

16. FINANCIAL SERVICES

16.1 Overview

Chile's financial sector has suffered a profound liberalization that started in 1974. Since then, it has experienced major progress and high technification. Today, it is probably the most developed financial market in all Latin America. This process of development, however, has not been smooth. Indeed, the development of the financial system can be divided roughly in three phases:

(a) 1975-1981. In this period, the financial system was deregulated almost completely. Interest rates were set free, and entry to the banking industry was allowed. The capital account was gradually liberalized. At the beginning of the 1980s, the Chilean financial legislation --both for the domestic market and for international capital flows-- was extremely liberal.

(b) 1982-84. Due to the economic crisis of 1982-83, and the massive indebtedness incurred by the banks, some regulations came back; in 1983, the authorities even intervened the administration of the two principal private banks.

(c) 1985-1993. Drawing on the lessons of the 1982-1983 crisis, regulations were improved and the regulatory power of the authorities (the superintendencies) was enhanced. Later on, in 1985, the intervened banks were reprivatized. In the second half of the 1980s, the Chilean financial sector and capital markets experienced fast growth. Institutional investors, especially