Tuesday, 17 June 2025

Monetary Policy Meeting – June 2025

At today's Monetary Policy Meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of its members.

The external scenario continues to be dominated by the uncertainty associated to the evolution of commercial tensions and their effects on the global economy. There is some consensus that the U.S. economy will be most affected. In this context, growth prospects for that country have been reduced further, while other economies have needed smaller adjustment. About inflation, although U.S. data have surprised downward in the last few months, the foreseen effects of the trade conflict entail high risks. The escalation of the military conflict in the Middle East adds further uncertainty to this scenario. Its scope, development and potential impacts on the global and local economies are unknown, hence the need to monitor it closely.

The international financial markets have moderated the initial effects of the trade tensions. After a sharp deterioration during April, the developed economies' stock markets have posted a recovery in recent weeks, although the dollar remains depreciated and long-term interest rate differentials with respect to the U.S. remain narrower. The copper price (BML) rose from the previous meeting, and the oil price (WTI-Brent average) has also increased, highlighting its rise following the escalation of the military tensions in recent days.

The domestic financial market has matched the trends of the other emerging economies. The exchange rate and the long-term interest rate are close to their levels at the last Meeting, while the stock index IPSA shows cumulative gains. Credit is largely unchanged.

First quarter 2025 activity was more dynamic than expected, driven by export-related sectors. The latest Imacec indexes showed some reversal of supply factors, while the services sectors remained dynamic. Domestic demand has continued to increase as projected. Consumption, especially of goods, expanded in the first quarter. Gross fixed capital formation performed poorly at the beginning of the year; however, several factors point to a greater boost in the near future. The labor market shows slow job creation and an increase in the unemployment rate, in a scenario where wages have continued to grow significantly.

Headline and core inflation have diminished in recent months, a drop that was greater than anticipated for the latter. In May, the annual change of total CPI and core CPI (which excludes volatile items) reached 4.4% and 3.6%, respectively (4.7% and 3.9% in February). Two-year inflation expectations from both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) place them at 3%.

In recent months, inflation has evolved in line with projections and the upward risks that had appeared early in the year have moderated. Activity has exceeded projections; however, recent events in the Middle East have introduced a new source of uncertainty, which could develop into more complex scenarios.

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 macroeconomic conditions and their 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 Thursday 3 July 2025. The next Monetary Policy Meeting will be held on Monday 28 and Tuesday 29 July, and the statement thereof will be released at 18:00 hours of the second day.

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*The Spanish original prevails.