



Macroeconomic Prospects For The Chilean Economy

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Norway and Chile

Norway

Chile

*Inflation Targeting and Floating Exchange Rates

IT target: 2,5%

IT target: 3 % +- 1

*Monetary Policy Reports & Minutes



*Financial Stability Reports

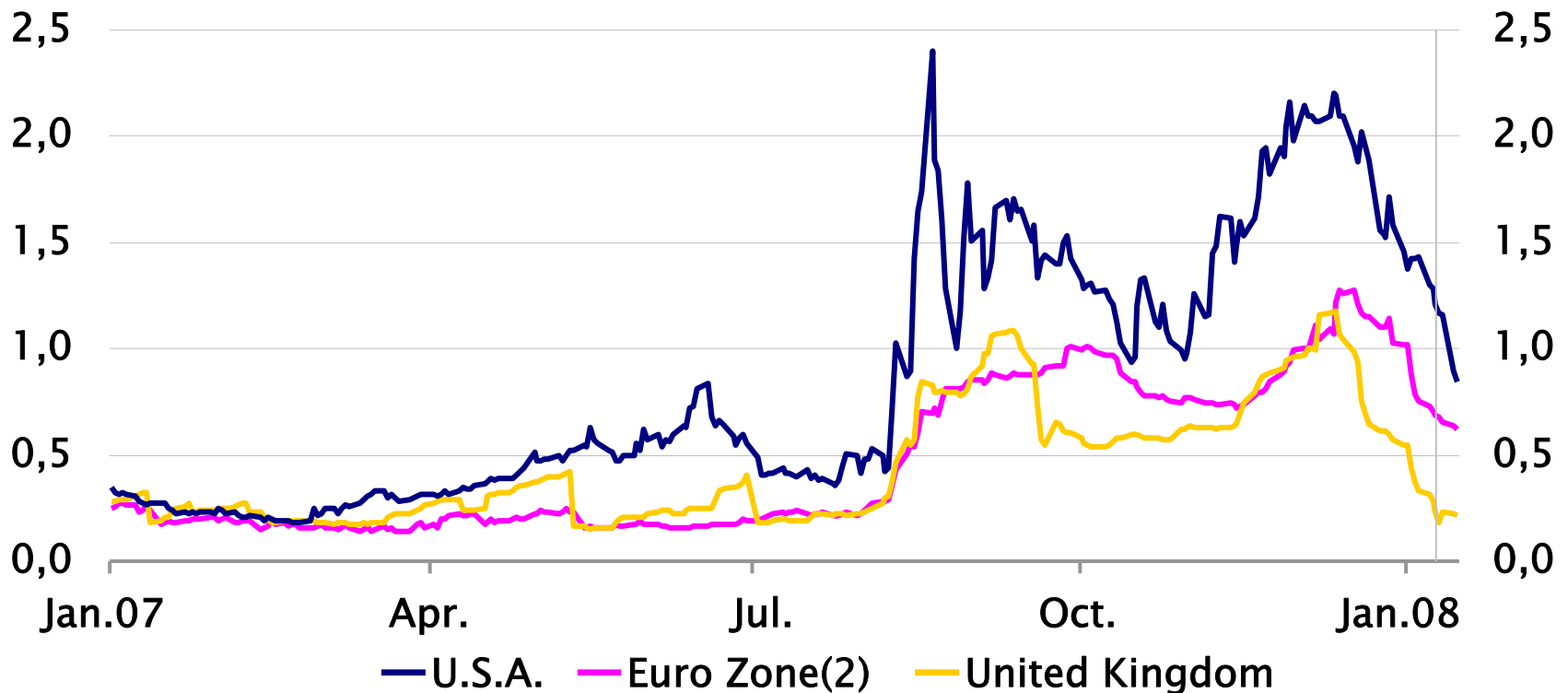


*Fiscal Rules and Terms of Trade Shocks



The subprime crisis has led to a lack of liquidity and to tighter credit conditions.

3 months rate Spread (1)
(percentage)



(1) 3 months LIBOR with respect to 3 months Treasury bonds rate.

(2) Germany's 3 months Treasury bond is used for the euro zone.

Source: Bloomberg.



Growth forecasts for the US have been significantly adjusted.

World growth (*) (percentage)

	Aver. 1990–99	Aver. 2000–05	2006	2007 (e)		2008 (f)		2009 (f)	
				MPre Sep.07	MPre Jan.08	MPre Sep.07	MPre Jan.08	MPre Sep.07	MPre Jan.08
World	3,2	4,1	5,4	5,1 ▲	5,3	5,1 ▼	4,8	4,9 ▲	5,0
World-market exchange rate	2,4	2,9	3,9	3,6 ▲	3,7	3,6 ▼	3,1	3,4 =	3,4
United States	3,1	2,6	2,9	1,9 ▲	2,2	2,6 ▼	1,8	3,0 ▼	2,6
Euro Zone	2,2	1,8	2,8	2,7 ▼	2,6	2,3 ▼	1,7	2,0 ▼	1,9
Japan	1,5	1,6	2,4	2,4 ▼	1,8	2,1 ▼	1,4	1,6 ▲	2,1
China	10,0	9,4	11,1	11,3 ▲	11,4	10,6 ▼	10,2	9,0 ▲	9,6
Rest of Asia	5,4	4,8	5,4	5,2 ▲	5,6	5,4 ▼	5,1	4,7 ▲	5,6
Latin America	2,8	2,9	5,4	5,0 ▲	5,4	4,4 ▲	4,5	4,1 ▲	4,2
Exp. of basic products	2,7	3,1	2,7	3,0 ▲	3,1	3,0 ▼	2,5	2,9 =	2,9
Commercial partners	3,2	3,2	4,5	4,2 ▲	4,3	4,2 ▼	3,7	3,9 ▼	3,8

(*) Figures on market exchange rates and PPP, based on the weights of the WEO 2007, IMF

(e) Estimation. (f) Forecast.

