BOX I.1:

Rising of global inflation and monetary policy responses

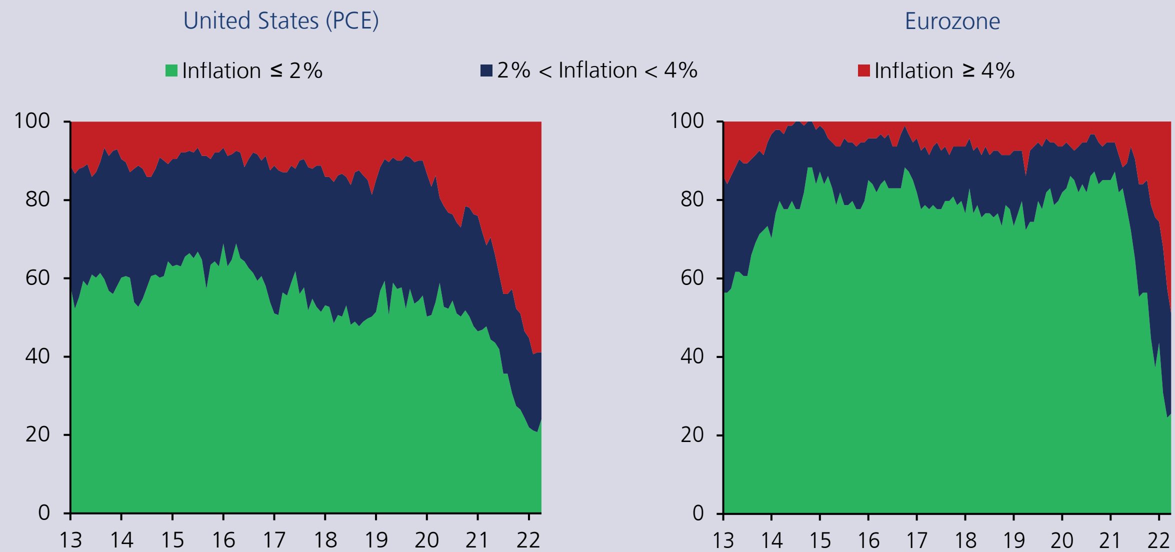
Inflation —actual and projected— have continued to rise globally, accumulating signs of persistence and exceeding estimates of central banks and analysts. The behavior of core measures suggests that price hikes have become increasingly widespread. The proportion of items whose price has risen above the target has reached record highs in the U.S. and the Eurozone (figure I.17). All this is taking place in circumstances where several economies are showing clear signs of labor market tightness and/or spending in services has continued to rise while spending in goods remains high. In addition, restrictions in China and the Russian invasion of Ukraine will keep food and energy prices high for a longer period, and at the same time will cause the bottlenecks present in some goods to persist.

Most central banks have begun to raise their monetary policy rates to curb inflationary rises; however, the speed and intensity of the process varies considerably from one country to another (figure I.18). In several emerging economies, and especially in Latin America, the cycle started around mid-2021 and has advanced rapidly, allowing them to have real rates above or around their own estimates of neutral rates. In developed countries, the pace of rate hikes has been noticeably slower and not as intense. Central banks in commodity-exporting countries have tended to respond more quickly than the U.S. Federal Reserve or the European Central Bank, which has not yet begun to raise interest rates, but has signaled that it will soon do so. In these two economies, real short-term rates are still negative and significantly below neutral rate estimates, which translates into still-positive stimuli (figure I.18).

The fact that major world economies maintain monetary policy rates at highly expansionary levels incubates significant risks, both for themselves and around the world. The longer inflation remains high, the greater the likelihood that these countries will enter a harmful wage-price spiral and/or that inflation expectations will become unanchored and affect price formation, causing inflation to persist at high levels for even longer. To the extent that this becomes widespread, it would hinder inflationary convergence even in economies that began raising their rates earlier, such as Chile. In such a scenario, whose probability increases as high inflation levels persist, central banks would have to suddenly intensify their rate hikes, which could generate significant turbulence in global financial markets, and worsen financial conditions facing emerging economies considerably (box I.2).

