# CHILE: MONETARY POLICY CONDUCTION IN A CHALLENGING MACRO CONTEXT

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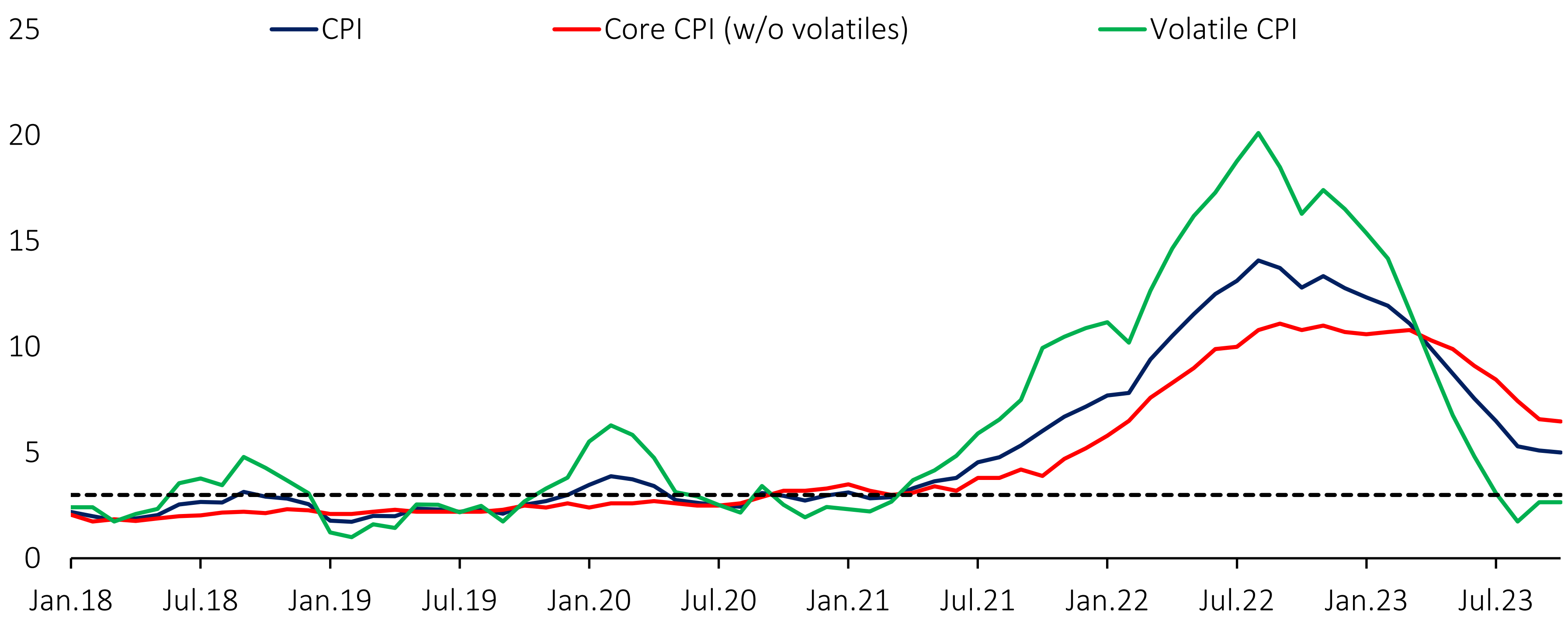
# Total inflation has continued to decline, gradually approaching the 3% target.

## Inflation indicators (*)

(annual change, percent)




(*) For details on the different groupings and their share in the total CPI basket, see Box IV.1 in December 2019 MP Report; Carlomagno and Sansone (2019) and Economic Glossary. Sources: Central Bank of Chile and National Statistics Institute.

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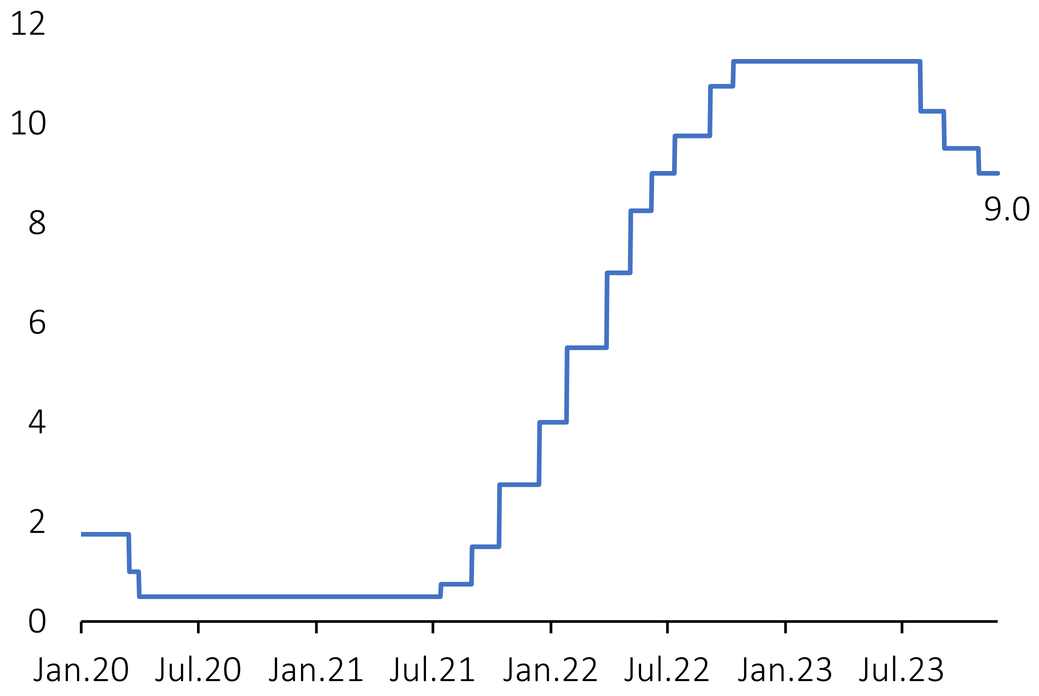
# The monetary policy adopted by the Central Bank has played a crucial role in making this happen.

Monetary policy rate (MPR)

(percent)



