

The Central Bank of Chile
Press Release*
11 November 2004

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to raise the monetary policy rate by 25 basis points to 2.25% (annual).

The main developments in the domestic economy observed at the time of the last meeting have strengthened, namely subdued inflation and dynamic economic activity. In effect, the growth pace of output and domestic expenditure has increased above forecast in the *Monetary Policy Report* of last September. Investment has gained additional momentum, export volume growth has increased, while private consumption shows no signs of weakness. In addition, labor market figures have improved.

Inflation has remained at low levels, in spite of higher international oil prices. This is particularly apparent in core inflation measures (that exclude some goods with more volatile prices), which continue to show low monthly growth rates and run below previous forecasts. The moderate pace of cost increases, particularly in labor, has contributed to keep inflationary pressures within limits.

The Board believes that, despite increased economic dynamism, today's low inflationary pressures and output gap make it possible, in the most likely scenario, to maintain the gradual reduction of the marked monetary impulse at a measured pace. This is consistent with maintaining expected inflation around 3% per annum in the usual policy horizon of 12 to 24 months.

* This is an unofficial translation. In case of any discrepancy or difference in interpretation, the Spanish original prevails.