PRESS RELEASE*

Tuesday, 16 June 2020

Monetary Policy Meeting – June 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 decided to extend the unconventional measures that sustain liquidity and credit.

The effects of the Covid-19 pandemic have persisted and intensified further, in particular because of the need to impose quarantines in the country's areas that house nearly half of the national population. The April Imacec showed a significant drop in activity, which will go to new depths in May and June due to the extension and duration of the containment measures decreed in recent months. The labor market has also deteriorated substantially, together with drops in various consumption indicators and markedly pessimistic expectations. On investment, worth noting are the steady decline of capital goods imports and business expectations that persist in clearly negative territory. Accordingly, private growth expectations during this year have been revised downward. In this context, the recent Emergency Plan agreed on by the Government and the extended Finance Commission will play an important role in mitigating the negative economic effects of the pandemic, because of both the measures considered and its medium-term outlook.

In the external scenario, confinement measures have been eased in several countries as the contagion indexes and death tolls have decreased. This gradual reopening has led to a slight improvement in some short-term indicators, where worth singling out are the surprises in China's manufacturing data, and in sales and employment in the United States. However, they are still far from their pre-pandemic levels. In some economies, the expectations of households and companies showed a marginal rebound, but most remain on the contractionary side. The monetary and fiscal authorities have made new announcements oriented at underpinning the process of economic recovery and safeguarding financial stability, mainly those of the European Central Bank and the Federal Reserve. Commodity prices, in general, have also increased, albeit with major fluctuations in the case of oil. Copper saw its highest values in late January. Still, a high degree of uncertainty persists surrounding a possible reactivation of the spread of the Covid-19, and great sensitivity to signals suggesting it.

The magnitude of fiscal and monetary packages has continued to sustain the performance of the world's financial markets, which nonetheless continue to show high volatility, as demonstrated by the movements of recent days. Compared to the previous Meeting, stock markets and risk premiums scored further improvements, a significant group of currencies appreciated against the dollar and capital outflows from the emerging world tended to reverse. Long-term interest rates remain near minimum values. The Chilean financial markets have followed these same trends, where the appreciation of the peso stands out.

With respect to credit, the annual growth of commercial loans has continued to rise in Chile while average interest rates have fallen. There is also a greater focus on credit to smaller companies. The increase in mortgage loans remains stable, while the consumer credit continues to decelerate. Banks have continued to use the resources of the Conditional Facility for Increased Lending (FCIC), having withdrawn nearly 83% of the resources considered. These funds have facilitated more than one million debt restructurings and the granting of somewhat more than one hundred thousand Covid loans —with state guarantee— for the financing of working capital.

At May, annual inflation was down to 2.8% and its core component —CPI excluding volatiles— remained slightly above 2.5%. Inflationary pressures have been significantly reduced by the abrupt widening of the activity gap in the second quarter, while exchange rate pressures have been eased by the appreciation of the peso from its peaks a few weeks ago. In this context, the various measures of inflation expectations show setbacks in expected inflation one year ahead. Two years ahead, the expectations measured by Financial Brokers Survey were below 3% and in the Economic Expectations Survey stayed at 3%.

The Board estimates that the economy requires an intensification of the monetary boost. Thus, along with keeping the MPR at 0.5% —which is the current technical minimum estimate— it decided to expand its use of non-conventional instruments. First, it agreed to open phase 2 of the FCIC that contemplates an amount of US$16 billion effective for eight months. This program involves strengthening the incentives to lend to small and medium-sized enterprises, and to non-banking credit providers. Second, it agreed to implement a special asset purchase program, in the amount of US$8 billion over a six month period. Thus, through both programs, additional resources will be mobilized of up to 10% of GDP.

The initial amount of asset purchase, the specific dates of startup, financial conditions and other operational aspects will be announced in the coming days.

The Board reiterates that it will maintain a high monetary impulse for a prolonged period of time in order to ensure compliance with its objectives. In particular, it estimates that it will keep the MPR at its technical minimum over the entire projection horizon. In addition, if economic developments so require, it will continue to explore options to intensify the impulse and support financial stability, using unconventional instruments.

The June 2020 Monetary Policy Report containing the projections and analyses that sustain these Board decisions will be published tomorrow, Wednesday 17 June at 8:30 AM.

The minutes emanating from this Monetary Policy Meeting will be published at 8:30 AM Thursday 2 July 2020. The next Monetary Policy Meeting is scheduled to take place on Tuesday 14 and Wednesday 15 July and the statement thereof will be published at 18:00 hours of Wednesday 15.

---

* The Spanish original prevails.