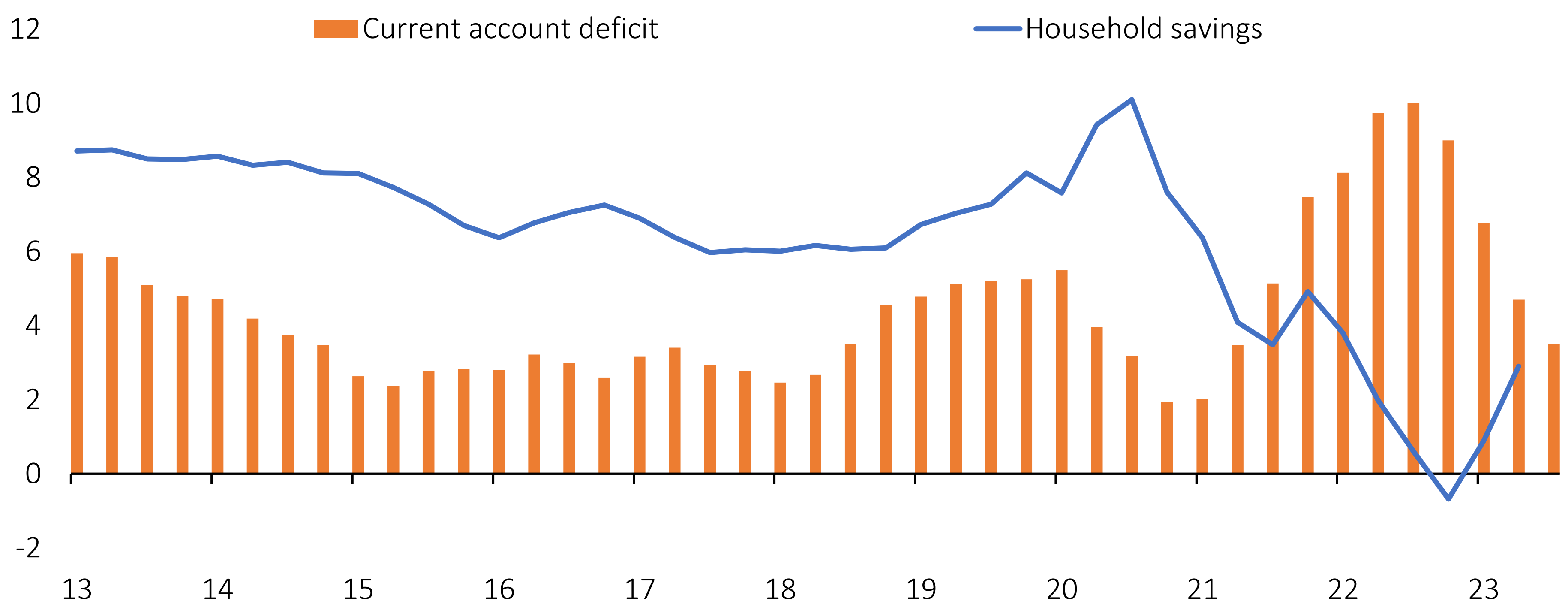

Source: Central Bank of Chile.

- The MPR began to increase in July 2021.
- From that month to October 2022, accumulated an increase of 1,075 basis points (bp), reaching 11.25%.
- The MPR remained at that level until last July, when the Boar decided to start cutting it.
- Between the July and September meetings, the MPR fell 225bp and currently stands at 9.0%.

# The decline in inflation has been in line with the resolution of the macroeconomic imbalances that had accumulated in previous years.

Current account deficit and household savings

(percent of GDP, last 12 months)




Source: Central Bank of Chile.

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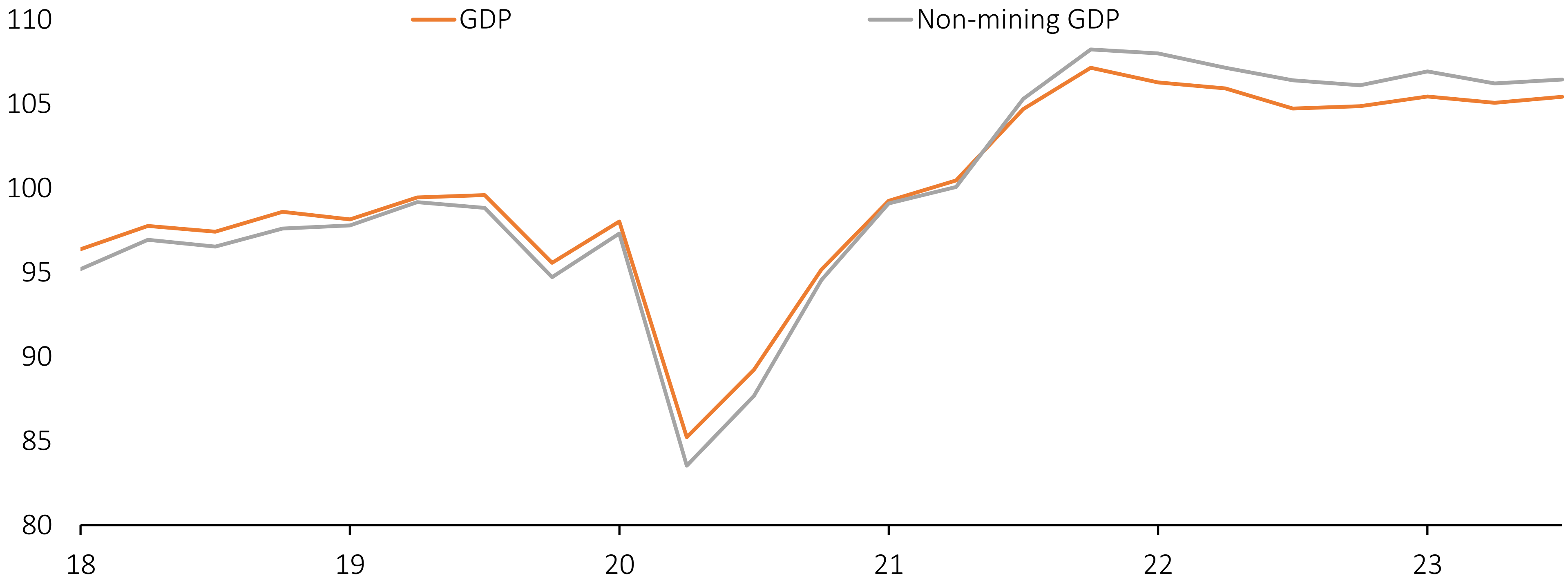
# On the activity side, recent figures show stabilization. The GDP growth figure for the third quarter (0.6% annual) was mainly influenced by the performance of supply sectors.

## Gross domestic product

(index, 2013.QI = 100, real deseasonalized series)




Source: Central Bank of Chile.

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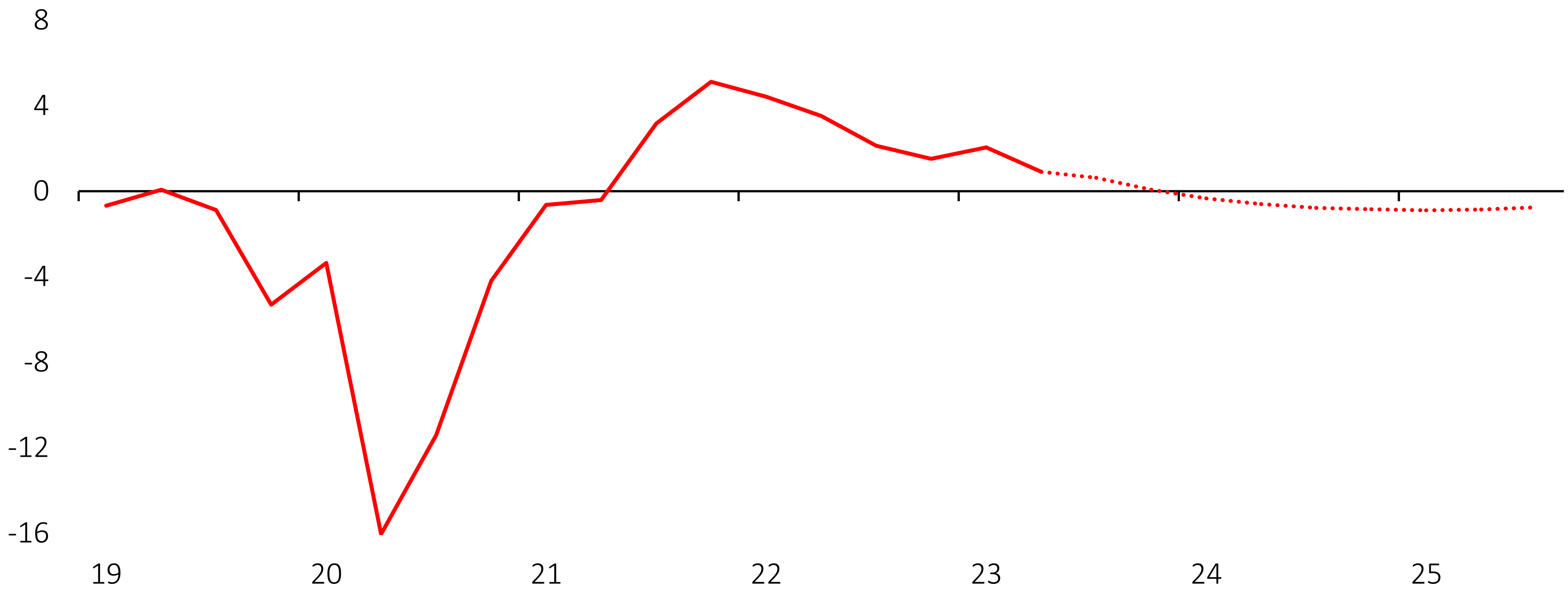
# Although activity in the third quarter was somewhat higher than expected in September, the activity gap has practically closed.

