

Friday, 12 May 2023

Monetary Policy Meeting – May 2023

In its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 11.25%. The decision was adopted with the unanimous vote of its members.

Inflation has declined in several economies. However, core indicators remain high, signaling risks around their convergence. The main central banks raised their benchmark rates again. In this context, the Federal Reserve has hinted at a possible pause, while the European Central Bank has indicated that there are some further hikes ahead. The global growth outlook for this year remains weak.

International financial conditions have shown no major changes in the last month, despite still high uncertainty regarding the global scenario. It is worth noting that there are concerns about the performance of the world economy and, in the developed world, about the potential vulnerabilities of some banks and the evolution of credit. In this context, since the last meeting, currencies have appreciated against the dollar and stock markets have risen slightly. Long-term interest rates have generally shown limited increases in developed economies and decreases in emerging ones. Commodity prices have dropped. Compared to the last meeting, oil prices fell slightly more than 8%, a drop that is around 5.5% for copper prices.

In the local financial market, the nominal exchange rate is somewhat lower than at the last Meeting, while the IPSA has risen. Long-term interest rates have seen moderate increases. Bank credit remains contained.

Preliminary first-quarter figures —based on the Imacec— show that, beyond the poor performance of mining, economic activity was in line with expectations in the March Monetary Policy Report. On the demand side, consumption-related indicators have continued to adjust downwards, while investment numbers confirm its weakness. In the labor market, the unemployment rate grew to 8.8% in the moving quarter ended in March, explained by, among other factors, lower employment and an increased labor force. Real wages continue to recover. In this context, the perception of the economy by businesses and households remains on pessimistic ground.

Headline and core inflation have evolved in line with forecasts in the March MP Report. In April, the annual variation of the CPI dropped to 9.9%. The core component also showed a decrease in its annual variation (10.3% in April), although by less than total inflation. Most measures of two-year inflation expectations continue to place it above 3%.

Consistent with a scenario aligned with the Bank's forecasts, the Board considers it appropriate to maintain the MPR at 11.25% until the state of the macro-economy indicates that the process of inflation convergence to the 3% target has been consolidated. At the same time, it reaffirms its commitment to act with flexibility in the event that any of the internal or external risks materializes and macroeconomic conditions so require.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Monday 29 May 2023. The next Monetary Policy Meeting will be held on 19 June 2023, and the statement thereof will be released at 18:00 hours of the same day.

*The Spanish original prevails.

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