



# The Chilean Investment Climate

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Vittorio Corbo  
Governor

## Outline

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3. Chile's current overall investment environment
  - 3.1 Chile's current mining investment environment
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# 1. Introduction

## 1. Introduction

- In the past thirty years Chile carried out a large scale reform of policies and institutions that completely changed its economy:
  - ▲ Fiscal adjustment;
  - ▲ Monetary/exchange rate policy geared to reducing inflation to industrial countries' levels;
  - ▲ Integration to the world economy;
  - ▲ Privatizations and reforms to foster market competition;
  - ▲ Building a safe and sound financial system;
  - ▲ Transparency and efficiency in public administration;
  - ▲ Enhanced flexibility with social protection/insurance.
- As a consequence, Chile has become a stable and very dynamic and competitive open economy.

## 2. Performance of the Chilean economy

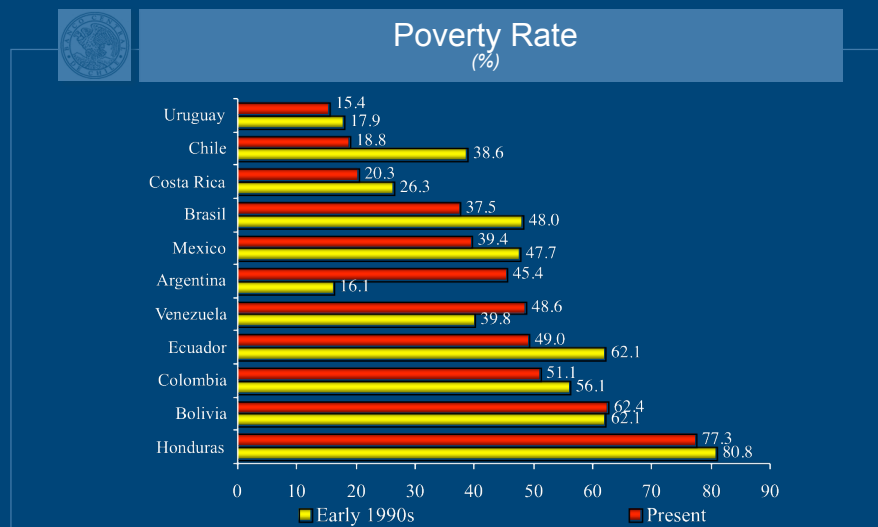
## 2. Performance of the Chilean economy

- With the reforms, Chile acquired solid macro fundamentals together with modern and robust institutions, all necessary elements for attaining high and sustainable growth rates.
  - ▲ During the nineties, Chile was one of the fastest-growing economies in the world.
    - ...largely due to efficiency gains.
  - ▲ This period of extraordinary growth allowed Chile to close its per capita income gap with developed countries by 30% in twenty years.
    - This stands in sharp contrast with the experience of other countries in Latin America: Argentina, Brazil, Mexico, Uruguay and Venezuela.
- Moreover, inflation experienced gradual decline approaching industrial countries' levels.

