The Central Bank of Chile
Press Release*
11 January 2005

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to increase the monetary policy interest rate by 25 basis points to 2.5% (annual).

The information available shows that the main trends identified in recent months have continued: subdued inflation and increasingly dynamic output. With a world economy that continues to be favorable, and markedly expansionary monetary conditions, domestic activity and spending maintain a strong growth rate. Investment and exports continue to grow at high rates, employment and the labor force have consolidated their dynamism, and private expectations are optimistic. Inflationary pressures arising from this scenario of closing output gaps make it necessary to continue with the normalization of the monetary impulse.

Beyond the short-run effects of fuel prices volatility, inflation has increased slowly, particularly core measures (that exclude some goods with more volatile prices). Costs, particularly labor costs, have kept their mild increase, which has contributed to keep inflation levels low. This has favored the gradual reduction in the monetary stimulus.

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