

Ministerio de Hacienda



Chile's Sustainability-Linked Bonds

July 2023

Ministry of Finance

Agenda

1. Macro Overview, Debt Management and Labelled Bonds Strategy

2. New SLB Framework

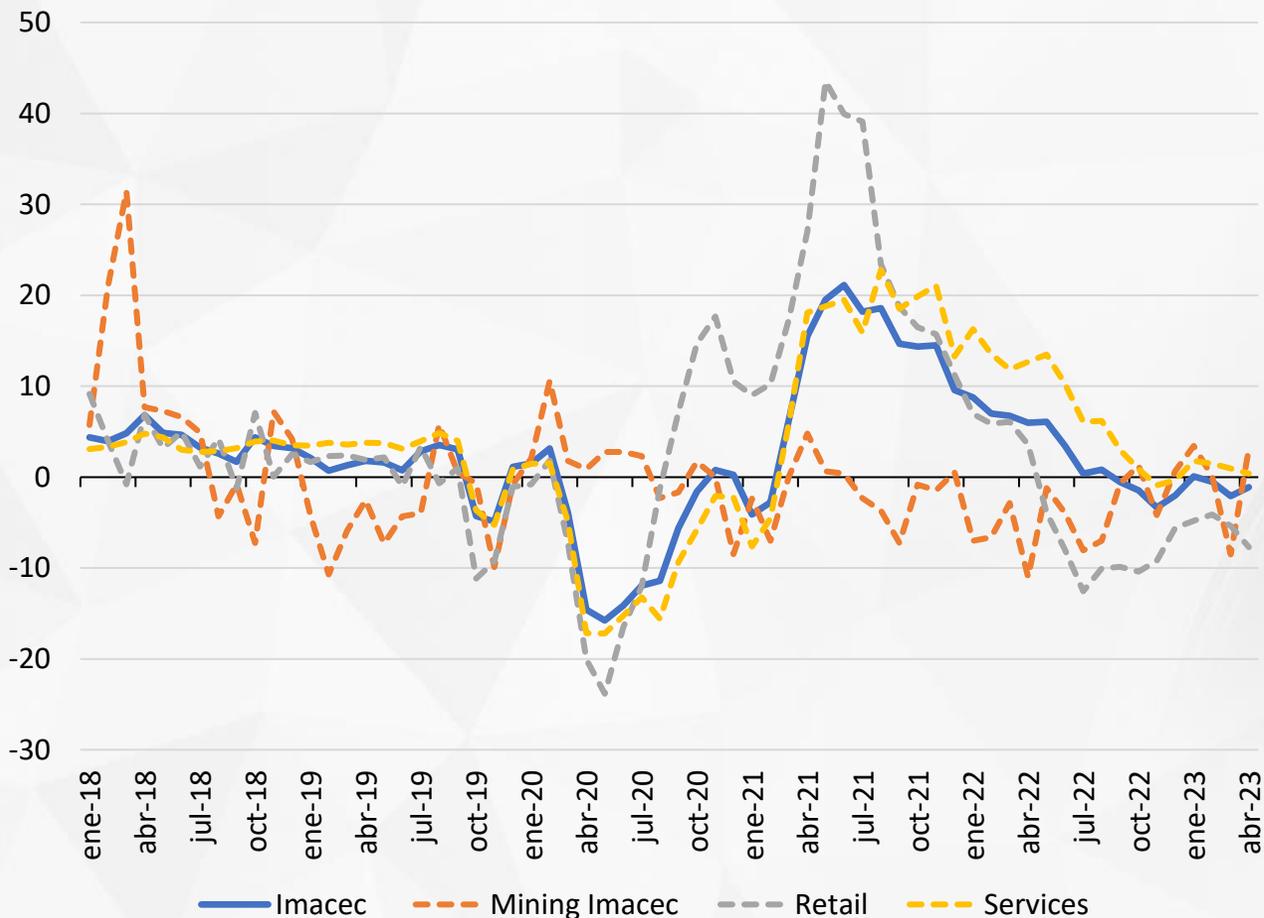
3. Sustainability-Linked Bond Terms & Conditions



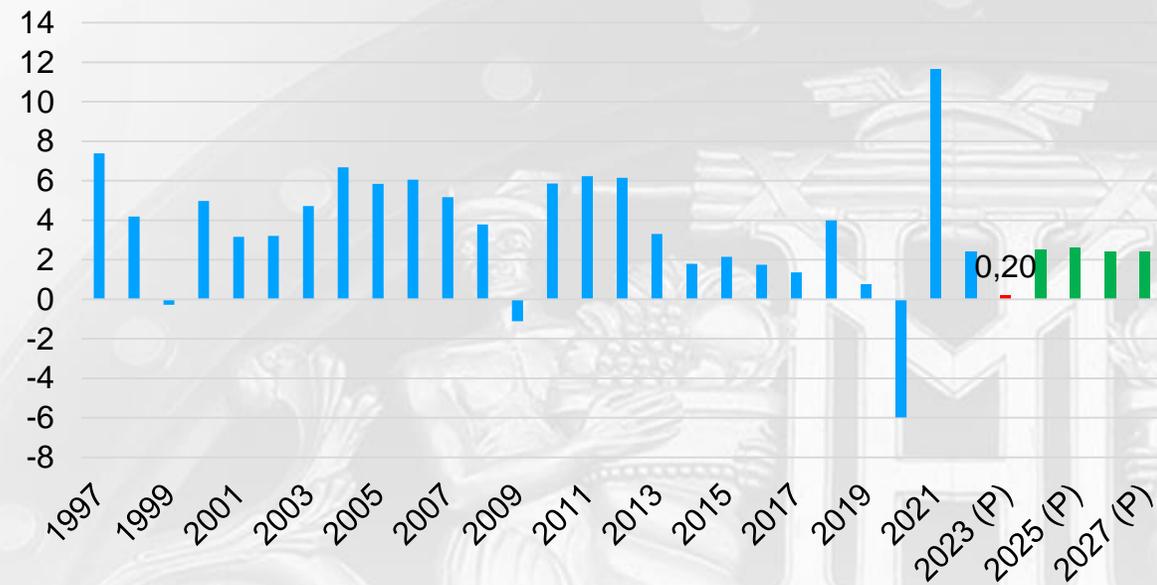
Macro Overview, Debt Management and Labelled Bonds Strategy

After a strong recovery in 2021 (11.7%) and soft landing in 2022 (2.4%), we see our economy slightly growing at 0.2% in 2023.

