banco central Chile

Press Release*

Thursday 13 May, 2021

Monetary Policy Meeting – May 2021

At today's Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 0.50%. Furthermore, no changes were made to the unconventional liquidity and credit support measures. The decisions were adopted by the unanimous vote of all the Board members.

In the external scenario, the overall international outlook is evolving positively. Global growth projections continue to strengthen, in a context where the global evolution of the pandemic has improved, which has allowed for the easing of sanitary restrictions, especially in developed countries. Expectations and the mood in the financial markets remain favorable, with improvements in the stock markets of the main economies, increased capital inflows to emerging economies and higher commodity prices. Most noteworthy among the latter are the strong recovery of oil and the copper hikes. At the same time, however, inflationary concerns have increased amid higher headline inflation, stronger cost pressures and significant demand stimuli, especially in the United States, which has caused some volatility in the financial markets. In some Latin American economies, despite better economic figures in the first quarter, the prospects are looking less favorable as they face a more complex sanitary and political outlook.

In the domestic financial market, the nominal 10-year sovereign rate has seen an increase of some 30 to 40 basis points higher than that observed in developed markets since early March, which may be associated with idiosyncratic factors. The Bank once again took extraordinary measures to contain the financial volatility that might be generated by pension fund portfolio adjustments. The exchange rate appreciated, amid the sustained rise in the copper price. About bank credit, the activity of the Fogape-Reactiva program has continued to increase, while the first-quarter Bank Lending Survey reported improved demand and supply conditions in several segments, some of which were favored by a lower perception of risk. Nonetheless, and largely due to the high comparison base, the real annual variation rate of commercial loans turned negative. In turn, consumer loans moderated their annual contraction, and housing loans' performance remained relatively stable. Interest rates have remained low for all credit segments.

Regarding activity, the March Imacec posted an annual growth rate of 6.4% (-1.6% month-on-month seasonally adjusted), well above expectations. This suggests, in part, a better adaptation of agents to the sanitary context, which during April and May should be reflected in a milder-than-expected impact of quarantines. By sectors, retail continued to perform well, while services and construction activity continued to perform below pre-pandemic levels. In the labor market, the various sources of information point to a significant increase with respect to the lowest levels of mid-2020, although with differences as to how much of the loss of formal salaried jobs has been recovered. In any case, differences by sector and type of occupation are also observed. In this context, private expectations for this year's growth are on the rise, pointing mostly to figures above 6% (6.2% being the median of May's Economic Expectations Survey).

Both headline and core CPI —i.e., without volatiles— have continued to fluctuate around 3% annually. Again, incoming figures show increases in the prices of gasoline and some foodstuffs. In addition to this, there has been continued high demand together with production and supply difficulties in several goods. One- and two-year-ahead expectations continue to stand around 3% annually.

The Board considers that the outlook for economic recovery has improved, bearing in mind the data known since the publication of the last Monetary Policy Report and the new demand boosting measures that have been implemented. This, together with an improved global scenario, reduces downside risks and positions the performance of the economy around the positive sensitivity analyzed in the March Report. Even so, the convergence of inflation to the target over the policy horizon still requires the monetary stimulus to be highly expansionary. Thus, the MPR will be kept at its minimum of 0.5% for as long as it is deemed necessary for the recovery of the economy to take hold.

As for the unconventional measures, so far close to 75% of the FCIC3 available funds have been used. Since January the asset purchase program has reinvested coupons as they mature, a policy that will remain in place until June. From then onwards, the stock will be gradually reduced based on the maturities of the assets in the portfolio.

The minutes corresponding to this Monetary Policy Meeting will be published at 8:30 hours Monday 31 May 2021. The next Monetary Policy Meeting will take place on Tuesday 8 June, will be released at 18:00 hours the same day.

____

* The Spanish original prevails.

Banco Central de Chile
Agustinas 1180, Santiago, Chile
www.bcentral.cl