



# MONETARY POLICY MEETING

JULY 2025





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## Monetary policy session No. 315, held on 28–29 July 2025.

Present: Rosanna Costa, Governor; Stepanka Novy, Vice-Governor; Alberto Naudon, Board member; Luis Felipe Céspedes, Board member; Claudio Soto, Board member.

Present the Finance Minister, Mario Marcel

Also present: Juan Pablo Araya, Acting General Manager, Legal Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Ricardo Consiglio, Financial Markets Division Director; Claudio Raddatz, Financial Policy Division Director; Gloria Peña, Statistics and Data Division Director; Michel Moure, Institutional Affairs Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communication Manager; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Felipe Musa, Operations and Market Strategies Manager; Miguel Fuentes, Financial Stability Manager; David Kohn, Head of Massive Information Analysis Department; Rodrigo Wagner, Advisor to the Finance Minister; Erika Arraño, Senior Economist; Marlys Pabst, Secretary General.

## 1. Background

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### The international scenario

The external outlook continued to be marked by uncertainty surrounding the evolution of trade tensions and their effects on the global economy. In recent weeks, the US government had reached tariff agreements with some economies. At the same time, it had announced new tariffs on countries and sectors, notably Brazilian exports and copper. Thus, the average level of US tariffs was expected to exceed our estimates based on the information available at the close of the June Monetary Policy Report (IPoM). In terms of military tensions, the conflict between Iran and Israel had ended, although tensions persisted and NATO countries had agreed to significantly increase defense spending.

International financial markets had reacted modestly to this succession of news. In the United States, long-term rates remained high and the dollar—with ups and downs—remained depreciated. In turn, the stock markets of some developed economies showed signs of recovery. In emerging economies, short- and long-term interest rates showed mixed movements.



About commodities, the price of copper traded on the London Metal Exchange (LME) had not changed significantly since the previous meeting, in contrast with the significant increase seen on the New York Mercantile Exchange (Comex). This difference was explained by the announcement and its proximity with the entry into force of the tariff on this mineral—which had halted arbitrage between the two markets—and by the prospects of increased defense spending. Meanwhile, the oil price had dropped following the end of the hostilities between Iran and Israel and was trading near the levels observed at the close of the June Monetary Policy Report (IPoM).

In the real economy, it could not be inferred from the data that the tariff measures were weakening the US economy, although market expectations continued to anticipate a slowdown in activity going forward. Meanwhile, inflation in the US showed increases in those components exposed to the tariff changes, in a scenario where upward inflationary risks were mounting. Nonetheless, market expectations regarding the evolution of the Federal Reserve's monetary policy were similar to those in the June IPoM. In the rest of the world, activity continued to evolve in line with market expectations—with an upward surprise in China—while inflation continued to show heterogeneity in its process of convergence toward the targets of various economies.

## **The domestic scenario**

In June, headline inflation was lower than anticipated in the latest IPoM. In that month, the CPI posted a negative monthly variation of -0.4%, reducing its annual increase to 4.1%. This monthly decline was concentrated in the volatile component of the basket, mainly foods and some goods. In fact, core inflation—which excludes volatile prices—showed zero monthly variation, although higher than expected, with an annual increase of 3.8%. Two-year inflation expectations from both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF) remained at 3%.

Local activity had evolved in line with the June IPoM forecasts. In May, the non-mining Imacec had recorded an annual increase of 2.4%, with a monthly decline of 0.2% in its seasonally adjusted series. This figure continued to show a reversal of some of the supply factors that had driven the economy at the beginning of the year.

High-frequency indicators linked to domestic demand showed that private consumption and gross fixed capital formation (GFCF) had continued to expand in recent months. In the former, recent trends in digital sales, imports of consumer goods, and the Retail Trade Activity Index (IACM), among others, showed a moderate deceleration, after the surge recorded during the initial months of the year, amid relatively stable fundamentals. GFCF continued to be driven by large-scale investment projects, whose more favorable short- and medium-term outlook was confirmed by the Capital Goods Corporation's second-quarter survey. The projected investment amounts for the current and upcoming years had been revised upward, primarily due to the incorporation of new energy infrastructure projects, which had been accompanied by upward adjustments in most sectors. The labor market showed slow job creation and an increase in the unemployment rate, in a scenario where wage growth remained strong.



