Central Bank of Chile
Santiago, 10 January 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 25 basis points, to 6.25% (annual).

This decision is consistent with prospects of higher inflation due to recent surprises, and allows annual inflation to converge to 3% over the policy horizon.

Internationally, although the markets' liquidity problems are now milder, the risk of further deceleration of the US economy has increased, with potential implications on other developed economies. Meanwhile, the prices of oil, copper and several foodstuffs remain high and above projections. Inflation in various economies has continued to rise. This configures an external scenario relevant to the Chilean economy with more adverse risks going forward.

In the internal scene, recent output information does not modify the second semester scenario that was considered in the last meeting. On the domestic demand side, indicators of both consumption and investment remain dynamic. Salaried employment continues to grow, albeit at smaller rates.

December's monthly CPI inflation was surprisingly high, taking annual inflation to nearly 8%. This was influenced by a slower seasonal reversal of prices of perishable foods and significant increases in a varied range of products. The various measures of trend inflation, including CPIX1 variation (which excludes fuels, perishable foods and some regulated utilities), continued to increase. Although inflation expectations for coming quarters have increased, for the long run they remain anchored around 3% per annum.

The Board considers that it is appropriate to indicate that, although the future path of monetary policy will depend on incoming information and its implications for the inflation forecast, additional adjustments to the monetary policy rate may be necessary in order to ensure convergence of inflation to the target. 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.

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* The Spanish original prevails.