

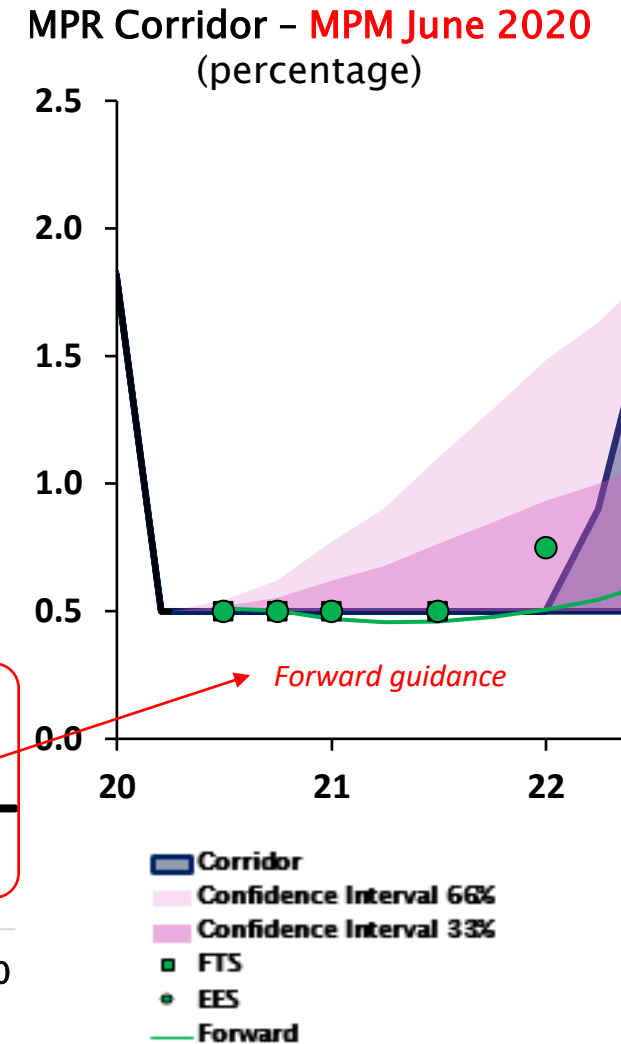
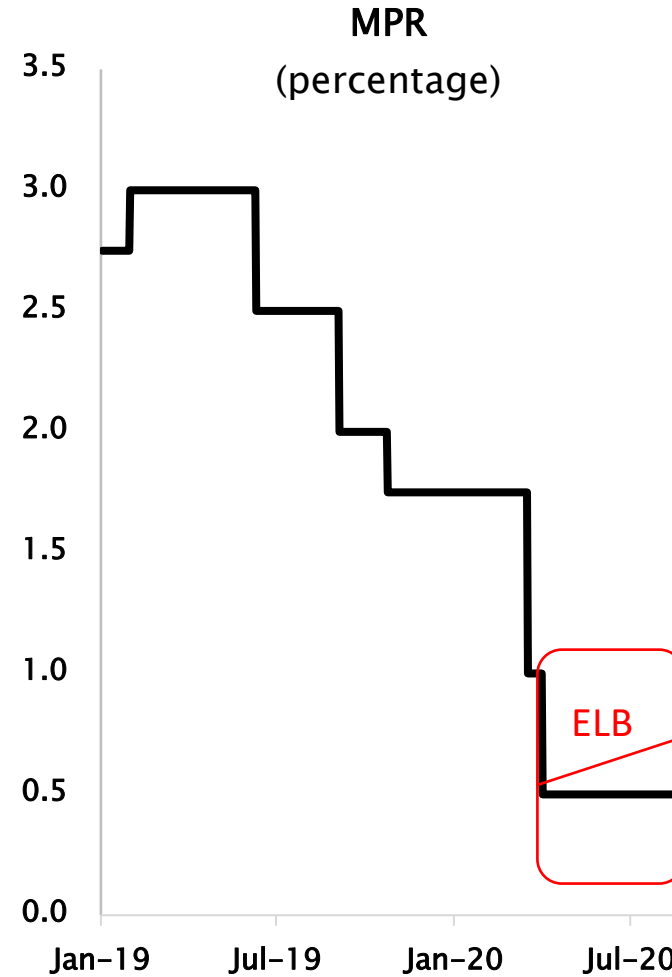
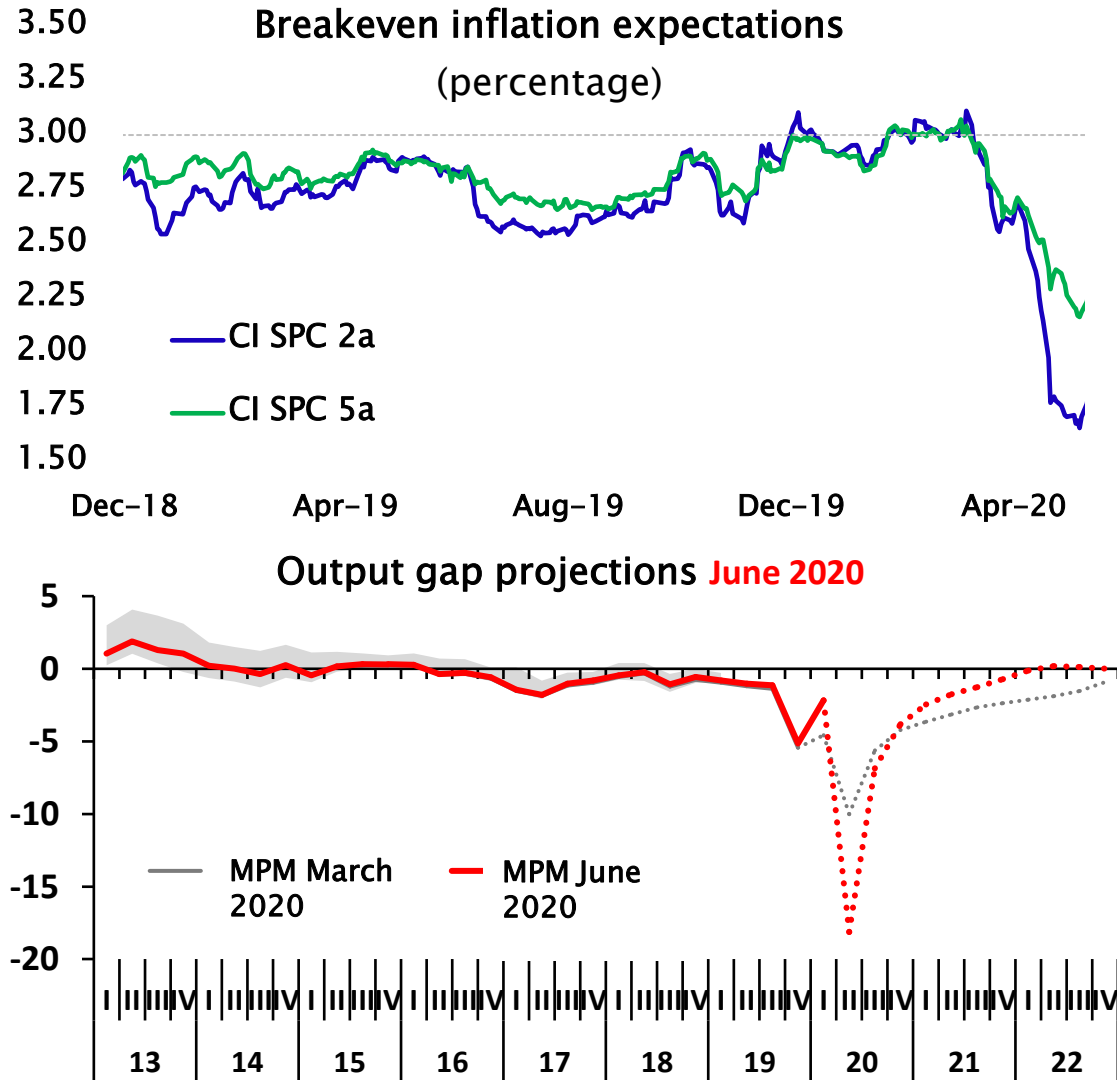
Special operations to address Covid financial turmoil at the CBCh

Diego Gianelli G.
Acting Director, Financial Markets Division

In a nutshell

- Since the social outbreak in 2019 and especially after the pandemic, the Central Bank of Chile has applied extraordinary and unprecedented measures that have helped to mitigate the economic and financial effects
- These measures have reduced the cost of financing for the various economic agents, helping to sustain credit and allowing the issuance of bonds in the corporate sector to remain dynamic even in uncertain circumstances
- These measures expanded the CBCh balance sheet by twofold, increasing its risk/return profile
- As demand is picking up, supported by fiscal impulse and pension funds withdrawals, monetary policy will start to remove some of the stimulus and special measures will begin to unwind
- This raises several challenges regarding: timing, speed, and coherence between them all
- We believe we are very well prepared to deal with the challenge in hands

