Central Bank of Chile
Santiago, 9 October 2008
Press Release[*]

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 8.25% (annual).

Inflation has remained high and the risk of alternative scenarios has increased. Given the uncertainty surrounding the global economy and its impact on projected inflation, the Board considers that this decision is necessary to reassess with more information the monetary policy course contained in the baseline scenario of the Monetary Policy Report.

Internationally, the global financial system has endured extraordinary stress, affecting liquidity, access to credit and asset prices. The markets foresee a significant slowdown of the global economy while commodities, in particular copper and oil, have shown significant price declines. A number of central banks and governmental authorities have taken exceptional measures.

Domestically, available third-quarter output data is consistent with prospects that the economy's annual expansion will be greater in the second half of this year than it was in the first. Domestic demand continues to grow strongly, particularly its imported component, and unemployment has remained stable. Local financial conditions have tightened.

Inflation in September was somewhat above predictions, mainly due to the behavior of domestic fuel prices. The various measures of core inflation are still high, wage dynamics continue to be within historical patterns, and medium-term inflation expectations have fallen.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon. This is essential to align inflationary dynamics with the price stability objective. Although the future path of the monetary policy rate in the baseline scenario of the latest Monetary Policy Report considers further adjustments to ensure convergence of inflation to the target, The Board will evaluate in its future decisions the implications of financial developments in progress on projected inflation.

[*] The Spanish original prevails.