

MONETARY POLICY REPORT

SEPTEMBER 2021

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Monetary policy of the Central Bank of Chile



Money plays a fundamental role in the proper functioning of any economy. To preserve that role, monetary policy must protect the value of the national currency, the peso, by seeking to keep inflation low and stable. Achieving this promotes people's well-being by safeguarding the purchasing power of their income and ensuring a better functioning economy. When inflation is low and stable, monetary policy can also moderate fluctuations in employment and production.

The Central Bank of Chile conducts its monetary policy so that, irrespective of the current level of inflation, its projection over a two-year horizon is 3%. This resembles what is done in other countries that, like Chile, have a floating exchange rate, which is known as the inflation targeting scheme.

The Monetary Policy Rate (MPR) is the main instrument used by the Bank to achieve the inflation target. Its level is decided at the Monetary Policy Meeting, which is held eight times a year. In practice, the MPR is a benchmark interest rate to determine the cost of money and other financial prices, such as the exchange rate and longer-term interest rates. These variables, in turn, affect the demand for goods and services and, in turn, prices and inflation. Monetary policy decisions take several quarters to be fully reflected in the economy, which justifies that monetary policy is made with a forward-looking view, having as its primary focus the two-year inflation projection and not just today's inflation.

Since the Central Bank makes its monetary policy decisions autonomously, it must constantly report on them and their results to the general public. This is so not only because it is a government agency in a democratic society, but also because a credible monetary policy, understood by the people, keeps inflation low and stable. Through the Monetary Policy Reports, the Bank communicates to the general public its view on the recent evolution of the economy, its outlook for the next few quarters, and the way in which, in this context, it will manage monetary policy to meet the inflation target.



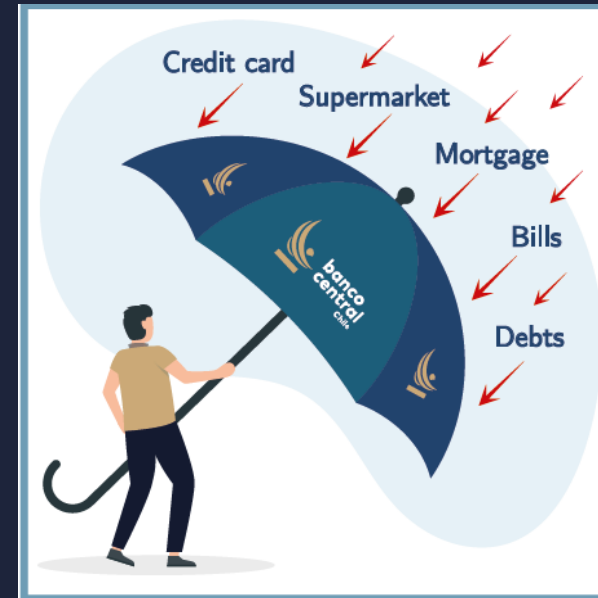
What does this MP Report tell us?



The economy is growing strongly, boosted by public policies, adaptation capacity to the new circumstances and pandemic control.



However, it is important that consumption does not grow to a point where it pushes up inflation, as this would be particularly detrimental to lower-income people.



The Central Bank is taking measures to avoid inflation from spinning out of control and thus protect people's wallets.



A more stable economy and controlled inflation will help solve the problems caused by the crisis, including lost women employment and country savings.

What does this MP Report tell us?



Why is high inflation harmful for people?



- 1 The same amount of money will buy fewer goods and services.
- 2 Also, high inflation generates higher uncertainty



- ➔ Households might overpurchase from fear of further price increases...
- ➔ ...or the firms might postpone investments due to instability.



THIS HAS DIRECT EFFECTS ON
ECONOMIC GROWTH

It affects mostly lower income households...

- ➔ Usually, because they keep their savings in cash instead of depositing them in some interest-bearing account, and thus prevent their income to lose value.
- ➔ Saving capacity is reduced, because higher inflation means devoting a bigger fraction of income to consumption.



In practice, how does a change in monetary policy operate in the economy?



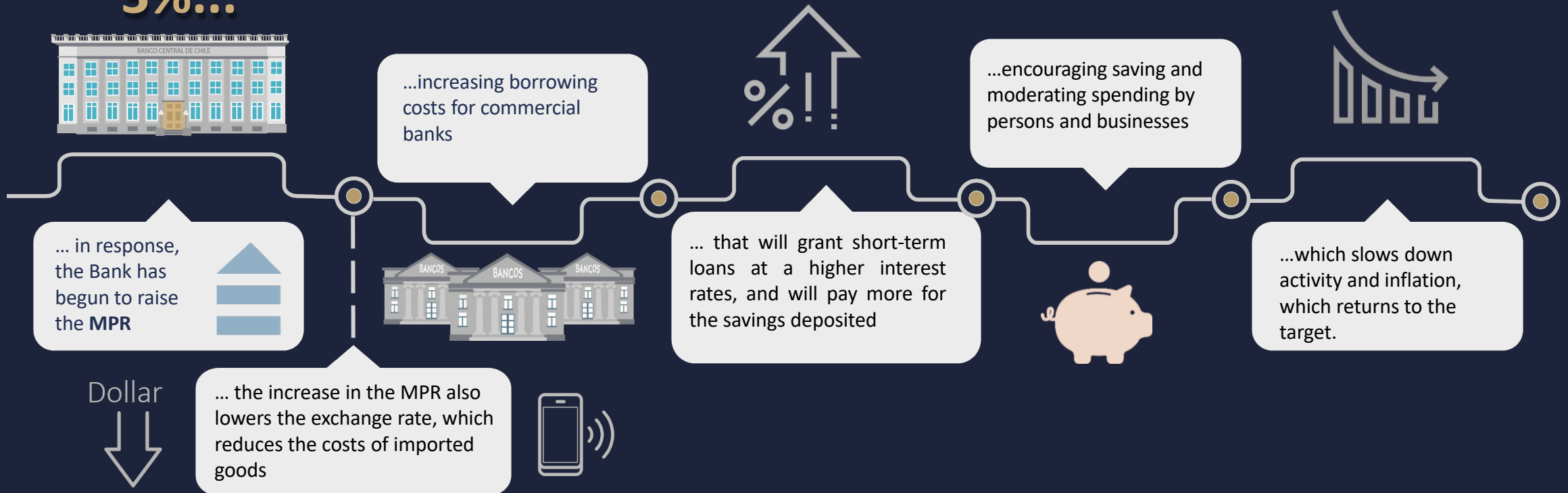
One example of how the MPR operates: Withdrawal of monetary stimulus

The higher dynamism of activity increases inflation, moving it away from the target of

3%...



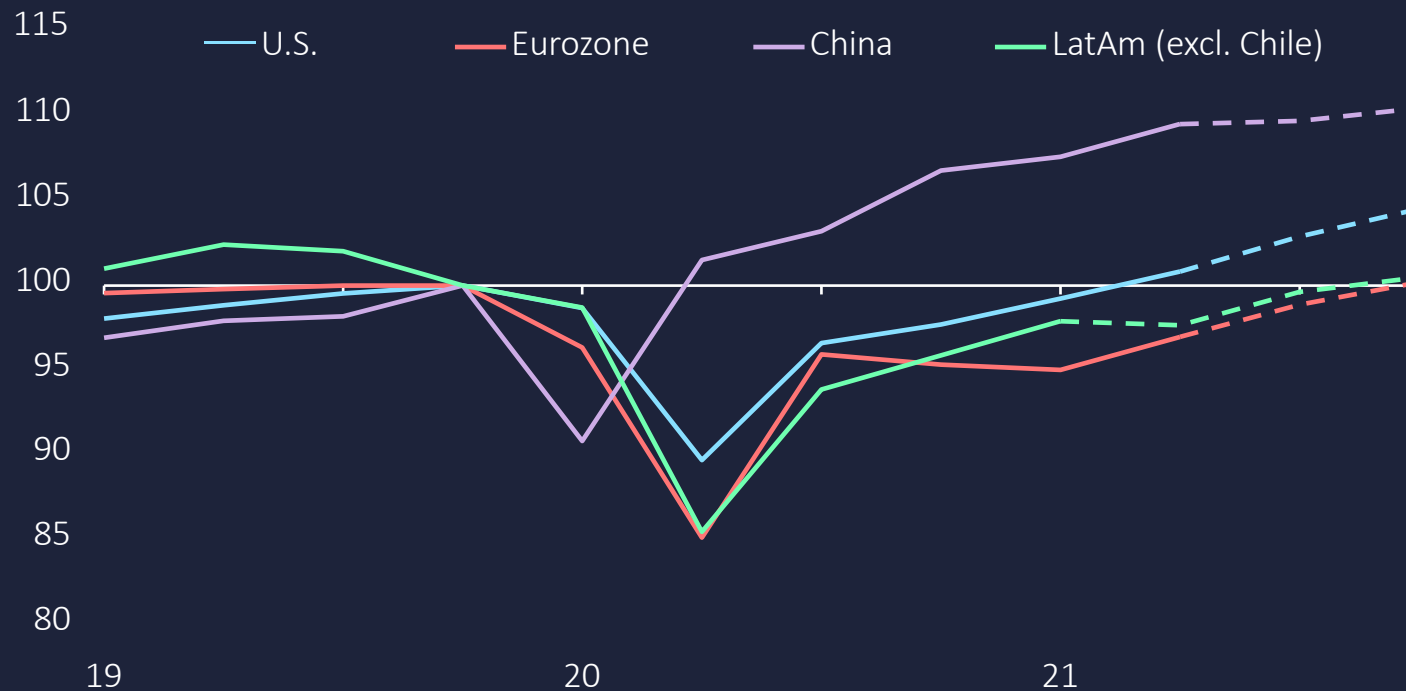
Strong consumption growth, a rising dollar and a stock of products still affected by the pandemic are causing problems in the economy...



World activity has continued to recover, although at different paces.



Actual and projected quarterly GDP (*)
(índice IVT.19 = 100)



(*) Dashed lines show projections starting in the third quarter of 2021, with exception for Latin America, where they start in the second quarter of 2021.

Sources: Central Bank of Chile based on a sample of investment banks, Consensus Forecasts, the IMF, and statistical offices in respective country.



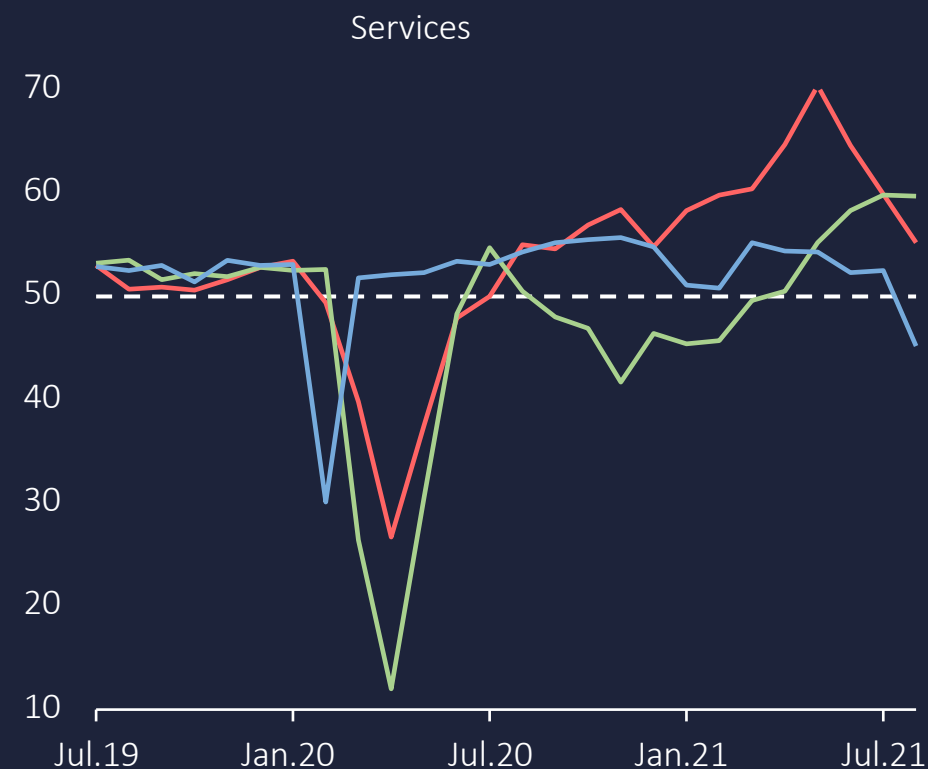
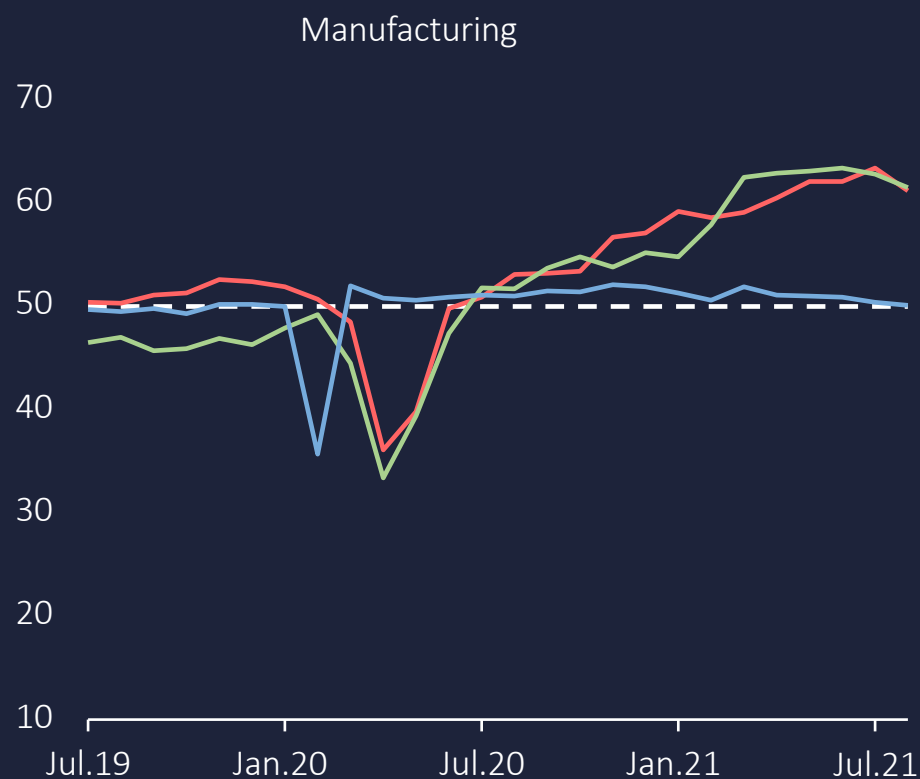
Stronger performance of services in the U.S. and the Eurozone stand out

Despite recent ups and downs, expectations remain in positive territory.



Business confidence (PMI) (*)

(diffusion index)



— U.S.

— Eurozone

— China

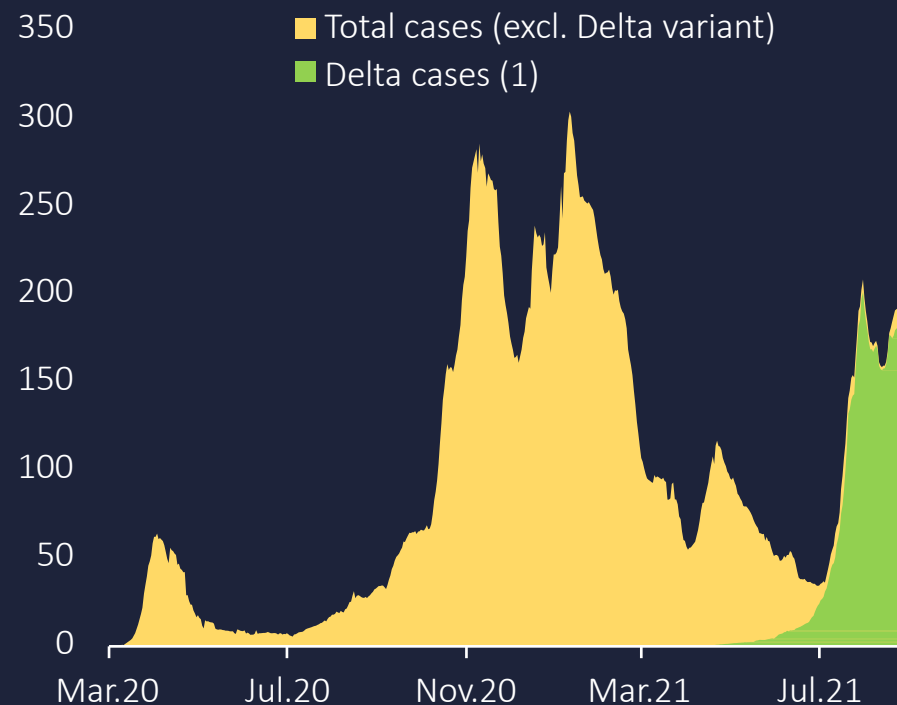
(*) Value below (above) 50 indicates pessimism (optimism).

Source: Bloomberg.

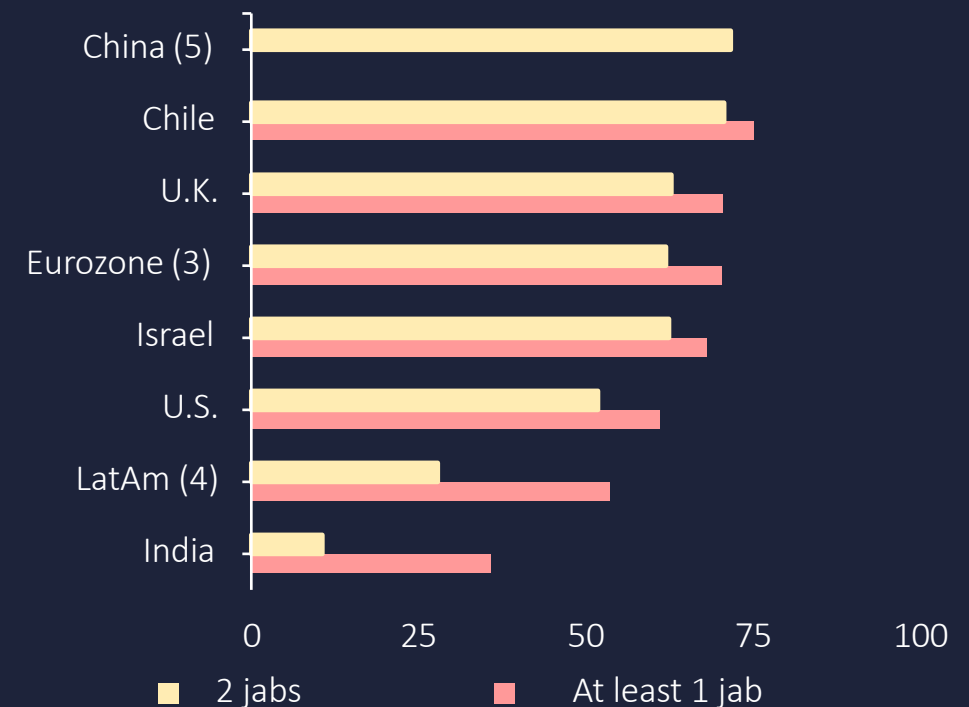
However, the spread of the delta variant around the world, and the uneven progress of vaccination plans sound a note of caution.



