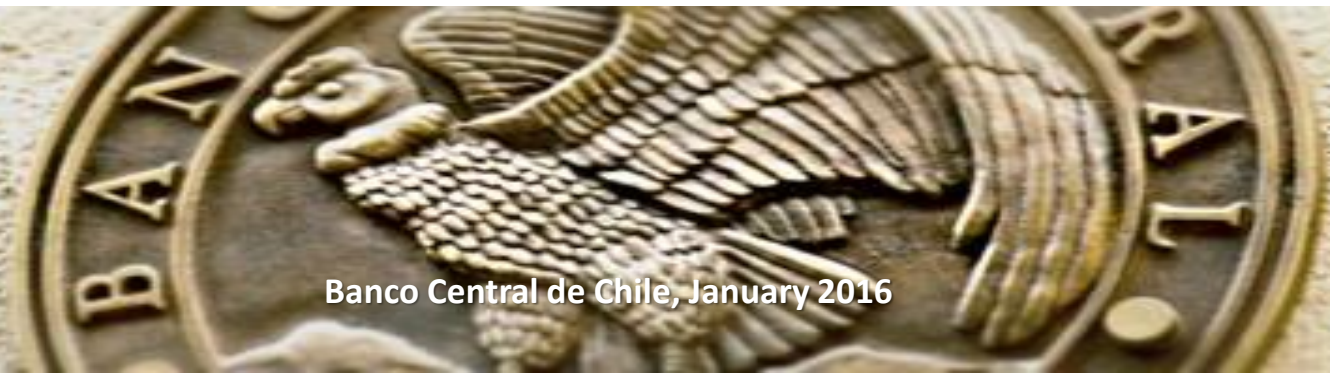




# Some key issues in the Inflation process in Chile

Joaquín Vial

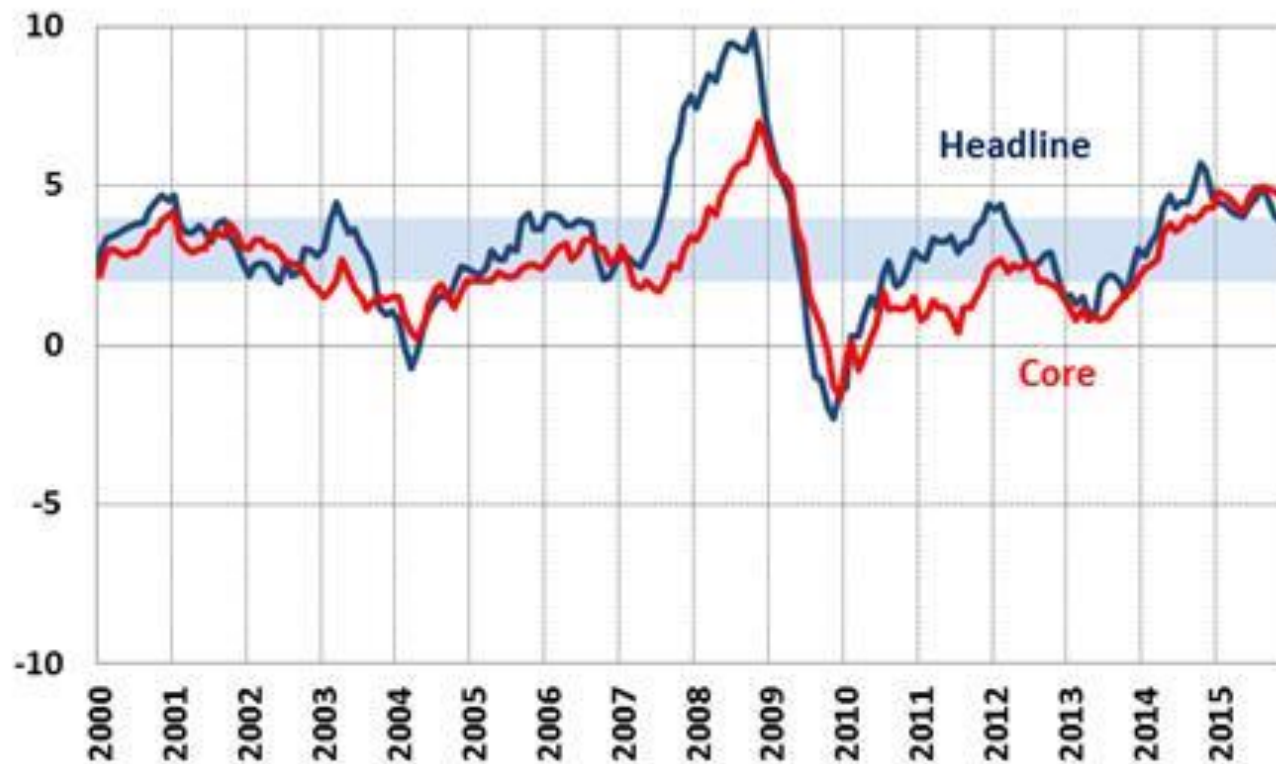
