

## 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, 15 December 2014.

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The Monetary Policy Report of December 2014 and the Financial Stability Report of the second half of 2014 can be accessed at <http://www.bcentral.cl>.

### Introduction

Mr. President of the Finance Commission of the Senate, Senator Ricardo Lagos, senators members of this Commission, ladies, gentlemen.

Thank you for inviting me to present Central Bank of Chile's financial and macroeconomic outlook and its view on the most recent developments and their implications for monetary and financial policy. This vision is contained in detail in our December 2014 *Monetary Policy Report* (IPoM) and our *Financial Stability Report* (IEF) of the second half of 2014.

In recent months, our macroeconomic outlook has reflected unexpectedly high inflation and a slowdown in economic growth. In the projection scenario that I will be presenting shortly, we have revised upward our inflation forecast for the coming months, although we continue to estimate that it will converge to 3 percent during 2015. We have also revised downward our growth forecast for domestic output and demand this and next year.

There are several factors underlying these corrections. The inflation surprises of the past few months originated in specific prices and were mostly temporary. Still, the high level of annual inflation today is largely due to the significant depreciation of our currency in recent quarters. On the output side, third-quarter figures showed GDP and domestic demand growing less than forecasted. In addition, fourth-quarter figures at hand show no signs of significant recovery. Thus, we foresee that achieving higher output growth rates will take longer than we thought last September.

On aggregate, the international scenario has changed little since our last IPoM. Perhaps the most significant development has been the sharp fall in the oil price in the past months, whose effects have begun to show in prices and will intensify in the near future. Meanwhile, although risk perceptions have increased and we had an important volatility episode in October – which vanished soon – no significant changes are observed in terms of global growth.

At home, we completed a process of reducing the monetary policy interest rate (MPR), that took it from 5 to 3 percent between October 2013 and October 2014. This sharp reduction led the MPR to quite expansionary territory, in line with the economic slowdown already mentioned. Funding costs in the domestic market have declined significantly, with mortgage loan rates nearing their all-time lows.

Notwithstanding, business and household expectations have deteriorated throughout the year and are now clearly pessimistic, influencing downward this year's growth and slowing further the recovery foreseen for 2015. At any rate, our projections for next year assume that these expectations will recover and provide support, together with many other factors, to a rebound in economic growth.

Let me now share with you our baseline scenario and the main risks we have identified in the reports we present today.

## Macroeconomic scenario

Inflation brought surprises all throughout 2014 by being unexpectedly high. Earlier in the year, the Board assumed that inflation would be at 3 percent at year's end, partly because the accumulated depreciation would have a limited effect on inflation, in line with historical patterns. Such evaluation was modified as actual data showed higher than expected transmission to final prices. So, as soon as June the inflation forecast was revised significantly upward. In recent months, such transmission has been in line with expectations. However, the sharper depreciation of the peso and some specific elements – in particular, the rising price of some fresh fruits and vegetables – pushed inflation up above projections. These increases reversed somewhat in November, helped by the drop in fuel prices, which should continue to play a part in lowering inflation over the coming months. Private inflation expectations also posted significant changes during the year, consistently with the aforementioned surprises (figure 1).

Regarding output, in the third quarter both domestic demand and GDP grew less than forecasted in September, although the surprise was milder than it had been in the second quarter. As for the components of expenditure, private consumption growth was low and investment continued to fall in annual terms. The sharp decline in durables consumption and in investment in machinery and equipment stood out once more (figure 2). The drastic adjustment of expenditure and the depreciated peso have resulted in a fast reduction of the current- account deficit, whether measured at either trend prices or actual prices (figure 3).

As I said, the sluggish economic figures of the third quarter are compounded with partial fourth-quarter indicators that show no significant recovery in spending. The annual change in imports of consumer and capital goods remains negative; various indicators of retail sales show similar trends to those of previous months; and construction-related data shows persistent weakness (figure 4). A similar picture is seen in manufacturing which, with the main exception export sectors, reveals a steady decline in activity. The scenario for investment in construction and works, one of the most inertial components of expenditure, has also deteriorated. The September survey of the Capital Goods Corporation (CBC) further revised the amounts foreseen for 2014 and 2015, taking them below 2013 figures.

This economic slowdown has occurred in a context where business and household expectations have turned more pessimistic (figure 5). For consumers, this worsening occurs in a scenario where higher inflation has eroded households' purchasing power. The unemployment rate is still near 6.5 percent, low from a historic perspective, but the creation of salaried jobs has remained slow and surveys reveal increased uncertainty about the future behavior of the labor market. For companies, the greater pessimism has coincided with low profitability levels and investment conditions they see less attractive. Along with this, inventories are still judged as excessive despite repeated reductions in the past few quarters.

As mentioned earlier, domestic credit cost has become more favorable, in line with the substantial reduction of the monetary policy rate that took place in the past year (figure 6). Long-term interest rates also declined significantly during the last year and a half, mainly responding to monetary policy actions (figure 7). Still, real annual growth in consumer and commercial lending is low, in some cases in its minimums of several years. The exception is mortgage credit, which is still growing strongly. The September Bank Lending Survey reveals a tightening of supply, but more importantly a drop in demand.

The baseline scenario sees output growing 1.7 percent this year, marginally below the range foreseen in September. This reflects the aforementioned weakness of economic activity in the third quarter and its extension into the last quarter of the year. It also reflects that, so far, consumer and entrepreneurial expectations have failed to post the improvement that was expected some months ago. For 2015, the Board estimates that GDP growth will be in the 2.5 to 3.5 percent range, so the economy is expected to continue growing below its medium-term rate, which the Board estimates to lie between 4 and 4.5 percent.

The economy is expected to outperform 2014 next year, thanks to the rapid and significant adjustments it made this year, as is visible in the current account, interest rates, and the real exchange rate. It also relies on the expected improvement in consumer and business confidence, as well as in the external conditions foreseen for 2015, which although not so good as expected in September, are an improvement from 2014, partly owing to the boost coming from the oil price decline. The significant monetary impulse that has been added already, the stronger fiscal impulse and the effect of the peso depreciation on the tradable sectors will provide important support. Finally, although the financial situation of households and enterprises has tightened, it is not expected to be a hindrance to economic recovery (table 1).

On the external front, the baseline scenario considers a less dynamic outlook than forecast in September, but still pointing at greater growth rates in 2015 and 2016 than in 2014. This outlook reflects world activity that has recently receded, but that is compensated, at least in part, by the boost coming from the oil price drop. By regions, it is worth noting the widening divergence between the United States – with a more consolidated recovery – and other developed economies, such as the Eurozone and Japan, which have made further downward revisions. In the emerging world, prospects are also weaker, with Latin America making the bigger downward corrections. In the baseline scenario, our trading partners are expected to grow 3.5 and 3.9 percent in 2015 and 2016, respectively (table 2).

In the baseline scenario, external financial conditions and prospects will be less expansionary than they were this year, but will remain favorable from a historical perspective. In the United States, the Federal Reserve Board ended its asset purchase program and is expected to raise the federal funds rate in 2015, probably pushing US long-term rates up. The Eurozone and Japan have pursued a more expansionary monetary policy, because of weaker economies and deflationary risks, and further efforts in this direction are expected in the coming quarters. Thus, long-term interest rates in the main developed economies continued to recede or remained low. The better relative performance of the United States compared with the rest of the world has led to an overall strengthening of the dollar, affecting the other currencies, including the Chilean peso. In Chile, its trajectory has also been influenced by the adjustment of the local macroeconomic scenario, changes in monetary policy and the decline in copper prices (figure 8).

