

BCCh Watch

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December Monetary Policy Meeting: increases continue

Chile

Economic Analysis

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The Board of the Central Bank of Chile decided to increase the monetary policy rate by 25 basis points, taking it to 3.25%, and maintaining the normalization pace to monetary stimulus.

Externally, the release highlights the moderate growth in developed economies contrasting with dynamic emerging economies. In addition, the concern on financial markets regarding the situation of some European economies and the increase in commodity prices leading to higher inflation in some economies are mentioned.

Domestically, it states that the output, demand and employment figures continue to develop positively, with inflation coming in below targets due to the lower prices in imported goods, and the peso appreciating since the last meeting.

The 25 basis points increase was in line with our own and market forecasts. There was, however, no general consensus among analysts with many betting on a pause. For us, we believed the Board had to maintain its strategy, especially weighing up inflationary risks on the horizon rather than past inflation or exchange rate appreciation.

In fact, there was no mention of the latter and we agree with recent statements from several board members as to the real exchange rate not being misaligned with regards to fundamentals. Nonetheless, we also understand that the room for later peso appreciations has decreased.

The Board highlighted that "it will continue to gradually reduce monetary stimulus" although leave the door open to a pause, adding that this "will depend on the evolution in internal and external macroeconomic conditions". In this way, we believe that the Central Bank will continue with quarter-point increases until the MPR comes in at 4.5% in May.