## 2. Performance of the Chilean economy

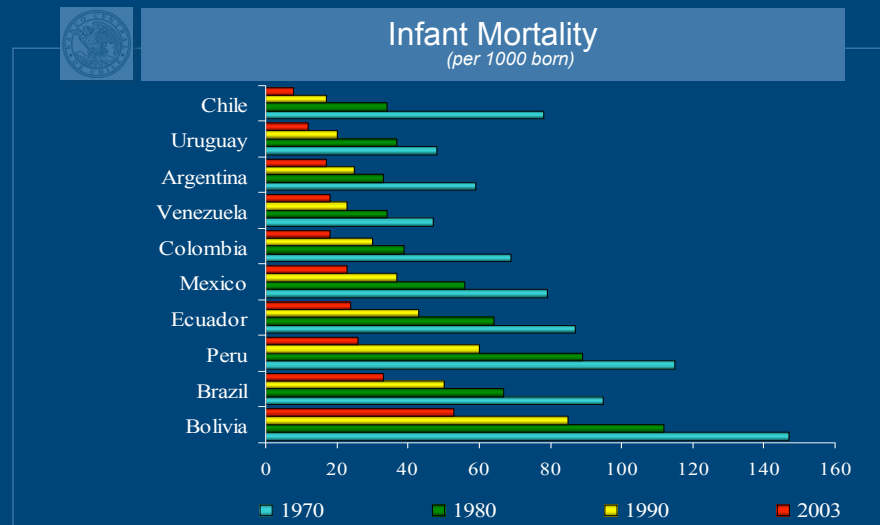
- The fast expansion of this period allowed Chile to cut the incidence of poverty in half in fifteen years.
  - ▲ In other countries in Latin America, poverty reduction has been modest and uneven, and in some of them poverty has actually increased (Argentina, Bolivia and Venezuela).
  - ▲ Also, other social indicators such as mortality rate and life expectancy have improved substantially.

## 2. Performance of the Chilean economy



Note: Present stands for the years 2002 or 2003, depending on the country.  
Sources: ECLAC (2004) and MIDEPLAN (2005).

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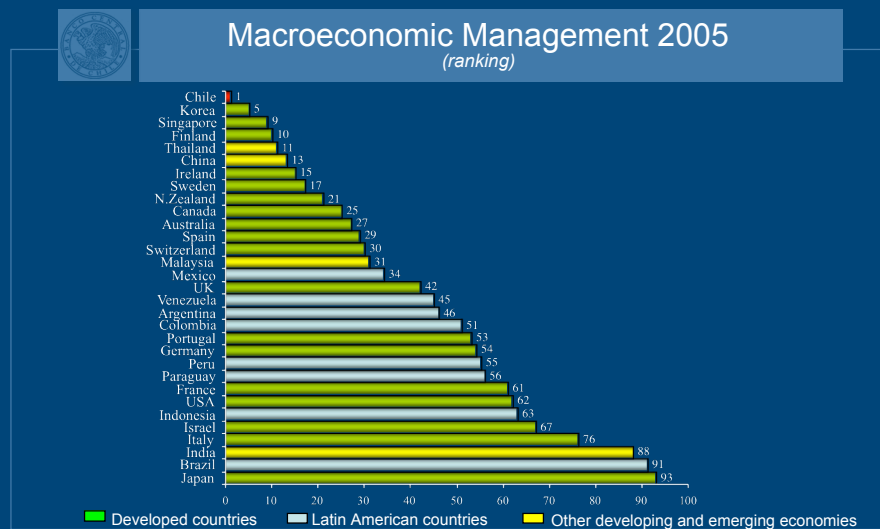


## 3. Chile's current overall investment environment

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- As a result of all of the above, Chile has not only a pro-growth institutional/policy environment but it is also better prepared than in the past (and than other emerging economies) to accommodate shocks.
- Chile's main strengths include:
  - ▲ A proved macroeconomic framework;
  - ▲ Solid fiscal situation and very low public debt;
  - ▲ Solid financial system;
  - ▲ Strong institutions (e.g., rule of law, independent Central Bank).

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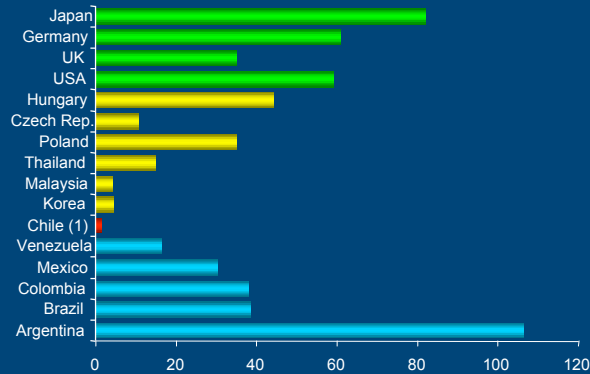


Source: The Global Competitiveness Report 2005-2006.

