

Fitch Upgrades Chile to 'A+'; Outlook Stable

Fitch Ratings–New York–February 1, 2011: Fitch Ratings upgrades Chile's ratings as follows:

--Foreign Currency Issuer Default Rating (IDR) to 'A+' from 'A';
-- Local Currency Issuer Default Rating (IDR) to 'AA-' from 'A+'
--Country Ceiling to 'AA+' from 'AA'.

In addition, Fitch has affirmed the following rating:

--Short-term Issuer Default Rating at 'F1';

The Rating Outlook is Stable.

The rating upgrade is underpinned by years of prudent macroeconomic management that incorporates healthy public finances; an effective and credible monetary regime; and an economic model based on competitive markets and trade deepening by way of multiple free trade agreements. These features and a proven track record have allowed Chile to remain very resilient despite the two severe shocks emanating from the global credit crisis and the 2010 devastating earthquake. These strengths sufficiently counterbalance a high commodity dependence and the country's low per capita income relative to 'A' category peers.

"While the economy remains highly dependent on a largely commodity-based export sector, the structural strengths entrenched in Chile's economic model along with a very strong institutional framework and a sturdy government balance sheet, serve to mitigate potential output and balance-of-payments volatility risks," said Jaime Reusche, Director in Fitch's sovereign group. These elements, along with broad political consensus on key economic policies, have ensured economic stability, steady growth and a heightened shock-absorption capacity against internal and external shocks.

Fitch estimates 2010 GDP expanded by 5.3%, a better-than expected result given the intensity of the February 2010 earthquake, and expects growth to accelerate to around 6.0% in 2011, returning to a more trend-like 4.8% thereafter owing to Chile's robust domestic fundamentals and institutional stability.

Fiscal performance continues to be in line with Fitch's expectations and the agency expects the general government debt burden to remain below 10% of GDP, well below the peer

median and among the lowest in the realm of Fitch rated sovereigns. Fiscal consolidation has been boosted by the economic recovery and rising copper prices, increasing the government's fiscal flexibility and allowing it to face the enormous challenge of reconstruction from a stronger financial position.

"Chile's government finances will continue to be healthier than 'A'-rated peers highlighting the sovereign's high level of resistance to multiple shocks," says Reusche. Additionally, Fitch estimates the sovereign's financing needs for 2011 at 1.7% of GDP, a highly manageable level given the government's ample financing flexibility and large fiscal savings. These low funding needs reflect a favourable maturity structure and, combined with the sovereign's ability to place local-currency debt in its developed domestic markets, further boost credit quality.

The central bank's recent announcement to accumulate USD12 bn in the foreign exchange market will provide a significant boost to foreign exchange reserve levels, further enhancing the sovereign's international liquidity and diminishing its susceptibility to external shocks. Moreover, it would mitigate the expected deterioration in Chile's net external creditor position owing to the increases observed in private sector external debt.

Looking ahead, steady improvement in the sovereign's external and fiscal balance sheets would be viewed positively. Sustained high economic growth and competitiveness enhancing reforms that aid in closing the per capita income gap relative to peers will also be viewed positively. While not Fitch's base case, a sustained deterioration in fiscal policy credibility and debt dynamics could undermine creditworthiness.

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Applicable criteria,
'Sovereign Rating Methodology', dated 13 August 2010.

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