banco central Chile

MONETARY POLICY REPORT

SEPTEMBER 2024

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The Central Bank of Chile's Monetary Policy

Money plays a fundamental role in the proper functioning of any economy. To preserve such role, the monetary policy of the Central Bank of Chile (CBCh) must protect the value of the national currency —the peso—, in its quest to keep inflation low and stable. Achieving this fosters the population's wellbeing by safeguarding their income's purchasing power and making the economy function better. When inflation is low and stable, monetary policy can also moderate fluctuations in employment and production.

The inflation target and the monetary policy interest rate (MPR)

The Bank conducts its monetary policy seeking that, irrespective of the current level of inflation, its forecast for a two-year horizon will be 3%. This is similar to the practice of other countries in the world that have, as does Chile, a floating exchange rate; this is the so-called inflation targeting scheme.

The MPR is the main instrument used by the Bank to achieve the inflation target. Its level is decided at the Monetary Policy Meeting, which is held eight times a year. In practice, the MPR is a reference interest rate to determine the cost of money and other financial prices, such as the exchange rate, and longer-term interest rates, among others. In turn, these variables affect the demand for goods and services and, thereby, prices and inflation. Monetary policy decisions take several quarters to be fully reflected in the economy, which warrants that monetary policy be made from a forward-looking point of view, having as its primary focus the inflation projection two years ahead, and not just today's inflation.

Communication, transparency and the Monetary Policy Report

Since the Central Bank makes its monetary policy decisions autonomously, it must constantly account for them and their results to the general public. This is so not only because it is a government agency within a democratic society, but also because a credible monetary policy, understood by the people, helps to keep inflation low and stable. Through the Monetary Policy Report (MP Report), the Bank communicates to the general public its view of the recent evolution of the economy, its projections for the coming years and the way in which, in this context, it will conduct monetary policy in order to meet the inflation target.

The MP Report is published four times a year (every March, June, September, and December) and is put together by a team of around 60 persons.

Cover picture: BANDURRIA - Región de Magallanes y Antártica Chilena.

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*/ For the central scenario construction purposes, the statistical cut-off date is 28 August. This document was originally written in Spanish. In case of discrepancy or difference in interpretation, the Spanish version prevails.

SUMMARY

As had been anticipated, the strong dynamism of activity early in the year was reduced, which was partly associated with the reversal of some transitory elements. However, this moderation was somewhat greater than was foreseen in the previous IPoM, influenced by the deterioration of private consumption. Headline inflation rose to 4.4% annually in July, largely due to the anticipated effect of higher electricity prices, while core inflation (without volatile items) remains close to 3.5% annually. Inflation expectations have risen in the short term but remain anchored to the two-year target of 3%. For this year, the growth projection range is reduced in its upper bound and the expected increase in demand is corrected downwards. For 2025 and 2026, the economy is still considered to grow around its trend. This is consistent with the performance of its main fundamentals, including the labor market on the consumption side and the boost of large-scale mining projects on the investment side. In any case, the recovery in spending will be somewhat slower than expected in June. In the short term, volatile elements push up the overall inflation projection. However, the reduction in inflation will be faster because of lower demand pressures. The impulse that the Chilean economy will receive from abroad is similar to what was considered in June, although global financial conditions will be somewhat better thanks to the change in the expected trajectory of the interest rate in the United States. The combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations in line with the 3% target, reduces the risks of further inflationary persistence in the medium term as a result of the cost shock. The Board estimates that, if the assumptions of the central scenario of this Report materialize, the reduction of the monetary policy rate (MPR) towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the path of inflation.

Activity lost momentum in the second quarter. Part of this reduction was expected, given that the dynamism of early 2024 was affected by transitory factors. However, the magnitude of the reversal was somewhat greater than expected. The seasonally adjusted series of total and non-mining GDP decreased 0.6% in that period, contrasting with the slight increase predicted in the previous Report. Part of the difference was explained by the decline in service-related activities and another part by the influence of some specific supply elements, linked to the availability of fishing resources in the industry, the effect of severe climatic episodes and the maintenance downtime in mining works. July's Imacec showed a significant acceleration of activity month on month, although once again a significant part was due to these transitory factors, in a context where the figures have shown high volatility.

Demand also underperformed in the second quarter, explained by private consumption. Household spending on non-durable goods and services declined, breaking the upward trend of previous quarters. This behavior occurs in a context in which, in recent times, several of its fundamentals have evolved in line with what was expected.

Gross fixed capital formation (FBCF) stabilized after falling sharply in the second half of last year. The GFCF exhibited a better-than-expected performance in the second quarter of this year explained by both the construction and other works component and machinery and equipment. However, high-frequency indicators reveal important differences across sectors, contrasting the weakness observed in most sectors with the dynamism of investment in mining (Box I.1).

Total headline inflation rose to 4.4% in July, while core inflation has hovered around 3.5% (reference series). The higher total inflation compared to what was forecast in the last Report was associated with volatile items, mainly due to the increase in the electric bills and the prices of goods included in that CPI measure. On the core side, annual inflation of services continues to exceed that of goods. The evolution of the latter once again reflects a moderate pass-through of the exchange rate and international freight cost increases of recent months.

Market inflation expectations show a sharp contrast between short and medium term. According to financial asset prices, at one year there was a significant increase (+90 basis points (bp) from the previous IPoM), while at two years they remain aligned with the 3% target. As for expectations for MPR, at one year they fell by 30bp since the last IPoM, a decrease that was smaller at two years. This is in line with the fall in real interest rates that has been observed for some months now.

The MPR cuts have continued to be passed through to bank lending rates, in accordance with the usual patterns. Interest rates on commercial loans have fallen by 630bp compared to the first quarter of 2023, while consumer rates have decreased 350bp. Mortgage rates —which are less related to the MPR adjustments— have seen a much milder decline: around 20bp with respect to its peaks of late 2023. Long-term interest rates have declined since the end of June, matching the trends of the major economies. Even so, they remain high by historical comparison.

Bank credit remains weak, especially its commercial component, amid access conditions to financing without major changes. In that portfolio, the result is consistent with the behavior of sectoral investment, which is dynamic for mining, which uses Foreign Direct Investment more intensively to finance itself, and weaker in the other sectors that are more intensive in the use of bank credit. In any case, considering all the sources of financing for firms, the observed patterns of behavior are similar to those of other economies (Box I.2).

Internationally, news from the United States continue to dominate. The last few weeks have been marked by the markets' assessment of this economy's growth and the actions of the Federal Reserve (Fed). After the Fed signaled the imminent start of the Fed funds rate (FFR) cutting cycle, short- and long-term rates have declined in the main economies and the dollar has depreciated globally. Market expectations for the number of Fed funds rate cuts this year went from two in June to around four at the close of this IPoM.

The Chilean peso has followed the movements of global markets, responding to the volatility of the external scenario. From June to early August, the exchange rate posted a significant depreciation, affected by the evolution of external conditions that influenced the copper price and the markets' risk perception. Most recently, the peso has strengthened, amid the worldwide weakening of the dollar and the recovery of copper prices after a few weeks of declines. Thus, a comparison of the statistical cut-off of this and the previous IPoM shows only minor differences.

Structural parameters

The estimate of non-mining trend growth presents no big changes with the previous figure. Average growth in the period 2025-2034 is estimated at 1.8% annually (Box II.1).

The estimate range of the nominal neutral MPR remains between 3.5 and 4.5%. As a working assumption, a value of 4% is used (Box II.2). After the upward revision of this parameter in the last two updates (December 2022 and December 2023), on this occasion the methodologies used maintain the previous range of estimates, which factors in the degrees of uncertainty surrounding this parameter. This assessment is consistent with recent reviews in other economies.

Projections

Projections for activity and demand continue to assume that the economy will grow around its trend during the coming years. In 2024, the range for the GDP growth projection is reduced in its upper bound, being between 2.25 and 2.75% (2.25% to 3.0% in June), a revision that responds largely to the second quarter's result. For 2025 and 2026, growth projections are kept within the 1.5% to 2.5% range.

Private consumption will regain momentum, but its level at the end of the projection horizon will be less than previously estimated. The evolution of several of its fundamentals —such as the lower cost of credit and the increase in the real wage bill— suggests that its recent moderation will not be persistent. However, employment growth has slowed at the margin, something that should be carefully monitored. Towards 2025 and 2026, private consumption is expected to grow at about 2% per year, in line with trend growth. The expansion of government consumption is also revised downward, especially for this year, in line with the projections of the last Public Finances Report, responding to the requirements of the structural balance target. The lower expected level of consumption over the projection horizon affects the activity gap and reduces inflationary pressures.

The GFCF growth projection for the 2024-2026 period is somewhat down from the June estimate, reflecting weak investment in the non-mining sectors. For the mining industry, the central scenario confirms the greater boost of investment. This would have a positive impact on the activity of other sectors, especially construction (Box I.1). Among fundamentals, GFCF performance will benefit from steadily improving financing conditions and the appreciation of the real exchange rate (RER) over the projection horizon, consistent with easing external financial conditions as the cycle of FFR cuts unfolds.

Projected headline inflation is raised for the short term, mainly because of the sharper rise in volatile components. A fraction of it responds to the direct and indirect effects on the CPI of the higher increase in electricity rates that took place in June and July. Added to this is the impact of the increase in global maritime freight rates and the depreciation of the peso in recent months. By the end of this year, headline inflation is expected to close at 4.5% (4.2% in June).

Towards the medium term, inflation will see a faster decline than was foreseen in June, given the reduced inflationary pressures associated with the behavior of domestic demand. Its convergence to the 3% target is foreseen in the early months of 2026, to remain around this value until the end of the projection horizon.

The estimated impulse that the Chilean economy will receive from abroad is similar to what was indicated in June. This considers a trading partners' growth without major changes with respect to the previous projection —of the order of 3% in the 2024-2026 period—, somewhat better international financial conditions and somewhat lower terms of trade. The copper price estimate is slightly lowered with respect to the previous assumption. For 2024, this price is foreseen at US$4.15 per pound (US$4.3 in June), and for 2025 and 2026 both estimates remain around US$4.3.

Monetary policy

The combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations in line with the 3% target, reduces the risks of further inflationary persistence in the medium term as a result of the cost shock. The Board estimates that, if the assumptions of the central scenario of this Report materialize, the reduction of the MPR towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the path of inflation.

The sensitivity scenarios —i.e., the borders of the MPR corridor— are related to the evolution of the domestic economy. The lower part may be seen in a situation in which the weakness of activity and demand in the second quarter is prolonged and/or deepened due to various factors, including a weaker labor market. This would have downward impacts on inflationary pressures greater than those assumed in the central scenario, leading to a faster reduction of the MPR. The upper limit could occur if the rise in inflation turns out to be more persistent than expected or if its second-round effects exceed expectations, which could be accentuated by the dynamism of mining investment and the additional impulse this would have on the activity of several sectors and demand. There are also scenarios in which the evolution of the international outlook differs from the central scenario. In particular, the speed at which the Fed reduces its interest rate would affect global financial conditions, with repercussions on the local economy that would keep the MPR within the limits of the corridor.

The main risks —i.e., developments that are less likely to occur, but which would have stronger impacts on the economy— are linked with international context, where the probability of negative geopolitical and financial scenarios has increased. The world's geopolitical situation has worsened on different conflict fronts and episodes of risk aversion in financial markets, although temporary, have been pronounced. This has increased the likelihood of contractionary and inflationary scenarios in the short term, in a context of intensified global cost pressures. The fragility of the fiscal situation in several developed countries, especially in the United States, is also a source of risk that should be monitored.

TABLE 1: INFLATION (1)(2)
(annual change, percent)

	2022	2023	2024 (f) Jun.24 IPoM	2024 (f) Sep.24 IPoM	2025 (f) Jun.24 IPoM	2025 (f) Sep.24 IPoM	2026 (f) Jun.24 IPoM	2026 (f) Sep.24 IPoM
Average CPI	11.6	7.3	3.7	3.9	4.5	4.3	3.0	3.0
December CPI	12.8	3.4	4.2	4.5	3.6	3.6	3.0	3.0
CPI in around 2 years (3)							3.0	3.0
Average core CPI	9.0	7.5	3.8	3.7	3.6	3.4	3.0	3.1
December core CPI	10.0	4.7	3.8	3.9	3.3	3.2	3.0	3.1
Core CPI around 2 years (3)							3.0	3.1

(1) Core inflation is measured using the CPI without volatiles. (2) Figures consider the 2023 CPI reference basket and the splice made by the Central Bank of Chile. (3) For June 2024 IPoM corresponds to inflation forecast for the second quarter of 2026, for September 2024 IPoM to inflation forecast for the third quarter of 2026. (f) Forecast. Sources: Central Bank of Chile and National Statistics Institute (INE).

TABLE 2: INTERNATIONAL SCENARIO

	2022	2023	2024 (f) Jun.24 IPoM	2024 (f) Sep.24 IPoM	2025 (f) Jun.24 IPoM	2025 (f) Sep.24 IPoM	2026 (f) Jun.24 IPoM	2026 (f) Sep.24 IPoM
(annual change, percent)								
Terms of trade	-6.8	2.4	1.4	0.5	-0.3	-0.6	1.6	0.5
Trading partners	2.9	3.3	3.1	3.0	2.9	2.9	2.9	2.9
World GDP at PPP	3.4	3.3	3.2	3.2	3.0	3.0	3.1	3.1
Developed GDP at PPP	2.7	1.5	1.4	1.4	1.5	1.4	1.8	1.8
Emerging GDP at PPP	3.8	4.5	4.2	4.2	3.9	4.0	3.9	3.9
(levels)								
LME copper price (US$cent/pound)	400	385	430	415	430	425	430	430
Oil price, average WTI-Brent (US$/barrel)	97	80	80	81	76	76	72	72

(f) Forecast.
Source: Central Bank of Chile.

TABLE 3: INTERNAL SCENARIO
(annual change, percent)

	2022	2023	2024 (f) Jun.24 IPoM	2024 (f) Sep.24 IPoM	2025 (f) Jun.24 IPoM	2025 (f) Sep.24 IPoM	2026 (f) Jun.24 IPoM	2026 (f) Sep.24 IPoM
GDP	2.1	0.2	2.25 - 3.0	2.25 - 2.75	1.5 - 2.5	1.5 - 2.5	1.5- 2.5	1.5 - 2.5
Domestic demand	2.3	-4.2	1.8	1.3	2.6	2.5	2.6	2.4
Domestic demand (w/o inventory)	2.9	-3.2	2.0	1.3	2.6	2.5	2.4	2.2
Gross fixed capital form	3.9	-1.1	-0.3	-0.8	5.4	5.1	2.8	2.5
Total consumption	2.6	-3.9	2.8	2.0	1.7	1.7	2.3	2.1
Private consumption	1.6	-5.2	2.5	1.7	1.9	1.9	2.5	2.2
Goods and services exports	0.8	-0.3	5.9	6.1	3.1	3.2	1.9	2.2
Goods and services imports	1.5	-12.0	3.2	2.9	4.7	4.5	3.9	3.3
Current account (% of GDP)	-8.7	-3.6	-2.1	-2.1	-2.5	-2.4	-2.7	-2.5
Gross national saving (% of GDP)	16.9	19.4	19.2	20.0	19.5	19.7	19.5	19.7
Gross fixed capital formation (% of nominal GDP)	25.3	23.8	23.1	23.1	23.7	23.1	23.8	23.0

(f) Forecast.
Source: Central Bank of Chile.

I. RECENT EVOLUTION OF THE MACROECONOMIC SCENARIO

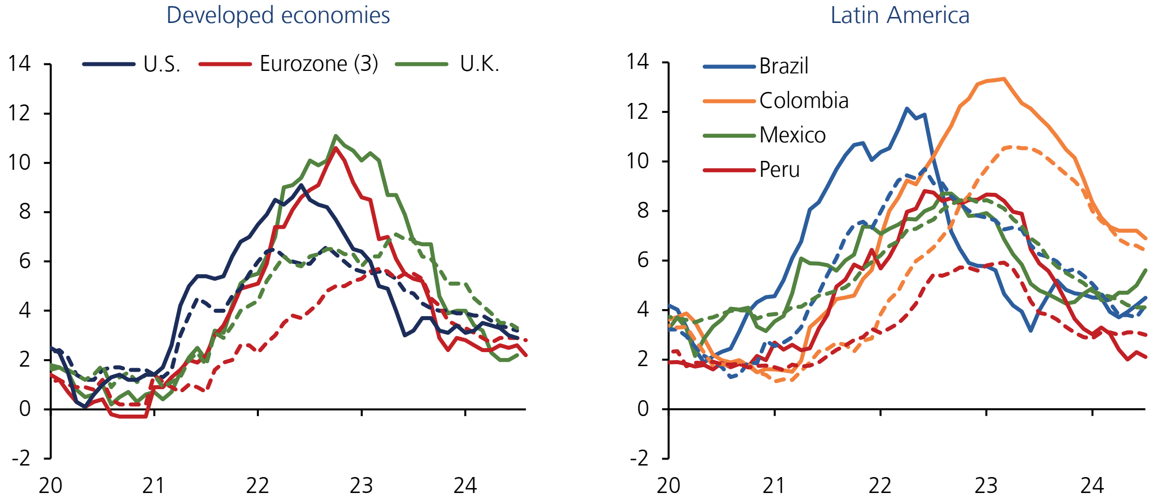
In the United States, inflation has continued to decline in recent months, within a context where the labor market has been cooling. The Federal Reserve (Fed) noted that it will soon begin the cycle of interest rate cuts. In China, activity slowed more than expected in the second quarter, which explains part of the downward adjustment in its outlook for this year. Financial markets have been volatile, with changes in risk appetite, influenced by macroeconomic data —especially from the United States—, signals from the Fed and the evolution of geopolitical tensions, among other factors. On the domestic front, in line with expectations after the high dynamism earlier in the year, the economy lost momentum during the second quarter. However, the slowdown was somewhat more pronounced than projected. On the demand side, the less favorable trajectory of consumption is worth noting, although several of its fundamentals continue to evolve in line with expectations. Investment has maintained a more stable performance after the sharp fall in the second half of last year but showing important differences between dynamic large-scale mining projects and weak non-mining sectors. Headline inflation has risen, mainly due to the expected increase in electricity prices, while the core component has remained close to 3.5%. Short-term inflation expectations have risen, while two-year inflation expectations remain in line with the 3% target. The cuts in the Monetary Policy Rate (MPR) continue to be transmitted to short-term interest rates, despite still weak banking credit, especially its commercial portfolio.

THE INTERNATIONAL SCENARIO

In the United States, the economy continues to be supported by the dynamism of domestic demand, albeit in a context of a cooling labor market and still declining inflation (Figure I.1). During the second quarter, economic growth exceeded market forecasts and the June IPoM projections. This performance continued to be explained by strong private consumption, which showed positive growth across the board, partly influenced by a further decline in the household savings rate. Investment slowed, affected by the quarterly drop in the residential segment. In the labor market, job creation has slowed and the unemployment rate has risen, although the effects of some one-off items temper the latest available figures. Going forward, activity expectations for this year show a slight upward adjustment (Figure I.2). In this scenario, inflation has shown a more favorable evolution in recent months, especially due to the deceleration of the goods component.

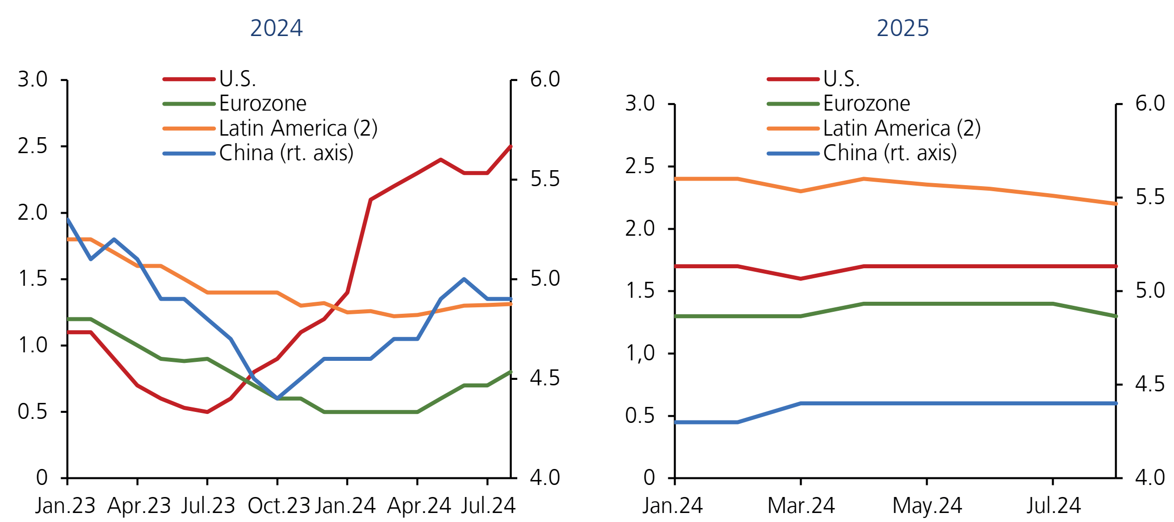
In this context, the Fed announced that it will begin the cycle of lowering its benchmark rate. The market expects the first cut to take place in September and has incorporated a cumulative decrease of around 100 basis points (bp) for the remainder of 2024 (Figure I.3). In his presentation in Jackson Hole, the Fed Chair communicated that the time has come for monetary policy to adjust, although without indicating when this would begin or the magnitudes. This assessment mentioned that inflation had come down significantly, that the labor market was no longer overheated, and that any further cooling would be neither sought nor welcome as part of the strategy of reducing inflation toward the 2% target. He added that, with progress in inflation in mind, the Committee would be concerned with the other part of its mandate, maximum employment. Following this communication, the market outlook that the rate cut will begin at the mid-September meeting, accumulating close to four 25bp cuts in the remainder of 2024, was consolidated.

FIGURE I.1 WORLD INFLATION (1) (2)
(annual change, percent)



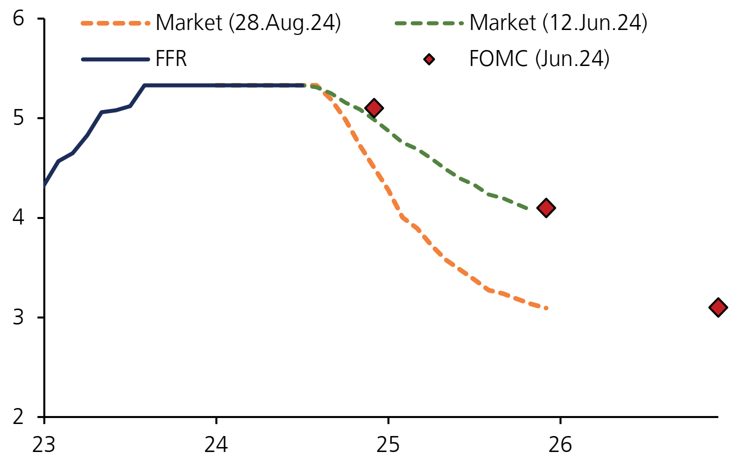
(1) Dashed lines correspond to core inflation. (2) Core figures exclude foods and energy. (3) For August, it considers preliminary estimate.
Source: Bloomberg.

