

Calibrating Monetary Policy in Times of Covid-19

October 2020

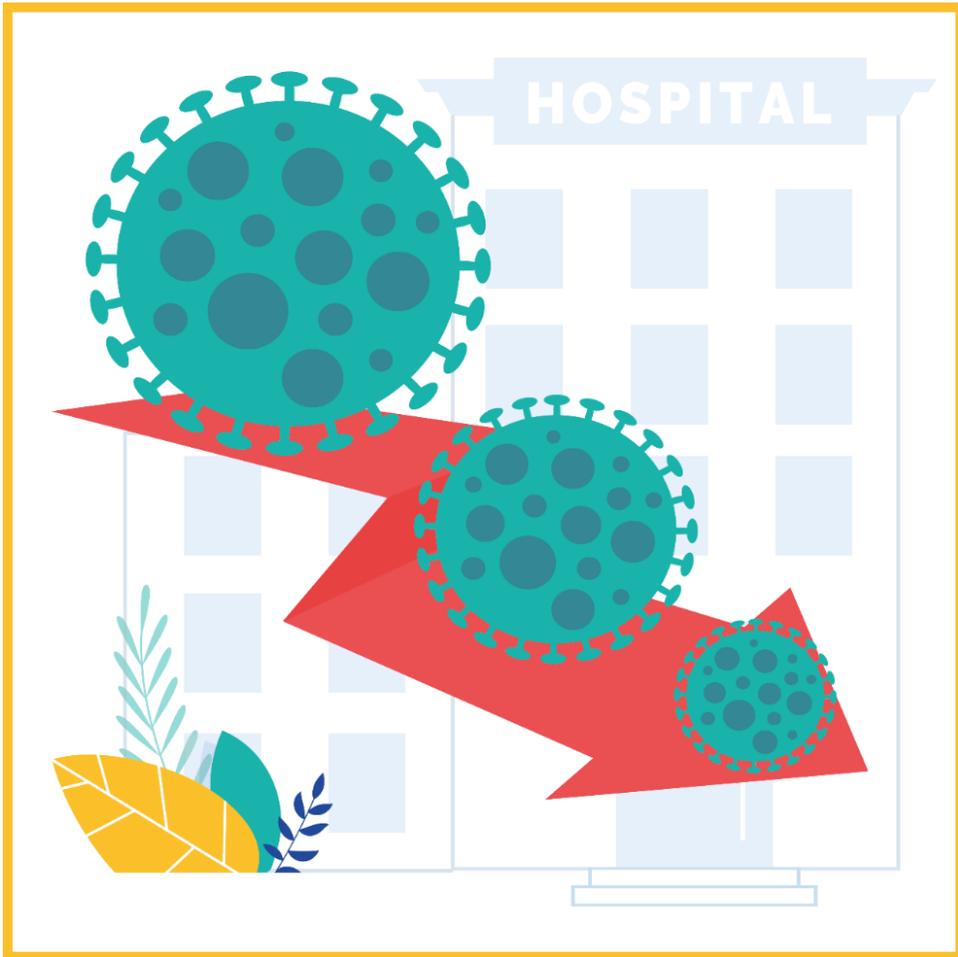
Pablo García

Member of the Board, Central Bank of Chile

Barclays Emerging Markets Virtual Roundtables, October 2020

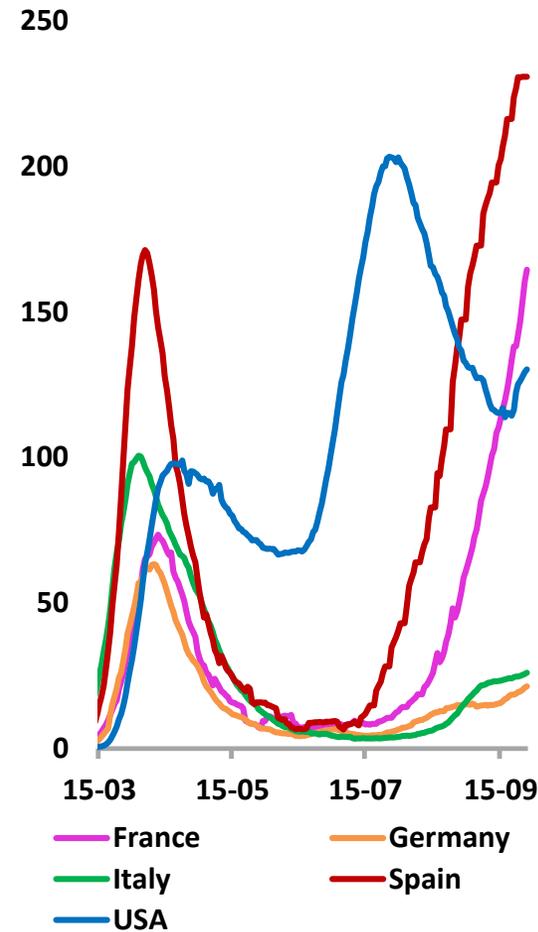


The control of the Covid-19 pandemic shows different realities worldwide: in some countries the situation has improved, in others there are outbreaks and in still others the infections have yet to be brought under control

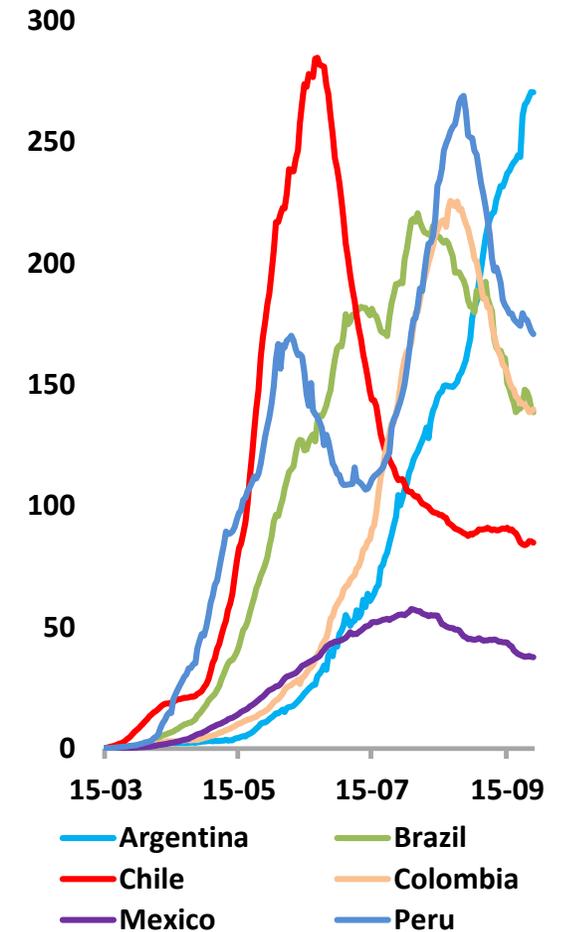


Daily Confirmed New Cases of Covid-19 (*) (number of people per million inhabitants)

Selected economies



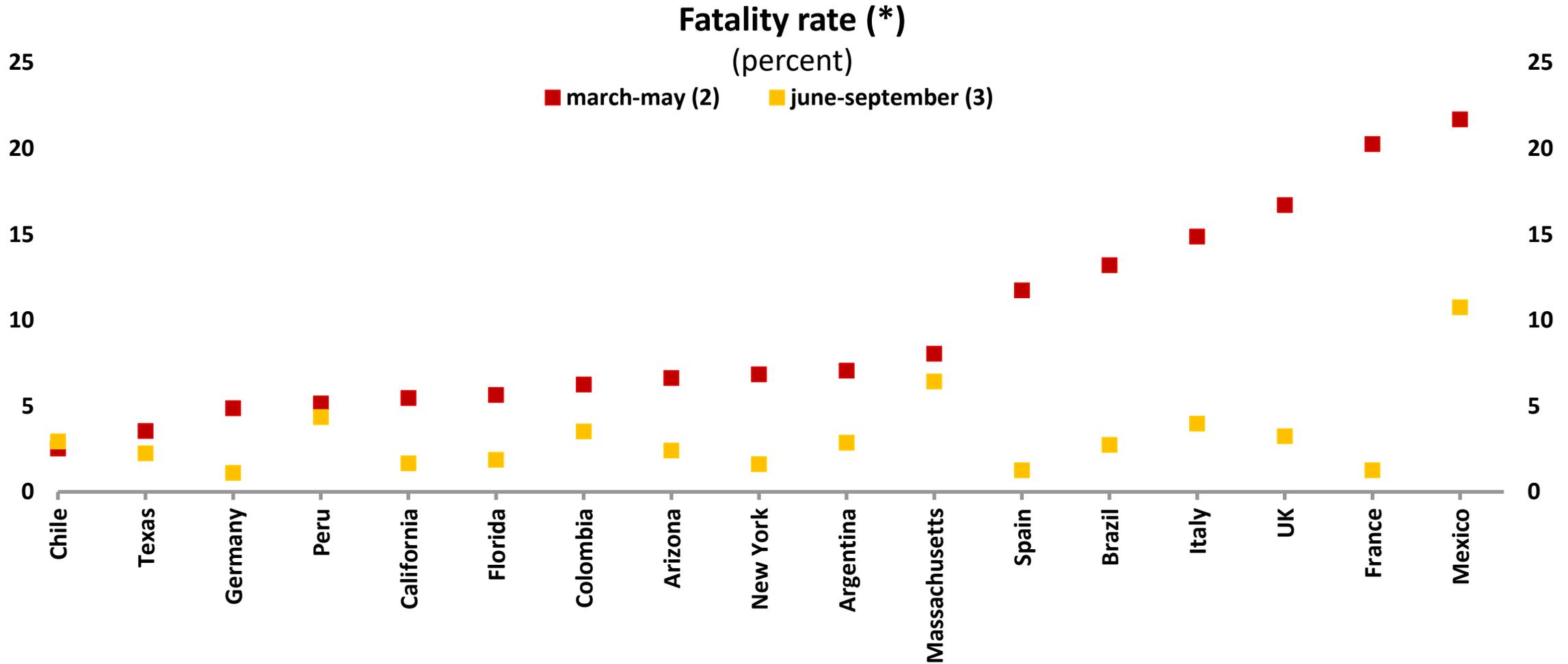
Latin America



(*) 14-day moving average. Sources: European Center for Disease Prevention and Control (ECDC) and Ministry of Health of Chile.



