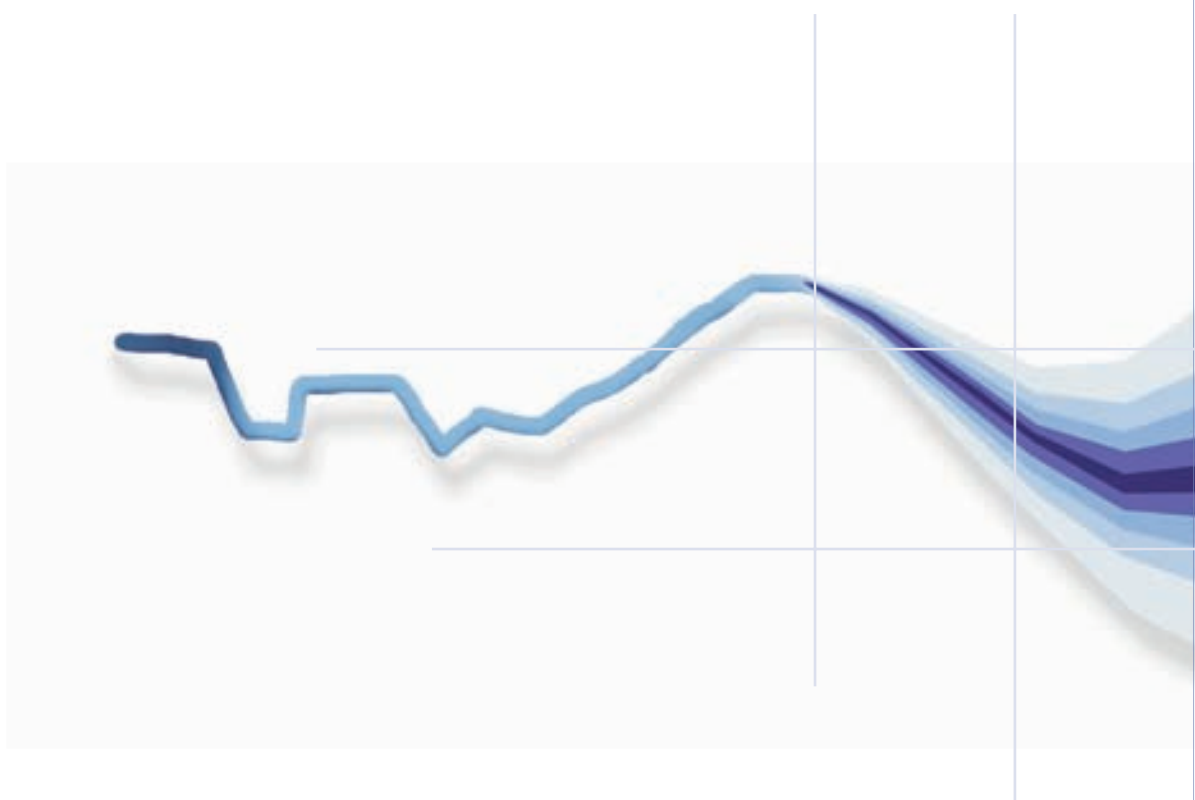


IPoM 2009

2009  
DECEMBER

# Monetary Policy Report



BANCO CENTRAL DE CHILE

# Monetary Policy

# Report\*

DECEMBER 2009



**BANCO CENTRAL  
DE CHILE**

\* This is a translation of a document originally written in Spanish. In case of discrepancy or difference in interpretation the Spanish original prevails. Both versions are available at [www.bcentral.cl](http://www.bcentral.cl).



# Summary

Global and domestic recovery has continued, in general terms, according to projections in September's *Monetary Policy Report*, in tandem with resumed confidence of households and firms and with highly expansionary fiscal and monetary conditions. In Chile, output began increasing in the third quarter, the worsening of the labor market has ceased and financial conditions have become slightly less restrictive. Inflation is still in negative territory and even somewhat below earlier forecasts. In a scenario of persistent output gaps and reduced inflationary pressures, the Board has reiterated that it will hold the monetary policy interest rate (MPR) at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report

Internationally, third quarter data show output growth in many countries, exceeding projections. Commodity prices have risen, in line with prospects of higher levels of global output and the depreciation of the dollar. Stock markets have also benefited from reduced uncertainty and the strong monetary stimulus. Consensus projections for global growth in 2010 have revised the recovery up, to 4% in the two-year period 2010-2011. Nonetheless, the Board believes that the risks of a less vigorous economic performance are still latent.