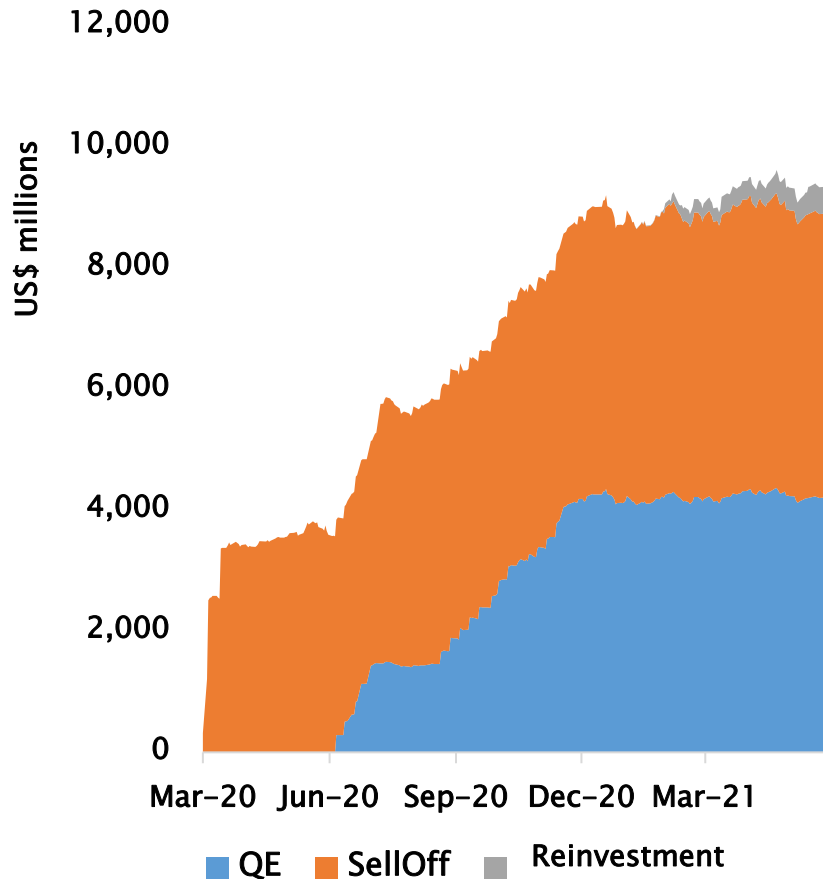
The collapse in the output gap and inflation expectations in the 2Q-2020 led to quickly cut the MPR to its Effective Lower Band (0.5%) and signal an extended pause at that level in June's 2020 IPOM's rate corridor. That forward guidance was very credible



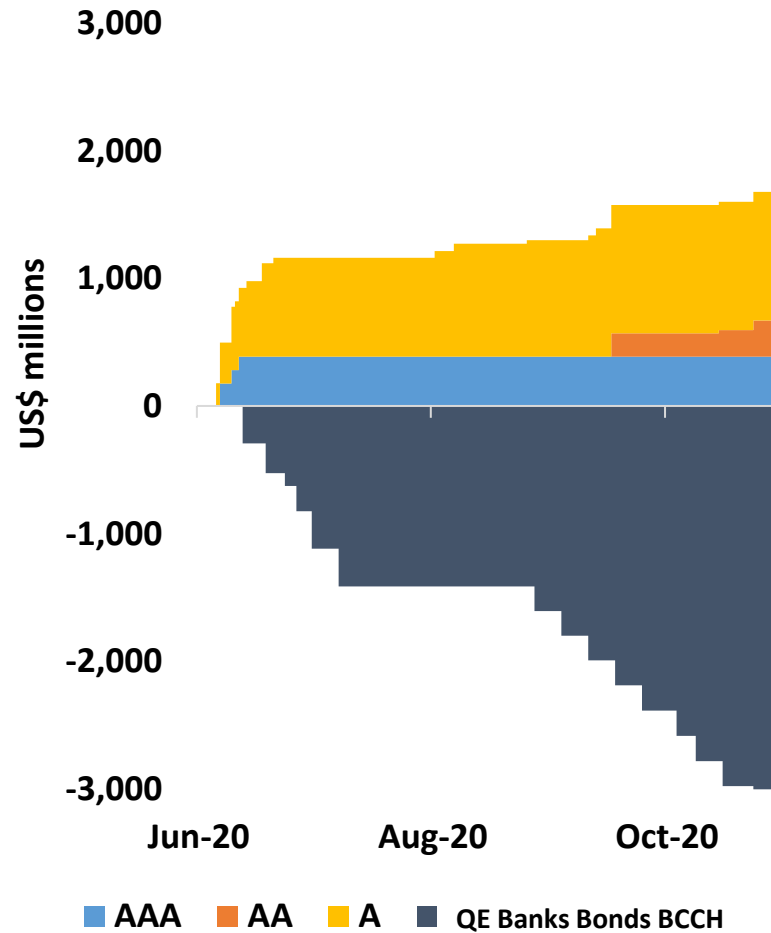
As a response to Covid, asset purchase programs were implemented for the first time. Along with delivering a greater monetary boost and stabilizing the fixed income market, the purchase of Bank Bonds generated crowding-in in the corporate segment



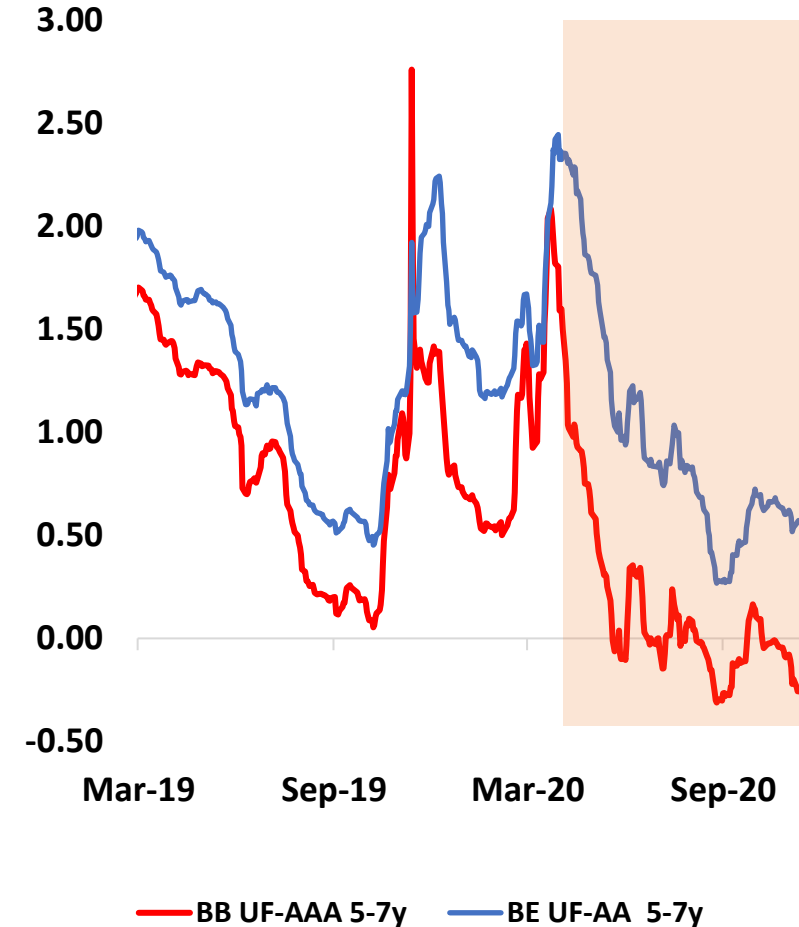
Bank Bonds purchases: by program



Crowding-In to Corporate Bonds



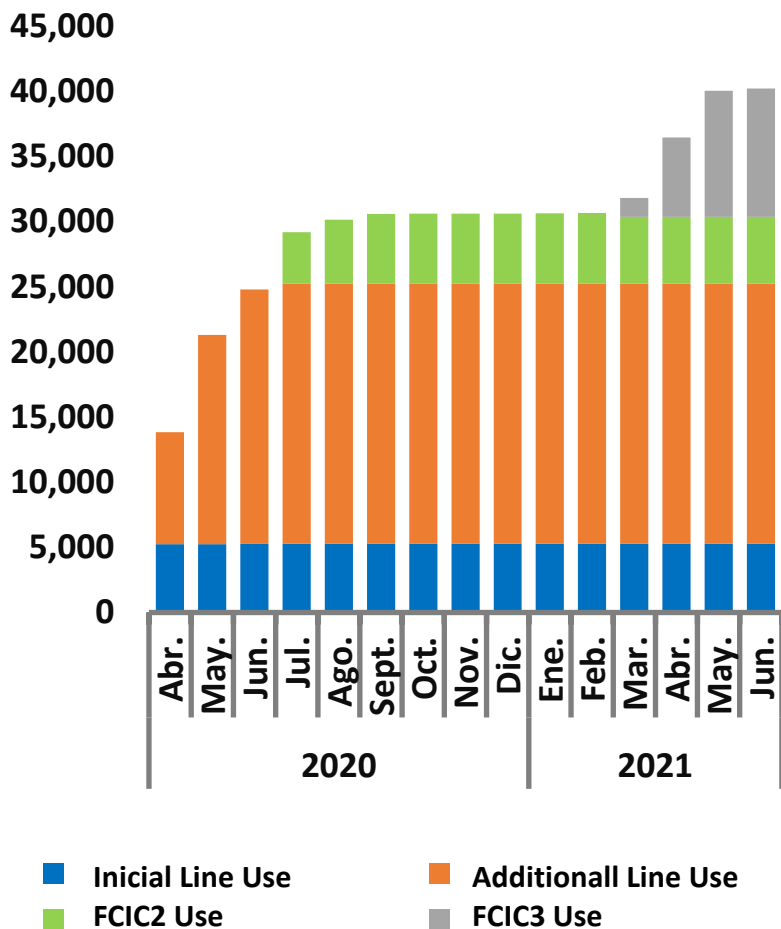
Real rates Corporates Bonds (BE) and Banks Bonds(BB) 5-7y



