

MONETARY POLICY AND MACROECONOMIC DEVELOPMENTS

October 13th 2022

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Barclays Emerging Markets Roundtables



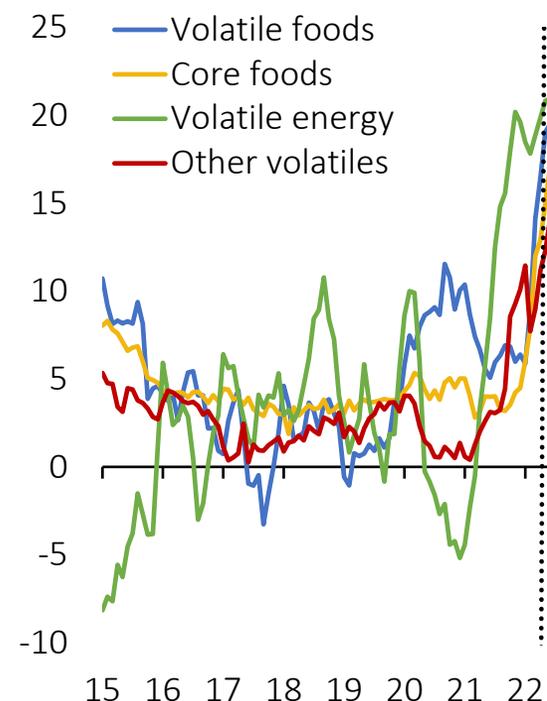
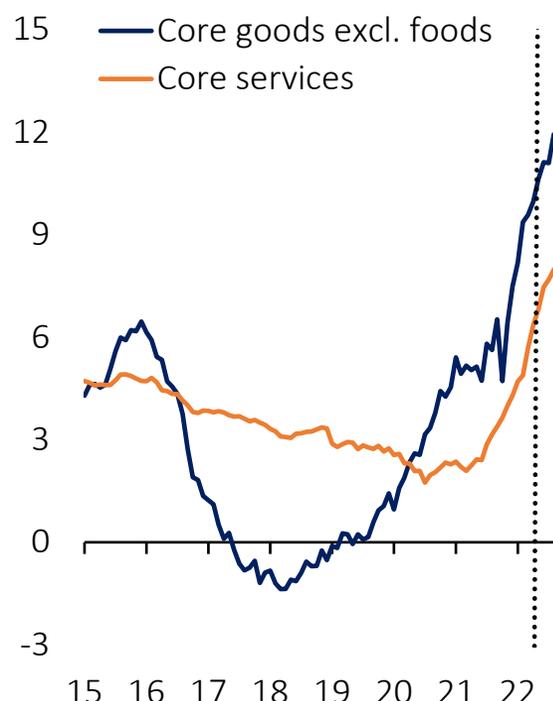
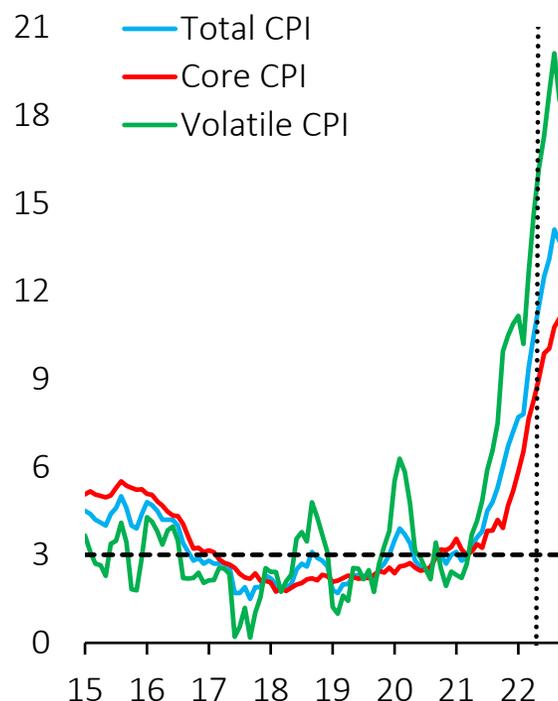
ARCOS DE CALAN
Ñuble Region, Chile

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 increases.



Inflation indicators (1) (2)

(annual change, percent)



(1) Dashed vertical line indicates the statistical cutoff date of the June 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](#).

