



Debt Market Development in Chile

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I. Developing long-term financial contracting in local currency

Keys to develop Yield curve: Indexation and Institutional Investors

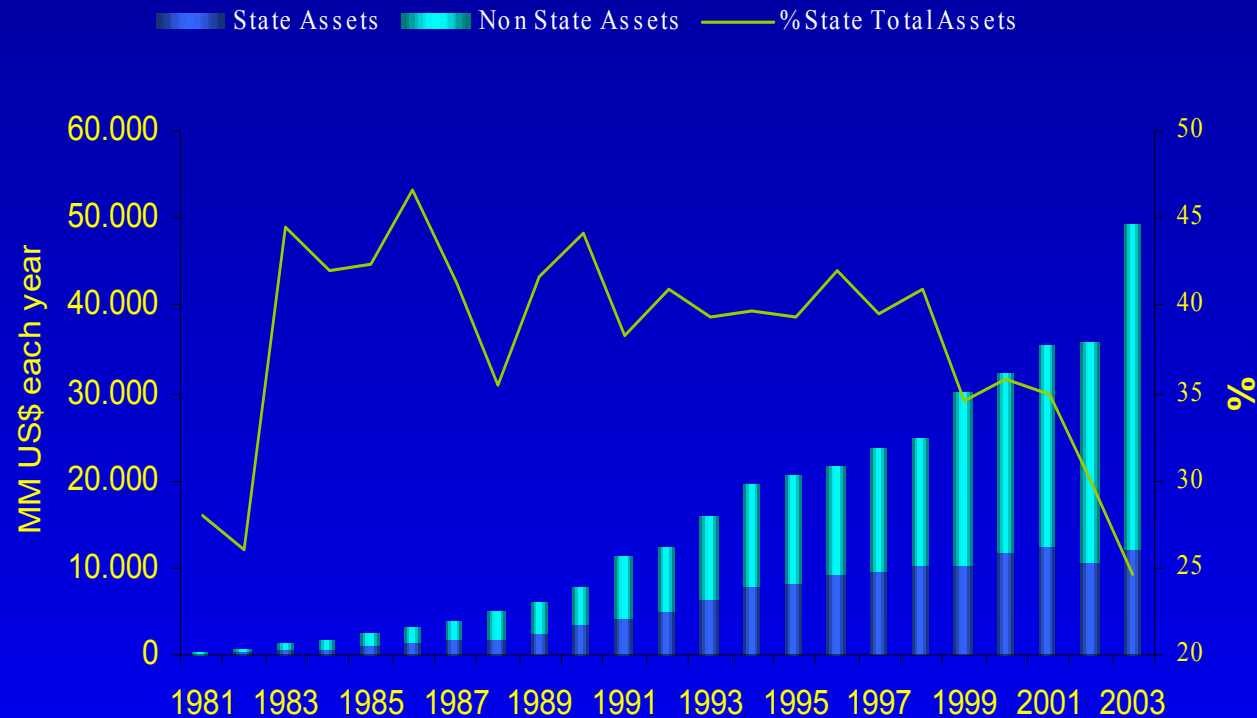
- Indexing Unit:

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.

AFP Total Assets



Source: Superintendence AFP

De- Indexation

July 2001:

