MONETARY POLICY AND MACROECONOMIC DEVELOPMENTS

November 10th, 2022

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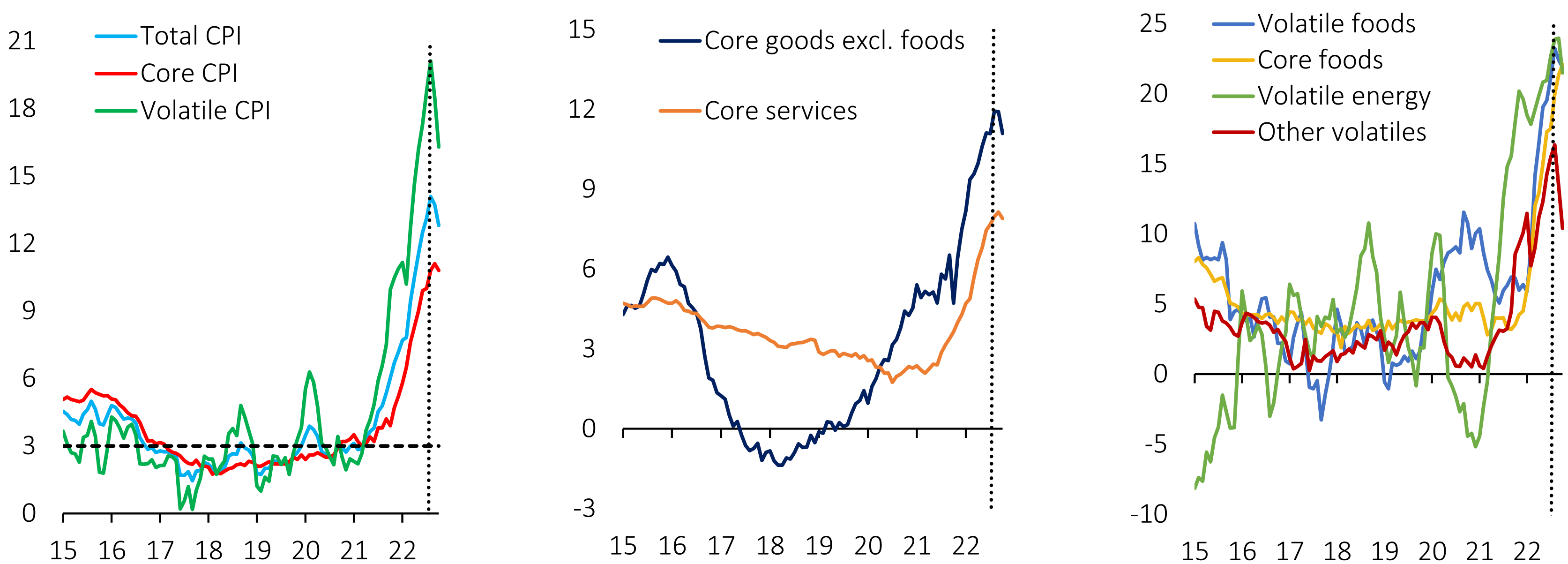
Citi's Taste of Chile Conference

Inflation has reached very high levels, although in the most recent data it is already beginning to decline. Energy and food prices remain the main sources of increase.

Inflation indicators (1) (2)

(annual change, percent)



