



# BCCh Watch

September 8, 2009

## September MPR: No news is good news

- 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 its intention to continue to apply the complementary monetary policies announced at the July meeting.
- The margin improvement in economic indicators and lower inflation outlooks in the coming quarters, although stable in the medium term, were highlighted.

Just like at the August 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. The market fully expected the decision, and so it was already accounted for.

Further measures were not expected either. Firstly, if they had been necessary, they would have been adopted at the previous meeting, and secondly, current market conditions did not point to the need to apply them, especially after the July Imacec result was published, which reported the third consecutive margin growth in activity. The statement highlights this m-o-m upturn in spite of revealing negative y-o-y growth rates.

Furthermore, the figures that the National Institute of Statistics published this morning, which showed a heavy negative change in the CPI (although in line with our forecasts), do not necessarily reflect a slowdown in domestic demand, because they are largely explained by a sharp adjustment in electricity prices (-17.7%). Indeed, core inflation as measured by the IPCX1, which does not include regulated utility prices, remained unchanged (0% versus July).

This scenario of “no news” is interpreted as “good news”, in other words, the Central Bank is starting to take a few steps backwards (as far as being in the spotlight is concerned), leaving the market to incorporate the measures that have already been taken.

In the future, the Central Bank admits that low inflation levels are forecast for the coming quarters, but that the medium-term outlook remains stable.

**Appraisal:** The Board's decision was expected, although this does not make it any less important, because it means that a more optimistic view of economic development is being taken, even though it is highly likely that next week, in the September Monetary Policy Report, the Central Bank will adjust the growth forecast for 2009 downward, in keeping with market expectations.

We are maintaining our forecast that the monetary policy will remain unchanged for a long time, possibly until March 2010, followed by a gradual upward adjustment.

Monetary Policy Rate



source: BCCh and BBVA forecast