



Monetary Orthodoxy in Turbulent Times. The Experience of Chile

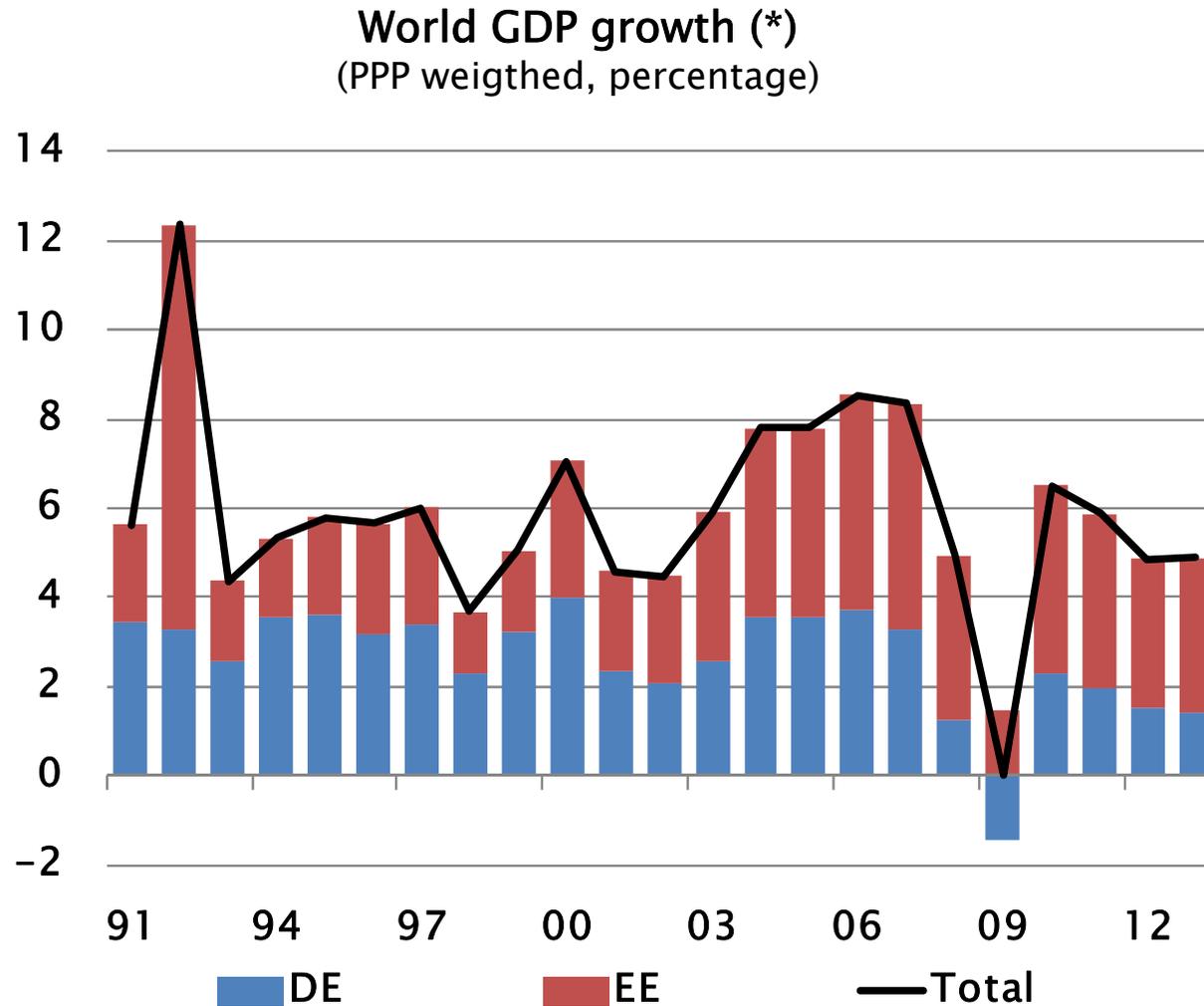
Joaquín Vial
Central Bank, Chile

The Great Experimentation with Unconventional Monetary and Financial
Policy.

Reinventing Bretton Woods Committee – The Central Reserve Bank of Peru
Cusco, Peru July 2013



The current economic cycle comes while the World Economy goes through a structural transformation

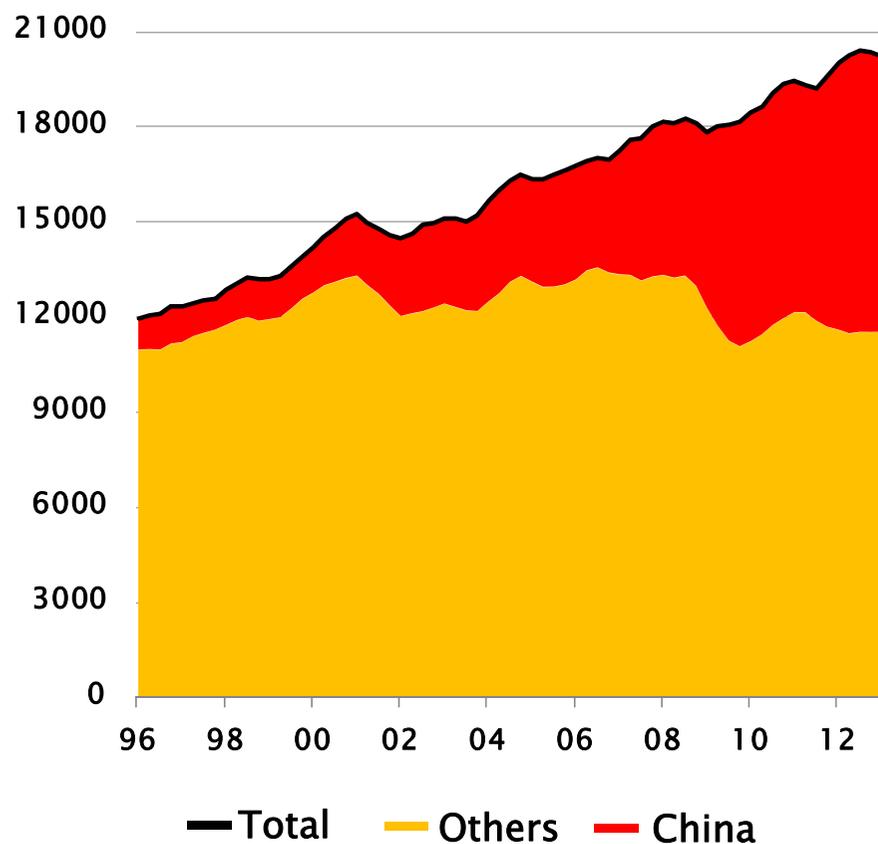


2 (*) 2013 information is estimated and is obtained from World Economic Outlook Database, April 2013.
Source: International Monetary Fund.

