

Debt Composition and Balance-Sheet Effects of Exchange Rate: A Firm level Analysis for Chile

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Abstract

This paper analyses the effect that the Asian crisis had on the currency composition of corporate debt in Chilean firms. We first study the behavior of foreign currency borrowing and the investment decisions of firms listed in the Chilean Stock Exchange from 1994 to 2001. We assess whether in the aftermath of the Asian crisis of the late 1990's depreciations of the local currency (Chilean peso) liabilities via a net-worth effect, offset the expansionary competitiveness for the tradable sector. There exists some evidence for a positive impact on investment of a devaluation for firms with dollar denominated debt. However, the absolute value is very close to zero so one can argue that the final effect is negligible. Currency depreciation by its own does not affects investment. Higher rate of GDP growth will have a positive impact over investment. The maturity structure is explained principally by the size of the companies. Large firms will have a debt structure biased to higher maturities. Analyzing dollar denominated debt composition the evidence shows that larger firms maintained a higher proportion of dollar denominated debt. The development of the financial sector in Chile has caused an increase in the exposition in dollar liabilities. In a second approach, results using manufacturing firms' survey data confirm most of these findings. They clearly suggest that firm size and export orientation are relevant variables in explaining the amount of losses due to exchange rate fluctuations. In addition, economic performance of manufacturing firms is related to the amount of losses reported whereas domestic interest rates and changes in the exchange rate are not.

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