Source: Central Bank of Chile on the basis of a sample of investment banks, Consensus Forecast and IMF.



In the base scenario, the Terms of Trade, though still high, will begin to normalize.

Based international scenario assumptions
(annual average)

	2006	2007 (e)		2008 (f)		2009 (f)	
		MPre	MPre	MPre	MPre	MPre	MPre
		Sep. 07	Jan. 08	Sep. 07	Jan. 08	Sep. 07	Jan. 08
WTI Oil (US\$/barrel)	66	67	72	70	93	69	88
Copper BML (US\$cent/pound)	305	310	323	270	295	245	250
Gasoline Parity Price (US\$/m3)	526	567	597	561	700	548	670
Libor US\$ (nominal, 90 days)	5,2	5,3	5,3	4,8	4,2	4,9	3,9
Terms of Trade (*)	22,5	2,8	2,9	-7,9	-11,0	-4,6	-7,0
Commercial partners GDP (*)	4,5	4,2	4,3	4,2	3,7	3,9	3,8
World GDP – PPP (*)	5,4	5,1	5,3	5,1	4,8	4,9	5,0
World GDP – market exchange rate (*)	3,9	3,6	3,7	3,6	3,1	3,4	3,4
External prices (en US\$) (*)	5,3	6,9	7,9	3,0	7,1	2,3	2,1

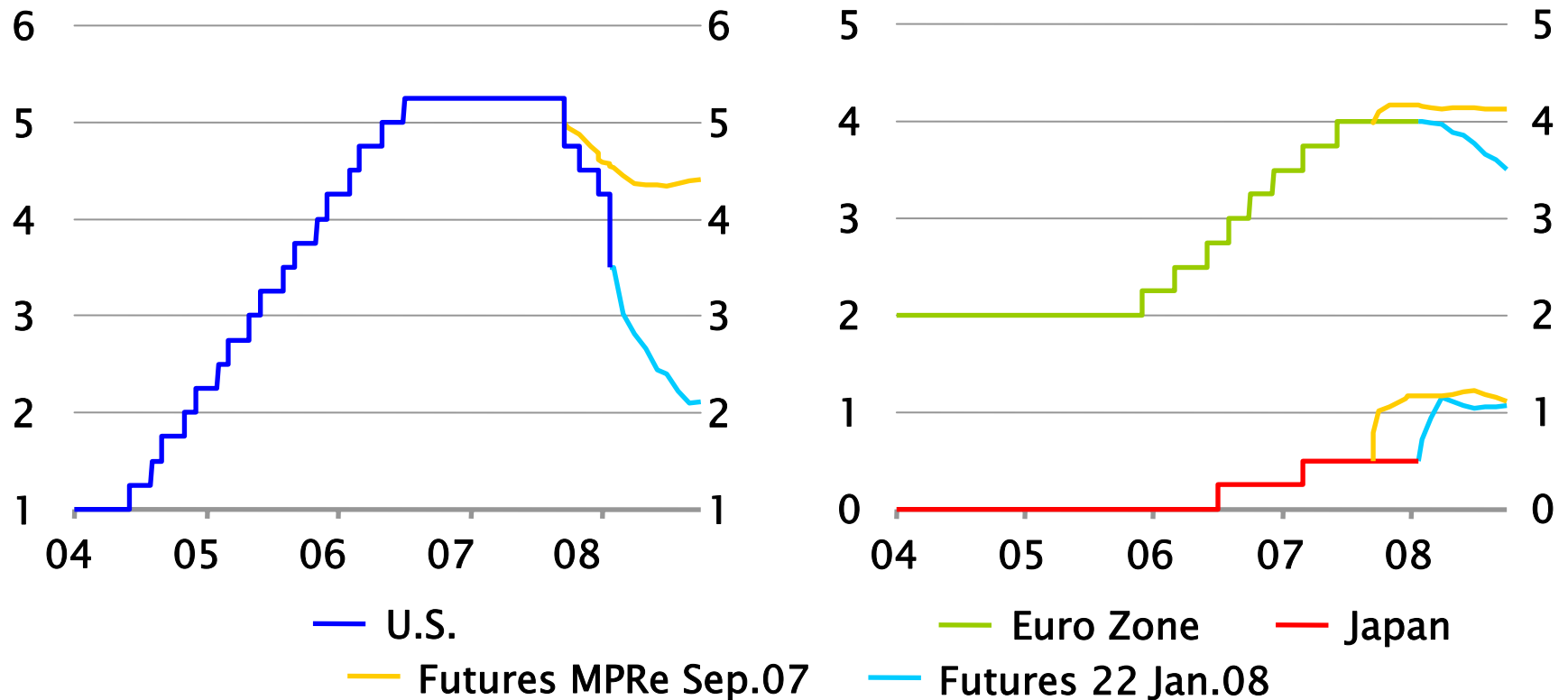
(e) Estimation. (f) Forecast. (*) Annual change percentage

Source: Central Bank of Chile



The monetary policy rate outlook for developed economies has been adjusted downwards.

