



Republic of Chile

Ministry of Finance

December 2019

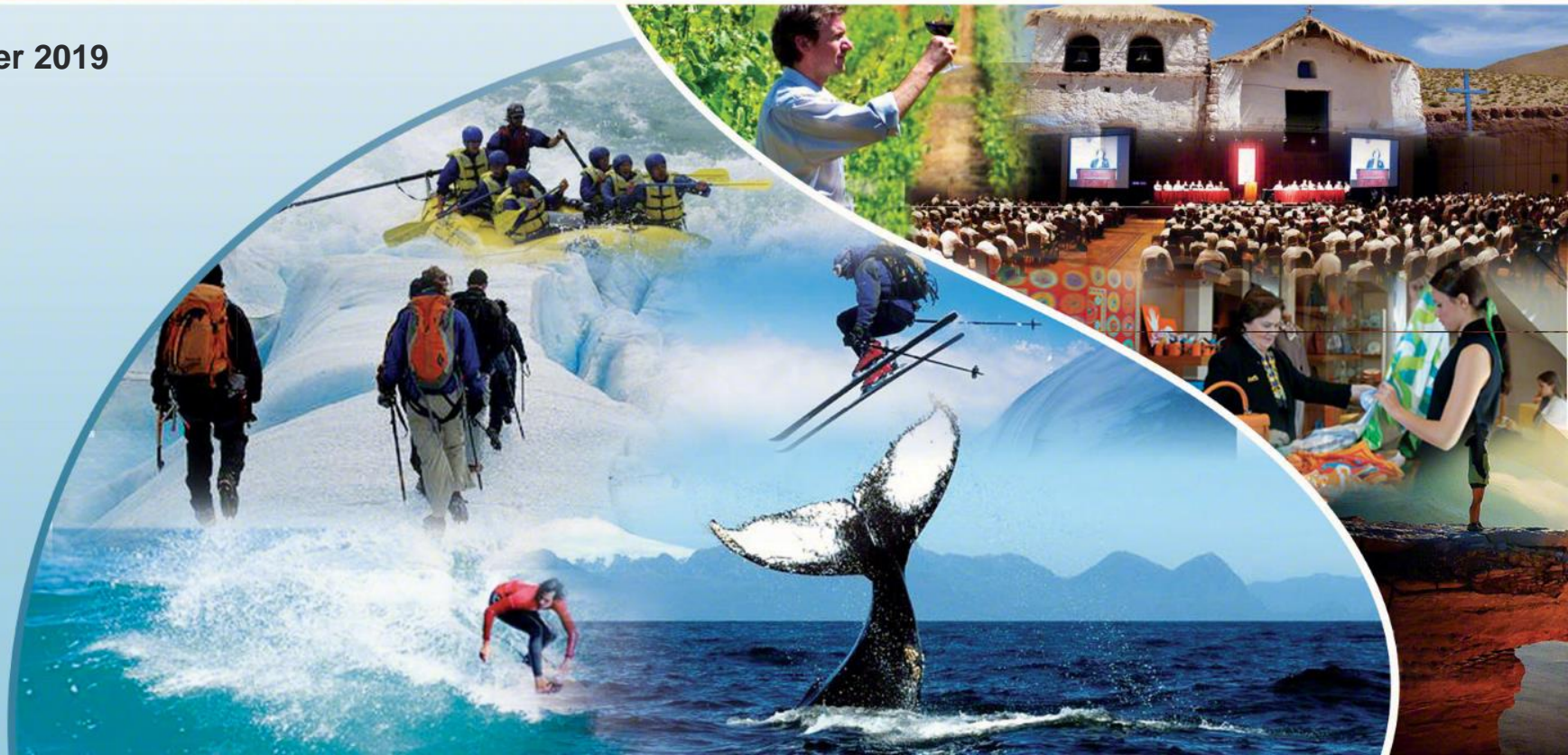
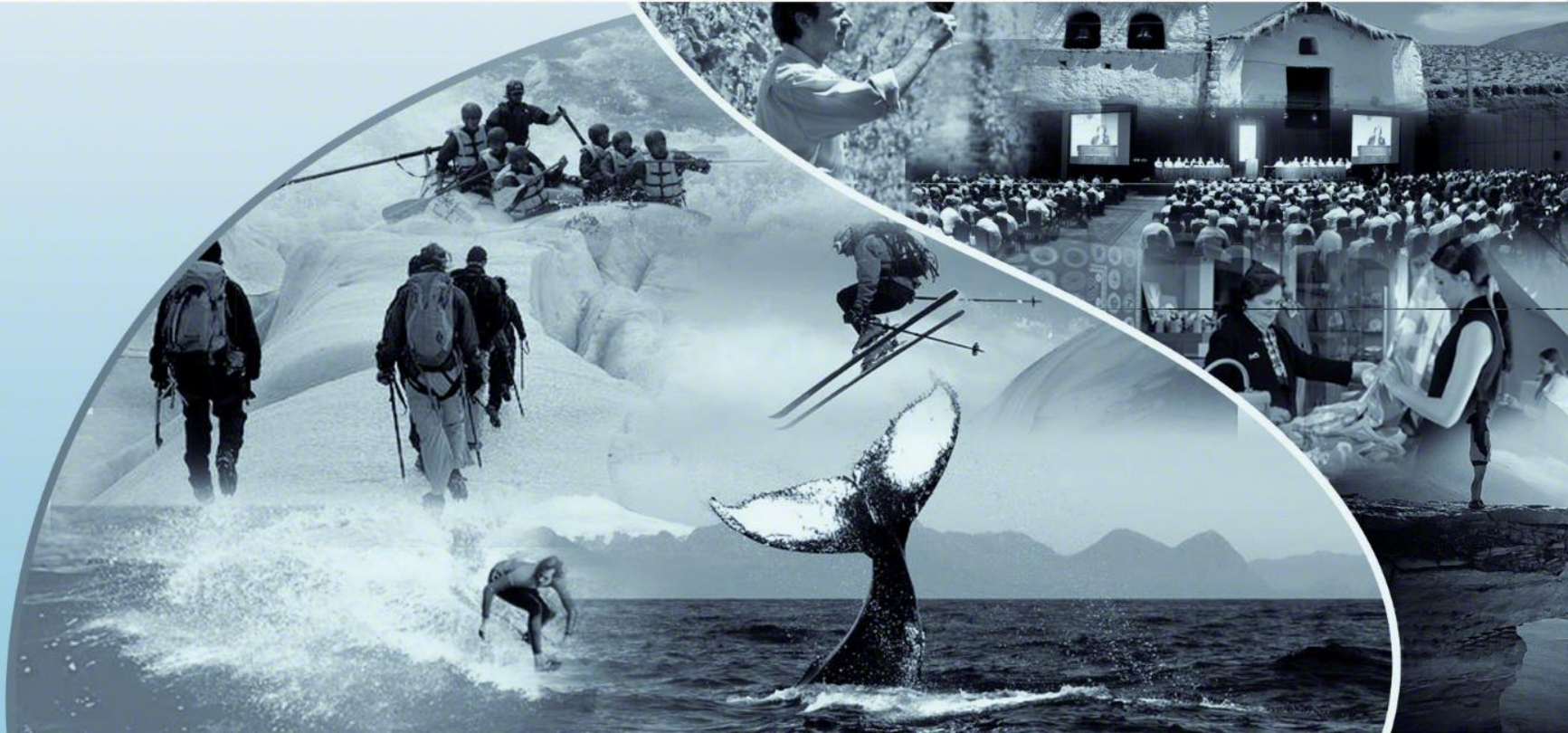


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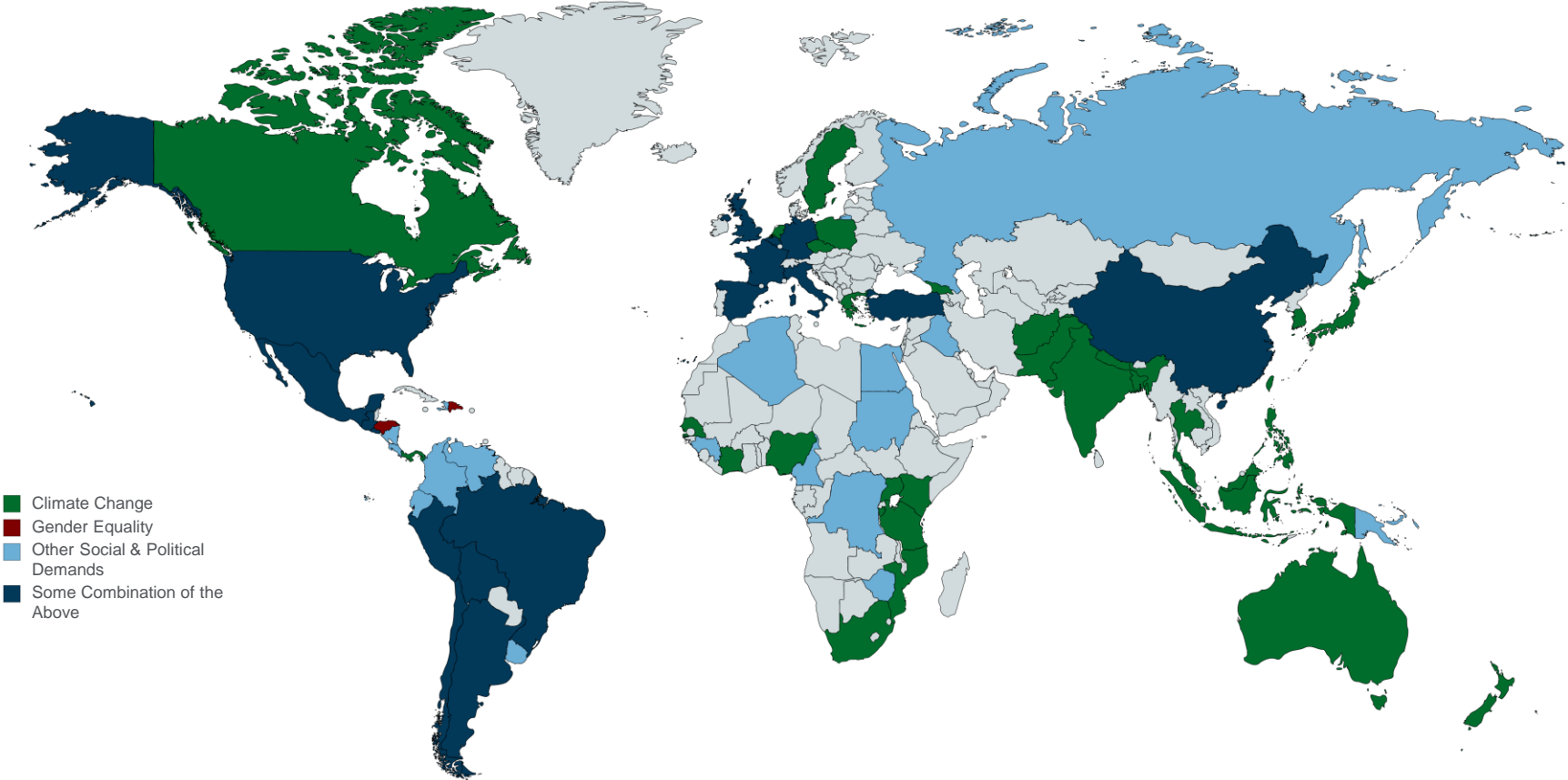


1. An Overview of Recent Events



Most of the world has witnessed cases of social unrest during 2019.

Countries with Episodes of Social Unrest during 2019

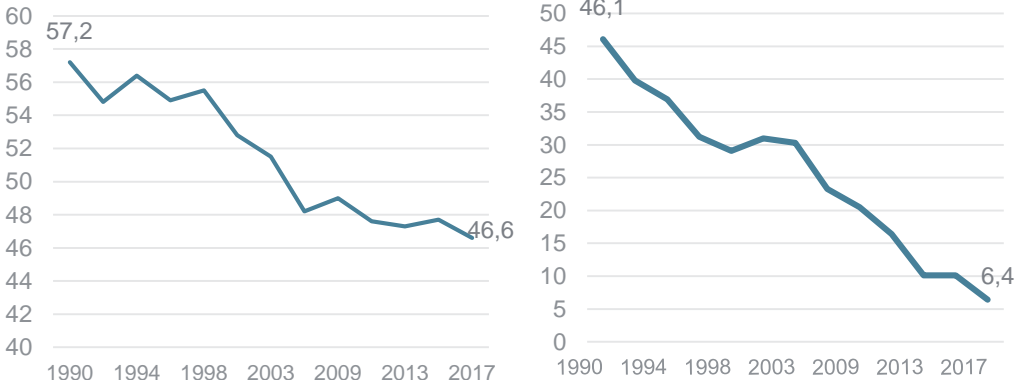


Source: Ministry of Finance.