Monthly Economic Activity Indicator (Imacec)
(YoY, percentage points)



GDP growth rate (MoF projections)
(% change YoY)

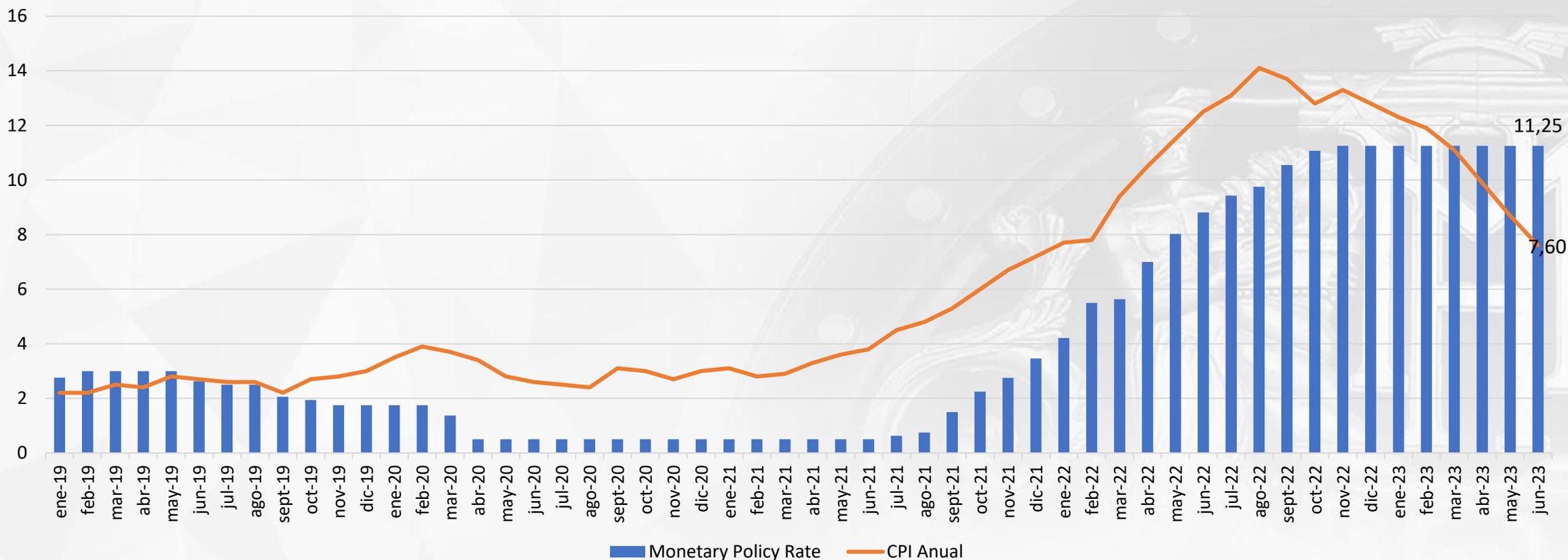


	GDP Growth (CB projections)
2022	2.4
2023 (p)	-0.5/0.25
2024 (p)	1.25-2.25
2025 (p)	2.0-3.0

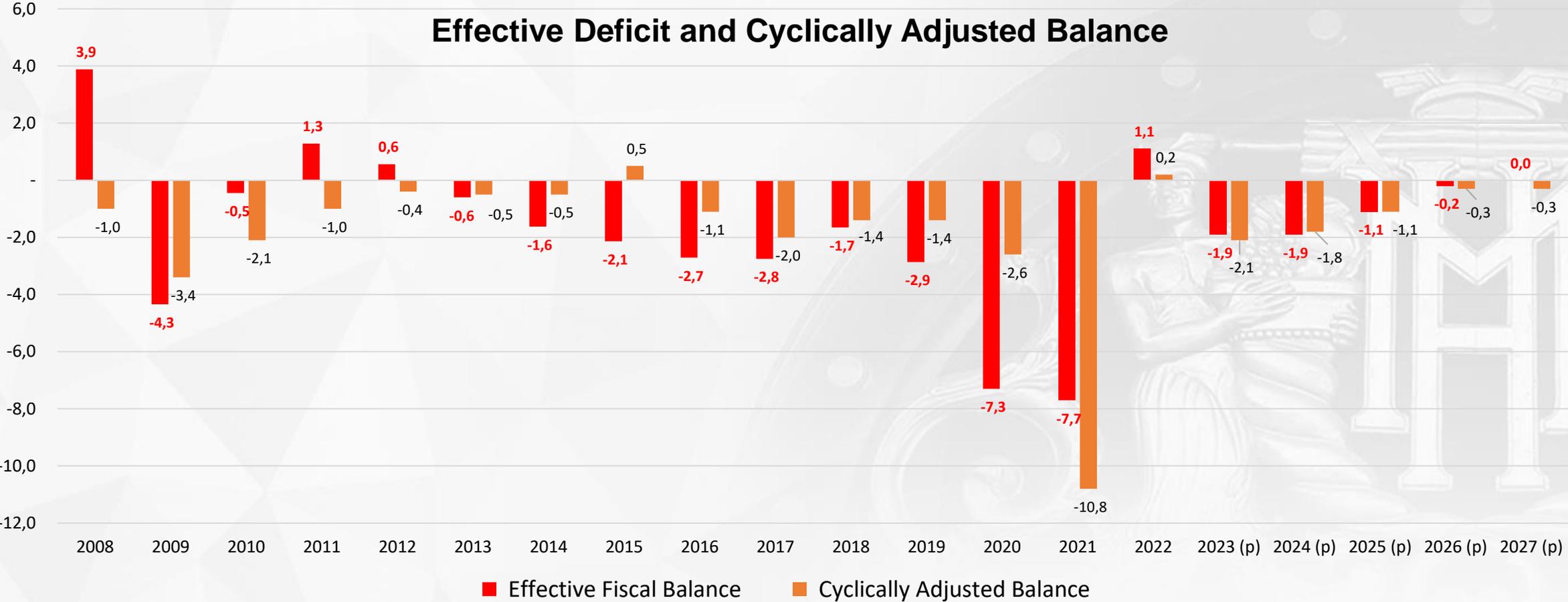
Source: Central Bank of Chile (IPOM June 2023) and Ministry of Finance. Public Finance Report ("PFR") as of July 2023

