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Latam Daily: Chile's Central Bank Keeps the Policy Rate at 4.5%, as Widely Expected

- **Chile: Downside risks to inflation push the board to signal a revision of its baseline scenario**

On Tuesday, January 27th, the Central Bank kept the policy rate at 4.5%, as widely expected. On this occasion, the board chose not to surprise the market and surveys despite being in the position to bring the policy rate to the centre of the estimated neutral range (4.25%), given that the activity gap is closed and inflation is close to target. However, the discussion within the board appears to have been centered on assessing whether it will be necessary to bring the policy rate below the neutral level over the projection horizon, rather than on the decision of cutting or not cutting the policy rate in this meeting, since it seems evident to us that the neutral level of 4.25% will be reached at the next meeting in light of the new scenario and the risks to inflation. Conditional on short-term inflation developments, we do not rule out that scenarios placing the policy rate at the lower bound of its neutral level over the projection horizon gain traction within the board as they outline the new rate corridor. In that sense, it is likely that the market will continue to expect additional cuts that take the policy rate below its neutral level, along with year-over-year inflation readings below 3% for all of 2026.

A few weeks ahead of its publication, the board anticipates a revision to the short-term scenario contained in the December IPoM given significant surprises. The 6% nominal appreciation experienced by the peso since the previous monetary meeting would have been the main surprise relative to the IPoM's baseline scenario, as it has developed more quickly than expected by the Central Bank and would have direct implications for goods inflation. Added to this is the clear downside surprise in the December CPI—both headline and core—and the less visible downside surprise in November's GDP, which would leave 2025 GDP at the verge of growing one or two tenths less than projected in the December IPoM. While all this was not sufficient argument to cut the policy rate by another 25 basis points in this meeting, we estimate that the option was discussed within the board and was likely preferred by at least one board member.

At Scotia, we estimate that headline inflation would remain below 3% for most of 2026, with the risk of quickly moving toward 2% due to the negative contribution from gasoline (at least through March), the decline in electricity tariffs during the first quarter, and the recent multilateral appreciation of the peso, which has been the key element making the inflation (and policy rate) scenario contained in the December IPoM obsolete. In this regard, the spot real exchange rate stands around 98 points (1986=100), at the lower end of the level estimated as long-term by the Central Bank, reflecting significant real appreciation that is disinflationary for tradable goods (58% of the CPI basket). We estimate that this risk scenario—characterized by inflation risks near 2% and an appreciated exchange rate—would require a policy rate at the lower end of its neutral range.

—Aníbal Alarcón