

Central Bank of Chile
Santiago 13 July 2006
Press Release¹

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).

The external scenario relevant for the Chilean economy remains favorable. The volatility of international financial markets observed in recent weeks has decreased. The copper price has increased again while oil has reached record-high price levels.

Domestic demand suggests a moderation in its growth rate for the second quarter, in line with projections in the last *Monetary Policy Report*. The latest output indicators support the evaluation that April's low growth figures were due mainly to transitory factors. However, available information points a somewhat lower increase in the second semester growth rate than previously considered. Meanwhile, salaried employment continues to increase relatively vigorously, and domestic financial conditions are still expansionary.

CPI inflation is in the higher part of the target range, probably postponing its convergence to the center for a few quarters, due to the incidence of higher fuel prices. Measures of core inflation CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities) are around 3%. Other trend inflation indicators remain stable while the different measures of expected inflation continue to be anchored around 3%. While fuel prices have continued on the rise, other cost pressures are contained.

The Board considers that, in the most likely scenario, additional 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, and may be less frequent than they have been in recent quarters.

¹ The Spanish original prevails.