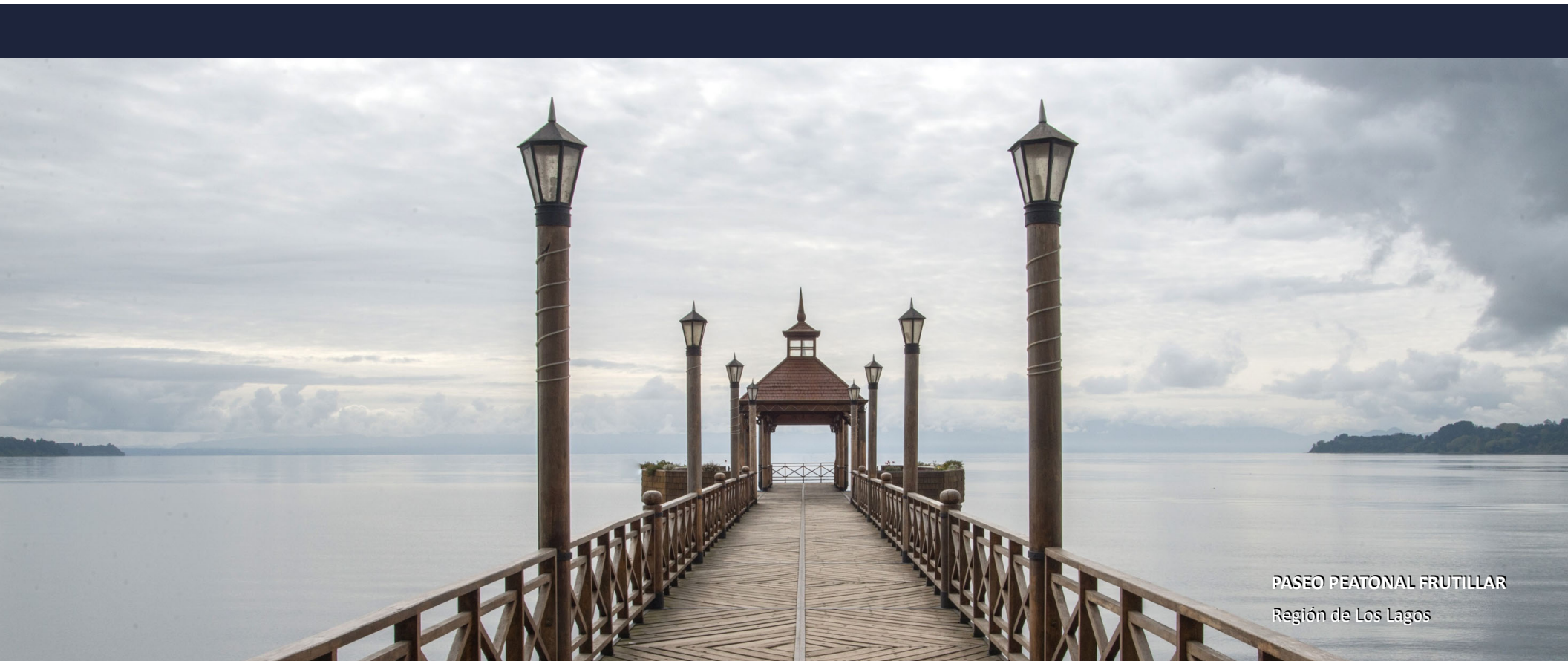


MONETARY POLICY REPORT

MARCH 2023

Pablo García, Vicegovernor



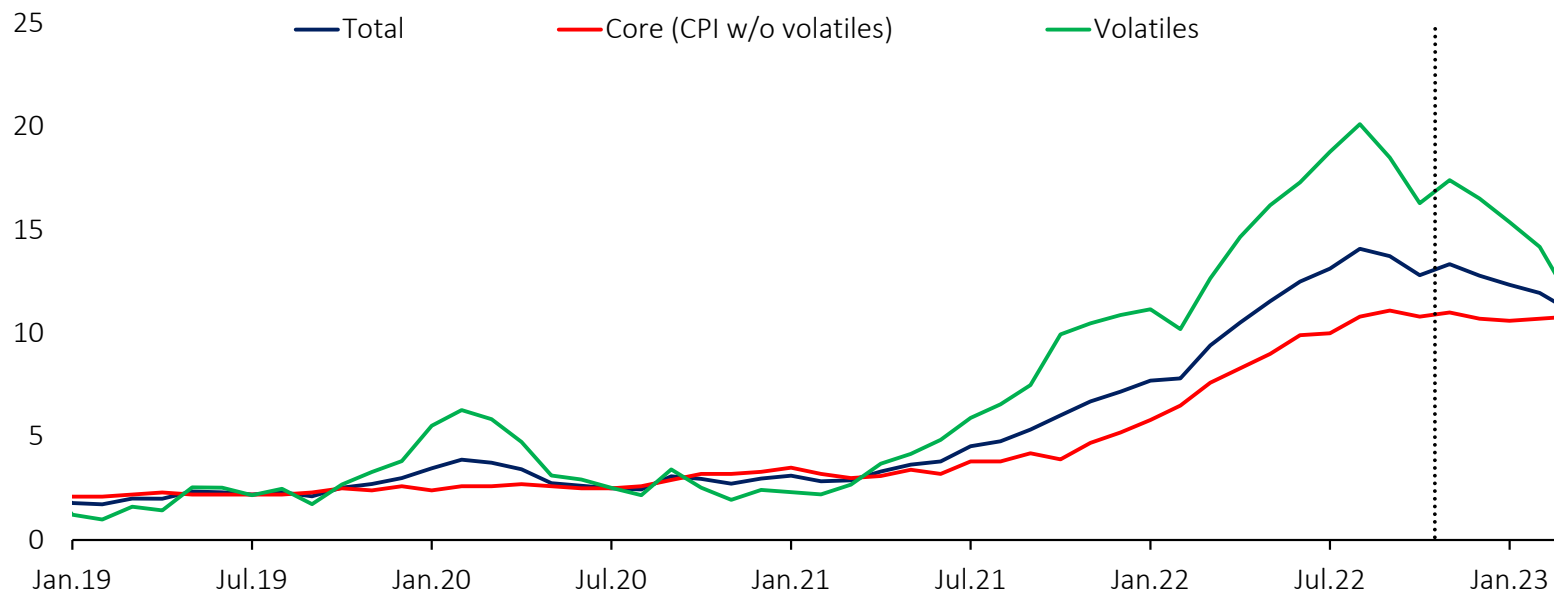
PASEO PEATONAL FRUTILLAR
Región de Los Lagos

Inflation remains very high, notwithstanding a gradual decline over recent months.



