Press Release *

Tuesday, 17 December 2024

Monetary Policy Meeting – December 2024

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 25 basis points, to 5%. The decision was adopted by the unanimous vote of all the Board members.

In the United States, activity has continued to show resilience and its labor market, beyond some volatility in the latest figures, has advanced in its adjustment process. In this scenario, the markets' expectations regarding the American economy's interest rate trajectory have become less expansionary in the past few weeks, so doubts remain about the pace and the point of arrival of the Fed funds rate (FFR). At the same time, Fed authorities have reinforced their messages that the continuity of this process must be taken cautiously and gradually. In China, activity is still showing signs of weak performance, despite a marginal improvement in some figures.

On the external front, the increase in uncertainty stands out, with a focus on factors such as the ongoing war tensions, fears surrounding the global fiscal situation, the impact of a potential reconfiguration of international trade, along with concerns regarding the policies that will come with the new United States Administration. The financial markets have reacted to this heightened uncertainty with increases in long-term interest rates and a strengthening of the dollar. Regarding commodities, the copper price has fallen to around US$4 per pound, influenced by the outlook in China and the evolution of the dollar. The latter has also brought down the price of oil, further influenced by expectations of lower world demand and some favorable news on the supply side.

The local financial market has been aligning itself with international trends. Thus, with respect to the last Meeting, short- and long-term interest rates, with some fluctuations, are somewhat higher and the peso has depreciated around 6%, in a context of a globally appreciated dollar. The MPR cuts have continued to be transmitted to the interest rates of consumer and commercial bank loans. Bank credit remains weak, especially so its commercial component.

Third quarter activity was in line with forecasts in the September IPoM, although domestic demand grew less than expected. Private consumption showed weak dynamism in that period, while investment continued to reveal a significant difference between the mining industry and the rest of the economy. Job creation shows poor performance, with the unemployment rate standing at 8.6% in the moving quarter ending in October, although wages have risen significantly in recent months. Consumer and business expectations remain on the pessimistic side.

In November, the annual variation of total and core CPI (which excludes volatile items) stood at 4.2% and 4.0%, respectively. These figures exceeded the forecasts in the September IPoM, especially in the core components of both goods and services. Recent inflationary dynamics have been influenced by the combined increase of several cost factors, among which the depreciation of the peso, higher labor costs and the rise in the electric bill stand out. Regarding two-year inflation expectations, the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) are near the 3% target.

The short-term inflationary outlook has become more challenging due to increased cost pressures which, in our December Monetary Policy Report (IPoM) will lead inflation to fluctuate around 5% during the first half of 2025. All things considered, in the medium term, the weaker domestic demand would mitigate inflationary pressures. Thus, if the assumptions in the December IPoM's central scenario materialize, the MPR will follow a descending trajectory over the policy horizon.

The risk balance for inflation is biased upward in the short term, so caution is most needed. This means that the Board will steadily accumulate information regarding the progress of the economy in order to assess the timing for MPR cuts in the coming quarters. The Board reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The Minutes of this Monetary Policy Meeting will be published at 8:30 hours of Monday, 6 January 2025. The next Monetary Policy Meeting will take place on Monday 27 and Tuesday 28 January 2025, and the statement thereof will be released at 18:00 hours of the second day.

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*The Spanish original prevails.