The evolution of domestic demand continued to be driven by the significant reduction in inventories, which went beyond September predictions and the realities of other economies. With respect to the third quarter of 2008, inventory depletion has subtracted 4 percentage points from domestic demand. The causes of this collapse in inventories are not easy to decipher, but a reasonable explanation seems to be that it responded to the strong initial reaction of producers and importers to global uncertainty and the possibility of substantially slower aggregate growth in the future. Most recently, some indicators permit to forecast that the inventory cycle is entering a new phase, where part of the depletion is a reaction to sales growth outpacing production. Although the stop in inventory depletion will have by itself a positive effect on GDP, how much and when this component will contribute to GDP growth is still uncertain, and will depend on the enterprises' objective as to the level of inventories they wish to maintain over their cyclical recovery processes. In any case, there is high probability that such level will be lower than was estimated before the global crisis hit.

## International baseline scenario assumptions

	2008	2009 (f)	2010 (f)	2011 (f)
(annual change, percent)				
Terms of trade (ToT)	-15.0	0.3	4.7	-2.3
Trading partners' GDP (*)	2.9	-0.8	3.6	3.8
World GDP at PPP (*)	3.0	-0.8	3.8	4.2
World GDP at market exchange rate (*)	1.8	-1.8	3.1	3.4
External prices (in US\$)	12.2	-6.0	9.6	1.0
(levels)				
LME copper price (US\$/lb)	316	230	270	270
WTI oil price (US\$/barrel)	100	62	80	86
Parity price of gasoline (US\$/m <sup>3</sup> ) (*)	739	472	607	641
US\$ libor (nominal, 90 days)	2.9	0.7	0.9	3.2

(\*) See glossary for definition.

(f) Forecast.

Source: Central Bank of Chile.

Private consumption has been the domestic demand component least affected by the crisis, and is expected to close 2009 with a slight increase, induced by non-durable consumption. Durable consumption has also picked up, as shown in sales indexes for durable goods and automobiles. Consumer expectations, as measured by the consumer perception index, IPEC, have turned optimistic in the latest surveys, after two and a half years in the pessimistic zone. The countercyclical stimulus of fiscal and monetary policies has played a part in this behavior of consumption. For the purposes of the baseline scenario, this Report considers the fiscal policy scenario contained in the Budget Law.

The drop in external demand has reflected in export volumes, which are forecast to decline by close to 3% this year. However, in the past few quarters, two facts stand out: the improved performance of mining shipments, on one hand, and the much deteriorated salmon exports, on the other. Both factors, especially the latter, have had a significant impact on GDP.

Gross fixed capital formation is forecast to end 2009 posting a decline of more than 15%, sharper than foreseen in September, which will revert partially in 2010. Despite this recovery in investment, the ratio of investment to GDP will be lower than in 2008, as it will go from almost 30% that year to around 26% in 2010, both figures at prices of 2003.

This Report's baseline scenario foresees the Chilean economy growing between 4.5% and 5.5% in 2010, after falling 1.9% in 2009. In any case, growth foreseen for the Chilean economy, whose output already began to increase in the third quarter of 2009, will be insufficient to fully undo the gaps over the policy horizon. This scenario, relevant for estimating the inflationary pressures that the local economy will face and the future path of the MPR, is not substantially different from the conditions foreseen in other economies. In this setting, the current account of the balance of payments will post a surplus of 0.6% of GDP in 2010, somewhat smaller than projected in September.

## Economic growth and current account

	2007	2008	2009 (f)	2010 (f)
(annual change, percent)				
GDP	4.7	3.2	-1.9	4.5 - 5.5
National income	7.1	3.8	-2.3	7.5
Domestic demand	7.8	7.4	-7.4	8.9
Domestic demand (w/o change in inventories)	8.2	7.9	-3.3	4.6
Gross fixed capital formation	12.0	19.5	-16.1	8.2
Total consumption	7.1	4.2	1.5	3.5
Goods and services exports	7.6	3.1	-4.1	5.4
Goods and services imports	14.9	12.9	-15.7	14.3
Current account (% of GDP)	4.4	-2.0	2.1	0.6
(US\$ million)				
Current account	7,189	-3,440	3,300	1,200
Trade balance	23,635	8,846	13,100	13,000
Exports	67,666	66,455	52,600	60,900
Imports	-44,031	-57,610	-39,500	-47,900
Services	-975	-646	-1,100	-1,000
Rent	-18,595	-14,563	-11,300	-13,700
Current transfers	3,123	2,924	2,600	2,900

(f) Forecast.