New daily cases of Covid-19
(cases per million inhabitants)



Vaccination progress (2)
(percent of population)

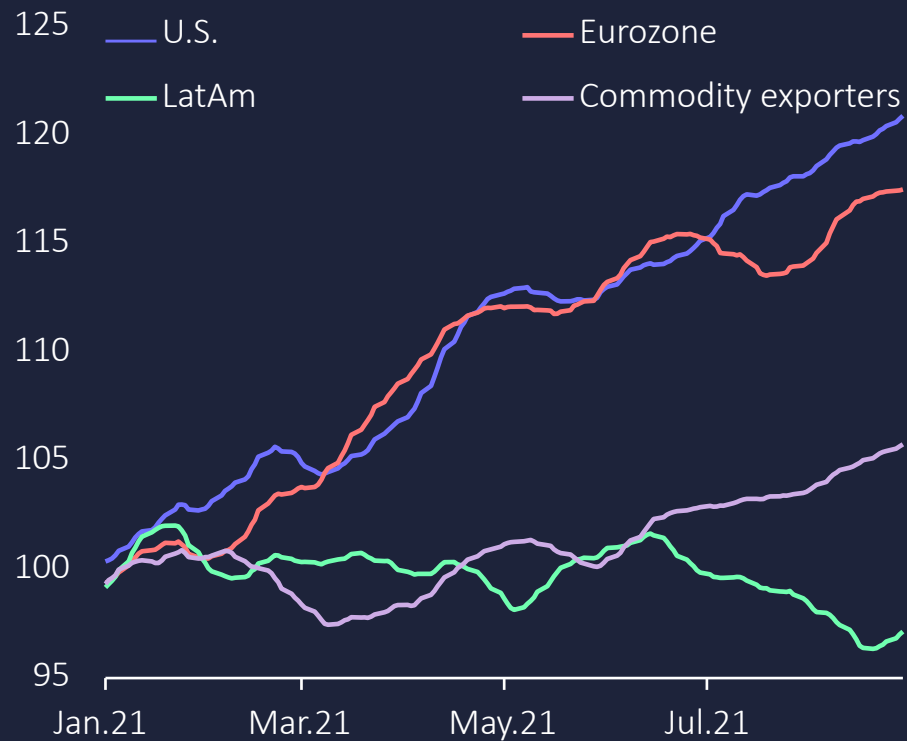


(1) Based on total new cases per day and the proportion of cases with delta variant found from Covid-19 genomic sequencing performed in each country. Corresponds to the median of a group of 14 countries selected by information availability (U.S., U.K., Germany, France, Italy, Spain, Netherlands, Portugal, Australia, India, Japan, Israel, South Africa and Indonesia). (2) Percent of population with at least one dose. Information as of 26 August 2021. (3) Population-weighted average for Germany, Spain, France and Italy. (4) Population-weighted average for Argentina, Brazil, Colombia, Mexico, and Peru. (5) Total doses inoculated divided by two. Sources: Central Bank of Chile based on Our World in Data information.

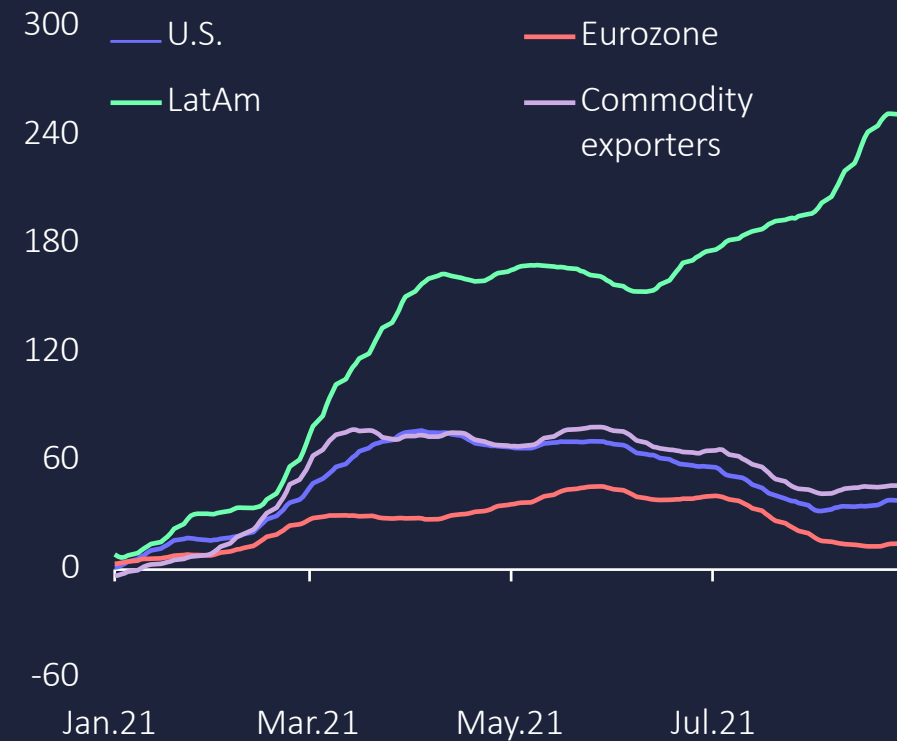
Financial markets have evolved favorably in the developed world, while the reduced appetite for risk has deteriorated emerging economies.



Stock markets (1) (2)
(index, 4 January 2021=100)



Interest rates on nominal 10-year bonds (1)(2)
(difference with respect to 4 January 2021, basis points)



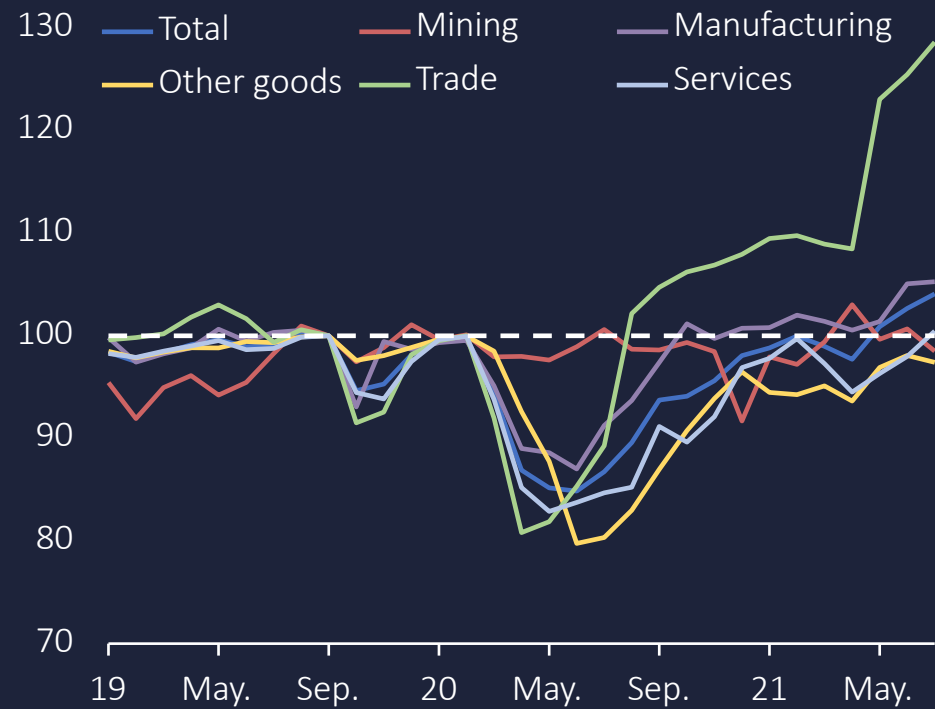
(1) Moving 15-day averages of respective indexes. (2) Latin America is a simple average of indexes from Brazil, Colombia, Mexico, and Peru. For commodity exporters, simple average between indexes from Australia and New Zealand.

Sources: Central Bank of Chile and Bloomberg.

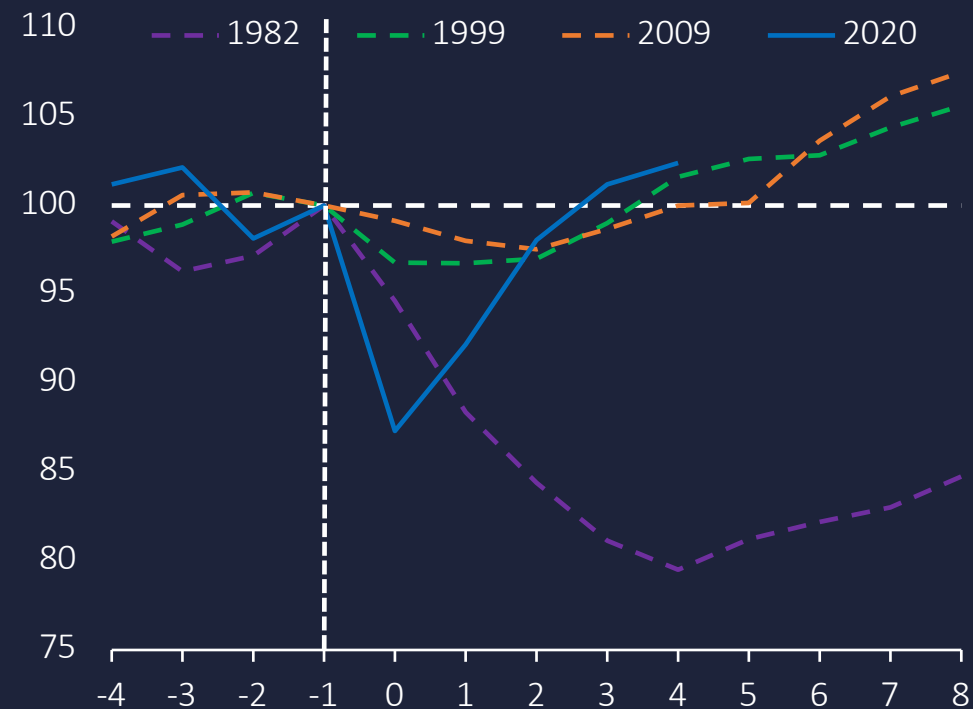
The Chilean economy has recovered its level prior to the outbreak of the social crisis and the pandemic, with an unprecedented speed compared to past recessions.



Imacec by sectors
(seasonally-adjusted levels, Sept. 2019=100)



Total GDP in crisis episodes (*)
(seasonally-adjusted series, index período -1=100)



(*) Respective zero periods: 1981.4, 1998.4, 2008.4, 2020.2.
Source: Central Bank of Chile.

Preliminary evidence suggests that the greatest deployment of policy actions every known in Chile in the face of an exogenous shock has played a fundamental role.



Effects on GDP of measures adopted during the Covid-19 crisis
(percent change with respect to same period, previous year)

	2020	2021 H1
Conventional monetary policy (1)	[0.2 - 0.8]	[0.6 - 2,1]
Unconventional credit policies (2)	[2.2 - 4.8]	[2.7 - 4.4]
Fiscal policy	0.8	1.7
Total fiscal and monetary policy	[3.2 - 6.4]	[5.0 - 8.2]
Pension fund withdrawals	1.2	2.9
Total	[4.4 - 7.6]	[7.9 - 11,1]
Actual GDP	-5.8	8.7
Counterfactual GDP	[-10.2 ; -13.4]	[0.8 ; -2.4]

(1) Conventional monetary policy is MPR related.

(2) Figures encompass monetary and sovereign guarantee policies that sought to stabilize financial markets, including the FCIC-Fogape program, bond purchases, and domestic- and foreign-currency liquidity programs.

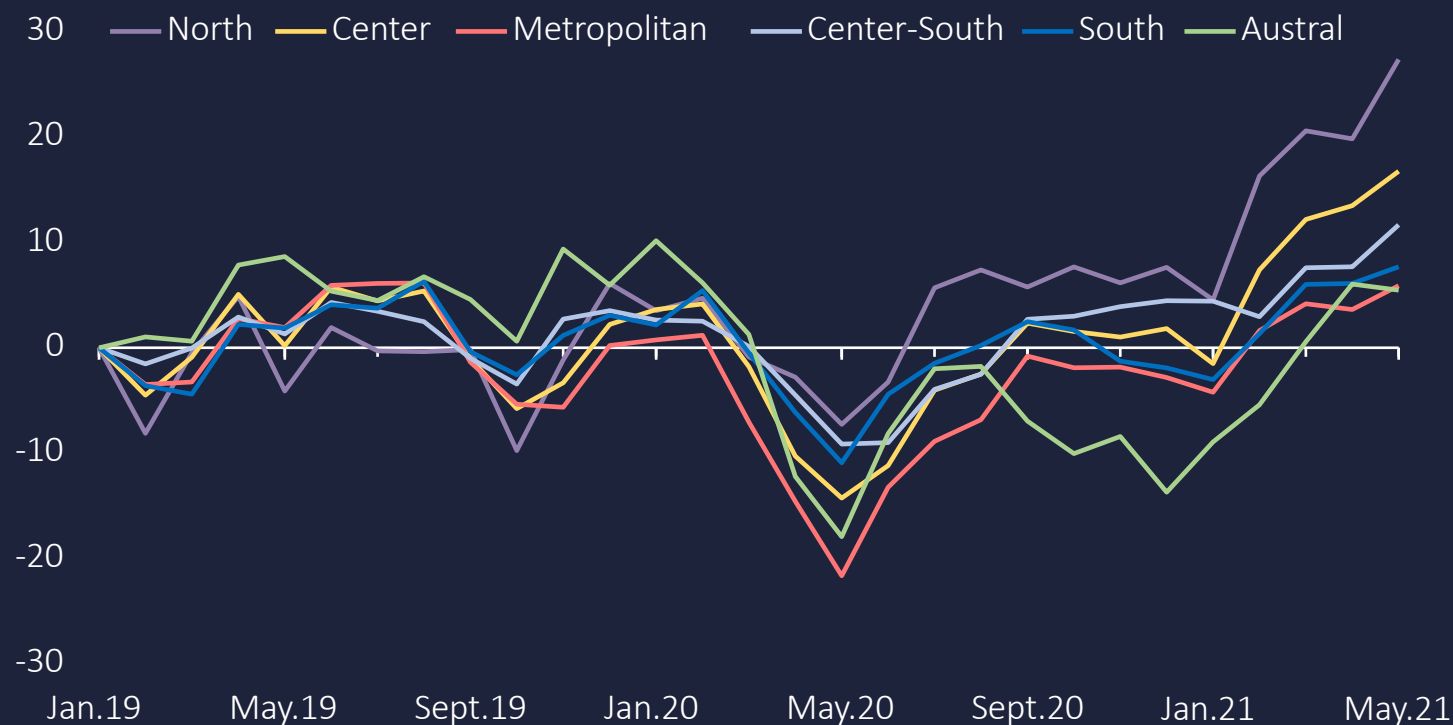
Source: Central Bank of Chile.

The recovery of activity has spread throughout the country, although with heterogeneity among the different geographical areas.



Sales by macrozone (*)

(log scale, January 2019 = 0)



Latest Business Perceptions Reports (BPR) noted that:

➔ November 2020: information showed improvement in activity from lowest point (2nd quarter). Quite heterogeneous across regions and sectors.

➔ August 2021: The firms reported improved activity and better prospects for the year, in all macrozones.

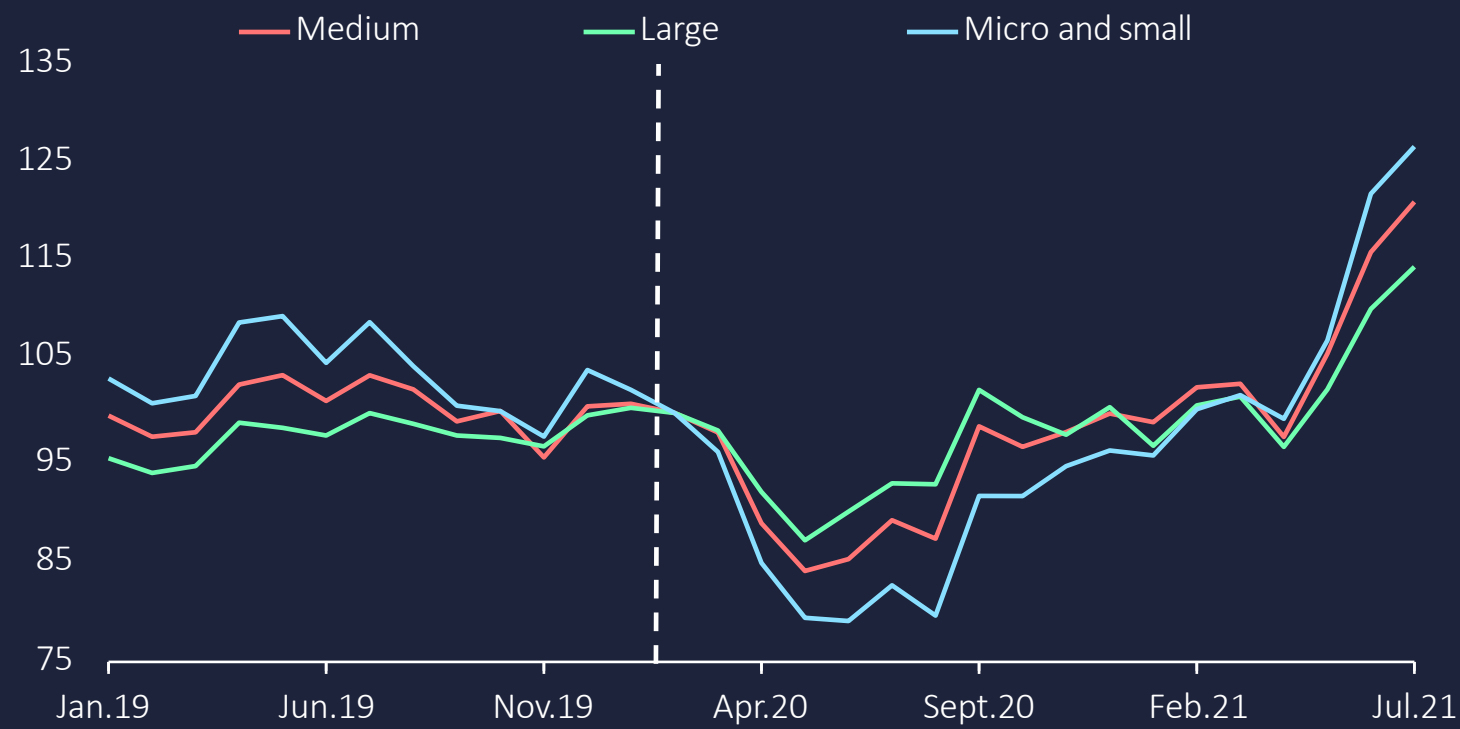
(*) For details, see box III.1 in September 2021 MP Report.

Source: Gonzalez and Luttini (2021) based on Employment Insurance AFC and SII data.

At firm level, it stands out that smaller ones have showed a much stronger recovery.