Inflation indicators (1)(2)

(annual change, percent)

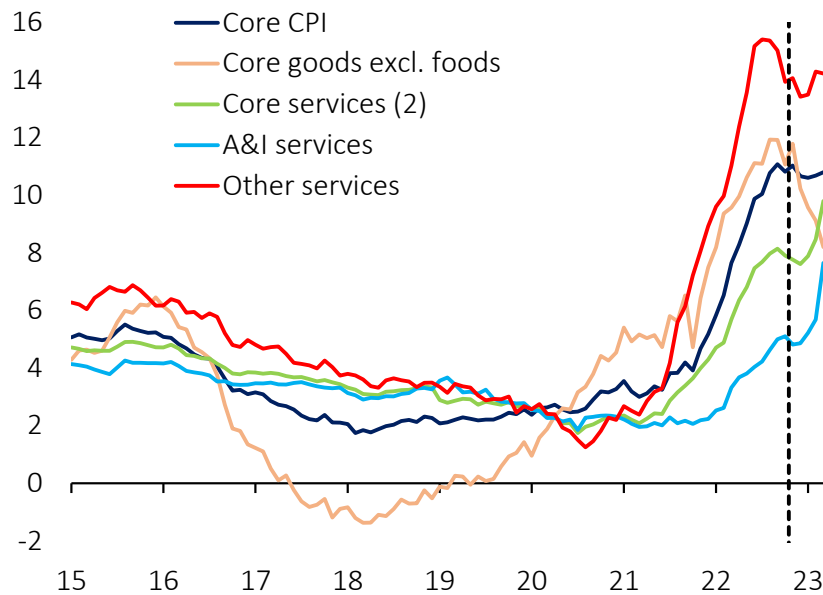


(1) Dotted vertical line marks statistical cut-off of December 2022 MP Report. (2) For details on groupings and their shares in total CPI basket, see [box IV.1 in December 2019 MP Report](#), [Carlomagno and Sansone \(2019\)](#), and [Economic Glossary](#). Sources: Central Bank of Chile and National Statistics Institute.

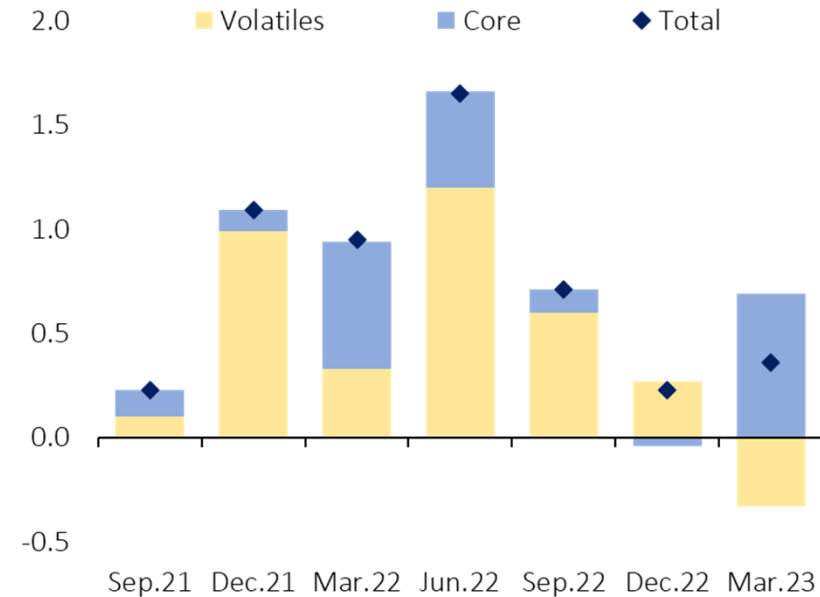
Core inflation is still high and is the main cause of upward inflationary revisions since the last MP Report.



Core inflation (1)
(annual change, percent)



Inflationary surprises by components (3)
(percentage points)



(1) Dotted vertical line marks statistical cut-off of December 2022 MP Report. (2) Sum of Administered and indexed services and Other services. (3) Cumulative surprises in respective MP Reports. Sources: Central Bank of Chile and National Statistics Institute.

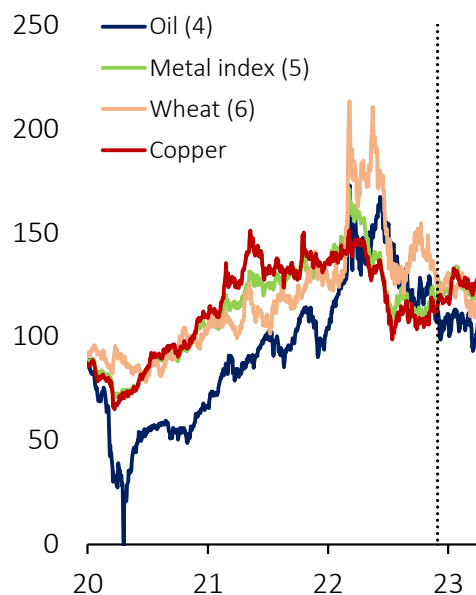
Improvement in several inflation fundamentals, such as an exchange rate appreciation, declining commodity prices, and logistical bottlenecks, suggest easing pressures going forward.



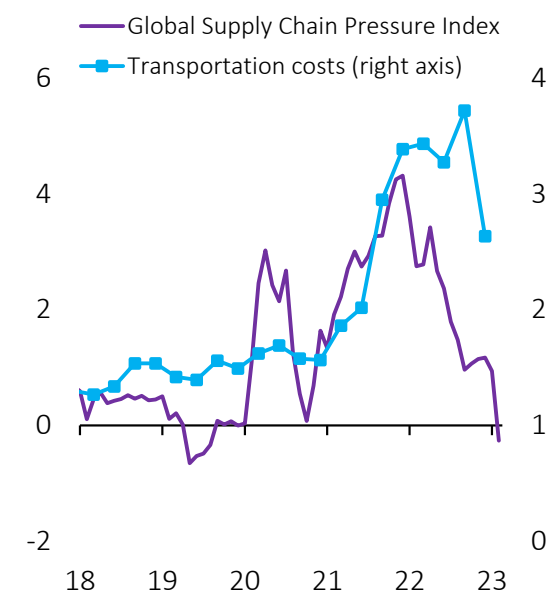
Real exchange rate (RER) (1)(2)
(index, 1986 average=100)



Commodity prices (3)
(index, 2010-2023 average=100)



Cost factors evolution (7)
(percent of GDP, quarterly; st. deviation of historic average, monthly)