A reduction in case fatality rate is observed in most countries.



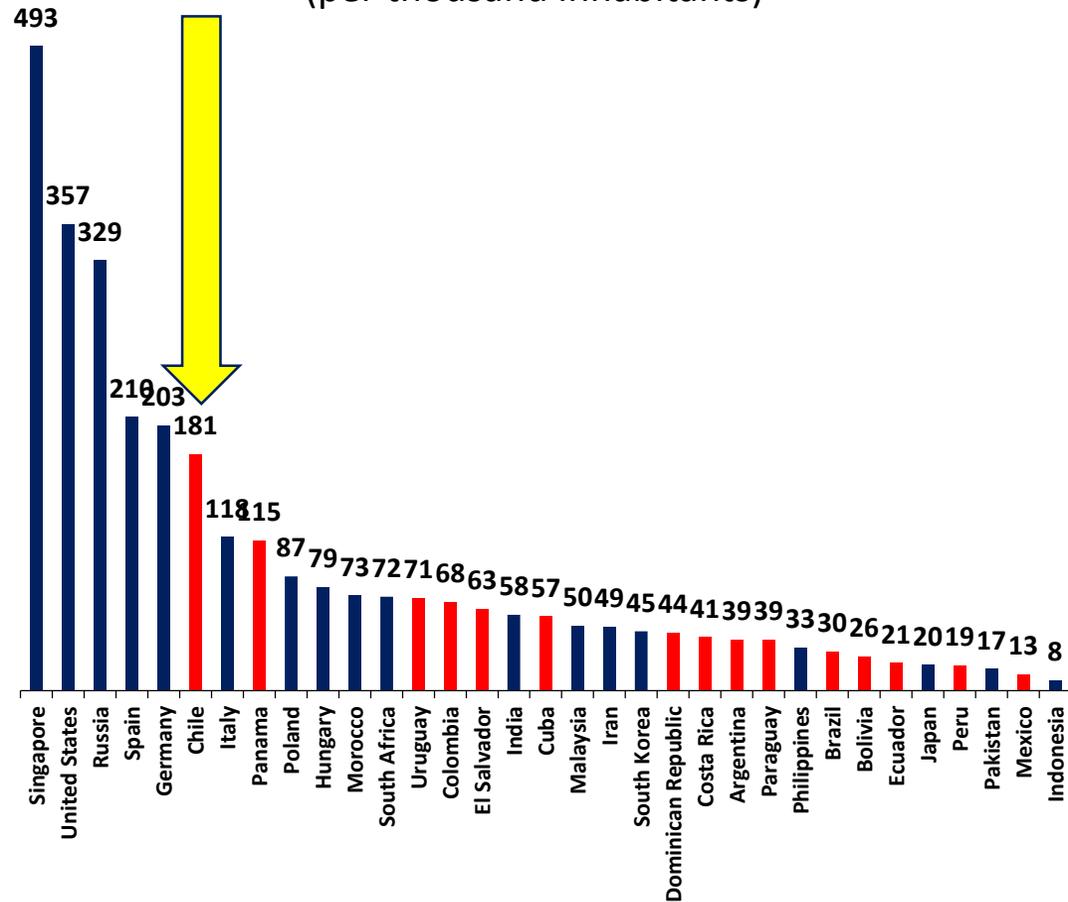
(*) The fatality rate is calculated on cases and deaths detected by examinations. (2) Ratio between accumulated deaths from the first registered death to May 31st and from the first registered case to May 16th. (3) Ratio between cumulative deaths between May 31st and September 28th and the cases between May 16th and September 13th.

Sources: Central Bank of Chile based on information from *Our World in Data*, *The Covid Tracking Project* and the Ministry of Science, Technology, Knowledge and Innovation.

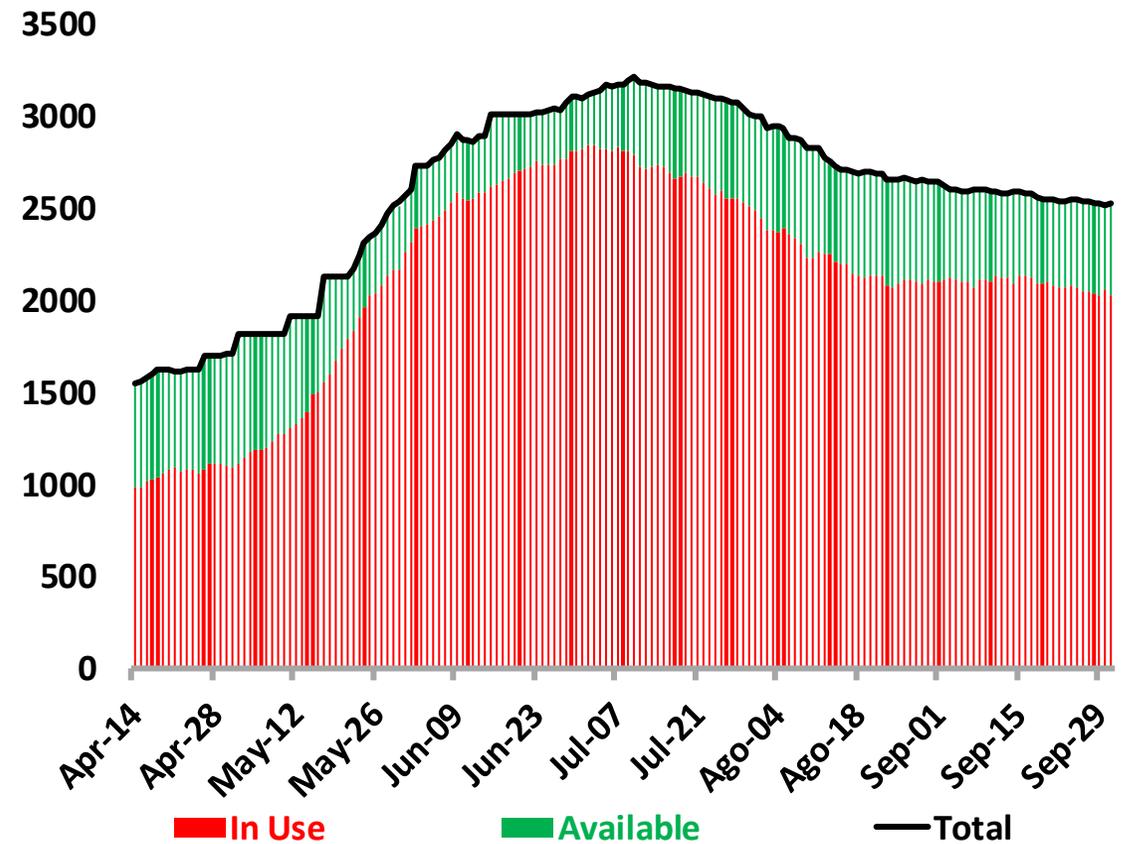


Pressure on health system: PCR testing and ventilators.

Total Covid-19 tests (1)
(per thousand inhabitants)



Chile: Ventilators in intensive care units (ICU) (2)
(number)



(1) Red bars are the LAC countries in the sample. Source: *Our World in Data* (<https://ourworldindata.org/covid-testing>) using the last data available for each country. (2) Data up to 14/05/2020.

Sources: Health Ministry and Bloomberg.



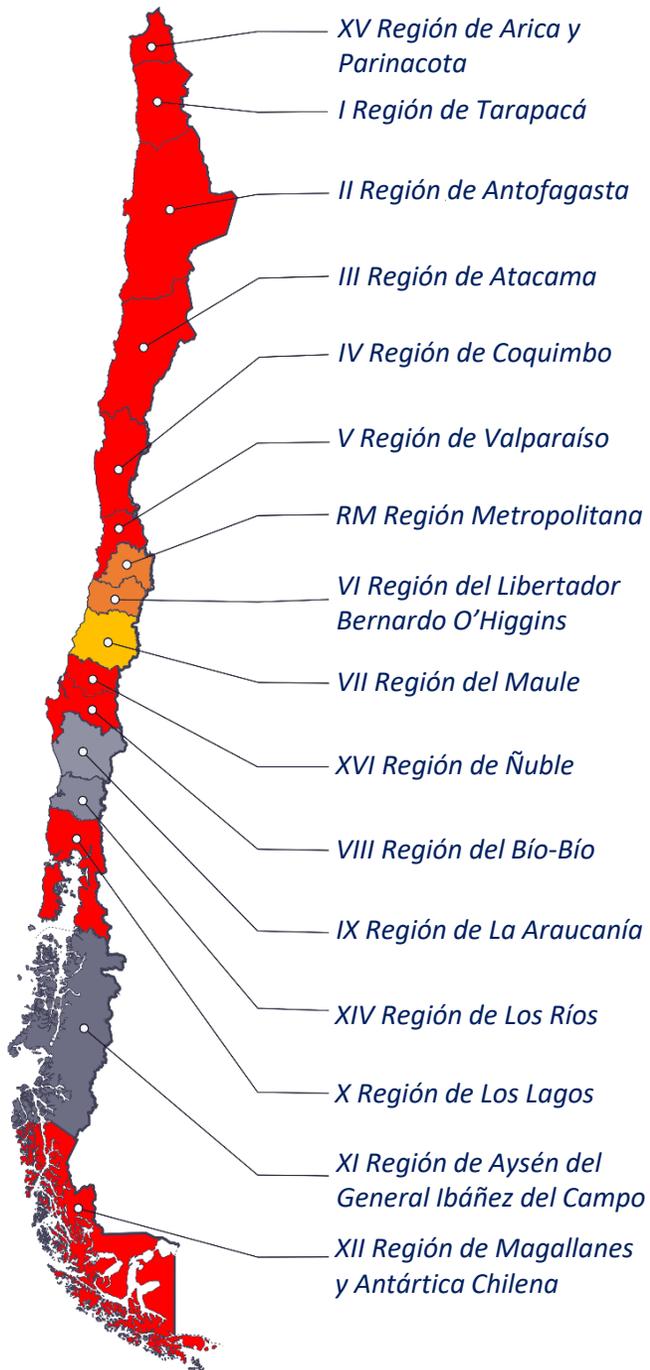
Gradual de-confinement plans are advancing...