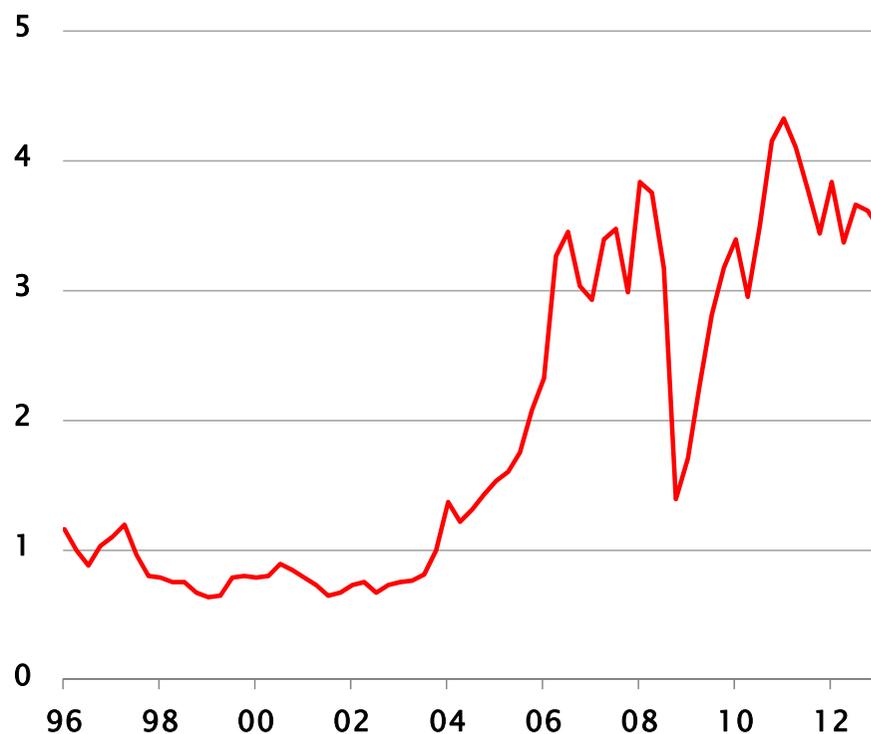


“Great Convergence” has put pressure on copper prices, supported by large increases in copper use by China

Refined copper consumption
(thousand metric tonnes)



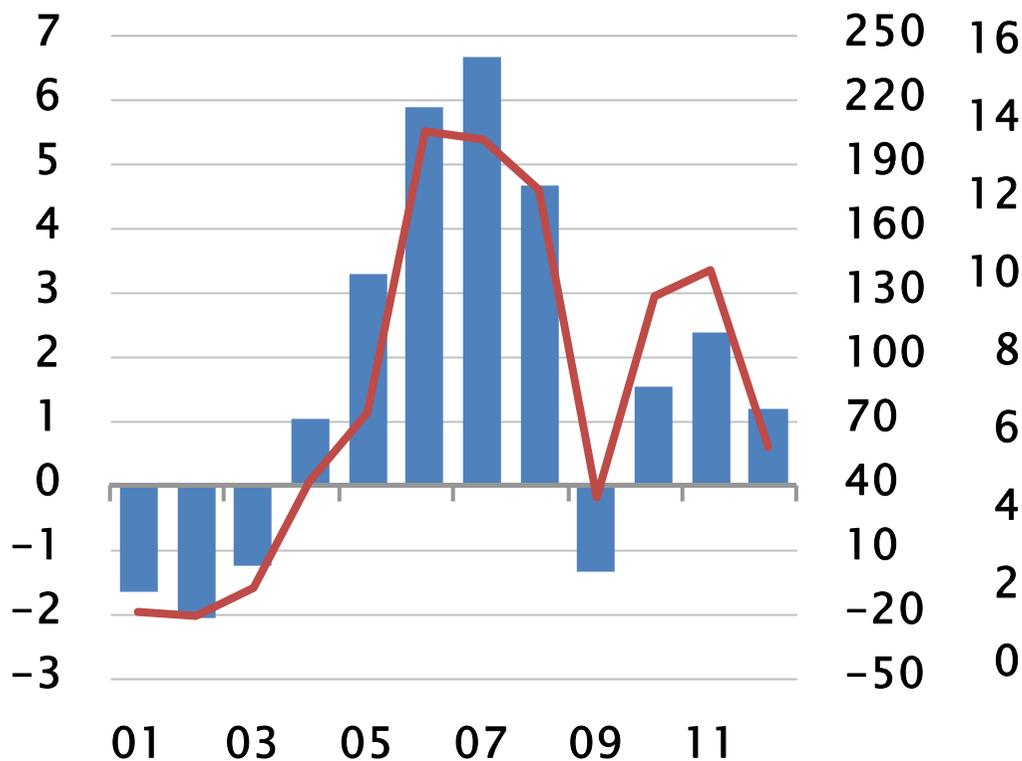
Copper price
(US dollar per pound)





