

Central Bank of Chile
Santiago, 13 March 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 U.S. scenario has deteriorated further, generating high volatility and increased risk in global financial markets. The central banks of the main developed economies have adopted additional measures to face liquidity problems. So far, emerging economies have not been severely affected, although the risk of adverse scenarios has increased. The prices of commodities have recorded significant increases.

Domestically, the latest information confirms that first-quarter output growth has been somewhat below than forecasted in the *Monetary Policy Report*. Investment indicators remain strong, while consumption shows signs of some slowdown. Unemployment has remained stable within a context of significant increases in employment.

Annual inflation is still substantially above the target. Core inflation measures, including the CPIX1 (which excludes fuels, perishables and some regulated utilities) remain high but have ceased to rise. Wages have increased in line with their normal dynamics, while the peso showed a significant appreciation in real terms.

Annual CPI inflation will increase in the coming months, to then descend over the course of the second half, within a context of high market uncertainty about expected monthly figures. This greater uncertainty has pushed upward the risk premium contained in breakeven inflation measures implicit in financial asset prices, even for longer maturities. Long-term inflation expectations remain well-anchored around 3% annually.

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 inflationary implications of the unfolding of the international scenario, of the persistence of the recent real exchange rate appreciation, and of the potential propagation of recent months' inflationary shocks to other prices.

* The Spanish original prevails.