

Friday, 28 July 2023

## Monetary Policy Meeting – July 2023

**At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 100 basis points, to 10.25%. The decision was adopted by the unanimous vote of its members.**

On the external front, inflation has continued to decline, with downward surprises in a broad group of economies, including the United States. Financial markets have reflected a greater appetite for risk, with a depreciation of the dollar globally, an increase in the stock markets and a compression of risk premiums. Nevertheless, fundamentals continue to point to the need for tight monetary policy in developed economies. The main central banks have raised their benchmark rates again and have signaled that their monetary policies will remain in contractionary territory for a prolonged period of time. In this scenario, the impulse that the Chilean economy will receive from abroad will remain limited, with weak world growth prospects for this year and next. Regarding commodities, the increase in the price of cereals stands out after Russia's withdrawal from the Black Sea Grain Initiative. The copper price, with fluctuations, is at a level similar to that of the June meeting, while the price of a barrel of oil rose by close to 10% in the same period.

The movements of the local financial market continue to be aligned with expectations that monetary policy will ease restrictions. Short-term interest rates have continued to fall, the exchange rate has depreciated, and the IPSA has accumulated significant gains. Meanwhile, long-term rates have seen smaller movements. Bank credit is still weak. The Bank Lending Survey for the second quarter shows tight conditions on the supply side, together with still weak demand for credit.

In general, domestic activity and demand continue to evolve in line with expectations. In May, the seasonally adjusted Imacec fell 0.5% with respect to the previous month (-2.0% annually). This month-on-month decline was mainly determined by supply factors, which particularly affected mining and, to a lesser extent, manufacturing. In fact, seasonally adjusted, the non-mining component showed no month-to-month variation (-1.1% y-o-y). On the demand side, indicators related to consumption and investment show no major changes with respect to assumptions in the central scenario of the June MP Report. In the labor market, no major changes from previous trends were observed, as the unemployment rate remained at 8.5% in the moving quarter ending in June. Wages continue to increase in real terms. Consumer and business expectations remain pessimistic, despite some improvement.

Headline and core inflation have fallen faster than expected in the last Report. In June, total inflation declined to 7.6% and core inflation fell to 9.1% annually. The differences were mostly in the goods component. Regarding two-year inflation expectations, both the Economic Expectations Survey (EES) and the Financial Traders Survey (FTS) place it at 3%.

The Board has initiated the cycle of reducing the monetary policy rate (MPR) based on the consolidation of the inflationary convergence process. The macroeconomic scenario remains in line with estimates in the June Monetary Policy Report. In particular, the performance of activity and demand shows no significant differences with respect to projections, although inflation declined slightly faster than expected in the central scenario of said Report. The Board estimates that, in the short term, the MPR will accumulate a somewhat stronger reduction than was considered in the Monetary Policy Report's central scenario, in line with the results of the surveys conducted prior to this Meeting. In any case, the magnitude and timing of the MPR cuts 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 case 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 next Monday 14 August 2023. The next Monetary Policy Meeting will take place on Tuesday 5 September 2023, and the Statement thereof will be released at 18:00 hours of the same day.

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