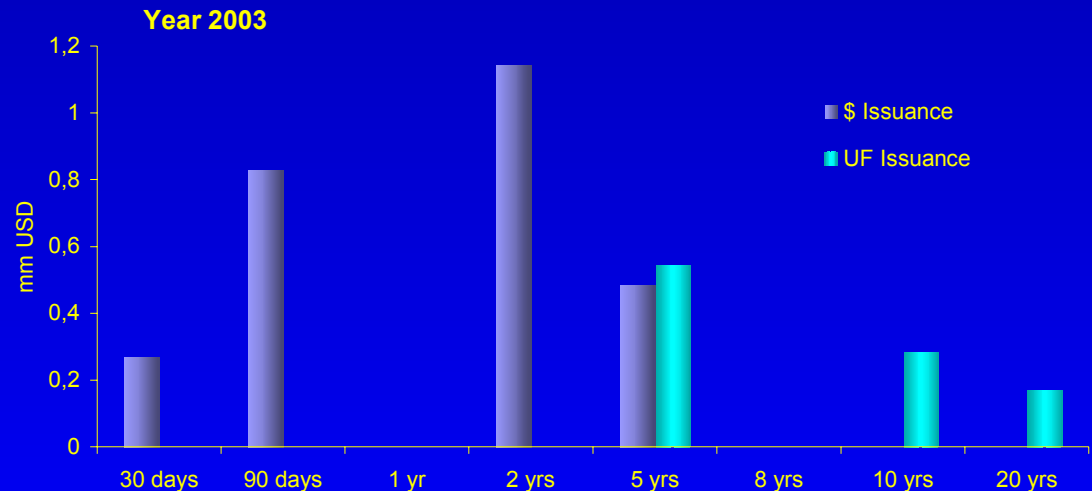
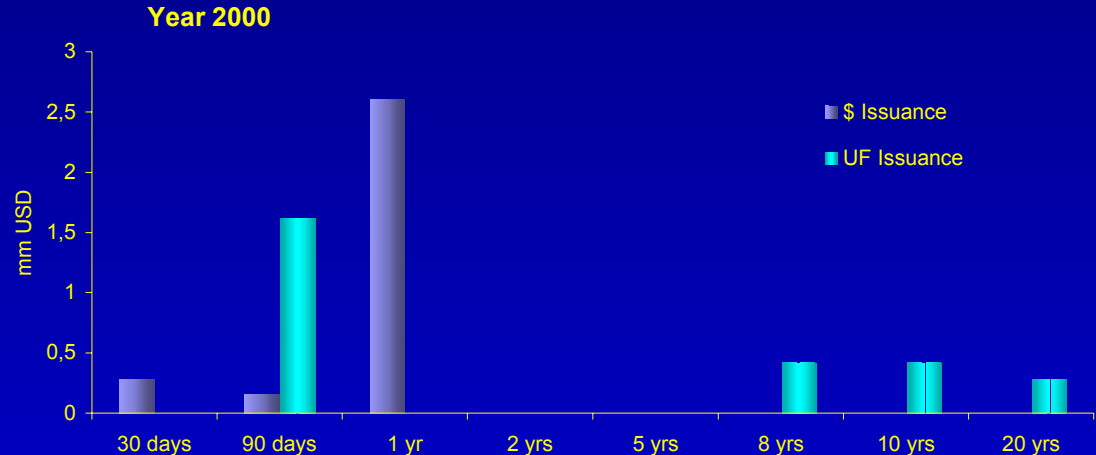
- Monetary Policy Rate from indexed to nominal.
- All public debt up to 1 year maturity issued in nominal terms.

September 2002:

