MONETARY POLICY MEETING

DECEMBER 2023

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Monetary Policy Meeting No.302, held on 19 December 2023.

Present: Rosanna Costa, Governor; Pablo García, Vice-Governor; Alberto Naudon, Board member; Luis Felipe Céspedes, Board member; Stepanka Novy, Board member.

Present the Finance Minister, Mario Marcel.

Also present: Juan Pablo Araya, interim General Manager; Mauricio Álvarez, acting Legal Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Ricardo Consiglio, Financial Markets Division Director; Rosario Celedón, Financial Policy Division Director; Gloria Peña, Statistics and Data Division Director; Michel Moure, Institutional Affairs Division Director; Diego Ballivián, Corporate Risk Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communication Manager; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Felipe Musa, Market Operations Manager; Silvana Celedón, Communications Manager; Andrés Sansone, Advisor to the Finance Minister; Marlys Pabst, Secretary General.

1. Background

In general terms, the economy had evolved in line with forecasts in the September Monetary Policy Report (MP Report), and the inflation outlook continued to point to its convergence to the 3% target in the second half of 2024. Compared to 2022, inflation had fallen from a peak of 14.1% in August of that year to 4.8% last November. This had been a rapid decline, in which monetary policy action had played a significant role.

Activity was back to slightly positive quarterly growth rates, and projections were that in the quarters ahead it would continue to gradually approach growth rates in line with its trend. In this context, the economy was expected to close 2023 with zero growth, with the usual heterogeneity across sectors. Towards 2024 and 2025, the growth ranges of the previous Report were maintained at 1.25%-2.25% and 2%-3%, respectively. As for expenditure, no major changes were observed in aggregate numbers. However, private consumption had shown an incipient increase in the third quarter, while investment remained subdued. In the labor market, job creation remained sluggish, with demand for workers still weak, consistent with the evolution of the economic cycle. The unemployment rate had reached 8.9% in the moving quarter ending in October, outpacing its historical average. Real wage growth had risen to 3.5% annually, favored by lower inflation.

On the external front, the main economies had performed better than expected and global growth prospects had increased, with inflation declining in most countries. Of particular note were the United States of America and China, whose economies had grown more than expected, thus boosting their prospects for 2024. This entailed a somewhat stronger boost from abroad than expected a few months ago.

Major tensions in international financial conditions and the high volatility of global markets observed in recent months —which Chilean assets had matched— had been largely reversed. However, similar situations occurring again could not be ruled out.

2. Background analysis and discussion

It was noted that, compared to the previous MP Report, the macroeconomic scenario of the December Report had no major changes. The economy had closed the activity gap, cumulative growth between 2023 and 2025 was about the same, and inflation would converge to the 3% target in the second half of 2024. If anything, the most remarkable thing was that core inflation was bringing forward the timing for reaching 3%, now being expected to do so in the first half of 2024. Comments were made about headline CPI's November inflation, which had exceeded forecasts, indicating that, given the nature of the differences, it seemed that by itself it provided limited information about future price trends. About the external scenario, the better performance of the United States of America and China stood out, raising their growth projections for this year and next.

Despite this assessment of few changes between Reports, it was pointed out that important situations had occurred in the meantime, particularly in the global financial markets. It was recalled that during October and November, events of great relevance had been observed —i.e., sharp rises in long-term rates, global appreciation of the dollar, falls in stock markets—, which by this time had been reversed significantly. The communication from the Federal Reserve and some inflation and labor market data in the United States of America had been particularly relevant in this.

It was noted that, although the situation had calmed down, there was still a call for attention regarding the sensitivity of world markets and the magnitude of their transmission to the local market. In fact, the greatest stress had occurred prior to the October meeting, leading to a more cautious action on the part of the Board on that occasion. It was agreed that the Bank should keep a watchful eye on the possible occurrence of volatility events, which, while less likely at the time, could not be ruled out for the future.

3. Analysis of monetary policy options

All the Board members agreed that, compared to the central scenario of the September Report, the evolution of the economy and its projections for the next two years presented no big differences. Actually, they added, when analyzing the evolution of the economy over the last year, they observed that conditions had behaved in line with forecasts, validating the Board's monetary policy decisions. It was added that, in a context where inflation had already fallen by more than 9 percentage points with respect to its peak, it was clearly in the process of converging to 3% and the monetary policy rate (MPR) had already been reduced by 225 basis points, it could be thought that monetary policy was getting closer to a period of normality. This implied a clear forward guidance in terms that the MPR would be further reduced to bring it to its neutral level in 2025. In this context, the Board considered reducing the policy rate by either 50 or 75 basis points.

All Board members agreed that the 75 basis point option best represented a scenario where macroeconomic conditions had not changed substantially with respect to previous Reports. In the Board's view, such a decision gave a signal of continuity with what had been the previous conduct of monetary policy, beyond the specific situation of the October meeting.

Regarding the 50 basis point option, there was agreement in the Board that this option lost significance when considering that the conditions that had led to its decision at the October meeting were no longer present.

4. Monetary policy decision

Governor Costa, Vice-Governor García and Board members Naudon, Céspedes and Novy voted for lowering the MPR by 75 basis points, to 8.25%.

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