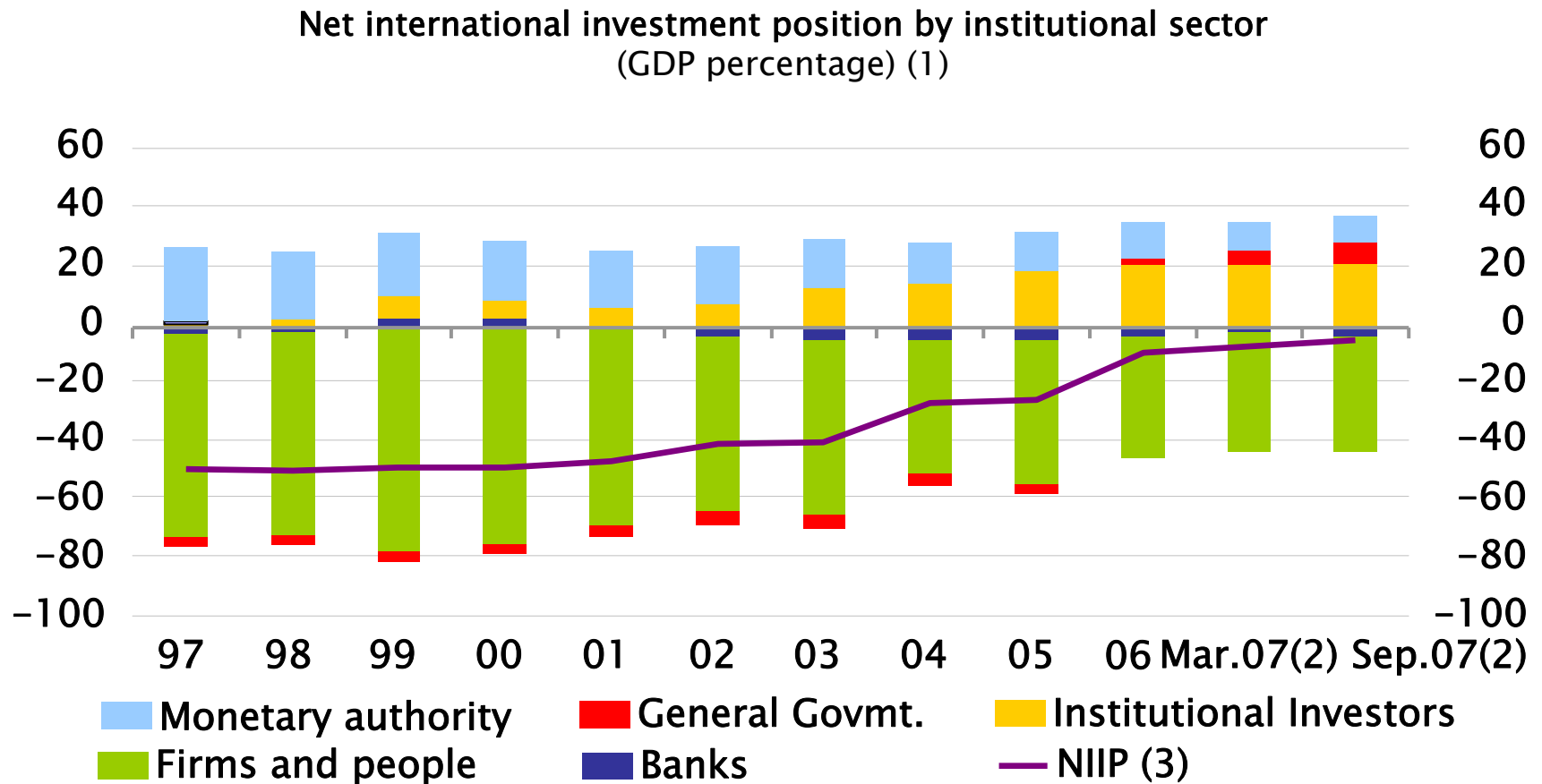
Expectations for MPR in developed economies(*)
(percentage)



(*) Prepared by the Central Bank of Chile based on futures contracts of interest rates.
For futures MPR₉ Sep.07, the average of the last 10 working days at the closing date was used. January 22, spot figure—
Sources: Central Bank of Chile and Bloomberg.



Chile's net international investment position has improved substantially in recent years.



