In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to reduce the monetary policy interest rate from 2.75% to 2.25% (annual).

Since the last monetary policy meeting, price pressures have been lower than expected. Annual inflation of both the CPI and the core inflation index CPIX—that excludes some more volatile prices— are below 2%. The former may even be negative in some months of the first half of next year. Although the recent evolution of inflation rates is explained by supply-side factors, its present low level, its persistence and its impact on longer-term inflation expectations combine to generate a significant risk of having unwanted low inflation for too long. The reduction in the monetary policy interest rate is consistent with limiting this risk, and keeping inflation forecasts around 3% over the usual 24-month policy horizon.

Regarding output, the latest information confirms higher terms of trade, particularly the price of copper, and a better outlook for world growth next year, while positive international financial conditions have strengthened. These factors, combined with better domestic expectations and expansionary monetary policy, consolidate the increased output growth forecast for the coming quarters.

The Central Bank of Chile reassures its objective of attaining an inflation rate centered around 3%, in the usual policy horizon, and reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified inflation rate target.

* This is an unofficial translation. In case of any discrepancy or difference of interpretation, the Spanish original prevails.