Chile has made significant progress in reducing poverty and improving income inequality.

Chile's Gini Index & Poverty Rate*

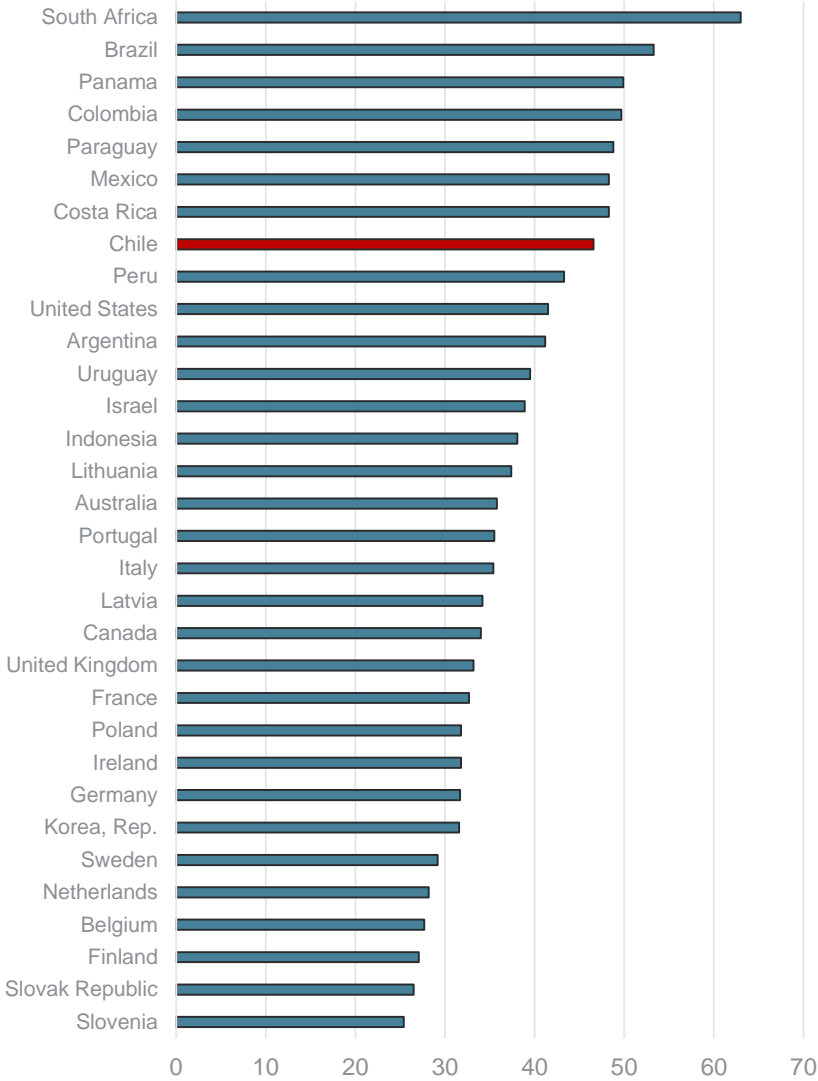
World Bank Estimates



* Measured as the headcount ratio of the population living at \$5.50 a day or below (2011 PPP)
 Source: Ministry of Finance, World Bank national accounts, poverty and GINI data, and OECD National Accounts.

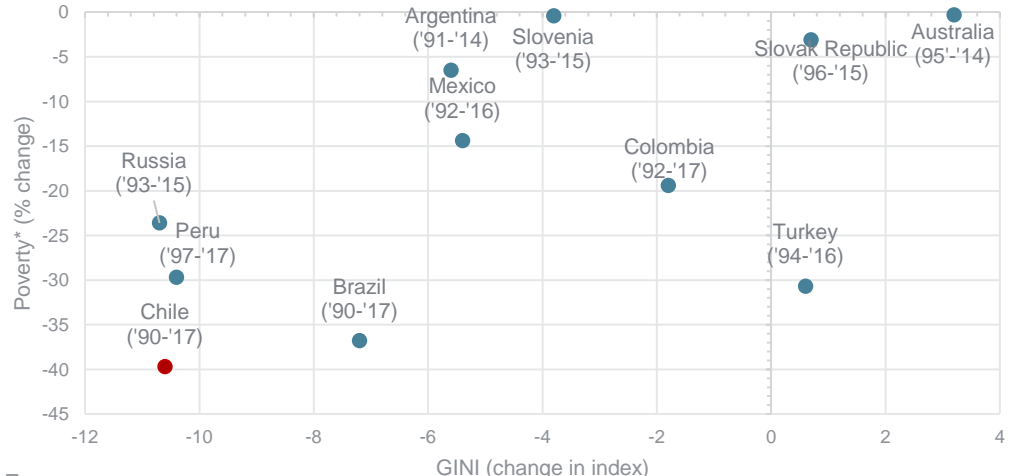
Gini Index for Select OECD & Latin American Economies

World Bank Estimates



Changes in Poverty & Gini Index Across Economies

World Bank Estimates



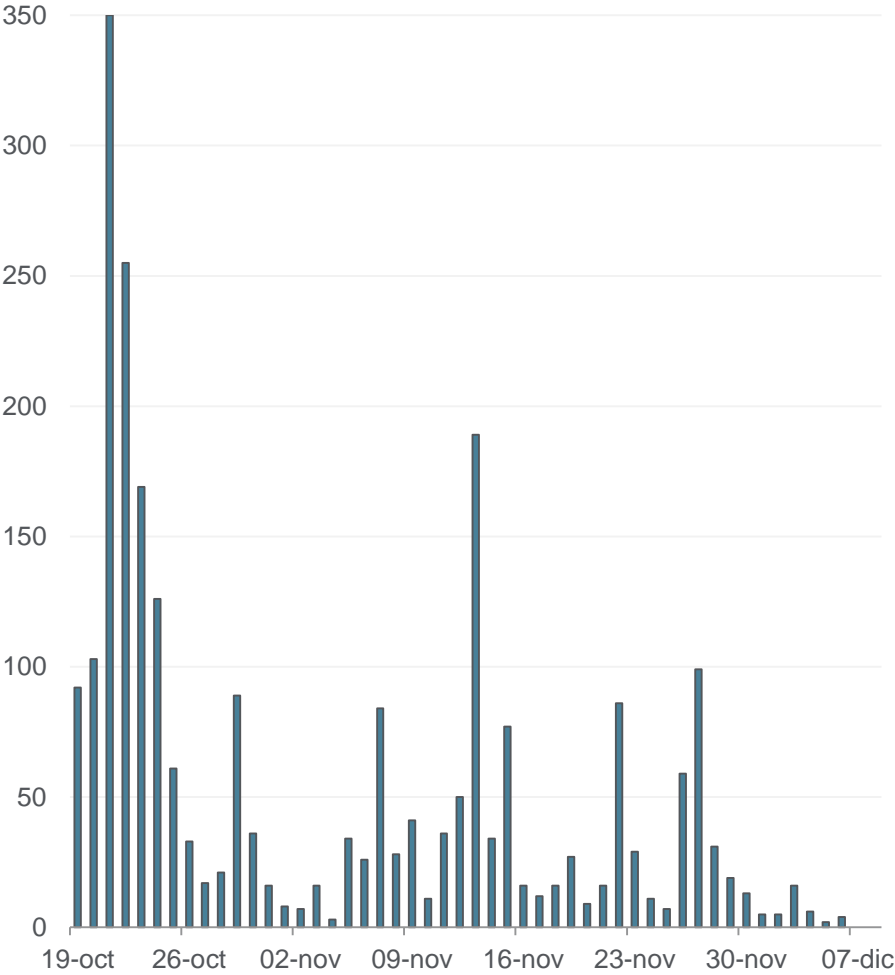
5 Source: Ministry of Finance, World Bank national accounts, poverty and GINI data, and OECD National Accounts.

Source: World Bank. Gini data for most recent year available in World Bank data.

A description of recent events in Chile.

Number of Severe Events in Chile*

Reported between October 19th – December 8th 2019



* Defined as looting, arson, and/or destruction of property.
Source: Ministry of the Interior.

Estimates of Capital Stock Loss

- Total: ~USD 1.6 billion, of which...
 - Public infrastructure: USD 750 million (primarily Metro – USD 380 million)
 - Private infrastructure: USD 850 million

Household & Business Confidence Indicators

IMCE: Monthly Business Confidence Index (12.2003-11.2019)



A value above (under) 50 means optimism (pessimism)
Source: ICARE / Adolfo Ibáñez University

IPEC: Consumers Expectations Index (03.2002-11.2019)



A value above (under) 50 means optimism (pessimism)
Source: Adimark

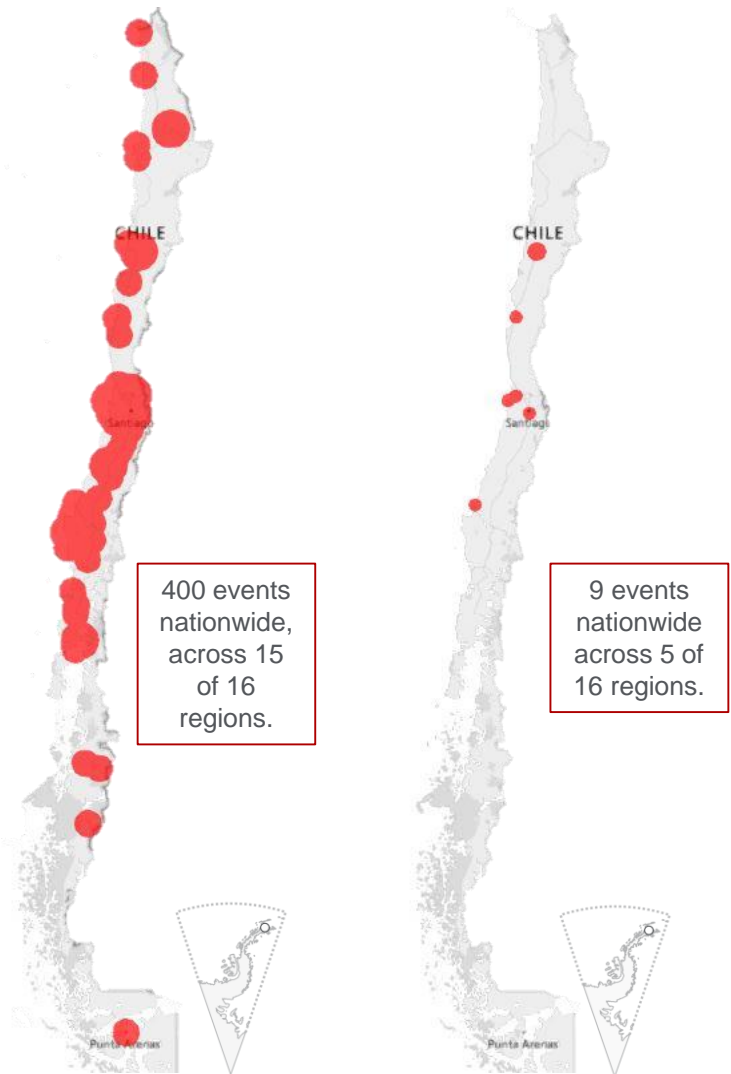
A description of recent events in Chile.

Reported Events Across the Country

Cases of arson &/or looting, size of points reflects frequency.

