Central Bank of Chile
Santiago, 15 March 2007

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 5% (annual).

The external scenario relevant to the Chilean economy remains favorable, despite increased volatility and price adjustments observed in various assets in international financial markets. The latter has had mild consequences in the domestic financial market. Global growth continues to be strong, the copper price has strengthened reaching levels above estimates in the latest Monetary Policy Report’s baseline scenario, and the oil price is somewhat above earlier projections.

Information available is consistent with a gradual increase in internal output dynamism, in line with forecast in the last Report. Recently announced government measures support this scenario. Salaried employment continues to grow, although somewhat less intensely than in the past few months. Internal financial conditions look more favorable than they have in recent months.

Beyond changes in the price level as a result of the implementation of Plan Transantiago, annual measures for CPI and CPIX (that excludes fuels and perishables) are evolving as forecast in the last Report. Meanwhile, annual CPIX1 inflation (which also excludes some regulated utilities and other goods), which has been above projections, has moderated over the last month. Alternative measures of trend inflation have shown mixed paths. Although labor costs are still contained and long-term inflation expectations remain anchored around 3%, some wage indicators show increased growth.

The Board reaffirms its commitment of conducting monetary policy to ensure that projected inflation will be at 3% over the policy horizon. This implies that, in case inflationary risks decline and the baseline scenario in the last Monetary Policy Report consolidates, a somewhat stronger monetary impulse might be required.

* The Spanish original prevails.