

Central Bank of Chile
Santiago 16 November 2006

Press Release*

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The external scenario relevant to the Chilean economy remains favorable. Oil prices remain below projections in the last *Monetary Policy Report*, world financial conditions are still positive and the copper price, despite recent reductions, is still high.

Domestic output continues to grow at a low pace, below earlier projections, and beyond specific developments in manufacturing industry and mining. Nonetheless, salaried employment continues to rise, while unemployment falls and consumption grows steadily with relative strength. Domestic financial conditions remain favorable. This information, combined with the evolution of the external scenario and increases in investment intentions, is consistent with economic growth picking up during next year.

Annual CPI inflation dropped significantly, largely influenced by the decline in fuel prices, and is now in the lower part of the target range, below earlier projections. This also reflects the decline in core CPIX1 inflation (which excludes fuels and perishables, plus some regulated services). Other indicators of trend inflation also show a decline, and cost pressures are well contained. These events permit to forecast that inflation will be, for some months, below the center of the target range. Long-term inflation expectations continue to be anchored around 3%.

The Board reaffirms its commitment of conducting monetary policy to assure that projected inflation will be at 3% over the policy horizon. Future changes in the monetary policy rate intended to achieve this objective will depend on incoming information and its implications for projected inflation.

* The Spanish original prevails.