Source: Central Bank of Chile.

As for costs pressures, imported inflationary pressures have remained well contained. Commodity prices have gone up in world markets. Chile's unit import value indexes are still low. Baseline projections for the average prices of oil and copper are revised up. The nominal peso-dollar exchange rate, in contrast, has appreciated substantially during the fourth quarter. While from a longer perspective the peso behaves largely in response to the global depreciation of the dollar, since June it has incorporated an idiosyncratic component. Initially, since mid-year, the peso decoupled itself from the global trend of emerging countries' currencies that strengthened with respect to the dollar. This decoupling coincided with the build-up of carry trade positions by non-residents and higher exposure of institutional investors to the dollar, which may have been favored by the low level of the MPR and the complementary monetary policy actions being adopted. Towards October, some of these operations eased, and the peso aligned itself with the path of other emerging markets' currencies. Nevertheless, and considering the nominal exchange rate and parities prevailing at the statistical closing of this Report, the real exchange rate (RER) stands at 91 (using 1986=100), within the range of values believed to be consistent with long-term fundamentals. The baseline scenario in this Report uses as a working assumption that the long-term RER is similar to its current level. This RER is nearly 6% lower

## Inflation

(annual change, percent)

	2008	2009 (f)	2010 (f)	2011 (f)
Average CPI inflation	8.7	1.6	1.0	2.7
December CPI inflation	7.1	-1.4	2.5	
CPI inflation in around 2 years (*)				3.0
Average CPIX inflation	8.4	2.8	0.3	2.5
December CPIX inflation	8.6	-1.5	1.9	
CPIX inflation in around 2 years (*)				3.0
Average CPIX1 inflation	7.8	2.8	0.8	2.6
December CPIX1 inflation	7.7	-0.6	2.1	
CPIX1 inflation in around 2 years (*)				3.0

(f) Forecast.

(\*) Inflation projected to the fourth quarter of 2011.

Source: Central Bank of Chile.

than the one observed at the statistical closing of last September. This strong appreciation in real terms has a substantial effect on the projected path of inflation over the coming months.

Labor cost pressures show no significant changes. Y-o-y growth in nominal wages has continued to fall, responding to the drop in inflation originating in their habitual indexation. Real wages have increased thanks to the large drop in CPI inflation, although when measured using the GDP deflators excluding natural resource sectors they post a decline. The annual variation of unit labor costs increased due to the sharp cyclical fall in measured labor productivity. Said fall has been partly undone and is expected to continue to do so over the projection horizon. Trend growth projections are the same as in the previous Report: between 4.0% and 4.5% in the next two years. Beyond the projection horizon, a gradual return is expected to trend growth figures approaching 5%, to the extent that investment recovers and the general cost structure of the economy continues to reflect the lower energy costs.

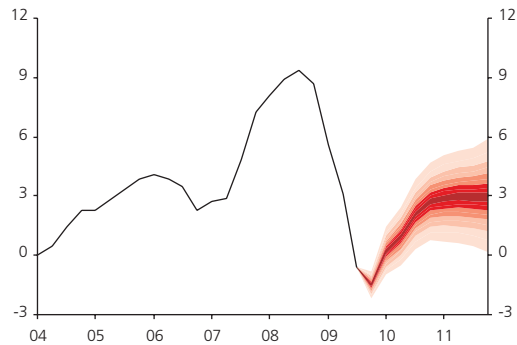
In Chile, y-o-y inflation has been on the negative side since August. The Board estimates that CPI inflation will close 2009 with an annual variation of -1.4%, to become positive over the course of the first half of 2010 and gradually converge to 3.0% in the monetary policy horizon, this time the last quarter of 2011. The progressive—yet incomplete—closing of the output gap that is expected in the projection horizon, together with higher commodity prices, are behind headline inflation increasing faster than the core measures. Y-o-y changes in CPIX and CPIX1 will stay in negative figures for a few months longer than the CPI, and will converge to the target later than headline inflation. Market inflation expectations remain at 3% in the medium term, despite low inflation expected for the next few months.

