

Central Bank of Chile
Santiago, 10 November 2005
Press Release^{*}

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points to 4.5% (annual).

Third quarter's output growth was somewhat lower than forecast in the last *Monetary Policy Report*, although it is still above trend. Investment growth remains strong, and employment continues to increase at a fast pace. Domestic interest rates on various instruments have increased in the past few weeks, but financial conditions in Chile continue to be expansionary. Although inflation and interest rates in developed countries have also risen, the external scenario continues to be favorable, with a persistently high copper price and the prospect of high world growth, albeit with higher risks.

In October, inflation exceeded previous projections, mainly due to the incidence of perishable goods' prices. Thus, annual CPI inflation was above 4% and is expected to remain above the target range during the first months of 2006. Core inflation measures CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities, among others) continue to be well contained until now, as are inflation expectations, which for one year or more are around 3%. This is consistent with a transitory increase in annual inflation and its subsequent convergence to the center of the target range, as forecast in the latest *Monetary Policy Report*.

The Board believes it is appropriate to reaffirm its commitment with price stability as well as its willingness to reduce the prevailing monetary stimulus at the necessary pace to maintain expected inflation around 3% per annum in the policy horizon of 12 to 24 months.

^{*} The Spanish original prevails.