MONETARY POLICY MEETING

SEPTEMBER 2025

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Monetary policy session No. 316, held on 9 September 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, Nicolas Grau.

Also present: Luis Óscar Herrera, General Manager; Mauricio Álvarez, acting 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; Rodrigo Wagner, Advisor to the Finance Minister; Marlys Pabst, la Secretary General.

1. Background

Headline inflation had evolved in line with the central scenario described in our June Monetary Policy Report (IPoM). However, behind this trajectory were mixed results for its components, with core inflation exceeding expectations, registering higher increases in both goods and services.

Core inflation had risen in the context of stronger domestic spending and substantial cost pressures. All these factors moved up the projection for this measure of inflation between the end of this year and the turn of 2026.

Economic activity had performed in line with expectations, confirming the transitory nature of the factors that drove it at the beginning of the year. Domestic demand, however, had outperformed expectations. Investment had accelerated in the second quarter, particularly in the machinery & equipment component of gross fixed capital formation (GFCF), whose momentum had continued into the third quarter, as shown by capital goods import figures. To a large extent, the upturn in investment had been boosted by large-scale projects, coupled with somewhat more favorable financial conditions and improved business confidence compared to some previous years.

Private consumption had also grown more than projected, but its difference with the June forecast was smaller than that of investment. Its growth took place alongside a favorable evolution of some of its fundamentals. Thus, labor income—the real wage bill—had continued to grow, albeit at a slower pace than in previous months. Its composition contrasted slow job creation with a sharp increase in wages. The financial situation of households had improved compared to previous years, due to both lower interest rates and a reduced financial burden. In any case, bank consumer loans remained sluggish, and consumer expectations also showed a gradual increase.

The external scenario continued to be marked by uncertainty coming from several sources. Although the impact of tariffs at the global level had been limited so far, their future course was unclear, and their economic effects were still expected to be negative. Beyond the agreements reached, the average US tariff stood at just over 15%, its highest level since the 1940s. Furthermore, institutional tensions in the United States had generated additional concern.

The US government's tariff announcements had affected the timing of trade flows and activity in major economies. The advance in trade between countries had made it difficult to gauge the impact that the trade conflict would have on the global economy in the coming quarters. As for global inflation, there were early signs of the impact of the tariff policy in the United States. In other countries, no repercussions were observed, although several of them predicted that trade diversions would lead to an oversupply of some products, putting some downward pressure on inflation.

In the international financial markets, short-term interest rates had fallen amid expectations that the Federal Reserve (Fed) would resume its rate cuts shortly. However, upside risks to inflation in the United States kept the future dynamics of this process uncertain. In this context, the US yield curve had steepened.

Compared to the close of the previous IPoM, stock markets had seen widespread gains, including Chile's IPSA, while currencies showed mixed movements. In any case, the dollar remained depreciated globally. The Chilean peso accumulated a depreciation of around 3% against the dollar and around 3.5% against a broader basket of currencies (MER).

In the central scenario of the September IPoM, projections for domestic demand growth were increased, especially for this year. For GDP, upward adjustments were also made, although of a lesser magnitude. In terms of inflation, it was estimated that between the end of this year and the first part of next year, its core component would be higher than forecast in June. Total inflation would converge to 3% during the third quarter of 2026.

2. Background analysis and discussion

On the external front, it was noted that, in general terms, the available data showed no significant changes since the previous meeting. Risks stemming from US tariff policy and geopolitical tensions persisted. In the short term, global activity figures did not show any major impact from the tariff increases, probably due to changes in trade patterns following the initial announcements, which had led to anticipated imports to the United States.

With regard to global inflation, risks in the American economy were emphasized. It was mentioned that, on the one hand, the effects on the prices of products most exposed to tariffs were already evident in that economy. On the other hand, the labor market had shown more signs of weakening than was expected by the market, although consistent with the central scenario that predicted a slowdown in US activity. The latter had led to increased speculation about further cuts in the federal funds rate, beyond institutional tensions. It was brought up that this process faced some serious risks. On one hand, it could not be ruled out that the impact of tariffs on inflation would increase as these measures took hold. On the other, both immigration policies and higher fiscal spending meant more inflationary pressure for the United States.

