

MONETARY POLICY PERSPECTIVES

Pablo García – Vice Governor, Central Bank of Chile

May 10th 2022 – 11th Latin American Conference, BBVA



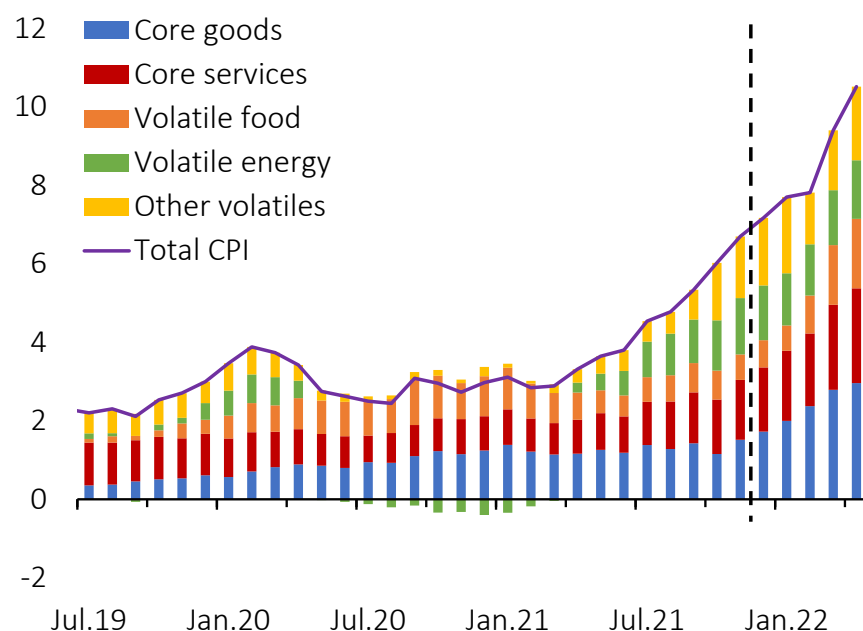
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Inflation has continued to rise and reached 10.5% annually, with increases in most of its components. In March and April, CPI was higher than expected.



Inflation indicators (1) (2)

(contributions to annual change, percentage points)



Core goods → 11.0%

Core services → 6.4%

Volatile food → 16.5%

Volatile energy → 19.9%

Other volatiles → 11.2%

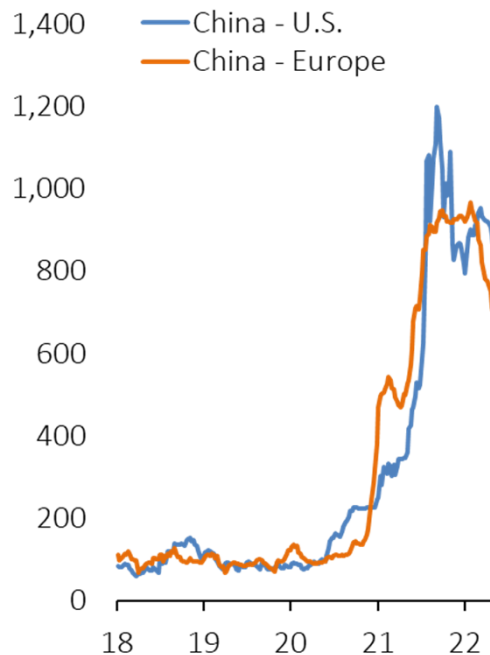
Total CPI → 10.5%

(1) Dashed vertical line indicates statistical cutoff of December 2021 Monetary Policy Report. (2) For further detail of the different groupings and their share in the headline CPI basket, see box IV.1 in December 2019 MP Report, Carlomagno & Sansone (2019), and economic glossary. Sources: Central Bank of Chile and National Statistics Institute (INE).