Various factors determine the convergence of inflation to the target. In particular, this projection relies on the external scenario steadily adding a boost to economic activity, with confidence recovering and global financial conditions gradually normalizing and permitting domestic and international demand to pick up. Domestically, monetary policy will remain expansionary, which, together with the less stringent financial conditions, also backs this projection.

The scenario outlined here is, as usual, subject to various risks. On one hand, doubts persist about how robust will the global economic recovery ultimately be. The latest data have been better than predicted in several economies, but financial markets continue to react with volatility in the face of unforeseen events, and credit losses are still being absorbed by financial intermediaries. The labor market situation is still complex in several economies, which, combined with the de-leveraging process still under way, adds doubts about the capacity of consumption and investment around the world to regain strength. Attention must also be paid to the relevant risk surrounding the way in which central banks and governments will withdraw unconventional monetary policies and fiscal and financial stimulus packages, and how this could affect the operation of financial markets. A further risk draws from the challenges posed for macroeconomic management by portfolio rebalancing or external savings reallocation to emerging economies, causing major increases in capital flows. The above combines, as has been said repeatedly, with uncertainty surrounding the persistent global imbalances. Domestically,

CPI inflation projection (\*)

(annual change, percent)

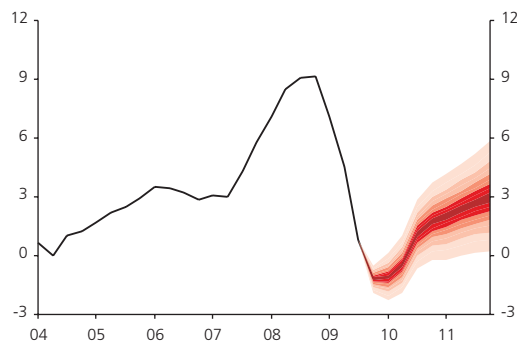


(\*) The figure shows the confidence interval of the baseline projection over the respective horizon (colored area). Confidence intervals of 10%, 30%, 50%, 70% and 90% around the baseline scenario are included. These intervals summarize the risks on inflation as assessed by the Board. The projection scenario incorporates as a methodological assumption that the MPR will be kept at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

Source: Central Bank of Chile.

CPIX inflation projection (\*)

(annual change, percent)



(\*) The figure shows the confidence interval of the baseline projection over the respective horizon (colored area). Confidence intervals of 10%, 30%, 50%, 70% and 90% around the baseline scenario are included. These intervals summarize the risks on inflation as assessed by the Board. The projection scenario incorporates as a methodological assumption that the MPR will be kept at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

Source: Central Bank of Chile.

it is possible that in the short term economic activity will rebound at a faster pace than foreseen due to a swifter accumulation of inventories.

Also noteworthy is the risk associated to the trend of exchange rates and its effects on the RER. As was pointed out, the RER has fallen from September, which has direct consequences on projected inflation. The Board reiterates that it closely monitors the implications of the RER level on inflation and compliance with its monetary policy objective. If anything, it is estimated that the RER is within the range considered to be consistent with its long-term fundamentals.

The materialization of any of these risk scenarios will have direct effects on the domestic growth and inflation scenarios foreseen by the Board. After consideration of the aforesaid elements, the Board believes that the balance of risks for inflation and growth are unbiased.

It is worth noting, again, that these projections use the working assumption that the MPR will be held at its minimum level of 0.50% at least through the second quarter of 2010, and that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report

The Board reiterates that it will continue to use its policy instruments with flexibility in order for projected inflation to stand at 3% over the policy horizon.

# Inflation scenarios

**Table 1**

International baseline scenario assumptions

	2008	2009 (f)	2010 (f)	2011 (f)
(annual change, percent)				
Terms of trade (ToT)	-15.0	0.3	4.7	-2.3
Trading partners' GDP (*)	2.9	-0.8	3.6	3.8
World GDP at PPP (*)	3.0	-0.8	3.8	4.2
World GDP at market exchange rate (*)	1.8	-1.8	3.1	3.4
External prices (in US\$)	12.2	-6.0	9.6	1.0
(levels)				
LME copper price (US\$/lb)	316	230	270	270
WTI oil price (US\$/barrel)	100	62	80	86
Parity price of gasoline (US\$/m <sup>3</sup> ) (*)	739	472	607	641
US\$ libor (nominal, 90 days)	2.9	0.7	0.9	3.2

(\*) See glossary for definition.

(f) Forecast.

Source: Central Bank of Chile.

