

Wednesday, 31 January 2024

Monetary Policy Meeting – January 2024

At its monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 100 basis points, to 7.25%. The decision was adopted with the favorable votes of Governor Costa, Vice-Governor Griffith-Jones, and Board members Naudon and Soto. Board member Céspedes voted for reducing the MPR by 125 basis points.

On the external front, headline inflation has continued to decline, beyond some heterogeneity among economies and basket components. This has taken place in a scenario where global activity maintains low dynamism and its prospects remain constrained. In any case, again the resilience of the United States stood out, whose fourth-quarter figures exceeded expectations.

In this context, the markets' outlook for U.S. monetary policy has delayed the first cut in the fed funds rate towards the end of the first half of the year, affecting global financial conditions. Compared to the previous Meeting, long-term interest rates have shown moderate increases in some of the major economies, while the dollar has strengthened somewhat globally and stock markets have generally moved upwards. In the same period, the conflict in the Red Sea has been boosting shipping costs on some international routes, while at the same time triggering some increase in the price of oil. The price of copper, although fluctuating, stands at around US\$3.8 per pound, similar to the last Meeting.

Trends in global financial markets and the faster-than-expected decline in local inflation have had an impact on the Chilean financial market. Since the last Meeting, long-term rates—which are more sensitive to external conditions—have seen slight increases, while short-term rates have decreased. The peso has depreciated by 6% and the IPSA has shown no significant changes. In turn, the Bank Lending Survey for the fourth quarter of 2023 shows still tight supply conditions, especially for large firms and in sectors such as construction and real estate. Demand for credit shows improvements in the consumer portfolio, but remains sluggish in other segments. Interest rates on commercial credit continued to fall, while mortgage rates—longer term—remain high by historical standards.

Domestic activity has evolved in line with forecasts in the December MP Report. In November, the Imacec grew 0.3% month-on-month in its seasonally adjusted series (1.2% year-on-year), driven by the progress of most economic sectors. On the demand side, indicators linked to consumption and investment have seen no major changes in the most recent period. The labor market remains consistent with the trajectory of the economic cycle. The unemployment rate stood at 8.5% in the moving quarter ending in December, amid a gradual recovery in labor supply. Beyond some variations in the margin, the expectations of individuals and businesses are still in pessimistic territory.

In December, headline and core inflation posted negative monthly variations, which were below what was expected in the last MP Report. There was a significant difference in the core components of goods and in most volatile items. As a result, their annual variation continued to decrease, standing at 3.9% and 5.4% for total and core CPI, respectively. Regarding two-year inflation expectations, both the Economic Expectations Survey and the Financial Traders Survey remain around 3%

In this context, the Board considers that the convergence of inflation to the 3% target would materialize sooner than was foreseen in the December Report and that the MPR would reach its neutral level during the second half of 2024. The magnitude and timing of the process of MPR cuts will factor in the evolution of the macroeconomic scenario and its implications for the inflation trajectory. The Board reaffirms its commitment to act with flexibility in case any of the internal or external risks identified comes true and macroeconomic conditions so demand.

The Minutes of this monetary policy meeting will be published at 8:30 hours next Thursday 15 February 2024. The next monetary policy meeting will take place on Tuesday 2 April 2024. The statement thereof will be released at 18:00 hours of the same day.

*The Spanish original prevails.