

Santiago, October 13, 1998

Press Release

The Board of the Central Bank decided to lower the monetary policy interest rate from 14% over UF to 12% over UF.

This decision was based on the consolidation of the adjustment process which is evident in the 3.4% year-on-year growth of the monthly indicator of economic activity (Imacec) in August and the 12.8% drop in imports in the past year as registered in September. The greater stability of financial and exchange markets in recent weeks was also taken into account.

Monetary policy will continue to be handled with all the flexibility that the changing and unstable world environment demands.

When monetary policy was deepened on September 16, the Bank made it clear that the correct assimilation of that set of measures and more signs of the consolidation of the on-going adjustment process would allow for a further lowering of the monetary policy rate at some future date.

Such signs are already appearing:

- a) The downward trend of the monthly indicator of economic activity (Imacec) in recent months was again confirmed in August when year-on-year output growth reached only 3.4%.
- b) Imports were cut by 6.9% in August and by 12.8% in September, both compared to a year earlier, reflecting the sharp decline in world spending.
- c) Inflation is clearly falling, down to less than an annual 5% in September.
- d) The market's positive reaction in recent weeks is shown in more stable and falling interest rates, thus the outlook for inflation and the current account are in line with the targets set for 1999.
- e) Financial and exchange market pressures have weakened.

Consequently, the Board of the Central Bank today decided to reduce the monetary policy interest rate from UF plus 14% to UF plus 12%. The Bank will manage liquidity so that the interbank interest rate will hover around this new monetary policy rate but it will keep a flexible attitude to liquidity and to maintaining the monetary policy rate at a level adequate to the changing and unstable international environment.