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

This decision is necessary for the rise in annual inflation of recent months to be truly transitory, and for projected inflation around two years ahead to stand at 3%.

Although the external scenario relevant for the Chilean economy continues to be generally positive, downside risks have increased. In fact, the past few weeks have seen an intensification of problems in international financial markets. Meanwhile, the copper price remains high, the oil price has continued on an upward trend and the prices of several food products are still high.

Domestically, beyond the performance of some specific sectors, the information available suggests that output is still dynamic. Imports growth indicates that domestic demand would continue expanding with relative strength in the third quarter. Salaried employment continues on the rise and internal financial conditions remain favorable.

Annual CPI inflation has risen above 4%, affected by a deepening of unusual price increases in some foods, both perishable and non-perishable. The latter have also contributed to increase core CPIX1 inflation (that excludes fuels, perishables and some regulated utilities). Alternative measures of trend inflation stand above 3% and the growth rate of labor costs has increased. Inflation expectations reveal an outlook comparable to that in the last *Monetary Policy Report*, with high levels for the short term, and near 3% further ahead.

The Board believes opportune to point out that the future path of the monetary policy interest rate will depend on incoming information and its implications on projected inflation. Particularly important will be the unfolding of the international scenario, the possible propagation of recent inflationary shocks to other prices and the evolution of output gaps.

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[*] The Spanish original prevails.