Sales by firm size (*)
(index, February 2020=100)



Sales of smaller firms have recovered the most, illustrating the effectiveness of credit support policies and the opening of the economy in recent months.

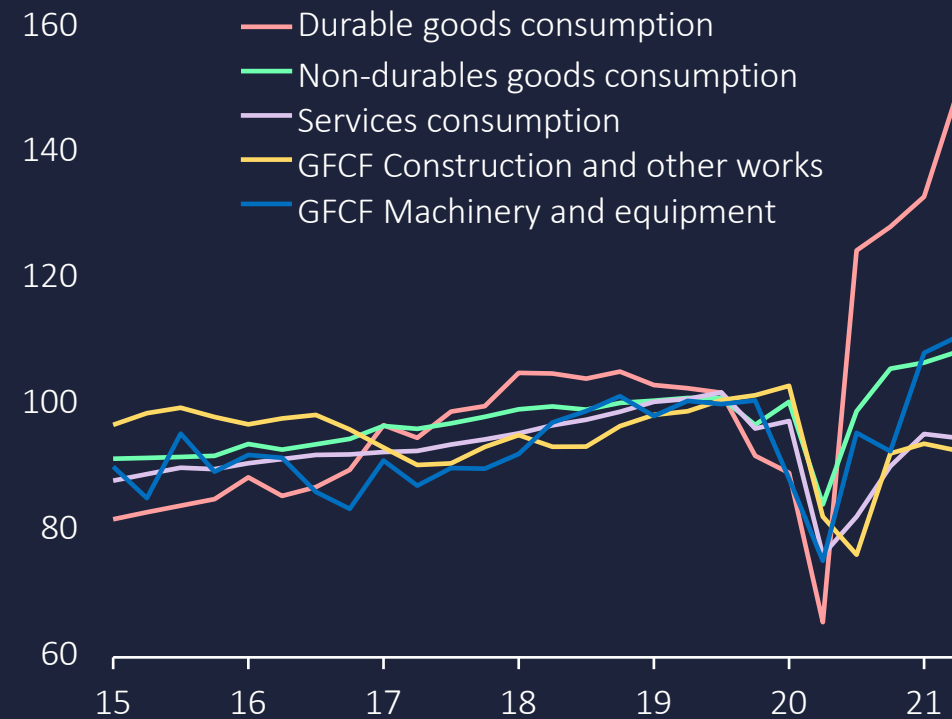
(*) Dashed vertical line shows February 2020 sales. For details, see Chapter V in September 2021 Monetary Policy Report.
Sources: Central Bank of Chile and Internal Revenue Service (SII).

The various stimulus measures have strongly boosted demand, which has resulted in higher-than-expected growth in private consumption.



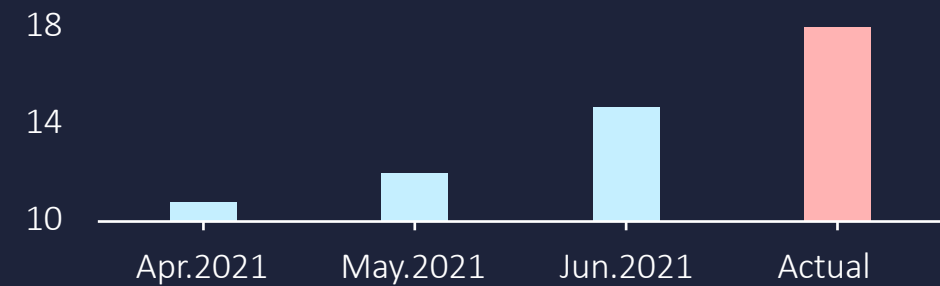
Domestic demand

(seasonally-adjusted series; index, 2019 average=100)



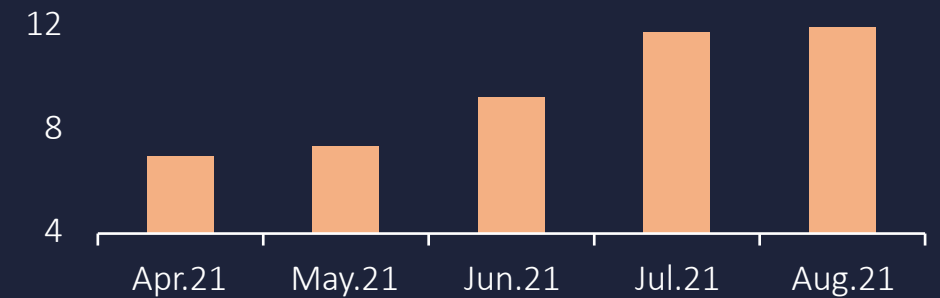
GDP second quarter 2021: actual vs market projection (*)

(annual change, percent)



Private consumption 2021: market projection (*)

(annual change, percent)



(*) Projections contained in Economic Expectations Survey.

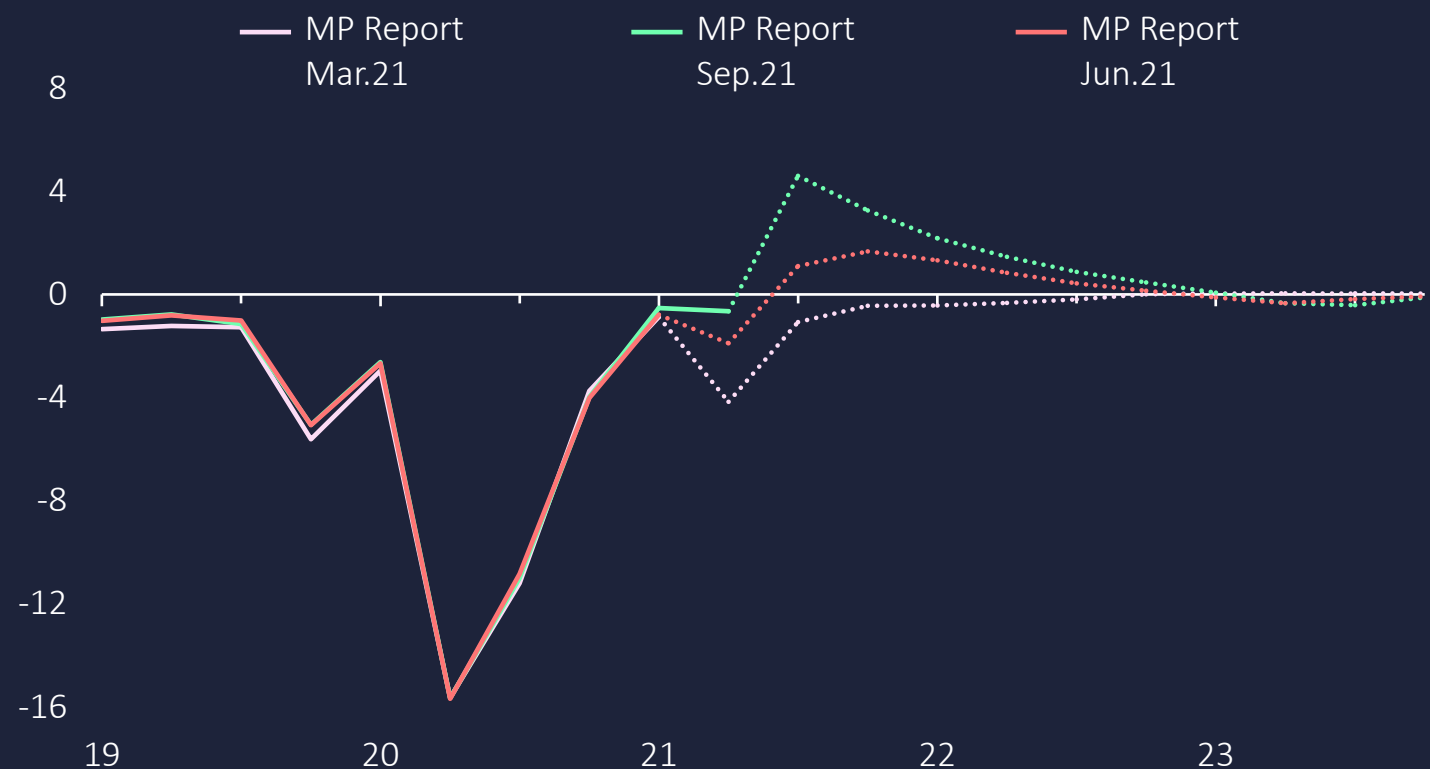
Source: Central Bank of Chile.

This caused the activity gap to close during the second quarter of this year, that is, earlier than expected in June.



Activity gap (*)

(level, percentage points)



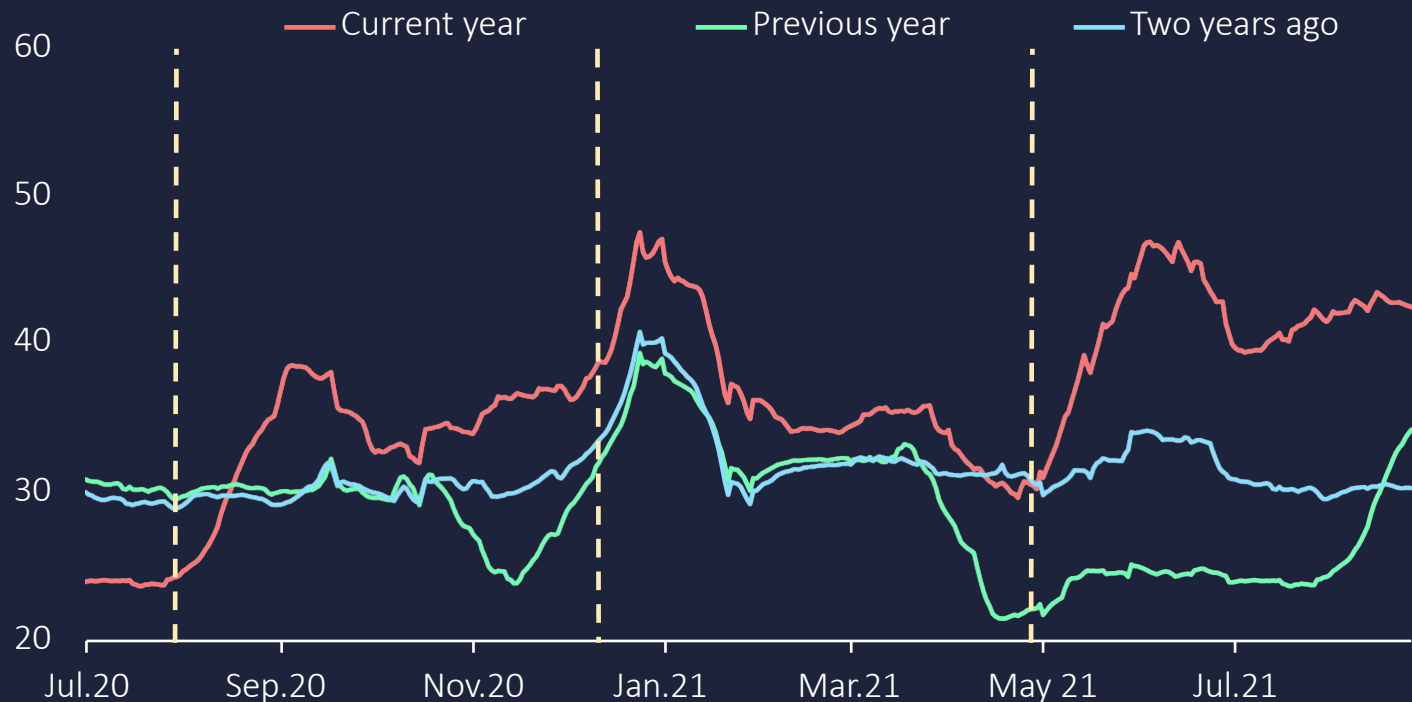
Going forward, it will turn positive and then will begin to decline as spending momentum subside

(*) Dotted lines show projections of each MP Report. The June and September projections use the structural parameters updated in the June 2021 MP Report.
Source: Central Bank of Chile.

Current figures show highly dynamic consumption, suggesting that household-support policies are having more impact than expected.



Retail sales with digital invoicing (*)
(billions of Chilean pesos, moving 28-day average)



(*) Yellow vertical lines show approvals to pension fund withdrawals.
Source: Central Bank of Chile with SII data.

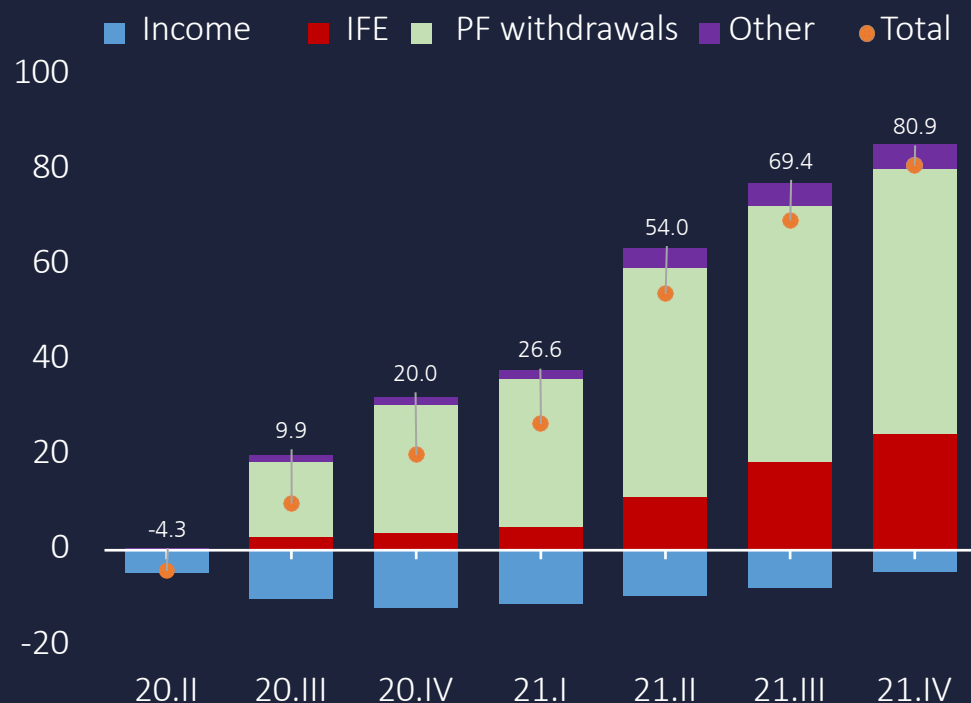


In July, retail sales (INE's IACM) and retail Imacec grew 62.2% and 43.5% year-on-year, respectively.

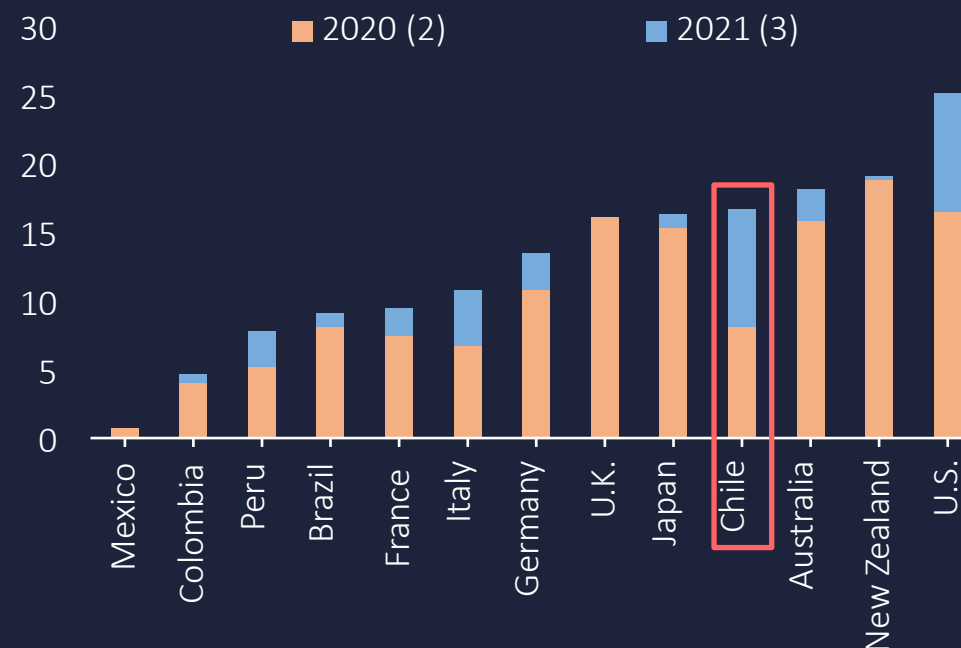
The accumulation of massive pension savings withdrawals and fiscal transfers have significantly increased household liquidity.



Households' cumulative income and liquidity injections (1)
(billions of dollars)



Expenditures or revenues foregone by governments in response to Covid-19
(percent of 2020 GDP)



(1) For details on the methodology, see chapter III in MP Report of September 2021. (2) Corresponds to Fiscal Monitor data for January 2021. (3) Difference between July and January 2021 delivery. Chile considers an additional 2.8% for IFE.

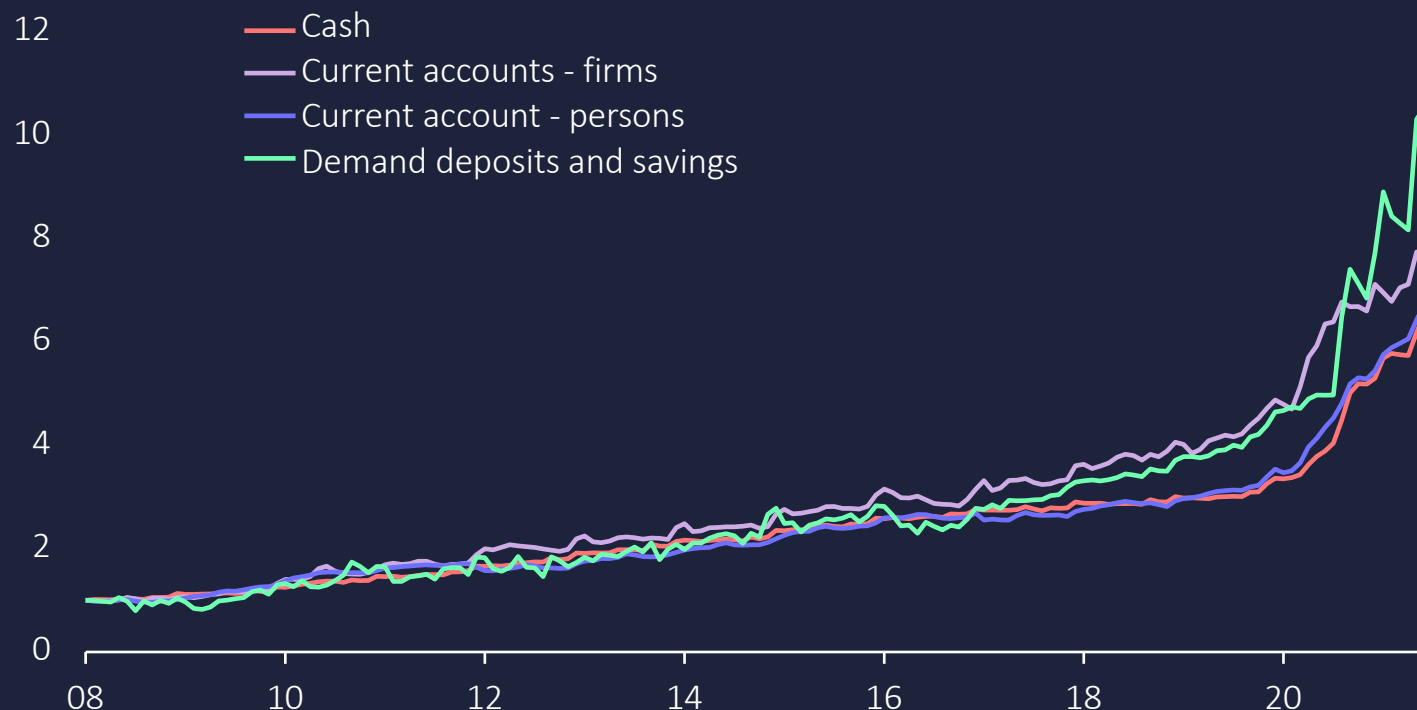
Sources: International Monetary Fund, Ministry of Finance, Superintendence of Pensions and Central Bank of Chile.

