

# MONETARY POLICY AND MACRO OUTLOOK

JUNE 2023

Pablo García, Vice Governor

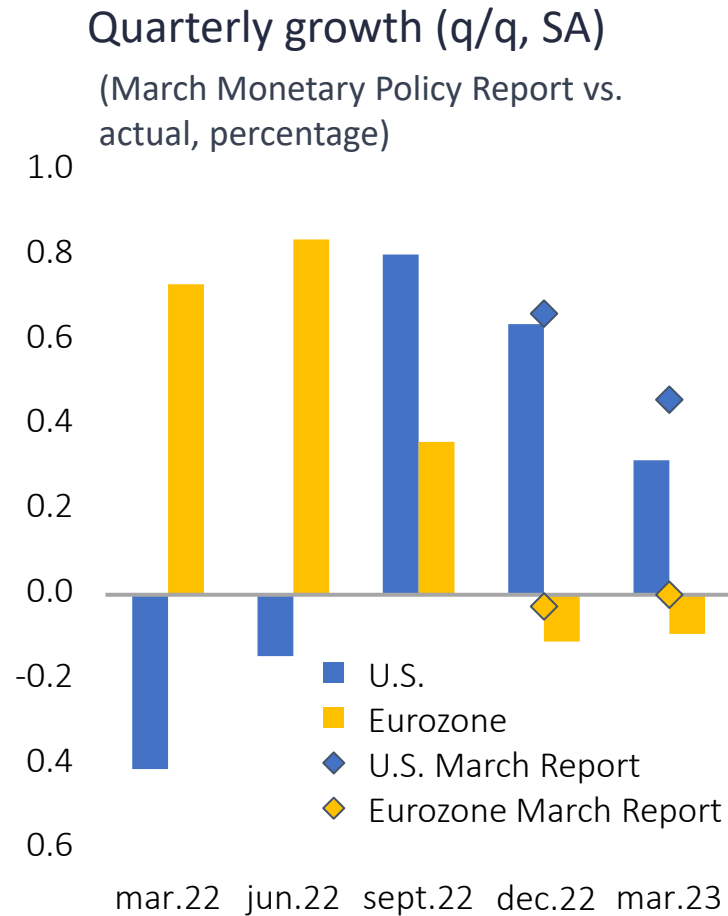


VALLE DE LA LUNA  
San Pedro de Atacama

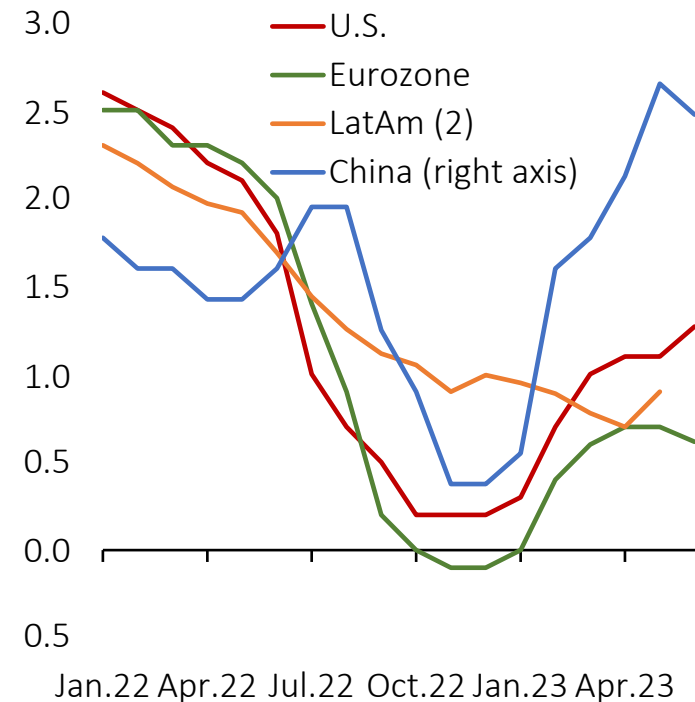


## International scenario:

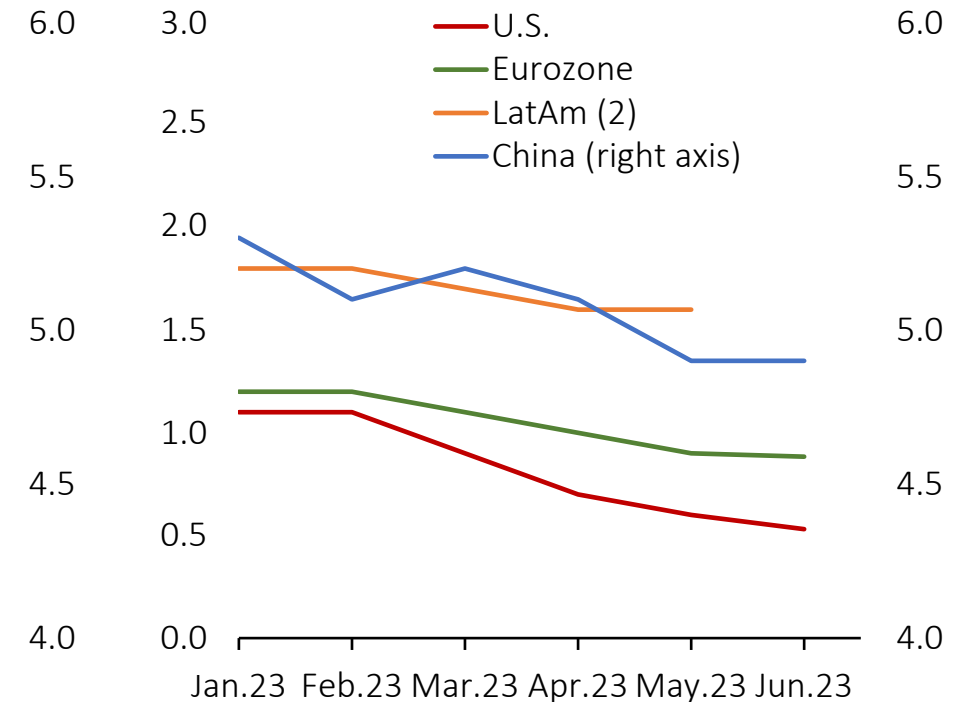
Even though growth has been higher than expected in some economies, global growth prospects remain low.



**Growth projections for 2023 (1)**  
(Consensus Forecast, percent)



**Growth projections for 2024 (1)**  
(Consensus Forecast, percent)



(1) For Latin America, the latest available information as of the close of this IPoM corresponds to the month of May 2023, while for the rest of the economies, it corresponds to June 2023. (2) Includes Brazil, Argentina, Peru, Colombia, and Mexico. Weighted GDP growth at PPP, with each economy's shares according to WEO (IMF). Sources: Consensus Forecasts and IMF.



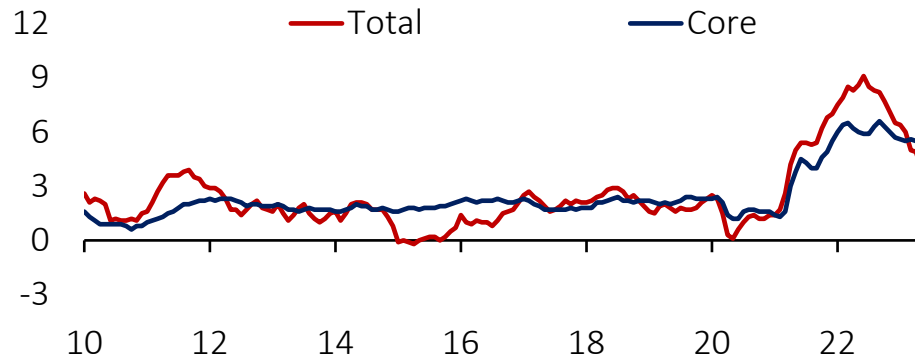
Inflation has decreased in most countries, influenced by the normalization of volatile items and easing of cost pressures. Core inflation has dropped less and continues at high levels, reflecting greater persistence in services...



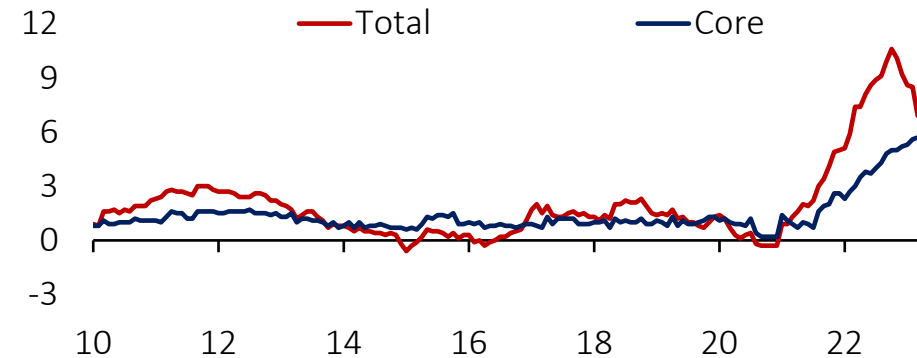
## World inflation

(annual change, percent)

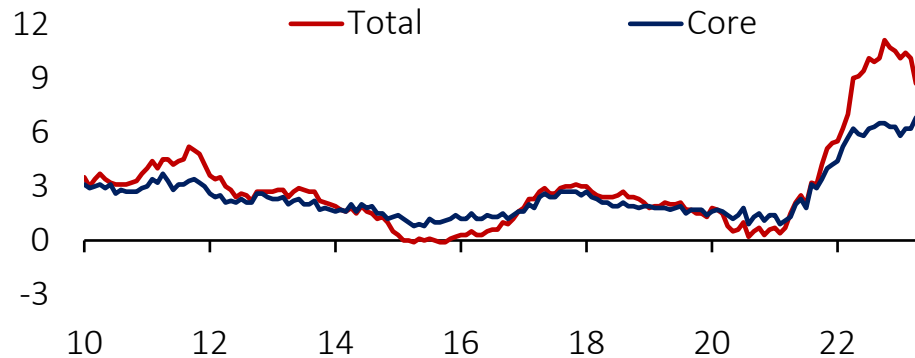
### U.S.



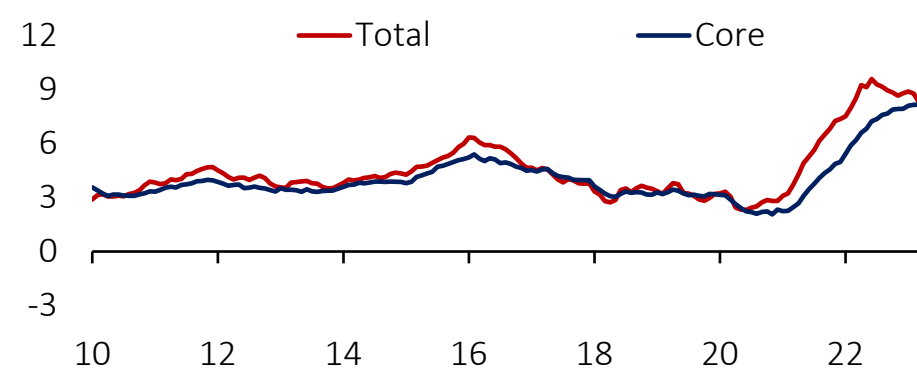
### Eurozone



### U.K.



### LatAm (\*)



(\*) Simple average of annual inflation of Brazil, Mexico, Peru and Colombia.

Source: Bloomberg.

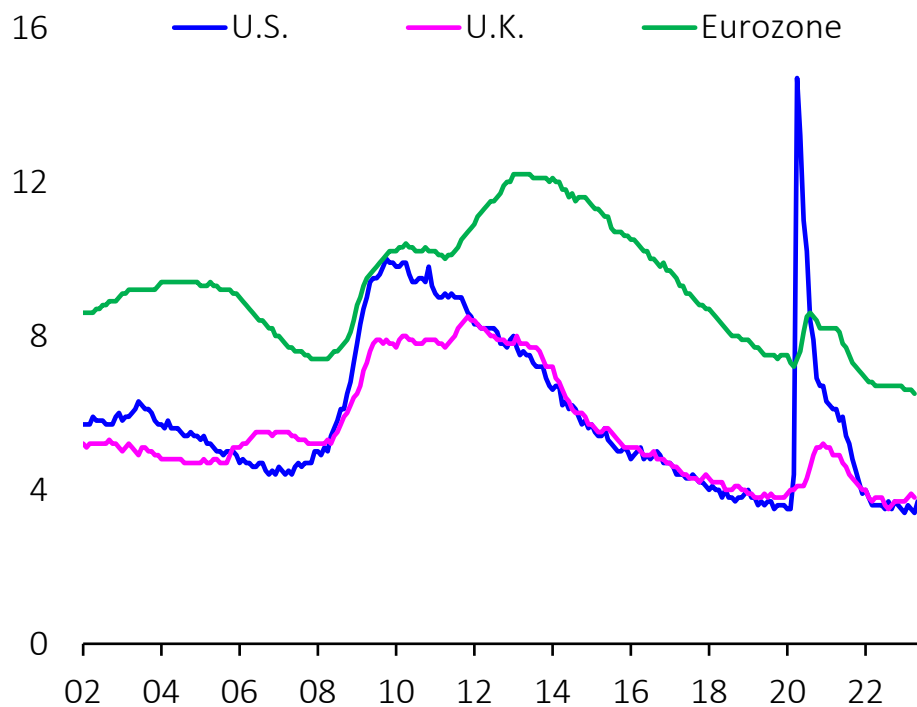


...in a context where labor markets remain tight in developed countries. In the U.S., this has resulted in stronger consumer spending.



