



UNIDAD DE FOMENTO (English version)

DEFINITION AND COVERAGE

Definition

The “Unidad de Fomento” (UF) is an inflation-indexed unit of account, calculated and published by the Central Bank of Chile (BCCh). It is authorized for pricing credit operations in national currency by banks and credit and savings cooperatives.

The BCCh calculates the value of the UF for each calendar day between the tenth day of the current month to the ninth day of the subsequent month. These values are derived from the CPI month-on-month percentage change, as published by the National Statistics Institute (NSI), or the institution who replaces it, of the month preceding the month in which the UF is calculated and published.

SOURCES OF INFORMATION

Value of monthly inflation rate

Name: CPI monthly inflation rate

Institution: NSI or the institution who replaces it.

Last value of the UF

Name: Last published value of the UF.

Institution: *Diario Oficial* (Official Bulletin, according to the certificate issued by the BCCh).

LEGAL FRAMEWORK

In accordance with the provisions of its Basic Constitutional Act (LOC), the BCCh has legal powers to authorize the indexing systems to be used by banks and savings cooperatives on their Chilean currency credit transactions or operations (Articles 3 and 35 No. 9). As indicated, the UF is determined by the BCCh pursuant to the methodology set forth in Chapter II.B.3 of its Compendium of Financial Regulations (CFR).

It should be noted that the indexing systems authorized by the BCCh can also be used in Chilean currency credit operations performed by other entities (v.gr. compensation funds for family allowances, insurance companies and other institutions that place funds by means of massive credit operations pursuant to Law No. 18.010). In the case of operations in which the aforementioned entities do not participate, any form of readjustment system may be freely agreed.

The UF calculation methodology prescribes that said index shall be adjusted from the tenth day of the current month to the ninth day of the subsequent month, on a daily basis, at the geometric average rate that corresponds to the variation experienced by the CPI determined by the INE or the institution who replaces it, within the calendar month immediately preceding the period in which the UF is being calculated.

In addition, Chapter II.B.3 indicates that –via its Statistics Information Management– the BCCh shall publish the daily value of the UF on the Official Bulletin, no later than the ninth day of each month, for the period between the tenth day of said month and the ninth day of the subsequent month, both included.

METHODOLOGY

Inputs

Compilation process

Data inputs are the CPI monthly variation, reported by NSI no later than the eighth day of each month on its official website (www.ine.cl) or other channel; and the last published value of the UF on *Diario Oficial*.

Validation procedure

The CPI monthly variation used in the calculation of the UF considers the number of decimals published by the NSI, according to its CPI methodological manual. The last published value of the UF on *Diario Oficial* is considered as the last value of the UF.

Calculation

Adjustment factor

The BCCh calculates a daily adjustment factor (f) which corresponds to a geometric growth rate of the CPI monthly variation. Mathematically:

$$f = \sqrt[D]{1 + \frac{\Delta CPI_{t-1}}{100}}$$

Where D is the number of days between the tenth day of the current month (t) to the ninth day of the subsequent month, both dates inclusive, and ΔCPI_{t-1} is the CPI monthly variation of the immediately preceding month, with the number of decimals published by NSI, no later than the eighth day of the current month.

Calculation of values

The daily values of the UF (UF_d) are calculated by multiplying the last published value of the UF (UF_{last}), with two decimals, with the adjustment factor for day d (f_d):

$$UF_d = UF_{last} \times f_d$$

Where d is the day being calculated and is a number between one and D , and f_d is the adjustment factor for day d , which corresponds to the adjustment factor (f) raised to the power of d . Mathematically:

$$f_d = f^d$$

After the daily values of the UF are calculated, they are rounded to two decimals places for publication.

Revisions

The legal framework and relevant regulation do not consider revisions.

Dissemination

Frequency: Monthly.

In the *Diario Oficial* (Official Bulletin) no later than the ninth day of each month, for the period between the tenth day of the month and the ninth day of the subsequent month, both inclusive.



DATA ACCESS

Diario Oficial (Official Bulletin)

Link: <http://www.diariooficial.interior.gob.cl/>

Statistics Database

Link:

<https://si3.bcentral.cl/siete/en>

Chapter: Prices

Website

Link:

<https://si3.bcentral.cl/Indicadoresiete/secure/Indicadoresdiarios.aspx?Idioma=en-US>

RELATED DOCUMENTATION (Spanish)

Basic Constitutional Act, Central Bank of Chile

Link: <https://www.bcn.cl/leychile/navegar?idNorma=30216>

Law No. 18.010, regarding credit operations and other money operations indicated therein¹

Link: <https://www.leychile.cl/Navegar?idNorma=29438>

Compendium of Financial Regulations², Banco Central de Chile

Link: <https://www.bcentral.cl/en/news-and-publications/normatives/summary-of-financial-standards>

Methodological Manual of the Consumer Price Index base year 2018=100, National Statistics Institute

Link: https://www.ine.cl/docs/default-source/%C3%ADndice-de-precios-al-consumidor/metodologias/base-anual-2018-100/methodology.pdf?sfvrsn=a9148ece_2

¹ Free translation of: “Ley N°18.010 sobre operaciones de crédito y otras obligaciones de dinero que indica”.

² Free translation of: “Compendio de Normas Financieras”.