

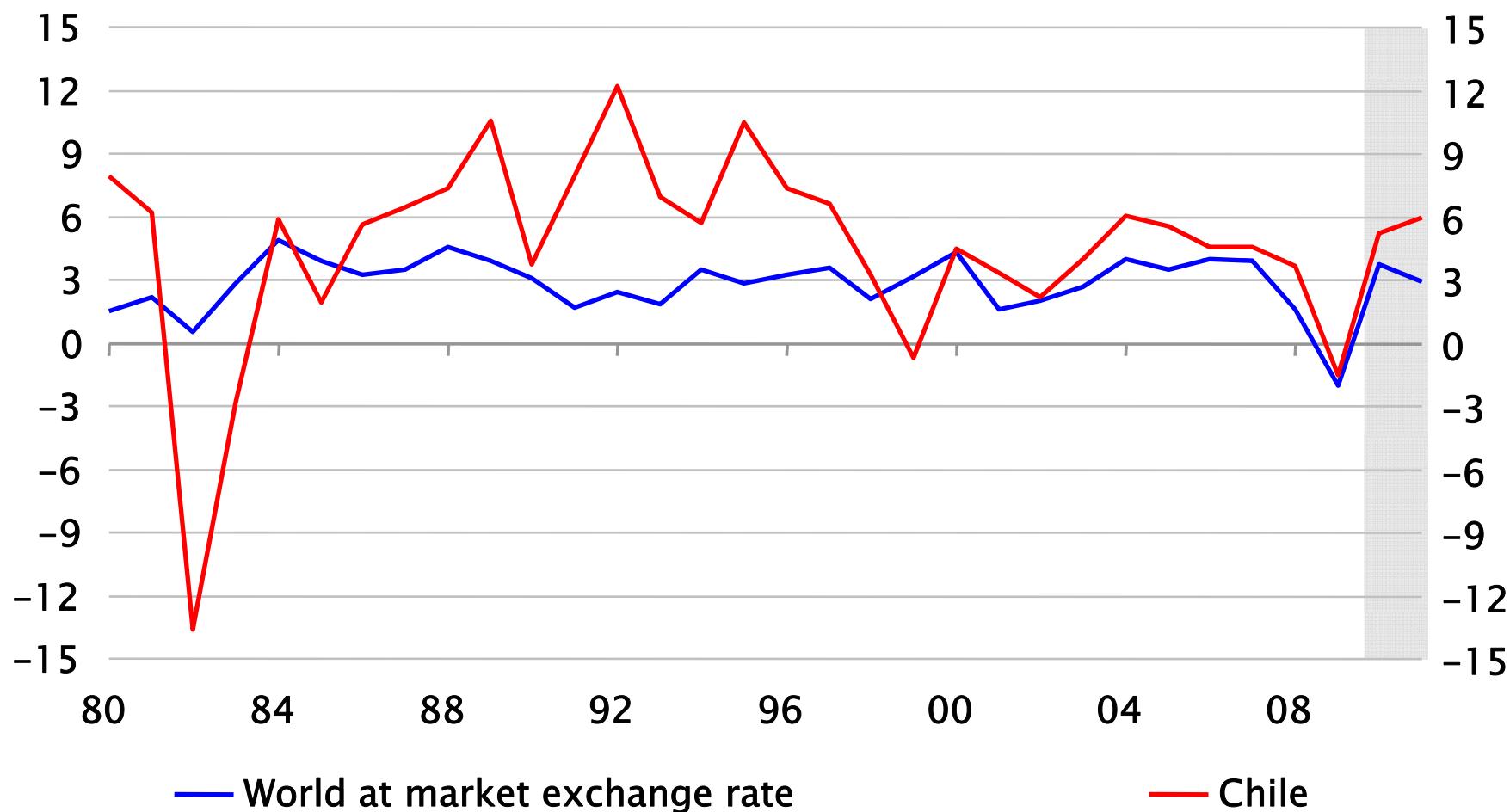


Policy Responses to the Global Crisis

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Governor
Central Bank of Chile



World growth (*) (annual change, percent)



(*) Gray area shows forecast published in the December 2010 Monetary Policy Report (IPoM). For Chile, it shows middle point of the growth range projected for 2011.

Sources: Central Bank of Chile and IMF.



Chile's macroeconomic and financial policy regime rests on four fundamental pillars.

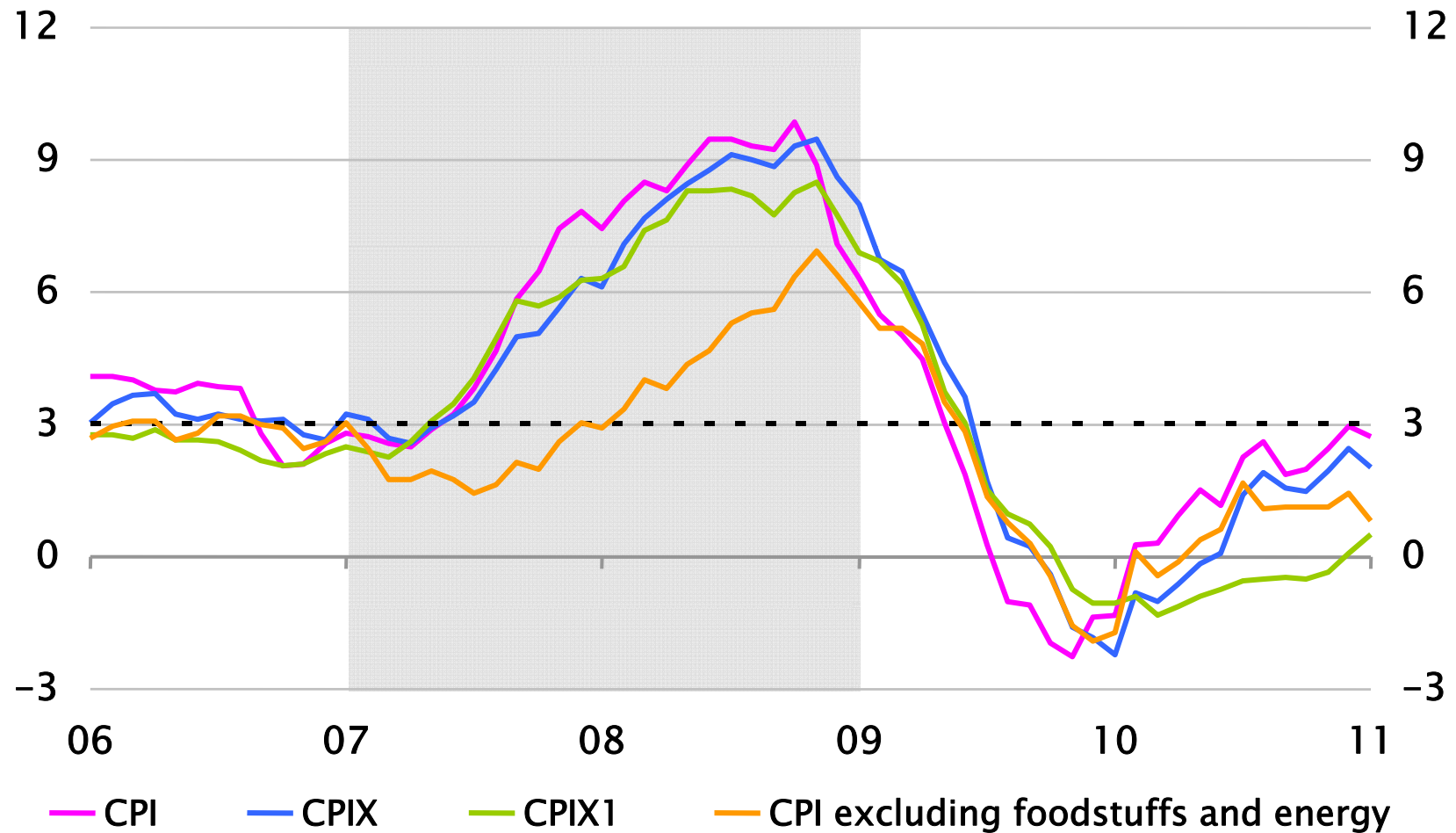
- An autonomous central bank, with a flexible monetary policy based on inflation targeting and a floating exchange rate.
- Accountable, predictable fiscal policy governed by a structural rule.
- A proper framework for regulation and supervision of the financial system.
- Integration with international markets via trade openness and free capital flows.



Chile before the crisis



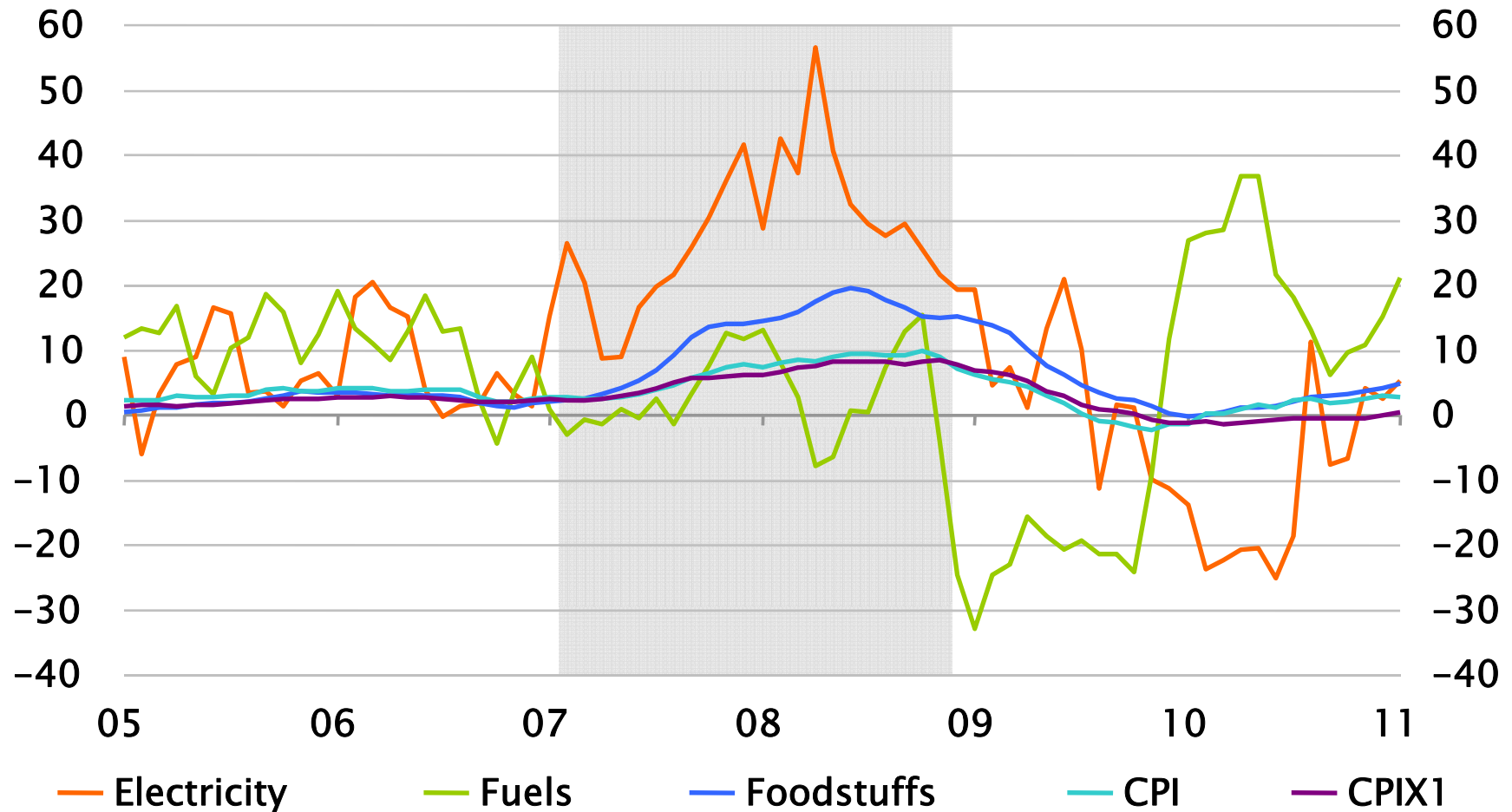
Inflation indicators (annual change, percent)