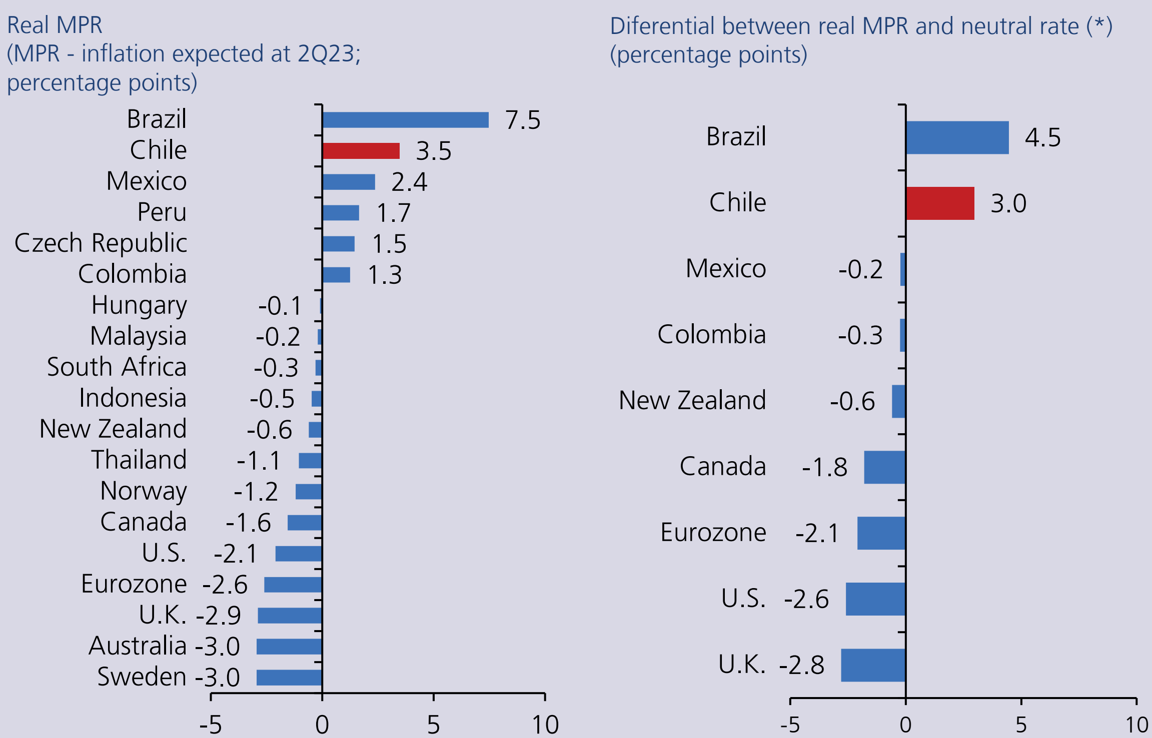
The central scenario of this Report assumes that the pace of the Fed's rate hikes will be somewhat faster and more intense than can be inferred from financial asset prices at the statistical cut-off of this Report. This more contractionary monetary policy, together with the recent significant fall in global financial asset prices, partly explains why the global growth prospects of the central scenario are below those of international organizations and/or the consensus of investment banks. Moreover, as in the last Reports, one of the sensitivity scenarios assumes new inflationary surprises at the global level and higher rate hikes by both the Fed and other central banks. In this scenario, the path of the MPR would run above that of the central scenario (chapter II). An alternative scenario is considered, in which inflationary pressures subside naturally, requiring more moderate monetary policy reactions in the leading economies. In other words, the framing is more similar to that implied by current market prices and global activity projections of the main counterparties.

FIGURE I.17 DISTRIBUTION OF CONSUMER BASKET ITEMS BY PRICE INCREASE
(percent)



Source: Bloomberg.

FIGURE I.18 REAL MPR AND DIFERENTIAL WITH THE NEUTRAL RATE



(*) Neutral rate estimates published by the central banks of respective countries.
Sources: central banks and Bloomberg.