

INFORME DE POLITICA MONETARIA

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Luis Felipe Céspedes, Board Member



CATEDRALES DE MÁRMOL

Región de Aysén

What does this MP Report tell us?



Inflation has risen significantly in Chile.

The prices increase have been generalized in many countries, highlighting that of food.

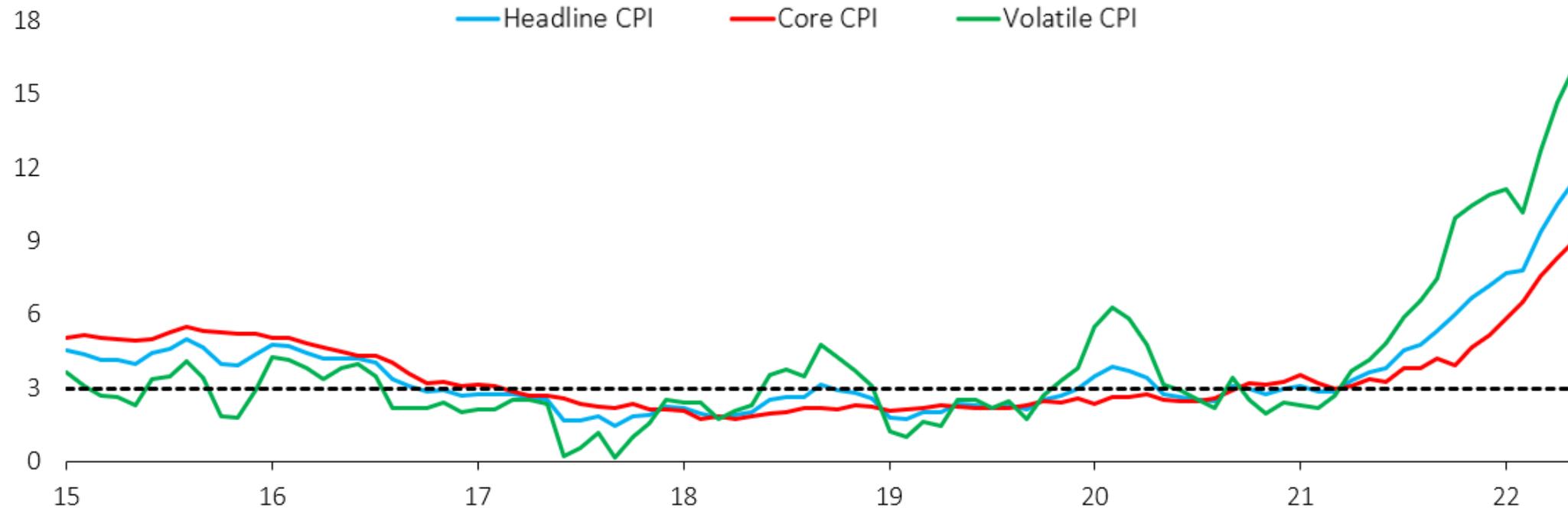
Our economy is subject to important risks that must be taken into account.

The Central Bank will remain vigilant of the evolution of inflation, always focusing on the welfare of the people.

Inflation has risen significantly. The main cause continues to be the effects of the excessive spending of 2021.



Inflation indicators (*)
(annual change, percent)



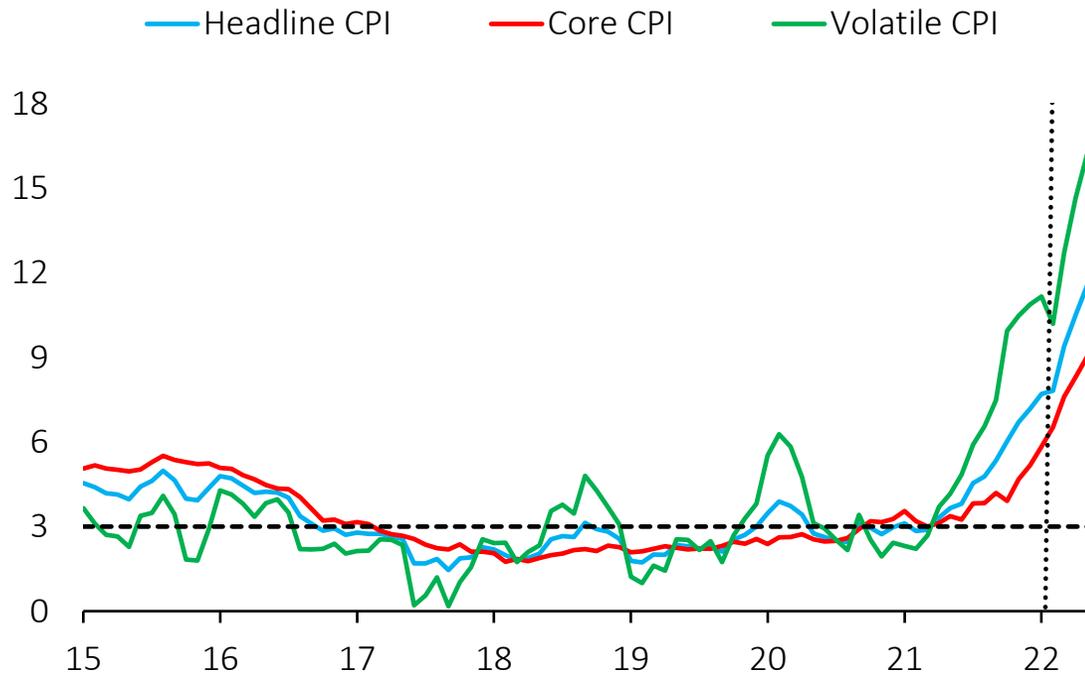
(*) For more detail on the different groupings and their share in the total CPI basket, see box IV.1 in December 2019 Report, Carlomagno and Sansone (2019), and Economic Glossary.

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

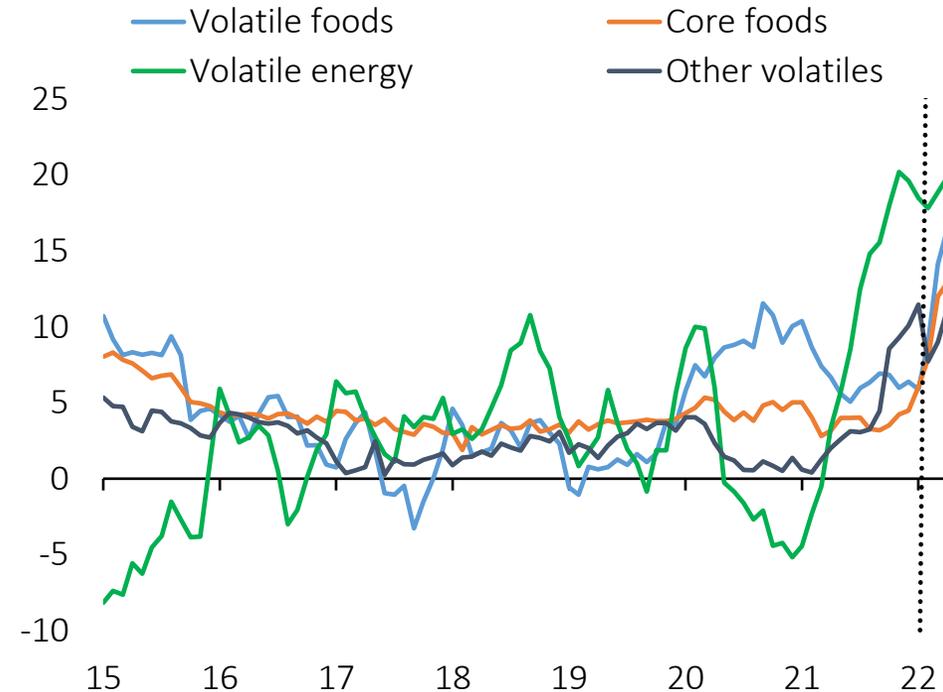
Since March MP Report, global cost increases have put pressure on the prices of foods and energy.



Inflation indicators (1) (2)
(annual change, percent)



Inflation of foods and volatile items (1) (2)
(annual change, percent)



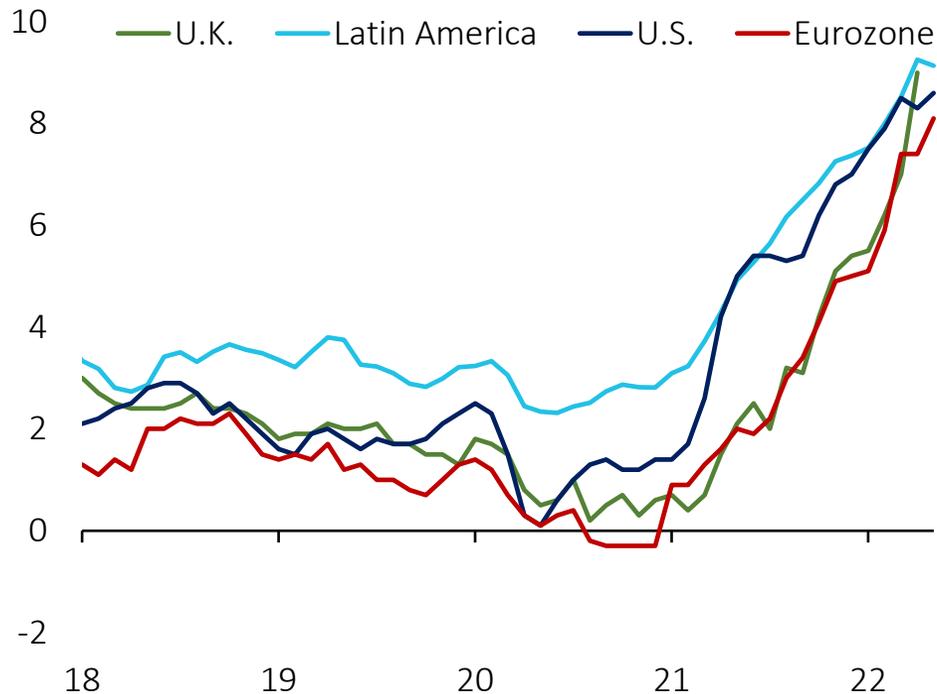
(1) Dashed vertical line indicates statistical cutoff of March 2022 MP Report. (2) For more detail on the different groupings and their share in the total CPI basket, see box IV.1 in December 2019 Report, Carlomagno and Sansone (2019), and Economic Glossary.

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

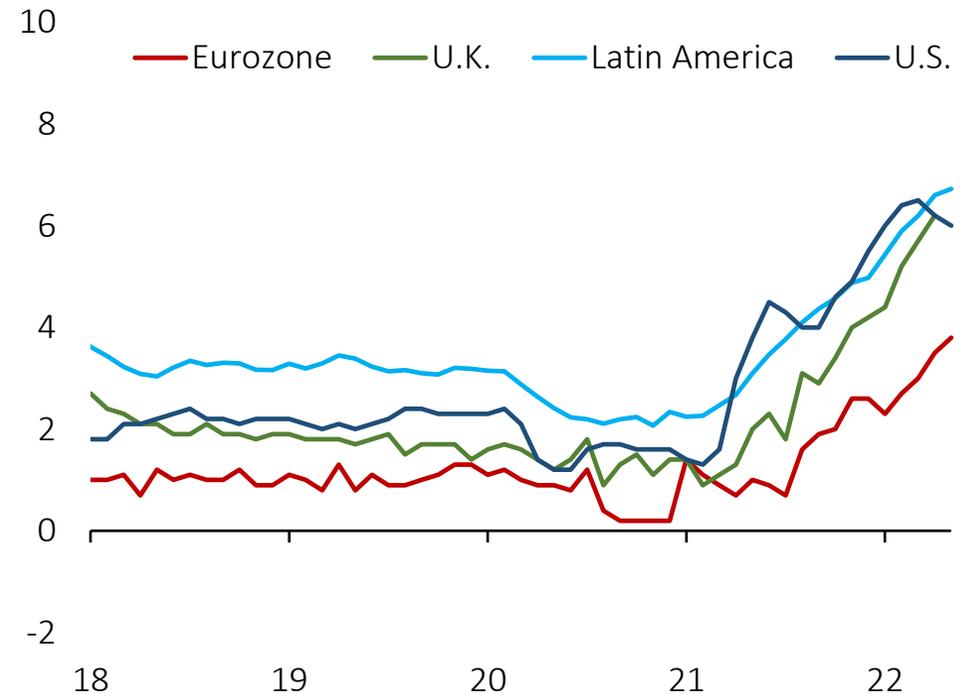
Inflation has been significant and widespread globally, which has sped up core inflation in several economies.



Headline inflation (*)
(annual change, percent)



Core inflation (*)
(annual change, percent)

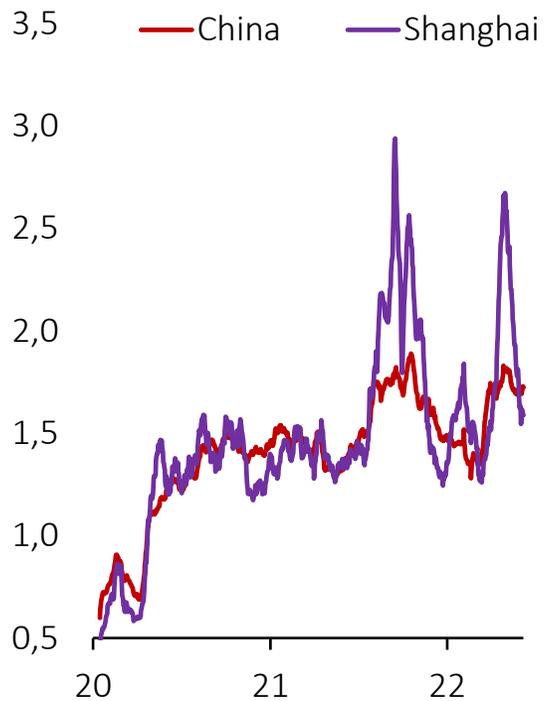


(*) For Latin America, simple average of annual inflation in Brazil, Colombia, Mexico, and Peru is used
Source: Statistics bureaus of respective economies.

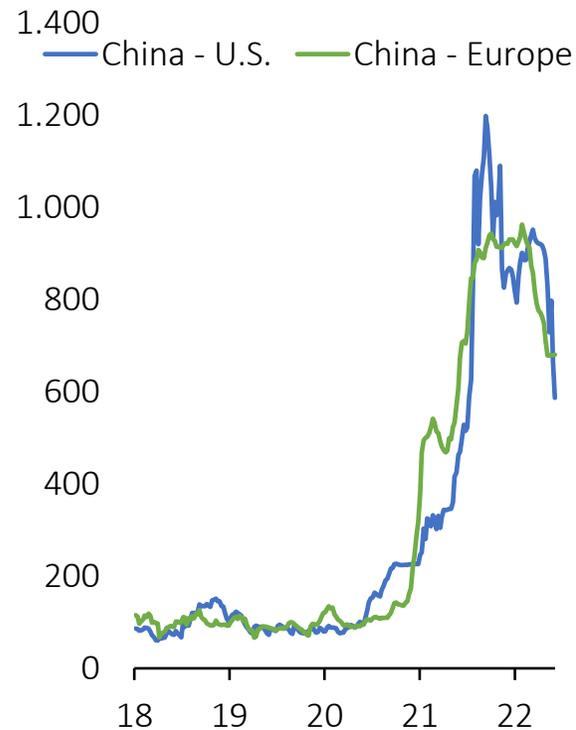
External cost pressures have gained importance, influenced by the ripple effects of Russian invasion of Ukraine and confinements in China.



