



Webinar Itau BBA
**Outlook and challenges for
monetary policy in Chile**

Alberto Naudon D.

Member of the Board, Central Bank of Chile

May 20, 2022 | Via Zoom

Agenda of the talk

- Brief review of the main messages of last IPoM.
- Comment on the data that appeared since May IPoM.
- Short comment on how the financial markets have interpreted this news.
- Q&A.

Summary of March 2022 Monetary Policy Report

Significant deacceleration in 2022, followed by a relatable weak economy

Chile: Economic growth, current account and inflation

(%)

	2021	2022 (f)	2023 (f)	2024 (f)
		(annual change, percent)		
GDP	11.7	1,0-2,0	-0,25/0,75	2,25-3,25
National income	15.9	0.1	0.4	3.5
Domestic demand	21.6	-1.2	-1.1	2.8
Domestic demand (w/o inventory)	18.0	-1.1	-0.7	2.8
Gross fixed capital form	17.6	-3.8	-0.2	2.0
Total consumption	18.2	-0.2	-0.8	3.1
Private consumption	20.3	-0.3	-1.1	3.2
Current account (% of GDP)	-6.6	-4.6	-3.5	-3.2

(f) Forecast.

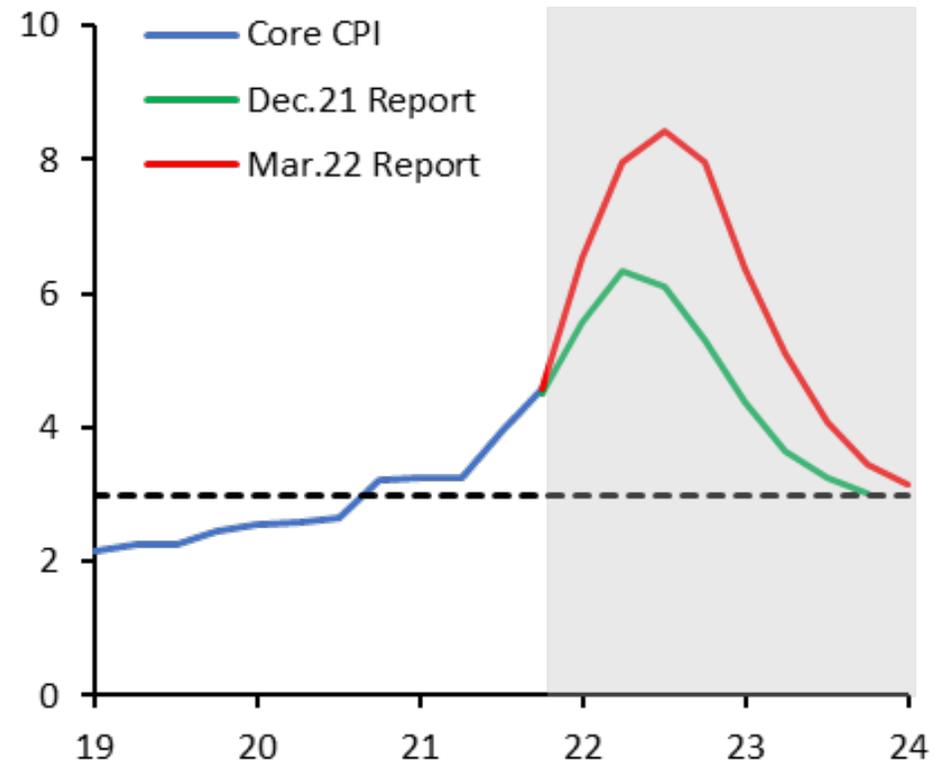
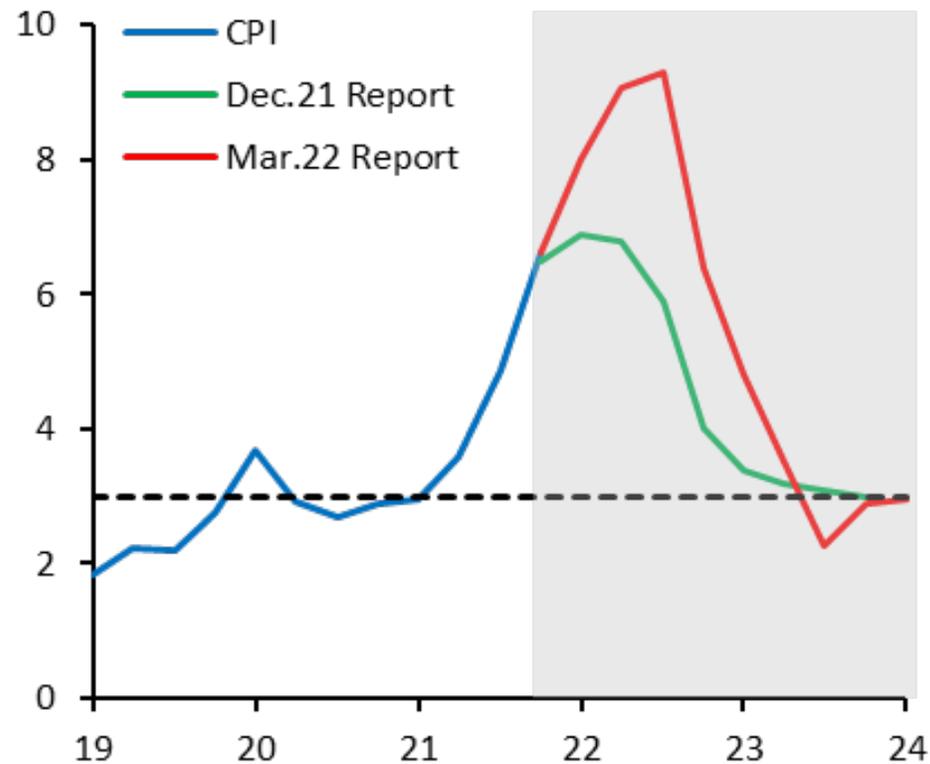
Sources: Central Bank of Chile.