### 3. Chile's current overall investment environment



Public Debt in 2004 (\*)  
(% GDP)



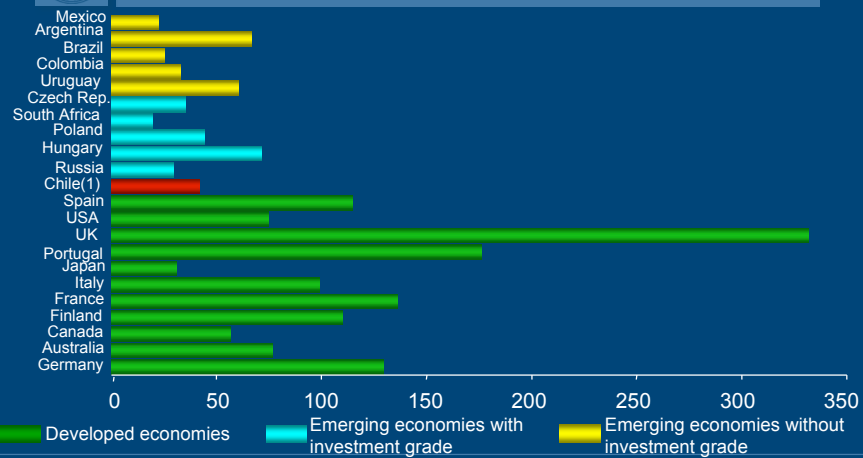
(\*) Net Central Government Debt (excludes Reserves, Central Bank Debt and Social Security Trust Funds).  
(1) In June 2005.

Sources: Deutsche Bank, IMF and Ministry of Finance of Chile.

### 3. Chile's current overall investment environment



External Debt 2005 (\*)  
(% GDP)



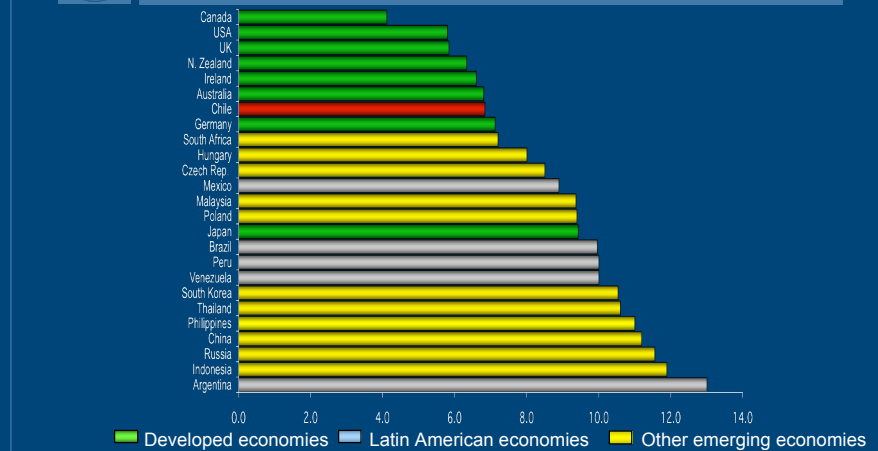
(\*) 3Q 2005. (1) As of November 2005.

Sources: World Bank, IMF, Central Bank of Chile.

