Press Release *

Tuesday, 19 December 2023

Monetary Policy Meeting – December 2023

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 75 basis points, to 8.25%. The decision was adopted by the unanimous vote of all the Board members.

On the external front, inflation has continued to decline and the outlook for monetary policy has tended to ease, particularly in the US. This economy exhibits a more resilient activity than expected and its growth prospects for this and next year have been adjusted upward. The latter, together with the better projections for China, imply a somewhat greater external impulse than expected a few months ago.

Global financial conditions have evolved favorably in recent weeks, reversing the significant tightening observed at the time of the October Monetary Policy Meeting. Compared to that date, U.S. long-term interest rates have fallen significantly, standing just below 4%. This decline has been passed on to the rest of the countries. The dollar has depreciated globally, while stock markets have increased. The oil price fell to around US$75 a barrel and the copper price returned to values around US$3.8 a pound.

In line with global trends, a reversal of the tightening of financial conditions is also observed in the national financial market. Compared to the last Meeting, long-term interest rates have fallen significantly, the peso has appreciated and the IPSA has accumulated gains. Regarding credit, short-term interest rates, more linked to the evolution of monetary policy, continue to reduce their level. For their part, mortgage rates —related to long-term financing— remain high.

As expected, data for the third quarter and the beginning of the fourth show that activity returned to slightly positive expansion rates. Adjusted for seasonality, non-mining GDP in the third quarter grew 0.2% quarterly, driven by electricity generation, wholesale and retail trade and some manufacturing branches. The Imacec in October confirmed the activity performance, with a seasonally adjusted monthly increase of 0.5% in the non-mining component. Regarding spending, private consumption showed an incipient increase, while investment remained weak. In the labor market, job creation remains slow and labor demand is still weak, in line with the evolution of the economic cycle. The unemployment rate reached 8.9% in the moving quarter ended in October, above its historical average. Real wage growth rose to 3.5% annually, supported by lower inflation. Households and firms' expectations remain in pessimistic territory.

Inflation has continued to decline, with annual variations in the total and core CPI standing at 4.8 and 6.0%, respectively. Inflation in November exceeded expectations, mainly due to the behavior of some volatile prices, which is considered less informative about inflationary trends. Regarding inflation expectations two years ahead, both the Economic Expectations Survey (EES) and the Financial Traders Survey (FTS) remain at 3%.

The macroeconomic scenario has evolved in line with expectations. The economy has been resolving its imbalances from previous quarters and inflation continues to reduce. The episodes of tension in the global and local financial markets, recorded at the time of the previous Meeting, have dissipated. In this context, it is still projected that inflation will converge to the 3% target in the second half of 2024, but convergence to 3% for core inflation is anticipated for the first half of 2024 —component that has accumulated downward differences since the September Report.

The Board considers that, in line with the central scenario of the December Report, the convergence of inflation to the target will require further cuts in the MPR. Its magnitude and timing will take into account the evolution of the macroeconomic scenario and its implications for the trajectory of inflation. The Board reaffirms its commitment to act with flexibility in the event that any of the internal or external risks materialize and macroeconomic conditions so require. The Report that will be published tomorrow contains an update of the structural parameters, the details of the central scenario, the sensitivities and risks surrounding it and its implications for the future evolution of the MPR.

The minutes of this monetary policy meeting will be published at 8:30 hours next Friday 5 January 2024. The next Monetary Policy Meeting will take place on Tuesday 30 and Wednesday 31 January 2024. The Statement thereof will be released at 18:00 hours of the second day.

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*The Spanish original prevails.