Activity gap forecast (September 2023 MP Report) (1)(2)

(level, percentage points)




(1) Dotted lines show forecasts. (2) Forecast uses structural parameters updated in the December 2022 MP Report (trend) with methodological revision of potential GDP. Source: Central Bank of Chile.

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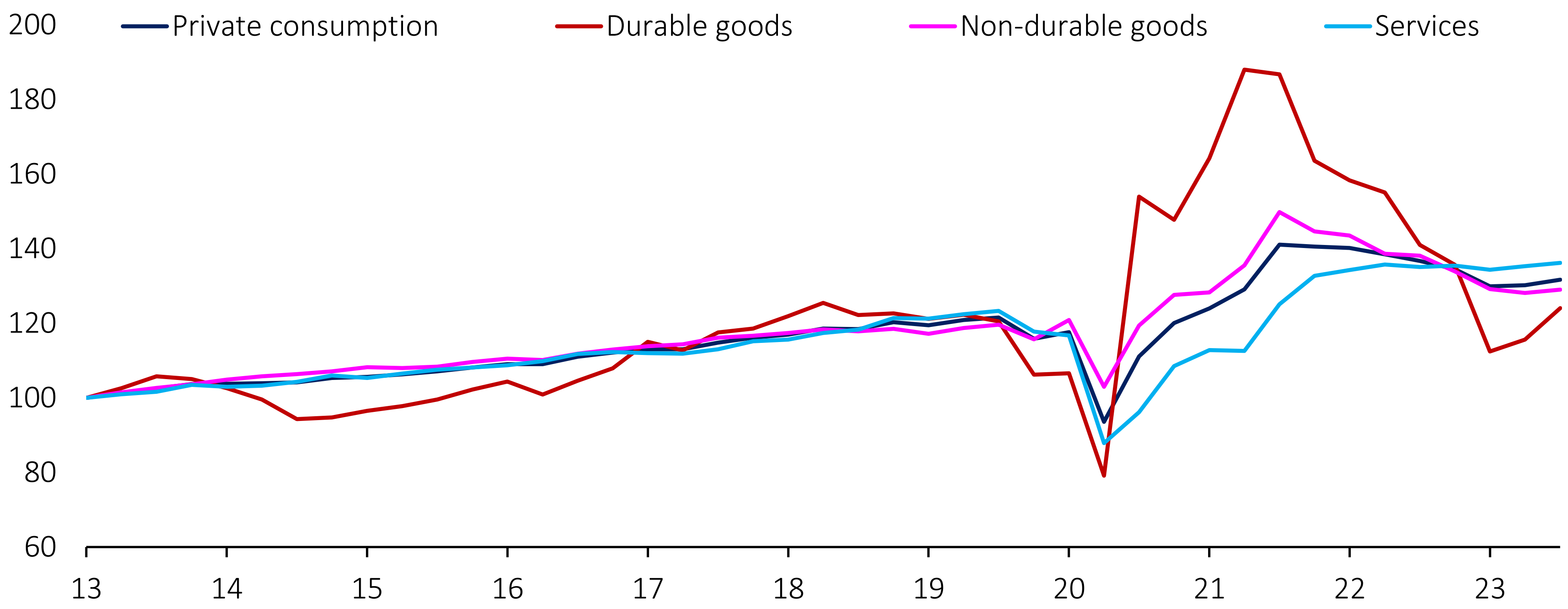
# On the demand side, household consumption also shows relative stability, with some recovery in the case of durable consumption.

Private consumption by components

(index, 2013.QI = 100, real deseasonalized series)

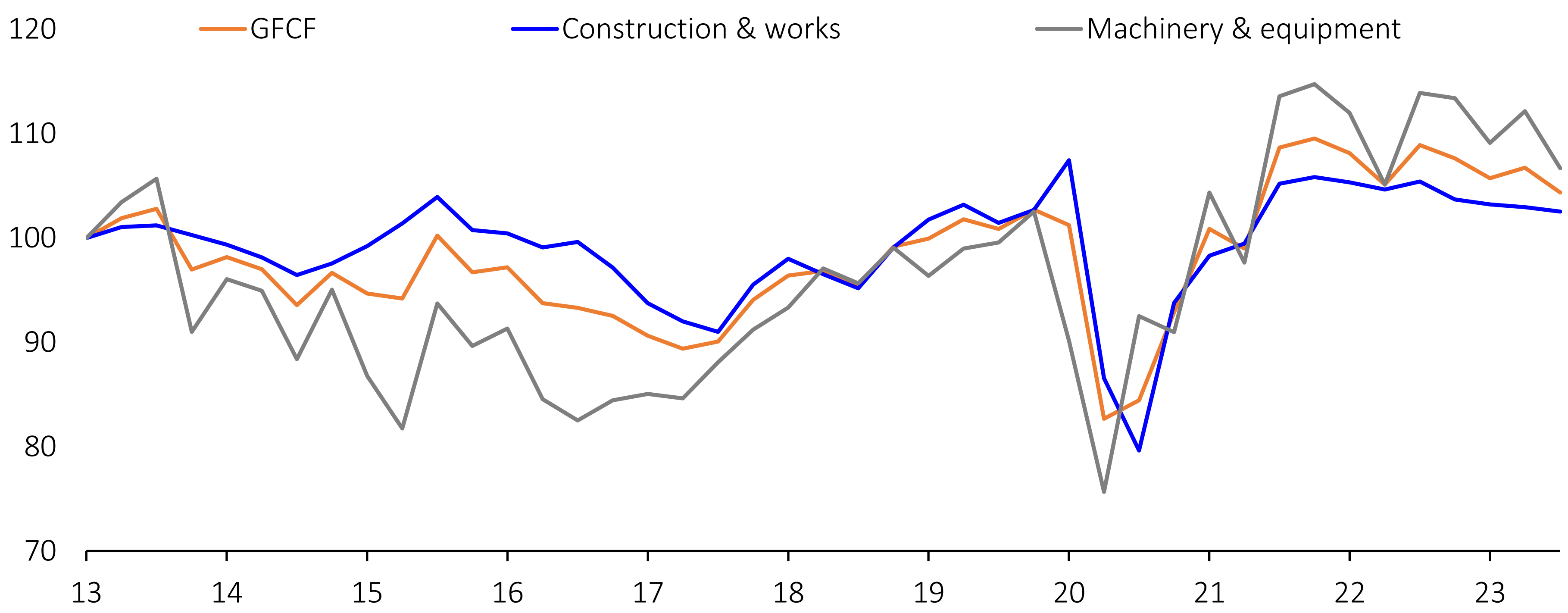



Source: Central Bank of Chile.