The drop in commodity prices has triggered important changes in the world inflation outlook. In particular, the actual and expected oil price dropped significantly, mainly due to supply-side factors that have generated a surplus balance in the oil market. It has also translated into a reduction in the relevant external inflation forecast, and has improved Chile's terms of trade. However, part of this is offset by the lower copper price – actual and foreseen – which traded at less than 3 USD per pound in the weeks prior to the statistical cutoff of this IPoM Report. The baseline scenario assumes that the copper price will average 295 and 285 cents per pound in 2015 and 2016, respectively.

Chile's annual headline inflation is expected to remain above 4 percent for some more months. Still, the mix of high comparison basis in 2014, the evolution of fuel prices and the accumulation of capacity gaps in the economy will pull it down towards 3 per cent over the course of 2015. Then it should hover around 3 percent until the last quarter of 2016, i.e., the end of the projection horizon (figure 9). The CPI that excludes food and energy CPIEFE forecast for 2015 is corrected upward, taking into account the sharper depreciation of the peso, its transmission to prices and the evolution of nominal wages. At any rate, it is expected to end next year around 3 percent and fluctuate close to that value throughout 2016.

This trajectory assumes that the peso depreciation of recent months will pass through to prices as it has done historically; that wages will be adjusted in line with productivity changes; and that capacity gaps will remain stable over the projection horizon. About the real exchange rate, we use as a methodological assumption that it will stay near its current values, considering that it is within the range believed to be consistent with its long-term fundamentals. We also use, as a working assumption, that the monetary policy rate will not change in the short run.

The baseline scenario reflects those events believed to be the most likely to occur with the information at hand at the closing of this Report. There are risks, however, that, if materialized, could reshape the macroeconomic scenario and thus may alter the course of monetary policy.

Abroad, there is the risk of when and at what speed the Fed will start raising its benchmark rate, and how this will affect financial assets. The risk of greater market volatility has increased because of the growing discrepancies between private expectations and the Fed's announcements, plus the divergence of monetary policies of the main developed economies. In China, the risks about its performance have gained importance, reflecting its recent weakening. The evolution of the Chinese financial system and real-estate sector are the main focus of attention, as they could result in a sharper drop in the copper price. In the Eurozone, despite progress in the financial and banking industries – as revealed by stress tests – credit growth is still slow and a sharper deceleration is a latent risk.

All these risks in the external scenario could trigger new episodes of volatility in world financial markets, with important negative effects in credit costs and output. They could also result in an additional depreciation of emerging currencies – our peso included – affecting the short-term inflation outlook.

On the bright side, it is possible for the oil price to have a stronger than forecast effect on both external and internal activity, either because the effect of a reduction is greater than assumed in the baseline scenario, or because the drop is steeper.

Locally, one risk has to do with output, but especially with domestic demand dynamics. Prospects for recovery have been postponed time and again, while the possibility of true recovery has lost strength. The baseline scenario assumes that business and consumer confidence will improve gradually. If not, the slowdown in spending and output may become persistent and translate into longer-lasting capacity gaps and reduced inflationary pressures.

It cannot be ruled out that the current size of gaps – an unobservable variable with quite an uncertain measurement – turns out to be smaller than estimated and thus contributes less than expected to slowing down inflation. Low unemployment and strong growth in nominal wages put a note of caution in the evaluation of inflation dynamics.

After assessing these risks, which originate both domestically and abroad, the Board estimates that the risk balance is unbiased for inflation and downward biased for output.

Inflation is high now, but it is expected to approach 3 percent over the course of 2015. Domestic output and demand continue to show significant weakness and growth prospects for 2015 have been revised downwards, despite that both monetary and fiscal impulses are significant, and the external impulse will be slightly larger than what we saw this year. The Board led the policy rate to 3 percent and stated that future changes to it would depend on the evolution of internal and external macroeconomic conditions, and their implications on the inflation outlook. At the same time, it reaffirmed its commitment to conduct monetary policy with flexibility so that projected inflation stands at 3 percent over the policy horizon.

### **The Financial Stability Report (IEF)**

Our *Financial Stability Report* (IEF) discloses, twice a year (in June and December), those recent macroeconomic and financial developments that might influence the financial stability of the Chilean economy. Let me now briefly describe some of the main subjects covered in this last issue.

The same scenarios for external risk I just described are analyzed in the IEF.

From the standpoint of financial stability, we conclude that as the process of monetary policy normalization in the United States advances, financial volatility episodes may follow. The expansionary policies have helped to shape the current environment of low risk premiums and low volatility. Thus, any surprises in the evolution of the US monetary policy could affect

financial conditions – like they did in May of 2013 –, raising credit costs in world markets, reversing portfolio flows and depreciating emerging-country currencies against the US dollar. The beginning of a new cycle of quantitative expansion by the European Central Bank, plus similar announcements by the Bank of Japan, might reduce the likelihood and impact of these volatility episodes, depending on how these unconventional policies ultimately reflect in global lending conditions.

A different risk has to do with the slowdown of emerging economies resulting in reduced capital flows. This because their assets become less attractive, all the more so in Latin America. A scenario in which the recent drop in commodity prices is prolonged or intensified, or where doubts about China's performance resurge strongly, might trigger this kind of event. The scene may become more complex if at the same time long-term rates go up in the US, increasing the cost of external funding.

It should also be considered that an increase in the cost of external financing could put upward pressure on local long-term interest rates. The decline in external and domestic long-term interest rates has motivated bond issues in both markets and local demand for type-3 mutual funds. While local rates have not responded only to changes in external rates – reflecting also the actions of local monetary policy –, a rise in international interest rates could result in increased costs of corporate financing. At the same time, it could generate portfolio adjustments by the agents involved, helping in the interest rate hike and causing greater volatility in the markets.

As of the second quarter, Chile's corporate financial sector showed no material change from end-of-2013, although debt is high and profits are low by historical standards (figure 10). All in all, the debt-to-GDP ratio maintains a slightly positive trend. In the context of slower economic growth, we cannot rule out less favorable indicators coming in for more recent periods – not available at the closing of this IEF Report. Meanwhile, the exchange rate depreciation has not eroded significantly the profits of currency-mismatched firms.

In the residential real-estate market, prices continue on the rise, while in the office-space sector vacancies have increased (figure 11). Market indicators point to strong growth in housing prices in the Metropolitan Region, as demand continues to be strong – despite the ongoing phase of the business cycle – and depleted inventories. A change in these factors could result in slower growth in prices, so one must not extrapolate past trends into investment and funding decisions for projects in the sector. On the commercial side, and in line with previous IEFs, the entry of new projects into the office-space market has increased the vacancy rate, which could grow further if the supply continues to rise.

Household indebtedness is higher – mainly on the mortgage side –, although the financial burden is stable thanks to lower interest rates (figure 12). The low level of unemployment and the banking system's orientation to households that are less exposed to the business cycle, as mentioned in previous Reports, has resulted in stable bank repayment indicators, despite the weakness of recent quarters. Overall, we must keep in mind that the labor market could deteriorate, and with it the repayment capacity of the debtors.

Regarding credit, in the commercial portfolio, the drop in both interest rates and credit flows suggests that demand-side factors are dominating. Part of the lower demand for bank financing is due to debt being replaced by bond issues. The September Bank Lending Survey shows that both supply and demand factors tightened with respect to previous periods, but demand contracted more. There is mixed evidence for consumer lending, validating factors of supply and demand. It is worth noting that the information at hand shows no clear evidence that the new regulations for the maximum conventional rate (TMC) has affected banks' consumer credit flows. This, considering that few bank credit operations are performed at rates higher than 41 and 39 percent, the actual TMC levels for the third quarter in operations between UF 0 and UF50, and between UF 50 and UF 200, respectively. Still, such provisions regarding the TMC are still in the process of being implemented, so future reductions

are expected, which might have a greater impact because of the significant number of operations that are performed with interest rates in the 35 to 40 percent range (figure 13).

