Central Bank of Chile
Santiago, 13 December 2007
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 25 basis points, to 6% (annual).

This decision is necessary to reduce the propagation risks of current high inflation to costs and expectations, in order to insure that annual inflation will converge to 3% over the policy horizon.

Internationally, problems and risks associated with the subprime crisis have intensified, and reduced dynamism is forecast for industrialized economies. Meanwhile, the oil price, although still high, fell with respect to its high levels a month ago, while the prices of copper and several food products continue to be high, above projections. This shapes an external scenario relevant to the Chilean economy that, although still positive, presents higher risks of adverse conditions.

In the domestic scene, available information points at output growth in the second half falling short of projections in the latest *Monetary Policy Report*, a situation that goes beyond the performance of some specific sectors. However, on the demand side, both consumption and investment remain dynamic. Salaried employment continues to grow, albeit at lower rates, and internal financial conditions show no significant changes.

Annual CPI inflation continued to increase and now stands above 7%. Annual figures are projected to remain high for several months, to later descend toward the target. In the last month, the CPI was affected particularly by sudden, large price increases in electric power and fuels, widening the gap with CPIX1 inflation (which excludes fuels, perishables and some regulated utilities). The price increases of some foods, particularly perishables, have begun to revert. Medium- and long-term inflation expectations remain anchored around 3% per annum.

The Board considers it opportune to state that the future path of the monetary policy rate will depend on incoming information and its consequences on the inflation forecast. Particularly important for this will be the unfolding of the international scenario, the evolution of the output gap and the potential propagation of recent inflationary shocks to other prices.

* The Spanish original prevails.