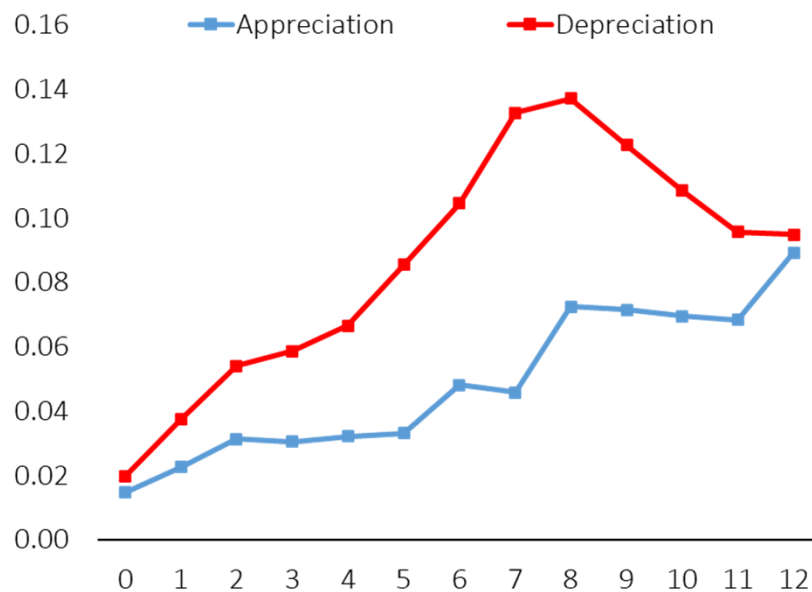


(1) March 2023 figure is preliminary average of the month. (2) Average of the last 15 years covers the period Apr.2008-Mar.2023 (3) Dotted vertical line marks statistical cut-off of December 2022 MP Report. (4) WTI-Brent average. (5) S&P GSCI Industrial Metals. (6) One-month futures price. (7) Transportation cost is calculated as the difference between CIF and FOB imports. Sources: Central Bank of Chile, Bloomberg, and New York Federal Reserve.

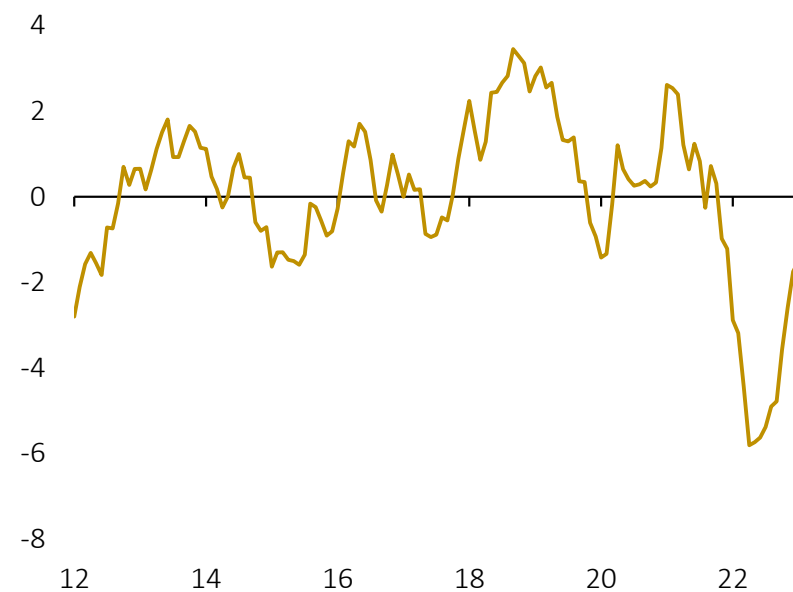
The exchange pass through to prices from appreciations appears to be slower. A stronger exchange rate has also helped decompress aggregate margins.



Estimates of exchange-rate pass-through coefficient based on micro-data
(percent change in prices of +/-1% ER)



Cyclical component of aggregate margins
(moving three-month average, percent)



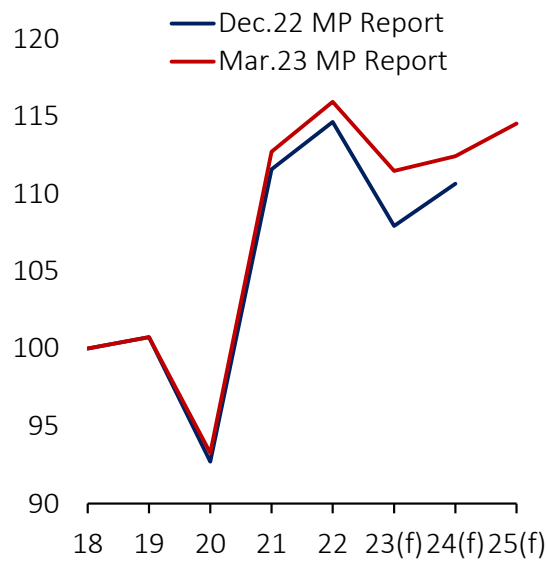
Sources: Arenas *et al.* (2023) and Acevedo *et al.* (2023)

On the other hand, the imbalances accumulated by the economy were larger than expected. While the level of output and demand did not change substantially, consumption has been higher.

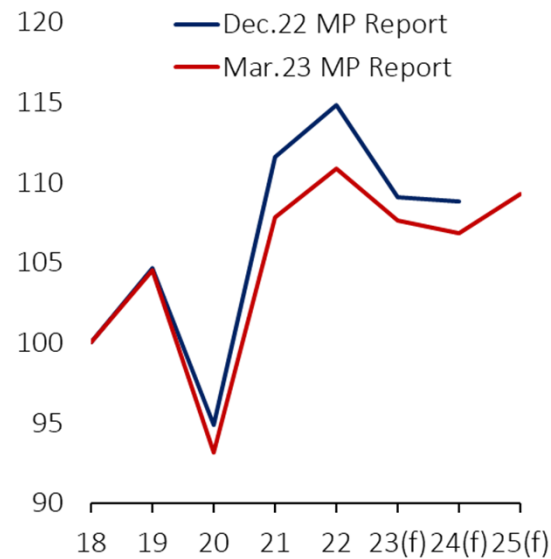


Domestic demand (*) (index, 2018=100, real series)