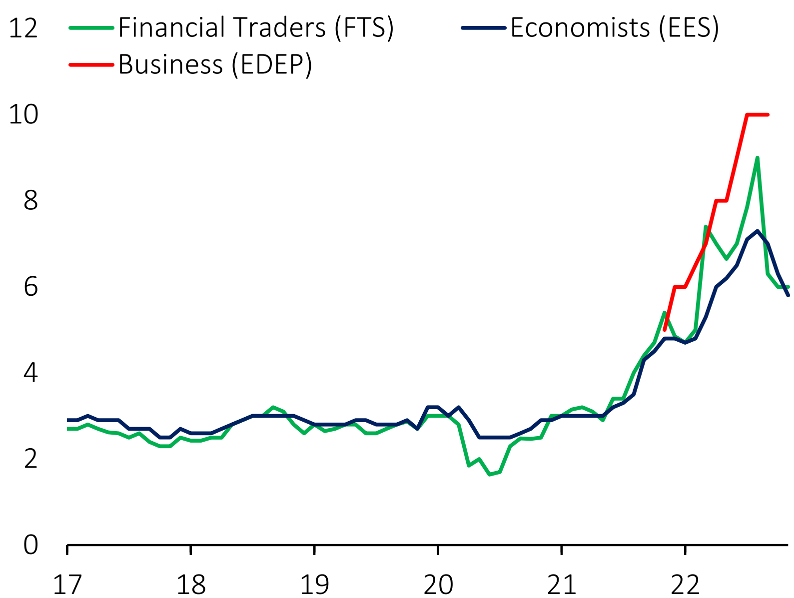
(1) Dashed vertical line indicates the statistical cutoff date of the September 2022 MP Report. (2) For more detail on the different groupings and their share in the total CPI basket, see box IV.1 in December 2019 MP Report, Carlomagno and Sansone (2019), and Economic Glossary.
Sources: Central Bank of Chile and National Statistics Institute (INE).

Meanwhile, the expectations of experts and businesses have increased, which has also played a part in the greater persistence of inflation.

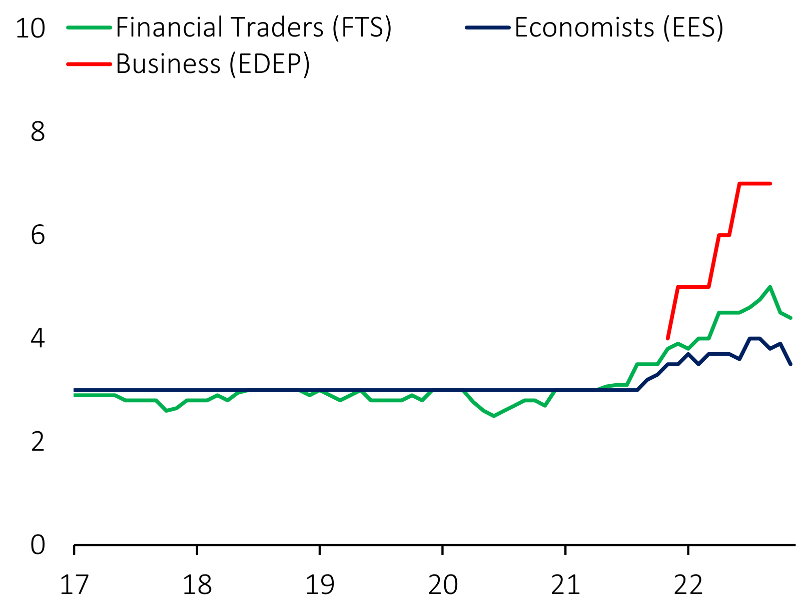
Inflation expectations

(annual change, percent)

One year ahead (1) (2)



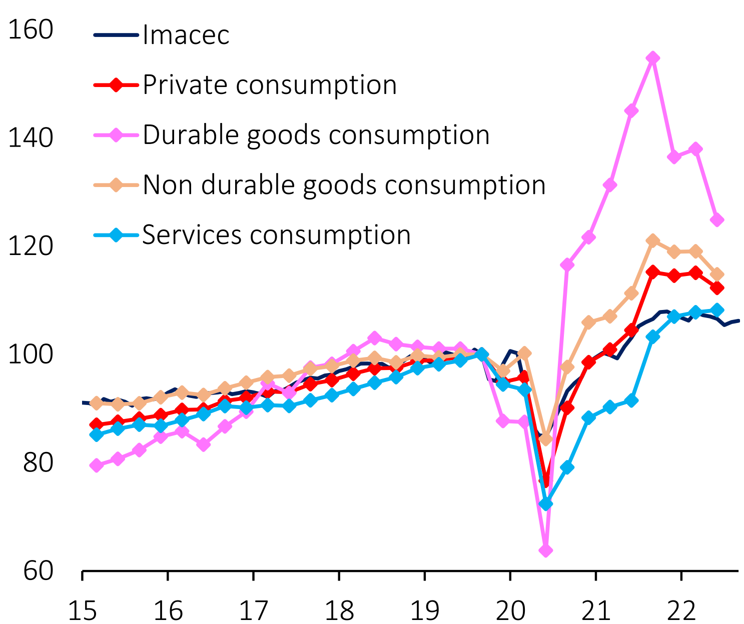
Two years ahead (1) (2)



