Thursday, 23 May 2024

Monetary Policy Meeting – May 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 50 basis points, to 6%. The decision was adopted by the unanimous vote of its members.

On the external front, world inflation has continued to decline, although at a more moderate pace because of the high persistence of services components. In the United States, this reflects a still resilient economy, sustained primarily by strong services consumption and a sound labor market. In the rest of the world, economic activity and its outlook remain contained, despite some signs of a rebound early this year.

In this scenario, concerns regarding the start of interest rate cuts by the Federal Reserve remain among the most important factors causing the global financial markets' movements. Compared with the April meeting, long-term interest rates and stock prices rose moderately in several economies. The dollar, despite ups and downs, remains mostly unchanged. Among commodities, it is worth noting the significant rise in the copper price in the LME, and now stands near US$4.9 per pound (+21% from the April meeting). The WTI-Brent average oil price is trading around US$81, i.e., the equivalent of a drop of nearly 6% since April meeting.

In the Chilean financial market, both long-term interest rates and stock prices have moved in line with their external counterparts. The peso, however, has appreciated more than other comparable currencies, reflecting the aforementioned rise in the price of copper. Credit continues to post limited annual variation rates, in line with the evolution of the macroeconomic cycle. Shorter-term lending interest rates have continued to reflect the pass-through of MPR cuts. Mortgage rates —more closely related to long term interest rates— are still high. Nonpayment has risen in every portfolio.

First-quarter National Accounts show that, in general, the economy has evolved in line with forecasts in the March IPoM. In annual terms, GDP rose 2.3%. In deseasonalized terms, it rose 1.9% with respect to the previous quarter, showing the positive contribution of most sectors, particularly mining, wholesale and retail trade, and some services. On the demand side, most significant was that consumption increased again quarter by quarter. Gross fixed capital formation halted its fall of late last year, with a near zero change in the quarter. The labor market is still in line with the trend of the economic cycle, with positive job creation and unemployment at 8.7% in the moving quarter ending in March. Expectations of firms and households are still on the pessimistic side, with changes in opposite directions in the margin.

Cumulative inflation in March and April was in line with the forecasts in the last IPoM. Thus, the annual CPI change —spliced reference series— stands at 3.5% for both headline and core inflation, the latter excluding volatile items. Regarding two-year-ahead inflation expectations, both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) place them at 3%.

The Board foresees that, in line with the central scenario of last March's IPoM, further cuts will be applied to the MPR. The magnitude and timing of the process of MPR reductions will depend on 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 stands at 3% over the two-year horizon.

The minutes of this monetary policy meeting will be published at 8:30 hours of Friday, 7 June 2024. The next monetary policy meeting will take place next Tuesday 18 June 2024, and the statement thereof will be released at 18:00 hours of the same day.

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*The Spanish original prevails.