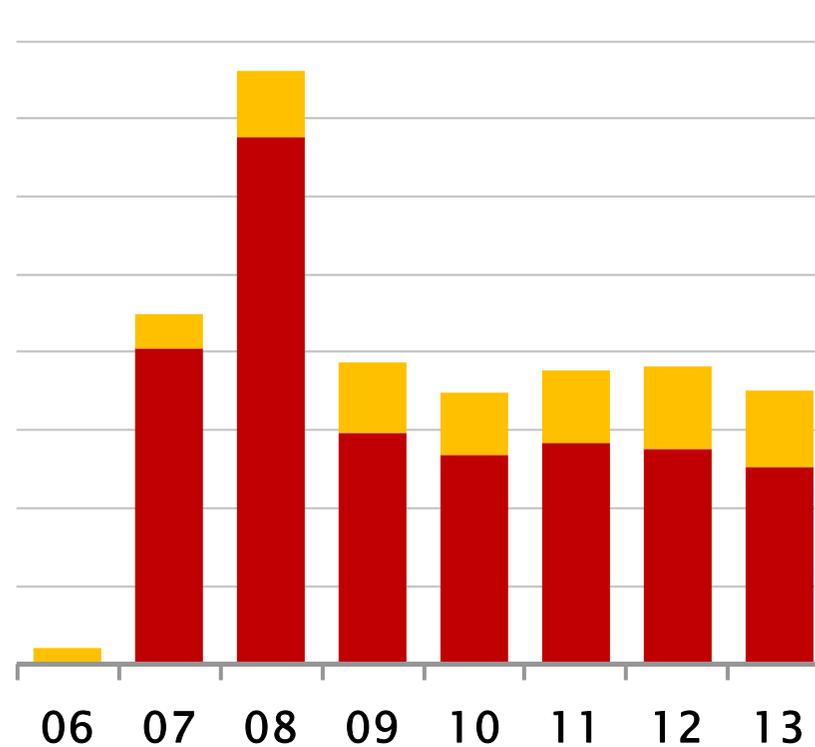
The traditional “Fiscal transmission” of copper prices has been neutralized by fiscal policy rules

Central Government balance and copper price
(percentage of GDP, USD cents per pound)



■ Balance differential (1)
— Copper price differential (right) (2)

Chilean Sovereign wealth funds
(percentage of GDP)



■ FEES ■ FRP

(3)

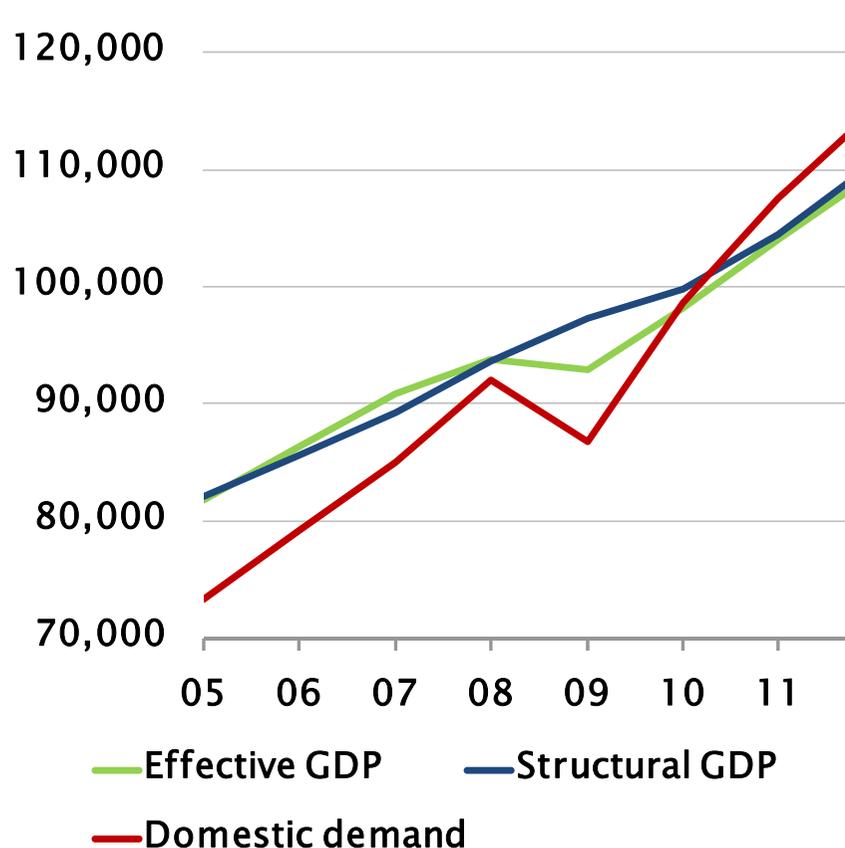
(1) Difference between effective and structural balance. Equivalent to cyclical balance. (2) Difference between effective and long run copper price.

⁴ Sources: Central Bank of Chile and Ministry of Finance.

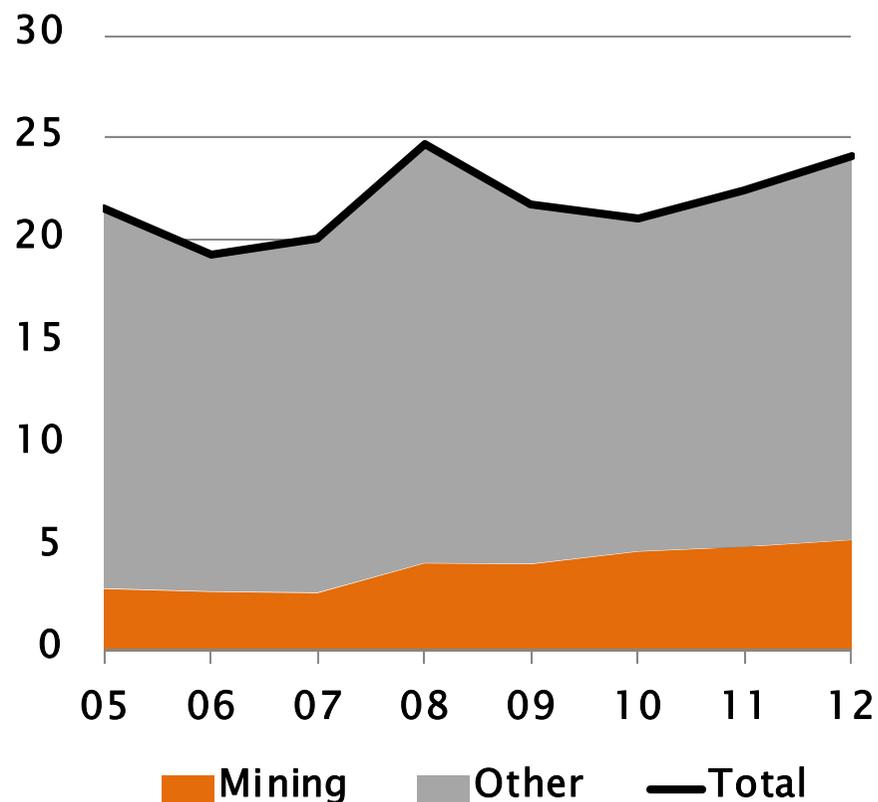


However there is the real cyclical impact of a Mining Investment boom (direct and indirect)

GDP and domestic demand
(billions of of chained-pesos, reference 2008)