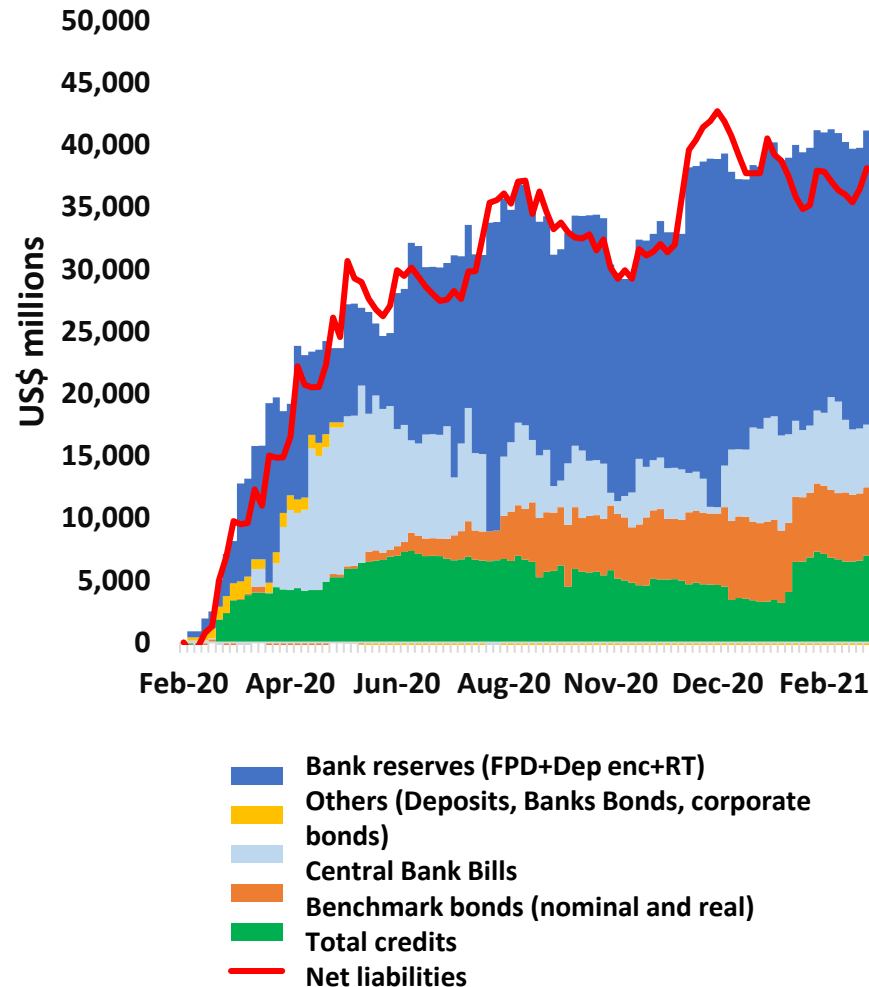
The FCIC / LCL have delivered around USD 30bn at a minimum MPR (0.5%) for up to 4 years with expanded collateral. These operations were very effective in sustaining credit growth and providing liquidity to the banking system



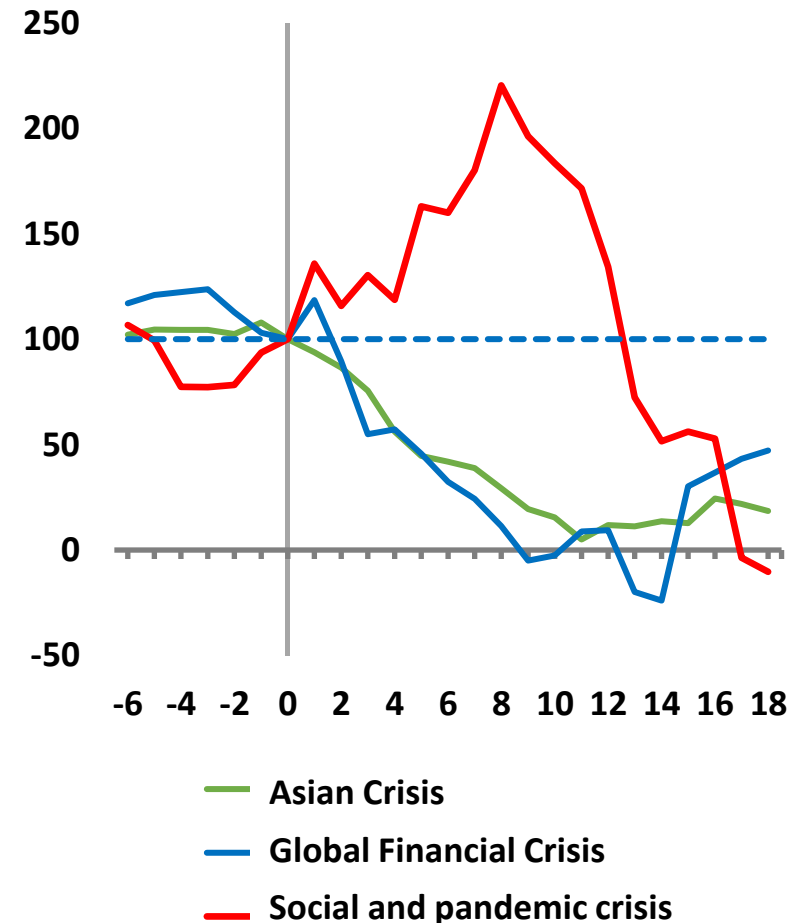
Use of lines available at the Central Bank
(US\$ millions)



Bank Asset Growth



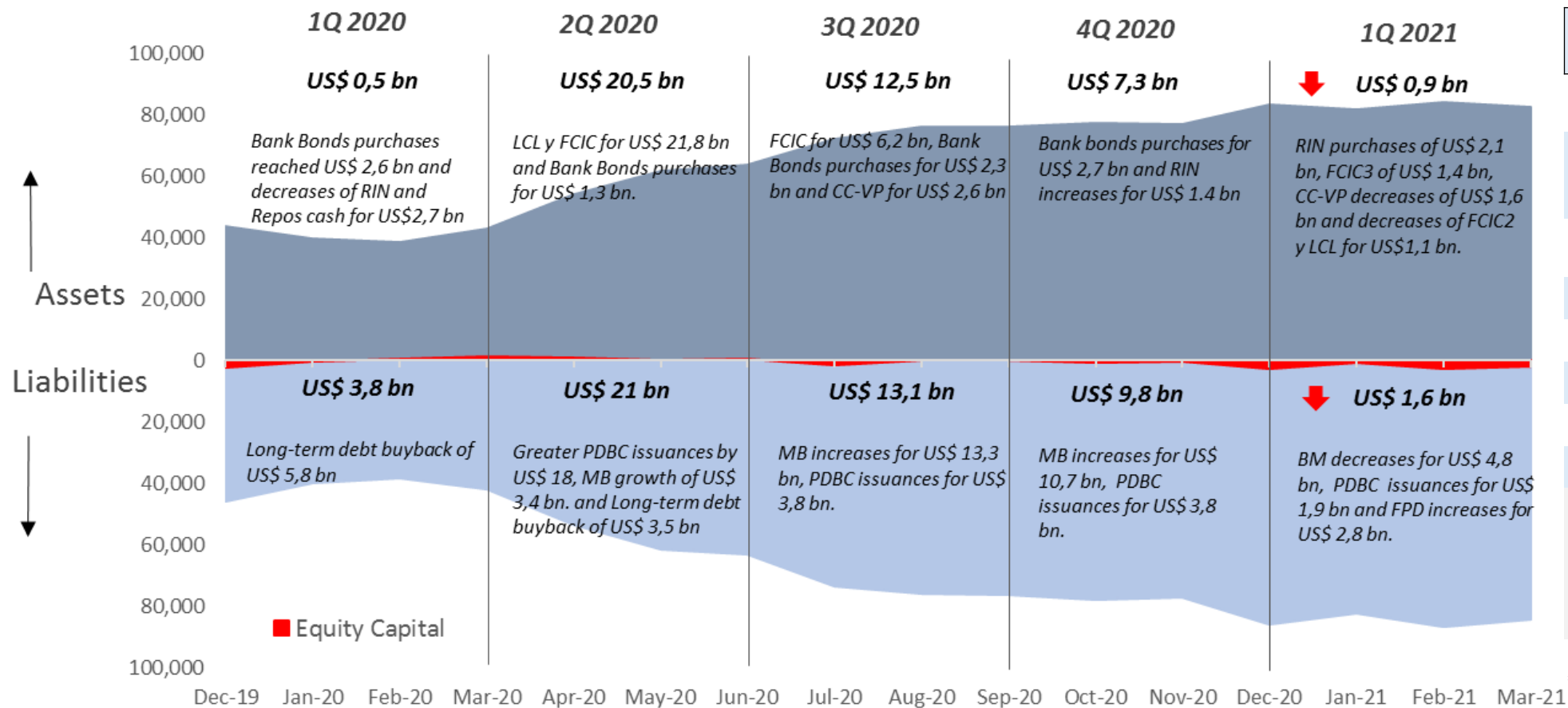
Commercial portfolio growth



The set of these operations (and others that had been implemented due to the social outbreak in 2019) more than doubled the balance of the Central Bank and involved a great operational effort for the work teams