Phases (1)



Effects (2)

Month	% National population affected			% Total monthly GDP		
	Avg	Min	Max	Avg	Min	Max
July (peak)	54	53	60	65	63	70
September	36	21	42	40	18	47
October (3)	19	18	21	15	13	18

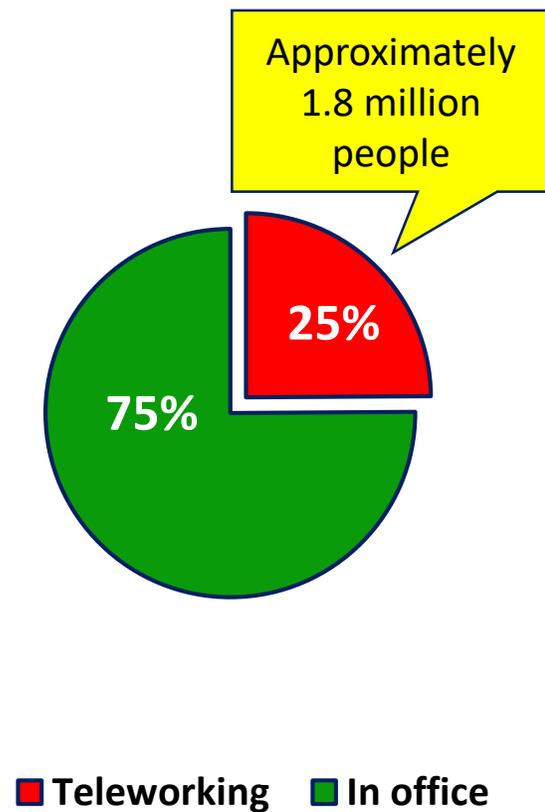


(1) Color denotes phase of the region's capital city. (2) Estimations based on nominal GDP, percent of working days of the month in quarantine and percent of people affected by the measures (population according to last Census). (3) Considers information available as of October 5th. Sources: Central Bank of Chile, National Statistics Institute (INE) and Chile's Ministry of Health.

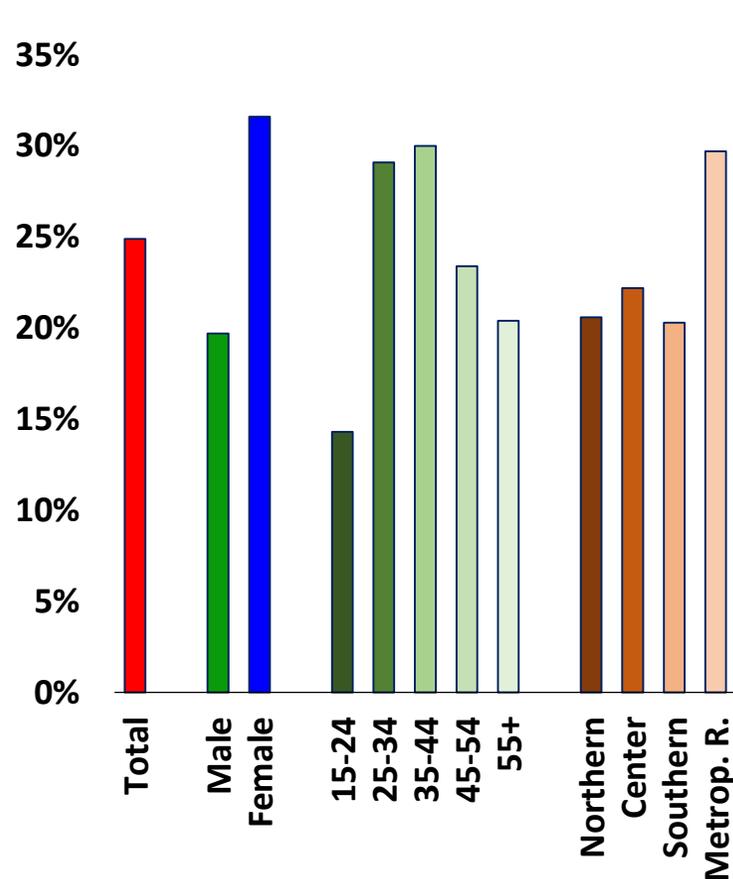


Digital adoption driven by COVID-19

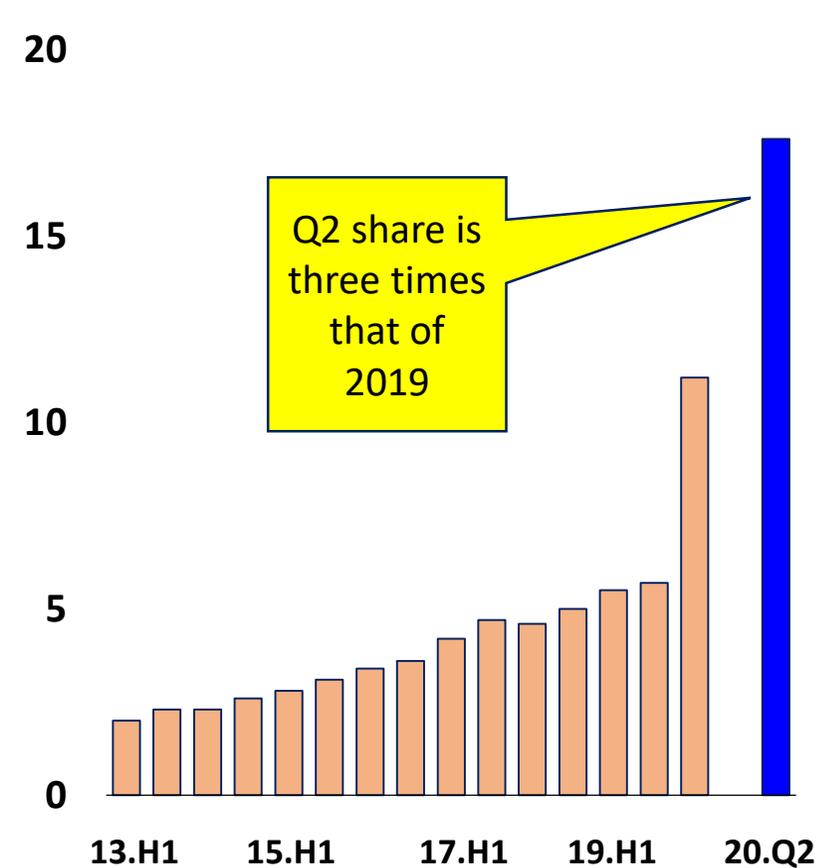
Teleworking: Employed (1)
(at least one hour in May, %)



Share of employed with teleworking (1)
(share of total employed, %)



Online retail sales (2)
(share of total retail sales in half, %)

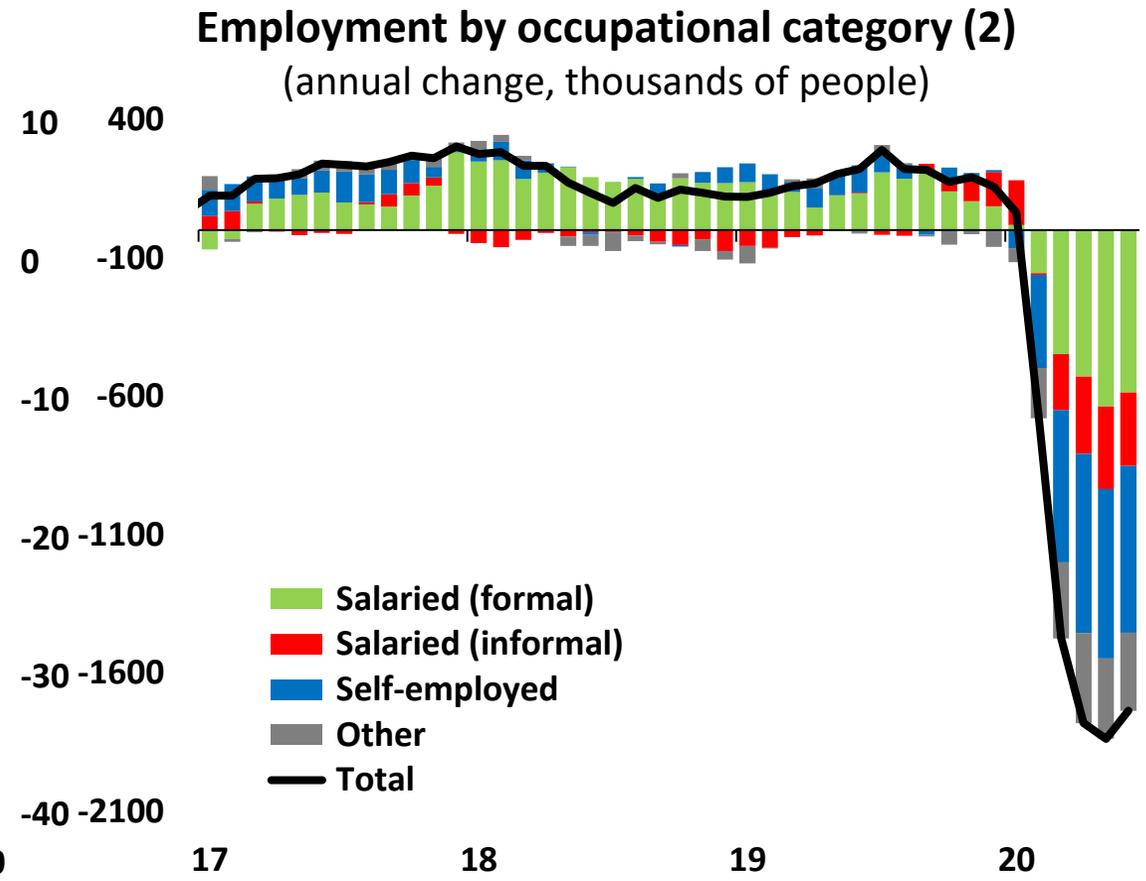
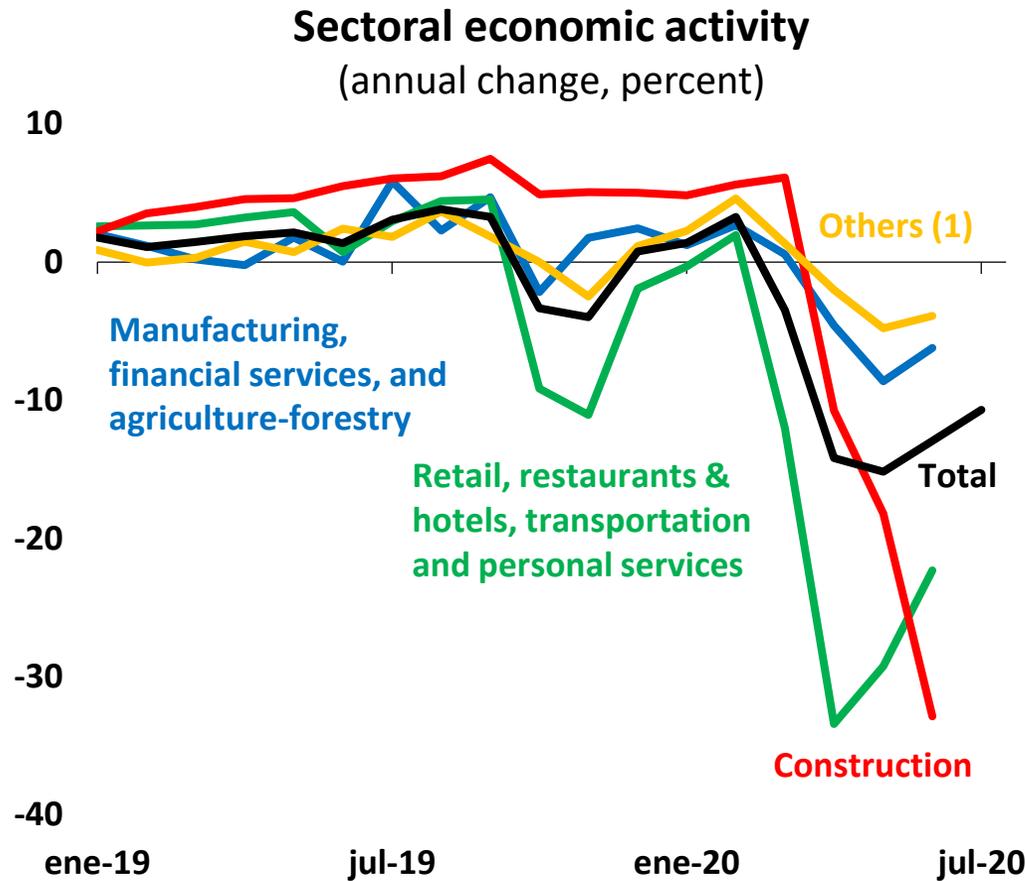