FIGURE I.2 CONSENSUS GROWTH FORECAST (1)
(percent)



(1) The latest information available at the closing of this IPoM refers to the month of August 2024. (2) Considers Brazil, Argentina, Peru, Colombia and Mexico. PPP-weighted growth; shares of each economy according to WEO (IMF).
Sources: Consensus Forecasts and IMF.

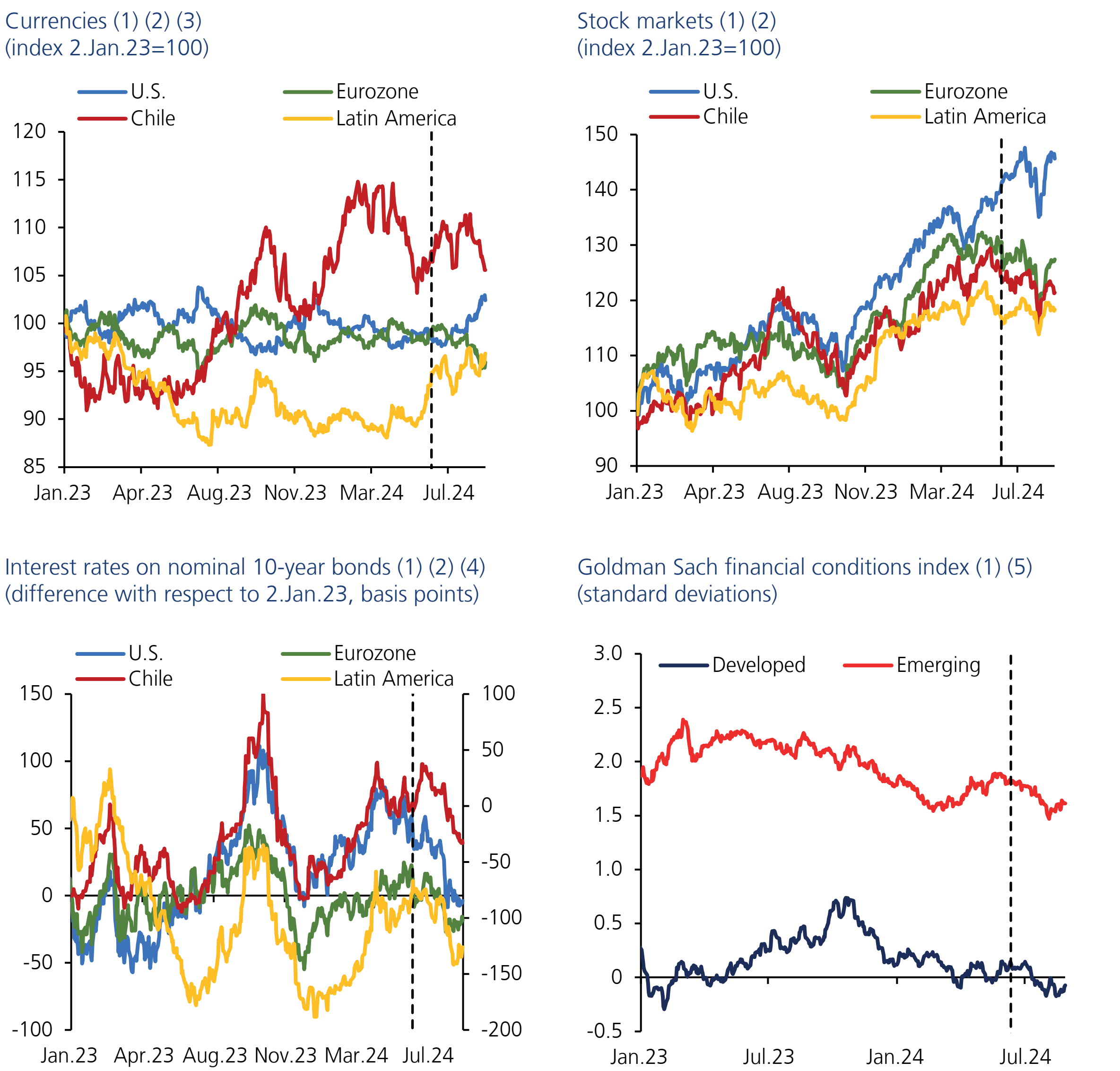
FIGURE I.3 FED FUNDS RATE (*)
(percentage points)



(*) FOMC projections correspond to the mid-range of the fed funds rate presented in June 2024; market projections are for the mid-range of the fed funds rate of futures at the statistical closing of the June IPoM (12.Jun.24) and at the statistical closing of this IPoM (28.Aug.24).
Sources: U.S. Federal Reserve and Bloomberg.

Financial markets have shown high volatility, which has been related to the release of macroeconomic data in the United States, signals from the Fed and geopolitical tensions, among other causes (Figure I.4). Since the last IPoM, markets have reacted strongly to a number of events. During July and early August, downward surprises in US employment figures and the results of US tech companies fueled fears of a recession. This was compounded by the sudden increase in Japan's monetary policy rate, which led to the unwinding of some carry trade strategies (yen-financed positions invested in different assets, including stock markets), and the intensification of global geopolitical risks. These factors eroded global risk appetite, reflected in significant declines in world stock markets, commodity prices, interest rates in major economies and a depreciation of emerging currencies. In recent weeks, more favorable figures in the United States, together with the announcement by Fed authorities of the imminent start of the interest rate cutting cycle, reversed a good part of these effects.

FIGURE I.4 FINANCIAL CONDITIONS



(1) Dashed vertical line marks statistical closing of June IPoM. (2) For Latin America, considers the simple average of Brazil, Mexico, Colombia and Peru. (3) An increase in the index indicates a currency depreciation, and vice versa. For the U.S., uses multilateral exchange rate. (4) For Latin America, it corresponds to the right axis. (5) Standardized with mean and standard deviation between 2010 and 2019. For developed countries, simple average of U.S., Eurozone, U.K., Canada, Australia, New Zealand, Norway and Sweden. For Emerging markets, simple average of Thailand, Malaysia, Indonesia, Philippines, South Africa, Hungary, Poland, Brazil, Mexico and Chile
Sources: Central Bank of Chile, Bloomberg and Goldman Sachs.

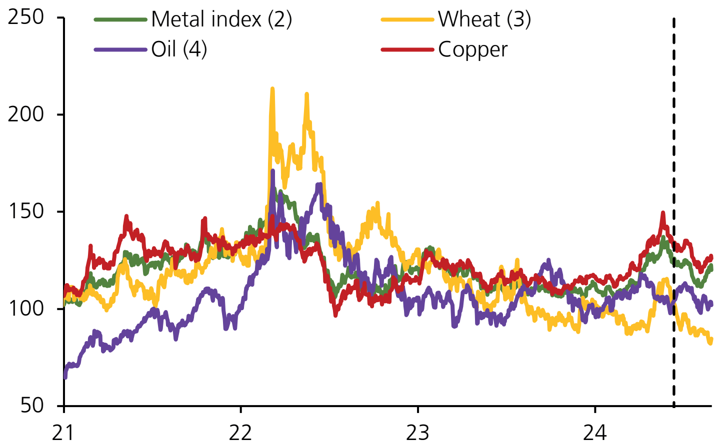
In the rest of the world, a faster-than-expected slowdown in China during the second quarter stood out, which explains part of the downward adjustment of the markets' growth expectations (Figure I.2). The weakness of demand stood out, mainly due to the deceleration of consumption. Investment continued to show dissimilar behaviors between the poor performance of the property sector and the improved indicators of manufacturing and infrastructure investment. China's growth prospects remain weak, based on, among other factors, the high household savings rate, low levels of consumer and business confidence, and doubts about the growth capacity of some industries, as stimulus measures have been moderate. This scenario has explained part of the decrease in the copper price since the last statistical close (Figure I.5). In addition, there is less momentum associated with the demand for the metal for its use in the energy transition, together with somewhat better news on the supply side. Although with fluctuations, considering the 10-day average prior to the close of this IPoM, the copper price per pound is around US$4.1 (-8% since the June IPoM). In any case, the medium-term outlook of this Report and of several counterparties has not changed.

The Eurozone has also seen moderate activity and prospects (Figure I.2). The bloc's economy maintained its growth rate in the second quarter, with a notable expansion in Spain and a slight contraction in Germany. Inflation has shown some volatility attributed, in part, to one-off elements such as the unfreezing of energy tariffs in some countries in the region (Figure I.1). The European Central Bank paused its rate-lowering cycle at its July meeting and indicated that it will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction.

In Latin America, activity held on part to the dynamism exhibited in the first quarter, although with heterogeneity among countries and with expectations that show no major changes (Figure I.2). This, in the context of a monetary policy outlook that looks somewhat more contractionary compared to June. Brazil's better-than-expected figures stand out, in the context of a strong labor market. In Mexico, activity moderated in the second quarter, affected by the contraction of the primary sector. With respect to inflation, food prices rebounded across the region, explained by the lagged effects of the El Niño phenomenon. Core inflation has continued to decline, favored mainly by goods prices (Figure I.1). This, in a scenario in which labor markets have not exhibited greater slack and inflation expectations have remained above target in several economies, where Chile is an exception. Monetary authorities have continued to convey messages of caution. Mexico and Peru resumed their rate cuts cycles in their last meetings, while Colombia has continued its easing. Meanwhile, Brazil paused its cuts, amid some doubts regarding the country's compliance with its fiscal target.

Regarding commodities, it is worth mentioning the fluctuations in the oil price in recent months, which still maintains levels above those from the beginning of the year (Figure I.5). This has been affected mainly by global geopolitical tensions, concerns about weak global demand and the global monetary policy outlook, especially in the United States. At the statistical close of this IPoM, the price of a barrel of oil (WTI-Brent average) stood at around US$79, somewhat above the level of the June IPoM close. As for food, the FAO index has not changed much with respect to May (last data known at the close of the June IPoM). The rises in the meat and oil indexes have been offset by the sharp fall in cereals, driven by supply factors resulting from more favorable weather conditions.

FIGURE I.5 COMMODITY PRICES (1)
(index, 2010-2024 average=100)



(1) Dashed vertical line marks statistical closing of June IPoM. (2) S&P GSCI Industrial Metals. (3) Prices of futures one-month ahead. (4) WTI-Brent average.
Source: Bloomberg.

THE DOMESTIC SCENARIO

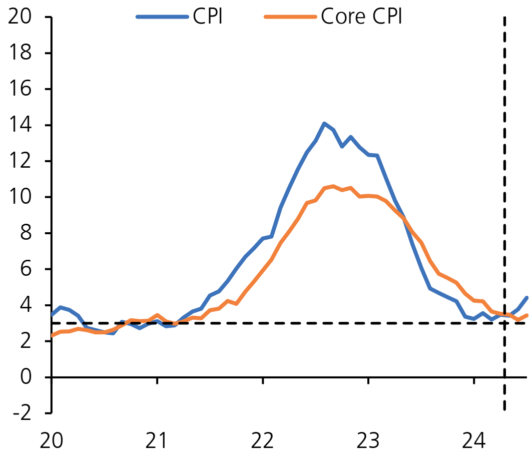
As anticipated in the June IPoM, total annual inflation rose in recent months (4.4% in July; 3.4% in May), affected by increases in volatile items, while the core measure remained close to 3.5% (figures I.6 and I.7).[1/] Core inflation of goods continues to be low, although with mixed monthly variations in recent months, which has been associated with one-off retail events (i.e., the Cyber day). The evolution of this inflation component once again reflects a moderate pass-through of the increases in the exchange rate and international shipping costs in recent months, amid a continued perception of weak sales, as reflected in the Business Perceptions Survey (EPN) (Figure I.8). Services inflation, on the other hand, has continued to decline, at a rate consistent with indexation to past prices and wages.

The hike of volatile prices was somewhat steeper than expected. Between June and July, electricity prices increased more than anticipated in the previous IPoM. Food inflation, mainly for fruits and vegetables, also increased its contribution to total inflation somewhat above expectations, partly due to supply factors derived from adverse weather events. In addition, some volatile goods prices were higher than expected, such as household equipment and clothing and footwear.

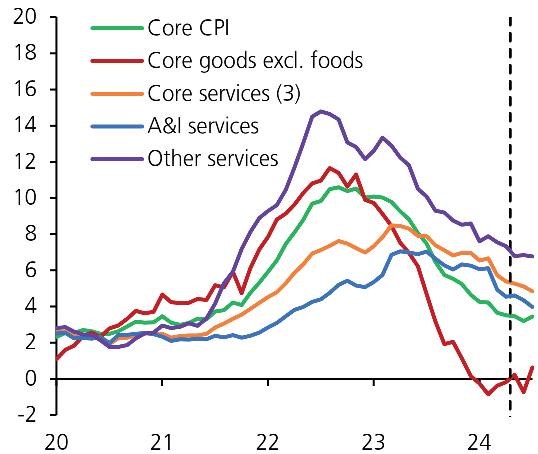
[1/] The figures consider the 2023 CPI reference basket with the BCCh splice.

FIGURE I.6

Headline and core inflation (1) (2)
(annual change, percent)

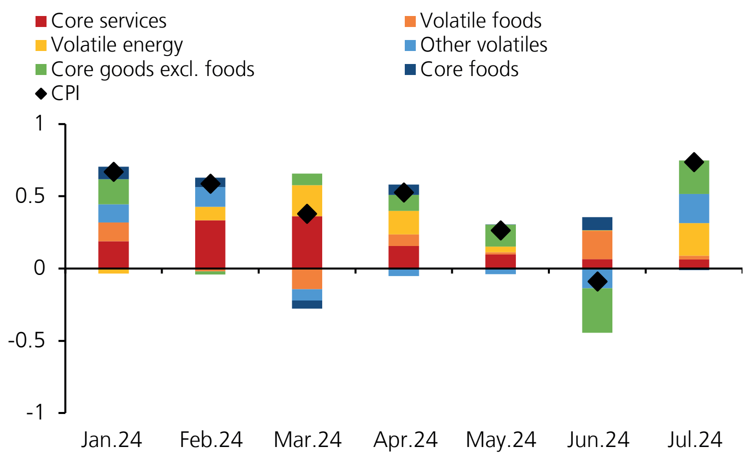


Core inflation (1) (2)
(annual change, percent)



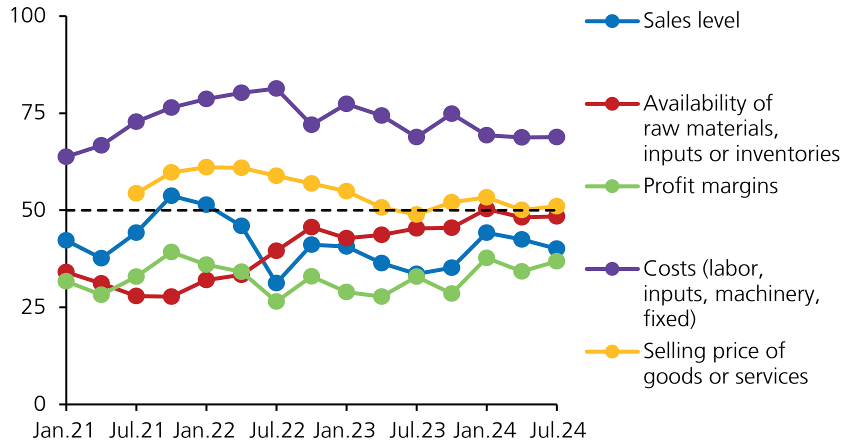
(1) Series consider the 2023 CPI reference basket with the BCCh splice. (2) Dashed vertical line marks statistical closing of June IPoM. (3) Considers the sum of administered and indexed services (A&I) and Other services.
Sources: Central Bank of Chile and National Statistics Institute (INE).

FIGURE I.7 CONTRIBUTIONS TO MONTHLY CPI INFLATION (*)
(percentage points)



Sources: Central Bank of Chile and National Statistics Institute (INE).

FIGURE I.8 EPN: EVOLUTION OF FIRMS' FACTORS IN THE LAST THREE MONTHS (*)
(diffusion index)



(*) Value above (below) 50 denotes higher proportion of "have increased" ("have decreased") responses.
Source: Central Bank of Chile.

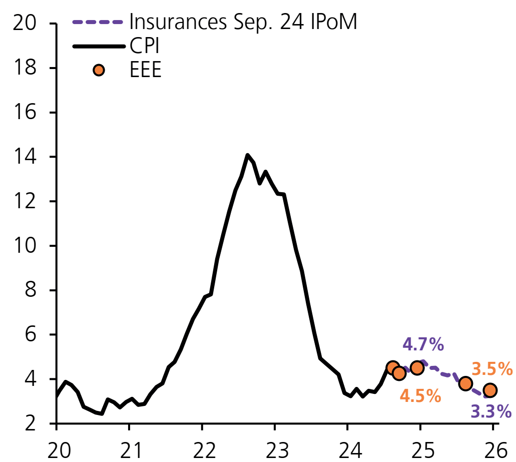
Short-term inflation expectations have increased significantly, but in two years they remain in line with the 3% target (figure I.9). As of December 2024, the Economic Expectations Survey (EEE) and inflation insurances anticipate values between 4.5 and 4.7%, about 60bp above those observed at the closing of the previous IPoM. The effective and expected increase in electric bills has been key in this change. Two years from now, the expectations of the EEE and the Financial Traders Survey (EOF) are at 3%, evidencing the transitory nature of the inflationary shock. As for companies' inflationary expectations, almost half of those surveyed in the August EPN expect inflation to be slightly above its normal value during the next twelve months. Meanwhile, according to the Price Determinants and Expectations Survey (EDEP), firms foresee inflation of 3.7% in two years' time.

As anticipated, after the greater dynamism that the economy showed at the beginning of this year, it lost momentum during the second quarter (figure I.10). The seasonally adjusted series of total and non-mining GDP fell 0.6% quarter-on-quarter (q/q) (+1.6 and +1.0% year-on-year, respectively), which is consistent with the expected reversal of some supply factors that had underpinned activity months earlier. On the other hand, seasonally adjusted, domestic demand contracted by 1.5% q/q in the second quarter (-1.4% y/y), mainly due to the decline in consumption.

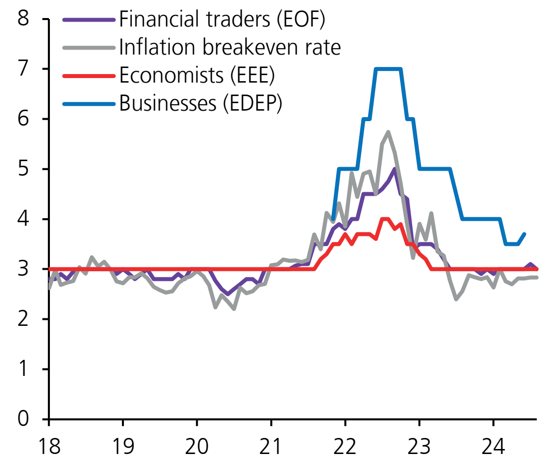
In any case, the recent moderation of domestic activity and demand has been somewhat steeper than projected in the June IPoM. This was influenced by some one-off supply elements, such as the impact of the availability of fishery resources in the industry, the effect of extreme weather events on services, and the stoppage of an important mining operation due to a fatal accident. More recently, the July Imacec showed a significant acceleration in month-to-month activity, although again a significant part was due to these one-off factors (figure I.10).

FIGURE I.9

Actual and expected annual inflation (1)
(annual change, percent)



Two-year inflation expectations (2) (3) (4)
(annual change, percent)

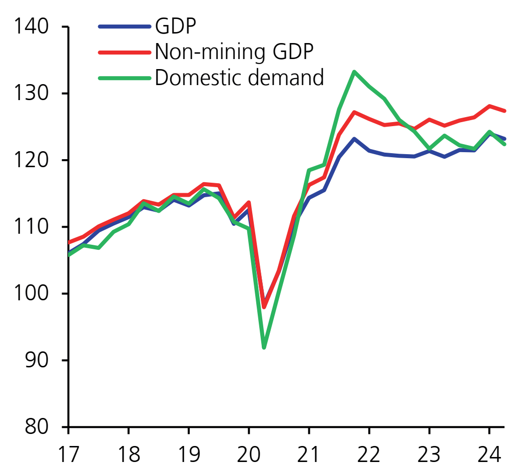


(1) Series considers the 2023 CPI reference basket. Insurance considers average prices of the last ten days to 28 August. (2) For surveys, median of responses are shown. (3) EOF considers the survey of the first half of each month until January 2018. From February 2018 onwards, it considers the last survey published in the month, including the one prior to the September 2024 Meeting. In months with no survey published, the latest available one is considered. (4) Breakeven inflation considers averaged prices of the last ten days of each month. For August 2024 it uses the average of the last ten days as of 28 August.

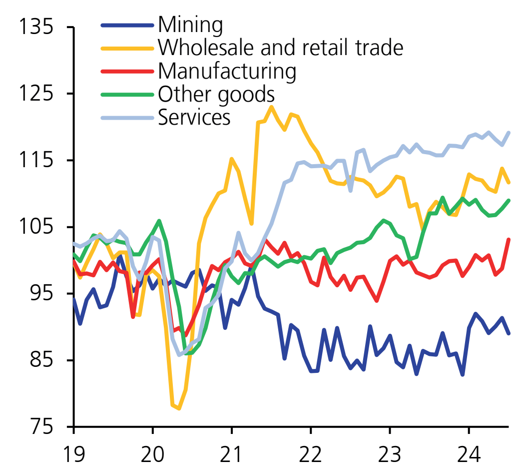
Source: Central Bank of Chile.

FIGURE I.10

Activity and demand
(index, 2013.Q1 = 100, real seasonally-adjusted series)



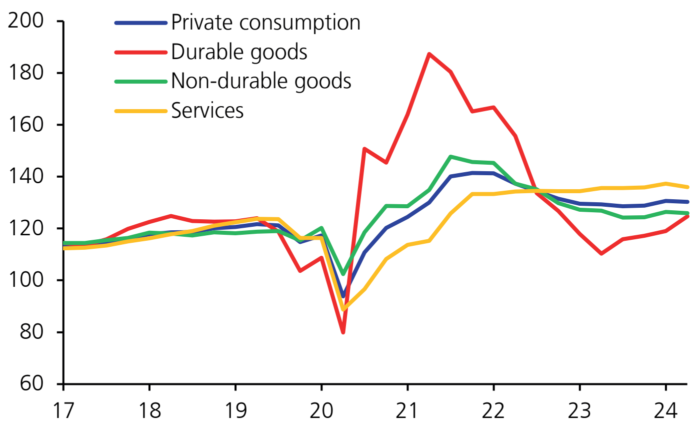
Imacec by sectors
(index, 2018 average = 100, real seasonally-adjusted series)



Source: Central Bank of Chile.

