# PRESS RELEASE

Thursday, 5 May 2018

## Monetary Policy Meeting *

**At its monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 2.5%, so the intensity of the monetary impulse is unchanged. The decision was adopted by the unanimous vote of all the Board members.**

The international scenario and related risks are in line with the contents of the last Monetary Policy Report, including the downward bias on domestic activity. Growth prospects in the developed economies have stabilized around higher figures than the previous year's, although several of them have seen a moderation of their earlier optimism. US inflation has accelerated in the margin, while markets continue to anticipate the gradual withdrawal of the monetary stimulus, and the Federal Reserve has maintained the orientation of its monetary policy path. Prospects for the materialization of monetary policy in Europe and Japan have moderated. In this context, the dollar has appreciated, reversing the trend of previous months.

Regarding emerging economies, China's first-quarter GDP remained as dynamic as the quarter before, and the numbers continue to sustain the rebalancing of activity and the moderation of growth going forward. In Latin America, activity has shown mixed results. Inflation data has moderated in several countries, and the market outlook suggests that it will remain low for some time, while in other economies the pressure from the appreciated dollar has become stronger.

For most countries, global financial conditions remain favorable from a historic perspective. In recent weeks there have been some turbulences due to announced protectionist measures and geopolitical tensions; however, currently the main volatility indicators are very near those of the previous Meeting and the risk premiums remain bounded. In this context, most stock market indexes rose and so did long-term dollar interest rates, with different economies showing different magnitudes. Regarding commodities, the 10% increase in the Brent/WTI oil average prices stands out. Copper, with ups and downs, has hovered around its price of the previous Meeting.

In the local financial market, long-term interest rates have not changed materially from the last Meeting, the same as risk premiums, which remain low from a historic standpoint. Stock market indexes rose in line with better business results. The peso depreciated with respect to the dollar in the last two weeks, following the trends of international markets.

With respect to the credit market, the Bank Credit Survey for the first quarter of 2018 reported a somewhat stronger demand in several segments, and marginal improvements in the supply of consumer loans and commercial credit to big companies. Interest rates remain low and credit growth is still bounded.

The latest data on activity and demand are consistent with the baseline scenario of the March Report. First-quarter growth in activity was significantly influenced by the increase in mining, favored by the low basis for comparison. Activity in the other sectors maintained the better performance of previous months, where worth highlighting was the greater contribution of several investment-related sectors. Investment in construction and other works continues to recover, while exports continue to grow in the main areas, consumer and business confidence are still in optimistic levels and financial conditions are comfortable. However, private salaried employment has yet to recover and nominal wages have decelerated in annual terms, which could take a toll on wage mass growth and possibly on consumption. The Economic Expectations Survey (EES) of April showed no major changes in expected growth for this year and next, both somewhat above 3.5%.

Annual CPI inflation declined to 1.8% in March, while core inflation—the CPIEFE—was again 1.6%, with minor differences with the last Report's estimates. Its evolution, as has been the trend of the last few quarters, continues to be driven by the appreciation of the peso, the current state of capacity gaps and indexation to lower inflation rates. Y-o-y change in CPIEFE for goods persists in slightly negative ground, and for services it remains near 3%. Inflation expectations showed no significant changes. Accordingly, expectations one year ahead as measured by analysts' surveys stand between 2.5% and 2.7% and two years ahead, between 2.8% and 3.0%.

The Board's decision considered that inflation will remain low during the better part of 2018, to then advance more robustly toward the target during next year, consistently with a gradual closure of capacity gaps. The Board foresees that it will keep the monetary stimulus at its current level until macroeconomic conditions tend to consolidate the convergence of inflation towards 3%. The persistence of inflation at low levels, especially its core component, means that the risks of not achieving the target within the policy horizon remain, a situation that will continue to be monitored with special care. Thus, the Board reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year policy horizon.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Friday, 18 May 2018. The next Monetary Policy Meeting will be held on 13 June 2018 and the statement thereof will be published at 18:00 hours the same day.

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* The Spanish original prevails.