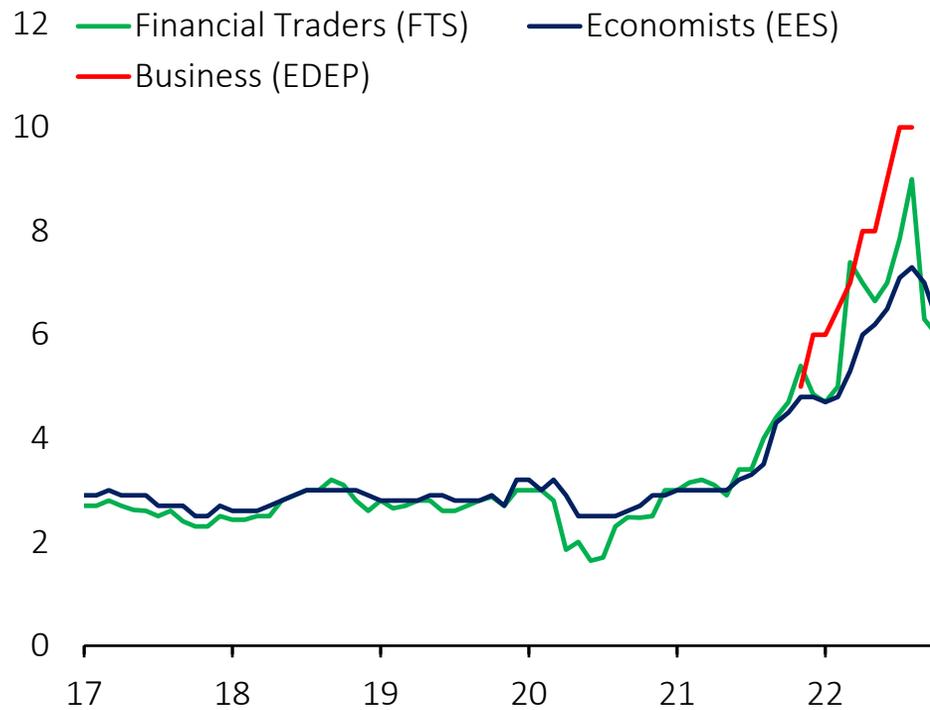
Sources: Central Bank of Chile and National Statistics Institute (INE).

Meanwhile, have not increased further, but remain very high. This is likely to be playing a role in the greater inflation persistence.

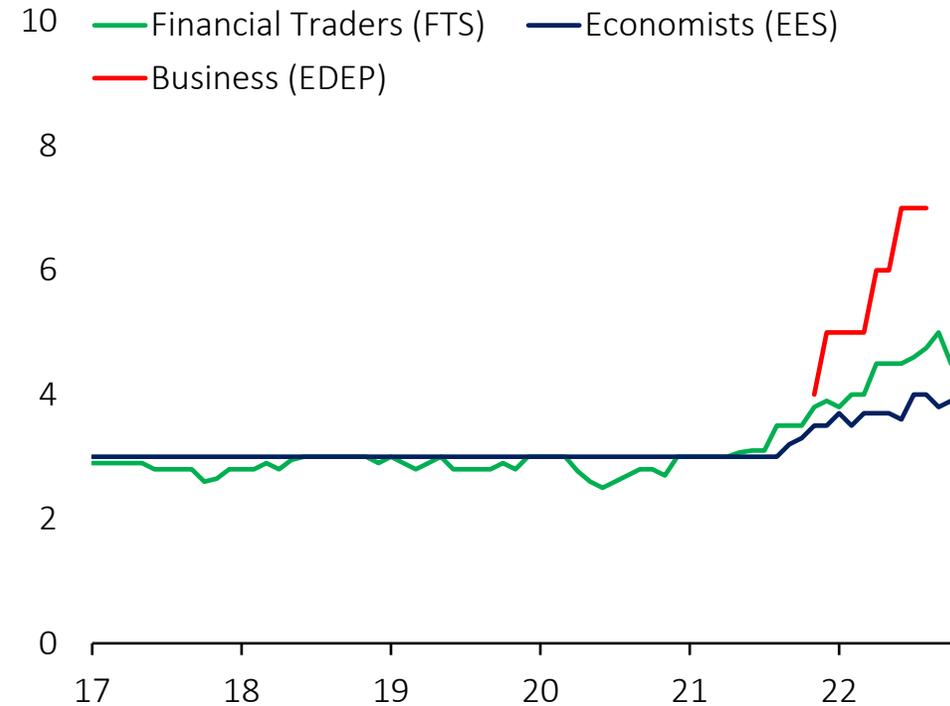


Inflation expectations (annual change, percent)

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.

