Rodrigo Vergara: The Monetary Policy Report and the Financial Stability Report

Presentation by Mr Rodrigo Vergara, Governor of the Central Bank of Chile, before the Finance Commission of the Honorable Senate of the Republic, Santiago de Chile, 6 June 2016.

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Both the Monetary Policy Report *of June 2016 and the* Financial Stability Report *of the first half of 2016 can be found at* http://www.bcentral.cl.

Introduction

Mr. President of the Senate's Finance Commission, Senator Andrés Zaldívar, senators members of this Commission, ladies and gentlemen,

Thank you for your invitation to present the Central Bank of Chile's vision on the recent macroeconomic and financial developments, prospects and implications for monetary and financial policy making. This vision is contained in detail in our *Monetary Policy Report* of June 2016 and our *Financial Stability Report* of the first half 2016.

Over the last few months, the economy evolved in line with estimates in our March Report. Inflation declined to 4.2 percent annually and our new baseline projections – which I will share with you in a moment – indicate that it will return to the tolerance range within a few months.

On economic activity, first-quarter GDP growth outperformed our March forecast. However, this year's outlook foresees that it will remain below potential still for some quarters.

The world economy continues to be marked by expectations about the Federal Reserve (Fed)'s decision on the trajectory of its monetary policy normalization, and by the risks coming from the Chinese authorities' efforts to meet the country's target growth rates. During most of the quarter, the markets' assessment of these phenomena resulted in a loosening of financial conditions compared with the beginning of the year. Most recently, however, these trends have been partly reversed. Thus, our new baseline scenario assumes that our trading partners will post similar growth rates to those of 2015, but external lending conditions will be tighter and commodity prices will remain below their long-term levels.

In this context, we have held the monetary policy rate (MPR) at 3.5 percent annually and we foresee that, within our forecast horizon, further increases will be necessary. Of course, this will be contingent on incoming information about the projected inflation dynamics. Thus, if new indicators point at higher expected inflation, monetary policy will need to be tightened, and vice-versa. In any case, we have maintained a significantly expansionary monetary stance, which will remain so in the scenario we believe to be the most likely.

Let me share with you the workings of our baseline scenario and the main risks we perceive, which are depicted in the Reports I am presenting now.

Macroeconomic scenario

As I said before, in recent months both headline (CPI) and core (CPIEFE) inflation have behaved as expected. By components of the CPIEFE, goods inflation began showing a more moderate expansion, with y-o-y variation going from nearly 5 percent at the end of 2015 to 4.4 percent in the latest figure. This responds largely to the fact that, despite important fluctuations, the exchange rate has not shown a comparable increase to the one between mid- 2013 and third-quarter 2015. CPIEFE services inflation has also slowed, but is still near 5 percent annually, reflecting past-inflation indexation and the effects of the depreciation.

Plus, gaps are still narrow and the labor market – despite a somewhat faster deterioration lately – still shows low unemployment rates and strong growth in nominal wages (figure 1).

So, in our most likely scenario, annual CPI inflation will enter the tolerance range in the third quarter of this year and will approach 3 percent during the first half of 2017 (figure 2). This projection uses as a working assumption that the real exchange rate (RER) will hover around its current values throughout the projection horizon. Bear in mind that the RER has risen a little since the cutoff date of the last Report, to near 97 (index, 1986=100) (figure 3). The convergence of inflation is also linked to output gaps that are forecast to widen in the near future and with the labor market adjusting further during the year, especially helping drive a reduction – albeit moderate – of services inflation.

Regarding output, first-quarter GDP and demand growth figures exceeded March expectations, influenced by improved figures in agriculture and, somewhat less, mining. Overall, our growth outlook is essentially unchanged. We expect the economy to continue to grow below potential for some quarters, due mainly to poor performance of those sectors with closer links with investment. Anyway, it is worth noting that retail trade and personal services have proven more resilient, reflecting a more gradual adjustment on the consumption side.

The baseline scenario of this Report sees GDP growing between 1.25 and 2.0 percent this year and between 2 and 3 percent in 2017. This estimate is based on the assumption that the economy will resume near-potential growth towards the end of the projection horizon. Finally, it uses as a working assumption that public expenditure will follow a trajectory consistent with the fiscal rule and the Administration's announced budgetary consolidation path.

The process of growth normalization will be slow. Of particular concern is the behavior of investment, which the baseline scenario estimates will drop for the third year in a row. Indeed, this year several indicators, among which the survey of the Capital Goods Corporation, the levels of imports of capital goods and business confidence, anticipate a further drop in investment. Moreover, the housing sector will have a limited performance after being highly dynamic in 2015, and public investment will follow a trajectory consistent with the objectives of fiscal consolidation. However, towards 2017 non-mining investment should restart growing at a pace matching the recovery of the overall economy (figure 4).

About the current account, we believe that this year's deficit will be smaller than we thought in March and will show no big changes in 2017. In particular, the trade balance outperformed the March forecast in the first quarter, driven mainly by volume exports of goods, especially copper, and tourism-related services. Furthermore, a slowdown in capital goods imports is expected because of adjustments in investment. In addition, there are generally upward revisions to non-copper export prices. Consumption, meanwhile, continues to grow at around 2 percent. Details of the domestic economy's baseline scenario are shown in table 1.

In this context, we foresee further adjustments in the labor market in the coming quarters. Lately, annual growth in salaried employment slowed down significantly, to 0.5 percent in the last moving quarter. The national unemployment rate has adjusted more gradually, thanks to increased self-employment, so it is still low by historic patterns (figure 5). By regions, in the north of the country unemployment has risen more sharply than in other areas. Firms interviewed for May's Business Perception Report – a quarterly publication of the Bank – reveal increased labor availability together with lower wage claims. Looking into the March survey of the University of Chile, we also see an increase in the unemployment rate in Greater Santiago, to 9.4 percent, confirming the weakening of the labor market.

The evolution of employment and real wages, which have slowed down in annual terms in the last year, implies slower growth in the wage mass. This, coupled with still low household expectations, is consistent with positive, yet moderate, growth in consumption (figure 6).

Turning to the world economy, as I said, international financial markets have been marked by two situations. One, the US monetary policy normalization process, and two, the Chinese policy makers' efforts to achieve their growth and financial stability objectives. Early in the quarter the market assumed that the Fed would take things extremely gradually and that the Chinese authorities had figured out the policy mix that would allow them to keep growth in line with its objectives. Thus, the calm of financial markets that had begun at the close of the last Report was prolonged. Capital flows returned to the emerging world, stock markets recovered, interest rates dropped and so did spreads, the dollar weakened and commodity prices improved. Nonetheless, the increasing doubts about the Chinese financial system and the perception that the US monetary policy will soon implement its adjustments – a still uncertain development – have tended to reverse these trajectories in recent weeks. This has been particularly visible in the depreciation of emerging currencies (figure 7).

Consistently with the volatility we have been seeing and the risks inherent to the international economy, our baseline scenario assumes that in the coming quarters international financial conditions will be, on average, less favorable than they were in the past two months.

Our growth outlook for the world economy and our trading partners changes little from March: 3.2 and 3.0 percent, respectively, for the 2016–2017 average. Still, there is a significant revision to expected US growth: 1.9 percent in 2016 (2.3 percent in March). This estimate inputs the low output figure of the first quarter, which has to do both with the drop in energy investment and the weak external sector. In any case, aside from one-time data, services and labor indicators show a recovering trend and the baseline scenario foresees the economy resuming higher growth in 2017. It also estimates that the Chinese economy will be able to carry on with its adjustment process without seriously compromising its growth rates. But this process will not be free of difficulties.

The terms of trade will drop again in 2016, although not as sharply as we assumed in the last Report, owing mainly to the evolution of non-copper export prices. Considering its trajectory of the past few months, the baseline scenario assumes that the copper price will average US$2.15 and US$2.25 per pound in 2016 and 2017, respectively. For oil, our forecast for the same two years is raised to US$45 and US$52 per barrel the Brent-WTI average (table 2).

