

The Central Bank of Chile
Press Release*
Santiago, 12 August 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 1.75% (annual).

The incidence of the increase in fuel prices will probably push CPI inflation toward 3% before forecast in the latest Monetary Policy Report. However, core inflation measures CPIX and CPIX1 (which exclude some goods with more volatile prices) are converging to target range of 2% to 4% at the expected pace. Good economic activity indicators reinforce the scenario of gradual narrowing of the output gap. In particular, foreign trade and investment figures continued to exceed growth expectations. In addition, recent news from the labor market suggests that the weak performance of the last two months has improved to some extent.

Against this background, the Board believes that the moment is approaching when it will be necessary to reduce the marked monetary impulse, in order to make compatible the strengthened economy with an expected annual inflation rate of 3% over the usual policy horizon of 12 to 24 months. At any rate, it 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.