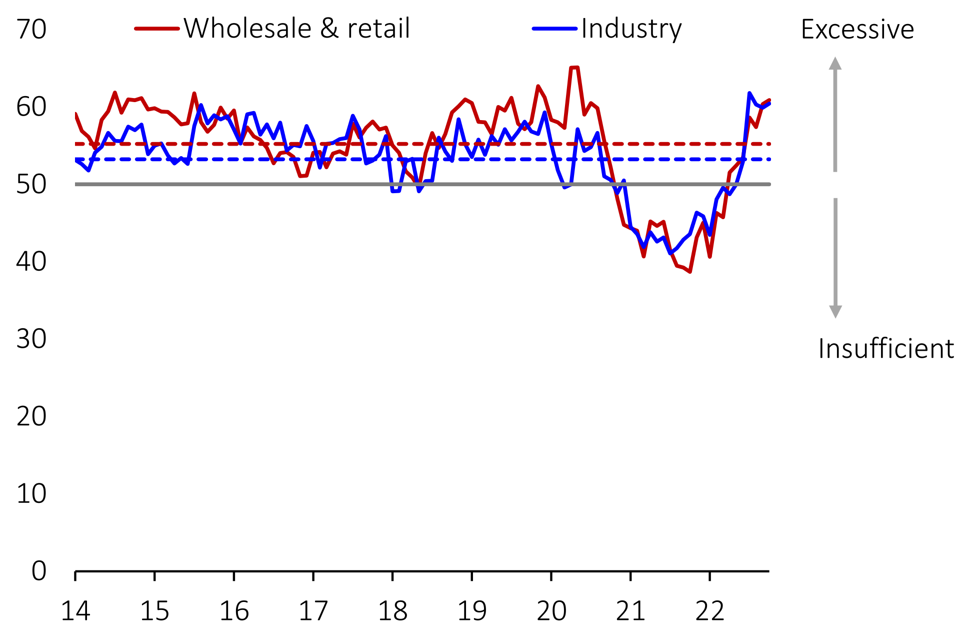
(1) Median responses. (2) FTS considers the survey for the first two weeks of each month through January 2018. From February 2018 onwards, it considers the last survey published in the month. In the months with no survey published, the latest available survey is used.
Sources: Economic Expectations Survey (EES), Financial Traders Survey (FTS), and Survey of Price Expectations Determinants (EDEP) of the Central Bank of Chile.

This has taken place as the Chilean economy steadily adjusts. The adjustment in household consumption is concentrated especially in durable goods, which coincides with higher inventory build-up.

Imacec and private consumption (1)
(index, Sep.19/3Q2019 = 100, seasonally-adjusted series)



IMCE: Perception of inventory level (2)
(index, pivot = 50)

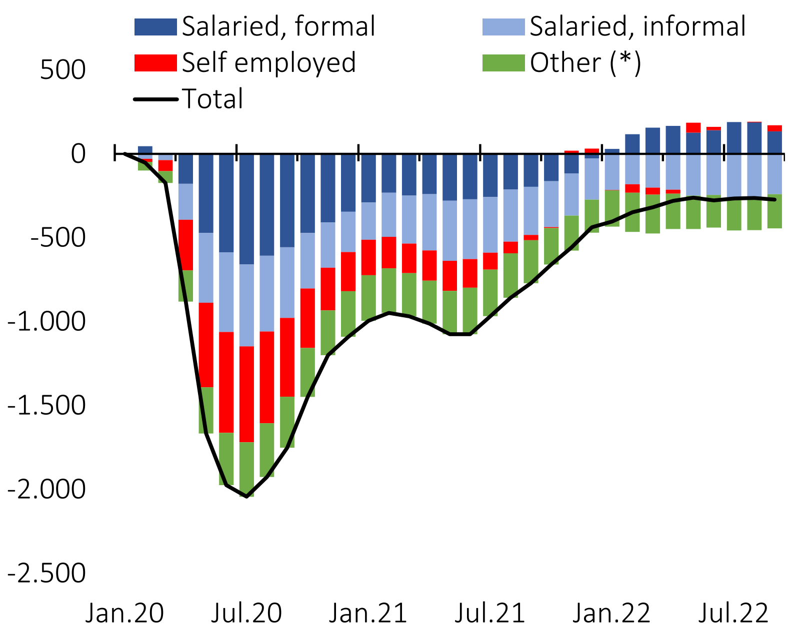


(1) Consumption and Imacec data are quarterly and monthly, respectively. (2) Dotted lines show historical average for each series (Nov.2003-Oct.2022).
Sources: Central Bank of Chile and ICARE/UAI.