About monetary policy, the baseline scenario just described uses as a working assumption that the MPR will follow a trajectory that is similar to the one that can be deduced from the financial asset prices at the statistical closing of this Report (figure 8). This means that monetary policy will advance in its normalization throughout the policy horizon, in line with the assumed economic outlook at that horizon, only a little more slowly than we thought in March. Under this assumption, monetary policy will continue to provide a boost to the economy.

It is important to stress that monetary policy has kept a very expansionary stance, helping the economy to weather the changes in macroeconomic conditions as best it can. In this way it has succeeded in accommodating a significant depreciation of the peso and inflationary consequences without jeopardizing our monetary policy's medium-term anchor: inflation expectations two years out. Unlike other economies, we have been able to sustain an expansionary monetary policy without driving inflation expectations away from the target (figure 9).

This expansionary monetary policy is most notorious in market interest rates. On one hand, Chile's long-term rates are low by historic standards and also in a cross-country comparison. The same is true for lending rates, which are now below their historic averages and, in the case of mortgage loans, even at or near record lows (figure 10).

Risk scenarios

As usual, the implementation of monetary policy will respond to incoming information about the projected inflation dynamics. Therefore, developments pushing in either direction will prompt the necessary adjustments in monetary policy.

In the world economy, risks are pretty much the same we identified in the March Report. Still critical is the trajectory that the Fed will choose to follow to advance in its monetary policy normalization process. In particular, because market expectations are still misaligned with the most likely scenario defined by the Fed itself, especially at longer horizons. The situation in China poses a risk because of its possible impact on world growth, and because it might trigger new episodes of financial volatility.

Latin America also poses significant risks to Chile, both because it is a major trading partner and investment destination, and because of its effects on the external financial conditions facing us. Its macroeconomic challenges are compounded by complex political situations. In Brazil, the markets took the changes in the political scene well, but there are important adjustments pending. Argentina returned to international financial markets, but it also faces significant challenges.

There are several other factors that could cause new or intensify ongoing episodes of financial volatility, including the UK referendum to define whether it stays in or leaves the European Union, and a number of electoral processes under way around the world that could cause a shift towards protectionism. However, the consolidation of economic growth in Europe and the United States could contribute to boost world activity.

The possibility of the oil price's upward trend continuing or steepening is another risk to the baseline scenario, because of both its direct impact on local and world inflation, and its implications on global growth. But there are also reasons for this price to recede to its levels of earlier months. Actually, inventories are historically high.

At home, although inflation has diminished as expected, its high level for many quarters already is still an important risk in the baseline scenario. In the short term, its evolution is still closely tied to the exchange rate and therefore to the risks coming from abroad.

For activity, the risks outlined in previous quarters persist. Confidence remains pessimistic and the Chilean economy is receiving a milder impulse from the world economy than it did in earlier years. The recent evolution of the labor market stands out. If it deteriorates more sharply or if the world economy acquires a more adverse configuration, this might result in lower GDP growth than forecast. Conversely, if the labor market makes smaller adjustments and/or the external economy remains fairly calm, output may perform better than expected. This could translate into stronger consumption growth or more favorable investment, or both.

Upon assessing these risks, we estimate that the risk balance is unbiased for both output and inflation.

To sum up, the macroeconomic scenario is, broadly speaking, the same as March's. Inflation will return to the target range in the coming months and output will continue to post bounded growth. Investment, however, will be worse than we expected before. The external scenario continues to present risks and new volatility episodes will probably occur in the financial markets.

Now let me turn to our Financial Stability Report (IEF).

Financial Stability Report

Our Financial Stability Report is released in June and December of each year, containing recent macroeconomic and financial developments that might affect the Chilean economy's financial stability.

This Report's external scenario includes the same risks I just described when examining the Monetary Policy Report, particularly with respect to the US monetary policy and the evolution of the Chinese economy. In the Financial Stability Report we also present the Brexit-related risks, as well as the difficulties of European banks to resolve their non-performing portfolio problems – legacy of the global financial crisis – in a scenario of weaker world growth estimates and the global banking industry adapting to new regulatory standards. Most recently, this scenario has become more complex because of banks' profitability being threatened by low interest rates.

Another risk we need to monitor in the coming months has to do with the prices of commodities and their possible impact on the countries exporting them. Although lately these prices have tended to stabilize, they are still lower than they were only a few years back and might endanger the fiscal revenues of some economies. In this context, various risk-rating agencies have downgraded the sovereign ratings of oil exporting countries, and further revisions for other commodity exporters – Chile included – cannot be ruled out. Our rating being unchanged is certainly good news, but let's not forget that this is a dynamic process and we must never let go. The risk exists and it is up to our own policies to mitigate it.

On the domestic front, as I just said, local interest rates are low from a historical perspective, reflecting monetary policy and external financial conditions. Thus, the downsloping trend of long-term rates continues to encourage investment in medium- and long-term mutual funds, which have reached high stock volumes. Accordingly, a significant increase in long-term interest rates poses the risk of these agents becoming a magnifying channel if they react by hastily selling off the assets in their portfolios.

As for the financial situation of companies, diverse indicators confirm the weakening described in previous Reports. As of the first quarter of this year, the debt-to-GDP ratio remained near 120 percent, which is relatively high compared to other emerging economies, although at the margin it has stabilized and even declined a little (figure 11).

The financial indicators of companies reporting to the Superintendency of Securities and Insurance (SVS) presented no big changes at the close of 2015. However, by historical patterns, the debt level is high and profits are low. Still, exchange rate mismatch indicators continue to show a limited exchange rate risk (figure 12).

The real-estate sector is adjusting after being very dynamic in 2015. New house sales in Santiago fell sharply in the first quarter of 2016, largely due to advanced purchases last year (figure 13).

A substantial part of the sales of last year were accounted for by promised purchases of unfinished units, scheduled for delivery mainly this and next year. In this sense, one risk for real-estate companies stems from such promises not being honored if the economic outlook worsens. Finally, the vacancy rate in the office-space sector is around 10 percent, while rental prices showed a slight reduction at the end of 2015.

In this context, the new house price index for Santiago as estimated by the Chilean Chamber of Construction rose 6.8 percent in real annual terms in the first quarter of 2016, slightly less than the 7.2 percent it showed in the third quarter of 2015. Meanwhile, in the third quarter of last year, the house price index for both new and used units calculated at the Bank rose by 9.4 and 9.7 percent in real terms nationwide and in the Santiago Metropolitan Region, respectively (figure 14).

About households, aggregate borrowing – the debt to income ratio, RDI – continues to rise, in a context of weaker output and employment. The RDI reached 63 percent at the close of 2015, largely explained by an increased share of mortgage debt, which continues to expand at a real annual rate of nearly 10 percent. The aggregate financial burden stands at 15 percent of the sector's disposable income (figure 15).

Although non-performing indicators for bank consumer credits remain low, lately there has been some increase in the case of smaller amount loans. Here the risk arises of a more drastic deterioration of the labor market that could hinder the households' repayment capacity. Any developments on this front will need to be closely monitored over the coming quarters.

As for the banks' lending activity, it is evolving in line with the state of the business cycle. Real growth in commercial loans is in line with lower demand for credit by firms, consistently with the reduction in investment and the results of our Bank Lending Survey. Consumer credit growth recovered slightly and mortgage loans are still growing strongly, around 10 percent in real annual terms. Thus, the real annual growth rate of total banking credit is around 5 percent. At the same time, aggregate default indicators are stable, despite some deterioration in commercial loans.

As we pointed out in the last Financial Stability Report, our banking system's capitalization levels have decreased in recent years. At the closing of 2015, the capital adequacy ratio (CAR) was 12.6 percent. Although the announced capitalizations and accounting changes will push this indicator slightly above 13 percent, a declining dynamic has been observed in the past five years. This contrasts with the international trend, where banks have increased capitalization in several jurisdictions. Thus, in an OECD comparison, Chile is in the lower part of this ratio's distribution (figure 16).

