

Tuesday, 29 July 2025

Monetary Policy Meeting – July 2025

At today's monetary policy meeting, the Board of the Central Bank of Chile decided to lower the monetary policy interest rate by 25 basis points, to 4.75%. The decision was adopted by the unanimous vote of all the Board members.

The external scenario continues to be marked by uncertainty associated with the evolution of trade tensions and their effects on the global economy, in a context where the Israel-Iran conflict has ended, but military tensions persist. In recent weeks, the U.S. government has reached tariff agreement frameworks with some economies. At the same time, it has announced new tariffs on countries and sectors, notably the announcements regarding Brazil and copper. As a result, the average U.S. tariff level would be higher than estimated based on the information available at the cutoff date of June Monetary Policy Report (IPoM).

International financial markets have reacted in a limited way to this series of announcements. In the United States, long-term rates persist at high levels and the dollar remains depreciated. In emerging economies, short- and long-term interest rates show mixed movements. The price of copper on the London Metal Exchange (LME) has not changed significantly since the previous meeting, in contrast to the important rise in its price on the New York Mercantile Exchange (Comex). Meanwhile, the oil price fell following the aforementioned ceasefire between Iran and Israel.

In real terms, the data known to date does not suggest that tariff measures are causing a significantly negative impact on the U.S. economy, although market expectations continue to anticipate a slowdown in activity going forward. Meanwhile, U.S. inflation is showing increases in those components exposed to tariff changes, in a scenario that also shows rising inflationary risks.

In the local financial market, short- and long-term interest rates have shown limited variations since the last Meeting, while the peso has depreciated. Credit has not changed significantly. The Bank Lending Survey (ECB) for the second quarter of 2025 continued to report a weak perception of demand in most portfolios, along with no major changes in supply. However, some recovery in demand in the mortgage portfolio is reported.

Activity has evolved in line with forecasts in the June IPoM. In May, the non-mining Imacec rose 2.4% annually and fell 0.2% month-on-month in its seasonally adjusted series. This figure continued to show a reversal of some of the supply factors that boosted the economy at the beginning of the year. On the demand side, high-frequency indicators show that private consumption and gross capital formation have continued to grow in recent months, the latter driven by large-scale investment projects. The labor market shows slow job creation and an increase in the unemployment rate, in a scenario where wage growth has remained high.

In June, headline inflation was lower than anticipated in the latest IPoM. That month, the CPI posted a negative monthly variation of -0.4%, which brought its annual increase down to 4.1%. Its monthly decline was concentrated in the volatile component of the basket, mainly in foods and some goods. In fact, core inflation —which excludes volatile prices— had a zero monthly

variation —which was higher than expected—, with an annual increase of 3.8%. Two-year-ahead inflation expectations based on both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) stand at 3%.

If the central scenario of the June IPoM materializes, in the following quarters the MPR will be approaching its range of neutral values. The Board will assess the future movements of the MPR considering the evolution of the macroeconomic scenario and its implications for the convergence of inflation. It also reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The minutes of this Monetary Policy Meeting will be published at 8:30 hours of Wednesday, 13 August 2025. The next Monetary Policy Meeting will be held on Tuesday, 9 September 2025, and the statement thereof will be released at 18 hours of the same day.

*The Spanish original prevails.