# For its part, investment has shown more volatile behavior in recent years, especially the tradable component.

Investment (GFCF) by components

(index, 2013.QI = 100, real deseasonalized series)

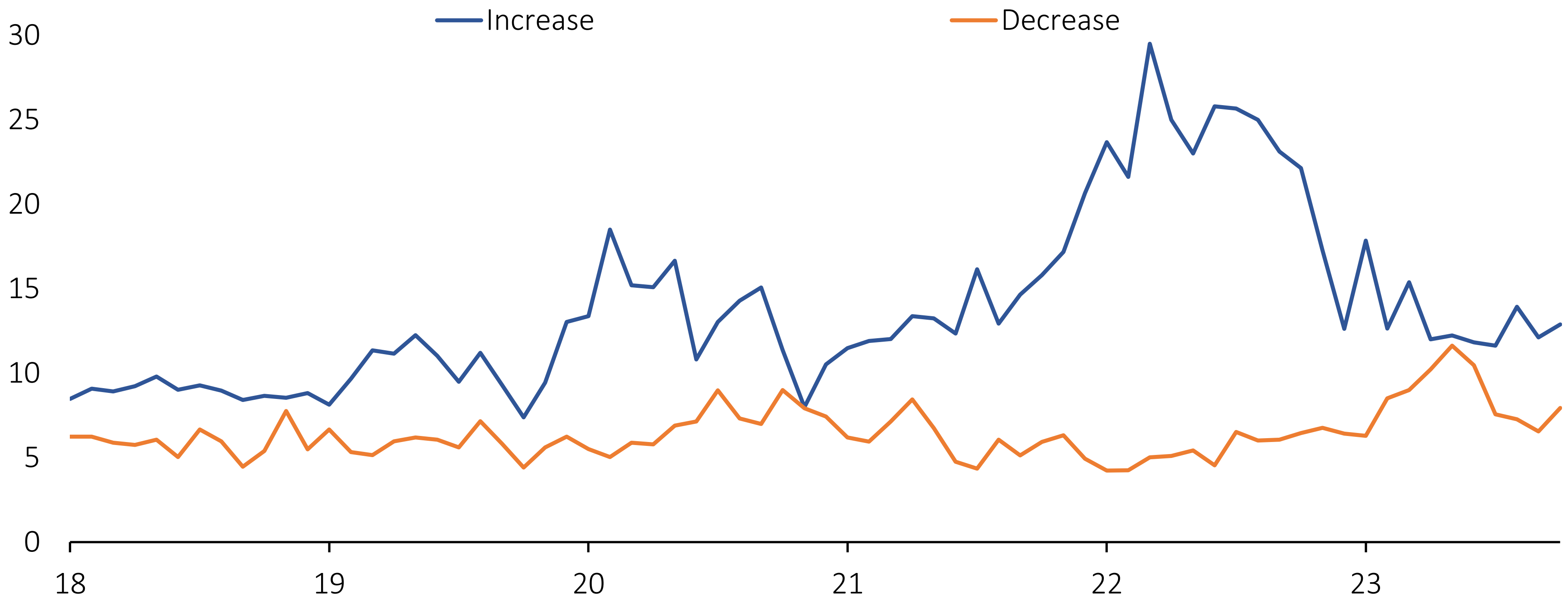



Source: Central Bank of Chile.

# Based on our micro data agenda, we have been able to compute pricing dynamics. The frequency of price changes has been returning to more normal levels.

## Frequency of price changes (*)

(percentage of positive or negative price changes by product, median)




(*) 48.5% of the total weight of goods and 1.6% of services are considered. In each month, calculates the frequency of positive or negative price changes in the varieties for each product in the CPI basket calculated with Electronic Bill, then the frequency with the weight of the National Statistic Institute (INE) of each product is added and the median between products is reported. Sources: Central Bank of Chile, National Statistics Institute and Internal Revenue Service.

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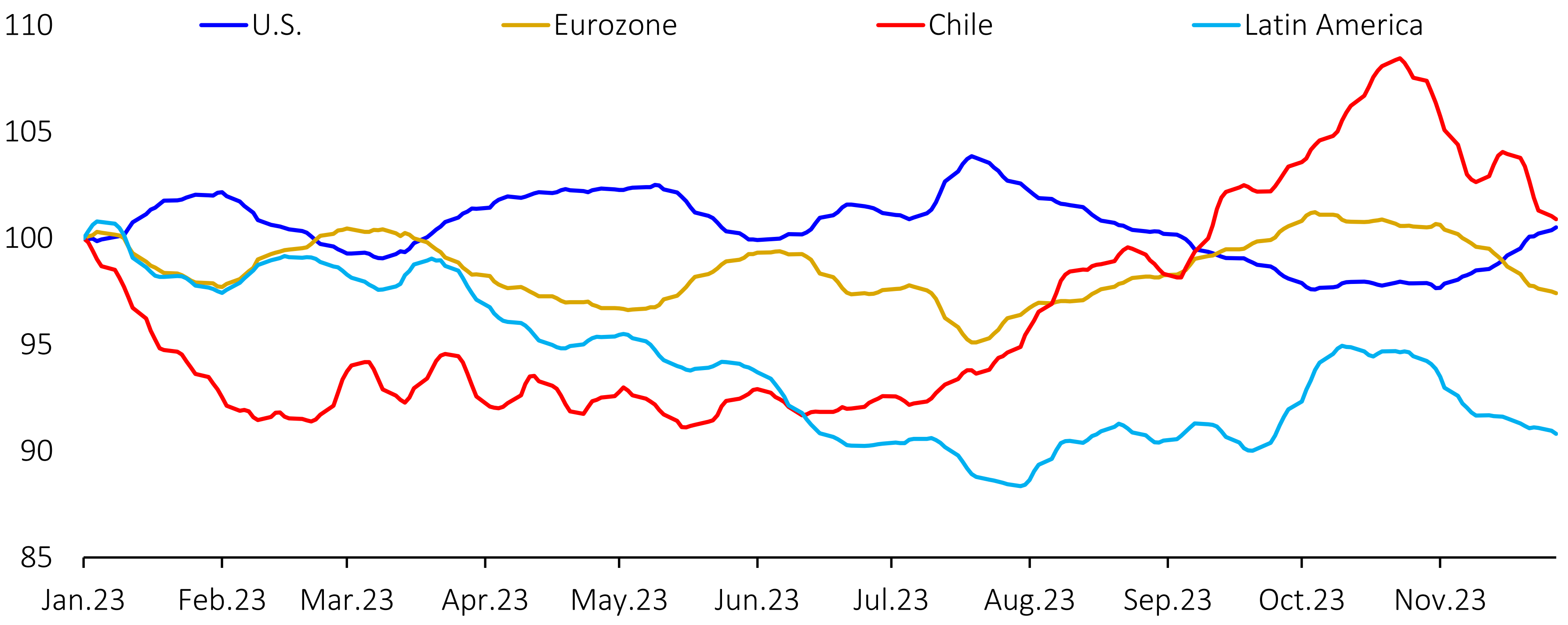
# On the financial side, in line with what we have observed globally, the local market has exhibited relatively higher volatility. The Chilean peso has been particularly affected.

