PRESS RELEASE

Thursday, 1 February 2018

Monetary Policy Meeting *

In its monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy rate at 2.5%, which implies continuing the intensity of the monetary impulse. The decision was adopted by the unanimous vote of its members.

Internationally, the relevant scenario for the Chilean economy is still on the rise. Overall, the good performance of developed economies continues, with several of them having adjusted upwards their growth outlook for 2018. Inflation, however, remains contained in most cases. In this context, the monetary policy orientation has been maintained in those countries. In the emerging world, most noteworthy has been the positive surprise of China's GDP growth in the fourth quarter of last year, although other activity indicators had mixed results in the margin, in line with the scenario of gradual deceleration and sectoral rebalancing foreseen for the Chinese economy. In Latin America, activity news go in mixed directions while, with some exceptions, inflation indicators have tended to stabilize.

External financial conditions remain favorable, combining a weaker dollar at the global level, increased long-term rates in the developed world with low volatility indexes, and lower risk premiums. All in a context of rising stock markets and increasing capital inflows to emerging economies. Commodity prices rose from the previous Meeting, mainly due to news pointing to a tighter market. The copper price is around US$3.2 per pound, while the oil price stands between US$65 and US$70 per barrel.

At home, financial conditions remain favorable. Since the second half of December, long-term interest rates, stock prices and the exchange rate showed a significant reversal of the trends observed at the last Meeting, responding to a combination of domestic and external factors. Lending interest rates persist near their historic lows, while growth generally maintains bounded dynamism, with a somewhat stronger impulse in housing loans.

Activity indicators for the fourth quarter of 2017 are somewhat better than expected in the baseline scenario of December's Monetary Policy Report, with important surprises in some sectors associated with investment, which slightly outperformed the Banks' estimates. Consumption maintains the trend of previous months, with stronger growth in sales of durable goods, particularly automobiles. Annual growth in non-durable consumption is rather sluggish, but has picked up in recent months. The wage bill, growing at a pace close to 3.5%, continues to sustain the expansion of consumption. Mining and industrial exports ended the year with significant growth rates in terms of both value and volume, reversing the trend of previous quarters. Salaried employment has increased its annual variation rate, reflecting growth in public hiring. The unemployment rate declined in its latest print, but remains above year-ago levels. Annual growth in nominal and real wages is fairly unchanged at levels around 4.5% and 2.5%, respectively. In this context, private growth expectations increased, as did confidence indicators.

Inflation has brought no big surprises and remains around 2% annually for both headline and core CPI (CPIEFE). Its evolution continues to reflect the impact of the exchange rate drop over the last few months, the poor dynamism of activity and the effects of some particular shocks. The annual variation of the goods CPIEFE is around 0% and the services index variation is close to 3%. Among the more volatile prices, fruits and vegetables went back to slightly positive annual growth. Inflation expectations had limited movements. While in the short term they have been adjusted downward somewhat, at two years they show no change with respect to the previous Meeting.

The Board's decision estimates that incoming data is consistent with the baseline scenario of December's Report. At the same time, some of the risks identified therein have diminished. In particular, the latest activity figures make it more likely that the economy will achieve the expected traction, while domestic financial conditions remain favorable. Thus, despite inflation expected to be somewhat below previous forecasts for some months, mainly due to the evolution of the exchange rate, the threats to its convergence to 3% have been attenuated in the margin. In this context, the Board considers that the general orientation of monetary policy outlined in the Monetary Policy Report is still adequate. That is, a monetary impulse that will remain fairly unchanged, and that withdrawal will only begin once the closing of the gaps is consolidated.

In any case, the Board will pay special attention to any signs of a delay in the convergence of inflation that might warrant an additional monetary impulse. It also reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours (local time) on Friday, 16 February 2018. The next Monetary Policy Meeting will take place on Tuesday, 20 March 2018, and the respective statement will be published at 18 hours the same day.

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* The Spanish original prevails.