PRESS RELEASE*

Friday, 30 March 2019.

Monetary Policy Meeting

At its monetary policy meeting the Board of the Central Bank of Chile decided to keep the monetary policy rate at 3,0%. The decision was made by the Board's members unanimous votes.

On the external front, since the previous meeting growth forecasts for the main economies have continued to be downgraded. In this scenario, the Federal Reserve and the European Central Bank have reinforced their stance for a more expansive monetary policy while the Chinese authorities have added new stimulus measures. In addition to adjustments to its balance sheet, the Federal Reserve also announced that it would not raise the federal funds rate this year and that the direction of its next move cannot be foreseen with clarity. Even though all these announcements have significantly reduced long term interest rates, tensions in international financial markets have reappeared. The yield curve has inverted, the dollar has appreciated globally and news fears about the performance of some emerging economies whose economic fundamentals are perceived as weak have arisen. Commodity prices have been less affected. Specifically, the current price of copper is still above the one observed at the time of January's meeting.

Regarding local financial conditions, the peso, as the majority of emerging market currencies, experienced significant fluctuations since the previous meeting. Measures of domestic financial risk remained contained. Aligned with global trends, the stock market and interest rates fell. In the local bank credit market, loans continued growing in real terms while lending rates remain low in historical perspective.

Prints for local activity in the last months, including national accounts for the fourth quarter of 2018, ratify that the growth rate of non-mining activities has increased. On the contrary, mining has significantly deteriorated. Investment remains as the most dynamic component of domestic expenditure which is also seen in the performance of several sectors linked to it. Regarding private consumption, no major changes are observed with the exception of car sales where the expansion of sales has slowed after strong numbers of the previous year and a half. This has taken place while the labor market has not shown significant changes as indicated by the evolution of the unemployment rate. The worse performance of mining manifests itself in growth forecasts. According to March's Economic Expectation Survey (EES), in 2019 non-mining GDP will grow 3,6% (3,7% in January) whereas total GDP would increase 3,4% (3,6% in January).

The annual growth of the CPI – according to the base 2018=100 reference series- is at 1,7% in February (CPIEFE: 2%), below what was forecasted in the last Monetary Policy Report. Beyond the direct impact of the new CPI basket and methodology, a number of macroeconomic phenomena seem to explain this difference. A lower than expected exchange rate pass-through and more competition in some markets are among them. An evaluation that capacity slack is bigger than previous estimations, what to a significant extent appears to be related to the effects of immigration in the labor force, is another factor. In the last months, private sector inflation expectations for the short term have been reduced while the ones for December 2019 have seen a smaller reduction. At the two-year horizon, they are around 3%.

The Board's decision considered that, according to the analysis in the Monetary Policy Report and the recent data, the lower level of inflation and its perspectives, require keeping the monetary stimulus for a longer time. Notwithstanding, it still estimates that towards the medium term it will be necessary to resume the normalization of the monetary policy rate to assure the convergence of inflation in the policy horizon. With this, the Board reaffirms that it will proceed gradually and cautiously as has been stated and reiterates 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 Monday 15 April 2019. The next Monetary Policy Meeting is scheduled to take place on Wednesday 8 and Thursday 9 May 2019 and the statement thereof will be released this same day at 18:00 hours.

---

* The Spanish original prevails.