



PRESS RELEASE*

Tuesday, 31 March 2020

Monetary Policy Meeting – March 2020

In its monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 50 basis points, to 0.50%. The decision was adopted by the unanimous vote of its members.

The external scenario has deteriorated significantly after the rapid global expansion of Covid-19. The sanitary control measures implemented around the world have triggered important disruptions in supply and demand, whose effects are being felt already. The uncertainty about the magnitude of the economic impact of the pandemic has favored a substantial increase in the markets' risk aversion. This has reflected on increased demand for safe and short-term assets, escalating volatility and risk indicators, widespread stock market falls, capital outflows from emerging economies, across-the-board depreciation of currencies against the US dollar, and a sharp decline in the prices of commodities, copper included. The monetary and fiscal authorities have launched considerable stimulus plans to address the worsening circumstances, which has eased the markets' reaction in the most recent past.

While in January and February activity indicators showed a faster than expected recovery than had been forecast in the December Monetary Policy Report, the sudden change in macroeconomic conditions generated by the Covid-19, including the spread of the pandemic into Chile, leads to assume that the economy entered a process of severe contraction in the second half of March that will extend throughout the second quarter. The markets have been steadily trimming their growth projections for this year and the latest estimates point to a y-o-y fall. The government has announced an important stimulus package that couples with the cut to the MPR and the measures adopted by the Bank to facilitate personal and corporate access to credit.

The local financial market has been aligned with these developments. Major corrections have been observed in the IPSA stock index and the exchange rate, while liquidity and fixed-income interest rates have also fluctuated reflecting the search for safe assets. To facilitate the normal flow of credit and the proper functioning of the markets, the Board, among other measures, extended access to liquidity programs already in place, initiated the purchase of bank bonds from SOMA system participants; established the Conditional Financing Facility for Increased Loans (FCIC) expanding eligible collateral; activated the Liquidity Credit Line (LCL) and relaxed liquidity requirements for maturity mismatches. As of today, all these measures are in operation.

In February, annual inflation rose to almost 4% while core inflation remained slightly above 2.5%. This steadily changing scenario significantly reduces medium-term inflationary pressures, given the widening of the activity gap that has resulted. Additionally, the important drop in the oil price counteracts the cost pressures derived from the peso depreciation. Incoming figures of recent days for market inflation expectations have lowered expected levels one year ahead, while two years ahead they are still at 3%.

The Board's decision to bring the MPR to its technical minimum of 0.5% is made in a scenario in which medium-term inflationary pressures have dissipated substantially and that the efforts to overcome the sanitary crisis will have major effects on activity and employment, among other variables. Accordingly, the Board estimates that for inflation to converge to the 3% target, monetary policy needs to remain highly expansionary for an extended period.

Together with the above, the Board decided to extend the program in place for the purchase of banking bonds by US\$ 4 billion and eliminate the maturity constraints of the eligible instruments. Thus, the purchase balance outstanding of that program has changed to an amount of up to US\$5.5 billion.

The Board will continue to implement every measure necessary to promote the proper functioning of the financial markets and compliance with the Bank's inflationary and financial stability objectives.

The March Monetary Policy Report containing the projections and analyses that sustain the Board's decision will be published tomorrow, Wednesday 1 April 2020 at 8:30 AM.

The minutes from this monetary policy meeting will be published at 8:30 AM of Thursday 16 April 2020. The next monetary policy meeting will take place on Tuesday 5 and Wednesday 6 May 2020 and the statement thereof will be released on Wednesday 5 at 6:00 PM.

* The Spanish original prevails.