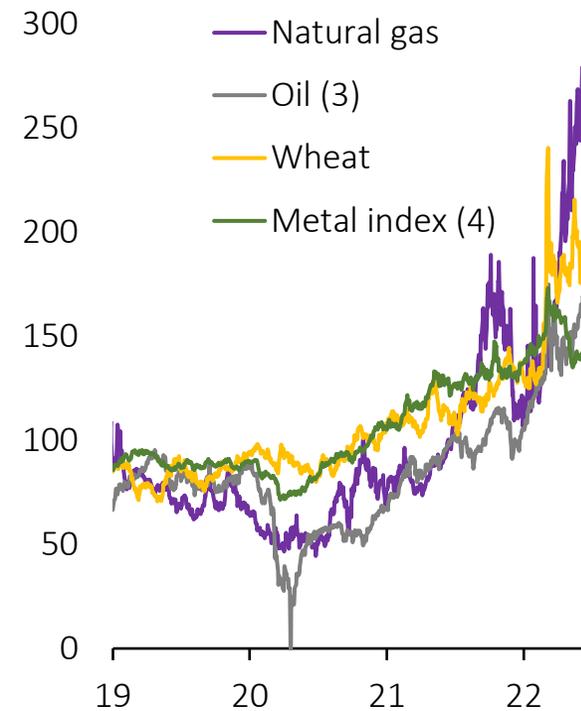
Wait times in Chinese ports (average wait, days)



Shipping costs (1) (index, 2018=100)



Commodity prices (2) (index, 2018=100)



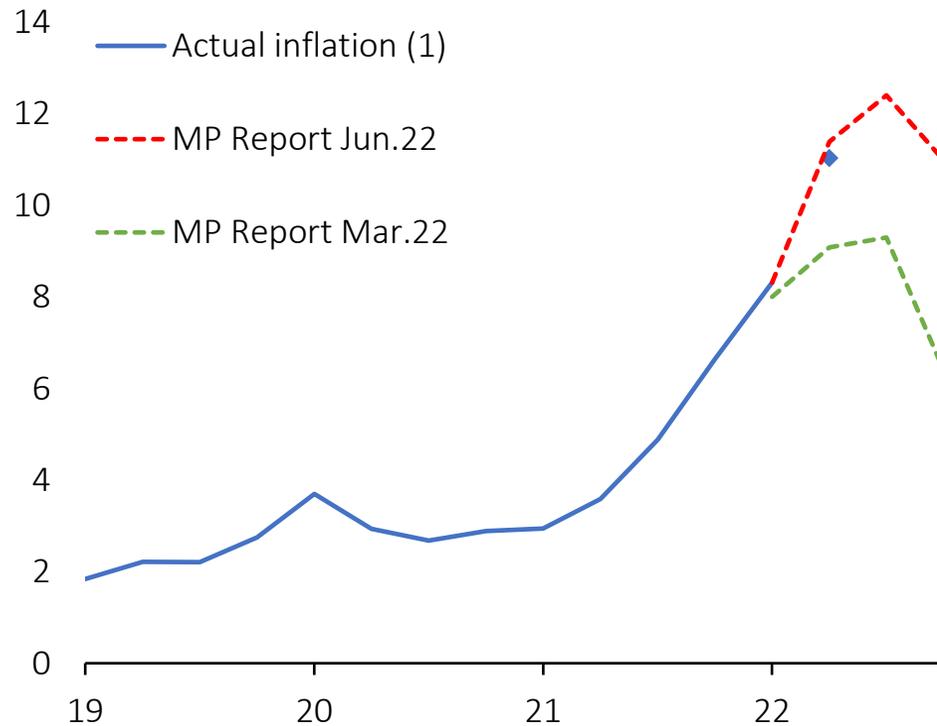
(1) Fare for transporting a 40-foot container on respective routes. (2) Natural gas and wheat correspond to 1-month futures. (3) WTI-Brent average. (4) S&P GSCI Industrial Metals.

Sources: Bloomberg and FAO.

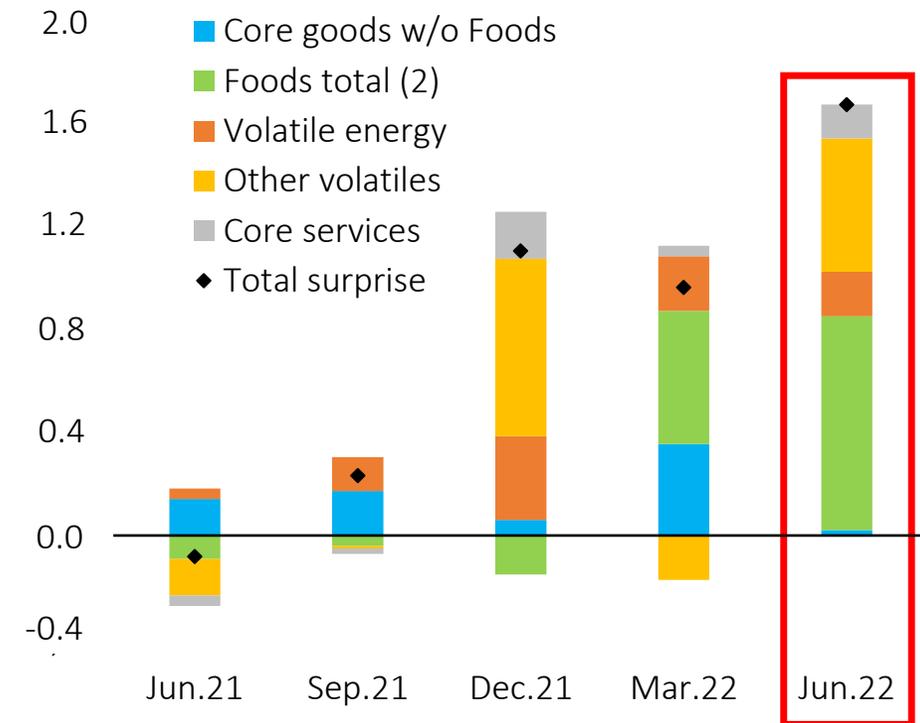
This has led to higher-than-expected inflation in March MP Report. Unlike previous periods, most of the recent surprise is related to prices of foods and volatile items.



Headline inflation and forecast (1)
(annual change, percent)

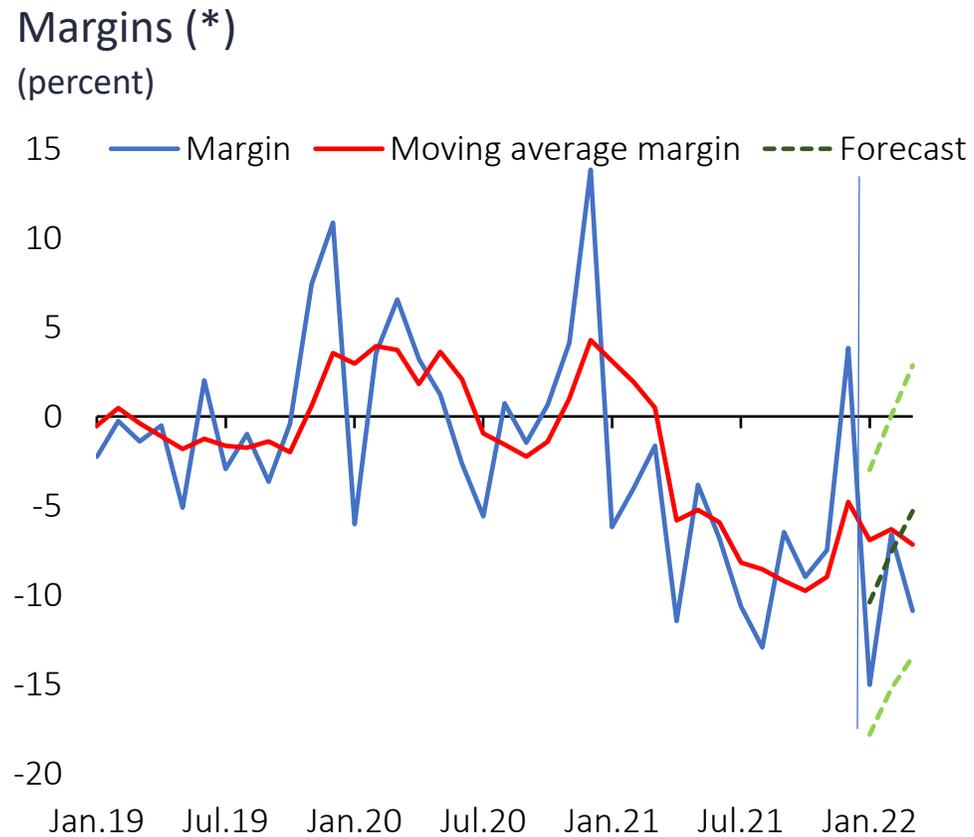


Cumulative inflationary surprises in each MP Report
(percentage points)



(1) For the second quarter of 2022, it corresponds to the average of annual CPI variations in April and May (blue diamond). (2) Sum of volatile and non-volatile foods.
Sources: Central Bank of Chile and National Statistics Institute (INE).

This has occurred amidst margins that remain tight after having been compressed during last year.



(*) Blue line shows weighted median of the differences with respect to the margin mean; red line shows moving three-month average of this variable. Dotted line shows the out-of-sample projections for 2022 for the margin, estimated with a VAR(12) that includes margin, Imacec, CPI, and nominal exchange rate, with their confidence intervals at 90% significance.

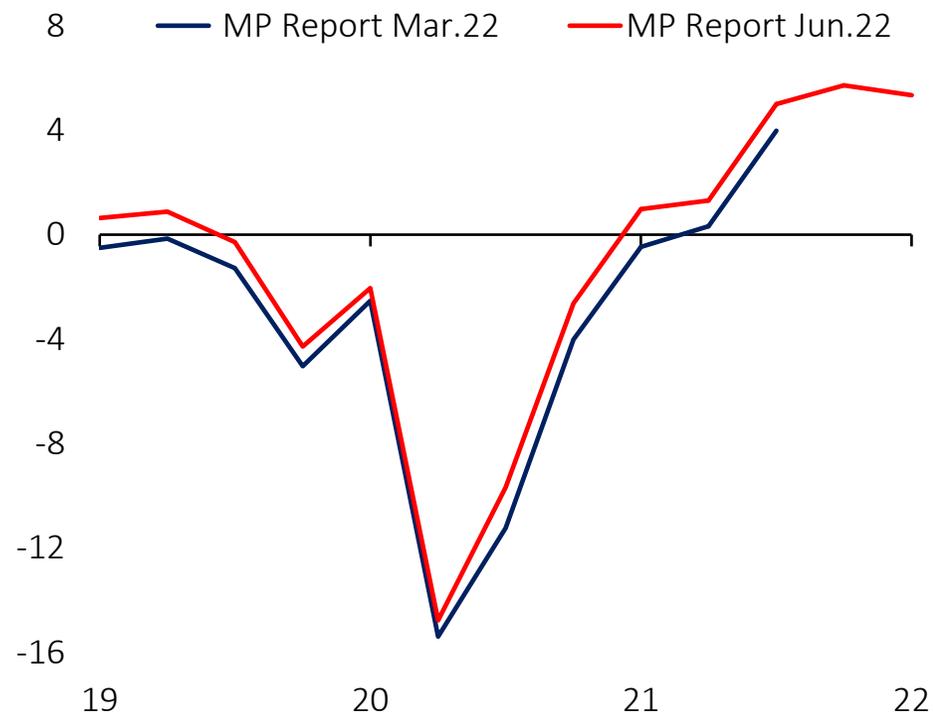
Source: Central Bank of Chile based on SII data.

A key element is to advance in resolving the significant imbalances that the economy accumulated last year.



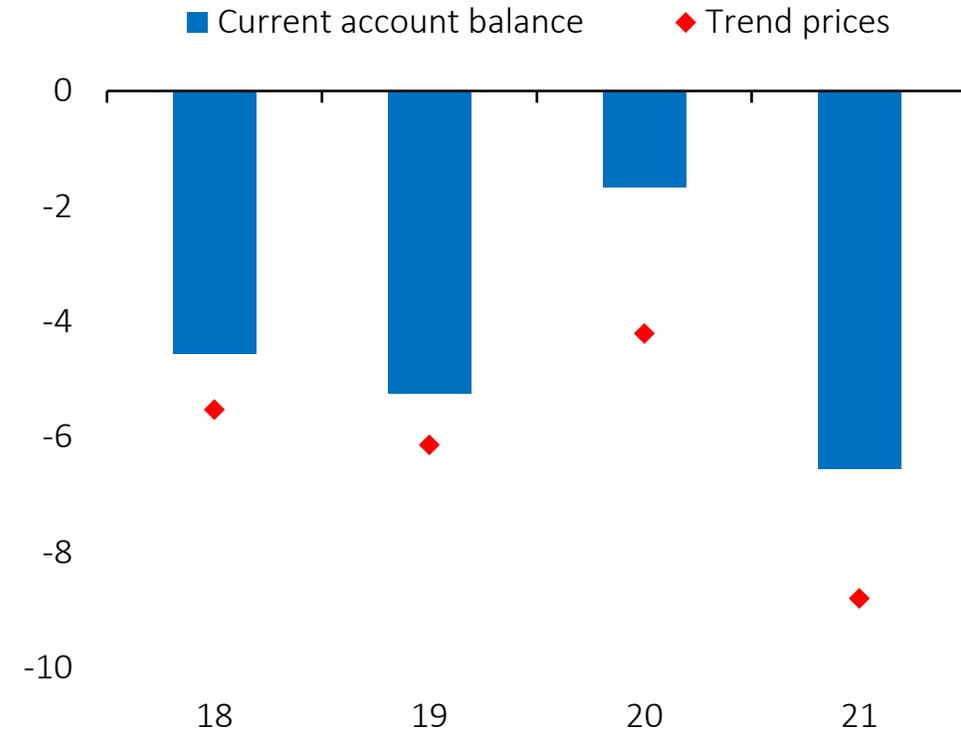
Activity gap

(level, percentage points)



Current account of balance of payments

(percent of GDP, last 12 months)



