In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 250 basis points, to 4.75% (annual).

This decision is grounded on the prospects of a significant fall in inflation, and accelerates the convergence of the monetary policy rate to a level consistent with the current macroeconomic environment and its related risks.

Internationally, first quarter data shows that the severe global economic slowdown has deepened beyond expectations. Meanwhile, uncertainty persists with respect to when the global financial problems will be resolved. The likelihood of more negative scenarios has increased. Commodity prices have remained low.

Domestically, available information for output and demand for the fourth quarter of 2008 and the first of 2009 show a larger widening of the output gap than expected in the latest Monetary Policy Report's. Employment has slowed and tight lending conditions persist.

In January, monthly inflation was less than expected. Said surprise is explained primarily by methodological changes to the revised CPI's treatment of seasonal adjustments. In any case, a rapid convergence of inflation to the target is expected. Wage dynamics continue to be in line with historical patterns and inflation expectations have fallen.

The Board considers that, in the most likely scenario, the monetary policy rate will follow a path that will run below the one assumed in the Monetary Policy Report’s baseline scenario, shortly converging to levels comparable to those implicit in current financial asset prices for mid-year. The Board reaffirms its commitment to conduct monetary policy so as to ensure that projected inflation will stand at 3% over the policy horizon.

* The Spanish original prevails.