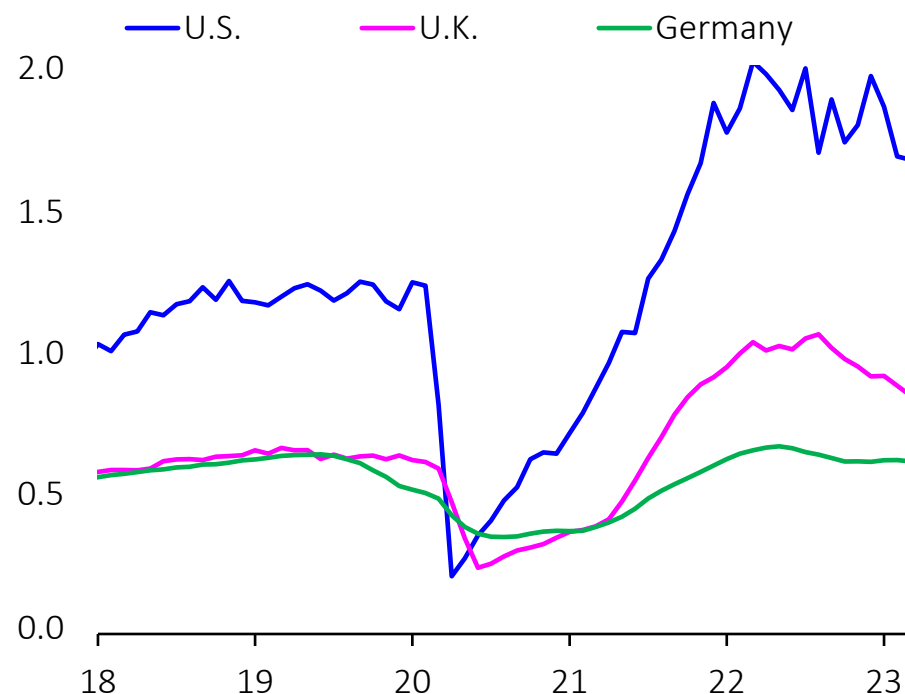
### Unemployment rate

(index, 1 Mar 23 = 100)



### Vacancies-to-unemployment ratio

(ratio, SA)



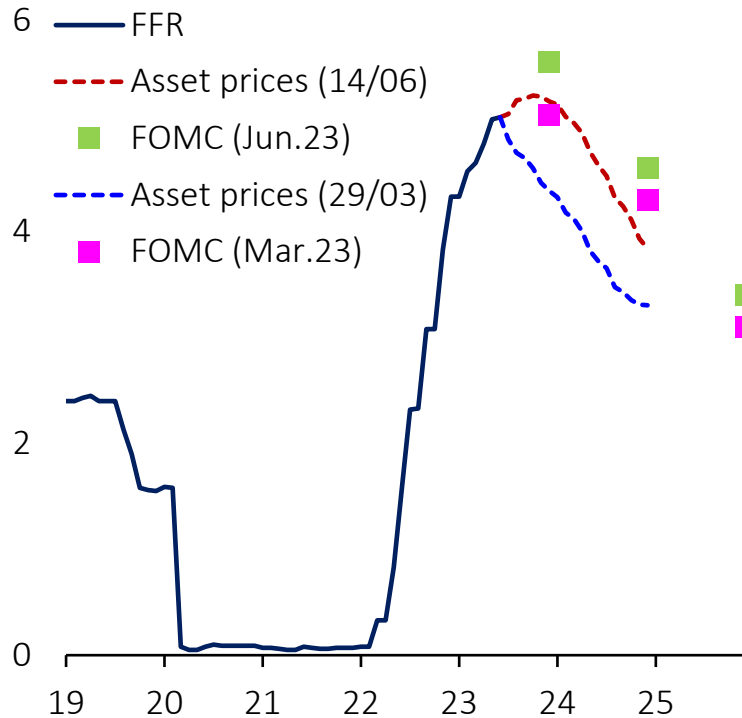
Source: Bloomberg.



These factors have resulted in a global monetary policy that maintains a tighter stance for longer than anticipated.

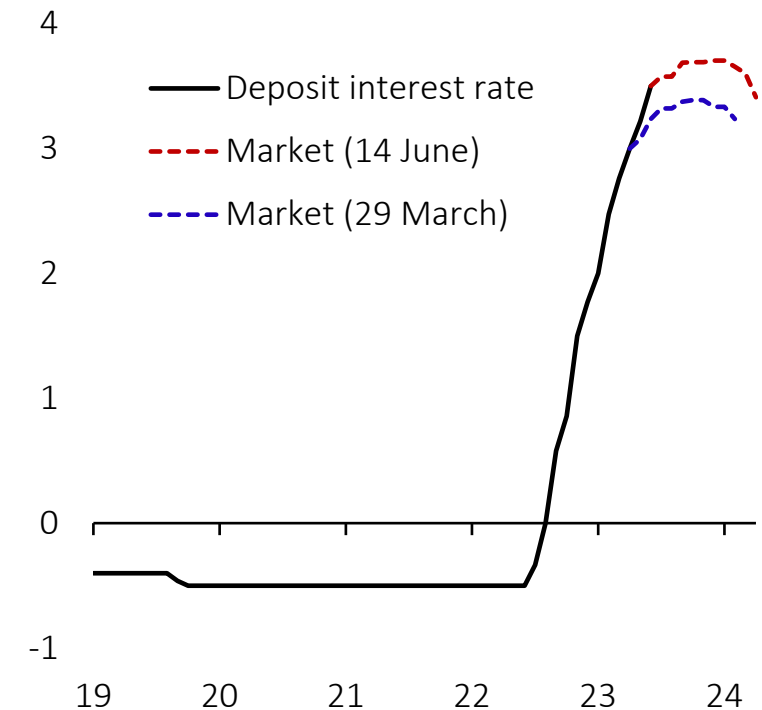


Fed funds rate and forecasts (\*)  
(percentage points)



“[...] Inflation has moderated... (but) pressures continue to run high and the process...has a long way to go... [...] nearly all Committee participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year (Jerome Powell)

Deposit interest rate of the ECB (2)  
(percentage points)



“Inflation has been coming down but is projected to remain too high for too long.” (Christine Lagarde)

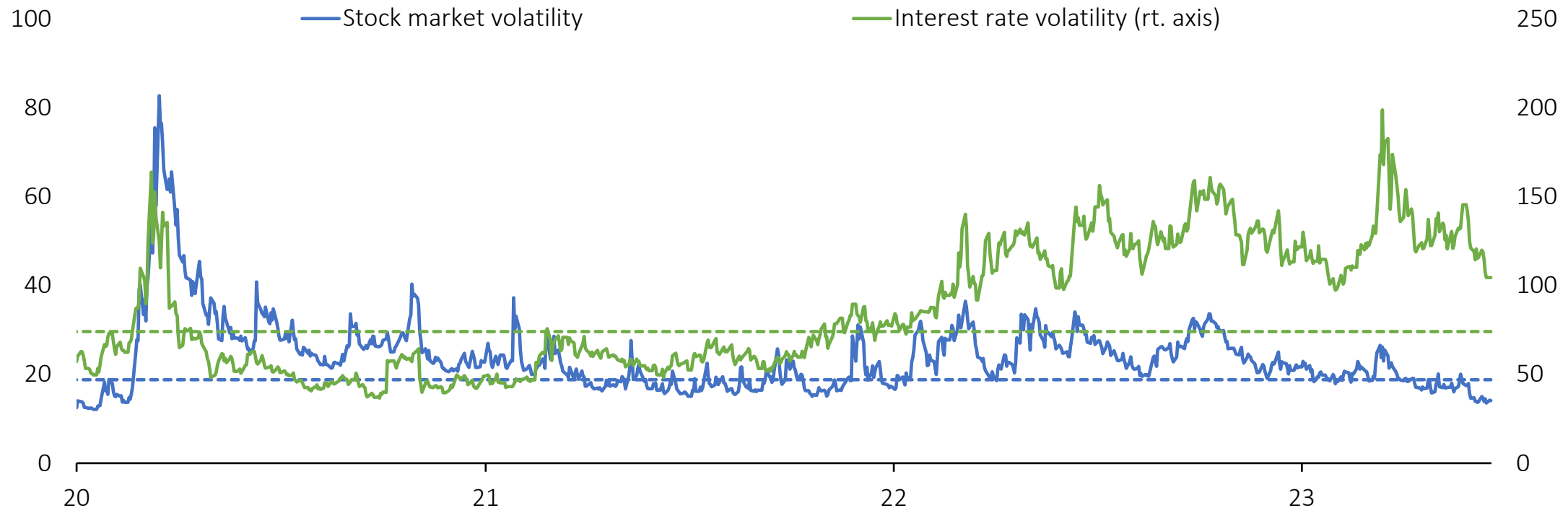
(1) Forecasts correspond to the mid-range of the Fed funds rate. (2) In market expectations, the value of the previous month is attributed during months without monetary policy meetings.  
Sources: Bloomberg y Federal Reserve.



# Volatility in international financial markets has decreased following the containment of the events in March, increasing risk appetite.



Financial markets' volatility (1) (2)  
(index)



(1) For the stock market, it uses the VIX index, which measures implied volatility in options on the S&P500 in the U.S. at one month. For interest rates, it uses the MOVE index, which measures volatility implicit in options on the U.S. Treasury bond with different one-month maturities. (2) Dashed horizontal lines indicate historical averages between 2015 and 2023 of each index.

Source: Bloomberg.

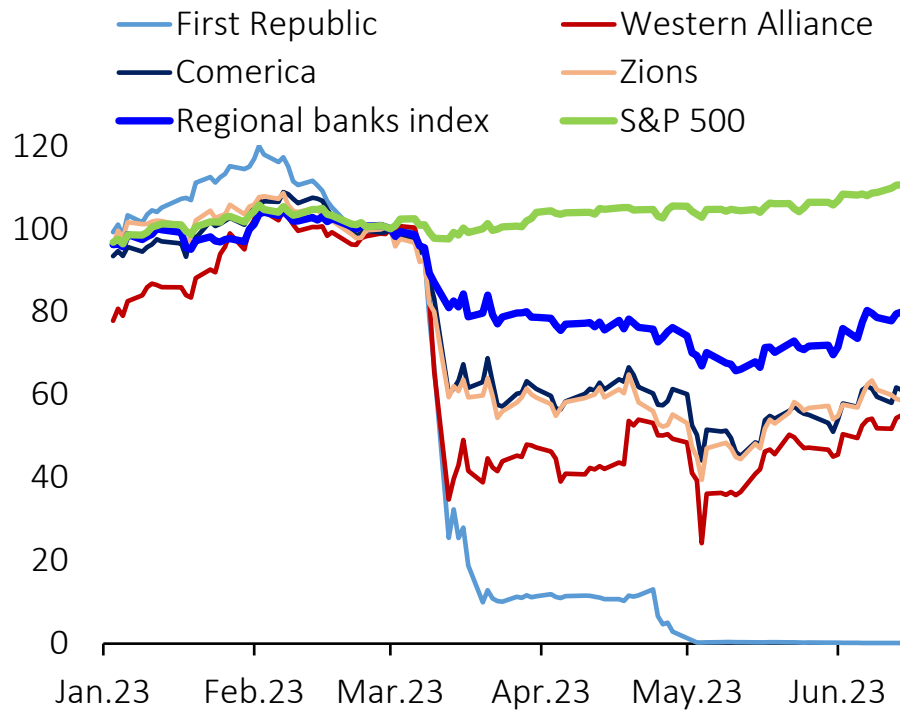


Nevertheless, its evolution is a significant risk, which, coupled with restrictive monetary policy, keeps external financial conditions tight and has led to greater credit restrictions in developed economies.