Bank financial indicators are sound and stress tests show that capital levels are adequate to confront a severe stress episode (figure 14). Although bank profitability has increased lately, this was boosted by the temporary effect of higher inflation. The interest rate spread has been stable over 2014 and continues to be the main contributor to the banking system's profits. The impact of the stress scenario involves a drop in profits similar to the one in the previous IEF, but as the initial profitability was better the banks can obtain a positive closing ROE in this scenario.

Bond issues, locally and abroad, have helped to diversify the banks' funding sources (figure 15). Lower funding costs have favored debt issues locally and abroad, increasing the duration of liabilities. Some banks operate with high dependence on wholesale sources, which can be a significant vulnerability if these investors change their portfolio decisions or flows become more volatile.

To sum up, the present financial situation of enterprises and households, while still strong, is less comfortable than it was some years back, so it is not as strong to deal with a worsening of the domestic or international macroeconomic environment. Thus, it is important for agents to thoroughly assess their borrowing and lending decisions going forward.

I would like to finish with some thoughts.

## **Final thoughts**

2014 has not been a good year for our economy: growth has been slow and inflation has surpassed our tolerance range for several months. The analysis I have shared with you today shows that to a great extent these numbers result from the natural adjustment of an economy experiencing major changes in both local and external conditions. These changes require big adjustments in relative prices to reallocate resources across sectors.

We mustn't forget that the external scenario has been greatly modified in the past few quarters. We saw the end of the so-called commodity super-cycle. Its negative impact on the copper price has affected mining investment, one of our economy's main sources of growth in recent times. China's economic situation has been weaker than forecast, as has been the situation of several other emerging economies. This has increased the volatility of the external financial conditions facing emerging economies, a phenomenon that has intensified as the normalization of US monetary policy approaches.

We have been often asked whether the discussion on the reforms now being studied in the country has played a role in our economic slowdown. Our answers have been clear. First of all, we appreciate the discussion aimed at perfecting areas that may help to improve our fellow Chileans' standards of living and further develop our economy. However, the Central Bank will not take part in the particulars of each of the reforms, because they lie beyond its scope of action. Secondly, we value the fact that if some reforms entail permanent increases in public spending, their funding comes from increased permanent income, so as to preserve the fiscal soundness our economy has displayed for decades. Third, it is logical – and recognized as such across the board – that reforms of this magnitude generate some uncertainties and worries, pushing back investment projects and affecting economic activity. But this effect is difficult to quantify. Lastly, in our pursuit of institutional stability, we think it is positive that the deepest agreements possible be reached around the major reforms being now debated in the country. From this perspective we appreciate the spirit of the agreement led by the Finance Minister and this Parliament for the approval of the tax reform.

Also, I would like to explain the role played by the Central Bank in the context of the economic slowdown we are experiencing. The function of monetary policy is not to prevent the economy from adjusting, but rather to help the adjustment to be smooth and not jeopardize the convergence of inflation. This is what we have done since mid-2013, when the

Board announced that in great probability a monetary easing was coming, which immediately translated into a reduction in long-term interest rates. Later on, in October 2013, we began the monetary expansion process that involved a reduction of 200 basis points off the monetary policy rate in one year. In these months we have acted with conviction, allowing an easing of financial conditions and a peso depreciation that we believe important for the economy's cyclical adjustment. Thus, during 2014 our economy was the one that lowered its policy rate the most among a group of emerging countries, with the obvious result that our currency has also depreciated the most (table 3).

This has not been cost-free. The depreciation of our peso has certainly been the biggest source of the high inflation rate of this year, but it is a cost that any healthy economy like ours can assume in these circumstances, provided that the situation is transitory, as we believe it is. This sets us apart from other emerging economies, which because of vulnerabilities accumulated in the past, now have difficulties to take more resolute action in this matter.

Today our economy is ready to resume a higher growth path. This assertion is based on the fast and significant adjustment it made during the year, as reflected in the current account, interest rates and the real exchange rate. Also in the fact that external conditions forecast to 2015, while less auspicious than expected in September, point to an improvement from this year. And last but not least, in the strength of our economy and our institutions.

The significant monetary impulse that has already been added, the increased fiscal impulse and the effect of the peso depreciation on the performance of tradable sectors will lend support to economic activity. The depreciation of our currency has favored the exporting sectors and the regions where some of these sectors are based. It is worth noting that, as can be inferred from our Business Perceptions Report, certain regions of our country, especially to the south, which have endured difficult moments in the past few years, now largely outperform their peers up north.

However, as I already mentioned, inflation remains high and above projections, a sign that for the time being monetary policy actions have reached its limit. Although we are convinced that inflation will return to near 3 percent over the course of 2015, we cannot rule out that this convergence is slower than expected. This is important, because in the end, we must not forget that higher inflation hits hardest those most vulnerable sectors of the population, as they have fewer tools to deal with it.

In this sense, absent significant changes in the scenario we estimate to be the most likely, we do not see that, in the short run, we should increase the monetary impulse, which is already strong enough. Of course, if the baseline scenario changes, we will need to reconsider.

Our baseline scenario assumes that the economy will return to higher growth rates in 2015. However, it is our concern and we see as a significant risk that the recovery of output and expenditure has been postponed and weakened in the past few quarters. As I said, third-quarter indicators were weaker than expected, and partial fourth-quarter numbers have failed to display a significant change in these trends. In addition, consumer and business confidence has deteriorated further. The outlook I am presenting today, as well as that in September, assume that said confidence will be regained.

Ensuring better internal conditions is especially important in a context where the state of the world economy seems less robust than just a few months ago, and where the risks facing emerging economies have increased.

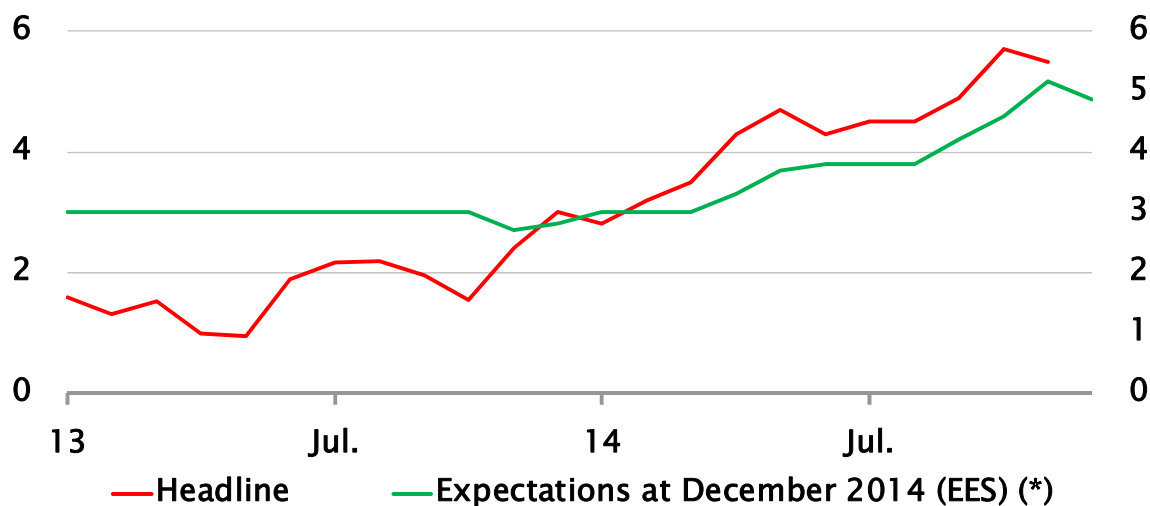
Monetary policy has already added a very strong impulse, the peso depreciation is contributing and will continue to do so, and Congress has approved a Fiscal Budget that considers a significant increase in public investment.