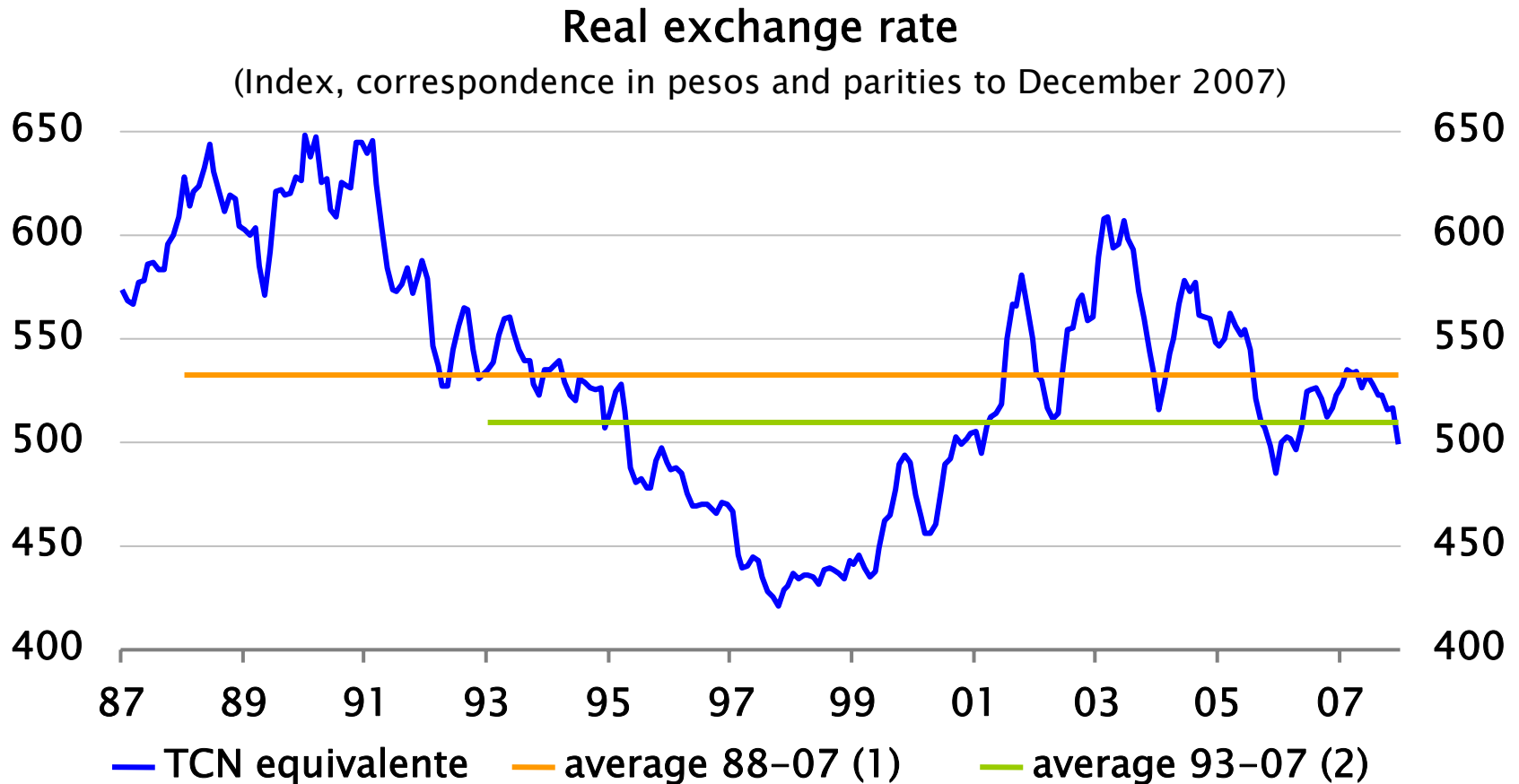
(1) GDP at constant real exchange rate (base rate in December 2005 = 100).

(2) Estimated values based on financial account flows. (3) Net International Investment Position.

Source: Central Bank of Chile.



The real exchange rate is somewhat below levels consistent with its fundamentals in the long run.



(1) Average for the period January 1988 to December 2007.

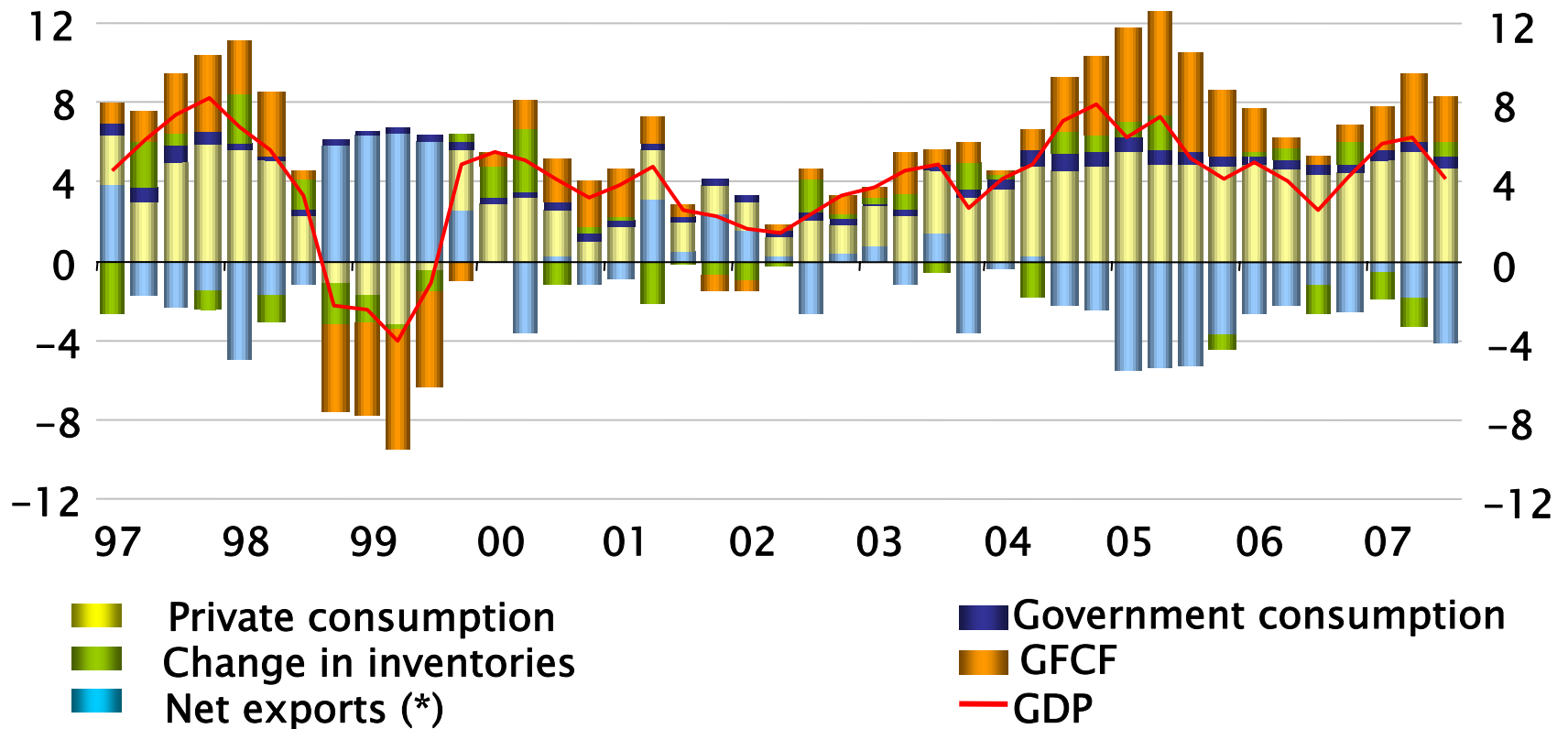
(2) Average for the period January 1993 to December 2007.

