PRESS RELEASE*

Wednesday, 4 December 2019

Monetary Policy Meeting – December 2019

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 1.75%. The decision was adopted by the unanimous vote of all the Board members.

In the external scenario, developments relating to the trade war between the United States and China continue to influence the behavior of global activity and financial markets, which adds to the impact of idiosyncratic factors on Latin America's worsened performance. Activity and trade have been in line with expectations. In this context, monetary policy has remained expansionary around the world and stock market indices have risen in the main economies. Despite ups and downs, long-term interest rates and the multilateral dollar are virtually unchanged from the previous Meeting, as are the prices of copper and oil.

Locally, the social outbreak has prompted significant changes in various economic sectors and the financial markets, giving way to increased uncertainty. This has resulted in a greater perception of country risk, a deterioration of stock market indicators and increases in fixed-income rates and corporate spreads. The Bank has taken various measures aimed at enhancing market liquidity and mitigating volatility in key financial prices. The peso posted a significant depreciation that, beyond the level reached by the exchange rate, occurred amid a rapid succession of movements in the same direction that resulted in volatility, which was deemed excessive. In this context, the Board announced an intervention program in the forex market that started on 2

December, which has succeeded in bringing said volatility down. Credit conditions have also been affected, as evidenced by a special poll under the Bank Credit Survey that reports lower demand for credit in some sectors and more stringent supply for persons and companies.

Activity and demand have been affected negatively and growth expectations for this year and next have worsened, pointing at significantly lower rates than were foreseen up until mid-October. The labor market is already showing signs of deterioration, as reflected in various sources of information. Meanwhile, household and business confidence indicators has fallen sharply. In this context, the Government announced a package of reactivation measures that entails a major increase in fiscal spending in 2020.

In October, annual inflation was 2.5% and market expectations are that it will close the year at or slightly above 3%, reflecting the sharp depreciation of the peso. Two years ahead, the various expectations measures place it at 3%. The path of inflation in the monetary policy horizon will be determined by two key factors. On one hand, lower inflationary pressures deriving from widened capacity gaps and, on the other, cost-push pressures above those previously considered, in particular because of the idiosyncratic nature of the recent peso depreciation. The uncertainty that surrounds the future evolution of the macroeconomic scenario is higher than normal, so it is still premature to figure out which of these two factors will dominate.

In accordance to achieving the inflation target, and in a context of increased fiscal impulse and forex intervention, the Board foresees that the monetary policy rate will be kept at its current level over the coming months. The Board reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% in the two-year horizon.

The December Monetary Policy Report containing the forecasts and analyses that back the decision of the Board will be released tomorrow, Thursday 5 December at 8:30 hours.

The minutes from this monetary policy meeting will be published at 8:30 hours of Thursday 19 December 2019. The next monetary policy meeting will be held on Tuesday 28 and Wednesday 29 January 2020, and the statement thereof will be published at 18:00 hours of this latter date.

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* The Spanish original prevails.