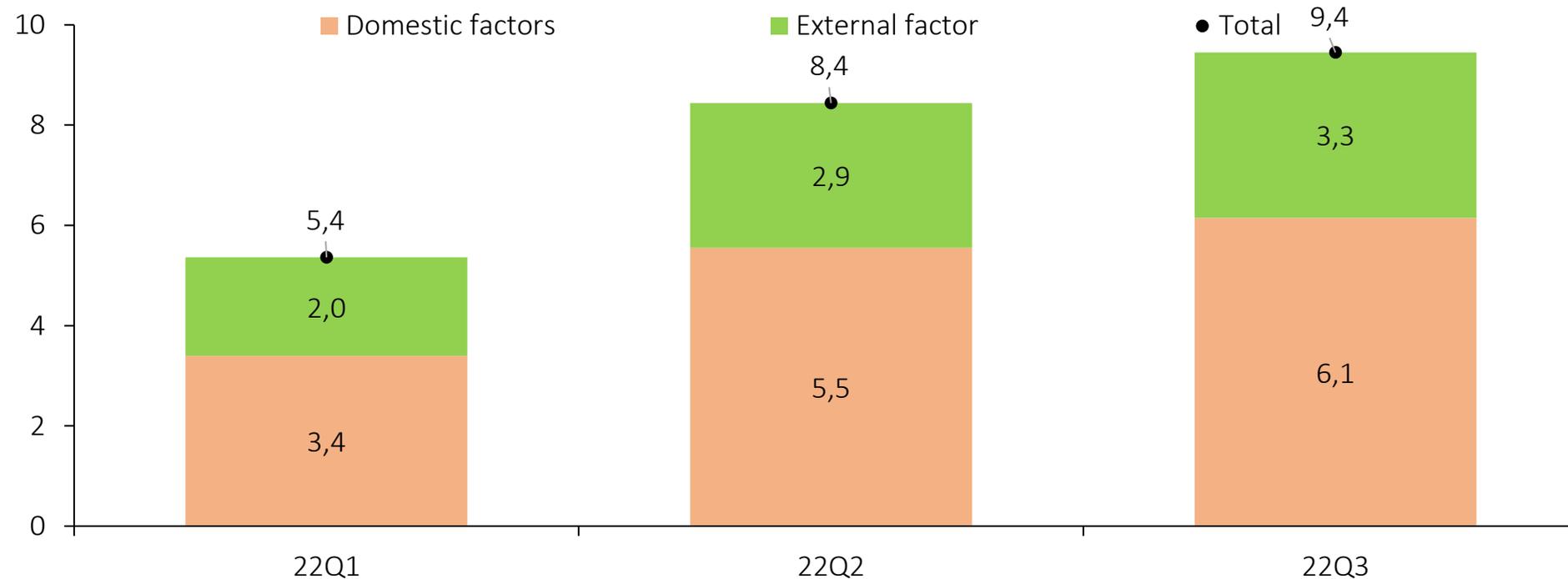
(*) For more details, see Glossary.

Source: Central Bank of Chile.

Estimates show that domestic factors, including strong demand growth, continue to account for most of the increase in inflation. However, external factors have gained some weight most recently.



Change in annual inflation with respect to first quarter of 2021 (1) (2) (3)
(percentage points)



(1) Domestic factors: demand, cost pressures in goods and services and inflationary persistence explained by second-round and indexation effects. Includes effect associated with idiosyncratic exchange rate depreciation. External factors: effect of higher oil prices, imported foods and other commodities, higher external inflation, and less favorable external financial conditions. (2) Factor decomposition is done with the structural projection models of the Central Bank of Chile (XMAS-MSEP). (3) Data for the second and third quarters of 2022 denote forecasts.

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



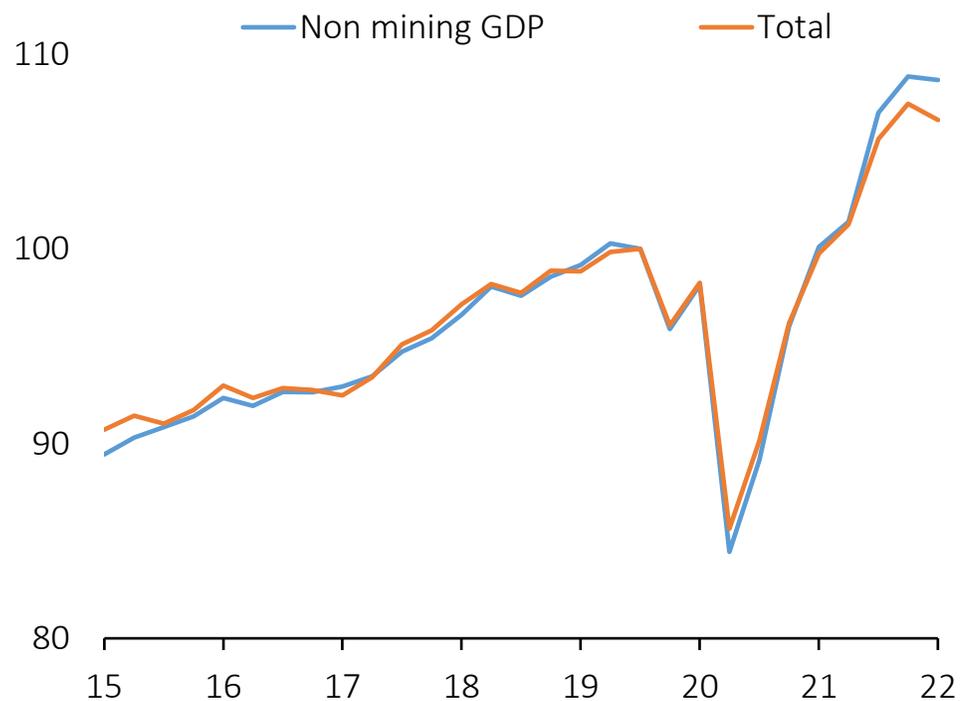
Macroeconomic context for our projections

Early 2022 data suggest that the Chilean economy has already entered an adjustment phase. Partial second quarter data also show a slight decline.



Gross domestic product

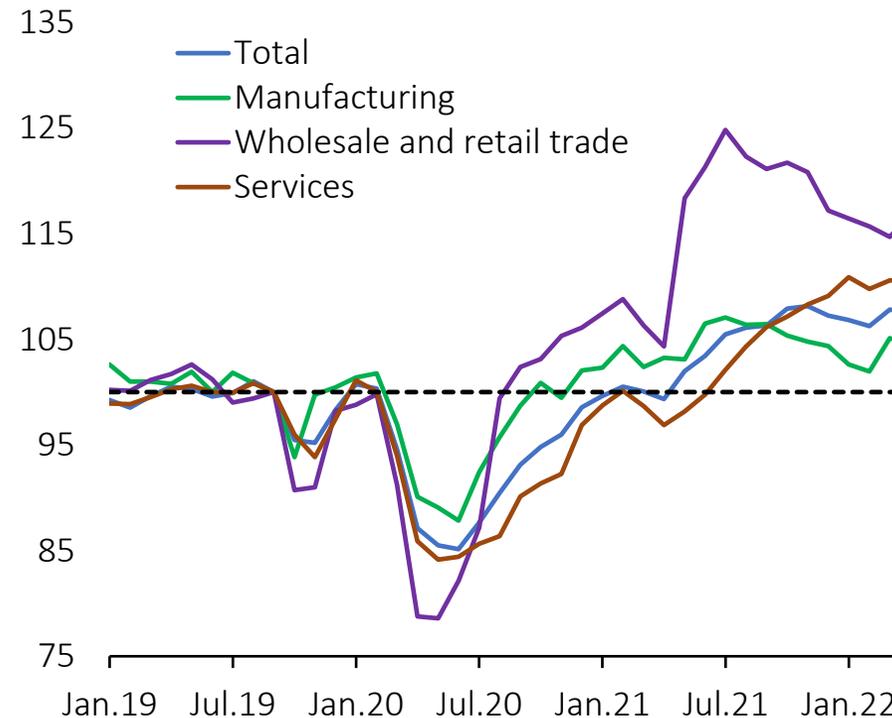
(index, third quarter 2019 = 100, seasonally-adjusted series)



Source: Central Bank of Chile.

Monthly index of economic activity (Imacec)

(index, September 2019 = 100, seasonally-adjusted series)

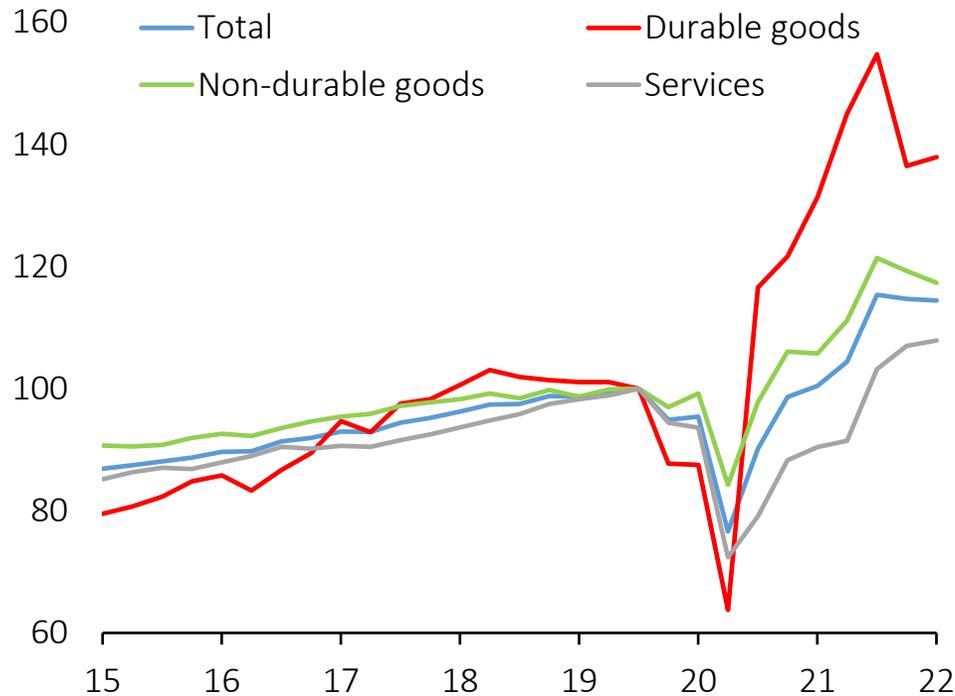


However, the evolution of demand is showing a marked difference between the paths of consumption and investment, with the former remaining at high levels.



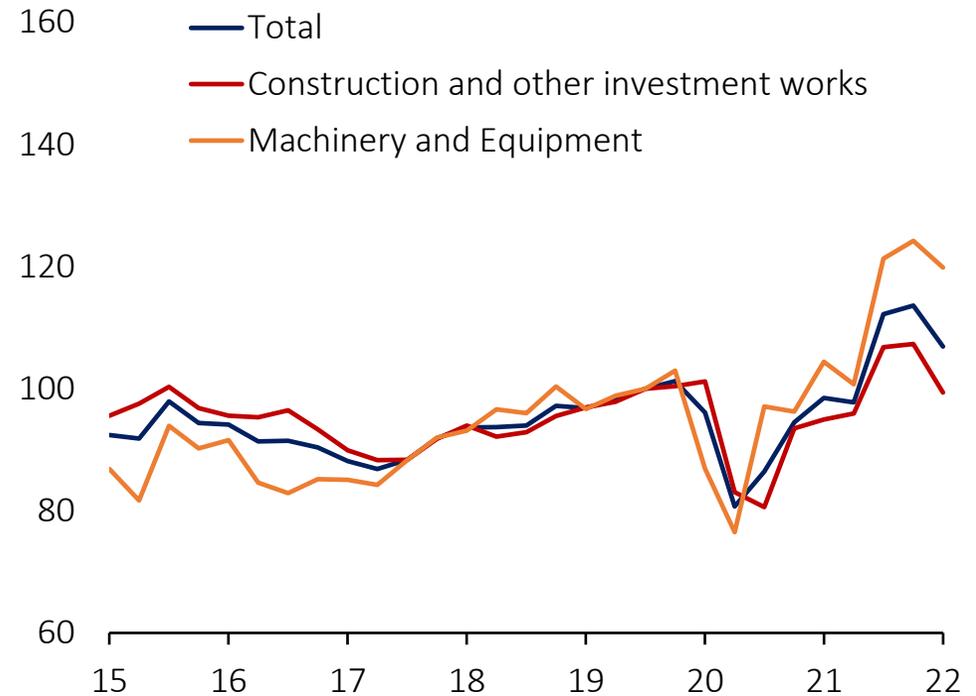
Private consumption

(index, third quarter 2019 = 100, seasonally-adjusted series)



Gross fixed capital formation

(index, third quarter 2019 = 100, seasonally-adjusted series)

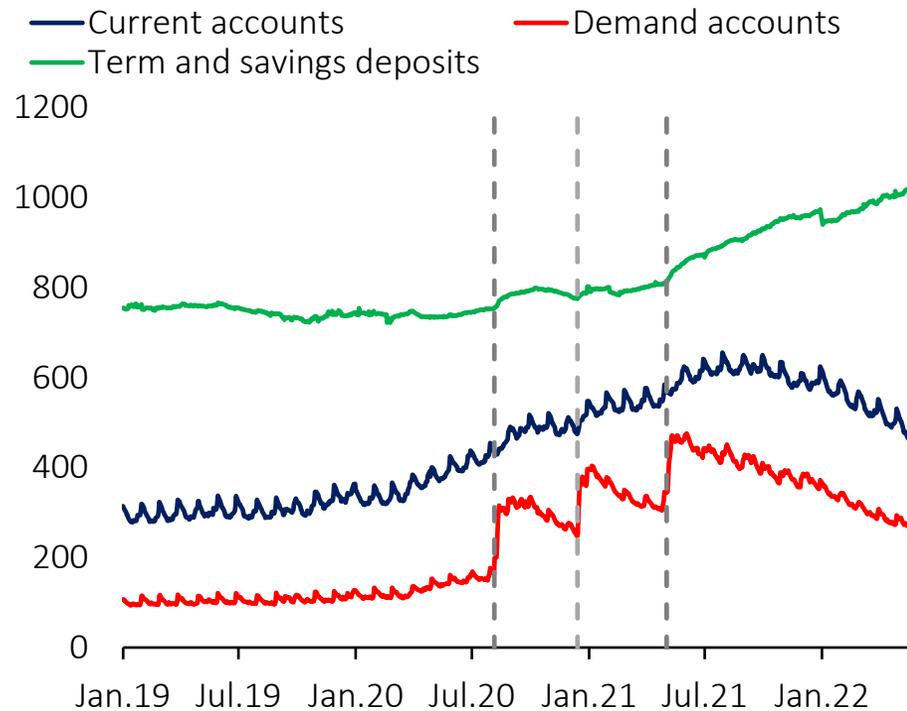


Source: Central Bank of Chile.

