PRESS RELEASE *

Wednesday 29 January 2020

Monetary Policy Meeting – January 2020

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

In the external scenario, the signing of Phase 1 of the trade agreement between China and the United States and the improved activity figures in the main economies had a positive impact on financial markets and commodity prices. However, the Coronavirus outbreak in China triggered a rise in the perception of global risk, which has translated into increases in risk premiums, a global appreciation of the dollar, and falls in stock markets, interest rates and commodity prices. The price of copper has been particularly affected.

Since the last meeting, domestic financial markets have shown volatility in line with the evolution of their internal and external fundamentals, and with the impact of the measures adopted by the Bank. As for banking loans, the marked deceleration of consumer credit stands out, while commercial and mortgage credit loans have shown no major changes in their annual expansion rates. At the same time, an important amount of corporate bond issues has been observed abroad, with favorable financial conditions. The Banking Credit Survey for the fourth quarter of 2019 reports that credit supply is perceived to have tightened, particularly in consumer and large company portfolios, and that demand had dwindled, particularly in the consumer segment.

Regarding activity, fourth-quarter data confirmed that the disruptions caused by the social crisis had a strong impact on the Imacec in October and November, but some moderation could be expected in the December figure, in line with the baseline scenario of the last Monetary Policy Report. On the expenditure side, different sources reveal a noticeable contraction of the tradable components of private consumption, a further fall in annual terms of imports of consumer goods, retail inventories still perceived as too high, and consumer expectations that persist in markedly pessimistic territory. The latter occurs in a context where administrative data show an incipient deterioration of the labor market.

As for investment, business expectations remained pessimistic and capital goods imports have continued to contract in annual terms. The Capital Goods Corporation' investment plans survey has shown no big changes in the amounts committed for this year and next. In this scenario, in January's Economic Expectations Survey growth expectations dropped to 1.2% annually for this year and 2.5% for 2021.

In recent months, annual inflation rose to 3% and the core measure remained at around 2.5%. Both fell short of expectations estimated in the December Report. The evolution of inflation continues to be exposed to opposing forces, whose relative impact is still uncertain. On the one hand, the pressures inherent in the idiosyncratic depreciation that the peso has accumulated since October are still present. On the other hand, the outlook for activity remains weak and its recovery continues to depend on the economic agents' response to the changed scenario. Inflation expectations remain at around 3% two years ahead.

The decision to maintain the MPR at its current level is consistent with safeguarding the expansionary stance of monetary policy, as communicated by the Board last December, considering the evolution of the macro scenario and the set of extraordinary measures adopted. The March Monetary Policy Report will assess the macroeconomic situation and its implications for inflation and the monetary policy trajectory. 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 a.m. on Thursday, 13 February, 2020. The next Monetary Policy Meeting will be held on Tuesday, 31 March and the statement thereof will be published at 18:00 hours the same day.

---

* The Spanish original prevails.