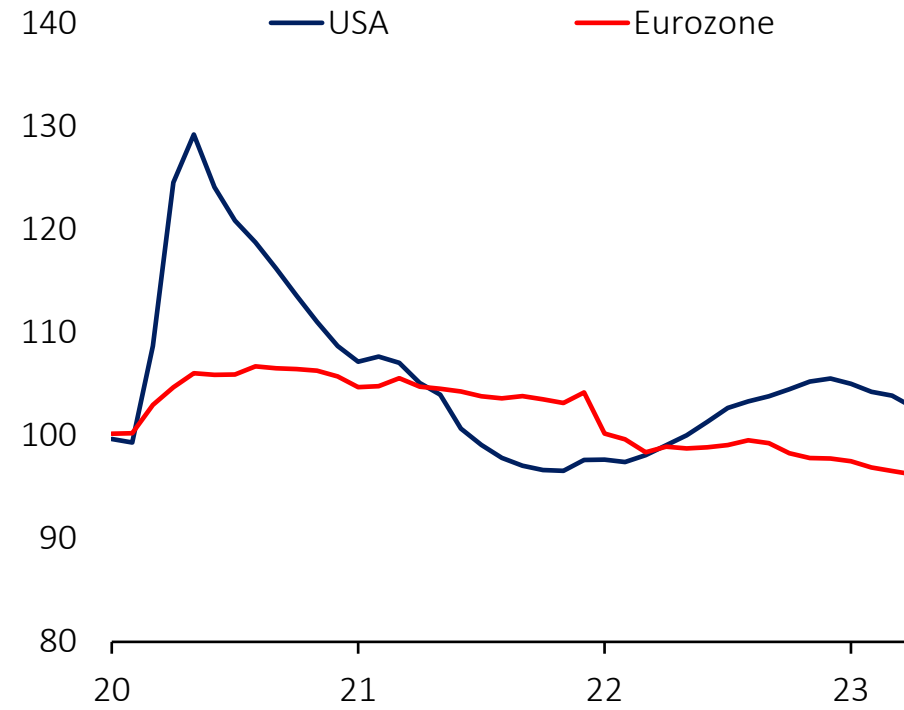
### US regional banks stock prices

(index, 1.Mar.23=100)



### Stock of real banking credit to companies

(index, December 2019=100)



Sources: Central banks and Bloomberg.



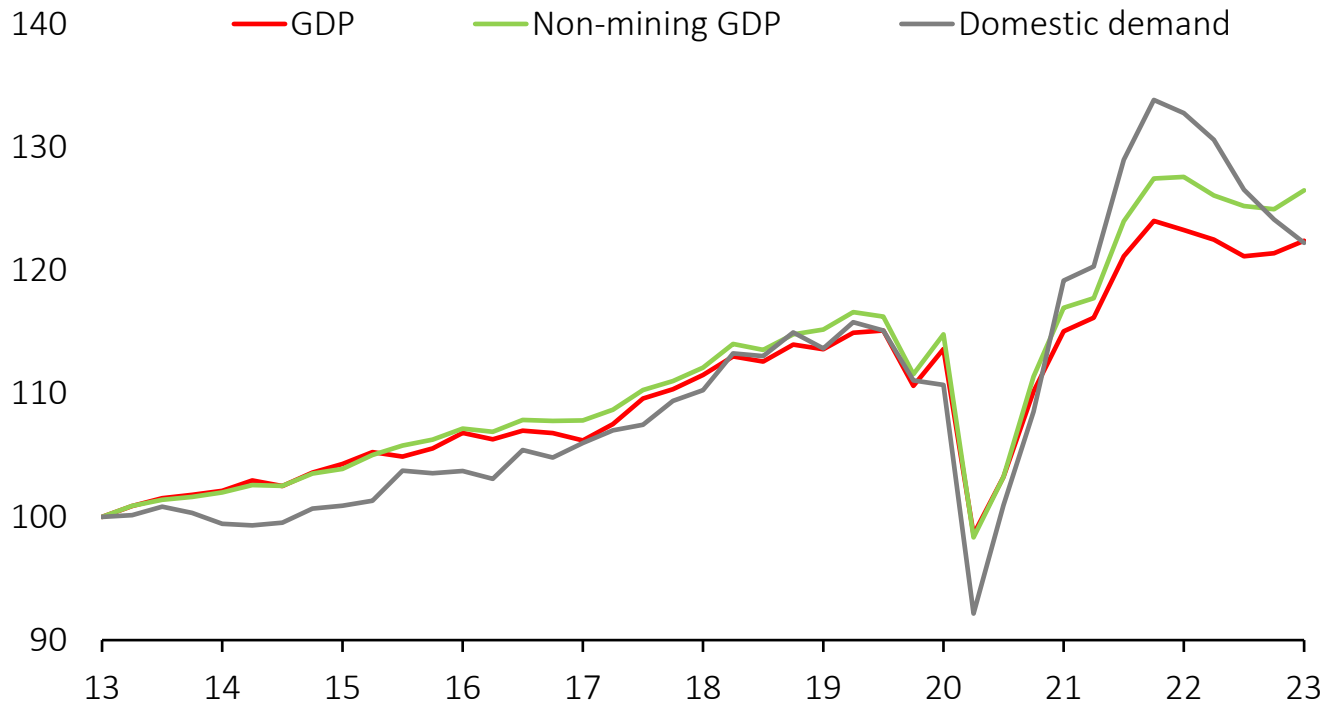
## National scenario

In recent months, the evolution of activity and demand has been in line with what was forecast in the March Monetary Policy Report.



### Activity and demand

(index, 2013.Q1=100, real deseasonalized series)



Source: Central Bank of Chile.



Main differences with respect to March Report projection:



Slower mining activity



Sharper drop in households' imports consumption

First quarter results	Annual change	Quarterly change (SA)
GDP	-0.6	0.8
Non mining GDP	-0.6	1.2
Domestic demand	-8.0	-1.5

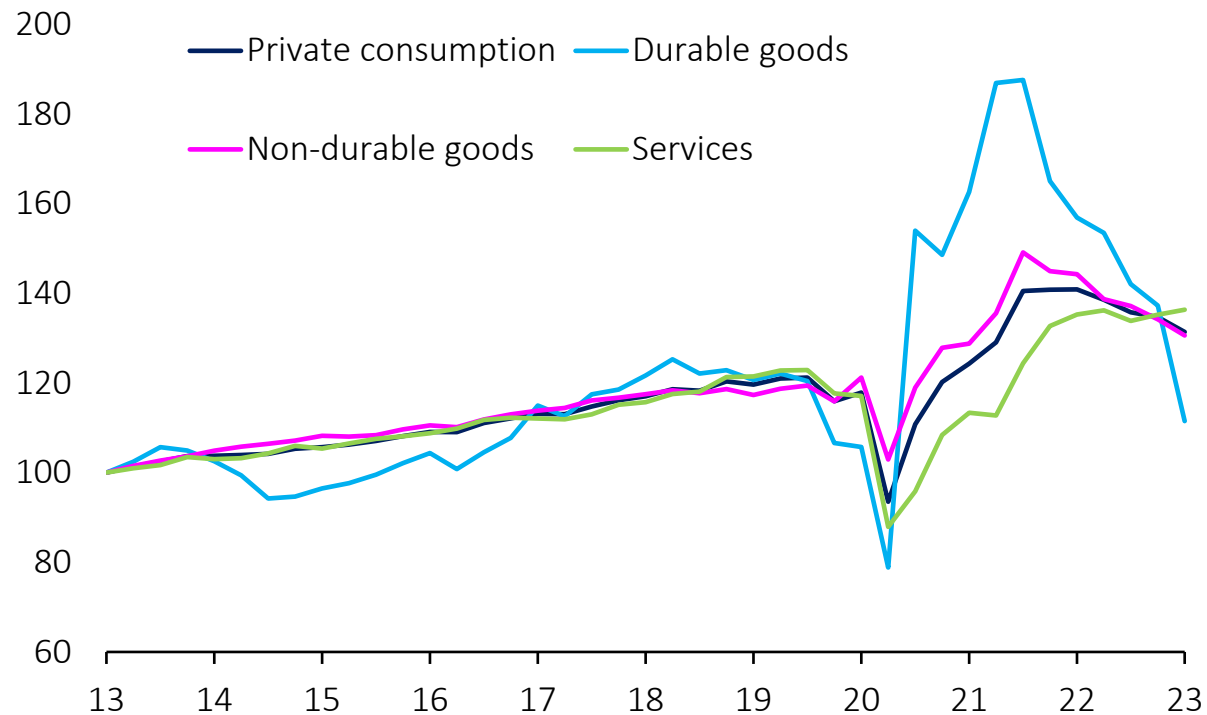


The decline in spending has been especially notable for imported products, particularly household durable goods – more than was anticipated in March.



## Private consumption

(index, 2013.QI=100, real seasonally adjusted series)



Source: Central Bank of Chile.

## Shares of private consumption components:



**9%** Durable goods



**45%** Non-durable goods



**46%** Services

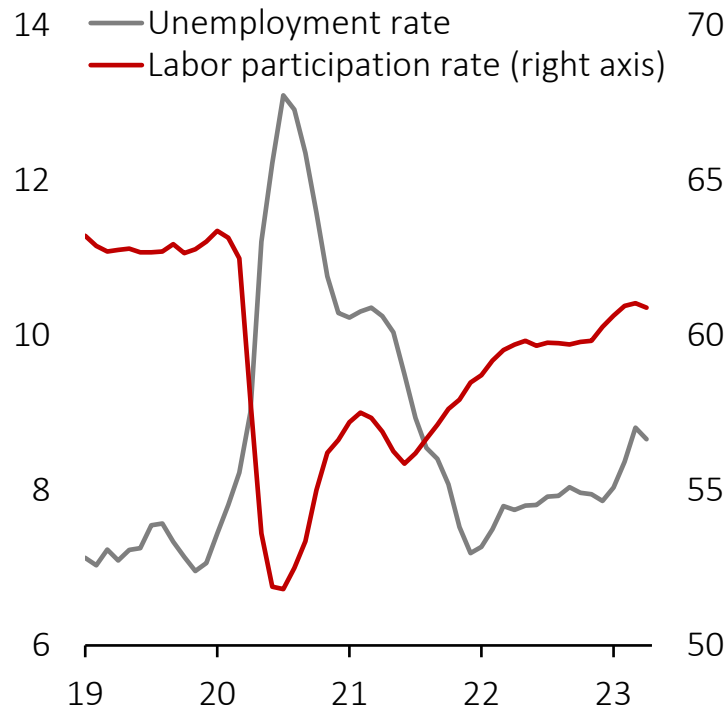
First quarter results	Annual change	Quarterly change (SA)
Private consumption	-6.7	-2.5
Durable goods	-28.8	-18.8
Non-durable goods	-9.2	-2.7
Services	0.8	0.8



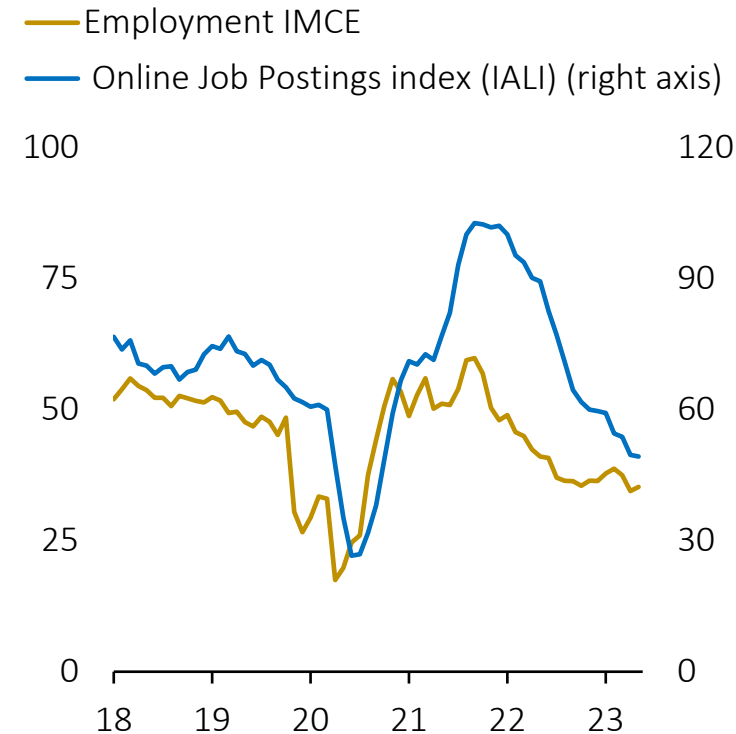
The adjustment in private consumption is explained by fewer jobs being created, in line with the economic cycle, as well as tighter financial conditions for households.