Source: Central Bank of Chile



Consumption and investment supported GDP growth over 2007.

Contribution to GDP growth
(annual real change, percentage points)



(*) Goods and services exports minus goods and services imports.

Source: Central Bank of Chile.



BCCh's baseline scenario considers that GDP growth in 2008 will reach between 4.5 and 5.5%, with a downward bias.

GDP Prospect
(Annual change, percentage)

	2005	2006	2007 (e)	2008 (f)
GDP	5,7	4,0	5,2	4,5 – 5,5
National income	9,2	5,1	3,6	5,1
Domestic demand	11,0	6,0	8,1	6,2
Gross fixed capital formation	21,9	4,0	12,8	8,4
Total consumption	7,5	6,6	7,3	5,6
Goods and services exports	3,5	4,2	8,1	5,0
Goods and services imports	17,7	9,4	15,1	8,3
Current Account (% GDP)	1,1	3,6	3,8	-0,5

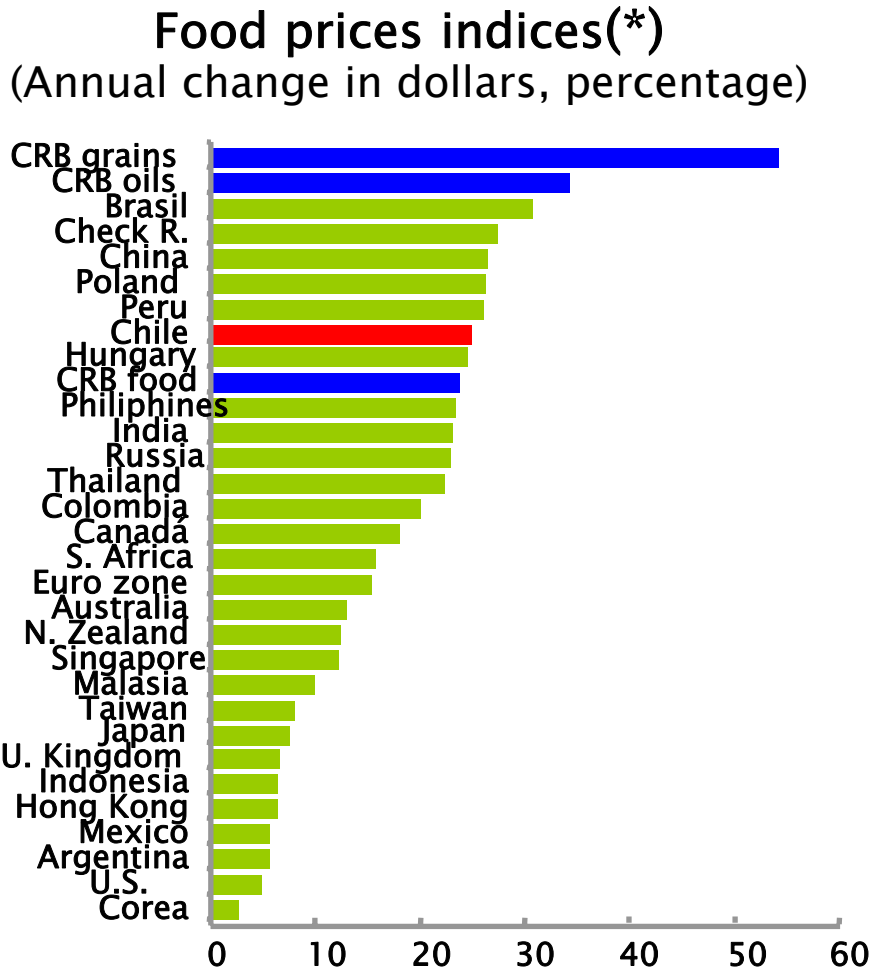
(e) Estimation.