Chile emerged fast from the Covid-19 crisis. Yet massive fiscal transfers and pension fund withdrawals overheated the economy, adding to inflation but with a strong response of the Central Bank.

Inflation and Monetary Policy Rate
(percentage points, YoY)



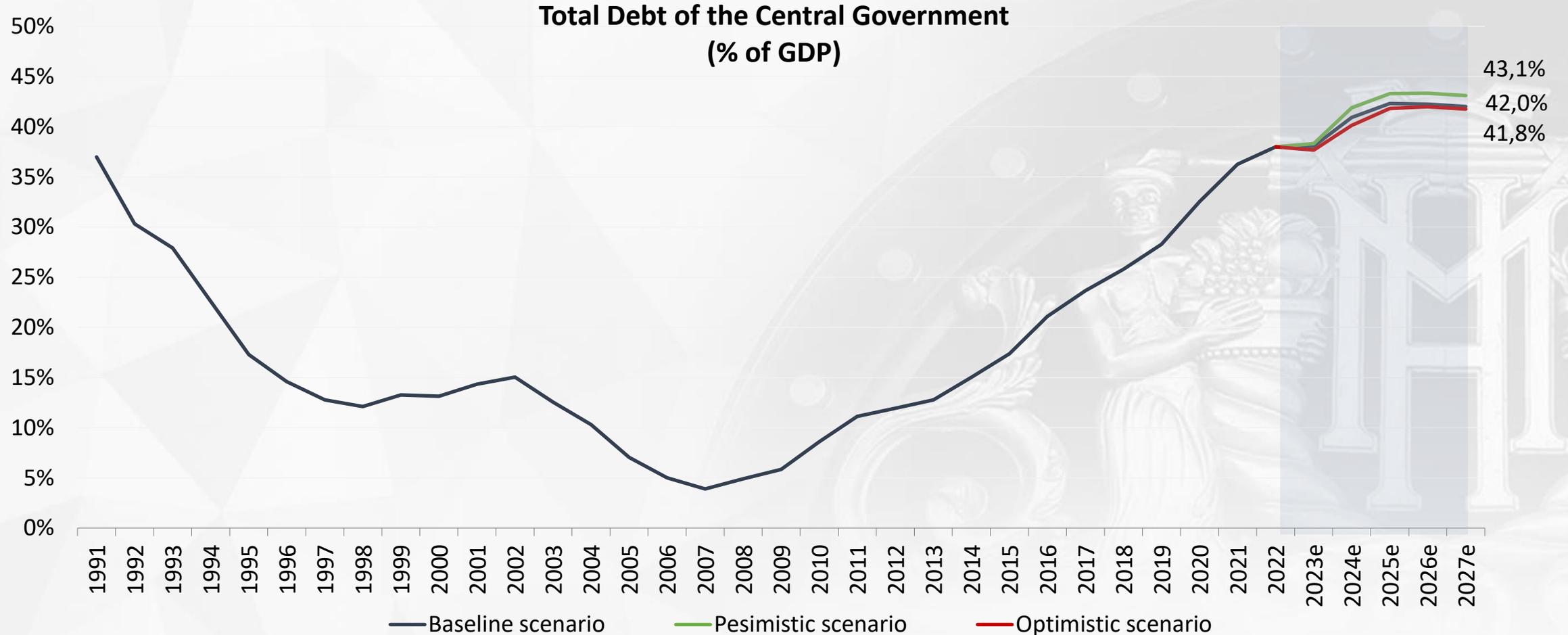
The new government reined in fiscal imbalances, articulating one of the largest post-Covid-19 fiscal consolidations. The deficit estimated in 2023 is expected to converge to zero in the medium term.



Source: Budget Office. Public Finance Report ("PFR") as of July 2023

Debt: The new fiscal policy framework aims to stabilize the gross debt/GDP ratio during the current Administration up to a threshold of 45%

The trajectory indicated by the latest PFR⁽¹⁾ is around 42%, below the established threshold.



