

Monetary Policy Meeting^{1/}

SEPTEMBER 2020

CENTRAL BANK OF CHILE



^{1/} This is a translation of a document written in Spanish. In case of discrepancy or difference in interpretation, the Spanish original prevails.

MINUTES OF THE MONETARY POLICY MEETING

Monetary Policy Meeting No. 276, held on 1 September 2020.

Present: Mario Marcel, Governor; Joaquín Vial, Vice-Governor; Pablo García, Board member; Alberto Naudon, Board member; Rosanna Costa, Board member.

Also present: Alejandro Zurbuchen, General Manager; Juan Pablo Araya; General Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Beltrán de Ramón, Financial Markets Division Director; Solange Berstein, Financial Operations Division Director; Gloria Peña, Statistics Division Director; Michel Moure, Institutional Affairs Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communications Manager; Miguel Fuentes, International Analysis Manager; Diego Gianelli, Market Operations Manager; Felipe Lozano, Communications Manager; Marlys Pabst, Secretary General.

1. Background

The macroeconomic scenario continued to evolve driven by the spread of Covid-19 and the containment measures needed to protect the populations' health. After a sharp fall early in the second quarter, in recent months the Chilean economy had given signs of stabilization, combining a timid improvement in some sectors and marginal deterioration in others. This revealed an improved sanitary response, a faster adaptation to the new ways of operating of several activities, and the boost from the various measures implemented. However, the negative shock caused by the pandemic was very significant, as reflected in the high number of persons and firms whose income source had been affected.

Considering the actual activity data for the first half of the year and a rebound consistent with the gradual withdrawal of sanitary controls and household income support measures, it was estimated that 2020 would end with a fall in GDP between 4.5% and 5.5%. This estimate assumed a significant recovery in the second half, even though only towards 2022 would the capacity gaps created in this period be closed and inflation converge to the target. However, this scenario was still marked by high uncertainty and substantial risks.

2. Background analysis and discussion

Regarding the recent evolution of the macroeconomic scenario, there was consensus that symptoms of stabilization in both sanitary and economic terms could be observed thanks to a combination of factors. Among them were the way some sectors had been able to adapt to the new reality of the pandemic with more flexibility than previously thought, the various initiatives adopted to sustain businesses and individuals, as well as the fiscal and monetary stimulus measures implemented.

It was agreed to make it very clear that, despite the milder decrease in the projected GDP fall and the signs of stabilizing activity, this should not be seen as a radical change in outlook. It was recalled that the forecasts in the September Monetary Policy Report assumed that GDP growth in the coming years would be significantly weaker than expected a year ago, placing activity close to 10% percent below the September 2019 projection. Moreover, this posed first-order challenges to the evolution of the labor market, particularly for employment growth. It also posed challenges regarding the credit quality of companies, households and the Government, associated with achieving a sustainable and credible public debt trajectory. In general, all this showed that the impacts of the various shocks that had affected the Chilean economy were going to linger on for quite some time.

It was noted that the overall evolution of the macroeconomic scenario, along with a number of somewhat higher-than-expected inflation records, had helped improve the prospects inflation's convergence to 3% and mitigate a considerable risk. It was pointed out that, all in all, the capacity gaps were certainly still present and therefore the challenge remained to stimulate the macroeconomic scenario by holding on to the highly expansionary monetary policy and maintaining the set of measures that were being implemented to support the economy.

3. Analysis of monetary policy options

All five Board members agreed that, given the macroeconomic context caused by the pandemic, there was no other option than reinforcing the message that monetary policy would remain highly expansionary for a prolonged period of time. This implied that the monetary impulse should see no significant change with respect to the projections in the June MP Report and the July MP meeting, concluding that the MPR would remain at its technical minimum for several quarters and the unconventional measures would remain in force.

Regarding the evaluation of the different programs that had been implemented, there was agreement in the Board that the behavior of the financial markets signaled that objectives were being achieved. In particular, those aimed at stabilizing the financial markets in the face of Pension Funds asset liquidation—the CC-VP and the purchase of bank bonds with a premium—seemed to have fulfilled their role, because together with the adequate portfolio management of the Pension Funds and the regulatory adjustments made, they had succeeded in keeping the calm of the markets, despite the enormous portfolio changes and flows. Meanwhile, the data suggested that the combination of low interest rates with measures to provide liquidity, especially phase 1 of the FCIC facility, had been a major driver of credit growth. With respect to the program of buying assets at market prices, it was suggested that it should be reactivated under conditions similar to those defined in June.

4. Monetary Policy Decision

Governor Marcel, Vice-Governor Vial and Board members García, Naudon, and Costa voted for holding the MPR at 0.5%. They also agreed to keep in place the unconventional measures to lend support to liquidity and credit. In particular, they decided to maintain the asset purchase program established in June, by reactivating its bank-bond component at market prices, at a pace that would be announced briefly.