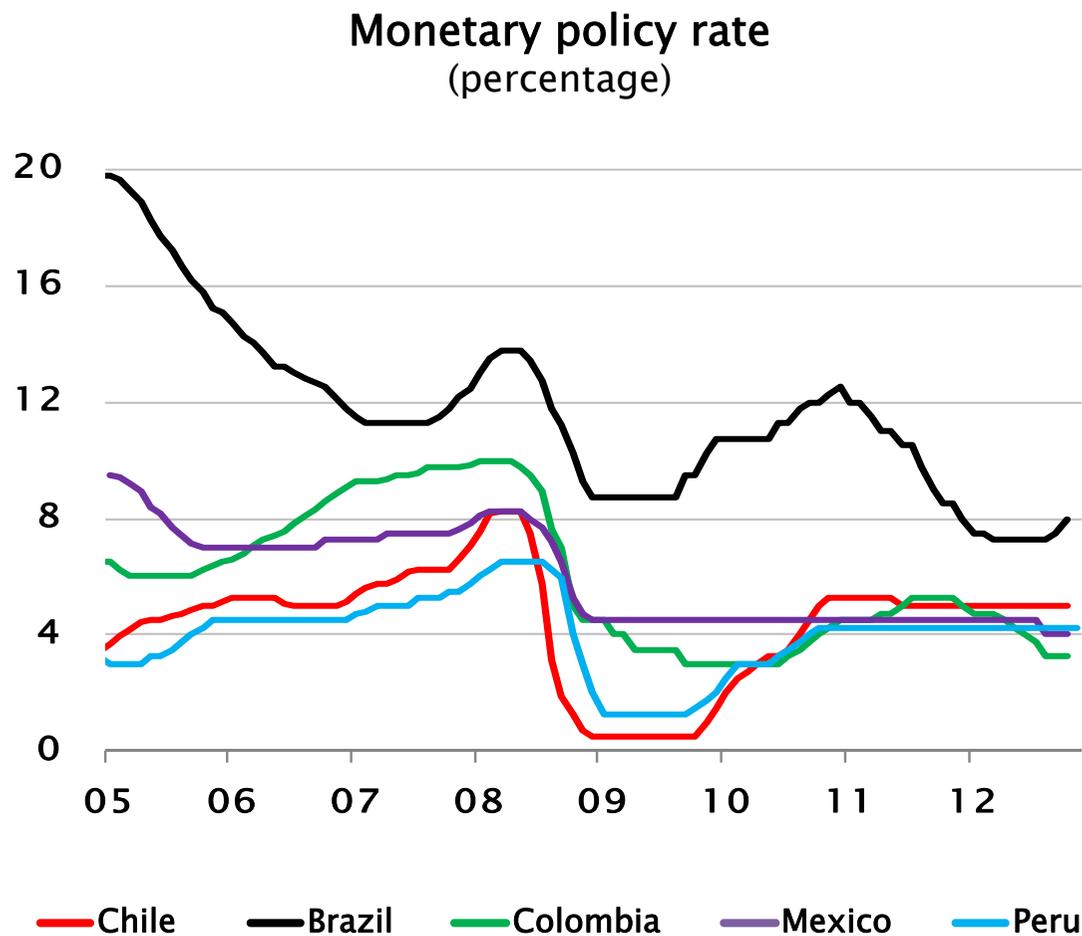


Mining and total investment
(percentage of nominal GDP)





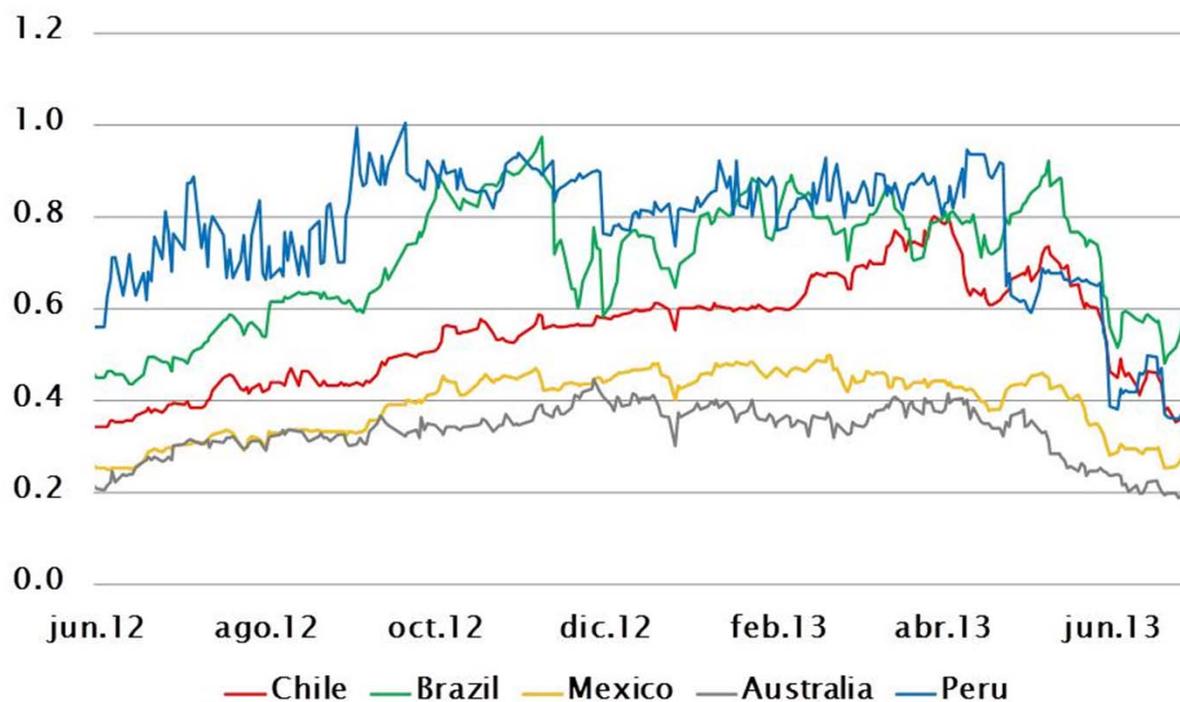
Monetary policy rates were kept at a level close to neutral. There has been no use of non-conventional instruments





