



BCCh Watch

August 13, 2009

August MPR: Monetary policy is kept on hold and complementary measures to be continued

- In accordance with general expectations, the Central Bank kept the MPR at 0.5% and repeated that it will keep it there for a long time.
- It also stated that it will continue to apply the complementary monetary policy measures that it announced at its last meeting and that it will do so flexibly. The market did expect a more specific announcement on this matter, however.
- The lack of specific measures is probably explained by the brighter economic outlook, both domestic and foreign, in recent days.

At the August monetary policy meeting the Board of the Central Bank of Chile decided to keep the monetary policy rate (MPR) at 0.5%, and repeated that it will keep it there for a long time, in line with market expectations.

Surprisingly though, there was no announcement about continuing to accelerate the expansionary monetary policy. However, the statement included the intention to "continue to apply complementary monetary policies adopted at the previous meeting". The Board also said that "it will continue to use its policies flexibly...".

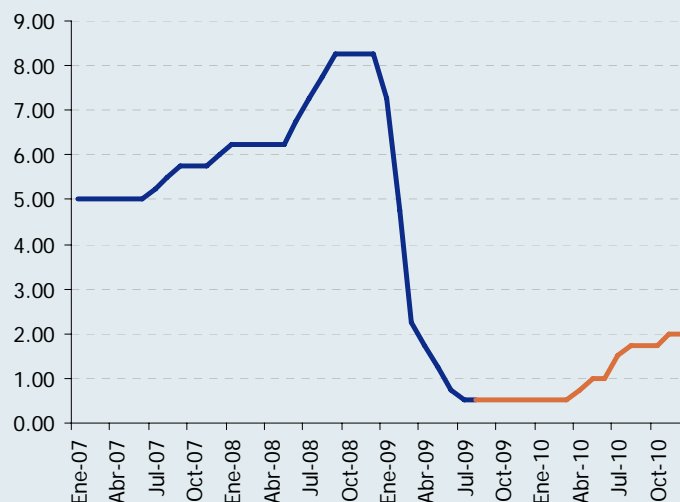
The fact that no specific announcement was made is probably due to more optimism, domestic and foreign, regarding the economic situation, especially after the FED revealed that the US economy had stopped slowing down at its last meeting. In this regard, the better international outlook transmitted to the share and commodity markets is clear.

On a domestic level, stabilized economic activity and reduced core inflationary pressures are also noteworthy. The central bank says that lower inflation levels are forecast for the coming quarters, but that the medium-term inflation outlook remains stable.

Appraisal: The lack of specific announcements is an acknowledgement that the ability to affect interest rates, especially long-term ones, has reached its limit. Furthermore, the exchange rate depreciation in recent days has probably reduced pressure to intervene in the foreign exchange market.

Finally, we are maintaining our forecast that the monetary policy will remain unchanged until 2Q10, and that there will be gradual adjustments during the rest of that year.

Tasa de Política Monetaria



fuentes: BCCh y proyecciones BBVA