CHILE FUND INC
Form N-CSR
March 06, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05770

THE CHILE FUND, INC.
(Exact name of registrant as specified in charter)

Eleven Madison Avenue, New York, New York	10010
(Address of principal executive offices)	(Zip code)

J. Kevin Gao, Esq.
The Chile Fund, Inc.
Eleven Madison Avenue
New York, New York 10010
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 325-2000

Date of fiscal year end: December 31st

Date of reporting period: January 1, 2008 to December 31, 2008

Item 1. Reports to Stockholders.

THE CHILE FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2008

CH-AR-1208

LETTER TO SHAREHOLDERS (UNAUDITED)

February 12, 2009

Dear Shareholder:

For the year ended December 31, 2008, the total return to shareholders of The Chile Fund Inc. (the "Fund") based on the net asset value (NAV) of the Fund, was -36.43%* versus a 35.79% decrease in the Fund's benchmark, the Morgan Stanley Capital International Chile Index.** Based on market price, the Fund's shares lost 51.78% during the year, assuming reinvestment of dividends and distributions.

After five consecutive years (2002 through 2007) of positive returns, during which the Fund returned the equivalent of a compound annual return of 40.96%, the Fund was severely impacted by the crisis that swept through global financial markets in 2008.

In general terms, diversification requirements applicable to the Fund, as a registered U.S. investment company, mean the Fund will generally be somewhat more oriented to small- and mid-cap stocks than the overall market, as measured by the Morgan Stanley Capital International Chile Index.

Market Review: global financial crisis contaminates traditionally risky asset classes

After several years in which the global backdrop for emerging market equities could scarcely have been better, in 2008 the headwinds for riskier asset classes grew progressively stronger as the global financial crisis took shape. Although there appear to be few, if any, direct linkages between the bursting of the real estate bubble in the United States and fundamentals for Latin American equities, the transmission mechanism was through expectations of lower growth around the globe. Talk of how emerging markets could "decouple" from the U.S. and Europe evaporated. Export revenues plunged as commodity prices fell. Risk appetite declined as the global financial markets froze and access to credit dried up. Commodity prices collapsed in the second half of the year. The CRB index of commodity prices fell by 55.8% from its peak in July to its trough in December.

Chilean Equities Outperform

In this context, the fact that Chilean equities declined by a mere 35.79% can be considered a vote of relative confidence. After Colombia, Chile was the best performing equity market in Latin America in 2008. The reasons for this are twofold: first, although basic commodities such as copper are the largest component of Chilean exports, most of the major firms in the mining industry are owned either by the Chilean State, or by foreign companies, and are not traded on public stock exchanges. Corporate profits on the *Bolsa de Comercio* are more sensitive to Utilities, Forest Products and Consumer sectors and far less to the Mining industry.

Second, the macroeconomic fundamentals in Chile are particularly strong and have been throughout several economic cycles. In an environment of declining risk appetite, Chilean macro risk stands out as being particularly attractive.

In particular, the success of pension reform in Chile over the last three decades has permitted the development of a large pool of Chilean peso denominated savings. This greatly reduces Chile's reliance on flows of funds from other countries. In an environment where access to credit has become much more difficult this is a significant source of strength.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

Chile may also now see the benefits of years of fiscal prudence during which the country built up external reserves as it saved the windfall revenues generated by high copper prices. This sound fiscal position allows the government to use those excess savings for countercyclical fiscal policy at a time when external demand is falling dramatically.

Inflation and Interest Rates

For much of 2008, the inflationary outlook worsened, pushed by prices of food and energy. The Chilean central bank was forced to raise interest rates in response. However, the picture has changed dramatically as the global economy skidded to a halt in the fourth quarter of 2008, sending oil prices sharply lower. Lower oil prices allowed the central bank to cut interest rates aggressively at its meeting in December and again in February. We think that for as long as the global environment remains weak, there is a strong chance that the environment, in terms of inflation and interest rates, will remain supportive for equities.

The flip side of this may well be that we can expect to see the Chilean peso remain at relatively weak levels against the U.S. dollar; the peso depreciated by 28% against the U.S. dollar during 2008.