(1) Source: Longitudinal Study of Employment of the Catholic University, May 2020.

(2) Source: Online Sales Index, Cámara Nacional de Comercio.



Large contraction in activity and employment in Q2 has been followed by modest stabilization in Q3.



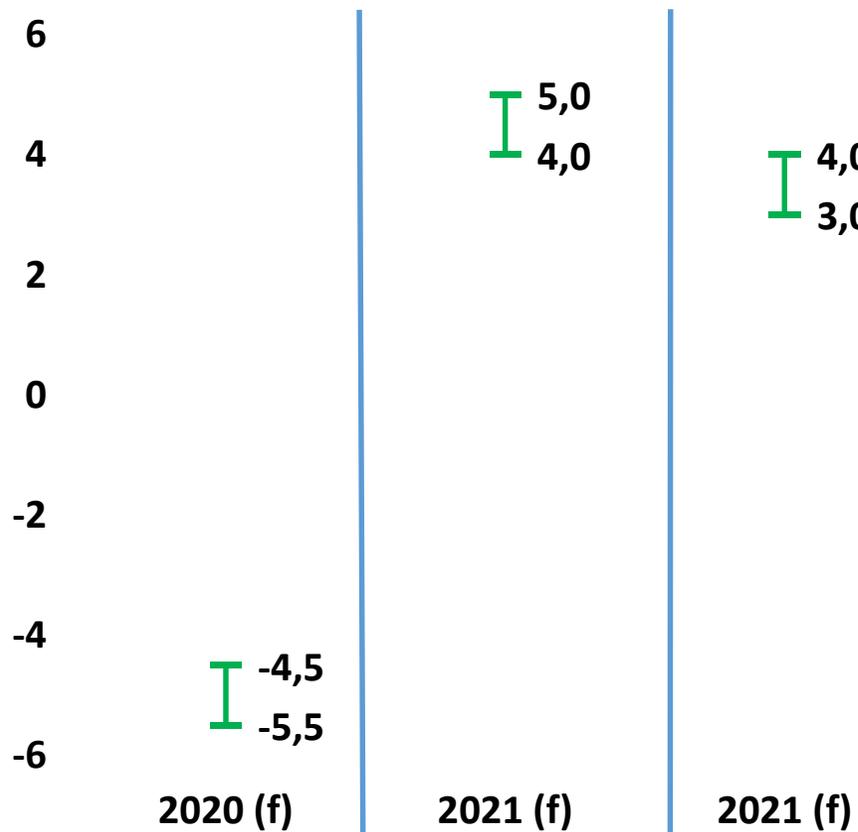
(1) Considers fishing, electricity, gas, water and waste management, mining, communications and information services, business services, housing and real estate services and public administration. Source: Central Bank of Chile. (2) Formal salaried employees correspond to dependent workers who have health payments (Isapre or Fonasa) and social security payments (AFP) for their employment relationship with an employer (both criteria having to be met simultaneously to be classified as Formal Occupation), benefits that informal wage earners do not have. "Other" includes employers, unpaid domestic and family service personnel. Source: INE.



A significant GDP contraction is projected for 2020, followed by recovery in 2021 and trend growth in 2021. Still GDP should remain by the end of 2022 around 10% below forecasted levels as of a year ago.

Growth projection: 2020-2022

(real annual change, percent)



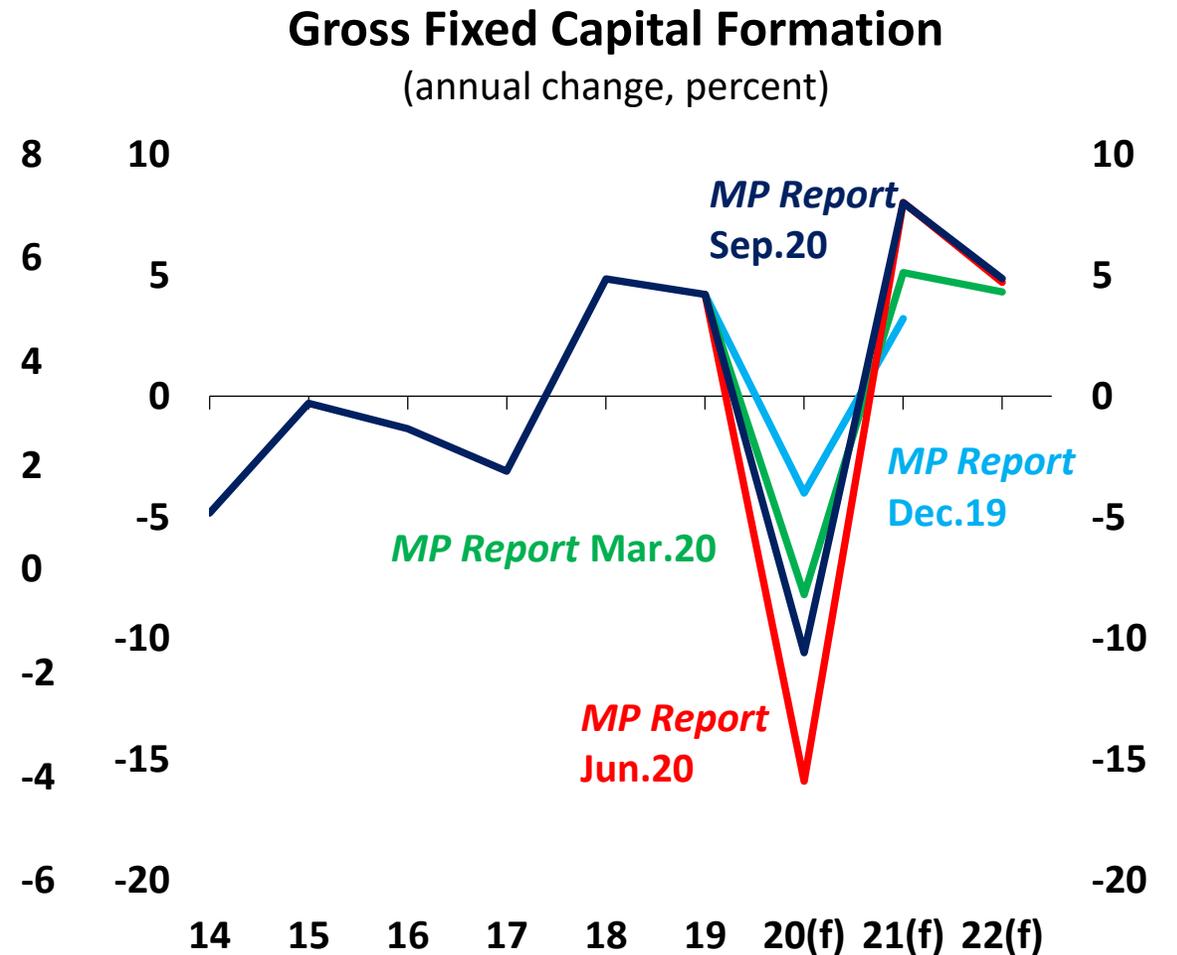
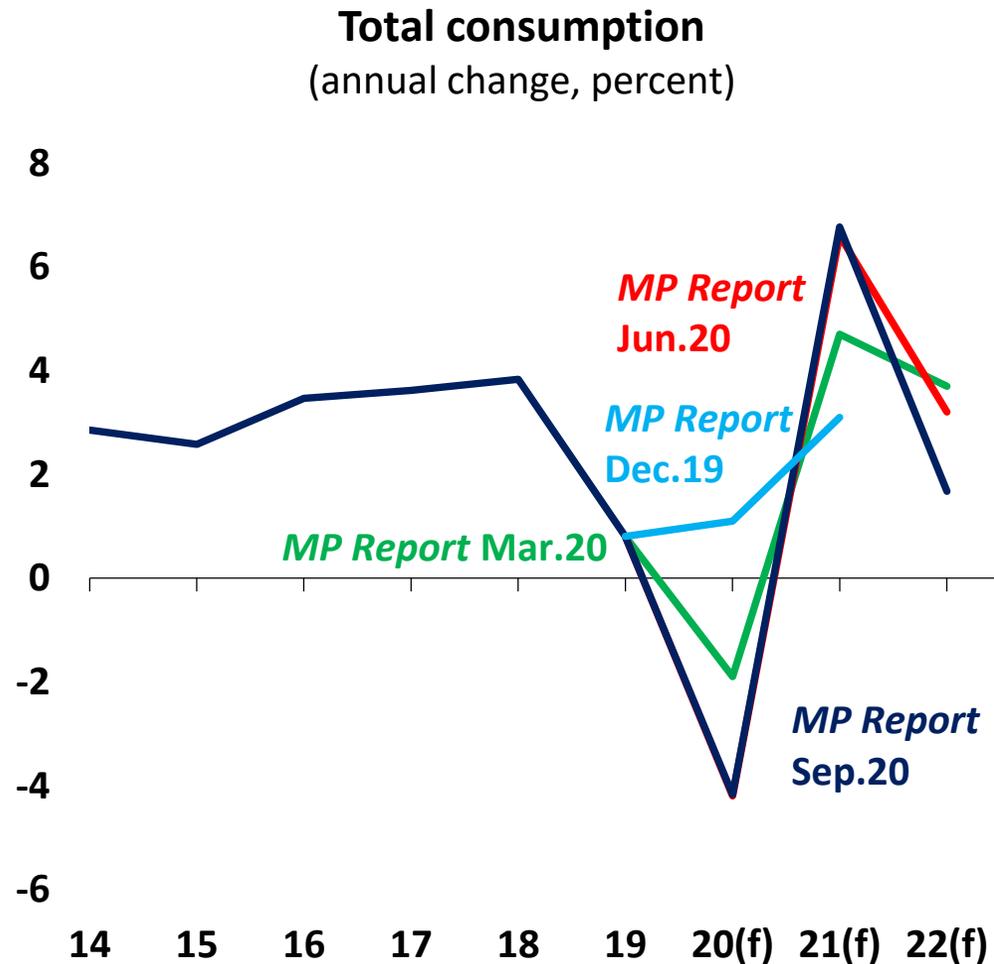
(f) Forecast. Source: Central Bank of Chile.