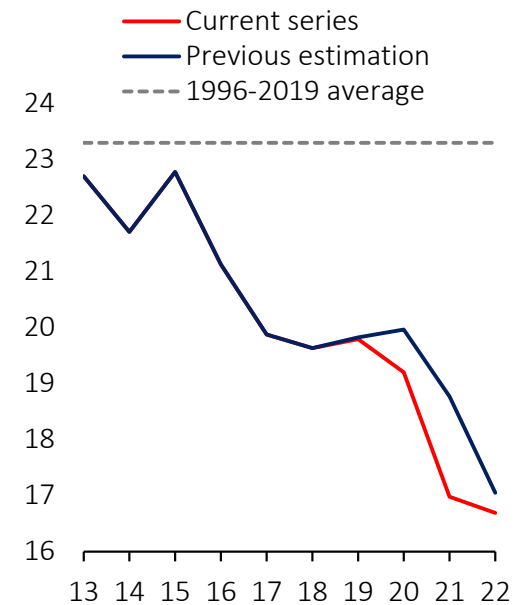
a) Private consumption



b) Investment



National savings (percent of nominal GDP)



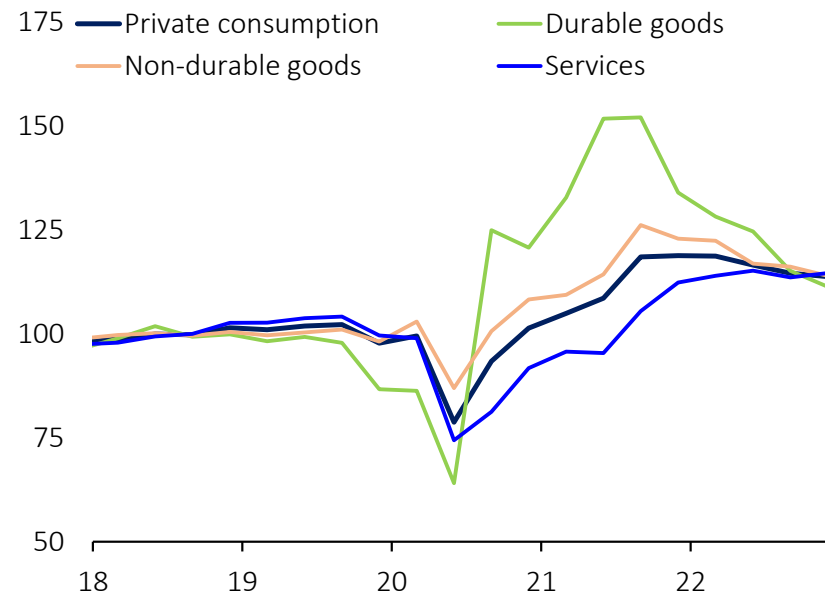
(*) Original real series. For 2022.Q4 of the previous estimation series (available up to 2022.Q3), the annual change in the currently published series is used.
Source: Central Bank of Chile.



More recently, household consumption has lost momentum, but less than previously anticipated.

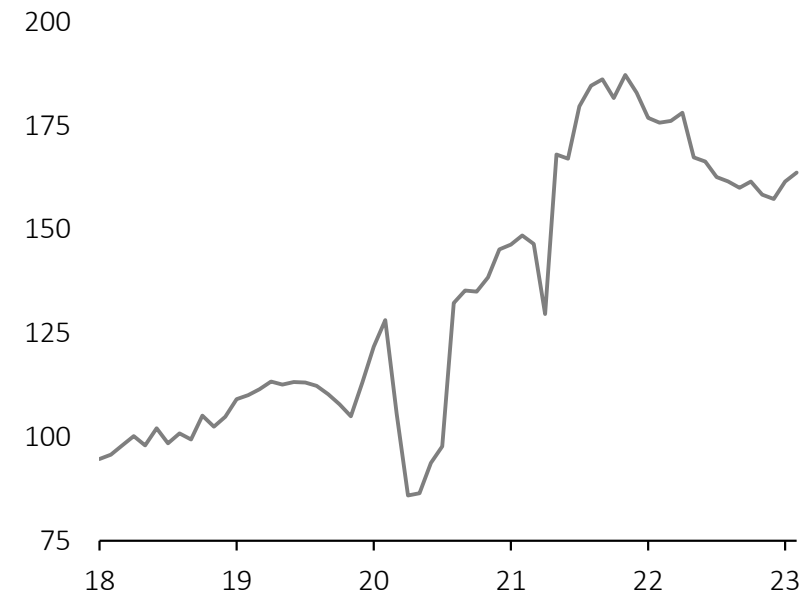
Private consumption

(index, 2018=100, deseasonalized series)



Spending in goods and services (*)

(index, 2018=100, real deseasonalized series)



(*) Sales to residents.

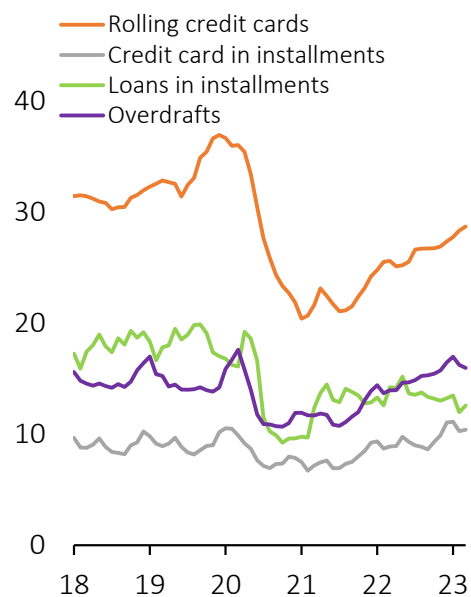
Sources: Central Bank of Chile and Transbank.

Consumption's resilience appears to be associated with accelerating consumer credit flows, but financial indicators suggests there is little room for further expansion, especially among lower-income households.



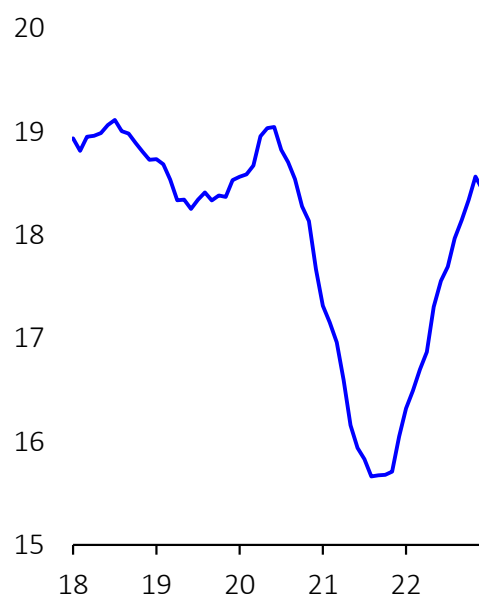
Real consumer credit flows

(millions of UF, moving quarterly average)



Bank debt financial burden of households (1)

(percent of monthly income, moving annual average)



Delinquency in consumer portfolio (2)

