

Tuesday, 2 April 2024

Monetary Policy Meeting – April 2024

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate (MPR) by 75 basis points, to 6,5%. The decision was adopted by the unanimous vote of all the Board members.

On the external front, world inflation has continued to decline, although there are risks associated to cost increases —mainly of transportation and fuels— and the persistently high services inflation figures. The U.S. stands out, whose inflation has been somewhat above what was expected in recent months, along with an economy that has remained resilient, supported by a strong labor market and robust private consumption. This is seen in a scenario in which activity in the rest of the world shows still a moderate outlook, although with some marginal signs of an upturn.

Market expectations suggest that the start of interest rate cuts in the U.S. will be postponed, as the Federal Reserve has shown a somewhat more cautious position. Compared to the January meeting, long-term interest rates have risen in several economies and stock prices are up. The dollar, although with ups and downs, has gained some strength. As for commodities, both oil and copper prices have risen.

The Chilean financial market has been affected by both global market trends and the recent behavior of local inflation. Since the last Meeting, short and long-term rates rose, the peso depreciated, and stock prices increased. With respect to credit, lending interest rates, especially for commercial credit, have continued to reflect the transmission of the lower MPR. Mortgage rates, which are more linked to long-term rates, remain high. Credit delinquency have increased in all portfolios.

Data for late 2023 and early 2024 show a contrast between somewhat better-than-expected activity and weaker demand. The 2023 National Accounts reported that consumption performed below expectations throughout the year and that investment fell significantly in the second half of the year, particularly in its tradable components. So far in 2024, Imacec growth have exceeded expectations. This is mainly associated with supply factors and a greater external impulse, although services also played a role. The labor market remains consistent with the trajectory of the economic cycle. Employment and labor participation have gradually continued to improve. The unemployment rate remains somewhat above its historical average. Household and business economic expectations have improved slightly this year, but they are still on the pessimistic side.

Inflation in January and February exceeded expectations, which increased the annual variation of the CPI —spliced reference series— to 3.6% (3.2% in January). Among other factors, this evolution responded to the depreciation of the exchange rate, external price hikes and the

adjustment of some local prices. The annual variation of the core measure —without volatiles— fell to 4.2% (4.3% in January). Regarding two-year inflation expectations, both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) are at 3%.

The local economy has succeeded in closing the significant macroeconomic imbalances of previous years, inflation has declined rapidly and stands closer to 3%, while inflation expectations are aligned with the target. However, rising inflation figures at the beginning of the year and higher imported cost pressures emphasize the need to continue closely monitoring its evolution. To the extent that the shocks that affect inflation are transitory, the monetary policy framework based on a two-year target allows them to be accommodated within the policy horizon without putting inflationary convergence at risk.

The Board foresees that, in line with the central scenario of the March MP Report, the MPR will be further reduced. The magnitude and timing of the MPR reduction process will take into account the evolution of the macroeconomic scenario and its implications for the trajectory of inflation. The MP Report that will be released tomorrow contains 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 Wednesday 17 April. The next Monetary Policy Meeting will take place on Tuesday 22 and Wednesday 23 May. The Statement thereof will be released at 18:00 hours of the second day.

*The Spanish original prevails.