Currencies (1)(2)

(index 02.Jan.23=100)




(1) 7-day moving average. An increase (decrease) indicates depreciation (appreciation). (2) Latin America considers average of Brazil, Colombia, Mexico and Peru. Sources: Central Bank of Chile and Bloomberg.

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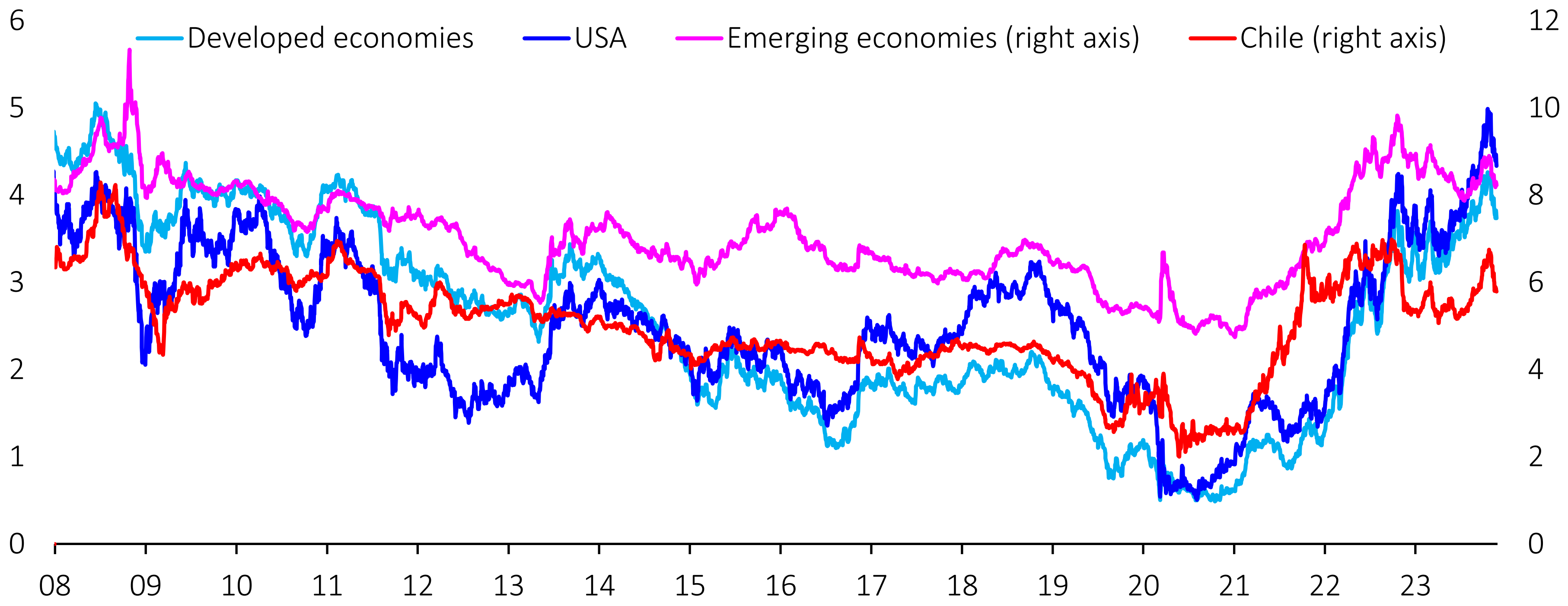
# At the same time, long-term interest rates have also followed the path of the US rate, recording a significant, but temporary, rise in recent weeks.

Ten-year sovereign interest rates (*)

(percent)




(*) Sample of developed economies includes: Norway, Sweden, United Kingdom, Australia, Canada, Denmark, Singapore, Korea, Euro Zone (does not include Portugal or Greece), and the United States. Sample of emerging economies includes: Colombia, Peru, Mexico, Brazil, Chile, Thailand, South Africa, Turkey, Hungary, Poland, India and Indonesia. Source: Central Bank of Chile based on information from Bloomberg.

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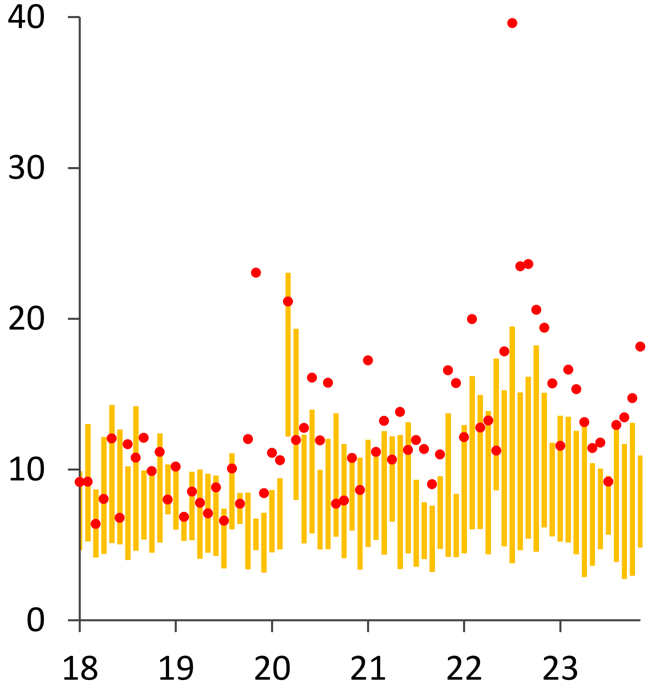
# All in all, the level of volatility in the local market has not been too far from its historical patterns. Higher in exchange rates and more limited in interest rates.

## Emerging countries (*)

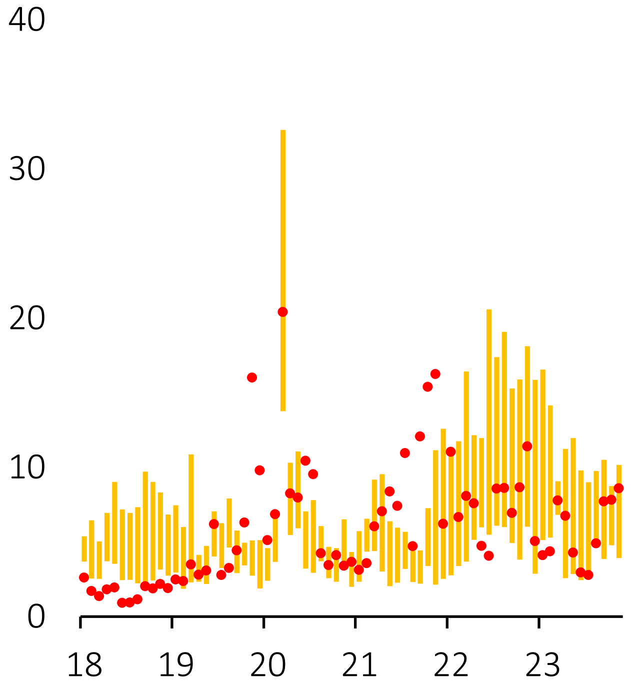
### Exchange rate volatility

(percent)



