

# STRUCTURE AND STRUCTURAL CHANGE IN THE CHILEAN ECONOMY

*Edited by*

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The Chilean economy over the last three decades has been a source of continuous interest and fascination for economists, political scientists and development analysts. Moving from a regime with significant protectionist policies to one with a very open economy, embracing free trade reforms, negotiating multilateral and bilateral agreements, the macroeconomic indicators suggest that the economy has prospered. This book explores the macroeconomic picture, complementing this with detailed sectoral evaluation and an analysis of the impacts at regional level. Evidence suggests an increasing need to drill down from the macroeconomic perspective to explore the degree to which economic development has or has not contributed to reducing disparities in the level of welfare across the country.

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## 6 Monetary Policy in Chile: Did it Produce Changes in the Volatility Regime, 1990-2002?

Sergio Zúñiga

### Introduction

A number of fundamental modifications in monetary policy were implemented in Chile beginning in the 1990s, among which included independent status for the Central Bank, establishment of an inflation targeting regime (IT),<sup>1</sup> an important liberation of interest rates, and more recently the establishment of the Monetary Policy Rate (MPR). Before 1990, the mission of the Chilean Central Bank was quite limited. In effect, since 1976 monetary policy was linked to government financing, control of interest rates, and bank credit; up to 1982, a nominally fixed exchange rate existed, and until 1984 the bank was limited to supporting the banking system in the financial crises which occurred in the 1980s.

One of the most relevant aspects of monetary policy is its impact on financial markets. Unfortunately, the number of empirical studies on this point is relatively limited, and the results have been apparently contradictory. On one hand, there is ample international evidence that suggests that the independence of a central bank may be associated with lower inflation rates and greater stability in financial markets, that is, that the real interest rate variance is less than in countries that have greater levels of central bank independence (Summers, 1991; Alesina and Summers, 1993; McConnell and Perez, 2000). On the other hand, Bernanke *et al.* (1999) and Bernanke and Gertler (2000) concluded that in

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<sup>1</sup> Beginning in 1990 several countries began to adopt an explicit policy of Inflation Targeting (IT). The first country was New Zealand in March 1990, followed by Canada (Feb.1991), the U.K. (Oct.1992), Sweden (Jan.1993), Australia (1993) and the ECB (Oct.1998). Chile (May 2000) was the first country to implement IT in Latin America.

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