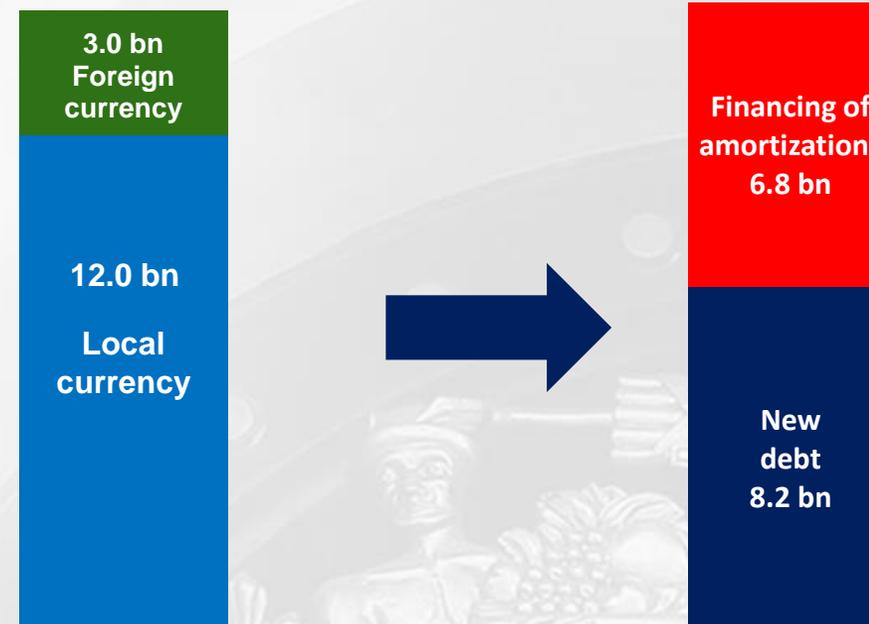
Note: (1) Public Finance Report ("PFR")

Source: Budget Office

MoF – 2023 Bond Issuances Plan

❖ 2023 Plan considers up to **US\$ 15bn equivalent**

- Domestic issuances includes Book-Building process
- Enhance foreign participation in LC debt.
- ESG Issuances as a key element.

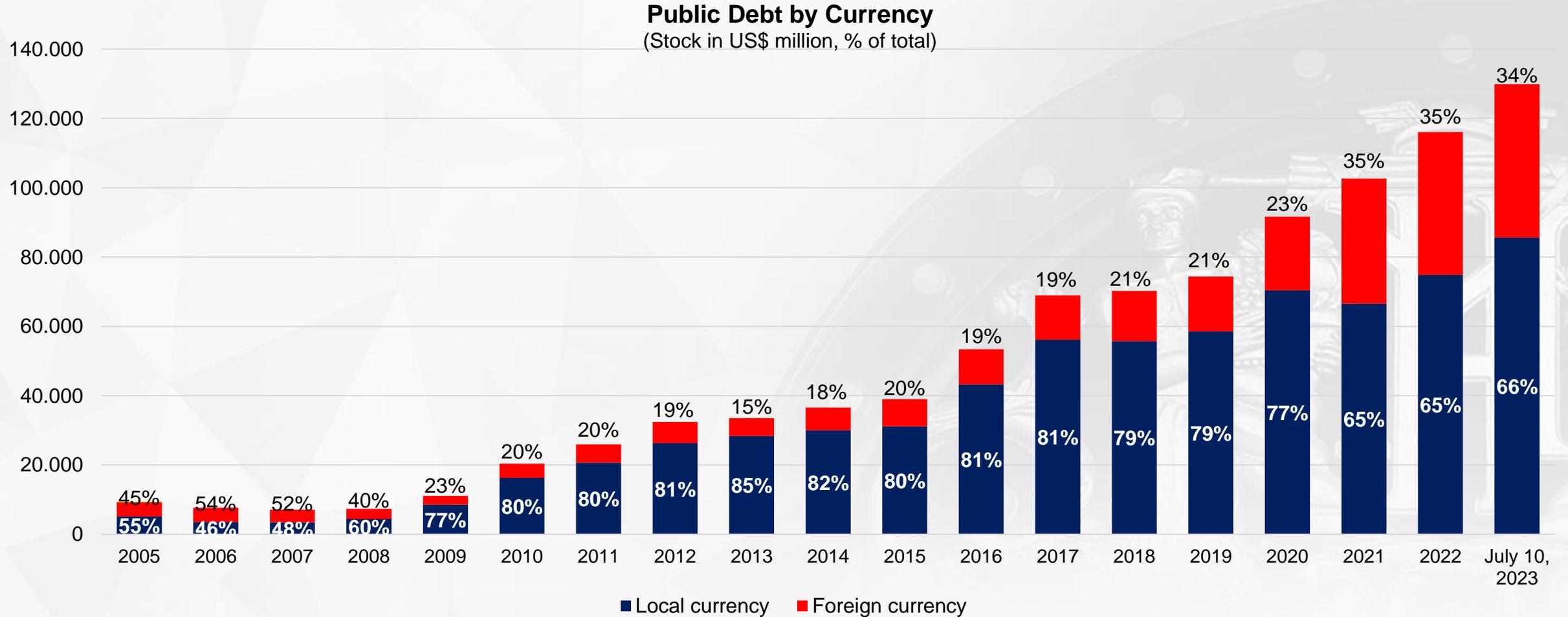


❖ **Gross debt is schedule to stabilize around 42% of GDP by 2027.**

- ❖ By the end of 2023, it is expected a currency composition of 68-32% for the central government debt. Plan to reach again 80% of local currency participation (next 3 years).
- ❖ **Authorization of derivatives for up to US\$4 billion in 2023.**

