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EXTERNAL DEBT PROFILE OF CHILEAN COMPANIES*

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Resumen

El endeudamiento externo es una fuente importante de financiamiento para las empresas chilenas, que puede verse reducido por las crisis financieras, generando estrechez de liquidez en los mercados. Por eso es relevante conocer las características de la deuda de las empresas chilenas y cómo ésta se vio afectada por la crisis. Este artículo analiza el endeudamiento de las empresas chilenas y cómo se vio afectado por la crisis financiera subprime y europea, distinguiendo entre empresas de inversión directa (IED) y las demás. Los resultados muestran que las empresas IED, al recibir un financiamiento de empresas relacionadas, no disminuyeron los préstamos recibidos. Sin embargo, las demás empresas vieron reducidos los montos y plazos de financiamiento.

Abstract

Foreign borrowing is an important source of funding for Chilean companies, which might be reduced by financial crises causing liquidity squeeze in the markets. Therefore it is important to understand the characteristics of the Chilean corporate debt and how it was affected by the crisis. This document analyzes the Chilean corporate debt and how it was affected by the recent subprime and the European debt crisis, distinguishing between foreign direct investment companies (FDI) and non-FDI companies. The results show that for FDI companies which receive financing from related companies, borrowing was not affected. However, borrowing amounts and terms for non-FDI companies were reduced.

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I. Introduction

In today's globalized world, all countries are interrelated either through trade, investment, debt or other flows. The recent financial crisis unveiled the importance of having a better understanding of how financial shocks are transmitted among countries. Among those transmission channels are external financing flows, important in ensuring funding of investment projects and economic growth.

This paper describes Chilean external debt, especially that of enterprises, which represents a significant share of indebtedness, accounting for 73.4% of total debt in December, 2012. It is particularly interesting to analyze the evolution of this debt in recent years following the 2008 crisis, in terms of level, type of instrument and main characteristics such as term and interest rate. The paper also looks into the effects of the US subprime crisis and the recent European financial crisis on the level of corporate indebtedness and on parent creditor countries.

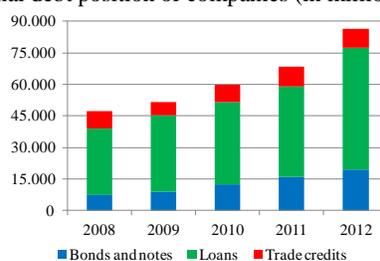
II. Data sources

Under provisions of its Basic Constitutional Act (LOC), the Central Bank of Chile (BCCH) is required to publish some of the country's most relevant economic data. To do so, LOC allows the BCCH to demand that companies and banks provide information on foreign exchange transactions, among them, data on loans, bonds and deposits obtained abroad. Banks and enterprises must report these data monthly. Accordingly, all debtors report details of each debt over one million US dollars, including financial conditions such as amount, term, currency, interest rate, name and country of creditor, and principal and interest repayment schedule. They must also report actual principal and interest repayments, as well as any changes in the financial conditions of the loan or bond. This information allows the Central Bank to compile and disseminate a wide variety of external debt statistics following international guidelines. The data are also used for financial stability analysis purposes, for example, to prevent tight liquidity conditions in the banking sector which could later affect the real sector.

III. Composition of Chilean corporate debt

External debt of companies has risen steadily over the last five years (Figure 1). As of December, 2012, total outstanding debt liabilities amounted to US\$86,430 million, equal to 73.4% of Chilean total external debt.

Figure 1: External debt position of companies (in millions of US dollars)



The corporate sector may in turn be broken down into foreign direct investment enterprises (FDI) and non-FDI enterprises. This paper deals with them separately because the nature of their indebtedness differs. Because it involves indebtedness among related parties, debt of foreign direct investment enterprises has a lower risk, and, possibly, a lower degree of repayment enforceability than debt among non-FDI enterprises. Besides, direct investment enterprises in Chile resort only to

financing via loans and trade credits, whereas non-FDI enterprises also obtain funding by placing bonds in international markets.

1. FDI enterprises

Direct investment involves a resident of an economy (direct investor) establishing a lasting interest in an entity (direct investment enterprise) resident in another economy. According to the sixth edition of the Balance of Payments Manual¹, a direct investment relationship arises when a direct investor directly holds equity that gives it voting power of 10% or more in the direct investment enterprise.

Conceptually, direct investment enterprise debt covers all financial liabilities and claims - including debt securities and suppliers' credits (for example, trade credits) - between direct investors and their branches, subsidiaries, and related enterprises².

In Chile, external debt of FDI enterprises has become significant over the last five years. Thus, its share within corporate debt has risen from 8.8% in 2008 to 24.8% in 2012.

This debt comprises only loans and trade credits (Figure 2). Long-term loans (over one year) are the most significant in debt positions, accounting for 81.0% of the sector's total debt.

