Press Release*

Tuesday, 8 June 2021

Monetary Policy Meeting – June 2021

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 the Board members.

In the external scenario, short-term activity indicators have confirmed an ongoing recovery, especially in the developed economies. This has been linked to the progress of vaccinations and the gradual reopening in these countries, strengthening the outlook of consumers and companies. The financial markets, in general, continue to reflect this outlook with rising stock market prices in the main economies and widespread appreciation of assets and commodities: the copper price is now bordering US$4.5 per pound. In the emerging economies, beyond the strong Chinese economy, the slower rate of vaccinations and the difficulties in the sanitary control have hindered the recovery process.

In Chile, the performance of financial markets continues to be particularly affected by idiosyncratic elements, showing a decoupling from global trends and an increase in volatility. Worth noting is the fall of the IPSA and the rise of the 10-year nominal rate, which has increased by nearly 70 basis points since the last meeting, at the same time that the sovereign spread (CDS) rose to its highest of several months. The peso/dollar parity accumulates a slight depreciation.

In April, the Imacec —adjusted by seasonality— was again a positive surprise, as it recorded a month-on-month decline that was less pronounced than expected. Basically, this is new proof of the successful adaptation of the economic agents in operating in the context of a pandemic. However, some economic sectors continue to lag behind. On the expenditure side, the dynamism of consumption —especially of durable goods— and the rebound of the machinery and equipment component of investment stand out. The labor market continues to exhibit heterogeneous improvement, with self-employment and informal salaried employment, low-skilled workers and women lagging the furthest behind. Meanwhile, the number of pension fund and unemployment insurance contributors has returned to pre-pandemic levels, indicating that formal salaried employment has benefited more from the economy's recovery.

Since the release of the March Monetary Policy Report, the fiscal stimulus has been significantly extended, which couples with the approval of a third pension savings withdrawal. This additional boost to private spending, and the better adaptation of the economy, significantly improve the outlook for activity in 2021, in a context of somewhat more favorable external conditions.

As for banking credit, the activity of the Fogape-Reactiva program continues to increase. However, on aggregate, the annual change in commercial loans is negative, which is largely explained by the comparison base effect. The latter is influenced by the boost provided by the Covid lines during 2020. On the household side, it must be noted that the annual contraction of the consumer portfolio has continued to shrink, while the growth of mortgage loans shows no major changes. Lending interest rates have remained at low levels across the board.

The annual variation rates of both headline and core CPI —without volatiles— have risen, and currently stand at around 3.5%. The latest indicators highlight price increases in fuels and the goods component of inflation. The latter continue to be affected by strong demand, in a context in which some inventories have yet to be fully replenished, and global production and transportation costs have risen significantly. One- and two-year-ahead expectations continue to be around 3% annually.

The Board estimates that the economy is still affected by the impact on the recovery of the pandemic and the lagging labor market. However, the strong dynamism already present in consumption and the additional boost to private spending are an important change for the macroeconomic scenario of the coming months, which makes it necessary to recalibrate the expansiveness of monetary policy going forward. This issue is addressed in the June Monetary Policy Report to be published tomorrow.

Regarding unconventional measures, just recently phase 3 of the FCIC facility was completed. Also, in the first days of June the period of reinvestment of bank bond coupons concluded. From now onwards, the stock will be gradually reduced as the assets in the portfolio are extinguished.

The June Monetary Policy Report containing the projections and analyses that support these Board decisions, together with the reestimation of the structural parameters, will be published tomorrow, Wednesday 9 June at 9:00 hours. The minutes of this Monetary Policy Meeting will be released at 8:30 hours of Wednesday 23 June 2021. The next Monetary Policy Meeting will take place on Tuesday 13 and Wednesday 14 July **2021, and the statement thereof will be published at 18:00 hours of this latter date.**

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* The Spanish original prevails.

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