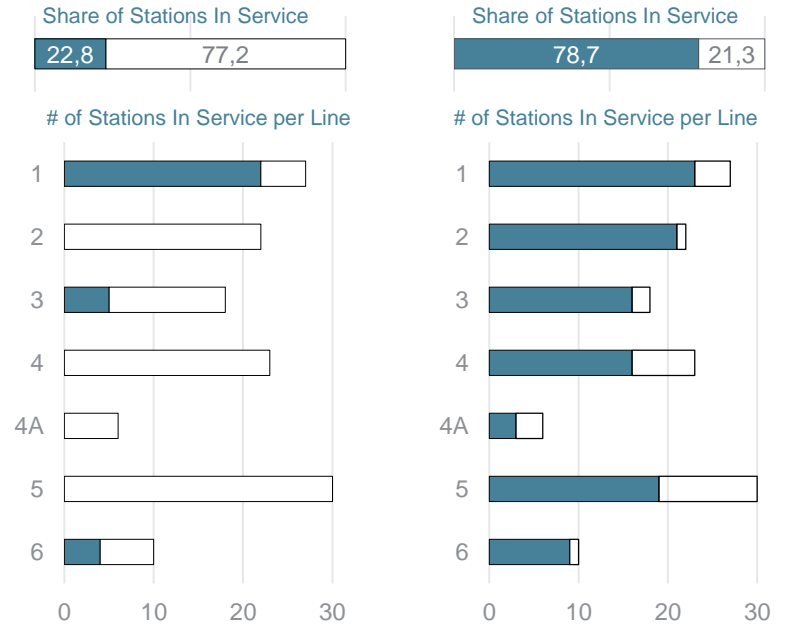
Between Oct.18-22, 2019

Between Nov.28 – Dec.2, 2019



Santiago's Metro Transportation System

October 23rd ■ In service □ Closed December 5th



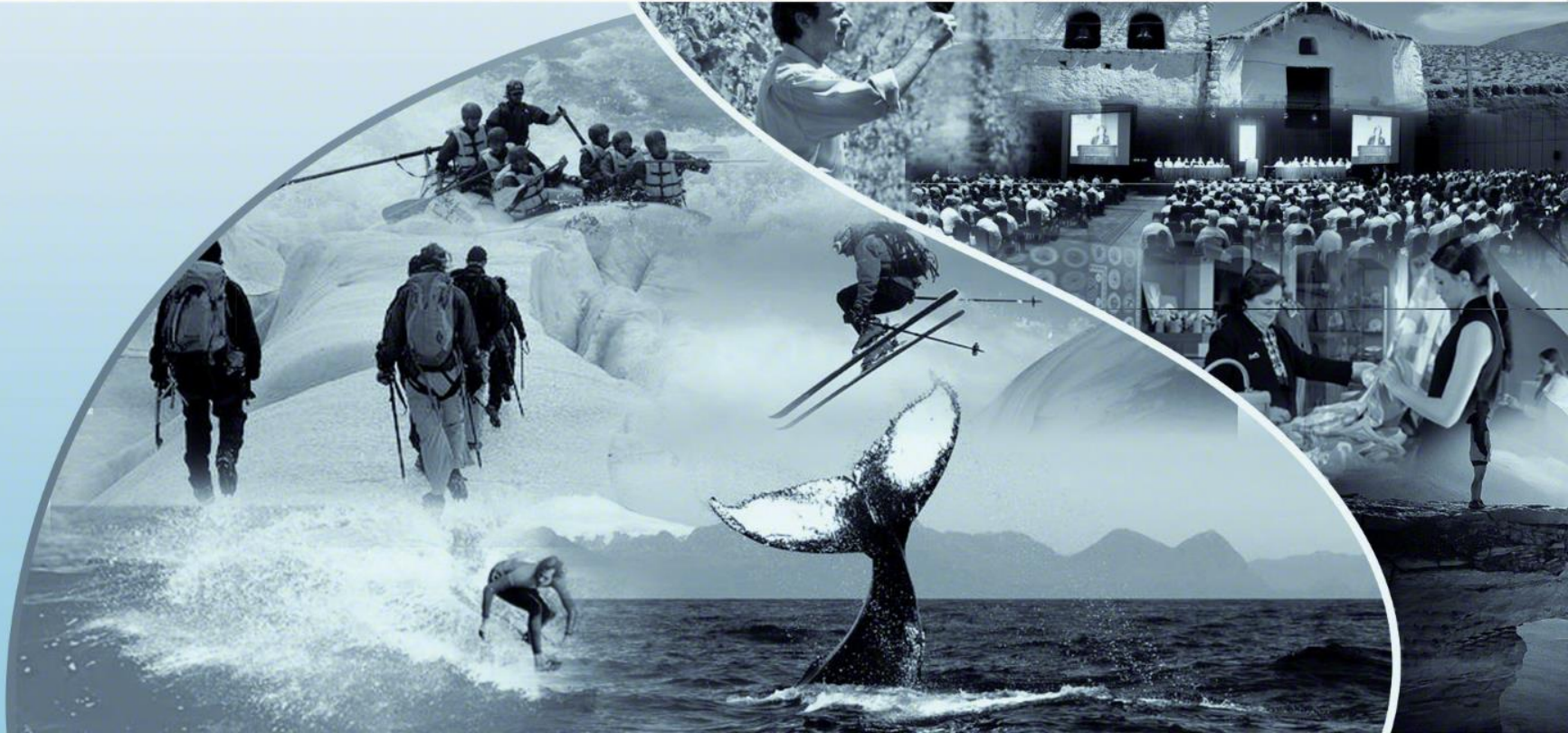
Source: Ministry of Finance.

Updated information available at:

CHILE reports



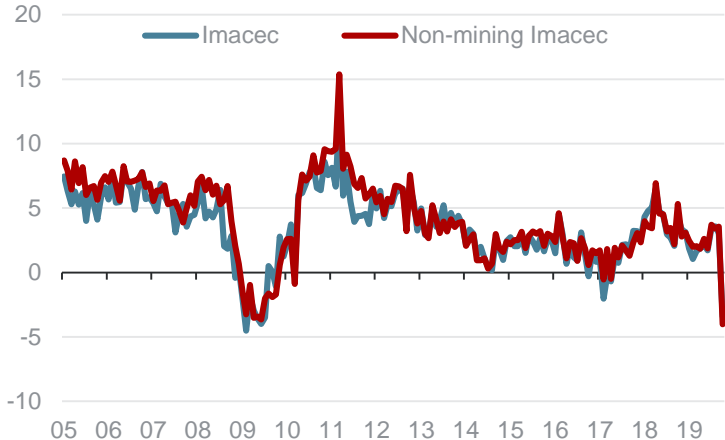
2. Recent Economic Developments & Policy Action



We recognized that these events would weigh on near term growth.

Monthly Activity Proxy (IMACEC)

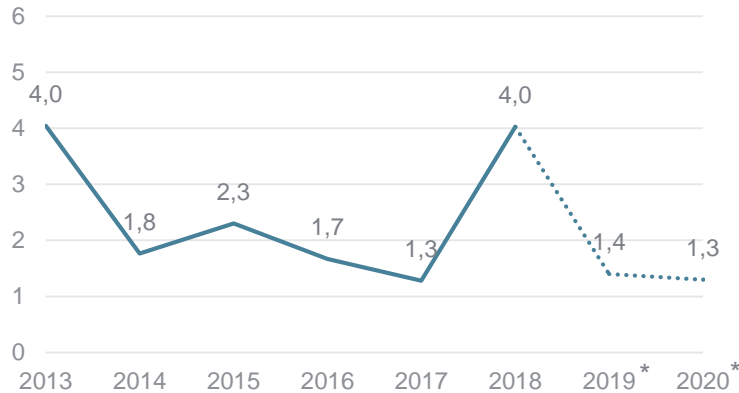
Percent, year-on-year (01.2005-10.2019)



Source: Central Bank of Chile.

Real GDP: Actual & Forecast

Percent, year-on-year

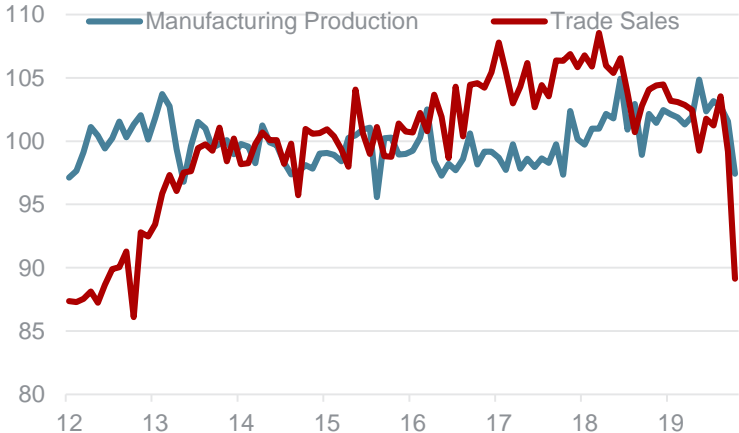


Source: Central Bank of Chile and Budget Office

(*) According to Ministry of Finance estimates.

Activity by Sector

Base 2012-2019=100 (01.2012-10.2019)

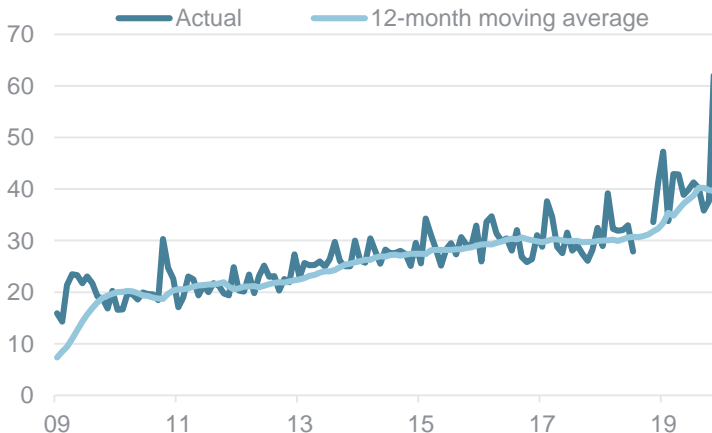


Seasonally adjusted series

Source: INE.

Job Terminations due to Firms' Needs*

People (Thousands), 01.2009-11.2019



Source: Ministry of Finance based on data from the Dirección del Trabajo.

* Necesidades de la Empresa.

In parallel, the MoF has responded swiftly, decisively, and consistently to mitigate the fallout.

➤ **2020 Fiscal Stimulus Package:**

- **Total amount of USD 5.5 billion (2.1% of GDP)**
- USD 4.8 billion in new initiatives
- USD 700 million announced to support Banco Estado (including CORFO-FOGAIN: credits to SMEs)

Government Funding Needs for 2020

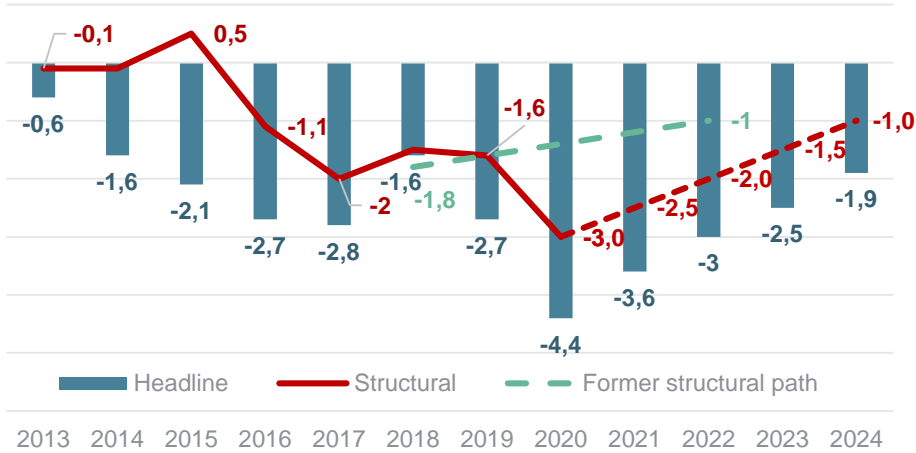


Three Pillars

I. Measures to Support Employment and Households	II. Working Capital Support for SMEs	III. Reconstruction and Boosting Public Investment
Reconstruction efforts to yield >100k jobs in 2020	Early tax refunds (20%-75% of the average provisional monthly payments)	Reconstruction (does not include Metro): USD 921 million
Firms that have been negatively affected by the unrest may reach an agreement with workers on a reduction in work hours	Easing VAT payment schedules	Investment in Regions: USD 480 million
Transitory Adjustments to the Unemployment Insurance System	Capitalization of Banco Estado, FOGAIN, and FOGAPE	Metro reconstruction: USD 380 million
- Increase in notional amount of payouts	Support for Tourism (US\$50 million in subsidies)	Housing and related: USD 350 million
- Wider access in eligibility criteria for use of funds	Faster payments to suppliers of the State	Water infrastructure: USD 200 million
- Increase in the number of monthly payouts	Special tax treatment for donations for SMEs	Investment fund for municipalities: USD 100 million
Accelerating the Transition of Pension Payouts from the Solidarity Pillar		Santiago-Melipilla Railroad: USD 1.5 billion in 5 years of which USD 200 million in 2020-2021
December one-time transfer of roughly CLP 50,000 for most vulnerable individuals		Contribution to the Common Municipal Fund: USD 50 million

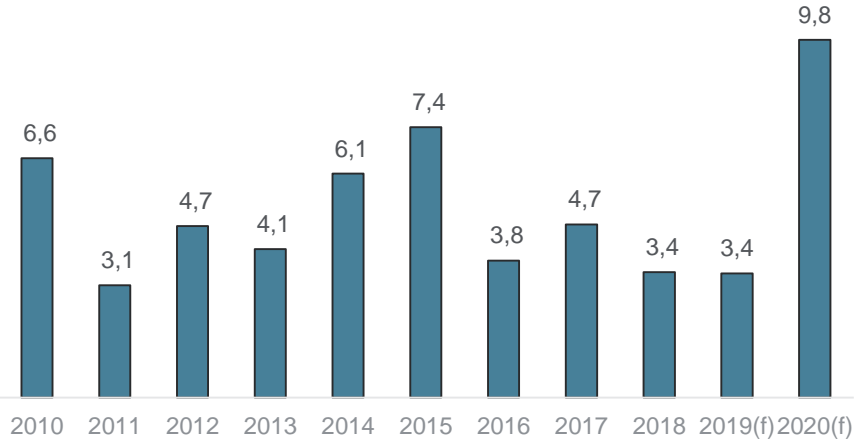
Our revised fiscal consolidation path balances the need to support the economy with the fiscal stimulus, address social and development needs, and stabilize debt in the medium-term

Fiscal Balance: Headline and Structural
Percent of GDP



Source: Budget Office.
2013-2014 with long-term parameters of each previous year; 2015-2017 with 2017 parameters; 2019-2022.
(* Headline fiscal balance estimated as of December, 2019.

