Press Release

At its monthly monetary policy meeting held today, the Board of the Central Bank analyzed the evolution of the economy in recent weeks and the outlook for the next 8 quarters.

Going on figures available since the previous meeting in February, the new conditions in international fuel markets have been incorporated into this analysis and now it seems that the drop in prices might not be so much or so fast as had been foreseen. Apart from the direct effects, this heightens the risk of pressures passing through to domestic inflation, particularly during this year, although external pressure should be transitory.

On the other hand, the slow growth of domestic demand is an important factor in forecasting lower inflation next year despite the cost pressures already mentioned. Nevertheless, these cost pressures present a threat to achieving the medium-term inflationary target because they could feed expectations of higher inflation that the Central Bank must ensure are not materialized.

In order to avoid cost pressures unnecessarily prolonging their effect on inflation, the Board decided to slightly raise the monetary policy interest rate by 25 basis points from UF plus 5.25% to UF plus 5.5% and the liquidity credit lines by the same amount.

The Board points out that this slight change brings the interest rate to a more neutral position, coherent with the expected recovery of domestic demand in the coming quarters. In this way, the slight economic impulse produced by monetary policy ought not to add to the already existing pressures coming from costs.

The Board also points out that, in its analysis, announcements of an austere fiscal policy were considered to be important since such austerity would be an essential factor contributing to the adequate recovery of investment and private consumption by way of a more healthy combination between fiscal and monetary policy in the future. In this context, it adds that there are no reasons at the moment for the monetary policy rate to be raised again.