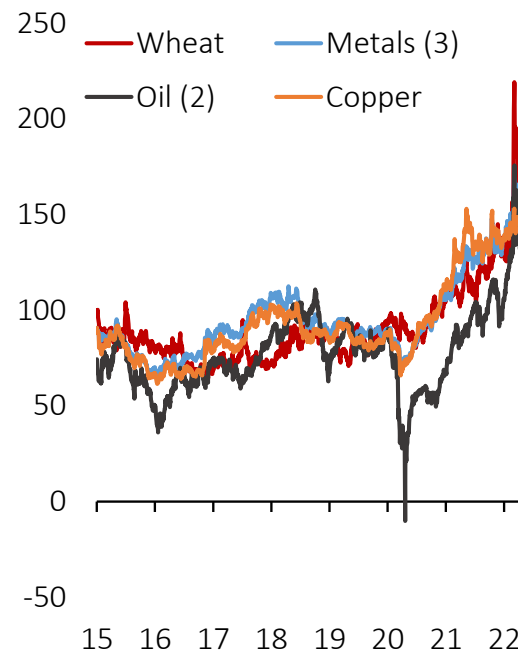
Increased cost-push pressures occur in a context where supply chains are still under stress, commodity prices are higher, and the Chilean peso is still depreciated.



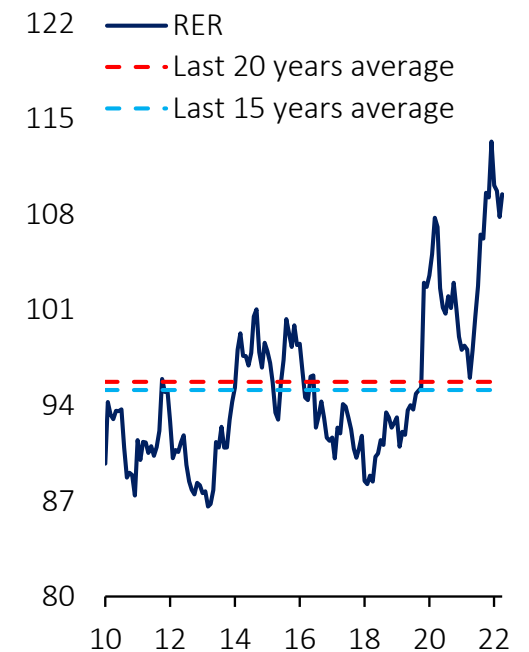
Maritime freight costs (1)
(index, 2018=100)



Commodity prices
(index, 2010-2022 average = 100)



Real exchange rate (4)(5)
(index, 1986 average = 100)



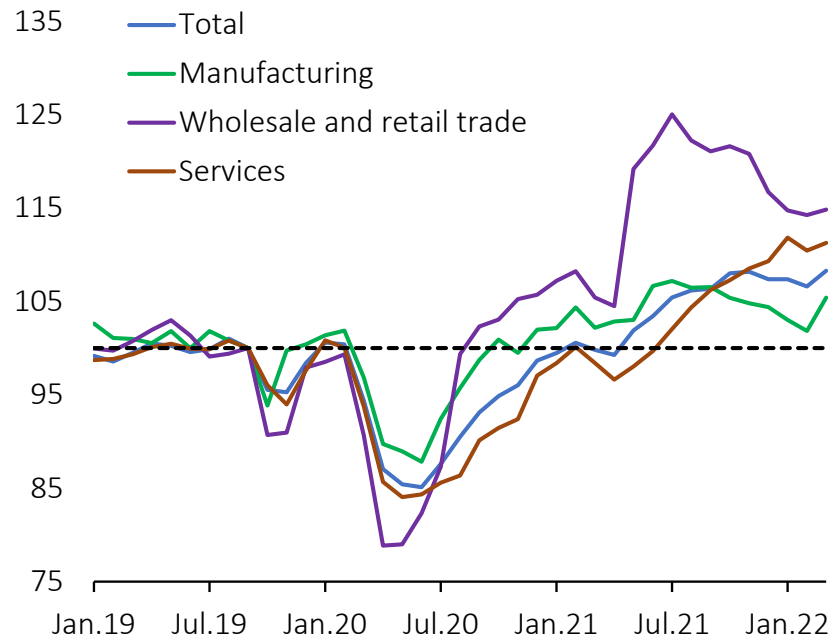
(1) Cost of transporting a 40-foot container in respective routes. (2) WTI-Brent average barrel. (3) S&P GSCI Industrial Metals. (4) Data for April 2022 is provisional. (5) Averages of last 15 and 20 years cover the periods May.07-Apr.22 and May.02-Apr.22, respectively.