Summary of March 2022 Monetary Policy Report

Rapid reduction of inflation after a peak at the end of 2022

CPI and Core CPI forecasts

(%)



((f) Forecast (1) Core inflation is measured using the CPI excluding volatile. (2) Inflation forecast for the first quarter of 2024.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Summary of March 2022 Monetary Policy Report

Key force behind the reduction of inflation

- The slowdown in domestic spending. [\[Output Gap March 2022 MPR\]](#)
- The reversal of the cost shock associated with commodity prices and a tight labor market.
- Moderate exchange rate appreciation. [\[Real Exchange Rate\]](#)
- Moderate impact of high inflation expectations on price formation process.
- Consistent monetary and fiscal policies. [\[Monetary Policy Corridor\]](#)
- Absence of other stimulus policies with relevant macro impact.

What happened after March?

Greater inflationary pressure leads to MPR higher than anticipated

- **Headline and core inflation** have been higher than expected, mainly due to higher food prices
- 2022 Q1 National Accounts confirm contraction in **activity and investment**. However, private **consumption** level is still high. Similar to those observed in 2021 Q4 and higher than our projections.
- **The peso** has weakened significantly since the MPR. Causes are mostly externa. [\[FX\]](#)
- **Two-year inflation expectations** remain above the target. The market seems to bet on a slower convergence of inflation, since the expected three-year inflation is at 3%
- The **external scenario** becomes less favorable for Chile due to worse terms of trade, lower activity, higher world inflation and more restrictive financial conditions. The risk of a recession is also higher.
- In **May MP meeting** we decided to raise the monetary policy interest rate by 125 basis points, to 8.25%, amid higher external inflationary pressures, stronger than expected local demand, and significant inflation surprise. All these in a context of high inflation expectations and relevant exchange rate depreciation.

What happened after March?

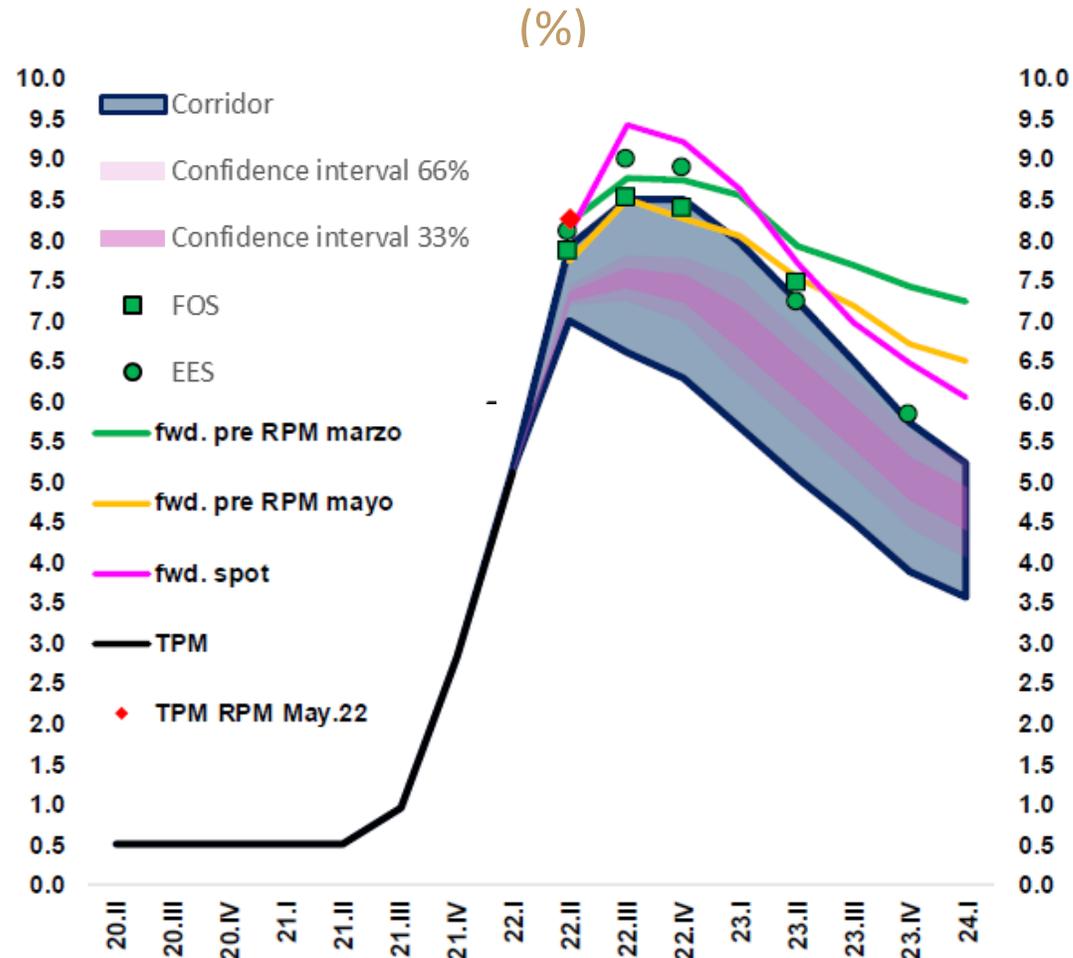
Forces that point to weak economy in the medium term are still present

