

Central Bank of Chile
Santiago, 10 July 2008
Press Release*

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 7.25% (annual).

Given the deteriorated inflationary outlook, this increase in the monetary policy rate is necessary to ensure convergence of inflation toward 3% over the policy horizon.

Internationally, output prospects for developed economies remain weak and world financial markets are still under stress. The oil price has remained high, while the prices of most commodities have increased again. Inflationary pressures have intensified around the world.

Domestically, available information on second-quarter economic activity is consistent with growth forecasts for the year contained in the last *Monetary Policy Report*. Domestic demand continues to grow at a fast pace, particularly its imported component, and unemployment has remained stable.

June's inflation significantly exceeded forecasts, due to new price hikes for energy and foodstuffs. Core inflation measures and various indicators for inflation expectations have risen, suggesting greater than foreseen inflationary propagation. Wage dynamics remain in line with historical patterns.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% over the policy horizon. This is essential to align inflationary dynamics with the price stability objective. The future path of the monetary policy rate will depend on incoming information and its implications on projected inflation, although, in the most likely scenario, further adjustments will be necessary in order to ensure convergence of inflation to the target.

* The Spanish original prevails.