Tuesday, 29th March 2022

Monetary Policy Meeting – March 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 7%. The decision was adopted by all the Board members.

Global inflation has continued to rise, prompting the Fed and other authorities to accelerate the normalization of their monetary stimulus, despite a reduction in the world growth outlook. In this context, long-term interest rates have continued to rise further globally and stock markets have seen mixed results. In Latin America, stock markets and local currencies have shown some recovery, explained in part by higher commodity prices and a low basis for comparison.

The invasion of Ukraine has significantly intensified uncertainty and boosted commodity price increases, especially for energy, foodstuffs, and some metals. Accordingly, the oil price has risen considerably to levels of around US$110 per barrel (+28% since the last meeting for the WTI-Brent average), while the price of copper is around US$4.6 per pound. In any case, for the time being, the main economic and financial repercussions have remained confined to the parties directly involved in the conflict and their neighboring countries.

In the domestic financial market, since the previous meeting the peso appreciated and the IPSA rose. Long-term interest rates, after being relatively stable, began to rise by the end of February, mirroring the behavior of their external counterparts. Still, they remain somewhat below the highs of mid-October of last year. Local asset prices have had a limited reaction to the unfolding conflict between Russia and Ukraine, although local uncertainty indicators have risen once again.

Local credit remains weak, with lending flows slowing down lately. According to the first-quarter Bank Lending Survey, this is occurring in the midst of tighter conditions in access to bank financing in all portfolios, especially for companies, and lower demand for funds. The balances of individuals' checking and demand accounts have been declining. All this occurs in a context of rising short-term market interest rates, consistent with the transmission of a more contractionary monetary policy given the higher inflation scenario and the increase in longer-term benchmark rates.

Regarding activity, the closing of the 2021 National Accounts —in accordance with the new 2018 benchmark compilation— showed an 11.7% increase in GDP, that is, within the range projected in the December MP Report. The performance of domestic demand in the fourth quarter, plus data available from the beginning of the year, point to the economy already being on a downward path from last year's high levels of spending. It is worth noting the reversal in the levels of private consumption —in seasonally-adjusted terms— especially of durable goods. Last January's Imacec confirms this trend, with a marked decline in the levels of wholesale and retail trade activity. Services, on the other hand, have continued to consolidate their recovery in line with the greater openness of the economy. In the labor market, participation has risen again, with demand tending to stabilize. All this is taking place in a context in which consumers' and entrepreneurs' perceptions of the economic situation have become more pessimistic.

Annual inflation rose to 7.8% at February, almost one percentage point higher than expected in the December MP Report, a difference that responded largely to increased core inflation, especially in goods. The short-term inflation outlook has been revised upward again, bringing annual inflation closer to 10%. Inflation expectations in the two-year horizon have remained above 3% for several months, a situation that will be monitored continually by the Board.

The Board considers that, if the assumptions in the central scenario of the March Monetary Policy Report prove correct, future increases in the MPR would be smaller than those of recent quarters. In any case, this will depend on the evolution of the macroeconomic scenario. The Monetary Policy Report to be published tomorrow morning contains the details of the central scenario and related sensitivities and risks, together with their implications for the future evolution of the MPR.

The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Wednesday 13th April 2022. The next Monetary Policy Meeting will be held on Wednesday 4th and Thursday 5th May 2022 and the statement thereof will be published at 18:00 hours of this latter date.