Expanding the Role of Long-Term Institutions in APEC Economies
The case of Chile

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Why financial development and integration is relevant?

- Long-term financial development and integration is a policy of fundamental importance. Some of the benefits include:
  - Strengthen financial stability, by reducing the impact of negative cycles
  - Financial integration is a required policy due to its positive impact on economic growth and economic welfare.
  - Deeper financial markets, which is a key source for promoting higher diversification in sources of funding and infrastructure projects.
  - Better possibilities of risk/return alternatives.
  - Funding long-term pensions through pension funds, without affecting fiscal deficits in the long run.
  - It contributes to adopt global practices

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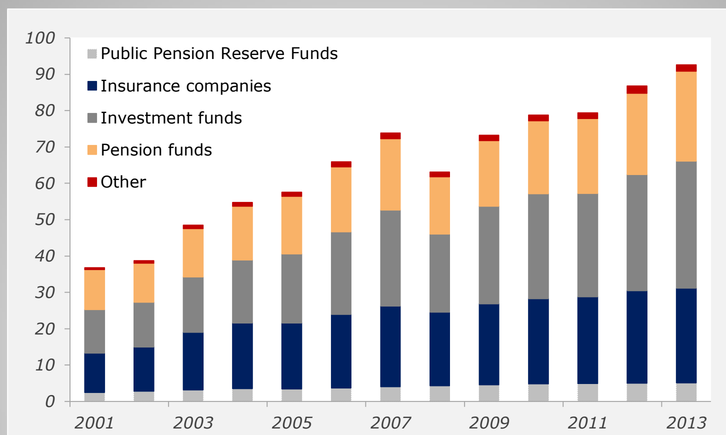
Long-Term Investors Have Grown in OECD Countries (AUM, USD Tn)



Source: OECD Global Pension Statistics.

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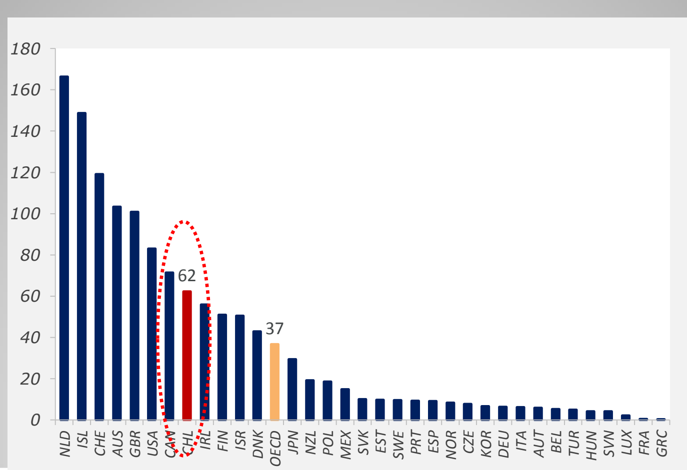
Pension funds in OECD (2013, % GDP)



Source: OECD Global Pension Statistics.

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Chile has followed global trends and best practices in financial development reform

- The efforts to liberalize and develop Chilean financial and capital markets began in the 1970s. The pension funds reforms began in the early 1980s.
- The evolution was fast and the contributions to economic growth and stability were substantial. (Effect on total factor productivity and cost reduction).
- The Chilean financial and capital markets have played a very important role in the country's economic growth; Chile is number one in the coefficient of financial assets to GDP and in per capita income in Latin America, and also in overall economic stability.

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- During the Asia crisis and during the 2008 financial crisis, the capital markets provided corporate bond financing, at a time when the banking sector was contracting or reluctant.
- As an example, the issuances of bonds have financed telephone companies, hydroelectric energy terminals, cellulose plants, cement plants, coke and iodine mining, copper, mining and banking. It has facilitated the opening and expansion of closed companies.
- Prior to the appearance up of the infrastructure bonds, the pension funds could invest indirectly in this area, through investment funds in the development stage of the projects, such as some highway projects, like the panamerican highway or some smaller interurban highways (Santiago-San Antonio) or airport expansions.

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- At the beginning of 1999 the first infrastructure bonds were issued, and the pension funds bought 95% of this issuance equaling around US$ 100 million.
- In connection to capital markets, the contribution of pension funds was also directed toward the development of fixed income markets and the stock exchange. There was as well a contribution to the industry of "risk rating" and the development of life insurance companies as an institutional investor. There was, in addition, a positive effect on market stability due to their knowledge of the market and to their long term vision
- During the 60s and 70s domestic savings as a percentage Gdp was around 5%. After capital markets reform and pension funds reforms the figures reached 24% during the 90s on.

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Chile has followed global trends and best practices in financial development reform

- In conclusion, capital markets and pension fund reforms in the framework of a market economy have made a substantial contribution, not only to economic growth, better pensions, better jobs and salaries, financing of infrastructure and stability of the banking system, and the economy at large.
- Chile has reached a coefficient of financial assets and GDP over 250, the highest in Latin America, a per capita income of US$ 24 thousand, a risk classification of AA, a rate of poverty of 10%, cds of 104pb and it is a member of OECD. The financial institutional framework of Chile is already strong but it admits additional improvement.
- In the future we think the Chilean financial sector is prepared and it is in the way to integrate successfully in the Pacific Alliance, in Asia Pacific and worldwide.

