

Santiago, July 26, 2001

Press Release

At an extraordinary meeting held today, the Central Bank Board decided that, as from August 9, the monetary policy interest rate will be defined in nominal terms, that is as a percentage in relation to a value in pesos and not in UF as had been the case. The same will apply to rates on credit lines and liquidity deposits.

The Board set the nominal annual interest rate at 6.5%, corresponding to the current monetary policy rate of UF plus 3.5%. This value was established on the grounds of a real interest rate target of 3.5% and expected inflation of 3.0%, which is at the center of the inflationary target range.

This measure was taken as part of a coherent modernization process of Central Bank policies which to date has included adopting the scheme of inflationary targets as a way of keeping inflation low and stable, within a range of 2% to 4% a year and centering on 3%; allowing the exchange rate to float; eliminating restrictions on capital flows; and gradually offering promissory notes denominated in pesos in financial markets. This modernization process has been possible thanks to ten years of successfully meeting inflationary targets and achieving price stability.

More recently, the convergence of headline inflation and underlying inflation towards the center of the inflationary target range and belief in the Central Bank's commitment to keeping inflation within this target range have brought private sector expectations of inflation to a steady 3% a year. It has thus been easier to make the monetary policy rate in UF homologous with the nominal rate announced today.

Nominalization of the monetary policy rate in today's context of consistently low inflation contributes to:

- reducing the fluctuation of prices and earnings on various financial assets denominated in pesos and of more liquid monetary aggregates;
- improving markets that operate with nominal interest rates by making them more transparent and less volatile;
- encouraging financial integration into world markets.

This measure taken by the Central Bank will not affect the depth and liquidity of markets dealing in medium- and long-term instruments denominated in UF.

At its meeting programmed for August 9, the Board will decide the eventual changes in the nominal monetary policy interest rate on the same grounds as used for the indexed policy rate. That is, the inflationary outlook and the progress of other key variables will be considered in order to focus monetary policy on keeping inflation within the target range.