PRESS RELEASE

Thursday, 20 March 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 the Board members.

Internationally, the relevant scenario for the Chilean economy has continued to improve, adjusting to greater prospects for global growth, mainly in the developed world. In the United States, there is also the boost to demand associated with the tax reform approved by Congress. Inflation has remained contained in much of the developed world, although it is worth noting that some countries have revised upwards their forecasts for 2018. In the US, actual and projected data on activity and inflation have driven up the expected Fed funds rate. The discussion on the normalization of the monetary impulse in other developed economies has also taken shape.

In the global financial markets, the increase in volatility and the sharp correction in the prices of risky assets in early February stood out. Although financial conditions remain favorable, the main stock markets have not recovered their previous levels. The improved growth outlook has favored the rise of long rates, especially in the US and, to a lesser extent, in other developed countries. In the emerging world, especially in Latin America, the evolution of risk premiums, stock markets, volatility indicators and capital flows to their economies remains positive.

Commodity prices have fallen since the last Meeting. The oil price dropped somewhat more than 6%, owing mainly to news pointing to better supply-side conditions. In turn, the copper price, with fluctuations during the period, posted a drop around 2%. However, the two prices are still above their year-ago levels and their averages foreseen at the end of 2017.

At home, beyond the turbulence caused by external movements in early February, financial conditions show no major developments since the previous Meeting. With some volatility, the peso/dollar parity and the different multilateral measures ceased to decline, and have accumulated little variation with respect to the last Meeting. The stock market (IPSA) as well as the sovereign spread (5-year CDS) and the corporate spread (CEMBI), with minor setbacks, remain near their best levels ever. In the fixed-income market, interest rates—nominal and UF-indexed—had limited changes. The same applies to the cost of credit, as volumes have continued to grow at the same pace of recent months.

Activity indicators received after the last Meeting—including the revised quarterly National Accounts for the period 2015-2017—confirm that the economy performed better than was expected in the second part of 2017, particularly in the non-mining sectors. On the side of final domestic demand, the recovery of investment in the second half of 2017 deserves mention, including that in construction and other works. Consumption showed some acceleration from recent quarters, with increased sales of durables, especially automobiles, which have been stable in the first months of 2018. The real wage bill has continued to grow around 3.5%, in a context in which the annual growth of salaried employment increased again, owing mainly to the dynamism of public employment. The annual expansion of nominal wages fell to 3.4% on average in January 2018. Agents' confidence indicators have remained in optimistic territory.

Inflation has performed as expected, remaining around 2% annually for headline inflation and close to 1.5% for its core measure CPIEFE. As has been the trend in recent quarters, the inflationary dynamic has been dominated by the appreciation of the peso over the period. Annual inflation of the goods in the CPIEFE basket is in slightly negative figures, while that of the services component has gradually decreased over the last year and stands near 3%. Inflation expectations showed limited movements. While the short-term expectations have adjusted downward somewhat, at two years they show no big changes from the data analyzed in the last Meeting.

The Board's decision considered that both the latest data and the analysis contained in the March Report suggest that the risks for the convergence of inflation to 3% have moderated in the policy horizon, largely due to the implications that the better economic outlook has on the process of closing the capacity gaps. However, the evolution of the exchange rate in the coming months will cause inflation to be lower than expected in December, a situation that the Board will continue to monitor with special care, considering that it might jeopardize the convergence of inflation to the target over the policy horizon. Likewise, 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 this Monetary Policy Meeting will be published at 8:30 hours of Thursday, 5 April 2018. The next Monetary Policy Meeting will be held over next Wednesday 2 and Thursday 3 May 2018 and the statement thereof will be published that Thursday at 18:00 hours.

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* The Spanish original prevails.