We, as the Central Bank, reiterate that we will conduct monetary policy to ensure that inflation stands at 3 percent over the policy horizon, and we insist that every participant in the financial system needs to thoroughly evaluate their borrowing and lending decisions. At the

same time, we will continue to contribute to Chile's development and welfare with what is our duty, namely the stability of our currency and the normal functioning of internal and external payments.

Thank you.

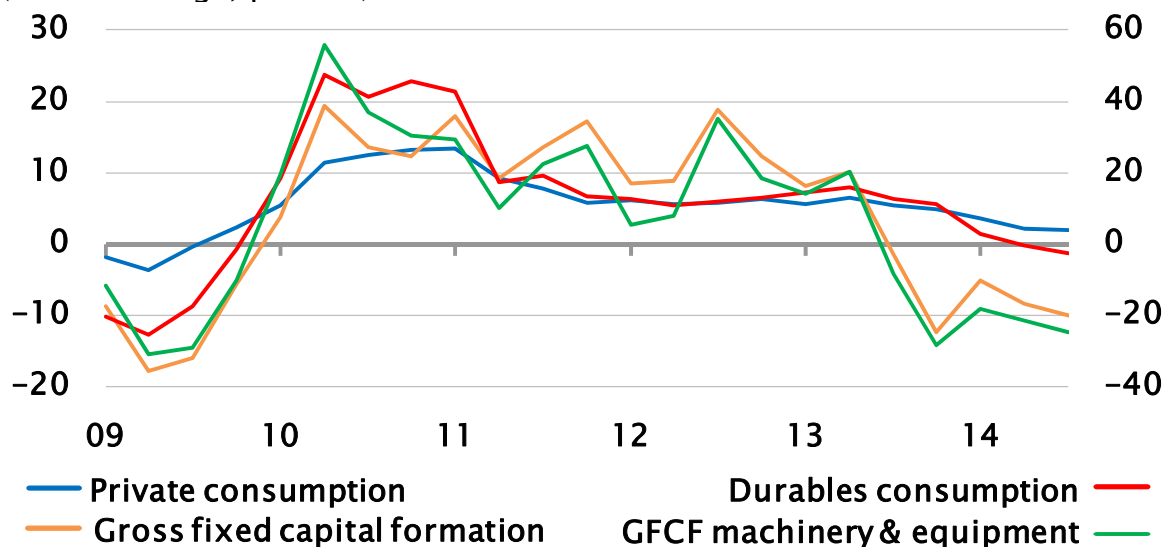
Figure 1  
**Inflation and expectations**  
 (annual change, percent)



(\*) November and December calculations based on expected monthly variation as reflected in the EES.

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

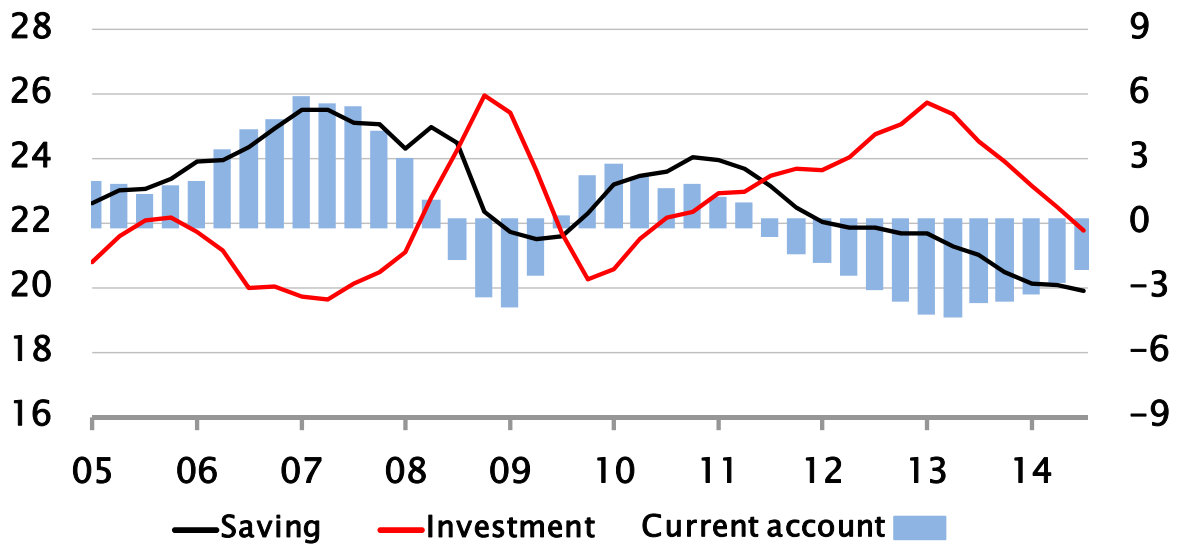
Figure 2  
**Domestic demand components**  
 (annual change, percent)



Source: Central Bank of Chile.

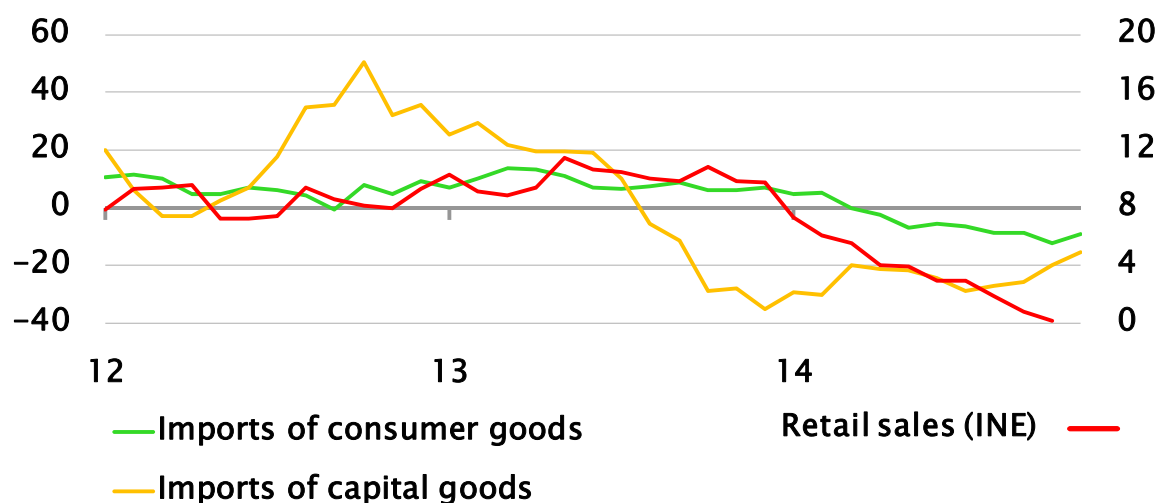


Figure 3  
**Current account (\*)**  
 (percent of GDP)