Strategic Review: Fund performance in line with the market

For the 12-month period ended December 31, 2008, the Fund returned -36.43%, based on NAV, as compared to -35.79% for the benchmark index, representing underperformance of 0.64% during the year. The positions that most detracted from relative performance were the Fund's long-standing overweight positions in Copec (primarily forest products, 15.8% of the Fund as of 12/31/08) and CMPC (forest products, 8.1% of the Fund as of 12/31/08) as the price of wood pulp slid on world markets. The Fund also suffered on a relative basis from two transactions involving companies in which we had underweight positions. The first was the decision by Telefónica de España to tender for the remaining free float of Telefónica CTC Chile at a premium to its market price at a time when equity prices were falling rapidly. The second was the acquisition of retailer DYS by Walmart, which was announced in the closing days of 2008. In both cases, the premium paid for the acquisition was unexpected. Both transactions however demonstrate once again that Chile is a market that, despite its small size, is attractive to multinational buyers and continues to command premium valuations even in uncertain times. The Fund's underweight position in electricity generator Colbun (4.0% of the Fund as of 12/31/08) also detracted from returns.

On the positive side, the largest outperformance came from the Fund's large overweight position in electricity generator Endesa (21.5% of the Fund as of 12/31/08). This overweight position was substantially counterbalanced by our underweight position in electricity generation and distribution company Enersis (8.9% of the Fund as of 12/31/08) which is forced on us by the diversification requirements to which the Fund is subject. The decision to retain a large overweight position in winemaker Viña Concha y Toro (4.9% of the Fund as of 12/31/08) also contributed positively to returns. We added aggressively to our holdings of steel company CAP (1.8% of the Fund as of 12/31/08) and specialty chemicals company SQM (8.0% of the Fund as of 12/31/08) at exactly the right time, adding as much as we could under the limits imposed by our diversification requirements, and then sold in a timely fashion as commodity prices began to weaken. The Fund's overweight position in water utility IAM (2.6% of the Fund as of 12/31/08) and our underweight in airline Lan (3.7% of the Fund as of 12/31/08) also contributed positively to returns.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

Market Outlook: A tough year ahead

In the current unstable global financial environment, the sound macroeconomic fundamentals that the Chilean economy has demonstrated over the last three decades, stand Chile in as good a shape as any country in the region to weather the storm. Nonetheless, we expect that in 2009, the Chilean economy will slow rapidly.

It is likely that the positive trade balance will swing into deficit as copper remains at depressed levels and the government tries through countercyclical fiscal policy to ensure that domestic demand remains firm.

Normally, when emerging market economies find themselves in financial crisis, the circumstances of that crisis have been self inflicted. On this occasion, however, the crisis was imported from the developed world which has shown itself to be a riskier world than many emerging markets when it comes to private sector borrowing. Normally in Latin America, governments are forced to respond by raising interest rates to defend the currency. In this crisis however, monetary authorities in Latin America, have been able to cut interest rates. There are few precedents therefore for what we are experiencing as it relates to investment in an asset class which has traditionally been perceived as riskier than average.

Our base case scenario is that the asset class cannot begin to contemplate a recovery until the global financial crisis has subsided and market participants have a clearer picture of the full extent of the slowdown. Once the market has a better feel for the depth of the global recession, we see no reason why emerging market assets should not recover before other asset classes where the fundamental problems of excess leverage first arose.

It is important to state that the headwinds are not exclusively coming from the developed world. China was certainly one of the driving factors behind the rise in commodity prices and the key for those who argued that the world no longer depended exclusively upon the U.S. consumer. In 2007, for the first time, Chile exported more to China than it did to the United States. China is now slowing rapidly, presenting policymakers with difficult choices. If the slowdown in China becomes a hard landing this could further complicate the outlook for producers of basic commodities.

We believe that we are still able to identify quality companies with decent growth prospects, trading at reasonable valuations. Returns in the next five years are likely to be lower than over the last five years, but we look forward to their eventual recovery. Chile faces presidential elections at the end of 2009. We believe that, on the eve of the 200th anniversary of the country's independence, this election will provide an important part of the answer to the question of whether or not Chile remains an attractive destination for international investors.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

Respectfully,

Matthew J.K. Hickman	George Hornig
Chief Investment Officer ***	Chief Executive Officer and President ****

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. There are also risks associated with investing in Chile, including the risk of investing in a single-country fund.

In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Fund's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Fund could be materially different from those projected, anticipated or implied. The Fund has no obligation to update or revise forward-looking statements.

* Total return assumes reinvestment of dividends at actual prices pursuant to the Fund's dividend reinvestment program.

