Guarantees and Onlending to Subnational and Parastatal Borrowers
Workshop 10 – Sovereign Debt Management Forum

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Contents of the presentation

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Institutional arrangement

- Sub-nationals and parastatals entities:
  - State Owned Enterprises (51% or more of the shares)
  - Municipalities
  - PPP companies

- Raising debt financing needs MoF Authorization.
- It does not implies fiscal guarantee
- Having fiscal guarantee, needs an explicit communication of MoF.
- To raise debt or enter into guarantees, MoF has to be authorized by law
Policy considerations

• Make sense
  – Chile is not a federal country
  – Regional authorities are budgeted as a part of the central government

• Allows to report
  – Allows to classifies clearly the nature of commitments
  – Excludes entities that their debt don’t affect the fiscal balance
Risk management

• Budget Office has to estimate annually the total amount and nature of the liabilities guaranteed by the state.
• These contingent liabilities are one of the factors considered in establishing the structural balance target.
• MoF can make provisions or contract insurance to bear the contingent liabilities
• MoF can charge a fee for the guarantees
## Summary of government contingent obligations reported in 2009

<table>
<thead>
<tr>
<th>Contingent liabilities</th>
<th>Annual cash flow</th>
<th>Present value</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension system guarantee</td>
<td>0.85%</td>
<td></td>
<td>Estimated</td>
</tr>
<tr>
<td>Concession system guaranteed minimum income</td>
<td>0.01%</td>
<td>0.23%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Guarantee of debt of state owned corporations</td>
<td>0.00%</td>
<td>1.58%</td>
<td>Maximum exposure</td>
</tr>
<tr>
<td>Higher education loan guarantee</td>
<td>less than 0.01%</td>
<td>0.29%</td>
<td>Maximum exposure</td>
</tr>
<tr>
<td>Lawsuits against the government</td>
<td>less than 0.01%</td>
<td></td>
<td>Estimated</td>
</tr>
<tr>
<td>Concession system disputes</td>
<td></td>
<td>0.28%</td>
<td>Maximum exposure</td>
</tr>
<tr>
<td>Governmental guarantee of deposits</td>
<td>0.00%</td>
<td>1.80%</td>
<td>Maximum exposure</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>4.18%</td>
<td></td>
</tr>
</tbody>
</table>
Financial performance

Net fiscal position of Chile
1999 -2010(ytd)
( % of GDP)
Meeting policy objectives

• Fiscal responsibility
• Low country risk
• State owned enterprises with high leverage can raise debt with low spreads
• 6% of GDP in PPPs investment with 3.7%GDP in guarantees and 0.3% GDP expected payments
Current challenges

As the definition is clear

- Improve the modelling of fiscal expenses
  - Accurate results
  - Reliable results

- Estimate the contingent liabilities as a portfolio
  - Including correlations
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