**Table 2**

Economic growth and current account

	2007	2008	2009 (f)	2010 (f)
(annual change, percent)				
GDP	4.7	3.2	-1.9	4.5 - 5.5
National income	7.1	3.8	-2.3	7.5
Domestic demand	7.8	7.4	-7.4	8.9
Domestic demand				
(w/o change in inventories)	8.2	7.9	-3.3	4.6
Gross fixed capital formation	12.0	19.5	-16.1	8.2
Total consumption	7.1	4.2	1.5	3.5
Goods and services exports	7.6	3.1	-4.1	5.4
Goods and services imports	14.9	12.9	-15.7	14.3
Current account (% of GDP)	4.4	-2.0	2.1	0.6
(US\$ million)				
Current account	7,189	-3,440	3,300	1,200
Trade balance	23,635	8,846	13,100	13,000
Exports	67,666	66,455	52,600	60,900
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Rent	-18,595	-14,563	-11,300	-13,700
Current transfers	3,123	2,924	2,600	2,900

(f) Forecast.

Source: Central Bank of Chile.

This chapter presents the Board's assessment of the prospects for the Chilean economy over the next two years, including the analysis and decision of the Monetary Policy Meeting held on 15 December 2009. Projections of the most likely inflation and growth trajectories are provided. Which are conditional on the assumptions that make up the baseline scenario, so the Board's assessment of the balance of risks for output and inflation is also provided.

## Baseline projection scenario

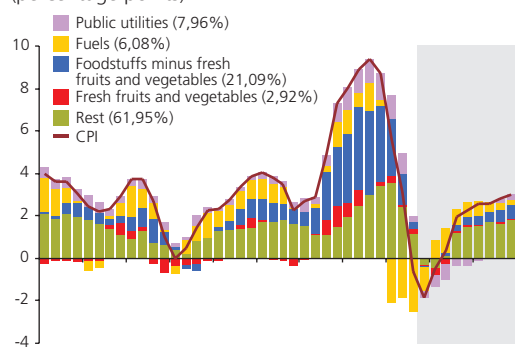
### External scenario

In the third quarter, the world economy began a recovery phase; fourth-quarter indicators suggest that this has continued. Manufacturing production is picking up in several economies, as are the sales of durable goods. According to consensus, in 2009 economic activity will fall less than was foreseen a few months back (table 1). For 2010, projections are revised up in every region. Divergences persist with respect to growth in the United States, with a marked bimodality. For 2011, average world growth projections are unchanged from September, although a slower pace is expected for the U.S. Thus, after dropping 0.8% this year, the world economy will grow a projected 3.8% in 2010 and 4.2% in 2011. These rates are smaller than they were in the years leading to the crisis, partly reflecting the financial constraints in the developed world and the reduced trend growth believed to have occurred in several economies.

Commodity prices have shown an increase in the past several months. A part of it has to do with improved growth prospects around the world, especially in emerging Asia and, another part, with the depreciation of the dollar. In the baseline scenario, commodity prices are up from September. The copper price will average US\$2.70 per pound LME in 2010-2011. Oil, meanwhile, considering the futures in the two weeks prior to the statistical closing, will average US\$80 and US\$86 per WTI barrel in the same period. The terms of trade will increase 4.7% in 2010 and will fall 2.3% in 2011. The external price index relevant for Chile (EPI), measured in dollars, will rise 9.6% and 1.0% in 2010 and 2011, respectively. In the two-year period 2010-2011, imported inflation, measured in pesos, is projected to be similar to what was foreseen in September.

**Figure 1**

Incidences in annual CPI inflation  
(percentage points)



(1) The gray area, as from the fourth quarter of 2009, depicts the breakdown of projected inflation in the baseline scenario.

(2) In parentheses, shares in the CPI basket of December 2008. Before that, built with weights in the basket of December 1998.

Sources: Central Bank of Chile and National Statistics Bureau.

**Table 3**

Inflation

(annual change, percent)

	2008	2009 (f)	2010 (f)	2011 (f)
Average CPI inflation	8.7	1.6	1.0	2.7
December CPI inflation	7.1	-1.4	2.5	
CPI inflation in around 2 years (*)				3.0
Average CPI-X inflation	8.4	2.8	0.3	2.5
December CPI-X inflation	8.6	-1.5	1.9	
CPI-X inflation in around 2 years (*)				3.0
Average CPI-X1 inflation	7.8	2.8	0.8	2.6
December CPI-X1 inflation	7.7	-0.6	2.1	
CPI-X1 inflation in around 2 years (*)				3.0

(f) Forecast.