BCCh Balance Sheet Evolution (MM US\$)



Number of operations at DOMA

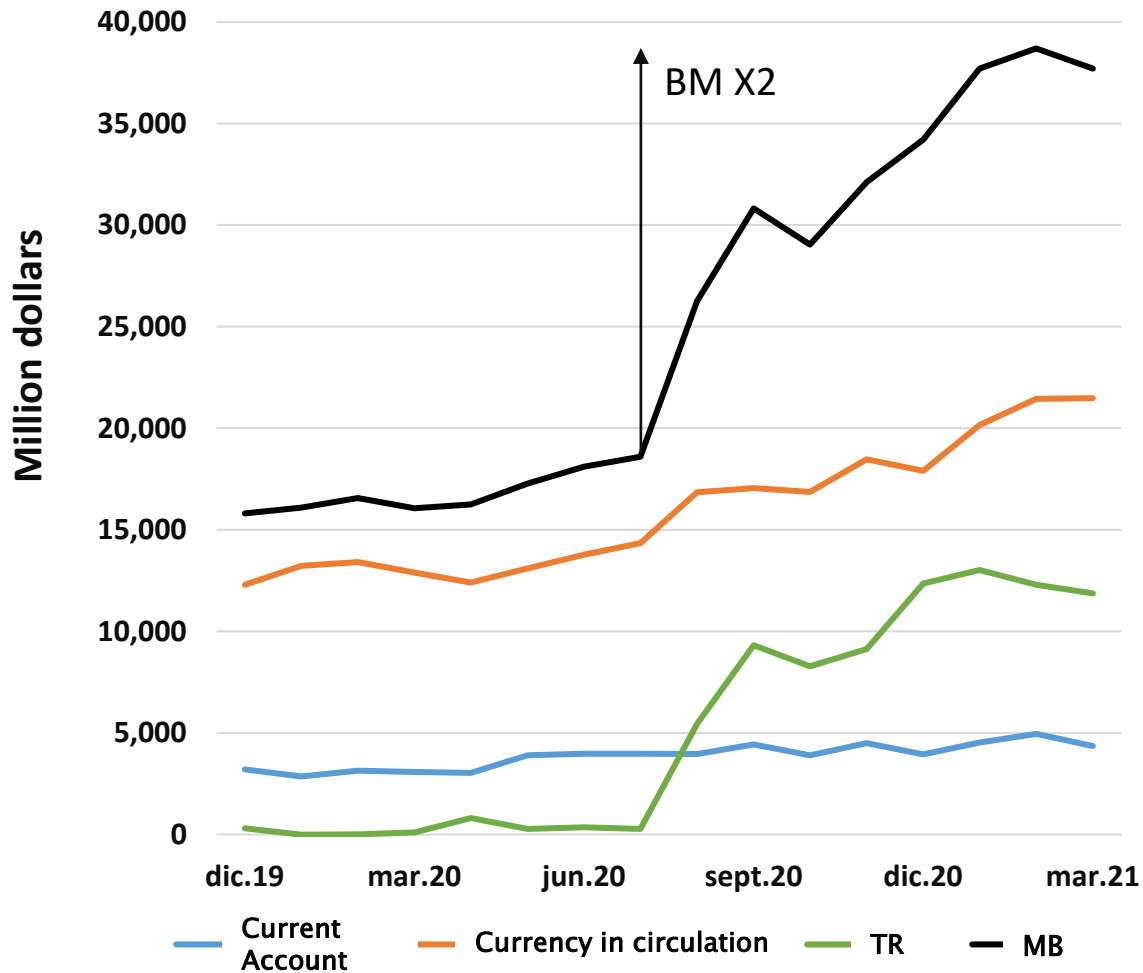
	2018	2019	2020	2021
FX Operations (Spot + FWD)	0	66	845	334
Debt issuance	535	450	370	320
Asset purchases	0	15	127	18
CCVP	0	0	35	22
Repo	3	31	606	309
FX Swap	0	38	291	5
LCL/FCIC	0	0	45	22
Total*	538	600	2319	1030
Monthly Average	45	50	193	187

*2021 considers until 15th june

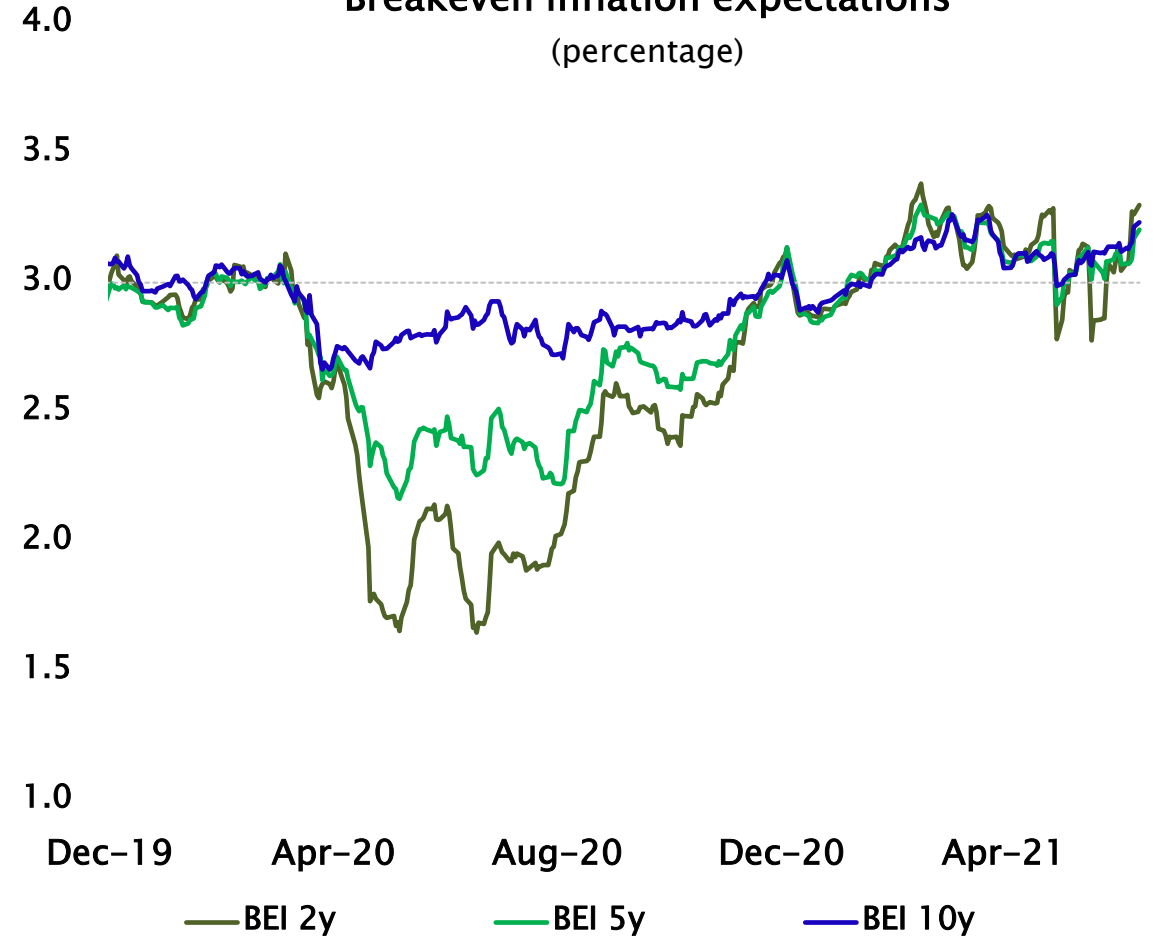
Despite the strong increase in the Monetary Base, inflation expectations have remained contained during 2020. As a result of other developments (PF retirements, fiscal support, etc.) there has been an inflationary acceleration recently