(ratio, percent)



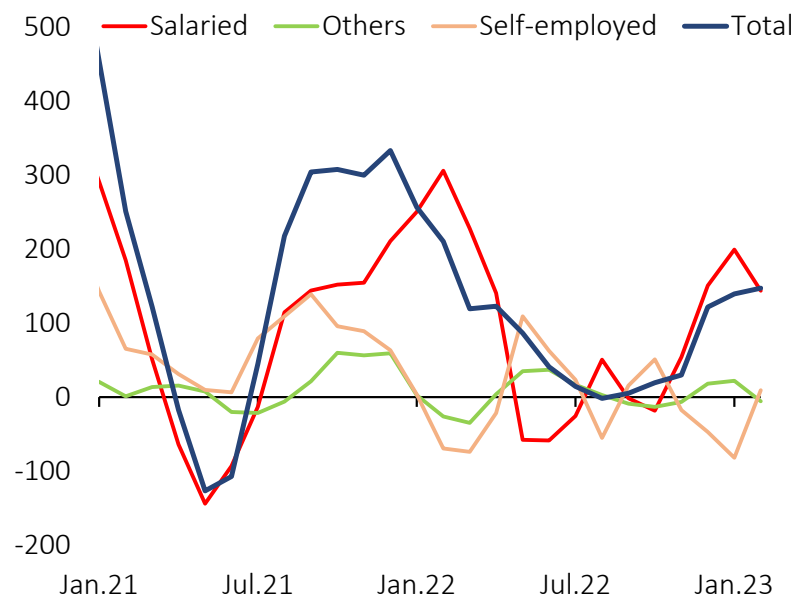
(1) Estimated bank financial burden for the median salaried debtor, based on total monthly income. (2) Loans at amortized cost, series at consolidated banking system level. Sources: Central Bank of Chile, CMF and SUSESO.

It coincides with a recent rise in employment, which has contributed to a reacceleration of labor income as well.



Job creation by categories (1)

(cumulative in three months, thousands of persons)



Real wage bill (2)

(percent, contributions to monthly change, deseasonalized)



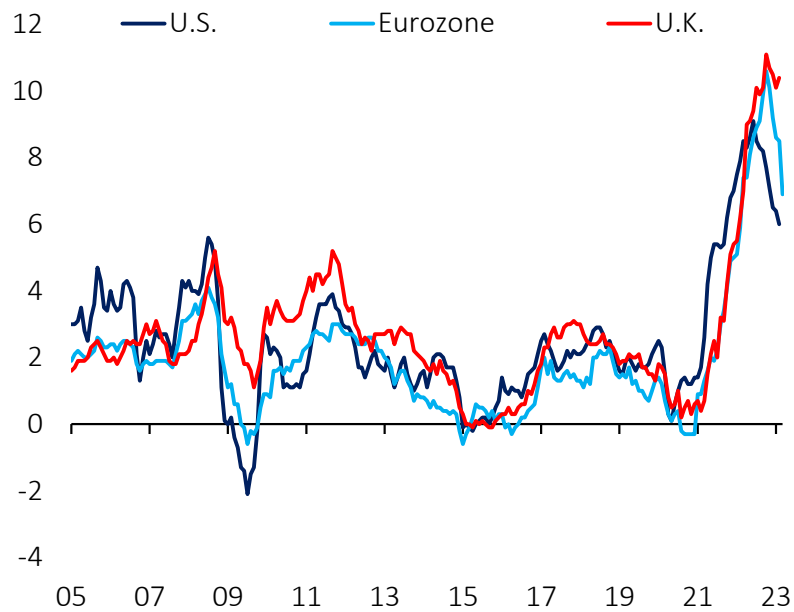
(1) Total includes self-employed workers, salaried employees, employers, household help and unpaid family members. (2) Calculated based on deseasonalized series of real labor cost, usual hours worked and occupation. Sources: Central Bank of Chile and National Statistics Institute.

Global inflation remains high, especially the core components.

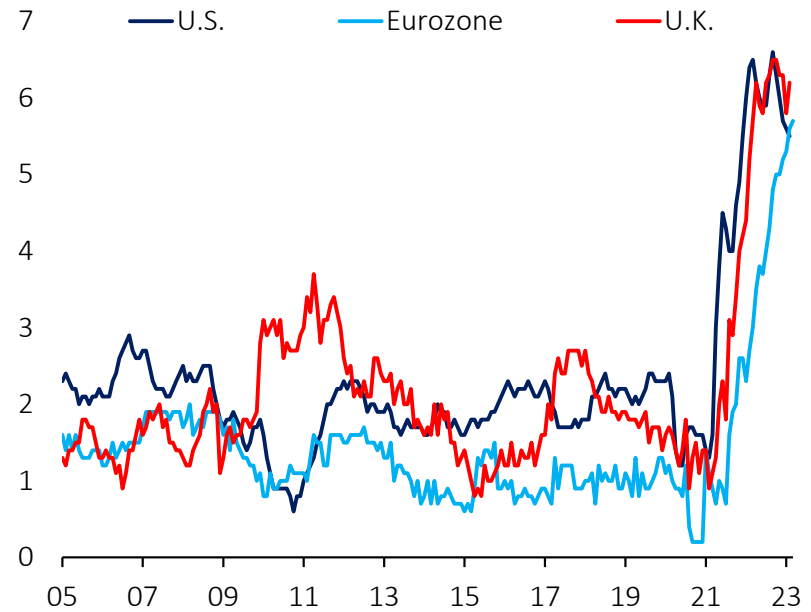


Inflation in developed economies (*) (annual change, percent)

Headline



Core



(*) March 2023 figure for the Eurozone is preliminary.
Source: Bloomberg.

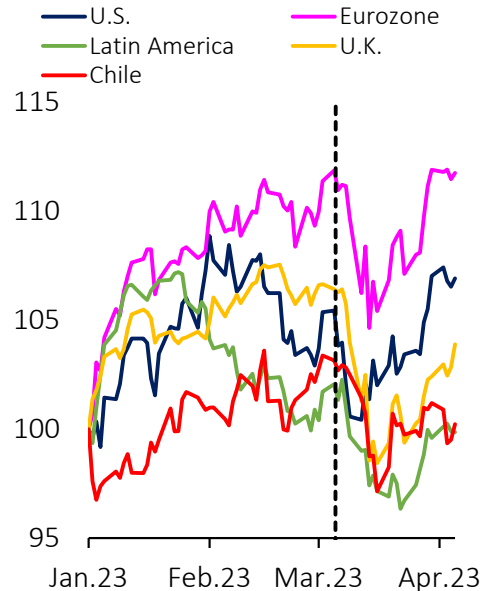
Doubts about the financial health of global banks have dominated developments in the external scenario in recent weeks, with fixed income volatility spiking.