- New bonds issued in pesos at 2 and 5 year-maturity

New debt issued by the Central Bank

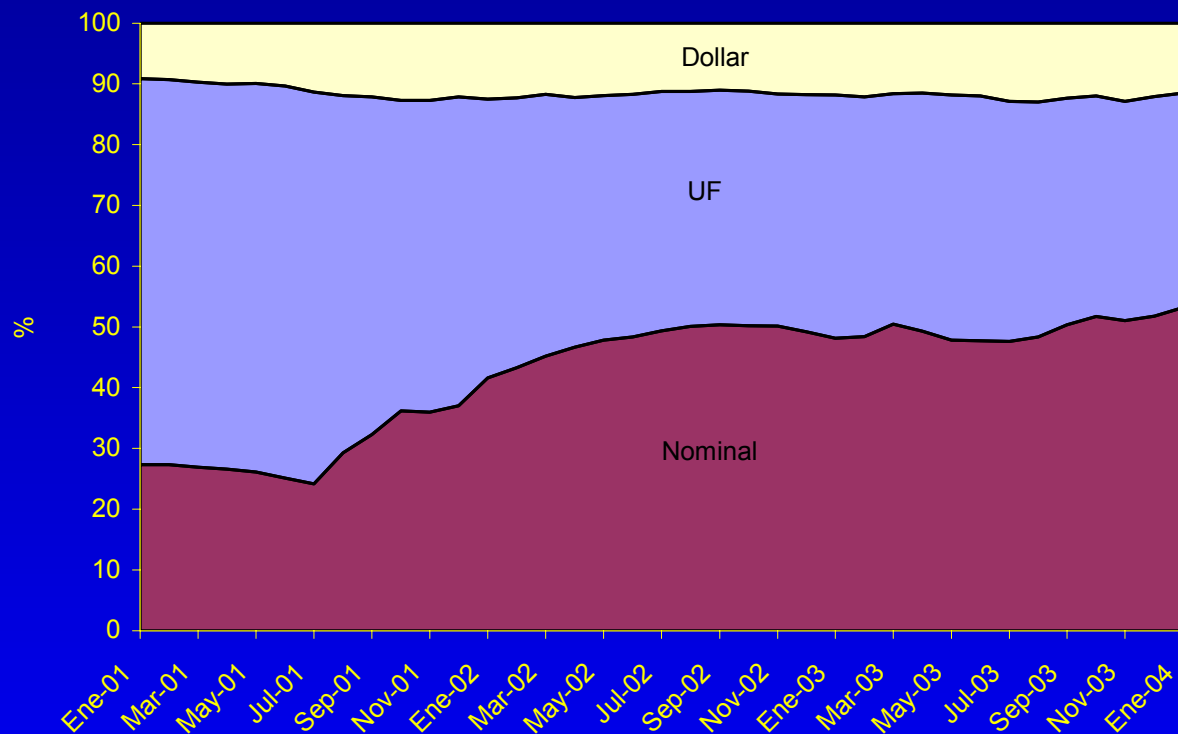
Monthly averages (less than 1 year) and total annual



Financial Market De-Indexation

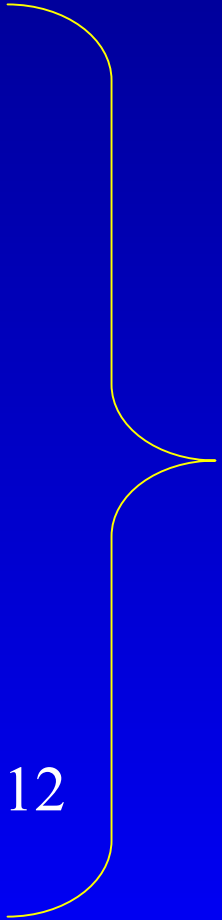
Composition of Term deposits
Nominalization of monetary policy in July 2001

