PRESS RELEASE*

Monday, 16 March 2020

Special Monetary Policy Meeting – March 2020

At its special monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 75 basis points (bp) to 1%, and implement a set of additional measures aimed at safeguarding the good functioning of the financial market. The decision regarding the MPR was endorsed by the favorable vote of Governor Mario Marcel, Vice-Governor Joaquín Vial and Board member Pablo Garcìa. Board Members Alberto Naudon and Rosanna Costa voted for a reduction of 50 bp. The decision regarding the additional measures was unanimous.

The macroeconomic scenario facing the Chilean economy has deteriorated rapidly and significantly in connection with the global expansion of COVID-19 and the associated financial turmoil, which is taking a big toll on the economy, affecting households and businesses. In response to these developments, several central banks have anticipated their monetary policy decisions and announced a number of complementary measures aimed at facilitating the provision of liquidity and the normal operation of credit markets

Although Chile’s economic indicators are yet to reflect the effects of these disruptions, the pace of the propagation of the disease in the country, the sanitary measures already adopted by the authority and a look into how it is unfolding in other countries, suggest that the impacts on sales and cash flows of the affected companies could be substantially, particularly for small and medium-sized enterprises.

In these circumstances, the Board has decided to carry out a set of actions aimed at mitigating the negative impacts of these events and smooth the process of adjustments that the Chilean economy will have to deal with.

In addition to lowering the MPR by 75 basis points to 1%, the Board agreed to adopt the following measures to ensure the normal functioning of credit markets and the effective transmission of the increased monetary stimulus:

First, a conditional funding facility (FCIC) will be opened to banks, as detailed below:

- Validity: six months.
- Maturities of the loans granted via the FCIC: up to four years.
- Initial loan amount: 3% of commercial and consumer loan portfolio as reported by the Financial Market Commission for 29 February 2020 (benchmark portfolio).
- Additional loan amount: the additional resources channeled through the FCIC will be proportional to the increase of each institution's loans with respect to their benchmark portfolio. This expansion factor will be higher for smaller credits.
- Interest rate: banking firms using this facility will pay an interest rate equal to the MPR in effect the day they access it. In case the MPR is changed during the six months of the program, the rate for the outstanding portion of the loan will be adjusted to the lower value of that period.

Second, corporate bonds will be included as eligible collateral for all the effective liquidity operations in pesos, including the FCIC.

Third, a banking bond purchase program will be established for SOMA system participants, for an amount in the UF equivalent of up to 4 billion US dollars.

Fourth, the term of the foreign currency sale program will be extended until 9 January 2021.

The operating details and specific dates for the implementation of these measures will be disclosed in the coming days.

The Board estimates that this set of measures will help the economy adjust to this new scenario, by mitigating its impact on households and businesses. Future changes in monetary policy or additional measures will hinge on the evolution of the macroeconomic outlook, the proper functioning of the financial markets and the fulfillment of the Bank's inflation target and financial stability objectives.

This monetary policy meeting's minutes will be published at 8:30 a.m.Monday 30 March 2020. The next monetary policy meeting is scheduled for Tuesday 31 March and the statement thereof will be published at 18:00 hours the same day.

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* The Spanish original prevails.