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Latam Daily: BCCh Decision and MPR Recap

- **Chile: Central Bank holds policy rate at 4.5%, as widely expected. GDP revised down, inflation broadly unchanged, and policy rate on hold through mid-2027 in MPR**

The Central Bank kept the policy rate unchanged at 4.5%, in line with broad market expectations. The accompanying statement signals a still uncertain external backdrop, albeit with marginally more favourable conditions. In particular, the Board highlighted the recent decline in oil prices which—if sustained—would support both inflation dynamics and domestic activity. However, risks related to geopolitical tensions in the Middle East remain elevated, reinforcing a cautious stance. This is reflected in a somewhat narrower—yet symmetric—policy rate corridor in the June Monetary Policy Report (MPR), with the baseline scenario pointing to a prolonged pause at 4.5% through mid-2027.

The decision to hold rates comes amid weak activity and labour market conditions, easing inflation prints, and broadly anchored expectations. The latter gained prominence following the March and April CPI releases (post-March MPR), which showed an increase in medium-term inflation expectations to 3.3% (13–24 months ahead) in the Pricing Determinants Survey. Similarly, expectations from the Financial Traders Survey (FTS) have remained above 3% over the same horizon since March. This raised concerns about potential de-anchoring, placing greater weight on the Economic Expectations Survey (EES). However, expectations in that survey remained anchored at 3%, reassuring the Board and supporting the decision to keep the policy rate unchanged at the June meeting.

The Central Bank revised its 2026 GDP growth forecast down to 1.0–1.75%, reflecting a more persistent adverse external scenario alongside a new domestic supply shock. At its April meeting, the Board had already acknowledged that the Middle East conflict could prove more persistent than embedded in the baseline. This has been compounded by a negative supply shock stemming from lower fish catches at the national level, which has had a meaningful impact on the fishing sector, manufacturing, and agricultural exports. On the fiscal side, partial offsets stem from a reassessment of the fiscal impulse. In this regard, the June MPR incorporates a more expansionary fiscal stance relative to the March report (+1.2% of GDP). As a result, fiscal policy is now expected to exert less drag on growth, effectively providing a more supportive backdrop than previously anticipated.

On inflation, the Central Bank revised its forecast slightly upwards from 4.0% to 4.2%. While the April meeting highlighted an upside surprise in March CPI driven by volatile components, subsequent releases for April and May did not amplify these deviations. Despite the recent sharp decline in oil prices, the Board is likely to continue incorporating both direct and indirect effects of the Middle East conflict, including second-round effects and indexation channels. Additionally, the appreciation of the exchange rate—around 3% since the last MPR and 1% since the April meeting—combined with the Ministry of Finance's announcement of a faster pass-through of lower international fuel prices to domestic prices, has led to downward revisions in very short-term inflation projections. At Scotiabank, we maintain our 2026 inflation forecast at 4.5%.

KEY TAKEAWAYS:

- **Policy rate on hold through September 2027.** This is the scenario presented by staff to the Board. The policy rate corridor is now narrower and more symmetric compared to the previous Monetary Policy Report.
- **Lower near-term inflation and partial incorporation of El Niño effects toward year-end.** June CPI is projected at -0.15% m/m (March MPR: +0.05 ppts), partly reflecting the decline announced by the Ministry of Finance for this week. July CPI should be

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somewhat higher (post-Cyber rebound in core goods), while October 2026 is also above the March projection (+0.2 pts), driven solely by volatile components.

- **Downward revision to GDP growth, broadly in line with our estimates.** In the near term, this implies that May activity (Imacec) could come in between 0% and 1% y/y. Private consumption is revised down, while total demand is revised up on the back of a stronger fiscal impulse. Investment is weaker this year, although a strong rebound is expected in 2027.
- **Reassessment of the fiscal impulse.** In March, staff incorporated the Ministry of Finance's directive (a USD 3.8bn spending cut), but now acknowledge a positive fiscal impulse (+USD 4.2bn, +1.2% of GDP vs. the March MPR). In other words, they previously assumed a ~2% contraction in expenditure, which is now revised to an expansion close to 3%.
- **Underestimation of terms of trade and the exchange rate.** An average copper price of USD 5.8/lb would imply a meaningful decline from current levels, placing it below the average recorded in the first half of the year. Oil prices would need to rise to reach the USD 94/bbl average embedded in the MPR. Under these assumptions, the real exchange rate is projected to remain broadly stable around its long-term level.

—Aníbal Alarcón

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