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I. Developing long-term financial contracting in local currency
Keys to develop Yield curve: Indexation and Institutional Investors

- **Indexing Unit:**
  UF part of the law since 1967, widely used in financial contracts since early 80’s.

- **Pension System Reform (1981)**
  - Few investment alternatives at the beginning of the system.
  - Investment in stocks gradually allowed since 1985, and abroad since 1990.

Source: Superintendence AFP
De-Indexation

July 2001:
• Monetary Policy Rate from indexed to nominal.
• All public debt up to 1 year maturity issued in nominal terms.

September 2002:
• New bonds issued in pesos at 2 and 5 year-maturity
Financial Market De-Indexation

After the nominalization of monetary policy, nominal term deposits go from 25% to over 50% of total.
Recent Policies Supporting Yield-Curve

September 2002

- **Issuance structure change:**
  From ‘console’ to ‘bullet’ bonds.

- **New benchmark maturities:**
  From 4, 8, 12, 14, 20
  to 2, 5, 10, 20 years

- **Maturity concentration:**
  Benchmark bond changes every 6 months for 5 year bond and every 12 months for 10 and 20 year bonds.

• Market- Friendly
• International Practices
II Private Debt Market in Chile
• Corporate Debt steadily increasing

• Infrastructure works funding through bonds (concessions)

• Securitised Bonds strongly increasing: starting 100% mortgage loans. Recently securitisation of car loans, credit card, university credit.
- Market for long term debt.
- Institutional demand plays a key role: AFP (5 years), Life-insurance companies (20 years)
Liquidity of Fixed Income Securities

Ratio: Transations / Stock

Source: SVS and Santiago Stock Exchange
III Institutional factors supporting private debt market development
Government Debt Under Control

Central Government Net Debt + Central Bank

Source: Ministry of Finance
2003 (June)

- No crowding-out evidence
Legal Protection for Investors

• **Corporate Governance and Tender Offer Law (Ley de Opas 2000)**
  - Mandatory Tender offer rules
  - Class action
  - Related parties transaction
  - ADRs holders rights
  - Audit Committee
  - Withdrawal rights

• **Forthcoming Reforms**
  - New Auditor Activity Regulation (in the spirit of Sarbanes-Oxley)
  - Second Capital Market Reform (in Congress)
Other Legal Reforms

- Capital market reform of 2001 improved tax treatment on commercial papers.

- Issuers: Not only financial firms but also firms from the real sector.

Source: SVS

Commercial Papers
MM$ as Dec 2003

Source: SVS
Debt Market Development in Chile

José De Gregorio
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Central Bank of Chile

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