❖ **More than 66% of 2023 issuances is expected to have ESG denomination.**

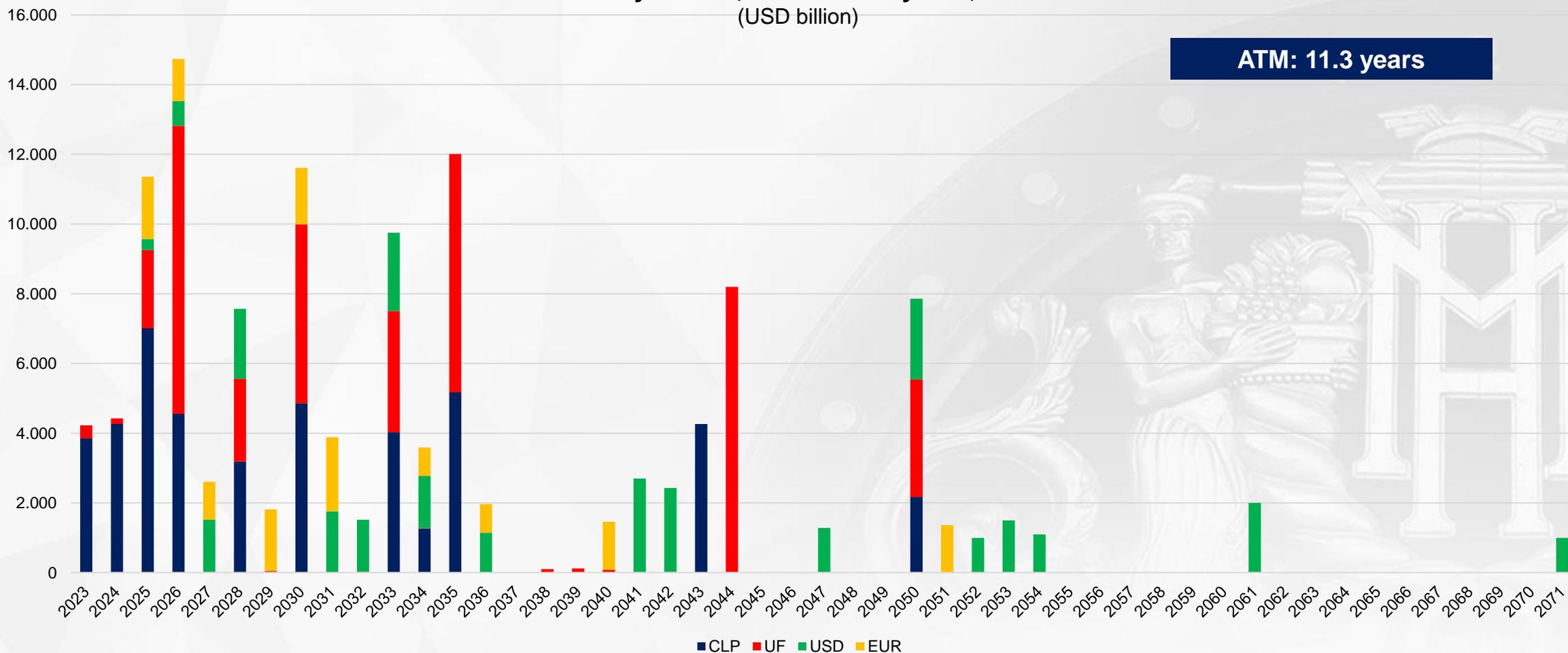
Public debt is mainly composed of local currency denominated bonds.



Source: Ministry of Finance

The maturity profile is well distributed, anchored in key benchmarks, with a high level of average maturity

Maturity Profile, as of the July 10th, 2023
(USD billion)



Source: Ministry of Finance

Chile's Sustainable Development Strategy & Commitments

- ❖ The Republic of Chile's development strategy is rooted in three key pillars: **economic, environmental and social sustainability**.
- ❖ Various Ministries, including the Ministry of Finance (MoF), have taken on a key role in supporting this national strategy through the consideration of all three of these components as part of the general ministerial mandate.
- ❖ The MoF, responsible for the country's fiscal policy, has assumed a pivotal role in steering public and private capital flows to support and uphold environmental commitments, as demonstrated by a diverse assortment of initiatives, including being responsible for the Country's Climate Change Financial Strategy.

International Sustainability Commitment Highlights

- ✓ Signatory of the Paris Agreement (2017)
- ✓ Adopted 2030 Sustainable Development Agenda (2015)
- ✓ Beijing Platform for Action (1995)
- ✓ Convention on the Rights of the Child (1989)
- ✓ Universal Declaration of Human Rights, the International Covenant of Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights (1966)

National Sustainability Commitment Highlights

- ✓ National Energy Policy (Política Energética Nacional or "PEN") (2015)
- ✓ Energy Efficiency Law (2021)
- ✓ Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) (1989)

Chile is committed to confronting Climate Change, with relevant changes in the energy matrix towards renewable sources, including hydro, solar and wind power. Chile intends to end its dependence on imported fossil fuels entirely within ten years.

Regulatory Framework

- **Framework Law on Climate Change** : setting goals, institutions and tools.
- **Energy Efficiency Law**: focus on the industrial, mining and transport sectors, in order to reduce emissions by 2% per year.