(f) Forecast.

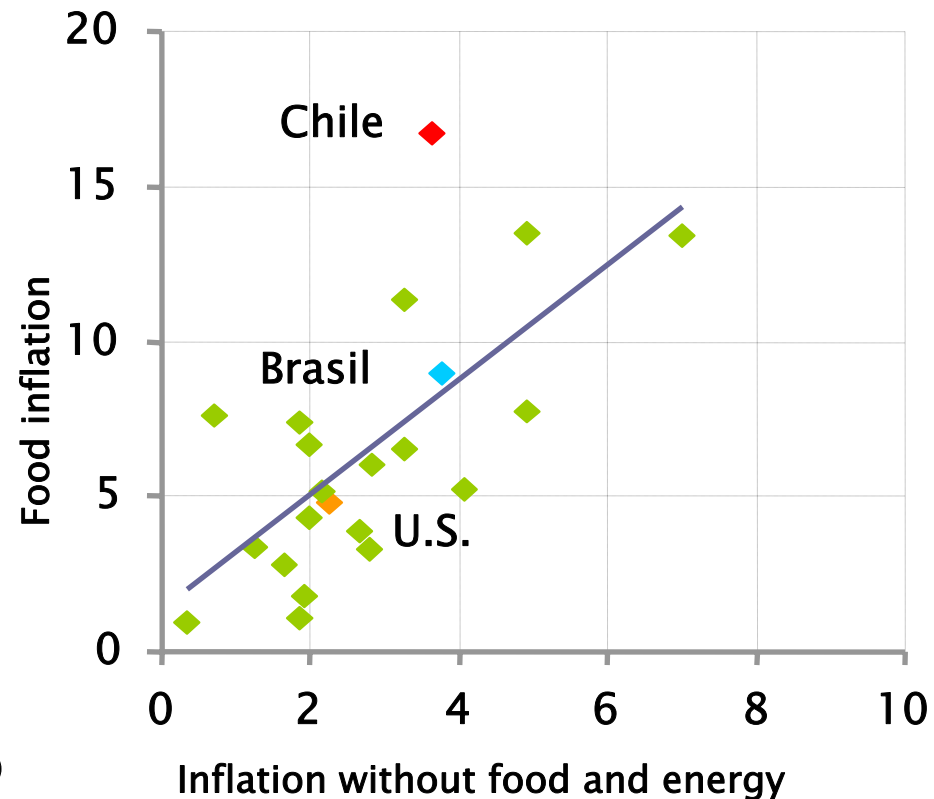
Source: Central Bank of Chile



The increase in international prices of food affected domestic prices.



Inflation without food and energy, and food inflation
(annual change, percentage)