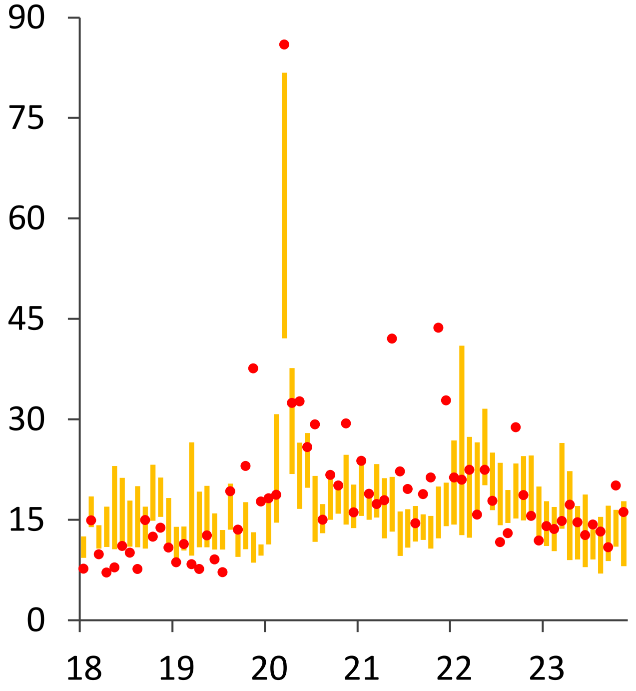

### Sovereign interest rates volatility

(basis points)




### Stock market volatity

(percent)




Percentiles 25th to 75th • Chile

(*) Sample of emerging countries includes Brazil, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia and Turkey. Annualized standard deviation of daily returns during each month. November 2023 data cover up to the 28th. Source: Central Bank of Chile based on Bloomberg data.

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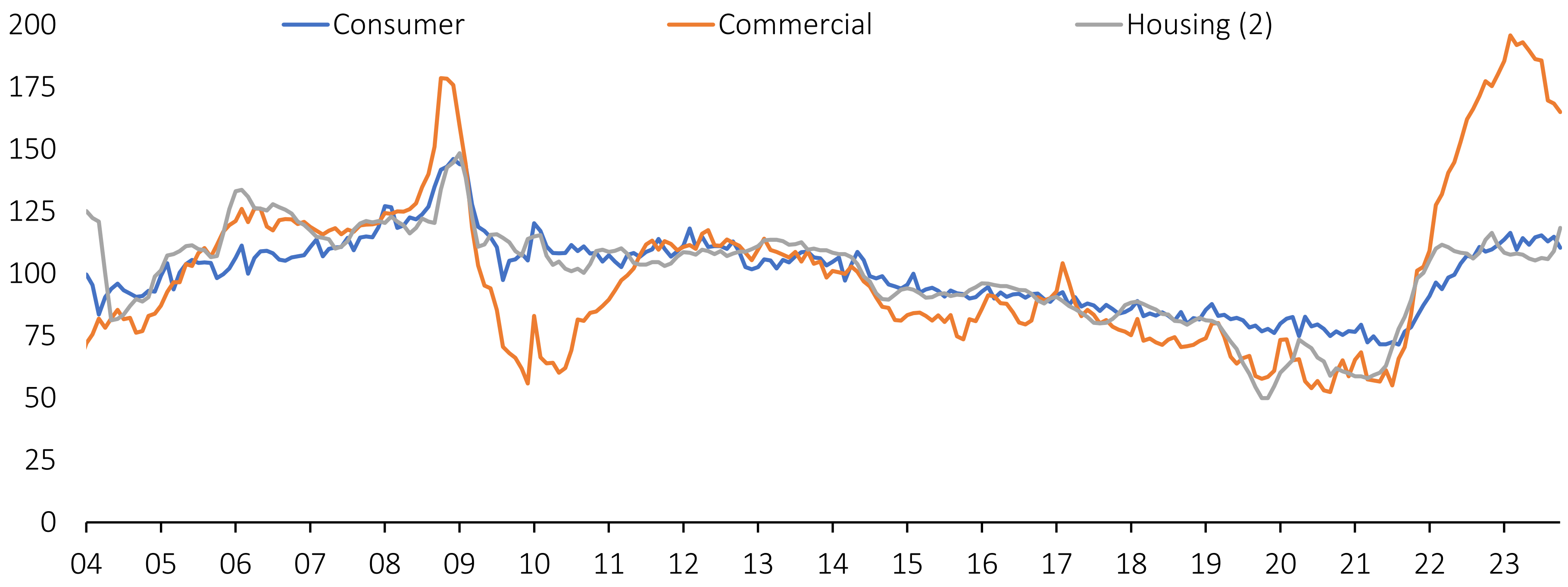
# Domestically, shorter-term financial conditions have become less restrictive as the reduction in the MPR has been transmitted to the economy.

## Lending interest rates (1)

(index 2004-2023=100)

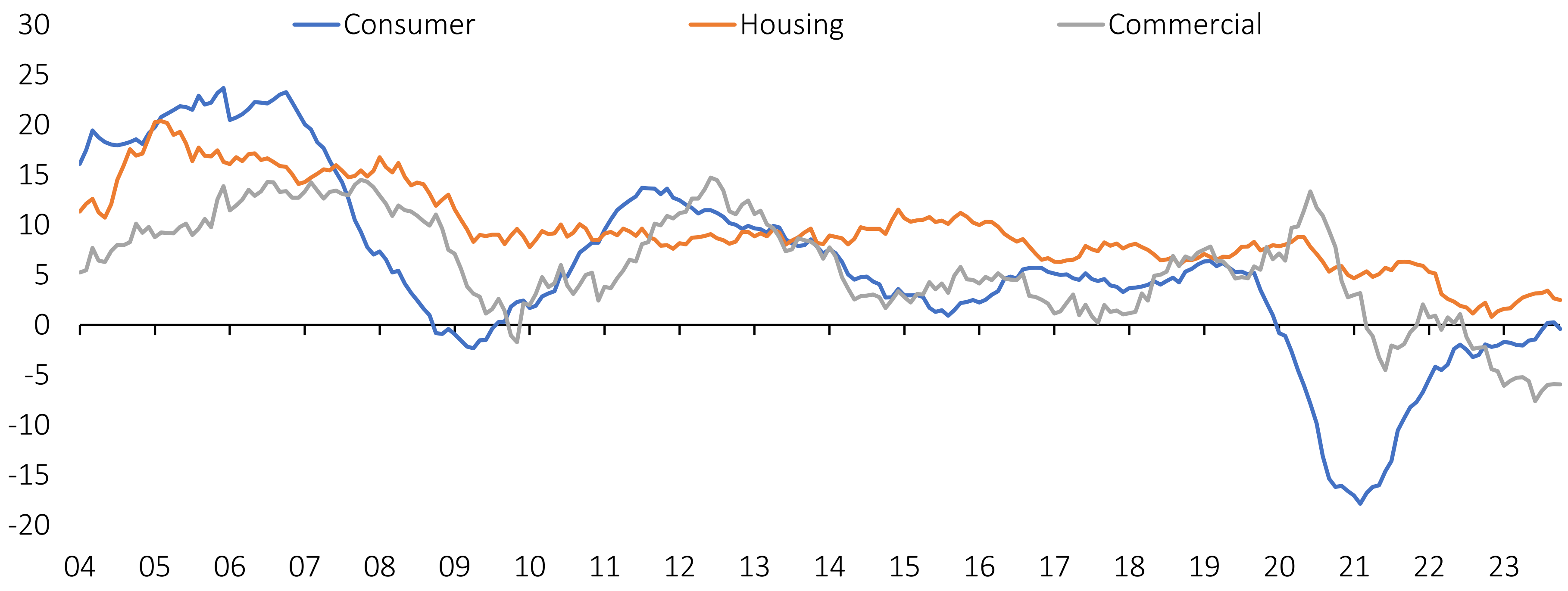



(1) Weighted average rates of all transactions performed in each month. (2) UF-nominaged credits. Source: Central Bank of Chile based on FMC data.

