

MARCH MONETARY POLICY REPORT

April 20th 2022

Pablo García, Vice Governor BCCh @ Barclays Emerging Market Roundtables, Washington DC.



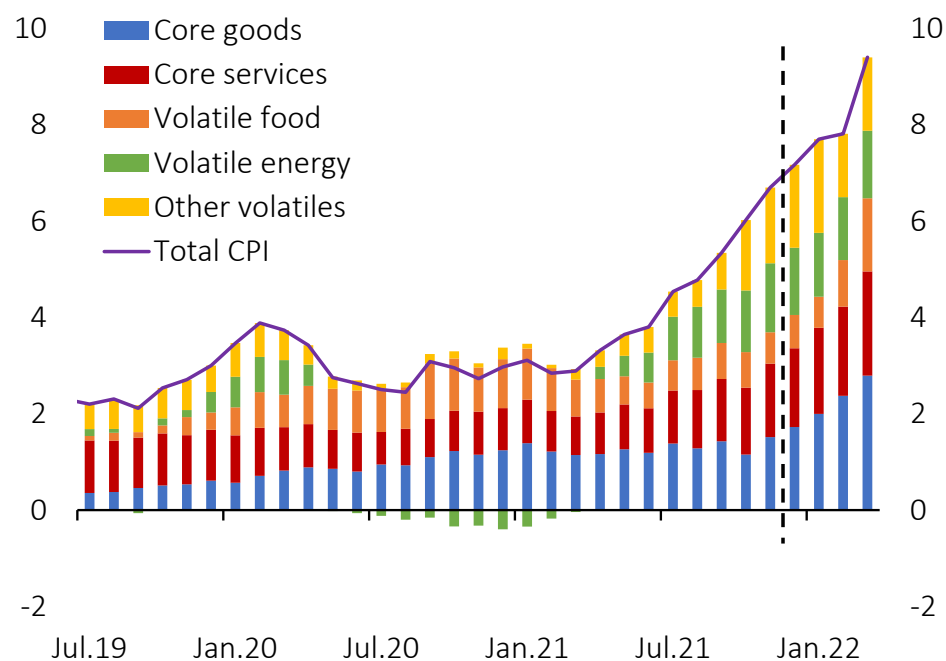
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Inflation has continued to rise and is close to 9.5% annually, with increases in most of its components. In March, CPI was significantly higher than expected.

Inflation indicators (1) (2)

(contributions to annual change, percentage points)



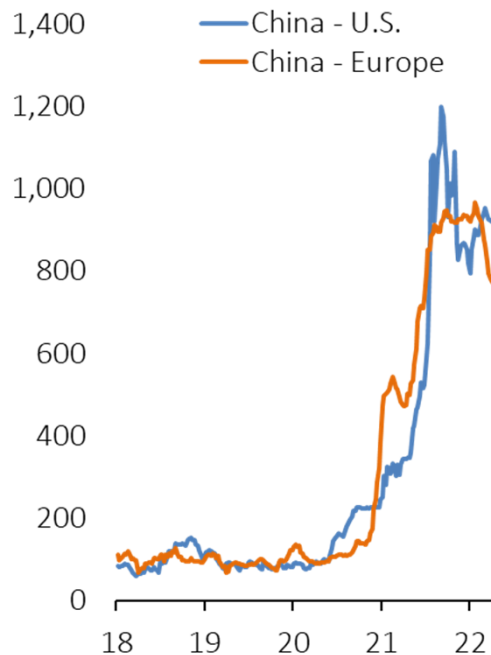
Core goods	→	10.4%
Core services	→	5.7%
Volatile food	→	14.1%
Volatile energy	→	18.9%
Other volatiles	→	9.0%
Total CPI	→	9.4%

(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).

