

Tuesday, 7 June 2022

Monetary Policy Meeting – June 2022

At its monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 75 basis points to 9%. The decision was adopted by the unanimous vote of the Board members.

World inflation and expectations have continued to rise, reflecting more widespread and persistent price increases. Worth noting is the impact of Russia's protracted invasion of Ukraine on the rise in commodity prices, especially energy and foods, which are expected to remain high for an extended period of time. Central banks have continued to raise their benchmark rates and/or have signaled a path of more rapid withdrawal of monetary stimulus. Global growth expectations have deteriorated in the face of worsening global financial conditions, the evolution of the conflict in Europe and the weakening of the Chinese economy.

Since the last Meeting, global financial markets have shown mixed results, in a scenario that maintains high levels of volatility. Long-term interest rates have moderated their upward trend in recent weeks. The dollar continues to appreciate globally, despite a partial reversal lately. The oil price has continued to rise (+10% since the last Meeting, in the WTI-Brent average), while the copper price has shown some fluctuations, hovering around US\$4.3 per pound (–4% since the last Meeting).

The local financial market has performed more favorably than its external peers. Long-term rates have retreated compared to the last Meeting, approaching the levels they showed at the end of March. The exchange rate has appreciated. The IPSA has accumulated gains, in a context of good corporate results and higher commodity prices. Local bank credit remains weak, with low monthly lending flows in all portfolios. Financing conditions remain tight.

The economy is receding at a slower than expected pace, as consumption has remained strong. In the first quarter, the seasonally adjusted non-mining GDP series fell 0.2% quarter-on-quarter, a smaller decline than estimated in the March Report. In April, the non-mining component of the Imacec was higher than expected. Partial data for the second quarter confirm the strength of consumption, while investment continues to weaken. In the labor market, there is a decline in demand for employees and a slowdown in job creation. Business and consumer expectations have deteriorated further.

Headline inflation continued to rise, totaling 10.5% annually in April, with the annual variation of the core component standing at 8.3%. The April CPI was again higher than expected in the March Report, again owing mainly to the rise in food prices —volatile and core— and other volatile components, including fuels. The rest of the core components did not deviate from projections. Inflation expectations obtained from surveys —the EES and FTS— still place it above 3% in the two-year horizon.

In view of the background information contained in the June Report, the Board estimates that to ensure the convergence of inflation to 3% within the two-year horizon, additional adjustments to the MPR will be needed, although smaller in magnitude. The Board will remain attentive to the evolution of inflation and its determinants as risks remain high, particularly considering inflation's high level and increased persistence. The Monetary Policy Report due to be published tomorrow contains the details of the central scenario, the sensitivities and risks surrounding it, and its implications for the future evolution of the monetary policy interest rate.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Thursday 23 June 2022. The next Monetary Policy Meeting will take place on Tuesday 12 and Wednesday 13 July 2022, and the statement thereof will be released at 18:00 hours of this latter date.

* The Spanish original prevails.

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