In fact, despite the strong dynamism of consumption, data from the financial system show that household liquidity remains very high.



Components of M1 (*)

(index, January 2008=1)



(*) Averages.

Source: Central Bank of Chile.

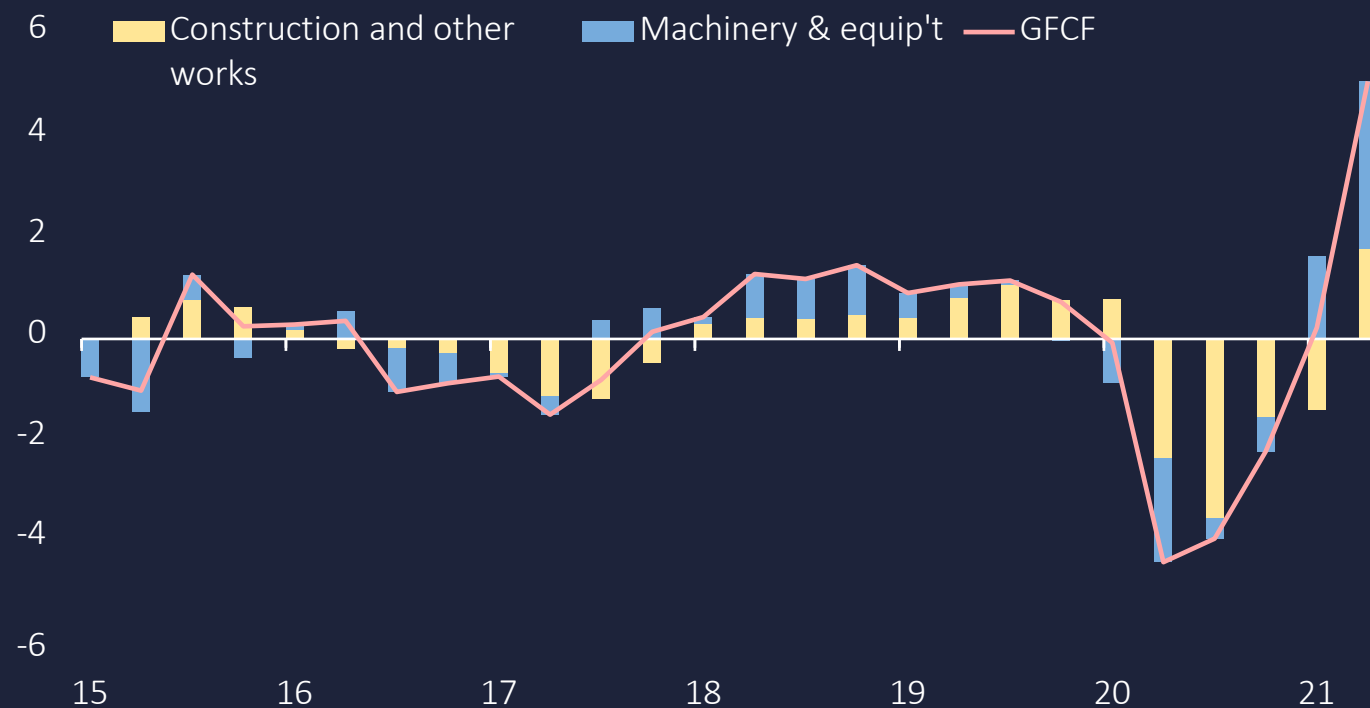


The cumulative balance in current accounts has grown considerably with respect to July 2020.

Meanwhile, investment showed quite strong dynamism of its machinery & equipment component.



Contribution of GFCF to annual GDP growth
(percentage points)



Source: Central Bank of Chile.



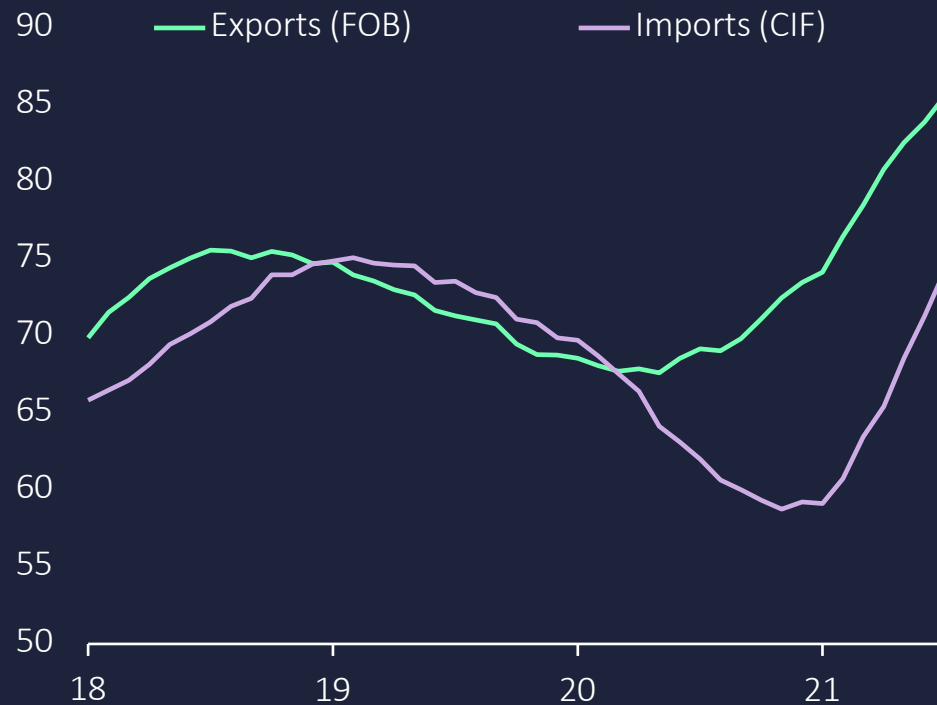
The favorable performance of projects related to renewable energies, the low comparison base and the renewal of machinery & equipment stand out.

Domestic demand boosted imports, turning the current account into a deficit. Once again, mining exports stood out, favored by copper prices.



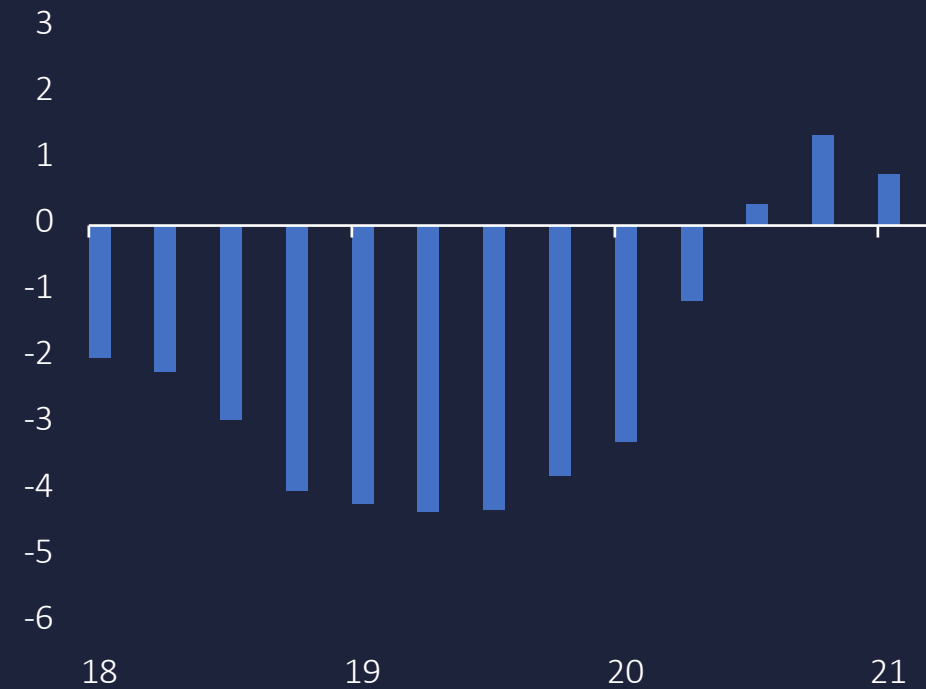
Exports and imports

(billions of dollars, 12-month accumulation)



Current account

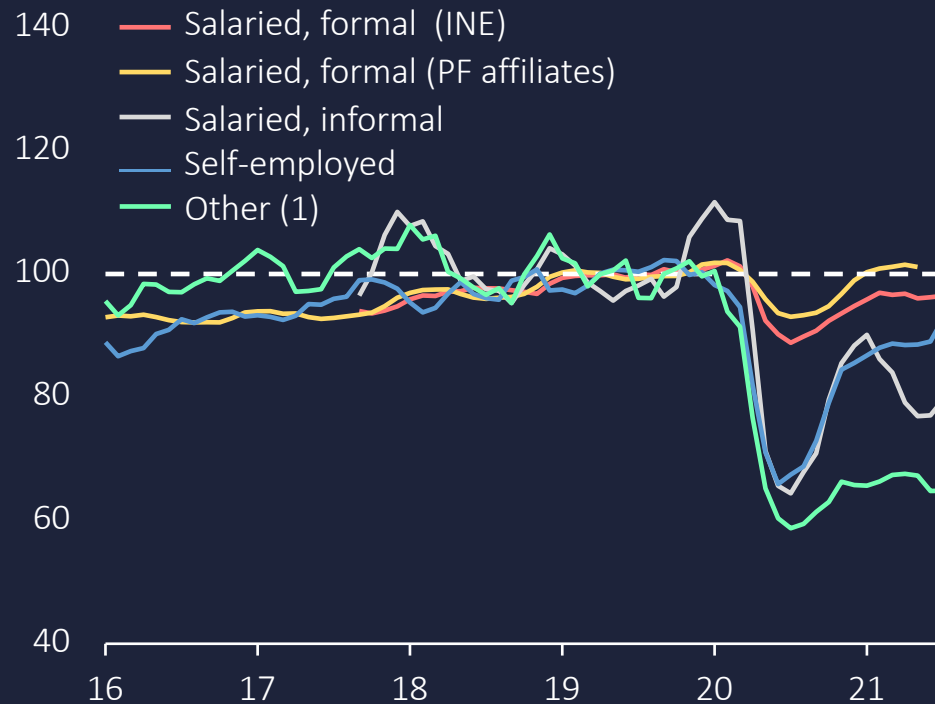
(percent of GDP, last 12 months)



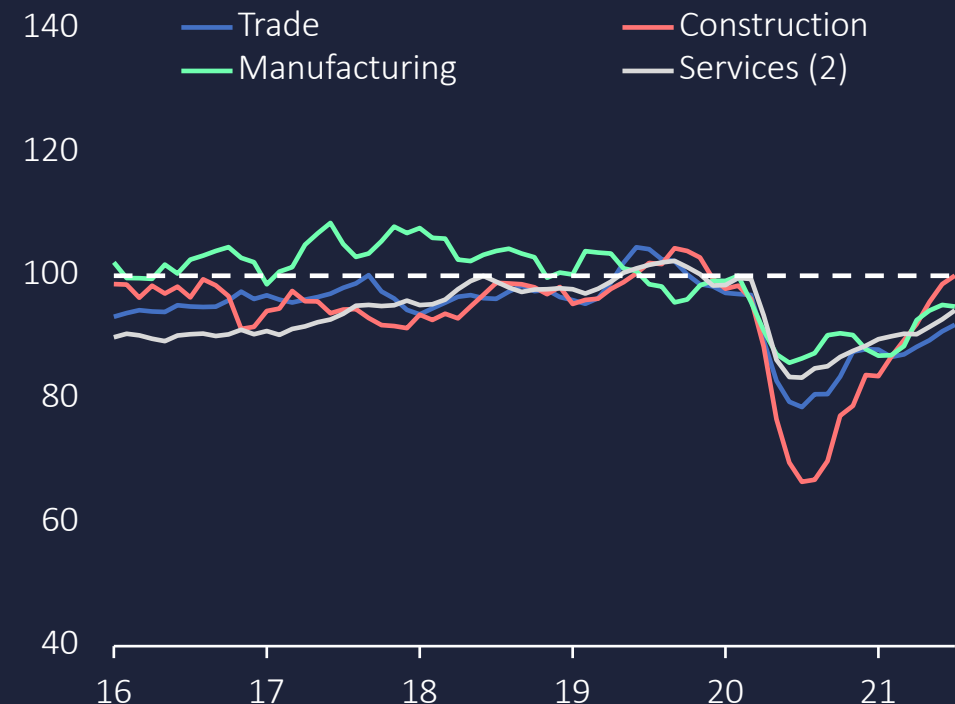
The labor market has been increasing the number of jobs created, especially formal salaried positions. However, there are still significant differences across sectors.



Formal salaried employment
(index, 2019 average=100)



Employment by sectors
(index, 2019=100, seasonally-adjusted series)



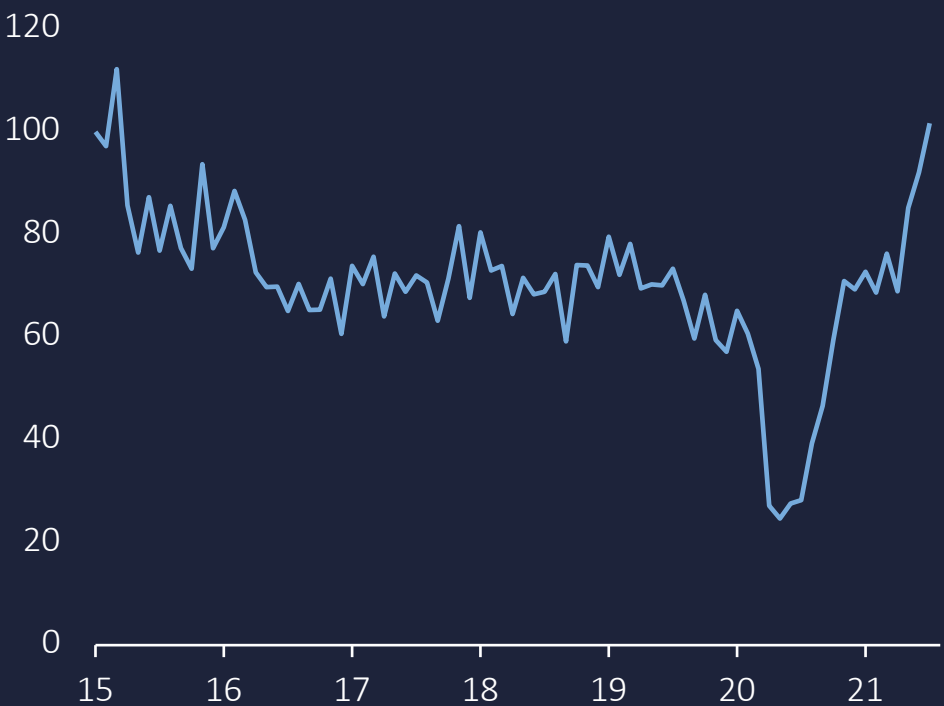
(1) Corresponds to the sum of household help, employers and non-remunerated family work. (2) Corresponds to the sum of lodging, and food service activities, community services, financial services and transportation.

Sources: Central Bank of Chile, National Statistics Institute (INE), and Superintendency of Pensions (SP).

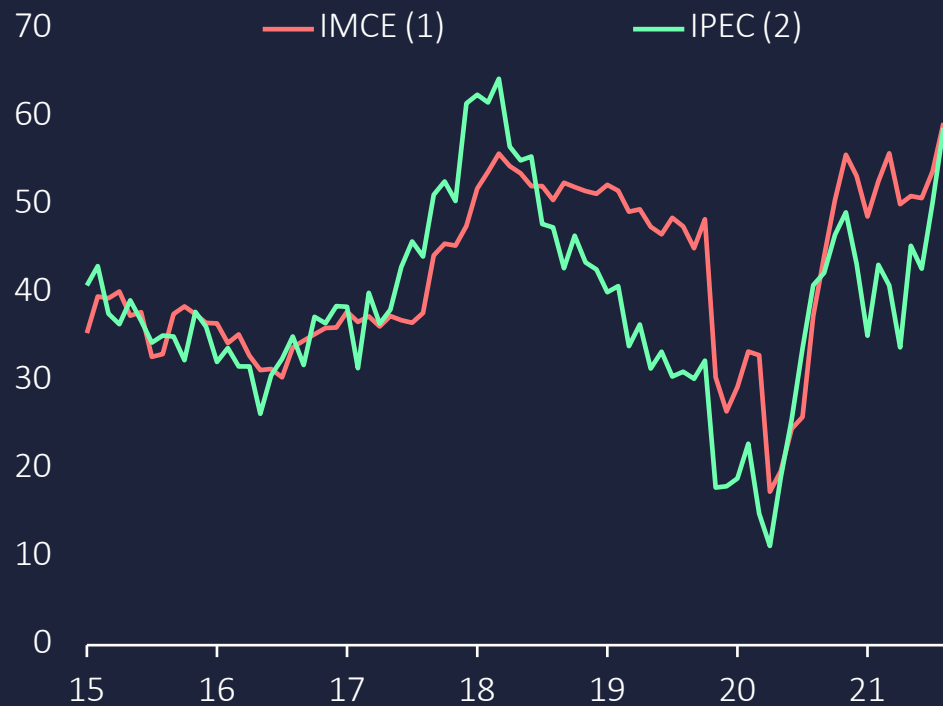
Vacancies have risen sharply in recent months, and employment expectations are also on the rise.



