

Wednesday, 26 January 2022.

Monetary Policy Meeting – January 2022

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 150 basis points, to 5.5%. The decision was adopted by all the Board members present.

The world economy has lost some dynamism, but the outlook for the year shows no major changes. Covid-19 infections have spread considerably in many countries and, although mobility has decreased, their effects on activity have been limited. In any case, the risks surrounding the Chinese economy are rising because of tightened constraints and their potential impact on the persistence of bottlenecks at the global level. Inflation has continued to rise in several economies, and central banks have intensified their move towards the withdrawal of monetary stimulus. Geopolitical risks have escalated, especially in Europe. In this context, the financial markets report a widespread rise in long-term interest rates, plus an appreciation of a significant number of currencies against the dollar, and stock market falls, especially in developed economies. Meanwhile, the oil price has risen significantly, to around US\$85 per barrel (+19% since the last Meeting for the WTI-Brent average), while the copper price stands near US\$4.5 per pound.

The Chilean financial market's evolution has been marked by both external and internal factors —mostly the latter— possibly associated to a decline in internal uncertainty. Since the previous Meeting, the peso has appreciated close to 5%, stock prices have risen by around 5%, long-term interest rates —with ups and downs— have remained fairly constant, and the country risk (CDS) has dropped by nearly 10 basis points. Meanwhile, short-term interest rates have increased, in response to higher headline inflation and expectations of a higher monetary policy rate. In any case, uncertainty is still high by historical standards and long-term interest rates maintain a significant spread with respect to comparable economies.

On aggregate, activity and demand indicators are consistent with the upper part of the estimated range for 2021 considered in the December Monetary Policy Report. In November, activity rose by 14.3% annually (0.3% monthly in the seasonally-adjusted series), where the contribution of services and, more moderately, of retail and wholesale trade, stood out. On the demand side, the sustained dynamism of imports of all kinds of goods is worth noting. Private expectations (EES) continue to foresee GDP growing at around 2% in 2022 and 2023. The labor market continues to recover steadily, with still contained household labor supply and high demand for labor by firms. Bank credit in general has maintained moderate dynamism, with demand-side factors dominating. Interest rates are on the rise for all types of credit, but more markedly for consumer loans.

Annual CPI variation mounted to 7.2% in December, outpacing market expectations and the forecast in the last MP Report. Price hikes were generalized across all the items in the basket. Again, the increase in core inflation (i.e., the CPI minus volatile items) stood out at 5.2% annually, driven by the prices of goods —which were unexpectedly high—, and also services. Within the volatile component, most remarkable were the contribution of fuels and the evolution of some specific items. Private inflation expectations remain above 3% in the two-year horizon.

The evolution of inflation continues to face significant risks and their possible materialization becomes especially relevant in a context where both the annual change in the CPI and its outlook

are already high. In particular, the recent evolution of activity and inflation is somewhat above the forecast in the December MP Report, and inflationary pressures from the international scenario have increased. The Board's decision is consistent with a monetary policy path that, in the short term would stand near the upper edge of the MPR corridor described in the last Report. The March Report will feature a new evaluation of the corridor.

The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Thursday 10 February 2022. The next Monetary Policy Meeting will be held on 29 March 2022 and the statement thereof will be published at 18:00 hours the same day.

* The Spanish original prevails.