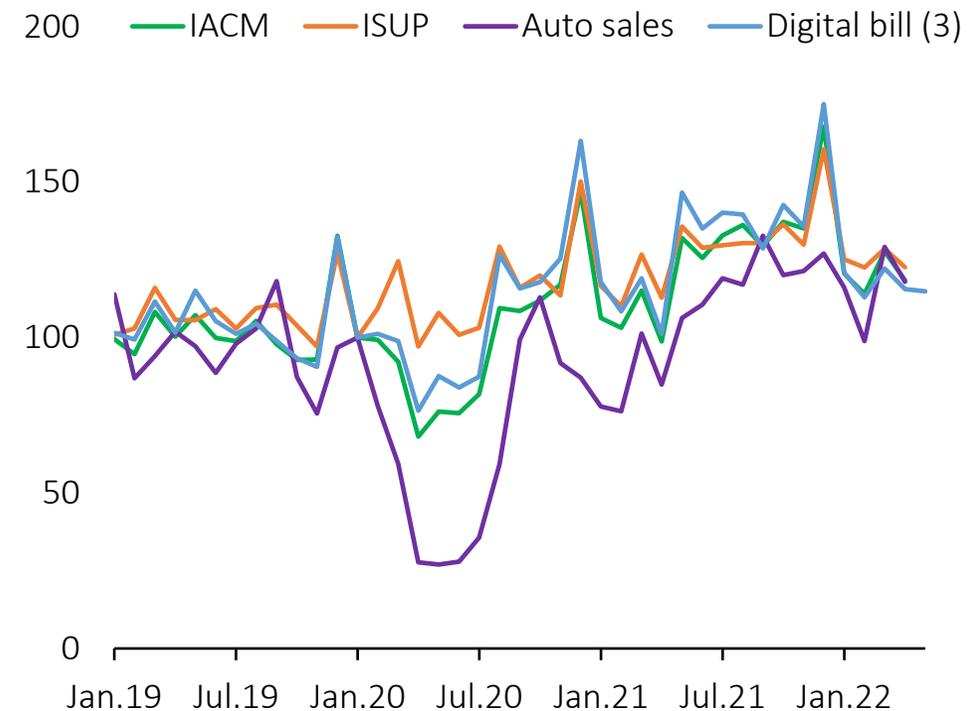
Consumption resilience coincides with high liquidity remaining from fiscal stimulus measures and pension fund withdrawals.



Real balances in individual accounts (1) (2)
(millions of UFs)



Wholesale and retail trade indicators
(index, January 2020 = 100)

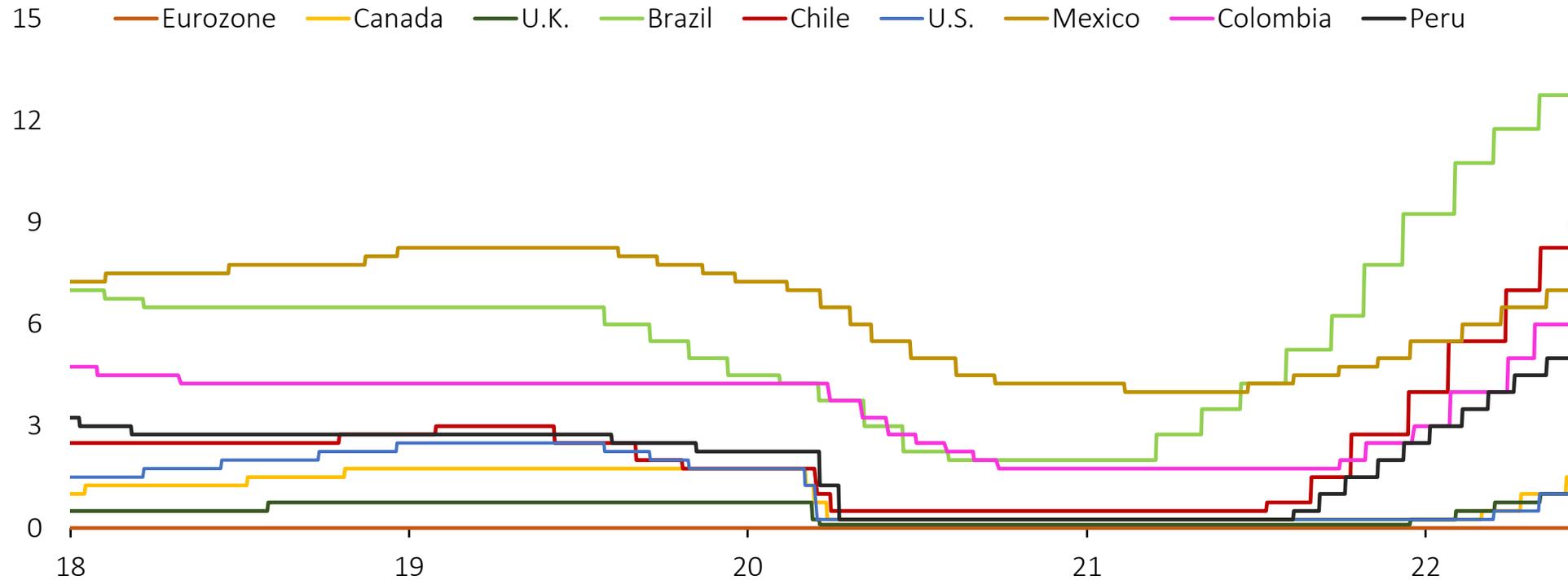


(1) The three vertical lines denote the beginning of payments associated with partial withdrawals of pension funds. (2) In January 2022 the Compendium of Accounting Standards for Banks of the Financial Market Commission was updated, as it is used in compiling monetary statistics. (3) CPI-deflated. Excludes gas stations. Latest figure: May 27th. Sources: ANAC, Central Bank of Chile, INE, and SII.

In the context of higher inflation figures, many central banks are withdrawing their monetary stimulus and/or to signal a faster path to implement it.



Monetary policy rate (MPR) (percent)

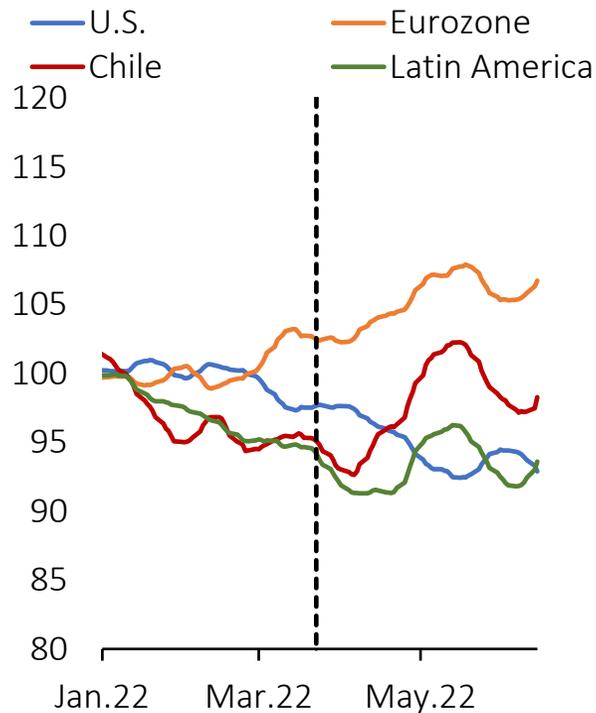


Source: Bloomberg.

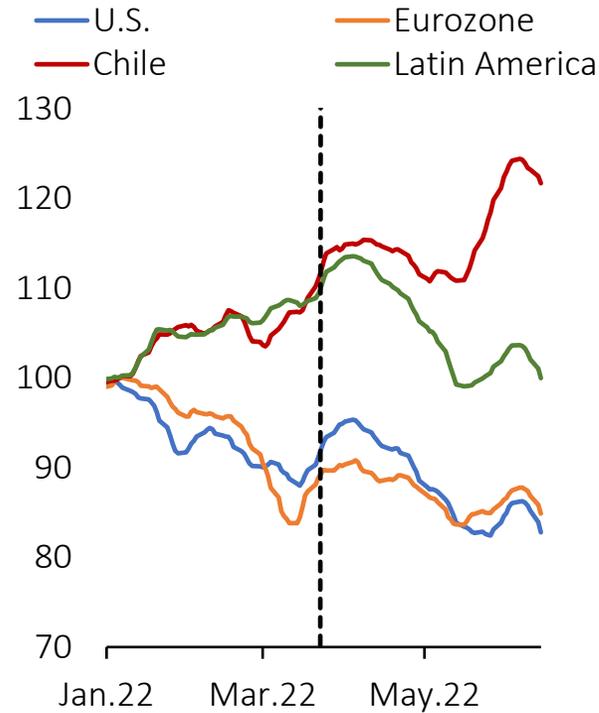
In this scenario, risk aversion has increased in global markets, with a rise in long-term rates, a fall in stock markets and a strengthening of the dollar. Chile has performed more favorably than its foreign peers.



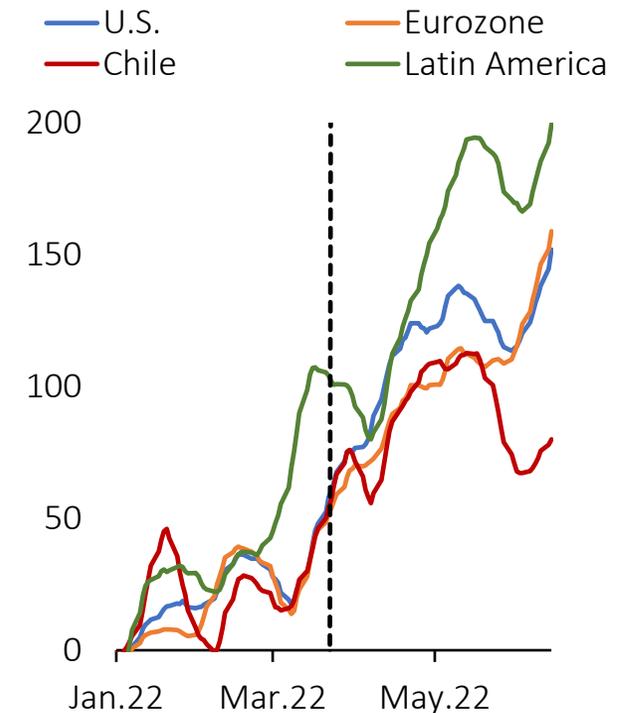
Currencies (1) (2) (3)
(index, 3.Jan.22=100)



Stock markets (1) (2) (3)
(index, 3.Jan.22=100)



Interest rates on nominal 10-year bonds (1) (2) (3)
(difference with respect to 3.Jan.22, basis points)



(1) Dashed vertical line indicates statistical cutoff of March 2022 MP Report. (2) 7-day moving average of each index. (3) For Latin America considers simple average between Brazil, Colombia, Mexico, and Peru. Source: Bloomberg.



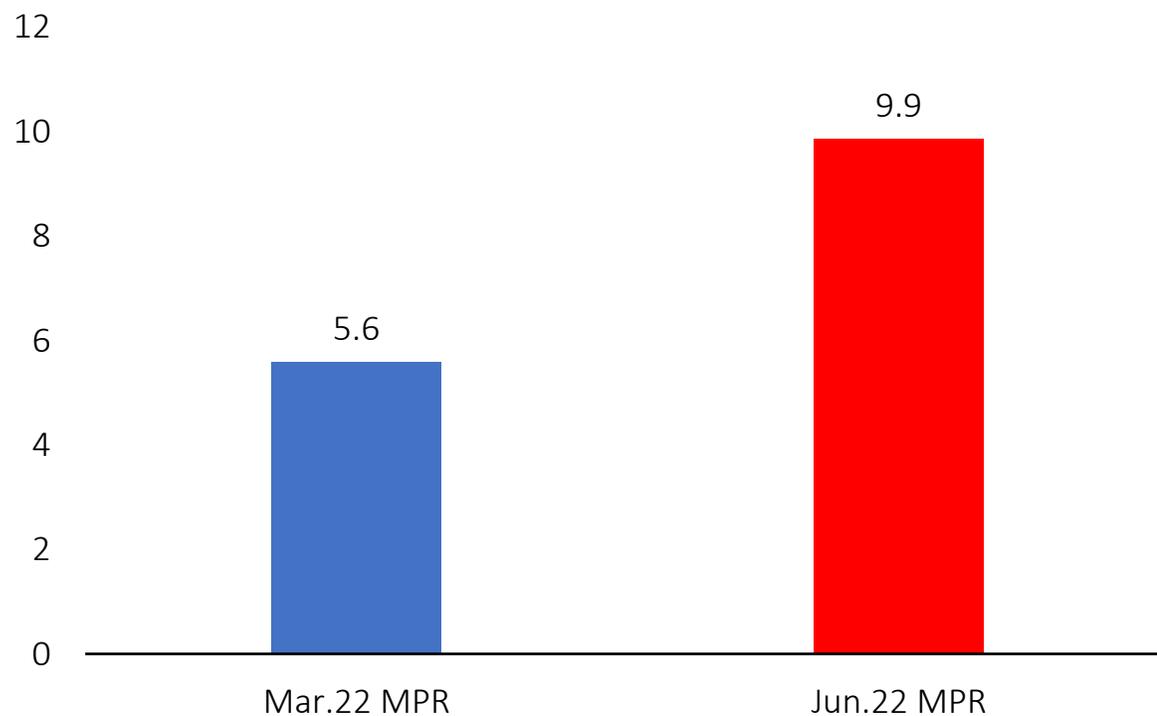
Projections

The outlook for inflation is increased for the entire projection horizon, especially in the short term, due to persistently high external cost pressures.



Inflation forecast for December 2022

(annual change, percent)



Source: Central Bank of Chile.

The main factors behind the increase in the short-term inflation forecast include:

- ➔ Effect of higher and more persistent increase in world prices of foods followed by energy.
- ➔ Impact of worsened bottlenecks on other volatile prices after quarantines were reinstated in China.
- ➔ Depreciation of the peso since last MP Report.
- ➔ Adjustments for actual and estimated higher inflation.

