Central Bank of Chile
Santiago, 13 November 2007
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 5.75% (annual).

In the last few weeks, the perception of world financial markets with respect to problems associated to the subprime lending crisis has deteriorated, and the US dollar has depreciated further against most currencies. In addition, reduced dynamism is foreseen for industrialized economies. In a different area, the oil price has risen considerably, while the prices of copper and several food products remain high, all exceeding projections. This configures an external scenario relevant to the Chilean economy that, while still positive, now poses a larger risk of adverse international conditions.

Domestically, the available information indicates that output growth in the third quarter was lower than forecast in the last *Monetary Policy Report*, a situation that goes beyond the performance of a few specific sectors, whose persistence is still uncertain. Regarding domestic demand, indicators suggest that the dynamism of investment has remained stable and that of consumption has dropped. Salaried employment continues to rise and domestic financial conditions are somewhat less favorable.

Annual CPI inflation stands above 6% and is projected to remain high for several months to later descend toward the target. The prices of some foods, both perishable and non-perishable, are showing early signs of reversal. The drop in the prices of other relatively volatile products also contributed to the low monthly IPCX1 inflation rate (that excludes fuels, perishables y some regulated utilities). Medium- and long-term inflation expectations continue to be well anchored around 3% annually, which is consistent with a temporary rise in inflation.

The future path of the monetary policy interest rate will depend on incoming information and its implications on projected inflation. Of particular importance will be the developments in the international scenario, the potential propagation of recent inflationary shocks to other prices—especially the path of wages—, medium-term inflation expectations and the evolution of the output gap.

[*] The Spanish original prevails.