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



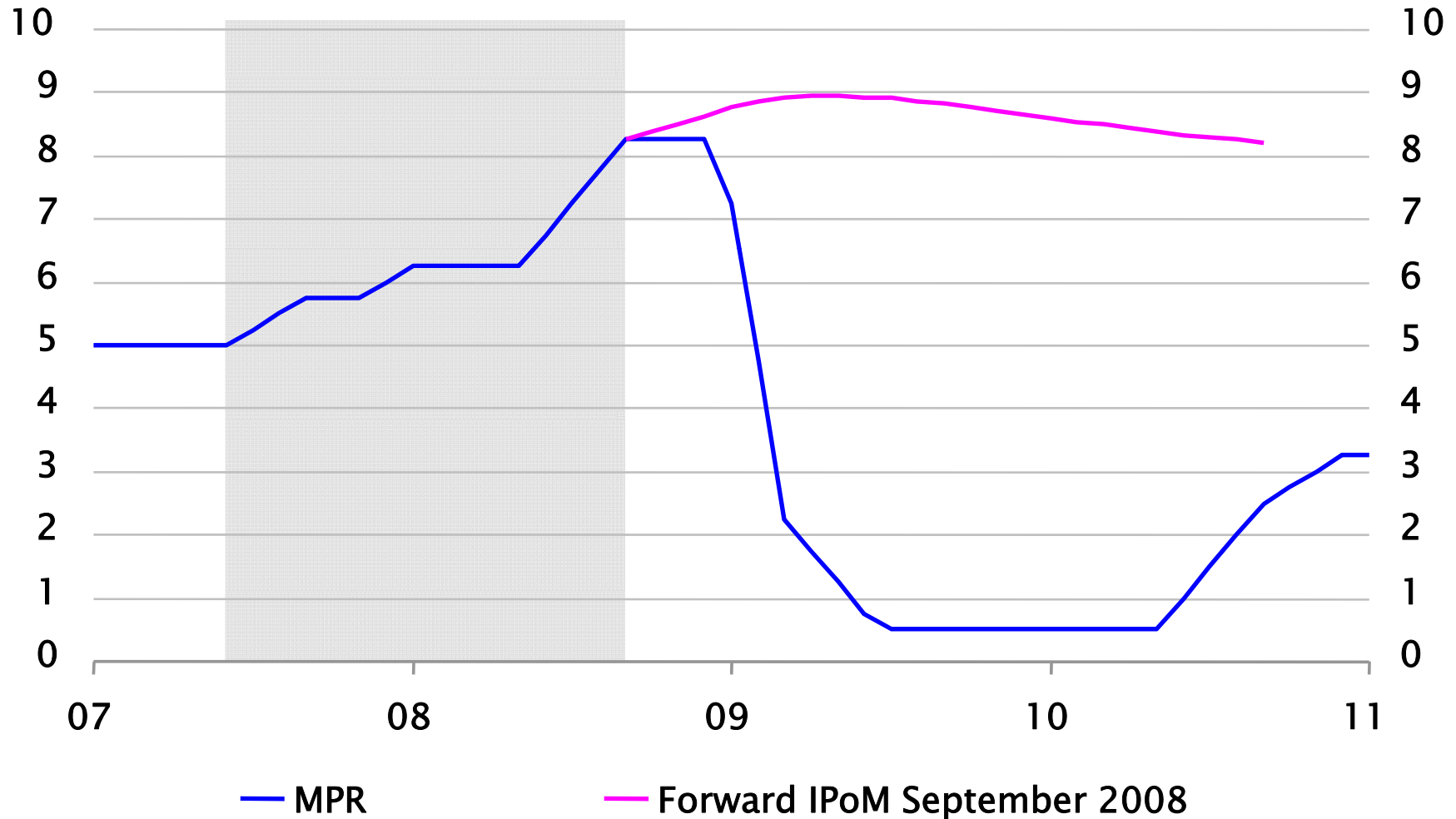
Inflation by components (annual change, percent)



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



Monetary Policy Interest Rate (percent)

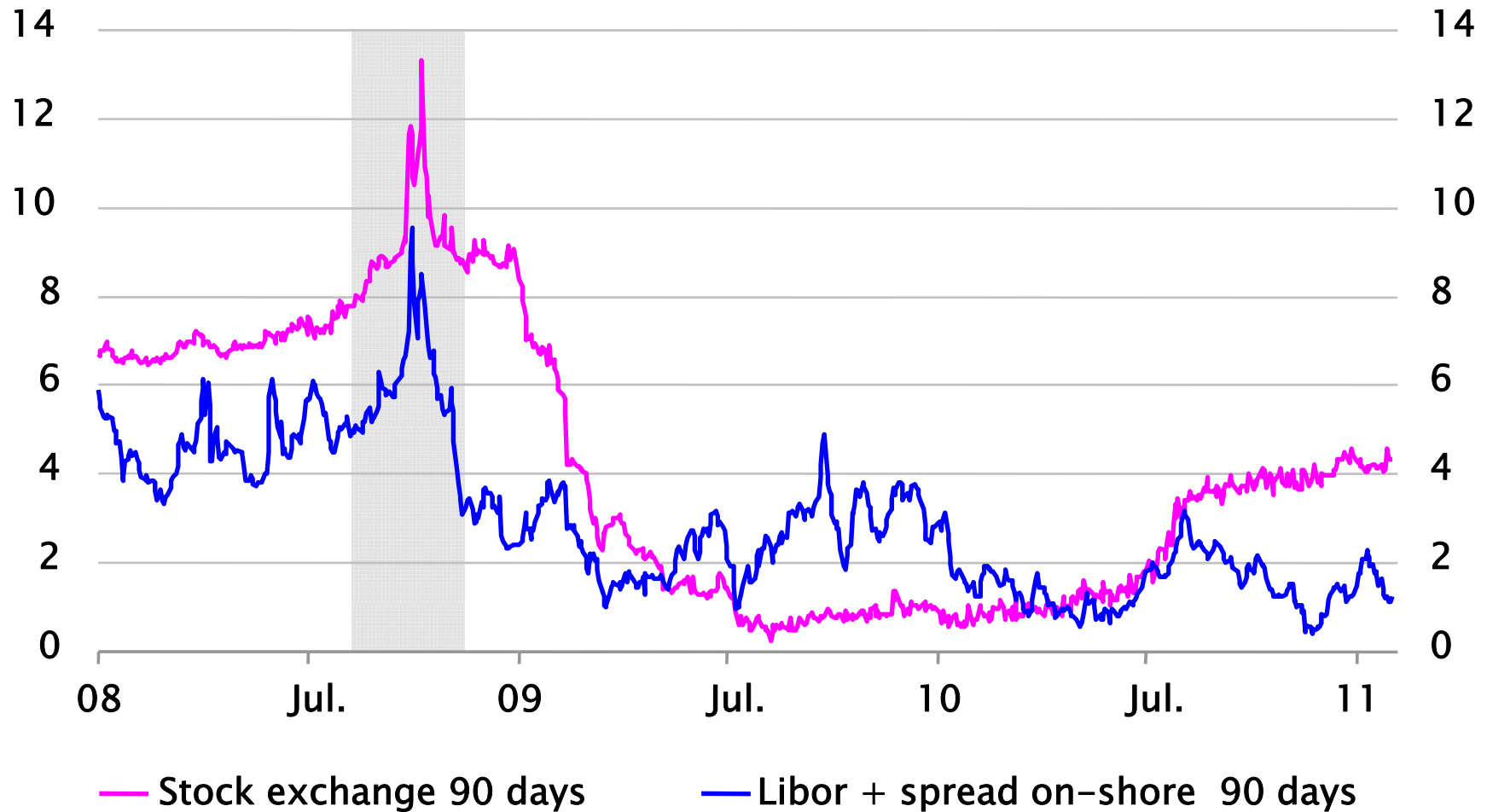




The crisis

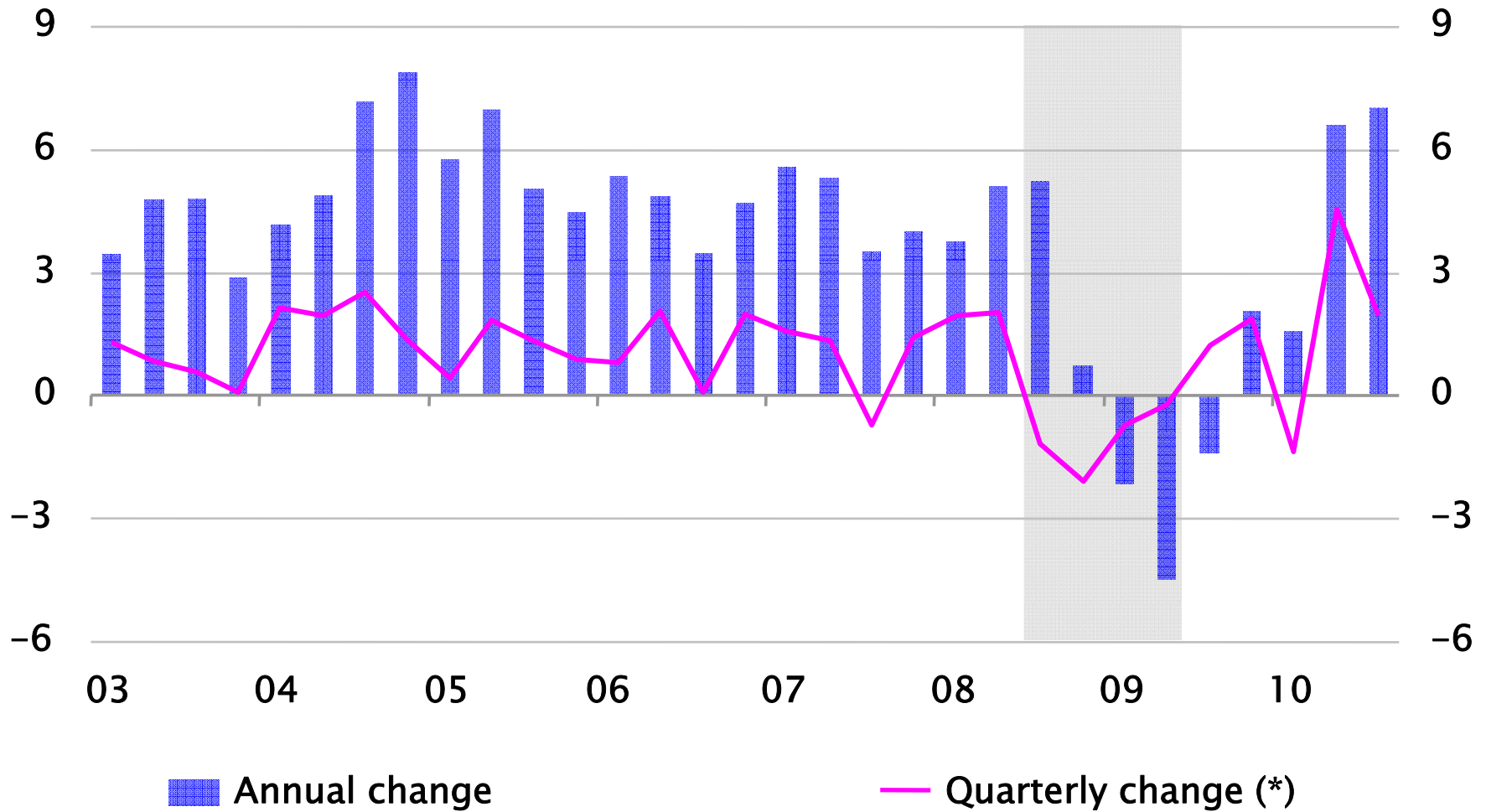


Interest rates in CLP and US\$ in the domestic market (percent)





