

Central Bank of Chile
Press Release*

10 February 2005

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to raise the monetary policy interest rate by 25 basis points, to 2.75% (annual).

Available information to date shows that output continues to grow strongly, even exceeding in last December the forecasts in the latest *Monetary Policy Report*. This occurs in a favorable international scenario, with persistently high copper prices, and monetary conditions in Chile that continue to be markedly expansionary. Investment has continued to grow vigorously, employment and the labor force have been increasing at high rates over the past five months, and private expectations look more optimistic.

Recent price information, including January's CPI, is in line with the scenario of subdued inflation for this year forecast in the last *Monetary Policy Report*. Also, the various measures of the present inflation trend have continued to show gradual increases. This, combined with the steady closing of output gaps and the marked monetary stimulus, makes it advisable to increase the monetary policy interest rate. This adjustment is consistent with the strategy of gradual normalization of the monetary impulse; it reduces the risk of sharp adjustments in the future and reflects the good prospects for the domestic economy.

The Board considers that this strategy makes it possible, in the most likely scenario, for inflation to evolve around 3% per annum in the normal policy horizon of 12 to 24 months, although the 12-month inflation rate can be expected to be at low levels during part of 2005.

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