

The Central Bank of Chile
Press Release*
7 September 2004

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by the vote of four of its members, to raise the monetary policy interest rate by 25 basis points to 2% (annual). The minority vote was for maintaining the interest rate.

The available information shows that a favorable scenario for the Chilean economy continues to develop, thanks to a positive international environment and the strong expansionary impulse of financial conditions. Against this background, a progressively higher output growth is confirmed, backed by the recent upturn of households and firms' confidence indicators, robust investment and improved perspectives for the labor market.

In recent months, annual CPI inflation has begun to normalize, from the low levels earlier in the year. This behavior has been influenced by the rise in some specific utility rates, fuel prices and the progressive increase in core inflation measures (that exclude some goods with more volatile prices). The Central Bank projects that these will continue along this increasing path while the output gap gradually closes. Also, the oil price increase is expected to drive inflation to 3% sooner than previously forecast, although its transmission to other prices will be limited.

Against this background, the Board has considered appropriate to introduce a moderate reduction in the marked monetary impulse, which has become less necessary thanks to the favorable recent behavior and perspectives of expenditures and output. The Central Bank of Chile reiterates that it will be alert to make timely adjustments to monetary policy in order to confront any deviations of expected inflation from the specified target range.

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