risk Classification	Upper Limit (US$ million)
AAA Aaa	600
AA+ Aa1 AA Aa2 AA- Aa3	400
A+ A1 A A2 A- A3	300

A.4 Agency Risk

The eligible agencies are those in the United States with a long-term risk classification equivalent to **AAA** issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's, and a minimum shareholders' equity equivalent to **US$1,000 million**. Investment in any one agency may not exceed **US$800 million**.