- Uncertainty, local and external, remains high. [\[DEPU\]](#)
- Local economic perception keeps deteriorating. [\[IMCE, IPEC and IPSOS\]](#)
- Financial conditions are tighter.
- Negative terms of trade shock looks more persistent.

Financial market reaction

Financial markets are pricing a more restrictive MP

MPR, MPR expectations and last IPoM MPR Corridor





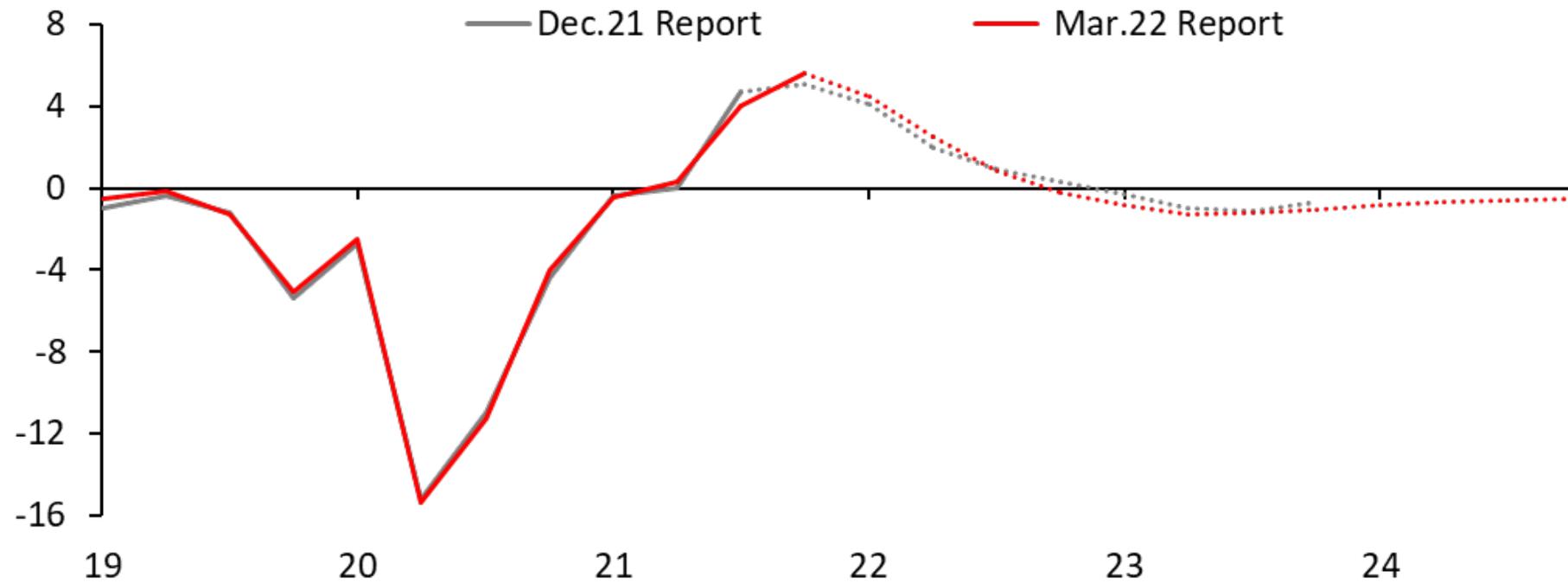
Webminar Itau BBA **Outlook and challenges for monetary policy in Chile**

Alberto Naudon D.