The adjustment that consumption has done and will continue to do is justified by the depletion of accumulated liquidity and the weakness of its fundamentals, such as the loss of dynamism in the labor market.

Employment by occupational category

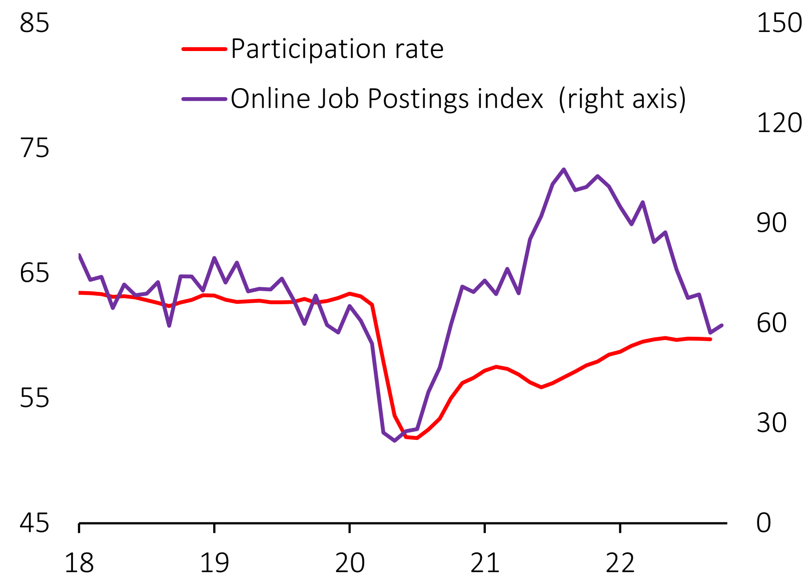
(difference w/respect to January 2020, thousands of persons)



(*) Sum of employers, household help, and unpaid family work.
Sources: Central Bank of Chile and INE.

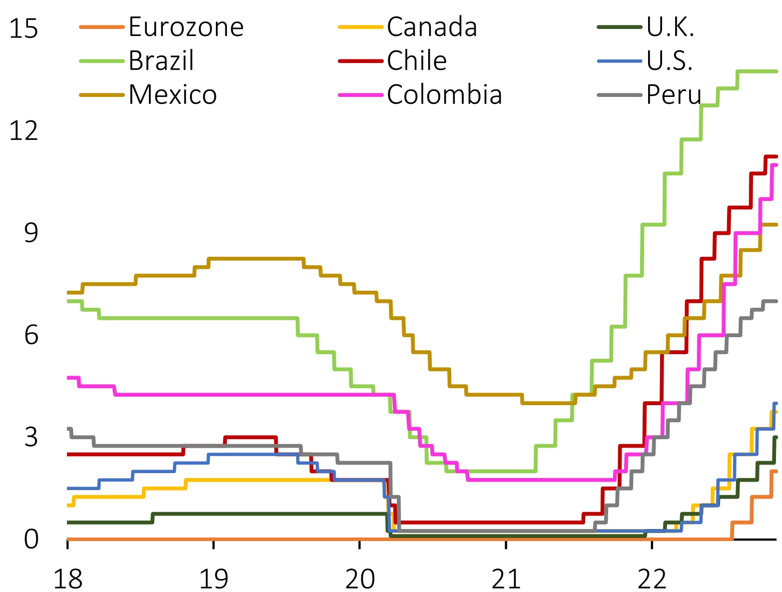
Participation rate and Online Job Postings index

(index; index, Jan.15 = 100)