Monetary Base evolution per component



Breakeven inflation expectations



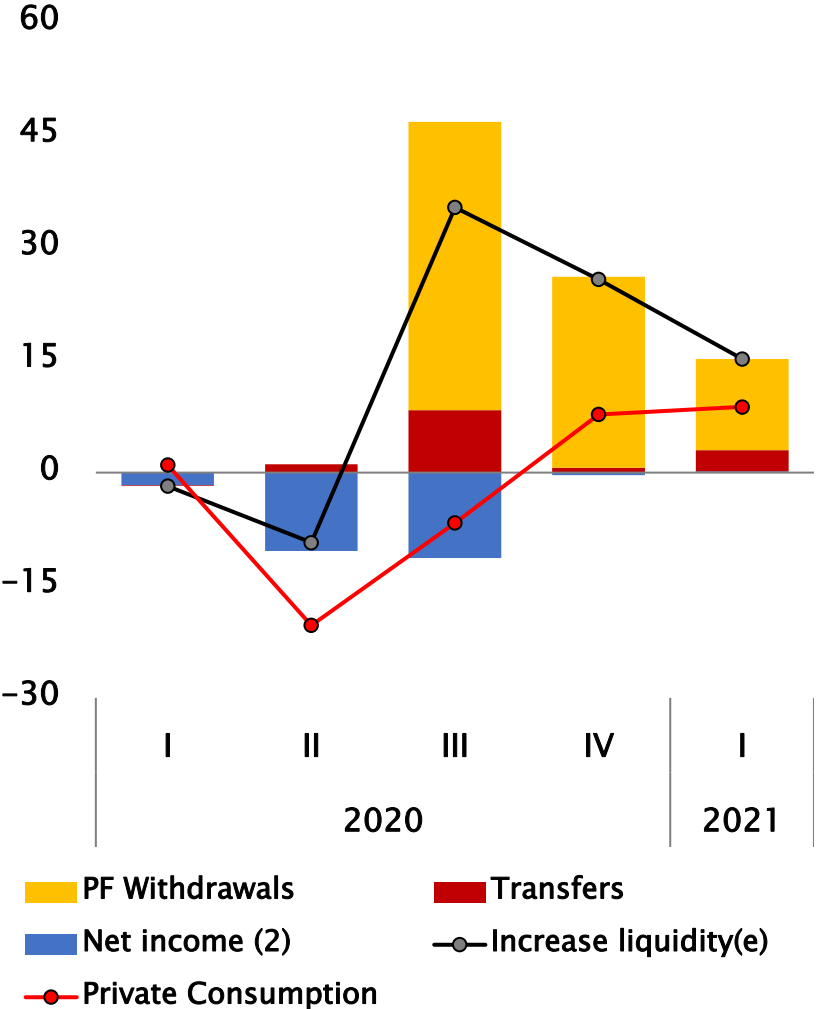
Note: BEI based on swaps rates, and inflation expectations based on forward inflation (June.21 to May.22 period).



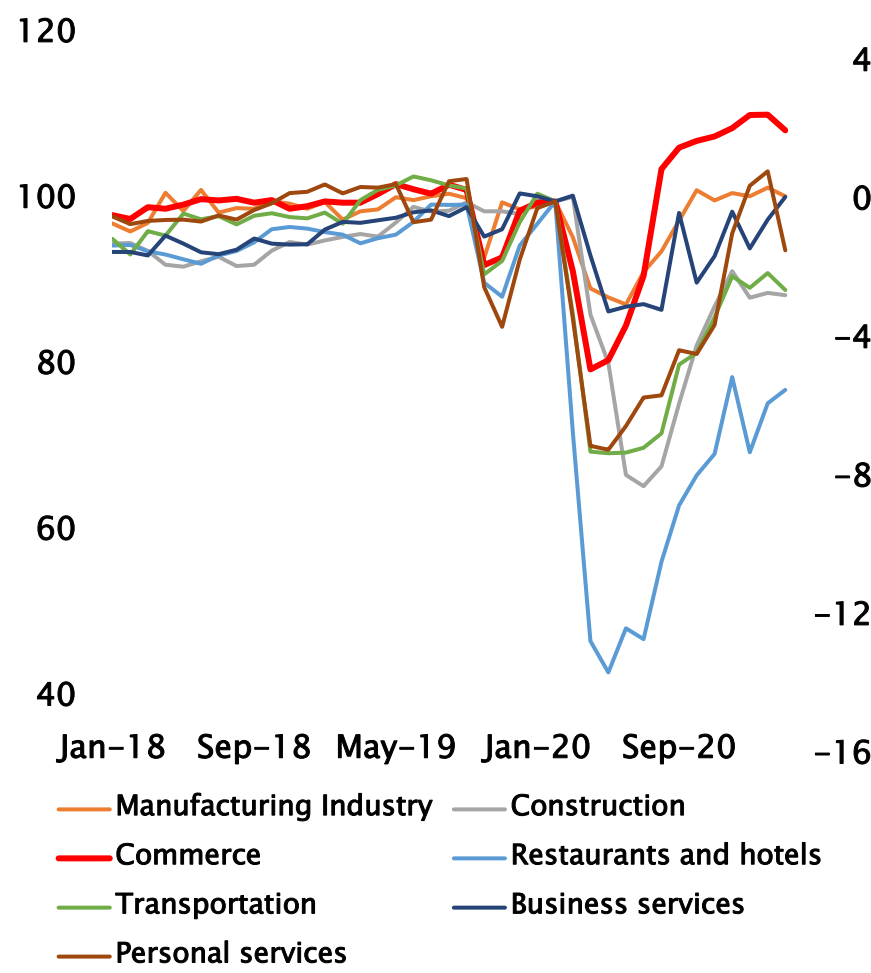
Looking forward

Fiscal stimulus and pension fund withdrawals are putting pressure on aggregate demand. Even though recovery is looking uneven, output gap will probably turn positive soon

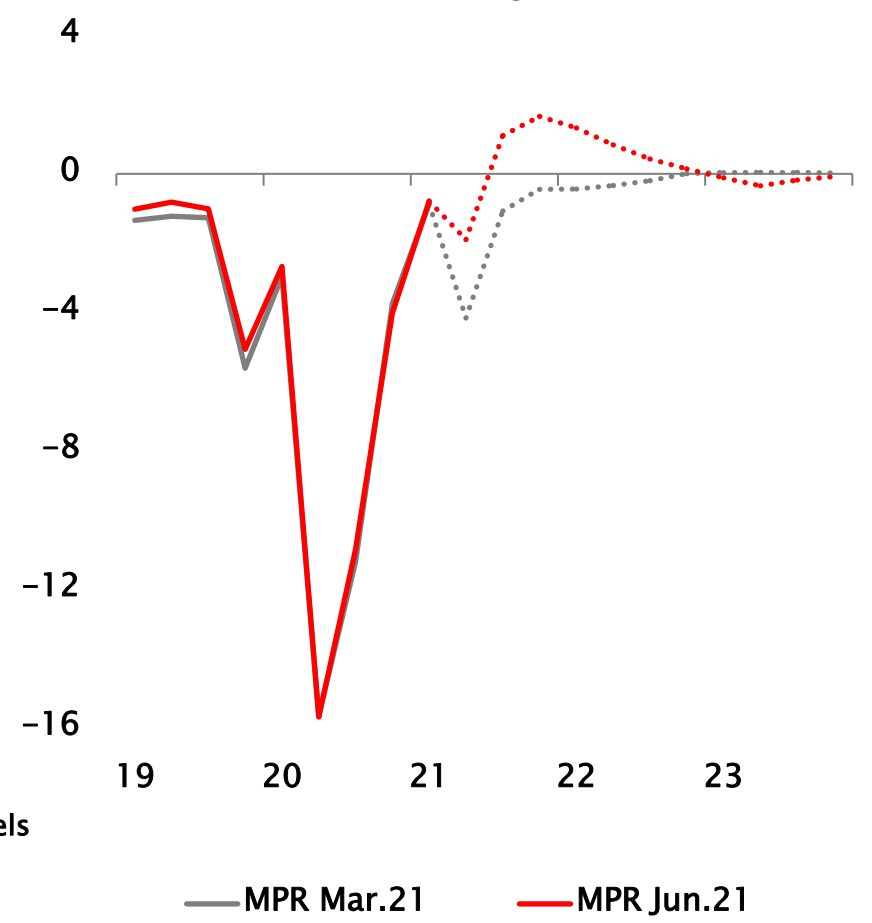
Injections of liquidity and income (1)
(nominal annual change, percentage)



Index of economic activity
(Seasonally adjusted. Index Feb.20=100)



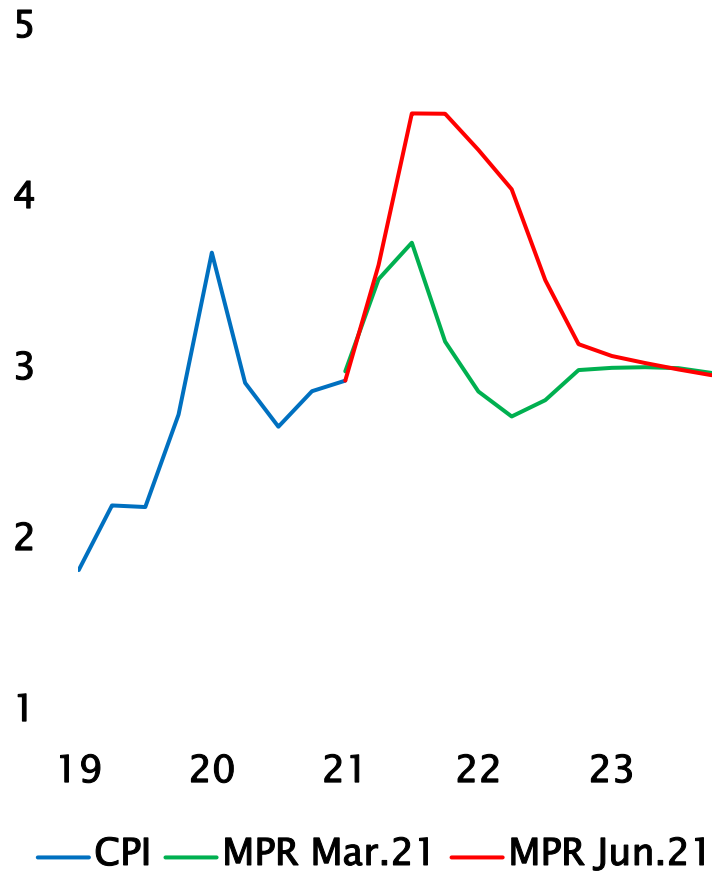
Output gap projections
(level, percentage points)