The position of direct investment company debt has risen steadily and has done so at increasing rates. In December, 2012 its position was US\$21,426 million, up 89.6% over its level in end 2011. This hike is explained by a concentration of loans of over US\$1,000 million, destined to acquire equity in the Mining and Financial Services sectors.

Figure 2: External debt position of direct investment enterprises (in millions of US dollars)



1.1 Loan inflows

During the period under study (2008 to 2012), loan inflows to FDI enterprises increased their share in total indebtedness of enterprises, from 13.2% in 2008 to 51.9% in 2012. Between 2008 and 2010 there was a rising trend in loan inflows (Figure 3), which were not affected by the US subprime crisis because FDI enterprises borrow mainly from the Eurozone. In 2011 there was a decrease in loans, which fell 19.6% compared to inflows in 2010. Nonetheless, in 2012 there was a significant recovery in loan inflows, which increased 269.8% over the previous year, reaching US\$15,261 million.

The European financial crisis affected parent creditor country composition. Thus, whereas in 2008 the Eurozone accounted for 58.7% (Figure 4) of total debt liabilities inflows, its share dropped to 19.3% in 2009. Because of this, companies had to seek financing from creditors whose parent

¹ 6.3 of Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)(IMF)

² Paragraph 3.14 of the IMF External Debt Statistics, Guide for Compilers and Users

companies were located in countries such as Barbados and Virgin Island (included in other countries) in 2009, which accounted for 22.5% and 27.6% respectively. In 2010 the Eurozone regained its share, returning to 41.2%.

Over the past two years, Canada has become a new creditor country whose significance in FDI enterprise indebtedness has increased.

Figure 3: Inflows of FDI enterprise loans

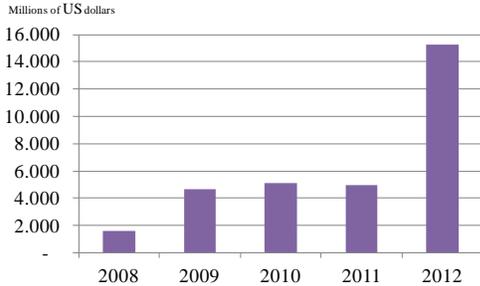
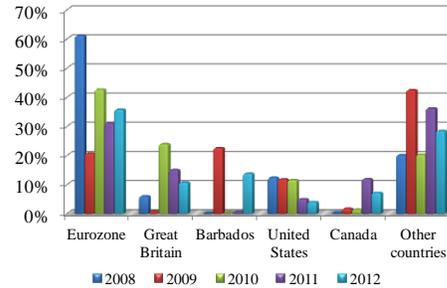


Figure 4: Inflows of FDI enterprise loans by parent creditor country



A few companies concentrate direct investment enterprise borrowing. In 2008, only eight companies accounted for 80.0% of loans obtained. By 2012, the number had increased to thirteen companies out of a total 145 debtors.

As to terms, long-term (over one year) loans are predominant, particularly those with ten-year maturity. The subprime crisis did have an effect on loan terms. In fact, after Lehman Brothers fell in late 2008, short-term lending increased significantly in 2009, both for total loan inflows (Figure 5) as well as for those over US\$100 million (Figure 6). On the contrary, for the Eurozone financial crisis long term lending increased its share in total loans from 57.6% in 2009 to 83.5% in 2011. The same is true for large debts, i.e., those over US\$100 million. For these loans, Chilean enterprises have been able to obtain from their related enterprises, financing with longer terms, specially loans maturing in fifteen or more years. As a result, the share of long-term loans obtained has increased from 47.0% in 2009 to 79.2% in 2012.

Figure 5: FDI enterprise loan inflows, by term

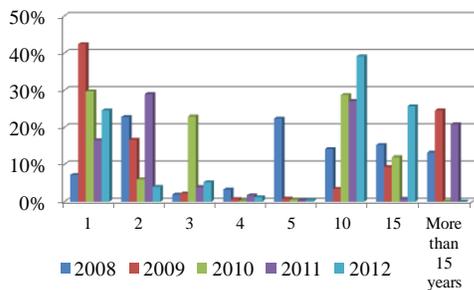
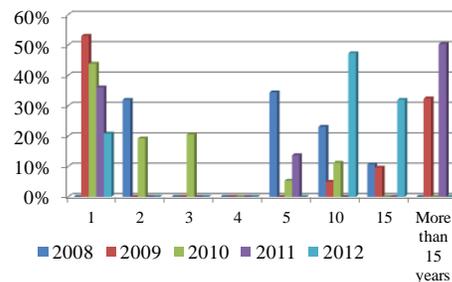
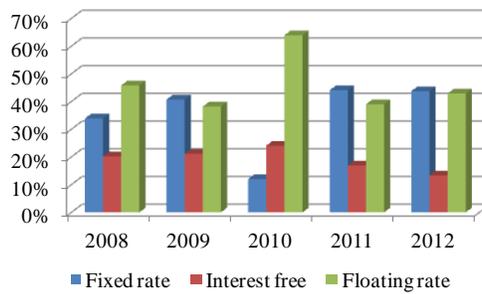


