In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 50 basis points to 1.0% (annual).

Internationally, volatility in financial markets associated with the economic situation in Europe remains high. In the most likely scenario, a limited effect from those turbulences is expected on the world economic outlook. Overall, uncertainty persists. The prices of copper and oil have declined but are still high.

Domestically, available output data show that the immediate effects of the earthquake and tsunami of 27 February dissipated quickly and the economy returned to a recovery path. Demand indicators show significant dynamism and unemployment has kept on falling.

In May, the CPI posted an increase in line with market expectations. Core inflation is still showing small variations. Private expectations at longer terms are consistent with y-o-y inflation rates around 3% in the policy horizon.

The Board has deemed appropriate to start the withdrawal of the significant monetary stimulus in place, which will continue at a pace that depends on the unfolding of domestic and external macroeconomic conditions. Accordingly, the Board reiterates that it will continue to use its policies with flexibility so that projected inflation stands at 3% over the policy horizon.

* The Spanish original prevails.