Thursday, 17 October 2024

Monetary Policy Meeting – October 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 5.25%. The decision was adopted by the unanimous vote of its members.

In the external scenario, the Federal Reserve decided to start its interest rate-cutting cycle. The magnitude of the cut —50 basis points— and the evolution of the labor market through August led the markets to expect cuts to be larger in the upcoming Fed's decisions. This outlook was reversed by the release of incoming economic indicators and the Fed's messages. Some data stand out pointing to a more dynamic labor market and a higher-than-expected inflation at the margin. China, responding to its weakening economy, announced monetary and fiscal stimulus measures, and will provide more details in the coming weeks. These developments have taken place in a context where the risks threatening the external scenario have increased with the intensification of conflict in the Middle East.

Global financial markets have reacted to this news with raising long-term interest rates in an important group of countries during the past few weeks, coinciding with an appreciation of the dollar against most currencies. It is also worth noting the fluctuations of the oil and copper prices. The former rose reflecting the events in the Middle East, although in recent days it has returned to near its levels of the previous meeting. The latter is trading above the price of the last meeting, boosted by the announced stimulus packages in the Chinese economy.

The Chilean financial market has followed international trends. Thus, long-term interest rates rose after some months of steady decline, and the peso depreciated. The MPR cuts have continued to be passed through to banks' consumer and commercial interest rates. Bank lending remains weak, especially the commercial portfolio. The third-quarter Banking Credit Survey reveals somewhat more flexible granting conditions in several credit categories and a still tight demand for funding.

Overall, the recent evolution of domestic activity and demand indicators is consistent with the central scenario of the September Monetary Policy Report (IPoM). In August, the Imacec rose 2.3% annually (-0.2% monthly seasonally-adjusted), influenced by the positive performance of mining. As in previous months, one-off factors affected this result, in the context of significantly volatile monthly figures. Regarding spending, high-frequency indicators linked to consumption and investment have been relatively stable for some months. The unemployment rate for the moving quarter ending in August rose to 8.9%.

The annual CPI inflation—spliced reference series— dropped to 4.0% in September. This was slightly below the forecast in the last IPoM, owing to the volatile components, especially food. Core inflation was 3.8% annually in the same month, in line with expectations. Inflation expectations one year ahead, as informed by the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF), have declined slightly, and remain at 3% at two years.

The Board estimates that, if the assumptions in the central scenario of the September IPoM materialize, the MPR will see further reductions to meet its neutral level. This will occur at a pace that will consider the evolution of the macroeconomic scenario and its implications for the inflation's trajectory. 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 Tuesday, 5 November 2024. The next Monetary Policy Meeting will take place on Tuesday, 17 December 2024, and the Statement thereof will be released at 18:00 hours the same day.

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*The Spanish original prevails.