Private consumption decreased in the second quarter (figure I.11). Seasonally adjusted, it contracted 0.3% q/q in that period (+0.5% y/y), compared to the 1.4% expansion observed in the first quarter. The fall was concentrated in non-durable goods and services, while the consumption of durable goods accelerated. Public sector consumption moderated its annual growth rate—influenced, among other factors, by the change in the timing of school holidays — which is also consistent with the slowdown in real fiscal spending.

FIGURE I.11 PRIVATE CONSUMPTION BY COMPONENTS
(index, 2013.Q1 = 100, real seasonally-adjusted series)

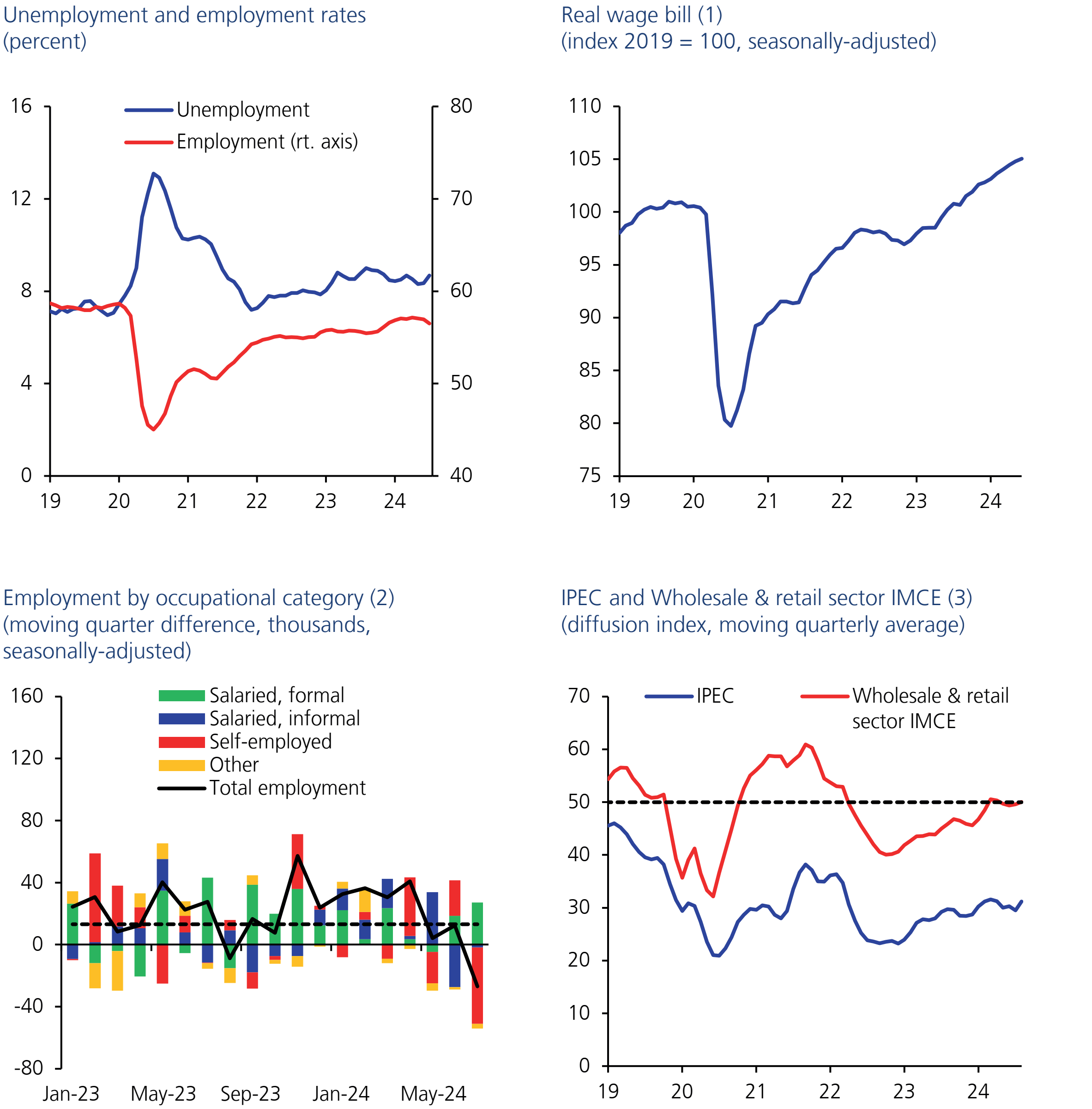


Source: Central Bank of Chile.

Most recently, the evolution of several of consumption fundamentals has been stable and continues to suggest that this spending component will grow going forward (figure I.12). The unemployment rate for the moving quarter ending in July was 8.7%. Despite the slowdown in job creation, it continues to contribute to the growth of the real wage bill. This has been supported by a variation in real wages that remains around its historical averages. By occupational category, self-employment and informal salaried employment have shown high volatility this year (figure I.12). Meanwhile, household (IPEC) and retail-linked firms (sectoral IMCE) expectations show no signs of recent deterioration (figure I.12), while the financial burden of households accumulates several months of declines.

Gross fixed capital formation (GFCF) has stabilized after its sharp decline in the second half of last year (figure I.13). The seasonally adjusted GFCF series grew by 1.4% q/q in the second quarter. The strongest boost came from machinery and equipment and engineering works, which again contrasts with the weakness of building, according to microdata. By sectors, differences were also observed. In mining, investment has shown strong dynamism in recent years, which differs from the weakness of non-mining investment (Box I.1). This is in line with the perspectives from the Capital Goods Corporation (CBC) survey and the views included in the August Business Perceptions Report (IPN), where interviewees from mining zones highlighted the reactivation of projects in this sector. These would correspond to works that had been held over, plus new initiatives related to renewable energies.

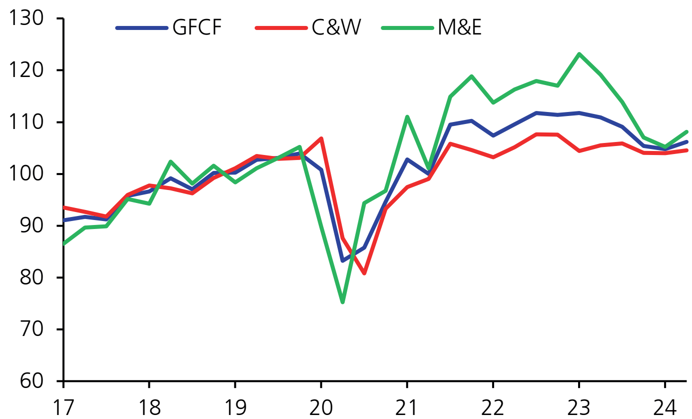
FIGURE I.12 CONSUMPTION FUNDAMENTALS



(1) Calculated using seasonally-adjusted series of the real LCI, hours worked and occupation. (2) Total employment is the official data seasonally adjusted by the INE, while occupational categories were deseasonalized internally using X13-ARIMA-SEATS. Dashed line shows 2013-2019 average. "Other" includes employers, domestic service and unpaid family work. (3) Value above (below) 50 indicates optimism (pessimism).

Sources: National Statistics Institute (INE), Central Bank of Chile, ICARE/UAI and GfK Adimark.

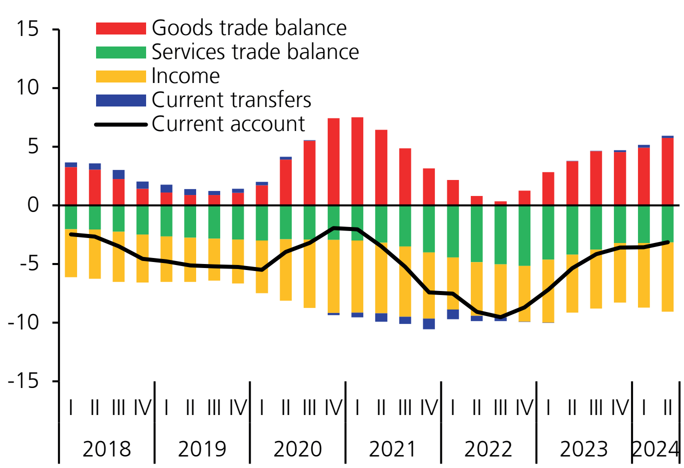
FIGURE I.13 GROSS FIXED CAPITAL FORMATION BY COMPONENTS
(index, 2013.Q1 = 100, real seasonally-adjusted series)



Source: Central Bank of Chile

Exports—especially mining-related ones—have continued to underpin the result of the current account. These continue to be favored, among other things, by the high price of copper. Thus, in the second quarter, the one-year cumulative current account deficit reached 3.1% of GDP (3.6% in the previous quarter and 5.4% in the same period a year before) (figure I.14). The improvement in the trade balance was partially offset by an increase in investment income remitted abroad, while the services balance remained unchanged. All this has gone hand in hand with the sustained recovery of national savings, which, in the second quarter, reached to 19.5% of GDP in the cumulative annual sum.

FIGURE I.14 CURRENT ACCOUNT, CONTRIBUTIONS BY COMPONENT
(percent of GDP, moving annual sum)



Source: Central Bank of Chile.

The MPR cuts have continued to be transmitted to the interest rates of shorter-term bank loans (figure I.15). Since July 2023, the MPR has accumulated a reduction of 575bp, which has been passed through to consumer and commercial interest rates in line with usual patterns. In July, on average, the former were 24.9% (28.9% a year ago), and the latter were 9.8% (15.7% a year earlier).

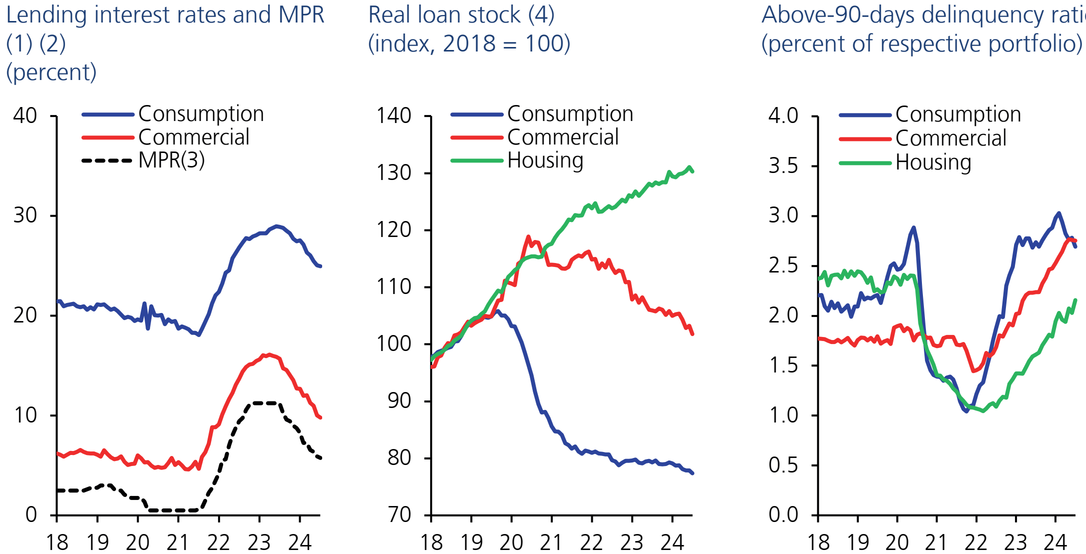
In any case, bank lending remains weak, especially in its commercial component. The stock of real loans in the consumer portfolio contracted 2.4% annually in July, while commercial loans fell 3.9% annually (figure I.15). Last month's stock of real mortgage loans decelerated compared to previous months (+1.9% annually). This happens amid credit supply conditions that have not changed much recently and credit demand that remains transversally weak, according to the latest Banking Credit Survey. The EPN results are along the same lines and show an increase in the share of firms that have perceived no changes in lending conditions (such as banks' required guarantees) in the last six months. In the interviews, firms report no changes either in access requirements, although in several cases they maintain a perception that these remain restrictive. When considering the total financing of firms—including other sources, in addition to banking—, the behavior of credit is not very different from the international dynamics, which is consistent with the differences between mining investment and that of other sectors (Box I.2). On the other hand, despite a slight drop in the consumer portfolio, delinquency indicators have not changed substantially compared to the previous IPoM and remain high in all portfolios (figure I.15).

In the local financial market, the decline in real short-term interest rates stand out (figure I.16). Considering the 10-day average prior to the statistical closing of this Report and the previous one, the overnight index swap (OIS) in UFs for one and two years accumulated declines of around 120bp and 75bp, respectively. Meanwhile, short-term nominal rates have shown more limited movements. The rest of the financial variables, in general, have followed the trends of their external peers (figure I.4). With respect to the last IPoM, 10-year nominal rates have fallen by around 25bp, a smaller decline than that of the US rate at the same term (around -55bp). The IPSA, although with fluctuations, accumulated losses close to 3%. Between June and the beginning of August, the exchange rate depreciated significantly, reflecting external conditions, which impacted the copper price and the markets' perception of risk. More recently, the peso has strengthened, amid the weakening of the dollar worldwide and the recovery of the copper price after a few weeks of declines.

Regarding growth forecasts for 2024 and 2025, market and experts' expectations have not changed significantly. The August EEE foresees that GDP will grow 2.3% this year (lower than the 2.6% forecast in June), while Consensus Forecasts projects an expansion of 2.4%, the same as that reported at the statistical closing of the previous IPoM. For 2025, growth expectations remain unchanged at 2.2% (EEE) and 2.3% (Consensus Forecasts).

MPR expectations continue to reflect the still ongoing process of monetary policy normalization. La Both the EEE and the EOF for August, along with the expectations implicit in the OIS rates point to the MPR standing at 5.25% at the end of this year. At the end of the monetary policy horizon, the August EEE anticipates a benchmark rate at 4.25%, while the EOF for the same month and the OIS rates foresee it at 4.5%.

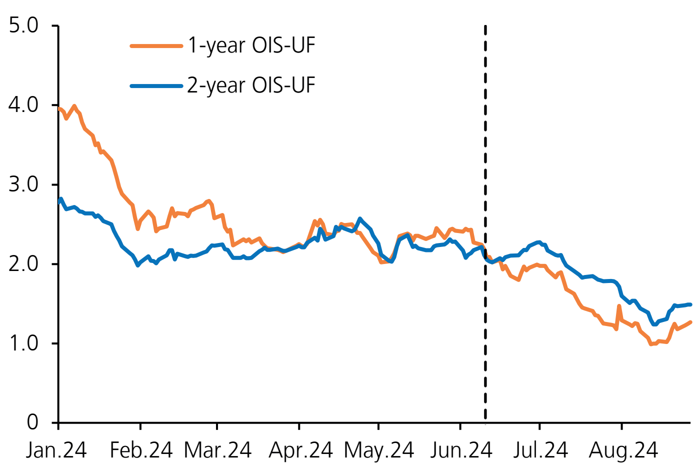
FIGURE I.15



(1) Weighted average rates of all transactions in Chilean pesos performed each month in the Metropolitan Region. (2) Seasonally adjusted series using Census X-12 and national calendar. (3) Monthly average of the MPR. (4) Real data built using the 2023 annual base CPI, considering its most recent revision.

Source: Central Bank of Chile.

FIGURE I.16 REAL INTEREST RATES (*) (percent)



(*) Dashed vertical line marks statistical closing of June IPoM.

Source: Central Bank of Chile.

BOX I.1:

Mining investment and its spillover to the rest of the economy

Mining investment has been highly dynamic in recent years. As has been suggested by different sources of information, the central scenario of this IPoM foresees that mining investment will continue to grow during this and the next few years. This investment will have positive effects on construction activity and other economic sectors, offsetting the weak performance of non-mining investment. It will also contribute to maintaining mining production capacity, although it is not expected to increase it significantly, due to the downward trend in ore grade. This box describes the recent evolution of mining investment and its outlook, and quantifies its impact on the Chilean economy, extending previous analyses (Box I.1, December 2023 IPoM).

Mining investment's recent evolution and outlook

Since 2021, mining investment —in both copper and other mining including lithium— has performed favorably. Measured as a percent of real GDP, in 2023 it reached 6.5%, close to the historical peaks of 2012-2013 (figure I.17a)[1]/. Firm-level microdata indicate that this strong dynamism would have persisted during the first half of 2024, driven by copper mining[2]/. This contrasts with the evolution of investment in the other economic sectors, which is estimated to be around 17% of GDP in the most recent period, below the average of the pre-pandemic years.

In terms of the destination of this investment, the microdata suggest that it has been concentrated in projects to extend the useful life of existing mining deposits; in desalinization plants linked to the water shortage affecting the northern macro-zone of the country; and in maintenance services associated with extraction operations (figure I.17b). Accordingly, it is estimated that the increased investment will contribute to reduce costs and maintain mining production capacity, although no significant increase is expected in the latter.

Various indicators suggest that mining investment will continue to expand strongly in the coming years. According to information from Cochilco, the Capital Goods Corporation (CBC) and the Office of Major Projects (OGP), the average dollar amount of mining investment between 2025 and 2027 will be around US$1.7 billion higher than in 2024 (figure I.18a). This increase is concentrated in just a few projects.[3]/ It is worth noting that the surveys cover a portion —about one third— of the mining investment in the national accounts.

[1]/ Corresponds to gross fixed capital formation (GFCF). For 2023, the nominal estimate of mining investment is preliminary based on the notes to the financial statements on acquisitions of property, plant, and equipment, which was contrasted and/or supplemented with GFCF data by asset type from the national accounts. Nominal data were deflated using the quarterly national accounts investment price indexes.
[2]/ Sector-level official investment figures are available with a two-year lag. To review the methodology for obtaining the information from microdata, see Díaz *et al.* (2024).
[3]/ In copper mining, these projects include the Nueva Centinela, Quebrada Blanca, Los Bronces, Collahuasi and Santo Domingo upgrading and development initiatives. The recent announcement of the US$7.5 billion expansion of the El Abra mine, to be executed starting in 2027, would provide an additional boost to medium-term investment prospects. Regarding lithium, the survey of the Capital Goods Corporation (CBC) includes two initiatives to increase SQM's production capacity, while OGP's information contains the Blanco project for US$626 million.

Aggregate and sectoral impact of the mining investment increase

Beyond the implications for the mining sector production, the increase in mining investment has a positive impact on the activity of those economic sectors that provide goods and services for the sector's GFCF. To measure this impact and determine the most favored sectors, Andalaft *et al.* (2024) estimate the linkages of mining investment in aggregate and sectoral economic activity, using firm-level microdata for the year 2023 and information from the national accounts. This captures the composition of the most recent mining projects in the economy's investment and intermediate sales networks.

According to this study, the spillover effects are important: an increase in mining investment as is expected for 2024-2026 (20%) raises GDP by 0.75 percentage points (pp). About two thirds of this effect is generated by the increase in construction and works, and the remaining third is explained by purchases of machinery and equipment.[4/] Among the most favored economic sectors, construction stands out, with an increase in activity accounting for nearly half of the increase in GDP. Positive impacts are also observed in wholesale and retail trade, business services and manufacturing, among other activities (figure I.19b).

An additional estimation using only national accounts information —GFCF by economic activity, supply and use tables and input-output matrix— for the year 2021, suggests that the aforementioned increase in mining investment raises GDP by around 0.6pp, a somewhat smaller impact than suggested by the microdata. Likewise, the sectoral linkages determined by the input-output matrix show a sectoral distribution similar to the previous one (Avilés *et al.*, 2024).

Conclusions

The dynamics of mining investment in recent years has been a relevant source of growth for the Chilean economy. The central scenario of this IPoM forecasts that mining GFCF will grow by around 20% cumulatively in real terms between 2024-2026. This would partly offset the weakness of non-mining investment, which continues to lag according to incoming data.

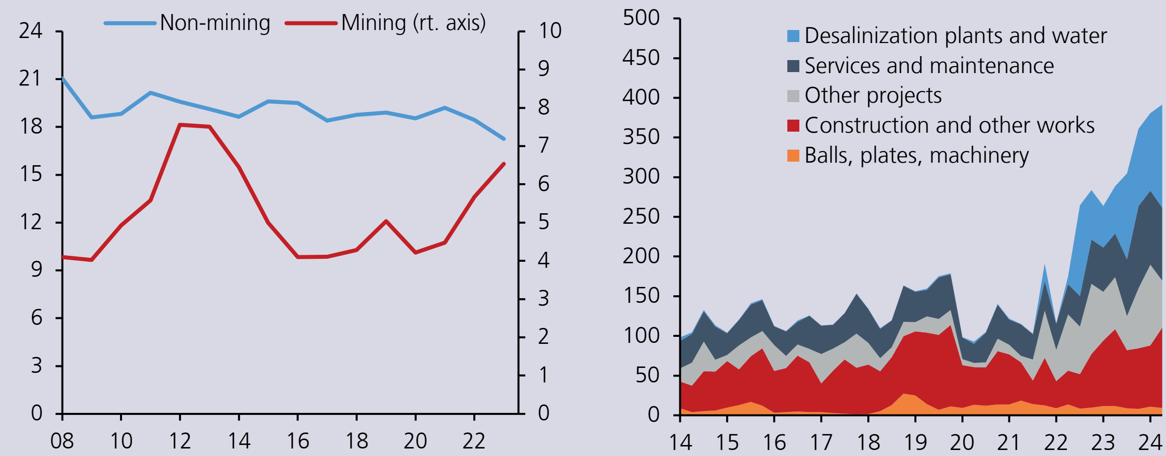
This outlook for mining investment is not free of risks in either direction. On the one hand, there is the usual uncertainty regarding companies' investment schedules and the approval of environmental and/or sectoral permits. On the other hand, factors such as the evolution of the Chinese economy, global financial conditions, and the global energy transition —most importantly the role of lithium and green hydrogen in the countries' decarbonization process— could affect the companies' investment plans.

[4/] This result assumes that all the other variables are constant, including mining sector productivity.