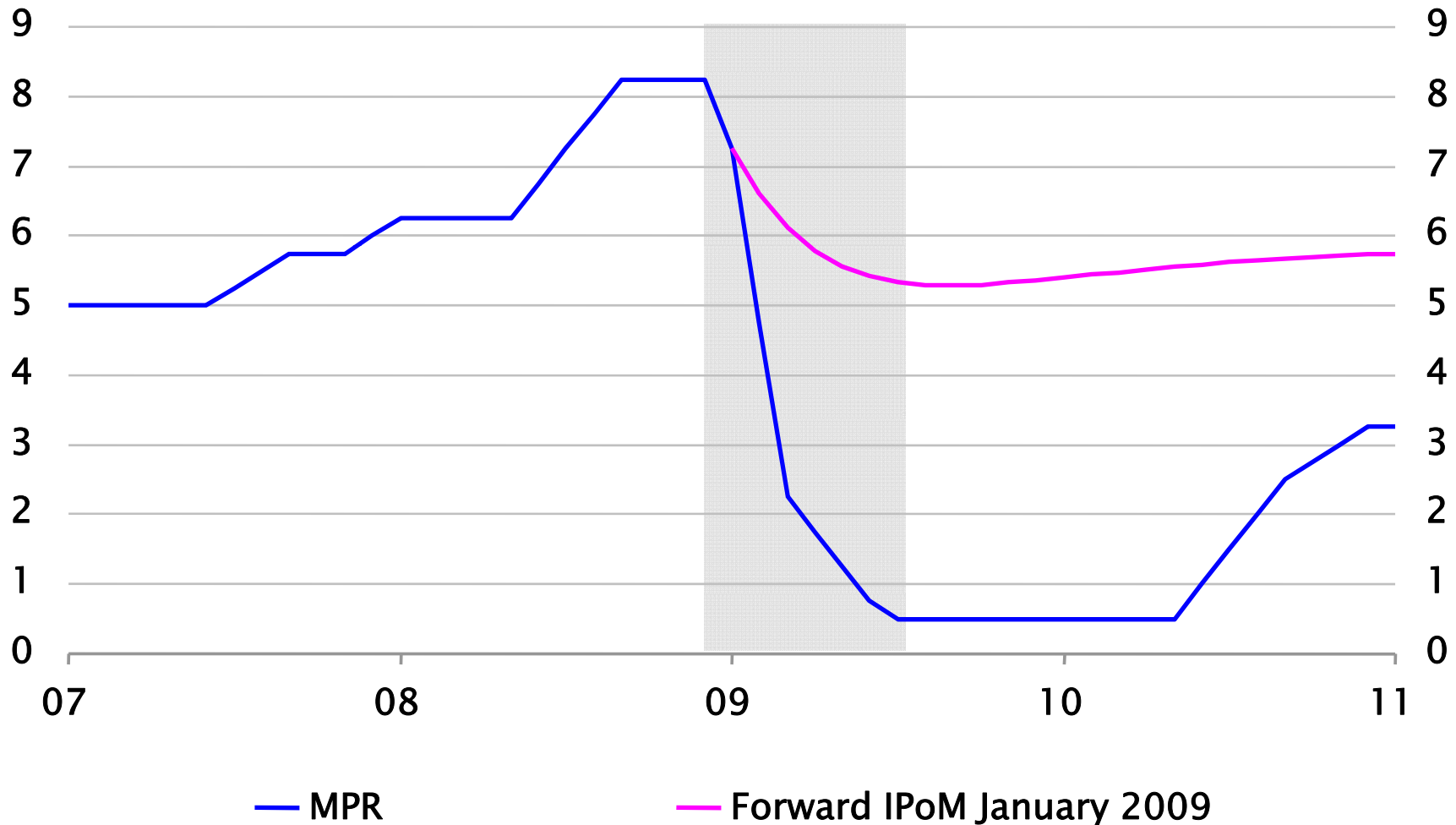
Gross Domestic Product (percent)



(*) Seasonally-adjusted series.
Source: Central Bank of Chile.



Monetary Policy Interest Rate (percent)

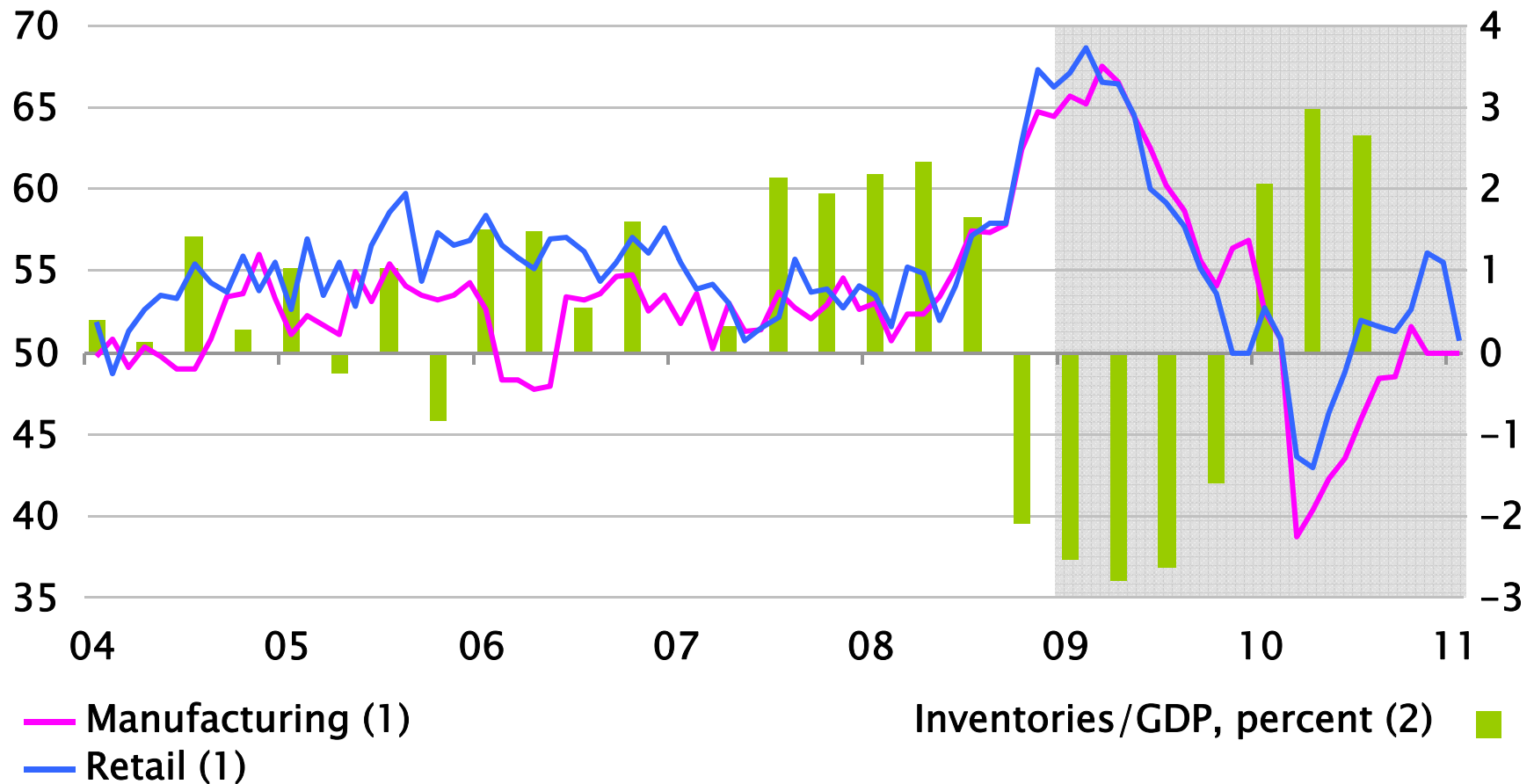




The process of recovery



Current inventory situation

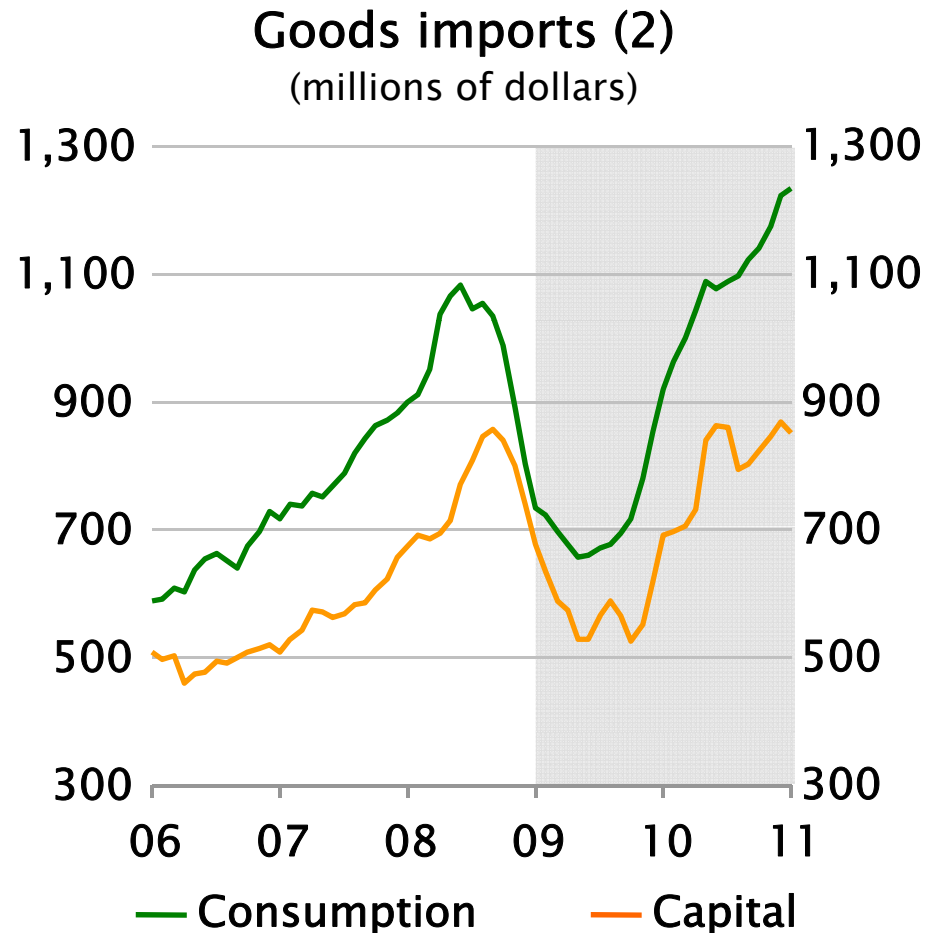
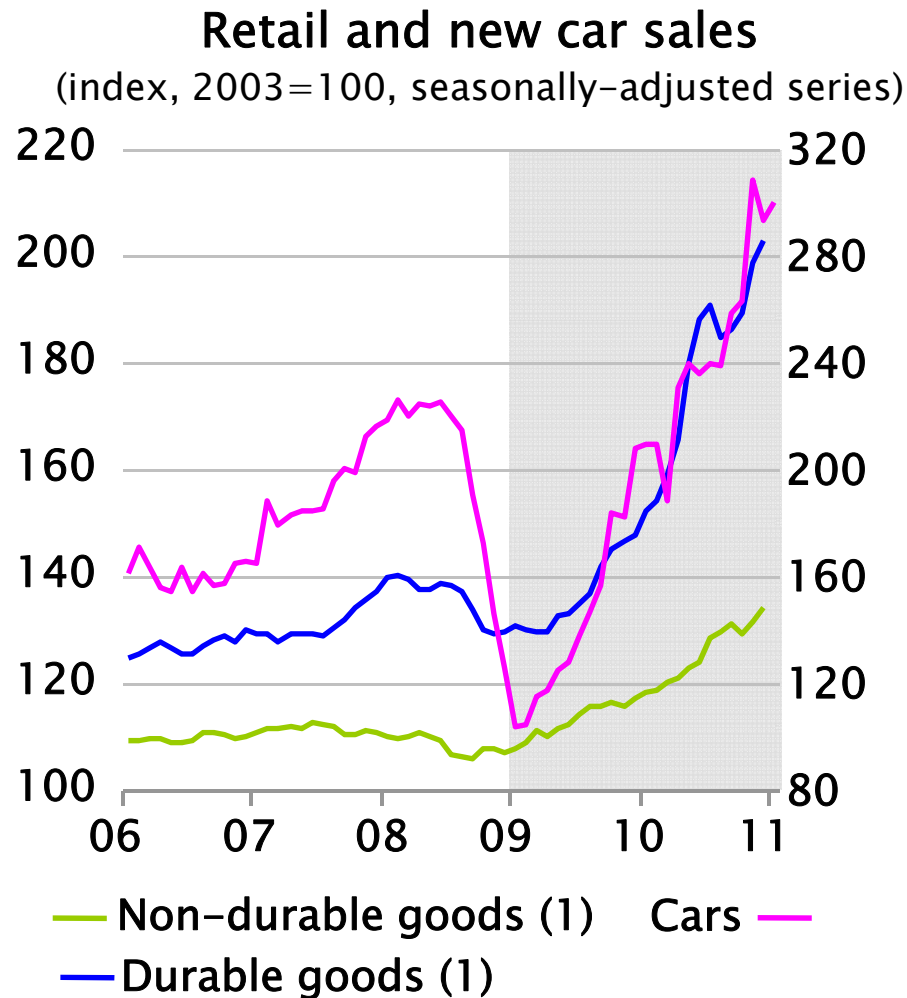


(1) Entrepreneurial perception index IMCE: value above (below) 50 points denotes level above (below) desired level. (2) Seasonally-adjusted quarterly series.

Sources: Central Bank of Chile and Icare/Universidad Adolfo Ibáñez.