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



Recent Policies Supporting Yield- Curve

September 2002

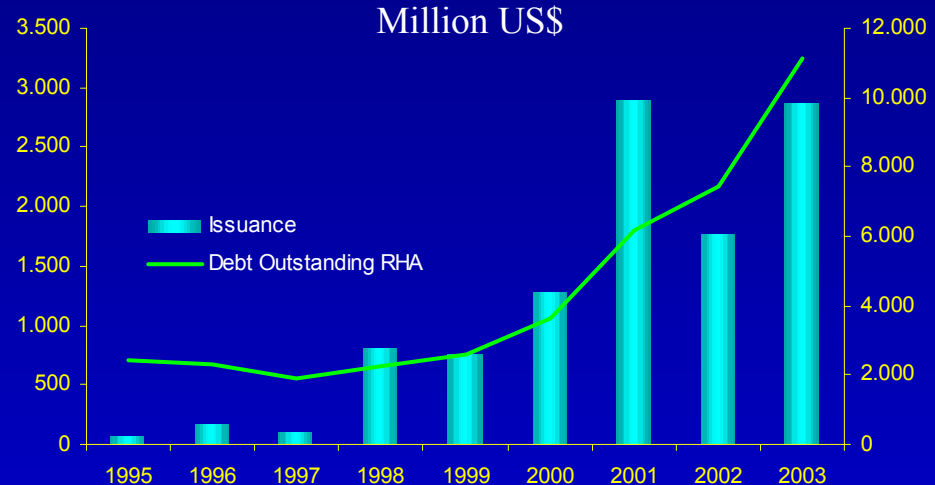
- **Issuance structure change:**
From 'console' to 'bullet' bonds.
 - **New benchmark maturities:**
From 4, 8, 12, 14, 20
to 2, 5, 10, 20 years
 - **Maturity concentration:**
Benchmark bond changes every 6
months for 5 year bond and every 12
months for 10 and 20 year bonds.
- 
- Market-Friendly
 - International Practices

II Private Debt Market in Chile

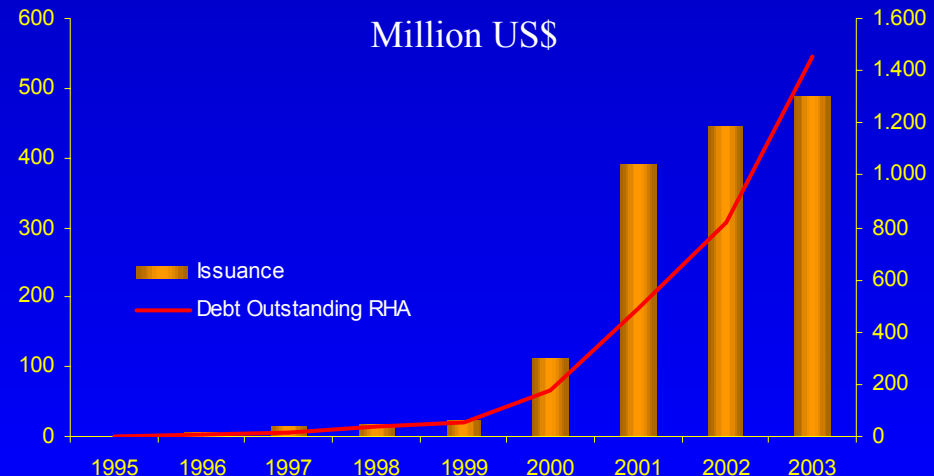
Corporate Debt Trends

- 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.

