

Tuesday, 3 September 2024

Monetary Policy Meeting – September 2024

At today's Monetary Policy Meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 25 basis points, to 5.5%. The decision was adopted by the unanimous vote of all its members.

On the external front, U.S. developments have continued to dominate the scene in the past few weeks. The Federal Reserve Governor's message on the start of the Fed funds rate cut process deserves special mention, indicating that inflation has continued to decline and that the American labor market has shown signs of cooling. This contrasts with monetary policy messages in other economies, where declines in inflation have been less marked. Meanwhile, global activity and its outlook have not shown much change for this year and next.

Global financial markets have shown greater sensitivity to news, as episodes of high volatility have been observed. This has been influenced by signals from the Federal Reserve, doubts about the strength of the U.S. economy and geopolitical elements. However, compared to the last meeting, short- and long-term interest rates have declined, the value of stock markets has risen, and the dollar has depreciated worldwide. As for commodities, the copper price has shown significant fluctuations and the oil price has fallen.

Locally, since the last Meeting, short-term interest rates have fallen, in line with the outlook for monetary policy. Long-term rates have decreased, and, with ups and downs, the peso appreciated, replicating the movements of international markets. The MPR cuts have continued to be passed through to interest rates on consumer and commercial bank loans. Bank credit remains weak, especially in the commercial portfolio.

Activity lost momentum during the second quarter. Although this was expected after the high dynamism early in the year, the drop was greater than expected. The seasonally adjusted series of total and non-mining GDP fell 0.6% quarter-on-quarter (+1.6% and +1.0% y/y, respectively). The July Imacec showed a significant acceleration of month-on-month activity. Like in previous quarters, a relevant part of this increase was due to one-off factors, in a context where monthly figures have shown significant volatility. On the demand side, the analysis of the seasonally adjusted quarterly series highlights the fall in consumption and the stability of investment. The unemployment rate for the moving quarter ending in July rose to 8.7%, partly due to seasonal factors.

In July, the annual variation of the CPI —spliced reference series— rose to 4.4% and that of the core measure rose to 3.4%. The increase in headline inflation was somewhat higher than forecast in the June IPoM, a difference explained by the more volatile components of the basket. Regarding two-year inflation expectations, both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) are at 3%.

The combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations in line with the 3% target, reduces the risks of further inflationary persistence in the medium term as a result of the cost shock. The IPoM to be published tomorrow morning contains the details of the central scenario, the sensitivities and risks surrounding it and its implications for the future evolution of the MPR.

The Board estimates that, if the assumptions of the central scenario of the September IPoM materialize, the reduction of the MPR towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the path of inflation. The Board reaffirms its commitment 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 23 September 2024. The next Monetary Policy Meeting will take place on Wednesday 16 and Thursday 17 October 2024, and the Statement thereof will be released at 18:00 hours of the second day.

*The Spanish original prevails.