Thursday, 26 January 2023

Monetary Policy Meeting – January 2023

At At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to hold the monetary policy interest rate at 11.25%. The decision was adopted by the unanimous vote of its members.

World inflation has declined at the margin, mainly associated with a reduction in energy prices. However, it is still high and inflationary pressures remain significant. In this context, the main central banks have kept raising their benchmark interest rates. The growth outlook for 2023 remains weak, despite a slight upward adjustment.

Global financial markets have reflected greater optimism, fueled by China's easing of its zero-Covid policy and the prospects of a less restrictive monetary policy path by the Federal Reserve. Since the last Meeting, the dollar has depreciated globally, risk appetite and capital flows to emerging economies have increased, stock markets have risen and long-term interest rates have shown mixed movements. Commodity prices have evolved heterogeneously. The price of copper rose significantly, to US$4.2 per pound (+11% since the last Meeting), driven by improved demand prospects from China, while oil is trading around US$83 per barrel (+5% since the last Meeting, for the WTI-Brent average).

The local financial market has followed global trends. With respect to the last Meeting, the IPSA and long-term interest rates are virtually unchanged, while the exchange rate appreciated around 8%, somewhat more than comparable currencies. The macroeconomic implications of the recent appreciation of the peso will be assessed in the next Monetary Policy Report. Bank credit continues to be contained, especially in the commercial portfolio. The context in which this takes place is one where supply conditions remain tight and demand has continued to weaken.

In November, the non-mining Imacec declined once again, posting a 0.2% monthly drop in its seasonally adjusted series (-0.8% for the total Imacec). From the expenditure standpoint, consumption- and investment-related indicators continue to adjust, such as the performance of retail trade, imports and low construction activity. The labor market continues to show low job creation and declines in the annual variation of real wages. All this in a context of persistently pessimistic consumer and business expectations.

Last December, headline and core inflation stood at 12.8% and 10.7% annually, respectively, both down from the previous month. Nonetheless, inflation accumulated in the last two months exceeded the projection of the December Monetarty Policy Report, owing mostly to the November figure. Inflation expectations two years ahead remain above 3%.

Monetary policy has made a significant adjustment and is facilitating the resolution of the imbalances present in the economy. However, inflation remains very high and its convergence to the 3% target is still subject to risks. The Board will maintain the MPR at 11.25% until the state of the macroeconomy indicates that this process has been consolidated.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Friday, 10 February 2023. The next Monetary Policy Meeting will take place on Tuesday, 4 April 2023, and the statement thereof will be released at 18:00 hours of the same day.

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*The Spanish original prevails.