FIGURE I.17

a) GFCF: Mining and other sectors (*)
(percent of GDP, real series)

b) Detail of mining purchases according to microdata
(billions of Chilean pesos, real series)

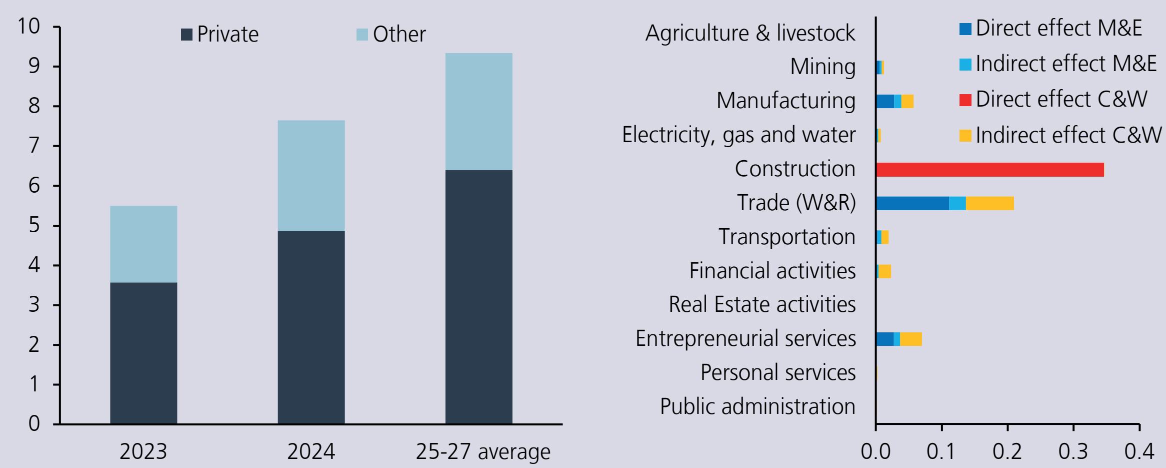


(*) The 2023 data are preliminary estimates.
Sources: Central Bank of Chile and Internal Revenue Service (SII).

FIGURE I.18

a) Mining investment expectations
(billions of dollars)

b) Mining investment spillover (*)
(contribution to GDP growth, percent of GDP)



(*) Direct effect is impact on a firm's value added from sales of capital goods to the mining sector. Indirect effect is the impact on a firm's value added from sales of materials to capital goods producing sectors that supply the mining sector.
Trade (W&R): Wholesale and retail trade.

Sources: Andalaft *et al.* (2024), Cochilco, CBC and OGP.
CBC: Capital Goods Corporation. OGP: Office of Large-Scale Projects.

BOX I.2:

International evolution of commercial credit

In recent years, bank lending to firms in Chile has been weak. Previous analyses suggest that this component of credit has evolved in line with the performance of the local economy, with no significant signs of deterioration beyond what can be expected, although further weakening could be a warning sign[1]/. This box adds an international perspective, that analyzes the importance of global and idiosyncratic factors in the evolution of commercial credit.

Analysis of global and idiosyncratic factors

There is extensive literature analyzing the importance of global elements in the evolution of domestic credit. This responds to the correlation between local macroeconomic dynamics and interest rates, both because of the commercial and financial interconnection among economies and because of the relevance of certain economies whose macroeconomic and financial conditions are transferred to the rest of the world as, for example, the United States. In general, the empirical results suggest that global factors have considerable effects on local credit dynamics[2]/. Unlike other studies, this box focuses on total credit to firms (rather than total credit to the private sector, or external credit) and analyzes in more detail the case of Chile. The data used are taken from the BIS quarterly database of total (not only banking) credit to private non-financial firms[3]/ for the period 2000-2023.

Two observations need special mention from the analysis of the data. First, in the pandemic period, active policies triggered a significant expansion of credit worldwide. Chile stands out as one of the countries with the fastest growth during that period. Second, the weakness of credit in recent years has been a global phenomenon, and the case of Chile does not look particularly different from the rest of the world. At the end of the pandemic, credit in Chile moderated more than in other countries, but is still above the median of them (figures I.19a and I.19b).

Gonzalez *et al.* (2024) review the importance of global and idiosyncratic factors through two methodologies. A panel estimation with country- and time-fixed effects and an estimation using a dynamic factor model. Both yield similar results and suggest that, broadly speaking, the low dynamism of commercial credit in Chile would be in line with global dynamics. The latter is explained by the high levels of international interest rates, the consequent macroeconomic weakness following the previous expansion cycle, and compensatory effects after the strong expansion of credit during the pandemic.

This latter factor is relevant for Chile. Active policies during the pandemic, which far exceeded the impulses provided by other countries (see Box V.I in September 2021 IPoM and Calani *et al.* (2021)), caused a higher-than-average increase in commercial credit, which tended to expand it beyond its fundamentals. On the flip side, from 2021 onwards, credit showed a significant drop, due not only to the offsetting of the previous expansion, but probably to the additional liquidity injection measures, which improved the firms' cash flows and reduced their funding needs. By the end of 2023, the level of commercial credit as a percent of GDP regained its pre-pandemic levels and was above the median for other countries.

1/ See, for example, Box I.3 in June 2024 IPoM and Box III.1 in May 2024 Financial Stability Report (IEF).

2/ See, for example, Iñaki *et.al.* (2023), Miranda-Agrippino and Rey (2020), Brauning and Ivashina (2020), and Banco de España (2024).

3/ For the case of Chile, the data include local bank credit, local bonds, FDI, external bonds and loans, import credits, and factoring and leasing operations. Given the structural differences in the use of financing sources around the world, the comparison should be made with total credit to firms, not only bank credit.

Finally, it should be noted that when analyzing only bank credit —more relevant for medium and small firms— a greater weakness is observed, even with data extended to the first quarter of this year (figure I.20). This is consistent with the behavior of sectoral investment, which is dynamic for mining —generally not financed with bank credit— and poor in the rest of the sectors, more related to bank credit. The evolution of the bank component of credit should continue to be monitored with caution, as further deteriorations could raise a warning signal.

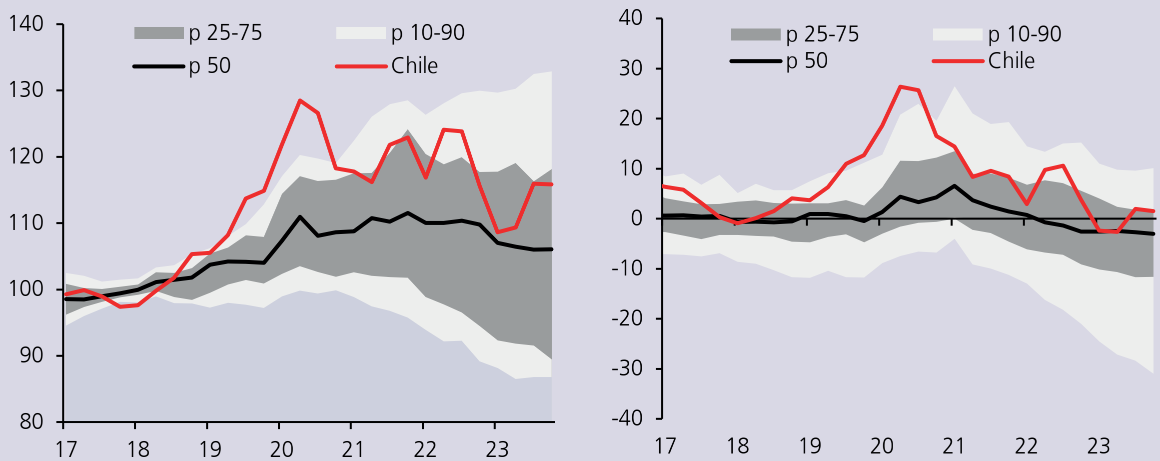
Conclusions

This box provides an international perspective for the dynamics of corporate credit in Chile, concluding that overall, it has been similar to what is observed elsewhere in the world. The active credit policies implemented during the pandemic helped to expand it beyond what was consistent with its fundamentals. Thereafter, the end of said policies, combined with increased interest rates and the start of a slower growth process during 2023, have contributed to the low dynamism of credit globally. Finally, it is worth noting that the analysis in this box considers total corporate credit at the aggregate level, therefore it does not address eventual heterogeneities associated with, say, the sector or size of the firm.

FIGURE I.19

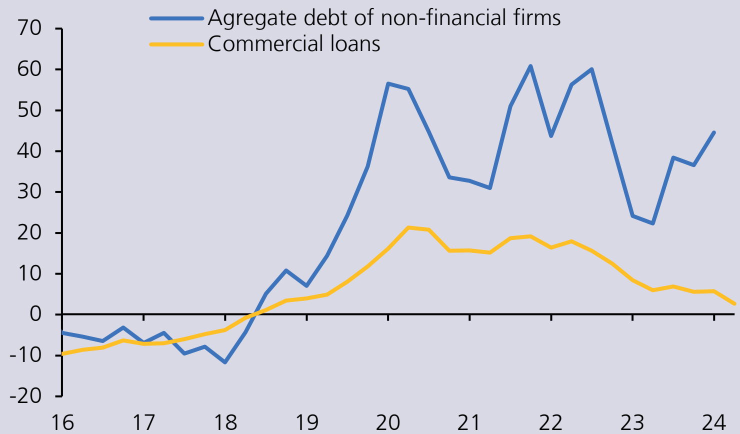
a) Level of real commercial credit (1)(2)
(index, 2017-2018 average = 100)

b) Commercial credit to GDP ratio (2)
(deviations from 2010 median, percent)



(1) CPI-deflated real credit level. (2) Dark shaded area represents the central 50% of the cross-section distribution at each point in time. Light area represents the central 80% of the same distribution.
Sources: Bank for International Settlements (BIS) and International Monetary Fund (IMF).

FIGURE I.20 DEBT OF NON-BANKING FIRMS (*)
(difference with respect to 2018, constant pesos of 2024.Q2, trillions)



(*) Aggregate debt of non-financial firms includes local bonds, local bank debt, external bonds, external loans, import credits, FDI, and factoring and leasing operations. Commercial loans include contingent loans and exclude lending for foreign trade, and are based on balance sheet information.
Source: Central Bank of Chile based on Financial Market Commission (CMF) and BDE data.

II. FUTURE EVOLUTION OF MONETARY POLICY

In the second quarter, the economy decelerated from the rapid growth rate it had shown at the start of the year, as had been expected. This was mainly influenced by the decline in supply factors —which have fluctuated significantly in recent months— and the slow dynamism of private consumption. The central scenario of this Monetary Policy Report (IPoM) foresees that the Chilean economy will receive a similar boost from abroad to that considered in June, although with slightly more favorable global financial conditions, due to the imminent start of the process of rate cuts in the United States and the consequent adjustment of market expectations. Locally, the range for the growth projection in 2024 lowers its upper bound end and the expected increase in domestic demand is revised down. For 2025 and 2026, the economy is still projected to grow around its trend, supported by several key fundamentals of both consumption and investment. Headline inflation is projected to end this year slightly above what was considered in June, influenced by cost factors. However, a faster reduction in inflation is anticipated on the back of lower demand pressures. The combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations in line with the 3% target, reduces the risks of further inflationary persistence in the medium term as a result of the cost shock. The Board estimates that, if the assumptions of the central scenario of this Report materialize, the reduction of the monetary policy rate (MPR) towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the path of inflation.

STRUCTURAL PARAMETERS

The non-mining trend GDP shows no big changes with respect to our previous estimate. For the 2025-2034 period, it will average 1.8% (1.9% in the December 2023 IPoM dor the 2024-2033 period**).** This adjustment responds mainly to the change of one year in the benchmark decade of the estimation. To calculate the medium-term projections, an average non-mining trend GDP growth of 2% is used for the five-year period 2025-2029 (2.3% in December 2023 for the period 2024-2028) (Box II.1).

The estimate range of the nominal neutral MPR remains between 3.5 and 4.5%. As a working assumption, a value of 4% is used. After the upward revision in the last two updates (December 2022 and December 2023), this time around the methodologies used maintain the previous range of estimates, which reflects the degrees of uncertainty surrounding this parameter. This assessment is consistent with the revisions of several central banks, which have generally been modest and do not follow a noticeable trend (Box II.2).

[1]/ For the purposes of macroeconomic analysis and the conduct of monetary policy, the Board uses the series with base year 2023, called the spliced reference CPI, which considers information from the new basket only. For price-level restatement purposes of indexed contracts, bonds or securities, the annual variation of the CPI reported by the National Statistics Institute (INE) is used. This combines the CPI base 2018 and base 2023.

ACTIVITY AND DEMAND PROJECTIONS IN THE CENTRAL SCENARIO

The GDP growth range is reduced in its upper bound to 2.25 and 2.75% in 2024 (2.25-3.0% in the June IPoM). For the next two years, it remains between 1.5% and 2.5%. This captures the slower growth in the second quarter (figures II.1 and II.2; table II.1).

Our projection for private consumption is lowered to 1.7% in 2024 (2.5% in the June IPoM). In 2025 and 2026 it will grow close to the economy's potential: 2% (figures II.1 and II.2; table II.1). Several consumption fundamentals suggest that its recent moderation will not be persistent. The real wage bill has kept increasing. The cost of credit and the financial burden have been declining, in line with the pass-through of the MPR cuts. However, labor market data show some deterioration at the margin that needs to be monitored carefully.

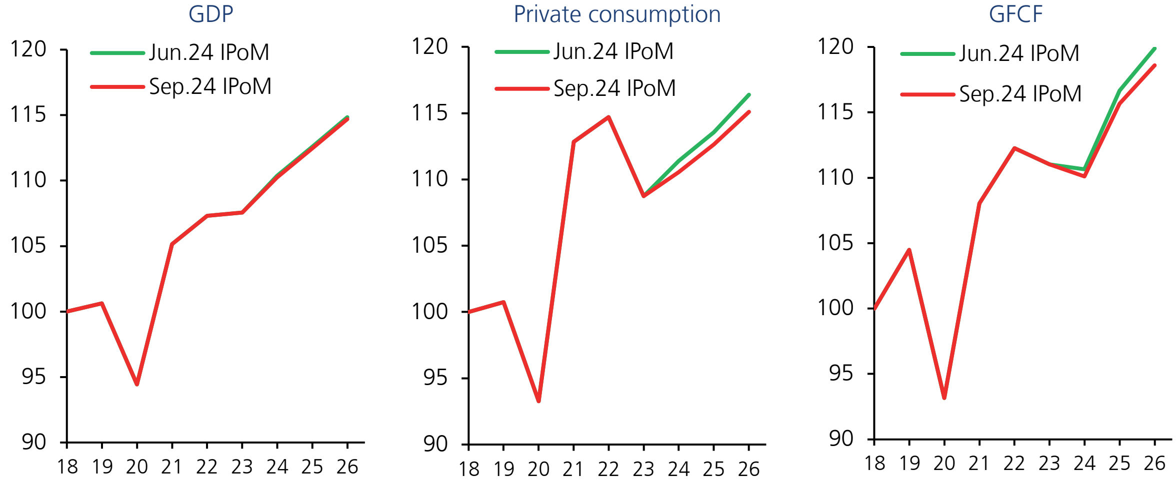
Gross fixed capital formation (GFCF) is expected to drop somewhat less than 1% this year, to regain growth in 2025 and 2026. The central scenario confirms the stronger boost from mining investment, which will benefit activity in other sectors (Box I.1) (figures II.1 and II.2; table II.1). The downward revision to GFCF over the projection horizon is mainly driven by the poorer performance of investment in non-mining sectors. In any case, investment fundamentals will also be improving. An appreciation of the real exchange rate (RER) and better financing conditions are expected. Other sources of information also foresee a better investment performance going forward, particularly the investment surveys and the latest Business Perceptions Reports (IPN).

TABLE II.1 ECONOMIC GROWTH AND CURRENT ACCOUNT

	2023	2024 (f)	2025 (f)	2026 (f)
		(annual change, percent)		
GDP	0.2	2.25-2.75	1.5-2.5	1.5-2.5
National income	0.8	1.3	2.6	2.5
Domestic demand	-4.2	1.3	2.5	2.4
Domestic demand (w/o inventory change)	-3.2	1.3	2.5	2.2
Gross fixed capital form	-1.1	-0.8	5.1	2.5
Total consumption	-3.9	2.0	1.7	2.1
Private consumption	-5.2	1.7	1.9	2.2
Goods and services exports	-0.3	6.1	3.2	2.2
Goods and services imports	-12.0	2.9	4.5	3.3
Current account (% of GDP)	-3.6	-2.1	-2.4	-2.5
Gross national saving (% of GDP)	19.4	20.0	19.7	19.7
Gross national investment (% of GDP)	23.0	22.1	22.1	22.2
GFCF (% of nominal GDP)	23.8	23.1	23.1	23.0
GFCF (% of real GDP)	23.8	23.1	23.7	23.8
		(US$ million)		
Current account	-11,899	-6,600	-8,200	-9,300
Trade balance	15,323	21,100	21,000	20,600
Exports	94,557	100,000	106,700	111,200
Imports	79,234	78,900	85,700	90,600
Services	-10,782	-8,600	-9,800	-10,300
Rent	-17,009	-19,600	-19,900	-20,100
Current transfers	568	500	500	500

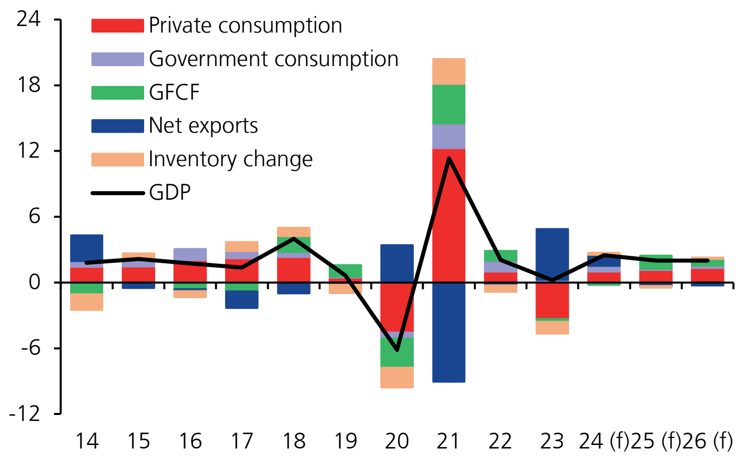
(f) Forecast.
Source: Central Bank of Chile.

FIGURE II.1 ACTIVITY, PRIVATE CONSUMPTION AND GFCF (*)
(index, 2018 =100)



(*) For 2024, 2025 and 2026, considers midpoint of GDP growth ranges projected in respective Monetary Policy Report (IPoM).
Source: Central Bank of Chile.

FIGURE II.2 GDP GROWTH AND AGGREGATE DEMAND COMPONENTS CONTRIBUTIONS (*)
(annual change, percentage points)

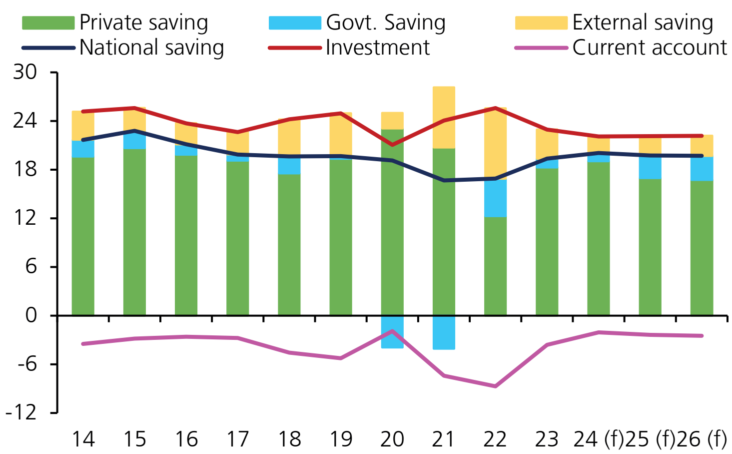


(*) For 2024, 2025 and 2026, considers midpoint of GDP growth ranges projected in this Report's central scenario.
(f) Forecast.
Source: Central Bank of Chile.

The central scenario contemplates that public spending will be in line with the [Public Finances Report (IFP) for the second quarter of 2024](). This assumes a slower expansion in real terms of fiscal spending this year, which would be close to 4% (around 5% in the previous IPoM). For the coming years, a downward trajectory for its real growth continues to be expected, in line with the requirements of the structural balance target.

The current account balance projection is maintained at -2.1% for 2024. For the next two years, a slightly smaller deficit is foreseen compared to June. This is mainly explained by the reduction in imports forecast for 2025 and 2026, in line with revised domestic demand levels. Although to a lesser extent, exports are revised in the same direction. The outlook for domestic savings is largely unchanged and is forecast to remain slightly below 20% of GDP over the 2024-2026 period. This combines with prospects of an increase in government savings to offset the decline in private savings. The outlook for the share of investment in GDP is also unchanged (table II.1 and figure II.3).

FIGURE II.3 CURRENT ACCOUNT: SAVINGS AND INVESTMENT (*)
(percentage of annual GDP)



(*) The government savings component considers as actual data up to 2023 the general government's balance sheet; the government savings of the central government's balance sheet is used for the 2024-2026 forecast.
(f) Forecast.
Source: Central Bank of Chile.

In the central scenario, the boost that the Chilean economy will be receiving from abroad is similar to the June projection. This combines a number of factors. The projections for world and trading partners' growth are largely unchanged on aggregate, beyond minor adjustments for some economies in 2024. In China, projected growth was slightly reduced for this year and several factors suggest that its performance will remain weak for some time (Chapter I). In contrast, higher growth is expected in the United States this year, mainly because of better second-quarter indicators (figure II.4 and table II.2).

