Press Release *

Tuesday, 18 June 2024

Monetary Policy Meeting – June 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 5.75%. The decision was adopted with the votes of Governor Costa and Board members Céspedes, Naudon and Soto. Vice-Governor Griffith-Jones voted for reducing it by 50 basis points.

On the external scenario, the continued decline of world inflation stands out, although its pace has moderated. In the United States, the May figure was lower than expected, as the services component slowed down but continues to draw significant attention. The context for this is that the American economy has given mixed signals in the most recent past. Regarding activity, first-quarter figures exceeded forecasts in several economies, but prospects remain modest and with no significant changes for this and next year.

Movements in global financial markets have remain largely subject to expectations regarding the moment in which the Federal Reserve will begin reducing interest rates. At its June meeting, the FOMC adjusted up its interest rate trajectory with respect to its March forecast, as its dots considered one rate cut this year and four in 2025. Compared with the May meeting, long-term interest rates have declined in several developed economies —the United States included— and have risen in emerging ones. Stock markets have fallen, with the exception of the United States. The global dollar has appreciated slightly. As for commodities, beyond a recent drop, copper prices are still above those of early this year. On its part, oil (WTI-Brent average) is trading at around the same prices per barrel that prevailed at the last meeting.

The movements of the Chilean financial market have mirrored those of its external peers. Since the May Meeting, the IPSA saw a limited drop and the peso accumulated a depreciation of close to 3% against the dollar. Long-term interest rates, although with some fluctuations, are at similar levels to those of the last meeting. The behavior of commercial credit has been consistent with macroeconomic fundamentals, although it shows a certain deceleration that needs to be monitored. This occurs in a context where supply and demand conditions are perceived as not very favorable. The interest rates of short-term bank loans have decreased in line with the transmission of the MPR reductions, while longer-term rates, including those on mortgage loans, have remained high by historical standards, more closely linked to the behavior of their external peers.

Local activity has been recovering a growth path consistent with its trend. In April, the deseasonalized non-mining Imacec series posted null variation from the month before (+3.5% in twelve months), confirming that some of the factors that accelerated activity early in the year were of a transitory nature. The labor market remains consistent with the trajectory of the cycle, with positive job creation and unemployment at 8.5% in the moving quarter ending in April. Business and household expectations remain pessimistic, but have been improving in recent months.

In May, annual CPI variation —spliced reference series— was 3.4%, while the core measure —CPI excluding volatiles— was 3.5%. As for two-year inflation expectations, both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) are at 3%.

The macroeconomic scenario has evolved according to forecasts, although domestic demand grew somewhat more above expectations in the first quarter. The Chilean economy has been recovering a growth path in line with its trend, and inflation has continued to decline, while two-year inflation expectations remain at 3%. With respect to March, news in the central projection scenario is the best starting point of domestic demand, which will be sustained by the copper price hike and the adjustment of electric rates, which will have a significant impact on inflation, particularly in 2025. The Monetary Policy Report (IPoM) to be published tomorrow morning contains the details of the central scenario, related sensitivities and risks and implications on the future evolution of the MPR.

The Board estimates that, if the assumptions in the central scenario materialize, the MPR would have accumulated during the first half of the year the bulk of the MPR cuts foreseen for this year. The central scenario of the June IPoM considers that the MPR will be reduced further over the monetary policy horizon, at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the inflation trajectory. The Board reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation is 3% over the two-year horizon.

The minutes of this monetary policy meeting will be published at 8:30 hours of Thursday 4 July 2024. The next monetary policy meeting will take place on Tuesday 30 and Wednesday 31 July 2024, and the statement thereof will be released at 18 hours of the second day.

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*The Spanish original prevails.