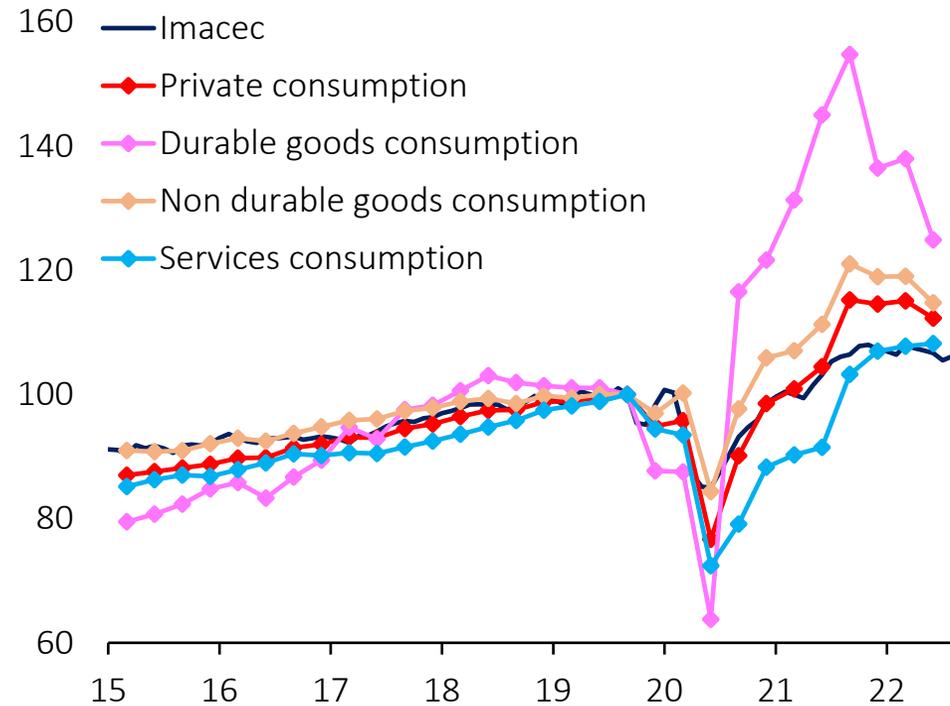
Sources: Economic Expectations Survey (EES), Financial Traders Survey (FTS), and Survey of Price Expectations Determinants (EDEP) of the Central Bank of Chile.

On the real side the adjustment is ongoing. In household consumption it is concentrated mostly in durable goods, which coincides with higher inventory build-up.



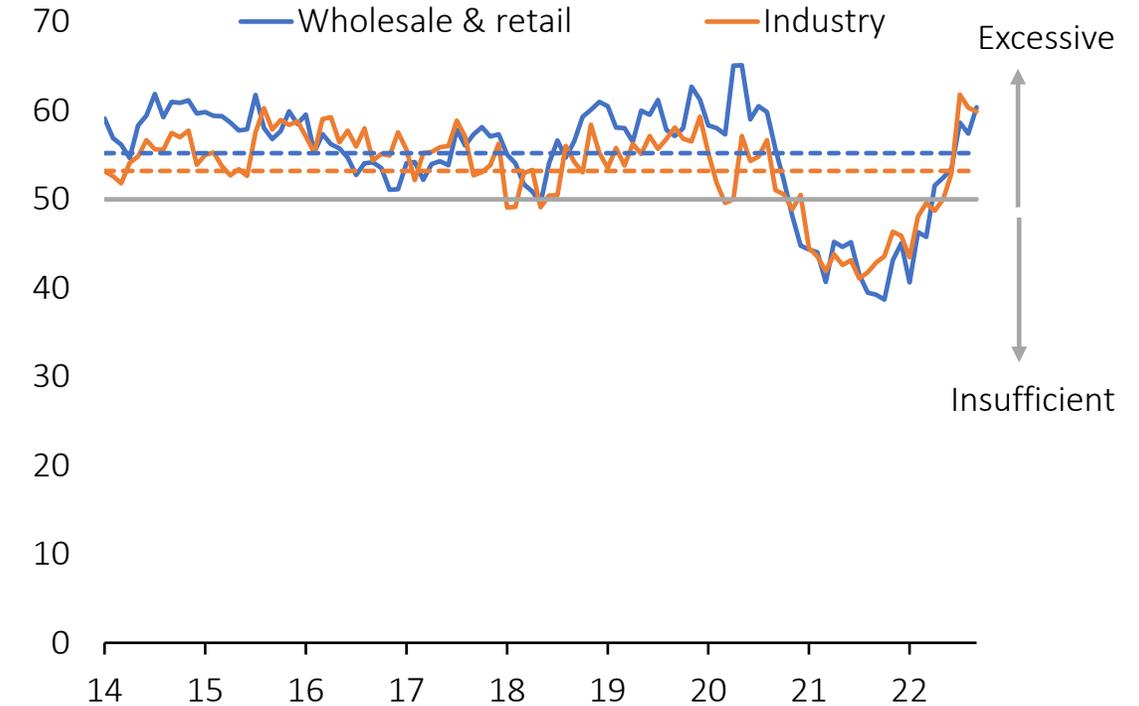
Imacec and private consumption (1)