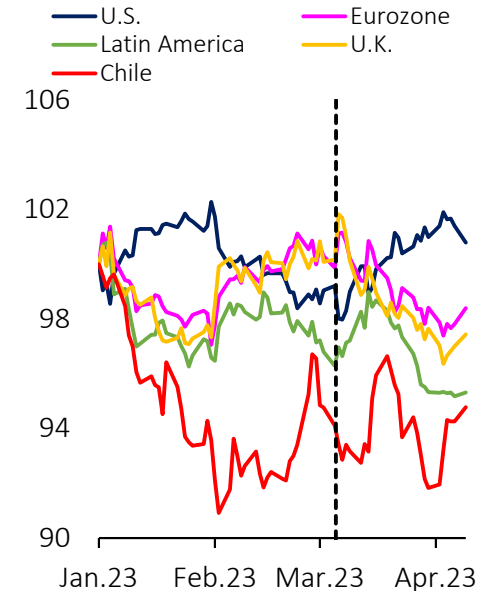
MOVE Index (1)(2)
(index)



Stock markets (1)(3)
(index, 2.Jan.23=100)



Currencies (1)(3)(4)
(index, 2.Jan.23=100)

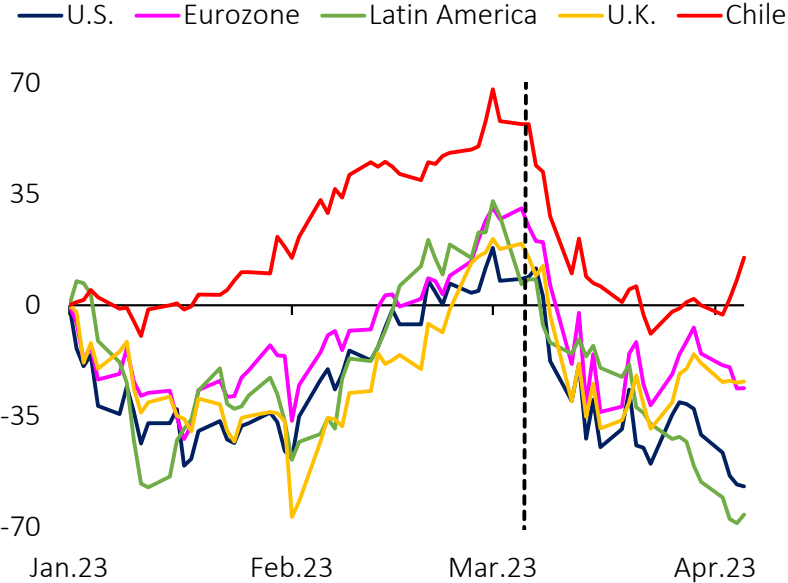


(1) Dotted vertical line marks 7 March 2023. (2) Measures the implied volatility of options on U.S. Treasury bonds with different one-month durations. (3) For Latin America, it uses the simple average for Brazil, Mexico, Colombia and Peru. (4) An increase (decrease) indicates a depreciation (appreciation) of the respective currency. Sources: Central Bank of Chile and Bloomberg.

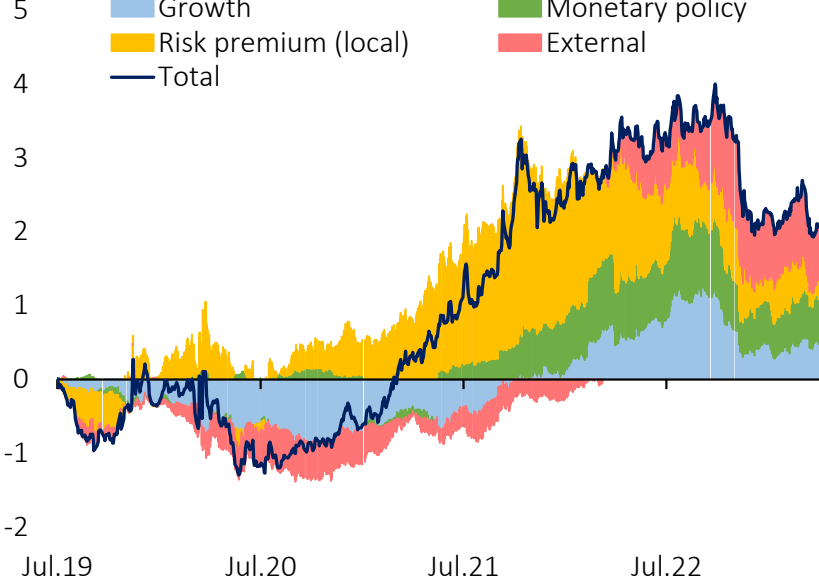


Domestically, long-term interest rates have remained stable.

Nominal 10-year rates (1)(2)
(diff. w/respect to 2.Jan.23, basis points)



Structural decomposition of 10-year zero rate (3)
(basis points, accumulated since 1.Jul.2019)



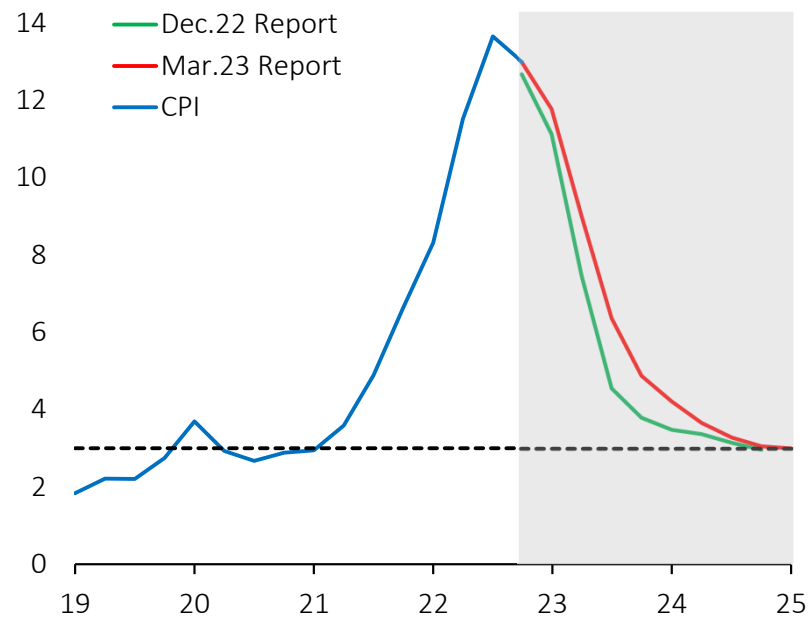
(1) Dotted vertical line marks 7 March 2023. (2) For Latin America, it uses simple average for Brazil, Mexico, Colombia and Peru. (3) Historical decomposition of the long rate from a BVAR based on the identification strategy proposed by [Eterovic and Eterovic \(2022\)](#), incorporating an external block. The exogenous block encompasses all U.S. shocks (i.e., monetary policy, economic growth, risk aversion and pure risk), which have been aggregated for simplicity. Sources: Central Bank of Chile and Bloomberg.

