Central Bank of Chile
Santiago, 12 July 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 5.25% (annual).

This decision is consistent with less slack than foreseen in the last *Monetary Policy Report*, and is necessary to ensure that inflation projected around two years ahead will stand at 3%.

The external scenario relevant to the Chilean economy remains favorable. World economic activity is expanding strongly, financial conditions are still good and the copper price has increased once again, but so have the prices of oil and its derivatives. The prices of several food products continue to be high and some have increase even further.

Beyond the performance of some specific sectors, information available on domestic output and expenditure continues to show significant dynamism in the second quarter, above early projections. Salaried employment continues on the rise and internal financial conditions are favorable.

CPI inflation is slightly above 3%, exceeding forecasts in the last *Monetary Policy Report*, and continues to be influenced by fuel prices and by the higher price of foods: The latter have also raised core CPIX1 inflation (that excludes fuels, perishables and some regulated utilities). Beyond the increases in these specific prices, alternative measures of trend inflation stand at, or somewhat above, 3%, while labor costs remain well contained. In this scenario of higher inflation because of a supply shock, although short-term inflation expectations have risen, long-term expectations remain well anchored around 3%.

The Board believes that, in the most likely scenario, it will be necessary to reduce the monetary stimulus in coming months in order for projected inflation over the policy horizon to be at 3%. As usual, the materialization of changes in the monetary policy interest rate will depend on incoming information and its implications on projected inflation.

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[*] The Spanish original prevails.