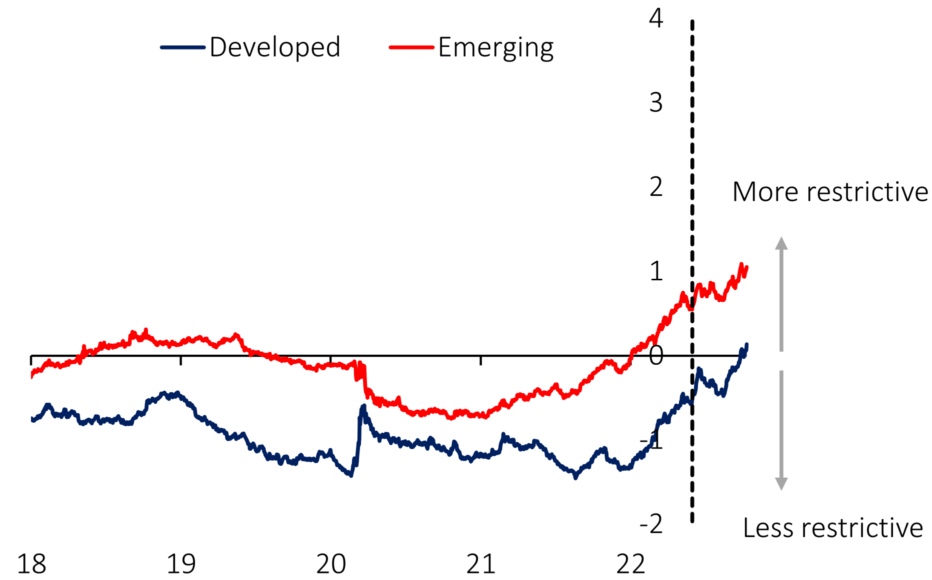


Most central banks have continued and/or accelerated their interest rate hikes, with the Fed's actions standing out. This has further tightened financial conditions, especially for emerging economies.

Monetary policy rates
(percent)



Financial conditions indexes (1) (2) (3)
(averaged standardized series)



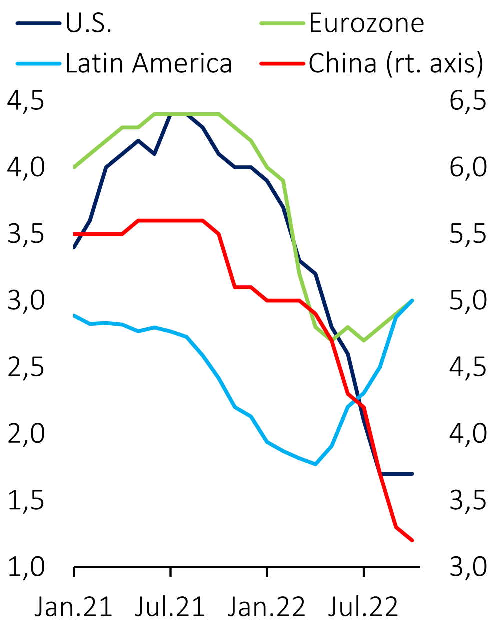
(1) Simple average of the Goldman Sachs financial conditions indexes standardized for those countries. For each country, it incorporates financial variables (such as short- and long-term interest rates, bond spread index, trade-weighted exchange rate and cyclically adjusted price/earnings ratio), which are then weighted by the impact of each variable on GDP growth. Standardization period is 2007-2022. Dashed vertical line indicates statistical cutoff date for June 2022 MP Report. (2) Developed considers the indexes of the U.S., Eurozone, U.K., Canada, Australia, New Zealand, Norway, and Sweden. (3) Emerging considers the indexes of Thailand, Malaysia, Indonesia, South Africa, Czech Republic, Hungary, Brazil, Mexico, and Chile. Sources: Central Bank of Chile, Bloomberg and Goldman Sachs.

Thus, the world growth outlook has been reduced in the face of increasing risk of a global recession in 2023.