# In any case, credit growth remains limited. According to available surveys, demand factors play a relevant role in this behavior.

Real loans (*)

(annual change, percent)




(*) Real data constructed with the spliced 2018 annual base CPI. Source: Central Bank of Chile based on FMC data.

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# In accordance with the projections of the last MP Report, in the coming quarters the economy will begin to resume expansion rates in line with its potential level.

## GDP growth forecasts (*)

(annual change, percent)

| | | | | |
|---|---|---|---|---|
| 2023 | June 2023 | 0.25% / -0.5 % | September 2023 | 0.0% / -0.5 % |
| 2024 | June 2023 | 2.25% / 1.25% | September 2023 | 2.25% / 1.25 % |
| 2025 | June 2023 | 3.0 % / 2.0 % | September 2023 | 3.0 % / 2.0 % |

(*) Forecasts contained in each MP Report. Green arrows indicate change from June 2023 projection. Source: Central Bank of Chile.

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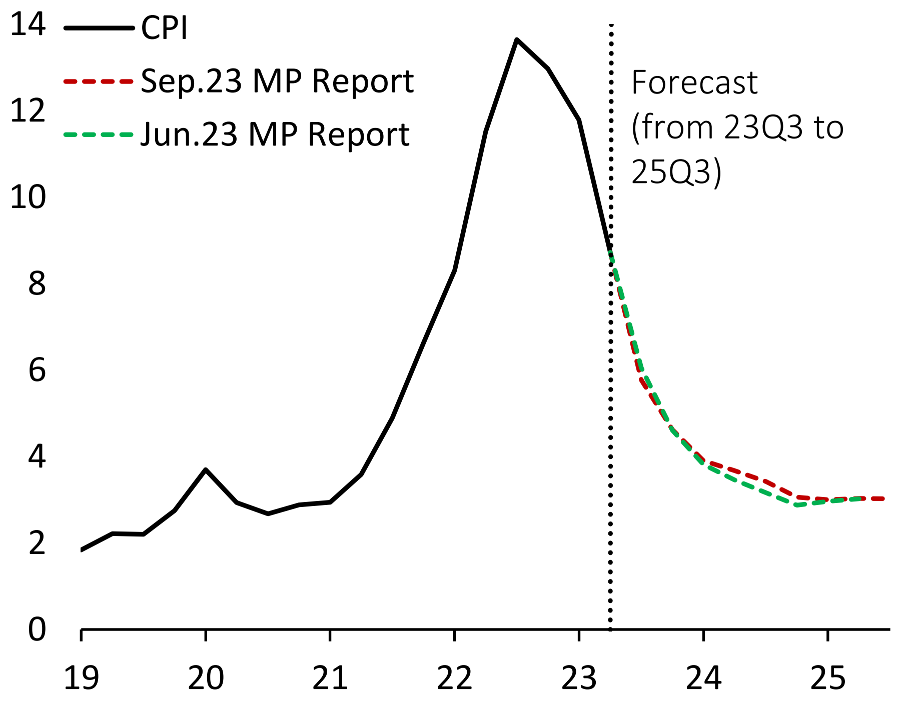
# At the same time, inflation will return to 3% during 2024.

## Headline inflation forecasts

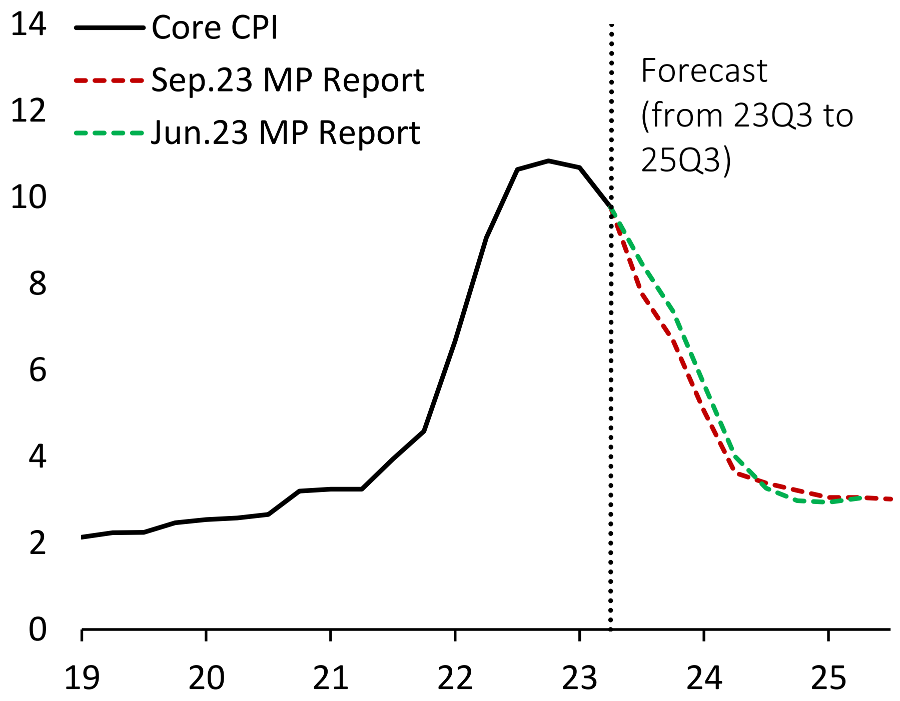
(annual change, percent)




Sources: Central Bank of Chile and National Statistics Institute.

## Core inflation forecasts

(annual change, percent)

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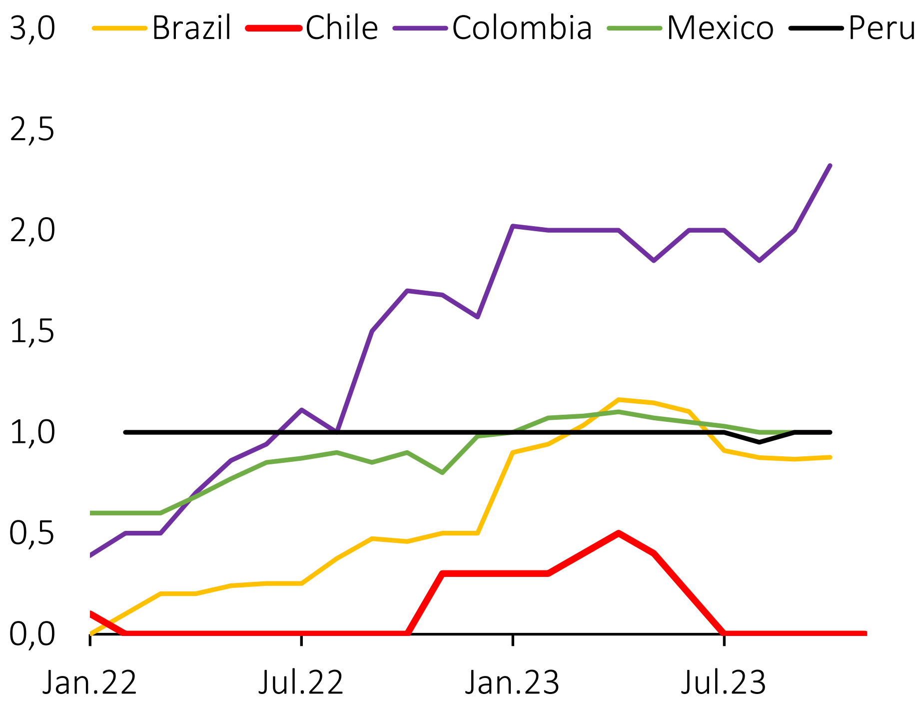
# In the case of Chile, inflation expectations were once again anchored with the target.

