PRESS RELEASE*

Tuesday, 24 July 2018

Monetary Policy Meeting – July 2018

At its monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 2.5%, while maintaining the intensity of the monetary impulse. The decision was adopted by the unanimous vote of the Board members.

Internationally, important developments have made the news since the June Monetary Policy Report. First, the difference between the US and other developed countries' cyclical position has deepened. The US economy shows narrowing gaps, especially in the labor market, with increasingly diverging activity and inflation figures from those of the Eurozone and Japan. This divergence has helped to strengthen the multilateral dollar. Second, there has been an increase in the risks associated with a scenario of trade conflict between the United States and other economies, in particular China. The entry into force of tariff increases for certain goods in the US and escalating announcements and statements by the various agents involved have affected markets, with generalized depreciations in the currencies of emerging and commodity exporting economies, a significant depreciation of the Yuan, and declines in commodity prices. Among these, it is worth noting the near 15% decline of the copper price since the June meeting. Notwithstanding, the world growth projections have not varied much.

The Chilean peso has depreciated in line with the multilateral dollar and the copper price. Also, stock market indices have fallen, following the trends of international markets. However, long-term interest rates have remained fairly stable, marking a difference with most economies. The local risk premiums stand near the levels of the last meeting and remain low by historic standards.

Market interest rates are still low and real credit growth remains bounded, despite an increase in the commercial loan portfolio in recent months. At the same time, a somewhat stronger demand is perceived in the consumer and business segments, together with some relaxation in the conditions for mortgage lending and loans to large companies.

Figures for activity and demand after the June Monetary Policy Report show a more dynamic performance in investment-related lines, as reflected in the evolution of various items of wholesale trade, business services and the manufacturing industry. The machinery and equipment component continues to concentrate the greatest dynamism, which seems to be largely centered on the mining sector. On the other hand, housing and non-housing construction indicators show a deceleration in the margin and expectations in this sector have returned to pessimistic territory. About consumption, the dynamism of the durable sector continues to stand out, although with some slowdown lately. Consumer confidence shows new advances (IPEC), but the labor market continues to lag behind activity while wages are growing slowly if compared with their historical averages. The GDP growth outlook (EES) for this year increased to 4% in July (3.8% in June), while for 2019 and 2020 it remains at 3.8%.

Year-on-year CPI inflation rose to 2.5% in June (2% in May), in line with forecasts and partly explained by increases in the annual variation in the more volatile components of the basket. The annual change in the CPIEFE rose to 1.9%, with goods inflation persisting in slightly negative numbers and services inflation somewhat above 3%. Market inflation expectations show no important changes, and remain near 3% at one and two years.

The Board’s decision considered that despite a more dynamic than expected behavior of the economy and a new upward correction to the short-term inflation outlook—mainly because of the exchange rate increase—the medium-term projections in the June Report are not changed. However, the risks surrounding the international scenario and related negative implications have risen. The Board foresees that the monetary policy rate will return to its neutral level within the next few quarters, in line with the working assumption used in the last Report. Accordingly, the Board reiterates its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The minutes of today's Monetary Policy Meeting will be published at 8:30 a.m. on Wednesday, 8 August 2018. The next Monetary Policy Meeting will be held on Tuesday, 4 September 2018 and the respective statement will be released at 18:00 of this latter date.

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* The Spanish original prevails.