Although the current capital levels are sufficient to absorb a possible severe stress scenario, gaps have narrowed. While every bank's CAR exceeds the 8-percent regulatory minimum in the stress scenario, the share of banks having a CAR above 10 percent in such a scenario has dropped in recent years, to less than half the system's assets in the latest test (figure 17).

Let me conclude with some final thoughts.

Concluding thoughts

In the past several months the macroeconomic scenario has brought no big surprises, but that does not mean that challenges have been absent.

Inflation has dropped in line with expectations, but remains above the tolerance range. Our projections indicate that in a few more months it will return to that range to then decline towards the 3-percent target. If this is so, we will have ended quite a long period during which inflation was at or above 4 percent and monetary policy-making has been particularly complex, as we have had to deal with a significant depreciation of our currency and the ensuing rise in prices, aside from the economic slowdown. Still we have been able to keep inflation expectations over the projection horizon well anchored to the 3-percent target.

In the short term, there are obvious inflationary risks, which could again push back this convergence. As we have said time and again, the short-term evolution of the exchange rate is a very important determinant of the behavior of inflation, and therefore short-term inflation will be affected if some of the external risks we have identified in our Reports come true, namely: a trajectory for the fed funds rate well above what the market expects and a sharper deceleration of the Chinese economy which would hit the copper price. The medium-term impact of these events is harder to predict, and will depend on both the persistence of exchange rate movements and their effects on output. The medium-term effects are, no doubt about it, more important for monetary policy, because our policy framework defines short-term inflation deviations as tolerable, as long as projected inflation two years out does not depart from the 3-percent target. This approach is what allows us to keep inflation expectations well anchored while applying a counter-cyclical policy stance in situations like the present one.

Not denying the importance of this, I must say that the greatest challenge facing our economy is growth. In our baseline scenario, 2017 will be the fourth year in a row with annual growth around 2 percent, which is far from satisfactory. However, our scenario also assumes that towards the end of next year the country will be approaching potential growth, which we estimate between 3 and 3.5 percent. This growth trajectory leans on three fundamental premises:

First, the impulse we are receiving from abroad, although milder than we could have foreseen some years back, is not particularly low. Of course we would rather live in a world of higher copper prices and two-digit growth in China. But in hindsight, that was clearly unsustainable in time. Nevertheless, the world growth figures we see today and project for the next two years, do not differ much from what we saw in 2015. The terms of trade should tend to stabilize towards 2017 and external financial conditions are good by historic patterns. Surely we face risks, but don't we always.

Second, from a macroeconomic standpoint, our economy is well balanced. The external accounts are in good order, our fiscal policy is sound, inflation expectations remain well anchored and, beyond the importance of mitigating the risks identified in the Financial Stability Report, local financial markets are well equipped to contribute to that recovery.

The third premise is the return of confidence. On this point let me digress. It is not a good sign for a goal of 3.5 percent growth to seem so elusive. Just a couple of years ago we believed that growth between 4.5 and 5 percent was possible. After all, in the last thirty years, the Chilean economy grew by an average of 5.2 percent annually. Certainly many things have happened in the last thirty years that can explain this.

On one hand, there is the so-called "convergence" in economic growth. I mean, countries with a higher per-capita income grow less on average than poorer countries, because the richer ones have more capital and are closer to the technological frontier, so they find it harder to sustain high growth rates. Therefore, it is only natural for a country that has achieved the level of development Chile has to grow at a slower pace than it did three decades ago.

On the other hand are some more specific elements, like the end of the boom in commodity prices and mining investment. Also that the world is no longer what it was during that boom, and us being a small, open economy are touched by that. All of it affects and is consistent with our vision of lowering our trend growth to 3.5 percent.

But, why are we having such trouble in achieving that level of growth? There are two – related – essential elements behind, where we are in debt: investment and productivity. If we cannot ensure stronger growth in investment, our projections of economic recovery will hardly be met and the labor market will deteriorate further. Obviously capital is a major production factor which by itself has significant effects. But not only that, investment is critical for us to be able to achieve productivity growth rates of close to 1 percent in our non-mining sectors, an essential element in our trend growth forecast.

Without investment, technology becomes gradually obsolete and, very importantly, the kind of shock that has hit the Chilean economy in recent years requires us to reallocate resources from sectors that were very attractive in the past to others that must now pull the growth wagon, especially non-traditional exports. But this reallocation, which according to our research is an important source of productivity growth, can only be achieved if at the same time there is investment in these new sectors. Thus, both factors are clearly related to each other.

The question we must all ask ourselves is, if we have done enough to promote these factors. I believe that the productivity agenda that was agreed on by different agents is a good starting point that must be deepened and carried forward. But we must also bear in mind that the loss in confidence affecting the country today, beyond specific causes, puts a brake to investment. Remember, our baseline scenario assumes that confidence will recover.

As for monetary policy, it has done its bit, interest rates are today among the lowest ever and will remain expansionary throughout the projection horizon. Monetary policy can help smooth the business cycle and that has been our task, successfully I may add. However, the sources of countries' long-term growth are in other areas of the economy that are clearly beyond the reach of monetary policy.

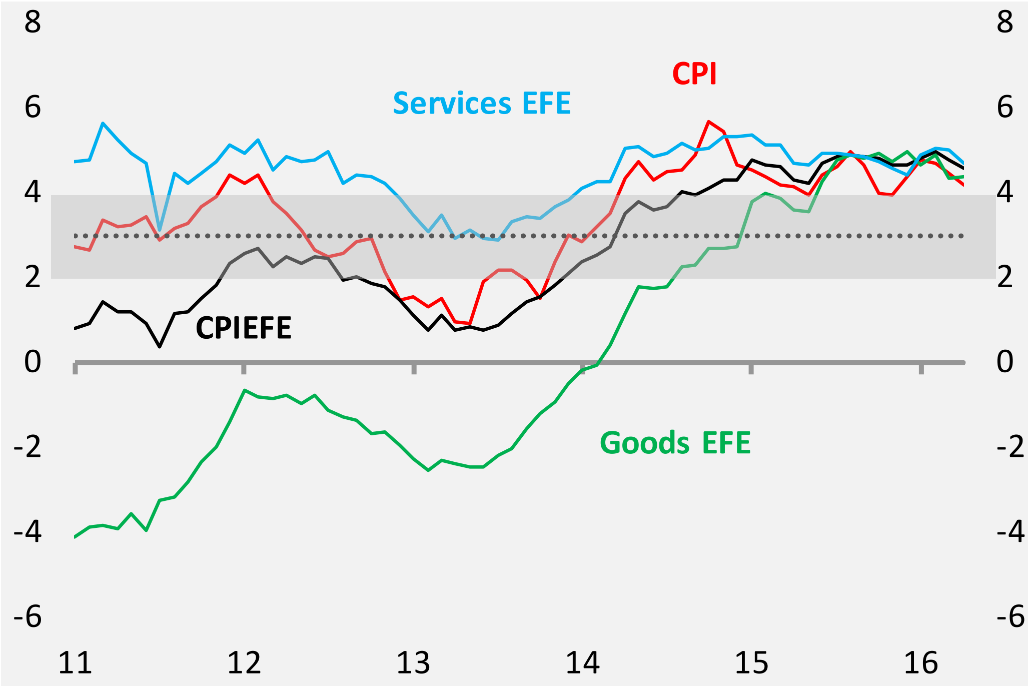
It is important for us to understand, agree on and implement whatever is needed to take the leap towards being a more just developed country. We must not forget that our region has had failed experiences before. Countries that had all the conditions to become developed didn't make it, and froze their economies exactly at that crucial moment. Today Chile is in a state of anticipation. It is our duty to succeed and take the leap that is pending. On the part of the Central Bank, with monetary policy and our role as financial regulator, we will continue to work towards achieving the objectives we have been entrusted: to safeguard price stability and the normal functioning of internal and external payments.

Thank you.

