

The 3rd Annual PECC Finance Conference

***Institution-Building in a World of Free and Volatile Capital Flows:
PECC Perspectives***

Sheraton Santiago Hotel & Convention Center, Santiago, Chile
June 20-21, 2004

Session III

Assessing and Building Capacities for the Development of Bond Markets
in the APEC Region

(Discussion Paper)

Developing Bond Markets in Chile

Luis O. Herrera

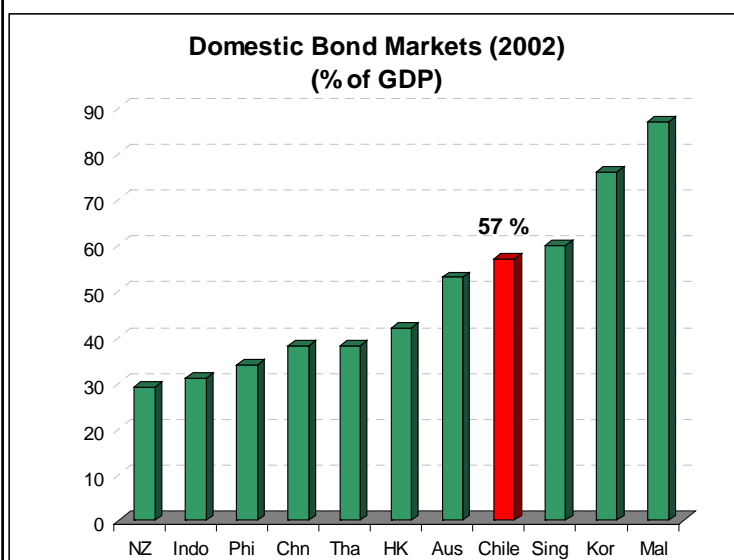
Banco Central de Chile

Developing Bond Markets in Chile

Comments by Luis O. Herrera
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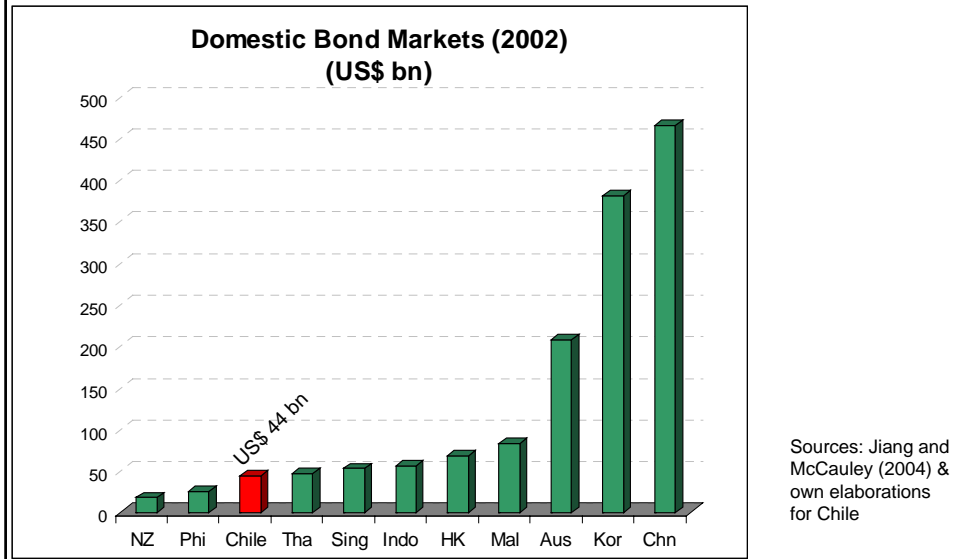
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Chilean Bond Market



Sources: Jiang and
McCauley (2004) &
own elaborations
for Chile

Chilean Bond Market



Key drivers

- Sound fiscal and monetary policies
- Privately funded pension system provide a stable investor base

Institutional Investor Base

Investors Base in Chilean Bond Market '03

	Bond Market	of which:	
		Public	Corporate
Private Pension S.	60%	52%	68%
Banks	20%	35%	3%
Mutual Funds	2%	1%	2%
Others	18%	12%	27%
Total	100%	100%	100%

Private Pension System

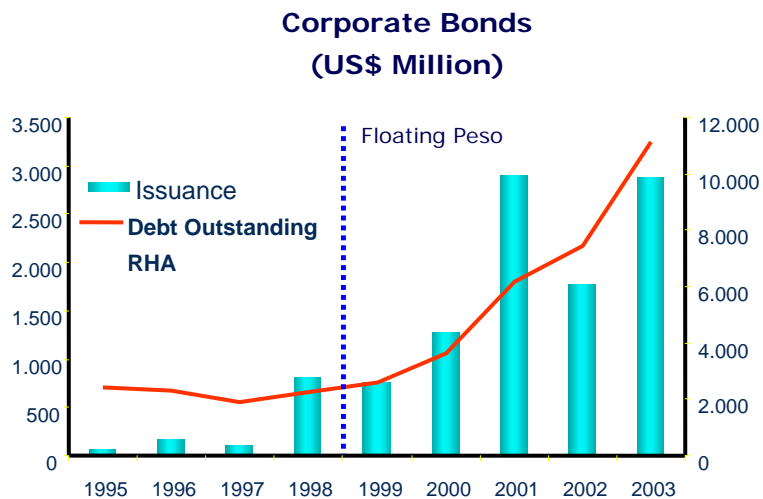
<i>Pension Funds</i>	39%	42%	30%
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<i>Life Insurance Co.</i>	21%	10%	38%
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Key drivers

- Sound fiscal and monetary policies
- Privately funded pension system provide a stable investor base
- Exchange rate flexibility

Corporate Bonds Issuance



Key drivers

- Sound fiscal and monetary policies
- Privately funded pension system provide a stable investor base
- Exchange rate flexibility
- **Indexation**

Indexation

Domestic Public Bonds

	<u>2000</u>	<u>2003</u>
Pesos	7%	26%
Indexed	93%	74%
<i>CPI-linked</i>	80%	43%
<i>US\$-linked</i>	13%	31%
Total (US\$)	21.652	20.789

Challenges

- Deepen market liquidity
- Increase access to issuers
- Draw in international investors
- Widen Peso bond markets
- Modernize market & settlement infrastructure

Development of Chilean Bond Market

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