Consumption and imports

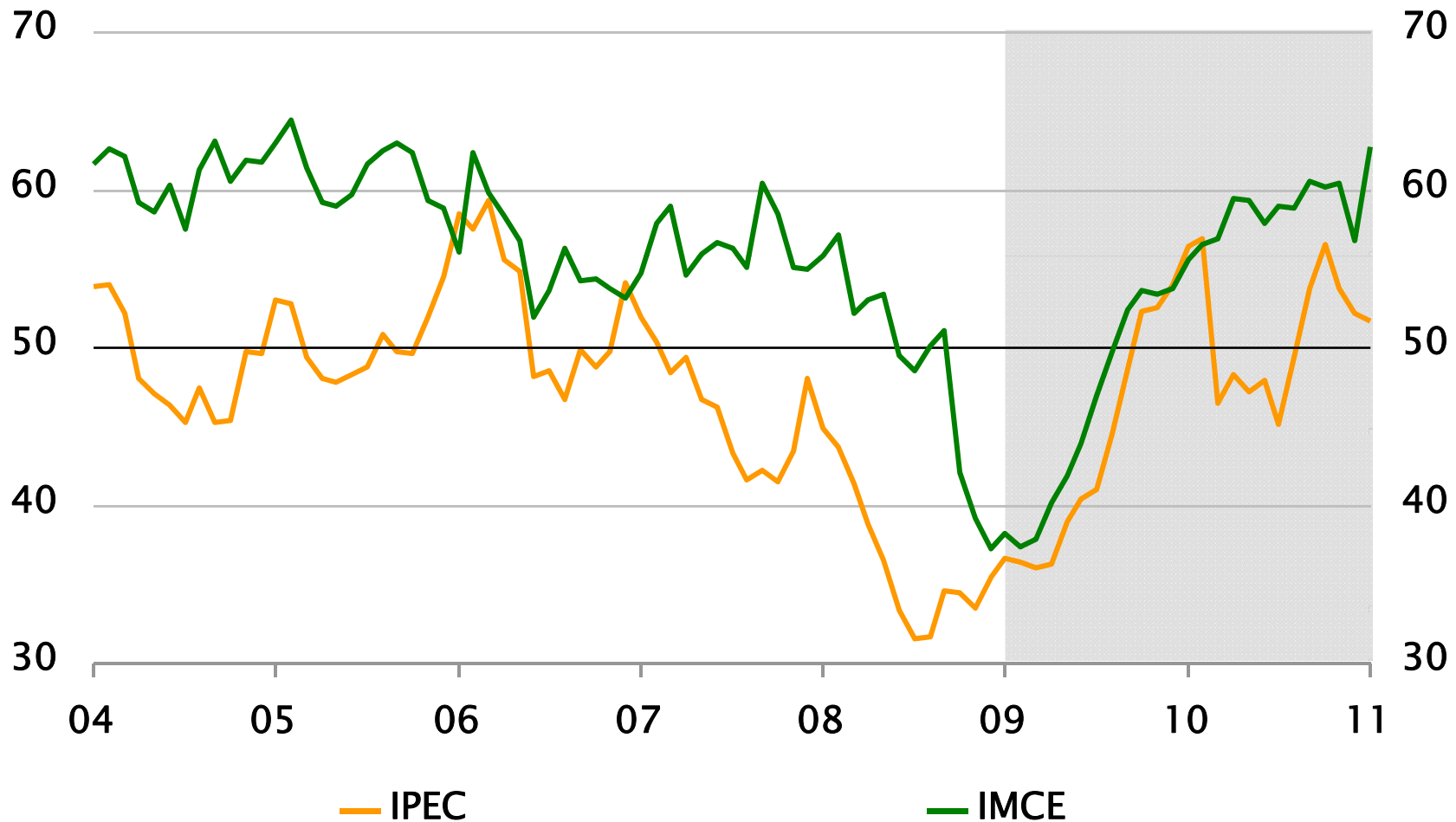


(1) Sold during the moving quarter. (2) Moving quarterly average. Seasonally-adjusted series.

Sources: Asociación Nacional Automotriz de Chile, Central Bank of Chile, Cámara Chilena de la Construcción and Cámara Nacional de Comercio.



Business perception index (IMCE) and consumer perception index (IPEC) (*)

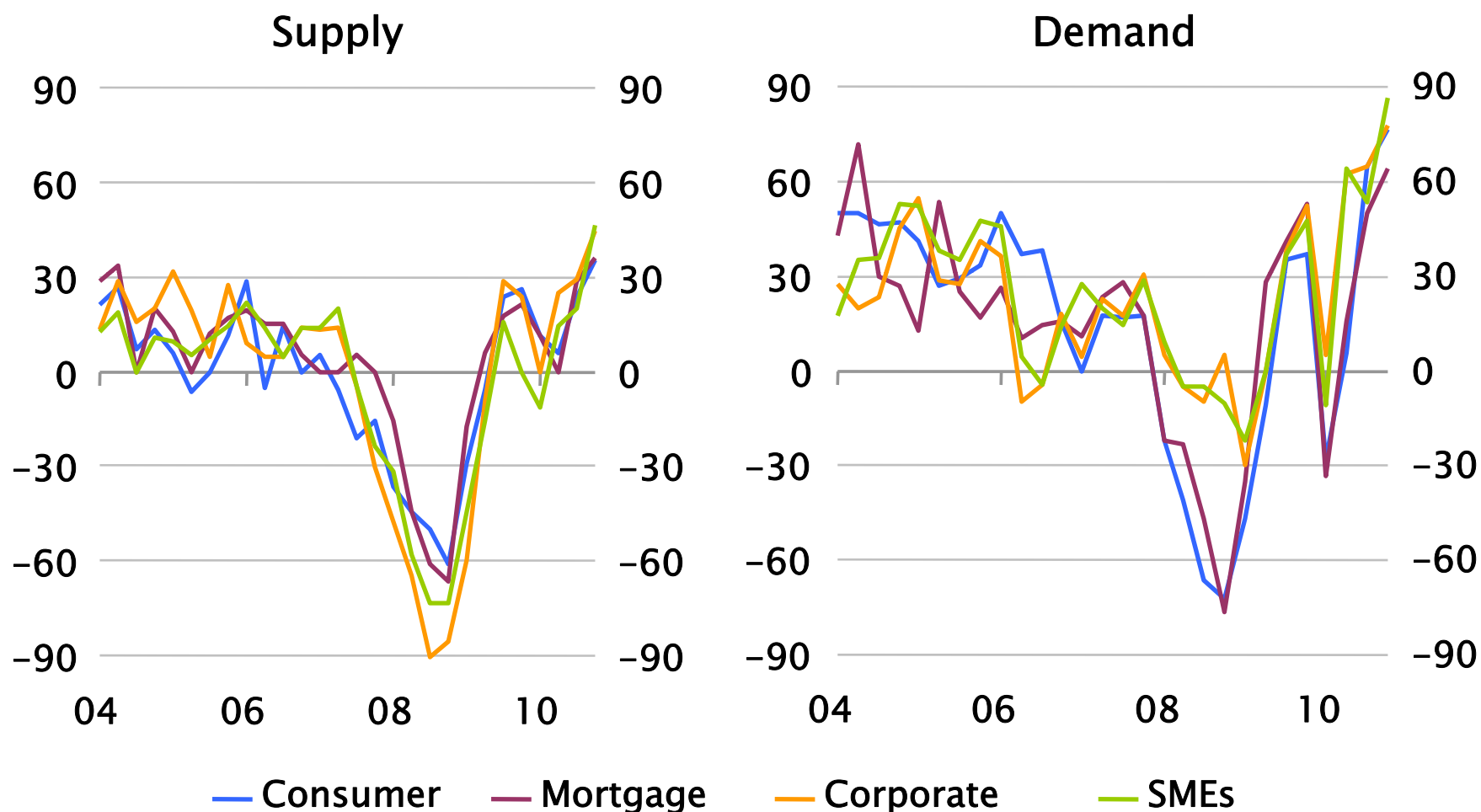


(*) Value above (below) 50 points denotes optimism (pessimism).
Sources: Adimark and Icare/Universidad Adolfo Ibañez.



Banking Credit Survey (*)

(balance of responses, percent)



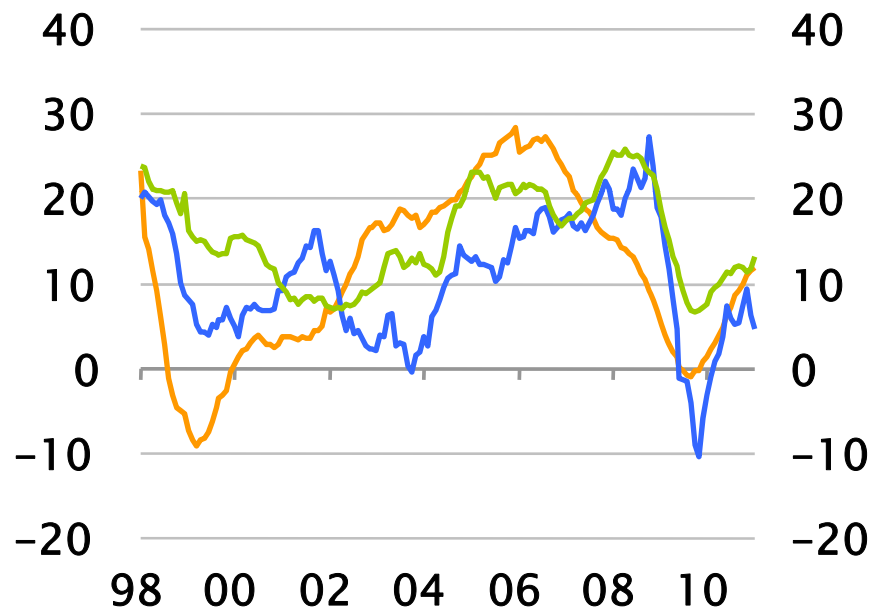
(*) Quarterly average of responses. Positive (negative) values denote more expansionary (tighter) conditions than in the immediately previous quarter.
Source: Central Bank of Chile.



Financial conditions

Nominal lending by type of credit (1)

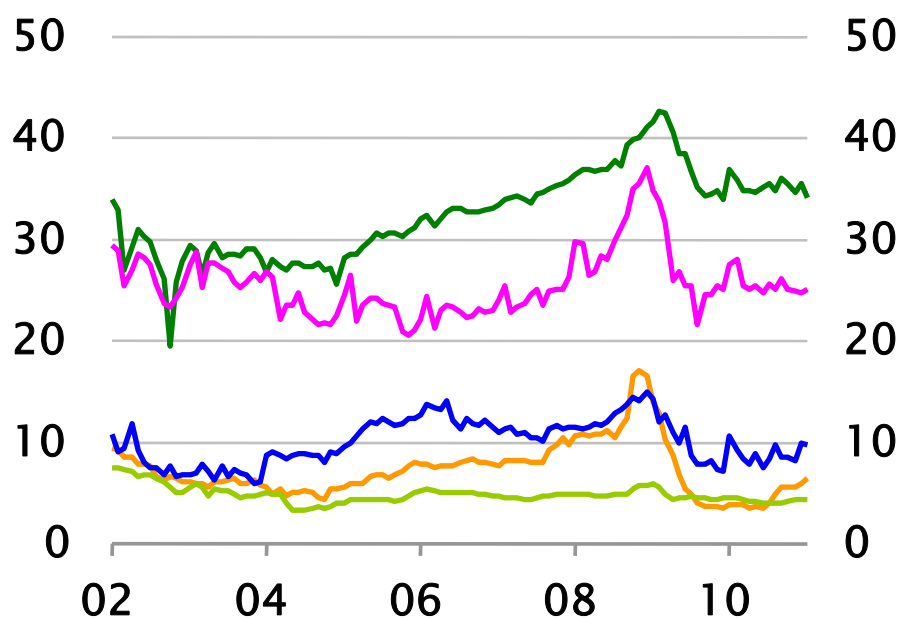
(annual change, percent)



— Consumer — Enterprises (2)
— Housing

Lending interest rates (3)

(percent)