Member of the Board, Central Bank of Chile

May 5, 2022 | Via Zoom

Output gap (1) (2) (%)

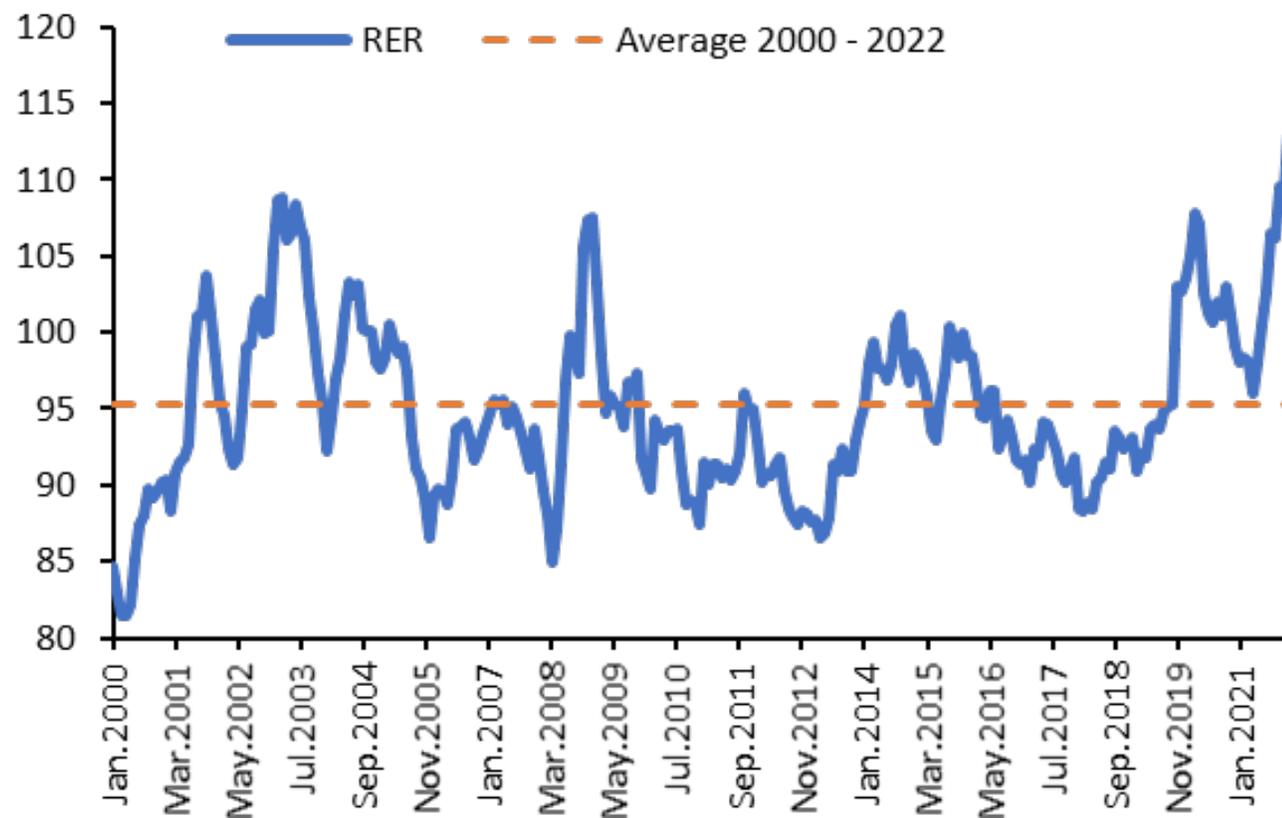


Return

(1) Dotted lines show forecast. (2) Forecast assumes structural parameters updated in June 2021 Report. Source: Central Bank of Chile.