### 3. Chile's current overall investment environment



#### Ranking of Banking Sector Strength (index)

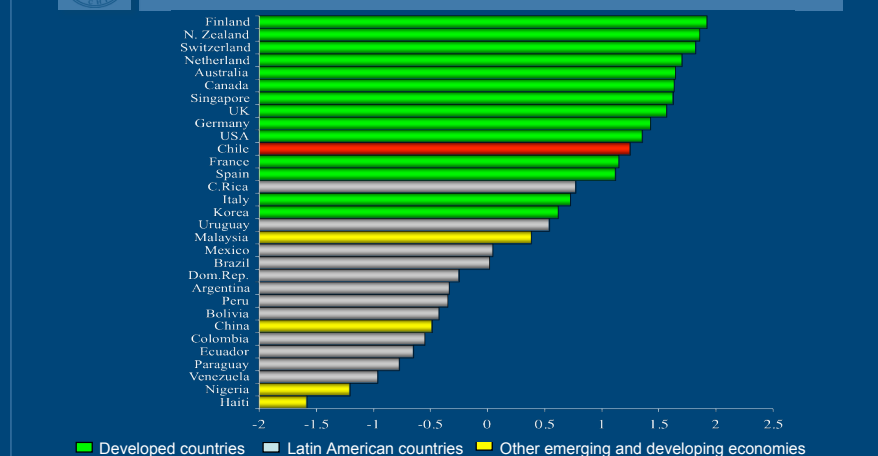


Source: Central Bank of Chile (based on Moody's Financial Strength Ranking, January 2006).

### 3. Chile's current overall investment environment



#### Quality of Institutions (2004)

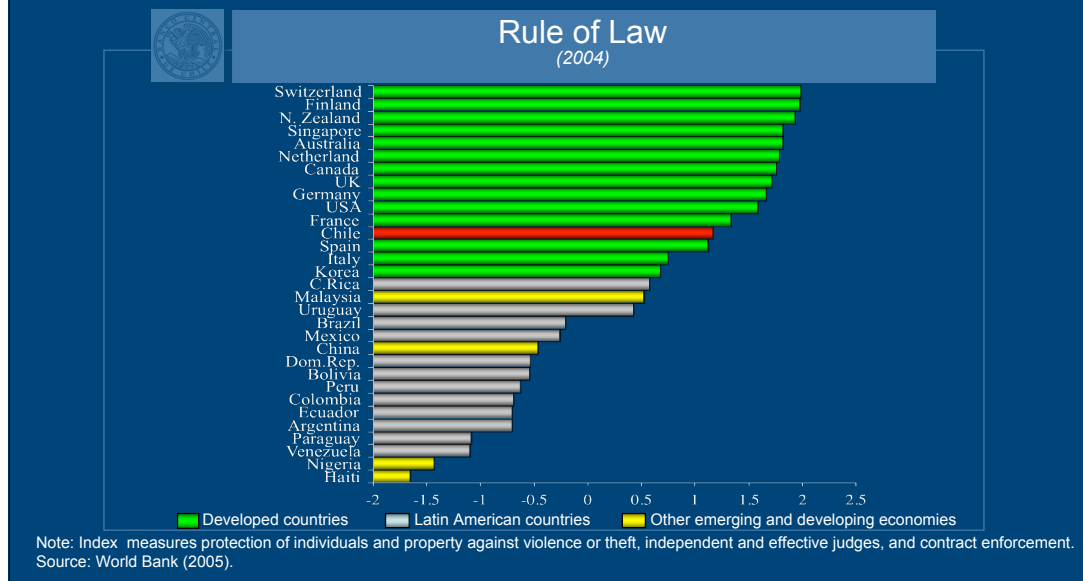


Source: World Bank (2005).

Note: Average of six indexes: rule of law, corruption control, political stability, quality of regulations, government effectiveness, and accountability.