Corporate Bonds

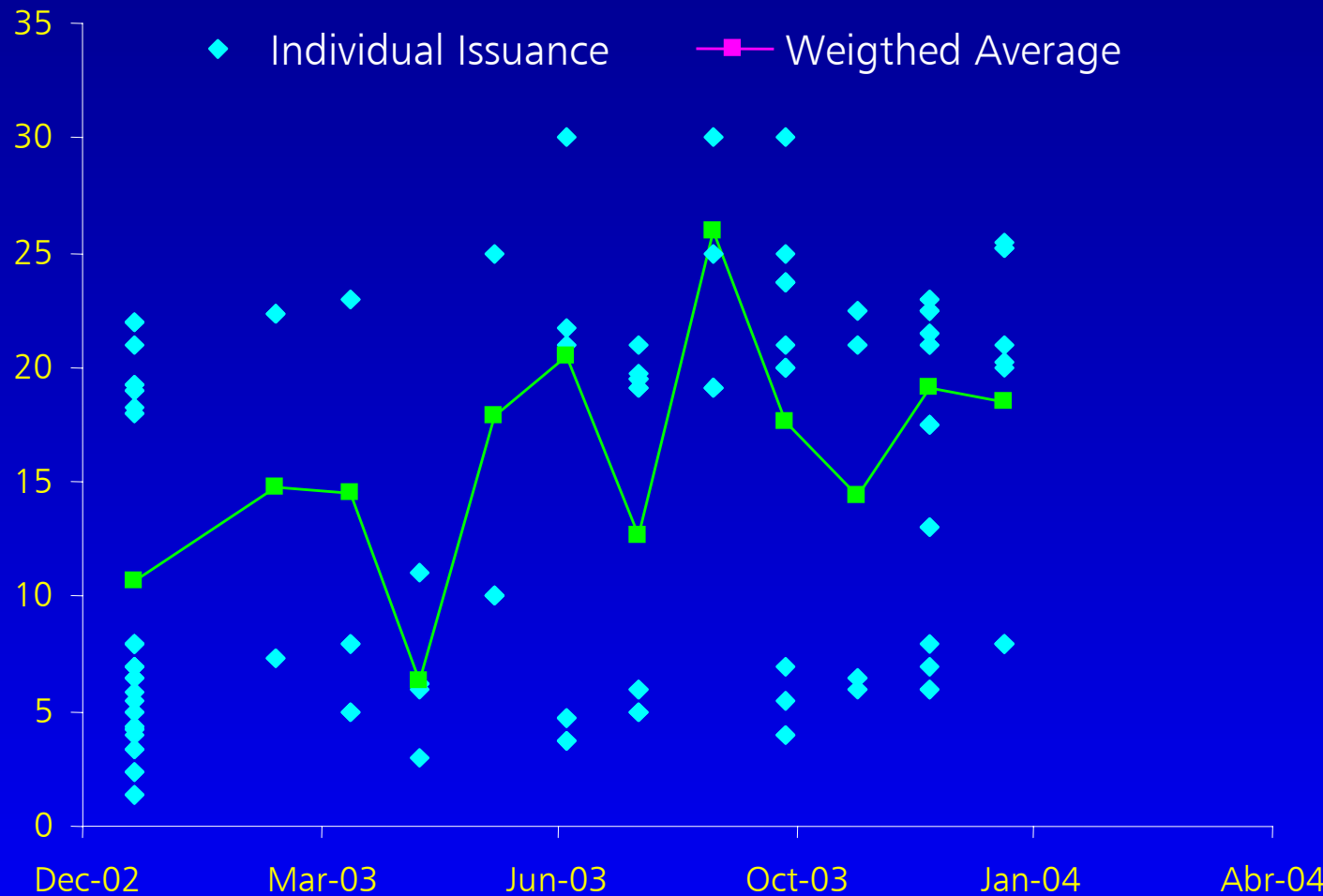


Securitized Bonds



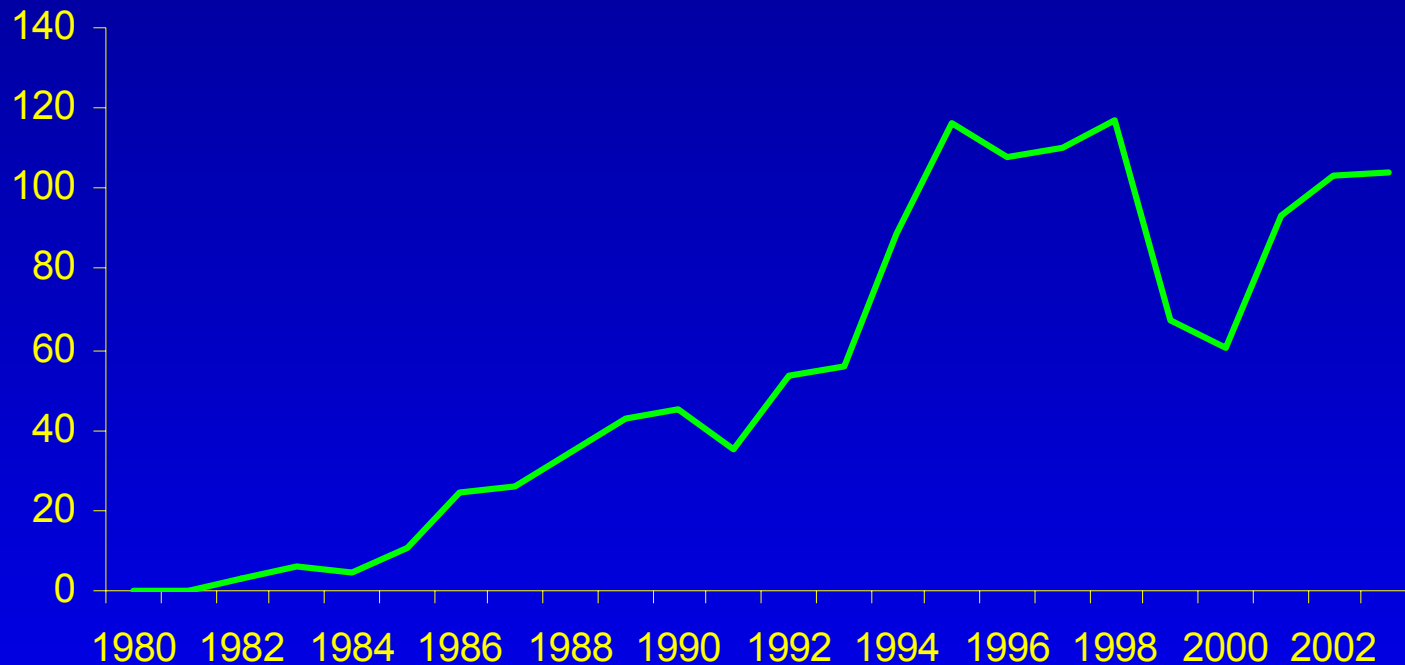
Maturities

- 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: Transactions / Stock