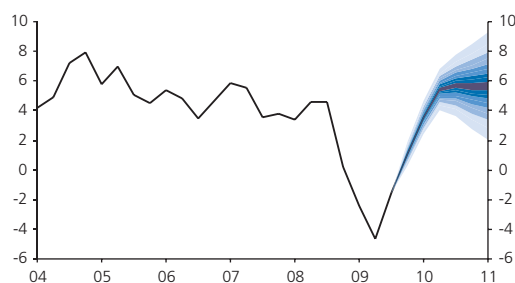
(\*) Inflation projected to the fourth quarter of 2011.

Source: Central Bank of Chile.

**Figure 2**

Quarterly GDP growth scenario (\*)

(annual change, percent)



(\*) The figure shows the confidence interval of the baseline projection over the respective horizon (colored area). Confidence intervals of 10%, 30%, 50%, 70% and 90% around the baseline scenario are included. These intervals summarize the risks on inflation as assessed by the Board. The projection scenario incorporates as a methodological assumption that the MPR will be kept at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

Source: Central Bank of Chile.

## Aggregate demand, output and external accounts

The baseline scenario assumes that, in 2009, domestic output and demand will fall 1.9 and 7.4%, respectively (table 2). On the demand side, inventory depletion and the drop in gross fixed capital formation are behind this result. However, the third quarter already began showing some growth. Although in October the y-o-y variation of the Imacec remained in negative territory, in four of the last five months it posted an increase in month-to-month activity. Furthermore, as suggested by the baseline scenario of this Report and private expectations, in the fourth quarter of 2009 the GDP will post a positive annual variation rate. Continuing with the recovery process, for 2010 the Board projects GDP to grow between 4.5 and 5.5%, and domestic demand to increase 8.9%. The biggest contribution to this result will come from the end of inventory depletion and a rebound of gross fixed capital formation. The ratio of investment to GDP, in 2003 prices, will post a slight increase with respect to 2009. These projections use the fiscal policy scenario contained in the Budget Law.

The Board estimates that, in the period 2010-2011, trend growth will remain within the range of 4.0% to 4.5%. Into the longer term, it foresees potential growth approaching 5%. As has been pointed out, the possible increase in trend growth will depend, among many factors, on a reduction in energy costs, a recovery of the capital cost and an increase in productivity. In any case, growth foreseen in the baseline scenario will yield the way to a progressive, yet incomplete, closing of the present output gap.

The current account of the balance of payments will end 2009 with a surplus of 2.1% of GDP. This figure is a little higher than the September forecast, because of the effect of the higher copper price on value exports and the trade balance. In 2010, the current account will continue to post a surplus, although its size will be less than had been anticipated in September: 0.6% of GDP. The higher price projected for imported commodities, such as oil, are behind this change. Measured at trend prices, the current account deficit for 2009-2010 is thought to be between 2.5 and 3.0% of GDP.<sup>1/</sup>

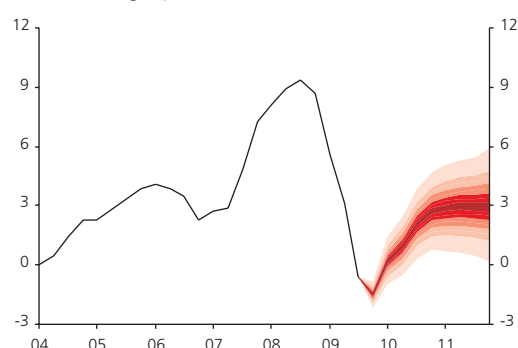
## Inflation

The Board estimates that y-o-y CPI inflation will close 2009 at -1.4% and will go back to positive figures over the course of the first half of 2010 (figure 1). Convergence to 3% will occur during 2011. Core indicators will show negative y-o-y variation rates for some months longer than CPI, and will also hit 3% over the course of 2011. Market inflation expectations consider similar prospects and remain around 3% in the medium term. In January, the national statistics bureau, INE, will begin to base the calculation of the CPI on a nationwide survey, not only on the Metropolitan Region as it has so far. Although there probably exist differences in price levels across cities, due to factors such as real estate prices, transport costs or the degree of tradability of goods, it is not evident that the price level variations are very different. Nevertheless, the effect or the sign of these changes in how inflation will be measured cannot be anticipated.

