

Santiago, November 24, 1998

### **Press Release**

The Board of the Central Bank decided to lower the monetary policy interest rate from an annual UF plus 10% to UF plus 8.5%.

The decision allows for a financial return to normal once the marked turbulence at international and local levels following the Russian crisis have been overcome.

Central Bank policies will aim for a gradual but lasting recovery of growth within a stable macroeconomic framework in order to continue reducing inflation and to keep the economy on the path of achieving a sustainable current-account deficit.

International financial markets have been more tranquil in recent weeks, reacting with cautious optimism towards the progress made by adjustment programs, financing and reform in important emerging economies and also to the financial clean-up going ahead in Japan.

Confidence of international investors has been boosted by cuts in monetary policy interest rates in the USA, Canada and several European countries faced by the outlook of sluggish world economic growth in 1999. Chilean financial and capital markets have also been affected by world developments, with domestic interest rates at all maturities tending to fall and stock market indices rising to levels similar to those observed before the world financial disorders in August. Finally, all the most recent indicators of output and expenditure confirm the progress of the ongoing adjustment process.

All these factors led the Board of the Central Bank to reduce the monetary policy rate from UF plus 10% to UF plus 8.5% and the liquidity credit lines similarly dropped one hundred and fifty basis points to 8.5%, 10.5% and 12.5% respectively.

Nevertheless, although external financial conditions are returning to normal, foreign financing for all emerging economies is now less abundant and more costly and the outlook of a marked slowdown of the world economy in 1999 throws a gloomy shadow over Chile's current account in the near future.

The Central Bank therefore confirms that it will remain extremely cautious in handling monetary policy over the coming months, even though the financial turmoil has temporarily abated and the adjustment process of domestic spending has made important progress.

The Bank will continue to be as flexible as both external and internal circumstances require, including the degree of stability demonstrated by financial and exchange markets. Strictly adhering to its aims of continuing to reduce inflation in line with targets set and keeping the economy on the path to a sustainable current-account deficit, the Central Bank policies will focus on macroeconomic stability to achieve a gradual but lasting recovery. The Bank has no interest in fast and easy solutions that in the end are more costly and inflict long term damage on the economy.