Press

Tuesday, September 3, 2024

At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the monetary policy interest rate by 25 basis points, to 5.5%. The decision was adopted unanimously by its members.

On the external front, news from the United States has continued to dominate the landscape in recent weeks. The message from the Chairman of the Federal Reserve on the start of the process of cutting the Fed *funds* rate stands out, indicating that inflation has continued to decline and that the US labor market has shown signs of cooling. This contrasts with monetary policy messages in other economies, where declines in inflation have been less marked. For its part, global activity and its prospects have not shown major changes for this and next year.

Global financial markets have been more sensitive to the news, with episodes of high volatility observed. This has been influenced by signals from the Federal Reserve, doubts about the strength of the US economy and geopolitical elements. However, compared to the last Meeting, short- and long-term interest rates are lower, the value of the stock markets is higher and the dollar depreciated globally. As for commodities, the price of copper has shown significant fluctuations and that of oil has fallen.

At the local level, since the last Meeting, short-term interest rates have been reduced, in line with the outlook for monetary policy. Long-term rates have decreased and, with ups and downs, the peso appreciated, following the movements of international markets. The MPR cuts have continued to be transmitted to the interest rates of consumer and commercial bank placements. Bank credit remains weak, especially its commercial component.

year-on-year, respectively). July's Imacec reported a significant acceleration in activity month by month. As in previous quarters, a significant part of this increase was due to specific factors, in a context where monthly figures have shown significant volatility. On the demand side, the analysis of the seasonally adjusted quarterly series highlights the fall in consumption and the stability of investment. The unemployment rate for the rolling quarter ended in July rose to 8.7%, partly due to seasonal factors.

In July, the annual variation of the CPI – spliced reference series – rose to 4.4% and that of the core measure rose to 3.4%. The increase in total inflation was somewhat higher than expected in the June IPoM, a difference explained by the most volatile components of the basket. Regarding inflation expectations in the two-year term, both the Economic Expectations Survey (EEE) and the Financial Operators Survey (EOF) are at 3%.

The set of available antecedents suggests limited changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations aligned with the 3% target, reduces the risks of greater inflationary persistence in the medium term as a result of the cost shock. The IPoM to be published tomorrow contains the details of the central scenario, the sensitivities and risks around it and its implications for the future evolution of the MPR.

The Council estimates that, if the assumptions of the central scenario of the September IPoM materialize, the reduction of the MPR towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will take into account the evolution of the macroeconomic scenario and its implications for the trajectory of inflation. The Council reaffirms its commitment to conduct monetary policy flexibly, 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 a.m. on Monday, September 23, 2024. The next Monetary Policy Meeting will be held on Wednesday, October 16 and Thursday, October 17, 2024. The respective Communiqué will be published as of 6 p.m. on that last day.

Communiqué