The projections contemplate:

- Gradual withdrawal of the intense sanitary measures and gradual advance of unlocking. Sectors continue to adapt their operations and credit continues to flow to support recovery.
- Recovery of jobs and household income, temporarily aided by the positive short-term effect of retirement savings.
- Recovery of investment in construction and other works as quarantines are lifted. Resume projects postponed this year.
- Institutional channeling of the social crisis evidenced at the end of 2019.
- Significant fiscal boost, consistent with government announcements.
- Highly expansionary monetary policy as long as the recovery of the economy and the convergence of inflation require it



Consumption and investment mimic the overall business cycle.

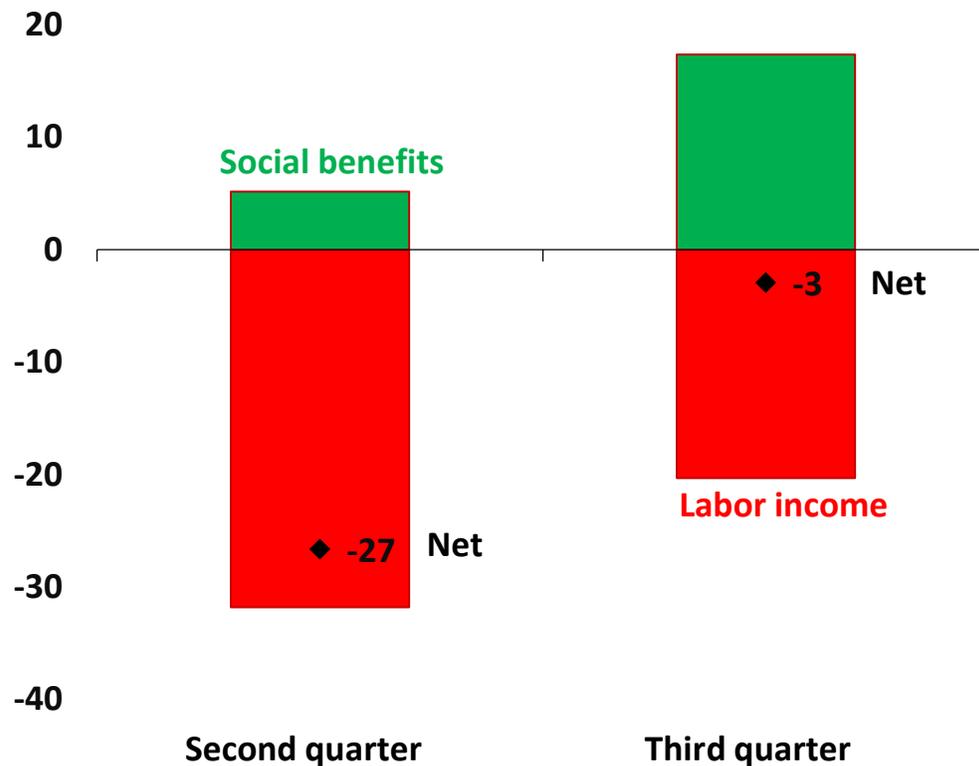


(f) Forecast. Source: Central Bank of Chile.

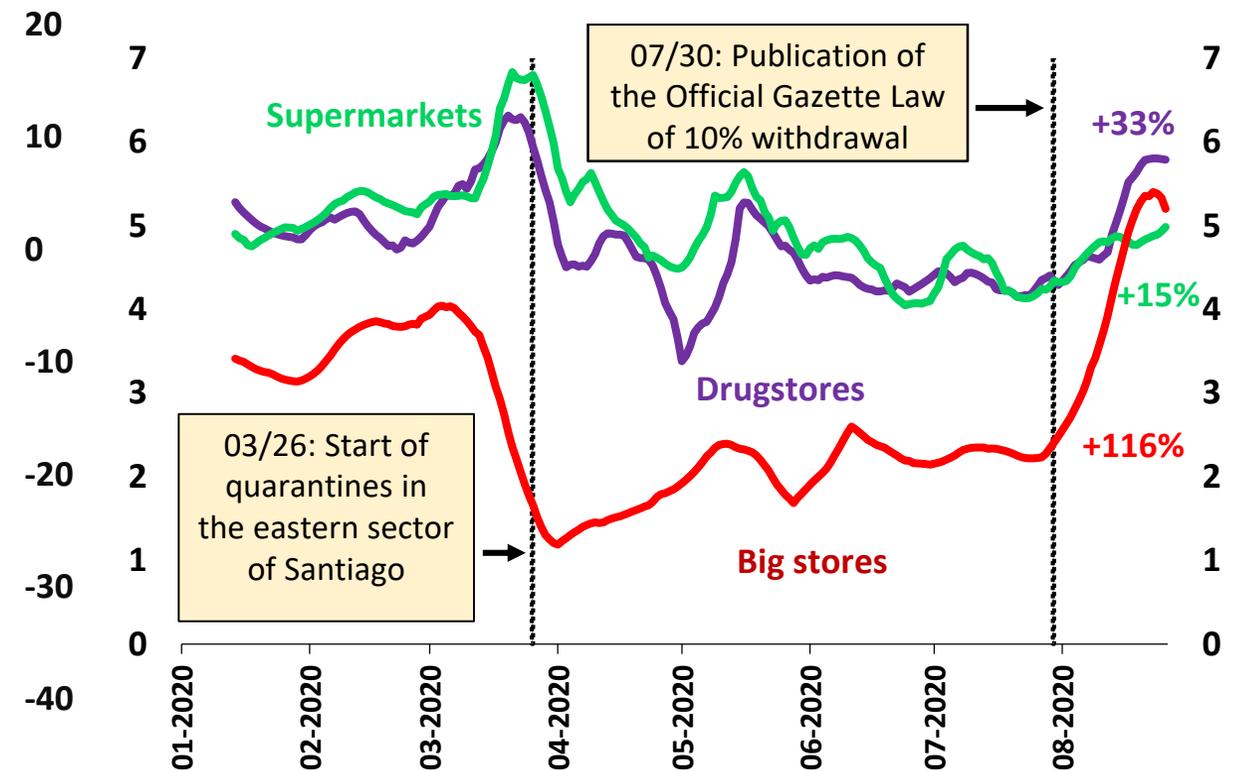


Household incomes have been supported by several policy measures, including withdrawal of a portion of pension savings.

