

Tuesday, 6 September 2022

Monetary Policy Meeting – September 2022

At its monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 100 basis points, to 10.75%. The decision was adopted with the votes of Governor Rosanna Costa and Board members Alberto Naudon and Luis Felipe Céspedes. Vice-Governor Pablo García voted for raising the MPR by 125 basis points, and Board member Stephanie Griffith-Jones voted for raising it by 75 basis points.

Global inflation has continued to rise and shows signs of increasing persistence. Central banks have further raised their benchmark rates. The European Central Bank began its monetary normalization process in July. The U.S. Federal Reserve has taken a more contractionary stance to control inflation. In this context, the global growth outlook has deteriorated, amid conditions that remain unfavorable, especially for emerging economies.

Global financial markets have continued to show high volatility, mainly due to uncertainty regarding the Fed's monetary policy path and its impacts. In general, long-term interest rates have risen in recent weeks and the dollar has continued to appreciate globally. The oil price has fallen back to around US\$90 per barrel (–13% since the last meeting), while copper, with ups and downs, is around US\$3.5 per pound (+3% since the last meeting). Food prices have also shown significant declines.

Since the Central Bank's intervention announcement, tensions in the forex market have eased. Volatility has decreased and the exchange rate has appreciated. Long-term interest rates are at similar levels—with fluctuations—to those of the previous meeting, while the stock market has accumulated gains. Credit continues to be weak, in a context in which banks and businesses perceive financial conditions to be restrictive.

Activity has continued its adjustment process after the strong imbalances accumulated in 2021. Data for the second quarter showed a 0.5% decline in non-mining GDP—seasonally adjusted series—compared with the previous quarter. This trend continued in July, when the non-mining Imacec decreased 0.8% monthly in its seasonally-adjusted series. On the expenditure side, the second-quarter data showed declines in both investment and consumption. The labor market has lost strength, with low job creation and a decrease in vacancies. The unemployment rate shows no big change. The annual change in real wages remains negative. Consumer and business confidence indicators are still in pessimistic territory.

Headline inflation has continued on an upward path and stood at 13.1% annually in July, while core inflation—measured by the CPI without volatiles—rose to 10% annually. The July CPI data surprised to the upside, mainly driven by greater increases in volatile prices. Survey inflation expectations (EES and FTS)—have been adjusted upwards.

With this decision, the MPR is at the maximum level considered in the central scenario of the September Monetary Policy Report. Future movements of the policy rate will depend on the evolution of the macroeconomic scenario and its implications for the convergence of inflation to the target. The Board will be especially vigilant of the upward risks for inflation, not only because of the high level it has reached but because inflation expectations two years ahead remain above 3%. The Monetary Policy Report that will be released tomorrow morning contains the details of the central scenario, its related sensitivities and risks, and its implications for the future path of the MPR.

The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Thursday 22 September 2022. The next meeting will be held on Tuesday 11 and Wednesday 12 October 2022 and the statement thereof will be published at 18:00 hours of this latter date.

*The Spanish original prevails.