PRESS RELEASE*

Wednesday, 15 July 2020

Monetary Policy Meeting – July 2020

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided, by the unanimous vote of its members, to keep the monetary policy interest rate at 0.50%. The Board also agreed to maintain the unconventional measures sustaining liquidity and credit.

The macroeconomic scenario continues to be conditional upon the evolution of the Covid-19 pandemic. Domestic second-quarter figures available confirm that the economy has suffered a significant contraction. The May Imacec posted a 15.3% drop in annual terms, with declines observed in almost every sector. Exports have exhibited a greater-than-expected degree of resilience, while imports levels have seen some stabilization after the sharp falls of the previous months. Business and consumer expectations remain in very pessimistic territory. The stricter sanitary containment measures continue to affect a significant part of the country, although the positive evolution of sanitary indicators has allowed some regions to initiate de-confinement processes. Various sources of quantitative and qualitative information report a sharp deterioration of the labor market, most notably a fall in employment and reductions in hours worked and wages. Government measures in place to mitigate the loss of income have become stronger since June. The median of private expectations contained in the July Economic Expectations Survey (EES) anticipates that GDP will fall 6.1% this year, in line with the range of the central scenario described in the last MP Report. However, these estimates continue to show high dispersion.

In the external scenario, conjunctural data show improvements in an important group of countries, in line with the gradual reopening of their economies, which is visible in the indicators of manufacturing production, retail sales, the labor market and expectations of both households and companies. This has favored the performance of the financial system and commodities, whose prices have recovered owing largely to more auspicious prospects for activity in China. In particular, the copper price has come close to US$3 per pound, its highest in the year so far, also influenced by supply factors. These developments are also being sustained by further increases in fiscal and monetary stimulus, such as reinforced unconventional measures in the United States, the Eurozone and the United Kingdom. In any case, activity levels are still well below those prior to the sanitary emergency, while important risks persist associated with the recent Covid-19 resurgence in several countries—particularly strong in the US—and reinstated confinement measures in some of them.

The movements in the domestic financial market have reflected both external developments and the greater boost that monetary policy is providing. In particular, the expectations for the MPR aligned themselves with it remaining at its technical minimum for a prolonged period, and the long-term interest rates (i.e. BCP 5 and BCP 10) posted significant drops in the following days, and today stand between 15 and 25bp below their level prior to the last Meeting. Meanwhile, the stock market continued to rise and the peso has fluctuated around the levels that were in effect at the time of the previous Meeting.

With respect to credit, in June, the annual variation in commercial loans continued to increase, while that of consumer credit continued to decline. Interest rates remained low in all segments. This occurs in a context where a large proportion of the banks have used up all the resources offered in phase one of the Funding Facility Conditional on Increased Lending (FCIC), and phase-two resources can already be accessed. The second quarter's Bank Lending Survey reflects tighter supply conditions for all credit categories, explained in part by the risks present in client portfolios. Meanwhile, household credit demand decreased substantially, both for consumption and housing. In the corporate segment, demand rose for funds to cover working capital needs, and dropped for funds to finance investment projects.

At June, annual headline inflation was down to 2.6% and core inflation (CPI excluding volatiles) dropped to 2.5%. Inflationary pressures are still low due to the abrupt widening of the activity gap over recent months. In this context, inflation expectations derived from the Economic Expectations Survey and the Financial Brokers Survey (FBS) have shown no significant change. One year ahead, both stand below 3%, while two years ahead, the FBS foresees it at 2.6% and the EES at 3%.

The Board reiterates that it will maintain a strong monetary impulse for a prolonged period of time, in order to ensure that its objectives are achieved. In particular, it estimates that the MPR will remain at its technical minimum over the entire projection horizon, and agreed to continue with the asset purchase program that will result in purchases of up to US$1.5 billion over the next four weeks. In addition, in case the evolution of the economy so requires, it will continue to assess other options to intensify such impulse and provide support to financial stability, using unconventional instruments.

The minutes of this Monetary Policy Meeting will be published at 8:30 AM on Friday 31 July 2020. The next Monetary Policy Meeting is scheduled for Tuesday 1 September and the statement thereof will be released at 6:00 PM on the same day.

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* The Spanish original prevails.