Labor income and social benefits (1)
(annual change, percentage)



Sales by electronic billing (2)
(2-week moving average, billions of pesos)



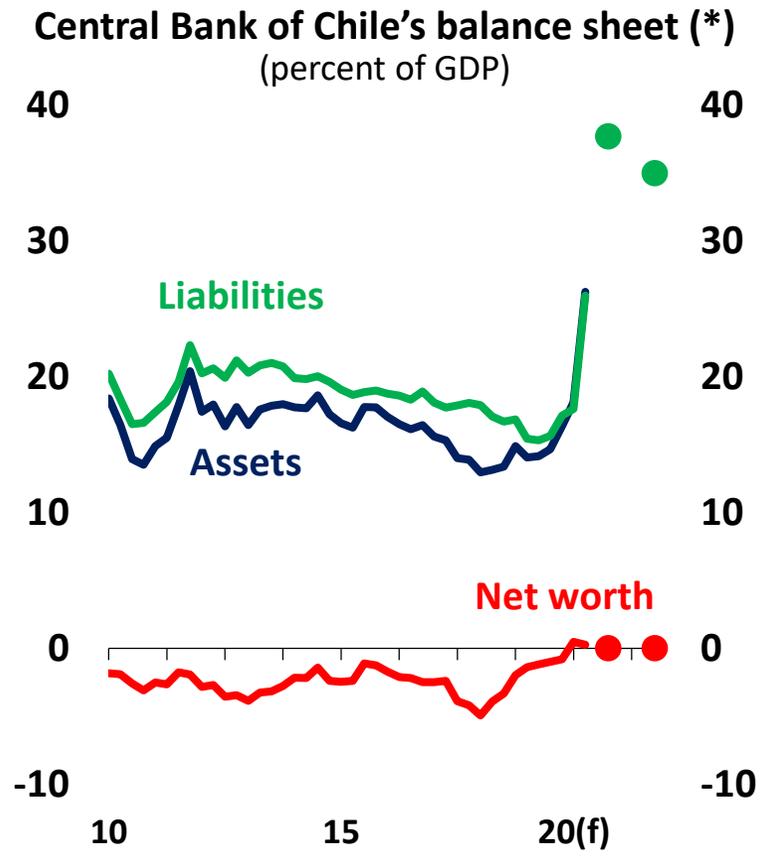
(1) For details, see the note to Figure 9 in “Annual Public Account” presentation before the Senate by Mario Marcel (www.bcentral.cl). (2) Percentages indicate variation between July 30th and August 26th. Source: Central Bank of Chile based on INE, Ministry of Finance, Superintendency of Pensions, and Internal Revenue Service.



The Central Bank has also adopted a variety of measures aimed at providing liquidity to the markets and stimulating the flow of credit toward the productive sector. The balance sheet has increased significantly.

MEASURES ADOPTED BY THE CENTRAL BANK OF CHILE

 MPR%	Conventional monetary policy	<ul style="list-style-type: none"> MPR reduction to technical minimum
	Unconventional measures	<ul style="list-style-type: none"> Low-cost lines for financing to households and companies, with a focus on SMEs (FCIC1, FCIC2 and LCL) Bank bond purchase programs Central Bank bond buyback program
	Liquidity injection and exchange market	<ul style="list-style-type: none"> REPO and FX Swap programs Currency sales Modification of matching rules Flexibility of liquidity rules Cash purchase and forward sale (CC-VP) Purchase of term deposits
	Maintaining cash flow	<ul style="list-style-type: none"> Normal operation of the circulating flow, following the recommendations of the WHO.

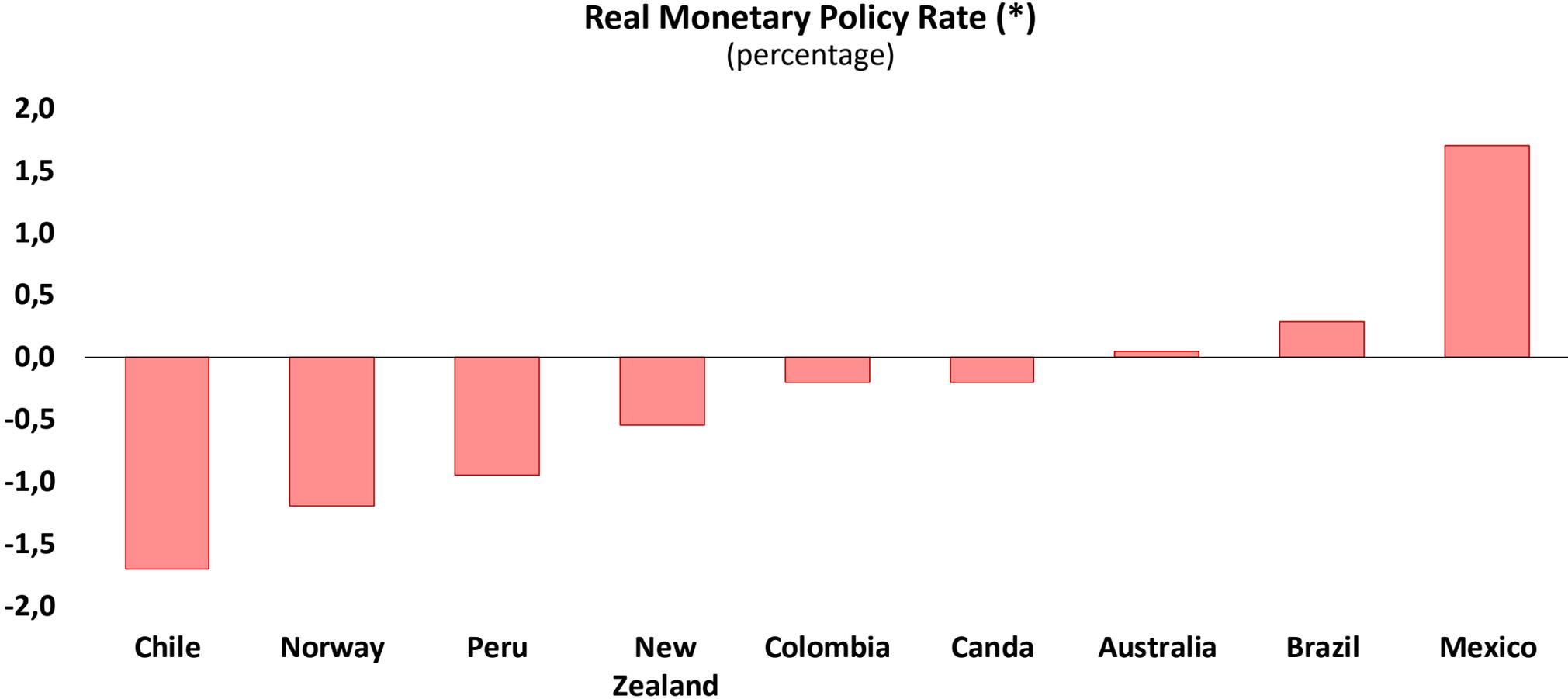


(*) Data effective until the second quarter of 2020. Dots show projections at the end of 2020 and 2021 for each series. Source: Central Bank of Chile.

17.7% of GDP



The real MPR is in significant negative territory

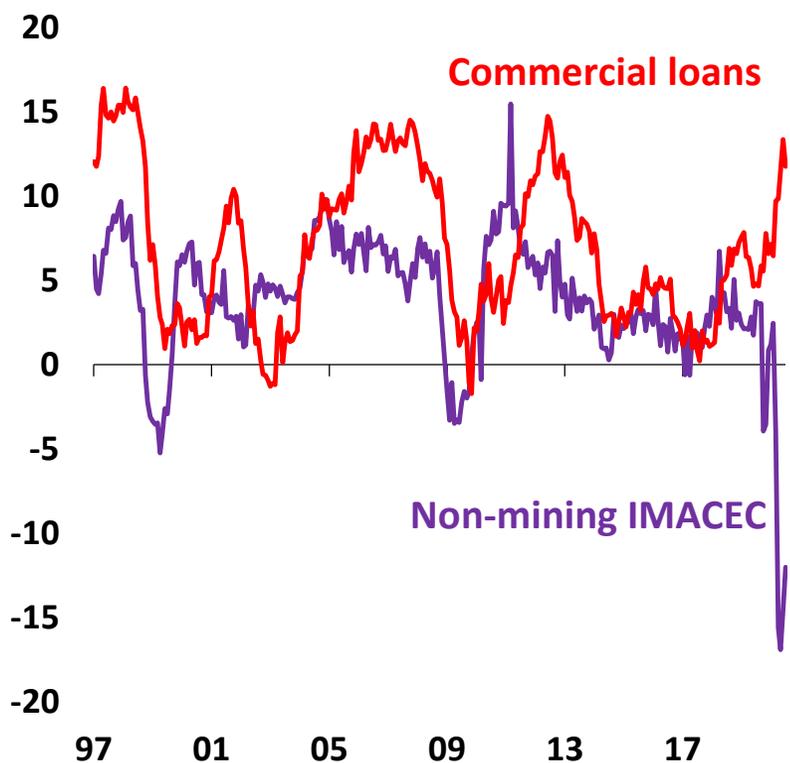


(*) Nominal Monetary Policy Rate deflated with expected inflation as of 4Q 2020. Source: Bloomberg.



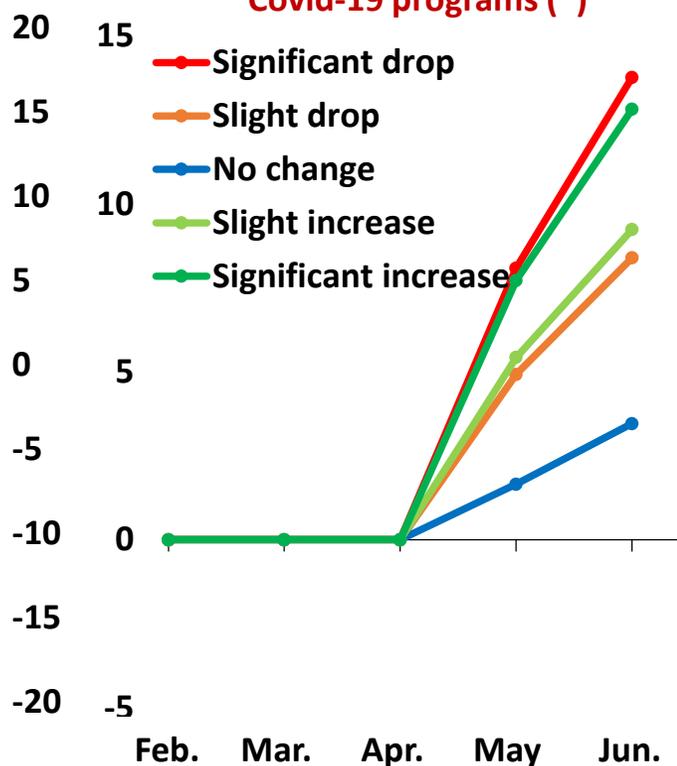
These measures have contributed to commercial loans breaking down their usual relationship with the business cycle. These credits have reached the businesses that have been hardest hit by the pandemic

