



PRESS RELEASE*

Thursday, 3 September 2019

Monetary Policy Meeting – September 2019

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 50 basis points, to 2.0%. The decision was adopted by the unanimous vote of the Board members.

The main development since the previous Meeting has been the worsening of the external scenario. Especially significant has been the escalating trade conflict between the United States and China, with an impact on other economies that are integrated into value chains and financial markets. Global activity continued to slow in an important group of economies, where the weakening of manufacturing stood out, while services activity remains dynamic. The deterioration is deeper for global trade volumes, which virtually stagnated, and for expectations indicators. The trade conflict is compounded by the greater likelihood of a non-deal exit of the United Kingdom from the European Union, various geopolitical risks and a severe deterioration of the situation in Argentina. In this context, monetary policy has become more expansionary globally, but still financial markets continue to show high volatility and risk aversion. Thus, further declines in interest rates were observed in the fixed-income market, together with stock market relapses, depreciation of most currencies against the dollar and widespread falls in commodity prices. Inflationary figures remain contained in many economies around the world.

The local financial market followed the external developments, where worth singling out were the depreciation of the peso against the dollar and the fall of stock prices and long-term interest rates. The latter, combined with the prospects of a more expansionary monetary policy, has resulted in low borrowing costs for all categories of credits and maturities. In real terms, consumer and commercial loans show a somewhat reduced dynamism, while housing loans have sped up their growth pace.

In the second quarter, domestic activity and demand growth disappointed expectations. GDP growth was influenced by one-off supply-side factors and a fall in manufacturing. On the expenditure side, less progress was made in private consumption, although some of the one-off factors that affected GDP also had an impact on consumption growth. This, in a context in which consumer expectations have deteriorated from early in the year and private salaried employment shows less dynamism. Investment grew more than anticipated, thanks especially to its

construction and other works component, offsetting a lower-than-expected expansion of machinery and equipment. Exports performed worse than expected. In this scenario, economic growth expectations have been adjusted downwards. The August Economic Expectations Survey (EES) anticipates GDP growth of 2.6% for 2019, 3.1% for 2020, and 3.3% for 2021.

Annual CPI and CPIEFE variation has remained around 2%. Among the components of the latter, services inflation continues to be low in historical terms and the evolution of the prices most closely related to the output gap and wages continues to stand out. Over the two-year horizon, private expectations for headline inflation remained at 3% and 2.8% according to the EES and the Financial Brokers Survey (FBS), respectively.

The Board's decision considers that the economy's performance of the second quarter and its outlook indicate that inflation will take longer to converge to the target, calling for a stronger monetary stimulus. It also estimates that further stimulus might be required, which will be evaluated in the upcoming meetings in light of the evolution of the macroeconomic scenario. With that, the Board reiterates that it will conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The September Monetary Policy Report containing the projections and analyses that provide ground for the Board's decision, will be published tomorrow Wednesday 4 September at 8:30 hours.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours on Monday, 23 September 2019. The next Monetary Policy Meeting will be held on Tuesday 22 and Wednesday 23 October, and the statement thereof will be released at 18:00 hours of this latter date.

* The Spanish original prevails.