Central Bank of Chile



Banco Central de Chile, January 2016

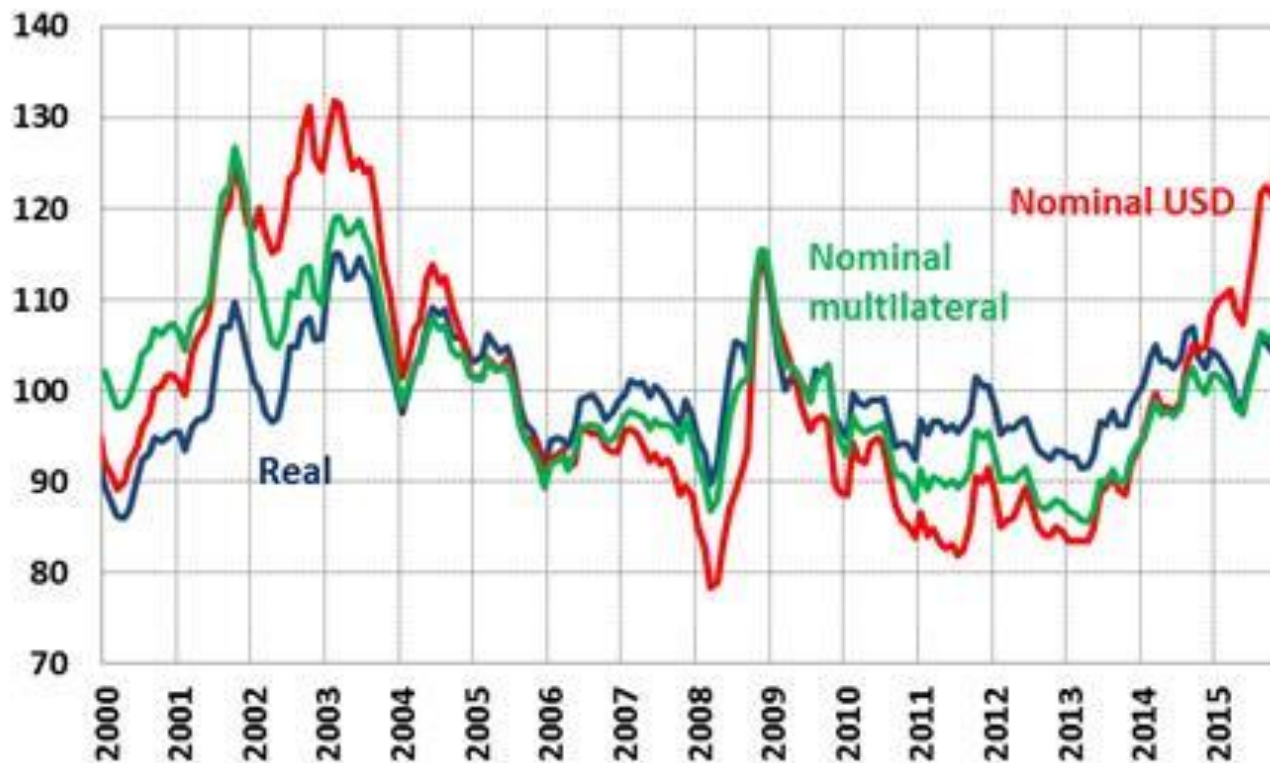
# Inflation: volatile, but centered in CB target