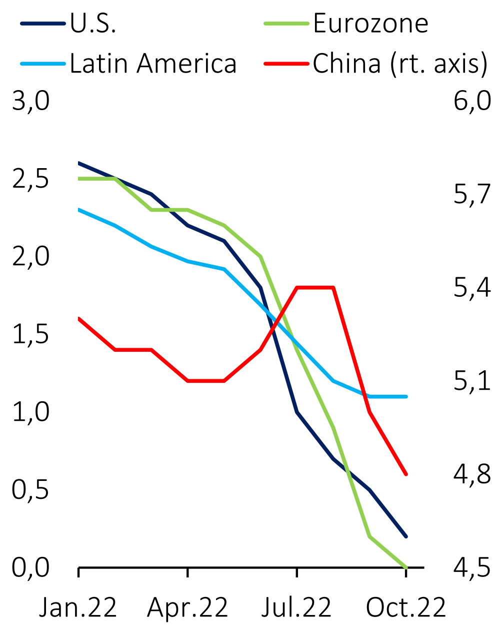
Growth forecast (1)

(percent)

2022

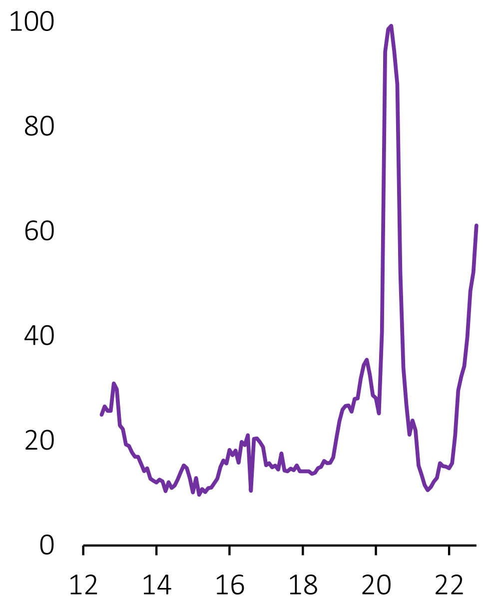


2023



Probability of a recession within 12 months in developed economies (2)

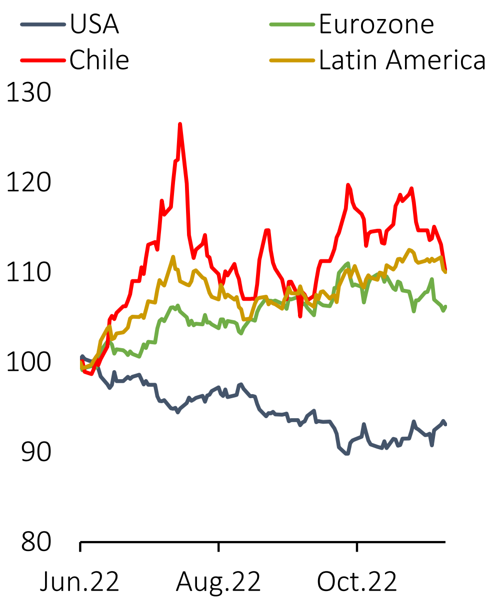
(percent)



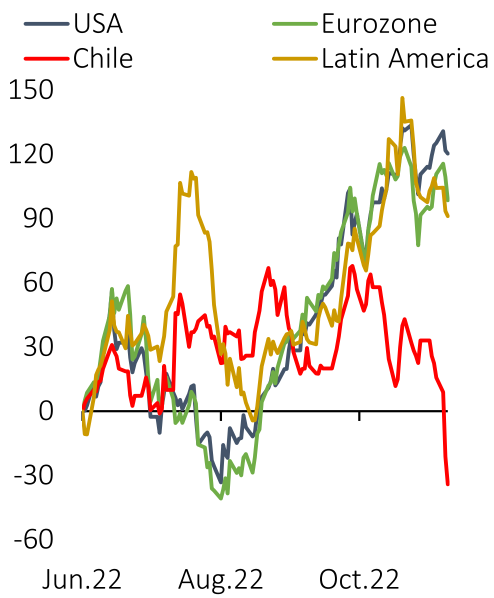
(1) Latin America considers Brazil, Argentina, Peru, Colombia, and Mexico. PPP-weighted growth; share of each economy according to WEO (IMF). (2) Includes the U.S., U.K. Germany, France, and Japan. Calculated as averages of responses in surveys for selected countries. Sources: Bloomberg, Consensus Forecast and FMI.

In the domestic financial market, the exchange rate, interest rates, and the risk premium have shown more volatility than what has been observed in the past.