Real exchange rate

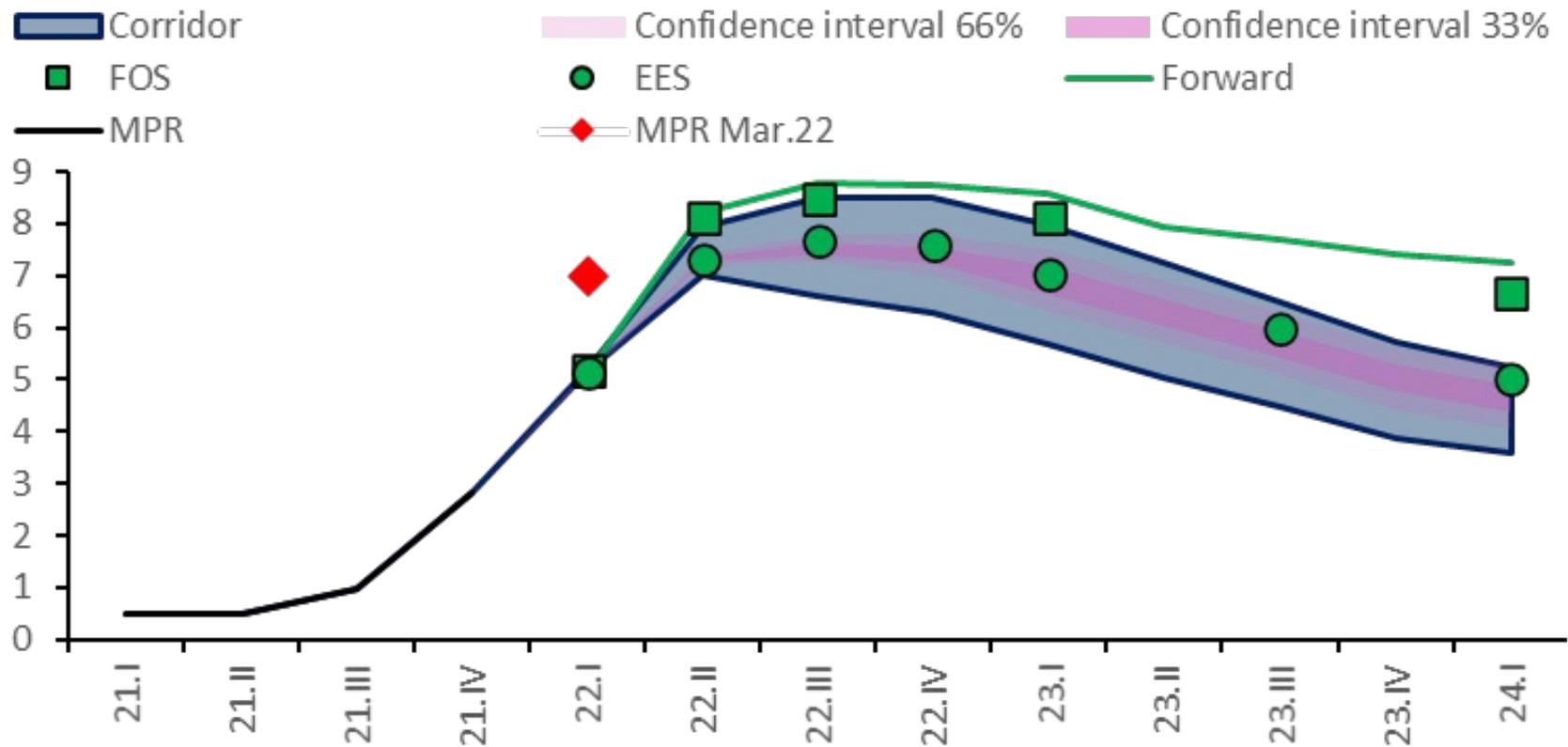
(%)



Return

March IPoM: MPR

MPR, MPR expectations and MPR Corridor (March IPoM, %)



[Return](#)

March IPoM: World economy forecasts

World economy (*)

	Aveg. 10-19	2020	2021 (f)	2022 (f)	2023 (f)	2024 (f)
			Annual change (%)			
World GDP at PPP	3.7	-3.0	6.3	3.1	3.4	3.3
World GDP at market exchan	3.1	-3.2	5.9	3.1	2.9	2.6
Trading partners	3.8	-1.9	6.3	3.3	3.3	3.1
United States	2.3	-3.4	5.7	3.3	1.9	1.7
Eurozone	1.4	-6.5	5.3	2.2	2.1	2.0
China	7.7	2.2	8.1	4.7	5.1	5.4
Latin America (excl. Chile)	1.8	-7.5	6.3	1.6	1.8	1.6
			Levels			
Terms of trade (1)	0.2	10.1	11.8	-3.1	-3.1	-1.5
External prices (in US\$) (2)	0.6	-1.1	9.3	4.1	3.4	3.5
LME copper price (US\$cent/p)	306.3	279.9	422.7	435.0	390.0	365.4
WTI oil price (US\$/barrel)	72.4	39.3	68.0	92.3	80.3	74.5
Brent oil price (US\$/barrel)	79.6	42.3	70.4	96.2	85.3	80.1

(*) For definitions, see MPR Glossary. (f) Forecast. (1) Considers the average of the available data, which includes the annual variations from 2014 to 2019. (2) For 2021 corresponds to estimates.

