

Monday, 19 June 2023

Monetary Policy Meeting – June 2023

At 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 votes of Governor Costa and Board members Naudon and Céspedes. Vice-Governor García and Board member Griffith-Jones voted to lower it by 50 basis points.

On the external front, inflation has continued to decline, but core inflation has done so more slowly. First-quarter activity data came in better than expected, especially in China. Nevertheless, the global growth outlook for this and next year remains weak. This in a context where financial conditions will remain tight, uncertainty will remain high and a more contractionary monetary policy is anticipated in the major economies as they face the challenge of bringing down inflation.

Global financial markets have shown mixed movements. Since the last Meeting, long-term rates in developed countries have posted limited increases, in contrast to the declines observed in emerging countries. Stock markets in general have traded higher. Commodity prices have evolved heterogeneously. The copper price has shown fluctuations and is trading at around US\$3.8 per pound, slightly above its level at the last meeting. The oil price receded to US\$72 per barrel (WTI-Brent average).

Movements in the local financial market have been aligned with expectations that monetary policy will ease its contractionary stance. It is worth noting that short-term rates have fallen significantly, with a much more limited decline in long-term rates. The exchange rate has fluctuated around \$800 in the last few days. Bank credit remains tight.

In general, activity and demand have evolved as expected. On the supply side, the worst performance of mining stood out. On the expenditure side, in the first quarter the main difference was concentrated in private consumption, with a significant drop in its durable component, mainly imported. According to what is provided by high-frequency information, such as imports, this fall would have moderated in the second quarter. The GFCF has remained stagnant for several quarters. The labor market shows less dynamism, in line with the evolution of the economic cycle, with an unemployment rate that reached 8.7% in the moving quarter that ended in April. All this in a context in which the perceptions of the economy of businesses companies and households continue to be pessimistic.

Both headline and core inflation have declined in line with expectations. In May, total inflation decreased to 8.7% annually, a decline that has continued to be driven mainly by the volatile and goods components. The annual change in core inflation, on the other hand, has fallen less and more slowly, to 9.9% annually in the same month. Regarding two-year inflation expectations, both the Economic Expectations Survey and the Financial Traders Survey place it at 3%.

The monetary policy rate (MPR) has been kept contractionary for several quarters, which has contributed significantly to bring down inflation. While inflationary risks persist, they have been

balancing out. The Board believes that the most recent evolution of the economy points in the required direction. If these trends continue, the MPR will start a downward process in the short term. The magnitude and timing of its reduction will consider the evolution of the macroeconomic scenario and its implications for the inflation trajectory. The Board reaffirms its commitment to act with flexibility in case any of the identified internal or external risks comes true and macroeconomic conditions so advise. The Monetary Policy Report to be published tomorrow morning contains the details of the central scenario, the sensitivities and risks surrounding it and its implications for the future evolution of the MPR.

The Minutes corresponding to this Monetary Policy Meeting will be published at 8:30 hours of Thursday, 6 July 2023. The next Monetary Policy Meeting will be held on Thursday 27 and Friday 28 July 2023, and the Statement thereof will be released at 18:00 hours of the second day.