

Santiago, November 2, 1998

### **Press Release**

The Board of the Central Bank decided to reduce the monetary policy interest rate from UF plus 12% to UF plus 10%.

This decision was taken in the light of recent indicators of economic activity and domestic spending, the calm behavior of domestic financial and exchange markets and the more stable world financial markets.

The Central Bank will remain extremely cautious as regards monetary policy to guard against any deterioration of the unstable world situation and not jeopardize what has already been achieved in terms of the current-account deficit and the reduction of inflation.

Figures on economic activity and domestic demand confirm that the ongoing adjustment process is adequate. The current-account deficit has been kept in line with the outlook presented in the Central Bank's latest report to the Senate which foresees a sustained improvement during the coming quarters. Inflation is also clearly on the right path to achieving this year's target although some risks persist in the final two months. These figures underpin a greater degree of confidence observed in the financial and exchange markets. Market interest rates in particular continued to fall after the drop in the monetary policy rate put into effect on October 13, clearly showing that exchange rate pressures have eased and that the economic outlook is coherent with the authorities' main objectives. Finally, even though world financial markets continue hesitant towards developments in emerging economies, in recent weeks they have shown a reasonable degree of calm and cautious optimism.

Consequently, the Board of the Central Bank today decided to lower the monetary policy rate from an annual UF plus 12% to UF plus 10%. Similarly, liquidity credit lines will each drop two hundred basis points to 10%, 12% and 14% respectively. The Central Bank will manage liquidity so that the interbank rate remains around the new monetary policy rate but it will maintain an appropriately flexible stance.

The Board gives its assurance that it will remain extremely cautious in handling monetary policy in the coming months in order to avoid the effects of any eventual deterioration in the world situation which is still highly uncertain and threatened by a marked slowdown. The development of adjustment plans and financing for emerging economies relevant to international financial markets will probably take weeks and even months to establish. The Board will also bear firmly in mind that despite recent progress in reducing inflation, there is a persistent risk because underlying inflation remains stubbornly above 5% a year and wages and earnings growth is still around 8% a year. Moreover, reducing the growth of nominal earnings is essential if we are to keep up employment particularly in a period of adjustment.