MONETARY POLICY MEETING

September 2026

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Monetary policy session No. N° 324, held on 8 September 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: 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, Market Operations and Strategies Manager; Alejandro Guin-Po, Advisor to the Finance Minister; Marlys Pabst, Secretary General.

1. Background

For this Meeting, the background information was drawn from the September Monetary Policy Report (IPoM). The Report indicated that, in broad terms, inflation readings in recent months had evolved in line with the projections presented in the June IPoM. Inflation had continued to be largely driven by higher fuel prices, whose pass-through to other prices had followed historical patterns. At the same time, two-year inflation expectations remained aligned with the target.

Domestic economic activity had continued to exhibit subdued performance in recent months, with outcomes falling short of those projected in June. While at the beginning of the year the weakness had mainly reflected supply-side factors, more recently a slowdown in domestic demand had become evident, affecting both public and private demand.

The evolution of private spending mirrored the deterioration of several fundamentals. Business and household confidence had declined sharply, influenced by both domestic and external factors. This was compounded by the impact of higher fuel prices on income and expectations. A deterioration in employment was also observed, affecting household income and reducing real wage bill growth.

As for investment, its performance was affected by the persistent weakness of the real estate sector, the completion of several large-scale initiatives, the postponement of private projects, and a significant decline in public investment. Nevertheless, its outlook remained favorable, supported by a more dynamic investment pipeline, high copper prices, and the potential boost from the Reconstruction Act.

In the external scenario, events in the Middle East continued to be a significant source of uncertainty. However, as of the statistical cutoff date of the September IPoM, oil price projections showed few changes. Global activity continued to be driven by the artificial intelligence (AI) boom, benefiting economies more closely linked to the technology supply chain and accounting for a significant share of the dynamism of the United States economy. Nevertheless, concerns had increased regarding the sustainability of the pace of investment by firms in that sector, amid higher leverage and heightened stock market volatility.

The increase in oil prices, the resilience of the global economy, and the communication of certain central banks had renewed inflation concerns and reinforced expectations of a more restrictive monetary policy stance. Together with competition for resources to finance AI-related investment and greater fiscal financing needs in advanced economies, this had contributed to the rise in long-term interest rates.

Regarding the projections, the main changes to the central scenario were in the domestic economy. For 2026, weaker domestic demand, the adverse effects of weather conditions, and lower mining output led to a downward revision of the GDP growth range from 1.0-1.75% to 0.25-0.75%.

The central scenario incorporated the approval of the Reconstruction Act, which would provide a significant boost to investment starting in 2027, supported by other investment promotion measures in recent years. This stronger investment would contribute to improvements in the labor market and confidence, thereby supporting private consumption. Against this backdrop, the economy was expected to return to higher growth rates starting next year, aided by the dissipation of the supply-side factors that had weighed on activity in 2026. In this context, GDP growth was projected to range between 2 and 3% in 2027 and between 2.25 and 3.25% in 2028.

The external boost showed little change relative to June. For 2026-2028, global growth and that of Chile's trading partners were projected at around 3%. The terms of trade were expected to be more favorable, reflecting improved forecasts for copper prices, while international financial conditions were expected to be somewhat tighter because of higher interest rates.

Headline inflation was forecasted to remain slightly above 4% at the end of 2026 and to continue converging to 3% in the second quarter of 2027. Core inflation was expected to remain around 3% throughout much of the projection horizon.

2. Background analysis and discussion

Externally, it was highlighted that developments in the conflict in the Middle East continued to be a significant source of uncertainty. The prospect of reaching an agreement between the parties was still perceived as remote, which had contributed to further increases in both spot and futures oil prices, with stronger rises observed in diesel and gasoline prices. This environment increased the likelihood of abrupt adjustments in crude oil prices. Added to this were concerns regarding the momentum of AI-related investment, which were beginning to be reflected more clearly in asset prices. It was also noted that fiscal fragilities in advanced economies remained unresolved, contributing to the persistence of elevated long-term interest rates. Overall, the external environment continued to be assessed as highly uncertain, with particular emphasis on the behavior of oil and fuel prices and their effects on global financial conditions.

On the domestic front, it was noted that the main development was weaker-than-expected economic activity. What initially appeared to be concentrated in sectors affected by supply shocks or by specific factors related to natural resources had gradually spread to various components of domestic demand. In particular, investment had once again shown weak performance, private consumption had surprised on the downside, and the labor market had continued to deteriorate, especially in the formal segment. In addition, several demand fundamentals, including household and business confidence, had weakened since March. There was broad agreement that this set of developments represented a significant change in the assessment of the domestic macroeconomic outlook. Nevertheless, it was emphasized that several of the fundamentals supporting investment remained solid and that the baseline scenario envisaged a significant recovery in demand and activity, driven in part by the impact of the Reconstruction Act.

Regarding the balance of risks, it was noted that the evolution of inflation dynamics was explained, in part, by a slowdown in domestic demand, which had helped contain the pressures stemming from the significant and persistent cost shock faced by the economy. In any case, it was indicated that attention should be paid to the possibility that a more persistent weakening of the economy could ultimately drive inflation below the 3% target over the two-year policy horizon, implying that monetary policy should retain the capacity to respond. In this regard, it was recalled that the monetary policy framework provided the Bank with the degrees of freedom necessary to adjust the policy interest rate in a manner that is consistent with achieving the inflation target, taking into account its impact on the macroeconomic scenario and the convergence of inflation to target.

3. Analysis of monetary policy options

All Board members agreed that, despite the uncertainty surrounding the outlook, inflation dynamics were evolving in line with projections, the forecast that inflation would converge to 3% in the second quarter of next year remained in place, and two-year-ahead inflation expectations continued to be anchored at the target. In this context, there was consensus that the option of keeping the policy rate unchanged was clearly dominant at this Meeting. This alternative was consistent with the analysis and the baseline scenario presented in the September IPoM and was already widely incorporated into market assessments, partly as a result of the Board's own communication.

Finally, there was agreement among Board members that the macroeconomic scenario remained subject to a higher-than-usual degree of uncertainty. On the one hand, the risks associated with the conflict in the Middle East persisted and had even intensified recently. On the other hand, although the baseline scenario envisaged that the domestic economy would regain momentum toward 2027, it could not be ruled out that its current weakness might prove more persistent than anticipated. In this context, all Board members emphasized the need to continue assessing alternative scenarios that could require adjustments to the monetary policy stance in order to ensure the convergence of inflation to target.

4. The monetary policy decision

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

banco central Chile

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