Central Bank of Chile
Santiago, 11 October 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 liquidity problems in international financial markets have moderated, while the US dollar has depreciated against the majority of global currencies. Meanwhile, a lower dynamism of the industrial economies is foreseen. On another front, the price of copper has increased again, and that of oil and various food products remain high, all above what was forecast. The preceding configures a relevant external scenario for the Chilean economy which continues to be positive, although the risk of adverse international scenarios persists.

Domestically, the available information suggests that output in the third quarter was lower than projected in the last *Monetary Policy Report,* situation that appears to go beyond the performance of a few specific sectors and whose persistence is still uncertain. Regarding domestic demand, indicators suggest that the dynamism of investment has remained and that of consumption has dropped slightly. Salaried employment keeps rising and domestic financial conditions remain favorable.

Annual CPI inflation has risen over 5% and is foreseen over the coming months to surpass the projections of the last *Monetary Policy Report.* The unusual increases in some food prices, both perishable and non-perishable, have not only persisted, but have intensified. Non-perishables have also contributed to increasing core CPIX1 inflation (that excludes fuels, perishables and some regulated utilities). Alternative measures of trend inflation stand above 3% annual. Notwithstanding the above, wages have not had an additional acceleration most recently, while the peso dollar parity has dropped over the last several weeks. Inflation expectations for the medium and long term remain anchored around 3% annual, coherent with a transitory increase 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 propagation of recent inflationary shocks to other prices,

* The Spanish original prevails.

especially the path of wages and medium term inflation expectations, as well as the evolution of the output gap.