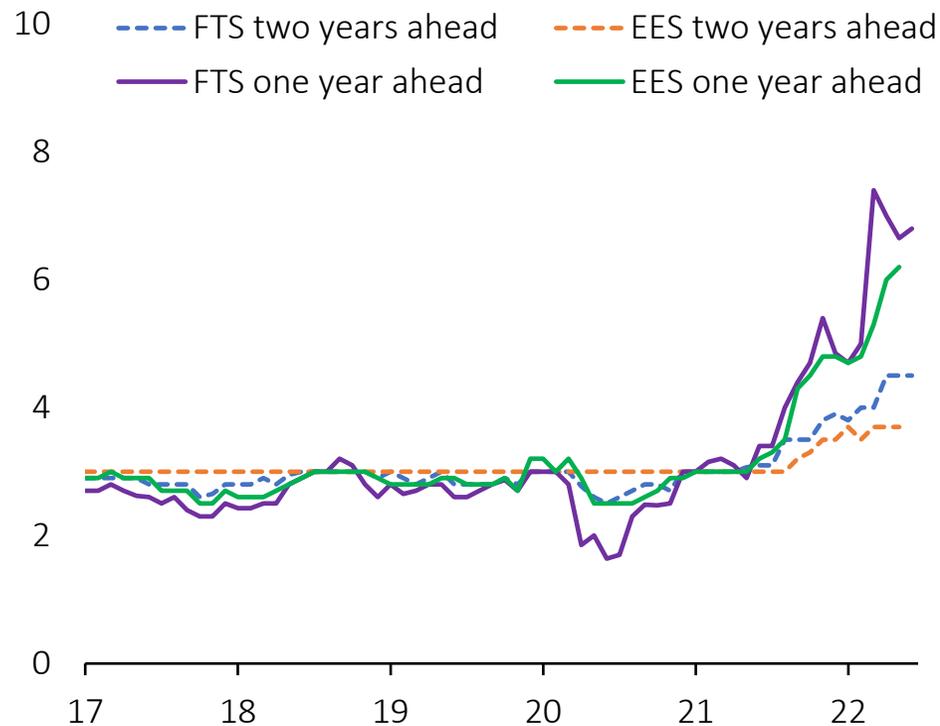
Inflation expectations of economists and financial traders persist above 3%, while the outlook for companies over longer horizons has also risen.



Inflation expectations

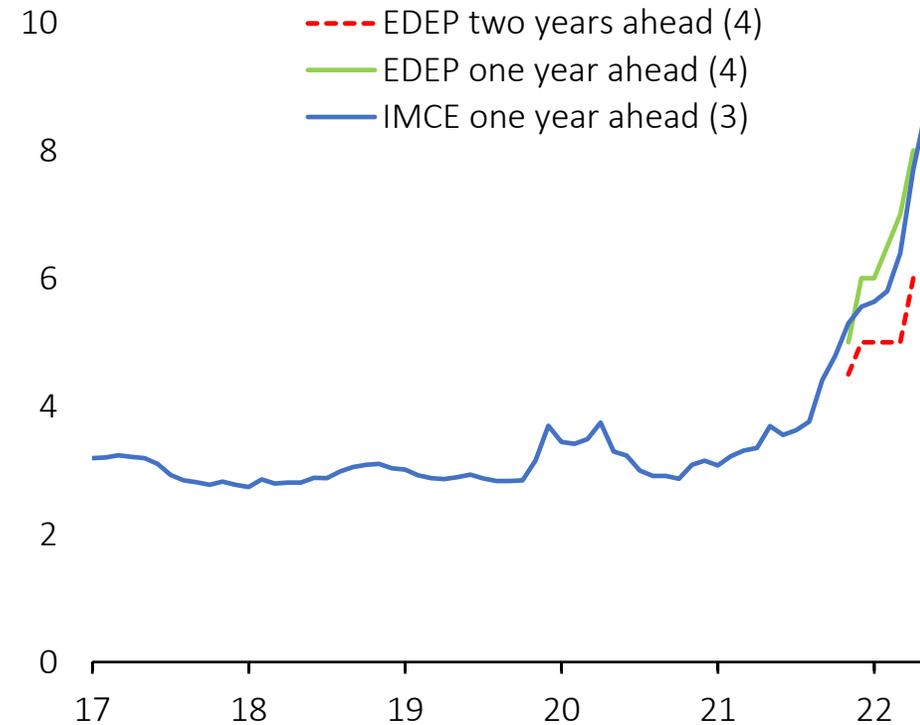
Analysts (1) (2)

(annual change, percent)



Business (1)

(annual change, percent)



(1) Medians of results. (2) The FTS considers survey for first two weeks of each month through January 2018. From February 2018 onwards, considers last survey published in the month, including the one prior to the June 2022 Meeting. In the months in which the survey is not published, the latest available survey is used. (3) Average of median responses for Wholesale & retail trade and Manufacturing. (4) Survey of Price Determinants and Expectations conducted on companies by the Central Bank of Chile.

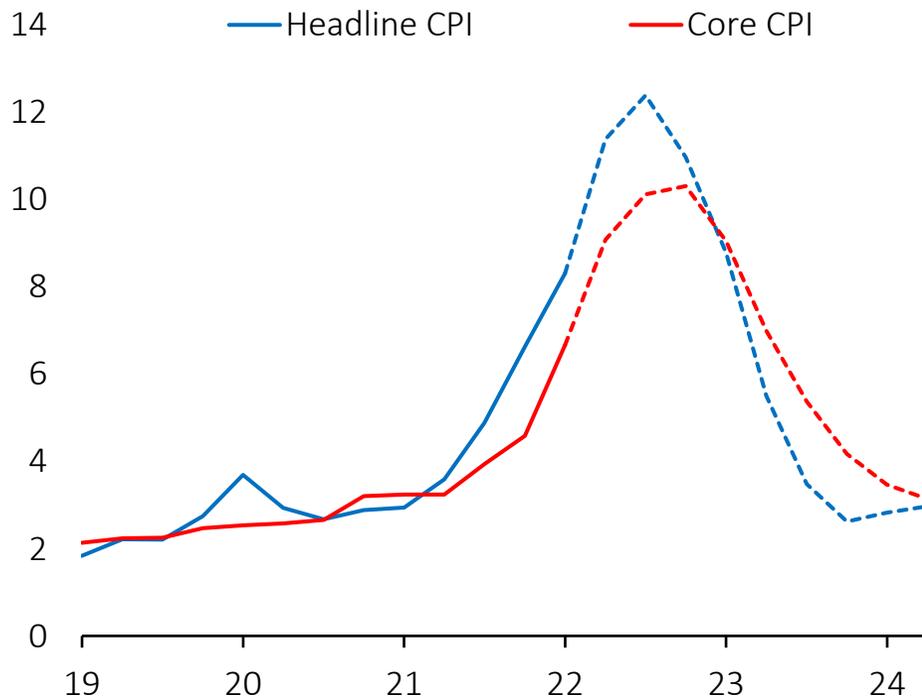
Sources: UAI/Icare and Central Bank of Chile.

The central scenario continues to assume that headline and core inflation will post a sustained decline towards 2023-24, approaching 3% by mid-2024.



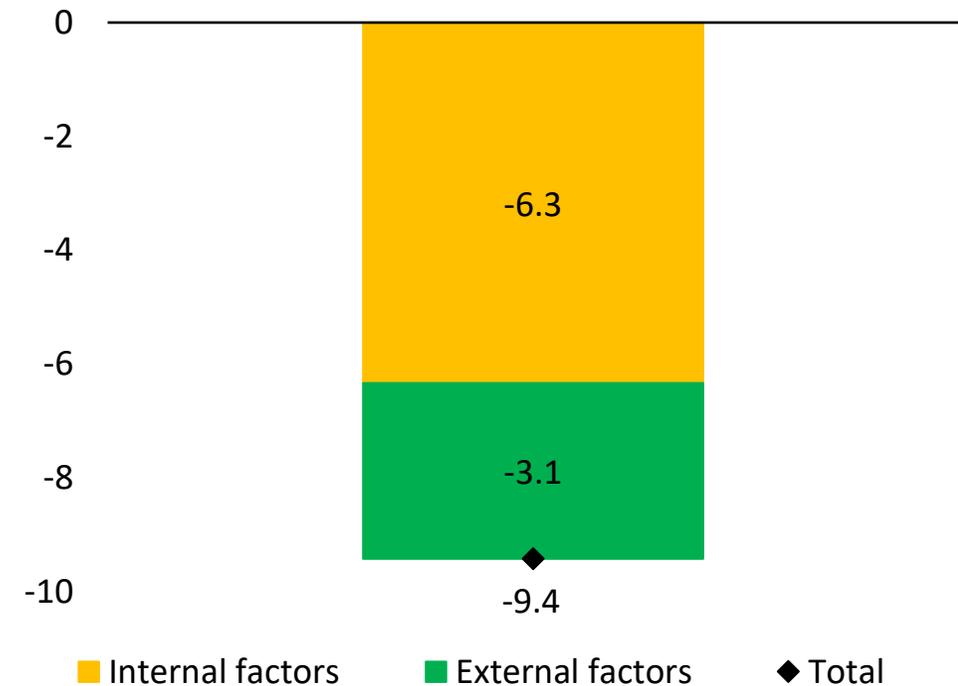
Inflation forecast of total CPI and core CPI (without volatiles) (1)

(annual change, percent)



(1) As from second quarter of 2022, shows forecast (dashed lines). (2) External factors: effect of higher prices of oil, imported foods and other commodities, higher external inflation and less favorable external financial conditions. Internal factors: demand factors, cost pressures in goods and services, higher persistence due to second-round effects. Includes effect associated with idiosyncratic exchange rate depreciation. (3) Factor decomposition is done with BCCh projection models (average of XMAS-MSEP models). Sources: Central Bank of Chile and National Statistics Institute (INE).

Change in annual inflation forecast between 3rd quarter of 2022 and 2nd quarter of 2024 (2) (3) (percentage points)

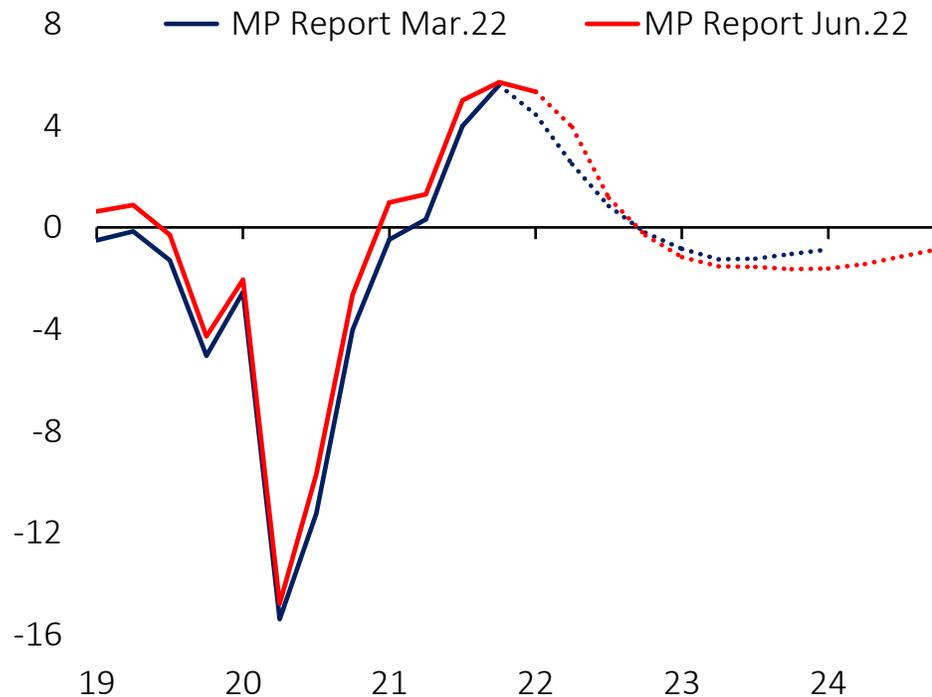


One key element in this will be to advance in resolving the significant imbalances that the economy accumulated last year.



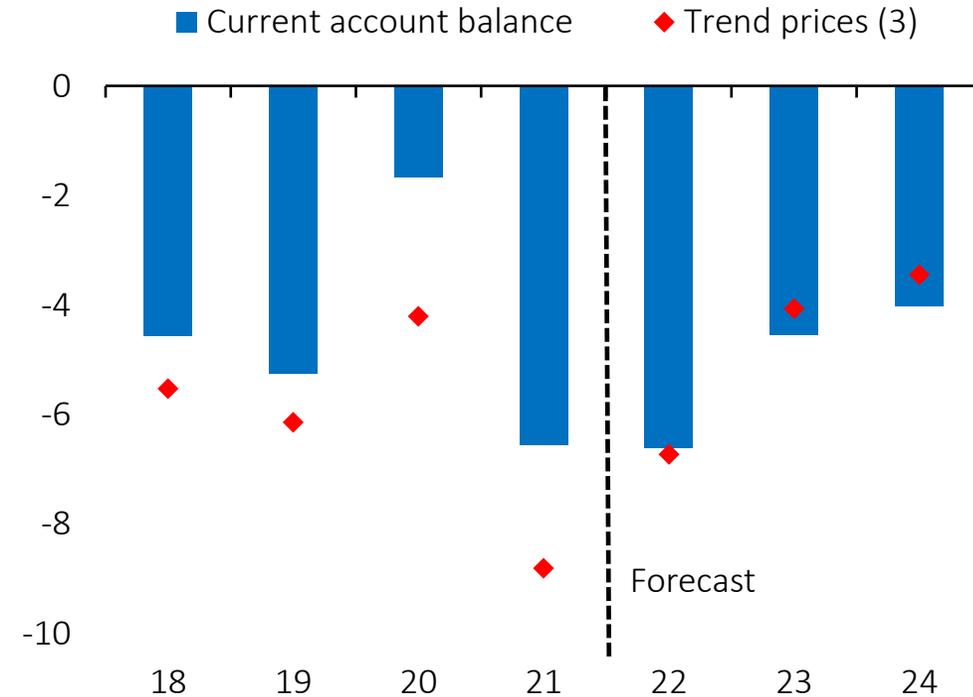
Activity gap (1) (2)

(level, percentage points)



Current account of balance of payments

(percent of GDP, last twelve months)



(1) Dotted lines indicate forecasts. (2) Forecast uses structural parameters updated in the June 2021 MP Report (trend) with methodological revision to potential GDP. (3)

For details, see [Economic Glossary](#).

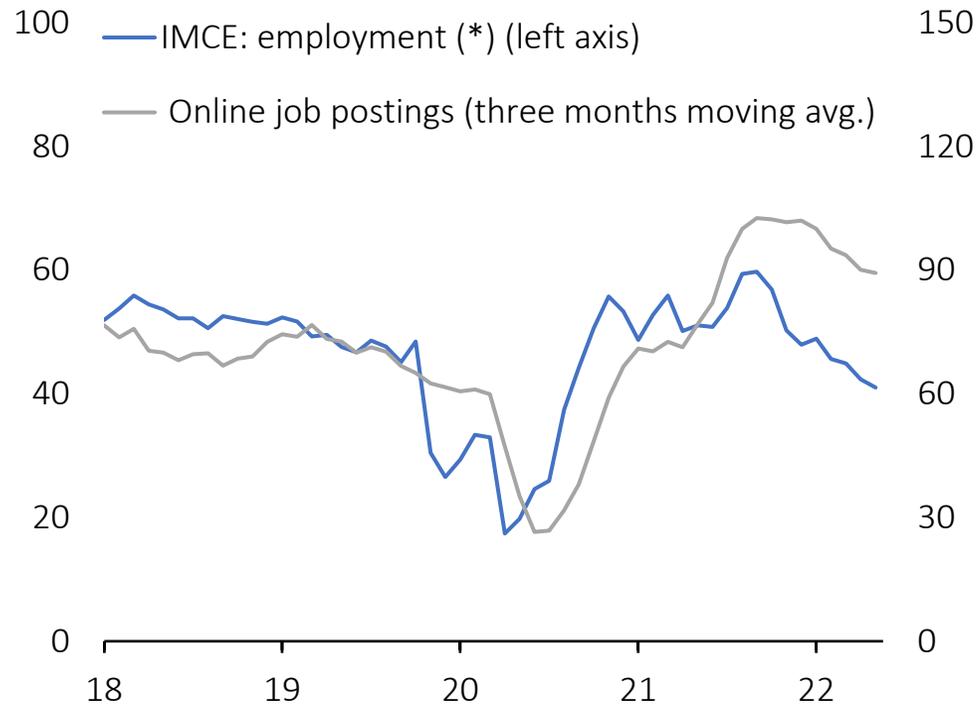
Source: Central Bank of Chile.

