PRESS RELEASE*

Thursday, 18 July 2019

Monetary Policy Meeting

In its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 2.5%. The decision was adopted by the majority of its members, with the votes of Governor Mario Marcel, Vice-Governor Joaquín Vial, and Board members Rosanna Costa and Alberto Naudon. Board member Pablo García voted for lowering the policy rate by 25 basis points, to 2.25%.

On the external front, the expectations of a more expansionary monetary policy stance have been consolidating in various economies, both developed and emerging, some of which have already taken action in that direction. This has occurred in a context in which inflation remains well contained in the developed world and there is ongoing general concern over the performance of the global economy. Incoming data from manufacturing, investment and foreign trade have brought a negative surprise in several economies, contrasting with information about employment, consumption and services, which shows no major changes in the main economies. In this scenario, long-term interest rates posted new declines, the stock markets increased and risk premiums tightened, while capital flows into emerging economies increased at the margin and the dollar tended to weaken against other currencies. Commodities have seen limited price increases since the last Meeting, copper and oil included.

The evolution of the domestic financial market has been dominated by more expansionary monetary policy in Chile and by external developments. Peso-denominated long-term interest rates have dropped, stock returns have risen and risk indicators have declined. The exchange rate, with some volatility, is lower than it was at the last Meeting. In the credit market, housing loans dynamism is similar to the one of the past few months, while commercial and consumer loans have slowed down slightly. Meanwhile, interest rates on commercial and mortgage loans have diminished further, so they continue around record lows. The Bank Lending Survey of the second quarter reflects fairly stable supply conditions, while demand appears to be somewhat weaker in large companies and with moderate upswings in the segments of construction firms and housing financing.

Regarding activity and demand, the information at hand for the second quarter points to somewhat less than expected dynamism, partly due to poor performance of mining and some specific factors. Some qualitative background indicators suggest that additional downside risks may be expected for the coming months. About consumption, imports of consumer goods have slowed down and consumers' expectations have deteriorated significantly (IPEC). The labor market shows no significant changes, the unemployment rate remains around 7% and various indicators point to increasing job creation. On the investment side, the favorable evolution of some elements related to business services contrasts with the moderation of sales of construction materials and business expectations (IMCE), which are still slightly below their neutral levels. On the other hand, exports contracted beyond expectations, partly reflecting the weakness of some trading partners. In this context, the growth expectations contained in the Economic Expectations Survey (EES) decreased for both this year and next.

The annual CPI variation remained at 2.3% in June, while core inflation (CPIEFE) continued to hover around 2% annually. Among core inflation components, it is worth noting the widespread drop in the prices of services, more closely linked to capacity gaps and labor costs. On the contrary, the goods component of the CPIEFE posted unexpected growth, although largely driven by tourist packages. As for inflation expectations, there is a decrease for both the end of 2019 and one year ahead. For two years ahead, while the EES median remained at 3%, the median of the Financial Brokers Survey dropped to 2.8%.

The Board considers that information accumulated since the publication of the last Monetary Policy Report reflects increased risks associated with the timely convergence of inflation to the target over the policy horizon. In particular, due to lower services inflation figures, whose persistence is high relative to other CPI components and the risks surrounding the future evolution of activity and demand, in a context of high external uncertainty. In case these tendencies persist, the Board estimates that it will be necessary to extend the current monetary stimulus, in a magnitude to be assessed in the next Monetary Policy Report. Accordingly, it reiterates its will to conduct monetary policy with flexibility, so that projected inflation stands at 3% in the two-year horizon.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours Friday 2 August 2019. The next Monetary Policy Meeting will take place on 3 September and the statement thereof will be published at 18 hours the same day.

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* The Spanish original prevails.