Figure 1

Inflation indicators (*)

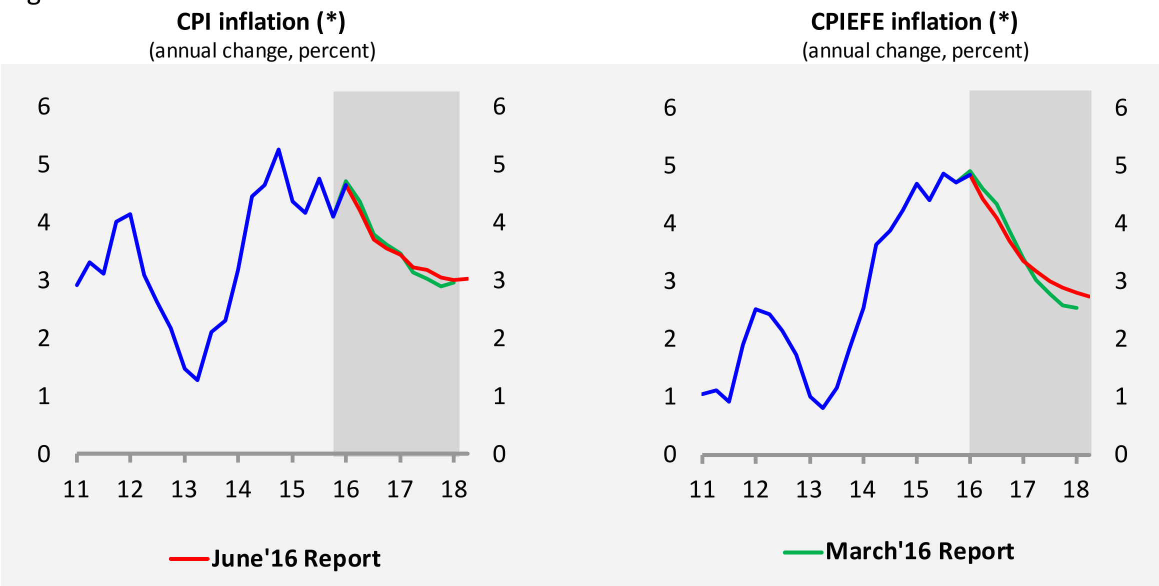
(annual change, percent)



(*) As from January 2014, the new indexes with annual base 2013=100 are used, so they are not strictly comparable with earlier numbers.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 2



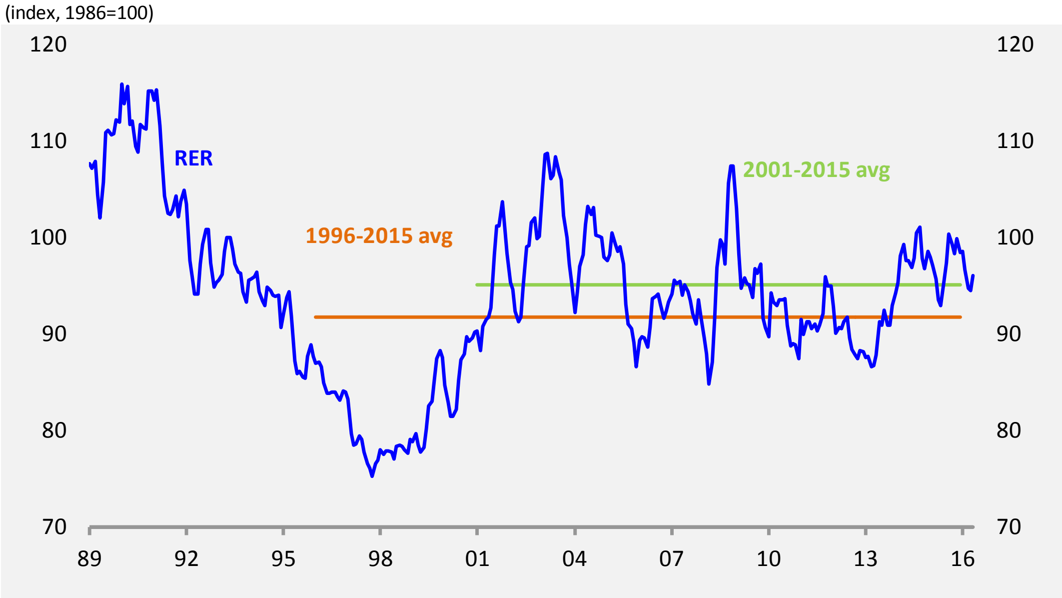
(*) Gray area, as from second quarter of 2016, shows forecast.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 3

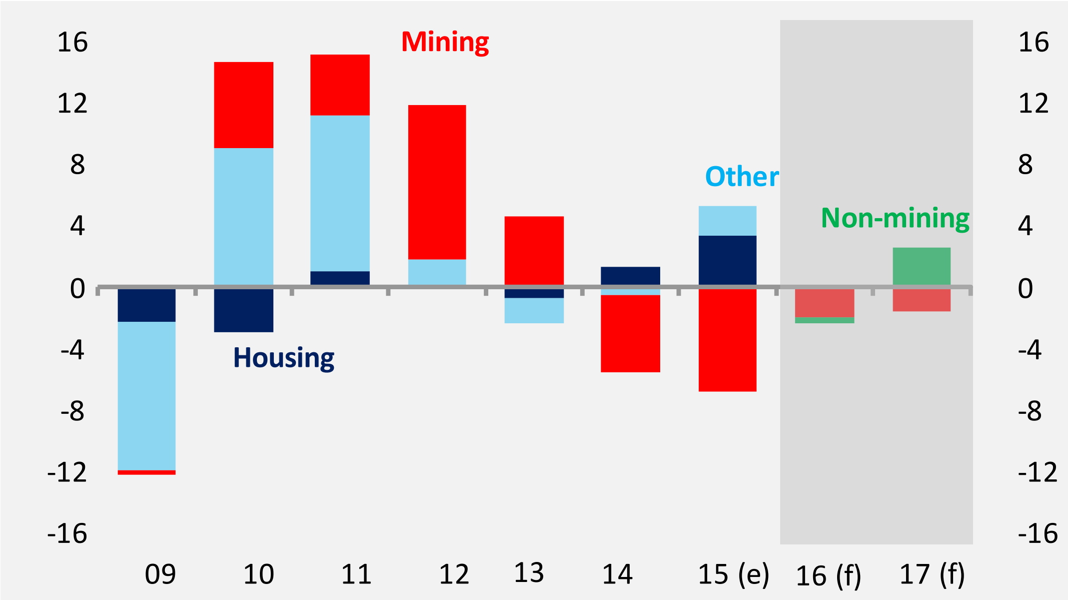
Real exchange rate

(index, 1986=100)



Source: Central Bank of Chile.

Figure 4
Real annual contribution to GFCF (*)
(percentage points)



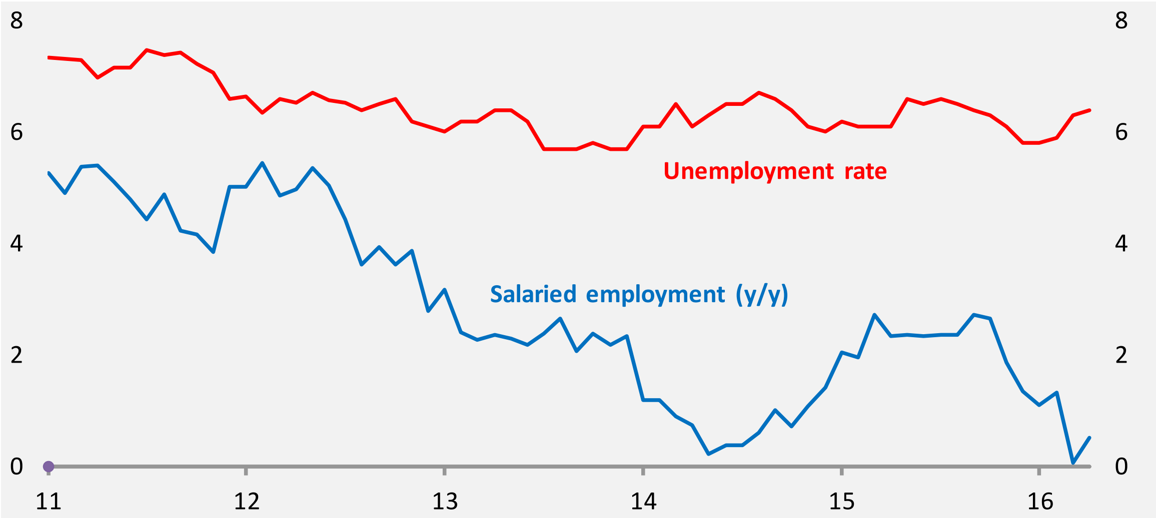
(*) 2015 mining investment is etimated using information from listed companies (FECU). Housing investment uses data from the Chilean Chamber of Construction and National Accounts by institutional sector. Other investment calculated residually. For 2016, forecasting models of the Central Bank and other sectoral sources are used, such as the Capital Goods Corporation's surveys and investment plans. (e) Estimate. (f) Forecast.
Source: Central Bank of Chile.

