

Santiago, July 11, 2002

Press Release

At its monthly monetary policy meeting held today, the Board of the Central Bank decided to lower the monetary policy interest rate by 75 basis points from an annual 4% to 3.25% and to lower the rates on liquidity credit lines by the same amount each.

The world economic growth continues as foreseen in previous months although differently in the various geographic regions. Nevertheless, the outlook for growth of Chile's trading partners has been affected by dismal results of some Latin American countries. In addition, there are considerable risks associated with the deterioration of the main stock markets. Financial turbulence in the region is also more significant than in previous months.

On the domestic front, figures indicate that second-quarter spending and output were both higher than in the first quarter but still below what had been forecast in May's *Monetary Policy Report*, particularly with regard to spending. Their performance, together with international developments, suggest that growth rates in the coming quarters will be lower than the *Report* had indicated.

Some of the circumstances described imply contradictory effects on inflation. However, the low level of inflation, the persistence of idle capacity, the failure of exchange depreciation to pass through to prices, all these factors point to inflation converging on the centre of the target range within the usual policy horizon and this is coherent with the measure of lowering the monetary policy rate to give a boost to economic activity.

The Central Bank reiterates its commitment to a flexible use of monetary policy to avoid deviations from the inflationary target.