

Friday, 21 March 2025

Monetary Policy Meeting – March 2025

At today's Monetary Policy Meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate in 5%. The decision was adopted by the unanimous vote of its members.

Uncertainty about the outlook for the global economy has increased significantly since the previous Meeting, in the face of rising geopolitical risks and various tariff announcements by the U.S. Administration and the responses of affected countries. This has particularly affected growth prospects for the U.S. economy, with more limited impacts on the rest of the world. These measures have also raised inflation expectations in the United States. In this scenario, the Fed paused its rate cutting cycle in its last meetings. As for other economies, there was some dynamism in activity in China at the end of last year and the beginning of this, amid new stimulus plans announced by the Chinese authorities.

An unusual divergence can be observed in global financial markets. In the United States, doubts about future growth and the preference for safe assets have led to a fall in stock prices and a reduction in long-term rates. In other economies, reactions have been mixed. In Europe, long rates and stock markets have risen. In China, stock market performance has also risen significantly, too. All this amid prospects of higher fiscal spending in several economies. These developments have given way to a global weakening of the dollar, which has raised the prices of some commodities. In this context, copper traded on the London Metal Exchange at a price nearly 8% higher than at the previous meeting, also influenced by Chinese demand and a significant rise in its price in the United States, which was affected by the tariffs threat. Meanwhile, oil (WTI-Brent average) has fallen by around 9% in this period, which is explained by fears about world growth and more favorable supply-side news.

In general, local financial markets have moved in line with the trends of other emerging economies. Since the last meeting, short- and long-term interest rates have fallen. The peso appreciated close to 7%, driven by the global weakening of the dollar and the improved copper price. The IPSA has accumulated gains of around 6%. Credit has shown no major changes. Interest rates on consumer and commercial loans continue to behave in line with the evolution of the MPR.

Data for the end of 2024 and the start of 2025 show a more dynamic than expected economy, largely due to the boost from exports. This was coupled with the improved performance of some agricultural and livestock products and of tourism. In domestic demand, both private consumption and gross fixed capital formation show a gradual recovery path, as expected. The labor market continues to show limited slack, in a context in which different sources show an increase in employment at the margin and the annual growth of real wages continues to be above the average of the last decade. The latest Capital Goods Corporation survey reinforced the outlook for higher investment amounts in large-scale projects in the short term. Business and household expectations have improved.

Inflation has evolved in line with forecasts in the December IPoM. In February, the annual variation of headline and core inflation —the CPI minus volatiles— stood at 4.7% and 3.9%, respectively. Some indicators of two-year inflation expectations remain above 3%.

Although in general terms the macroeconomic scenario has evolved as expected, the overall background information at hand points to an inflationary outlook that continues to face significant risks, stressing the need for caution. The Board will assess the next movements of the MPR bearing in mind the evolution of the macroeconomic scenario and its implications for the inflationary convergence. Furthermore, the Board reaffirms its commitment of conducting 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 8:30 hours of Monday, 7 April 2025. The next Monetary Policy Meeting will take place on Monday 28 and Tuesday 29 April, and the statement thereof will be released at 18:00 hours of the second day.

*The Spanish original prevails.