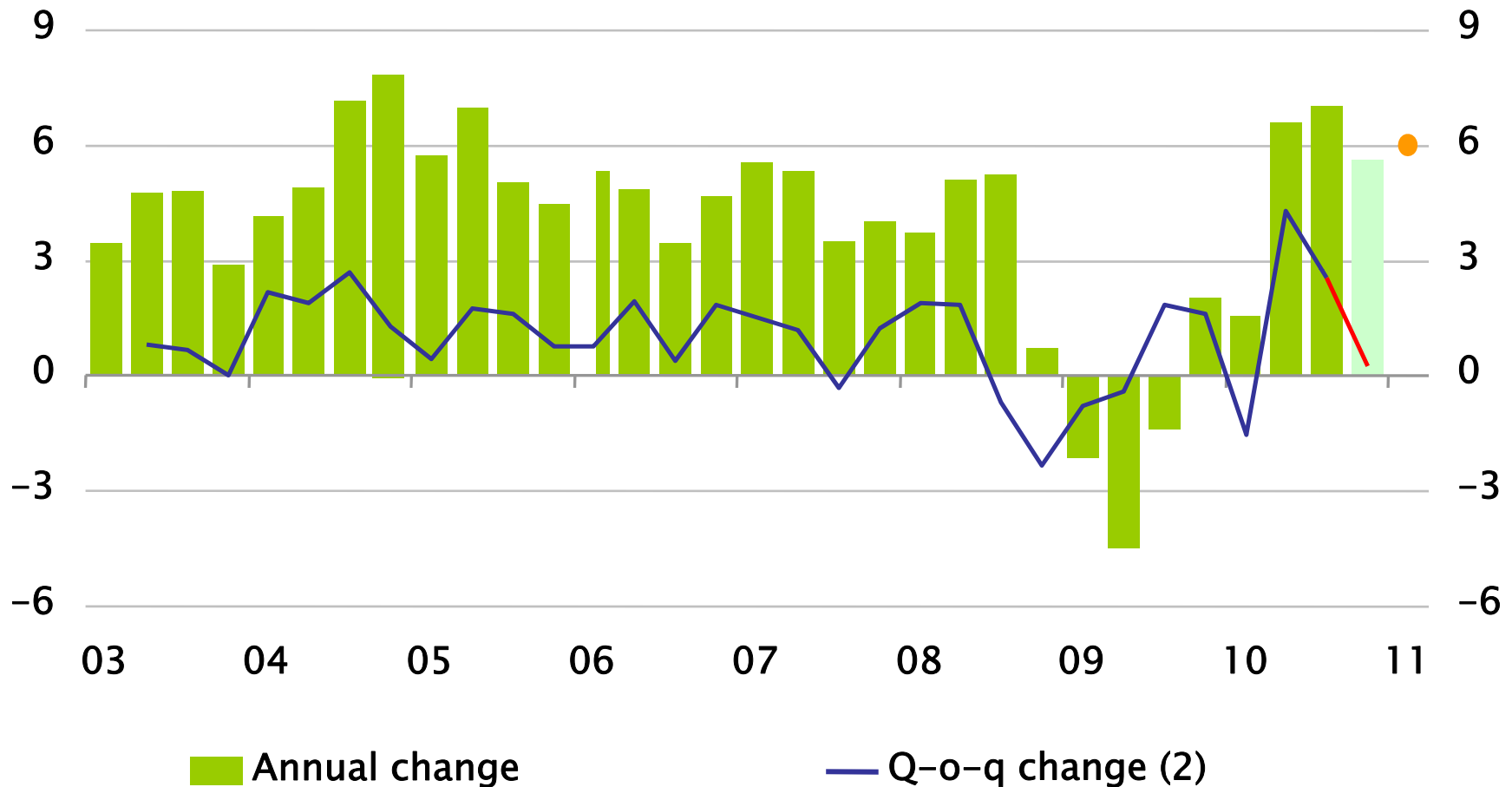


— Consumer, 181 days - one year (4)
— Consumer, more than 3 years (4)
— Commercial, 30 - 89 days (4)
— Commercial, 181 days - one year (4)
— Housing, more than 3 years (5)

(1) Figures for January 2011 are provisional. (2) Commercial credits and foreign trade credits combined. (3) Weighted average rates of all operations performed during the month (4) Nominal rates. (5) Rates in UF. Sources: Central Bank of Chile and Superintendence of Banks and Financial Institutions.



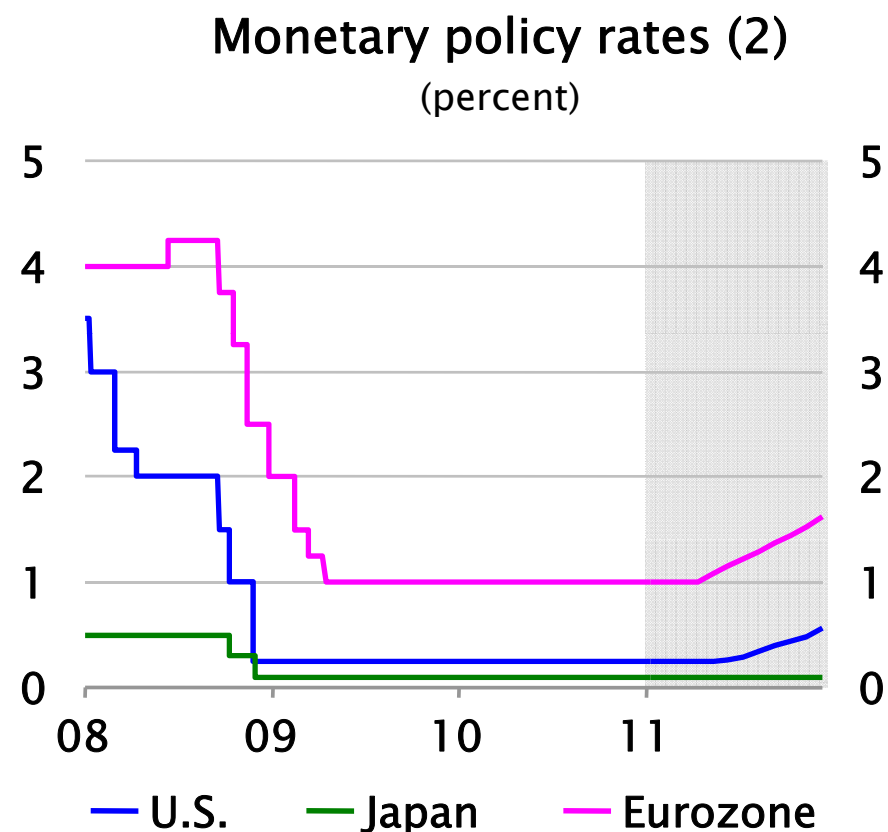
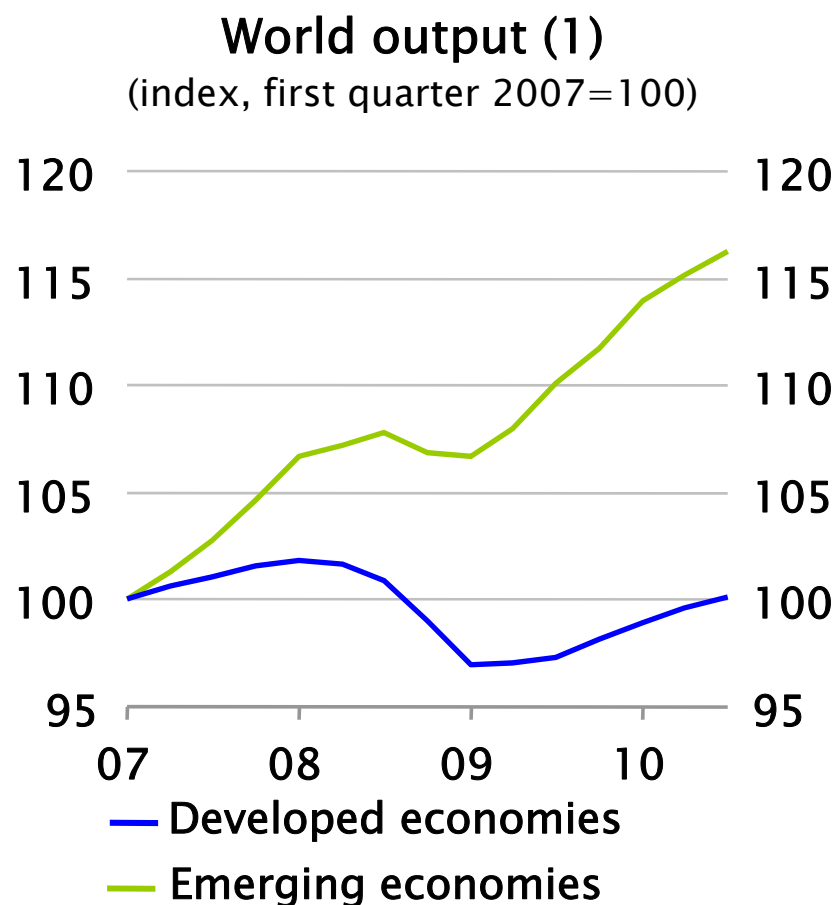
GDP growth (1) (percent)



(1) Fourth quarter figure calculation based on simple average of actual IMACEC data for October, November and December 2010. Orange dot shows February 2011's Economic Expectations Survey (EES) projection for 2011. (2) Seasonally-adjusted series.
Source: Central Bank of Chile.



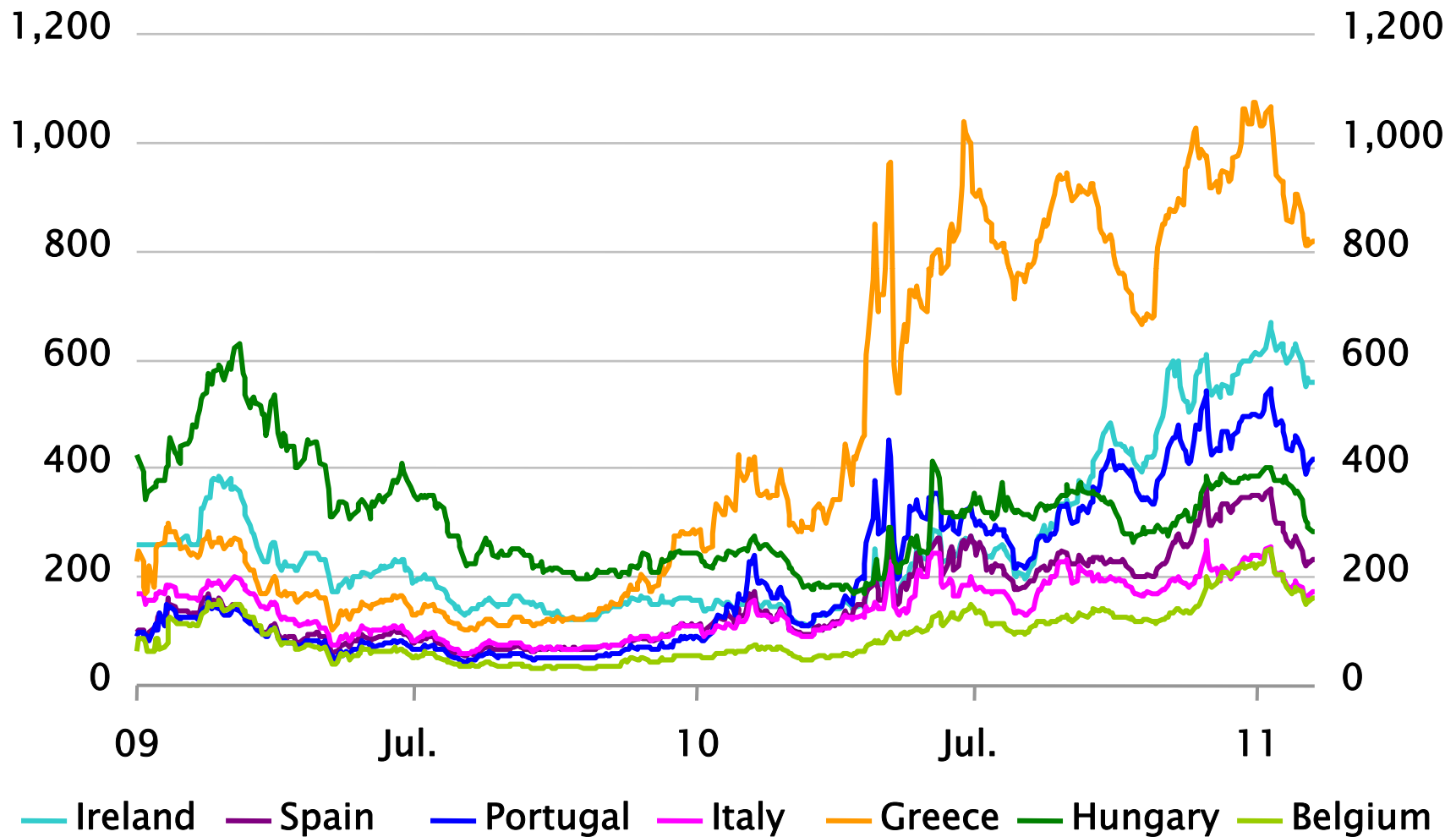
Global economic activity and monetary policy rates



(1) Regions weighted at PPP. Developed economies include Australia, Canada, Denmark, the Eurozone, Japan, New Zealand, Sweden, Switzerland, the U.K. and the U.S. Emerging economies are Argentina, Brazil, Bulgaria, Chile, China, Colombia, the Czech Republic, Hong Kong, India, Indonesia, Israel, Latvia, Malaysia, Mexico, Peru, the Philippines, Russia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey and Venezuela. (2) Gray area shows forward curve. Sources: Central Bank of Chile based on Bloomberg and IMF.



