PRESS RELEASE*

Wednesday, 6 May 2020

Monetary Policy Meeting – May 2020

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 0.50%. The decision was adopted by the unanimous vote of its members.

The unfolding of the Covid-19 pandemic and the effects of the sanitary measures adopted to contain it continue to shape the macroeconomic scenario around the world. Currently, the set of projections by public and private organizations anticipate a global recession for this year, with steeper falls in activity than were assumed in the baseline scenario of the March Monetary Policy Report. Early first-quarter GDP figures from the main economies confirm widespread contractions, often deeper than expected, while a significant increase in unemployment is already visible in several countries. Moreover, containment practices are expected to continue for much of the second quarter. In this context, central banks and governments have further strengthened their stimulus policies, aiming to limit the negative impact on the situation of companies, households and financial institutions, and support recovery in the second half of the year. These measures have also helped to limit the deterioration in financial conditions, but a high degree of uncertainty persists, concerning both health and economic developments.

In the domestic macroeconomic scenario, the fall of the Imacec in March was in line with the outlook described in the last MP Report, ratifying the onset of an economic contraction process triggered by the health emergency. Thus, a negative impact was observed in a substantial fraction of the economic sectors, especially in retail, education, transportation, and restaurants and hotels activity. The National Statistics Institute’s employment survey, plus administrative data and qualitative information from the Business Perceptions Report point to a significant deterioration in the labor market, partly buffered by the special measures adopted by the Government. Consumer expectations (IPEC) fell to record lows and consumption of non-essential goods has fallen dramatically. Business expectations (IMCE) have also worsened. The Capital Goods Corporation (CBC)'s investment project survey reported that projects have been rescheduled to one or more years ahead and imports of capital goods have fallen sharply, all of which confirms a significant drop in investment. In this context, with differences in magnitude, private expectations point to a contraction of the Chilean economy this year and a significant recovery in 2021.

Global financial markets have bounced back from the severe shocks they experienced during March. Thus, reductions in risk premiums, increases in stock markets, some appreciation of currencies against the dollar and declines in long-term interest rates have been observed in an important group of economies. The prices of commodities, particularly metals, have also shown a recovery. The Chilean financial markets have matched these trends: the stock market rose, long rates declined, money market liquidity increased —especially in pesos—, bank spreads narrowed and the peso appreciated with respect to the dollar.

Regarding credit to companies, an important increase in the stock of commercial loans in March is worth noting, a behavior that partial data show to have continued during April. The Bank Lending Survey (ECB) for the first quarter shows an increase in the demand for credit by large companies and a decrease by SMEs. However, this latter group have increased their needs to finance working capital. The ECB also points to a tightening of the banks' lending conditions. In the case of household credit, the y-o-y variation in the stock of consumer loans remained in negative territory in March, while mortgage loans continued to grow at around 8%. As for interest rates, consumer and commercial rates have dropped while mortgage rates have risen further. In terms of the measures adopted by the Central Bank, commercial banks have applied to around US$12 billion —nearly 50% of the available funds— under the Conditional Credit Facility for Increased Lending (FCIC), supported by the expansion of collateral. In turn, the bank bond purchase program has accumulated US$3.3 billion of the up to US$8 billion available, while the Central Bank debt buyback has reached just over US$5.6 billion.

As of March, annual inflation dropped to 3.7% and the core measure remained at around 2.5%. Medium-term inflationary pressures remain contained, in line with a widening of activity gaps caused by the sanitary emergency, which, coupled with the fall in oil prices since the beginning of the year, offset the cost pressures of the cumulative exchange rate depreciation. One year ahead, measures of inflation expectations have adjusted downwards, while two years ahead they remain at around 3.0%.

The Board's decision to keep the MPR at its technical minimum of 0.5% is consistent with the need for monetary policy to remain in this highly expansionary stance for an extended period of time, in order to ensure the convergence of inflation to the 3% target over a two-year horizon. The Board will evaluate options to boost the monetary impulse and sustain financial stability by making use of unconventional tools in case that the evolution of the economy so requires.

The minutes stemming from this Monetary Policy Meeting will be published at 8:30 hours of Friday, 22 May 2020. The next Monetary Policy Meeting is scheduled to take place on Tuesday 16 June and the statement thereof will be published at 18:00 hours of that same day.

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* The Spanish original prevails.