In the central scenario, headline inflation will reach the 3% target in the latter part of 2024, while core inflation will do so by the end of the projection horizon.



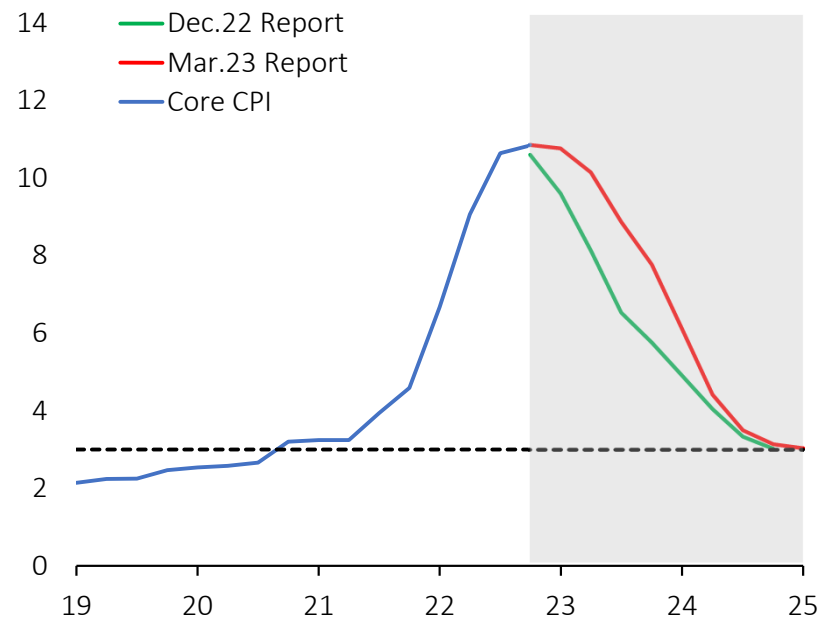
Total CPI inflation forecast (*)

(annual change, percent)



Core CPI inflation forecast (w/o volatiles) (*)

(annual change, percent)



(*) Figures as from first quarter of 2023 show forecast.

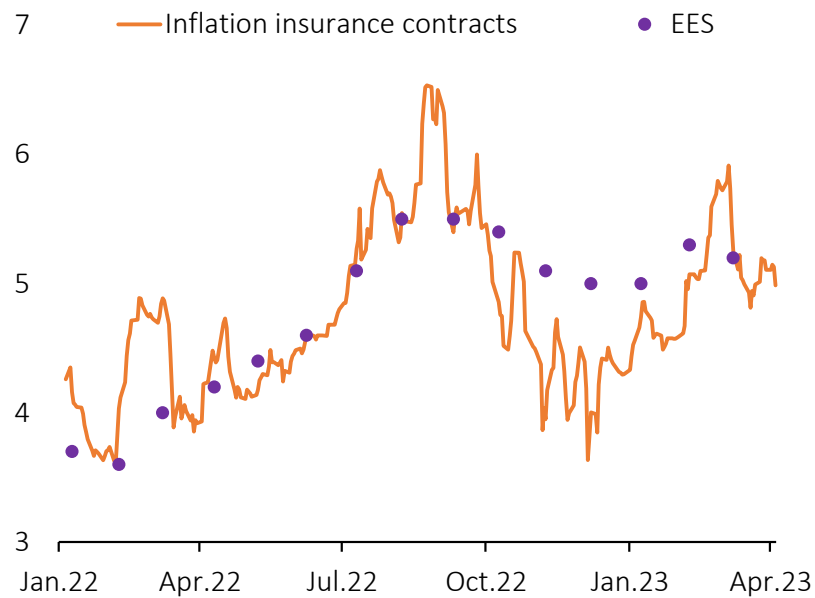
Sources: Central Bank of Chile and National Statistics Institute.

In this context, two-year inflation expectations remain above 3% according to several measurements and shorter-term ones exceed the December estimates.

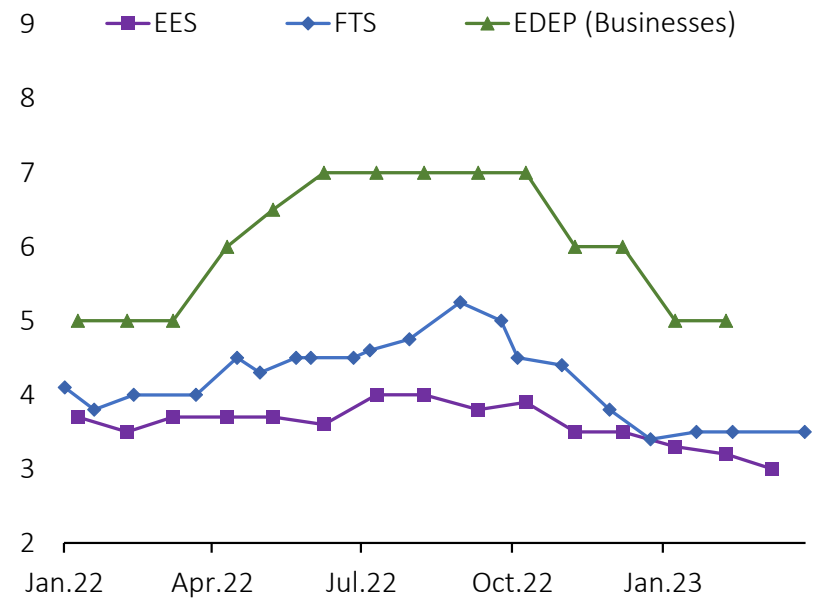


Inflation expectations (annual change, percent)