About the local economy, it was noted that, while inflation was moving as expected, the main change in the macroeconomic scenario was the increase in core inflation. The projection for December this year had risen from 3.1% to 3.7%, when comparing the central scenarios of the September and June IPoMs. This change, it was argued, was significant both because of its magnitude and because it was a relatively widespread increase across its various components. It was noted that the higher core inflation was due to a combination of factors: higher-than-expected domestic demand during the second quarter; a more intense depreciation of the exchange rate in the context of high labor costs.

The discussion focused on the implications of these developments for inflationary convergence, highlighting that the September IPoM scenario considered that the impacts would not be too persistent. On the one hand, the greater dynamism of domestic demand was largely explained by an increase in investment in machinery and equipment, a component that had minor inflationary implications. Furthermore, although consumption had also been higher than expected, its fundamentals did not point to significantly greater dynamism. In particular, the labor market, despite mixed signals, was not significantly dynamic, and the increase in the wage bill continued to be sustained by rising wages.

On the other hand, the real exchange rate was at relatively high levels, both from a historical perspective and in comparison with the recent past. This suggested that, in a context where the economy was stabilizing around its long-term values —and barring any significant surprises in the global economy— a real appreciation of the peso that implies lower inflationary pressures would be expected on the tradable goods side.

As for cost pressures, the behavior of labor costs was noted, as they had risen significantly in the past few years. Two elements were pointed out at this here. First, since a significant fraction of the cost increases were due to regulatory changes, they should fade away over time. In any case, there were still labor cost increases that needed to be implemented, which were included in the projection scenario but needed to be monitored. Second, the pressure exerted by labor costs on prices also needed to factor in labor productivity dynamics, which would have risen in the most recent, but it was not clear if persistently.

Finally, it was noted that the second-round effects associated with the increase in core inflation should be moderate. On the one hand, two-year inflation expectations were in line with the 3% target. On the other, headline inflation, which determined indexation, had evolved as expected, because some more volatile components had surprised on the downside. In addition, the August inflation figure, released after the IPoM projections had been made, had been in line with estimates, both for the total index and for core inflation. In any case, it was noted that inflation figures of recent months had been quite volatile, making it difficult to interpret inflationary trends. Actually, although core inflation had been higher than forecast in the June IPoM, the difference had been of the opposite sign between the March and June reports. Still, the rise in core inflation was a relevant factor, as this component tended to be more persistent.

3. Analysis of monetary policy options

All five Board members agreed that the information at hand led to the conclusion that the monetary policy strategy should not undergo significant changes other than those previously outlined. This implied that the monetary policy rate (MPR) should continue to converge toward its neutral range. However, several Board members added that the risks to inflation had increased. Although the central projection scenario continued to anticipate the convergence of inflation during 2026, there were risks that should not be ignored or downplayed, especially in a context where inflation had been above target for a prolonged period of time.

There was agreement among the Board members that the external scenario continued to pose significant risks in various dimensions and that it was necessary to maintain a sound and balanced economy in order to address these risks appropriately. However, it was within the country where the main factors to be observed were emerging. For one, more dynamic consumption could not be ruled out, with the factors behind greater household spending in the second quarter potentially proving somewhat more persistent. For another, cost pressures were high, and their pass-through to prices had to be monitored closely. Finally, over the last years inflation had been affected by an unprecedented set of shocks in the same direction, and monetary policy must consider the risks of greater persistence. In any case, these were not being observed, as inflation expectations remained in line with the 3% target for the two-year horizon.

In this context, all the Board members agreed that the wise thing to do was to pause the process of MPR cuts toward its range of neutral values and closely monitor the evolution of core inflation and its fundamentals. Thus, they all concurred that the only plausible option was to hold the benchmark rate at 4.75%.

All five Board members coincided that the fact that the MPR had come closer to the range of neutral values made making a careful analysis of its movements all the more necessary. They also agreed that more information needed to be garnered before revisiting the range of values for the neutral MPR, which was still estimated to be between 3.5% and 4.5%. Nonetheless, several Board members said that, in their opinion, the neutral MPR was more likely to stand in the upper half of that range.

4. Monetary policy decision

Governor Costa, Vice-Governor Novy, and Board members Naudon, Céspedes, and Soto voted for holding the MPR at 4.75%.