

Central Bank of Chile
Santiago, 7 February 2008
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 6.25% (annual).

Internationally, the outlook for the U.S. economy has deteriorated significantly, creating high volatility in global financial markets. The Federal funds rate was reduced by 125 bp in the last month and external long-term rates have declined. Although the price of copper has remained high and the oil price has decreased, the external scenario relevant for the Chilean economy presents higher adverse risks.

Domestically, economic activity has been less dynamic than projected earlier, because of reduced growth in some specific sectors. Investment indicators remain strong, consumption is showing some signs of deceleration, and salaried employment continues to grow.

Annual inflation is still significantly above the tolerance range. The moderate inflation figure of January reflected the drop in domestic fuel prices and a rapid normalization of the high prices of perishable goods. Core inflation measures, including CPIX1 (which excludes fuels, perishables and some regulated utilities), though still high, have ceased to increase. Wages have evolved as expected, while the exchange rate has appreciated substantially. Annual CPI inflation will continue to rise in coming months. Long-term inflation expectations remain anchored around 3% per annum.

The Board considers that, although the future path of the monetary policy rate will depend on incoming information and its implications for the inflation forecast, further adjustments of the MPR to ensure convergence of inflation to the target cannot be ruled out. Particularly important for this assessment will be the unfolding of the international scenario, the persistence of the recent exchange rate appreciation, and the potential propagation of last year's inflationary shocks to other prices.

* The Spanish original prevails.