Sources: Bloomberg and Central Bank of Chile.

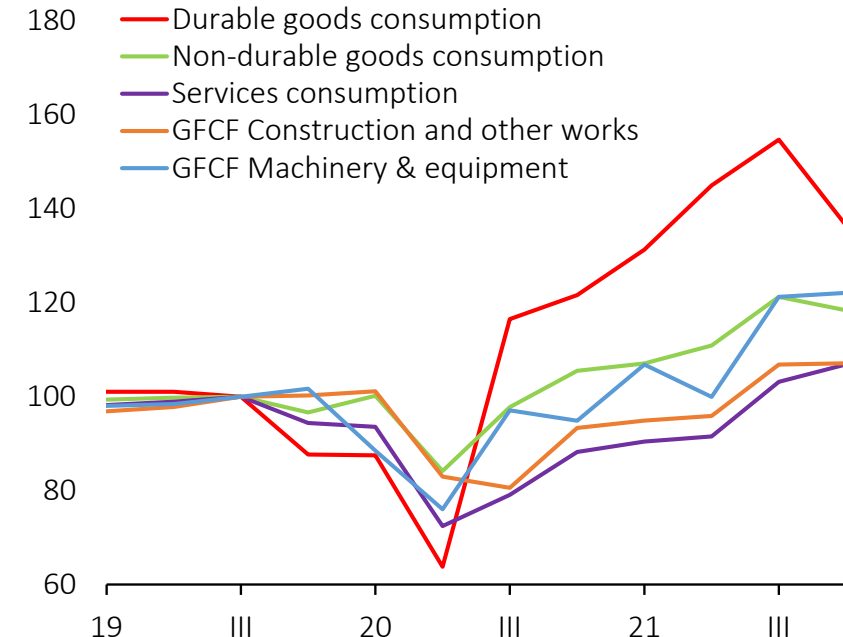
First quarter's data shows activity and consumption more resilient than expected. Investment continues to weaken



Monthly index of economic activity (Imacec)
(index, September 2019 = 100, deseasonalized series)



Domestic demand
(index, third quarter 2019 = 100, deseasonalized series)

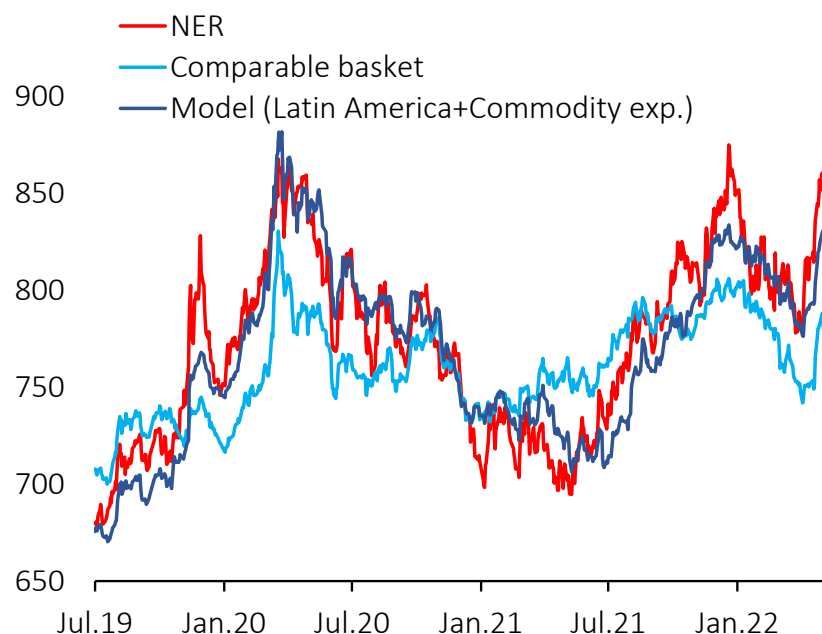


Source: Central Bank of Chile.