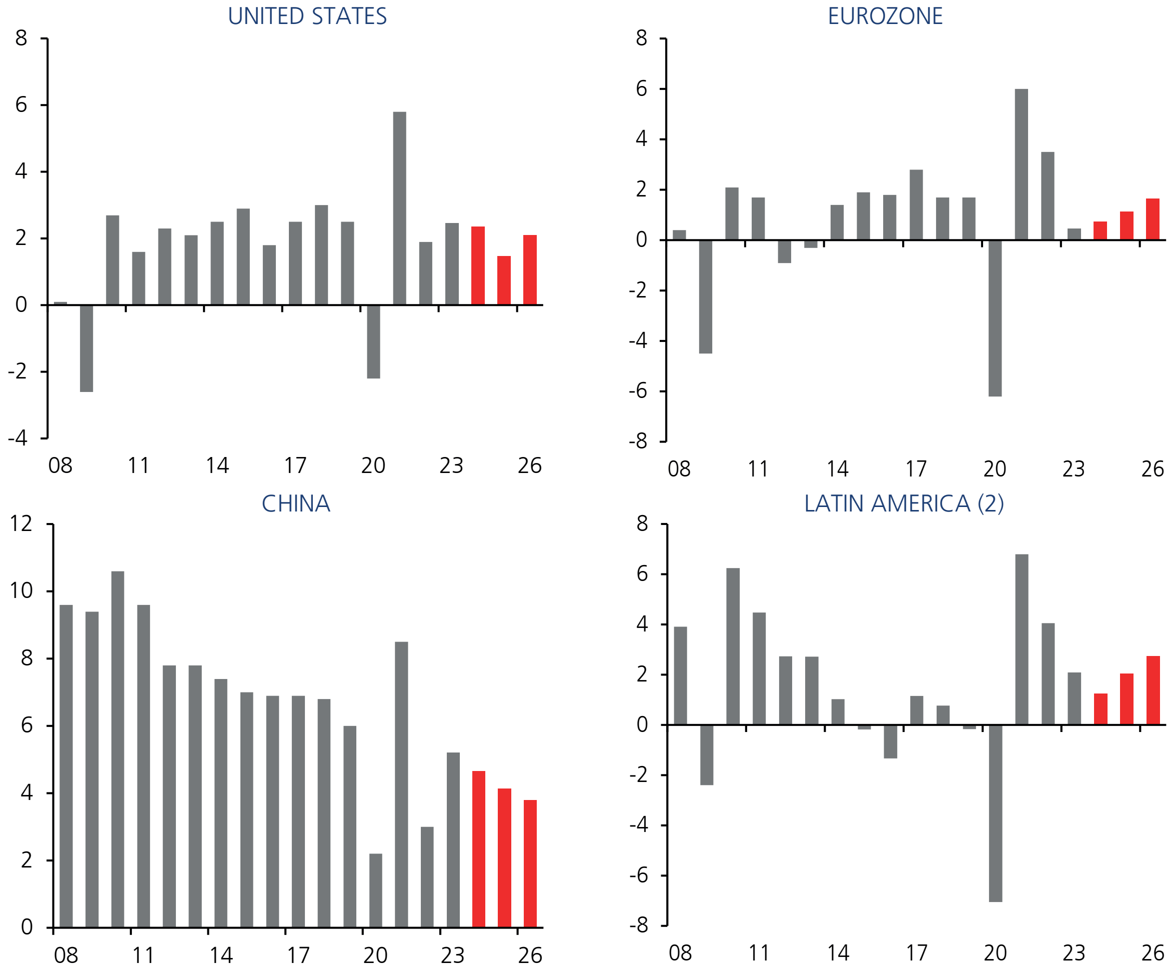
A slight decline in the terms of trade is foreseen, due to the drop in the price of copper and the lower outlook for the prices of other export products. In the central scenario, the copper price will average US$4.15 per pound this year, moving to US$4.3 in 2025-2026 (US$4.3 in each year in the previous IPoM). For oil (Brent-WTI average), the projection of US$76 per barrel for the period 2024-2026 is maintained. International food prices (FAO index) are projected to decline slightly, given the lower prices of cereal grains (table II.3; figures II.5 and II.6).

TABLE II.2 WORLD GROWTH (*)
(annual change, percent)

	Aveg. 10-19	2022	2023 (e)	2024 (f)	2025 (f)	2026 (f)
World GDP at PPP	3.7	3.4	3.3	3.2	3.0	3.1
World GDP at market exchange rate	3.3	3.0	2.8	2.6	2.5	2.7
Trading partners	3.9	2.9	3.3	3.0	2.9	2.9
United States	2.4	1.9	2.5	2.4	1.5	2.1
Eurozone	1.4	3.5	0.5	0.7	1.1	1.6
Japan	1.2	1.1	1.7	0.2	1.6	0.7
China	7.7	3.0	5.2	4.7	4.1	3.8
India	6.7	7.0	7.8	7.0	6.5	6.5
Rest de Asia	4.5	4.2	3.2	4.1	3.6	3.4
Latin America (excl. Chile)	1.7	4.1	2.1	1.2	2.0	2.7
Commodity exp.	2.2	3.3	1.2	1.0	2.0	1.9

(*) For definition, see Glossary of economic terms.
(f) Forecast.
(e) Estimate.
Source: Central Bank of Chile based on a sample of investment banks, Consensus Forecasts, the IMF, and statistics bureaus of respective countries.

FIGURE II.4 TRADING PARTNERS GROWTH PROJECTIONS (1)
(annual change, percent)



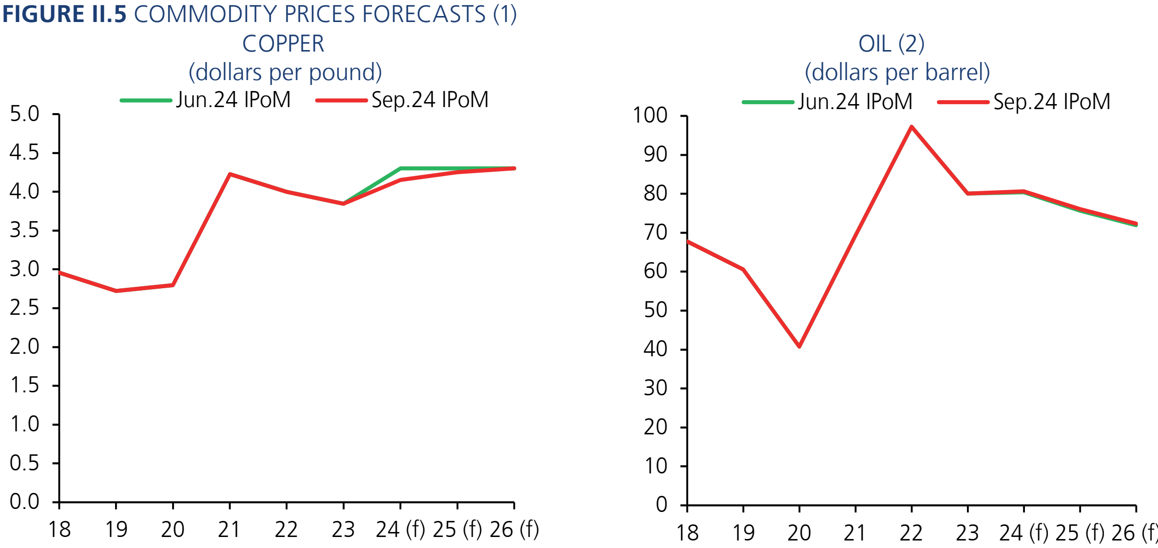
(1) Red bars correspond to the projections of the central scenario of this Monetary Policy Report (IPoM).
(2) The Region considers Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The series projection is based on GPM model region made up by Brazil, Chile, Colombia, Mexico and Peru.
Source: Central Bank of Chile.

TABLE II.3 INTERNATIONAL BASELINE SCENARIO ASSUMPTIONS

	Aveg. 10-19	2022	2023	2024 (f)	2025 (f)	2026 (f)
			(annual change, percent)			
Terms of trade	1.0	-6.8	2.4	0.5	-0.6	0.5
External prices (in US$)	0.6	4.4	-0.2	-0.9	4.2	2.4
				(levels)		
LME copper price (US$cent/pound)	306	400	385	415	425	430
WTI oil price (US$/barrel)	72	94	78	78	73	69
Brent oil price (US$/barrel)	80	100	83	84	79	75
Gasoline parity price (US$/m3) (1)	610	850	721	690	649	612
US Federal Funds Rate (%) (2)	0.7	1.9	5.2	5.4	4.3	3.4

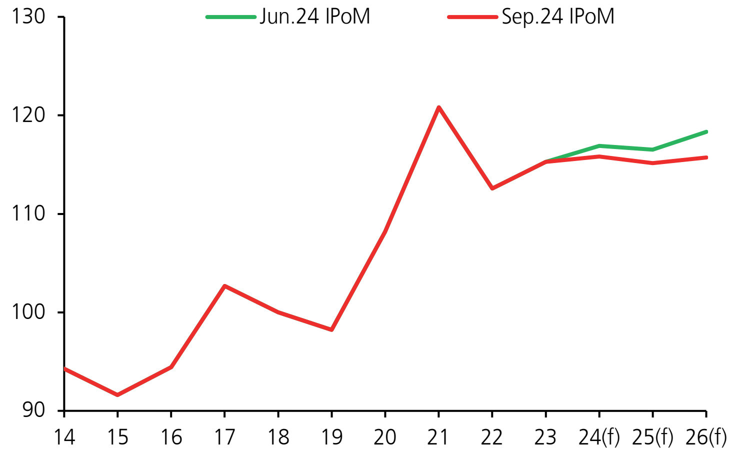
(1) For definition, see Glossary of economic terms.
(2) Annual average for the upper range of the Fed funds rate.
(f) Forecast.
Source: Central Bank of Chile.

FIGURE II.5 COMMODITY PRICES FORECASTS (1)



(1) Actual or projected average price for each year as conatained in respective Monetary Policy Report (IPoM).
(2) For oil, WTI-Brent average price per barrel.
(f) Forecast.
Source: Central Bank of Chile.

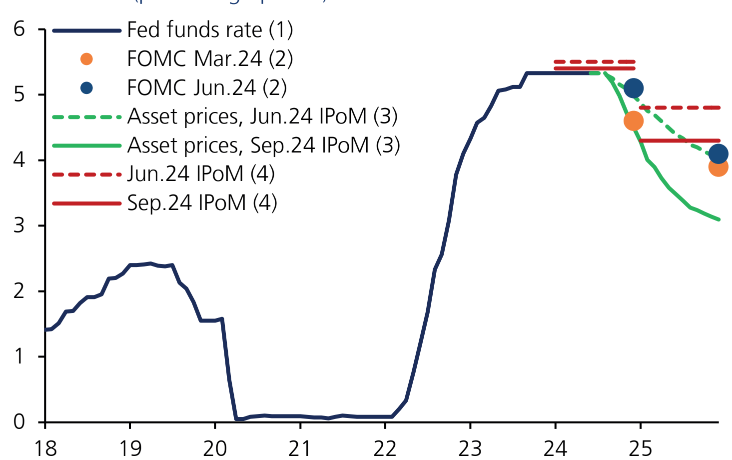
FIGURE II.6 TERMS OF TRADE
(level, 2018=100)



(f) Forecast.
Source: Central Bank of Chile.

Global financial conditions will be marginally more favorable than anticipated in June, mainly because of faster Fed Funds rate (FFR) reductions, which have also affected the long rates. The central scenario considers three cuts in the remainder of this year (one in the previous IPoM). Towards 2025, four cuts are still envisaged (figure II.7). The prospects of further reductions have also weighed on long-termn rates in major economies, which have declined since the June IPoM.

FIGURE II.7 EVOLUTION AND FORECASTS FOR THE FED FUNDS RATE
(percentage points)

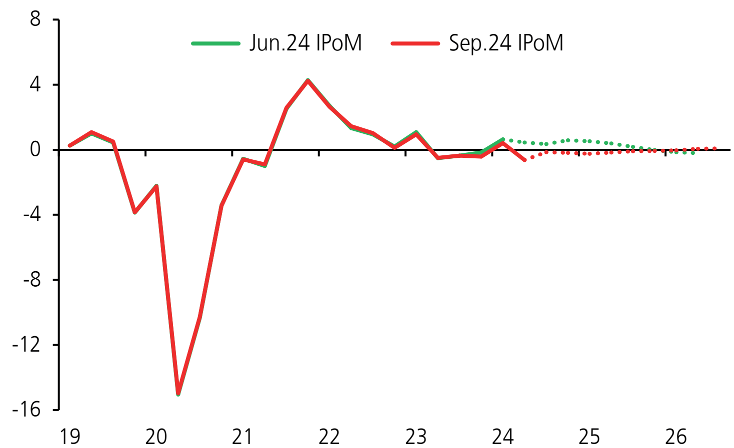


(1) Actual Fed funds rate. Considers information up to July 2024.
(2) Forecast of Federal Open Market Committee (FOMC) at respective meeting.
(3) Based on statistical cutoff dates of respective Monetary Policy Report (IPoM).
(4) Annual average for the upper range of Fed funds rate in 2024 and 2025, according to central scenario of each IPoM.
Sources: Bloomberg and U.S. Federal Reserve.

THE ACTIVITY GAP AND INFLATION'S CONVERGENCE TO THE TARGET

The activity gap is estimated to have been slightly negative in the second quarter and will be converging to equilibrium over the projection horizon (figure II.8). The revision of the gap level responds to the weak performance of the economy in the second quarter. Going forward, its closing is consistent with the economy resuming its trend growth, the gradual recovery of demand and that monetary policy will further reduce its contractionary stance.

FIGURE II.8 ACTIVITY GAP (1) (2)
(level, percentage points)



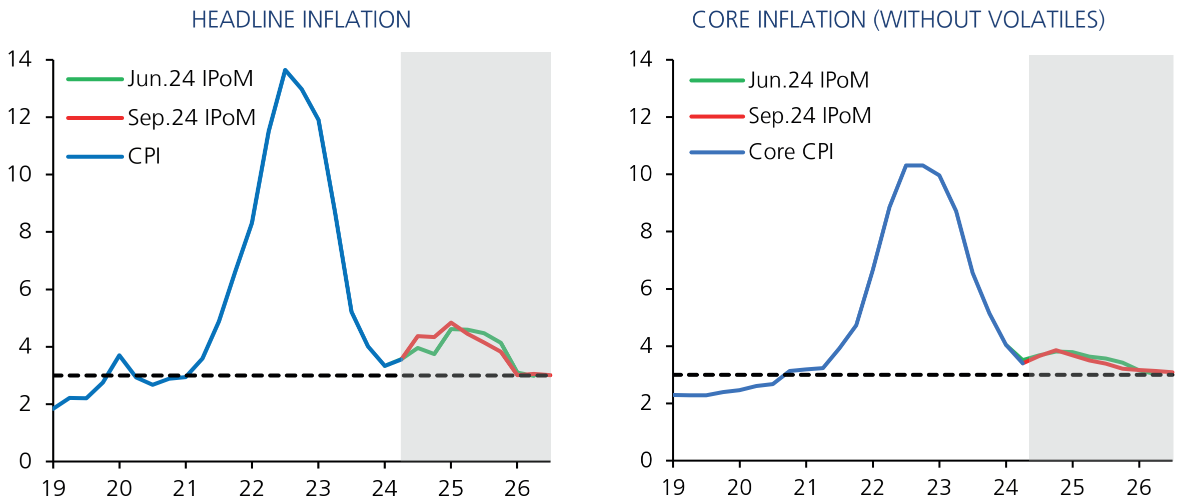
(1) Dotted lines show forecast.
(2) Forecast assumes structural paramenters updated in September 2024 Monetary Policy Report (IPoM) (trend and potential GDP).
Source: Central Bank of Chile.

In the central scenario, headline inflation is projected to end this year slightly above what was considered in June (4.5% versus 4.2% in the June IPoM), due to faster actual and expected rise in its volatile component (figure II.9 and table II.4). A fraction of the rise originates from the increase in electricity prices that occurred between June and July, which ultimately exceeded projections. Another part is explained by the increase in global maritime freight rates and the depreciation of the peso in recent months.

Over the medium term, inflation will decline faster than expected in June (figure II.9 and table II.4). This is mainly justified by lower inflationary pressures from domestic demand, which also explains the slight downward revision of the core inflation projection. Thus, it is estimated that inflation will converge to the 3% target in the first months of 2026, and will remain around that value until the end of the projection horizon.

As a working assumption, the central scenario contemplates a gradual appreciation of the RER towards its equilibrium. This would be in line with the FFR cuts in the United States and its effect on international financial conditions, which are projected to become steadily less contractionary. The exchange rate will impact price dynamics via the prices of imported goods and through the indexation mechanisms that affect some utilities, including the provision of electricity.

FIGURE II.9 INFLATION FORECAST (*)
(annual change, percent)



(*) Inflation figures consider 2023 CPI basket using BCCh splicing. Monthly and annual variations of this index do not coincide with official INE variations –useful for indexation purposes– as these use the previous basket series for base year changes. Gray area, as from third quarter 2024, shows forecast.
Sources: Central Bank of Chile and National Statistics Institute.

TABLE II.4 INFLATION (1)
(annual change, percent)

	2023	2024 (f)	2025 (f)	2026 (f)
Average CPI	7.3	3.9	4.3	3.0
December CPI	3.4	4.5	3.6	3.0
CPI in around 2 years (2)				3.0
Average core CPI	7.5	3.7	3.4	3.1
December core CPI	4.7	3.9	3.2	3.1
Core CPI around 2 years (2)				3.1

(1) Inflation figures consider 2023 CPI basket using BCCh splicing. Monthly and annual variations of this index do not coincide with official INE variations –useful for indexation purposes– as these use the previous basket series for base year changes.
(2) Inflation forecast for the third quarter of 2026.
(f) Forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

MONETARY POLICY STRATEGY: THE CENTRAL SCENARIO, SENSITIVITIES AND RISKS

The combined information available suggests modest changes in the outlook for activity, although spending shows greater weakness. This, together with inflation expectations in line with the 3% target, reduces the risks of further inflationary persistence in the medium term as a result of the cost shock. The Board estimates that, if the assumptions of the central scenario of this Report materialize, the reduction of the MPR towards its neutral level will be somewhat faster than expected in June. This will occur at a pace that will factor in the evolution of the macroeconomic scenario and its implications for the path of inflation.

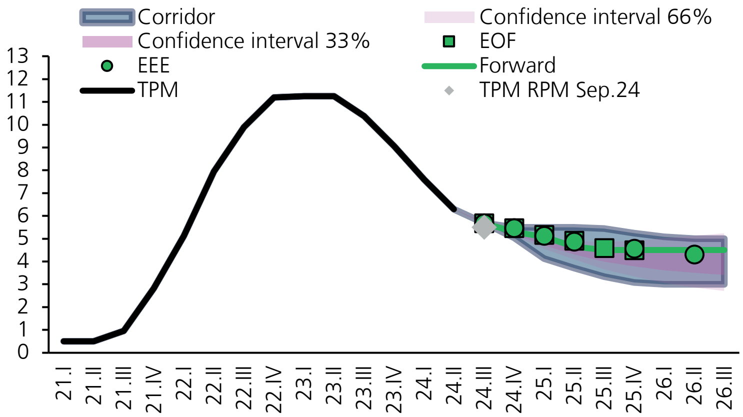
The MPR corridor contains sensitivity scenarios that differ from the central one and have a significant probability of occurrence, in which monetary policy could follow a different path (figures II.10 and II.11). On this occasion, the Board considers that they are more closely linked to the evolution of the local economy.

The upper bound of the MPR corridor reflects scenarios of higher inflationary pressures. Such would be the case if, for example, the increase in inflation ends up being more persistent than expected and/or if the inflation propagation mechanisms acquire greater importance. Nor can it be ruled out that domestic demand will be higher due to the dynamism of mining investment, which would also benefit the activity of other economic sectors, employment and the expectations of households and firms. These scenarios would entail greater inflationary pressures and would require keeping the MPR flat for some time to ensure the convergence of inflation to the 3% target within the monetary policy horizon.

The lower bound of the MPR corridor is defined by scenarios with lower inflationary pressures. This could be the case, for example, if the poor performance of activity and demand in the second quarter, due to a weaker labor market, among other factors, would be intensified and/or prolonged. This would negatively affect consumption and investment, which could be exacerbated by a deterioration in household and business confidence. Situations like these would ease inflationary pressures and would require a more expansionary MPR stance than the one considered in the central scenario.

On this occasion, an intermediate scenario was also considered, characterized by a mild recession in the United States —which would lead the Fed to reduce its interest rate at a faster pace— and more moderate growth in China. This scenario assumes that the released economic figures would be below those expected by the market, which could trigger an episode of risk aversion. This would be reflected in lower stock prices, interest rates and commodity prices. Furthermore, it could cause an outflow of capital from emerging economies followed by a depreciation of their currencies. This situation would lead the Fed to adopt greater monetary expansion. The deterioration of growth prospects would negatively affect investment, consumption and activity at local level. In such circumstances, given the lower global dynamism and reduced medium-term inflationary pressures, the MPR trajectory would be slightly lower than in the central scenario, but within the limits of the corridor.

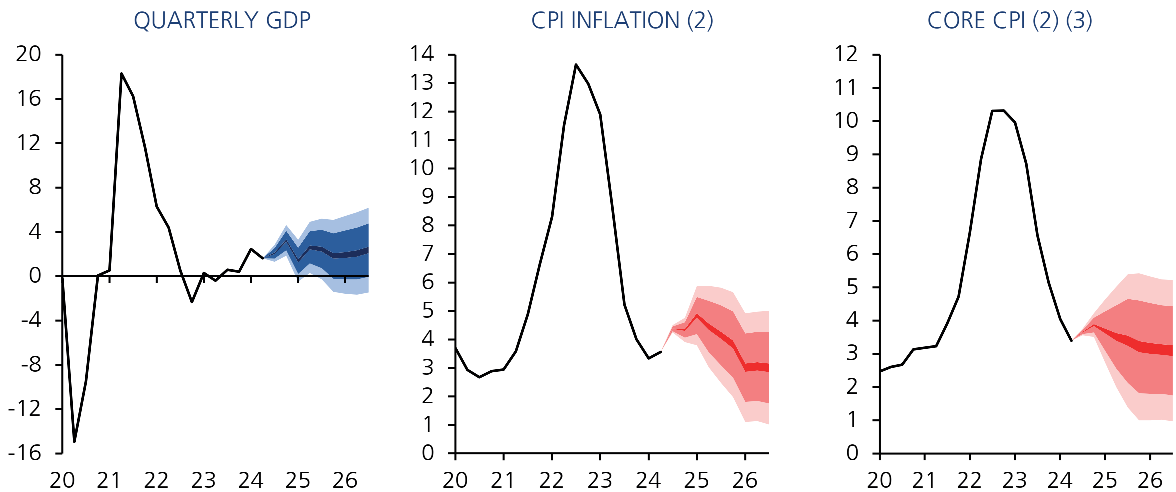
FIGURE II.10 MPR CORRIDOR (*)
(quarterly average, percent)



(*) The 2025 and 2026 calendar considers two MP meetings per quarter. The corridor is built by following the methodology described in boxes V.1 of March 2020 Report and V.3 of March 2022 Report. It includes the August Economic expectations survey (EEE) and September pre-MP meeting Financial traders survey (EOF) and the quarterly average smoothed forward curve as of August 28. This is calculated by extracting the implicit MPR considering the forward curve over the overnight index swap (OIS) curve for up to 2 years, discounting the fixed rates of each maturity at the simple accrual of the OIS index. For the current quarter, the surveys and the forward curve consider the average of daily actual data and are completed with respective sources. Quarterly average considers working days in each quarter. Gray diamond corresponds to the MP decision of September 2024. Source: Central Bank of Chile.

