

The Central Bank of Chile
PRESS RELEASE*

8 January 2004

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided, by unanimous vote, to reduce the monetary policy interest rate from 2.25% to 1.75% (annual).

News from the cost and price side reveals lower than expected inflationary pressures. The 12-month inflation rate is around 1%, and negative rates are expected for some months of the first half of the year. Also, the core inflation CPIX, that excludes the prices of some more volatile goods, is at 2% annual, and is expected to be below 1% in the same period.

These low inflation levels increase the risk of future pricing decisions being based on inflationary expectations inconsistent with the Central Bank's inflation target, thus postponing the convergence of inflation rates to the 3% target in the usual 24-month policy horizon. In this setting, the reduction of the interest rate reduces this risk.

Regarding economic activity, recent information suggests an increase in growth projections for the coming quarters. This is due to both external and domestic factors. Terms of trade continue to improve, especially the price of copper, world growth expected for this year has consolidated, and good international financial conditions continue. Domestically, consumer expectations are more optimistic, in a scenario where employment and household loans continue to grow, which adds to the expansionary monetary policy.

The Central Bank of Chile reassures its objective of attaining an inflation rate centered around 3% in the usual policy horizon, and reiterates that it will continue to conduct monetary policy with the necessary flexibility to address any projected inflation deviations in either direction from the specified target inflation rate.

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