Tuesday, 28 January 2025

Monetary Policy Meeting – January 2025

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of the Board members.

On the external front, a scenario of high uncertainty remains. In this context, global financial markets have been highly volatile in recent weeks, amid the change of government in the United States and developments in other ongoing sources of uncertainty. Since the December meeting, long-term rates have risen again across the board and the dollar has strengthened globally, despite a recent weakening. The pound of copper is trading around 3.5% above the level of the previous meeting, while the price of a barrel of oil has risen by more than 6%.

In the U.S., the Fed has signaled that it will lower its policy rate more slowly in the near future. At its December meeting, the median dots included only two cuts in 2025 (four at the September meeting), in line with market expectations. Marginal data shows that activity has remained dynamic and inflation also matching market expectations. About other economies, it is worth noting the acceleration of activity in China during the fourth quarter of last year.

The local financial market has adjusted to global trends. Since the last Meeting, short and long-term nominal rates have risen, which contrasts with the fall in indexed rates, especially for shorter terms. The peso has depreciated against the dollar, significantly influenced by its evolution around the world. The cuts to the MPR have continued to be transmitted to the interest rates of consumer and commercial bank loans. Bank credit remains weak, especially its commercial component. The Bank Lending Survey for the fourth quarter of 2024 indicates that credit supply conditions have remained unchanged. In turn, credit demand associated with the consumer and mortgage segments is perceived to be more dynamic, while that linked to businesses is seen as stable.

Available activity indicators for the fourth quarter of 2024 show a somewhat better performance than expected in the December IPoM. In November, the deseasonalized Imacec series grew by 0.3% month-on-month (2.1% year-on-year not seasonally adjusted), helped by the boost from some items linked to the manufacturing and export sectors such as agriculture and livestock. At the same time, both wholesale and retail trade exhibited month-over-month increases. Regarding the indicators related to domestic demand, these suggest an evolution around what was expected between the end of 2024 and the beginning of 2025. Job creation shows a poor performance, with the deseasonalized unemployment rate remaining at around 8.5%. Annual wage growth is still high.

In December, the annual change in total and core CPI (i.e., without volatile items) rose to 4.5% and 4.3%, respectively. December's monthly figure was below projections in the last IPoM, which was mainly explained by food prices. Recent inflationary dynamics have been influenced by the joint increase of several cost factors, among which the depreciation of the peso, higher labor costs and the increase in electricity rates stand out. Regarding two-year inflation expectations, while the median of the Economic Expectations Survey (EEE) is at 3%, the Financial Traders Survey (EOF) has increased, standing at 3.5%.

Although the overall performance of the macroeconomic scenario has been in line with the assumptions in the December IPoM, inflation risks have increased, which reinforces the need for caution. The Board will evaluate the future movements of the MPR by considering the evolution of the macroeconomic scenario and its implications for the convergence of inflation. Moreover, 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 Wednesday 12 February 2025. The next monetary policy meeting will take place on Friday, 21 March 2025, and the statement thereof will be released at 18:00 hours of the same day.

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*The Spanish original prevails.