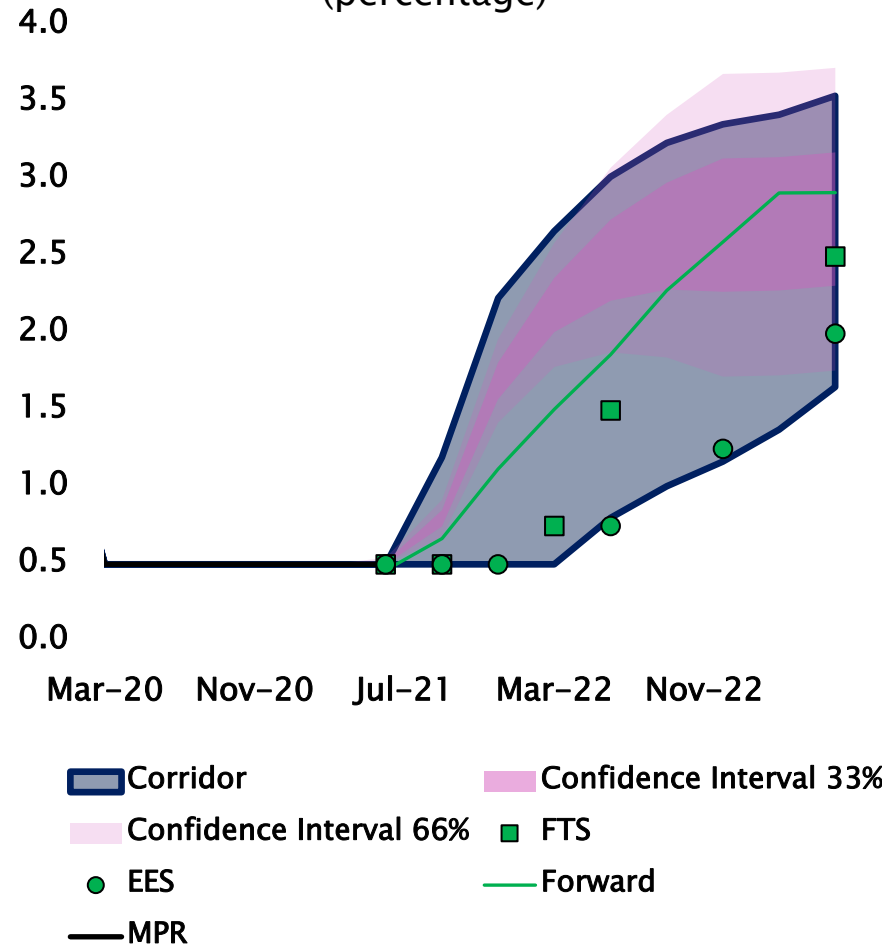
Given demand pressures and inflation outlook, to the extent that it is possible to deconfine the economy, it is likely that monetary policy stimuli should be withdrawn at a faster rate than previously anticipated. Markets are anticipating an even stronger reaction



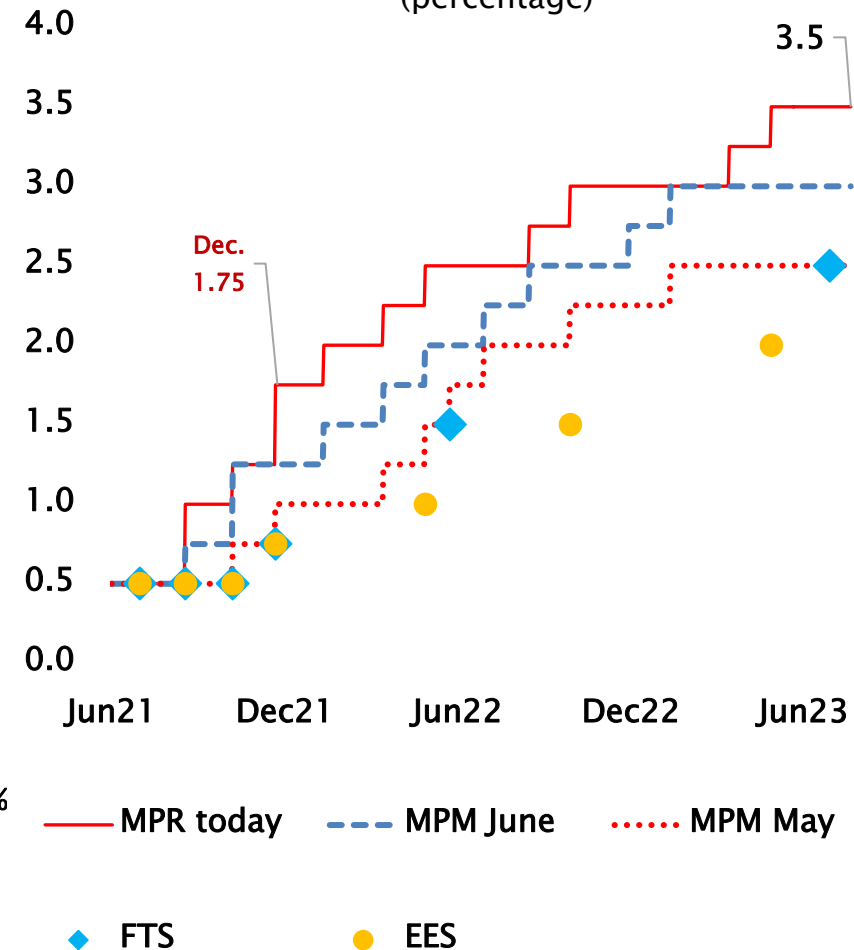
Central Bank CPI projections (y/y%)



MPR Corridor – MPR June 2021 (percentage)

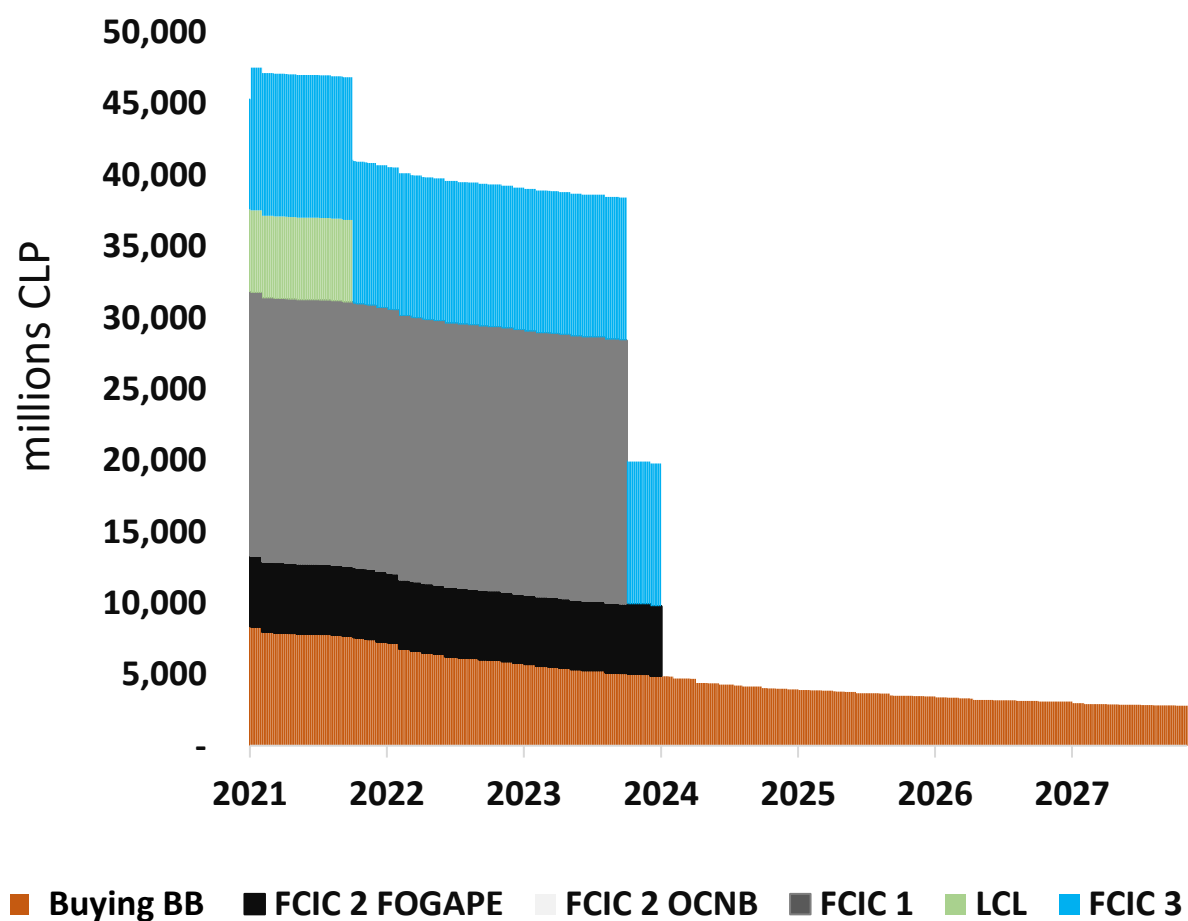


MPR market expectations (percentage)



The special operations would gradually fade out. Since these operations are no longer active, they should not be a drag on transmitting the monetary impulse decided by the Board going forward.