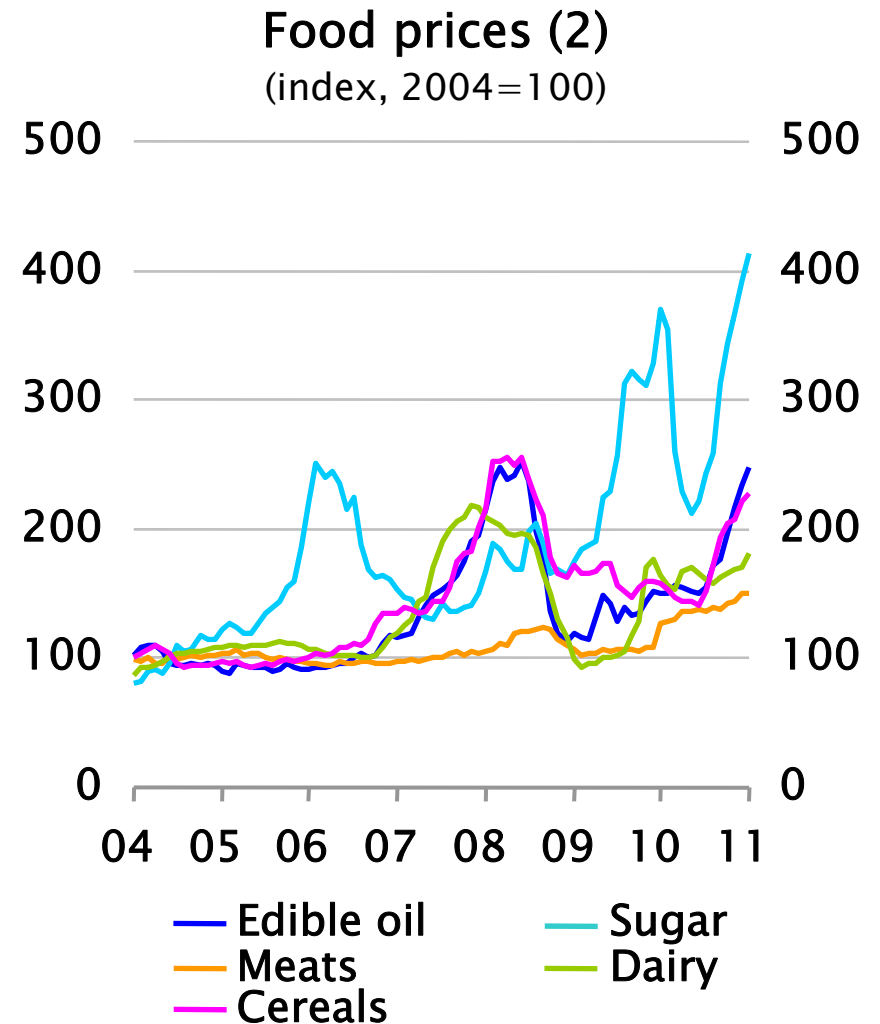
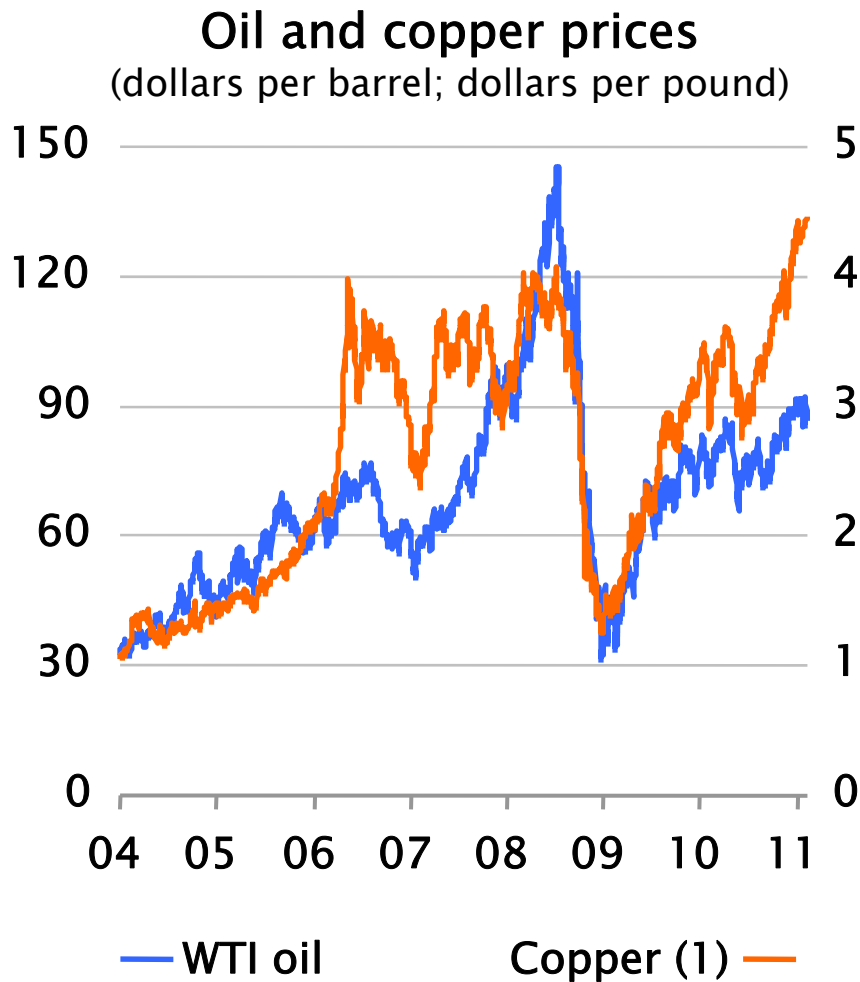
Sovereign risk premiums (*) (basis points)



(*) Measured through 5-year CDS premiums.
Source: Bloomberg.



Commodities prices

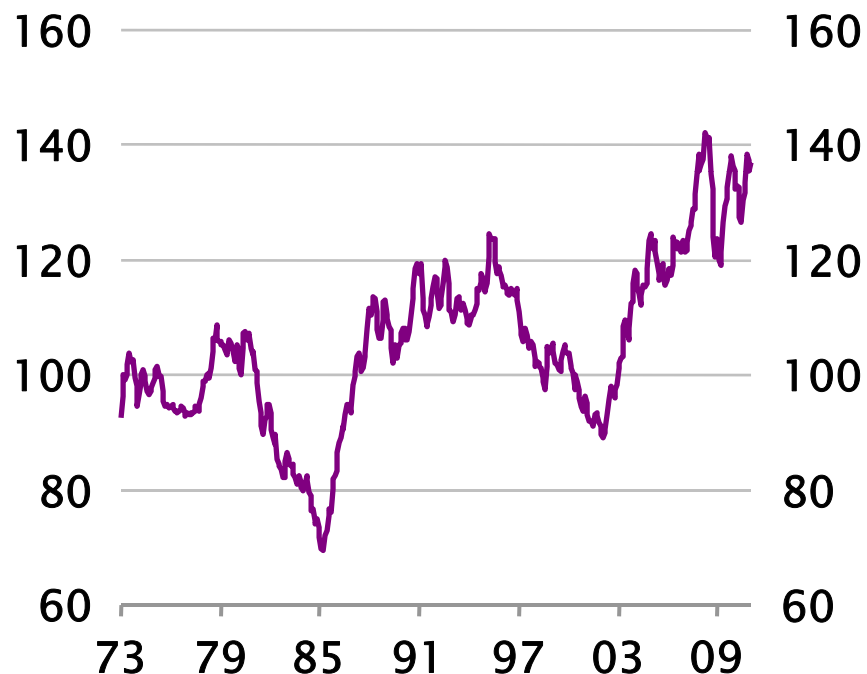




International exchange rates

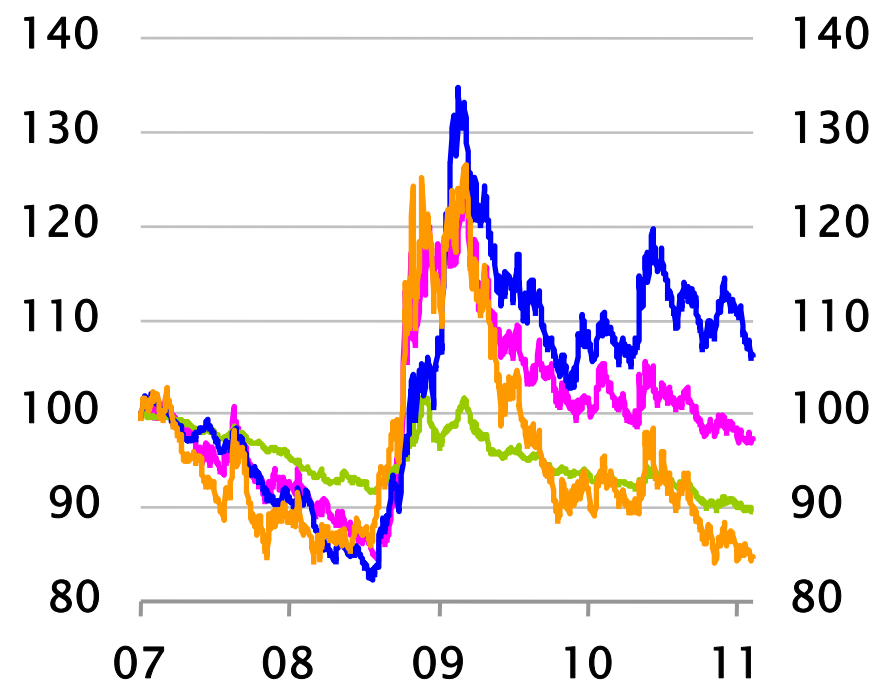
U.S. multilateral nominal exchange rate (1)

(index, March 1973=100)



Currency parities (2)

(index 1/Jan/2007=100,
local currency units per dollar)



— Latin America — Em. Europe
— Commodity exporters — Em. Asia

(1) An increase indicates a depreciation of the dollar against main trading partners. (2) Weighted average at PPP for each region. An increase indicates a depreciation.

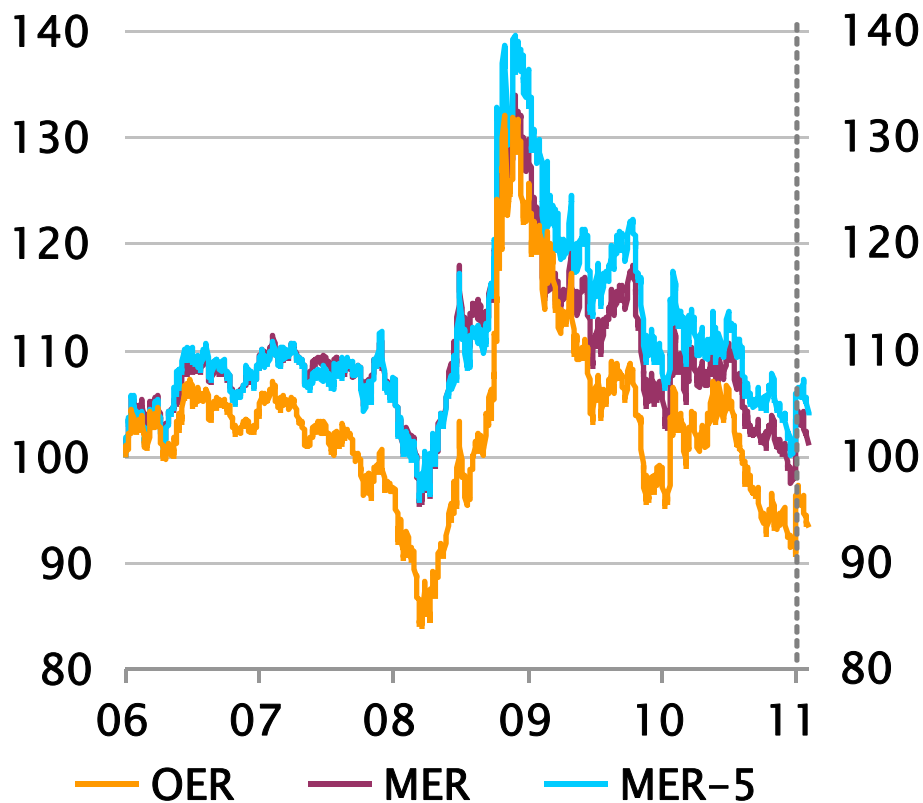
Sources: Bloomberg and U.S. Federal Reserve.