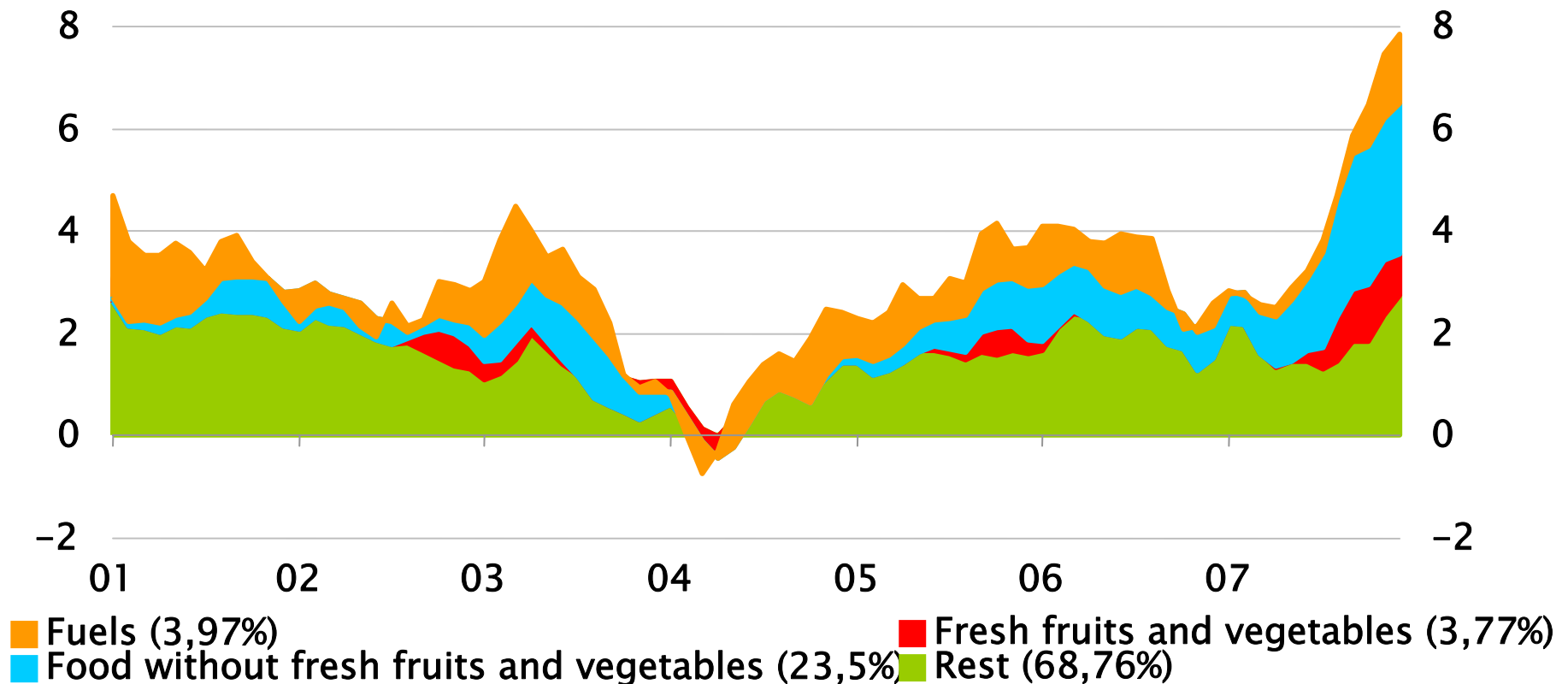


(*) Food CPI inflation corresponds to figures for October, November or December, depending on availability
Sources: Central banks and statistical agencies in each country, and the International Monetary Fund .



The rise of food, fuel and electricity explains an important part of the rise in the CPI.

Incidences in annual CPI inflation(*)
(Annual change, percentage)

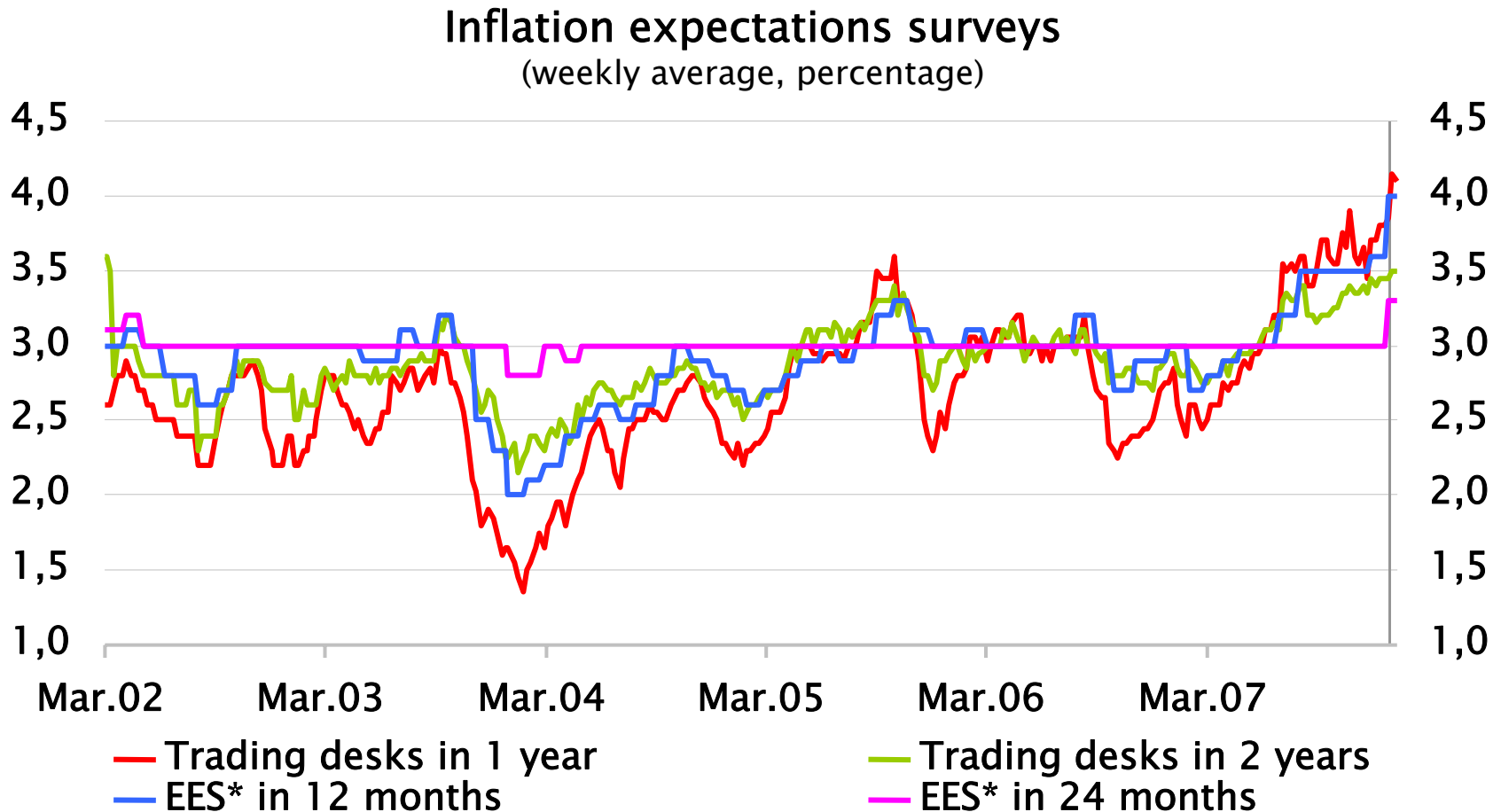


(*) In parenthesis, participations in the CPI basket.