**Figure 2**  
Annual headline and core inflation



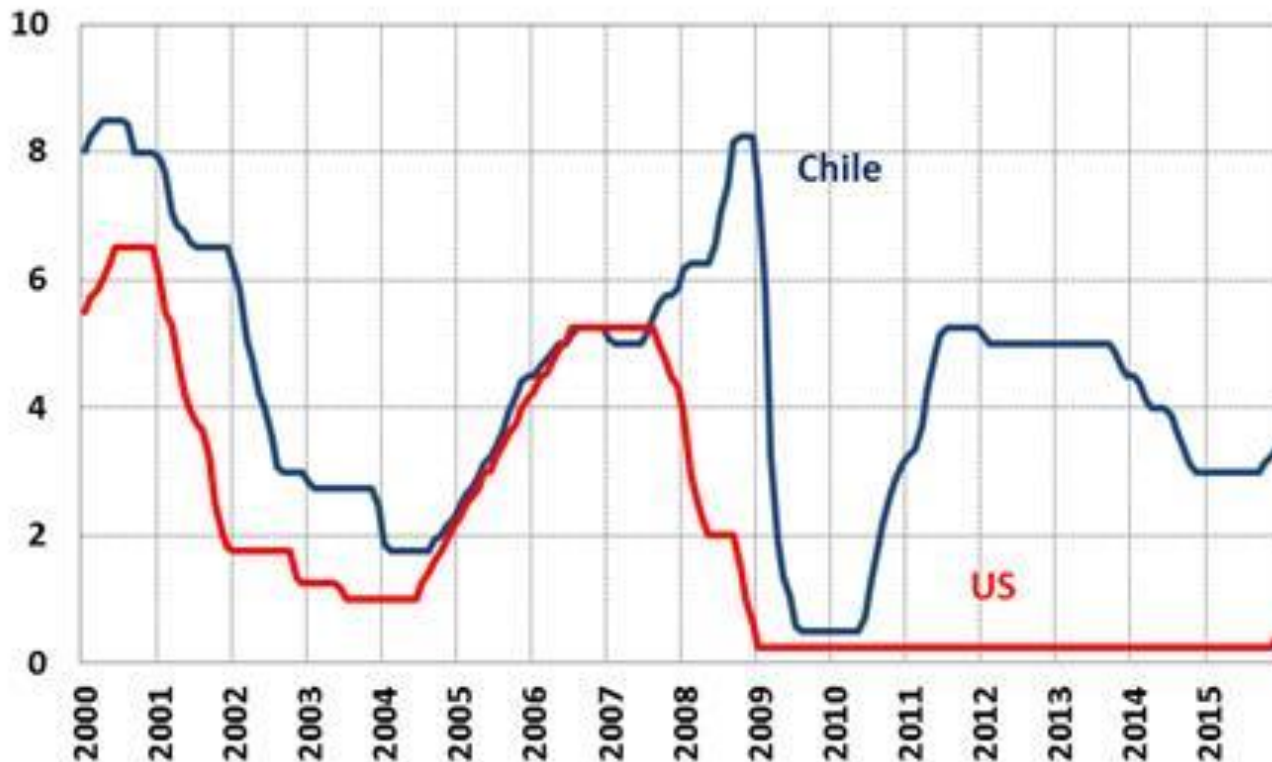
# Free flotation is a main source of volatility in short – term inflation, but essential for consistent macroeconomic policy