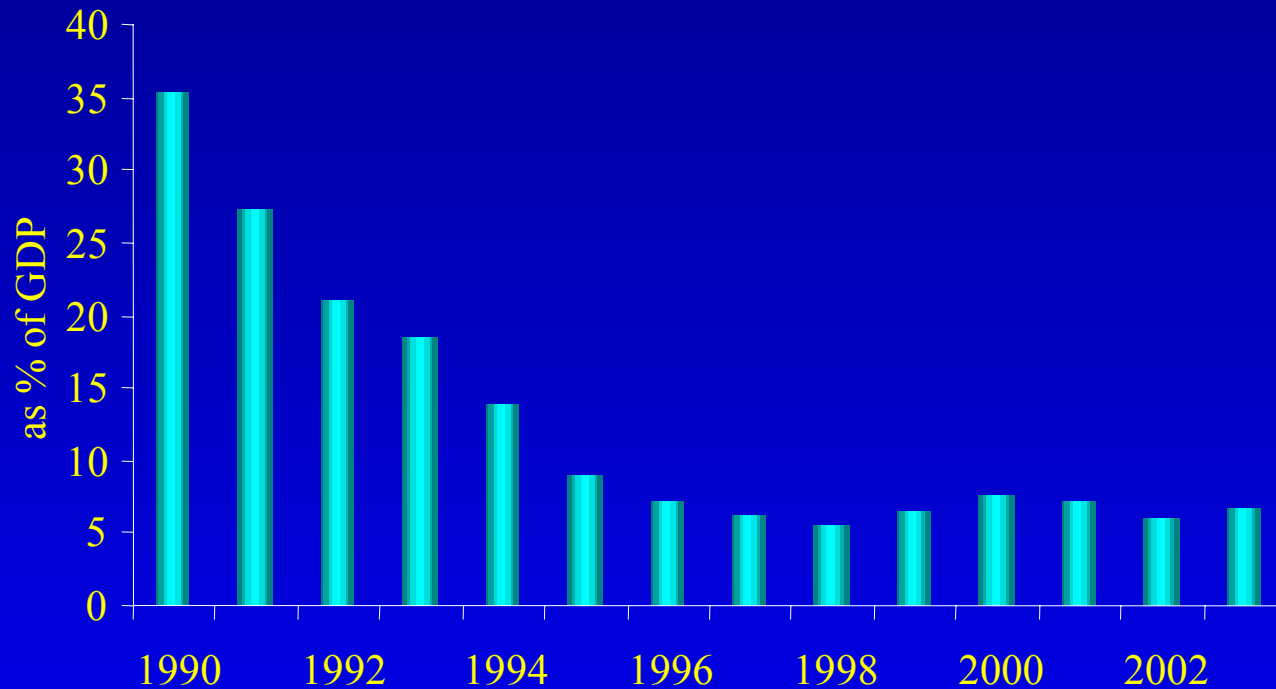


Source: SVS and Santiago Stock Exchange

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)

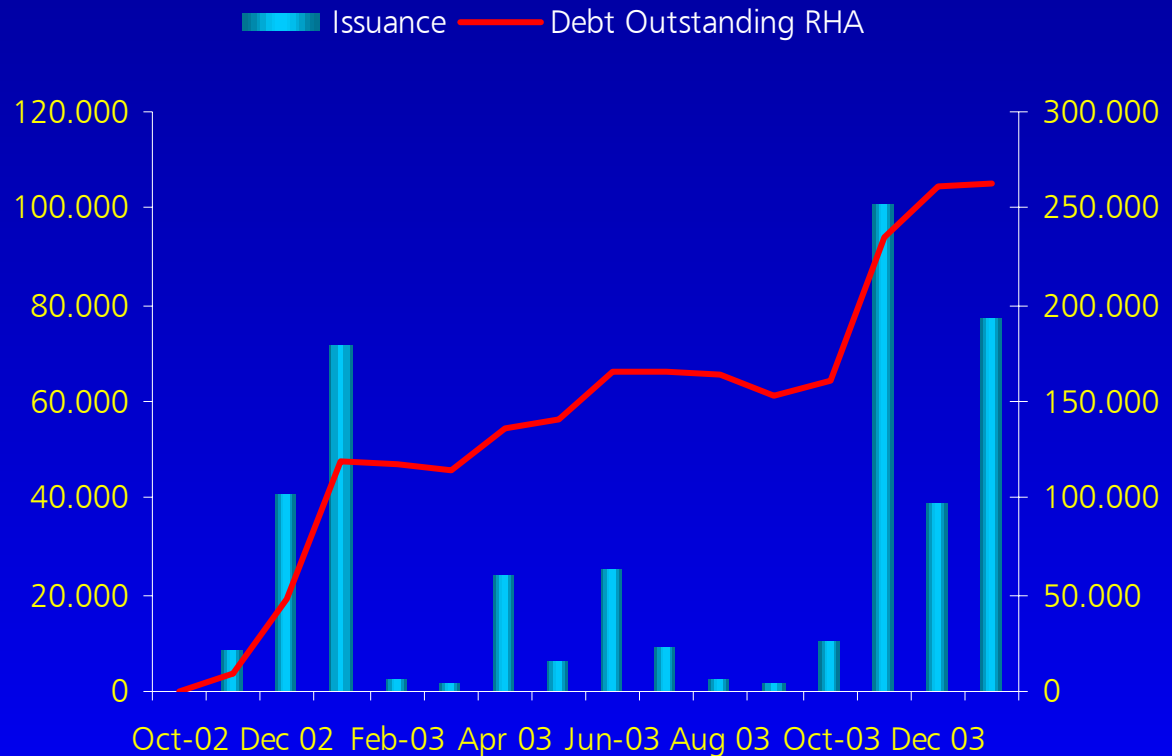
- Second Capital Market Reform (in Congress)

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.

Commercial Papers

MM\$ as Dec 2003



Source: SVS



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