Figure 6: FDI enterprise loan inflows of over US\$100 million, by term



As to interest rates of FDI corporate loans, those with fixed interest rates have gained importance over the last two years, whereas floating interest rate loans were more significant in previous years. Because financing comes from related companies, some debts of these corporations do not accrue interest. However, their share is lower than for debts subject to fixed or to floating interest rates (Figure 7).

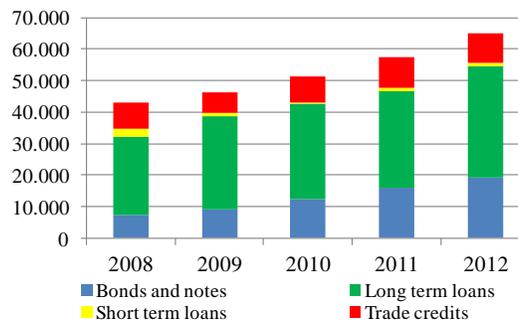
Figure 7: FDI enterprise loans, inflows by interest rate



2. Non-FDI enterprises

External debt of non-FDI enterprises comprises loans, bonds and trade credits (suppliers' credit), as seen in Figure 8. Loans, mainly long-term, are the main source of financing, and account for 56.1% of total debt. They are followed by bonds, whose share is 29.8%. As in the case of FDI enterprises, debt of non-FDI enterprises has shown a growing trend over the last five years, due to the rise in bonds and trade credit, which offset the decline in loans. Its position was US\$65,004 million in December 2012, up 13.5% over its level in end 2011. The significance of loans and bonds warrants the following, more detailed analysis.

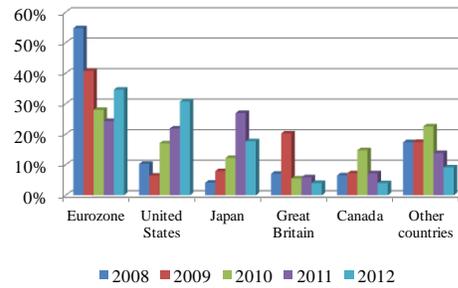
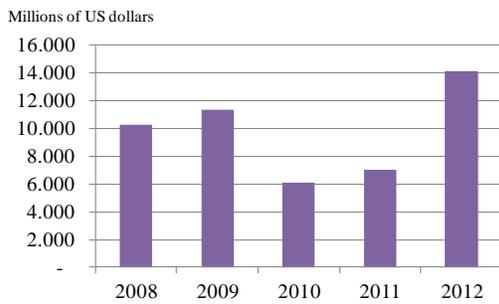
Figure 8: External debt position of non-FDI enterprises (in millions of US dollars)



2.1 Loan inflows

Proof that the US subprime crisis did not affect loan inflows was that in 2009 their level increased 10.3% over the previous year (Figure 9). Although financing from creditors with parent companies in the United States fell, companies were able to obtain funds from other countries such as Japan and Great Britain. This was not so during the European financial crisis. In 2010 at the onset of this crisis, annual inflows dropped 46.1%. This crisis had an impact on new corporate financing, particularly that coming from the Eurozone, whose share in total loan inflows fell from 54.7% in 2008 to 24.4% in 2011 (Figure 10). This drop was partly offset by loans from the United States, Japan and Canada. The amount of loan inflows recovered in 2012, reaching US\$14,167 million. This was mainly the result of two loans worth US\$2,500 million and US\$1,800 million obtained by the Trade sector and financial establishments for acquisition of equity.

Figure 9: Inflows of non-FDI enterprise loans Figure 10: Inflows of non-FDI enterprise loans by parent creditor country



As in the case of direct investment enterprises, a few companies concentrate loans granted to non-FDI enterprises. In 2008, forty three companies accounted for 80.0% of loan inflows. By 2012, the number had dropped to thirteen out of a total 155 debtors.

On the matter of term, these companies have obtained debt maturing mainly in one, ten and fifteen years (Figure 11). Nonetheless, for the largest debts, i.e., those over US\$100 million, Chilean companies have been able to obtain financing with longer maturities, thus increasing their share in total credits with five and ten year terms (Figure 12).

The subprime crisis affected debt terms, lowering those of corporate debt obtained in 2009 and 2010, at the onset of the European crisis.