In the local financial market, the IPSA and short-term and long-term interest rates—nominal and indexed—showed no major changes from the previous meeting, while the peso had depreciated. Credit performance had not changed significantly. The Bank Lending Survey (ECB) for the second quarter of 2025 continued to report weak demand in most portfolios. This contrasted with somewhat better results for demand for mortgage loans. On the supply side, the ECB showed fairly stable lending conditions across all segments.

## 2. Background analysis and discussion

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On the external front, there was agreement that the ceasefire in the Israel-Iran conflict allowed for an adequate comparison between the external scenario discussed in the June IPoM and the situation at the time. It was noted that the conflict had broken out after the statistical cutoff date for the report, so its consequences had not been analyzed therein.

That caveat aside, it was noted that the international scenario was still really uncertain and some big risks remained. On the one hand, the quick resolution of the conflict between Israel and Iran, the easing of commercial tensions between China and the US, and progress on agreements between the US and several major economies seemed to be creating a more favorable global environment than was expected a couple of months ago. However, doubts about the evolution of global activity had not completely dissipated. Geopolitical issues remained present and inflationary risks in the US had increased, which could lead the Federal Reserve to adopt a somewhat more restrictive monetary policy than expected. On top of this were tensions between the Fed and the US government, all of which could result in a scenario of more adverse financial conditions for emerging economies.

At home, the available indicators showed that activity had evolved in line with the IPoM's central scenario. On the domestic demand side, private consumption was assessed to be broadly in line with projections, while investment indicators pointed to a better than expected performance. In this regard, the performance of imports of capital and intermediate goods stood out, as did the latest update of the Capital Goods Corporation's project registry, suggesting the possibility of increased investment in the next few quarters.

In terms of inflation, although the June CPI had been below forecasts, the difference was explained by the volatile component, and it was estimated that this difference would be reversed in the following months. In fact, there were no significant changes in the assessment of the inflationary process or its convergence towards the 3% target, which remained unchanged for the first half of 2026. In any case, the domestic outlook also raised issues that would need to be addressed in the coming months. In particular, the evolution of the labor market and how higher wage costs would affect both employment and workers' income, and what the consequences would be for inflationary dynamics.





### 3. Analysis of monetary policy options

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All the Board members agreed that, although global uncertainty remained high, recent developments confirmed the validity of the central scenario outlined in the last IPoM. The outlook for global growth had not changed substantially, oil prices were back to levels consistent with those seen at the statistical cut-off date of the IPoM, and although the imposed tariffs would put pressure on prices in the United States, the Federal Reserve was still expected to ease its monetary stance.

The local economy had performed in line with expectations, with GDP moderating after the strong momentum seen at the beginning of the year, which was due to temporary factors. Inflation had fallen somewhat faster than expected, however core inflation remained elevated and the outlook remained largely unchanged. Thus, in the most likely scenario, economic activity would remain around its trend, with the gap virtually closed, and inflation would converge to 3% in the first half of 2026. All this in a context where two-year inflation expectations were in line with the 3% target.

All five Board members agreed that the bulk of this information validated the monetary policy trajectory contained in the last IPoM, where a gradual reduction of the monetary policy rate (MPR) was conceived towards its neutral range in the quarters ahead. This was consistent with lowering the rate at this Meeting, so the Board unanimously agreed that the only plausible option was to cut 25 basis points off the MPR.

Several Board members mentioned that this option was utterly consistent with the previous communication of the Board and, therefore, it was widely anticipated by the market. For the same reason, adopting such a reduction should not prompt any substantial change in financial prices. One Board member added that a 25 basis points cut at this meeting was the option that best implemented the global monetary policy strategy outlined in the last IPoM.

### 4. Monetary policy decision

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Governor Costa, Vice-Governor Novy, and Board members Naudon, Céspedes and Soto voted for reducing the monetary policy rate by 25 basis points, to 4.75%.



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