(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-Sep.2022).

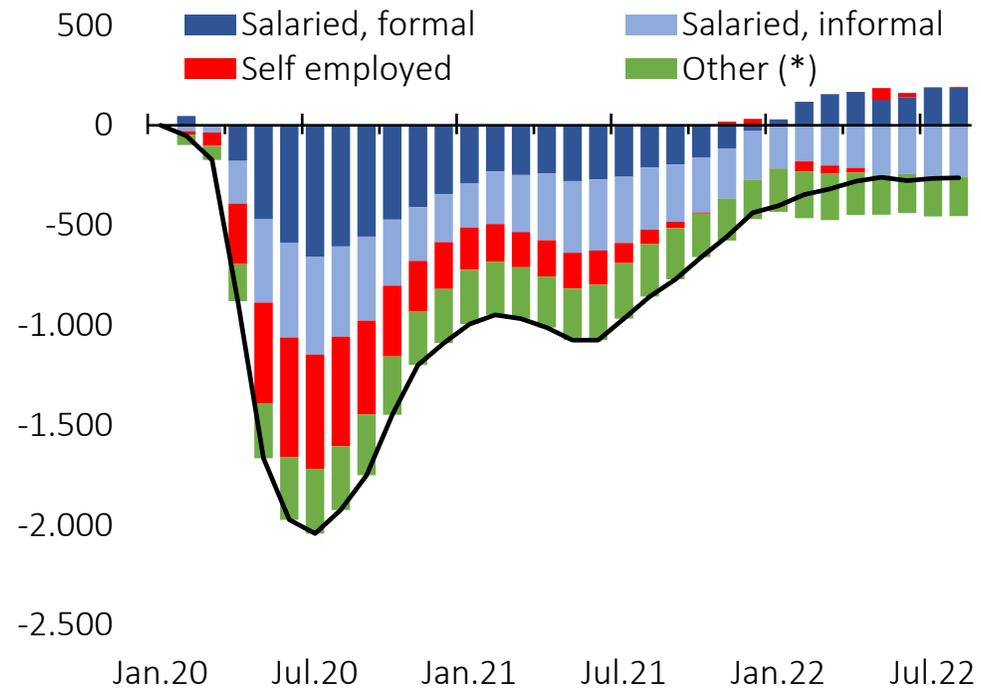
Sources: Central Bank of Chile and ICARE/UAI.

The labor market has also shown signs of lower dynamism.



Employment by occupational category

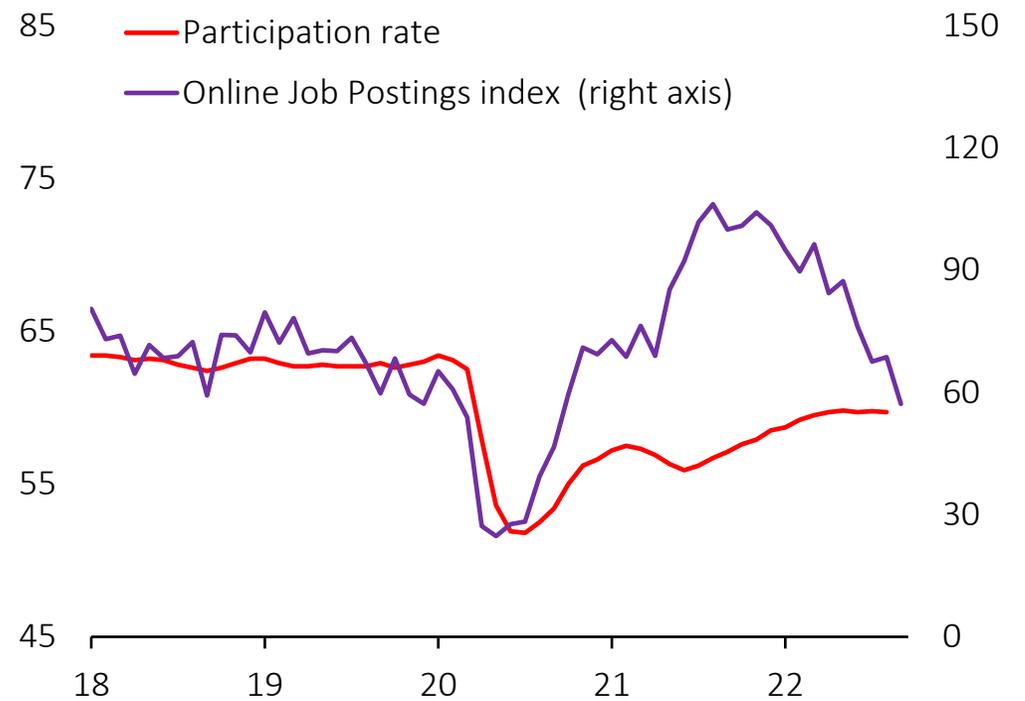
(difference w/respect to January 2020, thousands of persons)



