MONETARY POLICY MEETING

JULY 2026

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Monetary policy session No. 323, held on 27-28 July 2026.

Present: Rosanna Costa, Governor; Alberto Naudon, Vice Governor; Luis Felipe Céspedes, Board member; Claudio Soto, Board member; Kevin Cowan, Board member.

Present the Finance Minister, Jorge Quiroz.

Also present: Luis Óscar Herrera, General Manager; Juan Pablo Araya. 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; el Felipe Musa, Market Operations and Strategies Manager; Felipe Córdova, acting Financial Stability Manager; David Kohn, Head of the Massive Information Department; Alejandro Guin-Po, Advisor to the Finance Minister; Erika Arraño, Senior Economist; Marlys Pabst, Secretary General.

1. Background

The international scenario

The external outlook continued to be marked by volatility associated with the US-Iran conflict. Following the signing of a ceasefire agreement in June—which took place after that month's meeting—there had been a new escalation of attacks, which had driven up oil prices and kept uncertainty high about the normalization of oil supply. This was the case even though available global supply levels had helped contain these price increases. The price of oil (WTI-Brent average) had returned to around US$100 per barrel, about 14% higher than at the last Meeting, a rise that had moderated somewhat.

Regarding global economic activity, a resilient outlook was taking hold, supported by investment in artificial intelligence (AI), but with differences among countries. Worth noting were the strong prospects for the United States and the improvement in several Asian countries. Meanwhile, although actual global inflation had declined somewhat due to lower energy prices of previous weeks, inflation expectations had risen again amid escalating geopolitical tensions. In this context, a significant number of central banks maintained a cautious stance or had implemented increases in its reference interest rates, which—combined with the Federal Reserve's greater emphasis on inflationary risk—had pushed up short- and long-term interest rates and triggered a worldwide appreciation of the dollar, where the Chilean peso was no exception.

The copper price remained fairly stable from the time of the June Meeting (US$6.3 per pound), supported by strong demand linked to AI, the energy transition, and increased defense spending, along with an incipient recovery in supply. On the margin, there was a heightened perception of risk regarding AI-related valuations, with increased stock volatility and higher risk premiums on tech companies' bonds.

The domestic scenario

June's annual CPI variation had been 4.3%, slightly above the forecast in the last Monetary Policy Report (IPoM) and market expectations. The difference was attributed to a higher-than-expected increase in core inflation, which stood at 3.4% annually that same month. Volatile CPI remained in line with forecasts. In turn, the pass-through of the fuel price shock to other prices continued to be consistent with historical averages. Short-term inflation expectations had risen, reflecting the rise in oil prices. Over a two-year horizon, expected inflation, as measured by both the Economic Expectations Survey (EEE) and the Financial Traders Survey (EOF), stood at 3%.

At home, during May, the total Imacec had fallen 0.9% annually, while the non-mining index had risen 0.7% annually; both figures were below the June IPoM forecast. Part of the difference continued to be explained by supply-side factors linked to natural resources. Among these, worth singling out were the contraction in copper production—due to a high base of comparison and lower ore grades—and lower production in the food industry, particularly in the fishing sector. Added to this was the weak performance of sectors linked to investment, particularly construction and entrepreneurial services, with the latter affected by slower growth in services related to architecture and engineering.

In terms of gross fixed capital formation, high-frequency indicators suggested that growth had slowed more than expected in the second quarter. In any case, the latest update to the Capital Goods Corporation's survey continued to report a positive outlook for investment projects during 2026–2029. According to this update, the amounts had increased from the previous registry, with the rise concentrated from 2027 onward. The revision was widespread across sectors, with the exception of public works. Meanwhile, business expectations (IMCE) had declined further in recent months.

High-frequency consumption indicators looked less dynamic than early in the year, consistent with projections in the June IPoM. This trend would have been consistent with the deterioration of some of its fundamentals. Consumer expectations (IPEC) continued to see declines in recent months, and real household income growth had slowed. In the labor market, the unemployment rate had risen, amid persistently weak job creation and accelerating hourly labor costs.