Several consumption fundamentals point to a weakening in the short term. In the labor market, job creation is slowing and real wages are falling.



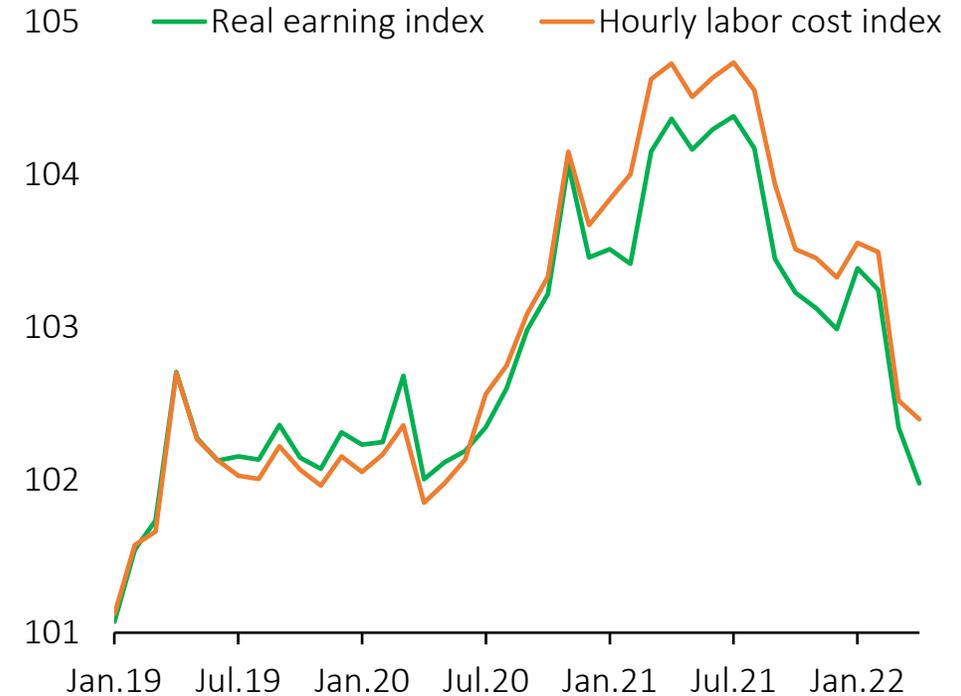
Employment IMCE and online job postings

(index; index, Jan.15 = 100)



Real wages

(index, 2018 average =100, seasonally-adjusted series)



(*) Average of employment indicators in trade, manufacturing, and construction. Value above (below) 50 indicates optimism (pessimism).

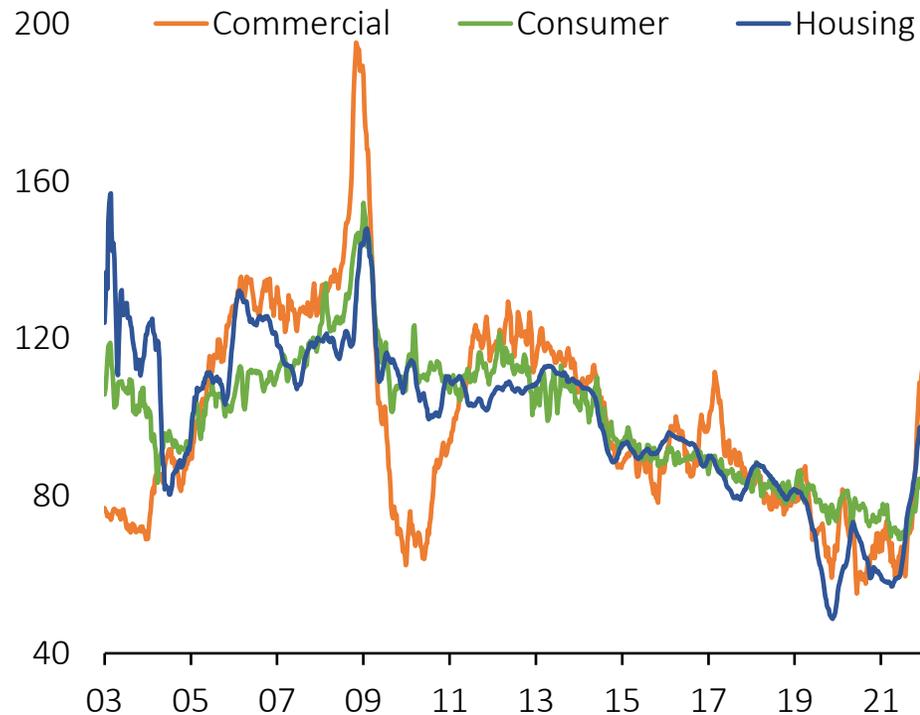
Sources: National Statistics Institute (INE), Icare/Universidad Adolfo Ibáñez, and Central Bank of Chile.

In addition, financial conditions have become more restrictive for households, due to the increase in interest rates and lending requirements.



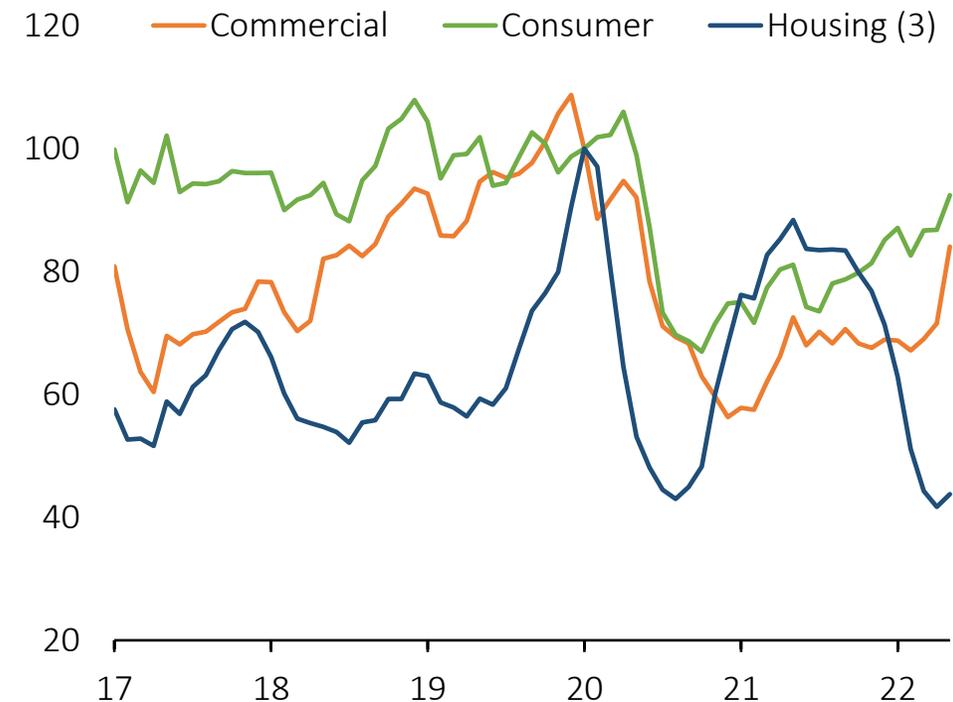
Lending interest rates (1) (2)

(index, 2003-2022=100)



Real credit flows

(index, January 2020 = 100, moving quarterly average)



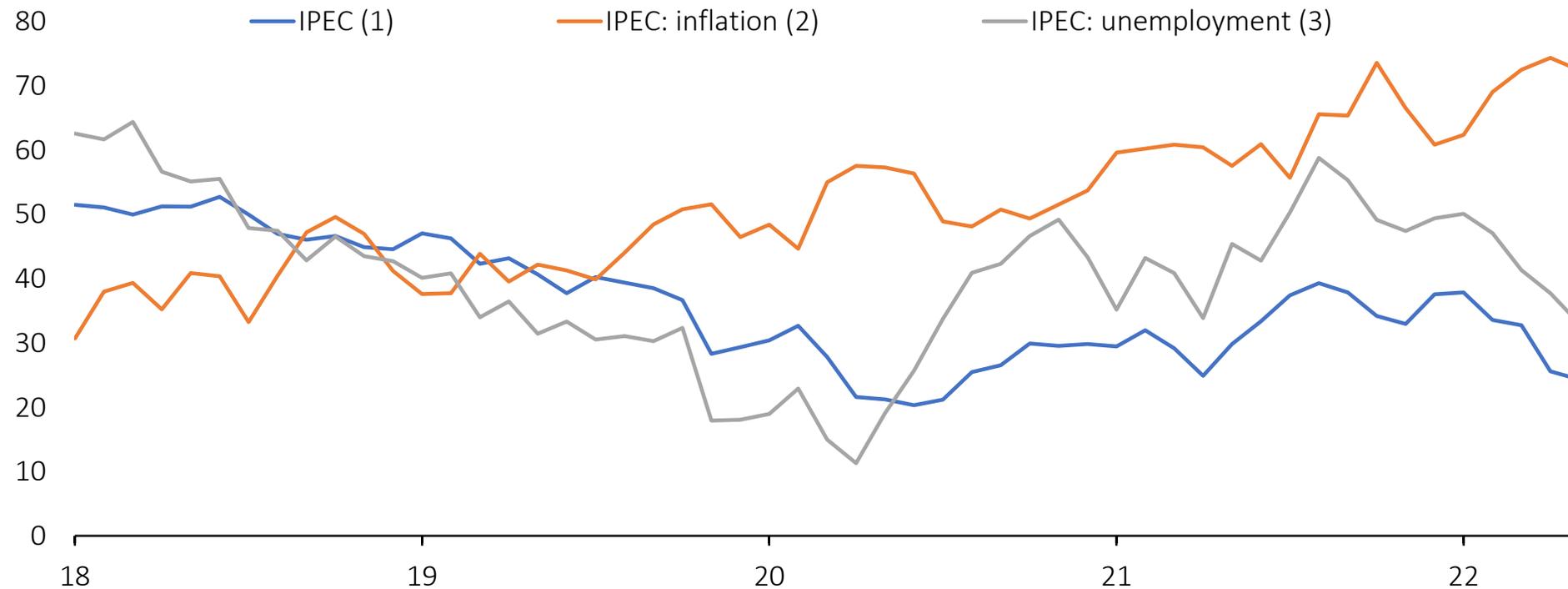
(1) Weekly data for the Metropolitan Region, weighted average rates of all transactions performed in each period. (2) Moving four-week average. (3) Includes only operations in UFs. Source: Central Bank of Chile based on information from the Financial Market Commission.

This coincides with the deterioration of consumer perceptions.



Economic sentiment index

(index)

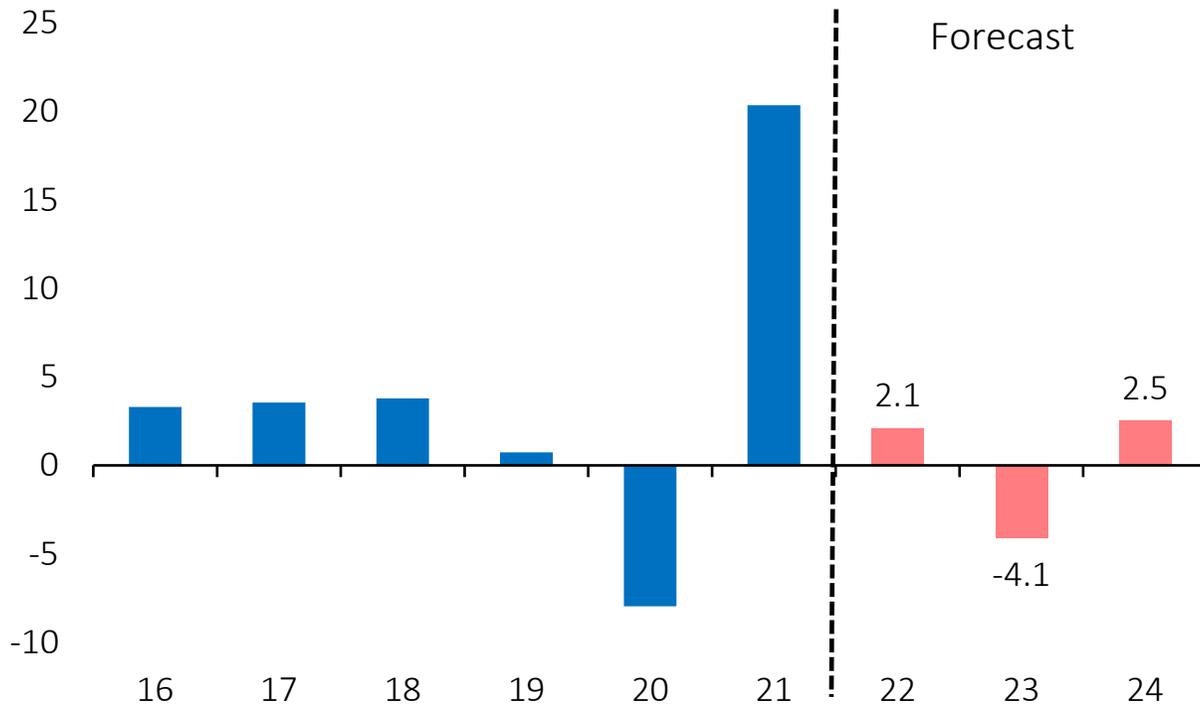


(1) Value above (below) 50 indicates optimism (pessimism). (2) Share of respondents who believe prices will increase "much" in next 12 months. (3) Higher (lower) value indicates fewer (more) unemployment. Source: Adimark/GFK.

The higher level shown by private consumption leads to a correction of its 2022 growth forecast, while its adjustment is delayed for the end of this year and in 2023.



