

Santiago, June 21, 1999

### **Press Release**

The Board of the Central Bank today decided to lower the monetary policy interest rate by seventy-five basis points from an annual UF plus 5.75% to UF plus 5% and the liquidity credit lines by the same amount. The Bank's projections for inflation and the current-account deficit in 1999 have both been modified downwards. The current-account deficit is expected to be between US\$2,000 and US\$2,500 million (3% to 3.5% of GDP) while the outlook for trend inflation is lower than the target set for year-end. The projections are coherent with a recovering economy but recovery is slower than had been foreseen. Output growth is now forecast to reach only about 0.5% for 1999.

These measures, together with a more positive evolution of the external scenario, make room for more vigorous economic growth in the future without jeopardizing the progress made to date towards stabilization.

The lower monetary policy rate confirms a now clearly expansive monetary policy and is in line with preliminary projections for the year 2000 which forecast a continuing downward trend of inflation, a current-account deficit of between 4% and 4.5% of GDP and annual output growth recovering to a level between 4.5% and 5.5%.

The effects of this monetary policy stance will be seen as from the next few months and its focus is in line with the government's efforts to confront the problem of unemployment in the short term. No further reductions of the monetary policy rate are likely in the near future and the Bank will remain attentive to economic and financial developments and their effect on inflationary pressures, external accounts and economic growth.