



# BCCh Watch

May 7, 2009

## May MPR: Central Bank cuts policy rate by 50 bps

- By cutting the Monetary Policy Rate (MPR) by 50 bps, to 1.25%, the BCCh reached a new record low since the monetary policy became nominal.
- The decision was based on the low recorded and forecast inflation rate.
- The press release says that there may be further reductions. We expect a 25 bps cut in June, which would take the rate to 1% and it will probably stay there until at least the first quarter of 2010.

At the May monetary policy meeting the Board of the Central Bank of Chile decided to cut the monetary policy rate 50 basic points, in line with market expectations. This cut lowers the rate to 1.25%, which is a record low since the monetary policy became nominal.

As usual, the press release is concise and says that on the international scene there should be signs of recovery, which will mainly be reflected in markets and, in particular, on copper and fuel prices.

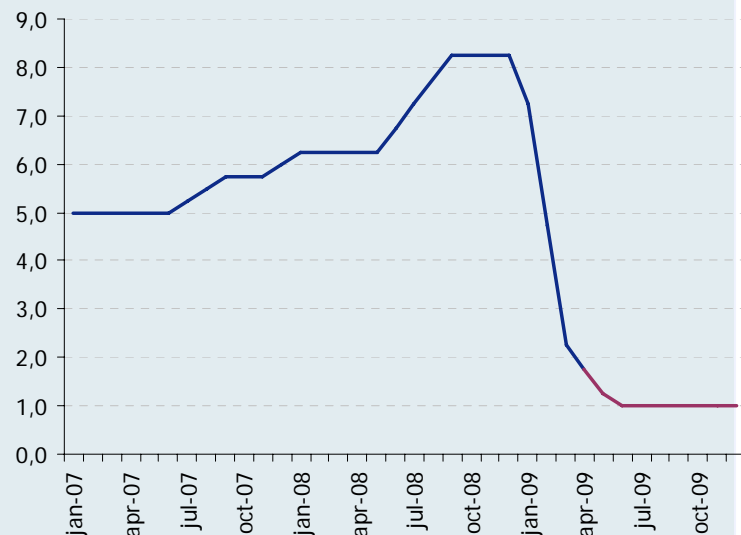
As for the domestic situation, it says that activity for the first quarter of the year remains flat, unemployment has risen and credit conditions are still tight, although they are probably a reflection of the effect of the monetary stimulus package.

The press release keeps a downward bias and states that "it might be necessary to cut the MPR again". We think that the international and domestic situation will prompt the BCCh to make further changes that could take the MPR down to 1%.

**Appraisal:** We believe that the decision to cut the rate 50 bps and to keep a downward bias is a response to the persistence of low inflation rates, which even hint at negative annualized inflation for the last quarter of the year.

We forecast another cut in June, this time 25 bps, which will see the end to the BCCh's cycle of cuts.

Monetary Policy Rate



source: BCCh, BBVA forecast