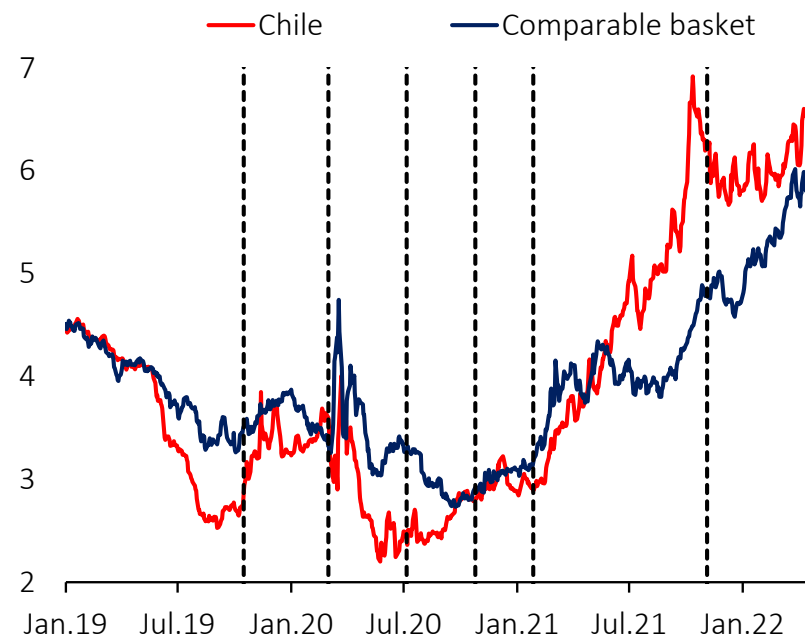
Domestic financial markets have been partially influenced by global developments.



Nominal exchange rate (1)
(pesos per dollar)



Zero-coupon BTP-10 rate with respect to comparable economies (2) (3)
(percent)



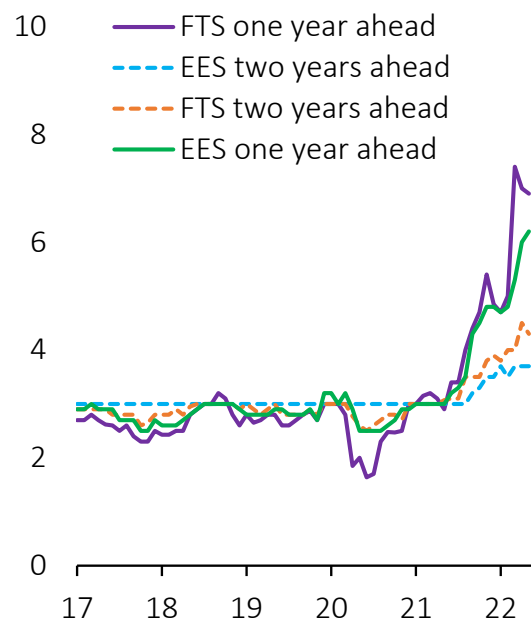
(1) For further details, see note figure II.4, MP Report March 2022. (2) For further details, see note figure II.2, MP Report March 2022. (3) Vertical lines from left to right indicate the following events: Start of social crisis (18 October 2019), first Covid-19 case confirmed in Chile (3 March 2020), approval of idea to legislate first withdrawal of pension funds (8 July 2020), approval of idea to legislate second withdrawal of pension funds (27 October 2020), start of discussion of third withdrawal (29 January 2021) and rejection by the Senate of fourth withdrawal (8 November 2021). Sources: Central Bank of Chile, Bloomberg and RiskAmerica.

Two-year ahead Market inflation expectations remain above 3%. Breakevens remain elevated, also affected by inflation premia.



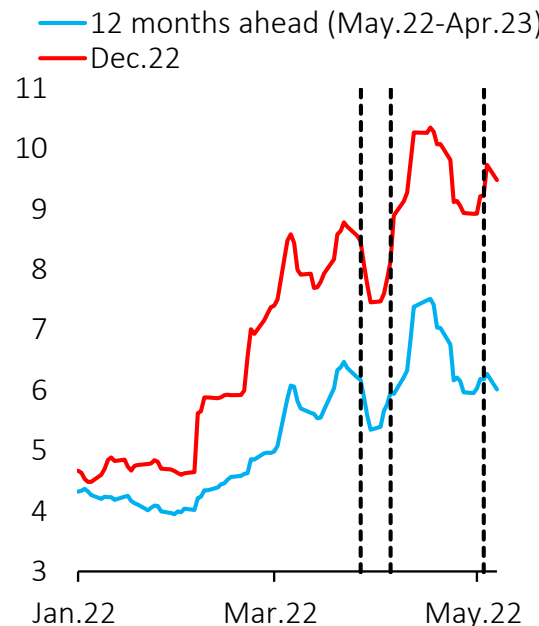
Inflation expectations in surveys (1)