Central Government Real Expenditure Growth
Percent, year-on-year

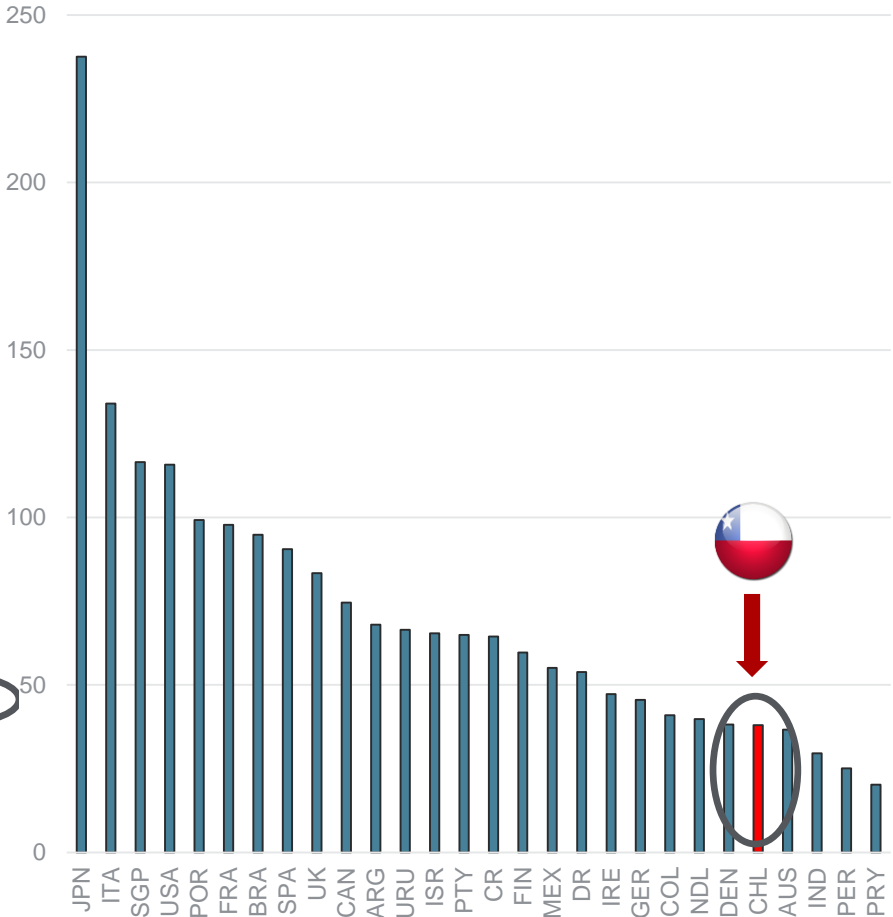
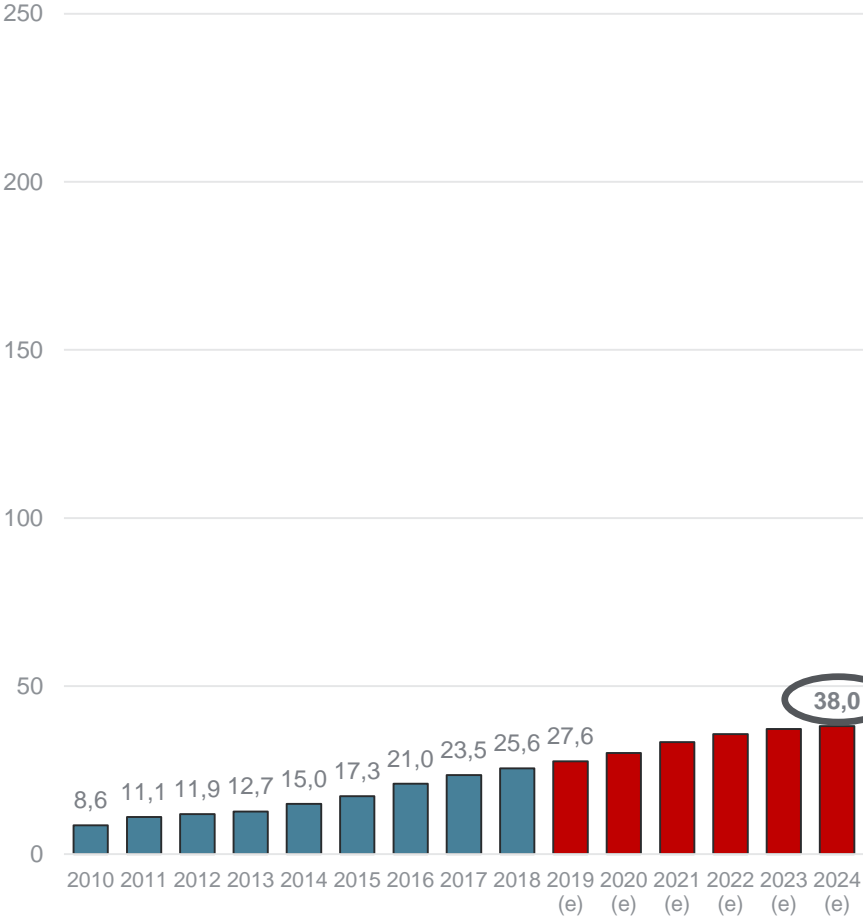


Source: Budget Office.

Public debt is projected to stabilize at a higher level, although well below peers.

Chile's Gross Public Debt
Percent of GDP

Gross Public Debt Forecast for Selected Economies
Percent of GDP, 2024



Source: Ministry of Finance and Budget Office.

Source: Ministry of Finance's 2024 forecast for Chile. All other forecasts are from IMF WEO October 2019.

The government has responded with agreements across the political spectrum on key reform issues.

1. Institutional Agreement on Mechanisms to Eventually Draft a New Constitution

- The agreement endorsed by Chile's main political parties outlines the following process:
 - ✓ A plebiscite on April 26th, 2020 will ask citizen's desire for a new constitution, and proposes two mechanisms:
 - ✓ A mixed Constitutional Convention, composed in equal parts by members of Congress and members elected by popular-vote, or
 - ✓ A Constitutional Convention in which all members are elected from civil society.

2. Broad-based Agreement on a Pro-growth and Progressive Tax Reform

- Greater revenues in 2020 of USD 1 billion, reaching USD 2 billion thereafter, due to:
 - Implementation of e-receipts, which will lower tax evasion
 - Increase in the personal marginal income tax rate, from 35% to 40%
 - Additional tax of 7.5-27.5bp on cumulative real estate assets in excess of ~USD 500,000
 - VAT tax on digital services
- To promote investment and support the economy, the tax bill considers a semi-integrated system for SMEs, and a 50% instantaneous depreciation on purchase of fixed assets for the next two years
- Commitment to institutionalize and institute spending reviews, to improve effectiveness and efficiency of public expenditure

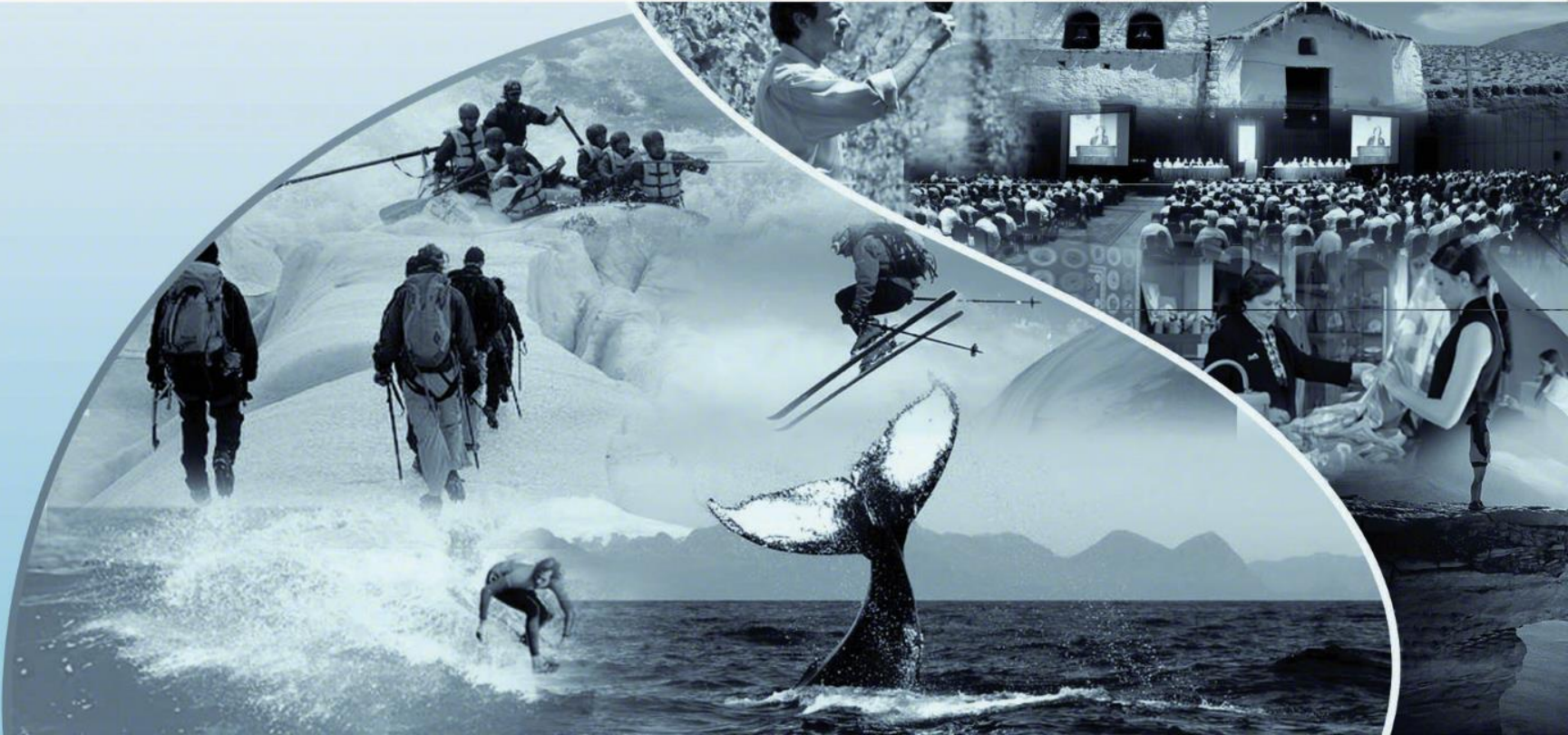
3. Agreement on Pension Reform & the Implementation of a Broad Social Agenda

- Targeted and gradual increase in minimum guaranteed pensions paid by the State
- Catastrophic health insurance
- Minimum guaranteed income complemented by the State
- Tax reform considers a reduction in property taxes for the elderly and disabled
- Metro price increases have been pared back
- Agreement on a payment plan for outstanding fines for highway tolls





3. Chile's Fundamentals Remain Strong

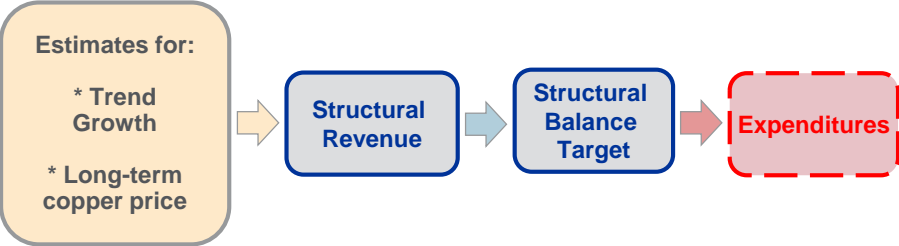


Rules-based fiscal policy supports the sustainability of public spending, while SWFs provide an important buffer.

