PRESS RELEASE*

Tuesday, 4 December 2018

Monetary Policy Meeting – December 2018

In its monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 2.75%. The decision was adopted by the unanimous vote of its members.

Externally, the data continues to confirm that global growth is moving to a stage of lower expansion than in previous years. Since the previous Meeting, less auspicious activity figures have been noted in the Eurozone and China, a downward adjustment in the prices of risky assets in developed markets and a market perception that the process of monetary normalization in the United States will be more limited next year. Also worth noting is the significant drop in the price of oil, which reduces some short-term inflationary pressures, in a context where the other commodity prices show no big changes. The Brexit is nearing definition, while the trade conflict between the US and China seem to have opened some formal room for negotiating.

The Chilean peso and stock market continued to fluctuate significantly in recent weeks, while longer-term interest rates decreased in line with events in the developed markets. Risk indicators posted minor changes. The credit market continues to be characterized by low interest rates and higher growth in commercial and consumer loans.

Third-quarter 2018 national accounts showed a slowdown in activity beyond expectations, caused mostly by mining- and manufacturing- specific factors. In the latter case, the calendar effect took a toll on activity in September, which was fully undone October according to sectoral indicators. On the expenditure side, the data continues to point to significant momentum from investment and somewhat slower from consumption, although October's sectoral retail data suggests a strengthening of the latter. The revision to remuneration indexes by the INE and the consideration of the effect of immigration on the behavior of employment confirm the vision of a labor market that evolves in line with the growth pace observed since mid-2017. For the period 2018-2020, the market outlook (EES) points to an annual GDP expansion of 4% this year and 3.5% in 2019 and 2020.

October's inflation (0.4%) was in line with forecasts, so annual CPI inflation decreased to 2.9% and CPIEFE inflation remained at 2.1%. The prices that are more sensitive to the activity gap, such as non-regulated utility rates in the CPIEFE, continue to accelerate steadily. At shorter terms, private inflation expectations have fallen in line with the lower international prices of oil and fuels, while at two years they remain around 3%.

The Board's decision considered that the analysis contained in the December Monetary Policy Report, and the data available at the statistical close, confirm that the evolution of macroeconomic conditions make it necessary to reduce the monetary stimulus, a process that will continue to be implemented gradually and cautiously. Key to this judgment is the evaluation of the size of capacity gaps compared to the magnitude of the monetary stimulus: while the former have narrowed and inflation has increased, monetary policy remains highly expansionary. With this, 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 Wednesday, 19 December 2018. The next Monetary Policy Meeting is scheduled to take place on Tuesday 29 and Wednesday 30 January 2019 and the statement thereof will be released this same day at 18:00 hours.

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* The Spanish original prevails.