Tuesday, 6 December 2022

Monetary Policy Meeting – December 2022

At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to hold the monetary policy interest rate at 11.25%. The decision was adopted by the unanimous vote of its members.

Despite the recent downturn in some economies, global inflationary pressures remain high. Central banks in developed economies have continued to raise their benchmark rates and market expectations anticipate that their monetary tightening will be long-lasting. In this scenario, the world growth outlook for 2023 has further adjusted downwards.

Global financial markets have reflected an increase in appetite for risk, despite with still high volatility. Accordingly, some of the trends of recent months have been reversed. Most recently, long-term interest rates have fallen, stock markets have risen and the dollar has depreciated around the world. Commodity prices have shown mixed movements. The copper price has approached US$3.8 per pound (+7% since the last Meeting) and that of a barrel of oil is close to US$80 (-9% since the last Meeting for the WTI-Brent average).

In general, the domestic financial market has matched the global trends. With respect to the last Meeting, the exchange rate appreciated close to 5% and the IPSA accumulated gains. Meanwhile, nominal long-term interest rates have fallen by around 140 basis points, reflecting a lower risk premium. The domestic credit market remains slow in all its portfolios, as both supply and demand are still weak. The context is one in which lending interest rates continue to be high in nominal terms.

The Chilean economy has continued to adjust after the massive increase in spending in 2021. In the third quarter, the de-seasonalized non-mining GDP series fell 0.8% with respect to the previous quarter. In October, the non-mining Imacec followed this trend, decreasing 0.4% monthly in its seasonally adjusted series. On the demand side, gross fixed capital formation surprised on the upside in the third quarter, driven by specific factors, such as investments in renewable energies. Most fundamentals continue to point to weaker investment going forward. Consumption continued to adjust downward, in line with the normalization of liquidity, slow job creation, falling real wages, and consumers' pessimism.

In October, headline and core inflation stood at 12.8% and 10.8%, respectively, both down from the previous month. In the October figure, the deceleration of core goods stood out, as they showed negative variation in the month. Two-year inflation expectations continue to exceed the 3% target.

Monetary policy has made a significant adjustment and is facilitating the resolution of the imbalances present in the economy. However, inflation remains very high and its convergence to the 3% target is still subject to risks. The Board will maintain the MPR at 11.25% until the state of the macroeconomy indicates that this process has been consolidated.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Thursday 22 December 2022. The next Monetary Policy Meeting will be held on Wednesday 25 and Thursday 26 January 2023, and the statement thereof will be released at 18:00 hours of the second day.

*The Spanish original prevails.