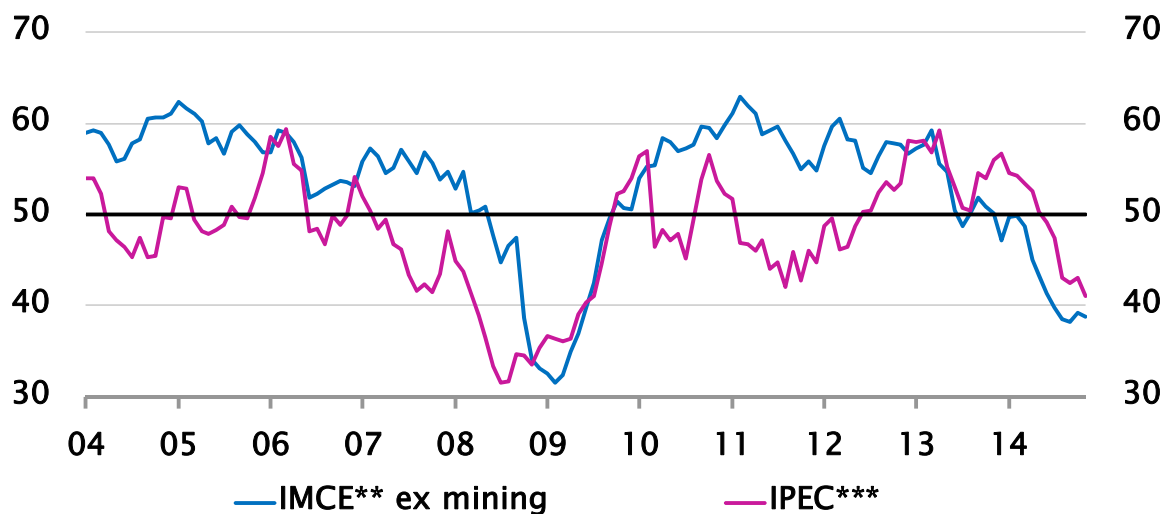
(\*) Accumulated in one moving year.  
 Source: Central Bank of Chile.

Figure 4  
**Demand Indicators (\*)**  
 (annual change, percent)



(\*) Quarterly moving average.  
 Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 5  
**Business and consumer expectations (\*)**  
 (original series)



(\*) Value above (below) 50 points denotes optimism (pessimism).

\*\*Monthly index of business confidence.

\*\*\*Economic perception index (Consumer Confidence).

Sources: Adimark and Icare/Universidad Adolfo Ibáñez.

Table 1  
**Domestic scenario**  
 (annual change, percent)

	2013	2014 (f)			2015 (f)	
		Jun.14 Report	Sep.14 Report	Dec.14 Report	Sep.14 Report	Dec.14 Report
GDP	4.1	2.5–3.5	1.75–2.25	1.7	3.0–4.0	2.5–3.5
Domestic demand	3.4	1.7	0.1	-0.7	3.4	3.0
Domestic demand (w/o inventory change)	4.2	2.4	1.0	0.4	3.2	2.6
Gross fixed capital formation	0.4	-0.7	-4.1	-6.2	1.8	1.9
Total consumption	5.4	3.4	2.6	2.4	3.6	2.8
Goods and services exports	4.3	3.2	2.4	1.4	3.8	4.0
Goods and services imports	2.2	-1.1	-3.9	-5.9	4.0	3.7
Current account (% of GDP)	-3.4	-2.5	-1.8	-1.6	-2.2	-1.1
Gross national savings (% of GDP)	20.5	19.9	19.8	19.7	19.7	20.8
December CPI	3.0	4.0	4.1	4.8	2.8	2.8
December CPIPEF	2.1	3.7	3.4	4.3	2.5	2.8

(f) Forecast.

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

Table 2

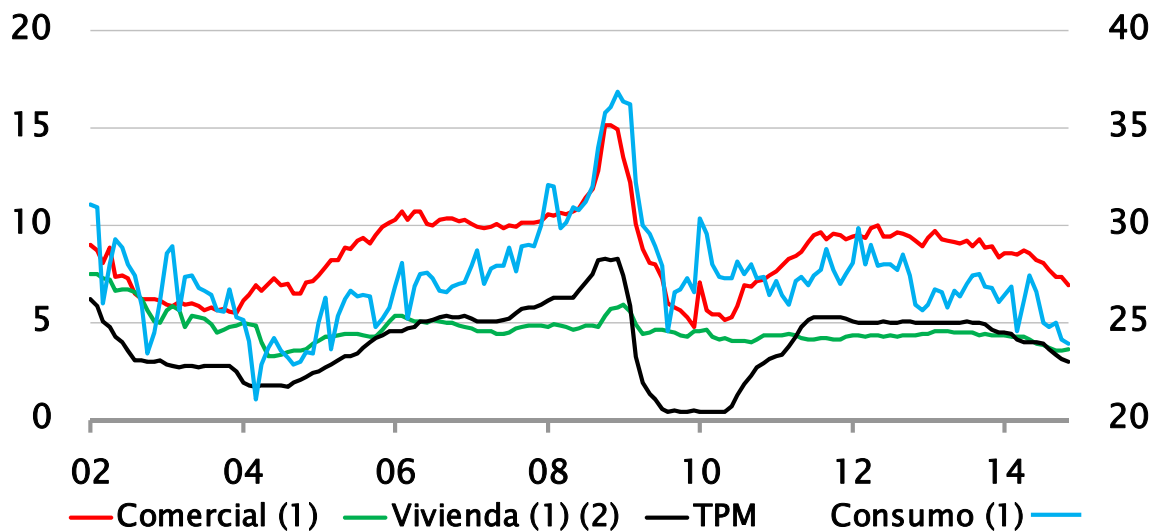
## International scenario assumptions

	2013	2014 (f)			2015 (f)			2016 (f)	
		Jun.14 Report	Sep.14 Report	Dec.14 Report	Jun.14 Report	Sep.14 Report	Dec.14 Report	Sep.14 Report	Dec.14 Report
Growth		(annual change, percent)							
Trading partners' GDP	3.5	3.6	3.4	3.2	3.9	3.8	3.5	3.9	3.9
World GDP at PPP	3.1	3.3	3.2	3.2	3.7	3.7	3.5	4.1	3.9
United States	2.2	2.4	2.1	2.3	3.1	3.0	3.0	3.2	3.1
Eurozone	-0.4	1.0	0.8	0.8	1.7	1.7	1.0	1.8	1.5
Japan	1.6	1.6	1.0	0.3	1.0	1.5	1.3	1.2	1.4
China	7.7	7.3	7.3	7.4	7.2	7.2	7.1	7.0	6.9
India	5.0	5.4	5.4	5.6	6.2	6.2	6.3	6.5	6.5
Rest of Asia (excl. Japan, China and Ind)	3.9	4.1	4.0	3.6	4.4	4.5	4.3	4.8	4.8
Latin America (excl. Chile)	2.3	2.0	1.7	1.1	3.0	2.6	1.9	3.3	3.0
LME copper price (US\$cent/lb)	332	310	315	311	290	305	295	300	285
Brent oil price (US\$/barrel)	109	108	106	99	103	104	70	101	75
Terms of trade	-3.2	-0.5	0.0	-1.1	-1.5	-0.8	1.7	-0.5	-2.1

(f) Forecast.

Source: Central Bank of Chile based on a sample of investment banks, Bloomberg, Consensus Forecasts, the IMF and statistics bureaus of respective economy.