2. Background analysis and discussion

On the external front, it was noted that developments in recent weeks confirmed that the economy was marked by a high degree of uncertainty associated with geopolitical and financial risks, amid a supply shock of significant magnitude. The situation in the oil market had deteriorated again, leading to increases in expected short-term inflation and in both short- and long-term interest rates across a large number of countries. Global activity continued to show resilience, supported by growth in AI-related investment. However, this high sectoral dependence led to important heterogeneity across countries and rendered particularly relevant the valuation adjustments and rising risk premiums faced by some players in this sector.

There were comments about the risk profile of the external scenario. It was noted that, despite the severe shock caused by the rise in oil prices, the forecast remained that global economic activity would remain resilient, based on at least two factors: first, that geopolitical tensions would ultimately be resolved without causing a persistent disruption in energy markets or a global recession; second, the high levels of AI-related investment currently observed. However, it was emphasized that uncertainty regarding both factors was increasing. In the Middle East, recent developments in the conflict made it impossible to confidently conclude that a solution was in sight, which increased the likelihood of nonlinear adjustments in oil prices. On the AI front, doubts were beginning to emerge regarding the speed at which returns on ongoing investments would materialize, which was affecting not only stock market valuations but also indicators of credit risk and corporate financing. It was concluded that, while it was unclear whether a change in the scenario was underway, it was necessary to continue assessing the situation given its implications for Chile. Added to all the above, although in a more limited context than on previous occasions, were the new tariffs announced by the United States, which reignited a global risk.

Domestically, inflation had been slightly higher than expected in June, with the difference attributable to the non-volatile component. Anyway, this followed a couple of months of data pointing in the opposite direction, in a context where the transmission of the cost shock to other prices was still deemed to be in line with historical patterns. Furthermore, two-year inflation expectations remained aligned with the 3% target.

Regarding activity and demand, recent trends had been weaker than expected in the IPoM. Developments in certain supply-side sectors—particularly mining—had been compounded by the performance of certain demand-side sectors. Specifically, actual investment was falling short of projections, especially in the energy and real estate sectors. In addition, consumption had lost momentum, a trend that was expected given the deterioration of its fundamentals, including the still weak labor market. In contrast, the fundamentals of investment—reflected in commodity prices, asset prices, and the capital goods survey—continued to point to a more positive performance in the coming quarters; however, financial conditions were somewhat tighter.

It was noted that, for now, the domestic macroeconomic outlook was in line with the projections in the June IPoM. However, there were aspects that needed careful analysis. On the consumption front, it was necessary to assess the role of expectations. These expectations had deteriorated significantly with respect to the beginning of the year, and it was necessary to figure out how much of this was due to the oil price shock and how much was attributable to factors more closely linked to perceptions about the strength of the Chilean economy. Another issue was the evolution of the labor market, which required continued analysis of what was driving its behavior and determining how much of it was attributable to cyclical versus structural elements.

About investment, it was necessary to understand which factors explained its most recent weakness, which—unlike private consumption—did come as a surprise with respect to the IPoM scenario. The role that expectations might be playing was mentioned, particularly given the potential impacts of the passage of the Reconstruction Bill that the government had introduced. It could not be ruled out that the recent behavior of investment was due to the postponement of projects in anticipation of being able to take advantage of the provisions contained in the Bill. It was noted that this would be an important issue to monitor in the coming months.

3. Analysis of monetary policy options

All five Board members agreed that the macroeconomy was still unfolding in a context of high uncertainty, noting the resurgence of risks associated with the conflict in the Middle East. In this context, there was agreement that the monetary policy strategy outlined in the June IPoM remained in effect. Accordingly, the board estimated that the only plausible option at this meeting was to keep the monetary policy rate (MPR) at 4.5%.

They all agreed that caution had to continue to guide the Board's actions. All the available data pointed to elevated risks, both domestic and external, with short- and medium-term implications that needed to be carefully evaluated.

4. Monetary policy decision

Governor Costa, Vice-Governor Naudon, and Board members Céspedes, Soto, and Cowan voted to keep the monetary policy interest rate at 4.5%.