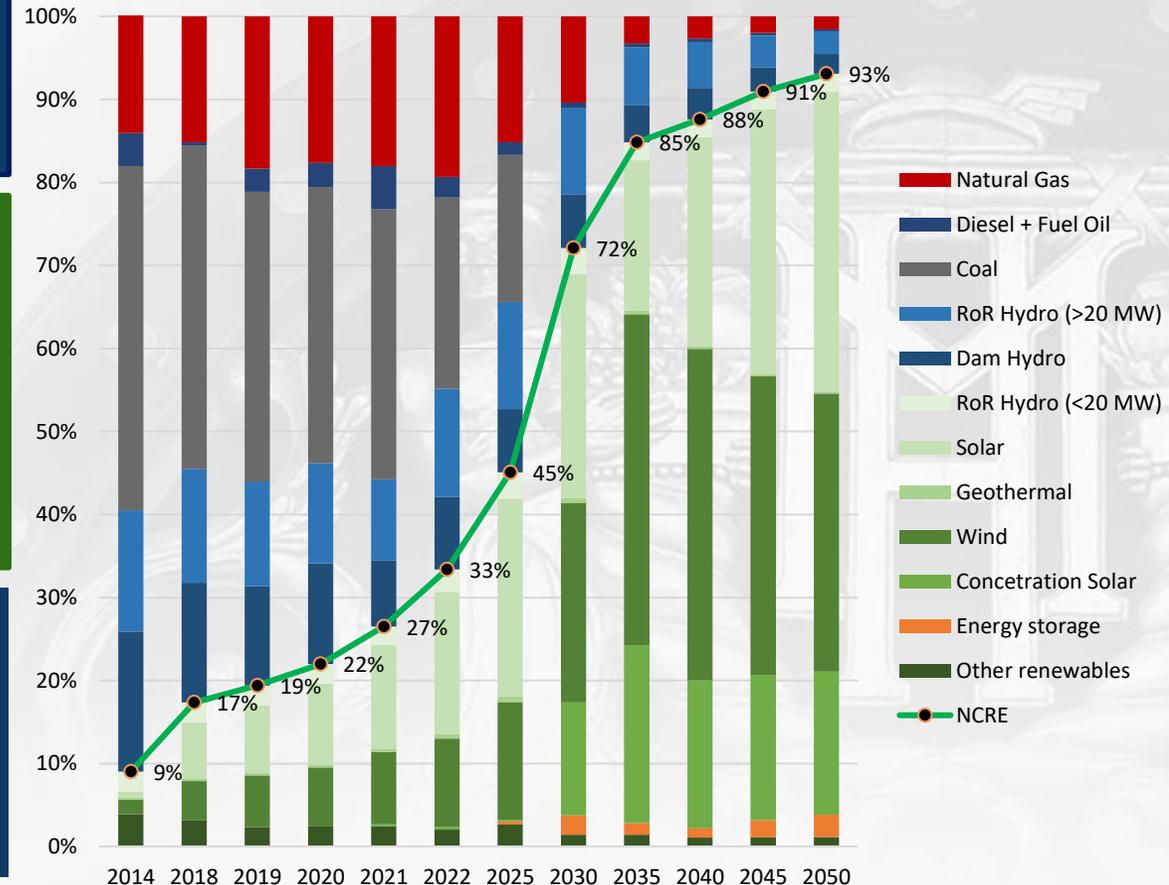
Objectives and Goals

- **NDC 2020.**
- Chile committed to a gross carbon budget of no more than 1,100 MtCO₂eq for the period 2020-2030, reaching a peak in 2025, and a level of 95 MtCO₂eq in 2030.
- Others: reduce at least 25% of carbon emissions by 2030; sustainable management and recovery of 1,100 hectares of native forest by 2030; creation of marine protected areas.
- **Long-Term Climate Strategy, with goals to 2050.**

Public Policies

- **Long-Term Energy Planning**: every five years, in order to foresee long-term scenarios (30 years).
- **Electromobility Law.**
- **National Green Hydrogen (H₂V) Strategy**:
 - (i) Domestic consumption.
 - (ii) Transportation and export.

Energy Matrix Composition Plan



Source: Ministry of the Environment and Ministry of Energy.

Leveraging Government Financing to Address Climate Change & Drive Sustainable Growth

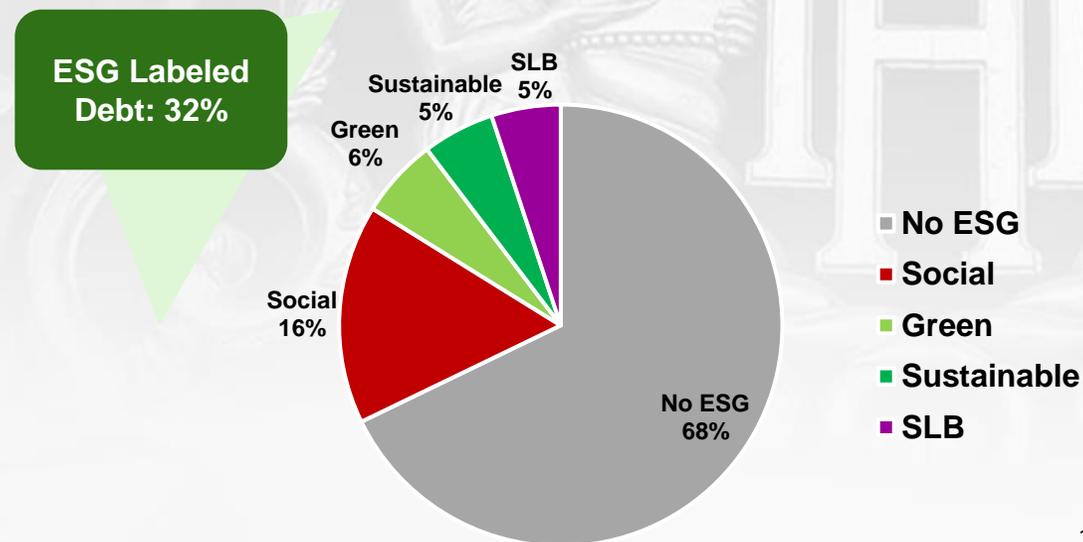
- ❖ Labelled bonds have become fundamental for Chile’s financing strategy.
- ❖ Since 2018, the Chilean PDMO has sought to promote the development of ESG instruments to attract foreign investment and support the country’s sustainable infrastructure needs, while diversifying the investor base.
- ❖ Chile is a clear leader in the sovereign ESG-bond market, having pioneered numerous innovative transactions in both international and local currencies.
 - In June 2019, Chile became the first country in the Americas to issue a Green Bond.
 - In February 2022, Chile became the first sovereign issuer anywhere in the world to issue a Sustainability-Linked Bond (SLB), drawing notable investor interest and setting a best-in-class market standard for Sovereign SLBs.
 - In June 2023, Chile became the first sovereign to add social/gender equality target to new SLB issuance.

