

Santiago, March 9, 1999

Press Release

The Board of the Central Bank today decided to lower the monetary policy interest rate by twenty-five basis points from an annual UF plus 7.25% to UF plus 7%. The liquidity credit lines are also lowered by the same amount.

The monetary policy rate has thus been reduced by seven hundred basis points since September last year and the effects on domestic spending should make themselves felt in the coming quarters.

At the same time, medium- and long-term market interest rates are around their average rate this decade which has been compatible with substantial economic growth, reduction of inflation and a prudent current-account deficit.

The strong adjustment that had to be made to the Chilean economy, because of the external crisis together with the worst drought this century and the lowest copper price since the '30s, was possible thanks to the solid foundations of our economy. After a year and a half, despite the intensity and persistence of external problems, these foundations are still soundly in place:

- the financial system remains solvent with only a modest increase in past due loans,
- inflation continues falling with no risk to macroeconomic stability,
- fiscal accounts register a surplus despite reduced income,
- foreign-currency reserves still cover almost one year of imports and constitute 50% of money and quasi-money (M2),
- the foreign debt does not exceed 45% of GDP, excluding reserves, which is equivalent to just over a year of exports,
- the current-account deficit has returned to a prudent level,
- Chile maintains its rating according to international credit risk-rating agencies,
- the real exchange rate has adjusted to prevailing economic conditions and this has helped exports, despite recessive situations in some parts of the world.

In short, there are no important reasons why the economy should not recover its dynamism in the coming months as various indicators foresee.

The Central Bank will maintain its flexible approach to monetary policy in order to facilitate this recovery which should lead to a moderate growth rate in line with the world situation and with inflationary and external account targets.