Thursday, 26 October 2023

Monetary Policy Meeting – October 2023

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 50 basis points, to 9%. The decision was adopted by the unanimous vote of its members.

On the external front, the main development has been the tightening and volatility of global financial conditions, associated with, among other factors, the dynamic performance of the U.S. economy —with the repercussions on the future evolution of its inflation— and a scenario of incipient doubts about the country's fiscal evolution. To the latter, the uncertainty surrounding geopolitical conditions has been added.

In this context, the U.S. long-term interest rates have risen significantly, which has spread to all other economies. The Federal Reserve (Fed) has reinforced its message of prolonged monetary tightening, without ruling out further hikes in the fed funds rate. This combination of factors has resulted in a global appreciation of the dollar and negative corrections in stock markets. The recent escalation of global geopolitical risks, along with the announcements of OPEC+ production cuts, has led to greater volatility in the price of oil, which traded around US$87 per barrel in the days prior to this Meeting. The copper price fell to US$3.6 per pound, in line with the global appreciation of the dollar.

The domestic financial market has reacted to these global movements. In the fixed-income market, long-term interest rates have risen, while the IPSA has accumulated losses. The peso has depreciated by around 9% with respect to the last meeting. Regarding credit, the third-quarter Bank Lending Survey shows that credit demand continues to weaken in some segments, while supply conditions have seen no major changes. By credit category, commercial rates –more closely linked to monetary policy– show declines, while housing rates –more associated with long-term rates– are on the rise.

Local activity has evolved around the central scenario of the September Monetary Policy Report. In seasonally-adjusted terms, last August the total and non-mining Imacec fell by 0.5% month-on-month, reflecting one-off factors that affected educational services. On the demand side, various indicators continue to show limited dynamism in consumption and investment. In any case, some investment-related indicators have performed better than expected. The labor market has weakened, in line with the trajectory of the business cycle. The unemployment rate rose to 9% in the moving quarter ending in August, amid a reduction in employment. Real wage growth remains at around 2.5% annually. All this is observed in a context where both household and business expectations remain in pessimistic territory.

Inflation continues to ease. In its core part –i.e. without volatiles–, a faster-than-expected decline was reported in the last Monetary Policy Report, particularly in its goods component. In September, both headline and core CPI reached annual variations of 5.1% and 6.6%, respectively. As for two-year inflation expectations, both the Economic Expectations Survey (EES) and the Financial Traders' Survey (FTS) remain at 3%.

In broad terms, the local macroeconomic scenario has evolved in line with forecasts in the September Monetary Policy Report. However, the global scenario shows a deterioration in financial conditions, with a combination of real, financial and geopolitical risks. Considering the effects of these global developments, the Board estimates that cutting 50 points off the MPR on this occasion is consistent with inflation converging to the 3% target.

In addition, given the escalating tensions in global financial markets, the Board decided to suspend the reserves replenishing program and the gradual reduction of its forward position.

The minutes of this monetary policy meeting will be published at 8:30 hours next Tuesday, 14 November. The next monetary policy meeting will take place on Tuesday 19 December 2023, and the statement thereof will be released at 18:00 hours of the same day.

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*The Spanish original prevails.