



PRESS RELEASE*

Tuesday, 30 March 2021.

Monetary Policy Meeting – March 2021

At its monetary policy meeting, the Board of the Central Bank of Chile decided to hold 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 its members.

On the external front, 2020 closed with better-than-expected indicators, probably associated with a better adaptation of the world economy to the pandemic, in a context of complex sanitary conditions in some regions and a vaccination process that continues to advance at varying speeds across countries. Monetary and fiscal stimuli continue to be very important. In this regard, the fiscal package approved in the United States a few weeks ago deserves mention, and there is some concern about its magnitude and potential effect on inflation. Commodity prices have risen, copper included. In this context, the external scenario has improved for Chile, thanks to better prospects for its main trading partners, higher terms of trade and still favorable financial conditions.

The improved global outlook has been reflected in the financial markets, where an increase in long-term interest rates and stock markets, and a decrease in risk premiums are worth noting. In Chile, similar trends have been observed, with interest rate hikes in fixed-income instruments in pesos and UFs, especially for maturities of 10 years or more. Local stock market indexes have also risen. The exchange rate, with ups and downs, remains around the levels of the previous meeting. Regarding bank credit, lending is still low in general. The flow of commercial credit has shown some rebound lately, due to a greater use of the Fogape-Reactiva line. At the same time, the funds drawn on the FCIC3 amounts to about 15% of the total available. Interest rates for the different credit categories remain low from a historical perspective.

Locally, the data for late 2020 and early 2021 show that the economy is growing faster than was forecast in the December MP Report. The trade sector continued to lead the recovery, followed by manufacturing. Although at a slower pace, services and construction

also recovered from their mid-year lows. In the labor market, there was an increase in hours worked and employment, but it lagged behind activity. The application of stronger sanitary restrictions will affect the economy's performance in the immediate future. However, their effects will be milder than previously observed, as companies have learned to operate under these conditions and the government has proposed new measures to support households. All in all, the growth outlook for 2021 has risen compared to the end of last year, due to the higher starting point, the advances of the vaccination process, and the improvement of conditions abroad.

Headline inflation has continued to hover around 3% annually, with significant monthly fluctuations and surprises in opposite directions. Thus, the February CPI was below market expectations, after an unexpected increase in January. In the behavior of inflation of recent months, it is worth singling out the higher prices of volatile products such as fuels and fruits and vegetables, plus the high demand that persists for certain goods. This, in a context of still uneven inventory replenishment. The annual variation of core CPI (without volatiles) has remained stable since December. Regarding expectations, one year ahead the median of the Economic Expectations Survey (EES) remains at 3%, while the Financial Operators Survey (EOF) placed it at 3.2%. Two years ahead, both surveys have it at 3%.

The Board considers that, even as the outlook for the economy has improved, the convergence of inflation to the target in the policy horizon requires that monetary policy remain highly expansionary. Thus, the MPR will be held at its 0.5% minimum until the recovery of the economy takes hold and spreads to the more lagging components of expenditure, which will take several quarters. The Board reiterates that future changes in monetary policy will depend on the evolution of the macroeconomic outlook and its implications for the evolution of inflation.

The unconventional measures will continue to operate under the same conditions in place, complementing the monetary policy stance defined by the MPR. Any future modifications will be announced with sufficient notice.

The March Monetary Policy Report containing the projections and analyses that guide the Board's decisions will be released tomorrow, Wednesday 31 at 8:30 hours. The minutes of this monetary policy meeting will be published at 8:30 hours on Thursday 15 April 2021. The next monetary policy meeting is scheduled to take place on Wednesday 12 and Thursday 13 May 2021, and the statement thereof to be published at 18 hours of the 13th.

* The Spanish original prevails.