

Central Bank of Chile
Santiago, 12 November 2009
Press Release*

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 0.50% (annual). In addition, it decided to reduce the maximum term for the FLAP from 180 to 150 days starting December 14th, and to continue reducing it by 30 days each month, in order to extinguish access to this facility in May of next year.

Internationally, recent data confirm prospects for global activity for this and next year. These prospects have contributed to a progressive stabilization of financial markets. Commodity prices have risen.

Domestically, available information suggests that, despite the setback of September, output and demand increased in the third quarter, although at a slower pace than forecasted. Both unemployment and employment have remained stable. Lending conditions have improved in the margin but are still tight.

In October, CPI inflation and the various core measures showed no variation. Wage dynamics continued to be in line with historical patterns. Reduced y-o-y inflation rates are foreseen for the coming quarters. Medium-term inflation expectations have remained stable. The real exchange rate has fallen.

The Board estimates that the macroeconomic environment and its monetary policy implications do not differ substantially from those of the last *Monetary Policy Report*. This is consistent with a monetary policy interest rate that will be held at its minimum level of 0.50% for a prolonged period of time that will last at least until the second quarter of next year.

* The Spanish original prevails.

The Board estimates that the pace of monetary policy rate normalization during the second half of next year will be more gradual than the one implicit in financial asset prices. Therefore, it reiterates that it will continue to use its policies with flexibility so that projected annual inflation stands at 3% over the policy horizon.