Central Bank of Chile
Santiago, 11 January 2007

**Press Release**[*]

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate from 5.25% to 5% (annual).

The information accumulated in the past few months configures a low-inflation scenario for coming quarters that justifies this reduction in the interest rate, in order to assure that the inflation rate converges to 3% in the policy horizon, that is, around two years.

The external scenario relevant to the Chilean economy continues to be favorable. Despite the US economic deceleration, global growth continues to be strong, while international financial conditions remain favorable. On the other hand, prices of oil and copper have dropped in recent weeks, showing a partial normalization that has been faster than expected.

Information available suggests that, although domestic activity recovered some dynamism, gaps originating in the unforeseen decline in growth of last year will persist for several quarters. This occurs despite the vigorous expansion of domestic demand, especially consumption, increased salaried employment and reduced unemployment. Internal financial conditions remain favorable.

Headline and core inflation are between 2% and 3%, considerably below earlier projections. These measures have been influenced, aside from the drop in oil prices, by wider output gaps and reduced cost pressures. Other trend inflation indicators are still low, although some of them are showing early signs of a reversal, explained by seemingly one-time factors. Projections are that in the short term, inflation will temporarily approach 3% because of a basis of comparison effect, to later come close to 2% for a few quarters and converge to 3% in about two years.

The Board reaffirms its commitment of conducting monetary policy to assure that projected inflation will be at 3% over the policy horizon. Future changes in the monetary policy rate intended to achieve this objective will depend on incoming information and its implications for projected inflation.

[*] The Spanish original prevails.