Chilean exchange rates

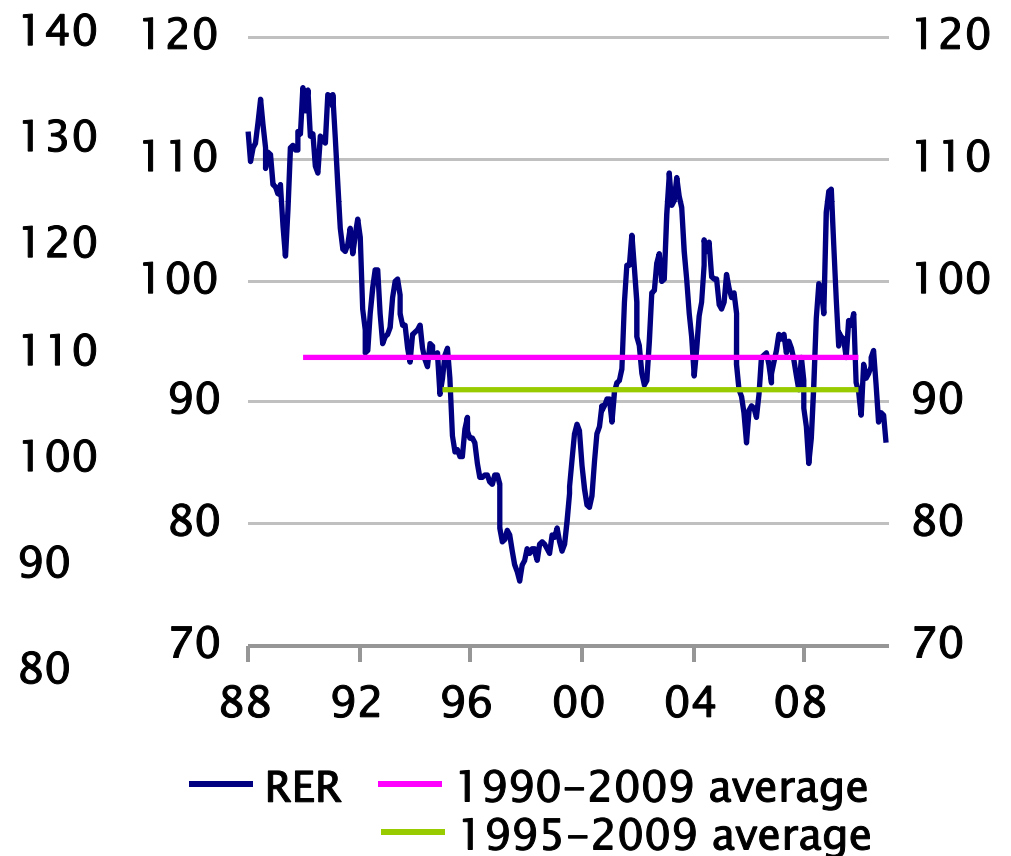
Nominal exchange rate (1)

(index, 2/Jan/2006=100)



Real exchange rate (2)

(index, 1986=100)



(1) Vertical dotted line marks January 3rd, 2011. (2) Figures until December 2010.

Source: Central Bank of Chile.

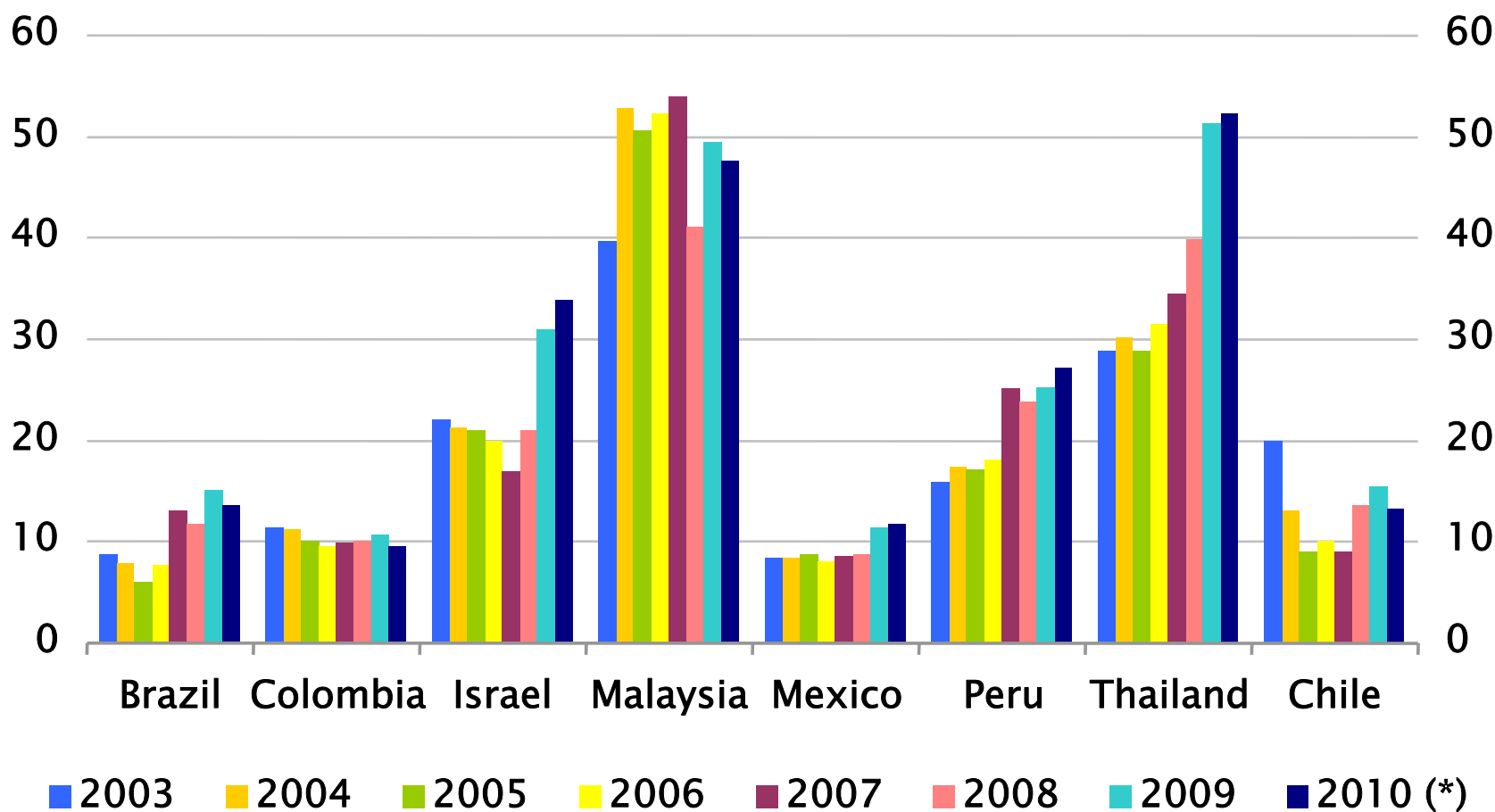


The foreign currency purchase program will strengthen the international liquidity position.

- The program contemplates buying US\$12.0 billion in additional reserves during 2011. The monetary effects will be sterilized.
- Reserve hoarding entails significant costs associated to the differential between the return on investments and the cost of financing them.



International reserves / GDP (percent)

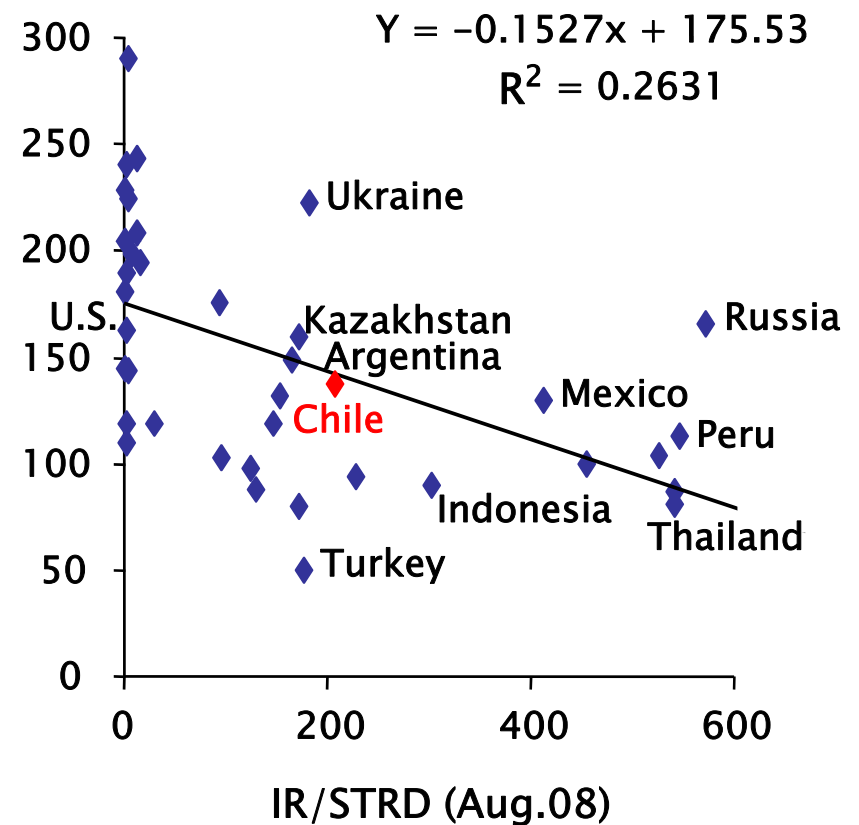
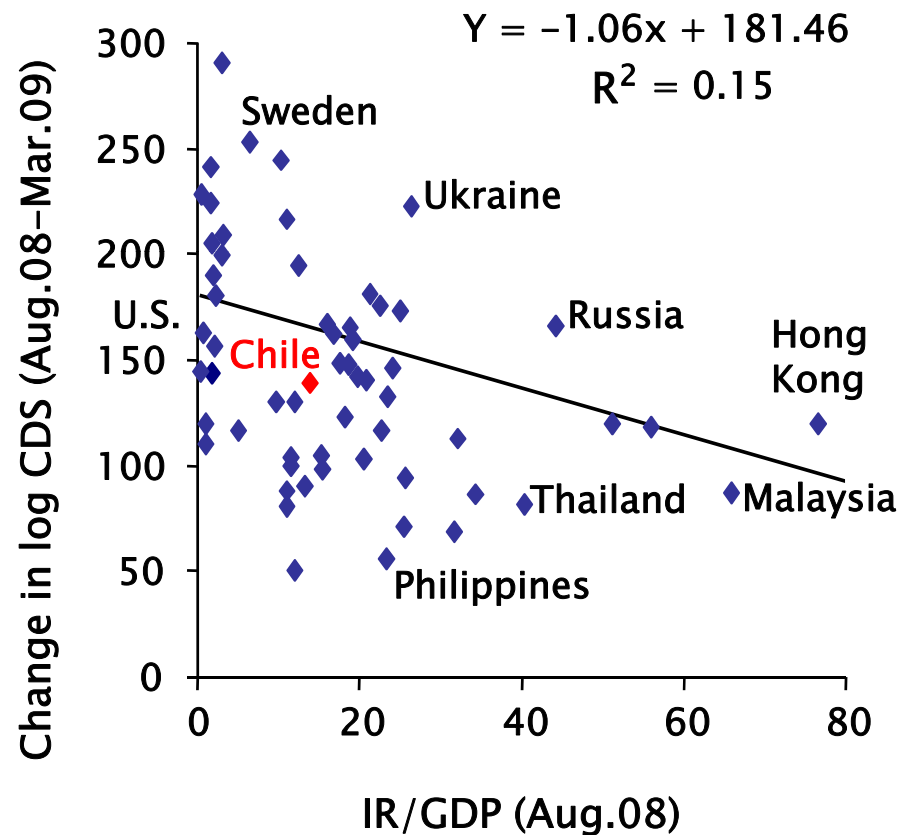


(*) Growth projections and latest international reserve figures available in the IMF. For Chile, GDP forecast in December 2010's IPoM is used.

Sources: Central Bank of Chile and IMF.