<sup>1/</sup> Considers corrections in prices, not in volumes. Long-term prices for copper and oil are US\$2 per pound and US\$75 per barrel, respectively. Both prices are exactly the same assumed in September's Monetary Policy Report.

**Figure 3**

CPI inflation projection (\*)  
(annual change, percent)

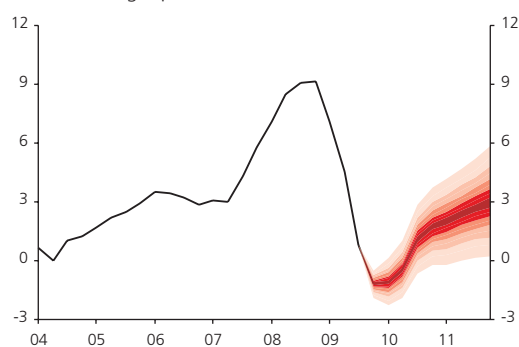


(\*) The figure shows the confidence interval of the baseline projection over the respective horizon (colored area). Confidence intervals of 10%, 30%, 50%, 70% and 90% around the baseline scenario are included. These intervals summarize the risks on inflation as assessed by the Board. The projection scenario incorporates as a methodological assumption that the MPR will be kept at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

Source: Central Bank of Chile.

**Figure 4**

CPIX inflation projection (\*)  
(annual change, percent)



(\*) The figure shows the confidence interval of the baseline projection over the respective horizon (colored area). Confidence intervals of 10%, 30%, 50%, 70% and 90% around the baseline scenario are included. These intervals summarize the risks on inflation as assessed by the Board. The projection scenario incorporates as a methodological assumption that the MPR will be kept at its minimum level at least until the second quarter of 2010. Additionally, it estimates that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December, and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

Source: Central Bank of Chile.

Various factors determine inflation's convergence to the target. The external scenario will continue to add a boost to economic activity, with confidence recovery and global financial conditions gradually normalizing and permitting domestic and international demand to pick up. Domestically, monetary policy will remain expansionary, which, together with the less tightened financial conditions, also backs this projection. Aside from the assumptions already mentioned regarding output gaps, external inflation and commodity prices, the Board also believes that the real exchange rate (RER) stands at a level that is consistent with its long-term fundamentals. Accordingly, it uses the methodological assumption that, over the long run, the RER will not differ materially from the average of the two weeks prior to this Report's statistical closing. It also assumes that nominal wages will be adjusted taking into account the economy's stage of the cycle and inflation dynamics, and that pricing decisions are based on inflation expectations that are in line with the target. Finally, these projections incorporate as a working assumption that the MPR will be held at its minimum level, 0.5%, at least through the second quarter of 2010 and that the pace of its normalization will be comparable to the one of the Economic Expectations Survey of December and more gradual than is implicit in the prices of financial assets prevailing over the two weeks prior to the statistical closing of this Report.

## Risk scenarios

The baseline scenario reflects the events believed to be the most likely to occur with the information at hand when making these projections. Different situations will imply a macroeconomic scenario—and a monetary policy trajectory—also different. After consideration of the aforesaid elements, the Board estimates that the balance of risks for inflation and growth are unbiased (figures 2, 3 and 4).

One risk derives from doubts about how robust the global economic recovery will ultimately be. Mainly, due to the growth capacity of consumption and investment within a context of still unresolved fragility of developed financial markets, a complex labor market in various economies and an ongoing deleveraging process. How and when monetary and fiscal stimulus packages will be withdrawn and their effects on the operation of financial markets are also causes for concern. Another risk comes from challenges facing macroeconomic governance, considering the possibility of persistent and significant increases in capital inflows to emerging economies. Uncertainty surrounding persistent global imbalances is still present. Domestically, it is possible that in the short run economic activity will rebound at a faster pace than foreseen due to a swifter accumulation of inventories. Another risk is the recent trend of exchange rates and its effects on RER. Although it is estimated that the RER is within the range considered to be consistent with its long-term fundamentals, the Board reiterates that it closely monitors the implications of the RER level on inflation and compliance with its monetary policy objective.

The Board will continue to evaluate the probabilities of these risks and their consequences on domestic inflationary prospects. The Board also reiterates that it will continue to use its policy instruments with flexibility in order for projected inflation to stand at 3% over the policy horizon.



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