FX volatility has helped reduce incentives for arbitrage

Carry to risk ratio for selected countries



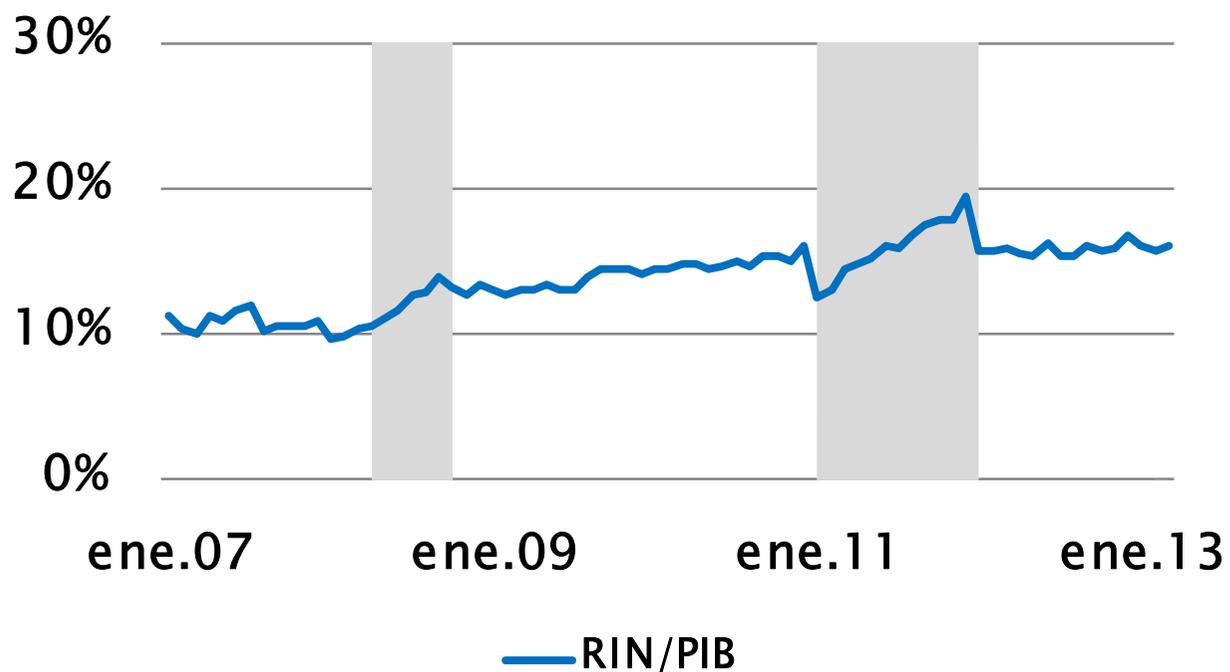
$$\text{Carry to risk ratio} = \frac{i_{3 \text{ meses}}^{\text{activa}} - i_{3 \text{ meses}}^{\text{pasiva}}}{\text{Volatilidad implícita opciones 3 meses activa / pasiva}}$$

i_{activa} : tasa depósito 3 meses en moneda local.
 i_{pasiva} : tasa depósito 3 meses en dólares.



Chilean interventions had been preannounced and with an specific target of FX reserves accumulation over a set period of time

Ratio International Reserves/ GDP Chile

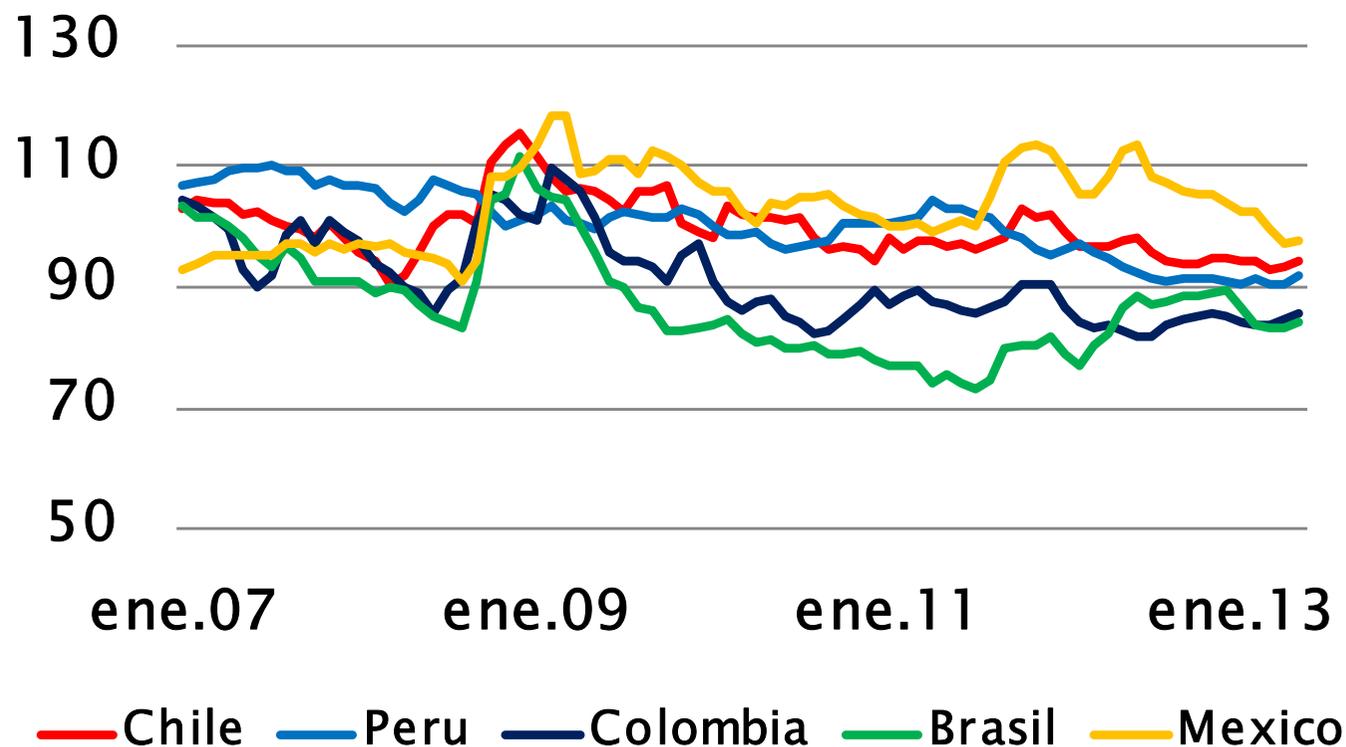


Note: grey band denote FX intervention programas.