(percent)



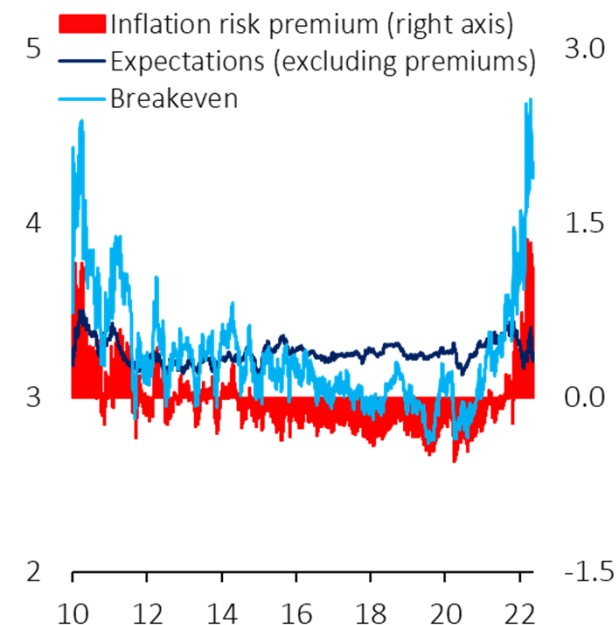
Implicit inflation in insurance contracts (2)

(percent)



Decomposition of 10-year breakeven inflation (3)

(percent)



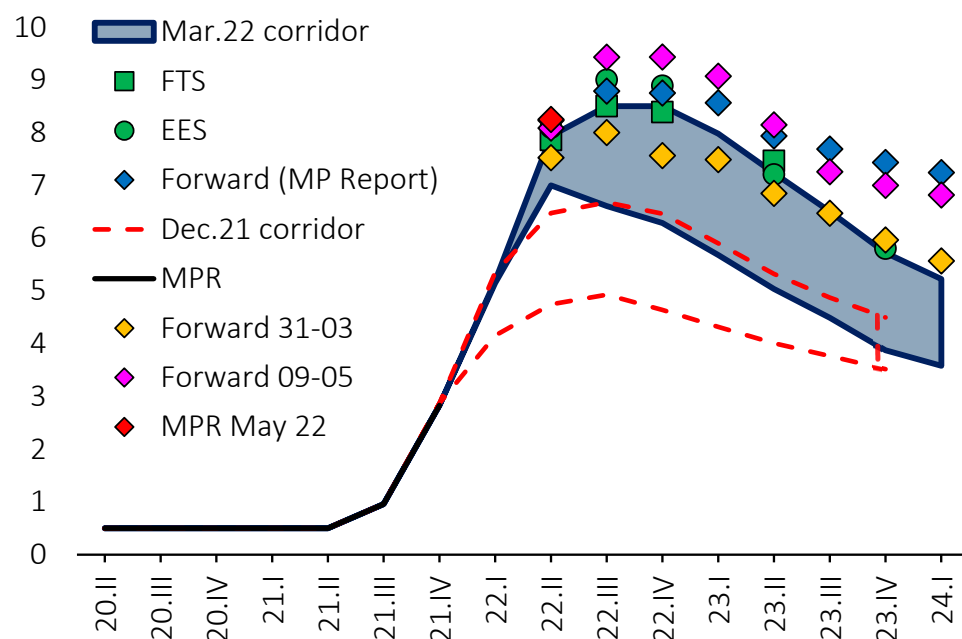
(1) The FTS considers the survey of the first half of each month until January 2018. From February 2018 onwards, it considers the latest survey published in the month. (2) The vertical lines from left to right indicate the release of March 2022 Monetary Policy Report, March CPI and April CPI. (3) Estimates based on Beyzaga and Ceballos (2016), Abrahams *et al.* (2016) with SPC rates.