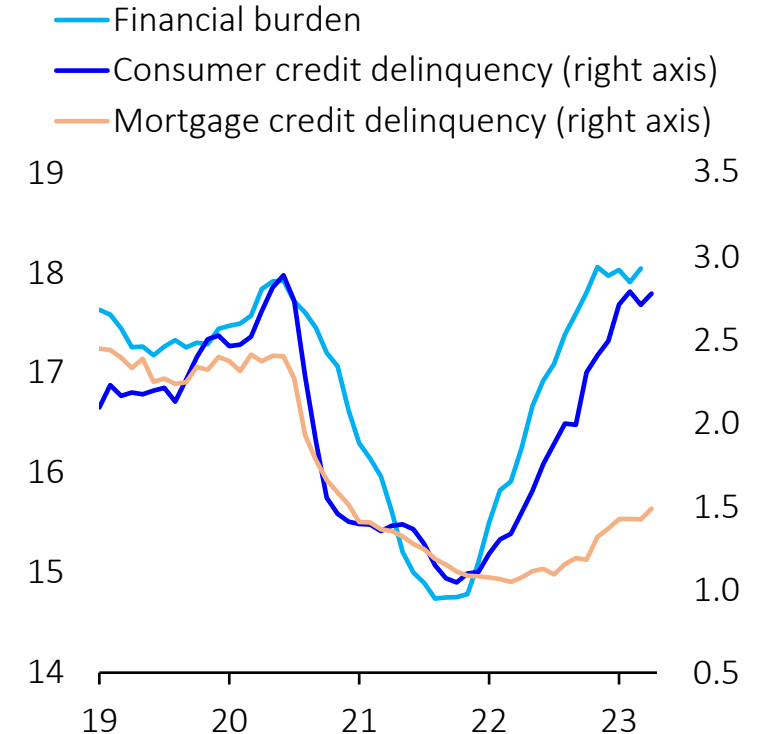
Unemployment and labor participation rate (percent)



Employment expectations of firms (IMCE) and Online Job Postings Index (1) (index; index January 2015 = 100)



Households' financial burden and delinquency (2) (3) (percent)



(1) For the IMCE, consider the average of the employment indicators in trade, industry, and construction. A value below (above) 50 points reflects expectations of decreases (increases) in the number of workers over the next three months. (2) The financial burden is that of the median debtor. Monthly income includes labor component (formal wage earners) and pension withdrawals prorated over six months from the payment received. (3) Delinquency indicator of 90 days or more, based on locally consolidated financial statements.

Sources: INE, Icare/Adolfo Ibáñez University, CMF, SUSESO and Central Bank of Chile.



However, indicators at the forefront are signaling a stabilization in the decline of consumption for the second quarter.



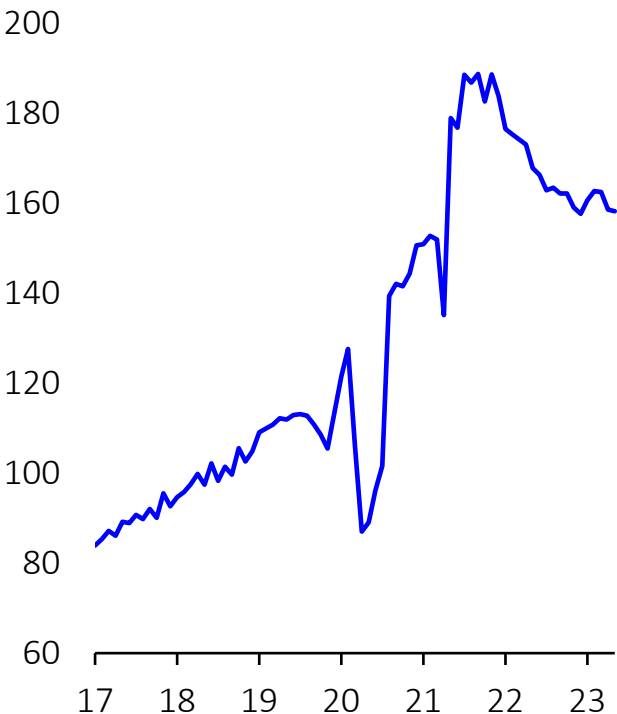
Imports of consumer goods (1)

(index, 2018=100, real deseasonalized series)

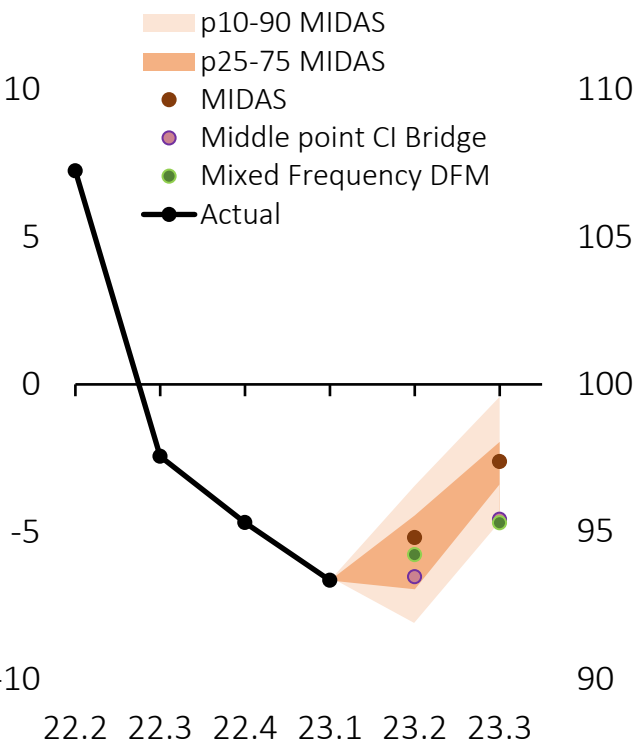


Spending on goods and services (2)

(index, 2018=100, real deseasonalized series)



Projections of private consumption in satellite models (3)  
(annual change)



(1) Quarterly moving averages. Seasonally adjusted using X13-ARIMA models. (2) Sales to residents. Subject to revision. (3) MIDAS and Bridge models use driver selection for each variable to be projected using different specifications and obtain results weighted by RECM — More details in [Banco Central de Chile \(2020\)](#). The mixed frequency dynamic factors model (DFM) based on Giannone et al (2017) incorporates a wide range of data as they become available, allowing for a real-time reading of information flows and evaluating their effects on economic conditions.  
Sources: Central Bank of Chile and Transbank.

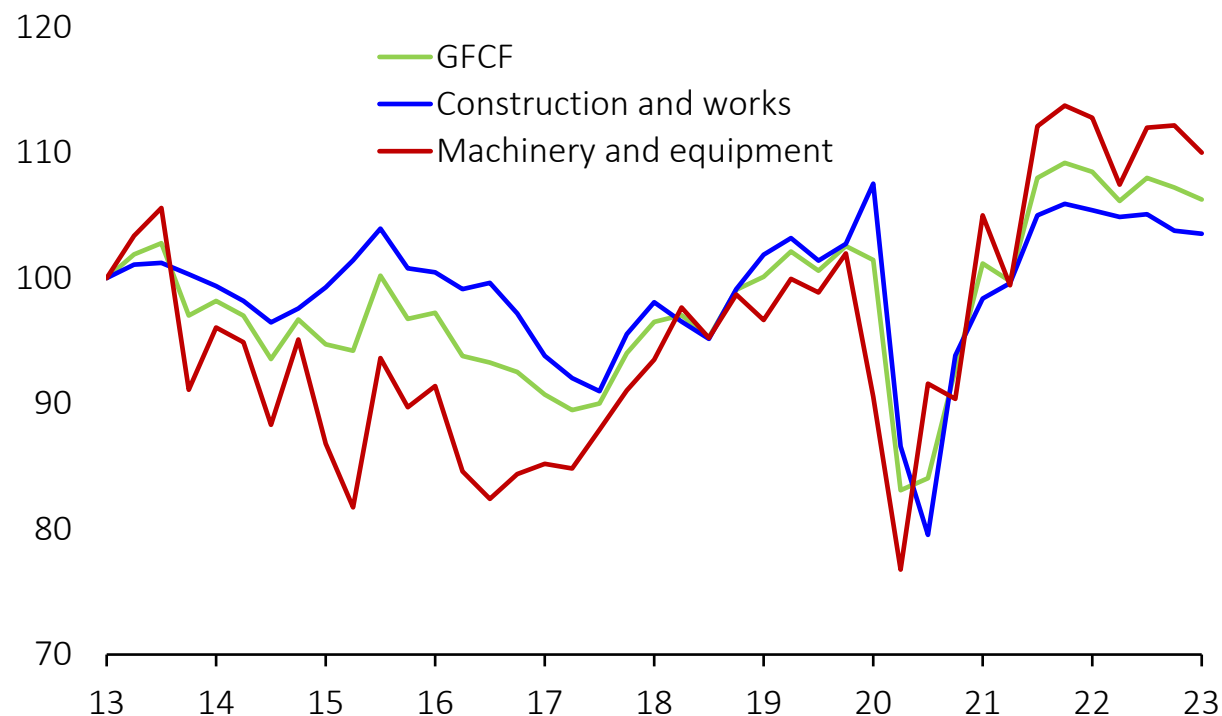


On the other hand, investment remains weak in all its aggregates - in line with previous projections.



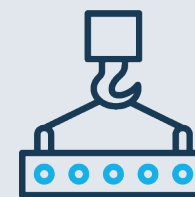
## Gross fixed capital formation (GFCF)

(index, 2013.QI=100, real seasonally adjusted series)

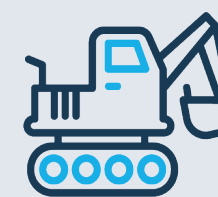


Source: Central Bank of Chile.

### Shares of GFCF components:



**60%**  
Construction



**40%**  
Machinery & equipment

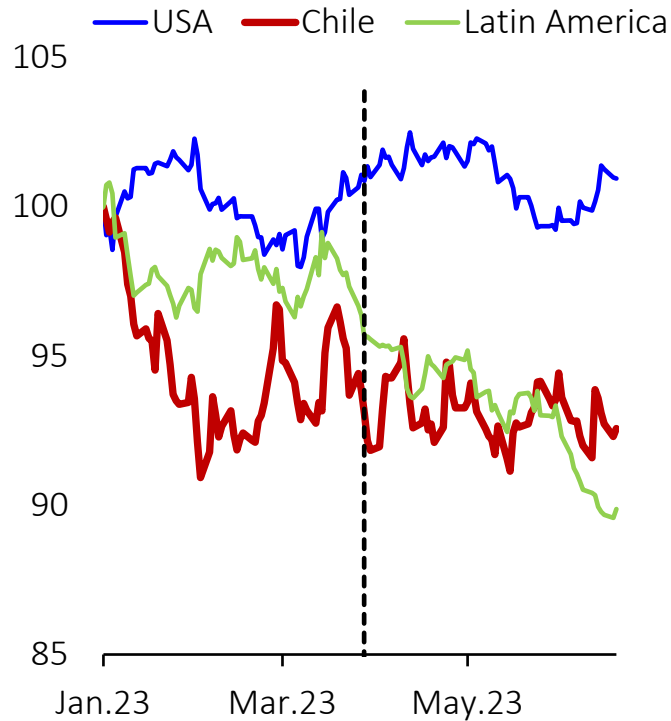
1st quarter results	Annual change	Quarterly change (SA)
GFCF	-2.1	-0.9
Construction	-2.0	-0.2
Machinery & equipment	-2.2	-1.9



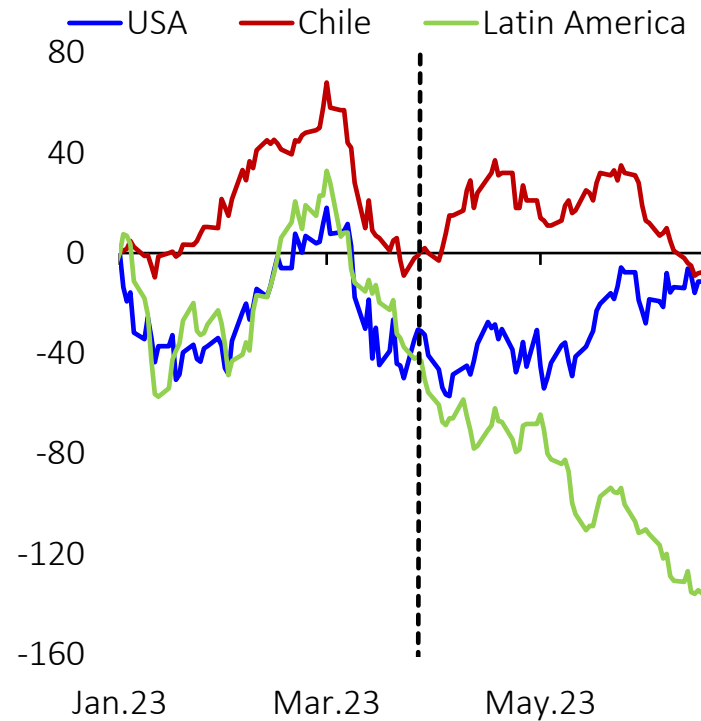
The fundamentals of investment show a mixed evolution. While the appreciation of the peso reflects a greater global risk appetite and less idiosyncratic uncertainty in Chile, financial conditions remain tight and investment plans are not very dynamic.



