

Monetary Policy Meeting – July 2024

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.75%. The decision was adopted by the unanimous vote of its members.

On the external scenario, global inflation has generally continued to decline at a moderate pace, mainly reflecting a slow reduction in the services components. In the United States, June's inflation was below expectations and the labor market has shown signs of moderation at the margin, which has made the market's forecast for the Federal Reserve's monetary policy somewhat less contractionary. In any case, second-quarter activity in the US economy was more dynamic than expected. This contrasts with a modest growth rate in the rest of the world, due in particular to a deeper-than-expected slowdown in China. The global growth outlook shows no major changes for this and next year.

Regarding global financial markets, compared to what was observed in the previous Meeting, long-term interest rates are somewhat lower, both in advanced and emerging economies. Stock markets have shown mixed movements. The global dollar appreciated. With fluctuations, both oil and copper prices decreased compared to the previous meeting, the latter partly affected by weaker signals from the Chinese economy.

In the local financial market, short-and long-term indexed interest rates have decreased with respect to the last Meeting, in a context where nominal rates have not changed significantly. The peso depreciated, in line with the lower copper price. Credit remains weak, especially its commercial component. The Bank Lending Survey for the second quarter of 2024 indicates that lending standards have not changed recently for most portfolios, while demand for credit remains low in all segments. Lower term lending rates continue to reflect the pass-through of the cuts in the monetary policy rate (MPR) in line with the usual patterns.

Activity has performed below projections in the June Monetary Policy Report (IPoM), while on the demand side, high-frequency indicators point to no major differences. In May, the non-mining Imacec decreased 0.5% month-on-month in its seasonally adjusted series (+0.2% annually), a result that was largely explained by one-off supply factors. June figures for sectoral activity data (INE) showed a lower than expected performance in some sectors. Looking ahead, information from the surveys of large projects shows a significant increase in the amounts foreseen for the coming years. The unemployment rate for the rolling quarter ending in June remained at 8.3%. Although still in pessimistic territory, indicators of business and household expectations show some improvement recently.

In June, inflation was in line with assumptions in the last IPoM. The core measure (i.e., the CPI without volatile items) had a lower variation than expected, mainly in goods and due to factors that are estimated to be transitory. The annual variation of the CPI —spliced reference series— stood at 3.8% and that of the core measure stood at 3.2%. As for two-year inflation expectations, both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) are around 3%.

The Board estimates that, if the assumptions of the central scenario of the June IPoM come true, the MPR will have accumulated during the first half of the year the bulk of the cuts foreseen for this year. The decision to hold the rate at this Meeting is consistent with the strategy considered in the central scenario of said Report, which foresees that the MPR will continue to be reduced throughout the monetary policy horizon, at a pace that will depend on the evolution of the macroeconomic scenario and its implications for the inflationary path. The Board reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation will stand at 3% over the two-year horizon.

The minutes of this monetary policy meeting will be published at 8:30 hours of Friday 16 August 2024. The next monetary policy meeting will take place on 3 September 2024, and the Statement thereof will be released the same day at 18:00 hours.

*The Spanish original prevails.