Private consumption
(real annual change, percent)



This forecast assumes:

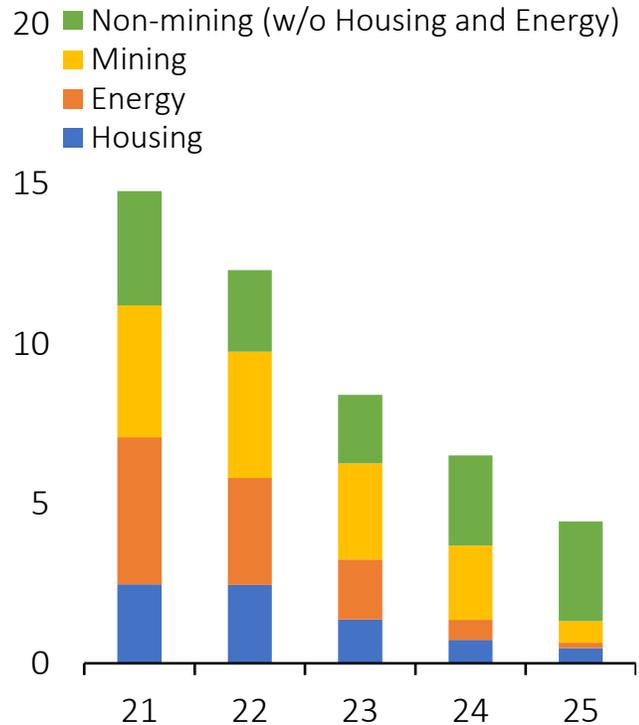
- ➔ Intensified use of remaining liquidity in the coming months, driving consumption in the second and third quarters of 2022.
- ➔ Earlier depletion due to earlier use of the resources, which will imply a greater drop in 2023.

Source: Central Bank of Chile.

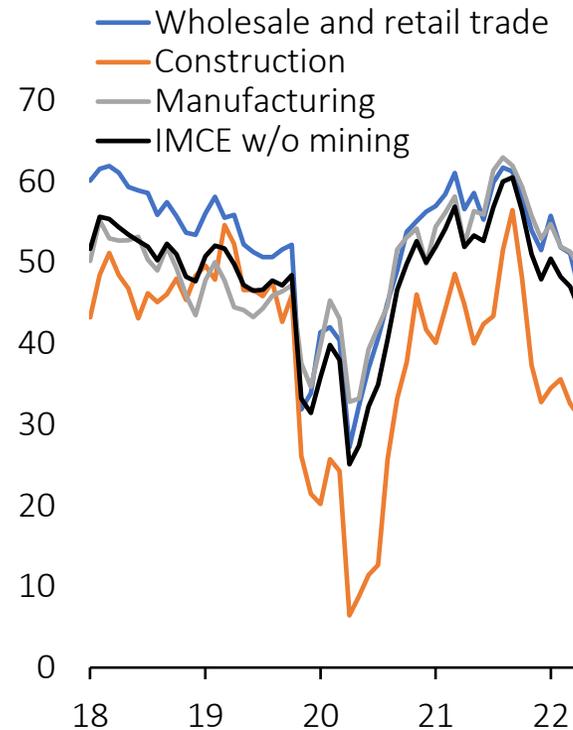
Investment fundamentals have also worsened...



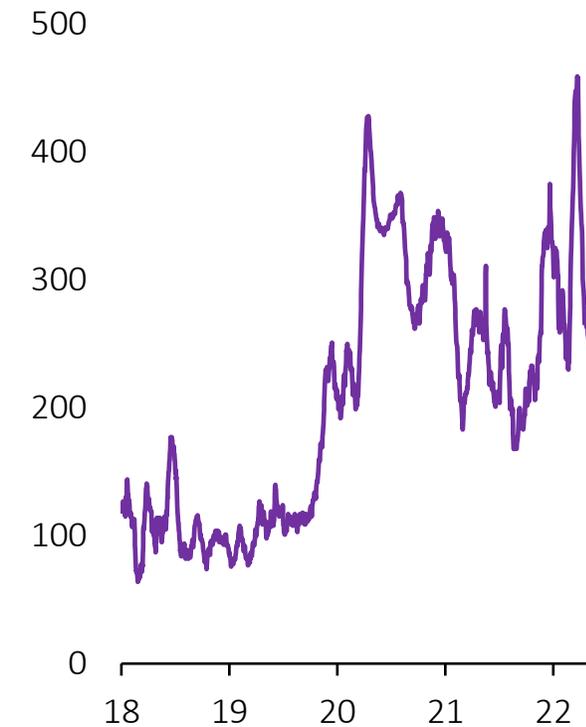
CBC: Total investment
(billions of dollars)



IMCE (1)
(index)



Economic and political uncertainty (2)
(index, 1 January 2012 = 100)



(1) Value above (below) 50 indicates optimism (pessimism). (2) Economic and Political Uncertainty Index (DEPUC). Since December 2021, the index includes an update to the dictionary of words used for its construction, as a way of incorporating new elements that influence local conditions.

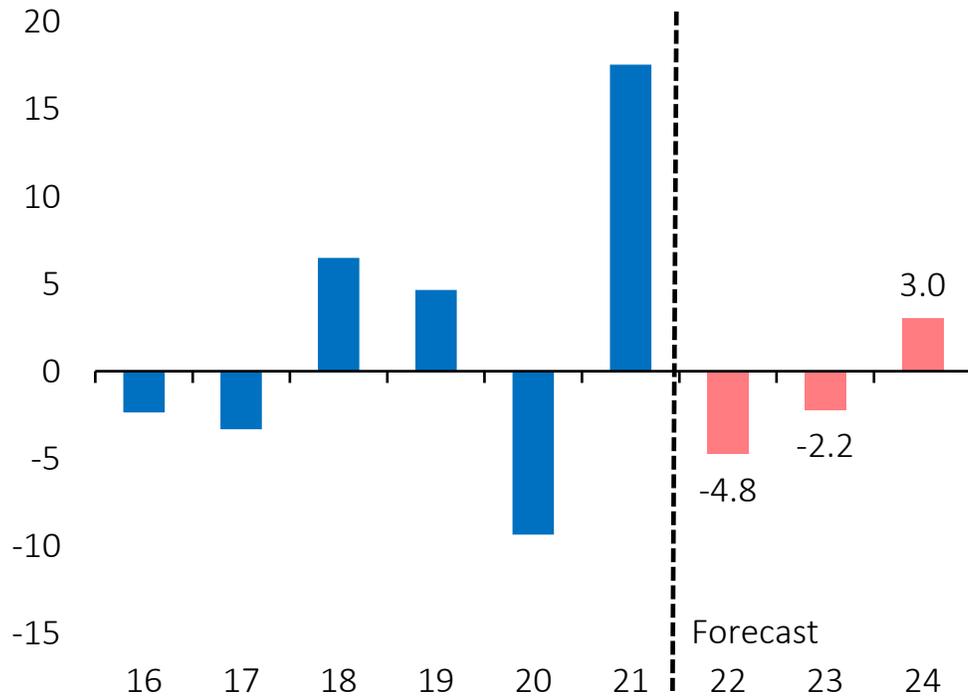
Sources: Central Bank of Chile based on [Becerra and Sagner \(2020\)](#), Capital Goods Corporation (CBC) and ICARE/UAI.

...and more significant drops are foreseen in investment during this and next year.



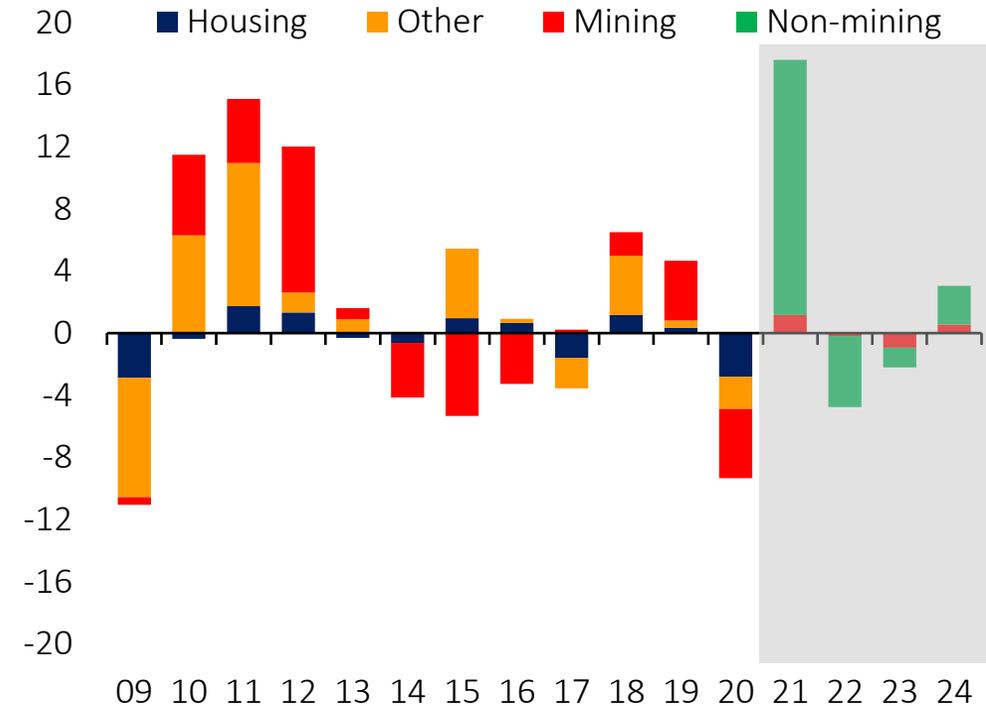
Gross fixed capital formation (GFCF)

(real annual change, percent)



Real annual contributions to GFCF (*)

(percentage points)



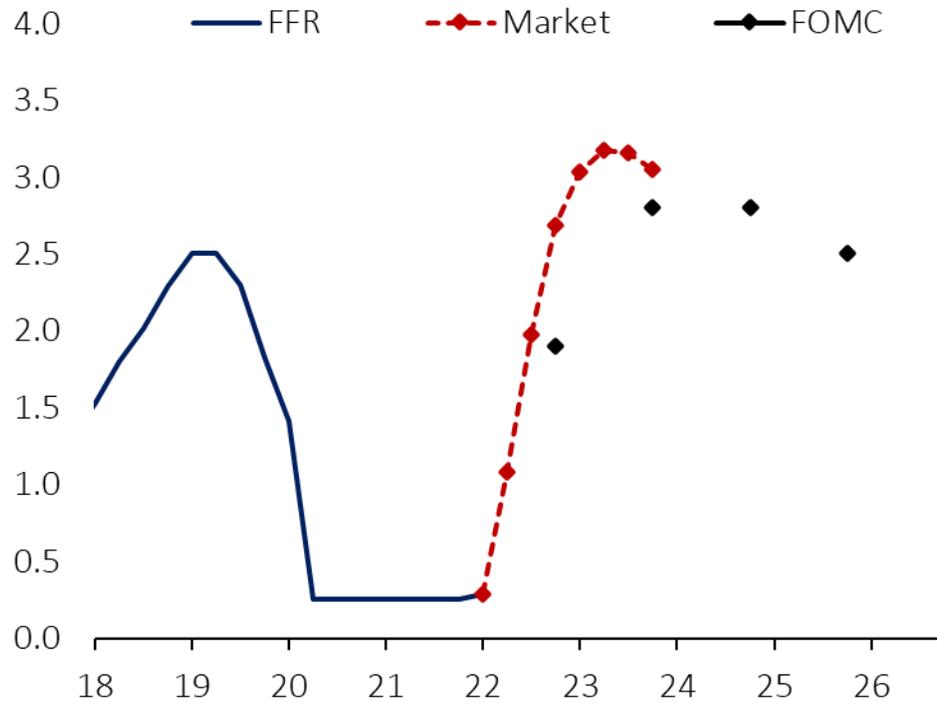
(*) The Other GFCF component is treated as a residue. Until 2020 effective data is used and for 2021 is an estimate. For 2022-2024, forecasting models from the Central Bank and sectoral sources are used, such as investment plans and the CBC Survey.

Source: Central Bank of Chile.

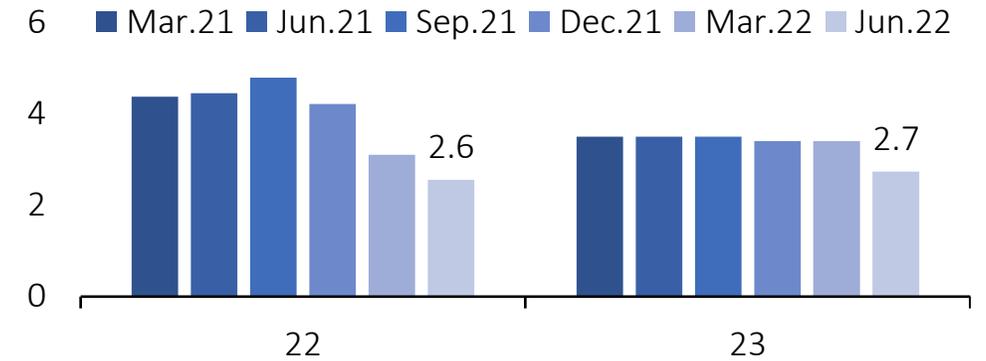
The projections assume that the impulse that the Chilean economy will receive from abroad will be lower, mainly due to worsened global financial conditions and food and commodity prices that will stay high for several quarters.