Reserves and credit risk (index, 2/Jan/2007=100)

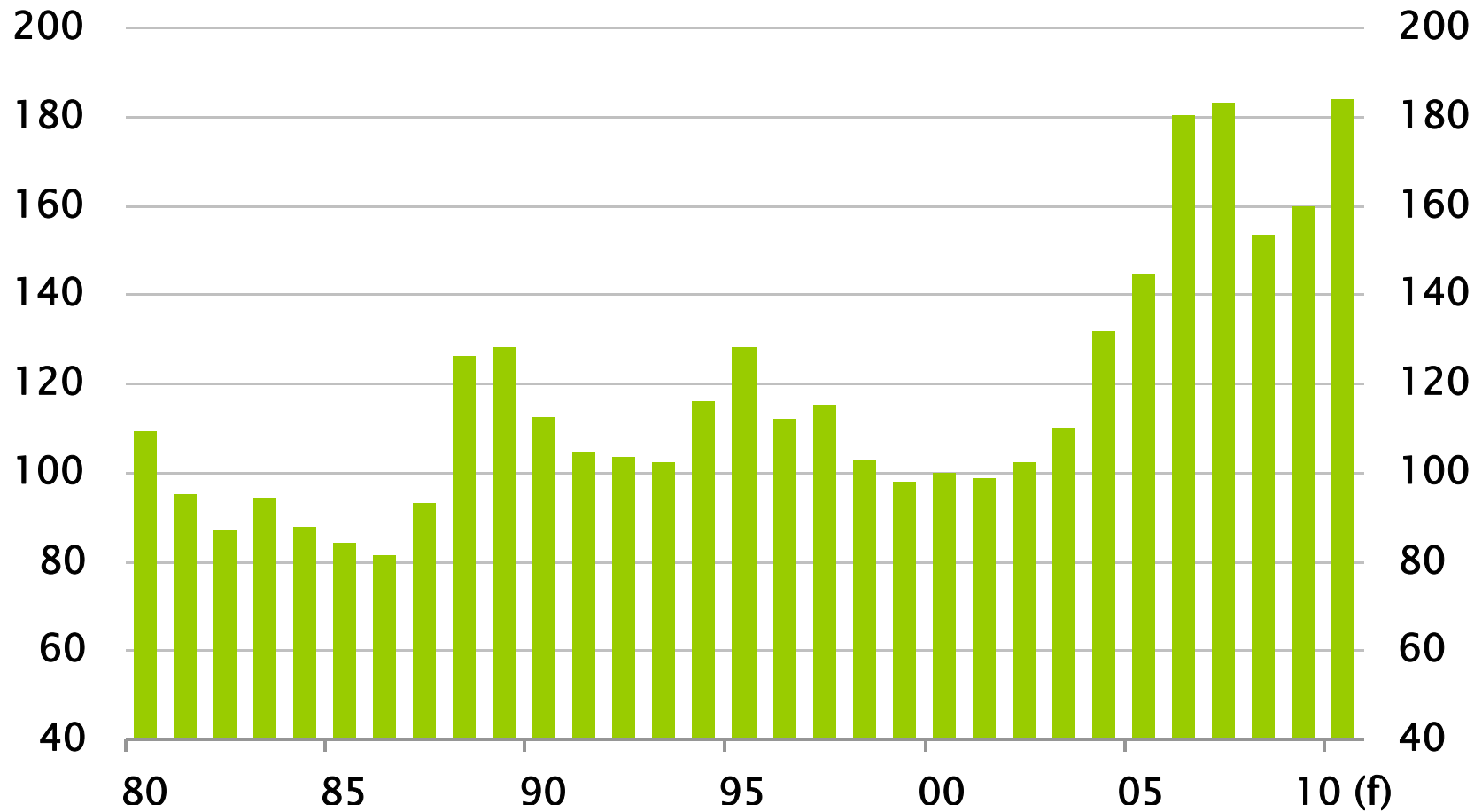


(*) IR/STRD stands for international reserves over short-term residual debt.

Source: Contreras et al. (2010). “¿Es adecuado el nivel de reservas internacionales de Chile?”, mimeo, Central Bank of Chile, June.



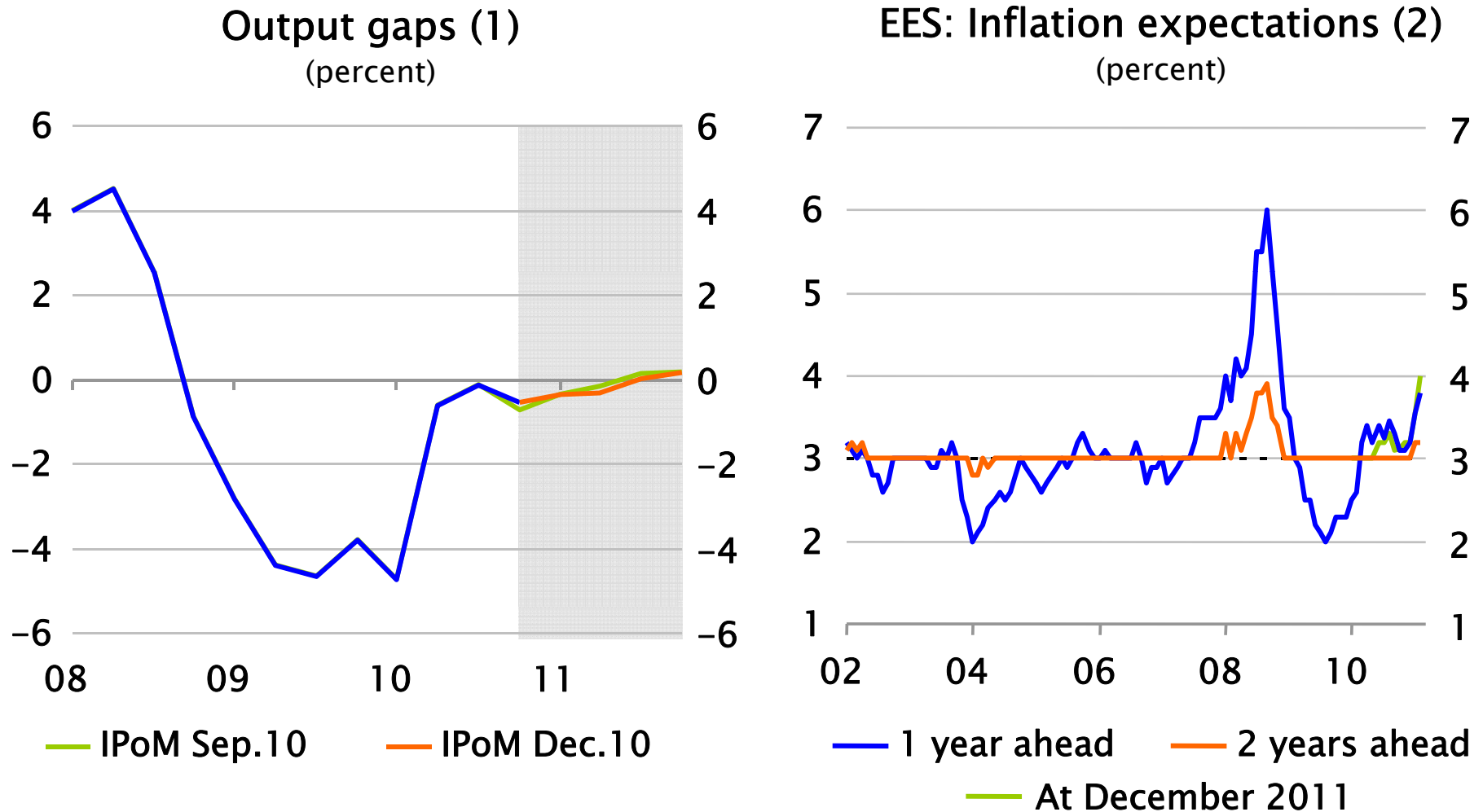
Terms of trade (index, 2000=100)



(f) Forecast. December 2010's IPoM.
Source: Central Bank of Chile.



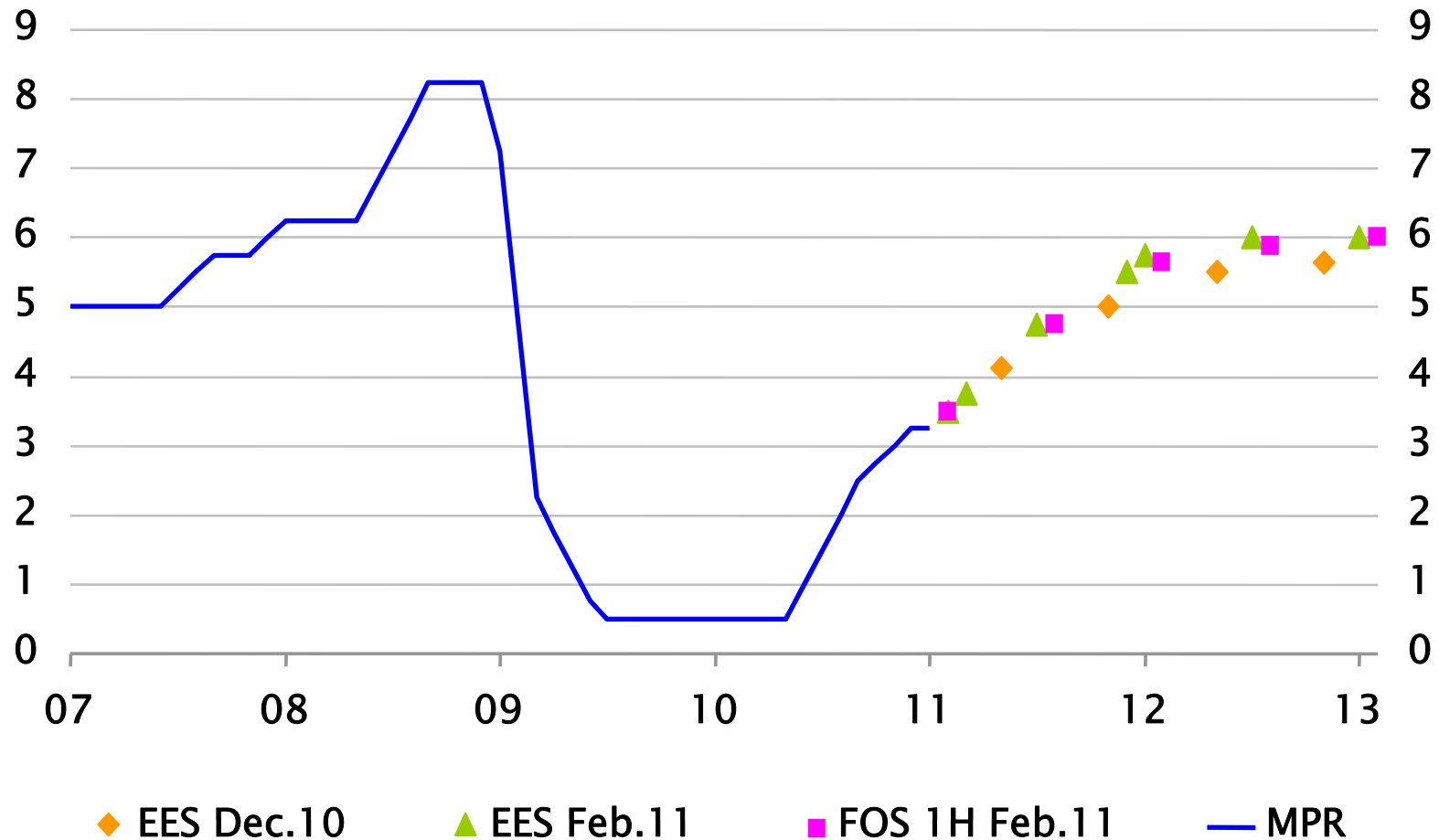
Output gaps and inflation expectations



(1) Gray area, as from fourth quarter 2010, shows forecast. (2) Economic Expectations Survey (EES).
Sources: Central Bank of Chile and National Statistics Institute (INE).



MPR expectations (*) (percent)



(*) Economic Expectations Survey (EES) and Financial Brokers Survey (FBS).
Source: Central Bank of Chile.



Chile's robust policy framework helps deal with shocks in a proper way, but challenges remain.

- On one hand, there is administering the massive capital inflows into some emerging economies. This has not occurred in Chile and although there is the possibility of applying capital controls, its long-term efficacy must be carefully evaluated.
- On the other hand, in a world where emerging economies have gained importance, the appreciation of their currencies is here to stay. Although their effects on the economy can be mitigated for some time, long-term measures must be adopted to foster competitiveness.



Chile's robust policy framework helps deal with shocks in a proper way, but challenges remain.

- Finally, it is important to control inflation, particularly in an environment where prices of foodstuffs and oil have been increasing substantially. The risk of propagation to the rest of inflation has to be mitigated. This is most needed in economies, like Chile, that are operating close to full capacity. Controlling inflation is the best contribution that monetary policy can do to ensure sustained economic progress, after successfully mitigating the recessionary effects of the global financial crisis.