Internet job postings
(index, January 2015 average=100)



Employment expectations
(indexes)

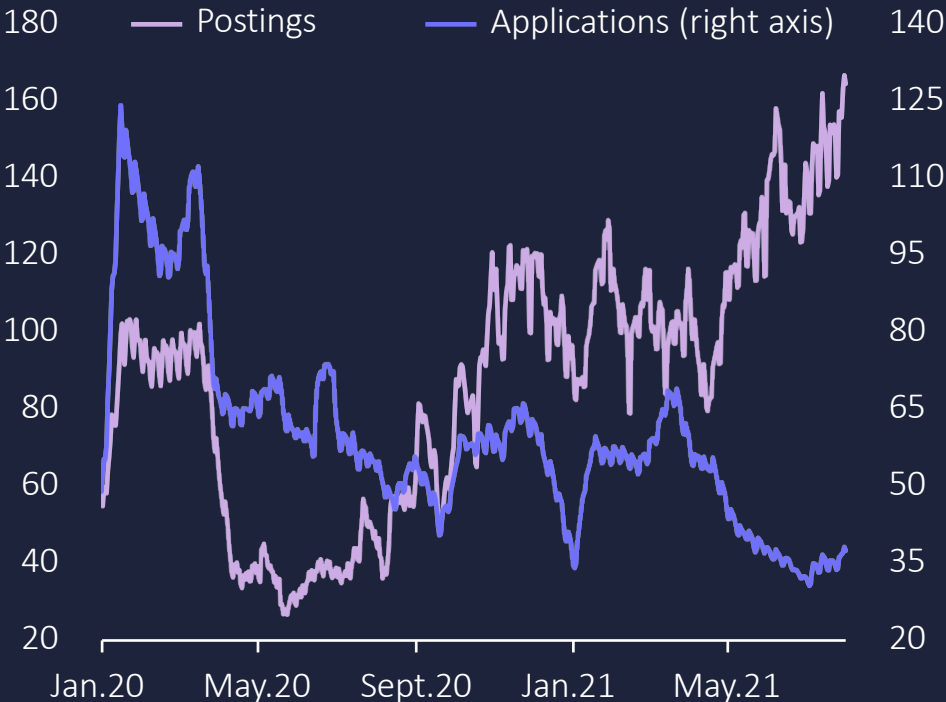


(1) Monthly Business Confidence Index (IMCE). Simple average of employment expectations in the trade, construction and manufacturing sectors. (2) Consumer Confidence Index (IPEC). Expectations regarding the level of employment.
Sources: Central Bank of Chile, GfK/Adimark, and UAI/ICARE.

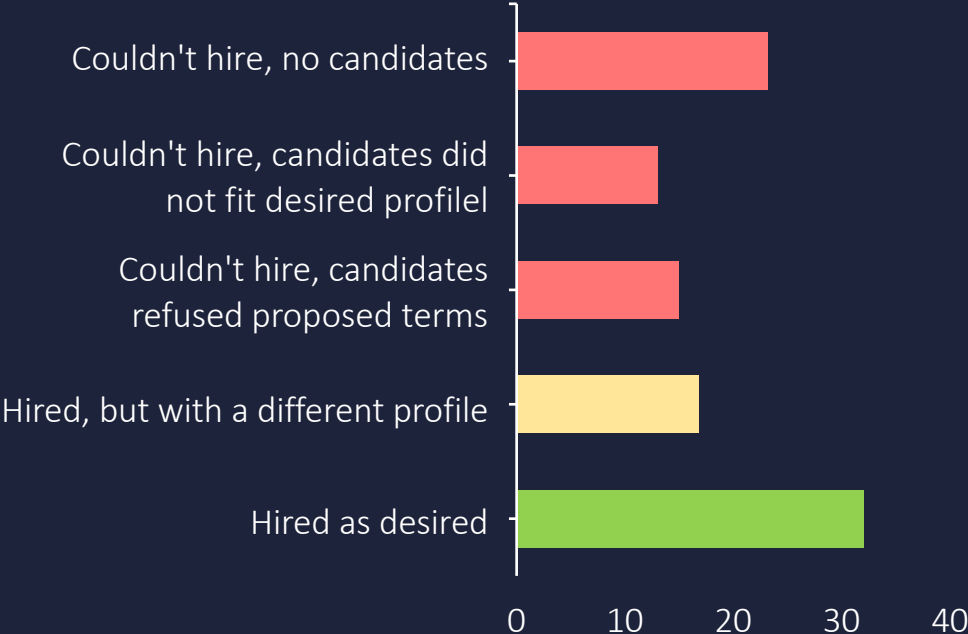


However, they are not being fully covered because of shortage of labor.

Job postings and applications on the Internet
(index, base 100=3 March 2020, moving 15-day average)



August BPR (*): Among firms wanting to hire, Generally, what happened with labor search?
(percent of total respondents saying they had searched for labor in 2021)

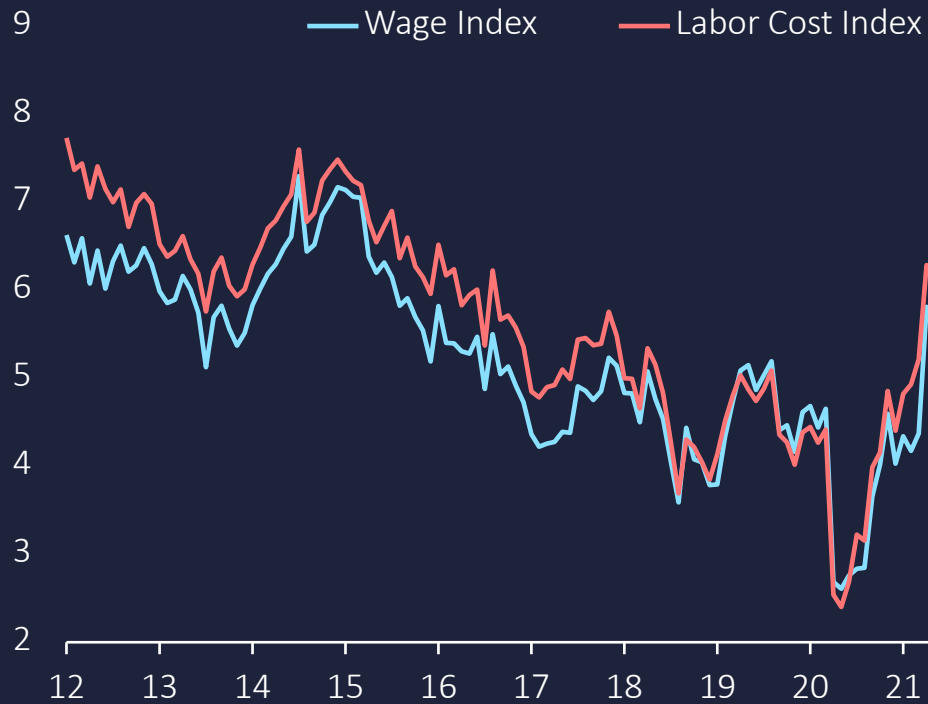


(*) Business Perceptions Report (BPR).
Sources: Central Bank of Chile and SABE Project of SENCE Labor Observatory and ISCI-WIC, University of Chile, based on websites trabajando.com and laborum.com.

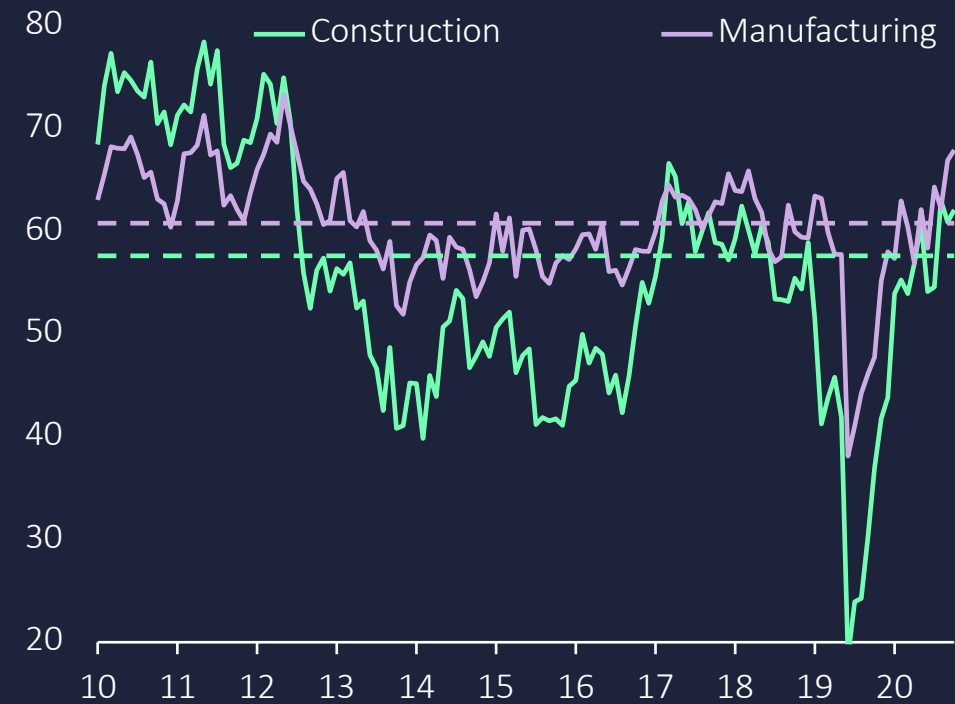
The combination of higher labor demand and tight labor supply is consistent with the recent acceleration of annual nominal wage growth.



Nominal wages (1)
(annual change, percent)



IMCE: Wage expectations (2) (3)
(diffusion index)



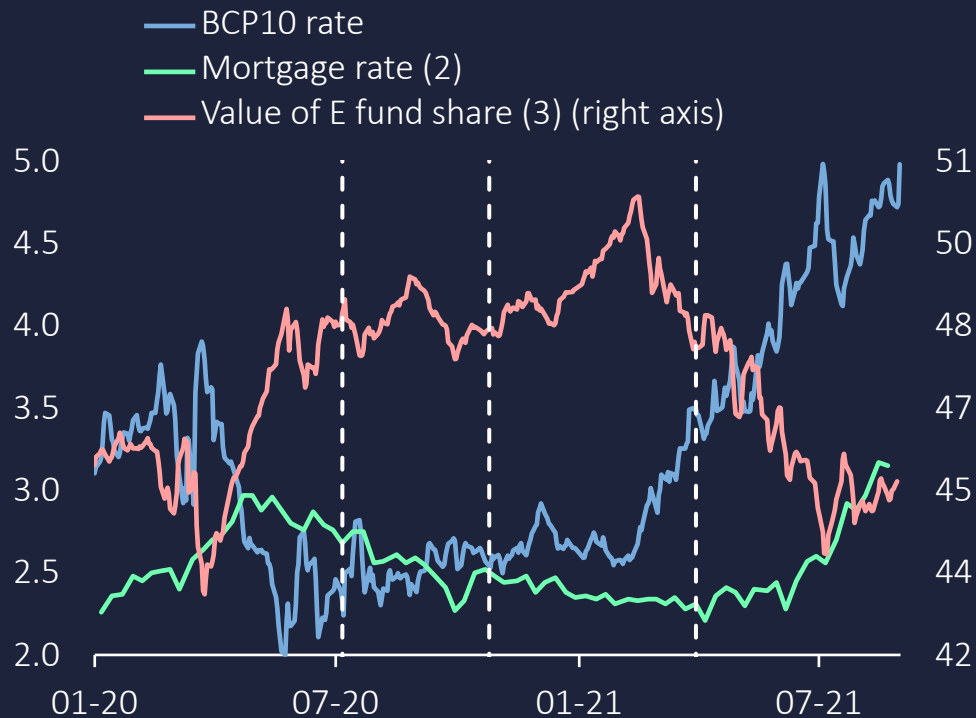
(1) Wage Index (IR) and Labor Cost index (ICMO). (2) Value above (below) 50 indicates an expansion (contraction) outlook. (2) Dashed horizontal lines show historical averages from January 2004 through May 2021 for each series. (3) Expectations for wages are six months ahead.

Sources: National Statistics Institute (INE) and Icare/Universidad Adolfo Ibáñez.

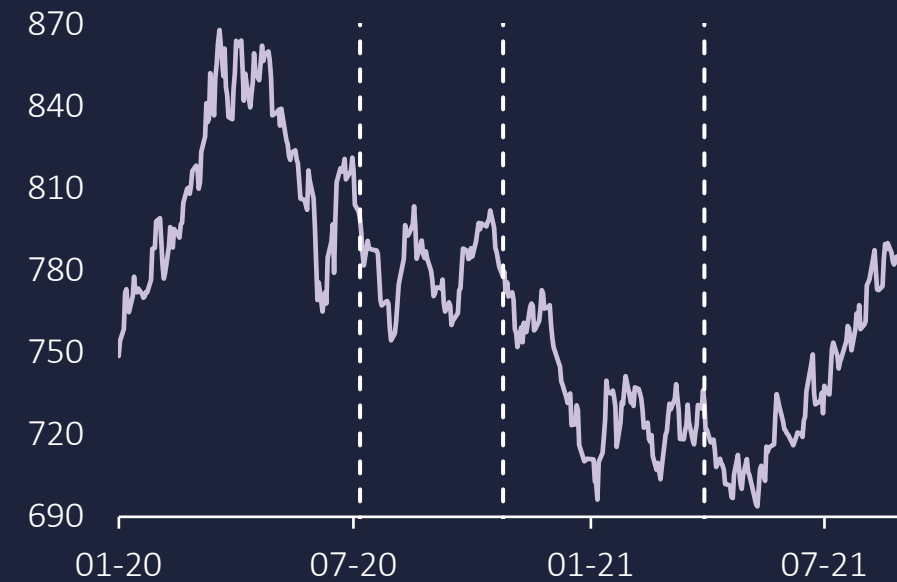
The liquidation of long-term savings linked to the successive and massive withdrawals of pension funds, coupled with the deterioration of the fiscal accounts, have led to an adverse evolution of local financial variables.



Interest rates and value of E fund share (1)
(percent; thousands of Chilean pesos)



Nominal Exchange rate (1)
(CLP/USD)



(1) Vertical lines indicate the beginning of the discussion in the House (approval of the idea to legislate) of the three pension fund withdrawals. (2) Weekly data. (3) Weighted average of the Pension Funds quota value according to respective asset values.

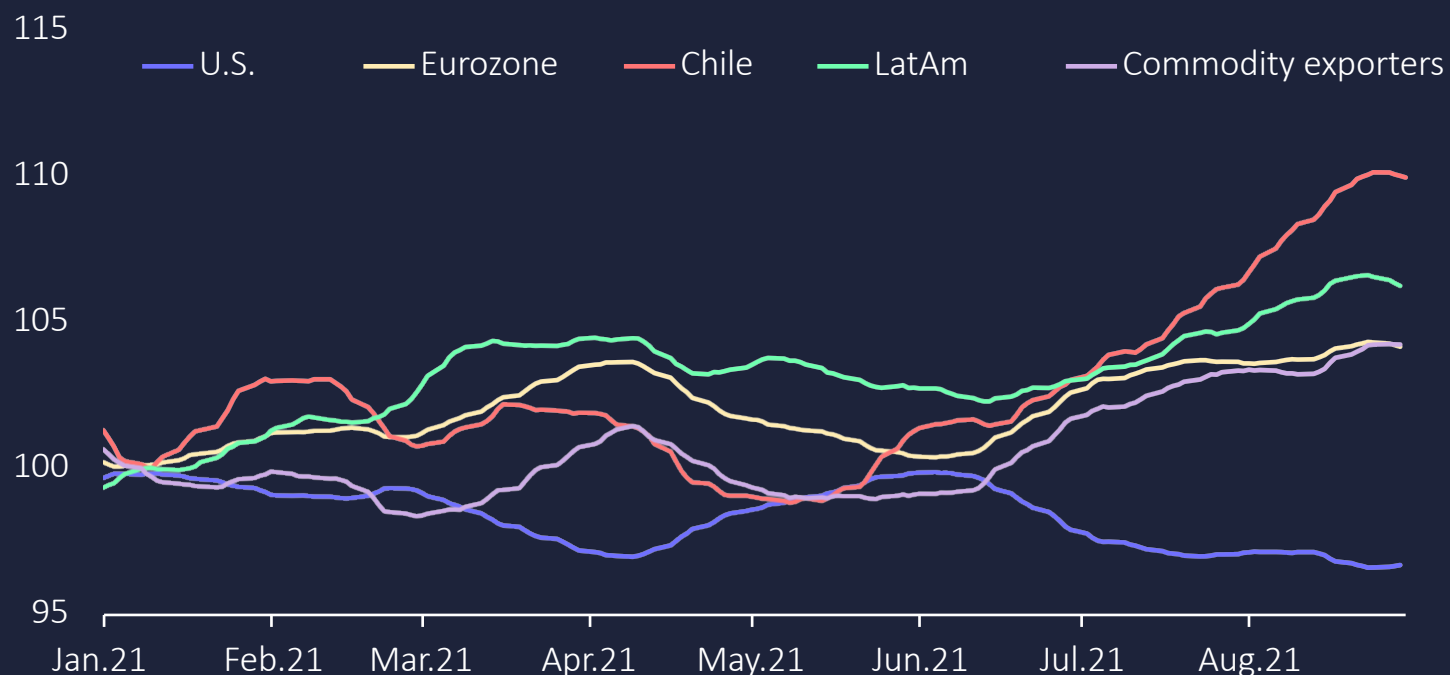
Sources: Central Bank of Chile and Superintendency of Pensions.

In this context, the Chilean peso has become one of the currencies that have weakened the most in the world in recent months.



Currencies (1) (2)

(index, 4 January 2021=100)



(1) Moving 15-day averages of respective indexes. (2) Latin America considers simple average between the indexes of Brazil, Colombia, Mexico and Peru. Commodity exporters, consider simple average between the indexes of Australia and New Zealand.

Sources: Central Bank of Chile and Bloomberg.

The peso's depreciation has been idiosyncratic in nature because:

- ➔ It has depreciated against various groups of currencies, comparable economies and countries in the region.
- ➔ It has exceeded what its short-term fundamentals would suggest.
- ➔ This will entail above-average ERPT to prices.

+\$70

since mid-April 2021
(3rd pension fund
withdrawal announced)

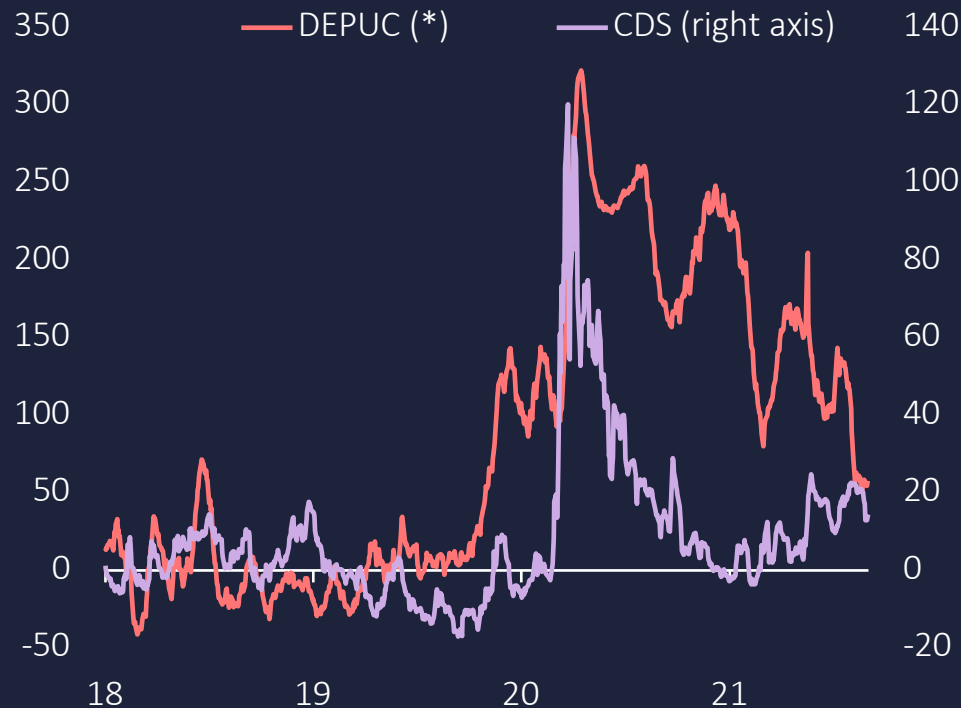


After leaving behind the worst of the pandemic, uncertainty has declined less than in other economies and is still above the levels prior to the onset of the social crisis.