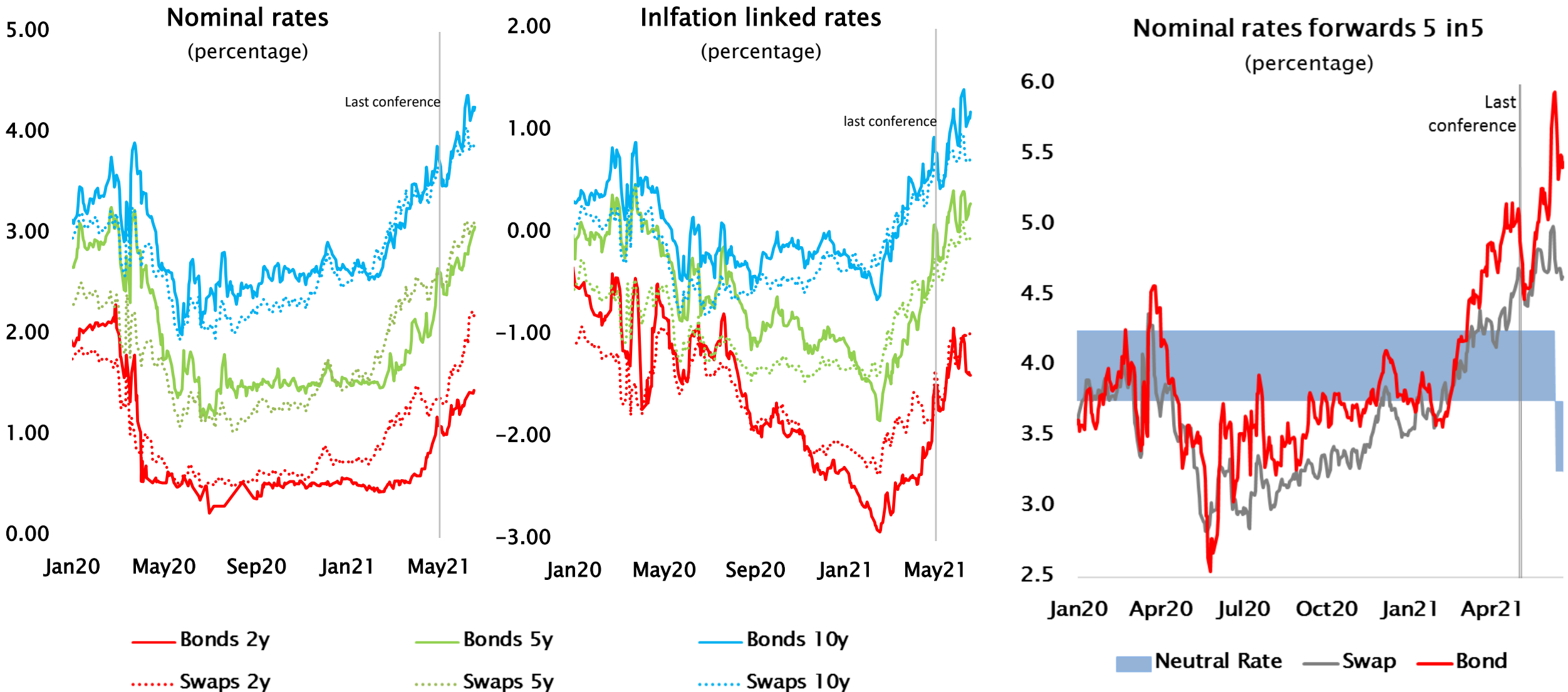
Special Operation: Schedule expiration



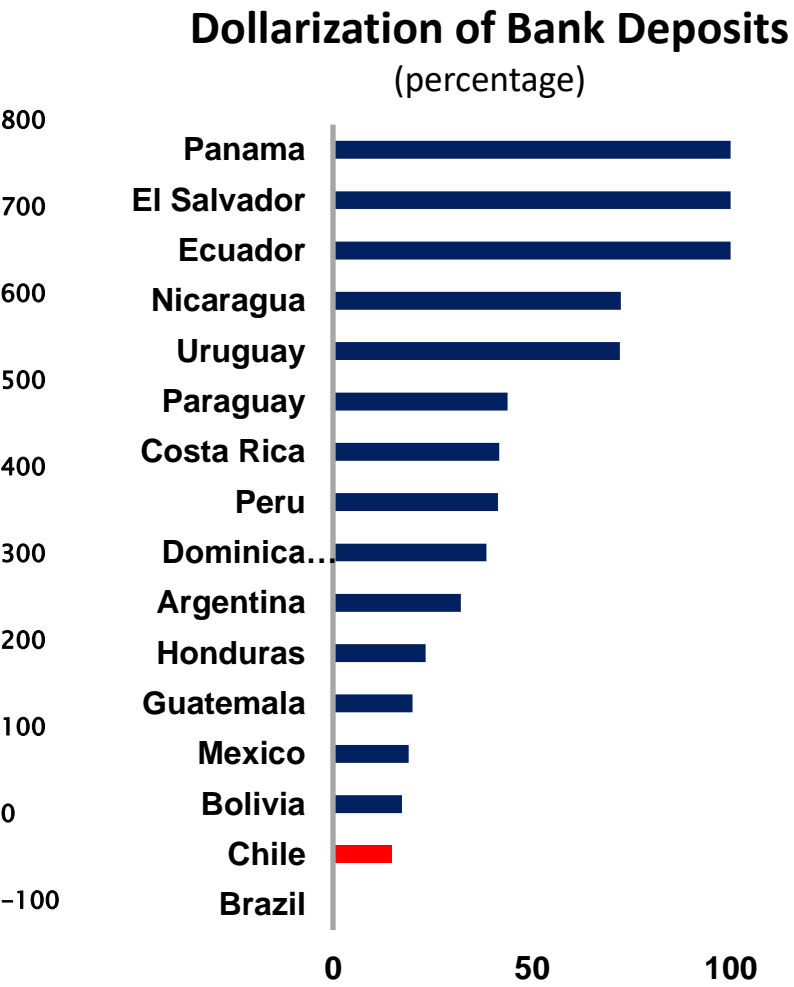
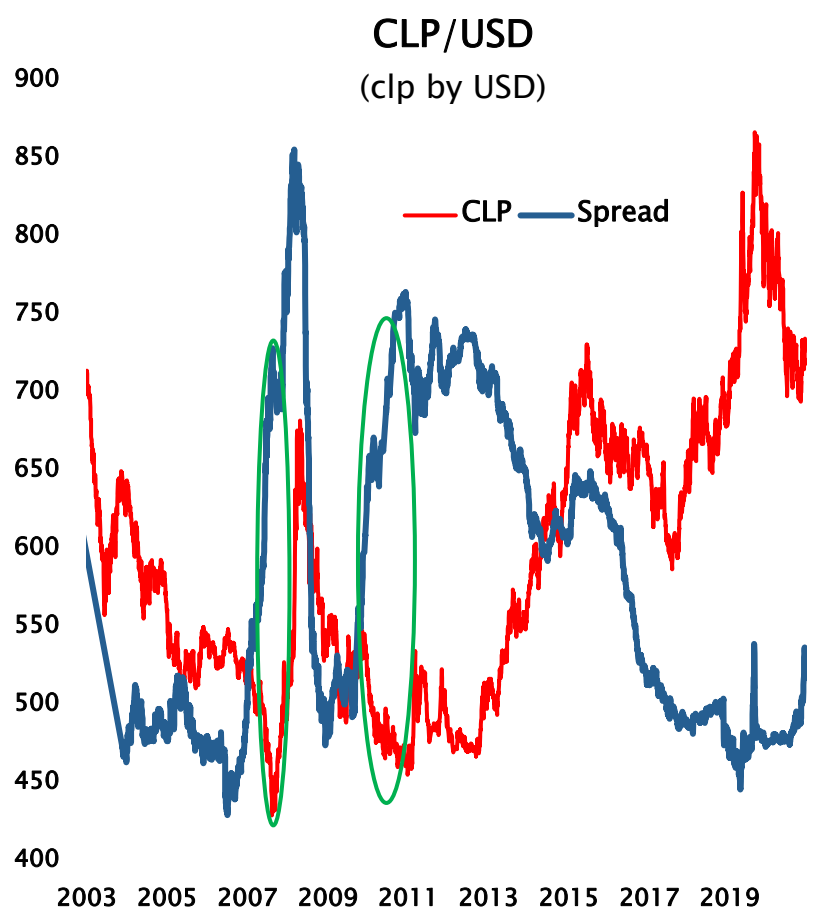
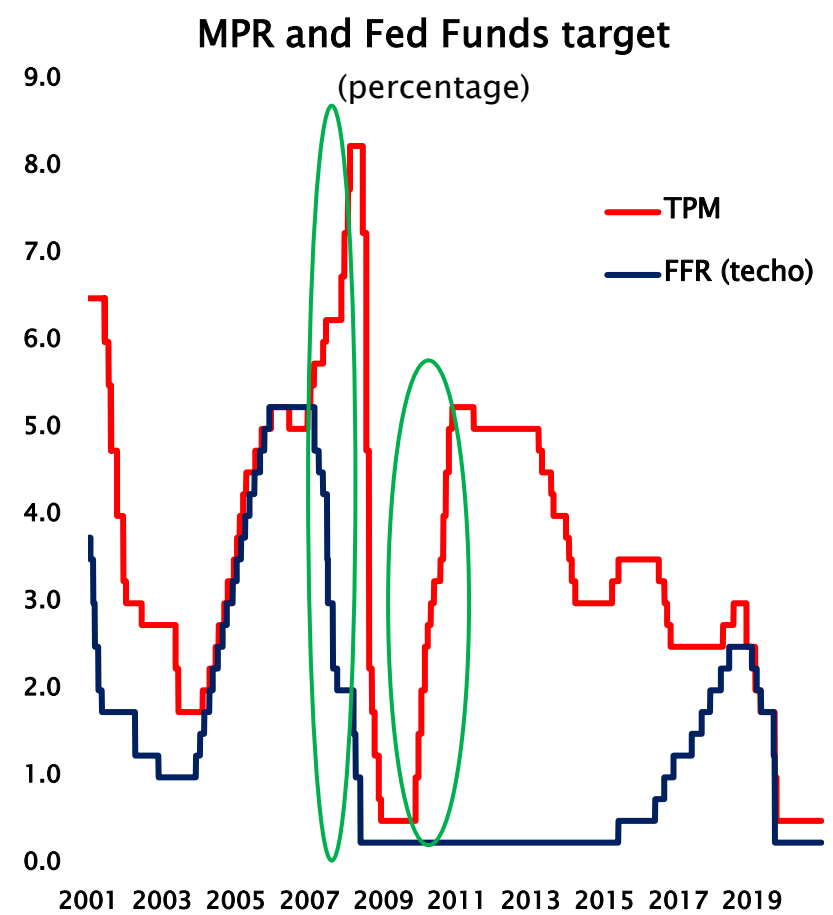
* It excludes operations with close expiration

