# PRESS RELEASE*

Thursday, 15 October 2020

## Monetary Policy Meeting – October 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%, and to maintain its unconventional liquidity- and credit-support measures. The decision was adopted by the unanimous vote of its members.**

On the external front, incoming indicators show some moderation in the speed of recovery of economic activity, especially in developed countries. This is seen in a context where the resurgence of Covid-19 infections has forced to impose intermediate containment measures, with a lower incidence of severe cases in these countries. In the emerging world, the dynamism of activity and demand indicators in China stands out, allowing the copper price to hover around US$3 per pound. In Latin America, meanwhile, economic recovery is lagging behind, but with significant differences among countries in terms of epidemiological, economic and social conditions, which also reflects the different intensity of their respective policy responses.

In this context, the financial markets have shown increased volatility, reflecting not only the sanitary situation, but also developments in the global political and economic arena. Compared to the last Meeting, there have been slight falls in stock markets, a depreciation of currencies against the dollar, and limited declines in risk premiums. In the fixed-income market, the rise in interest rates in some Latin American countries stands out. In Chile, the increase in long-term interest rates, the decline in stock prices and the depreciation of the peso stand out.

Regarding activity, August's Imacec reported an 11.3% annual drop, sharper than the market expected, although with increasing speed compared to the previous month: 2.8% month-on-month seasonally adjusted. In addition to the negative annual variation in the mining component, markedly negative figures continued to be observed in the annual comparison for sectors such as services and construction, which were still affected by intense quarantines that extended until the end of August. In contrast, retail trade continued to experience significant improvements, which led to the first positive figures in the year-on-year comparison since last February. The labor market continued to show signs of stabilization, with a slight recovery in employment and hours worked in the moving quarter ending in August. In this context, business and consumer expectations have continued to recover, but remain on pessimistic territory. The private expectations compiled in the October Economic Expectations Survey (EES) indicate that GDP is expected to contract 5.5% this year, but with high dispersion among the responses.

As for commercial credit, its annual growth rate remains above those of the beginning of the year, reflecting the boost received from various stimulus programs. However, its dynamism has slowed down recently, while the annual variation in consumer loans continues to decrease and that of mortgage loans has stabilized at the margin. Interest rates fell across all portfolios. The Bank Credit Survey of the third quarter once again reported tighter supply conditions for all credit classes, generally linked to the evaluation of greater risk in the different categories. Household demand for credit remains weak, and demand for working capital funding has fallen.

Between August and September, headline inflation rose to 3.1% annually, while its core component rose to 2.9%. This increase was mainly explained by the increase in the prices of goods and foodstuffs registered in September, bringing the monthly CPI change to 0.6%. This evolution is consistent, mainly, with the transitory boost to goods consumption linked to the withdrawal of pension savings and some short-term supply restrictions to satisfy this demand. For the medium term, inflationary pressures remain limited. With respect to market perspectives, one year ahead the EES median foresees inflation at 2.7% annually, while the Financial Traders Survey (FTS) median foresees it at 2.5% annually. Meanwhile, two years ahead expectations remain at around 3%.

The Board reiterates that the high monetary impulse will remain in place for an extended period of time, so as to ensure compliance with the Bank's objectives. In particular, the Board foresees that it will hold the MPR at its minimum level over a big part of the two-year monetary policy horizon and will maintain the unconventional measures in place, thus continuing with the current asset purchase program. In addition, should the evolution of the economy so advise, it will continue to explore options to adjust this impulse and sustain financial stability.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours on Friday 30 October 2020. The next Monetary Policy Meeting is scheduled for Monday 7 December and the statement thereof will be released at 18 hours the same day.

* The Spanish original prevails.