

# What does this Report tell us? March 2023



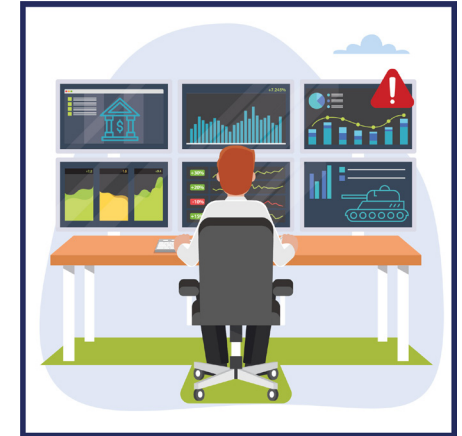
Inflation is still very high and exceeds four times the Central Bank's inflation target..



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Our economy is exposed to significant risks whose evolution the Central Bank will monitor closely.

## Inflation is still very high and exceeds four times the Central Bank's inflation target

- Inflation remains above the 3% target, despite some decline in recent months.
- The prices of fuels and some foodstuffs have dropped, which has helped to bring down inflation.
- However, other prices have been more resistant to decline, despite the decline in some price drivers, such as the exchange rate and international transportation costs.
- Some other prices —e.g., services— have seen larger-than-expected hikes, whose readjustments have been based on the higher inflation of past months.
- Stubbornly high prices are also being observed in other economies around the world.
- All considered, we project that inflation will continue to decline and will return to 3% annually towards the end of next year.



## The economy's adjustment process has not yet succeeded in reducing the effects of excessive spending

- For several quarters, spending grew beyond its possibilities, driven by policies that provided people with excess liquidity. This led to a sharp rise in inflation, which still has not been able to return to its usual levels, i.e., around 3% per year.
- For inflation to decline, it is necessary for spending to go back to evolve in line with income. This has been gradually occurring, but very slowly.
- People have been observed to increase their indebtedness at high interest rates, meaning that the cost of their credit has soared.
- This may jeopardize their capacity to repay their loans, as reflected in some delinquency indicators.



## **Inflation that remains high for a long time affects everybody, but most severely the lower-income people**

- High inflation going on for too long affects the purchasing power of the salaries of workers whose contracts are not adjusted for inflation, while increases the cost of inflation-indexed mortgage loans.
- Companies' decisions are also affected: it is more difficult for them to obtain credit and it is more difficult to repay their debts and collect their receivables. This translates into reduced possibilities to invest, to hire staff and/or to raise the salaries of their workers.
- All this impacts on the growth capacity of the economy, job creation and, ultimately, people's well-being.
- Thus, the best way for the economy to resume growing in line with its potential is for inflation to return to the 3% target.
- The Central Bank will continue to use all its capacities to achieve this objective.



## Our economy is exposed to significant risks whose evolution the Central Bank will monitor closely

- In recent weeks, the situation of some banks in the U.S. and Europe has caused concern in financial markets worldwide. This has affected stock markets, exchange rates, interest rates and investor confidence.
- Economic policymakers in a number of countries have taken action to ensure curbing down the effects of this problem, which has allowed financial markets to operate more smoothly.
- Chilean banks are capable of facing a complex international scenario, mainly because the law establishes adequate regulation of the sector and because they are constantly undergoing evaluations to assess their reactions to stressful episodes.
- The institutions in charge of the regulation and supervision of banks in Chile, including the Central Bank, will keep a watchful eye on the capacity of the financial system to deal with contingencies and to act as needed.