Table 1
Domestic scenario
(annual change, percent)

	2014	2015	2016 (f) Mar'16 Report	2016 (f) Jun'16 Report	2017 (f) Mar'16 Report	2017 (f) Jun'16 Report
GDP	1.9	2.1	1.25-2.25	1.25-2.0	2.0-3.0	2.0-3.0
National income	2.1	1.1	1.1	0.8	2.9	2.2
Domestic demand	-0.3	1.8	1.5	1.0	2.6	2.4
Domestic demand (w/o inventory change)	1.1	1.3	1.5	1.1	2.3	2.1
Gross fixed capital formation	-4.2	-1.5	0.5	-2.4	1.0	0.9
Total consumption	2.8	2.2	1.8	2.1	2.7	2.4
Goods and services exports	1.1	-1.9	0.6	1.3	2.4	2.1
Goods and services imports	-5.7	-2.8	-0.6	-1.6	2.1	2.2
Current account (% of GDP)	-1.3	-2.1	-2.5	-2.2	-2.0	-2.1
Gross national savings (% of GDP)	20.9	20.4	19.9	19.5	20.2	19.5
Nominal gross fixed capital formation (% of GDP)	23.0	22.7	22.6	22.0	22.1	21.6

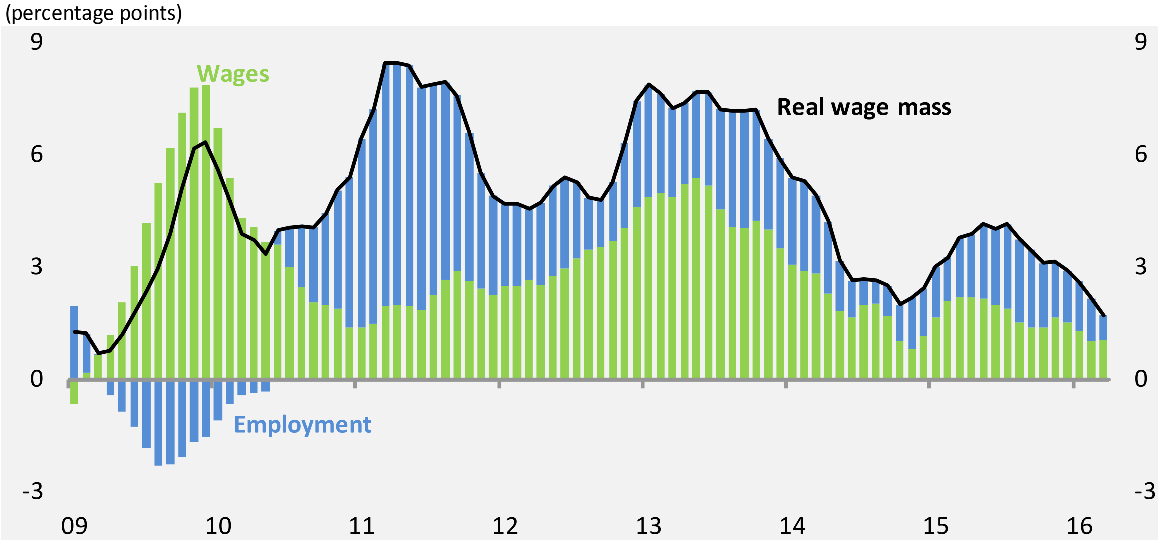
(f) Forecast.
Source: Central Bank of Chile.

Figure 5
Labor market
(percent)



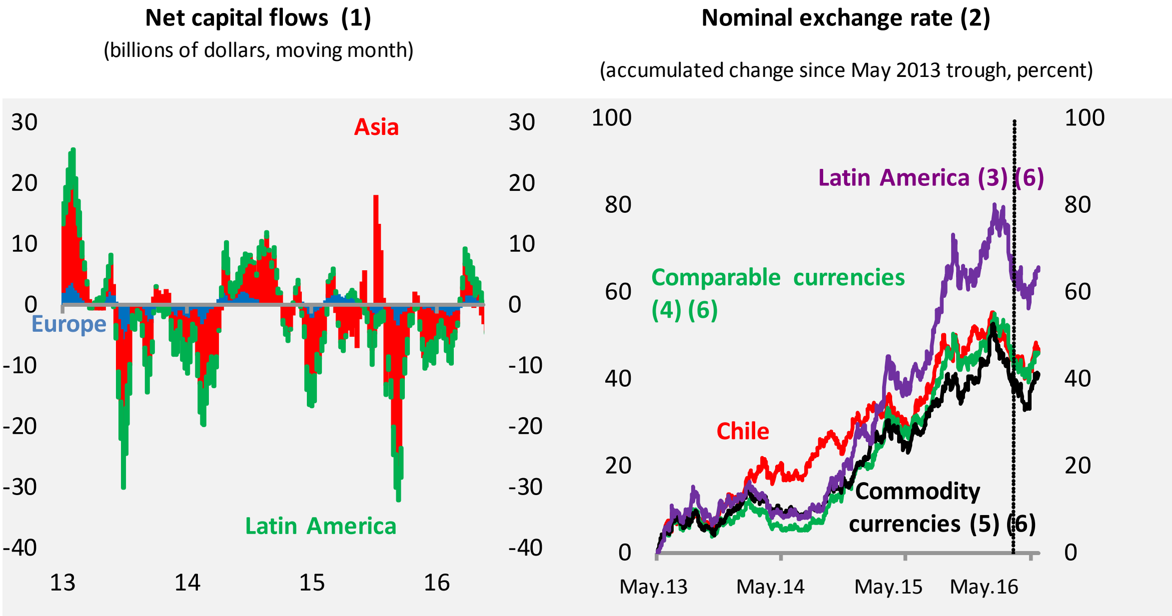
Source: National Statistics Institute (INE).

Figure 6
Contribution to annual growth in real wage mass (*)
(percentage points)



(*) Moving quarterly average.
Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 7



(1) Latin America: Brazil, Chile, Colombia, Mexico and Peru; Asia: Korean Rep., Indonesia, Malaysia and Thailand; Europe: Czech Rep., Hungary, Poland, Russia and Turkey. (2) Dotted vertical line shows March 2016 Monetary Policy Report 2016. (3) Includes Brazil, Colombia, Mexico and Peru. (4) Includes Brazil, Colombia, Czech Rep., Korean Rep., Israel, Mexico, Philippines, Poland and Turkey. (5) Includes Australia, Canada, New Zealand and South Africa. (6) WEO's April 2016 weights.

Sources: Central Bank of Chile, Bloomberg and Emerging Portfolio Fund Research.