- To roll over the LCL to FCIC, Banks will need to issue short term debt to buy collateral. Both, the market value of the collateral and the short-term bank notes will be linked to MPR
- In 2020, due to FCIC, banks reshuffle their liabilities letting short term notes due for about USD30bn. This pushed money markets rate to the floor of the monetary policy corridor
- As FCIC and other operations unwind, Banks will need to issue short term notes or bonds to finance their business. This will help to rebalance money markets rates, something that is already happening
- If money markets rates overreacted in the process of adjustment, there is plenty of room to smooth the process by reducing the supply of CB notes

In the long end of the curve, markets are pricing higher term premiums. The downward reassessment of the neutral rate implicit in the CB reaction function, helped to bring down the very long after the MPR was issued



Although the cycles are not independent, MP in Chile has differentiated from the US when necessary. The exchange rate floating regime safeguards this autonomy. Therefore, FED's path to normalization should not be an obstacle for the management of MP in Chile



Main take aways

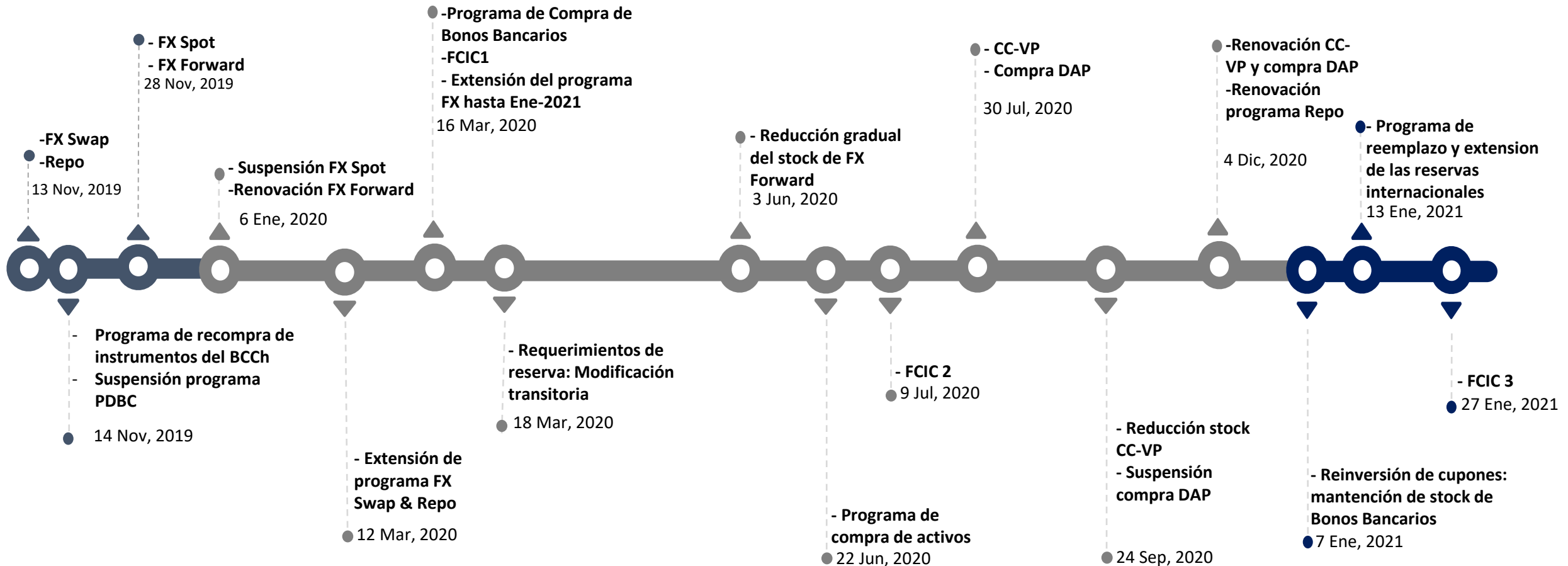
- Conventional Monetary policy has been very accommodative since Covid emerge
- Forward guidance and un-conventional policies complemented conventional monetary stimulus, supporting some specific sectors as well
- These exceptional measures increased the CB balance sheet twofold, bringing challenges to the risk management required to hold private sector assets
- Going forward monetary policy will probably be less accommodative as output gap turn positive and inflations pressures mount up
- The level of stimuli already lunched, and the unwind of the exceptional operations should not be an obstacle to implement monetary policy in the way the Board sees adequate

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Las medidas especiales del BCCh en materia financiera “a vuelo de de pájaro”

<https://www.bcentral.cl/web/banco-central/medidas-excepcionales>



Descripción de las Medidas Especiales

Medidas	Propósito	Periodo de Vigencia
REPO y aumento de las garantías elegibles	Contener tensiones en el costo de financiamiento en pesos.	14 de noviembre 2019 al 9 de enero 2021.
FX Swap	Contener tensiones en el costo de financiamiento en dólares.	14 de noviembre 2019 al 9 de enero 2021.
Venta de dólares <i>spot</i> y <i>forwards</i>	Contener distorsiones en la conformación de precios en el mercado cambiario.	2 de diciembre 2019 al 9 de enero 2021.
Recompra BCP/BCU y Compra Bonos Bancarios (BB)	Contener distorsiones en la conformación de tasas en el mercado de renta fija.	Recompra BCP/BCU desde 14 de nov 2019 Compra BB desde 20 de marzo 2020.
TPM en piso técnico de 0,50%	Rebajar el costo de financiamiento de la banca y demás sectores económicos.	El 31 de marzo de 2020, el BCCh redujo la TPM hasta el mínimo técnico de 0,50%, con el compromiso de mantenerla por un periodo prolongado.
FCIC	Fomentar y apoyar el otorgamiento de créditos a personas/empresas.	30 de marzo 2020 al 30 de marzo 2024.
CCVP	Contribuir a suavizar la liquidación de activos de los FP durante los regiros	Vigente en los 3 retiros por plazo acotado

Efectos en el Balance de las medidas especiales

Medidas	Efecto en el Balance.
REPO	↑ Balance BCCh, ↑ Activos, ↑ Pasivos Monetarios
FX Swap	→ Balance BCCh, → Activos, → Pasivos Monetarios
Venta de dólares <i>spot</i>	↓ Balance BCCh, ↓ Activos, ↓ Pasivos Monetarios
Venta de dólares <i>forward</i>	? Balance BCCh, ? Activos, ? Pasivos Monetarios
Compra de bonos bancarios	↑ Balance BCCh, ↑ Activos, ↑ Pasivos Monetarios
Recompra bonos BCCh	→ Balance BCCh, → Activos, → Pasivos Monetarios
FCIC	↑ Balance BCCh, ↑ Activos, ↑ Pasivos Monetarios
LCL	↑ Balance BCCh, ↑ Activos, ↑ Pasivos Monetarios
CCVP	↑ Balance BCCh, ↑ Activos, ↑ Pasivos Monetarios (Similar a un REPO)

BCP: Bonos del Banco Central de Chile en Pesos

BCU: Bonos del Banco Central de Chile en Unidades de Fomento (UF)

DEC: Depósito para Constitución de Encaje

DRT: Depósito para la constitución de Reserva Técnica

FCIC: Facilidad de Crédito Condicional al Incremento de las Colocaciones

FPD: Facilidad Permanente de Depósito

LCL: Línea de Crédito de Liquidez

PDBC: Pagaré Descontable del Banco Central de Chile

REPO: Operaciones de compra de títulos de crédito con pacto de retroventa

RIN: Reservas Internacionales del Banco Central de Chile

SPC: *Swap* Promedio Cámara

TPM: Tasa de Política Monetaria

CCVP: Compra Contado / Venta a Plazo