### 3. Chile's current overall investment environment



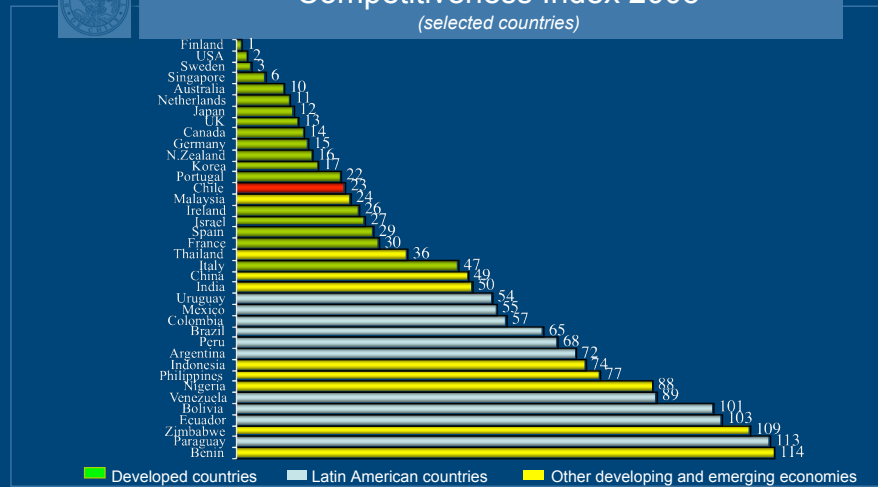
### 3. Chile's current overall investment environment

- As a consequence, Chile is today one of the most competitive of emerging market economies.
- Country risk is one of the lowest among emerging market economies.
- Moreover, the report of the World Bank on the ease of doing business ranks Chile 25<sup>th</sup> among 155 countries in 2005.
  - ▲ Chile is top of the list in the region.

### 3. Chile's current overall investment environment



#### Competitiveness Index 2005 (selected countries)

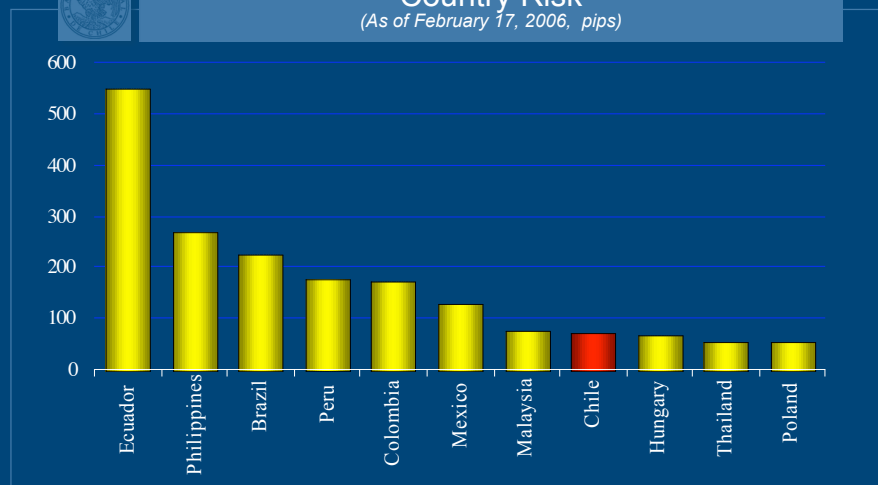


Note: The competitiveness index measures country's ability to achieve high and sustainable per capita GDP growth.  
Source: World Economic Forum (2005).

### 3. Chile's current overall investment environment



#### Country Risk (As of February 17, 2006, pips)

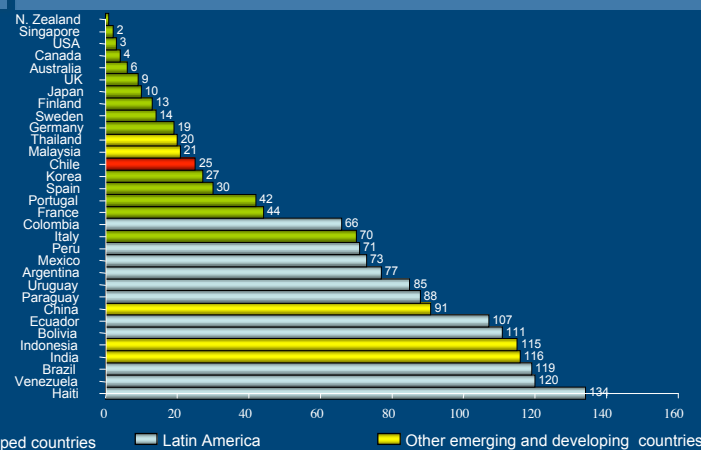


Source: JP Morgan (2006).

