Scotiabank

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Latam Daily: BCCh Holds at 4.5%, but Shifts Toward Protecting Credibility

- **Chile: The tone has shifted from neutral to defensive, moving from a view of balanced risks toward renewed concerns over inflationary risks**

The BCCh's decision to keep the policy rate unchanged at 4.5% was widely expected and was likely supported by all Board members. For this meeting, we do not rule out that a 25bp rate hike was discussed, but quickly dismissed, following the upside surprise in June core inflation, the recent idiosyncratic shock linked to El Niño-related developments, and the heightened volatility of the external environment. The statement reflects renewed concern regarding the international backdrop but also acknowledges recent inflation surprises and accelerating labour costs, against a backdrop of weak domestic demand in Q2, although surprises were concentrated in investment rather than consumption.

The resurgence of risks in the international environment has returned to the forefront. The Board once again highlights renewed tensions in the Middle East as a key determinant of the external outlook, a risk that had eased immediately after the June Monetary Policy Report (MPR) but re-emerged following recent attacks, injecting fresh volatility into markets. Against this backdrop, the Board underscores the increase in global inflation expectations, which also contributes to the assessment of alternative inflation scenarios worldwide. While July CPI is likely to show a negative contribution from fuel prices domestically, at Scotiabank we estimate that August CPI, due to be released on the same day as the September monetary policy meeting, will post a positive fuel-related contribution.

We infer greater concern from the Board regarding inflationary risks, both external and domestic, than about weakness in domestic demand. While the statement acknowledges downside surprises in activity relative to the June MPR scenario, these largely reflect supply-side shocks and weaker investment, rather than signaling a significant deterioration in consumption beyond previous expectations. At the same time, the Board highlights mounting labour cost pressures. As long as there is no more pronounced slowdown in consumption, risks appear less balanced than at the previous meeting and may even exhibit an emerging inflationary bias.

At Scotiabank, we view the September meeting as crucial for assessing a potential adjustment in the policy rate, following the release of July and August inflation data, together with the June and July monthly activity figures, which will be particularly relevant for evaluating private consumption dynamics. We expect a very strong activity reading for June, while July GDP should come close to zero annual growth as it captures the transitory effects of recent heavy rainfall in northern Chile and the intensification of the conflict in the Middle East. On the inflation front, uncertainty is greater given households' potentially precautionary behaviour amid renewed increases in distribution costs and volatile goods prices, stemming from both domestic and external factors, without yet observing the automatic adjustment that would normally be provided by a stronger Chilean peso. We maintain our 2026 year-end inflation forecast at 4.5%. Regarding GDP growth, expansion of around 1.5% in 2026 remains, in our view, the most likely scenario after incorporating all recent domestic and external shocks.

Regarding monetary policy, the BCCh could incorporate new policy alternatives at the September 8th monetary policy meeting alongside the updated projections in the new MPR, which would likely include higher inflation forecasts and a modest downward revision to growth. Among those alternatives, a 25bp rate hike, would become a valid option should further core inflation surprises materialize in the July and August releases. In this context, at Scotiabank we are broadening our view to include the possibility of a rate hike alongside the hold and rate-cut options that we had previously indicated would be part of the September policy discussion. In our view, this development is sufficient to push nominal swap rates higher at maturities of up to one year as the market reacts to this statement.

—Aníbal Alarcón

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