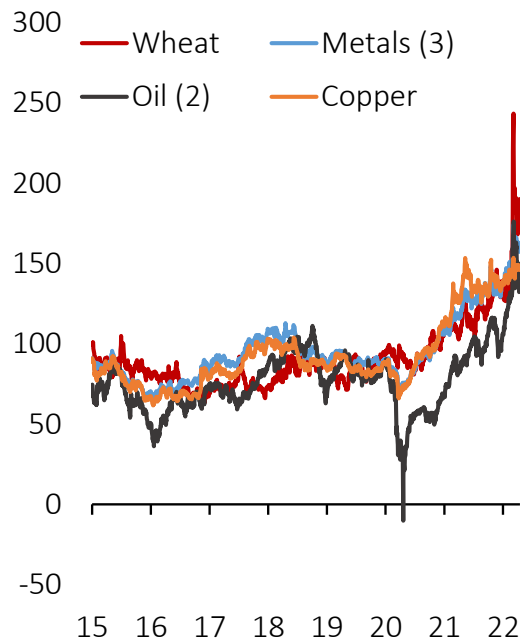
Increased cost-push pressures occur in a context where supply chains are still under stress, commodity prices are higher, and the Chilean peso is still depreciated.



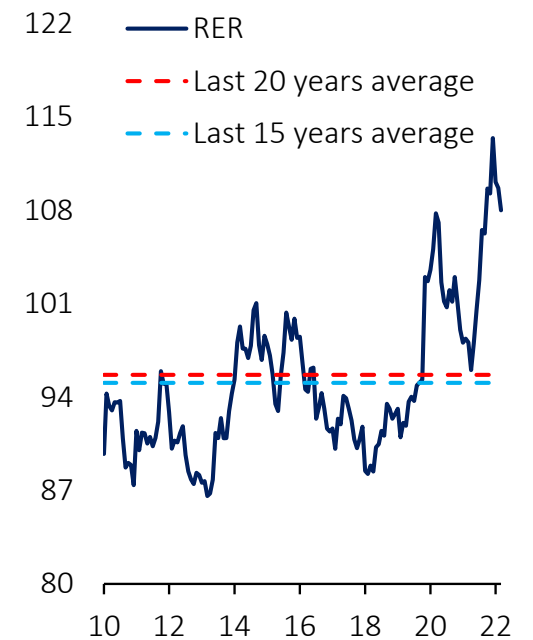
Maritime freight costs (1)
(index, 2018=100)



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



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



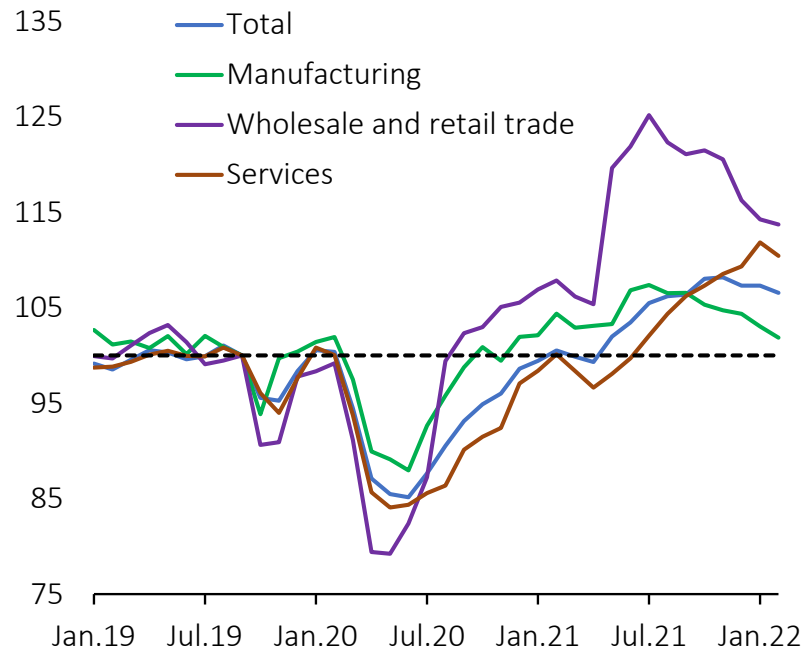
(1) Cost of transporting a 40-foot container in respective routes. (2) WTI-Brent average barrel. (3) S&P GSCI Industrial Metals. (4) Data for March 2022 is provisional and corresponds to the preliminary average for the month. (5) Averages of last 15 and 20 years cover the periods Apr.07-Mar.22 and Apr.02-Mar.22,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

Sources: Bloomberg and Central Bank of Chile.

