PRESS RELEASE*

Thursday, 18 October 2018

Monetary Policy Meeting – October 2018

In its monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points to 2.75%. The decision was adopted by the unanimous vote of its members.

The external scenario continues to be characterized by financial markets' volatility, in a context of increasing divergence of the US economy from its peers in the developed world. At the same time, trade tensions have tended to focus on US-China relations. The Federal Reserve raised its benchmark rate again in September, while the market adjusted upward the expected trajectory for 2019 and 2020. This pushed long-term interest rates and risk aversion up in most of the countries, and the prices of riskier assets saw important corrections at the global level. In the Eurozone, Brexit negotiations and the definition of Italy's fiscal deficit have created uncertainty in markets. In turn, China increased the monetary impulse once more, while its currency continued to depreciate against the dollar. Financial pressures on the rest of the emerging economies have tended to moderate. Commodity prices, although with important ups and downs, have seen increases in most products, copper included.

Chile's currency and stock prices, as in most emerging economies, saw significant fluctuations in recent weeks. In the domestic fixed-income market, worth noting was the rise of short-term rates in line with expectations about the MPR. Meanwhile, long-term rates have had limited increases, smaller than those of their external peers, in a context where the country's financial risk indicators remained contained. Domestic credit continues to be characterized by low interest rates and stronger growth in commercial loans. The Bank Credit Survey for the third quarter of 2018 showed less restrictions for granting loans to households and big companies and stronger demand in the different segments, especially households, big companies and real estate.

Mining activity had some setbacks owing to some specific factors in some mines. The other sectors evolved as foreseen in the September Monetary Policy Report. Investment, especially in machinery and equipment, continues to lead the increase in domestic spending. The good performance of durable consumption also stands out. The review of complementary sources of information on the labor market -including administrative records- indicates increased dynamism of employment and salaries than suggested by the surveys. Corporate expectations (IMCE) are still in the optimistic zone, while household expectations (IPEC) have relapsed somewhat in recent months and now stand slightly below their neutral threshold. Anyway, expectations about the economic situation of households one year ahead are still positive. For the period 2018-2020, the markets' outlook for GDP growth (EES) is consistent with the baseline scenario of the latest Report.

September's inflation (0.3%) was slightly below projections, affected by one-off developments, such as lower food inflation. With this, annual CPI inflation rose to 3.1% and CPIEFE inflation rose to 2.1%, with a sustained acceleration of the more output-gap sensitive prices, such as the non-regulated services in the CPIEFE basket. Private expectations for inflation remain around 3% for December of this year and for one and two years ahead.

The Board's decision considered that capacity gaps have narrowed in recent quarters and will continue to do so in line with forecasts in the Monetary Policy Report, taking both headline and core inflation near 3% in the coming quarters. In this scenario, the Board believes that the monetary stimulus should begin to be reduced to ensure that inflation perspectives remain close to the target. Bearing in mind that, in the baseline scenario of the Report, the monetary policy rate will converge to its neutral level in 2020, a timely start of this process allows proceeding with graduality and caution. This will provide the necessary room for the Board to define the appropriate pace of the monetary stimulus withdrawal. Thus, the Board reaffirms 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 Tuesday 6 November 2018. The next Monetary Policy Meeting is scheduled to take place on Tuesday 4 December 2018 and the statement thereof will be released the same day at 18:00 hours.

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* The Spanish original prevails.