MONETARY POLICY MEETING

MARCH 2025

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Monetary policy session No. 312, held on 21 March 2025.

Present: Rosanna Costa, Governor; Stepanka Novy, 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 Manager; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Felipe Musa, Market Operations and Strategy Manager; Marlys Pabst, Secretary General.

1. Background

Inflation had evolved in line with estimates in the December Monetary Policy Report (IPoM), standing at 4.7% annually in February (4.2% in November), but was still high. This result obeyed mainly to the volatile energy component, which included the expected correction of electricity prices and higher fuel prices, given the depreciation of the peso and the rise in the external prices of these products in recent months. Core inflation (which excludes volatile items) had evolved somewhat below expectations, although it remained near 4% annually. Some indicators of two-year inflation expectations remained above 3%.

Data for the end of 2024 and the beginning of 2025 showed a more dynamic economy than was expected. Based on the closing of the National Accounts, GDP had grown 2.6% last year, above the 2.3% foreseen in December. The impulse from several export-related sectors stood out, mainly agriculture and wholesale trade, the more positive evolution of the food processing industry, and the boost from the greater number of foreign tourists on retail trade and some services. All this had sustained the performance of shipments abroad and of the current account, which in 2024 had posted a deficit of 1.5% of GDP.

Private consumption and gross fixed capital formation had expanded in the latter part of 2024, on the back of an improvement in several of their fundamentals. Business and household expectations had recovered. The labor market showed limited slack, in a context in which different sources showed a marginal increase in employment and the annual growth of real wages continued to exceed the average of the last decade. The latest Capital Goods Corporation survey reinforced the short-term outlook of higher investment amounts in large-scale projects. In any case, there was still an important difference in the dynamism of investment between the mining industry and the rest of the economy.

The external outlook had become more complex, with a significant increase in uncertainty. Until that moment, the main developments were related to the resurgence of geopolitical tensions and the first set of tariff measures announced by the United States. Concerns about global growth had intensified, especially in the US, where services inflation was still showing persistence. This combination of lower growth and higher inflationary pressures made for a complex outlook for the Federal Reserve, which had held constant the federal funds rate at its last meetings.

The evolution of global financial markets stood out, with markedly different patterns compared to past stressful episodes. Part of it was explained by the fact that the economic repercussions of the tariff measures were considered at the moment to be stronger in the American economy than in other countries. Thus, in the United States, doubts about future growth and a propensity for safe assets had given way to a stock market fall and a decline in long-term interest rates. In other economies, reactions varied. In Europe, there was an increase in long rates and stock markets. In China, stock market returns had also risen significantly. All of it amid prospects of increased fiscal spending. These developments had led to a global weakening of the dollar.

In the local financial market, the peso had strengthened and the stock market had shown a positive performance. Compared to the January meeting, the peso/dollar parity had fallen by more than 7%. Among other factors, this had been affected by the behavior of the global dollar and the rise in the copper price. The IPSA had reached an all-time high, accumulating gains of somewhat more than 10% compared to the close of 2024.

2. Background analysis and discussion

With respect to the external scenario, it was noted that the outlook for global growth had been moderately corrected downwards, mainly in the United States, where long-term interest rates had fallen, the dollar had weakened and the copper price had risen. The latter was also affected by the performance of the Chinese economy and the measures announced by its authorities. This combination of changes seemed, in principle, favorable for the Chilean economy, as it implied better financial conditions and higher terms of trade. However, the downward revision in global growth and greater uncertainty put a brake on the dynamism of the local economy. For now, the net effect of these phenomena on domestic activity was estimated to be limited.

It was noted that recent developments abroad had increased the probability of negative macro-financial scenarios for the global economy. In such an event, the main short-term impact would be higher inflation due to currency depreciation; however, its medium-term impact would be dominated by lower activity and the deflationary pressures involved. It was pointed out that, in these circumstances, monetary policy would have more degrees of freedom as the process of convergence to the 3% target became more consolidated.

On the domestic front, worth noting was the improved performance of activity and demand in recent months, which reduced the likelihood of risk scenarios in which local factors could undermine the economy. Meanwhile, inflation had been in line with projections, although it was still at high levels and with significant risks over its future evolution. Regarding the latter, it was pointed out that, although the appreciation of the peso since the end of January had taken some pressure off some cost factors, there were other elements that needed further monitoring. One such element was the evolution of inflation expectations, which, beyond some decline, persisted above 3% in the two-year horizon according to some indicators.

3. Analysis of monetary policy options

All five Board members agreed that, generally speaking, the macroeconomic scenario had evolved as expected. Nonetheless, the available background information pointed to significant risks facing the inflationary outlook, which reaffirmed the need for caution. In this context, all the Board members agreed that the only plausible option for this meeting was to hold the MPR flat at 5%.

Some Board members noted that, although inflation had behaved in line with expectations and was strongly influenced by transitory factors, its level was high and there were risks surrounding its future evolution. One Board member highlighted the risks regarding inflationary persistence, adding that the current level of inflation was uncomfortable in the event of potential new upward shocks, which, while transitory, would occur in circumstances where inflation had been high for a protracted period of time. Other Board member noted that, in a scenario where the gap was practically closed, the wisest thing to do was to maintain a message that high caution was called for regarding the future movements of the MPR. This implied that the Bank would have to act firmly if any of the alternative scenarios considered in the March IPoM were to materialize. Another Board member added that the inflation had evolved as projected by the Bank. Although, inflationary risks were still considerable because of the joint occurrence of cost pressures in a context of high inflation. This emphasized the need for caution. One Board member stated that, while there were upside risks to inflation, there were also risk scenarios in which it could fall faster.

All the Board members noted that, going forward, the monetary strategy had to be calibrated as incoming information accumulated. Still, alternative scenarios had to be analyzed closely, particularly as new cost shocks could arise or a stronger persistence of second-round effects lagging from previous shocks were confirmed, which would raise red flags and delay the process of monetary normalization. In turn, a few Board members noted that a substantial weakening in global growth would halt activity, creating gaps that could lead to a rapid decline in inflation beyond the target, which would require a laxer policy to avoid a costly over-adjustment.

4. Monetary policy decision

Governor Costa, Vice-Governor Novy and Board members Naudon, Céspedes and Soto voted for holding the monetary policy interest rate at 5%.