** The Morgan Stanley Capital International Daily TR Net Emerging Markets Chile USD Index is an unmanaged total return index (with no defined investment objective) of Chilean equities that includes reinvestment of dividends (net of taxes), and is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

*** Matthew J.K. Hickman, Director, is a portfolio manager specializing in Latin American equities. He has been following Latin American equity markets since 1987. He joined in 2003 from Compass Group Investment Advisors, where he was general manager of the private wealth management division based in Santiago, Chile. For much of Mr. Hickman's career, he worked as an equity analyst at various investment banks, focusing on Latin American telecommunications companies and several Latin American country markets; prior to this, at Rothschild Asset Management, Mr. Hickman was a member of the management team for the Five Arrows Chile Fund. Mr. Hickman holds a BA in Modern Languages from Cambridge University and a diploma in corporate finance from the London Business School. He is fluent in Spanish, Portuguese and French. He is also the Chief Investment Officer of The Latin America Equity Fund, Inc.

**** George Hornig is a Managing Director of Credit Suisse. He is the Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas. Mr. Hornig has been associated with Credit Suisse since 1999.

THE CHILE FUND, INC.

PORTFOLIO SUMMARY
DECEMBER 31, 2008 (UNAUDITED)

SECTOR ALLOCATION

TOP 10 HOLDINGS, BY ISSUER

	Holdings	Sector	Percent of Net Assets
1.	Empresa Nacional de Electricidad S.A.	Independent Power Producers & Energy Traders	21.5
2.	Empresas Copec S.A.	Industrial Conglomerates	15.8
3.	Enersis S.A.	Electric Utilities	8.9
4.	Empresas CMPC S.A.	Paper & Forest Products	8.1
5.	Sociedad Química y Minera de Chile S.A.	Chemicals	8.0
6.	Banco Santander Chile S.A.	Commercial Banks	5.7
7.	S.A.C.I. Falabella, S.A.	Multiline Retail	5.2
8.	Viña Concha y Toro S.A.	Beverages	4.9
9.	Colbun S.A.	Independent Power Producers & Energy Traders	4.0
10.	Lan Airlines S.A.	Airlines	3.7

THE CHILE FUND, INC.

AVERAGE ANNUAL RETURNS
DECEMBER 31, 2008 (UNAUDITED)

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	(36.43)%	1.16%	7.95%	8.46%
Market Value	(51.78)%	(9.62)%	5.99%	10.77%

Credit Suisse may waive fees and/or reimburse expenses, without which performance would be lower. Waivers and/or reimbursements are subject to change and may be discontinued at any time. Returns represent past performance. Total investment return at net asset value is based on changes in the net asset value of fund shares and assumes reinvestment of dividends and distributions, if any. Total investment return at market value is based on changes in the market price at which the fund's shares traded on the stock exchange during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the fund's dividend reinvestment program. Because the fund's shares trade in the stock market based on investor demand, the fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on share price and NAV. ***Past performance is no guarantee of future results****. The current performance of the fund may be lower or higher than the figures shown. The fund's yield, return and market price and NAV will fluctuate. Performance information current to the most recent month-end is available by calling 800-293-1232.*

The annualized gross and net expense ratios are 1.89%.

THE CHILE FUND, INC.

SCHEDULE OF INVESTMENTS
DECEMBER 31, 2008

Description	No. of Shares		Value
EQUITY SECURITIES-102.47%			
AIRLINES-3.72%			
Lan Airlines S.A.	493,000	$	4,177,638
BEVERAGES-6.49%			
Coca-Cola Embonor S.A., Class A	1,360,000		928,791
Compañia Cervecerías Unidas S.A.	150,000		847,391
Viña Concha y Toro S.A.	3,644,000		5,518,180
			7,294,362
BUILDING PRODUCTS-0.22%			
Cerámicas Cordillera S.A.	67,165		246,632
CHEMICALS-7.99%			
Sociedad Química y Minera de Chile S.A., Class B	238,000		5,695,567
Sociedad Química y Minera de Chile S.A., Class B, ADR	134,650		3,284,114
			8,979,681
COMMERCIAL BANKS-7.38%			
Banco de Crédito e Inversiones	110,001		1,872,908
Banco Santander Chile S.A.	198,886,987		6,423,059
			8,295,967
DIVERSIFIED FINANCIAL SERVICES-0.52%			
Invercap S.A.	130,000		580,385
DIVERSIFIED TELECOMMUNICATION-3.46%			
Empresa Nacional de Telecomunicaciones S.A.	359,305		3,890,474
ELECTRIC UTILITIES-11.13%			
Almendral S.A.	34,285,164		2,528,682
Enersis S.A.	34,000,000		8,789,047
Enersis S.A., ADR	93,200		1,187,368
			12,505,097

Description	No. of Shares		Value
FOOD & STAPLES RETAILING-2.13%			
Cencosud S.A.	1,687,000	$	2,395,844
INDEPENDENT POWER PRODUCERS & ENERGY TRADERS-25.80%			
Colbun S.A.	28,432,425		4,438,983
Empresa Nacional de Electricidad S.A.	21,068,000		24,134,390
Empresa Nacional de Electricidad S.A., ADR	12,500		418,625

