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Chile to Resume Rate Increases Next Week, Survey Shows (Update1)
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(Updates with inflation estimates in eighth paragraph.)

By Randall Woods

Feb. 9 (Bloomberg) -- Chile's central bank will raise its benchmark interest rate next week after keeping borrowing costs on hold in January, according to the median estimate of traders and investors in a bi-weekly survey.

Policy makers will increase the rate to 3.5 percent from 3.25 percent in their Feb. 17 meeting and to 4.75 percent by August, according to the median estimate of 42 investors and traders in the survey published on the central bank website.

Central banks in emerging markets must remain "proactive" to keep inflation in check as economic output exceeds capacity, Chilean central bank President Jose De Gregorio said yesterday in Israel. Policy makers in Chile raised borrowing costs at each of the seven monthly meetings from June through December, pausing at 3.25 percent eight days after starting a program on Jan. 5 to buy dollars in the local market to weaken the peso.

"Countries must do their best to sustain growth," De Gregorio said in comments transmitted live from the Herzliya Conference website. "This may require measures to mitigate transitory tensions in exchange rate markets. But from a central bank point of view, it's also extremely important for monetary policy to be very proactive and to avoid rising inflation."

Chile's peso has weakened 2.6 percent since Jan. 3, when the bank unveiled its \$12 billion dollar-buying plans.

Two-year breakeven inflation, which reflects traders' expectations of the average pace of price rises over the next 24 months, has risen to 4.29 percent from 3.55 percent on Jan. 3.

Annual inflation will reach 4 percent in 12 months, dropping to 3.6 percent in two years, according to today's survey. Chile's central bank targets annual inflation of 3 percent, plus or minus 1 percentage point.

Consumer prices rose 0.3 percent in January from the previous month and 2.7 percent from a year ago, the National Statistics Institute said yesterday. Consumer prices will rise 0.2 percent in February from January, today's survey said.

The peso will trade at 479.75 in seven days and 481.95 in three months, the survey said. Chile's peso appreciated 0.2 percent to 478.05 per dollar at 6:40 a.m. New York time today.

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