18:02 07 Jun RTRS-ANALYSIS-Chile cenbank won't jack up rates Thursday

By Tiffany Woods

SANTIAGO, June 7 (Reuters) - Chile's central bank will not raise interest rates at its monthly monetary policy meeting on Thursday, opting to coax economic growth instead of fighting inflation, analysts said on Wednesday.

"They will hold off for a while even though inflation has been above the central bank's target," Neil Dougall, chief economist for Latin America at Dresdner Kleinwort Benson, told Reuters. "It's important to make sure the recovery is as sound as possible. The central bank may be reluctant to nip that in the bud."

"It is unlikely that at this meeting interest rates will be touched because politically the growth aspect is more sensitive than the possible fear that inflation may be over four percent," said independent strategist Armen Kouyoumdjian.

The interbank lending rate, the central bank's key tool for guiding monetary policy, has stood at an annualized, inflation-adjusted 5.50 percent since March, when the institution raised it 25 basis points.

The only other hike this year came in January, when the rate was raised to 5.25 percent from 5.0 percent, marking the first increase since September 1998, when it peaked at 14 percent.

In the past, the central bank had raised rates to meet its annual inflation target. Today, however, it prefers to set inflation goals over a period of several years and within a percentage range.

Inflation has come under pressure because of rising prices for fuel. The consumer price index (CPI) rose 0.2 percent in May to accumulate an increase of 2.2 percent in the first five months of this year.

The central bank has set a target of about 3.5 percent for this year, but this week it said it sees consumer prices rising between 4.0 and 4.5 percent in 2000.

Analysts said the central bank may be willing to overlook the inflation data in order to assure the nation's economic rebound.

Chile suffered its first recession in almost 20 years between October 1998 and August 1999 because of increases in local interest rates, emerging market turmoil and a plunge in the price of copper, the country's leading export.

"We have been seeing some sort of a lag. Things have been growing but maybe not as quickly as originally anticipated. (The central bank) may want to keep that lower interest rate going for a little while longer," said Mark Jason, country analyst at Merrill Lynch Chile.

The economy expanded 6.4 percent in March compared with the same month a year earlier to grow 5.5 percent in the first three months of the year. The central bank expects gross domestic product (GDP) to grow 5.9 percent this year, but the government said the number will likely be higher.

Dougall forecasts GDP growth of 5.5 percent this year and 6.7 percent next year. Merrill Lynch sees GDP growing 6.0 percent this year.

Although analysts ruled out a hike in rates at Thursday's meeting, they said the central bank will eventually have to raise them this year to put the brakes on the economy.

"They'll have to start thinking about it in the third quarter. There could be potential overheating in 2001," Dougall said, adding that the next increase in rates may come at the monetary policy meeting in July.

Dougall sees the central bank jacking up its key rate 50-75 basis points by the end of this year.

"We anticipate a year-end rate of six percent," said Merrill Lynch's Jason.

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