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

Participation rate and Online Job Postings index

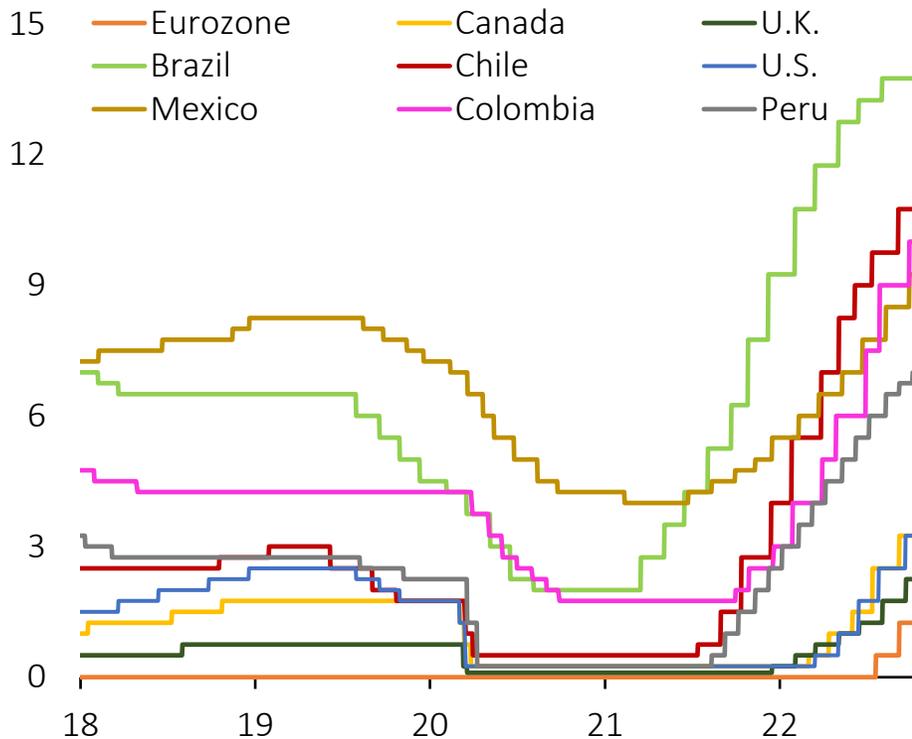
(index; index, Jan.15 = 100)



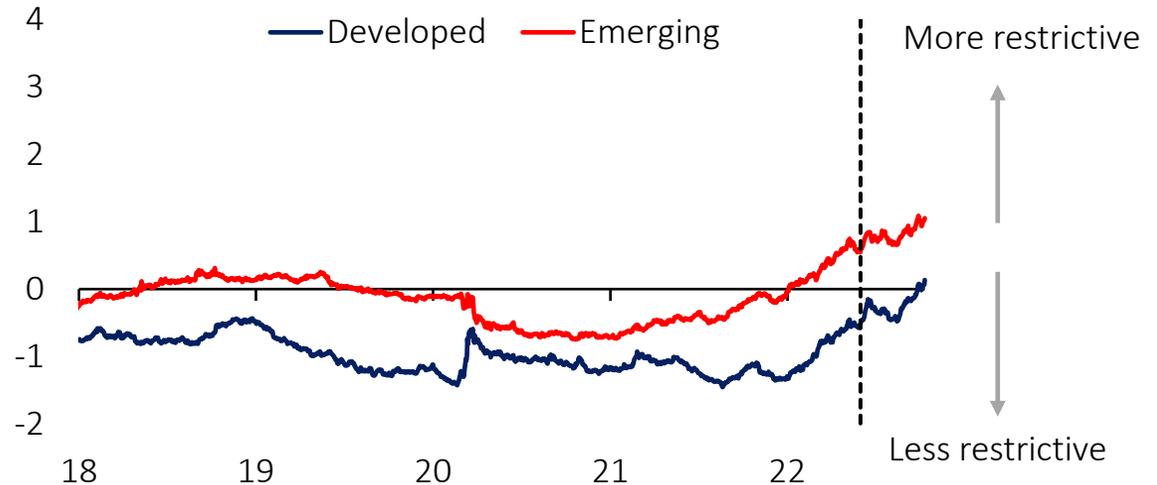
Most central banks have continued and/or accelerated their interest rate hikes, with the Fed's actions standing out. This has further tightened financial conditions, especially for emerging economies.