Real commercial loans and non-mining Imacec
(real annual change, percent)

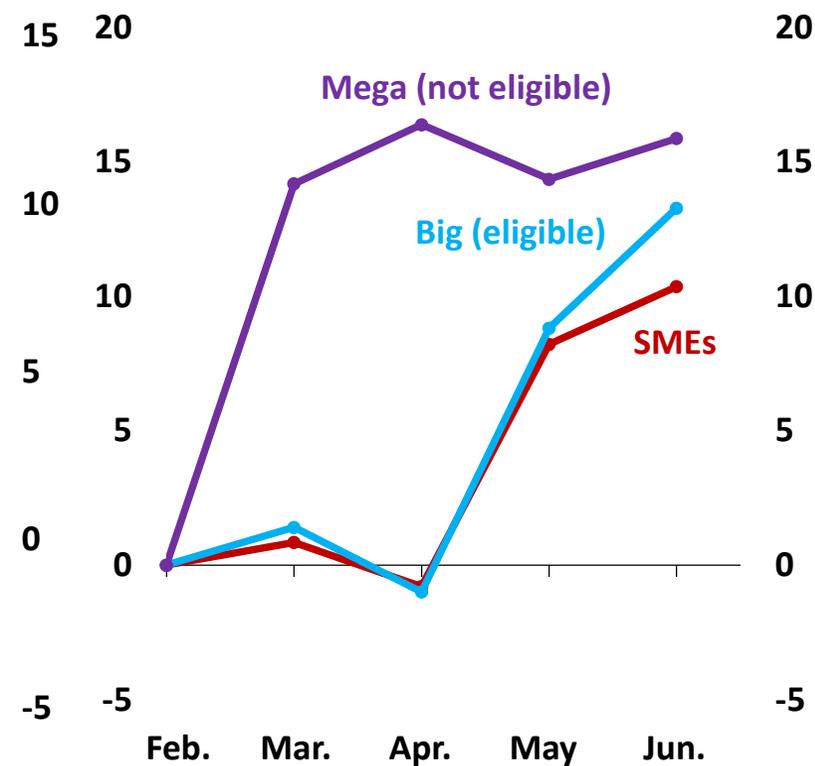


Stock of commercial credits by size and behavior of sales
(change in annual variation compared to February 2020, percent)

(a) Credits granted with FOGAPE Covid-19 programs (*)



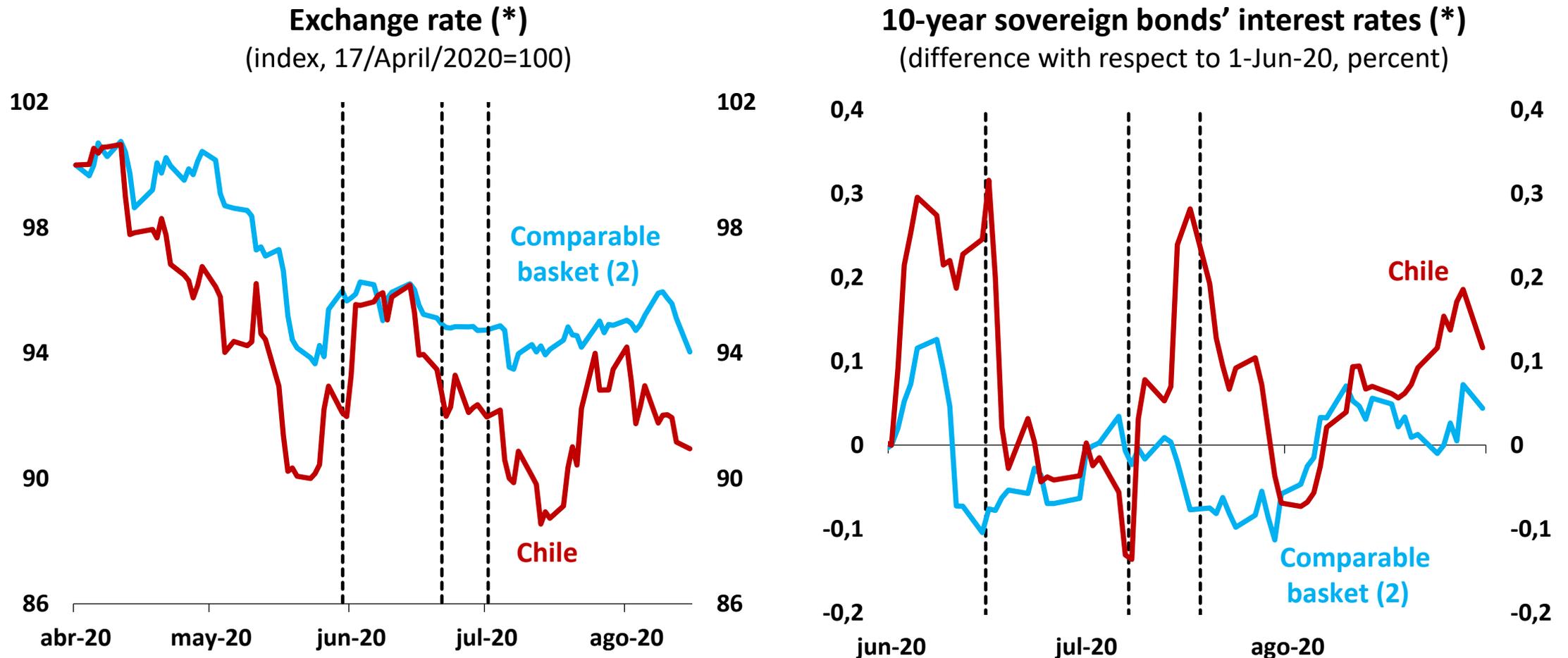
(b) Stock of commercial credits (*)



(*) Companies classified into three groups: (i) Micro, small and medium-sized (MiPYME), which have annual sales of less than 100 K UF, (ii) large, which have annual sales between 100K UF and 1 million UF; and (iii) mega-large companies, which have annual sales of over 1 million UF. By regulation, MSMEs and large companies are eligible by size for the FOGAPE-COVID program, while mega-large companies are not. For further detail, see Box II.2 in MP Report, September 2020. Source: Central Bank of Chile using data from the Financial Markets Commission and the National Statistics Institute (INE); and Huneus *et al.* (2020).



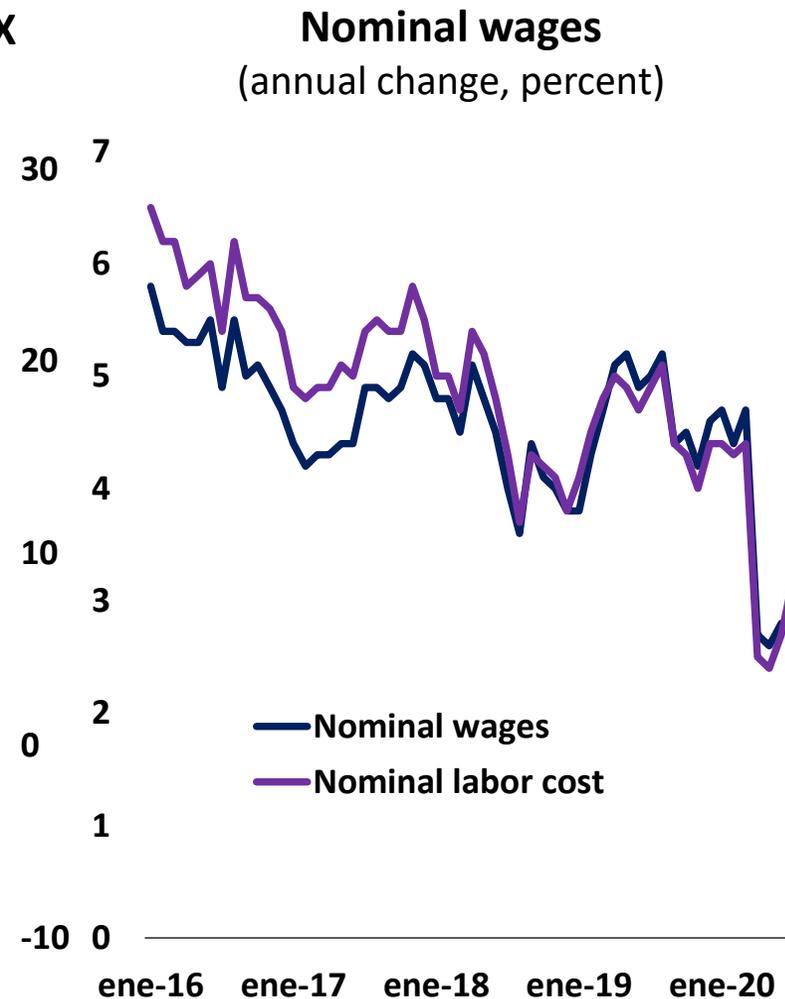
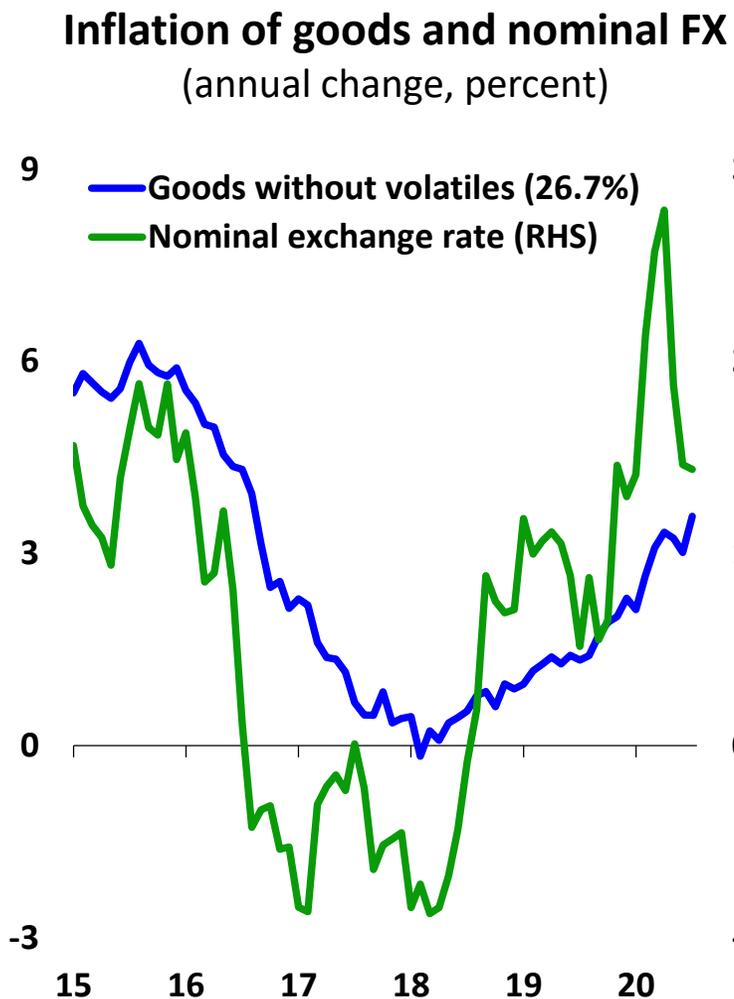
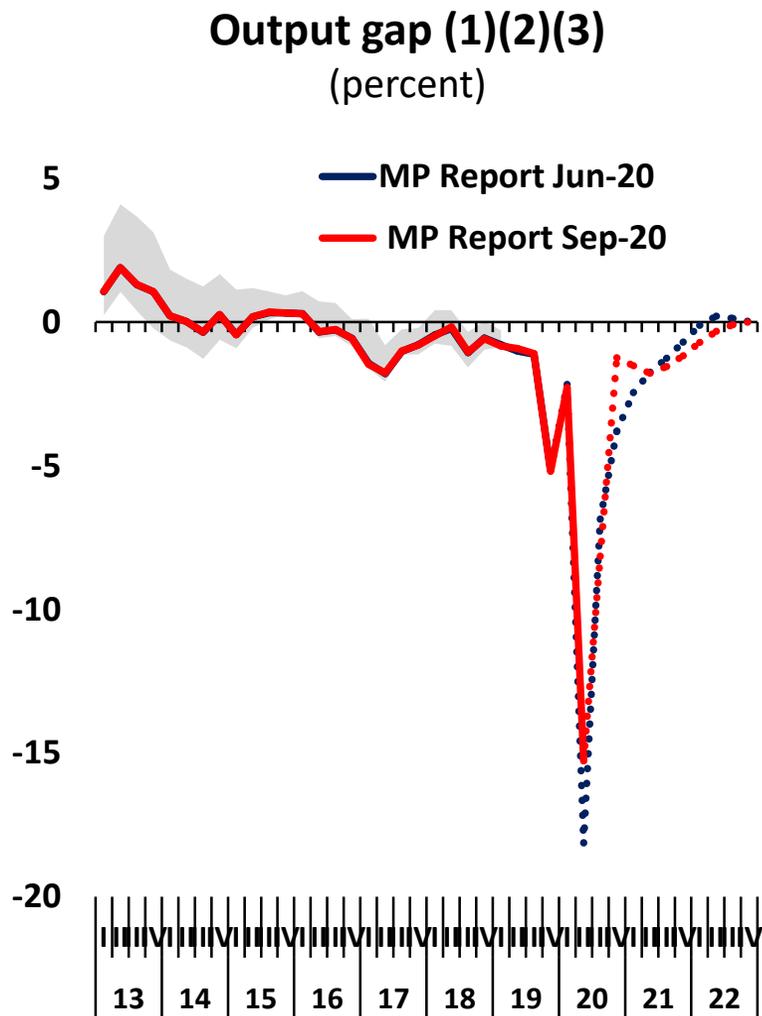
The coordinated action between the regulators and the Central Bank, coupled with the Pension Funds' work, has also allowed the withdrawal of part of the pension savings to proceed without major setbacks in the local markets...