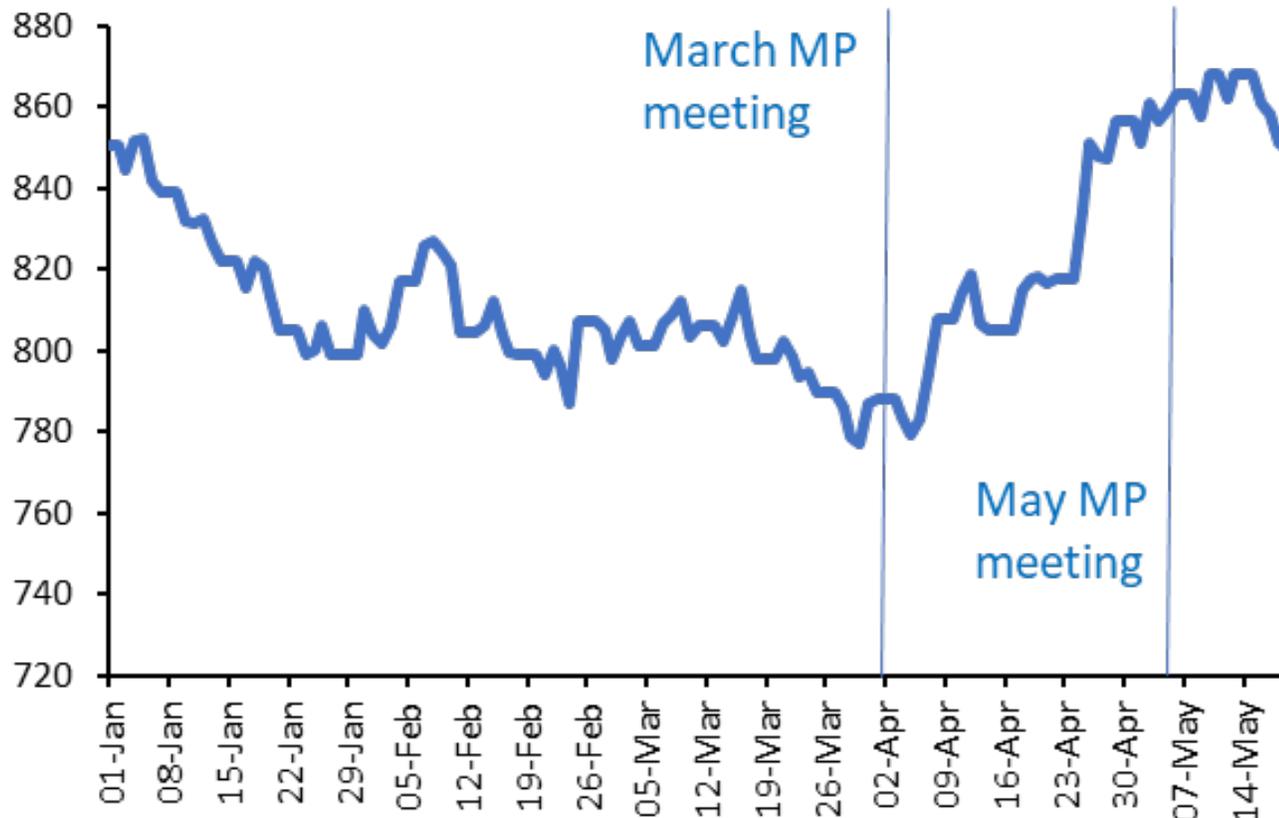
Sources: Central Bank of Chile based on a sample of investment banks, Consensus Forecasts, IMF and statistical offices of each country.

Financial markets

Significant depreciation of the peso, mainly due to external factors

Nominal Exchange Rate

(pesos/usd)