Figure 11: Non-FDI enterprise loan inflows, by term

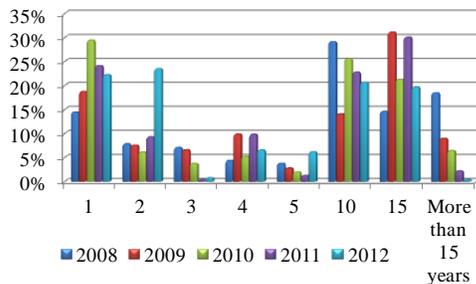
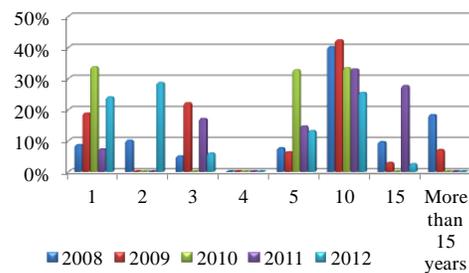
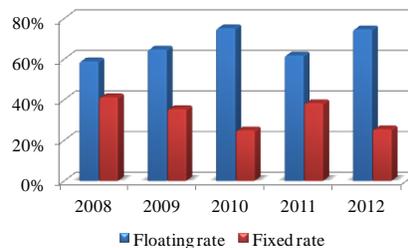


Figure 12: Non-FDI enterprise loan inflows of over US\$100 million, by term



As to interest rates, between 2008 and 2012, loans at floating rates were the most significant for these companies (Figure 13). Their share in total debt has increased especially between 2008 and 2010, due to the low level of interest rates in international markets. It should be recalled that the subprime crisis in the United States and the European crisis caused both the FED and the ECB to lower their rates to historically minimum values.

Figure 13: Non-FDI enterprise loans, inflows by interest rate



2.2 Bonds

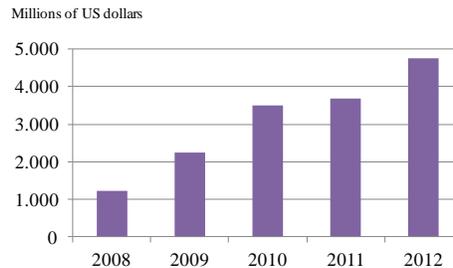
Companies have diversified their financing sources, replacing bank loans by bond issues in international markets, mainly in the United States. There have also been bond issues in Peru and Switzerland. In 2010, bond issues increased 55.9% over the previous year (Figure 14). That year, Chile issued two sovereign bonds in the United States for a total amount of US\$1,500 million. These transactions established benchmarks for future bond issues by Chilean corporations. In fact, the average interest rate at which Chilean corporate bonds were placed was 4.8% in 2010, compared to 8.0% in 2008.

Noteworthy in 2012 was the total amount issued - US\$4,754 million - up 28.7% from the previous year. This rise was also explained because Chile again issued sovereign debt in the United States, this time at a record low rate in the country's history as well as in that of emerging economies. The issue amounted to US\$750 million, with a ten year term and a rate of 2.378%. Chile improved its credit rating between 2007 and 2012. Standard & Poor's raised it to A+ in 2007 and again to AA- in 2012, resulting in cheaper external financing. In 2012, the average rate for Chilean corporate bond placements fell to 4.2%. On the other hand, external monetary stimuli have pushed reference rates, for instance, those of the US Treasury, to an all time low, making it easier for corporations to place issues at lower rates.

Note that access to placement of bonds abroad has been limited to only a few companies, on average, seven enterprises between 2008 and 2012. These are mostly companies in the Mining, Electricity and Trade sectors.

Bonds have generally been issued with ten year maturity.

Figure 14: Bond issues



IV. Conclusions

A few companies concentrate enterprise foreign borrowing. In 2012, thirteen companies accounted for 80.0% of loan inflows for FDI and non-FDI companies.

Long term loans were the largest portion of the external debt of both groups. The United States subprime crisis did not affect the level of foreign lending of FDI enterprises, because they borrow mainly from the Eurozone. Although non-FDI enterprises faced drops in loans from creditors whose parent companies were located in the United States, they were able to offset them with lending from other creditors whose parent companies were in Great Britain and Japan. Lending terms were also affected, resulting in increases in short-term lending for both types of companies.

Even though Eurozone region is an important creditor for FDI and non-FDI companies, only the latter was affected by the European financial crisis. Particularly, its borrowing fell 46.1% in 2010 compared to the previous year. These companies not only had to diversify the realm of creditor countries, but also to resort to bond issues in order to partially offset the decline in loans.

It is worth mentioning that there was a significant drop in the cost of corporate bond issues, from an average issue rate of 8.0% in 2008 to 4.2% in 2012.

Finally, regarding interest rates, loans at fixed-rates have been the most significant ones during the last two years in the case of FDI enterprises, whereas floating rate loans have been more relevant for non-FDI companies during the last five years.

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