Monetary policy rates
(percent)



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



“Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy. [...] we must keep at it until the job is done.”
(from speech delivered by U.S. Federal Reserve Chair Jerome Powell on 26 August 2022)

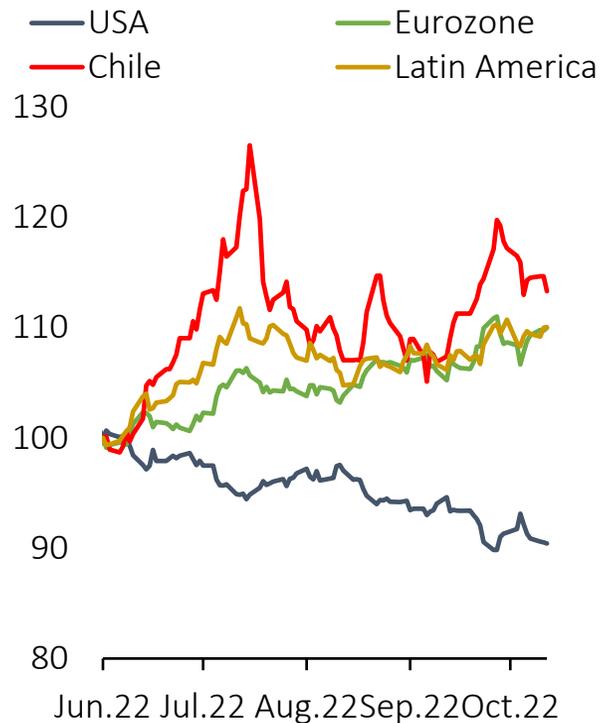
(1) Simple average of the Goldman Sachs financial conditions indexes standardized for those countries. For each country, it incorporates financial variables (such as short- and long-term interest rates, bond spread index, trade-weighted exchange rate and cyclically adjusted price/earnings ratio), which 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.

The tightening in global financial conditions is also apparent domestically.



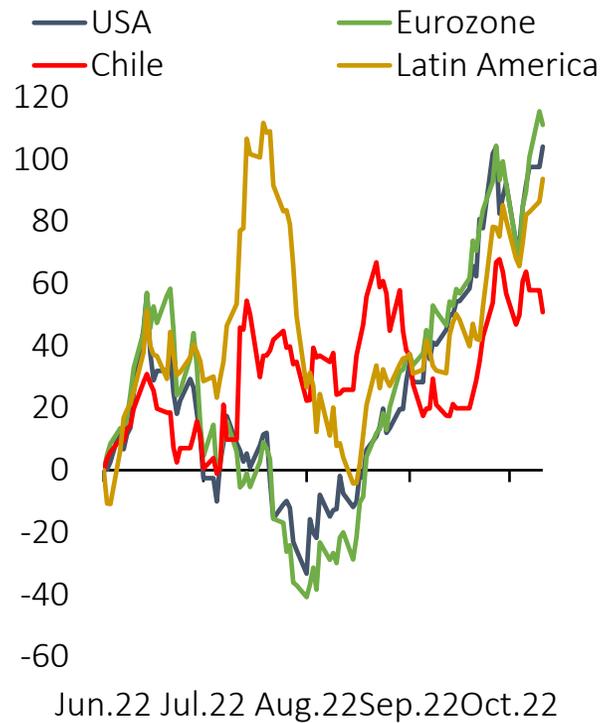
Currencies (*)

(index, 1.Jun.22=100)