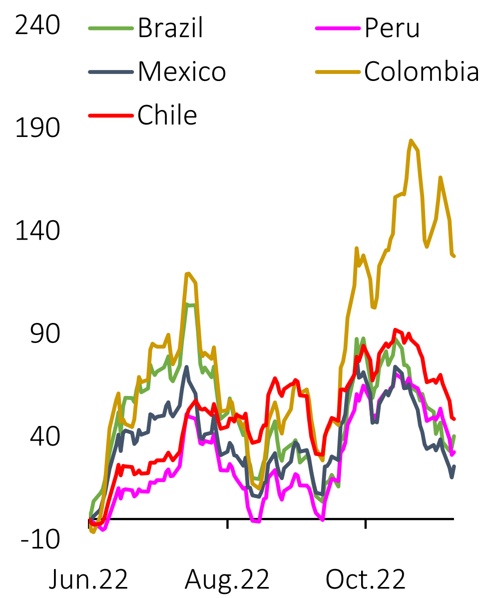
Currencies (*)
(index, 1.Jun.22=100)



10-year nominal bond interest rates (*)
(difference w/ respect to 1.Jun.22, basis points)



Country-risk premiums (5-year CDS)
(difference w/ respect to 1.Jun.22, basis points)

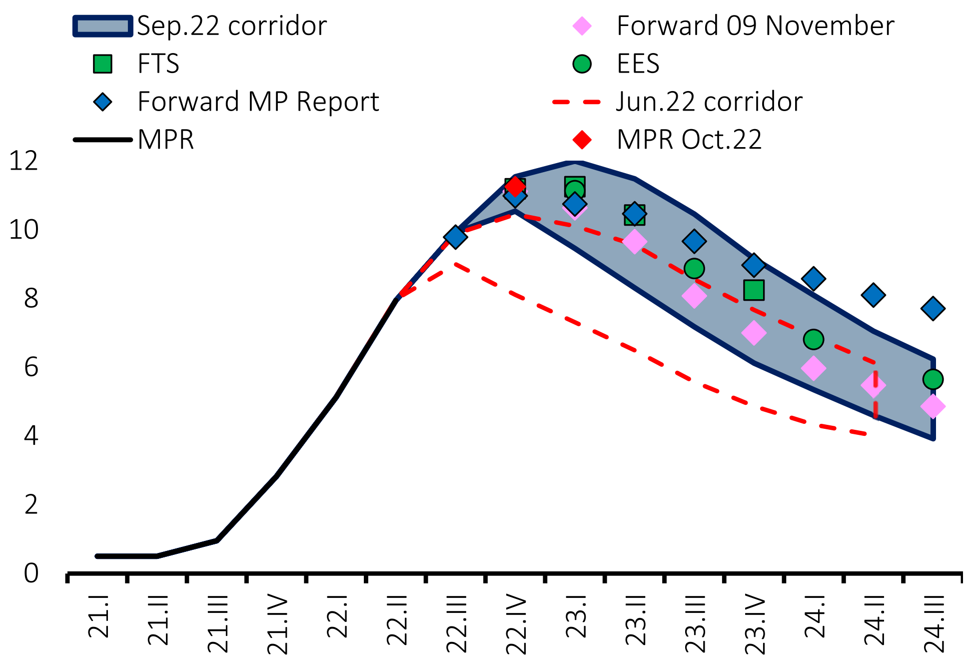


(*) Latin America uses simple average of exchange rates of Brazil, Mexico, Colombia, and Peru.
Sources: Central Bank of Chile and Bloomberg.

The Board estimates that the monetary policy rate has reached its maximum level of the cycle that began in July 2021, and that it will remain there for as long as necessary to ensure the convergence of inflation to the target over the two-year policy horizon.