Table 2

International baseline scenario assumptions

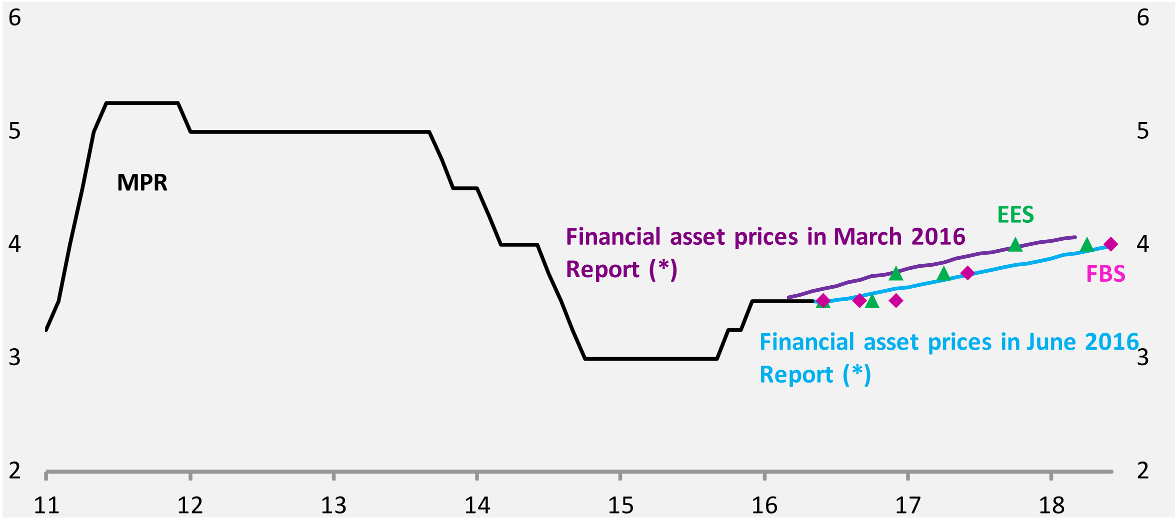
	2014	2015 (e)		2016 (f)		2017 (f)	
		Mar'16 Report	Jun'16 Report	Mar'16 Report	Jun'16 Report	Mar'16 Report	Jun'16 Report
Terms of trade	-1.8	-4.5	-4.5	-4.2	-3.9	0.7	0.1
Trading partners' GDP	3.4	2.9	3.0	2.9	2.8	3.1	3.2
World GDP at PPP	3.4	3.1	3.1	3.1	3.0	3.3	3.4
World GDP at market exchange rates	2.7	2.4	2.4	2.4	2.3	2.7	2.7
Developed ec's GDP at PPP	1.7	1.9	1.9	1.8	1.7	1.9	1.9
Emerging ec's GDP at PPP	4.8	4.0	4.1	4.0	4.1	4.5	4.6
United States	2.4	2.4	2.4	2.3	1.9	2.4	2.3
China	7.3	6.9	6.9	6.4	6.5	6.1	6.2
Eurozone	0.9	1.5	1.6	1.5	1.5	1.6	1.6
Latin America (excl. Chile)	1.1	-0.7	-0.5	-0.9	-1.0	1.3	1.5
External prices (in US$)	-0.9	-9.7	-9.8	-5.8	-3.8	1.0	0.6
LME copper price BML (US$ cents/lb)	311	249	249	220	215	230	225
WTI oil price (US$/barrel)	93	49	49	40	45	45	51
Brent oil price (US$/barrel)	99	52	52	41	45	46	52
Gasoline parity price (US$/m3)	731	467	467	398	401	420	420
Libor US$ (nominal, 90 days)	0.2	0.3	0.3	0.7	0.9	1.5	1.6

(e) Estimate. (f) Forecast.
Source: Central Bank of Chile.

Figure 8

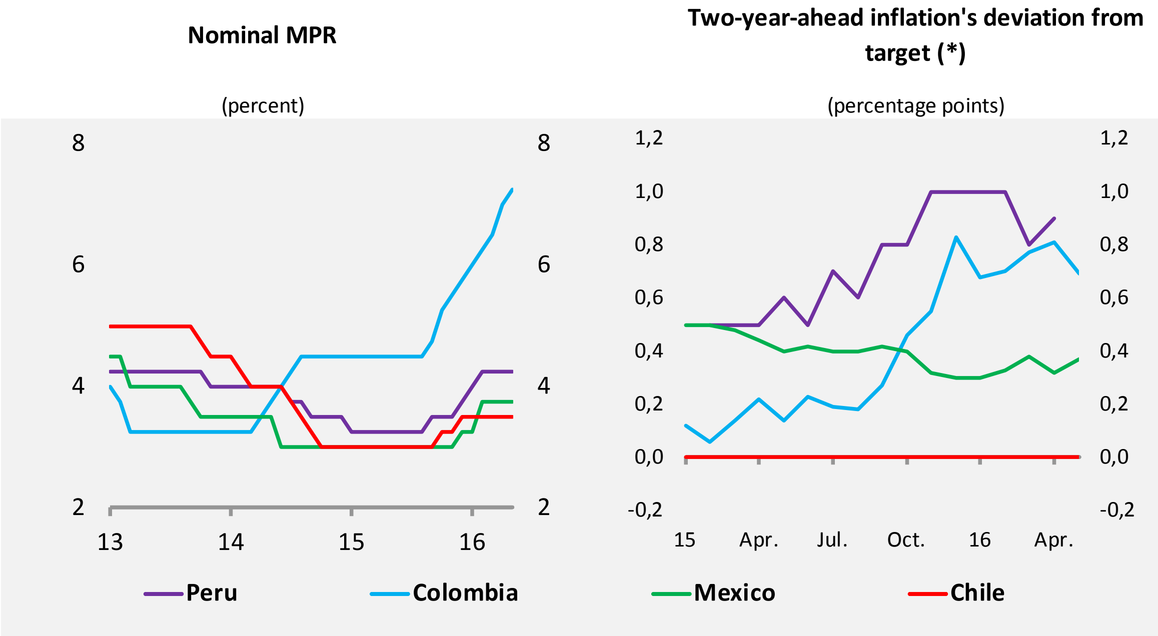
MPR and expectations

(percent)



(*) Built using interest rates on swap contracts up to 10 years.
Source: Central Bank of Chile.

Figure 9



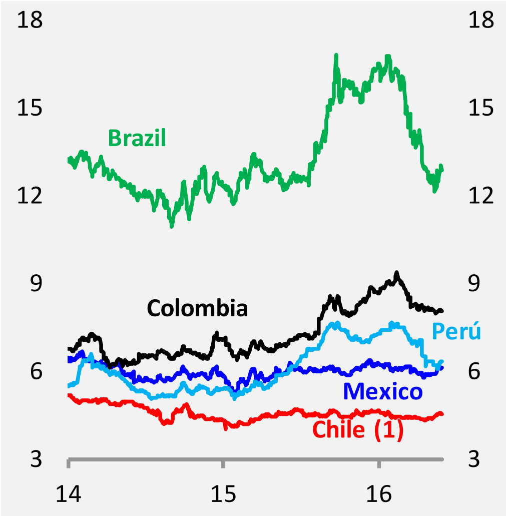
(*) Difference between target inflation and inflation expected for 2017 (Peru), December 2017 (Mexico) and two years out (Chile and Colombia).

Sources: Central banks of Chile and respective countries.