Historical ESG Issuances
(USD billion)



Source: Ministry of Finance

Stock as of July 18, 2023
(% of Total of Central Government Debt)



ESG Public Debt in Chile

- ❖ After the June 2023 issuance, the Chilean government's total ESG bond issuance reached US\$36 billion, making Chile the country with the highest number of ESG bond debt, considering bonds under 144A Regulation / Reg S/ SEC registered
- ❖ In terms of total participation of ESG bonds, Chile reaches 33% of ESG participation of its total stock (considers bonds only)

Evolution of ESG Debt Stock over Total Gross Debt of the Central Government (% of Total Debt)



Source: Budget Office and Ministry of Finance

ESG Public Debt Issued (July 17th, 2023)

Rank	Country	ESG Debt Issued (US\$ bn)
1	CHILE	36
2	GERMANY	33
3	ITALY	33
4	FRANCE	25
5	UNITED KINGDOM	25
6	HONG KONG	18
7	PERU	11
8	BELGIUM	10
9	IRELAND	10
10	AUSTRIA	8

Source: Budget Office, Bondradar and Ministry of Finance (table only includes 144A/ Reg S/ SEC registered))

New SLB Framework

Evolution of Chile's Sustainable Debt Strategy

Overview of Frameworks and Labelled Bond Issuance

Green Bond Framework
June 2019



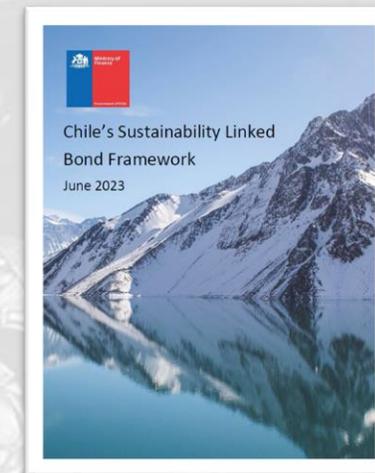
Sustainable Bond Framework
December 2020



SLB Framework
February 2022



SLB Framework
June 2023



2019

2020

2021

2022

2023

Inaugural Green Bond Issuance

- EUR-2031 €0,9 bn
- USD-2050 US\$ 1,4 bn

Green Bond Issuances

- EUR-2031 (R) €0,7 bn
- EUR-2040 €1,3 bn
- USD-2032 US\$0,8 bn
- USD-2050 (R) US\$0,9 bn

Inaugural Social Bond Issuances

- CLP-2028 \$1,040,000 MM (US\$ 1,4 bn)
- CLP-2033 \$560,000 MM (US\$ 0,7 bn)

Green Bond Issuances

- EUR-2031 (R) €0,4 bn
- USD-2032 (R) US\$0,8 bn

Social Bond Issuances

- In pesos: CLP-2024 and CLP-2028 totaling \$2,561,000 MM (US\$ 3,2 bn)
- In euros: EUR-2027, EUR-2029, EUR-2036 and EUR-2051 totaling € 4 bn
- In US dollars: USD-2033, USD-2041, USD-2061 and USD-2071 totaling US\$ 8 bn

Inaugural Sustainable Bond Issuances

- Formosa USD-2053 US\$ 1,5 bn

Sustainable Bond Issuances

- USD-2027 US\$ 1,5 bn
- USD-2034 US\$ 1,5 bn
- USD-2052 US\$ 1 bn

Inaugural Sustainable Bond in CLP

- BTP-2034 \$1,000,000 MM (US\$ 1 bn)

First-ever SLB Issuance from a Sovereign

- USD-2042 US\$ 2 bn

Social Bond Issuances

- In pesos: CLP-2033 totaling \$2,650,000 MM

SLB Issuance with update Framework

- USD-2036 US\$ 1.6 bn
- USD-2054 US\$ 1.5 bn
- EUR-2034 €1,3 bn

Overview of Chile's Sustainable Bond Framework & Use of Proceeds Financing Approach

❖ Chile was the first country in the Americas to issue Green bonds, and the second sovereign in the Americas to issue Social and Sustainability Bonds, which were structured in accordance with Chile's Sustainable Bond Framework (2020).

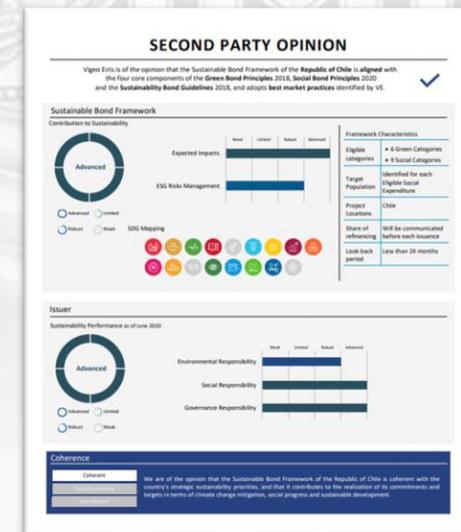


- Chile's Sustainable Bond Framework supports the issuance of Green Bonds, Social Bonds and Sustainability Bonds.
- The Framework complies with the Green Bond Principles (2018), Social Bond Principles (2020), and Sustainability Bond Guidelines (2018) and establishes the Use of Proceeds, the process for Project Evaluation and Selection, the Management of Proceeds and the Reporting after the issuance of these instruments.
- Vigeo Eiris reviewed the Framework and provided a favourable Second Party Opinion (SPO).



