MONETARY POLICY MEETING

APRIL 2025

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Monetary policy session No. 313, held on 28–29 April 2025.

Present: Rosanna Costa, Governor; Stepanka Novy Kafka, Vice-Governor; Alberto Naudon, Board member; Luis Felipe Céspedes, Board member; Claudio Soto, Board member.

Present the Finance Minister, Mario Marcel.

Also present: Luis Óscar Herrera, General Manager; Juan Pablo Araya, Legal Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Ricardo Consiglio, Financial Markets Division Director; Rosario Celedón, Financial Policy Division Director; Gloria Peña, Statistics and Data Division Director; Michel Moure, Institutional Affairs Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communication; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Felipe Musa, Market Operations Manager; Miguel Fuentes, Financial Stability Manager; David Kohn, Head of Massive Information Analysis Department; Rodrigo Wagner, Advisor to the Finance Minister; Erika Arraño, Senior Economist; Marlys Pabst, Secretary General.

1. Background

The international scenario

Uncertainty surrounding the outlook for the global economy had increased considerably since the March Meeting, particularly following the U.S. tariff announcements in early April and subsequent developments. This had led to a negative perception about the future performance of the American economy, along with prospects for higher inflation. Although high-frequency data did not yet show signs of activity weakening in the U.S., business and household expectations were deteriorating sharply. In this context, the Federal Reserve authorities had conveyed a cautious stance in view of the challenges that the current scenario posed for the fulfillment of its dual mandate.

In the rest of the world, these events plus the geopolitical conflicts were also expected to negatively affect growth. In China, first-quarter activity had been favored by the external sector, due to purchases in anticipation of tariffs, an effect that would be reversed in the months ahead. Price pressures could be reduced in those countries that would not modify their trade policies, given the effect of trade diversion.

The tariff announcements had triggered significant movements in global financial markets, with episodes of high volatility. Worth noting were the important increases in the U.S. long-term interest rates during April, and the behavior of the dollar in the face of events of global uncertainty, which differed from its past role as a safe haven.

This differed from the situation in other economies, where long-term interest rates had fallen and their currencies had seen mixed movements. Stock markets had fluctuated in different directions, with the fall in the United States and the increase in Latin America standing out. The local financial market had also been affected by international volatility. However, since early April, domestic financial conditions had improved, with a decrease in short- and long-term interest rates, an appreciation of the peso, and rising stock prices.

In the same period, commodity prices had fallen, mainly due to the greater uncertainty and fears about global growth. The price of a barrel of oil (WTI-Brent average) had fallen by 12% since the beginning of April, influenced also by the prospect of increased oil supply. The copper price (LME), with ups and downs, had lost around 3% in the same period.

The domestic scenario

Headline inflation had risen to 4.9% annually in March, in line with the forecast in the latest Monetary Policy Report (IPoM). Core inflation, on the other hand, had been somewhat lower than expected (3.7% annually), a difference explained by the prices of both goods and services, although with the influence of some particular items in the latter. Two-year inflation expectations had been adjusted to 3%, although some indicators were still above this figure.

Local activity indicators still pointed to a recent greater dynamism, driven largely by the performance of export-related supply sectors, particularly fruit production, fishing, and some industrial lines. In February, the Imacec had contracted 0.1% annually (-0.5% monthly in the deseasonalized series), influenced by the calendar effect and the power outage at the end of the month. In any case, this contraction had been somewhat milder than expected.

Activity had evolved on the back of a gradual recovery in domestic demand, in line with expectations. On the private consumption side, high frequency indicators, such as sales made through electronic payment methods, the retail trade activity index (IACM) and consumer imports continued to show growth in their latest records. As for gross fixed capital formation, the Capital Goods Corporation (CBC) survey reported an increase in investment plans for the 2025-2028 period, while the IMCE, the monthly index of construction activity (Imacon) and capital imports remained stable. In the January-March quarter, the unemployment rate had reached 8.7% —remaining at 8,5% seasonally adjusted—, reflecting that the labor market had experienced no major changes and continued to show limited slack.

Bank credit remained largely unchanged. The Bank Lending Survey for the first quarter of 2025 reported weak credit demand in all portfolios, along with unchanged supply conditions.

The April Economic Expectations Survey (EEE) and the pre-meeting Financial Traders Survey (EOF) anticipated that the monetary policy interest rate (MPR) would be held at 5.0%, which coincided with the rate implicit in financial asset prices. Towards the end of this year, the EOF and the forward curve predicted an MPR of 4.5%, while in the one-year term, the EEE, the EOF and the forward curve placed the MPR between 4.25% and 4.5%.

2. Background analysis and discussion

The most relevant background since the previous meeting was the change in the global scenario, dominated by the impact of trade tensions. The unprecedented increase in tariffs imposed by the United States --and the countermeasures applied by China-- had been compounded by the uncertainty generated by the subsequent announcements made by the U.S. Administration.

The impact of these events on global financial markets was also mentioned, with the strong movements in asset prices and a significant increase in volatility. In any case, attention was drawn to the evolution of U.S. long-term interest rates and the dollar, which had not functioned as the safe haven they used to provide in risky situations. This differed from the experience of other economies, where long-term rates had fallen in several of them and currencies had seen mixed movements. In Chile, financial variables had responded favorably. The exchange rate, with fluctuations, approached the levels considered at the latest Meeting, following its depreciation in early April and subsequent appreciation. Interest rates had fallen, and stock prices had risen. About commodities, the fall in the oil price deserved special mention.