### 3. Chile's current overall investment environment



#### Ease of Doing Business (Ranking 2005)



Note: The ranking on ease of doing business average country rankings across ten topics: starting a business, dealing with licenses, hiring and firing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business. Source: World Bank (2005).

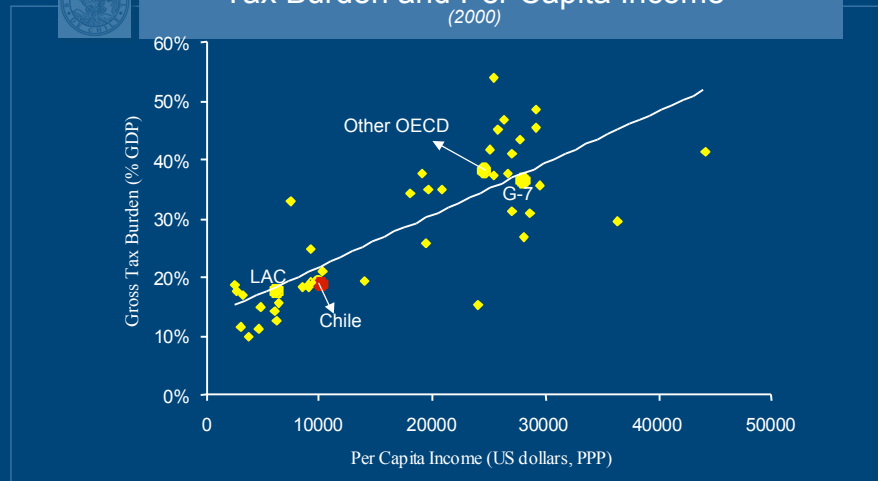
### 3. Chile's current overall investment environment

- Chile's tax system is attractive to investors:
  - ▲ Tax burden according to per capita income;
  - ▲ Corporate tax is among the lowest across countries (17%);
  - ▲ Tax system is efficient:
    - It is consumption tax based, with a high income tax marginal rate, but with several exemptions to eliminate distortions to saving.
  - ▲ Chilean tax system is integrated: corporate tax payment is discounted from income tax payment.

### 3. Chile's current overall investment environment



#### Tax Burden and Per Capita Income (2000)

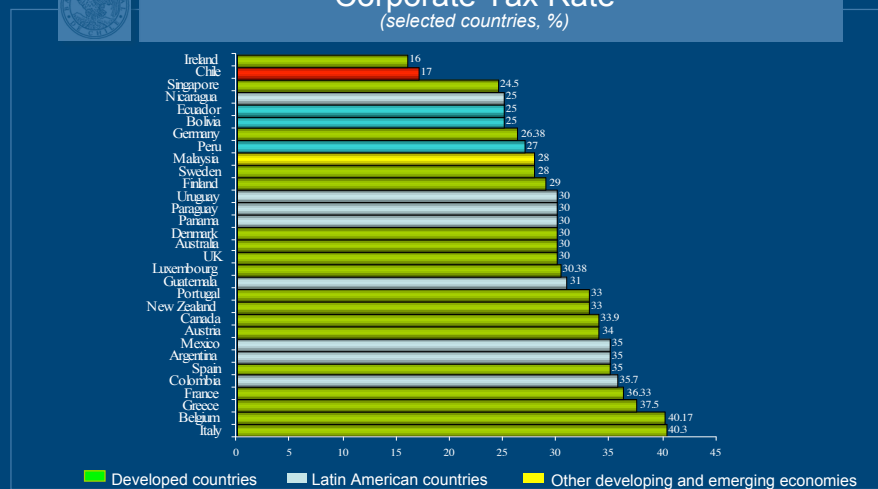


Sources: OECD and IMF.