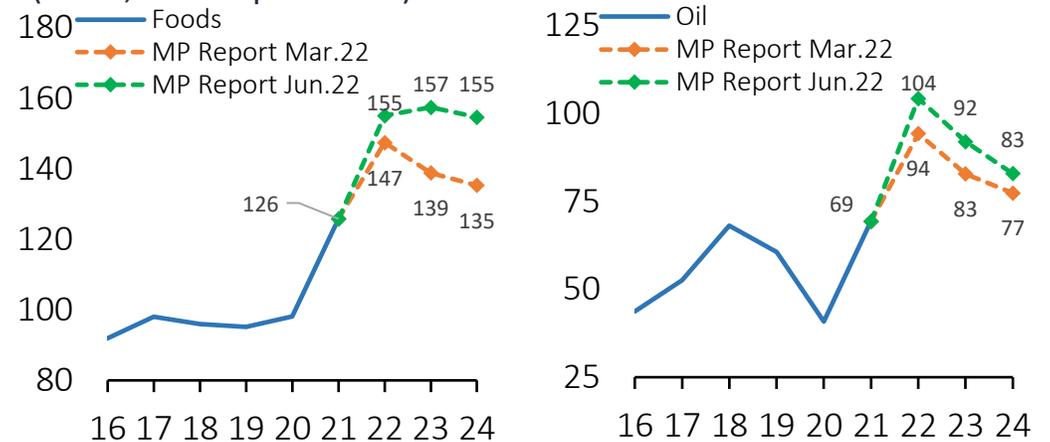
U.S. fed funds rate (FFR) (1)
(percentage points)



World growth forecast
(annual change, percent)



Actual and projected prices (2) (3)
(index; dollars per barrel)

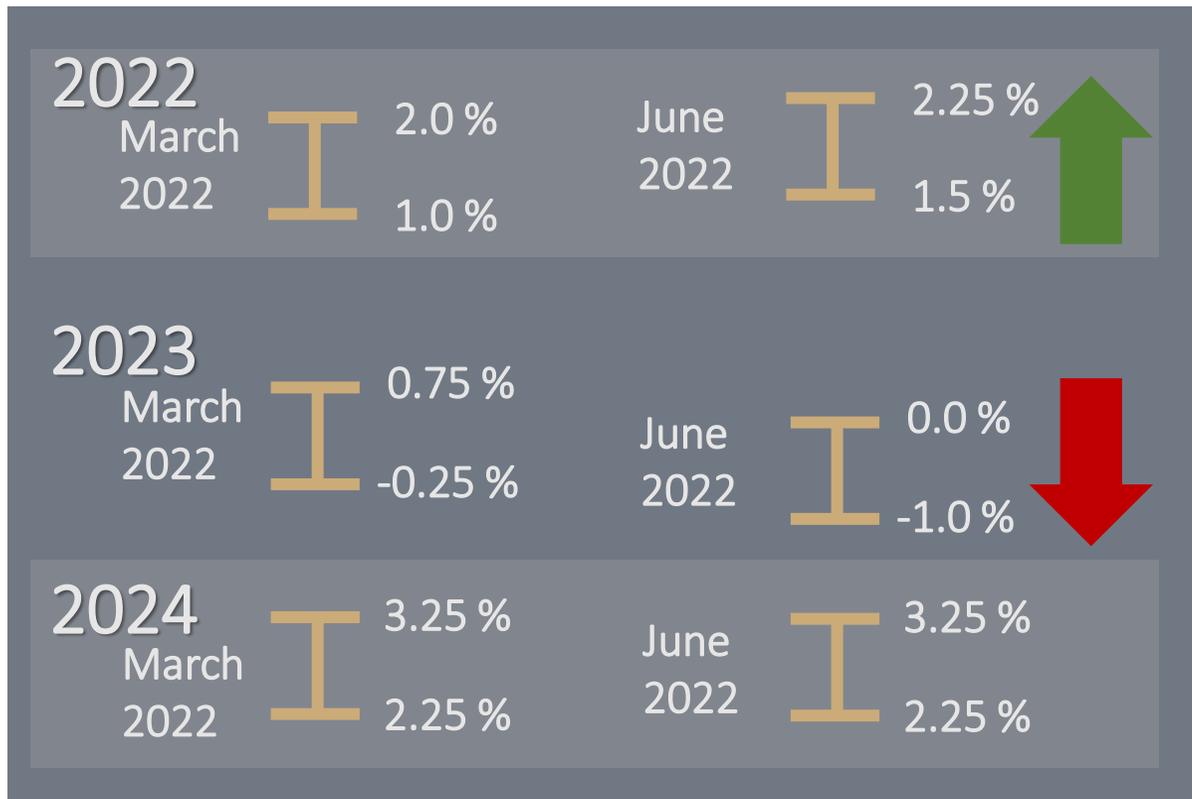


(1) FOMC projections are as of March 2022. Market projections correspond to futures at June 1, 2022. (2) For oil it is the average price between WTI and Brent. For food it is FAO index. (3) Effective price/index is average for each year. Dotted lines indicate 2022-2024 forecasts contained in each MP Report.
Sources: Central Bank of Chile, Bloomberg, Federal Reserve and FAO.

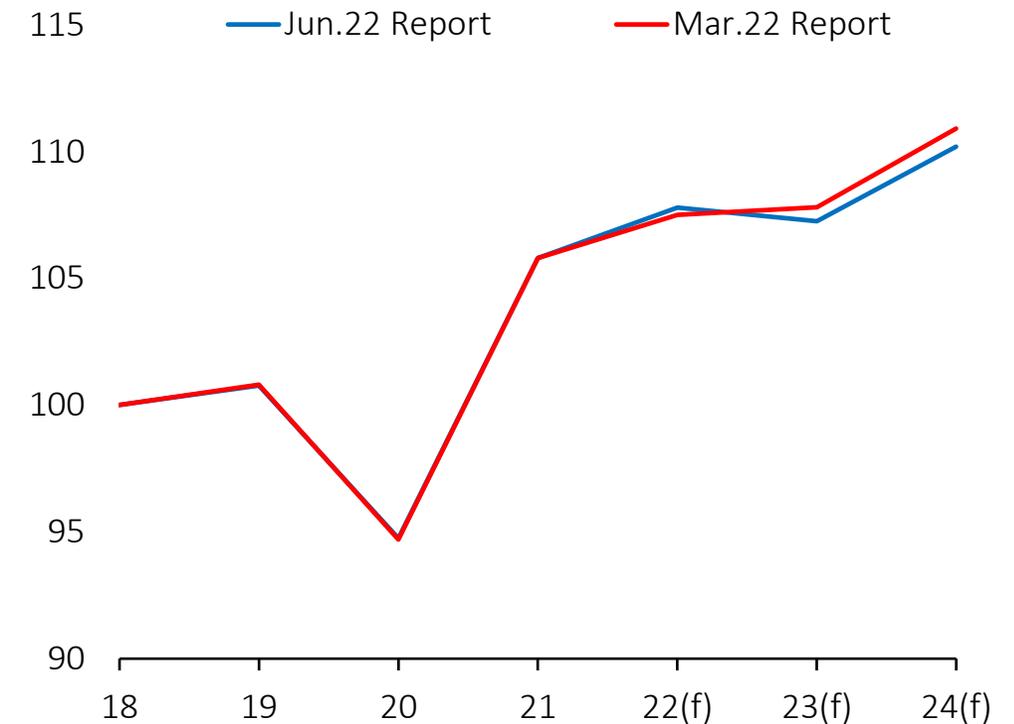
All this will mean that the adjustment that began early this year will extend over several quarters.



GDP growth forecasts (1) (annual change, percent)



GDP forecasts (2) (index, 2018=100)

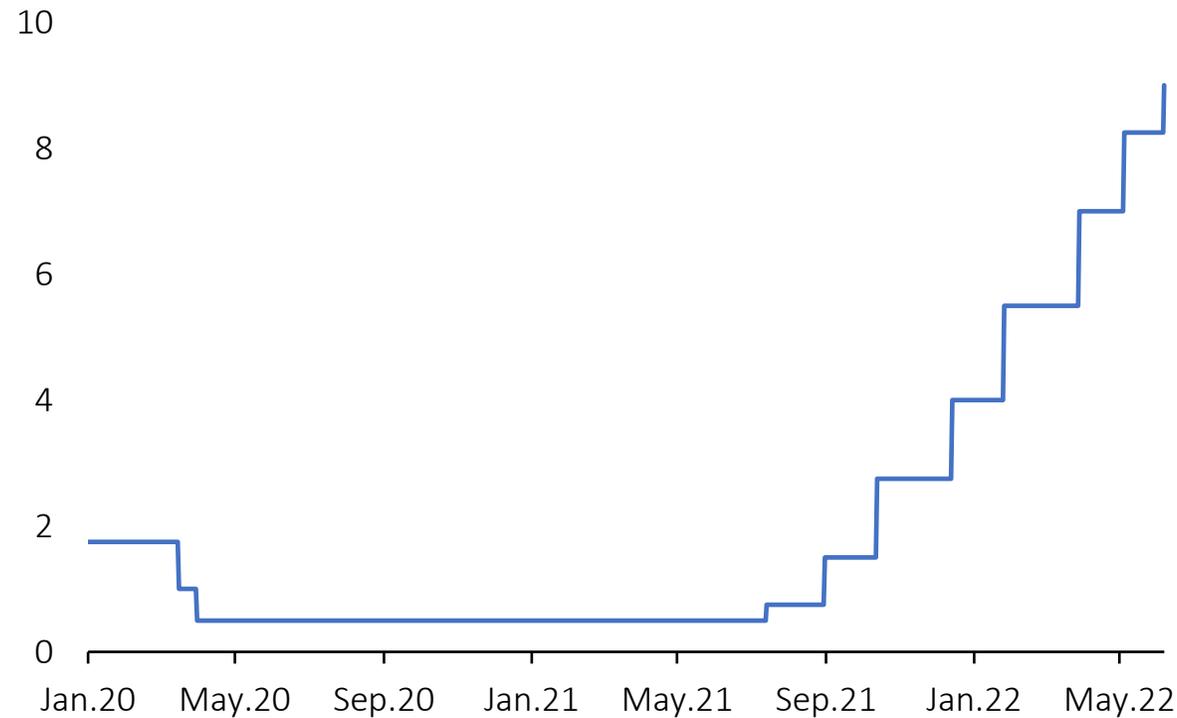


(1) Forecasts contained in respective MP Report. Arrows indicate change from March 2022 forecast. (2) Forecasts consider the midpoint of the growth ranges published in this Report. (f) Forecast. Source: Central Bank of Chile.

The Board estimates that, after the increase agreed at the June meeting, additional smaller adjustments in the MPR will be needed to ensure the convergence of inflation to 3% over the two-year horizon.



Monetary policy rate (MPR)
(percent)

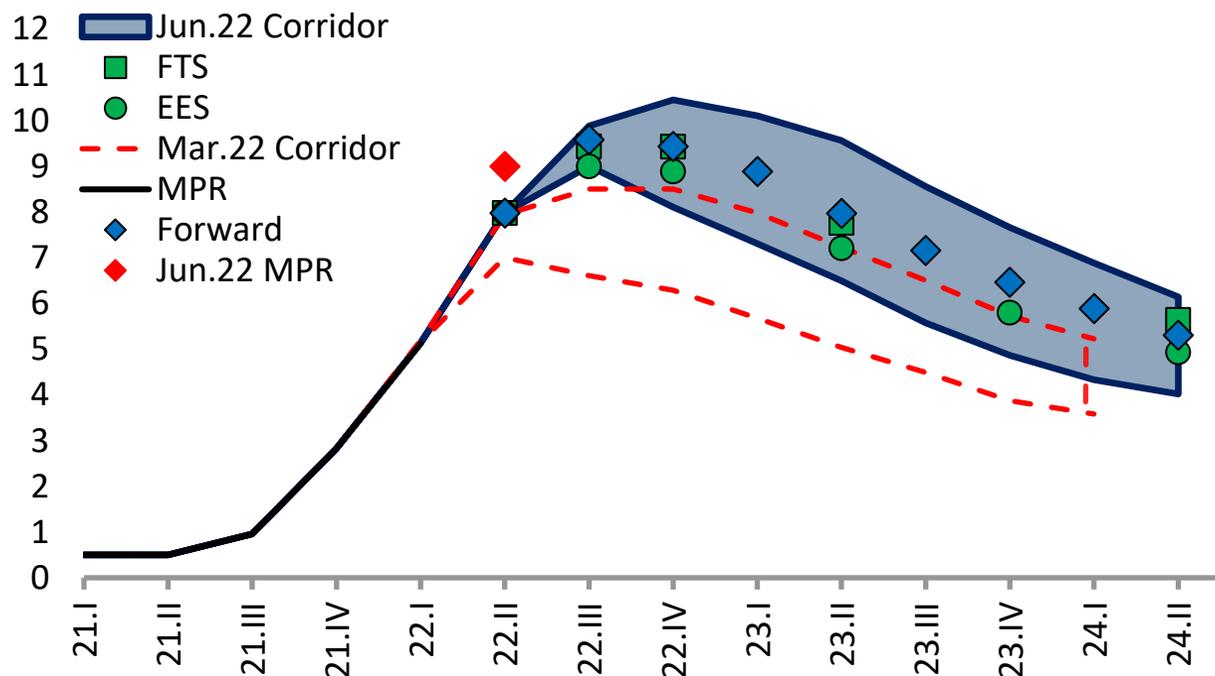


- ➔ Since the July 2021 Meeting, we have raised the policy rate by 850 basis points, bringing it to 9.0% annually.
- ➔ In the central scenario, further increases will be of a smaller magnitude than the most recent ones.
- ➔ Risks remain high, however, particularly considering the level of inflation and its greater persistence.

The risks surrounding the evolution of the macroeconomic outlook continue to be significant, so there are sensitivity scenarios that could require a different monetary policy action than that contemplated in the central scenario.



MPR corridor (*)
(quarterly average, percent)



→ The upper part of the corridor reflects sensitivity scenarios where inflation could be more persistent than expected.

→ Private consumption continues to delay adjustment.

→ Increase in already high global cost pressures triggering a stronger reaction from central banks.

→ The lower part of the corridor depicts scenarios where inflationary pressures are reduced sooner than expected.

→ More intense adjustment of activity and demand, due to weaker investment or faster adjustment of consumption.

→ Reduced global cost pressures and lower inflation in most economies, including Chile.

(*) The corridor is constructed following the methodology described in box V.1 of the March 2020 MP Report and box V.3 of the March 2022 MP Report. For further details, see methodological note (figure II.2 in chapter II of June 2022 MP Report). Source: Central Bank of Chile.

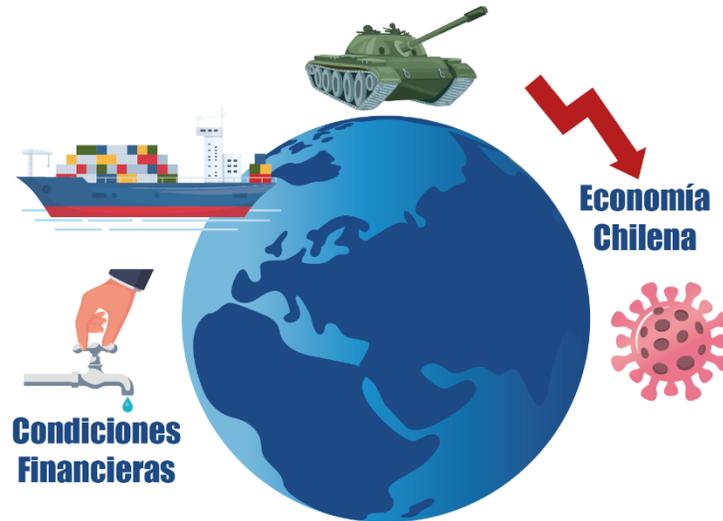
There are also risk scenarios that would drive growth outside the projection range and would require a policy response that exceeds the limits of the MPR corridor.



Risk scenarios

More damaging impacts of the war in Ukraine on the world economy.

- ➔ Aggravating impact on global inflation and activity.
- ➔ Significant worsening of financial conditions facing emerging economies.



Even more significant worsening of global financial conditions.

- ➔ For example, if the evolution of inflation leads to a much larger than expected tightening of monetary policy in the leading economies.



Inflation has reached levels not seen in decades, and its negative effects on families are reflected in public concern about this phenomenon. In addition, the two-year inflation expectations of economists and financial operators are still above 3%, and the expectations of companies for longer horizons have also risen.

The current inflationary phenomenon is a global and multicausal phenomenon, but its intensity is directly related to a series of internal factors that, as a whole, explain most of the increase in local inflation during the last year and a half. Added to this is an unusual set of external shocks of high intensity and persistence.



The Central Bank Council has increased the interest rate significantly, taking it to 9% at its June meeting, and estimates that additional adjustments of a smaller magnitude will be necessary to ensure the convergence of inflation to 3% in the two-year horizon. The Central Bank will continue to keep a close eye on the evolution of inflation, always concerned about the welfare of the people.



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