Expenditures are set by permanent revenues and a structural target

- Structural balance rule smooths out spending throughout the business cycle and allows for:
 - Flows in/out from the FEES when cyclical revenues deviate from structural revenues
- Estimates for trend GDP growth and the long-term price of copper are delivered every year by an independent panel of experts via a transparent process

A Simplified Version of the Fiscal Rule



Recent Improvements to the Fiscal Institutional Framework

- Fiscal responsibility is further supported by an enhanced Autonomous Fiscal Council with more independence, its own resources, and a broader mandate
- Publication of quarterly macro-fiscal projections, in line with international best practice
- Open budget initiative allows for citizens to review the suppliers of the State online.

Chile’s Sovereign Wealth Funds

Supported by a solid institutional framework, clear rules on withdrawals and contributions, and in line with international best practices in transparency

Economic and Social Stabilization Fund (FEES)

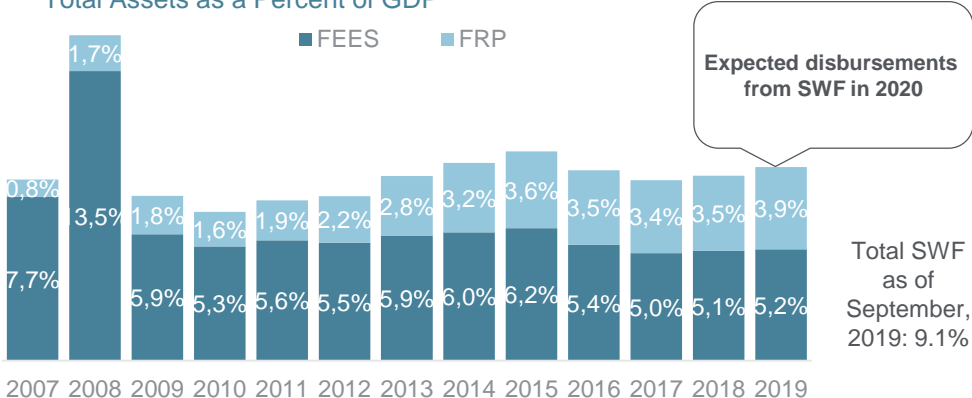
- Established in 2007, the FEES is designed to complement the structural balance rule providing the government with financing needs throughout the cycle
- The FEES is invested primarily in highly liquid assets with low levels of credit risk

Pension Reserve Fund (FRP)

- Created in 2006 to support state-financed pensions and old-age benefits over time
- New investment policy aims to obtain an annualized expected return in Chilean pesos of at least 2% above inflation in a ten-year horizon with at least a 60% probability

Sovereign Wealth Funds

Total Assets as a Percent of GDP

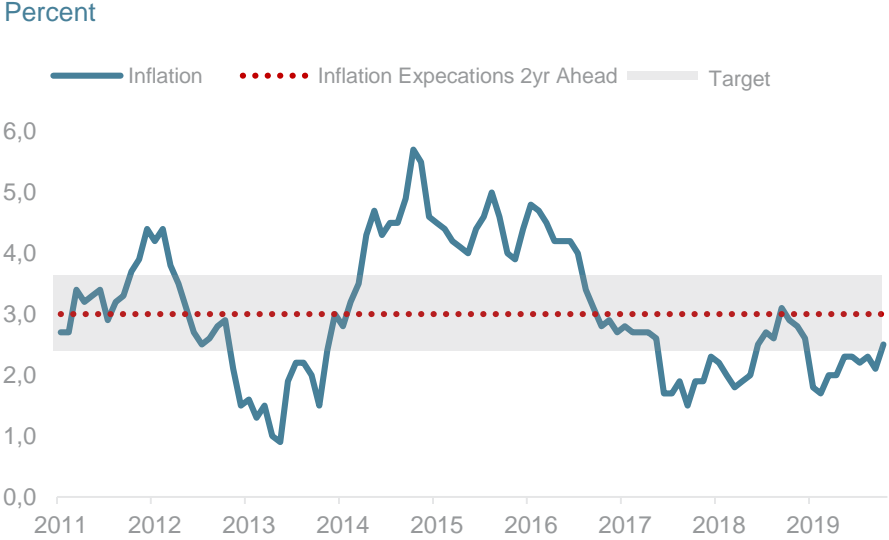


A credible inflation-targeting framework allows for effective counter-cyclical monetary policy, while the free-floating exchange rate facilitates the economy's adjustment to external shocks.

Independent Central Bank since 1989:

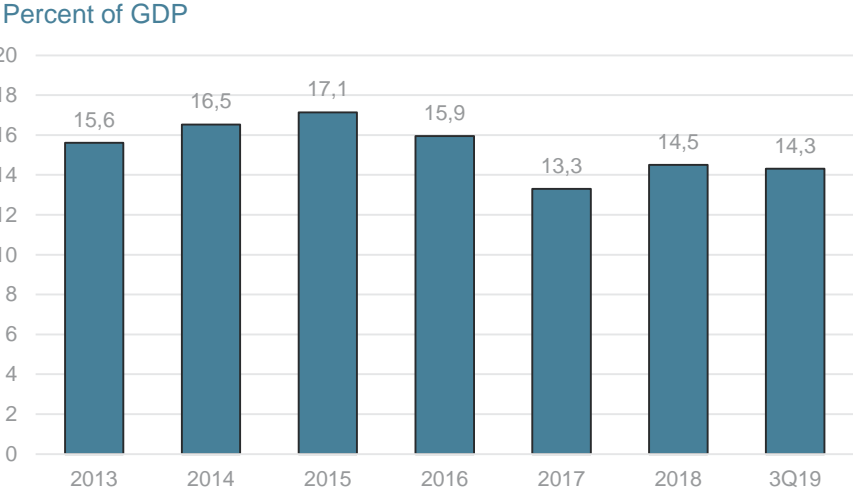
- The Bank adjusts the policy rate to ensure inflation expectations two-year's ahead remain anchored at 3%, with a tolerance range of +/- 1%
- Counter-cyclical monetary policy has contributed to smoother business cycles while ensuring price stability; inflation has averaged 3.2% since 2000
- Decision-making is driven by a Board of experienced professional economists, allowing for policy implementation without credibility risk
- The free-floating exchange rate plays a crucial role in facilitating adjustments to external shocks. The Central Bank has intervened in 5 exceptional circumstances since 2001.

Inflation, Target, & Inflation Expectations

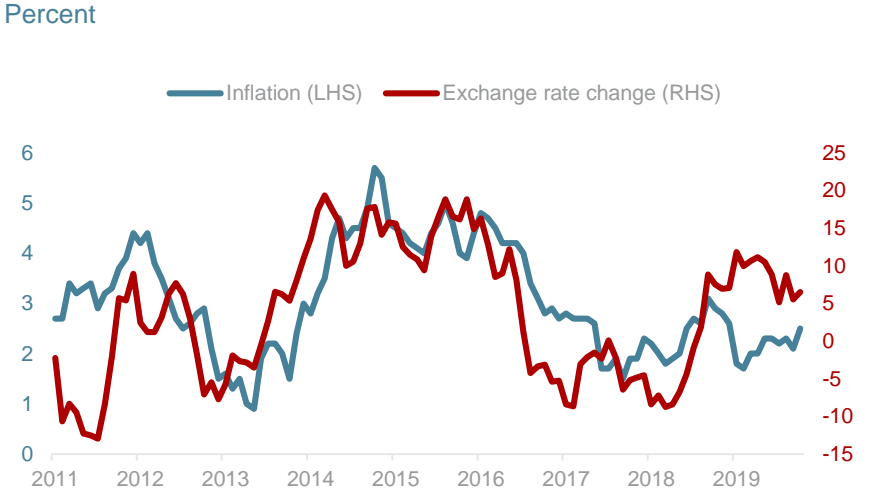


Source: Central Bank of Chile. Inflation expectations as measured by the Central Bank EEE survey.

Central Bank's International Reserves



Inflation and Exchange Rate Dynamics¹

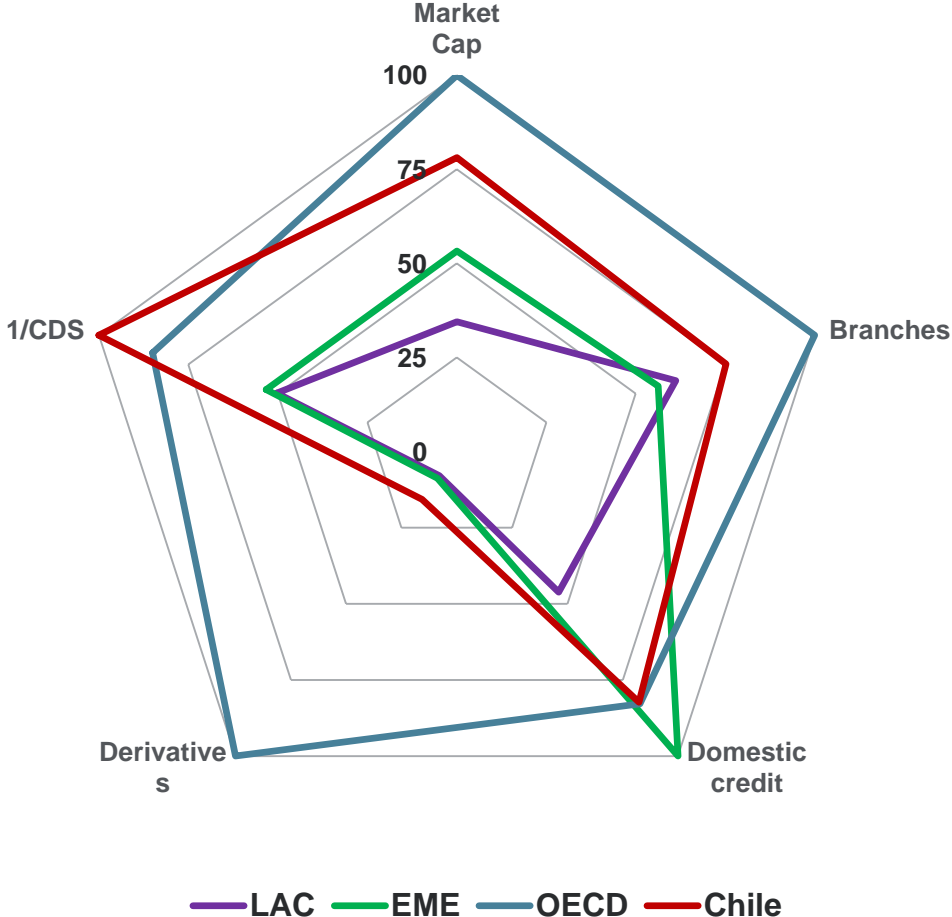


Source: Central Bank of Chile
 1. Chilean peso with respect to the US dollar; positive data reflect a nominal depreciation of the former.

The Chilean financial sector is among the most developed in the emerging world.

