

Central Bank of Chile
Santiago, 10 August 2006
Press Release¹

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

The external scenario relevant to the Chilean economy remains favorable, with a recent change in the contribution to economic growth by the various economic zones. International financial conditions continue to be positive, the copper price remains high and oil is again at a record peak.

Domestic demand seems to have slowed during the second quarter—in line with projections in the last *Monetary Policy Report*—with a sustained drive from consumption and some investment deceleration. Nonetheless, second-quarter output growth was somewhat lower than expected, while available indicators continue to suggest that the increase in the pace of growth considered for the second half of the year may fall short of projections. On the other hand, salaried employment continues to grow relatively vigorously, and domestic financial conditions are still expansionary.

CPI inflation remains in the higher part of the target range, due mainly to the incidence of higher fuel prices. Measures of core inflation CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities) are still near 3%. Other trend inflation indicators remain stable, while the different measures of medium- and long-term expected inflation continue to be anchored around 3%. While fuel prices are still high, other cost pressures are contained.

The Board considers that, in the most likely scenario, gradual adjustments to the interest rate continue to be necessary to maintain projected annual inflation around 3% in the normal policy horizon. The timing of said adjustments will depend on incoming information, but the data available reaffirms that they may be less frequent than they have been in recent quarters.

¹ The Spanish original prevails.