PRESS RELEASE*

Tuesday, 1 September 2020

Monetary Policy Meeting – September 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%. It also decided to maintain the unconventional measures to lend support to liquidity and credit. The decisions were adopted by the unanimous vote of all the Board members.

In the external scenario, incoming data confirm a recovery in global activity after the lows of April and May, in a context where the sanitary response to the pandemic has improved in several countries, with more tests applied and reduced mortality observed. Despite new outbreaks in some places, measures reinstated are not as restrictive as they were at the beginning of the pandemic. Although they are below their pre-pandemic levels, production, sales, foreign trade flows and expectations are all improving in several economies. The upturn in services, however, has been more limited. Strong monetary and fiscal stimulus measures have been maintained, as has volatility in the financial markets, contributing to the improvement of commodity prices. In recent days the copper price has exceeded US$3, supported mainly by China's investment reactivation in line with a fiscal impulse.

On the domestic front, the Imacecs of June and July show that the economy has begun to stabilize, after accumulating falls between March and May, although with activity levels well below those a year before. Some sectors are seeing a recovery, such as retail and manufacturing, while others remain severely affected, particularly those where face-to-face work and human interaction are essential. The evolution of the economy has been influenced by the gradual withdrawal of sanitary control measures, a faster adaptation to changed operating conditions in several businesses, an increase in credit to enterprises and the boost from various measures to provide support to personal income. The latter have resulted in a reduction in the pessimism observed in business and consumer expectation indicators, and in a rebound of imports of consumer and capital goods. Overall, the sharp deterioration in the labor market continues to stand out, with across-the-board drops in employment, labor income, hours worked and variable labor compensation.

Local financial markets essentially followed the external movements. The increase in volatility—observed during the last stages of the Congress discussion on the bill about the withdrawal of part of pension savings—was reversed, with the exception of the stock market indicators, due to the measures adopted by the Central Bank, the decisions of the regulators and the portfolio management of the Pension Funds. With respect to credit, commercial loans have maintained a counter-cyclical behavior, with increases of more than 10% annually in real terms. In contrast, consumer loans have continued to decline. Commercial credit growth has been supported by the high liquidity provided by the Bank through FCIC1-LCL and FCIC2, state guarantees and regulatory changes. Credit market interest rates show no significant changes.

In July, headline and core inflation stood at 2.5% annually, similar as in previous months. In the immediate future, inflation will decrease by slightly less than projected because of the temporary effect of income-support measures on consumption. Medium-term, pressures remain low. For one year's time, the Economic Expectations Survey shows inflation expectations that remain at 2.5% while the Financial Brokers Survey places them at 2.3%. Two years ahead, both surveys place them at 3%.

The Board reiterates that it will maintain a strong monetary stimulus for an extended period of time to ensure that its objectives are achieved. In particular, it expects the MPR to remain at its minimum level over much of the two-year monetary policy horizon and will maintain the unconventional measures now in place. In particular, it will proceed with the asset purchase program defined in June, reactivating its bank bond component at market prices, at a pace to be announced shortly. In addition, should economic developments so require, it will continue to explore options to adjust the stimulus and sustain financial stability.

The September Monetary Policy Report containing the projections and analyses on which the Board's decisions are based will be published tomorrow Wednesday 2 September at 8:30 hours.

The minutes from this Monetary Policy Meeting will be published at 8:30 hours of Wednesday 16 September 2020. The next Monetary Policy Meeting will take place on Wednesday 14 and Thursday 15 October and the statement thereof will be released at 18:00 hours of the second meeting day.

* The Spanish original prevails.