MPR corridor (*)

(quarterly average, percent)



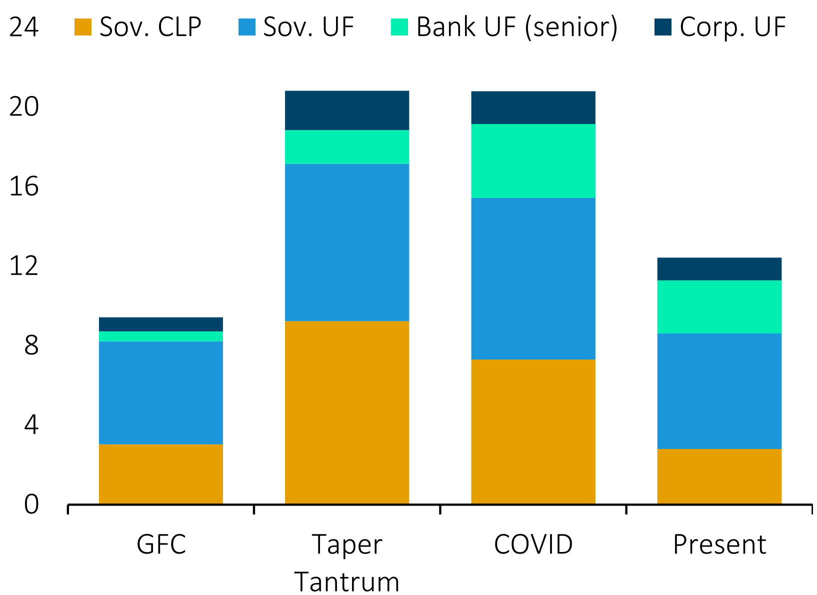
(*) The corridor is built following the methodology of box V.1 in the March 2020 MP Report and box V.3 in the March 2022 MP Report. For further details, see methodological note (figure II.1, chapter II, September 2022 MP Report). Source: Central Bank of Chile.

- The macroeconomic scenario presents high risks whose short- and medium-term implications must be evaluated carefully.
- The Board will monitor closely the unfolding of these events, and hereby reaffirms its commitment to conduct monetary policy with flexibility, in order for projected inflation to stand at 3% annually in the policy horizon.

Financial Stability Report 2S 2022: massive asset liquidations, a weaker macroeconomic environment and greater uncertainty reduced the depth and adjustment capacity of the local capital market. In this context, banks face several challenges.

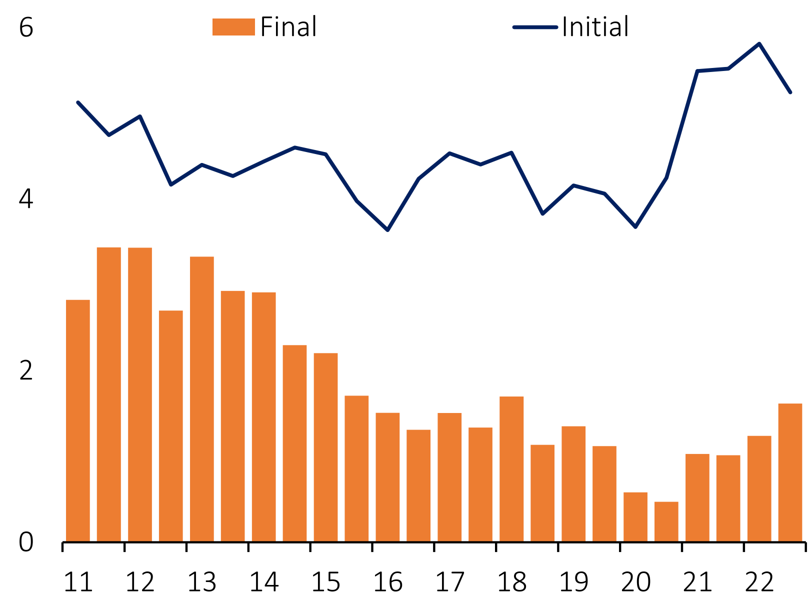
Average amounts traded per instrument (1)

(trillion Chilean pesos)



Capital buffers under severe stress scenario (2)

(percent of risk-weighted assets, semi-annually)



(1) The periods considered are the Global Financial Crisis (July 2008 to April 2011), *Taper Tantrum* (May to July 2013), Covid (March 2020 onwards), and Present (January 2022 onwards). Average monthly amounts traded and average weekly share in the sovereign debt market. (2) Excess of effective equity above regulatory minimum. Consider the specific limits of each bank. From 2021 onwards, consumption BSSs are included..

Source: Central Bank of Chile based on information FMC.

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