**Figure 5**  
Nominal and Real Exchange Rates  
(Period average =100)



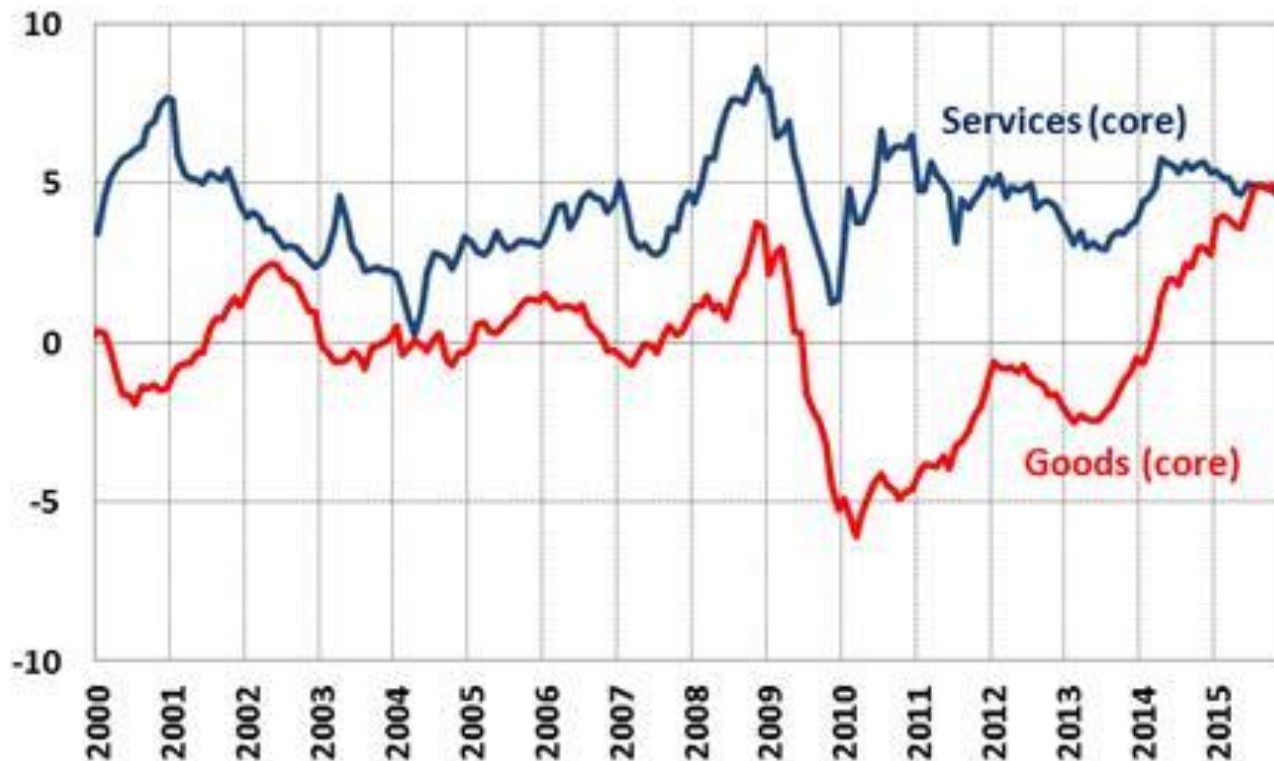
**Free flotation within a context of a solid fiscal position, allowed us some measure of independence in monetary policy**

**Figure 9**  
Monetary Policy Rates  
(%)



# Goods inflation linked to exchange rate and international prices. Services inflation linked to domestic factors and indexation