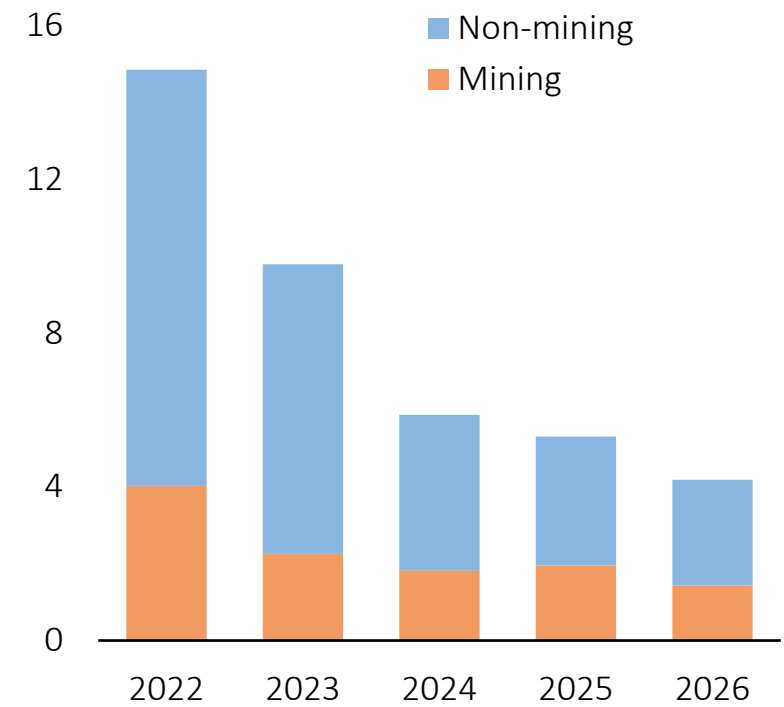
Currencies (1)(2)(3)  
(index, 2.Jan.23=100)



10-year nominal interest rates (1)(2)  
(difference w/respect to 2.Jan.23, basis points)



CBC investment amounts, 2023.Q1  
(billions of dollars)



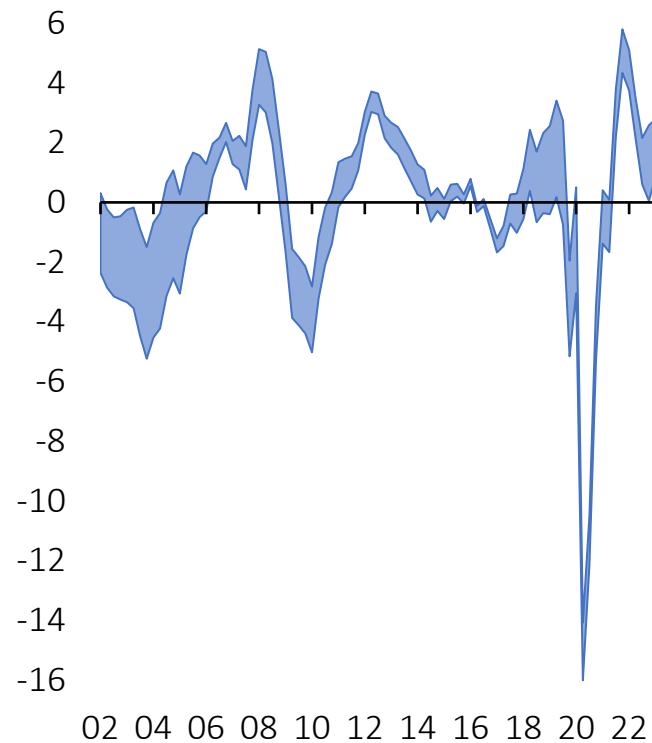
(1) For Latin America, consider the simple average of the indices of Brazil, Mexico, Colombia, and Peru. (2) Dotted vertical line marks the statistical closure of the March IPOM (March 29). (3) An increase in the index corresponds to currency depreciation and vice versa.  
Source: Central Bank of Chile, Bloomberg, and Corporación de Bienes de Capital (CBC).



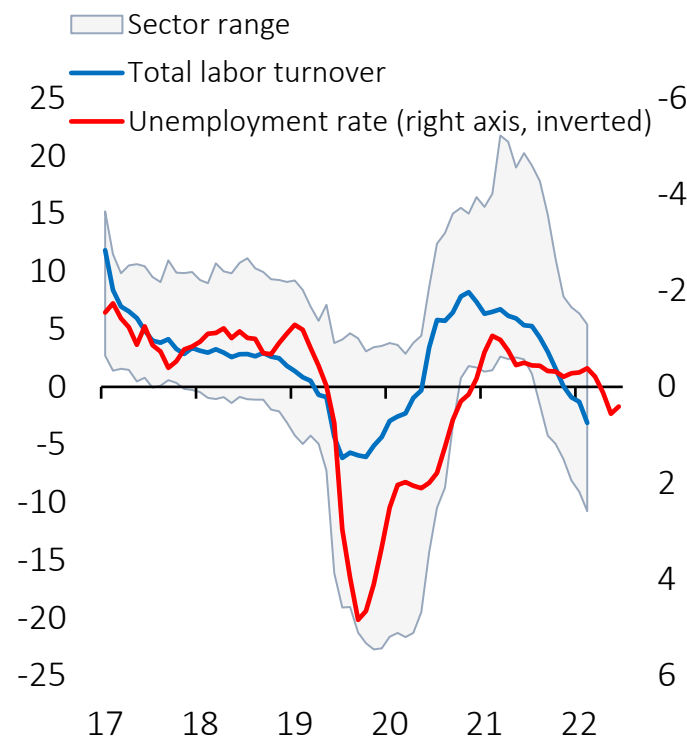
The fall in activity and demand are part of the necessary adjustment process for inflation convergence. Although the output gap is still estimated to be positive, complementary measures suggest that the economy is around potential.



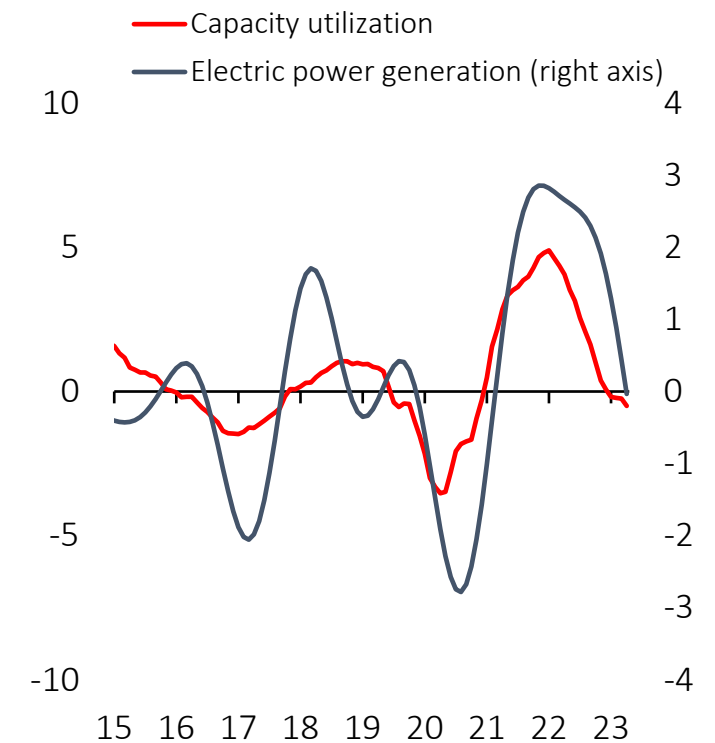
Output gap by different methods (\*)  
(percent)



Labor market measures (\*)  
(percent)



Other measures of capacity gaps (\*)  
(percent)



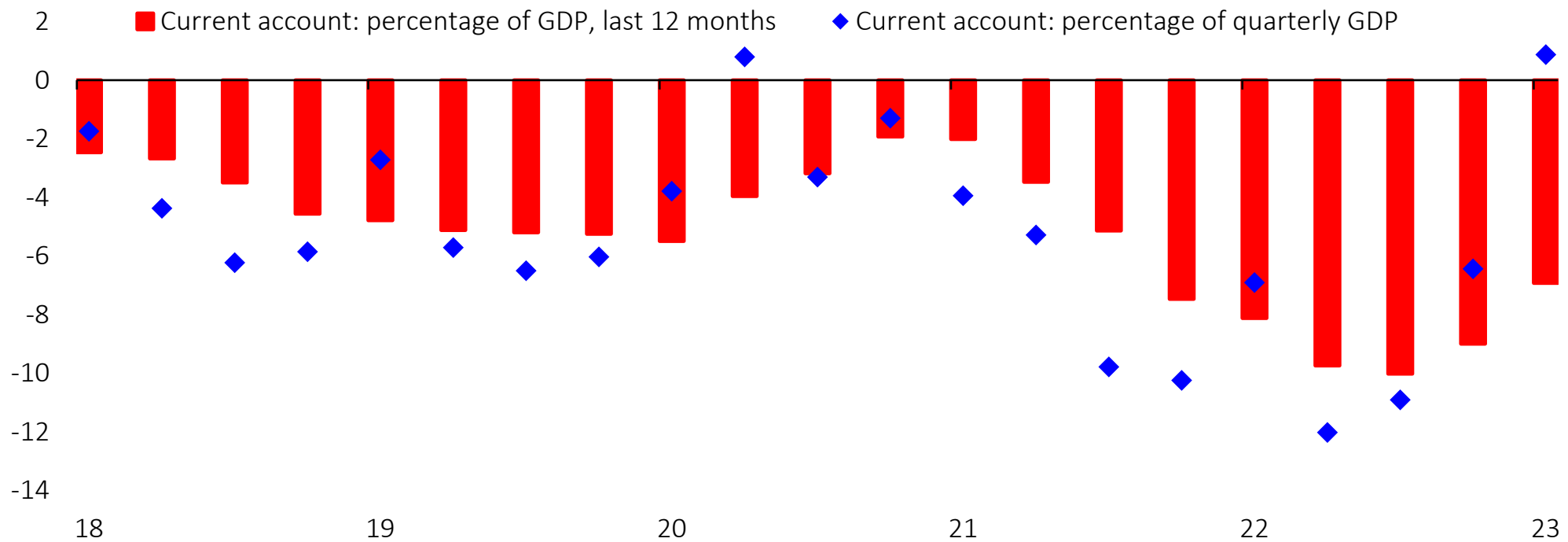
(\*) For more details, see Box II.1 in the June 2023 Monetary Policy Report. Source: Central Bank of Chile.



The macroeconomic adjustment is also reflected in the normalization of the current account, where the reduced household spending on imported goods plays a significant role.



