PRESS RELEASE*

Wednesday, 27 January 2021

Monetary Policy Meeting – January 2021

At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 0.50%. The Board also decided to adapt the Financing Facility Conditional on Increased Lending (FCIC). These decisions were adopted with the unanimous vote of the Board members.

In the external scenario, the general outlook for 2021 remains unchanged, despite a somewhat weaker first quarter resulting from the worsened sanitary situation and reinstated tighter containment measures. The start of the vaccination process has been a positive development, especially for the sentiment of the financial markets, although the pace of implementation is varying greatly from one country to another. Global financial conditions remain favorable, in a context in which monetary stimuli are expected to remain in place for a long time, in addition to new fiscal measures, particularly in the United States. Thus, among other things, the increase in capital flows to emerging economies, worldwide improvements in stock markets and increases in commodity prices stand out, particularly the strong recovery of oil prices and the rise of the copper price to US$3.6 per pound.

Local financial markets have, in general, aligned themselves with the more positive tone of their international peers. The IPSA's cumulative gains and the peso's appreciation with respect to its last year's average levels stand out. The latter has been largely influenced by the sustained recovery of copper prices. Meanwhile, interest rates in the fixed-income market have fallen for the various maturities, especially in the longer tranches.

In the bank credit market, commercial loans have further slowed their pace of growth in annual terms. The mortgage portfolio, in turn, has maintained relatively stable growth, while the consumer portfolio continues to show a significant annual contraction, in a context where interest rates have remained low across all segments. The Bank Lending Survey of the fourth quarter revealed a reduction in companies' applications for investment and working capital funds, as well as a more restrictive supply, especially for SMEs. This coincides with an increase in the levels of financial burdens and risk perception. In response to this, the law to modify the Fogape credit lines --Fogape Reactiva-- was approved, aimed at adapting them to the current needs of companies.

As for domestic activity, the November Imacec posted growth of 0.3% annually and 1.1% seasonally adjusted with respect to the previous month, thus continuing with the steady process of economic recovery. The dynamism of trade stood out in this result, contrasting with the lagging services sector. The labor market continued to recover in November, with growth in employment and wages, although there are still significant differences with pre-pandemic levels. Overall, the increase in contagions and the introduction of tighter sanitary restrictions since December have been reflected in the indicators of business and household expectations.

The year 2020 ended with total annual inflation of 3% --3.3% in the core measure. December's monthly record of 0.3% was mainly explained by some high-demand goods which, amid slow inventory replenishment and increases in transportation costs, have continued to drive inflation most recently. By contrast, the services side remains rather weak. In the medium term, the gradual closing of the activity gap will continue to prevail, containing inflationary pressures at this horizon. Regarding market expectations, both one and two years ahead, the Economic Expectations Survey (EES) and the Financial Traders Survey (FTS) place them at 3% annually.

The Board reiterates that it will maintain a highly expansionary monetary policy, combining an MPR at its 0.5% minimum with unconventional measures. In particular, the MPR will remain unchanged over most of the two-year monetary policy horizon and the Central Bank will maintain the reinvestment policy of the bank bond stock program announced in December. Regarding the FCIC, the Board agreed to open Phase 3 with an amount of US$10 billion in effect for six months. This new phase responds to the current financial needs of companies, complementing the recently approved Fogape-Reactiva program, especially in its refinancing line. In addition, it agreed to expand the eligible collateral for this stage, adding the A5- and A6-category commercial portfolio with government guarantee. The operational details and specific dates for the implementation of these measures will be announced in the coming days.

The Board reiterates that any future changes in monetary policy or additional measures will depend on the evolution of the macroeconomic outlook, the proper functioning of financial markets and the fulfillment of the Bank’s objectives regarding inflation and financial stability.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Thursday, 11 February 2021. The next Monetary Policy Meeting is scheduled to take place on Tuesday, 30 March and the statement thereof will be released at 18:00 hours that same day.

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* The Spanish original prevails.