Tuesday, 5 September 2023

Monetary Policy Meeting – September 2023

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 75 basis points, to 9.5%. The decision was adopted by the unanimous vote of all the Board members.

In the external scenario, inflation has continued to decline globally, although the outlook for inflation and monetary policy differs across countries. In the developed economies, monetary policy is expected to remain contractionary for a prolonged period of time. Meanwhile, in several emerging economies, the tightening cycle has already begun or will soon follow suit. In turn, global growth prospects for both this and next year remain weak, so the impulse that the Chilean economy will receive from abroad will remain constrained.

Global financial markets have shown a decline in risk appetite, associated with events such as the downgrade of the U.S. sovereign debt rating along with uncertainty regarding China's economic performance and the pace of global disinflation. Since the last Meeting, the dollar has strengthened, long-term rates have risen and stock markets have fallen. Commodity prices have had mixed movements, where worth highlighting have been copper fluctuations, oil hikes and cereal price decreases.

In the local financial market, the peso depreciated from the previous Meeting, explained both by changes in the interest rate differential with other countries and by greater risk aversion in global markets. In the same period, long-term interest rates have had modest increases, while the IPSA reversed part of the previous cumulative gains. Short-term rates have continued to decline. Credit is still growing at a limited pace, with deposit and lending rates performing in line with the usual transmission of monetary policy.

In general terms, activity and demand evolved in line with expectations. Seasonally adjusted, in the second quarter, non-mining GDP fell 0.5% with respect to the previous quarter, while private consumption stabilized. Investment maintained its low performance, although with some improvement in the machinery and equipment component. The accumulated current-account deficit continued to narrow. The July Imacec reported a more positive performance of activity (+1.8% annualy; +0.3% monthly seasonally adjusted), although mainly associated with transitory effects on electric power generation and personal services, among other factors. In the labor market, the unemployment rate rose to 8.8% in the moving quarter ended in July, combining an increase in labor force participation and seasonal effects on employment. Annual real compensation growth continues to recover after the contraction of previous quarters. Household and business perceptions of the economy show a slight recovery this year to date.

Both headline and core inflation —which excludes volatile items— have continued to decline, but levels are still high. In July, headline inflation declined to 6.5% and core inflation did so to 8.5% annually. The decline in inflation is explained by the drop in core inflation of goods and the volatile component. Services inflation has been slower to decline. Regarding two-year inflation expectations, both the Economic Expectations Survey (EES) and the Financial Traders Survey (FTS) are at 3%.

The macroeconomic scenario has evolved as anticipated, with inflation projected to converge to the 3% target in the second half of 2024. If the central scenario projections of the September Monetary Policy Report materialize, in the short term the MPR will continue on the path outlined in the previous Meeting. In any case, the magnitude and timing of the process of MPR reductions will take into account the evolution of the macroeconomic scenario and its implications for the inflation trajectory. The Board reaffirms its commitment to act with flexibility in case any of the internal or external risks materializes and macroeconomic conditions so require. The MP Report 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 monetary policy rate.

The Minutes of this Monetary Policy Meeting will be published at 8:30 hours of Friday 22 September, 2023. The next Monetary Policy Meeting will take place on Wednesday 25 and Thursday 26 October 2023, and the Statement thereof will be released at 18:00 hours of the second day.

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*The Spanish original prevails.