Chilean peso deviations from trend have not been significantly different from those currencies of countries with more activist policies

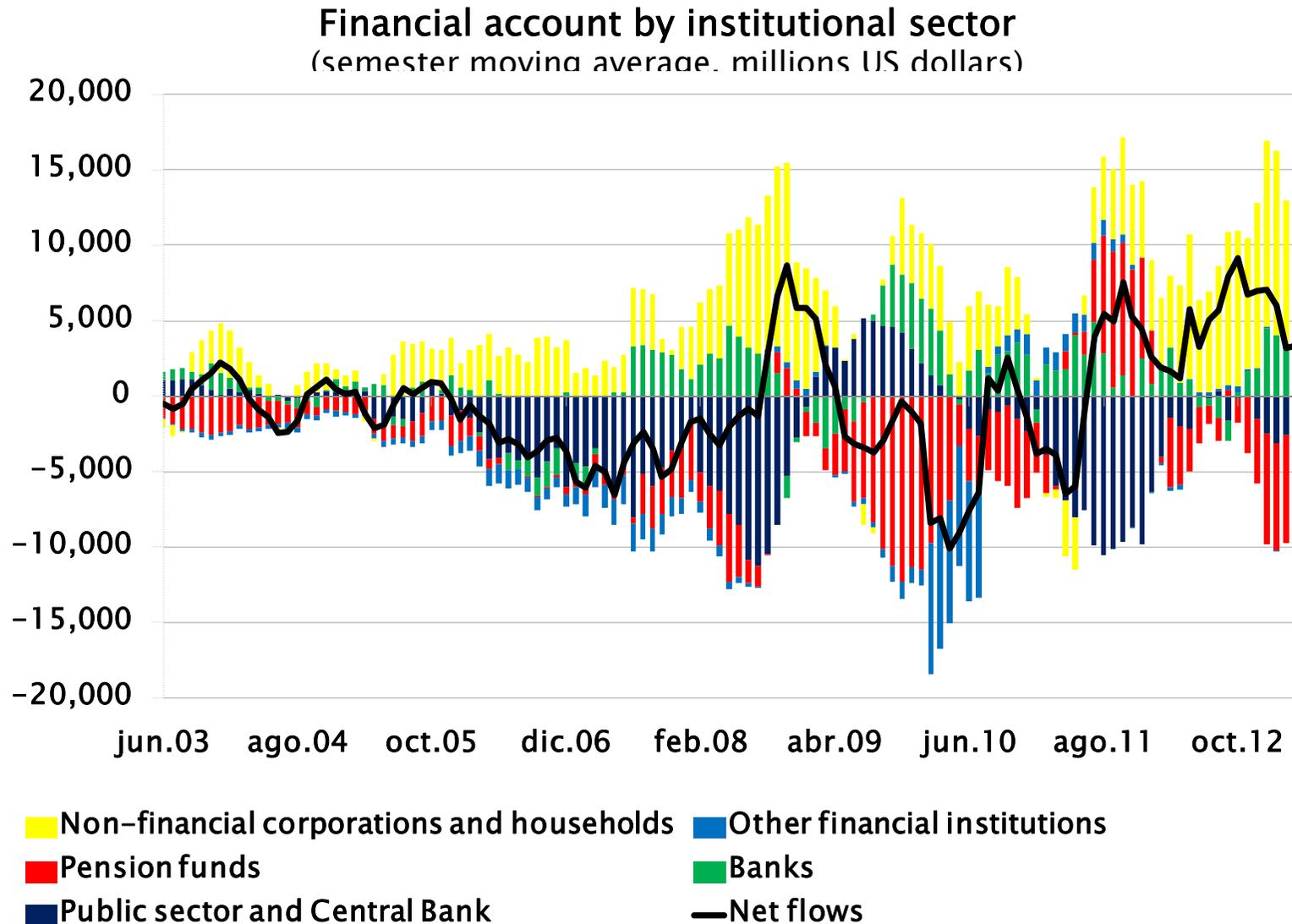
Exchange rate deviations from trend for selected countries