Figure 6  
Interest rates  
(percent)

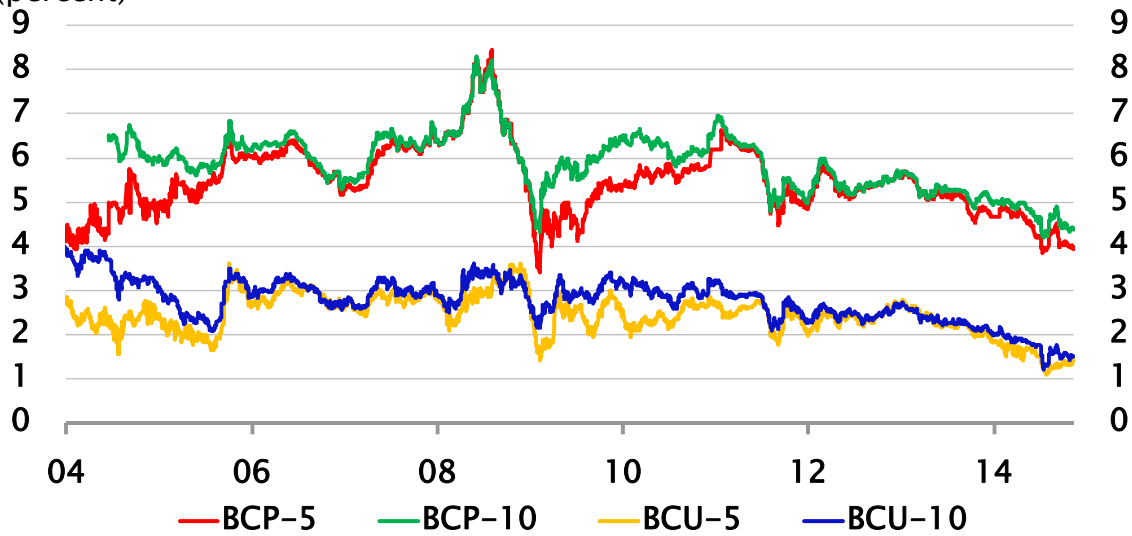


(1) Weighted average rates of all operations performed during the month.

(2) Housing credit interest rates expressed in indexed-units UFs.

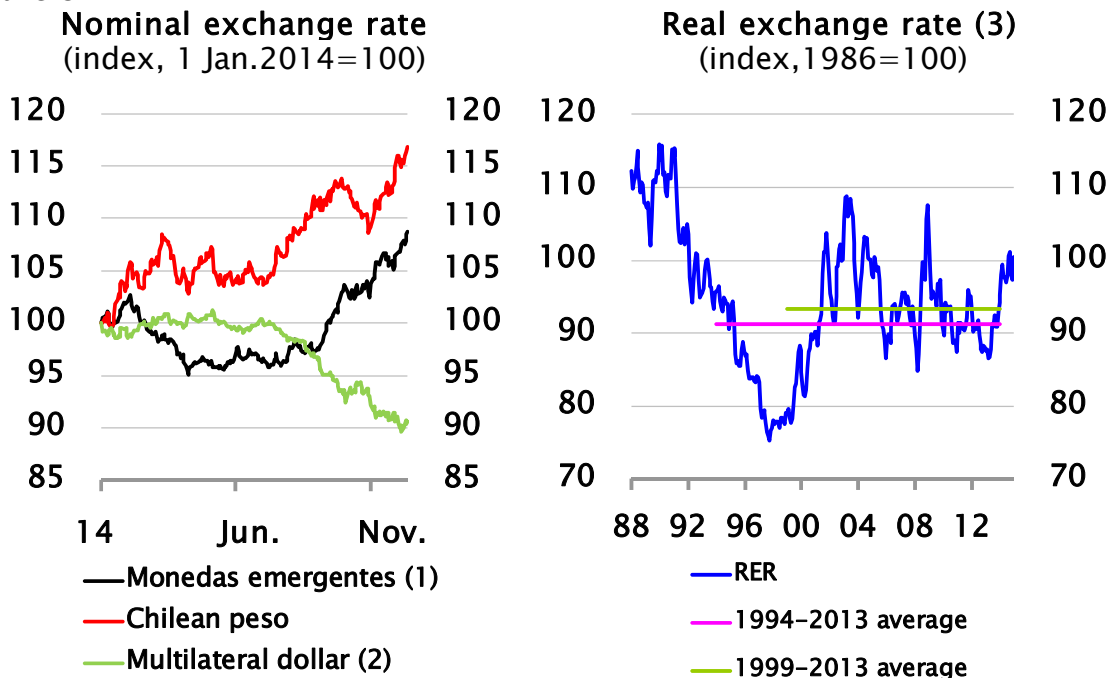
Source: Central Bank of Chile based on SBIF data.

Figure 7  
Interest rates on Central Bank of Chile documents  
(percent)



Source: Central Bank of Chile.

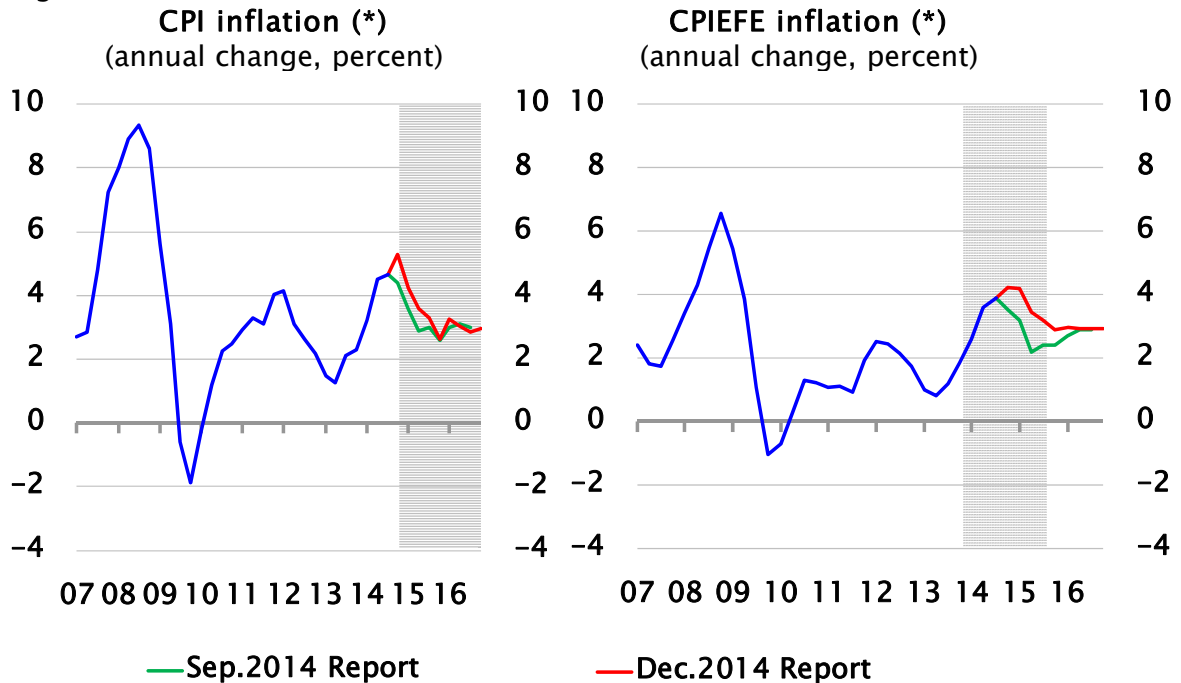
Figure 8



(1) An increase denotes depreciation against US dollar. Index is based on weighted average of currencies of Brazil, Colombia, Hungary, Rep. Korea, Czech Rep., Indonesia and Poland. WEO weights as of October 2014. (2) Dollar index. (3) December 2014 figure includes information up to 11 December.