Since 2021Q4 incoming data suggests that the economy has begun a process of scaling down the high levels of accumulated spending.

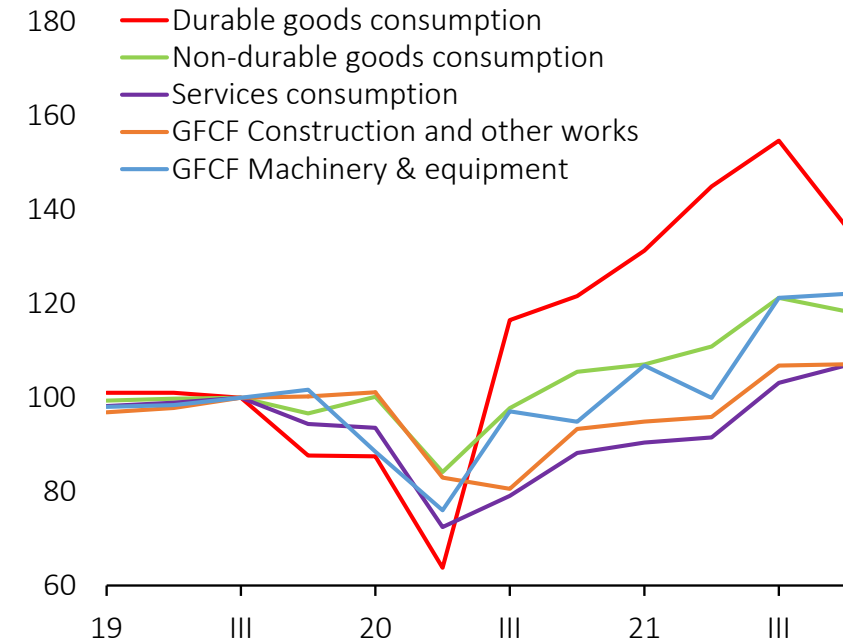


Monthly index of economic activity (Imacec)
(index, September 2019 = 100, deseasonalized series)



Source: Central Bank of Chile.

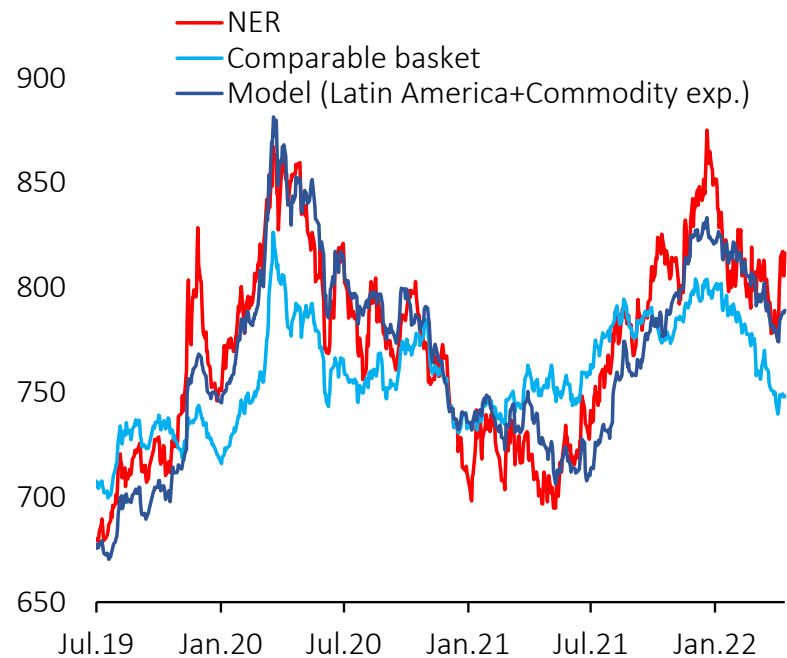
Domestic demand
(index, third quarter 2019 = 100, deseasonalized series)