There are also risk scenarios that are less likely to occur, but with more significant impacts on the economy. These place the MPR trajectory outside the borders of the corridor. On this occasion, the Board estimates that they are more closely related to the external scenario, considering the increased probability of adverse geopolitical and financial developments. It is worth noting that contractionary and inflationary scenarios have become more likely in the short term, as the ongoing geopolitical conflicts escalate. This could have negative consequences for financial conditions, especially in emerging economies. The context in which this could occur is one in which financial markets have already suffered temporary episodes of high volatility and risk aversion, which could intensify the effects of these scenarios. Another aspect to consider is the fragility of fiscal positions in several developed economies, most notably the United States. All in all, the Board will remain vigilant to possible deviations from the central scenario that may require changes in the monetary policy strategy, in order to ensure the convergence of inflation to the 3% target within the two-year horizon.

FIGURE II.11 GROWTH AND INFLATION FORECASTS (1)
(annual change, percent)



(1) The figure shows the confidence interval of the central projection to the respective horizon (colored area). Includes 10, 70 and 90% confidence intervals around the central scenario. Confidence intervals are constructed from the RMSEs of the XMAS-MEP models, 2009-2017 average.
(2) Inflation figures consider the 2023 CPI basket using BCCh splice. The monthly and annual variations of this index do not coincide with the official INE variations –useful for indexation purposes– because the latter use the series of the previous basket for the base-year change.
(3) Measured with the CPI without volatiles.
Sources: Central Bank of Chile and National Statistics Institute (INE).

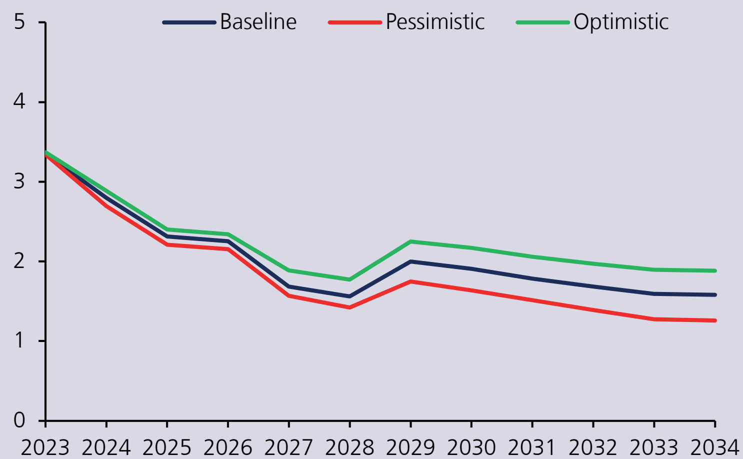
BOX II.1:

Trend GDP

Trend GDP growth is a variable related to the economy's medium- and long-term growth capacity[1]/. The current estimate does not show major differences with respect to the estimate made in December 2023. Thus, an average expansion of 1.8% is estimated for the period 2025-2034 (figure II.12). The latter value is 0.1 percentage points (pp) lower than the estimate for the period 2024-2033, which mainly reflects the time lag of one year for the calculation of the relevant average. This, in a context in which non-mining trend growth declines over time due to the gradual decrease of the labor participation recovery to pre-pandemic levels[2]/.

The estimation considers two alternative scenarios that yield similar trajectories for non-mining trend growth. The pessimistic scenario considers a less favorable convergence of variables such as hours worked and participation rates to OECD levels. The optimistic one considers a more favorable convergence of these variables to OECD levels and higher investment in non-mining projects associated with the energy transition, which could have significant impacts on the level of investment in the next decade.

FIGURE II.12 TRAJECTORY OF TREND NON-MINING GDP GROWTH (*)
(percent)



(*) These projections include actual data on hours worked and the labor force in 2023. The 2022 National Socioeconomic Characterization Survey (CASEN) is used to construct the education quality index. For more details, see Bauducco *et al.* (2024).
Source: Central Bank of Chile.

[1]/ The concept of trend GDP differs from potential GDP, since the latter refers to the level of GDP consistent with stable inflation and is therefore the appropriate measure of the activity gap associated with inflationary pressures in the short term. Since trend GDP is related to the medium-term growth capacity of the economy, in the long run both measures converge to the same number. However, in the short term, transitory elements that alter productive capacity, such as temporary productivity shocks and factor use limitations, can generate differences between the two measures. Hence the importance of analyzing them separately (for more details, see Chapter 1 in Central Bank of Chile, 2017).

[2]/ See Bauducco *et al.* (2024).

As usual, the estimation of trend growth separates the GDP between mining and non-mining sectors. For the non-mining sector, the methodology is based on a Cobb-Douglas type production function, in which trend growth can be decomposed as follows:

$$\Delta Y = \Delta TFP + \alpha\ \Delta L + (1-\alpha)\ \Delta K$$

Where ΔY is trend GDP growth, ΔTFP is trend total factor productivity growth, α is the labor share of GDP (assumed to be equal to 0.5, as in previous exercises), ΔL is trend growth of the labor factor —labor force per hours worked per human capital index— and ΔK is capital growth.

In this exercise, the contribution of the labor factor to non-mining GDP growth in the 2025-2034 decade is 0.4pp (table II.5). The contribution of labor is 0.1pp lower than that estimated in 2023 for the 2024-2033 decade. This is mainly due to the lower incidence of the recovery of labor participation to pre-pandemic levels in the coming years. This estimate also incorporates the finding that those aged 55 years and older at the time of the pandemic would not recover their labor force participation, in line with the analysis presented in the March 2024 IPoM. However, this population group is relatively small in terms of the labor force, so the effect of this adjustment on trend growth is limited[3]/.

The contribution of capital to non-mining GDP growth in the 2025-2034 period is 1.1pp, similar to that estimated in 2023. This factor is also somewhat influenced by investment in non-mining projects associated with the energy transition, in addition to other considerations already included in the past estimate.

TABLE II.5 TREND GDP FORECAST (*)
(percent)

	Trend growth			Contributions to non-mining GDP		
	Non-mining GDP	Mining GDP	Total GDP	Capital	Labor	TFP
2025 - 2034	1.8	1.9	1.8	1.1	0.4	0.35

(*) Mining accounts for 12% of total GDP.
Source: Central Bank of Chile.

To obtain the trend growth of total GDP, a growth projection for the mining sector is added, which is estimated to be 1.9% per year in the 2025-2034 decade. This value is 0.4pp higher than that used in 2023 for the 2024-2033 decade, reflecting the improved outlook for the mining sector, mainly due to lithium production[4]/. With this assumption, total trend GDP growth is 1.8% in the period 2025-2034.

Finally, for the purposes of calculating the medium-term projections of this IPoM, the average non-mining trend GDP growth for the five-year period 2025-2029 is used, which corresponds to 2.0%. This time horizon is the appropriate one to feed the medium-term projections, given that longer horizons correspond to an economy whose productive factors are projected to be significantly different from those relevant for the medium-term projection horizon.

[3]/ The impact of the pandemic is assumed to be permanent in the participation of the cohort aged 55 years and older in 2020. Cohorts entering that age group in the post-pandemic period would show participation similar to that of these groups in the pre-pandemic period. See Bauducco *et al.* (2024).

[4]/ The trend growth scenario presented in this Box does not consider material structural changes in the global environment that Chile could face in the coming years. In particular, the potential effects of the transition to green energies that could affect the growth of the mining sector are not considered, as their effect is still uncertain.

BOX II.2:

The neutral monetary policy interest rate

The neutral MPR —NMPR— is defined as the value to which the MPR is expected to converge once the short-term effects of shocks have dissipated, consistent with GDP on its trend equilibrium path and inflation at the target. The estimated rate corresponds to the trend value of a risk-free short-term real rate, which includes neither risk nor term premiums. It is a fundamental concept for the conduct of monetary policy that allows to evaluate the degree of contraction/expansion of monetary policy by providing the benchmark value of the MPR.

After two consecutive increases in the level of the NMPR in December 2022 and December 2023, in this update the mean and median of the NMPR remain around 1%, with an approximate range between 0.5% and 1.5% in real terms (Table II.6). In nominal terms, and given the 3% inflation target, the mean and median estimates are close to 4%. This update extends the sample to the second quarter of 2024 and maintains the methodologies used in December 2023, since the conditions of global uncertainty persist, which motivated having an extensive battery of models and a wider range[1]/.

TABLE II.6 ESTIMATES OF THE REAL NEUTRAL INTEREST RATE
(percent)

Method	Real NMPR
Stochastic trend – BCP10	1.1
Stochastic trend – Convenience yield	0.9
Term premium correction	1.1
Taylor rule	0.9
Taylor rule – expectations	0.6
Interest rate parity (dots)	1.6
Interest rate parity (U.S. models)	2.3
Consumption model with habits	-0.1
Common stochastic trend model	1.4
Reduced-form model (dots)	0.9
Reduced-form model (U.S. models)	1.2
Median (*)	**1.1**
Mean (*)	**1.1**
Range (*)	**0.6 – 1.6**

(*) Excludes lowest (-0.1) and highest (2.3) estimates.
Source: Arias et al. (2024).

This benchmark rate is affected by low-frequency movements in various factors. For example, falls in the rate of productivity or population growth, or increased preference for safe and liquid assets, tend to produce falls in the NMPR. On the other hand, a greater supply of risk-free assets —for example, in the face of greater public indebtedness— or greater investment cutting down the demand for these assets would tend to reduce their price and raise their yield, which would tend to increase the NMPR. Finally, changes in the neutral rates of other countries may affect the local NMPR in a context of integrated financial markets.

[1]/ Before the December 2022 update, the estimated range was 0.5pp. In 2023 it was increased to 1pp, a magnitude that is maintained in this update. See Arias et al. (2024).

The same as in December 2023, those models based on external neutral rates, such as the interest rate parity, yield more than the midpoint of the range. This is in line with the upward revisions that have been made for other economies, which have generally been very small (Table II.7)[2]/. Other methodologies reported with local rates give lower estimates, between 0.6% and 1.1%, except for the common stochastic trend model. Among other factors, this is influenced by the lower trend growth (Arias et al., 2024).

TABLE II.7 LATEST UPDATES OF THE NMPR FOR OTHER ECONOMIES (1)
(basis points)

Method	LW	HLW	LM	FS	Other (3)	SEP
United States	+7	=	+15	+1	+20	+30
Eurozone		-21 (2)		+1		
Canada		=		+2	+25	
United Kingdom				+2		
Japan				+3		
New Zealand					+	

(1) LW: Laubach and Williams (2003). HLW: Holston, Laubach and Williams (2023), considers change between 2023.Q4 and 2024Q1. LM: Lubik-Matthes (2015), Richmond Fed. FS: Ferreira and Shousha (2023), considers change between second half 2023 and first half 2024. Ferreira estimates as of 28 August 2024. SEP: Summary of Economic Projections, Federal Reserve Board, median, change between December 2023 and June 2024. LW, HLW, LM and FS methodologies consider revised data available from official sources. (2) Change between 2023.Q3 and 2023.Q4. (3) For the United States: Del Negro et al. (2024); change in NY Fed DSGE projection to 2027 between March and June 2024. For Canada: Adjalala et al. (2024), Bank of Canada. For New Zealand: Castaing et al. (2024); update is marginally upward.
Sources: Central Bank of Chile and U.S. Federal Reserve banks.

[2]/ Table II.7 shows the available NMPR updates published by other central banks in the last year. Different methods are shown for different countries and the change in the estimated parameter in basis points.

ANNEX A:

Central Bank of Chile Balance Sheet

HISTORICAL EVOLUTION OF THE BALANCE SHEET

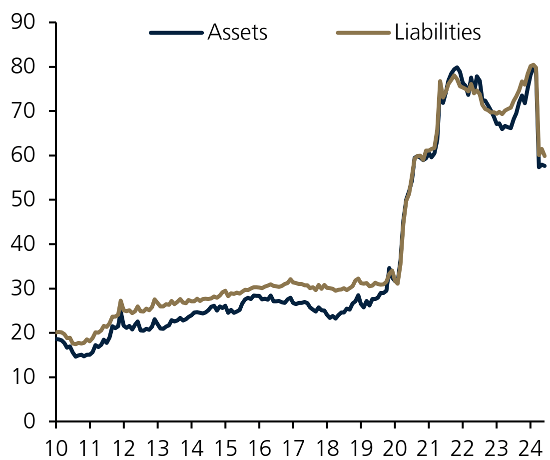
The performance of the economy, the financial system and the policies adopted by the Central Bank of Chile (BCCh) have an impact on the size and structure of its balance sheet. Considering the last fifteen years, we observe that the most relevant changes, both in assets and liabilities, took place starting in the year 2020. These changes are mainly explained by the special measures adopted by the BCCh to mitigate the economic and financial effects derived from the COVID-19 pandemic.

As from 2020, the BCCh's balance sheet almost doubled (figure A.1). This was mainly explained by the implementation of the three stages of the Credit Facility Conditional on the Increase of Loans (FCIC[1]/), for a total amount of C$28,966 billion, equivalent to 12% of GDP.

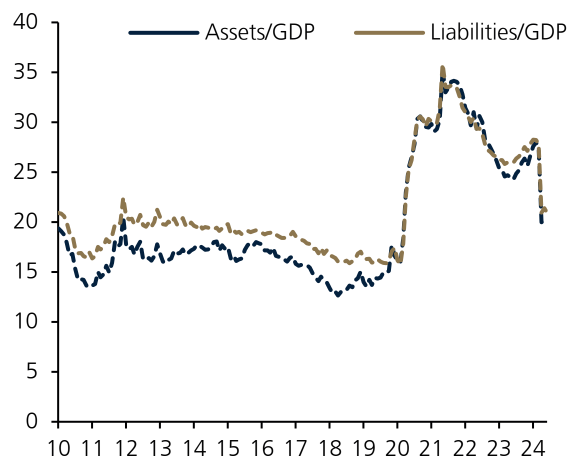
During this period, the increase in liabilities was equivalent and resulted from the higher issuance of Discountable Promissory Notes by the BCCh (PDBC), necessary to neutralize (or sterilize) the monetary effect resulting from the balance expansion.

FIGURE A.1 EVOLUTION OF THE BCCH'S ASSETS AND LIABILITIES

(billions of Chilean pesos)



(percent of GDP)

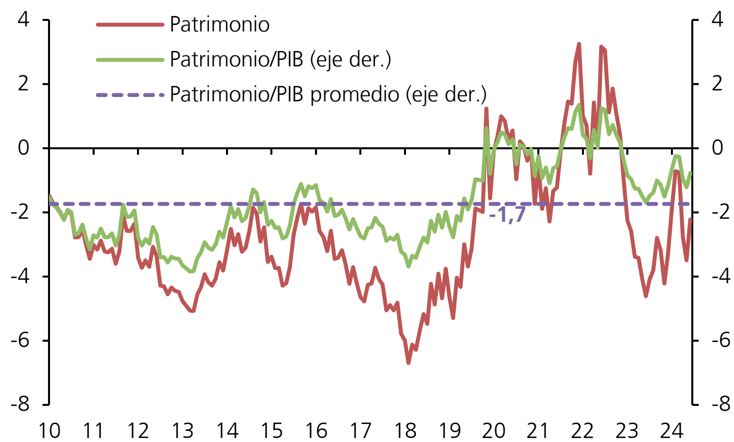


Source: Central Bank of Chile.

[1]/ Between 2020 and 2021, the FCIC I, II and III programs were implemented, which consisted of loans to banks with 4- and 2-year terms (with maturities on April 1 and July 1, 2024) as a support measure for banks to lend with less restrictive conditions to sectors of the economy facing liquidity difficulties because of the COVID-19 crisis.

In the period under analysis, the BCCh's net worth was, on average, -1.7% of GDP (figure A.2). This was explained by the nature of the balance sheet and the local economic and financial conditions. On one hand, Chile is a small economy, financially integrated with the rest of the world, which is why it holds a stock of international reserves (assets) that help strengthen the BCCh's policy framework and, therefore, the fulfillment of its purposes as set forth in its Constitutional Organic Law (LOC). For its international reserves to comply with the capital and liquidity buffer requirements, the BCCh invests them in bonds issued by countries that, on average, have a high credit rating. In practical terms, this means that the yield obtained from investing the reserves tends to be lower than the interest paid on the debt issued by the BCCh to finance these reserve assets. This difference between the interest rate on assets and liabilities explains, in part, the net worth results.

FIGURE A.2 EVOLUTION OF BCCH'S NET WORTH
(billions of Chilean pesos; percent of GDP)



Source: Central Bank of Chile.

However, 2022 and 2023 showed a positive net worth resulting from the strengthening of the dollar, the main currency of the international reserves. As the dollar appreciates, a positive result is generated for the BCCh, because the same amount in reserves translates into a greater peso amount, which is the local unit of account. In other words, the variation of the BCCh's net worth is also affected by the movement of the assets' currencies with respect to the local currency. In the long term, net worth is expected to reach a certain balance due to the offsetting effect between the interest rate differential of assets and liabilities and the evolution of the exchange rate.

STRUCTURE AND RECENT EVOLUTION OF THE BALANCE SHEET

As compared to the end of 2023, the first half of this year saw a decrease in the balance sheet size. During this period, assets decreased by C$17,472 billion, from 26.7% to 20.1% of GDP, mainly due to the maturity of the first stage of the FCIC. As a counterpart, liabilities decreased by C$18,520 billion, closing the period at 20.9% of GDP (figure A.3).

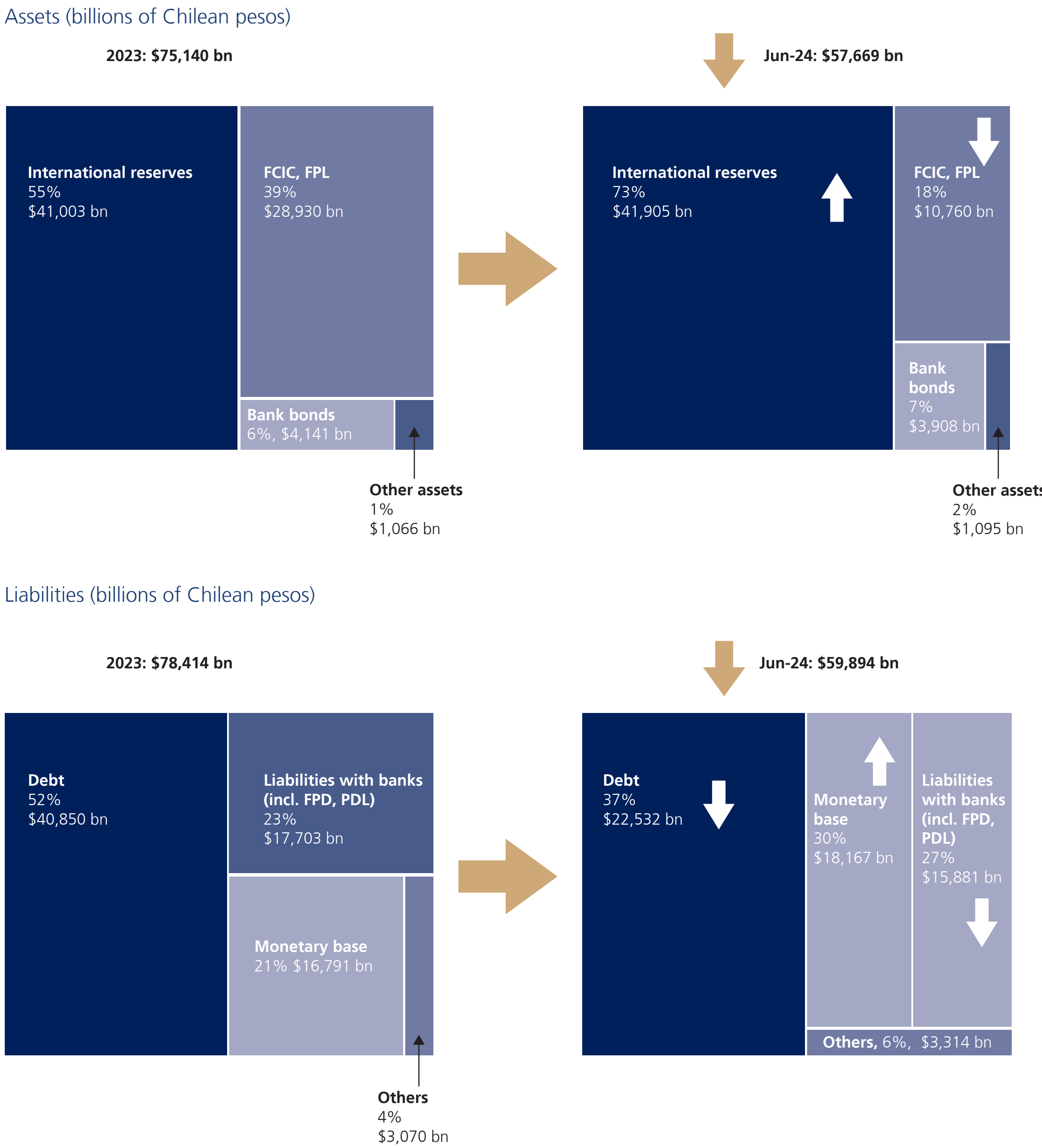
TABLE A.1 STYLIZED CENTRAL BANK OF CHILE BALANCE SHEET
(percent of GDP)

	2020	2021	2022	2023	Jun.24	2024 (f)
ASSETS	**29.5**	**32.9**	**26.0**	**26.7**	**20.1**	**16.0**
International reserves (1)	13.9	18.2	12.8	14.5	14.6	14.5
Fiscal promissory notes and other loans to government	0.2	0.1	0.1	0.1	0.1	0.1
Monetary policy instruments (2)	11.0	12.1	11.0	10.3	3.7	0.0
Bank bonds (3)	3.2	2.3	1.9	1.5	1.4	1.1
Term deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.1	0.1	0.3	0.3	0.3	0.3
LIABILITIES	**30.3**	**31.6**	**26.4**	**27.8**	**20.9**	**16.8**
Promissory notes with secondary market	10.5	17.9	14.4	14.5	7.8	7.3
Policy instrument with banks	3.8	1.9	3.6	5.1	5.1	1.7
Other liabilities with banks	0.6	1.5	0.6	1.1	0.5	0.8
Other liabilities except monetary base (4)	0.5	1.3	1.1	1.1	1.1	1.0
Monetary base	15.0	9.0	6.7	6.0	6.3	6.0
NET WORTH (A+B+C)	**-0.9**	**1.4**	**-0.4**	**-1.2**	**-0.8**	**-0.8**
A. Initial capital	-0.6	-1.0	0.7	0.1	-1.2	-1.3
B. Net results	-0.2	2.4	-1.1	-1.2	0.4	0.5
Non-financial	0.0	-0.1	-0.1	0.0	0.0	0.0
Net interest (5)	0.1	-0.1	-1.6	-1.7	-0.4	-0.4
Due to exchange rate and UF variation	-0.3	2.5	0.5	0.5	0.8	0.9
C. Capital contribution	0.0	0.0	0.0	0.0	0.0	0.0
Payable position in foreign currency (6)	12.9	15.4	11.4	12.1	13.2	12.1

(1) International reserves as a percent of GDP, measured in Chilean pesos, may present marginal difference with other measures in dollars.
(2) Includes Credit Facilities Conditional on Increased Bank Lending (FCIC I, II and III) and Liquidity Credit Line (LCL).
(3) Includes spot purchase and forward sale transactions (CC-VP) of bank bonds.
(4) Includes other foreign liabilities (mainly SDR allocations with the IMF).
(5) Difference between interest earned on investments and monetary policy instruments under assets and interest paid on debt certificates and monetary policy instruments under liabilities.
(6) Assets minus liabilities payable in foreign currency.
(f) Forecast.
Source: Central Bank of Chile.