### Current account (percent of GDP)



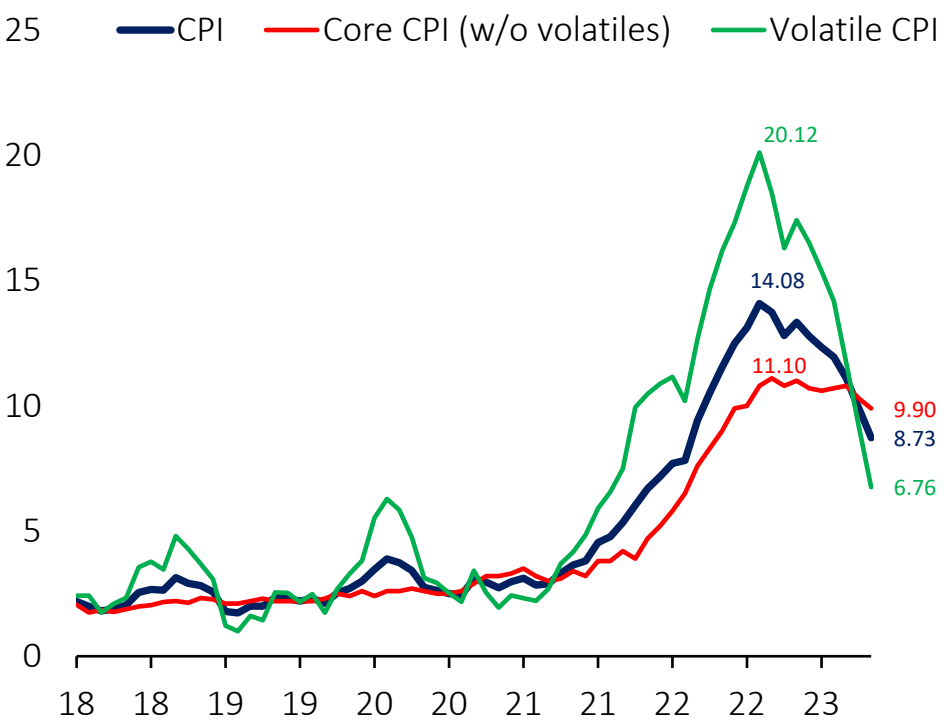
Source: Central Bank of Chile.



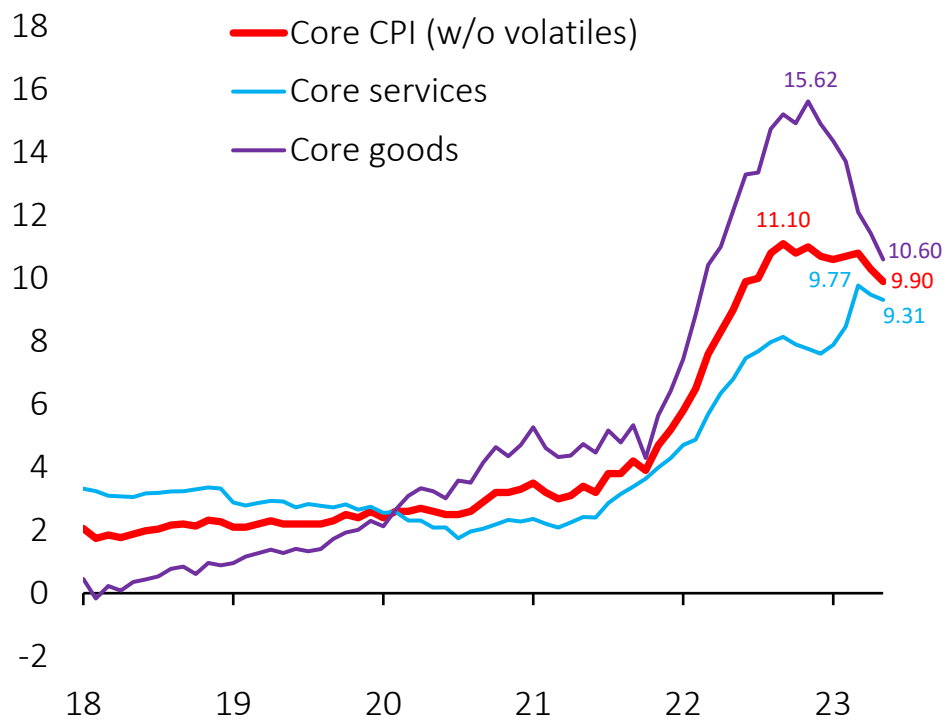
Total and core inflation have decreased as expected, the latter in a slower and more limited way. Goods components and volatile elements are leading the decrease in inflation.



Inflation indicators (\*)  
(annual change, percent)



Core inflation  
(annual change, percent)



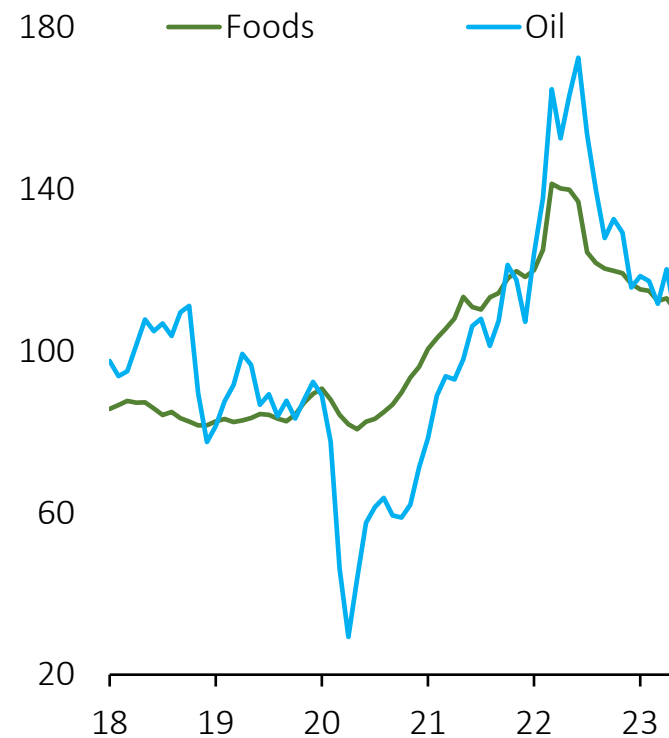
(\*) For further details on the different groupings and their participation in the total CPI basket, refer to [Box IV.1 IPoM December 2019](#), [Carlomagno and Sansone \(2019\)](#), and [Economic Glossary](#).  
Sources: Central Bank of Chile and National Institute of Statistics.



The decrease in goods inflation is due to the relief from strong cost pressures, the appreciation of the nominal exchange rate, and the fall in demand for durables.



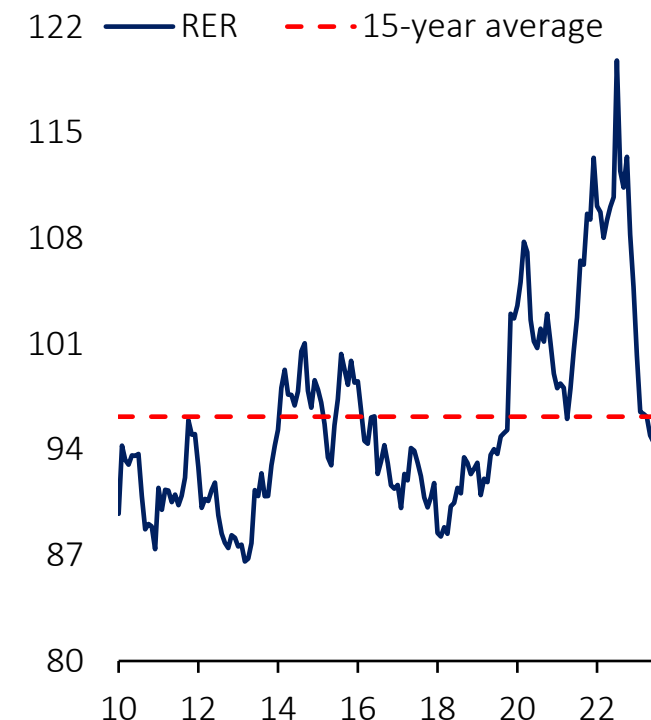
Commodity prices (1)  
(index, 2018-2023=100)



Transportation cost (2)  
(percent of GDP, quarterly)



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



(1) Food prices consider the FAO index, and oil prices consider the average between Brent and WTI. (2) Cost of transportation for imported products to Chile, measured as a percentage of GDP. (3) Preliminary data for May 2023 considers the average of that month, and for June, it considers the average of the first fifteen days of that month. (4) Average of the last 15 years corresponds to the period Jun.08-May.23.

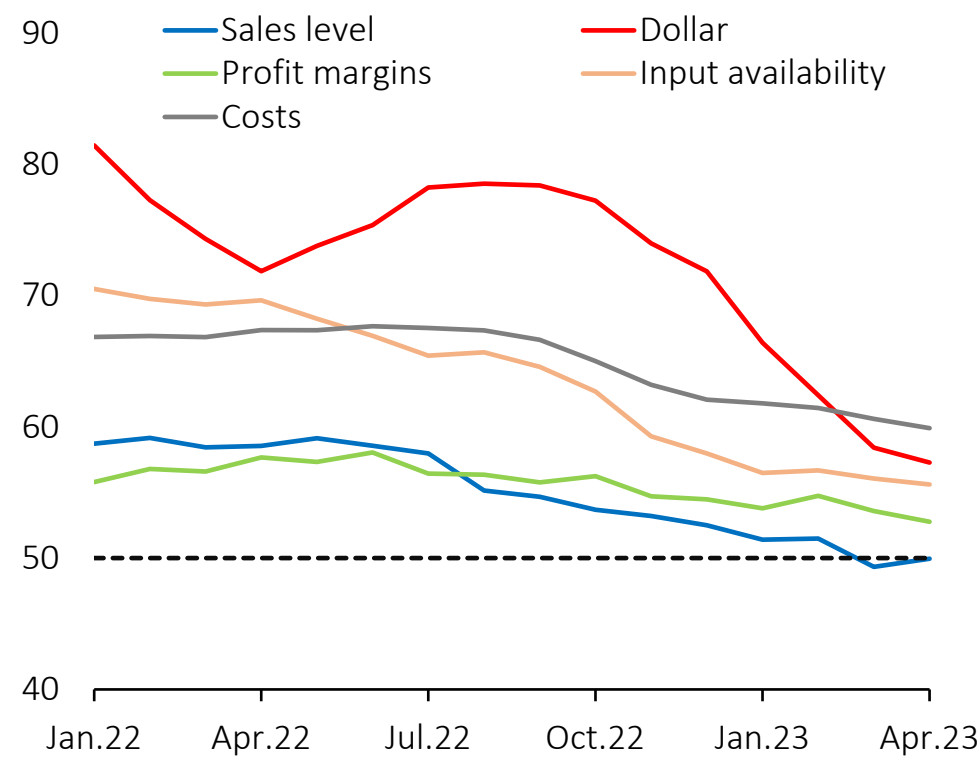
Source: Central Bank of Chile.



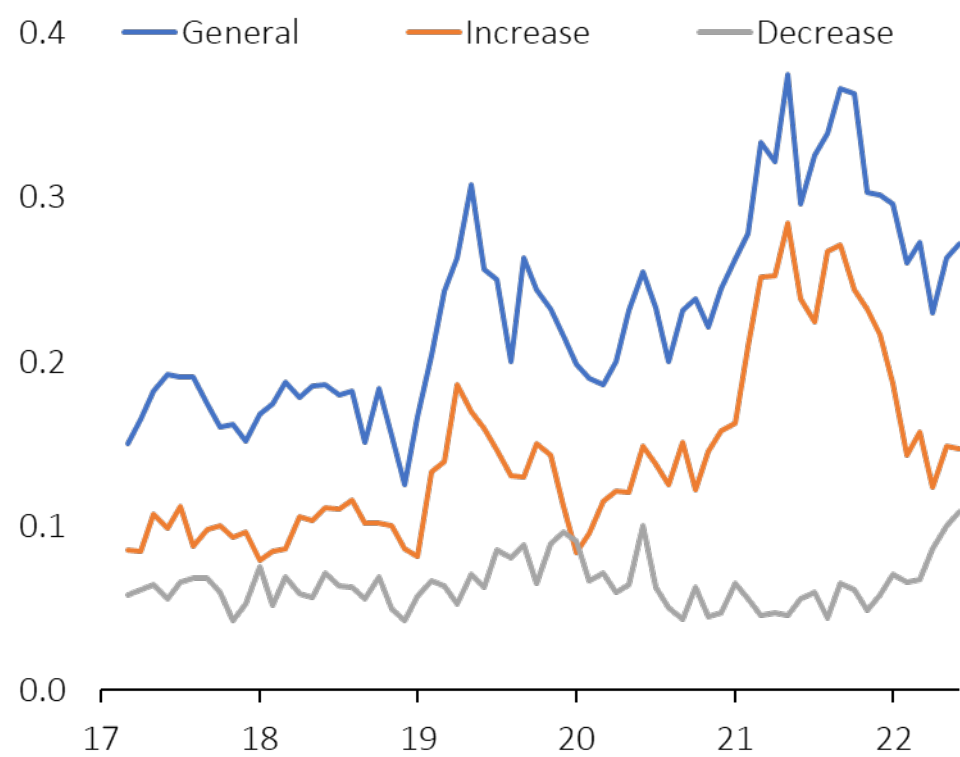
The price-setting process at the firm level also demonstrates the macro adjustment and the convergence of inflation, reflected in cost perceptions and the frequency of price changes (empirically, the main source of variation).



