banco central Chile

MONETARY POLICY MEETING

October 2026



MONETARY POLICY MEETING

Monetary Policy Session No. 325, held on 26 and 27 October 2026.

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

Also present: Luis Óscar Herrera, General Manager; Juan Pablo Araya, Legal Counsel and Attestor; Markus Kirchner, Acting 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; Enrique Orellana, Monetary Policy Strategy and Communication Manager; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Felipe Musa, Market Operations and Strategies Manager; Miguel Fuentes, Financial Stability Manager; David Kohn, Head of the Massive Information Department; Alejandro Guin-Po, Advisor to the Finance Minister; Erika Arraño, Senior Economist; and Marlys Pabst, Secretary General.

1. Background

International scenario

In recent weeks, geopolitical tensions in the Middle East had intensified, resulting in a more adverse energy price outlook than envisaged in the baseline scenario of the September Monetary Policy Report (IPoM). Relative to the statistical cutoff date of that Report, the price of oil (WTI-Brent average) had risen by around 25%, while prices of petroleum products, particularly diesel, had also posted significant increases, approaching their highs for the year in the days leading up to the Meeting. This was mainly due to a worsening outlook for a resolution of the conflict, amid its geographical expansion, a stepped-up military deployment by the United States, and the absence of active negotiations. It also reflected higher operating costs for production and transportation and tighter global inventories. Accordingly, the crude oil futures curve showed higher prices over the next two years.

At the same time, an unusually intense El Niño phenomenon had begun to affect international food prices. This came on top of food price pressures from higher energy, transportation, and fertilizer costs associated with the armed conflicts, as well as other specific factors such as the limited availability of livestock worldwide. Against this backdrop, concerns about inflation globally had continued to increase, with inflation rising in several advanced economies and inflation expectations edging up again. In response, several central banks had raised their monetary policy rates, and further rate hikes were anticipated over this year and the next.

International financial conditions had become more restrictive, in a context of more restrictive monetary policy outlook, falling stock markets, a broad-based appreciation of the US dollar, and rising interest rates, particularly at longer terms. The latter reflected several factors. First, strong financing demand associated with artificial intelligence (AI) investment, against a backdrop of high indebtedness and concerns about the profitability of these types of companies. This was compounded by increased geopolitical risk following the escalation of the conflict in the Middle East and also between Ukraine and Russia. Finally, heightened fiscal tensions in advanced economies had become more evident, particularly in some European countries.

Despite a more challenging environment, global activity continued to show resilience, particularly in economies linked to AI development. In this regard, growth in the United States and China had exceeded expectations in recent months. Meanwhile, the price of copper continued to fluctuate around US$6.5 per pound, a level similar to that observed at the previous Meeting, amid robust demand and constrained supply.

Domestic scenario

The local financial market had reflected global trends, with a decline in the stock market (IPSA) and a depreciation of the peso. Long-term nominal interest rates had also increased.

Cumulative inflation through September had been in line with the projections in the latest IPoM (4.1% and 3.2% annually for headline and core CPI inflation, respectively). To a large extent, inflation had continued to be driven by the increase in fuel prices, whose pass-through to other prices had followed historical patterns. Nonetheless, in line with greater cost pressures, short-term inflation expectations had increased significantly and stood well above the path in the baseline scenario of the September IPoM. Meanwhile, two-year-ahead inflation expectations had remained at 3.0% in the Economic Expectations Survey (EEE), while in the Financial Traders Survey (EOF) they had risen to 3.2%.

Regarding local activity, the August Imacec (-1.0% annually; -0.7% monthly in the seasonally adjusted series) had been below than projected in the central scenario of the IPoM, mainly due to the performance of mining. The latter had continued to be affected by lower copper ore grades and maintenance at some mining sites, while the negative impact of adverse weather conditions had been added. The non-mining Imacec (+1.4% annually; +0.7% monthly in the seasonally adjusted series) had been in line with expectations, with a recovery in some of the sectors most affected by the July storms.

As for domestic spending, high-frequency indicators for the third quarter suggested that private consumption and, particularly, investment remained weak. Regarding the latter, the effects of the sustained weakness of the real estate sector, the completion of some large-scale initiatives, the postponement of investment projects, and the decline in public investment expenditure persisted. At the same time, the investment outlook continued to be favorable. This was consistent with information from the third-quarter Capital Goods Corporation's investment survey, which envisaged an outlook that remained strong, similar to previous readings. This was corroborated by information from the Environmental Impact Assessment System. Added to this were the high copper price, the boost expected from the Reconstruction Act, and the higher projected public investment spending from the latter part of the year onwards.

Meanwhile, consumer (IPEC) and business (IMCE) expectations continued to be weak. In the labor market, the unemployment rate had risen slightly in the quarter ending in August, amid a decline in employment and an annual change in hourly labor costs that remained high.

2. Background analysis and discussion

In the external scenario, the sharp increase in oil prices since the IPoM was highlighted, together with a higher and flatter futures curve, reflecting higher transportation costs, lower inventories, and a heightened perception of geopolitical risk. It was emphasized that this implied a larger and more persistent oil shock. Global activity continued to show resilience, despite the contractionary effect of the oil shock observed since March. Global financial conditions had tightened. On the one hand, increased inflationary pressures had led to an upward adjustment in the expected paths for monetary policy rates in the major economies. On the other hand, greater fiscal financing needs in advanced economies and the substantial investment requirements associated with AI, as well as concerns about its profitability, had contributed to an increase in long-term interest rates. This had also been reflected in stock market declines and a worldwide appreciation of the U.S. dollar, movements that had also been transmitted to the local financial market.