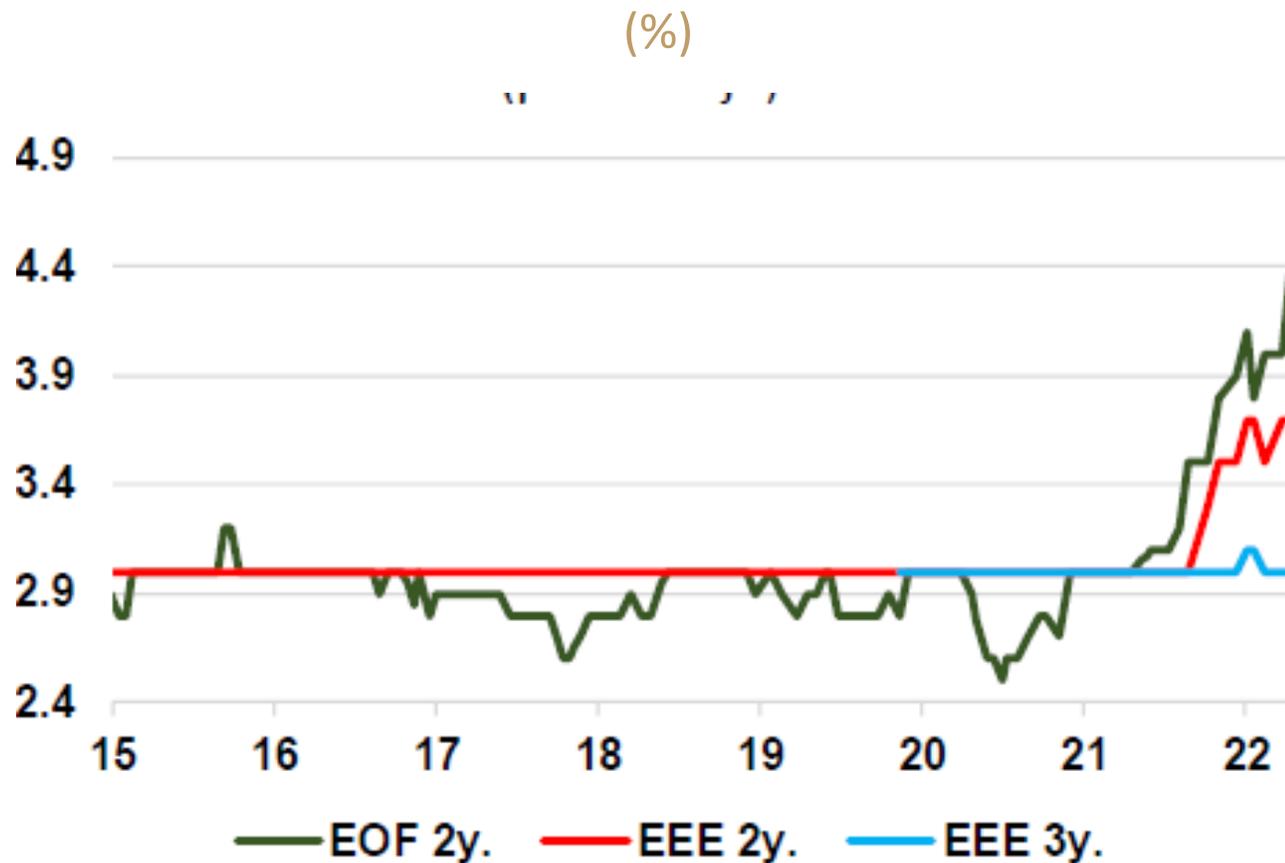
[Return](#)

Sources: Central Bank of Chile.

Financial markets

Inflation expectations remains above target

2 years ahead inflation expectations

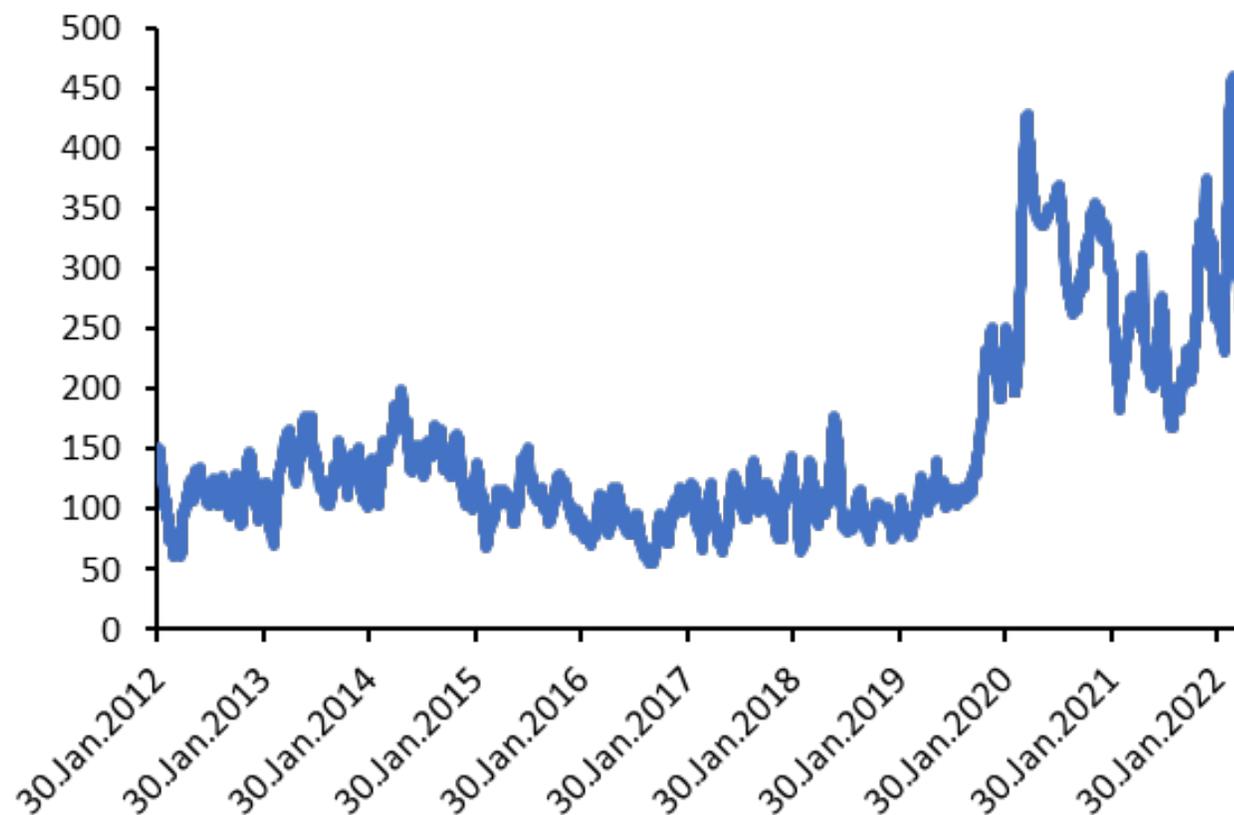


[Return](#)