Local financial market have shown somewhat lower stress than during 2021Q4.



Nominal exchange rate (1)
(pesos per dollar)



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

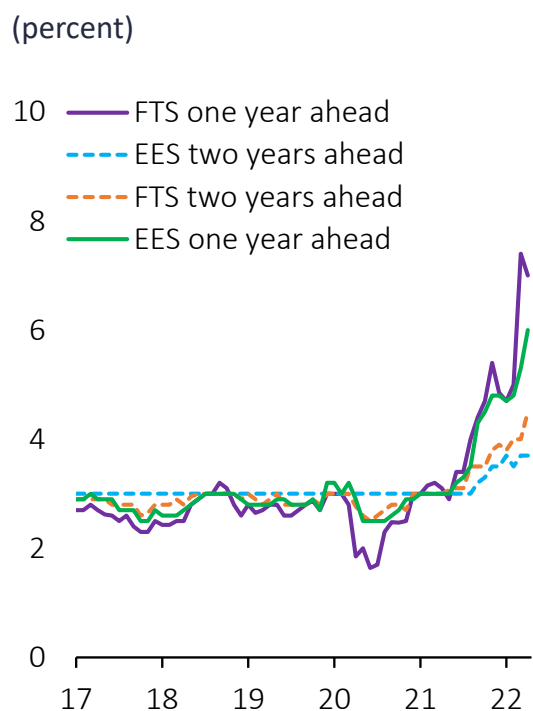


(1) For further details, see note figure II.4, MP Report March 2022. (2) For further details, see note figure II.2, MP Report March 2022. (3) Vertical lines from left to right indicate the following events: Start of social crisis (18 October 2019), first Covid-19 case confirmed in Chile (3 March 2020), 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.

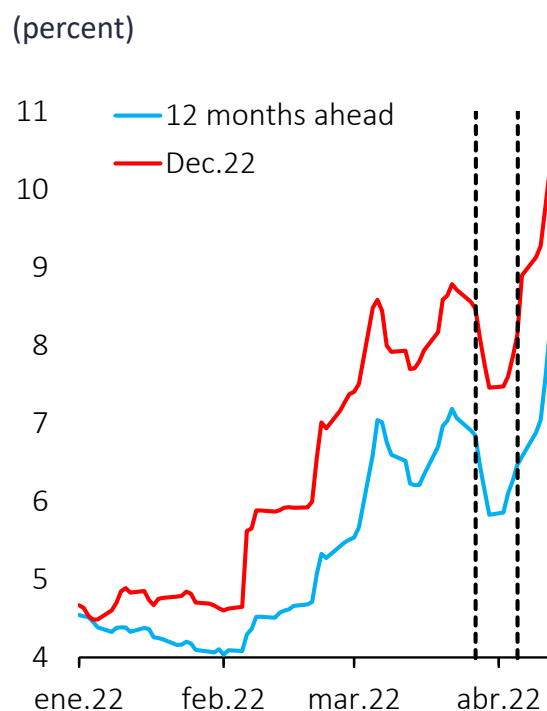
Medium term inflation expectations remain above 3%. Breakevens might be affected by inflation risk premium due to domestic and foreign risk factors.