Daily index of economic and political uncertainty (DEPUC) and 5-year CDS

(differential w/r to 2018-2019.III average; index, 1 Jan. 2012=100;
differential w/r to 2018-2019.III average, basis points)



(*) 30-day moving average.

Sources: Becerra and Sagner (2020), Bloomberg, and Central Bank of Chile.

August BPR: Thinking about your firm's performance over the next 12 months, how concerned are you about the following situations?

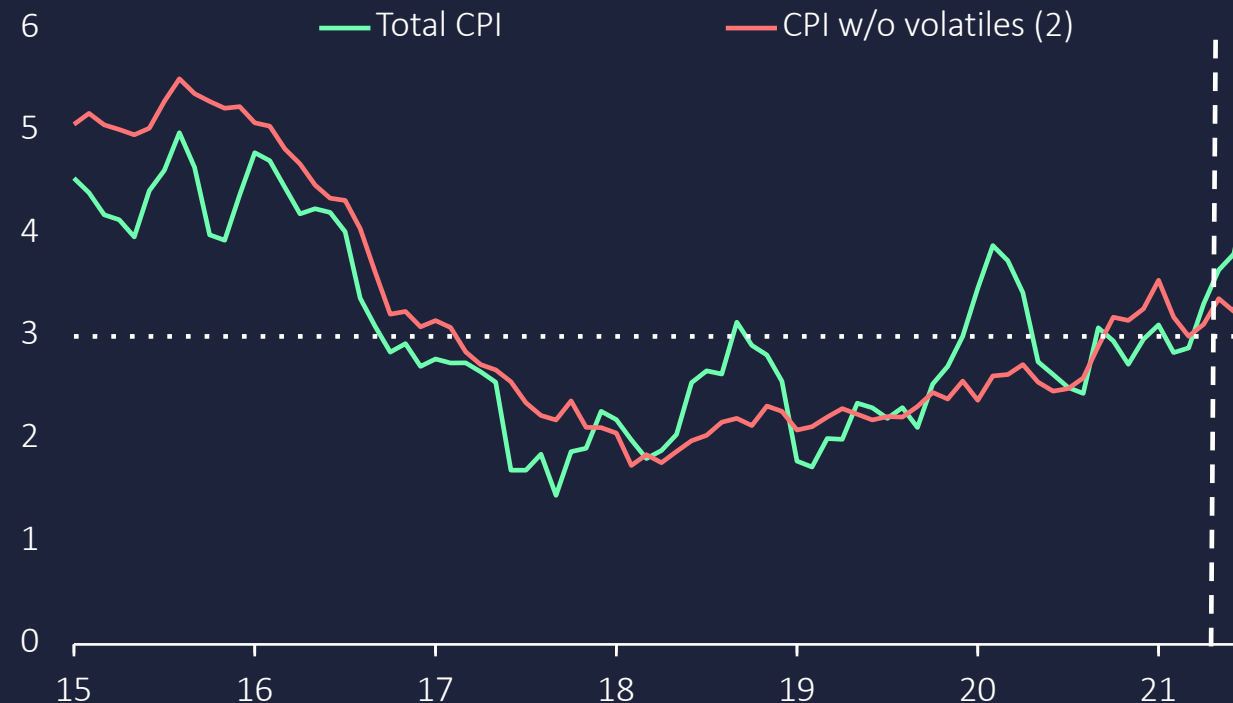
(percent of total responding "Very worried")



These dynamics have led to exceed expectations in the June MP Report, driven mainly by the prices of high-demand goods.

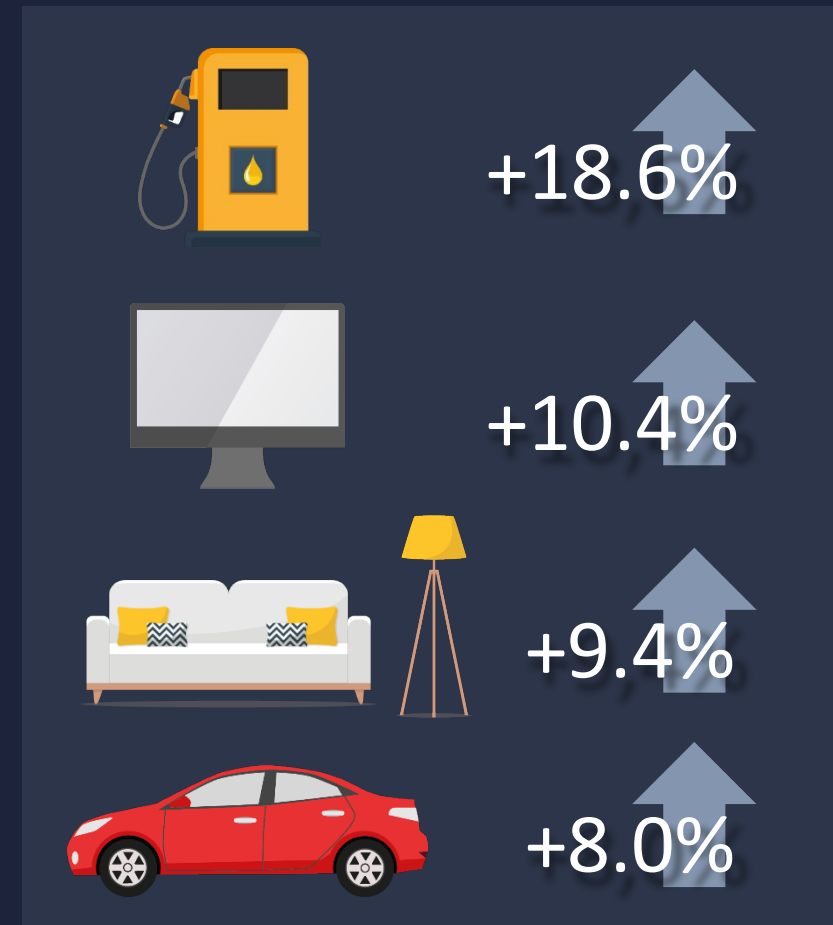


Headline and core inflation (1)
(annual change, percent)



(1) Dashed vertical line indicates statistical cut-off of June 2021 Report. (2) CPI without volatility has 65.1% share in total CPI basket. For more details, see box IV.1 in December 2019 MP Report and Carlomagno and Sansone (2019).

Price hikes at July 2021
(annual change, percent)

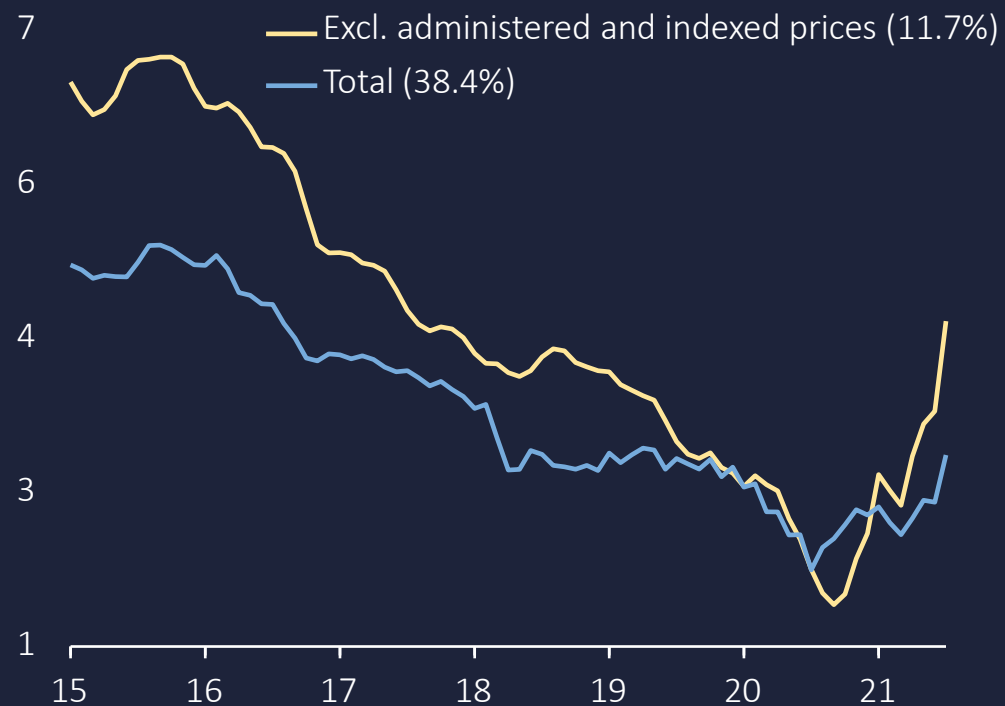


Core services inflation has also risen, especially when excluding administered and indexed items. Among volatile items, the new rise in fuel prices stands out.



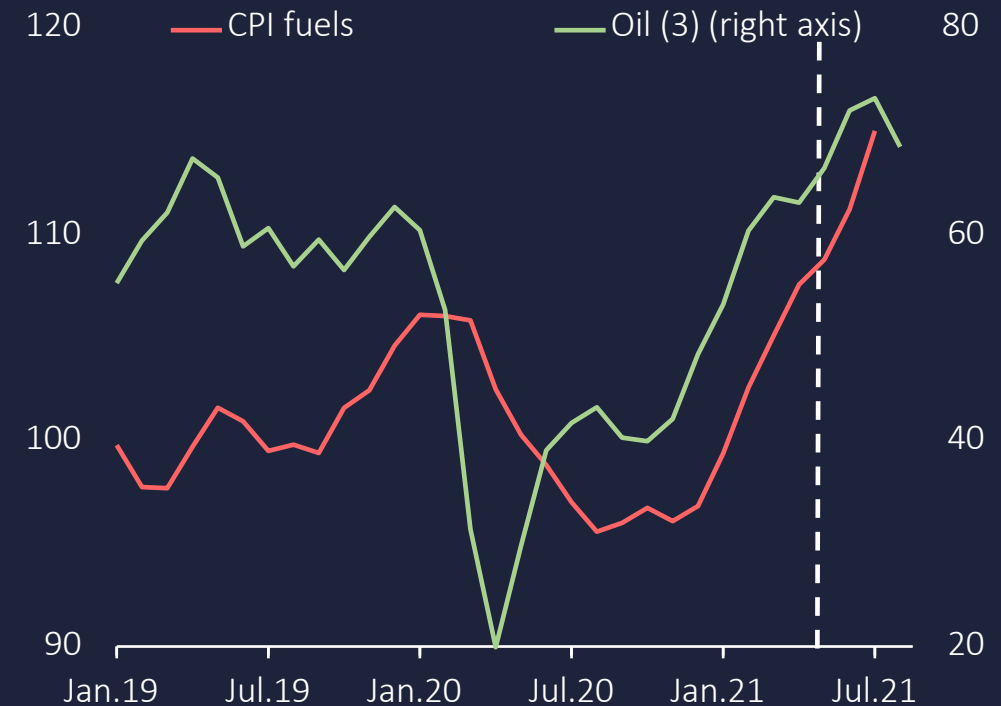
Services CPI w/o volatiles (1)

(annual change, average percent)



CPI for fuels and oil price (2)

(index, base 2018=100; dollars per barrel)



(1) In parentheses, share in total CPI basket. (2) Dashed vertical line indicates statistical cut-off of June 2021 MP Report. (3) Average price between Brent and WTI oil barrels. Sources: Central Bank of Chile, Bloomberg, and National Statistics Institute (INE).

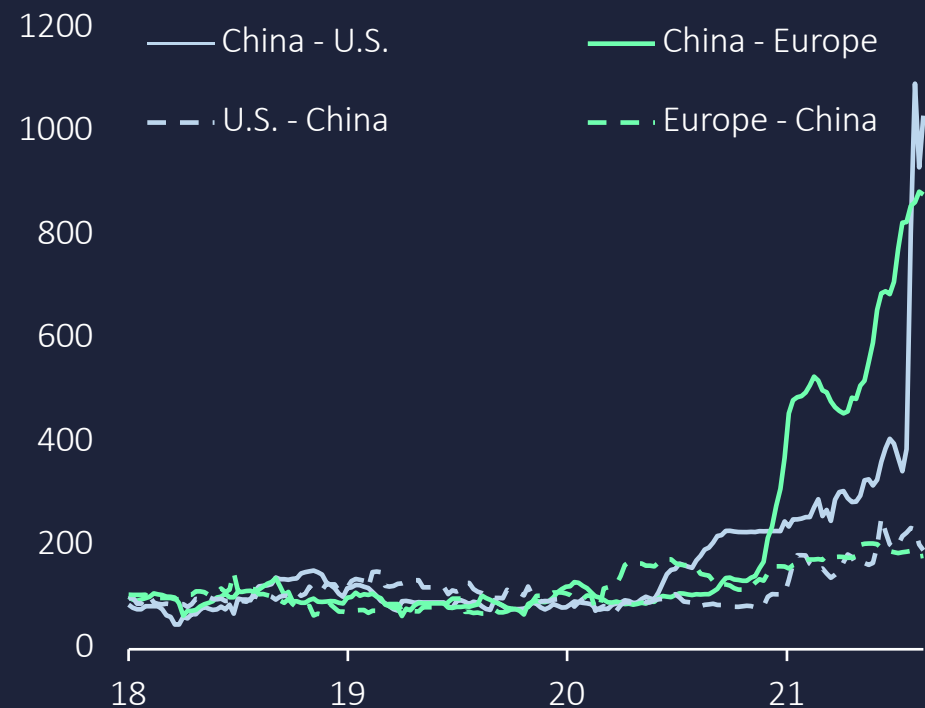
This, amid prolonged cost pressures and supply problems that have become more pervasive for companies globally.



Global manufacturing PMI: suppliers' delivery times (1)
(diffusion index)



Maritime transportation costs (2)
(index, 2018=100)



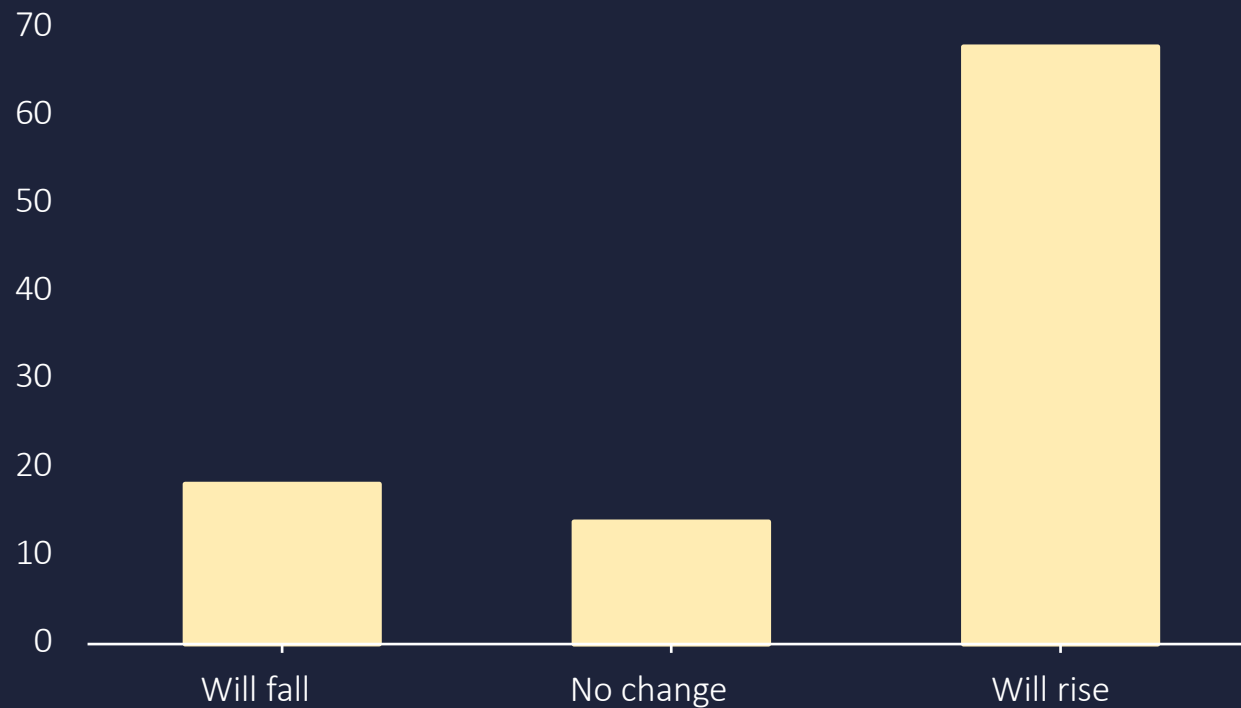
(1) A drop in the index means an extension of the suppliers' delivery times and vice versa. (2) Fare for transporting a 40-foot container on respective route. The price difference between the two directions on the same route occurs because of bottlenecks at the ports and shortage of containers in China, which also concentrates a large part of the supply of the demanded goods. Therefore, it is more expensive to send a container to Europe than to send it back to China. The costs of oil and crew (among others) do not differ much, but the cost of the container does.

Sources: JP Morgan/IHS Markit, and Bloomberg.

Along with a greater willingness on the part of companies to pass on these higher cost pressures to prices.



BPR: Over the next three months, what do you expect will happen to the price at which you sell your products or services?
(percent of total responses)



August BPR:

Cost-push pressures -coming both from inputs and labor- are beginning to translate into higher selling prices or expected increases in the near future.