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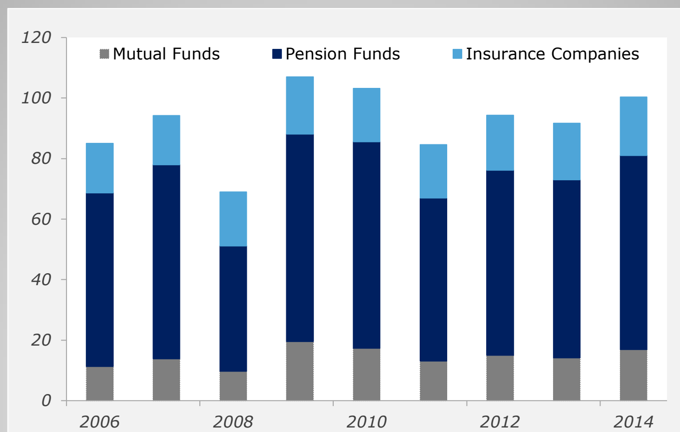
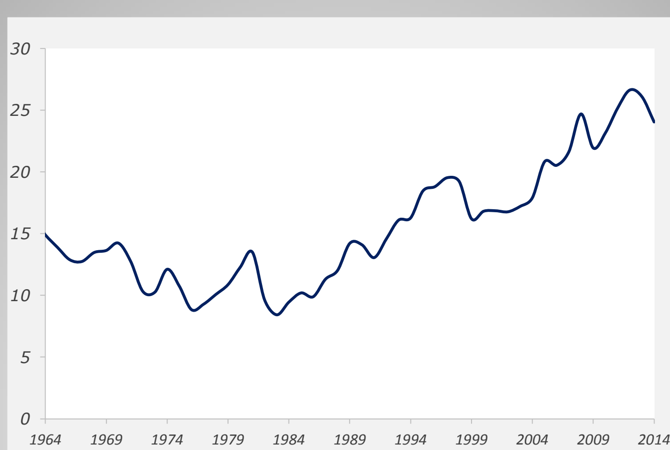
Pension, Mutual Funds and Insurance Companies in Chile (% GDP)

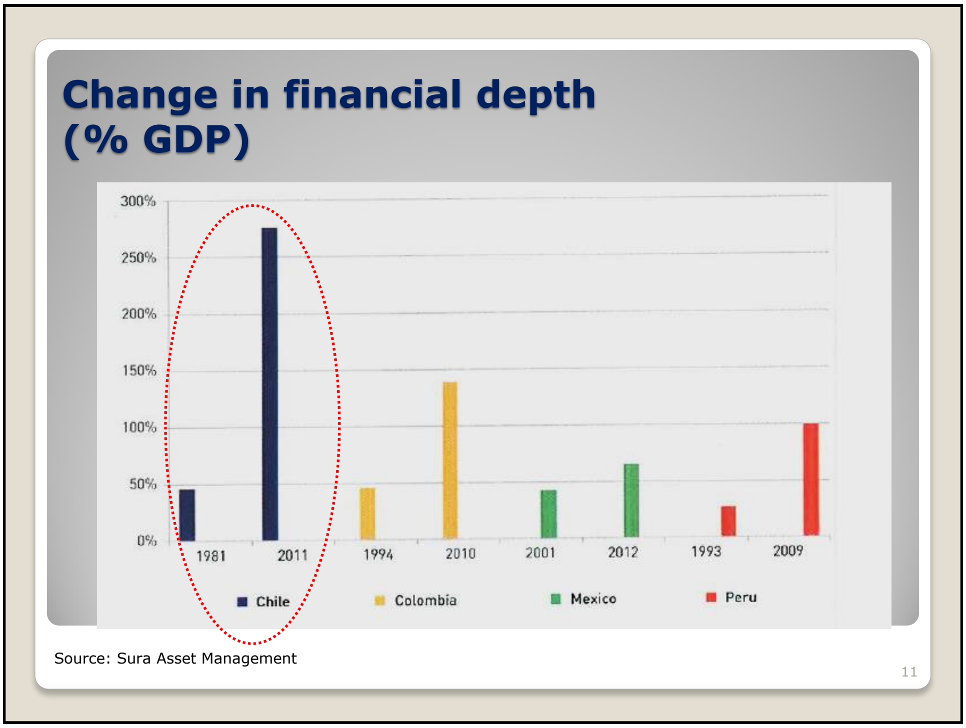


Source: Banchile.

Investment Rate in Chile (% GDP)



Source: Ministry of Finance.


Change in financial depth
(% GDP)
300%
250%
200%
150%
100%
50%
0%
1981
2011
1994
2010
2001
2012
1993
2009
Chile
Colombia
Mexico
Peru
Source: Sura Asset Management
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