Sources: Central Bank of Chile and National Statistics Bureau.



Inflation expectations for the next few quarters have increased, remaining close to 3% over the long run.



* EES: Economic Expectations Survey
Source: Central Bank of Chile.



In mid-2008 CPI annual inflation would begin to converge towards the target, reaching the range of tolerance at the beginning of 2009.

Inflation forecast
(Annual change, percentage)

	2005	2006	2007	2008(f)	2009 (f)
Average CPI inflation	3,0	3,4	4,4	7,1	3,1
December CPI inflation	3,7	2,6	7,8	4,5	
Around 2 years CPI inflation (*)					
Average CPIX inflation	2,3	3,2	4,0	7,0	3,1
December CPIX inflation	2,9	2,7	6,3	5,4	
Around 2 years CPIX inflation(*)					
Average CPIX1 inflation	1,9	2,5	4,1	6,4	3,0
December CPIX1 inflation	2,6	2,4	6,3	4,9	
Around 2 years CPIX1 inflation(*)					

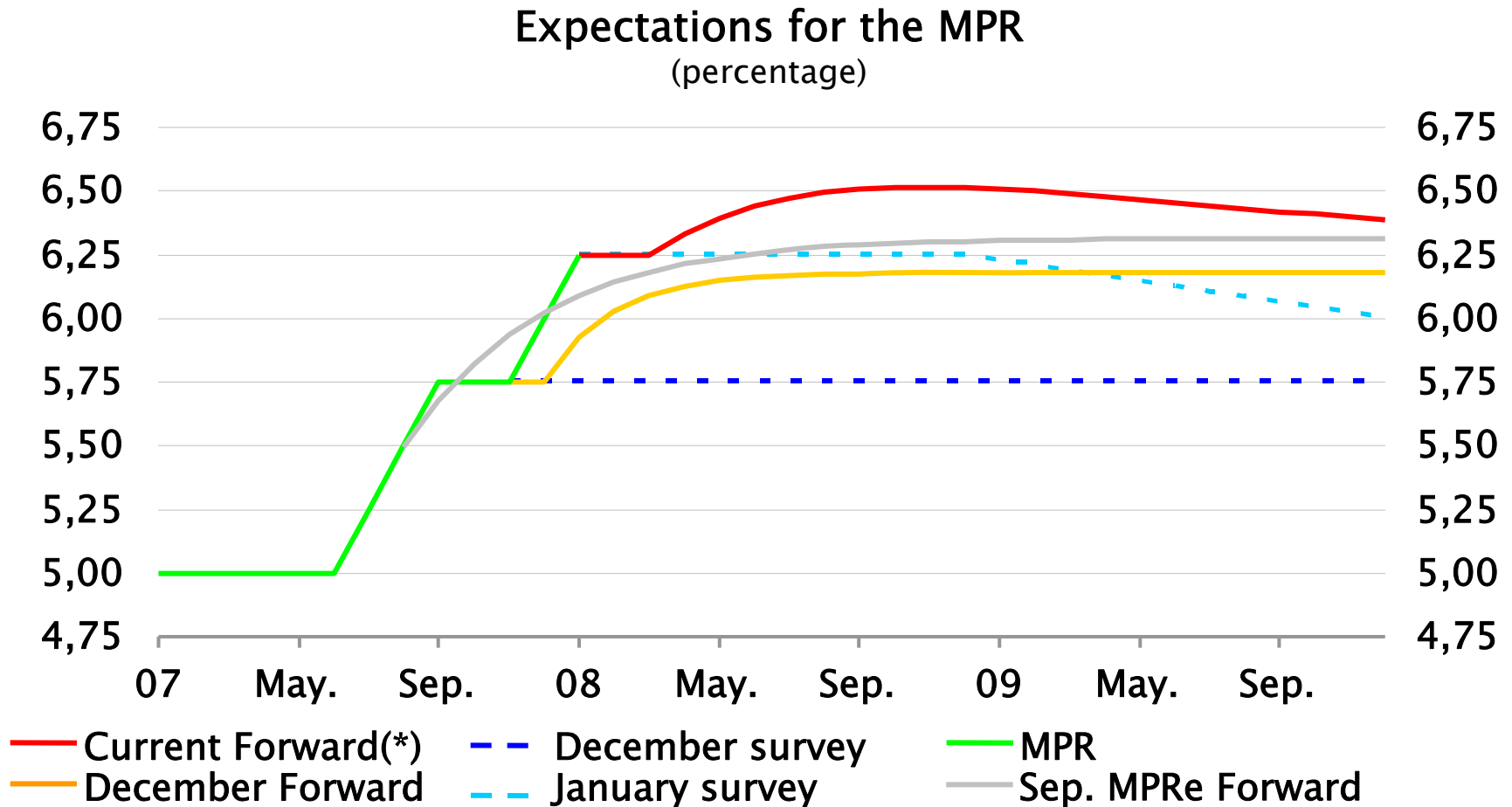
(f) Forecast.

(*) Corresponds to the average inflation projected between 2009.IV and 2010.I.

Source: Central Bank of Chile



Private expectations anticipated up to two further increases of 25 basis points of the Monetary Policy Rate 2008 by last week.



(*) 6.25 and 6.5% to March and December 2008. Calculated with the last 10 days to January 8.
Source: Central Bank of Chile.



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