

Central Bank of Chile
Santiago, 11 October 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 4.25% (annual).

Output continues to grow above trend, although recent information reveals it is somewhat below earlier forecasts. Domestic demand remains strong, showing more dynamism in investment than in consumption, employment is still increasing at a fast pace and monetary conditions in Chile continue to be clearly expansionary. Despite high oil prices and increased risk of a pick-up in international inflation, the external scenario continues to be favorable, with a persistently high copper price, good financial conditions and a high world output growth outlook.

In September, inflation was surprisingly high because of the incidence of specific prices, particularly fuels and some perishables, leading CPI inflation to be around 4% sooner than expected. On the contrary, the core inflation measures CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities, among others) have continued to grow, in line with projections. Expected inflation indicators, for horizons of two years and beyond, remain around 3%. This picture is consistent with a temporary increase in inflation and with the inflation trend converging to the center of the target range, as forecast in the latest *Monetary Policy Report*.

The Board considers that, in the most likely scenario, it will continue to reduce the prevailing monetary stimulus, in order to maintain expected inflation around 3% per annum in the normal policy horizon of 12 to 24 months.

* In case of discrepancy, the Spanish original prevails.