All these developments combined had led to a negative perception about the future performance of the global economy, particularly the United States. It was mentioned that the growth projections for the US, for the world and for our trading partners in the March IPoM were broadly in line with the forecasts presented in the April WEO. However, the escalation of trade tensions during April was significant and could opened the door to further downward revisions on growth perspectives, although the timing and magnitude of the effects, as well as the heterogeneity of the effects in different regions and individual countries, was extremely uncertain. Overall, the international situation had become substantially riskier, increasing the likelihood of more extreme negative scenarios.

Aside from the effects on growth, it was noted that the tariff measures were likely to imply a diversion of trade flows. This could lead, at least in the short term, to downward pressure on the prices of some goods in countries that were importers of the goods affected by the tariffs, including Chile. In any case, the medium-term effects on the cost structure were not evident, because the trade distortions could impair the efficiency of the current global value chains.

Thus, it was noted that at the time of the last meeting there were still uncertain the effects of the change in the global scenario on the activity and doubts persisted as to when they might materialize and how strong their impact would be. It was particularly important to assess how the uncertainty shock would affect the real economy (i.e., activity, investment, consumption). It was recalled that, on previous occasions, relevant macroeconomic shocks had been accompanied by a sharp deterioration in financial conditions and a high degree of uncertainty and a decline in the expectations of households and firms. The former had not occurred until now, while the latter was already showing up in some indicators, but its magnitude and impact on consumption and investment decisions were still unclear. It was pointed out that the process of preparing the June IPoM should consider the impacts of these changes in the internal and external scenario, for which more information would be available on the impacts of these events on the financial and real variables around the world and at home. Nonetheless, it was noted that the tariff shock and heightened global uncertainty were contributing to less favorable external conditions for economic activity.

Regarding local developments, it was mentioned that the known data pointed to an economy evolving around the estimates in the March IPoM, although with seemingly lower inflationary risks. On the one hand, activity indicators continued to point to greater recent dynamism, largely due to the performance of export-related supply sectors, accompanied by a gradual recovery in domestic demand. The labor market maintained limited slack levels, showing slow job creation, but the outlook for investment had rebounded. On the other hand, although headline inflation was in line with the IPoM forecast, core inflation was somewhat lower, reflecting the possibility of a lower spillover of inflationary shocks in the second part of 2024. In addition, two-year inflation expectations had been adjusted to 3%, although some indicators remained above that figure.

3. Analysis of monetary policy options

All five Board Members agreed that the evolution of the external scenario posed important challenges to the local macroeconomic outlook. Changes in global trade policy had deteriorated the outlook for world growth while increasing uncertainty about its future evolution. They agreed that, although the direction of the changes was clearly negative, the magnitude and timing of these effects on the local economy were uncertain.

All five Board Members emphasized that the risks to inflation had not materialized and appeared to be moderating, in a scenario where there were no differences regarding the projected headline inflation, but core inflation was observed to be lower than expected. Thus, there was agreement that, although the inflation would remain at high in the immediate future, its recent evolution and that of its main fundamentals reaffirmed the foreseen convergence contained in the March IPoM.

In this context, all five Board Members considered it was necessary to accumulate more information in order to properly assess the impacts of the change in the external scenario and its implications for monetary policy. Nevertheless, they agreed that the potential implications of the external scenario shift on the inflation trajectory could require the policy rate (TPM) to approach the neutral range sooner than anticipated in March IPoM. In this context, the options considered were (i) to lower the MPR by 25 basis points (bp); or (ii) to hold the MPR at 5%.

There was consensus among the Board members that the evaluation of both options should consider both risk and tactical aspects. Regarding the former, market expectations had begun to consider earlier MPR cuts in response to the deterioration of the global scenario. However, although it could be anticipated that the impact of this deterioration would be negative, the magnitude of the effect was not evident, nor was its timing. In fact, growth expectations registered minor adjustments, in a scenario where early-year data showed greater dynamism than expected a few months before. Moreover, although the entire Board agreed that inflationary risks seemed to be diminishing, it was not evident that they had dissipated completely. Several Board members stressed that both the state of the economy and the possible impacts of the changing external scenario suggested inflationary pressures would be lower going forward. Nonetheless, some Board members felt that the high level of inflation, and the possibility of an additional cost shock, were factors that still needed to be closely watched, partly because it was necessary to avoid a scenario in which the external environment became even more complex, while the risks to inflation persistence were not yet fully under control.

Regarding the option of lowering the monetary policy rate (TPM), one Board Member considered that, given the new information, the most appropriate strategy might involve a slightly less contractionary monetary policy path than previously considered, which was compatible with both options discussed. Several Board Members agreed that lowering the rate at this Meeting could lead to misinterpretations about the impact of the external scenario on the local economy or trigger undesirable market volatility, in an already volatile environment. All Board Members agreed that, on this occasion, the best option was to wait and gather more information on the evolution of the external scenario and on the development of inflation and its main domestic drivers.

4. Monetary policy decision

Governor Costa, Vice-Governor Novy, and Board members Naudon, Céspedes, and Soto voted in favor of holding the MPR at 5%.

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