

Central Bank of Chile
Santiago, 8 January 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 100 basis points, to 7.25% (annual).

This decision is grounded on the prospects of a significant fall in medium-term inflation, due to the drastic change in the macroeconomic outlook.

Internationally, credit conditions remain under stress, although there has been some relief in interbank liquidity while financial volatility has diminished. The latest data confirms a severe slowdown of the global economy in the fourth quarter. Commodity prices have remained at low levels.

Domestically, available information for fourth-quarter output and demand reveals significant deceleration. Unemployment is stable and tight lending standards persist. The government announced a sizeable fiscal stimulus program.

In December 2008, monthly inflation was negative, beyond expectations. Monthly measures for core inflation showed a reduction. Meanwhile, wage dynamics continue to be in line with historical patterns and inflation expectations have fallen.

The Board considers that, in the most likely scenario, a process of monetary easing will continue, whose pace will depend on inflation perspectives. Accordingly, the Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% over the policy horizon.

* The Spanish original prevails.