Chilean Banking System Development*

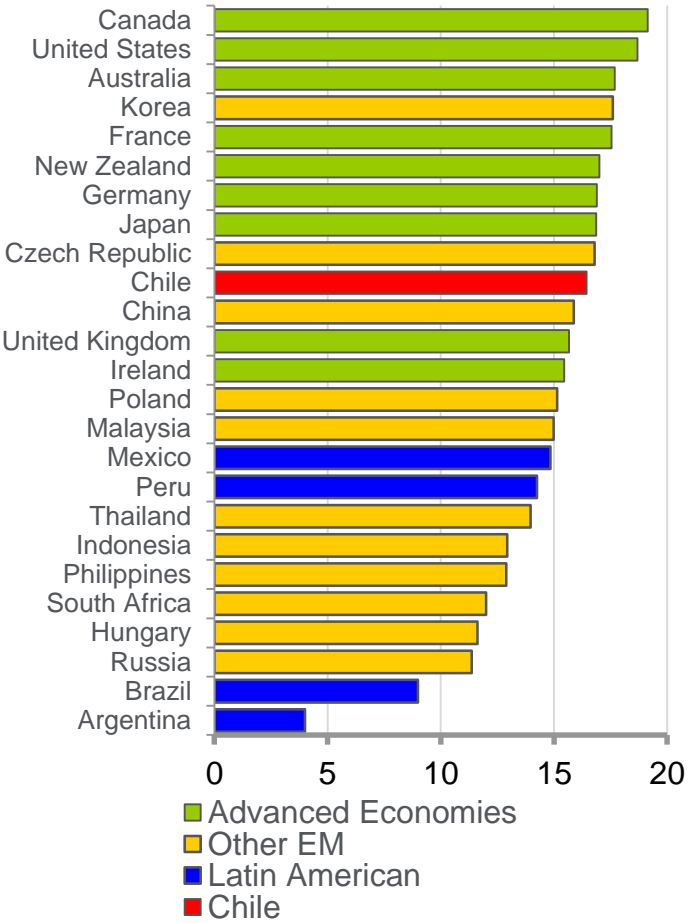
Relative Percent



(*) Relative to the maximum on each category until 2018 or last available data.
Source: Central Bank of Chile, based on data from BIS, WB, IMF, and Bloomberg.

Banking Strength Index*

Percent



(*) Higher value implies a greater banking strength.
Source: Moody's Average Long-Term Ratings, December 3rd 2019.

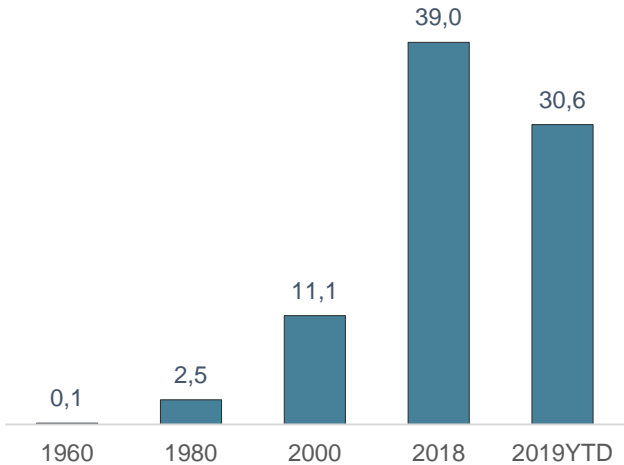
Chile continues to be firmly committed to trade, and plans on further deepening, broadening, and modernizing its trading relationship with the world.

Internationalization of the Chilean Economy:

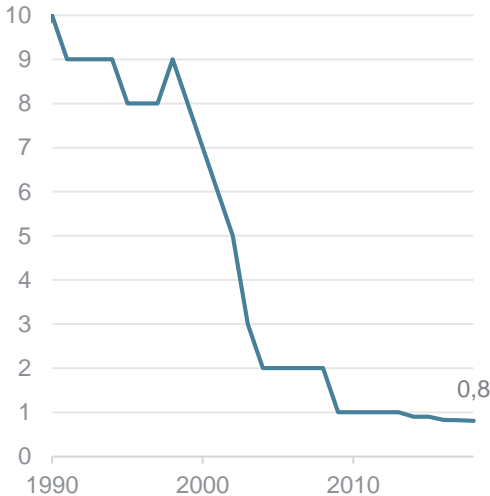
- Chile has 28 free trade agreements (FTAs), covering 64 economies, that represent roughly 86% of global GDP
 - 95% of exports are delivered to economies with FTAs
- First global exporters of (2017): Copper, fresh grapes, blueberries and plums, dehydrated apples, mussels, salmon fillets and frozen trout fillets, iodine and lithium

Free Trade Agreements (28)			
Bolivia (1993)	Korea (2004)	Cuba (2008)	Malaysia (2012)
Venezuela (1993)	EFTA (2004)	Panama (2008)	Vietnam (2014)
Mercosur (1996)	USA (2004)	Peru (2009)	Hong Kong (2014)
Canada (1997)	P4 (2006)	Australia (2009)	Thailand (2015)
Mexico (1999)	China (2006)	Colombia (2009)	Pacific Alliance (2016)
Central America (2002)	India (2007)	Ecuador (2010)	Uruguay (2018)
European Union (2003)	Japan (2007)	Turkey (2011)	Argentina (2019)

Non-Copper Exports
USD billion



Average Import Tariff 1990-2018
Percent



Domestic Market Access
Ranking, 2016 (of 136 countries)

Ranking	Country	Score
1	Hong Kong SAR	7
2	Singapore	7
3	Chile	6,4
6	New Zealand	6,4
15	Australia	5,8
20	Canada	5,6
31	Portugal	5,4
46	France	5,3
51	Germany	5,2
56	United States	5,2
76	South Africa	4,9
109	Brazil	3,9

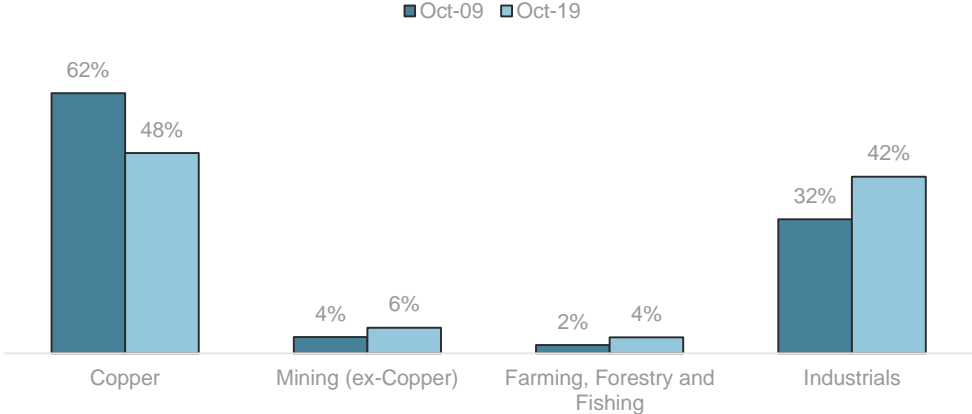
Chile's export sector continues to diversify in terms of products and destination, with the currency supporting greater growth in 2020.

Chile continues to diversify its economy:

- Industrials; Farming, Forestry and Fishing exports have increased their share of total exports
- Chile is the main exporter of salmon and cellulose in the world. Salmon exports have grown from 1.6% of total exports in 2010 to 6.3% in 2018
- Farming exports, particularly blueberry and cherry exports have experienced strong growth in recent years. Cherry exports have almost tripled since 2010 and blueberry exports more than doubled since 2010

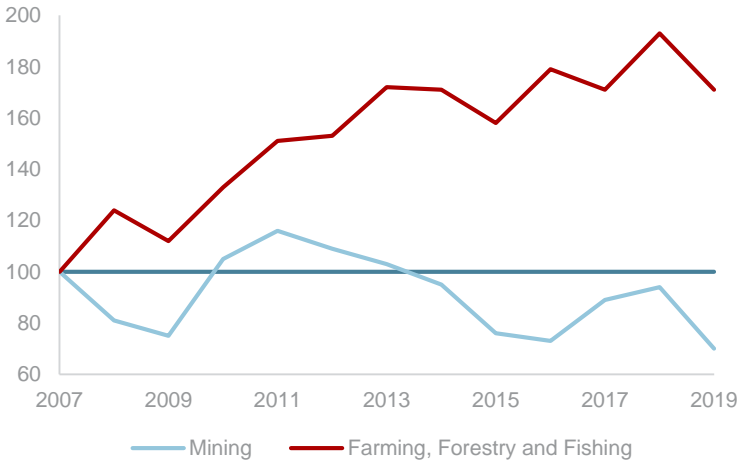
Share of Exports by Category

Percent of total merchandise exports



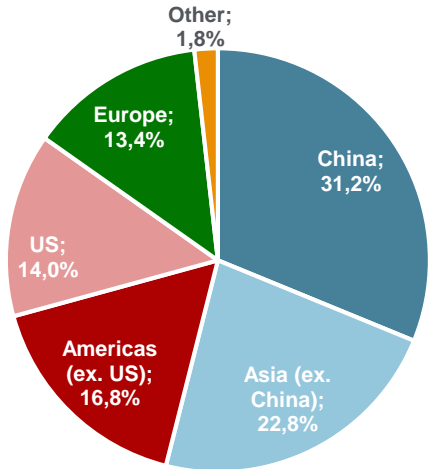
Merchandise Exports

2007=100, US\$ FOB



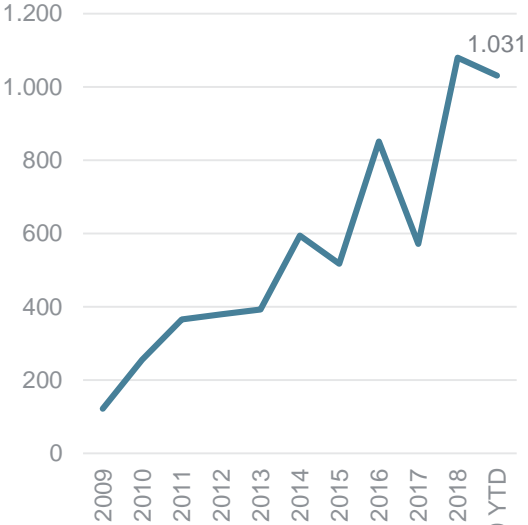
Exports by Destination

Percent of total merchandise exports Jan – Oct 2019



Cherries Exports

USD million (FOB)



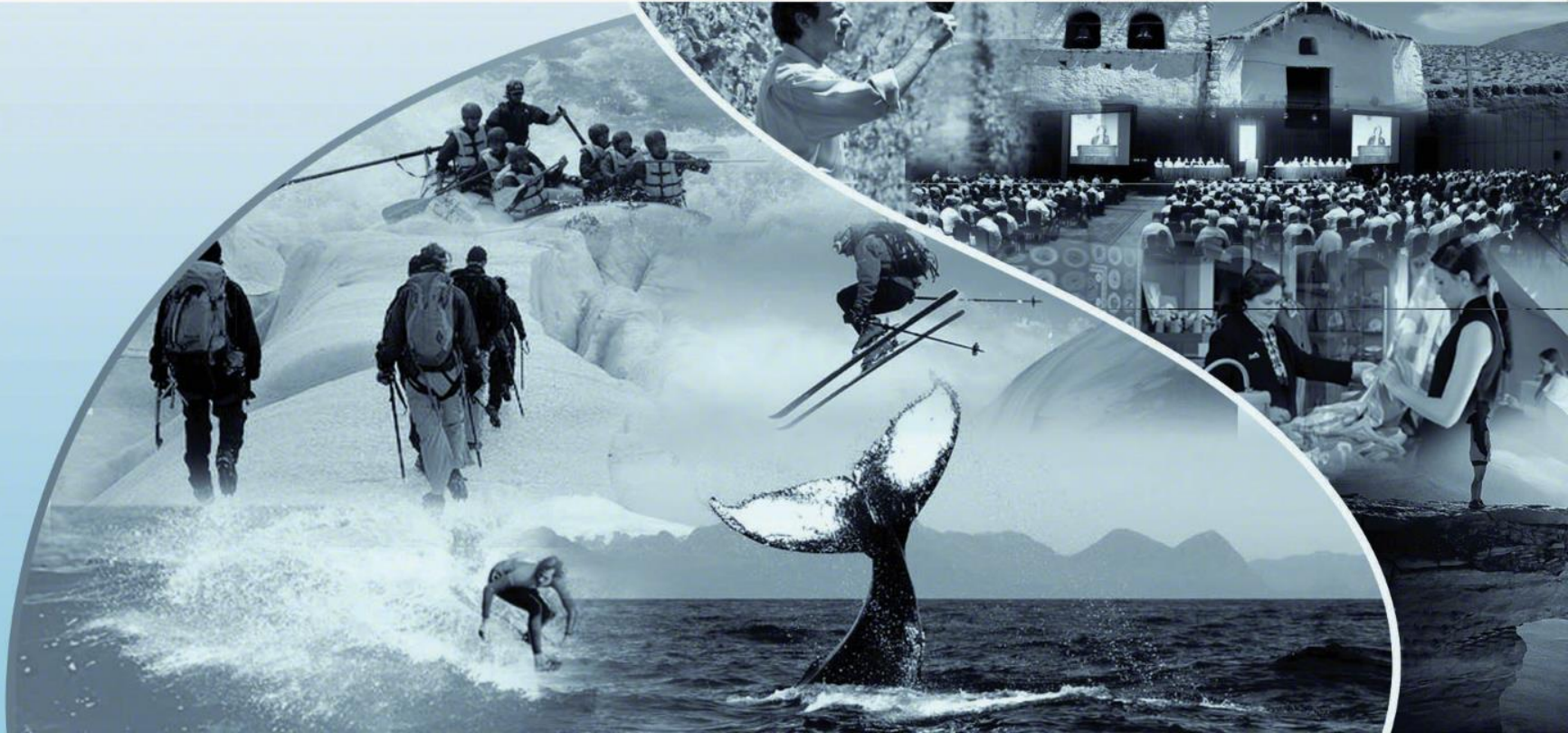
Source: Central Bank of Chile.