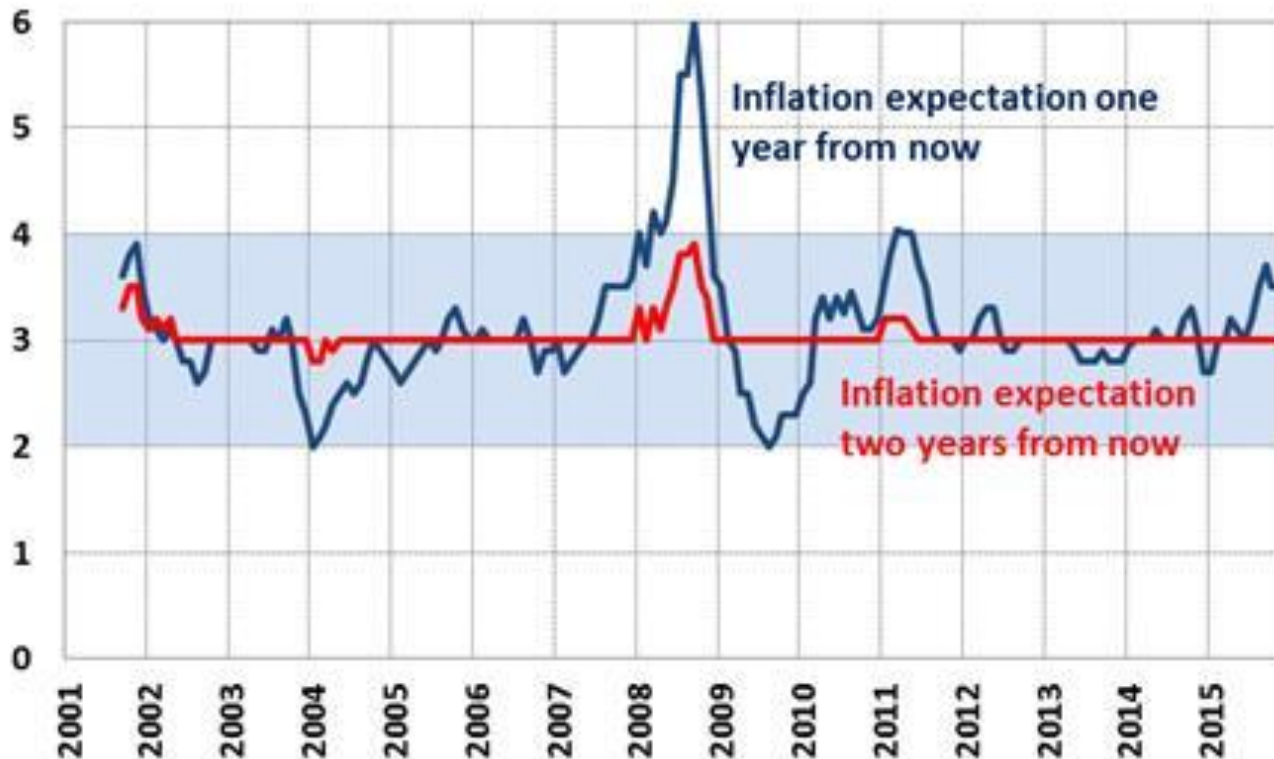
**Figure 3**  
Annual goods and services inflation  
(%)



**Two years ahead inflationary expectations have remained around target most of the time. Not so one year ahead expectations**

**Figure 6**

Inflation expectations one and two years from now





# The correct assessment of the cyclical position of the economy in real time is a major challenge

**Figure 8**

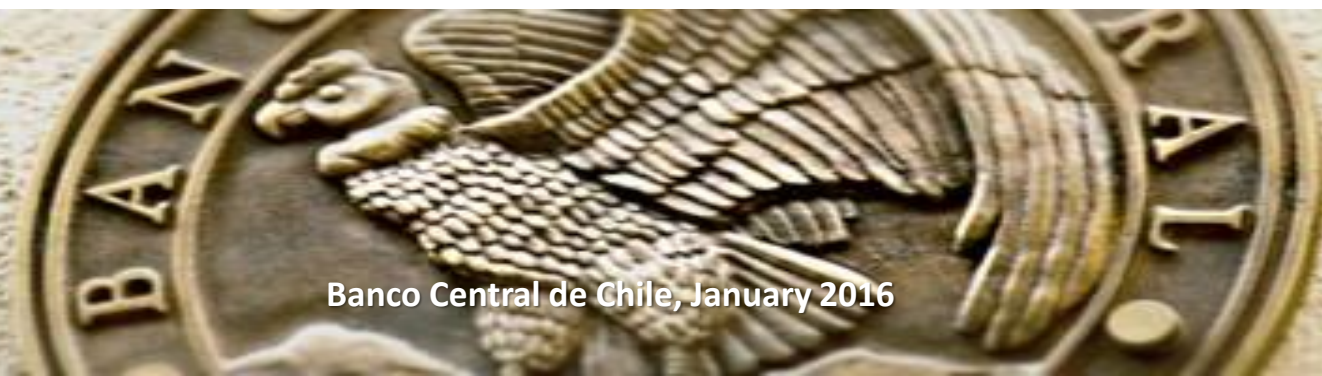
Ex post and real time output gap of non-natural resources sectors (%)





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