Figure 10

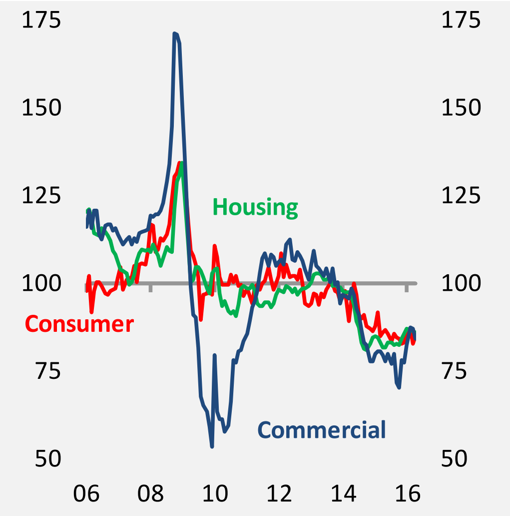
Nominal rates on 10-yr government bonds

(percent)



Chile: Interest rates by type of loan (2)

(index, 2006-2016=100)



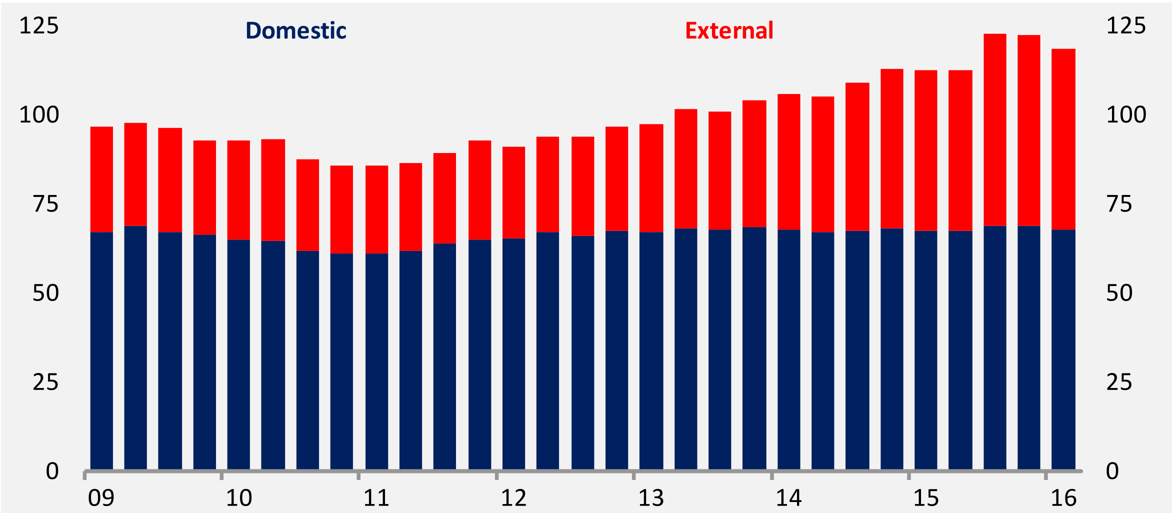
(1) Considers Central Bank and Treasury bonds. (2) Weighted average rates of all operations performed each month.

Sources: Central Bank of Chile and Bloomberg.

Figure 11

Total debt of non-banking enterprises (*)

(percent of GDP)



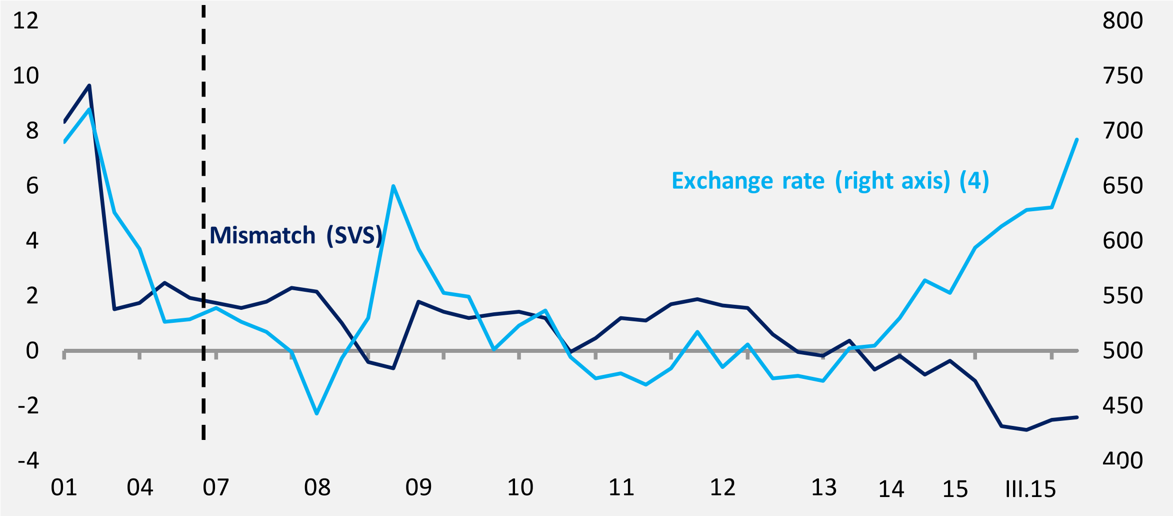
(*) Based on firm-level information with the exceptions of factoring and leasing, securitized bonds and commercial papers. Preliminary estimate for March 2016.

Source: Central Bank of Chile based on Achef, SBIF and SVS data.

Figure 12

Currency mismatch (1) (2) (3)

(percent of total assets)



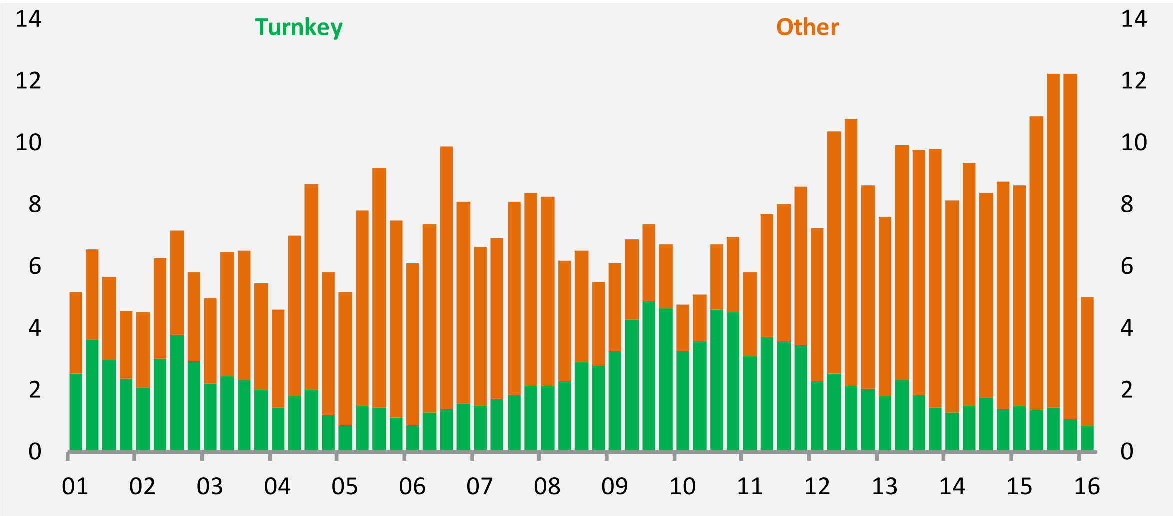
(1) Mismatch is calculated as dollar liabilities minus dollar assets minus net derivatives position, over total assets. (2) Annual data up to 2006; from then onwards, quarterly data. (3) State-run, mining and financial firms not considered. Firms using accounting books in dollars are excluded. (4) Average exchange rate for the last month of the quarter (or year) on secondary axis.

Source: Central Bank of Chile based on SVS data.

Figure 13

New housing sales in Santiago

(thousands of units)

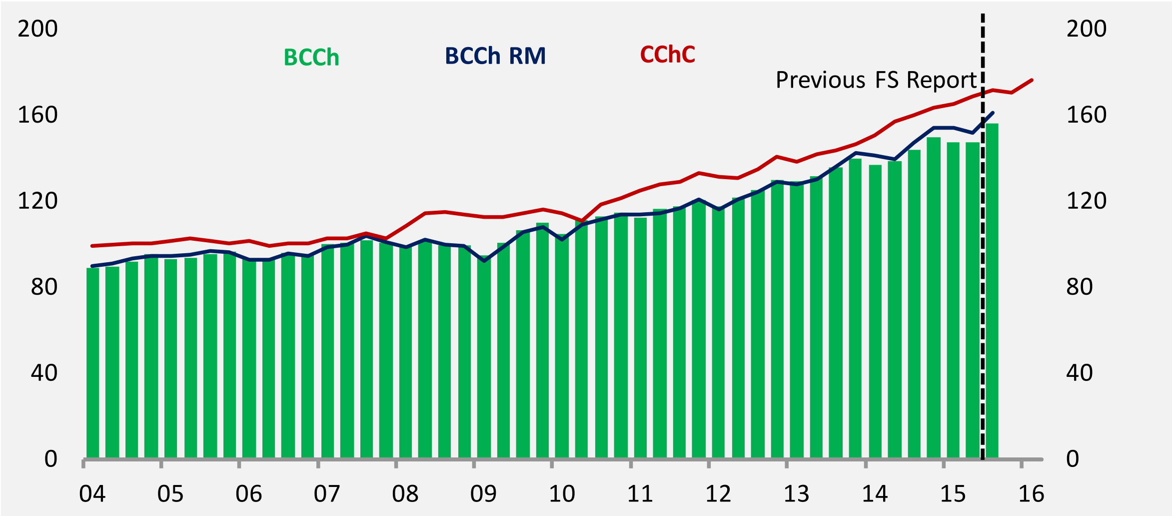


Source: Chilean Chamber of Construction.