“

*“Early on it took us three to four months to raise prices, but after that, price adjustments became more frequent”
(Automotive manager)*

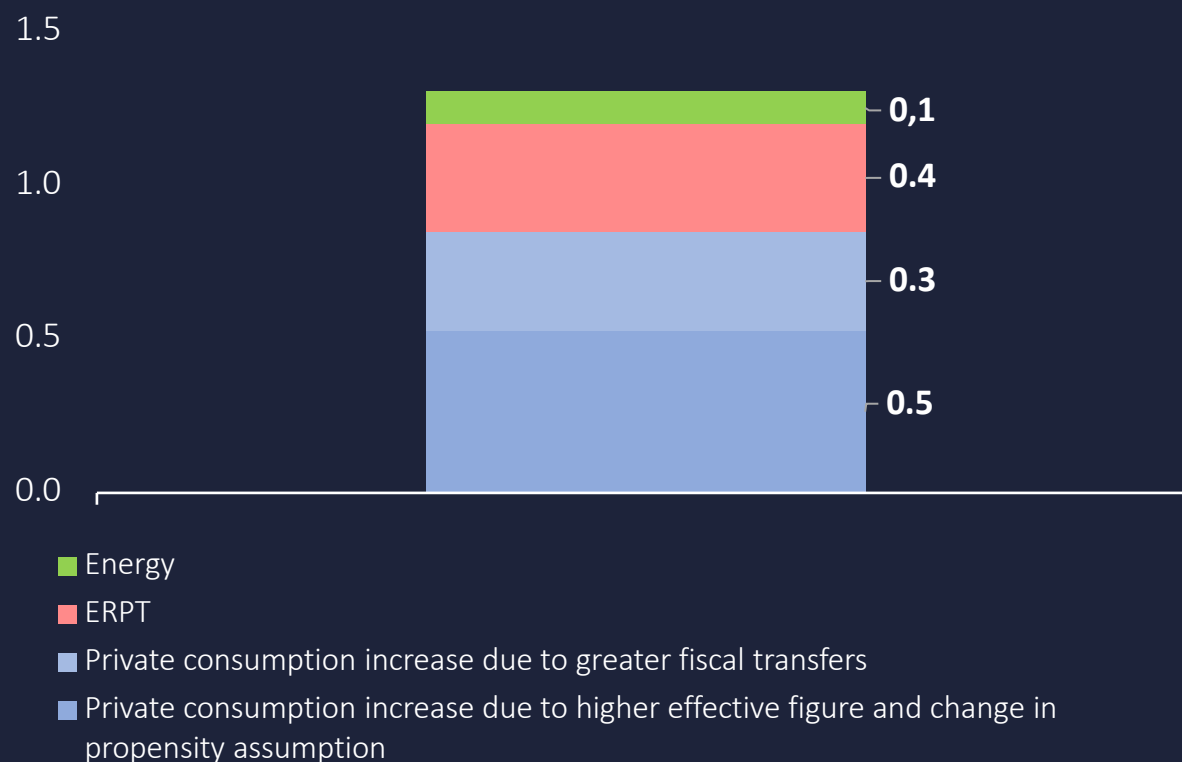
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These factors lead to significant upward corrections in the short-term inflation forecasts.



Contribution to revision to inflation forecast at December 2021 (*)
(percentage points)



Main factors behind higher inflation forecast for December 2021 are listed below:

- Higher growth forecast for consumption
- Idiosyncratic depreciation accumulated by the peso in recent months
- Higher fuel prices
- Supply has been unable to fully recover

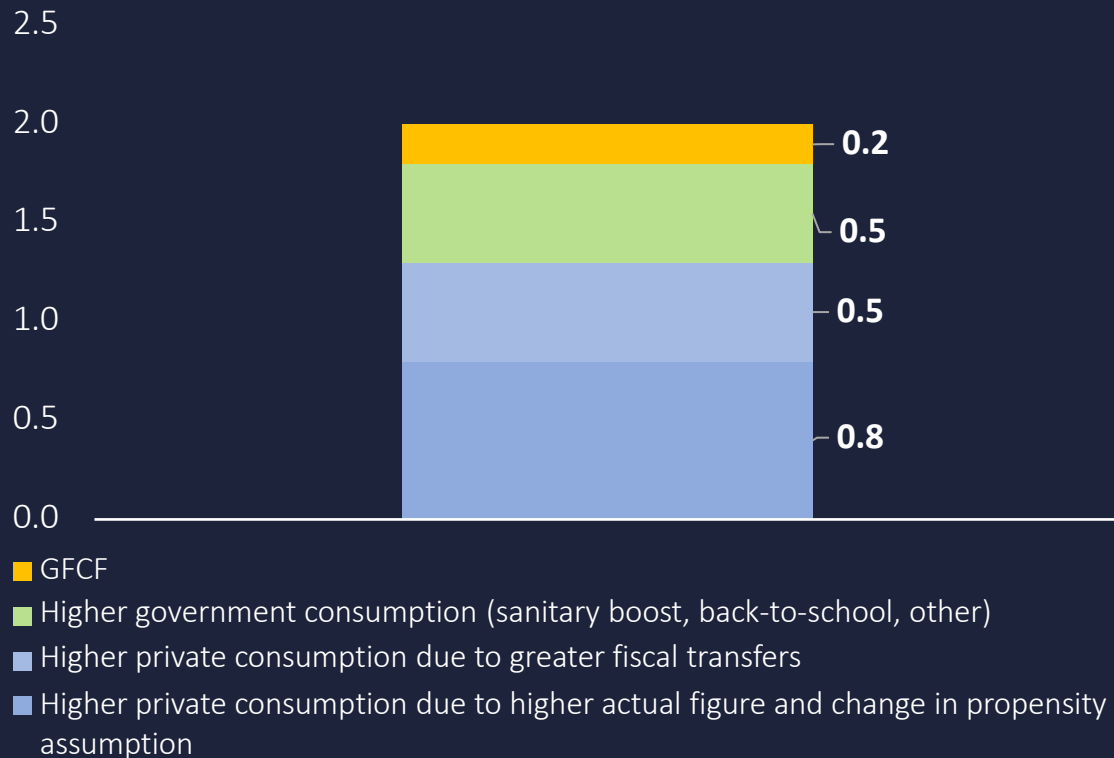
(*) Built using the projections for total CPI inflation from the MP Reports of June and September 2021.

Sources: Central Bank of Chile and National Statistics Institute (INE).

The outlook for this year's growth is also revised upward, driven mainly by the actual and expected performance of consumption.



Contribution to revision to 2021 GDP growth (*)
(percentage points)



Main factors behind increased growth forecast range for 2021 are listed below:

➔ More dynamic actual and projected private consumption (explains 1.3pp of adjustment).

Higher-than-expected consumption growth in second quarter

Reassessed marginal propensity to consume assumption

Increased disposable income due to extension of universal IFE and new workers IFE

(*) Built considering the midpoint of the MP Report forecast range of June and September 2021.

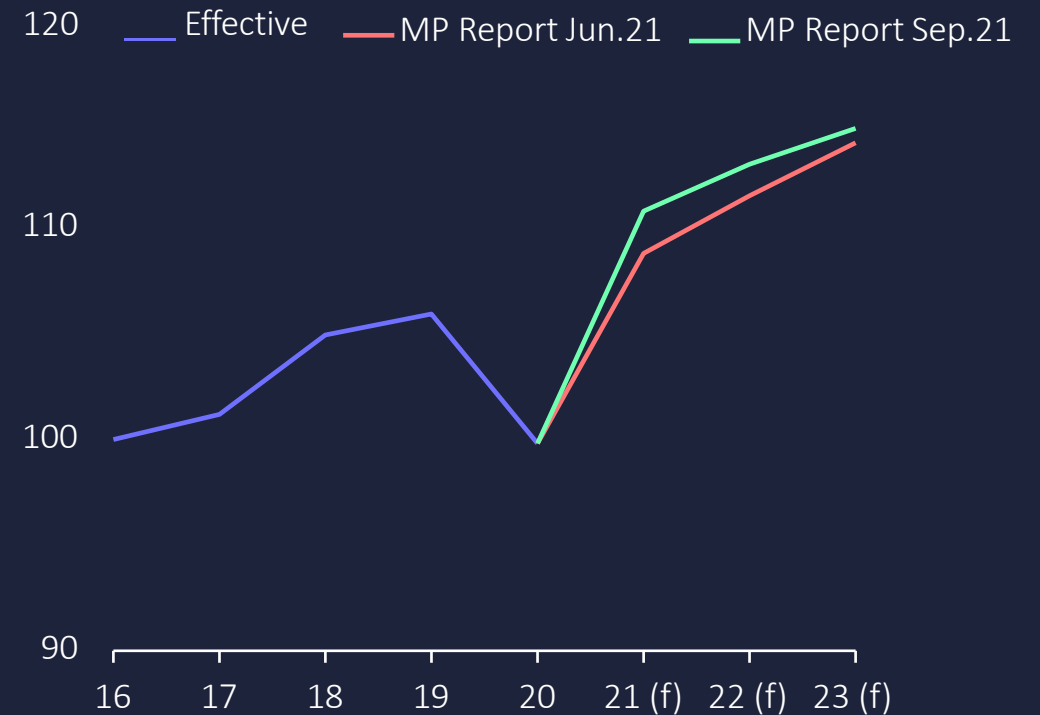


However, towards 2022 and 2023 the economy will slow significantly.

GDP growth forecast
(annual change, percent)



GDP
(billions of pesos, volume at chained year-ago prices)



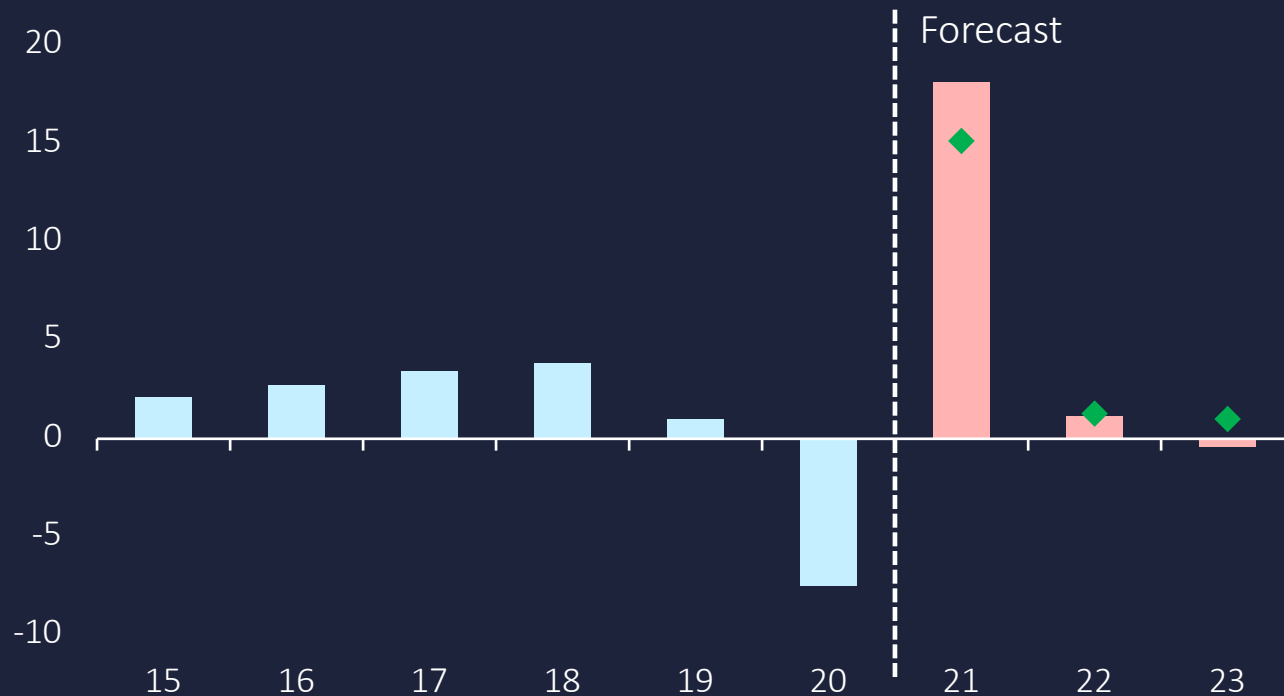
(f) Forecast. Considers midpoint of growth ranges contained in MP Reports of June and September 2021.

Source: Central Bank of Chile.

By 2022 and 2023, consumption growth will decelerate, consistent with the economy leaving behind the effects of the pandemic and where the momentum from economic policies eases.



Private consumption (*)
(real annual change, percent)



(*) Diamonds indicate forecast in June 2021 MP Report.
Source: Central Bank of Chile.

This forecast considers:

➔ More effective and projected dynamism of consumption in the short term

Better than expected 2nd quarter result

Marginal propensity to consume assumption reassessed

Increased disposable income due to extensión of universal IFE and creation of workers IFE.

➔ Moderation of current PACE of consumption by 2022-2023

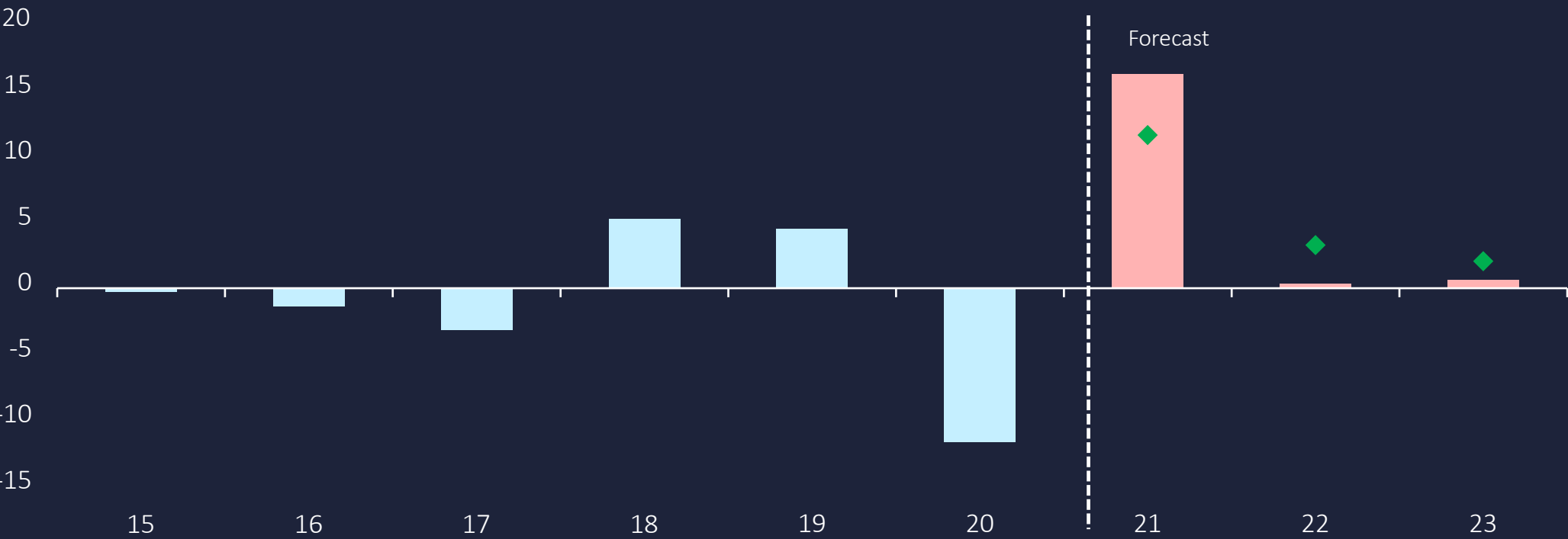
Extinction of universal fiscal transfers and depletion of resources withdrawn from pension funds.

Reduction of monetary stimulus

Investment recovery is still expected to be sluggish, due mainly to idiosyncratic factors.



Gross fixed capital formation (*)
(real annual change, percent)

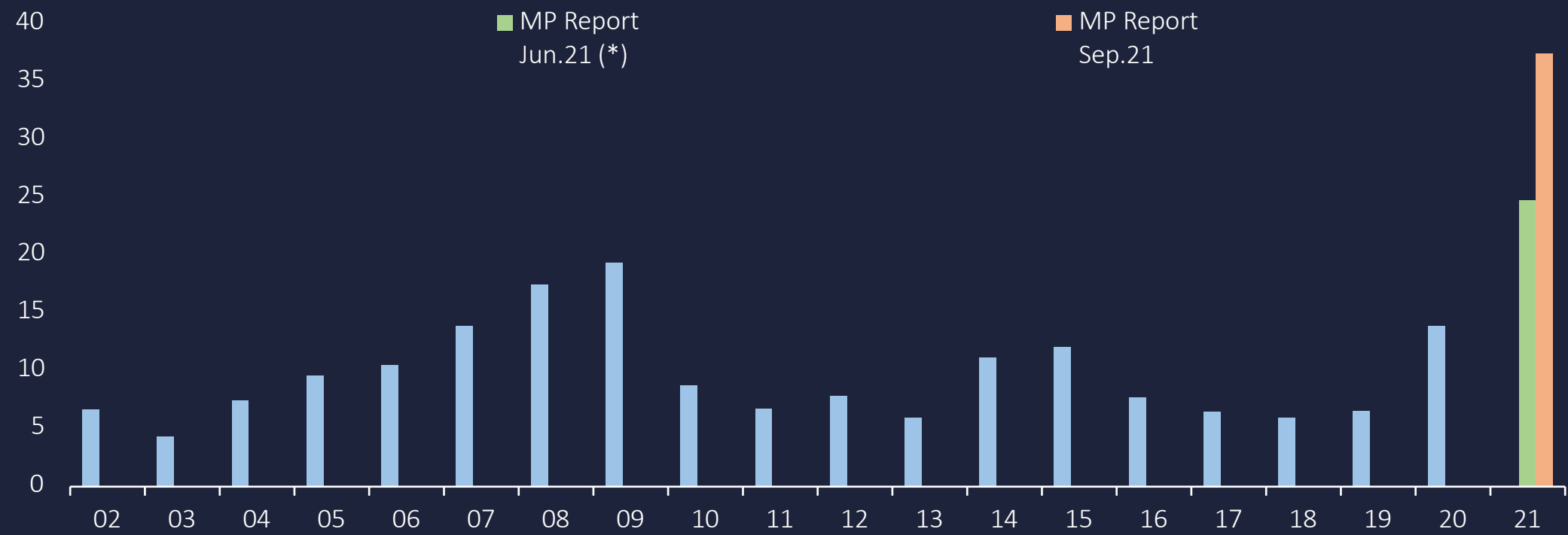


(*) Green diamonds indicate forecast in June 2021 MP Report.
Source: Central Bank of Chile.

Nominal fiscal spending is expected to increase by more than 35% annually this year, to then enter a convergence path in line with the structural balance rule.



Actual fiscal expenditure and projections for 2021
(annual nominal growth, percent)

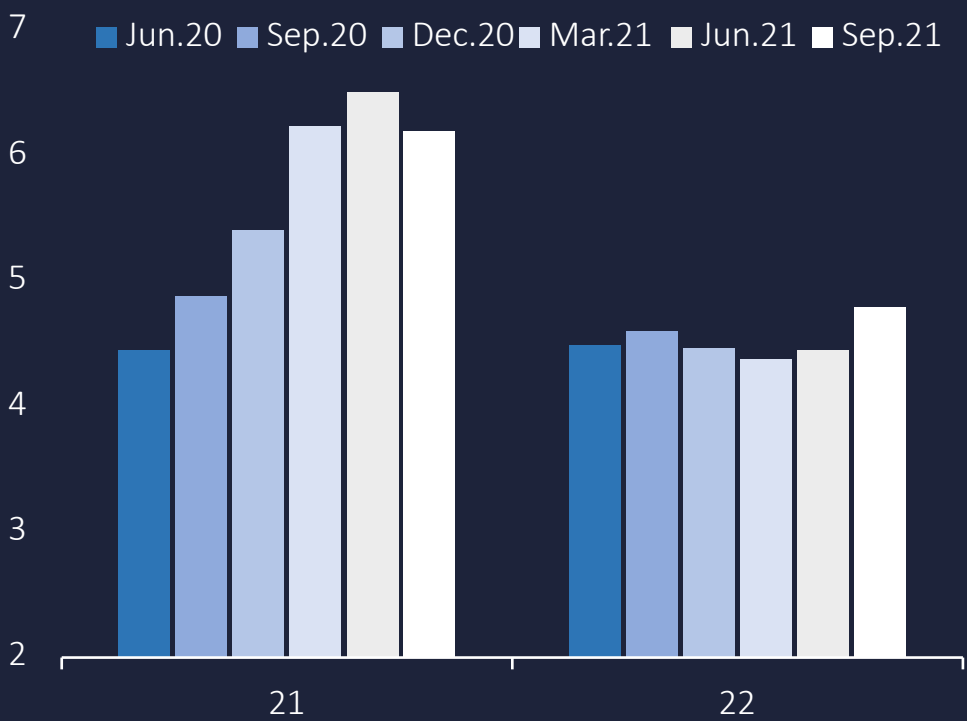


(*) Extension of IFE until September was not in June 2021 MP Report.
Sources: Central Bank of Chile and Budget Office of the Finance Ministry (DIPRES).

