

Monetary Policy Meeting – July 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 9.75%. The decision was adopted by the unanimous vote of all the Board members.

Global inflation has continued to rise, and central banks have further raised their benchmark rates, or have signaled a more rapid increase in the face of more persistent inflation. Notably, the U.S. Federal Reserve surprised with a bigger-than-expected increase and has announced that rate hikes will continue until inflation is brought under control. Financial conditions have tightened for both developed and emerging economies, with stock market declines and a global appreciation of the dollar.

The market outlook for global growth has deteriorated, moving closer to the projections included in the last MP Report. Meanwhile, commodity prices have fallen more than expected, mainly due to fears of a global recession. The fall in food prices stands out, where there has also been some favorable news from the supply side. The copper price has dropped significantly, to around US\$3.3 per pound at this Meeting (somewhat more than –20% since the last Meeting). In any case, Russia's invasion of Ukraine continues to be a source of risk for the external scenario, exerting pressure on the prices of some commodities, especially foods and energy. Summing up, the international scenario has worsened with respect to the forecasts included in the June Report.

The domestic financial market has performed in line with global trends and in a context of high local uncertainty. The IPSA has accumulated losses (–5% since the last Meeting), with 10-year interest rates at similar levels to those at the June Meeting. The exchange rate has depreciated sharply (a little more than +20% since the last Meeting), with high volatility. To date, markets have been able to properly absorb shocks, and volatility in the foreign exchange market has not been transmitted to other segments of the financial system, which have operated with adequate levels of liquidity. Local bank credit continues to be weak, amid still tight financing conditions.

Activity has continued with a gradual decline, as expected. The May Imacec posted a 6.4% annual increase —with a smaller than anticipated fall in mining—, while the seasonally-adjusted non-mining Imacec dropped 0.9% month-on-month, close to projections. Indicators related to private consumption and investment have performed in line with projections, with the former remaining resilient and the latter weakening. In the labor market, employment growth has continued to slow down, and job vacancies are declining. The annual change in real wages remains negative. Consumer and business confidence indicators are in negative territory.

Headline inflation is still on the rise and hit 12.5% annually in June, while its core component rose to 9.9% annually. The latest inflation numbers have practically matched the forecasts in the June Report, with surprises focusing on specific products, mostly volatile ones. Inflation expectations derived from our surveys —the Economic Expectations Survey (EES) and the Financial Traders Survey (EOF)— have been adjusted upward.

The macroeconomic scenario presents considerable risks. Global financial conditions have deteriorated more rapidly and intensely than anticipated, bringing down commodity prices and market expectations of global growth. Amid high uncertainty at home, this has triggered a sharp depreciation of the peso. In the short run, these developments will cause further increases in local prices, in a context where inflation and its persistence are already high. The Board estimates that new increases in the MPR will be necessary to ensure the convergence of inflation

to 3% in two years. The magnitude of said increases will hinge on the implications of the evolution of the scenario for the achievement of the inflation target, a situation that will be analyzed in the next Monetary Policy Report in September.

The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Thursday 28 July 2022. The next Monetary Policy Meeting will be held on Tuesday 6 September and the statement thereof will be published at 18:00 hours the same day.

* The Spanish original prevails.