PRESS RELEASE*

Thursday, 9 May 2019

Monetary Policy Meeting

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 3%. The decision was adopted by the unanimous vote of the Board members.

Internationally, US labor and growth data came in better than expected. In the Eurozone and China, better-than-expected growth figures were also recorded, although other indicators fell short of estimates. On the inflation side, higher energy prices have pushed up headline inflation and the inflation outlook, while core inflation has remained unaffected. Several central banks have reaffirmed a more expansionary orientation of their monetary policies. More recently, intensified trade tensions between the US and China resulted in higher global aversion to risk, increased volatility, a partial reversal of riskier assets' price increases and reduced prices of commodities, including copper. In this context, the Chinese authority cut down reserve requirements as a response to the escalating trade conflict.

The local financial market has seen a decline in the stock market and a depreciation of the peso, in line with the global trends of recent days. Medium- and long-term interest rates have shown no major movements in the most recent past, despite some decline after the last Meeting. Credit expansion, costs and lending standards, according to the March Bank Lending Survey, present no big change, while demand for credit is perceived as having lost some dynamism in the segments of consumers and large companies.

Preliminary first-quarter data suggest that GDP grew less than forecast in the March Monetary Policy Report. This would respond to reduced mining activity and the performance of some of the more volatile sectors. Conversely, all other sectors have performed in line with expectations, particularly those linked to services and investment. About the latter, although imports of capital goods have shown greater volatility, the outlook remains favorable as can be derived from the evolution of construction activity and the upward revision of the Capital Goods Corporation's latest survey. On the consumption side, there are no signs of a significant switch in the trend, as the slowdown in durable goods consumption is offset by the strengthening of services. In the labor market, the various sources of information point to stronger growth in salaried employment. Meanwhile, the unemployment rate remains around 7% and nominal wages accelerated in annual terms, reflecting the rise in the minimum wage.

Annual CPI inflation—measured with the 2018=100 base benchmark series—increased with respect to the beginning of the year, standing at 2% in April. This responds to a large extent to the higher incidence of foodstuffs and fuels. Meanwhile, the CPIEFE has continued to fluctuate around 2% y-o-y. Private inflation expectations available at the time of the Meeting show slight changes. For this year's end and one year ahead, they stand somewhat below 3% annually, where they are expected to remain in the two-year horizon.

The Board's decision considered that information accumulated in the last month does not modify significantly from the evaluation contained in the March Report. Thus, it estimates that the lower level and outlook of inflation require keeping the monetary stimulus still for an extended period of time. The course of the MPR normalization necessary for the convergence of inflation within the policy horizon will be subject to a new appraisal in the June Report. Accordingly, the Board reiterates its will 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 Monday 27 May 2019. The next monetary Policy Meeting is scheduled to take place on Friday 7 June 2019 and the statement thereof will be released at 18:00 hours the same day.

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* The Spanish original prevails.