The decrease in assets explained by the maturity of FCIC I (April 1, 2024, for C$18,171 million, that is, 6.5% of GDP) implied a reduction in assets held in pesos and, therefore, an increased share of international reserves in the BCCh's balance sheet, from 54% to 73%. This means that the evolution of international markets will have greater relevance in terms of net worth results.

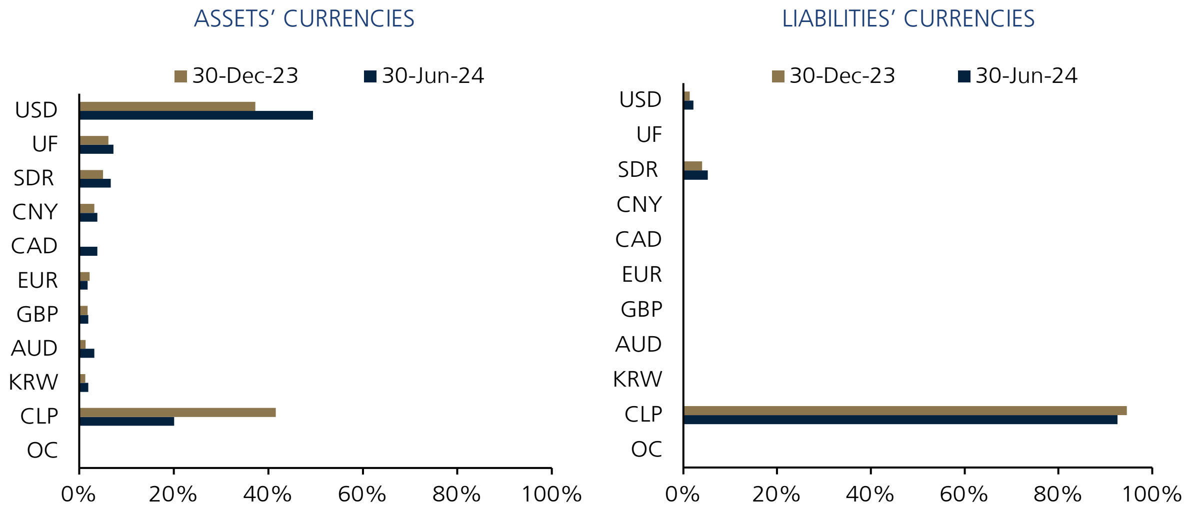
FIGURE A.3 CHANGES IN CENTRAL BANK OF CHILE ASSET-LIABILITY COMPOSITION
(percent of total assets and liabilities)



FCIC: Credit Facility Conditional on Increased Lending
PLF: Standing Liquidity Facility
FPD: Permanent Deposit Facility
PDL: Liquidity Deposit Promissory Notes.
Note: Blue arrows indicate whether the entry rose or fell from the close of the year.
Source: Central Bank of Chile.

As a counterpart, the decrease in liabilities was mainly due to the reduction of the PDBC stock by C$18,318 billion (6.6% of GDP), an amount equivalent to the decrease in the FCIC I. This fall also affected the composition of liabilities, reducing the exposure to interest rate risk due to the lower share of short-term debt (from 52% in December 2023 to 37% at the end of June 2024). In turn, this has resulted in an increase in the share of non-interest-bearing liabilities from 23% to 30%, which reduces the BCCh's financial burden (figure A.4).

FIGURE A.4 CHANGES IN CENTRAL BANK OF CHILE CURRENCY COMPOSITION OF ASSETS AND LIABILITIES (percent of total assets and liabilities)



USD: U.S. dollar; UF: Unidad de fomento, Chilean inflation-indexed unit of account; SDR: Special Drawing Right (IMF); CNY: Chinese yuan; CAD: Canadian dollar; EUR: Euro; GBP: British pound; AUD: Australian dollar; KRW: South Korean won; CLP: Chilean peso; OC: Other currencies.
Source: Central Bank of Chile.

NET WORTH EVOLUTION

During the first half of 2024, net worth increased by C$1,048 billion (0.4% of GDP) and ended June at a negative amount of C$2,226 billion (-0.8% of GDP). Net worth is made up of starting capital and other reserves amounting to -C$3,420 billion (-1.2% of GDP), plus a positive net income for the year of C$1,194 million (0.4% of GDP).

The result for the first half of the year was mainly driven by positive earnings from currency fluctuations (both foreign currencies and units of account) amounting to C$2,536 billion and by net interest payments amounting to C$1,107 billion, mainly from short-term debt issuance.

A portion of the results for the period are also explained by the assets remaining from the special measures adopted by the BCCh between 2020 and 2021, including the stock of bank bonds in local currency, the remaining FCIC (stages II and III) and the stock of Non Delivery Forward (NDF), the latter belonging to the foreign exchange intervention program implemented during the second half of 2022. These results total C$68 billion (table A.2).

TABLE A.2 NET WORTH EFFECTS OF SPECIAL MEASURES IMPLEMENTED BY THE CENTRAL BANK OF CHILE (1)
(billions of Chilean pesos)

	Current stock (4)	Profit/Loss
Bank bonds (2)	3,908	191
FCIC (2)	10,759	50
Stock (NDF) (3)	2,545	-174
Total		68

(1) Earnings or losses with an impact on net worth of special measures implemented by the Central Bank of Chile during first half of 2024.
(2) Measures announced as of March 2020, due to financial tensions related to Covid-19 and withdrawals from pension funds.
(3) Measure announced on July 14, 2022 as part of the exchange intervention program for the second half of 2022.
(4) Amounts correspond to current stocks at 30 June, 2024.
Source: Central Bank of Chile.

BALANCE SHEET FINANCIAL VARIABLES

In addition to the changes in the structure and size of the balance sheet, both the FCIC maturity and the reduction of the debt stock had an impact on financial variables. The yield rate gap between assets and liabilities changed from -320 basis points (bp) at the end of 2023 to +120 bp at the end of June 2024. This is not only explained by the higher share of liabilities that do not bear interest rates but also by the reduction of the monetary policy rate (MPR) and the higher yield paid by reserve assets.

Additionally, the duration (or term) gap between assets and liabilities increased by 7 months with the FCIC maturity, and the balance sheet exposure to foreign currencies grew by 20.5% in assets (table A.3).

TABLA A.3 MAIN FINANCIAL VARIABLES OF THE BCCH'S BALANCE SHEET

	June 24		December 23	
	Assets	Liabilities	Assets	Liabilities
Average yield rate (%)	4.7	3.5	3.1	6.3
Average duration (months) (*)	27.5	0.2	20.6	0.6
Foreign currencies (%)	72.7	7.4	52.2	5.4
Domestic currencies UF (%)	7.2	0.0	6.2	0.1
Domestic currencies CLP (%)	20.1	92.6	41.6	94.5

(*) Liabilities include monetary base with duration equal to zero, and assets and liabilities denominated in UF are corrected by a factor equal to 0.5.

Source: Central Bank of Chile.

BALANCE SHEET PROJECTION FOR YEAR-END 2024

On July 1, 2024, the remainder of the FCIC II and FCIC III programs expired for an amount of $10,760 billion (3.7% of GDP; 19% of total assets), which will have the effect of an equivalent reduction in liabilities, especially in the stock of PDBC and PDL[2]/. This result and the consequent reduction in the balance sheet will also change the composition of assets and liabilities during the second half of 2024, in a similar way, but to a lesser extent, than the changes described for the first half.

Taking this into account, plus the usual working assumptions[3]/, total assets are projected to decrease by 10.6% of GDP in 2024 (96% explained by the FCIC maturity), liabilities to fall by 11% of GDP (97% explained by debt reduction and FPD + PDL) and net worth to increase by 0.3% of GDP.

It is expected that, by the end of 2024, net worth will close with a deficit of 0.8% of GDP, based on a starting negative capital of 1.3% and positive results of 0.5% of GDP. The results of these projections are mainly explained by an increase in the valuation of international reserves and local currency assets of 0.9% of GDP and by net interest payments of 0.4% of GDP (table A.1).

[2]/ Liquidity Deposit Promissory Notes (PDL) are financial instruments issued by the BCCh exclusively oriented to guarantee and operationally support the payment of the FCIC, issued at floating MPR with the same payment dates of the FCIC I (April 1) and FCIC II and III (July 1). For more details, see: Central Bank reports adjustments in financial operations.

[3]/ (i) Decrease in the PDBC issuance cost in line with expectations of a MPR decrease; (ii) the projection of nominal GDP for 2024 uses projected values of real GDP growth and average inflation from the June 2024 IPoM; (iii) the exchange rate of the June 2024 accounting date is kept unchanged.

ANNEX B:

International reserves management

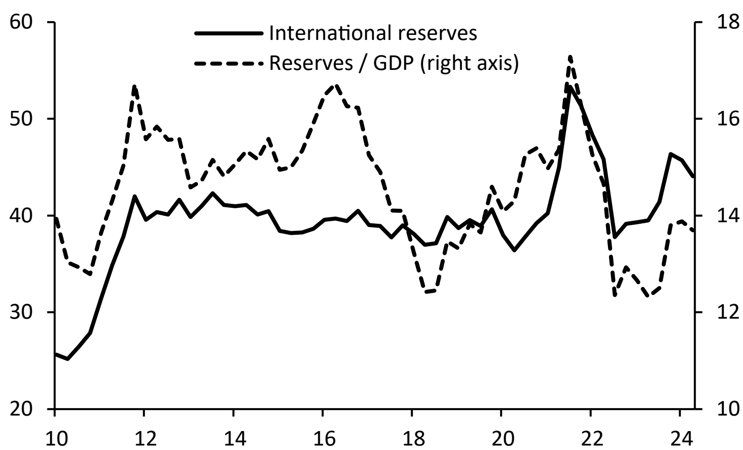
INTRODUCTION

International reserves are investments abroad held by the Central Bank of Chile (BCCh) to support its compliance with its constitutional mandate. For small economies that are financially integrated with the rest of the world —such as Chile—, it is important to have, as a precautionary measure, a stock of reserves to cope with stress situations. In general, these are external in origin and can potentially affect the normal operation of the financial system and generate costs for society. Having the right amount in reserves is very important since it provides central banks with credibility and a robust framework to implement their policies, among other benefits.

In Chile, financial markets operate smoothly except during very specific events, and at the same time economic agents have the necessary hedging and adjustment mechanisms to withstand market fluctuations. This, together with its flexible exchange rate system, which allows buffering of the various shocks confronting the economy, means that the BCCh Board's decisions regarding the use of international reserves are not very frequent.

At the end of June 2024, total international reserves held by the BCCh amounted to US$44,063 million, i.e., 13.7% of GDP (figure B.1).

FIGURE B.1 EVOLUTION OF INTERNATIONAL RESERVES
(billions of dollars, percent of GDP)



Source: Central Bank of Chile.

Although international reserves are the main source of liquidity in foreign currency, the BCCh also has complementary sources of liquidity[1]/, precautionary in nature, to enhance its liquidity position in foreign currency for facing eventual shocks.

On August 27, 2024, the Central Bank of Chile announced the renewal of the Flexible Credit Line of the International Monetary Fund (IMF) for an amount of US$13.8 billion, which is of a precautionary and transitory nature (2 years)[2]/. In addition to this, there is the potential access to the Latin American Reserve Fund (FLAR) line for up to US$1.25 billion and the resources that could be obtained from the swap line with the People's Bank of the Republic of China, for US$6.8 billion. Thus, the complementary resources amount to US$21.85 billion at the end of June 2024, equivalent to 6.8% of GDP.

Also, the BCCh has access to a liquidity facility (FIMA Repo Facility) that the U.S. Federal Reserve makes available to central banks and monetary authorities for temporary access to U.S. dollar liquidity against the delivery of collateral corresponding to U.S. Treasury bonds. In this way, the BCCh could obtain dollar liquidity of up to approximately US$25 billion. Although this facility does not expand the size of the BCCh's balance sheet, it does represent an effective source of financing, since it enables it to temporarily obtain liquidity in dollars without having to sell reserves.

INTERNATIONAL RESERVES COMPOSITION

International reserves are grouped into three portfolios (Investments, Cash, and Other Assets). The Investment Portfolio is the main one and splits into the Liquidity Portfolio (60%) and the Diversification Portfolio (40%). The former is made up solely of nominal bonds issued by the U.S. Treasury, which can be converted into U.S. dollars very quickly and at a low cost. In turn, the latter groups together a set of issuers and currencies that contribute to risk diversification and to obtaining returns in the long-term. This portfolio can also be relatively quickly and inexpensively converted into dollars.

Furthermore, the BCCh has current accounts for commercial banks, the General Treasury of the Republic, and state-owned companies to deposit their balances in foreign currency. The balances held in these current accounts are the main source of funds in the Cash Portfolio. As such, their size does not depend solely on the decisions of the BCCh; this is why they can fluctuate significantly in size over relatively short periods of time.

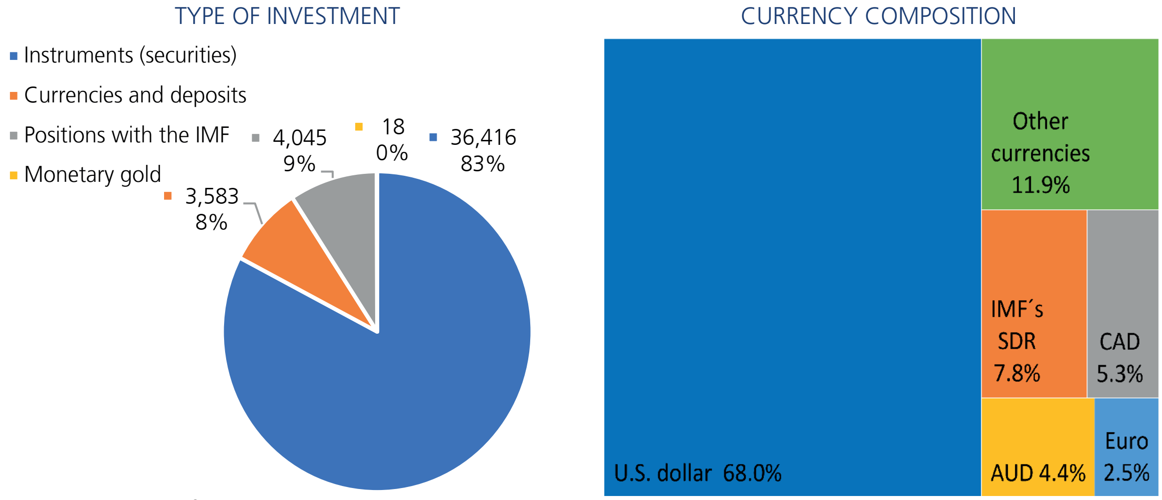
Finally, there is the Other Assets Portfolio, which brings together a variety of investments, including IMF's Special Drawing Rights (SDRs), certified gold, and other smaller international asset items.

As of June 30, 2024, the Investment Portfolio totaled US$38.61 billion (87.6%); the Cash Portfolio, US$1,387 million (3.1%), and the Other Assets Portfolio, US$4,064 million (9.2%). These resources were invested in the categories of instruments and currencies detailed in figure B.2.

[1]/ It should be noted that none of these complementary sources has been used.

[2]/ Further details on the renewal of the Flexible Credit Line are provided in this Press Release.

FIGURE B.2 INTERNATIONAL RESERVES COMPOSITION
(millions of dollars; percent)



Source: Central Bank of Chile.

MANAGEMENT OBJECTIVES

For the international reserves to be available when needed, certain features must be met. One of the most important ones is that they must be invested in safe financial instruments in order to prevent capital losses in the long term. This feature is known as capital preservation. On the other hand, it is desirable that the investments can be converted into dollars quickly, safely and at a low transaction cost, which is associated with the liquidity attribute. Additionally, in the long term, international reserves should be able to produce positive returns, which is known as the profitability objective.

To ensure that these characteristics are met, reserves are invested following certain guidelines. First, they may be invested in instruments that are authorized by the Constitutional Organic Law (LOC) of the BCCh. This restricts investments to foreign currencies, gold or credit certificates, securities or commercial drafts, issued or backed by foreign governments, central banks, or international banking or financial institutions. That is, investments in equities or other asset classes that are generally riskier are not considered.

Second, reserves are invested according to an Investment Policy approved by the BCCh's Board. One of the core elements of this Policy is an Investment Portfolio benchmark. The benchmark is a theoretical portfolio that includes the specific instruments, currencies, and issuers that will be used to guide the investments to be made on a day-to-day basis. It also sets the BCCh's risk and return preferences. Meanwhile, in order to ensure adequate risk control and management, there are rules, parameters, and limits on the investments that can be made.

Considering that the benchmark is a core element of the Investment Policy, it is reviewed periodically to ensure that the resulting return and risk profile is consistent with the policy framework and the strategic objectives of the BCCh. Its design considers, among other variables, the potential liquidity needs of the Bank and the financial effects on its balance sheet (table B.1).

TABLE B.1 BENCHMARK STRUCTURE OF INVESTMENT PORTFOLIO

Issuing country	Share	Currency	Duration (1)	Risk rating (2)	Type of instrument
United States	74%	USD	1.9	AA+	Nominal and inflation-indexed bonds
Canada	6%	CAD	2.2	AAA	Nominal bonds
China	6%	RMB	4.1	A+	Nominal bonds
Australia	5%	AUD	2.9	AAA	Nominal bonds
South Korea	3%	KRW	4.1	AA	Nominal bonds
Eurozone	3%	EUR	2.6	AAA/AA-/A+ (3)	Inflation-indexed bonds
United Kingdom	3%	GBP	2.9	AA-	Inflation-indexed bonds
TOTAL	**100%**		**2.2**	**AA+**	

(1) Weighted averages, expressed in years.
(2) Prevailing risk rating according to BCCh methodology, based on information of international rating agencies.
(3) Bonds issued by Germany (AAA), Spain (A+), and France (AA-).
Source: Central Bank of Chile.

If the BCCh decides to use part of the international reserves to support the fulfillment of its objectives, it will mainly need U.S. dollars, since this is the main foreign currency traded and used in the Chilean economy. This is one of the reasons, among others mentioned later, why the composition of the benchmark considers a high share of this currency. The remaining currencies, which also qualify as reserve currencies, contribute to the diversification of market risks and obtaining returns, and are easily convertible into dollars.

The asset classes contained in the benchmark, which guides investment decisions, are fixed-income instruments issued by countries with high credit ratings. This has several implications. On one hand, fixed-income instruments are bonds, which tend to have positive yields in the long term because they pay periodic interest that can compensate for eventual decreases in the value of the instruments due to variations in market prices. On the other hand, the fact that the bonds are issued by countries with high credit ratings is an indicator that the interest and principal of the reserve investments will be paid within the established terms. In addition, instruments, issuers, and currencies in which the reserves are invested are traded in highly liquid markets, i.e., they can be converted into dollars quickly, at a low cost, and at prices that are known by and transparent to the market.

An additional feature of the benchmark is related to the investment term. The longer the term of a bond, the greater the market risk taken, because its price will be more sensitive to changes in interest rates. This relation between the term of the instrument and the risk taken is measured through a parameter known as duration. At the closing of June 2024, the international reserves benchmark had a duration of 2.2 years. This means that the market risk is limited.

MANAGEMENT

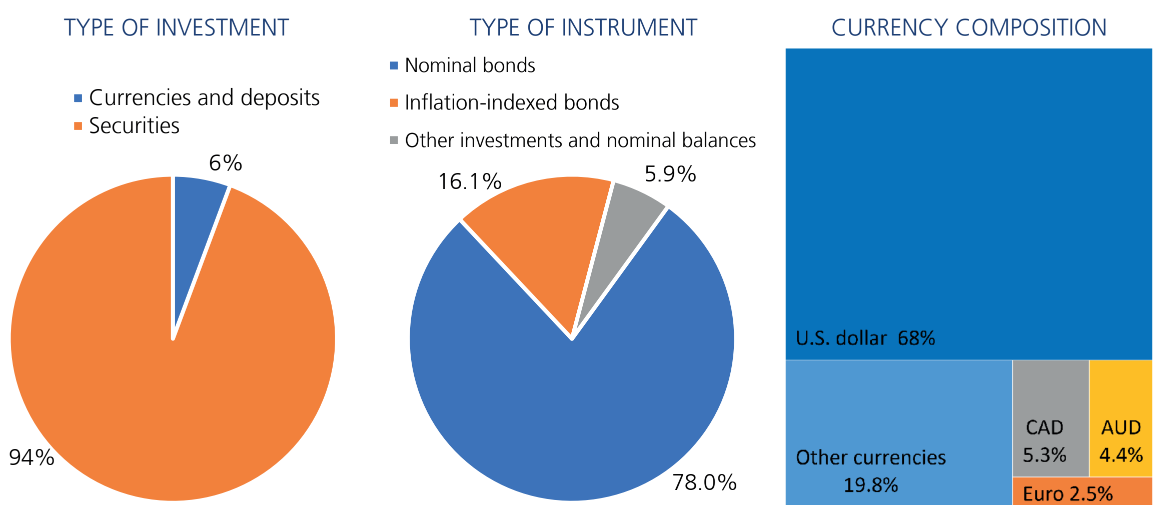
International reserves are managed daily by using the benchmark investment structure as a guide. Deviations from the benchmark can be made within well-defined limits for the parameters indicated above (issuers, currencies, instruments, etc.).

In addition to the different limits and restrictions that apply to these parameters, a risk budget known as "tracking error" is defined. This is a measure that limits the amount of overall risk that the portfolio manager can take with respect to the benchmark. This is particularly useful for limiting market risk, i.e., the level of risk linked to changes in the prices of the assets in which the portfolio is invested. Thus, the higher the risk budget, the greater the deviations that the portfolio manager can take on in practice with respect to the benchmark. In turn, this means that the higher the risk budget, the more the returns obtained by the portfolio manager could be farther away from the return of the benchmark..

In the case of the BCCh, considering the greater external risks facing the financial markets in recent years, the Board has established a limited risk budget of 40 basis points (bp) on a monthly average, thus leaving the risk contained in the benchmark as the main source of risk assumed by the management of international reserves. In practical terms, this means that, with a certain degree of confidence and within a period of one year, the expected returns obtained by the portfolio manager may deviate up to ±0.40% with respect to the return obtained by the benchmark.