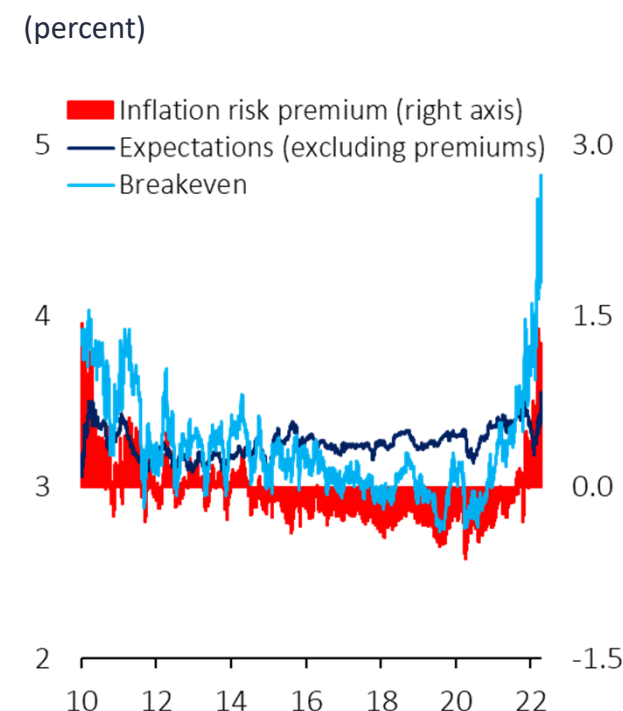
Inflation expectations in surveys (1)



Implicit inflation in insurance contracts (2)



Decomposition of 10-year breakeven inflation (3)



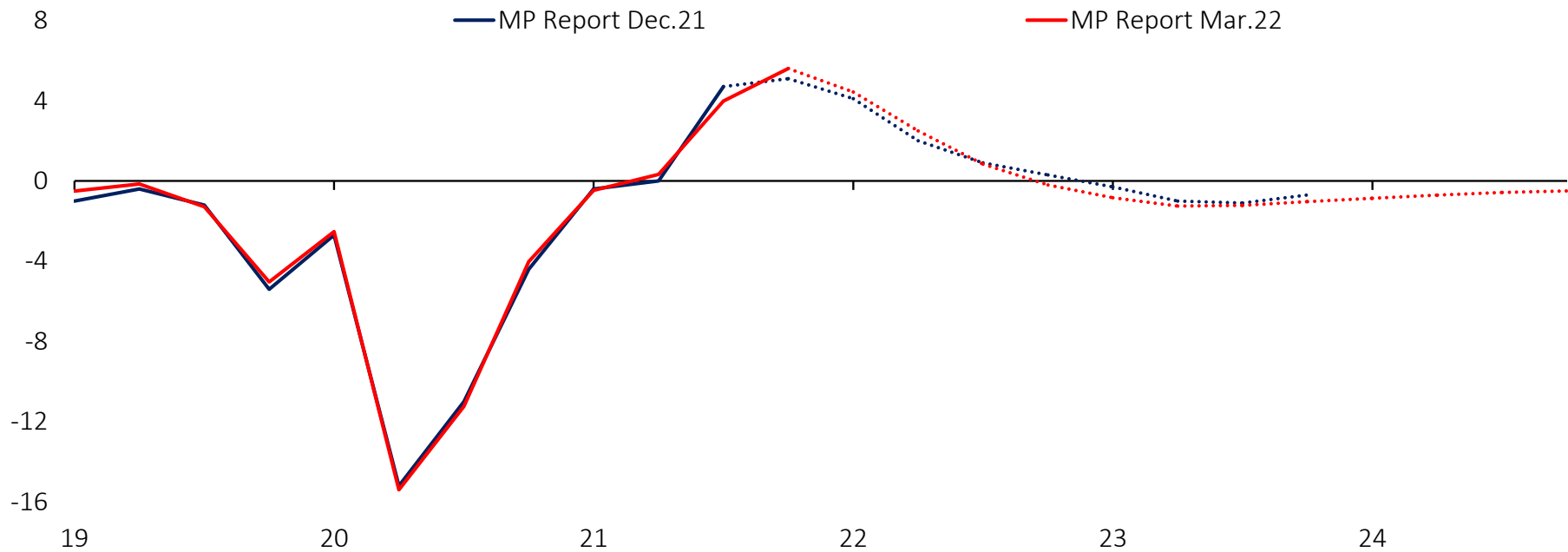
(1) The FTS considers the survey of the first half of each month until January 2018. From February 2018 onwards, it considers the latest survey published in the month. (2) The vertical lines from left to right indicate the release of March 2022 Monetary Policy Report and March CPI. (3) Estimates based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