a) At December 2023



b) Two years ahead



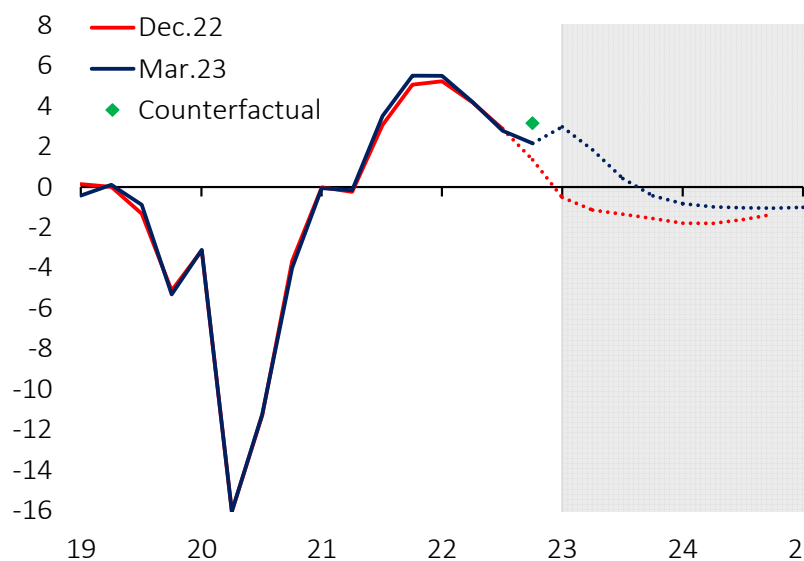
Sources: Central Bank of Chile and Tradition Chile.

After the excessive spending of previous years, the adjustment of the local economy is still one of the key assumptions behind the convergence of inflation.



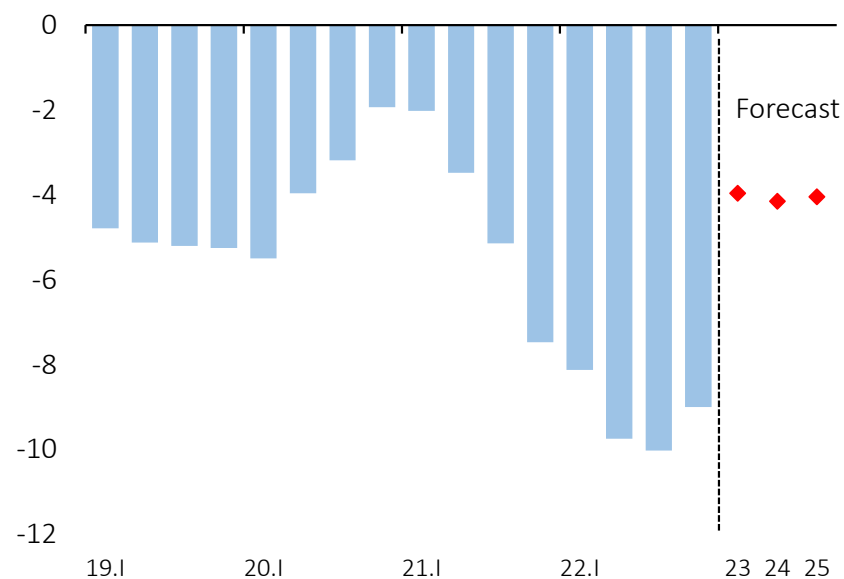
Activity gap (1) (2) (3)

(level, percentage points)



Current account (4)

(percent of GDP, last twelve months)

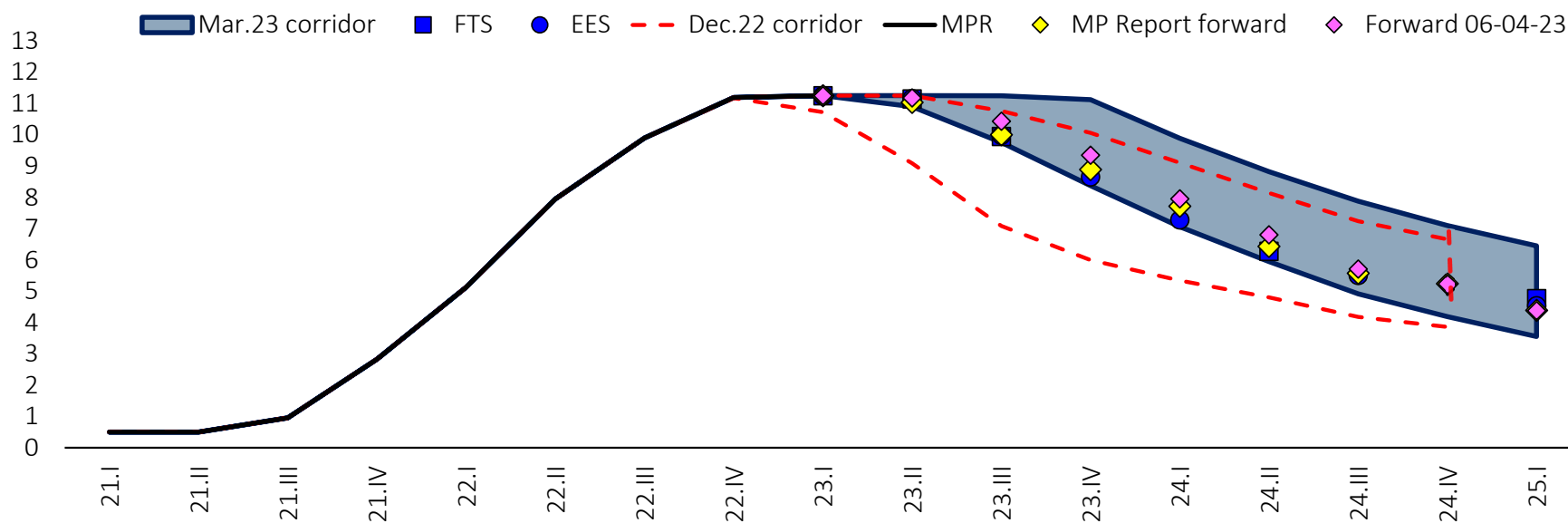


(1) Constructed using seasonally adjusted data. Dotted lines show forecasts. (2) Projection uses structural parameters updated in the December 2022 MP Report (trend) with methodological revision of potential GDP. (3) Counterfactual for 2022.Q4 estimated assuming that the value added measure of the Transport sector remains at its level of 2022.Q3, which is equivalent to zero velocity. All other non-mining sectors use published velocities. For the fourth quarter, both the effective and counterfactual gaps are calculated using the same potential GDP. (4) Quarterly effective data. Red diamonds show forecasts for respective years. Source: Central Bank of Chile.

As usual, the MPR corridor reflects the most probable scenarios for the required policy to ensure inflation returning to target.



MPR corridor (*)
(quarterly average, percent)



(*) The corridor is constructed following the methodology of [box V.1 of the March 2020 MP Report](#) and [box V.3 of the March 2022 MP Report](#). For details, see methodological note (figure II.1, chapter II, March 2023 Monetary Policy Report). Source: Central Bank of Chile.



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