The most relevant portfolio in terms of amount is the Investment Portfolio. As a result of managing this portfolio, there is a daily positioning that reflects how the resources are invested. At the end of June 2024, the Investment Portfolio totaled US$38.612 billion and had a duration of 2.4 years. Figure B.3 shows the actual positioning of this portfolio at the end of the first half of 2024.

FIGURE B.3 INVESTMENT PORTFOLIO COMPOSITION
(percent)



Source: Central Bank of Chile.

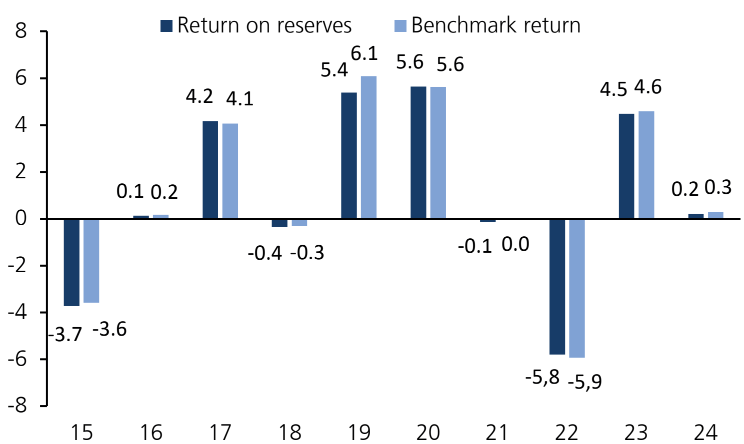
RETURNS

One of the main parameters for assessing the management of international reserves is measuring returns, which is done by daily valuating the invested assets using market prices, considering all their sources of income (coupon and principal payments, price fluctuations, exchange rate fluctuations, among others). As a result, an absolute return expressed in U.S. dollars is obtained.

The return obtained by the reserve managers is then compared against the benchmark return, which, as discussed above, is a theoretical portfolio used to guide investments. The difference between the return obtained by the BCCh management and the return of the benchmark is known as the differential return.

Below is the absolute return obtained by the international reserves management, which is compared with the benchmark return (excluding the Other Assets Portfolio). The difference between the two is the differential return obtained by the reserves management (figure B.4).

FIGURE B.4 RETURN ON INTERNATIONAL RESERVES
(percent)



Source: Central Bank of Chile.

For the first half of 2024, the absolute return on reserves was 0.22%, as measured in U.S. dollars. This figure, in addition to incorporating the returns on assets in the currency of origin, considers the trajectory of the parities in which these assets are invested with respect to the U.S. dollar. In general terms, the return was explained by the upward trend in interest rates, mainly in the United States. This movement was coupled with a strengthening (appreciation) of the dollar. The combination of rising interest rates and a stronger dollar tends to produce negative absolute returns as measured in that currency, but the diversification of investments in other economies and the interest paid on fixed-income instruments succeeded in counteracting this effect.

On the other hand, the differential return for the first half of the year obtained by the reserves portfolio management (excluding the Other Assets Portfolio) was -7.6bp. This reflects the difference between the absolute return obtained by the benchmark (0.29%) and the absolute return obtained by the portfolio manager (0.22%). The differential return below the benchmark was mainly explained by a duration positioning of the investment portfolio that, on average, was longer than the duration of the benchmark in that period, in a scenario where interest rates rose.

EXTERNAL MANAGERS

As a complement to the internal management of its reserves, since 1995, the Bank has implemented external portfolio management programs for a portion of its reserves. Currently, the main purpose of the program is to have an active benchmark against which to assess the internal management. In other words, the BCCh's internal management is not only compared against the performance of the theoretical or passive benchmark but also with respect to the performance of external managers (active benchmark), who manage a portfolio with similar characteristics to that of the internal management. In this way, the BCCh has different benchmarks to assess its own management.

In addition, the external portfolio management program aims to add economic value and facilitate the transfer of knowledge and technology.

At the end of the first half of 2024, 3.1% of the Investment Portfolio was being managed independently by two external managers: BNP Paribas Asset Management USA, Inc. and Allianz Global Investors GmbH.

ORGANIZATIONAL STRUCTURE FOR THE MANAGEMENT OF INTERNATIONAL RESERVES

International reserves are managed with due separation of responsibilities at different hierarchical levels of the institution. In this context, to ensure that the processes involved in this management are well defined and that they have an adequate risk control environment, periodic auditing exercises (internal and external) are conducted to review the decision-making processes and the delegation of duties in a comprehensive manner.

The international reserves management role is under the responsibility of the Financial Markets Division (DMF). To ensure that the investment process is robust, efficient and has adequate levels of risk control, different functions are segregated into the three divisions that form part of the DMF (Market Operations, Strategic Business Management, and Operations and Payment Systems).

In turn, the Corporate Risk Division (DRC) is responsible for identifying, assessing, measuring, and monitoring corporate risks, including the operational, financial, and strategic risks of the BCCh. Accordingly, it supervises financial compliance, risk measurement, and validation of the methodologies used. This unit also acts as a technical counterpart to the DMF in the risk management processes of the Bank's financial operations and policy definition.

On the other hand, the BCCh's Comptroller reports directly to the Board and is responsible for periodically evaluating the efficiency and effectiveness of internal control, operational risk management and the governance of the integrated reserve management process.

The BCCh, in its periodic publications (Annual Report and September IPoM), systematically presents information to communicate the status of international reserves. Part of the information provided in this report is also available in the BCCh's statistical database.

ANNEX C:

Main measures taken by the Central Bank of Chile in 2024

JANUARY

11. The Central Bank of Chile (BCCh) nominated, through Resolution 2613E-01-240111, Mr. Rodrigo Alfaro Arancibia for the position of Regular Executive Director representing Chile before the International Monetary Fund.

18. Through Resolution 2614E-01-240118, Mrs. Maria Eugenia Sandoval Gouet was appointed as a new member of the Audit and Compliance Committee of the Central Bank[1]/.

25. The Board of Directors of the BCCh, through Resolution 2617-01-240125, unanimously decided to appoint Stephany Griffith-Jones as Vice-Governor, until December 24, 2025, when her term as Board Member of the BCCh ends[2]/.

25. Through Resolution 2617-03-240125, the Board called for a public opposition of backgrounds under the terms of Decree-Law No. 211, dated 1973, on Free Competition, to cover a position as Regular Lawyer Minister and another as Regular Economist Minister of the Antitrust Court (TDLC)[3]/.

Likewise, the Terms and Conditions and the Bidding Bases of the public opposition of backgrounds were approved, and the pertinent call was ordered to be published in the Official Gazette of February 16, 2024, and, on the same date, on the institutional web page, including in this latter case the full text of the Terms and Conditions and the Bidding Bases.

25. Through Resolution 2617-03-240125, a restructuring of the regulations contained in its Compendium of Foreign Exchange Regulations (CNCI) was ordered, which systematizes and updates the information requirements for international exchange transactions, as of January 1, 2026[4]/.

25. Through Resolution 2617-04-240125, Chapter III.D.3 of the Compendium of Financial Regulations "Integrated Information System on Derivative Transactions (SIID)" was amended, effective January 1, 2026, which broadens the coverage of the SIID by incorporating financial derivatives on variable income and commodities, coherently and consistently with the adjustments made to the CNCI[5]/.

1/ For further details, see: Resolution to appoint a new member of the Audit and Compliance Committee of the Central Bank of Chile

2/ See: BCCh Board appoints Griffith-jones as its Vice-Governor

3/ For further details, see: Bidding Bases of the public opposition of backgrounds for the appointment of two Regular Ministers of the Anti-Trust Court (TDLC)

4/ For further details, see: Resolution on the New Compendium of Foreign Exchange Regulations

5/ See: Resolution to amend Chapter III.D.3 of the Compendium of Financial Regulations "Integrated Information System on Derivative Transactions

30. Through Order of Regulation 1004, the Operating Regulations of Chapters I and II of the new Compendium of Foreign Exchange Regulations were added, which will be in effect as of the above-mentioned date[6]/.

30. Through Order of Regulation 3013-940, changes were made to the Operating Regulations of the Integrated Information System on Derivatives Transactions (SIID), contained in Chapter III.D.3.1 of the Compendium of Financial Regulations (CNF). The above, considering the decision adopted through Resolution 2617-04-240125, which integrates equity and commodities derivatives into this Market Infrastructure[7]/.

31. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the Monetary Policy Rate by 100 basis points, down to 7.25%. This decision was adopted on the favorable vote of the Governor Ms. Costa, the Vice-Governor Ms. Griffith-Jones, and Board members Mr. Naudon and Mr. Soto. Board member Mr. Céspedes voted to increase the MPR by 125 basis points[8]/.

FEBRUARY

29. Through Resolution 2624-01-240229, the Bank's Board decided to exempt from the requirement of prior authorization all international exchange transactions related to inflows and/or outflows of foreign currency subject to the exchange conventions subscribed under former Chapters XIX and XXVI of the Compendium of Foreign Exchange Regulations (CNCI).

Such international exchange transactions must continue to be performed through the Formal Exchange Market (MCF) and be reported to the BCCh, in accordance with the provisions of the CNCI[9]/.

MARCH

21. The Central Bank published its second report on the exploratory study of the "Issuance of a Digital Currency[10]/.

25. The Board of the BCCh, through Resolution 2628-01-240321, decided to extend the implementation term of the Clearing Houses for Low-Value Payments (CPBV) regulation from 26 to 34 months, contained in Chapter III.H.6 of the Compendium of Financial Regulations. For this purpose, the Temporary Provisions of the above Chapter were amended[11]/.

28. Through Resolution 2629-01-240328, the Board extended the term of the call for public opposition of backgrounds for the appointment of Regular Ministers of the Anti-Trust Court (TDLC), until April 15, 2024[12]/.

[6]/ Further information at: Order of Regulation on Operational Requirements of Chapters I and II of the Compendium of Foreign Exchange Regulations (CNCI)

[7]/ For further information, see: Circular on Amendments to the Operating Regulations of the Integrated Information System on Derivatives Transactions (SIID)

[8]/ For further details, see: Press release on the Monetary Policy Meeting (RPM) of January 2024

[9]/ See: Resolution that exempts from prior authorization all international exchange transactions

[10]/ See complete report at: Central publishes the second report on "Issuance of a Central Bank Digital Currency in Chile"

[11]/ Further information at: Adoption of Resolution on Proposal for Extension of Implementation of the CPBV Regulation, contained in Chapter III.H.6 of the Compendium of Financial Regulations

[12]/ See: Resolution extending the term of the call for public opposition of backgrounds for the appointment of Regular Ministers of the Anti-Trust Court, for the partial renewal of its members

APRIL

2. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the Monetary Policy Rate by 75 basis points, down to 6.5%. This decision was adopted by the unanimous vote of its members[13]/.

3. The Central Bank published the Monetary Policy Report of March 2024[14]/.

4. Through Resolution 2631-01-240404, the Board appointed Mr. Enrique Marshall Rivera as a new member and Chair of the Audit and Compliance Committee of the Central Bank of Chile for a four-year term, effective April 12, 2024[15]/.

11. Through Resolution 2633-01-240411, the Board updated the regulations of Chapters III.F.4 and III.F.7 of the Compendium of Financial Regulations, increasing the investment limits in alternative assets for Pension Funds, according to a progressive schedule created for this purpose, and establishing a new investment limit in alternative assets for the Individual Severance Fund.

Likewise, the Board ruled favorably on the request of the Superintendency of Pensions to authorize the Pension and Severance Funds to invest in new instruments: (i) Securities Representing Endorsable Mortgage Loans, either residential or non-residential, registered and tradable on commodities exchanges created under Law 19,220; and (ii) Shares of domestic stock corporations, shares of domestic closed stock corporations and domestic joint stock limited partnerships traded on the ScaleX segment of the Santiago Stock Exchange (ScaleX)[16]/.

25. Through Resolution 2636-01-240425, the Board amended the Regulations governing its own operation, modifying the list of participants for Monetary Policy and Financial Policy meetings, and other matters specified therein[17]/.

MAY

1. The Central Bank published its Consolidated Report 2023[18]/.

6. At its Financial Policy Meeting, the BCCh's Board agreed to keep the Countercyclical Capital Requirement for the banking system outlined in the General Banking Law at 0.5% of risk-weighted assets, which will be enforceable as of the end of May 2024. This decision was adopted by the unanimous vote of its members[19]/.

7. The Central Bank published the Financial Stability Report for the first half of 2024[20]/.

[13]/ See: Press release on the RPM of April 2024

[14]/ For further information, see: Press release on the IPoM of March 2024

[15]/ For further details, see: Resolution appointing a new member and Chair of the Audit and Compliance Committee of Banco Central de Chile

[16]/ For further details, see: Central Bank sets new investment limits in alternative assets for Pension and Severance Funds, and issues favorable report on new instruments

[17]/ See: Resolution that amends the Regulations for the Operation of the Board, modifying the list of participants for Monetary Policy and Financial Policy meetings, and other matters

[18]/ See complete document at: Consolidated Annual Report of 2023

[19]/ See: Press Release on the Financial Policy Meeting (RPF) of the first half of 2024

[20]/ See complete Report at: The Central Bank publishes the Financial Stability Report of the first half of 2024

9. Through Resolution 2639-02-240509, the Board amended the Communications Policy of the BCCh, in a number of areas related to: the reference to the inflation target; the communication of the financial policy, in relation to the publication of the decision adopted after each Financial Policy Meeting (RPF) and the silence period; and the guidelines regarding meetings with market actors. The updated document can be consulted on the institutional website, as from 15 May 2024[21]/.

20. The Central Bank has decided to publish new experimental sales statistics by economic activity based on electronic invoices. This added information details the nominal sales of manufacturing industry, commerce, transport, and business services activities, which represent close to 70% of total sales with invoices and show a high correlation with the respective IMACEC series[22]/.

23. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the Monetary Policy Rate by 50 basis points, down to 6%. The decision was adopted by the unanimous vote of its members[23]/.

JUNE

6. Through Resolution 2644-01-240606, the Board of the Central Bank decided to appoint Mr. Claudio Enrique Raddatz Kiefer and Mr. Fernando Rodrigo Sepúlveda Mancilla as regular and alternate members of the Investment Technical Council, respectively, for a four-year term, as provided for in the decree-law No. 3500[24]/.

10. The BCCh Board, through Resolution 2645E-01-240610, resolved the public opposition of backgrounds called for the partial renewal of the TDLC, appointing Ms. Silvia Teresa Retamales Morales as Regular Lawyer Minister and Mr. Ignacio Vicente Parot Morales as Regular Economist Minister, in accordance with the provisions of Article 6 of Decree-Law 211 that sets the regulations for the defense of free competition[25]/.

12. Through Order of Regulation 3013-947, changes were made to the Operating Regulations of the LBTR System in local currency and in dollars, contained in Chapters III.H.4.1.1 and III.H.4.2.1 of the Compendium of Financial Regulations, respectively. This is in response to the implementation process of the regulation for establishing Clearing Houses for High-Value Payments in Foreign Currency (CCAV FX) and the regulation for establishing Clearing Houses for Low-Value Payments (CPBV). These revisions are effective as of July 1, 2024[26]/.

18. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the Monetary Policy Rate by 25 basis points, down to 5.75%. The decision was adopted on the votes of the Governor Ms. Costa and Board members Mr. Céspedes, Mr. Naudon, and Mr. Soto. Vice-Governor Ms. Griffith-Jones voted to reduce it by 50 basis points[27]/.

[21]/ For further details, see: Resolution modifying the Communications Policy

[22]/ Further information at: The Central Bank publishes new experimental sales statistics based on electronic invoices

[23]/ For further details, see: Press release on the RPM of May 2024

[24]/ See: Resolution on the appointment of regular and alternate members of the Investment Technical Council

[25]/ For further details, see: Resolution on the appointment of two ministers, a lawyer and an economist, of the Anti-Trust Court (TDLC)

[26]/ See: Order of Regulation changing the Operating Regulations of the LBTR in local currency and in dollars, contained in Chapters III.H.4.1.1 and III.H.4.2.1 of the Compendium of Financial Regulations, respectively

[27]/ Further information at: Press release on the RPM of June 2024

19. The Central Bank published the Monetary Policy Report of June 2024[28]/.

27. Through Administrative Directive 726, the use of the Payment Portal as an operational contingency device of the Real-Time Gross Settlement System (RTGS) was extended to Third Parties with access to special settlement accounts in the RTGS System, corresponding to Administrators or Operators of Clearing Houses regulated by the BCCh, whose authorized settlement models provide for such possibility[29]/.

27. Through Resolution 2650-01-240627 the Board agreed to amend Chapters III.J.1, III.J.1.1, III.J.1.3, and III.J.2 of the Compendium of Financial Regulations, on Issuance of Payment Cards, Issuance of Credit Cards, Payment Cards with Funding and Operation of Payment Cards, respectively, adapting the regulations in line with the evolution of the retail payment industry. This new regulation, as approved by the BCCh Board, aims to continue promoting the development of efficient, safe, and inclusive payment systems, so that more people can benefit from the use of electronic means of payment while establishing safeguards and prudential criteria to preserve the security and continuity of these systems[30]/.

JULY

1. The Central Bank announced the closing of the maturity process of the pledged Credit Facility Conditional on the Increase of Loans (FCIC), an exceptional measure adopted during the COVID-19 pandemic, together with a series of initiatives aimed at providing liquidity to the economy and supporting the flow of credit to households and companies. This facility was paid in full by banks, thus ending this facility[31]/.

3. By Board Resolution 2652E-01-240703, Mr. Daniel Mancilla Montero was appointed to the position of Persons Manager.

4. By Resolution 2653-01-240704, the Board agreed to amend Chapter III. B.4 of the Compendium of Financial Regulations (CNF) of the Central Bank of Chile to introduce the possibility of acquiring self-securitized instruments by banking companies, which have loans issued by the same institution as underlying assets ("retained securitization" or "self-securitization"). Those bonds may serve as collateral in transactions with the Central Bank and other financial institutions, under the special conditions outlined in Letter B of said regulation[32]/.

4. By Resolution 2653-02-240704, the Board agreed to amend Appendix Chapter 2.3 of the Compendium of Monetary and Financial Regulations (CNMF), which contains the debt instruments eligible for pledging for transactions covered by the Pledged-secured Credit Line in local currency (LCGP), both in its form of LCGP Transactions, as well as the Standing Liquidity Facility through LCGP (FPL with LCGP) and the Intraday Liquidity Facility through LCGP (FPL with LCGP), replacing its letter C on Non-Bank Debt Securities (TDNB), which adopts certain self-securitized debt securities referred to in Letter B of Chapter III.B.4 of the CNF, under the terms outlined in said Schedule[33]/.

[28]/ For further details, see: Press release on the IPoM of June 2024

[29]/ See: Administrative Directive extending the use of the Payments Portal as a contingency mechanism of the Real-Time Gross Settlement System (RTGS) to Third Parties with access to accounts in the RTGS System

[30]/ See: Resolution amending Chapters III.J.1, III.J.1.1, III.J.1.3 and III.J.2 of the Compendium of Financial Regulations regarding the Issuance and Operation of Payment Cards

[31]/ For further details, see: Central Bank informs of the closing of the FCIC maturity and payment process

[32]/ For further details, see: Resolution replacing Chapter III.B.4 of the Compendium of Financial Regulations of the Central Bank of Chile to include the possibility of acquiring self-securitized instruments by banking companies

[33]/ See: Resolution amending Chapter 2.3 of the Compendium of Monetary and Financial Regulations

12. The Central Bank announced the launching of the sixth edition of the Household Financial Survey, which is conducted every three years and allows for the collection of unique information to understand the financial behavior of Chilean households in areas such as savings, investments, and debts, among others. This information is essential for fulfilling the purposes of researching and monitoring the financial stability of households in Chile[34]/.

18. The Board resolved, through Resolution 2655-02-240718, to appoint Renzo Dapueto Rosende and Francisca Lyon Portales, as the new regular and alternate members, respectively, appointed by the Central Bank to the Committee for the Setting of Exchange Rate Limits under Law No. 21365[35]/.

25. Through Administrative Directive 729, the Operational Continuity Procedures of the Real-Time Gross Settlement System (RTGS) of the Central Bank of Chile were updated.

The new version includes contingency scenarios for third parties that have access to one or more special settlement accounts in the RTGS System (Third Parties), as established in Chapter III.H.4 of the Compendium of Financial Regulations of the Central Bank of Chile, provided exclusively for the implementation of the settlement models of the Clearing Houses authorized and regulated by the Central Bank of Chile.

In addition, a new contingency room was set up at the Alternative Operations Site (SOA) on the premises of the BCCh Country Club[36]/.

31. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to keep the Monetary Policy Rate at 5.75%. The decision was adopted by the unanimous vote of its members[37]/.

AUGUST

1. The Board approved, through Resolution 2657-03-240801, amending the Regulations on the Registers of Public Agenda and Lobbyists, and of Private Interest Managers held by the Central Bank of Chile, to comply with Law No. 20.730[38]/.

7. The Central Bank published the Payment Systems Report (ISiP) for 2024[39]/.

29. By Board Resolution No. 1661-01-240829, Mr. José Benguria Donoso was appointed Chair of the Information Technology Advisory Committee of the Central Bank of Chile for a one-year term, and Mr. Mario Inostroza Ponta was appointed member of this Committee for a three-year term, as of August 1, 2024[40]/.

[34]/ For further information, see: The Central Bank begins fieldwork of the Household Financial Survey on 22 July

[35]/ See: Resolution to appoint substitutes for the regular and alternate members appointed by the Central Bank to the Committee for the Setting of Exchange Rate Limits under Law No. 21365

[36]/ For further details, see: Administrative Directive informing the updating of the Operational Continuity Procedures of the Real-Time Gross Settlement System (RTGS) of the Central Bank of Chile

[37]/ For further details, see: Press release on the RPM of July 2024

[38]/ See: Resolution amending the Regulations on the Registers of Public Agenda and Lobbyists, and of Private Interest Managers held by the Central Bank of Chile, to comply with Law No. 20.730

[39]/ See complete document at: Payment Systems Report (ISIP) for 2024

[40]/ Further information at: Resolution to appoint new member and Chair of the Information Technology Advisory Committee

SEPTEMBER

3. At its Monetary Policy Meeting, the Board of the Central Bank of Chile agreed to reduce the Monetary Policy Rate by 25 basis points, down to 5.5%. This decision was adopted by the unanimous vote of its members[41]/.

4. The Central Bank published the Monetary Policy Report of September 2024.

[41]/ Further information at: Press release on the RPM of September 2024

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