Sources: Central Bank of Chile, ICAP, RiskAmerica and Tradition Chile.

As inflation has surprised on the upside, the monetary policy rate is now close to the upper range of March's corridor.



MPR corridor (*)
(quarterly average, percent)



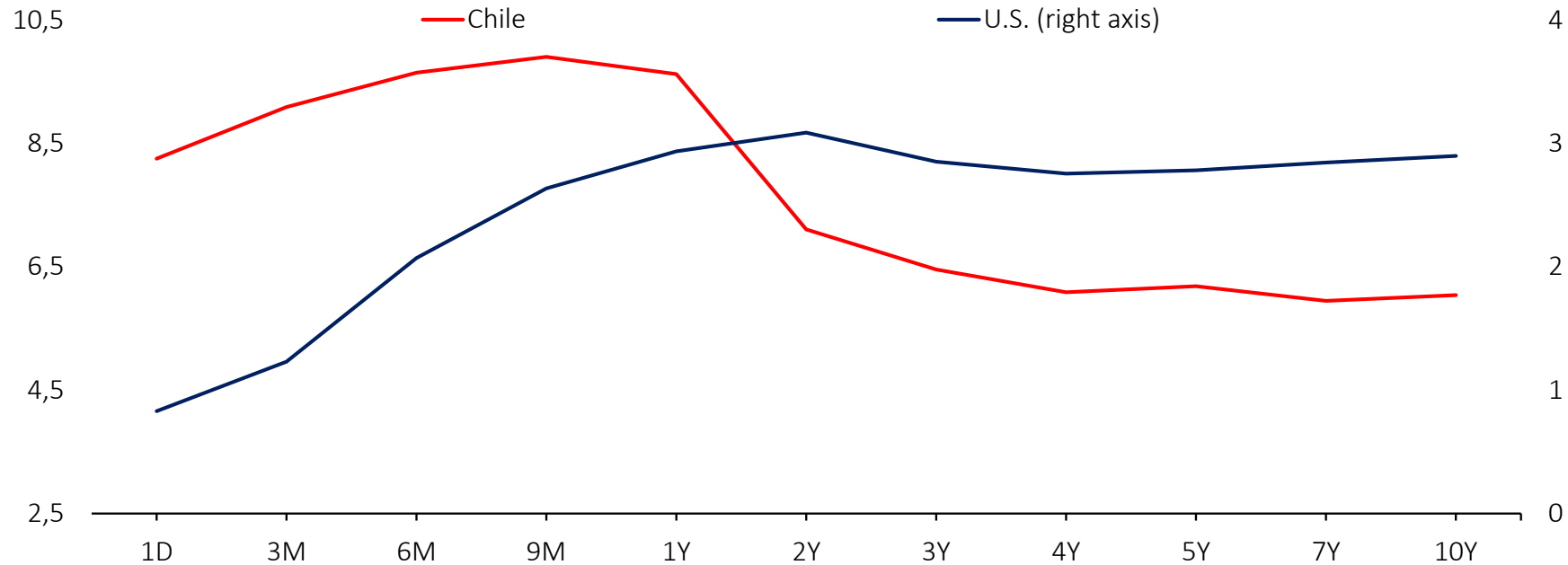
- The current MPR corridor runs between 100 and 200 basis points above that proposed in the previous MP Report
- The greater increment in the MPR will contribute to the normalization of domestic spending and an earlier closing of the activity gap
- While the increase in the MPR has been rapid and significant, risks to inflation convergence remain. The Board will monitor them carefully, ensuring that inflation converges to the target within the two-year monetary policy horizon.

(*) The corridor is constructed following the methodology of box V.1 of the March 2020 Report and box V.3 of the March 2022 Report. Includes April EES and FTS after to March MP meeting and the quarterly average smoothed forward curve at March 23rd. 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.

Monetary Policy is expected to continue to tighten in the short run.



Implicit forward curves in swaps (1)
(percent)



(1) Calculated from the SPC rates for Chile and OIS for the United States. (2) Starting with the monetary policy rates, the forward curves are calculated from the implicit terms on the horizontal axis. Source: Bloomberg.

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