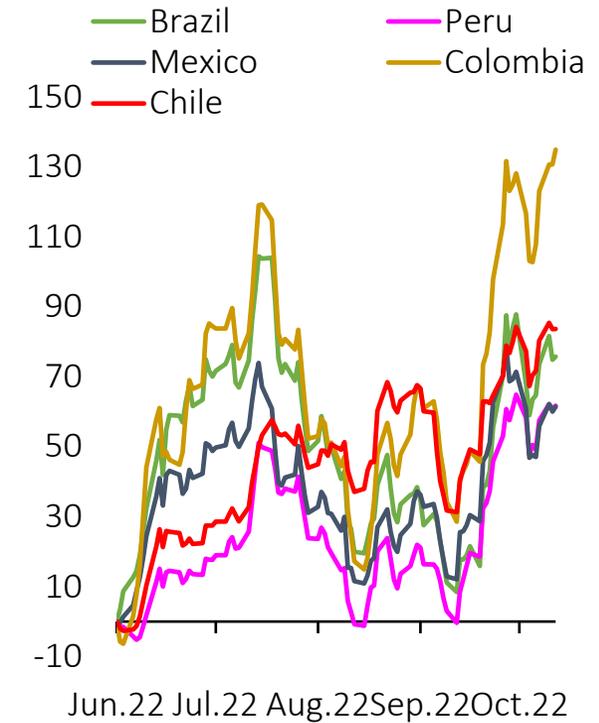
10-year nominal bond interest rates (*)

(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.

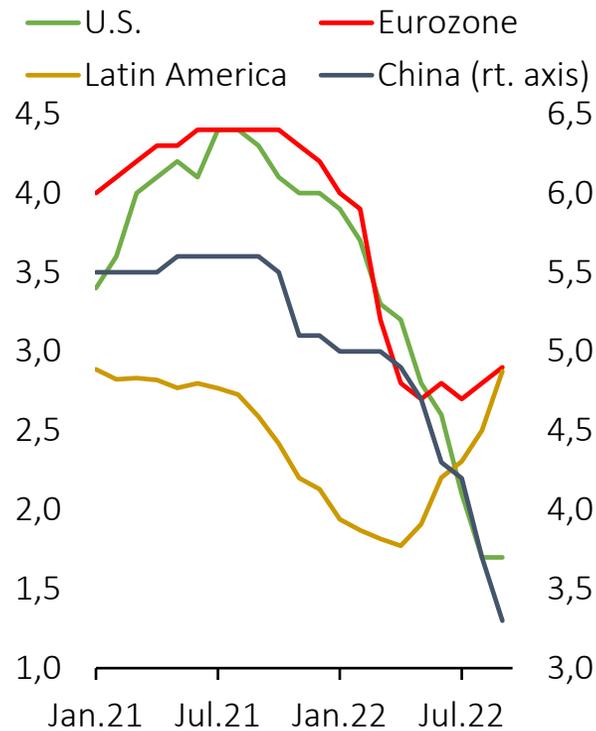
The global growth outlook has weakened, with increasing risks of a global recession in 2023.



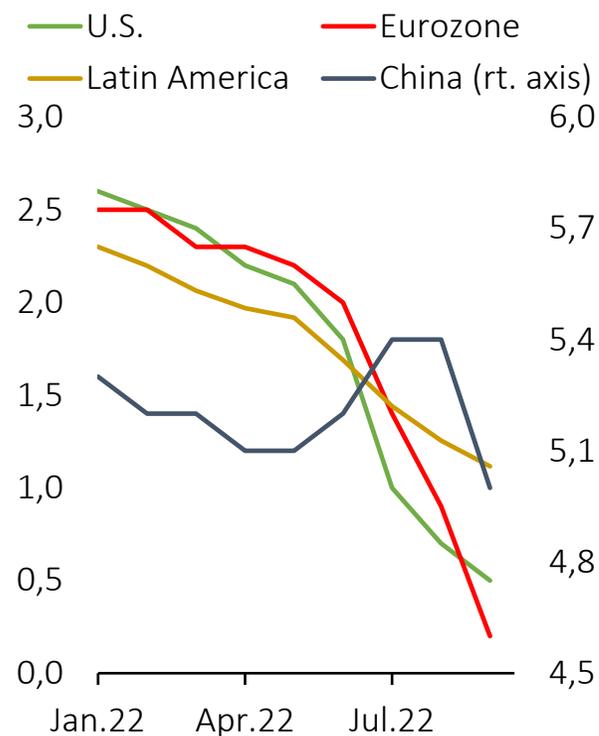
Growth forecast (1)

