

Central Bank of Chile
Santiago 12 October 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 oil price level is lower than projected in the last *Monetary Policy Report*, strengthening the favorable external scenario for the Chilean economy. International financial conditions continue to be positive, and the copper price remains high.

Output continues to grow at a low pace, partly affected by specific developments in mining and manufacturing. Nonetheless, salaried employment continues to rise, while unemployment is gradually declining. Domestic financial conditions remain favorable. All these facts, combined with the evolution of the external scenario, are consistent with the economic recovery projected for next year.

CPI inflation and core CPIX inflation (which excludes fuels and perishables) are close to 3%. Core CPIX1 inflation (which also excludes some regulated services) has been below forecast and is now less than 2.5%. Other indicators of trend inflation also show a decline and cost pressures are contained. This, together with reduced fuel prices, permits to forecast that inflation in the next few months will be less than projected in the last *Monetary Policy Report*. Medium- and long-term inflation expectations continue to be anchored around 3%.

With the information at hand, the Board considers that, for a rather extended period of time, new increases in the policy rate may not be necessary to maintain projected annual inflation around 3%. However, this will depend on incoming information and its implications on projected inflation.

* The Spanish original prevails.