

Wednesday, 30 January 2019

Monetary Policy Meeting

At its monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points to 3% annually. The decision was made by the Board members' unanimous vote.

Internationally, incoming data point to growth moderating in the world economy beyond forecasts, accompanied by volatile financial markets and persistent political and economic risks. In the developed world, economic expectations have deteriorated. Conjunctural Eurozone growth data again brought negative surprises, while China's activity indicators moderated further, prompting its authorities to announce new stimuli. Meanwhile, recent US data remains dynamic. Inflation slowed in most countries as a result of the drop in oil prices in the last quarter of 2018.

In this context, the main central banks have signaled a more gradual normalization of their monetary policies, which market prices have internalized. Long-term interest rates have fallen in several economies, stock markets have risen from end-of-2018 levels and capital flows have returned to emerging countries. The oil price has recovered partially in 2019 so far, while copper has fluctuated around USD 2.7 per pound.

Regarding local financial conditions, the peso continued to fluctuate significantly, but its current value in terms of US dollars shows little variation from the last Meeting. This, in a context in which the local risk indicators remain contained, interest rates have fallen slightly to converge with the global trend, while the stock market (*IPSA*) has aligned with the increases in Latin American stock markets. In the credit market, annual credit growth accelerated towards the end of 2018, especially in consumer and commercial loans. Interest rates remain low from a historical perspective. The Banking Credit Survey of the fourth quarter of last year showed that demand for the different credit types has continued to strengthen. On the supply side, milder restrictions are observed in loans granted to large companies and somewhat tighter conditions for mortgage loans.

In the last quarter of 2018, the economy regained its dynamism, as was foreseen in the Monetary Policy Report of December. Non-mining activity tended to accelerate, especially in investment-related sectors. About the latter, the dynamism of capital goods imports, the upward revision of the Capital Goods Corporation's Project Survey and the persistence of positive figures for construction stand out. Partial consumption indicators show slower growth than in the first part of 2018, especially for durables. In the labor market, the national unemployment rate remains around 7%, while y-o-y growth of nominal wages remains close to 4%. For 2019, the expectations contained in the Economic Expectations Survey practically did not change after the release of the last Report, anticipating GDP growth of 3.6%.

December's monthly inflation was negative (-0.1%), affected mainly by a drop in the more volatile items (i.e. energy and foodstuffs). With this, in y-o-y terms, CPI inflation was 2.6% and for CPIEFE was 2.3%, both figures slightly below the December Report's estimates. Those prices most sensitive to the activity gap, including unregulated services in the CPIEFE, continued to rise

steadily. Inflation expectations for December 2019 declined to 2.8%, while expectations two years out remain around 3%.

The Board's decision considered that the evolution of macroeconomic conditions continues to warrant a gradual withdrawal of the monetary stimulus, in line with what was foreseen in the last Monetary Policy Report. At the same time, it reiterated that it will proceed with this process gradually and cautiously. In particular, the next Monetary Policy Report will pay special attention to the evolution of the international scenario and its implications for the convergence of inflation to the target. Accordingly, the Board 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 of Thursday 14 February 2019. The next Monetary Policy Meeting is scheduled to take place on Friday 29 March 2019 and the statement thereof will be released this same day at 18:00 hours.