Main determinants of sales prices at the firm level in the last three months  
(diffusion index, moving quarterly data)



Frequency of price changes (\*)  
(proportion)



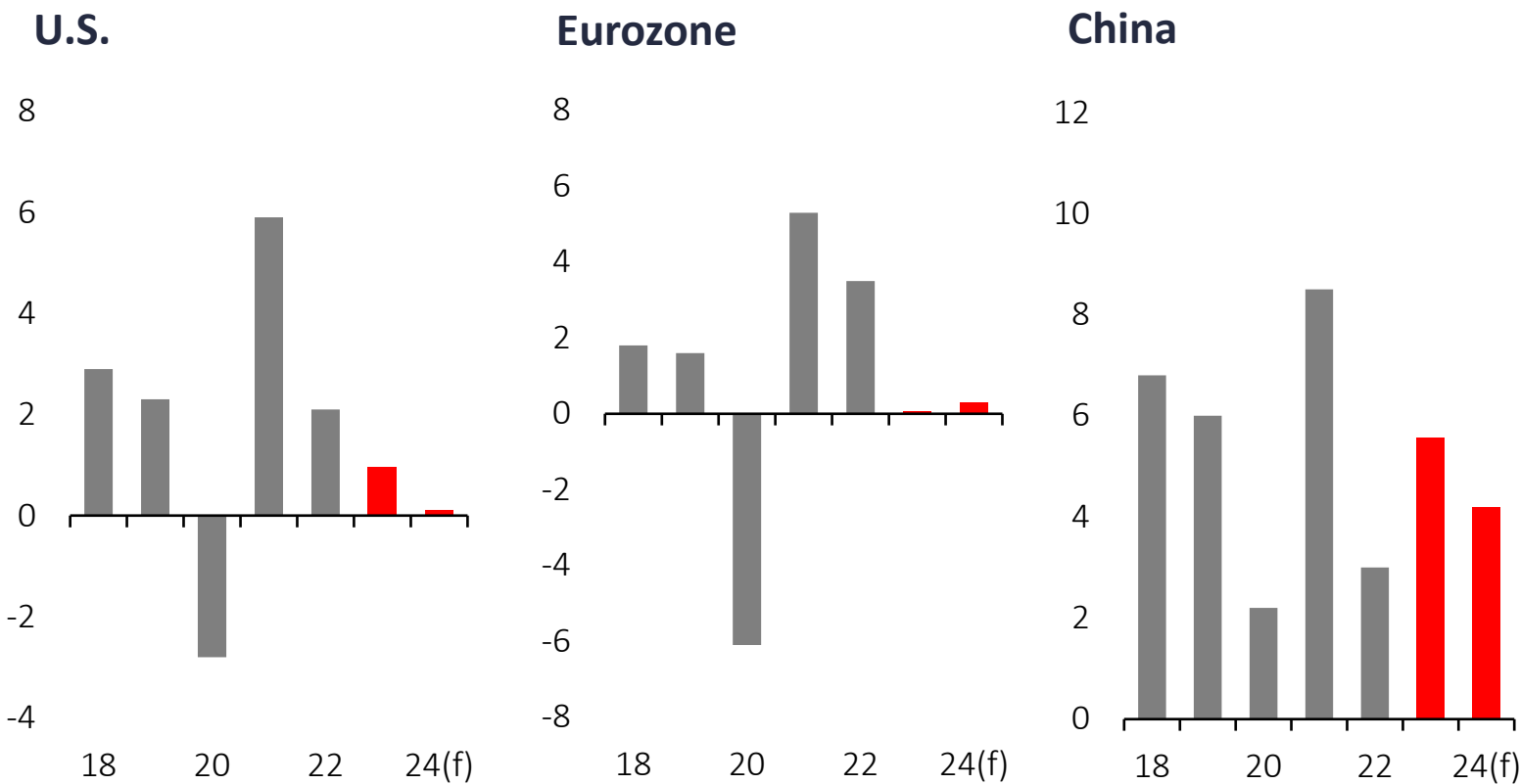
(\*) Blue line represents the median proportion of a firm's products that change prices within a month. Orange line is the median proportion of a firm's products that see their prices increase in a month. Gray line shows the median proportion of a firm's products that see their prices drop in a month.  
Sources: Central Bank of Chile; González and Rojas (2023).



Support from the external backdrop will remain limited, considering the impact of the tightness of international financial conditions and the limited scope of fiscal policies on global growth.



Trading partners' growth (1)  
(annual change, percent)



GDP growth projections for 2023 (2)  
(annual change, percent)

U.S.	March 2023	June 2023	
	0.6%	1.0%	
Eurozone	March 2023	June 2023	
	0.1%	0.1%	
China	March 2023	June 2023	
	4.8%	5.6%	

(f) Projection. (1) Red bars correspond to the projections of the central scenario of the June 2023 Monetary Policy Report. (2) Projections contained in each Monetary Policy Report. Arrows indicate change compared to the March 2023 projection.  
Source: Central Bank of Chile.

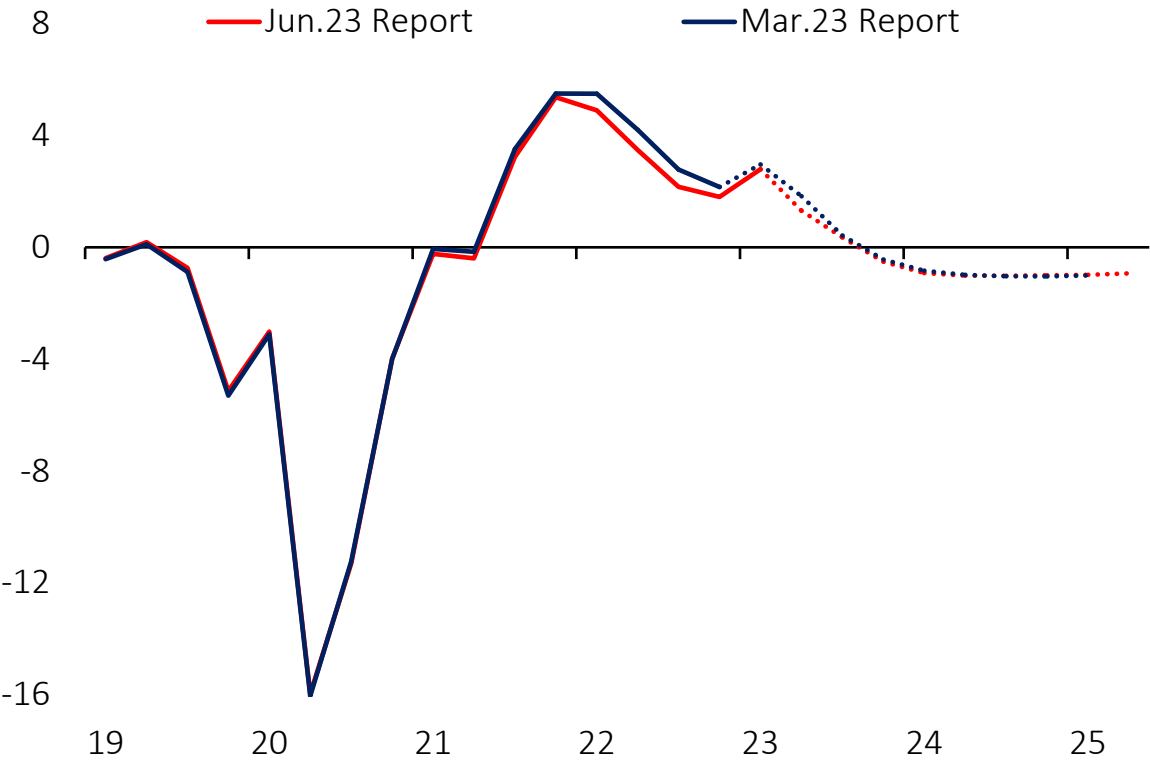


The reduction of imbalances remains key for inflation convergence. The expected growth for this year is marginally lower, explained by mining. Domestic demand is also expected to be similar.



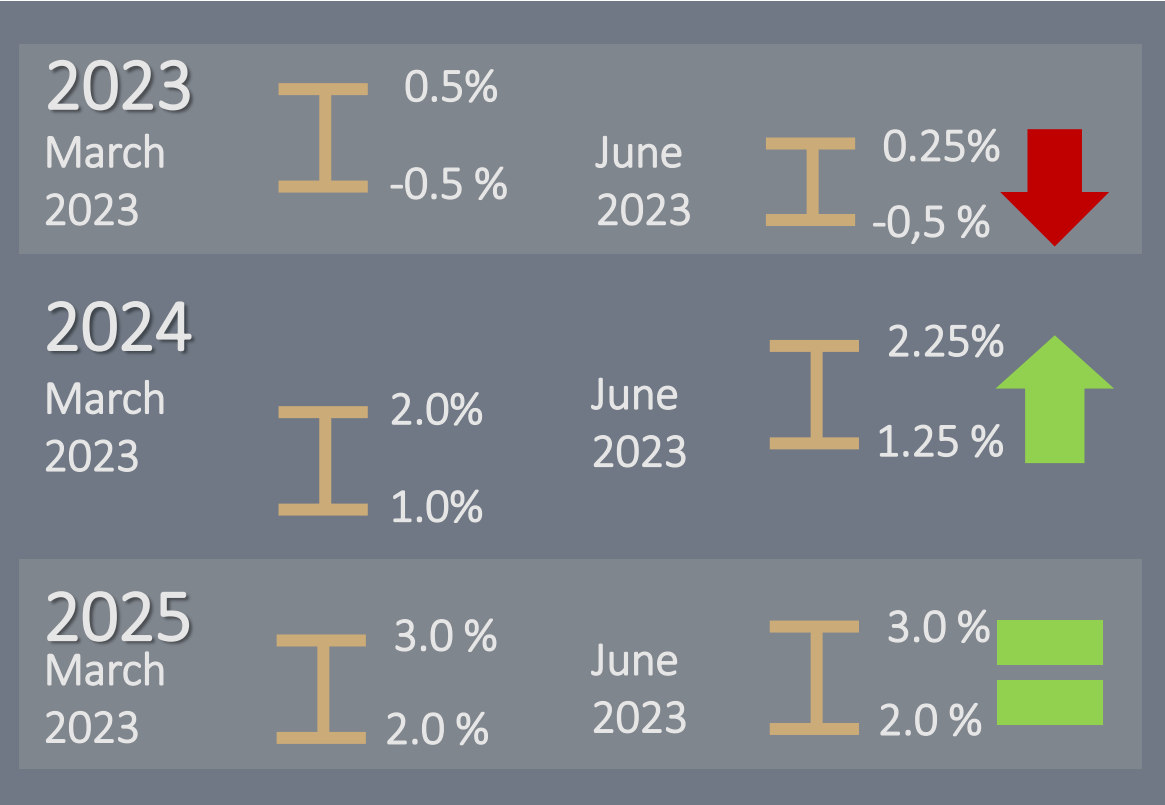
### Activity gap (1)(2)

(level, percent)



### GDP growth projections (3)

(annual change, percent)



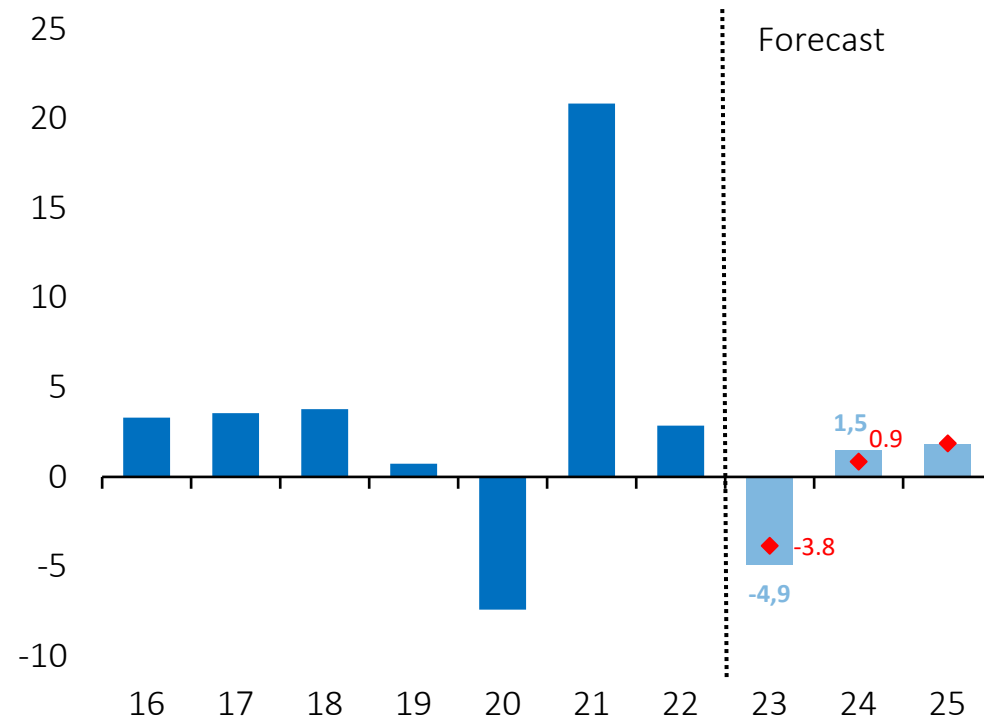
(1) Dotted lines correspond to the projections. (2) The projection uses updated structural parameters in the December 2022 Report (trend) with a methodological revision of potential GDP. (3) Projections contained in each Report. Arrows indicate changes compared to the March 2023 projection.  
Source: Central Bank of Chile.