### 3. Chile's current overall investment environment



#### Corporate Tax Rate (selected countries, %)



Source: Worldwide Summaries. "Corporate Taxes 2002-2003", Price Waterhouse Coopers.

### 3.1 Chile's current mining investment environment

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- The mining sector represents 53.3% of Chilean exports of goods (mainly copper), 13% of GDP and 45.2% of foreign investment.
  - ▲ Indeed this sector has contributed remarkably to infrastructure development throughout the country.
- It is very competitive internationally: Fraser Institute ranked the Chilean mining sector as the second most attractive to investment in the world in 2004-2005.

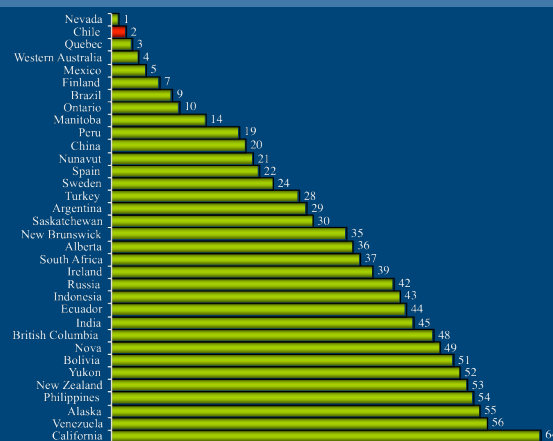
### 3.1 Chile's current mining investment environment

- For new entrants, there is a mining royalty of 5% (maximum rate) applied to end-of-previous-year operational profits, and a 15 year guaranteed invariability of the sector's excise taxes.

### 3.1 Chile's current mining investment environment



#### Current Mineral Potential (ranking 2004-2005, 64 jurisdictions)



Source: Fraser Institute (2005).

## 3.1 Chile's current mining investment environment

### Mining Royalty Across Countries

Country	Rate	Basis
Argentina	0% - 3%	Mine mouth value
Australia	varies by state (2% - 7.5%)	varies by state
Bolivia	1% - 7%	gross sales
Botswana	3% - 10%	profit based
Brazil	0.2% - 3%	net sales
Canada	varies by province (3% - 20%)	varies by province (profit based)
Chile	0% - 5%	profit based
China	1% - 4%	gross sales
Colombia	1% - 12%	mine mouth value
Ireland	1% - 4.5%	gross sales
Kazakhstan	negotiable	negotiable
Peru	1% - 3%	gross sales
Poland	2% - 10%	gross sales
Zambia	2% - 5%	profit based

Sources: Otto, J. "Global Mining Taxation Comparative Study" (2000), and Baunsgaard, Thomas, "Primer on Mineral Taxation" (2001).

## 4. Conclusions and future challenges

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- The new economic model built over the last three decades is the main rationale of Chile's outstanding economic performance of the past twenty years.
- This economic development model is based on four main pillars:
  - ▲ Macroeconomic stability with autonomous Central Bank and solvent fiscal sector;
  - ▲ Robust and sound financial sector;
  - ▲ Strong and stable institutional setting;
  - ▲ Competitive open market economy.

## 4. Conclusions and future challenges

- The solid macro fundamentals and robust institutions, and the good prospects for the world economy, allow us to look at the future with optimism.
  - ▲ GDP Growth last year was 6.3% and this year will be in the 5.25 to 6.25% range with inflation within target range.
- But economic development is a continuous process and Chile still faces important challenges:
  - ▲ Education, especially regarding quality.
  - ▲ Technological innovation.



## 4. Conclusions and future challenges

- Working in these areas would allow Chile to take a new leap in TFP and reduce income inequality.
- However, in the pursuit of these objectives, special care must be given to the stability of policies and institutions that support the strengths of the country.
- This is a precondition to address the challenges of the future successfully.



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