Santiago, October 9, 2001

Press Release

At its monthly monetary policy meeting held today, the Board of the Central Bank decided to keep the monetary policy interest rate at an annual 6.5% and that liquidity credit lines would also remain unchanged at the levels prevailing since the previous meeting.

The events of September aggravated the recession setting in the United States and heightened the uncertainty about the speed and timing of world economic recovery. There are a great variety of forecasts but the general consensus is that trend growth of Chile's trading partners will drop around one percentage point by the end of 2002. This new reality means that there will be far less demand for Chile's export products and the terms of trade will be worse than had been foreseen in September's *Monetary Policy Report*. Although international interest rates fall, which is favorable to Chile's cost of foreign financing, this can only partly compensate for the negative effects of a world growth slowdown. The Board thus estimates that Chilean economic growth will be affected this year and more so in 2002, reaching a range of 3% to 4% but returning to higher growth rates in 2003.

Apart from the rather dismal world situation, neighbouring economies have also become financially more vulnerable in recent weeks, putting greater pressure on the Chilean peso which had already dropped in value because of the international outlook. If it continues this way, the depreciation already suffered in the past thirty days threatens to push prices up and raise inflation, particularly next year. However, this risk is offset by the projected reduced growth of domestic demand and low oil prices. The Board therefore envisages inflation remaining around the level forecast in September's *Monetary Policy Report*, converging towards the centre of the target range (3%) within a horizon of eight quarters.

The Board confirms its commitment to price stability and to the inflation target of 2% to 4% and centering on 3%. It will continue to keep monetary policy flexible in order to anticipate and face any threats to achieving the inflationary target.

Finally, the Board will continue the policy of intervention in the exchange market and trading indexed dollar securities, announced on August 16, to facilitate foreign-currency liquidity and to provide hedging instruments.