PRESS RELEASE*

Monday, 7 December 2020

Monetary Policy Meeting – December 2020

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50%, and to keep the unconventional liquidity- and credit-supporting measures in place. The decision was adopted by the unanimous vote of its members.

On the external front, incoming figures show that the recovery process continues, albeit with differences by country and economic sector. The good performance of China and the rapid upturn in international trade in goods stand out. The resurgence of Covid-19, mainly in the Northern Hemisphere, raises the alarm about the true capacity to sustain the pace of recovery, which reflects the deterioration of some indicators of expectations. In any case, the greater focus of the sanitary measures imposed in some of the most affected countries suggests that the effects on mobility and the economy will be milder than they were in the early stages of the pandemic. The advances in the process of developing, authorizing, and applying a vaccine has had a positive impact on the global financial markets, increasing appetite for risk and boosting stock markets and commodity prices. Worth noting are the favorable prospects for Chile's trading partners and the rise in the copper price to nearly US$3.5 per pound.

In the country, October's Imacec was lower than expected, reflecting the complexities of an economic recovery process when major sectors lag behind because of their strong reliance on human contact. The effects on construction, transportation and many services deserve mention, while by contrast, trade and manufacturing have picked up notoriously, and mining activity shows normal-year indicators. The labor market, despite having significant gaps, is giving signs of improvement, as close to one third of the jobs lost to the pandemic have been recovered, while real labor income and hours worked have increased. However, these signs are weaker in some labor-intensive sectors, particularly certain services with more social interaction and formal salaried employment and female occupation. All considered, activity and the labor market continue along a path of recovery, as is visible in improved expectations of consumer and businesses. Although the recent announcement of some reinstatement of confinements in the Metropolitan Region may delay somewhat this recovery, it may also reduce the risk of more drastic actions later on.

In the local financial markets, stock prices rose and the peso appreciated, in line with the trends of its peers abroad, while the longer-term interest rates —both nominal and indexed—posted a stronger increase. As for banking credit, loans to firms have slowed down further, with a significant reduction of new loans associated with the Covid-Fogape program and greater credit amortization by big companies. Meanwhile, consumer loans have contracted further and mortgage loans continue to grow with relative stability. The interest rates for the different credit users remain low. After the second pension fund withdrawal was passed, the Central Bank of Chile announced a package of precautionary measures aimed at ensuring the AFPs' orderly liquidation of assets and thus preserve the stability of financial markets and the efficiency of the price formation process.

November's CPI was below expectations, partly offsetting two months of surprises in the opposite direction. With it, total inflation dropped to 2.7% annually, while its core component remained at 3.2%, in a context where shocks to consumption, coupled with slow inventory replenishment, has caused major movements in some prices. Beyond these short-lived ups and downs, inflationary pressures are still contained, as the gradual closing of the wide activity gap that was opened in recent months dominates. Market expectations have factored in the transitory nature of price movements, with changes at shorter terms and stability around 3% two years ahead.

The Board reiterates that the strong monetary stimulus will be maintained over a prolonged period of time, in order to ensure the consolidation of economic recovery and compliance with its objectives. In particular, it foresees that the MPR will remain at its minimum level over most of the two-year monetary policy horizon. The unconventional measures will remain in effect. This considers that the total stock of banking bonds acquired under different programs—around US$8 billion—will be maintained over the next six months, reinvesting the coupons as they mature. This excludes those purchases made under the CC-VP program. Regarding the FCIC facility, the Board decided to introduce no changes in the total of resources available and conditions for utilization. However, it will evaluate a possible extension and changes in the access parameters that facilitate their use to respond to the economy's needs at this stage.

The December 2020 Monetary Policy Report containing the projections and analyses that underlie these decisions of the Board will be published on Wednesday 9 December at 8:30

hours. The minutes corresponding to this Meeting will be released at 8:30 hours of Wednesday 23 December 2020. The next Monetary Policy Meeting is scheduled to take place on Tuesday 26 and Wednesday 27 January 2021 and the statement thereof will be released at 18:00 hours of this latter date.

* The Spanish original prevails.