

Tuesday, 14 December 2021

Monetary Policy Meeting – December 2021

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 125 basis points to 4.0%. The decision was adopted by the unanimous vote of its members.

On the external front, the outlook for global activity has moderated, especially for emerging economies. The persistence of global supply restrictions has continued to impact the performance of certain sectors, in a context where pandemic-related risks are still present. Inflation has continued to rise, reaching high levels and showing signs of further persistence in several countries. As a result, more central banks have joined in the removal of the substantial monetary stimuli applied during the crisis, changing their view of current inflation as transitory. In this context, there has been an appreciation of the dollar and a mixed performance in the stock markets. The price of a barrel of oil has fallen by around 10% with respect to the last meeting, while copper remains at around US\$4.3 per pound.

The performance of the Chilean financial market continues to be closely linked to idiosyncratic elements. In the fixed-income market, short-term interest rates have risen in line with the monetary policy stance. Although 10-year rates have fallen by around 130bp since the last meeting, they are still well above their early-year levels and have accumulated a much higher increase than in comparable economies. With ups and downs, the peso depreciated again from its levels at the time of the previous meeting.

The dynamics of bank credit continue to show a limited performance of loans in the different portfolios, combining weaker demand and supply. The tightening of lending conditions is especially visible for mortgage credit and other longer-term loans. At the same time, interest rates have continued to rise in all segments.

In line with forecasts of the September MP Report, activity showed significant dynamism in the third quarter, posting annual expansion of 17.2% and an annualized quarterly expansion rate that climbed to 21% in seasonally adjusted terms. Domestic demand grew more than expected, driven by strong private consumption. Investment in machinery and equipment also showed good performance, while construction and works was able to recover its pre-pandemic levels. In October, the Imacec once again recorded high annual growth rates (15%), although its seasonally-adjusted monthly growth rate slowed down with respect to previous months. In this context, private expectations have revised the expected growth for this year upwards, from 11% in October to 11.9% in December. The labor market continues to recover gradually, which has been held back by the reduced supply of workers, especially visible in some sectors and segments of the population. Household and business expectations have recently declined, marked in part by greater concerns about inflation.

Annual inflation rose further in recent months, to 6.7% as of November. Worth noting is the rise in volatile prices (10.5% annually in November), especially for fuels, foodstuffs, and services that picked up after the pandemic. Core CPI's annual variation—i.e., the CPI minus volatile prices—was 4.7% in November, in line with the projections in the September MP Report. Various expected inflation measures have increased in recent months and, while some moderation is foreseen towards 2023, in the 24-month horizon they place it above 3%.

The Board foresees that the MPR will be further increased in the short term, to exceed its nominal neutral level —i.e., the one that is consistent with the 3% inflation target— during much of the monetary policy horizon. This will help the economy to resolve its cumulative imbalances, which have contributed to the fast increase in inflation. This will result in the gradual closing of the activity gap, helping to prevent the recent inflationary dynamics from having a persistent impact on the price formation process. The Monetary Policy Report to be published tomorrow morning contains the details of the central scenario, its surrounding sensitivities and risks, and its implications for the evolution of the monetary policy rate.

The minutes of this Monetary Policy Report will be released at 8:30 hours of Wednesday 29 December 2021. The next Monetary Policy Meeting will be held on Tuesday 25 and Wednesday 26 January 2022 and the statement thereof will be published at 18 hours of the second meeting day.

* The Spanish original prevails.