(percent)

2022

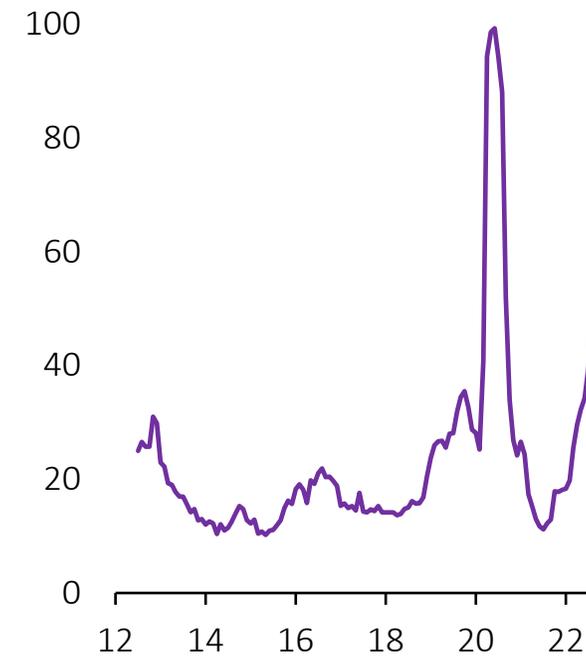


2023



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

(percent)

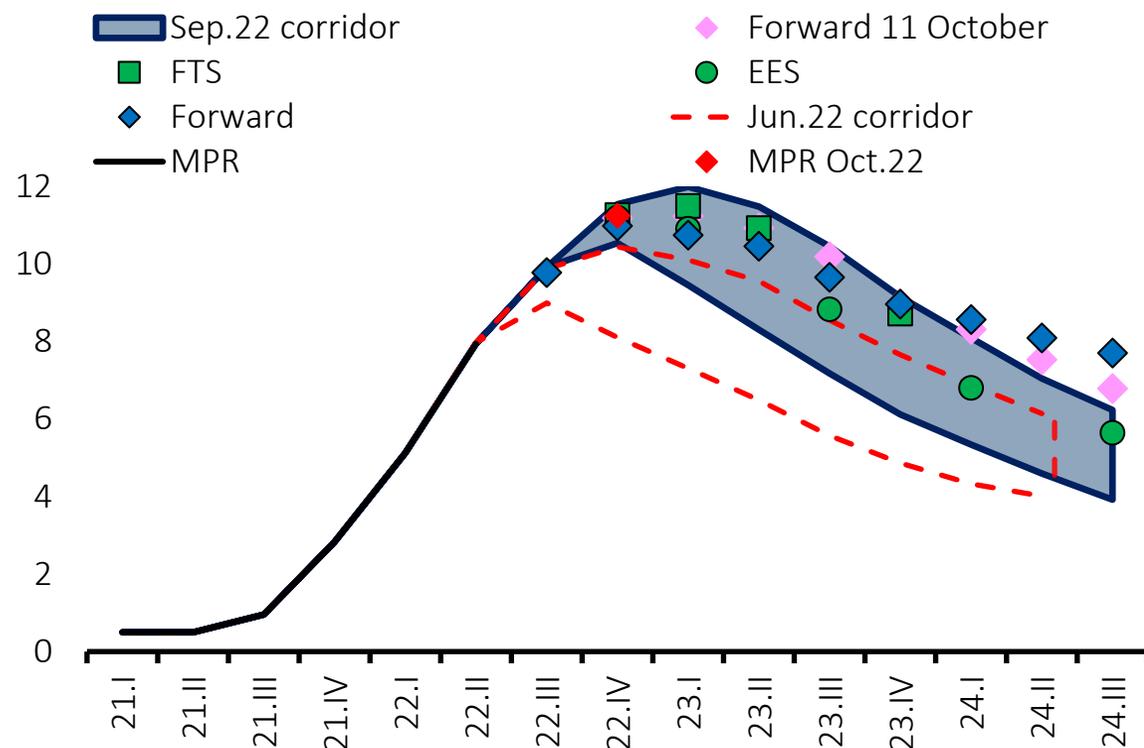


(1) Latin America considers Brazil, Argentina, Peru, Colombia, and Mexico. PPP-weighted growth; share of each economy according to WEO (IMF). (2) Includes the U.S., U.K. Germany, France, and Japan. Calculated as averages of responses in surveys for selected countries. Sources: Bloomberg, Consensus Forecast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

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 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.

(*) 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.



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