Source: Central Bank of Chile.

Data as of November, 2019, Source: Central Bank of Chile.



4. Sovereign Debt Issuance Plan and Strategy



Debt management strategy and 2020 Issuance Plan.

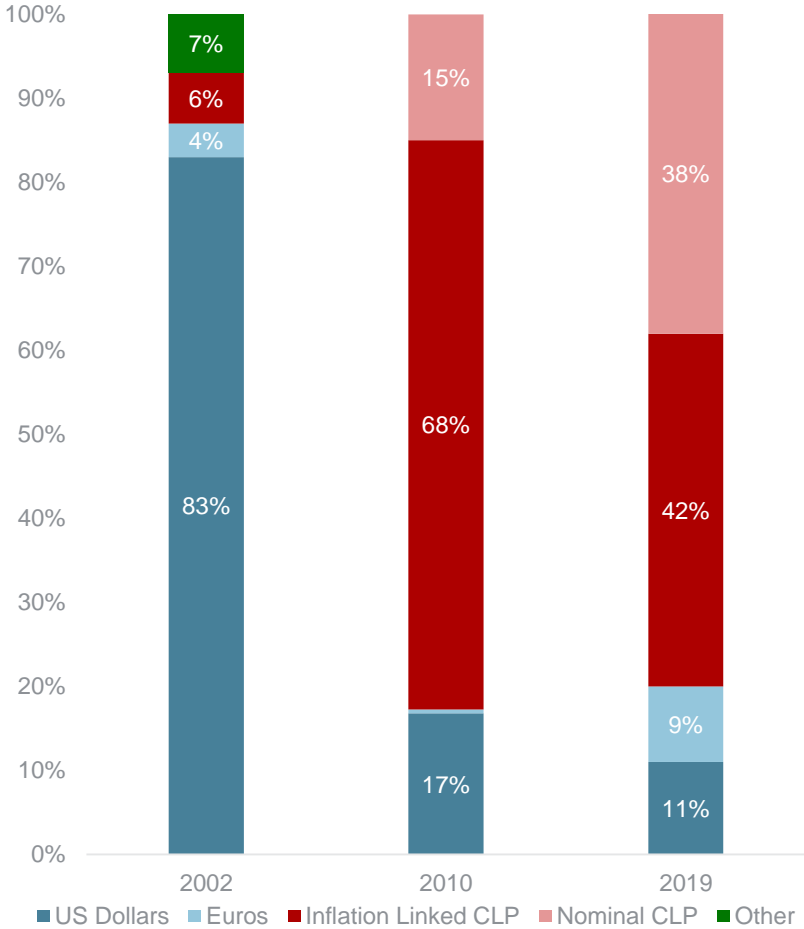
Strategy

- **Domestic:** to develop and lengthen yield curves (nominal and real), while deepening liquidity by fostering greater participation of non-residents
 - Recent issuances have strengthened new benchmarks and have created longer tenors, extending the debt maturity profile in line with international standards
- **External:** to establish benchmarks for Chilean companies in international capital markets
- **In addition:** to promote the development of a green asset class (social/green bonds) that attracts foreign investment in support of the country’s sustainable infrastructure needs, while diversifying the investor base

2020 Issuances

- Up to USD 9.0 billion, of which USD 8.7 billion through bond issuances
- Local Currency issuances for USD 5.4 billion considers further strengthening benchmarks in inflation-linked and nominal curves
- Of these USD 5.4 billion in local currency, USD 2 billion in book-building Euroclearable issuances
- Foreign currency issuances of up to USD 3.3 billion

Debt Composition by Currency
Percent of total



Source: Ministry of Finance; Public Debt Report

The Ministry of Finance has made significant progress towards improving liquidity in the local fixed income market in recent years.

➤ **Concentration of trading in key benchmarks, achieved by liability management operations in local currency bonds**

- Aimed at creating strong references both in inflation-linked and nominal curves
- Implemented by exchanging illiquid & low outstanding bonds (“non benchmark bonds”), with “benchmark bonds” with high liquidity and larger outstanding amounts

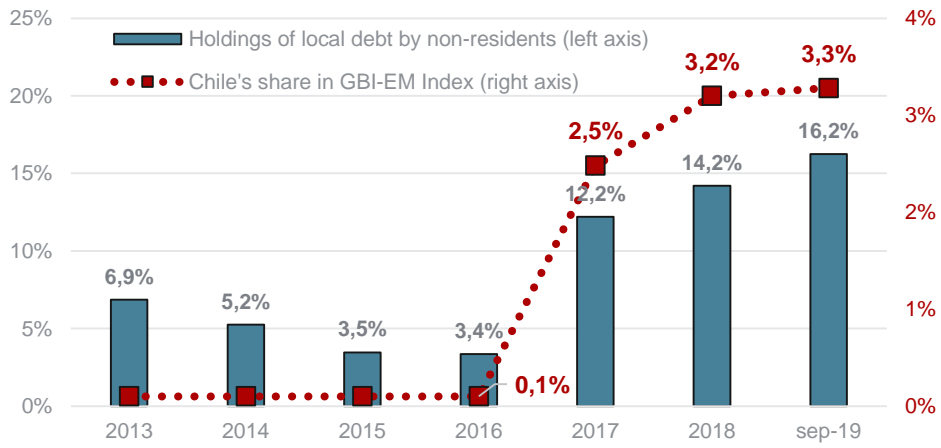
➤ **Legislative adjustments that facilitated Euro-clearability**

➤ **Greater weight in the GBI EM Bond index**

- Three local Euro-clearable bonds issuances since February 2017. These have allowed for a broader inclusion of Chilean bonds in the GBI Emerging Market Bond Index.
- Chile’s share in this index increased from 0.10% in 2016 to 3.2% by end-2018.

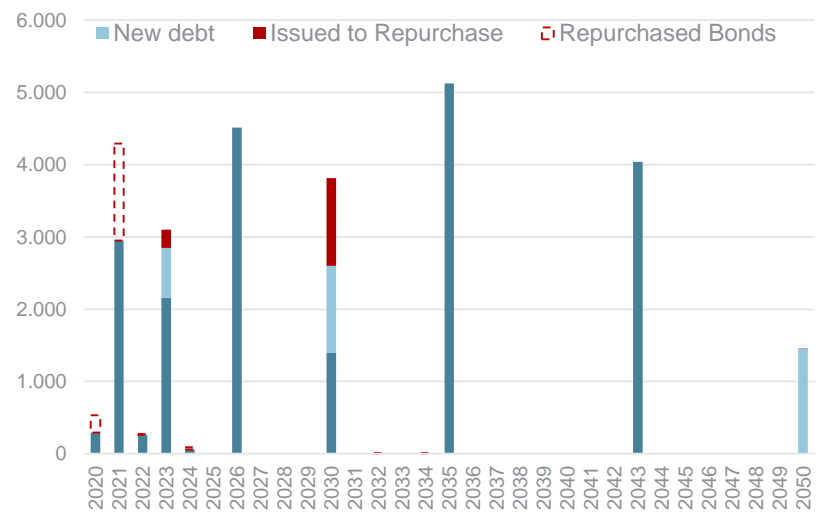
Non-resident Holdings of LC Debt & GBI-EM Share

Percent of total



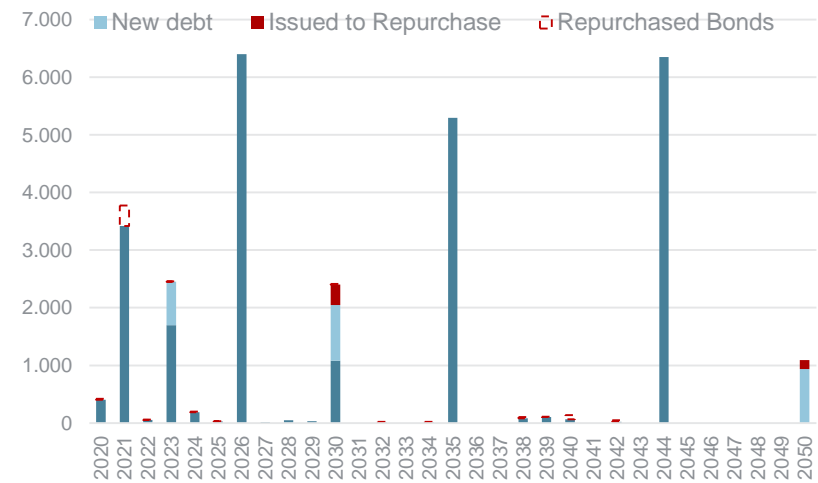
Maturity Profile: Nominal Curve

USD million



Maturity Profile: Inflation linked Curve (UF)

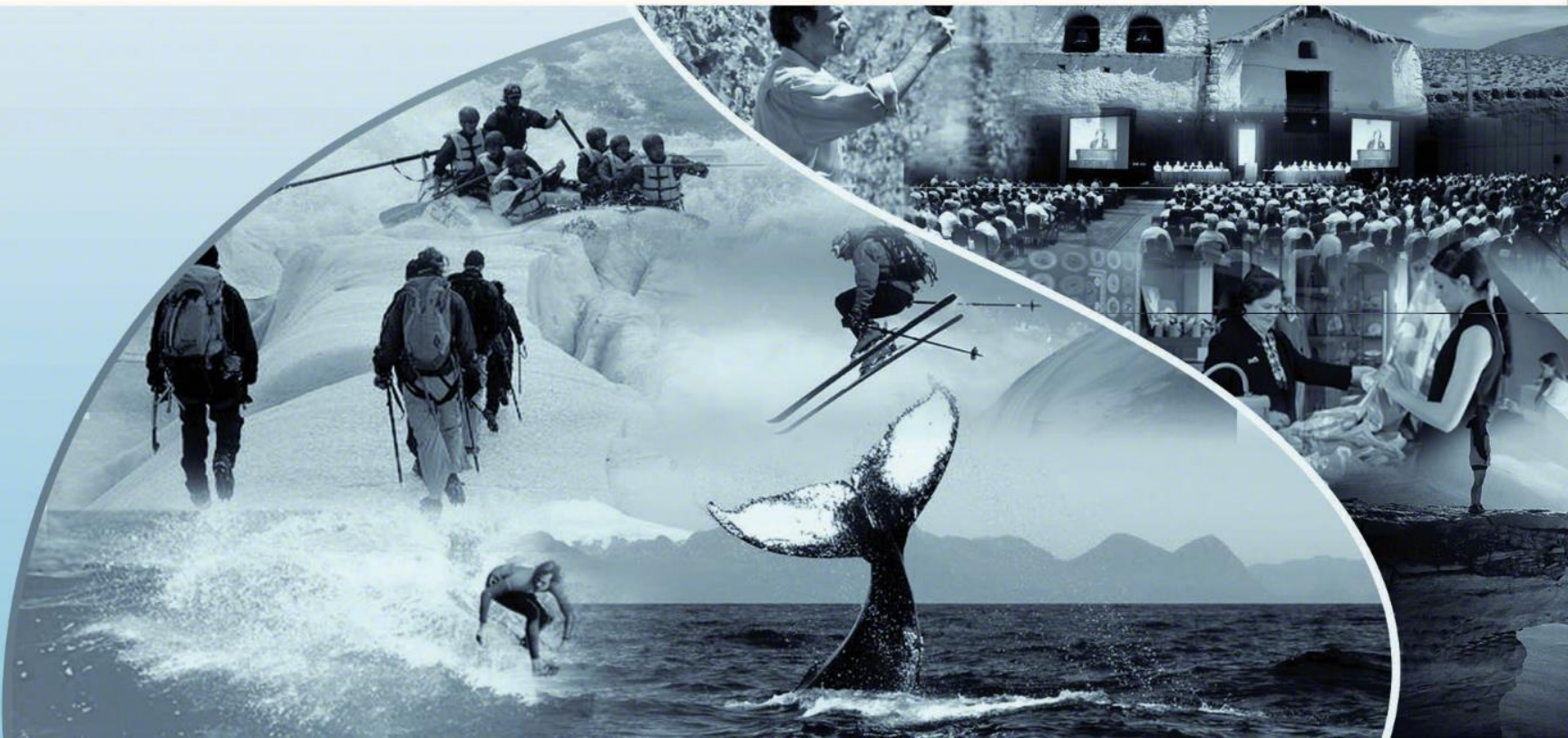
USD million



Source: Ministry of Finance



5. Sustainable/Green Debt Plan



Chile has a strong commitment to climate change mitigation and environmental protection.