## Latin America inflation expectations

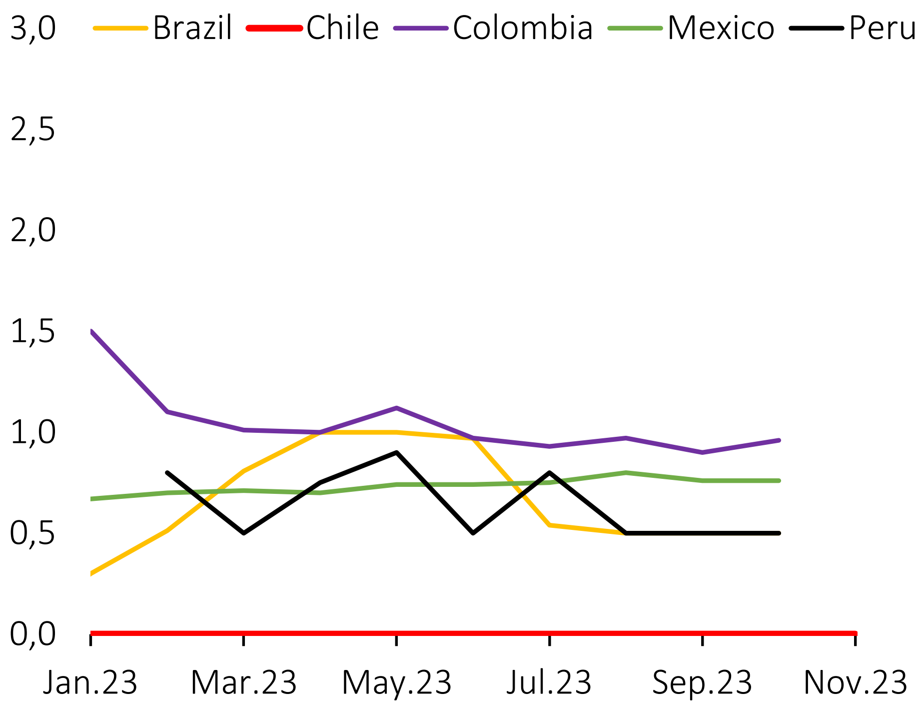
### End 2024

(difference with respect to the target, percentage points)




### End 2025

(difference with respect to the target, percentage points)



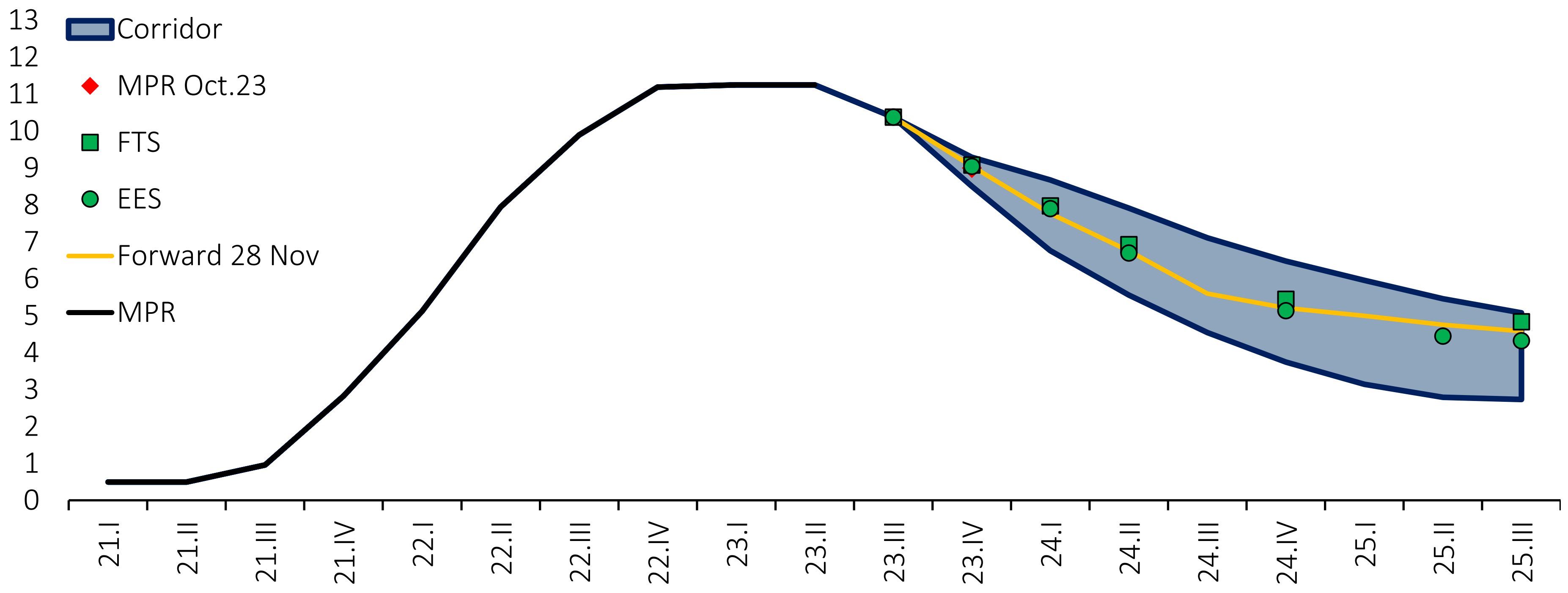

(1) Expectations obtained from surveys of analysts by the different Central Banks.

Sources: Bloomberg and Central Banks.

# In this scenario, the MPR will continue to reduce, in accordance with the projections included in the last MP Report.

## MPR Corridor (*)

(quarterly average, percent)




(*) The corridor is built by following the methodology described in boxes V.1 of March 2020 Report and V.3 of March 2022 Report. Includes November EES, FTS post-policy-meeting of October and the average smoothed forward curve of quarter of 28 November. This is calculated by extracting the implicit MPR considering the forward curve on the interest rate swap curve up to 2 years, discounting the fixed rates at every maturity at the simple accrual of the ICP. For the current quarter the surveys and the forwards consider the average daily effective and are completed with the respective sources. Source: Central Bank of Chile.

- Inflation has continued its process of convergence to the 3% target. Nonetheless, it is not yet completed.
- It is necessary to continue reducing the MPR.
- The magnitude of the future rate cuts must weigh the evolution of the macro scenario and its implication on inflation and its convergence to the target.
- In the December Monetary Policy Report we will make a complete review of the global macro scenario and its implications for inflation and monetary policy.

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