Figure 14

Housing prices

(index, base 2008 avg =100)

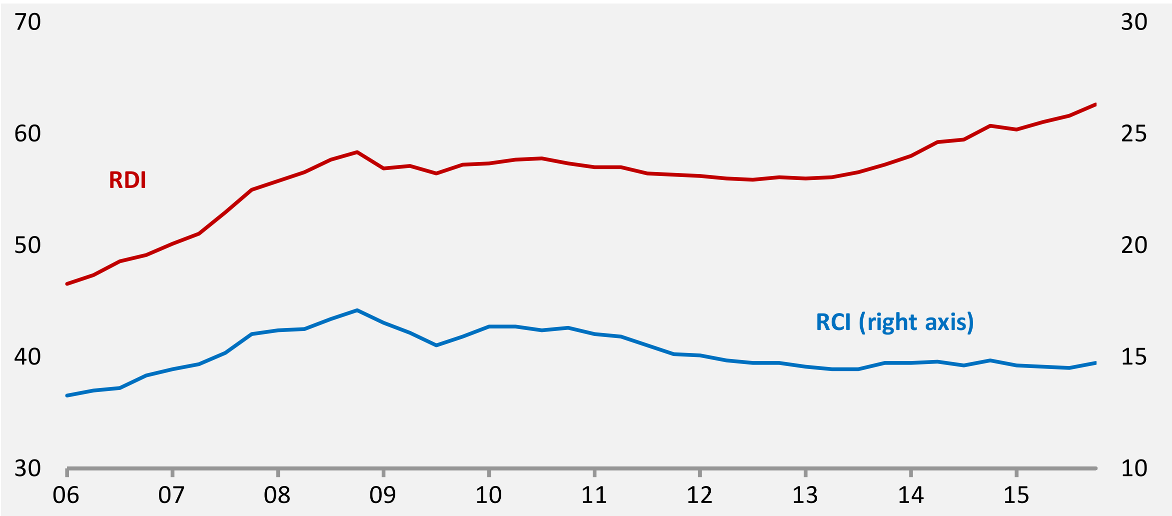


Sources: Central Bank of Chile (BCCh) and Chilean Chamber of Construction (CChC).

Figure 15

Household indebtedness (RDI) and financial burden (RCI)

(percent of disposable income)

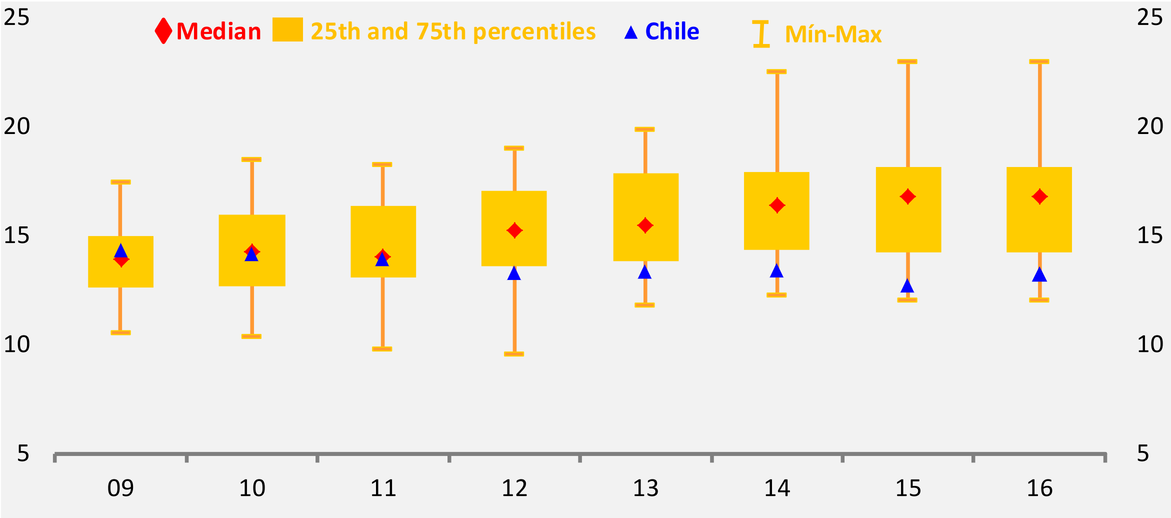


Source: Central Bank of Chile based on SBIF, SuSeSo and SVS data.

Figure 16

Cross-country comparison of capital adequacy indexes (1)(2)(3)

(percent)



(1) Effective equity over risk-weighted assets. 2016 figure uses effective capital increases in 2016 for Chile, *ceteris paribus* , plus the effect of the CCF reduction CCF (20bp).

(2) Korean Rep. and Iceland with last available data for 2014.

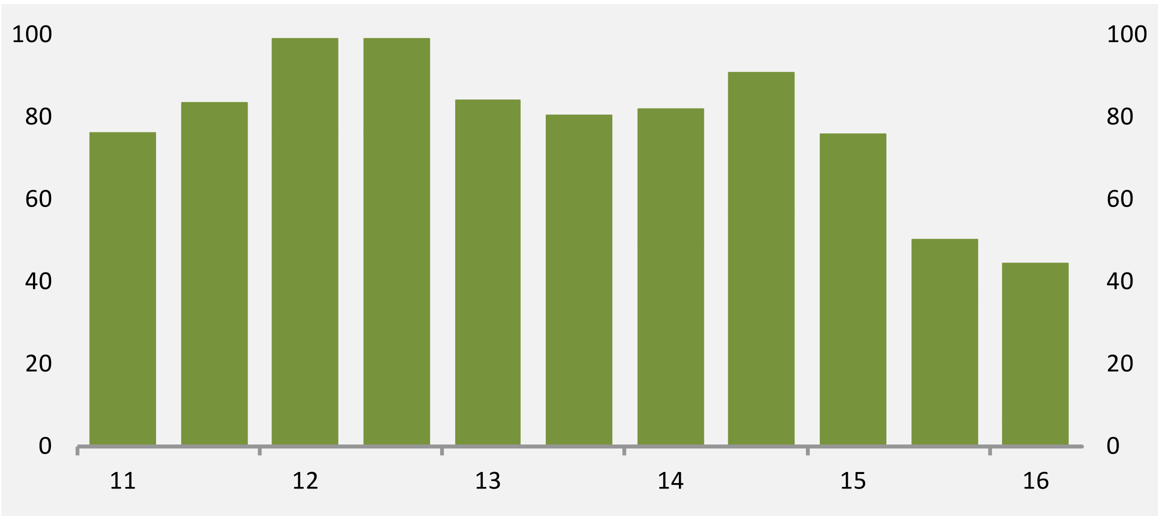
(3) Maximum means 90th percentile.

Source: Central Bank of Chile based on SBIF and IMF data.

Figure 17

Banks with CAR equal to or higher than 10% under stress scenario (*)

(percent of system's assets)



(*) Six-month figures. Results of stress tests presented in Financial Stability Reports.

Source: Central Bank of Chile based on SBIF data.