MONETARY POLICY MEETING

MARCH 2021

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Monetary Policy Meeting No. 280, held on 30 March 2021.

Present: Mario Marcel, Governor; Pablo García, Board member; Alberto Naudon, Board member, Rosanna Costa, Board member. Vice-Governor Joaquín Vial was absent on sick leave.

Also present: Alejandro Zurbuchen, General Manager; Juan Pablo Araya, Legal Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Beltrán de Ramón, Financial Markets Division Director; Solange Berstein, Financial Policy Division Director; Gloria Peña, Statistics Division Director; Michel Moure, Institutional Affairs Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communication Manager; Miguel Fuentes, International Analysis Manager; Andrés Fernández, Economic Research Manager; Felipe Lozano, Communications Manager; Cristóbal Gamboni, Advisor to the Finance Minister; Yennifer Chahuán, Acting Secretary General.

1. Background

Background information for this Meeting was contained in the March Monetary Policy Report, to be released the following day. This Report noted that the Chilean economy had been advancing steadily in its recovery process after the massive shock caused by the pandemic. The year 2020 had ended with greater dynamism than had been foreseen in December, reflecting the better adaptation of firms and households and the support of a substantial monetary and fiscal impulse. Thus, although in the immediate future a setback in local activity was projected due to the tightening of sanitary measures, the outlook for 2021 had strengthened, supported also by the sustained progress of the vaccination campaign, the greater impulse from abroad, and ongoing expansionary policies. However, the indicators showed that there were still significant risks latent associated with such an unprecedented shock.

On the one hand, there was the still complex epidemiological evolution, which added uncertainty to the timing and manner in which sanitary restrictions would be eased. On the other hand, the recovery continued to be heterogeneous, with significant lags in the sectors most intensive in social interaction, which partially explained the important gaps that persisted in the labor market. At the global level, the correct calibration of monetary and fiscal stimuli in terms of their size, scope and permanence emerged as key, so as to strengthen the recovery without generating macro-financial imbalances. Equally important were the scars that the pandemic would inflict on households and businesses—including the deterioration of their net worth—and its impact on the future dynamism of the economy.

2. Background analysis and discussion

It was noted that the macroeconomic scenario, in general, presented a better aspect compared with late last year. Several economies, Chile included, were recovering faster than had been foreseen early in the year and their outlooks for 2021 had improved. All this configured a global scenario that would provide greater impetus, with faster growth of our trading partners and better terms of trade. In addition, especially in the case of Chile, there was the progress of the vaccination process, which was expected to lead to a significant reduction in sanitary restrictions in the second half of the year.

In any case, there was agreement that, despite the positive news, the evolution of activity would be negative in the immediate future, due to the tightening of sanitary measures. Although these effects were expected to be milder than those observed in the early stages of the pandemic, and probably more transitory, they would nonetheless delay the economy's recovery process. For all of the above reasons, the unfolding of the sanitary situation going forward was a critical element in the evolution of the macroeconomic scenario. Moreover, while the recovery continued to be very heterogeneous across sectors, job creation had slowed down and continued to lag significantly behind economic activity.

It was remarked that, although projections for 2021 were improving, the scenario was still surrounded by significant risks. One was the heterogeneity of both the effects of the crisis and the recovery process.

Whether at the level of countries, economic sectors and/or socioeconomic groups, there were considerable differences in the way the pandemic had impacted their economic situation, which posed challenges as to how to manage the level of monetary and fiscal stimuli without generating imbalances that would put the economy at risk. Doubts concerning the severity of the scars the pandemic would leave were also an element that could condition the measures' fine-tuning. Finally, the risks associated with the rise in long-term interest rates in Chile and elsewhere were discussed. Although these risks were linked to the perception of an improved economic scenario and, therefore, were not in themselves cause for concern, the possibility of abrupt movements in long rates continued to be a latent risk, particularly due to market questionings about the fiscal and monetary policy mix in the United States.

3. Analysis of monetary policy options

All the Board members present agreed that, while prospects for the economy had improved, for inflation to converge to the target over the policy horizon, monetary policy needed to remain highly expansionary. They also agreed that the range of risks was significant, and close attention should continue to be paid to the evolution of both sanitary conditions and the economy's recovery. In this context, there was consensus that everything suggested that the MPR would be kept at its minimum level for several more quarters, which was consistent with the fact that most of the scenarios analyzed in the MP Report anticipated no increases in 2021.

The Board agreed that, even after considering all the risks and uncertainties regarding the future evolution of the economy, the prevailing view was that the most complex part of the shock was being left behind. Therefore, the time was approaching when monetary policy would once again be implemented in the traditional way, where the momentum was determined by the level of the MPR and the orientation that the Board provided on it.

The Board deemed it important to clarify that returning to traditional monetary policy making did not require the extraordinary measures taken during the pandemic to be extinguished beforehand. In the past year, conventional measures—such as lowering the MPR to its 0.5% minimum—as well as unconventional ones—such as the FCIC and the bond purchase program—had been adopted. The latter had already been defined in terms of their amount and duration and, barring any changes, would be extinguished with the passing of time. This, in any case, was no obstacle for the Bank to make every adjustment it considered necessary to accommodate the end of these measures as their duration expired.

4. Monetary policy decision

Governor Marcel and Board members García, Naudon and Costa voted in favor of holding the MPR at 0.5%. In addition, they agreed to effect not changes to the unconventional liquidity and credit support measures in place.

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