Chile's strong commitment to Climate Change

- Chile ratified the Paris Climate Agreement in February 2017, committing to reduce its CO₂ emissions per unit of GDP by 30% by 2030, from 2007 levels
- The Government of Chile is proposing a paradigm shift in the life cycle management of public works, and in November 2017 the Ministerial Council for Sustainability approved the Climate Change Mitigation and Adaptation Plan for Infrastructure Services
- According to the Intergovernmental Panel on Climate Change (IPCC) "Special Report on Global Warming of 1.5°C, Chile's exposure to climate change is one of its main challenges
- As part of Chile's national development plan, several ministries, including the Ministry of Finance have created new specialized areas oriented to face climate change, promoting public-private cooperation
- 2017-2022 National Action Plan for Climate Change, where Chile is committed to the Promotion of non-conventional renewable energies via an energy efficiency law
- Energy Sector Mitigation Plan (2017): gradual phase out of coal-fired power generation (*in early 2018, Chile announced that it will not build any new coal-fired power plants without carbon capture systems*)
- Electro Mobility Strategy (2017): transition to 100% electric public transport by 2050

Rationale for issuance

Chile believes the development of a local and international green bond market represents a unique tool to effectively channel its sustainability efforts and finance the country's sustainable development strategy

- Chile is promoting the development of a green asset class to attract foreign investment, in order to support the country's sustainable infrastructure needs
- As the first sovereign Green Bond issuer in the Americas, Chile intends to promote a regional dialogue to enhance the consistency and credibility of future issuance from the region and contribute to the development and acceptance of this asset class by issuers and investors

Leading global and local action on climate change



Chile committed to cut greenhouse gas emissions to net zero by 2050



Chile currently co-chairs the World Bank's Finance Ministers Coalition for Climate Action



Santiago Stock Exchange has a dedicated segment for Green and Social Bonds

<p>Use of Proceeds</p>	<div style="display: flex; justify-content: space-around; text-align: center;"> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Clean Transportation</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Energy Efficiency</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Renewable Energy</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Living Natural Resources, Land Use and Marine Protected Areas</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Water Management</div> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; width: 15%;">Green Buildings</div> </div>
<p>Project Evaluation and Selection</p>	<ul style="list-style-type: none"> ▪ Selection of eligible green projects through a decision-making process by the Ministry of Finance ▪ Green Bond Committee, led by the Ministry of Finance with the support of the main ministries in charge of the execution of the public budget, to review and validate the selection of eligible green projects
<p>Management of Proceeds</p>	<ul style="list-style-type: none"> ▪ Net proceeds to be transferred to the general account of Chile and each specific green bond issuance to be linked to a specific pool of eligible projects ▪ Total value of eligible projects to be higher than the amount of issuance, to avoid the necessity to include new projects in event of projects no longer eligible, and includes previous year and current year expenditures and, if necessary, future expenditures ▪ Until full allocation, unallocated proceeds managed in line with the liquidity management policy
<p>Reporting</p>	<ul style="list-style-type: none"> ▪ Annual reporting on: <ul style="list-style-type: none"> ▪ Proceeds allocation (per category) ▪ Output (e.g. km of train lines; installed capacity in MW) and impact indicators (e.g. CO₂ avoided, energy saved)
<p>External Review</p>	<ul style="list-style-type: none"> ▪ Second Party Opinion from Vigeo Eiris on the Framework ▪ CBI certification ▪ Annual Assurance Report by an external auditor on the allocation report and its conformity with the Framework

Green bond current project portfolio examples.

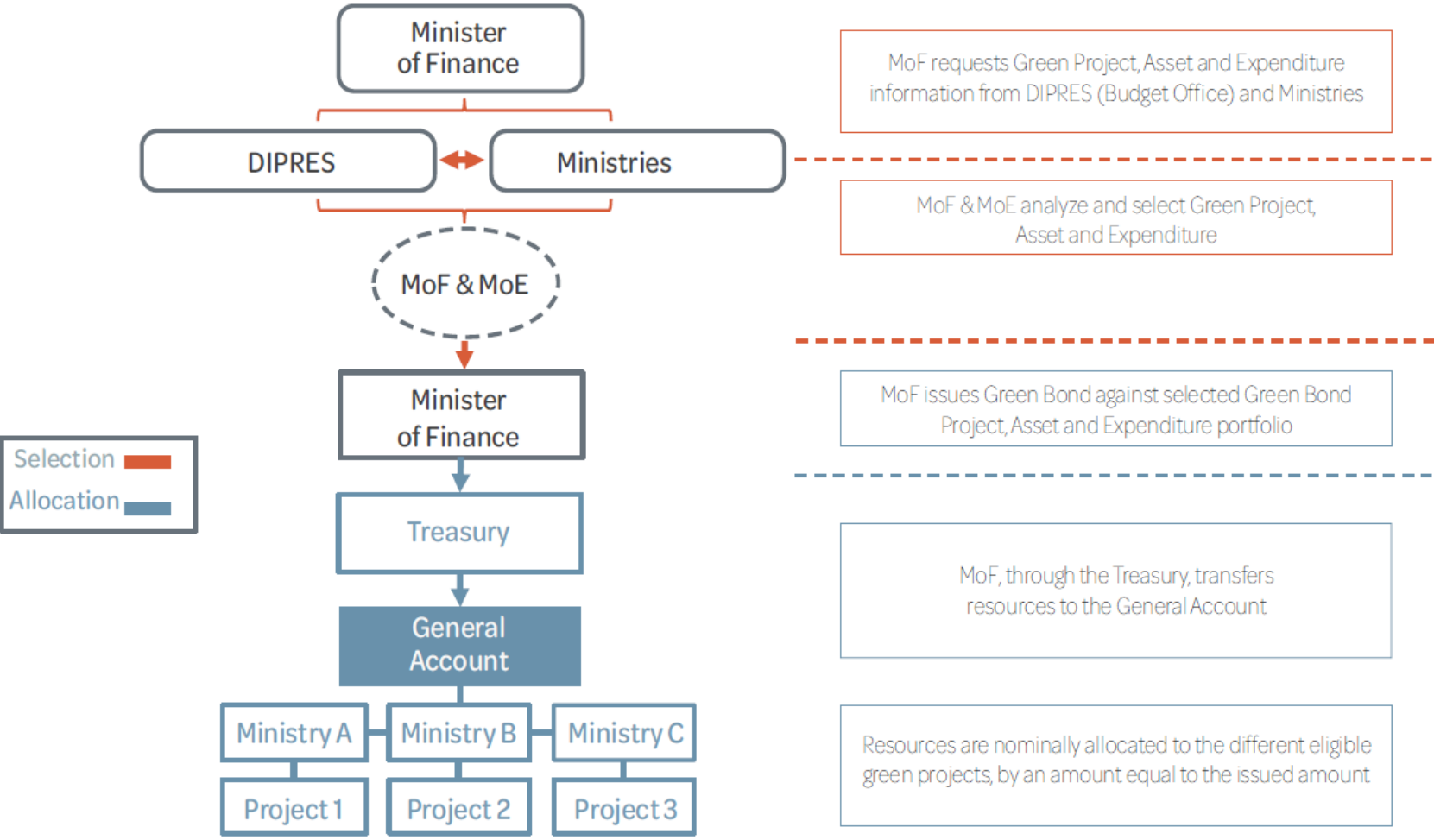
Eligible Category	Ministry / Department	Project	Description	Impact	Estimated Disbursement
Clean Transportation	Metro	Line 4 of Metro Extension	<ul style="list-style-type: none"> 4,3 km route. It will benefit 568 million people 	<ul style="list-style-type: none"> This project generates an important environmental impact, reducing passenger transport from bus services and private cars to metro 	<ul style="list-style-type: none"> US\$ 403 mm
	Metro	Line 8 of Metro	<ul style="list-style-type: none"> 19km route that connects with line 1. It will benefit 1.6 million people in four communes and will allow decongesting lines 4 and 5 	<ul style="list-style-type: none"> This project generates an important environmental impact, reducing passenger transport from bus services and private cars to metro 	<ul style="list-style-type: none"> US\$ 1.9bn
	Ministry of Transport and Telecomm.	Metrotren Alameda-Melipilla	<ul style="list-style-type: none"> Enabling the commute between Melipilla and Santiago 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization from the west to Santiago, reducing bus and car transport. Project is not yet operational 	<ul style="list-style-type: none"> US\$1.53bn
	Ministry of Transport and Telecomm.	Metrotren Alameda-Chillán	<ul style="list-style-type: none"> Express passenger service between Chillán and Santiago 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization from the south of the Metropolitan Region area to Santiago, reducing bus and car transport. Project will focus on renovation and modernization of existing service 	<ul style="list-style-type: none"> US\$95mn
	Ministry of Transport and Telecomm.	Metrotren Coronel-Lota	<ul style="list-style-type: none"> Enabling passenger service between Coronel - Lota 	<ul style="list-style-type: none"> Mitigation. Meet the demand for mobilization between Coronel and Lota, in the Bío Bío Region, reducing bus and car transport. The project considers the expansion of the current Biotren railway network 	<ul style="list-style-type: none"> US\$45.4mn
	Ministry of Public Works	Metro Rebuilding	<ul style="list-style-type: none"> Reconstruction of metro stations 	<ul style="list-style-type: none"> Rebuild metro stations affected by recent events 	<ul style="list-style-type: none"> US\$380mn



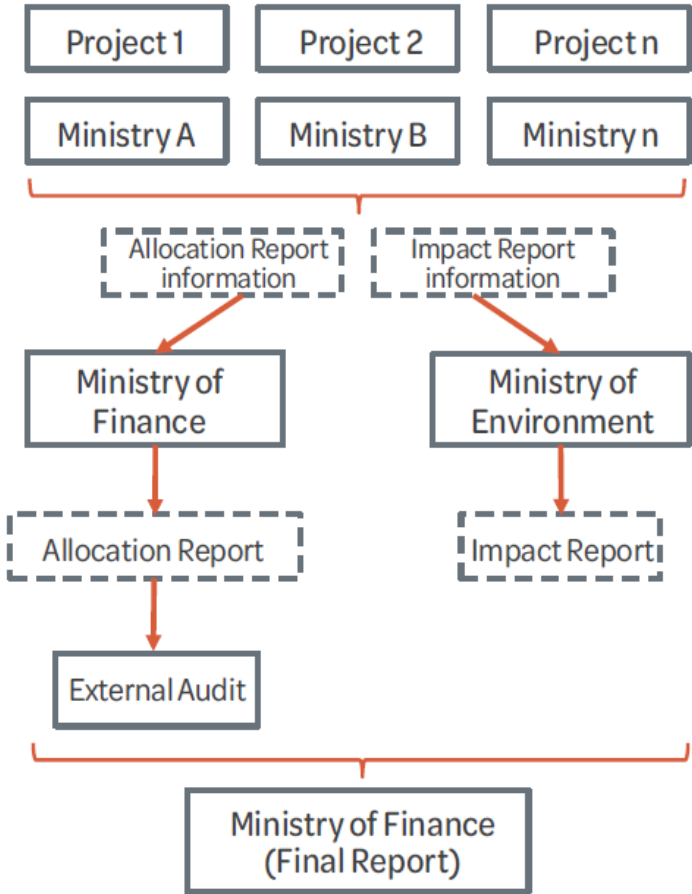
6. Appendix



Green bond project evaluation and selection.



Green bond reporting process.



Ministries collect information related to Green Projects: amounts allocated and impact on environment. That information is necessary to produce the allocation and impact report

MoF & MoE consolidate information from Green Bond projects, assets and expenditures into an Allocation and Impact report

External Auditor reviews the Allocation Report

MoF produces and publishes final report to investors