Press Release*

Thursday, 5 May 2022.

Monetary Policy Meeting – May 2022

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 8.25%. The decision was adopted with the unanimous vote of its members.

World inflation has continued to rise, and central banks have intensified the withdrawal of their monetary stimuli. This has taken place in a scenario of still high commodity and food prices and confinements in China have put additional pressures on the recovery of global supply chains. The global growth outlook for this year has been adjusted downwards, approaching the values forecast in the March Monetary Policy Report. This, amid persistent uncertainty over the Russian invasion of Ukraine and signs of concern over activity in China.

The movements of global financial markets have been driven mainly by risks associated with the speed at which the main central banks would withdraw their monetary stimulus measures, especially the United States Federal Reserve. In this context, since the last Meeting, long-term interest rates rose in several economies, stock markets dropped and the dollar appreciated at the global level, all in an environment of higher financial volatility.

The domestic financial market was partially affected by these developments. In the last month, the peso/dollar parity depreciated significantly, and long-term interest rates (BTP-10) increased. In turn, the IPSA declined while the sovereign risk premium (CDS) rose. In the credit market, lending performance continues to show moderate dynamism in the different portfolios. This outlook is consistent with the higher cost of credit, tighter access conditions and a more cautious attitude on the part of borrowers, as reflected in the qualitative information compiled in the May Business Perceptions Report (IPN).

Based on published Imacec figures, economic activity would have grown 7.9% in the first quarter this year, a little above the last Monetary Policy Report's estimate, owing largely to the March result. On the demand side, short-term indicators show that consumption remains resilient, while the investment weakens. In the latter, while capital imports remain high, most construction-related indicators have continued to decline and survey data are revised downward for the 2022-2025 period. In the labor market, the increase in employment has been slowing down since the end of last year, in a context where different indicators show a less dynamic demand while supply remains tight, albeit with some improvement. Consumer (IPEC) and business (IMCE) expectations have continued to deteriorate.

March inflation was significantly higher than assumed in the last Monetary Policy Report, pushing the annual CPI variation to 9.4% (7.6% for core CPI, without volatiles). Worth noting was the rise in the prices of foods—core and volatile—, fuels, and some other specific items. Domestic inflationary pressures have been strengthened by the hikes in international energy and food prices, the exchange rate depreciation, and ongoing problems affecting global supply. Inflation expectations derived from the surveys—EES and FTS—remain above 3% in the two-year horizon.

The recent evolution of inflation and its short-term outlook exceed the forecast in the March Monetary Policy Report. This situation intensifies the risks of the inflation scenario, so the Board has determined to raise the MPR to around the upper bound of the policy rate corridor of the last MP Report. The next Monetary Policy Report will feature a new evaluation of the monetary policy trajectory.

The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Friday, 20 May 2022. The next Monetary Policy Meeting will be held on Tuesday, 7 June 2022 and the statement thereof will be published at 18:00 hours the same day.

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* The Spanish original prevails.