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

Overall, the scenario for a gradual narrowing of the output gap remains.



Activity gaps (1) (2)
(level, percentage points)



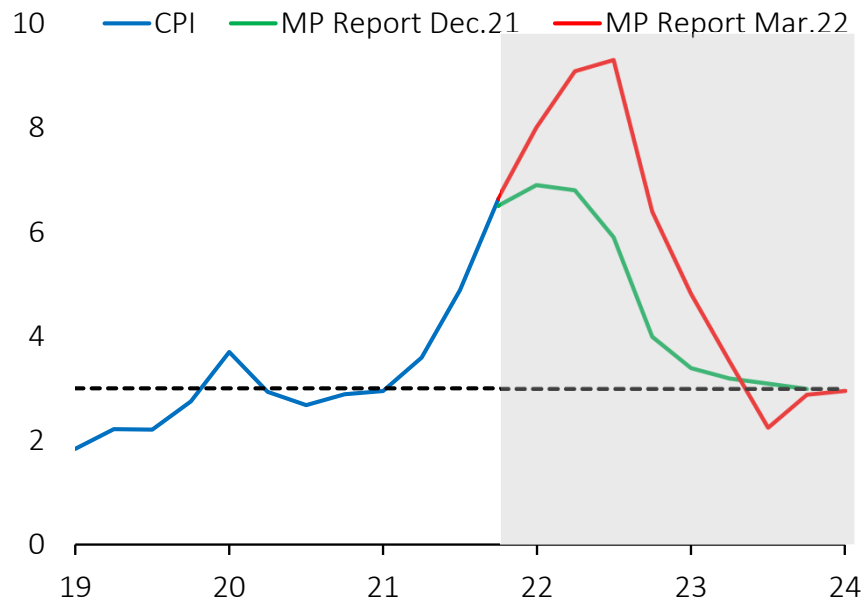
(1) Dotted lines indicate forecasts. (2) Forecast uses structural parameters updated in the June 2021 Monetary Policy Report. Source: Central Bank of Chile.

Incoming data has shown a fasted acceleration of inflation to close to 10%. Medium term implications need to be assessed carefully in upcoming MPR meetings.