Uncertainty Index

Local uncertainty remains high.

Daily economic uncertainty index



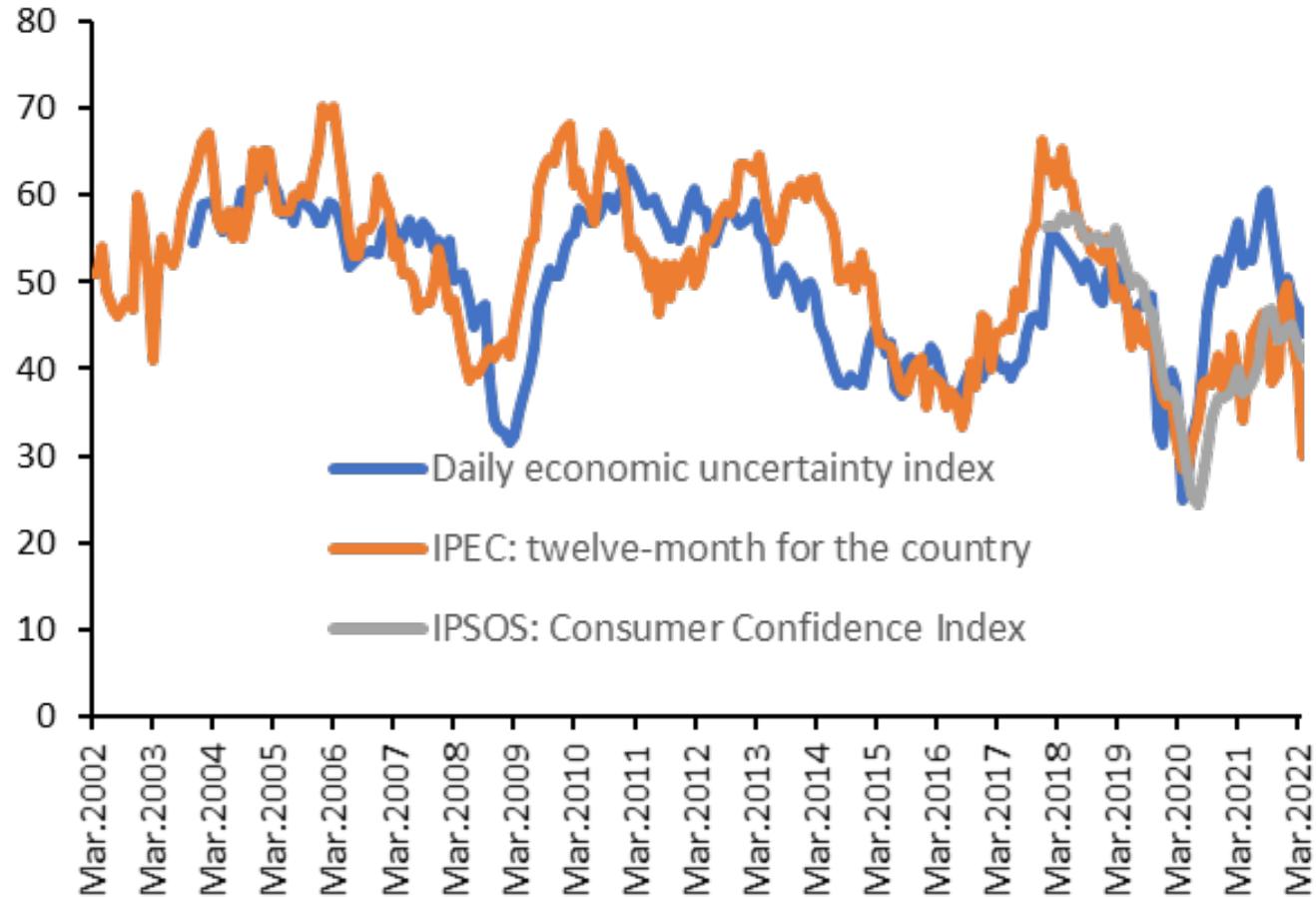
[Return](#)

Sources: Central Bank of Chile.

Economic confidence

Economic confidence keeps deteriorating

Economic confidence index



[Return](#)

Sources: Central Bank of Chile.