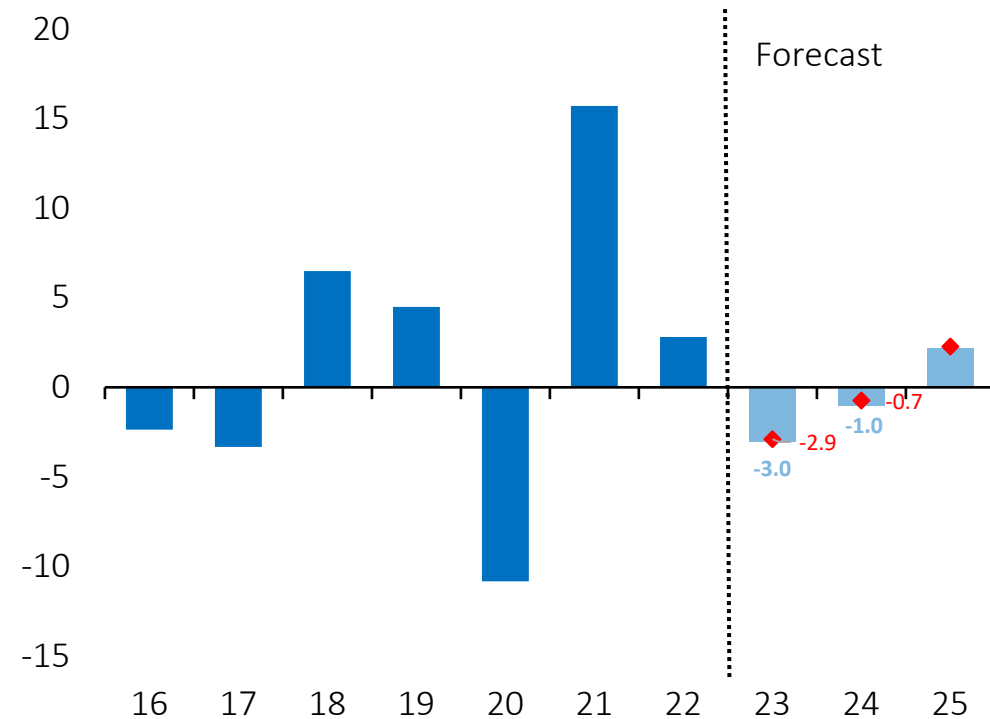
This reflects lower expected growth for private consumption, similar for investment, and higher for government consumption.



Private consumption (\*)  
(real annual change, percent)



Gross fixed capital formation(\*)  
(real annual change, percent)



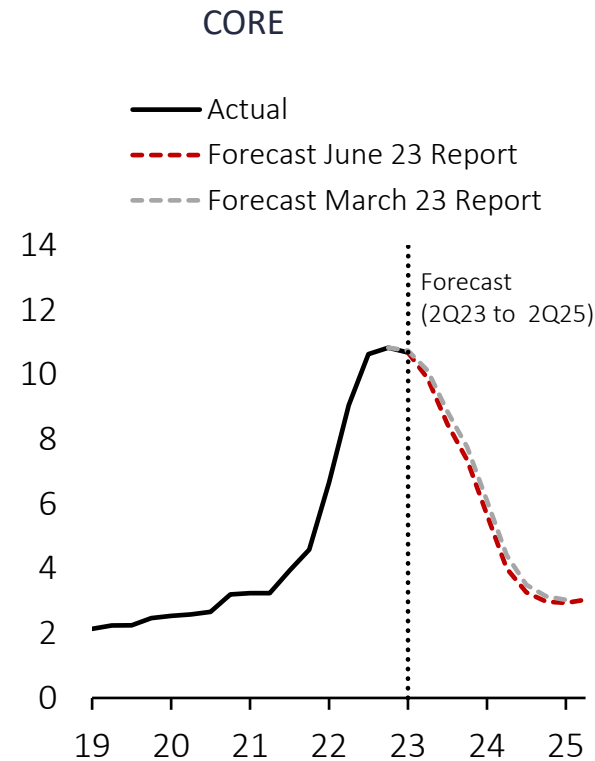
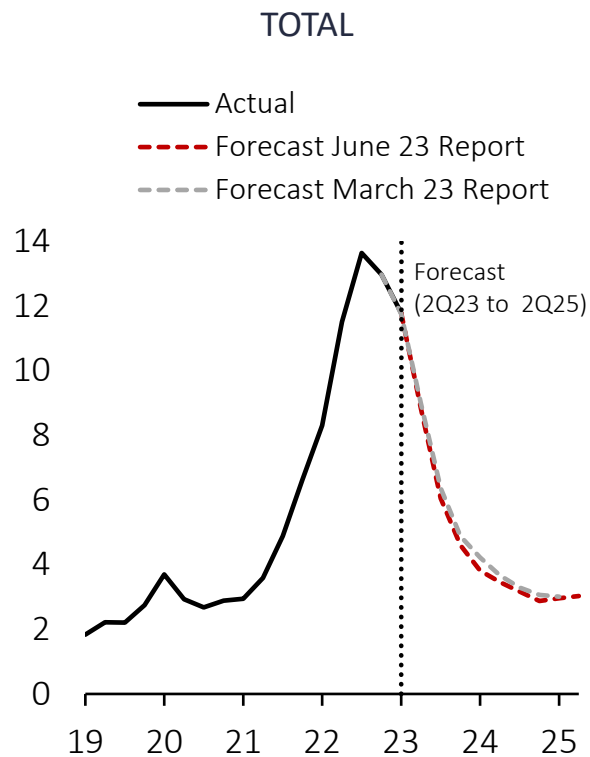
(\*) Diamonds show forecasts in central scenario of March 2023 Monetary Policy Report.  
Source: Central Bank of Chile.



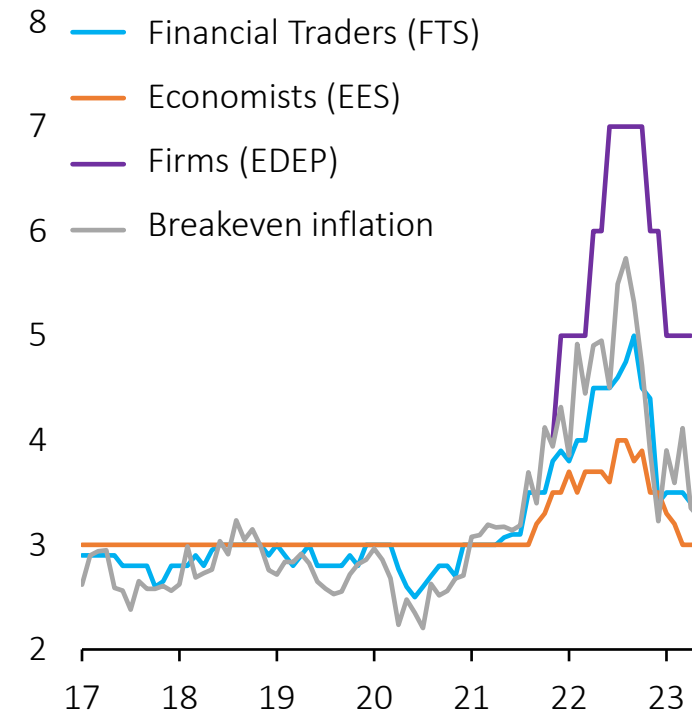
In the central scenario, total and core inflation will continue to decrease, to converge to 3% in 2024 and remain at that value until the end of the policy horizon.



## Inflation forecasts (annual change, percent)



## Two-year inflation expectations (1)(2)(3) (annual change, percent)



(1) For the surveys, the median of the responses is considered. (2) The FTS considers the survey conducted in the first half of each month until January 2018. Starting from February of that year, it includes the latest survey published in the month, including the one prior to the June 2023 Meeting. In months when the survey is not published, the last available survey is considered. (3) Breakeven inflation considers the average of prices from the last 10 days of each month. For June 2023, it considers the average of the last 10 days up to the statistical closing of June Monetary Policy Report.

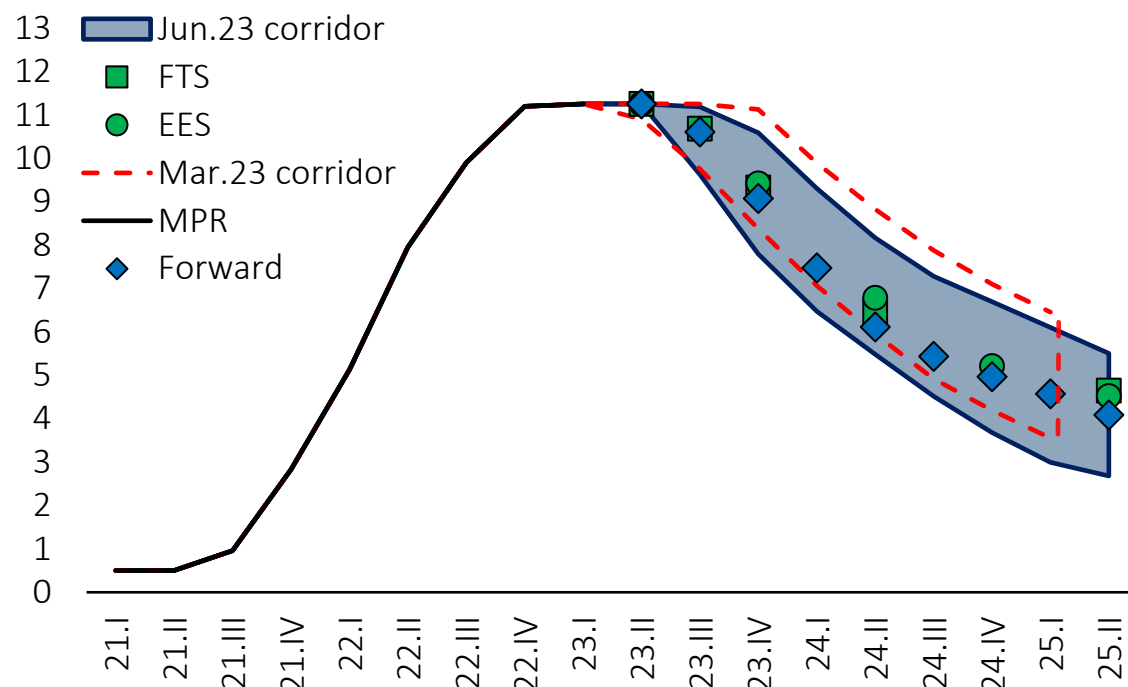
Source: Central Bank of Chile and National Institute of Statistics.



The macroeconomic outlook is heading in the required direction, and if these trends continue, the monetary policy rate (MPR) will begin to decrease in the short term - earlier than expected in March.



MPR corridor (\*)  
(quarterly average, percent)



(\*) The corridor is constructed following the methodology in [Box V.1 in March 2020 MP Report](#) and [Box V.3 in March 2022 MP Report](#). For details, see methodological note (figure II.1, chapter II in March 2023 MP Report).

Source: Central Bank of Chile.

In this MP Report, the Board believes that such scenarios are mainly associated with domestic conditions. In particular, because of the dynamics of inflation and its fundamentals.

→ The behavior of these variables will influence the timing and/or speed of the MPR reduction process.

**Upper bound:** the MPR is reduced at a slower pace due to higher-than-expected local inflation persistence.

- Expenditure and CPI records that differ from MP Report projections.
- Upward inflation surprises in developed economies, with further rate hikes and depreciation of emerging currencies in the short term. Medium-term contractionary effects mitigate impacts on the MPR.

**Lower bound:** Faster adjustment of the local economy, earlier inflation convergence and faster reduction of the MPR.

- Capacity gaps become more negative.
- This, in a scenario in which inflationary pressures have been gradually contained.





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JUNE 2023

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