		28,991,998
INDUSTRIAL CONGLOMERATES-15.83%		
Empresas Copec S.A.	2,338,185	17,788,185
METALS & MINING-1.83%		
CAP S.A.	196,284	2,052,935
MULTILINE RETAIL-5.19%		
S.A.C.I. Falabella, S.A.	2,209,083	5,823,867
OIL, GAS & CONSUMABLE FUELS-0.11%		
Geopark Holdings Ltd.	30,209	118,355
PAPER & FOREST PRODUCTS-8.06%		
Empresas CMPC S.A.	580,000	9,056,100
WATER UTILITIES-2.61%		
Inversiones Aguas Metropolitanas S.A.	3,740,000	2,934,484
TOTAL EQUITY SECURITIES-102.47% (Cost $84,482,004)		115,132,004

See accompanying notes to financial statements.

THE CHILE FUND, INC.

SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2008

Description	Primicipal Amount (000's)	Value
SHORT-TERM INVESTMENTS-2.96%		
UNITED STATES-2.96%		
Citibank N.A. overnight deposit, 0.06%, 1/2/09 (Cost $3,328,000)	$ 3,328	$ 3,328,000
TOTAL INVESTMENTS-105.43% (Cost $87,810,004)		118,460,004
LIABILITIES IN EXCESS OF CASH AND OTHER ASSETS-(5.43)%		(6,098,031)
NET ASSETS-100.00%		$ 112,361,973

Non-income producing security.

ADR American Depositary Receipts.

See accompanying notes to financial statements.

THE CHILE FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2008

ASSETS	
Investments, at value (Cost $87,810,004) (Notes B, E, G)	$ 118,460,004
Foreign currencies (Cost $2,037,749)	2,038,620
Receivables:	
Dividends	13,935
Prepaid expenses	4,602
Total Assets	120,517,161
LIABILITIES	
Due to custodian	4,353
Payables:	
Dividends and distributions	7,319,137
Investment advisory fees (Note C)	285,676
Administration fees (Note C)	61,147
Directors' fees	9,248
Other accrued expenses	204,797
Chilean taxes (Note B)	270,830
Total Liabilities	8,155,188
NET ASSETS (applicable to 10,167,060 shares of common stock outstanding) (Note D)	$ 112,361,973
NET ASSETS CONSIST OF	
Capital stock, $0.001 par value; 10,167,060 shares issued and outstanding (100,000,000 shares authorized)	$ 10,167
Paid-in capital	81,479,267
Undistributed net investment income	421,559
Accumulated net realized loss on investments and foreign currency related transactions	(178,823)
Net unrealized appreciation in value of investments and translation of other assets and liabilities denominated in foreign currencies	30,629,803
Net assets applicable to shares outstanding	$ 112,361,973
NET ASSET VALUE PER SHARE ($112,361,973 ÷ 10,167,060)	$ 11.05
MARKET PRICE PER SHARE	$ 9.82

See accompanying notes to financial statements.

THE CHILE FUND, INC.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

INVESTMENT INCOME	
Income (Note B):	
Dividends	$ 5,318,213
Interest	5,497
Securities lending	333
Less: Foreign taxes withheld	(37,633)
Total Investment Income	5,286,410
Expenses:	
Investment advisory fees (Note C)	1,748,532
Custodian fees	292,999
Administration fees (Note C)	250,920
Directors' fees	99,142
Accounting fees (Note C)	75,459
Audit and tax fees	50,763
Legal fees	49,180
Printing (Note C)	25,277
Shareholder servicing fees	20,836
Insurance fees	5,632
Stock exhange listing fees	2,137
Miscellaneous	10,072
Chilean taxes (Note B)	670,654
Total Expenses	3,301,603
Net Investment Income	1,984,807
NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY RELATED TRANSACTIONS	
Net realized gain/(loss) from:	
Investments	5,597,023
Foreign currency related transactions	63,227
Net change in unrealized depreciation in value of investments and translation of other assets and liabilties denominated in foreign currencies (includes $21,068 of Chilean repatriation taxes on unrealized gains) (Note B)	(76,820,491)
Net realized and unrealized loss on investments and foreign currency related transactions	(71,160,241)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (69,175,434)

See accompanying notes to financial statements.

THE CHILE FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	For the Years Ended December 31,	
	2008	2007
INCREASE/(DECREASE) IN NET ASSETS		
Operations:		
Net investment income	$ 1,984,807	$