Note: Deviation from average real parity January 1995 - June 2013

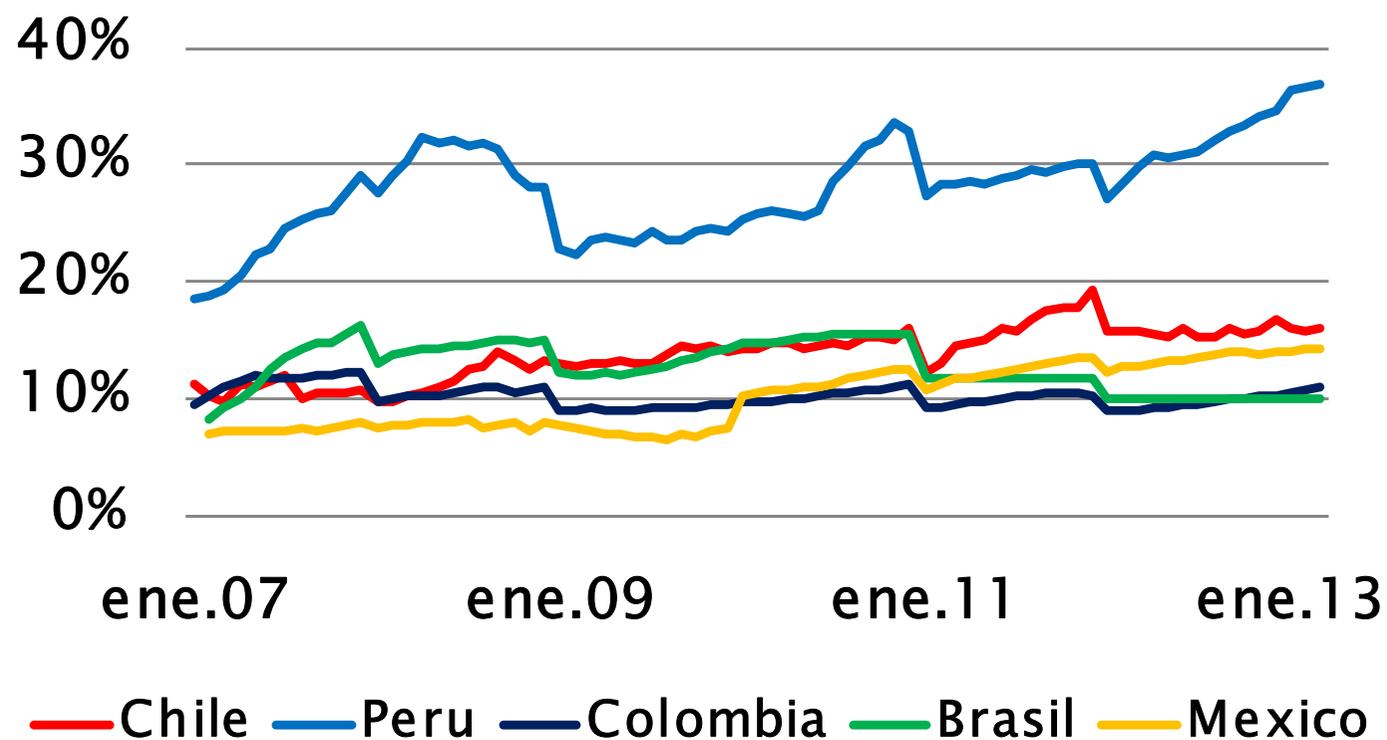


Pension funds are large players in the FX market





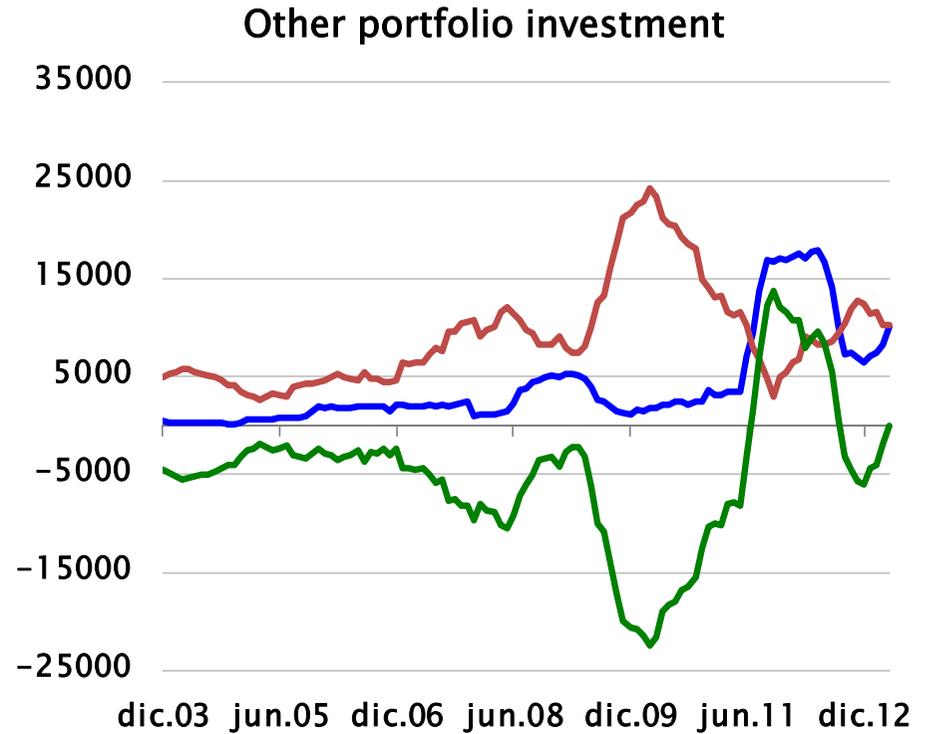
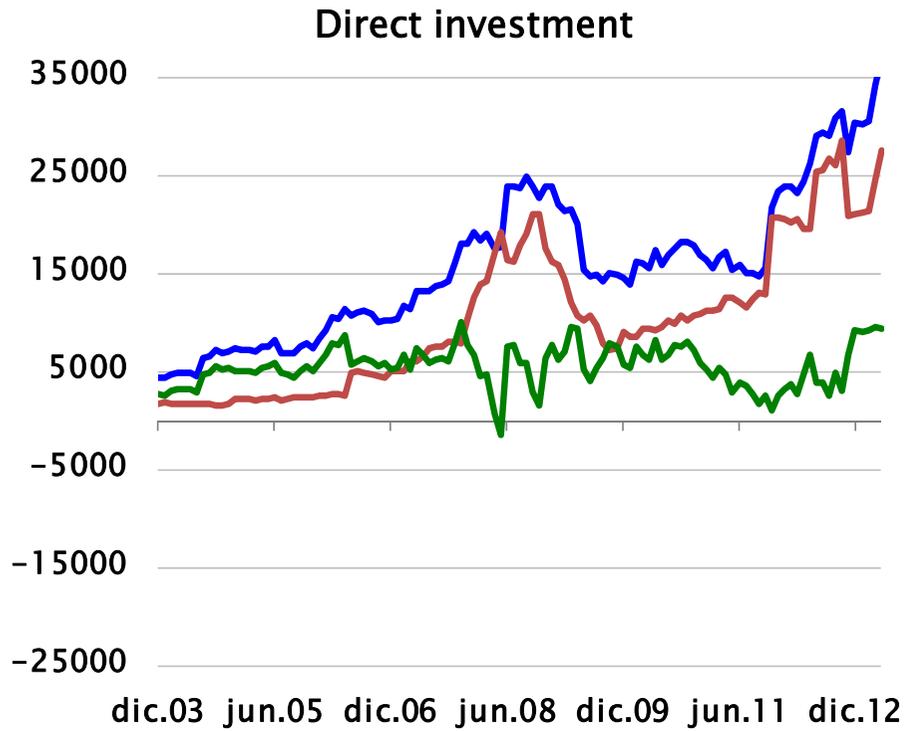
International Reserves / GDP ratios, selected countries





Financial accounts

Financial account flows
(millions US dollars, annual moving average)