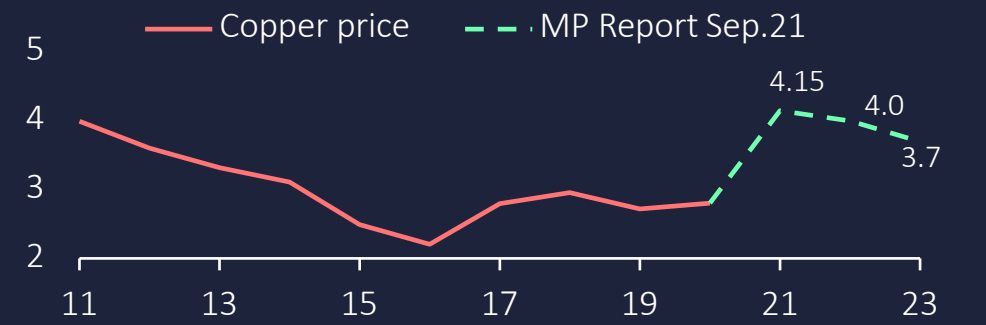
The impulse that the Chilean economy will receive from abroad is virtually unchanged from June.



World growth forecast
(annual change, percent)



Actual and projected copper price (1)
(dollars per pound)



Actual and projected oil price (1) (2)
(dollars per barrel)

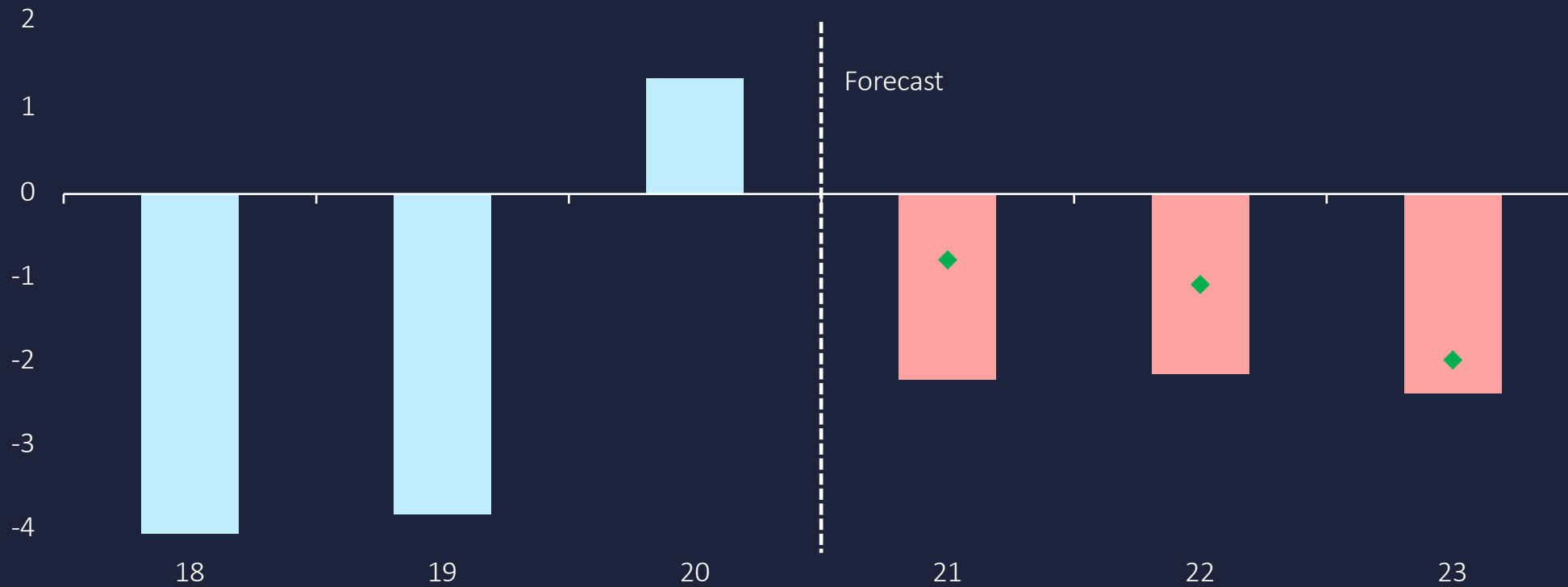


(1) Effective prices are the average for each year. Dotted line indicates 2021-2023 projections contained in the MP Report of September 2021. (2) Average price between WTI and Brent oil.
Sources: Central Bank of Chile and Bloomberg.

The current account will post a bigger deficit in 2021 and 2022 than forecast in June, due to higher growth in domestic spending concentrated in tradable goods.



Current account of the balance of payments (*)
(percent of GDP)



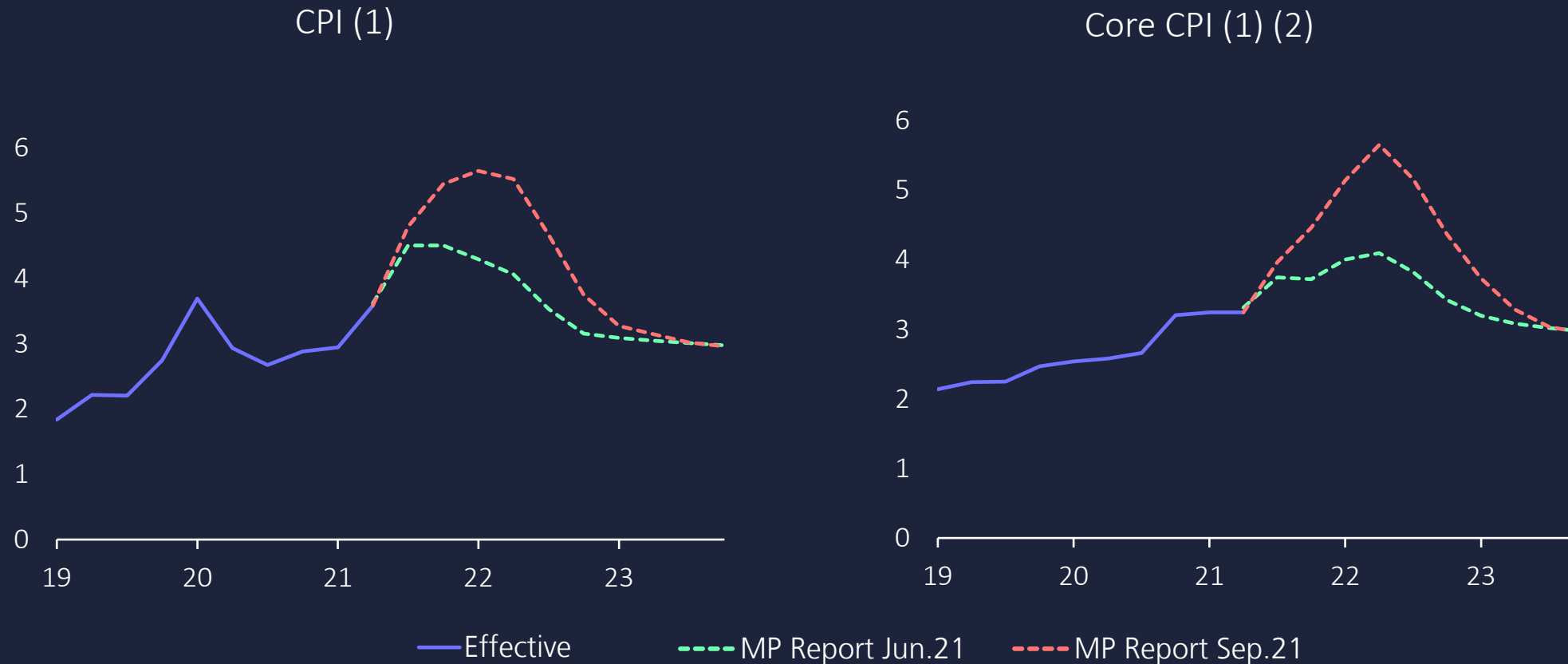
(*) Green diamonds indicate forecast in June 2021 MP Report.

Source: Central Bank of Chile.

Annual inflation will end this year at 5.7%, and will be above 5% during the first half of 2022. Core CPI will peak around mid-2022.



Inflation forecasts (annual change, percent)

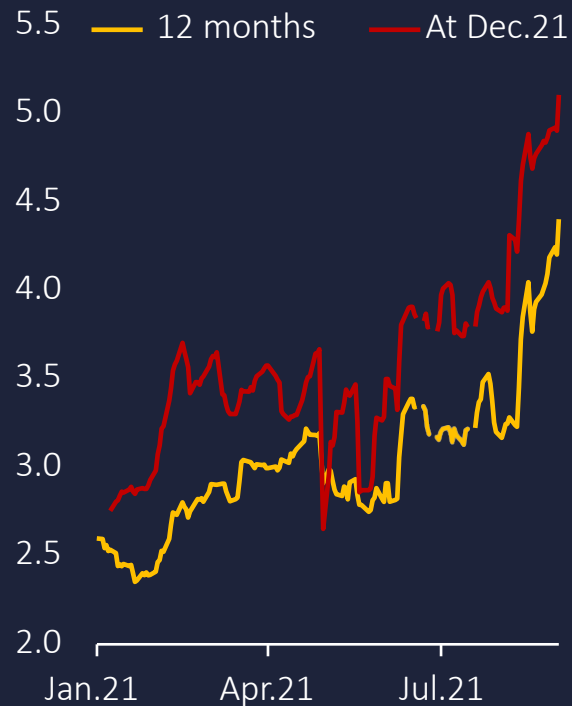


(1) Dashed lines indicate forecast in respective MP Report. (2) Measured by CPI w/o volatiles.
Sources: Central Bank of Chile and National Statistics Institute (INE).

Short-term expectations have risen significantly. Two years ahead, the EES places them at 3% annually, while they rose in the FTS.



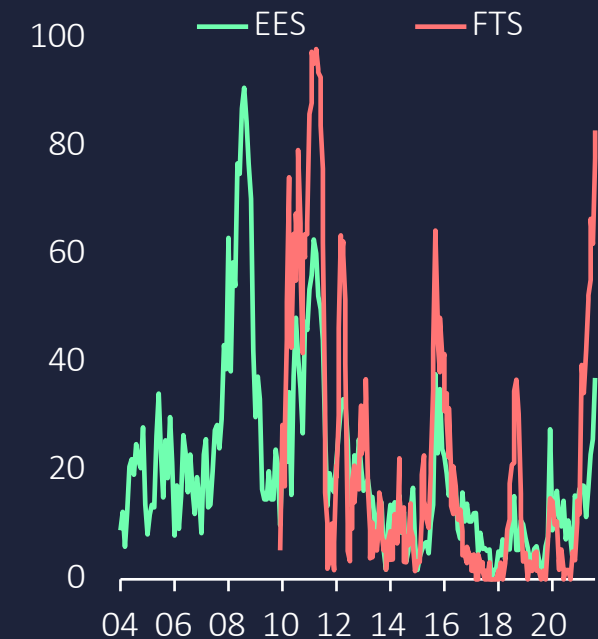
Inflation insurance
(annual change, percent)



Expectations in surveys (*)
(annual change, percent)



Surveys: Expectations above
3% 2 years ahead
(percent of responses)



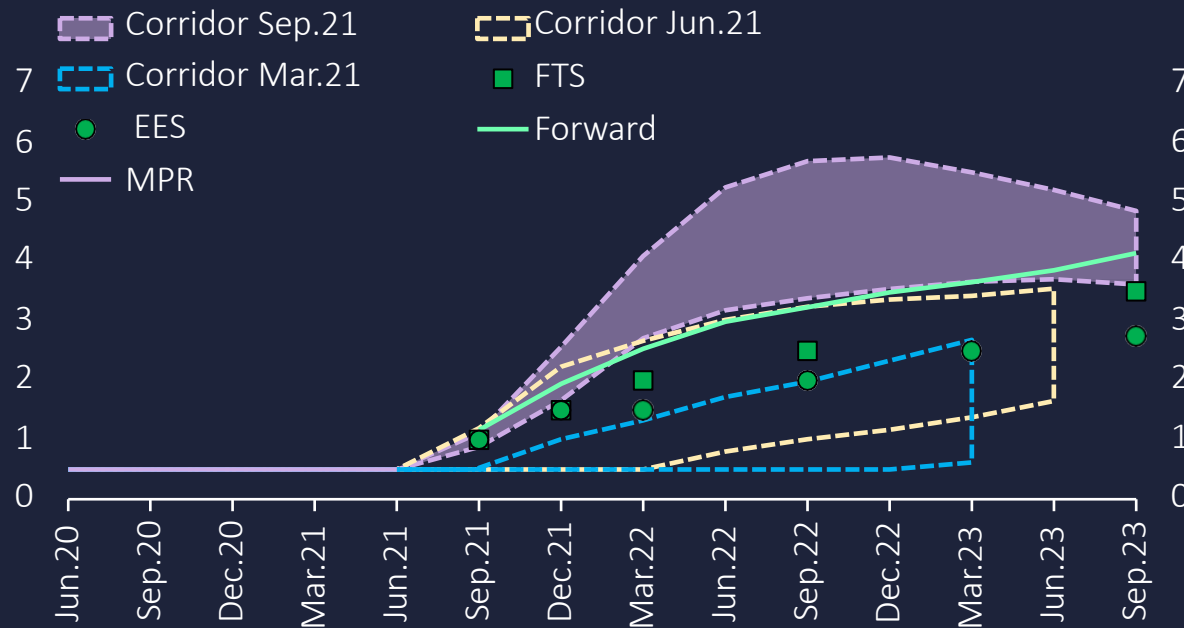
(*) Economic Expectations Survey (EES). Financial Traders Survey (FTS). The FTS considers the survey of the first half of each month up to January 2018. From February 2018 onwards, it uses the last survey published in the month, including the one published on 26 August 2021. In the months where no survey is published, the last available survey is used.

Sources: Central Bank of Chile, ICAP, and Tradition Chile.

The Board raised the MPR to 1.5% in August (+75bp), after raising it by 25bp in July, and anticipates that it will continue to withdraw the monetary impulse, bringing the MPR at levels similar to its neutral towards the middle of the first semester of 2022.



MPR corridor (*)
(percent)



(*) The corridor is built following the methodology of Box V.1 of the March 2020 Report. It includes the FTS of August 26, the EES of August 10 and the quarter's mean smoothed forward curve (statistical cutoff). The methodology corresponds to the extraction of the implicit MPR considering the forward curve on the interest rate swap curve up to 2 years, discounting the fixed rates for each term at the simple accrual of the ICP.

Source: Central Bank of Chile.

The Board decided to intensify the withdrawal of monetary stimulus to avoid the accumulation of macroeconomic imbalances that could jeopardize the convergence of inflation to the 3% target. This is so because a scenario has emerged in which the Board has less room for maneuver, as a result of:

➔ Rapid evolution of macroeconomic scenario

➔ Inflation expectations dynamics

➔ Sensitivity scenarios associated with higher pressures on prices

There are sensitivity scenarios that may require monetary policy action somewhat different from that envisioned in the central scenario.



Scenario 1

Possible reasons:

→ Less Dynamic consumption because of :

Pandemic resurgence

Current dynamism could be due to anticipated demand

→ Reduction in domestic uncertainty



Implications:

→ Reduced inflationary pressures

→ More gradual contraction of monetary stimulus

Sensitivity scenarios



Scenario 2

Possible reasons:

→ Slower reduction in public spending

→ Higher inflation in developed economies

→ Greater than expected consumption



Implications:

→ Higher inflationary pressures

→ Amplified impacts on local financial market

→ More vigorous monetary policy response

Risk scenarios exist with changes in the economy that would be more significant and would require a policy response beyond the limits of the MPR corridor.



1 Lack of clarity about the long-term stabilization of public finances

- Increased spending pressures and amplified impacts on the local financial market

Implies a more accelerated increase in the MPR, despite which inflation does not converge to the target over the policy horizon.

Risk scenarios



2 Approval of new pension fund withdrawals

- More dynamic consumption and greater pressure on prices
- Even greater impact on the financial system, increasing the cost of indebtedness, capital outflows and strong accumulation of funds in dollars.

The probability of its materialization could already be affecting the behavior of economic agents.

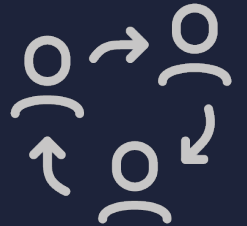
→ No central bank has the powers, instruments, or resources to neutralize these risks and restore macroeconomic equilibrium.

Final remarks



The Chilean economy has seen a rapid recovery from the recession caused by the Covid-19 pandemic, which has far exceeded expectations. This has been possible thanks to the adaptability of companies and individuals and the great progress of the vaccination campaign, which has allowed for an important opening process.

All this has been underpinned by the largest deployment of policy measures ever known in Chile in the face of an exogenous shock, as well as by an international environment marked by the simultaneous actions to contain the crisis, led by the central banks and other authorities of the world's main economies.



The extension and persistence of some of the local measures, combined with high propensity of households to consume the resources received, has had an impact on private spending beyond all forecasts. In a context where supply has yet to fully recover, this has significantly changed the assessment of the pressures facing the economy, reflected in an increase in inflation and its immediate outlook.

Final remarks



The depreciation of the peso also contributes to this, caused in part by the perception of a worsening of the economy's fundamentals as a result of the liquidation of long-term savings through successive massive withdrawals of pension savings and the deterioration of the fiscal accounts, all in an environment of high local uncertainty. Thus, interest rates, risk premiums, and the stock market show an unfavorable performance when compared to their external peers.

The need to avoid the accumulation of macroeconomic imbalances which, among other consequences, could lead to a more persistent increase in inflation exceeding the 3% two-year target, has led the Board to alter the monetary policy stance.



In this scenario, the Central Bank must act promptly. Accordingly, the Board raised the MPR to 1.5% at its August Meeting after increasing it by 25 basis points in July, and anticipates that it need to continue to withdraw the monetary impulse, bringing the MPR at levels similar to its neutral towards the middle of the first semester of 2022.



MONETARY POLICY REPORT

SEPTEMBER 2021

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