

Central Bank of Chile
Santiago, 9 July 2009
Press Release*

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 0.50% (annual), and to adopt complementary monetary policy measures.

Internationally, recent data show that global growth prospects for this year have stabilized. However, financial indicators reflect increased uncertainty with respect to the strength of the global recovery. Commodity prices, particularly those of copper and oil, have fallen.

Domestically, available information for the second quarter of this year is consistent with a lower level of output and demand than was projected in the latest *Monetary Policy Report*. Unemployment has increased. Lending conditions remain tight.

In June, the set of inflation indicators showed reduced core inflationary pressures. Wage dynamics continue to be in line with historical patterns, while the real exchange rate has dropped since the last meeting. Reduced y-o-y inflation figures are foreseen for the coming quarters, below those forecast in the last *Report*. Medium-term inflation expectations have fallen marginally.

Today's decision places the monetary policy rate in its minimum level. The Board estimates that, for projected inflation to reach 3% over the policy horizon within a context of a foreseen widening of the output gap and reduced imported costs pressures, it is necessary to increase the monetary stimulus. Therefore, the monetary policy rate will be held at this minimum level for a prolonged period of time.

To reinforce this decision and align financial asset prices with the path of monetary policy, the Board has decided to implement the following complementary monetary policy measures:

- To establish a term liquidity facility (Facilidad de Liquidez a Plazo, FLAP) for banking institutions, whereby it will grant 90- and 180-day liquidity at the prevailing level of the monetary policy rate.
- To adjust the program of Central Bank note issuance at maturities below one year, in consistency with the aforesaid decision.
- To suspend, for the rest of 2009, the issuance of debt instruments maturing in or after one year, corresponding to two-year Central Bank peso-denominated bonds (BCP-2) and one-year Central Bank notes (PDBC-360).

* The Spanish original prevails.

The Board reiterates that it will continue to use its policies with flexibility so that projected inflation reaches 3% over the policy horizon.