(1) Vertical lines from left to right mark the dates of: the June monetary policy meeting (June 16th), approval in Congress of the idea of legislating on a bill that would allow the withdrawal of 10% of the AFP funds (July 8th), and first announcements by the Central Bank of Chile (July 20th). (2) The basket of comparable economies is made up of a combination of Latin American assets and commodity exporters (Australia, Brazil, Colombia, Mexico, New Zealand and Peru). Source: Bloomberg.



Key inflation fundamentals indicate low inflationary pressures in the short run.

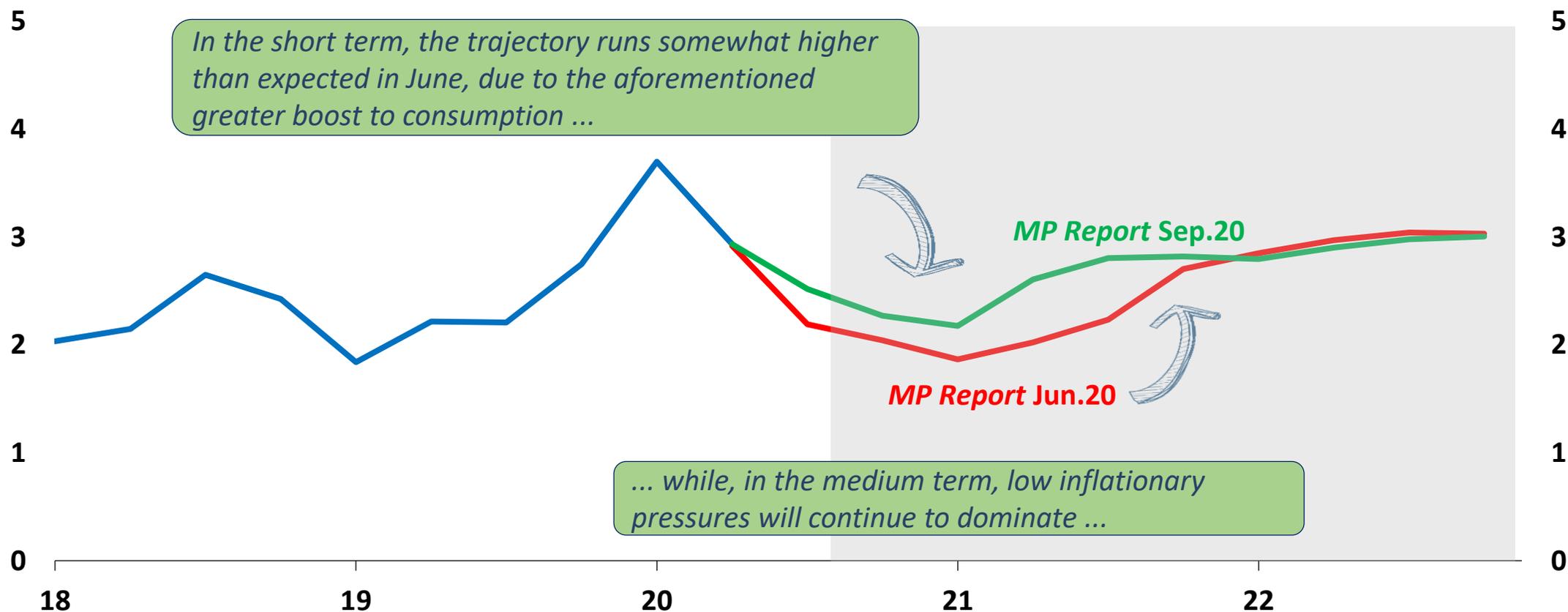


(1) Gray area shows minimum and maximum ranges for gap estimates, using different potential GDP estimation methods. See Fornero and Zuñiga (2017). (2) Dotted lines show forecasts. (3) The calculation of the gap in June MP Report, derived from the MSEP model, considers annual growth for potential non-mining GDP of -1,7%, -0,2% and 1,9% for 2020, 2021 and 2022, respectively. For this report, the productivity inference of the XMAS model is used, so it contemplates a projection for potential GDP of -1,2%, 0,2%, and 2,1%, respectively. For more details see Central Bank of Chile (2020), *Use of Macroeconomic Models*. Sources: Central Bank of Chile and National Statistics Institute (INE).



Inflation will converge to 3% by 2022.

CPI inflation forecast (1) (2)
(annual change, percent)



(1) For 2018, the annual variation of the CPI obtained by splicing the series with base 2013 = 100 with the monthly variations of the 2018 = 100 basket as of February 2018 is shown. See Box IV.1 of the March 2019 *MP Report*. (2) Gray area, as from the third quarter of 2020, shows forecast. Sources: Central Bank of Chile and National Statistics Institute (INE).

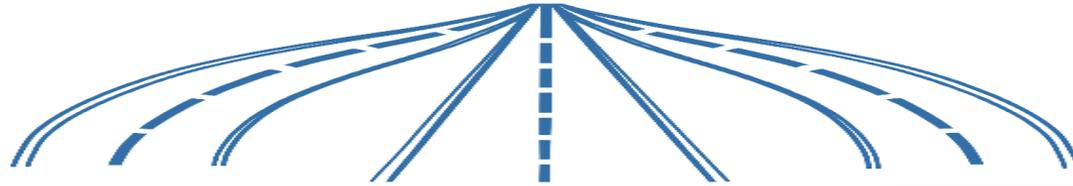


Macroeconomic scenario continues to show more uncertainty than usual and, as always, there are sensitivity scenarios where the evolution of the macroeconomic situation could require adjustments to the monetary impulse

POSITIVE



NEGATIVE



Possible reasons:

- Increased speed of de-refining
- Soon finding of a vaccine

Possible reasons:

- Effects of the pandemic greater than estimated

Implications:

- Faster recovery of activity and employment
- Less need to adjust the economy
- Positive effect on inflationary convergence



Implications:

- Greater alteration of sectors where human interaction is key
- Most affected labor market
- Negative effects on growth and on inflationary convergence

Unbiased risk balance for activity and inflation

Risks:

- Credit not flowing to where most needed



Yet a number of challenges emerge in transitioning from recession to recovery

- Restore the labor market
- Shift from emergency support to recovery under social distancing
- Sectoral reconversion in activities most affected by the pandemic
- Secure adequate funding for the recovery period
- Reduce uncertainty, after a year well above its historical levels
- Final challenge is to increase, or at least maintain, long-term growth for inclusive development



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