Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: BCCh Rate Hold

CHILE: POLICY RATE HELD AT 4.75% WITH NEUTRAL BIAS IN THE SHORT-TERM

- **We expect a rate cut in December, although this remains highly dependent on core inflation and, crucially, the exchange rate.**

On Tuesday, September 9th, the central bank (BCCh) maintained the Monetary Policy Rate at 4.75%, as broadly expected. In the statement, the Board noted an external scenario with no major changes, though it highlighted elevated uncertainty. It also noted that GDP growth expectations for trading partners have remained broadly stable, while acknowledging the difficulty in assessing the impact of tariffs on activity and inflation due to anticipatory effects in global trade flows. One of the few new elements in the statement is the reference to the Fed's expected rate cut later this month, which the Board says has become "increasingly consolidated".

The rate cut path outlined in the June Monetary Policy Report (IPoM) has been delayed due to higher core inflation, as we have flagged at Scotiabank, noting significant upside surprises in the last three inflation prints. The Board acknowledges these surprises in both goods and services, which we estimate have added 0.3 ppts to inflation relative to the June IPoM forecast. As a result, the central bank lifted its projection for core inflation (ex-volatile items) to 3.7% from 3.1% at its IPoM published this morning. The Board appears to be frontloading its inflation guidance, giving greater weight to recent core inflation surprises, even though inflation expectations remain anchored around the target across different horizons.

On GDP, the Board confirms that growth has been in line with the June IPoM, although it recognizes that investment (especially in machinery and equipment) and consumption were stronger than expected in Q2. We estimate that investment continued to surprise to the upside in Q3, now with stronger momentum in construction, which should lead to upward revisions in the annual investment forecast, approaching our estimates of 6% for 2025 and 3.5% for 2026, which we have maintained at Scotia for several quarters. The labour market remains under a mixed diagnosis: high unemployment and slow job creation, but with rising cost pressures. This latter factor—linked to increasing labour costs—seems to dominate the Board's assessment of labour market slack, especially given recent upside surprises in service inflation. A counteracting supply shock is needed to ease cost pressures from the labour market, and the exchange rate appears to be the only variable capable of playing that role.

The zero August CPI print was misinterpreted by some in terms of the central bank's reaction function; it is core inflation that remains the key analytical indicator for assessing inflation persistence. The meaningful upward revision to core inflation supports maintaining the current very mild—if not marginal—monetary restrictiveness for longer than initially expected. At Scotia, we estimate the neutral policy rate range for the current macro context to be 3.75%–4.75%. The central bank acknowledges the core inflation surprises in a context where activity is projected to remain around 2.5% in the September IPoM (range: 2.25%–2.75%).

From Scotiabank's perspective, until the CLP better reflects the cyclical strength of the economy, a meaningful carry trade builds in favour of the peso, and the currency moves toward our target of CLP 890 (post-first-round election), it will be difficult to see downside surprises in core inflation. Consequently, we maintain our expectation for the next rate cut to come only at the December meeting, and highly dependent on core inflation prints. We expect that the new international scenario—with Fed cuts over the coming quarters, improved local political environment, and copper strength—will eventually overcome the peso's resistance and allow it to reflect its true value, despite the central bank's ongoing reserve accumulation process.

—Aníbal Alarcón