Sources: Central Bank of Chile, Bloomberg and the IMF.

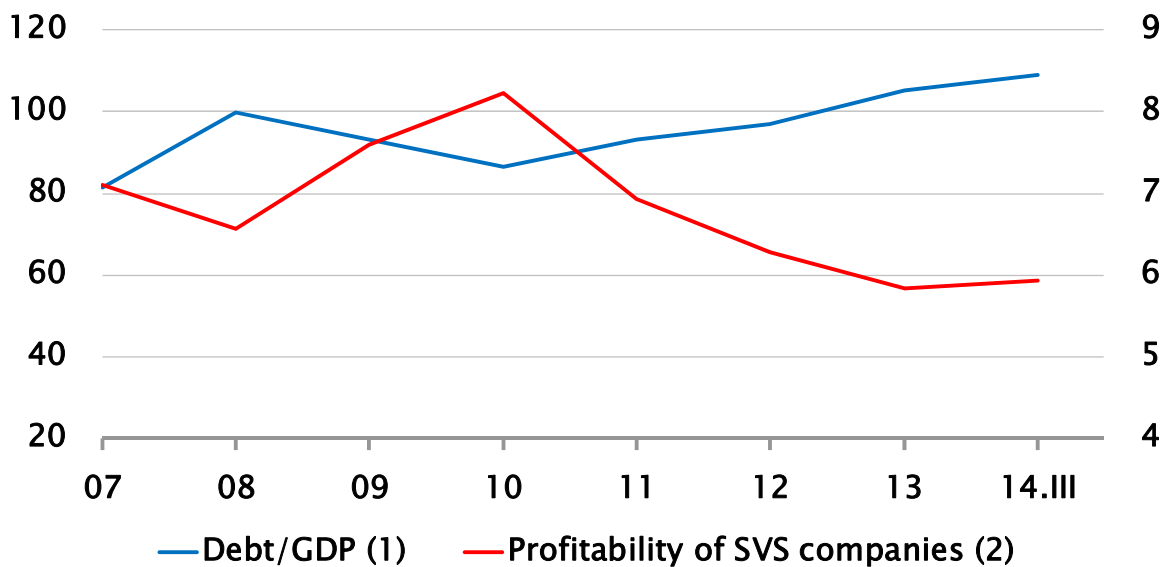
Figure 9



(\*) Gray area, as from the fourth quarter of 2014, shows forecast.

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

Figure 10  
**Companies' financial indicators**  
(percent)

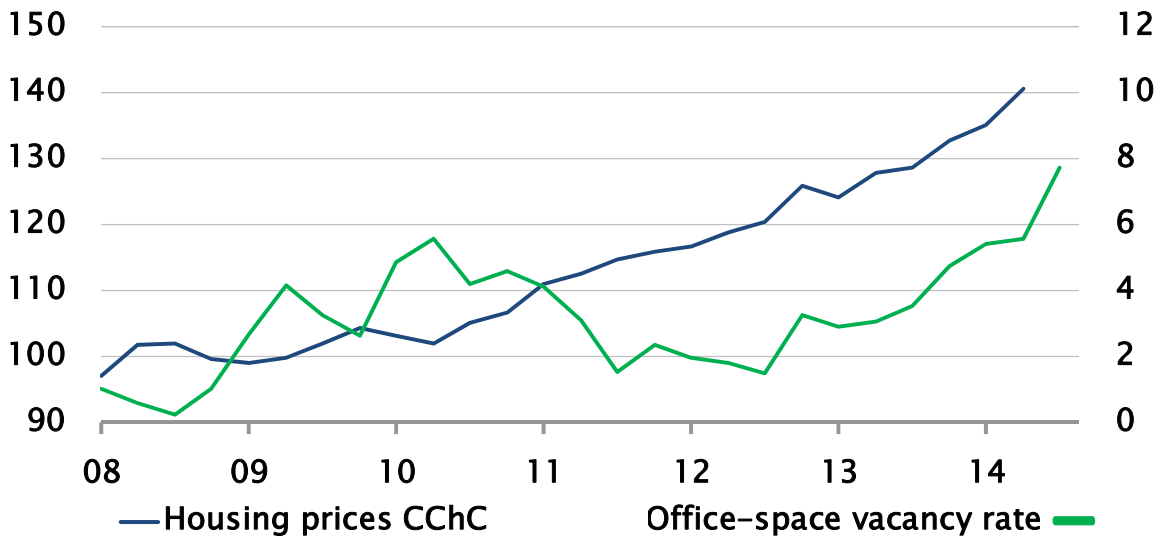


(1) Based on firm-level information. 2007 and 2008 figures estimated using aggregate data.

(2) Profits accumulated in 12 months before financial expenses and taxes on total assets of non-financial SVS companies.

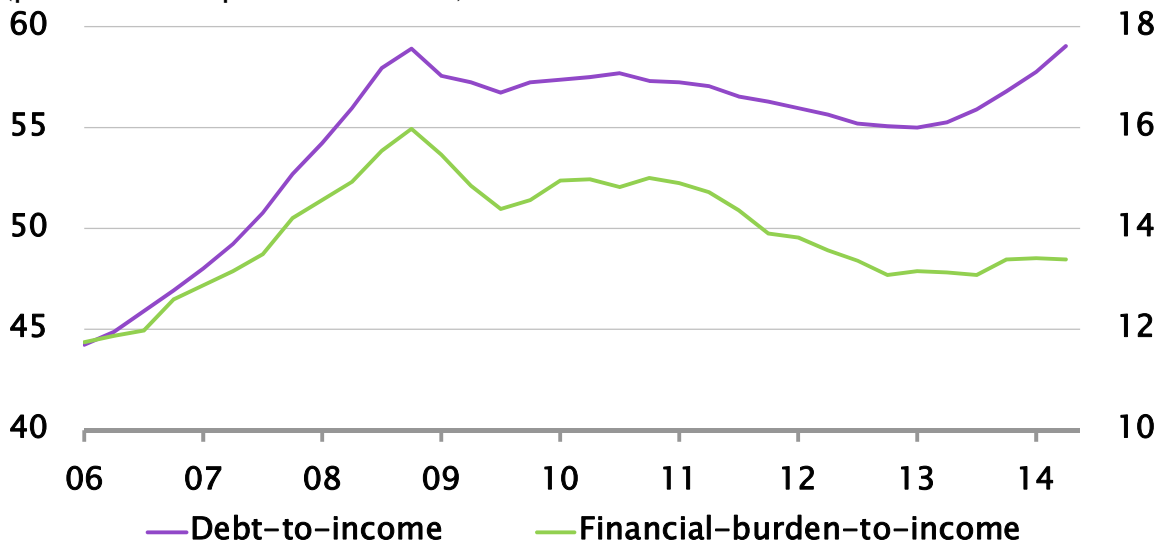
Source: Central Bank Chile based on Achef, SBIF, SII, and SVS data.