Eligible Green categories
Clean Transportation
Energy Efficiency
Renewable Energy
Living natural resources, Land use and Marine protected areas
Efficient and Climate Resilient Water Management
Green Buildings (ecological buildings)

Eligible Social Categories
Support for the elderly or people with special needs in vulnerable situations
Support for Low-income families
Support for Human rights victims
Support for the Community through job creation
Access to Affordable Housing
Access to Education
Food Security
Access to Essential Health Services
Social Programs designed to prevent and/ or alleviate unemployment derived from socioeconomic crises, including through the potential effect of financing SMEs and micro entities



Second Party Opinion: Vigeo Eiris

Overview of Chile's Sustainability-Linked Bond Framework & Sustainability-Linked Financing Approach

- ❖ In 2022, Chile became the first sovereign in the world to issue Sustainability-Linked Bonds, which were structured in accordance with Chile's Sustainability-Linked Bond Framework (2022).
 - **Chile's inaugural SLB Structure:** US\$2 billion dollar-denominated with maturity on 2042 (20 years).
 - **Coupon Step-Up:** 12.5 or 25 bps if one or two SPTs are not satisfied.
- ❖ In June 2023, Chile updated its SLB Framework to account for social sustainability through the inclusion of a new third KPI: (3) **Percentage of women in board member positions at companies that report to the CMF (local Chilean markets regulator)**.



- The Sustainability-Linked Bond Framework is written in alignment with the five core components of the ICMA's Sustainability-Linked Bond Principles (2023).
- Sustainalytics provided an updated Second Party Opinion which reviewed the KPIs and SPTs to determine the below classification.

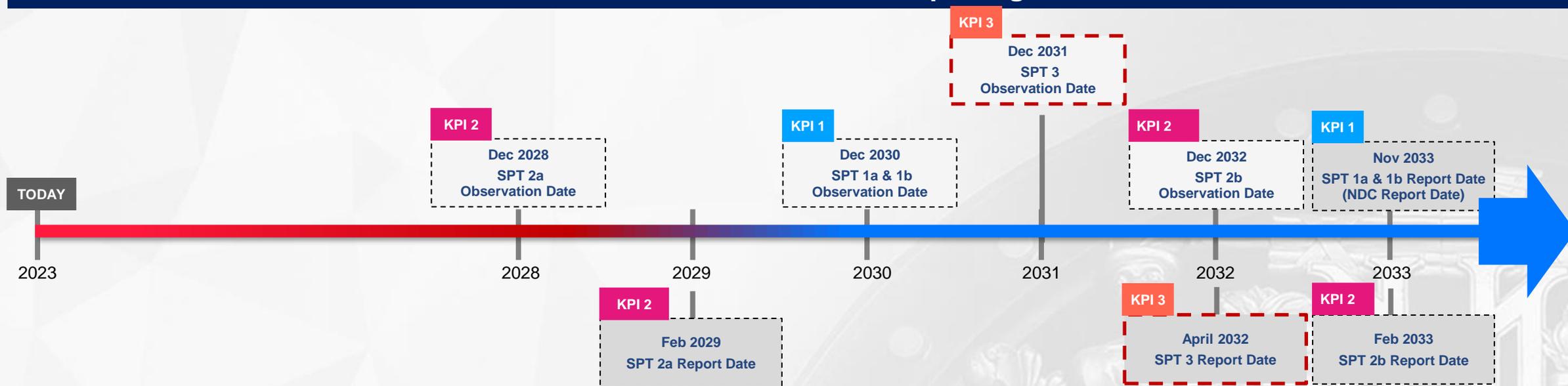
Framework			SPO Review by  SUSTAINALYTICS	
KPI	Baseline	SPT	Strength of KPI	Ambitiousness of SPT
KPI 1: Absolute GHG Emissions (MtCO ₂ e)	109,460 (2018)	SPT 1a: Achieve annual GHG emissions of 95 MtCO ₂ e by 2030 SPT 1b: A maximum of 1,100 MtCO ₂ e between 2020 and 2030	Very Strong	Ambitious
KPI 2: Share of non-conventional renewable energy generation in the National Electric System (%)	27% (2021)	SPT 2a: Achieve 50% electricity generated from non-conventional renewable sources by 2028 SPT 2b: Achieve 60% electricity generation derived from non-conventional renewable sources by 2032	Strong	Highly Ambitious
KPI 3: Percentage of women in board of directors at companies reporting to Chile's Financial Market Commission (CMF) (%)	14.0% (2022)	SPT 3: Achieve at least 40% of women representation in board of directors at companies to CMF by 2031	Very Strong	Highly Ambitious

NEW KPI



Reporting & Verification Commitments

Overview of Observation Dates & Reporting Timeline



Reporting

- Chile will publish an annual “SLB Report,” including information on KPI evolution, progress against the SPTs, and other material information for investors regarding KPI progress.
- Information regarding KPI 1 will be produced biennially, in line with current NDC protocol and similar to other countries’ reporting cycles.
- Information regarding KPI 2 and KPI 3 will be produced annually.

Verification

- As part of the NDC process, KPI 1 performance will be reviewed and verified by the Technical Team of Experts (TTE) of the UN Framework Convention on Climate Change (UNFCCC).
- KPI 2 performance will be reviewed and approved by Chile’s National Electrical Coordinator, an independent technical body.
- Performance of KPI 3 will be published in the annual Gender Indicator of Chilean Companies Report, which includes the participation of: i) the International Labour Organization and ii) the NGO Chile Mujeres, to support the integrity of the provided data. The information is provided by individual companies and reviewed by the CMF, with any incorrect information delivery being subject to legal penalties.**
- A report on the verification of KPI 1, KPI 2, and KPI 3 will be publicly available on the Public Debt Office’s website.

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