PRESS RELEASE*

Tuesday, 4 September 2018

Monetary Policy Meeting – September 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%. The decision was adopted by the unanimous vote of the Board members.

The external scenario continues to be characterized by an increase in perceived risk in the emerging world, particularly for those economies seen as the most vulnerable. In recent weeks there has been a significant depreciation of emerging currencies, mixed movements in commodity prices, still negative capital flows and higher risk premiums. All this in a context where the divergence between monetary policies in the developed world persists and trade tensions between the United States and China have increased. Nonetheless, the outlook for global growth has limited corrections. In China, conjunctural economic activity figures have shown a sharper slowdown than predicted by the market, so the authority has activated several measures to boost demand.

In the local financial system, it is worth noting the further depreciation of the Chilean peso, which has been lower in multilateral terms. This has been in line with external developments, including the stronger US dollar at the global level, the fall in the copper price and intensified problems in some emerging economies. In this context, the almost null variation of long-term interest rates and local market risk indicators compared with the previous meeting stands out, opposing the movements seen in several economies. The domestic stock market coupled with slumps that have been observed in other emerging-countries' stock markets. Domestic credit continues to be characterized by low interest rates and moderate growth in loan amounts, where the ongoing rise in the commercial portfolio deserves mention.

Second-quarter activity and demand data showed a better than expected performance of the economy that has spread to more sectors. Faster growth in trade, manufacturing and some services stands out. On the expenditure side, strong dynamism of investment in machinery and equipment was observed again, plus higher private consumption and significant inventory build-up. Although the unemployment rate has increased, the labor market has begun to show some signs of recovery. In particular, private salaried employment grew at rates above 1% annually for the second consecutive moving quarter. Business (IMCE) and household (IPEC) expectations, despite a marginal drop, remain in positive territory, and financial conditions are still comfortable. The private expectations for economic growth (EES) continue to point to growth of the order of 4% for this year and the following two.

Annual CPI inflation rose to 2.7% in July, in line with expectations. As in June, its increase was mainly driven by greater annual variation of the more volatile components of the basket. Meanwhile, the annual increase of the CPIEFE remained at 1.9%, with goods inflation again in marginally negative figures and services just above 3%. Market expectations for inflation increased slightly at shorter terms. At one and two years they have stayed near 3%.

In its decision the Board considered that the analysis contained in the September Monetary Policy Report and data collected after its statistical cutoff, point to the evolution of macroeconomic conditions that make less necessary to maintain the current monetary stimulus. Economic growth has exceeded forecasts, thus reducing the activity gap faster and consolidating the prospects of an earlier convergence of inflation to the target. Given the medium-term implications of this scenario, the Board believes that the monetary stimulus should start being gradually withdrawn in the coming months. Likewise, it reiterates its commitment 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 of Monday 24 September 2018. The next Monetary Policy Meeting is scheduled to take place on Wednesday 17-Thursday 18 of October 2018 and the statement thereof will be released 18:00 hours of Thursday 18.

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* The Spanish original prevails.