Figure 11  
**New home prices and office-space vacancy rate**  
 (Metropolitan region) (index, 2008 average = 100; percent)



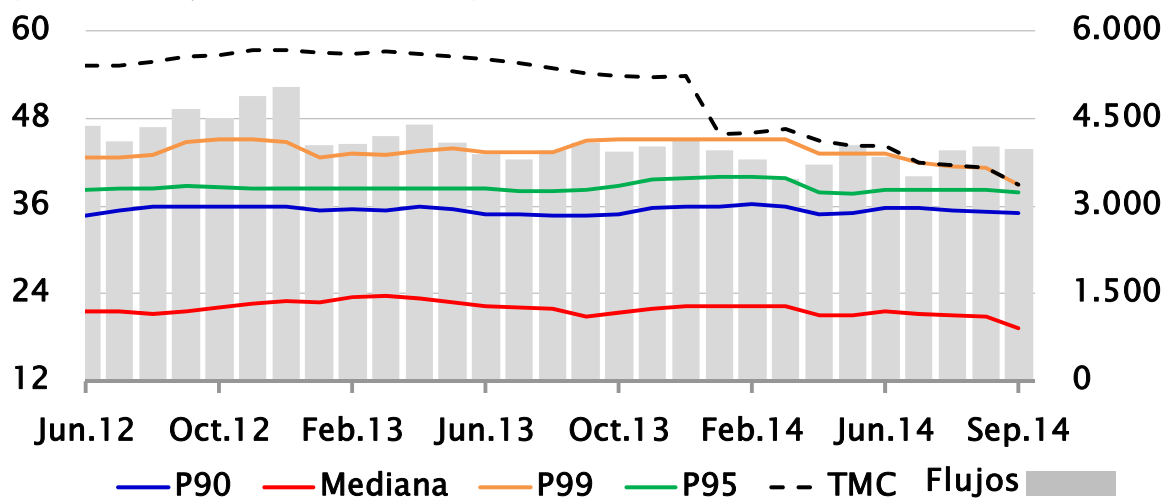
Source: Central Bank of Chile based on Global Property Solutions and CChC data.

Figure 12  
**Household indebtedness and financial burden**  
 (percent of disposable income)



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

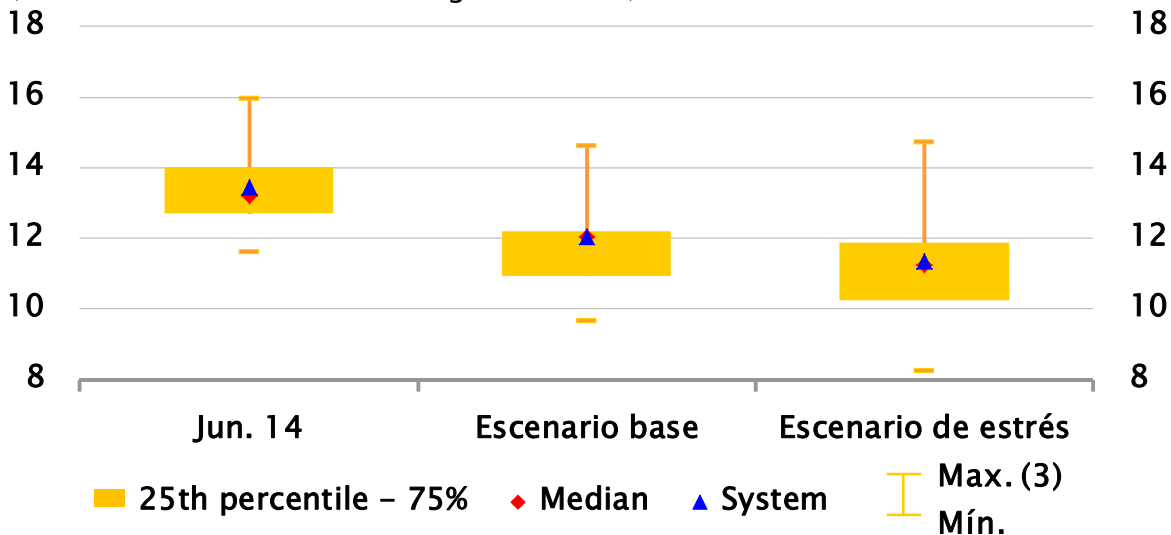
Figure 13  
**Consumer credit flows and Interest rate, UF50 – UF200**  
 (annual rate, thousands of UFs)



(\*) Statistics weighted by amount; periods adjusted to the month of TMC change; flows normalized by effective number of days.

Source: Central Bank of Chile based on SBIF data.

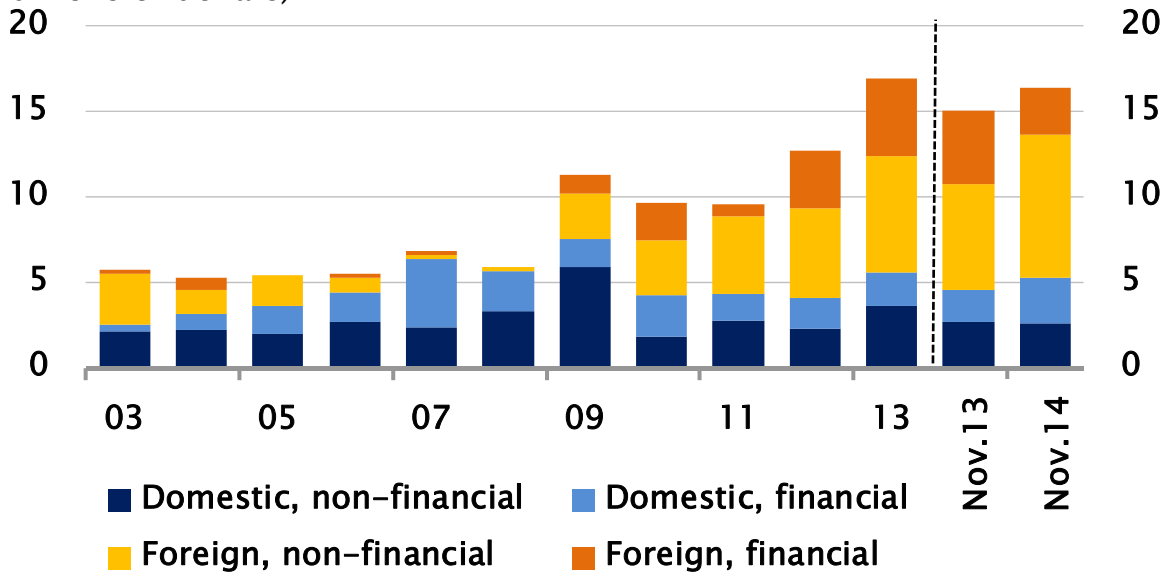
Figure 14  
**Impact of various scenarios on capital adequacy index (1)(2)**  
 (actual net worth over risk-weighted assets)



(1) Figures weighted by each institution's core capital. (2) Estimates do not consider foreign trade and treasury banks. (3) Max figures correspond to 90<sup>th</sup> percentile.

Source: Central Bank of Chile based on SBIF data.

Figure 15  
Company bond placements (\*)  
billions of dollars)



(\*) Bars to the right of vertical line use placements accumulated at November of respective year.

Source: Central Bank of Chile based on Bloomberg data.

Table 3  
Change in policy rate (\*)  
(basis points)

Turkey	375
Brazil	175
Colombia	125
Czech Rep.	0
Mexico	-50
Poland	-50
Peru	-50
Rep. Korea	-50
Israel	-75
Hungary	-90
<b>Chile</b>	<b>-150</b>

(\*) Change in spot rate from 1 January 2014.

Source: Bloomberg.

Variación de tipo de  
(porcentaje)

Colombia	24.7
<b>Chile</b>	<b>17.8</b>
Hungary	14.4
Mexico	13.2
Israel	12.6
Brazil	12.4
Czech Rep.	11.4
Poland	11.3
Turkey	7.0
Peru	5.9
Rep. Korea	4.5