

Monetary policy meeting – August 2011

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

Internationally, activity indicators confirm a slower pace of growth in the United States and Europe, and consensus forecasts for these economies have been revised downward. Meanwhile, concerns about fiscal and financial risks have intensified, particularly in the Eurozone, triggering a widespread increase in financial volatility and risk aversion, with a significant adjustment of asset prices. Copper and oil prices have posted substantial reductions in recent weeks. At the global level, medium-term inflation expectations have declined while prospects of interest rate normalization in advanced economies have been postponed again.

Domestically, output, demand and labor market figures are evolving strongly and are showing signs of moderation at the margin. However, in the case of product and demand, such moderation has been less than foreseen in the baseline scenario of June's *Monetary Policy Report*. CPI inflation has hovered around 3% y-o-y while measures of core inflation remain bounded. Inflation expectations show a significant decline and are close to the target.

The Board reiterates its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the policy horizon. Any future changes in the monetary policy rate will depend on the implications of domestic and external macroeconomic conditions on the inflationary outlook.

* The Spanish original prevails.