On the domestic front, it was noted that overall activity was weaker than projected in the IPoM, although it had been affected by supply shocks and weather-related factors, and that the deviation from projections was explained by lower mining production. On the other hand, high-frequency indicators for the third quarter suggested that consumption and, particularly, investment had remained weak, while the unemployment rate had risen slightly in the quarter ending in August and indicators of business and household expectations continued to stand at pessimistic levels.

It was emphasized that, although the central scenario of the IPoM envisaged a recovery in demand led by investment, there was uncertainty regarding its pace and timing. It could not be ruled out that tighter financial conditions, higher energy costs, and delays in the materialization of some projects could postpone such a recovery. In any case, the evolution of the investment survey, the copper price, the impact of the Reconstruction Act, and the higher projected public investment spending continued to point to a favorable medium-term outlook.

Regarding inflation, it was highlighted that the main change relative to the previous Meeting stemmed from the significant increase in oil prices, the depreciation of the Chilean peso and, to a lesser extent, higher food prices. While actual inflation figures continued to be broadly in line with projections and second-round effects remained consistent with historical patterns, the inflation outlook for the coming quarters, according to market expectations and internal projections, had increased significantly, while two-year-ahead inflation expectations showed increases in some measures.

In this context, the discussion focused on the extent to which weak demand and capacity slack would sufficiently mitigate the propagation of shocks to medium-term inflation. On the one hand, these factors, together with the limited propagation observed thus far, could be expected to help contain inflationary pressures. On the other hand, the greater magnitude and persistence of the cost shock, coupled with the increase in inflation expectations, heightened the risk of greater inflation persistence. In particular, the risk was highlighted that inflation remaining high for a prolonged period could increase the sensitivity of inflation expectations and foster stronger propagation mechanisms.

3. Analysis of monetary policy options

All Board Members agreed that the macroeconomic scenario they faced was particularly challenging. Over the course of the year, a series of shocks had materialized in the economy, posing non-trivial trade-offs for the conduct of monetary policy. These included a significant cost shock stemming from the increase in oil prices, a negative demand shock associated with various domestic and

external factors and, more recently, a financial shock related to the tightening of global financial conditions. Both the cost shock and the financial shock had negative effects on domestic activity, while at the same time pushing inflation higher. The demand shock reduced both variables. How to respond to these shocks depended on their persistence, the propagation mechanisms at work, and the interaction among them. Thus far, the cost shock had proved more persistent than anticipated, but its propagation had been limited, largely due to weak domestic demand. This had made it possible to keep the monetary policy rate (MPR) unchanged without jeopardizing the anchoring of inflation expectations.

All Board Members agreed that the increase in cost pressures observed since the previous Meeting had heightened the risk that the shock accumulated since March would ultimately propagate more strongly to other prices and become more persistent than usual. There was agreement that this was a complex scenario, since once expectations and price-setting mechanisms began to become misaligned, the cost of restoring convergence could be considerably higher. In this context, all Board Members agreed that it was reasonable to consider both the option of keeping the MPR at 4.5% and that of raising it by 25 basis points (bp), to 4.75%.

One Board Member noted that, in his view, the relevant question for this Meeting was not whether inflationary risks had increased, as it was quite clear that they had. Rather, he added, the relevant question was whether they had increased sufficiently to warrant a preemptive adjustment to the MPR at this Meeting. All Board Members agreed that the expected evolution of the economy was important for this assessment. On the one hand, several Board Members noted that weak demand could prove more persistent than anticipated and generate capacity slack that would contain medium-term inflationary pressures. On the other hand, several Board Members indicated that there was insufficient evidence to suggest that the expected recovery in demand would not materialize and that, under that scenario, medium-term inflationary pressures would be greater than projected in September, and it would be necessary to be prepared for a more restrictive monetary policy scenario.

Some Board Members highlighted that raising the MPR by 25 bp at this Meeting had a solid basis of support. In their view, it took into account the new inflation outlook as well as the risks of greater persistence. They added that this option was entirely valid considering that the economy was facing a scenario in which the cost shock was larger and the inflation outlook had increased, while demand was evolving relatively in line with expectations and there was insufficient evidence to assess whether its future momentum would differ from that projected in September. Under these circumstances, they concluded, a higher path for the nominal interest rate was necessary so that the real MPR would be consistent with the central scenario of the September IPoM.

One Board Member noted that there were several considerations that could favor the option of keeping the MPR unchanged at this Meeting. On the one hand, for communication purposes, it would be preferable to raise the MPR while providing guidance on its future path, which could be done more clearly in conjunction with the publication of the next IPoM. On the other hand, the Report itself would allow for a new assessment of the economic recovery scenario and how it would affect inflationary pressures. One Board Member added that, in his view, the risks to medium-term inflation pointed in opposite directions, which favored the option of keeping the MPR unchanged at this Meeting and carefully monitoring their evolution and impact on the redefinition of the monetary policy strategy, which would take place in the next IPoM.

One Board Member recalled that one of the advantages of the monetary policy framework and the credibility that the Bank had built over time was that they allowed it to accommodate transitory shocks to the price level without automatically responding by raising the MPR. He added that, of course, this credibility was endogenous to the Bank's actions and communication, which was why the Board needed to be clear about its heightened concern regarding the inflation outlook and its willingness to take whatever actions were necessary to achieve the inflation target.

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%.

banco central Chile

MONETARY POLICY MEETING OCTOBER 2026