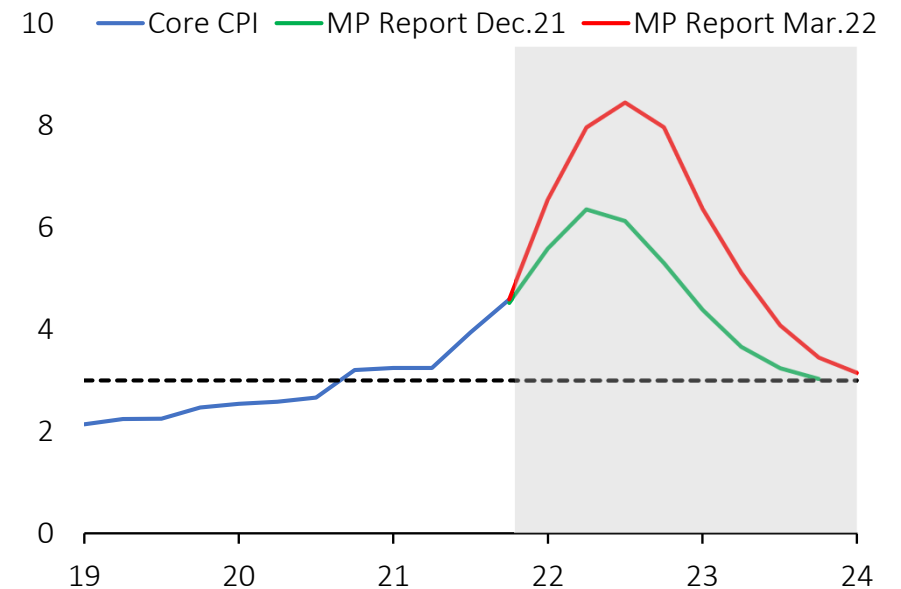


Inflation forecast (*) (annual change, percent)

CPI inflation



Core inflation (CPI minus volatiles)



(*) Gray area, as from first quarter 2022, shows forecast.

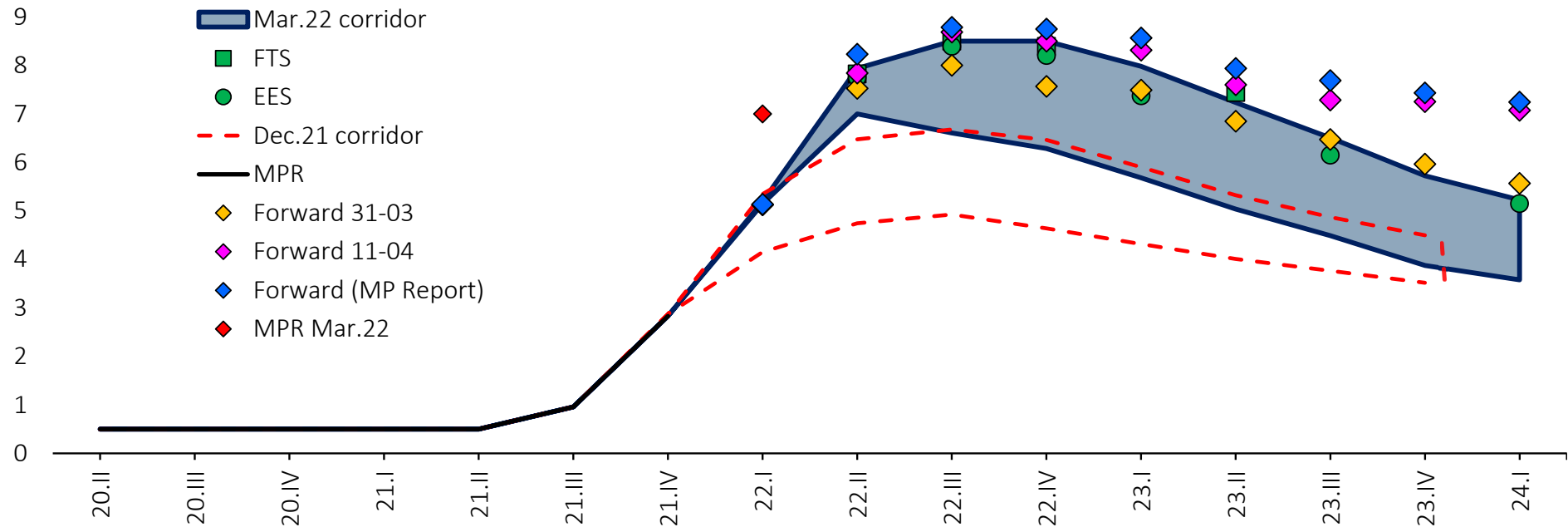
Sources: Central Bank of Chile and National Statistics Institute (INE).

The Board has rapidly raised the MPR in response to the higher inflation scenario. After the March CPI surprise, market expectations moved back to near the upper range of the monetary policy corridor for the next few quarters.



MPR corridor (*)

(quarterly average, percent)



(*) 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.

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