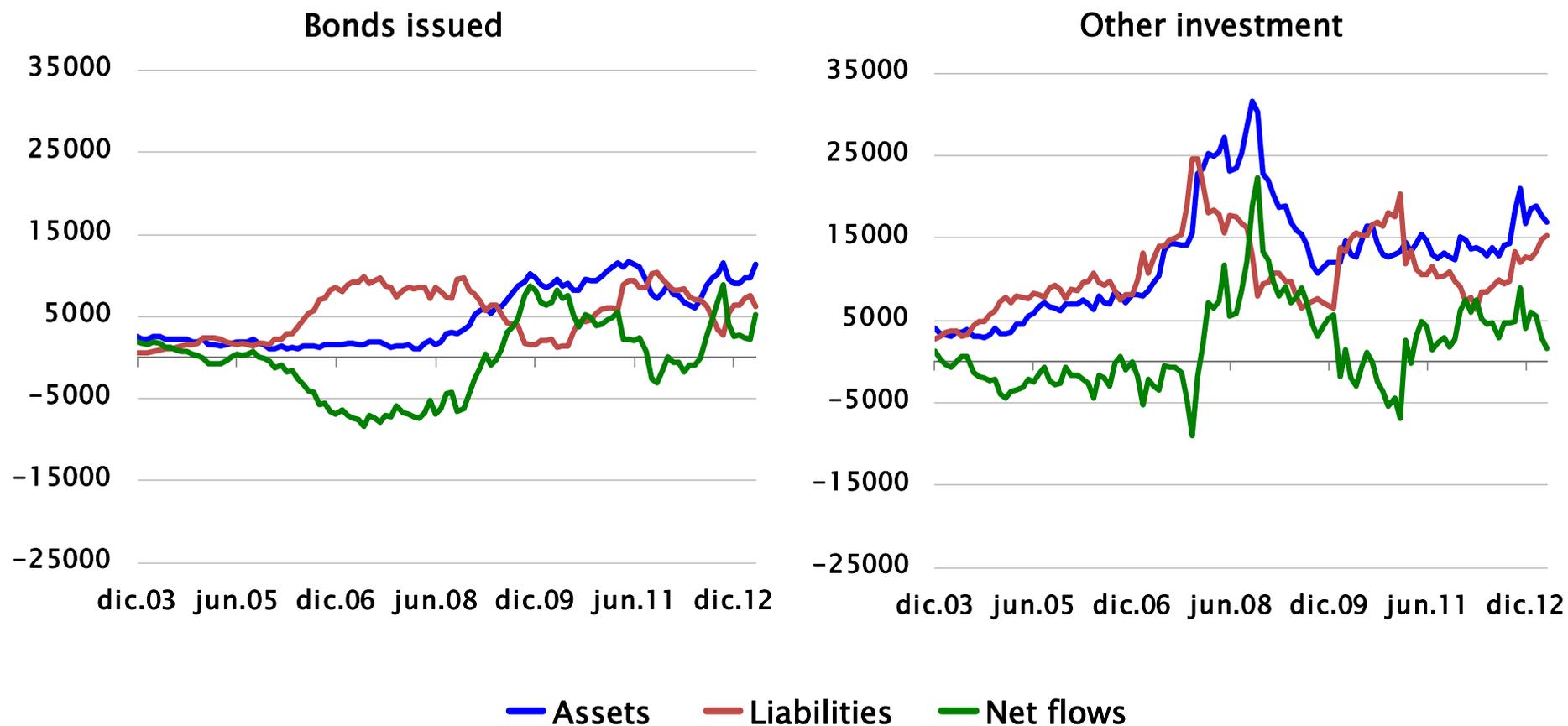


— Assets — Liabilities — Net flows



Financial Accounts

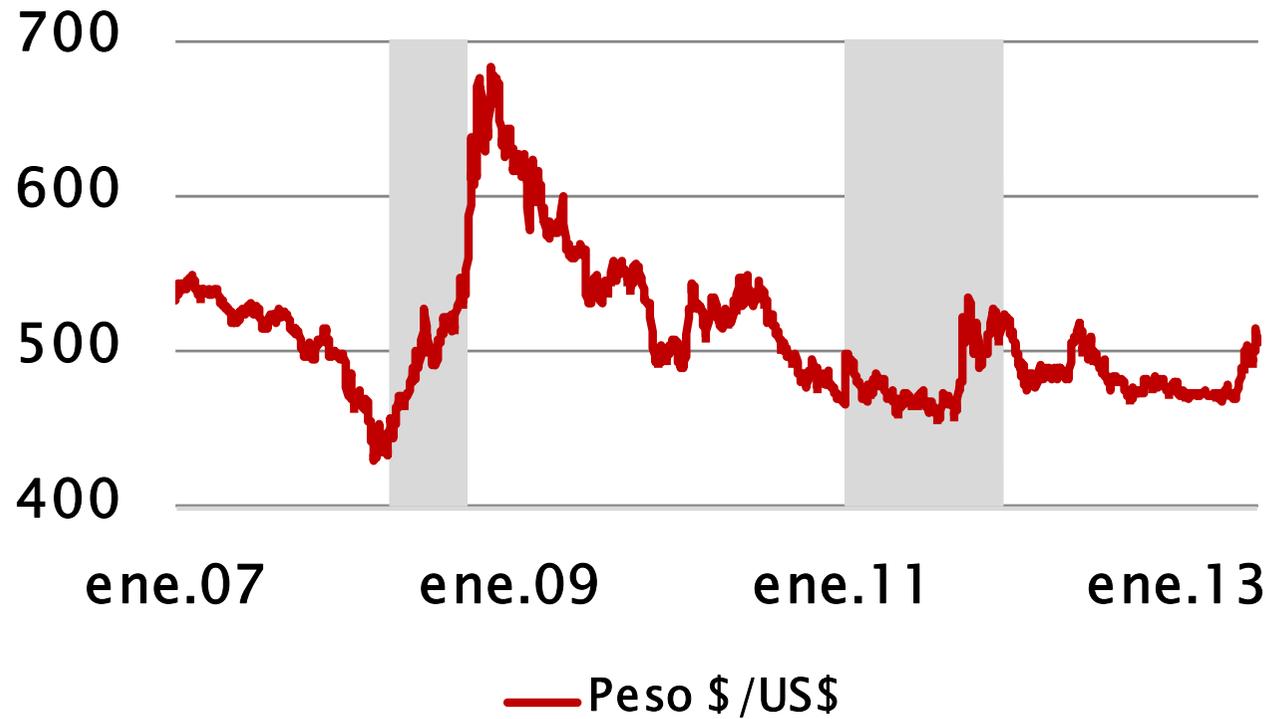
Financial account flows
(millions US dollars, annual moving average)





Nominal Exchange Rate Chile

(CH\$/USD)



Nota: Banda gris indica programa de acumulación de reservas internacionales (compras diarias de US\$50 millones).



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