

The Central Bank of Chile
Press Release*
12 October 2004

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to maintain the monetary policy interest rate at 2% (annual).

Since the last meeting, the international environment remains positive, even though the oil price has increased above earlier projections, which is a significant source of risk. Meanwhile, the growth pace of domestic output and expenditure has strengthened. Investment continues to build up dynamism, foreign trade is expanding rapidly and consumer indicators look good, despite the persistence of mixed indicators in the labor market. In this positive picture, the expectation of a gradual compression of the output gap is reaffirmed.

Nevertheless, beyond the effects of international fuel prices, inflation remains low. This is apparent in core inflation measures (that exclude some goods with more volatile prices) and in the evolution of cost pressures, e.g. labor pressures, and imported inflation excluding fuels.

The Board reiterates that, in the most likely scenario, it will continue to reduce the present marked monetary impulse at a measured pace, in order to maintain annual expected inflation centered around 3% in the usual policy horizon.

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